Marcus & Millichap

Multifamily Research
Market Report

Second Quarter 2018

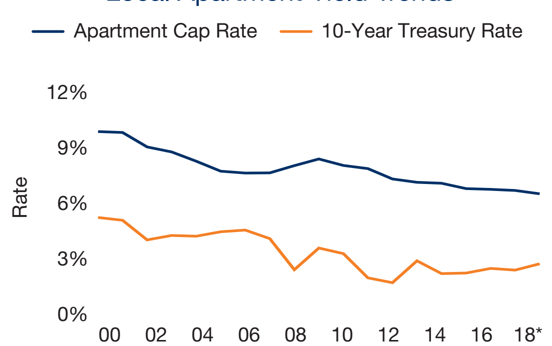
Dallas/Fort Worth Metro Area

Unexpected Pockets Outperforming; Upside Potential Attracts Investors

Households search for affordable housing away from core. A wave of luxury units has opened in urban submarkets such as Intown Dallas, North Dallas and Intown Fort Worth over the past few years. Simultaneously in these areas, owners have renovated older assets to provide additional amenities and upgrade units, resulting in higher rents at these properties. Renters searching for lower monthly housing costs are searching farther from the core as a result. Southwest Dallas is one area that has benefited, with vacancy falling from nearly 9 percent in 2013 to less than 4 percent in the first quarter of 2018. Tight vacancy has supported healthy rent growth in the area and, despite the average rising more than 30 percent over the past five years, the rate remains more than $250 below the metrowide average. West Fort Worth and East Fort Worth have also registered steep declines in vacancy over the past few years, prompting rent growth that outpaces the metro.

Developers stay focused on Frisco this year. Nearly 10,000 apartments have been added in Frisco-Prosper since 2012, more than doubling total inventory. Vacancy in the submarket has climbed to more than 7 percent as a result, remaining highest in Class A units at 8.3 percent. Class B vacancy has also risen more than 300 basis points during the past two years, and could tick up further as the gap closes between Class A and Class B rents and tenants jump to newer units coming online. Nearly 5,500 apartments are underway, with deliveries slated through 2020.

Local Apartment Yield Trends



* Cap rate trailing 12-month average through 1Q; Treasury rate as of March 29th
Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2018 Outlook

27,000 units will be completed

Construction: Developers will complete more apartments in the metroplex than any other market again this year. Over 25,000 units were also added to stock in 2017.

50 basis point increase in vacancy

Vacancy: Net absorption reaches the strongest pace in the past decade during 2018, yet vacancy will climb for a third consecutive year, to 6.0 percent.

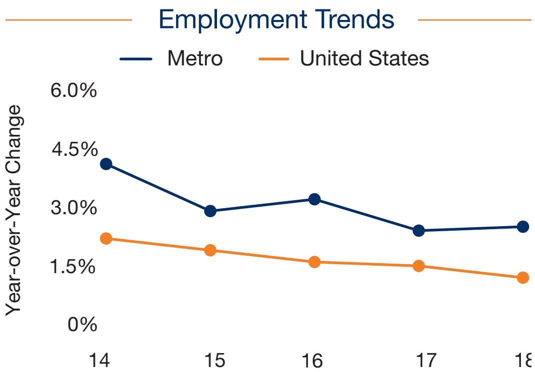
3.4% increase in effective rents

Rents: Rent growth slows as the average advances to $1,127 per month. Despite the moderating pace of growth, the rate continues to rise faster than the national average.

Investment Trends

- Low vacancy and rents below the metrowide average in many submarkets will allow for healthy rent gains. Investors seeking upside may target assets in these areas. Apartment trades in these submarkets generate cap rates in the 4 percent to 6 percent range.
- First-time investors are targeting the Dallas/Fort Worth metroplex for opportunities. These investors are drawn to nation-leading job creation and healthy property operations, especially for Class B and Class C assets, where vacancy remains tight and rent growth is strongest.
- Over the past 12 months, the number of sales in East Dallas was more than twice the number of properties traded in any other submarket of the metroplex. Here, assets traded at an average cap rate in the low-6 percent area.

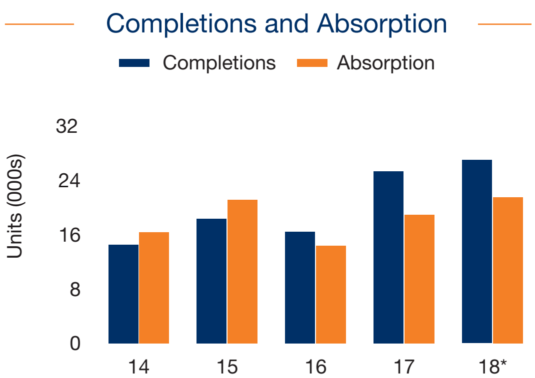
1Q18 – 12-MONTH PERIOD



EMPLOYMENT:

2.9% increase in total employment Y-O-Y

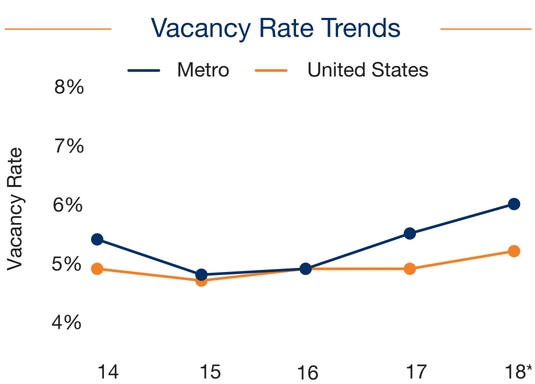
- Employers created over 36,000 positions during the first three months of 2018, contributing to the addition of more than 100,000 people to payrolls since March of last year.
- The unemployment rate fell 40 basis points over the past 12 months to 3.6 percent in March, erasing the 20-basis-point rise recorded during the previous yearlong span.



CONSTRUCTION:

26,100 units completed Y-O-Y

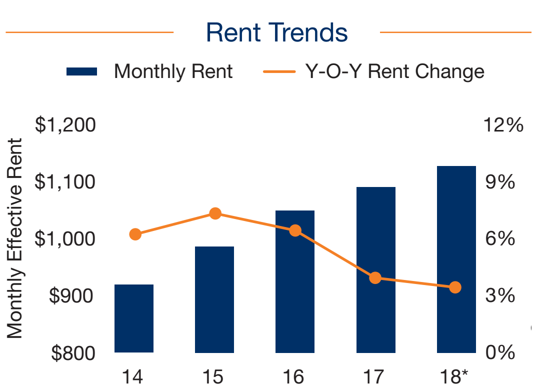
- Developers completed more than 6,700 apartments during the first quarter. Completions during the span were heaviest in Intown Dallas and Richardson.
- Intown Dallas remains a target for developers, with more than 6,000 units underway at the end of March. Frisco is also slated to receive a boost to supply as 5,500 apartments should come online through mid-2020.



VACANCY:

60 basis point increase in vacancy Y-O-Y

- After rising 40 basis points one year ago, the vacancy rate increased again over the past 12 months, reaching 5.7 percent.
- Class A and Class B vacancy has risen over the past year, with the rate for Class A units rising 80 basis points to 6.5 percent, and vacancy for Class B assets reaching 5.9 percent on a 90-basis-point advance.



RENTS:

2.9% increase in effective rents Y-O-Y

- Rent growth is moderating, with the average advancing to $1,082 per unit in March. One year ago, the average effective rent grew 5.2 percent year over year.
- Rent growth has been strongest among Class C properties, rising at an average rate of more than 4 percent during each of the past four years. The average Class C rent was $866 per month in the first quarter.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

1Q18 MEDIAN HOUSEHOLD INCOME

Metro $67,373

U.S. Median $60,686

1Q18 AFFORDABILITY GAP

Renting is $711 Per Month Lower

Average Effective Rent vs. Mortgage Payment*

MULTIFAMILY (5+ Units) PERMITS❖

27,171 2H 2017

9% Compared with 2H 2014-2016

1Q18 MEDIAN HOME PRICE

Metro $257,563

U.S. Median $257,628

FIVE-YEAR HOUSEHOLD GROWTH**

287,000 or 2.1% Annual Growth

U.S. 1.1% Annual Growth

SINGLE-FAMILY PERMITS❖

34,534 2H 2017

20% Compared with 2H 2014-2016

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2017-2022 ❖ Annualized Rate

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q18

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Central Arlington	4.5%	-30	$912	5.2%
Denton	5.1%	60	$991	3.1%
Southwest Fort Worth	5.2%	-20	$907	2.1%
Las Colinas-Coppell	5.5%	80	$1,261	0.6%
Intown Dallas	6.3%	0	$1,649	1.4%
Allen-McKinney	6.3%	50	$1,150	1.2%
Northeast Dallas	6.9%	200	$919	8.8%
Frisco-Prosper	7.5%	60	$1,269	2.1%
Oak Lawn-Park Cities	7.6%	130	$1,523	1.5%
North Dallas	7.9%	270	$1,079	4.5%
Intown Fort Worth-University	8.1%	180	$1,248	0.7%
Overall Metro	**5.7%**	**60**	**$1,082**	**2.9%**

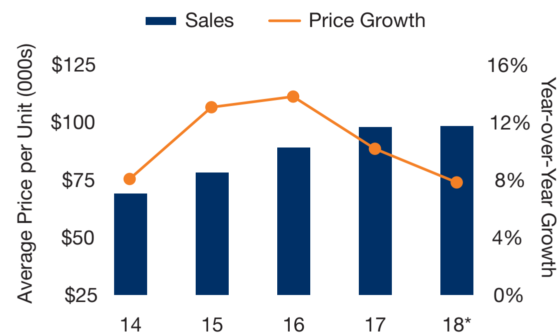
SALES TRENDS

Metroplex Economy Firing On All Cylinders, Keeps Investors Active

- The average price per unit continues to climb, increasing 8 percent over the past four quarters to $98,100. The average now rests 58 percent above the pre-recession peak achieved in 2006.
- Cap rates compressed further among properties sold during the past 12 months, with the average dipping 20 basis points to 6.5 percent.

Outlook: A diverse pool of buyers will continue to target a range of opportunities in the metroplex this year, and strong investor demand will keep cap rates compressed as borrowing costs rise.

