

Fort Worth, Texas



Multifamily Housing Update

February 2010

EXECUTIVE SUMMARY

Employment figures for the Fort Worth - Arlington metropolitan division suggest that the economic downturn was shallow and short-lived. According to seasonally-adjusted payroll employment data compiled by the Federal Reserve Bank of Dallas, the metro division lost -26,200 (-3.0%) jobs from the May 2008 peak to the September 2009 trough. By comparison, seasonally-adjusted US payroll figures reveal that domestic employment peaked in December 2007 and the contraction persisted through January 2010. Moreover, peak-to-trough attrition was -6.1%, as of January, more than twice the rate of decline experienced locally.

The relatively healthy housing market contributed to economic stability. Construction firms trimmed staffs but only modestly. Sector employment decreased by just -300 jobs in 2009. Likewise, cutbacks among financial service providers were tame as employers shed only -1,400 jobs during the period. Not to be outdone, select skilled service employers actually added workers during the downturn, albeit at a slower pace. Education, health care, and professional service providers added a combined 2,800 workers in 2009.

Household survey data indicate that year-over-year job trends were positive in the fourth quarter. According to the source, total employment rose 3,817 (0.4%) y-o-y in 4Q09, following four consecutive quarterly declines.

Not surprisingly, **RED CAPITAL Research (RCR)** foresee a quick metro recovery. Our econometric model produces point estimates of 11,800 (1.3%) new jobs this year and a 21,400 (2.4%) job gain in 2011. Economy.com publish an even more upbeat forecast, predicting job growth

of 13,550 (1.6%) this year and 33,720 (3.8%) in 2011.

The local housing market improved in the fourth quarter. According to the National Association of Realtors, the median price of a single-family home in the DFW metro area increased 3.0% y-o-y to \$142,100 in 4Q09. Likewise, the Real Estate Center at Texas A&M University report that the median price of Fort Worth area homes rose 4.4% to \$115,000 in the 12-month period ended in December.

Although the local economic downturn was modest by national standards, the metro occupancy rate plunged 170 basis points nonetheless, from 89.9% in 4Q08 to 88.2% in 4Q09. Supply was partially to blame. Developers completed 915 units in 4Q09 and 2,952 units in calendar 2009. By contrast, positive net absorption totaled only 19 units and 53 units in 4Q09 and 2009, respectively.

Asking rent decreased -0.4% sequentially to \$712 in 4Q09, largely owing to weakness among Class B/C properties. Indeed, Class-A asking rent declined -0.2% quarter-over-quarter, versus to the -0.7% drop in lower tiered asking rent. On the other hand, effective rent advanced 0.2% sequentially as property managers trimmed the size of the average concession package from 8.0% of asking rent in 3Q09 to 7.4% in 4Q09.

Real Capital Analytics report that DFW apartment sales volume totaled \$648 million in 2009. The source calculated a \$53,666 average price per unit and a 7.2% average cap rate. At an assumed 7.5% generic going-in cap rate, **RCR** calculate an above average 7.5% expected rate of total return for generic Fort Worth properties. But elevated historic NOI growth volatility gives rise to only the 34th highest measure of risk-adjusted return in the **RED** 50.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (11.8% - 4Q09)	↑170bps	↑20bps
Effective Rents (\$659 - 4Q09)	↓1.2%	↔
Cap Rate (9.4% - 4Q09)	↑130bps	↑
Employment (873.9m - 4Q09)	↓7m	↑11m

