



Yardi® Matrix

Dallas Shines in Lone Star State

Multifamily Report Summer 2017

Rent Growth
Decelerates

Development Targets
Uptown, Far North

Transactions Tilt Toward
Class B and C in 2017

Market Analysis

Summer 2017

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The Dallas-Fort Worth metro continues to achieve some of the fastest job and household growth rates in the U.S. The area is among the most diverse economies in the country and added 145,000 residents in 2016 alone.

Benefiting from a business-friendly climate and no state income tax, Dallas is a regional hub that attracts both domestic and foreign capital. There are also 25 colleges and universities in the metro, which enroll nearly 350,000 students that fuel a deep talent pool and attract large employers. With the \$3.2 billion Legacy West development nearing completion, the metro will house new headquarters for Toyota, JP Morgan Chase, Liberty Mutual and Boeing. The \$3 billion Dallas Midtown project is also moving forward. In Fort Worth, Ed Bass is leading a public-private partnership to build a \$450 million multi-purpose arena and Facebook is building a \$1 billion data center. The DFW data center market is the second-largest in the country, according to CBRE, and includes fast-growing companies such as RagingWire, Digital Realty, Softlayer, CyrusOne and T5.

Property investors remain bullish, with \$1.5 billion worth of multifamily assets trading in the first five months of 2017. Dallas-Fort Worth has 48,000 units under construction, but the metro is expected to absorb its substantial pipeline due to rapid demographic expansion. Area rents are forecast to rise by 4.3% in 2017, as job growth and domestic migration drive rental demand.

Recent Dallas Transactions

The Nexus Lakeside



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

Santa Rosa



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

Avenue on Fairmount



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

The Standard @ CityLine



City: Richardson, Texas
Buyer: Price Realty
Purchase Price: \$67 MM
Price per Unit: \$165,943

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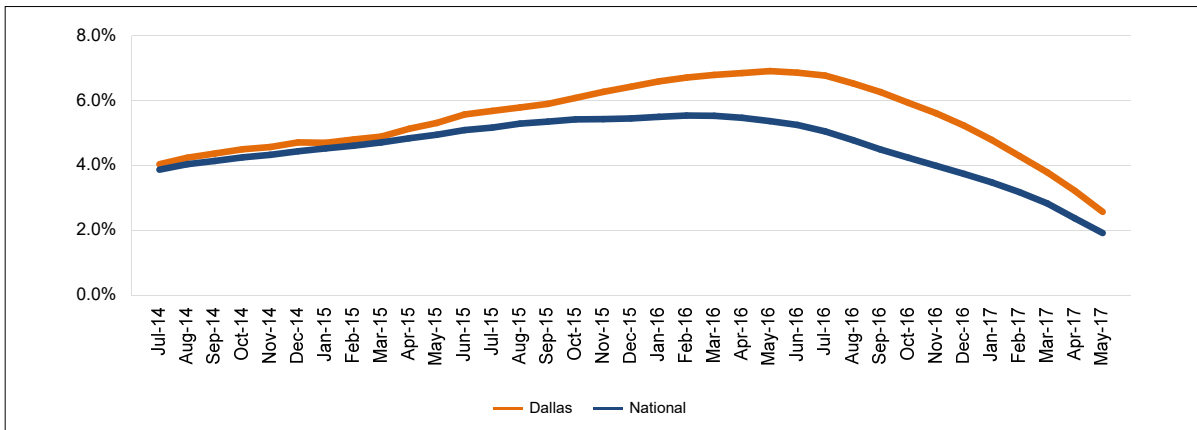
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Rent Trends

