

# Market Insights

Greater Dallas-Fort Worth Multifamily 3Q 2022



## Construction Activity



**63,562**

Units under construction

**15,645**

Units delivered (YTD)

## Market Fundamentals



**5.0%**

Vacancy

**+150**bps

Year over  
year change

**\$1,540**

Asking Rent

**+15.4%**

Year over  
year change

## Transaction Activity\*



**\$190,400**

Median sales price  
per unit (YTD)

\* In transactions where pricing is available

# Investor Expectations Gap Narrowing Quickly

## Highlights

- Both supply and demand conditions in Dallas-Fort Worth slowed during the third quarter, but growth is stronger than in nearly every other major market in the country. The pace of deliveries is lagging year-earlier levels but will accelerate beginning in 2023.
- Even as vacancy has pushed higher in recent months, rents have maintained a steady upward trajectory. Rents ended the third quarter at \$1,540 per month, up 15.4 percent year over year.
- Apartment property sales were very active at the start of this year but slowed in recent months. Still, year-to-date transaction activity is nearly identical to the number of deals that closed in the first three quarters of 2021. Prices have generally held steady, while cap rates have risen to about 4.5 percent on average.

## Dallas-Fort Worth Multifamily Market Overview

Fueled by healthy demand drivers, the Dallas-Fort Worth multifamily market continued to record rapid rent gains during the third quarter. Rent growth in the past three months topped 3 percent; this marked the sixth consecutive period where local rents have posted a quarterly spike of at least 3 percent. Rents are being driven higher by rapid employment growth, particularly in high-wage sectors of the economy that have created a more affluent renter pool. Operators also maintained significant pricing power when vacancy rates hovered around all-time lows late last year and in the first few months of 2022, although vacancy has trended closer to historical averages in recent quarters. Dallas-Fort Worth is often one of the top markets for construction of new units, but deliveries to this point in 2022 have lagged levels from recent years. With the number of units under construction on the rise, the pace of deliveries will accelerate beginning in the fourth quarter and carrying over into 2023.

The investment market shifted somewhat in the Dallas-Fort Worth region during the third quarter, but a high volume of transactions continued to close. Buyers and sellers appeared to adjust expectations fairly quickly in the region, with cap rates rising by about 100 basis points on average from the first half of the year. During the third quarter, cap rates averaged about 4.5 percent. Total transaction activity to this point in 2022 is nearly identical to levels from the same period last year when Dallas-Fort Worth led the nation in multifamily investment volume. Pricing details are often not fully transparent in the region, but in transactions where data can be obtained, per-unit values generally remained in a range similar to the past few quarters. Several Class C transactions closed in recent months, with prices for these older assets typically between \$130,000 per unit and \$150,000 per unit. Newer properties often traded around \$250,000 per unit.

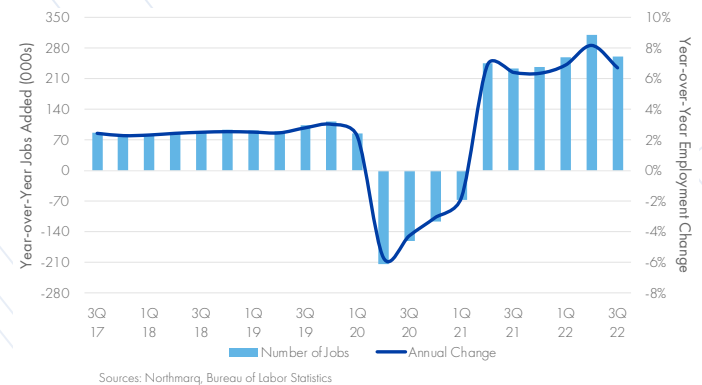
## Employment

- Dallas-Fort Worth continues to be one of the leading markets in the country for job growth. Year over year through the third quarter, employment in the region had expanded by 6.7 percent with the addition of more than 260,000 net new jobs. The pace of expansion cooled a bit in the third quarter, following rapid gains in the first half of 2022.
- Gains in high-wage professional employment have been fueling the local labor market. During the past 12 months, nearly 60,000 jobs have been added in the professional and business services sector, accounting for more than 20 percent of all jobs added. Expansion in the professional sector topped 8.4 percent year over year.
- Local manufacturing employment will receive a boost from a new facility in Arlington. Wallbox is opening a 130,000-square-foot manufacturing facility for electric vehicle chargers in the fourth quarter of this year. This is the company's first North American manufacturing facility and should employ about 700 workers in the coming years.
- **Forecast:** This year, employers are forecast to add approximately 205,000 jobs in Dallas-Fort Worth, similar to gains from 2021. Growth is being recorded across nearly every sector of the economy.