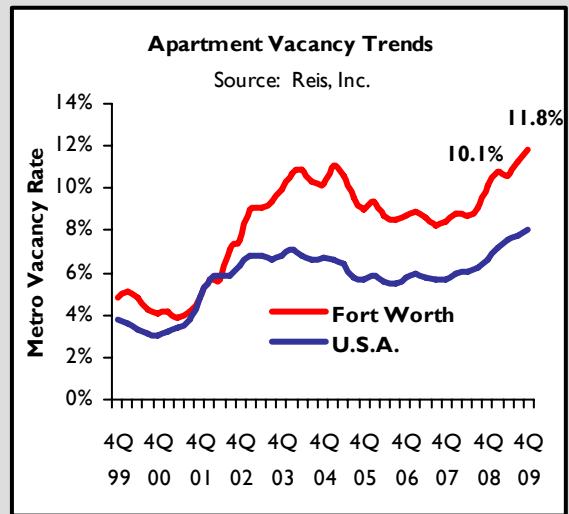
KEY POINTS

- Vacancy rose 50 basis points sequentially and 170 basis points year-over-year, primarily due to supply pressure. Developers completed 915 units in 4Q09 and 2,952 units in calendar 2009, both figures greatly outpaced positive net absorption which totaled only 19 units in 4Q09 and 53 units in the twelve-month period ended in December.
- Effective rent rebounded slightly in the fourth quarter, rising 0.2% sequentially, following three consecutive quarterly declines. On the other hand, effective rent decreased at a -1.2% annual rate, worse than the -0.9% drop recorded in 3Q09.
- Reis predict that vacancy will rise to 12.0% by year-end, before falling to 11.1% in 2011. Likewise, the service forecasts that effective rent will remain unchanged this year, but advance at a 2.0% compound average annual pace of 2011 to 2014.
- The Real Estate Center at Texas A&M University calculate that the median Fort Worth area home price increased 4.4% year-over-year to \$115,000 in December.

VACANCY TRENDS

- The metro vacancy rate increased 50 basis points sequentially to 11.8% in 4Q09, largely due to supply. Developers completed 915 units from October to December, outpacing positive net absorption of 19 units. Likewise, supply pressure contributed to a 170 basis point annual increase in vacancy.
- Tenant demand was firm for Class-A properties, but dismal for lower tiered assets. Class-A net absorption totaled 442 units in 4Q09 and 1,261 units in 2009, supporting a 10.1% 4Q vacancy rate. Conversely, tenants vacated -1,207 Class B/C units during 2009, resulting in a 190 basis point increase in vacancy from 11.5% in 4Q08 to 13.4% in 4Q09.
- Reis expect vacancy to rise to 12.0% by year-end as owners net lease 466 units and developers add 870 units to the rental stock.

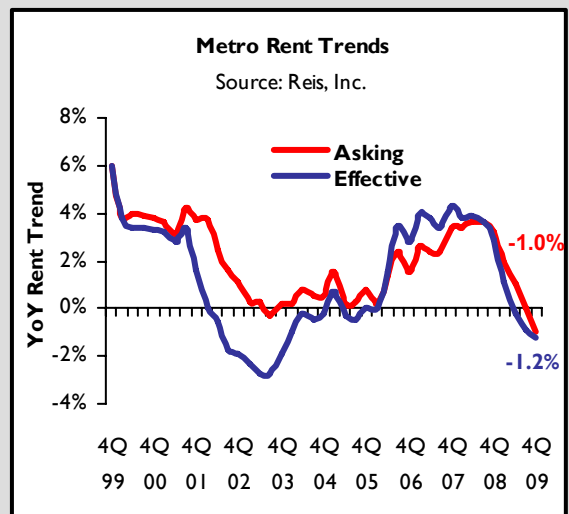
RANK: 47th out of 50



RENT TRENDS

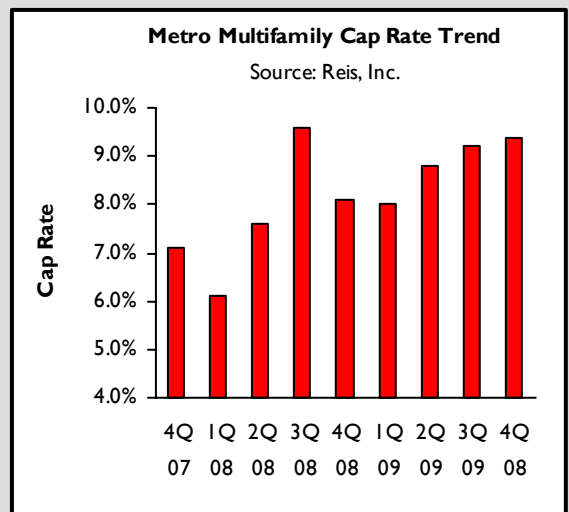
- Following three consecutive quarterly declines, the average effective rent increased \$1 (0.2%) to \$659 in 4Q09. Still, the pace of annual effective rent decline was -1.2%, comparing unfavorably to the -0.9% decrease observed in the previous quarter.
- The average Class-A asking rent decreased -0.2% sequentially to \$832 in 4Q09. By comparison, Class B/C asking rent fell -0.7% from \$601 in 3Q09 to \$597 in 4Q09.
- Three (Northwest, Northeast and Hurst / Bedford / Euless) of the metro's nine submarkets produced over-the-year effective rent growth in the 4Q09.
- Reis predict that effective rent will remain unchanged this year.

