

# Market Insights

Greater Dallas-Fort Worth Multifamily 1Q 2022



## Construction Activity



**42,885**

Units under construction

**5,008**

Units delivered (YTD)

## Market Fundamentals



**2.7%**

Vacancy

**-330**bps

Year over  
year change

**\$1,434**

Asking Rent

**+19.8%**

Year over  
year change

## Transaction Activity\*



**\$222,200**

Median sales price  
per unit (YTD)

\* In transactions where pricing is available

# Vacancy Rate Hits New Low, Rents Surge Higher

## Highlights

- Dallas-Fort Worth was one of the hottest multifamily markets in 2021 with robust absorption and investment activity levels. Those trends repeated in the first quarter of this year. Absorption outpaced deliveries, driving the vacancy rate lower, and transaction activity is ahead of the 2021 pace.
- The vacancy rate continued to improve, reaching an all-time low in the first quarter. The rate fell 20 basis points to 2.7 percent; year over year, vacancy has dropped 330 basis points.
- Rents surged again in the first quarter, posting a 3.5 percent gain to start the year. During the past 12 months, rents have spiked 19.8 percent, ending the first quarter at \$1,434 per month.
- The investment market remained active to start the year, and sales velocity in the first quarter outpaced levels from the same period in 2021. In transactions where pricing information was available, the median price during the first quarter reached \$222,200 per unit.

## Dallas-Fort Worth Multifamily Market Overview

The vacancy rate in the Dallas-Fort Worth multifamily market continued to tighten during the first quarter, falling to just 2.7 percent. The rate has been cut in half in the past year. This rapid decline in vacancy has allowed operators to implement healthy rent gains during renewals or as units become available to new renters. Vacancy has tightened even as developers have been active in bringing new projects to the market. Since the beginning of last year, absorption has outpaced deliveries by 70 percent, and in the first quarter, absorption was 30 percent higher than the number of units that came online. This supply-demand imbalance, particularly in an environment where there is a limited number of available units, is giving operators the upper hand in setting rental rates. The pace of year-over-year rent growth totaled nearly 20 percent in the first quarter, and additional gains are expected through the remainder of this year.

Investors continue to compete to acquire multifamily properties in the Dallas-Fort Worth area. The Metroplex has led the country in apartment investment sales volume in each of the past six years with 2021 marking a new high for area transaction volume. The momentum carried over into 2022; during the first quarter, the pace of sales velocity was up nearly 80 percent when compared to levels from the first few months of last year. Cap rates compressed throughout 2021 but showed signs of leveling off during the first quarter, with the bulk of the properties generally trading with cap rates around 3.5 percent. Prices have pushed higher in 2022 even as cap rates have stabilized, highlighting the impact of rent spikes and extremely low vacancy rates on property performance. In the coming months, area multifamily properties are expected to continue to change hands, although there could be a period of price discovery as investors adjust to rising interest rates.

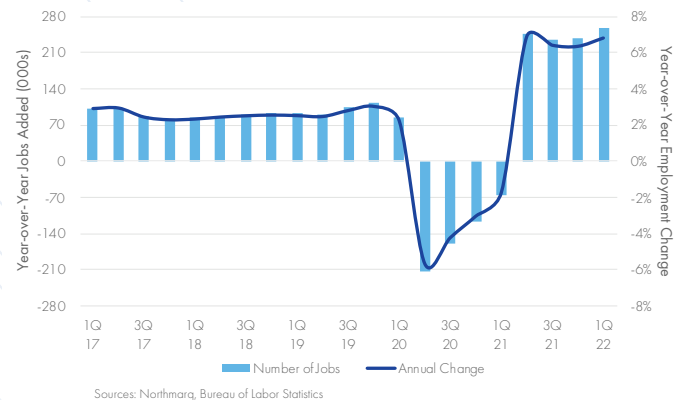
## Employment

- Employers in the Dallas-Fort Worth market continue to add workers at an accelerating pace. Year over year, total employment in the region has expanded by 6.8 percent with the addition of more than 256,000 jobs. During the first quarter, more than 60,000 new jobs were created.
- Professional employment in Dallas-Fort Worth has been expanding for the past several years, and the pace of growth has been escalating as businesses have continued to relocate to the region. In the 12-month period ending in the first quarter, local professional employment spiked by nearly 10 percent with the addition of approximately 65,000 jobs.
- The region's large transportation and distribution industry continues to expand at a rapid pace. In the past year, nearly 40,000 distribution jobs have been added, a 9 percent gain. Additional growth is on the way; there are more than 100 warehouse and distribution projects currently under construction, totaling more than 45 million square feet across Dallas-Fort Worth.
- Forecast:** This year will mark another strong period of economic growth throughout Dallas-Fort Worth. Area employers are forecast to expand payrolls by more than 4 percent with the addition of approximately 160,000 net new jobs. The forecast growth is above the market's long-term trend; from 2014 to 2019, employment growth averaged 104,000 jobs per year.



