

2021 Mid-Year Texas Apartment & Economic Outlook



TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



TECHNICAL REPORT

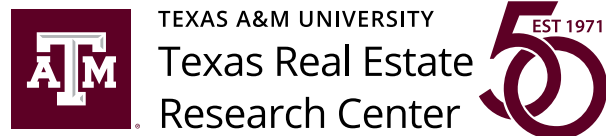
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AUGUST 2021



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August 2021

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The economic recovery continues due to increasing COVID-19 vaccination rates that have allowed the reopening of the economy. Based on the most current data from the Texas Department of State Health Services, 54.5 percent of the state's population is fully vaccinated¹. Unfortunately, after months of decline in COVID-19 cases, the number of new cases has increased because of the number of people not yet vaccinated and the emergence of the Delta variant, which has shown to be more contagious. This has increased uncertainty surrounding the end of the pandemic. Until the virus is beaten, a full recovery cannot be secured.

Growth prospects for the Texas economy have improved for 2021 because of the economy's reopening and, to some extent, the uptick in the oil industry. The strong recovery has caused supply-chain bottlenecks, putting upward pressure on prices and raising inflation concerns. Whether inflationary pressures are transitory is uncertain because of unknowns about whether the economy is fundamentally different coming out of the pandemic and the uncharted territory of recovering from a health crisis.

It's still not clear how different the economy will be coming out of the pandemic as some changes become permanent. It is possible that some structural forces (e.g., the traditional work environment, digital divide) that were prevalent before the pandemic will no longer hold after it ends. Because this recession was caused by a health catastrophe, the

recovery path will probably be different than that of previous recessions.

Apartment Market

The apartment market was aided in 2021 by further rounds of fiscal stimulus enacted by the federal government and increasing vaccination rates. The fiscal stimulus served as a bridge for unemployed workers by not allowing their incomes to fall drastically while they seek new employment. It also helped keep businesses from closing permanently. Meanwhile, the increasing vaccination rates have allowed the economy to reopen, especially benefiting service industries that cannot socially distance. In addition, the lack of single-family homes for sale, especially those priced below \$300,000, has caused strong home price growth, assisting the apartment market. All of these factors have contributed to a major turnaround in the apartment market in 2021, allowing it to surpass pre-pandemic levels of occupancy and rent growth.

For the rest of 2021, the apartment market will continue to be characterized by firm demand and solid price growth. Given the steep increase in home prices during the year, some households probably found themselves priced out of the market and will continue to be renters.

Even though shortages of lumber, labor, appliances, and other construction materials have driven up prices and costs, new apartment construction should improve

¹Data up to August 16, 2021. Source: Texas Department of Health Services

during 2021. The supply bottlenecks faced by residential builders are anticipated to be resolved in the latter part of the year or, in some cases, next year. New multifamily construction is projected to grow in 2022.

Economic growth, demographic trends (such as young population and migration from out of state), and a limited supply of single-family homes available for sale combined with strong home-price growth will help drive Texas apartment demand in the remainder of 2021 and into 2022.

Evictions will probably increase once the Centers for Disease Control and Prevention’s eviction moratorium ends Oct. 3. Evictions have been kept low due to government policies but are no longer seen as a catastrophic issue. This is because of the labor market recovery and government transfers that are benefiting households that in the past couldn’t pay rent on time.

In addition, evidence from the National Multifamily Housing Council rent payment tracker shows rent payments remain above 95 percent both nationally and statewide. Also, the most recent apartment market data paint a picture of increasing occupation rates and rent growth surpassing pre-pandemic levels. The overall residential market that includes housing purchases and rentals is strong. Some households will probably be forced to change their current living arrangements, but those would not represent the majority of the rental market. Eviction increases are expected to be concentrated in Class C and D properties and would probably affect small property owners.

The Texas Real Estate Research Center estimated 2021 and 2022 apartment vacancy rates and effective rent percent changes for the major Metropolitan Statistical Areas (MSAs) (Tables 1 and 2). ➔

Table 1. Forecasted Overall Apartment Vacancy Rates and Effective Rents

MSA	Natural Apartment Vacancy Rate	Vacancy Rates (%)					Effective Rents (y-o-y %)				
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Austin	8.3	8.0	9.9	8.6	8.2	7.9	4.5	-0.9	10.5	5.8	2.1
Dallas-Fort Worth	8.5	8.2	8.6	7.8	7.6	7.8	3.2	1.3	7.1	2.1	2.0
Houston	9.2	9.3	10.2	8.6	8.3	8.4	1.9	-0.3	4.8	2.5	2.0
San Antonio	8.5	9.4	9.5	8.0	7.9	8.0	3.1	0.7	6.3	2.2	2.0

Note: Annual numbers are the four-quarter average of the seasonally adjusted data. The rent growth is nominal and estimated from the previous year's average.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University

Table 2. Forecasted Class A Apartment Vacancy Rates and Effective Rents

MSA	Natural Apartment Vacancy Rate	Vacancy Rates (%)					Effective Rents (y-o-y %)				
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Austin	9.0	10.7	12.0	8.2	7.9	7.9	4.5	-1.2	11.5	3.4	2.3
Dallas-Fort Worth	9.1	12.3	12.7	10.0	9.9	9.7	2.4	-0.2	9.0	2.3	2.1
Houston	9.7	10.2	12.9	10.1	9.9	9.8	1.4	-2.9	6.2	2.2	2.0
San Antonio	10.0	11.0	10.8	7.3	7.2	7.2	2.8	-1.0	9.8	2.1	2.0

Note: Annual numbers are the four-quarter average of the seasonally adjusted data. The rent growth is nominal and estimated from the previous year's average.

Sources: CoStar and Texas Real Estate Research Center at Texas A&M University



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