North Texas On Long-Term Track

Multifamily Report Winter 2018

Rent Growth Decelerates

Job Gains Fuel Demand

Sales Volume Hits $5B

Market Analysis
Winter 2018

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Demographic Expansion Pushes Up Demand

Adding more than 90,000 jobs in one year and expanding its population at nearly three times the U.S. rate, Dallas-Fort Worth remains a regional economic anchor and a strong multifamily market. With the metro following the national deceleration trend, rents were up 2.6% in the 12 months ending in October.

Due to its relative affordability and business-friendly environment, Dallas continues to benefit from above-trend job creation led by corporate relocations and expansions. Financial activities and professional and business services generated 41,000 positions in the year ending in September, fueling upscale housing demand and strengthening the city's already stable fundamentals. As the rapid economic expansion continues, Dallas-Fort Worth has no shortage of new large-scale projects: CyrusOne started construction on its $600 million data center campus in Allen, Rosewood Property Co.'s $1.5 billion master-planned community in Northlake is moving forward, and the $1.1 billion Texas Rangers ballpark in Arlington, which broke ground in September, is scheduled to open in 2020.

Investors remain bullish, as $5 billion in multifamily assets traded in DFW this year through October. Rental demand continues to be strong across the metro, which had more than 44,000 units underway, second only to New York City nationwide. The recent construction surge has come at a cost, as the occupancy rate dropped by 40 basis points in 12 months, to 95.4% as of September.
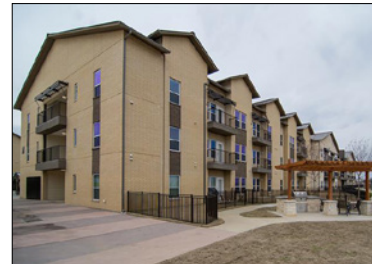
Recent Dallas Transactions

The Berkeley

City: Fort Worth, Texas
Buyer: Crest Asset Management
Purchase Price: $116 MM
Price per Unit: $161,313

Mercer Crossing

City: Farmers Branch, Texas
Buyer: MLG
Purchase Price: $86 MM
Price per Unit: $168,369

Woods of Bedford

City: Bedford, Texas
Buyer: Starwood Capital Group
Purchase Price: $85 MM
Price per Unit: $120,000

Suite 2801

City: Euless, Texas
Buyer: Cortland Partners
Purchase Price: $73 MM
Price per Unit: $174,958

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Rent Trends

- Dallas-Fort Worth rents rose 2.6% year-over-year through October, 30 basis points above the U.S. average, but in line with the national deceleration trend. At $1,123, DFW rents were more than $200 below the U.S. average.

- As developers remain focused on upscale projects, while the metro is rapidly adding jobs across the board, the working-class Renter-by-Necessity segment continues to lead growth. RBN rents were up 5.1% in the 12 months ending in October, reaching $922. Meanwhile, rents in the Lifestyle segment rose by only 1.1%, to $1,333.

- Fringe Forth Worth areas and Arlington communities have led growth, with submarkets such as Lake Worth (13.7%), East Arlington (9.8%), Tanglewood/Westcliff (9.6%) and Green Oaks (7.9%) recording the largest gains.

- Following three years of heavy development across the metro, rents continue to decline in several core submarkets such as South Downtown (-3.7%) and Uptown (-1.2%) in Dallas, as well as Medical District (-0.8%) and Downtown (-0.3%) in Fort Worth. Rents have also dropped in some saturating areas north of the Dallas city limits, including West Plano (-1.4%) and East Plano/Allen (-1.3%).

- Although rent growth remained fairly strong, occupancy in stabilized properties dropped by 40 basis points in one year, to 95.4% in September. Fort Worth declined by 60 basis points to 95.5%, marking the largest drop.