Sales Trends

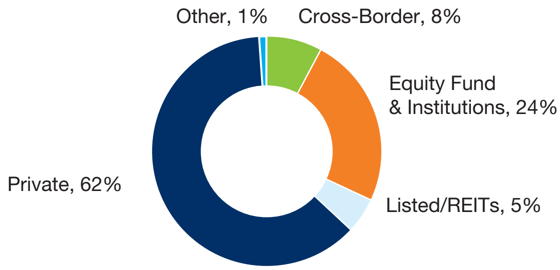


* Trailing 12 months through 1Q18

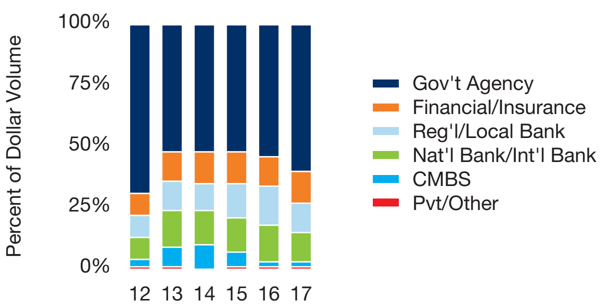
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

1Q18 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



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

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

National Multi Housing Group

Visit www.MarcusMillichap.com/Multifamily

John Sebree
First Vice President, National Director | National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Prepared and edited by
Jessica Hill
Market Analyst | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President, National Director | Research Services
Tel: (602) 707-9700
john.chang@marcusmillichap.com

Price: $250

Dallas Office:

Tim Speck First Vice President/District Manager
5001 Spring Valley Road, Suite 100W
Dallas, TX 75244
(972) 755-5200 | tim.speck@marcusmillichap.com

Fort Worth Office:

Kyle Palmer Vice President/Regional Manager
300 Throckmorton Street, Suite 1500
(817) 932-6100 | kyle.palmer@marcusmillichap.com

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau

Multifamily Research Market Report

First Quarter 2018

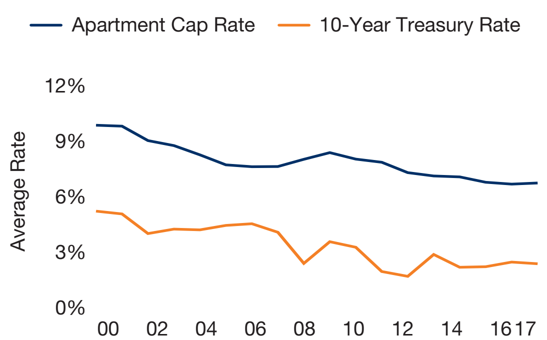
Dallas/Fort Worth Metro Area

Dallas Keeps Developers' Attention; Buyers Chase Deals Across Metroplex

Employment gains, apartment completions continue to lead the country. The Dallas/Fort Worth metroplex has been the nation's job engine over the last few years, attracting and encouraging a diverse range of companies to relocate and expand in the area. An average of 85,000 individuals have moved to the metroplex in each of the past five years in search of jobs, creating strong demand for area housing. Despite robust employment gains, wage growth has not kept pace with home price appreciation, pushing thousands of residents into apartments as housing affordability slips. Absorption reached the highest level in the last decade during 2017 at a time when completions were at peak levels, suggesting there's still pent-up demand for metroplex housing.

Heightened deliveries soften operations in some submarkets, largely restricted to Class A units. Completions over the past few years have been concentrated in north Dallas. Vacancy for Class A units in the areas of Allen/McKinney, Frisco/Prosper and Intown Dallas has risen anywhere from 100 to 300 basis points during the last four years, while vacancy at Class B and Class C properties remains tighter. Stock additions are focused on the Dallas half of the metroplex through next year, and the use of concessions to attract tenants will stay elevated this year, especially among newly constructed properties.

Local Apartment Yield Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2018 Outlook

32,000 units will be completed

Construction: Completions rise again in 2018, remaining well above the five-year average, and developers are set to bring a record number of units online.

70 basis point increase in vacancy

Vacancy: Vacancy rises again this year as deliveries are elevated, reaching 6.3 percent. Vacancy rose 60 basis points in 2017 and 20 basis points in 2016.

3.4% increase in effective rents

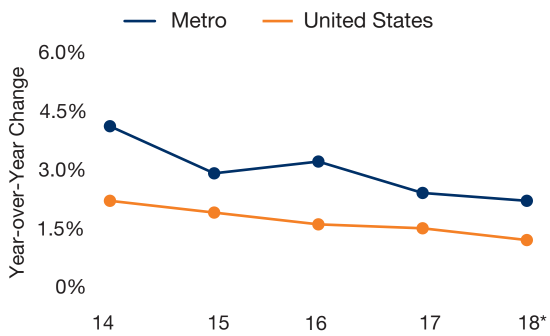
Rents: Following a 4.0 percent bump last year, rent growth stays well below the previous five-year average of 5.7 percent during 2018, with the average rising to $1,128 per month.

Investment Trends

- The metroplex apartment market draws new and experienced investors from across the country in search of apartment properties. While out-of-state investment activity remains healthy, the majority of assets are trading to Texas investors.
- True value-add listings are limited and buyer competition is strong when opportunities are available. Going-in cap rates for properties with upside potential are in the 5 percent area, moving up into the 6 percent span depending on property location and condition.
- Vacancy in Class B and Class C units remains tight and rent growth in these classes has been strongest over the last year. Buyer demand for these units will be strong as recently completed units are mostly luxury apartments and spreads in effective rents keep vacancy tight as many renters are financially unable to jump into newer units.

4Q17 – 12-MONTH PERIOD

Employment Trends

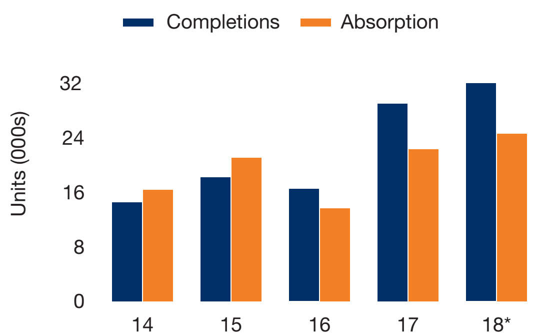


EMPLOYMENT:

2.4% increase in total employment Y-O-Y

- Employers added 84,000 workers to staffs during 2017. Hiring in the leisure and hospitality sector led job creation during the year, with nearly 18,700 positions generated in the segment.
- The metroplex's unemployment rate fell 70 basis points year over year to 3.3 percent in 2017.

Completions and Absorption

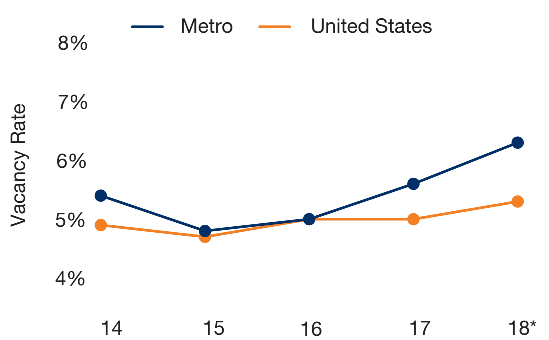


CONSTRUCTION:

29,000 units completed Y-O-Y

- Nearly 29,000 apartments were delivered last year and completions were concentrated in the Dallas area. More than 3,500 units were added to inventory in Frisco.
- Of the nearly 47,000 units underway in the metroplex at the end of 2017, just 7,700 are located in the Fort Worth portion of the market.

Vacancy Rate Trends

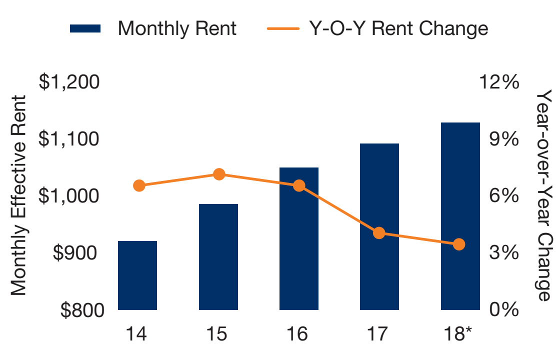


VACANCY:

60 basis point increase in vacancy Y-O-Y

- Net absorption totaled more than 22,000 units last year, a decade high, but it fell short of supply additions, resulting in a vacancy increase to 5.6 percent.
- The addition of thousands of high-end, luxury units in Frisco and Allen/McKinney has pushed vacancy for Class A units above 7.5 percent in these locales, some of the highest in the metroplex.

Rent Trends



RENTS:

4.0% increase in effective rents Y-O-Y

- Rent growth slowed last year to a still-strong 4.0 percent, advancing the average asking rent to $1,091 per month. Gains were 6.5 percent or higher during the previous three years.
- Fort Worth apartments were more affordable than those in Dallas, with the average effective rent staying below $1,000 per month in 2017.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

716,700

4Q17 POPULATION AGE 20-34
(Percent of total population)

Metro 21.5%

U.S. 21%

4Q17 MEDIAN HOUSEHOLD INCOME

Metro $65,630

U.S. Median $58,714

FIVE-YEAR HOUSEHOLD GROWTH*

291,000

POPULATION OF AGE 25+
PERCENT WITH BACHELOR'S DEGREE+**

Metro 32.3%

U.S. Average 29%

4Q17 TOTAL HOUSEHOLDS

36% Rent

64% Own

* 2017-2022

**2016

SUBMARKET TRENDS

Lowest Vacancy Rates 4Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Ellis County	2.2%	-80	$984	3.0%
Burleson/Johnson County	3.0%	-90	$944	3.6%
Hunt County	3.2%	130	$753	1.6%
Kaufman County	3.6%	-280	$1,026	18.9%
Denton	4.2%	30	$997	4.9%
Garland	4.4%	70	$952	2.7%
South Fort Worth	4.4%	-20	$818	6.8%
W. Ft. Worth/Parker County	4.5%	20	$948	8.6%
Central Arlington	4.5%	10	$910	5.7%
South Irving	4.6%	20	$906	5.5%
Mesquite	4.7%	0	$934	3.2%
Overall Metro	**5.6%**	**60**	**$1,091**	**4.0%**

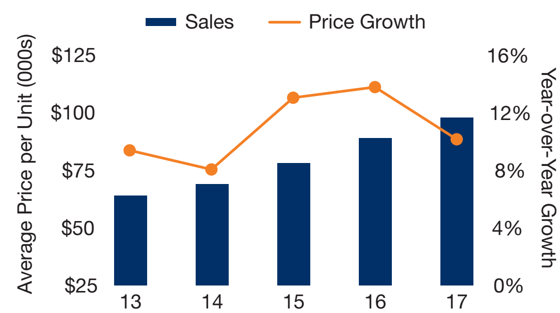
SALES TRENDS

Economic Growth, Favorable Demographic Trends Keep Investors Interested

- Investor interest in metroplex apartment assets remains strong with the Mid-Cities of Farmers Branch, Addison, Carrollton and Arlington attracting a large share of investors last year.
- The average price per unit appreciated has accelerated by 10 percent or more for the last three years, reaching $97,800 per door in 2017.

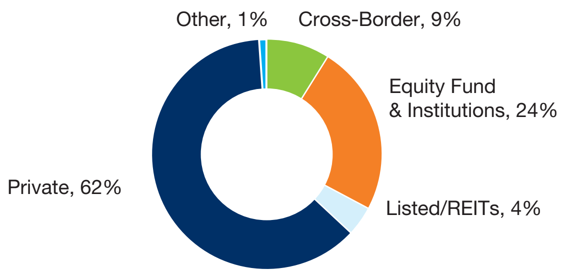
Outlook: Investor interest in Class B and Class C properties will be robust as vacancy remains tight and rents continue to rise at a healthy pace.

