Yardi® Matrix

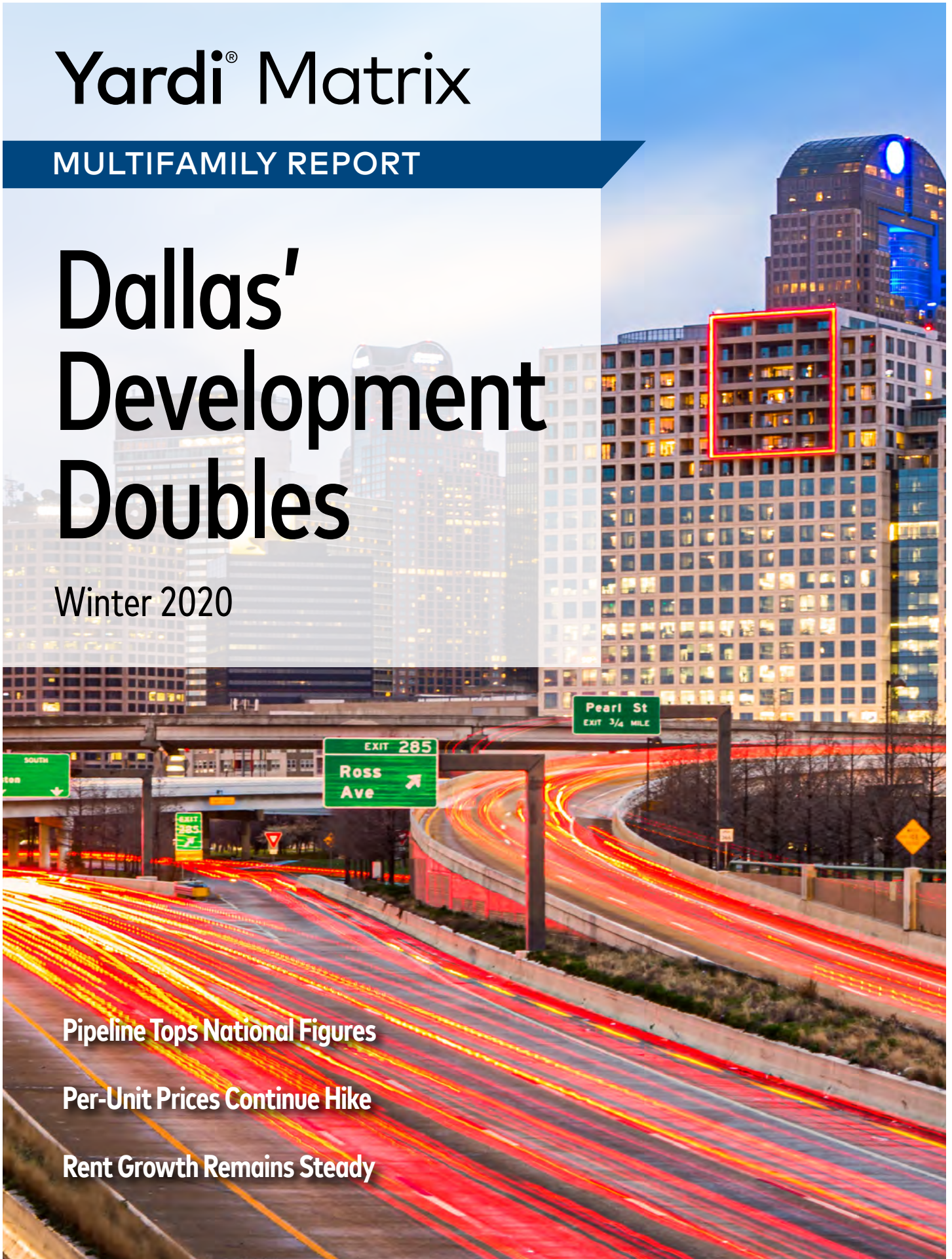# Dallas' Development Doubles

Winter 2020

Pipeline Tops National Figures

Per-Unit Prices Continue Hike

Rent Growth Remains Steady

Yardi® Matrix

North Texas Closes Strong Year

Adding residents three times faster than the nation and sporting the largest multifamily pipeline in the U.S., Dallas-Fort Worth remained one of the country's most dynamic yet stable rental markets. And despite the addition of more than 45,000 apartments since the beginning of 2018, the Metroplex's occupancy rate in stabilized assets dropped just 10 basis points over 12 months, to 94.3% as of October 2019.

