

Yardi® Matrix

# No Sweat, All Gain in Dallas

Multifamily Report Summer 2019

Renter by Necessity Leads Rent Growth

High-Gear Economy Fuels Demand

Value-Add Plays Drive Investment

## Market Analysis

Summer 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

## Rapid Job Growth Keeps Demand Healthy

Dallas' economic engines remain in high gear, keeping employment growth among the strongest in the country. This continues to boost the metro's multifamily market, which is expanding unfazed, with robust development and sustained investment reflecting North Texas' healthy fundamentals. Despite last year's supply surge, rent growth has started to pick up steam once more, with the average rate up 3.0% year-over-year through July.

The metro added 120,000 jobs in the 12 months ending in June for a 3.0% expansion, 130 basis points above the U.S. figure. DFW remains a regional powerhouse and a strong magnet for both companies and skilled workers, even more so when comparing its living and business costs to those of large coastal hubs or nearby Austin.

More than \$2.5 billion in multifamily assets traded in DFW this year through July. Meanwhile, the metro's construction surge shows few signs of softening, with 44,249 units underway as of July, coming on the heels of last year's 27,588-unit cycle high. Demand remains healthy in spite of intense development, and the metro's occupancy rate in stabilized properties dropped just 20 basis points over 12 months, reaching 94.4% in June. With the metro continuing to add residents at a rapid pace, we expect the average Dallas-Fort Worth rent to appreciate 3.3% in 2019.

## Recent Dallas Transactions

The Brandt



City: Irving, Texas  
Buyer: Western Wealth Capital  
Purchase Price: \$64 MM  
Price per Unit: \$127,058

The Austin at Trinity Green



City: Dallas  
Buyer: Beachwold Residential  
Purchase Price: \$60 MM  
Price per Unit: \$169,014

MacArthur Place at 183



City: Irving, Texas  
Buyer: Ashcroft Capital  
Purchase Price: \$56 MM  
Price per Unit: \$102,224

The Sovereign

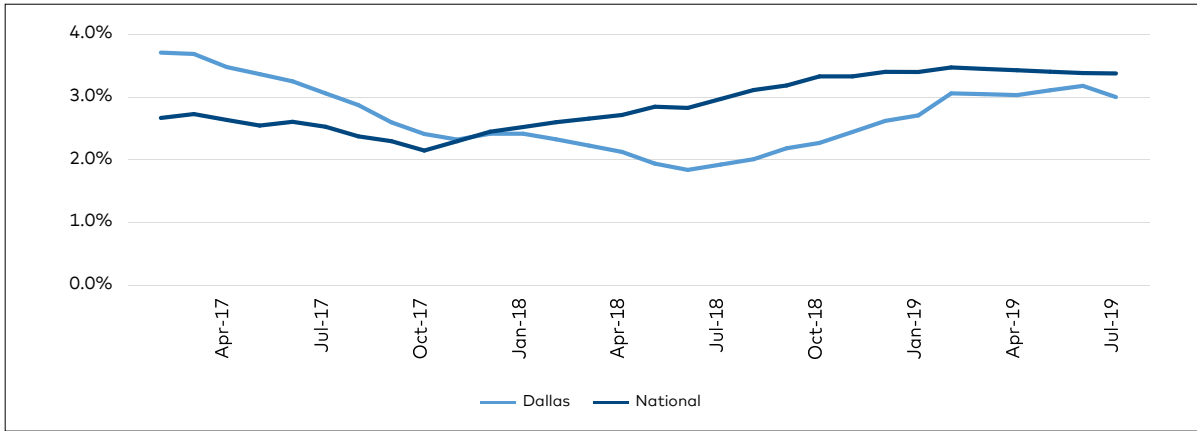


City: Fort Worth, Texas  
Buyer: KKR  
Purchase Price: \$50 MM  
Price per Unit: \$155,068

