Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION 69,370

UNITS DELIVERED 29,035

MARKET FUNDAMENTALS

VACANCY RATE 7.1%

YEAR-OVER-YEAR CHANGE +120bps

ASKING RENTS $1,526

YEAR-OVER-YEAR CHANGE -0.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT $159,800*

** Transactions where pricing is available*

Dallas-Fort Worth Multifamily
4Q 2023

MARKET INSIGHTS

Sales slow, but a wide range of properties continue to trade

HIGHLIGHTS

- Following a healthy middle part of 2023, multifamily operating conditions in Dallas-Fort Worth cooled in the fourth quarter. Renter demand remained strong, but completions outpaced absorption, resulting in rising vacancy levels and a modest rent decline. Rapid economic growth brightens the outlook for 2024.
- Vacancy in Dallas-Fort Worth rose 120 basis points in 2023, ending the year at 7.1 percent. The current rate is higher than the region's longer-term range; during the past five years, vacancy has averaged 5.2 percent.
- After rising in the middle part of the year, rents trended lower in the fourth quarter. Rents dipped to $1,526 per month, down 0.5 percent year over year. Rents should trend higher in 2024 as absorption remains elevated.
- While the number of properties that sold in 2023 was down significantly from levels recorded in recent years, Dallas-Fort Worth was still a top market for multifamily investment sales volume for the year. Transactions closed across property classes and pricing closely tracked levels from prior years. In transactions where pricing is available, the median price reached $159,800 per unit.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

The Dallas-Fort Worth economy continued to expand in 2023, with additions to payrolls supporting a rebound in renter demand for multifamily housing. During the fourth quarter, net absorption topped 4,500 units, bringing the total for the full year to nearly 16,000 units. While absorption levels gained momentum compared to prior-year totals—particularly in the second half of 2023—renter move-ins did not keep pace with new construction. As a result, vacancies rose in 2023, although at a slower pace than was recorded in 2022. Absorption was concentrated in a handful of submarkets where construction has been most active. The Frisco, Allen/McKinney, and Grand Prairie submarkets combined for more than 6,500 units of net absorption and approximately 7,750 units of new inventory in 2023.

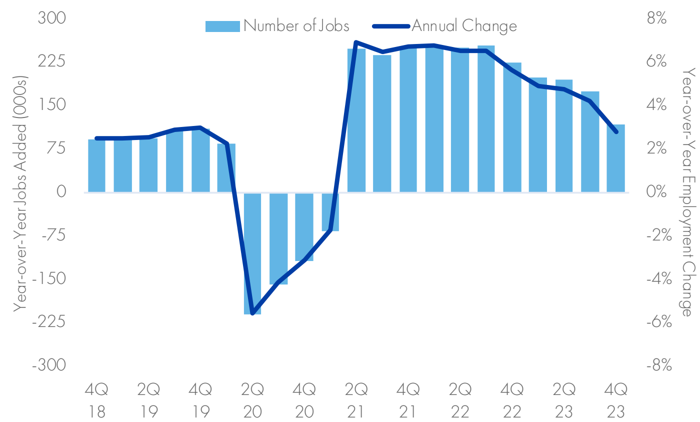
Investors continued to acquire multifamily properties in Dallas-Fort Worth throughout 2023, although sales velocity lagged recent peaks. During the fourth quarter, the pace of transactions slowed, as volatility in lending markets increased uncertainty surrounding borrowing costs and the cap rates. Average cap rates in the region have risen, and there is now a greater spread between asset classes. Most Class A properties are transacting with cap rates between 5 percent to 5.25 percent. Cap rates for Class B assets begin at about 5.25 percent but can push as high as 6 percent. While Class C buildings are still trading within the Dallas-Fort Worth Metroplex, cap rates of 6 percent and higher are often required for buyers to transact on these older assets.

