Selected Market Summaries From JBREC's Metro Analysis and Forecast Reports

Written by Jay Creighton

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Dallas Analysis

April 2023

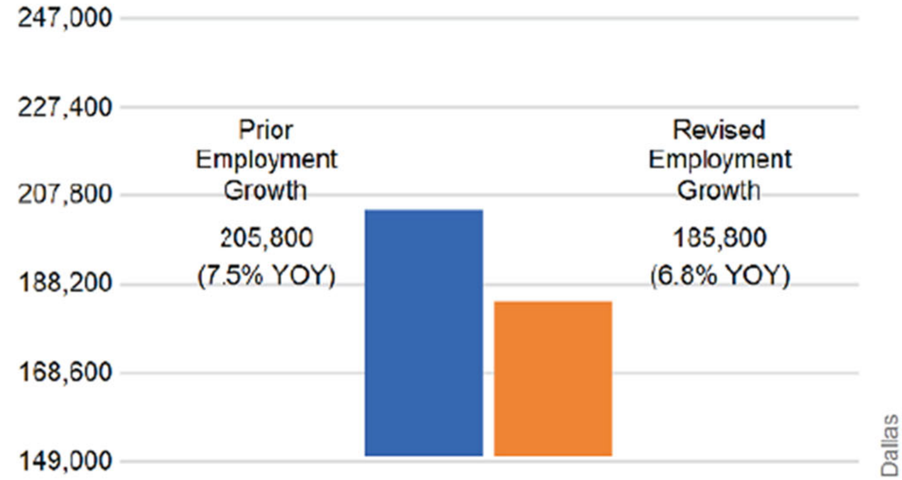
Current sales and pricing conditions: Strong

Builders report 4.3 sales per community in March, leading us to upgrade Dallas to Strong from Normal. Nearly 40% of builders increased their prices month over month, the highest percentage seen this year, and no builders reported decreasing prices. One builder reports, "Dallas remained very strong, blowing past expectations." While net new home prices fell -2% year over year, we expect this trend to reverse if current conditions persist.

Employment metrics revised. The Bureau of Labor Statistics (BLS) recently released its annual benchmark revisions. The results were mixed, with several markets losing more jobs than initially reported, while others gained more than initially reported.

- In the Dallas metro, employment growth for 2022 was weaker than previously reported, adding 185,800 jobs for the year.
- Growth was revised downward by -20,000 jobs from prior estimates, leading to growth of 6.8% year over year for 2022. Additionally, employment growth for 2021 was revised upward.
- Through February 2023, employment in the Dallas metro has recovered to 110.4% of pre-pandemic (Feb-2020) levels, compared to a 102% recovery nationally.
- We revised our employment forecast for the Dallas metro and now expect 0.1% job growth for 2023.

2022 Employment Growth Revision (Payroll survey)



The spread between the cost of owning and renting a home remains wide, but we project it will narrow in the coming years. On average, monthly housing expenses in Dallas for an entry-level home (payment plus maintenance) are $1,043 more than renting a typical single-family home. However, we predict that this gap will narrow as we expect home prices to correct in 2023 and 2024 while single-family rents steadily increase, resulting in a spread of only $130 by 2026.

