

OVERVIEW

In 2017, Dallas ranked first in both the rate of job growth, 2.8%, and the number of jobs added amongst the twelve largest metropolitan areas in the United States¹. Dallas's 2.8% local nonfarm employment is twice the national rate of 1.4%², with 100,400 new nonfarm jobs created during 2017. Dallas's booming economy spurs rental growth rates, as 140,000 people moved to the Dallas-Fort Worth area in 2016, "the most of any metro area in the United States," according to the U.S. Census Bureau³. As Dallas-Fort Worth "offers significant employment opportunities, diverse and affordable housing options, and a wonderful quality of life," demand for housing in Dallas-Fort Worth continues unabated in 2018.⁴

Figure 1: Dallas, Texas



Source: Edward Jones⁵.

ECONOMIC INDICATORS

MACRO ECONOMY

According to the U.S. Census Bureau, the U.S. nationwide homeownership rate in the fourth quarter of 2017 remains near its lowest level of the past two decades at 64.2%⁶, contributing to the increase in demand for apartments nationwide. Tighter lending standards since the financial crisis have restricted the number of new single family homebuyers – leaving relatively high-income renters who might have otherwise bought a home, bolstering rental demand⁷. As a result, the multifamily sector continues to experience sustained growth and tenant demand for multifamily housing is on the rise⁸, according to the National Multifamily Housing Council.

¹ https://www.bls.gov/regions/southwest/news-release/2018/areaemployment_dallasfortworth_20180111.htm

² https://www.bls.gov/regions/southwest/news-release/2018/areaemployment_dallasfortworth_20180111.htm

³ <http://dallas.culturemap.com/news/city-life/03-29-17-us-census-bureau-report-dallas-fort-worth-population-growth/>

⁴ <http://dallas.culturemap.com/news/city-life/03-29-17-us-census-bureau-report-dallas-fort-worth-population-growth/>

⁵ goo.gl/LQ8xts

⁶ <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

⁷ <https://www.npr.org/sections/codeswitch/2014/01/06/260282186/eight-reasons-why-the-rent-is-too-damn-high>

⁸ <https://weareapartments.org/NMHC-NAA-US-Apartment-Demand-in-2030.pdf>

DALLAS ECONOMY – BUSINESS FRIENDLY AND GROWING

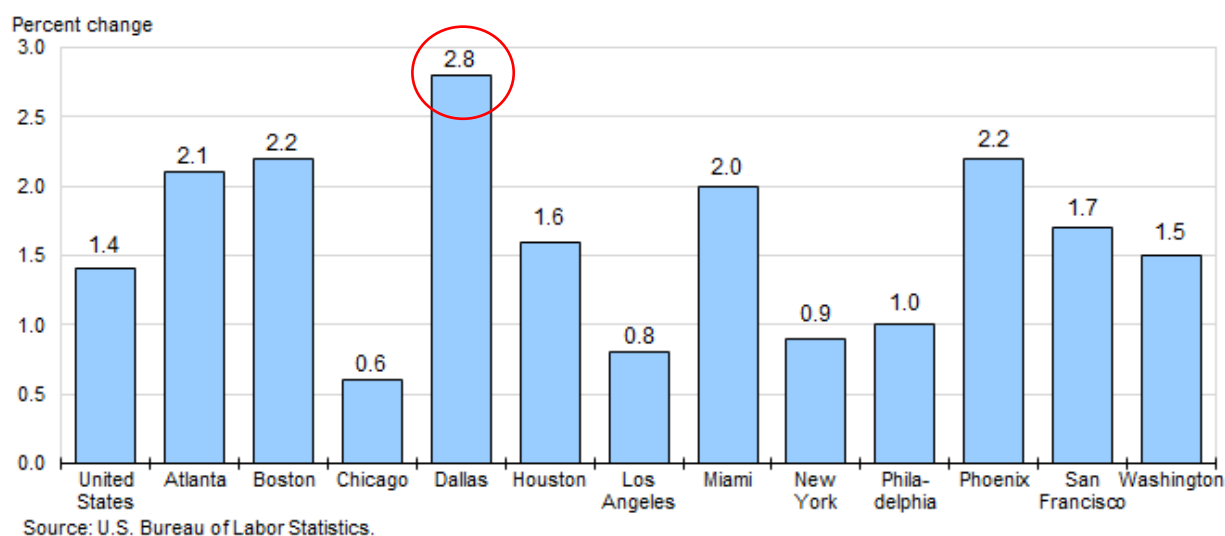
In 2017, *Forbes*⁹ listed Dallas as the number one market to invest for housing due to 3.9% job growth in 2016, 6.2% population growth from 2014 - 2016, and 12.86% growth in gross rental income from 2013 - 2015.

According to the Texas Department of State Health Services, Dallas-Fort Worth-Arlington MSA 2017 population is projected to be 7,424,256 people¹⁰. The Dallas-Fort Worth-Arlington is ethnically comprised of approximately 45 percent White American, 15 percent African American, 31 percent Hispanic American and nine percent Other according to the Texas Department of State Health Services¹¹.

In 2016, the Dallas-Fort Worth-Arlington per capita personal income was \$51,099¹², while the Dallas real median household income was \$63,812¹³. Total GDP for the Dallas-Fort Worth-Arlington metropolitan statistical area in 2016 was \$511.6 billion¹⁴.

In 2017, the Dallas-Fort Worth-Arlington MSA created 31,000 professional and business services jobs, a 5.2% increase on the previous year.¹⁵ The leisure and hospitality sector also grew strongly in 2017, at 4.9 percent over the previous year. These sector gains contributed to Dallas's 2.8% year-on-year total nonfarm employment growth, as see in Figure 2 below:

Figure 2: Total Nonfarm Employment, over-the-year percent change, United States and 12 largest metropolitan areas, November 2017.



Source: U.S. Bureau of Labor Statistics¹⁶.

Highly diversified, Dallas-Fort Worth is not an oil-driven economy. Rather, the Dallas-Fort Worth MSA is calibrated by the presence of corporate headquarters in the telecommunication, consumer products, and healthcare sectors¹⁷. Richardson, a northern suburb of Dallas, is home to more than 5,700 companies, including Texas Instruments, headquartered in Dallas, amongst Nortel Networks, Alcatel Lucent, AT&T, Ericsson, Fujitsu, Nokia, Rockwell Collins, Cisco Systems, Sprint, Verizon Communications, and XO Communications.

