

# Dallas-Fort Worth Multifamily




## Strong Renter Demand Outpaced by Deliveries

### Highlights

- > The Dallas-Fort Worth multifamily market has been marked by rapid demand growth and steady additions to supply in recent years. During the first half of this year, the pace of renter demand slowed as the coronavirus dragged on the economy. Heading into the second half of the year, demand should gain momentum.
- > The multifamily vacancy rate ended the second quarter at 5.7 percent, up 80 basis points year over year. Vacancy is only 50 basis points higher than the market's five-year average.
- > Asking rents ended the second quarter at \$1,184 per month, 2.5 percent higher than one year ago.
- > Sales velocity in Dallas-Fort Worth slowed during the second quarter, following a strong start to the year. Activity has already shown signs of picking up early in the third quarter.

### Dallas-Fort Worth Multifamily Market Overview

Heading into 2020, the outlook for the Dallas-Fort Worth multifamily market was quite strong, with the market consistently leading the country in new job growth and apartment absorption. Those economic conditions took a short-term change of course in the spring with the coronavirus outbreak, as businesses shut down to limit the disease spread. While the Dallas area recorded job losses, the market performed comparatively well; among the largest markets in the country, Dallas posted the second-lowest rate of year-over-year job losses.

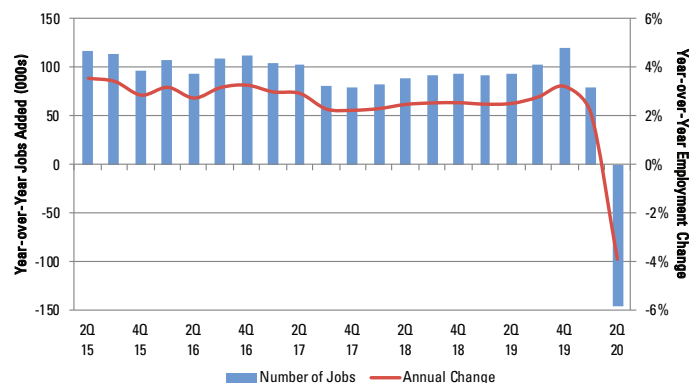
Q2 Snapshot	Dallas-Fort Worth Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>5.7%</b>
	- Year Over Year Change ..... <b>+80 bps</b>
	Asking Rent ..... <b>\$1,184</b>
	- Year Over Year Change ..... <b>+2.5%</b>
	<b>Transaction Activity*</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$134,100</b>
	Cap Rates (Avg YTD) ..... <b>5.2%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>44,127</b>
	Units Delivered YTD ..... <b>12,222</b>
	<small>* In transactions where pricing is available</small>

While local economic conditions were volatile, the multifamily market recorded fairly healthy performance. Net absorption of apartment units totaled approximately 6,700 units in the first half of the year, highlighting the renter demand in the area. Move-ins lagged the pace of new deliveries, however, leading to a modest vacancy rise. While developers remain active, the number of units currently under construction is at its lowest point in nearly four years, which should limit some of the supply-side pressure in the coming quarters.

## Employment

- > After leading the country in total employment growth in 2019, the Dallas-Fort Worth metroplex recorded a slower pace of job losses than most major markets did during the shutdown. Year over year through the second quarter, total employment in Dallas-Fort Worth is down 3.9 percent.
- > The labor market in Dallas-Fort Worth has already begun to bounce back quickly. More than 40 percent of the local jobs that were cut from payrolls during the shutdown had already returned by the end of June. With the area a popular spot for business relocations and expansions, total employment in Dallas-Fort Worth is forecast to return to pre-COVID levels in approximately 12-18 months.
- > A handful of employment sectors have continued to expand even during the downturn. Financial activities employment in Dallas-Fort Worth expanded by 2.6 percent in the past 12 months, adding 8,300 net new jobs.
- > **Forecast:** Projecting the pace of employment recovery for the second half of 2020 will be inexact, but Dallas-Fort Worth recorded one of the lowest rates of job losses during the shutdown and will likely outperform most major markets in 2020 and 2021.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*More than 40 percent of the local jobs that were cut during the shutdown had already returned by June*

