



San Antonio Apartment Market Update

Edited by Kathryn Koepke

\$399/year

4th Quarter 2007

The 2007 Review

Following a solid three quarter start to 2007 highlighted by a spectacular second quarter, San Antonio's fourth quarter 2007 apartment market demand came back to earth, as -629 units were absorbed over the quarter. This absorption hiccup still left San Antonio absorption 73.7% higher than in 2006. Leading the way in terms of quarterly absorption were the Class A and B markets, a good sign as new Class A market-rate and Class B tax credit complexes continue to be built. The Class C market ended the year with positive demand (166 units) due to strong absorption in first and second quarters. However, Class D ended up in the red (-76 units) as a weak second quarter (-118 units) proved to be too much to overcome.

2007 ended the year with strong overall occupancy of 90.85%, 0.72% higher than the year end 2006. The Class B market led the way with 91.95% occupancy while Class A posted a strong 91.33%. With over 12,000 units either proposed or currently under construction, 2008 will have to enjoy continuous steady demand in order to maintain current occupancy levels. Of the units either under construction or proposed, 10,133 are Class A projects with an additional 1,821 being Class B. New projects under construction are scattered all over the city, yet the Far Northwest (1,783 units), North Central 1 (1,600 units), and Downtown (1,445 units) submarkets are leading the way.

While construction continues at a steady pace, the market is certainly not becoming overbuilt. Tighter lending standards have increased the pool of renters for Class A and B market complexes. Market fundamentals such as unemployment and job creation are strong and still paint San Antonio as an advantageous market for both developers and residents. Therefore, 2008 looks to be another strong year for the multi-family industry in San Antonio.

Overall occupancy in San Antonio will remain stable with Class A and B falling to around 91% over the course of the year. Class C and D demand could potentially witness a slight increase in occupancy as the fall-out of the foreclosure markets from single family residential search for alternative housing.

By: *Stuart Showers*

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.33%	91.95%	89.22%	90.78%	90.85%	▼	▲
Rent/Unit	\$936	\$648	\$599	\$521	\$686	▲	▲
Rent/SF	\$1.019	\$0.845	\$0.771	\$0.701	\$0.849	▲	▲
Absorption	-308	-93	-210	-18	-629	▼	▲

In This Issue

Occupancy & Rent Trends..... 2
Current and Historical Trends

Absorption & Inventory..... 3
Absorption, Current Market Inventory

Economic Fundamentals 4
Job Growth, Key Interest Rates

San Antonio Market Map 5
Submarket Boundaries

Methodology..... 6
Research and Reporting Definitions

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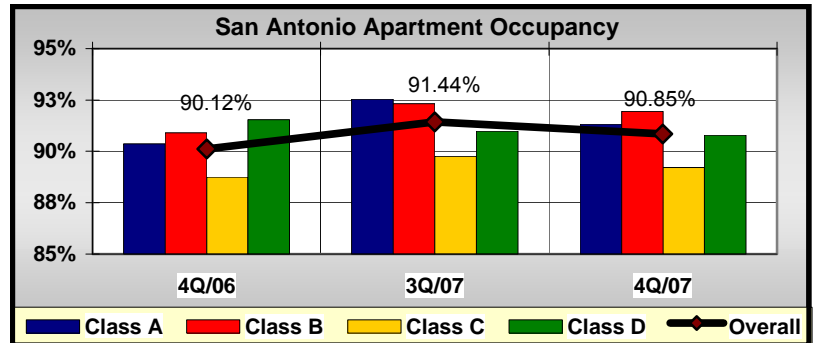
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Metro Occupancy Overview

Occupancy declined in the fourth quarter after an increase in the third quarter, losing 0.59 points to 90.85% from the third quarter of 2007. Occupancy is up 0.73 points above levels one year ago. The **Class A** market experienced the biggest decrease in occupancy, down 1.22 points over the quarter; currently at 91.33%, occupancy is up 0.97 points since this time last year. Occupancy in the **Class B** market lost 0.37 points to 91.95%. Class B occupancy has increased 1.04 points over the past year. **Class C** occupancy lost 0.54 points

