Market Insights

Dallas-Fort Worth/Winter 2025

Intro

Closing the Year Strong: North Texas Sales Insights

by Todd Franks, Founding Partner, Dallas

Transaction Activity

- **Transaction Volume:** Multifamily transactions in North Texas increased by just over 14% from 2023 to 2024. However, total dollar volume remained flat, while the number of units transacted decreased by approximately 5%.
- **Second-Half Surge:** Sales activity significantly increased in the second half of 2024, with transaction volume up 45% compared to the first half of the year. The third quarter marked the peak for transactions, units sold, and dollar volume.

GREA's Market Leadership

- **Record Month in December:** GREA closed 16 transactions in December alone, capturing an incredible 42% total market share for that month.
- **Overall Market Share:** GREA achieved the top position in the market, leading with over 27% of all transactions recorded in 2024.

Asset Trends by Construction Era

- **2010 and Newer:** Properties built in 2010 or later dominated the market, comprising 32% of total sales volume, a 28% increase over 2023.
- **1990-2009:** Transactions for these properties remained stable year-over-year, accounting for 18% of total deal volume. The average price per unit saw a notable increase of nearly $20,000 compared to 2023, the highest increase of any era of construction.
- **1980s Construction:** These assets accounted for 21% of sales volume, but their total sales dropped by 12% from 2023. The average price per unit declined by just over 3.8%.
- **1960-1979:** This category increased 3% to 27% market share with 49 transactions, matching the previous year's results.
- **Pre-1960:** Older properties represented only 4% of the market, with just eight transactions recorded in 2024.

Loan Maturity Impact

- Of the 202 transactions recorded in 2024, only 38 were attributed to securitized loan maturities. Many other non-securitized loans likely came due, as well as rate cap expirations prompting owners to either sell or refinance under pressured circumstances.

Off-Market Transactions

- **Decline in Off-Market Deals:** Off-market transactions dropped sharply from 47 in 2023 to just 19 in 2024. This decline reflects owners' need to demonstrate to limited partners and shareholders that they maximized sale prices by listing properties to create competitive bidding.
- **Pricing Variances:**
  - **1980s Construction:** Off-market transactions were priced 17% lower than listed properties.
  - **1960s-1979 Construction:** Off-market sales saw a 29% price reduction compared to listed properties.
  - **1990s -2009:** Off-market pricing was just 7.5% lower than listed assets.
  - **2010s and Newer:** This is the only construction era with a higher average per unit price than the marketed assets. Some notable off-market opportunities in the sector skewed the statistics materially. One of these was an asset GREA sold, a tower in uptown, for the highest per-unit price ever in DFW. In 2023 listed properties built in 2010 or later sold for 18.75% more than the off-market transactions.

Looking Ahead

GREA's success in 2024 underscores our commitment to delivering exceptional results for our clients, even in a challenging and evolving market. We're proud to lead the North Texas multifamily market and look forward to another year of opportunities and growth in 2025.

Thank you for entrusting GREA with your multifamily investment needs. We're excited to continue serving you in the year ahead.

\- Todd

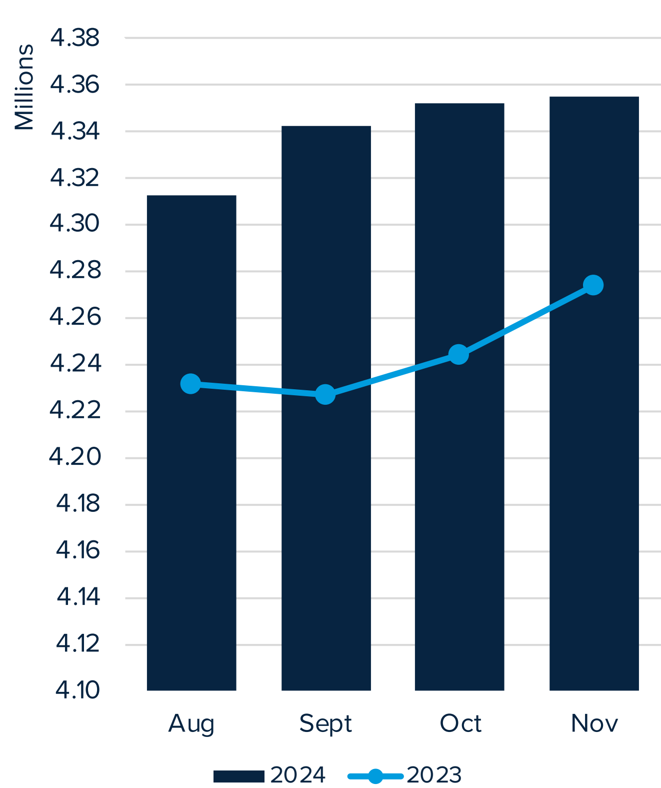
Employment & Job Growth

Dallas-Fort Worth remains a national leader in job creation, adding 410,000 jobs since February 2020, despite a recent slowdown in higher-paying office-related segments. The region's economic resilience supports multifamily demand, particularly as elevated interest rates hinder homeownership affordability, keeping more households in the rental market.

