Arkansas Oklahoma Kansas

CRRC

COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES

2008
Multifamily Apartment Report
Oklahoma City & Tulsa

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2008
Multifamily Apartment Report

The predominant news at the end of 2008 was about capital constraints and sluggish real estate sales. Real Estate markets across the nation are now experiencing some of the worst constraints in decades. Everything you read concludes that the nation is in its deepest recession since the 1980s. It seems odd that while the rest of the country is in the midst of a recession, Oklahoma did quite well in 2008 and is expected to continue that trend in 2009. Why? Because Oklahoma is an energy state and the energy industry has continued to create 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.

As unemployment nationwide soared to its highest level in 16 years, Oklahoma added 12,700 jobs between the months of October 2007 and October 2008. Through October 2008, Oklahoma City employment grew by 6,200 jobs. The jobless rate in Oklahoma was 4.1 percent in October, which is lower than the 4.2 percent rate for the same time a year ago, and in sharp contrast with the national rate that exceeded 6 percent.

Oklahoma had strong retail sales in 2008, the banking sector remained stable and strong and the state's revenue collections outpaced the previous years. Oklahoma posted the eighth highest rate of personal income growth in 2008 and that rate has been growing steadily for several years. So despite the national economy, Oklahoma should continue to do well in 2009 as the trend of stable employment and personal income growth continues.

The apartment market in general performs better than other sectors in difficult times because of the inherent need for housing. The multifamily market in Oklahoma proved this point well in 2008 with relatively strong transactional activity and rising occupancies and rent growth. In Oklahoma City, total sales volume was off by only 10% as compared to 2007 and the overall average price per unit increased fairly significantly. Tulsa showed a similar trend with the overall average price per unit gaining about 15%. Total sales volume for Tulsa though was off by 56% as compared to 2007.

Property fundamentals made a distinct shift in 2008 to more quality assets which are creating an underlying transition in the market. We are now seeing the margin widen between the pricing of Class-A and B properties and the lesser quality C properties. This is also due to a fundamental shift in the type of buyers that are coming to the market. The market transition that we are seeing now is probably going to result in higher default and foreclosure rates than at any point in the past decade. This will occur on the Class-C properties where aggressive cash flow projections did not materialize and where owners were unable to fund capital requirements. This disparity will be evident as one segment of the market performs at its historical best, while another side of the market is going to see declining values.

2008
Multifamily Apartment Report

As everyone knows, the apartment market has been largely driven by 1031 exchange money over the past several years and much of this money has come from out-of-state investors. This has been said to be the time of easy money where the need to avoid capital gains taxes outweighed the need to look at property fundamentals, or the lack thereof. The low-cost capital supplied by the commercial mortgage-backed securities (CMBS) sector made this even easier because of less stringent underwriting. So, will 1031 money return as a leading source of funds in 2009 or is it a thing of the past? I believe we will still see 1031 money coming to the market, but at a more tempered pace. The typical 1031 buyer will probably be working with larger exchange funds and be seeking the security of more stabilized assets with a proven record of income and expenses.

The 1031 buyers with smaller funds will have to persuade sellers to reevaluate their expectations because the financing is simply not available today for those same type transactions of the past several years. The other alternative for smaller 1031 funds is to place them in a well balanced and well managed Tenant-In-Common (TIC) structure. Not to be overlooked though is still the need to perform due diligence and physically inspect the property before investing.

The TIC buyer, or sponsor, had a more profound impact on the multifamily industry in 2008 than in years past. While the market for TIC investors and sponsors did decline significantly in 2008, the TIC structure is still a viable option for sellers, especially those with high quality assets. It's true, the industry did experience some pretty big setbacks in 2008 because of a national slump in the real estate markets and the economy overall. DBSI of Boise, Idaho filed for bankruptcy protection in November. DBSI had over 8,000 individual investors in properties that were valued at more than $2.4 billion. LandAmerica 1031 Exchange Services Company, one of the stalwarts of the business, also filed for bankruptcy in 2008. While the downfall of DBSI and LandAmerica will certainly cause some anxiety, the companies that survive will represent the best in the industry and fortunately for us, those are the ones investing in Oklahoma.

