

# Dallas, Texas



Multifamily Housing Update

August 2010

## EXECUTIVE SUMMARY

**B**ig “D” employers created 8,300 (0.4%) jobs year-over-year in 2Q10, marking the first annual increase since 3Q08. An improvement among manufacturing and business service firms was largely responsible. The sectors added a combined 11,300 workers y-o-y in 2Q10 as compared to the -9,900-job decrease observed in the first quarter. Similarly, education and health service establishments added 15,800 positions to payrolls y-o-y in 1Q10 and 16,400 y-o-y in 2Q10.

On a seasonally-adjusted basis, the pace of payroll job creation accelerated from 2,800 new jobs in 1Q10 to 26,500 new jobs in 2Q10. Moreover, results from the Manpower Employment Outlook Survey (covering the Dallas - Fort Worth - Arlington MSA) suggest that the pace of hiring will accelerate in the third quarter. Indeed, the percentage of surveyed firms that plan to add workers rose from 9% in March (regarding 2Q10 hiring plans) to 13% in June.

Total employment data, from the BLS’s household survey, reveal faster job growth. According to the source, area employment surged 36,581 (1.9%) y-o-y in 1Q10 and 46,640 (2.4%) y-o-y in 2Q10. But the unemployment rate remained elevated (8.3%) as labor force growth (+3.0%) outpaced employment growth in the second quarter.

**RED CAPITAL Research (RCR)** foresee solid job growth over the next few years. Specifically, our econometric model produces point estimates of 13,400 (0.7%) net new jobs this year, 56,800 (2.8%) new jobs in 2011 and 87,800 (4.3%) new jobs in 2012. Economy.com hold a similar outlook, predicting payroll growth of 37,640 in 2010, 56,310 in 2011, and 81,560 in 2012.

Housing market conditions improved year-to-date. The Real Estate Center at Texas A&M University count 26,513 home sales in the first seven months of 2010, up 0.7% from the same period of 2009. Likewise, the metro division registered a 3.4% y-o-y gain in the Federal Housing Finance Agency’s purchase-only home price index in 2Q10.

The improved job market gave rise to strong apartment demand from April to June. Property managers net leased 4,544 units during the period, up from the 1,671-unit quarterly average recorded from 3Q09 to 1Q10. As a result, the metro occupancy rate increased 40 basis points sequentially to 90.0% in 2Q10, after reaching a low of 89.3% in December 2009. Marcus & Millichap report that tenant demand was particularly strong among Class-A properties, leading to a 120 basis point increase in occupancy during 1H10. By comparison, the source calculates that Class B/C occupancy rose only 40 basis points.

Effective rent advanced 0.8% sequentially from \$736 in 1Q10 to \$742 in 2Q10. As a result, annual effective rent trends turned positive (+0.4%) in the second quarter, following two consecutive periods of decline. ALN Apartment Data estimate that 62% of Dallas/Fort Worth properties offered rent concessions in July, down from about 69% in the same month last year.

According to Real Capital Analytics sales volume totaled \$451 million and the average price per unit was \$67,709 in 1H10. CB Richard Ellis conclude that stabilized Class-A cap rates ranged from 6.5% to 7.0% in August. Based on an assumed 6.5% cap rate, **RCR** calculate an 8.0% expected rate of total return, above the 7.4% **RED** 50 average.

## SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (10.0% - 2Q10)	↑ 60bps	↓ 10bps
Effective Rents (\$742 - 2Q10)	↑ 0.4%	↑ 1.8%
Cap Rate (6.3% - 2Q10)	↓ 140bps	↔
Employment (2,025.5m - 2Q10)	↑ 8.3m	↑ 13.4m

