

Dallas/Fort Worth Apartment Market Update

Edited by Kathryn Koepke

\$399/year

4th Quarter 2006

Katrina Effects Return

With year-end figures in, it appears that Hurricane Katrina is once again greatly affecting the Dallas/Fort Worth area apartment market. Hurricane Katrina first made its mark nearly a year and a half ago, as nearly 30,000 evacuees took shelter in the area. Absorption during the third quarter of 2005 was a record 8,482 units. Fourth quarter 2006 figures now seem to indicate that many evacuees are leaving the area, as absorption over the quarter was -2,477 units. This was the first quarter with negative absorption in over three years. The Class B and C markets, which were where the majority of evacuees landed, had the weakest quarterly absorption figures with -903 and -865 units of absorption, respectively.

Evacuees are leaving apartments en masse because FEMA rental assistance is finally coming to an end. Though many deadlines have come and gone since the housing vouchers were initially issued, FEMA is adamant that all assistance will end on February 28th, 2007. In fact, only Congress has the power to extend the deadline, which is not likely to happen considering the originally approved twelve months of aid plus several additional months have already been fulfilled.

The areas that experienced the most move-outs this quarter were the Ft. Worth, Irving, Far North Dallas, and Greenville Ave./Lake Highlands submarkets. Absorption in Ft. Worth was -655 units, absorption in Irving was -353 units, absorption in Far North Dallas was -323 units, while absorption in Greenville Ave./Lake Highlands was -310 units. Each of these submarkets contains a high concentration (from 63% to 74%) of Class B and C properties.

And though the figures indicate that many evacuees have already moved out of area apartments on their own accord, there remain an estimated couple thousand households in the area that continue to rely on assistance. A large proportion of these individuals do not have the ability or means to move elsewhere, as they are unemployed or have low-paying jobs. Therefore, even though the FEMA rental assistance program may be coming to an end, a whole new set of issues might come to the forefront, the least disconcerting of which is continued negative absorption.

By: [Leslie Countryman](#)

Dallas / Fort Worth Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	92.58%	91.08%	86.85%	85.25%	89.68%	▼	▼
Rent/Unit	\$1,017	\$694	\$615	\$547	\$738	▲	▲
Rent/SF	\$1.071	\$0.855	\$0.772	\$0.708	\$0.871	■	▲
Absorption	-305	-903	-865	-404	-2,477	▼	▼

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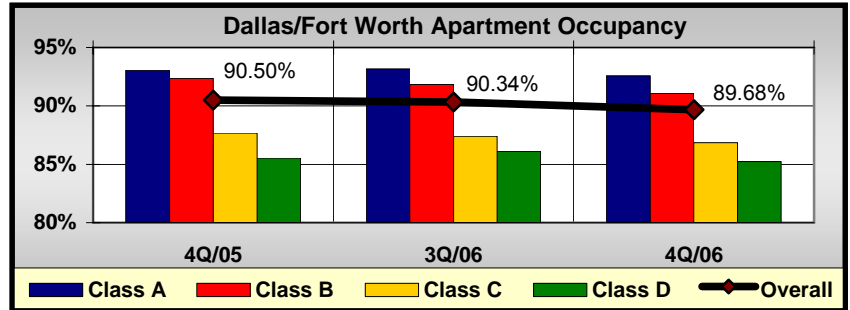
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Metro Occupancy Overview

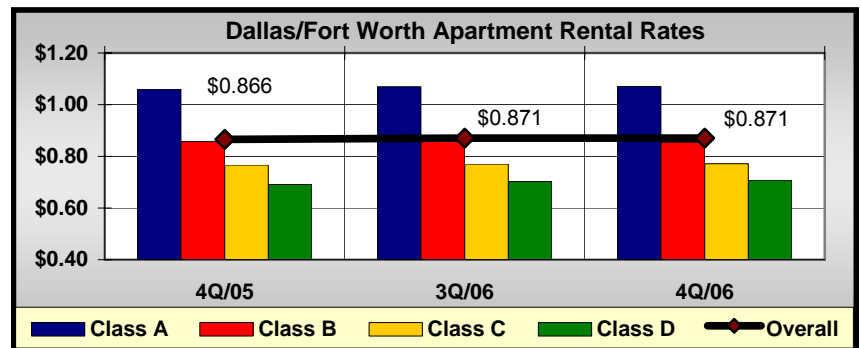
Overall occupancy dipped below 90% to 89.68% during the fourth quarter of 2006, as all classes posted declines in occupancy. This marked the first time occupancy has been below 90% since the second quarter of 2005. **Class A** occupancy fell 0.57 points over the quarter to 92.58%, which is 0.47 points below last year's level. **Class B** occupancy registered a 0.78-point drop during the fourth quarter to 91.08%. Over the last year, Class B occupancy is down 1.28 points, the largest annual decline of all classes. **Class C** occupancy was down 0.56 points over the quarter and 0.83 points over the year to 86.85%. The **Class D** market recorded the largest quarterly decline in occupancy, dropping 0.86 points to 85.25%. Class D occupancy is down 0.30 points over the year.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/05	93.05%	92.36%	87.68%	85.55%	90.50%
3Q/06	93.15%	91.86%	87.41%	86.11%	90.34%
4Q/06	92.58%	91.08%	86.85%	85.25%	89.68%

