Arkansas Oklahoma Kansas

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COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES

2009
Mid Year Apartment Report
Oklahoma City & Tulsa

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2009 Mid Year
Multifamily Apartment Report

The first half of 2009 has undoubtedly been one of the most challenging times in recent memory for those involved in the apartment industry. Rapid changes in the market and the economy have changed the way many in the industry operate. Business models that only work in the best of times must now be changed. Everyone in the industry will feel the effects from this changing environment, from investors and owners, to management, to lenders, and brokers.

The common theory is that the single biggest challenge facing the apartment industry today is the ability, or lack of it, to secure financing. Take for example; on a national level back in 2007 CMBS (commercial mortgage-backed securities) lending powered the market with $240 billion in U.S. issuance, nearly 50% of all commercial lending. The reason? CMBS loans were less expensive, provided for a quicker transaction and were generally non-recourse with longer terms. In 2008 though, CMBS financing plunged to less than $13 billion in U.S. issuance. The decline is staggering and demonstrates the contraction of the capital markets. To take it a step further, the overall volume of loans that are more than 30-days late is reportedly over $17 billion, as of this writing, which is the largest volume of CMBS delinquency ever. While the numbers are proportionately lower for Oklahoma, we are not immune from the challenges facing the capital markets as a whole.

The good news is that the local markets are performing better than the national comparison. Why? Because Oklahoma is an energy state and the energy industry has continued to sustain jobs, which has helped the state to prosper. To illustrate that point, Oklahoma continued to show job growth though the national recessions in the 1970s and ‘90s, while the 1980s oil bust devastated the state.

Oklahoma City and Tulsa are among a select group of metro areas that hasn’t succumbed to the recession. Oklahoma City in particular has done very well over the past 20 years in creating a more diversified economic and industrial base and by pursuing debt-free public projects such as the MAPS program. Oklahoma has a very robust aerospace and biotechnology sector, as well as the potential to become a major exporter of renewable wind energy. This is clearly separating Oklahoma from the effects of the nationwide recession.

The unemployment rate in Oklahoma City did increase from a low of 2.9% in April 2008 to 5.4% in April 2009, which is a result of declining prices for both agricultural commodities and energy. Tulsa's rate decreased to 6.1 percent in April 2009 from 6.3 percent the previous month. By comparison though, the national average was 4.8% in April 2008 and 9% in March 2009. California, for example, was 11.5% in March 2009. The outlook for job growth remains very bright in the second half of the year. According to the latest job market survey from Manpower Inc, both Tulsa and Oklahoma City are expected to see an uptick in hiring in the third quarter of 2009. As the direction of food and fuel prices goes higher, as expected, then Oklahoma will lead the way out of the national recession.

Buyers will find this a good reason to invest in Oklahoma. Multifamily in particular will continue to be an attractive investment because of the inherent need for housing. The apartment market in general performs better than other sectors in difficult times, which is why the industry is holding up so well despite rising unemployment figures.

While I don't dispute the huge role of the capital markets, I think there are other factors affecting Oklahoma on a more local level. Oklahoma remains one of the best markets in the country, but I would make the case that you can't do business in a box. Meaning, we have to go outside Oklahoma to conduct business and solicit buyers. And this is where we are not immune from the national economy. Buyers are feeling the effects of the recession much more so than owners of local apartment communities. I am not finding that deals are falling apart because of the lack of financing. I am finding that deals are not coming together in the first place because buyers are either chasing deals that can't be found in this market or sitting on the fence waiting for distressed sales.

Buyers are seeing cap rates nationally trend upward and then applying those cap rates with a broad stroke across all markets. This trend though is not supported by transactional data in Tulsa and Oklahoma City. For the past 18 months there has been a widening buy-sell gap, which is the reason for the decline in transactions. This shows that buyers believe cap rates are going higher while sellers believe they are not. Transactions in Tulsa and Oklahoma City between open market sellers, those that are not in distress and open market buyers on stabilized assets do not support higher cap rates over what we saw 18 to 24 months ago.

The market today ranges from stabilized assets that are appreciating in value to rehab deals that require significant capital. In between these two are the elusive "value-add" deals that most buyers seem to be chasing. By definition, "value-add" is where a high-quality asset can be purchased at a discount when it is underperforming for various reasons in an otherwise strong market. Buyers are looking for the opportunity to quickly turn around a property by correcting a short term aberration in the occupancy by providing better management and/or doing minor improvements to the property. Generally, these types of deals must be acquired with existing assumable financing in place or with seller financing because the deficiencies that create the "value-add" also create a situation where the property will not support the underwriting for new debt. The demand outweighs the supply for these mid range deals today.