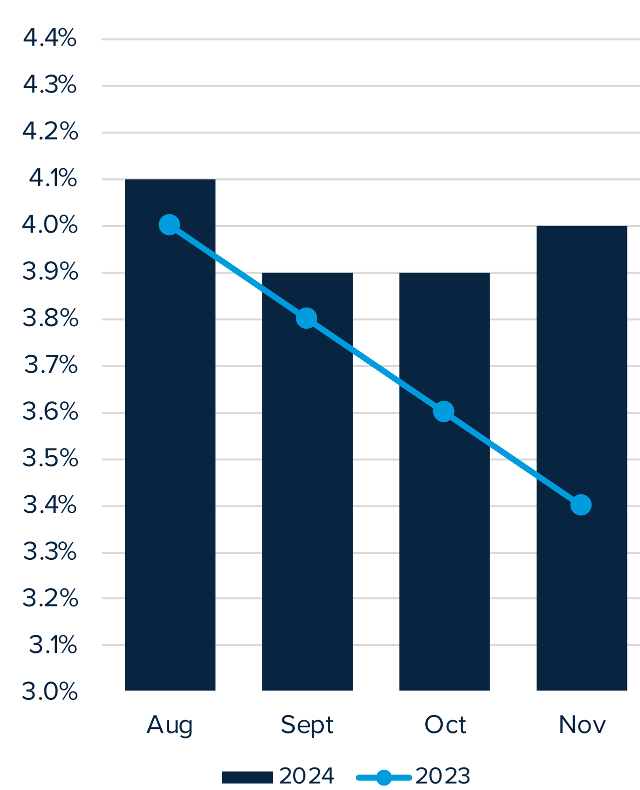
Key Highlights

- **Demand Drivers:** Frisco/Prosper and Allen/McKinney accounted for a third of market demand, driven by population gains in Collin and Denton counties.
- **Supply Trends:** The market delivered 41,000 units over the year, representing 4.3% of inventory.
- **Investment Activity:** Institutional players continue to target stable submarkets with corporate presence and population growth.
- **Future Outlook:** With tapering construction starts, the market is poised for tighter vacancies and rent recovery by 2025-2026.

Total Employment



Unemployment



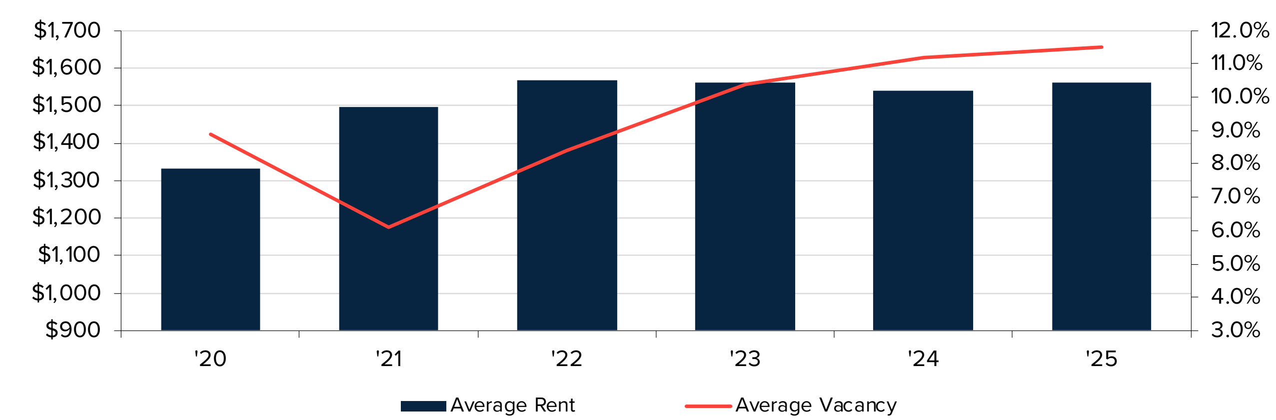
Rent

Rent growth in the Dallas-Fort Worth market contracted by -1.5% year-over-year due to significant supply additions. The decline is more pronounced in high-end properties, while Class-B rents also fell for the first time since 2010. Approximately 40% of properties now offer concessions, the highest since 2020.

Key Highlights

- **Segment Disparities:** Class-A rents fell by -1.7%, while Class-B rents declined by -1.6%.
- **Concessions Surge:** Over 40% of properties offer incentives, particularly in supply-heavy submarkets.
- **Historical Perspective:** Rents are 17% higher than 2020 levels, despite recent softness.
- **Outlook:** Rent growth is expected to rebound to 2% annually in 2025 as supply pressures ease.

Average Rent / Vacancy



Vacancy

Despite rising demand, vacancy rates remain elevated at 11.2%, driven by an oversupply of new units. Higher-quality Class-A properties record vacancies of 11.9%, slightly above their pre-pandemic average. However, stabilized vacancy in growth submarkets like Frisco and Allen/McKinney hovers around 6%.

Key Highlights

- **Supply-Demand Imbalance:** Surging completions continue to outpace absorption, keeping vacancies high.
- **Submarket Performance:** Growth submarkets lead absorption with stabilized vacancy below pre-pandemic levels.
- **Mid-Tier Challenges:** Class-B properties face elevated vacancies (11.0%), reflecting affordability pressures.
- **Demographic Drivers:** Population growth remains a critical factor in sustaining long-term demand.

Construction & Deliveries

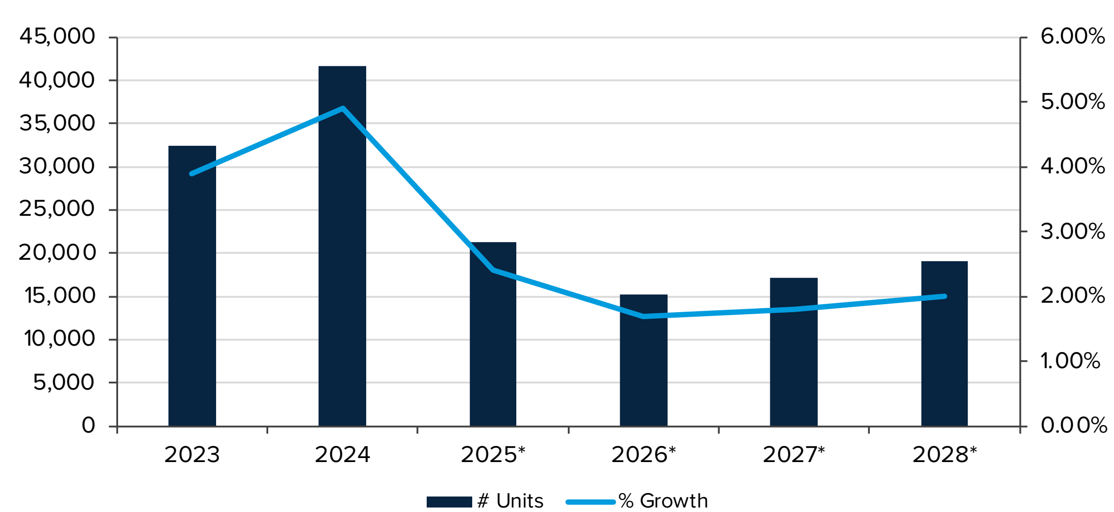
Construction activity is tapering in the Dallas-Fort Worth market, with 36,000 units currently under construction, down from a peak of 64,000. Deliveries over the past year totaled 41,000 units, accounting for 4.3% of inventory. Northern suburbs like Frisco/Prosper continue to dominate construction activity, reflecting demographic trends.

