Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION 64,120

UNITS DELIVERED (YTD) 23,705

MARKET FUNDAMENTALS

VACANCY RATE 7.4%

ASKING RENTS $1,517

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT $127,900

DALLAS-FORT WORTH MULTIFAMILY
2Q 2024

MARKET INSIGHTS

Absorption surging leading into second half

HIGHLIGHTS

- Multifamily operating conditions strengthened in Dallas-Fort Worth during the second quarter. Absorption was elevated, rents ticked higher, and the investment market recorded a sharp rise in transactions.
- Fueled by robust absorption, vacancy held steady at 7.4 percent in recent months. Net absorption totaled more than 12,700 units in the second quarter and has exceeded 19,000 units year to date. Absorption totals are well ahead of the 2023 pace.
- Rents inched higher in the second quarter, and additional gains are anticipated in the second half. Current rents average $1,517 per month.
- Transaction activity has surged, spiking by more than 50 percent from totals in the first quarter. In transactions where pricing was available, the median price was $127,900 per unit, while cap rates averaged between 5 percent and 5.5 percent.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

Supply and demand growth were the primary forces in the Dallas-Fort Worth multifamily market during the second quarter. Multifamily developers delivered projects totaling nearly 14,000 units, but that total was nearly matched by net absorption. The second quarter marked the strongest period of net absorption in the market in nearly three years, while the total number of units that came online was the highest figure in more than a decade. With supply and demand closely tracking one another, vacancy remained unchanged for the quarter, and operators posted a minimal rent increase. Further rent gains are likely, particularly if the recent pace of absorption can be sustained. During the first half of the year, absorption topped 19,000 units, exceeding the total for all of 2023 and only slightly lower than the recent peak total recorded in the beginning of 2021. The Dallas-Fort Worth region is on pace for net absorption of approximately 38,000 units for the full year, or about 95 percent of the total deliveries scheduled for 2024.

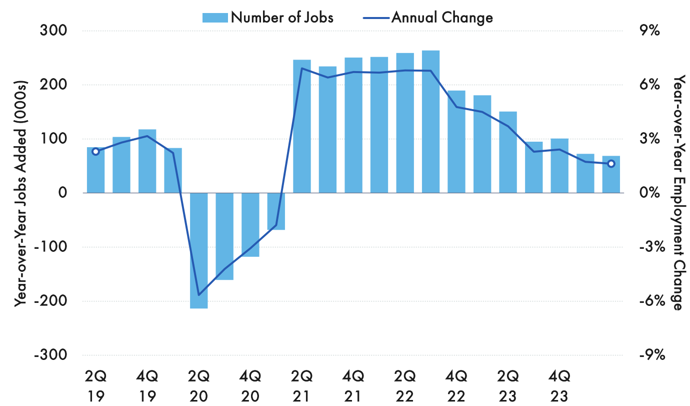
The investment market returned to its familiar trajectory during the second quarter. Investors were active, with the number of properties that changed hands in the second quarter spiking by more than 50 percent from levels in the first three months of the year. This trend is poised to continue, with preliminary totals from the third quarter showing additional sales volume. The bulk of the transaction activity to this point in the year has involved Class B and Class C properties, even as dozens of new Class A properties have been delivered in recent years. Cap rates have remained steady, averaging between 5 percent and 5.5 percent across most transactions.

EMPLOYMENT

- Total employment in Dallas-Fort Worth continues to expand; year over year, area employers have added 66,600 workers, an increase of 1.6 percent. The local market has added more than 425,000 net new jobs during the past 36 months, a total expansion of 11 percent.
- The healthcare and social assistance sector continues to be one of the leading industries for job additions. During the past year, this industry has expanded by 3.1 percent, hiring 13,600 new workers. Growth in this population-serving sector has averaged 2.8 percent per year over the past decade as the Dallas-Fort Worth area has continued to attract population inflows from other markets.
- Although employment growth in the region's white-collar sectors has been modest in recent quarters, many financial and business companies have been active in relocating from Downtown to Uptown. JP Morgan Chase has already moved, while companies including Bank of America, Invesco, CBRE, and Deloitte all have similar relocations in process.
- **FORECAST**: Employment in Dallas-Fort Worth is forecast to rise by 65,000 workers in 2024, an annual increase of 1.5 percent.

Year over year, area employers have added 66,600 workers.