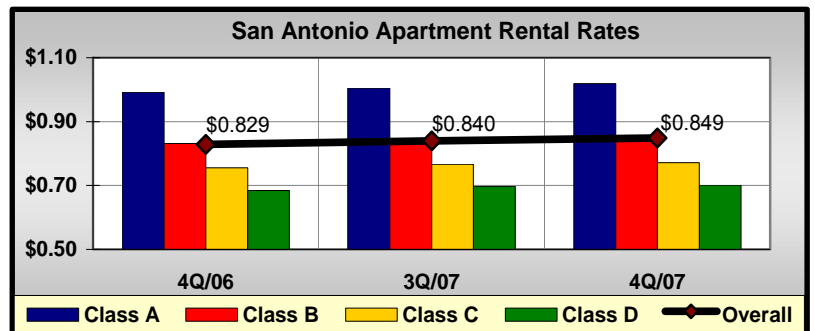
over the quarter to 89.22%. Year-over-year occupancy in Class C is currently up 0.47 points. After a slight increase in the third quarter of 2007, **Class D** occupancy lost 0.21 points over the quarter to 90.78%; occupancy is down still, 0.77 points since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/06	90.36%	90.91%	88.75%	91.55%	90.12%
3Q/07	92.55%	92.32%	89.76%	90.99%	91.44%
4Q/07	91.33%	91.95%	89.22%	90.78%	90.85%

Metro Rent Overview

Rental rates posted yet another quarterly gain in 2007, increasing \$0.009 to \$0.849 per square foot (psf). Rents have increased \$0.020 psf over the past year. Class A rental rates gained \$0.014 psf over the fourth quarter to \$1.019 psf; rents are \$0.027 psf higher than one year ago; Class B rents also increased, rising \$0.006 psf over the quarter to \$0.845 psf. Rents in the Class B market have risen \$0.013 psf in the last year. The Class C market posted a quarterly increase of \$0.005 psf. Currently at \$0.771 psf, Class C rents have increased \$0.017 psf over the past 12 months. Class D rents increased \$0.004 psf over the fourth quarter to \$0.701 psf. Rental rates in the Class D market have gained \$0.020 psf since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
4Q/06	\$0.992	\$0.832	\$0.755	\$0.684	\$0.829
3Q/07	\$1.005	\$0.839	\$0.766	\$0.697	\$0.840
4Q/07	\$1.019	\$0.845	\$0.771	\$0.701	\$0.849

Submarket Performance

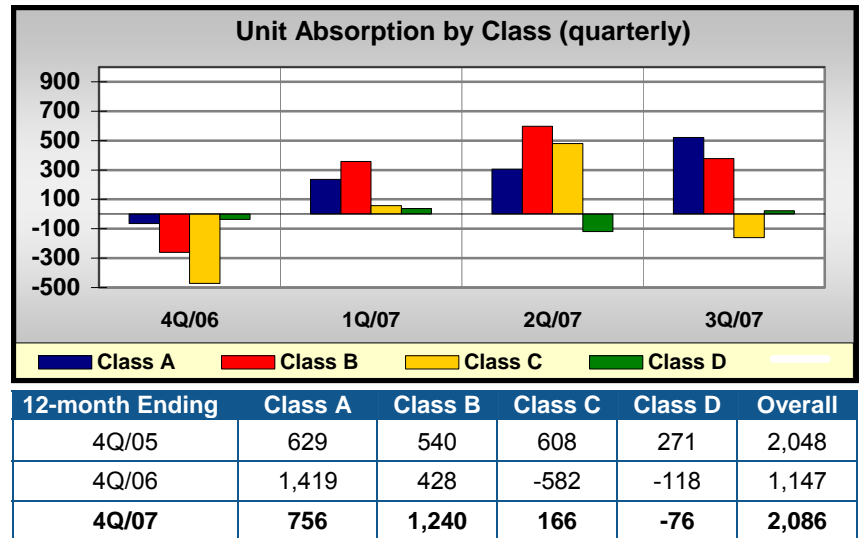
Of all the submarkets in the Greater San Antonio market, **Boerne** reported the highest occupancy at 97.22%, while the lowest average occupancy was recorded in the **Southeast** submarket at 84.75%. The highest average rental rates were reported in the **North Central 2** submarket at \$1.029 psf, while the **East** submarket recorded the lowest at \$0.683 psf.

