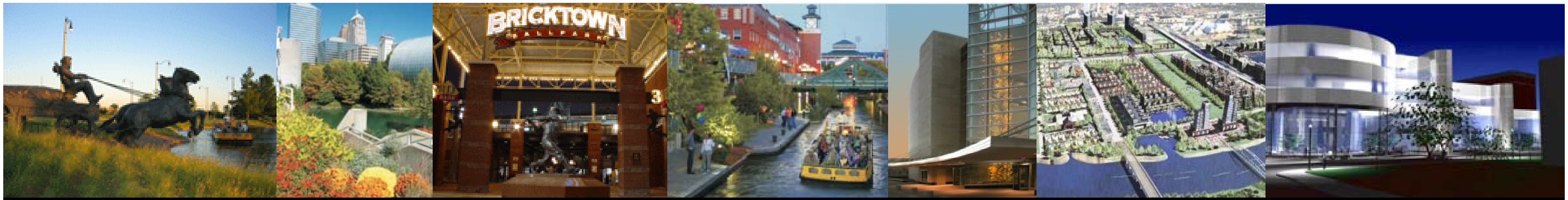

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2011
Apartment Report
Oklahoma City & Tulsa

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2011
Multifamily Apartment Report

As we move into 2012, there is an increasing sense of optimism in the multifamily industry. Sales activity was on the rise in 2011 while occupancy and rental rates showed modest improvement. Core assets in Tulsa and Oklahoma City are setting records for high prices and low cap rates. Investors are showing a willingness to pay for occupancy and potential upside and are showing more tolerance for risk. Demographic shifts are also providing a lot of optimism in the industry for 2012.

Perhaps you have seen them downtown or around Tulsa or Oklahoma City. They're young professionals, people in their mid 20's to mid 30's, the echo boom generation and they represent a huge demographic wave for the apartment industry. Most importantly, they represent potential renters and their numbers are growing. According to Advertising-Age, the percentage of Oklahoma millennials, or people age 25 to 34, rose by 12.2 percent from 2000 to 2010. Oklahoma ranks fifth in the nation for increases in that key demographic, which is a predictor of economic growth. When you look at the growing millennial population, you start to see the correlation between this key demographic and new multifamily construction. And these new construction projects are strategically located in areas where the millennial populations are growing most. For example, the second phase of The Lincoln at Central Park, now containing a total of 708-units in both phases, is one of the nicest luxury communities near the Chesapeake campus, which is a major employer of the millennial age group.

Why is the millennial population growing? Oklahoma's job market suffered less than many other states during the economic downtown. The combination of career opportunities and affordable living is attractive. Young professionals are being drawn to Oklahoma and the ones who were born here are staying. And many of these millennia's are choosing to be renters rather than homeowners. This demographic shift is having a positive impact on multifamily and the industry is responding by adding new luxury communities in strategic locations throughout the Tulsa and Oklahoma City metros. New construction will add another 1,438 units to the Oklahoma City metro and 789 units to the Tulsa metro in 2012.

As we stated in our 2010 Apartment Report, *"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"*. While there is no single demographic that will impact the apartment market by itself, I think the millennial population and their impact on employment is one of the driving forces behind rent and occupancy growth today. But even so, older workers are joining the job market and also becoming renters by choice. To illustrate this point, consider that the number of Oklahoma City area residents working to age 65 and older has increased 53 percent in the past decade, according to the Oklahoma Employment Security Commission. There are a lot of demographic shifts taking place that will favor the apartment industry and I think we will see these really start to take hold as we move into 2012.

While there is still a divide between the most desired and most troubled assets in the market, I think you can draw a correlation between the growing millennial population and how that demographic has impacted the upper end of the apartment market, or the institutional grade properties as they are often referenced, that has resulted in record sales. Historic low interest rates have definitely been a driving force behind sales, but equally important may be the makeup of the renters themselves.

