

Another year of double-digit rent growth in 2022

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **65,462**

UNITS DELIVERED **22,729**

MARKET FUNDAMENTALS



VACANCY RATE **5.9%**

ASKING RENTS **\$1,534**

YEAR-OVER-YEAR CHANGE **+10.8%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$172,400***

* Transactions where pricing is available

HIGHLIGHTS

- Employers in Dallas-Fort Worth continue to expand, supporting renter demand for units and prompting developers to move projects through the construction pipeline.
- Rents rose 10.8 percent in the past year, ending the fourth quarter at \$1,534 per month. Rent increases have been strongest in Class B properties in recent years.
- Vacancy ended the year at 5.9 percent, with the rate returning closer to the region's long-term range. The rate ended 2022 up just 30 basis points from levels achieved 24 months earlier.
- Transaction activity slowed in the second half of the year, but the Metroplex was the top market for sales volume in the country in 2022. The median price in properties that traded was up 7 percent in 2022, while cap rates ended the year averaging 4.5 percent.

DALLAS-FORT WORTH MULTIFAMILY MARKET OVERVIEW

The Dallas-Fort Worth multifamily market recorded a mixed performance in 2022. Rents pushed higher, posting a double-digit gain for the year, after recording a spike of more than 17 percent in the prior year. The rapid rent growth highlights the demand for housing in one of the fastest-growing economies in the nation. Vacancies trended higher in the final few quarters of the year. The rises in vacancy returned the rate closer to the region's historical trends, after conditions tightened to all-time lows in late 2021 and early 2022. There will likely be some additional upward pressure on vacancies in 2023, with developers scheduled to bring 30,000 new units to the market. Permitting and construction timelines were initially disrupted in 2020, and several projects that were originally slated to deliver in 2021 or 2022 will ultimately be completed this year.

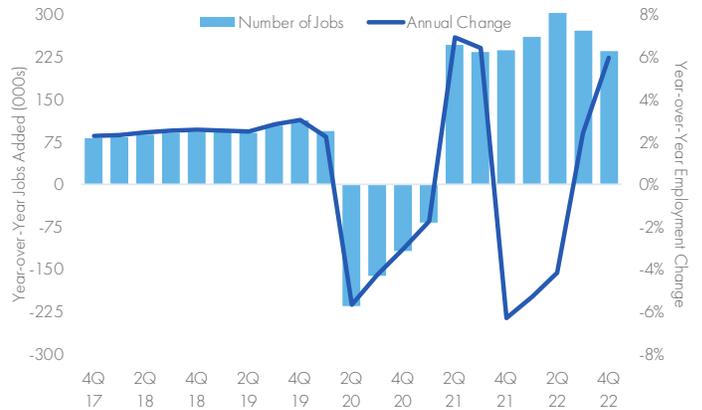
The investment market in Dallas-Fort Worth recorded some slowing in the second half of 2022, but the region still led the country in multifamily investment volume for the full year. Investors are adjusting to the new interest rate environment, and cap rates have trended higher, generally ranging between 4 percent and 5 percent in the second half of 2022. Looking ahead, the range will likely tighten as the expectations gap between buyers and sellers narrows. In the first half of 2023, properties will likely change hands with cap rates ranging between 4.5 percent and 5 percent. Per-unit prices rose in 2022, fueled by rent increases that surpassed national averages and local, longer-term trends. The forecast in 2023 calls for rent increases averaging 4 percent, which should continue to attract buyers to the region.

EMPLOYMENT

- The Dallas-Fort Worth region continued to record rapid employment gains throughout 2022. Employers in the market expanded payrolls by 5.9 percent in the past year, adding more than 235,000 net new jobs. More than 46,000 positions were created during the fourth quarter, an increase from levels recorded during the prior quarter.
- Nearly every industry in the region expanded at rapid rates in 2022, with some of the strongest gains recorded in sectors that support the growing population. The education and health services sector added more than 40,000 jobs in 2022, an 8.6 percent spike.
- Early in 2023, Goldman Sachs expanded into its third location in Dallas-Fort Worth, leasing more than 130,000 square feet in the Dallas CBD. The company is expected to move into this space around midyear, before ultimately consolidating in a new project in 2026. Goldman Sachs is expected to more than double its local workforce to nearly 5,000 workers in the coming years.
- **FORECAST:** With the growth in the national economy expected to decelerate in the coming year, employers will add jobs more slowly than in recent periods. Total employment in Dallas-Fort Worth is expected to expand by 1.2 percent in 2023, with growth of approximately 50,000 workers.

