YARDI® Matrix

Dominating Dallas

Multifamily Winter Report 2017

Strong Job Market Fuels Demand

Pipeline Tops Nationwide Standings

Investment Hits Cyclical High

North Texas Thrives on Solid Fundamentals

Hitting new cyclical peaks across most metrics, Dallas-Fort Worth continues to be one of the strongest multifamily markets in the United States. Following national trends, rent growth slowed down during the last two quarters of 2016. However, at 5.7% as of January, the metro's growth rate topped the national average by 110 basis points, fueled by strong fundamentals across the board. With 114,000 new jobs in the year ending in November and ranked as the top U.S. metro in units under construction, DFW is perceived by developers and investors as a safe haven.

Dallas remains a regional economic anchor, and the city's healthy business climate continues to draw large projects and corporate employers. Kent Donahue is moving forward with Bayside, his $1 billion, 262-acre mixed-use development in Rowland. Facebook recently announced that it will significantly expand its Fort Worth data center, bringing the final project to roughly 2.5 million square feet. In Plano, Toyota's new headquarters is generating thousands of jobs and the $2 billion Legacy West project is nearing completion.

With roughly $5 billion worth of assets trading and some 15,000 units coming online in 2016, the metro hit new records for the current cycle. Considering North Texas' strong level of demand, growth is here to stay. As the metro is gaining residents at a fast pace and is steadily adding jobs across most sectors, we expect healthy absorption levels, with rents in DFW increasing by 6.3% in 2017.

Recent Dallas Transactions

Elan Lakeside

City: Flower Mound, Texas
Buyer: Azure Partners
Purchase Price: $84 MM
Price per Unit: $196,721

Avenue on Fairmount

City: Dallas
Buyer: Pure Multi
Purchase Price: $71 MM
Price per Unit: $192,935

Santa Rosa

City: Irving, Texas
Buyer: Resource Real Estate
Purchase Price: $71 MM
Price per Unit: $149,160

Sixteen 50 @ Lake Ray Hubbard

City: Rockwall, Texas
Buyer: Steadfast Cos.
Purchase Price: $66 MM
Price per Unit: $197,904

Rent Trends

- Dallas-Fort Worth rents were up 5.7% last year, 110 basis points above the U.S. average. However, their $1,084 price point as of January remained below the $1,315 national average. Following nationwide trends, the metro's growth rate peaked at 8.0% in mid-2016, recording a slight deceleration during the year's last two quarters.

- The working-class Renter-by-Necessity segment led rent growth, recording a 6.9% year-over-year increase, while Lifestyle rents grew by 4.2%. This difference results, in part, from the fact that developers heavily focused on Class A projects, which generate higher returns, while demand remained strong for all asset classes.

- The rise of rents is consistent across the map, with 14 submarkets surpassing the 10% mark. The list was topped by North Arlington (14.1%), North Vickery Park (13.1%), Meadowbrook (12.8%) and North Oak Cliff/Irving (11.5%). The rent surge in these areas is partially due to low levels of recent completions, as opposed to core areas—such as Uptown (2.6%) and Cityscape/Downtown (4.8%)—that are seeing a construction boom.

- Dallas is the U.S. metro recording the largest number of units under construction, but demand is likely to remain strong due to the area's accelerated population gains. As the metro continues to be relatively affordable, while also adding both blue- and white-collar jobs at a fast pace, Yardi Matrix forecasts a 6.3% rent growth for 2017.

Dallas vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
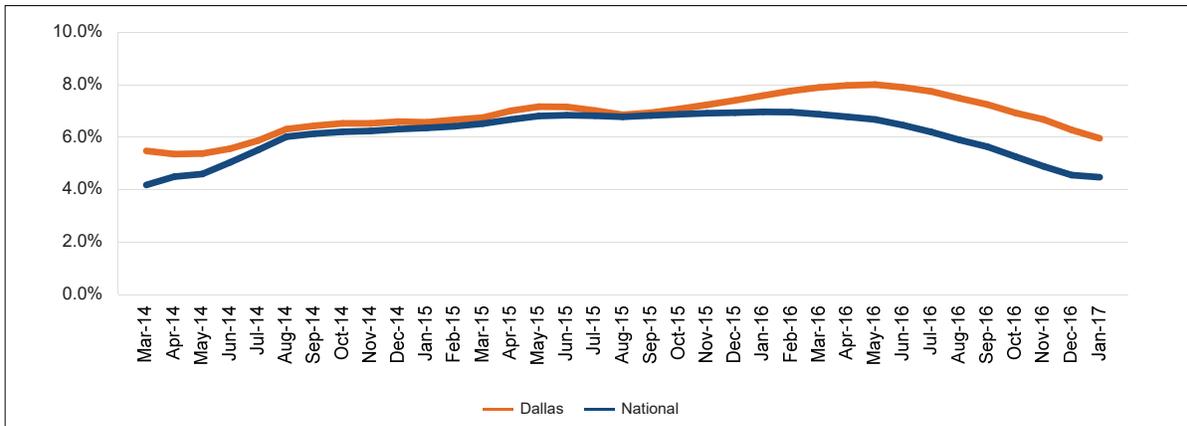
Source: YardiMatrix

