

With rents on an upswing, sales prices trend higher

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **72,900**

UNITS DELIVERED **13,121**

MARKET FUNDAMENTALS



VACANCY RATE **6.6%**

YEAR-OVER-YEAR CHANGE **+270bps**

ASKING RENTS **\$1,546**

YEAR-OVER-YEAR CHANGE **+3.8%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$159,400***

* Transactions where pricing is available

HIGHLIGHTS

- Operating conditions improved in the Dallas-Fort Worth multifamily market in recent months. The pace of absorption regained momentum, supported by strong growth in the local labor market.
- After inching lower to start the year, rents rebounded in recent months. Average rents ended the second quarter at \$1,546 per month, 3.8 percent higher than at the midpoint of 2022.
- Vacancy crept up 20 basis points during the second quarter, reaching 6.6 percent. Vacancy levels are higher than one year ago, but the bulk of the year-over-year increase occurred in the second half of 2022. The rate is forecast to level off in the second half of this year.
- While still considerably lower than recent peak levels, investment activity picked up at the end of the first half of 2023. Prices trended higher, particularly in sales involving Class A properties. Cap rates pushed up to .5 percent on average.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

Multifamily properties recorded strong performance in Dallas-Fort Worth during the second quarter. Net absorption reached its highest level since the beginning of 2022, and the surge in net move-ins caused rents to push higher. Despite renewed demand for units, local vacancy rose slightly, but the rate did not deviate significantly from levels that operators have become accustomed to since the end of 2022. To this point in 2023, absorption has been concentrated in some of the high-growth suburban areas of the Metroplex, including Frisco, Denton, and Allen/McKinney; absorption in these submarkets has combined to exceed 2,500 units year to date. With deliveries of new units occurring throughout the region over the next several quarters, there will likely be a greater number of units absorbed across a larger number of submarkets going forward.

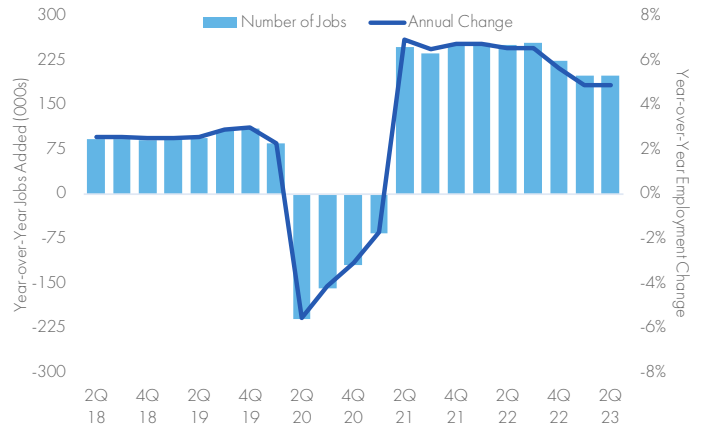
The Dallas-Fort Worth Metroplex has led the country in multifamily investment activity for the past several years, and the region showed signs of gaining momentum in recent months. The accelerating pace of transactions is a signal that investment capital is moving off of the sidelines in Dallas-Fort Worth more quickly than in other parts of the country. Reasons for this redeployment of capital include the region's rapid growth trajectory and a proven ability to absorb a large volume of new rental units. Developers have delivered more than 150,000 apartment units to the market since 2017, and the rental market has reached new heights in that time frame. Similar performance is forecast beyond 2023. Some large, newer projects changed hands during the second quarter, at prices that topped \$300,000 per unit.

EMPLOYMENT

- The local labor market continues to record rapid growth. During the past 12 months, area employers have expanded payrolls by 4.9 percent with the addition of nearly 200,000 net new jobs. The rate of growth in Dallas-Fort Worth has nearly doubled the national pace of expansion.
- The professional and business services sector has added more than 48,000 jobs in the past 12 months, an annual growth rate of 6.4 percent. Growth in the financial activities sector has been a bit more modest, but is still outpacing the market as a whole. Year over year through the second quarter, more than 20,000 financial positions have been created, a 5.7 percent increase.
- Gains in the local construction sector highlight the region’s rapid growth trajectory. Construction employment has surged by more than 7.5 percent in the past 12 months, the fastest rate of expansion in the sector since 2014.
- **FORECAST:** Employers in Dallas-Fort Worth are expected to expand payrolls by 3 percent with the addition of 125,000 new jobs in 2023.

Area employers have expanded payrolls by 4.9 percent.

