

Sales velocity picks up, spurred by economic growth

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **72,250**

UNITS DELIVERED **20,144**

MARKET FUNDAMENTALS



VACANCY RATE **6.6%**

YEAR-OVER-YEAR CHANGE **+160bps**

ASKING RENTS **\$1,552**

YEAR-OVER-YEAR CHANGE **+0.8%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$156,300***

* Transactions where pricing is available

HIGHLIGHTS

- Vacancies were flat and rents ticked higher in Dallas-Fort Worth in the third quarter. Renter demand is being fueled by rapid growth in the local labor market, and developers are meeting heightened demand by delivering new rental properties.
- Vacancy held steady at 6.6 percent in the third quarter, although the rate has risen 160 basis points during the past 12 months. The bulk of the increase occurred in the final few months of 2022, and vacancy levels have been mostly flat throughout much of this year.
- Rents inched up to \$1,552 per month, slightly higher than at midyear and 0.8 percent higher than one year ago. Rents are expected to advance by about 1 percent per quarter for the next few periods.
- Transaction counts are down from 2022 levels, but sales velocity has gained some momentum in each of the past two quarters. In transactions where pricing is available, the median price reached \$156,300 per unit, with cap rates averaging 5.25 percent.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

The pace of growth in Dallas-Fort Worth remained elevated in the third quarter, fueling demand for local rental properties. The continued expansion in the labor market is supporting an accelerating pace of demand for apartments; net absorption totaled more than 7,200 units in the third quarter, the highest total in nearly two years. This heightened pace of renter move-ins occurred during a period where developers were also active, with the delivery of approximately 8,000 units in recent months bringing the year-to-date total above 20,000 units. Rents have posted modest gains in the third quarter, and current pricing is a bit higher than one year ago. About 60 percent of submarkets in the region feature rents that are higher than one year ago, although some neighborhoods where supply-side pressures have been greatest are recording modest declines.

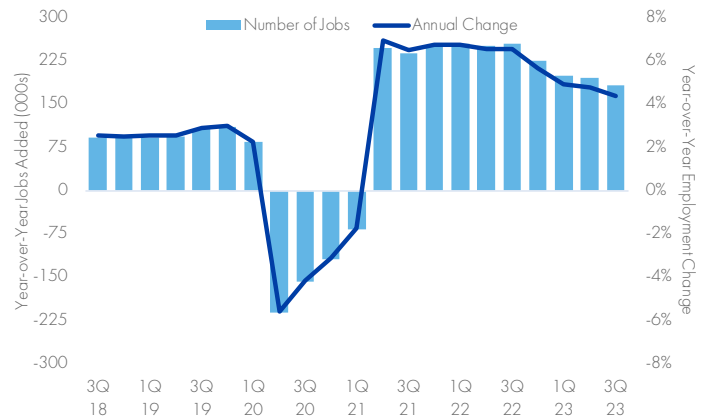
While many regions in the country are posting stalled transaction activity, the Dallas-Fort Worth market has posted two consecutive quarters of accelerating sales velocity. Transaction levels remain considerably lower than in recent years, but the momentum that has been building in recent months will likely carry over into the coming quarters. Properties have traded across multiple vintages and classes, with Class B properties accounting for about half of the total transactions, while Class A and Class C assets each totaled about 25 percent of sales. The lowest cap rates are being recorded in Class A sales, where some properties still command cap rates below 5 percent. In most Class B and Class C transactions, cap rates generally range between 5.25 percent and 5.75 percent.

EMPLOYMENT

- Employers in Dallas-Fort Worth continue to add workers at a heightened pace. Year over year through the third quarter, employers have added more than 181,000 jobs in the area, a 4.4 percent rate of growth. The local labor market is expanding at a rate that is more than double the national pace of growth.
- White-collar sectors are posting rapid gains and fueling expansion across the region. The professional and business services sector has added nearly 40,000 jobs in the past year, while financial activities employment has spiked by more than 18,000 positions. Both sectors have posted annual growth rates exceeding 5 percent.
- During the third quarter, Frontier Communications announced plans to relocate the company’s headquarters from Connecticut to Dallas. The move is expected to bring more than 3,000 jobs to the region over the next 10 years.
- **FORECAST:** Employers in Dallas-Fort Worth are on pace to expand area payrolls by 4.2 percent this year with the addition of approximately 175,000 net new jobs. Growth in the region has averaged about 105,000 new jobs per year during the past decade.

Year over year, employers have added more than 181,000 jobs.

