



MULTIFAMILY REPORT

Crosswinds Intensify In Dallas

Summer 2020

Economy Hit Less Severely Than Most US Metros

Healthy Deliveries Keep Rent Growth Negative

Transaction Activity Lags 2019 Levels

DALLAS MULTIFAMILY



Recovery Trajectory Remains Uncertain

Dallas-Fort Worth is still readjusting to pandemic restrictions. Overall market fundamentals continued to soften over the summer, entering negative territory across several metrics. The average rent contracted for the third consecutive month, down 0.1% on a trailing three-month basis through August. The occupancy rate in stabilized assets responded to consistent supply additions and COVID-19 uncertainty, sliding 70 basis points over 12 months, to 93.7% as of July.

The job market contracted in the second quarter and then rebounded after the economy reopened in May and June. However, due to a spike in coronavirus cases, Texas rolled back its reopening plan. The unemployment rate dropped from 12.8% in April to 8.2% in June, while preliminary July data pointed to a promising 7.5%. Unemployment claims filed across the state reached almost 3.4 million between mid-March and late August, yet three sectors—led by financial activities—posted year-over-year job gains in Dallas.

Uncertainty stemming from the health crisis kept transaction volume low in the second quarter, with only \$1.8 billion in assets trading in 2020 through August, for a per-unit price that inched up 2.3% to \$123,423. Meanwhile, 12,167 units came online, with an additional 51,482 apartments underway as of August. Accounting for ongoing volatility, we expect Dallas rents to fall 1.1% in 2020.

Market Analysis | Summer 2020

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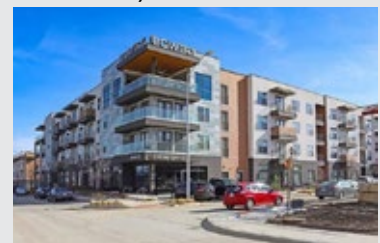
Recent Dallas Transactions

L2 Uptown



City: Dallas
Buyer: The Connor Group
Purchase Price: \$74 MM
Price per Unit: \$229,936

The Bowery at Southside



City: Fort Worth, Texas
Buyer: Weinstein Properties
Purchase Price: \$56 MM
Price per Unit: \$185,589

Alta Waterside



City: Fort Worth, Texas
Buyer: Braddock & Logan
Purchase Price: \$38 MM
Price per Unit: \$105,263

Windham Chase

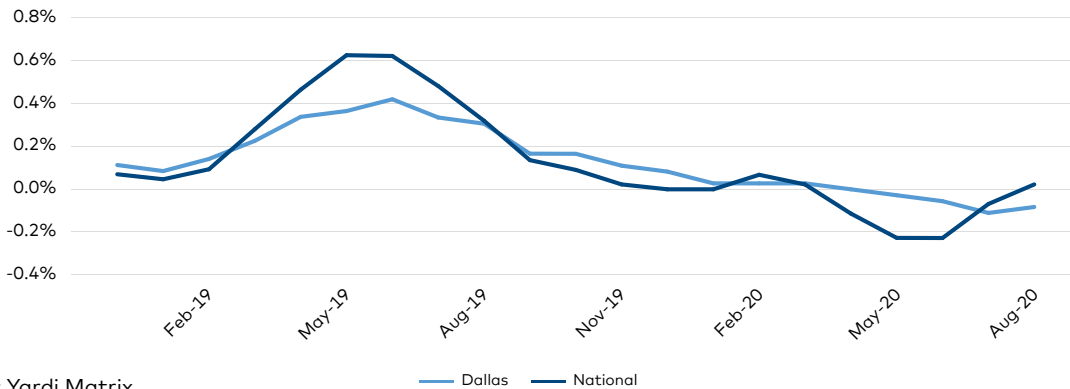


City: Richardson, Texas
Buyer: The ValCap Group
Purchase Price: \$30 MM
Price per Unit: \$126,554

