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2009 Apartment Report
Oklahoma City & Tulsa

CRRC

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2009 Year End
Multifamily Apartment Report

The constraints of the capital markets have been tougher than expected and has hit two distinct types of properties disproportionately. One type of multifamily has done surprisingly well, and one has suffered enormously. More than 36% of the sales for 2009 are in the second category. And here is the distinction: tenants. Those properties that had the highest occupancy rate have attracted the highest values, while those with lower occupancy or near vacant have lost the most value during 2009.

While these near vacant apartment communities can provide significant upside, I think the moral to the story is that it can be very difficult and takes longer than expected to turn around a property that has a negative history and perception, despite investing significant dollars and doing everything ‘right’ by the buyer.

There are other variables involved that account for the huge distinction. For example, these types of properties reach a tipping point where normal deferred maintenance turns into a major rehab. Knowing where in the cycle is the key that increases your chances for stability and success -- or just the opposite. If they fall below the threshold, it can be much harder to stabilize the asset and attract tenants.

The second moral to the story is that it can be an uphill battle with this type of investment. So the basis *(cost plus rehab)* should be well calculated to afford the time to appeal to and attract tenants over what might turn out to be a prolonged lease-up period.

Many of these rehab properties are clustered together, so if they return to the rental market at one time, the higher vacancy could result in more concessions and discounted rents in some submarkets as owners try to ‘buy occupancy.’ Just looking at occupancy numbers can be very misleading. Occupancy is the most easily manipulated number for an owner. Just because there is a name on a rent roll doesn’t mean they are paying rent.

Some of the worst cases of declining values though are not the result of deteriorating market conditions, but of reckless practices. Take for example the demise of a 112-unit community in Oklahoma City. The property first sold for $20,400 per unit on December 5, 2005. The following day it was sold to a separate entity for $32,000 per unit and then encumbered with a loan for $24,000 per unit. At the time, this 75% loan-to-value ratio probably seemed conservative to the lender. The owner then tried to sell the property for a small equity amount allowing the new buyer to assume the existing loan and thereby making a profit of $400,000 to $500,000. Multiply this by three or four similar transactions and you can see the motivation behind these reckless practices. The strategy didn’t work though because the ultimate sale to the next buyer *(the exit strategy)* was undermined by the poor performance of the property and its inferior location, which could not support the debt service on the excessive mortgage amount. Without the extra cash flow to operate and maintain the property, it began its downward spiral and is now vacant and reportedly selling for less than $3,000 per unit.

Other examples like Kristie Manor North (*pictured*) are being razed and redeveloped for other uses. We will see several more complete tear downs as further examples of these worst case scenarios. The common thread is that all of these were influenced by factors other than market conditions.

On the opposite end, one sector of the market is doing remarkably well and seeing buyers and sellers begin to come closer to a common ground on pricing. Cornerstone Development's acquisition of three Oklahoma City area apartment complexes is a vivid example. At $44.5 million, or $44,000 per unit, the portfolio included the 368-unit Watersedge Apartments in Oklahoma City; the 157-unit Gardens at Reding, also in Oklahoma City; and the 488-unit Oxford Oaks Apartments in Edmond. The seller in the deal was SIA Partners of Santa Barbara, CA. Existing Fannie Mae bonds were paid off and new financing was obtained through a HUD loan. The life source for these types of transactions has been financing through either HUD or Fannie Mae, which has lead to this sector of the market appreciating in 2009. Investors have been waiting for cap rates to increase in this sector of the market, but that's just unrealistic considering the fact that these "A" and "B-quality" apartment properties are still trading for 8 cap rates or less.

If market liquidity fails to return to the "C-quality" apartments, there will be some borrowers unable to refinance pending maturities, forcing additional deleveraging, loan extensions and defaults. This could create additional equity losses as loan-to-value ratios have been drastically reduced. Those property owners will have to come up with new equity to roll over their debts, and where will they get such capital?

There are two very different scenarios of why one sector is performing at historic highs and another sector is hitting rock bottom. But, both are clear examples of how two property types are being disproportionately affected by today's market conditions.