In addition to communications, computer gaming, cleantech, cloud computing, and semiconductors are core industries of Richardson.¹⁸ Plano, another suburb of Dallas, is home to four Fortune 500 companies: J.C. Penny, Alliance Data Systems, Yum China Holdings, and Dr. Pepper Snapple.

⁹ <https://www.forbes.com/sites/samanthasharf/2017/01/10/best-buy-cities-where-to-invest-in-housing-in-2017/#21959c9222ab>

¹⁰ <https://www.dshs.texas.gov/chs/popdat/ST2017.shtm>

¹¹ <https://www.dshs.texas.gov/chs/popdat/ST2017.shtm>

¹² <https://fred.stlouisfed.org/series/DALL148PCPI>

¹³ <http://www.deptofnumbers.com/income/texas/dallas/>

¹⁴ <https://www.bea.gov/itable/iTable.cfm?ReqID=70&step=1#reqid=70&step=10&isuri=1&7003=200&7035=-1&7004=naics&7005=-1&7006=19100&7036=-1&7001=2200&7002=2&7090=70&7007=2016,2015,2014,2013,2012,2011,2010&7093=levels>

¹⁵ https://www.bls.gov/regions/southwest/news-release/2018/areaemployment_dallasfortworth_20180111.htm

¹⁶ https://www.bls.gov/regions/southwest/news-release/areaemployment_dallasfortworth.htm

¹⁷ <https://www.chron.com/business/article/Forbes-reveals-the-best-places-in-America-for-6415930.php#photo-2194273>

¹⁸ <http://www.telecomcorridor.com/>

The business-friendly environment in Dallas – zero state and local income tax¹⁹ and a low cost of doing business - continues to attract major corporations to relocate to Dallas. For instance, Toyota²⁰ announced plans to relocate from California to the Dallas region in 2014, bringing 4,000 jobs to the Dallas region. In October 2016, Jacobs Engineering²¹, one of the world's largest engineering companies, relocated from Pasadena, California to Downtown Dallas, bringing 700 jobs. In addition, the following Fortune 500 companies are headquartered in Dallas: Energy Transfer Equity, Tenet Healthcare, Southwest Airlines, Texas Instruments, HollyFrontier, Dean Foods, and Builders FirstSource.

Dallas has also solidified its standing as a desirable market for foreign investment. A total of \$341.7 million in foreign capital was invested to purchase multifamily properties in Dallas during 2016, following an even stronger 2015 when \$1.6 billion came through. Dallas has been the number two destination in the United States for foreign capital multifamily investment from 2013-2017, second only to Manhattan²².

Dallas and Fort Worth are on the list of top ten “low risk markets” for investing in residential real estate, according to Local Market Monitor.²³ In particular, Local Market Monitor took into account population growth, job growth, unemployment, home price changes, the market's equilibrium home price, and the 12-month home price forecast.

IRVING ECONOMY

Irving, a suburb of western Dallas county, has 236,607 people, according to a U.S. Census 2015 estimate. The population grew by 12.9% between 2000 – 2010.²⁴ Irving's population is the third largest in Dallas county and the 13th largest in the state²⁵. Irving is comprised of approximately 24% White American, 41% Hispanic, 11% Black, 20% Asian, and four percent Other. Irving's median household income is \$58,846 and median family income is \$60,559, according to the 2014 American Community Survey of the U.S. Census Bureau. The unemployment rate is 3.2%.

Irving boasts six Fortune 500 companies, including: ExxonMobile, Fluor (engineering), Kimberly-Clark, Celanese, Michaels Companies, and Vistra Energy, and companies continue to expand in Irving.²⁶ ABM Industries, Inc., a facility solutions company, is “consolidating some of its Dallas-Fort Worth operations into a new facility in Irving that will house 200 employees²⁷.” ABM projects hiring 200-300 additional people at the facility.²⁸

EMPLOYMENT

The employment rate in Dallas has been on an upward trend since 2010. As of January 2018, the unemployment rate in Dallas was 3.6%, down from 4.0% in January 2017, according to the Bureau of Labor Statistics²⁹. Dallas's unemployment rate is below with the Texas State unemployment rate of 3.9%, according to Bureau of Labor Statistics data³⁰.

¹⁹ <https://cdn.dallaschamber.org/wp-content/uploads/2014/07/Why-Dallas-Flyer-20171.pdf>

²⁰ <https://www.freep.com/story/money/cars/2016/10/18/toyotas-move-texas-goes-far-beyond-moving-employees/92356352/>

²¹ <https://www.bizjournals.com/dallas/news/2016/10/24/jacobs-engineering-global-hq-dallas-california.html>

²² <https://arbor.com/blog/numbers-behind-dallas-multifamily-boom/>

²³ <https://www.localmarketmonitor.com/index.cfm?event=pressRelease&id=44>

²⁴ <https://www.cityofirving.org/1577/General-Information>

²⁵ <https://www.cityofirving.org/1577/General-Information>

²⁶ http://fortune.com/fortune500/visualizations/?iid=recirc_f500landing-zone1

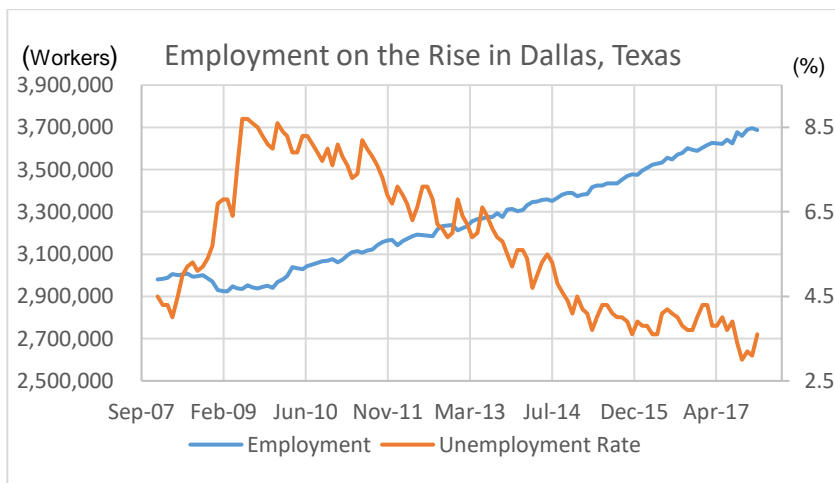
²⁷ http://www.tracer2.com/admin/uploadedPublications/2138_TLMR-Current_Edition.pdf

²⁸ http://www.tracer2.com/admin/uploadedPublications/2138_TLMR-Current_Edition.pdf