RENT TRENDS

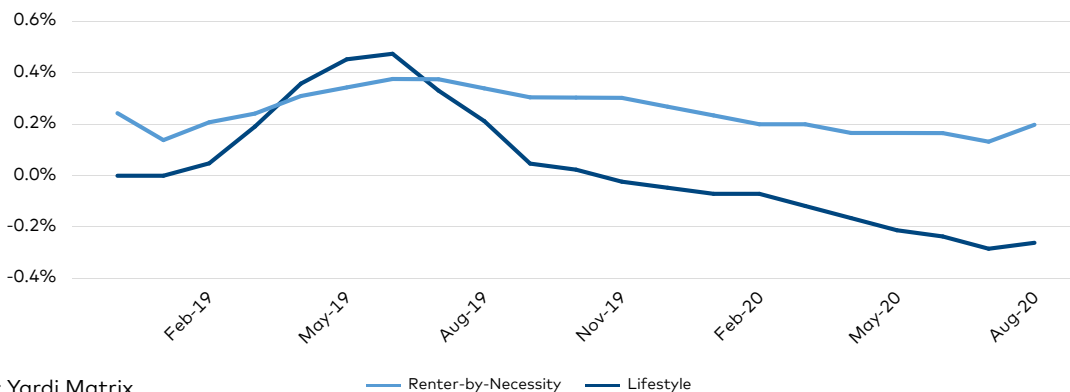
- ▶ The average Dallas-Fort Worth rent marked the third consecutive month of contractions on a trailing three-month (T3) basis, sliding 0.1% through August to \$1,205. Meanwhile, the national average remained flat at \$1,463.
- ▶ Strong demand for Renter-by-Necessity units boosted the average rate in the working-class segment, leading to an uptick of 0.2% on a T3 basis through August, to \$1,013. Meanwhile, Lifestyle rents—already on a downward trend since January—dropped 0.3% to \$1,396. The decline resulted from substantial new upscale additions, coupled with the effects of the COVID-19 crisis. The overall occupancy rate in stabilized properties was also impacted—the rate slid 70 basis points in the year ending in July, to 93.7%.
- ▶ To assist with rent payments, the city of Dallas launched the \$6 million Emergency Short Term Rental Assistance program using coronavirus rescue package funds, in partnership with DHA Housing Solutions for North Texas and several nonprofits. The program will issue payments for up to two months of past due unpaid rent directly to landlords, not to exceed \$1,500 per month.
- ▶ Following a nationwide pattern, many of Dallas-Fort Worth's most expensive submarkets registered contractions in the 12 months ending in August. The average Uptown rate slid 1.7% to \$2,019, while South Downtown rents were down 0.7% to \$1,810. In downtown Fort Worth, however, the average rate was up 2.4% to \$1,528 during the same period.

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

- ▶ DFW registered its highest unemployment rate in April, at 12.8%. The rate was down to 8.2% in June, while the preliminary July figure clocked in at 7.5%. This puts the Metroplex in a relatively good spot, compared to major coastal cities. Nonetheless, the unemployment rate has not been this high since the summer of 2011. Unemployment claims filed across the state between mid-March and late August surpassed 3.4 million, 726,700 of which were filed in Dallas, according to estimates from the Real Estate Center at Texas A&M University.
- ▶ The resurgence of COVID-19 cases following the reopening threw a wrench into Texas' progress, forcing it to roll back its reopening plan. But even though June marked the second consecutive month for negative year-over-year job growth, employment contracted just 1.4%, heavily outperforming the U.S. average (-5.0%). Dallas actually ranked second across major U.S. metros, after Phoenix (-1.1%).
- ▶ In the 12 months ending in June, three sectors gained jobs, led by financial activities (8,300). Trade, transportation and utilities—the metro's primary economic driver—got a boost, with Amazon recruiting workers for its fulfillment center south of Interstate 30, and revealing plans for a new 1 million-square-foot facility in Forney.

Dallas Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	328	9.0%
15	Mining, Logging and Construction	230	6.3%
40	Trade, Transportation and Utilities	789	21.6%
50	Information	80	2.2%
80	Other Services	122	3.3%
60	Professional and Business Services	627	17.2%
90	Government	431	11.8%
30	Manufacturing	279	7.7%
65	Education and Health Services	429	11.8%
70	Leisure and Hospitality	332	9.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Dallas continues to be one of the fastest-growing U.S. metros, gaining 104,196 people in 2019 for a 1.4% uptick. That was well above the 0.3% U.S. figure, but 40 basis points below the metro's 2018 rate.
- ▶ Between 2016 and 2019, the metro's population expanded by 5.2%.