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Dallas Analysis

March 2023

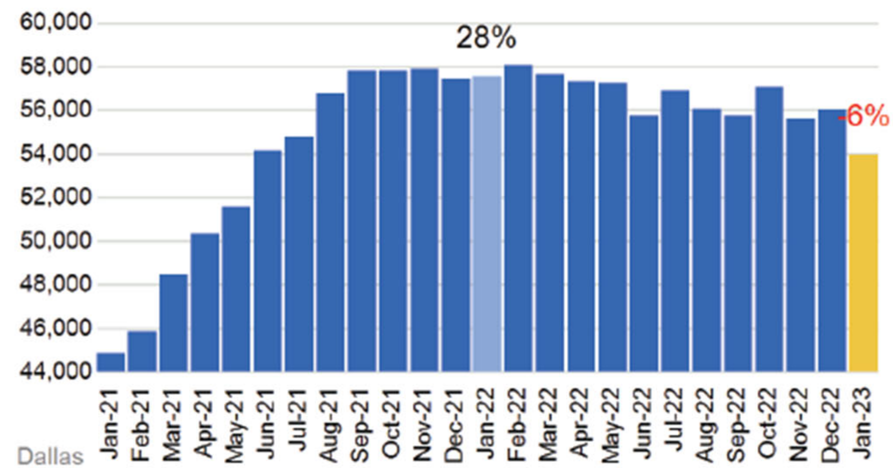
Current sales and pricing conditions: Normal

Builders continue to report strong net sales in February, averaging 3–4 per community, which ranks seventh nationally among the metros we track. “Happy to report the good times continued to roll on the sales side of things in February,” says one builder. Home prices fell -2% YOY, but with a third of builders increasing prices MOM, this trend will slowly reverse itself. Finally, cancelations dropped to 13%, and finished inventory remains in check.

Total permits pulled in January trend downward, but single-family and multifamily permits move in opposite directions. Responding to higher interest rates, homebuilders pulled over 30k of the 54k total permits, -8K fewer than a year ago, or down -21% YOY. On the other hand, Multifamily developers pulled 4K more permits than a year ago, up 22% YOY.

Multifamily rents in Dallas have risen 22% since the beginning of the pandemic and 6% YOY, but occupancy rates are beginning to soften as supply increases. Over the past year, Dallas expanded its apartment inventory by 2.5%. With 50K units in the pipeline, it is set to expand its inventory by about 8% more, including a 4% increase scheduled for 2023. As a result, occupancy in Dallas dipped almost four percentage points YOY to 94%.

Monthly 12-Month Rolling Total Permits



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Fort Worth Analysis

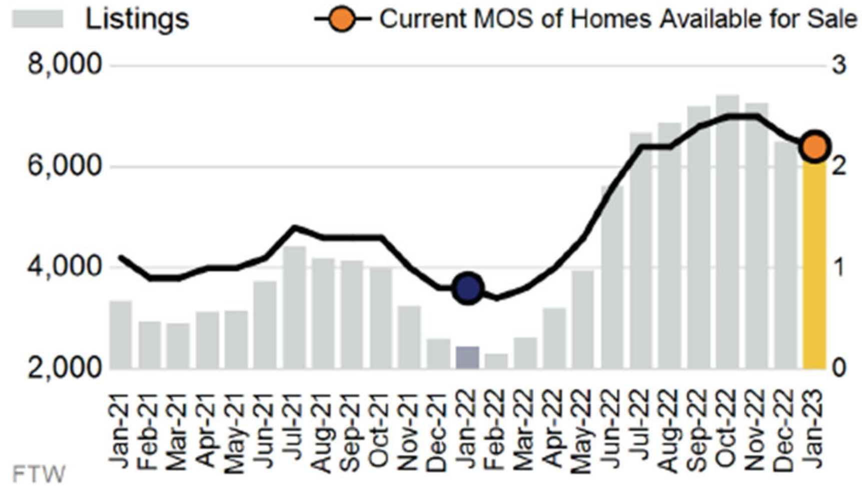
February 2023

Current sales and pricing conditions: Slow

Optimism returns as sales increase to 2.5 per community and cancellations plunge to 10%, the lowest in Texas. One builder reports, "We had a strong January, exceeding our sales goals, so we hope to ride that momentum throughout the year." The pricing environment, however, is mixed, with 60% of builders holding prices flat month over month and 40% decreasing prices.

Existing home sales continue to decline. Trailing twelve-month resale transactions declined -11% YOY in December, falling to the lowest level since 2015 as demand softens. Listings have increased 154% YOY, resulting in months of supply climbing to 2.2 months, surpassing the market's 5-year average. Both listings and months of supply have returned to near 2019 levels, which represents a more normal housing market.

