Yardi® Matrix

Dallas On Track For Banner Year

Multifamily Report Spring 2018

Rapid Population Growth Boosts Demand

Deliveries Set to Hit Cycle High

Investors Remain Bullish

Market Analysis

Spring 2018

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Economic, Supply Growth Remains High

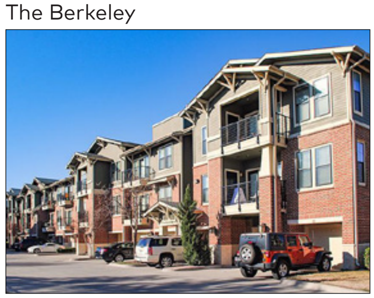
Fueled by one of the country's best-performing economies and rapid population growth, the Dallas–Fort Worth multifamily market has stayed in high gear. While many large coastal metros are reaching saturation, both development and investment in DFW remain relatively unfazed.

The metro added 91,700 jobs in 2017, and its demographic expansion was nearly three times the U.S. average. Continuing to be a business-friendly area and a magnet for talent and corporate relocations, North Texas is rapidly generating positions across employment sectors, pushing up housing demand. An ongoing labor shortage, deepened by an influx of residents in the wake of Hurricane Harvey, is impacting DFW's construction sector, which added just 800 jobs in 2017. Although some projects faced delays, the area has no shortage of large-scale developments across all asset classes, with developers gearing up for a wave of new construction.

Roughly 16,800 units came online across the metro in 2017. In 2018, around 22,000 new apartments are expected to come online for a new cycle high. Meanwhile, investors remain bullish, with $5.4 billion in multifamily assets trading in 2017. Although Dallas is expected to lead the nation this year in deliveries, the metro's rapid expansion is bound to keep multifamily demand steady, leading to projected rent growth of 4.4% in 2018.

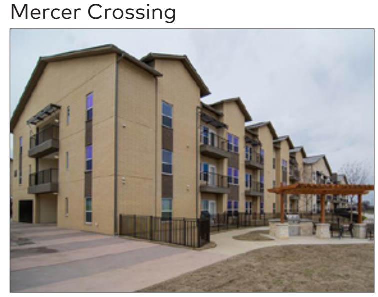
Recent Dallas Transactions

The Berkeley



City: Fort Worth, Texas
Buyer: Crest Asset Management
Purchase Price: $116 MM
Price per Unit: $161,312