## Vacancy

- > The combined vacancy rate in the Dallas-Fort Worth area rose to 5.7 percent as of the second quarter. The rate is up 50 basis points since the end of last year and is 80 basis points higher than one year ago.
- > Vacancy is performing consistently in each of the two primary market segments in the region. In the Dallas-Plano-Irving portion of the market, vacancy ended the second quarter at 5.7 percent, 60 basis points higher than at the beginning of the year. In Fort Worth-Arlington, vacancy was 5.6 percent, up from 5.3 percent at year-end 2019.
- > While the vacancy rate has ticked higher thus far in 2020, absorption has been positive. Net absorption totaled approximately 6,700 units during the first half of the year, down from more than 15,000 units in the first half of 2019.
- > **Forecast:** Following two straight years of modest improvements, the vacancy rate in Dallas-Fort Worth is forecast to increase in 2020, rising 100 basis points to 6.2 percent by the end of the year.

## Vacancy Trends



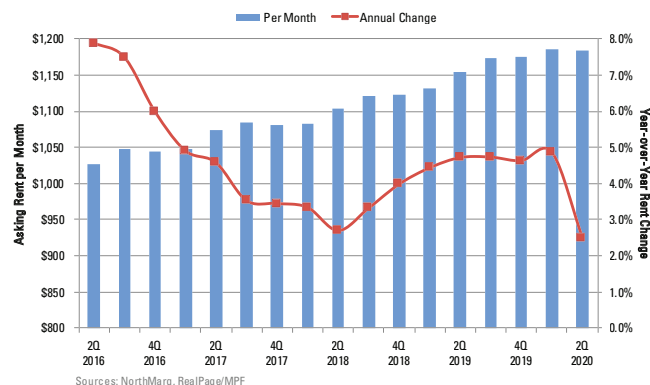
Sources: NorthMarq, RealPage/MPF

*The combined vacancy rate in Dallas-Fort Worth rose to 5.7 percent in the second quarter*

## Rents

- > After a steady rise to start the year, rents in Dallas-Fort Worth ticked lower during the second quarter. Asking rents ended the second quarter at \$1,184 per month, \$2 lower than the figure for the first quarter. Average asking rents are up 2.5 percent year over year.
- > Average asking rents totaled \$1.35 per square foot per month as of the second quarter. In Class A units, the average rent is nearly \$1.70 per square foot per month.
- > Rents in the Dallas-Plano-Irving segment of the market reached \$1,215 per month at midyear, while rents in the Fort Worth-Arlington region averaged \$1,089 per month.
- > **Forecast:** Rents are forecast to be essentially flat in 2020 after several straight years of average annual gains of approximately 5 percent.

## Rent Trends



Average asking rents are up 2.5 percent year over year

## Development and Permitting

- > During the second quarter, developers completed projects totaling more than 6,300 units. Construction activity has been quite consistent in recent years; quarterly completions have averaged 6,200 units since the end of 2016. Year to date, completions have totaled approximately 12,200 units.
- > The development pipeline has thinned modestly in recent quarters. Projects totaling more than 44,100 units were under construction at the end of the second quarter, the lowest figure in nearly four years. The current figure is down 9 percent from the recent peak.
- > After maintaining a steady pace for the past several years, multifamily permitting activity in Dallas-Fort Worth slowed during the first half of 2020. During the first half, developers pulled permits for 8,900 multifamily units, down 30 percent from levels recorded during the same period in 2019.
- > **Forecast:** While a handful of projects that were originally scheduled to be delivered in 2020 may be pushed into 2021, apartment development will likely remain active in Dallas-Fort Worth. Developers are expected to deliver approximately 22,000 new apartment units this year.

## Development Trends



Developers are expected to deliver approximately 22,000 new apartment units this year

## Multifamily Sales

- > After several straight years of steady transaction activity, sales slowed by approximately 70 percent from the first quarter to the second quarter. Compared with the same period last year, sales velocity in the first half of 2020 was down approximately 40 percent.
- > In transactions where sales prices are available, the median price during the first half of this year was approximately \$134,100 per unit, 7 percent higher than the median price in 2019. While fewer properties traded in the second quarter, the median price rose, reaching \$158,300 per unit in the second quarter.
- > Cap rates averaged approximately 5.2 percent during the first half of 2020, 20 basis points higher than the average cap rate recorded in 2019. The low end of cap rates appears to be in the mid-4-percent range.

