

# Dallas/Fort Worth Apartment Market Update

Edited by Kathryn Koepke

\$399/year

1<sup>st</sup> Quarter 2007

## New Year, Fast Start

The Dallas/Fort Worth multifamily market kicked into high gear in the first quarter of 2007. Overall absorption during the quarter totaled 1,665 units, the highest quarterly figure since the fourth quarter of 2005. After a rough 2006 when only 146 units were absorbed the entire year, Class B recorded the strongest quarterly figure, with absorption of 1,116 units. Absorption was also positive in the Class A and C markets, as 430 and 475 units were absorbed, respectively. Class D was the lone class to post negative figures, absorbing -356 units over the quarter. Rental rates also made strides in the first quarter. At \$0.872 psf, overall rental rates were up \$0.002 psf over the quarter and \$0.005 psf over the year. Overall occupancy, however, fell 0.03 points over the quarter to 89.68%. The major contributor to the decline was the Class A market, where occupancy declined 0.83 points during the quarter to 91.86%, its lowest figure in over two years. Though occupancy figures taken by themselves may be a bit disappointing, when taking into account the high level of new construction and positive absorption figures, the market is actually faring rather well, absorbing much of the new product that is coming online.

With strong economic fundamentals and expected job growth of over 85,000 in 2007, the lone issue of concern for the Dallas/Ft. Worth multifamily market is construction activity, which is on pace to be at its highest level in over three years. Currently, there are 39 Class A projects containing a total of 10,362 units under-construction. Areas experiencing the most Class A construction include Downtown Dallas (1,520 units), Uptown/Knox/Henderson (1,106 units), and Allen/McKinney (924 units). Aside from the Uptown/Knox/Henderson submarket, where new units have yet to be delivered to market, Class A occupancy has already taken a hit in the other two markets. In Downtown Dallas, Class A occupancy declined 14.66 points over the quarter to 77.56%, while Class A occupancy in the Allen/McKinney submarket fell 5.40% to 85.74%. As more Class A units are delivered to market, we expect Class A occupancy will be pressured through the remainder of 2007. However, the area's strong fundamentals and strong job growth will prevent Class A occupancy from falling much below the 90% mark.

As for the Class B market, four projects with a total of 647 units have already completed construction in 2007, while another 15 projects containing 2,745 units are currently under-construction. As this is on par with Class B construction levels over the past several years, we expect the Class B market to remain relatively stable over the year, with occupancy fluctuating between 91% and 92%. Issues in the subprime market along with elevated foreclosure rates will likely provide a boost to the Class C market over the year, while we expect to see little movement in the Class D market.

By: [Leslie Countryman](#)

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

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.86%	91.60%	87.00%	84.44%	89.68%	▼	▼
Rent/Unit	\$1,019	\$695	\$616	\$549	\$740	▲	▲
Rent/SF	\$1.072	\$0.855	\$0.773	\$0.710	\$0.872	▲	▲
Absorption	430	1,116	475	-356	1,665	▲	▲

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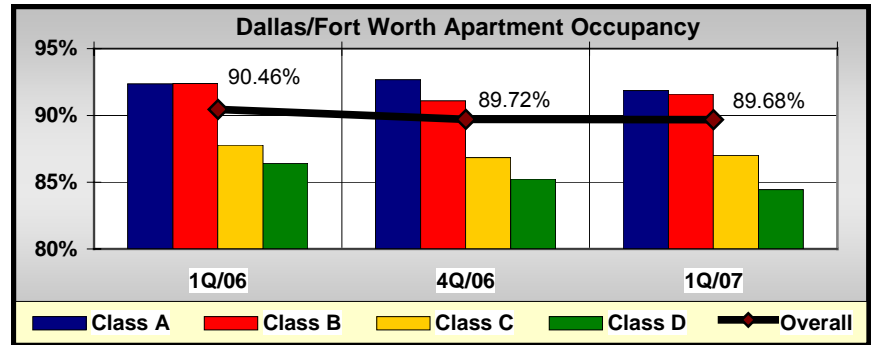
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## Metro Occupancy Overview

