DALLAS – FORT WORTH | MULTIFAMILY OUTLOOK

OVERVIEW

The Dallas - Fort Worth (DFW) metroplex is a fast growing region both economically and demographically. As companies move and expand into the region, jobs and population growth is expected to continue, creating a favorable market for value add multifamily investing.



ECONOMIC INDICATORS

MACRO ECONOMY

The U.S. nationwide homeownership rate has declined again during the first quarter of 2016, reaching its lowest level in nearly two decades. Obtaining a mortgage for a single family home is more difficult than before the recession due to tight credit standards On the other hand, the multifamily sector has been experiencing sustained growth. Tenant and investor demand for multifamily housing has been on the rise. Median rental rates have been increasing over the past two decades and demonstrate less volatility/sensitivity to recessions and economic downturns than single family homes and other commercial property, making them a relatively safe investment option. In addition, nationwide demand for multifamily housing has also been increasing as a fairly strong labor market increases employment opportunities for young adults, the key market segment for the apartment rental industry.



DALLAS - FORT WORTH ECONOMY

The Dallas-Ft. Worth area posted a \$504.36 billion economy, the 4th highest metropolitan economy in the United States and higher than many countries. The DFW area has one of the highest concentrations of corporate headquarters in the US with numerous companies continuing to announce their relocation and expansion plans into Dallas. ExxonMobil, AT&T, American Airlines, and many other Fortune 500 companies have headquarters there. It has a highly diversified economy. From 2001-2014 the metropolitan economy doubled in size and had an average compound growth rate of about 5.4% each year in the same time period. It has far exceeded pre-recession high of about \$375 Billion.

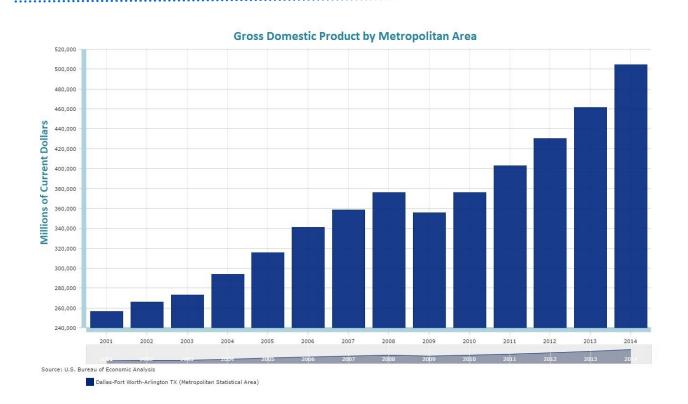


Image Above: GDP (Millions of Dollars) of Dallas Fort Worth Area (2001-2014)



EMPLOYMENT

Unemployment fell once again from 3.9% to 3.5% this past quarter. The Dallas-Ft. Worth area created 129,100 jobs year over year, which equaled about a 3.7% annual growth rate. Per capita personal income also increased 20.4% since 2009. The urban workforce totaled 3,501,000 by June 2016. This was up by 21.1% since the end of 2009. Marcus and Millichap expect a 3.0% increase in employment by the end of 2016, equaling out to approximately 105,000 new positions.

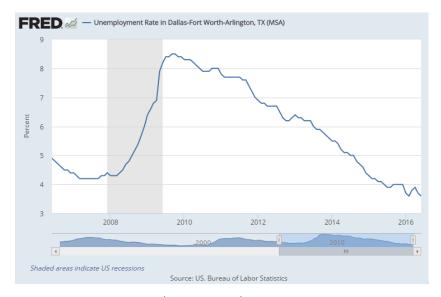


Image Above: Unemployment in DFW



Image Above: Total Urban Workforce



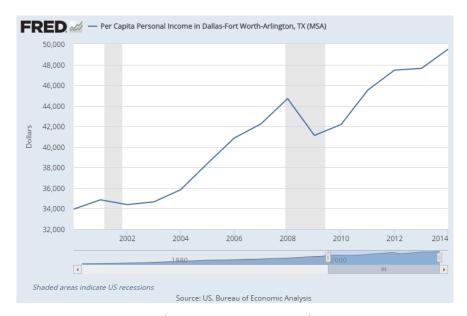


Image Above: Per Capita Personal Income



MAJOR EMPLOYERS & INDUSTRIES

Major industries in the Dallas-Ft. Worth include: Building Design, Construction, & Furnishing, Company Headquarters & Operations, Finance & Business Services, Food Manufacturing, Instruments, IT services, Logistics & Trade, Media, Technology, Telecommunications, Transportation, and Manufacturing & Assembly.