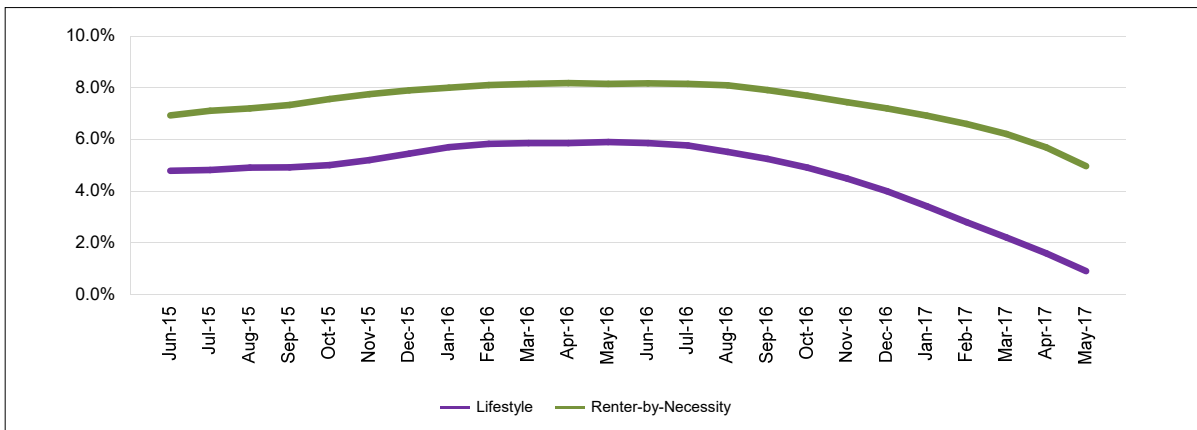
- DFW rents were up 2.6% year-over-year as of May, 110 basis points above the U.S. average. The average rent stood at \$1,080, which is \$240 less than the national average. With absorption strong due to job growth and population gains, Dallas leads U.S. metros in units under construction, and rent growth is starting to flag.
- Rents in the working-class Renter-by-Necessity segment continue to advance faster than the more expensive Lifestyle apartments. Rents for Renter-by-Necessity properties increased 5.0% year-over-year, to \$887, while Lifestyle rents increased just 0.9%, reaching \$1,291.
- Some of the metro's most expensive core submarkets are saturated and facing rent contractions, including Uptown (\$1,942; -1.6%), South Downtown (\$1,653; -5.3%) and Downtown (\$1,484; -1.9%). Rent growth is strongest in working-class submarkets like North Vickery Park (13.0%), Lake Worth (11.1%), East Arlington (9.8%) and Forest Hills (8.7%).
- During the last three years, the population in Dallas has grown substantially faster than the national average. At the same time, Dallas has added new units at the same pace as the U.S. average. While current new supply in DFW is substantial, strong population growth should raise rents by 4.3% in 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)

