

Dallas-Fort Worth Multifamily

Expanding Payrolls Fueling Multifamily Market

Highlights

- > The Dallas-Fort Worth multifamily market posted a strong year in 2018. Employers in the area were particularly active in expanding payrolls, fueling renter demand for apartments.
- > Rents rose 4 percent in 2018, ending the year at \$1,123 per month. Rent growth is being supported in part by the delivery of new, more expensive units to the market.
- > The local investment market has remained very consistent in recent years, and sales velocity was steady throughout 2018. A broad mix of properties have changed hands, and there have been wide ranges in per-unit prices. Cap rates compressed by approximately 30 basis points in 2018, averaging in the low- to mid-5-percent range.
- > Vacancy ended 2018 at 5.5 percent. The rate rose 70 basis points from the third quarter to the fourth quarter, but vacancy is lower than one year ago. Vacancy has remained in a fairly tight range since year-end 2016. Vacancy increased at the end of the year in response to a high number of new deliveries in 2018.

Dallas-Fort Worth Multifamily Market Overview

The Dallas-Fort Worth multifamily market recorded some of the strongest supply growth and demand growth in the country in 2018. These trends are expected to come close to repeating in 2019. New multifamily supply was elevated in 2018, with approximately 13,000 units coming online in the second half of the year after more than 15,000 units were delivered in the first half. This was the cyclical peak year for apartment construction, and deliveries in 2019 should moderate a bit. Demand remained healthy, spurred on by a seventh consecutive year of robust employment growth. Since 2012, employers have added more than 720,000 net new jobs in the Metroplex, increasing overall employment in the area by nearly 35 percent. This has been, and will continue to serve as the primary driver of apartment demand in Dallas-Fort Worth.

Market Indicators

Quarterly Changes	4Q/2018
Vacancy	↑
Rents	↑
Transaction Activity.....	↑
Price Per Unit.....	↑
Cap Rates.....	↓

Summary Statistics

Dallas-Fort Worth Market

Vacancy Rate.....	5.5%
- Change from 4Q 2017 (bps).....	-20
Asking Rents (per month).....	\$1,123
- Change from 4Q 2017.....	4.0%
Average Cap Rate (YTD).....	5.1%

Dallas-Fort Worth Multifamily Market Overview (cont.)

The robust economic growth that fueled multifamily property performance is also fueling local investment activity. Apartment properties in Dallas-Fort Worth have traded at a consistently high rate since 2014, a trend that continued during the fourth quarter. Sales velocity in the fourth quarter ticked up from third-quarter levels, and transaction counts for 2018 closely tracked levels from 2017. Pricing is not available in all transactions, but cap

rates appear to have compressed slightly on average in 2018. In transactions where pricing was available, per-unit pricing highlighted a wide disparity based on quality, location, and age. Core, Class A assets have gone under contract for \$240,000 per unit or more, while other Class B or Class C value-add projects changed hands with prices ranging from \$65,000 to \$150,000 per unit depending on vintage, location, and other factors.

