

Market Insights

Greater Dallas-Fort Worth Multifamily 2Q 2022



Construction Activity



56,166

Units under construction

9,407

Units delivered (YTD)

Market Fundamentals



3.9%

Vacancy

-110 bps

Year over year change

\$1,489

Asking Rent

+19.3%

Year over year change

Transaction Activity*



\$200,500

Median sales price per unit (YTD)

* In transactions where pricing is available

Employment Growth Surges, Rents on an Upswing

Highlights

- Conditions in the Dallas-Fort Worth multifamily market remained strong during the second quarter but did not duplicate the rapid improvement that had been occurring in the market for the past several quarters. The outlook remains favorable, with supply growth expected to closely track demand.
- Area vacancy rose for the first time since the second quarter of last year, creeping higher after reaching an all-time low. The rate rose 120 basis points in the past three months to 3.9 percent. Despite the recent increase, current vacancy levels are down 110 basis points from one year ago.
- Rents continued to push higher in the second quarter, advancing 3.8 percent to \$1,489 per month. Year over year, rents have spiked 19.3 percent.
- The pace of apartment sales cooled during the second quarter, but more properties sold in the first half of this year than traded in the same period in 2021. In transactions where pricing information was available, the median price through the first half is approximately \$200,500 per unit, while cap rates were averaging 3.5 percent for quarter two 2022.

Dallas-Fort Worth Multifamily Market Overview

After falling for four consecutive quarters, the local multifamily vacancy rate in Dallas-Fort Worth finally crept higher during the second quarter. The rapid declines in the previous 12-month period had trimmed the rate in half, and the current figure of 3.9 percent remains low by historical standards and should be sustainable throughout the remainder of this year. Renter demand for units is being supported by continued expansion in the local labor markets, particularly as several large financial institutions have moved into the market in recent years. During the second quarter, the Dallas City Council approved an incentive package that should clear the way for Goldman Sachs to expand into an 800,000-square-foot office tower near American Airlines Center. The company has approximately 4,000 workers in the area currently and is expected to expand to 5,000 employees in the coming years.

Investors continued to acquire multifamily properties in Dallas-Fort Worth during the second quarter, although sales velocity was slower than in the past two quarters. Despite the recent cooling in transaction volume, more properties traded in the first half of this year than during the same period in 2021. Prices have also pushed higher; in transactions where pricing information was available, the median price has advanced 5 percent year to date, following a 33 percent spike in 2021. While the cost of capital is rising, cap rates have proven to be resilient for the most part, averaging approximately 3.5 percent. While many of the prevailing investment trends carried over from 2021 to this year, one change has been the decline in larger portfolio sales. To this point in 2022, the bulk of the transactions have been individual asset sales, and there have been fewer transactions of 700 units or more.

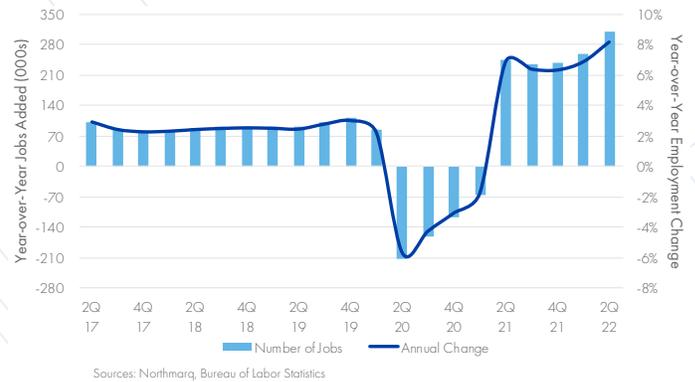
Employment

- The rate of employment growth in Dallas-Fort Worth accelerated during the second quarter, in contrast to the national trend where expansion slowed. Year over year through June, total employment in the Metroplex increased 8.2 percent with the addition of more than 310,000 jobs.
- The Dallas-Fort Worth region has been one of the top markets in the country for employment growth in the financial activities sector. During the past 12 months, more than 27,000 financial jobs have been added in the market, a gain of 8.3 percent.
- Late in the second quarter, technology company GlobalWafers announced plans to build a 3.2-million square foot, \$5-billion silicon wafer factory that would supply both Intel and Taiwan Semiconductor. Construction is expected to start by the end of this year, and the facility would employ 1,500 workers when it opens.
- **Forecast:** Employers are expected to add 200,000 net new jobs in Dallas-Fort Worth in 2022, increasing area payrolls by more than 5 percent. From 2014 to 2019, average employment growth was about 105,000 jobs, but this total has already been surpassed through the first six months of this year.



