

Dallas/Fort Worth Apartment Market Update

Edited by Kathryn Koepke

\$399/year

2nd Quarter 2006

Construction Activity Picks Up The Pace

Since 2003 when 56 projects containing 12,881 units were completed, construction activity has been on the decline. In 2004, 38 projects with 8,956 units were built, last year 35 projects containing 7,222 units came to market, and six months into 2006, there have only been eight projects with a total of 2,344 units completed. Despite the slow start in 2006, it appears activity will once again pick up the pace, as there are currently 54 projects with a total of 11,848 units under construction.

Areas seeing the most new developments in the Dallas area include Downtown Dallas and Uptown/Knox/Henderson. Downtown currently has the most units under construction as six properties containing 1,520 units are underway. Five of the six new developments in Downtown Dallas are conversions of high-rise office buildings. Buildings slated for conversion to rental units include the former Fidelity Union Life Tower, to be known as Mosaic Tower, the Mercantile Bank Building, the Gulf States Building, the Gables Republic Center, the 1600 Pacific Avenue high-rise. Within the Uptown/Knox/Henderson market, there are six projects containing 1,293 units under construction. Notable projects in the area include the two Gables properties underway in West Village and the 252-unit Cirque high-rise located in the 72-acre Victory development.

The Fort Worth area currently has eight projects with 1,478 units under construction. Half of the new properties are located in Downtown Fort Worth, with the most notable of these projects being the 24-unit Kress Building Lofts, which is a renovation of an existing office building. The basement and first floor of the four-story property are occupied by a Fox & Hound and Hyena's Comedy Club, while luxury loft apartments are on the upper floors. Other prominent projects in the area include Arthouse, a 193-unit mixed-use development in the fast-growing suburban market of Southlake/Keller. The project includes three, four-story buildings containing a mix of contemporary and loft-style residential units with 37,000 square feet of street-level retail space. Another 189-unit mixed-use project, Venue at Home Town, is going up in the North Richland Hills/Haltom City submarket. The property is part of an 8.6-acre development that includes restaurants, retail, and office space.

Occupancy has already been on the decline, dropping over the last three quarters to its current level just above the 90% mark. The influx of new construction will undoubtedly have an effect on occupancy, as overall occupancy will likely dip below 90% and return to pre-Katrina figures, which hovered around 88%.

By: [Leslie Countryman](#)

Dallas / Fort Worth Apartment Market at a Glance

| | Class A | Class B | Class C | Class D | Overall | Qtr | Yr |
|------------|---------|---------|---------|---------|---------|-----|----|
| Occupancy | 91.94% | 91.92% | 87.63% | 85.67% | 90.07% | ▼ | ▲ |
| Rent/Unit | \$1,011 | \$695 | \$613 | \$540 | \$735 | ▲ | ▲ |
| Rent/SF | \$1.064 | \$0.858 | \$0.769 | \$0.699 | \$0.868 | ▲ | ▲ |
| Absorption | 596 | -36 | -88 | -82 | 390 | ▼ | ▼ |

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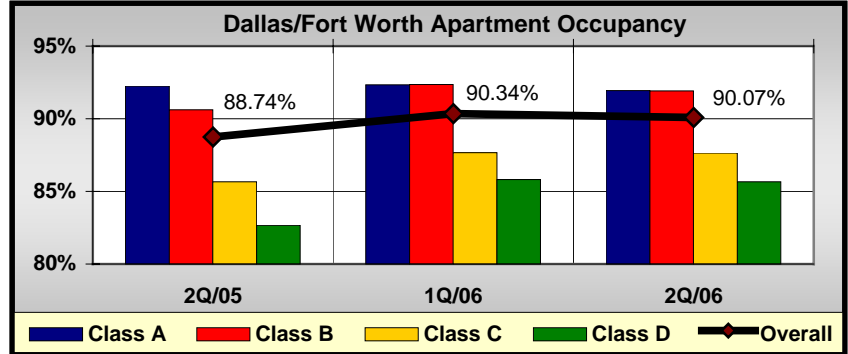


