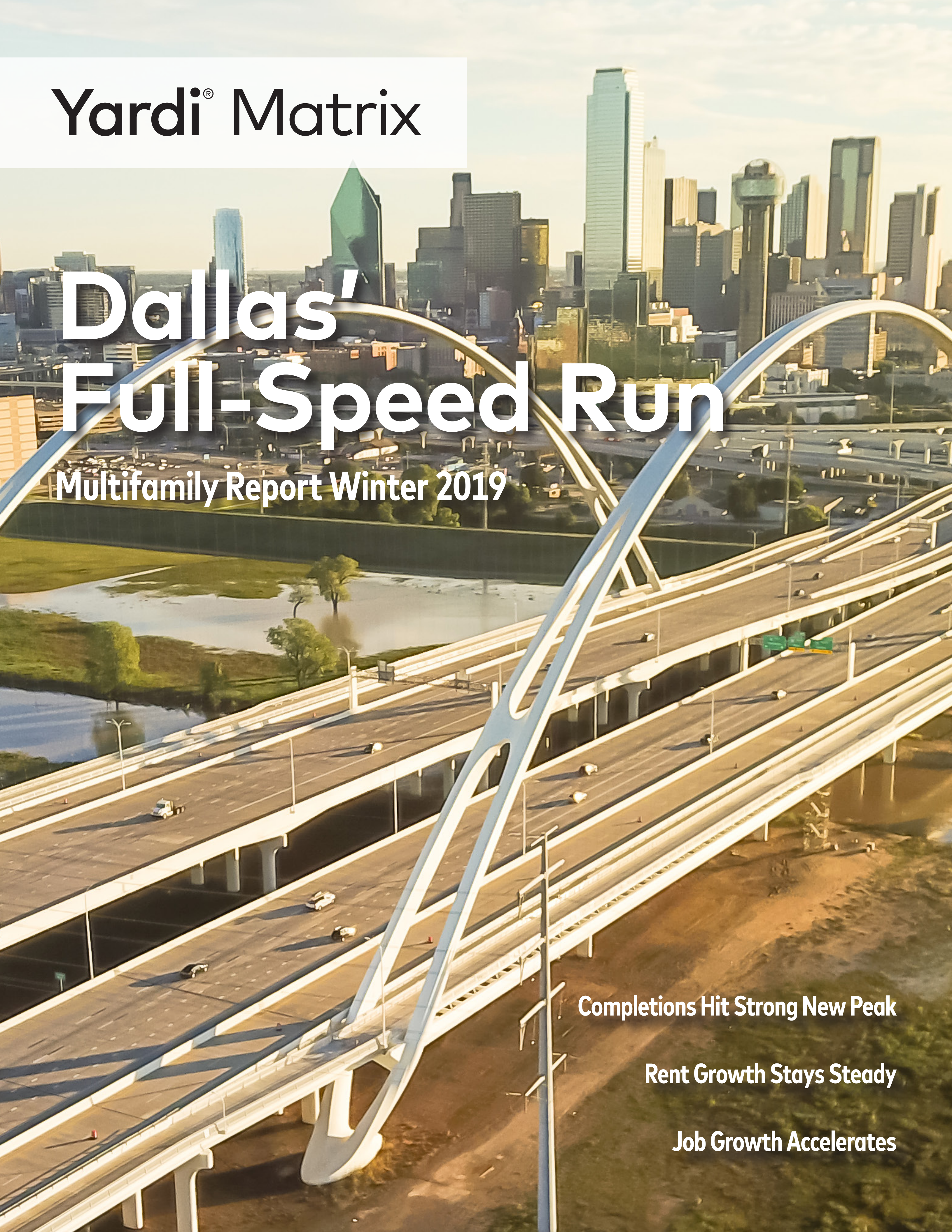
Yardi® Matrix



Dallas' Full-Speed Run

Multifamily Report Winter 2019

Completions Hit Strong New Peak

Rent Growth Stays Steady

Job Growth Accelerates

Market Analysis

Winter 2019

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Supply, Demand Remain Balanced

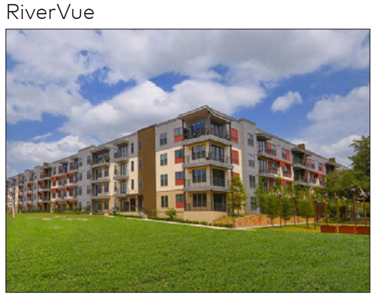
Boosted by North Texas' very rapid economic and demographic expansion, Dallas-Fort Worth remained a stable multifamily market in 2018 and continues to be a relatively safe investment bet. Nonetheless, an accelerating pipeline that brought online nearly 75,000 apartments since the beginning of 2015 slowly but steadily dampened rent growth to 2.1% year-over-year as of November 2018.

