

Dallas-Fort Worth Multifamily




Absorption Strengthens as Conditions Return to Normal

Highlights

- > The Dallas-Fort Worth multifamily market posted strong performance during the third quarter. Absorption totaled nearly 10,000 units in the past three months alone, driving the local vacancy rate lower. The market should gain additional traction as the pace of economic growth accelerates.
- > Vacancy in the Dallas-Fort Worth area tightened during the third quarter, falling 40 basis points to 5.3 percent.
- > Asking rents ticked up to \$1,186 per month, matching the figure from the first quarter. Rent growth is expected to strengthen as the local economy stabilizes.
- > After slowing during the second quarter, sales velocity nearly tripled in the third quarter. In transactions where sales information is available, per-unit prices have risen approximately 10 percent in 2020, while cap rates have averaged 5 percent.

Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market bounced back close to normal operations during the third quarter. After a COVID-related pause during the second quarter, the local market returned to expansion mode, with employers bringing back workers and absorption of apartment units closely tracking year-earlier levels. It will likely take a few more quarters for the Dallas-Fort Worth area to return to full employment, but the market continues to attract companies looking to relocate or expand. The pace of these corporate moves will likely accelerate as the country moves past the pandemic.

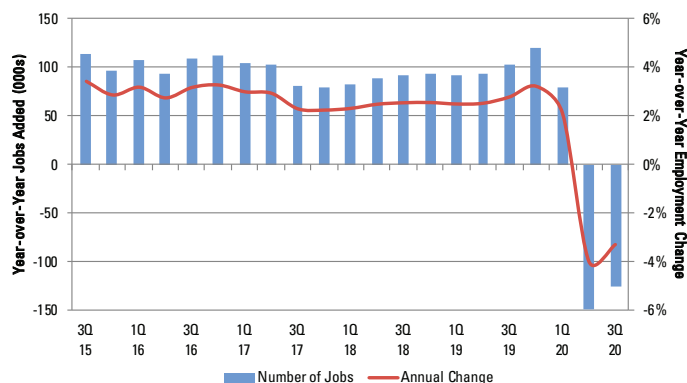
Q3 Snapshot	Dallas-Fort Worth Market
	Market Fundamentals
	Vacancy 5.3%
	- Year Over Year Change +80 bps
	Asking Rent \$1,186
	- Year Over Year Change +1.0%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$138,300
	Cap Rates (Avg YTD) 5.0%
	Construction Activity
	Units Under Construction 40,058
	Units Delivered YTD 18,804
	<small>* In transactions where pricing is available</small>

The local investment market accelerated during the third quarter with activity ramping up and pricing pushing higher. Market sentiment is being supported by the health of current operations as well as the prospects of continued long-term growth. In transactions where pricing is available, the median price in 2020 is up 10 percent from levels recorded one year earlier. Some properties are changing hands with cap rates near 4 percent, and the average thus far in 2020 is approximately 5 percent, similar to the 2019 annual average.

Employment

- > Pandemic-related job losses in the Dallas-Fort Worth region were among the least severe of any major market in the country, and employers have begun to rehire workers as the economy has reopened. During the third quarter, employers added 56,400 jobs to the market, and since the labor market bottomed, nearly 225,000 positions have been added back.
- > Despite the rebound in recent months, the local labor market has not fully bounced back. Year over year, total employment in Dallas-Fort Worth has contracted by approximately 3.3 percent.
- > The area continues to attract corporate relocations. In October, commercial real estate company CBRE announced plans to move its headquarters from Los Angeles to Dallas. The move is not expected to result in a significant number of new jobs in the near term, as the company already has an operation with more than 3,000 employees in Dallas.
- > **Forecast:** Net employment losses will likely total approximately 3 percent in 2020. The market has averaged job growth of approximately 3 percent annually since 2010.

Employment Overview



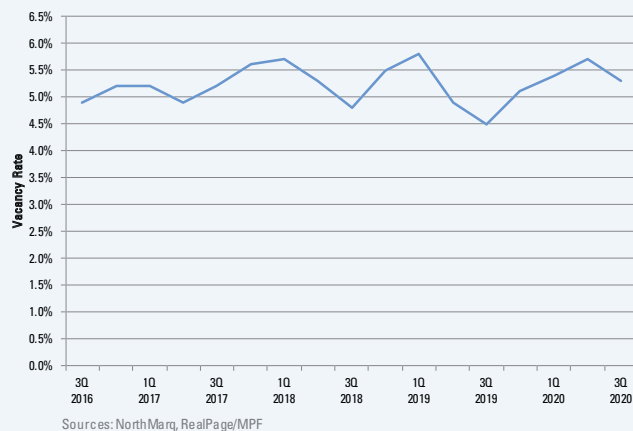
Sources: NorthMarq, Bureau of Labor Statistics

