Northmarq

MARKET INSIGHTS

Absorption gains momentum to start 2024

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	68,418
UNITS DELIVERED	10,724

MARKET FUNDAMENTALS

VACANCY RATE	7.4%
YEAR-OVER-YEAR CHANGE	+100bps
ASKING RENTS	$1,515

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE PER UNIT	$134,500*

** Transactions where pricing is available*

Dallas-Fort Worth Multifamily
1Q 2024

HIGHLIGHTS

- The first quarter was a period of strong renter demand and active development in Dallas-Fort Worth. Net absorption totaled more than 7,200 units, while developers delivered approximately 10,700 units.
- The vacancy rate inched up 30 basis points in the first quarter, reaching 7.4 percent. Year over year, area vacancy has pushed up by 100 basis points.
- Quarterly rent trends have been inconsistent in recent periods, but the net result has been rental rates that have remained in a tight range for much of the past two years. Rents ended the first quarter at $1,515 per month.
- Fewer multifamily properties traded in the first quarter, repeating a pattern that emerged in 2023. In transactions where pricing was available, the median price was $134,500 per unit. The average price is much higher; during the first quarter, the average price reached $188,900 per unit.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

The Dallas-Fort Worth multifamily market performed fairly well during the first quarter, with an accelerating pace of renter demand nearly offsetting a wave of new supply coming online. Net absorption got off to a much stronger start in 2024 than in 2023. Renters moved into a net of more than 7,200 units during the first quarter, a figure that would have accounted for nearly 50 percent of the full-year total in 2023. Demand is being fueled by continued employment gains and population growth, the same trends that are prompting new development. Projects totaling more than 10,700 units were delivered in the first quarter, and developers will remain active completing additional rental communities through the remainder of this year. Projects totaling approximately 24,300 additional units are expected to come online in the next three quarters, before the pace slows in 2025.

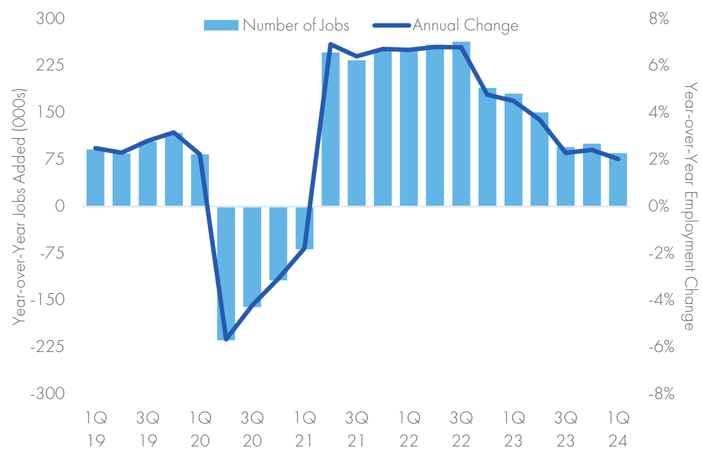
While absorption was elevated in the first quarter, transaction activity slowed as investors assessed both the impact of higher borrowing costs on underwriting transactions as well as the supply-demand conditions on market forecasts. Still, enough transactions are getting done across a range of property classes and submarkets for price discovery. To this point, Class A properties and top Class B assets appear to continue to command elevated per-unit pricing. Some Class C buildings are changing hands at lower per-unit prices than in recent years, following a sharp run-up since 2016. Cap rates have trended higher, starting at around 4.6 percent for best-in-class properties, with most Class A assets trading with cap rates in the high-4 percent to low-5 percent range. Cap rates in Class B properties are generally between 5.25 percent and 6 percent, while Class C assets often trade above 6 percent.