Inland Real Estate Exchange Corp., for example, is one of the most prolific TIC sponsors in the industry. According to published articles, the company raised between $200 million and $250 million in equity in 2008, as compared with $180 million raised in 2007. Inland made a historic move when it acquired the 1,325-unit Legacy Portfolio in Oklahoma City for $130 million in 2008. SCI, another competing sponsor, purchased the Campus Park Apartments in Stillwater, which is a student housing community about six blocks from Oklahoma State University.

Current CRRC Listings

Property Name	Price	Number of Units	Year Built	Location
23rd Street Station	$7,600,000	258	1970	Oklahoma City, OK
Angelic *(Lender Owned)*	Offers Due Mar-11-2009	258	1970	Oklahoma City, OK
Boardwalk	$12,350,000	192	1984	Oklahoma City, OK
Easthills	$2,900,000	85	1974	Moore, OK
Sunset Ridge	$3,400,000	98	1970	Edmond, OK
Winchester *(Sold)*	$7,600,000	192	1985	Oklahoma City, OK
Lakeside Village	$6,750,000	150	1971	Oklahoma City, OK
Woodrun Village	$8,500,000	192	1985	Yukon, OK
Country Creek	$13,100,000	320	1985	Oklahoma City, OK
Summit Ridge	$11,900,000	168	2005	Lawton, OK
Ambassador House	$7,850,000	142	1969	Oklahoma City, OK
Lightning Creek	$4,350,000	92 Apt/32 Retail	1984	Oklahoma City, OK
Grouse Run	$13,850,000	244	1984	Oklahoma City, OK
Deerfield Estates	$20,000,000	364	1975	Tulsa, OK
French Villa *(Sold)*	$4,750,000	100	1962	Tulsa, OK
Southern Elms	$2,875,000	78	1968	Tulsa, OK
Brookhollow *(Sold)*	$3,450,000	121	1973	Norman, OK
The Cedar's *(Sold)*	$2,050,000	96	1982	Norman, OK

Top TIC deals of 2008-

- *Inland's purchase of the Legacy Portfolio*
- *SCI's purchase of Campus Park Apartments in Stillwater*

Oklahoma City

For the twelve months ending 2008, there were 32 sales on properties that exceed 25 units in size, for a total of 5,907 units. This was a 41% decrease from the 9,980 units sold in 2007. Total sales volume was a little more encouraging, down only 10% at $274.4 million in 2008, as compared to $305.7 million in 2007. The real bright spot though was the overall average price per unit on apartment communities with 25 units or more, which ended the year at $46,466, a 52% increase over the 2007 average.

For Pre-1980's properties, there were 20 transactions involving 2,949 units for an average per unit price of $23,968. This is down less than 1% from $24,056 per unit in 2007. Values held up well in this category, but total volume was down significantly at $70.6 million in 2008, as compared to $184.5 million in 2007.

For Post-1980's properties, there were 6 sales involving 1,225 units for an average per unit price of $40,204. This value was up 15% from $34,860 per unit in 2007 and total volume was about even at $49.2 million in 2008, as compared to $49.7 million in 2007. This category had similar results in 2007 with 6 transactions on 1,426 units.

For Post-1990's properties, there were 6 sales involving 1,733 units for an average per unit price of $89,176, which is up 10% from $80,974 per unit in 2007. Total volume was up 116% at $154.5 million in 2008, as compared to $71.5 million in 2007. The case can be made that without the Inland acquisition, total volume for all three categories would be down over 50% for the year instead of just 10%. But the fact is, it was an arms-length deal and transactions like that are what create milestones and change market dynamics. The historical statistics we use will forever be changed because of this sale and the new benchmark in pricing it created.

The submarkets of Edmond and Norman had a very active year with 14 combined transactions in 2008 for a total of 2,251 units. Two of the Norman properties were student communities with a total of 408 units at an average of $58,650 per unit. Norman will also see the addition of two new multifamily developments in 2009 with The Links at Norman, a proposed 828-unit community and golf course being planned by the Lindsey Companies of Arkansas, and The Cottages of Norman, a 172-unit community being developed by Capstone of Alabama. While The Cottages will operate like a student-oriented property with rents from $490 to $690 per month per bedroom, it is not the stereotypical student housing. It is $28 million project comprised of 89 buildings with residences ranging from two-bedroom carriage homes to three-story lodges. Each cottage includes hardwood floors, a washer and dryer, granite countertops and stainless-steel appliances. The 33-acre site includes a pool with a waterfall, clubhouse, fitness room, and computer room and tanning facility. Capstone is definitely targeting an "upscale" niche not found in traditional student housing.

