

## REIT Commentary

It's Time to Mess with Texas. REITS:

**Job Growth Makes REITS in Texas Attractive**

*By Susan Persin, Trepp*

Recently released employment statistics from May show Texas cities Dallas (+2.1%), Houston (+1.8%) and Austin (+1.8%) among the nation's top job growth leaders. In contrast to national trends, where overall nonfarm payroll employment advanced little during May, Texas metros posted strong gains, fueled by a business-friendly environment that has allowed the state to attract and keep jobs at a time when other states are struggling. In addition to low tax rates and a predictable regulatory structure, Texas offers incentives for job creation through its Texas Enterprise Fund (TEF), while its Emerging Technology Fund (ETF) helps early-stage tech companies grow.

Strong job growth is generating demand for real estate in Texas. When combined with the limited new property supply of recent years, Texas property markets are stabilizing or growing. While it will take some time for improving fundamentals to lead to healthy rent growth, the trend has positive implications for REITs that are heavily invested in Texas.

Apartment REITs are faring better because of an improving economy and still-weak for-sale housing sector. Colonial Properties (CLP) owns substantial units in Austin and Dallas, while Camden Property Trust (CPT).

Texas has traditionally been a tricky market for property investing because its pro-growth policies result in few supply constraints, resulting in increased potential for overbuilding. The supply pipeline has been minimal in recent years, which, when combined with increasing demand from healthy job growth, make Texas a market with significant potential advantages.

JOB GROWTH <sub>1</sub>	Area New Jobs		1 Mo	6 Mo	12 Mo
	Estimate		End 06/30	End 06/30	End 06/30
	Dallas/Plano/Irving		4,800	21,000	48,700
	Fort Worth/Arlington		3,600	11,000	14,100
		8,400	32,000	62,800	
INTEREST RATES <sub>2</sub>	Rates		END 7/25	Yr. Ago	
	10 Year Treasury			3.03%	3.03%
	11th District COFI			1.36%	1.79%
	1 Mo. LIBOR			0.19%	0.33%
Spreads over the above indexes have been increasing as rates have decreased. Best all in rates for the best properties are around 5.00%.					
SUPPLY/ DEMAND <sub>3</sub>	Units Added/ Absorbed		6 Mo End 6/30	12 Mo End 6/30	24 Mo End 6/30
	<u>Dallas County</u>				
	Added		2,586	4,664	10,219
	Absorbed		7,247	10,728	18,164
<u>Tarrant County</u>					
Added		1,690	2,325	3,276	
Absorbed		4,813	5,904	9,733	
OCCUPANCY RATES <sub>3</sub>	<u>Dallas County</u>		6/30/2011	6 Mo Ago	12 Mo Ago
	2000's		93.4%	91.1%	88.2%
	1990's		95.5%	94.1%	93.9%
	1980's		90.6%	89.3%	88.7%
	1970's or Older		88.8%	86.8%	87.2%
	<u>Tarrant County</u>				
	2000's		93.4%	92.0%	90.5%
	1990's		95.3%	94.6%	94.0%
1980's		91.4%	90.1%	89.9%	
1970's or Older		87.0%	83.2%	83.8%	
RENTAL RATES <sub>3</sub>	<u>Dallas County</u>		7/31/2011	6 Mo Ago	12 Mo Ago
	2000's		\$1,184	\$1,138	\$1,095
	1990's		\$1,048	\$1,000	\$984
	1980's		\$645	\$628	\$625
	1970's or Older		\$641	\$629	\$631
	<u>Tarrant County</u>				
	2000's		\$963	\$926	\$918
	1990's		\$917	\$883	\$862
1980's		\$610	\$595	\$594	
1970's or Older		\$574	\$565	\$560	
HISTORICAL JOB GROWTH	Average year change of the combined DFW MSA's		1 Texas Workforce Commission		
	2006	91,600	2 Banxquote.com		
	2007	82,200	3 ALNsys.com - Rental rates are after concessions.		
	2008	2,500	Approx. 25% of 70's or older		
	2009	(94,900)	are all bills paid.		
	2010	50,800	4 Job Growth through June 2011		

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**Sam Pettigrew**  
972-630-6691

**Todd Franks**  
972-630-6692

**Thomas Hooke**  
972-630-6696

spettigrew@cantrellcompany.com

tfranks@cantrellcompany.com

thooke@cantrellcompany.com