

# Dallas-Fort Worth Multifamily

## Demand Outpacing Supply Growth, Pushing Rents Higher

### Highlights

- > Multifamily conditions in Dallas-Fort Worth strengthened during the third quarter. The pace of job growth accelerated, apartment vacancy improved for the second consecutive quarter, and rents rose at a steady rate.
- > Absorption of apartments totaled approximately 9,600 units during the third quarter, and renters have moved into a net of nearly 24,000 units year to date. The strong renter demand drove vacancy down 40 basis points in the third quarter to 4.5 percent, the lowest rate in four years.
- > Asking rents rose 1.6 percent during the third quarter, reaching \$1,174 per month. Current rents are up 4.7 percent from one year ago.
- > While sales of apartment properties slowed slightly from the second quarter to the third quarter, activity thus far in 2019 is ahead of last year's pace. Prices are trending higher, and cap rates have compressed in each of the last two quarters.

### Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market posted another period of strong demand during the third quarter. Renters have moved into nearly 22,000 apartment units in just the last two quarters alone, driving down the local vacancy rate and supporting an accelerating pace of rent growth. The strong absorption levels are sparking development activity, but in recent quarters, demand growth has exceeded the pace of inventory expansion.

Q3 Snapshot	Dallas-Fort Worth Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>4.5%</b>
	- Year Over Year Change ..... <b>-30 bps</b>
	Asking Rent ..... <b>\$1,174</b>
	- Year Over Year Change ..... <b>+4.7%</b>
	<b>Transaction Activity*</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$123,900</b>
	Cap Rates (Avg YTD) ..... <b>5.0%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>49,191</b>
	Units Delivered YTD ..... <b>18,119</b>

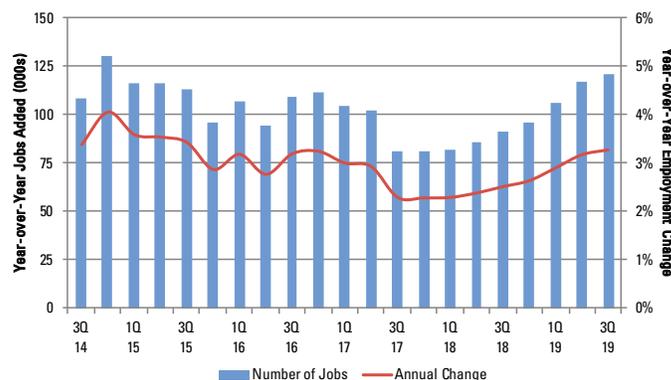
\* In transactions where pricing is available

The transaction market has remained active in Dallas-Fort Worth for the past several years as investors have been drawn to the Metroplex's inventory of performing properties. With demand from both renters and investors elevated, rents and prices have been rising. In transactions where pricing and cap rate data has been available, cap rates have averaged 5 percent year to date, down approximately 20 basis points from the 2018 figure.

## Employment

- > The pace of employment expansion accelerated slightly in the third quarter, and Dallas-Fort Worth continued to lead the country in total job growth. Year over year through the third quarter, area employers have added 121,100 net new jobs, a 3.2 percent pace of growth. One year ago, employers had added 96,000 new jobs.
- > White-collar sectors have been growing at faster paces than the overall economy. The professional and business services sector expanded by 4.2 percent in the past year, with 26,000 new jobs, while employment in financial activities grew 5.5 percent as 16,500 positions were added.
- > Local manufacturing employment expanded by 2.9 percent during the past 12 months, with the addition of 8,200 new jobs, and the sector is expected to grow again in the coming quarters. Raytheon is planning to open a 200,000-square-foot manufacturing facility in McKinney in late-2020, a move that will bring approximately 500 high-tech jobs to the area.
- > **Forecast:** Employers in Dallas-Fort Worth are on pace to add 120,000 net new jobs in 2019, a 3.2 percent expansion. This would mark the area's most rapid single year of job growth since 2014.

