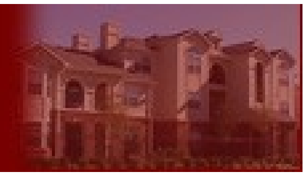
San Antonio Apartment Market Update



Edited by Kathryn Koepke **$399/year** **1st Quarter 2007**

The 2007 Forecast

Following a solid, yet unspectacular year in 2006, San Antonio's first quarter 2007 apartment market numbers indicate that 2007 is off to a good start, as 688 units were absorbed over the quarter. 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. Furthermore, after three straight quarters of negative absorption, the Class C market turned demand around in the first quarter, absorbing 57 units. Demand in Class D also came into the black, as first quarter absorption was 37 units.

Positive demand over the first quarter helped fuel a small increase in overall occupancy, which currently stands at 90.32%. If occupancy increases are to continue, however, demand will probably have to pick up to make up for the upcoming supply of new units. Just 521 units were delivered to market in the first quarter, but there are 17 projects currently under construction, which will encompass 3,773 units. New projects under construction are scattered all over the area, but the South Central (730 units), North Central 2 (551 units), and New Braunfels (460 units) submarkets are leading the way. Construction should remain steady into 2008, as 1,233 units are currently proposed, and more are sure to follow as San Antonio starts to register on the radars of more developers and investors.

While construction continues at a steady pace, the market is certainly not becoming overbuilt. Low home prices in the San Antonio area continue to restrict apartment demand. Of the 17 projects under construction, just 5 are Class A projects. Therefore, as Class A demand looks to remain strong, occupancy is unlikely to drop, and a slight increase is more likely to be in the cards; look for Class A occupancy to near 92% by the end of 2007. Relatively high construction levels in Class B could push occupancy down a bit further, as demand has been somewhat sluggish, and new tax credit complexes will sap potential renters from existing projects. However, the effects should be relatively minimal, as concessions will likely increase and pull Class C renters into Class B units. We predict Class B occupancy will fall to around 90% over the next three quarters. Class C demand is likely to fall as occupants of Class C units move up to Class B units; occupancy in Class C may decline to between 87.50% and 88%. Class D will likely see fluctuations, but should remain fairly steady between 91.50% and 92%.

By: Chris Law

San Antonio Apartment Market at a Glance

	Class A	Class B	Class C	Class D	Overall	Qtr	Yr
Occupancy	91.24%	90.68%	88.90%	92.00%	90.32%	▲	▼
Rent/Unit	$912	$638	$589	$509	$670	▲	▲
Rent/SF	$0.995	$0.834	$0.757	$0.686	$0.832	▲	▲
Absorption	236	358	57	37	688	▲	▲

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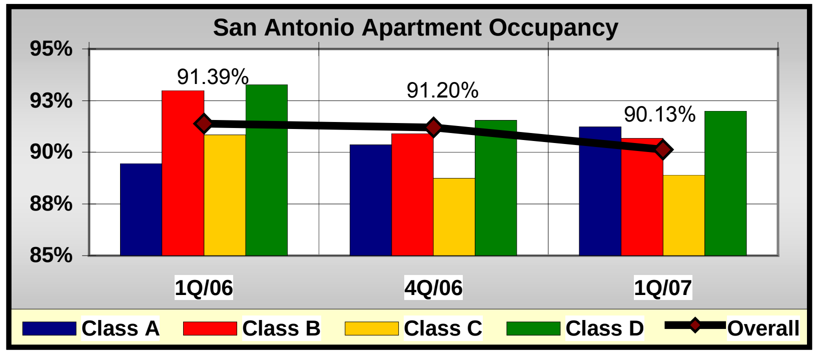
Metro Occupancy Overview