Resale Listings/ Est. Months of Supply



Multifamily permits rose 8% YOY, representing roughly 8.5K units of future supply and 15K units already sit in various stages of construction, representing 7% of existing apartment supply. Downtown Fort Worth, Southwest Tarrant County, and the Keller/ Westlake area, host the largest concentration of planned multifamily development according to Yardi.

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Dallas Analysis

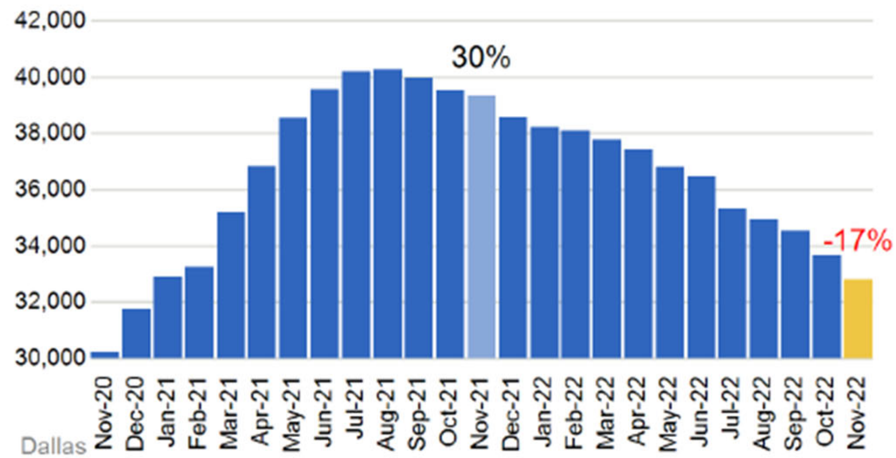
January 2023

Current sales and pricing conditions: Slow

Builders average 2 sales per community in December, up from 1.5 in November and above the national average of 1.7. According to one builder, “Customers seem to be adjusting to higher rates and buying using seller contribution for rate buy downs.” Builders report new home price appreciation of 3% YOY, just behind the national mark of 4% and behind only Fort Worth among Texas markets.

Single-family permits fell -17% YOY in November, marking the 15th consecutive monthly decline. Roughly 33,000 permits pulled on a rolling twelve-month basis are the lowest mark since December 2020. Decreased sales and decelerating prices have slowed developers’ appetites for new starts. We forecast -19% YOY single-family permit declines in 2023, followed by -5% YOY declines in 2024.

Monthly 12-Month Rolling Single-Family Permits



Multifamily permits jumped 23% YOY in November with nearly 23K permits pulled on a rolling twelve-month basis. 8% YOY asking apartment rent growth is fueling current development in Dallas, but occupancy has slipped in recent months to 94% from the peak of 97% earlier this year. Dallas has 50K apartment units in the pipeline representing 8% of existing units. We expect multifamily permits to decline -26% YOY in 2023 and -38% in 2024, as developers focus on delivering their pipeline.

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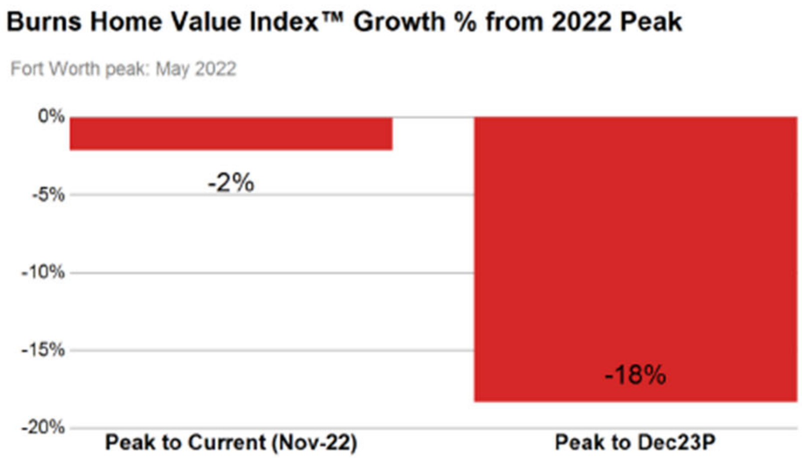
JOHN BURNS REAL ESTATE CONSULTING