North Texas' business-friendly environment and relative affordability, when compared to coastal markets, continued to draw businesses and residents at a fast clip. Dallas-Fort Worth gained 117,300 jobs in the 12 months ending in September, more than one-third of them were in the financial activities and professional and business services sectors. Meanwhile, Uber has signed on for 450,000 square feet of office space at The Epic in Deep Ellum, which will eventually house more than 3,000 employees, making Dallas Uber's second-largest hub after San Francisco.

In line with the past few years, roughly $4.2 billion in communities traded and 18,288 units came online across the metro in the first 10 months of 2019. With North Texas continuing to generate jobs at a fast pace, drawing in a growing number of young professionals from coastal hubs, we expect rental demand to remain strong, keeping rent growth steady.

Market Analysis | Winter 2020

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Recent Dallas Transactions

The Premier at Prestonwood

City: Dallas
Buyer: Shore to Shore Properties
Purchase Price: $42 MM
Price per Unit: $201,923

Vinewood

City: Dallas
Buyer: Dominium
Purchase Price: $28 MM
Price per Unit: $138,200

The Ascent at Lake Worth

City: Fort Worth, Texas
Buyer: The Pauls Corp.
Purchase Price: $26 MM
Price per Unit: $99,965

Mustang Villas

City: Grapevine, Texas
Buyer: Conti Org.
Purchase Price: $25MM
Price per Unit: $102,981

➤ The average Dallas-Fort Worth rent was up 2.8% year-over-year through November, 30 basis points below the national figure. As such, the metro wrapped up a stable year, with the average rate of growth floating in the 2.0% to 3.0% band for more than 12 consecutive months. This is mainly due to a relatively healthy balance between supply and demand: While Dallas' population is growing more than twice as fast as the national rate, the metro also sports the nation's largest multifamily pipeline, with 47,129 units underway as of November. At $1,217, the average DFW rent trailed the $1,473 national figure.

➤ The working-class Renter-by-Necessity segment continued to lead growth, with the average rate up 4.1% to $999. Meanwhile, the average Lifestyle rate improved by just 2.0% to $1,428. The spread in rent growth between the two segments has been an apparent trend for many U.S. metros. The main reason RBN rents are growing faster is the pipeline imbalance. With developers focusing almost exclusively on upscale projects as the economy continues to add jobs, additional pressure is placed on workforce renters.

➤ Rents grew faster across Fort Worth, with 10 of the metro's top 15 submarkets for rent hikes located there, including Tanglewood/Westcliff (up 8.5% to $1,069) and Downtown Arlington (up 8.4% to $932). Richardson (up 7.6% to $1,074) led growth on the Dallas side, followed by Fair Park (up 7.5% to $820).

Dallas vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)

Source: Yardi Matrix

Dallas — National
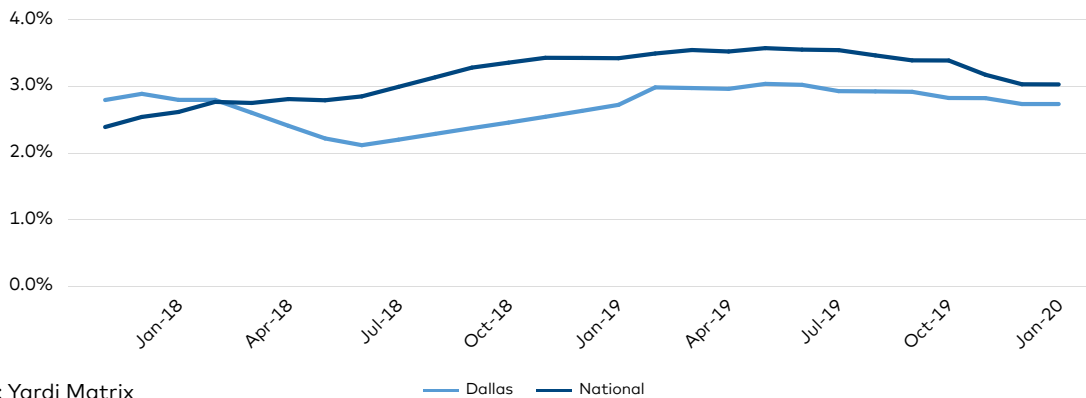
Dallas Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

