

## Foreclosure Pains = Multifamily Gains

Foreclosure pains in the Dallas/Fort Worth single family market are equating to gains in the multifamily market. Foreclosures in the metro area have increased substantially as interest rates have crept upward, causing major problems for those with subprime and non-conforming mortgages. RealtyTrac, Inc. reported nationwide foreclosure filings in 2006 totaled over 1.2 million, which represents a 42% increase over foreclosure filings in 2005. In the Dallas/Fort Worth area, 38,809 homes were posted for foreclosure, which represents a 19% increase from the 2005 figures. The Fort Worth/Arlington metropolitan district boasted the sixth highest foreclosure rate in the nation in 2006, as one in every 27 households filed for foreclosure, according to RealtyTrac Inc.

Experts predict the foreclosure situation will likely worsen in the near future, with the Center for Responsible Lending forecasting that nearly 20% of all subprime mortgages undertaken in 2005 and 2006 will end in foreclosure. In line with expectations, foreclosures in 2007 in the Dallas/Fort Worth area have escalated. Mid-2007 figures by the Foreclosure Listing Service indicate that more than 21,000 homes have been posted for foreclosure, representing a 14% increase compared to the same period in 2006.

In the face of foreclosure struggles, multifamily occupancy is on the rise. This is particularly relevant in the Class B and C markets. Unlike the other classes, the Class B and C markets have both posted occupancy gains over the last two quarters. Class B occupancy has increased 0.53 points since the fourth quarter of 2006 to 91.61%, while Class C occupancy has increased 0.37 points over the timeframe to its current level at 87.39%. During the first two quarters of 2007, 1,638 Class B units have been absorbed and 719 Class C units have been absorbed.

Tighter lending standards have put a dent in the potential for Class B and C renters to enter the single-family market. Previously, the vast availability of subprime and non-conforming loans allowed a large portion of Class B and C renters to become homeowners. In addition, the elevated amount of home foreclosures in the area has increased the number of renters in the market. Those with foreclosures on their records do not have good enough credit ratings to rent at Class A apartments, and are forced into Class B and C properties. With foreclosures and interest rates in the Dallas/Fort Worth metro area on the rise in 2007, we expect the march to Class B and C apartments to continue through the remainder of the year.

By: [Leslie Countryman](#)

### Dallas / Fort Worth Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	92.24%	91.61%	87.39%	85.58%	90.02%	▲	▼
Rent/Unit	\$1,024	\$697	\$618	\$552	\$744	▲	▲
Rent/SF	\$1.079	\$0.857	\$0.774	\$0.713	\$0.877	▲	▲
Absorption	1,597	519	107	405	2,628	▲	▲

### In This Issue

Occupancy & Rent Trends .....2  
*Current and Historical Trends*

Absorption & Inventory .....3  
*Absorption, Current Market Inventory*

Economic Fundamentals.....4  
*Job Growth, Key Interest Rates*

Dallas/Ft. Worth Market Map.....5  
*Submarket Boundaries*

Methodology .....6  
*Research and Reporting Definitions*

www.oconnordata.com

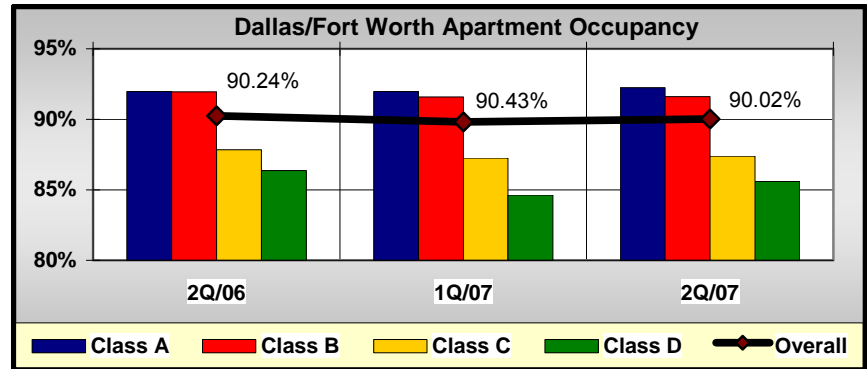
## ApartmentLink

Ask how to receive up to  
**2 Months FREE**  
of the most accurate online  
Texas apartment data!  
Hurry! Offer ends  
December 31, 2007!

