

Dallas-Fort Worth Multifamily




Nation-Leading Job Growth Drove Absorption in 2019

Highlights

- > Rapid growth in the Dallas-Fort Worth area supported improving apartment property performance in 2019. With additional growth forecast for 2020, similar multifamily performance is likely in the year ahead.
- > Dallas-Fort Worth led the country in job growth in 2019, with employers adding 126,100 new workers, a 3.4 percent pace of growth.
- > Vacancy fell 30 basis points for the year, reaching 5.2 percent as of the fourth quarter. This was the second straight year where the local vacancy rate tightened.
- > Rent growth outpaced gains from recent years. Asking rents rose 4.6 percent in 2019, reaching \$1,175 per month.
- > The Dallas-Fort Worth market posted consistently strong investment performance in 2019. The number of property sales ticked higher, prices rose, and cap rates compressed. With strong property performance forecast going forward, investors are likely to remain active in 2020.

Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market had another year of robust growth in 2019. Conditions strengthened as the local economy accelerated. Employment growth in the Metroplex led the country in 2019, as more than 125,000 net new jobs were created. This rapid pace of expansion fueled demand for rental housing, pushing the local vacancy rate lower even as developers continued to bring new units to the market in an attempt to keep up with demand growth. Rents rose at a faster pace than in either of the previous two years, highlighting the pricing power operators have in the current market.

Q4 Snapshot	Dallas-Fort Worth Market
	Market Fundamentals
	Vacancy 5.2%
	- Year Over Year Change -30 bps
	Asking Rent \$1,175
	- Year Over Year Change +4.6%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$125,000
	Cap Rates (Avg YTD) 5.0%
	Construction Activity
	Units Under Construction 47,155
	Units Delivered YTD 22,688

* In transactions where pricing is available

Multifamily investment activity in Dallas-Fort Worth reflected the healthy underlying property performance in the market. Investors continued to acquire apartment properties at a steady and active pace, pushing prices higher and driving cap rates to compress. More newer properties changed hands in 2019, while prices rose in Class B assets as value-add strategies are proving successful. Looking ahead, the market should continue to record a high volume of investment activity as buyers flock to one of the fastest-growing large markets in the country.

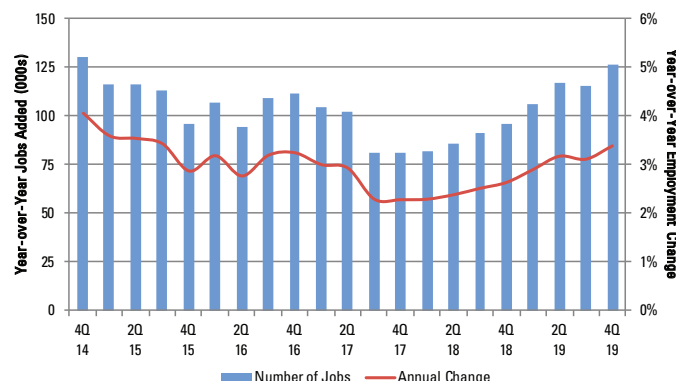
Employment

- > Dallas-Fort Worth led the country in total job growth in 2019, with employers adding 126,100 new jobs for the year. This was a spike after 96,000 positions were created in 2018. The annual rate of job growth in the past 12 months was 3.4 percent, more than doubling the national pace of expansion.
- > The Dallas-Fort Worth area is attracting a steady stream of business relocations, fueling rapid gains in white-collar employment sectors. In 2019, the professional and business services sector expanded by 4.3 percent, with the addition of 26,800 new positions, while the financial sector spiked by nearly 6 percent as more than 18,000 new jobs were added.
- > With the local economy posting strong gains, builders are ramping up activity to meet commercial and residential demand. Construction employment grew 6 percent in 2019, adding 7,800 new jobs.
- > **Forecast:** Dallas-Fort Worth is forecast to be one of the leading markets for job growth again in 2020. Local employers are expected to add 105,000 net new jobs in the year ahead, a 2.7 percent pace of expansion.

Vacancy

- > The combined vacancy rate in the Dallas-Fort Worth area was 5.2 percent at the end of 2019, 30 basis points lower than one year earlier. This marked the second consecutive year where the local vacancy rate ticked lower.
- > Vacancy tightened in each of the two primary market segments in 2019. In the Dallas-Plano-Irving portion of the market, vacancy dipped 30 basis points in the past year, reaching 5.1 percent. In Fort Worth-Arlington, the rate fell 20 basis points, ending 2019 at 5.3 percent.
- > Net absorption in 2019 topped 21,000 units, exceeding the market's five-year average by more than 5 percent. This strong absorption has driven the vacancy rate lower even as new apartment projects have been delivered.
- > **Forecast:** Dallas-Fort Worth is forecast to record its third consecutive year of vacancy improvement in 2020. The rate is expected to drop 30 basis points this year, reaching 4.9 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Dallas-Fort Worth led the country in total job growth in 2019

