MARKET REPORT | 1Q/2021

Dallas-Fort Worth Multifamily

NORTHMARQ

Investment Activity Starts 2021 on an Upswing

Highlights

- The Dallas-Fort Worth multifamily market posted continued growth to start 2021. Developers continued to bring new projects through the construction pipeline, while absorption gained momentum. With demand elevated, rents rose and the investment market remained competitive.
- The combined vacancy rate across Dallas-Fort Worth ended the first quarter at 6 percent, up 60 basis points from one year ago. Vacancy is forecast to tighten in the coming quarters.
- Net absorption totaled more than 3,500 units during the first quarter, ahead of the pace that has been established in recent years. In the first quarters of 2019 and 2020, absorption averaged approximately 2,800 units.
- After rents were flat for most of 2020 as owners focused on tenant retention, rents rose 1.2 percent during the first quarter. Average asking rents ended the first quarter at $1,197 per month.
- The local investment market remained active during the first quarter, with prices rising and cap rates compressing. In transactions where sales information is available, the median per-unit price rose 12 percent from 2020 levels, while cap rates dipped to approximately 4.3 percent.

Q1 Snapshot	Dallas-Fort Worth Market
Market Fundamentals	
Vacancy	**6.0%**
- Year Over Year Change	**+60 bps**
Asking Rent	**$1,197**
- Year Over Year Change	**+0.9%**
Transaction Activity*	
Median Sales Price Per Unit (YTD)	**$162,500**
Cap Rates (Avg YTD)	**4.3%**
Construction Activity	
Units Under Construction	**37,334**
Units Delivered YTD	**6,951**

* In transactions where pricing is available

Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market remains in growth mode, with absorption during the first quarter of 2021 up 25 percent from the first quarter totals from the past two years. This accelerating pace of renter demand set the tone for what is expected to be another year of strong multifamily leasing activity in the Metroplex. Employers are on pace to expand area payrolls by approximately 150,000 workers in the year ahead, and these gains will fuel demand for apartments. The vacancy rate ticked higher in the first quarter but is expected to tighten in the second half of the year as the economy gains momentum.

The momentum that was present in the Dallas-Fort Worth market throughout 2020 was sustained in the first quarter of this year. Total sales activity closely tracked levels from the same period one year ago, while a spike in portfolio sales and increases in per-unit prices resulted in a rise in the average transaction size. The continued investor demand is causing cap rates to compress. Cap rates dipped at the end of 2020 and compressed further during the first quarter, even as interest rates rose. Cap rates averaged approximately 4.3 percent to start this year, reflecting the robust investor demand for area properties.

Employment

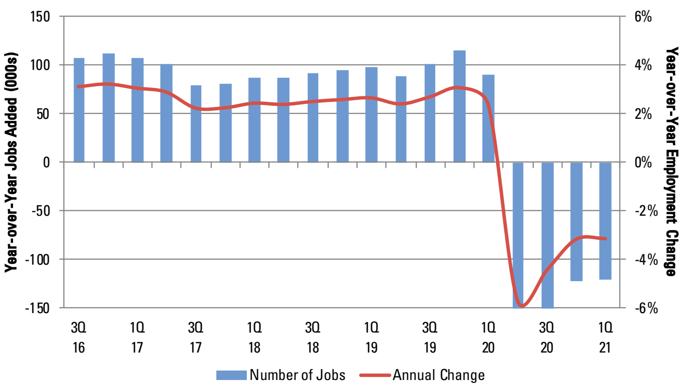
> Following an active period of recovery in the local labor market during the second half of last year, employers added workers at a more modest pace during the first quarter. Preliminary estimates show a gain of 11,500 net new jobs in the first quarter. There is some seasonality in the numbers, and the first quarter has historically been one of the slower periods of growth in Dallas-Fort Worth.

> The Dallas-Fort Worth area's global distribution and logistics infrastructure has supported growth in recent years. Local employment in the trade, transportation, and utilities sector has expanded by 1.2 percent in the past year with the addition of approximately 10,000 new jobs.

> The Dallas area is expanding as a key location for some of the world's largest technology companies. Amazon is significantly growing its technology workforce across six major markets in 2021, including adding 600 new positions in Dallas.

> **Forecast:** The Dallas-Fort Worth market is forecast to be one of the top markets in the country for employment growth again in 2021. Job growth is expected to reach 4 percent this year, with employers adding 150,000 workers.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Job growth is expected to reach 4 percent this year, with employers adding 150,000 workers

Vacancy

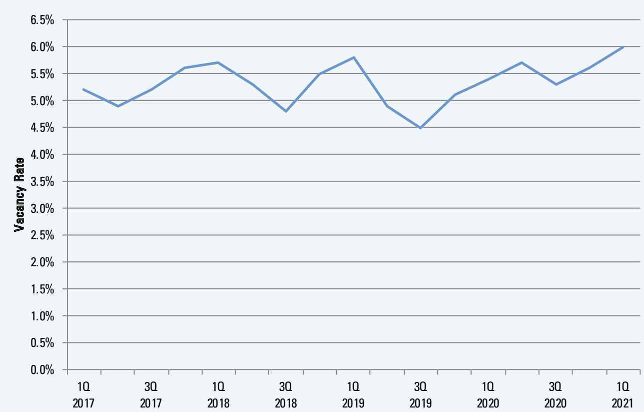
> Vacancy in Dallas-Fort Worth ended the first quarter at 6 percent, 60 basis points higher than one year ago. The rate rose 30 basis points in the first quarter, despite healthy absorption. Renters moved into a net of approximately 3,550 units in the first quarter, up 25 percent compared to the same period in 2020.

