Yardi® Matrix

Room for Growth In North Texas

Multifamily Report Spring 2019

Rent Growth Softens

Supply Hits New Cycle High

Healthy Demographics Boost Demand

Market Analysis

Spring 2019

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Anca Gagiuc
Associate Editor

Hefty Supply Tempers Rent Growth

Despite a development pipeline that brought online almost 95,000 units since 2014, the North Texas multifamily market continued to show healthy fundamentals last year and into the first quarter of 2019. Supply however dampened rent growth to a certain degree, bringing it to 2.8% year-over-year through March, slightly below the U.S. average.

The metro remained a national leader in job creation last year, with the addition of 102,500 positions for a 2.6% expansion, 90 basis points above the U.S. figure. Professional and business services was the top-performing sector (22,800 jobs), followed by trade, transportation and utilities (21,400 jobs). Charles Schwab broke ground on a 70-acre office campus estimated to house some 8,600 employees once completed, while Infosys Ltd.'s tech innovation hub in Richardson is set to hire 500 people by 2020.

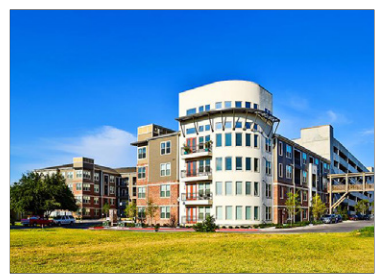
More than 26,800 units were delivered in 2018 for a new cycle high, with an additional 44,700 apartments underway as of March. Following last year's $5 billion transaction volume, investors already traded nearly $900 million in multifamily assets in the first quarter of 2019, at a per-unit price of $105,032. With rapid economic expansion and population gains slated to keep demand healthy, we expect the average Dallas–Fort Worth rent to rise 4.3% in 2019.

Recent Dallas Transactions

The Estates of Las Colinas

City: Irving, Texas
Buyer: Ashcroft Capital
Purchase Price: $65 MM
Price per Unit: $157,430

Aviator West 7th



City: Fort Worth, Texas
Buyer: Internacional Realty
Purchase Price: $62 MM
Price per Unit: $166,578

The Wimberly

City: Dallas
Buyer: BSR Trust
Purchase Price: $53 MM
Price per Unit: $142,742

The Club at Stonegate

City: Fort Worth, Texas
Buyer: Archwood Real Estate
Purchase Price: $51 MM
Price per Unit: $142,222

Rent Trends

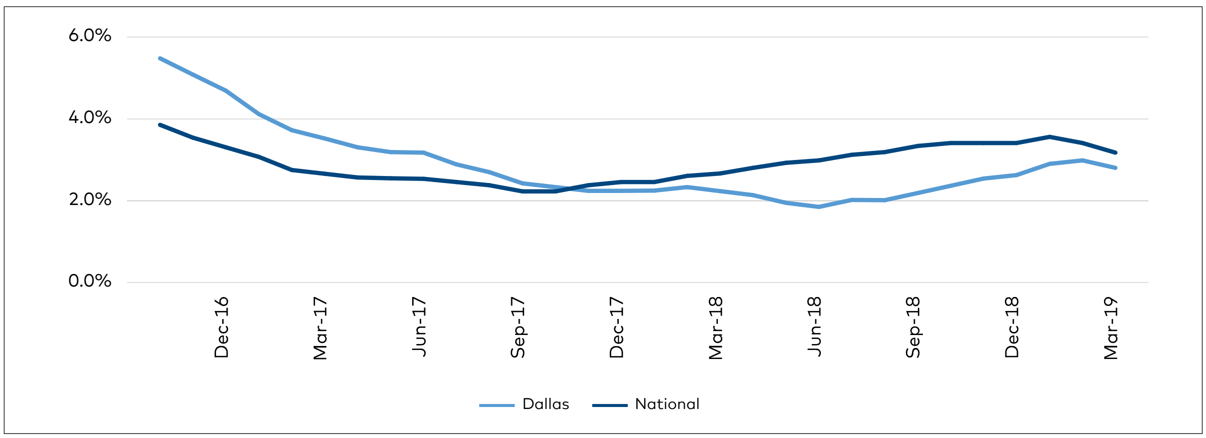
- Softened by the sustained supply surge, Dallas-Fort Worth rents were up 2.8% year-over-year through March, 40 basis points behind the U.S. average. The average rent in DFW was $1,175 as of March, below the $1,430 national figure.