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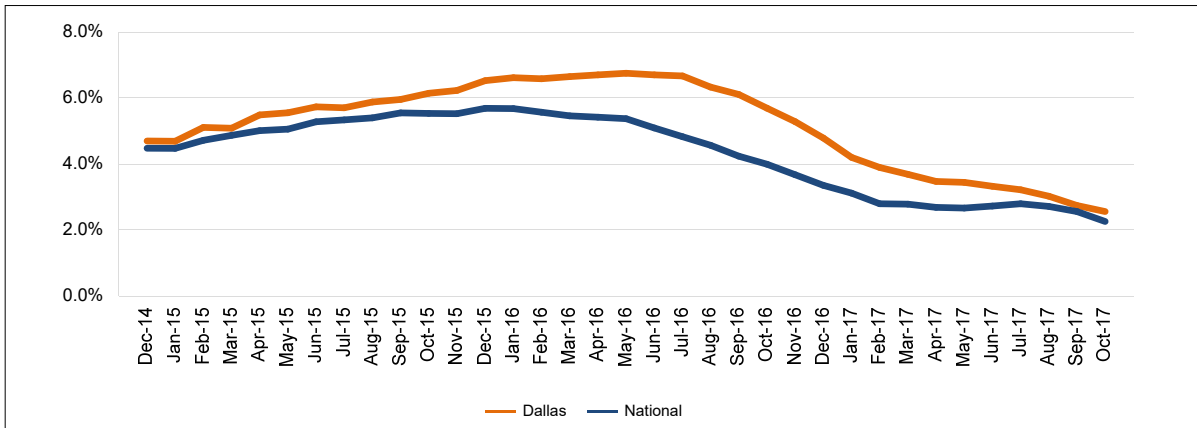
Source: YardiMatrix

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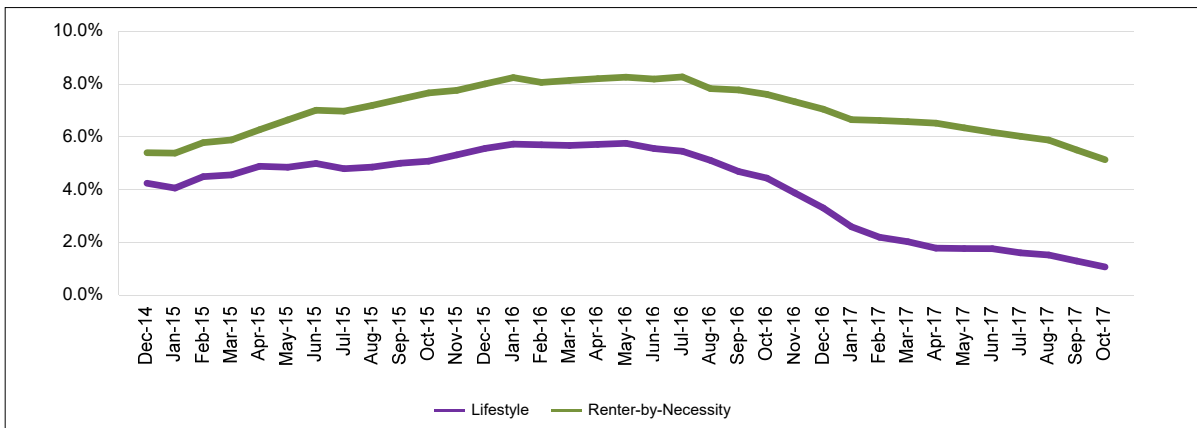
Source: YardiMatrix

Economic Snapshot

- The metro added 93,600 jobs in the 12 months ending in September, a 3.0% expansion year-over-year, 110 basis points above the U.S. rate. North Texas continues to attract companies, due to its business-friendly environment and relatively low costs, generating jobs at a strong rate. Although it is adding residents at above-average levels, Dallas-Fort Worth has a tight employment market. The metro recorded a 3.9% unemployment rate as of August, outperforming both Texas (4.2%) and the nation (4.4%).

- Professional and business services, the metro's largest employment sector, added 29,200 positions, continuing to lead growth. The economy's rapid expansion is also mirrored by the office pipeline: Dallas-Fort Worth had more than 6 million square feet of office space under construction as of the third quarter, the bulk of which is located in Far North and core Dallas.

- The construction sector added 5,400 jobs, as a handful of large Dallas developments are moving forward. The list includes CyrusOne's $600 million data center campus in Allen, which recently broke ground; Rosewood Property Co.'s $1.5 billion master-planned community in Northlake; the $1.1 billion Texas Rangers ballpark in Arlington, slated to open in 2020; and Hines' multi-phase, 3.5 million-square-foot The Strand, a 135-acre corporate campus and mixed-use project in Allen.