EMPLOYMENT

- Employers in Dallas-Fort Worth added more than 117,000 net new jobs in 2023, a 2.8 percent rate of growth. Since the beginning of 2021, area employers have created nearly 600,000 jobs in the region.
- The Dallas area continues to add high-wage workers in white-collar industries. In 2023, the financial and professional sectors combined to add more than 45,000 jobs in the region, or nearly 40 percent of the area's total net job growth. These sectors have grown by an average of 4.7 percent per year since 2018.
- During the second half of 2023, global cybersecurity firm McAfee opened a new regional headquarters at The Star development in Frisco. In an earlier move, McAfee and FireEye Security merged, creating cybersecurity firm Trellix, which has about 500 employees in Plano.
- **FORECAST:** Employers in Dallas-Fort Worth are forecast to add approximately 85,000 jobs in 2024, a 2 percent expansion of local payrolls. The national pace of growth is forecast to be trimmed about in half in 2024, but continued corporate relocations should support the local labor market.

Since 2021, area employers have created nearly 600,000 jobs.

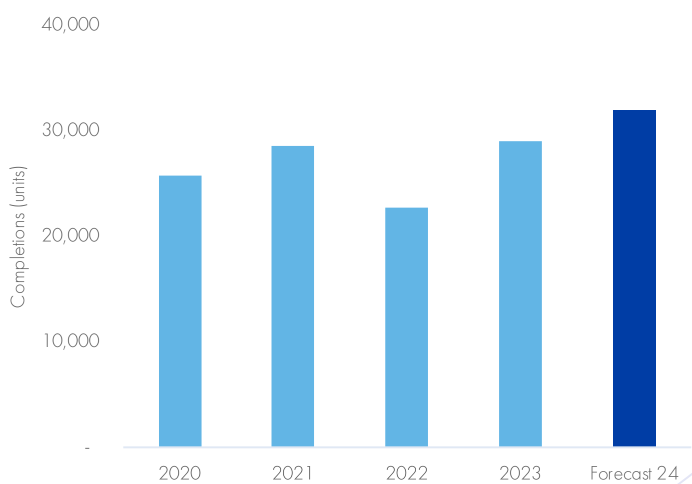
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

In 2023, multifamily permitting levels dropped by more than 30 percent.

DEVELOPMENT TRENDS



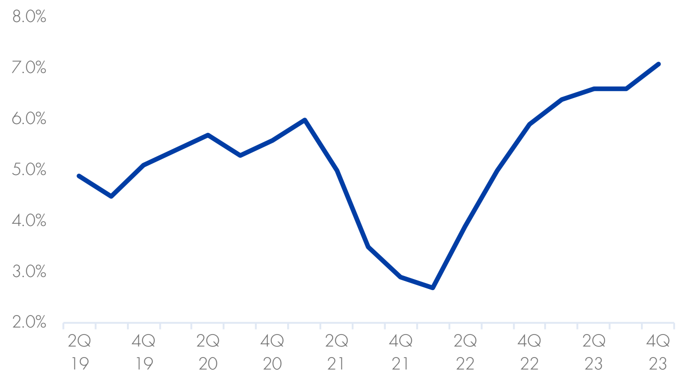
Sources: Northmarq, RealPage/MPF

DEVELOPMENT & PERMITTING

- The pace of deliveries accelerated at the end of the year, with developers completing approximately 9,000 units in the fourth quarter. For the full year, more than 29,000 units came online, 14 percent higher than the region's annual average since 2017.
- Projects totaling 69,370 units were under construction at the end of 2023, 15 percent lower than the peak level from earlier in the year. While completions are elevated, the pace of construction starts slowed considerably in the second half of the year, which will result in a thinning development pipeline during the next few years.
- Multifamily permitting volume slowed considerably late in the year. Permits for fewer than 4,300 multifamily units were pulled in the fourth quarter, the lowest three-month total in the region since 2020. From 2022 to 2023, multifamily permitting levels dropped by more than 30 percent.
- **FORECAST:** Developers are expected to increase deliveries by approximately 10 percent in Dallas-Fort Worth in the coming year. Projects totaling 32,000 units are slated to be completed in 2024; annual construction totals have averaged 25,900 units in the region since 2017.