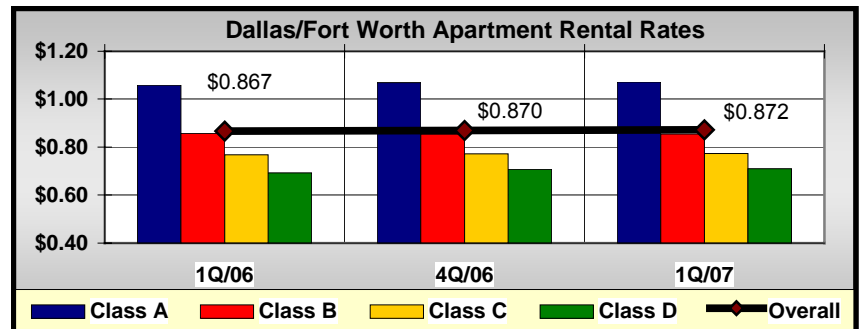
For the second consecutive quarter, overall occupancy declined. At 89.68%, overall occupancy is down 0.03 points over the quarter and 0.76 points over the year. The **Class A** market recorded the largest quarterly decline in occupancy, dropping 0.83 points to 91.86%. Class A occupancy is down 0.50 points over the year. **Class B** occupancy increased 0.51 points during the first quarter, the largest quarterly gain of all classes. Despite the gain, Class B occupancy, at 91.60%, is 0.80 points below last year's level. **Class C** occupancy gained 0.15 points over the quarter to 87.00%. Class C occupancy is down 0.78 points over the last 12 months. **Class D** occupancy was down 0.78 points over the quarter and 1.74 points over the year to 84.45%.



Quarter	Class A	Class B	Class C	Class D	Overall
1Q/06	92.36%	92.40%	87.78%	86.42%	90.46%
4Q/06	92.69%	91.09%	86.85%	85.23%	89.72%
1Q/07	91.86%	91.60%	87.00%	84.44%	89.68%

## Metro Rent Overview

Overall rental rates gained \$0.002 per square foot (psf) over the quarter to reach \$0.872 psf, their highest level in over two years. Overall rents are \$0.005 psf higher than they were one year ago. At \$1.072 psf, **Class A** rents were up \$0.003 psf over the quarter and \$0.014 psf over the year. **Class B** rents remained unchanged during the first quarter at \$0.855 psf, which is \$0.002 psf lower than last year's average. **Class C** rents inched up \$0.001 psf over the quarter and \$0.005 psf over the year to \$0.773 psf. **Class D** rents reported a \$0.003 psf quarterly gain to \$0.710 psf, which represents a \$0.018 psf annual gain.



Quarter	Class A	Class B	Class C	Class D	Overall
1Q/06	\$1.058	\$0.857	\$0.768	\$0.692	\$0.867
4Q/06	\$1.069	\$0.855	\$0.772	\$0.707	\$0.870
1Q/07	\$1.072	\$0.855	\$0.773	\$0.710	\$0.872

## Submarket Performance

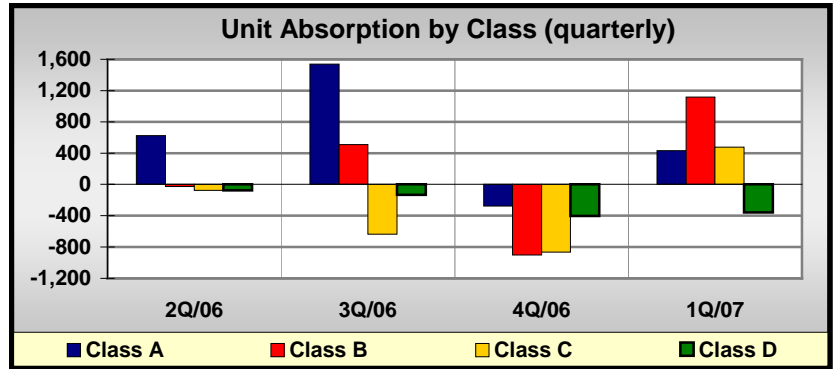
Of the 51 D/FW submarkets, overall occupancy was highest in **Granbury**, which is near full, followed by **West Dallas** at 95.28%. The lowest occupancy was found in **Downtown Dallas** at 77.56%. The highest overall rental rates were found in the **Uptown/Knox/Henderson** submarket at \$1.440 psf, while the lowest rents were found in **White Settlement** at \$0.665 psf.

