

ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Dallas/Fort Worth Metro Area

Fourth Quarter 2009

NEW UNITS PUTTING PRESSURE ON MID-TIER PROPERTIES

The Class B/C segment in Dallas/Fort Worth will face operational challenges into 2010 due to significant layoffs in traditional blue-collar industries like construction and manufacturing. Several manufacturers have announced job cuts since the beginning of the year, including Saint-Gobain and Trussway, while developers have cut construction payrolls by 7.4 percent since peak employment levels in early 2008. Submarkets with a dense mix of lower-tier apartments, such as South Irving, have been particularly impacted by economic weakening. Elsewhere, the flood of new Class A complexes offering large concessions is drawing renters away from Class B units, which are becoming more difficult to backfill. Despite considerable leasing incentives, top-tier owners have struggled to attract renters from outside of their submarkets, resulting in a few hyper-competitive locations. In the Oaklawn/Uptown/CBD area, for instance, effective rents have plummeted at the highest rate in the Metroplex over the last year, although conditions in the submarket are tight relative to the market as a whole.

The local apartment investment market limped through the first part of 2009, as many buyers remained on the sidelines. Major institutions and other large investors are raising capital, however, and these funds will likely be deployed beginning in 2010, when signs of economic stabilization are projected to take hold. Nonetheless, some aggressive players are finding opportunities, targeting well-located Class B complexes at cap rates in the mid-7 percent range, up to 150 basis points higher than at peak prices. Distressed Class C properties, meanwhile, will have to be listed at first-year yields above 10 percent to garner significant interest. Overall, deal flow will remain slow due to the limited number of quality listings. Most owners are still able to make their debt-service payments, yet, should they choose to sell, they would have to bring cash to a transaction, offering little incentive to put properties on the market. In addition, banks are reworking existing loans to keep assets from falling into foreclosure.

2009 ANNUAL APARTMENT FORECAST



Employment: Employers are projected to sharply reduce the rate of job cuts through the end of the year. As a result, marketwide employment is forecast to decline by 2.5 percent in 2009, or 73,000 positions.



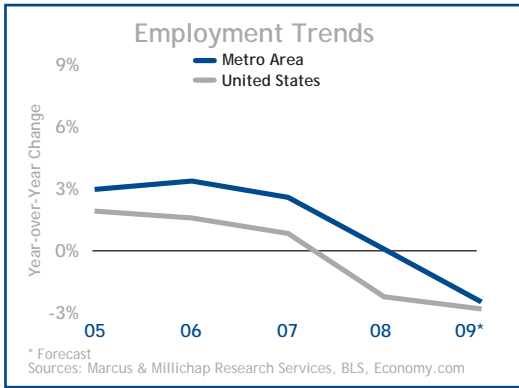
Construction: After adding 10,300 apartments to the Metroplex in 2008, builders are expected to bring 13,300 units online this year.



Vacancy: New construction will push up vacancy to 9.5 percent by the end of this year, 220 basis points above the rate in 2008. Despite the rise, apartment demand will remain essentially flat.



Rents: Rents are expected to recede as owners attempt to fill vacant new units. Asking rents are projected to finish the year at \$780 per month as effective rents fall to \$697 per month, annual declines of 0.9 percent and 3.1 percent, respectively.

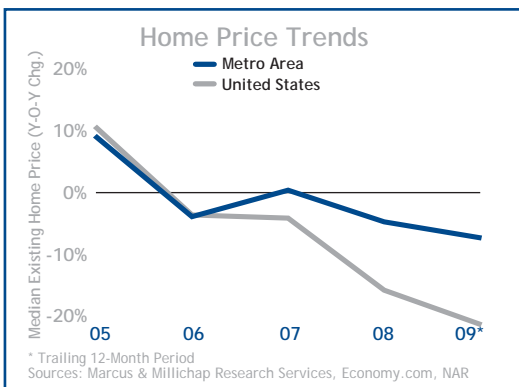


ECONOMY

- ◆ Over the past 12 months, employers in the Metroplex have shed 54,900 positions, a 1.9 percent decline. The recession has begun to ease, however, as just 21,500 jobs were eliminated in the second and third quarters of 2009.
- ◆ The trade, transportation and utilities sector, which includes many retail positions that support apartment demand, has reduced payrolls by 21,300 workers year over year, a 3.4 percent contraction.
- ◆ The Metroplex remains an attractive place to relocate, despite current economic weakness. In the next five years, the population segment of those ages 30 to 34 is anticipated to expand by 16.7 percent, which should drive demand for top-tier apartment units.
- ◆ **Outlook:** Employers are projected to sharply reduce the rate of job cuts through the end of the year. As a result, marketwide employment is projected to decline by 2.5 percent in 2009, or 73,000 positions.