Absorption totaled nearly 16,000 units in 2023.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

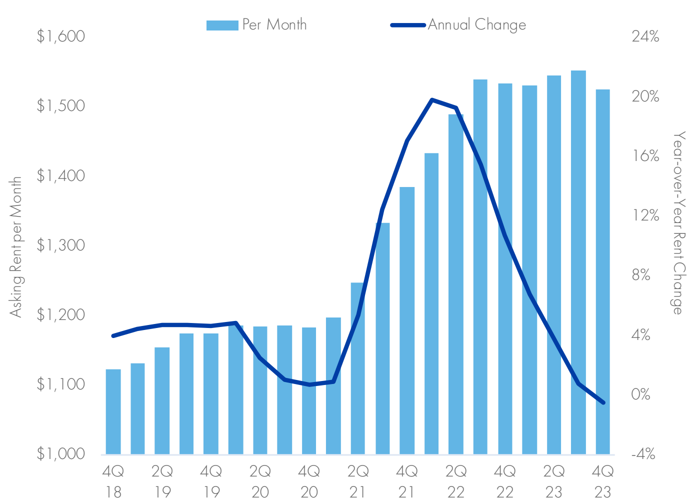
- After steadying in the third quarter, area vacancy pushed higher in the final few months of the year. Vacancy in Dallas-Fort Worth rose 50 basis points in the fourth quarter, reaching 7.1 percent.
- Vacancy ended 2023 120 basis points higher than one year earlier. The rate has averaged 5.2 percent over the past five years. Absorption totaled nearly 16,000 units in 2023, with approximately 70 percent of that figure recorded in the second half.
- Vacancy conditions were fairly consistent across the Metroplex. In the Dallas-Plano-Irving segment of the market, vacancy rose 130 basis points in 2023, ending the year at 7 percent. In Fort Worth-Arlington, vacancy was 7.6 percent at the end of the fourth quarter, and the rate rose 120 basis points during the course of the year.
- **FORECAST:** Vacancy in Dallas-Fort Worth is likely to rise in 2024, before trending lower beginning in 2025. The rate is expected to reach 8.2 percent in the next 12 months, an increase of 110 basis points.

RENTS

- After gaining ground in the middle part of the year, rents crept lower in the fourth quarter. Average rents in Dallas-Fort Worth declined 1.7 percent in the final three months of the year, reaching $1,526 per month. In total, rents were essentially flat in 2023, ending the year down just 0.5 percent from one year earlier.
- Rents in the region's newest properties are following a similar trajectory to the market as a whole. Average rents in buildings built since 2020 ended the fourth quarter at $1,890 per month, down just 0.3 percent from one year earlier. To this point, newer properties have been able to sustain rents, despite a more competitive leasing environment.
- Rents in Class C properties continued to inch up throughout 2023, including a 0.9 percent rise in the fourth quarter. As the local economy has improved and wages have pushed higher, renters in the region's lowest-cost units have had greater capacity to pay higher rents. The average Class C apartment rent in Dallas-Fort Worth ended 2023 at $1,248 per month, a 4.3 percent gain for the year, and up 25.5 percent in the past three years.
- **FORECAST:** Rents are expected to record modest gains in 2024. Renter demand for units should be strong enough to result in an annual rent increase of nearly 2 percent, with the average rent likely to end 2024 at $1,555 per month

Rents in buildings built since 2020 ended the year at $1,890 per month.

