DALLAS MULTIFAMILY MARKET SETS PACE FOR NATIONAL RECOVERY

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The COVID-19 crisis has certainly had a heavy impact on many sectors of the economy; however, the multifamily sector still has had a triumphant year. The Dallas apartment sector has maintained healthy occupancy in 2021, and the investment side of the market is picking up due to buyers having constrained capital during the height of the public health crisis in 2020.

Dallas-Fort Worth (DFW) has benefited from major corporate relocations since the 1980s. Over the last decade, corporate interest has expanded and that brought multiple Fortune 500 companies' headquarters to the region due to its pro-business conditions.

It is no wonder why the market is on the radar of C-suite leaders and governing boards — its favorable workforce, affordable cost of housing, lack of state income tax and steady supply of new apartment buildings are all factors. Simply put, apartment investors regard DFW as an opportunity for growth.

Between 2019 to 2020, approximately 120,000 people from outside the metroplex have been added to the local population. This number has substantially increased over the last two years due to COVID-19.

Market Overview

The Dallas multifamily market has been hot for the last seven years, and this year it's boiling over.

Oftentimes sellers are receiving multiple offers within hours after going on the market from buyers trying to preempt the marketing process. Tremendous pressure has been created by the number of buyers willing to reach terms by offering hard money at contract execution, often while the property is still in lease-up mode.

Construction of new multifamily apartments has declined enormously in the last few months, mainly due to rising prices of commodities like lumber, which is up by 34 percent year-over-year, according to *The Wall Street Journal*. RealPage also reported that issuance of Dallas-area annual apartment building permits in June 2021 was down more than 23 percent from that month in 2020.

Cap Rates Compress

As a result of high buyer demand and historically low interest rates, multifamily cap rates in DFW are the lowest they have ever been.

The buyers include many investors from rent-restricted, challenging apartment markets such as San Francisco and New York City that want to focus on more business-friendly environments with opportunities for growth. We are in an economic downturn, but surprisingly, apartment buildings have consistently gone up in value, pushing cap rates into a steadily downward trend in the process.

In the last year, cap rates have decreased by 25 to 50 basis points on average. Most assets are now trading below 4 percent cap rates. Subsequently, prices are being propelled to record levels, with many new builds selling for $235,000 per unit or higher.

This is presumably due to a rise in need for housing, as the market's average vacancy rate is below 5 percent, brought on by a low inventory of properties for sale and a reduction in multifamily construction.

Earlier this year, The Multifamily Group brokered the sale of Sky Landing, a 144-unit community in the Fort Worth suburb of White Settlement. Such deals are popular among investors that are being priced out of markets like New York City of San Francisco.

Banks have been very hesitant to lend on new projects due to the uncertainty of market rents, rental concessions and other impacts of a broader economic slowdown. Furthermore, with retail, office and hospitality leases folding, more capital sources are targeting multifamily assets as a less-risky alternative investment.

COVID-19 Impacts

When COVID-19 hit and working from home became more widespread, renters began leaving urban areas. People wanted to lower their rents to opt for office areas with additional bedrooms or more outdoor space.

Consequently, urban apartment markets saw dips in occupancy, flattening of rental growth rates and stalling out of lease renewals. Yet suburban multifamily markets realized these benefits; surface-parked garden properties are the preferred product type for many investors right now. Leasing has remained strong, and sale prices for suburban properties are breaking records across the state.

There is more investment demand for multifamily assets than obtainable product n the market. Additionally, several owners have been severely impacted by COVID-19, along with government sanctions like the federal eviction moratorium that allow tenants to not pay rent even if they are still earning income. Several multifamily investment groups had to slow down purchasing in 2020 after not receiving significant numbers of rent payments while also finding ways to keep up with mortgage obligations.

Thankfully, we are seeing leasing and investment activity in urban submarkets pick back up. As businesses are coming back to their offices in downtown and Uptown Dallas, properties are filling back up, rents are steadily rising and lease-ups are progressing toward stabilization. According to Kastle Systems "Back to Work" Barometer, Dallas has the second-highest rate of office users returning to their buildings at 46 percent, compared to the national average of 32 percent.

Lastly, DFW has shown tremendous recovery in terms of the number of jobs recently recouped. In April 2020, DFW experienced astonishing losses related to COVID-19, with more than 400,000 jobs lost. DFW has since recovered, adding over 300,000 jobs in May 2021 alone.

The metroplex appears to already be emerging into an exceptionally revamped market. This year is proving to be a tremendous time for multifamily investors in Dallas. Interest rates have remained low, performance throughout the year has been great and the economy is steadily regaining steam, which should ensure steady job growth.