Vacancy Trends



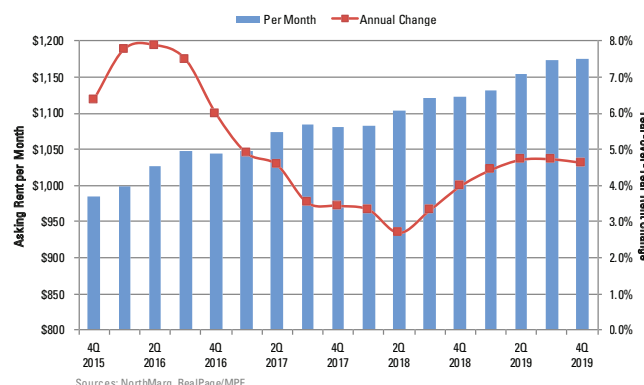
Sources: NorthMarq, RealPage/MPF

Vacancy fell 30 basis points in 2019, dipping to 5.2 percent

Rents

- > Asking rents rose 4.6 percent in Dallas-Fort Worth in 2019, after advancing 4.0 percent in 2018 and gaining 3.4 percent in 2017. The strengthening rent growth was fueled by a rapid pace of job growth and tightening vacancy.
- > Average asking rents ended 2019 at \$1,175 per month, or \$1.35 per square foot, per month. Rents in the region's newer units command a premium; the average asking rent in apartments built since 2000 is \$1,413 per month.
- > Rents in the Dallas-Plano-Irving segment of the market ended the year at \$1,208 per month, while rent in the Fort Worth-Arlington region reached \$1,071 per month.
- > **Forecast:** Rent growth in 2020 is forecast to closely track the rate of gains recorded in recent years. The current forecast calls for a 4.3 percent increase in 2020, with average asking rents likely to reach approximately \$1,225 per month.

Rent Trends

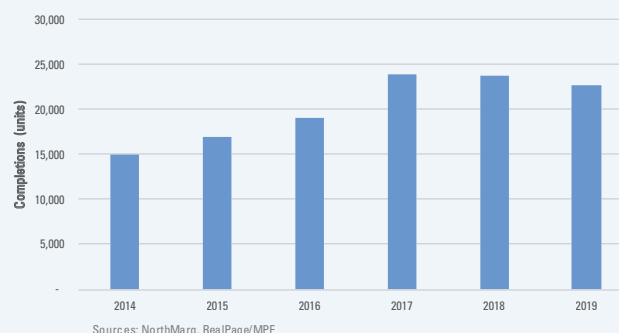


Asking rents rose 4.6 percent in Dallas-Fort Worth in 2019

Development and Permitting

- > During the fourth quarter, developers delivered nearly 6,000 units, down nearly 15 percent from the number of units that came online in the preceding quarter. For the full year, approximately 22,700 units were delivered, down approximately 11 percent from the 2018 figure.
- > Projects totaling more than 47,100 units were under construction at the end of the fourth quarter, down slightly from the third-quarter total. The Dallas-Plano-Irving segment of the market had nearly 37,500 units under way, while approximately 9,600 units were under construction in the Fort Worth-Arlington area.
- > Permitting activity in Dallas-Fort Worth has been remarkably consistent during the past several years. In 2019, developers pulled permits for approximately 26,700 multifamily units, up 2 percent from the preceding year and nearly identical to the five-year average. Permitting for single-family homes has also been very steady.
- > **Forecast:** With demand elevated, developers will once again bring projects online to the Dallas-Fort Worth market. Deliveries are forecast to rise approximately 10 percent in 2020, with 25,000 apartment units on track to come online.

Development Trends

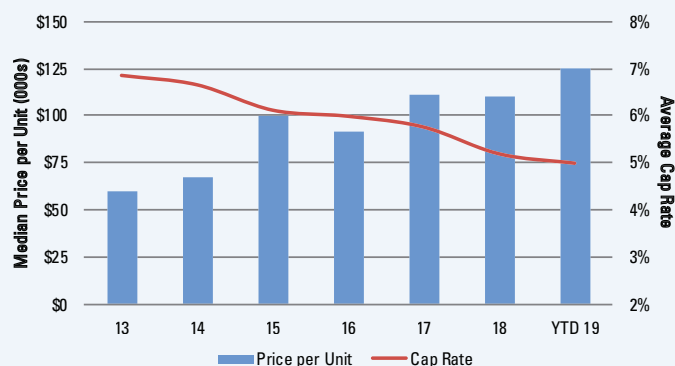


Permitting activity in Dallas-Fort Worth has been remarkably consistent during the past several years

Multifamily Sales

- > Sales activity in the fourth quarter was nearly identical to levels recorded in the preceding three months. Sales velocity has been very consistent for the past few years. Transaction counts in 2019 were up approximately 3 percent from 2018 levels.
- > In transactions where sales prices are available, the median price in 2019 was approximately \$125,000 per unit, nearly 15 percent higher than the median price in 2018. Several Class A projects sold for more than \$200,000 per unit in 2019, while the median price in Class B assets was up more than 10 percent from 2018, reaching \$120,000 per unit.
- > Cap rates averaged approximately 5 percent in 2019, and the lowest cap rates were recorded in the second half of the year. Cap rates in Class A buildings averaged approximately 4.6 percent in 2019.