Dallas vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Dallas Metro	7,262,951	7,407,944	7,539,711	7,643,907

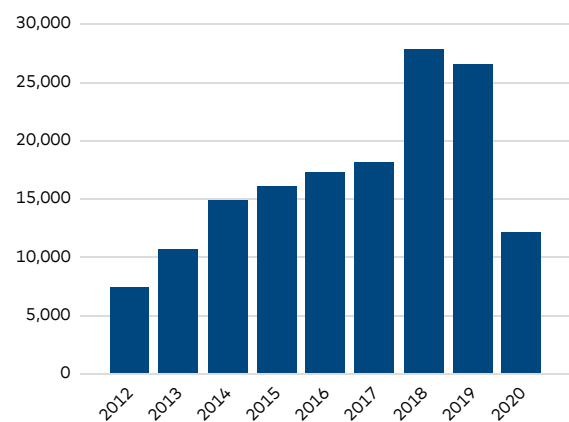
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Developers brought 12,167 units online across the metro in 2020 through August, accounting for 1.6% of total stock, and clocking 30 basis points above the national rate. Since 2012, Dallas' multifamily inventory has increased by more than 150,000 apartments. Overall, we expect 19,318 units to come online across Dallas-Fort Worth in 2020, placing it at the top of the U.S. list for completions.
- ▶ The development pipeline had 51,482 units under construction as of August, with North Dallas comprising 27,048 units underway, more than the rest of Dallas and Fort Worth combined. From North Dallas' pipeline, 7,139 units completed groundbreaking in 2020, nearly half of which entered the construction phase after the onset of the pandemic. In Fort Worth, 4,460 units started construction this year, 2,716 of which had construction starts after the health crisis began. At the submarket level, North Frisco/West McKinney (5,927 units underway) led the list, followed by North Carrollton/The Colony (3,505) and Cityscape/Downtown (3,084).
- ▶ The bulk of both deliveries and projects underway continued to target the upscale Lifestyle

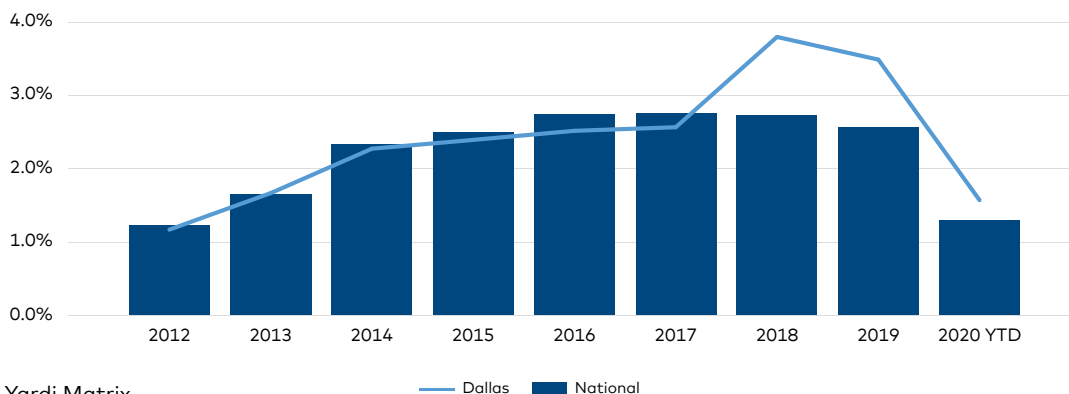
renter, and this has remained the case throughout the pandemic. While this was mostly due to inertia, the metro should be able to absorb the new stock—albeit at a slower pace—due to the area's historically healthy economy. As with most aspects of the market and the economy, however, the pace will primarily depend on the evolution of the pandemic.