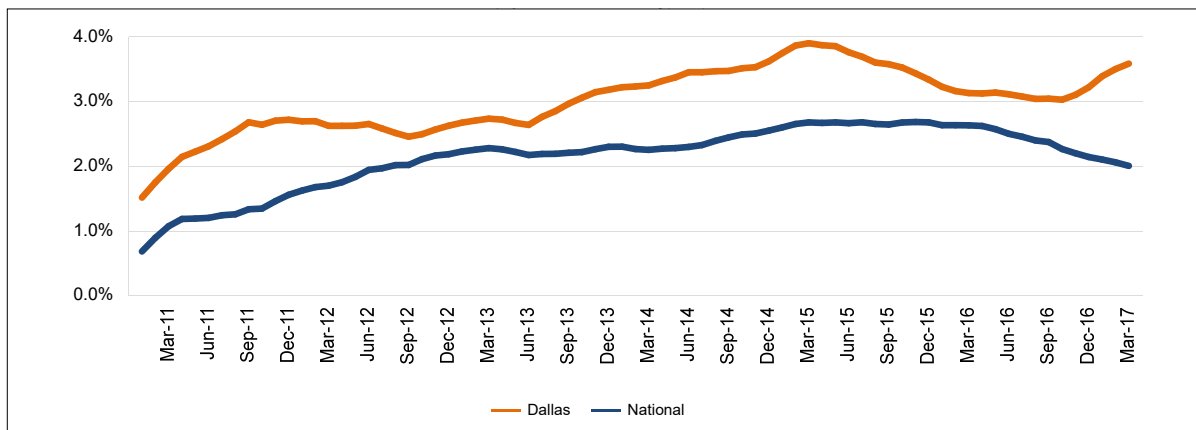


Source: YardiMatrix

Economic Snapshot

- The metro added 129,700 jobs in the year ending in March 2017, up 3.6% year-over-year and 160 basis points above the U.S. average. The area's business-friendly environment is generating jobs and attracting corporate relocations. The DFW unemployment rate was 3.8% in April 2017, compared to a higher average of 5.0% in the state of Texas and 4.4% nationally.
- Dallas is headquarters for several major corporations, including telecom giant AT&T, semiconductor manufacturer Texas Instruments, transportation leaders American Airlines and Southwest Airlines, consumer products companies like Dr. Pepper Snapple Group and paper maker Kimberly-Clark. Job growth has been led by professional and business services (28,400 jobs); trade, transportation and utilities (28,200); and leisure and hospitality (21,200). There are 11.5 million square feet of office space under construction in the metro. According to Colliers International, half of the office pipeline consists of speculative developments.
- Developers are investing heavily in DFW's future. Dallas Midtown and Legacy West are both mixed-use projects investing \$3 billion each in North Dallas. Several data center projects are also underway, including Facebook's \$1 billion facility in Fort Worth and RagingWire's TX1 center in Garland. The Fort Worth Multipurpose Arena, a \$450 million public-private partnership, broke ground in April.

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	%
60	Professional and Business Services	596	16.6%	28,400	5.0%
40	Trade, Transportation and Utilities	762	21.3%	28,200	3.8%
70	Leisure and Hospitality	379	10.6%	21,200	5.9%
55	Financial Activities	291	8.1%	12,800	4.6%
65	Education and Health Services	440	12.3%	12,300	2.9%
90	Government	437	12.2%	9,500	2.2%
15	Mining, Logging and Construction	208	5.8%	7,900	4.0%
80	Other Services	125	3.5%	6,100	5.1%
30	Manufacturing	266	7.4%	2,100	0.8%
50	Information	82	2.3%	1,200	1.5%

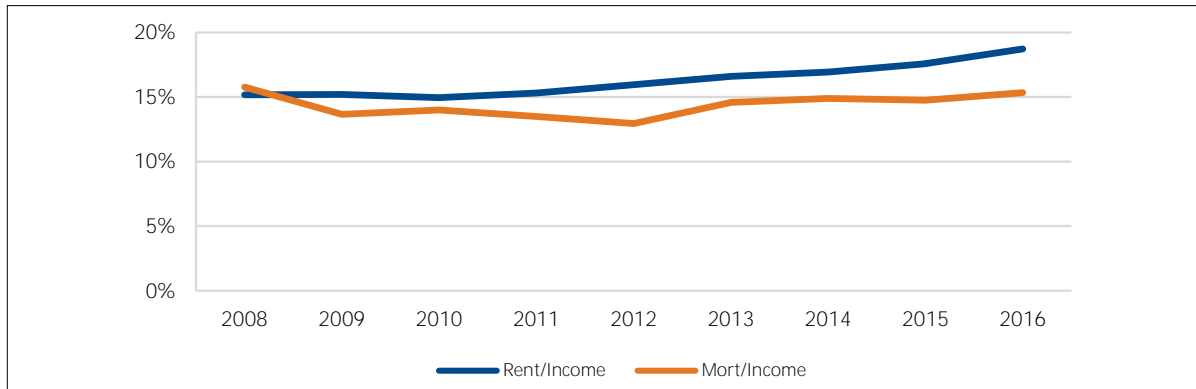
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

