Yardi Matrix

MULTIFAMILY REPORT

Dallas: Attracting Investors

Fall 2021

Rent Growth Ouperforms Nation

Transaction Volume Marks All-Time High

Construction Pipeline Robust, Deliveries Soften

DALLAS MULTIFAMILY

Yardi Matrix

Investor Competition Propels Property Values

Dallas-Fort Worth's multifamily market continued its upward trajectory, bolstered by a robust economy that continued to attract companies from higher-cost markets. This went hand in hand with accelerating in-migration, which increased rental demand. Rates continued to grow, up by 1.8% on a trailing three-month basis through September, to $1,388. Bucking decade-long trends, the Lifestyle segment led both rent gains and occupancy.

Unemployment improved to 4.7% in August, outperforming the 5.9% Texas rate and the 5.2% U.S. figure. The employment market posted the third consecutive month of year-over-year growth, adding 211,100 jobs in the 12 months ending in July, for a 3.5% expansion, 100 basis points above the U.S. rate. Leisure and hospitality led gains, up by 66,900 jobs, or 21.3%. Despite the relatively robust overall economy, growth began moderating due to supply chain disruptions and staffing shortages, aggravated by the summer resurgence of COVID-19.

High material costs and labor shortages softened deliveries, with developers bringing online just 14,509 units in 2021 through September. However, nearly 50,000 units were under construction at the end of the third quarter, the country's largest pipeline by far. Meanwhile, transactions hit an all-time high, with volume reaching $7.8 billion based on a price per unit that rose to $156,675.

Recent Dallas Transactions

8500 Harwood

City: North Richland Hills, Texas
Buyer: S2 Residential
Purchase Price: $123 MM
Price per Unit: $147,625

La Mirada

City: Richardson, Texas
Buyer: CAF Capital Partners
Purchase Price: $95 MM
Price per Unit: $152,628

Market Analysis | Fall 2021

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On the cover: Photo by Sean Pavone/iStockphoto.com

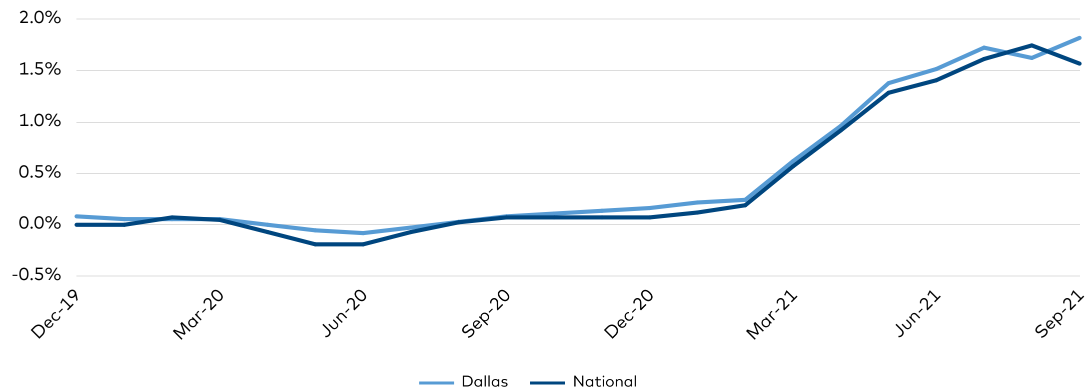
RENT TRENDS

- Rents in Dallas-Fort Worth rose 1.8% on a trailing three-month (T3) basis through September, to $1,388. While growth was 20 basis points above the national rate, the metro is still relatively affordable, trailing the $1,558 U.S. average. On a year-over-year basis, rents marked a 13.0% increase, above the already unprecedented 11.4% U.S. rate. Moreover, robust rental demand and a temporary slowdown in deliveries may boost rent growth into the fourth quarter.

- Rent growth was led by Lifestyle units, up 2.1% on a T3 basis through September, to $1,632, while Renter-by-Necessity apartments marked a 1.5% increase, to $1,120. The occupancy rate in stabilized properties mirrored the dynamic: For the upscale segment, the rate was up by 180 basis points to 95.3% in the 12 months ending in August, while for RBN units it rose 70 basis points, to 94.9%. Overall, occupancy was up by 120 basis points, to 95.1%.

