Northmarq

MARKET INSIGHTS

Investors continue to acquire Class B and Class C properties

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	81,683
UNITS DELIVERED	5,983

MARKET FUNDAMENTALS

VACANCY RATE	6.4%
YEAR-OVER-YEAR CHANGE	+370bps
ASKING RENTS	$1,531
YEAR-OVER-YEAR CHANGE	+6.8%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$147,000*

* Transactions where pricing is available

Dallas-Fort Worth Multifamily

1Q 2023

HIGHLIGHTS

- Continued gains in the local labor market are supporting the outlook for the Dallas-Fort Worth multifamily market. Developers are active, bringing new projects through the pipeline to meet current and future renter demand for housing.
- Vacancy trended higher in the first quarter, reaching 6.4 percent. Vacancy rates are nearly identical across all property classes.
- Rents have increased 6.8 percent in the past 12 months, ending the first quarter at $1,531 per month. Some of the fastest rent growth has occurred in Class A properties, which has supported new development.
- Transaction activity in the first quarter lagged 2022 levels but still led the way at the national level. Investors targeted Class B and Class C properties at the start of the year, and cap rates averaged 4.9 percent.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

Many of the supply-demand conditions that prevailed during the second half of 2022 in the Dallas-Fort Worth multifamily market carried over into the first quarter of this year. While the direction of the market forces remained the same, the intensity softened. The vacancy rate edged higher but at a slower pace than in recent quarters. New development remained active, but the pace of new permitting slowed, which should lessen the competitive impact of new supply growth in the coming years. Dallas-Fort Worth remains a high-growth market, and this expansion is fueled by a robust and dynamic local labor market. The region continued to expand in the first quarter with year-over-year employment growth approaching 5 percent. Gains were recorded across nearly every industry with high-wage, white-collar sectors leading the way.

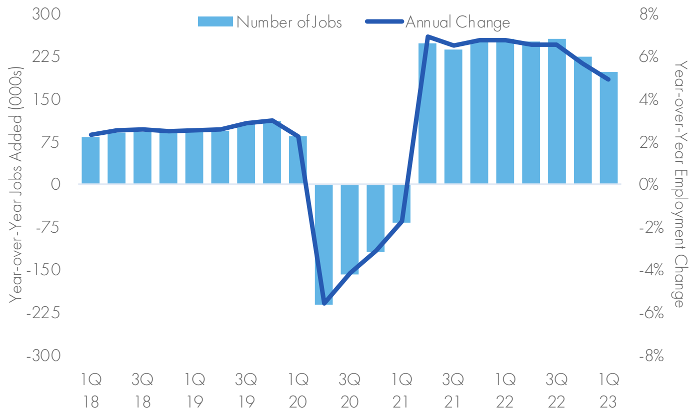
Multifamily investment activity in Dallas-Fort Worth slowed at the beginning of the year, but transactions still closed, and the market remained at the top of the national rankings for sales velocity. The bulk of the transaction activity during the first quarter was concentrated in Class B and Class C properties constructed in the 1970s and 1980s. During the first quarter, Class A properties accounted for only about 10 percent of total transactions, down from more than 20 percent of sales in 2022. This trend is unlikely to persist, with newer assets in fast-growing areas such as Frisco and Grand Prairie poised to sell in the coming months. The mix of newer properties changing hands will likely pull per-unit prices higher, while cap rates appear to have settled in around the upper 4 percent range.

EMPLOYMENT

- The local economy continues to expand at an elevated pace in Dallas-Fort Worth. Employers added nearly 200,000 net new jobs in the 12-month period ending in the first quarter. The annual pace of employment growth in the region totaled 4.9 percent.
- High-wage sectors continue to lead the way in the Metroplex. Year over year, the professional and business services sector has grown by more than 6 percent with a gain of 45,000 new jobs. In addition, nearly 17,000 financial services positions have been created in the past year, an expansion of 4.8 percent.
- During the first quarter, cybersecurity company McAfee announced plans to open a new regional headquarters at The Star development in Frisco. The company, which has about 1,800 employees worldwide, has not clarified how many workers will be located in the Frisco facility. Employment in the information sector in Dallas-Fort Worth has expanded by 5.5 percent in the past 12 months.
- **FORECAST:** Employers are forecast to add approximately 75,000 workers in 2023, a 1.8 percent pace of expansion. The region is forecast to be one of the top few markets in the country for net new job creation this year.

Employers added nearly 200,000 net new jobs.

