

JOB GROWTH <sup>1</sup>	Area New Jobs			
	1 Mo	6 Mo	12 Mo	
	<b>Estimate</b>	<b>End 1/10</b>	<b>End 1/10</b>	<b>End 1/10</b>
	Dallas/Plano/Irving	(19,000)	(13,700)	(45,100)
	Fort Worth/Arlington	(6,500)	(3,600)	(22,100)
		(25,500)	(17,300)	(67,200)
INTEREST RATES <sup>2</sup>	Rates		2/19/2010	Yr. Ago
	10 Year Treasury		3.74%	2.64%
	11th District COFI		1.83%	2.76%
	1 Mo. LIBOR		0.23%	0.47%
	Spreads over the above indexes have been increasing as rates have decreased. Best all in rates for the best properties are just below 6%.			
SUPPLY/ DEMAND <sup>3</sup>	Units Added/ Absorbed			
	6 Mo	12 Mo	24 Mo	
	<b>End 2/10</b>	<b>End 2/10</b>	<b>End 2/10</b>	
	<b>Dallas County</b>			
	Added	2,759	5,988	12,066
	Absorbed	(1,440)	(633)	1,061
	<b>Tarrant County</b>			
	Added	275	3,799	7,039
	Absorbed	(1,553)	1,081	2,270
OCCUPANCY RATES <sup>3</sup>	Dallas County			
	2/10	6 Mo Ago	12 Mo Ago	
	2000's	84%	84%	85%
	1990's	92%	93%	93%
	1980's	87%	88%	89%
	1970's or Older	86%	88%	89%
	<b>Tarrant County</b>			
	2000's	86%	87%	85%
	1990's	92%	94%	93%
	1980's	88%	89%	90%
	1970's or Older	82%	83%	84%
RENTAL RATES <sup>3</sup>	Dallas County			
	2/10	6 Mo Ago	12 Mo Ago	
	2000's	\$1,193	\$1,198	\$1,171
	1990's	\$1,009	\$1,028	\$1,068
	1980's	\$647	\$671	\$674
	1970's or Older	\$663	\$673	\$675
	<b>Tarrant County</b>			
	2000's	\$945	\$965	\$961
	1990's	\$911	\$895	\$912
	1980's	\$626	\$636	\$638
	1970's or Older	\$597	\$605	\$604
HISTORICAL JOB GROWTH	Average year change of the combined DFW MSA's			
	2005	68,300		
	2006	91,600		
	2007	82,200		
	2008 (revised)	2,500		
	2009	(94,900)		
	<sup>1</sup> Texas Workforce Commission <sup>2</sup> Banxquote.com <sup>3</sup> ALNsys.com - Rental rates are before any concessions. Approx. 25% of 70's or older are all bills paid.			
Information obtained from sources deemed reliable, but not guaranteed.				

## Rate Expectations

By: Mark G. Dotzour

The history of interest rates for conventional 30-year mortgages in the United States is shown as shaded below. A period of increasing inflation during the 1970's ultimately led to the spike in mortgage rates in 1981 and 1982. At the peak of inflation in October 1981, the 30-year mortgage rate sat at 18.45 percent. Rates declined precipitously throughout the 1980's, landing at 9.74 percent in December 1989. Mortgage rates are currently at their lowest in the past 40 years. During the 1990's, a period marked by restrained inflation, rates oscillated between 10.5 percent and 6.7 percent. As the 21st century began, rates hit 8.2 percent, then dropped to a cyclical low of 5.23 percent in June 2003 as the United States tried to rebound from the 2001 recession.

For the next few years, mortgage rates hovered between 5.2 percent and 6.7 percent. The latest decline began in August 2008. A review of the average mortgage rates over the past four decades illustrates just how affordable current rates are.

### Average Mortgage Rate (Percent)

1970's - 8.90, 1980's - 12.70, 1990's - 8.12, 2000's - 6.33\*

\* Through September 2009. Source: Real Estate Center at Texas A&M University

Why are mortgage rates so low at the end of 2009? First, the global consensus among bondholders appears to be that inflation will remain low in the United States for an extended period of time. This has caused the ten-year U.S. Treasury rate to fall to between 3.2 and 3.6 percent for much of the second half of 2009. With extraordinary levels of federal deficit spending, it is unlikely that the low-inflation scenario will be popular when the economy starts to rebound. Expect mortgage rates to rise when signs of improvement appear. A second factor contributing to the low mortgage rates is the Federal Reserve Bank's unprecedented purchase of nearly all the mortgage-backed securities issued by Fannie Mae and Freddie Mac in 2009. Totaling over \$1 trillion for the year, this program has been extended through the end of March 2010. The Fed has never done this before in its history. They are doing this to stimulate the economy by keeping mortgage rates as low as possible. When the Fed stops buying these securities from Fannie and Freddie, mortgage rates are likely to increase, possibly quite abruptly.

How far will rates go up when the Fed terminates its buying program? That question is difficult to answer precisely, because this action is unprecedented. But many experts think that rates could move up one-half to 1 percent. The combination of extraordinarily low mortgage rates and current price levels are making homes extremely affordable to American families. In fact, national and Texas housing affordability indices indicate that homes are more affordable than ever. But this will not last. When the economy recovers and the Fed stops purchasing mortgages, rates will rise.

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