Key Highlights

- **Peak Supply Passed:** New starts have declined sharply due to rising construction costs and financing hurdles.
- **Suburban Focus:** Frisco/Prosper leads in new developments, tracing strong population and economic growth.
- **Urban Shift:** Urban core projects like *The Sinclair* highlight growing interest in residential conversions.
- **Future Outlook:** Tapering construction is expected to stabilize vacancy and rent growth dynamics.

22,400
New Units
Expected Completions for 2025

Supply / Demand Forecast



Overview: Distressed Multifamily

The multifamily sector faced growing financial pressures through 2024 as rising interest rates, loan maturities, and softening fundamentals strain property performance. While foreclosure activity remains subdued, indicators such as increasing watchlist volume and declining debt service coverage ratios (DSCR) suggest mounting challenges for owners and lenders. With significant loan maturities on the horizon, the ability to navigate refinancing hurdles will be critical in the coming year.

Foreclosures in the multifamily sector remain minimal despite economic challenges for several reasons. First, many lenders are already managing distressed office assets and other troubled loans stemming from the 2022 interest rate spike. To avoid overwhelming their staff and worsening the situation, lenders are carefully managing their pipeline. Second, lenders are actively employing strategies to avoid taking properties back as long as borrowers continue making debt service payments. This includes granting extensions on bridge loans—even when properties no longer meet original qualifications—due to the high cost and complexity of foreclosure. In some cases, borrowers have voluntarily returned properties, leading lenders to either form joint ventures with trusted borrowers or replace the existing sponsor while modifying loan terms to stabilize the asset.

Initially, the 2024 market outlook was based on expectations of lower interest rates in 2025. However, following the election, the market shifted to a “higher-for-longer” rate environment as the 10-year Treasury yield climbed nearly 80 basis points through the 4th Quarter of 2024.

Lenders are particularly motivated to avoid foreclosure—even in states like Texas where the process is relatively simple—due to significant financial and reputational risks. Foreclosures are costly and often result in losses, especially in a soft market with rising vacancies where selling foreclosed assets may not cover outstanding debt. Additionally, maintaining strong relationships with experienced borrowers, especially those with multiple loans, is crucial for long-term partnership stability. By prioritizing loan modifications, joint ventures, and selective pipeline management, lenders aim to mitigate losses, stabilize loan performance, and prevent a surge of distressed assets that could further damage property values and market confidence.

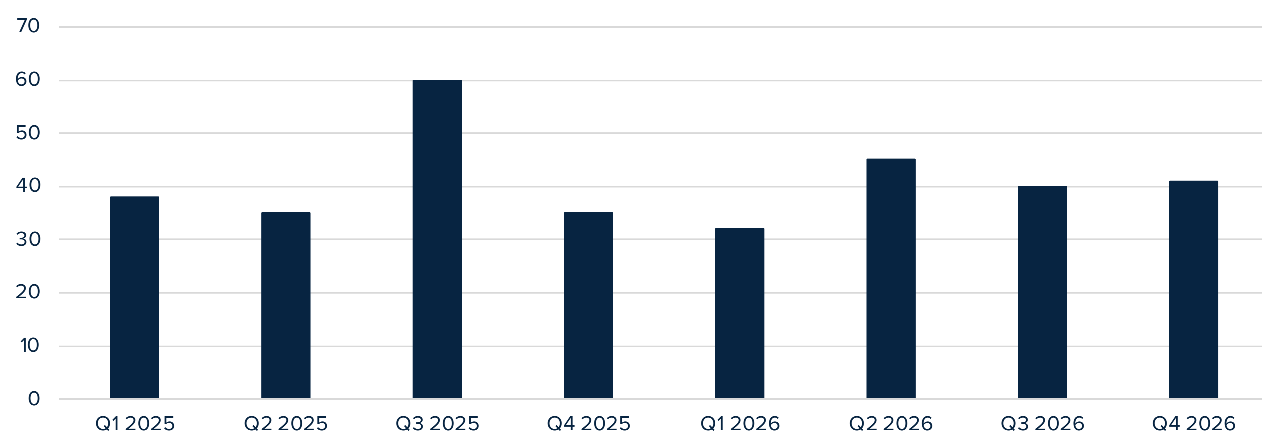
Key Highlights

- **Foreclosure Trends:** Foreclosures remain minimal, with 10 recorded in 2024. This reflects effective mitigation measures but raises concerns about potential increases as distressed assets face refinancing pressure.
- **Watchlist Growth:** Properties flagged by lenders surged by over 226% from Q1 (141) to Q4 (320), signaling heightened caution amid shifting market conditions.
- **Upcoming Loan Maturities:** Over the next 24 months, significant volumes of loan maturities are scheduled (326 loans in total), with a sharp uptick anticipated in Q3 2025 (60 loans). Owners of underperforming properties may face difficulties securing favorable refinancing terms.
- **Delinquency Rates Rising:** Delinquencies on loans 30+ days past due ticked upward in early 2024, with the 90+ day delinquency category showing similar increases, reflecting growing strain among highly leveraged assets.
- **DSCR Weakening:** The weighted average DSCR dropped to a low of 1.36 in Q2 2024, signaling that a greater proportion of properties are struggling to generate sufficient net operating income to cover debt obligations.