Of submarkets with more than one project, highest Class A occupancy was found in the **Downtown** submarket at 100.00%, while the **Randolph AFB** submarket recorded the lowest at 87.55%. The highest Class B occupancy was found in the **Kerrville** submarket at 97.46%, while the **New Braunfels** submarket reported the lowest at 72.09%. **Boerne** reported the highest Class C occupancy at 98.0%, while the **Southeast** submarket had the lowest at 80.01%. Class D occupancy was highest in the **North Central** submarket at 95.82%, while the **Lackland/Kelly AFB** submarket reported the lowest Class D occupancy at 81.52%.

The highest average Class A rents were found in the **Alamo Heights** submarket at \$1.165 psf, while the **Lackland/Kelly AFB** submarket again had the lowest at \$0.898 psf. Class B rents were highest in the **Alamo Heights** submarket at \$1.010 psf, and lowest in the **Kerrville** submarket at \$0.541 psf. The **Downtown** submarket had the highest Class C rents at \$0.907 psf, while the **Kerrville** submarket recorded the lowest at \$0.690 psf. The highest Class D rents were found in the **Randolph AFB** submarket at \$0.795 psf, while the **Northwest** submarket reported the lowest Class D rents at \$0.642 psf.

Metro Absorption Overview

Demand started to decline into the fourth quarter of 2007. The market absorbed -629 units over the quarter, driven by negative absorption in all classes. Absorption since this time last year stands at 2,086 units. The **Class A** market absorbed -308 units over the fourth quarter; Class A absorption over the past 12 months stands at 756 units. **Class B** quarterly absorption was -93 units. The Class B market has absorbed 1,240 units over the past year. The **Class C** quarterly absorption was -210 units. Annual absorption is positive at 166 units. The **Class D** market is in the red again at -18 units, bringing 12-month absorption to -76 units.



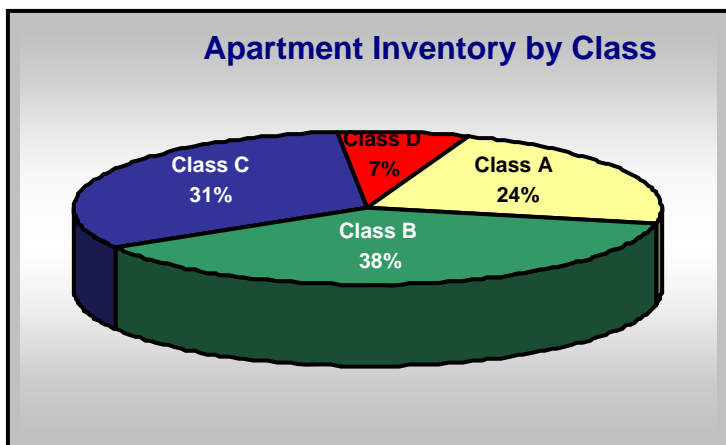
Submarket Performance

The **Northwest** submarket posted the strongest absorption figures during the fourth quarter, absorbing 143 units, followed by the **New Braunfels** submarket, which absorbed 68 units. The weakest demand was found in the **Medical Center** submarket, which posted absorption of -339 units.

Class A absorption was highest in the **Randolph AFB** submarket at 28 units, while the weakest figures were posted by the **North Central 1** submarket at -210 units. The **Northwest** submarket recorded the strongest Class B absorption at 137 units, while demand was weakest in the **Northwest 1** submarket at -98 units. The **Northeast 2** submarket posted the strongest absorption figures in Class C, absorbing 37 units, while absorption was weakest in the **Medical Center** submarket at -182 units. The **Northwest** submarket posted the strongest absorption figures in Class D, absorbing 18 units, while absorption was weakest in the **North Central 1** submarket at -23 units.