Of the submarkets with more than one property, **North Dallas** reported the highest Class A occupancy at 96.28%, while the lowest Class A occupancy was reported in **Downtown Dallas** at 77.56%. In the Class B market, **Park Cities** once again reported the highest occupancy at 97.89%, while **Turtle Creek/Cedar Springs** posted the lowest occupancy at 73.35%. In the Class C market, **Stephenville** recorded the highest occupancy at 96.78%, while **Greenville Avenue/Lake Highlands** reported the lowest occupancy at 78.49%. In the Class D market, **Carrollton** reported the highest occupancy at 94.04%, while **Grand Prairie** posted the lowest occupancy at 76.42%.

Of the submarkets with more than one property, **Uptown/Knox/Henderson** reported the highest Class A rents at \$1.479 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 \$1.088 psf, while the lowest rents were found in **Waxahachie/Ennis** at \$0.583 psf. Class C rents were the highest in **Uptown/Knox/Henderson** at \$1.148 psf and the lowest in **White Settlement** at \$0.618 psf. In the Class D market, **Turtle Creek/Cedar Springs** reported the highest rents at \$0.867 psf, while the lowest rents were found in the **North Richland Hills/Haltom City** at \$0.623 psf.

## Metro Absorption Overview

After a slow fourth quarter, overall absorption rebounded in the first quarter of 2007, as 1,665 units were absorbed. The positive quarterly figure boosted annual absorption to 935 units. Quarterly absorption of 430 units in the **Class A** market, brings annual absorption to 2,313 units, the strongest of all classes. The **Class B** market posted the strongest quarterly figure, absorbing 1,116 units over the quarter. Class B absorption over the last 12 months totals 694 units. After three consecutive quarters of negative absorption, **Class C** absorption positive during the first quarter, absorbing 475 units. Despite the quarterly gain, annual Class C absorption remains in the red at -1,103 units. **Class D** was the only class to register negative absorption over the quarter, as -356 units were absorbed. Class D absorption over the year stands at -969 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
1Q/05	5,252	2,862	-251	-1,145	6,718
1Q/06	3,164	4,492	3,095	1,207	11,958
1Q/07	2,313	694	-1,103	-969	935

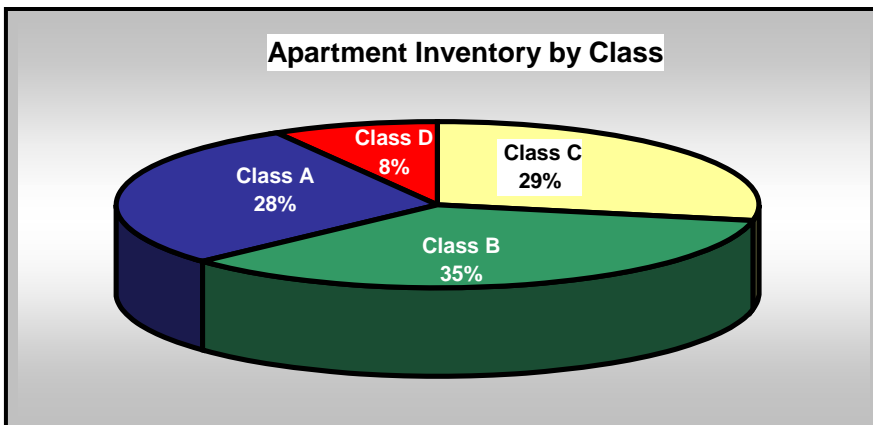
## Submarket Performance

Of the 51 D/FW submarkets, **South Dallas** reported the highest absorption over the quarter with 332 units absorbed, followed by **East Dallas** where 223 units were absorbed over the quarter. Demand was weakest in **Greenville Avenue/Lake Highlands**, where -177 units were absorbed, followed by **Addison**, which recorded absorption of -129 units.