Investment Trends



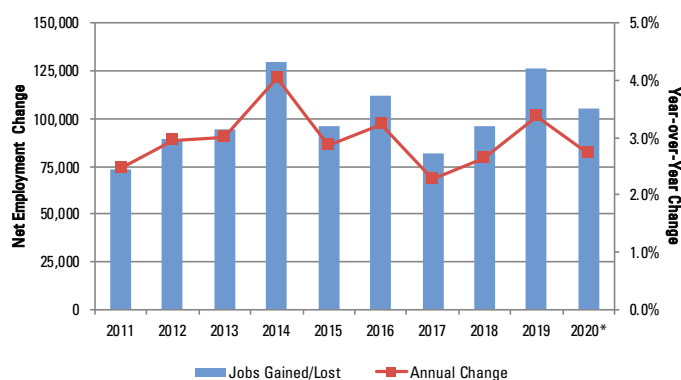
Sales velocity has been very consistent for the past few years

Looking Ahead

The Dallas-Fort Worth labor market will continue to fuel absorption of local apartment properties. During the past five years, local employers have added an average of more than 100,000 net new jobs per year, leading to average annual apartment absorption of more than 20,000 units. Similar trends are forecast for the year ahead. The Dallas-Fort Worth area will continue to record rapid employment growth across a wide swath of industries as existing businesses expand to meet demand and new companies relocate to the pro-growth region.

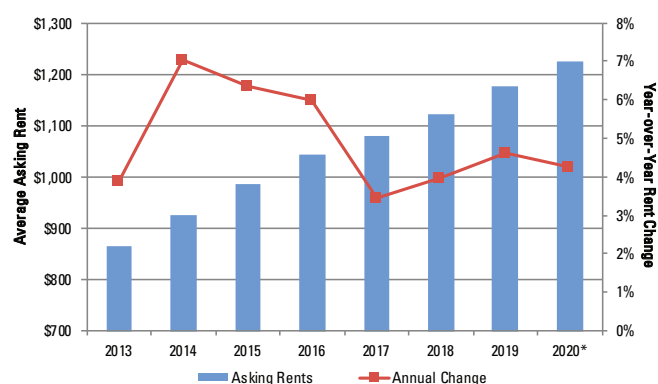
The local investment climate has been consistently strong for the past several years, and there are not any significant impediments that could be expected to slow the momentum. In transactions where pricing and cap rate information is available, prices are on the rise and cap rates are compressing. The market continues to record a high volume of multifamily transactions across the quality spectrum. One segment of the market that could present opportunities is in newer assets; sales of properties built in the past five years rose by more than 30 percent from 2018 to 2019.

Employment Forecast



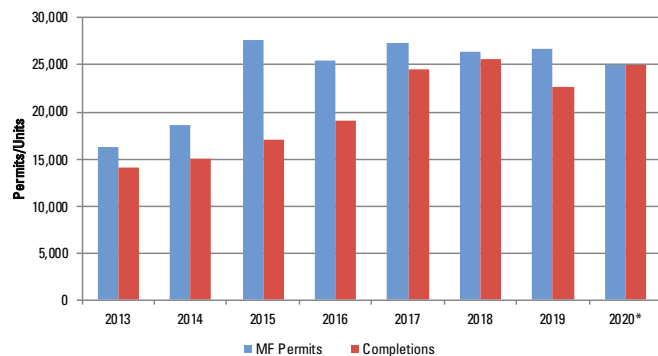
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



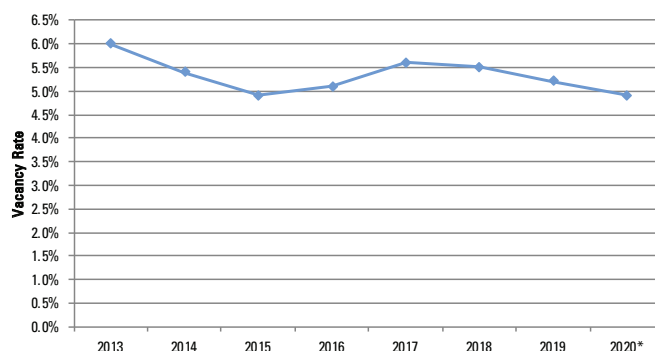
* Year End Forecast
Sources: NorthMarq, RealPage/MPF

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, RealPage/MPF

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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