

# Dallas-Fort Worth Multifamily

## Vacancy Rates Fall as Absorption Accelerates

### Highlights

- > The Dallas-Fort Worth multifamily market posted a very strong period of operating performance during the second quarter. Absorption reached a quarterly total not seen in years, driving vacancies lower and pushing rents higher. Investors responded to these trends by stepping up transaction activity and pushing prices higher.
- > Vacancy in Dallas-Fort Worth ended the second quarter at 5 percent, down 70 basis points from one year earlier, and 100 basis points lower than during the first quarter.
- > The steep decline in the local vacancy rate was sparked by a spike in absorption levels. Net absorption topped 15,000 units during the second quarter; absorption year to date is up 30 percent when compared to the first halves of recent years.
- > Rents gained momentum during the second quarter. Current rents are up 5.4 percent year over year at \$1,248 per month.
- > Investment activity accelerated during the second quarter, rising 30 percent from the first three months of the year. In transactions where pricing information was available, the median price in 2021 has reached \$156,200 per unit, while cap rates have compressed to 4.1 percent.

### Q2 Snapshot

### Dallas-Fort Worth Market



#### Market Fundamentals

Vacancy .....	<b>5.0%</b>
- Year Over Year Change .....	<b>-70 bps</b>
Asking Rent .....	<b>\$1,248</b>
- Year Over Year Change .....	<b>+5.4%</b>



#### Transaction Activity\*

Median Sales Price Per Unit (YTD) .....	<b>\$156,200</b>
Cap Rates (Avg YTD) .....	<b>4.1%</b>



#### Construction Activity

Units Under Construction .....	<b>38,654</b>
Units Delivered YTD .....	<b>14,662</b>

\* In transactions where pricing is available

### Dallas-Fort Worth Multifamily Market Overview

Renter demand for apartments spiked in Dallas-Fort Worth during the second quarter, driving the vacancy rate lower and pushing rents higher. Net absorption for the quarter totaled more than 15,000 units, the strongest single quarter in more than a decade. This release of pent-up demand drove the vacancy rate down to its lowest point since the middle of 2019. Further improvement is likely in the second half of this year, particularly as the pace of hiring gains momentum. Financial services firms continue to target Dallas-Fort Worth for expansions, which should be a source of future demand growth in the area.

The Dallas-Fort Worth market continues to lead the country in multifamily transaction activity. Strengthening property fundamentals supported a spike in sales velocity during the second quarter, with transactions occurring throughout nearly every submarket in the region. Cap rates have compressed into the low-4 percent range, as the competition to acquire properties has intensified. Other factors pushing cap rates lower are the expectation for healthy rent growth and improving occupancy levels this year. After owners focused on tenant retention in 2020, rent growth is expected to reach its highest rate in a decade.

## Employment

- > Year over year through the second quarter, employers have expanded payrolls by 5.9 percent with the addition of nearly 210,000 jobs. More than 335,000 jobs have been added back since May 2020.
- > Professional employment in the Dallas area has been one of the sectors that has been fastest to rebound. Employment in the professional and business services sector has expanded by more than 50,000 jobs in the past year, a gain of 8.7 percent. Employment in the sector has returned to its pre-COVID peak.
- > Financial services firms continue to move into and expand in the Dallas-Fort Worth area. During the second quarter, Vanguard announced plans to open a new office in the region in early 2022. The move comes after Charles Schwab moved its corporate headquarters to the Dallas area last year. Financial employment in the region is up 2.5 percent year over year.
- > **Forecast:** Hiring in Dallas-Fort Worth in 2021 is forecast to return to previous levels. Employers are forecast to add approximately 125,000 jobs this year, after averaging gains of 105,000 new jobs per year from 2014 to 2019.