## Employment Overview



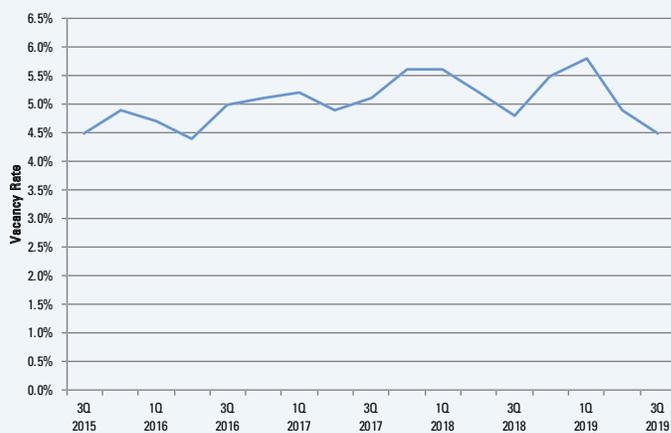
Sources: NorthMarq, Bureau of Labor Statistics

*Dallas-Fort Worth leads the nation in total job growth, adding 121,200 net new jobs*

## Vacancy

- > With employers actively expanding payrolls, demand for housing is on the rise. Apartment vacancy in the combined Dallas-Fort Worth area dipped 40 basis points in the third quarter, building on a 90-basis-point improvement in the previous three months. At 4.5 percent, vacancy is at its lowest point in four years.
- > Vacancy in the Metroplex has improved 100 basis points thus far in 2019, and the rate is down 30 basis points year over year. This is the third time in the past five quarters where the vacancy rate has fallen below 5 percent.
- > Net absorption of apartments totaled approximately 9,600 units during the third quarter, after topping 11,600 units in the second quarter. This heightened demand has fueled the recent vacancy declines in Dallas-Fort Worth.
- > **Forecast:** Vacancy is forecast to end 2019 at 4.8 percent, 70 basis points lower than at the end of 2018. This would mark the second consecutive calendar year where the vacancy rate improved and it would mark the lowest year-end rate since 2015.

## Vacancy Trends



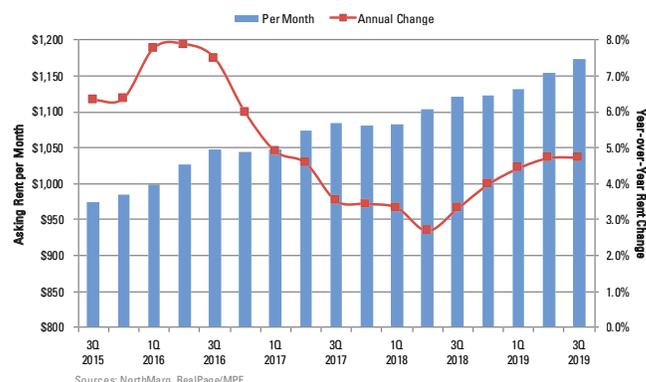
Sources: NorthMarq, RealPage/MPF

*At 4.5 percent, vacancy is at its lowest point in four years*

## Rents

- > The sustained renter demand for apartments supported rent growth in the third quarter. Following an increase of more than 2 percent in the second quarter, asking rents rose an additional 1.6 percent in the third quarter.
- > Asking rents ended the third quarter at \$1,174 per month, up 4.7 percent year over year. One year ago, rents were increasing at a 3.3 percent annual rate.
- > Rents in the Dallas-Plano-Irving segment of the market topped \$1,200 per month in the third quarter, reaching \$1,207 per month. This represents a year-over-year gain of 5 percent. In the Fort Worth-Arlington region, rents rose 4.1 percent in the past year to \$1,071 per month.
- > **Forecast:** With demand elevated and the local economy continuing to add high-wage jobs, the market is positioned for additional rent growth. Asking rents are expected to rise approximately 6 percent in 2019, ending the year at \$1,190 per month.

