

Rental industry booming

BY ALESHIA HOWE

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Thanks to a softening housing market and strengthening job growth in Tarrant County, developers are seeing pay-off on rental property investments in and out of the central city.

“The rental industry is strong,” said Tom Struhs, a Fort Worth developer who has completed one upscale apartment complex on the Trinity River with another under construction. “It is out-performing every other housing sector there is.”

Marcus & Millichap, a Dallas-based real estate investment service and brokerage firm, recently released its first quarter 2008 Apartment Research market update for the D-FW area. In its report, the company called D-FW one of the “healthiest economies in the nation this year, despite an overall economic slowdown.”

“From a multifamily perspective, there is a lot going on in Fort Worth right now in spite of any downturn we’ve seen throughout the nation in the housing industry,” said Drew Kile, regional manager of Marcus & Millichap’s Fort Worth office. “People moving into urban areas to live is continuing to be a trend. And those who would be thinking about purchasing their first homes are leery of making that investment or can’t make that investment because of the current housing market – so they’re turning to the great rental properties that are available in the area.”

Marcus & Millichap’s study reports an expected strong rental market in D-FW thanks to would-be homebuyers continuing to rent until the housing market begins to stabilize.

Rental rates have climbed in Class A spaces 3.9 percent to \$940 per month in the recent 12-month period and 3.4 percent to \$631 in lower-class spaces.

Vacancy rates are also up slightly, inching up 50 basis points to 6.4 percent since the same period a year ago, but Kile said this is because of the anticipated 8,000 units that will come online in the D-FW area. In 2007, 6,500 rental units were added to the market.

“Even though vacancy rates are going up, that’s a positive thing,” Kile said. “When you look at the thousands of apartments that are coming online and then you see that vacancy is ticking up a hair – that’s the area absorbing nearly all of the new units coming online that were planned years ago. That’s a sign of a thriving market.”

Struhs said his first Trinity River apartment complex, Lincoln at Trinity Bluff, is 99 percent leased.

“They outperformed their expectations by 20 percent,” Struhs said. “It just shows the strength of the area. It would have leased up faster if we had had more two and three-bedroom apartments. But that’s something we’ll have in the next projects.”

The residential rental industry, Struhs said, usually runs counter-cyclical with the residential home market for a few reasons.

“The apartment market is strong right now and that’s partly because of the softening housing market, but it’s also because of the growth in new jobs in the community,” he said. “People are moving to Fort Worth; being re-located to Fort Worth. So we’re seeing growth in the market. And with financing as it stands, renting just makes sense.”

Sherry Matina, CEO of the Greater Fort Worth Association of Realtors, said the local rental market can sustain a fluctuating housing market because of the population growth in North Texas.

“As long as the population of the Metroplex is increasing, renting can be viable for investors,” she said. “What I have seen in the past and what could happen now is if the population stays stagnant, people who are expecting to cover mortgages with rent income and do not have the cash to make mortgage payments if there is no renters will be hit hard.”

Kile agreed, adding foreclosures might have played a role in the rental boost, but their direct impact on the rental market is, “hard to say.”

“My gut is that that’s probably a small component of the sector’s growth, but when you look at the volume of people coming into this area, then you get a clearer picture of why the rentals are doing well,” Kile said.

It doesn’t hurt, Kile added, that new home construction has started to slow down.

“A year and a half ago you had a good chunk of people going in and buying houses and they can’t do that right now for financing reasons or whatever,” Kile said. “And apartment supply hasn’t blown up. You’d have to work pretty hard to get too much supply here.”

Kile said local developers are being aggressive, but smart when it comes to planned projects.

“The smart developers aren’t willing to take any extra risk right now,” he said. “But you still have guys who are active and know that those rental numbers are strong. So while we may not see as many projects being planned now, we will begin to see smarter

projects that appeal to that growing number of people who need housing, but are not looking to purchase a home.”

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