The metro added 109,400 jobs in the 12 months ending in September. This marks a 3.2% rate of growth, 120 basis points above the U.S. figure, as Dallas continues to be a strong regional magnet for both large companies and highly skilled workers, especially when comparing its living and business costs to the ones of large coastal hubs.

The DFW building boom is not showing signs of slowing down, with 42,500 apartments underway as of November, a large share of them located across core and Far North Dallas submarkets. As rent growth decelerated, investment volume shifted down a gear in 2018, but the average per-unit price remained flat over 2017, at a little above $100,000. Multifamily supply and demand are largely balancing each other out, and considering the metro's delivery rate and rapidly expanding economy, rent growth is bound to remain tepid but steady in the foreseeable future.

Recent Dallas Transactions

RiverVue

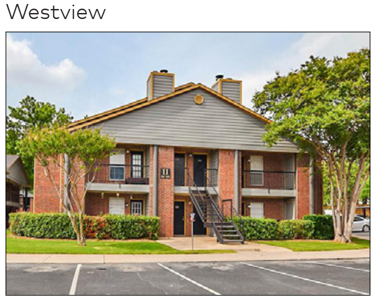


City: Fort Worth, Texas
Buyer: St. Regis Properties
Purchase Price: $72 MM
Price per Unit: $192,000

The District at Greenville

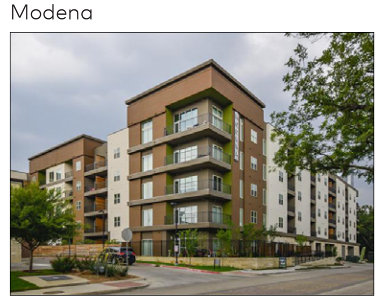
City: Dallas
Buyer: Nimes Capital
Purchase Price: $45 MM
Price per Unit: $ 128,141

Westview



City: Lewisville, Texas
Buyer: Frontline Holdings
Purchase Price: $39 MM
Price per Unit: $115,768

Modena



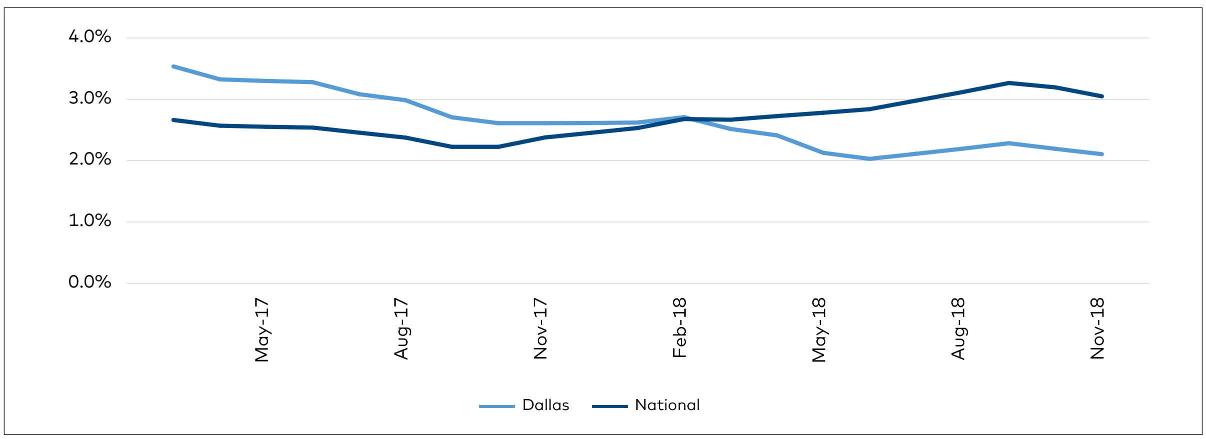
City: Dallas
Buyer: The Ergas Group
Purchase Price: $34 MM
Price per Unit: $147,942