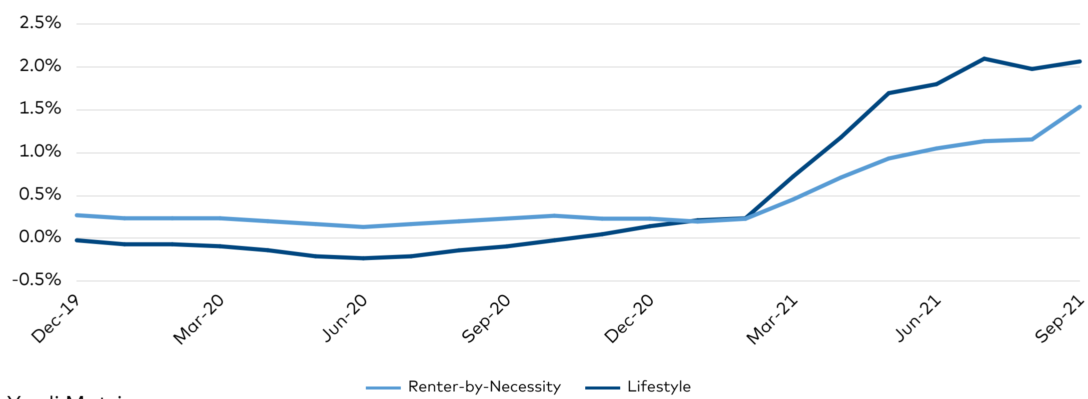
- Uptown, the most expensive submarket in the Metroplex, recorded a 16.6% year-over-year rent increase, to $2,362. The other area with an average rent above the $2,000 mark is also a core submarket: Park Cities/Preston Hollow/West Oak Lawn, which marked one of the highest rent increases in the metro, up 21.3% to $2,016. South Downtown, which sports a $1,928 average rent, saw rates go up 8.0% year-over-year. On the Fort Worth side, Hemphill was the most expensive submarket, with the average up 11.8%, to $1,654.

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 unemployment improved to 4.7% in August, according to preliminary BLS data. That outperformed the 5.9% Texas rate and the 5.2% U.S. figure, but trailed Austin by 90 basis points.

- The pandemic paused one of the strongest economic runs in Dallas' history, but a rebound is well underway: The employment market posted the third consecutive month of year-over-year growth, adding 211,100 jobs in the 12 months ending in July.

- Leisure and hospitality led gains, up by 66,900 jobs, or 21.3%, followed by the metro's largest sectors—professional and business services and trade, transportation and utilities—which added 52,100 jobs and 36,900 jobs, respectively. Both are likely to continue outperforming, the former supported by company relocations and expansions that also fit well with the remote work lifestyle, and the latter boosted by the rapid expansion of the e-commerce industry. Notable recent expansions in the Metroplex include Charles Schwab, Home Depot, UPS, Lowe's and Amazon.

- Although growth in the state economy is healthy, it has slowed due to supply chain disruptions and staffing shortages, made worse by the resurgence of COVID-19 fueled by the Delta variant.

Dallas Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	381	10.0%
60	Professional and Business Services	669	17.6%
40	Trade, Transportation and Utilities	823	21.7%
65	Education and Health Services	451	11.9%
80	Other Services	122	3.2%
55	Financial Activities	333	8.8%
90	Government	432	11.4%
30	Manufacturing	285	7.5%
50	Information	80	2.1%
15	Mining, Logging and Construction	218	5.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Dallas-Fort Worth gained 122,897 residents in 2020, up 1.6%, four times the 0.4% U.S. average.

- The pandemic accelerated migration to the Metroplex. Last year's population growth is above the 1.4% rate recorded in 2019.

Dallas vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Dallas Metro	7,407,944	7,539,711	7,643,907	7,766,804

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

SUPPLY

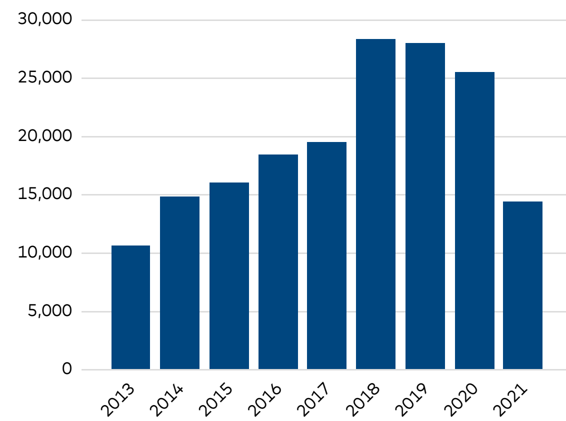
- Although still significant, multifamily deliveries softened this year, with just 14,509 units coming online through September (1.8% of total stock, 20 basis points above the U.S. rate), likely due to pandemic-related obstacles such as labor shortage and high cost of materials. Because these factors don't affect demand bolstered by strong employment growth and migration trends, rent growth is likely to hold steady into the fourth quarter.

