



Dallas/Ft. Worth Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2007

New Jobs Fuel Multifamily Construction

A construction frenzy is well underway in the Dallas/Fort Worth Metroplex, as it seems a new multifamily project is going up on every decent last available plot of land. And with land becoming increasingly scarce, developers are turning to prime sites with older properties on them that provide redevelopment opportunities. Nine months into 2007, 22 projects containing 4,711 units have completed construction. Of the 22 projects, 15 projects with 3,377 units are Class A developments. Class A properties also account for three-fourths of all projects currently under-construction, with 49 developments containing a total of 12,769 units.

Much of the new Class A activity is concentrated around expanding employment centers, which include downtown Dallas with more than 125,000 employees, the Irving/Las Colinas area with over 120,000 employees, and the Downtown Fort Worth with over 50,000 employees. In Dallas, four in-town properties with 675 units have already completed construction, while another 13 in-town projects with 3,475 units are under-construction. Though much of the new in-town Class A construction is concentrated in the Downtown, Uptown, and Turtle Creek areas, developers are pushing into more transitional and growing neighborhoods, as evidenced by the multiple new projects right around the Dallas North Tollway and in the Greenville area. Developers are targeting the new entry-level employees, as rental rates at these projects are slightly more affordable than those with prime Downtown, Uptown or Turtle Creek locations, while they are still close enough for renters to enjoy all of the perks of in-town living. In the growing Irving/Las Colinas area, two projects with 589 units have already completed construction in 2007, while another two developments with 556 units have broken ground. And though only one project with 304 units has completed construction in Central Fort Worth, another three properties with 724 units are nearing completion.

Thankfully, employment growth in key sectors remains strong. According to the Texas Workforce Commission's most recent report, employment in the Dallas-Plano-Irving Metropolitan District is up 58,900 jobs over the last year. Approximately one-quarter of the gains are attributed to the Professional & Business Services sector. Employment in the Fort Worth-Arlington Metropolitan District is also on the rise, as 19,900 new jobs were added over the previous twelve months. New Professional & Business Services positions have made up 22% of the annual jobs gains. Considering Professional & Business Services jobs are often well-paid positions, this bodes well for all of the Class A construction activity in the Metroplex area.

By: [Leslie Countryman](#)

Dallas / Fort Worth Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.80%	92.49%	87.63%	85.71%	90.32%	▲	▼
Rent/Unit	\$1,026	\$700	\$618	\$553	\$746	▲	▲
Rent/SF	\$1.081	\$0.861	\$0.776	\$0.715	\$0.880	▲	▲
Absorption	1,819	1,841	-8	77	3,729	▲	▲

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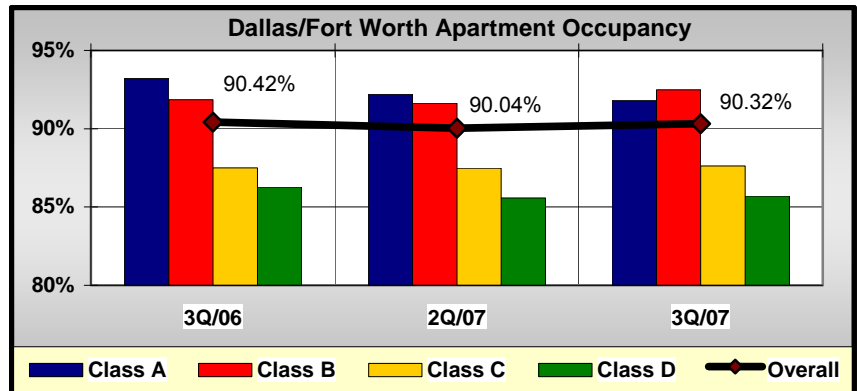
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Metro Occupancy Overview

