Dallas-Fort Worth apartment developers riding boom even as rents grow

By STEVE BROWN

Real Estate Editorstevebrown@dallasnews.com

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Apartment developers, riding the biggest Dallas-Fort Worth building boom in decades, are betting that construction will continue a few more years.

“We have about a half-billion [dollars] in projects in the development pipeline, and we are not slowing down yet,” said Matt Segrest, chief executive of Dallas-based Alamo Manhattan Corp.

Alamo has several apartment projects underway in Uptown and other markets.

“A few months ago, I would have thought we were in the fourth quarter of this cycle, but now I think we have several years to run,” Segrest said Tuesday at an apartment industry conference in downtown Dallas. “New developments are going forward, and there is no shortage of capital.

“We’ve got another three or four years, I think.”

With about 28,000 rental units under construction in North Texas, D-FW has the fastest-growing apartment market in the country.

Strong job growth and population gains are keeping demand high. Also, young Americans are waiting later to buy homes.

“People are waiting to get married; they are waiting to have children,” said Stephen Meek, senior vice president with Dallas-based apartment developer StreetLights Residential. “We can’t be developing in a better place in the country. The fundamentals are still there.”

Although developers have built almost 50,000 apartments in the D-FW area in the last four years, vacancy rates at the end of the third quarter were only about 5 percent.

And rents were up almost 4 percent from a year earlier to a record $903 a month in North Texas, according to the latest data from MPF Research.

The newest apartments in Dallas’ popular Uptown and downtown neighborhoods now fetch $1,800 to $2,000 a month.

And the just-built suburban apartments in places like Frisco, Plano and Lewisville go for an average of $1,200 to $1,300, according to MPF Research.

Net apartment leasing totaled almost 5,900 units in the third quarter.

“So far in this cycle, D-FW has been the dominant construction center,” said Greg Willett, vice president of Carrollton-based MPF Research. “If you are going to deliver that much product, we better have some pretty strong demand.

“And during the last few years, demand for apartments has been well above unit completion volumes.”

Filling up

Willett said apartment complexes in North Texas have the lowest vacancy rates in 13 years.

He predicts that annual average rent increases will continue in the 3 percent to 4 percent range.

“The annual rent growth pace has been accelerating even at the time we are accelerating the volume of new construction coming on line,” Willett said. “We think the occupancy rate over the next two or three years holds pretty close to what it is now — essentially full.”

The largest chunk of apartment construction, about 8,000 units, is in central Dallas, including Uptown, downtown, the Design District and West Dallas.

“The urban core in Dallas has historically been underserved, but you do have to ask how much is too much,” Willett said.

Builders say they would break ground on even more apartments if they could find good construction sites and enough workers to build them.

“We are seeing the starts kind of level out, and that’s due to the fact a lot of the easy building sites have been taken,” said Dirik Oudt, president of developer Lang Partners. “We are having to work harder to make the sites left work.”

A shortage of construction workers is also holding back building.

“Certainly the labor is the most expensive part,” Oudt said. “That’s what is really causing a lot of the price increases.”

Rents accelerate

Some of the newest projects have gotten higher rents than expected.

“Rents have inflated faster than costs — we’ve exceeded our expectations,” said Meek, whose firm just finished the Taylor high-rise apartment project in Uptown. “Our average income at the Taylor is strong six figures.

“We have trust fund kids,” he said. “We have some empty-nesters.”

Brad Miller, president of Dallas’ Encore Multi-Family, worries that rents are getting too high.

“The increase in costs is doing our renter base a great disservice,” Miller said. “We are all being driven to service the 1 percent of the market that can afford $3,000-a-month rent.”

Longtime apartment builders and industry experts expect that the building cycle will end at some point.

Nationwide apartment construction should total more than 220,000 units this year, up more than a quarter from 2013 totals, said John Sebree of Marcus & Millichap, the lead sponsor of the annual apartment conference.

“Are multifamily developers going to overbuild? Of course they are going to overbuild; that’s what they do,” Sebree said. “But I don’t think it’s going to happen any time soon.”