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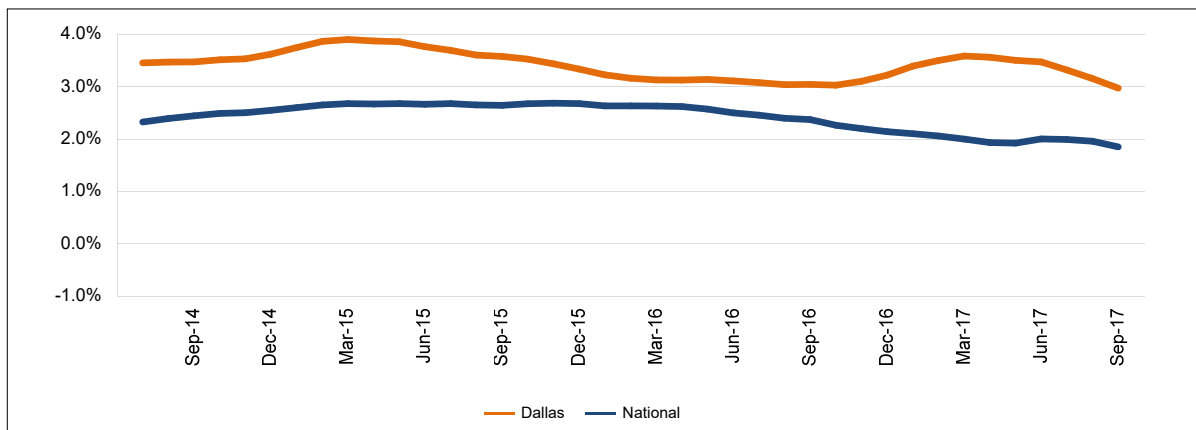
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

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

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	617	17.0%	29,200	5.0%
40	Trade, Transportation and Utilities	767	21.2%	14,300	1.9%
55	Financial Activities	296	8.2%	11,800	4.1%
70	Leisure and Hospitality	379	10.5%	8,700	2.4%
30	Manufacturing	273	7.5%	8,300	3.1%
65	Education and Health Services	441	12.2%	6,300	1.4%
90	Government	429	11.8%	5,400	1.3%
15	Mining, Logging and Construction	213	5.9%	5,400	2.6%
80	Other Services	127	3.5%	5,200	4.3%
50	Information	82	2.3%	-1,000	-1.2%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

■ Due to North Texas' rapid growth, Dallas-Fort Worth's home price climbed to $228,000 in the first half of 2017, up by more than 45% since 2011. Even so, owning remained the less costly option, as the average mortgage payment accounted for 16% of the median income, while the average rent took up as much as 21%.

■ Although the city's population is growing almost three times faster than the U.S. average, the expansion of multifamily stock has been roughly on par with the nationwide rate during this cycle, a fact that is boosting rent growth. As most developers are focusing on upscale projects, the metro is not likely to become more affordable in the foreseeable future.

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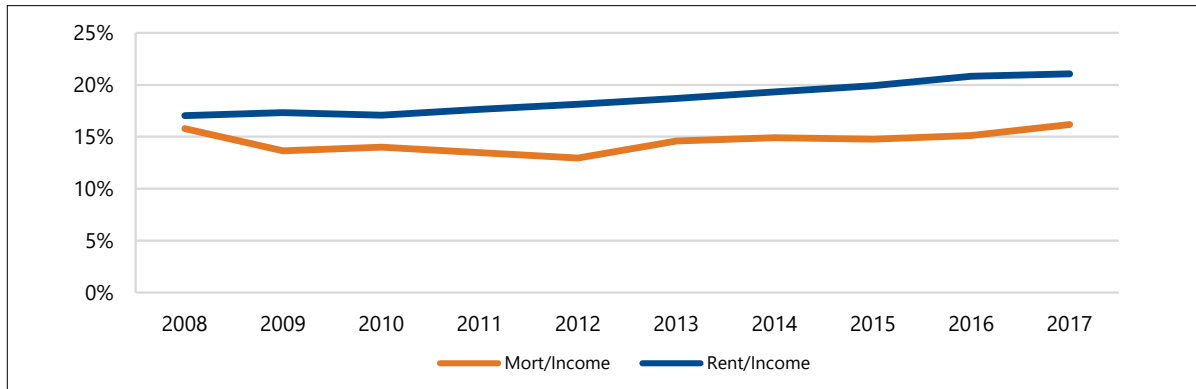
Sources: YardiMatrix, Moody's Analytics