## Rent Trends

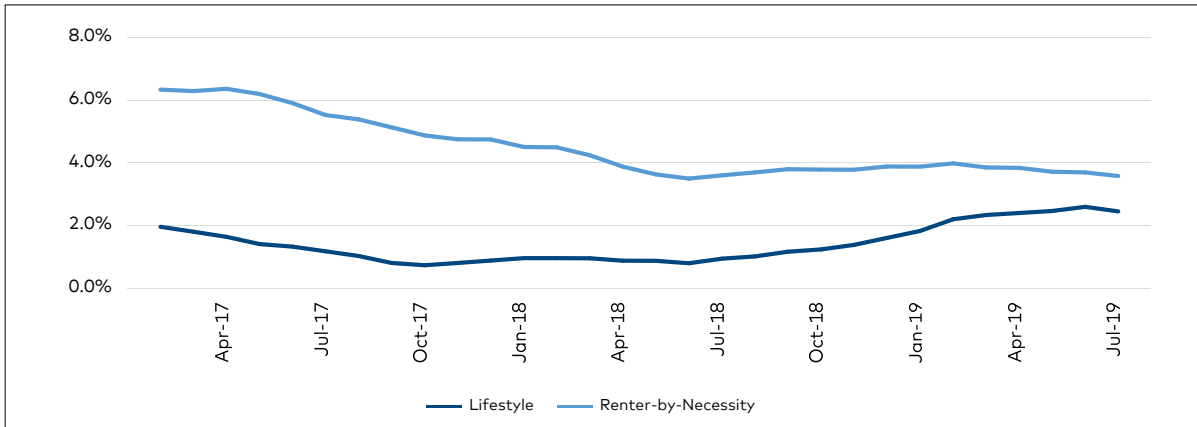
- Dallas-Fort Worth rents rose 3.0% year-over-year through July, 40 basis points behind the national rate. Strong demand remained a constant this expansion, but rent growth stuck close to the U.S. average for the better part of the cycle. The average DFW rent was \$1,202 as of July, below the \$1,469 U.S. figure.
- The working-class Renter-by-Necessity segment continued to lead growth, with the average rate up 3.6%, to \$984. Lifestyle rents rose 2.4%, to \$1,422. The spread between the two segments reflects a longstanding national trend: While the economy steadily added positions across the board, developers continued to focus on upscale projects, dampening rent growth at the higher end of the quality spectrum, while also putting additional pressure on workforce households.
- Rents grew fastest in Fort Worth's Tanglewood/Westcliff submarket (10.7% to \$1,035), North Dallas' Richardson (8.9% to \$1,067) and in Fair Park (8.2% to \$807). Fair Park is also one of the Dallas' most affordable submarkets, along with distant North Hunt County/Greenville/Commerce (3.9% to \$782) and Fort Worth submarkets, including Western Hills (4.5% to \$788) and Stop Six (3.9% to \$794).
- Considering the metro's consistent development pipeline, combined with sustained economic and demographic growth, we expect the average Dallas-Fort Worth rent to rise 3.3% 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)