EMPLOYMENT

- Employers in Dallas-Fort Worth continue to expand payrolls at a healthy pace. During the past 12 months, more than 85,000 new jobs have been created throughout the region, a 2 percent increase. Growth has averaged nearly 3 percent per year over the past decade.
- The rapid population growth being recorded in the region is sparking demand for healthcare workers. The healthcare and social assistance sector has expanded by 3.4 percent in the past year, with the addition of 14,400 net new jobs.
- The construction sector continues to expand, but the pace of growth is more sustainable than during the steep rise recorded a few years ago. Construction employment has expanded by 3.4 percent in the past 12 months, with 7,500 jobs added. One year ago, growth in the sector totaled nearly 6 percent.
- **FORECAST:** Area employers are forecast to expand payrolls by 1.9 percent this year with the addition of 80,000 jobs. In 2023, total employment in the region spiked by more than 100,000 jobs, the highest total in the country.

In 2023, employment in the region spiked by more than 100,000 jobs.

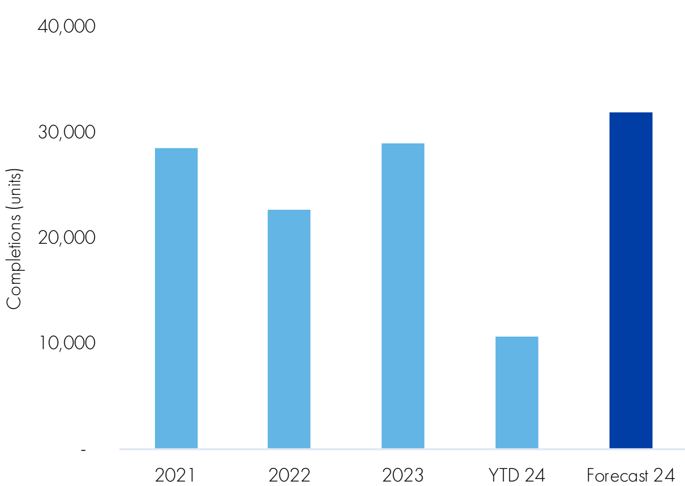
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Permitting posted a 25 percent decline from one year earlier.

DEVELOPMENT TRENDS



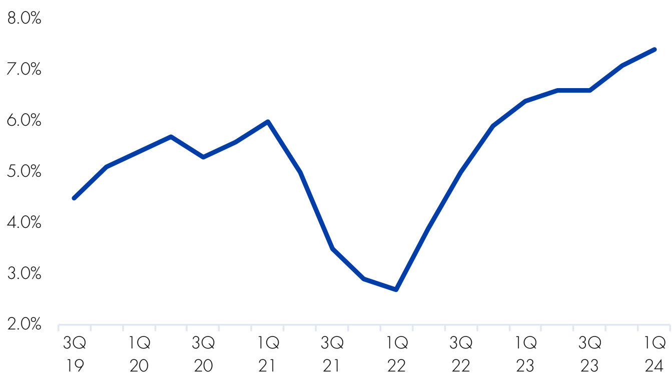
Sources: Northmarq, RealPage/MPF

DEVELOPMENT & PERMITTING

- Developers were active at the start of the year, delivering more than 10,700 units in the first quarter. Last year, completions totaled fewer than 6,000 units in the first quarter.
- The development pipeline includes nearly 300 projects currently under construction totaling more than 68,400 units. This represents a decline of approximately 15 percent from peak levels one year ago when more than 81,000 units were under construction.
- Permitting in Dallas-Fort Worth totaled approximately 5,050 multifamily units during the first quarter, a 25 percent decline from one year earlier. Permitting volumes in the region peaked in the second half of 2022 and have been trending lower for more than a year.
- **FORECAST:** After deliveries averaged more than 25,000 units per year from 2017-2023, developers are on pace to complete approximately 35,000 units in 2024. Construction will taper off beginning next year; projects totaling fewer than 30,000 units are scheduled to be delivered in 2025.