Source: Yardi Matrix

Renter-by-Necessity — Lifestyle
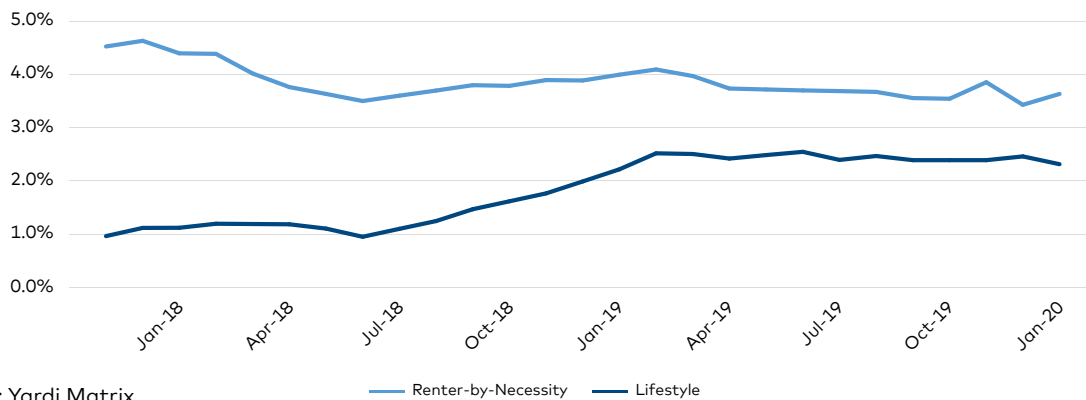
ECONOMIC SNAPSHOT

➤ The metro gained 117,300 jobs in the 12 months ending in September. This marked a 3.2% expansion that was double the 1.6% national figure. Dallas joins our list of the country's top 30 main metros for job growth, second to Orlando (3.7%) and followed by Seattle (3.1%).

➤ North Texas remained a regional powerhouse with a tight employment market: The metro's unemployment rate hasn't reached the 4.0% threshold since early 2017, clocking in at 3.1% as of September. Even so, the economy continued to expand rapidly due to strong in-migration, which includes highly skilled millennials feeding the metro's office-using industries.

➤ Financial activities and professional and business services gained 42,500 jobs, mirroring the ongoing wave of company expansions and relocations as well as the metro's office development surge. Roughly 5.5 million square feet of office space came online in 2019 through mid-December, according to Yardi Matrix data.

➤ Construction gained 15,800 jobs for the sharpest hike (7.1%), as Dallas' fast-paced growth continues to spur massive developments and infrastructure projects. This includes a $1 billion expansion of Fort Worth's East Loop 820 as part of a 10-year, $77 billion statewide highway master plan.

Dallas vs. National Employment Growth (Year-Over-Year)
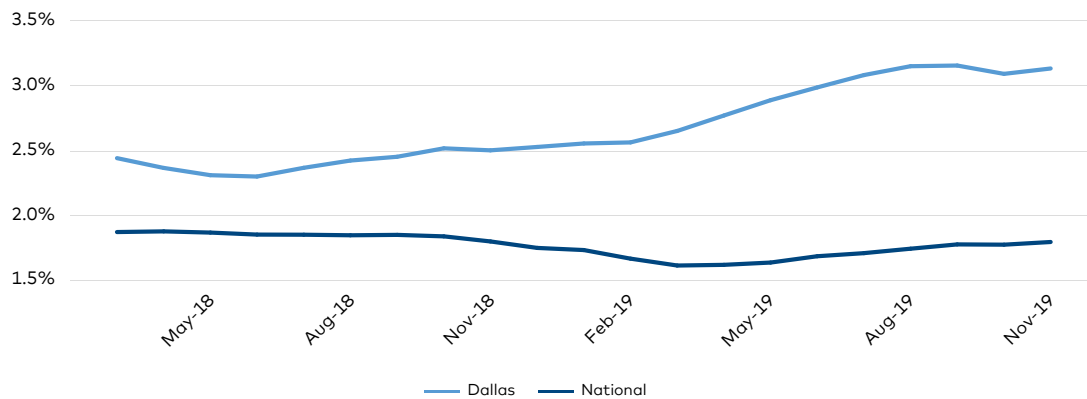
Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