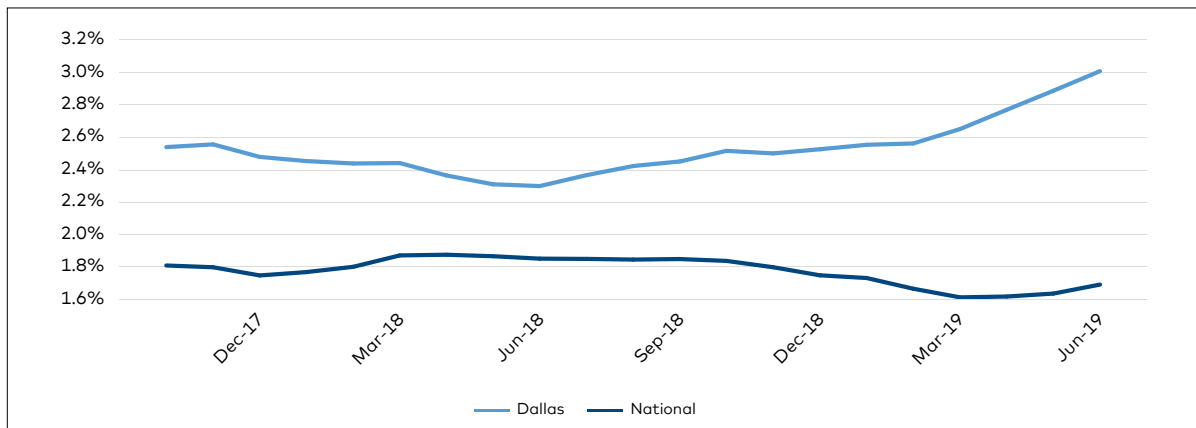


Source: YardiMatrix

## Economic Snapshot

- Dallas-Fort Worth gained 120,000 jobs in the 12 months ending in June, for a 3.0% expansion, continuing to heavily outpace the U.S. average. The metro's job gains, which last reached the 3.0% mark in early 2017, accelerated in the first half of this year. Mirroring this acceleration, unemployment slid to 2.7% as of May, from 3.9% in January.
- The professional and business services sector led growth with the addition of 31,400 positions, fueled by both in-migration and the metro's existing talent pool. The sector's future looks bright, with many companies expanding or relocating to the metro. Charles Schwab, for example, will soon have more workers in Texas than at home in California. The corporation's Westlake campus, expected to open its first phase later this year, is set to house some 2,600 employees. Construction of a second phase is scheduled to begin this December, with a total of more than 6,000 employees expected at the facility upon completion.
- While nearly all sectors registered strong gains, trade, transportation and utilities (21,000 jobs) and leisure and hospitality (16,800 jobs) completed the podium. Meanwhile, Amazon intends to add hundreds of jobs at a new regional air cargo hub set to come online at Fort Worth's Alliance Airport later this year.

### 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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	649	17.0%	31,400	5.1%
40	Trade, Transportation and Utilities	800	21.0%	21,000	2.7%
70	Leisure and Hospitality	412	10.8%	16,800	4.3%
65	Education and Health Services	463	12.1%	12,800	2.8%
15	Mining, Logging and Construction	234	6.1%	11,800	5.3%
55	Financial Activities	313	8.2%	10,400	3.4%
30	Manufacturing	287	7.5%	7,900	2.8%
90	Government	444	11.6%	6,100	1.4%
80	Other Services	133	3.5%	4,700	3.7%
50	Information	82	2.1%	-2,900	-3.4%

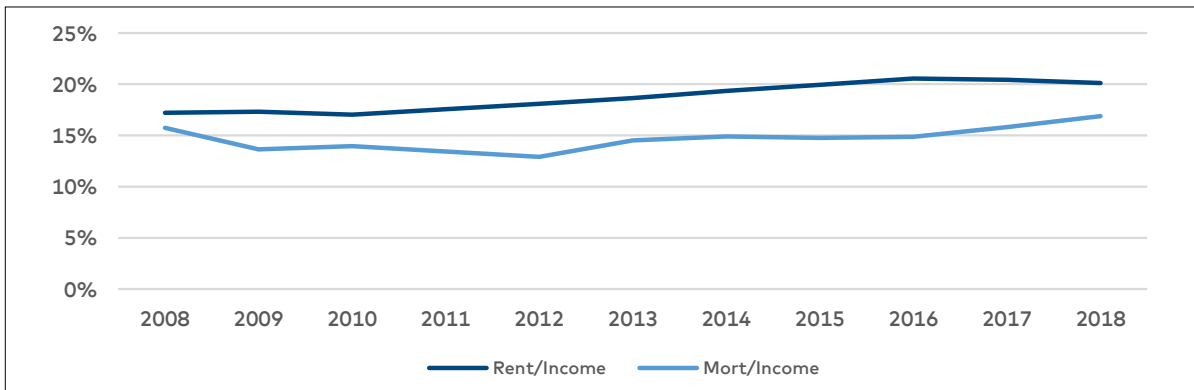
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

