

Market Insights

Greater Dallas-Fort Worth Multifamily 3Q 2021



Construction Activity



38,589

Units under construction

21,962

Units delivered (YTD)

Market Fundamentals



3.5%

Vacancy

-180bps

Year over year change

\$1,334

Asking Rent

+12.5%

Year over year change

Transaction Activity*



\$174,800

Median sales price per unit (YTD)

4.0%

Cap rates (YTD)

* In transactions where pricing is available

Prices Rise as Investment Demand Continues to Surge

Highlights

- Following a very strong first half of the year, the Dallas-Fort Worth multifamily market gained additional momentum during the third quarter. Renter demand is being fueled by a rapid recovery in the local labor market. Investment demand has continued to accelerate in response to strengthening property fundamentals.
- The tightening vacancy rate is one of the clearest indicators of the rapid improvement in the local multifamily market. The rate ended the third quarter at 3.5 percent, down 180 basis points year over year.
- The pace of rent growth in Dallas-Fort Worth recorded a steep rise for the second consecutive quarter. During the third quarter, area rents spiked nearly 7 percent to \$1,334 per month. Year over year, rents have increased 12.5 percent.
- The local investment market remained extremely active in the third quarter. The number of properties changing hands rose by more than 30 percent from the second quarter, and activity for the year has already surpassed levels for all of 2020. In transactions where pricing information was available, the median price in 2021 has reached \$174,800 per unit, while cap rates have compressed to an average of 4 percent.

Dallas-Fort Worth Multifamily Market Overview

Net absorption of apartments in Dallas-Fort Worth surged during the third quarter, building on strong performance in the previous quarter. In just the past six months, renters have moved into a net of more than 35,000 apartment units, a total that exceeds the recent market annual average by about 40 percent. This release of pent-up demand has pushed vacancy rates to cyclical lows throughout the region, with several submarkets recording vacancy rates between 2.5 percent and 3.5 percent. The strong demand and tight conditions are fueling the strongest rent gains in a generation, with average rents on pace to spike by more than 15 percent in 2021.

The pace of multifamily investment sales in the Dallas-Fort Worth Metroplex is surging, highlighting the strengthening investor demand for area properties. Sales velocity spiked by more than 30 percent during the third quarter. The market is on a record-setting pace; transaction activity through the first nine months of 2021 has already surpassed the total for all of last year and is nearly identical to full-year totals from 2016 to 2019, years when Dallas-Fort Worth led the country in sales volume. The rapid increase in transaction activity is also resulting in rising prices and compressing cap rates. In transactions where pricing is available, cap rates have fallen to 4 percent on average, with several properties changing hands at cap rates from 3 percent to 3.5 percent in recent months.

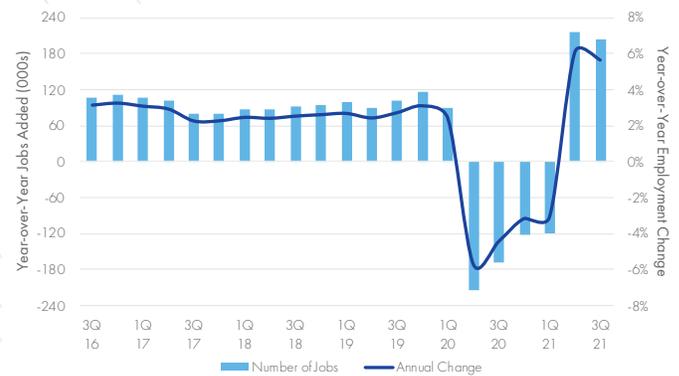
Employment

- The pace of local employment growth has gained momentum in recent months. Employers have added nearly 205,000 jobs in the past year, including approximately 65,000 positions added in the third quarter. Year over year, area employment is up 5.6 percent.
- High-wage professional employment is leading the way in the Dallas-Fort Worth employment expansion. Year over year through the third quarter, employment in the professional and business services sector has spiked by nearly 10 percent with the addition of approximately 60,000 jobs.
- During the third quarter, the Fort Worth City Council approved an economic development package with electric van manufacturer Rivian that could bring thousands of new jobs to the area. While a deal has not been finalized, plans call for the company to invest as much as \$5 billion into a facility at the former Walsh Ranch site. Rivian would be expected to add at least 7,500 workers if the project moves forward.
- **Forecast:** With the pace of hiring accelerating in the Dallas-Fort Worth area, employment growth for the full year is forecast to reach nearly 4.7 percent in 2021. Employers are projected to add approximately 175,000 jobs to area payrolls this year.