### Dallas Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)
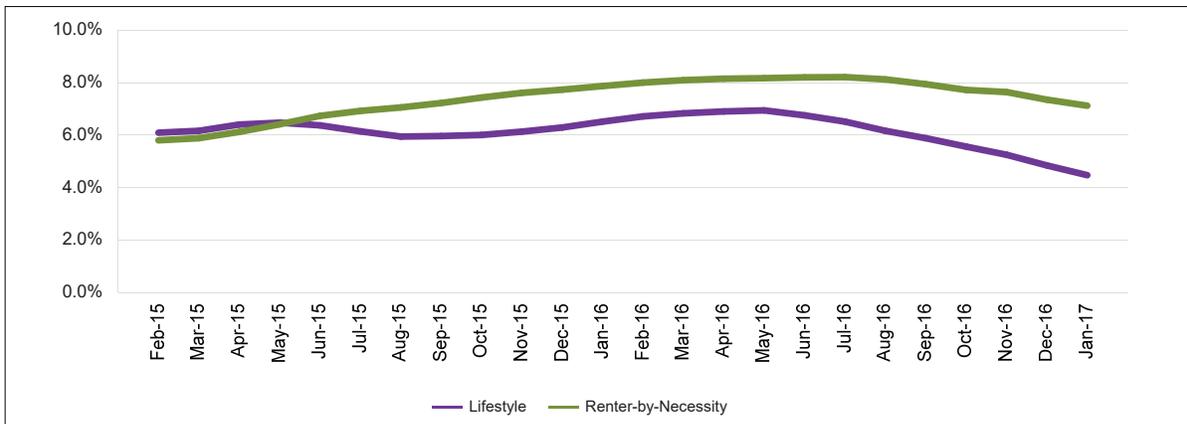
Source: YardiMatrix

Economic Snapshot

- Dallas-Fort Worth added 114,000 jobs in the year ending in November, up 3.4% year-over-year, 120 basis points above the national average. Unaffected by the collapse of oil prices, North Texas remains an economic powerhouse, displaying a healthy combination of business-friendly laws, solid levels of domestic and international capital, relative affordability of living and efficient infrastructure.

- Job gains were led by the trade, transportation and utilities sector (34,000). The professional and business services, financial activities, and education and health services sectors added a total of 51,900 new positions, consolidating the metro's white-collar population and contributing to an already diversified economy.

- With more than 10 million square feet of space under construction—most of it Class A—the metro's office development pipeline is concentrated in the same submarkets where multifamily supply is on the rise: Plano, Frisco, The Colony and other Far North locations, as well as core Dallas submarkets.

- Dallas has no shortage of large developments: Construction on the $1 billion Bayside is slated to begin this spring; Hillwood and The Howard Hughes Corp. have unveiled plans for a 130-acre Westlake campus; Facebook recently announced that it will expand its Fort Worth data center to 2.5 million square feet. In addition, Toyota's 100-acre campus and the $2 billion Legacy West, both in Plano, are scheduled for completion in 2017.