Because Tulsa and Oklahoma City are experiencing stable occupancy and rental trends, most owners are not feeling the pressure to discount pricing. So for now, it appears that buyers will continue in their attempts to acquire properties at pricing levels below what sellers are willing to accept. Buyers believe that more properties will tip the scales and become distressed in the not-too-distant future. So the outlook for transactional activity in the second half of 2009 is expected to remain low as buyers and sellers take a wait and see mentality.

At that other end of the spectrum, buyers that are looking for these distressed properties will find the product if they are willing to accept the higher risk for the lower pricing. The default and foreclosure rate is higher now than at any point in the past decade. So, there will be properties that can be acquired at significant discounts for those buyers that can secure the short-term financing to close these transactions and that have the experience and stomach for taking over a property that may only have 10% or 20% occupancy. Most of these now "D-grade" properties were the "C-grade" deals of the past 18 to 24 months that were probably then considered to be "value-add".

Transactional activity did experience a fairly significant dip in Oklahoma City during the first six months of 2009, while Tulsa fared a little better, as compared to the same periods of 2008. In Oklahoma City, total sales volume was off by 57% as compared to the first six months of 2008 and the overall average price per unit was off by 18%. Tulsa did about the same with the overall average price per unit being off 15%, but total sales volume did much better being down only 6% as compared to Mid-year 2008.

Oklahoma City

For the first six months of 2009, there were 9 sales on properties that exceed 25 units in size, for a total of 1,739 units. This was a 49% decrease from the 3,384 units sold at Mid-year 2008. Total sales volume was off significantly as well, down 57% at $50.2 million in 2009, as compared to $117.55 million for the first six months of 2008. The overall average price per unit on apartment communities with 25 units or more was $28,873, which is 18% below the $35,120 per unit average at Mid-year 2008.

For Pre-1980's properties, there were 7 transactions involving 1,149 units for an average per unit price of $19,533. Four of the 7 sales were foreclosed or short-sale transactions, which is driving values down for this category. The per unit average from Mid-year 2008 was $27,538. As expected, the average pricing for Pre-1980's properties is showing a downward trend because of the distressed side of the market. Total volume was also off significantly at only $22.4 million for the first six months of 2009, as compared to $54.2 million for the first six months of 2008.

For Post-1980's properties, there was only one sale involving 192 units at a price per unit of $36,979. Again in terms of transactional volume, the category was off significantly from Mid-year 2008, which recorded 4 sales on 1,008 units. While there was only the one sale to draw a comparison, the average per unit value for this category was down by only 5% from $39,112 per unit at Mid-year 2008. Total volume was down 82% at $7.1 million, as compared to $39.4 million at Mid-year 2008.

Total volume for Post-1990's properties was down 14% at $20.6 million in 2009, as compared to $23.9 million at Mid-year 2008. There were 2 sales involving 618 units. The first sale represented a 398 unit property that was built in 1997 and sold for $51,930 per unit. The second sale is not used for the statistical average since it involved a Low Income Housing Tax Credit (LIHTC) property that had a recorded price at less than $30,000 per unit. The value of the 220-unit property was likely restricted because of the affordability requirements that remain with a LIHTC property for at least 15 years (the compliance period). The property was built in 1996 and was one of the first local properties to participate in the LIHTC program. Congress created the LIHTC in 1986 as a mechanism for funding affordable housing. The program provides investors with a dollar-for-dollar credit against their federal tax liability in exchange for equity contributions to affordable housing developments.