## Employment Overview



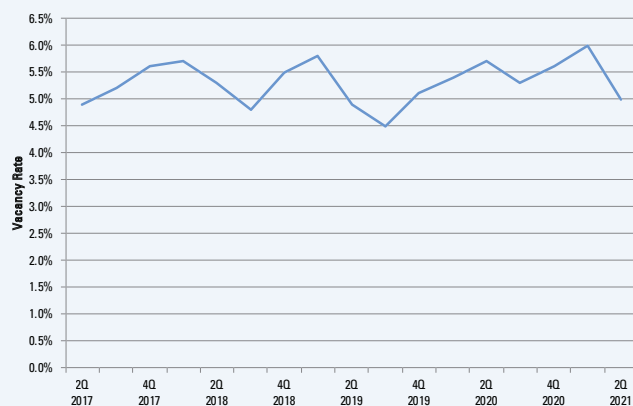
Sources: NorthMarq, Bureau of Labor Statistics

*Employment in professional and business services has expanded by more than 50,000 jobs*

## Vacancy

- > A surge in absorption drove vacancy lower in the second quarter. The rate dropped 100 basis points from the first quarter to the second quarter, falling to 5 percent. Year over year, vacancy has improved 70 basis points.
- > In the Dallas-Plano-Irving portion of the market, vacancy dropped 100 basis points in the second quarter, ending the first half at 5.1 percent. This is the lowest vacancy rate in Dallas-Plano-Irving since the end of 2019. Nearly every submarket recorded vacancy improvement in the second quarter, led by declines in Denton, Frisco, and the Allen/McKinney submarkets.
- > In the Fort Worth-Arlington section of the market, vacancy ended the second quarter at 4.8 percent, 70 basis points lower than one year ago. Absorption in the Fort Worth-Arlington portion of the market totaled more than 3,700 units in the second quarter, the strongest period of demand in more than five years.
- > **Forecast:** Elevated levels of renter demand should fuel the local apartment market in 2021, keeping vacancy rates low. Area vacancy is forecast to end the year at 4.8 percent, the lowest rate since 2015.

## Vacancy Trends



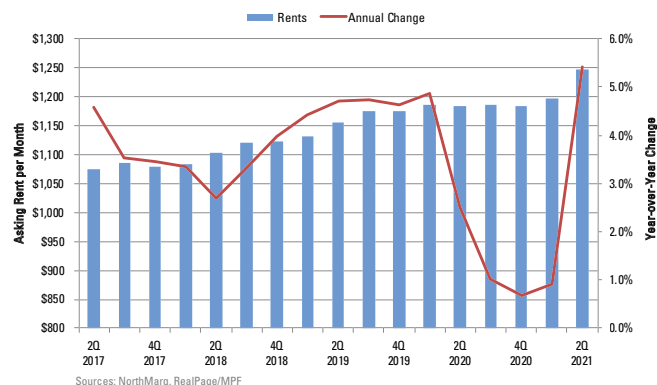
Sources: NorthMarq, RealPage/MPF

*The vacancy rate dropped 100 basis points from the first quarter to the second quarter*

## Rents

- > Rents rose 4.3 percent in the second quarter, building on a 1.2 percent increase in the first three months of the year. Average rents reached \$1,248 per month at the end of the second quarter.
- > Average rents reached \$1.42 per square foot, per month in the second quarter, up from \$1.37 per square foot, per month in the first quarter. Among Class A units, rents rose to \$1.72 per square foot, per month.
- > Rent growth in recent quarters has been strongest around Fort Worth. In the Fort Worth-Arlington region, rents are up 7 percent year over year, ending the second quarter at \$1,166 per month. Rents in the Dallas-Plano-Irving segment of the market reached \$1,275 per month in the second quarter, 4.9 percent higher than one year ago.
- > **Forecast:** With renter demand for apartments gaining momentum, rents are on pace to record their strongest increases in nearly a decade. Rents are forecast to rise nearly 10 percent in 2021, ending the year at approximately \$1,300 per month.