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Metro Occupancy Overview

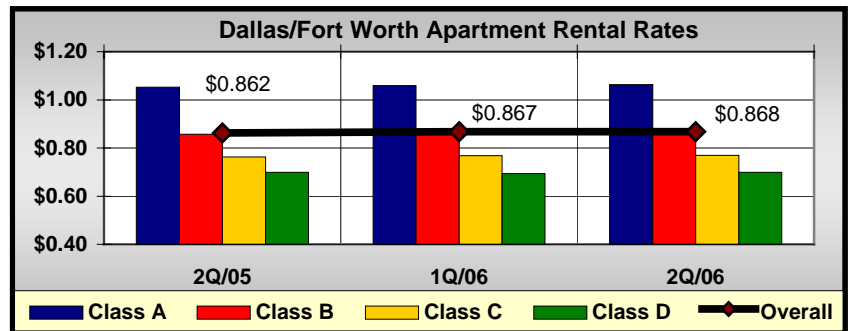
Overall occupancy registered a 0.27-point decline over the second quarter of 2006, as all classes registered quarterly occupancy declines. Overall occupancy, at 90.07%, remains 1.33 points higher than that at this time last year. **Class A** occupancy, at 91.94%, is 0.40 points below last quarter's level and 0.31 points below level twelve months ago. The **Class B** market recorded the largest drop in occupancy over the quarter, losing 0.44 points. However, at 91.92%, Class B occupancy remains 1.32 points higher than it was twelve months ago. Occupancy in the **Class C** market is down slightly, 0.03 points over the quarter, to 87.63%. Despite the quarterly drop, Class C occupancy is a full 1.97 points higher than that seen in the second quarter of 2005. **Class D** occupancy is down 0.15 points over the quarter and 3.01 points over the year to 85.67%.



| Quarter | Class A | Class B | Class C | Class D | Overall |
|---------|---------|---------|---------|---------|---------|
| 2Q/05 | 92.25% | 90.60% | 85.66% | 82.66% | 88.74% |
| 1Q/06 | 92.34% | 92.36% | 87.66% | 85.82% | 90.34% |
| 2Q/06 | 91.94% | 91.92% | 87.63% | 85.67% | 90.07% |

Metro Rent Overview

Overall rental rates inched up \$0.001 to \$0.868 per square foot (psf), which is \$0.006 higher than last year at this time. All classes posted quarterly rent gains, with Classes A, B, and C also posting year-over-year rental gains. The **Class A** market reported a \$0.004 gain over the quarter and an \$0.011 gain over the year to bring rents up to their current level at \$1.064 psf. **Class B** rents at \$0.858 psf are \$0.001 psf higher than last quarter's and last year's level. **Class C** properties also reported a \$0.001 psf quarterly gain, and at \$0.769 psf, rents are \$0.006 psf higher than the previous year's figure. Although **Class D** rents are flat in comparison to last year's numbers, over the quarter, the Class D market recorded the largest increase of all classes, gaining \$0.005 to \$0.699 psf.



| Quarter | Class A | Class B | Class C | Class D | Overall |
|---------|---------|---------|---------|---------|---------|
| 2Q/05 | \$1.053 | \$0.857 | \$0.763 | \$0.699 | \$0.862 |
| 1Q/06 | \$1.060 | \$0.857 | \$0.768 | \$0.694 | \$0.867 |
| 2Q/06 | \$1.064 | \$0.858 | \$0.769 | \$0.699 | \$0.868 |