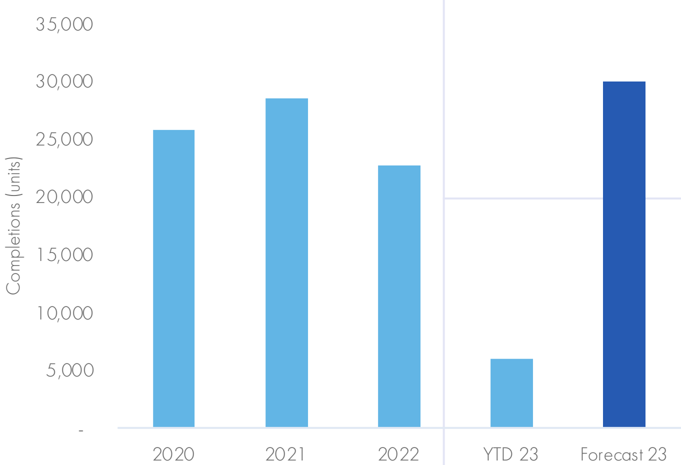
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Multifamily permitting activity slowed at the start of 2023.

DEVELOPMENT TRENDS



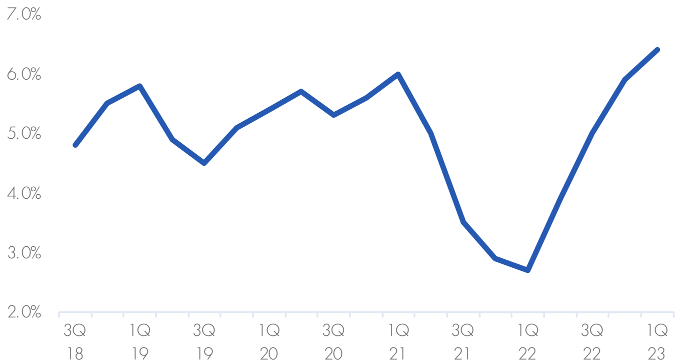
Sources: Northmarq, RealPage/MPF

DEVELOPMENT & PERMITTING

- Developers delivered approximately 6,000 new units to the market during the first quarter, after nearly 5,000 units came online in the same period, one year earlier. The recent total is similar to averages recorded in the past few years; since 2018, developers have delivered approximately 6,200 units per quarter.
- While deliveries have remained fairly consistent in recent years, more projects are being moved into the construction pipeline. More than 81,600 units were under construction as of the first quarter, up approximately 60 percent from one year ago.
- After accelerating throughout much of last year, multifamily permitting activity slowed at the start of 2023. Developers pulled permits for approximately 6,300 units in the first quarter, down 32 percent from the 2022 peak.
- **FORECAST:** Developers are forecast to complete nearly 30,000 units in 2023. The pace of deliveries slowed by nearly 20 percent in 2022, but some projects originally slated to deliver last year will instead come online in 2023.

Vacancy levels are nearly identical across property classes.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

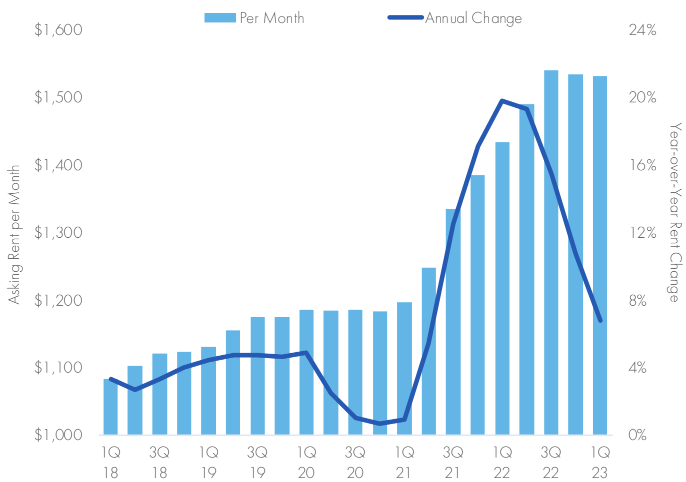
- Vacancy in the Dallas-Fort Worth Metroplex rose 50 basis points in the first quarter, reaching 6.4 percent. This marked the fourth consecutive quarter where vacancy rose, following an extended tightening period where the rate was cut in half. Vacancy levels are nearly identical across property classes.
- The region's lowest vacancy rate on record occurred one year ago. During the past 12 months, the rate has increased 370 basis points. The current vacancy level is 100 basis points higher than the average rate recorded from 2013-2020.
- Both major portions of the market posted similar performances during the first quarter. In Dallas-Plano-Irving, vacancy rose 60 basis points to 6.3 percent, while vacancy in the Fort Worth-Arlington segment of the market was 6.9 percent, after rising 50 basis points during the quarter.
- **FORECAST:** Vacancy is expected to inch higher in the coming quarters but should mostly remain near its current level. For the full year, the rate is forecast to rise 70 basis points to 6.6 percent.

