Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	56,775
UNITS DELIVERED (YTD)	33,394

MARKET FUNDAMENTALS

VACANCY RATE	7.2%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$1,514
YEAR-OVER-YEAR CHANGE	-2.4%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$164,100

DALLAS-FORT WORTH MULTIFAMILY
3Q 2024

MARKET INSIGHTS

Vacancy inches lower with absorption on an upswing

HIGHLIGHTS

- Renter demand in the Dallas-Fort Worth multifamily market gained momentum in the third quarter, providing fuel for property operations. With absorption elevated and the development pipeline thinning, the outlook for the remainder of this year and 2025 has brightened.
- Net absorption topped 12,000 units in the third quarter, surpassing completions for the period and pushing the vacancy rate down 20 basis points to 7.2 percent. This marked the first quarterly vacancy decline in more than two years.
- Rents were essentially flat in the third quarter, reaching $1,514 per month. Rents in Class A properties ticked higher, ending the quarter at $1,906 per month.
- Multifamily transaction volumes surged, building on earlier gains from the second quarter after a slow start to the year. In transactions where pricing was available, the median price rose to $164,100 per unit, and cap rates have averaged between 5 percent and 5.5 percent.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

The Dallas-Fort Worth multifamily market showed a few signs of improvement during the third quarter, even as developers continued to move projects from the construction pipeline into the inventory of available units. The local vacancy rate declined slightly from the second quarter to the third quarter, the first tightening of overall conditions in more than two years. The strongest performance was recorded in the Dallas-Plano-Irving section of the region, with submarkets such as Richardson, Southeast Dallas, and Addison/Bent Tree featuring some of the lowest vacancy conditions. Absorption throughout the Dallas-Fort Worth area has been elevated in 2024, particularly in each of the past two quarters. Net absorption has totaled nearly 24,000 units in just the last six months. By comparison, this figure would have eclipsed the full-year totals for absorption in the region in seven of the past 10 years.

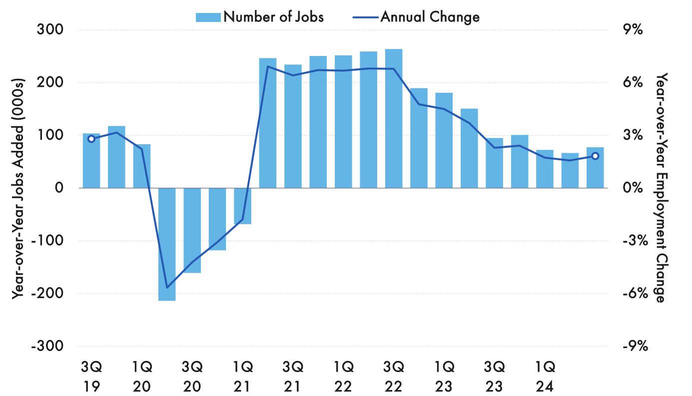
Multifamily transaction counts in Dallas-Fort Worth surged in the third quarter, as investors responded to the improvement in underlying property performance and a brightening outlook. While sales velocity year to date is still somewhat lower than 2023 levels, momentum in the investment market has been building. The recent transactions mix has included newer assets, often located in areas such as Frisco, Garland, and parts of Rockwall County, as well as several Class B properties built in the 1970s and 1980s. Arlington has been one of the top spots for sales of these older vintages in recent quarters. Year-to-date transaction counts in Arlington have already reached the total for all of 2023.

EMPLOYMENT

- Employers in Dallas-Fort Worth continue to expand payrolls. During the past 12 months, total employment in the region has grown by 1.8 percent, with the addition of more than 77,000 net new jobs. Since the beginning of 2023, more than 160,000 jobs have been created across the Dallas-Fort Worth area.
- After a period of slower growth, the region's large professional and business services sector has begun to add workers in significant numbers again. Year over year, professional and business services employment has expanded by 1.1 percent with the addition of more than 8,500 jobs.
- During the third quarter, financial services company TIAA began to move the company's local workforce into its new corporate center at The Star in Frisco. The new facility is expected to ultimately have approximately 2,300 TIAA employees working at it when construction is complete in 2025.
- **FORECAST:** The Dallas-Fort Worth area is expected to be one of the top markets in the country for total jobs created in 2024. The market is on pace to add approximately 75,000 new workers for the full year, a growth rate of 1.8 percent.

Since the beginning of 2023, more than 160,000 jobs have been created.

