

Dallas-Fort Worth Multifamily




Investment Activity Surges to Close 2020

Highlights

- > The Dallas-Fort Worth multifamily market ended 2020 with significant levels of absorption and new supply. Vacancy ticked higher and rents remained within a tight range. The local labor market is regaining momentum, which should support renter demand going forward.
- > The combined vacancy rate across Dallas-Fort Worth crept up 30 basis points in the fourth quarter, reaching 5.6 percent. Vacancy rose 50 basis points in 2020, offsetting a decline of 40 basis points in the preceding year. The Fort Worth-Arlington segment of the market recorded some modest tightening in 2020.
- > After several years of steady gains, rent growth slowed in 2020 as owners shifted their focus to tenant retention. Despite turbulent market conditions, asking rents still rose 0.7 percent in 2020, ending the year at \$1,183 per month.
- > Investment activity surged to close the year, with sales velocity in the fourth quarter outpacing levels from the same period in 2019. In transactions where sales information is available, the median per-unit price rose approximately 15 percent in 2020, while cap rates have averaged 4.9 percent.

Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market fared better than most regions in 2020, supported by consistently strong renter demand despite economic volatility in the first and second quarters brought on by the coronavirus outbreak. While all major markets were impacted by job losses as the economy shut down in the spring, the Dallas area was an outperformer among large metropolitan areas. Businesses continued to relocate to the region, fueling growth of nearly 25,000 financial and professional jobs in 2020. Businesses in these sectors typically have wages at the higher end of the scale, which supports demand for the new Class A units that are being delivered throughout the Dallas-Fort Worth area.

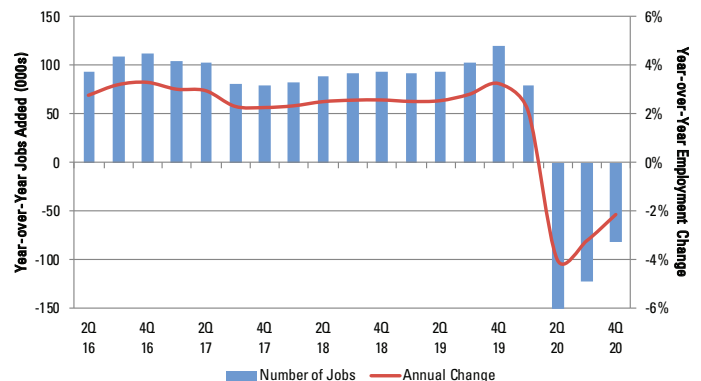
Q4 Snapshot	Dallas-Fort Worth Market
	Market Fundamentals
	Vacancy 5.6%
	- Year Over Year Change +50 bps
	Asking Rent \$1,183
	- Year Over Year Change +0.7%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$144,500
	Cap Rates (Avg YTD) 4.90%
	Cap Rates (Avg Q4) 4.65%
	Construction Activity
	Units Under Construction 36,380
	Units Delivered YTD 25,794
	<small>* In transactions where pricing is available</small>

Investment activity accelerated in Dallas-Fort Worth in the fourth quarter, and the market posted the most sales volume of any region in the country in 2020. While 2020 was a year that was marked by swings and uncertainty at the global level, investor demand for the Dallas-Fort Worth multifamily market remained consistent. Investors continue to be drawn to the robust levels of absorption, the favorable employment and in-migration trends, and the steady supply of new properties that come into the market and will ultimately be available for acquisition. Pricing has trended higher and cap rates have generally compressed; in 2020, the median price rose 15 percent in transactions where pricing information was available.

Employment

- > Job cuts in Dallas-Fort Worth were more modest than in most other markets, and the local labor market is rebounding at a faster pace than throughout much of the country. During the fourth quarter, more than 80,000 positions were added, building on a gain of nearly 60,000 jobs in the third quarter.
- > In 2020, the local labor market contracted by 2.1 percent, recording net job losses of approximately 82,000 positions. Job losses at the national level were much deeper, contracting by more than 6 percent. Area employers have already added back more than 75 percent of the jobs that were cut during the economic slowdown.
- > White-collar employment in Dallas-Fort Worth expanded in 2020, despite a volatile economy. Charles Schwab is one of the latest companies to move its corporate headquarters to Dallas-Fort Worth. The company, which closed on its acquisition of TD Ameritrade in 2020, officially moved its headquarters to the Dallas area, effective at the start of 2021. Combined, the companies have more than 4,500 workers in the area.
- > **Forecast:** Employers in Dallas-Fort Worth are expected to be very active in 2021, expanding payrolls by approximately 3 percent, with the addition of nearly 115,000 workers.