Consider than the other side of the market, those assets that are not commanding a proportionate share of rent growth or occupancy gain. While the millennia's may be helping to create higher values at the upper end of the market, there is a correlation that can be made between renters and property values at the opposite end of the market as well. Renters that earn $9.00 to $10.00 an hour, or worse yet minimum wage, and that live paycheck to paycheck simply can't afford a rent increase at any level. No one will argue that it takes longer today to find a job than it did before the economic downtown. So, a tenant that finds themselves in a six to nine month down time after losing or while searching for employment will get behind financially fairly quickly. The troubling statistic is that the number of Oklahomans receiving food stamps has reached an all-time high for the seventh consecutive month, according to the Oklahoma Department of Human Services. According to figures released by the Oklahoma Department of Human Services, more than 625,000 Oklahomans received subsidies through the Supplemental Nutrition Assistance program in September.

These are certainly two different dynamics that are driving very different segments of the market. The correlation is that the economics of the renter themselves can impact the value of a property just as much as any other statistic. So, consider how a property that helps its residents economically and socially can increase in value.

Some properties, like Artisan Ridge Apartments for instance, are taking steps to help their residents while creating greater asset value and higher occupancy. Looking at year-over-year income provides a good snapshot of how this has been a positive move. The Net Rental Income *(excluding other income categories)* was $133,414 in May of 2010 and increased to $146,317 in May of 2011, twelve months after the property started accepting Housing Vouchers. Artisan Ridge is one of only a few mid 1980's properties that accept Housing Vouchers. According to the Owners, "the trade off has been well worth it". The property offers a great location and superb amenities for its residents, along with after school programs for its youth that is sponsored by a local church. Artisan Ridge is improving the life style of its residents while creating greater asset value.

Despite the elimination of the federal tax-incentive program for first-time home buyers, the residential market has remained relatively strong. It has been widely believed that this federal program was one of the single most important factors driving residential home sales. The statistics today might suggest otherwise. The housing market locally has experienced sustained sales and steady construction despite the elimination of this program that offered first time home buyers an $8,000 federal tax credit. Oklahoma City, Edmond, Midwest City, Moore and Norman together issued 2,997 single-family construction permits through October, just 18 fewer than the first 10 months of 2010, but 178 more than the same period in 2009 at the bottom of the bust. The cities issued 5,317 permits through October 2005, at the height of the boom, according to the Oklahoma City Metro Association of Realtors. The median price of a home in Oklahoma City for the third quarter of 2011 was $137,617, up 1.9 percent from the third quarter of 2010. The median price in the Tulsa area for the third quarter was $139,807, up 1.9 percent from the third quarter of 2010. There are several factors that will improve home sales in 2012; the most important one for us to watch is raising rents.

Metropolitan Oklahoma City added roughly 7,800 jobs through the first nine months of 2011 and Metro Tulsa added about 12,000 jobs for this same period. The unemployment rate for Oklahoma County was 5.8 percent in September 2011, down from 6.5 percent in September 2010. Tulsa County, the state's second largest metropolitan area had a jobless rate in September 2011 of 6.3 percent, down from 7.3 percent in September 2010.

As compared to 2010, transaction volume in 2011 was up 18 percent in Oklahoma City and 78 percent in Tulsa. The increase is attributable to sales of newer vintage properties and Class "A" communities. Total sales volume ended 2011 at $130.5 million in Oklahoma City and $95.8 million in Tulsa. The overall average price per unit was $31,502 and $33,318 for Oklahoma City and Tulsa respectively. Tulsa has historically had an edge in pricing mostly because sales of Pre-1980's properties have commanded better pricing in past years than they have in Oklahoma City.

Oklahoma City

2011 delivered some encouraging news for Oklahoma City sales. There were 25 sales on properties that exceed 25 units in size, for a total of 4,144 units. This was up 15% from 3,618 units sold in 2010. Total sales volume was also up at $130.5 million in 2011, as compared to $110.7 million for 2010. The overall average price per unit on apartment communities with 25 units or more ended 2011 at $31,502, up 3% from $30,606 per unit in 2010.

