

# Fort Worth, Texas

Multifamily Housing Update

May 2007

## EXECUTIVE SUMMARY

**P**ayroll growth in Fort Worth totaled 21,500 (2.6%) in 2006, up from 20,700 (2.6%) in 2005. Job creation in the manufacturing industry contributed to stronger growth as firms added 2,600 positions in 2006. By comparison, the sector lost 1,300 jobs the previous year.

Economic indicators are sending mixed messages so far this year. On one hand job growth cooled to 15,200 (1.8%) year-over-year in 1Q07. Conversely, the Dallas Fed's Business Cycle index increased at a 6.7% annualized rate in March, ranking second behind Austin among major Texas metros, and preliminary BLS data for April indicate that job growth rebounded from 16,600 in March to 21,900.

Faster hiring among leisure service providers contributed to accelerated growth. The outlook for the industry in constructive. The Great Wolf Lodge is slated for completion later this year. The 93,000 square-foot facility will include over 400 suites, six restaurants, meeting space and an indoor / outdoor water park.

**RED** forecast payroll growth of 19,000 (2.3%) in 2006 with a confidence interval of 17,000 (2.0%) to 21,000 (2.5%). In 2008, **RED** expect moderately slower growth, ranging from 8,000 (0.9%) to 14,000 (1.6%) with a point estimate of 11,000 (1.6%).

The metro occupancy rate decreased 20 basis points sequentially to 91.0% in 1Q07, ranking 49<sup>th</sup> among the 50 metro areas tracked by **RED** CAPITAL (**RED** 50). The decrease was attributable to negative net absorption and condo reversion. The occupancy rate was up 50 bps y-o-y, owing to strong tenant demand in the second quarter of last year.

Reis forecast moderate gains in sup-

ply but relatively sluggish demand. As a result, the source forecasts occupancy to fall 10 basis points to 90.9% in 2007. In 2008, Reis anticipate similar deterioration as occupancy falls to 90.8%.

Effective rents increased 4.0% y-o-y, from \$605 to \$629 in 1Q07. Asking rents grew at a moderately slower rate of 2.6% to \$680. The value of the average concession package fell to 7.5% of asking rent from 8.7% in 1Q06. Reis forecast y-o-y effective rent growth of 2.7% in 2007 and 2.8% in 2008.

Market conditions improved dramatically in the Southeast submarket. The average occupancy rate rose 210 bps y-o-y to 93.6%, the tightest of the metro's nine submarkets. Effective rents increased at the fastest rate, up 6.1% y-o-y to \$674. Reis identify one property that is currently under construction in Southeast that is slated to deliver 336 units in July.

According to Real Capital Analytics, 210 investor grade properties traded in 2006 (in Dallas - Fort Worth), totaling \$4,108 million in sales proceeds. This ranked 4<sup>th</sup> among the top 35 metro areas tracked by RCA. Volume increased 21% from 2005, while the average price increased 9% to \$65,014 per unit. The average cap rate increased 30 bps to 7.0%.

Loopnet identified ten investor grade trades in 1Q07, selling for a total of \$140.1 million. The average price was \$46,624 per unit and cap rates typically ranged from 5.5% to 6.5%.

We estimate probable returns on generic metro assets of 7.2%, ranking 30<sup>th</sup> among the **RED** 50. On a risk-adjusted basis, Fort Worth ranks slightly lower, as historic volatility is above average. Therefore, **RED** assign an "*Opportunistic*" rating for metro assets.

## SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (9.0% - 1Q07)	↓ 50bps	↑ 10bps
Effective Rents (\$629 - 1Q07)	↑ 4.0%	↑ 2.7%
Cap Rate (8.1% - 1Q07)	↑ 30bps	↔ unch
Employment (840.2k - 1Q07)	↑ 15.2k	↑ 19k

## KEY POINTS

- The metro vacancy rate increased 20 basis points to 9.0% in 1Q07. The rate is down 50 basis points from the comparable period of 2006.
- Asking and effective rents increased 2.6% and 4.0% year-over-year, respectively. The latter ranked 24<sup>th</sup> among the **RED** 50.
- The population of the Fort Worth-Arlington metro division increased 3.1% in 2006.
- The median price of a Fort Worth home fell 4% year-over-year in March to \$116,600.
- According to Loopnet, ten investor grade trades were recorded in 1Q07, totaling \$140.1 million in proceeds. The service also identified three sales in April and the first half of May, adding \$51.9 million to 2007 sales volume.
- **RED** forecast payroll growth of 19,000 (2.3%) in 2007 and 11,000 (1.3%) in 2008.



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