On the cover: Photo by Trong Nguyen/iStockphoto.com

Rent Trends

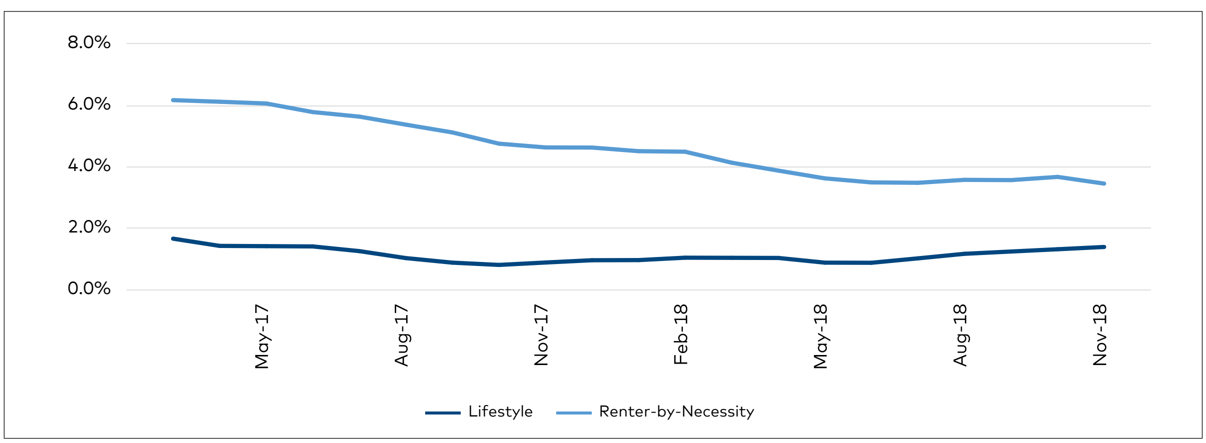
- Dallas-Fort Worth rents were up 2.1% year-over-year through November, 100 basis points below the U.S. average. After outperforming the nation for the better part of the current cycle, rent growth in DFW slowly but steadily decelerated over the past two-and-a-half years, as the development surge endured. The average rent in the metro was $1,163 as of November, below the $1,419 U.S. figure.
- Working-class Renter-by-Necessity communities continued to lead rent growth, with the average rate up 3.5%, to $958. Meanwhile, Lifestyle rents improved 1.4%, reaching $1,379. The spread in growth between the two classes follows a nationwide pattern: While the economy continues to add jobs across the board, developers continue to almost exclusively focus on upscale assets, boosting workforce housing demand and pushing up RBN rents at a faster pace.
- Growth is uneven across the map, with rents dropping in several high-supply areas, including Uptown (-0.9%), Las Colinas (-0.5%), North Garland/Rowlett/Sachse (-0.5%) and North Frisco/West McKinney (-0.2%). Completions in these four submarkets over the past two years added up to nearly 9,500 units, with an additional 10,657 apartments under construction as of November. Meanwhile, rents across relatively affordable Fort Worth submarkets are advancing at a quick rate: Dalworthington Gardens/Pantego (9.2%), Weatherford (7.7%), Stop Six (7.6%) and Randol Mill (6.3%).

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)

