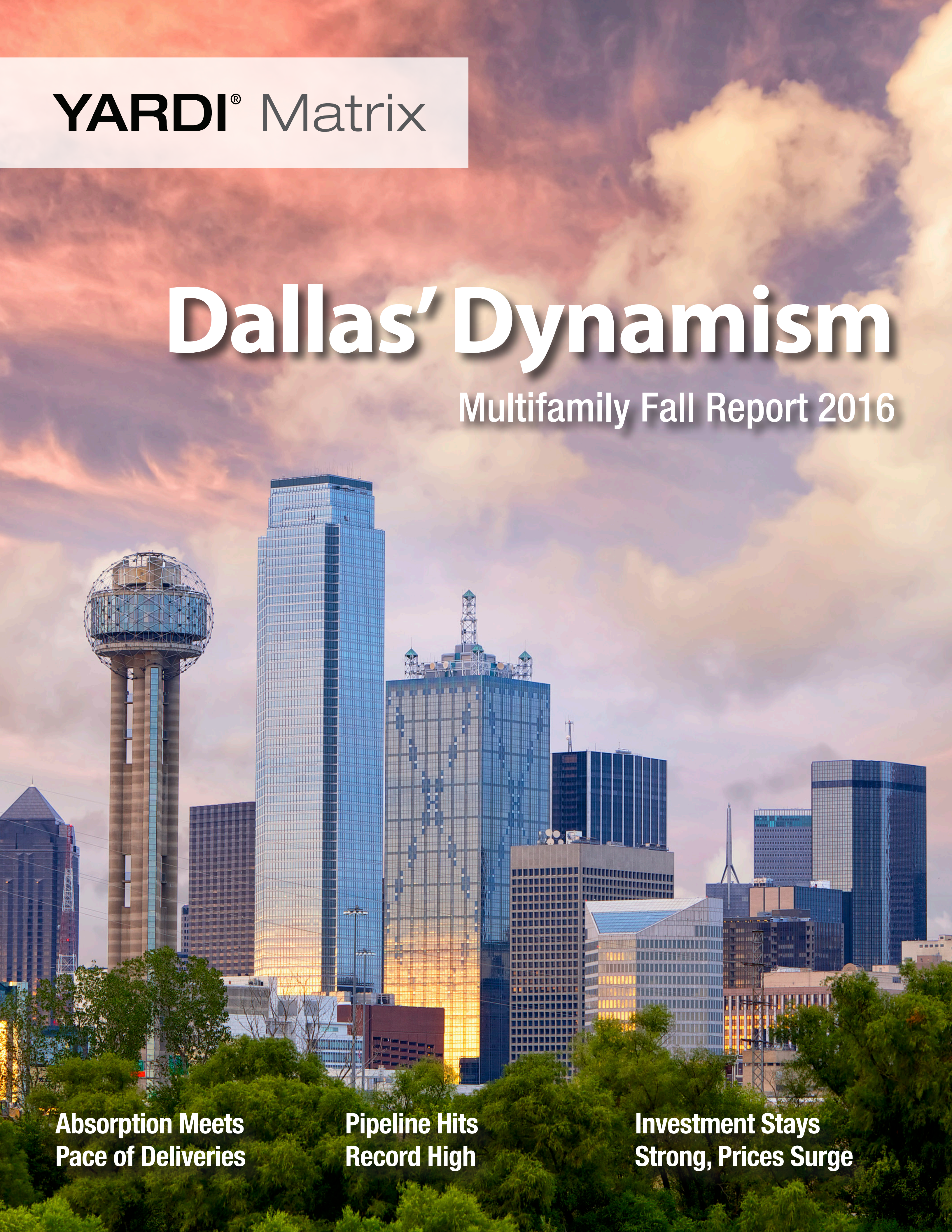
YARDI® Matrix

Dallas' Dynamism

Multifamily Fall Report 2016



Absorption Meets Pace of Deliveries

Pipeline Hits Record High

Investment Stays Strong, Prices Surge

Market Analysis

Fall 2016

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Across-the-Board Growth Fuels Demand

Displaying solid fundamentals, the Dallas-Fort Worth metro continues to be one of the fastest-growing multifamily markets in the United States. Gaining more than 520,000 residents in the last four years and 110,000 jobs in the last 12 months alone, the dynamic metro is rapidly adding stock. At the same time, the market's steady and above-trend rent growth is putting industry players at ease, projecting sustainable investments for the foreseeable future.