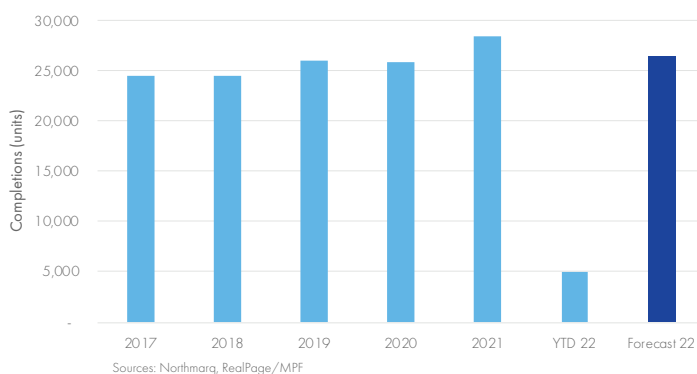
Year over year, total employment in the region has expanded by 6.8 percent.

### Employment Overview



Projects totaling approximately 5,000 units came online in the first quarter.

### Development Trends



## Development and Permitting

- The pace of deliveries slowed a bit during the first quarter, with projects totaling approximately 5,000 units coming online in the first three months of the year. That is 33 percent lower than the number of units that were completed in the same period in 2021. Some of the decline in deliveries was due to the slowdown in permitting and construction starts in 2020.
- Developers are moving more projects into the pipeline to meet the elevated renter demand in the region. At the end of the first quarter, more than 42,800 units were under construction, including 21,500 units that are on pace to be delivered by the end of this year.
- Permitting activity continues to rebound. During the first quarter, builders pulled permits for more than 7,000 multifamily units, up 16 percent from the same period in 2021. Current forecasts call for permits for approximately 27,500 multifamily units to be issued in 2022.
- Forecast:** The pace of apartment deliveries has been very consistent for the past several years. In 2022, developers are expected to complete approximately 26,500 units, down 6 percent from the total pace of completions in 2021. Since 2016, deliveries have averaged nearly 25,000 units per year.

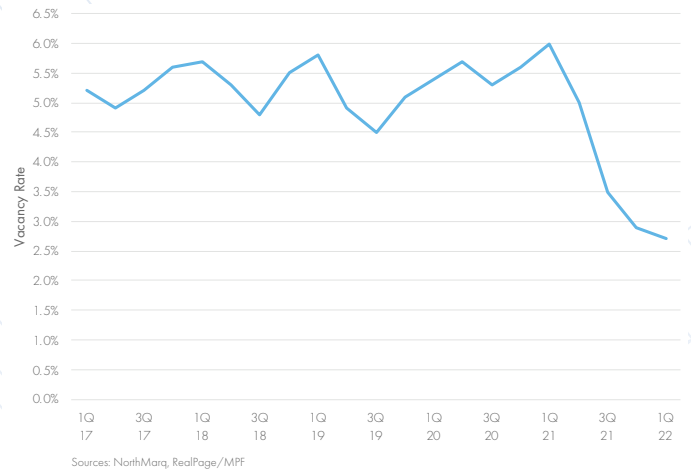
## Vacancy

- The vacancy rate continued to decline to new lows during the first quarter. The rate dropped 20 basis points at the start of the year to 2.7 percent. Vacancy has improved in each of the past four quarters and is down 330 basis points year over year.
- Vacancy in the Dallas-Plano-Irving portion of the market ended the first quarter at just 2.6 percent, 350 basis points lower than one year ago. In the Fort Worth-Arlington region, vacancy dipped to 2.9 percent in the first quarter, 270 basis points lower than one year earlier.
- Continued renter demand is pushing vacancy lower. During the first quarter, absorption totaled more than 6,500 units, exceeding new supply growth by 30 percent. In the past four quarters, net absorption has reached approximately 52,500 units.
- Forecast:** Demand is expected to outpace supply growth again in 2022, resulting in another annual vacancy decline. The rate is forecast to end this year at 2.6 percent, down 30 basis points for the full year. This would mark the fourth time in the past five years where vacancy tightened.