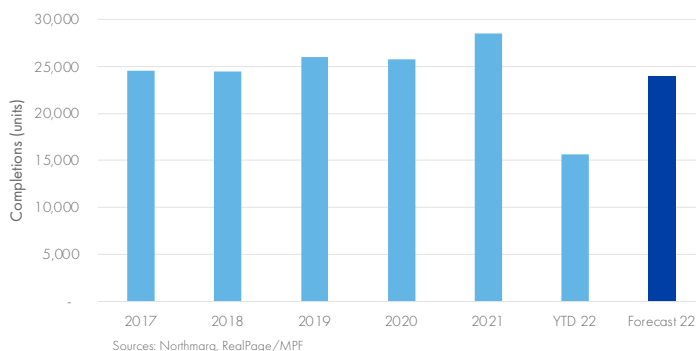
Year over year, employment in the region expanded by 6.7 percent.

### Employment Overview



Year-to-date completions are down 28 percent.

### Development Trends



## Development and Permitting

- The pace of supply growth has been fairly consistent during the past several years but has slowed to this point in 2022. During the third quarter, nearly 6,000 units were delivered, bringing the total completed units through the first nine months of the year to 15,645. Year-to-date completions are down 28 percent from the same period in 2021.
- Longer development timelines have caused some of the decline in the pace of deliveries but have also resulted in a greater number of projects that are under construction. At the end of the third quarter, more than 63,500 units were under construction, up 42 percent from one year earlier.
- Permitting has been gaining momentum throughout 2022. During the third quarter, permits for more than 8,600 multifamily units were issued, up 13 percent from second quarter levels. Year to date, permits for approximately 23,000 multifamily units have been pulled, 9 percent ahead of the pace during the same period in 2021.
- **Forecast:** Developers are forecast to deliver projects totaling approximately 24,000 rental units in 2022, about 15 percent below the completions total from last year. The number of projects that are added to the inventory is forecast to gain momentum beginning in 2023.

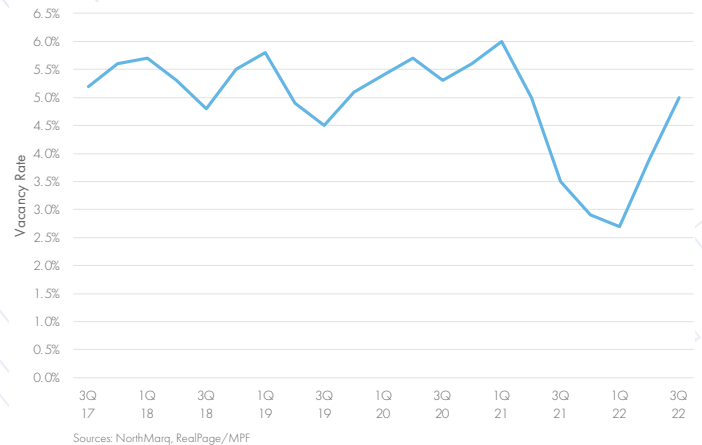
## Vacancy

- Vacancy rates retreated throughout 2021 and also during the first quarter of this year, but that trend has reversed. Vacancy has now risen in each of the past two quarters, returning closer to the market's long-term average rate. Vacancy rose 110 basis points in the third quarter, reaching 5 percent.
- The recent upticks have resulted in a year-over-year vacancy increase totaling 150 basis points. This marked the first annual vacancy rise since the beginning of 2021.
- Vacancy rates are fairly consistent across the Greater Dallas-Fort Worth region. In the Dallas-Plano-Irving portion of the market, vacancy ended the third quarter at 4.9 percent, up from 3.4 percent one year earlier. Vacancy in the Fort Worth-Arlington segment of the market was 5.4 percent, up 190 basis points year over year. Most submarkets in the region have vacancy rates between 4.5 percent and 6 percent.
- Forecast:** Vacancy is expected to stabilize in the fourth quarter, and the rate will likely end the year near the current level of 5 percent. Vacancy generally ranged between 5 percent and 5.5 percent from 2013 to 2020 before being cut nearly in half in 2021.



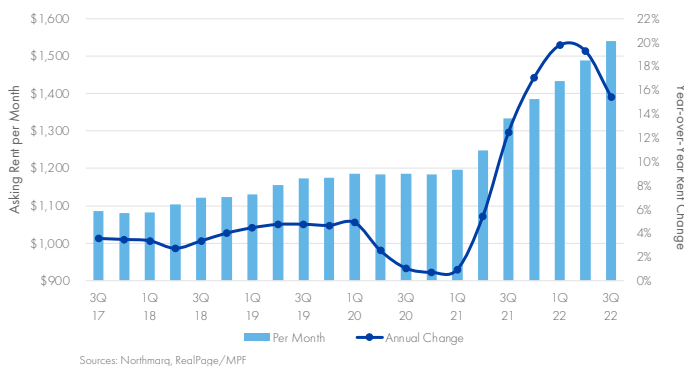
Vacancy rates are fairly consistent across the region.