Dallas Employment Growth by Sector (Year-Over-Year)

| Code | Employment Sector | Current Employment | | Year Change | |
		(000)	% Share	Employment	%
60	Professional and Business Services	651	17.1%	26,000	4.2%
70	Leisure and Hospitality	405	10.6%	17,800	4.6%
55	Financial Activities	320	8.4%	16,500	5.4%
15	Mining, Logging and Construction	238	6.2%	15,800	7.1%
65	Education and Health Services	466	12.2%	13,000	2.9%
40	Trade, Transportation and Utilities	797	20.9%	12,000	1.5%
30	Manufacturing	288	7.5%	8,200	2.9%
90	Government	442	11.6%	6,100	1.4%
80	Other Services	128	3.4%	2,900	2.3%
50	Information	81	2.1%	-1,000	-1.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Affordability

➤ The Dallas-Fort Worth median home price reached $248,034 in 2018—a 7% hike year-over-year and up nearly 70% since 2009 when the market bottomed out. Nevertheless, Dallas remains relatively affordable, especially when compared to West Coast metros. In 2018, the average rent accounted for 20% of the area median income, while the average mortgage payment equated to just 17%.

➤ Although faring well against coastal markets, Dallas' affordability continues to drop, with developers focusing almost exclusively on upscale projects. The metro's housing affordability level was the lowest among major Texas metros as of early 2019, according to the Federal Reserve Bank of Dallas.

Dallas Rent vs. Own Affordability as a Percentage of Income
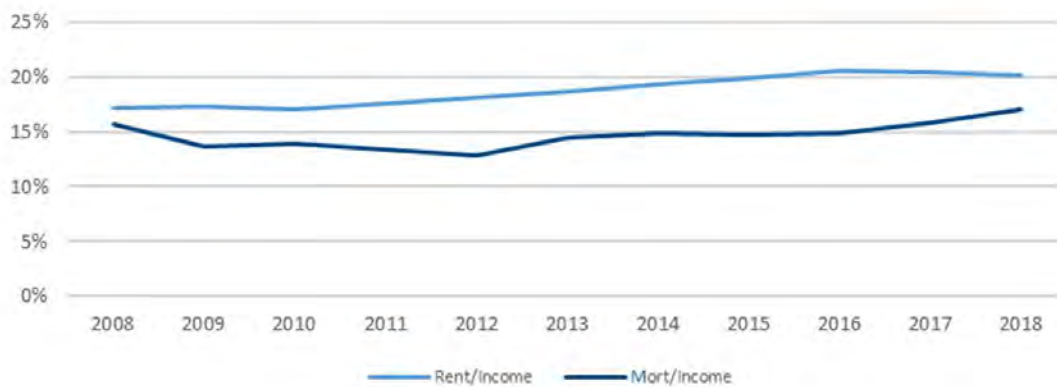
Sources: Yardi Matrix, Moody's Analytics