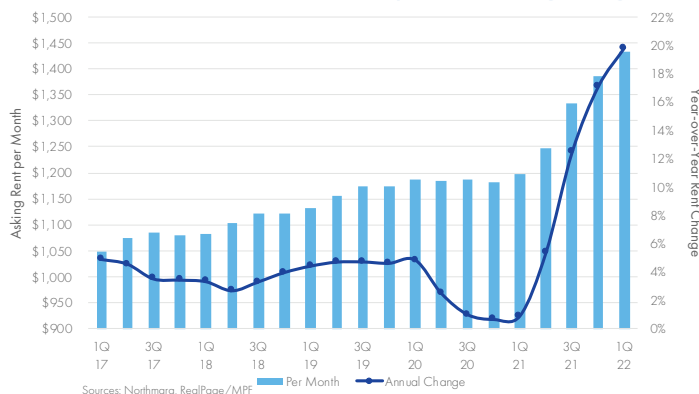
Vacancy has improved in each of the past four quarters.

### Vacancy Trends



Rents have spiked 19.8 percent in the past year.

### Rent Trends



## Rents

- The extremely tight occupancy conditions are supporting rapid rent growth in the Dallas-Fort Worth Metroplex. Rents rose 3.5 percent in the first quarter, reaching \$1,434 per month. Rents have spiked 19.8 percent in the past 12 months. Average rents are up nearly \$240 per month from one year ago.
- Average rents reached \$1.63 per square foot, per month, up from \$1.37 per square foot, per month one year ago. In Class A properties, rents reached \$1.96 per square foot, per month, up 18.1 percent in the past year. The surge in Class A rents is expected to continue to support new construction throughout the market.
- Rent growth was fairly consistent across most submarkets in the Dallas-Fort Worth region. In the Dallas-Plano-Irving segment of the market, rents reached \$1,470 per month, up 20 percent year over year. In Fort Worth-Arlington, rents ended the first quarter at \$1,324 per month, up 18.4 percent year over year.
- Forecast:** Multifamily operators will leverage tight conditions and consistent renter demand to push rents higher. In 2022, rents are forecast to rise approximately 9.5 percent, ending the year near \$1,515 per month.

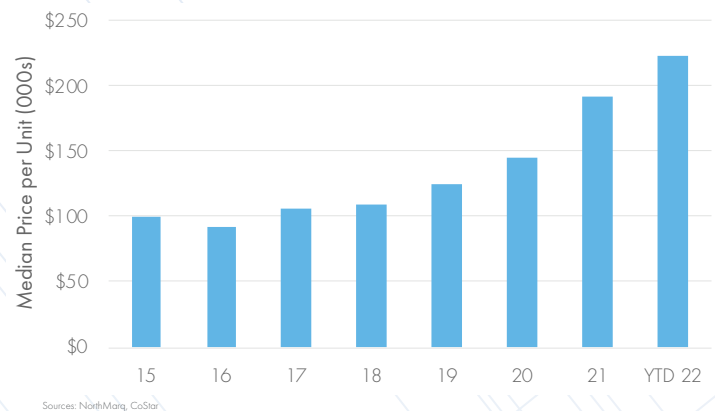
## Multifamily Sales

- After leading the country in multifamily investment activity in 2021, the Dallas-Fort Worth area got off to a stronger start this year. Sales activity in the first quarter was up nearly 80 percent when compared to levels recorded during the same period in 2021. The most recent peak in sales velocity occurred in the fourth quarter of last year.
- Transaction activity throughout much of 2021 included several portfolio transactions, as investors attempted to move large blocks of capital into the Dallas-Fort Worth market. Through the first quarter of this year, there have been fewer large multi-property sales. In 2021, there were approximately 30 transactions in excess of 500 units; during the first quarter of this year, there were six sales of more than 500 units.
- Heightened investor demand has created a competitive investment market, and the strong operating fundamentals are driving prices higher at a rapid pace. In transactions where pricing was available, the median price during the first quarter was \$222,200 per unit, up 15 percent from the median price in 2021.
- Cap rates generally ranged from 3.25 percent to 4 percent during the first quarter, similar to levels recorded at the end of last year. Cap rates compressed throughout much of last year but appear to have leveled off in the first few months of 2022.



Sales activity in the first quarter was up nearly 80 percent when compared to the same period in 2021.