Mercer Crossing



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

Suite 2801

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

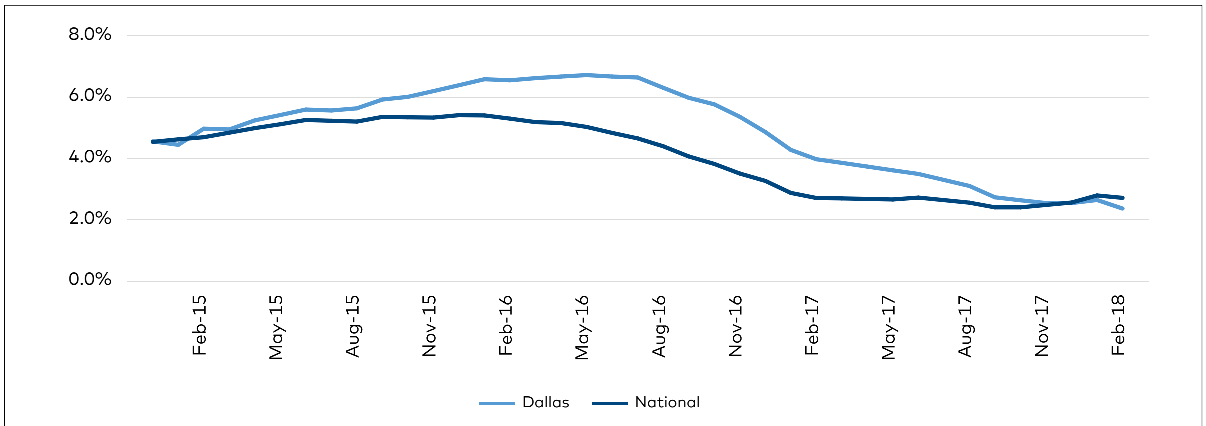
Pure Farmers Market

City: Dallas
Buyer: Pure Multi
Purchase Price: $66 MM
Price per Unit: $195,147

Rent Trends

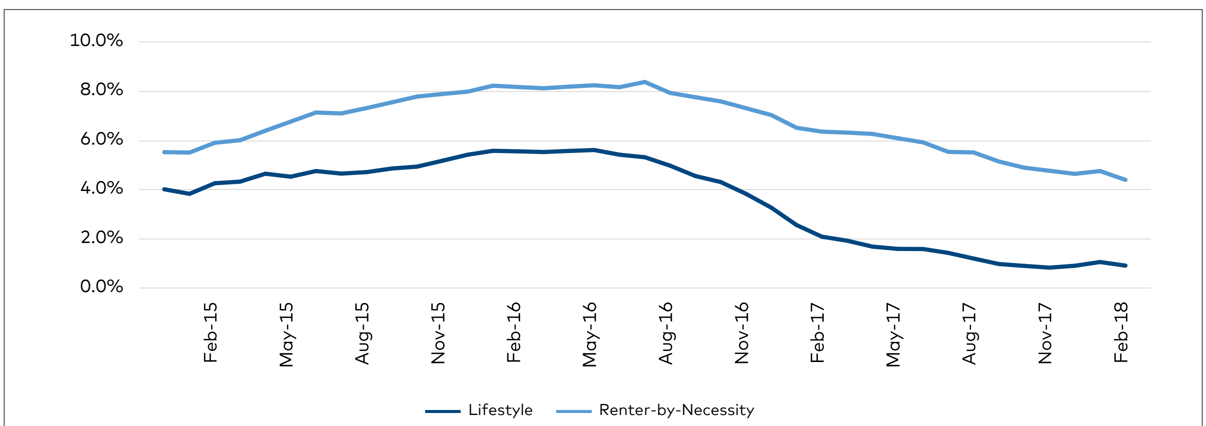
- Dallas–Fort Worth rents were up 2.4% in the 12 months ending in February, 30 basis points below the U.S. average. While the metro's performance outpaced the national rate for the better part of the past three years, supply slowly caught up with demand in 2017 due to the ongoing construction boom. At $1,126 as of February, the average DFW rent was almost $250 below the U.S. rate.
- The working-class Renter-by-Necessity segment continued to lead growth, up 4.4% to $926. Meanwhile, Lifestyle rents appreciated by only 0.9%, to $1,331. The wide spread between the two is due to a nationwide trend: While many major metros add jobs across the board, boosting demand across asset classes, developers continue to focus almost exclusively on more cost-effective upscale projects.
- With the spate of new stock diluting upscale demand, rents dipped in many expensive core submarkets, including Dallas' South Oak Lawn (-2.9%) and Cityscape/Downtown (-1.4%), as well as Fort Worth's Medical District (-2.4%) and Downtown (-2.4%). Meanwhile, much more affordable fringe submarkets led growth: Cleburne/Alvarado (13.8%), Lake Worth (10.3%) and Tanglewood/Westcliff (9.0%).
- Although Dallas has the largest pipeline among U.S. metros, North Texas' strong economy is bound to continue creating robust housing demand. We expect rents to grow 4.4% in 2018.

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)