Sales Trends

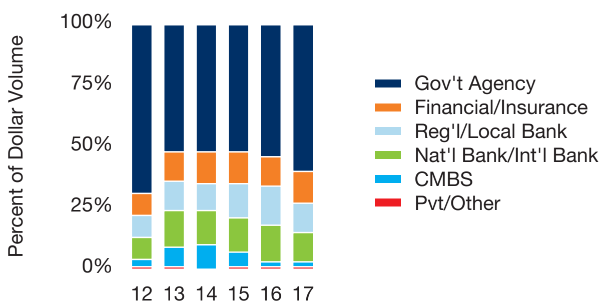


Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

2017 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



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

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

John Sebree
First Vice President, National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Prepared and edited by
Jessica Hill
Market Analyst | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President, National Director | Research Services
Tel: (602) 707-9700
john.chang@marcusmillichap.com

Price: $250

Dallas Office:

Tim Speck First Vice President/District Manager
5001 Spring Valley Road, Suite 100W
Dallas, TX 75244
(972) 755-5200 | tim.speck@marcusmillichap.com

Fort Worth Office:

Kyle Palmer Vice President/Regional Manager
300 Throckmorton Street, Suite 1500
(817) 932-6100 | kyle.palmer@marcusmillichap.com

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; Real Page, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau

Marcus & Millichap

Multifamily Research
Market Report

Third Quarter 2017

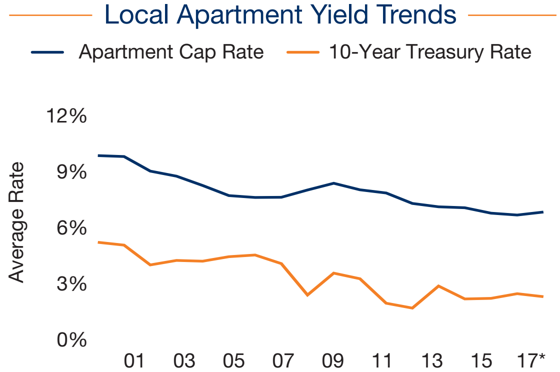
Dallas/Fort Worth Metro Area

Strong Historical Performance Attracts Developers, Investors to Metroplex

Metroplex job gains, household formation outpace nation, encourage robust apartment demand. Total employment has grown by more than 640,000 positions since the beginning of 2011. An expanding economy attracts new residents, causing positive net migration to double the number of individuals moving to the metro each year. This has facilitated a steady pace of household formation and strong demand for housing. Many of these new households are funneling into apartments, and absorption has outstripped supply additions by nearly 17,200 rentals over the last six years. This year, deliveries will outpace demand for the first time since 2009, but absorption reaches its strongest level since 2010 and keeps vacancy below 5 percent.

Absorption strong as luxury units come online. Construction during the past few years has been heavily concentrated in select submarkets north of downtown Dallas, where thousands of jobs have been created and more are anticipated. Despite a significant number of new units coming online in these areas, overall vacancy remains near 6 percent or below, with the exception of Oak Lawn/Park Cities where Class A vacancy has risen to 8.8 percent in recent quarters. Class B and C vacancy remains tight in this submarket, as well as throughout the Metroplex, with the majority of submarkets recording a rate below 4 percent in the second quarter.

Local Apartment Yield Trends



* Trailing 12 months through 2Q17
Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2017 Outlook

31,800 units will be completed

Construction: Development rises considerably over the next two years as more than 60,000 units are slated for completion. During 2016, builders delivered 18,800 units.

90 basis point increase in vacancy

Vacancy: This year, supply additions outpace the strongest rate of absorption since 2010, and vacancy will rise for the first time this cycle to 4.9 percent.

7.2% increase in effective rents

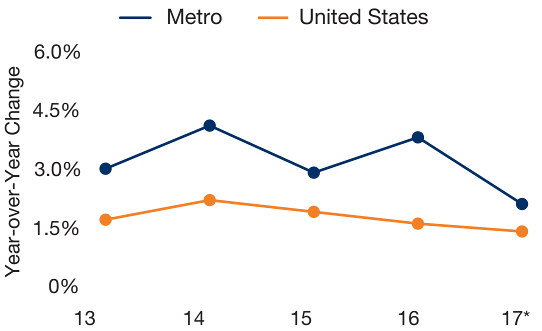
Rents: Vacancy remains tight despite the rise, and the average effective rent advances to $1,102 per month in 2017. Last year, rent grew 4.7 percent.

Investment Trends

- A bright economy attracts investors to the Metroplex, including a greater number of foreign investors. The increased competition has many buyers adjusting expectations to enter the market by accepting lower initial returns and paying more per unit.
- Private local investors continue to dominate sales activity for apartment assets priced below $10 million. Properties located in East Dallas and Uptown/Park Cities were targeted over the last 12 months, and these assets typically trade for first-year returns in the 6 percent to 7 percent span.
- Sales of properties priced above $20 million have been concentrated in North Dallas over the last year. A number of trades also occurred Uptown/Park Cities, Las Colinas and East Dallas, where newly constructed assets are coming online and stabilizing. These assets change hands at cap rates in the high-4 percent to high-5 percent range.

2Q17 – 12-Month Period

Employment Trends

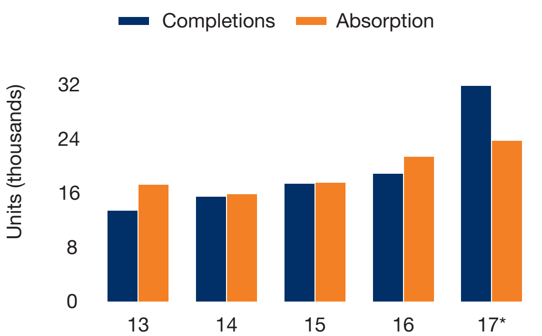


EMPLOYMENT:

3.4% increase in total employment Y-O-Y

- Metroplex employers created 118,200 positions over the last year, rising from the 92,400 jobs generated one year ago. Professional and business services led gains, with nearly 32,000 workers added to headcounts.
- Unemployment ticked up 10 basis points year over year to 4.1 percent in the second quarter, still below the national rate of 4.3 percent.

Completions and Absorption

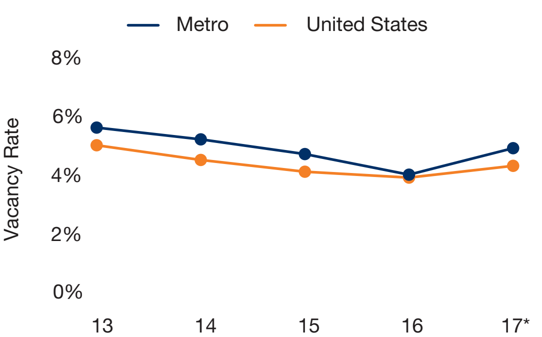


CONSTRUCTION:

24,780 units completed Y-O-Y

- Deliveries in the second quarter reached 7,100 units, the highest quarterly level of completions since late 2009. Allen/McKinney and Frisco/Prosper led deliveries, adding more than 1,400 apartments each.
- Apartment builders have 42,500 rentals underway in the Metroplex, down from the more than 52,000 under construction one year ago.

Vacancy Rate Trends

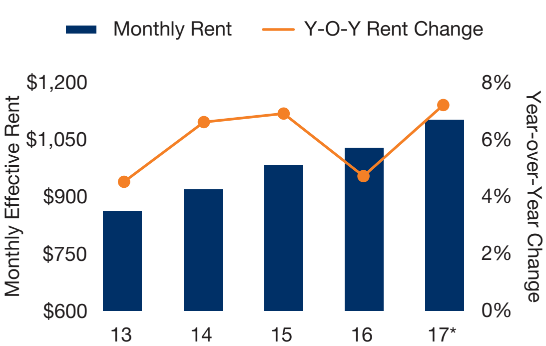


VACANCY:

20 basis point decrease in vacancy Y-O-Y

- The absorption of more than 24,100 apartments over the last 12 months pushed down vacancy to 4.3 percent. The rate also declined 20 basis points last year.
- Vacancy in Class C assets fell 130 basis points year over year to 3.0 percent in June. Class B vacancy also dropped below 4 percent during the period, while the Class A rate ticked up 60 basis points to 6.3 percent.

Rent Trends



RENTS:

5.8% increase in effective rents Y-O-Y

- The pace of rent growth remains strong, pushing up the average effective rent to $1,080 per month. Rent grew 7.4 percent and 7.3 percent in the prior annual periods.
- More units were delivered in Intown Dallas over the past year than any other submarket, keeping vacancy elevated when compared with the overall average. As a result, rent declined 2.0 percent to $1,651 per month.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

2Q17 MEDIAN HOUSEHOLD INCOME

Metro $63,502

U.S. Median $58,672

2Q17 AFFORDABILITY GAP

Renting is $623 Per Month Lower

Average Effective Rent vs. Mortgage Payment*

MULTIFAMILY (5+ Units) PERMITS❖

36,085 1H 2017

28% Compared with 1H 2014-2016

2Q17 MEDIAN HOME PRICE

Metro $249,900

U.S. Median $246,000

FIVE-YEAR HOUSEHOLD GROWTH**

317,000 or 2.3% Annual Growth

U.S. 1.1% Annual Growth

SINGLE-FAMILY PERMITS❖

34,362 1H 2017

12% Compared with 1H 2014-2016

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2017-2022 ❖ Annualized Rate

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Northwest Dallas	1.3%	-110	$826	3.5%
Ellis County	1.9%	90	$939	6.7%
Southern Dallas County	2.1%	-180	$979	9.4%
South Fort Worth	2.1%	-370	$802	3.8%
Southwest Dallas	2.8%	-250	$813	7.4%
Grand Prairie	2.9%	-110	$999	8.1%
West Fort Worth/ Parker County	2.9%	-90	$916	5.4%
Irving	3.1%	-60	$953	7.8%
South Arlington/Mansfield	3.1%	-20	$1,033	4.3%
Zang Triangle/ Cedars/Fair Park	3.2%	-90	$1,125	8.6%
Overall Metro	**4.3%**	**-20**	**$1,080**	**5.8%**

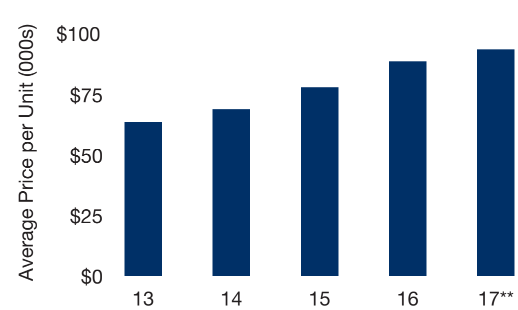
SALES TRENDS

Bright Economy Attracts Investors to Metroplex Apartment Assets

- Transaction activity increased 3.8 percent during the 12-month period ending in June, building on a 9.4 percent rise in sales in the prior year.
- The average price advanced 13 percent over the last four quarters to $93,800 per unit. During the same span, cap rates compressed approximately 50 basis points to the low-6 percent area.

Outlook: Sales of assets priced above $20 million will continue to rise as newly built properties come online and stabilize. These assets often command first-year yields in the high-4 percent to low-5 percent band.

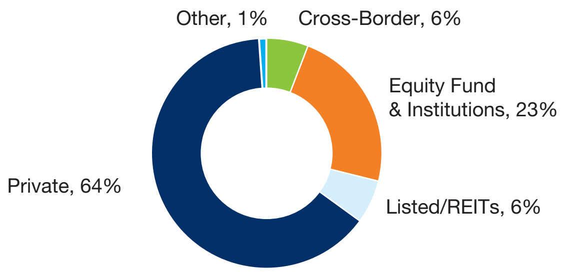
Pricing Trends



** Trailing 12 months through 2Q17

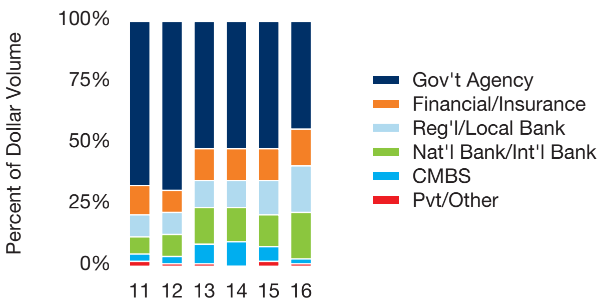
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type*



* Trailing 12 months through 2Q17

Apartment Mortgage Originations By Lender



Sources: CoStar Group, Inc.; Real Capital Analytics

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

John Sebree
First Vice President, National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Prepared and edited by
Jessica Hill
Market Analyst | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 707-9700
john.chang@marcusmillichap.com

Price: $250

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.
- **Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding the possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. These conditions are allowing pent-up households to form, creating new apartment demand. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.
- **Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 65 percent to 75 percent for most apartment properties. At the end of 2016, the combination of higher rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and higher interest rates may also encourage additional lenders to participate.

