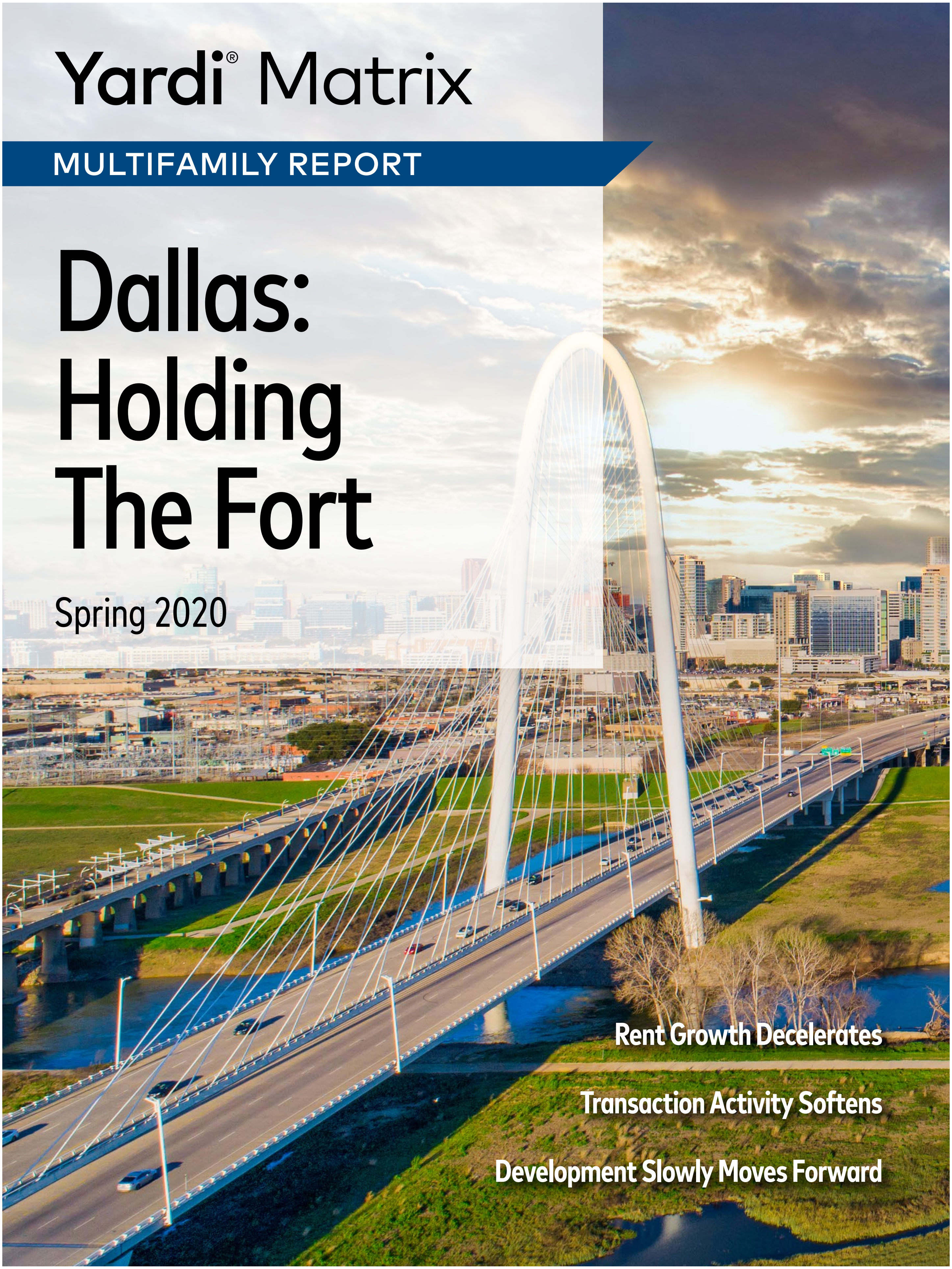
Yardi® Matrix

MULTIFAMILY REPORT

Dallas: Holding The Fort

Spring 2020



Rent Growth Decelerates

Transaction Activity Softens

Development Slowly Moves Forward

DALLAS MULTIFAMILY

Yardi® Matrix

The Metroplex Powers Through

Boasting an exceptional demographic expansion, Dallas-Fort Worth sustained a robust multifamily market throughout the cycle, with steady rent growth and substantial inventory expansion before the COVID-19 outbreak. First-quarter data still reflected steady performance, with upcoming numbers expected to illustrate the impact of the health crisis in more definitive terms. Still, the metro's average rent was up 0.1% on a trailing three-month basis through April, outperforming the U.S. rate.

DFW gained 86,200 jobs in the 12 months ending in March, accounting for a 2.9% expansion and well above the 1.4% national average. Growth was led by its largest sectors—professional and business services and trade, transportation and utilities. Yet, industries in the latter sector, hit hard by stay-at-home orders, have been deeply affected. American Airlines and Southwest Airlines, both headquartered in the metro, have dramatically cut flights. Additionally, by early May, more than 2.1 million Texans had filed for unemployment relief.