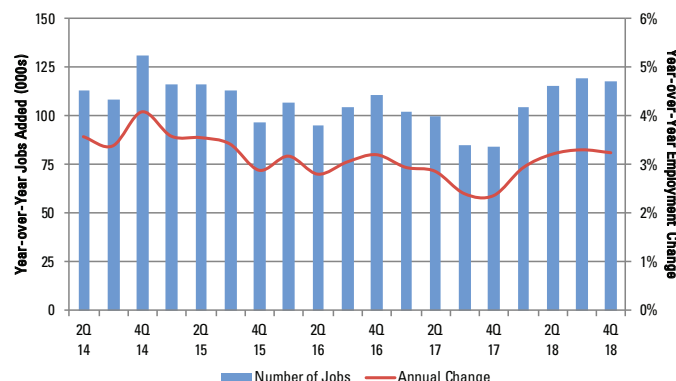
Submarket Statistics

Submarket Name	4Q 2018 Vacancy	4Q 2017 Vacancy	Annual Vacancy Change (BPS)	4Q 2018 Rents	4Q 2017 Rents
Northwest Dallas	3.4%	4.4%	(100)	\$942	\$895
South Irving	3.9%	4.2%	(30)	\$932	\$900
Mesquite	4.2%	4.9%	(70)	\$956	\$920
Denton	4.4%	4.2%	20	\$1,040	\$996
Central Arlington	4.4%	4.5%	(10)	\$946	\$895
Northeast Fort Worth/N Richland Hills	4.5%	4.8%	(30)	\$1,083	\$1,043
Southwest Dallas	4.7%	4.2%	50	\$880	\$808
Southern Dallas County	4.7%	6.1%	(140)	\$1,016	\$980
Far East Dallas	4.8%	6.9%	(210)	\$904	\$859
Las Colinas/Coppell	4.9%	5.4%	(50)	\$1,319	\$1,280
Carrollton/Farmers Branch	4.9%	5.7%	(80)	\$1,121	\$1,090
Garland	4.9%	4.3%	60	\$1,002	\$934
East Dallas	5.1%	6.7%	(160)	\$1,293	\$1,234
Grand Prairie	5.1%	5.1%	-	\$1,070	\$1,013
North Irving	5.1%	5.2%	(10)	\$1,058	\$1,008
Hurst/Euless/Bedford	5.1%	5.0%	10	\$1,030	\$994
Addison/Bent Tree	5.2%	5.3%	(10)	\$1,181	\$1,166
West Plano	5.2%	4.8%	40	\$1,265	\$1,245
Lewisville/Flower Mound	5.4%	4.6%	80	\$1,136	\$1,098
Far North Dallas	5.5%	5.1%	40	\$1,009	\$989
Richardson	5.5%	6.0%	(50)	\$1,287	\$1,236
Southwest Fort Worth	5.9%	5.1%	80	\$918	\$888
North Oak Cliff/West Dallas	6.0%	7.3%	(130)	\$1,116	\$1,030
Southeast Dallas	6.0%	6.7%	(70)	\$827	\$775
Central/East Plano	6.0%	6.2%	(20)	\$1,197	\$1,183
Northeast Dallas	6.1%	6.5%	(40)	\$959	\$912
The Colony/Far North Carrollton	6.3%	5.6%	70	\$1,319	\$1,284
Allen/McKinney	6.3%	6.6%	(30)	\$1,167	\$1,149
Intown Dallas	6.5%	6.4%	10	\$1,684	\$1,667
North Dallas	6.7%	7.1%	(40)	\$1,085	\$1,084
North Arlington	6.7%	6.3%	40	\$947	\$924
Frisco	6.8%	6.9%	(10)	\$1,275	\$1,268
Oak Lawn/Park Cities	7.1%	5.9%	120	\$1,535	\$1,523
Intown Fort Worth/University	7.1%	7.9%	(80)	\$1,354	\$1,284
East Fort Worth	7.2%	7.3%	(10)	\$873	\$834

Employment

- > Dallas-Fort Worth has been one of the top markets in the country for total job growth. Employers in the Metroplex added 117,900 jobs in 2018, a 3.2 percent gain. The current pace of employment growth is nearly double the national rate of expansion.
- > The rapid growth in the local economy is being reflected in the local spike in construction. In 2018, construction employment in Dallas-Fort Worth surged by more than 8 percent with the addition of 10,100 jobs.
- > The Dallas-Fort Worth area continues to attract business relocations. Fortune 500 company McKesson will relocate its headquarters to Las Colinas.
- > **Forecast:** Dallas-Fort Worth is expected to once again record some of the most robust employment growth in the country in the year ahead. Payrolls are forecast to expand by 2.7 percent in 2019, with the addition of approximately 100,000 net new jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers in Dallas-Fort Worth are expected to expand payrolls by approximately 100,000 positions in 2019.

Vacancy

- > Vacancy in Dallas-Fort Worth rose 70 basis points during the fourth quarter, reaching 5.5 percent. Despite the uptick in the final few months of the year, local vacancy is 10 basis points lower than the year-end 2017 rate.
- > While vacancy has been uneven in recent quarters, the rate has generally been declining in most submarkets. More than 60 percent of the largest submarkets in the Dallas-Fort Worth area have posted year-over-year vacancy declines.
- > On average, the vacancy rates in newer complexes are higher than the market average. Vacancy in units built since 2000 is 6.2 percent, compared with averages ranging from 4.5 percent to 5.5 percent for all other vintages.
- > **Forecast:** Driven by new supply that is being absorbed in the market, vacancy will likely inch higher and end 2019 at 5.7 percent, up 20 basis points from the year-end 2018 figure.