Contact  
Heather Wiesner at  
(713) 375-4262 or  
hwiesner@poconnor.com

## Metro Occupancy Overview

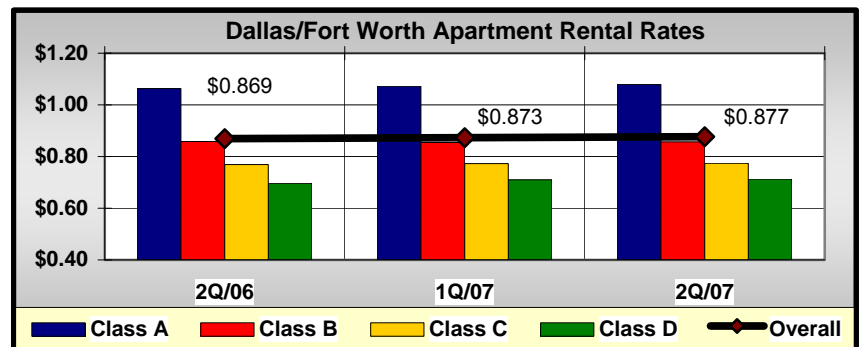
Overall occupancy crept up above the 90% threshold during the second quarter of 2007 to 90.02%. This marks the first time since the third quarter of 2006 that overall occupancy has been above 90%. All classes reported quarterly gains, with the Class A and D markets enjoying the largest quarterly occupancy increases. Despite the quarterly gains, overall occupancy remains 0.22 points below last year's level. At 92.24%, **Class A** occupancy is up 0.27 points over the quarter and 0.26 points over the year. **Class B** occupancy gained 0.02 points over the quarter to 91.61%, but is down 0.35 points over the last 12 months. **Class C** market reported a 0.13-point quarterly gain to 87.39%, which is 0.45 points below last year's figure. The **Class D** market recorded the largest quarterly gain in occupancy, increasing 0.94 points to 85.58%. However, Class D occupancy is down 0.79 points over the year.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/06	91.98%	91.96%	87.84%	86.37%	90.24%
1Q/07	91.97%	91.59%	87.26%	84.64%	89.81%
2Q/07	92.24%	91.61%	87.39%	85.58%	90.02%

## Metro Rent Overview

Overall rental rates increased for the second consecutive quarter, gaining \$0.004 per square foot (psf) to \$0.877 psf. Overall rents are up \$0.008 psf, or 0.92%, over the year. Class A rents reported the largest quarterly increase, gaining \$0.007 psf to \$1.079 psf. Class A rents are \$0.016 psf higher than they were at this time last year. **Class B** rents rose \$0.002 psf over the second quarter to \$0.857 psf. However, Class B rents remain \$0.001 psf lower than last year's level. **Class C** rents inched up \$0.001 psf over the quarter and \$0.005 psf over the year to \$0.774 psf. At \$0.713 psf, **Class D** rents are up \$0.003 psf over the quarter and \$0.016 psf over the year.



Quarter	Class A	Class B	Class C	Class D	Overall
2Q/06	\$1.063	\$0.858	\$0.769	\$0.697	\$0.869
1Q/07	\$1.072	\$0.855	\$0.773	\$0.710	\$0.873
2Q/07	\$1.079	\$0.857	\$0.774	\$0.713	\$0.877