Dallas vs. National Employment Growth (Year-Over-Year)
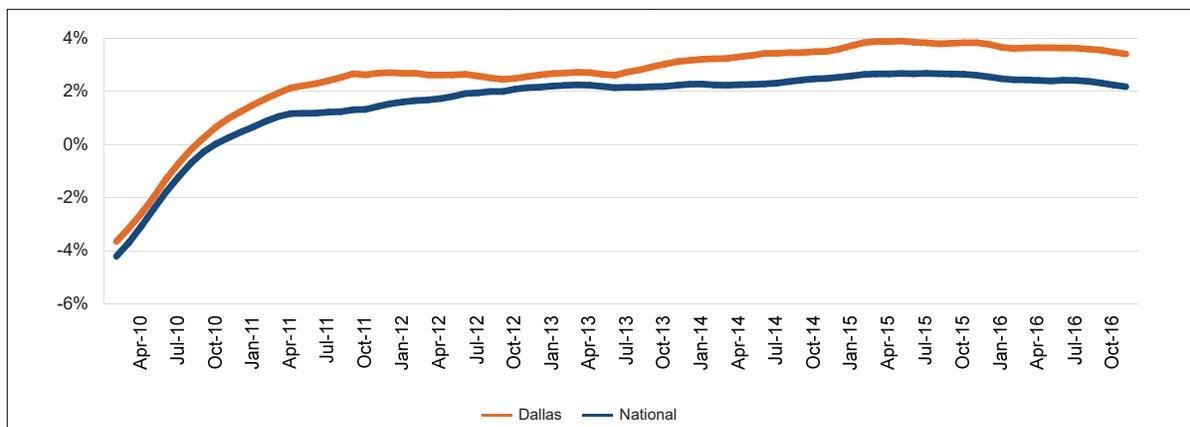
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Dallas Employment Growth by Sector (Year-Over-Year)

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
40	Trade, Transportation and Utilities	784	21.8%	34,000	4.5%
60	Professional and Business Services	598	16.7%	25,000	4.4%
55	Financial Activities	295	8.2%	13,600	4.8%
65	Education and Health Services	441	12.3%	13,300	3.1%
90	Government	431	12.0%	11,500	2.7%
70	Leisure and Hospitality	371	10.3%	10,200	2.8%
15	Mining, Logging and Construction	205	5.7%	3,700	1.8%
80	Other Services	122	3.4%	3,700	3.1%
50	Information	82	2.3%	800	1.0%
30	Manufacturing	261	7.3%	-1,000	-0.4%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- The median home price reached $217,000 in 2016, marking another peak for the current cycle. However, homes in Dallas remain less expensive than those in other major Texas metros, such as Austin and Houston.

- Owning in Dallas remains more affordable than renting. The average mortgage payment comprises 15% of the metro's median income, while the average rent of $1,084 accounts for 19%. As the metro is adding residents at a much faster rate than the nation while the percentage of new stock matches the national average, Dallas is not likely to become more affordable in the near future.

Dallas Rent vs. Own Affordability as a Percentage of Income
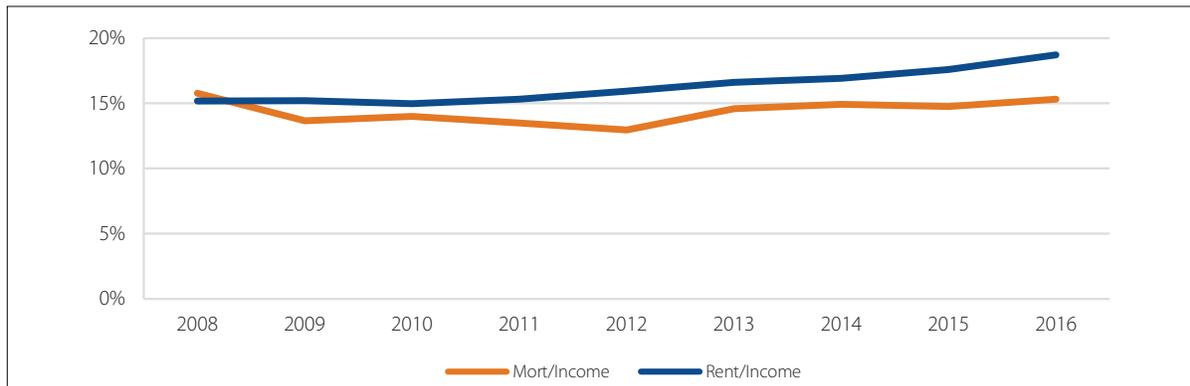
Sources: YardiMatrix, Moody's Analytics