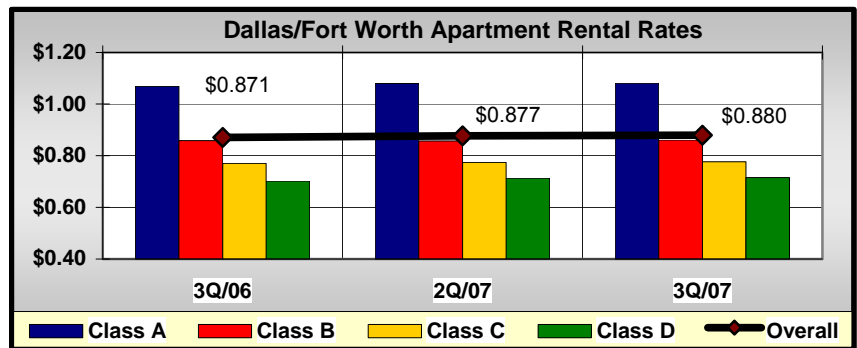
Overall occupancy increased for the third consecutive quarter, gaining 0.28 points to 90.32%. The Class B, C, & D markets all reported quarterly occupancy gains, while the Class A market was the lone class to post declining figures. Despite the overall quarterly increase in occupancy, occupancy remains 0.10 points below last year's level. **Class A** occupancy fell 0.41 points over the quarter, and is down 1.41 points over the year to 91.80%. The **Class B** market recorded the largest quarterly gain in occupancy, increasing 0.87 points to 92.49%. Class B occupancy is up 0.63 points since this time last year. **Class C** market reported a 0.16-point quarterly gain to 87.63%, which is 0.12 points above last year's figure. **Class D** occupancy was up 0.13 points over the quarter to 85.71%, but is down 0.57 points over the last twelve months.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	93.21%	91.86%	87.51%	86.28%	90.42%
2Q/07	92.21%	91.62%	87.47%	85.58%	90.04%
3Q/07	91.80%	92.49%	87.63%	85.71%	90.32%

Metro Rent Overview

Overall rental rates climbed \$0.003 per square foot (psf) during the third quarter to \$0.880 psf. Quarterly rental rate gains were recorded in all four markets, with Class B enjoying the largest increase. Overall rents are up \$0.009 psf since this time last year. At \$1.081 psf, **Class A** rents were up \$0.002 psf over the quarter and \$0.013 psf over the year. **Class B** rents reported the largest quarterly increase, gaining \$0.004 psf to \$0.861 psf. Class B rents are \$0.002 psf higher than they were one year ago. **Class C** rents rose \$0.002 over the quarter to \$0.776 psf, and are up \$0.006 psf over the year. **Class D** rents also increased \$0.002 psf over the quarter. At \$0.715 psf, Class D rents are \$0.013 psf above last year's level.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/06	\$1.068	\$0.859	\$0.770	\$0.702	\$0.871
2Q/07	\$1.079	\$0.857	\$0.774	\$0.713	\$0.877
3Q/07	\$1.081	\$0.861	\$0.776	\$0.715	\$0.880

Submarket Performance

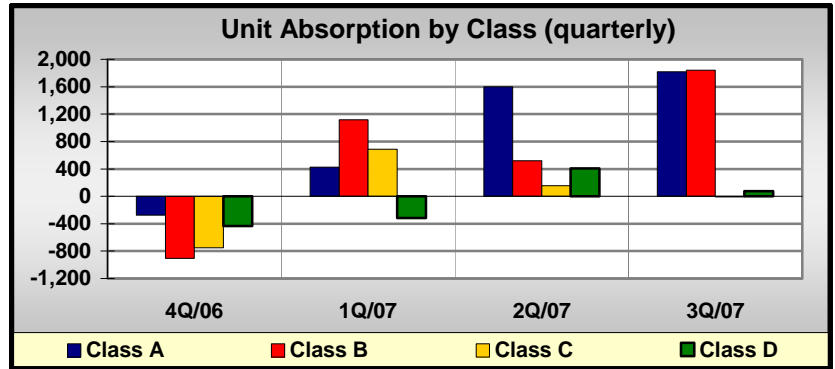
Of the 51 D/FW submarkets, overall occupancy was highest in **Granbury**, which is near full, followed by **Midlothian** at 96.73%. The lowest occupancy was found in **Farmers Branch** at 81.29%. The highest overall rental rates were found in the **Uptown/Knox/Henderson** submarket at \$1.420 psf, followed by **Downtown Dallas** at \$1.282 psf. The lowest rents were found in **Azle** at \$0.680 psf.