Year over year, area employment is up 5.6 percent.

Employment Overview

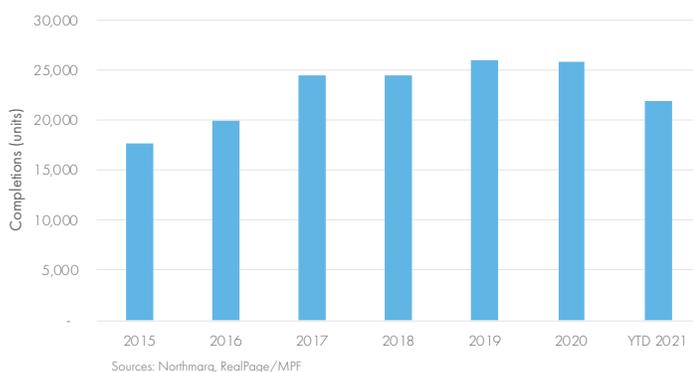


Sources: Northmarq, Bureau of Labor Statistics



Year to date, nearly 22,000 units have been completed.

Development Trends



Sources: Northmarq, RealPage/MPP

Development and Permitting

- Developers are bringing new projects online in attempts to keep up with renter demand. During the third quarter, projects totaling nearly 7,700 units were delivered; year to date, nearly 22,000 units have been completed. Average quarterly completions are up about 15 percent from recent years.
- New apartment construction will continue for the next several years. As of the third quarter, projects totaling more than 38,500 units were under construction, nearly identical to the figure from the second quarter. Dozens of new developments are scheduled to break ground in the coming quarters.
- The pace of permitting has accelerated so far this year, offsetting much of the decline recorded in 2020. Year to date, developers have pulled permits for more than 20,000 multifamily units. For the full year, permits for approximately 27,000 multifamily units are forecast to be issued, nearly identical to the annual average from 2015 to 2019.
- **Forecast:** The pace of apartment deliveries has remained very consistent in recent years, a trend that is on pace to continue this year. In 2021, developers are scheduled to complete projects totaling approximately 26,000 units, only slightly higher than the totals from each of the past two years.

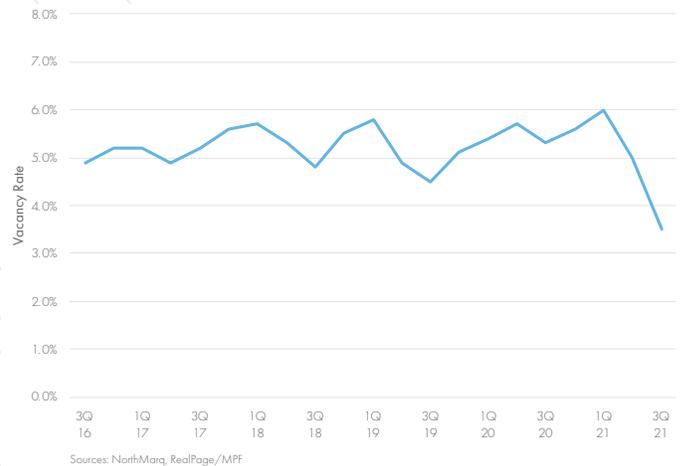
Vacancy

- Area vacancy tightened to the lowest level in more than a decade during the third quarter. The vacancy rate fell 150 basis points in the past three months, reaching 3.5 percent. Year over year, area vacancy is down 180 basis points.
- The Dallas-Plano-Irving portion of the market has recorded the most significant vacancy declines. After ticking higher in the first half of the year, the rate dropped 160 basis points in the third quarter. Year over year, vacancy in Dallas-Plano-Irving is down 200 basis points at 3.5 percent.
- Renter demand for Class A units has been on an upswing, pushing the vacancy rate lower for top-tier properties. Year to date, absorption in the Class A segment has totaled nearly 22,000 units, up nearly 20 percent when compared to the same period in 2020. The Class A vacancy rate fell to 3.4 percent in the third quarter, down 270 basis points since the beginning of this year.
- **Forecast:** With demand elevated, the local vacancy rate is expected to record one of its best years on record. Vacancy remained in a tight range from 2014 to 2020, but the rate is forecast to decline 190 basis points to 3.7 percent in 2021.