### Vacancy Trends



Year over year, area rents have pushed 15.4 percent higher.

### Rent Trends



## Rents

- Rents advanced 3.4 percent in the third quarter, similar to the pace of increase recorded at the end of 2021 and in the first half of this year. Year over year, area rents have pushed 15.4 percent higher, reaching \$1,540 per month in the third quarter.
- One factor driving accelerating development of apartment units is the rapid rent growth being recorded in the region. Rents reached \$1.75 per square foot, per month in the third quarter, up from \$1.53 per square foot, per month one year ago. In Class A properties, rents advanced to \$2.11 per square foot in the third quarter, up 14.1 percent year over year.
- Rents in the Dallas-Plano-Irving segment of the market grew at the fastest rates during the third quarter, spiking by 3.5 percent to \$1,582 per month. Year over year, rents in Dallas-Plano-Irving are up 15.3 percent. In the Fort Worth-Arlington portion of the market, rents ended the third quarter at \$1,409 per month, 14.8 percent higher than one year ago.
- Forecast:** Rents in Dallas-Fort Worth are on pace to rise by more than 12.5 percent this year, building on a 17.1 percent spike in 2021. The average rental rate is expected to reach \$1,560 per month by year end.

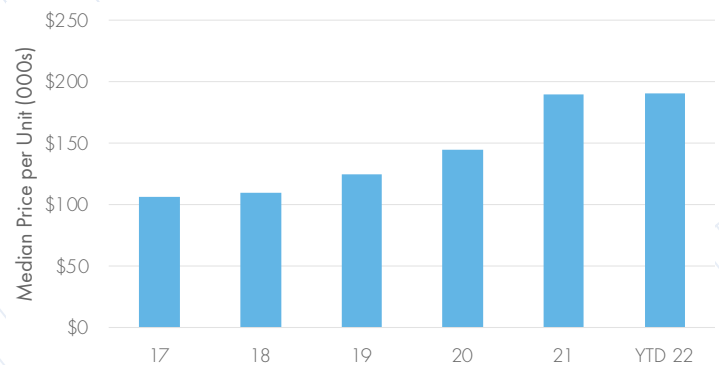
## Multifamily Sales

- Sales velocity in the Dallas-Fort Worth area slowed marginally from the second quarter to the third quarter. Transaction activity dipped 12 percent quarter over quarter. The pace in larger transactions held up; sales involving properties totaling 400 units or more were similar to levels recorded during the second quarter.
- Sales velocity for the first nine months of this year is nearly identical to levels recorded during the same period in 2021. Quarterly comparisons have been more volatile; transaction activity in the first half of this year outpaced 2021 levels by nearly 30 percent, while third quarter volume in 2022 was down about 40 percent from the third quarter of last year.
- Despite the recent volatility, the Dallas-Fort Worth area is on pace to lead the nation in multifamily investment activity in 2022. Total year-to-date transaction dollar volume in Dallas-Fort Worth is about 50 percent higher than the second-ranked major market.
- In transactions where pricing was available, the median price year to date reached approximately \$190,400 per unit, similar to the median price in 2021.
- During the third quarter, several low-vacancy properties changed hands with prices near \$250,000 per unit. Older, Class C properties generally sold between \$130,000 per unit and \$150,000 per unit.
- Cap rates averaged approximately 4.5 percent during the third quarter, about 100 basis points higher than levels during the first half of the year.



Cap rates averaged approximately 4.5 percent during the third quarter.

