Yardi Matrix

MULTIFAMILY REPORT

Dallas Economy Holds On

March 2024

Job Growth Tops US

Construction Activity Increases

Investment Slows, PPU Down

DALLAS MULTIFAMILY

Yardi Matrix

Market Fundamentals Oscillate

In line with national trends, multifamily fundamentals in Dallas-Fort Worth were up and down. The main challenge for the rental sector stems from the record deliveries expected this year. Rent movement has been negative for five straight months, down 0.5% on a trailing three-month basis in January, to $1,523. Occupancy also declined, down 0.7% year-over-year in January, to 93.1%.

The Dallas job market posted the best performance among Yardi Matrix's top 30 metros, up 4.1% in the 12 months ending in November, and well ahead of the 2.2% national rate. All sectors gained jobs, for a combined total of 140,300 positions. Professional and business services led job growth, adding 32,400 positions, followed by financial activities (17,000 jobs) and mining, logging and construction (16,000 jobs). Meanwhile, unemployment dropped to 3.3% in December, according to the Bureau of Labor Statistics, outperforming the U.S. (3.7%) and the state of Texas (4.0%).

Developers had 67,892 units under construction as of January, with 485 units delivered during the month. However, deliveries will intensify in the coming months, as a record volume of completions is expected this year. Meanwhile, transaction activity remained tepid, with just $71 million in assets trading in the first month of the year, for a price per unit that fell to $135,814, well below the $201,010 U.S. average.

Market Analysis | March 2024

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Recent Dallas Transactions

NOVEL Turtle Creek

City: Dallas
Buyer: Goldrich & Kest
Purchase Price: $99 MM
Price per Unit: $475,962

The Tribeca

City: Plano, Texas
Buyer: Knightvest Capital
Purchase Price: $93 MM
Price per Unit: $234,506

Cortland on McKinney

City: Dallas
Buyer: Cortland
Purchase Price: $77 MM
Price per Unit: $332,754

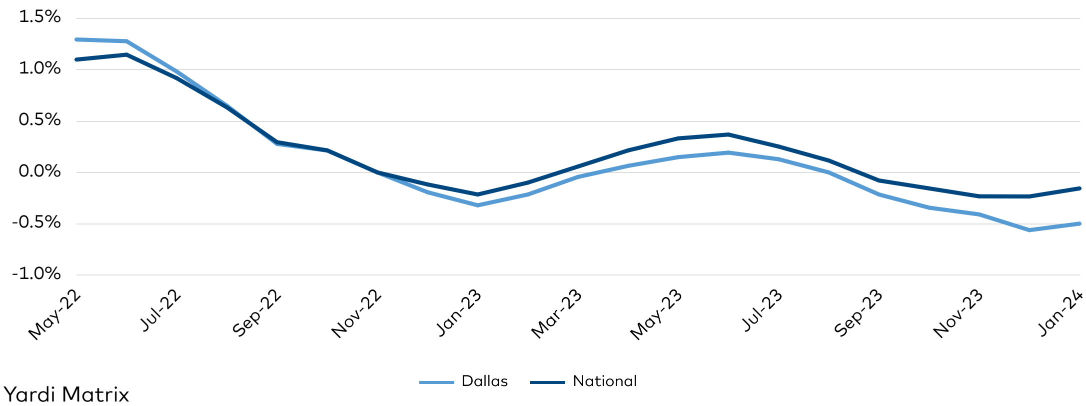
Cypress

City: McKinney, Texas
Buyer: Knightvest Capital
Purchase Price: $51 MM
Price per Unit: $184,420

