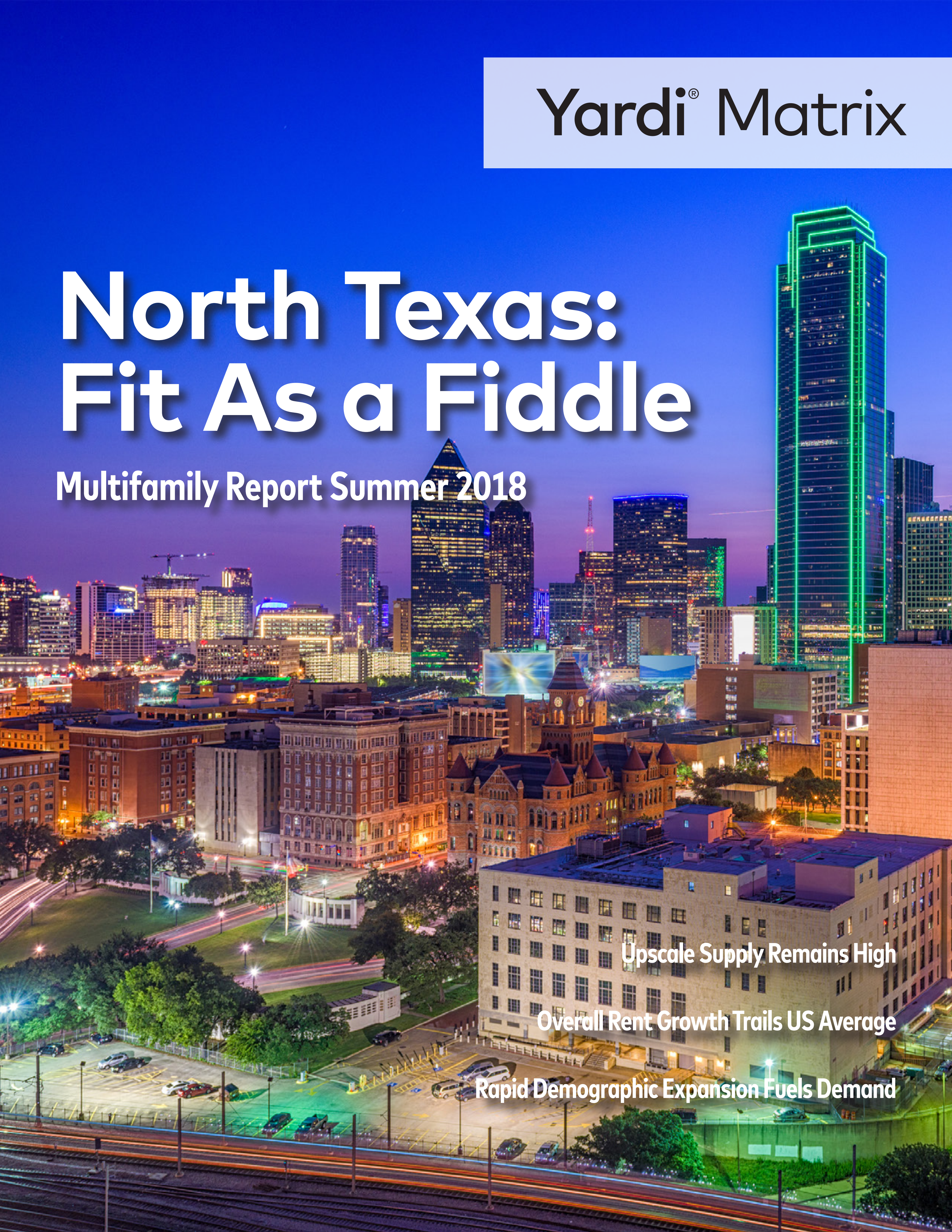

Yardi® Matrix

North Texas: Fit As a Fiddle

Multifamily Report Summer 2018

Upscale Supply Remains High

Overall Rent Growth Trails US Average

Rapid Demographic Expansion Fuels Demand

Market Analysis

Summer 2018

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Development Continues to Power Through

