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2010 Apartment Report Oklahoma City & Tulsa

COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES



Mike Buhl
CRRC-OKC
405.360.5966
buhl@crrc.us

Darla Knight
CRRC-Tulsa
918-557-5966
darla@crrc.us

www.crrc.us

2010 Multifamily Apartment Report

A great divide has come about in 2010 between the most desired and most troubled assets in the market. On one hand, some properties are selling at prices near or above the peak of a few years ago. Performing properties are just not being sold at a discount. On the other hand, some values have declined to levels not seen in twenty years. What we have seen in 2010 is that at some massive discount to replacement cost and intrinsic value, there is a buyer for anything opportunistic. The disparity really lies in whether the asset is performing or not and is very evident in pricing. We have seen some dramatic price levels from \$2,437 per unit to \$62,773 per unit and as much as \$95,895 per unit in 2010.

I think one of the things we have experienced in 2010 is that there is a higher level of discipline. Many investors overpaid for properties in the debt bubble that rose up between 2005 and early 2008, and then the bubble burst. That's set up the opportunities we're seeing today and the financial distress has caused more discipline in really all aspects of the market. There are few, if any, flippers left in the market. The dealmaker today is a much more patient holder. Patient holders use less debt and often have investment time horizons ranging from five to 10 years.

Distress is still the catchword that investors want to precede the word "asset". There is just no single strategy though that fits all. Each investor may have his own distressed asset strategy, but each property must be considered for its own characteristics. After all, distress doesn't always equate to a great deal. There are many owners today that view distress as selling for the same price that they paid for the property a few years ago. They are simply pricing their properties with the hope of duplicating a higher than market sale of the past, even though the property may be performing worse. This strategy may work for some owners, but for others the upcoming maturity date on their loan will force their hand. I had one investor tell me that his distressed investment strategy was to purchase the property at a price that insures he would not fail. I suspect though that these two beliefs are miles apart in terms of pricing, which is somewhat representative of the market today.

Owners that prescribe to the belief that they can sell for what they paid should be wary. Many of these properties likely will not return to 2007 prices for quite some time. Owners that bought properties a few years ago at the peak of the market will be particularly susceptible to weaker prices, especially if those assets are not performing well. Another cautionary point, because of their concerns over risk aversion, investors are unlikely to rush en masse into acquiring high priced properties with weak fundamentals, something that some sellers are still counting on.

Positive signs are appearing in the capital markets, although the capital flows have been really concentrated to the best of assets. Fannie Mae remains the go to source for acquisition loans and refinancing. Some banks have returned to the market with small loan programs for selective deals. HUD also remains a source for acquisition, refinancing and new construction loans, but I don't believe HUD wants a large concentration of loans that are secured by 1970's properties. So again, it gets back to the best of class assets.