## Rent Trends

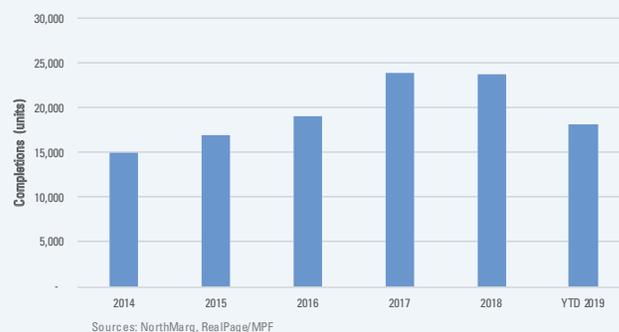


Asking rents of \$1,174 per month are up 4.7 percent year over year

## Development and Permitting

- > Deliveries inched higher in the third quarter, with developers completing nearly 7,000 apartment units, up 3 percent from the total in the second quarter. During the past 12 months, more than 24,000 units have been delivered, increasing the local inventory of apartments by approximately 2.7 percent.
- > Projects totaling more than 49,000 units were under construction at the end of the third quarter. The Dallas-Plano-Irving segment of the market had nearly 39,000 units under way, while approximately 10,400 units were under construction in the Fort Worth-Arlington area.
- > Multifamily permitting slowed modestly from the second quarter to the third quarter, mirroring a trend that also occurred in 2018. Developers pulled permits for approximately 6,600 multifamily units during the third quarter. Year to date, permits for more than 19,300 multifamily permits have been issued, down 8 percent from the total during the first three quarters of 2018.
- > **Forecast:** While developers remain active in Dallas-Fort Worth, completions will slow modestly this year when compared to 2018 levels. Approximately 25,000 apartment units are slated to be delivered in Dallas-Fort Worth this year, a slight dip from the number of units that came online in 2018.

## Development Trends

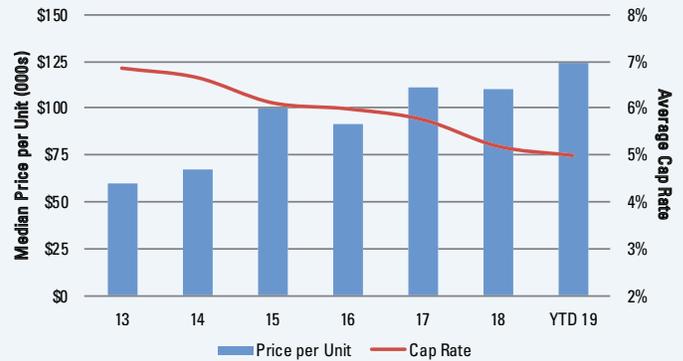


Projects totaling more than 49,000 units were under construction at the end of the third quarter

## Multifamily Sales

- > In transactions where sales prices are available, the median price during the third quarter was nearly \$124,000 per unit, up slightly from the median price in the second quarter. Year to date, the median price in transactions where pricing data were available was approximately \$123,900 per unit, up more than 12 percent from last year.
- > After rising in the second quarter, sales velocity slowed by approximately 7 percent in the third quarter. Year to date, sales volume has been heavy, and transaction counts are up nearly 10 percent when compared to the same period in 2018.
- > Cap rates compressed during the second quarter and ticked lower again in the third quarter. The average cap rate in sales thus far in 2019 is approximately 5 percent, but that figure has been creeping lower in recent months.

## Investment Trends



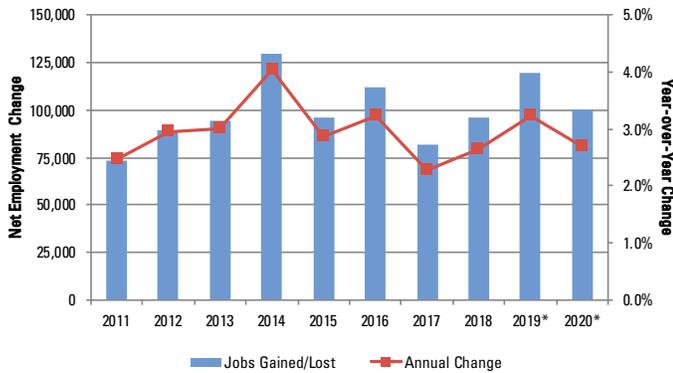
*Transaction counts are up nearly 10 percent with compared to the same period in 2018*

## Looking Ahead

The growing labor market, fueled by business attractions and expansions, is forecast to continue to drive the Dallas-Fort Worth multifamily market. Another example of this trend was made public early in the fourth quarter when Microsoft announced a plan to add 575 jobs at the company's Las Colinas site. The move, along with a \$31 million capital investment from Microsoft, will transform the existing facility into one of Microsoft's regional hubs. Announcements such as Microsoft's are emblematic of the health of the Dallas-Fort Worth local economy.