²⁹ https://data.bls.gov/timeseries/LAUMT481910000000003?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

³⁰ https://data.bls.gov/timeseries/LASST120000000000004?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

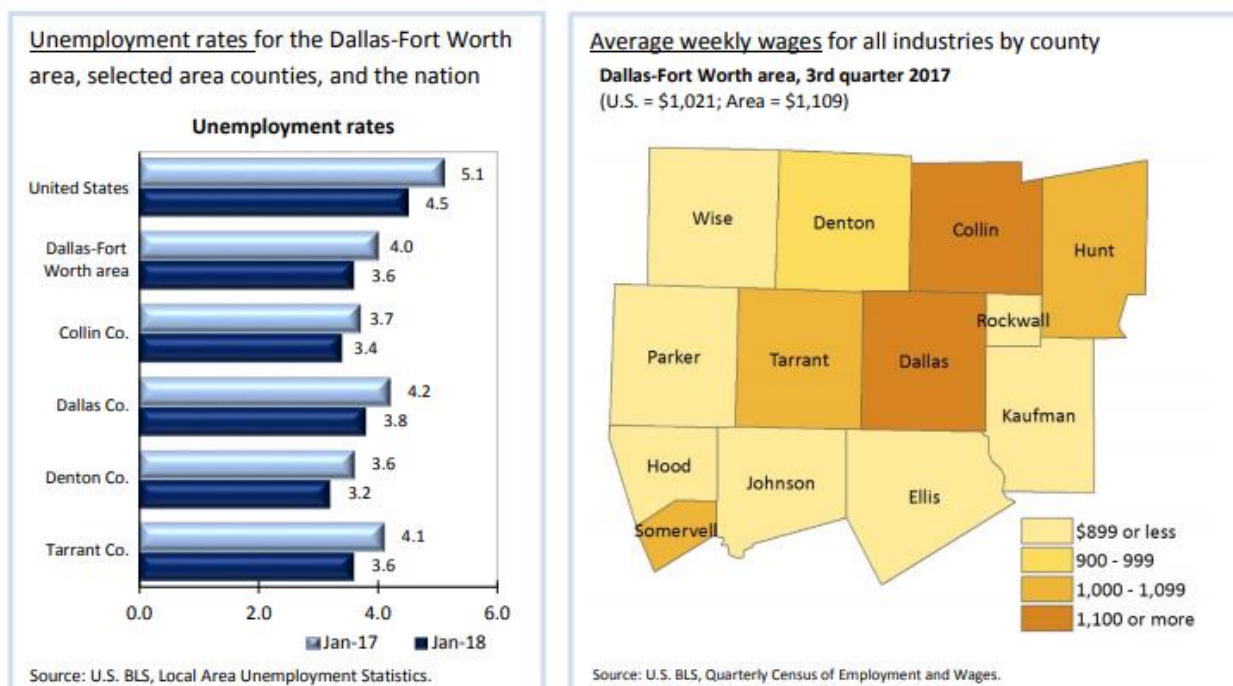
Figure 3: Number of workers in Dallas vs. the unemployment rate



Source: Bureau of Labor Statistics³¹.

Figure 3 above shows just under 3.7 million workers in Dallas at an unemployment rate of 3.9%. Employers added a net 101,400 workers to local payrolls through August of 2017, a 2.8% annual expansion. According to the U.S. Bureau of Labor Statistics, both Dallas and Tarrant Counties have lower unemployment rates than the U.S. as of January 2018, at 3.8% and 3.6%, respectively. The cities of Irving and Grand Prairie are located in Dallas county. Haltom City is located in Tarrant county, near Fort Worth. Dallas county has the highest average weekly wages, along with Collin County, as illustrated in Figure 4 below.

Figure 4: Dallas Area Unemployment Rates and Average Weekly Wages



Source: U.S. Bureau of Labor Statistics³²

³¹https://data.bls.gov/timeseries/LAUMT122726000000005?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

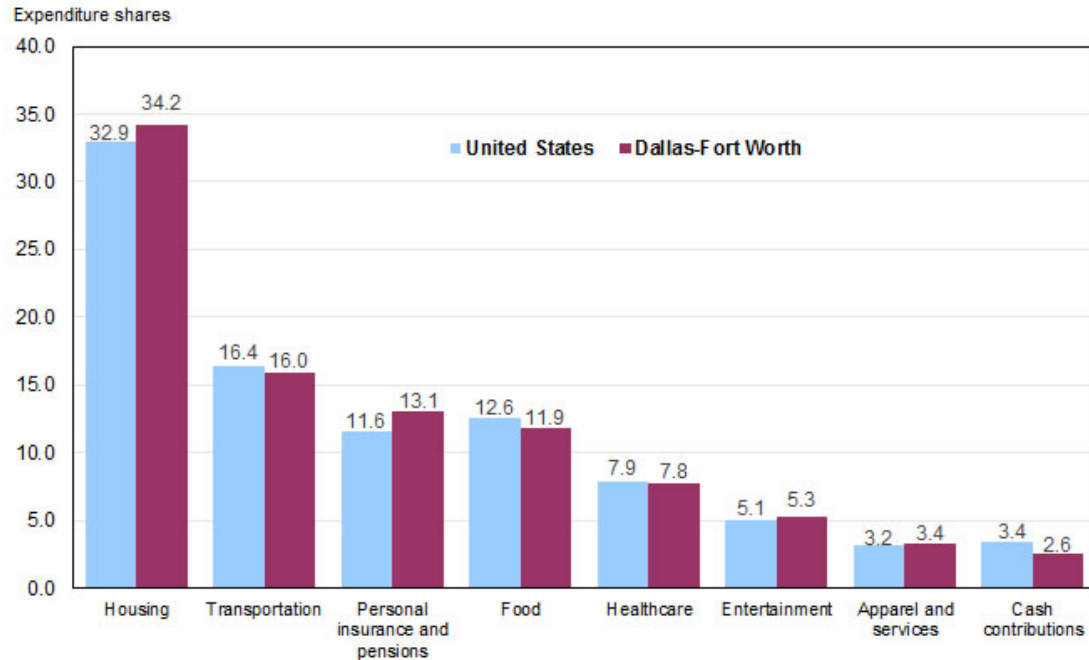
³² https://www.bls.gov/regions/southwest/summary/blsummary_dallasfortworth.pdf

DALLAS - FORT WORTH CONSUMER EXPENDITURE

With strong job growth and rising wages, tenants are able to spend a significant portion of wallet on housing. Figure 5 below displays the percentage of wallet spent on eight major categories, comparing the Dallas-Fort Worth area to the U.S. as a whole.