Apartment Inventory

There are a total of 681 operating or under-construction projects (greater than 25 units) in the San Antonio metro market with a total of 133,971 units. Approximately 25% of the total units are Class A, 37% are Class B, 31% are Class C, and 7% are Class D. The chart and table below display Greater San Antonio apartment market inventory by class.



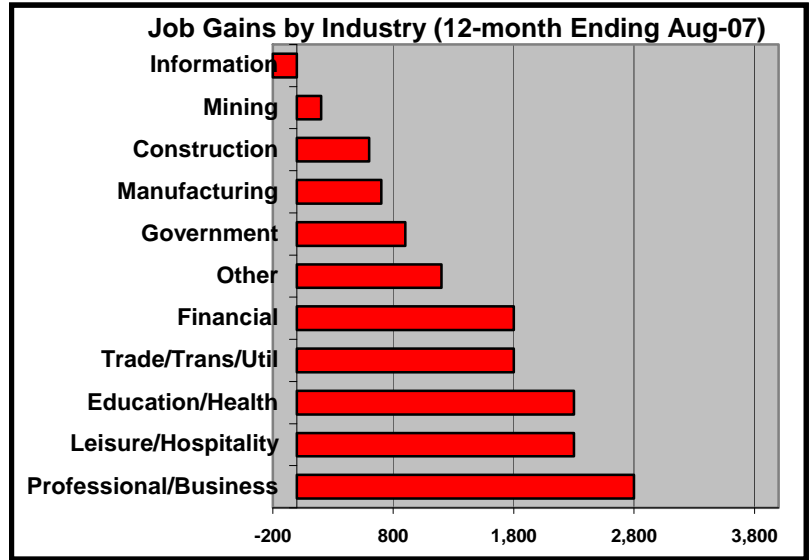
* Class B also includes Affordable Housing developments
 ** There are additional Unclassified (Class U) projects

Operating	Projects	Units
Class A	124	31,702
Class B	222	49,223
Class C	252	41,063
Class D	72	9,325
TOTAL**	670	131,313

Under Cons.	Projects	Units
Class A	7	1,792
Class B *	4	941
Class C	11	2,733
TOTAL**	7	1,792

Job Growth

The civilian labor force unemployment rate in the eight-county San Antonio MSA increased to 3.9%, while the total number of nonagricultural wage and salary jobs increased to 837,300 in November 2007, according to the **Texas Workforce Commission**. This month's total is 15,500 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business Services gained 4,100 jobs; Leisure & Hospitality is up 3,900 jobs over the previous 12 months; Trade, Transportation & Utilities gained 2,300 jobs; Education & Health Services gained 2,100 jobs; Financial Activities added 1,100 jobs; Government is up 1,000 jobs; Other Services and Mining added 700 and 300 jobs, respectively; Information added 100 jobs over the year; Manufacturing remained the same; The only industry to lose jobs over the year was the Construction sector, with -100 jobs.

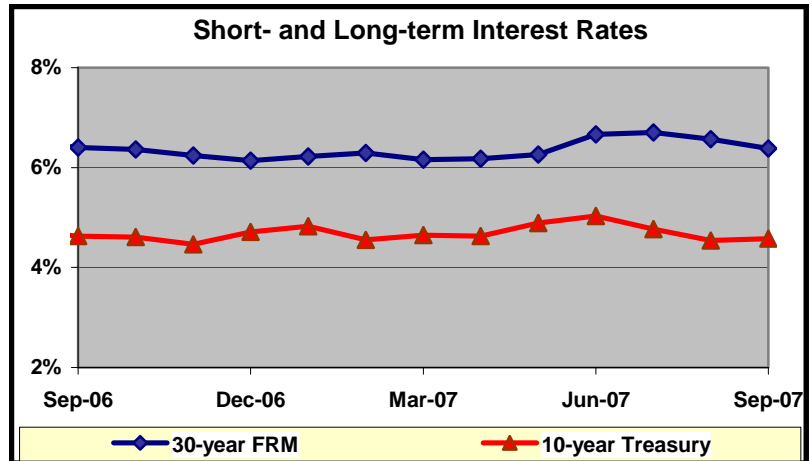


Interest Rates

The yield on the **10-year Treasury** note fell to 4.03% in December 2007, up 0.68 points from its 4.71% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.10% in December 2007. One year ago, the 30-year FRM was at 6.14%. The average for the **15-year FRM** in December was 5.75%, down 0.13 points from a year ago.

