MARKET REPORT

Multifamily

Dallas-Fort Worth Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

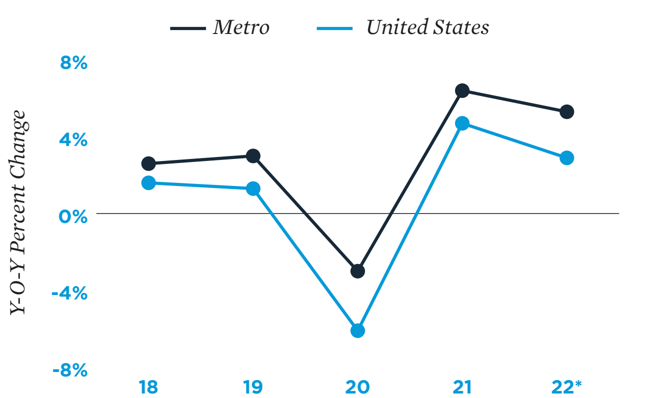
3Q/22

Aggressive Building in North Suburbs and Weaker Household Creation Ease Momentum

Hottest areas take a step back. Rentals in Dallas' northern suburbs were in extremely high demand in 2020 and 2021, as many residents sought larger living spaces in less dense areas. Locations like Frisco-Prosper and Allen-McKinney recorded vacancy drops near 300 basis points last year, lowering rates into the mid-2 percent range. As conditions quickly tightened, the construction pipeline expanded. Both of these submarkets had annual supply growth exceeding 7.5 percent through June 2022, the fastest rises of any area with at least 25,000 units of inventory. Much of this new supply came online in the first half of this year as inflation started to impact renters' budgets, prompting some residents to find roommates, move back in with family or relocate. The slower pace of suburban household creation amid a wave of new rentals led to local vacancy hikes of at least 140 basis points in these submarkets during the first half. Still, both areas maintained rates on par with the marketwide average.

Lower-cost submarkets stand out. The rapid rent growth in Dallas-Fort Worth during the past 18 months, with effective rates jumping more than 25 percent through June 2022, likely has lower-income households seeking less costly options. Submarkets that still offer proximity to jobs in the urban cores and have average effective rents below the market average performed well recently. Northeast Dallas, East Fort Worth and Northwest Dallas, all of which have an average effective rent below $1,200 per month, were the only three areas where vacancy declined or held firm during the first half.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

210,000 JOBS *will be created*

EMPLOYMENT:

Dallas-Fort Worth added just shy of 150,000 jobs in the first six months of 2022, the largest gain in the country by about 30,000 roles. In the second half, economic headwinds and tight unemployment will slow growth.

20,500 UNITS *will be completed*

CONSTRUCTION:

Supply additions in 2022 fall to a six-year low, which should help curtail upward pressure on vacancy. Still, Metroplex inventory will expand by at least 2 percent for the ninth consecutive year.

110 BASIS POINT *increase in vacancy*

VACANCY:

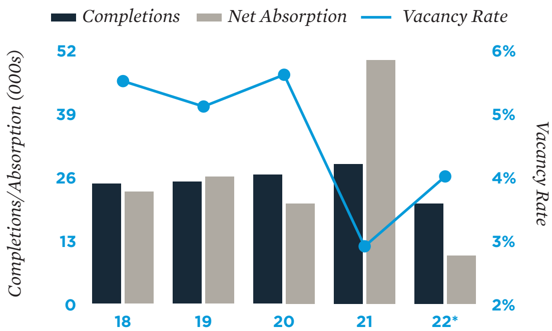
Following a 270-basis-point vacancy compression in 2021, the rate will move up from a historic low, reaching 4.0 percent by year-end. Availability will remain more than 100 basis points below the 2015-2019 average.

11.0% INCREASE *in effective rent*

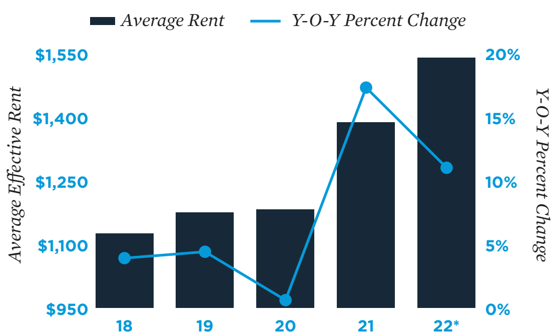
RENT:

Rent growth set a record last year with a 17.3 percent annual gain. The advance in 2022 will be the second fastest over the past two decades, with the average effective rent moving up to $1,540 per month.

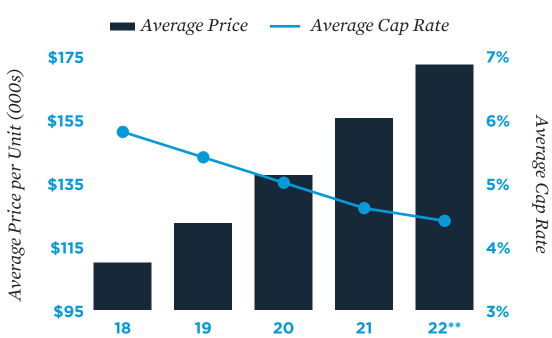
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

23,090 units completed

- Among the 40 Metroplex submarkets with at least 10,000 units of local inventory, supply grew the fastest in South Arlington-Mansfield. Meanwhile, Allen-McKinney added the largest number of new rentals.
- As of July, almost 50,000 units were underway with delivery dates scheduled for beyond 2022. Allen-McKinney again has the greatest share.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Locations with the lowest Class A vacancy rates include East Fort Worth, Denton, Burleson-Johnson County and Far East Dallas. Among these submarkets, the upper-tier rate is down the most in East Fort Worth.
- Greater Dallas has tighter vacancy in every rental segment than in Greater Fort Worth. All three class cuts are within 40 basis points, however.

RENT

19.3% increase in the average effective rent Y-O-Y

- Looking at Dallas-Fort Worth's 40 most sizable submarkets, annual rent gains exceeded 20 percent in more than one-fourth. Only eight of the 40 areas posted year-over-year rent lifts smaller than 15 percent.
- Entering the second half, annual rent gains in the Class A and Class B segments both exceeded 18 percent, while the Class C rise was 11 percent.

Investment Highlights

- Metroplex apartment assets commanded $172,200 per unit on average during the yearlong period ended in June 2022, a mean 40 percent above the 2019 measure. This increase drove the average cap rate down 100 basis points during that span to 4.4 percent. Additionally, the mean sale price has risen by at least 10 percent in seven straight years, and it appears increasingly likely that 2022 will continue that streak, given the strong first half. Fast appreciation, solid apartment fundamentals and a promising economic outlook in Dallas-Fort Worth should bolster institutional activity, though increasing interest rates will likely create some near-term hurdles.
- During the first two quarters of 2022, nearly one-third of all apartment transactions involved Class A/B properties with over 200 units, exemplifying robust institutional-level activity in Dallas-Fort Worth. Assets meeting this criteria transacted with an average price per unit of roughly $245,000, with cap rates in the upper-2 to upper-3 percent band most common.
- Institutions looking toward the west side of the Metroplex may concentrate heavily on the North Fort Worth-Keller submarket, as several ongoing large-scale industrial developments are poised to lift local demand. Buyers with a preference for urban core assets target university-adjacent complexes.