## Submarket Performance

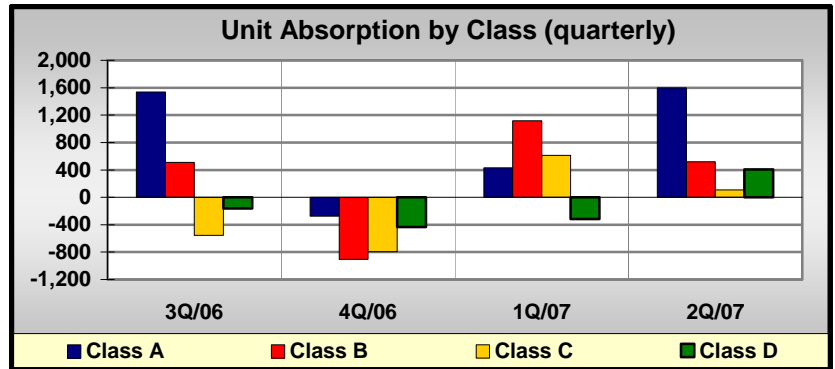
Of the 51 D/FW submarkets, overall occupancy was highest in **Azle** at 98.23%, followed by **Granbury** at 95.00%. The lowest occupancy was found in **Downtown Dallas** at 77.56%. The highest overall rental rates were found in the **Uptown/Knox/Henderson** submarket at \$1.445 psf, followed by **Downtown Dallas** at \$1.293 psf. The lowest rents were found in **White Settlement** at \$0.679 psf.

Of the submarkets with more than one property, **Denton** reported the highest Class A occupancy at 96.65%, while the lowest Class A occupancy was reported in **Greenville Avenue/Lake Highlands** at 76.68%. In the Class B market, **Park Cities** once again reported the highest occupancy at 98.26%, while **Turtle Creek/Cedar Springs** posted the lowest occupancy at 81.04%. In the Class C market, **Azle** recorded the highest occupancy at 98.23%, while **Addison** reported the lowest occupancy at 74.91%. In the Class D market, **East Plano/Sachse** reported the highest occupancy at 97.08%, while **Forth Worth** posted the lowest occupancy at 80.42%.

Of the submarkets with more than one property, **Uptown/Knox/Henderson** reported the highest Class A rents at \$1.488 psf, while the lowest Class A rents were found in **Duncanville/Cedar Hill** at \$0.895 psf. In the Class B market, rental rates were the highest in **Park Cities** at \$1.126 psf, while the lowest rents were found in **Waxahachie/Ennis** at \$0.607 psf. Class C rents were the highest in **Uptown/Knox/Henderson** at \$1.099 psf and the lowest in **White Settlement** at \$0.628 psf. In the Class D market, **Park Cities** reported the highest rents at \$0.853 psf, while the lowest rents were found in the **North Richland Hills/Haltom City** at \$0.623 psf.

## Metro Absorption Overview

Overall absorption totaled 2,628 units in the second quarter of 2007, its highest level since the third quarter of 2005. All classes reported positive quarterly figures, with **Class A** leading the market with 1,597 units absorbed. The strong quarterly figure brings Class A absorption over the last 12 months to 3,288 units. With 519 **Class B** units absorbed over the quarter, annual Class B absorption remains strong at 1,241 units. The **Class C** market posted the weakest quarterly absorption of all classes, at 107 units, as well as the weakest annual absorption of all classes, at -629 units. After four consecutive quarters of negative absorption, **Class D** absorption was positive during the second quarter, absorbing 405 units. Despite the quarterly gain, annual Class D absorption remains in the red at -508 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
2Q/05	3,087	2,399	-902	-1,038	3,546
2Q/06	3,513	4,063	3,218	1,361	12,155
2Q/07	3,288	1,241	-629	-508	3,392

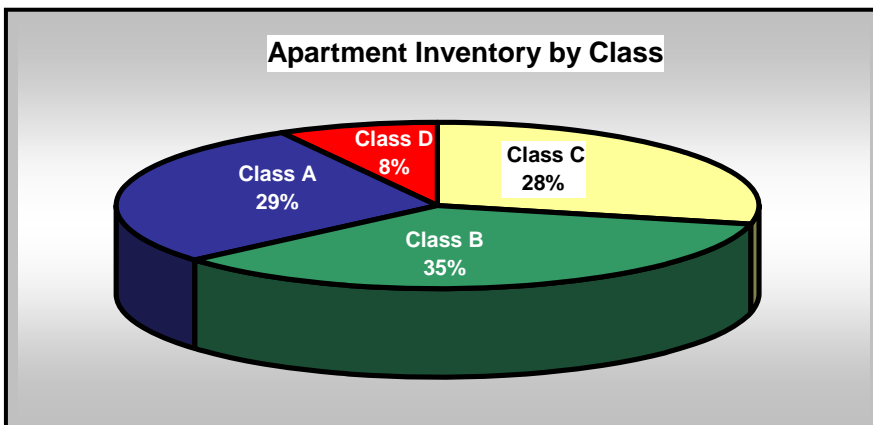
## Submarket Performance

Of the 51 D/FW submarkets, **Hurst/Euless/Bedford** reported the highest absorption over the quarter with 328 units absorbed, followed by **Richardson**, where 299 units were absorbed over the quarter. Demand was weakest in **North Richland Hills/Haltom City**, where -180 units were absorbed, followed by **South Arlington**, which recorded absorption of -122 units.