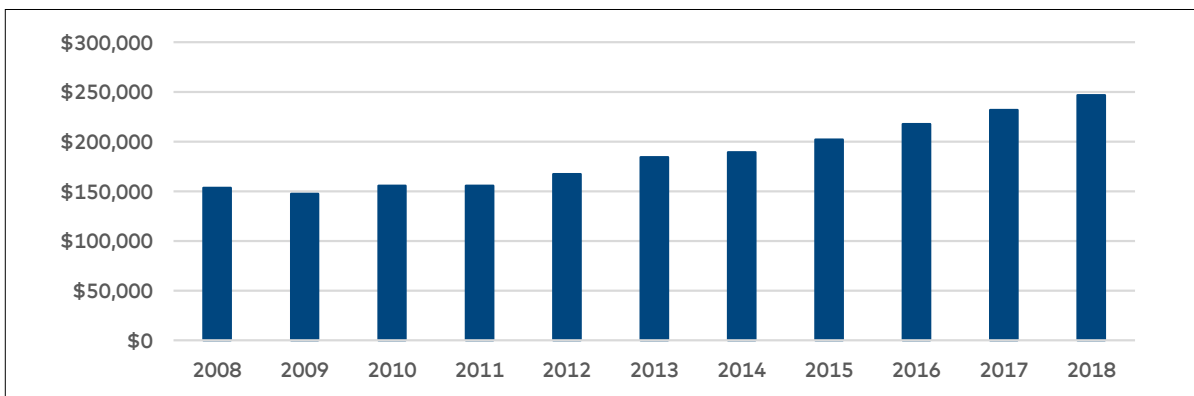
- Although the rise of Dallas home values moderated in the second half of 2018, the median home price still rose 6.6% over the previous year, reaching \$246,852. This marked a 67.5% appreciation over a decade. Even so, DFW remains highly attractive and more affordable, for example, than nearby Austin, where the median home value was 26.7% higher last year.
- Owning remained more affordable than renting in Dallas last year: The average mortgage payment accounted 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

- Dallas-Fort Worth added 146,238 residents in 2017 for a 2.0% population growth, nearly three times the 0.7% U.S. rate.
- The metro gained more than 580,000 people between 2013 and 2017.

### Dallas vs. National Population

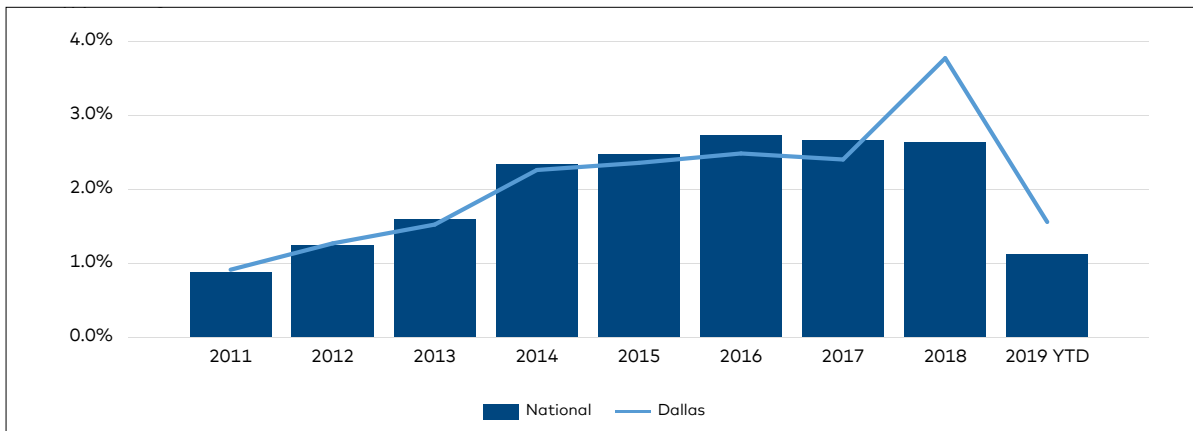
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Dallas Metro	6,817,243	6,950,715	7,101,031	7,253,424	7,399,662

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

## Supply

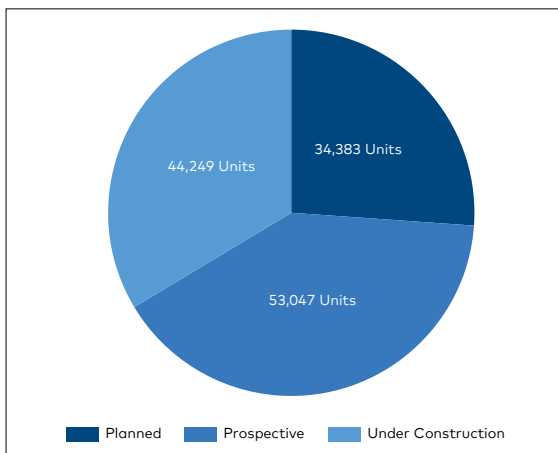
- The metroplex had more than 44,200 units under construction as of July, with developers continuing to overwhelmingly cater to upscale renters. With a total of 23,711 units slated for completion this year, Dallas-Fort Worth's 2019 is expected to rank as this cycle's second-best year for development.
- Developers added 10,612 units in Dallas-Fort Worth this year through July, coming on the heels of 2018's 27,588-unit cycle high. Last year's additions represented 3.8% of total stock, more than 100 basis points above the U.S. figure. Even so, multifamily demand remains healthy and one step ahead of the robust levels of supply. Despite the solid pipeline, the occupancy rate in stabilized properties slid only 20 basis in the 12 months ending in June, to 94.4%.
- Core submarkets and Far North Dallas continued to dominate the pipeline, with Cityscape/Downtown, North Frisco/West McKinney and Lake Village/South Irving/West Dallas having a combined 10,900 units under construction. The most active developer in the metro as of July was JPI, with 3,868 apartments underway across 10 properties: 2,008 units in North Dallas, 1,089 units across suburban Dallas and 771 units in the Fort Worth area.

