

MULTIFAMILY

Dallas/Fort Worth Metro Area

Q4/19

Unwavering Job Creation Driving Rental Demand; Opportunities for Entry-Level Buyers Prevalent

Job growth highlights healthy fundamentals amid unprecedented wave of supply. Sustained employment growth remains a key component to the metro's apartment performance as roughly 790,000 jobs have been added since the start of 2012, compared with almost 150,000 units. Job creation remains well dispersed amid strong hiring in the education and health fields as well as a variety of Fortune 500 companies establishing operations in the Metroplex and bringing with them many high-paying white-collar jobs. Dallas/Fort Worth will continue to lead the nation in completions this year, adding nearly 25,000 units to inventory, notching a cyclical high. Despite the influx of supply, Dallas/Fort Worth's vacancy rate will substantially tighten this year, encouraging owners to further adjust rents to meet evolving market conditions.

Fort Worth gaining traction with developers. Builders will remain active throughout many areas of the Metroplex this year, most notably the northern suburbs including Frisco, Plano and Richardson. Here, developers continue to play catch-up with demand, building additional units to account for the influx of new households. Downtown Fort Worth will also witness strong supply growth, recording about 1,600 new apartments in 2019 as the area attracts more white-collar jobs. Fort Worth's urban core remains in a revitalization stage and is becoming increasingly attractive for younger consumers seeking a live-work-play environment. Similar rejuvenation efforts are taking place East Dallas, enticing apartment developers to capitalize on the submarket's growing millennial population.

Multifamily 2019 Outlook



24,800 UNITS
will be completed

CONSTRUCTION:

Development will eclipse 24,000 units for the first time this millennium after falling just shy the previous two years. Construction will be heavily focused on the northern suburbs.



50 BASIS POINT
decrease in vacancy

VACANCY:

Metro vacancy is expected to decrease to 5.0 percent by year end amid exceptional leasing activity. In 2018, the rate dropped 10 basis points.



5.9% INCREASE
in effective rents

RENT:

Dallas/Fort Worth's average effective rent will rise to \$1,189 per month as growth hovers above the previous five-year average.

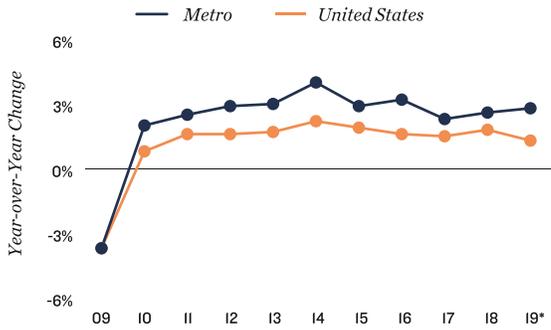


* Cap rate trailing 12-month average through 3Q; Treasury rate as of Sept. 30
Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- Tightening vacancy in western sections of Fort Worth piqued the interest of many private buyers, enticing them to neighborhoods near I-30, where a number of older complexes are located. Strong bidding environments pushed cap rates in this area into the low-5 percent band.
- East Dallas remains a popular target for many private investors as its proximity to major employers in the core and sustained revitalization efforts provide value-add opportunities. With units selling for an average of about \$65,000 each during the past year, some entry-level buyers were able to enter the market in an area where the average effective rent has risen 23 percent during the past five years.
- A variety of 250-plus unit complexes in Irving changed hands during the past year as institutional groups scoured the area. Per unit prices hovering under \$100,000 and average cap rates reaching into the mid-6 percent range generated substantial interest outside of state lines. Buyers from the East and West Coast were primary suitors.

Employment Trends



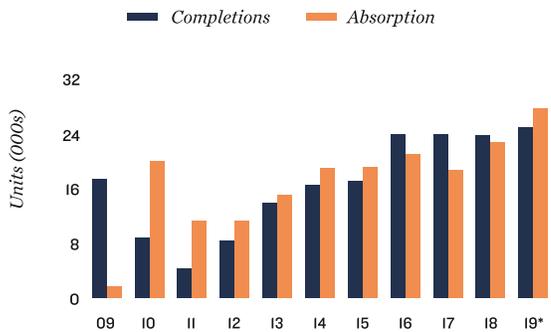
3Q19 – 12-Month Period

EMPLOYMENT

3.3% increase in total employment Y-O-Y

- During the past year, Metroplex organizations hired 121,100 new workers, exceeding the 91,000 employees in the previous year.
- The professional and business services sector posted the strongest gain, adding 26,800 workers to payrolls. Robust hiring was also evident in leisure and hospitality as well as financial activities, collectively bringing in 35,200 employees over the past 12 months.