Submarket Performance

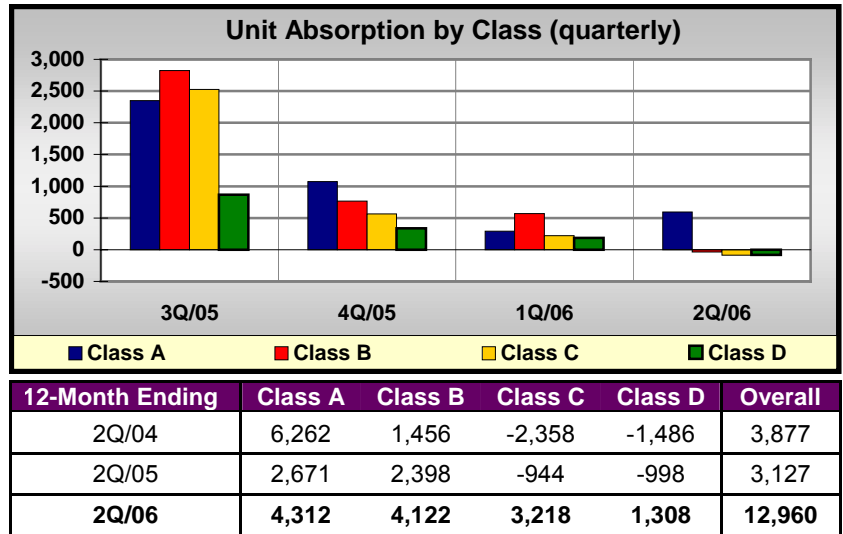
Of the 51 D/FW submarkets, overall occupancy was highest in the **Azle** and **Tyler** submarkets at 96.60% and 95.90%, while the lowest occupancy was found in **Park Cities** at 78.48%. The highest overall rental rates were found in the **Uptown/Knox/Henderson** submarket at \$1.443 psf, while the lowest rents were found in **Azle** at \$0.685 psf.

Of the submarkets with more than one property, **Waxahachie/Ennis** reported the highest Class A occupancy at 96.36%, while the lowest Class A occupancy was reported in **Park Cities** at 72.94%. In the Class B market, **Park Cities** reported the highest occupancy as it is near full, while **Southlake/Keller** posted the lowest occupancy at 59.83%. In the Class C market, **Azle** recorded the highest occupancy at 96.60%, while **Greenville Ave./Lake Highlands** reported the lowest occupancy at 81.68%. In the Class D market, **East Plano/Sachse** reported the highest occupancy at 98.77%, while **Denton** posted the lowest occupancy at 75.57%.

Of the submarkets with more than one property, **Uptown/Knox/Henderson** reported the highest Class A rents at \$1.466 psf, while the lowest Class A rents were found in **Burleson** at \$0.744 psf. In the Class B market, rental rates were the highest in **Park Cities** at \$1.063 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 \$1.078 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 \$0.855 psf, while the lowest rents were found in the **North Richland Hills/Haltom City** at \$0.623 psf.

Metro Absorption Overview

Overall quarterly absorption was 390 units, while annual absorption stands at 12,960 units. Classes B, C, and D recorded negative absorption over the quarter, with Class A recording the only positive quarterly figure. Class A also recorded the strongest annual absorption figure. **Class A** properties absorbed 596 units over the quarter to bring annual absorption to 4,312 units. After posting nine consecutive quarters of positive absorption, the **Class B** market is in the red this quarter, with -36 units absorbed. However, absorption figures over the year remain strong with 4,122 units absorbed. The **Class C** market, with negative absorption of 88 units over the quarter, reported the weakest quarterly absorption of all classes. Annual absorption for the Class C market remains positive at 3,218 units. **Class D** absorption over the quarter was -82 units, while absorption over the year stands at 1,308 units.



| 12-Month Ending | Class A | Class B | Class C | Class D | Overall |
|-----------------|---------|---------|---------|---------|---------|
| 2Q/04 | 6,262 | 1,456 | -2,358 | -1,486 | 3,877 |
| 2Q/05 | 2,671 | 2,398 | -944 | -998 | 3,127 |
| 2Q/06 | 4,312 | 4,122 | 3,218 | 1,308 | 12,960 |