Employers in the market expanded payrolls by 5.9 percent in 2022.

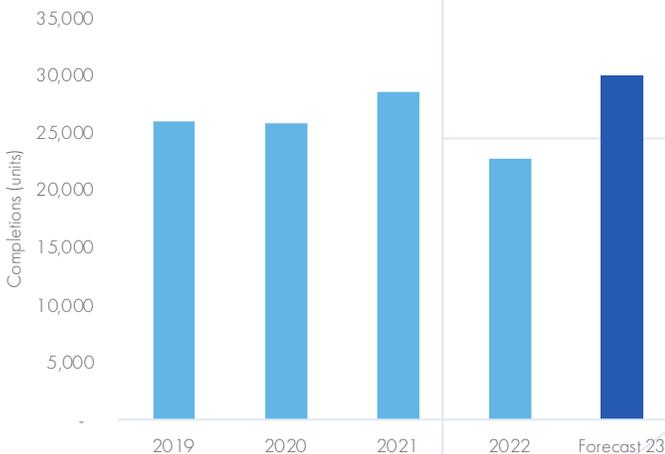
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Completions in 2022 were down 20 percent from 2021 levels.

DEVELOPMENT TRENDS



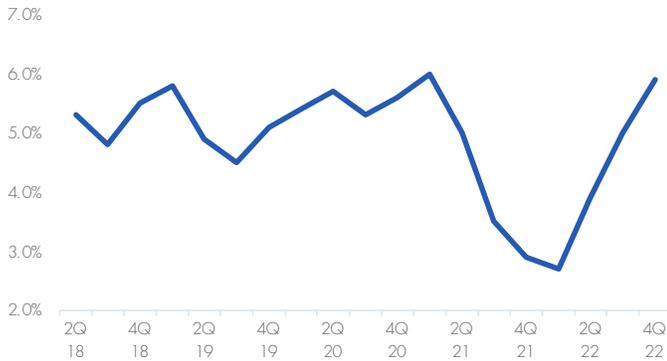
Sources: Northmarq, RealPage/MPF

DEVELOPMENT & PERMITTING

- Deliveries gained momentum during the fourth quarter, following below-trend levels throughout much of 2022. Developers completed projects totaling approximately 6,900 units in the fourth quarter, bringing the total deliveries for the full year to more than 22,700 units. Completions in 2022 were down 20 percent from 2021 levels.
- While the number of units that were delivered in 2022 slowed, the development pipeline swelled. At the end of the year, projects totaling nearly 65,500 units were under construction, up more than 30 percent from one year earlier. Development timelines have grown longer, and fewer than half of the units currently under construction are scheduled to be completed in 2023.
- Permitting for multifamily properties accelerated in 2022. Developers pulled permits for more than 32,600 multifamily units in 2022, up 22 percent from one year earlier. The pace picked up throughout the year; permitting levels in the second half of 2022 were 29 percent higher than levels in the first half.
- **FORECAST:** After deliveries dipped to a six-year low in 2022, completions are on pace to accelerate in the year to come. Developers are projected to deliver approximately 30,000 units in 2023.

The vacancy rate has returned closer to its historical average.

VACANCY TRENDS



Sources: Northmarq, RealPage/MPF

VACANCY

- The average vacancy rate trended higher to close 2022. The rate rose 90 basis points, reaching 5.9 percent. This marked the third consecutive quarter where vacancy rose, following four straight quarters of declines where the rate dropped from 6 percent to just 2.7 percent.
- After reaching all-time lows in the second half of 2021 and early 2022, the vacancy rate in the region has returned closer to its historical average. Vacancy rose 300 basis points in 2022, following a 270-basis-point decline in the preceding year. The rate has averaged 5.2 percent during the past decade.
- The Dallas-Plano-Irving portion of the market posted better performance in 2022. In Dallas-Plano-Irving, vacancy ended the year at 5.7 percent, up from 2.8 percent one year earlier. Vacancy in the Fort Worth-Arlington segment of the market was 6.4 percent, reflecting a 330-basis-point annual increase.
- **FORECAST:** With the pace of deliveries forecast to gain momentum in 2023, vacancy is expected to push a bit higher. The rate is on pace to rise 70 basis points in the coming year, ending 2023 at 6.6 percent.