Figure 5: Consumer Expenditures for the Dallas-Fort Worth Area: 2015-16³³

Chart 1. Percent distribution of average annual expenditures for eight major categories in the United States and Dallas-Fort Worth metropolitan area, 2015-16



Source: U.S. Bureau of Labor Statistics.

The Dallas-Fort Worth Area spends 34.2% of average annual expenditure on housing, slightly higher than the U.S. national average of 32.9% of annual income.

FORTUNE 500 EMPLOYERS

Dallas is home to six major industries: (1) telecommunications (2) consumer products (3) healthcare (4) logistics (5) transportation (6) education. Dallas has 12 major four-year universities in the region and seven community college districts³⁴. Dallas's logistics and transportation sectors are aided by Dallas-Fort Worth's central location and world-class transportation infrastructure, including DFW International Airport and many rail lines connecting Dallas-Fort Worth to the rest of the country.³⁵

The presence of telecommunications, consumer products, and healthcare companies in Dallas is illustrated in the list of top private employers in Exhibit 6 below:

³³ https://www.bls.gov/regions/southwest/news-release/consumerexpenditures_dallasfortworth.htm

³⁴ <https://www.dallaschamber.org/why-dallas/>

³⁵ <https://www.dallaschamber.org/why-dallas/>

Exhibit 6: Largest Employers in the Dallas-Fort Worth Area

Company	Employees	Industry
American Airlines	24,700	Transportation
Bank of America Corp.	20,000	Finance
Texas Health Resources Inc.	19,230	Healthcare
Dallas ISD	18,314	Education
Baylor Health Care System	17,097	Healthcare
AT&T	15,800	Telecom
Lockheed Martin Aeronautics Co.	14,126	Defense
JP Morgan Chase & Co.	13,500	Finance
UT-Southwestern Medical Center	13,122	Healthcare
City of Dallas	12,836	Government
HCA North Texas	12,000	Healthcare
NAS Fort Worth JRB	11,350	Military
U.S. Postal Service	10,439	Logistics & Distributions
Fort Worth ISD	10,129	Education
Kroger Co.	10,097	Retail

Source: DestinationDFW³⁶

According to the Bureau of Labor Statistics, Dallas exceeds the national average in percentage of total employment in both business and financial operations, computer and mathematical, and transportation and material moving. At the same time, the mean hourly wage for all occupations in Dallas is \$24.21, slightly above the national average of \$23.86, demonstrating the demand for labor in Dallas.

Exhibit 7 provides a breakdown of industry supersectors for Dallas- Fort Worth- Arlington MSA, Dallas-Plano-Irving Metropolitan division, and Fort-Worth Arlington metropolitan division. In each of the three metropolitan areas, professional and business services, leisure and hospitality, and financial services are the sectors which have grown the most from November 2016 to November 2017.

³⁶ <http://www.destinationdfw.com/Largest-Employers-in-Dallas-Fort-Worth-Texas/>

Exhibit 7: Employees on nonfarm payrolls by industry supersector, United States and Dallas - Fort Worth – Arlington metropolitan area and its components, not seasonally adjusted (numbers in thousands)

Area and Industry	Nov. 2016	Sep. 2017	Oct. 2017	Nov. 2017(p)	Nov. 2016 to Nov. 2017(p)	
					Net change	Percent change
United States						
Total nonfarm	146,393	146,954	147,975	148,507	2,114	1.4
Mining and logging	673	727	731	735	62	9.2
Construction	6,869	7,122	7,126	7,060	191	2.8
Manufacturing	12,328	12,498	12,495	12,509	181	1.5
Trade, transportation, and utilities	27,819	27,295	27,489	28,018	199	0.7
Information	2,780	2,708	2,708	2,718	-62	-2.2
Financial activities	8,337	8,481	8,488	8,484	147	1.8
Professional and business services	20,564	20,881	21,070	21,115	551	2.7
Education and health services	23,074	23,138	23,432	23,535	461	2.0
Leisure and hospitality	15,466	16,079	15,955	15,738	272	1.8
Other services	5,705	5,755	5,788	5,790	85	1.5
Government	22,778	22,270	22,693	22,805	27	0.1
Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area						
Total nonfarm	3,583.3	3,625.3	3,654.8	3,683.7	100.4	2.8
Mining, logging, and construction	209.9	213.0	212.3	212.3	2.4	1.1
Manufacturing	266.4	272.9	274.2	275.7	9.3	3.5
Trade, transportation, and utilities	774.3	767.1	772.2	785.3	11.0	1.4
Information	83.0	80.8	80.6	80.8	-2.2	-2.7
Financial activities	286.4	296.0	293.7	293.8	7.4	2.6
Professional and business services	596.9	615.1	620.8	628.0	31.1	5.2
Education and health services	436.3	441.1	442.7	447.5	11.2	2.6
Leisure and hospitality	369.8	380.3	387.3	387.9	18.1	4.9
Other services	123.3	127.6	129.7	128.5	5.2	4.2
Government	437.0	431.4	441.3	443.9	6.9	1.6
Dallas-Plano-Irving, TX Metropolitan Division						
Total nonfarm	2,557.3	2,584.5	2,606.6	2,630.4	73.1	2.9
Mining, logging, and construction	138.8	140.0	141.9	142.3	3.5	2.5
Manufacturing	173.6	176.4	177.4	178.1	4.5	2.6
Trade, transportation, and utilities	522.4	515.7	519.1	526.6	4.2	0.8
Information	71.5	69.6	69.4	69.6	-1.9	-2.7
Financial activities	228.6	235.4	232.7	232.7	4.1	1.8
Professional and business services	483.5	498.1	502.1	510.4	26.9	5.6
Education and health services	303.9	305.8	308.1	312.0	8.1	2.7
Leisure and hospitality	253.4	261.7	266.7	268.6	15.2	6.0
Other services	83.7	85.8	87.5	87.1	3.4	4.1
Government	297.9	296.0	301.7	303.0	5.1	1.7
Fort Worth-Arlington, TX Metropolitan Division						
Total nonfarm	1,026.0	1,040.8	1,048.2	1,053.3	27.3	2.7
Mining, logging, and construction	71.1	73.0	70.4	70.0	-1.1	-1.5
Manufacturing	92.8	96.5	96.8	97.6	4.8	5.2
Trade, transportation, and utilities	251.9	251.4	253.1	258.7	6.8	2.7
Information	11.5	11.2	11.2	11.2	-0.3	-2.6
Financial activities	57.8	60.6	61.0	61.1	3.3	5.7
Professional and business services	113.4	117.0	118.7	117.6	4.2	3.7
Education and health services	132.4	135.3	134.6	135.5	3.1	2.3
Leisure and hospitality	116.4	118.6	120.6	119.3	2.9	2.5

Source: Bureau of Labor Statistics³⁷.