Metro Rent Overview

Overall rental rates remained unchanged during the fourth quarter at \$0.871 per square foot (psf), which is \$0.005 higher than last year at this time. Classes A, C, and D all posted quarterly rental gains, while Class B was the lone class to post a loss. **Class A** rents are up \$0.003 psf over the quarter and \$0.011 psf over the year. At \$0.770 psf, Class A rents are at their highest level since the second quarter of 2002. **Class B** rents decreased \$0.004 psf over the quarter and are down \$0.002 psf over the year to \$0.855 psf. **Class C** rents reported a \$0.002 psf quarterly gain to \$0.772 psf, which represents a \$0.006 psf annual gain. With rents at \$0.708 psf, the **Class D** market registered the largest rental increase over the quarter, at \$0.005 psf, and the largest increase over the year, at \$0.016 psf.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/05	\$1.060	\$0.857	\$0.766	\$0.692	\$0.866
3Q/06	\$1.069	\$0.859	\$0.770	\$0.703	\$0.871
4Q/06	\$1.071	\$0.855	\$0.772	\$0.708	\$0.871

Submarket Performance

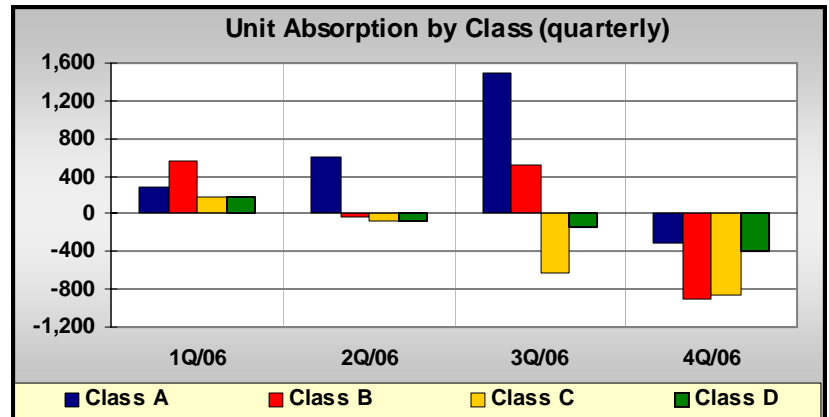
Of the 51 D/FW submarkets, overall occupancy was highest in **Granbury**, which is near full, followed by **Azle** at 96.01%. The lowest occupancy was found in **Rockwall** at 82.04%. The highest overall rental rates were found in the **Uptown/Knox/Henderson** submarket at \$1.440 psf, while the lowest rents were found in **White Settlement** at \$0.664 psf.

Of the submarkets with more than one property, **Denton** once again reported the highest Class A occupancy at 97.66%, while the lowest Class A occupancy was reported in **Park Cities** at 84.99%. In the Class B market, **Park Cities** reported the highest occupancy as it is near full, while **Southlake/Keller** posted the lowest occupancy at 79.58%. In the Class C market, **Stephenville** recorded the highest occupancy at 97.44%, while **Rockwall** reported the lowest occupancy at 73.03%. In the Class D market, **Stephenville** reported the highest occupancy at 95.42%, while **White Settlement** 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 \$1.479 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 \$1.138 psf and the lowest in **White Settlement** at \$0.617 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 -2,477 units. All classes posted negative quarterly figures, with the Class B market recording the weakest absorption with -903 units absorbed. Overall annual absorption remains positive at 384 units. After 11 consecutive quarters of positive absorption, **Class A** absorption was negative during the fourth quarter, as -305 units were absorbed. Despite the negative quarterly figure, annual Class A absorption remains strong with 2,074 units of absorption. With -903 units absorbed, the **Class B** market posted its weakest quarterly absorption since the fourth quarter of 2003. Class B absorption over the year stands at 146 units. **Class C** absorption remained in the red this quarter, as -865 units were absorbed. Annual Class C absorption, at -1,404 units, is also in the red. **Class D** posted a third consecutive quarter of negative absorption with -404 units absorbed. Class D absorption over the last twelve months also remains negative, at -432 units.