Within each of the classes, **Allen/McKinney** reported the highest Class A absorption over the quarter with 199 units absorbed, while **South Arlington** reported the weakest absorption with -53 units absorbed. Absorption in the Class B market over the quarter was highest in **Fort Worth** at 181 units and lowest in the **Desoto/Lancaster** submarket at -81 units. In the Class C market, **Richardson** posted the highest absorption, as 232 units were absorbed over the quarter. The weakest Class C absorption was posted by the **North Richland Hills/Haltom City** submarket, with -132 units absorbed. Class D absorption was strongest in **Hurst/Euless/Bedford**, with 86 units absorbed, and weakest in **South Arlington**, with -24 units absorbed.

## Apartment Inventory

There are a total of 2,503 operating or under-construction projects in the Dallas/Ft. Worth metro market (greater than 25 units) with a total of 562,899 units. Approximately 29% of the total units are Class A, 35% are Class B, 28% are Class C, and 8% are Class D. The chart below displays market inventory by class.



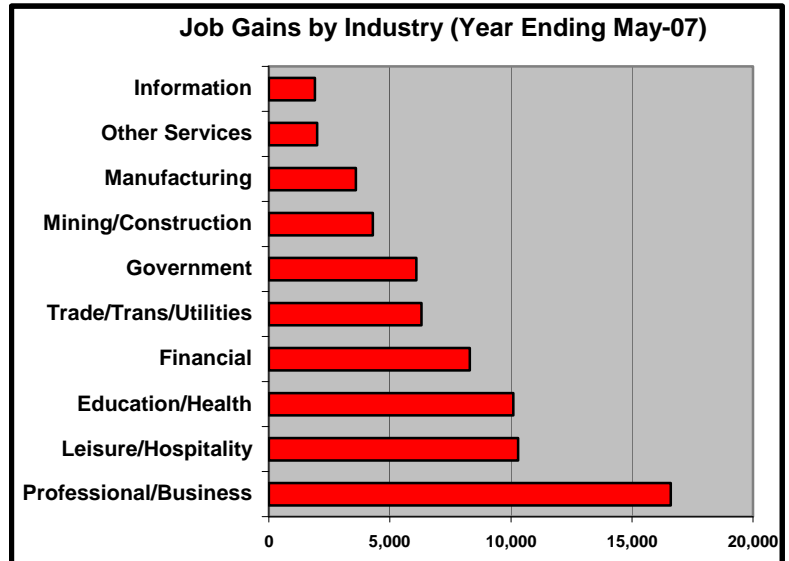
Operating	Projects	Units
Class A	523	149,726
Class B	803	194,315
Class C	813	159,565
Class D	311	45,925
<b>TOTAL</b>	<b>2,450</b>	<b>549,531</b>

Under Cons.	Projects	Units
Class A	39	11,046
Class B *	14	2,322
<b>TOTAL</b>	<b>53</b>	<b>13,368</b>