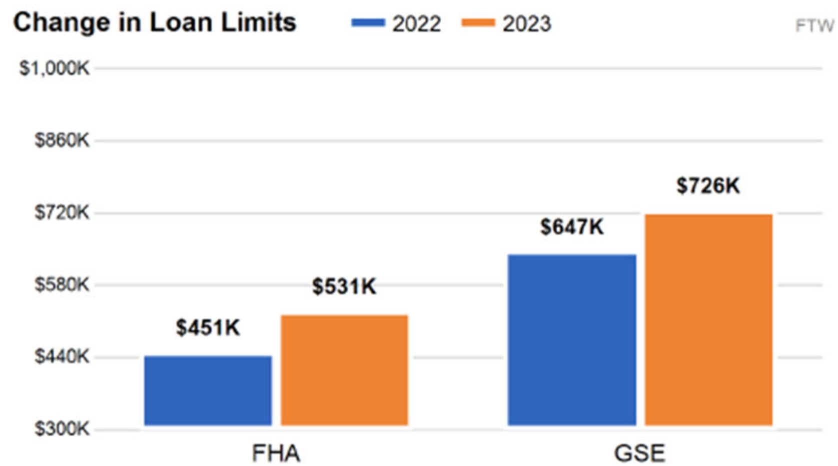
Fort Worth Analysis

December 2022

Current sales and pricing conditions: Slow

New home sales rebound slightly, but pricing conditions weaken, with over half of the surveyed builders indicating they reduced net prices MOM. The cancellation rate improved MOM as well but remains above. One builder stated, "If we were back to a normal cancellation rate, we would have achieved our November sales budget."





Home price depreciation is in view, as peak-to-current home values are down -2%. While YOY values may be up in Fort Worth, we forecast peak to Dec-23 existing home values will fall -18%. Higher mortgage rates and market uncertainty are pushing buyer demand to the sidelines. Sellers who want or need to sell will likely force prices down to attract buyer demand.

New loan limits for 2023 were announced, increasing notably for most markets, as these limits are indexed against home price appreciation from 3Q21 to 3Q22. For Fort Worth:

- The FHA loan limits increased to $531K from $451K.
- The GSE loan limits increased to $726K from $647K.

While prices are leveling or even falling in the majority of markets, the higher loan limits allow a greater number of homes to meet conforming limits. This is especially important for FHA loans, which have lower down payment requirements.

Apartment asking rents remain flat MOM as occupancy falls -3.2% YOY to 93.6%. However, apartment rents did rise 9% YOY to $1,404, so the moderation is off very high highs. Even with sky-high rents, apartments remain an attractive housing option as compared to home ownership. In fact, residents spend roughly $1,300 less to rent than to own an entry-level home.