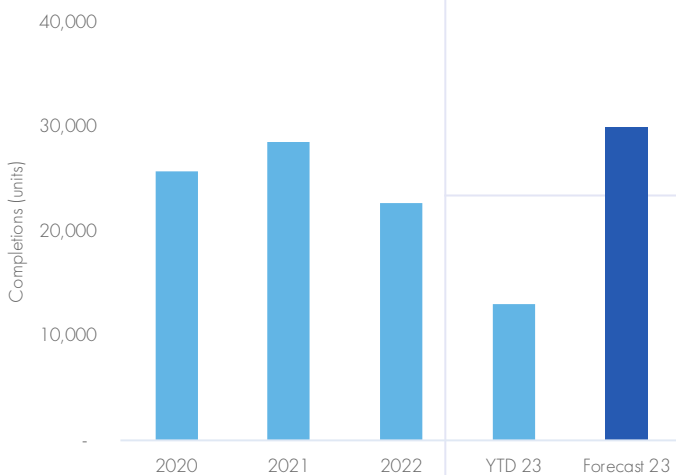
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

More than 13,100 units came online in the first half.

DEVELOPMENT TRENDS



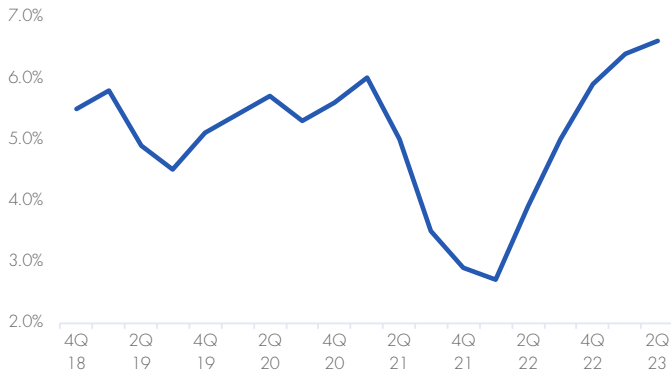
Sources: Northmarq, RealPage, MPF

DEVELOPMENT & PERMITTING

- The pace of deliveries accelerated during the second quarter, as projects that broke ground in recent years have begun to be added to the local rental inventory. More than 13,100 units came online in the first half of this year, up about 33 percent compared to one year earlier.
- Developers have been active in Dallas-Fort Worth, moving projects into the pipeline to keep pace with persistent demand growth for rental housing. Projects totaling 72,900 units were under construction at the end of the second quarter, up about 30 percent year over year, but down from peak levels from earlier this year.
- Multifamily permitting activity has cooled to this point in 2023. Permitting volume dropped 20 percent from the first quarter to the second quarter. During the first half, developers pulled permits for 12,100 multifamily units, down 15 percent from the first half of 2022.
- **FORECAST:** Developers have consistently completed about 25,000 units per year since 2017, but the pace of deliveries is expected to accelerate this year. Apartment completions are forecast to total approximately 30,000 units in 2023, before the pace of deliveries slows beginning in the second half of 2024 and throughout 2025.

Absorption totaled more than 5,500 units in the second quarter.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

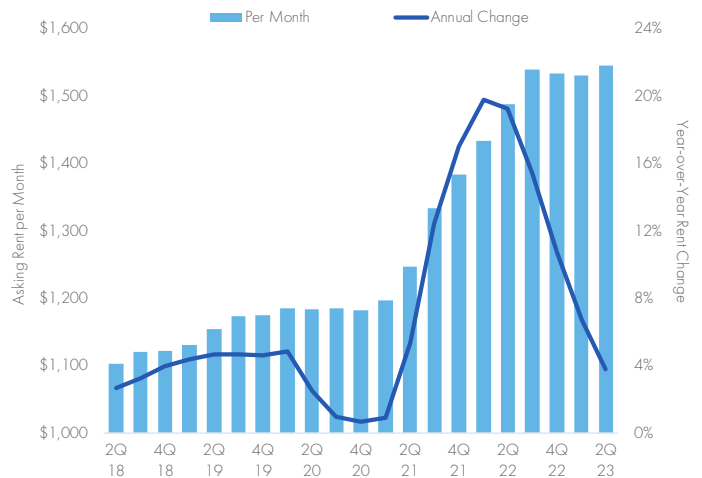
- Vacancy in the Dallas-Fort Worth Metroplex inched higher in the second quarter but is showing signs of leveling off. The rate rose 20 basis points, ending the first half at 6.6 percent. Net absorption totaled more than 5,500 units during the second quarter.
- During the past 12 months, vacancy has risen 270 basis points. While the rate has crept higher in 2023, the bulk of the increase in area vacancy occurred late last year. With absorption regaining momentum, vacancy should remain near the current figure.
- The Dallas-Plano-Irving portion of the market is recording slightly tighter vacancy conditions. The rate in Dallas-Plano-Irving ended the second quarter at 6.5 percent. In Fort Worth-Arlington, vacancy inched up 10 basis points in the second quarter to 7 percent.
- **FORECAST:** Absorption is expected to remain elevated in the second half of this year and should closely track construction activity. Local vacancy is forecast to end the year at 6.7 percent, just 10 basis points higher than the current rate.