> In the Dallas-Plano-Irving portion of the market, vacancy inched up 30 basis points to 6.1 percent in the first quarter. The rate rose 70 basis points year over year. Vacancies have been fairly stable across much of the market, although in a few areas where construction has been particularly active—including Northeast Dallas and Far North Dallas—annual vacancy increases have topped 100 basis points.

> In the Fort Worth-Arlington section of the market, vacancy in the first quarter was 5.6 percent, identical to one year earlier.

> **Forecast:** Renter demand for apartments is forecast to gain momentum in the coming quarters and should closely track the pace of deliveries. For the full year, the vacancy rate is forecast to inch down 10 basis points to 5.5 percent.

Vacancy Trends



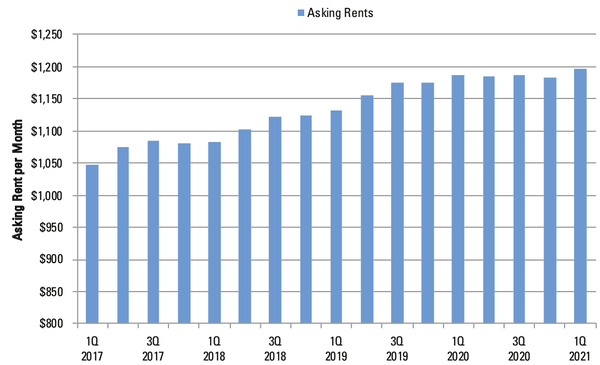
Sources: NorthMarq, RealPage/MPF

Renters moved into a net of 3,550 units in the first quarter, up 25 percent compared to the same period in 2020

Rents

- After remaining mostly flat during the second half of 2020, rents rose to start this year. Asking rents rose 1.2 percent in the first quarter, reaching $1,197 per month. With employment growth forecast to accelerate in the coming months, rents should steadily push higher.
- Average asking rents reached $1.37 per square foot, per month in the first quarter. Rents for Class A units rose to $1.66 per square foot, per month.
- During the past year, rents in the Fort Worth-Arlington region have advanced 3.3 percent to $1,119 per month. Rents in the Dallas-Plano-Irving segment of the market reached $1,221 per month in the first quarter.
- **Forecast:** Strong renter demand is forecast to fuel rent growth this year. Rents are expected to rise approximately 4 percent in 2021, ending the year at nearly $1,230 per month.

Rent Trends



Sources: NorthMarq, RealPage/MPF

Rents are expected to rise approximately 4 percent in 2021, ending the year at nearly $1,230 per month

Development and Permitting

- Multifamily developers have remained active for the past several years, bringing new projects through the construction pipeline to meet demand. During the first quarter, projects totaling nearly 7,000 units were delivered, up 19 percent from the number of units that were completed in the first quarter of 2020.
- Approximately 37,300 units are currently under construction, down 23 percent from the total one year ago. Nearly all submarkets have some projects under construction, with areas such as Allen/McKinney, Frisco, and Grand Prairie leading the way for the most units currently under way.
- Developers pulled permits for approximately 4,700 multifamily units in the first quarter, up 14 percent from the same period in 2021. From 2015 to 2019, developers pulled permits for an average of 27,600 units per year.
- **Forecast:** Projects totaling approximately 28,000 units are forecast to be delivered in 2021, about 7 percent higher than the market average since 2017. Elevated levels of deliveries are working through the development pipeline in response to robust levels of net absorption.

Development Trends

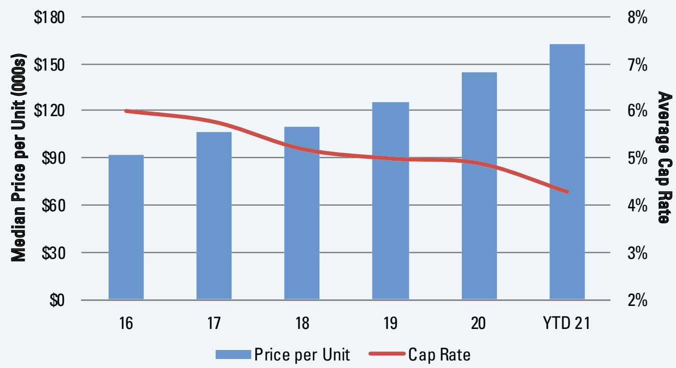
* Deliveries YTD
Sources: NorthMarq, RealPage/MPF

Projects totaling approximately 28,000 units are forecast to be delivered in 2021

Multifamily Sales

- Sales of local multifamily properties during the first quarter closely tracked levels from the same period, one year earlier. A handful of larger portfolio sales closed during the first quarter, increasing the average transaction size.
- Prices rose during the first quarter, reflecting the strong investor demand in the market. In transactions where pricing was available, the median price during the first quarter was approximately $162,500 per unit, up 12 percent from the 2020 median price.
- Cap rates continued to compress at the start of 2021. The average cap rate in transactions that closed in the first quarter was 4.3 percent.