Largest Employers in D/FW	Employees
1. AMR Corporation (American Airlines)	24,700 employees
2. Bank of America Corp.	20,000 employees
3. Texas Health Resources Inc.	19,230 employees
4. Dallas Independent School District	18,314 employees
5. Baylor Health Care System	17,097 employees
6. AT&T	15,800 employees
7. Lockheed Martin Aeronautics Co.	14,126 employees
8. JP Morgan Chase & Co.	13,500 employees
9. UT-Southwestern Medical Center	13,122 employees.
10. City of Dallas	12,836 employees
11. HCA North Texas	12,000 employees
12. NAS Fort Worth JRB	11,350 employees
13. U.S. Postal Service	10,439 employees
14. Fort Worth ISD	10,129 employees
15. Kroger Co.	10,097 employees
16. Texas Instruments Inc.	9,100 employees
17. Raytheon Company	8,700 employees
18. Target Corp.	8,674 employees
19. The United Parcel Service Inc.	8,555 employees
20. Parkland Health and Hospital	8,134 employees



List of Fortune 500 Companies in Dallas/Ft. Worth Metro Area

Ranking	Name	Location
2	Exxon Mobil	Irving
10	AT&T	Dallas
65	Energy Transfer Equity	Dallas
67	American Airlines	Ft Worth
140	Tenet Healthcare	Dallas
142	Southwest Airlines	Dallas
151	Kimberly Clark	Irving
155	Fluor Corporation	Irving
214	HollyFrontier	Dallas
219	Texas Instruments	Dallas
228	J.C. Penney	Plano
260	D.R. Horton	Ft Worth
302	GameStop	Grapevine
336	Dean Foods	Dallas
404	Alliance Data Systems	Plano
407	Trinity Industries	Dallas
413	Dr. Pepper Snapple Group	Plano
417	Commercial Metals	Irving
453	Celanese	Dallas
475	Energy Future Holdings	Dallas





POPULATION TRENDS

Since 2010 the population has grown by 8.2%. DFW has also seen tremendous domestic migration with 2014 recording. According to the US Census the population of DFW by 2015 was around 7,102,796, up from 6,371,773 in 2010. Population growth in the DFW area is consistently in the top ten in total population growth in the United States. According to Nielsen PLC, the DFW area is expected to see a 7.7% increase in population by 2021.

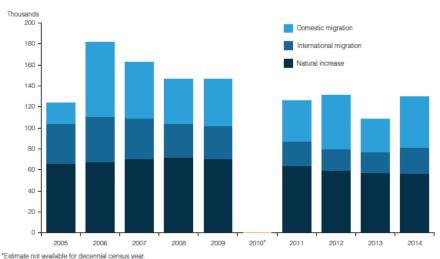
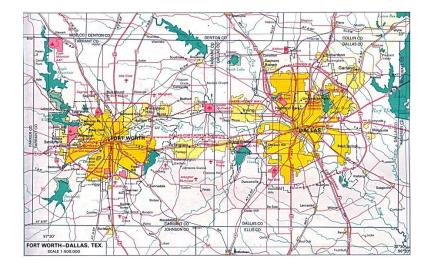


Chart 2.3: Domestic Migration to Dallas-Fort Worth Accelerates After 2005

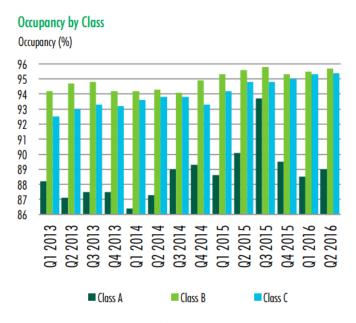
NOTE: Components of annual population change are shown. SOURCE: Census Bureau.