- The working-class Renter-by-Necessity segment continued to lead growth, with the average rent up 3.8% to $967. Meanwhile, Lifestyle rates appreciated 1.9% to $1,389. The spread between the two segments reflects consistent developer interest in upscale projects in the context of sustained workforce housing demand. However, recent robust supply helped narrow the spread, from 330 basis points as of March 2018 to 190 basis points one year later.

- Only four submarkets saw rent contractions: South Downtown (-0.6% to $1,657), Tarrant (-0.2% to $1,005), the Medical District (-0.3% to $1,361) and Benbrook (-0.5% to $1,106). Several areas recorded strong gains, including fringe Fort Worth submarkets such as Weatherford (7.8%), Kennedale (7.5%) and Keller/Westlake (7.3%), but also Northwest Dallas (7.3%) and South Oak Cliff (6.9%).

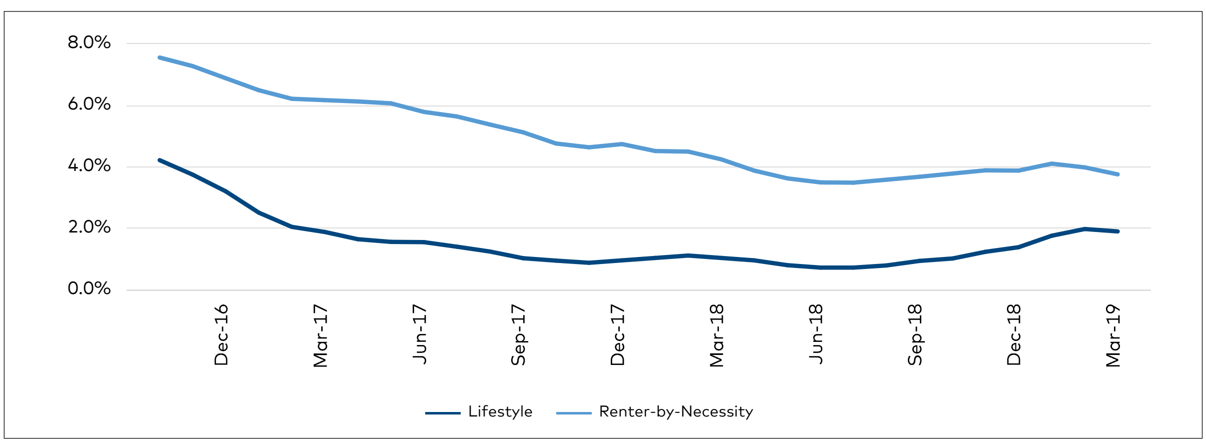
- Despite the prolonged supply surge, DFW demand should keep up in the near future due to ongoing economic and demographic expansions. We expect the average rent to rise 4.3% in 2019.

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)