Dallas Completions (as of August 2020)



Source: Yardi Matrix

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

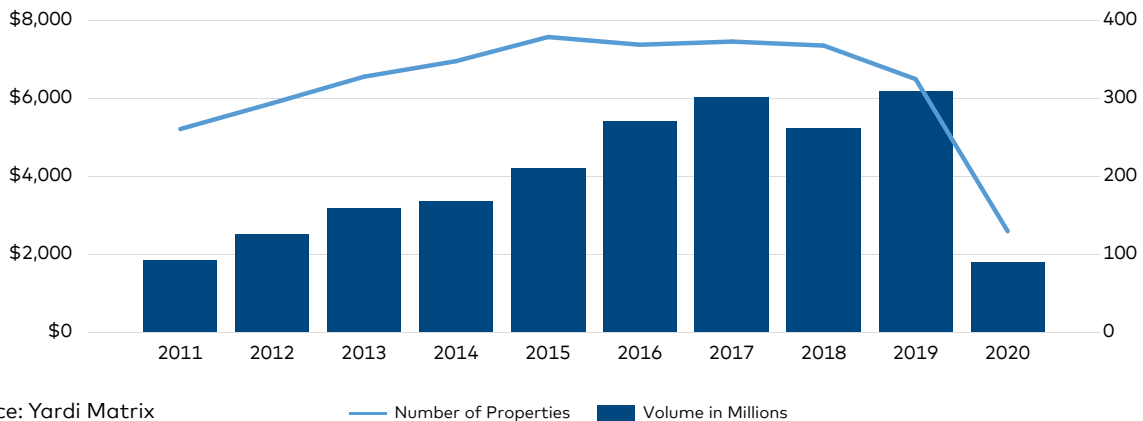


Source: Yardi Matrix

TRANSACTIONS

- ▶ In line with nationwide trends, transaction activity softened in the metroplex, totaling roughly \$1.8 billion during the first eight months of 2020. During the same period last year, deals totaled some \$3.8 billion.
- ▶ While volume dwindled, the average per-unit price recorded an uptick. Bucking the national trend, the average Dallas-Fort Worth price per unit was up 2.3% to \$123,423. Meanwhile, the U.S. figure dropped 2.7% to \$163,833.
- ▶ Almost all of North Texas felt the impact of the economic instability caused by COVID-19, but transaction activity across suburban Dallas slowed to almost a complete halt, starting in the second quarter of 2020. While the first eight months of 2019 brought \$1.2 billion in transactions, only some \$409 million in multifamily assets changed hands in 2020 through August. Between April and August 2020, just \$33 million in confirmed multifamily transactions were registered in suburban Dallas.

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



Source: Yardi Matrix

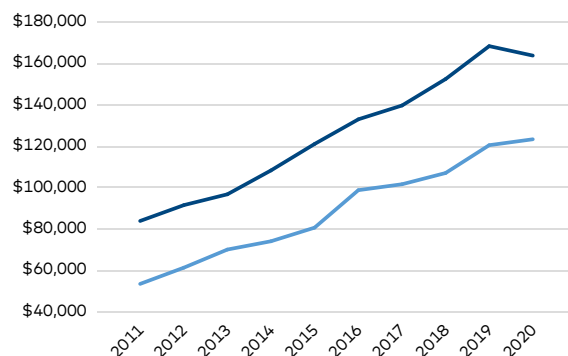
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North Frisco/West McKinney	237
Uptown	205
Oaks	163
South Frisco/Parker	152
Colonial/TCU	128
South Lake Highlands	119
Kiest	118

Source: Yardi Matrix

¹ From September 2019 to August 2020

Dallas vs. National Sales Price per Unit



Source: Yardi Matrix

Top Texas Metros for Multifamily Development in 2020

By Anca Gagiuc

The Texas job market performed strongly before the onset of the pandemic, with all three of its major markets showing up across rankings related to economic and demographic development. This created substantial demand for apartments, pressuring developers to keep up. Land availability, a friendly business climate, good weather and a high quality of life all contributed to the rapid expansion of the state's rental market.

