MARKET REPORT

Multifamily

Dallas-Fort Worth Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

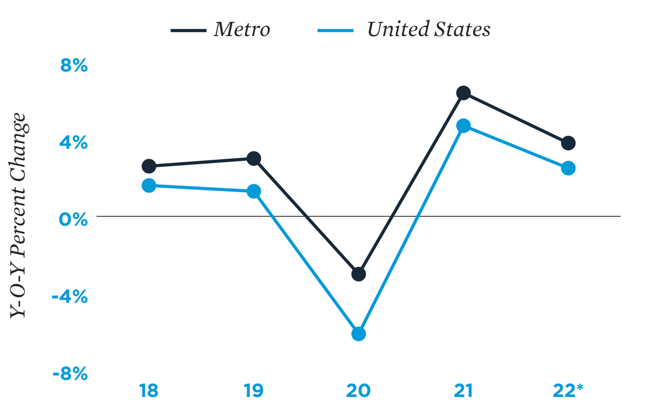
2Q/22

Thriving Economy Aids Demand Tailwinds; Suburban Fort Worth in a Strong Position

Corporate relocation pipeline strengthens outlook. Dallas-Fort Worth presents migrating firms an attractive destination, offering incentives, lower business costs and an abundant labor pool. Fortune 500 company AECOM is the latest major corporation to plant its global headquarters in Dallas, joining Charles Schwab and telecom giant DZS on the list of firms that left California for the Metroplex. Concurrently, rapidly rising office costs in Austin may prompt some in-state mobility, as seen with SupportNinja's move to Dallas late last year. Businesses with an existing local presence are growing as well. At Home moved into a larger office in Coppell in December, eventually planning to house 1,000 workers at the facility. Relocations and expansions spawn recruitment efforts, bringing new residents to the Metroplex and boosting apartment demand.

Logistics boom favorable for Fort Worth suburbs. In the opening quarter of 2022, there was a flurry of 300,000-plus square foot move-ins by industrial tenants. Saddle Creek Logistics, H-E-B and Truvant took up floorplans meeting this criteria in the Interstate 35 corridor, north and south of Fort Worth. Large operations typically translate to sizable labor needs, and many workers will favor housing options nearby. North Fort Worth-Keller and South Forth Worth should maintain vacancy rates below the Metroplex average, with less than 1,000 units set for 2022 completion in the two areas combined.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

150,000 JOBS
will be created

EMPLOYMENT:

Dallas-Fort Worth ranks first in the United States for jobs added on a net basis since the onset of the pandemic. Market employment was 167,200 roles higher in March 2022 than in February 2020. The surplus stretches to 255,000 jobs by year-end.

23,000 UNITS
will be completed

CONSTRUCTION:

For the first time since 2016, annual inventory growth falls below 3 percent. Dallas-Fort Worth held a spot inside the top 10 for fastest supply growth among major U.S. markets in each of the past six years, but the metro drops to 14th in 2022.

50 BASIS POINT
decrease in vacancy

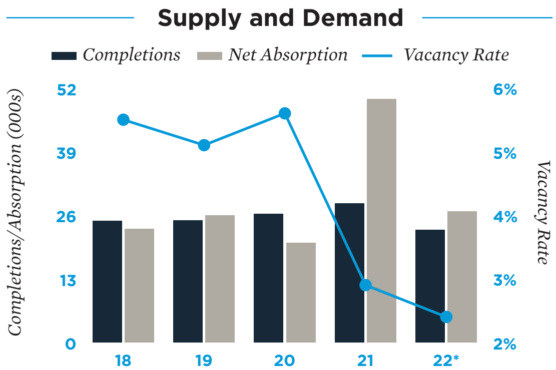
VACANCY:

