

Market Insights

Greater Dallas-Fort Worth Multifamily 4Q 2021



Construction Activity



40,796

Units under construction

28,370

Units delivered (YTD)

Market Fundamentals



2.9%

Vacancy

-270 bps

Year over year change

\$1,385

Asking Rent

+17.1%

Year over year change

Transaction Activity*



\$191,700

Median sales price per unit (YTD)

* In transactions where pricing is available

Rapid Renter Demand Growth Fuels Steep Vacancy Decline

Highlights

- Operating fundamentals reached unprecedented levels in the Dallas-Fort Worth multifamily market in 2021. Despite another active year of new apartment construction, supply growth could not keep pace with a surge in new renter demand for units, causing vacancies to tighten and operators to implement double-digit rent increases throughout the region.
- Vacancy fell 60 basis points during the fourth quarter, following a decline of 150 basis points in the preceding three months. For the full year, the rate dropped 270 basis points to 2.9 percent.
- The tightening operating conditions provided the leverage for significant rent growth. Rents in Dallas-Fort Worth rose 17.1 percent in 2021, ending the year at \$1,385 per month. Additional gains are likely, and the Metroplex is forecast to record some of the fastest rent growth in the country in 2022.
- The local investment market continued to gain momentum in the fourth quarter. Transaction activity essentially doubled levels from one year earlier and once again led the nation. In transactions where pricing information was available, the median price in 2021 spiked 33 percent to \$191,700 per unit.

Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market was fueled by demand in 2021, a trend that continued during the fourth quarter. Total absorption for the year reached nearly 50,000 units, outpacing the number of completed units by more than 70 percent. During the fourth quarter, absorption topped 10,000 units, a level that was reached only once between 2014 and 2020 but has occurred in each of the past three quarters. The result of this surge in renter demand for units has been a rapid tightening in area vacancy. The vacancy rate was cut nearly in half in 2021, including a 60-basis point drop during the fourth quarter. With nearly every submarket in the Metroplex recording low vacancies, operators have the upper hand in lease negotiations and are pushing rents higher.

The renter demand that drove property performance in 2021 was mirrored by the investor demand that fueled multifamily sales velocity throughout the year. The Dallas-Fort Worth area led the country in multifamily transaction volume for the sixth consecutive year in 2021. Additionally, the number of properties that sold and the dollar volume that closed in the past year, essentially doubled levels recorded in 2020. The pace of sales velocity accelerated throughout the year, with more transactions occurring during the fourth quarter than at any other point in 2021. In transactions where prices were disclosed, the median price rose 33 percent. Cap rates compressed dramatically in 2021, fueled by sharp rises in area rents and expectations for additional gains in the coming quarters.

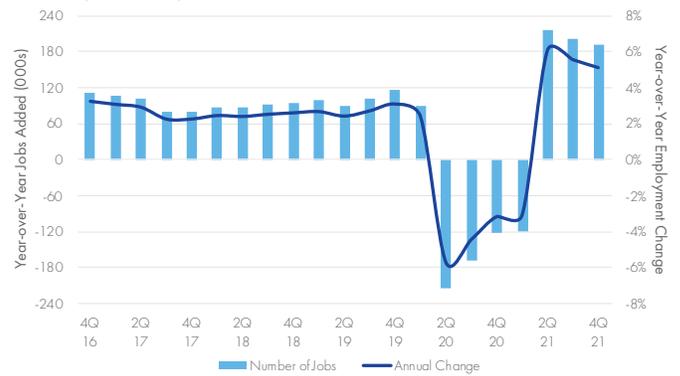
Employment

- Employment in Dallas-Fort Worth recorded a rapid rebound in 2021. Employers added more than 190,000 jobs in 2021, including a net gain of nearly 82,000 jobs during the fourth quarter. For the full year, area employment expanded by 5.1 percent.
- White-collar, high-wage employment fueled the local labor market in 2021. The professional and business services sector added nearly 70,000 jobs in the past year, a growth rate that exceeded 10 percent. This is the continuation of a long-term trend; since the end of 2016, professional employment in Dallas-Fort Worth has expanded by more than 20 percent with 123,000 net new jobs.
- Late in 2021, online clothing consignment company ThredUp announced plans for its largest distribution center in Lancaster. The facility, which is expected to open in the second quarter of 2022, will initially employ 300 workers but is expected to expand to a total headcount of 2,000 employees.
- **Forecast:** Area employers are forecast to continue to expand their workforces at a rapid pace in 2022. Employment growth in Dallas-Fort Worth is projected to total approximately 125,000 net new jobs in the coming year, a growth rate of 3.2 percent.



The professional and business services sector added nearly 70,000 jobs in 2021.

