

Dallas/Fort Worth Apartment Market Update

Edited by Kathryn Koepke

\$399/year

3rd Quarter 2006

The 'Burbs are Raking 'Em In

With all the buzz about urban living and the multiple fancy new intown properties, it comes as somewhat of a surprise that the areas experiencing the greatest demand so far in 2006 are all suburban submarkets. This is not to say that renters are avoiding urban markets, but that there does seem to be a greater general preference for the good ole' suburban life.

Within the Dallas market, absorption in 2006 has been strongest in Lewisville/FlowerMound, as 571 units have been absorbed. Other markets posting strong figures include Far North Dallas with 490 units absorbed, Southeast Dallas with 341 units absorbed, and Carrollton with 325 units absorbed. Notably, these four markets with the highest absorption figures are all located outside Dallas' inner core, which includes the Downtown, Deep Ellum, Uptown/Knox/Henderson, Turtle Creek/Cedar Springs, Park Cities, and Lower Greenville/White Rock Lake submarkets. With the exception of the Uptown/Knox/Henderson submarket, which has absorbed 285 units over the year, these suburban absorption figures are more than double those seen in the intown submarkets.

The highest absorption figures through the third quarter of 2006 in the Fort Worth area are in Burleson and Southlake/Keller, which are both suburban submarkets. Over the timeframe, Burleson has absorbed 241 units, while Southlake/Keller has absorbed 165 units. Fort Worth really only has two intown submarkets, Downtown Fort Worth and Fort Worth. Absorption so far this year in Downtown Fort Worth has been 31 units, which although is not bad when compared to historical absorption, it is not near the figures seen in Burleson and Southlake/Keller. The Fort Worth submarket, which surrounds Downtown Fort Worth, has fared considerably worse than all submarkets, with -224 units of absorption.

Intown living has much to offer potential residents including proximity near employment centers, restaurants, nightlife, city arts facilities, and sporting venues. Suburban living also has much to offer potential residents including affordable housing, safety, good schools, and new nearby grocery and retail centers. So far in 2006 in the Dallas/Fort Worth area, it's clear more apartment renters are choosing the former rather than the latter lifestyle.

By: [Leslie Countryman](#)

Dallas / Fort Worth Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	93.15%	91.82%	87.34%	85.47%	90.24%	▲	▼
Rent/Unit	\$1,015	\$695	\$614	\$543	\$737	▲	▲
Rent/SF	\$1.069	\$0.859	\$0.770	\$0.703	\$0.869	▲	▲
Absorption	1,494	512	-671	-147	1,188	▲	▼

In This Issue

Occupancy & Rent Trends	2
<i>Current and Historical Trends</i>	
Absorption & Inventory.....	3
<i>Absorption, Current Market Inventory</i>	
Economic Fundamentals	4
<i>Job growth, Key Interest Rates</i>	
Market Map	5
<i>Submarket Boundaries</i>	
Methodology	6
<i>Research and Reporting, Definitions</i>	

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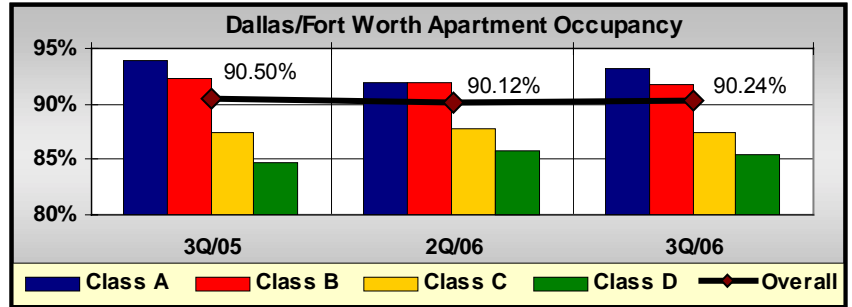
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Metro Occupancy Overview