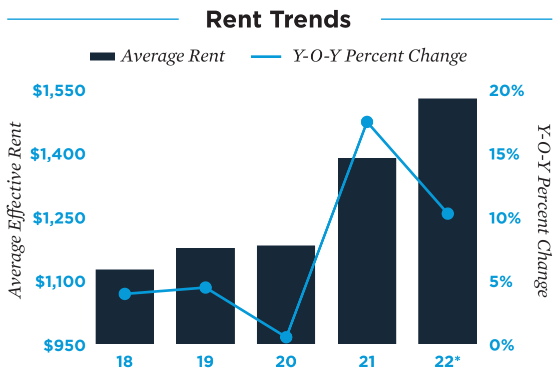
Net absorption declines by 23,000 units compared to last year, but the total is still the second highest across the past two decades. This keeps vacancy moving downward as demand outpaces supply. Availability eases to 2.4 percent in the fourth quarter.

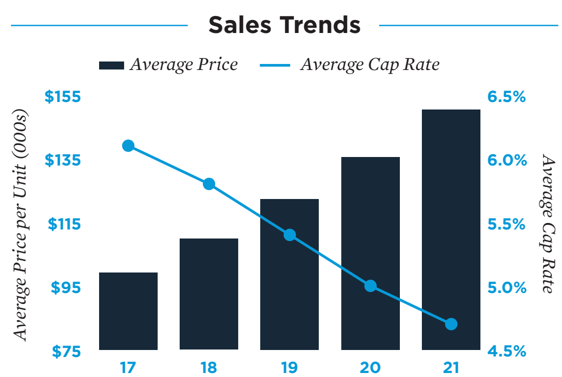
10.2% INCREASE
in effective rent

RENT:

By the end of this year, the average effective rent will climb to $1,528 per month, bringing the two-year gain to 29 percent. That 24-month surge exceeds the five-year lift from 2014-2019, conveying how quick the pace of rent growth currently is.







** Forecast*

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

IPA Multifamily

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

26,009 units completed

- North suburbs were the congruent target for developers as remote work led to stronger demand. In 2021, Allen-McKinney and North Fort Worth-Keller had stock expansions larger than 10 percent.
- Builders are particularly active in Frisco and Grand Prairie, but marketwide, new supply is not much of a threat to fundamentals in 2022.

VACANCY

330 basis point decrease in vacancy Y-O-Y

- There is little separation in vacancy rates between property tiers as demand is strong across the board. Class C vacancy was the smallest at 2.5 percent, and Class A was the highest at 3.0 percent entering April 2022.
- Market availability stood at 2.7 percent in March, not only the lowest on record, but 160 basis points under the 2000-2020 trough.

RENT

19.9% increase in the average effective rent Y-O-Y

- The average effective rent in the Metroplex soared to $1,433 per month in the first quarter of this year, buoyed by 20-plus percent annual jumps in one-third of the metro's 48 submarkets.
- Greater Dallas had a 20.4 percent lift during the 12-month period ended in March, outpacing the 18.4 percent jump recorded in Greater Fort Worth.

Investment Highlights

- Dallas-Fort Worth is a focal point for many institutions and private investors around the country, as robust employment growth and household formation helped vacancy drop to depths not seen this century, powering very strong rent growth. Transaction velocity last year was the highest since 2018, boosted by an acceleration of Class A deals. More upper-tier apartments traded in 2021 than in any of the past 20 years, showcasing the active role REITs play in the marketplace.
- The lift in Class A trades and overall buyer competition translated to an 11 percent rise in the average per-unit sale price last year, the seventh consecutive year of double-digit growth. At $150,400 per unit, the mean price is the second highest for major markets in Texas, but trails most other key metros in the Sun Belt, which should sustain healthy deal flow as buyers seek out regionally lower entry costs.
- The average yield in the Metroplex fell 30 basis points last year to 4.7 percent. In preferred suburbs like North Fort Worth and Plano, buyers are accepting minimum returns in the 3 percent range. Higher interest rates will lift the costs of borrowing, potentially weighing on activity and placing upward pressure on cap rates this year.