During the third quarter, employers added 56,400 jobs to the market

Vacancy

- > After creeping higher for the past few quarters, the combined vacancy rate in the Dallas-Fort Worth area tightened during the third quarter. Vacancy fell 40 basis points, ending the quarter at 5.3 percent. The current vacancy rate is 80 basis points higher than one year ago.
- > In the Dallas-Plano-Irving portion of the market, vacancy fell 20 basis points in the third quarter, dipping to 5.5 percent. The Fort Worth-Arlington segment of the market recorded the strongest improvement; vacancy in Fort Worth-Arlington dropped 80 basis points from the second quarter to the third quarter, dipping to 4.8 percent.
- > After a modest start to the year, renter demand for apartments accelerated during the third quarter. Net absorption in Dallas-Fort Worth topped 9,600 units in the third quarter, more than doubling the figure from the first half of the year and nearly identical to the total from one year earlier.
- > **Forecast:** The local vacancy rate is forecast to end 2020 at 5.7 percent. The rate improved in both 2018 and 2019 but will likely trend higher at the end of this year.

Vacancy Trends



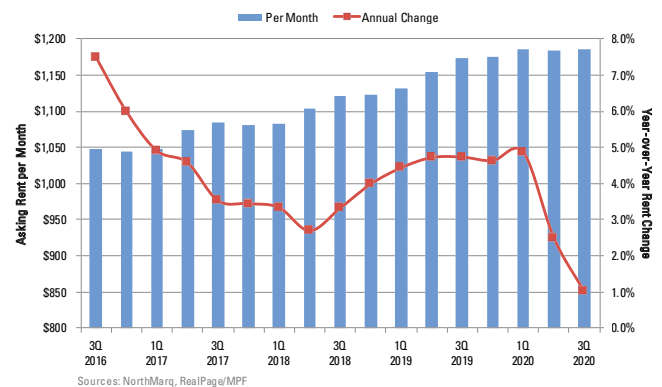
Sources: NorthMarq, RealPage/MPF

Vacancy fell 40 basis points, ending the third quarter at 5.3 percent

Rents

- > Rents in Dallas-Fort Worth have been essentially flat through much of 2020. Asking rents ticked up a few dollars, ending the third quarter at \$1,186 per month, matching the figure from the first quarter. Year over year, local asking rents are up 1 percent.
- > Average asking rents totaled \$1.35 per square foot per month as of the third quarter. In Class A units, the average rent is \$1.65 per square foot per month.
- > Rents in the Dallas-Plano-Irving segment of the market reached \$1,212 per month in the third quarter, slightly lower than in the preceding period. Rents rose in Fort Worth-Arlington, pushing up 1.4 percent to \$1,107 per month.
- > **Forecast:** With the local economy recovering and demand for apartments expected to remain healthy, rents will likely post a modest advance. After holding steady in the middle part of the years, rents are forecast to rise 1.5 percent in 2020.

Rent Trends



Asking rents ended the third quarter at \$1,186 per month

Development and Permitting

- > Developers delivered nearly 7,000 units during the third quarter, a 12 percent increase from completions in the second quarter. Year to date, projects totaling approximately 18,800 units have come online; during the first three quarters of 2019, more than 19,000 units had been completed.
- > The number of apartment units under construction reached a five-year low in the third quarter. Projects totaling approximately 40,000 units are under construction, down 15 percent from the total one year ago.
- > Multifamily permitting activity in Dallas-Fort Worth slowed to approximately 2,000 units during the third quarter, down more than 60 percent from the same period in 2019. Year to date, permits for only 11,400 multifamily units have been pulled, down 40 percent from the combined total from the first nine months of last year.
- > **Forecast:** The volume of apartment development in Dallas-Fort Worth has been very consistent in recent years. In 2020, developers are forecast to deliver projects totaling approximately 24,000 units, nearly identical to the average annual completions from 2017-2019.

Development Trends

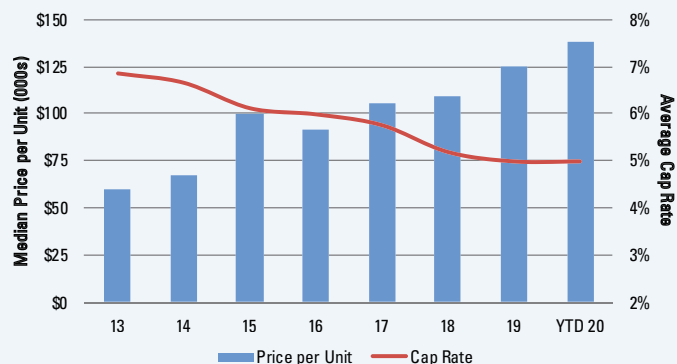


The number of apartment units under construction reached a five-year low in the third quarter

Multifamily Sales

- > Multifamily transaction activity bounced back during the third quarter. After slowing during the coronavirus shutdown, the number of properties sold nearly tripled in the third quarter. Sales velocity in the third quarter of this year was down approximately 35 percent from levels at the same time in 2019.
- > In transactions where sales prices are available, the median price thus far in 2020 has been approximately \$138,300 per unit, 10 percent higher than the median price in 2019.
- > Cap rates compressed during the third quarter and, year to date, have averaged approximately 5 percent.