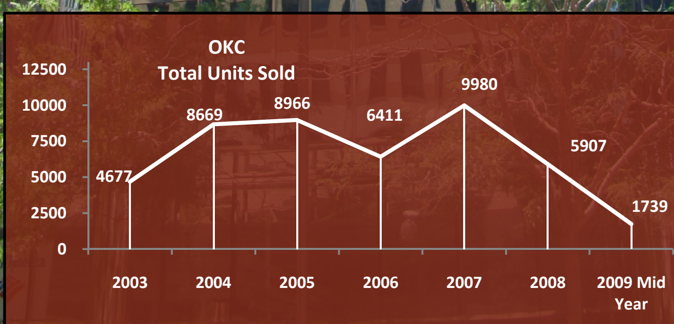
Oklahoma City

Total Sales Volume
57%
Compared to 2008 Mid-Year

Total Units Sold
49%
Compared to 2008 Mid-Year

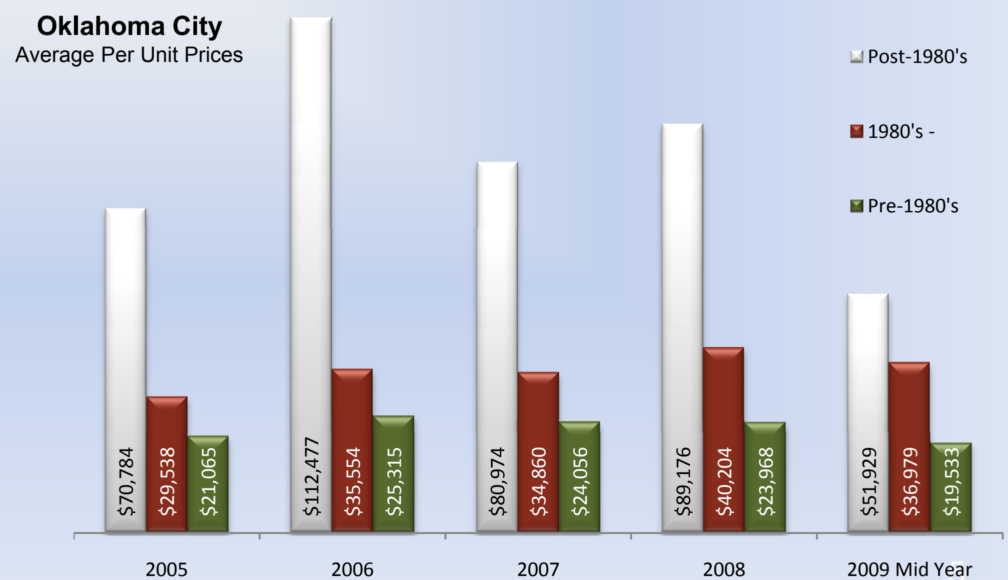
Average Price Per Unit
18%
Compared to 2008 Mid-Year

No. of Transactions
53%
Compared to 2008 Mid-Year



For Sale

Property Name	Address	Price	No. of Units	Year Built
Lightning Creek	Oklahoma City, OK	$4,350,000	92 Apt's 32 Retail	1984
Easthills *(Contract Pending)*	Moore, OK	$2,895,000	85	1974
Boardwalk	Oklahoma City, OK	$12,350,000	192	1984
Lakeside Village	Oklahoma City, OK	$5,900,000	150	1971
Ambassador House	Oklahoma City, OK	$7,850,000	142	1969
Grouse Run	Oklahoma City, OK	$13,850,000	244	1984
Country Creek	Oklahoma City, OK	$13,100,000	320	1985
Woodrun Village	Yukon, OK	$8,500,000	192	1985
Angelic *(Contract Pending)*	Oklahoma City, OK		162	1974
University Park	Oklahoma City, OK	$1,075,000	36	1970
Spring Tree	Midwest City, OK	$3,550,000	145	1968