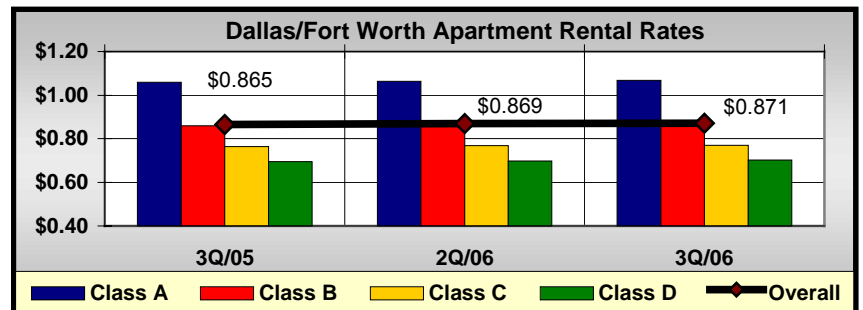
After three consecutive quarters of declining occupancy, overall occupancy is up 0.12 points over the third quarter of 2006 to 90.24%. However, at 90.24%, overall occupancy remains 0.26 points below last year's level. **Class A** recorded the largest increase in occupancy over the quarter, gaining 1.22 points to 93.15%, which is 0.85 points below last year's figure. **Class B** occupancy fell 0.14 points over the quarter, and 1.43 points over the year to 91.82%, while **Class C** occupancy was down 0.08 points over the quarter and 0.37 points over the year to 87.34%. **Class D** occupancy registered a 0.31-point drop over the quarter to 85.47%. Despite the quarterly drop, Class D occupancy is 0.83 points higher than last year's level.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/05	94.00%	92.25%	87.42%	84.64%	90.50%
2Q/06	91.93%	91.96%	87.71%	85.78%	90.12%
3Q/06	93.15%	91.82%	87.34%	85.47%	90.24%

Metro Rent Overview

Overall rental rates were up \$0.002 to \$0.871 per square foot (psf), which is \$0.006 higher than last year at this time. All classes posted quarterly rent gains, with Classes A and D posting the largest gains. **Class A** rents gained \$0.005 psf and \$0.009 psf over the year to reach \$1.069 psf. **Class B** rents increased \$0.001 psf over the quarter to \$0.859 psf, which is the same level they were at last year. **Class C** rents are up \$0.001 psf over the quarter and \$0.006 psf over the year. At \$0.770 psf, Class C rents are at their highest level since the third quarter of 2003. **Class D** rents reported a \$0.005 psf quarterly gain, and at \$0.703 psf, rents are \$0.008 psf higher than the previous year's figure.



Quarter	Class A	Class B	Class C	Class D	Overall
3Q/05	\$1.060	\$0.859	\$0.764	\$0.695	\$0.865
2Q/06	\$1.064	\$0.858	\$0.769	\$0.698	\$0.869
3Q/06	\$1.069	\$0.859	\$0.770	\$0.703	\$0.871

Submarket Performance

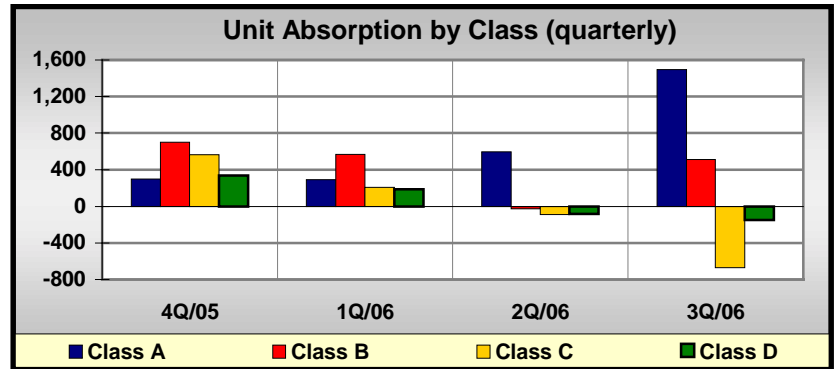
Of the 51 D/FW submarkets, overall occupancy was highest in **Grandbury**, which is near full, followed by **Azle** at 96.60%. The lowest occupancy was found in **White Settlement** at 84.25%. The highest overall rental rates were found in the **Uptown/Knox/Henderson** submarket at \$1.451 psf, while the lowest rents were found in **White Settlement** at \$0.709 psf.

Of the submarkets with more than one property, **Denton** reported the highest Class A occupancy at 97.51%, while the lowest Class A occupancy was reported in **The Colony** at 88.56%. In the Class B market, **Park Cities** reported the highest occupancy as it is near full, while **Southlake/Keller** posted the lowest occupancy at 74.59%. In the Class C market, **Uptown/Knox/Henderson** recorded the highest occupancy at 96.80%, while **Greenville Ave./Lake Highlands** reported the lowest occupancy at 80.80%. In the Class D market, **East Plano/Sachse** reported the highest occupancy at 97.54%, while **South Arlington** posted the lowest occupancy at 79.33%.