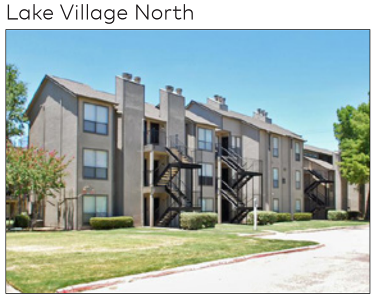
Boosted by a diverse economy, Dallas-Fort Worth remains one of the most dynamic multifamily markets in the U.S. Although its population is growing three times faster than the national rate, thus strongly fueling demand, North Texas is still relatively affordable, especially when compared to coastal metros of similar size, such as New York City and Los Angeles.

Dallas-Fort Worth added nearly 120,000 jobs year-over-year through April for a 2.9% expansion, outperforming the national average by 120 basis points. The metro's strong economy is generating positions across the board, boosting demand for both working-class and upscale housing. Professional and business services led growth, having generated 25,900 new jobs, as corporate expansions and relocations continued in the area at a rapid pace.

Roughly 11,500 multifamily units came online in Dallas-Fort Worth in the first half of 2018 and an additional 43,000 units were under construction as of June, with the metro boasting the largest pipeline in the U.S. Due to intense development, the occupancy rate in stabilized properties dropped 130 basis points year-over-year, to 94.4% as of April. Even so, the strong demand for workforce housing and rapid demographic expansion are bound to keep rent growth healthy. We expect rents to advance 3.1% in 2018.

Recent Dallas Transactions

Lake Village North



City: Garland, Texas
Buyer: Madera Cos.
Purchase Price: $82 MM
Price per Unit: $97,213

7421 on Frankford

City: Dallas
Buyer: Knightvest Capital
Purchase Price: $82 MM
Price per Unit: $140,722

Landmark at Sutherland Park

City: Plano, Texas
Buyer: Conti Org.
Purchase Price: $63 MM
Price per Unit: $131,994

Bexley Lake Forest

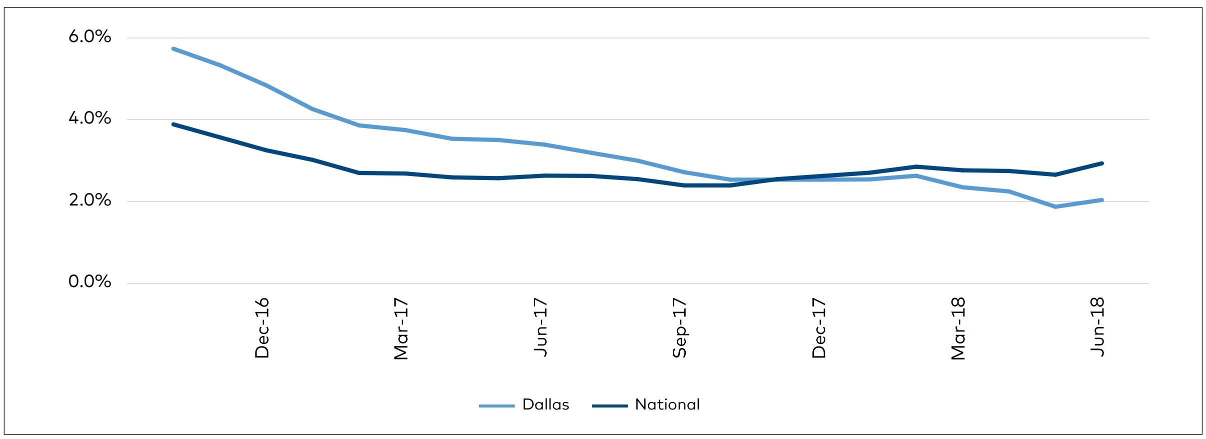
City: McKinney, Texas
Buyer: Weinstein Properties
Purchase Price: $53 MM
Price per Unit: $159,681