For Pre-1980's properties, there were 18 transactions involving 2,276 units for an average per unit price of $15,850. Sales of distressed assets were down, but still accounted for 50% of these transactions. The distressed side of the market is still most evident in this vintage property. Several of these highly distressed properties were sold at pricing below $5,000 per unit, which continues to weigh down the average. Unfortunately, the average for this category is not likely to exhibit a big rebound in 2012 because of other distressed assets that are moving through the system.

The average for Post-1980's properties ended 2011 at $36,501 per unit, as compared to $38,379 in 2010. The average was down mostly because of the 544-unit Pinehurst Apartment sale that delivered sub-par pricing for this vintage. Total volume for this category was $38.8 million in 2011, which was up from $13.5 million in 2010, but again was driven by the $16.7 million Pinehurst sale. For this category, there were four properties sold in 2011 for a total of 1,064 units, as compared to three sales of 352 units in 2010.

Due to the sale of the ownership entity on the 360-unit Countryside Village Apartments in Moore that is not shown on County Records, the purchase price was derived by using an 80% loan-to-value of the $14,280,000 loan amount that is recorded of public record.

Rounding out the top three sales for the Post-1980's category is the sale of the 126-unit Residence Inn in Norman at $3,850,000. The property was originally built in 1983 as a multifamily property and then later was repositioned to service the hospitality industry as a Residence Inn by Marriott. The new owner has already rebranded the property back to a conventional apartment community.

There were three sales in the Post-1990's category during 2011. The first sale involved the 216-unit Quail Landing Apartments at 14200 N. May at $73,100 per unit. Quail Landing was built in 2000 and located within the one-mile radius of Quail Springs Mall. The second sale was the 228-unit Renaissance Apartments in Norman. Renaissance was built in 1998 and sold for $57,432 per unit. The buyer of Renaissance first acquired the Note on the property from its Special Servicer and then completed the foreclosure process to secure title. The third sale was Villas at Countryside in Moore, a 360-unit property that was built in 2002 and sold for $74,305 per unit. This deal was notable because it marked the buyer's first entry into the market and because it was purchased from Tulsa based Case and Associates, Oklahoma's largest multifamily owner. While the buyer viewed Villas at Countryside as offering solid real estate fundamentals, they also viewed the asset as needing better amenities to create some value-add and to outperform its previous operations.