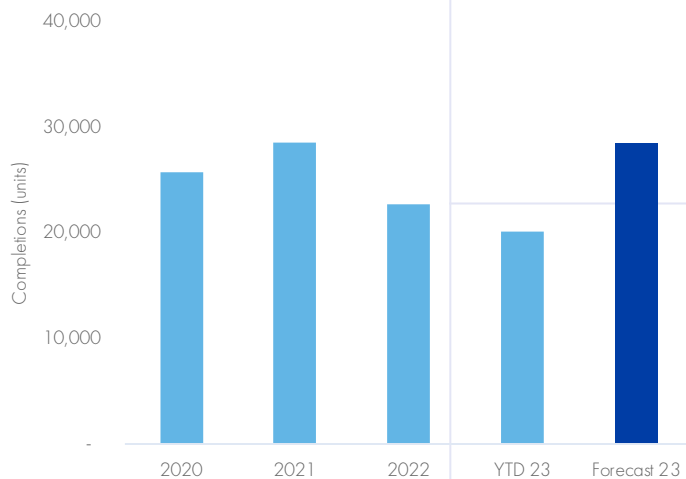
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Year to date, approximately 20,100 units have been delivered.

DEVELOPMENT TRENDS



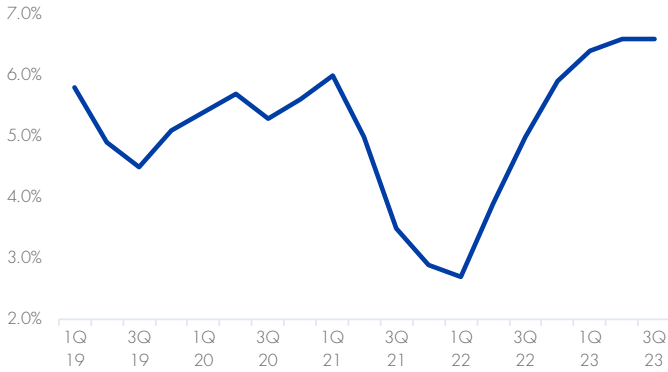
Sources: Northmarq, RealPage/MPF

DEVELOPMENT & PERMITTING

- The Dallas-Fort Worth market has been recording a steady pace of new deliveries for the past several years, as developers bring new projects to market to keep pace with continued demand growth. Year to date, approximately 20,100 units have been delivered, including nearly 8,000 units coming online in the third quarter.
- At the end of the third quarter, projects totaling 72,250 units were under construction, nearly identical to the total from the prior quarter. These units will be delivered to the market over the next few years. Area multifamily construction starts in the third quarter were down more than 40 percent year over year.
- Multifamily permitting continued to cool during the third quarter. Developers pulled permits for approximately 5,250 multifamily units in the last three months, the lowest quarterly total since the end of 2020. Year to date, permits for 17,300 multifamily units have been issued, down 26 percent from 2022 levels.
- **FORECAST:** In 2023, apartment completions in the Dallas-Fort Worth region are forecast to total approximately 28,500 units, 12 percent higher than the annual average since 2017.

Absorption topped 7,200 units in the third quarter.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

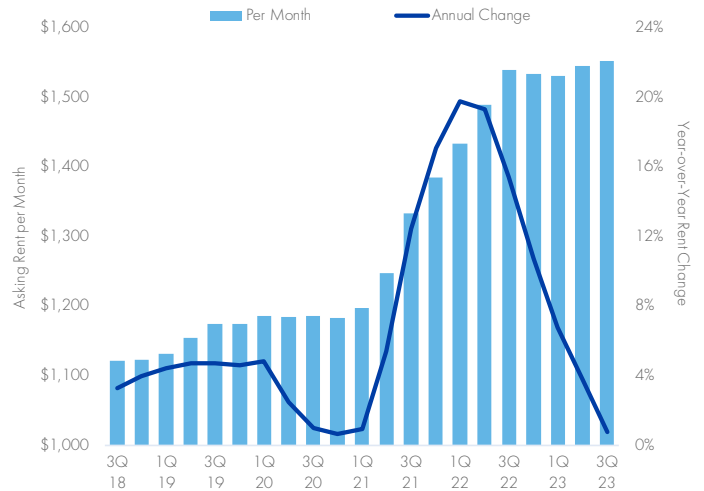
- Vacancy in Dallas-Fort Worth stabilized during the third quarter, holding steady at 6.6 percent. While the rate pushed higher in 2022, flat conditions have prevailed throughout much of this year, supported by a continued flow of new renter demand for units. Net absorption topped 7,200 units in the third quarter.
- During the past 12 months, vacancy has increased by 160 basis points. Nearly all of that rise occurred in the final few months of 2022; the vacancy rate has averaged between 6.4 percent and 6.6 percent during the first three quarters of this year.
- The Dallas-Plano-Irving segment of the market continues to post tighter vacancy conditions than in Fort Worth. The rate in Dallas-Plano-Irving was 6.5 percent at the end of the third quarter, and the rate has averaged 5.2 percent since the beginning of 2022. In Fort Worth-Arlington, vacancy was 7 percent in the third quarter. Since reaching an all-time low in early 2022, vacancy in the Fort Worth portion of the region has averaged 5.7 percent.
- **FORECAST:** Area vacancy is forecast to end the year at 6.7 percent, 10 basis points higher than the rate in each of the past two quarters. Absorption is on pace to total approximately 20,000 units for the full year.