After 2019's $6.2 billion cycle peak, sales in 2020's first four months totaled $1.3 billion, nearly 30% below last year's figure. Meanwhile, some 4,600 units came online and 47,000 were underway as of April. Following the slowdown brought by the health crisis, both sales and construction are expected to moderate in the short term.

Market Analysis | Spring 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc
Associate Editor

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Recent Dallas Transactions

The Kincaid at Legacy

City: Plano, Texas
Buyer: Intercontinental Real Estate
Purchase Price: $98 MM
Price per Unit: $327,778

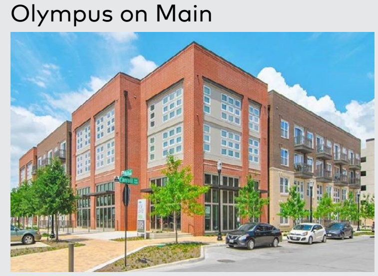
Jewel on Landmark

City: Dallas
Buyer: Beachwold Residential
Purchase Price: $63 MM
Price per Unit: $194,486

Sheffield Square

City: Grand Prairie, Texas
Buyer: InterCapital Group
Purchase Price: $62 MM
Price per Unit: $155,500

Olympus on Main



City: Carrollton, Texas
Buyer: Nimes Capital
Purchase Price: $56 MM
Price per Unit: $158,258

RENT TRENDS

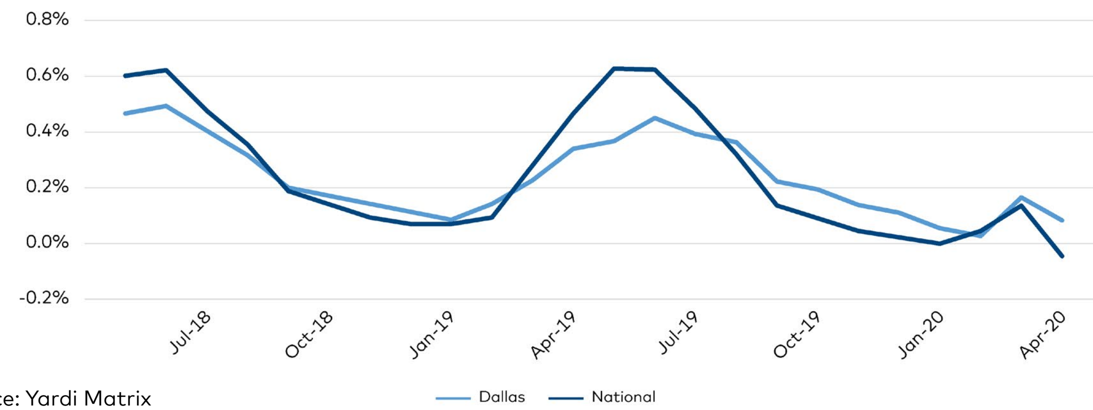
- Dallas-Fort Worth rents rose 0.1% to $1,209 on a trailing three-month basis through April, while the national rate remained flat, at $1,465. The metro's Renter-by-Necessity segment led growth, with rates up 0.2% to $1,006, while Lifestyle rents rose 0.1% to $1,417 during the same timeframe.