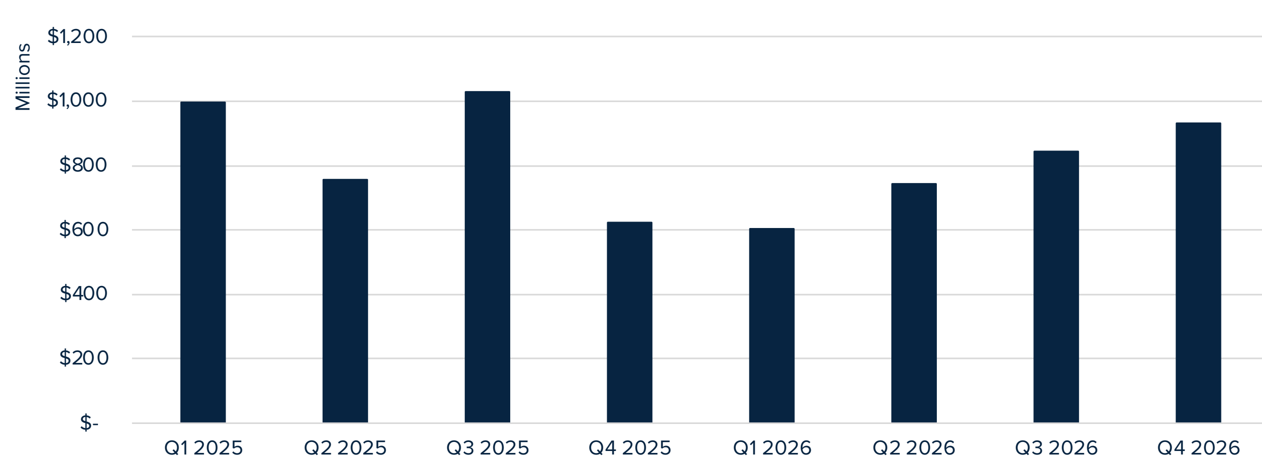
Rising Distress in Dallas Multifamily Market Amid Economic Pressures