Dallas Median Home Price
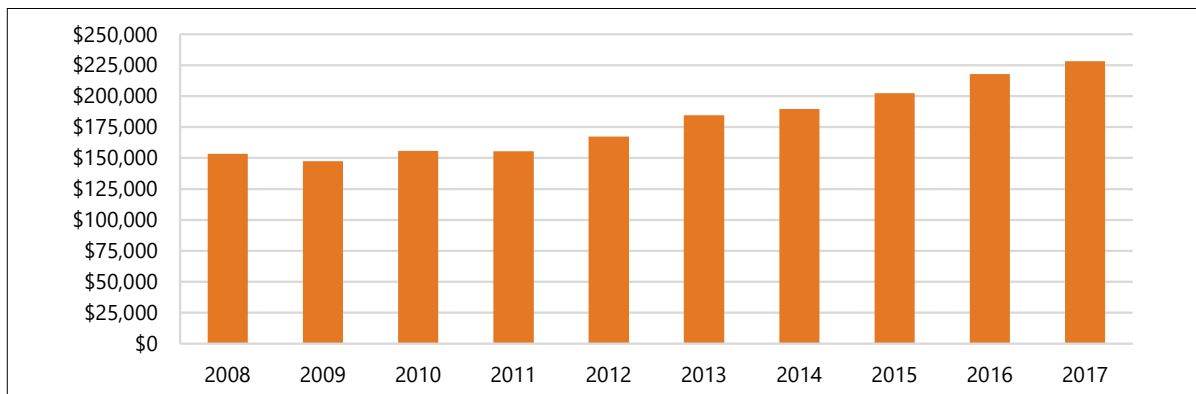
Source: Moody's Analytics

Population

■ Dallas-Fort Worth added 530,000 residents between 2012 and 2016. This accounts for a 7.9% increase, more than double the 2.9% U.S. rate.

■ The metro added 143,435 people in 2016 alone, a 2.0% growth rate.

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

- Almost 11,000 units came online in Dallas-Fort Worth this year through October, marking a slight construction slowdown. More than 46,000 units were completed in DFW between 2014 and 2016, the vast majority of which are upscale. The slowdown is in part due to a shortage of construction workers and, as post-hurricane efforts in Houston are bound to divert attention, delays are likely to remain an issue.

- The metro had 44,128 units under way as of October, second only to New York City. Including projects in the planning and permitting phases, Dallas-Fort Worth's overall pipeline exceeded 120,000 units.

- Far North Dallas submarkets continue to dominate the pipeline, accounting for roughly one quarter of the units being built. Inventory is growing at a fast pace in the core as well, with Uptown (2,740 units under construction) and Cityscape/Downtown (2,717) leading the pack. Fort Worth development continues to lag behind, with the exception of Crestwood/River Oaks/Sansom Park (1,230) and Downtown (1,182).

- With developers betting on Dallas' growth on the long run, some of the largest projects under construction are slated to come online in 2019. The list includes Billingsley Co.'s Sloane Street (500 units) in Carrollton, Greystar's Elan Flower Mound (466) in Flower Mound and JPI's Jefferson Woods (456) in Richardson.