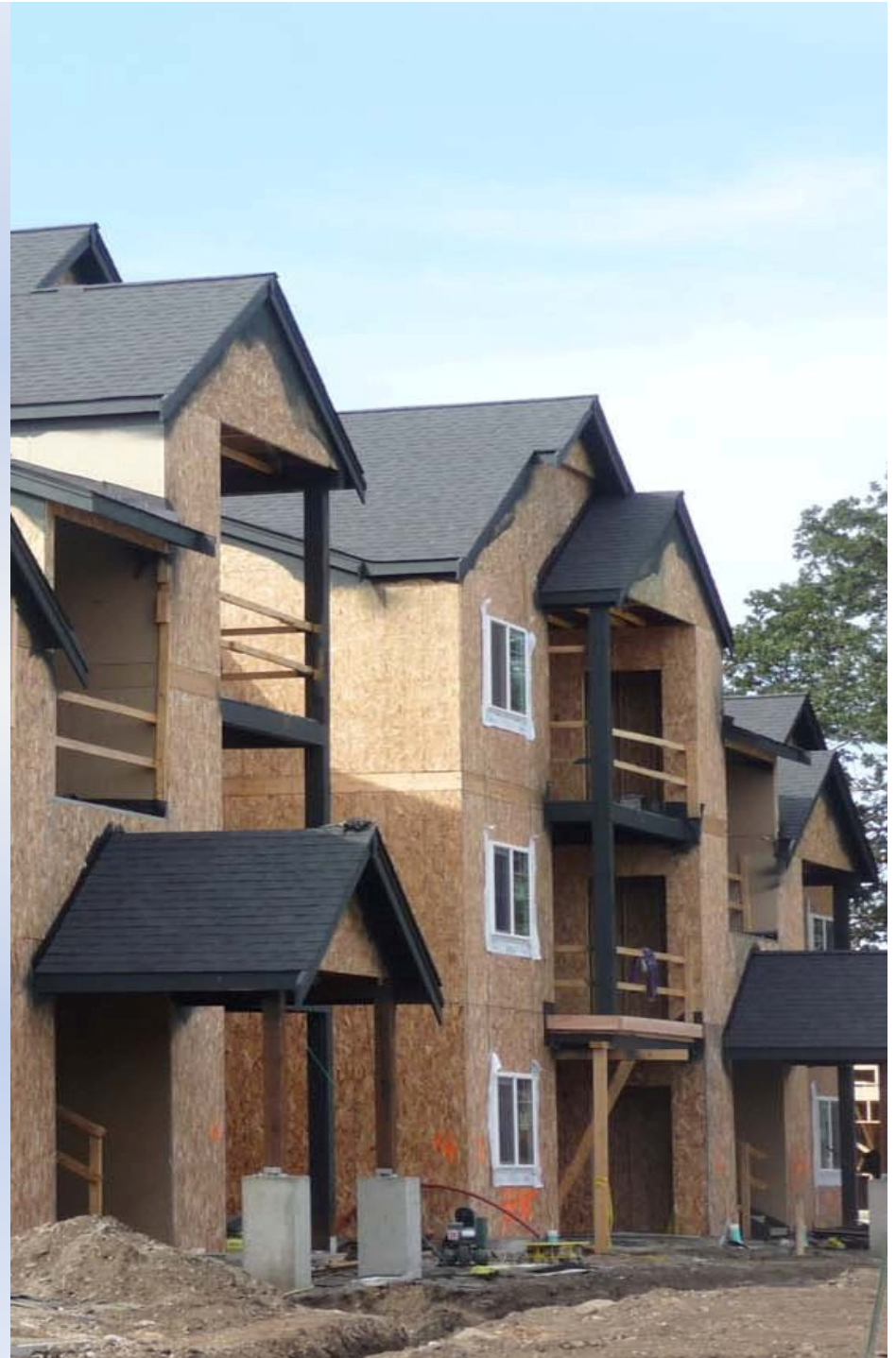
2010 Multifamily Apartment Report

New construction was on the rise in 2010. There were 2,831 units in the Oklahoma City metro that started construction, leasing, or planned in 2010 and 1,950 in the Tulsa metro. The largest of these is the Park at West Pointe in Yukon with 524 units, developed by Case & Associates. This is followed by The Links at Norman with 515 units, developed by Lindsey Properties. Rounding out the top three Oklahoma City developments is the second phase of Lincoln at Central Park with 432 units. The top three Tulsa developments include the 376 unit Greens at Battle Creek in Broken Arrow, Park at Mission Hills in Broken Arrow with 308 units and the second phase of Villas at Nickel Creek with 300 units. Downtown Oklahoma City will likely see the return of new construction in 2011 as the Urban Renewal Authority put out a new request for proposals on how to develop the site of the old Mercy Hospital in Midtown. Both Chuck Wiggin and rival developer Richard Tanenbaum envision apartments for the site. Wiggin's plan is to bring some commercial space to his project, while Tanenbaum wants to build a 270-unit apartment complex with on-site parking.