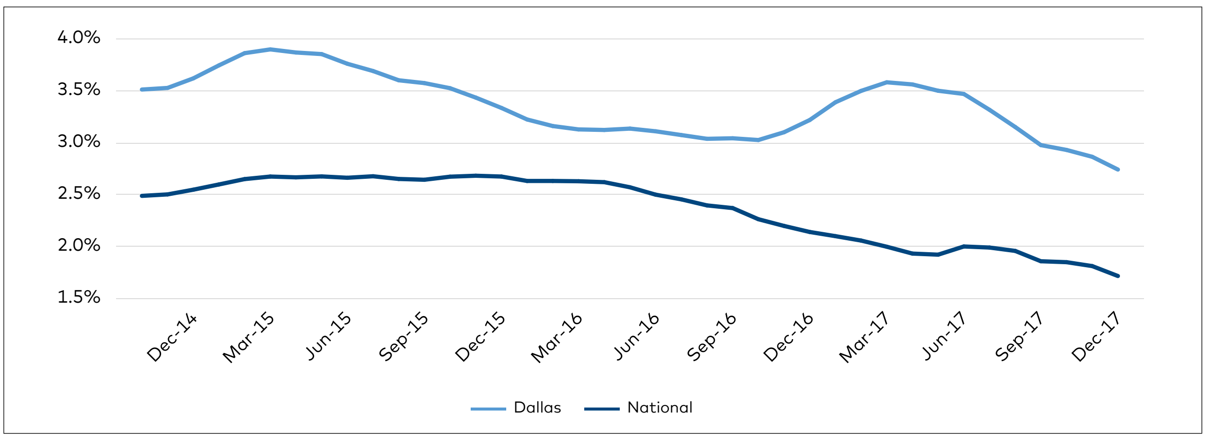


Source: YardiMatrix

Economic Snapshot

- Having added 91,700 jobs in 2017 for a 2.7% expansion, Dallas–Fort Worth remains the fastest-growing economy among major U.S. metros, with the area's business-friendly environment and deep talent pool attracting corporate players and developers alike.
- Generating 25,500 positions, professional and business services led growth, followed by leisure and hospitality (19,500) and education and health services (12,400). The metro's rapid addition of high-paying jobs is boosting housing demand, while also creating more service positions.
- A labor shortage is affecting some North Texas projects, and the construction sector added only 800 positions. Still, the metro's pipeline remains solid. The $1.1 billion Texas Rangers ballpark in Arlington is set to open in 2020, Allen City Council approved Hines' 3.5 million-square-foot The Strand this January and Cyrus One broke ground late last year on a $600 million data center campus. Meanwhile, Bandera Ventures landed a construction loan for a 1.4 million-square-foot industrial facility within Passport Park, and developer Mehrdad Moayedi is moving forward with a 1,000-home community in Mesquite.
- The thriving economy is driving office development to new heights. Roughly 5.9 million square feet of Class A office space came online in 2017, and the metro is set to have another banner year in 2018.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	624	16.9%	25,500	4.3%
70	Leisure and Hospitality	390	10.6%	19,500	5.3%
65	Education and Health Services	448	12.2%	12,400	2.8%
30	Manufacturing	275	7.5%	8,800	3.3%
90	Government	446	12.1%	8,300	1.9%
40	Trade, Transportation and Utilities	790	21.4%	6,700	0.9%
80	Other Services	128	3.5%	5,400	4.4%
55	Financial Activities	294	8.0%	5,000	1.7%
15	Mining, Logging and Construction	209	5.7%	800	0.4%
50	Information	82	2.2%	-700	-0.8%

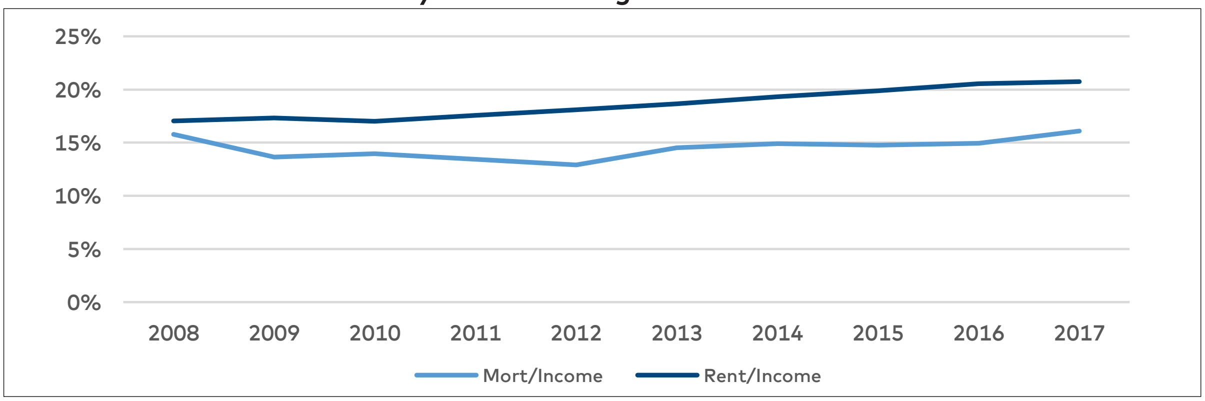
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