Total Sales Volume

18%
Compared to 2010

Total Units Sold

15%
Compared to 2010

Average Price Per Unit

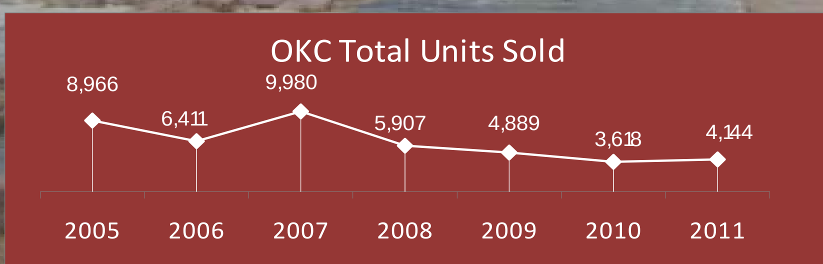
3%
Compared to 2010

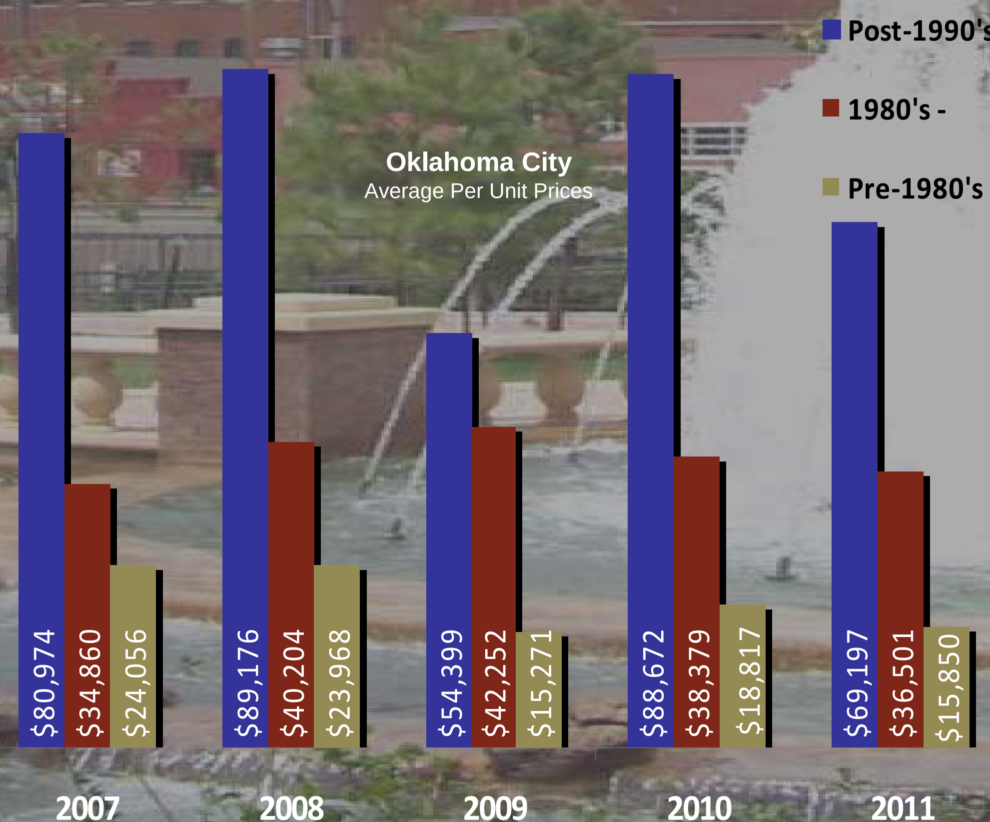
No. of Transactions

11%
Compared to 2010

2011 Sales - Outlying Markets

Property	City	Price	Price Unit	# Units	Age
Magnolia Manor	Duncan	$1,260,000	$22,909	55	1968
Pine Terrace	Lawton	$1,470.000	$20,417	72	1970
LaVilla / The Elms	El Reno	$1,850,000	$21,264	87	1970
Savannah House	Choctaw	$1,850,000	$30,833	60	2005





Tulsa

Tulsa sales were close to 2010 levels with the exception that overall values increased by about 27 percent. There were 17 sales on properties that exceed 25 units in size, for a total of 2,876 units. This was up 40% from 2,059 units sold in 2010. Total sales volume was also up at $95.8 million in 2011, as compared to $53.8 million for 2010. The overall average price per unit on apartment communities with 25 units or more ended 2011 at $33,318, up 27% from $26,162 per unit in 2010.

Pre-1980's properties delivered 12 sales for a total of 1,651 units. This is on par with 2010 that recorded the same 11 transactions on 1,638 units sold. The biggest difference is the average price per unit that ended 2011 at $27,970, up 43% from $19,526 in 2010. The average price per unit for this category is where the biggest historical difference can be seen between Tulsa and Oklahoma City.

The average for Post-1980's properties ended 2011 at $38,433 per unit, as compared to $51,982 in 2010. The average per unit price was down 26%, but that was due to the sale of Lakewood Apartments in 2010 that sold at an unprecedented $72,697 per unit. Without the sale of Lakewood, the average for this category in 2010 was $40,277. Total volume for this category was $28.5 million in 2011, which was up from $21.8 million in 2010. For this category, there were three properties sold in 2011 for a total of 744 units, as compared to four sales of 421 units in 2010.