RENT TRENDS

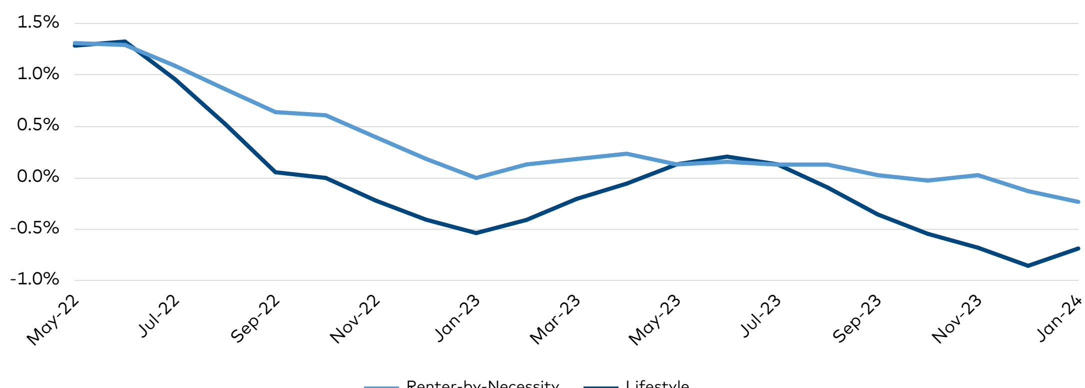
- DFW rents decreased 0.5% on a trailing three-month (T3) basis through January, to $1,523, recording the fifth consecutive month of contractions. Meanwhile, the U.S. rate was down 0.2%, to $1,710. On a year-over-year basis, rents posted a 1.9% decline, on par with San Francisco, while the national rate gained 0.5%.
- Substantial Lifestyle supply has slashed the segment's average rent, down 0.7% on a T3 basis through January, to $1,721. Lifestyle rents had just a three-month interval of positive rent growth in 2023, after falling into negative territory in November 2022. Meanwhile, Renter-by-Necessity rents held on for longer, but depreciated for the second straight month in January, down 0.2% on a T3 basis, to $1,279.
- The occupancy rate in stabilized properties also reflected the pressure exerted by incoming supply, down 0.7% year-over-year as of January, to 93.1%. The Lifestyle segment saw occupancy down 50 basis points, to 93.5% in January, while RBN occupancy dropped 1.1%, to 92.5%.
- Uptown (-2.8% year-over-year to $2,391) and Downtown Dallas (-2.2% to $2,076) were the most expensive submarkets by average rent. Among the submarkets with positive rent growth were John West–Mesquite (1.4% to $1,187) and Lochwood–Highland Meadow (1.7% to $1,280).
- Single-family rental demand remained healthy, with occupancy up 2.6% year-over-year through January, to 95.4%, as rents declined 3.2%, to $2,214.

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

- The employment market in Dallas tightened in the last quarter of 2023, with the jobless rate at 3.3% in December, according to data from the Bureau of Labor Statistics. At this level, it fared better than the U.S. (3.7%) and the state (4.0%), as well as Houston (3.8%), but trailed Austin (3.0%) and San Antonio (3.1%).
- In the 12 months ending in November, the Metroplex added 140,300 jobs, for a growth rate of 4.1%, well ahead of the 2.2% national average. In line with national trends, DFW's economy also slowed down but remained among the strongest in the U.S., sharing the first position with Las Vegas. Professional and business services remained in the lead with the addition of 32,400 jobs, followed by financial activities (17,000 jobs) and construction (16,000 jobs).
- Despite a vacancy rate of 18.9% in November, the metro's office sector remained in expansion mode, with 6.1 million square feet under construction as of November, which includes the 800,000-square-foot NorthEnd project that will serve as the regional hub for Goldman Sachs, according to CommercialEdge data. Deliveries amounted to 3.8 million square feet and new construction totaled 3.2 million square feet through November, which indicates revived confidence in the sector.

Dallas Employment Share by Sector

Code	Employment Sector	Current Employment (000)	% Share
60	Professional and Business Services	831	18.8%
55	Financial Activities	386	8.8%
15	Mining, Logging and Construction	259	5.9%
80	Other Services	147	3.3%
40	Trade, Transportation and Utilities	939	21.3%
90	Government	490	11.1%
70	Leisure and Hospitality	425	9.6%
30	Manufacturing	322	7.3%
65	Education and Health Services	513	11.6%
50	Information	97	2.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Dallas gained 130,039 residents in 2022, for a 1.7% expansion, 50 basis points above the growth recorded in 2021.
- Between 2020 and 2022, demographics in the Metroplex increased by 3.0%.