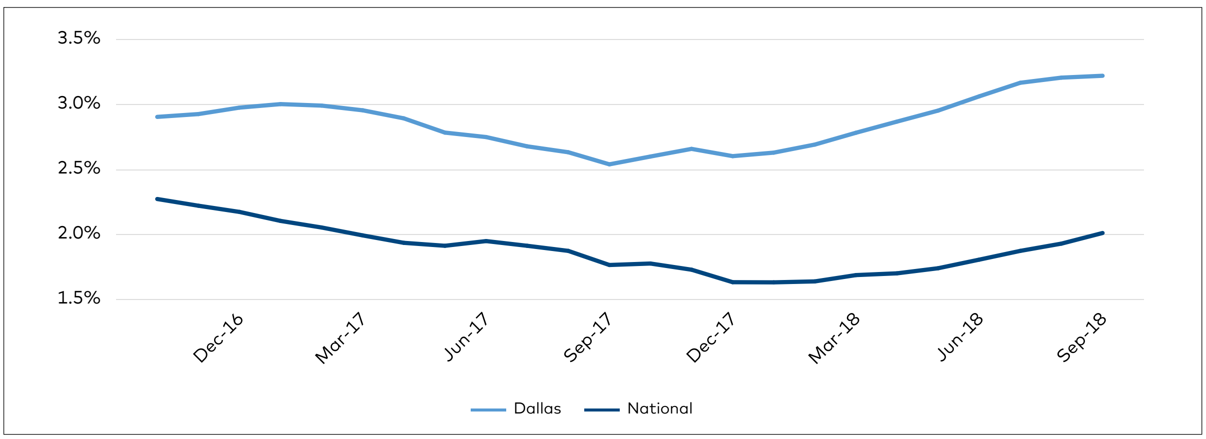


Source: YardiMatrix

Economic Snapshot

- Dallas-Fort Worth added 109,400 jobs in the 12 months ending in September for a 3.2% growth rate, 120 basis points above the U.S. rate. Fueled by a rapidly growing economy and its relative affordability, North Texas continues to heavily outpace most major U.S. metros for job creation.
- Gaining 26,000 jobs, professional and business services led growth. While the addition of high-paying positions continues to push up demand for upscale housing, DFW is growing across the board: Leisure and hospitality; trade, transportation and utilities; and manufacturing—all working-class sectors—added a collective 39,200 jobs.
- With the metro expanding at a fast pace, the construction sector added 13,600 jobs for a 6.3% growth rate, as the city's building boom advances. Apart from a solid residential pipeline, Dallas-Fort Worth had 18.9 million square feet of industrial, 7.1 million square feet of office and 1.2 million square feet of self storage space underway as of mid-December 2018. The local data center footprint is also expanding rapidly: According to Cushman & Wakefield, the DFW data center market is expected to almost double in total capacity over the next two to five years. While these figures could raise fears of overbuilding in the longer run, fundamentals remain healthy for the time being and the lingering development bull run still mirrors one of the nation's strongest and most diversified economies.

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	623	16.7%	26,000	4.4%
70	Leisure and Hospitality	393	10.6%	17,500	4.7%
40	Trade, Transportation and Utilities	787	21.2%	14,300	1.9%
15	Mining, Logging and Construction	230	6.2%	13,600	6.3%
65	Education and Health Services	458	12.3%	12,500	2.8%
90	Government	438	11.8%	9,100	2.1%
30	Manufacturing	279	7.5%	7,400	2.7%
80	Other Services	127	3.4%	5,000	4.1%
55	Financial Activities	303	8.1%	3,000	1.0%
50	Information	84	2.3%	1,000	1.2%