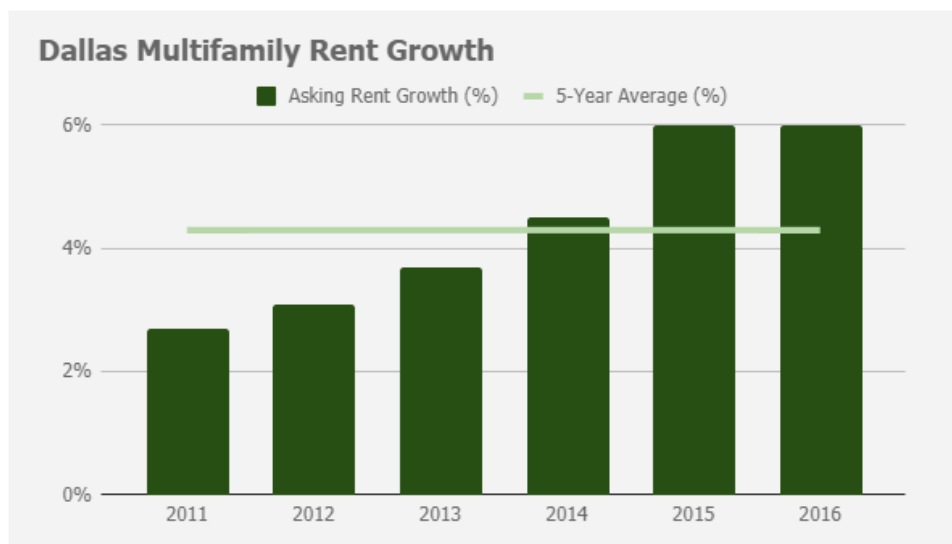
³⁷ https://www.bls.gov/regions/southwest/news-release/2018/areaemployment_dallasfortworth_20180111.htm

LOCAL MULTIFAMILY TRENDS

MEDIAN GROSS RENT

According to Local Market Monitor's Economic Outlook in February 2018, Dallas is amongst a handful of U.S. cities experiencing a real estate boom. According to Arbor, Dallas posted the fastest rent growth and the lowest vacancy in the Southwest region during Q4 2016³⁸. According to Reis, "the average asking rent reached \$1,063/unit during the quarter, up from \$1,049/unit during the third quarter, and has risen every quarter since year-end 2009." Year-over-year, asking rent climbed 6.0%, up from \$1,003/unit in 2015.³⁹

Exhibit 8: Dallas Multifamily Rent Growth



Source: Reis, Inc.

Class B / C properties rose 5.7% to \$785/unit, while class A properties averaged \$1,290/unit, up 5.0% year-over-year⁴⁰

OCCUPANCY

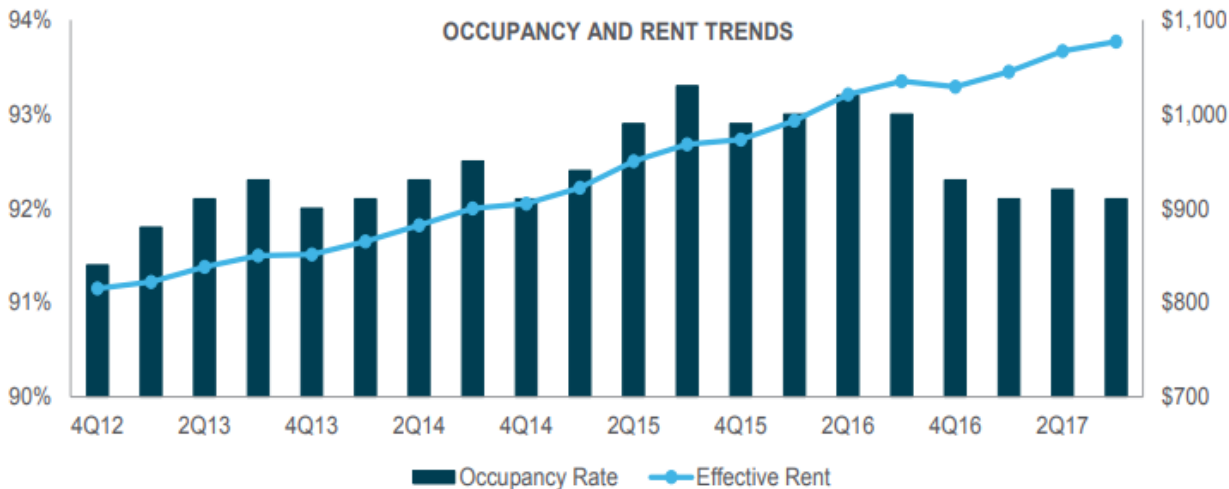
In spite of median gross rent growth, occupancy has remained stable at 92.1%. Figure 9 below shows the occupancy rates and rent trends for Dallas as of 3Q of 2017. Effective rent was \$1,100 in 3Q of 2017.

³⁸ <https://arbor.com/blog/numbers-behind-dallas-multifamily-boom/>

³⁹ <https://arbor.com/blog/numbers-behind-dallas-multifamily-boom/>

⁴⁰ <https://arbor.com/blog/numbers-behind-dallas-multifamily-boom/>

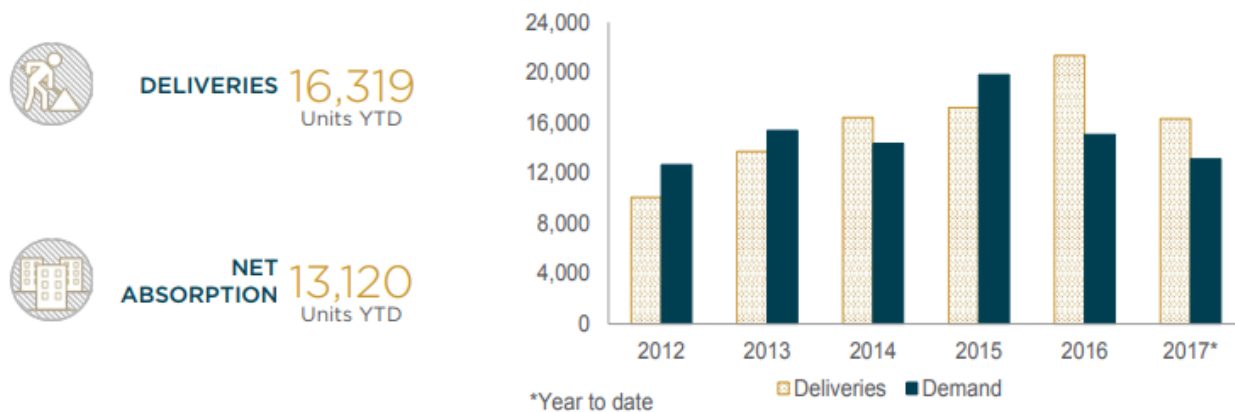
Figure 9: Dallas Multifamily Occupancy and Rent Trends Third Quarter 2017