Dallas vs. National Population

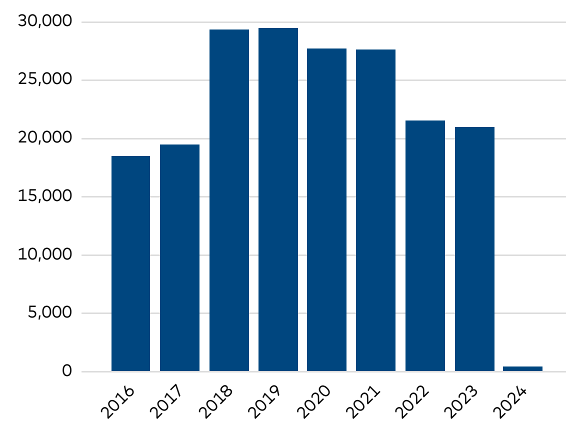
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Dallas	7,320,663	7,451,858	7,543,340	7,673,379

Source: U.S. Census

SUPPLY

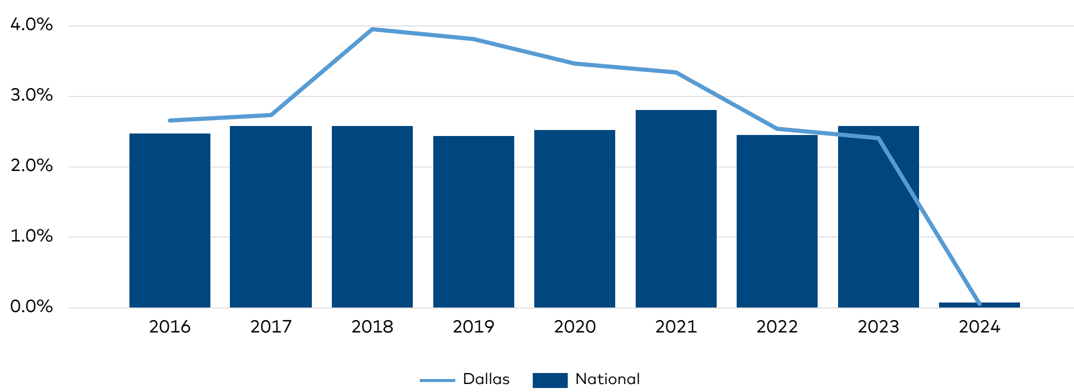
- Developers delivered 485 units across two Lifestyle properties in the Metroplex in January. By the end of this year, the metro's supply is expected to grow by 39,000 units, surpassing the current decade high recorded in 2019, when 29,466 units were delivered. Last year, 20,975 units were added to the inventory, the equivalent of 2.4% of existing stock and 20 basis points below the national rate.
- The construction pipeline had 67,892 units underway as of January and another 150,000 units in the planning and permitting stages. Bucking the national trend, last year's volume of new construction increased 13.9% year-over-year, to 35,861 units. The bulk of the new projects were in North Dallas (20,689 units), up 57.7% from 2022. Construction starts also increased in Fort Worth (28.5%) and declined in the metro's suburban area (-40%).
- Roughly half of the January pipeline, or 33,936 units, were projects in North Dallas, followed by the suburban area of the metro (19,956 units) and Fort Worth (14,000). The supply composition remained heavily tilted toward the upscale segment, which accounted for 90% of the pipeline. Of the remaining 10%, 6.7% were units in fully affordable communities.
- The top three most active submarkets were all in North Dallas: McKinney–West (4,472 units underway), Frisco (4,273 units) and Anna–Melissa (3,206 units). The largest project under construction is located in Frisco, as the 878-unit Jefferson Railhead community is slated for completion in mid-2025. JPI owns the asset, which has been financed with two construction loans totaling $177.5 million.

Dallas Completions (as of January 2024)



Source: Yardi Matrix

Dallas vs. National Completions as a Percentage of Total Stock (as of January 2024)