- Robust demographic expansion has kept demand high in DFW, but the trend will likely flatten for the rest of the year, as the health crisis is putting a lot of pressure on the local economy, which by early May faced skyrocketing unemployment claims. The Dallas City Council has approved $13.7 million in relief for rent, mortgages and utilities for eligible tenants whose earnings are at or below 80% of the area median income. Meanwhile, the Texas Supreme Court indicated that eviction proceedings could recommence in late May for properties that are not subject to provisions in the CARES Act.

- With the average rent up 14.7% to $1,607 in the 12 months ending in April, Gastonwood/Junius Heights/Lake Park Estates recorded the sharpest rise. Meanwhile, many submarkets in the Fort Worth area came in at the bottom of the pack, with eight of the metro's nine submarkets recording rate contractions.

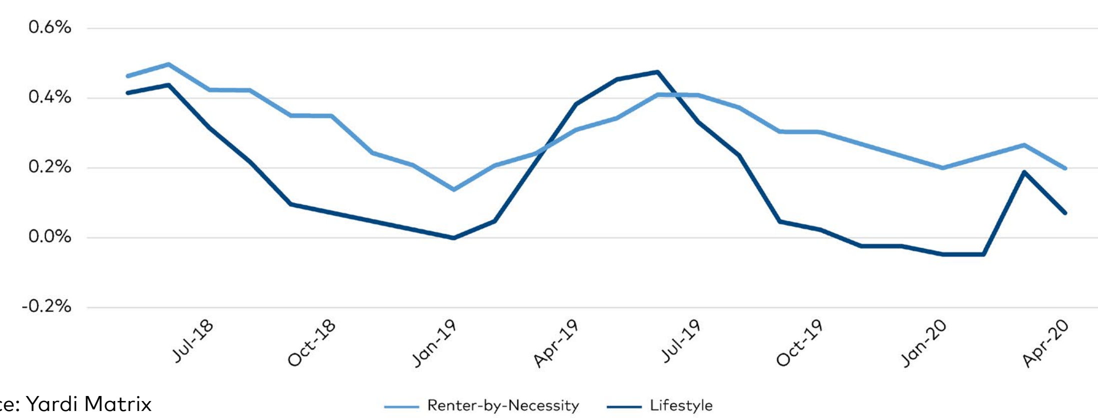
- Uptown Dallas (average rent up 3.2% to $2,053) remained the most expensive submarket, as well as the only area where the rate went above the $2,000 threshold.

Dallas vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Dallas Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- By early May, more than 2.1 million Texans had filed unemployment claims since the beginning of the health crisis, according to the Texas Workforce Commission. That's three times the state's usual figure for one year. With restrictions being lifted, however, many of these jobs are slated to return.

- Dallas employment rose 2.9% year-over-year through March, more than double the 1.4% national average. In the 12 months ending in March, DFW gained 86,200 jobs, nearly half of which were in the professional and business services and trade, transportation and utilities sectors.

- The metro's unemployment rate stood at 4.3% in March, up 110 basis points in a month and expected to spike further in the short term. Travel restrictions hit the local economy hard, with American Airlines and Southwest Airlines—both headquartered in North Texas—dramatically cutting flights. The two companies secured $14 billion of the federal government's $50 billion bailout package. While the incentive forbids layoffs and pay reductions, the airlines offered workers voluntary leave packages and reduced hours. Meanwhile, Amazon's new fulfillment center, located south of Interstate 30, is slated to open in the second quarter and expected to employ 1,500 people.