Of the submarkets with more than one property, **Uptown/Knox/Henderson** reported the highest Class A rents at \$1.471 psf, while the lowest Class A rents were found in **Burleson** at \$0.864 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 \$1.113 psf and the lowest in **White Settlement** at \$0.618 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 quarterly absorption was 1,188 units, while annual absorption stands at 4,735 units. Class A recorded the strongest quarterly absorption, while Class B also posted robust quarterly absorption. Quarterly absorption was negative in both Classes C and D. The **Class A** market absorbed 1,494 units over the quarter to bring annual absorption to 2,675 units. **Class B** absorption over the quarter was 512 units, while absorption over the year stands at 1,753 units. **Class C** absorption was in the red for a second consecutive quarter, as -671 units were absorbed. Annual Class C absorption is at 13 units, the weakest annual absorption of all classes. The **Class D** market also posted a second consecutive quarter of negative absorption with -147 units absorbed. Class D absorption over the last year is at 294 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
3Q/04	6,737	1,288	-2,176	-1,281	4,568
3Q/05	3,075	4,028	-2,011	317	9,431
3Q/06	2,675	1,753	13	294	4,735

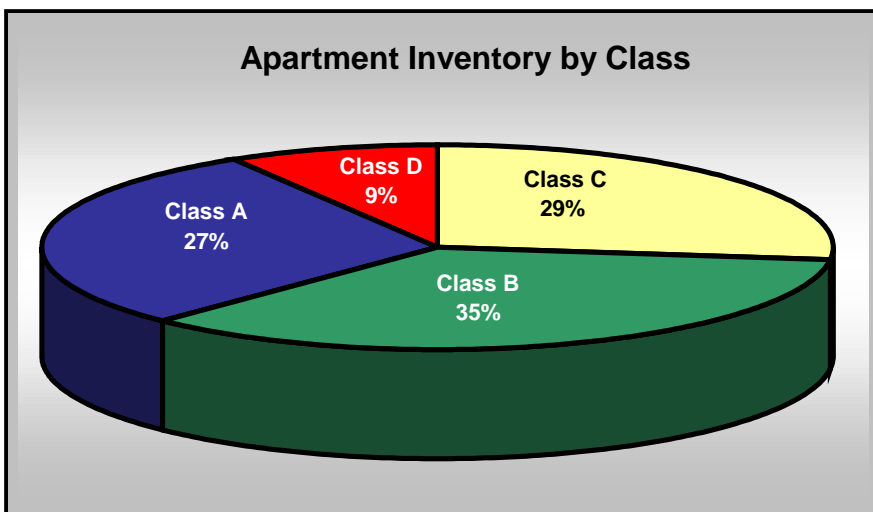
Submarket Performance

Of the 51 D/FW submarkets, **Lewisville/FlowerMound** reported the highest absorption over the quarter with 342 units absorbed, followed by **West Plano** where 254 units were absorbed over the quarter. Demand was weakest in **Richardson**, where -323 units were absorbed, followed by **Ft. Worth**, which recorded absorption of -279 units.

Within each of the classes, **Lewisville/FlowerMound** reported the highest Class A absorption over the quarter with 317 units absorbed, while **Southlake/Keller** reported the weakest absorption with -37 units absorbed. Absorption in the Class B market over the quarter was highest in the **South Dallas** submarket at 163 units and lowest in the **Far North Dallas** submarket at -138 units. In the Class C market, **North Dallas** posted the highest absorption, as 108 units were absorbed over the quarter. The weakest Class C absorption was posted by **Richardson**, with -332 units absorbed. Class D absorption was strongest in **North Arlington**, with 44 units absorbed, and weakest in **Fort Worth**, with -101 units absorbed.

Apartment Inventory

There are a total of 2,458 operating or under-construction projects in the Dallas/Ft. Worth metro market (greater than 25 units) with a total of 549,928 units. Approximately 27% of the total units are Class A, 35% are Class B, 29% are Class C, and 9% are Class D. The chart below displays market inventory by class.



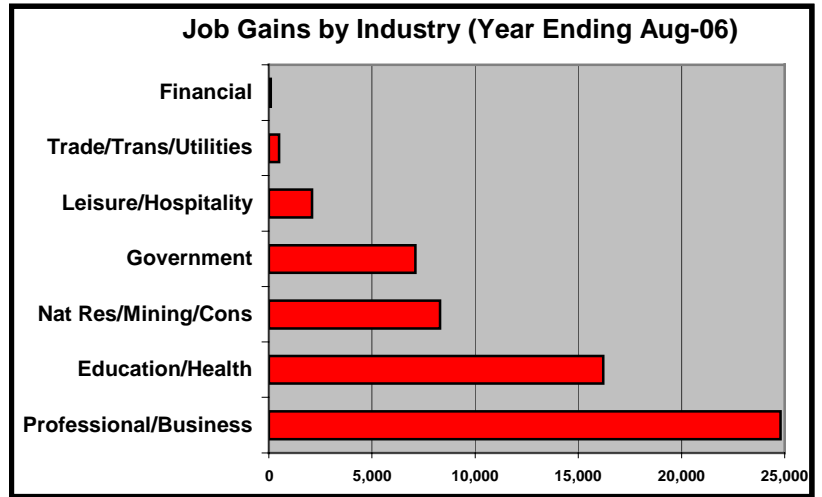
Operating	Projects	Units
Class A	501	141,800
Class B	781	190,617
Class C	812	160,602
Class D	318	46,989
TOTAL	2,412	540,008