Source: Yardi Matrix

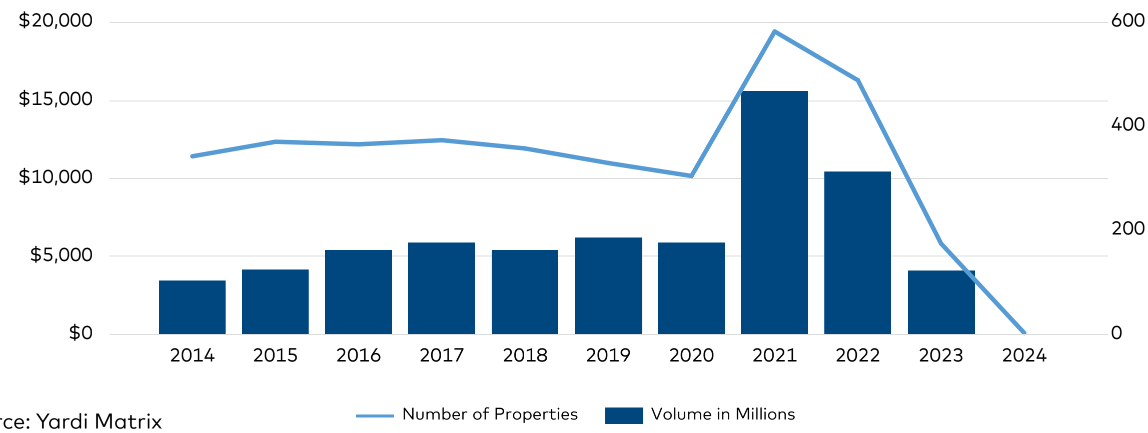
TRANSACTIONS

- DFW's January transaction volume totaled just $71 million, as economic uncertainty continues to impact the investment landscape. This comes on the heels of the second weakest year for sales volume in the past decade, with $4.1 billion recorded in 2023. Last year logged the lowest number of assets sold, at 175. Deal flow will likely remain sluggish this year, at least until interest rates start decreasing.

- January sales comprised two RBN assets and one upscale property. The composition, coupled with the ongoing downward trend, led to a 10.8% decrease in the average price per unit compared to last year, bringing it down to $135,814. Meanwhile, the U.S. figure increased 8.3% during the period, to $201,010.

- The Lifestyle asset that traded in January was Cypress, a 276-unit property located in McKinney. Knightvest Capital acquired it from Rockport Equity for $50.9 million, or $184,420 per unit, with aid from a $38.2 million loan originated by TIAA.

Dallas Sales Volume and Number of Properties Sold (as of January 2024)



Source: Yardi Matrix

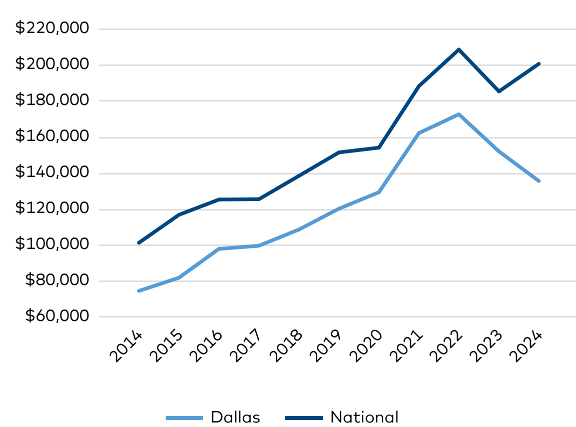
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Lewisville	185
Arlington–North	176
Dallas–Uptown	169
Mansfield	157
Frisco	156
Irving–South	156
Plano–West	156

Source: Yardi Matrix

[1] From February 2023 to January 2024

Dallas vs. National Sales Price per Unit



Source: Yardi Matrix

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EXECUTIVE INSIGHTS

Can the Texas Multifamily Market Grow More in '24?

By Adina Rogoz

Following the pandemic-induced boom in population, investors' and developers' interest in the Texas multifamily market grew tremendously. Today, the Dallas-Fort Worth metro, for example, has one of the largest multifamily pipelines in the U.S. Sandy Schmid, director of acquisitions and development with StarPoint Properties expands on what's behind the state's allure and also touches on the potential headwinds this year could bring.

What makes Texas multifamily so attractive to investors today?

Texas has a highly diversified economy, with a wide range of employment opportunities and industries that are alive and well. The demand for both manufacturing and office workers, in tandem with the movement of many well-known technology companies bringing their corporate headquarters to the state, has helped to fuel new residents moving to Texas at a staggering rate. With such rapid population growth year after year, the need for multifamily housing is acute. Multifamily assets are an important solution to filling housing demand.

What will make multifamily assets competitive as more investors enter the Texas market?

Making sure that you have the right product in the right location is key. Listen to local renters, look at tenant interest trends, and take note of desired amenities within homes and living spaces.

Specifically for our team at Starpoint, we noted that pet amenities have become increasingly sought after. Hence why we incorporated those amenities into our DFW asset, Legends at Chase Oaks. Having the ability to operationally serve pets and their owners allowed us to meet an underserved demand in the market.

The DFW metro area has been at the forefront of new development lately. What is driving demand in the area?

In the past, we've only truly seen these types of primary markets exist on oceanfronts—places like Los Angeles, for example. But conversely, a place like Los Angeles is likely to see population growth stagnation, meanwhile a market like DFW is on track to reach the level of size like L.A. but with access to even more job opportunities, land for development, residents etc.