Because of the stability in rents and occupancy, developers are able to forecast economical pro forma returns on new projects. Most developers will find it difficult to obtain construction financing from traditional capital sources, namely banks. The exception has been with developers like Case & Associates and Lindsey Properties who have such long standing track records of success that they don't have trouble financing their projects, which is why they are so active in today's capital constrained market.

One of the most closely watched keys to the apartment market is the jobs picture. I think what we have seen the past 12 to 18 months is that unemployment for young people has been higher than for the labor market in general. People ages 20 to 30 make up a big percentage of the renter pool. We need job growth among the younger age groups to drive apartment demand. One of the challenges to this is that older, more skilled workers are willing to take lower paying jobs just to find work. To illustrate this point, the number of Oklahoma City area residents working past age 65 and older has increased 53 percent in the past decade, according to the Oklahoma Employment Security Commission. And older workers are more inclined to own rather than rent. Oklahoma County had a jobless rate in October 2010 of 6.7 percent, up from 6.6 percent in October 2009. Tulsa County, the state's second largest metropolitan area had a jobless rate in October 2010 of 7.5 percent, up from 7.2 percent in October 2009.

The Oklahoma City economy has been relatively stable in comparison to other parts of the nation and boasts housing affordability and low unemployment. Income growth has been very strong over the last 10 years, which has helped Oklahoma to do remarkably well during the recession. Per capita income is \$37,909 in Oklahoma City and \$39,442 in Tulsa. MAPS and then MAPS for Kids, and now MAPS III, have led to a dramatic resurgence that has made Oklahoma City an attractive place to live and work. Oklahoma has really become attractive to higher-end employment sectors like aviation and aerospace, bioscience and energy as those industries seek lower cost of doing business. Boeing is a good example as they announced they will move more than 500 engineering jobs to Oklahoma City from California. Baker Hughes also has long-term plans to hire up to 667 skilled employees for its northeast Oklahoma manufacturing and research facilities. Most of the new jobs will be at Claremore and Broken Arrow.



Oklahoma City

Transaction volume was generally down twenty five to thirty percent in 2010. In Oklahoma City, total sales volume for 2010 was down 22% from 2009 and down 64% from its peak of \$305.7 million in 2007. The one bright spot in Oklahoma City was the overall average price per unit, which was up by 6%. This was really only sustained though by the sale of one property at a significantly inflated number. Tulsa was a bit worse with total sales volume down 36% at \$53.8 million as compared to \$83.8 million in 2009. The overall average price per unit in Tulsa was down 8% at \$26,162 per unit in 2010 from \$28,575 in 2009.

There were a total of 28 sales in 2010 on properties that exceed 25 units in size, for a total of 3,618 units. This was a 26% decrease from the 4,889 units sold in 2009. Total sales volume was off significantly as well, down 22% at \$110.7 million in 2010, as compared to \$141.3 million in 2009. The overall average price per unit on apartment communities with 25 units or more was \$30,606, which was up 6% over the \$28,905 per unit average for 2009.

For Pre-1980's properties, there were 23 transactions in 2010 involving 2,754 units for an average per unit price of \$18,817. About half of these sales involved either a lender or receiver on the selling side. The caveat for this category is the sale of Regency Tower in downtown Oklahoma City that sold for an unprecedented \$62,773 per unit. The 24 story high rise was built in 1967 with 273 units. It is the taller of only two apartment towers in downtown Oklahoma City and is the only tower with interior parking. The average price for this category, excluding the sale of Regency Tower, was actually down nine percent from 2009 at \$13,961 per unit. Total volume for this category was \$51.8 million in 2010, which was up 25% as compared to \$41.4 million in 2009.

For Post-1980's properties, there were only three sales in 2010 involving 352 units. One of these was a 60-unit lender owned property in Edmond at \$35,583 per unit. The other sale involved a 100 unit property at \$38,745 per unit and the third was 192-units in Yukon at \$39,062 per unit. Transactional volume for this category was down 79% at \$13.5 million, as compared to \$64.4 million in 2009. The average per unit value for this category was down nine percent from \$42,252 per unit in 2009.