Sources: YardiMatrix, Bureau of Labor Statistics

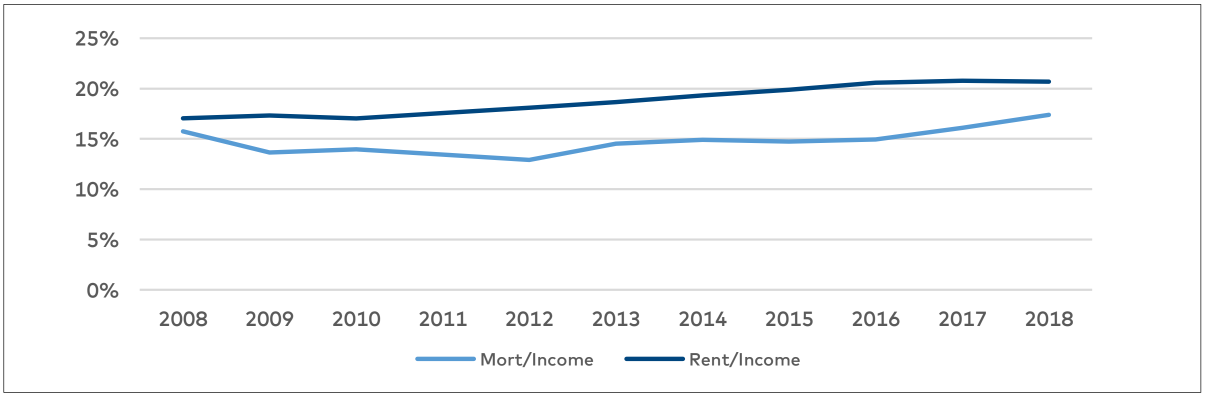
Demographics

Affordability

- The median home price in Dallas continued to climb in the first half of 2018, reaching $246,000. That marked a 6% uptick over the 2017 figure and a 58% hike since 2011. While both home values and rents continue to rise in DFW due to the area's rapid growth, the metro remains relatively affordable. This is especially true when compared to coastal gateway markets such as the Bay Area, New York City or Boston, affordability being a key ingredient of Dallas' appeal among highly skilled workers.

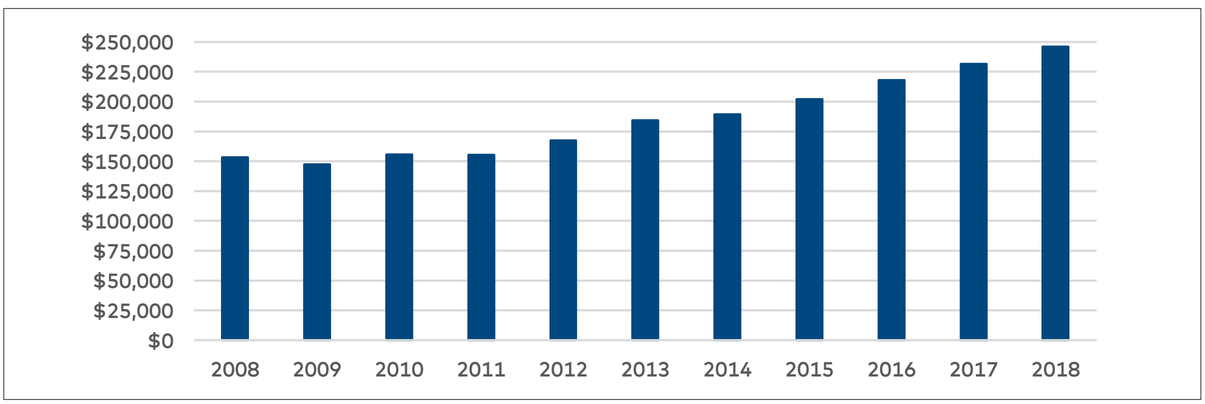
- The average mortgage payment accounted for 17% of the area's median income in the first half of 2018, while the average rent comprised as much as 21%.

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 146,000 residents in 2017 for a 2.0% population growth, nearly three times the 0.7% U.S. rate.
- Dallas-Fort Worth gained more than 580,000 people between 2013 and 2017.

Dallas vs. National Population

	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Dallas Metro	6,817,243	6,950,715	7,101,031	7,253,424	7,399,662

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

Supply

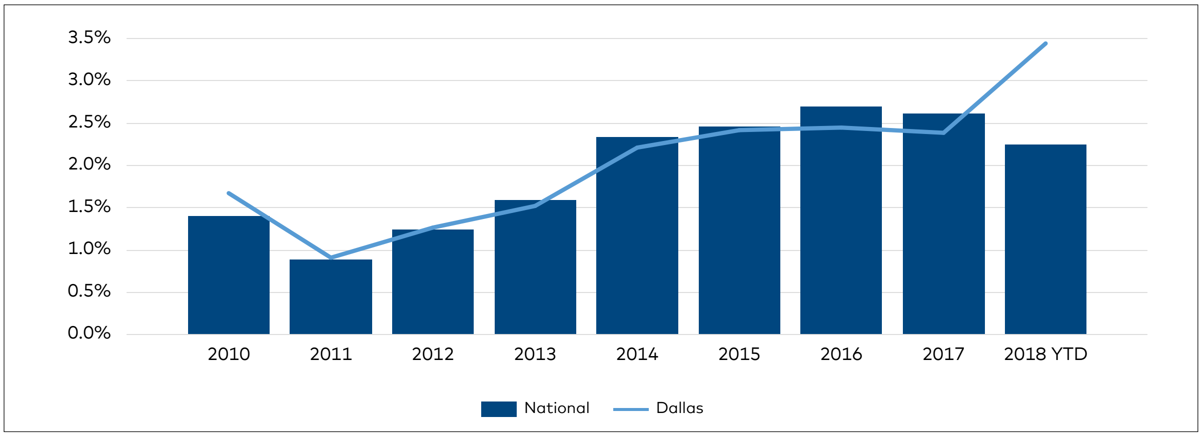
- Some 24,271 units came online in DFW in 2018 through November for a new cycle peak—which is roughly 75% higher than the metro's five-year average. Although only the fifth-largest metro in the U.S. for population, Dallas-Fort Worth topped the development list this year through November, far ahead of runner-up Denver, which added around 13,000 apartments.