Dallas Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	651	17.1%
40	Trade, Transportation and Utilities	796	20.9%
55	Financial Activities	326	8.5%
15	Mining, Logging and Construction	233	6.1%
90	Government	457	12.0%
65	Education and Health Services	466	12.2%
70	Leisure and Hospitality	391	10.2%
50	Information	83	2.2%
30	Manufacturing	288	7.5%
80	Other Services	126	3.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro gained 131,767 residents in 2018, up 1.8% year-over-year and triple the 0.6% national average.

- Between 2015 and 2018, the metroplex gained more than 430,000 residents, at a slightly decelerating rate.

Dallas vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Dallas Metro	7,109,280	7,262,951	7,407,944	7,539,711

Sources: U.S. Census, Moody's Analytics

SUPPLY

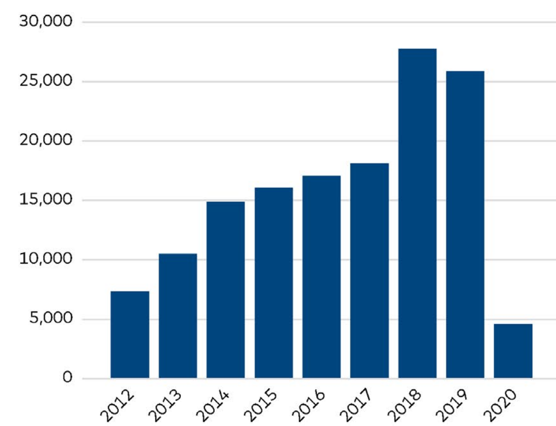
- Robust rental demand kept developers busy in the first four months of 2020, with nearly 47,000 units under construction across Dallas-Fort Worth, as of April. With construction deemed an essential service in the metro following the coronavirus outbreak, some 4,600 units—0.6% of total stock—were delivered by April, recording 10 basis points above the national average. The new deliveries catered solely to Lifestyle renters.

- The past two years have seen the highest number of deliveries this cycle, boosting the inventory by nearly 54,000 units. As of April, an additional 106,000 units were in the planning and permitting stages, although the current crisis will likely put many of them on hold.

- The latest energy crisis might prove beneficial for the construction sector, which continues to suffer from a workforce shortage. In its booming days, the energy sector paid higher wages and poached many workers from the construction labor pool. Volatility and the free fall in crude production could spur a larger labor pool for construction tied to real estate. However, the COVID-19 pandemic has not spared the industry and will likely still curb new inventory.

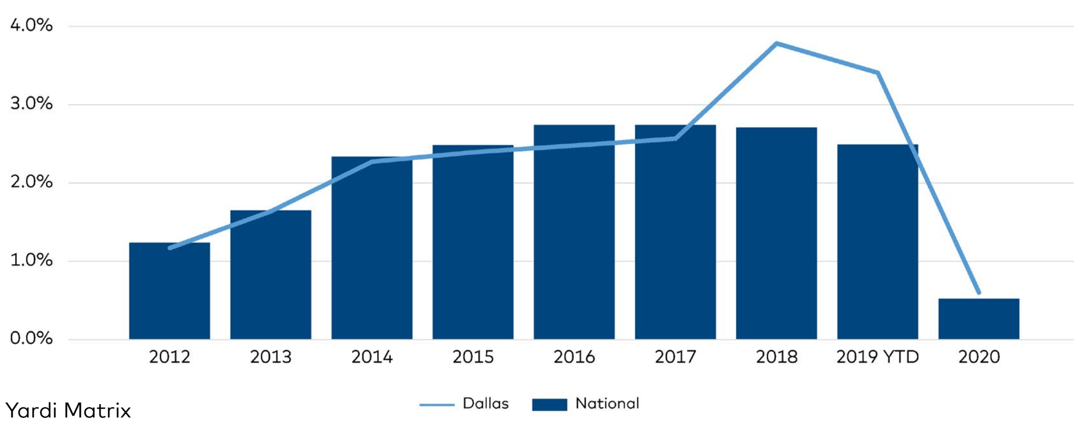
- North Dallas continued to lead in both deliveries and under construction projects, with 2,544 units delivered by April and an additional 24,000 units underway. However, the largest asset under construction is located in suburban Dallas—the 1,075-unit The Neighborhoods at The Sound owned by Billingsley Co.