12-Month Ending	Class A	Class B	Class C	Class D	Overall
4Q/04	6,968	3,003	-577	-940	8,454
4Q/05	3,124	4,326	2,772	848	11,070
4Q/06	2,074	146	-1,404	-432	384

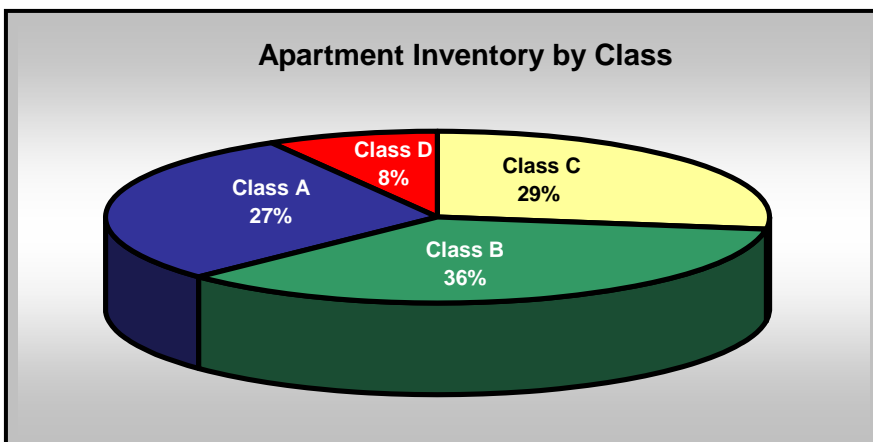
Submarket Performance

Of the 51 D/FW submarkets, **Southeast Dallas** reported the highest absorption over the quarter with 237 units absorbed, followed by **West Plano** where 139 units were absorbed over the quarter. Demand was weakest in **Ft. Worth**, where -655 units were absorbed, followed by **Irving**, which recorded absorption of -353 units.

Within each of the classes, **Las Colinas/Valley Ranch/Coppell** reported the highest Class A absorption over the quarter with 166 units absorbed, while **Frisco** reported the weakest absorption with -159 units absorbed. Absorption in the Class B market over the quarter was highest in the **South Dallas** submarket at 151 units and lowest in the **Richardson** submarket at -147 units. In the Class C market, **Southeast Dallas** posted the highest absorption, as 161 units were absorbed over the quarter. The weakest Class C absorption was posted by the **Greenville Ave. / Lake Highlands** submarket, with -249 units absorbed. Class D absorption was strongest in **South Arlington**, with 104 units absorbed, and weakest in **Fort Worth**, with -218 units absorbed.

Apartment Inventory

There are a total of 2,501 operating or under-construction projects in the Dallas/Ft. Worth metro market (greater than 50 units) with a total of 558,065 units. Approximately 27% of the total units are Class A, 36% are Class B, 29% are Class C, and 8% are Class D. The chart below displays market inventory by class.



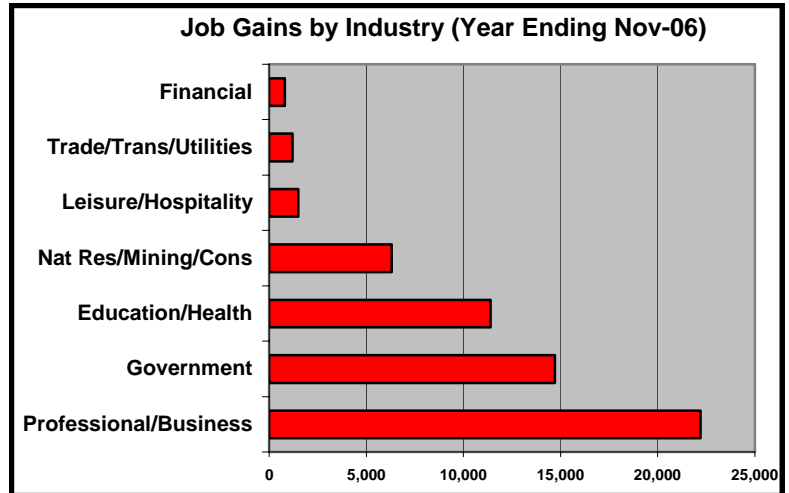
Operating	Projects	Units
Class A	509	144,056
Class B	803	194,391
Class C	819	161,126
Class D	315	46,483
TOTAL	2,446	546,056