Dallas Office:

Tim Speck
First Vice President | District Manager
Tel: (972) 755-5200
tim.speck@marcusmillichap.com

5001 Spring Valley Road
Suite 100W
Dallas, TX 75244

Fort Worth Office:

Kyle Palmer
Regional Manager
Tel: (817) 932-6100
kyle.palmer@marcusmillichap.com

300 Throckmorton Street
Suite 1500
Fort Worth, TX 76102

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.

Marcus & Millichap

Multifamily Research Market Report

Second Quarter 2017

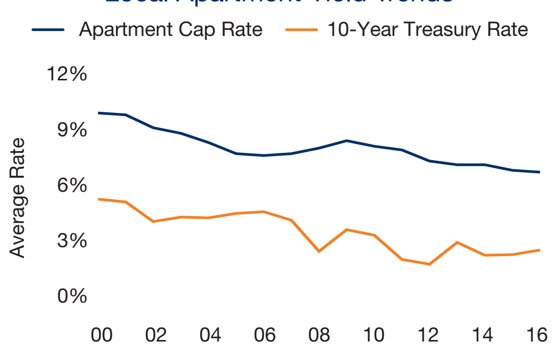
Dallas/Fort Worth Metro Area

Bright Economic Outlook Encourages Owners, Lures Investors to Metroplex

Healthy job growth spurs robust household formation in the Metroplex. Employment gains of nearly 3.0 percent or more since 2012 have boosted housing demand for both single-family and multifamily dwellings in the market. Single-family permitting issuance of nearly 31,500 residences far exceeds multifamily permits pulled over the past year. Despite this, single-family housing supply remains tight, pushing up home prices and keeping many would-be owners in apartments. Strong rental demand and absorption across the Metroplex has encouraged apartment development. The pace of apartment completions will reach a peak this year as builders are set to bring more units online in Dallas/Fort Worth than nearly every other major metro in the country. It is surpassed only by New York City.

Vacancy holding firm below previous long-term average, encouraging healthy effective rent gains. Strong demand for apartments in the metro pushed vacancy to a record low last year as deliveries outpaced every major market with the exception of Houston. Though additions to apartment stock will remain elevated during 2017, the steady expansion of companies and creation of jobs across the Metroplex is maintaining steady demand for rentals. As a result, absorption remains healthy, keeping vacancy historically low. With vacancy staying well below the previous nine-year average, effective rent growth remains strong throughout much of the market.

Local Apartment Yield Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2017 Outlook

29,100 units will be completed

Construction: Developers will top last year's supply addition of 20,700 units. The largest share of completions will occur in the Dallas area as 24,300 units are delivered.

90 basis point change in vacancy

Vacancy: Vacancy remains historically low at 4.9 percent this year as demand strengthens over the next three quarters. Last year, vacancy tumbled 70 basis points.

5.5% increase in effective rents

Rents: This year's advance pushes up the average effective rent for the Metroplex to $1,085 per month. Last year, the average increased 4.7 percent.

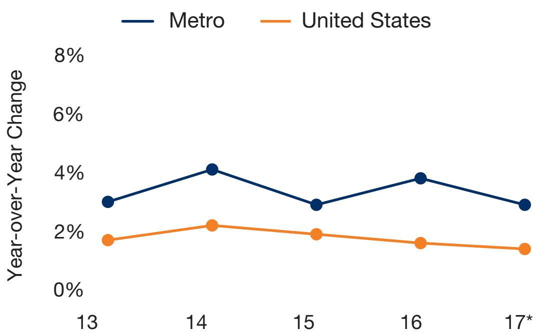
Investment Trends

- Private, local buyers continue to target the Metroplex, chasing deals priced between $1 million and $10 million. First-year returns for these properties average from the mid-6 to low-7 percent range. Those assets in need of minor renovations to reduce vacancy or push up rents are in highest demand.
- Healthy property operations and a bright economic outlook are attracting and keeping out-of-state buyers active. These groups are focused on Class B-plus/A stabilized deals that require less hands-on management and typically generate higher returns with better properties than their home states.
- While investors primarily target the Metroplex for deals, competition for the limited number of apartment properties available for sale is intense. This is encouraging some local buyers to expand their search into nearby secondary and tertiary markets. Cap rates in these locations are typically 50 to 75 basis points higher than the Metroplex average.

Dallas/Fort Worth

Marcus & Millichap

Employment Trends

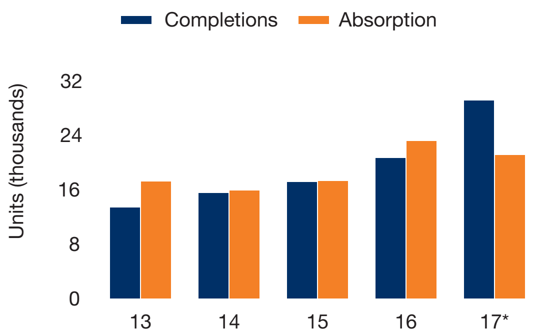


EMPLOYMENT:

3.7% increase in total employment Y-O-Y

- Metroplex employers created 24,300 positions during the first three months of 2017, bringing the annual total to 127,800 positions. Gains were led by the primary office-using sectors during the last 12 months.
- Unemployment in the metro increased 30 basis points over the last four quarters to 3.9 percent, remaining near one of its lowest levels since early 2001.

Completions and Absorption

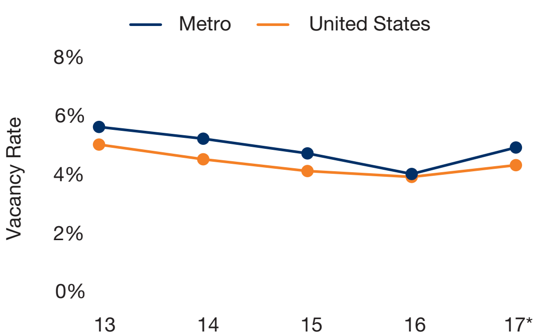


CONSTRUCTION:

23,500 units completed Y-O-Y

- Builders completed 23,500 apartments over the last four quarters. Nearly 50,600 units are under construction; completions are slated through 2019.
- In addition to Intown Dallas and Fort Worth, builders are active in growing suburbs of Dallas. More than 19,000 units are underway in Allen/McKinney, Frisco/Prosper, Richardson, West Plano and Northeast Dallas.

Vacancy Rate Trends

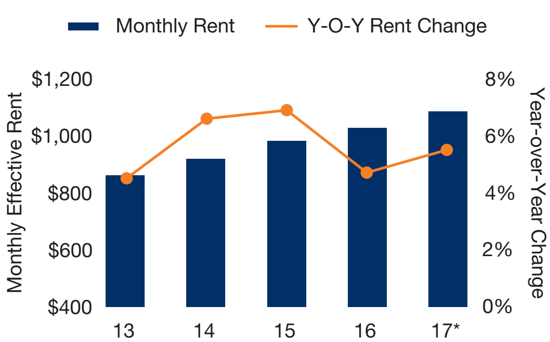


VACANCY:

20 basis point decrease in vacancy Y-O-Y

- Though first quarter absorption was sluggish compared with previous quarters, more than 22,600 units were filled over the last 12 months, resulting in a drop in the vacancy rate to 4.9 percent.
- Class C apartment vacancy is tightest, with the average reaching 3.5 percent in the first quarter. Class B assets recorded a 4.5 percent vacancy rate during the period.

Rent Trends



RENTS:

5.8% increase in effective rents Y-O-Y

- Effective rent advanced above $1,000 per month during the last year, and an annual increase of 5.8 percent in the first quarter pushed up the average to $1,056 per month.
- Class B and C properties are registering the strongest pace of rent gains. Over the last year, Class B rent ticked up 6.9 percent to $1,003 per month, while Class C properties recorded a 7.4 percent surge to $810 per month.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

728,000

FIVE-YEAR HOUSEHOLD GROWTH*

317,000

* 2017-2022

1Q17 POPULATION AGE 20-34
(Percent of total popluation)

Metro **21%**

U.S. 21%

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro **32%**

U.S. Average 29%

**2Q16

1Q17 MEDIAN HOUSEHOLD INCOME

Metro **$62,135**

U.S. Median $58,218

1Q17 TOTAL HOUSEHOLDS

39% Rent

61% Own

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Ellis County	2.0%	10	$899	3.7%
Northwest Dallas	2.3%	-80	$793	2.1%
Southern Dallas County	2.3%	-280	$964	8.9%
Burleson/Johnson County	2.4%	-130	$879	8.0%
South Fort Worth	2.7%	-290	$786	3.4%
Garland	3.2%	-10	$916	8.3%
Mesquite	3.3%	-30	$911	7.1%
Haltom City/Meacham	3.3%	-30	$836	5.0%
Zang Triangle/Cedars/ Fair Park	3.4%	-140	$1,072	1.9%
Southwest Dallas	3.5%	-300	$799	7.5%
Overall Metro	**4.9%**	**-20**	**$1,056**	**5.8%**

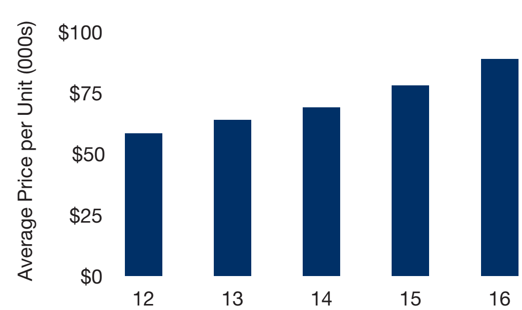
SALES TRENDS

Demand for Local Apartment Assets Intensifies; Increased Competition Lifts Prices

- Apartment sales increased 18 percent during the past 12 months. A surge occurred in the fourth quarter as investors took advantage of favorable lending terms.
- Increased demand for area assets supported a 14 percent rise in the average price to $88,800 per unit during the past year.

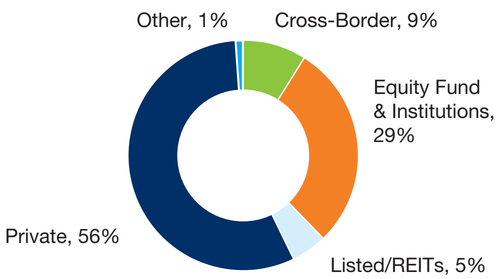
Outlook: Limited listings, rising interest rates and uncertainty over changes to federal tax laws could weigh on sales in the Metroplex this year, though investors will remain optimistic given the healthy economy.