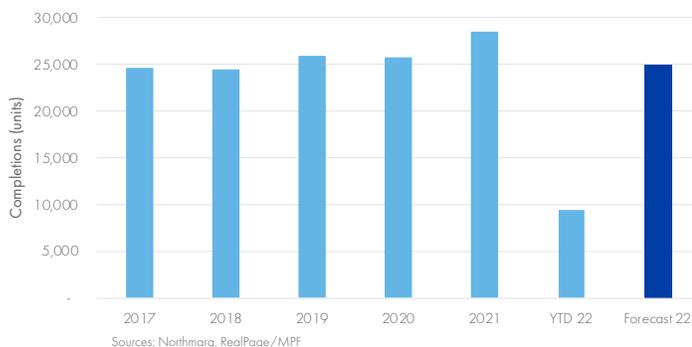
Year over year, total employment increased 8.2 percent.

Employment Overview



Developers completed approximately 4,600 units in the second quarter.

Development Trends



Development and Permitting

- Developers completed approximately 4,600 units in the second quarter, bringing the total deliveries for the first half of 2022 to about 9,400 units. This represents a significant slowing in the pace of completions; during the first half of last year, nearly 15,000 units came online.
- While completions have cooled to this point in 2022, the construction pipeline continues to expand. Projects totaling more than 56,100 units are under construction, 27 percent higher than one year ago.
- Permitting activity slowed modestly during the second quarter, although the total volume during the first half of 2022 was consistent with levels recorded in recent years. Year to date, developers have pulled permits for approximately 13,500 multifamily units, with permits for nearly 6,200 units issued in the second quarter.
- **Forecast:** The pace of new construction is forecast to accelerate in the second half of the year, and developers are expected to complete approximately 25,000 units in 2022. This would closely track average delivery levels in the market since 2017.

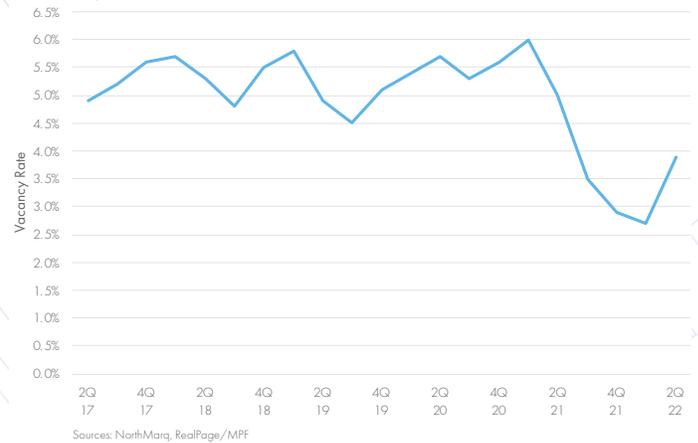
Vacancy

- After falling in each of the past four quarters, the local vacancy rate pushed higher during the second quarter. Vacancy rose 120 basis points in the past three months, reaching 3.9 percent at midyear. The rate had reached an all-time low in the first quarter of this year.
- Despite the recent rise, the current vacancy rate is 110 basis points lower than the figure from one year ago. Vacancy in Dallas-Fort Worth has remained below 4 percent in each of the past four quarters, after averaging 5 percent since 2014.
- Vacancy in the Dallas-Plano-Irving portion of the market rose to 3.8 percent during the second quarter, up 120 basis points from three months earlier. Year over year, vacancy in Dallas-Plano-Irving has declined 120 basis points. In the Fort Worth-Arlington region, the rate reached 4.1 percent at midyear. During the past 12 months, vacancy in Fort Worth-Arlington has tightened by 70 basis points.
- **Forecast:** The local vacancy rate is expected to tighten somewhat in the second half of this year, as continued job growth supports renter demand. Vacancy is forecast to end 2022 at 3.7 percent.