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

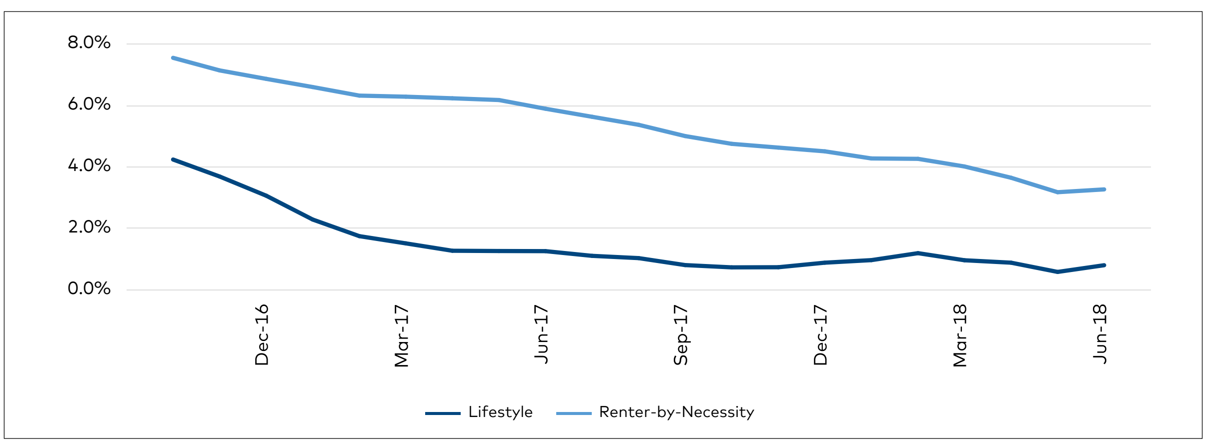
- Dallas-Fort Worth rents rose 2.0% year-over-year through June, trailing the 2.9% national rate, as supply continued to slowly close the demand gap. The average Dallas-Fort Worth rent was $1,152 at the end of this year's second quarter, roughly $250 behind the U.S. average.
- Working-class Renter-by-Necessity communities continued to lead growth, with rents up 3.2% year-over-year to $946. Lifestyle rates grew by only 0.8%, to $1,372. That was mostly due to a nationwide trend: While the economy is adding jobs across the board, creating demand for both workforce and upscale housing, developers continue to focus on cost-effective Class A assets. All 39 properties that came online in the metro this year were Class A, and only two included affordable components.
- Rents grew at the fastest rates in submarkets at the fringes of Fort Worth: Dalworthington Gardens/Pantego (9.2%), Burleson/Joshua (9.1%) and Cleburne/Alvarado (9.1%). Meanwhile, rents dropped or remained flat in several more expensive Dallas submarkets: South Oak Lawn (-2.5%), North Oak Lawn (-2.1%), North Frisco/West McKinney (-0.5%), Cityscape/Downtown (-0.3%), Uptown (0.0%).
- While Dallas supply is slated to remain elevated in the foreseeable future, rapid demographic growth should ensure a relatively fast absorption. We expect rents to advance 3.1% in 2018.

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)