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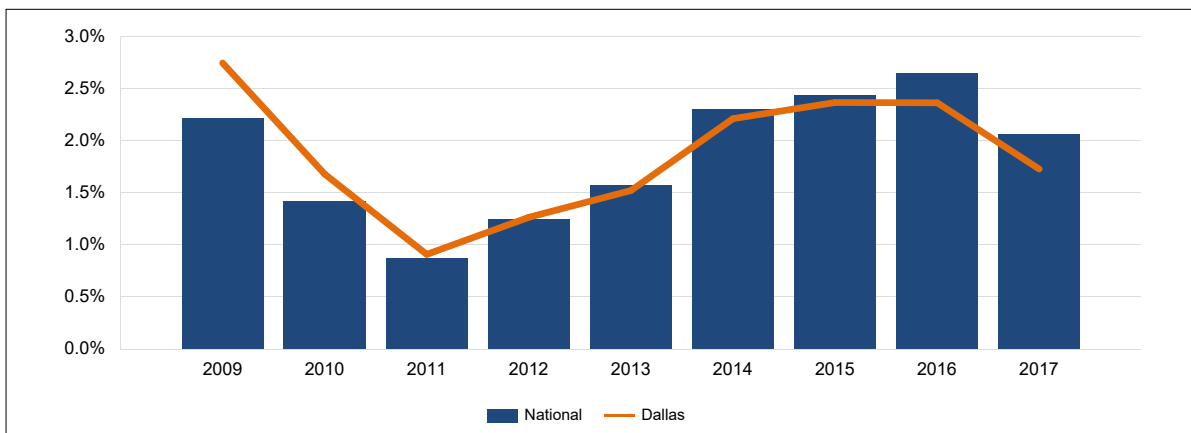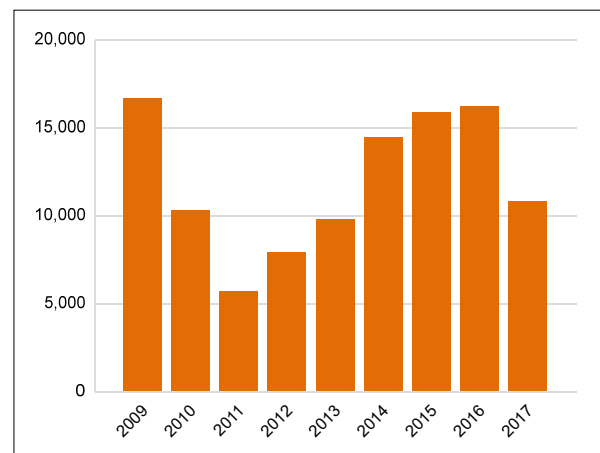

Source: YardiMatrix

Development Pipeline (as of October 2017)
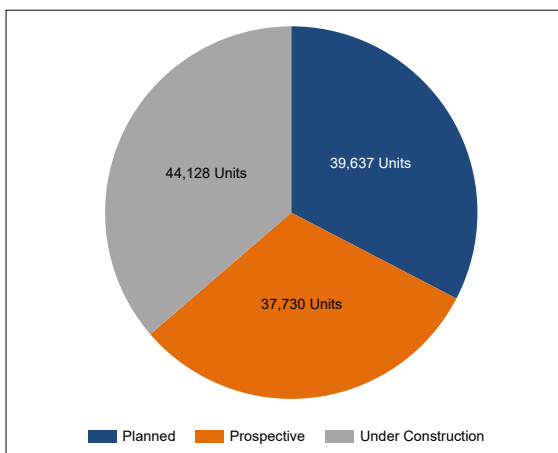
Source: YardiMatrix

**Dallas Completions** (as of October 2017)

Source: YardiMatrix

Transactions

- Roughly $5 billion in multifamily assets traded in Dallas-Fort Worth this year through October, keeping the metro on track to match last year's $5.5 billion cycle high. DFW's solid fundamentals continue to draw investors, as more than $25.5 billion in multifamily assets changed hands since the start of 2011.

- Prices continue to rise as investors remain bullish on Dallas, with the average unit trading for $101,373 in 2017. That's slightly above last year's $98,570, but still below the $135,622 U.S. average.

- Far North Dallas submarkets are dominating the market, led by South Frisco/Parker ($263 million) and West Plano ($261 million). Starwood was the metro's most active buyer in the 12 months ending in October, investing roughly $800 million in 21 Dallas multifamily assets. That counts 18 properties included in the 10-state, 78-asset Milestone Group portfolio, which Starwood bought for $2.8 billion, or $120,000 per unit.