Vacancy Trends



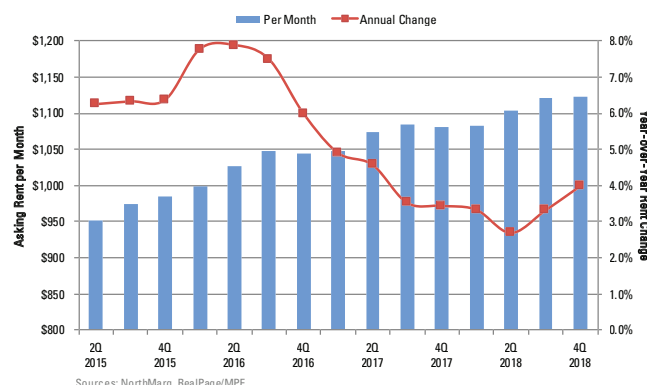
Sources: NorthMarq, RealPage/MPF

Local vacancy is 10 basis points lower than the year-end 2017 rate

Rents

- > Rents rose at a modest pace during the fourth quarter but posted healthy gains in 2018. Rents ended the fourth quarter at \$1,123 per month, 4 percent higher than at the end of 2017.
- > Rents in the Dallas-Plano-Irving area averaged \$1,154 per month as of the fourth quarter, following a 3.7 percent rise in 2018.
- > Rents in Fort Worth-Arlington are lower than in neighboring Dallas, but they are trending higher at a faster pace. Rents in the Fort Worth area reached \$1,029 per month at year end, a 4.5 percent annual increase.
- > **Forecast:** Rents should continue to push higher in 2019. Average rents in Dallas-Fort Worth are forecast to increase by 3.5 percent this year, reaching \$1,162 per month.

Rent Trends

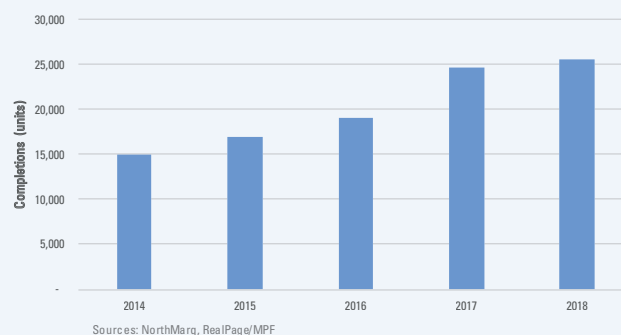


Rents ended the fourth quarter 4 percent higher than at the end of 2017

Development and Permitting

- > The pace of deliveries inched higher in the fourth quarter and was largely consistent throughout much of the year. Nearly, 6,600 units came online in the final three months of the year, up from 6,400 units in the third quarter.
- > For the full year, approximately 28,500 apartment units were delivered in Dallas-Fort Worth, up slightly from the 2017 total.
- > Projects totaling approximately 28,000 apartment units were under construction at the end of 2018. Developers pulled approximately 26,500 multifamily permits in 2018, down 4 percent from the 2017 total.
- > **Forecast:** Developers are scheduled to deliver approximately 22,000 apartment units in 2019, increasing the local inventory by about 2.8 percent, similar to the pace of job creation forecast for Dallas-Fort Worth.

Development Trends

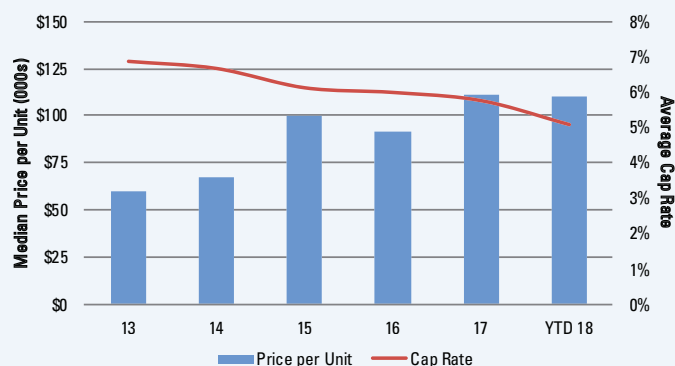


Deliveries are scheduled to slow by more than 20 percent from 2018 to 2019

Multifamily Sales

- > Quarterly sales velocity was very consistent throughout 2018 in the Dallas-Fort Worth area. The number of properties that sold during the fourth quarter was up 4 percent from third quarter.
- > In transactions where sales prices are available, the median price in 2018 was approximately 110,000 per unit. There is a wide range in pricing, particularly among the new construction projects that have sold at prices that are nearly double the overall median price.
- > Cap rates compressed slightly in 2018, averaging in the low-5-percent range for the year. During the fourth quarter, cap rates averaged 5.1 percent in transactions where cap rates were reported.