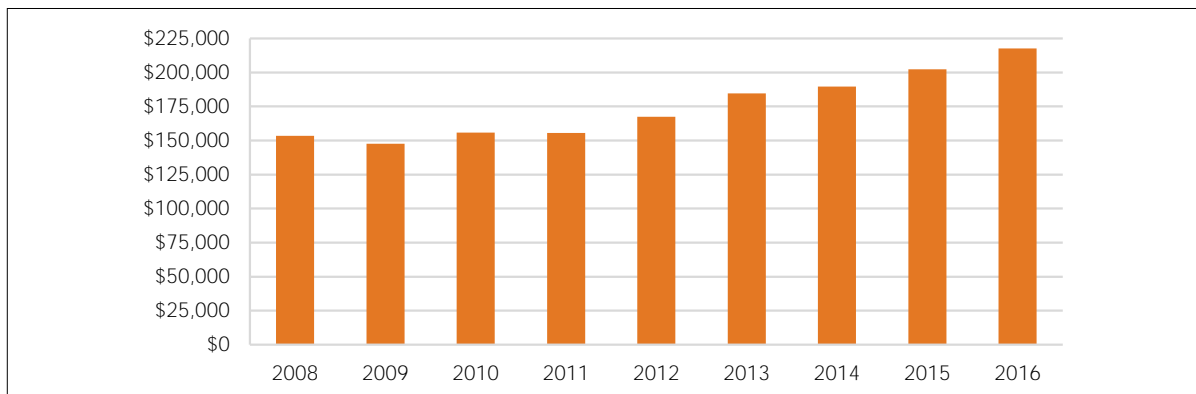
- The median home price in Dallas-Fort Worth has reached a record high of \$217,000 in 2017, but houses in the area are still cheaper than in most major U.S. metros.
- Even though Dallas home prices are up 40% since 2011, it is still cheaper to own than to rent in the area. The average mortgage payment comprises 15% of the metro's median income, while the average rent of \$1,080 accounts for 19%. The metro's population is growing three times faster than the U.S. average and developers are delivering mostly upscale projects, so new supply of Renter-by-Necessity apartments is limited. Dallas is not likely to become more affordable, as strong demand continues to cause rents and home prices to rise.

Dallas Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Dallas Median Home Price



Source: Moody's Analytics

Population

- The metro added 530,000 residents in the last five years, a 7.9% increase. The growth rate is nearly triple the national average of 2.9%.
- Dallas-Fort Worth expanded by nearly 145,000 people in 2016 alone, a 2.0% increase.

Dallas vs. National Population

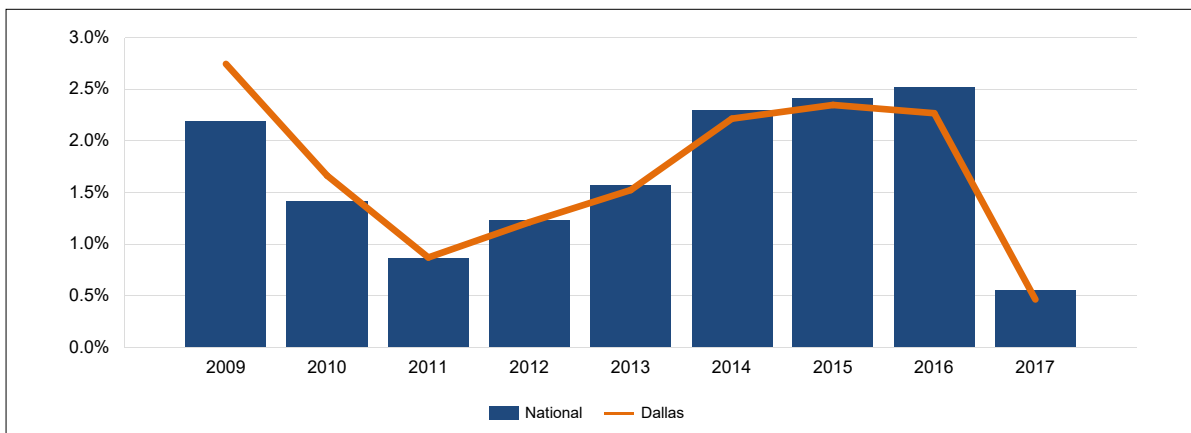
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Dallas Metro	6,704,080	6,813,055	6,945,274	7,089,888	7,233,323