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Oklahoma City

Total Sales Volume

10%
Compared to 2008

Total Units Sold

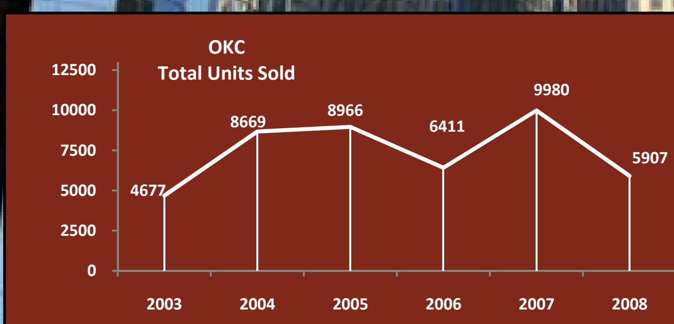
41%
Compared to 2008

Average Price Per Unit

52%
Compared to Mid2008

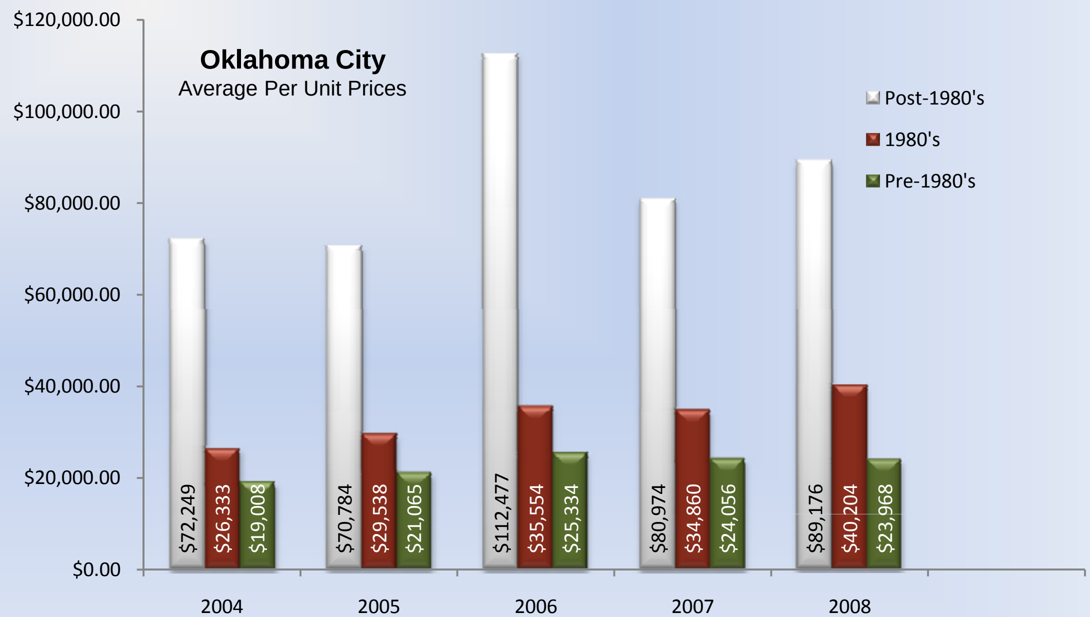
No. of Transactions

36%
Compared to 2008



Sale Highlights

Property Name	Address	Price	No. of Units	Price Per Unit
Hampton Woods	3001 Oak Tree	$10,600,000	248	$42,741
Post Oak	705 Ridgecrest Court	$13,850,000	304	$45,559
Tiffany House	5505 N. Brookline	$5,800,000	124	$46,774
Lakeview Towers	6001 N Brookline	$3,233,000	192	$16,838
Windsor Village	2500 N Sterling	$12,750,000	363	$35,123
Live Oak	1115 Biloxi Drive	$2,900,000	118	$24,576
Aspen Walk	5537 S Sunnylane	$4,150,000	144	$28,819
Boulder Creek	3621 S Wynn Drive	$3,500,000	100	$35,000
Woodbrier	5522 Woodbrier Drive	$4,452,000	128	$34,781
Forest Pointe	1100 Oak Tree Ave	$7,100,000	157	$45,222
Legacy at Arts Quarter	301 N Walker	$39,097,000	303	$129,033