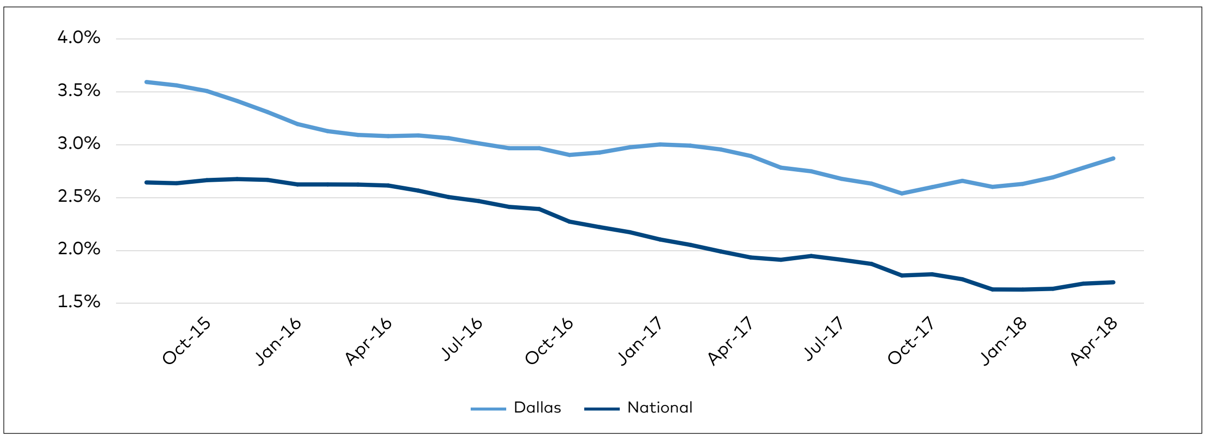


Source: YardiMatrix

Economic Snapshot

- Dallas-Fort Worth added 119,900 jobs in the 12 months ending in April, up 2.9% year-over-year, heavily outperforming the 1.7% national rate. Generating positions across the board, the DFW economy remains both a regional powerhouse and one of the fastest-growing among major U.S. metros, with population expanding three times faster than the national average.
- Professional and business services led growth, having added 25,900 positions. The Metroplex remains a corporate and talent magnet due to its business-friendly environment and relatively low cost of living, a fact that has boosted the number of companies choosing to relocate or grow in North Texas during the current expansion. This is also leading to accelerated office development—there were more than 30 office projects under construction as of July in the metro, adding up to roughly 8.9 million square feet, Yardi Matrix data shows.
- Bolstered by an accelerating development pipeline, construction added 18,600 jobs. After a temporary setback in the second half of 2017—partially due to a nationwide labor shortage and post-hurricane efforts in the Houston area—construction employment in Dallas-Fort Worth accelerated substantially. On top of growing its office and residential pipelines, the metro also had 20.8 million square feet of industrial space underway as of this year's first quarter.

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	612	16.6%	25,900	4.4%
70	Leisure and Hospitality	393	10.7%	20,700	5.6%
40	Trade, Transportation and Utilities	774	21.0%	18,600	2.5%
15	Mining, Logging and Construction	224	6.1%	12,800	6.1%
65	Education and Health Services	453	12.3%	11,600	2.6%
90	Government	448	12.1%	10,600	2.4%
30	Manufacturing	277	7.5%	8,100	3.0%
80	Other Services	127	3.4%	5,900	4.9%
55	Financial Activities	297	8.1%	5,500	1.9%
50	Information	84	2.3%	200	0.2%

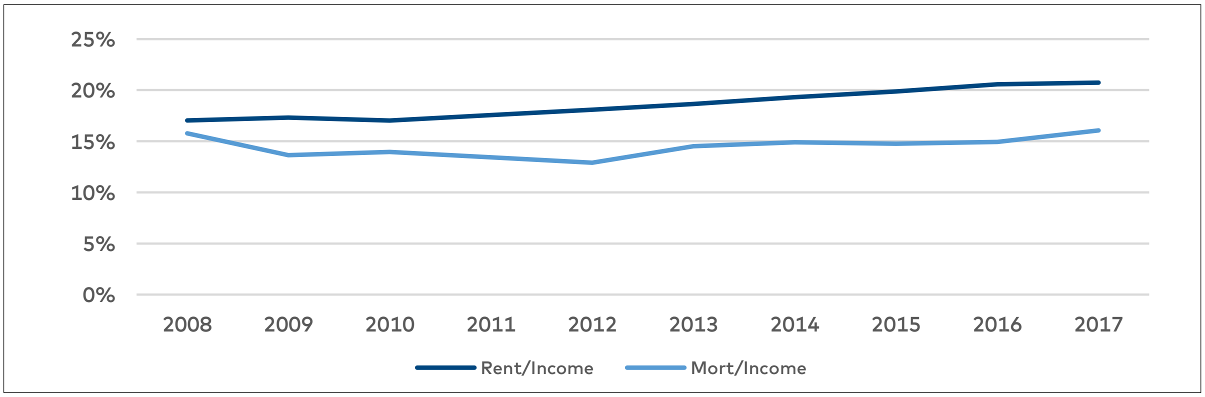
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