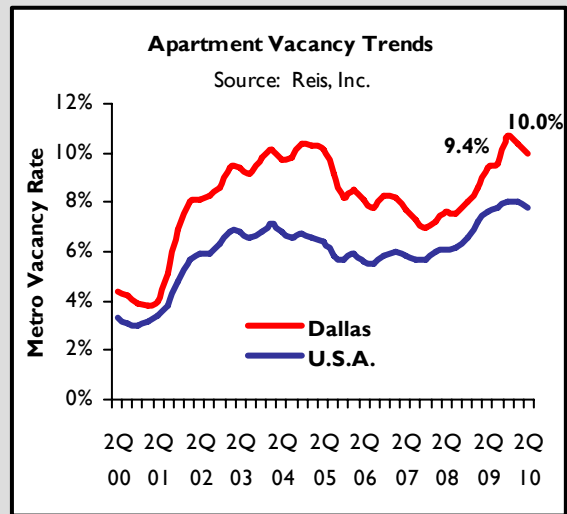
## KEY POINTS

- As of August, Reis were aware of 7,076 apartment units completed year-to-date. But supply will slow as only 1,831 apartment units were under construction in August.
- Despite elevated supply -- 4,522 units were delivered in 1H10 -- the metro vacancy rate fell 70 basis points from 10.7% in December to 10.0% in June. Stout tenant demand was responsible. Positive net absorption totaled 7,090 units in the first half. By comparison, property managers net lease only 1,730 units in calendar 2009.
- The average effective rent rose 0.8% sequentially in 2Q10, marking the second consecutive quarterly gain. As a result, annual effective rent growth rebounded from -0.7% in 1Q10 to 0.4% in 2Q10.
- REIT disclosure data show an average D/FW occupancy rate of 94.9% in 2Q10. Measured on a same-store basis, the figure was up 10 basis points sequentially and 50 basis points year-over-year. Asking rent, on the other hand, declined 0.4% sequentially and -4.6% year-over-year to \$781 in the second quarter. Same-store net operating income rose 2.3% sequentially.

## VACANCY TRENDS

- Apartment demand surged in the second quarter as property managers net leased 4,544 units from April to June, outpacing the 3,069 units completed during the period. As a result, the average metro vacancy rate fell 40 basis points sequentially to 10.0%. On the other hand, vacancy increased 60 basis points year-on-year as developers delivered 13,326 units in the twelve-month period ended in June.
- According to ALN Apartment Data same-store occupancy in the Dallas-Fort Worth metro area increased 80 basis points year-over-year to 90.3% in July. Similarly, REIT disclosure data show that metro occupancy advanced 10 basis points sequentially and 50 basis points year-over-year to 94.9%.
- Reis predict that vacancy will decrease to 9.9% by year-end.

