
Arkansas Oklahoma Kansas

# 2013 Apartment Report
# Oklahoma City & Tulsa

CRRC

COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES

*Providing professional apartment brokerage and marketing services for over 28 years*


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# 2013 - Multifamily Apartment Report

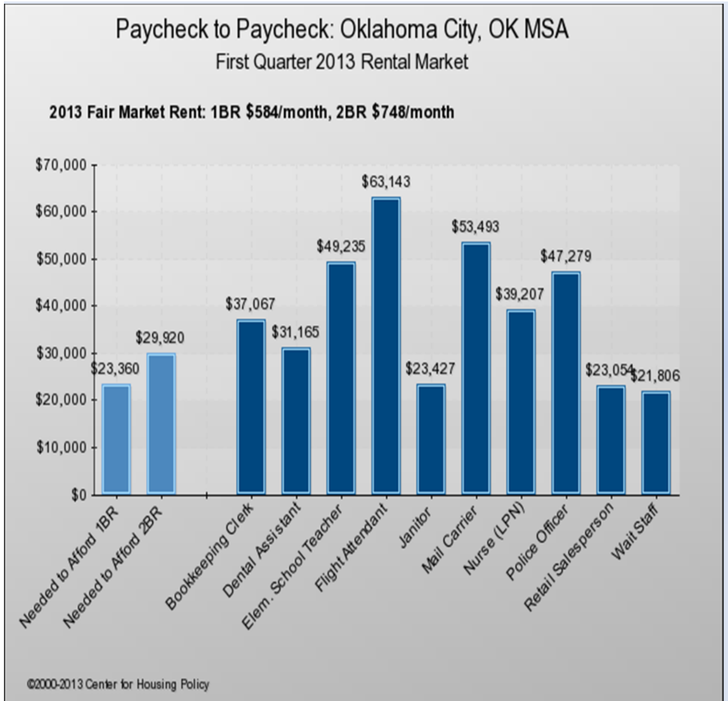
Following the trend of 2012, multifamily in Oklahoma rose to astronomical levels in 2013. With strong demand and new supply, the rising tide of the apartment sector raised virtually all ships. This has unequivocally pushed class “A” product to record high pricing, made class ”B” a preferred asset choice and created more demand for class “C” communities. Without question, the apartment market has been on an exceptional run the past few years. But as construction activity increases, could the landscape be changing? I think the short answer is yes. The main risk to the industry’s good fortune stems from an increase in construction activity. This has been occurring over the past few years, but I think has gone somewhat unnoticed because of the overall strength of the market and strong demand for apartments in general. But the tide may turn, sooner rather than later, causing vacancy to increase. This would certainly represent a pronounced change from the past few years when vacancy was compressing at record levels. If in fact that becomes the case, I don’t expect it to deter demand for apartments because there is a silver lining. Any increase would still leave vacancy tight; at below 7 percent industry wide. Vacancy is now at decade lows in Tulsa and Oklahoma City, so even if it increases slowly, it will remain favorable to investment and development. Thus, the increase in construction activity, while notable, may only slow, but not stop the momentum the industry has enjoyed.