Pricing Trends

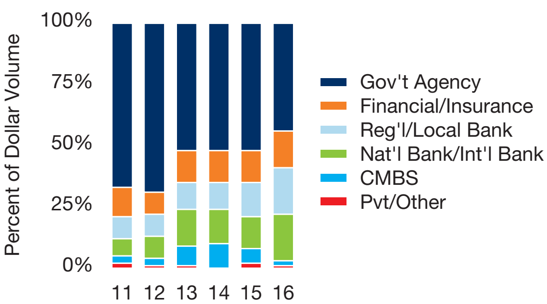


Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy actions set to accelerate.** The 10-year U.S. Treasury rate held below 2 percent until a surge following the election raised the rate above that threshold and potentially established a new and higher range for the benchmark. Moderate economic growth and muted inflation throughout the growth cycle allowed the Federal Reserve to hold off on rate hikes, which has supported additional cap rate compression. However, the Trump administration's fiscal plans built on higher spending and reduced taxes could accelerate economic growth. Intensifying inflationary pressure under that scenario could encourage the Federal Reserve to quicken the pace of its efforts to raise its short-term benchmark.
- **Inflation on the upswing, but for the right reasons.** Though inflationary pressures are beginning to grow, increases are occurring from a historically low base. Further, inflationary pressure has arisen from wage growth and stabilization of oil prices, both positives for the overall economy. Higher wages will encourage spending while inflationary pressure on prices will raise overall consumption, the primary driver of economic growth.
- **Underwriting discipline persists; ample debt capital remains.** Multifamily originations increased in 2016, with agency lending dominating the overall marketplace. The government agencies underwrote about $105 billion in loans last year and remain a primary source of multifamily originations in 2017 due to their efficient execution. Acquisition debt remained plentiful throughout 2016, but borrowers' rates rose late in the year in conjunction with higher Treasury yields and loan-to-value ratios compressed. The combination of higher rates and tighter lender underwriting created some investor caution that could carry over into 2017. A potential easing of Dodd-Frank regulations on financial institutions could create additional lending capacity for other capital sources.

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

John Sebree
First Vice President, National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Prepared and edited by
Jessica Hill
Market Analyst | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 687-6700
john.chang@marcusmillichap.com

Dallas Office:

Tim Speck
First Vice President | District Manager
Tel: (972) 755-5200
tim.speck@marcusmillichap.com

5001 Spring Valley Road
Suite 100W
Dallas, Texas 75244

Fort Worth Office:

Kyle Palmer
Regional Manager
Tel: (817) 932-6100
kyle.palmer@marcusmillichap.com

300 Throckmorton Street
Suite 1500
Fort Worth, Texas 76102

Price: $250

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.

Marcus & Millichap

Multifamily Research
Market Report

Fourth Quarter 2016

Dallas/Fort Worth Metro Area

Investors Target Metroplex for Healthy Economy, Value-Add Opportunities

Diversified economy drives demand for apartments across all classes. The Metroplex has consistently ranked at the top for job creation in the nation over the past few years, and numerous corporate relocations and expansions will drive healthy economic growth in the months to come. Several large companies are preparing to add thousands of workers to area payrolls in the next few years as they open new campuses. As a result, apartment developers have filled the construction pipeline with numerous projects to meet the needs of a growing workforce and population base. Much of this development is concentrated near the areas of Plano, Frisco, Richardson and other north Dallas suburbs, where large corporate offices are rising. A resurgence at Solana Business Park in Westlake and Southlake is driving demand for office tenants, stirring the need for apartments nearby. Young professionals taking positions with expanding companies will support healthy demand for the thousands of luxury units coming online, while hiring in retail trade, leisure and hospitality, and other service-related industries will generate strong absorption trends in Class B/C apartments. Though some areas are expected to suffer supply-side upward pressure on vacancy, the effect will be localized to specific submarkets and overall market vacancy will remain historically low this year.

Healthy economy, property operations encourage investment in the Metroplex. A diverse and growing economy is attracting investors to the Metroplex, increasing buyer competition for area apartment assets and accelerating deal flow. Out-of-state investors are targeting the North Texas region for stabilized assets, with cap rates for Class B properties averaging in the high-5 percent to low-6 percent range. Class C assets in favorable locations and good conditions are trading approximately 50 basis points higher. Local investors remain focused on properties with some value-add component, and complexes with cash flow that need some minor enhancements to push rents or reduce vacancy are in high demand. Rising competition for assets inside the Metroplex are encouraging some investors to seek opportunities in nearby secondary and tertiary markets that offer initial yields an average of 50 to 75 basis points higher.

2016 Multifamily Forecast

3.8% increase in total employment

Employment:

Metroplex employers are on track to add 130,500 workers during 2016, expanding headcounts 3.8 percent from the end of 2015 and leading national growth. Payrolls expanded by 126,800 jobs last year.

22,000 units will be completed

Construction:

Completions have been mounting during the past several years, and the delivery of 22,000 units during 2016 will be the highest annual total since 2000. Last year, builders brought online 16,400 apartments.

50 basis point decrease in vacancy

Vacancy:

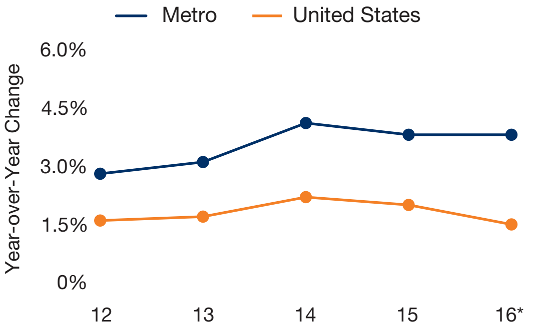
Overall housing demand will outweigh additions to supply, and the vacancy rate will reach 4.2 percent by year-end, down 50 basis points from 2015. Last year, the vacancy rate declined 50 basis points.

7.4% increase in effective rents

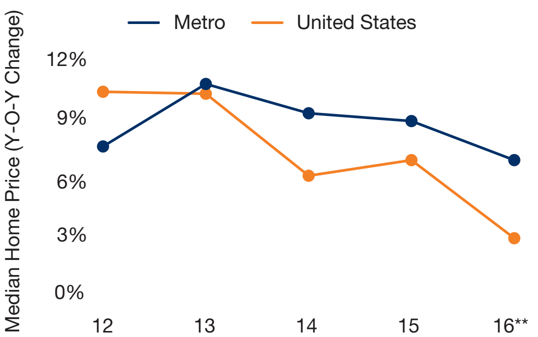
Rents:

Tight vacancy will support an increase in the average effective rent of 7.4 percent in 2016 to $1,055 per month. During 2015, the average rent climbed 6.9 percent.

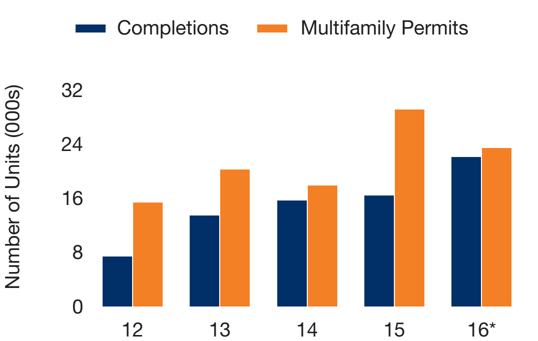
Employment Trends



Home Price Trends



Construction Trends



* Forecast
** Trailing 12 months through 2Q

Economy

- Employers generated 130,800 positions during the year ending in the third quarter, a growth rate of 3.8 percent. In the prior year, headcounts also expanded 3.8 percent with the creation of 123,700 jobs.
- Job gains have been widespread during the last 12 months, with the trade, transportation and utilities sector leading additions. The sector generated 37,700 positions over the year, with the professional and business services segment creating nearly 28,500 jobs during the same span.
- The unemployment rate contracted 20 basis points year over year to 3.8 percent in September.

Outlook: Employment additions will lead the nation this year, rising 3.8 percent in 2016 as 130,500 workers are added to payrolls.

Housing and Demographics

- Existing single-family home sales declined 9 percent over the last 12 months, though not due to a lack of would-be buyers. The month's supply of inventory has receded below three months, remaining well below the national level and the six-month threshold considered equilibrium.
- Home price appreciation in the Metroplex is robust, with the median single-family home price advancing 9 percent year over year to $223,700 in the third quarter.
- With home prices rising significantly faster than apartment rents over the past few years, the gap between owning and renting is widening further. In September, the monthly payment for a median-priced single-family residence, assuming 10 percent down and payments for taxes, insurance and PMI, reached nearly $1,500, nearly $440 more than the average apartment rent in the metro.

Outlook: A shortage of home listings across the Metroplex will filter housing demand into apartments in the months to come. Homebuilders in the region are slow to aid in the housing recovery, with permitting activity increasing 6.7 percent during the last year as contractors pulled an annualized 31,000 permits, also contributing to strong renter household formation.

Construction

- Deliveries in the third quarter reached their highest calendar quarter total since 2009 as nearly 6,000 apartments were added to stock. Approximately 18,300 apartments were delivered over the last year.
- Nearly 15,200 units completed during the last year were in the Dallas area. Builders remain focused here, and 43,000 apartments are underway and scheduled for completion through 2018. Areas near the core, including Uptown Dallas and the suburban communities of Frisco McKinney and Allen, are receiving the bulk of builder interest. Nearly 17,500 rentals are under construction in these areas.
- Vacancy has compressed below 4 percent across the Fort Worth area as limited new construction fills existing units. Builders are beginning to shift some attention to Fort Worth, and nearly 7,600 apartments are underway.

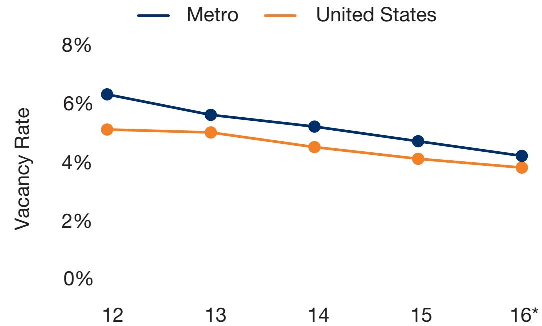
Outlook: Completions have been mounting during the past several years, and the delivery of 22,000 units during 2016 will be the highest annual total since 2000.

Vacancy

- The absorption of more than 10,000 units in the third quarter pushed vacancy to a record low of 4.0 percent. On an annual basis, vacancy retreated 50 basis points as net absorption totaled 19,100 apartments.
- Vacancy is tightest for Class B/C properties. Class B apartment vacancy declined 30 basis points during the last 12 months to 3.6 percent, while the rate for Class C units plummeted 220 basis points to 3.7 percent. Class C buildings, especially in the core and North Dallas, realized sharp declines in vacancy over the year as residents sought apartments in employment and cultural districts at more affordable rents than are sometimes half the Class A level.
- Few areas of the Metroplex report vacancy above 5 percent. Southern and northeastern areas of the Dallas CBD, as well as Oak Lawn, and near the Medical District all recorded vacancy between 5.7 percent and 7.9 percent during the third quarter.

Outlook: Overall housing demand will outweigh supply additions this year, and the vacancy rate will reach 4.2 percent, down 50 basis points from 2015.

Vacancy Rate Trends

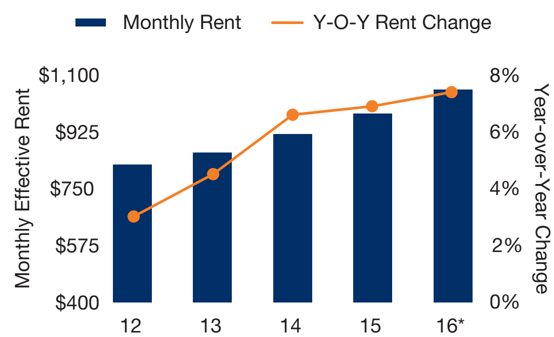


Rents

- The addition of thousands of luxury units to inventory during the last 12 months, as well as historically tight vacancy, encouraged healthy rent gains over the span. In September, the average effective rent reached $1,047 per month, up 7.5 percent from one year ago and one of the strongest paces of expansion in the last 15 years.
- Average rent growth was strongest for Class C properties, which registered an 8.3 percent year-over-year increase to $783 per month. Class B complexes registered an increase of 6.7 percent, and Class A buildings posted a 5.3 percent gain.
- Rent growth in the area just north of Downtown Dallas rose above 11 percent during the last four quarters, driven by healthy gains at Class B and Class C complexes in the area.