The area's healthy business climate is drawing employers, with big corporations continuing to relocate or expand their DFW operations. Toyota, Facebook, AT&T, State Farm and Liberty Mutual are building major facilities and adding tens of thousands of jobs. Several massive mixed-use projects, including the $5 Billion Mile, Legacy West, CityLine and The Village at McKinney, are strengthening the metro's live-work-play potential.

With more than 110,000 units in different stages of development and 21,369 forecast for completion in 2016, Dallas-Fort Worth is making efforts to keep up with demand. Unaffected by the drop in oil prices, the metro recorded $7.8 billion worth of multifamily sales since the beginning of 2015, with no recent signs of slowing down. With a projected rent growth of 7.3% for 2016 and a 95.9% occupancy rate as of August, the metro seems ready to absorb the overgrown pipeline.

Recent Dallas Transactions

Giovanna

City: Plano, Texas
Buyer: Strata Equity
Purchase Price: 79 MM
Price per Unit: $108,676

Aleo at North Glen

City: Irving, Texas
Buyer: Cortland Partners
Purchase Price: 79 MM
Price per Unit: $133,514

Parkside at Firewheel

City: Garland, Texas
Buyer: Waterton Residential
Purchase Price: 77 MM
Price per Unit: $129,237

Avenue on Fairmount

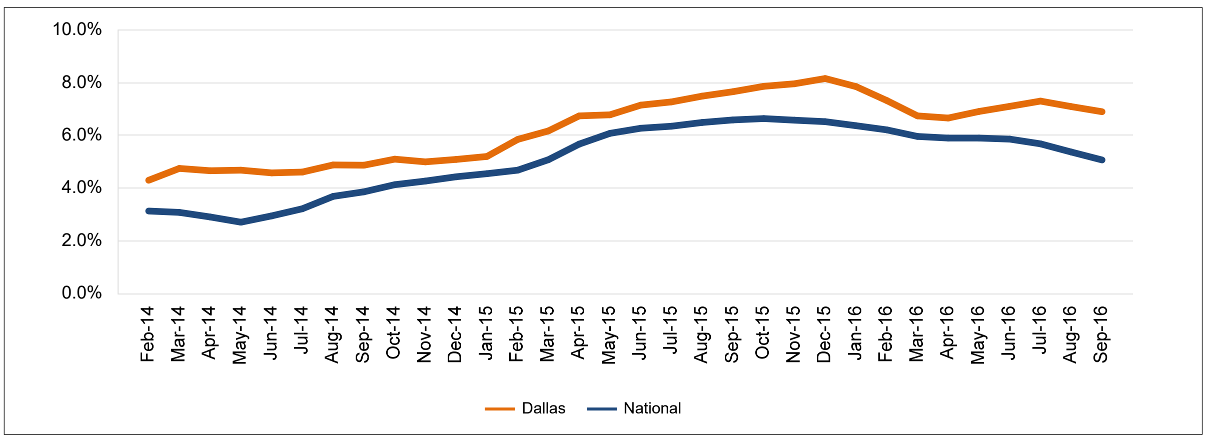
City: Dallas
Buyer: Pure Multi
Purchase Price: 71 MM
Price per Unit: $192,935

On the cover: Photo by dibrova/iStockphoto.com

Rent Trends

- Rents in the metro were up 6.6% year-over-year as of September, 190 basis points above the national average. At an average of $986, Dallas-area rents are below the $1,220 national average. There are signs of a deceleration in the rate of growth, in line with national trends.
- Rent increases are led by the working-class Renter-by-Necessity segment, which grew by 8.3% year-over-year, while Lifestyle rents increased by 4.9%. The disparity can partially be explained by a recent surge in demand for working-class units. As the area continues to add great numbers of lower-paid jobs and developers focus almost exclusively on delivering Lifestyle properties due to higher returns, a shortage of more affordable stock is driving rents up for older, Class B and C properties.
- Growth is spotty across the map, with several isolated pockets. Due to recent completions, core submarkets such as Cityscape/Downtown (3.9% growth) and Uptown (2.2%) are cooling off. In turn, areas with no recent new stock such as Weatherford (19.4%), Bedford (13.6%) and West Vickery Park (11.6%) are seeing rent spikes.
- With ongoing robust demand, fueled by above-trend job formation and a long-term population shift to the South, we expect Dallas' rents to increase by 7.3% in 2016.