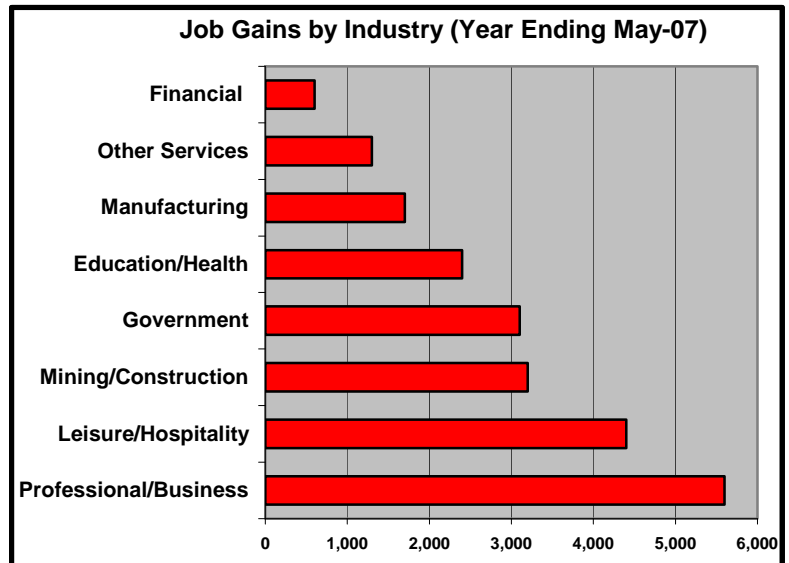
\* Class B includes primarily Affordable Housing developments  
 \*\* There are additional Unclassified (Class U) projects

## Job Growth

The civilian labor force unemployment rate in the eight-county **Dallas-Plano-Irving Metropolitan District** fell to 3.8%, while the total number of nonagricultural wage and salary jobs increased to 2,089,800 in May 2007, according to the **Texas Workforce Commission**. This month's total is 69,500 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business services gained 16,600 jobs over the previous 12 months; Leisure & Hospitality gained 10,300 jobs; Education & Health Services employment is up 10,100 jobs; Financial Activities added 8,300 jobs; Trade, Transportation & Utilities gained 6,300 jobs over the year; Government added 6,100 jobs; Mining & Construction employment is up 4,300 jobs; Manufacturing employment increased by 3,600 jobs; Other Services added 2,000 jobs; and Information gained 1,900 jobs over the year.



The civilian labor force unemployment rate in the four-county **Forth Worth-Arlington Metropolitan District** decreased to 3.8%, while the total number of nonagricultural wage and salary jobs increased to 858,900 in May 2007, according to the **Texas Workforce Commission**. This month's total is 21,400 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business Services gained 5,600 jobs over the previous 12 months; Leisure & Hospitality gained 4,400 jobs; Mining & Construction employment is up 3,200 jobs; Government added 3,100 jobs; Education & Health Services gained 2,400 jobs; Manufacturing added 1,700 jobs over the year; Other Services gained 1,300 jobs; while Financial Activities employment increased by 600 jobs over the last year. The only industries to lose jobs over the year were Trade, Transportation, and Utilities with -100 jobs, and Information with -800 jobs.