During the past 12 months, absorption has totaled nearly 22,000 units.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

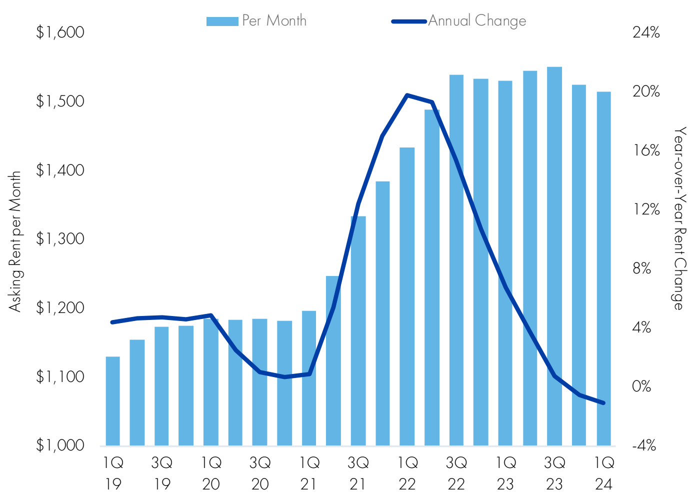
- With deliveries elevated at the beginning of the year, vacancy trended higher in the first quarter. The rate rose 30 basis points in the first three months of the year, reaching 7.4 percent. Area vacancy reached an all-time low in early 2022 and has been on the rise in subsequent periods.
- Elevated demand levels have limited rises in vacancies; during the past 12 months, net absorption has totaled nearly 22,000 units across Dallas-Fort Worth. Net absorption reached its highest point in more than two years in the first quarter, with renters moving into a net of more than 7,250 units.
- The Dallas-Plano-Irving segment of the market is posting somewhat lower average vacancy than in Fort Worth. Vacancy in Dallas-Plano-Irving ended the first quarter at 7.2 percent, while the rate in Fort Worth-Arlington averaged 8 percent.
- **FORECAST:** The Dallas-Fort Worth multifamily market is expected to maintain its current trajectory for the rest of this year. The vacancy rate is forecast to end 2024 at 7.8 percent.

RENTS

- Rent trends in Dallas-Fort Worth have been mixed in recent periods. In the first quarter, rents dipped slightly, falling 0.7 percent to $1,515 per month.
- Current Class A rents are $1,885 per month, or $2.12 per square foot, per month. The gap between renting and owning has widened considerably in Dallas-Fort Worth—more than doubling since 2020—a trend that should allow room for additional rent increases going forward.
- While rents are flat or slightly lower across much of the Dallas-Fort Worth area, one of the region's most expensive submarkets is posting continued rent increases. Rents in the Oak Lawn/Park Cities submarket ended the first quarter at $2,324 per month, up $100 per month from one year earlier. Absorption in the submarket surged a few years ago, and has steadied in recent quarters.
- **FORECAST:** With renter demand strong, operators should be able to implement modest rent increases by the end of the year. Rents are forecast to inch up approximately 1.5 percent to $1,550 per month in 2024.

Current Class A rents are $1,885 per month.

