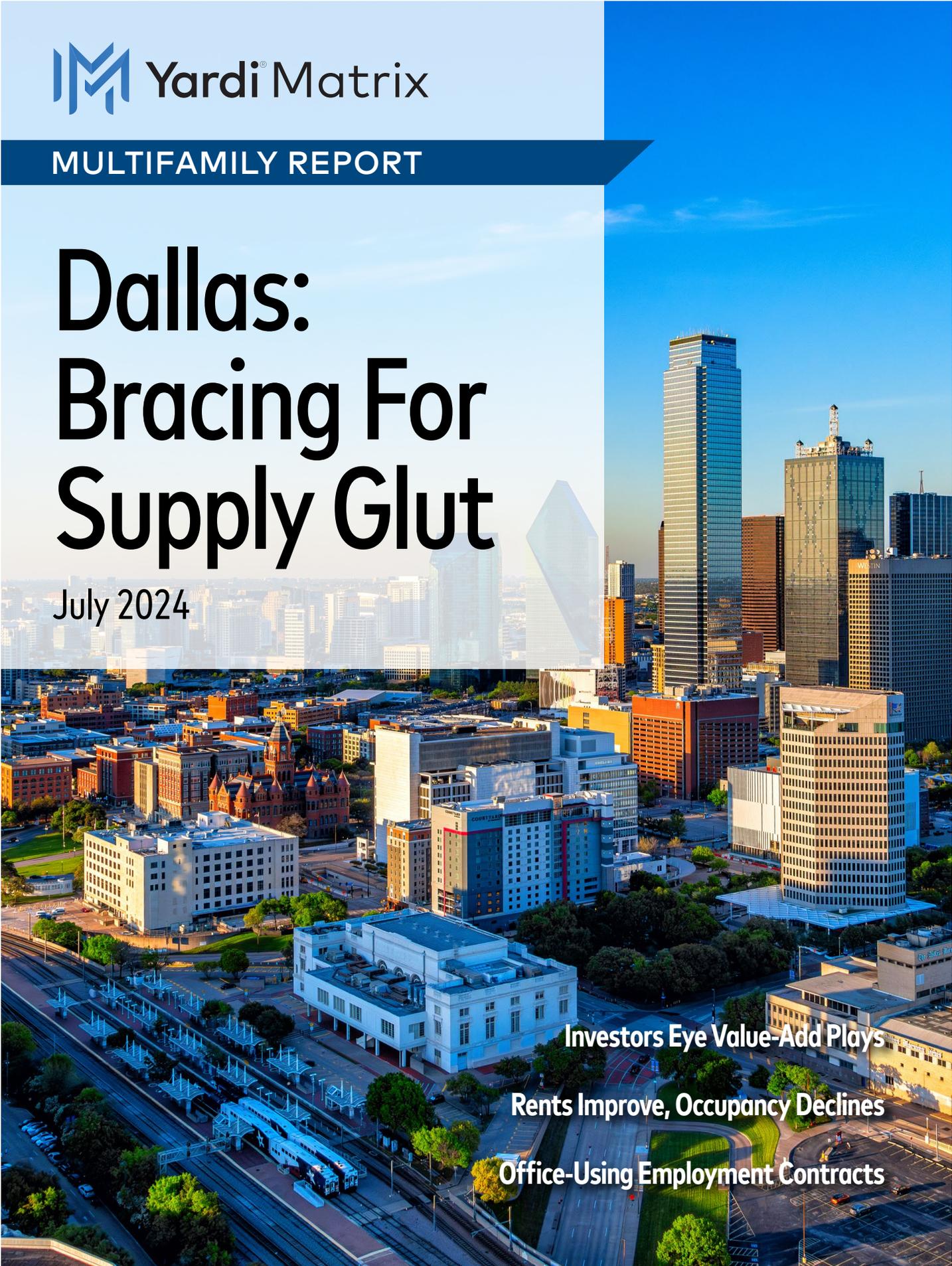


Dallas: Bracing For Supply Glut

July 2024



Investors Eye Value-Add Plays

Rents Improve, Occupancy Declines

Office-Using Employment Contracts

DALLAS MULTIFAMILY



Supply Wave Hits Occupancy

Dallas-Fort Worth's multifamily market stood on steady ground in the middle of the second quarter. Advertised asking rents picked up after nine months of flat or negative performance, improving 0.2% on a trailing three-month basis through May, to \$1,540, while the U.S. average rose 0.3%, to \$1,733. Yet the high volume of units slated for delivery in 2024 will likely curb further growth and will also impact occupancy, which is already below 93.0% as of April.

