Tulsa may edge OKC in apartment sales derby: Both cities enjoy strong year

by Kirby Lee Davis
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TULSA – As the real estate market reaches the midyear point, Tulsa and Oklahoma City streak forward neck-to-neck in the apartment sales derby.

That alone represents a major surprise, as the Sooner State's capital market usually starts and stays out front. But this year could very well bring an upset, according to analysts at Commercial Realty Resources Co., the brokerage house that specializes in the multifamily market.

"We foresee Tulsa exceeding Oklahoma City as we close out the year," said Mike Buhl, the CRRC partner who brokers deals for the Oklahoma City area.

- Tulsa has seen 23 complexes of 50 units or larger sold, at a total value of $144 million, or $35,022 per unit.

"That's already $2 million more than the entire year last year," said CRRC's Aaron Hargrove.

The average price represents a $7,000-plus jump from this point a year ago, which he called "unprecedented" for the market.

"Sales for Tulsa's multifamily industry are achieving records on nearly every level," said Hargrove, the CRRC partner who manages the northeast Oklahoma marketplace.

- Oklahoma City has recorded 25 sales, at a total value of $89.9 million, or $27,802 a unit. While that's more than $3,000 a unit higher than last year's average, the total value trails last year's level of $115.5 million.

At this stage last year, Oklahoma City-area courthouses had recorded 25 multifamily transactions, compared to Tulsa's 14. That followed trends seen earlier this decade, when Tulsa's market suffered through thousands of job losses.

"But the Tulsa marketplace took a huge turn in the last 12 months," said Hargrove, with job growth overcoming continued high-profile relocations. At the same time, Oklahoma City endured the shutdown of General Motors' Oklahoma City assembly plant and its suppliers.

Hargrove expects the Tulsa area to close 2006 at a record level.

"If we sell half off what we have listed," he said, "we'll probably double what we did in '05."

Buhl noted Oklahoma City and Tulsa have attracted national attention with several large dollar-volume transactions. He also offered a note of caution toward the larger market, saying some out-of-state property owners were beginning to realize their investment returns would not match expectations built from coastal markets during strong economic times.

As examples, he noted a $6 million April transaction on a 215-unit apartment complex that represented a $650,000 drop from its acquisition price three years earlier. He also told of a 10th Street acquisition at $20,400 a unit, refinanced less than a month later at more than $24,000 a unit.

While he admitted these were "isolated incidents," he added that "there's a lot of that going on" as out-of-state investors discover Oklahoma properties do not appreciate as fast as expected.

"I think what's happening is that they did not achieve the rental rates they thought they would get," he said.

But Buhl remains bullish on Oklahoma City, which enjoyed near-record sales activity last year. Boosting both multifamily markets is the Federal Reserve's continued focus on inflation. Rising interest rates could benefit the industry by both slowing single-family home sales and spurring increased occupancy at apartment complexes. This boosts their profitability while allowing them to lower or eliminate concessions and incentive programs.

All of that increases their value to investors – and fuels the sales market.

Buhl noted this factor should affect Oklahoma City more than Tulsa, since the larger market also has more lower-priced entry-level homes available.

Neither Buhl nor Hargrove foresee a danger of foreclosures in either market. Hargrove knew of only two properties struggling in Tulsa; Buhl could identify three in Oklahoma City.

Countering that, Hargrove could point to three properties in development in Tulsa, adding 770 units.

“More deals being developed than being foreclosed on – that would be a first in six-straight years,” he said.

While he anticipates private buyers will remain the dominant force, Hargrove projected Tulsa would see its first tenant-in-common buyers over the next 12 months.

“These buyers will likely keep driving values to record numbers in each category and continue to push records in number of transactions, units sold and total volume,” he said.

Three key points for OKC

- Of the 25 complexes sold, 23 were pre-1980s properties involving 2,734 units, for an average price of $23,126 – up from $19,450 a year ago.
- Occupancy rates should remain in the 88-percent to 91-percent range, leading to “noticeable improvement” in 2007.
- Norman has added more than 3,400 student housing beds this year. Several new real estate investment trusts have entered that market.

Three key points for Tulsa

- Of the 23 properties sold, 14 represented pre-‘80s properties, totaling 2,137 units at an average price of $25,818 – up from $25,304. Six complexes built in the ’80s sold, their 1,336 units going at a $40,764 average price.
- The 4,115 units sold so far this year compare to 2,313 at midyear 2005 and 1,148 at midyear 2004.
- After adding 9,000 jobs last year, Tulsa is on pace to record 8,000 this year, allowing the area to pass its 2001 record of 421,200 total jobs.

– Source: CRRC