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

Supply

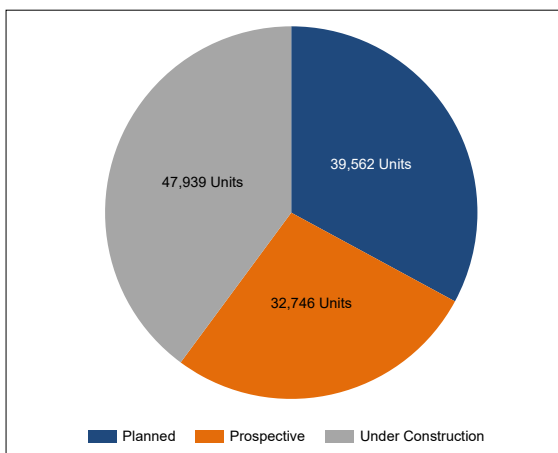
- In the first five months of 2017, new supply in Dallas-Fort Worth totaled 2,500 units. The metro added 15,500 units in 2016, a 2.3% increase in inventory. Despite high demand in the metro, new supply as a portion of total stock is still 20 basis points below the U.S. average of 2.5% inventory growth. Nearly all of the DFW apartments completed in the last six quarters have been Lifestyle assets.
- Some 48,000 units were under construction in the metro as of May, and 120,000 units were in various stages of development. There are a few upscale submarkets in Dallas that are seeing decelerating rent growth amid local overbuilding, but generally the metro should continue to absorb new supply as the region grows.
- New developments are scattered throughout the area, but core Dallas submarkets such as Uptown and the Far North dominate the supply pipeline. As of May, there were 10,000 units under construction in the Far North Dallas markets of North Frisco/West McKinney and North Carrollton/The Colony.
- The three largest developments under construction are scheduled for delivery in 2018, including Verus in Frisco (815 units), Hudson in The Colony (703 units) and Flats at Alta Palisades in Richardson (575 units).

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



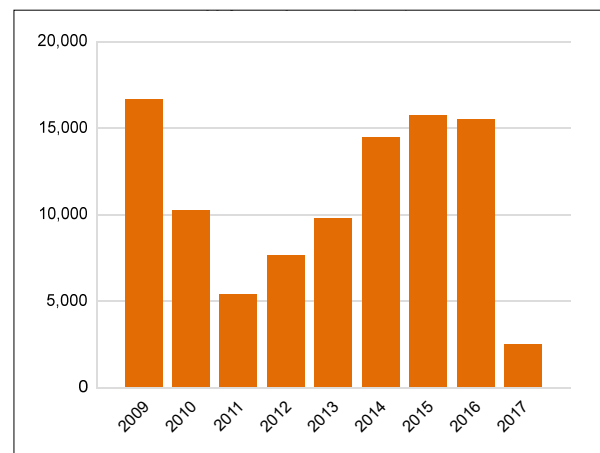
Source: YardiMatrix

Development Pipeline (as of May 2017)



Source: YardiMatrix

Dallas Completions (as of May 2017)