Under Cons.	Projects	Units
Class A	27	6,605
Class B *	19	3,315
TOTAL	46	9,920

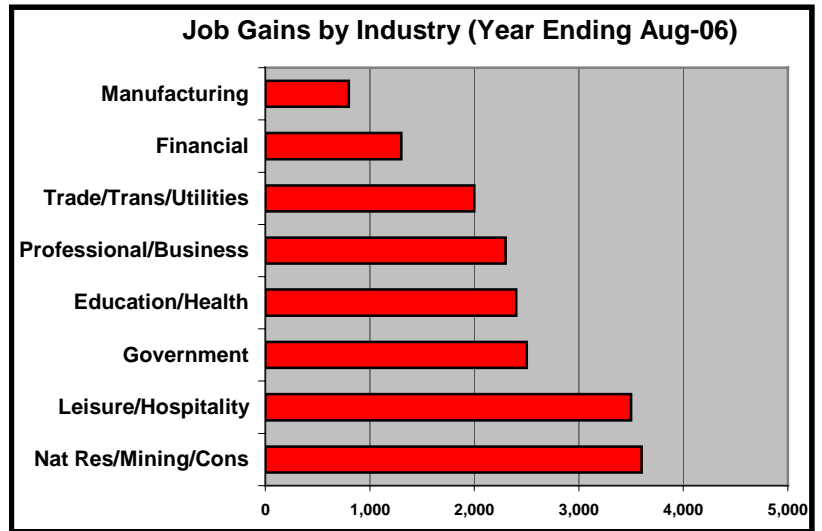
* Class B includes primarily Affordable Housing developments
 ** There are additional Unclassified (Class U) projects

Job Growth

The civilian labor force unemployment rate in the eight-county **Dallas-Plano-Irving Metropolitan District** decreased to 5.0%, while the total number of nonagricultural wage and salary jobs increased to 2,015,700 in August 2006, according to the **Texas Workforce Commission**. This month's total is 52,400 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business services gained 24,800 jobs over the previous 12 months; Education & Health Services gained 16,200 jobs; Natural Resources, Mining, & Construction employment is up 8,300 jobs; Government added 7,100 jobs; and Leisure & Hospitality added 2,100 jobs over the year. The three industries that lost jobs over the year were Other Services with -200 jobs, Information with -1,600 jobs, and Manufacturing with -4,900 jobs.



The civilian labor force unemployment rate in the four-county **Forth Worth-Arlington Metropolitan District** decreased to 4.9%, while the total number of nonagricultural wage and salary jobs increased to 828,200 in August 2006, according to the **Texas Workforce Commission**. This month's total is 16,600 jobs more than at this time last year. Of the nonagricultural employers, Natural Resources, Mining, & Construction gained 3,600 jobs over the previous 12 months; Leisure & Hospitality gained 3,500 jobs; Government employment is up 2,500 jobs; Education & Health Services added 2,400 jobs; and Professional & Business Services added 2,300 jobs over the year. The only industries to lose jobs over the year were Information with -600 jobs and Other Services with -1,200 jobs.

