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With Supply Cooling, Northern Dallas Suburban Apartment Submarkets Stand to Improve

CoStar Market Insights: Trend Likely to Wane During Fall Holiday Season, But Should Pick Up Where It Left Off



Aerial of the 350-unit Domain at the Gate apartment complex in Frisco, Texas.

Apartment construction is booming in the already-strong northern Dallas suburbs, largely because of large firms establishing major regional hubs in cities such as Plano, Frisco, Allen and McKinney.

Developers have long sought to take advantage of strong employment growth and demographic trends in this area of the metroplex. But, it reached another level since Toyota, Liberty Mutual and JPMorgan Chase each announced they were establishing major regional hubs in Legacy West, adding upwards of 15,000 jobs combined. In order to take advantage of the surge in demand from these new workers, developers have delivered more than 16,000 units since 2016, and as a result, rent growth underperformed the metro average and concessions reached unprecedented levels in recent quarters.

However, it's likely that the northern suburbs could be past an inflection point, and improvement in the apartment market is already apparent.

Demand has not been an issue. Lease-up has slowed in recent quarters, but projects are still leasing at an impressive pace. Lease-up on 2016 deliveries averaged a robust 23 units per month while 2017 builds have averaged about 20 units per month so far. Furthermore, the three submarkets have combined for 12,000 units of net absorption since 2016. With more corporate moves on the way (AmerisourceBergen, Peloton) and the big firms still staffing up, demand shouldn't be an issue going forward.

Though demand has been strong, the caveat is price point. The good news is, after years of softness, asking rent growth has picked up, particularly in Allen/McKinney. Even Frisco, which has been ground zero in terms of the sheer amount of supply in recent years, has seen a sharp uptick in rents over the last few months. Concessions are still elevated, especially on new product, which is averaging close to one month free. But concessions have leveled off in recent quarters after rising every quarter since mid-2015.

The most promising sign for pending improvement is that a slowdown in supply is likely over the next few years. Groundbreakings have slowed in 2018 -- trailing 12-month groundbreakings were about 4,000 units as of the end of the second quarter 2018. In comparison, developers broke ground on about 7,500 units in the four quarters ending in the second quarter of 2017.

While suburban Dallas cities are still much more pro-development than most suburbs throughout the country, part of the reason for the slowdown could be due in part to increasing local opposition to apartments. Nevertheless, any type of slowdown can only be seen as a positive for current landlords and developers that do get their projects pushed through.

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While seasonality will likely put a damper on rent growth and demand through the end of the year, the slowdown in deliveries and groundbreakings should buoy the apartment market in the northern suburbs over the next few years.

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