Outlook: The average effective rent will rise 7.4 percent during 2016 to $1,055 per month.

Rent Trends

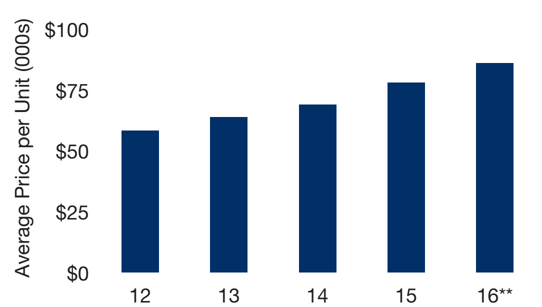


Sales Trends

- Healthy economic growth is supporting robust investment activity, and transaction volume increased 7 percent during the last 12 months. Rising investor interest is keeping buyer competition intense, encouraging a 20 percent advance in the average price per unit over the past year to $86,000.
- Properties located in the north Dallas area, including the areas of Frisco, Allen, Plano, Richardson and McKinney, are in high demand, often commanding premium pricing and yields. The Arlington area and other suburbs of Northwest Fort Worth are also garnering healthy investor interest, with first-year returns averaging in the high-5 percent to mid-6 percent range.
- Cap rates compressed 30 basis points over the last four quarters to the mid- to high-6 percent area in September. Class A properties can command initial yields below 5 percent, depending on asset location and amenities.

Outlook: Low interest rates and a range of debt financing options will drive investment activity through the remainder of the year. An increase in interest rates could result in less aggressive offers as the cost of capital climbs and underwriting tightens.

Sales Trends



* Forecast
** Trailing 12 months through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

John Sebree
First Vice President | National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Dallas Office:

Tim Speck
First Vice President | District Manager
Tel: (972) 755-5200
tim.speck@marcusmillichap.com

5001 Spring Valley Road
Suite 100W
Dallas, Texas 75244

Fort Worth Office:

Kyle Palmer
Regional Manager
Tel: (817) 932-6100
kyle.palmer@marcusmillichap.com

300 Throckmorton Street
Suite 1500
Fort Worth, Texas 76102

Prepared and edited by
Jessica Hill
Market Analyst | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 687-6700
john.chang@marcusmillichap.com

Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The initial reading of third quarter GDP of 2.9 percent and consistent growth in employment are fanning expectations that the Federal Reserve will raise its benchmark short-term lending rate at its December meeting. Other economic data showing steady improvement in the housing market and the stabilization of oil prices around $50 per barrel offer signals that the U.S. economy is growing at a sustainable pace.
- Increasing rental housing demand underpinned a decline in the U.S. apartment vacancy rate of 60 basis points to 3.5 percent year to date through the third quarter, the lowest level this cycle. Apartment builders have responded to growing demand and favorable demographic trends by ramping up construction. Completions will rise to 320,000 units this year and peak in 2017.
- Capital markets remain highly competitive, offering an assortment of fixed-rate products available through commercial banks, life-insurance companies, CMBS and agency lenders. Fannie Mae and Freddie Mac are underwriting loans of 10 years at maximum leverage of 80 percent. Rates will typically reside in the high-3 to low-4 percent range, depending on underwriting criteria. Portfolio lenders will also price in this vicinity but will typically require loan-to-value ratios in the 65 to 75 percent band. Floating-rate bridge loans and financing for asset repositioning are typically underwritten with LTVs 70 to 75 percent of stabilized value (80 to 85 percent of cost) and price 300 basis points above Libor for recourse deals and extending to 450 basis points above Libor for non-recourse transactions.

Local Highlights

- The North Texas region grew by 146,100 individuals during the year ending in the third quarter, an increase of 2 percent. Net migration to the metro jumped 6.6 percent as the metro gained 22,000 people. A healthy pace of population growth and stable migration trends supported the creation of approximately 51,900 households over the annual span.
- While the bulk of deliveries are concentrated in the market-rate segment, affordable, seniors and student housing projects also account for a share of development. Approximately 1,375 affordable housing units will be delivered during 2016, with another 790 seniors housing and 170 student housing rentals also coming online this year.
- Parker Hannifin Corp. is seeking to consolidate its two Fort Worth locations in a single space in north Fort Worth. The company has proposed a $25.5 million project that would renovate a former 150,000-square-foot call center into manufacturing and office space. No positions would be cut as a result of the move, and the company will retain its 525 jobs in the metro.

Marcus & Millichap

Multifamily Research
Market Report

Third Quarter 2016

Dallas/Fort Worth Metro Area

Strong Hiring Boosts Rental Demand, Amplifying Construction

Healthy demographics and corporate expansions continue benefiting apartment operations in the Dallas/Fort Worth Metroplex. Strong job growth, fostered by companies such as Charles Schwab and TD-Ameritrade expanding their presence in the area, is driving a migration increase and boosting the number of households in the metro. These factors have underpinned the need for housing, placing downward pressure on vacancy over the previous four quarters, and pushed the average effective rent above $1,000 per month, setting a record high. As demand has outpaced past supply additions, builders are ramping up construction this year with deliveries significantly exceeding the previous five-year average. In particular, the Intown Dallas submarket is forecast to receive several high-rise complexes; each has a slate of amenities that will appeal to young professionals. Additionally, some older warehouse and office buildings are being renovated into multifamily housing developments in Downtown Dallas as the area experiences a resurgence. The rise in construction this year will tick up vacancy slightly as new units begin to lease; however, as the rate remains relatively tight, strong tenant demand will drive up the average effective rent.

Attractive cap rates and well-located assets pique out-of-state buyer interest. Investors are motivated to inject capital into the Metroplex as market fundamentals remain strong and first-year returns are up to 200 basis points higher than several gateway cities. Out-of-state buyer interest is also picking up steam as investors from California, New York and Illinois flock to the metro seeking higher returns than available in their home markets. Limited value-add deals are driving investors to scour the market for larger well-located properties or stabilized assets for cash flow. In particular, multifamily assets in Arlington and East Dallas, where cap rates trade between the low-6 to high-7 percent range, are in high demand. Metrowide, the growing interest in apartments pushed cap rates down into the mid-6 percent span, while assets in some Fort Worth submarkets traded about 150 basis points higher.

2016 Multifamily Forecast

3.0% increase
in total employment

Employment:

Metroplex employers will increase payrolls by 3.0 percent this year with the creation of 105,000 jobs. In 2015, approximately 126,800 positions were added with hiring led by the trade, transportation and utilities sector.

24,700 units
will be completed

Construction:

After completing 16,400 apartments last year, builders are on track to deliver 24,700 rentals in 2016, the largest number of completions since 2000. The Intown Dallas, the Colony/Far North Carrollton and Richardson submarkets will each receive a significant number of deliveries.

20 basis point
increase in vacancy

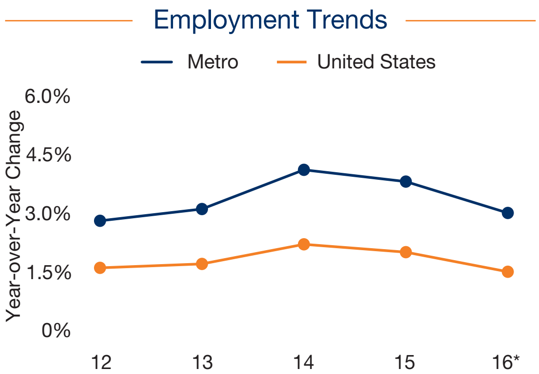
Vacancy:

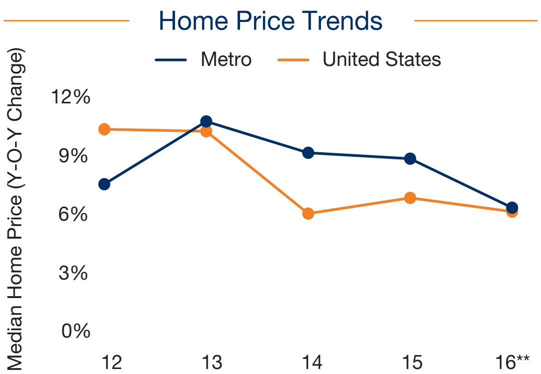
The surge in apartment completions this year will tick up vacancy 20 basis points to 4.9 percent as new units enter a period of lease-up. In the prior 12-month period, the vacancy rate fell 50 basis points on net absorption of nearly 17,000 units.

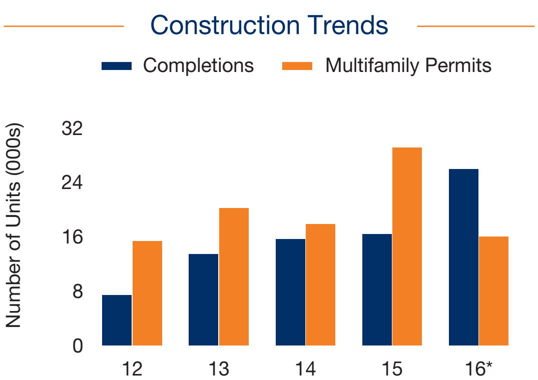
7.1% increase
in effective rents

Rents:

As vacancy remains relatively tight, the average effective rent will surge 7.1 percent in 2016 to $1,052 per month. Last year, average rent edged up 6.9 percent with the North Oak Cliff/West Dallas submarket registering the largest growth of 16.0 percent.







* Forecast
** Trailing 12 months through 2Q

Economy

- In the first half of the year Metroplex employers created 38,200 positions, contributing to the 108,700 jobs created during the previous 12-month period. In the prior annual period, more than 123,000 jobs were added to the metro.
- Hiring during the last four quarters was led by the trade, transportation and utilities sector with the creation of more than 34,400 positions as demand for wholesale employment increased significantly. The leisure and hospitality sector also fared well with the addition of 20,000 jobs.
- The unemployment rate in the Metroplex fell 30 basis points during the year to 3.7 percent ending in June, the lowest rate since 2001. The rate plunged 100 basis points in the previous yearlong period.

Outlook: Employers will increase hiring by 3.0 percent this year with the addition of 105,000 jobs to the workforce. In 2015, 126,800 positions were created.

Housing and Demographics

- The population has risen 2.0 percent during the last four quarters ending at midyear with 144,600 individuals added to the area. During this same time, the number of households increased by 61,000, a 2.4 percent advance. These increases should bode well for apartment operators.
- The median home price grew 6.3 percent in the last 12 months to $220,000 while home sales climbed 3.1 percent from the previous year. In the same yearlong period, the median household income inched up slightly to $61,000 annually.
- Assuming 10 percent down and payments for taxes and insurance, the monthly mortgage payment for a median-priced single-family home in the second quarter of 2016 was $153 more than the average apartment rent of $1,021 per month. However, the payment is about $200 less than the average effective rent for a Class A unit.

Outlook: The high cost of homeownership, particularly in the urban core and near employment centers, and the convenience of rentals will drive demand for apartments in the Metroplex.

Construction

- In the previous 12-month period, builders constructed nearly 17,200 rentals. The bulk of deliveries were located in the Intown Dallas, Frisco/Prosper and North Fort Worth/Keller submarkets. In the prior year, 14,300 units were added to inventory.
- Nearly 51,000 rentals are under construction throughout the Metroplex with completion dates through 2018. Approximately 90 percent of these deliveries will be market-rate units.
- One of the largest projects under development and forecast for completion this year is Lot at Cityline in the Richardson submarket. The 530-unit mid-rise apartment structure is located on State Street and designed to have a live-play-work lifestyle with amenities that include a business center, resort-style swimming pool, pet park and wellness center.