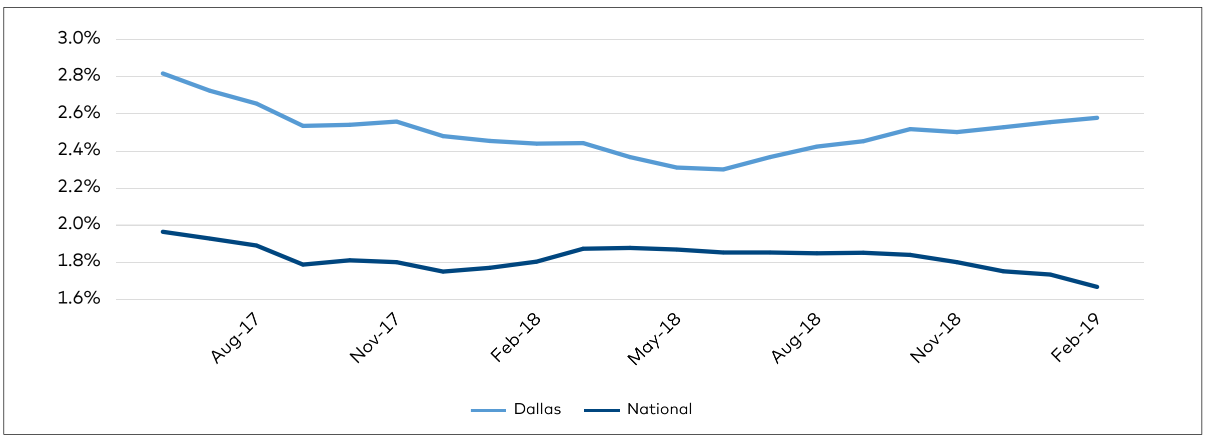


Source: YardiMatrix

Economic Snapshot

- The metro added 102,500 jobs in the 12 months ending in February for a 2.6% expansion, well ahead of the 1.7% national rate. DFW's business-friendly environment and robust population growth turned the metro into a regional powerhouse, its economy among the fastest-growing large cities in the country. Unemployment stood at 3.9% in January, an increase of 30 basis points over 12 months.
- Professional and business services continued to lead growth, with the addition of 22,800 positions. Infosys Ltd. unveiled plans to open its next tech innovation hub in Richardson, where it intends to hire 500 workers by 2020. The rich talent pool coming out of UT Dallas also made Walmart choose the Metroplex for Walmart Technology, the company's second internal innovation center. Charles Schwab is bound to become one of the largest employers in the area north of Fort Worth, as it recently broke ground on the $100 million first phase of a 70-acre office campus, expected to house 2,600 employees upon completion. A 617,000-square-foot second phase is slated to add two more office buildings, with room for an additional 6,000 employees.
- Trade, transportation and utilities, up 21,400 jobs, shows promising signs, with several distribution centers announced in the metro. Home Depot's 152-acre hub is set to employ 800 people and Thirty-One Gifts is moving its national distribution center to Flower Mound, along with 650 employees.

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	627	16.8%	22,800	3.8%
40	Trade, Transportation and Utilities	791	21.2%	21,400	2.8%
70	Leisure and Hospitality	392	10.5%	18,800	5.0%
65	Education and Health Services	459	12.3%	11,700	2.6%
55	Financial Activities	307	8.2%	7,600	2.5%
15	Mining, Logging and Construction	221	5.9%	7,100	3.3%
30	Manufacturing	281	7.5%	6,600	2.4%
90	Government	448	12.0%	5,400	1.2%
80	Other Services	124	3.3%	3,700	3.1%
50	Information	81	2.2%	-2,600	-3.1%

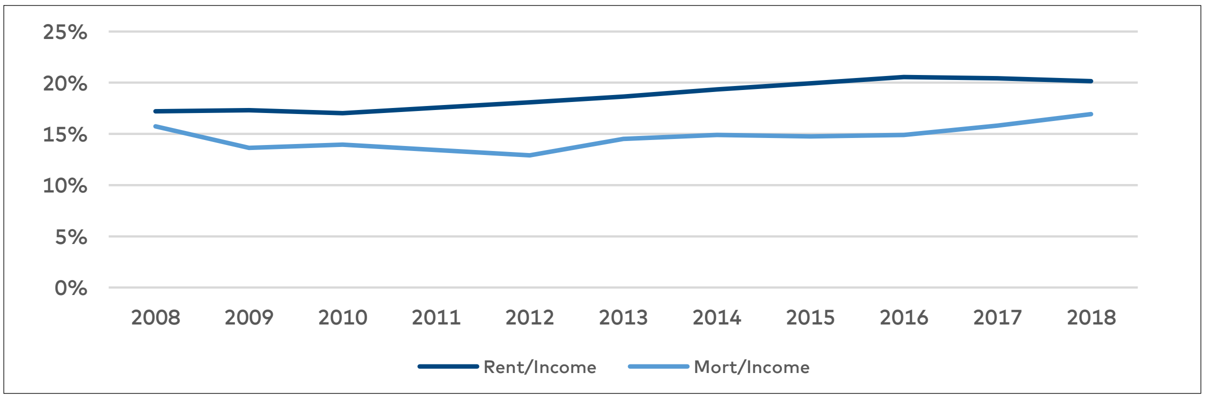
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

