

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.



To register for free access to RED's full research reports, please click here.