There were two sales of Post-1990's properties in 2010, involving a Note sale on the Crimson Park Apartments in Norman for \$25.7 million and the sale of Stoneleigh on May for \$19.7 million. The purchaser of Crimson Park, Pathfinder Partners and Pierce Educational Properties of San Diego acquired the Note on the 268 unit student housing community from its lender, First United Bank of Durant. Crimson Park was built in 2005 containing 792 beds in what is considered an up scale student community.

The results of our earlier Student Housing Analysis suggests there is some softness in occupancy within the per bedroom inventory in Norman. There are currently 5,798 beds within the student housing inventory, which has increased 347% over the past ten years. By comparison, Fall Enrollment at the university increased 9% over this same period of time. So, while we concluded that the inventory was ahead of the demand, we also believe that occupancy will improve on the per bedroom inventory as further new developments are unlikely at this time. The absorption has taken longer than expected, which is directly tied to enrollment figures at the university. But, the imbalance between supply and demand is expected to improve over the next 24 to 36 months. That was all said to say this; acquisitions like Crimson Park are driven by the long term goal of having a quality project near a major university at less than replacement value.



Oklahoma City New Construction

Total Sales Volume



22%
Compared to 2009

Total Units Sold



26%
Compared to 2009

Average Price Per Unit



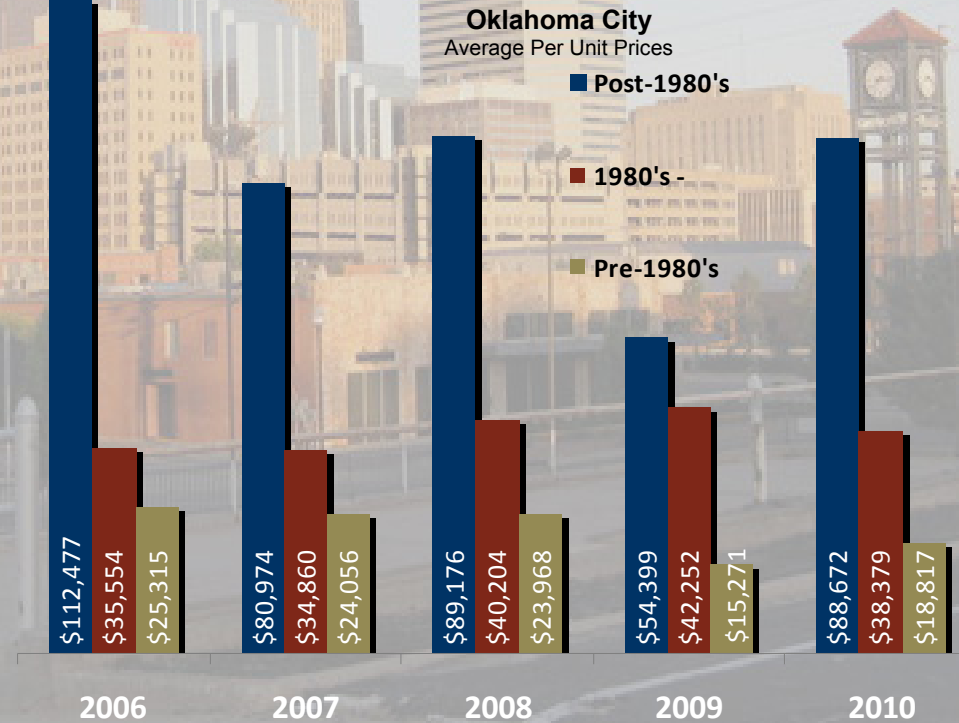
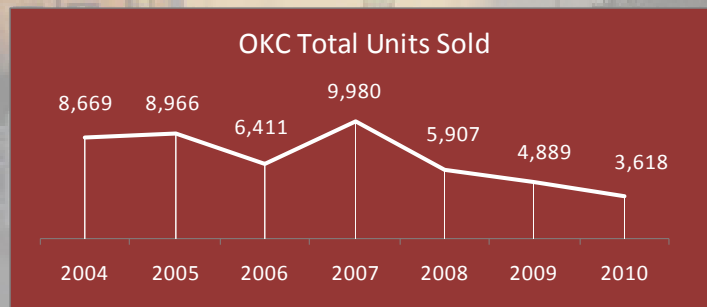
6%
Compared to 2009