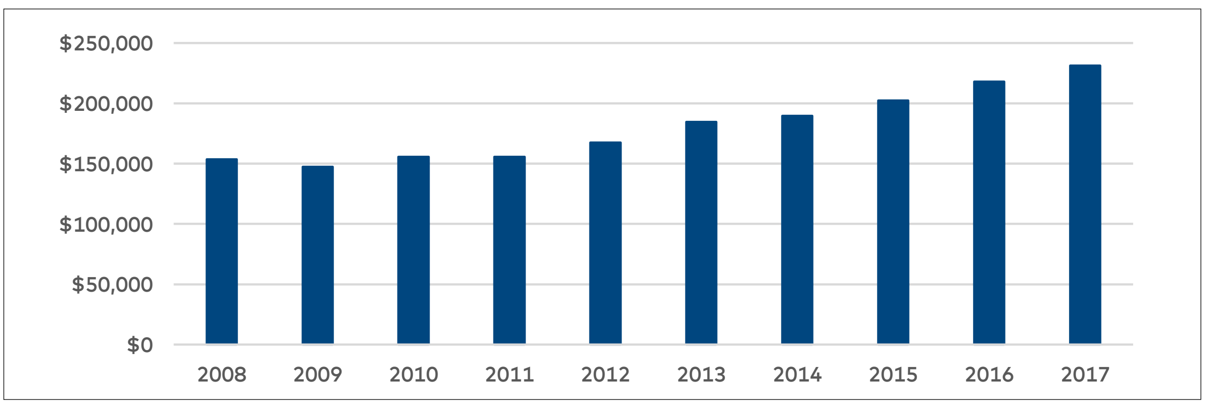
- The Dallas-Fort Worth median home price reached $231,174 in 2017, 6% higher than the previous year and 57% over 2009, when the market bottomed out. Although both rents and home values are growing at a sustained pace, while the population is rapidly expanding, North Texas remains relatively affordable, especially when compared to large coastal metros such as Los Angeles or New York City.
- Owning remains the more affordable option, as the average mortgage payment accounted for roughly 16% of the area's median income last year. Meanwhile, the average rent encompassed 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

- Dallas-Fort Worth added 146,000 residents in 2017. This marks a 2.0% demographic growth, nearly three times the U.S. rate (0.7%).
- The metro added almost 950,000 people since 2010 for an expansion rate of 14.7%.

Dallas vs. National Population

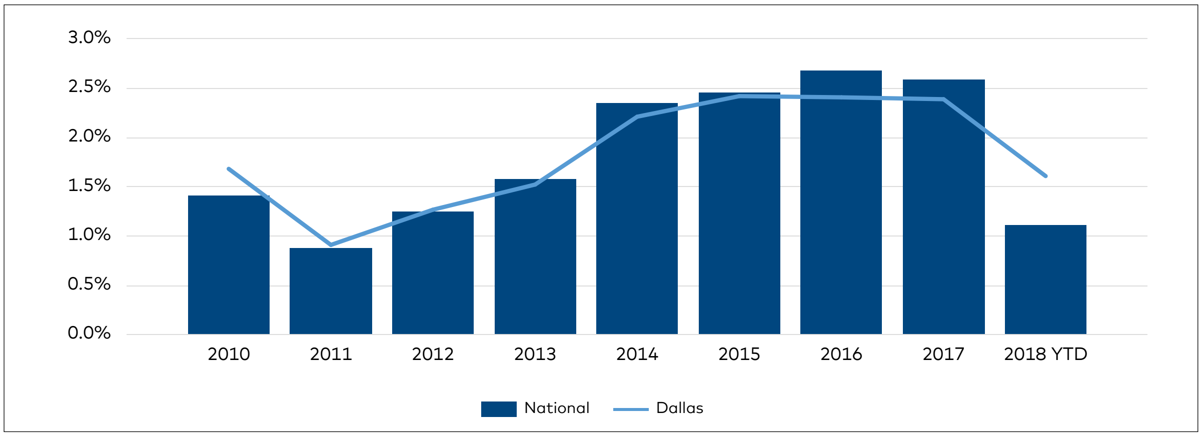
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Dallas Metro	6,817,243	6,950,715	7,101,031	7,253,424	7,399,662