Source: Berkadia Dallas Multifamily Report Third Quarter 2017.

Exhibit 10 below shows the new apartments constructed during the year to 3Q 2017, and their net absorption, or the rate at which the new apartments have been leased. Developers delivered 16,319 units in the 12 months to September of 2017⁴¹.

Exhibit 10: Dallas Deliveries and Net Absorption in 3Q 2017



Source: Berkadia Dallas Multifamily Report Third Quarter 2017.

While deliveries of new apartments constructed outpaced demand in 2017, the new apartments were still absorbed at an 80% lease rate. This strength of demand for new, more expensive apartments reflects the strength of the multifamily market in Dallas – Fort Worth.

LOCAL RENTAL ECONOMICS

Exhibit 11 shows the rental submarket breakdown for the Dallas-Fort Worth Metropolitan area. Rental rates in the Grand Prairie, Haltom City and East Irving areas are all below the Metropolitan area average of \$1.24/ ft / month - at \$1.16 for Grand Prairie, \$1.12 for Haltom City and \$1.02 for East Irving, respectively. Occupancy rates for these particular submarkets are near or above

⁴¹ Berkadia Dallas-Fort Worth Multifamily Report Third Quarter 2017.

the Metropolitan average of 92.1% at 95.0% occupancy for East Irving, 94.7% for Haltom City and 91.3% occupancy for Grand Prairie.

Exhibit 11: Dallas Submarket Rental Breakdown in 3Q 2017

SUBMARKET NAME	# OF COMMUNITIES	# OF UNITS	SIZE (SF)	PRICE (\$ / MO.)	RENTAL RATE (\$ / SF / MO.)	OCCUPANCY
Downtown Dallas/West End/Deep Ellum	51	10,769	950	1,463	1.54	90.7%
Uptown/Oaklawm/Highland Park	152	33,616	925	1,642	1.78	87.7%
East Central Dallas/Lower Greenville Ave	52	6,215	865	1,311	1.52	88.8%
White Rock Lake/Tenison Park	69	14,994	803	849	1.06	93.5%
North Central Dallas/Upper Greenville Ave	107	28,442	807	1,125	1.39	88.5%
Skillman St/I-635	97	26,423	790	883	1.12	92.1%
Far East Dallas	21	3,619	934	1,054	1.13	93.2%
Garland	95	16,807	862	959	1.11	91.4%
North Dallas/Addison	114	31,246	893	1,128	1.26	93.6%
Far North Dallas/Collin County	78	24,522	795	1025	1.29	95.2%
East Plano/Richardson	93	25,453	933	1,238	1.33	86.4%
West Plano/Frisco	172	55,322	932	1,270	1.36	88.2%
Allen/McKinney	74	19,361	927	1,150	1.24	90.9%
East Irving	58	7,593	804	819	1.02	95.0%
West Irving	81	18,299	810	930	1.15	94.5%
Las Colinas/Valley Ranch/Coppell	80	29,061	909	1,275	1.40	91.7%
Northwest Dallas/Bachman Lake	59	11,273	792	837	1.06	95.8%
Carrollton/Farmers Branch	114	27,907	900	1,135	1.26	94.1%
West Lewisville/Flower Mound	73	21,427	881	1,102	1.25	93.8%
Denton	62	12,274	869	1,072	1.23	95.1%
Southeast Dallas/Mesquite	103	22,200	845	835	0.99	93.5%
Oak Cliff South	65	13,450	900	798	0.89	90.9%
Duncanville/DeSoto/Cedar Hill/Lancaster	91	19,902	859	884	1.03	93.3%
Far South Dallas/Waxahachie	25	3,127	917	995	1.09	96.4%
Trinity Groves/Oak Cliff North	41	7,481	845	1,129	1.34	86.2%
Grand Prairie	54	12,419	852	992	1.16	91.3%
Downtown Ft Worth/TCU	61	11,674	882	1,311	1.49	85.0%
East Ft Worth/Woodhaven/I-30E	69	12,616	831	793	0.95	91.8%
North Arlington	95	21,279	813	934	1.15	93.5%
South Arlington	137	27,852	848	929	1.10	94.9%
Haltom City/Richland Hills/Fossil Creek	70	16,960	903	1008	1.12	94.7%
Hurst/Eules/Bedford	130	30,273	845	983	1.16	94.6%
Grapevine/Roanoke/Keller	64	16,594	939	1,236	1.32	95.6%
Northwest Ft Worth/Saginaw/Eagle Mtn	29	4,922	939	889	0.95	95.1%
South Ft Worth	64	11,300	878	847	0.97	94.3%
Southwest Ft Worth/Benbrook	45	12,751	846	962	1.14	94.4%
Far Southwest Ft Worth	25	3,127	869	869	1.00	93.9%
Western Hills/Ridgmar/Ridglea	77	13,154	858	809	0.94	93.0%
TOTALS	2,947	685,704	871	1,077	1.24	92.1%

Source: Berkadia Dallas Multifamily Report Third Quarter 2017.

CAP RATES

CBRE categorizes Dallas as a Tier II market for multifamily housing. Exhibit 12 below shows the cap rates for the second half of 2017 for both stabilized and value-add properties by classes "A", "B", "C" across Tier I, Tier II, and Tier III cities in the United States.

Class A apartments are usually located in luxury grade buildings, and thus command higher rents than their Class B and Class C counterparts. Class B and Class C apartments, by contrast, tend to attract a wider demographic – from working-class individuals,

millennials entering the market, and downsizing baby boomers.⁴² These properties are typically 15 to 25 years old and are located in well-established middle income neighborhoods. Class B and Class C properties tend to offer residents the best value for their dollar, attracting renters in a bearish economy⁴³.