- The development boom is poised to continue in 2019, as the metro had approximately 42,500 units underway as of November, with an additional 90,000 units in the planning and permitting stages.

- North Dallas continued to lead the pipeline as of November, with North Frisco/West McKinney (4,914 units underway) and North Garland/Rowlett/Sachse (3,397) topping the list. In Fort Worth, Downtown (1,505) was the most active submarket, followed by the Medical District (858) and Grapevine (821).

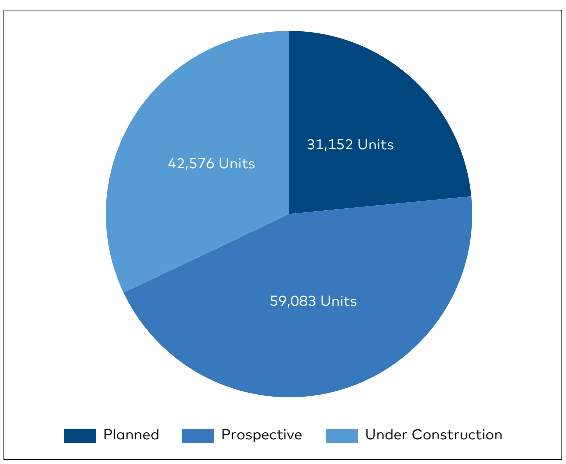
- Betting on long-term demand, many developers are building large assets set for completion in 2020 and even 2021. The list includes W3's 875-unit Towers at Bayside in Rowlett, Billingsley Co.'s 800-unit Sound at Cypress Waters in Coppell and Pillar Income's 498-unit Lakeside Lofts in Farmers Branch.

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



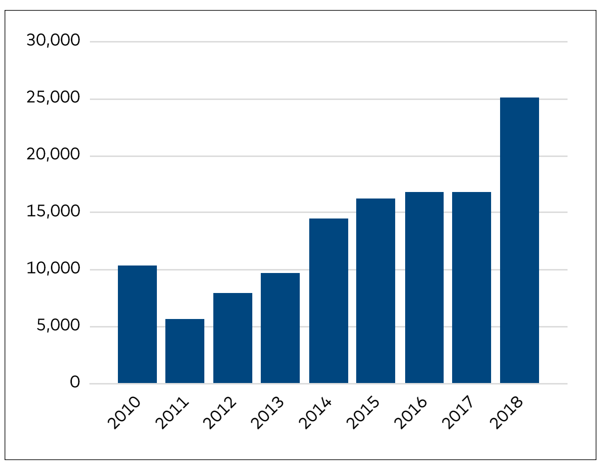
Source: YardiMatrix

Development Pipeline (as of November 2018)



Source: YardiMatrix

Dallas Completions (as of November 2018)