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

Supply

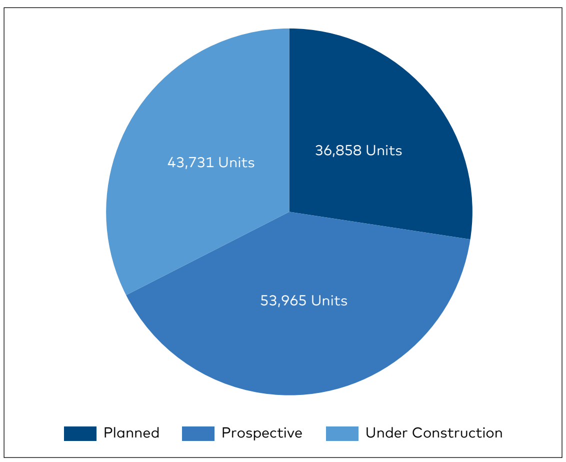
- Roughly 11,500 units were delivered in Dallas-Fort Worth in the first half of the year, with completions in 2018 set to match the strong levels recorded over the second half of the current cycle. As rapid population growth boosted demand, more than 75,000 units came online in the metro since the beginning of 2014, the large majority of which were in upscale communities.
- Although only the fourth-largest U.S. metro by population, DFW had the largest multifamily pipeline as of June, with almost 43,000 units under construction. In contrast, New York City came in second with 30,818 units, followed by Washington, D.C., (28,181) and Los Angeles (27,586). As of June, Dallas-Fort Worth had another 90,000 multifamily units in the planning and permitting stages.
- Development remains concentrated in Far North and downtown Dallas, with North Frisco/West McKinney (4,406 units under construction), North Carrollton/The Colony (3,023 units) and Cityscape/Downtown (2,835 units) leading the way. Meanwhile, Fort Worth submarkets accounted for only 20% of the total pipeline—of the metro's top 20 submarkets for units under construction, Downtown (1,206 units) was the only one located in Fort Worth.

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



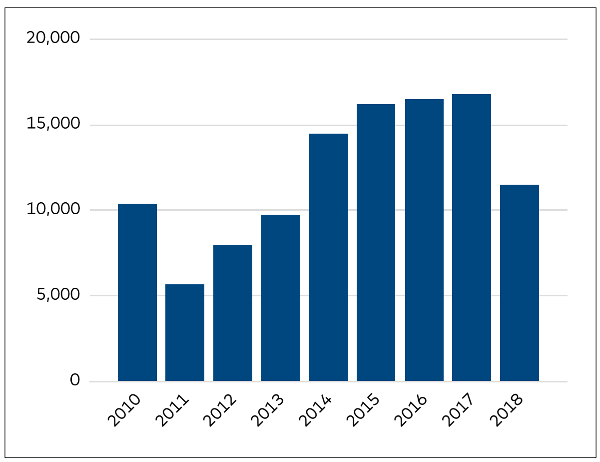
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

Dallas Completions (as of June 2018)