Investment Trends



Sources: NorthMarq, CoStar

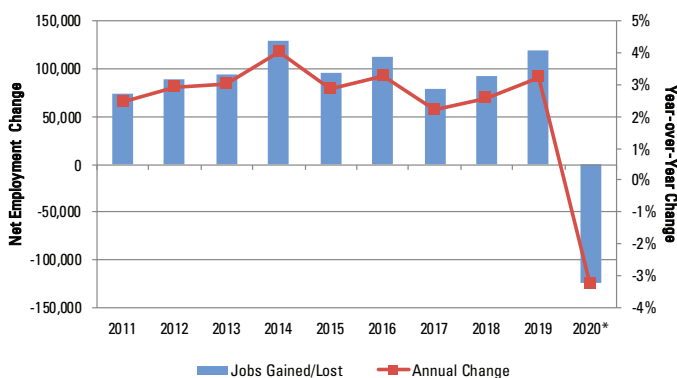
In transactions where sales prices are available, the median price thus far in 2020 has been approximately \$138,300 per unit

Looking Ahead

The Dallas-Fort Worth multifamily market is already showing signs of resuming the rapid expansion that has been underway for the past several years. After modest demand in the first half of the year, net absorption spiked as the economy reopened in the third quarter, and additional renter demand is forecast to close 2020 and start next year. This resumption of absorption is expected to fuel rent growth, which leveled off in recent months but is poised to regain momentum as leasing activity intensifies.

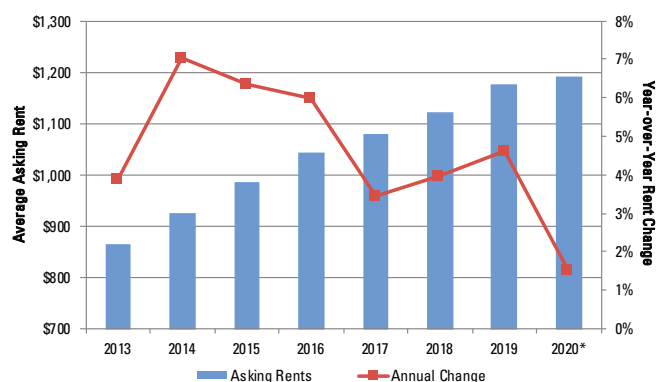
After a three-month lull, investment activity has picked up right where it left off. Investors have determined that the impact of the coronavirus on local multifamily property performance will likely be minimal, and have shifted back into acquisition mode. With competition elevated and financing costs low, prices are pushing higher and cap rates remain low. There is little in the outlook that is likely to change conditions from their current course.

Employment Forecast



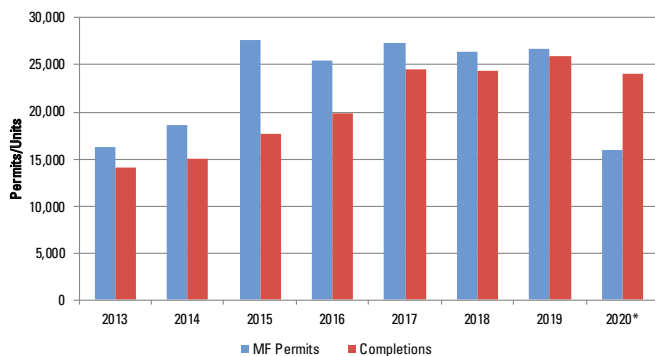
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



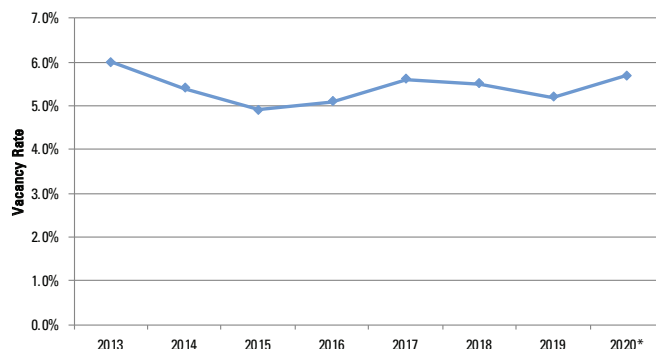
* Year End Forecast
Sources: NorthMarq, RealPage/MPF

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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