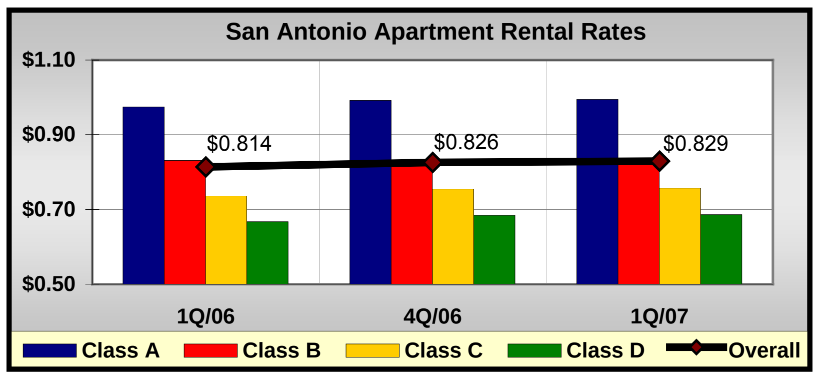
Occupancy rebounded in the first quarter after a substantial decline in the fourth quarter of 2006, gaining 0.20 points to 90.32%. However, occupancy remains 1.20 points below levels one year ago. The **Class A** market led the way, as occupancy increased 0.88 points over the quarter; currently at 91.24%, occupancy is up 1.77 points since this time last year. Occupancy in **Class B** was the only class to post a decline, as occupancy decreased 0.23 points to 90.68%. Class B occupancy has fallen 2.31 points over the past year. After three straight quarterly decreases, **Class C** occupancy gained 0.15 points over the quarter to 88.90%. Year-over-year occupancy in Class C is currently down 1.95 points. **Class D** occupancy gained 0.45 points over the first quarter to 92.00%; however, occupancy is down 1.27 points since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
1Q/06	89.47%	92.99%	90.85%	93.27%	91.52%
4Q/06	90.36%	90.91%	88.75%	91.55%	90.12%
1Q/07	**91.24%**	**90.68%**	**88.90%**	**92.00%**	**90.32%**

Metro Rent Overview

Rental rates posted yet another quarterly gain, increasing $0.003 to $0.832 per square foot (psf). Rents have increased $0.016 psf over the past year. **Class A** rental rates gained $0.003 psf over the first quarter to $0.995 psf; rents are $0.021 psf higher than one year ago, the highest year-over-year increase of any class. **Class B** rents continued to climb, increasing $0.002 psf over the quarter to $0.834 psf. Rents in Class B have risen $0.003 psf in the last year. The **Class C** market posted a quarterly increase of $0.002 psf. Currently at $0.757 psf, Class C rents have increased $0.020 psf over the past 12 months. **Class D** rents also increased $0.002 psf over the first quarter to $0.686 psf. Rental rates in Class D have gained $0.019 psf since this time last year.



Quarter	Class A	Class B	Class C	Class D	Overall
1Q/06	$0.974	$0.831	$0.737	$0.667	$0.816
4Q/06	$0.992	$0.832	$0.755	$0.684	$0.829
1Q/07	**$0.995**	**$0.834**	**$0.757**	**$0.686**	**$0.832**

Submarket Performance

Of all the submarkets in the Greater San Antonio market, **Kerrville** reported the highest occupancy at 97.83%, while the lowest average occupancy was recorded in the **Southeast** submarket at 78.21%. The highest average rental rates were reported by the **North Central 2** and **Downtown** submarkets at $1.023 psf and $0.962 psf, respectively, while the **Kerrville** submarket recorded the lowest at $0.671 psf.

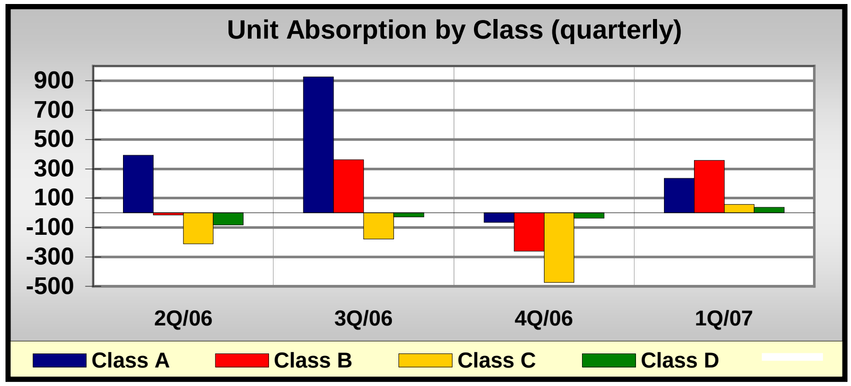
Of submarkets with more than one project, highest Class A occupancy was found in the **Downtown** submarket at 99.00%, while the **Lackland/Kelly AFB** submarket recorded the lowest at 82.00%. The highest Class B occupancy was found in **Kerrville** at 98.46%, while the Southeast submarket reported the lowest at 69.73%. **Kerrville** reported the highest Class C occupancy as well, at 98.05%, while the **West** submarket had the lowest at 78.56%. Class D occupancy was highest in the **Randolph AFB** submarket at 95.46%, while the **Lackland/Kelly AFB** submarket reported the lowest Class D occupancy at 83.86%.