While it has been proven that Oklahoma is not truly "recession-proof", we are an energy state and the energy industry has continued to sustain jobs, which has helped the state to prosper. Fewer job losses, lower residential foreclosure rates and benefits gained from the energy sector are some factors that helped both the Tulsa and Oklahoma City metro areas in 2009. Both metro areas have received high rankings in multiple publications in 2009 including; Business Week, Fortune Magazine, CNN Money and Forbes. One particular ranking comes from the Milken Institute's Best-Performing Cities, which places Tulsa at number 19 and Oklahoma City at number 26 in the ranking of the nation's 200 largest metro areas.

According to the U.S. Bureau of Labor Statistics, the unemployment rate in Oklahoma City did increase from a low of 5.5% in January 2009 to 6.4% in November 2009. By comparison, the unemployment rate in November 2008 was 4.4 percent. Tulsa's rate also increased from 5.3% percent in January 2009 to 7.4% percent in November 2009. The November 2008 rate for Tulsa was 4 percent. Oklahoma shed almost 50,000 jobs since the same time last year, according to the Oklahoma Employment Security commission. At a time when the rest of the country just didn't grow, Tulsa and Oklahoma City did fairly well, although there are now signs of weakness with these added job losses. Tulsa was somewhat worse because of manufacturing and energy sector job losses, while Oklahoma City remained a little stronger with its government, health care and education base. Even with weakening economies though, Tulsa and Oklahoma City are still expected to outperform the nation in 2010.

How are these job losses affecting the rental market? The biggest impact seems to be on the middle to lower end of the rental market. Tenants just simply can't afford to lose their job for any length of time and still be able to pay rent. A recent study by the Self-Sufficiency Standard for Oklahoma in 2009 showed that the cost of meeting an Oklahoma family's basic needs over the past seven years has increased faster than the rate of inflation. According to the report, a single parent with one preschooler and one school-age child living in Oklahoma or Tulsa County needs to earn $35,356 annually, or $16.94 an hour, to meet the family's most basic needs of housing, child care, health care, transportation, taxes and other essentials.

A person earning the federal minimum wage of $7.25 an hour is just not going to get by if he losses his job, even for a very short period of time. The harsh reality though is that it was reported nationally that the average length of unemployment exceeds 28 weeks, the longest on record dating to 1948. In Oklahoma City, a local restaurant owner reported in December that over 60 people applied for a part-time, $8-an hour dishwashing position, a number he said he has never seen for such a position. I think we are finding today that a majority of apartment vacancies are caused by job losses. This is in stark contrast from the past 24 to 36 months when vacancies were a result of tenants purchasing single family homes because of low interest rates and using the $8,000 tax credit for first time home buyers.

Transactional activity decreased 9% in Oklahoma City during 2009, while Tulsa increased 50%, as compared to 2008. Though the Tulsa numbers look promising at first glance, there were only 15 transactions for the year, as compared to 10 in 2008. Total transactions in Oklahoma City dropped from 32 in 2008 to 29 in 2009. In Oklahoma City, total sales volume was off by 49% as compared to 2008 and the overall average price per unit was off by 38%. Tulsa was in the red as well with total sales volume down 24% and the overall average price per unit being off 29% from 2009.

Oklahoma City

There were 29 sales in 2009 on properties that exceeded 25 units in size, for a total of 4,889 units sold. This was a 17% decrease from the 5,907 units sold in 2008. Total sales volume was off significantly as well, down 49% at $141.3 million in 2009, as compared to $274.4 million in 2008. The overall average price per unit on apartment communities with 25 units or more was $28,905 in 2009, which is 38% below the $46,466 per unit average in 2008.

For Pre-1980's properties, there were 21 transactions involving 2,712 units for an average per unit price of $15,271. Eleven of these sales were foreclosed or short-sale transactions, which is driving values down for this category. The per unit average from 2008 was $23,968, resulting in a 36% year-over-year decline. 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 $41.4 million for 2009, as compared to $70.6 million for 2008.

For Post-1980's properties, there were six sales involving 1,525 units for an average per unit price of $42,252. This category was about on par with 2008, which recorded six sales on 1,225 units. The difference is that the average price per unit was up 5% in 2009 from $40,204 in 2008. Total volume was also up by 31% at $64.4 million, as compared to $49.2 million in 2008. These numbers prove the point that those investors that are waiting for distressed properties in this sector of the market are missing the value-add. Hoping to achieve higher cap rates in this sector is just unrealistic considering that these "A" and "B-quality" properties are appreciating in an otherwise down market.