Dallas Completions (as of April 2020)



Source: Yardi Matrix

Dallas vs. National Completions as a Percentage of Total Stock (as of April 2020)



Source: Yardi Matrix

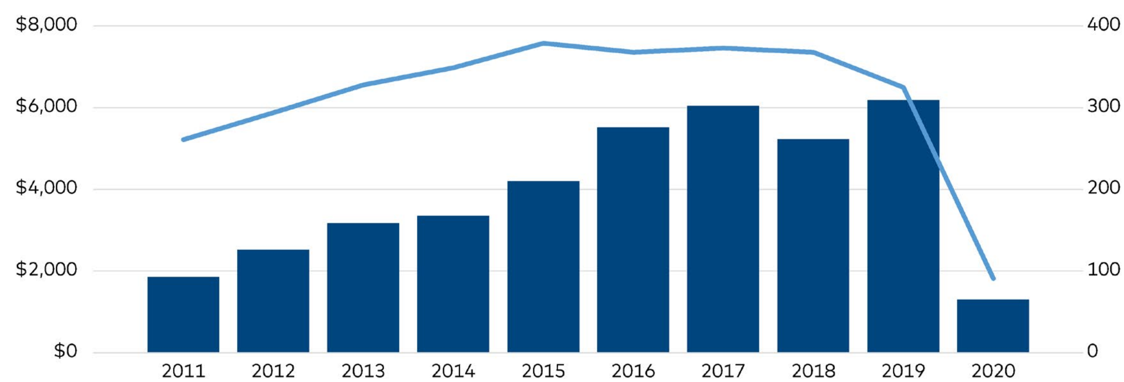
TRANSACTIONS

- Following last year's peak, when $6.2 billion in DFW assets traded, the first four months of 2020 totaled some $1.3 billion and 91 multifamily sales. With more than half of these properties in the Renter-by-Necessity segment, the average per-unit price remained virtually flat at $120,344, trailing the $162,169 U.S. figure.

- Since 2010, more than $40 billion in multifamily assets have traded in the metro. Although DFW is a hotbed for multifamily investment, the health crisis has limited volume—down 27.8%, relative to 2019's first four months. With the effects of the crisis unfolding, the trend is likely to linger.

- GSSW Real Estate's acquisition of The Ashton in North Dallas for $99 million, or $371,036 per unit, marked the highest per-unit price in the metro in 2019. North Dallas continued to garner the most investor interest, with $504 million in assets trading in the first four months of 2020.

Dallas Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

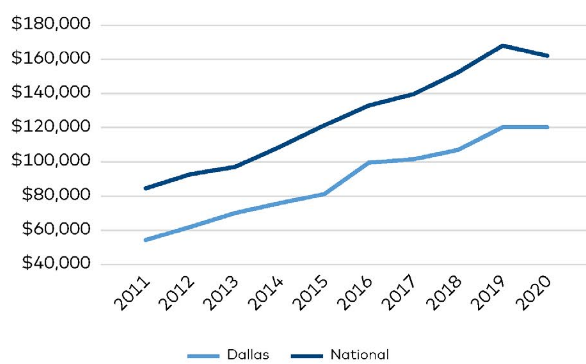
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Oaks	249
South Frisco/Parker	196
North Frisco/West McKinney	195
Las Colinas	191
North Carrollton/The Colony	171
Wedgewood	160
Kiest	158

Source: Yardi Matrix

[1] From May 2019 to April 2020

Dallas vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Investing Across Sun Belt Markets

By Adina Marcut

With a portfolio of more than 5,000 units throughout the U.S., Houston-based Sun Holdings Group is particularly focused on investing in Texas and Georgia. According to Yardi Matrix data, more than half of the company's holdings are across these states. Sun Holdings Managing Partner Ido Blatt discusses what makes these markets attractive and what investors should do to better manage the current economic disruption.