### Investment Trends

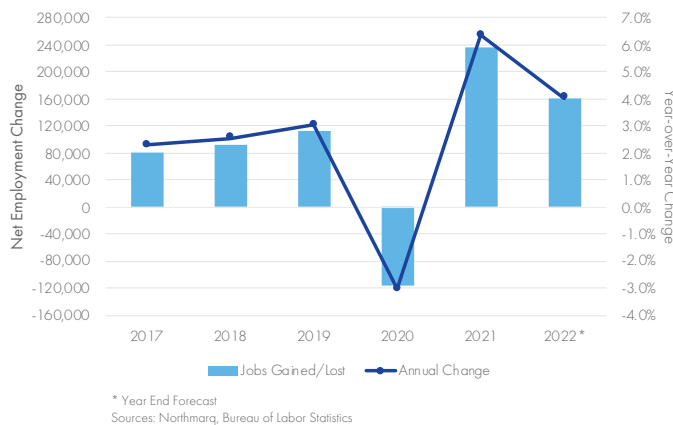


## Looking Ahead

The outlook for the Dallas-Fort Worth multifamily market continues to improve, as the market posts one quarter after another of robust property performance. Demand for rentals is expected to remain elevated through the remainder of the year, fueled by ongoing gains in the local labor market. Absorption has outpaced deliveries of new units in each of the past four quarters. This trend could continue in the coming quarters, although with vacancy at record lows, there are fewer vacant units for renters to occupy. Developers are increasing activity; the number of projects that are under construction is on the rise, but the pace of deliveries is not forecast to increase appreciably until 2023 at the earliest. As a result, vacancies are expected to remain low, and operators should have the upper hand when negotiating rent increases.

Investors are expected to continue to demonstrate elevated interest in multifamily properties in Dallas-Fort Worth through the remainder of this year and into 2023. While rising interest rates can impact return expectations for nearly every investment option, area apartment properties are well positioned to provide outsized returns. Elevated renter demand levels and low vacancy rates will support additional rent gains, and these gains are likely to be among the highest in the nation in 2022. This rent growth is forecast to more than offset any increases in borrowing costs. Investor demand gained momentum in each quarter in 2021, and this year's transaction activity got off to a rapid start. With vacancy levels likely to hover near unprecedented lows for the remainder of this year, investors will track the pace of competition from additions to supply. New construction is often active in Dallas-Fort Worth, but supply chain challenges will likely restrict any rapid acceleration in deliveries.

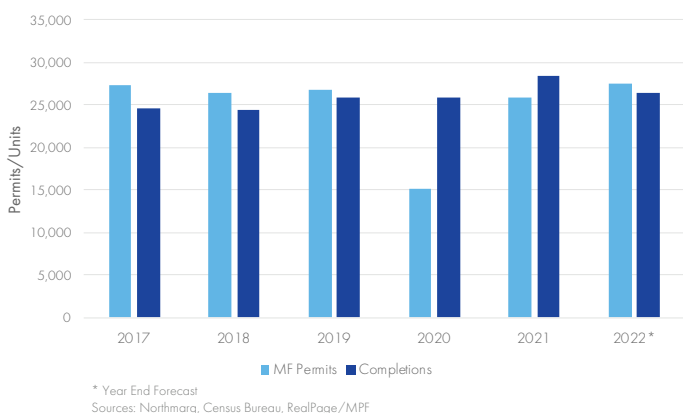
### Employment Forecast



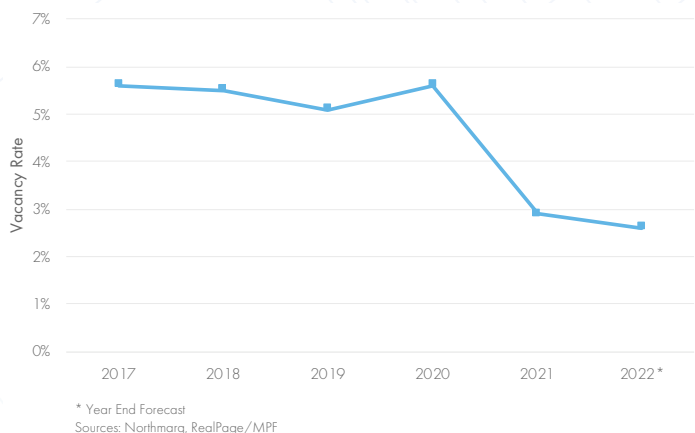
### Rent Forecast



### Construction & Permitting Forecast



### Vacancy Forecast





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## About Northmarq

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