Dallas Median Home Price
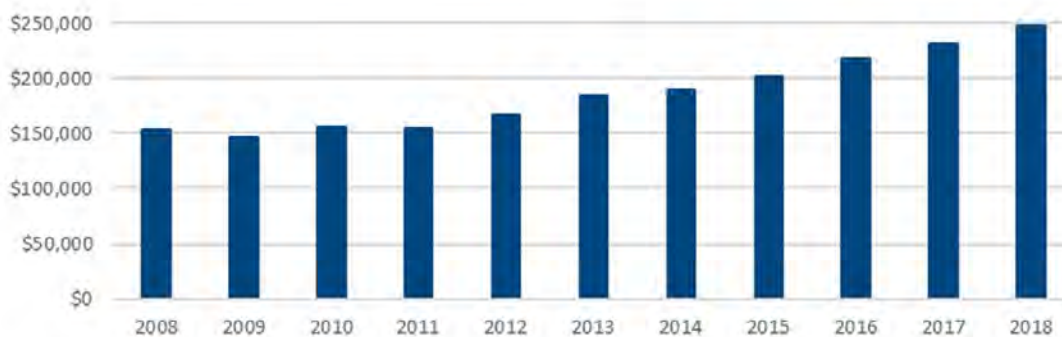
Source: Moody's Analytics

Population

➤ The Metroplex gained more than 130,000 residents in 2018—a 1.8% expansion and triple the national figure.

➤ Between 2010 and 2018, Dallas-Fort Worth grew by more than 1 million residents.

Dallas vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Dallas Metro	7,109,280	7,262,951	7,407,944	7,539,711

Sources: U.S. Census, Moody's Analytics
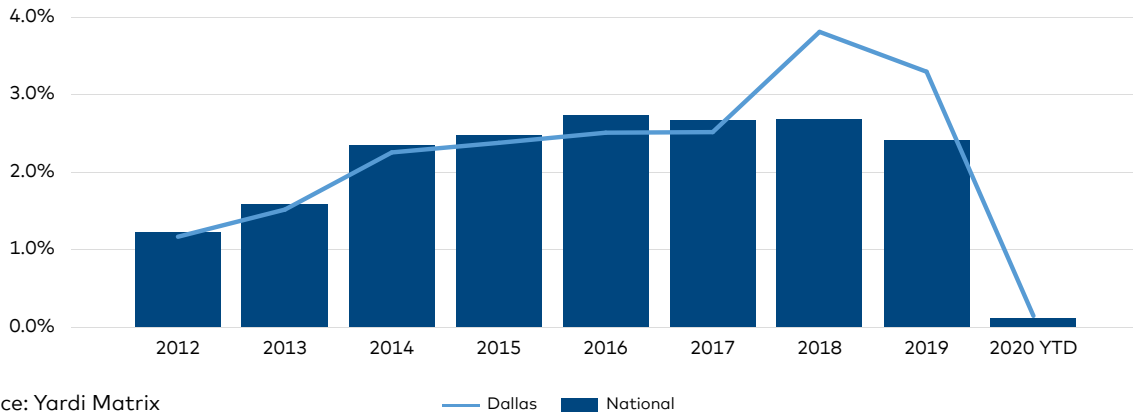
➤ Dallas-Fort Worth led the nation with 47,129 multifamily units underway as of November 2019, leading the country. Washington, D.C. (32,449 units) and Los Angeles (30,180) rounded out the podium. Dallas' pipeline is indeed Texas-sized as developers are rushing to meet the ever-growing demand boosted by rapid job gains and demographic expansion. More than 95,000 rental units came online in DFW since the beginning of 2015. The occupancy rate in stabilized properties remained relatively flat over the past 12 months, down just 10 basis points, to 94.3% as of October.

➤ A total of 18,288 units came online in the first 10 months of 2019—already this cycle's second best but far from the 2018 cycle peak, when more than 27,000 apartments were completed. North Texas also had 86,226 units in the planning and permitting stages as of November, a sign that the area's construction boom is far from over, should fundamentals continue on the same path.
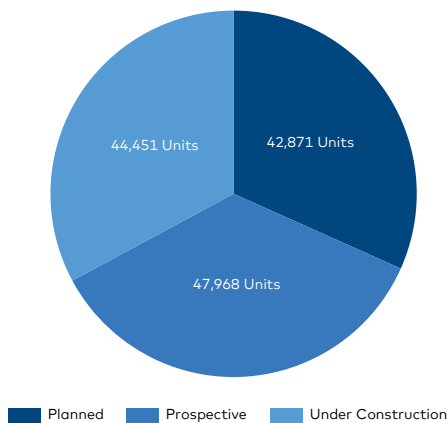
➤ The city core and Far North Dallas continued to dominate the pipeline: North Frisco/West McKinney (4,201 units), Cityscape/Downtown (3,928), Lake Village/South Irving/West Dallas (3,338), North Carrollton/The Colony (3,132), North Garland/Rowlett/Sachse (2,499) and Addison (2,437).