No. of Transactions



Less Than 1%
Compared to 2009

Property Name	Address	City	No. of Units	Status
The Level Urban – Downtown	NE 2 nd and Walnut	OKC	228	Planned
Park at West Pointe	301 Pointe Parkway	Yukon	524	Leasing
Summit Groves	18001 Highland Park	Edmond	140	Leasing
Lincoln at Central Park II	500 Central Park Drive	OKC	432	Leasing
Shores at K-Rock	N. Rockwell & Memorial	OKC	180 +/-	Planned
Summit Pointe	1002 SW 89 th Street	OKC	184	Leasing
The Links at Norman	3927 24 th Avenue SE	Norman	515	Leasing
Providence Place	6100 SW 12 th Street	OKC	304	Under Const.
The Greens at Coffee Creek	317 W. Covell Road	Edmond	325	Planned



Tulsa

Excluding the Remy Portfolio that involved an entity sale of 873-units for nearly \$32 million, there were fifteen recorded sales in Tulsa during 2010 on properties that exceeded 25 units in size.

For Pre-1980's properties, there were 11 transactions in 2010 involving 1,638 units for an average per unit price of \$19,526. Total volume for this category was \$31.9 million in 2010, which was down 43% from \$55.8 million in 2009.

The Post-1980's category showed a significant increase in 2010 with an average per unit price of \$51,982, as compared to \$27,895 per unit in 2009. Total volume for this category was \$21.8 million in 2010, which was up 31% from \$16.7 million in 2009. There were 421 units sold in 2010, as compared to 600 units in 2009.

There were no sales of Post-1990's properties in Tulsa during 2010 for a statistical comparison. Total sales volume in Tulsa was off 36% at \$53.8 million in 2010, as compared to \$83.8 million in 2009. The overall average price per unit on apartment communities with 25 units or more was \$26,162, which was down eight percent over the \$28,575 per unit average in 2009.

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
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Sale Highlights Oklahoma City

Mt. Vernon	4020 N. Meridian	\$1,965,000	92	1968	\$21,358
Summerscape	3250 SE 44 th	\$3,180,000	125	1974	\$25,440
Turnberry	1911 Twisted Oak Dr	\$2,280,000	140	1973	\$16,286
Copperwood	5800 NW 34 th	\$640,000	51	1967	\$12,549
Cypress Ridge	1209 W. Hefner	\$750,000	256	1971	\$2,929
Regency Tower	333 NW 5 th Street	\$17,200,000	274	1967	\$62,774
Park Place	215 NE 28 th	\$3,503,500	223	1967	\$15,710
Preston Park	3834 N. Oak Grove	\$3,300,000	286	1972	\$11,536

Sale Highlights Tulsa

Cimarron	13201 E. 31 st Street	\$4,688,501	240	1977	\$19,535
Westwood	718 W. 49 th Street	\$925,000	128	1979	\$7,227
Stoneridge	2505 E. 88 th Street	\$9,000,000	342	1975	\$26,316
Red Fox	8120 E. 16 th Street	\$2,500,000	84	1973	\$29,761
Colonial Park	7625 E. 21 st Street	\$1,000,000	208	1968	\$4,807
The Cedar's	5407 E 12 th Street	\$534,600	54	1977	\$9,900