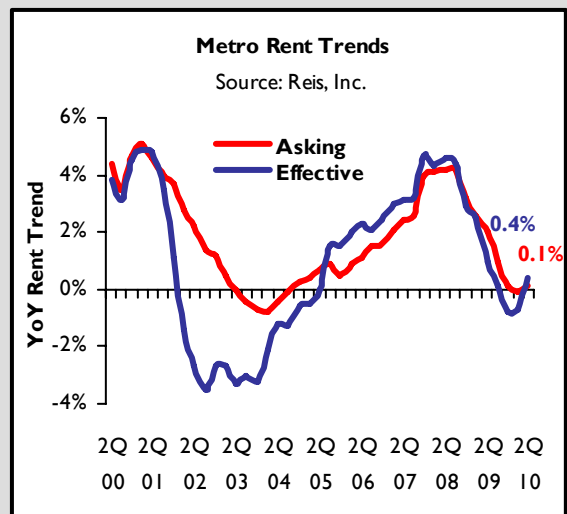
**RANK:** 41<sup>st</sup> out of 50



## RENT TRENDS

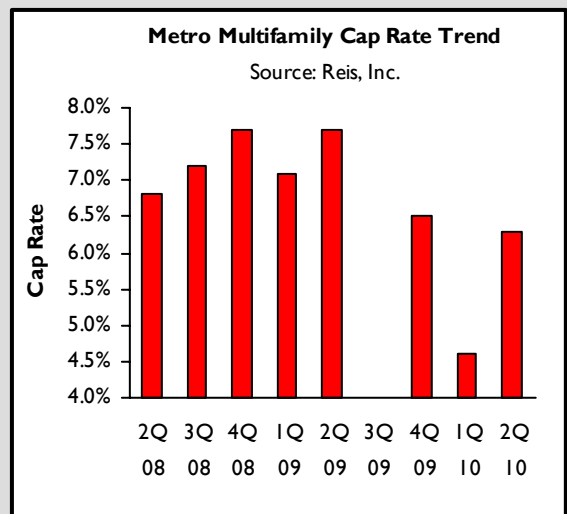
- Effective rent increased 0.8% sequentially in 2Q10, marking the second consecutive quarterly gain. As a result, effective rent advanced at a 0.4% year-over-year rate in the second quarter, following a -0.7% drop observed in the first quarter.
- ALN Apartment Data report an average effective rent of \$751 (\$0.86 per square foot) in July, down -2.1% from the same month of 2009. Moreover, the source estimates that 62.0% of rental properties offered concessions in July.
- REIT disclosure data reveal that same-store average rent fell -0.4% sequentially to \$781.
- Reis expect that effective rent will increase 1.7% annually in 2011, slightly slower than the 1.8% annual advance predicted for 4Q10.

**RANK:** 23<sup>rd</sup> out of 50



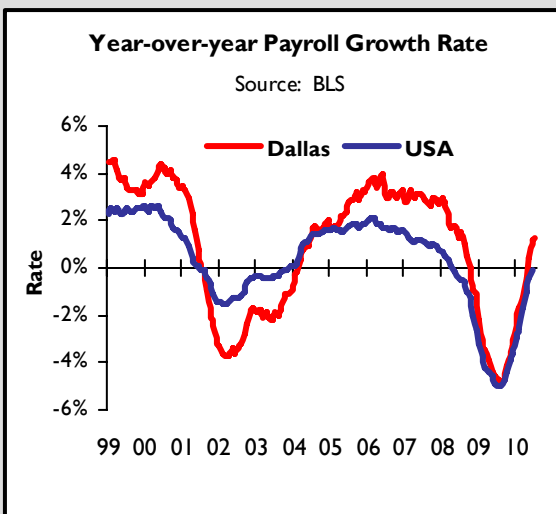
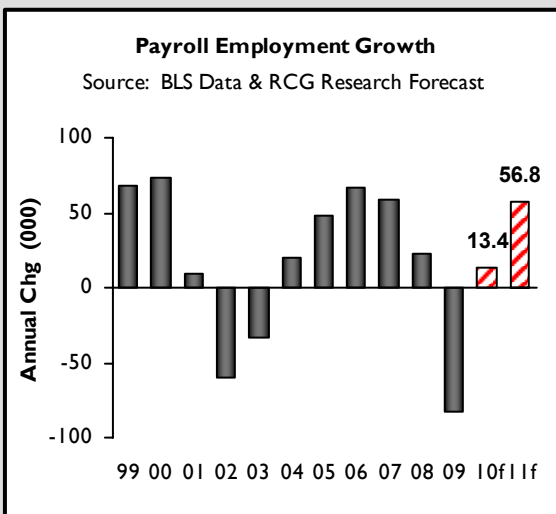
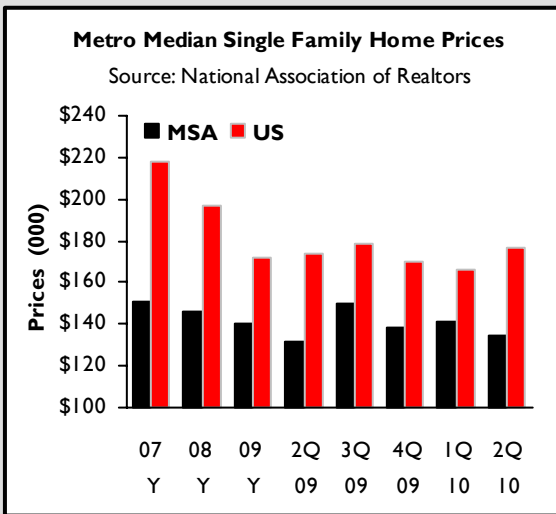
## PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics identified 29 transactions in 1H10, totaling \$451 million in sales proceeds. The source calculates a \$67,709 average price per unit.
- CB Richard Ellis report that cap rates for stabilized Class-A properties ranged from 6.5% to 7.0% in August. By comparison, market clearing yields for stabilized Class-B assets ranged from 7.75% to 8.5%.
- Marcus & Millichap calculate similar Class-A cap rates as the source identified a 6.75% to 7.25% range in the year-ended in June.
- Based on a 6.5% assumed going-in yield, **RCR** calculate an 8.0% expected rate of total return, above the 7.4% **RED** 50 average. But above average historic NOI growth volatility gives rise to the 35<sup>th</sup> ranked measure of risk-adjusted return.



## NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Colonia Grand @ Valley Ranch	Class-A	July 2010	\$25.4	\$64,141	8.5%
Alexan Fitzhugh	Class-A	June 2010	\$49.8	\$110,066	6.5%



## DEMOGRAPHICS & HOUSING MARKET

- The population of the Dallas - Plano - Irving metropolitan division increased 2.4% in 2009, moderately faster than the 2.3% growth rate recorded in the previous year.
- According to the National Association of Realtors, the median price of a single-family home in the Dallas - Fort Worth - Arlington MSA increased 2.1% year-over-year from \$131,900 in 2Q09 to \$134,700 in 2Q10. Similarly, the Dallas MSA posted a 2.9% year-over-year increase in the Case-Shiller home price index in May, ranking 10<sup>th</sup> among the 20 markets tracked by the source.
- The Dallas - Plano - Irving metropolitan division registered a 3.4% year-over-year gain in the FHFA purchase-only home price index in 2Q10. Similarly, the seasonally-adjusted index increased 1.5% sequentially.

## EMPLOYMENT TRENDS

### Non-Seasonally Adjusted

- Payroll employment trends turned positive in the second quarter as area establishments added 8,300 (0.4%) workers year-over-year, the first over-the-year gain observed since 3Q08 (+21,000). Moreover, 26,100 (1.3%) positions were added to payrolls in the twelve-month period ended in July.
- Business service firms contributed to the turnaround, hiring 19,100 workers year-over-year in July, following a -30,300-job year-over-year decrease in the same month of 2009. Likewise, year-over-year hiring among area manufacturers turned positive in May (+1,300 jobs) and accelerated in June.
- The impact from temporary Census workers continued to wane in July. Based on preliminary BLS data, there were roughly 3,100 Census workers remaining in July, down from the peak of 7,300 workers recorded in May.
- Data from BLS's household survey reveal a more robust recovery in the second quarter as total employment surged 46,640 (2.4%) year-over-year.

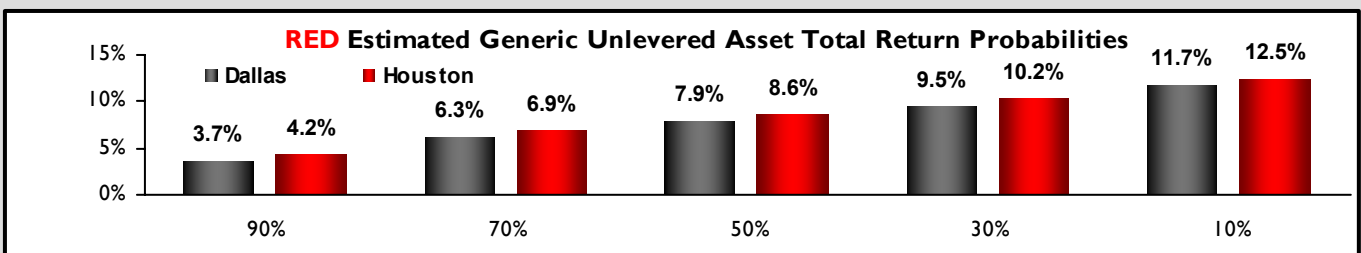
### Seasonally-Adjusted

- On a seasonally-adjusted basis, employers created 26,500 jobs in the second quarter, much better than the 2,800 job advance recorded in 1Q10.

### Forecast

- Based on optimistic domestic economic growth assumptions, RCR predict that payroll headcounts in Dallas will increase 13,400 (0.7%) this year, 56,800 (2.8%) in 2011 and 87,800 (4.3%) in 2012.