IMMEDIATE RISKS

of Loans Maturing

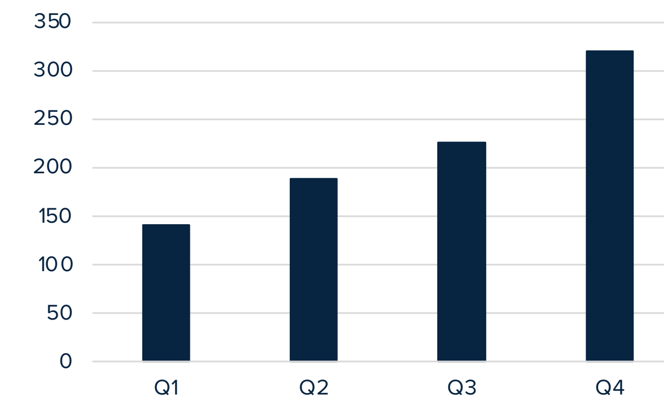


Loan Maturity Dollar Volume

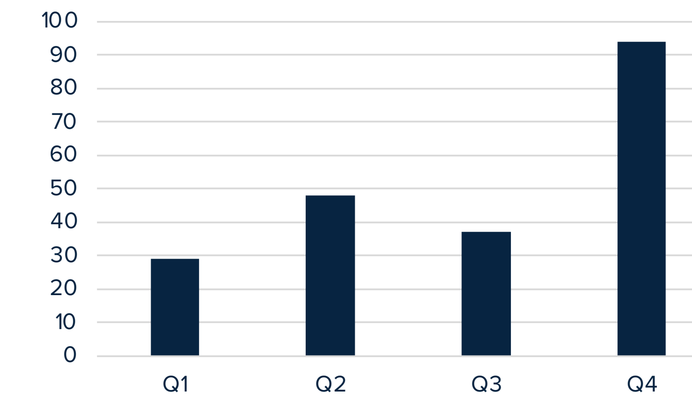


EMERGING DISTRESS SIGNALS

Watchlist Trends 2024

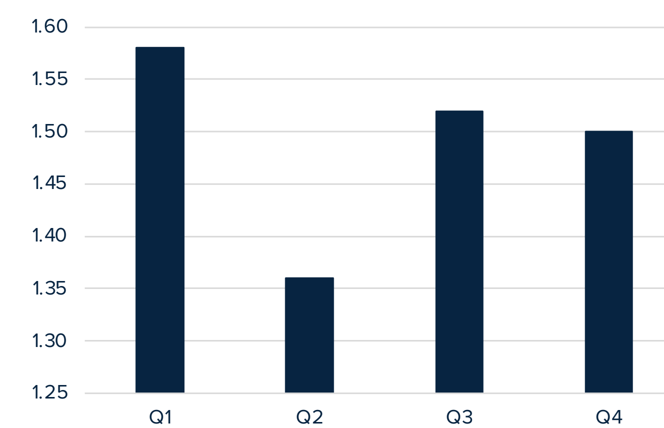


Watchlist Volume 2024



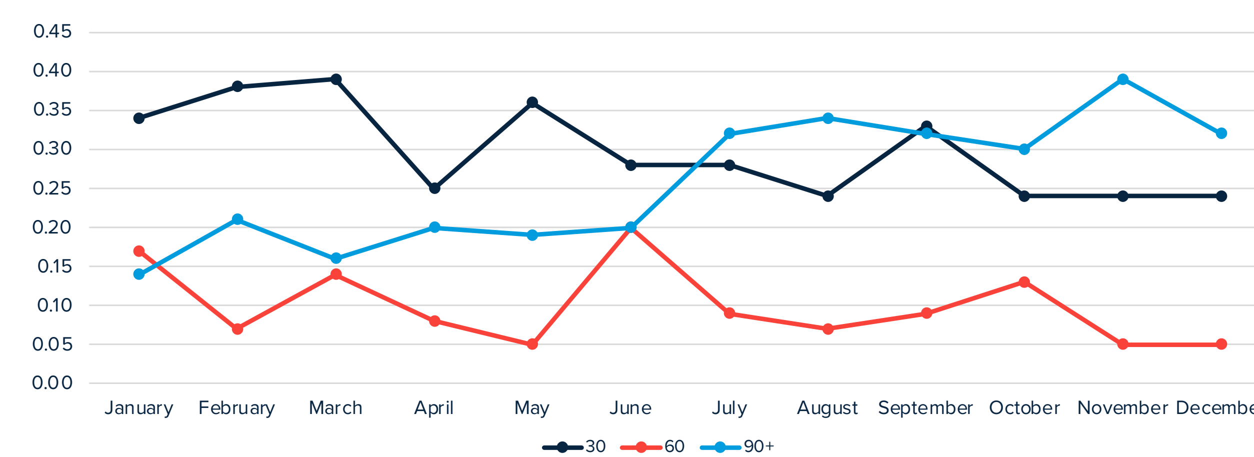
CURRENT FINANCIAL HEALTH

Weighted Average DSCR 2024



With a surge in loan maturities and sustained high-interest rates in 2025, multifamily distress is expected to rise. Lenders may tighten relief efforts, leading to more foreclosures and distressed sales as refinancing challenges grow.

Delinquency Rate Trend, 2024



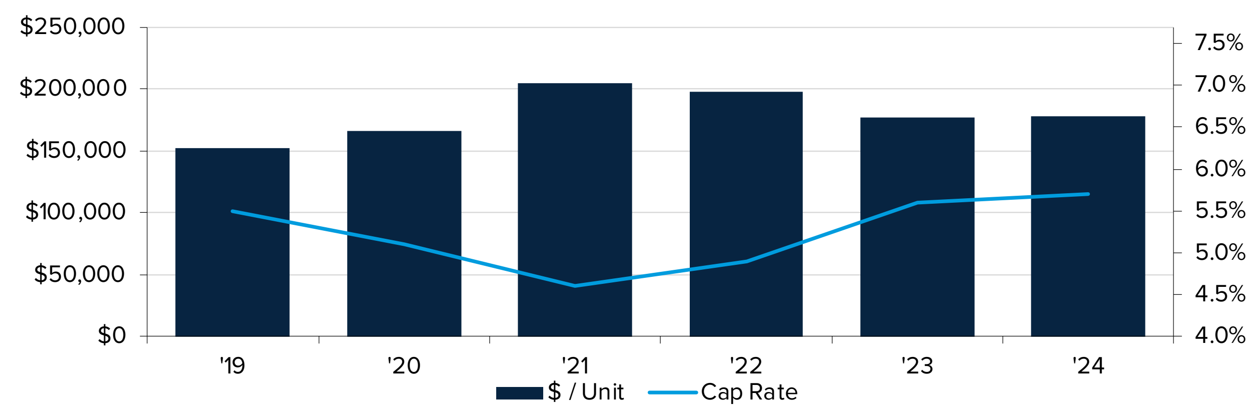
Transaction Activity & Volume

Multifamily deal activity in Dallas-Fort Worth remains subdued, with $7.5 billion in sales over the past year. The average market cap rate for Class-A assets ranges from 4.5% to 5%+, with transaction volumes showing signs of recovery in Q3 2024.

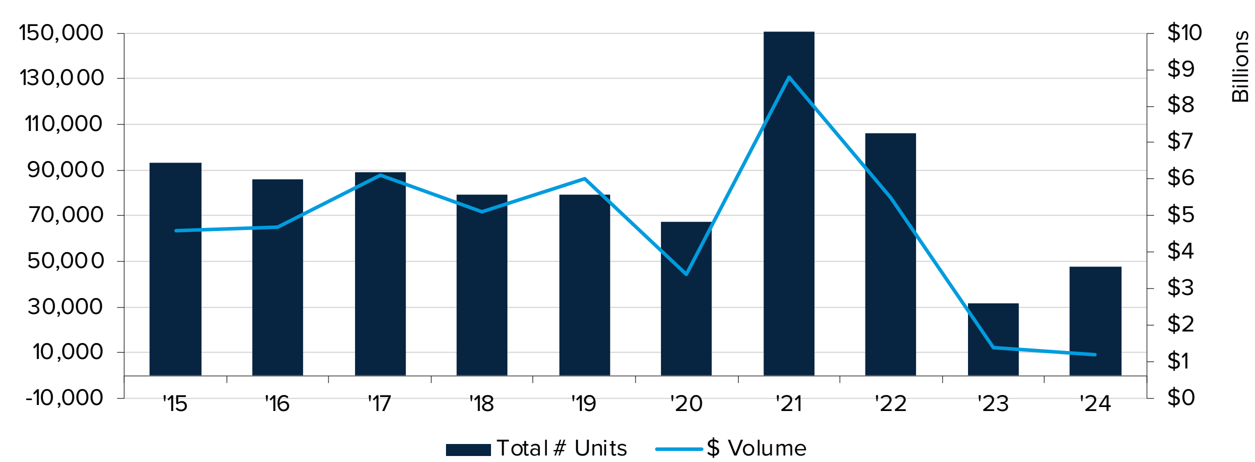
Key Highlights

- **Moderate Sales Volume:** The past 12 months recorded $6.76 billion in transactions.
- **Cap Rate Trends:** Class-A cap rates average 4.5%-5%, Class-B cap rates hover between 5.5%-6%+, Class-C average is 6%+.
- **Notable Deals:** Equity Residential's acquisition of Ayla Stonebriar highlights institutional interest in stable submarkets.
- **Outlook:** Most investors have called 2024 the bottom of the market for total transactions and pricing. Blackstone specifically called out Q1 of 2024 as the bottom. GREA has seen transaction volume increase quarter over quarter in 2024 and expects that momentum to continue into 2025 as financing conditions improve, loans that were extended in the prior two years come due, and sellers come to grips with the "new normal" for cap rates and interest rates.