Within each of the classes, **Las Colinas/Valley Ranch/Coppell** reported the highest Class A absorption over the quarter with 87 units absorbed, while **Frisco** reported the weakest absorption with -41 units absorbed. Absorption in the Class B market over the quarter was highest in the **East Dallas** submarket at 179 units and lowest in the **Grand Prairie** submarket at -77 units. In the Class C market, **South Dallas** posted the highest absorption, as 266 units were absorbed over the quarter. The weakest Class C absorption was posted by the **Greenville Avenue/Lake Highlands submarket**, with -125 units absorbed. Class D absorption was strongest in **Garland/Rowlett**, with 50 units absorbed, and weakest in **South Dallas**, with -104 units absorbed.

## Apartment Inventory

There are a total of 2,506 operating or under-construction projects in the Dallas/Ft. Worth metro market (greater than 25 units) with a total of 562,028 units. Approximately 28% of the total units are Class A, 35% are Class B, 29% are Class C, and 8% are Class D. The chart below displays market inventory by class.



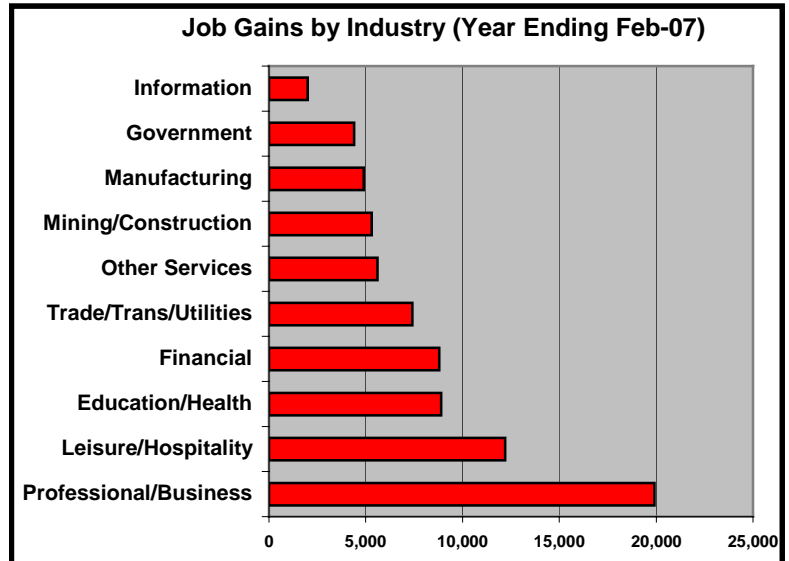
Operating	Projects	Units
Class A	518	147,221
Class B	803	194,499
Class C	817	160,794
Class D	314	46,407
<b>TOTAL</b>	<b>2,452</b>	<b>548,921</b>

Under Cons.	Projects	Units
Class A	39	10,362
Class B *	15	2,745
<b>TOTAL</b>	<b>54</b>	<b>13,107</b>