Tulsa

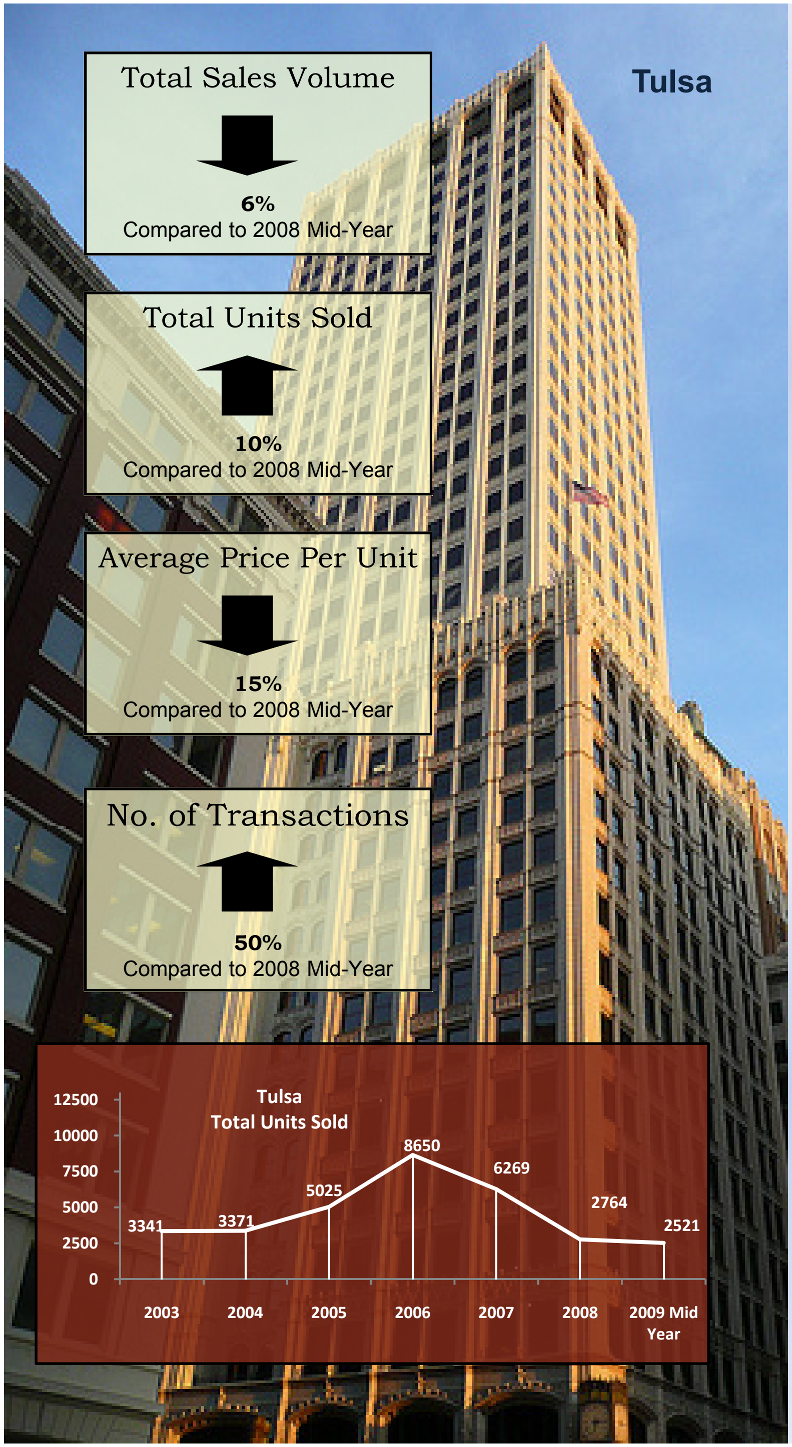
There were 12 sales in Tulsa during the first six months of 2009 on properties that exceeded 25 units in size, for a total of 2,521 units. This is up 10% from the 2,284 units sold at Mid-year 2008. While sales volume and the number of transactions also held up well between the 2008 and 2009 Mid-year comparisons, the average price per unit declined 15% to $29,910 for the period. Much like Oklahoma City, the decline occurred because of foreclosure and short sale transactions.

For Pre-1980's properties, there were 9 transactions involving 1,753 units for an average per unit price of $27,049. This is down 20% from $33,804 at Mid-year 2008. For Post-1980's properties, there were 2 sales involving 600 units for an average per unit price of $27,895, which is down 27% from $38,088 at Mid-year 2008.

For Post-1990's properties, there was only one sale involving a 168-unit community in Sapulpa that was built in 2004. The purchase price of $11,250,000 represented a price per unit of $66,964. There were no sales in this category for Mid-year 2008 for comparison.

Property Name	Address	Price	No. of Units	Price Per Unit	Date Sold
Sale Highlights Oklahoma City					
Bethany Square	1900 N. Rockwell Bethany, OK	$3,700,000	217	$17,050	March-09
Sante Fe Pointe	125 SW 74th Oklahoma City, OK	$2,855,000	224	$12,745	May-09
Village on the Lake	9268 N. Macarthur Oklahoma City, OK	$5,778,000	160	$36,112	June-09
Meridian	4220 NW 10th Oklahoma City, OK	$2,500,000	247	$10,121	June-09
Sale Highlights Tulsa					
French Villa	4752 S. Harvard Tulsa, OK	$4,331,000	100	$43,310	Jan-09
The Springs	6112 S. 87th East Ave Tulsa, OK	$8,138,750	272	$29,921	Jan-09
El Dorado	3221 E. 30th Place Tulsa, OK	$2,347,000	56	$41,910	Feb-09
Sundance	131 E. 31st Place Tulsa, OK	$9,000,000	232	$38,793	March-09