Employment Overview



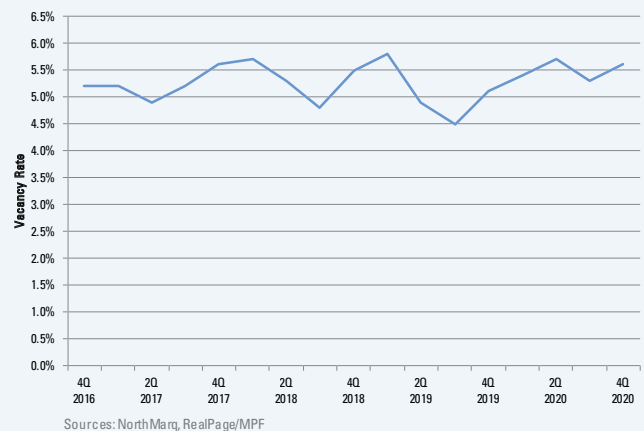
Sources: NorthMarq, Bureau of Labor Statistics

During the fourth quarter, more than 80,000 positions were added

Vacancy

- > After tightening during the third quarter, apartment vacancy rose in the final three months of the year. The combined rate across Dallas-Fort Worth crept up 30 basis points in the fourth quarter, reaching 5.6 percent. Vacancy rose 50 basis points in 2020, offsetting a decline of 40 basis points in the preceding year.
- > In the Dallas-Plano-Irving portion of the market, vacancy fell 30 basis points in the fourth quarter, ending the year at 5.8 percent. Vacancy in Dallas-Plano-Irving rose 70 basis points for the full year. The Fort Worth-Arlington segment of the market performed better, recording a slight improvement in vacancy in 2020; the rate fell 10 basis points to 5.2 percent.
- > Net absorption totaled nearly 20,000 units in 2020, with the strongest demand posted in the second half of the year. Absorption in the second half topped 13,500 units.
- > **Forecast:** After inching higher in 2020, strong renter demand should support a modest vacancy decline in the next year. The rate is forecast to decline 20 basis points in 2021, likely ending the year at approximately 5.4 percent.

Vacancy Trends



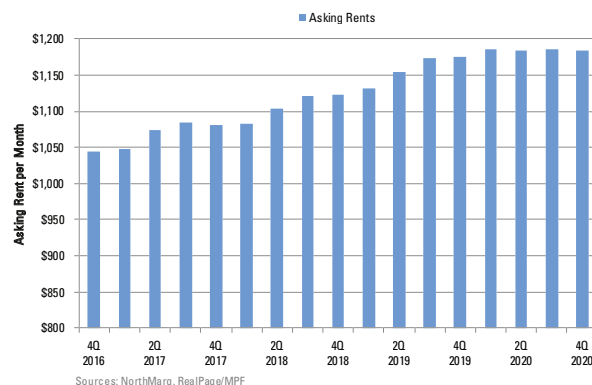
Sources: NorthMarq, RealPage/MPF

The combined vacancy rate across Dallas-Fort Worth reached 5.6 percent

Rents

- > Rent growth in Dallas-Fort Worth cooled in 2020, as owners shifted focus to tenant retention. Asking rents ended the year at \$1,183 per month, 0.7 percent higher than one year earlier.
- > Average asking rents ended 2020 at \$1.35 per square foot, per month, with Class A units commanding \$1.64 per square foot, per month. The strongest gains in 2020 occurred in Class C properties, where rents rose 3.1 percent to \$1.10 per square foot, per month.
- > Rents in the Dallas-Plano-Irving segment of the market reached \$1,207 per month in the fourth quarter, while rents in Fort Worth-Arlington advanced 3.3 percent to \$1,107 per month.
- > **Forecast:** While rents were mostly flat for much of 2020, the local demand drivers are forecast to support rent growth of approximately 3 percent in the year to come. Rents are forecast to end 2021 at nearly \$1,220 per month.