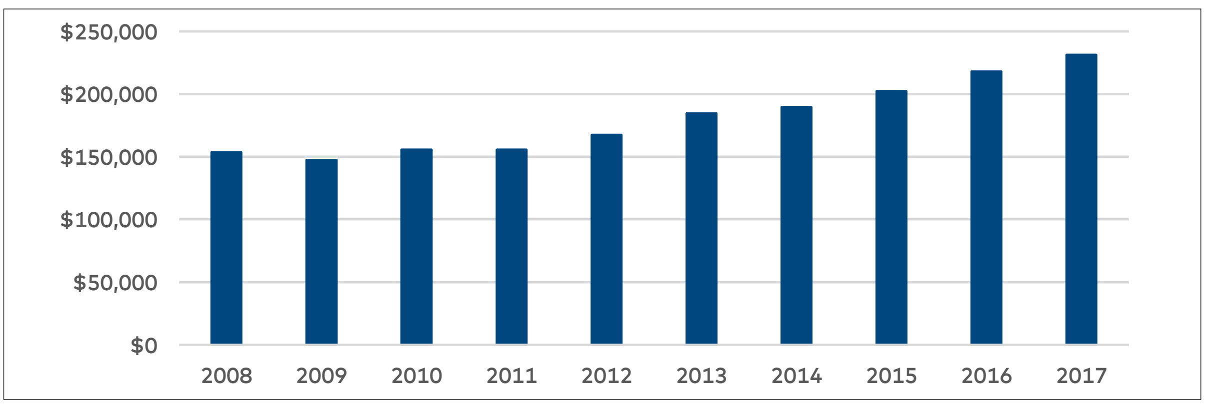
- The median DFW home price is surging, having reached $231,396 in 2017. That marks a 6% uptick from 2016 and a nearly 60% increase since 2009. Although the metro remains relatively affordable and the average mortgage payment accounts for only 16% of the area's median income, rising values are putting additional pressure on first-time buyers, favoring the formation of rental households. The metro's average rent of $1,126 takes up about 21% of incomes.
- The residential building surge continues, but the metro's rapid demographic expansion is bound to push prices further, as Dallas-Fort Worth is unlikely 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

- The metro added roughly 780,000 residents between 2010 and 2016 for a 12.1% expansion, almost triple the U.S. average.
- Dallas–Fort Worth added nearly 145,000 people in 2016 alone.

Dallas vs. National Population

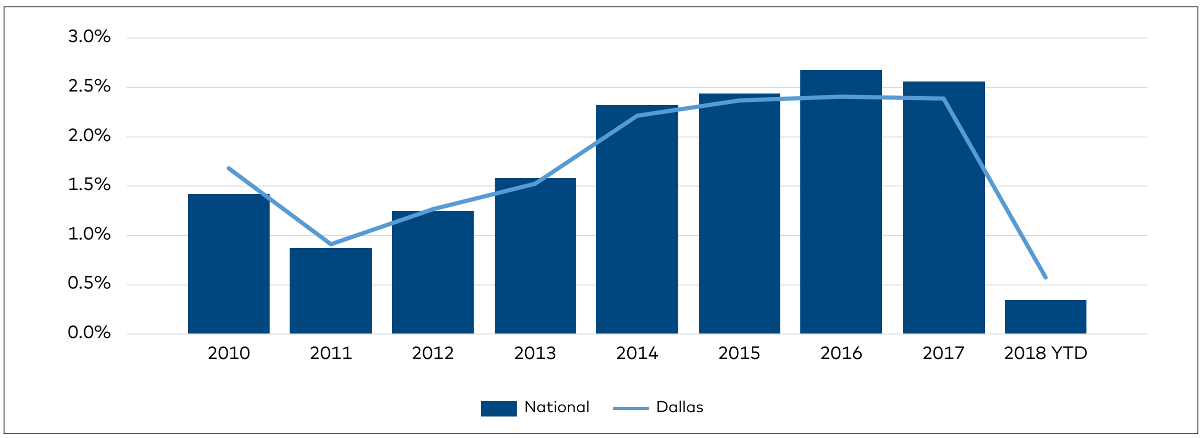
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Dallas Metro	6,704,080	6,813,055	6,945,274	7,089,888	7,233,323