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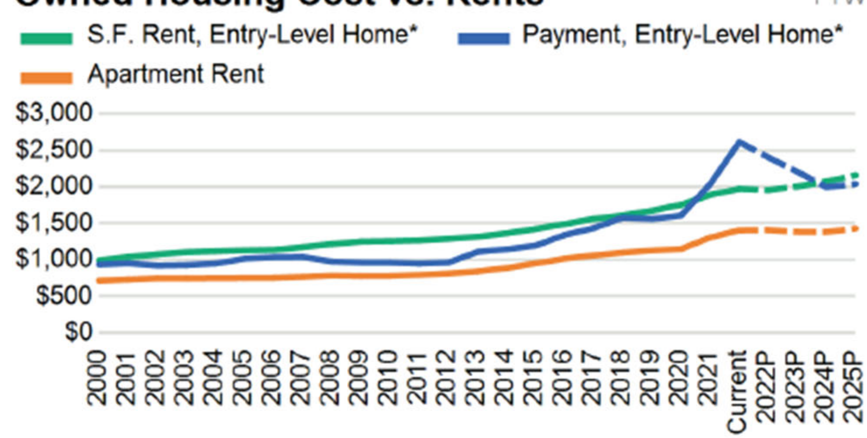
Fort Worth Analysis

Current sales and pricing conditions: Slow

Cancellations crush builders, soaring to 29% on average. One builder noted, “If it weren’t for the 40% cancellation rate... it would have been a solid month.” Despite sales per community increasing MOM to 1.3, 75% of Fort Worth builders decreased net prices in October. Prices, however, are still up 11% YOY, for now.

Despite rising single-family and apartment rents, homeownership remains significantly more expensive—for now. The cost of owning an entry-level home in Fort Worth has reached its highest point ever at $2,613, but we project ownership costs to decline -24% through 2024. Our forecasts call for continued steady increases in single-family rents, catching up to monthly ownership costs in 2024.

Owned Housing Cost vs. Rents



* Entry-Level Home = homes that recently sold for a price equal to 80% of the market's median sales price

We forecast that apartment rents will fall -2% in 2023 and remain flat in 2024. Our forecasts are supported by the fact that occupancy in Fort Worth fell to 94% from 97% a year ago. In addition, the already weaker demand will be further hindered by new influx of supply. RealPage projects that 8.9K new apartment units will come online in the next year.

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Dallas Analysis

October 2022

Current sales and pricing conditions: Slow

A growing share of builders are dropping prices, with 67% of builders in our survey reporting net new home price declines MOM. YOY new home price appreciation has slowed to 17%, though remains above the national average of 11%. Sales continue to drop, falling to 1.9 per community from 2.2 in August. Cancelation rates increased slightly to 23%, just above the national average of 18%.

Updated forecasts: We updated metro-level forecasts to reflect the impacts of mortgage rates rising even further over the last month from 6% to 7%, along with our continued call for a mild recession in 2023 (our base case thesis since May). The table at right summarizes key forecast updates for 2022 and 2023.

- **We lowered our home value appreciation forecasts** for nearly every market, and more than one-half of markets will show YOY declines by December 2022. We also lowered our 2023 home value declines materially.
  - The Dallas metro division will show a YOY change of 2% by 2022 year-end, and a decline of -15% in 2023.
- **Single-family permits will fall** -15% in 2022, followed by a decline of -19% in 2023.
- **Employment growth will moderate** from current levels, growing by 5.6% for 2022 (annual average), but declining to a loss of -0.5% in 2023.

Burns Forecasts	Dec-21	Dec-22P	Dec-23P
Existing home value (BHVI)*	24%	2%	-15%
New home price*	n/a	-3%	-17%
	2021	**2022P**	**2023P**
SF permits	21%	-15%	-19%
Employment (avg growth)	5%	6%	-0%

Refer to the Burns market-level report for details.
** Forecasted for year-end compared to prior year-end (December to December). New home price forecast is net of incentives. See page 22 of the market-level report for new home price methodology.*

Dallas

Apartment renewal conversion rates dropped YOY as operators increased rents aggressively. The percent of apartment renters staying in place fell to 55% in August, from 59% one year ago, among professionally managed apartment communities. The sharp increase in monthly rent over the past year is likely to blame for the decline, as operators pushed renewal rents 13% YOY in August, on average. While more renters are still staying put than usual in Dallas, heightened renewal rent increases will continue to place downward pressure on renewal conversion rates in the near term.

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