The highest average Class A rents were found in the **Downtown** submarket at $1.152 psf, while the **Lackland/Kelly AFB** submarket again had the lowest at $0.793 psf. Class B rents were highest in the **Alamo Heights** submarket at $0.997 psf, and lowest in the **Kerrville** submarket at $0.532 psf. The **Downtown** submarket had the highest Class C rents at $0.903 psf, while the **Kerrville** submarket recorded the lowest at $0.672 psf. The highest Class D rents were found in the **Randolph AFB** submarket at $0.821 psf, while the **Northeast 1** submarket reported the lowest Class D rents at $0.584 psf.

Absorption Trends & Inventory

Metro Absorption Overview

Demand rebounded in the first quarter after a weak fourth quarter. The market absorbed 688 units in the first quarter, fueled by positive absorption in all classes. Absorption since this time last year stands at 1,025 units. The **Class A** market bounced back from a weak fourth quarter, absorbing 236 units; Class A absorption over the past 12 months stands at 1,491 units. **Class B** demand was the strongest of any class over the quarter, as quarterly absorption was 358 units. The Class B market has absorbed 446 units over the past year. For the first time since the 1st quarter of 2006, the **Class C** market posted positive quarterly absorption, at 57 units. However, annual absorption remains negative at -804 units. The **Class D** market reversed a similar pattern, absorbing 37 units over the quarter to bring 12-month absorption to -108 units.



12-month Ending	Class A	Class B	Class C	Class D	Overall
1Q/05	932	365	-456	138	979
1Q/06	739	913	1,002	273	2,927
1Q/07	**1,491**	**446**	**-804**	**-108**	**1,025**

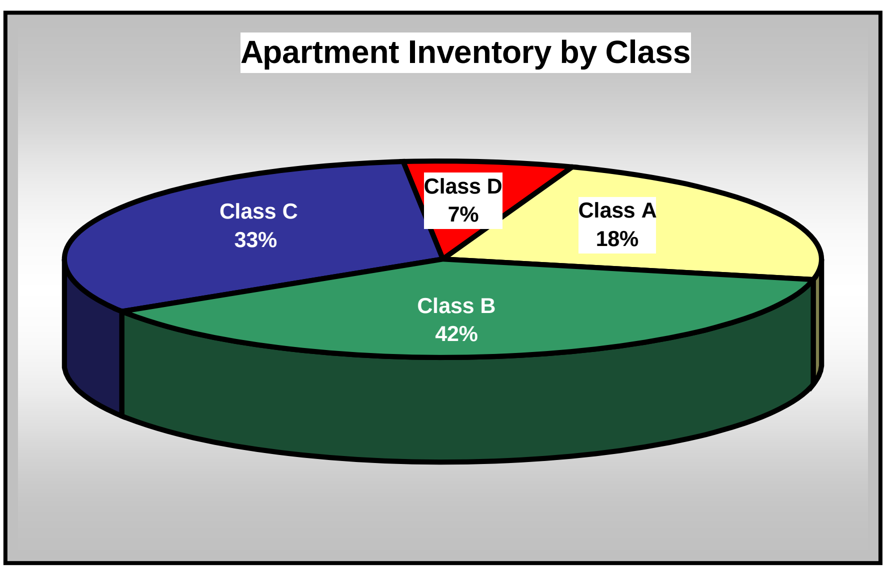
Submarket Performance

The **North Central 1** submarket posted the strongest absorption figures over the first quarter, absorbing 235 units, followed by the **Medical Center** submarket, which absorbed 168 units. The weakest demand was found in the **Northwest** submarket, which posted absorption of -106 units.

Class A absorption was highest in the **North Central 1** submarket at 166 units, while the weakest figures were posted by the **Northwest 1** submarket at -36 units. The **South Central** submarket recorded the strongest Class B absorption at 159 units, while demand was weakest in the **Northwest** submarket at -59 units. The **Medical Center** submarket posted the strongest absorption figures in Class C, absorbing 91 units, while absorption was weakest in the **Northeast 1** submarket at -51 units. Class D absorption ranged from 45 units in the **North Central** submarket to -22 units in the **West** submarket.