Vacancy reached 3.9 percent at midyear.

Vacancy Trends



Year over year, rents have spiked 19.3 percent.

Rent Trends



Rents

- Rents have continued to trend higher at a rapid pace. Rents rose 3.8 percent in the second quarter, closely tracking the rate of expansion from the previous two quarters. Year over year, rents in the Dallas-Fort Worth Metroplex have spiked 19.3 percent, ending the second quarter at \$1,489 per month.
- Average rents reached \$1.70 per square foot, per month, in the second quarter, up from \$1.43 per square foot, per month one year ago. In Class A properties, monthly rents topped \$2 per square foot for the first time. Average rents in Class A units were \$2.04 per square foot, per month in the second quarter, 17.7 percent higher than one year earlier.
- While every segment of the market is recording rising rents, the most rapid increases have been occurring in the submarkets in the Dallas-Plano-Irving segment of the market. Rents reached \$1,526 per month across Dallas-Plano-Irving, up nearly 20 percent year over year. In the Fort Worth-Arlington portion of the market, rents ended the second quarter at \$1,374 per month, up 18 percent year over year.
- **Forecast:** Rents in Dallas-Fort Worth are forecast to rise more than 10 percent this year, ending the year at about \$1,525 per month.

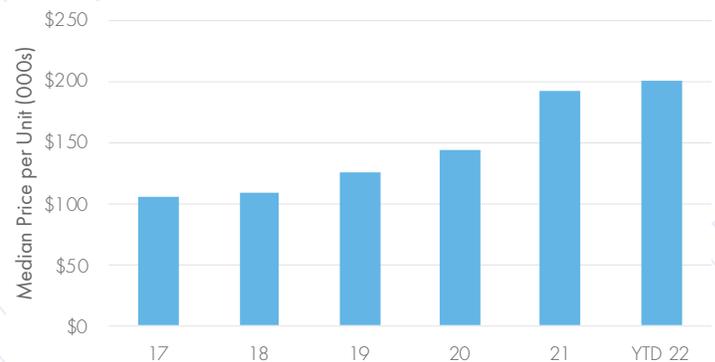
Multifamily Sales

- Total sales velocity in the first half of this year was 29 percent ahead of the pace established in the first half of 2021. Multifamily investment volume in Dallas-Fort Worth led the country in 2021, and year-to-date transaction activity is well ahead of that pace.
- While transaction activity picked up across all property classes from the first half of 2021 to the first half of this year, the most significant increases were in the sales of older Class C properties. Year to date, sales velocity in the Class C segment has doubled levels from the same period in 2021.
- Sales activity in the Dallas-Fort Worth area dipped by approximately 25 percent from the first quarter to the second quarter. The decline follows three consecutive quarters of rapid investment activity.
- In transactions where pricing was available, the median price during the first half of this year was approximately \$200,500 per unit, up 5 percent from the median price in 2021. In Class A properties, the median price was approximately \$265,000 per unit, with some projects trading near \$350,000 per unit.
- Cap rates averaged approximately 3.5 percent during the second quarter, similar to levels at the end of last year and in the first few months of 2022.