Tulsa

There were 10 sales in Tulsa during 2008 on properties that exceeded 25 units in size, for a total of 2,764 units. This is a 56% decrease from the 6,269 units sold in 2007. Total sales volume for the twelve months is down 42% at $110.5 million, as compared to $191 million in 2007. The average price on apartment communities with 25 units or more ended the year at $40,000 per unit, which was up 31% from $30,472 in 2007.

For Pre-1980's properties, there were 6 transactions involving 1,644 units for an average per unit price of $33,804. This is up 18% from $28,894 in 2007. For Post-1980's properties, there were 3 sales involving 760 units for an average per unit price of $37,742, which is up 10% from $34,306 in 2007.

For Post-1990's properties, there was only one sale involving the 360-unit Vintage on Yale Apartments at 81st and Yale. The purchase price of $26,300,000 represented a price per unit of $73,056 for this 2000 vintage community. There were no sales in this category in 2007, but the category increased 6% from its per unit average of $68,956 in 2006.

There are several new construction developments in Tulsa. Enclave at Brookside is expected to add an upscale and eclectic development to the Brookside housing market. The $30 million property will include 240-units at 39th Street and Rockford Avenue. The property will be four-story with a stone and stucco exterior. The developer is Bomsada Group of Houston. Rental rates at Enclave will range from $800-850 with some units up to $2,000 per month. The amenity package may make it one of the nicest properties in Tulsa.

Marquis on Memorial also started construction on 132-units at 146th Street and Memorial in Bixby. The $8 million property will have granite counter tops, upgraded appliances, high-quality carpets and crown molding. Units will range in price from $750 to $1,190 per month, or around one dollar per square foot.

RiverWalk Crossing in Jenks will add another 204-units to the market. The site sits along the Arkansas river at the southeast corner of E. 91st and N. Fifth Street and adjoins to the north the second phase of the RiverWalk entertainment district. Owasso will also see the addition of a 200-unit community at 9917 E. 106th Street. And south Tulsa will get a new $34 million development when Flournoy Development of Columbus, GA. adds 320-units called Sonoma Grande at Mingo Road and 81st Street. Units at Sonoma will range in size from 687 square feet to 1,345 square feet with rents ranging from $731 to $1,215. Flournoy already maintains a presence in Tulsa, having previously developed Estancia, a 294-unit community at 7705 S. Mingo Road in 2006. The common theme in all of these developments is "upscale" with rents approaching or exceeding a dollar per foot.