- Developers had 49,347 units under construction as of September, 55% in projects across North Dallas, 25% in Fort Worth and nearly 20% in suburban Dallas. At the submarket level, North Frisco/West McKinney and North Carrollton/The Colony led ranks, with 5,852 and 3,881 units underway. Across the metro, another 136,000 units were in the planning and permitting stages.

- Similar to the pipeline, the bulk of deliveries were in North Dallas (6,949 units), followed by Fort Worth (4,837 units) and suburban Dallas (2,723 units). Moreover, developers' focus remained on Lifestyle assets, with both deliveries and projects underway almost entirely serving the upscale segment. Affordable housing expanded by only 415 units across DFW through September, while market-rate RBN stock grew by 304 units.

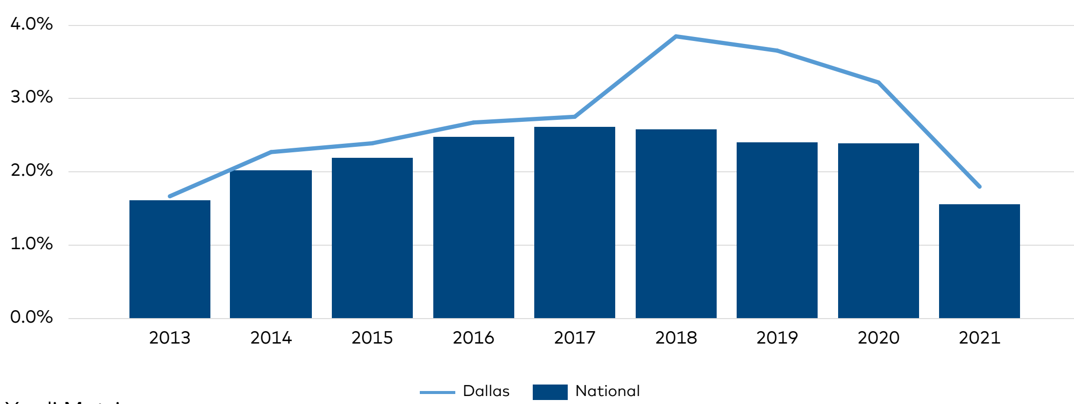
- The largest project underway is Villages of Hurricane Creek, a 1,384-unit project that broke ground this year in North Dallas. A Centurion American asset, the property is slated for a full completion in 2024.

Dallas Completions (as of September 2021)



Source: Yardi Matrix

Dallas vs. National Completions as a Percentage of Total Stock (as of September 2021)



Source: Yardi Matrix

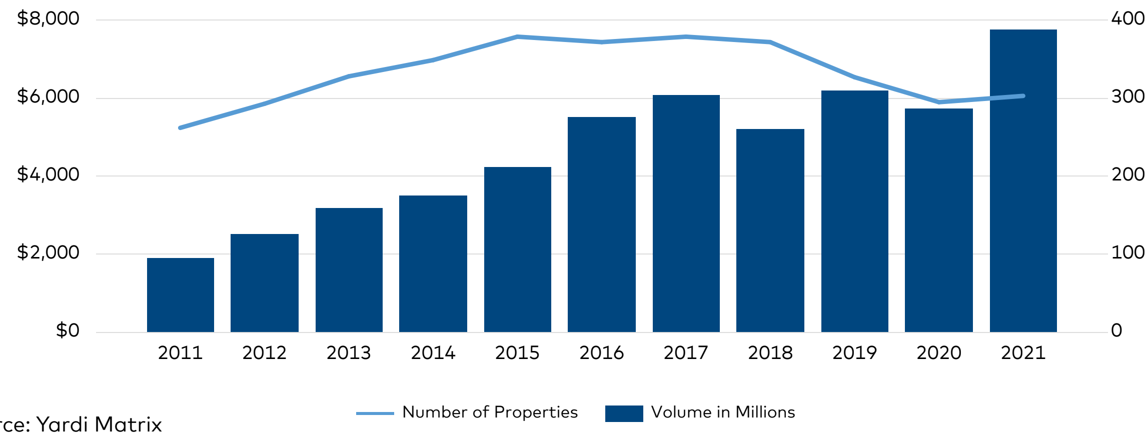
TRANSACTIONS

- Nearly $7.8 billion in multifamily assets traded in Dallas-Fort Worth in 2021 through September, a new peak and dwarfing all other markets. During the first nine months of last year, transactions in DFW amounted to just $2.9 billion.