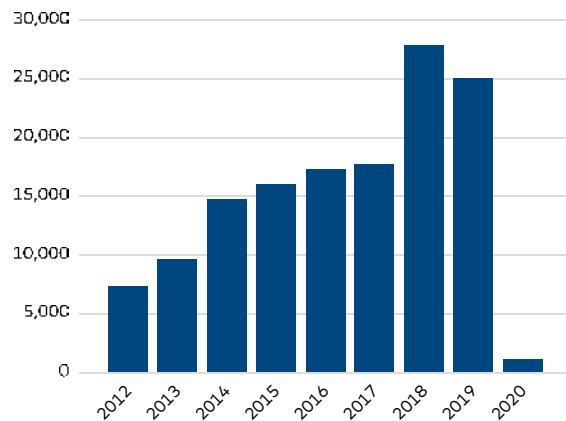**Dallas vs. National Completions as a Percentage of Total Stock** (as of November 2019)

Source: Yardi Matrix

— Dallas   ■ National

Development Pipeline (as of November 2019)

44,451 Units

42,871 Units

47,968 Units

■ Planned   ■ Prospective   ■ Under Construction

Source: Yardi Matrix

Dallas Completions (as of November 2019)

Source: Yardi Matrix

TRANSACTIONS

➤ More than $4.2 billion in assets traded across the metro in 2019 through October, in line with last year's total of $5.2 billion but behind the $6 billion cycle high of 2017.

➤ At $114,847 in 2019 through October, the average DFW per-unit price topped 2018's cycle peak of $106,885. However, that was below the $162,751 national figure. Rising prices are a testament to North Texas' fast-paced economy,

with multifamily values more than doubling in less than a decade.

➤ Electra America was one of the area's most active buyers in the 12 months ending in October. The company acquired seven properties totaling more than 2,700 units. The list includes the 480-unit 23Hundred at Ridgeview, which was sold by Olympus Property after four years of ownership.

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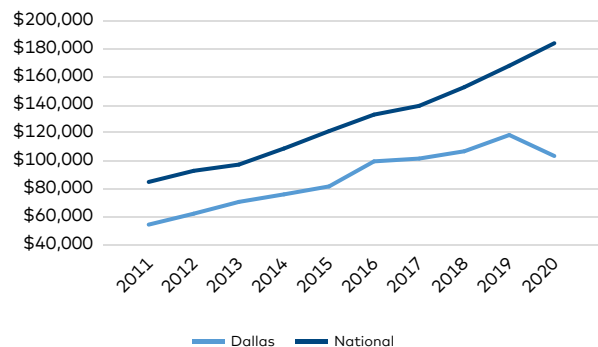

Source: Yardi Matrix

Number of Properties — Volume in Millions

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Las Colinas	384
South Frisco/Parker	275
Mansfield	222
North Carrollton/The Colony	184
Rosemeade	166
Wedgewood	140
North Oak Cliff/Irving	135
Uptown	133

Source: Yardi Matrix
[1] From November 2018 to October 2019

Dallas vs. National Sales Price per Unit

Dallas — National

Source: Yardi Matrix

Q&A: Tackling the Affordable Housing Shortage in North Texas

By Laura Calugar

Dallas' strong and diversified economy continues to boost the city's multifamily market. At the same time, median home sale prices in the Dallas-Fort Worth metropolitan area have seen faster increases than household incomes since 2011, making the regional housing market less affordable, according to a National Association for Latino Community Asset Builders report.

Troy Broussard, president & CEO of the DHA, Housing Solutions for North Texas, discusses affordability in the metro and the agency's strategy to improve housing opportunities for low-income families.

How would you describe Dallas' affordable housing market?

There is a clear need for more affordable housing in Dallas and the North Texas region. The City of Dallas Housing Policy cites a shortage of approximately 20,000 units. At DHA, we are focused on creating mixed-income developments and expanding private market partnerships for our Housing Choice Voucher clients.