Tulsa



Total Sales Volume

↓ **6%**
Compared to 2008 Mid-Year

Total Units Sold

↑ **10%**
Compared to 2008 Mid-Year

Average Price Per Unit

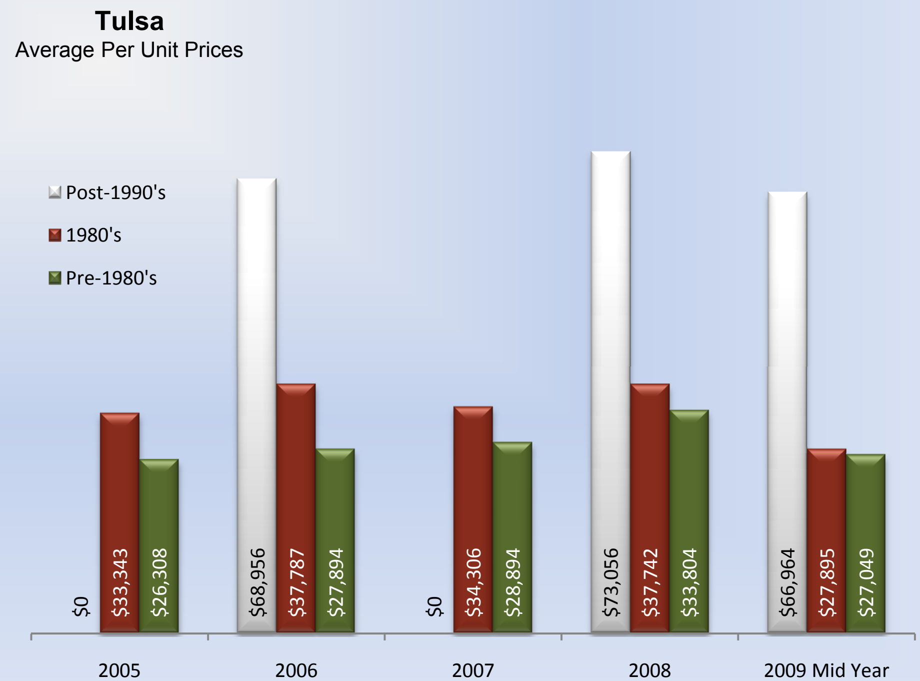
↓ **15%**
Compared to 2008 Mid-Year

No. of Transactions

↑ **50%**
Compared to 2008 Mid-Year

For Sale

Property Name	Address	Price	No. of Units	Year Built
Southern Elms *(Contract Pending)*	Tulsa, OK	$2,675,000	78	1968
Sierra Pointe	Tulsa, OK	$8,250,000	348	1967



Arkansas Oklahoma Kansas

Oklahoma City	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	2	1	7
Total Number of Units	618	192	1,149
Total Number of Sales OKC	1	1	6
Total Number of Sales Edmond	1- tax credit		
Total Number of Sales Norman			1
Price High per unit Price Low per unit	$51,929 $29,238 tax credit	$36,979	$38,275 $10,080

Tulsa	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	1	2	9
Total Number of Units	168	600	1,753
Total Number of Sales Tulsa		2	8
Total Number of Sales Catoosa			1
Total Number of Sales Sapulpa	1		
Price High per unit Price Low per unit	$66,964	$29,921 $26,213	$43,310 $17,441

Outlook

Occupancies and rental growth in Tulsa and Oklahoma City have been relatively flat during 2009. All things being considered though, that is welcome news. Occupancy rates in Oklahoma City remain where they were at the end of 2008 in the 90 to 92% range, while Tulsa tapered off slightly at 91 to 92%. The softness in Tulsa has been seen primarily in the Class-A market where low interest rates and the $8,000 tax credit for first time home buyers is having its biggest impact. Oklahoma City is experiencing more downward pressure on occupancy because of abnormally large vacancies on the distressed side of the market.

Contrary to these isolated areas of softness, many of the owners we periodically interview in both markets have reported 2 to 3% rent increases and stronger occupancies in 2009. So despite the overall indicators, the key to any property, whether it is a stabilized asset, a "value-add" or a distressed property, is to focus on the fundamentals to create successful operations. Occupancy, revenue growth and expense control is the combination that will lead to success regardless of the recession or the credit markets. To understand value today, you must also understand the disproportion in the market. While some properties are raising rents and creating value, others are struggling and going into foreclosure.

While the focus has been on the recession and the significant changes in the capital markets, one thing that won't change is that real estate holds few guarantees. Much like what we have seen over the past twelve months, the industry is always changing and adapting, sometimes by choice and sometimes by necessity.