In the 12 months ending in March, DFW employment posted a 2.0% expansion, gaining 65,800 net jobs and outperforming the 1.4% national rate. Meanwhile, the unemployment rate clocked in at 3.4% in April, faring better than the U.S. (3.9%) and the state (4.0%), according to the Bureau of Labor Statistics. Not all sectors expanded, with professional and business services and information losing 5,100 jobs combined in the 12 months ending in March. However, as of April, the metro had 4.9 million square feet of office space under construction. Government and education and health services led job gains, accounting for half of the positions added during the period.

Developers delivered 7,947 units in 2024 through May, all in upscale projects. The under-construction pipeline totaled 63,975 units, with record supply forecast for the year. Meanwhile, transactions remained tepid, amounting to just \$586 million, with the average per-unit price down 19.6% year-to-date, to \$123,965.

Market Analysis | July 2024

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Recent Dallas Transactions

The James at Canyon Creek



City: Richardson, Texas
Buyer: Cantor Fitzgerald
Purchase Price: \$79 MM
Price per Unit: \$190,843

Domain at Midtown Park



City: Dallas
Buyer: Waterford Property Co.
Purchase Price: \$62 MM
Price per Unit: \$157,806

Rise Fossil Creek



City: Haltom City, Texas
Buyer: Rise48 Equity
Purchase Price: \$45 MM
Price per Unit: \$154,931

Larkin Apartment Homes

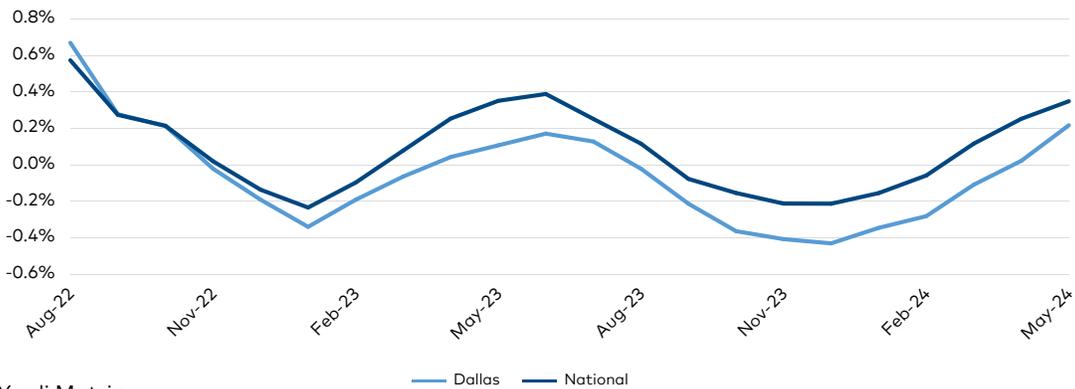


City: McKinney, Texas
Buyer: Ashland Greene Capital
Purchase Price: \$40 MM
Price per Unit: \$168,000