What led you to invest in the Sun Belt and do you plan on expanding to other markets?

We gravitate towards the Sun Belt markets due to affordability and job growth, strong economics and warmer weather. Texas has shown a tremendous amount of population growth and job growth in the past few years, which translates into strong apartment demand. However, the main challenge in Texas is the relatively low barriers to entry, which results in elevated supply levels. Additionally, since real estate taxes are higher than other states, coupled with the metro being a non-disclosure state—this combination adds more uncertainty and risk for investors. We continue to look at other states across the Sun Belt markets, specifically Florida and the Carolinas, which often demonstrate strong apartment fundamentals.

What are the risks of investing in these trying times?

TThere is a lot of uncertainty with regards to the duration of this

crisis and its severity, which in turn makes financial underwriting much more difficult than in normal times. Having said that, as long-term owners, we remain bullish on multifamily as an asset class and even more so on San Antonio. San Antonio has already proven to be more resilient than others due to its steady workforce.

What steps do you intend to take for a smooth recovery?

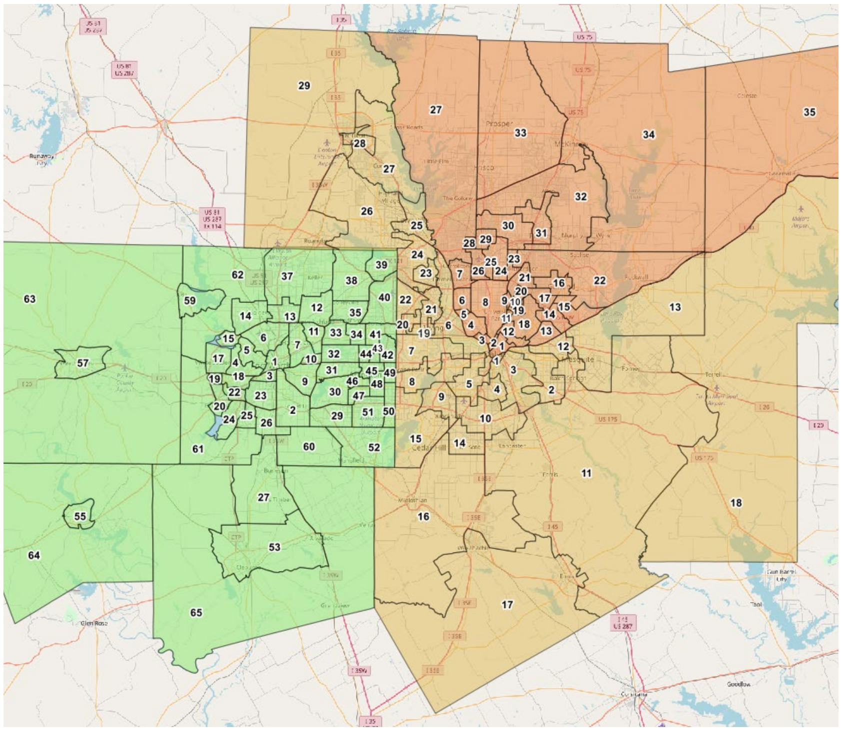
We will continue to work with residents on customized payment plans or rent deferments to soften any financial hardship they may be experiencing. Strengthening our relationship with our tenants will assist in renewals and limit our exposure. As investors, we hold off on distributions to our investors and make sure we have ample cash reserves as we need to be disciplined during this crisis.

How would you describe the state of the multifamily sector and how do you see it going forward?