Apartment Inventory

There are a total of 658 operating or under-construction projects (greater than 25 units) in the San Antonio metro market with a total of 128,145 units. Approximately 18% of the total units is Class A, 42% is Class B, 33% is Class C, and 7% is Class D. The chart and table below display Greater San Antonio apartment market inventory by class.



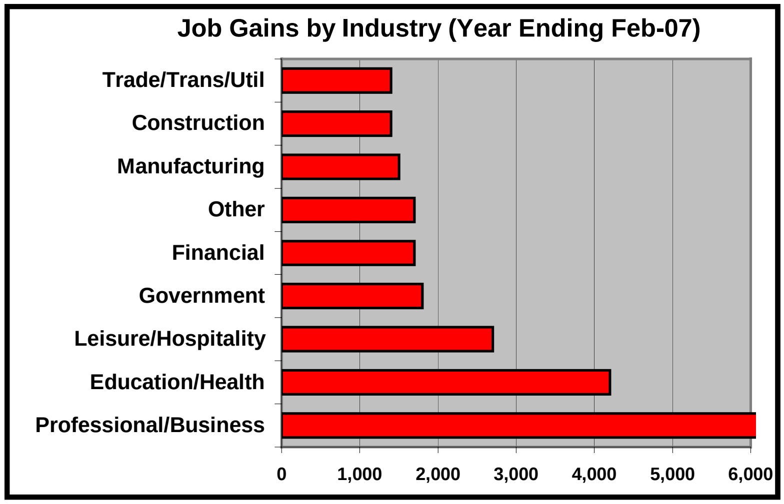
Operating	Projects	Units
Class A	110	27,974
Class B	207	46,253
Class C	254	41,143
Class D	72	9,326
TOTAL**	**641**	**124,372**

Under Cons.	Projects	Units
Class A	5	1,185
Class B *	10	2,264
TOTAL**	**17**	**3,773**

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

Job Growth

The civilian labor force unemployment rate in the eight-county San Antonio MSA remained flat at 4.4%, while the total number of nonagricultural wage and salary jobs increased to 817,500 in February 2007, according to the **Texas Workforce Commission**. This month's total is 22,500 jobs more than at this time last year. Of the nonagricultural employers, Professional & Business Services gained 6,100 jobs over the previous 12 months; Education & Health Services gained 4,200 jobs; Leisure & Hospitality is up 2,700 jobs; Government is up 1,800 jobs; Financial Activities and Other Services added 1,700 jobs apiece; Manufacturing added 1,500 jobs; and Construction and Trade, Transportation & Utilities added 1,400 jobs apiece. The only industry to lose jobs over the year was the Information sector, with -300 jobs. The largest monthly gains were in the Leisure & Hospitality and Government sectors.