RENT TRENDS

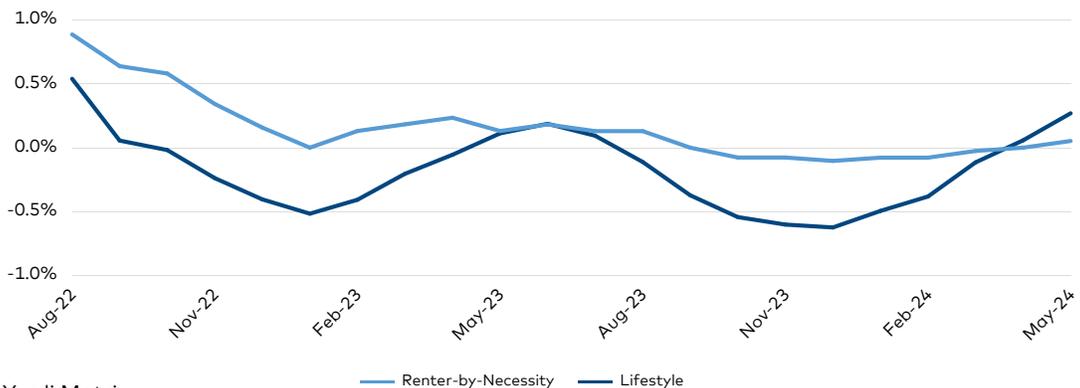
- ▶ Advertised asking rents picked up in Dallas-Fort Worth, rising 0.2% on a trailing three-month basis through May, to \$1,540. Dallas advertised asking rents had been flat or contracting since August 2023. Meanwhile, the U.S. figure rose 0.3% on a T3 basis to \$1,733. Year-over-year, movement remained negative for the market, down 1.5% as of May, while the U.S. rate rose 0.6%.
- ▶ Stronger demand for upscale apartments drove growth, with the Lifestyle average up 0.3% on a T3 basis through May, to \$1,743. Meanwhile, working-class Renter-by-Necessity advertised asking rents inched up 0.1%, to \$1,287.
- ▶ The Metroplex was one of four major markets in which occupancy in stabilized properties dropped below 93.0% as of April. The rate fell 90 basis points year-over-year to 92.9%. RBN occupancy dropped 110 basis points, to 92.4%, and Lifestyle decreased 70 basis points, to 93.3%.
- ▶ Year-over-year advertised asking rents fell in 75 of the 138 submarkets tracked by Yardi Matrix, including in DFW's top three most expensive areas—University Park (-4.6% to \$3,024), Uptown (-0.5% to 2,480) and Downtown Dallas (-1.4% to \$2,107). The most sought-after suburban submarket was Flower Mound, where advertised asking rents also decreased, down 1.8%, to \$1,996.
- ▶ The metro's SFR segment recorded a 1.5% year-over-year decline in advertised asking rents in May, to \$2,273. Meanwhile, occupancy gained 40 basis points through April, improving to 94.5%.

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

- ▶ Dallas unemployment improved to 3.4% in April, following a gradual rise from 3.3% in December to 4.2% in February, according to data from the BLS. The metro outperformed the U.S. (3.9%) and Texas (4.0%). Compared to other major Texas metros, DFW surpassed Houston (3.8%) and trailed Austin (3.0%), which also came in just 10 basis points behind San Antonio.
- ▶ In the 12 months ending in March, DFW's job growth pace ranked it 10th among Yardi Matrix's top 30 metros, up 2.0%, or 65,800 net positions, outpacing the national figure by 60 basis points. Two sectors contracted—professional and business services (3,300 jobs) and information (1,800 jobs). This mirrored the climbing vacancy rates in

the office sector, up 450 basis points to 21.1% as of May. Even so, the metro had the third-largest new supply pipeline in the country by square footage (4.8 million square feet, equal to 1.7% of existing inventory).

- ▶ Government (16,600 jobs) and education and health services (16,000 jobs) led job gains in the 12 months ending in March. The latter is poised for sustained expansion, with Children's Health and UT Southwestern Medical Center unveiling plans for a new \$5 billion pediatric health campus in Dallas' Southwestern Medical District.

Dallas Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
90	Government	497	11.6%
65	Education and Health Services	522	12.1%
80	Other Services	143	3.3%
15	Mining, Logging and Construction	254	5.9%
70	Leisure and Hospitality	428	10.0%
40	Trade, Transportation and Utilities	903	21.0%
30	Manufacturing	317	7.4%
55	Financial Activities	369	8.6%
50	Information	92	2.1%
60	Professional and Business Services	776	18.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Dallas gained an impressive 130,039 residents in 2022, up 1.7%. That was more than four times the 0.4% U.S. rate.
- ▶ Between 2019 and 2022, DFW's population expanded by 4.8%, while the national figure clocked in at just 2.0%.