The **Prime Rate** in December was reported in the Wall Street Journal at 7.25%, the same level from a year ago.



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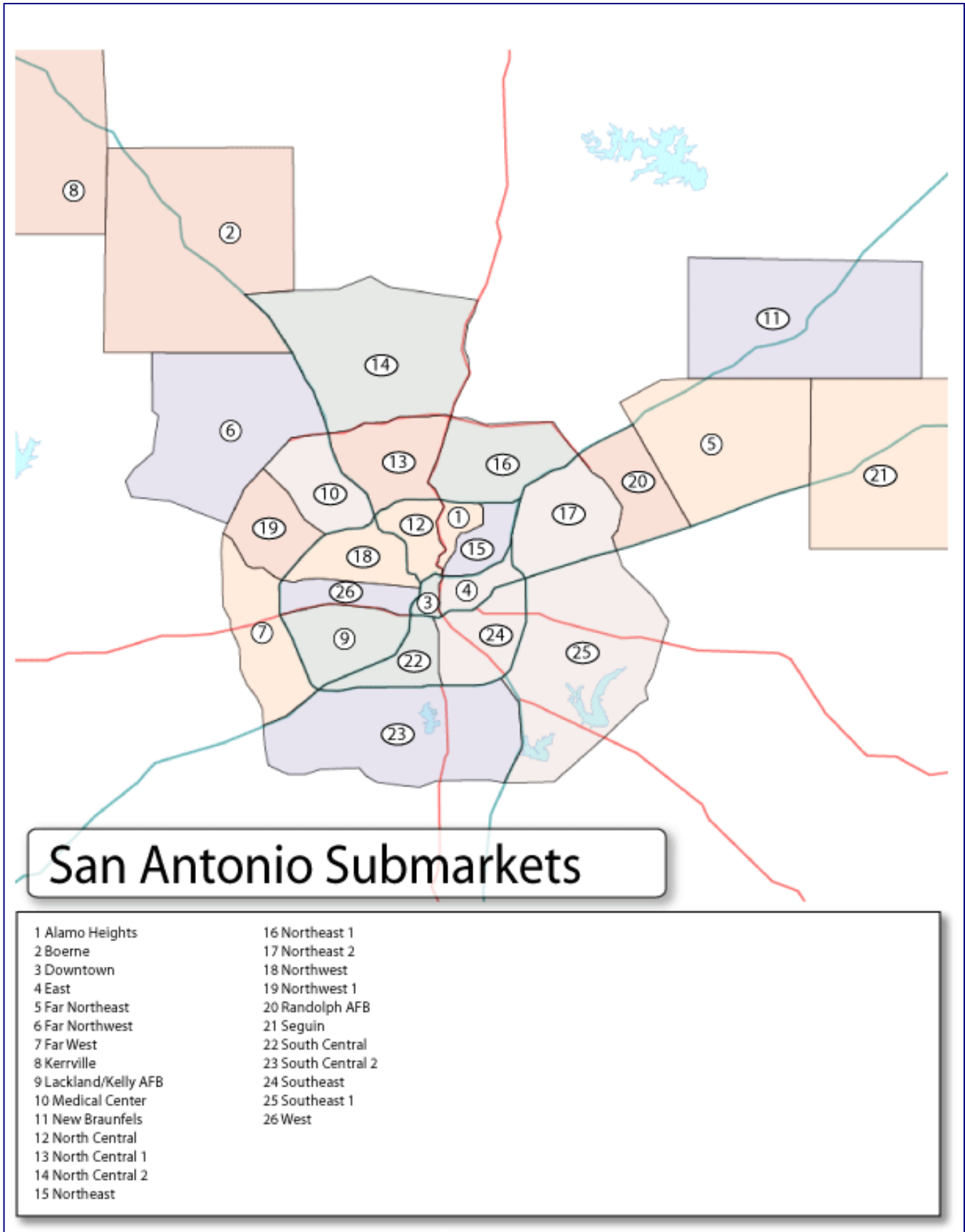
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For more information, contact Kathryn Koepke, 800-856-7325 x 239 or via e-mail kkoepke@poconnor.com.



