

Job growth keeps area demand high

By **STEVE BROWN** Real Estate Editor stevebrown@dallasnews.com

More than 25,000 apartments will open their doors in Dallas-Fort Worth this year — more than in any other metro area in the country.

Developers and market analysts are betting that there will be enough tenants to fill all the new rental units. With more than 100,000 new jobs in North Texas this year, they have reason to be optimistic.

“Employment growth has been the tailwind this entire economic cycle and that has continued to push forward,” said John Sebree, national director with Marcus & Millichap, one of the country’s top apartment brokers.

“There is a lot of conversation about are we getting overbuilt in apartments?”

“We really don’t have any markets we are overly concerned about,” he said. “We don’t see anything fundamentally that says we are headed over a cliff;’ More than 330,000 rental units are being built nationwide, and 2018 is on track to be one of the best years for apartment builders in more than a decade. Dallas-Fort Worth has consistently led the pack in apartment building.

“D-FW is not that much of a concern” when it comes to overbuilding,” Sebree told apartment industry executives meeting in Dallas. “Texas and Florida continue to pull people — this younger-age worker — into their markets.”

Most of the thousands of young workers moving to North Texas every year to fill new jobs are renting. That’s fueling demand for apartments.

“In D-FW, you guys love to build apartments,” Sebree said. “It’s not much of a concern if you have 116,000 new jobs in the last year.”

Apartment vacancy rates in North Texas remain low — near 5 percent — even with years of widespread building. And local apartment starts have increased for several years in a row.

“I don’t know that Dallas continues to increase at that level,” Sebree said. “It may

level off next year.”

Building cost up

The top reason builders say they may be forced cut back on new apartment projects is due to rising construction costs.

“Several years ago costs were up year over year because of labor,” said Tom Bakewell, one of the founders of Street Lighits Residential, one of DFWs largest apartment builders. “Today it’s more material pricing.

“It’s tariffs on imported building materials and construction products,” he said. “It’s a 30 percent increase on some items. You scramble to find another way to source items.”

With construction costs spiking and average rents up only about 3 percent this year from 2017, builders profits are getting squeezed.

So far, leasing is keeping up with construction in most North Texas apartment districts.

“We have terrific demand that is keeping occupancy very, very healthy,” said Greg Willett, chief economist with Richardson-based RealPage “At the same time, we are delivering a whole lot of product. That has cooled off the achievable rent growth in the marketplace.”

Average North Texas apartment rents are up only about 2 percent this year — down from a couple of years ago when rents were rising at almost three times that rate.

Apartment costs in D-FW have gone up almost 40 percent since the recession.

“That’s a little above the U.S. average which is around 32 percent,” Willett said. “D-FW has outperformed the nation as a whole on rent growth during the course of this cycle.”

More freebies

To lure renters to the thousands of new rental units in the area, builders have ramped up the number of freebies they offer. More than 20 percent of Dallas-area apartments now provide concessions, versus 14 percent across the country, he said.

On average, landlords are offering a little over a month’s free rent on a new lease. “It’s one of the bigger rent giveaways across the country,” he said. But to get those deals, you usually have to be a newcomer to the property. Tenants who

renew their lease are still getting hit with average 4.5 percent rent hikes.

“You are getting a much bigger rent increase than from somebody new walking in the door,” Willett said.

Even with the weaker rent growth, Willett doesn’t see local apartment builders pulling back.

“Right now we have 35,000 units under construction in Dallas-Fort Worth,” he said. “That is the most across the country by a giant margin.

I think we are going to continue for a while.”

Real Page figures show permits for new apartment projects in North Texas are up 2 percent this year.

“This suggests we are not really cutting back” Willett said. “The annual pace of building is running pretty much where it has been over the last few years.”

Twitter: @SteveBrownDMN