RANK: 22nd out of 50



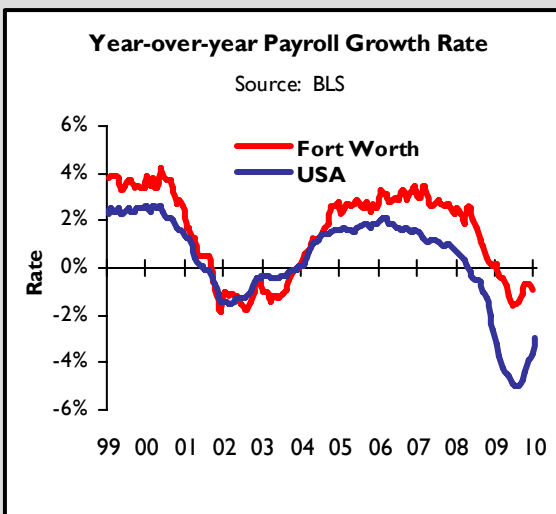
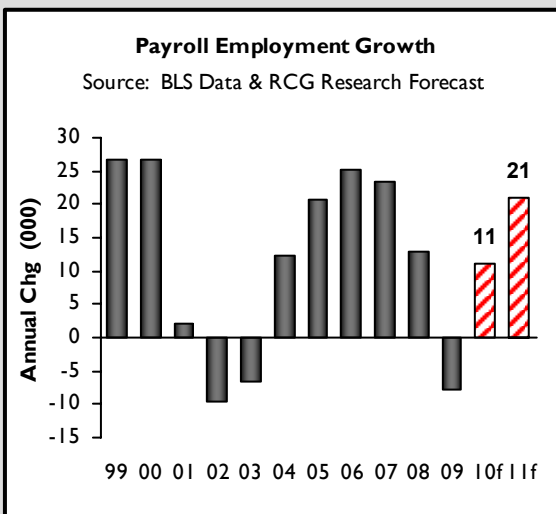
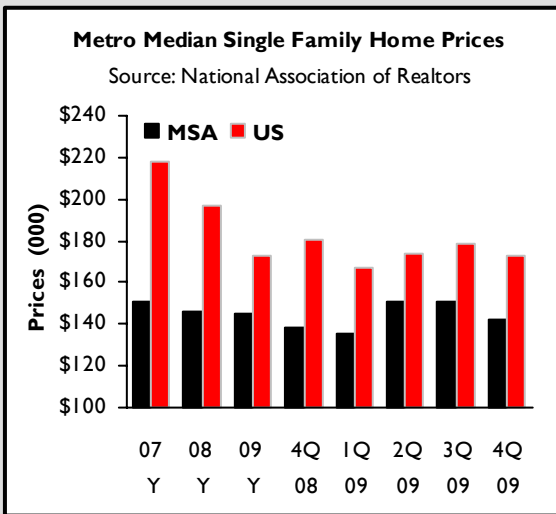
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics identified 42 DFW transactions involving properties priced at or above \$5 million in 2009. The source estimates that sales volume totaled \$648 million, down -65% from 2008. RCA calculate a \$53,666 average price per unit and a 7.2% mean cap rate.
- Three of the twelve properties that traded in the fourth quarter were located in Fort Worth. RCA identified pricing information for two of the transactions. A 2003-vintage asset was sold for \$7.2 million or \$80,000. The other property fetched \$22 million or \$30,556 per unit.
- Based on an assumed 7.5% going-in yield, **RCR** calculate a 7.5% expected rate of total return, comparing favorably to the 6.7% **RED** 50 average. On the other hand, above average historic NOI growth volatility gave rise to the 34th highest measure of risk-adjusted return.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Village on the Creek	A	December 2009	\$7.2	\$80,000	6.0%
Windridge	B/C	October 2009	\$22.0	\$30,556	10.5%



DEMOGRAPHICS & HOUSING MARKET

- Metro home price trends improved this year. According to the National Association of Realtors, the median price of a single-family home in the Dallas - Fort Worth MSA increased 3.0% year-over-year from \$138,000 in 4Q08 to \$142,100 in 4Q09.
- Similarly, the Real Estate Center at Texas A&M University estimate that the median home price in the Fort Worth - Arlington metro division advanced 4.4% year-over-year to \$115,000 in December. The source also notes that the inventory of homes for sale fell from 4,482 in December 2008 to 4,386 in the same month last year.
- Zillow.com report that the median home price in Tarrant County (the principal county of the Fort Worth - Arlington metro division) was \$164,900 in January 2010. By contrast, the comparable Dallas County (the principal county of the Dallas - Plano - Irving metro division) home price was \$178,500.