RENTS

- Rents leveled off during the fourth quarter but still posted rapid gains for the second consecutive year. Rents spiked 10.8 percent in 2022, building on a gain of more than 17 percent in 2021. Rents ended the fourth quarter at \$1,534 per month, having spiked more than \$350 per month in the past 24 months.
- Increases have been strongest in Class B properties in recent years. Class B rents ended 2022 at \$1,507 per month, 11.5 percent higher than one year earlier.
- Rent gains were recorded across the market in 2022, with the Dallas-Plano-Irving segment of the market growing at the fastest rates. Rents in Dallas-Plano-Irving advanced 11 percent for the full year, reaching \$1,576 per month. In the Fort Worth-Arlington section of the market, rents ended 2022 at \$1,403 per month, up 9.7 percent for the year.
- **FORECAST:** Rents in Dallas-Fort Worth are on pace to rise by approximately 4 percent in 2023, reaching \$1,595 per month. Prior to the steep spike in 2021 and 2022, rent growth had averaged approximately 4.5 percent per year.

Rents spiked 10.8 percent in 2022.

RENT TRENDS



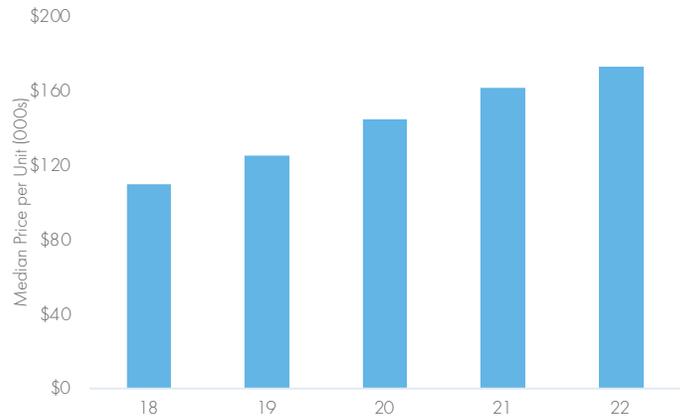
Sources: Northmarq, RealPage/MPF

MULTIFAMILY SALES

- Sales velocity in the Dallas-Fort Worth area slowed by 22 percent from the third quarter to the fourth quarter, as buyers and sellers pulled back in efforts to adjust to the evolving capital markets climate. The Class A segment recorded the greatest slowing at the end of the year, likely as a result of a slower leasing environment in newer properties.
- Investment activity in Dallas-Fort Worth was volatile in 2022, with activity levels in the first half of the year up 30 percent from the same period in 2021, before a slowdown in the second half. For the full year, area transaction activity was down 20 percent.
- Despite the recent volatility, the Dallas-Fort Worth region led the nation in multifamily investment activity in 2022. Transaction volume in the Metroplex was 45 percent higher than levels in the second-highest volume market.
- In transactions where pricing was available, the median price in 2022 totaled approximately \$172,400 per unit, up 7 percent from 2021 levels. Prices have pushed higher for the past several years; since 2017, year-over-year price growth has averaged 11 percent.
- During the fourth quarter, activity was concentrated in 1980s-vintage, Class B properties, which generally traded with prices ranging from \$140,000 per unit to \$165,000 per unit. Additionally, Class C buildings changed hands with prices near \$125,000 per unit.
- Cap rates averaged approximately 4.5 percent in the fourth quarter. While a handful of transactions closed with cap rates around 3.9 percent late in the year, the bulk of the properties that sold had cap rates between 4 percent and 5 percent.

The Dallas-Fort Worth region led the nation in multifamily investment activity in 2022.