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

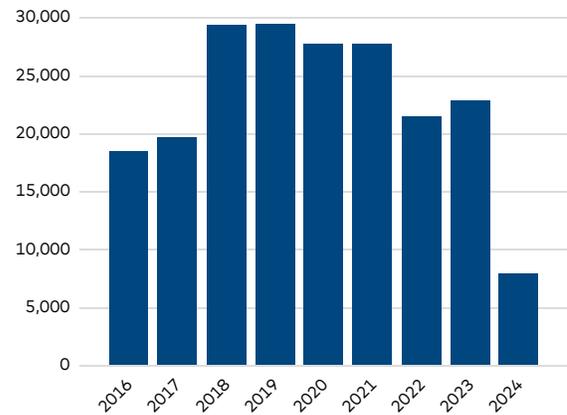
SUPPLY

- ▶ In 2024 through May, developers delivered 7,947 units, the equivalent of 0.9% of existing stock, on par with the national average. All deliveries were Lifestyle projects. By the end of the year, Yardi Matrix forecasts the Metroplex's supply will grow by 32,661 units, which would mark a new high for the past decade.
- ▶ The construction pipeline encompassed 63,975 units underway and another 152,000 in the planning and permitting stages. The composition of projects under construction remained tilted toward the Lifestyle segment, which accounted for about 86% of the units underway. Another 4% were RBN apartments and some 9% were units in fully affordable communities. North Dallas remained developers' preferred pick, with 32,046 units under construction in May. Suburban Dallas followed with 18,913 units and Fort Worth with 13,016 units.
- ▶ Looking at construction starts, DFW mirrors the national deceleration trend. In 2024 through May, 7,553 units across 30 properties broke ground in Dallas, far below the volume registered during the same period last year (18,372 units across 65 properties). North Dallas continued to post the largest volume of new projects,

accounting for almost half of all units that broke ground in 2024 through May.

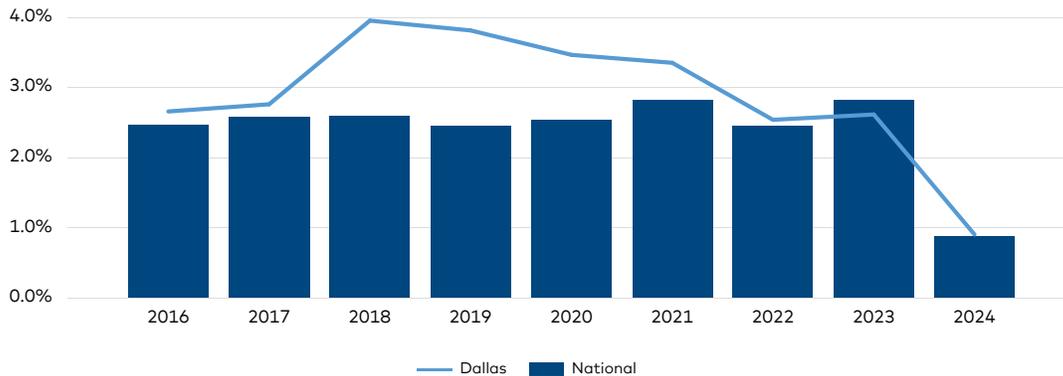
- ▶ Of the 138 submarkets tracked by Yardi Matrix, as of May, 88 had at least one project of more than 50 units under construction. The top four most active submarkets were all in North Dallas, led by McKinney – West (3,456 units) and Frisco (3,365 units). Frisco also houses the largest project delivered through May, The Carbon Cos.' 690-unit The Links on PGA Parkway.