### Investment Trends



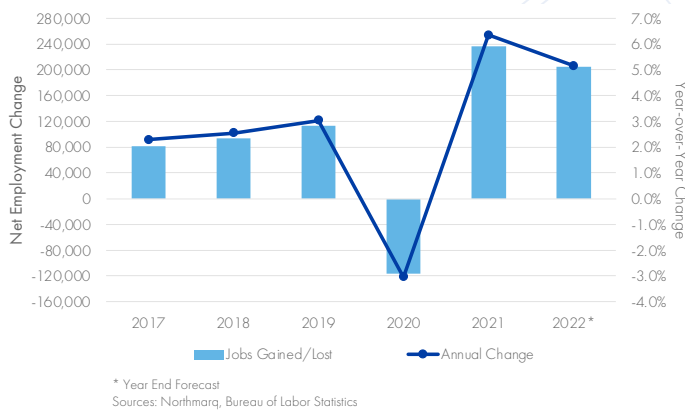
Sources: NorthMarq, CoStar

## Looking Ahead

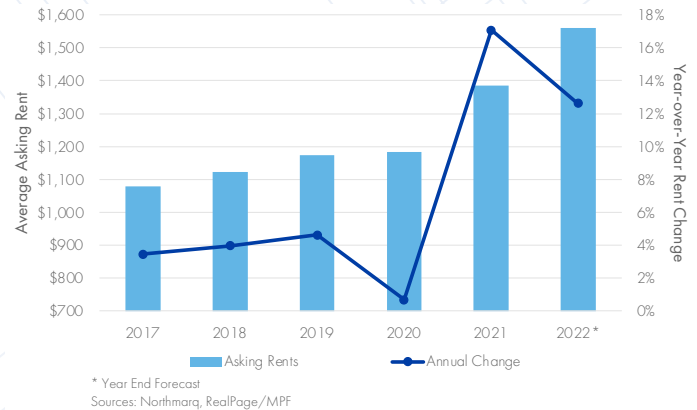
After several periods of steady supply growth and a rapid upswing in demand, the Dallas-Fort Worth multifamily market is expected to return closer to equilibrium through the remainder of this year and into 2023. Multifamily developers have delivered an average of nearly 26,000 units per year to the market since 2017, and the local vacancy rate had generally remained between 5 percent and 5.5 percent prior to a period of extreme tightening at the end of last year and the first few months of 2022. Completions are on pace to come in a bit lower than recent averages this year but are expected to accelerate beginning in 2023. Demand for rental units will be supported by a very strong local labor market, while the region's for-sale housing affordability will be impacted by a sharp rise in mortgage rates, likely keeping more residents in the renter pool for longer periods.

The elevated volume of multifamily transactions in the Dallas-Fort Worth region appears to have sped up the price discovery process and narrowed the expectations gap between buyers and sellers at a more rapid clip than in most other top investment markets. Transaction volume in the region is expected to continue throughout the remainder of 2022 and into 2023, although not at the extreme pace that was recorded at the end of last year. Investors are still finding Dallas-Fort Worth to be one of the premier options to allocate large blocks of capital into a high-growth market. The increased number of projects in the development pipeline will attract operators looking to acquire properties that have not yet fully stabilized. Also, with rent growth slowing across many markets, the steady pace of rental rate increases and rapid gains in high-wage jobs in Dallas-Fort Worth will likely fuel additional transaction activity.

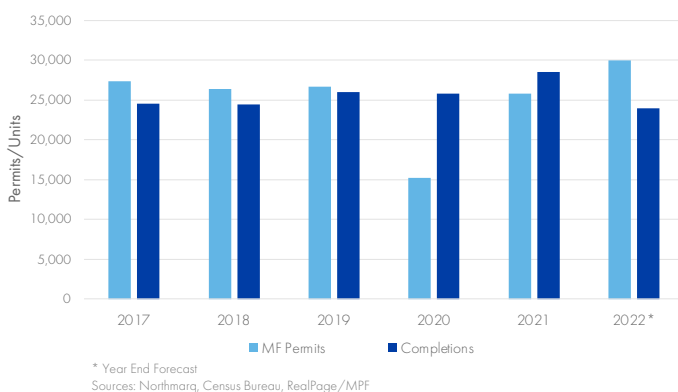
### Employment Forecast



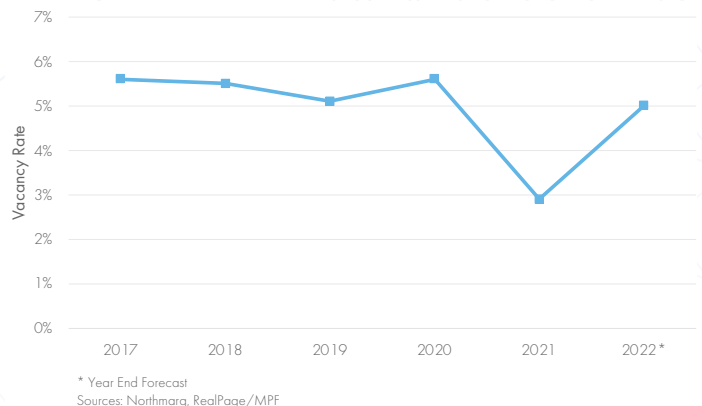
### Rent Forecast



### Construction & Permitting Forecast



### Vacancy Forecast





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## About Northmarq

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