Of the submarkets with more than one property, **Denton** reported the highest Class A occupancy at 98.48%, while the lowest Class A occupancy was reported in **Tyler** at 42.61%. In the Class B market, **Midlothian**, which was near full, reported the highest occupancy, while **Benbrook** posted the lowest occupancy at 86.87%. In the Class C market, **Tyler** recorded the highest occupancy at 97.77%, while **Greenville Avenue/Lake Highlands** reported the lowest occupancy at 79.10%. In the Class D market, **East Plano/Sachse** reported the highest occupancy at 97.46%, while **Farmers Branch** posted the lowest occupancy at 41.41%.

Of the submarkets with more than one property, **Uptown/Knox/Henderson** reported the highest Class A rents at \$1.457 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 \$1.114 psf and the lowest in **White Settlement** at \$0.635 psf. In the Class D market, **Park Cities** reported the highest rents at \$0.859 psf, while the lowest rents were found in **North Richland Hills/Haltom City** at \$0.627 psf.

Metro Absorption Overview

Overall absorption was a robust 3,729 units. The majority of the absorption was recorded in the Class A and B markets, where quarterly figures each totaled over 1,800 units. Overall annual absorption stands at 5,960 units. **Class A** absorption was positive for the third consecutive quarter, at 1,819 units. The quarterly figure brings Class A absorption over the last twelve months to 3,566 units, the strongest of all classes. The **Class B** market registered the strongest absorption over the quarter, as 1,841 units were absorbed. The strong quarterly figure brings annual Class B absorption to 2,574 units. With -8 units absorbed, **Class C** was the lone class to post negative absorption during the third quarter. However, annual Class C absorption remains in the black at 87 units. The **Class D** market absorbed 77 units over the quarter. Class D absorption over the last twelve months, at 87 units, is the weakest of all classes.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
2Q/05	3,141	4,026	1,963	293	9,423
2Q/06	2,729	1,751	212	336	5,028
2Q/07	3,566	2,574	87	-267	5,960

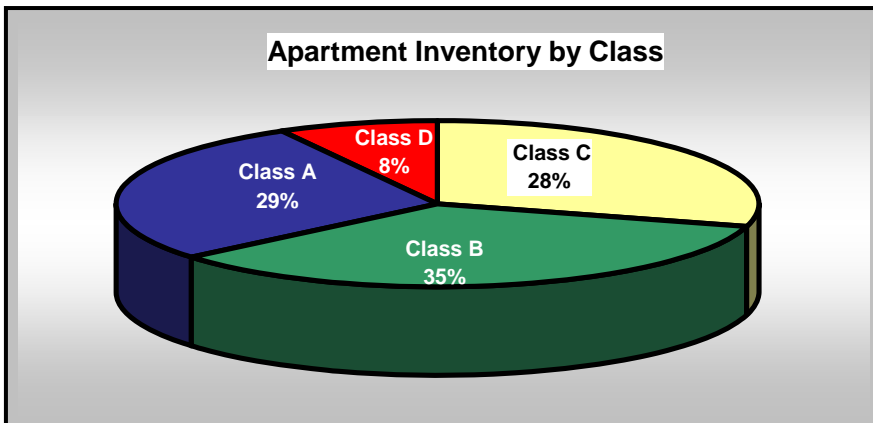
Submarket Performance

Of the 51 D/FW submarkets, **South Arlington** reported the highest absorption over the quarter with 393 units absorbed, followed by **Fort Worth**, where 334 units were absorbed over the quarter. Demand was weakest in **South Dallas**, where -282 units were absorbed, followed by **Hurst/Euless/Bedford**, which recorded absorption of -249 units.