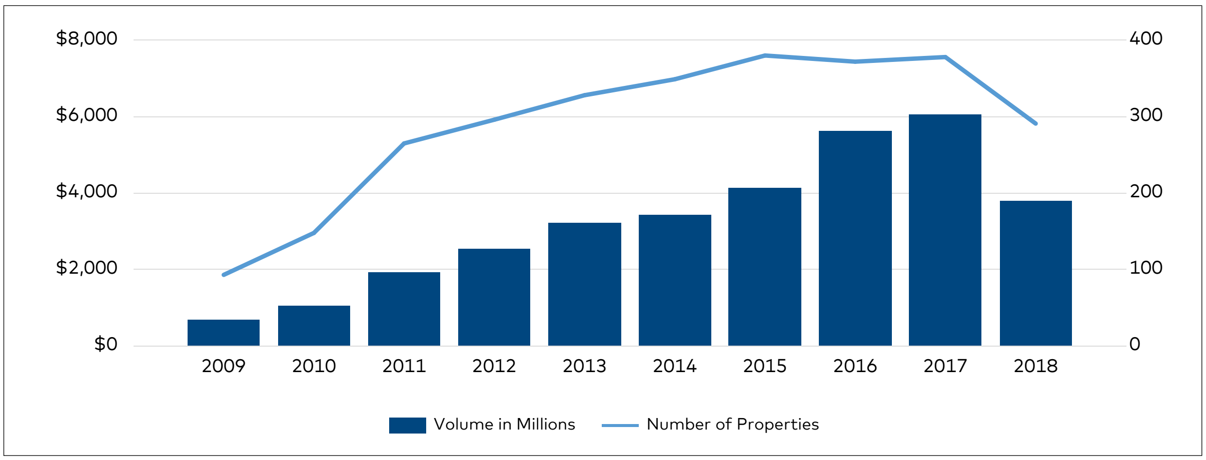


Source: YardiMatrix

Transactions

- Roughly $3.8 billion in multifamily assets changed hands in 2018 through October, marking a slowdown after 2017's $6 billion cycle high. Most investors continued to focus on value-add plans, with approximately 70% of traded communities being Renter-by-Necessity.
- The average per-unit price remained virtually flat over the past two years at a little over $100,000, far below the $152,501 U.S. figure for 2018 through October.
- North and suburban Dallas attracted the most capital in the 12 months ending in October 2018, with North Frisco/West McKinney ($247 million) leading the pack. The list of very active buyers included Exponential Property Group, which acquired 2,721 apartments in nine DFW communities of at least 50 units each, as well as Carroll Org. (2,372 units) and Bridge Investment Group (2,267 units).

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



Source: YardiMatrix

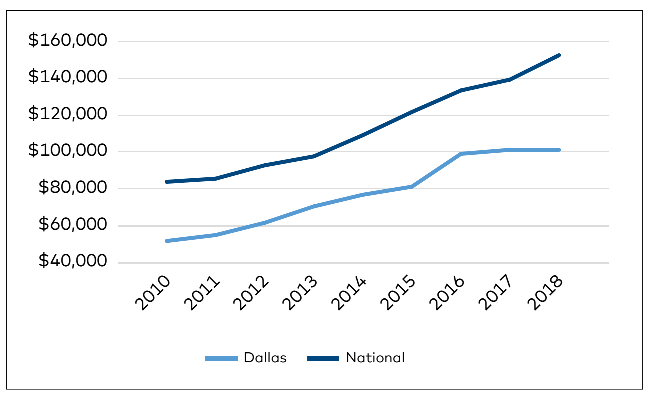
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
N. Frisco/W. McKinney	247
Lancaster/Red Bird	161
Lake Village/S. Irving/ W. Dallas	147
Gastonwood/Junius Heights/Lake Park Estates	127
Northwood Hills/Valley View	126
South Lake Highlands	114
Central Lewisville	114
Handley	108

Source: YardiMatrix

[1] From November 2017 to October 2018

Dallas vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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TCI Breaks Ground On Farmers Branch Development

Situated within the 1,200-acre Mercer Crossing project, the 256-unit property is scheduled for completion by first quarter 2020.

SVN Brokers Sale Of 171-Unit Dallas Community

Completed in 1974, the property was recently renovated, with the previous owner investing nearly $1.5 million in capital improvements.

JV Acquires 2 Dallas Assets

HFF arranged the joint venture equity deal between Archway Equities and Atlantic Creek Real Estate Partners for the purchase of the properties totaling 712 units.

JPI Sells 371-Unit Luxury Community

Completed in 2017, Jefferson Riverside is the company's latest development in Las Colinas. Institutional Property Advisors brokered the sale.

Hines Breaks Ground On Luxury High-Rise

The 39-story, 344-unit property will be located in the heart of Victory Park. It will be the tallest building in the neighborhood once completed.

Fort Worth Property Changes Hands

The 375-unit RiverVue is situated within the 63-acre Waterside mixed-use development, providing quick access to the Arts District and the city's downtown area.