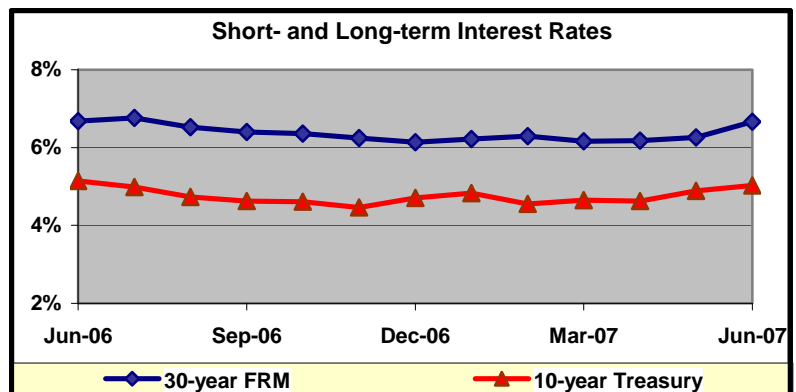


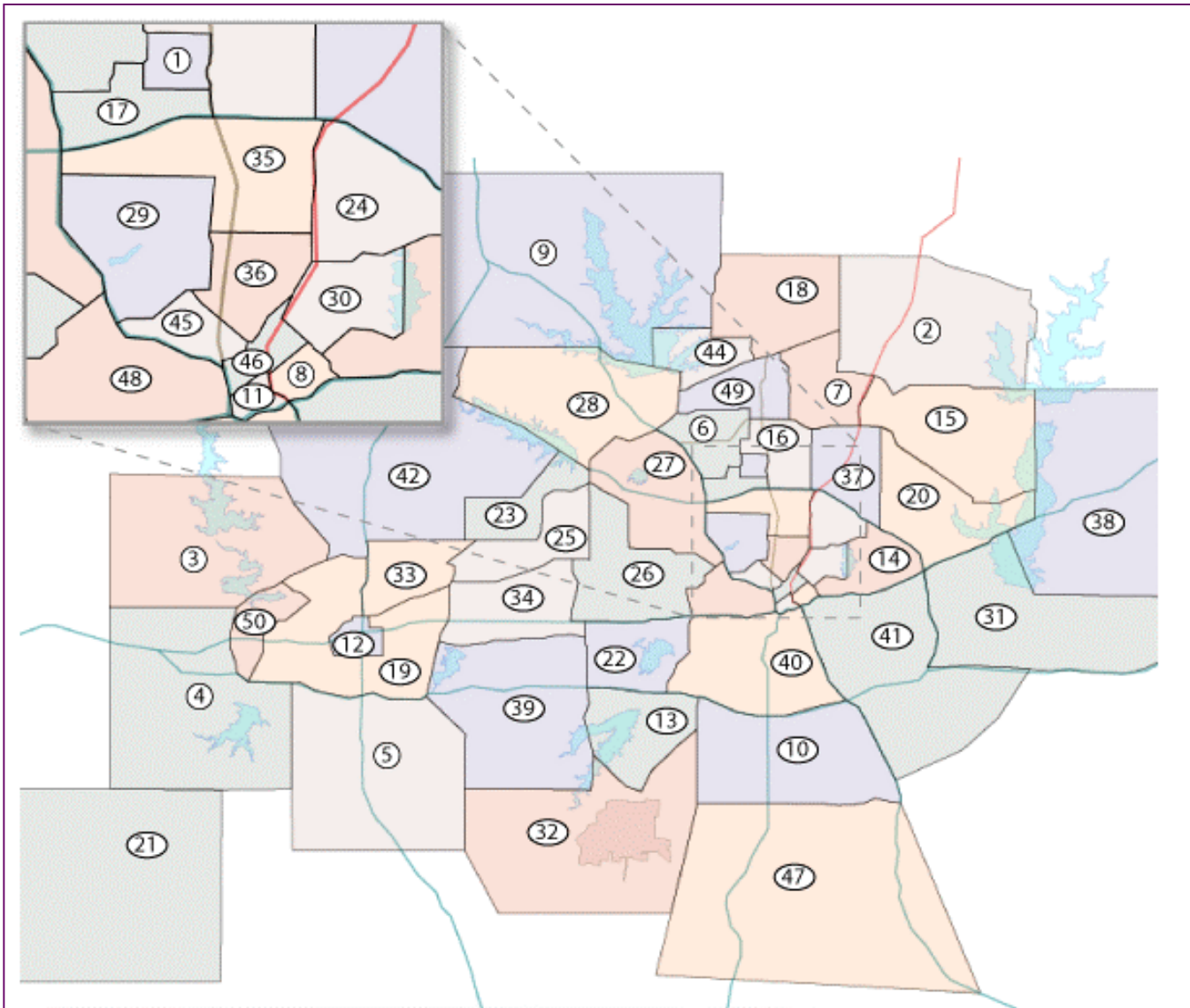
## Interest Rates

The yield on the **10-year Treasury** note rose to 5.03% in June 2007, down 0.11 points from its 5.14% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.66% in June 2007. One year ago, the 30-year FRM was at 6.68%. The average for the **15-year FRM** in June was 6.34%, up 0.03 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 0.25 points from a year ago.