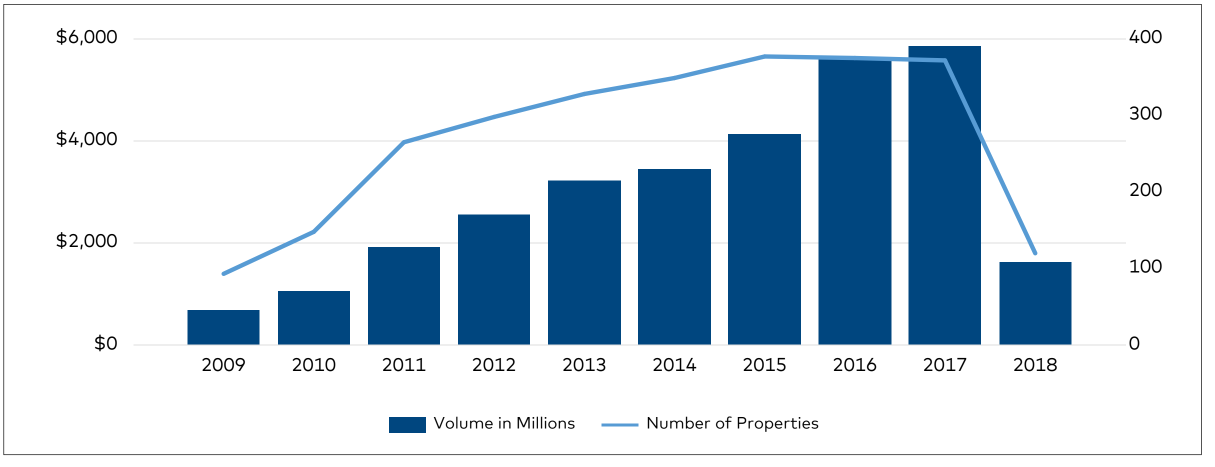


Source: YardiMatrix

Transactions

- Roughly $1.6 billion in multifamily assets traded in Dallas-Fort Worth this year through June, which comes on the heels of last year's $5.9 billion cycle high. Targeted by both domestic and international investors, the metro remains one of the country's most sought-after multifamily markets. Almost $26.5 billion in assets have traded in Dallas-Fort Worth since the beginning of 2012.
- With approximately 75% of the 120 properties that changed hands in the first half of 2018 being value-add assets, per-unit prices remained on par with last year's values. The average Dallas-Fort Worth unit traded at a little over $100,000 in 2018 through June, trailing the $150,760 U.S. average.
- Areas in core and Far North Dallas drew the most capital in the 12 months ending in June, with Cityscape/Downtown ($266 million) and North Frisco/West McKinney ($230 million) leading the list.

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



Source: YardiMatrix

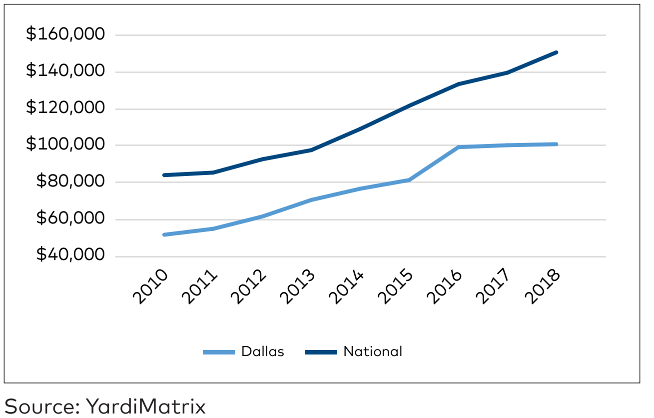
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Cityscape/Downtown	266
North Frisco/West McKinney	230
South Frisco/Parker	162
North Carrollton/The Colony	159
South Oak Lawn	157
Hemphill	128
North Oak Lawn	126
Valley Ranch	125

Source: YardiMatrix

[1] From July 2017 to June 2018

Dallas vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MHN MULTI-HOUSING NEWS

Fully Leased Property Trades In North Dallas

4L Enterprises purchased Gateway Apartments, a 76-unit asset located near several major routes. Greysteel arranged the deal on behalf of the seller.

ZOM Living Starts Construction On Luxury Community

Slated for delivery in 2020, ATELIER is set to include 364 units, 41,000 square feet of amenity and retail space, and a 10-story parking garage.

IPA Brokers 2,000-Unit TX Portfolio Deal

The Marcus & Millichap division represented the seller, a Canadian investor, and also procured the buyer. The portfolio traded for the first time in 28 years.

American Landmark Snags 334-Unit DFW Asset

Berkadia's South Florida and Philadelphia teams arranged $32.9 million in financing to purchase Advenir at Mansfield. The new owner intends to renovate the property.

JPI Continues Dallas Development Streak

Upon completion, the company's Jefferson West Love mixed-use project is set to include 722 residential units, 200,000 square feet of office space, as well as retail and a 244-key hotel.

UAH Promotes New President

Having joined the company in 2017, Susanne Kleins brings more than 30 years of property management experience to her new role. Most recently, she served as the firm's COO.