Under Cons.	Projects	Units
Class A	33	8,136
Class B *	22	3,873
TOTAL	55	12,009

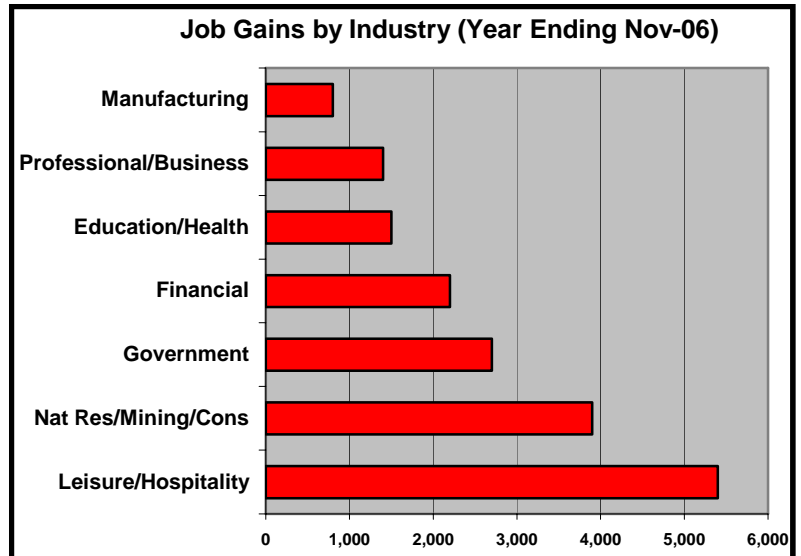
* Class B includes primarily Affordable Housing developments
 ** There are additional Unclassified (Class U) projects

Job Growth

The civilian labor force unemployment rate in the eight-county **Dallas-Plano-Irving Metropolitan District** remained at 4.5%, while the total number of nonagricultural wage and salary jobs increased to 2,041,900 in November 2006, according to the **Texas Workforce Commission**. This month's total is 49,100 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business services gained 22,200 jobs over the previous 12 months; Government gained 14,700 jobs; Education & Health Services employment is up 11,400 jobs; Natural Resources, Mining, & Construction added 6,300 jobs; and Leisure & Hospitality added 1,500 jobs over the year. The three industries that have lost jobs over the year were Other Services with -800 jobs, Information with -3,100 jobs, and Manufacturing with -5,100 jobs.



The civilian labor force unemployment rate in the four-county **Forth Worth-Arlington Metropolitan District** decreased to 4.4%, while the total number of nonagricultural wage and salary jobs increased to 843,500 in November 2006, according to the **Texas Workforce Commission**. This month's total is 16,000 jobs more than at this time last year. Of the nonagricultural employers, Leisure & Hospitality gained 5,400 jobs over the previous 12 months; Natural Resources, Mining, & Construction gained 3,900 jobs; Government employment is up 2,700 jobs; Financial Activities added 2,200 jobs; Education and Health services gained 1,500 jobs; and Professional & Business Services added 1,400 jobs over the year. The only industries to lose jobs over the year were Other Services with -500 jobs, Information with -600 jobs, and Trade, Transportation, and Utilities with -800 jobs.