RENTS

- Rents ticked up 0.4 percent during the third quarter, following a 1 percent gain in the second quarter. After topping \$1,500 per month for the first time in the third quarter of last year, rents have remained in a tight range. Current rents average \$1,552 per month, up 0.8 percent from one year ago.
- Rents in Class A properties inched higher in the third quarter, building on faster gains recorded in the prior quarter. Class A rents are currently \$1,912 per month, 1.8 percent higher than one year ago. Rents in Class A properties reached \$2.15 per square foot, per month as of the third quarter.
- While overall average rents have been mostly flat in recent quarters, older units are recording the strongest gains. Annual rent increases in 1970s-vintage and older have been ranging between 2.5 percent and 5 percent.
- **FORECAST:** With vacancy leveling off, rents are expected to post modest gains in the final few months of this year. Average rents are forecast to end 2023 at \$1,565 per month, 2 percent higher than at the end of 2022.

Current rents average \$1,552 per month.

RENT TRENDS



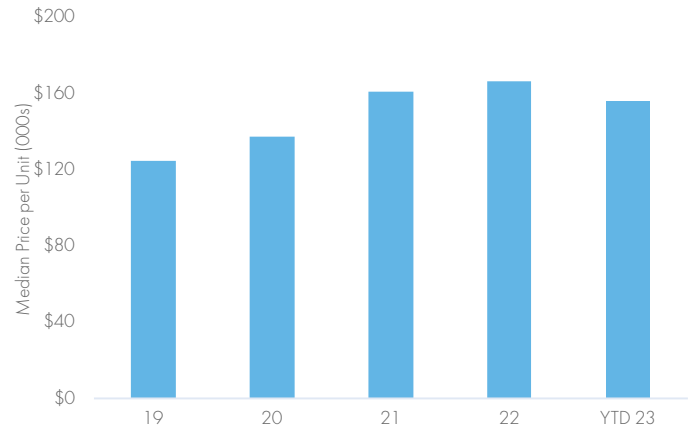
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- After activity bottomed at the start of 2023, more area apartment properties are changing hands. Activity levels have increased in each of the past two quarters. Multifamily sales velocity in Dallas-Fort Worth rose more than 30 percent from the second quarter to the third quarter.
- While transaction levels have bounced off of recent lows, sales velocity through the first three quarters of 2023 is down 55 percent from the same period in 2022. The number of properties that sold in the third quarter of 2023 was down just 26 percent compared to one year earlier.
- In transactions where pricing was available, the median price year to date is \$156,300 per unit. Prices were a bit higher in the third quarter, with the median price in sales that closed in the last three months hitting \$162,600 per unit.
- Newer Class A properties continue to command a premium in the transaction market. The median price in Class A sales has reached approximately \$230,000 per unit year to date, with a handful of sales topping \$280,000 per unit. In Class B sales, prices were generally between \$150,000 per unit to \$160,000 per unit, while Class C properties traded between \$100,000 per unit to \$120,000 per unit.
- During the third quarter, cap rates averaged approximately 5.25 percent, about 25 basis points higher than in the first half of the year. Some Class A assets are still able to sell with cap rates below 5 percent, but 5.25 percent to 5.75 percent appears to be the range for most Class B and Class C properties.

The median price year to date is \$156,300 per unit.

INVESTMENT TRENDS



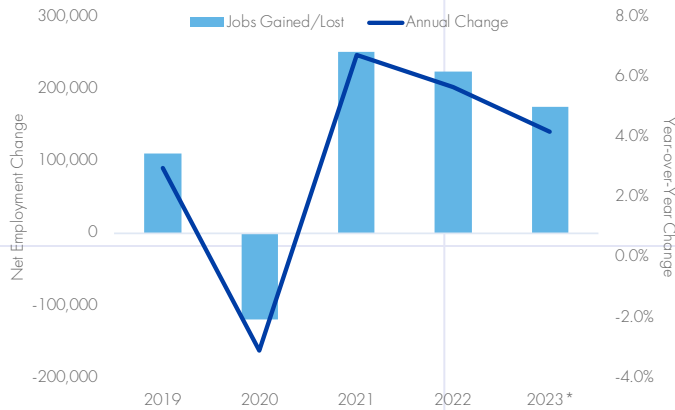
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