Within each of the classes, **Allen/McKinney** reported the highest Class A absorption over the quarter with 272 units absorbed, while **Far North Dallas** reported the weakest absorption with -80 units absorbed. Absorption in the Class B market over the quarter was highest in **Denton** at 198 units and lowest in the **Benbrook** submarket at -45 units. In the Class C market, **Fort Worth** posted the highest absorption, as 177 units were absorbed over the quarter. The weakest Class C absorption was posted by the **Hurst/Euless/Bedford** submarket, with -228 units absorbed. Class D absorption was strongest in **Greenville Avenue/Lake Highlands**, with 67 units absorbed, and weakest in **South Dallas**, with -127 units absorbed.

Apartment Inventory

There are a total of 2,570 operating or under-construction projects in the Dallas/Ft. Worth metro market (greater than 25 units) with a total of 575,728 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.



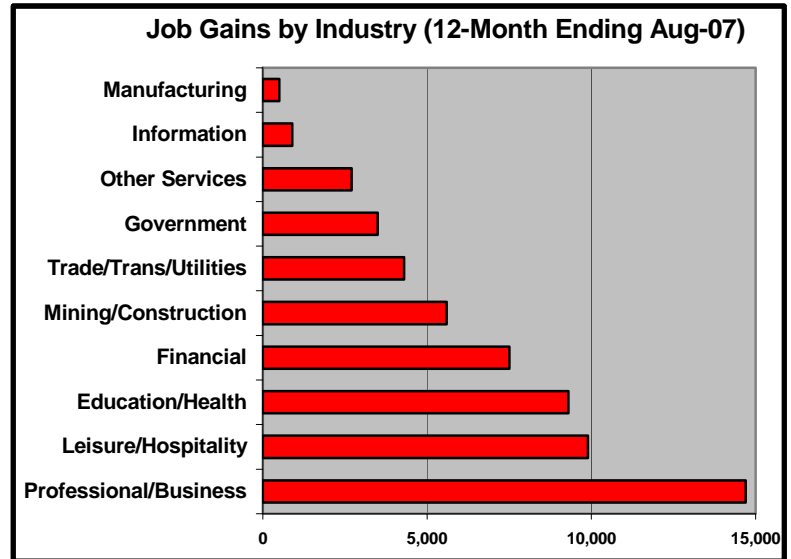
Operating	Projects	Units
Class A	554	156,302
Class B	820	197,201
Class C	822	161,356
Class D	312	46,030
TOTAL	2,508	560,889

Under Cons.	Projects	Units
Class A	49	12,769
Class B *	13	2,070
TOTAL	62	14,839

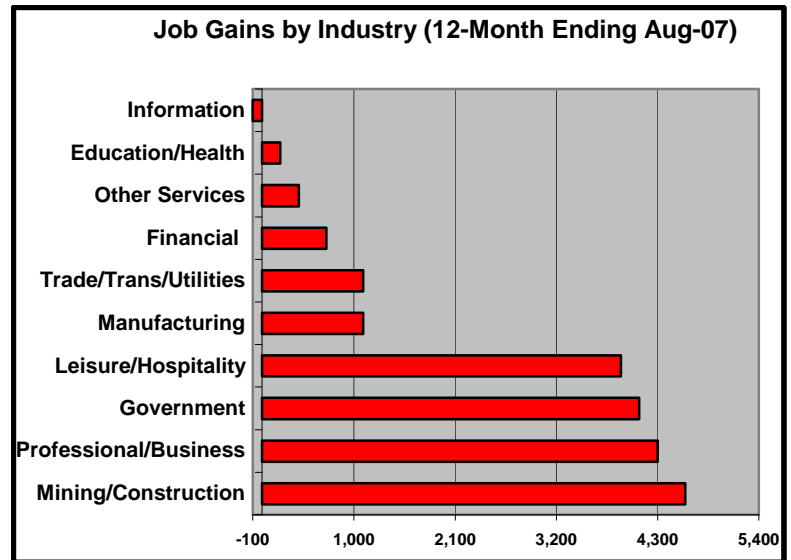
* Class B includes primarily Affordable Housing developments
 ** There are additional Unclassified (Class U) projects