Completions and Absorption

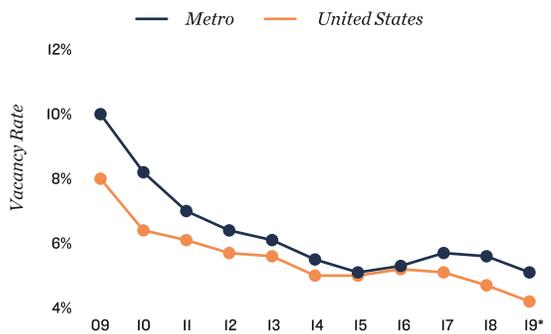


CONSTRUCTION

24,100 units completed Y-O-Y

- Construction ticked up slightly during the past year as developers sought to capitalize on decreasing vacancy. Since October of last year, more than 24,000 apartments were built, while a little more than 23,000 units were completed one year earlier.
- More than 51,000 apartments are under construction, with completion dates reaching into 2022. Frisco is on tap to receive 4,300 of those units.

Vacancy Rate Trends

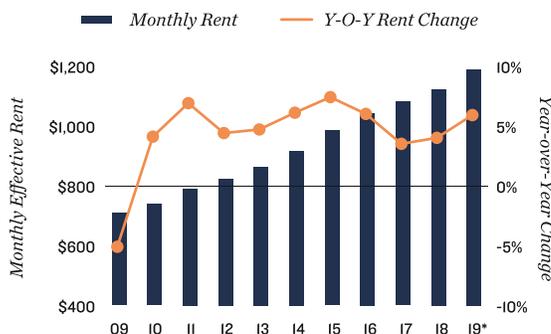


VACANCY

30 basis point decrease in vacancy Y-O-Y

- Market vacancy hit its lowest level in nearly 20 years at the end of the third quarter as the rate stopped at 4.5 percent. Last year, the reading dropped 40 basis points.
- The wave of luxury units delivered over the past several years has yet to substantially impact Class A vacancy. The rate fell 50 basis points over the past year to 5.0 percent. At the same time, Class B vacancy dropped 30 basis points to 4.4 percent.

Rent Trends



RENT

4.6% increase in the average effective rent Y-O-Y

- The average effective rent continues to rise, increasing 4.6 percent during the past four quarters to \$1,174 per month. Class C apartments led rent growth at 6.6 percent, while the average Class B and A rates climbed 4.3 percent and 3.7 percent, respectively.
- Roughly a third of the metro's 48 submarkets recorded rent growth above 5 percent during the past year, with areas adjacent to Dallas' urban core posting some of the most pronounced gains.

* Forecast

Source: CoStar Group, Inc.

Demographic Highlights



3Q19 Median Household Income

Metro **\$73,554**
U.S. Median **\$65,205**



3Q19 Median Home Price

Metro **\$265,820**
U.S. Median **\$272,227**



3Q19 Affordability Gap

Renting is **\$712** Per Month Lower
Average Effective Rent vs. Mortgage Payment*



Five-Year Household Growth**

266,400 or **1.9%** Annual Growth
U.S. **1.0%** Annual Growth



Multifamily (5+ Units) Permits*

24,972 1H 2019
➔ **10%** Compared with 1H 2016-2018



Single-Family Permits*

32,908 1H 2019
➔ **1%** Compared with 1H 2016-2018

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI.