Employment Overview

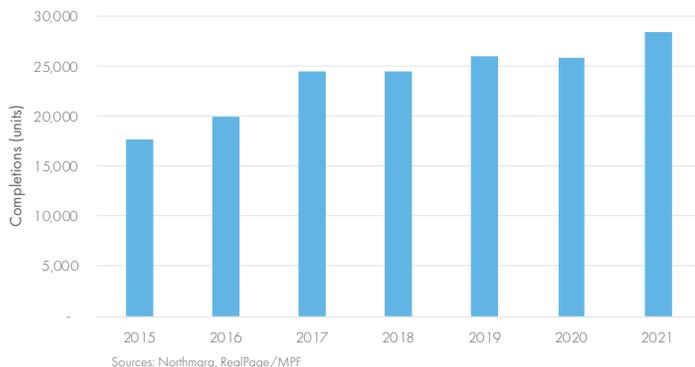


Sources: Northmarq, Bureau of Labor Statistics



Developers pulled permits for approximately 25,800 multifamily units.

Development Trends



Sources: Northmarq, RealPage/MFF

Development and Permitting

- The pace of supply growth accelerated in 2021 with developers completing more than 28,300 apartment units for the year, up 10 percent from 2020 levels. The fourth quarter was the least active period of completions in 2021; projects totaling approximately 6,500 units were delivered in the final three months of the year.
- Developers are bringing new projects into the construction pipeline in efforts to keep up with demand growth. At the end of the fourth quarter, nearly 40,800 units were under construction, up 12 percent from the figure one year ago. The Dallas-Fort Worth area has been an active region for new development for the past several years; at the end of 2020, projects totaling more than 50,000 units were under construction.
- After slowing in 2020, multifamily permitting activity in 2021 returned to levels from earlier years. Developers pulled permits for approximately 25,800 multifamily units in the past year; forecasts call for permits for nearly 30,000 multifamily units to be issued in 2022.
- **Forecast:** Multifamily construction activity in Dallas-Fort Worth has been very consistent since 2017, with developers delivering an average of 25,800 units per year during that time. In 2022, projects totaling about 26,500 units are scheduled to come online.

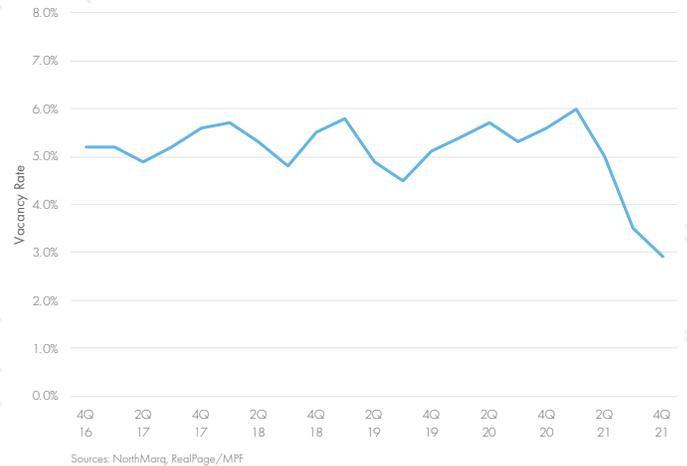
Vacancy

- Rapid economic growth fueled renter demand for apartments in 2021 and pushed vacancy rates to new lows. The rate fell 60 basis points from the third quarter to the fourth quarter, reaching just 2.9 percent. For the full year, vacancy in Dallas-Fort Worth was nearly trimmed in half, dropping 270 basis points.
- The Dallas-Plano-Irving portion of the market posted the most dynamic improvement in 2021. Vacancy in Dallas-Plano-Irving dropped 290 basis points in 2021, with the rate reaching 2.9 percent. Vacancy in the Fort Worth-Arlington region ended the year at 3.1 percent.
- Demand was elevated throughout the year, and net absorption totaled nearly 50,000 units in 2021, driving the vacancy rate lower throughout the Metroplex. The high-growth Allen/McKinney submarket recorded the most absorption in the region in 2021, with renters moving into more than 3,300 units, driving the vacancy rate in the submarket down 290 basis points to 2.3 percent.
- **Forecast:** Supply growth and net absorption are expected to closely align in 2022, which should keep vacancy rates in the Dallas-Fort Worth area consistently low. The rate is forecast to inch higher by just 10 basis points this year, reaching 3 percent.