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



Source: YardiMatrix

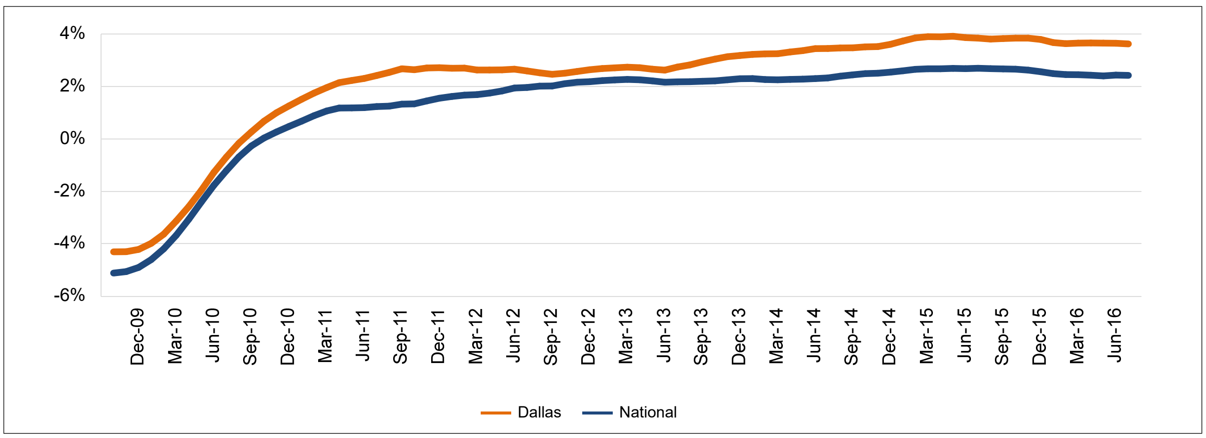
Dallas Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

Source: YardiMatrix

Economic Snapshot

- Dallas added roughly 110,000 jobs year-over-year through September, a 3.6% increase, outpacing the national growth rate by 120 basis points. Unaffected by the recent drop in oil prices, the metro remains an economic anchor with a solid and diversified workforce. As more people are attracted by North Texas' promising labor market and relatively affordable housing, the area continues to add jobs across the board.
- Employment gains were led by the trade, transportation and utilities sector, which added 33,800 jobs, roughly two thirds of which were in wholesale trade. With 19,300 new positions, the professional and business services sector contributed significantly to the metro's white-collar population.
- Dallas' corporate relocation and expansion streak continues, creating both construction and office jobs. American Airlines is building a new campus and Toyota's seven-building headquarters is scheduled to open by mid-2017. The $2 billion Legacy West mixed-use project in Plano and Facebook's Fort Worth data center are almost complete. According to Jones Lang LaSalle, the metro added 3.3 million square feet of office year-to-date, with an additional 11 million under construction, 68% of which is pre-leased.
- Leisure and hospitality added 20,600 jobs, with most gains in the food and beverage sector. Dallas' hotel boom is expected to continue generating new jobs as more developments come online.