## Investment Trends



Sources: NorthMarq, CoStar

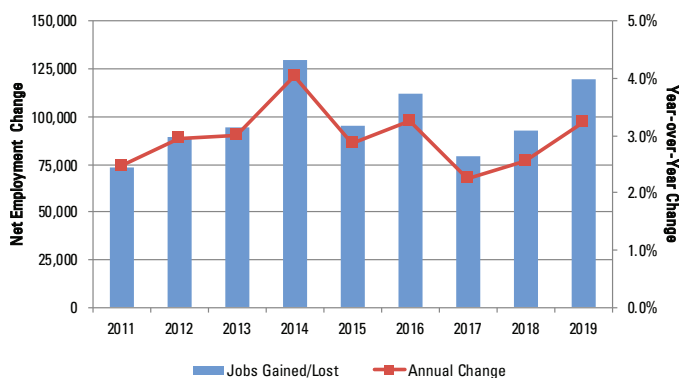
*In transactions where sales prices are available, the median price during the first half was approximately \$134,100 per unit*

## Looking Ahead

The pace of job losses in Dallas-Fort Worth was not as extreme as in most other markets, and the area's ability to attract new companies should allow for a fairly quick rebound in the local labor market. An example of this trend was noticeable early in the third quarter when Amazon announced plans to expand office operations in six major markets across the country, including Dallas. Amazon will add approximately 600 positions in the company's Dallas office, the second-largest expansion that the online retailer announced. As other companies begin to expand again, the Dallas area should attract its share of new growth.

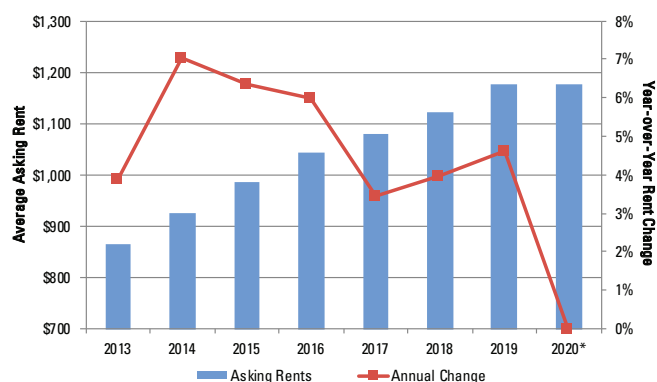
The investment market in Dallas-Fort Worth is forecast to accelerate in the second half of 2020. After a pause in the second quarter, activity had already begun to gain momentum in the first few weeks of the third quarter. Many of the same drivers that fueled investment demand in recent years will remain in place in the coming quarters. Private capital investors are likely to lead the way in the second half of the year, with the bulk of the investment activity expected to occur in deals between \$10 million and \$50 million. These investors are benefitting from a healthy spread between current cap rates and financing rates.

### Employment Forecast



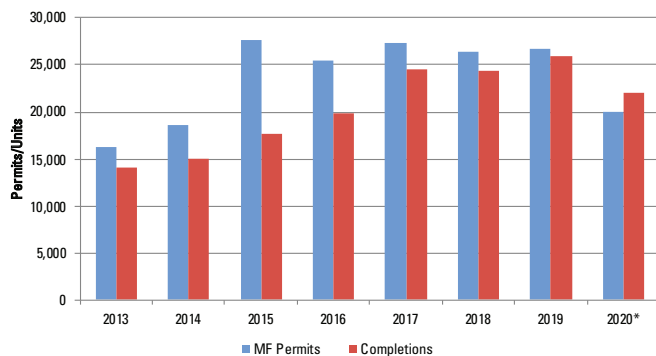
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



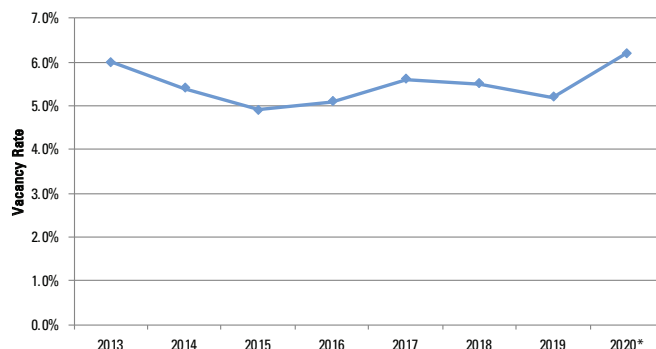
\* Year End Forecast  
Sources: NorthMarq, RealPage/MPF

### Construction & Permitting Forecast



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

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, RealPage/MPF

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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