RENTS

- After a few quarters where rents inched lower, growth resumed during the second quarter. Average rents rose 1 percent from the first quarter to the second quarter, reaching \$1,546 per month. During the past 12 months, rents have increased 3.8 percent.
- Rents in Class A properties continue to trend higher at fast enough rates to support new development. Class A rents have advanced 4.8 percent in the past year, reaching \$1,905 per month. Rents in Class A properties were \$2.14 per square foot, per month in the second quarter and reached \$2.25 per square foot, per month in the Dallas-Plano-Irving segment of the market.
- The Irving area is recording some of the strongest rent growth in the Metroplex. Rents in the South Irving submarket have surged 6.6 percent in the past year, reaching \$1,227 per month. In North Irving, rents have advanced 5.7 percent year over year to \$1,358 per month.
- **FORECAST:** Rents in Dallas-Fort Worth are on pace to rise 3.3 percent in 2023, ending the year at \$1,585 per month. The market posted double-digit gains in each of the past two years.

During the past 12 months, rents have increased 3.8 percent.

RENT TRENDS



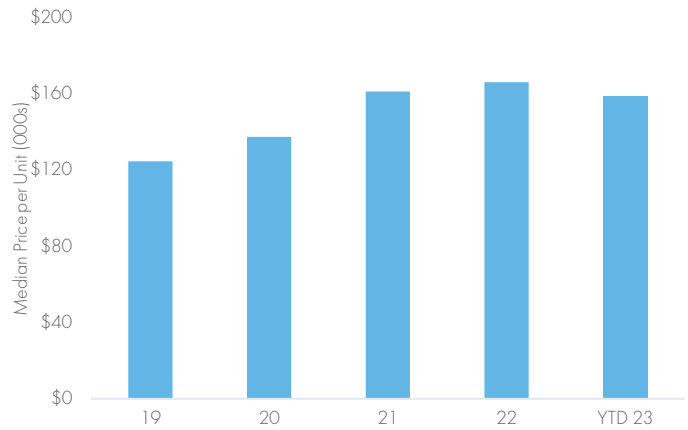
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- Multifamily property sales velocity in Dallas-Fort Worth picked up in the second quarter. The number of properties that changed hands rose 17 percent in the second quarter. This marked the first quarterly increase in transaction counts since the final few months of 2021.
- Despite ticking higher in the second quarter, investment activity in the first half was down nearly 65 percent year over year. This decline is less severe than the national figure, where activity is down about 75 percent.
- Dallas-Fort Worth led the nation in multifamily transaction volume by a wide margin through the first half of 2023, more than doubling the level of the next highest market.
- In transactions where pricing was available, the median price year to date reached approximately \$159,400 per unit. During the second quarter, the median price rose to \$176,000 per unit.
- In recent months, a handful of Class A properties have traded at more than \$300,000 per unit. Class B properties are generally selling for between \$150,000 per unit and \$180,000 per unit. Class C assets are often trading around \$100,000 per unit to \$125,000 per unit.
- Cap rates were a bit below 5 percent in the first quarter and have averaged approximately 5 percent in recent months. One year ago, cap rates were closer to 3.5 percent.

Cap rates averaged 5 percent in recent months.