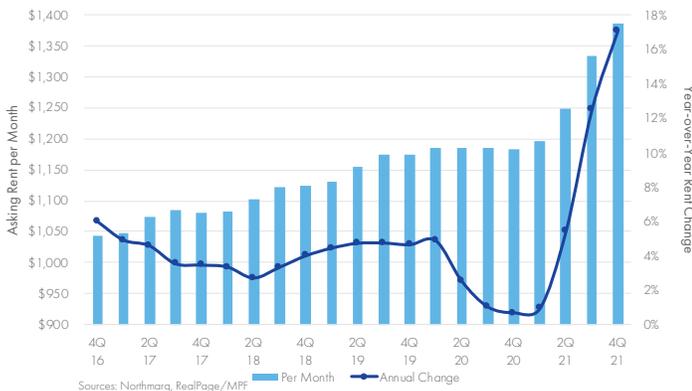
For the full year, vacancy was nearly trimmed in half.

Vacancy Trends



Rents ended the year at \$1,385 per month.

Rent Trends



Rents

- Rents posted strong gains throughout the year. Rents advanced 3.8 percent during the fourth quarter, bringing the total increase for 2021 to 17.1 percent. Rents ended the year at \$1,385 per month, up more than \$200 per month from one year earlier.
- Average rents ended the year at \$1.58 per square foot, per month, up from \$1.35 per square foot, per month at the beginning of the year. Class A rents topped \$1.90 per square foot, per month, up 16 percent year over year.
- Double-digit rent increases were posted throughout the region in 2021. In the Dallas-Plano-Irving segment of the market, rents surged 17.8 percent in 2021, reaching \$1,421 per month. This included an increase of nearly 4 percent in the fourth quarter alone. In the Fort Worth-Arlington region, rents rose \$50 per month in the fourth quarter, ending the year at \$1,276 per month. For the full year, rents in Fort Worth-Arlington gained 15.5 percent.
- **Forecast:** Renter demand for apartments is expected to remain elevated in 2022, and vacancy rates are forecast to remain near cyclical lows. These forces will drive rapid rent growth in the year ahead. Rents are forecast to top \$1,500 per month in 2022, representing an annual gain of approximately 8.5 percent.

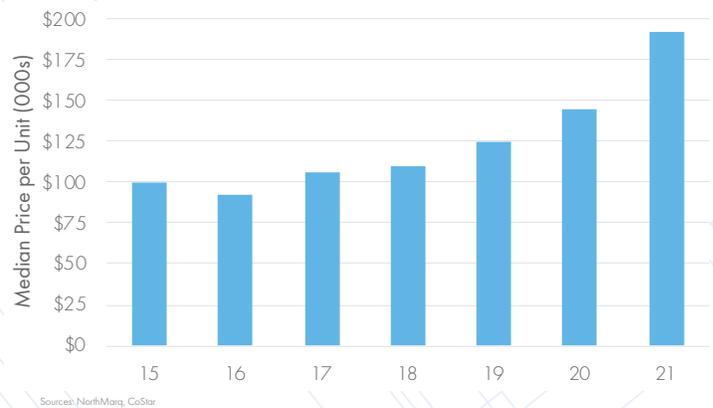
Multifamily Sales

- Investor demand for multifamily assets in the Dallas-Fort Worth area gained momentum throughout 2021, with the fourth quarter proving to be the most active period of the year. Sales velocity in 2021 was up 89 percent when compared to 2020 levels.
- Several large portfolios sold in 2021, resulting in a spike in the number of units that traded and a surge in investment dollar volume. The number of units that sold in 2021 doubled levels from 2020, while dollar volume was up approximately 120 percent.
- In 2021, investors looked to place large blocks of capital in the Dallas-Fort Worth multifamily market, leading to a surge in activity in large transactions. More than two dozen sales totaling more than 500 units closed in the area during 2021, nearly tripling the number of similar transactions in 2020.
- With investor demand elevated and properties recording rapid rent growth, prices pushed higher in each quarter in 2021. In transactions where pricing was available, the median price for the full year rose to \$191,700 per unit, 33 percent higher than the median price in 2020. Prices closed the year on an upswing; the median reported price in deals that closed in the fourth quarter was \$217,300 per unit.
- The increasingly competitive nature of the local investment market caused significant cap rate compression in 2021. During the fourth quarter, cap rates compressed to between 3 percent and 3.5 percent on average. Transactions are being underwritten aggressively with the expectation of future rent growth.



Sales velocity in 2021 was up 89 percent.