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



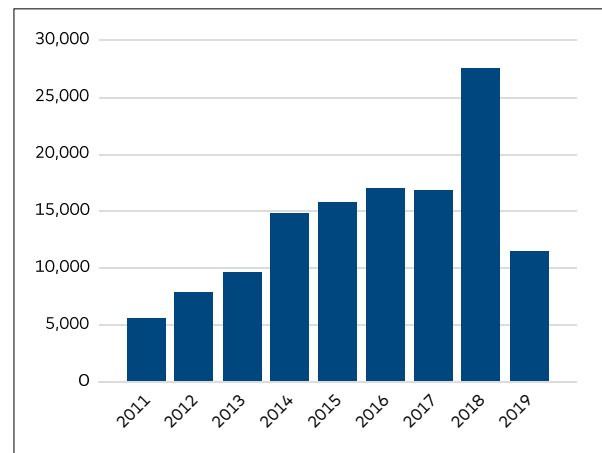
Source: YardiMatrix

**Development Pipeline** (as of July 2019)



Source: YardiMatrix

**Dallas Completions** (as of July 2019)

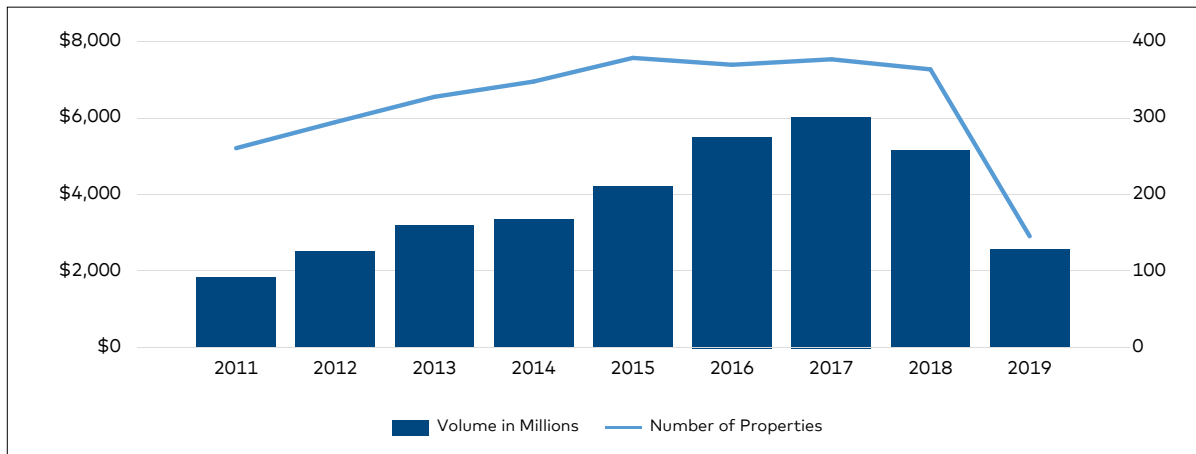


Source: YardiMatrix

## Transactions

- Almost \$2.6 billion in assets traded this year through July, half of last year's \$5.1 billion total volume. The metro is one of the most sought-after markets in the country, with nearly \$35 billion in apartments trading since the beginning of 2011. Value-add plays continued to dominate during 2019's first seven months, as two-thirds of the communities that changed ownership were Renter-by-Necessity assets.
- This year through July, the average price per unit reached \$114,760, below the \$157,576 national figure. RBN units sold at an average per-unit price of \$99,758, while Lifestyle assets traded at an average per-unit price of \$149,491.
- During the 12 months ending in July, areas in core and North Dallas drew the most capital, led by South Frisco/Parker (\$336 million), Las Colinas (\$239 million) and Mansfield (\$222 million).