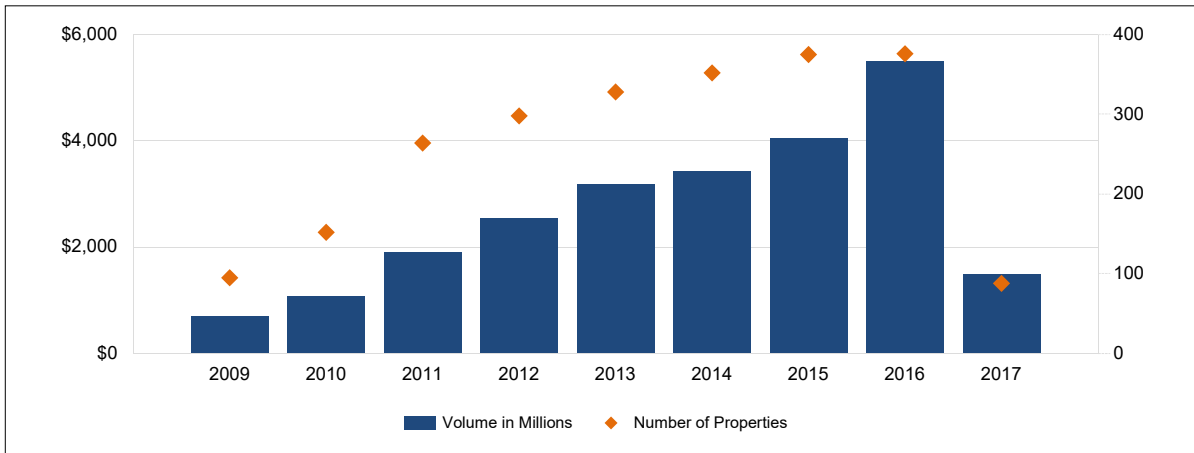


Source: YardiMatrix

Transactions

- Investment activity continues at a strong pace, as \$1.5 billion worth of apartment assets traded in the first five months of 2017. The metro reached a record multifamily transaction volume of \$5.5 billion in 2016.
- Submarkets north of the Dallas city limits are drawing investments in newer, highly amenitized Class A assets in master-planned areas such as The Colony and Plano. At the same time, investors continue to pursue value-add transactions, as well. Two-thirds of the 23,000 units that traded in 2017 through May were in Class B and C communities.
- Transaction pricing per unit has risen dramatically over the last seven years. The price per unit in DFW reached a record \$98,934 in 2016, but has softened to \$90,960 per unit in the first half of 2017, as investors shifted from Class A properties to value-add deals in less expensive areas such as Fort Worth.

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



Source: YardiMatrix

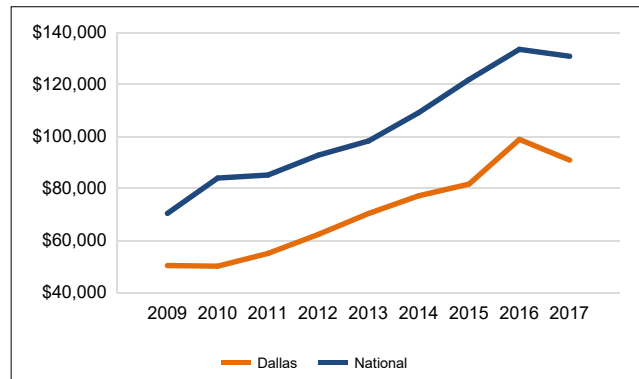
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Las Colinas	341
North Carrollton/The Colony	264
South Oak Lawn	235
West Plano	208
Coppell/South Lewisville	170
Prestonwood/Galleria	165
North Frisco/West McKinney	162
South Lake Highlands	162

Source: YardiMatrix

¹ From June 2016 to May 2017

Dallas vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Steadfast REIT Snags
Dallas-Area Community
For \$44M



Home2 Suites by Hilton
Debuts in Fort Worth



CBRE Promotes Jack Fraker
To Managing Director

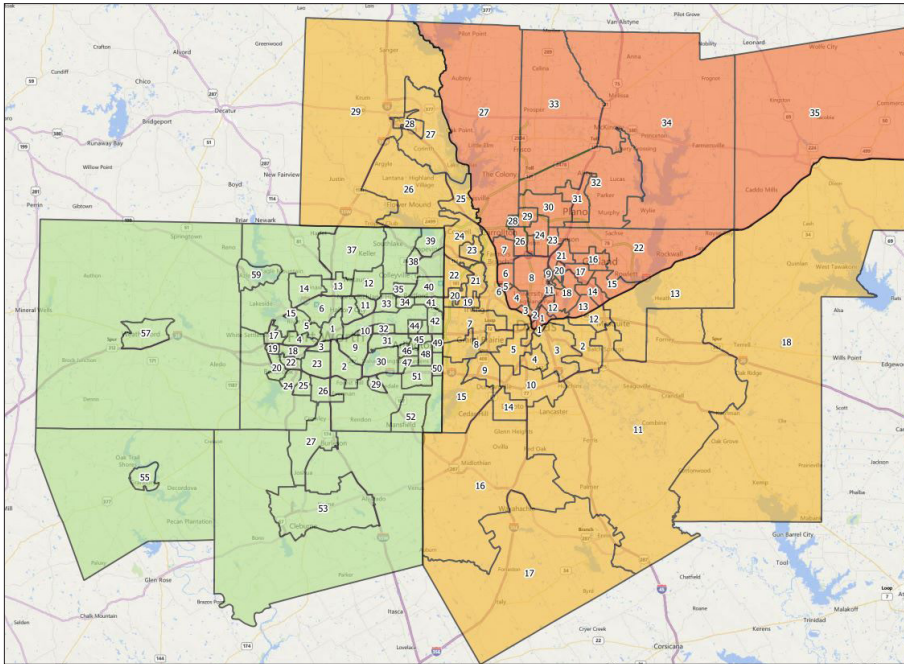


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To Open This Fall

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Dallas Submarkets



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

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	Eules
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	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

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.

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