RENTS

- Rents inched lower by a few dollars per month during the first quarter but have gained significant ground in the past year. Average rents have increased 6.8 percent year over year, ending the first quarter at $1,531 per month. Since the beginning of 2019, annual rent increases have averaged 9 percent.
- Rents in Class A properties have posted rapid gains in recent years, supporting additional development in the region. Class A rents spiked 7.2 percent year over year, reaching $1,869 per month. Rents in Class A properties have advanced to $2.11 per square foot, per month.
- Rents in the Dallas-Plano-Irving segment of the market ended the first quarter at $1,572 per month, up 7 percent year over year. In Fort Worth-Arlington, rents inched up to $1,405 per month in the first quarter, posting a 6.1 percent annual advance.
- **FORECAST:** After posting double-digit percentage gains in each of the past two years, rent growth will be more measured in Dallas-Fort Worth in 2023. Rents are forecast to increase approximately 3.5 percent this year, reaching $1,588 per month.

Rents have increased 6.8 percent year over year.

RENT TRENDS



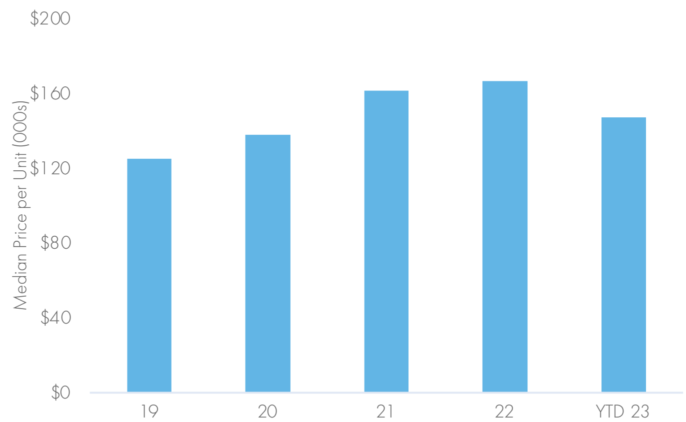
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- Fewer multifamily properties traded in Dallas-Fort Worth during the first quarter, tracking the larger national trend. Sales velocity to start 2023 was down approximately 70 percent from the elevated levels recorded during the first quarter of last year when interest rates were still quite low.
- Total transaction activity in the first quarter was down about 40 percent from levels in the final three months of 2022. Despite the cooling transaction counts, the Dallas-Fort Worth region recorded the highest sales velocity of any major investment market in the country at the start of 2023.
- In transactions where pricing was available, the median price in transactions that have closed to this point in 2023 reached approximately $147,000 per unit.
- The bulk of the transaction activity that has occurred year to date has involved 1970s- and 1980s-vintage Class B and Class C apartments. These properties have generally changed hands priced between $120,000 per unit and $150,000 per unit.
- After averaging 4.5 percent in the fourth quarter, cap rates edged higher in the first few months of this year. Cap rates averaged 4.9 percent in the first quarter. The majority of transactions that closed in January and February featured cap rates below 5 percent, while properties that sold later in the quarter generally traded with cap rates at 5 percent or higher. Cap rates for newer product remain below 5 percent.

The median price reached approximately $147,000 per unit.

INVESTMENT TRENDS



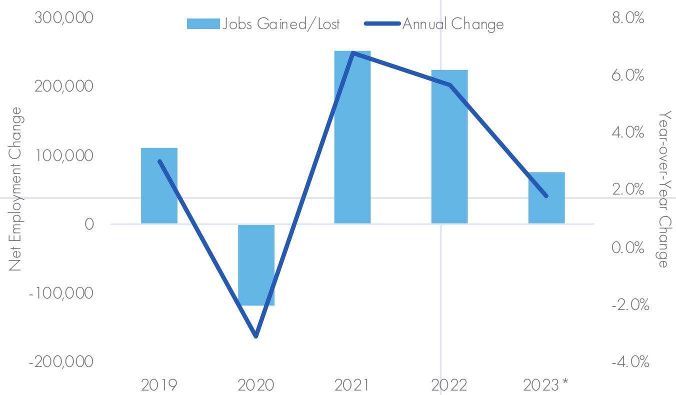
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

The Dallas-Fort Worth multifamily market is positioned to fare well throughout the remainder of this year. While the region is forecast to record an uptick in new apartment construction, deliveries in 2023 are expected to be about 15 percent higher than the market's long-term annual average and account for only 3 percent of the existing inventory. Many other markets in the country will record much more significant surges in new development throughout the remainder of this year and into 2024. Additionally, the true competitive advantage that Dallas-Fort Worth has is rapid employment growth, which should continue to support renter demand for new units. While absorption levels will likely lag the pace of new development in 2023, there should be sufficient leasing velocity to support steady rent increases. Additional growth is on the way; American Airlines and DFW International Airport announced plans for a terminal expansion and renovation that will add new gates and hundred of jobs.