RENT TRENDS



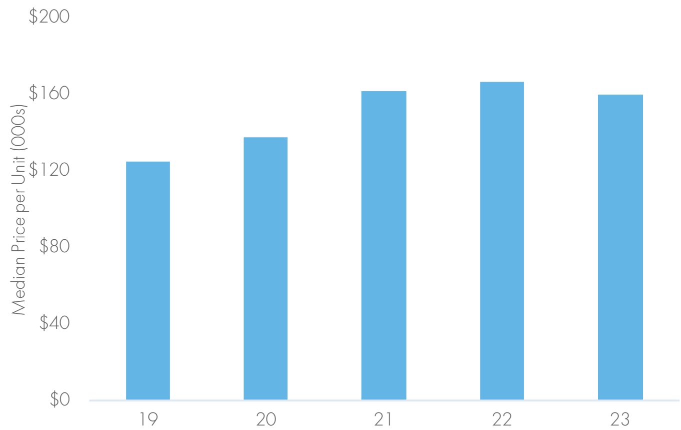
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- Fewer properties sold in the fourth quarter than in the prior three-month period, as volatility in the interest rate markets stifled activity. Sales velocity slowed 35 percent from the third quarter to the fourth quarter.
- The number of properties that sold in 2023 was down 47 percent when compared to 2022 levels. Properties totaling approximately 43,500 units sold in 2023, after more than 80,000 units traded in the prior year.
- During the fourth quarter, the transaction mix reflected the market inventory. Class B properties accounted for about 40 percent of the total number of sales, with Class C assets making up 35 percent of the transaction count. For the full year, Class B properties represented about half of the total transactions for the year.
- In transactions where pricing was available, the median price for the year was $159,800 per unit, just 4 percent lower than the median price in 2022. Pricing has remained in a tight range during the past three years.
- In transactions that closed during the fourth quarter, Class A properties traded between $215,000 per unit and $265,000 per unit in most cases. The Class A properties that sold in the closing months of the year were generally garden-style suburban assets.
- Class C properties were generally priced around $100,000 per unit in the final few months of the year. Class B properties commanded prices that closely tracked the median price in the region.
- Cap rates trended higher at the close of the year, averaging approximately 5.5 percent in the fourth quarter.
- Cap rates varied across property classes. In Class A properties, cap rates often ranged between 5 percent and 5.25 percent. Cap rates in Class B buildings were generally between 5.25 percent and 6 percent, while Class C assets were consistently at 6 percent or higher.

The median price for the year was $159,800 per unit.

INVESTMENT TRENDS



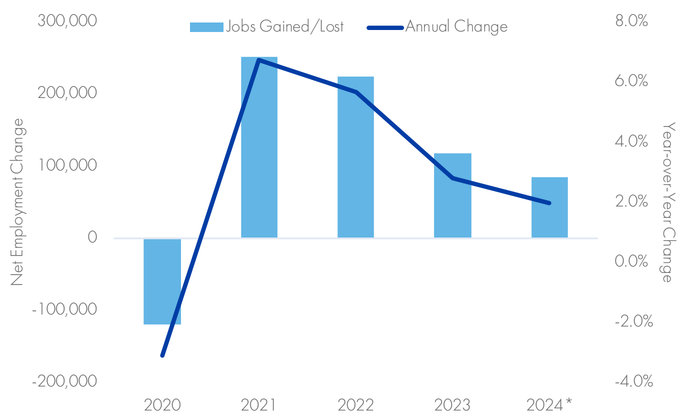
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

New supply growth will impact multifamily markets across the country in 2024, although the Dallas-Fort Worth region is expected to be better positioned to absorb new units as they come online. Developers are on pace to deliver approximately 32,000 new units to inventory across Dallas-Fort Worth, increasing the local inventory or apartments by about 3.5 percent. In comparison, area employers are forecast to expand payrolls by about 2 percent in 2024, following average increases of 3 percent per year for the past decade. This continued employment growth will support renter demand for units and allow for modest rent increases. The slowing pace of multifamily permitting and starts will allow the construction pipeline to thin in 2024 and 2025 and allow the market to return to equilibrium.