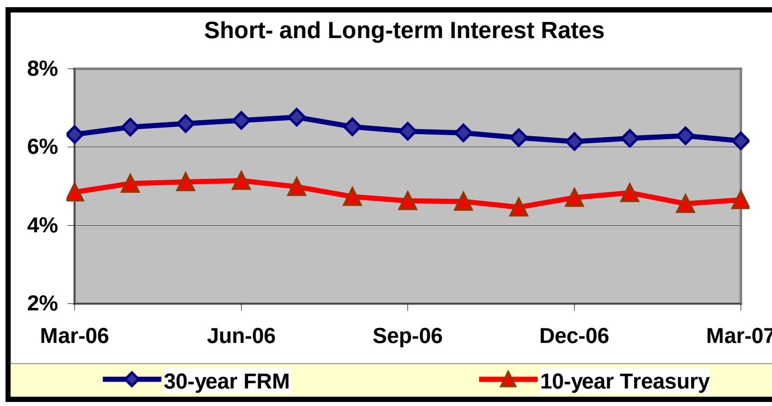


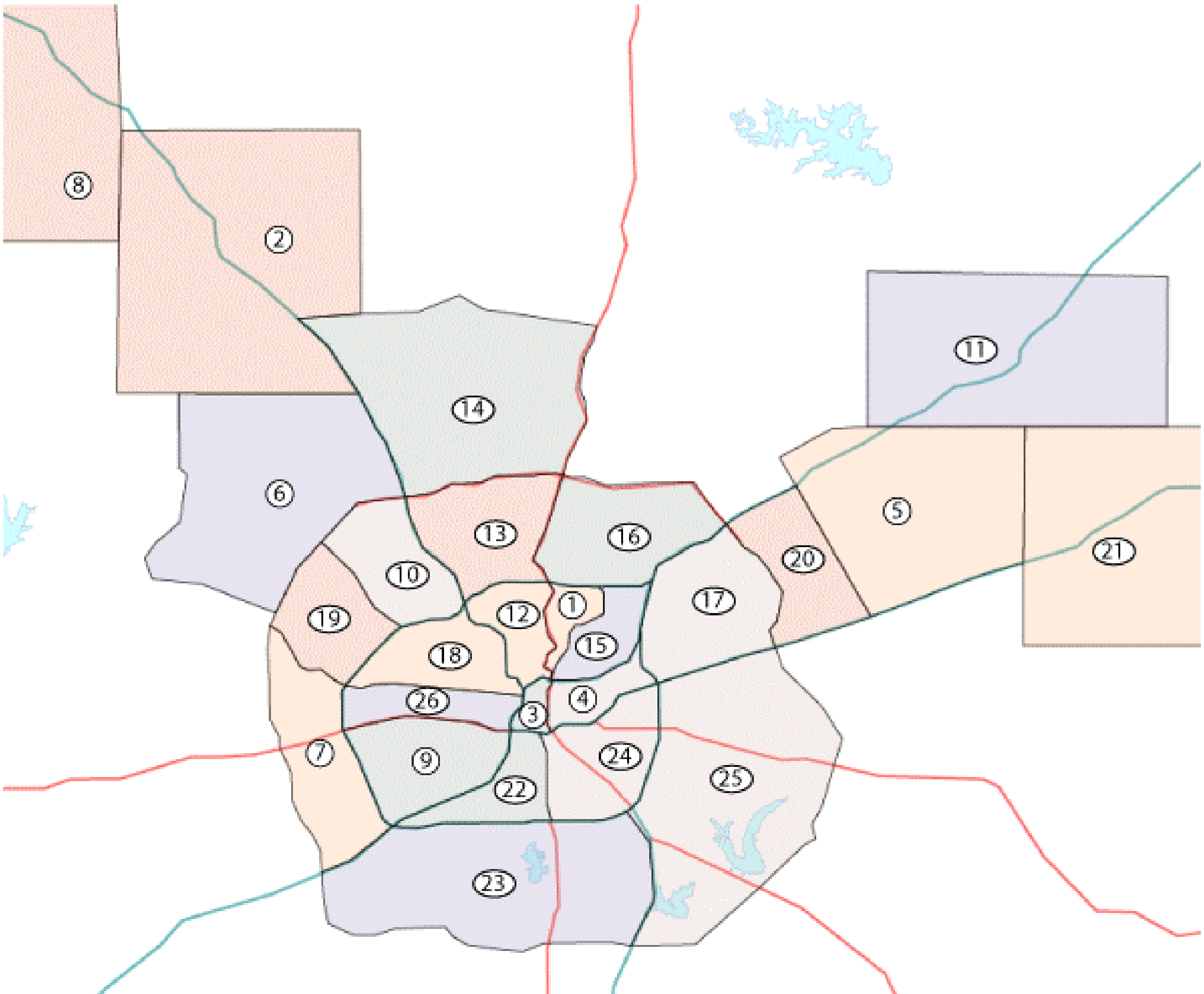
Interest Rates

The yield on the **10-year Treasury** note rose to 4.67% in April 2007, down 0.40 points from its 5.07% yield one year ago.

The **30-year fixed-rate mortgage (FRM)** averaged 6.16% in March 2007. One year ago, the 30-year FRM was at 6.32%. The average for the **15-year FRM** in March was 5.88%, down 0.09 points from a year ago.

The **Prime Rate** in April was reported in the Wall Street Journal at 8.25%, up 0.50 points from a year ago.





San Antonio Submarkets

1 Alamo Heights
2 Boerne
3 Downtown
4 East
5 Far Northeast
6 Far Northwest
7 Far West
8 Kerrville
9 Lackland/Kelly AFB
10 Medical Center
11 New Braunfels
12 North Central
13 North Central 1
14 North Central 2
15 Northeast
16 Northeast 1
17 Northeast 2
18 Northwest
19 Northwest 1
20 Randolph AFB
21 Seguin
22 South Central
23 South Central 2
24 Southeast
25 Southeast 1
26 West

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 Bed, Brazoria, and Galveston counties (Brazos 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 rods 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).

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