Are there any particular Texas metros that appeal to you when it comes to future investment and/or development?

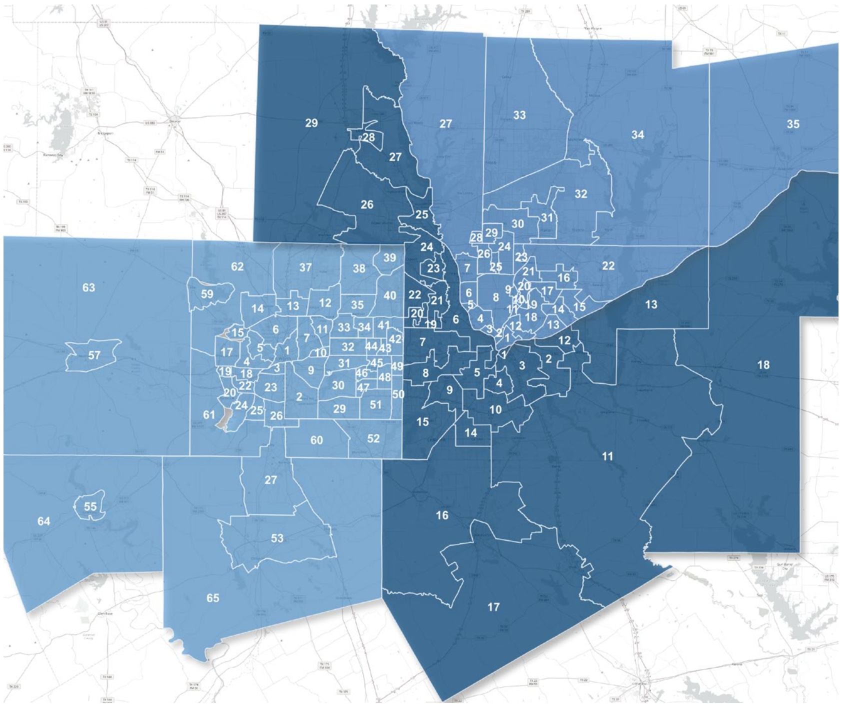
Dallas-Fort Worth, Austin and San Antonio are the top markets we're looking to get involved with. Each of these metros are undergoing significant development to address growing migration, population and employment types that can meet market needs.

Do you remain bullish on the state's long-term growth prospects?

Given the current state of the national economy, yes, we continue to remain bullish on long-term prospects. However, for 2024, we anticipate some bumps in the road.

(Read the complete interview on multihousingnews.com.)

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

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 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 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, 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

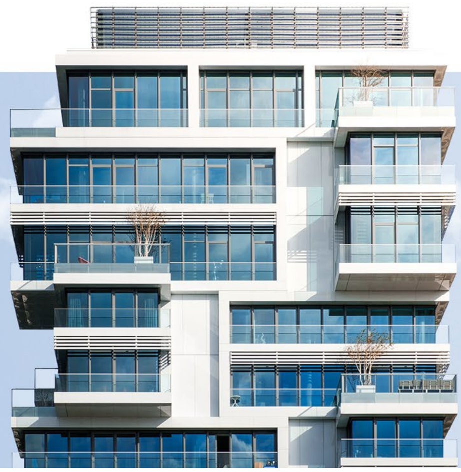
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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.

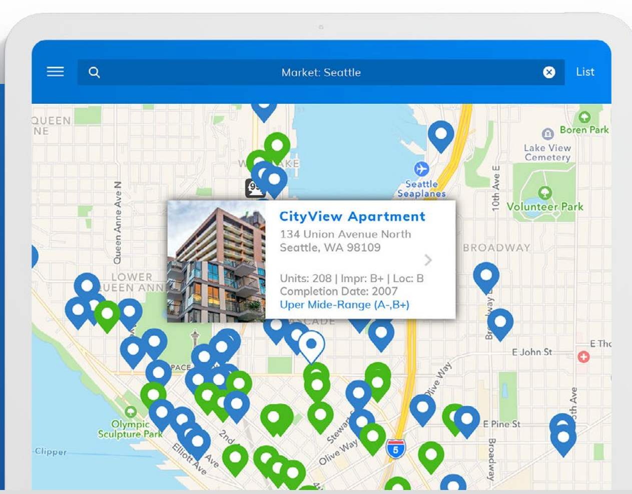
Yardi® Matrix

Power your business with the industry's leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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