RENT TRENDS



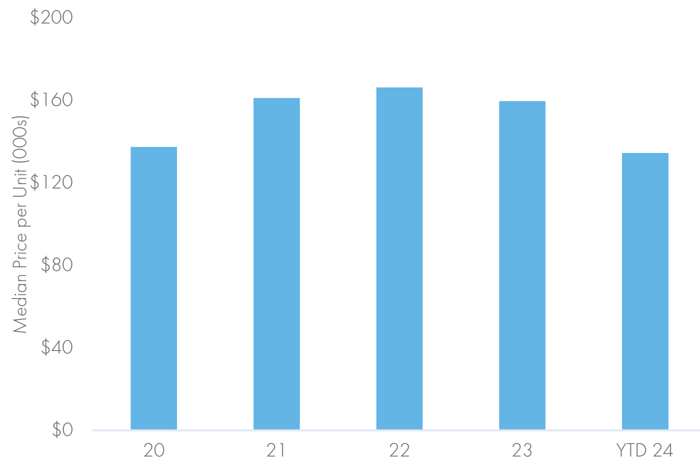
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- In 2023, the first quarter was the lightest period of transaction activity for the year, a trend that appears to have repeated in 2024. Transaction counts in the first quarter were down 34 percent from levels recorded at the start of 2023.
- The transaction mix through the first few months of 2024 was heavily concentrated in 1980s-vintage Class B and 1970s-vintage Class C assets, with a handful of newer Class A properties mixed in. Last year, Class B properties made up more than half of the closed transactions, with Class A communities accounting for more than 20 percent of sales.
- In transactions where pricing was available, the median price so far this year was $134,500 per unit. The average price per unit is considerably higher, reflecting the impact of a few large, upper-tier properties changing hands. During the first quarter, the average price reached $188,900 per unit.
- Class A properties continue to trade at prices that are nearly twice as high as the reported median price. In Class A transactions that have closed thus far in 2024, properties have traded between $225,000 per unit and $350,000 per unit. While a handful of high-rise Class A properties traded in 2023, most Class A assets that have sold year to date have been garden-style or low-rise buildings.
- Cap rates averaged about 5.5 percent in the first quarter, similar to the figure at the end of 2023. One year ago, cap rates were below 5 percent on average.

During the first quarter, the average price reached $188,900 per unit.

INVESTMENT TRENDS



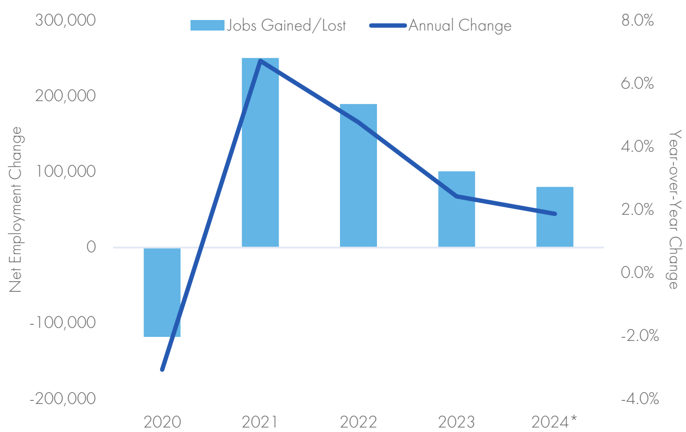
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

The Dallas-Fort Worth multifamily market is being impacted by both short-term and long-term outlooks. In the immediate future, supply should outpace demand, likely resulting in a modest annual vacancy increase and rent growth that lags the region's historical average. Beyond 2024, however, the longer-term outlook brightens considerably, with the pace of new supply likely to slow to earlier levels and the region's growth trajectory expected to continue to support demand for rental housing. The region has added approximately 500,000 residents since 2020, fueling demand for all forms of housing and sparking hiring in population-serving industries such as healthcare, retail, and hospitality. On the supply-side, multifamily permitting and construction starts have already begun to cool, which will ultimately limit supply-side pressures in the Metroplex.

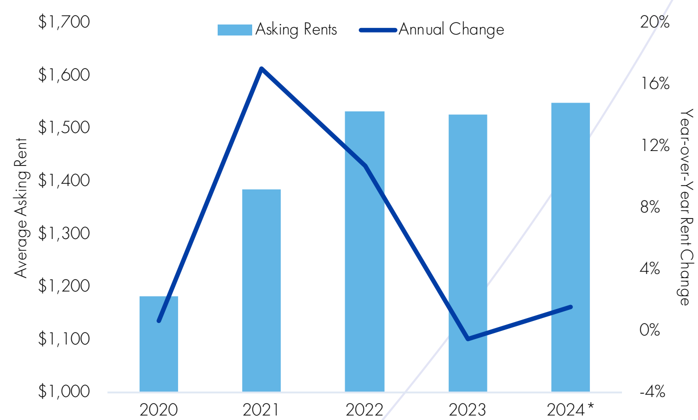
Multifamily investment throughout the country has gotten off to a slow start in 2024, and the Dallas-Fort Worth area's role as a market leader reflects that larger trend. Elevated interest rates are restricting transaction activity more than any other factor, and it may require some relief in borrowing costs for sales velocity to rebound fully. Still, investment capital has been raised and will be allocated with the market poised for a gradual rise in transaction counts throughout the remainder of the year. Preliminary indications show a stronger start to the investment market in April, and momentum will likely build slowly as more properties are marketed for sale at cap rates that are 100 basis points higher than one year ago. The potential for future rent growth should attract investment in the coming quarters as the gap between renting and owning widens. John Burns Research and Consulting recently estimated the costs of owning an entry-level home in the region at about $2,000 per month higher than the current market rent.