Dallas Median Home Price
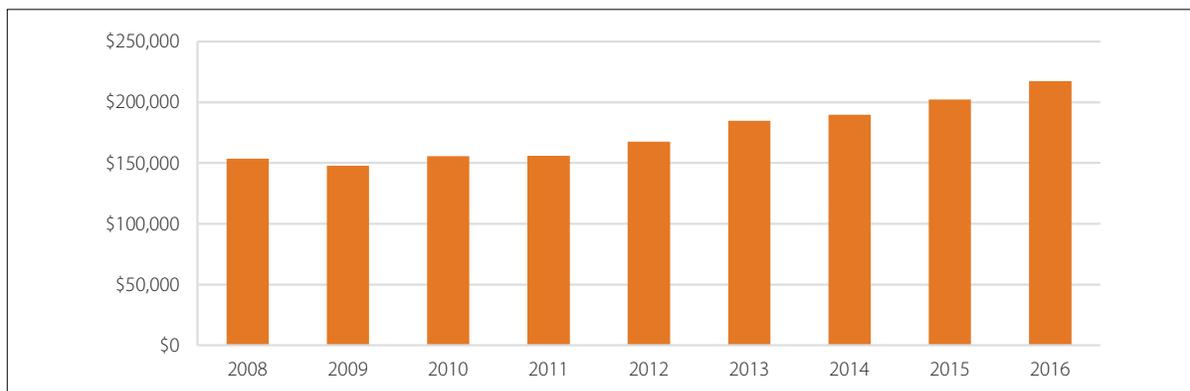
Source: Moody's Analytics

Population

- Between 2011 and 2015, the population of the Metroplex grew by 8.0%, more than double the national average.

- The MSA added 144,000 residents in 2015 alone. This marks a 2.0% increase, while the U.S. average was 0.8%.

Dallas vs. National Population

	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Dallas-Fort Worth-Arlington Metropolitan Statistical Area	6,574,298	6,709,559	6,822,353	6,958,092	7,102,796

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

Supply

- Some 15,000 units came online in Dallas-Fort Worth last year, increasing the stock by 2.4%, almost on par with the national average.

- Dallas' strong economic performance and relatively easy regulatory environment continue to fuel an overgrown pipeline. The Metroplex has some 113,000 units in different stages of development, 43,584 of which are already under construction. This puts it at the top of the list of U.S. metros with upcoming supply, ahead of Washington, D.C., Houston, Denver and Los Angeles.

- Construction is mainly concentrated in core Dallas areas and rapidly growing suburban centers north of the city. The top five submarkets—North Frisco/West McKinney, North Carrollton/The Colony, Uptown, Cityscape/Downtown and South Frisco/Parker—add up to a collective 16,890 units under construction, or almost 40% of the metro's total. None of the top 15 submarkets—each having more than 900 units under construction—are located in or near Fort Worth.

- The largest developments slated for completion in 2017 are Trammell Crow's 705-unit Alexan Central in Richardson and The Grand at Legacy West, a 621-unit community in Plano owned by KDC.

Dallas vs. National Completions as a Percentage of Total Stock (as of January 2017)
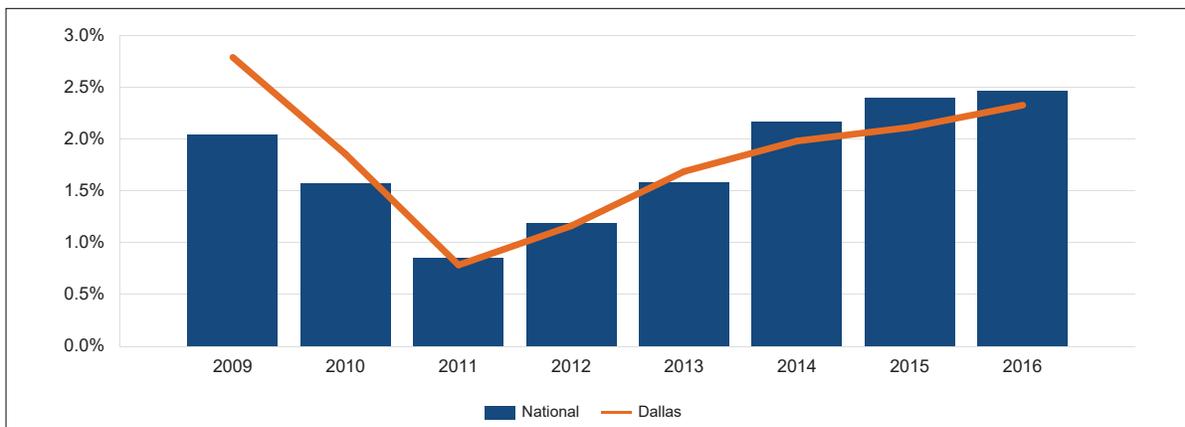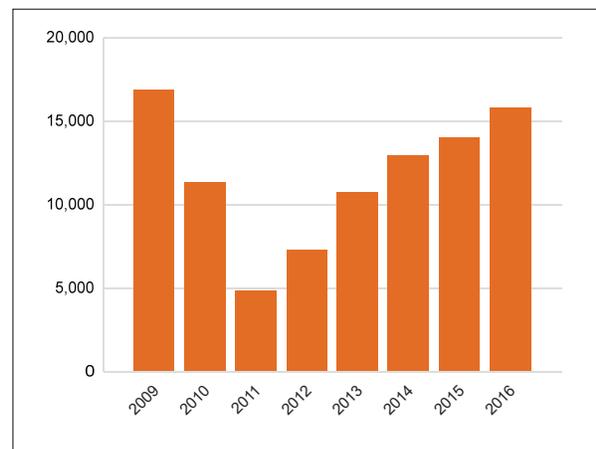