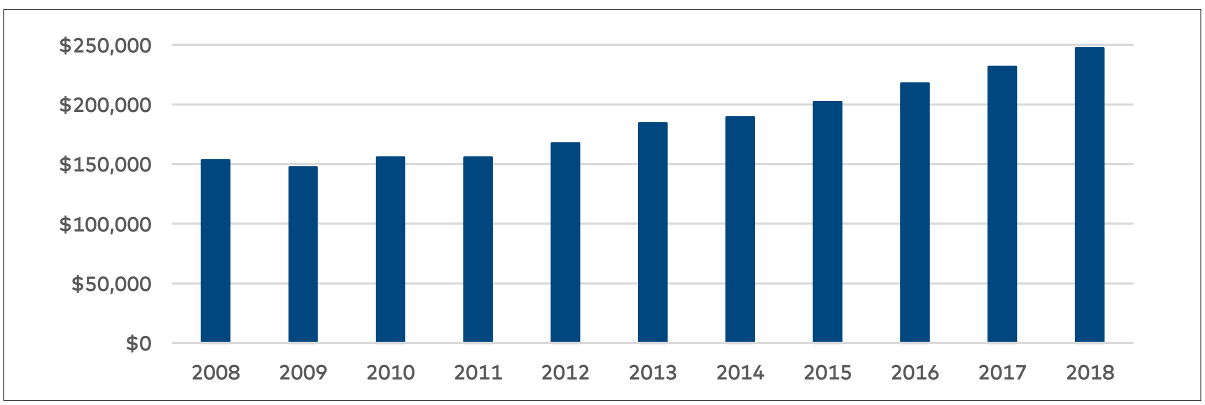
- Dallas-Fort Worth home prices continued to rise, with the median value up 6.7% in 2018 to $247,175, while recording a solid 67% improvement from the 2009 trough. Although housing costs are rising due to the region's sustained growth, the metro remains relatively affordable. This is true not only when compared to coastal gateway markets such as San Francisco, New York City or Boston but also against emerging tech markets such as nearby Austin.
- Owning remained the more affordable option last year, with the average mortgage payment accounting for 17% of the area median income, while the average rent equated to 20%.

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's population rose 2.0% in 2017, nearly three times the national rate.
- Dallas-Fort Worth gained almost 950,000 residents between 2010 and 2017, for a 14.7% expansion.