Investment Trends



Sources: NorthMarq, CoStar

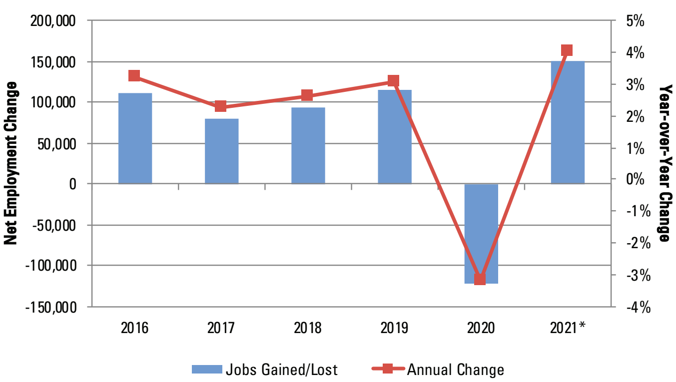
Prices rose during the first quarter, reflecting the strong investor demand in the market

Looking Ahead

The strong start to 2021 has set the stage for a healthy year of multifamily property performance in Dallas-Fort Worth. While apartment developers have brought new projects to the market at a fairly steady pace, the development pipeline is thinning a bit, and the pace of deliveries could slow toward the end of this year and into early 2022. Renter demand is off to a stronger start this year than in recent years, and absorption should continue to accelerate in the coming quarters, supporting a modest vacancy decline in 2021. With the exception of a few quarters where rents were flat in 2020, area rents have routinely posted gains in excess of 4 percent, and a similar increase is anticipated this year.

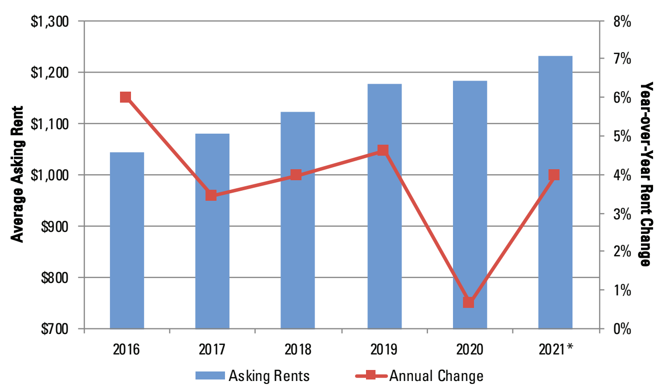
The local multifamily investment climate is expected to remain competitive and active for the next several quarters. Dallas-Fort Worth has been the most active multifamily investment market in the country for the past few years. With property fundamentals forecast to strengthen again in 2021, investors are expected to continue to acquire assets at an active pace. While pricing information is not fully transparent in Dallas-Fort Worth, sales prices are generally trending higher and cap rates continue to compress, highlighting the competitive nature of the current and future investment market.

Employment Forecast



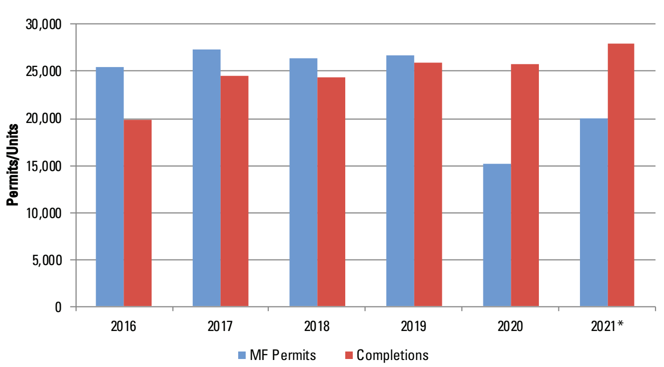
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



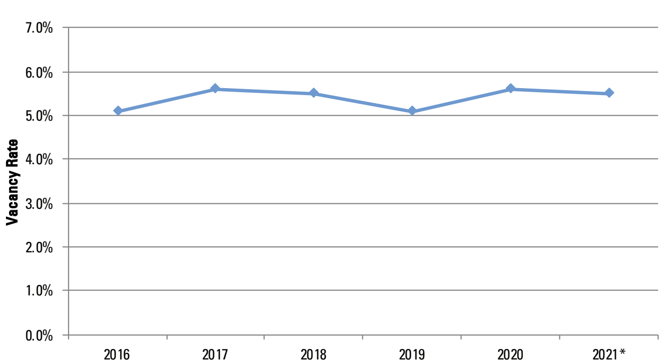
* Year End Forecast
Sources: NorthMarq, RealPage/MPF

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 more than $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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