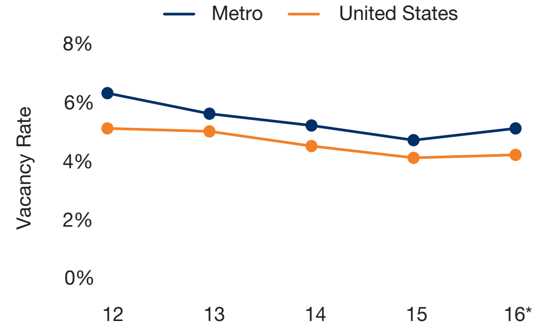
Outlook: After completing 16,400 units in 2015, builders are on track to deliver 24,700 apartments this year. A significant number of completions will be located in the Intown Dallas, Richardson and The Colony/Far North Carrollton submarkets.

Vacancy

- Metrowide, the average vacancy rate fell 20 basis points during the previous 12 months ending in June to 4.5 percent. In the prior year, the rate declined 70 basis points as net absorption outpaced the number of completions.
- Limited deliveries and healthy tenant demand dropped vacancy in the Southeast Dallas submarket 250 basis points during the last four quarters to 5.8 percent at midyear. Here, the average effective rent jumped 5.7 percent to $742 per month.
- Several submarkets registered vacancy at or below 3 percent in the second quarter. This includes the Ellis County, Garland, Grapevine/Southlake, Mesquite and Northwest Dallas areas. Vacancy in Ellis County was the tightest marketwide at 1.0 percent.

Outlook: As deliveries reach a cycle high in 2016, the vacancy rate will tick up 20 basis points to 4.9 percent. Last year, the rate fell 50 basis points.

Vacancy Rate Trends

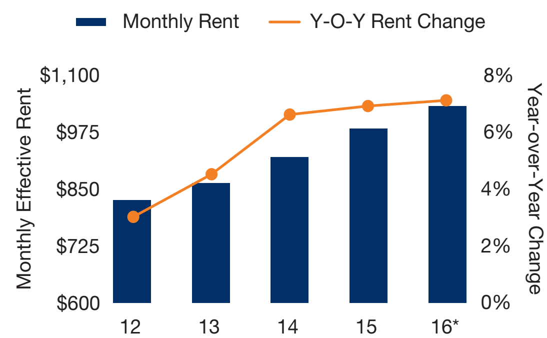


Rents

- The average effective rent jumped 7.4 percent during the last four quarters to $1,021 per month, exceeding $1,000 per month for the first time. In the prior annual period, effective rent edged up 6.9 percent.
- The Dallas and Fort Worth areas each registered strong rent increases during the last 12-month period. In Dallas, the average effective rent moved up 7.4 percent to $1,055 per month while apartments in Fort Worth rented about $130 less per month after rising 7.3 percent from the prior year.
- Rent was highest in the Intown Dallas and Oak Lawn/Park Cities submarket at $1,684 per month and $1,573 per month, respectively. More affordable rentals could be found in the Southwest Dallas, Southeast Dallas, South Fort Worth, Northwest Dallas and East Fort Worth submarkets averaging between $740 to $800 per month.

Outlook: After a 6.9 percent increase in rent last year, the average effective rent will jump 7.1 percent to $1,052 per month in 2016.

Rent Trends

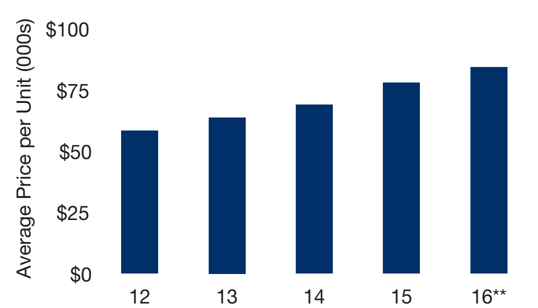


Sales Trends

- Investor interest is picking up in the Metroplex as transaction velocity has jumped 12 percent during the year ending in June, with a nearly 25 percent increase in the number of out-of-state buyers. A significant number of these transactions were located within East Dallas. In the prior annual period, sales moved up 8 percent.
- The average price climbed 17 percent over the last four quarters to $84,300 per door ending at midyear. Newer, well-located properties sold upward of $160,000 per unit, while several assets in the areas of Oak Cliff and Southeast Dallas traded in the $30,000 range per apartment.
- Strong investor demand pushed the average first-year return down 40 basis points to the mid-6 percent range. Multifamily assets in Dallas submarkets traded with cap rates in the low-5 to high-6 percent range, while properties in Fort Worth submarkets traded up to 100 basis points higher.

Outlook: Healthy market fundamentals will continue to motivate buyers to inject capital into the Metroplex. Properties in eastern Dallas and Arlington in particular will draw investor interest.

Sales Trends



* Forecast
** Trailing 12 months through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

John Sebree
First Vice President, National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Dallas Office:

Tim Speck
First Vice President, District Manager
Tel: (972) 755-5200
tim.speck@marcusmillichap.com

5001 Spring Valley Road
Suite 100W
Dallas, Texas 75244

Fort Worth Office:

Kyle Palmer
Regional Manager
Tel: (817) 932-6100
kyle.palmer@marcusmillichap.com

300 Throckmorton Street
Suite 1500
Fort Worth, Texas 76102

Prepared and edited by
Catherine Zelkowski
Research Associate | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 687-6700
john.chang@marcusmillichap.com

Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Global capital markets have remained stable over the past few weeks, even as Brexit and the continued devaluation of the Chinese yuan have induced bouts of volatility into stock and bond markets. Meanwhile, U.S. economic data has proved resilient, with increases in retail sales and steady hiring supporting a measured pace of growth. Additionally, higher bond prices have lowered prospective yields, boosting the appeal of commercial real estate.
- As the homeownership rate continues to plumb new lows, investor interest in the multifamily sector remains upbeat. The U.S. vacancy rate reached 4.2 percent by the end of the first quarter, the lowest rate of the current cycle. As a result, builders have ramped up the planning pipeline, with completions forecast to rise to 285,000 units, the highest level in more than 20 years. However, new supply is heavily concentrated in a few large metros, reducing the national impact.
- Capital markets remain highly competitive, with a broad assortment of fixed-rate products available through commercial banks, life-insurance companies, CMBS and agency lenders. Fannie Mae and Freddie Mac are underwriting loans of 10 years at maximum leverage of 80 percent. Rates will typically reside in the high-3 to low-4 percent range, depending on underwriting criteria. Portfolio lenders will also price in this vicinity but will typically require loan-to-value ratios closer to 65 to 75 percent. Floating bridge loans and financing for repositionings are typically underwritten with LTVs above 80 percent, while pricing at 300 basis points above Libor for recourse deals and extending to 450 basis points above Libor for non-recourse transactions.

Local Highlights

- Charles Schwab is planning to open a new 500,000-square-foot regional office in the Westlake area. The building will be part of a mixed-use development and the company hopes to bring approximately 1,500 positions to the region. Additionally, TD Ameritrade is constructing a 78-acre office complex in Southlake, bringing in additional jobs. These hirings will draw in young professionals to the area and benefit apartment operators.
- Downtown Dallas is experiencing a resurgence with many apartments under construction and several older buildings being redeveloped. This includes the former Butler Brothers Building warehouse near Dallas City Hall. The development will contain 238 apartments and is expected to open in October. The project will include three restaurants, an art studio, cinema and karaoke room, making the complex attractive to those seeking a live-play-work lifestyle.
- Construction has begun on a 76-acre mixed-use development in McKinney, a rapidly growing community located northwest of central Dallas. The project, named The Village at McKinney, will be located off Highway 75 and is forecast for delivery in 2018. The center will contain apartments, retail, office and hotel space. This project will serve as a catalyst for additional development in the area.
- Apartment development in Fort Worth continues to rise year over year as several mid-rise buildings are working their way through the pipeline. This includes the 327-unit Oleander Apartments that will be located within the Medical District. The complex is expected to open during the summer of 2017 and provide housing options to those working within the district.

Marcus & Millichap

Multifamily Research Market Report

First Quarter 2016

Dallas/Fort Worth Metro Area

Apartment Demand Strengthens as Companies Expand in the Metroplex

Steady hiring supports apartment demand as construction rises. Corporate expansions in the Dallas/Fort Worth Metroplex are fueling demand for area apartments, keeping vacancy tight this year as a record number of apartments are delivered. JPMorgan Chase, McKesson Corp. and Pegasus Foods have recently announced expansion plans, joining a long list of widely recognized companies growing or relocating to the region. A friendly business environment, skilled labor pool and an attractive place to live are drawing these companies from across the country. The thousands of jobs created by these expansions are spurring strong demand for rental housing, especially among young professionals. Apartment developers are meeting these needs, bringing thousands of units online over the next several quarters near newly developed or under construction corporate campuses, including Legacy West and CityLine. Though the delivery of these units could cause some softening in select areas, a slowdown in the construction pipeline next year will help stabilize operations again.

Investor demand strong; limited availability restrains sales. Demand for apartment assets in the Metroplex has strengthened, and sales activity has been held back only by the limited number of available properties. Capital from all over the world is moving into the North Texas region, lured by a bright economic outlook and strong demographic trends. Out-of-state investors, including international investors, accounted for one-third of sales transactions last year, targeting a wide range of quality and locations, and this trend is expected to continue in the months to come. Rent growth has been stronger over the past two years, rising at historically high levels, boosting NOIs and increasing property values. Recent price appreciation will increasingly encourage property owners to compress holding periods. Owners choosing to divest now will be met with strong investor interest as the pool of private, high-net-worth buyers has grown considerably. Institutions and REITs are also increasing activity, targeting high-quality assets trading at initial yields starting near 4 percent. Deliveries will reach a 15-year high, building on the previous years elevated activity. As these properties are brought to market and stabilized, investor demand for newly developed properties will be met.

2016 Multifamily Forecast

2.0% increase in total employment

Employment:

Job gains are expected slow in 2016 as companies create 70,000 positions in the Metroplex, an annual increase of 2.0 percent. Though a slip from last year's gain of 126,800 jobs, or 3.8 percent advance, the region should continue to grow at a faster pace than the national average.

23,000 units will be completed

Construction:

After completing 18,500 units in the Metroplex last year, builders are set to bring 23,000 apartments online by year end 2016, expanding stock nearly 3 percent.

20 basis point increase in vacancy

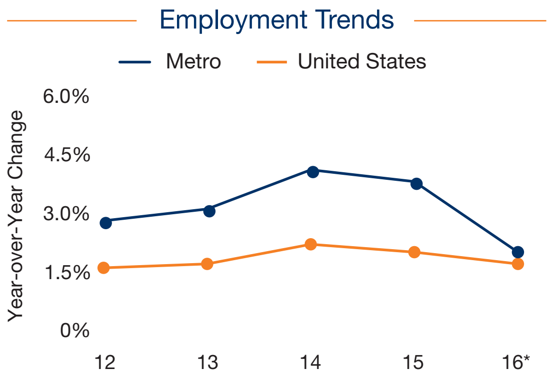
Vacancy:

A record number of units are scheduled for delivery this year, and demand will not keep pace. Vacancy should rise 20 basis points by year end to 4.9 percent. In 2015, the vacancy rate fell 50 basis points.