Dallas vs. National Population

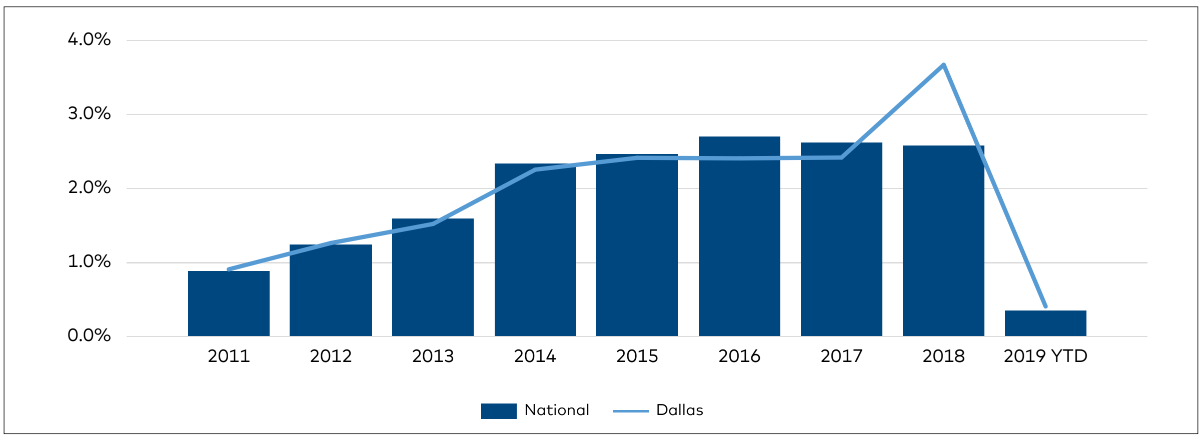
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Dallas Metro	6,817,243	6,950,715	7,101,031	7,253,424	7,399,662

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

Supply

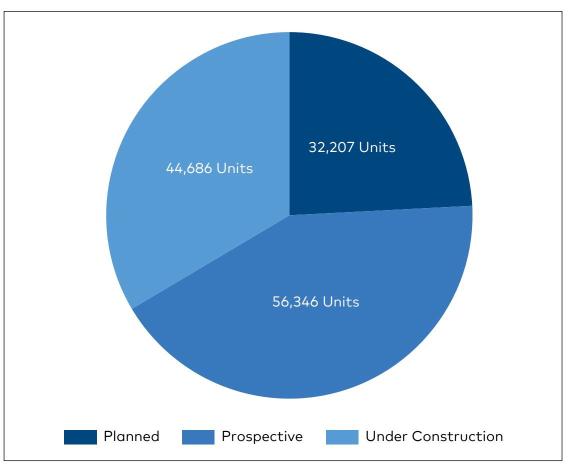
- The metro had 44,686 units under construction as of March, posting the largest multifamily pipeline in the country, way ahead of New York City (28,775 units), Washington, D.C. (28,416), Los Angeles (27,610) and Miami (26,724). Yardi Matrix expects the completion of 22,410 units in Dallas-Fort Worth in 2019.
- Developers added 3,167 units in the first quarter of 2019, which comes on the heels of last year's strong cycle peak, with 26,857 apartments coming online. The bulk of deliveries consisted of upscale properties. As a result of robust development, the occupancy rate in stabilized properties dropped 40 basis points over 12 months, to 94.0% as of February.
- Far North and core Dallas submarkets topped the pipeline as of March, with North Frisco/West McKinney (4,519 units underway), Cityscape/Downtown (4,011 units), North Garland/Rowlett/Sachse (3,294 units) and North Carrollton/The Colony (2,229 units) leading the way. Fort Worth submarkets with consistent pipelines included Downtown (1,498 units), the Medical District (967 units) and Grapevine (821 units).

Dallas vs. National Completions as a Percentage of Total Stock (as of March 2019)



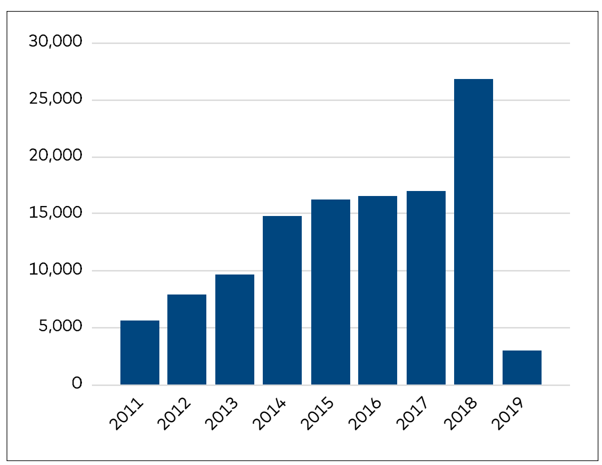
Source: YardiMatrix

Development Pipeline (as of March 2019)



