

MARKET REPORT

MULTIFAMILY

Dallas-Fort Worth Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

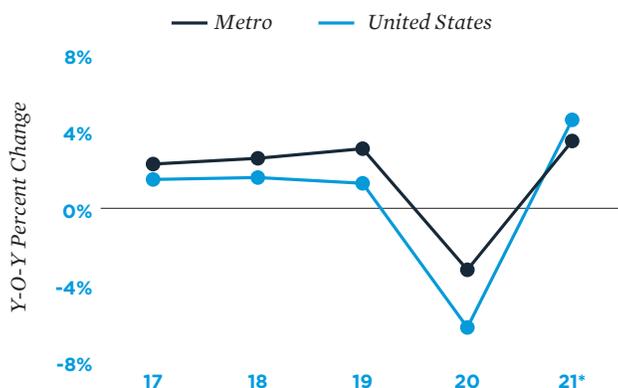
3Q/21

Dallas Urban Core Posts Strongest Absorption in More Than 20 Years

Young adult migration stimulates downtown demand. Many firms are expanding their workforce in the Metroplex, luring young adults to accept jobs and relocate. Recent graduates, in particular, are eager to advance their careers after an unorthodox hiring period during the pandemic. Dallas-Fort Worth's reasonable cost of living and high quality of life is a contributing factor. The age 20-34 cohort in the market is expected to grow by 22,400 people in 2021, a sharp contrast to the projected reduction in the U.S. Young adults moving to the Metroplex provide a tailwind for urban core rentals, as many within this age bracket prefer the downtown lifestyle and proximate amenities. The Intown Dallas submarket noted absorption of more than 1,000 units from April through June, the largest quarter reading since the turn of the century. Robust demand compressed vacancy to the lowest midyear rate in six years, facilitating 4.6 percent quarterly rent growth.

Positioning of development bodes well for absorption. Dallas-Fort Worth led all U.S. markets over the past year ended in June with the addition of nearly 27,700 units. The pace of development will not ease in the near term, but pressure is mitigated by construction aligning with areas of strong demand. Six submarkets will add more than 1,000 units in the second half. Four of these had vacancy contractions of at least 140 basis points during the past 12 months. The only submarket that may face meaningful supply pressure is North Arlington. Vacancy here rose 30 basis points year over year in June and 1,050 rentals are expected to finalize in the second half.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook



**130,500
JOBS**

will be created

EMPLOYMENT:

Dallas-Fort Worth's employee count will advance by 3.5 percent in 2021, which will recover all of the 121,600 roles shed in 2020. By the end of this year the personnel total will be roughly 9,000 workers higher than the amount registered in 2019.



**31,400
UNITS**

will be completed

CONSTRUCTION:

The Metroplex will lead the nation in apartment completions in 2021 with inventory scheduled to expand by 3.7 percent. This year's addition will be the largest on record and exceed the trailing-five-year annual average by more than 7,600 units.



**40
BASIS POINT**

decrease in vacancy

VACANCY:

Robust demand as a product of in-migration and household formation allows net absorption to exceed 33,000 rentals in 2021, more than 80 percent higher than last year. Demand will outweigh the large delivery volume and contract vacancy to 5.3 percent.



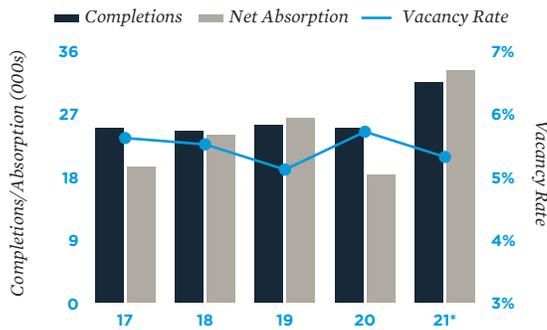
**6.8%
INCREASE**

in effective rent

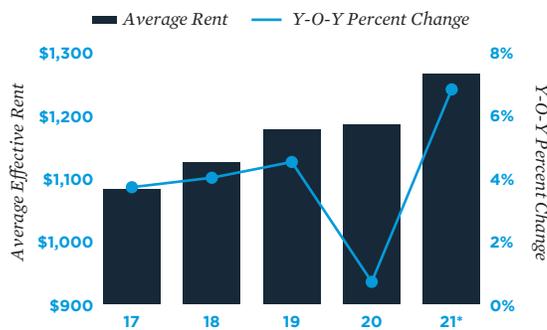
RENT:

An influx of newly built rentals entering lease up in conjunction with improved demand for more aged units will underpin rent growth this year. In 2021 the average effective rent will increase to \$1,265 per month, the fastest annual gain since 2015.

Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

2Q21 – 12-Month Period



CONSTRUCTION

27,692 units completed

- Completions over the past four quarters ended in June grew Metroplex stock by 3.3 percent, which ranked among the top 10 fastest inventory expansions within major U.S. markets during that span.
- North Fort Worth-Keller, North Oak Cliff-West Dallas and Allen-McKinney each had annual supply enlargements exceeding 10 percent.



VACANCY

70 basis point decrease in vacancy Y-O-Y

- Net absorption amounted to roughly 16,030 units in the second quarter alone, bringing the annual total ending in June to 32,140 rentals. This outpaced supply additions and curtailed the vacancy rate to 5.0 percent.
- Class A availability fell 200 basis points year over year to 4.7 percent in the second quarter, the lowest rate for the tier since late 2015.



RENT

5.3% increase in the average effective rent Y-O-Y

- The average effective monthly rent reached \$1,248 in the second quarter, up 5.4 percent from the beginning of this year.
- All three tiers of apartments had rent growth over the past 12 months, led by a 6.2 percent surge in Class B. Looking at April through June of 2021, both Class A and B had quarterly gains of more than 4 percent.

Investment Highlights

- Deal flow has been consistently strong through the health crisis, as more out-of-state investors set their sights on Dallas-Fort Worth. Robust household growth expectations and resilience during the pandemic lured buyers from more challenged East and West Coast gateway markets. Greater competition for assets facilitated a 6 percent annual jump in the average sale price and reduced the mean cap rate by 30 basis points from the 2020 measure to 4.8 percent.
- Class A properties traded more frequently during the past four quarters than in the previous year. Investors targeting upper-tier complexes have been homing in on north suburbs that are growing quickly, such as Frisco, Prosper and Plano. Class A buildings here typically change hands with average pricing in the \$190,000 to \$230,000 per unit range.
- The suburb of Denton has been attracting more private buyers seeking lower-tier complexes. Specifically, Class C apartments in neighborhoods proximate to Interstate 35 are luring investors as entry costs are well below the Metroplex average. Assets here often change hands for prices under \$100,000 per unit.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.