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



Source: YardiMatrix

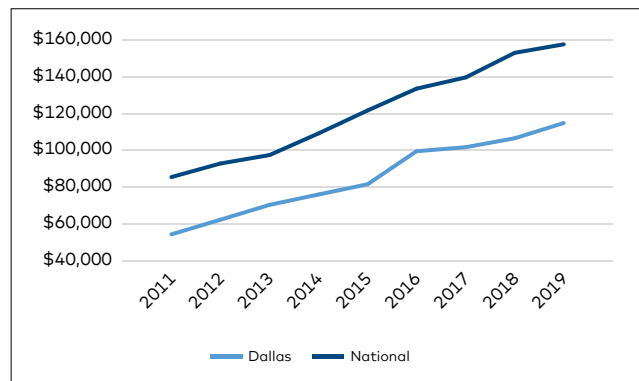
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
South Frisco/Parker	336
Las Colinas	239
Mansfield	222
Lancaster/Red Bird	222
N. Frisco/W. McKinney	168
Green Oaks	154
Rosemeade	151
Uptown	133

Source: YardiMatrix

<sup>1</sup> From August 2018 to July 2019

**Dallas vs. National Sales Price per Unit**



Source: YardiMatrix

## News in the Metro

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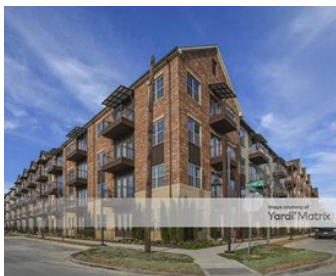
### Phase 4 of Union At Carrollton Project Breaks Ground

High Street Residential and Olympus Property are building Olympus on Broadway, a 383-unit addition to the Union at Carrollton project in Carrollton, Texas.



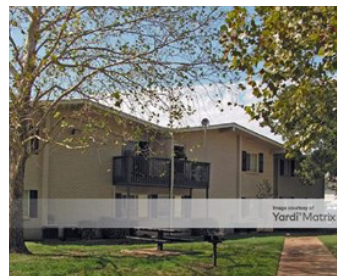
### Western Wealth Capital Buys 504-Unit Community

Berkadia originated a \$48 million Freddie Mac acquisition loan for the new owner. The company intends to implement a five-year, value-add improvement program at the property.



### Beachwold Residential Expands Dallas Presence

ALG secured \$45 million in acquisition financing for the new owner of Austin at Trinity Green, a 355-unit property completed two years ago.



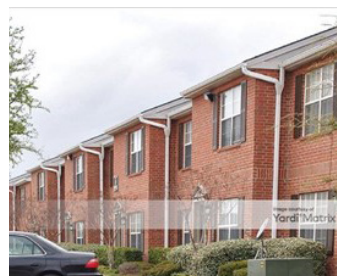
### Ashcroft Capital Acquires 548-Unit Community

The buyer financed the acquisition of MacArthur Place at 183 with a \$42 million loan from Voya Financial. The community last traded in 2014, as part of a five-property portfolio.



### JV Expands Texas Student Housing Community

Balfour Beatty Campus Solutions, Wynne/Jackson and Star America are developing the \$38 million project, which will bring an additional 370 beds to serve the University of Texas at Dallas.



### OpenPath Investments Buys Dallas Community

The new owner intends to invest in improvements at the 2000-built Greens of Hickory Trail. Income restrictions at the 250-unit community will phase out by 2021.