Data Collection

Our in-house research team continuously updates over 100 fields of data for nearly 6,000 apartment complexes in our database. We update at least 90% of properties on a monthly basis to generate accurate market trend reports on rents, concessions, occupancy, etc. Our monthly surveys also update other property-specific data such as fees, policies, management, and owner information. On a less-frequent basis we update amenities, schools, and other data fields that change rarely. We perform current and historical data audit after we close each month's survey to identify any data inconsistencies or incorrectly keyed values.

Research

We monitor various news media, press releases, marketing materials, web-sites, CAD records, permit issuance, and other sources to capture new construction, planned projects, financing and sales. Our researchers conduct phone interviews with relevant developers, brokers, or lenders to gather information on new construction and sales. We add properties to our database on a regular basis to ensure we offer the most up-to-date and complete apartment database.

Market Coverage

Our online apartment database covers all four major Texas metro markets – Austin, Dallas-Fort Worth, Houston, and San Antonio. The **Austin** market includes Caldwell, Hays, Travis, Bastrop, and Williamson counties. The **DFW** market covers Dallas, Tarrant, Wise, Denton, Collin, Hunt, Rockwall, Kaufman, Ellis, Johnson, Parker, and Erath counties. The **Houston** market includes Harris, Montgomery, Fort Bend, Brazoria, and Galveston counties (Brazoria county is also included in the database but excluded from the trend reports). **San Antonio** includes Bexar, Comal, Guadalupe, Kendall, and Kerr counties.

We subdivide each market into submarkets (see map on previous page): Austin – 23 submarkets, DFW – 50 submarkets, Houston – 53 submarkets, San Antonio – 26 submarkets. The submarkets are based on neighborhood-style areas with defining boundaries such as major roads and other factors that establish a neighborhood. This approach allows the user to view distinct areas of properties that have evolved into their own sections of town and can be identified together.

Glossary

Absorption = Change of Occupied Units, including new construction. Absorption is a proxy for demand.

Occupancy = Percentage of physically occupied units on property

Pre-leased = Net of percentage of units that have been pre-leased but not yet occupied and units on notice to be vacated.

Rents = Market rents (excluding any concessions)

Class = Properties are classified as A, B, C, D or Unclassified (U) based on various factors, such as age, location, amenities, curb appeal, overall condition, rents, etc. Class A properties are generally less than 10 years old, have excellent amenities, prime location, and great appeal, thus they tend to have highest rents. Older properties built in early 1900s that were converted from warehouses or office buildings, or older apartment projects that have had major renovations may also be classified as A. Class B properties are generally 10 to 20 years old, have prime location, good level of amenities, somewhat less appealing than Class A projects, in overall good condition. New affordable projects are also classified as B. Class C projects are usually 20 to 30 years old, have few amenities, poor location, and are not well maintained. Class D projects are generally more than 30 years old, in poor condition, have no or limited amenities, poor location and curb appealing. They tend to have lowest rents per unit (although per-square-foot rents may be high since the units are usually very small). Unclassified or Class U projects are senior housing, student housing, or other properties that have unusual lease terms, include meals with the rent, or other services, so their rents and occupancies are not good representative of the actual market. We exclude these from our statistical reports as they skew the averages for other classes.

Reporting

Occupancy, Rent, and Absorption trend data is based on Operating, Under-construction, and Under-renovation projects, Classes A, B, C, and D (excluding Class U).