Job Growth

The civilian labor force unemployment rate in the eight-county **Dallas-Plano-Irving Metropolitan District** increased to 4.0%, while the total number of nonagricultural wage and salary jobs increased to 2,093,000 in August 2007, according to the **Texas Workforce Commission**. This month's total is 58,900 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business services gained 14,700 jobs over the previous 12 months; Leisure & Hospitality gained 9,900 jobs; Education & Health Services employment is up 9,300 jobs; Financial Activities added 7,500 jobs; Mining & Construction gained 5,600 jobs over the year; Trade, Transportation, & Utilities added 4,300 jobs; Government employment is up 3,500 jobs; Other Services employment increased by 2,700 jobs; Information added 900 jobs; and Manufacturing gained 500 jobs over the year.



The civilian labor force unemployment rate in the four-county **Forth Worth-Arlington Metropolitan District** increased to 4.0%, while the total number of nonagricultural wage and salary jobs increased to 858,300 in August 2007, according to the **Texas Workforce Commission**. This month's total is 19,900 jobs more than at this time last year. Of the nonagricultural employers, Mining & Construction gained 4,600 jobs over the previous 12 months; Professional & Business Services added 4,300 jobs; Government employment is up 4,100 jobs; Leisure & Hospitality added 3,900 jobs; both Manufacturing gained and Trade, Transportation, & Utilities each added 1,100 jobs; Financial Activities gained 700 jobs; Other Services employment increased by 200 jobs; while Education & Health Services added 200 jobs over the last year. The only industry to lose jobs over the year was Information with -100 jobs.