Investment Trends



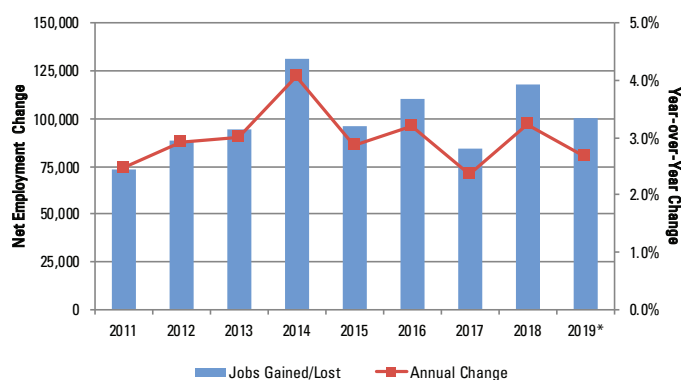
Quarterly sales velocity was very consistent throughout 2018

Looking Ahead

Following a strong 2018, the outlook for the Dallas-Fort Worth multifamily market remains bright for the year ahead. Renter demand for apartments will be fueled by strong employment and population growth. While the final figures for 2018 are not available yet, the Census Bureau reported Dallas-Fort Worth-Arlington was the fastest-growing metro area in the country in 2017, and four counties in the Dallas area are among those recording the greatest population gains nationally. Similar results are expected in 2018 and 2019, supporting continued demand. After two consecutive years of elevated deliveries, the pace of construction is expected to slow in 2019. This trend began to take shape in the second half of 2018; completions in the final two quarters of 2018 were down about 15 percent from the total supply growth in the first two quarters of the year.

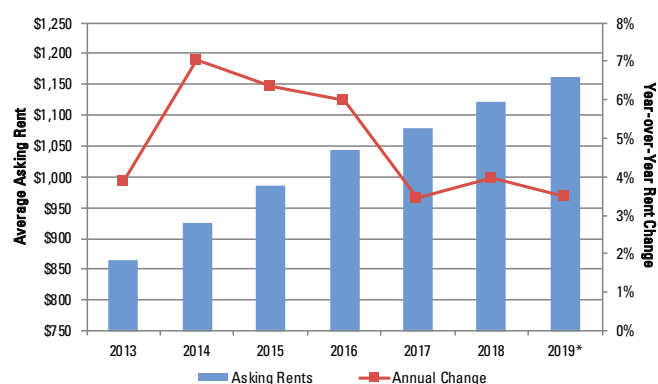
The Dallas-Fort Worth market is expected to be in a favorable position in 2019. With strong demand drivers in place and the pace of new supply easing, investment activity should remain on the consistent track that has prevailed in recent years. Vacancy has remained in the low- to mid-5-percent range during the past few years, despite considerable amounts of new construction. Supply growth has been the primary threat to the market, and renter demand for units has proven to be sufficient to meet the new supply. This should buoy investor sentiment at a time when the local economy continues to expand at a healthy pace. Some of these newer projects are already being sold, adding to the local investment volume and pulling prices higher.

Employee Forecast



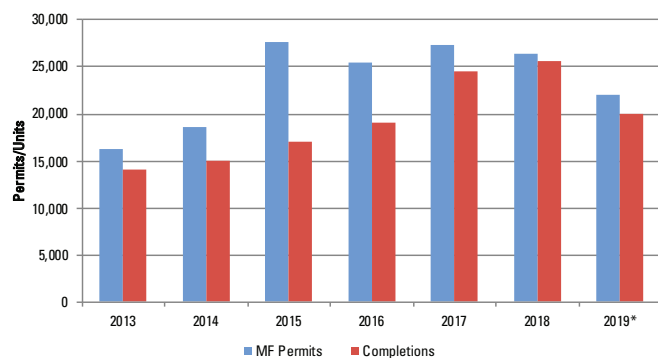
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



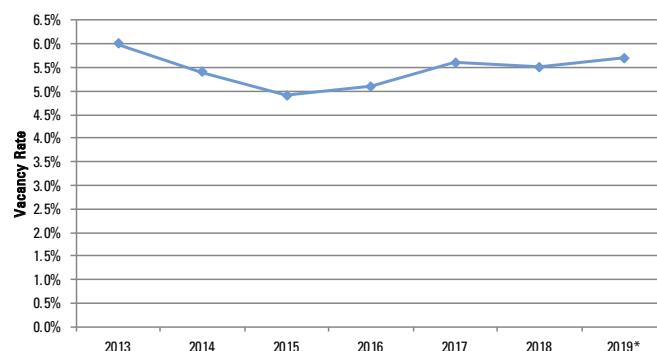
* Year End Forecast
Sources: NorthMarq, RealPage/MPF

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, RealPage/MPF

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, RealPage/MPF

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio of more than \$55 billion and the multi-year tenure of our more than 500 people.

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