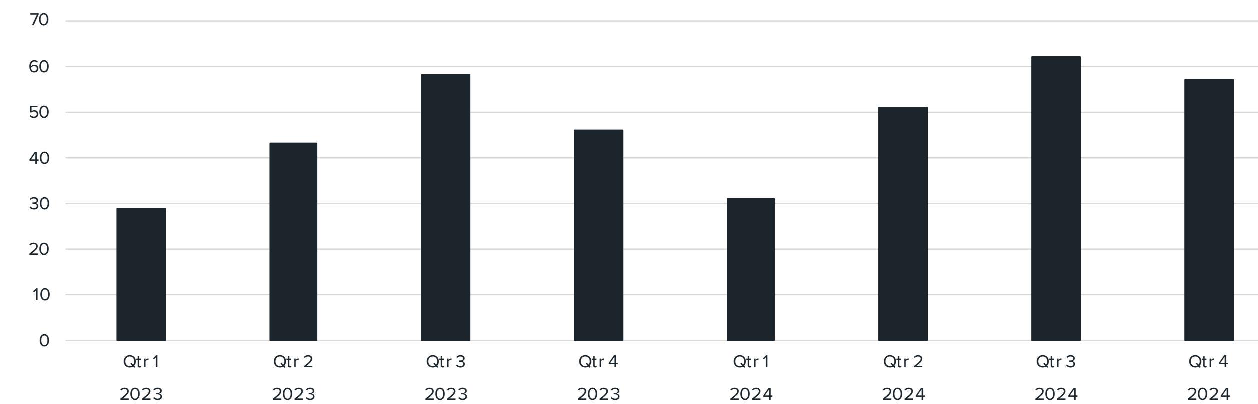
Average Sales PPU / Cap Rate



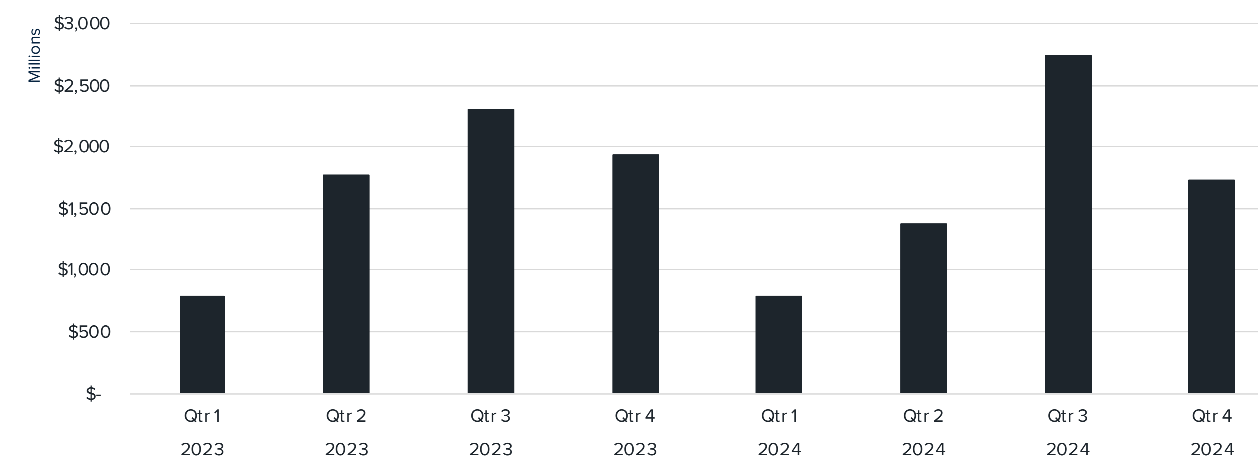
Apartment Sales Transactions



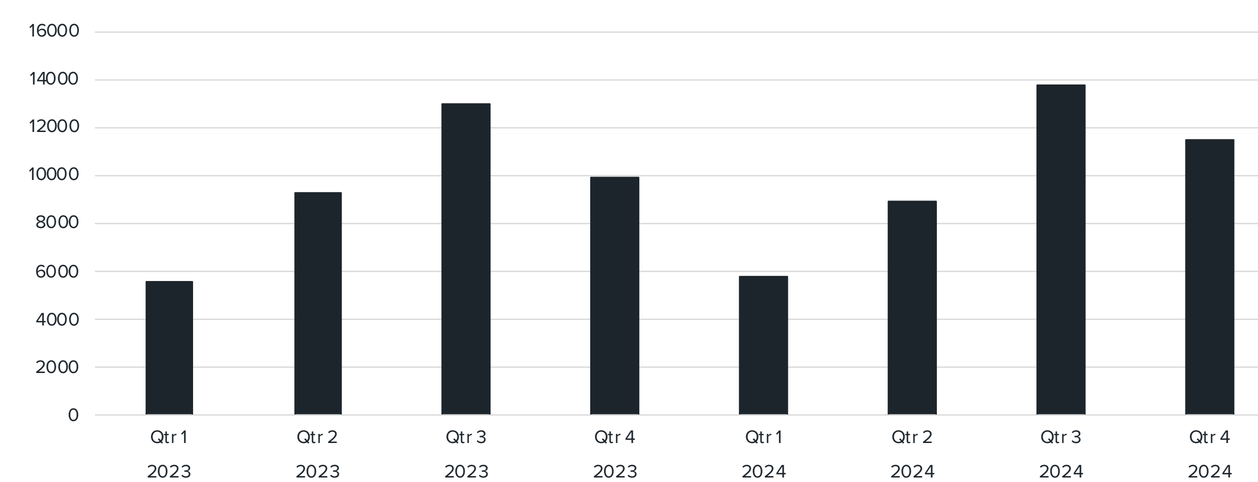
Transaction Volume



Dollar Volume

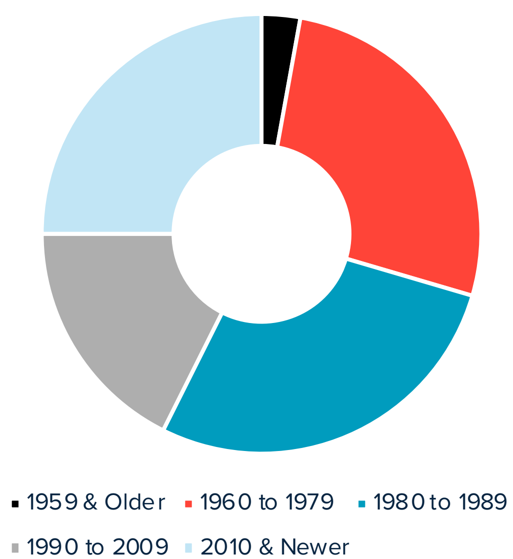


Unit Volume

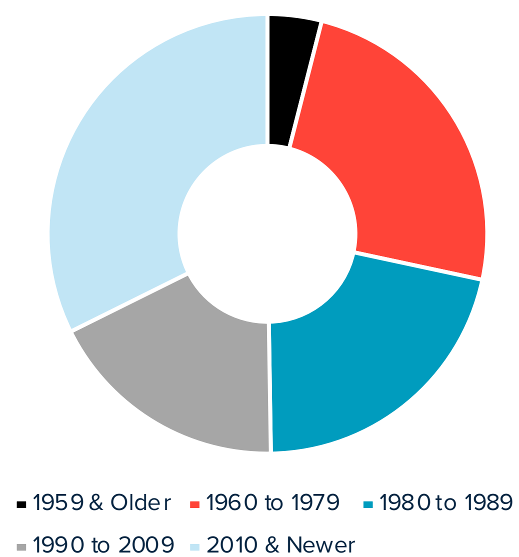