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	%
40	Trade, Transportation and Utilities	758	21.6%	33,800	4.7%
70	Leisure and Hospitality	379	10.8%	20,600	5.8%
60	Professional and Business Services	583	16.6%	19,300	3.4%
55	Financial Activities	292	8.3%	14,400	5.2%
65	Education and Health Services	430	12.2%	13,800	3.3%
90	Government	404	11.5%	11,200	2.8%
15	Mining, Logging and Construction	203	5.8%	1,000	0.5%
50	Information	80	2.3%	-800	-1.0%
80	Other Services	121	3.4%	-1,000	-0.8%
30	Manufacturing	262	7.5%	-2,400	-0.9%

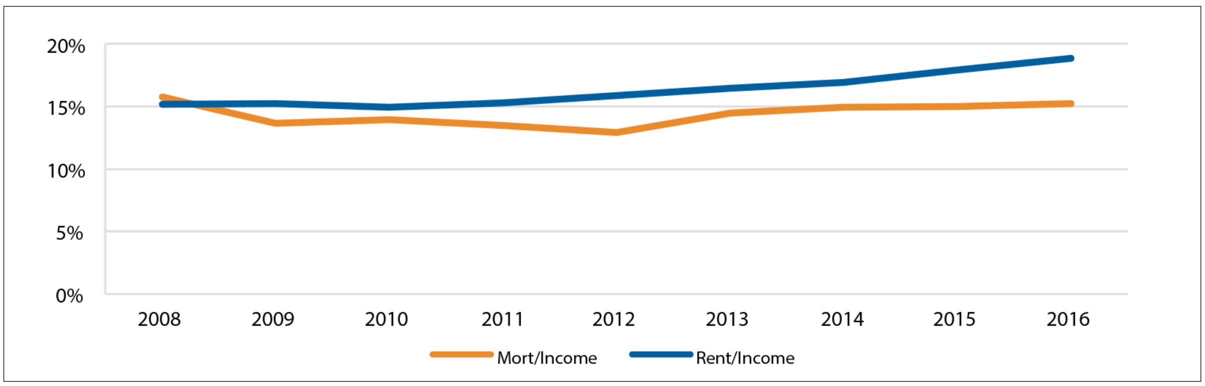
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

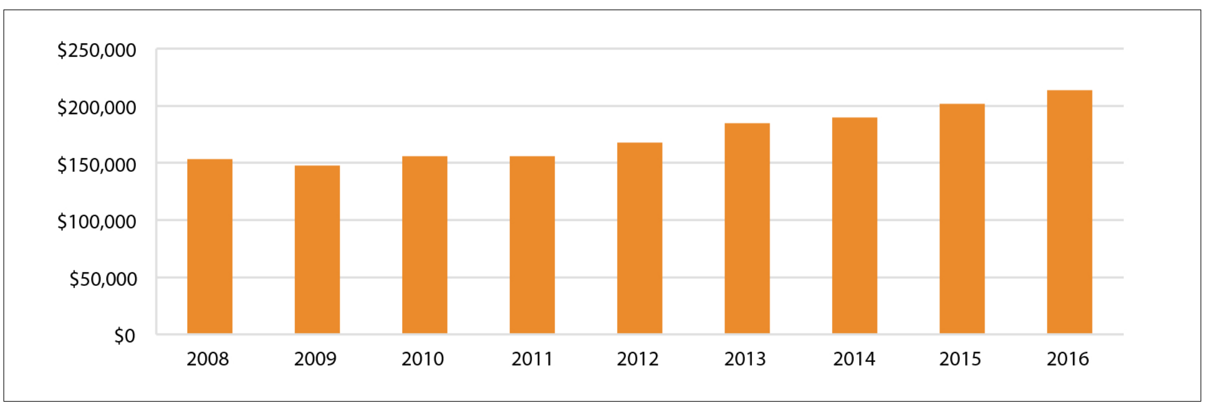
- The median home price in Dallas-Fort Worth reached $213,740 in 2016, another cycle record. Due to the area's accelerated economic growth, the median value increased by more than 37% since 2011.
- Despite the constant rise of home prices, owning remains more affordable than renting. The average mortgage comprises 15% of the metro's median income, the same as in the previous two years, while the average rent of $986 takes up 19%, on par with the percentages for Austin and Houston. Even if construction in Dallas is at an all-time high, the outsize population growth will likely keep the metro from becoming more affordable in the foreseeable future.

Dallas Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Dallas Median Home Price



Source: Moody's Analytics

Population

- From 2011 to 2015, the metro's population grew by 8.0%, more than double the national average.
- Adding roughly 144,000 residents in 2015, the MSA has growth second only to Houston nationwide.