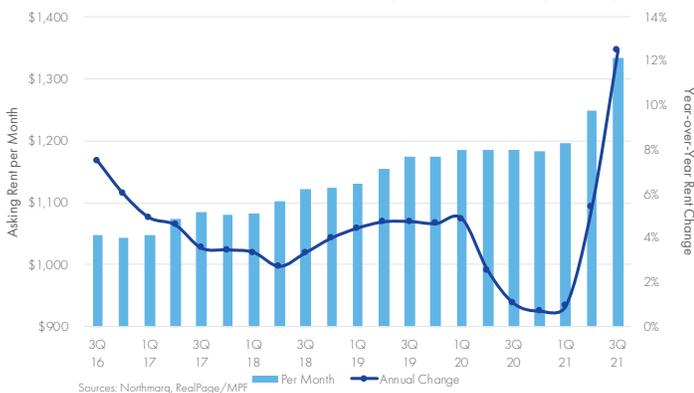
The vacancy rate fell 150 basis points in the past three months, reaching 3.5 percent.

Vacancy Trends



At \$1,334 per month, current rents are up 12.5 percent year over year.

Rent Trends



Rents

- Rents rose nearly 7 percent during the third quarter, building on a 4.3 percent rise in the second quarter. At \$1,334 per month, current rents are up 12.5 percent year over year.
- Average rents reached \$1.52 per square foot, per month in the third quarter, up from \$1.35 per square foot, per month at the beginning of the year. In Class A units, rents rose to \$1.83 per square foot, per month.
- Rapid rent growth has been widespread throughout the Metroplex with most submarkets posting double-digit percentage gains. Rents in the Dallas-Plano-Irving segment of the market spiked by nearly \$100 per month in the third quarter, reaching \$1,368 per month. Rents in Dallas-Plano-Irving are up 13 percent from one year ago. In the Fort Worth-Arlington region, rents are up 10.6 percent year over year, ending the third quarter at \$1,226 per month.
- **Forecast:** Rents are forecast to spike more than 15 percent in 2021, building on average annual growth rates of about 5 percent in recent years. Robust renter demand for units, coupled with extremely low vacancy rates, will support steep rent gains. Looking ahead to 2022, with vacancy expected to remain low, preliminary estimates indicate rent growth ranging from 6 percent to 8 percent is likely.

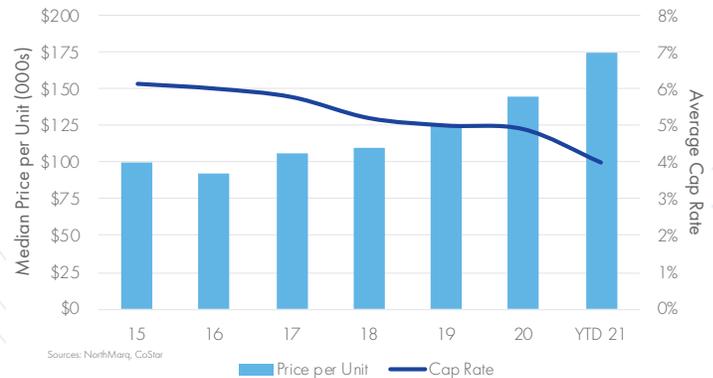
Multifamily Sales

- Investor demand for multifamily assets in the Dallas-Fort Worth area is extremely elevated, fueling a rapid pace of transaction activity. The number of properties that sold in the third quarter was up more than 30 percent from levels recorded during the second quarter.
- Sales velocity through the first three quarters of 2021 has nearly doubled levels from the same period last year. Transaction activity year to date has already surpassed the total activity from all of 2020 by nearly 25 percent.
- More than a dozen sales of projects totaling more than 750 units have closed to this point in 2021, outpacing the number of large transactions that occurred in all of 2020 and boosting total transaction volume in the Dallas-Fort Worth region.
- The Dallas-Fort Worth market is once again the top market in the country for multifamily investment sales volume. Total dollar volume in the market is up more than 100 percent from levels recorded in 2020.
- The surges in investment activity and rental rates are resulting in a spike in per-unit prices. In transactions where pricing was available, the median price year to date is \$174,800 per unit, 20 percent higher than the median price in 2020. Prices spiked during the third quarter with several transactions topping \$200,000 per unit.
- Cap rates continue to trend lower as investors get increasingly aggressive when underwriting acquisitions. Cap rates have averaged approximately 4 percent to this point in 2021, with a handful of properties selling with cap rates between 3 percent and 3.5 percent during the third quarter.