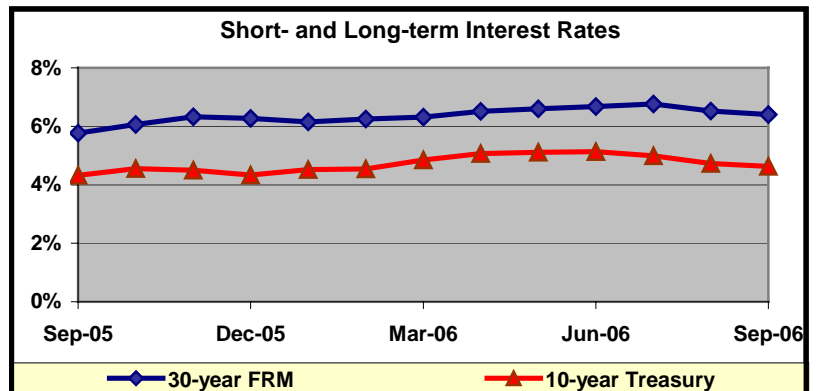


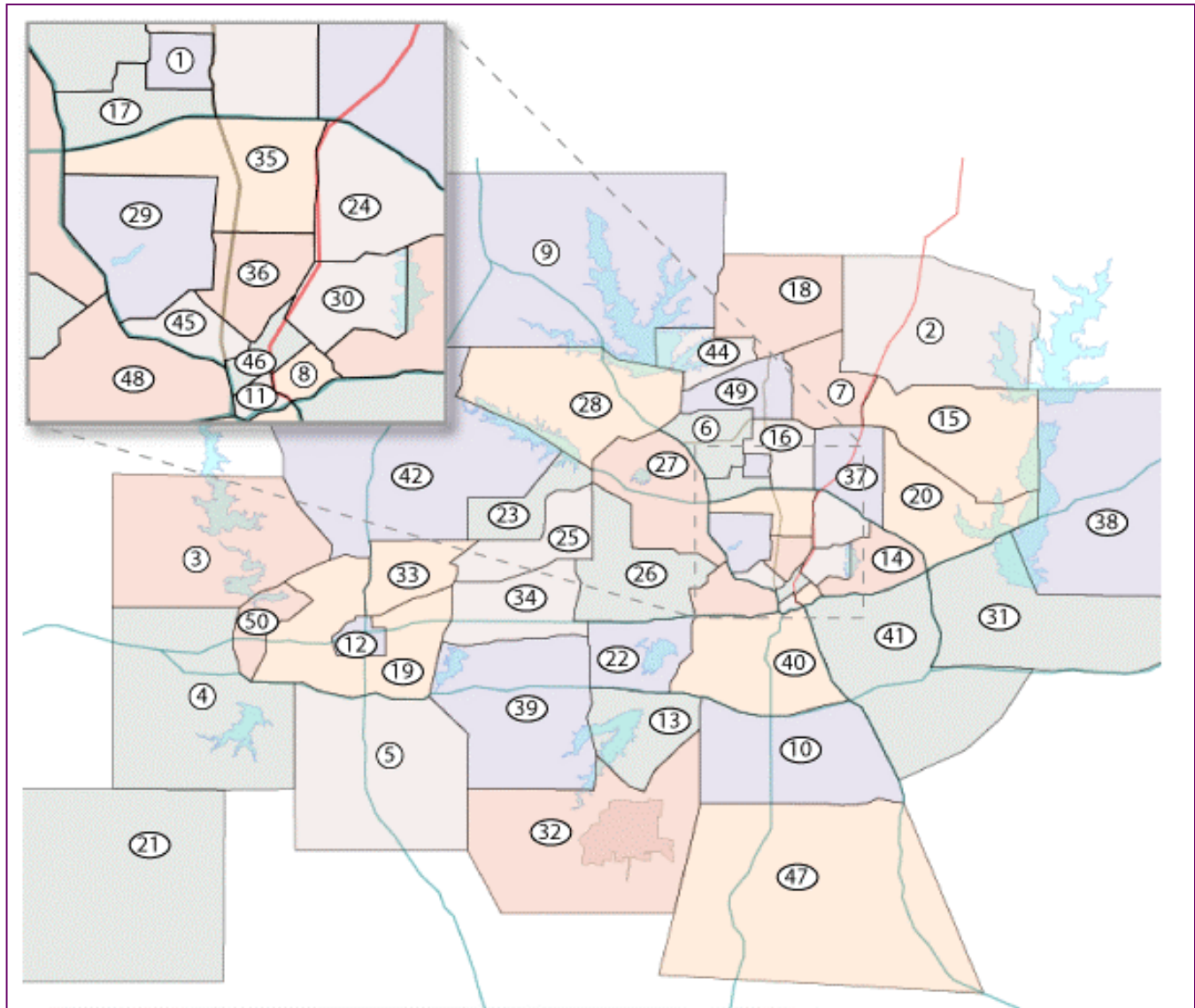
Interest Rates

The yield on the **10-year Treasury** note rose to 4.62% on the first business day of October 2006, up 0.23 points from its 4.39% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.40% in September 2006. One year ago, the 30-year FRM was at 5.77%. The average for the **15-year FRM** in September was 6.08%, up 0.72 points from a year ago.

The **Prime Rate** in September was reported in the Wall Street Journal at 8.25%, up 1.50 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).