Total volume for Post-1990's properties was down 77% at $35.4 million in 2009, as compared to $154.5 million in 2008. The volume in 2008 was almost all attributable to the sale of the Legacy Portfolio, a $130 million acquisition of 1,325-units. The two sales in 2009 involved 652 units. The first sale represented a 398-unit property that was built in 1997 and the second sale involved a 254-unit student housing community in Norman that was built in 1995. There was one other sale in 2009 that was not used for the statistical average. 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.

Total Sales Volume

49%
Compared to 2008

Total Units Sold

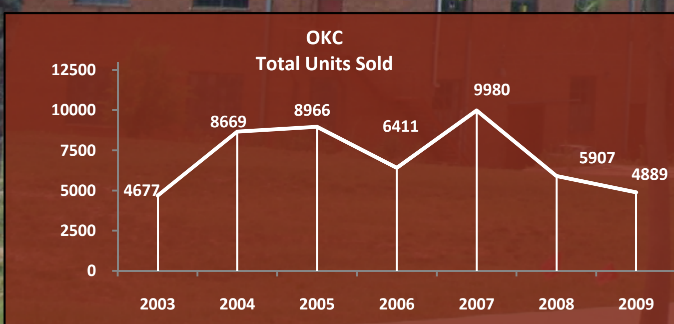
17%
Compared to 2008

Average Price Per Unit

38%
Compared to 2008

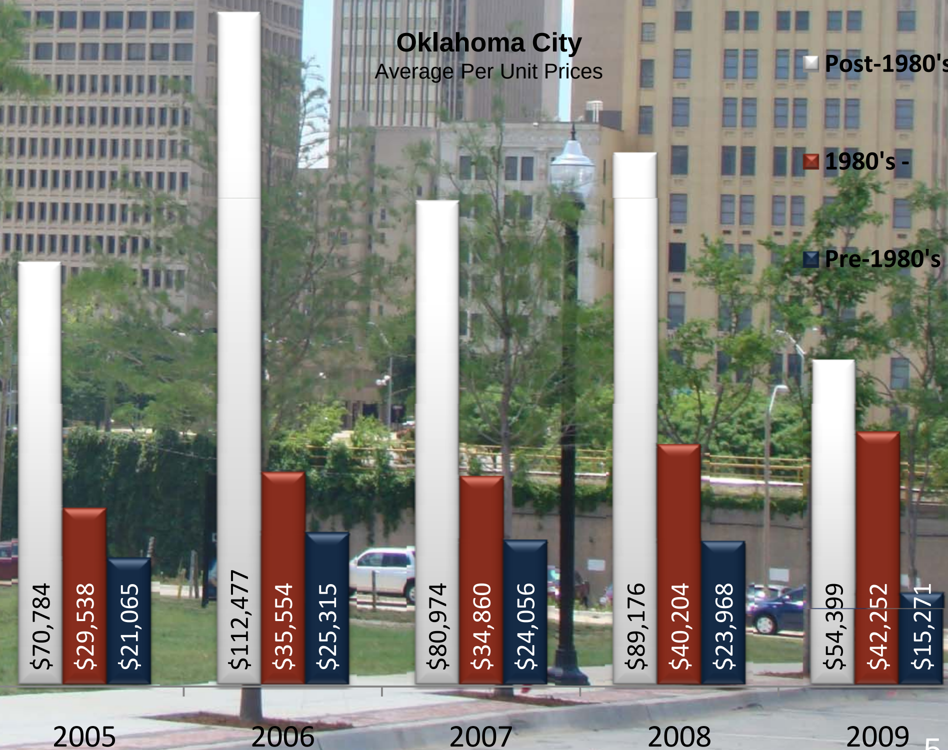
No. of Transactions

9%
Compared to 2008



Oklahoma City New Construction

Property Name	Address	City	No. of Units	Year Built
Village At Quail Springs	14520 N. Pennsylvania	OKC	276	2009/2010
The Enclave (*burned down*)	1201 Covell Village	Edmond	150	
Summit Groves	18001 Highland Park	Edmond	140	2010
Lincoln at Central Park II	500 Central Park Drive	OKC	432	2010
Summit Pointe	1002 SW 89th Street	OKC	184	2009/2010
The Links at Norman	3927 24th Avenue SE	Norman	515	2010
Providence Place	6100 SW 12th Street	OKC	304	2010
The Park at West Pointe	301 Pointe Parkway	Yukon	524	2010