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

Supply

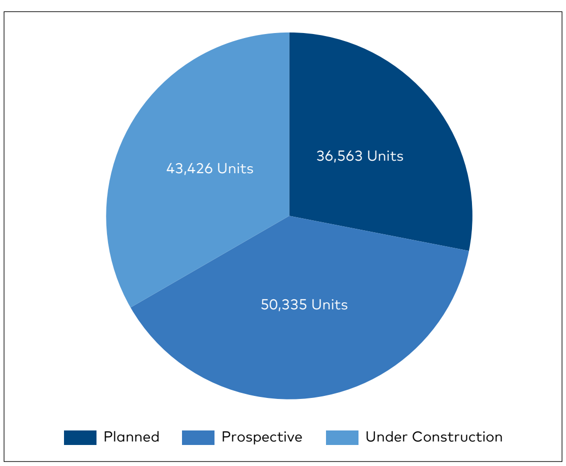
- Some 16,800 units came online in DFW last year, accounting for 2.5% of total stock. With rapid population growth pushing up demand, the building surge continues, as almost 68,000 units were delivered in the metro since the beginning of 2014, the vast majority of which are in Class A/B+ communities. As of February, nearly 4,000 units had already been added to DFW's housing stock.
- There were roughly 43,000 units under construction in the metro as of February and an additional 87,000 units in the planning and permitting stages. With 360,000 apartments slated for delivery nationwide, 2018 is expected to mark a new cycle high for multifamily development—with Dallas–Fort Worth leading the way. With 22,158 units projected to come online this year, DFW's pipeline tops the list of U.S. metros, closely followed by Manhattan's 21,768 units.
- Though developments are widespread, Far North and core Dallas submarkets continued their lead in new construction. Neighboring North Frisco/West McKinney, North Carrollton/The Colony and South Frisco/Parker have almost 10,000 units underway, while Cityscape/Downtown and Uptown add as many as 5,514 units. Together, these top five submarkets account for more than a third of the metro's pipeline.

Dallas vs. National Completions as a Percentage of Total Stock (as of February 2018)



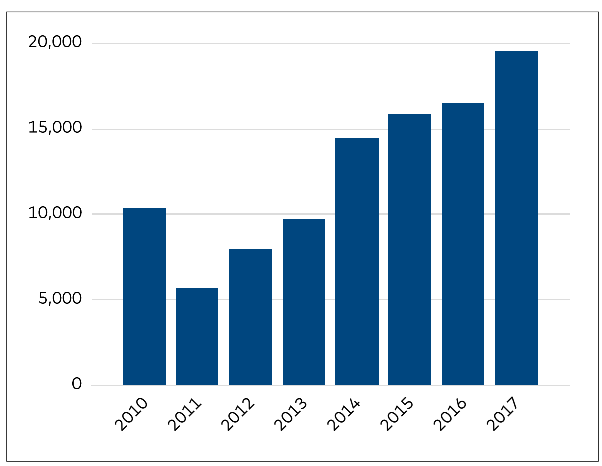
Source: YardiMatrix

Development Pipeline (as of February 2018)



Source: YardiMatrix

Dallas Completions (as of February 2018)