Executive Insight

Brought to you by:

Staying Ahead of the Property Management Curve

By Jeff Hamann

The multifamily real estate landscape has shifted considerably over the past few years, with a number of metros facing changes in renter demographics and potential oversupply issues. Throughout these shifts, property owners and managers continue to look for new ways to innovate and increase the value of their assets. Inland Investment Real Estate Services, the management arm of Inland Real Estate, currently oversees more than 16,000 units nationwide. Niall Byrne, the company's president, discusses the importance of quality property management in boosting rents and asset value.

What are some of your firm's processes that give you an advantage across your portfolio?

An example is the centralizing of our revenue management and collections departments at our corporate office as well as off-site automation of various administrative work, reporting processes and corporate platforms for IT and equipment support. This format enables the on-site teams to focus more on the customers and their experiences at our communities. Our goal is to streamline processes across the board and get back to the basics of customer service. Focusing on the customer is the key to our success.

What does Inland do to improve tenant retention rates?

The bottom line for any renter is outstanding customer service. We train Inland Residential Real Estate Services LLC management employees to be responsive, to communicate with residents, to build a sense of community and to maintain the property at the highest

level possible. Providing excellent service is the key to keeping residents happy and choosing to remain a resident at our communities.

What are the best ways for an investor to maximize their returns in Class A and B communities?

The ability to identify assets in markets that will provide attractive returns in the short term and provide for growth in the long term—easier said than done. Fully amenitized Class A apartment communities are in short supply today, so many investors have turned to Class B and C assets in well-located markets with value-add potential.

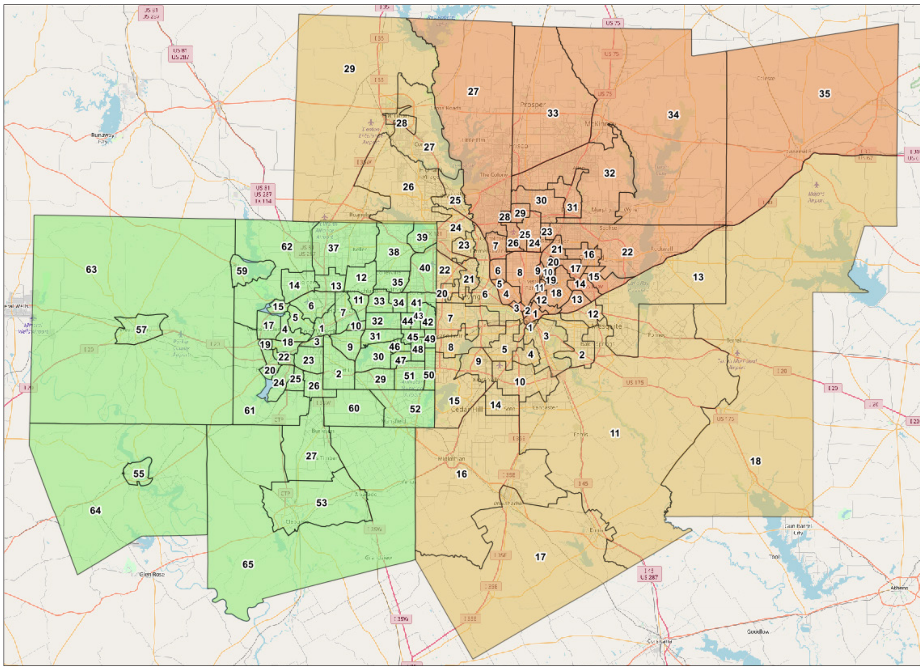
What do you see as the largest opportunities in the market in the near and long term?

There is still an opportunity to acquire well-located apartment communities in good markets with strong demographics, especially Class B and C properties. You just have to dig a little deeper. The challenge with acquiring these properties is to make sure that you have a well-defined repositioning plan and to spend capital improvement dollars where they make the most impact upon leasing and on the tenant experience. There is still a high demand for quality apartment communities and a strong renter pool.

What role does technology play in property management?

Technology allows us to increase efficiency, simplify processes and collect data on every aspect of our business. Moving forward, technology will have greater prominence in our business in the form of smart apartment technology.

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
31	Handley
32	Randol Mill
33	Hurst

Area #	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 #	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.

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