

Features

A Five-Year First: Dallas Rent Growth May Surpass Fort Worth's

With healthy demand and new supply expected to hold steady, the expectation is that DFW rent growth in 2020 should hold in line with 2019's performance and is expected to be greater than Fort Worth's.



DFW's 2.8% rent growth marks the first time since 2017 where North Texas rent growth outpaces the US norm.

FORT WORTH—The US multifamily market is beginning 2020 in great shape, says Greg Willett, chief economist at RealPage. Peaking in the third quarter, the occupancy rate got as high as 96.3% in 2019, in line with all-time highs.

While late-in-the-year seasonal cooling took the occupancy figure to slightly under 96%, that result is still well above the long-term norm. Demand for some 280,000 market-rate units in the April through September timeframe ranked among the biggest blocks of prime leasing season absorption ever recorded. Annual rent growth held at a healthy level around the 3% mark throughout the year. Class-A product rent growth, which had been lagging earlier, gained momentum to perform in line with the price increases for the class-B and class-C stocks, Willett says.

Increasing completions point to a competitive leasing environment for luxury product in 2020. About 550,000 market-rate apartments are under construction right now. Approximately 366,000 are scheduled to finish in 2020. That targeted delivery volume jumps sharply from 2019 completions of around 279,000 units and roughly 75% to 80% of 2020's additions will command luxury product rents. Owners and operators will be racing to get those new completions through initial lease-up as quickly as possible, especially given expectations of slowing job production and, in turn, new household formation. Moreover, Willett says the market will remain very tight for more moderately priced product.

"While there's not much middle-market product on the way, there will be a few additions in outlying areas of big metros, basically areas where lower land costs allow the delivery of some projects with lower rents," he says. "Likewise, middle-market product will come in secondary and tertiary markets where it's still feasible to build lower-cost garden-style properties with surface parking. The limited deliveries of class-B and -C projects in most places point to continued sky-high occupancy and solid rent growth."

Willett says sales volumes should remain robust, but the appeal of one market versus another could shift. The pool of capital targeted for multifamily investment remains enormous, so many will be chasing any and all assets offered for sale.

"Look for pricing to stay high and cap rates to stay low," he predicts. "However, rent control, either introduced already or likely to come in the near term, is becoming a wild card in the appetite for investment in some markets. While it's unlikely that owners in markets with rent control will look to sell off significant numbers of assets, some investors appear hesitant to deploy additional capital in those areas."

As for Dallas, Carl Whitaker, manager of data analytics at RealPage, provided his 2020 predictions for the market. He says that the year will end with rents at \$1,192, with full-year rent growth at 2.8% and full-year supply at 25,700 units (a 3.2% inventory growth). As of third quarter, construction stands at 43,998 units.

“New apartment deliveries in Dallas/Fort Worth in 2020 should remain around the nation-leading levels seen in the past two years,” Whitaker tells GlobeSt.com. “Though DFW-area delivery volumes will remain high in 2020 with an expected total of 25,700 new units coming online, the US as a whole is expected to see an increasing amount of apartment completions through the year. Still, the DFW delivery volume will be the largest among US metro areas.”

With healthy demand and new supply expected to hold steady, the expectation is that DFW rent growth in 2020 should hold in line with 2019’s performance. The region’s forecasted year-over-year rent change in 2020 (2.8%) matches the current pace of growth. Of particular note, rent growth in Dallas is expected to be greater than Fort Worth’s in 2020.

“That will be the first time that’s happened in five years,” Whitaker tells GlobeSt.com. “As national completions increase, the US rent growth forecast calls for slight moderation in 2020—an increase of about 2.5% year-over-year. With DFW achieving 2.8% growth in the same period, that would mark the first time since 2017 in which North Texas rent growth outpaces the US norm.”