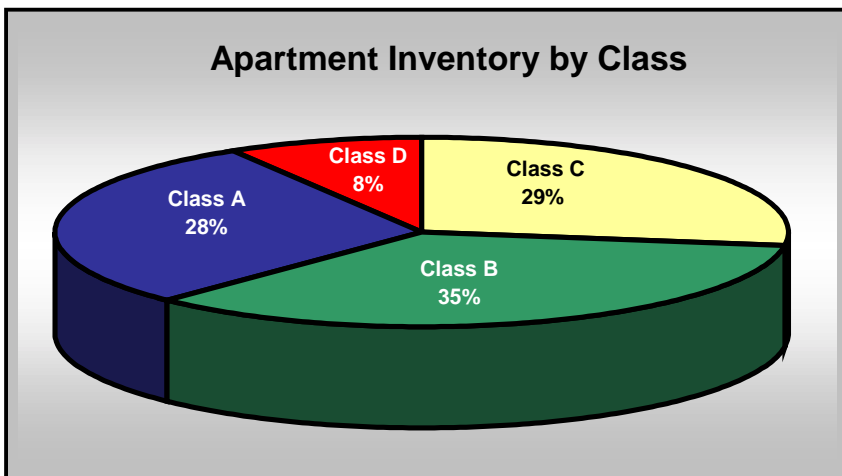
Submarket Performance

Of the 51 D/FW submarkets, **Southeast Dallas** reported the highest absorption over the quarter with 223 units absorbed, followed by **Love Field/Bachman Lake** where 203 units were absorbed over the quarter. Demand was weakest in **Greenville Ave./Lake Highlands**, where -281 units were absorbed, followed by **Duncanville/Cedar Hill**, which recorded absorption of -170 units.

Within each of the classes, **Downtown Dallas** reported the highest Class A absorption over the quarter with 152 units absorbed, while **Duncanville/Cedar Hill** reported the weakest absorption with -129 units absorbed. Absorption in the Class B market over the quarter was highest in **Mesquite/Sunnyvale** submarket at 73 units and lowest in **Las Colinas/Valley Ranch/Coppell** submarket at -131 units. In the Class C market, **Southeast Dallas** posted the highest absorption as 157 units were absorbed over the quarter. The weakest Class C absorption was posted by **Greenville Ave./Lake Highlands**, with -263 units absorbed. Class D absorption was strongest in **Garland/Rowlett**, with 36 units absorbed, and weakest in **North Arlington**, with -55 units absorbed.

Apartment Inventory

There are a total of 2,469 operating or under-construction projects in the Dallas/Ft. Worth metro market (greater than 25 units) with a total of 552,490 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.



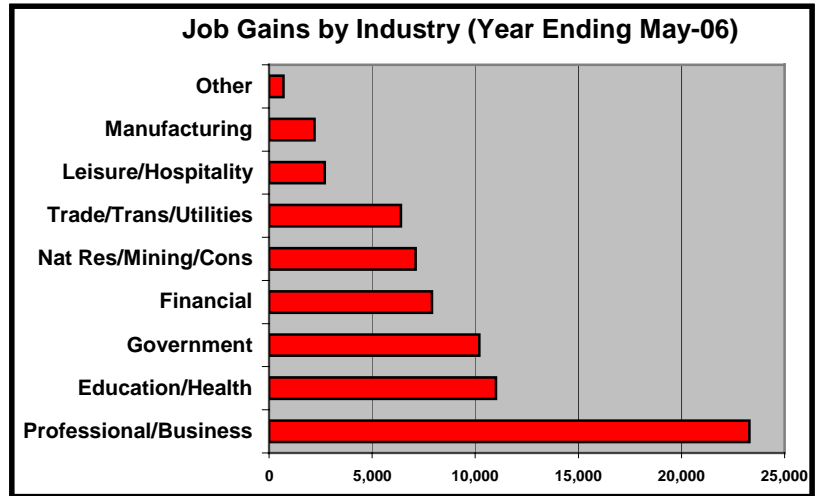
| Operating | Projects | Units |
|--------------|--------------|----------------|
| Class A | 502 | 142,113 |
| Class B | 779 | 190,050 |
| Class C | 815 | 161,345 |
| Class D | 319 | 47,134 |
| TOTAL | 2,415 | 540,642 |

| Under Cons. | Projects | Units |
|--------------|-----------|---------------|
| Class A | 33 | 7,935 |
| Class B * | 21 | 3,913 |
| TOTAL | 54 | 11,848 |