Rent Trends

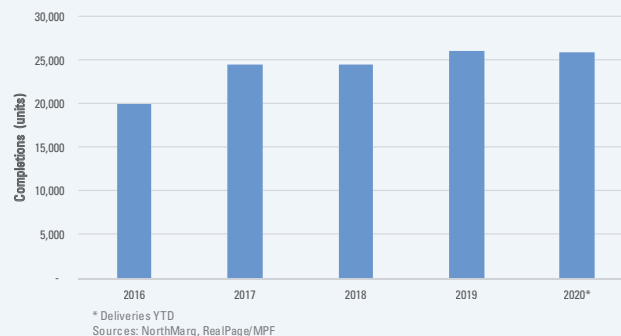


Asking rents ended the year at \$1,183 per month

Development and Permitting

- > The pace of deliveries picked up gradually throughout 2020. In the fourth quarter, projects totaling approximately 7,200 units were delivered, bringing the total new construction for 2020 to approximately 25,800 units. Deliveries in 2020 were nearly identical to the 2019 total.
- > As new units have come online, the development pipeline has thinned somewhat. Approximately 36,400 units are under construction, down from nearly 48,000 units one year earlier.
- > After slowing in the third quarter, multifamily permitting activity in Dallas-Fort Worth regained momentum to close 2020. Developers pulled permits for approximately 4,000 multifamily units in the fourth quarter. For the full year, permits for more than 15,000 multifamily units were issued, down 43 percent from 2019.
- > **Forecast:** The volume of deliveries of apartment properties has been very consistent for the past four years, and that trend is forecast to continue in 2021. In the year to come, developers are expected to deliver projects totaling approximately 26,000 units, nearly identical to the annual totals for the past two years.

Development Trends

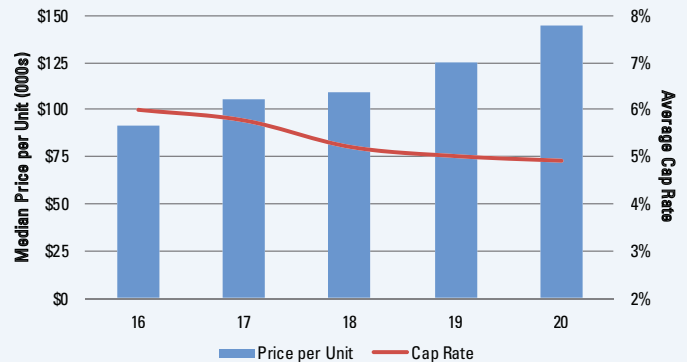


As new units have come online, the development pipeline has thinned

Multifamily Sales

- > Sales of local multifamily properties accelerated during the fourth quarter, with activity rising approximately 60 percent from the third quarter velocity levels. More properties sold during the fourth quarter than sold in the same period one year earlier.
- > Prices rose as activity gained momentum at the end of the year. In transactions where sales prices were available, the median price in 2020 was approximately \$144,500 per unit, 15 percent higher than the median price in 2019. In sales that closed during the fourth quarter, the median price topped \$155,000 per unit.
- > Cap rates have generally been trending lower in recent years, as heightened investor demand has compressed yields. In 2020, cap rates averaged 4.9 percent.
- > The lowest cap rates of 2020 were recorded in the final few months of the year. In transactions that closed during the fourth quarter, cap rates averaged 4.65 percent.