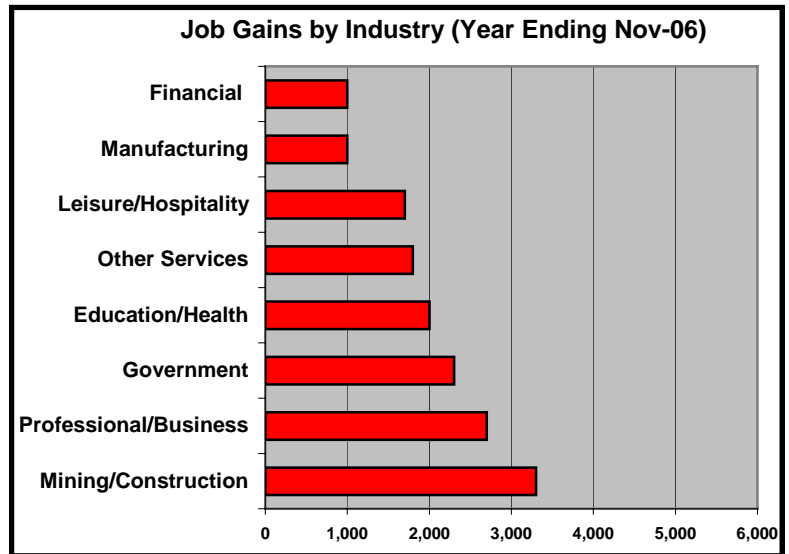
\* Class B includes primarily Affordable Housing developments  
 \*\* There are additional Unclassified (Class U) projects

## Job Growth

The civilian labor force unemployment rate in the eight-county **Dallas-Plano-Irving Metropolitan District** remained at 4.6%, while the total number of nonagricultural wage and salary jobs increased to 2,057,000 in February 2006, according to the **Texas Workforce Commission**. This month's total is 79,400 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business services gained 19,900 jobs over the previous 12 months; Leisure & Hospitality gained 12,200 jobs; Education & Health Services employment is up 8,900 jobs; Financial Activities added 8,800 jobs; Trade, Transportation & Utilities gained 7,400 jobs over the year; Other Services added 5,600 jobs; Mining & Construction employment is up 5,300 jobs; Manufacturing employment increased by 4,900 jobs; the Government sector added 4,400 jobs; and Information gained 2,000 jobs over the year.



The civilian labor force unemployment rate in the four-county **Forth Worth-Arlington Metropolitan District** decreased to 4.7%, while the total number of nonagricultural wage and salary jobs increased to 839,300 in February 2007, according to the **Texas Workforce Commission**. This month's total is 14,600 jobs more than at this time last year. Of the nonagricultural employers, Mining & Construction gained 3,300 jobs over the previous 12 months; Professional & Business Services gained 2,700 jobs; Government employment is up 2,300 jobs; Education and Health Services added 2,000 jobs; Other Services gained 1,800 jobs; and Leisure & Hospitality added 1,700 jobs over the year; while the Manufacturing and Financial Activities sectors each added 1,000 jobs over the year. The only industries to lose jobs over the year were Trade, Transportation, and Utilities with -500 jobs, and Information with -700 jobs.