Source: YardiMatrix

Dallas Completions (as of March 2019)

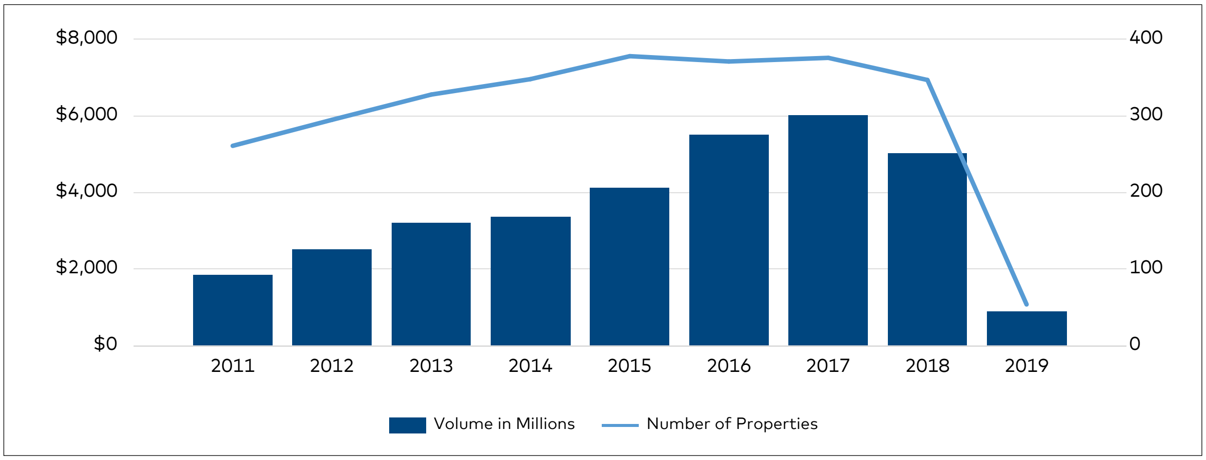


Source: YardiMatrix

Transactions

- Almost $900 million in multifamily assets traded in the first quarter in confirmed transactions. This comes after 2018's roughly $5 billion, this cycle's third-best year for multifamily deal volume. At $105,032, the average DFW per-unit price remained relatively flat in the first quarter against the 2018 figure, but well below the $153,504 U.S. figure.
- Dallas remains a prime destination for institutional investors and foreign capital. Acquisition yields were mostly flat in 2018, staying in the 4.5% to 5.0% range for Class A assets and as high as 7.0% for value-add deals.
- North Dallas submarkets attracted the most capital in the 12 months ending in March, with North Frisco/West McKinney ($248 million) topping the list.

Dallas Sales Volume and Number of Properties Sold (as of March 2019)



Source: YardiMatrix

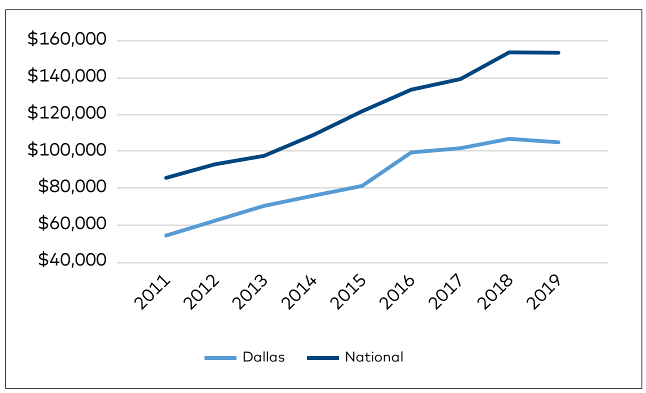
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Frisco/West McKinney	248
North Preston Corridor	212
South Frisco/Parker	184
North Carrollton/The Colony	152
Blue Mound	151
Lake Village/South Irving/ West Dallas	143
Lancaster/Red Bird	143
Las Colinas	138

Source: YardiMatrix

[1] From April 2018 to March 2019

Dallas vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:

Get the latest in local real estate news on Multi-HousingNews.com

Steadfast Cos. Sells 400-Unit DFW Community

Greystone originated a $36.6 million Fannie Mae acquisition loan for the new owner, Texas-based CONTI Organization, which plans to rebrand the property as Bella Vista Apartments.