VACANCY

Dallas-Ft. Worth had about a 6.7% overall vacancy, but comparing between classes yields a much more interesting picture. Class B assets on average had about a 4.3% vacancy by the 2nd quarter of 2016 due to their affordability. Class B and C assets have typically outperformed class A assets in the DFW area in respect to vacancy. This goes well with our acquisition strategy which focuses on value add Class B and C assets which are typically more stable than Class A assets. Demand for apartments in the region outweighed additions in the last year allowing for vacancy to decrease slightly in all asset grades.



Source: Apartment Data Service, Q2 2016. CBRE Research, Q2 2016.

LOCAL RENTAL ECONOMICS

In 2014 DFW had one of the lowest homeownership rates in the United States standing at 56.3%. The US average is 64%. Job growth is allowing for sustained and robust rent growth. Marcus and Millichap expecting a 5.0% rent growth by the end of 2016. As home prices continue to climb faster than rents in the region as a whole, multifamily will look more attractive to potential renters and new in-migrants. Vacancies remaining tight will only fuel the rent growth in the area. Sales activity also continues its growth upwards with the price per unit increase. The first quarter of 2016 saw a 13% year over year price per unit growth to \$80,000.



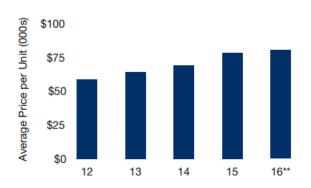
CAP RATES

According to CBRE, the Dallas/Ft Worth Metropolitan area is a Tier 1 multifamily market. It receives strong investor attraction and thus competitive cap rates. Class B stabilized cap rates go for between 5.50%-6.00% and class B value add goes for about 5.25%-6.25%. Class C stabilized goes for around 6.75%-7.50% and class c value add goes for 8.00%-9.00%. Overall the markets average cap rate compressed by 30 basis points in the last year.

MULTIFAMILY SUBURBAN | UNITED STATES KEY RATES

		CLASS A				CLASS B			CLASS C				
		CAP RATES FOR STABILIZED PROPERTIES (%)	CHANGE ¹	EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)	CHANGE ¹	CAP RATES FOR STABILIZED PROPERTIES (%)	CHANGE ¹	EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)	CHANGE ¹	CAP RATES FOR STABILIZED PROPERTIES (%)	CHANGE ¹	EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)	CHANGE ¹
	ATLANTA	5.00 - 5.50	◆ ▶	6.25 - 6.75	_	5.75 - 6.25	A	6.50 - 7.00	∢ ▶	6.50 - 7.00	A	7.25 - 7.75	◆ ▶
	BOSTON	4.50 - 5.00	<₽	5.75 - 6.25	◆ ▶	5.00 - 5.50	♦ ▶	6.50 - 7.00	<₽	6.25 - 6.75	<₽	7.00 - 7.50	<₽
	CHICAGO	4.75 - 5.00	▼	5.25 - 5.50	<₽	5.50 - 5.75	♦ ▶	5.50 - 5.75	⋖ ▶	6.50 - 7.00	< ▶	6.25 - 6.50	<->▶
	DALLAS/FORT WORTH	4.75 - 5.75	A	4.50 - 5.50	< ▶	5.50 - 6.50	A	5.25 - 6.25	A	6.75 - 7.50	< ▶	8.00 - 9.00	<₽
	HOUSTON	5.25 - 5.75	◆ ▶	5.25 - 5.75	<₽	6.00 - 6.50	A	5.75 - 6.25	▼	7.25 - 7.75	A	7.00 - 7.50	▼
	N. CA: OAKLAND	4.50 - 5.00	_	4.50 - 5.00	_	4.75 - 5.25	_	4.75 - 5.25	_	5.00 - 5.50	_	5.00 - 5.50	_
	N. CA: SAN FRANCISCO	3.75 - 4.25	<->▶	4.00 - 4.50	<₽	4.25 - 4.75	<₽	4.25 - 4.75	⋖ ▶	4.75 - 5.25	< ▶	4.50 - 5.00	<->▶
_	N. CA: SAN JOSE	4.00 - 4.50	◆ ▶	4.00 - 4.75	<₽	4.25 - 4.75	<₽	4.25 - 5.00	◆ ▶	4.50 - 5.00	<₽	4.50 - 5.25	<₽
2	NY: N. NEW JERSEY	4.75 - 5.25	<₽	5.75 - 6.25	< ▶	5.50 - 6.00	<▶	6.50 - 7.00	♦ ▶	_	_	_	_
=	NY: STAMFORD	5.50 - 6.00	◆ ▶	6.25 - 6.75	◆ ▶	6.25 - 6.75	▼	6.75 - 7.25	▼	_	_	_	_
	S. CA: INLAND EMPIRE	4.75 - 5.25	♦ ▶	5.00 - 5.50	♦ ▶	5.00 - 5.50	♦ ▶	5.50 - 6.00	♦ ▶	6.00 - 6.50	<⊳	6.50 - 7.00	<⊩
	S. CA: LOS ANGELES	3.75 - 4.25	▼	4.25 - 4.75	▼	4.25 - 5.25	▼	4.75 - 5.75	▼	5.50 - 6.50	_	5.75 - 6.75	_
	S. CA: ORANGE COUNTY	4.00 - 4.50	A	4.75 - 5.25	_	4.25 - 5.00	♦ ▶	5.25 - 5.75	_	5.25 - 5.75	♦ ▶	6.25 - 6.75	_
	S. FL: FORT LAUDERDALE	4.25 - 5.00	_	5.00 - 5.50	_	4.75 - 5.00	_	5.00 - 5.50	_	6.25 - 7.00	_	6.75 - 7.50	_
	S. FL: MIAMI	4.25 - 4.75	_	5.00 - 5.50	▼	4.50 - 5.00	•	5.00 - 5.50	▼	6.00 - 6.75	•	6.75 - 7.50	_
	S. FL: WEST PALM BEACH	4.25 - 4.75	_	5.00 - 5.50	_	4.50 - 5.00	_	5.00 - 5.50	_	6.00 - 6.75	_	6.75 - 7.50	_
	SEATTLE	4.50 - 5.00	♦ ▶	4.75 - 5.00	♦ ▶	5.00 - 5.50	♦ ▶	5.25 - 5.75	♦ ▶	5.75 - 6.25	▼	6.00 - 6.50	♦ ▶
	WASHINGTON, D.C.	4.50 - 5.25	◆ ▶	4.75 - 5.50	◆ ▶	5.25 - 5.75	∢ ▶	5.75 - 6.50	◆ ▶	6.00 - 6.75	◆ ▶	6.75 - 7.75	<₽