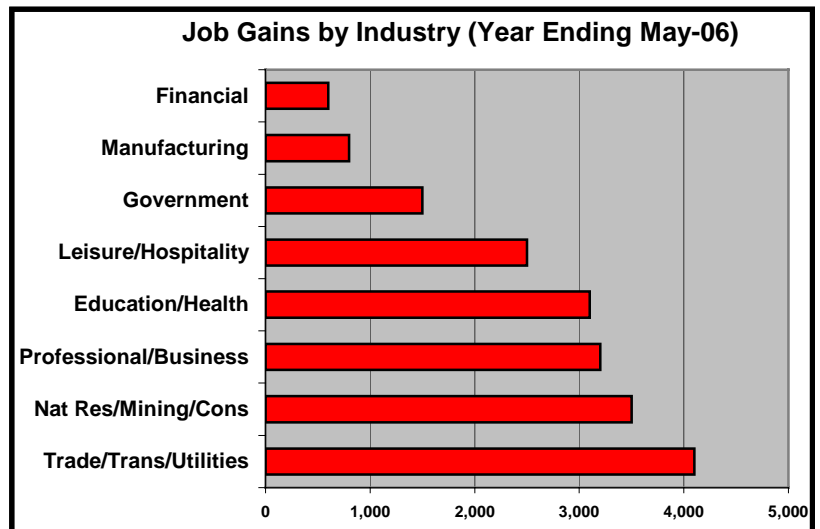
* Class B includes primarily Affordable Housing developments
 ** There are additional Unclassified (Class U) projects

Job Growth

The civilian labor force unemployment rate in the eight-county Dallas-Plano-Irving Metropolitan District increased to 4.8%, while the total number of nonagricultural wage and salary jobs increased to 2,014,000 in May 2006, according to the **Texas Workforce Commission**. This month's total is 70,900 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business services gained 23,300 jobs over the previous 12 months; Education & Health Services gained 11,000 jobs; Government employment is up 10,200 jobs; Financial sectors added 7,900 jobs; and Natural Resources, Mining, & Construction added 7,100 jobs over the year. The only industry to lose jobs over the year was the Information sector with -600 jobs.



The civilian labor force unemployment rate in the four-county Forth Worth-Arlington Metropolitan District increased to 4.7%, while the total number of nonagricultural wage and salary jobs increased to 832,100 in May 2006, according to the **Texas Workforce Commission**. This month's total is 18,100 jobs more than at this time last year. Of the nonagricultural employers, Trade, Transportation, & Utilities gained 4,100 jobs over the previous 12 months; Natural Resources, Mining, & Construction gained 3,500 jobs; Professional & Business Services employment is up 3,200 jobs; Education & Health Services added 3,100 jobs; and Leisure & Hospitality added 2,500 jobs over the year. The only industries to lose jobs over the year were Information with -300 jobs and Other Services with -900 jobs.