Tulsa

Total Sales Volume



36%
Compared to 2009

Total Units Sold



30%
Compared to 2009

Average Price Per Unit



8%
Compared to 2009

No. of Transactions

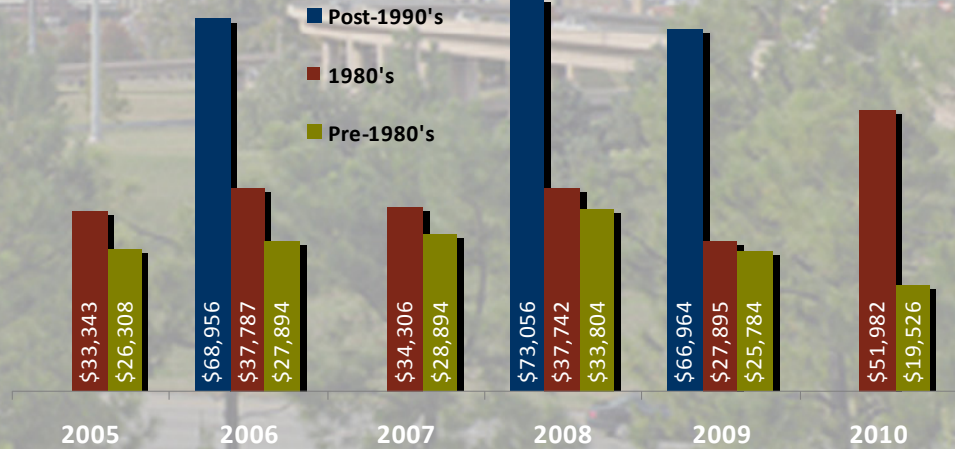


0%
Compared to 2009

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 88 th 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

Tulsa
Average Per Unit Prices



Tulsa Total Units Sold





Arkansas

Oklahoma

Kansas

Outlook

Occupancies and rental growth in Tulsa and Oklahoma City were relatively flat in 2010. Oklahoma has done well to keep unemployment rates that are better than the rest of the country, but this didn't do much to push occupancy levels higher in 2010. We won't see occupancy levels increase much without a meaningful rebound in employment. The outlook for 2011 is for occupancy levels of 90 to 92% in Oklahoma City and 90 to 91% in Tulsa.

Much like the disparity in pricing, I think we are experiencing some disparity in occupancy and concessions as well. While new construction projects are attracting tenants at market rents, I suspect there are more concessions happening on the Pre-1980's properties that are not showing up in the statistics. Concession amounts can move frequently and they show up in market segments as opposed to city wide. Therefore, concessions should be viewed from a local level instead of a macro level. Some of the national price indexes fail to depict the extent of concessions that landlords offer to tenants, which can mislead investors on fundamentals such as vacancy and rental rates and ultimately in property valuations.

Transactional activity is expected to remain low in the first half of 2011. As I highlighted above, most sellers are not feeling the pressure to discount pricing. So, while "distress" is still the catchword, investors would be wise to depart from the assumption that just because a property has the word "distressed" attached to it that it is a great opportunity. The take away: rigorously scrutinize potential investments; don't rely too heavily on the national price indexes and consider that true value-add opportunities are created not acquired.

<u>Oklahoma City</u>	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	2	3	23
Total Number of Units	512	352	2,754
Total Number of Sales OKC	1	1	18
Total Number of Sales MWC	0	1	1
Total Number of Sales Norman	1	0	1
Total Number of Sales Del City	0	0	2
Total Number of Sales Yukon	0	1	1
Price High per unit	\$95,896	\$39,062	\$62,773
Price Low per unit	\$80,737	\$35,583	\$2,437

<u>Tulsa</u>	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	0	4	11
Total Number of Units	0	421	1,638
Total Number of Sales Tulsa	0	2	11
Total Number of Sales Broken Arrow	0	2	0
Total Number of Sales Sapulpa	0	0	0
Price High per unit		\$72,697	\$29,761
Price Low per unit		\$18,231	\$4,807