- Increased buyer demand created greater competition, which helped property values grow, even as the sales composition remained fairly even between quality segments. In addition, a temporary slowdown in deliveries only added to value increases. The per-unit price rose by a hefty 22.9% compared to last year, to $156,675. Still, the metro remains relatively affordable, trailing the $179,959 U.S. price per unit.

- Judging by dollar volume, investor interest remained highest in North Dallas ($3.4 billion), followed by Fort Worth ($2.4 billion) and suburban Dallas ($2.0 billion), during the 12 months ending in September.

Dallas Sales Volume and Number of Properties Sold (as of September 2021)



Source: Yardi Matrix

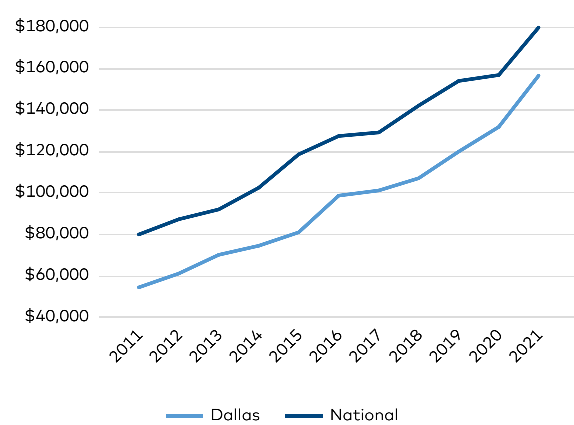
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Frisco/West McKinney	440
East Plano/Allen	378
Las Colinas	357
Downtown	336
Coppell/South Lewisville	296
Valley Ranch	276
Watauga	263

Source: Yardi Matrix

[1] From October 2020 to September 2021

Dallas vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MHN MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Markets for Multifamily Development

By Anca Gagiuc

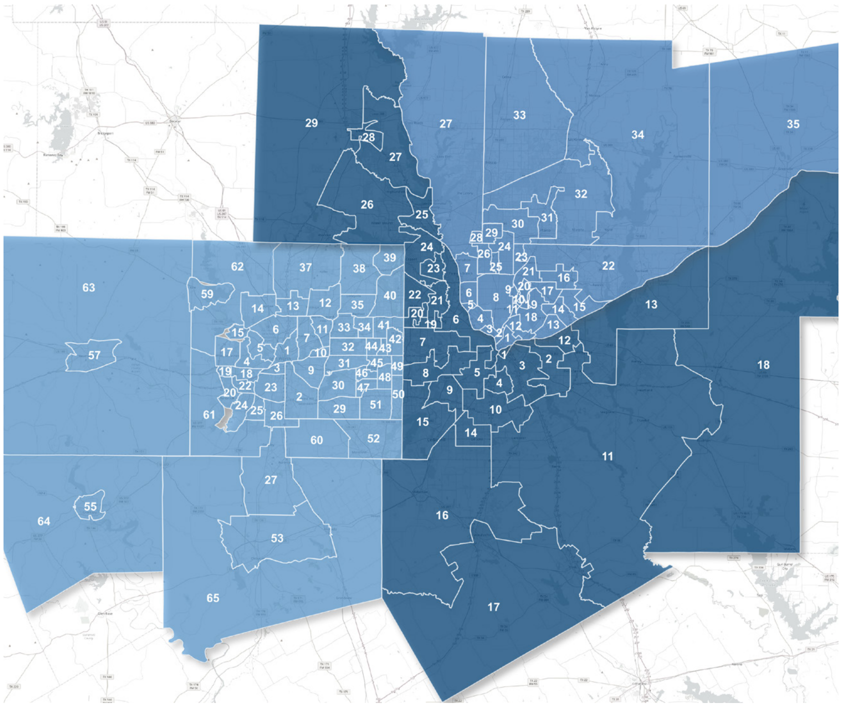
Multifamily has been one of the best-performing industries throughout the pandemic. According to Yardi Matrix data, robust demand pushed rent growth to record highs, placing 2021 on track to be among the best years since the 2008 downturn. Demand continues to fuel development, and following a moderate slope during the first weeks of the health crisis, construction activity has largely bounced back in 2021. Yardi Matrix expects deliveries to amount to roughly 334,000 units by year-end.