Dallas vs. National Population

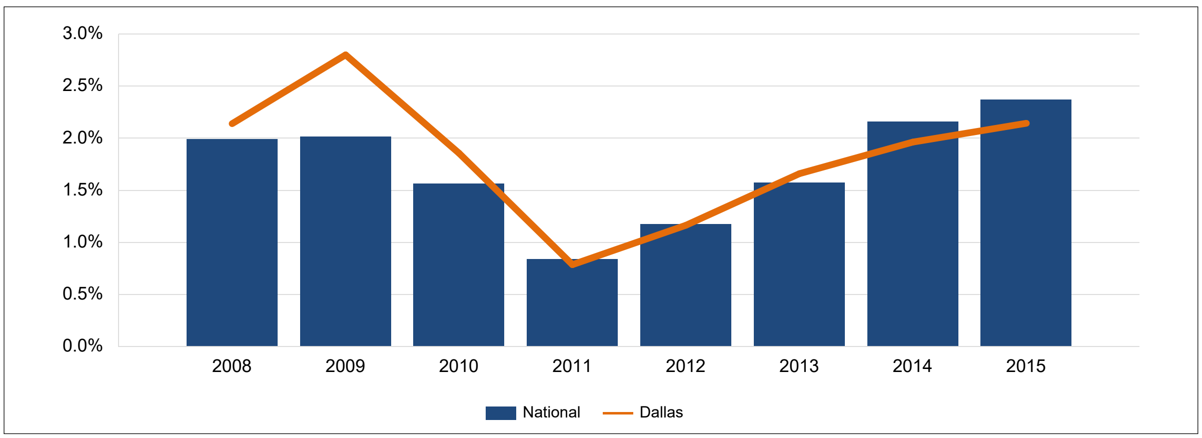
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area	6,574,298	6,709,559	6,822,353	6,958,092	7,102,796

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

Supply

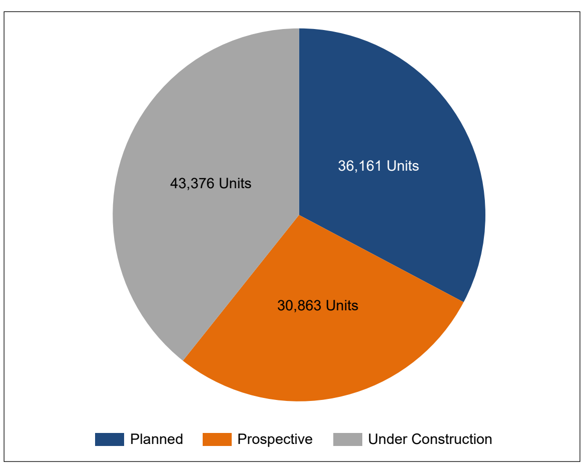
- Roughly 13,900 units came online in the metro in 2015, marking the highest growth since 2009. Even so, the market's expansion is not slowing down. With 21,000 units forecasted for completion this year, Dallas-Fort Worth is recording the second-largest volume on a national level, surpassed only by Houston.
- Fueled by stable fundamentals and strong demand, the market has more than 110,000 units in different stages of development, almost 40% of which are already under construction.
- Although the pipeline is spread out across the map, construction activity is concentrated in and around core areas of central Dallas, as well as several northern submarkets in the Plano-Frisco region. North Carrollton/The Colony (5,144 units), Uptown (3,887) and Cityscape/Downtown (3,246) are the submarkets recording the highest construction activity. Development in the Fort Worth area is more modest, with the Medical District (763) and Florence Hill (581) leading the list.
- The Alexan and Lot, two communities within the 186-acre mixed-use CityLine development in Richardson, are bringing 1,238 units on the market in the next three quarters. The Grand at Legacy West (621 units), Preston Hollow Village (512) and the Uptown Katy Station (461) are also slated for completion in 2017.