There were two sales in the Post-1990's category during 2011. Both properties were originally developed as tax credit properties in 1996 and 1997. The average for Post-1990's properties ended 2011 at $43,763 per unit. There were no sales in this category in 2010 to draw a statistical comparison and only one sale in 2009. Total volume for this category was $21 million in 2011 for a total of 481 units. While sales have been minimal in this category, I don't think the 2011 transactions accurately demonstrate the conventional side of the market for newer vintage communities.

Sale Highlights Oklahoma City

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Grandville	727 N. MacArthur	$637,800	240	1972	$2,657
Forest Oaks	5700 NW 23rd Street	$6,600,000	258	1970	$25,581
Overlake	7920 NW 21st Street	$1,500,000	338	1975	$4,437
Quail Landing	14200 N. May	$15,790,000	216	2000	$73,101
Westgate	5944 NW 40th Street	$576,000	48	1970	$12,000
Residence	2681 Jefferson – Norman	$3,800,000	126	1983	$30,158
Whitby Court	7525 Knight Lake Dr	$1,350,000	184	1972	$7,337
Pinehurst	12301 N. MacArthur	$16,700,000	544	1983	$30,698
Riverchase	11239 Pennsylvania	$8,948,000	252	1971	$35,507

Total Sales Volume

78%
Compared to 2010

Total Units Sold

40%
Compared to 2010

Average Price Per Unit

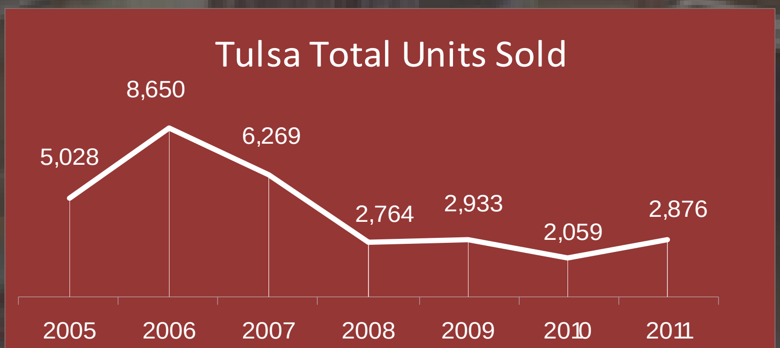
27%
Compared to 2010

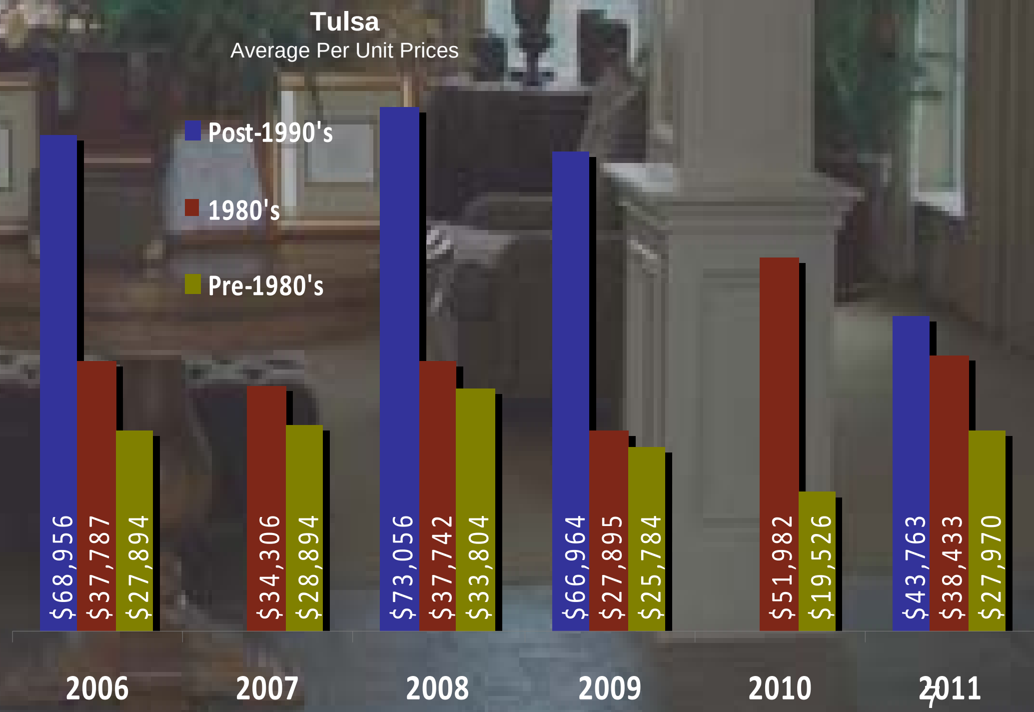
No. of Transactions

13%
Compared to 2010

Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Southern Elms	4519 East 31st Street	$1,720,000	78	1968	$22,051
Meadowbrook	444 S. Mingo	$2,367,500	117	1968	$20,235
Delaware Gardens	5104 S. Delaware	$730,000	30	1975	$24,333
Bandon Trails	2505 E. 88th St	$16,785,000	341	1974	$49,222
Evergreen Park	8314 E. 25th Place	$6,000,000	257	1970	$23,346
The Lakes	8028 S. Wheeling	$14,750,000	352	1985	$41,903
Timberline	7902 S. Sheridan	$4,700,000	168	1980	$27,976
Turtle Creek	2218 E. 59th Street	$3,625,000	101	1965	$35,891





Outlook

Occupancies and rental growth ended the year nicely in both markets. Oklahoma City multifamily vacancies fell to around 7 percent at year end and Tulsa fell to around 7.3 percent. Both markets were down from around 9 percent at this same time last year and represented some of the lowest vacancy rates in the past 10 years. Rental rate growth was approximately 2.3 percent and 2 percent respectively for Oklahoma City and Tulsa.