EMPLOYMENT OVERVIEW

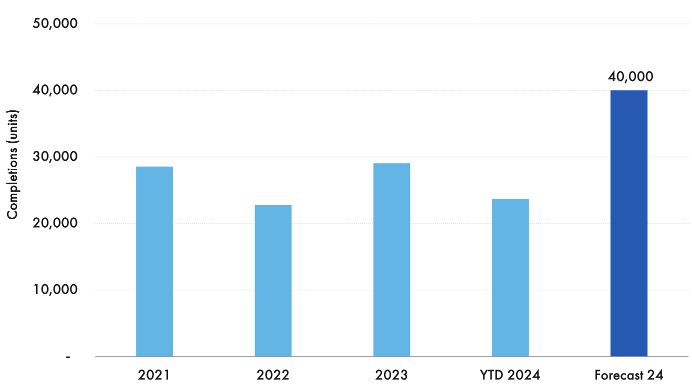


Sources: Northmarq, Bureau of Labor Stati

DEVELOPMENT & PERMITTING

Multifamily permitting totals were down 7 percent.

DEVELOPMENT TRENDS



Sources: Northmarq, CoStar, Yardi

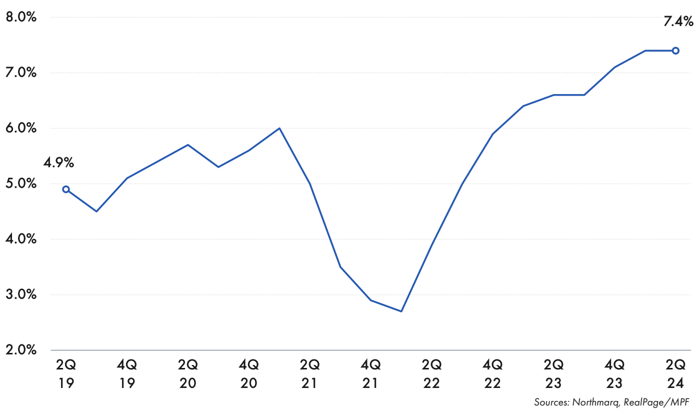
- The pace of multifamily deliveries accelerated in recent months, as developers completed projects totaling nearly 13,000 units during the second quarter, up 21 percent from the preceding quarter. Through the first half of 2024, more than 23,700 units have come online.
- Since peaking in March of 2023, the construction pipeline has been contracting as deliveries have outpaced starts for the past several quarters. Projects totaling approximately 64,100 units were under construction at the end of the second quarter, down 12 percent from one year ago.
- Multifamily permitting totals in the first half of 2024 were down 7 percent from year-earlier levels. Developers have pulled permits for approximately 11,200 units year to date.
- **FORECAST**: Multifamily completions will likely continue at a rapid pace through the end of the year, as projects totaling 40,000 units are forecast to come online in 2024. Historically, developers have delivered an average of 26,400 units per year.

VACANCY

- Despite an accelerating pace of completions, the vacancy rate in Dallas-Fort Worth held steady during the second quarter. Area vacancy finished the second quarter at 7.4 percent, matching the first quarter figure. During the past 12 months, vacancy has ticked up by 80 basis points.
- Renter demand has been elevated to this point in 2024, offsetting much of the recent supply growth. Net absorption totaled more than 19,000 units during the first half, more than tripling the total from the same period of last year. Absorption levels are strongest in the Frisco and Allen/McKinney submarkets, with each of these areas recording net move-ins of roughly 2,700 units during the first half.
- Vacancy remains tighter in Dallas-Plano-Irving portion of the market than it does in Fort Worth. The vacancy rate in Dallas-Plano-Irving finished the second quarter at 7.3 percent while Fort Worth-Arlington is currently posting vacancy rates of 7.8 percent.
- **FORECAST**: The vacancy rate is on pace to close 2024 at 7.8 percent, up 70 basis points for the full year. The market's long-term average vacancy generally is between 5 percent and 6 percent, and the rate should return closer to these levels in the coming years as the pace of completions slows and renter demand remains elevated.

Net absorption totaled more than 19,000 units during the first half.