Dallas Completions (as of May 2024)



Source: Yardi Matrix

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



Source: Yardi Matrix

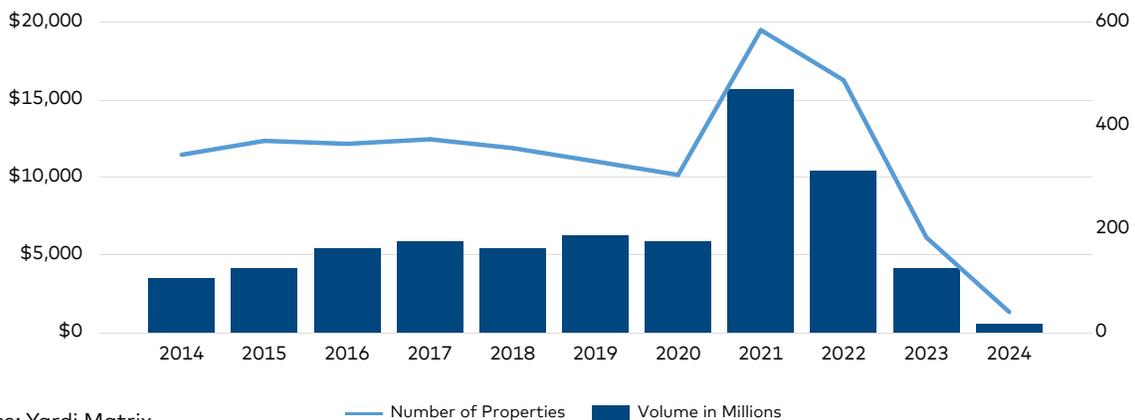
TRANSACTIONS

- ▶ Transaction activity remained limited in the Metroplex, with \$586 million in multifamily assets trading in 2024 through May. While some sources are still active, the high cost of capital continues to present a big obstacle for both equity and debt.
- ▶ More than half of sales were in North Dallas (\$334 million), followed by Fort Worth (\$155 million) and the suburban submarkets (\$96 million). Three-quarters of deals involved RBN assets, a

sign of continuing trust in value-add plays. Expectedly, this contributed to a nearly 20% year-to-date drop in the per-unit price, to \$123,965 in May, well below the \$176,968 U.S. average.

- ▶ Notable recent sales included Cantor Fitzgerald's acquisition of The James at Canyon Creek, a recently completed 415-unit Lifestyle asset, sold by Cortland. The sale was subject to a \$59.4 million CMBS loan originated by Newmark, at a fixed 5.38% rate.

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



Source: Yardi Matrix

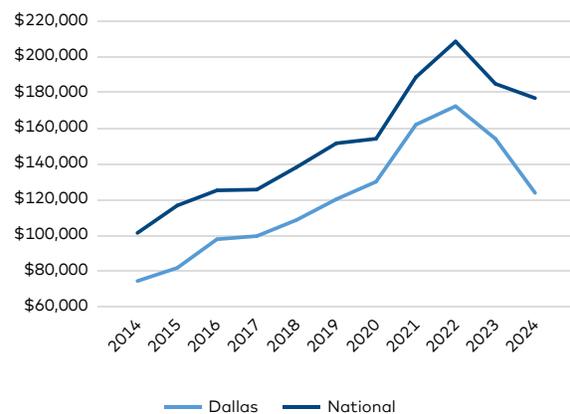
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Arlington-North	176
Dallas-Uptown	169
Celina	127
Dallas-Northwest	124
Plano-West	117
Mansfield	107
Irving-South	102

Source: Yardi Matrix

¹ From June 2023 to May 2024

Dallas vs. National Sales Price per Unit



Source: Yardi Matrix

Top Markets for Multifamily Investment in 2023

By Tudor Scolca

Multifamily investment dropped sharply in 2023, after two years of outstanding performance. The high cost of capital led to a pause in activity across the U.S., seriously denting sales volumes. In this context, we're looking at the top markets for multifamily investment last year, leveraging Yardi Matrix data. At the national level, investors acquired a total of \$69.4 billion in multifamily assets last year, which was a drop to less than half of the \$206.9 billion recorded in 2022.