The Dallas-Fort Worth multifamily market is positioned for a healthy close to 2023, with vacancy likely to remain in its current range and rents on pace to record a modest uptick. Operating conditions continue to be supported by an employment market where growth routinely tops forecasts, supporting renter demand for apartment units. While the number of units that are under construction remains elevated, the pace of new development is expected to slow beginning in 2025. Multifamily permitting is on pace to decline by more than 30 percent in 2023, while rental construction starts in the third quarter of this year were down nearly 50 percent from heightened levels one year earlier. These easing supply-side pressures should allow operators across most submarkets to return to traditional strategies for renewals and trade-outs.

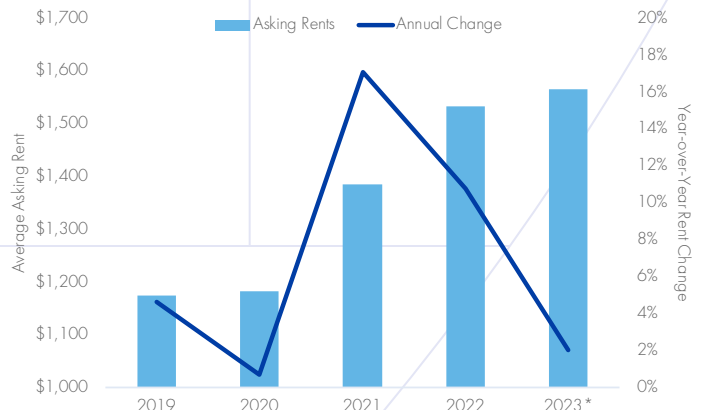
Multifamily investment activity in Dallas-Fort Worth is on pace to reach its lowest levels in nearly a decade in 2023, although the recent acceleration in transaction counts is a signal that investment capital will likely be deployed into the market in greater volumes in 2024. The recent increase in transactions should support price discovery and remove a layer of uncertainty surrounding future investment activity. Cap rates have trended higher, and there could be some room for additional upticks, although it is possible that interest rates peaked early in the fourth quarter, and lending rates going forward may have some room to inch lower. While rates will certainly influence investment conditions, investors are drawn to the Dallas-Fort Worth market for its growth trajectory, and it is this rapid expansion that will ultimately drive investment performance in the region.

EMPLOYMENT FORECAST



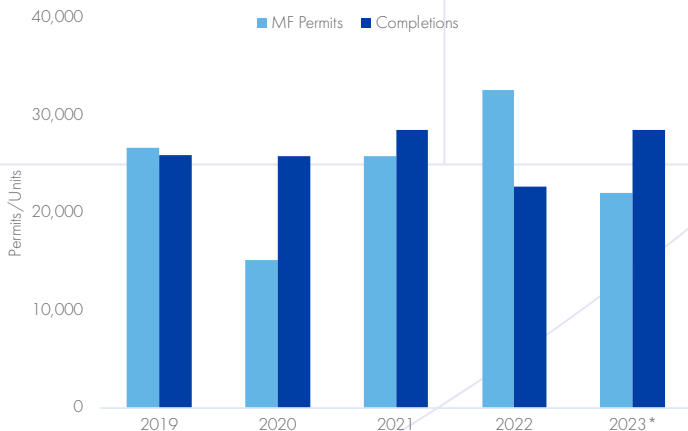
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



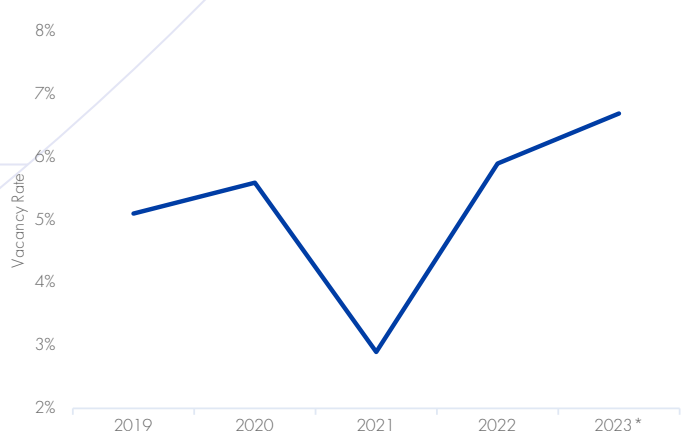
* Year End Forecast
Sources: Northmarq, RealPage/MPF

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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