VACANCY TRENDS

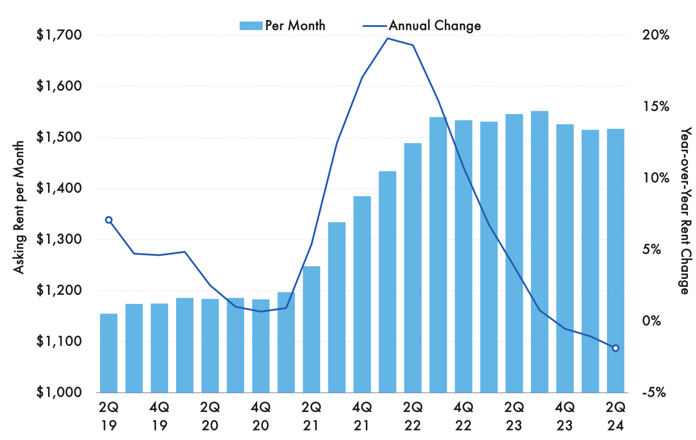


RENTS

- Rents in Dallas-Fort Worth inched higher in recent months, after declining during the previous two quarters. Area rents rose 0.1 percent during the second quarter to $1,517 per month. Despite the recent uptick, average rents are down 1.9 percent year over year.
- Class A rents closed the second quarter at $1,889 per month, down nearly $10 per month from levels recorded one year ago, although rents per square foot have ticked higher. Rents for Class A units reached $2.13 per square foot per month during the second quarter.
- Although most submarkets recorded either mostly flat or slightly lower rents during the past year, asking rents in the Denton submarket posted slight gains, advancing by 1 percent year over year to $1,427 per month. The submarket has recorded significant inventory growth in recent years, increasing by 27 percent in the past 5 years.
- **FORECAST**: While rent growth should pick up in recent quarters, annual gains will likely be modest in 2024. Apartment rents are forecast to advance roughly 1.2 percent for the full year, reaching $1,545 per month.

Rents for Class A units reached $2.13 per square foot per month.

RENTS TRENDS

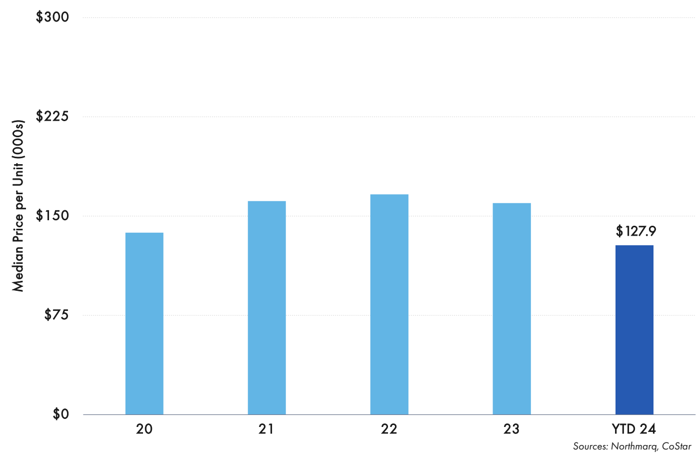


MULTIFAMILY SALES

- Sales velocity in the Dallas-Fort-Worth multifamily market accelerated in recent months after a slow start to the year. Transaction volume during the second quarter was up more than 50 percent from levels recorded in the first quarter of 2024. Additionally, total sales in the second quarter closely tracked levels recorded in the same period of last year.
- Despite sales activity picking up in recent months, transaction volume through the first half of 2024 is down approximately 20 percent from levels posted in the first six months of last year.
- In transactions where pricing was available, the median price to this point in the year is $127,900 per unit. The sales mix has been mostly the same from 2023 to 2024, as Class B assets have accounted for roughly half of all sales thus far in 2024.
- Pricing for Class C assets has trended higher to this point in the year, as investors acquire properties that are priced below replacement cost and that benefit from continued renter demand. The majority of Class C assets that have traded in 2024 have sold for more than $100,000 per unit. Last year, the median price for Class C properties was $98,500 per unit.
- Cap rates have mostly held steady in 2024, averaging between 5 percent and 5.5 percent across many transactions.

Cap rates averaged roughly 6 percent during the second quarter.