INVESTMENT TRENDS



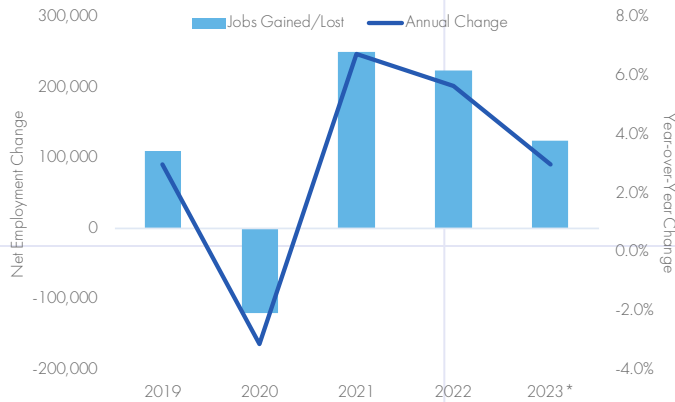
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

While supply-side pressures have attracted much of the discussion in recent quarters, the demand side of the equation is likely to be the biggest driver of local property performance through the remainder of this year and into 2024. A strong labor market that is forecast to add another 45,000 net new jobs in the second half of 2023 should continue to support absorption of units, and the sustained leasing activity will help push rental rates higher. The pace of rent growth is forecast to be more modest than in recent periods, where quarterly increases of 3 percent or more were common. For the full year in 2023, rents are forecast to rise between 3 percent to 3.5 percent across much of the market.

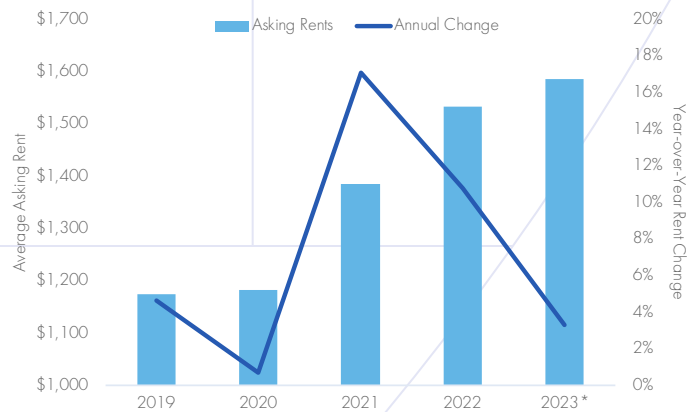
The Dallas-Fort Worth multifamily investment market is expected to gain momentum in the second half of this year. Activity levels are not expected to approach earlier peaks, but investors will be drawn to the region's continued growth and the new inventory that is entering the market. Cap rates have risen to the point where acquisitions are a bit easier to underwrite in the current lending environment. Investors will monitor the pace of absorption, particularly as new units continue to come online. If renter demand remains elevated, it should sustain investor sentiment and signal that future property performance will likely remain on a steady pace forward, lessening the potential of short-term stress on operational performance.

EMPLOYMENT FORECAST



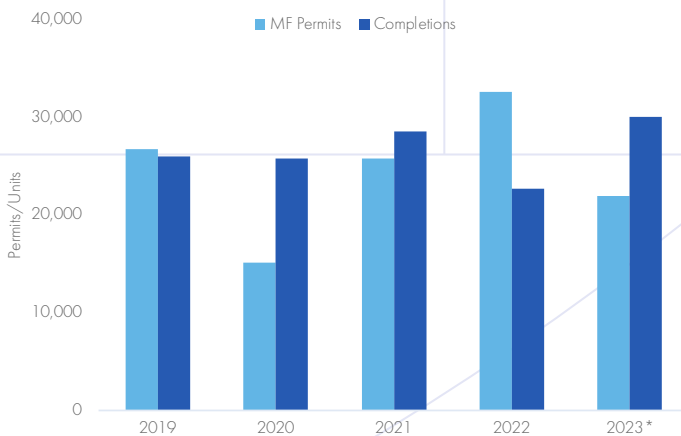
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



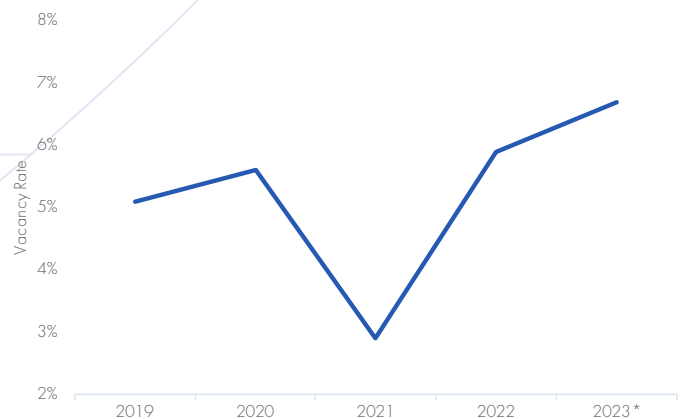
* Year End Forecast
Sources: Northmarq, RealPage/MPF

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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