EMPLOYMENT OVERVIEW



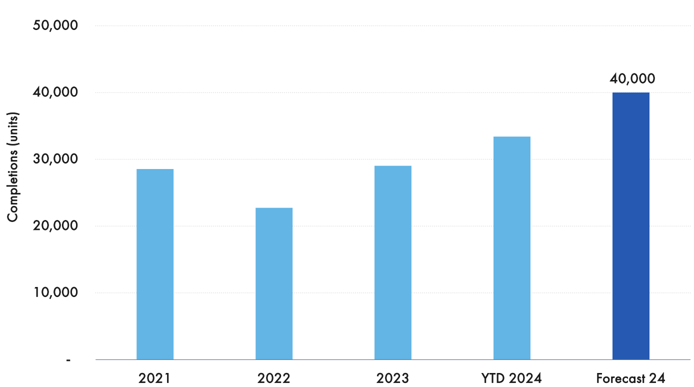
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- Properties totaling nearly 11,000 units were delivered during the third quarter, after deliveries peaked in the prior period. Year to date, approximately 33,400 units have come online, with the Frisco and Allen/McKinney submarkets leading the way for new development.
- With recent deliveries elevated and starts slowing significantly, the construction pipeline is thinning. Projects totaling 56,775 units were under construction in the third quarter, down nearly 30 percent from peak levels earlier last year.
- Multifamily permitting activity has continued to slow after peaking in 2022. During the third quarter, developers pulled permits for approximately 4,800 units, the lowest quarterly total of 2024. Year to date, permits for fewer than 16,000 multifamily units have been pulled, representing a decline of 13 percent from the same time period in 2023.
- **FORECAST:** This year will likely mark a cyclical peak in new apartment construction in Dallas-Fort Worth, reflecting the development conditions that are occurring across the country. Projects totaling approximately 40,000 units are slated to come online in 2024, before the pace of deliveries tapers off beginning in 2025.

Projects under construction are down nearly 30 percent from peak levels.

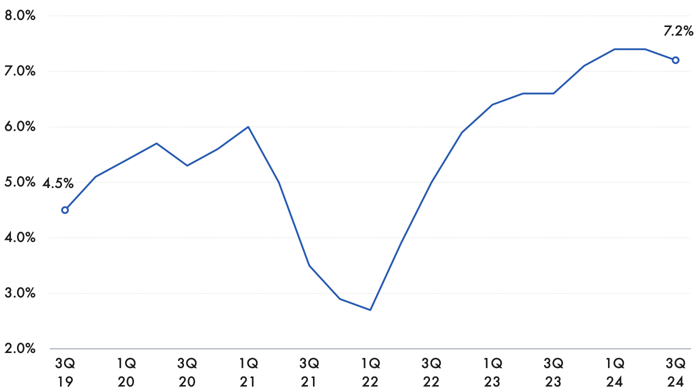
DEVELOPMENT TRENDS



Sources: Northmarq, CoStar, RealPage/MPF

Net absorption in the third quarter reached its highest total in three years.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

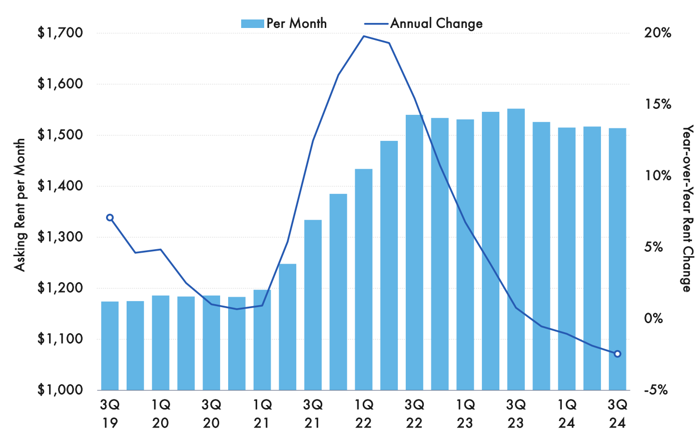
- After steadying in the second quarter, vacancy inched lower in the third quarter, dropping 20 basis points to 7.2 percent. This marked the first quarterly vacancy decline in the region in more than two years. Year over year, vacancy is up 60 basis points.
- Surging levels of renter demand have continued in recent months. Net absorption totaled more than 12,100 units in the third quarter, the highest total in three years. Through the first three quarters of this year, net absorption has reached 30,100 units, more than doubling the total net move-ins from all of 2023.
- The Dallas segment of the market is outperforming. In Dallas-Plano-Irving, vacancy ended the third quarter at 7 percent, matching the figure from one year earlier. In Fort Worth-Arlington, the rate is 7.9 percent, up 90 basis points year over year. Absorption in Fort Worth is up 23 percent from one year ago, while demand has more than tripled in the Dallas submarkets.
- **FORECAST:** Vacancy is forecast to end this year at 7.4 percent, tracking levels from the first half of 2024. For the full year, the rate is on pace to rise just 30 basis points, despite a very active development cycle.