StreetLights Residential Opens Luxury Community

The Christopher represents the second phase of RED Development's project The Union, a mixed-use property located in the city's Uptown area.

Dallas Community Commands $53M

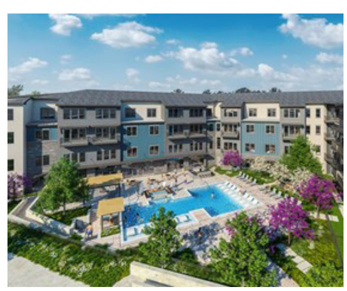
The sale marked the fourth acquisition for BSR Real Estate Investment Trust in under a year, bringing the entity's portfolio to a total of 51 multifamily assets.

LaSalle Investment Management Buys Dallas Property

Drawn to the metro's growing population and strong job market, the firm has purchased a 152-unit luxury rental community in the affluent Turtle Creek submarket.

The Praedium Group Sells TX Community

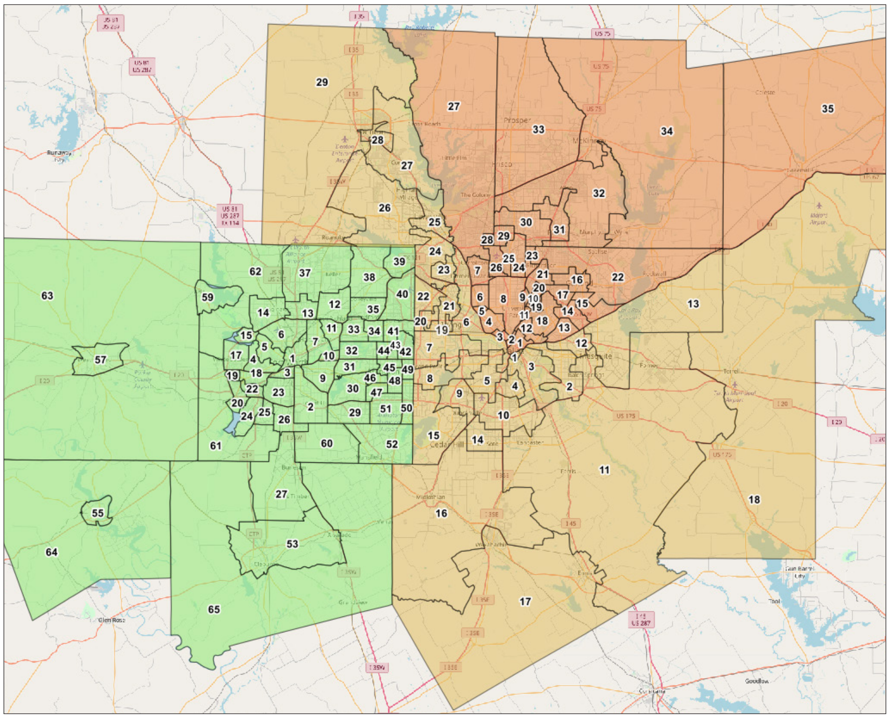
Legends at Chase Oaks in Plano offers 346 units and has undergone a comprehensive capital improvements program since its purchase back in 2014.



JPI Begins Work On 282-Unit Dallas Community

Jefferson Texas Plaza is the developer's 10th community in the Irving-Las Colinas submarket. The property will be close to the University of Dallas and the Toyota Music Factory complex.

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.