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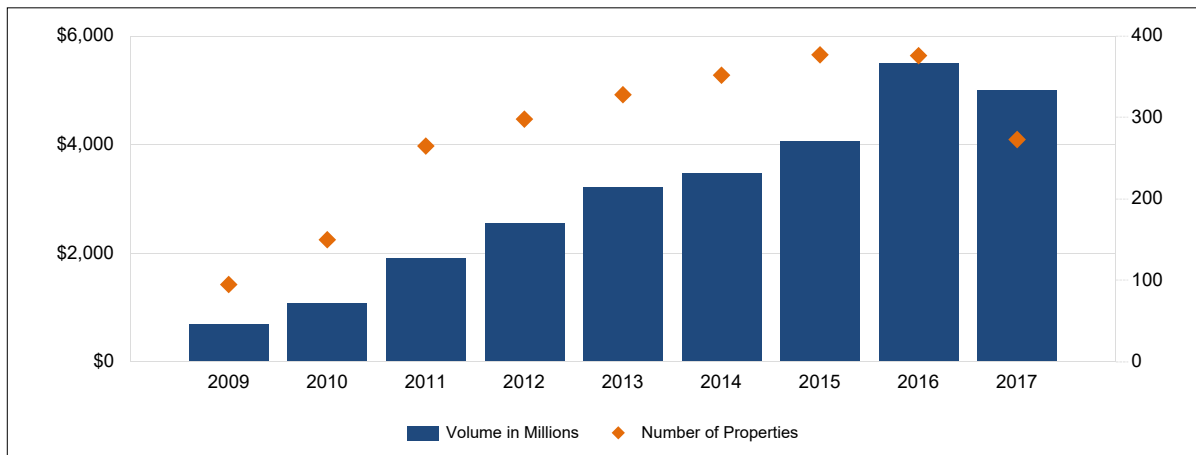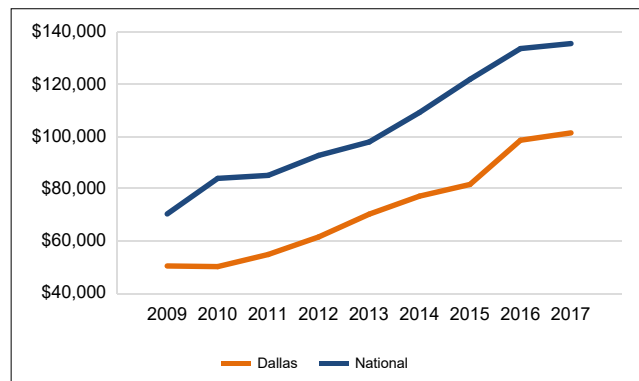

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cityscape/Downtown	290
South Frisco/Parker	263
West Plano	261
Colleyville	252
North Carrollton/The Colony	212
Las Colinas	211
North Frisco/West McKinney	200
South Oak Lawn	168

Source: YardiMatrix

[1] From November 2016 to October 2017

Dallas vs. National Sales Price per Unit

Source: YardiMatrix

Read All About It!

Principal Life Insurance Renews Fort Worth Lease

GFI Acquires Newly Built Dallas-Area Community

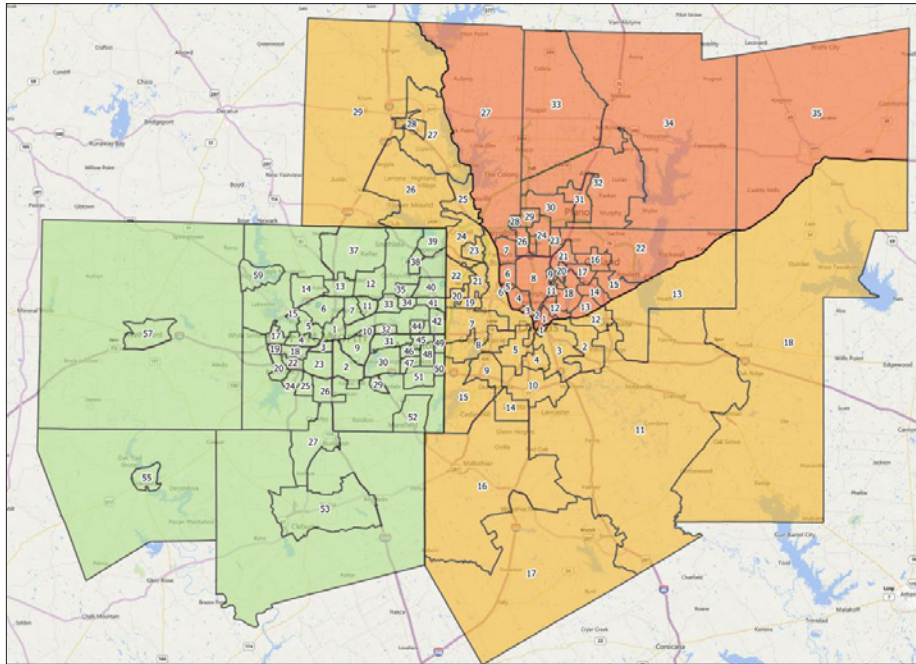**Live! by Loews Hotel Breaks Ground in Arlington**

Greystar Unveils Elan River District In Fort Worth

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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	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	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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