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MULTI-HOUSING NEWS

Q&A with Taylor Snoddy, Transwestern's Top Producer in 2017

Taylor Snoddy joined Transwestern in 2005, immediately after graduating college. Now, he is a managing director in the company's Dallas office, leading business development and property disposition for Transwestern's Dallas Multifamily Group. In 2017, Snoddy was named Transwestern's top overall producer. He sold over 10,000 units worth more than $600 million last year and maintained his status as Transwestern's top producing broker in the Central U.S., a title he has been hanging on to since 2014.

Snoddy spoke with Senior Writer Alexandra Pacurar about his start in the business and the main trends in the Dallas multifamily market.

Tell us about your evolution at Transwestern.

I started out as the financial analyst on the multifamily team and became a fully commissioned broker in late 2007, the exact wrong time. I learned a lot through those tough, lean years. Since 2013, I've run our Dallas Multifamily Investment Services team, and it's been a great ride ever since.

Transwestern has afforded me opportunities I don't think I would've received this soon in my career elsewhere, like serving on the National Board of Directors and the Dallas Executive Committee.

Can you tell us about one particular experience in your career that you enjoy reflecting on?

I tend to remember the hardest deals. For example, in 2013 when I took over the team, there was significant pressure on me to perform. I had about 1,200 units under contract in the summer of 2013. The 10-year Treasury (yield)

saw a run in a 60-day period like I've never seen and went from 1.75 percent to nearly 3 percent. Needless to say, it didn't make the transactions easy.

All three of those deals saw their contracts terminate. Luckily, I saw them through and closed all three in August. Had that not happened, I may have been in another business.

What challenges did you overcome in your career so far?

The fluctuations in the economy are the hardest to predict and have a significant impact on my sector, like the example I just discussed. That, along with becoming a full-time broker in late 2007, have been the most difficult challenges to overcome.

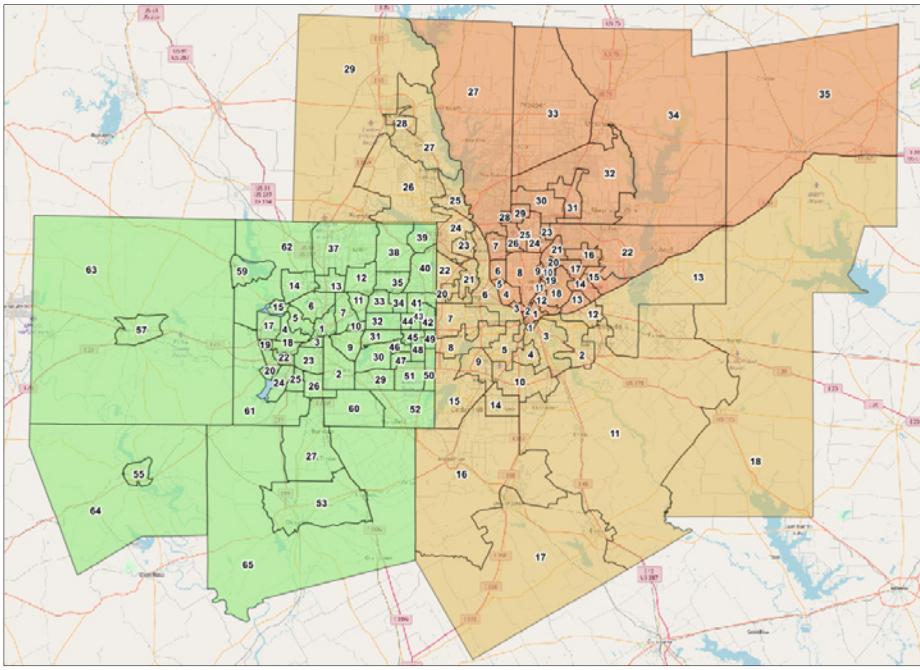
What are the main trends in Dallas' multifamily market?

Continuing to identify ways to add value. It's rare we transact deals today solely for initial yield. Whether it's interior renovations, additional amenities, utility conservation programs, smart home technology or simply better management, all of our buyers are seeking ways to improve an asset for their investors.

What are your predictions for the industry going forward?

We still see a lot of room to grow in the workforce housing space. Rent discrepancy between new construction and Class B/C is still wide and the majority of growth in the renter space isn't coming from high-income earners.

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

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	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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