What affordable housing options are open to low-income residents?

There are two main affordable housing solutions provided by DHA. The first is public housing, where residents pay a subsidized rent at properties owned and operated by DHA. The second is the Housing Choice Voucher program, where DHA provides housing assistance payments for clients who select housing in the private rental market. The Housing Choice Voucher program provides opportunities for homeownership

assistance available to qualified borrowers, where financial assistance is available to help pay part of their mortgage.

What does Dallas' public housing inventory look like?

DHA is one of three housing agencies in Dallas. The others include Dallas County and the City of Dallas Housing Department. At DHA, we currently manage 3,155 public housing units across 27 developments.

What incentives exist for developers entering the North Texas market?

There are several incentives and programs that support developers investing in North Texas, including tax increment financing (TIF), public improvement districts (PIDs) and Opportunity Zones. Dallas currently has 18 active TIF districts, 14 PIDs and 15 federally designated Opportunity Zones. Low-income housing tax credits also offer developers 9 percent or 4 percent tax credits as an incentive to develop affordable housing for low-income households.

What is your opinion on rent control? How would it impact the metro's affordable housing market?

We believe income diversity is important to the future growth of North Texas. We would not want to see a rent control program that disincentivizes development because the need for more affordable housing is so great.

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Hunt Real Estate Secures $12M

The borrower will implement energy-efficient upgrades at the 124-unit Arlington property.

Developers Deliver Skyscraper Asset

The 332-unit luxury community is part of the 242-acre Frisco Station mixed-use development.

Wood Partners Builds Portfolio

The multifamily developer broke ground on two luxury apartment communities in the Dallas and Houston areas.

WAK Management Sells Community

A private investment group acquired the 62-building asset with plans for a multimillion-dollar overhaul.

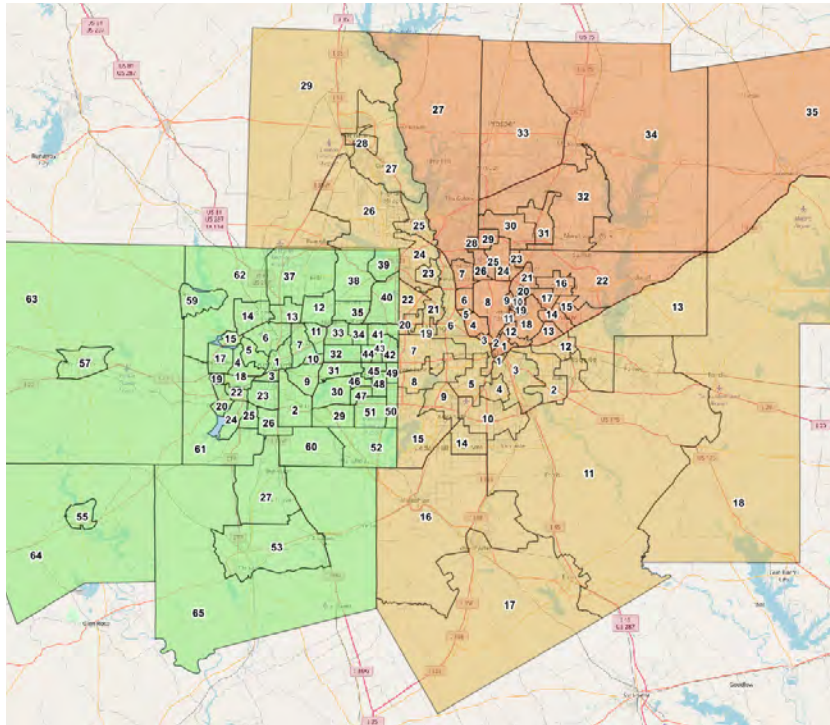### The Freshwater Group Buys Property

Indio Management sold the 50-unit community in the Knox-Henderson area after four years of ownership.

Presidium Group Sells 265 Units for $19.9M

NorthMarq Capital arranged a Fannie Mae acquisition loan for the new owner.

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

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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