A cap rate refers to the percentage of net operating income represented by the purchase price of an apartment complex. In this way, one can think of the cap rate as the return an investor can expect to receive on a given apartment complex or the amount of money an investor can expect to receive as a proportion of the apartment complex's purchase price.

Exhibit 12: CBRE Cap Rates for Second Half 2017 by Tier I, Tier II, and Tier III Cities

		CLASS A				CLASS B				CLASS C			
		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)	
			CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹
TIER I	Boston	4.50 - 5.25	↔	5.75 - 6.25	↔	5.00 - 6.00	↔	6.50 - 7.00	↔	6.25 - 6.75	↔	7.00 - 7.50	↔
	Chicago	5.00 - 5.25	↔	5.75 - 6.25	↔	5.50 - 5.75	↔	6.50 - 7.00	↔	6.00 - 6.75	↔	7.25 - 7.75	↔
	N. CA: Oakland	4.50 - 5.00	↔	4.75 - 5.25	↔	5.00 - 5.50	↔	5.00 - 5.50	↔	5.25 - 5.75	↔	5.25 - 5.75	↔
	N. CA: San Francisco	4.00 - 4.50	↔	4.25 - 4.75	↔	4.25 - 4.75	↔	4.50 - 5.00	↔	5.00 - 5.50	↔	4.75 - 5.25	↔
	N. CA: San Jose	3.75 - 4.25	↔	3.75 - 4.50	↔	4.00 - 4.50	↔	4.00 - 4.75	↔	4.25 - 5.00	↔	4.25 - 5.25	↔
	NY: Fairfield County, CT	5.75 - 6.25	↔	6.25 - 6.75	↔	6.25 - 6.75	↔	6.75 - 7.25	↔	—	↔	—	↔
	NY: N. New Jersey	5.00 - 5.50	↔	5.75 - 6.25	↔	5.50 - 6.00	↔	6.50 - 7.00	↔	6.00 - 7.00	↔	—	↔
	S. CA: Inland Empire	4.25 - 4.50	▼	4.75 - 5.00	▼	5.00 - 5.50	↔	5.00 - 5.50	▼	5.50 - 5.75	▼	5.50 - 6.00	▼
	S. CA: Los Angeles	4.00 - 4.50	↔	4.50 - 5.00	↔	4.50 - 5.25	↔	5.00 - 5.75	↔	5.25 - 6.50	↔	5.75 - 7.00	↔
	S. CA: Orange County	4.00 - 4.50	↔	5.25 - 6.50	↔	4.50 - 5.00	▲	6.00 - 7.25	▲	4.75 - 5.25	↔	6.75 - 8.00	▲
	S. FL: Fort Lauderdale	4.25 - 4.75	↔	5.50 - 6.00	↔	4.75 - 5.00	↔	6.00 - 6.25	↔	5.75 - 6.25	↔	7.00 - 7.25	↔
	S. FL: Miami	4.25 - 4.75	↔	5.50 - 5.75	↔	4.75 - 5.00	↔	6.00 - 6.25	↔	5.75 - 6.25	↔	7.00 - 7.25	↔
	S. FL: West Palm Beach	4.50 - 5.00	↔	5.50 - 6.00	↔	4.75 - 5.50	↔	5.50 - 6.50	↔	6.00 - 6.50	↔	7.25 - 7.50	↔
	Seattle	4.75 - 5.00	↔	4.75 - 5.25	↔	5.00 - 5.25	↔	5.25 - 5.50	↔	5.75 - 6.25	↔	5.75 - 6.25	↔
Washington, D.C.	4.75 - 5.25	↔	5.00 - 5.75	↔	5.25 - 5.75	↔	5.75 - 6.25	↔	6.00 - 6.75	↔	6.75 - 7.50	↔	

		CLASS A				CLASS B				CLASS C			
		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)	
			CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹
TIER II	Atlanta	4.75 - 5.25	▼	6.00 - 6.50	↔	5.25 - 6.00	▼	6.25 - 6.75	▼	6.00 - 6.50	▼	6.50 - 7.25	▼
	Austin	4.75 - 5.25	↔	4.50 - 5.25	↔	5.00 - 5.50	▼	4.75 - 5.50	↔	5.25 - 6.00	↔	5.25 - 5.75	↔
	Baltimore	5.00 - 5.50	↔	5.25 - 5.75	↔	5.25 - 5.75	↔	6.25 - 6.75	↔	6.00 - 6.50	↔	7.00 - 8.00	↔
	Dallas/Fort Worth	4.75 - 5.25	↔	5.50 - 6.00	↔	5.50 - 6.00	↔	6.25 - 6.75	▼	6.25 - 6.75	↔	7.00 - 7.50	↔
	Denver	4.75 - 5.25	▼	6.00 - 7.00	↔	5.00 - 5.50	▼	6.75 - 7.50	↔	5.50 - 6.00	▼	7.25 - 8.50	▼
	Houston	4.75 - 5.25	▼	5.50 - 6.00	↔	5.75 - 6.25	▼	6.00 - 6.50	▲	6.75 - 7.25	▼	8.50 - 9.00	▼
	Minneapolis/St. Paul	5.00 - 5.25	↔	5.50 - 5.75	↔	5.25 - 5.75	▼	5.75 - 6.25	↔	5.50 - 6.25	↔	6.00 - 6.75	↔
	Orlando	4.75 - 5.25	↔	—	↔	5.50 - 6.00	↔	6.25 - 6.75	↔	6.00 - 6.50	↔	7.50 - 8.00	↔
	Philadelphia	4.75 - 5.25	↔	6.00 - 6.50	↔	5.25 - 6.00	↔	6.50 - 7.25	▼	6.00 - 6.75	↔	7.25 - 7.75	↔
	Phoenix	4.75 - 5.00	▼	5.75 - 6.25	▼	5.00 - 5.25	▼	6.00 - 6.50	▼	5.25 - 6.50	↔	6.25 - 7.00	▼
	Portland	4.75 - 5.00	↔	4.50 - 5.25	↔	5.25 - 5.50	↔	4.75 - 5.25	↔	5.25 - 5.75	↔	5.25 - 5.75	↔
	Sacramento	4.50 - 5.00	↔	5.00 - 5.50	↔	4.75 - 5.50	↔	5.75 - 6.25	↔	5.00 - 6.00	↔	5.25 - 6.25	↔
	San Diego	4.50 - 4.75	↔	4.75 - 5.00	↔	4.75 - 5.00	↔	5.00 - 5.50	▼	5.25 - 5.50	↔	5.50 - 6.00	▼
	Tampa	4.75 - 5.25	↔	5.25 - 5.75	↔	5.50 - 6.00	↔	6.00 - 6.50	↔	6.50 - 7.00	↔	7.00 - 7.50	↔

▲ INCREASE ▼ DECREASE ↔ STABLE — N/A

¹Compared with H1 2017. Changes less than 15 bps considered stable.