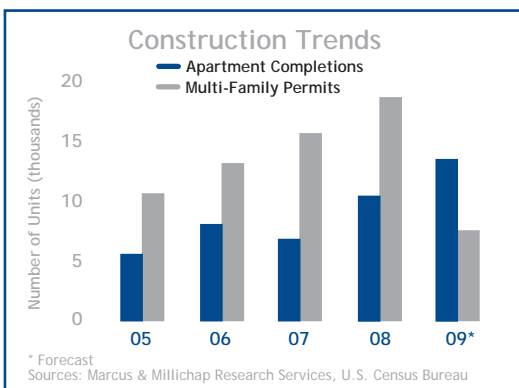
HOUSING AND DEMOGRAPHICS

- ◆ Single-family permit issuance has fallen to 13,500 units in the last year, 38 percent lower than in the previous 12-month period. Multi-family permitting activity has dropped 48 percent to 9,700 units. Much of the multi-family decline has been in Fort Worth, where builders requested 76 percent fewer permits.
- ◆ The median home price retreated 7.3 percent year over year to an estimated \$135,700 in the third quarter. Despite a drop of 2.6 percent over the past 12 months, the median household income of \$55,600 annually remains nearly 50 percent above the minimum qualifying income.
- ◆ Mortgage obligations for a median-priced home are currently \$114 per month less than Class A asking rents, using traditional financing. One year ago, top-tier rents were \$53 per month less than mortgage payments.
- ◆ **Outlook:** Lower housing prices are projected to lure many renters into homeownership in the coming months. Nonetheless, foreclosure activity only recently peaked due to the weak job market, which could force some local residents back into the rental pool.



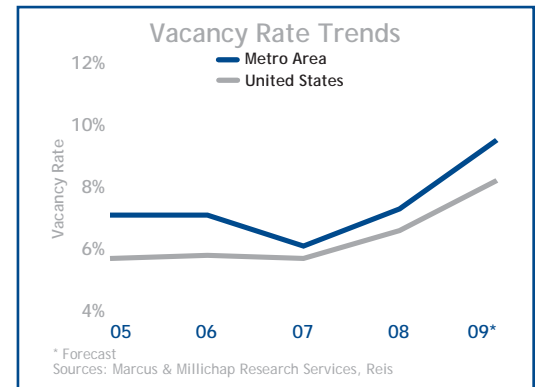
CONSTRUCTION

- ◆ Builders have added 12,100 apartments to the Metroplex over the past year, a 2.2 percent expansion of inventory. Nearly 6,600 units came online in the second and third quarters as projects that broke ground before the recession took hold were finished.
- ◆ Development activity will persist into 2010 as most of the 11,300 units that are currently under construction come online. An additional 24,100 units are planned for the market, an amount equal to 4.4 percent of existing stock.
- ◆ Construction near suburban employment centers remains brisk. In the Plano/Allen/McKinney submarket, approximately 3,900 units are scheduled for delivery this year. The number of planned apartments in the area has dwindled to 2,700 units, however, which should alleviate supply-side pressure.
- ◆ **Outlook:** After adding 10,300 apartments to the Metroplex in 2008, builders are expected to bring 13,300 units online this year.



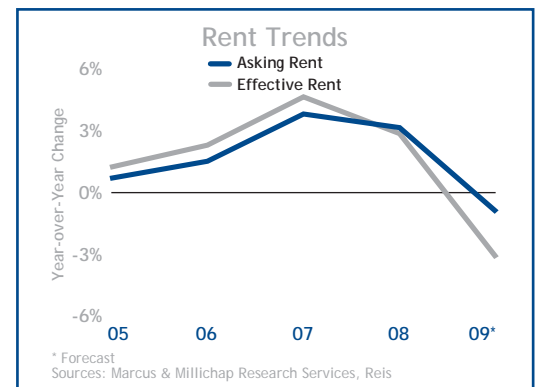
VACANCY

- ◆ In the third quarter, vacancy reached 8.8 percent, an annual jump of 210 basis points. The pace of the climb has abated recently, as vacancy has risen just 90 basis points over the past six months.
- ◆ Class A vacancy is up 260 basis points year over year at 8.4 percent due to an influx of new stock. In the Metroplex's Class B/C segment, vacancy increased 170 basis points annually to 9.1 percent in the third quarter.
- ◆ As job losses have mounted in the last year, many renters have relocated to more affordable submarkets. The average vacancy increase in the 10 submarkets with the lowest effective rents was 160 basis points in that time, 50 basis points less than the marketwide rise.
- ◆ **Outlook:** New construction will push up vacancy to 9.5 percent by the end of this year, 220 basis points above the rate in 2008. Despite the rise, apartment demand will remain essentially flat.