Investment Trends



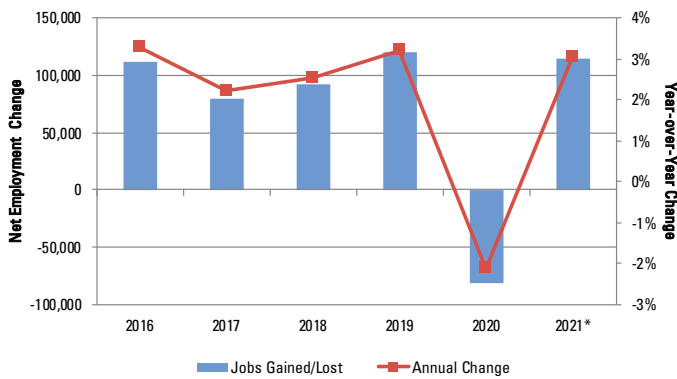
In transactions where sales prices were available, the median price in 2020 was approximately \$144,500 per unit

Looking Ahead

The Dallas-Fort Worth multifamily market is poised for a strong year in 2021. The local labor market is recovering far faster than most other economies, and employers in Dallas-Fort Worth will likely add more workers than any other market in 2021. The strengthening labor market should fuel renter demand for apartment units. Absorption in 2020 totaled nearly 20,000 units, just 5 percent below the market’s five-year average, despite significant economic volatility and short-term uncertainty. Demand rebounded in the second half of the year, setting the stage for additional strengthening in the coming quarters.

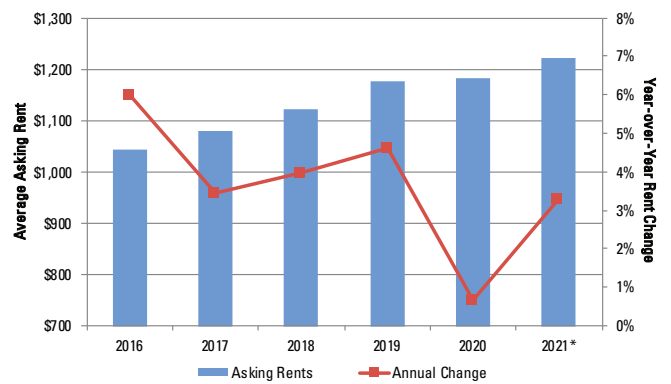
Investors are expected to remain very active in the Dallas-Fort Worth market in 2021. The region has led the country for multifamily sales volume in each of the past three years, highlighting the strong investor sentiment that is expected to continue to prevail in the year ahead. With activity levels forecast to remain elevated and rents expected to trend higher as the economy gains momentum, prices will likely trend higher. Cap rates have declined for the past several years, and further compression is expected, particularly in the first half of 2021. There are not any trends present in the market that would put significant upward pressure on cap rates.

Employment Forecast



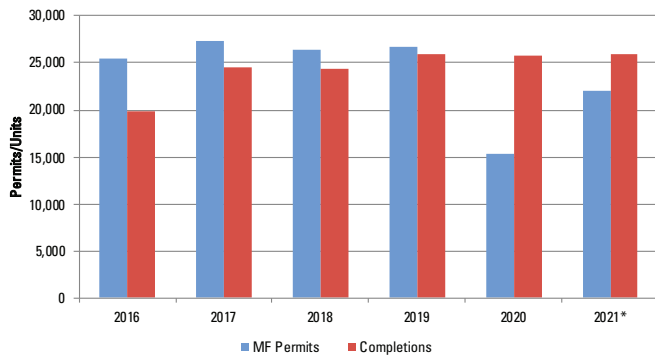
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



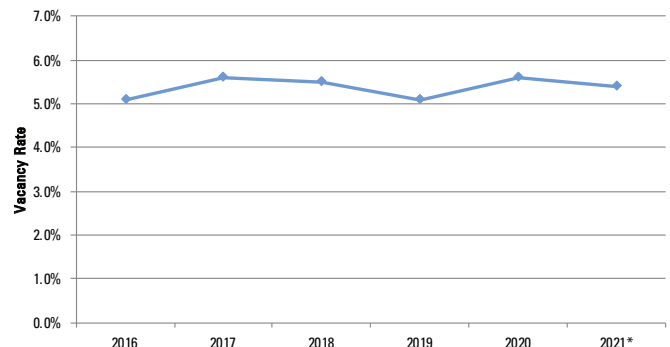
* Year End Forecast
Sources: NorthMarq, RealPage/MPF

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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