## Rent Trends

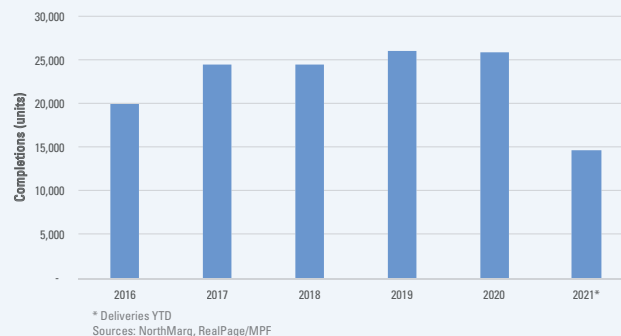


*Average rents reached \$1,248 per month at the end of the second quarter*

## Development and Permitting

- > Developers delivered projects totaling nearly 7,900 units during the second quarter, bringing the total completions for the first half to more than 14,600 units. Deliveries have averaged nearly 25,000 units per year since 2017.
- > Developers have projects totaling more than 38,600 units under construction as of the second quarter. The pipeline has thinned a bit in recent quarters; from 2017 to 2019, the average number of units under construction was over 46,000.
- > After a lull in 2020, permitting activity has resumed at its earlier pace. Developers have pulled permits for approximately 12,000 multifamily units through the first half, closely tracking levels recorded from 2016 to 2019.
- > **Forecast:** Projects totaling approximately 26,000 units are forecast to be delivered in 2021, consistent with construction totals from recent years. Fewer projects are under construction than at any point in the past five years, which could result in a modest slowing of new construction beginning in the second half of 2022.

## Development Trends



*Developers delivered projects totaling nearly 7,900 units during the second quarter*

## Multifamily Sales

- > Sales velocity for local multifamily properties rose 30 percent from the first quarter to the second quarter, as investors continued to acquire available assets. Strengthening property fundamentals continue to improve investor sentiment regarding current and future performance.
- > Transaction activity was widespread across the Dallas-Fort Worth region during the second quarter. Several properties traded in the Allen/McKinney, Arlington, Irving, and Farmers Branch/Carrollton submarkets.
- > With sales velocity on the rise, prices are pushing higher. In transactions where pricing was available, the median price in the first half of this year was approximately \$156,200 per unit, 8 percent higher than the median price in 2020.
- > With investor demand elevated, cap rates continue to compress. Cap rates year to date have averaged 4.1 percent, down 70 basis points from the average in 2020. As investor demand continues to increase in the second half of this year, average cap rates are projected to dip below 4 percent.

## Investment Trends



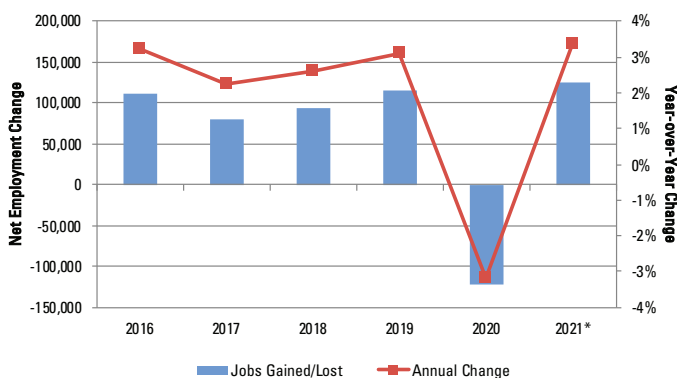
*Cap rates year to date have averaged 4.1 percent*

## Looking Ahead

After a year of economic volatility, the Dallas-Fort Worth multifamily market is on pace to return to its high-growth trajectory. Pent-up demand from the second half of last year is being released this year, fueling the strongest levels of absorption in the country and driving vacancy rates lower, despite an active period of new development. Ongoing hiring should continue to support renter demand for apartments in the second half of the year, and rents are on pace to record additional increases in the coming quarters.