Dallas vs. National Completions as a Percentage of Total Stock (as of September 2016)



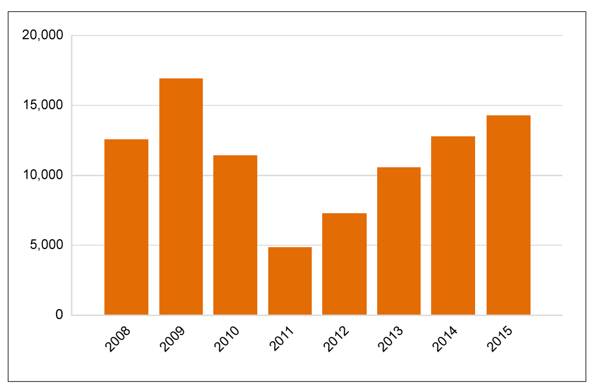
Source: YardiMatrix

Development Pipeline (as of September 2016)



Source: YardiMatrix

Dallas Completions (as of September 2016)

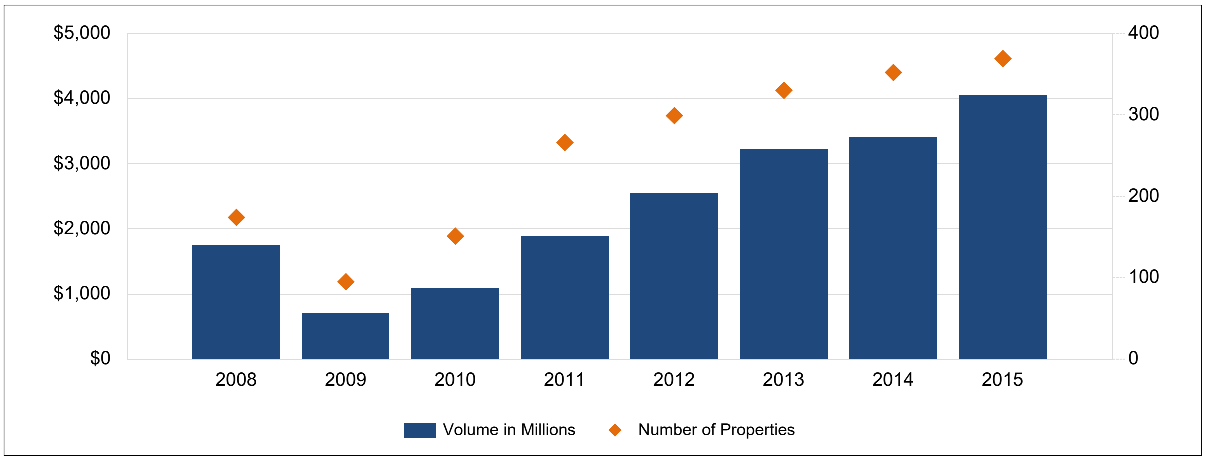


Source: YardiMatrix

Transactions

- Investor demand for properties in the metro continues to be strong, as $3.6 billion in transactions traded over the first nine months of 2016, roughly $700 million more than the same period last year. That puts Dallas on track to top last year's peak of $4.2 billion in transaction volume.
- Dallas's size, growth and international business connections put it squarely in the wheelhouse of institutional investors. Investor activity is most prevalent in and north of the city of Dallas, with communities around Plano, The Colony, Downtown Dallas, Las Colinas and Frisco drawing the largest capital injections.
- The investor appetite has produced a price surge, with the metro's average unit selling for $93,496. Although well below the national average of $131,700, prices have been growing at a higher rate during the past six quarters. The growth is mainly led by Class A and B-plus assets in suburban and northern Dallas.

Dallas Sales Volume and Number of Properties Sold (as of September 2016)



Source: YardiMatrix

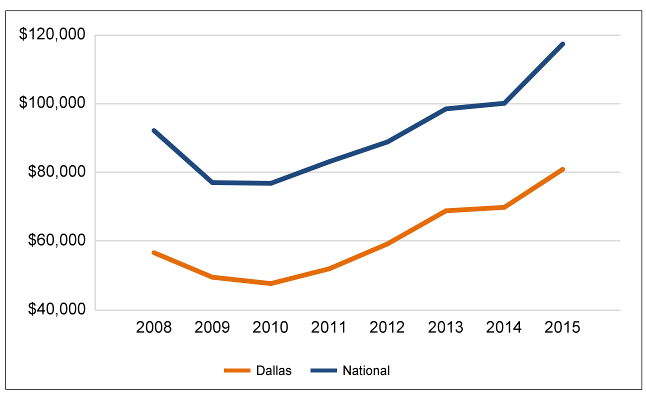
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
N. Carrollton/The Colony	213
West Plano	182
Las Colinas	166
Blue Mound	150
Cityscape/Downtown	143
North Frisco/West McKinney	142
Prestonwood/Galleria	129
Gastonwood/Junius Heights/Lake Park Estates	127