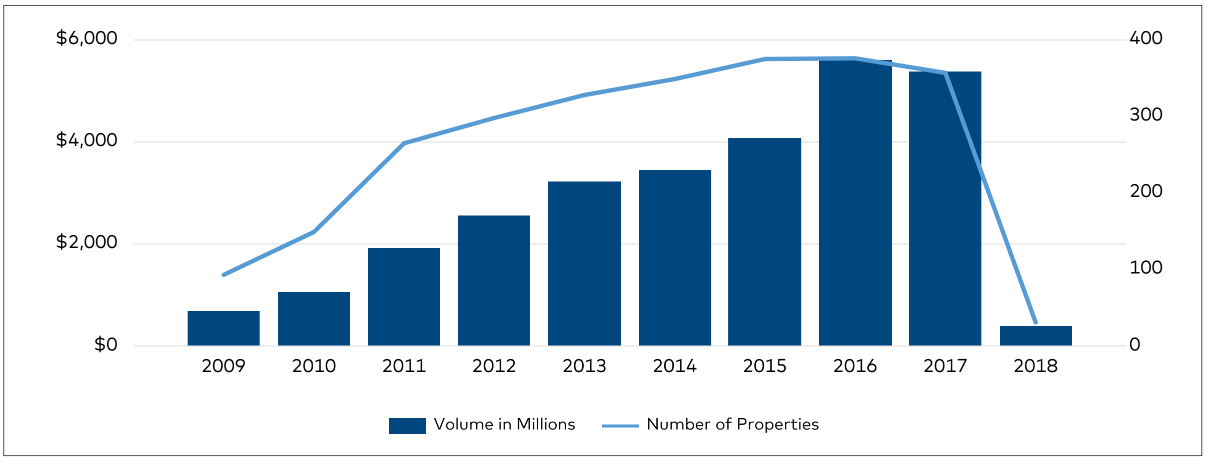


Source: YardiMatrix

Transactions

- Some $5.4 billion in multifamily assets traded in DFW last year, almost on par with 2016's $5.6 billion cycle high. With investors starting to worry about paying top dollar for assets in coastal gateway metros, Dallas remains attractive to institutional buyers, due to its strong long-term fundamentals, relatively low prices and thriving economy.
- Per-unit prices remained flat last year, the roughly $100,000 average being on par with 2016 values and still well below the $139,228 U.S. average. Investor appetite was high across the map and throughout the quality spectrum, with acquisition yields ranging from roughly 4.5% for Class A communities to about 6.0%-7.0% for value-add assets.
- Far North and core Dallas areas with high construction activity drove investor interest in the 12 months ending in February, led by Cityscape/Downtown ($225 million) and South Frisco/Parker ($205 million).

Dallas Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

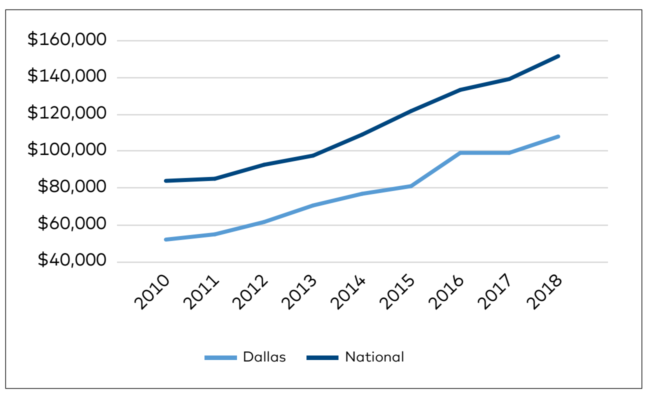
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cityscape/Downtown	225
South Frisco/Parker	205
N. Frisco/West McKinney	180
Valley Ranch	164
Lamar	140
Gastonwood/Junius Heights/Lake Park Estates	128
South Lake Highlands	126
North Oak Lawn	126

Source: YardiMatrix

[1] From March 2017 to February 2018

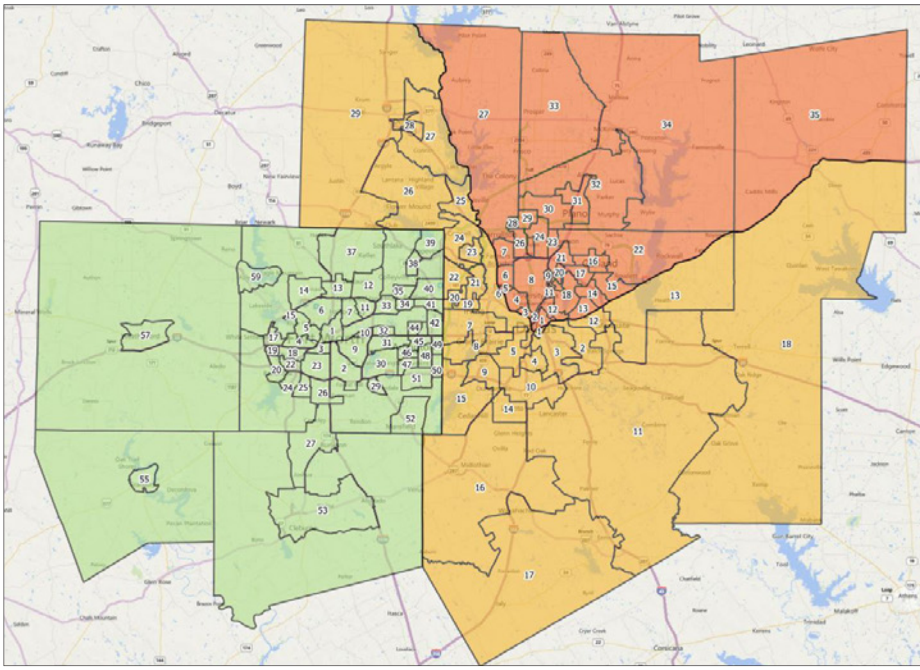
Dallas vs. National Sales Price per Unit



Source: YardiMatrix

Photo by typhoonski/iStockphoto.com

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.