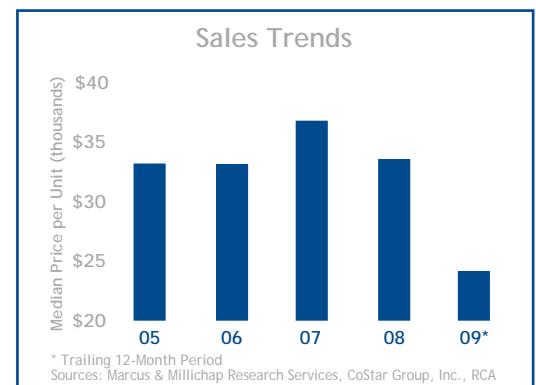
RENTS

- ◆ Asking rents were \$785 per month in the third quarter, a year-over-year gain of 0.1 percent. Since the first quarter, however, asking rents have retreated 0.5 percent. Effective rents have declined 1.6 percent over the last six months to \$706 per month.
- ◆ In the past two quarters, Class A asking rents have retreated 0.6 percent to \$958 per month. Class B/C asking rents have slipped 0.8 percent in that time to \$632 per month.
- ◆ Average concessions reached 36 days of free rent in the third quarter, up six days from the previous year. By year-end 2009, owners are forecast to widen leasing incentives by an additional three days, marking the highest level of concessions since 2005.
- ◆ **Outlook:** Rents are expected to recede as owners attempt to fill vacant new units. Asking rents are projected to finish the year at \$780 per month as effective rents fall to \$697 per month, annual declines of 0.9 percent and 3.1 percent, respectively.



SALES TRENDS**

- ◆ During the most recent 12-month period, sales velocity fell 33 percent as buyers moved to the sidelines. Out-of-state investors in particular have played a reduced role in the market, as deal flow involving these buyers dropped 57 percent.
- ◆ The median sales price has retreated 32 percent in the last 12 months to \$24,100 per unit. Buyers have shifted their focus to smaller, older properties to avoid underwriting hurdles, which has kept prices low in closed deals. The average transaction size has decreased 72 percent in the past year to \$6.7 million.
- ◆ Average cap rates are over 8 percent and continue to trend higher in response to modestly softer NOIs.
- ◆ **Outlook:** Texas-based buyers will likely drive sales velocity during the next several months, though a few large deals have materialized, as REITs are beginning to move off of the sidelines to seek well-priced, top-tier complexes. A significant institutional presence should emerge in early 2010.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 150 basis points to 175 basis points lower. The government recently assumed full control of Fannie Mae and Freddie Mac, which may boost confidence in the GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Northwest Denton County	5.3%	40	\$801	0.1%
2	North	5.6%	100	\$761	-1.6%
3	Far North	6.2%	230	\$736	-2.7%
4	Oaklawm/Uptown/CBD	6.2%	140	\$1,055	-5.4%
5	Lewisville	6.6%	210	\$780	-3.3%
6	Carrollton/Addison/Coppell	6.9%	240	\$731	-1.6%
7	South Irving	7.0%	270	\$615	-1.5%
8	Hurst/Bedford/Euless	7.2%	170	\$701	-2.1%
9	Garland	7.2%	190	\$651	-3.5%
10	Mesquite/Seagoville	7.3%	190	\$643	-4.0%
11	Grapevine	7.3%	140	\$783	0.4%
12	Richardson	7.6%	280	\$767	0.2%
13	Northwest Dallas	7.7%	110	\$697	-4.3%
14	Far Northwest/Farmers Branch	7.8%	270	\$620	-2.4%
15	Southeast Tarrant County	7.9%	20	\$687	-1.5%
16	Southern Dallas	8.1%	30	\$651	-0.9%
17	Grand Prairie	8.5%	110	\$617	-2.3%
18	North Irving	8.9%	200	\$774	-0.7%
19	Southwest Dallas	9.2%	250	\$603	-1.2%
20	Plano/Allen/McKinney	9.2%	260	\$841	-1.5%
21	Southeast Dallas	9.5%	80	\$514	0.0%
22	Southwest Fort Worth	9.6%	150	\$638	-2.7%
23	Central Arlington	9.9%	60	\$526	-3.0%
24	North Arlington	9.9%	230	\$611	-4.0%
25	North White Rock	10.0%	260	\$602	0.1%
26	East Fort Worth	11.1%	60	\$502	-2.6%
27	Northern Tarrant County	11.4%	270	\$716	-2.6%
28	Far Northeast Dallas	11.6%	140	\$549	-1.1%
29	South Dallas	11.7%	-70	\$672	-1.8%
30	South White Rock/I-30	11.7%	200	\$551	-3.2%
31	East Dallas	12.0%	380	\$746	-0.4%
32	Northwest Fort Worth	12.1%	550	\$699	-0.1%
33	Central Dallas	13.2%	310	\$1,609	0.3%