Transaction activity year to date has already surpassed the total activity from all of 2020.

Investment Trends



Looking Ahead

The gains recorded in the Dallas-Fort Worth multifamily market during the first nine months of 2021 are forecast to be sustained into 2022. Apartment property performance is being fueled by rapid levels of absorption, with renter demand levels for 2021 forecast to nearly double the annual totals from recent years. While development of new projects is expected to remain active, new supply growth is not expected to keep pace with demand in the near term, allowing for additional rent growth in the coming quarters. The double-digit rent increases recorded in 2021 are not likely to repeat in the year ahead, but the pace of growth could double the market's long-term annual average.

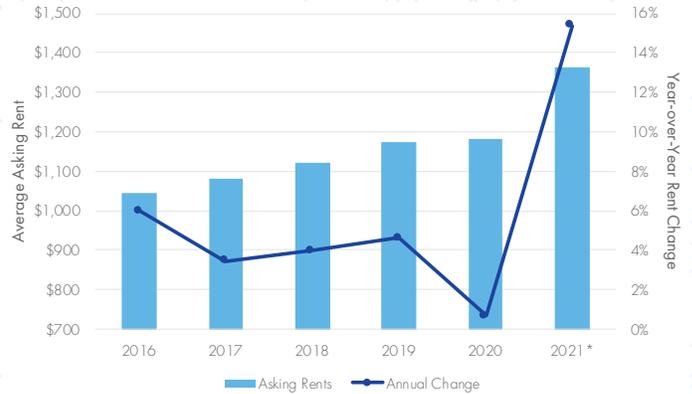
The local multifamily market is on pace for a record-shattering year of transaction volume in 2021, and strong investor demand is forecast to persist well into next year, supporting additional sales velocity. An accelerating pace of transactions is being recorded across submarkets and property classes, with a significant spike being posted in activity in multi-property portfolio sales, as institutional investors seek to allocate large sums of capital into the Dallas-Fort Worth market. In the next few years, the single-family built-to-rent sector is expected to bolster investor activity. More than 20 of these projects are in the development pipeline and expected to be delivered, leased up, and sold in the coming years.

Employment Forecast



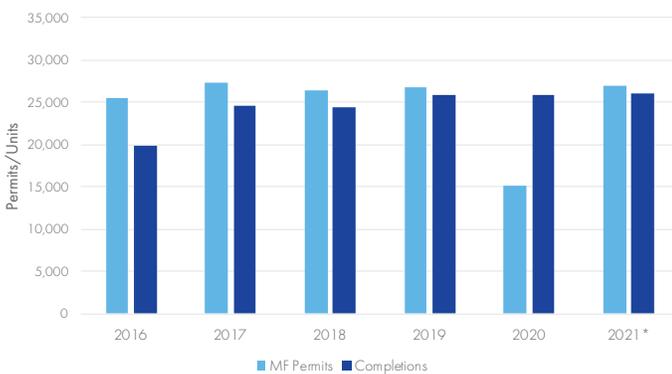
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



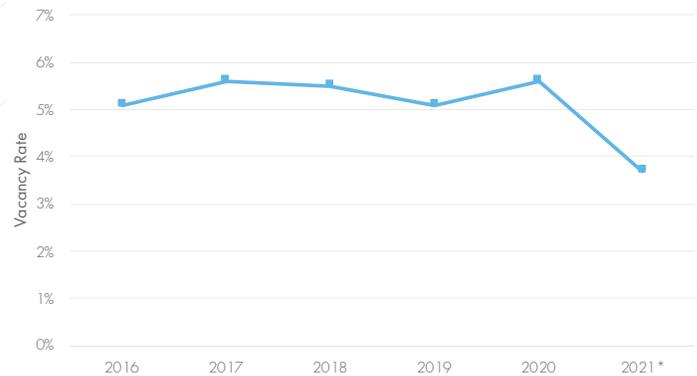
* Year End Forecast
Sources: Northmarq, RealPage/MPF

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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About Northmarq

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