Transaction Vintage Comparison

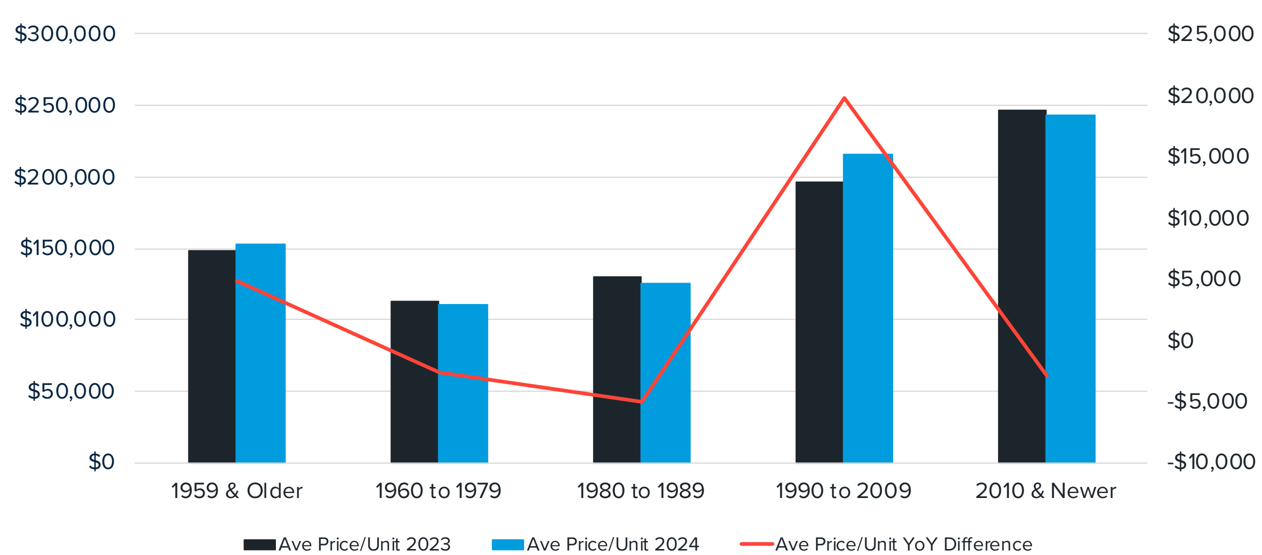
Transactions, 2023



Transactions, 2024



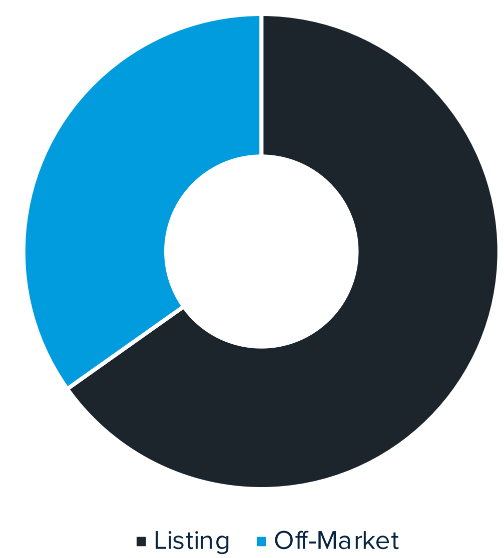
Price per Unit Comparison



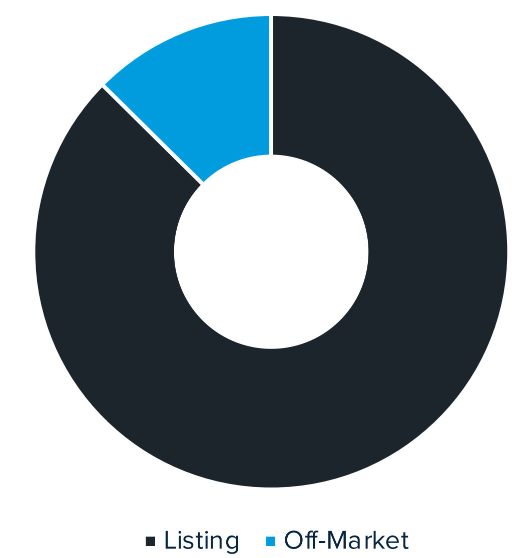
Source: CoStar; GREA Research | YTD as Reported by CoStar