INVESTMENT TRENDS

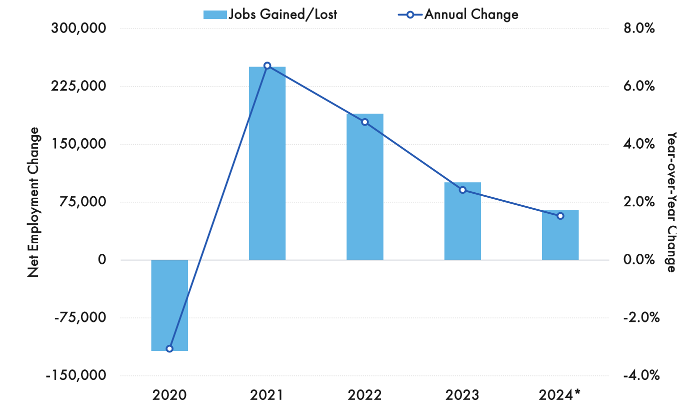


LOOKING AHEAD

The outlook for the Dallas-Fort Worth multifamily market is generally favorable, despite some softer conditions in the near term. The only significant threat to the market outlook is on the supply side. Developers are active, and deliveries should continue at an elevated pace through the remainder of 2025. Still, no market in the country is better positioned to absorb new apartment units as Dallas-Fort Worth. Since the beginning of 2019, net absorption in the market has exceeded 120,000 units. Through the first half of this year, absorption is only 5 percent behind the record-setting demand pace recorded in 2021, although the second half of this year is not expected to duplicate the levels posted a few years ago. Still demand should be strong enough to limit any additional vacancy increases and allow for modest rent growth through the remainder of 2024. Conditions should improve at a faster pace in 2025, particularly if easing monetary policy measures kick in and have a stimulative effect on the region's large financial sector.

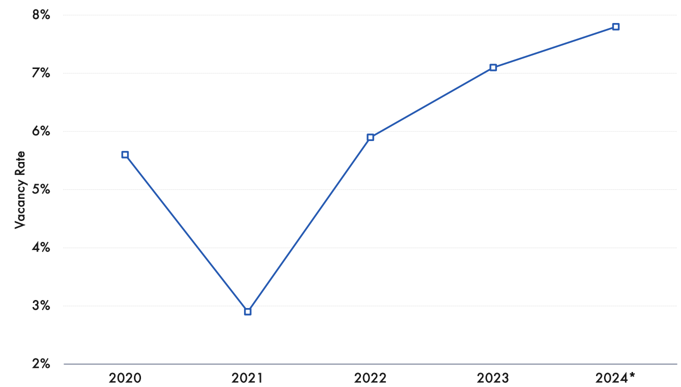
Dallas-Fort Worth Is routinely a leading market for total multifamily investment transactions, and that should be the case once again in the second half of this year. The surge in sales velocity during the second quarter is a signal that sentiment has stabilized and investors should remain active through the remainder of the year. Cap rates have remained in a tight range for the past three quarters, and buyers and sellers have closed the expectations gap. Anticipated declines in interest rates should spur some additional transaction activity in the coming quarters and could eventually lead to modest cap rate compression as borrowing costs decline. Investors will closely track lease-up of new properties and the rents that are achieved during both new leases and trade-outs. Assuming rents edge higher, investor sentiment should strengthen.

EMPLOYMENT FORECAST



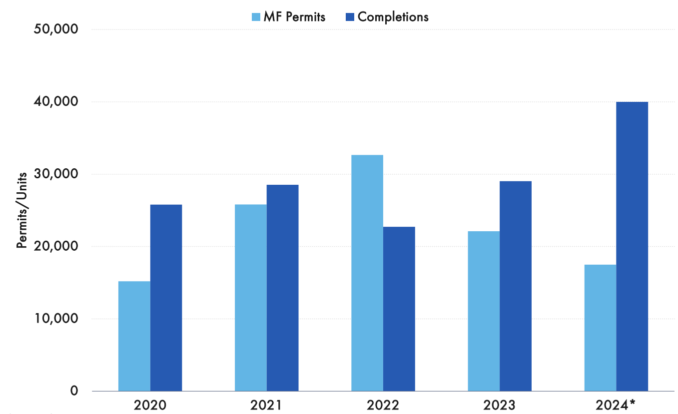
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



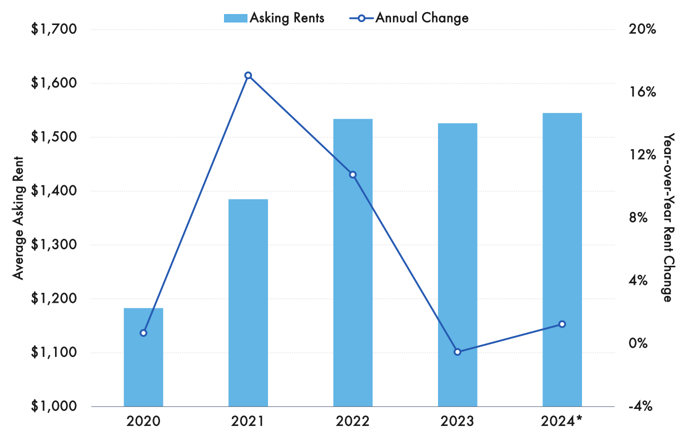
** Year End Forecast*
Sources: Northmarq, RealPage/MPF

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



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

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