Tulsa

There were 15 sales in Tulsa in 2009 on properties that exceeded 25 units in size, for a total of 2,933 units. This is up 6.2 percent from the 2,764 units sold in 2008. Sales volume for 2009 was down 24% at $83.8 million, as compared to $110.5 million in 2008. The average price per unit declined 29% to $28,575 in 2009, as compared to $39,999 in 2008. Much like Oklahoma City, the decline occurred because of foreclosure and short sale transactions, which accounted for 7 of the 15 transactions.

For Pre-1980's properties, there were 12 transactions involving 2,165 units for an average per unit price of $25,784. This is down 24% from $33,804 in 2008. Total sales volume in 2009 was about on par with the previous year at $55.8 million, as compared to $55.5 million in 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 26% from $37,742 in 2008. Total sales volume in 2009 was $16.7 million, as compared to $28.6 million in 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 was only one sale in 2008 for comparison, which involved a 360-unit property in Tulsa that sold for $26,300,000, or $73,056 per unit.

Property Name	Address	Price	No. of Units	Year Built	Date Sold
Sale Highlights Oklahoma City					
Village on the Lake	9268 N. Macarthur	$5,778,000	160	1970	Jun-09
Bethany Square	1900 N. Rockwell	$3,700,000	217	1976	Mar-09
Santa Fe Pointe	125 S.W. 74th	$2,855,000	224	1970	May-09
Wilshire Renaissance	701 E. Wilshire	$500,000	143	1971	Dec-09
Woodoaks	633 Vandament	$6,500,000	181	1965	Jun-09
Sale Highlights Tulsa					
French Villa	4752 S. Harvard	$4,331,000	100	1962	Jan-09
The Springs	6112 S. 87th E. Ave	$8,138,750	272	1983	Jan-09
El Dorado	3221 E 30th Place	$2,347,000	56	1965	Feb-09
Suncance	131 E 31st Place	$9,000,000	232	1970	Mar-09
Colonial Park	7625 E. 21st Street	$2,100,000	208	1968	Jul-09