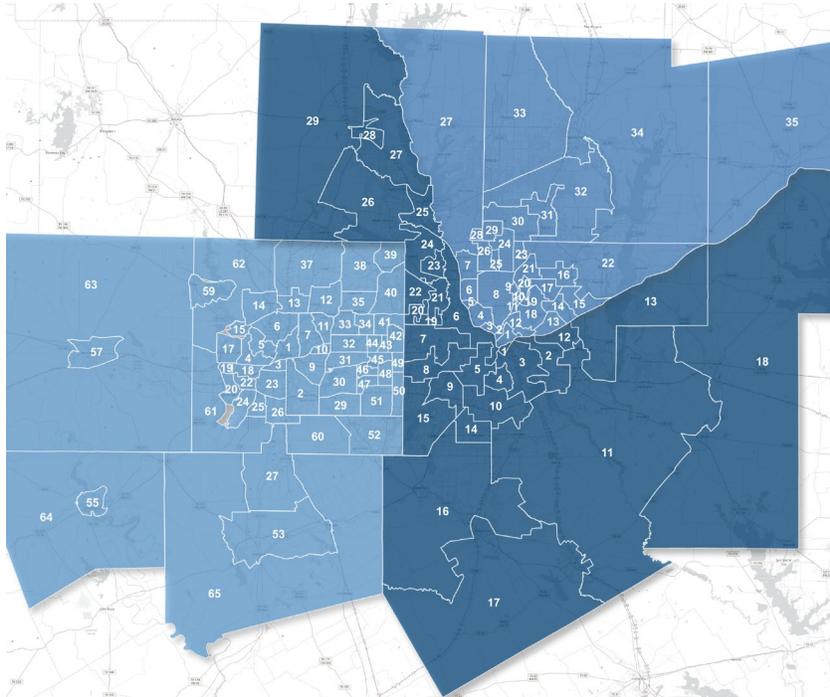
Metro	Price Per Unit	Properties Traded	Units Traded	Sales Volume
National	\$187,744.92	2,451	439	\$69,388,075,254
Dallas	\$151,108.78	183	40	\$4,174,529,639
Atlanta	\$196,139.81	100	20	\$3,731,255,605
Phoenix	\$289,302.52	51	11	\$3,217,333,332
Chicago	\$207,465.22	73	14	\$2,646,076,052
Denver	\$320,997.13	45	7	\$2,532,618,716
Boston	\$429,169.79	28	5	\$2,513,541,750
Miami Metro	\$266,828.36	48	10	\$2,477,684,737
Washington, D.C.	\$261,684.55	44	10	\$2,236,427,318
Charlotte	\$223,421.00	50	10	\$1,981,747,182
Tampa	\$197,224.27	50	11	\$1,963,452,980

Dallas

Clocking in at No. 1 among our top markets for multifamily investment in 2023 was Dallas-Fort Worth, with \$4.2 billion. Volume was down to less than half of the \$10.5 billion recorded in 2022 and to just over one-quarter of 2021's \$15.6 billion, in line with nationwide trends of softening activity. The Metroplex remained a powerhouse of multifamily demand in 2023, as robust job growth and a heavy supply pipeline attracted investors. A total of 183 properties changed hands last year, encompassing 39,887 units, at an average \$151,108 per unit.



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/Turtle Rock
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 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 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.



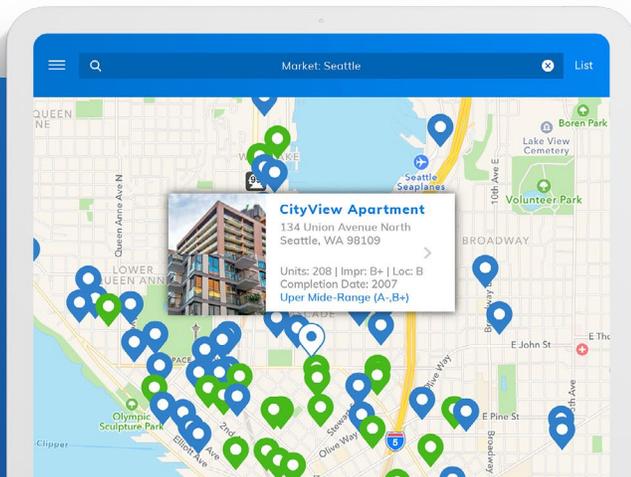
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- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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