EMPLOYMENT TRENDS

Establishment Survey

- The Fort Worth economy suffered only a modest recession, in stark contrast to the massive domestic contraction. Indeed, the metro's weakest over-the-year payroll trends were recorded in 2Q09 and 3Q09, when headcounts fell at an -11,300 (-1.3%) monthly year-over-year average clip. Moreover, the pace of decline decelerated sharply as only -7,000 (-0.8%) payroll jobs were lost year-over-year in 4Q09.
- The manufacturing industry posted the largest over-the-year payroll job losses as sector employers eliminated -4,500 positions from payrolls year-over-year in 4Q09. By comparison, the construction, wholesale trade, retail trade, transportation / utilities and information sectors cut a combined -4,800 jobs year-over-year.
- Other employment sectors added workers in the fourth quarter. Education, health, and professional service providers, as well as government entities added a combined 5,000 new workers year-over-year.

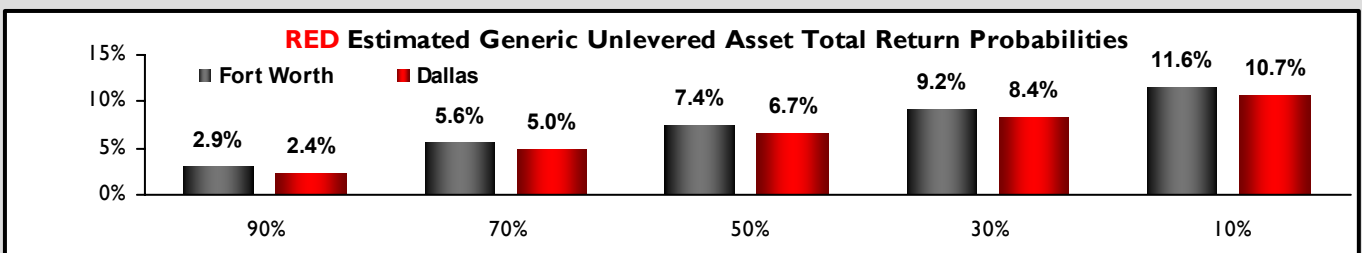
Household Survey

- Data from the BLS's household survey portray an even more stable metro economy. Total employment actually rose 3,817 (0.4%) year-over-year in 4Q09, following a -3,060 (-0.3%) job annual decline in 3Q09. As a result, the unemployment rate dropped slightly from 8.3% in September to 8.0% in December.

Forecast

- RCR expect job growth to return this year. Specifically, our economic model produces point estimates of 11,000 (1.3%) new jobs in 2010 and a gain of 21,000 (2.4%) jobs next year.

RANK: 5th out of 50



SUBMARKET TRENDS

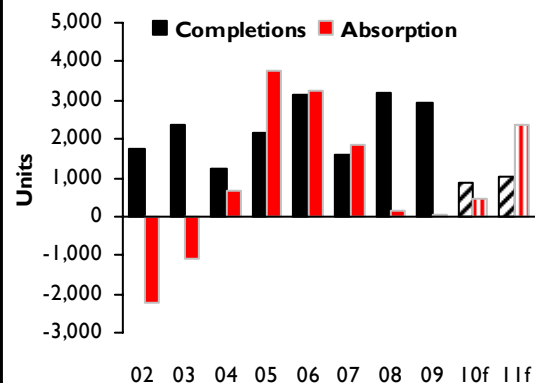
Submarket	Effective Rent			Physical Vacancy		
	4Q08	4Q09	Change	4Q08	4Q09	Change
Northwest	\$713	\$722	1.3%	10.1%	14.1%	400 bps
Southwest	\$653	\$643	-1.5%	10.1%	11.9%	180 bps
Northeast	\$733	\$741	1.1%	11.8%	14.1%	230 bps
I-820	\$527	\$517	-1.9%	12.2%	12.9%	70 bps
Southeast	\$712	\$691	-2.9%	10.0%	9.0%	-100 bps
Central Arlington	\$541	\$531	-1.8%	11.0%	12.2%	120 bps
North Arlington	\$630	\$612	-2.9%	10.3%	13.1%	280 bps
Hurst / Bedford / Euless	\$719	\$720	0.1%	7.5%	9.0%	150 bps
Grapevine	\$794	\$779	-1.9%	9.9%	7.9%	-200 bps
Metro	\$667	\$659	-1.2%	10.1%	11.8%	170 bps

SUPPLY TRENDS

- A Reis construction report dated February 16th reveal that developers completed 3,738 apartment units last year, significantly higher than the previously reported 2,952-unit total.
- With respect to submarkets, additions to inventory were recorded in the Northeast (1,540 units), Northwest (991 units), North Arlington (802 units) and Southwest (405 units) submarkets.
- But supply will recede this year. As of February, four apartment complexes (1,095 units) were under construction, three of which (747 units) are scheduled to open by year-end.
- The pipeline was thin. Reis were aware of nine apartment properties in the planning stage, totaling 2,028 units. Moreover, the service was aware of projected start dates for only two of the properties.

Completions and Absorption

Source: Reis, Inc



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