Source: YardiMatrix

[1] From October 2015 to September 2016

Dallas vs. National Sales Price per Unit

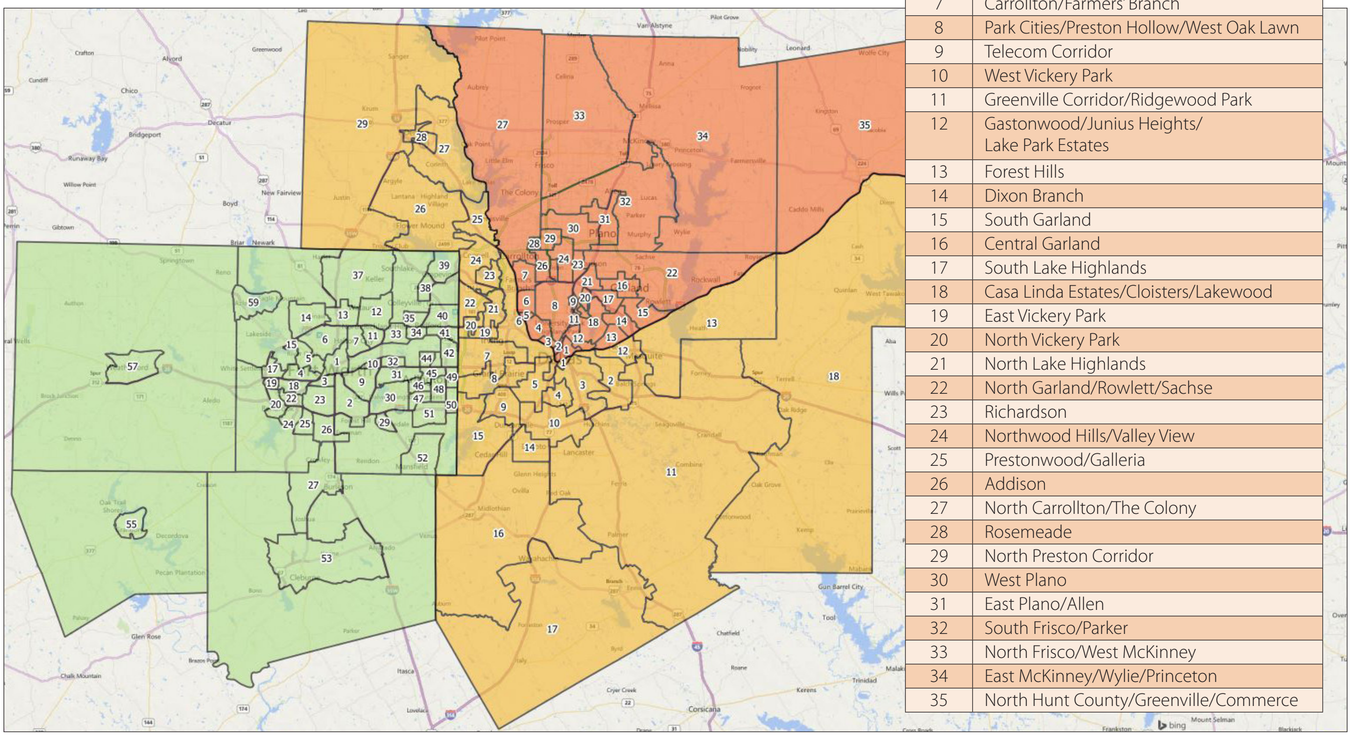


Source: YardiMatrix

Dallas photo by Sportstock/iStockphoto.com

Dallas Submarkets

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



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

Area #	Submarket
31	Handley
32	Randol Mill
33	Hurst
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

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

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.