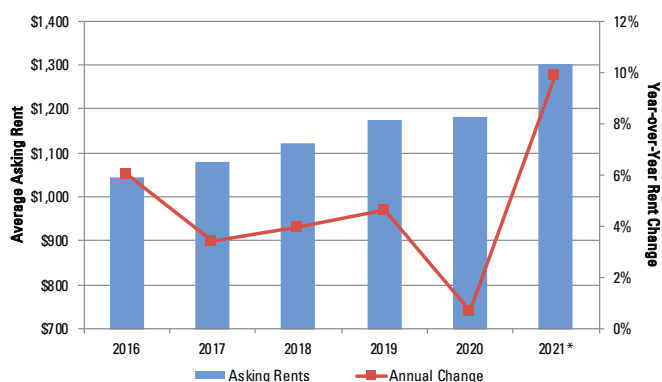
The elevated levels of investor demand for area apartment properties are being reflected in increasing sales velocity, rising prices, and falling cap rates. Acquisition activity has gained momentum through the first half of this year, with more properties changing hands than during the first halves of each of the past four years. Investor appetites for area multifamily assets are forecast to remain elevated, which should support further sales velocity.

### Employment Forecast



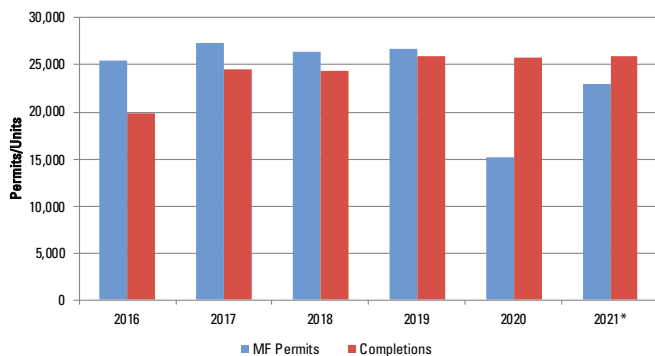
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



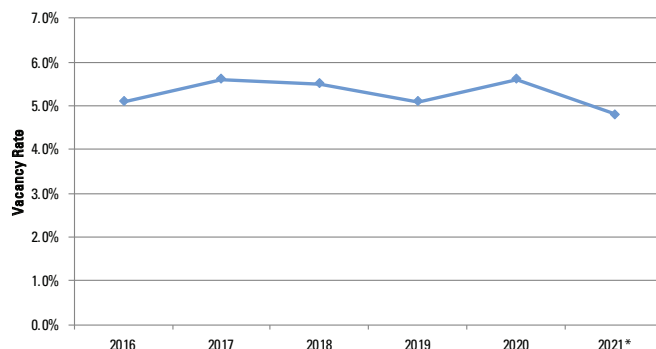
\* Year End Forecast  
Sources: NorthMarq, RealPage/MPF

### 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.

### For more information, contact:

#### Taylor Snoddy

MANAGING DIRECTOR – INVESTMENT SALES  
972.455.4928 | [tsnoddy@northmarq.com](mailto:tsnoddy@northmarq.com)

#### James Roberts

SENIOR VICE PRESIDENT – INVESTMENT SALES  
972.455.1942 | [jroberts@northmarq.com](mailto:jroberts@northmarq.com)

#### Philip Wiegand

SENIOR VICE PRESIDENT – INVESTMENT SALES  
972.455.1933 | [pwiegand@northmarq.com](mailto:pwiegand@northmarq.com)

#### Eric Stockley

SENIOR ASSOCIATE – INVESTMENT SALES  
972.455.4911 | [estockley@northmarq.com](mailto:estockley@northmarq.com)

#### Stephen Whitehead

SVP, MANAGING DIRECTOR – DEBT & EQUITY  
972.788.3423 | [swhitehead@northmarq.com](mailto:swhitehead@northmarq.com)

#### Lauren Bresky

SENIOR VICE PRESIDENT – DEBT & EQUITY  
972.455.4912 | [lbresky@northmarq.com](mailto:lbresky@northmarq.com)

#### Will Hancock

VICE PRESIDENT – DEBT & EQUITY  
972.788.3420 | [whancock@northmarq.com](mailto:whancock@northmarq.com)

#### Jeffrey Erxleben

EVP, REGIONAL MANAGING DIRECTOR – DEBT & EQUITY  
972.455.1934 | [jerxleben@northmarq.com](mailto:jerxleben@northmarq.com)

#### Pete O'Neil

DIRECTOR OF RESEARCH  
602.508.2212 | [poneil@northmarq.com](mailto:poneil@northmarq.com)

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