Investment Trends

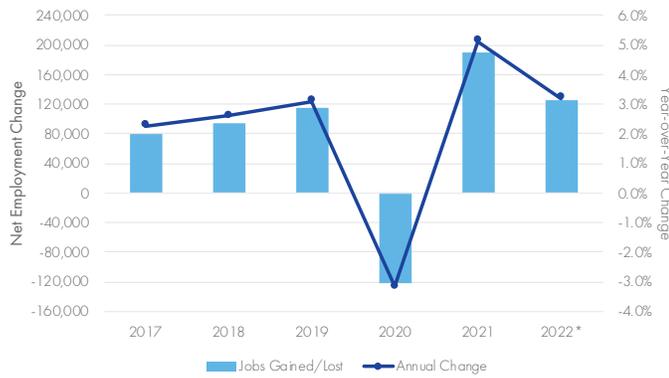


Looking Ahead

The Dallas-Fort Worth multifamily market is forecast to continue to post remarkably strong operational performance in the year ahead. The market recorded a surge of absorption in 2021, and developers could not deliver units fast enough to keep pace with renter demand growth. In 2022, supply and demand are expected to closely track one another, which should keep vacancy rates tight, averaging between 2.5 percent and 3 percent in most submarkets. There are few markets in the country that are better able to absorb a large inventory of new rental units as well as Dallas-Fort Worth. During the past five years, developers have delivered a total of more than 125,000 units to the market; during the same time, absorption has totaled nearly 140,000 units. Similar trends are likely in 2022, which will allow for continued rent growth.

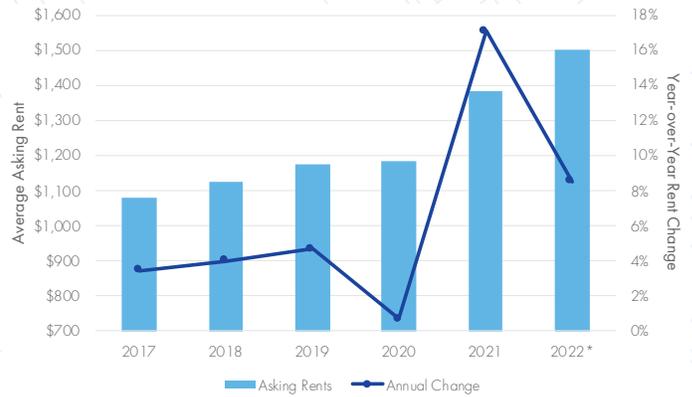
After six consecutive years of leading the country in multifamily investment sales volume, the Dallas-Fort Worth market is showing no signs of slowing down as the calendar turns to 2022. Investor demand accelerated throughout 2021, and the market is expected to remain competitive in the coming year. With vacancy rates forecast to remain near all-time lows, the pace of rent growth in Dallas-Fort Worth should be among the fastest of any major market in the country in 2022. Increases in rental rates will be balanced by rapid growth in the market's high-wage employment sector, led by professional and business services and financial activities. Assuming forecast rent gains are achieved, the expected property revenue gains will likely continue to put downward pressure on cap rates and drive per-unit prices higher.

Employment Forecast



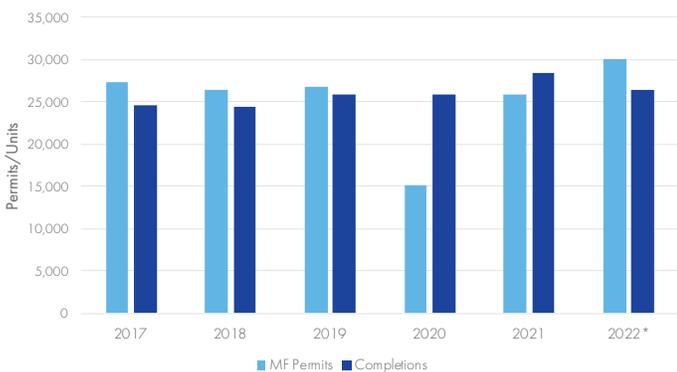
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



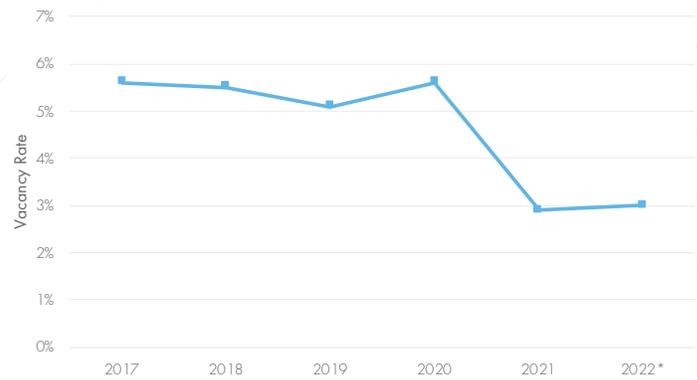
* Year End Forecast
Sources: Northmarq, RealPage/MPF

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

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.