As long as the uncertainty sustains and we don't have a clear path to recover from the pandemic and associated economic crisis, there is a wide range of opinions on values and disconnect between buyers and sellers. Long-term implications of the crisis are higher vacancy rates, stagnant-to-reducing rent levels and increasing delinquency. Once certainty returns, transaction volume will increase, and the relatively stable income streams of the apartment sector and still relatively attractive yields will lure the surplus of liquidity and create a healthy, competitive landscape.

(Read the complete interview on multihousingnews.com.)

DALLAS SUBMARKETS



Area No.	Submarket
1	Cityscape/Downtown
2	Uptown
3	South Oak Lawn
4	North Oak Lawn
5	Bachman Lake/West Northwest Highway
6	Northwest Dallas
7	Carrollton/Farmers' Branch
8	Park Cities/Preston Hollow/West Oak Lawn
9	Telecom Corridor
10	West Vickery Park
11	Greenville Corridor/Ridgewood Park
12	Gastonwood/Junius Heights/Lake Park Estates
13	Forest Hills
14	Dixon Branch
15	South Garland
16	Central Garland
17	South Lake Highlands
18	Casa Linda Estates/Cloisters/Lakewood
19	East Vickery Park
20	North Vickery Park
21	North Lake Highlands
22	North Garland/Rowlett/Sachse
23	Richardson
24	Northwood Hills/Valley View
25	Prestonwood/Galleria
26	Addison
27	North Carrollton/The Colony
28	Rosemeade
29	North Preston Corridor
30	West Plano
31	East Plano/Allen
32	South Frisco/Parker
33	North Frisco/West McKinney
34	East McKinney/Wylie/Princeton
35	North Hunt County/Greenville/Commerce

Area No.	Submarket
1	Downtown
2	Fairmount/Morningside/Worth Heights
3	Medical District
4	Westover Hills
5	Crestwood/River Oaks/Sansom Park
6	Tanglewood/Westcliff
7	Highland Hills/Southland Terrace
9	Stop Six
10	Meadowbrook
11	Richland Hills
12	Watauga
13	Blue Mound
14	Saginaw
15	Lake Worth
17	White Settlement
18	Ridgelea
19	Western Hills
20	Benbrook
22	Colonial/TCU
23	Hemphill
24	Wedgewood
25	Edgecliff Village
26	Sycamore
27	Burleson/Joshua
29	Kennedale
30	Dalworthington Gardens/Pantego
31	Handley
32	Randol Mill
33	Hurst

Area No.	Submarket
34	Bedford
35	Colleyville
37	Keller/Westlake
38	Southlake
39	Grapevine
40	Euless
41	Tarrant
42	Riverside
43	Lamar
44	Green Oaks
45	North Arlington
46	Downtown Arlington
47	South Davis/Turtlerock
48	East Arlington
49	Great Southwest
50	Florence Hill
51	Fitzgerald
52	Mansfield
53	Cleburne/Alvarado
55	Granbury
57	Weatherford
59	Azle
60	Rendon
61	Southwest Tarrant County
62	Northwest Tarrant County
63	Outlying Parker County
64	Outlying Hood County
65	Outlying Johnson County

Area No.	Submarket
1	South Downtown
2	Pleasant Grove
3	Fair Park
4	South Oak Cliff
5	North Oak Cliff/Irving
6	Lake Village/South Irving/West Dallas
7	North Grand Praire
8	Kiest
9	Duncanville/South Grand Praire
10	Lancaster/Red Bird
11	Southeast Dallas County
12	Northwest Mesquite
13	Northeast Mesquite
14	DeSoto
15	North Cedar Hill
16	Midlothian/South Cedar Hill
17	Ennis/Waxahachie
18	Kaufman/Terrell
19	Barton Estates/Garden Oaks/ Hospital District
20	Irving
21	Las Colinas
22	Espanita/Timberlake
23	Oaks
24	Valley Ranch
25	Coppell/South Lewisville
26	Central Lewisville
27	North Lewisville/Trophy Club
28	East Denton
29	Downtown Denton

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.