EMPLOYMENT FORECAST



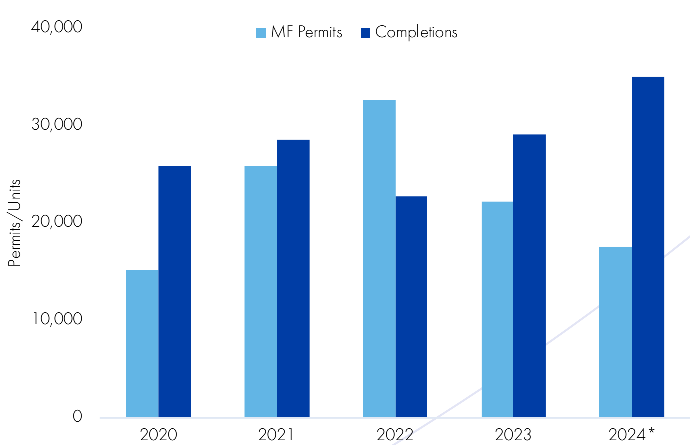
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



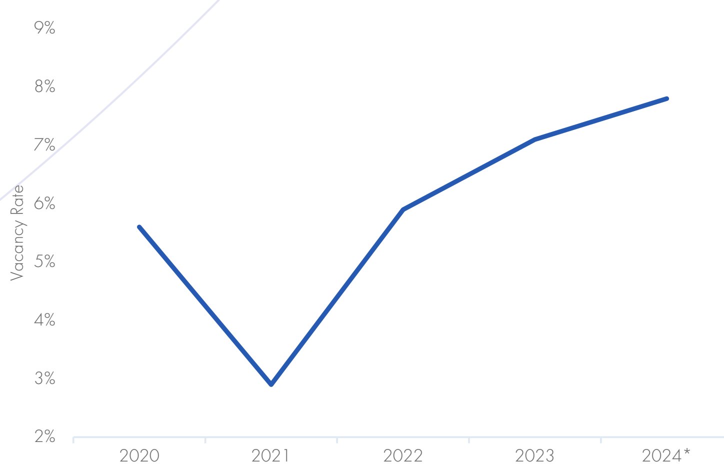
** Year End Forecast*
Sources: Northmarq, RealPage/MPF

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



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

FOR MORE INFORMATION,
PLEASE CONTACT:

TAYLOR SNODDY
Regional Managing Director–Investment Sales
972.455.4928
tsnoddy@northmarq.com

ERIC STOCKLEY
Senior Vice President–Investment Sales
972.455.4911
estockley@northmarq.com

CHARLES HUBBARD
Vice President–Investment Sales
972.455.4915
chubbard@northmarq.com

CAMPBELL BROOKS
Associate–Investment Sales
972.637.2171
cbrooks@northmarq.com

KEVIN LEAMY
Managing Director–Debt & Equity
972.455.4927
kleamy@northmarq.com

LAUREN BRESKY
Managing Director–Debt & Equity
972.455.4912
lbresky@northmarq.com

JOEL HEIKENFELD
Managing Director–Debt & Equity
972.455.1943
jheikenfeld@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

ABOUT NORTHMARQ

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.

northmarq.com