RENTS

- Rents in Dallas-Fort Worth ended the third quarter at $1,514 per month, nearly identical to the averages in the first two quarters of the year. Current rents are down 2.4 percent year over year.
- Class A rents rose 0.8 percent in the third quarter, marking the second consecutive period where top-tier rents gained ground. At $1,906 per month, the average Class A rent is down just 0.5 percent from the peak one year ago. The submarkets with the highest Class A rents include Intown Dallas, Oak Lawn/Park Cities, and North Irving. Of these, only the Intown Dallas submarket has recorded any significant new multifamily development in recent quarters.
- While many parts of the market are posting relatively flat rents, the submarkets where competition from new supply has been most significant are recording the steepest declines. Rents in the Frisco and Allen/McKinney submarkets have dropped by more than 5 percent year over year after rapid increases from 2021-2023. Occupancies in these submarkets are beginning to stabilize, which should allow for rents to steady in the coming quarters.
- **FORECAST:** This year is expected to be a period of essentially flat rents. Average rents in the Dallas-Fort Worth Metroplex are on pace to end 2024 at $1,525 per month, nearly identical to the year-end 2023 figure.

Class A rents rose 0.8 percent in the third quarter.

RENTS TRENDS



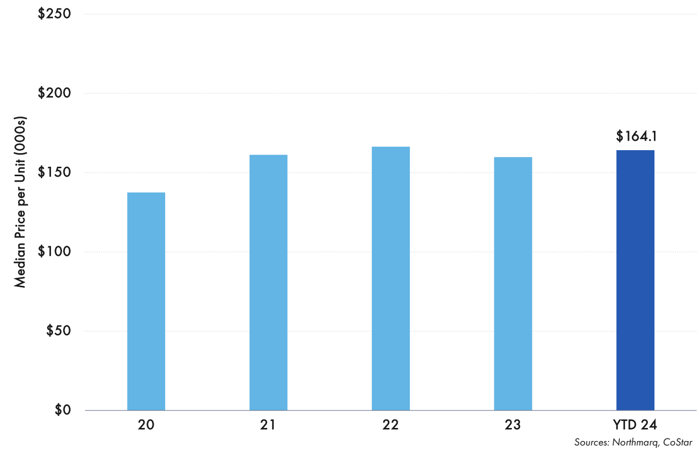
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- After a slower start to this year, transaction activity has been returning to form in recent quarters. Sales velocity surged by more than 50 percent from the second quarter to the third quarter.
- Sales activity is still recording steady year-over-year declines. Total transaction counts year to date are down 18 percent from 2023 levels. Preliminary indications suggest the number of properties that sell in the fourth quarter may outpace the 2023 total.
- In transactions where pricing was available, the median price to this point in the year is $164,100 per unit. In recent months, there has been an increase in the number of Class A properties changing hands, pushing overall prices higher.
- At the high-end of the pricing range, newer assets are continuing to sell at prices above $200,000 per unit, including some that have traded at or above $250,000 per unit. At the opposite end, several Class C properties have sold for between $90,000 per unit and $100,000 per unit.
- Cap rates have mostly held steady in 2024, averaging between 5 percent and 5.5 percent across many transactions. Newer, stabilized properties are trading at the low-end of the range.

The median price to this point in the year is $164,100 per unit.