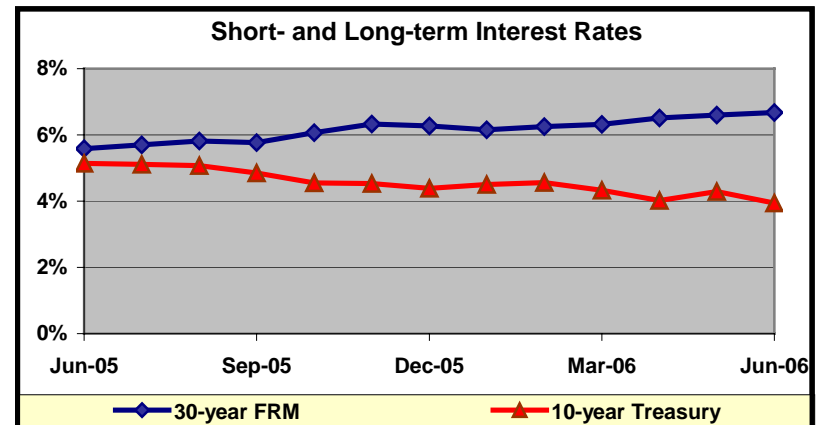


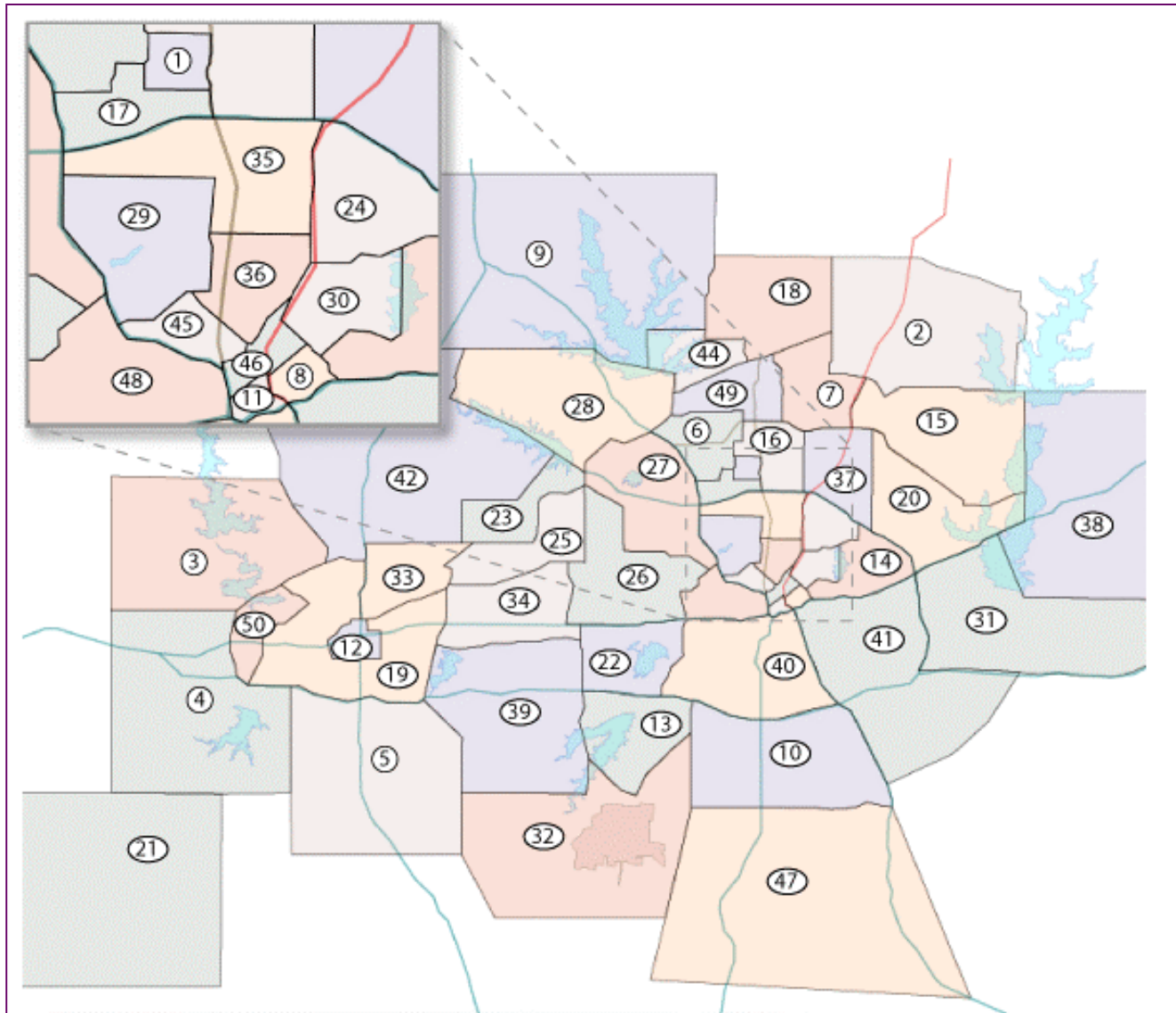
Interest Rates

The yield on the **10-year Treasury** note rose to 5.14% on the last Friday of June 2006, up 1.2 points from its 3.94% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.68% in June 2006, the highest level since January 2002. One year ago, the 30-year FRM was at 5.58%. The average for the **15-year FRM** in June was 6.31%, the highest level since January 2002 and up 1.14 points from a year ago.

The **Prime Rate** in June was reported in the Wall Street Journal at 8.25%, up 2.00 points from a year ago. It is now at the highest rate since February 2001.





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 Colinas / 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).