Off-Market Comparison

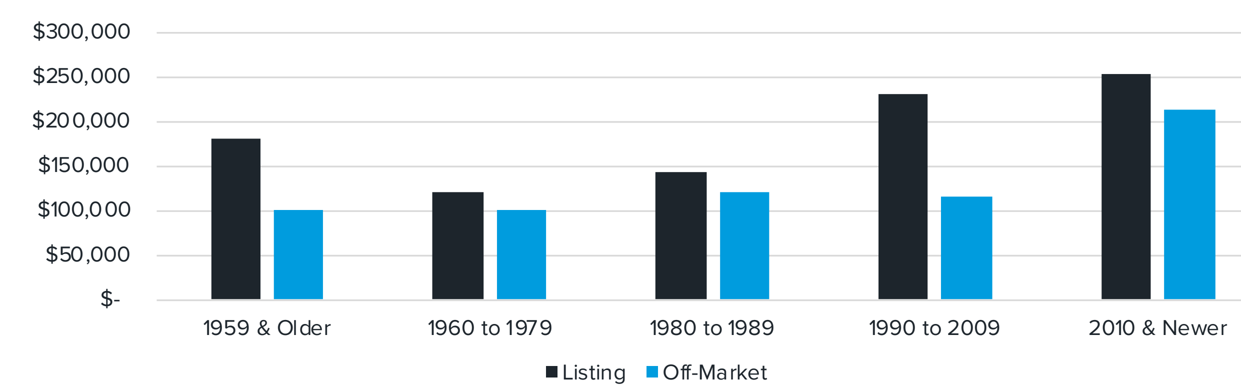
Off-Market, 2023



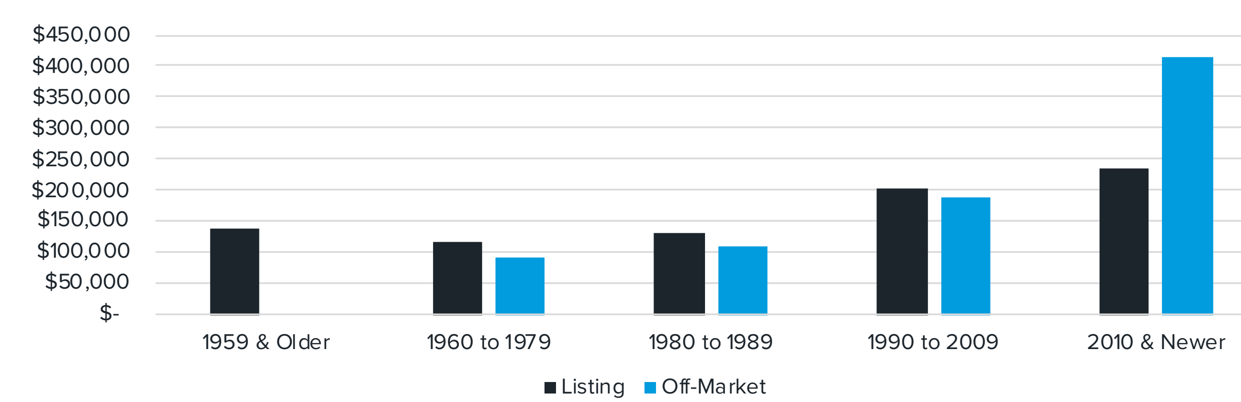
Off-Market, 2024



Average Price per Unit, 2023



Average Price per Unit, 2024



TODD FRANKS
Founding Partner
O | 972.916.9397
todd.franks@grea.com

MARK ALLEN
Exececutive Managing Director
O | 972.865.6328
mark.allen@grea.com

SEAN REYNOLDS
Senior Managing Director
M | 214.697.5720
sean.reynolds@grea.com

CHIBUZOR NNAJI
Senior Managing Director
M | 469.426.1602
chibuzor.nnaji@grea.com

BYRON GRIFFITH
Senior Managing Director
O | 972.432.7436
byron.griffith@grea.com

JEFF BURGFECHTEL
Senior Managing Director
O | 972.619.5007
jeff.b@grea.com

SEAN SCOTT
Managing Director
O | 972.996.6233
sean.scott@grea.com

LEE ROBINSON
Managing Director
M | 972.741.5439
lee.robinson@grea.com

ESTHER CHO
Managing Director
O | 972.449.0440
esther.cho@grea.com

ANGEL FLORES
Director
O | 972.232.2325
angel.flores@grea.com

NICHOLAS BROWN
Director
O | 972.532.6126
nicholas.brown@grea.com

ZACK DEL MEDICO
Associate Director
M | 214.909.4936
zack.delmedico@grea.com

RYAN QUAID
Associate Director
O | 214.253.4660
ryan.quaid@grea.com

JARED RICE
Managing Director
M | 469.397.8143
jared.rice@grea.com

CRAIG JASSO
Associate Director
M | 512.698.4740
craig.jasso@grea.com

Sources: GREA Research; RealPage; National Multifamily Housing Council; Moody's; CoStar; TREPP; YARDI