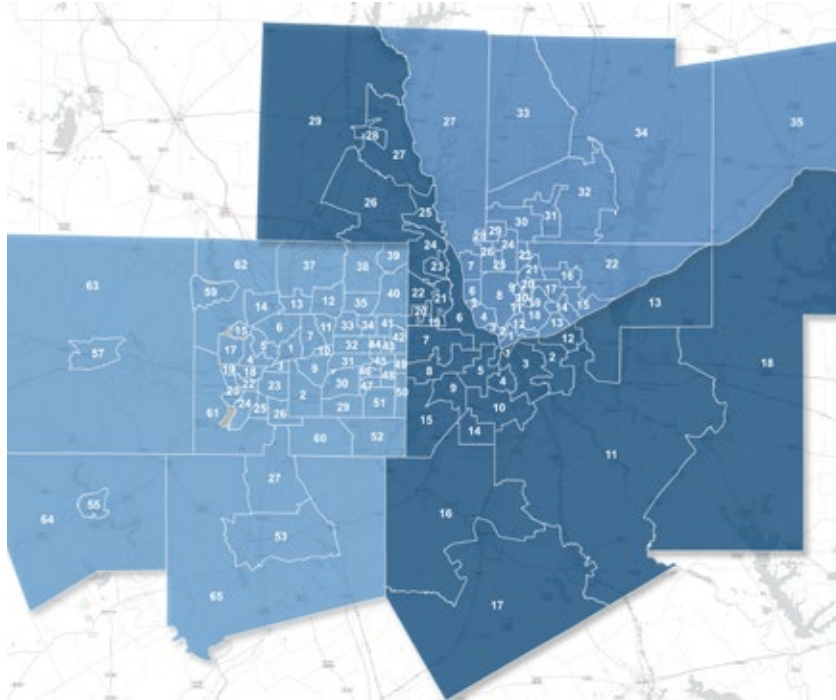
Submarket	Property Name	Units Under Construction
33 - North Frisco/West McKinney	Parkside at Craig Ranch Phases V-VI	835
27 - North Carrollton/The Colony	Thousand Oaks at Austin Ranch Phases VII & VIII	708
33 - North Frisco/West McKinney	Vale Frisco	668

DALLAS-FORT WORTH

Texas' main economic engine had 12,167 units, or 1.6 percent of the metro's total stock, delivered in the first eight months of 2020. This came after the cycle's most abundant years in deliveries—27,882 units in 2018 and 26,550 units in 2019. By the end of 2020, Yardi Matrix estimates the metro's inventory will expand by more than 19,000 units, or 2.5 percent of total stock, placing it first in the country for number of delivered units. In DFW, the average occupancy rate in stabilized properties slid 70 basis points year-over-year through July, to 93.7 percent.



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/Turtle Rock
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 Prairie
8	Kiest
9	Duncanville/South Grand Prairie
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 August 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 August 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, August 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.

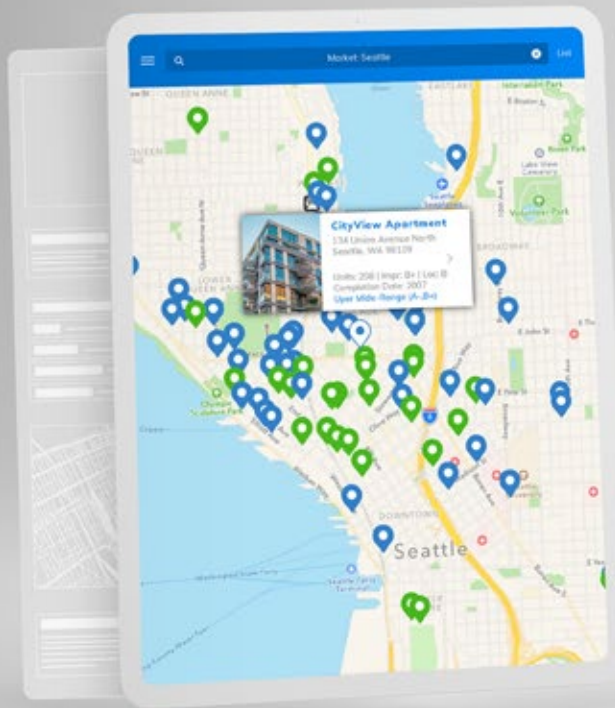
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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