# Top Multifamily Completions in Dallas



By Anca Gagiuc

data by  
**Yardi Matrix**

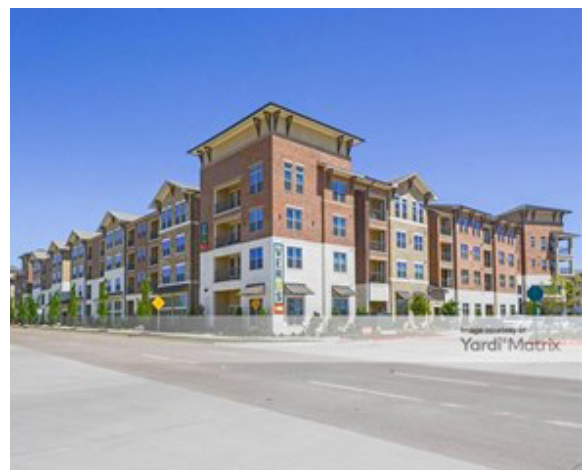
Boosted by a diverse economy, Dallas-Fort Worth is one of the most dynamic multifamily markets in the U.S. Developers have delivered more than 102,000 units since 2014, with another 44,200 units underway, half of them slated for completion by the end of the year. By July, developers added 10,612 units to the multifamily housing stock, accounting for 1.6 percent of total stock, 40 basis points above the national growth rate.

Market Name	Property Name	Units	Property Owner	BuildingClass
North Dallas	Verus	815	Davis Development	A (Prelim.)
North Dallas	Atherton	500	Westwood Residential	B+
North Dallas	Terra Lago	451	Pillar Income Asset Management	B+
Suburban Dallas	Jefferson Boardwalk	424	JPI	A
Fort Worth	Alexan Summit	372	Trammell Crow Residential	A-
Fort Worth	Alta Waterside	362	Wood Partners	A- (Prelim.)
Fort Worth	Broadstone on Fifth	345	Alliance Residential Co.	A
Suburban Dallas	Oxford at Lake View	240	Oxford Enterprises	A-
Suburban Dallas	EMLI at Liberty Crossing	240	Liberty Multifamily	B+

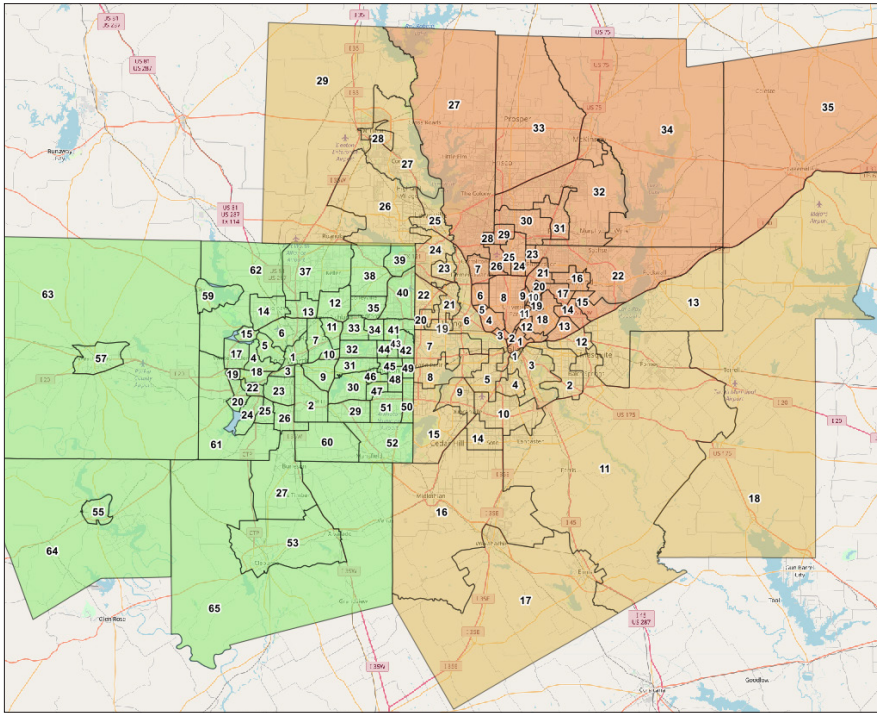
## Verus

The largest of all deliveries in DFW as of July, Verus offers 815 units spread across more than 16 acres at 3100 Ohio Drive in Frisco. Owned and managed by Davis Development, it was completed in March, and by June it was 91.2 percent occupied. The three-building property was constructed with financing from BOK Financial (\$31 million) and SunTrust Bank (\$26 million).

The unit mix at the community comprises one- to three-bedroom floorplans ranging from 665 to 1,372 square feet. Common-area amenities include a fitness center, a business center, a clubhouse, a media room, three swimming pools and 1,477 parking spaces.



## 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

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## 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.

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