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Do Multifamily Concessions Point to Softening?

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Justin Laswell says the Texas multifamily market has increased supply at a high rate to fill demand.

HOUSTON—Developers are experiencing continued demand with upward rent pressure in cities with job growth, especially on the coasts and in the Sunbelt. More than 1 million new apartments have been built across the country since 2015, the most in 30 years. Multifamily construction starts continue to be unusually high, at 452,000 units, up 14% in March, the largest seasonally adjusted rate since October 2016, according to Census Bureau reports.

Texas has been one of the most prolific in creating new housing. Houston and Dallas can lay claim to being among the most dynamic: Those markets produced roughly twice as many apartments since 2015, with 60,964 and 57,000 respectively, according to the National Apartment Association.

Not surprisingly, a rise in short-term concessions has followed. A new report from RealPage hones in on those rent concessions as signals of softening conditions among new construction where lease-up pressures are strongest.

RealPage reported the top 15 markets for lease concessions showed an average rent discount of 7%, the equivalent of three weeks of free rent. Atlanta tops the list at 9.1% in concessions followed by Houston at 8.6%, and Austin and Dallas both at 7.9%. The next four slots, New York, Chicago, Denver and Charlotte, are followed by another Texan, San Antonio, tied with Washington, DC at 6%, according to the National Apartment Association.

"In Houston, however, the 8.6% concession in March is down from the 12.8% peak in December 2016. Like Atlanta and Dallas, new supply has been concentrated in a handful of areas in Houston–namely, the urban core and energy corridor to the west," says RealPage's Jay Board. "But Houston has grappled with demand shortages stemming from weakness in the energy industry, on which the metro's economy is so dependent."

If higher concession values are driven by increased competition stemming from higher levels of new supply, then the gulf between stabilized and lease-up concessions signals that competitive pressures are currently concentrated among new properties, according to RealPage. The bulk of new properties are high-priced luxury product, and indeed, class-A properties continue to underperform on the pricing side at the national level. Annual increases in effective monthly rents of luxury product have trailed middle market and lower-tier product since early 2016. In the year-ending first quarter 2018, class-A rent growth measured 2.3%, trailing the 2.8% increase in class-B units and the 2.6% increase in class-C product.

"The housing demand throughout Texas has been strong for many years now with four of the top 15 development markets in the nation. The business-friendly Texas economy continues to attract corporate relocations and fuel job growth," Justin Laswell, a partner in the Dallas office of Moss Adams, tells GlobeSt.com. "The Texas multifamily market has in turn increased supply at a high rate to fill the demand. The increased supply of units is putting pressure on landlords to offer more concessions, particularly in the lease-up phase to help occupy the units more rapidly."

A steep drop-off in concessions was seen following Hurricane Harvey in late August 2017, as displaced residents turned to apartments for temporary housing. In total, the average lease-up concession value plunged 420 basis points from August to September of last year, according to RealPage.