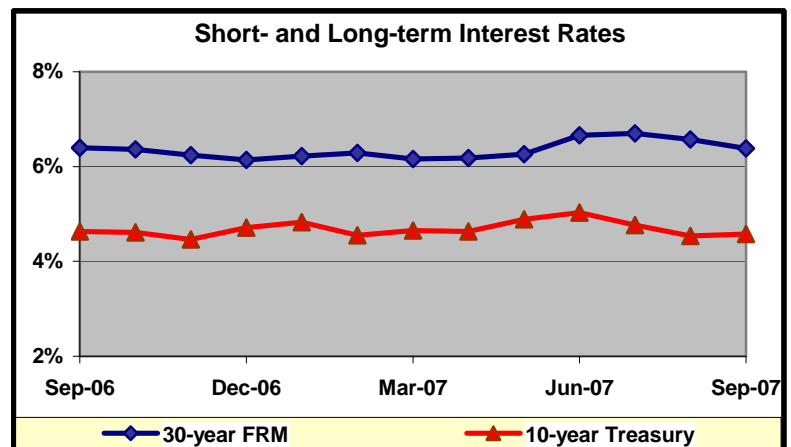


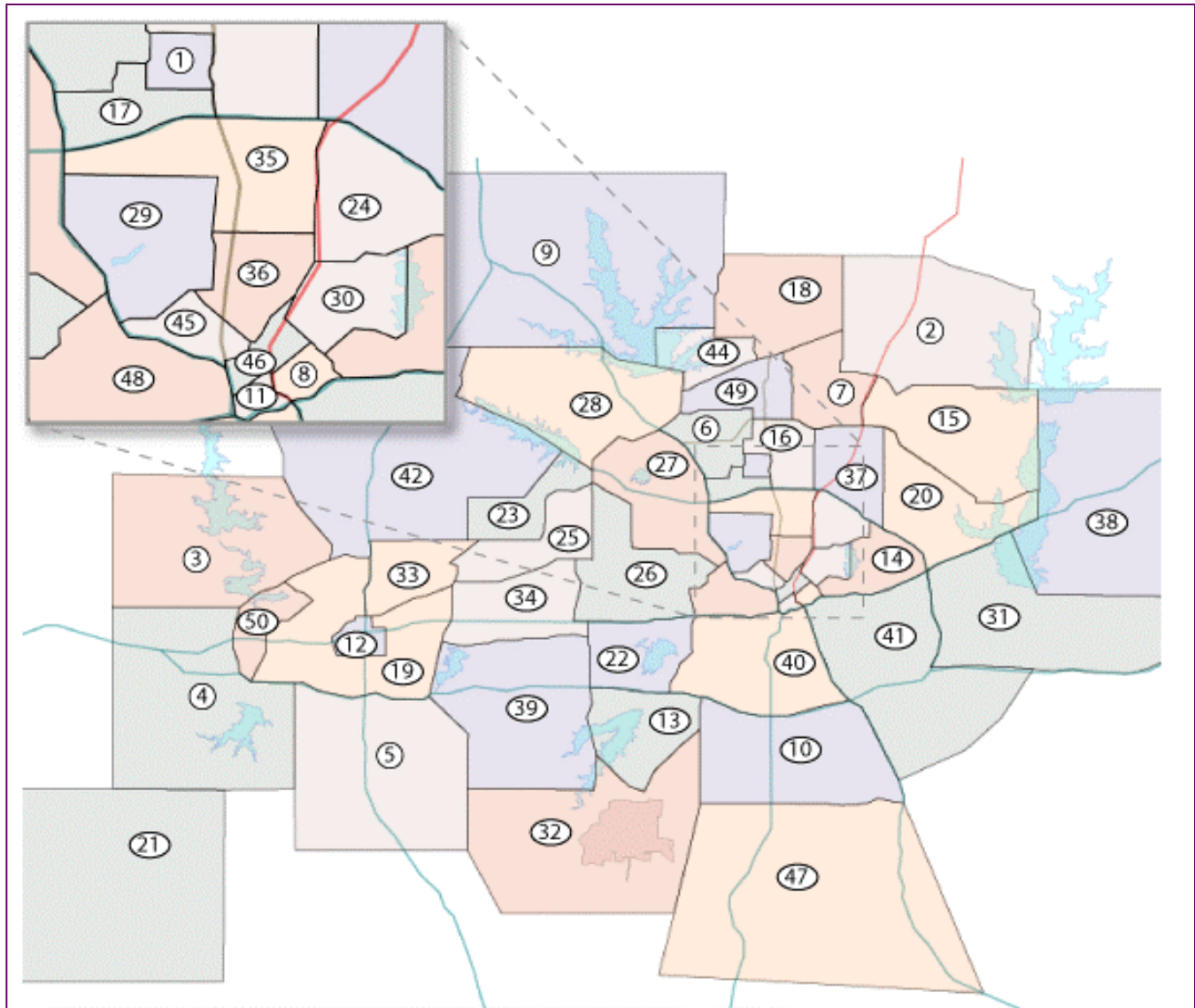
Interest Rates

The yield on the **10-year Treasury** note rose to 4.58% in September 2007, which is down 0.05 points from its 4.63% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.38% in September 2007. One year ago, the 30-year FRM was at 6.40%. The average for the **15-year FRM** in September was 6.05%, up 0.02 points from a year ago.

The **Prime Rate** in September was reported in the Wall Street Journal at 7.75%, down 0.50 points from one 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).