Cap rates averaged approximately 3.5 percent in the second quarter

Investment Trends



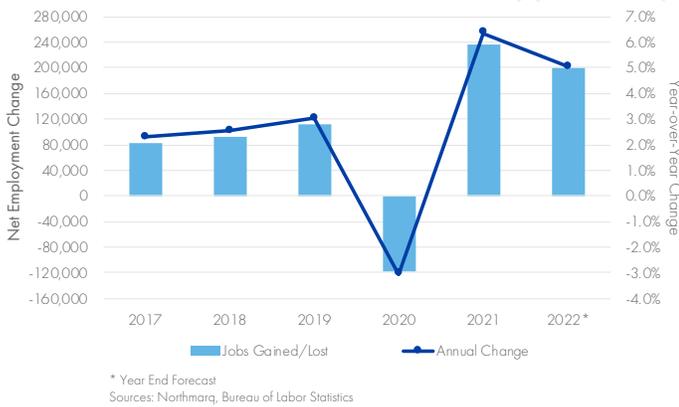
Sources: NorthMarq, CoStar

Looking Ahead

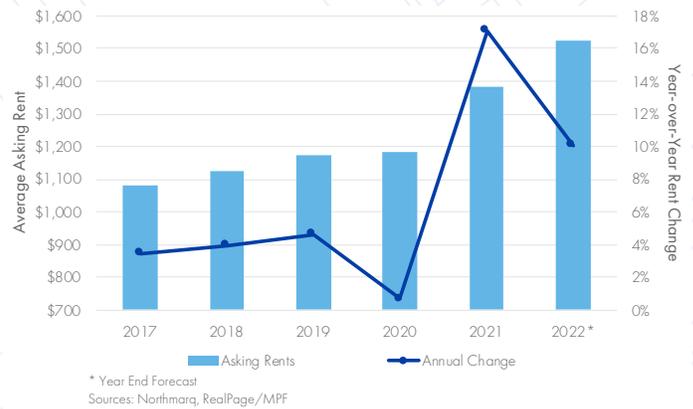
The outlook for the Dallas-Fort Worth multifamily market is a bit more uncertain than in recent years but remains positive overall. Rapid growth has fueled the local market during the past several years, and while the national economy is forecast to experience some weakness through the remainder of the year, the Dallas-Fort Worth region should continue to expand. Employers across a wide range of industries are expected to continue to add workers, which will support renter demand for rental units. While the pace of multifamily construction is expected to accelerate across many of the nation's largest markets this year, completions in Dallas-Fort Worth should be similar to levels recorded in each year since 2017. With supply growing at a steady pace, the vacancy rate is likely to tighten slightly in the second half, while rents are expected to continue to push higher.

Investor demand for area multifamily properties is expected to remain elevated in the second half of this year. In an environment where global growth is slowing, investors will likely seek to allocate capital into the markets where the prospects for expansion are strongest, and Dallas-Fort Worth will meet those criteria. Investment activity showed signs of cooling from heightened levels during the second quarter, and it may take a few more months for buyers and sellers to adjust to the new lending environment. Still, Dallas-Fort Worth is on pace to lead the country in multifamily transaction volume again in 2022. Cap rates may creep a bit higher in some instances, but with rents likely to remain on an upward trajectory, cap rates should remain fairly close to recent averages.

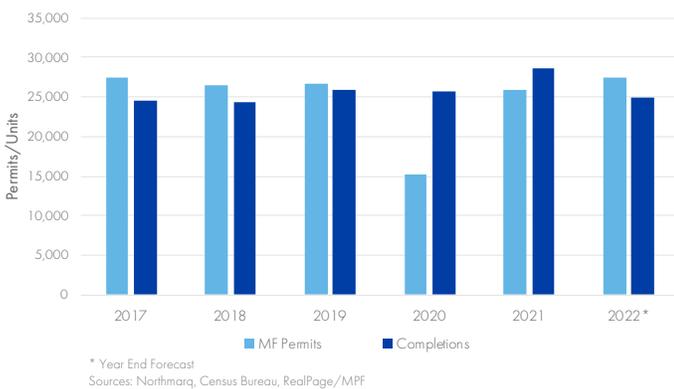
Employment Forecast



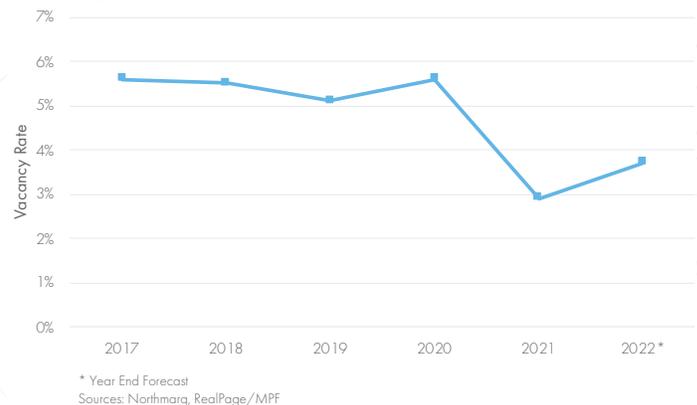
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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