INVESTMENT TRENDS



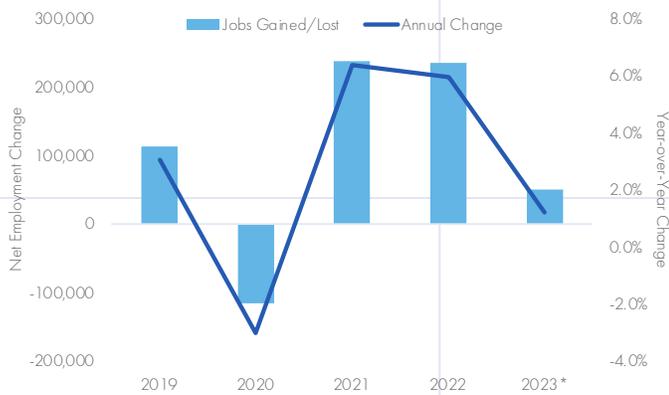
Sources: Northmarq, CoStar, Real Capital Analytics

LOOKING AHEAD

While the pace of multifamily development will be on the rise across most major markets in the country in 2023, the Dallas-Fort Worth region is better positioned to absorb the new inventory than most. Projects totaling approximately 30,000 units are slated to be delivered in the next 12 months. This total represents only about 3 percent of the region’s existing inventory—consistent with the market’s long-term growth trajectory—and is only 20 percent higher than the average level of annual deliveries recorded since 2017. From a demand standpoint, a cooling national economy will likely result in a more modest pace of employment growth at the local level. Still, employers in Dallas-Fort Worth are projected to add 50,000 jobs in 2023, one of the highest forecast totals in the nation.

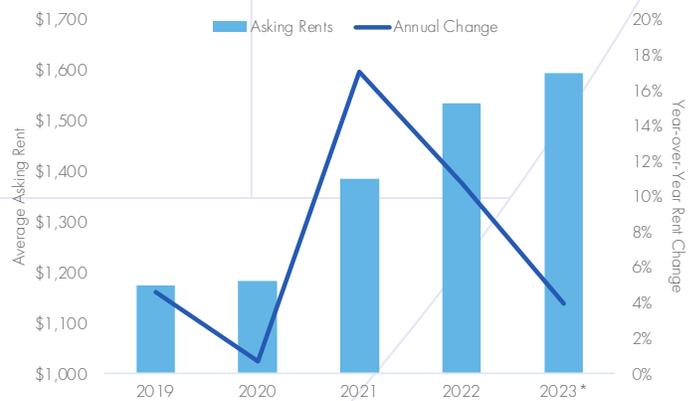
Investors are expected to remain active targeting multifamily properties in the Dallas-Fort Worth region in 2023. With rapid supply growth being an area of concern across the national landscape, investors will show a clear preference for markets where the competitive impact of elevated levels of new projects is less impactful. The Dallas-Fort Worth market should outperform in the year ahead and be one of the few regions in the country with renter demand growth that should come close to matching new supply growth levels. The region continued to post rent increases throughout 2022, and additional gains are forecast for the coming year. Assuming these trends hold, investment activity should gain momentum during the course of the year.

EMPLOYMENT FORECAST



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

RENT FORECAST



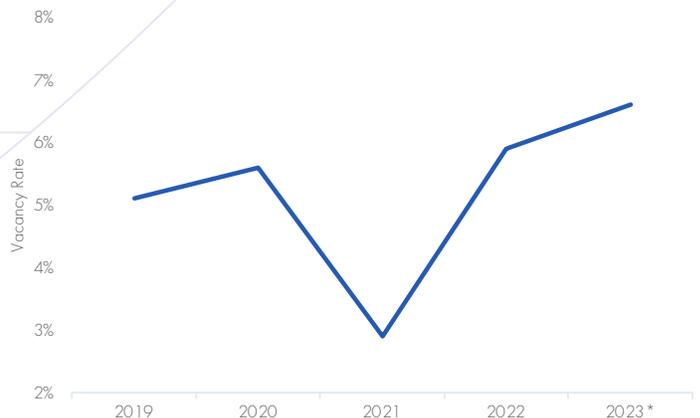
* Year End Forecast
Sources: Northmarq, RealPage/MPF

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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