## Dallas/Ft Worth Submarkets

1 Addison	16 Far North Dallas	29 Love Field / Bachman Lake	43 Stephenville
2 Allen / McKinney	17 Farmers Branch	30 Lower Greenville / White Rock Lake	44 The Colony
3 Azle	18 Frisco	31 Mesquite / Sunnyvale	45 Turtle Creek / Cedar Springs
4 Benbrook	19 Ft. Worth	32 Midlothian	46 Uptown / Knox / Henderson
5 Burleson	20 Garland / Rowlett	33 N. Richland Hills / Haltom City	47 Waxahachie / Ennis
6 Carrollton	21 Granbury	34 North Arlington	48 West Dallas
7 Central Plano	22 Grand Prairie	35 North Dallas	49 West Plano
8 Deep Ellum	23 Grapevine / Colleyville	36 Park Cities	50 White Settlement
9 Denton	24 Greenville Ave / Lake Highlands	37 Richardson	
10 Desoto / Lancaster	25 Hurst/Eules / Bedford	38 Rockwall	
11 Downtown Dallas	26 Irving	39 South Arlington	
12 Downtown Ft. Worth	27 Las Collinas / Valley Ranch / Coppell	40 South Dallas	
13 Duncanville / Cedar Hill	28 Lewisville / FlowerMound	41 Southeast Dallas	
14 East Dallas		42 Southlake/Keller	
15 East Plano / Sachse			

## Data Collection

Our in-house research team continuously updates over 100 fields of data for nearly 6,000 apartment complexes in our database. We update at least 90% of properties on a monthly basis to generate accurate market trend reports on rents, concessions, occupancy, etc. Our monthly surveys also update other property-specific data such as fees, policies, management, and owner information. On a less-frequent basis we update amenities, schools, and other data fields that change rarely. We perform current and historical data audit after we close each month's survey to identify any data inconsistencies or incorrectly keyed values.

## Research

We monitor various news media, press releases, marketing materials, web-sites, CAD records, permit issuance, and other sources to capture new construction, planned projects, financing, and sales. Our researchers conduct phone interviews with relevant developers, brokers, or lenders to gather information on new construction and sales. We add properties to our database on a regular basis to ensure we offer the most up-to-date and complete apartment database.

## Market Coverage

Our online apartment database covers all four major Texas metro markets – Austin, Dallas-Fort Worth, Houston, and San Antonio. The **Austin** market includes Caldwell, Hays, Travis, Bastrop, and Williamson counties. The **D/FW** market covers Dallas, Tarrant, Wise, Denton, Collin, Hunt, Rockwall, Kaufman, Ellis, Johnson, Parker, and Erath counties. The **Houston** market includes Harris, Montgomery, Fort Bend, Brazoria, and Galveston counties (Brazos county is also included in the database but excluded from the trend reports). **San Antonio** includes Bexar, Comal, Guadalupe, Kendall, and Kerr counties.

We subdivide each market into submarkets (see map on previous page): Austin has 23 submarkets, D/FW has 50 submarkets, Houston has 53 submarkets, and San Antonio has 26 submarkets. The submarkets are based on neighborhood-style areas with defining boundaries such as major roads and other factors that establish a neighborhood. This approach allows the user to view distinct areas of properties that have evolved into their own sections of town and can be identified together.

## Glossary

**Absorption** = Change of Occupied Units, including new construction. Absorption is a proxy for demand.

**Occupancy** = Percentage of physically occupied units on property.

**Pre-leased** = Net of percentage of units that have been pre-leased but not yet occupied and units on notice to be vacated.

**Rents** = Market rents (excluding concessions).

**Class** = Properties are classified as A, B, C, D, or Unclassified (U) based on various factors, such as age, location, amenities, curb appeal, overall condition, rents, etc. Class A properties are generally less than 10 years old, have excellent amenities, prime location, and great appeal, thus they tend to have the highest rents. Older properties built in early 1900s that were converted from warehouses or office buildings, or older apartment projects that have had major renovations may also be classified as A. Class B properties are generally 10 to 20 years old, have good locations, good level of amenities, are somewhat less appealing than Class A projects, and are in overall good condition. New affordable projects are also classified as B. Class C projects are usually 20 to 30 years old, have few amenities, are in poor locations, and are not well maintained. Class D projects are generally more than 30 years old, in poor condition, have no or limited amenities, are in poor locations, and have poor curb appeal. They tend to have the lowest rents per unit (although per-square-foot rents may be high since the units are usually small). Unclassified or Class U projects are senior housing, student housing, or other properties that have unusual lease terms, include meals with the rent, or other services, so their rents and occupancies are not representative of the actual market. We exclude these from our statistical reports as they skew the averages for the other classes.

## Reporting

Occupancy, Rent, and Absorption trend data is based on Operating, Under-construction, and Under-renovation projects, Classes A, B, C, and D (excluding Class U).