

# Economic and CRE Update



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# Table of Contents

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- 03 Introduction
- 04 CRE and Economic Performance
- 06 Growth
- 08 Economics of Growth
- 12 Conclusion

# Introduction

The economic and commercial real estate (CRE) landscapes are closely intertwined. In fact, looking at one without the other would lead to fundamental gaps in perception, which could potentially skew decision-making strategies. As such, it's necessary to inspect the relationship between these sectors to better understand America's post-pandemic recovery.

This is especially true in large states like **Texas**, where geographic and commercial diversity can cause economic variation between cities just a few miles apart. In this eBook, we're taking a snapshot of the state based on data gathered and analyzed by Moody's Analytics CRE. The result will provide a clear view of Texas' progress toward stability.





# CRE and Economic Performance

To better understand the economic landscape in Texas, it's helpful to first look at performance data to that of the entire nation for comparison — especially in four key CRE sectors:



**Multifamily:** Nationally, the multifamily market saw record performance in 2021, with effective rent changes upwards of 12%.



**Office:** The vacancy rate and effective rent growth in national offices have both steadied, but CRE experts still have concerns about future performance.



**Retail:** Nationally, the retail CRE market remains surprisingly steady. This could be attributed to the rise of omnichannel shopping experiences, which keep e-commerce from completely eliminating the need for brick-and-mortar stores.



**Industrial:** 2021 was a good year for the industrial sector. Vacancy rates fell, and effective rents rose across all industrial CRE property types.



To fully understand CRE and economic performance across the nation, it's equally important to analyze U.S. Real Gross Domestic Product (GDP) and employment data.

The **U.S. GDP** showed significant signs of economic recovery in 2021 but slowed in recent months. Consequences from inflationary pressures and rising interest rates have lowered our expectation for economic activities and call for around a 2.7 to 2.9 percent GDP growth rate for the year. While forecasts have moderated, this rate of growth is still above the long-term trend and illustrates the continued strength of the US consumer.

**Employment data**, however, tells a slightly different story. Even after a strong beginning of 2022, there's a gap of nearly over one million between pre- and post-pandemic employment numbers, which means the size and distribution of the national workforce is still in flux.

It's also important to note that this data is invariably influenced by factors like inflation and new variants of COVID-19. For example, Omicron somewhat impacted travel but didn't dissuade retail spending; inflation, meanwhile, has caused what our experts call "whiplashing supply and demand."

# Growth

Despite fluctuations in national economic performance, Texas continues to more or less play by its own rules. This is especially true in the apartment, office, retail, industrial, and hotel CRE sectors.

The **apartment** market in Dallas rebounded strongly from recent impacts, while Fort Worth saw stabilization. Across the state, vacancy rates generally declined. Effective rent growth rates spiked in early 2021 but have decelerated since.

**Office** CRE also performed well for the most part. Vacancy rates generally declined or stabilized. Effective rent growth saw much fluctuation between early 2020 and mid-2021, but it has been slowing since; one exception is the Fort Worth area, where effective rent spiked significantly in mid-2021.

**Retail** in Texas is beginning to revive — as illustrated by stabilizing vacancy rates. Effective rent growth, on the other hand, has been all across the board, with Fort Worth showing a loss of nearly 2% in late 2020 and completely recovering before the end of the year. Rent data across the state continues to fluctuate.

In the **industrial** sector, vacancy rates are steadily declining. Effective rent began to increase in early 2021 and continued to grow for much of the year, only moderating toward the end of the third quarter.

**Hotel** CRE, meanwhile, has been sensitive to COVID-19 waves. For most areas, vacancy rates have remained between 30% and 50%. Average daily rates fluctuated throughout 2020 and into 2021, only beginning to even out toward the start of 2022.

Overall, this suggests that Texas is recovering steadily from the financial impacts of COVID-19, although certain influences are still causing uncertainty and volatility.



# Economics of Growth

Much of Texas' economic performance can be attributed to its equally impressive growth. Here are a few key factors in this population expansion:



## Inbound vs. outbound

Of Texas' moving population, 54.4% were inbound, while 45.6% were outbound. A growing population means more demand for CRE, including multifamily, office, industrial, and retail.



## Primary Reason for Moving

Most people moving to Texas — 41.77% — did so for job opportunities. At 31.66%, the second most popular reason for moving was family reasons. The least popular reasons were cost (9.33%) and health (5.25%) reasons.



## Income

Nearly half of the inbound population — 49.27% — had an income of \$150,000 or more. Only 17% had an income below \$75,000.

Although Texas' population growth rates are telling, this data becomes even more relevant when compared to the rest of the country. In fact, Texas had the second-highest net domestic and international migration gains in America, surpassed in both cases by Florida.

This may be partially due to the fact that Texas — especially the Dallas Fort Worth area — has a high degree of livability based on key considerations like job availability, climate risk, and racial diversity.

Furthermore, Dallas has high employment rates, which Moody's Analytics CRE experts expect to grow even more over the coming years. Household income in the area is recovering more strongly than the national average and is expected to continue improving, and the rent-to-income ratio in Dallas and Fort Worth — 22.5% and 18.9%, respectively — suggest high affordability. Dallas Fort Worth is also popular due to the presence of tech companies like Facebook, HP, Google and Activision Blizzard.

Texas — specifically Dallas Fort Worth — is seeing high rates of population growth due to key livability factors, which is good news for the economy and CRE market.

As Texas continues to perform well in financial COVID-19 recovery, our experts have made predictions in three key areas: apartment, industrial, and office CRE markets.

The **apartment** market is expected to even out in the coming years. Although 2020 saw drops and 2021 saw incredible spikes, Moody's Analytics CRE analysts expect effective rent to grow 5-7% in 2022 and rest steadily around 3% through 2025.

**Industrial** CRE forecasts continue to look positive. Effective rent growth skyrocketed in 2021 but is expected to even out between 4% and 5% through 2025 — with the exception of the Dallas area, where effective rent growth is expected to be above 5% in the same time period.

**Office** forecasts also suggest impressive performance from Dallas. Although the area saw effective rent rates drop in 2020 while Fort Worth's rates soared, the opposite is expected to be true going forward. Dallas effective rent growth will likely be near or above 3% through 2025, while Fort Worth is likely to stay near 2% and remain consistently below the national average.



The final but no less important consideration for Texas' future economic and CRE performance is the retail market.

E-commerce became especially popular during COVID-19 quarantines and lockdowns. However, the influence of this particular approach seems to be leveling out: Texas retail sales are rising while e-commerce is contributing less. This suggests that retail will continue to be a key player in Texas' overall CRE landscape.

In fact, Texas saw some of the highest numbers of new retail openings in the country. Many of these openings were full-service or limited-service restaurants, new car dealers, convenience stores, and snack bars.

Based on these numbers and additional research and analysis, Moody's Analytics CRE experts expect retail CRE performance to gradually improve in the coming years. Vacancy rates will likely become steady, while effective rent rates in Dallas and Fort Worth are likely to grow through 2025.

# Conclusion

Texas is a large state with high levels of economic, geographic, and social diversity. Despite so many factors and fluctuations, Texas — especially the Dallas Fort Worth area — has managed to perform well in countless CRE markets. It also shows impressive progress when compared to COVID-19 financial recovery rates across the nation.

This data, with particular focus on population growth and CRE forecasts, suggests that Texas is well-positioned for the coming years. The state acts as a beacon of hope for individuals and the country at large, providing an example of how recovery can and should look.

To learn more about the economic and CRE landscapes in Texas or compare data to other U.S. states, [explore further insights](#) from Moody's Analytics CRE.



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