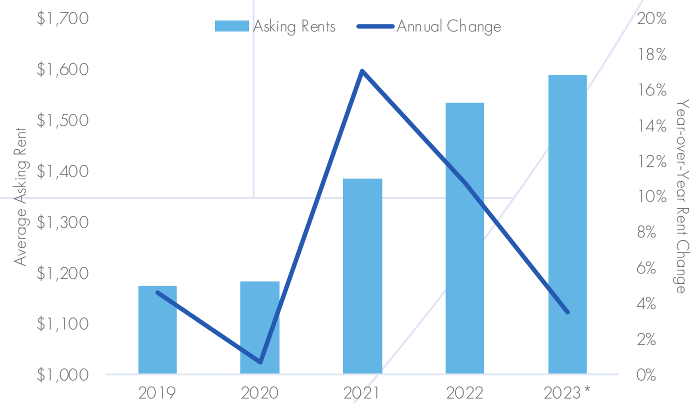
Elevated interest rates and greater economic uncertainty will likely restrict multifamily investment activity across the country in 2023, but the Dallas-Fort Worth Metroplex features a favorable growth outlook that should attract investment capital. The region has been the leading market in the country for investment volume during the past several years and should secure a top spot again in 2023. While there are potential supply, demand, and capital constraints that may cool investor demand at the national level in the coming quarters, the Dallas-Fort Worth region is better equipped to overcome these challenges in the near term, and the region's long-term growth trajectory will continue to attract investment. Cap rates appear to be moving fast enough to close the expectations gap between buyers and sellers, and transaction activity should accelerate in the second half.

EMPLOYMENT FORECAST



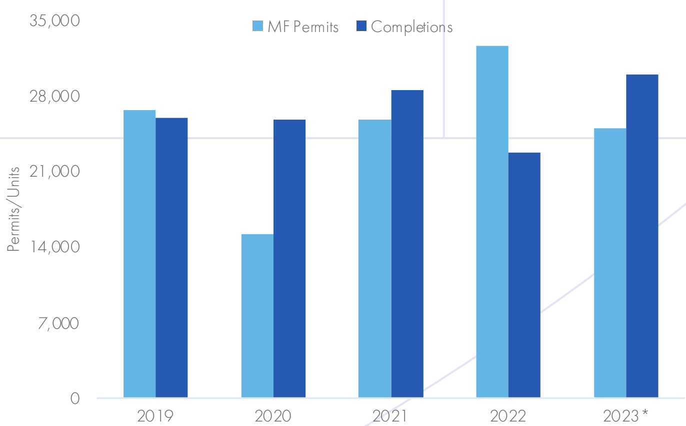
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



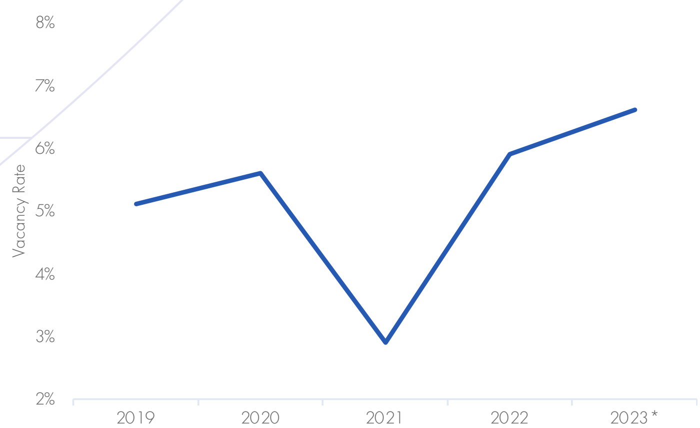
* Year End Forecast
Sources: Northmarq, RealPage/MPF

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, RealPage/MPF

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, RealPage/MPF

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FOR MORE INFORMATION,
PLEASE CONTACT:

TAYLOR SNODDY
Managing Director–Investment Sales
972.455.4928
tsnoddy@northmarq.com

PHILIP WIEGAND
Senior Vice President–Investment Sales
972.455.1933
pwiegand@northmarq.com

ERIC STOCKLEY
Senior Vice President–Investment Sales
972.455.4911
estockley@northmarq.com

CHARLES HUBBARD
Vice President–Investment Sales
972.455.4915
chubbard@northmarq.com

LAUREN BRESKY
Managing Director–Debt & Equity
972.455.4912
lbresky@northmarq.com

JOEL HEIKENFELD
Managing Director–Debt & Equity
972.455.1943
jheikenfeld@northmarq.com

JEFFREY ERXLEBEN
President–Debt & Equity
972.455.1934
jerxleben@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

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