Investors are responding to the robust property fundamentals by continuing to acquire multifamily properties. Prices are rising, as cap rates have compressed, highlighting the demand in the market. One of the key indicators fueling the investment activity has been the pace of absorption in the market. During the second quarter, renters moved into more than 11,600 apartment units—a 10-year high for a quarter—and another healthy reading was recorded in the third quarter. As long as absorption is outpacing construction, investors are likely to remain active.

### Employment Forecast



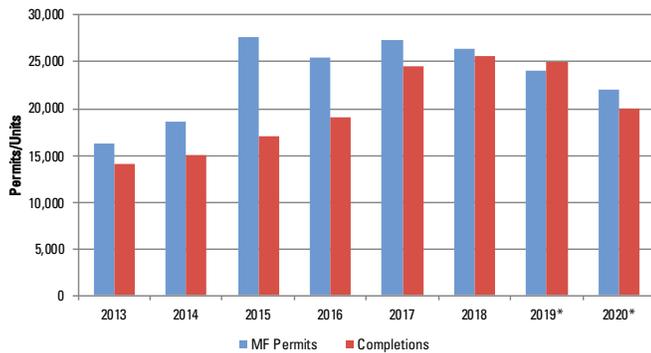
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



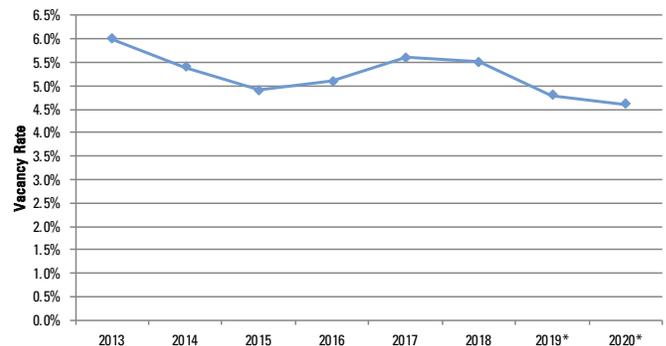
\* Year End Forecast  
Sources: NorthMarq, RealPage/MPF

### 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 \$13 billion, loan servicing portfolio of more than \$55 billion and the multi-year tenure of our more than 500 people.

### For more information, contact:

#### Taylor Snoddy

MANAGING DIRECTOR – INVESTMENT SALES  
972.455.4928 | [tsnoddy@northmarq.com](mailto:tsnoddy@northmarq.com)

#### James Roberts

SENIOR VICE PRESIDENT – INVESTMENT SALES  
972.455.1942 | [jroberts@northmarq.com](mailto:jroberts@northmarq.com)

#### Philip Wiegand

SENIOR VICE PRESIDENT – INVESTMENT SALES  
972.455.1933 | [pwiegand@northmarq.com](mailto:pwiegand@northmarq.com)

#### Eric Stockley

ASSOCIATE – INVESTMENT SALES  
T 972.455.4911 | [estockley@northmarq.com](mailto:estockley@northmarq.com)

#### Stephen Whitehead

SVP, MANAGING DIRECTOR – DEBT & EQUITY  
972.788.3423 | [swhitehead@northmarq.com](mailto:swhitehead@northmarq.com)

#### Lauren Bresky

SENIOR VICE PRESIDENT – DEBT & EQUITY  
972.455.4912 | [lbresky@northmarq.com](mailto:lbresky@northmarq.com)

#### Jeffrey Erxleben

EVP, REGIONAL MANAGING DIRECTOR – DEBT & EQUITY  
972.455.1934 | [jerxleben@northmarq.com](mailto:jerxleben@northmarq.com)

#### Trevor Koskovich

PRESIDENT – INVESTMENT SALES  
T 602.952.4040 | [tkoskovich@northmarq.com](mailto:tkoskovich@northmarq.com)

#### Pete O'Neil

DIRECTOR OF RESEARCH  
602.508.2212 | [poneil@northmarq.com](mailto:poneil@northmarq.com)

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