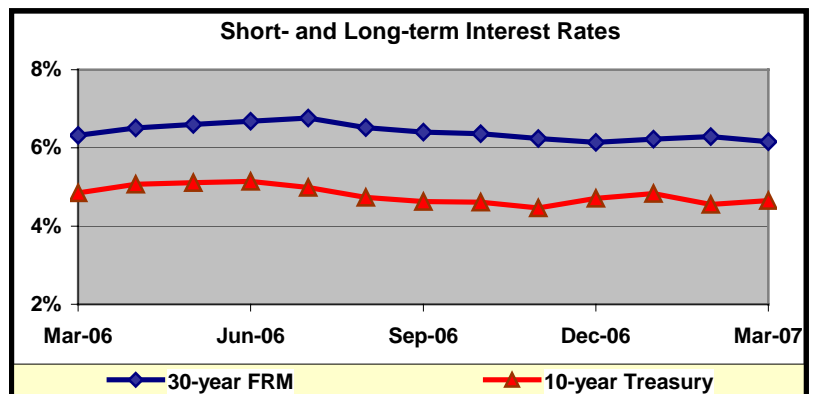


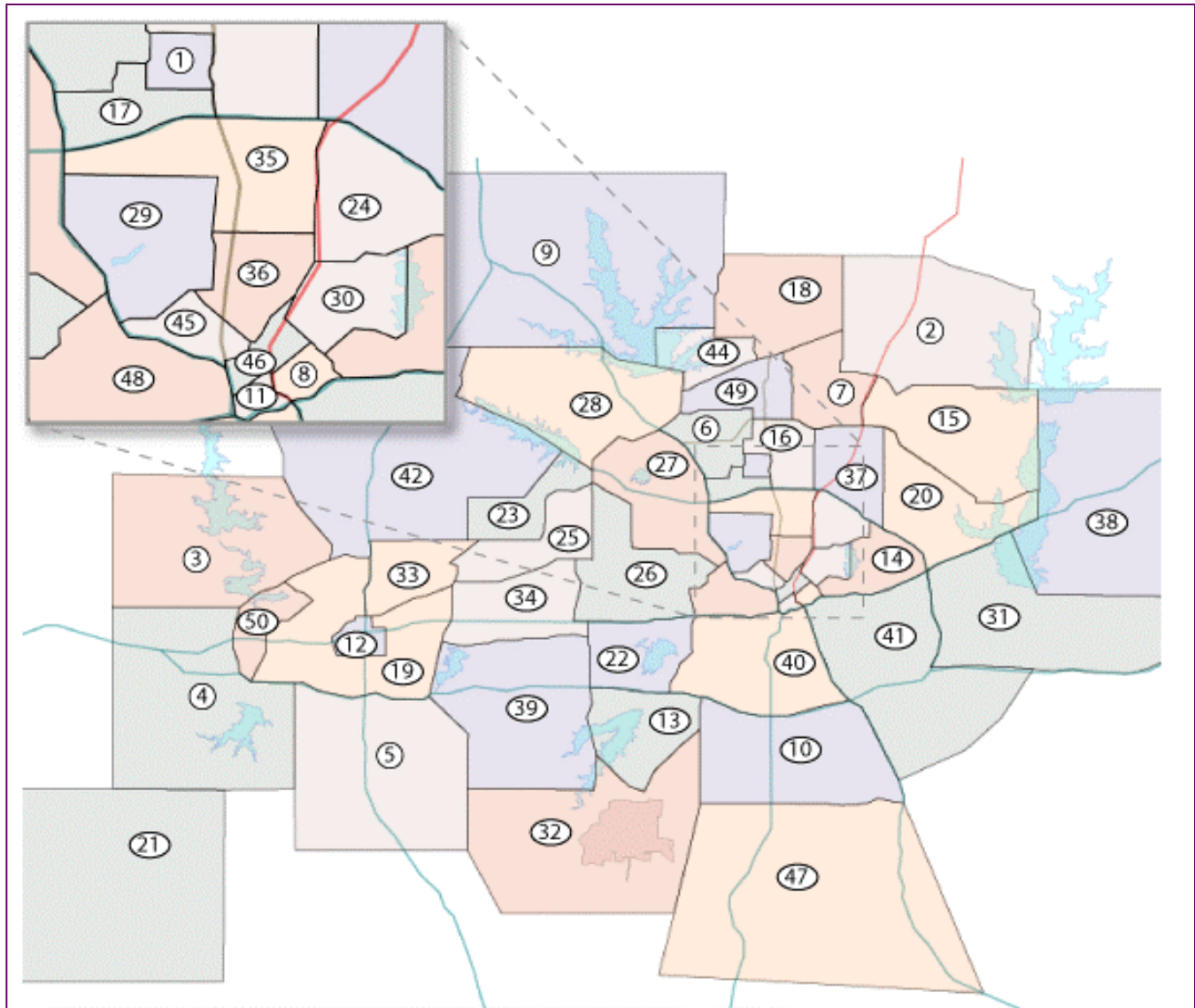
## Interest Rates

The yield on the **10-year Treasury** note rose to 4.67% in April 2007, down 0.40 points from its 5.07% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.16% in March 2007. One year ago, the 30-year FRM was at 6.32%. The average for the **15-year FRM** in March was 5.88%, down 0.09 points from a year ago.

The **Prime Rate** in April was reported in the Wall Street Journal at 8.25%, up 0.50 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).



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