Rank	Market	No. of Units Delivered in 2021	No. of Units Under Construction	Occupancy as of July 2021
1	Dallas	12,654	47,486	94.7
2	Houston	9,511	30,078	92.9
3	Atlanta	8,596	21,007	95.7
4	Miami	7,173	38,147	96.3
5	Phoenix	6,234	34,195	96.5

DALLAS

Dallas-Fort Worth holds the leading position, with a total of 12,654 units added to stock in 2021 through July. Moreover, the metro also held the top spot in the number of units underway, with 47,486 units. Surprisingly, however, Dallas was the only one of the markets in the top five to post a slight decrease from last year's volume recorded in the same period: In 2020 through July, 13,374 units came online in the Metroplex. Nonetheless, demand is strong in Texas' main economic engine—despite the robust inventory expansion, occupancy in stabilized properties rose by 80 basis points in the 12 months ending in July.

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

OTHER PROPERTY SECTORS

Office

- Corporate expansions and strong migration of large companies have kept developers busy in the Metroplex, where, as of July, 5.3 million square feet of office space were under construction, 1.9% of total stock, according to CommercialEdge data. Of this, half is slated for completion by the end of the year. Including planned projects, the construction pipeline amounts to 8.7% of total stock, 280 basis points above the national figure. Construction activity was most intense in Uptown/Oak Lawn (1.6 million square feet underway) and Las Colinas (830,000 square feet).

- Recent deliveries include the 540,000-square-foot Chase Tower at Legacy West in Plano and 5151 Maple Ave., a 525,000-square-foot medical office building, while newly announced projects include the three new CityLine office towers totaling 1.4 million square feet.

- After an uptick this summer, the Metroplex's office vacancy rate rose to 19.4%, 90 basis points higher month-over-month and 110 basis points higher year-over-year.

- July was also strong from an investment standpoint, with nearly 2 million square feet trading, a 58.8% month-over-month jump. The largest traded property was the 40-story, 1.1 million-square-foot Bryan Tower.

Industrial

- Dallas-Fort Worth led in industrial construction activity by absolute numbers, with 34.1 million square feet underway as of mid-year, according to CommercialEdge. South Dallas and South Fort Worth accounted for about 40% of the metro's construction pipeline, or 13.9 million square feet.

- Industrial sales soared in the metro, mirroring nationwide investor appetite and surpassing $450 million through July. In late August, PS Business Parks acquired Port America, an industrial asset totaling 717,735 square feet in Grapevine, Texas, for $123 million from Stockbridge Capital Group. Also in Grapevine, EastGroup Properties Inc. acquired the four-building, 611,000-square-foot DFW Global Logistics Centre in a deal worth $89.7 million.

Self Storage

- Dallas' substantial population growth and mobility continued to bolster the self storage market. During the first seven months of 2021, the Metroplex expanded its storage inventory by nearly 1.9 million square feet, the largest figure among all U.S. metros. The capacity reflects a 39.9% increase from the same period last year.

- In line with other metros on the list, the Metroplex experienced double-digit year-over-year rent growth as of July for both standard 10×10 climate- and non-climate-controlled units, up 12% and 11%, respectively.

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 December 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 December 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, December 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.

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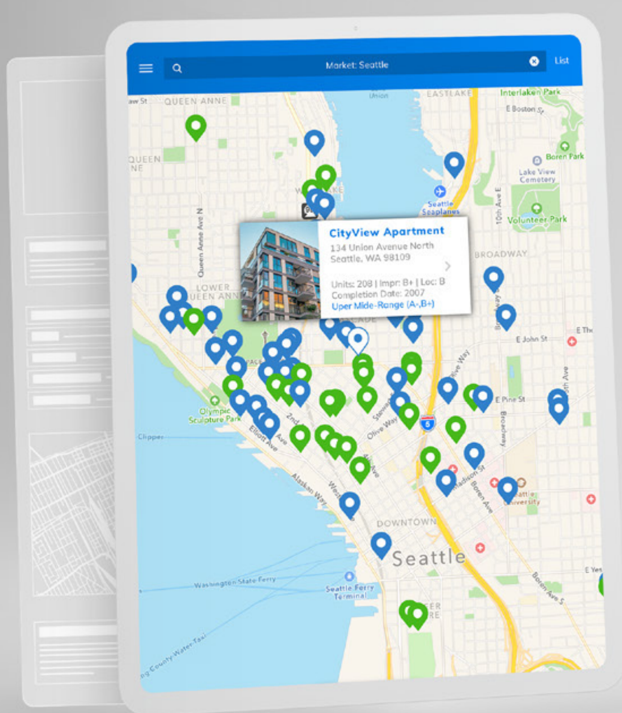

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