

MARKET REPORT

Multifamily

Dallas-Fort Worth Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/23

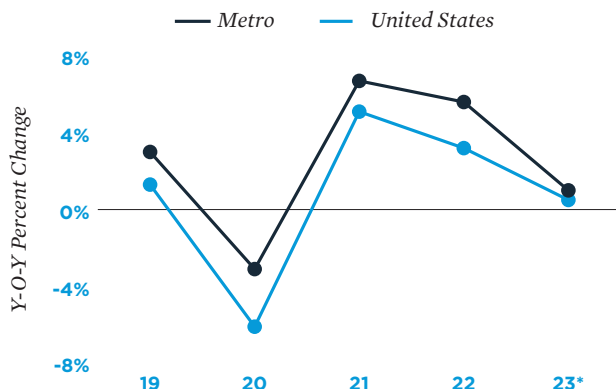
Brisk Development Hampers Outlook; New Rentals are Needed Longer-Term

Record-setting completion slate a fraction of total pipeline. The Metroplex will once again lead the country in apartment deliveries this year, while also achieving a new annual record for local openings. Nearly 30,000 units will finalize across 2023, representing just a sliver of the 80,000-plus rentals that have broken ground. The number of units under construction entering the second quarter of 2023 exceeded any other major U.S. market by nearly 25,000. Builders are active in all corners of the Metroplex, with at least 1,000 units underway in 25 different submarkets. Frisco and Allen-McKinney are particularly high-focus areas, with more than 10,000 rentals being constructed in each location. Both of these submarkets had sub-7 percent vacancy rates in the first quarter, but the slew of deliveries will likely present additional near-term pressure. As a whole, heightened construction will test Dallas-Fort Worth this year and keep vacancy on an upward path. New supply is needed over a longer horizon, however, to keep pace with local housing demand.

Youthful populace and homebuying hurdles signal rental needs.

Approximately 29 percent of Dallas-Fort Worth's population is in the age 25-44 cohort, a share that ranks in the top-15 major U.S. markets. Young adults will continue to migrate in for job availability and cost-of-living advantages, alongside other lifestyle factors. Elevated borrowing costs, high home prices, limited for-sale single-family inventory, and cost-saving benefits of renting will meanwhile encourage this cohort to remain at apartments longer into their lives.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**43,000
JOBS**

will be created

EMPLOYMENT:

Through April, at least 9,000 jobs were added on net in 10 of the past 12 months. Professional and business services was the largest contributor in that span. However, as 2023 progresses, national economic headwinds are expected to subdue local hiring.



**29,000
UNITS**

will be completed

CONSTRUCTION:

The volume of new rentals ranks as the largest in the nation, but the pace of inventory growth falls outside the top 10. Concession usage is rising as the new supply stokes competition for tenants, yet the share of units offering has so far held below 2019 norms.



**80
BASIS POINT**

increase in vacancy

VACANCY:

Following last year's 300-basis-point vacancy lift, the rate will climb to 6.7 percent by the end of 2023. This marks the highest availability since 2011 amid record supply and economically-hindered demand. The rate nevertheless holds below Houston and San Antonio.



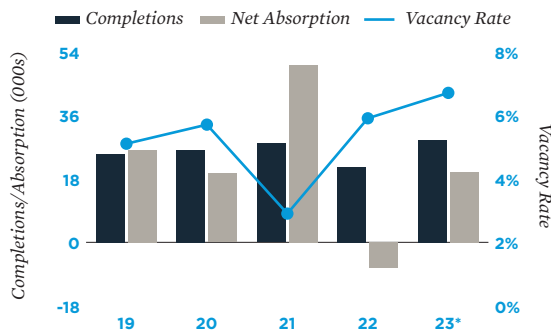
**3.7%
INCREASE**

in effective rent

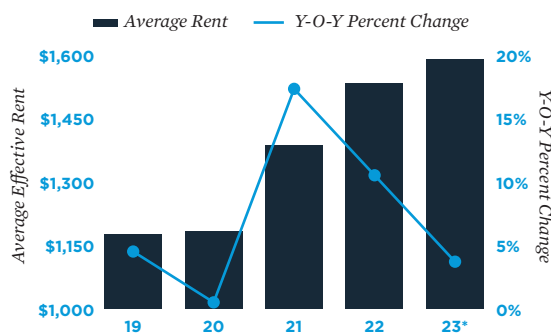
RENT:

While rising vacancy is expected to weigh on rent growth, the massive amount of new high-quality rentals opening will result in an annual increase. The average effective monthly rate moves up to \$1,590, which exceeds 2019 by 35 percent.

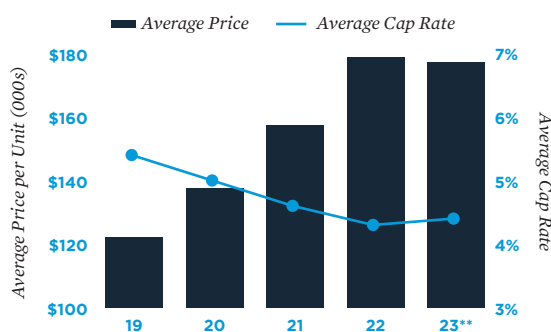
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

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

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Price: \$250

1Q 2023 - 12-Month Period

CONSTRUCTION

22,291 units completed

- Supply additions over the past year were relatively modest by Dallas-Fort Worth's standards. The 2.4 percent inventory growth pace during that frame measured as the smallest over an equivalent span since 2015.
- The slowdown in deliveries was linked to delays and supply chain deficiencies, resulting in prolonged projects set to finalize in the coming quarters.

VACANCY

370 basis point increase in vacancy Y-O-Y

- Metroplex vacancy rose by at least 60 basis points in every quarter during the past year, resting at 6.5 percent in March 2023. The magnitude of this movement is partially due to how tight availability was in early 2022.
- Submarkets with the lowest Class A vacancy in the first quarter of 2023 include Denton, Southwest Dallas and The Colony-Far North Carrollton.

RENT

6.7% increase in the average effective rent Y-O-Y

- After peaking in the third quarter of last year, the average effective rent in Dallas-Fort Worth ticked down 0.6 percent from that point to \$1,530 per month in March 2023. Rising vacancy is marginally pressing on rates.
- Class A and B rent growth each measured in the 7 percent range, with some of the largest annual jumps in outlying areas like Denton and Ellis County.

Investment Highlights

- Financing hurdles amid a rapid series of interest rate hikes and buyer/seller disconnect is heavily weighing on transactions. Deal flow from January through March 2023 was down more than 60 percent relative to the same three-month period of last year. The Federal Reserve seems to be taking a more cautious stance, however, which could help ease hurdles in the coming quarters. The long-term value of apartments in Dallas-Fort Worth is unquestioned, due to its ability to attract new firms and residents.
- The massive construction pipeline presents both near- and long-term benefits for multifamily trading. While many institutions have gone to the sidelines during the past few quarters amid rapidly rising interest rates, opportunities for development partnerships, or to acquire recently-built high-quality assets, could be abundant in the coming years. Entering the second quarter, Dallas-Fort Worth had approximately 30 percent more units underway than the next-closest major market, Phoenix. On that note, potential competition from the supply-side could be top of mind for investors.
- Local economic growth accelerated by remote work flexibility during the pandemic in outlying suburbs like Denton and Waxahachie is a notable trend. Builders and investors have taken note of household creation here.

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. 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: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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