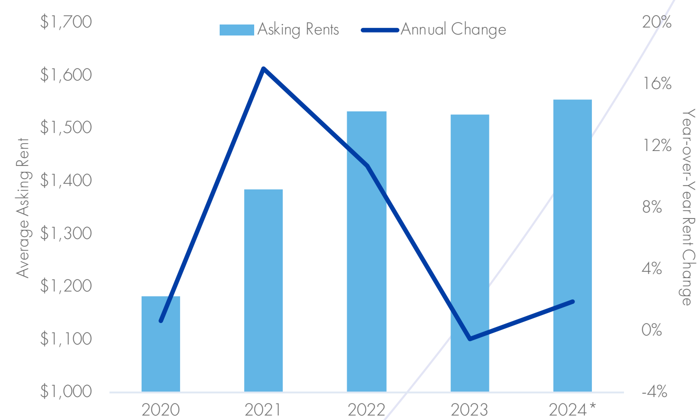
Multifamily investment activity in Dallas-Fort Worth should record a bit of a rebound in 2024 after the number of assets that changed hands in 2023 was down nearly 50 percent from prior-year levels. The wide range of properties that sold in recent quarters should provide momentum to support a more active investment market in the coming year. While many markets recorded limited transaction activity in value-add and older Class C properties, these transactions have continued to close in Dallas-Fort Worth. This has resulted in greater clarity in pricing and cap rates and will set the stage for additional transaction volume in the year ahead. Investment capital has been amassed in anticipation of acquiring distressed properties. To this point in the cycle, very few of the opportunities have materialized, although there will likely be increased activity in the year ahead.

EMPLOYMENT FORECAST



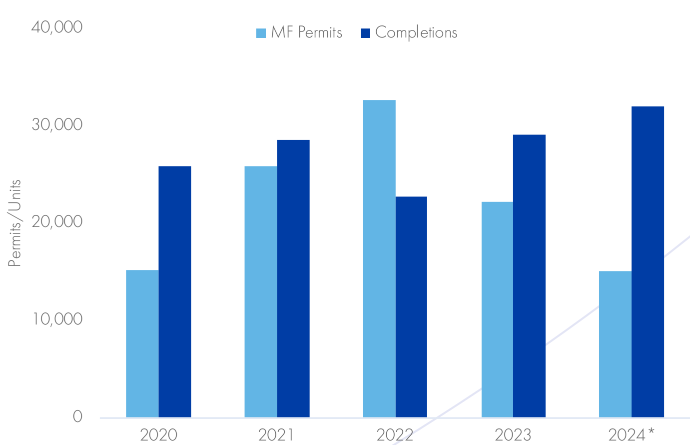
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



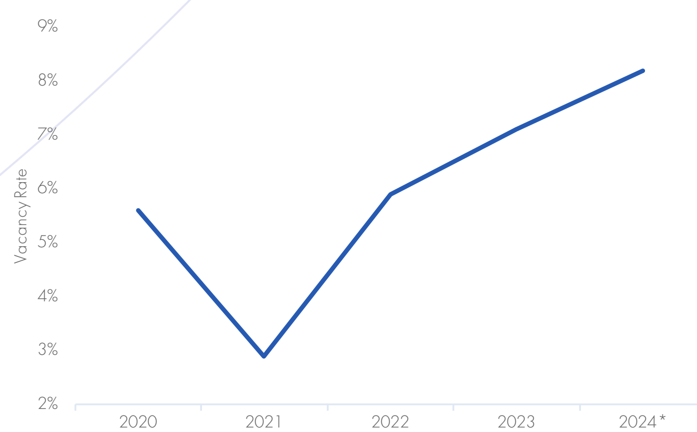
** Year End Forecast*
Sources: Northmarq, RealPage/MPF

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Census Bureau, RealPage/MPF

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, RealPage/MPF

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