Source: CBRE Research, Q4 2017.

Notes: Data is subject to historical revision. Markets represented by metropolitan areas. For larger metros, tier designation is based on the U.S. Census Bureau's combined statistical area (CSA) definitions. Note that MSAs retain same tier designation as the CSA to which they belong.

⁴² http://www.multifamilyexecutive.com/business-finance/20172018-forecast-class-b-and-c-apartments-will-rule_o

⁴³ http://www.multifamilyexecutive.com/business-finance/20172018-forecast-class-b-and-c-apartments-will-rule_o

	CLASS A				CLASS B				CLASS C				
	CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		CAP RATES FOR STABILIZED PROPERTIES (%)		EXPECTED RETURN ON COST FOR VALUE-ADD PROPERTIES (%)		
		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹		CHANGE ¹	
TIER III	Albuquerque	5.50 - 5.75	◄	6.25 - 6.50	◄	5.75 - 6.25	◄	6.75 - 7.25	◄	6.75 - 7.50	◄	8.00 - 9.00	◄
	Charlotte	5.25 - 5.50	◄	5.25 - 5.50	◄	5.50 - 6.00	◄	5.50 - 6.00	◄	6.25 - 6.75	◄	6.25 - 6.75	◄
	Cincinnati	5.25 - 5.75	◄	7.00 - 8.00	◄	5.50 - 6.25	◄	8.00 - 9.00	◄	7.00 - 8.50	▼	8.50 - 10.00	◄
	Cleveland	5.50 - 6.00	▲	7.00 - 8.00	◄	6.50 - 7.50	▼	7.50 - 8.50	▼	8.00 - 9.00	◄	9.00 - 11.00	◄
	Columbus	5.50 - 6.00	▼	6.00 - 6.50	▼	6.25 - 6.75	▼	7.00 - 7.25	▼	7.50 - 8.50	▼	8.50 - 9.00	▼
	Detroit	5.75 - 6.75	◄	6.50 - 7.75	◄	6.25 - 7.25	◄	7.00 - 7.50	◄	7.50 - 8.50	◄	8.50 - 10.00	◄
	Honolulu	4.25 - 5.50	▼	—	—	4.75 - 6.50	◄	—	—	5.25 - 6.75	▼	—	—
	Indianapolis	5.50 - 5.75	◄	6.25 - 6.50	◄	5.75 - 6.00	◄	6.50 - 7.00	◄	7.00 - 8.25	◄	8.00 - 10.00	◄
	Jacksonville	4.75 - 5.50	◄	5.50 - 6.00	◄	5.25 - 6.25	▼	6.50 - 7.00	◄	6.50 - 7.50	◄	7.50 - 8.25	◄
	Kansas City	5.00 - 5.50	▼	5.50 - 6.00	▼	5.25 - 5.75	▲	5.75 - 6.25	◄	5.75 - 6.25	◄	6.25 - 6.75	◄
	Las Vegas	4.75 - 5.00	▼	5.00 - 5.25	▼	5.00 - 5.50	▼	5.25 - 5.75	▼	6.00 - 6.25	▼	6.25 - 6.50	◄
	Memphis	5.75 - 6.25	◄	5.50 - 6.00	◄	6.50 - 7.00	◄	6.25 - 6.75	◄	7.25 - 8.25	◄	7.00 - 9.00	◄
	Nashville	5.00 - 5.50	◄	5.50 - 6.00	▼	5.25 - 5.75	◄	5.75 - 6.25	▼	6.00 - 6.50	◄	6.50 - 7.25	▼
	Oklahoma City	5.50 - 5.75	▼	7.75 - 8.25	◄	6.00 - 6.50	▲	8.00 - 8.50	▼	7.50 - 8.25	◄	8.50 - 9.25	◄
	Pittsburgh	6.00 - 6.50	◄	6.50 - 7.00	◄	6.50 - 7.00	◄	7.00 - 7.50	◄	7.50 - 8.00	◄	8.50 - 9.00	◄
	Raleigh-Durham	4.75 - 5.50	◄	5.50 - 6.00	◄	5.00 - 5.75	◄	5.50 - 6.00	◄	6.25 - 6.75	◄	6.25 - 6.75	◄
	Richmond	5.75 - 6.25	◄	6.25 - 7.00	◄	5.75 - 6.75	◄	6.75 - 8.00	◄	7.25 - 8.25	◄	8.00 - 10.00	◄
	Salt Lake City	4.75 - 5.25	◄	5.50 - 5.75	◄	5.50 - 5.75	◄	5.75 - 6.25	◄	6.00 - 7.00	◄	7.00 - 7.50	▲
San Antonio	4.75 - 5.25	▼	4.75 - 5.25	◄	5.25 - 5.75	◄	5.25 - 5.75	◄	5.50 - 6.00	▼	5.50 - 6.00	◄	
St. Louis	5.50 - 5.75	◄	—	—	6.00 - 6.75	◄	—	—	7.25 - 8.25	◄	—	—	

▲ INCREASE ▼ DECREASE ◄ STABLE — N/A

Source: CBRE Research U.S. Cap Rate Survey Second Half 2017⁴⁴.

Class B stabilized cap rates are at 5.50%-6.00%, while value add cap rates are 6.25%-6.75%. Class C stabilized cap rates are at 6.25%-6.75%, while value add are floating around 7.00%-7.50%⁴⁵. Dallas's cap rates are favorable compared to other metropolitan areas, especially Tier I assets, which have cap rates between 4.50% - 6.00% for stabilized class B assets and 4.00% to 7.00% for class B value add assets⁴⁶. The lower cap rates seen in Tier I markets are due to the overbought nature of these markets. As a result, we are drawn to the yield opportunities in the Tier II and Tier III markets.

⁴⁴CBRE Research U.S. Cap Rate Survey Second Half 2017

⁴⁵ Source: Berkadia Dallas Multifamily Report Third Quarter 2017.

⁴⁶ Source: Berkadia Dallas Multifamily Report Third Quarter 2017.

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