Total Sales Volume

42%
Compared to 2007

Total Units Sold

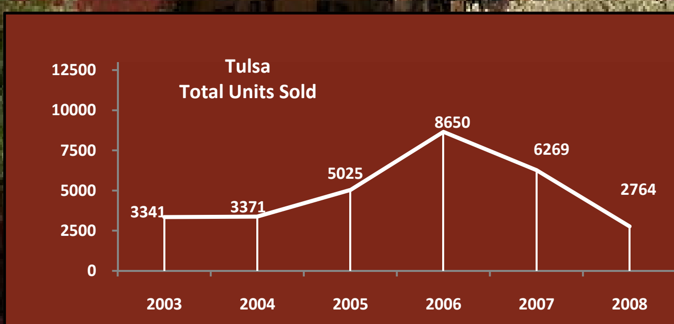
56%
Compared to 2007

Average Price Per Unit

31%
Compared to 2007

No. of Transactions

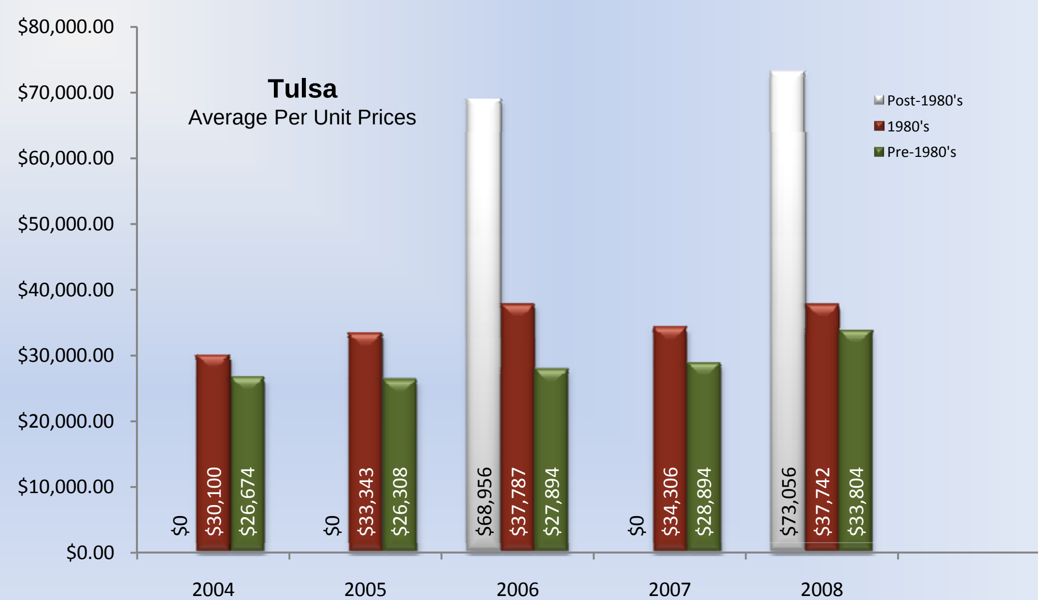
68%
Compared to 2007



Tulsa

Sale Highlights

Property Name	Address	Price	No. of Units	Price Per Unit
Garden Terrace	1140 S. 101st E. Avenue	$1,850,000	65	$28,461
Birch Place	10851 E. 33rd	$3,700,000	121	$30,578
Executive Series	3210 S. Winston	$4,400,000	122	$36,065
Somerset Park	9416 E. 65th	$17,000,000	424	$40,094
Bristol Park	4414 S. Garnett	$18,100,000	512	$35,351
Foxfire	7323 S. Wheeling	$15,025,773	440	$34,149
Tower Crossing	4404 S. 109th E. Avenue	$7,350,000	216	$34,027
Greenbriar	2152 E. 61st Street	$4,307,500	120	$35,895
Vintage on Yale	5202 E. 81st Street	$26,300,000	360	$73,056



Arkansas Oklahoma Kansas

Oklahoma City	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	6	6	20
Total Number of Units	1,733	1,225	2,949
Total Number of Sales OKC	3	2	11
Total Number of Sales Moore	-	-	1
Total Number of Sales Edmond	1	1	3
Total Number of Sales Norman	2	3	4
Total Number Sales Shawnee	-	-	1
Price High per unit Price Low per unit	$129,033 $55,769	$45,559 $28,782	$46,774 $6,880

Tulsa	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	1	3	6
Total Number of Units	360	760	1,644
Price High per unit Price Low per unit	$73,056	$40,094 $34,150	$36,065 $28,461

Outlook

Oklahoma City and Tulsa experienced solid rent growth and declining vacancy rates in 2008. Oklahoma City is expected to see occupancy rates remain stable in the 90 to 92% range in 2009, while Tulsa is expected to be a little higher at 91% to 93%. The numerous concessions we have seen in both markets will continue their declining trends with Tulsa essentially ending any concessions in 2009. Both markets experienced rent growth of 7% to 10% in 2008, although that is expected to settle back in the range of 5% to 6% in 2009. Tulsa could see fairly significant rent growth in 2009 if the projected rates for these new developments take hold and push the higher end of the market.

The outlook for 2009 should generate a more level equilibrium between supply and demand than in years past. Buyers that are using bank financing to acquire deals will need to adjust for the higher cost of capital and recourse loans and sellers will need to adjust for a rise in cap rates. Sellers with good quality assets or with attractive assumable financing will find an active sales market in 2009. The caveat though, is that in order to get deals done, both sides of the transaction will need to be a little more realistic and a little more flexible in 2009. The capital markets played a major role in the expansion of our market over the past several years and they will play a major role leading into 2009. Let's not forget though that the nation is in a recession and while Oklahoma is still doing fine, it is still part of the greater whole.

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