The multifamily market is benefitting from changing demographics and consumer attitudes toward renting. The outlook for 2012 is for rental rates to continue upward to the 2 percent range while occupancies remain strong in the 92 to 93% range.

I expect values to improve and investor interest to remain strong for both quality and distressed multifamily product in 2012. Apartments have represented some of the best buying opportunities and I expect that to continue in 2012, with the added benefit of rising rents and lower vacancies.

Political uncertainty and its implications for commercial real estate may provide more drama in 2012 than any other market dynamic. There is the issue of carried interest and the way it is taxed. And sections of the Dodd-Frank Act that have yet to be written and if those details become too restrictive. This could affect the vast amounts of commercial real estate debt that will need to be refinanced in the coming years. And if that's not enough, there's the ever-present question of what happens with Fannie Mae and Freddie Mac that have yet to be reformed. Whatever happens with these agencies will have implications for the multifamily sector. The political climate is going to play a greater role in 2012 than in past years and will affect commercial real estate, the multifamily industry and individual investors. We can only hope the 2012 election cycle provides clarity.

Oklahoma City	**Post 1990's**	**1980's**	**Pre-1980's**
Number of Transactions	3	4	18
Total Number of Units	804	1,064	2,276
Total Number of Sales OKC	1	2	16
Total Number of Sales Moore	1	1	0
Total Number of Sales Norman	1	1	2
Total Number of Sales Del City	0	0	0
Total Number of Sales Yukon	0	0	0
Price High per unit Price Low per unit	$74,305 $57,432	$49,583 $14,323	$35,507 $2,657

Tulsa	**Post 1990's**	**1980's**	**Pre-1980's**
Number of Transactions	2	3	12
Total Number of Units	481	744	1,651
Total Number of Sales Tulsa	1	3	11
Total Number of Sales Broken Arrow	1	0	0
Total Number of Sales Owasso	0	0	1
Price High per unit Price Low per unit	$45,573 $40,625	$41,903 $27,976	$35,891 $12,000