Source: YardiMatrix

Development Pipeline (as of January 2017)
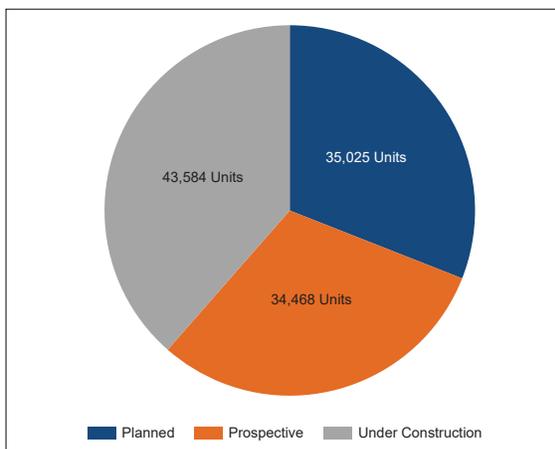
Source: YardiMatrix

Dallas Completions (as of January 2017)

Source: YardiMatrix

Transactions

- Demand for properties continues to be strong in Dallas, as roughly $5 billion worth of multifamily assets changed hands in 2016. This marks another cycle record—the seventh consecutive one—and a 22% increase in investment volume over the previous year.

- Investor activity is driven by core submarkets and by amenity-rich, master-planned areas north of Dallas, with a focus on assets around The Colony, Las Colinas, Plano and Frisco. Confidence in value-add plans is also on the rise, considering that two-thirds of the multifamily properties changing hands in 2016 were Class B and C assets. This tendency is apparent across the map, from submarkets in west Fort Worth to northeastern Dallas.

- Multifamily appetite is fueling price hikes, with the average unit selling for roughly $98,000. Although well below the national average of $132,755, unit prices are still surging, having recorded a 20% rise in 2016.

Dallas Sales Volume and Number of Properties Sold (as of January 2017)
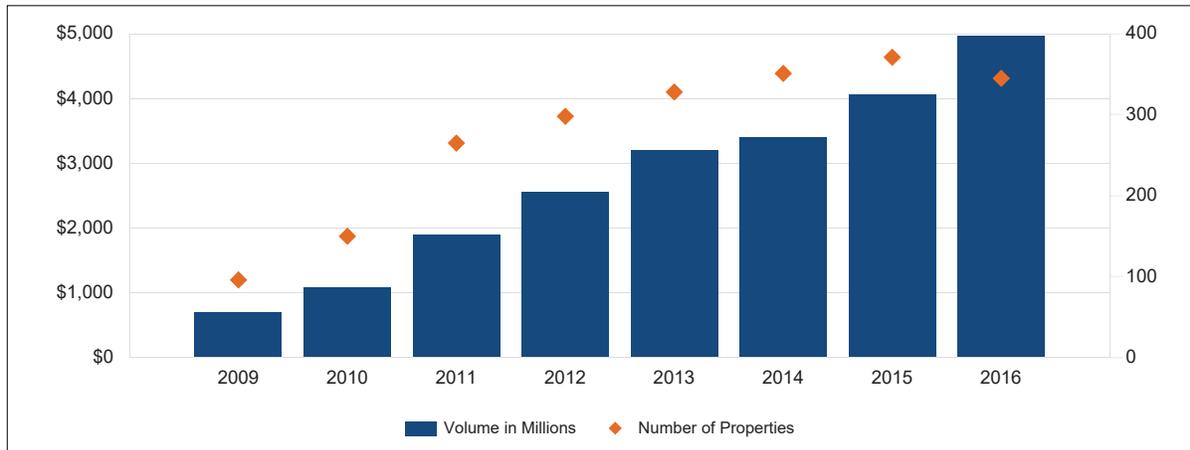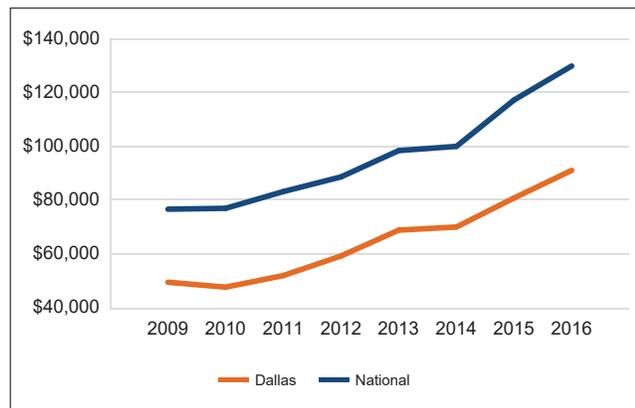