**2019-2024 * Annualized Rate

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19**

Submarket	Vacancy Rate	Y-0-Y Basis Point Change	Average Effective Rent	Y-0-Y % Change
Northwest Dallas	2.8%	-20	\$964	3.0%
South Irving	3.2%	-70	\$976	4.7%
Southern Dallas County	3.5%	-50	\$1,063	4.7%
Southwest Dallas	3.8%	60	\$926	7.2%
Carrollton/Farmers Branch	3.9%	0	\$1,168	4.6%
Denton	3.9%	-10	\$1,054	0.8%
Grapevine/Southlake	3.9%	-80	\$1,356	4.6%
South Arlington-Mansfield	3.9%	-50	\$1,162	6.1%
Addison-Bent Tree	4.0%	-80	\$1,214	2.9%
North Dallas	4.1%	-190	\$1,109	3.9%
Overall Metro	4.5%	-30	\$1,174	4.6%

** Includes submarkets with more than 7,000 units of inventory

SALES TRENDS

Strong Bidding Climates Putting Pressure on Yields; Fort Worth Capturing Interest of Private Groups

- Sustained investor interest in the Metroplex continues to weigh on yields, bringing the average cap rate down 30 basis points during the past year to 5.9 percent.
- Pricing remains on a steady incline, climbing 5.4 percent to \$104,600 per unit. Supporting the increase were valuations for Class A units, which rose 8 percent to an average of \$159,300 per unit.

Outlook: Value-add opportunities in and around Fort Worth's urban core will become more abundant moving forward as the area continues to revitalize. Units selling in the \$50,000 to \$70,000 range will lure a variety of private buyers.



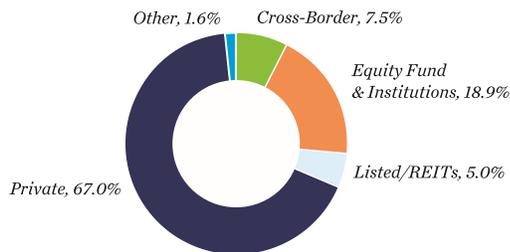
* Trailing 12 months through 3Q19

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

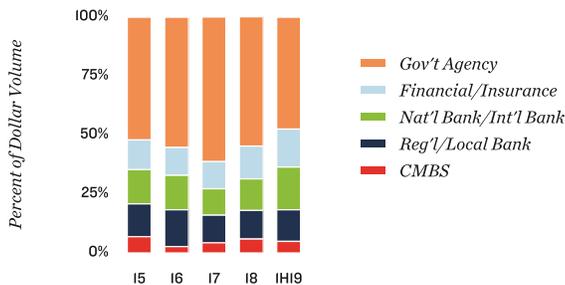
CAPITAL MARKETS

By DAVID G. SHILLINGTON, President,
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IH19 Apartment Acquisitions
 By Buyer Type



Apartment Mortgage Originations
 By Lender



Includes sales \$2.5 million and greater
 Sources: CoStar Group, Inc.; Real Capital Analytics

- Fed cuts rate again, while balancing assortment of factors.** The Federal Reserve cut the overnight rate by 25 basis points at the end of October, the third reduction in less than 100 days in an attempt to lengthen the economic runway. Muted inflationary pressure and continued trade negotiations have boosted the probability for an additional rate cut in December as it is anticipated by some domestic and foreign markets. However, at the end of October, the U.S. and China were in talks for finalizing the first phase of a trade deal, potentially erasing the need for another rate reduction if the preliminary agreement quickly comes to fruition. This, along with positive economic indicators like strong wage growth, sustained job creation and a rising 10-year Treasury, will continue to make future decisions difficult for Fed members as they balance the array of forces tugging at both ends of possible outcomes. Global developments including slowing European economies as well as the progression of Brexit and its potential aftermath will also help determine future Fed decisions. Though recession risks remain, the economy's solid foundation has softened it in recent months, signaling continued domestic growth in the near future.
- Abundant liquidity balances conservative underwriting.** Debt financing for apartment assets remains strong, supported by a variety of lenders. Fannie Mae and Freddie Mac, two mainstay apartment capital sources, were recently given increased lending caps, allowing the two Government Sponsored Enterprises to purchase \$100 billion in loans during a yearlong period that started at the beginning of the fourth quarter 2019. A wide range of local, regional and national banks; pension funds; insurance companies and CMBS sources will also remain active. All have responded to the falling interest rate climate by reducing mortgage rates, but lender spreads have widened as the 10-year Treasury rate remains near cycle lows. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available for these types of projects, investors may need to blend mezzanine debt with other capital sources until they prove out their concepts and substantially fill units. For stabilized existing assets in most major markets, financing remains plentiful.

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