Total Sales Volume

24%
Compared to 2008

Total Units Sold

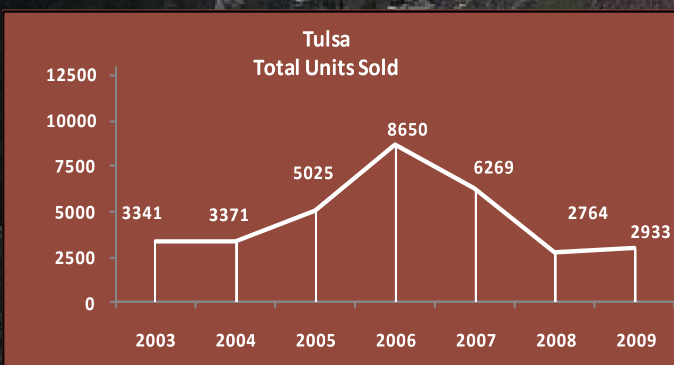
6%
Compared to 2008

Average Price Per Unit

29%
Compared to 2008

No. of Transactions

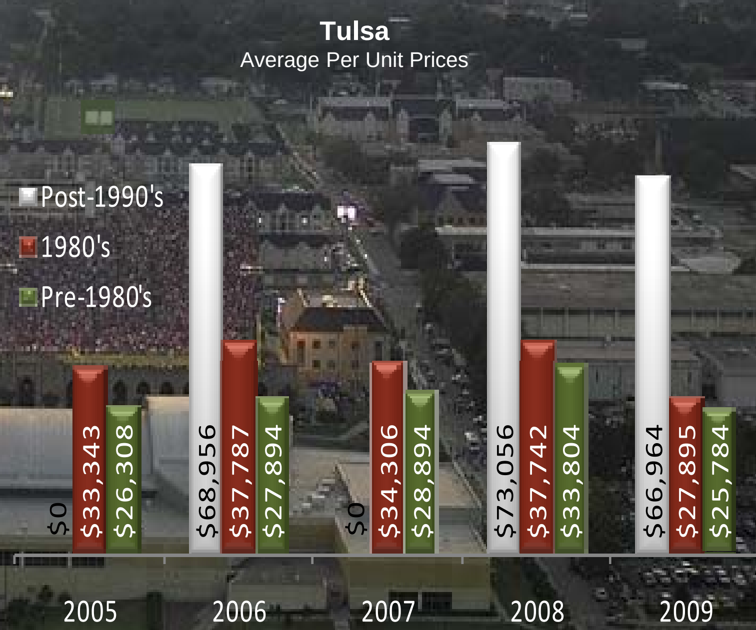
50%
Compared to 2008



Tulsa

Tulsa New Construction

Property Name	Address	City	No. of Units	Year Built
Marquis On Memorial	14681 South 82nd East Ave.	Bixby	132	2009
Villas at Aspen Park	2001 W Princeton Circle	Broken Arrow	270	2009
Preston Lake	14700 E 88th Place N.	Owasso	260	2009
Nickle Creek	7805 S. Union	Jenks	304	2009
Riverwalk Crossing	400 Riverwalk Terrace	Jenks	234	2009/2010
Oakmont	20202 E. Admiral Place	Catoosa	200	2009



Arkansas Oklahoma Kansas

Downtown Oklahoma City

The momentum and renaissance of the last 15 years will continue in 2010 with the passage of MAPS 3. This is a seven-year, nine-month one-cent sales tax that will create jobs and improve the quality of life in Oklahoma City. Collection of the sales tax will commence on April 1, 2010 and the estimated total cost of the initiative is $777 million.

The initiative contains a diverse list of eight projects:
•A new 70-acre central park linking the core of downtown with the Oklahoma River
•A new rail-based streetcar system
•A new downtown convention center
•Sidewalks to be placed on major streets throughout the City
•57 miles of new public bicycling and walking trails throughout the City
•Improvements to the Oklahoma River, including a public whitewater kayaking facility and upgrades intended to achieve the finest rowing racecourse in the world
•State-of-the-art health and wellness aquatic centers throughout the City designed for senior citizens
•Improvements to the Oklahoma State Fairgrounds
•The skyline of Downtown Oklahoma City will begin to transform in 2010 as construction has begun on Devon Energy's new world headquarters. The 54-story, 925-foot skyscraper will be the tallest building in all of Oklahoma.

Oklahoma City	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	2	6	21
Total Number of Units	652	1525	2712
Total Number of Sales OKC	1	5	18
Total Number of Sales Edmond		1	
Total Number of Sales Norman	1		1
Total Number of Sales Moore			1
Total Number of Sales Yukon			1
Price High per unit Price Low per unit	$51,929 $58,267	$49,756 $29,436	$38,275 $2,455

Outlook

Many investors continue to wait for a market bottom before buying. In 2009, buyers were undershooting price targets, in some cases by very large amounts, while sellers were overshooting. The result has been a stalemate that, combined with the credit crunch, has resulted in lower transactional volume. I expect to see a continued trend during the first half of 2010 as buyers continue their elusive search for a market bottom. The problem with this strategy is that if most buyers share the similar view, then everyone ends up holding out for market conditions that have yet to materialize.

Occupancy rates in Tulsa and Oklahoma City will see some downward pressure in 2010 because of increased job losses, but both markets should maintain 90 to 92%. Until we see some positive job growth numbers over a couple of quarters, it's going to be difficult to project any significant improvement in rental rates in 2010. Consequently, our outlook for 2010 is that overall apartment fundamentals will be flat to slightly down.

Transactional activity will improve when buyers stop trying to time the bottom and see the long-term value of the real estate. If expectations persist for a large inventory of distressed properties coming to market, there will be a prolonged disconnect between what investors hope to achieve and what will be feasible.

Tulsa	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	1	2	12
Total Number of Units	168	600	2165
Total Number of Sales Tulsa		2	11
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 $10,096