**RANK:** 3<sup>rd</sup> out of 50

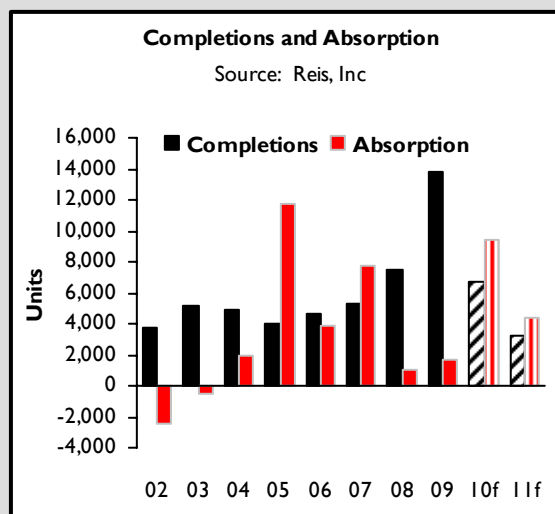


## SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q09	2Q10	Change	2Q09	2Q10	Change
Garland	\$675	\$643	-4.8%	6.9%	8.6%	170 bps
Mesquite / Seagoville	\$669	\$652	-2.5%	6.7%	8.2%	150 bps
South County	\$656	\$652	-0.6%	8.7%	8.5%	-20 bps
Southwest Dallas	\$611	\$606	-0.9%	8.7%	10.5%	180 bps
Grand Prairie	\$627	\$616	-1.7%	10.5%	9.1%	-140 bps
North Irving	\$776	\$780	0.6%	8.0%	9.9%	190 bps
South Irving	\$618	\$622	0.7%	5.8%	9.5%	370 bps
Far North	\$751	\$745	-0.7%	5.3%	7.9%	260 bps
Far Northeast	\$552	\$559	1.3%	12.3%	16.6%	430 bps
North White Rock	\$605	\$633	4.6%	9.1%	12.1%	300 bps
South White Rock / I-30	\$565	\$568	0.6%	11.0%	13.3%	230 bps
East Dallas	\$745	\$765	2.7%	10.3%	12.2%	190 bps
Southeast Dallas	\$513	\$518	0.9%	10.2%	10.8%	60 bps
South	\$669	\$684	2.2%	12.8%	14.7%	190 bps
Richardson	\$770	\$774	0.5%	6.3%	7.9%	160 bps
Far Northwest	\$634	\$648	2.2%	6.5%	9.3%	280 bps
Carrollton / Addison / Coppell	\$748	\$745	-0.5%	5.8%	7.8%	200 bps
Lewisville	\$809	\$793	-2.0%	6.5%	8.0%	150 bps
Plano / Allen / McKinney	\$863	\$859	-0.5%	8.5%	10.0%	150 bps
Northwest	\$719	\$815	13.4%	8.3%	15.8%	750 bps
Northwest Denton County	\$805	\$816	1.4%	5.8%	7.9%	210 bps
Central Dallas	\$1,626	\$1,497	-7.9%	13.5%	9.3%	-420 bps
Oaklawn	\$1,091	\$1,118	2.5%	5.5%	14.4%	890 bps
North	\$780	\$758	-2.8%	6.0%	8.5%	250 bps
<b>Metro</b>	<b>\$739</b>	<b>\$742</b>	<b>0.4%</b>	<b>9.4%</b>	<b>10.0%</b>	<b>60 bps</b>

## SUPPLY TRENDS

- Apartment developers remained active this year. According to Reis, 7,076 units were completed in the first eight months of 2010. The largest additions to inventory were recorded in the Plano / Allen / McKinney (1,382 units) and Lewisville (1,015 units) submarkets.
- As of August, Reis were aware of only 1,831 apartment units under construction, boding well for near-term occupancy rates. On the other hand, the planned / proposed pipeline is stout, containing 25,865 apartment units.
- Leasing conditions were strong. Absorption rates among properties that were delivered late last year ranged from 16 units per month to 37 units per month.
- Reis were aware of six condo properties, totaling 616 units, under construction in August.



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