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Carrollton/ The Colony	210
Las Colinas	208
West Plano	182
N. Frisco/W. McKinney	181
Prestonwood/Galleria	150
South Lake Highlands	148
Coppell/South Lewisville	144
Cityscape/Downtown	138

Source: YardiMatrix
[1] From February 2016 to January 2017

Dallas vs. National Sales Price per Unit

Source: YardiMatrix

Read All About It!

Apple Hospitality REIT Snaps Up DFW Marriott

Greystone Adds New Dallas Director
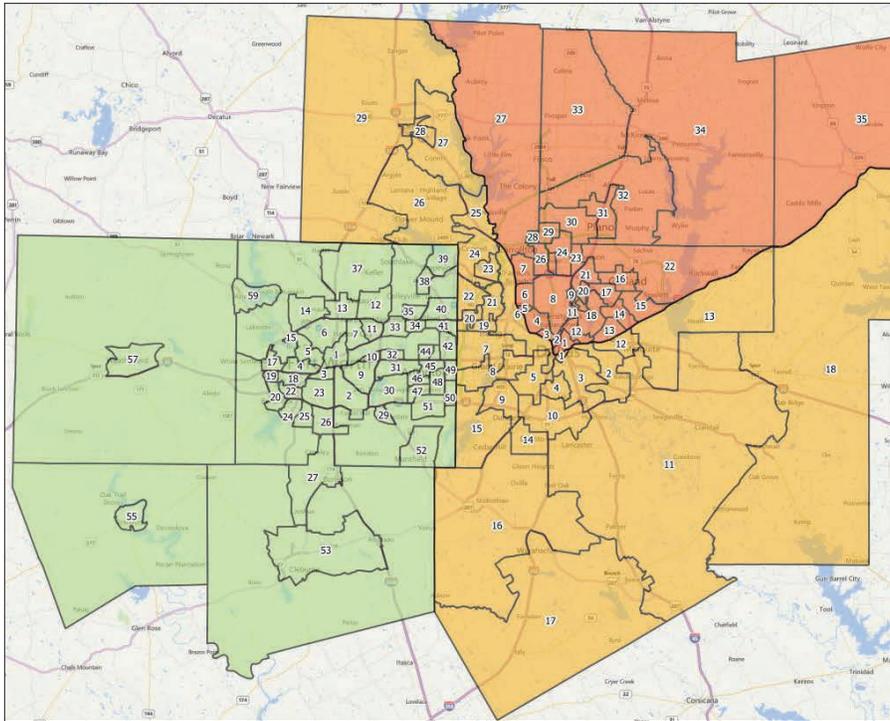
JCPenney HQ Trades In Sale-Leaseback Deal

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Dallas Submarkets

Area #	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 #	Submarket
1	Downtown
2	Fairmount/Morningside/Worth Heights
3	Medical District
4	Westover Hills
5	Crestwood/River Oaks/Sansom Park
6	Far North/Stockyards
7	Haltom City
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

Area #	Submarket
31	Handley
32	Randol Mill
33	Hurst
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

Area #	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 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.

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