INVESTMENT TRENDS

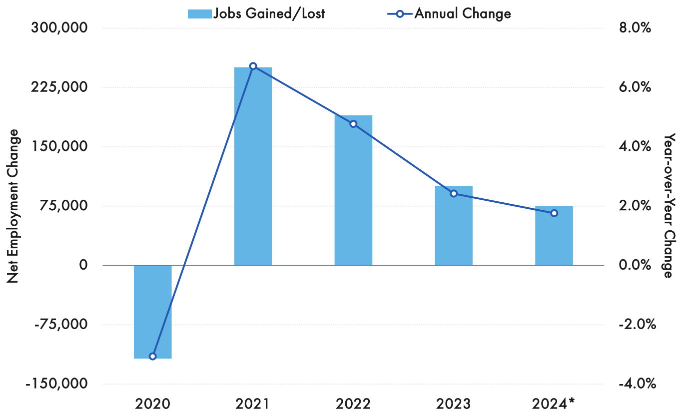


LOOKING AHEAD

The Dallas-Fort Worth multifamily market is expected to post improving operational performance in 2025, as renter demand for units remains elevated and the pace of supply growth slows. Signs of improvement began to take shape in recent quarters. Absorption totaled approximately 12,000 units in each of the past two quarters, the highest figures since demand peaked in 2021 and about 75 percent higher than the region's long-term averages. The primary result of the elevated absorption volumes has been a leveling off of the local vacancy rate, which ticked lower during the third quarter after earlier increases. The rate will likely remain near its current range for a few more quarters before ultimately returning to its long-term range between 5 percent and 6 percent. The cooling pace of construction will help bring the market closer to equilibrium. Developers are on pace to deliver approximately 40,000 units this year, but that figure should dip by about 40 percent in 2025.

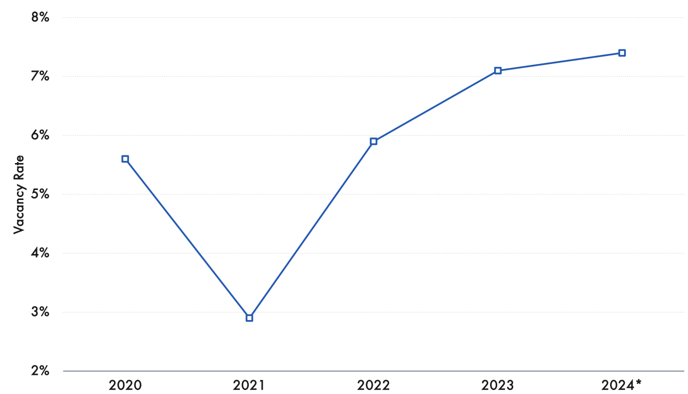
Investors are responding to the stabilizing supply and demand fundamentals in the Dallas-Fort Worth region. Activity has strengthened significantly in recent months, setting the stage for a more forceful rebound in transaction volumes in the coming year. In earlier periods, the competitive impact of new supply was the only significant variable in the local multifamily market. With properties coming online and being successfully leased-up, that layer of uncertainty has largely been resolved and investors are reengaging. The recent results highlight an investment transaction climate that is expected to carry over into 2025. Activity should remain on an upswing, including across the dozens of newly completed properties that have come online in recent years. Newer, Class A assets have accounted for a larger share of total transaction volumes in recent quarters, pulling prices higher and keeping cap rates in the low- to mid-5 percent range. With interest rates likely to be fairly stable in 2025 and property fundamentals expected to stabilize, cap rates are not expected to move significantly going forward.

EMPLOYMENT FORECAST



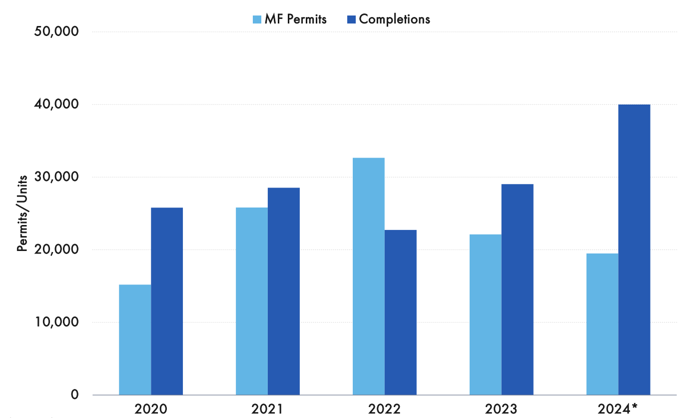
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



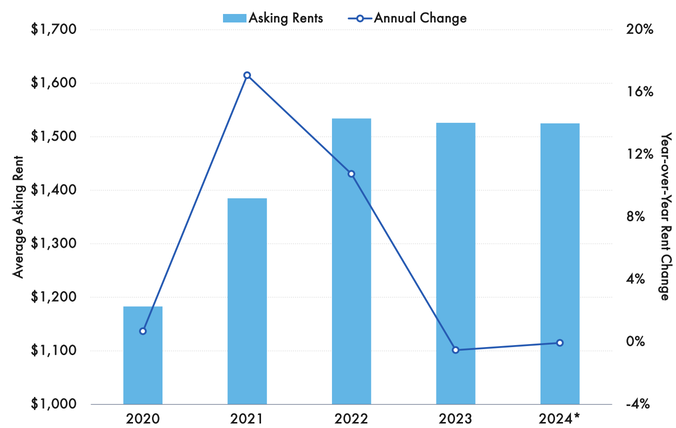
* Year End Forecast
Sources: Northmarq, RealPage/MPF

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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