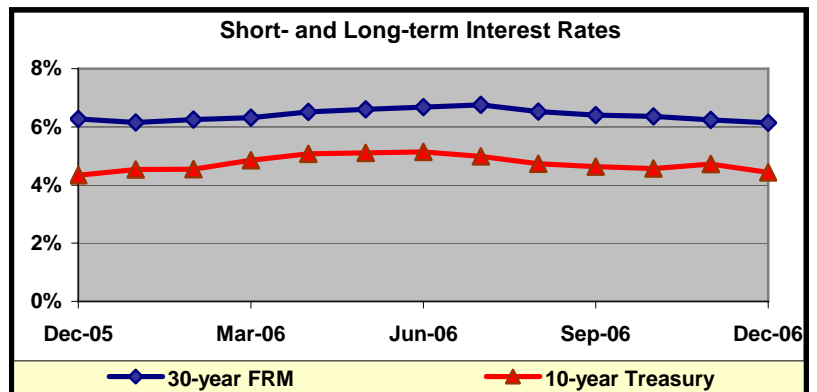


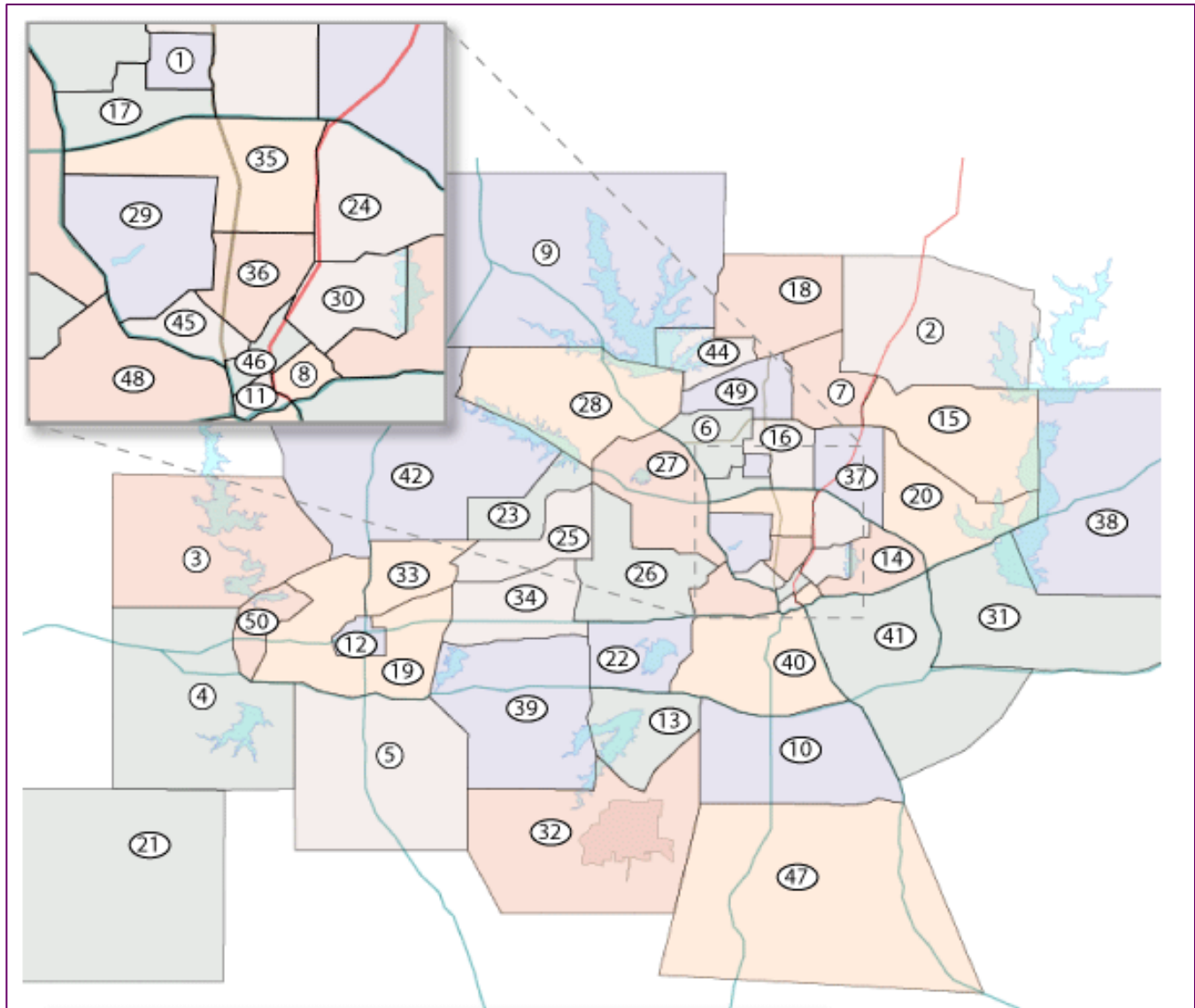
Interest Rates

The yield on the **10-year Treasury** note rose to 4.62% on January 4, 2007, up 0.26 points from its 4.36% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.14% in December 2006. One year ago, the 30-year FRM was at 6.27%. The average for the **15-year FRM** in December was 5.88%, up 0.06 points from a year ago.

The **Prime Rate** in January was reported in the Wall Street Journal at 8.25%, up 1.00 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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