3.9% increase in effective rents

Rents:

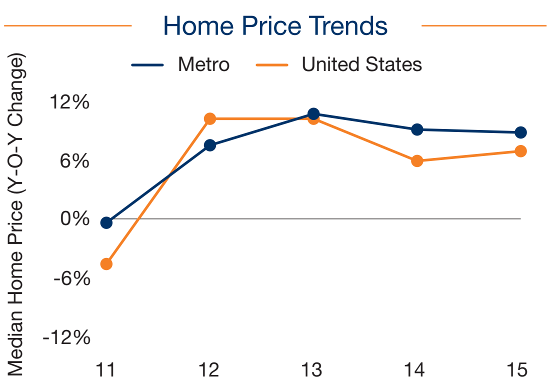
Rent growth is anticipated to slow from a record level as a slew of new units are added to inventory this year, though rents will top $1,000 per month for the first time. The average effective rent should rise 3.9 percent to $1,021 per month, following a 7.0 percent advance last year.



Economy

- Metroplex employers created 126,800 positions in the region during the last 12 months for an annual increase of 3.8 percent. In the previous four quarters, the private and public sector expanded payrolls 4.1 percent with the addition of 130,100 jobs.
- Job gains during the last 12 months were led by the trade, transportation and utilities sector, which added 34,200 positions. The leisure and hospitality and professional and business services industries followed, generating 28,100 and 25,100 jobs, respectively. Manufacturing and natural resources and mining were the only sectors to shed jobs during the year, combining for a loss of 11,500 workers.
- The unemployment rate for the region remained relatively unchanged during the last year, resting at 4.1 percent in recent quarters.

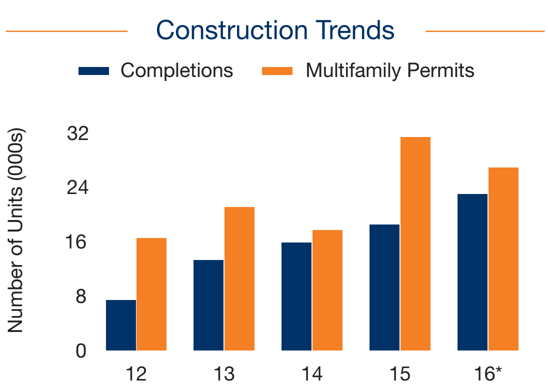
Outlook: Job gains will slow this year as companies create 70,000 positions in the Metroplex, an annual increase of 2.0 percent.



Housing and Demographics

- Single-family permitting issuance ticked up 19.8 percent from one year ago as builders pulled permits for 32,400 homes. At the same time, housing starts increased 20.4 percent as builders poured 34,000 slabs, and single-family home sales surged 16.3 percent over the period.
- The median single-family home price grew 8.8 percent in the last four quarters, reaching $212,000. Median household income did not keep pace, reaching $61,100 annually, an increase of 1.5 percent from last year. The median income for the area is approximately $8,100 above that needed to qualify for a mortgage on a median-priced home.
- The monthly mortgage payment for a median-priced home in the Metroplex, assuming 20 percent down and payments for taxes and insurance, grew approximately 3 percent to $1,190 per month. Meanwhile, the monthly rent for an apartment built since 2000 rose 5 percent to approximately $1,260.

Outlook: Net migration to the area remains strong, rising 8.4 percent last year. Corporate expansions and the movement of jobs from other states to the region will further increase renter demand, especially among young professionals choosing to locate in North Texas.



* Forecast

Construction

- Builders completed just nearly 18,500 units during 2015, expanding stock 2.3 percent annually. In the prior year, developers brought approximately 15,900 apartments online.
- Of the more than 39,000 rentals under construction in the Metroplex, most of the development is concentrated in Dallas and its surrounding submarkets as builders have just over 34,100 units underway. The remaining units are in Fort Worth and its nearby communities.
- Developers are targeting the Intown Dallas submarket, where more than 2,200 units have come online in recent quarters and another 5,800 apartments are underway. Elm Place Tower, one of the largest apartment projects under construction in the metro, is scheduled for completion here in the third quarter.

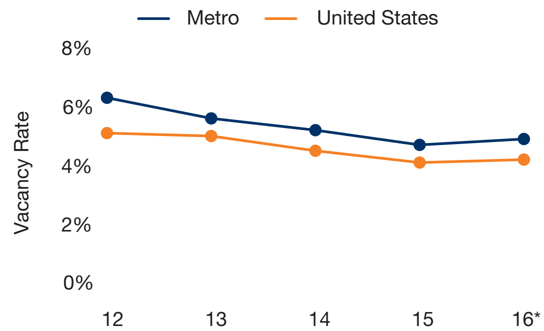
Outlook: Builders will deliver 23,000 units online by year-end 2016, expanding apartment stock nearly 3 percent.

Vacancy

- Strong apartment demand supported the absorption of nearly 18,600 units last year, driving the average vacancy rate down 50 basis points year over year to 4.7 percent, the lowest rate this business cycle. One year ago, the vacancy rate declined 40 basis points on net absorption of 16,200 rental units.
- Conditions have tightened to 3.5 percent or lower in several submarkets throughout the Metroplex, including Grand Prairie, Carrollton/Farmers Branch, Richardson, Mesquite, Denton, Kaufman County, Ellis County and South Arlington/Mansfield.
- The highest vacancy in the Metroplex is in East Fort Worth, reaching 8.3 percent in recent quarters, down 20 basis points from one year ago. Oak Lawn/Park Cities and Southeast Dallas also register high vacancy, at 7.0 percent and 7.4 percent, respectively.

Outlook: Builders will deliver the largest number of units this business cycle in 2016, and demand will not keep pace. Vacancy will rise 20 basis points year over year to 4.9 percent.

Vacancy Rate Trends

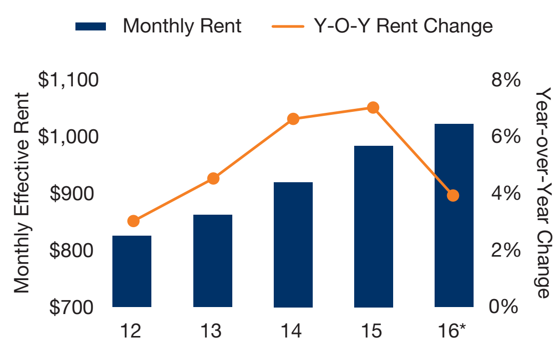


Rents

- Rent growth in the Metroplex remained robust last year as the average effective rent climbed at its highest annual pace this business cycle. The average rose 7.0 percent during 2015, reaching $983 per month at year end. In the prior time frame, rent grew 6.6 percent annually.
- The average rent is highest in Intown Dallas, rising 3.4 percent to $1,624 per month. Oak Lawn/Park Cities, where a 6.9 percent annual gain pushed rents to $1,559 per month, follows.
- The percent of units offering concessions fell to 3.8 percent in recent quarters, down significantly from 10.9 percent in the third quarter of 2014. Of those qualifying for concessions, the average leasing incentive is 5.2 percent of annual rent, holding steady from one year ago at approximately 19 days of free rent.

Outlook: Apartment rent growth will slow as a slew of rentals are added to inventory this year, though rents will top $1,000 per month for the first time. The average effective rent will rise 3.9 percent to $1,021 per month.

Rent Trends

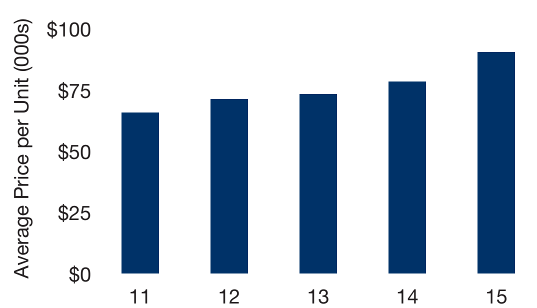


Sales Trends

- Transaction velocity held firm during the last 12 months when compared with the prior year. Investors remained focused on the areas of Denton, Irving, Knox-Henderson/Cityplace and Outer Arlington during the year.
- The average price per unit jumped significantly amid strong buyer interest last year, rising 15 percent to just over $90,000 per unit. A heightened pace of rent growth over the past two years has spurred NOI growth, boosting property values in the metro.
- The average cap rate compressed 30 basis points to 6.8 percent last year, after holding firm in the low-7 percent area for three straight years. High-quality assets in core areas can trade as low as 4 percent, while stable, older properties in suburban locations yield first-year returns in the mid-6 to low-7 percent span.

Outlook: New development in the Dallas area could cause some softening in select submarkets. However, the risk is much lower in Fort Worth and its surrounding communities, and investors seeking to avoid the threat of new construction will seek assets nearby.

Sales Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

John Sebree
First Vice President, National Director
National Multi Housing Group
Tel: (312) 327-5417
john.sebree@marcusmillichap.com

Dallas Office:

Tim Speck
First Vice President, Regional Manager
Tel: (972) 755-5200
tim.speck@marcusmillichap.com

5001 Spring Valley Road
Suite 100W
Dallas, Texas 75244

Fort Worth Office:

David H. Luther
First Vice President, Regional Manager
Tel: (817) 932-6100
david.luther@marcusmillichap.com

300 Throckmorton Street
Suite 1500
Fort Worth, Texas 76102

Prepared and edited by
Jessica Hill
Research Analyst | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 687-6700
john.chang@marcusmillichap.com

Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Following the first interest rate increase since 2008, the Federal Reserve has promised a measured, patient approach to future rate hikes. Recently, the mixed picture of U.S. economic data has given several members of the bank's monetary policy committee reason to pause. Robust labor market indicators present positive evidence of continued expansion, while manufacturing and inflation expectations have weakened due to the stronger dollar. As a result, the central bank will likely weigh the balance of data over the coming months before enacting additional rate hikes.
- Multifamily housing trends have continued to accelerate over the past year, with the national vacancy rate falling 40 basis points to 4.1 percent. Meanwhile, development remains considerable, although generally limited to primary markets; deliveries in 2015 exceeded 230,000 units for the second straight year, the highest annual total since 2000. However, despite the incredible pace of construction, net absorption surpassed supply growth, supporting a 5.6 percent climb in average effective rental rates.
- Fannie Mae and Freddie Mac are underwriting five-, seven- and 10-year commercial property loans with maximum leverage of 80 percent. Interest rates for these loans will range from 3.7 percent to 4.2 percent, depending on loan structure and maturity, for loans above $3 million. Portfolio lenders, including commercial banks and life insurance companies, offer debt at 65 to 75 percent loan to value on 10-year terms at 3.60 to 4.25 percent. Floating-rate terms typically carry a maximum LTV of 65 percent for stabilized properties, while pricing at a 250- to 425-basis-point spread above Libor. CMBS issuance topped $100 billion last year, but wider spreads have curtailed activity thus far in 2016.

Local Highlights

- The largest project underway in the Metroplex is the 621-unit Legacy West in the West Plano submarket. Amenities include an outdoor deck with a swimming pool, courtyard, outdoor kitchen, conference rooms, poker room, catering kitchen, fitness center and spa. The tower is near the new Liberty Mutual and FedEx campuses.
- State Farm is expected to complete the final phase of its 2 million-square-foot campus in Richardson this year, bringing an additional 500,000 square feet of office space online. The company will continue to consolidate offices into its regional headquarters. This year, State Farm plans to generate 1,000 positions at the new corporate hub.
- McKesson, a company that distributes medical products and pharmaceuticals, recently purchased two new office buildings in the Las Colinas area. The company will move 900 workers already in the Northeast Texas region, as well as create 975 additional jobs as part of the expansion.
- Amazon is seeking to expand in the North Texas region again. Two warehouses totaling more than 1 million square feet near the AllianceTexas development north of Fort Worth could become the home to a new distribution center for the company. Amazon currently leases over 2 million square feet in Coppell, Haslet and southern Dallas.