* Forecast

** Trailing 12 months through 1Q
Sources: CoStar Group, Inc.; Real Capital Analytics



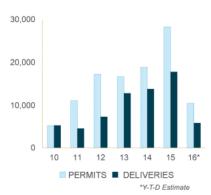
HIGHLIGHTS

VACANCY & RENT

PERMITS & DELIVERIES

EMPLOYMENT GROWTH







VACANCY & RENT COMPARISON

	VAC	ANCY	AVERAGE RE	NT INCREASE	AVERAGE RENT		
SUBMARKETS	2Q 2016	2Q 2015	2Q 2016	2Q 2015	2Q 2016	2Q 2015	
Carrollton/Addison/Coppell	3.3%	3.3%	7.1%	6.4%	\$1,035	\$966	
Central Arlington	4.5%	5.8%	9.4%	7.1%	\$777	\$710	
Central Dallas	5.1%	5.2%	0.5%	4.5%	\$1,762	\$1,754	
Grapevine	4.5%	4.5%	6.4%	2.3%	\$1,347	\$1,266	
North Arlington	4.4%	4.4%	8.8%	3.5%	\$904	\$831	
North Irving	3.9%	4.1%	4.9%	7.6%	\$1,123	\$1,071	
North White Rock	5.3%	5.5%	5.1%	2.6%	\$1,036	\$986	
Northwest Fort Worth	4.7%	6.1%	2.9%	3.4%	\$1,166	\$1,133	
Plano/Allen/McKinney	4.3%	4.6%	5.5%	6.8%	\$1,192	\$1,130	
Southeast Fort Worth	3.9%	4.2%	6.7%	4.8%	\$998	\$935	
TOTALS	4.3%	4.6%	5.8%	4.9%	\$1,087	\$1,027	

For a full list of Dallas | Ft. Worth submarkets, visit apartmentupdate.com/report/2228

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