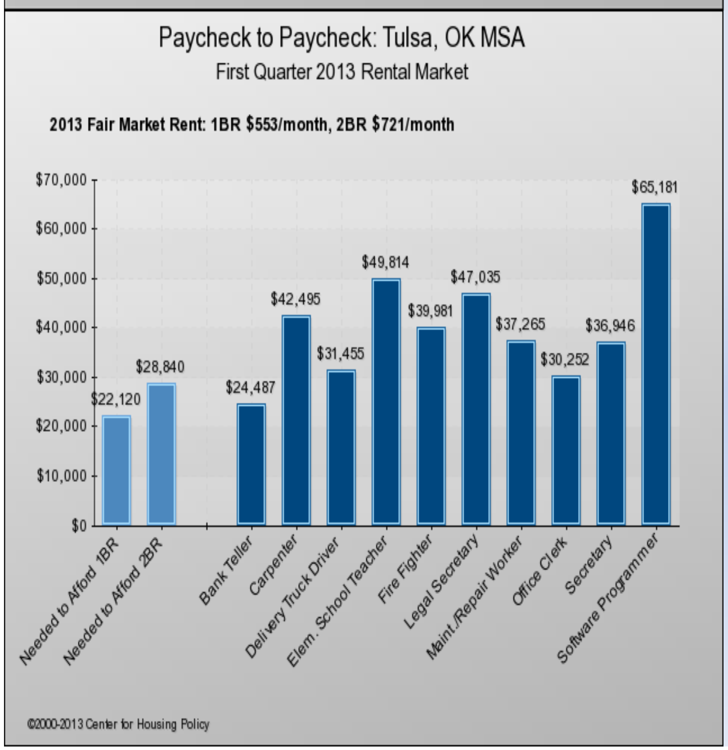
Another silver lining is that new construction pushes rent growth higher. That’s because the rents at new apartment communities tend to be higher than the rest of the rental market, helping to raise the tide for all ships. But that doesn’t mean landlords can charge whatever they want for apartments either. Competition among new developments will create a ceiling. The only exception to this may be housing in the downtown markets; for the time being at least.

Moore/south Oklahoma City is also a hot spot. Even before the May tornado the market had seen numerous planned developments and construction starts. The elimination of about 1,100 homes that were destroyed by the tornado created even more demand in this submarket by pushing occupancy to near full levels. As of the end of November, The City of Moore reported that only 335 permits were issued for new homes in the storm damaged areas, which has created more demand for permanent type housing in many of the apartment communities.

Are there adjustments in store then for buyers and sellers in 2014? The 10-year Treasury yield surged from 1.7 percent in early May to 2.7 percent in July after the Federal Reserve Bank announced it would slow its pace of bond acquisitions. Since then, yields have hovered between 2.5 and 3.0 percent. That increase alone should result in a slight change in multifamily pricing, but for the most part it hasn’t. Deals are being underwritten with larger down payments and other adjustments to lessen the impact. But the bottom line is that any uptick in interest rates has an immediate negative impact on cash-on-cash returns. Likewise, insurance costs have been on the rise because of the May tornados. Underwriting standards have now changed to include $375 to $400 per unit per year, or more, for insurance costs. Because of higher expenses, the numbers are going in reverse for those owners that can’t keep raising rents. Buyers will have to associate these risks-to-pricing with acquisitions in 2014.

I have seen some owners delay selling instead of adjusting their prices while they try and determine the market’s direction for their asset. This is not a bad approach as long as they are not “behind the curve” on deferred maintenance items that will only get worse with time. Rising interest rates, higher expenses (notably insurance costs), and not attending to deferred maintenance will eventually impact pricing. But for now, it is still a seller’s market and most sellers have been able to hold their pricing. Interest rates of 5 to 5.5 percent are still low by historical standards, so buyers may just believe for additional rent growth as a way to absorb the higher costs. But what if interest rates move up another 50 to 75 basis points? I think that may have more of an impact on pricing in 2014 than this past year.




# 2013 - Multifamily Apartment Report

A host of new data shows a surge in development activity in the multifamily sector. Here's a look at a few developments that are proposed, under construction, or in the pipeline in the Oklahoma City metro;

- 16.63 acres at SW 19th and Telephone Road in Moore – Rezoned for a 314-unit multifamily apartment development. Adjacent to the Royal Park Mobile Home community.
- Aspen Heights – 26 acres of the Sooner Mobile Park at 2601 S. Classen Blvd. in Norman – mixed–use Planned Unit Development to include 194-units with 684 beds for student housing.
- Palermo Place Addition at SW 134th and Western – 104.64 acres to include a multifamily tract.
- Portland Pointe at NW 164th and Portland – 19.97 acres for multifamily apartment development.
- 14620 Mezzaluna Avenue – multifamily apartment development on 33.68 acres near Quail Springs Mall.
- MacArthur Pointe Phase II at SW 15th and MacArthur – 12.72 acres for multifamily apartment development.
- Cross Timber Addition at 10700 S. May – 8.44 acres for multifamily apartment development.
- Traditions at Westmoore at 12209 S. Western – 16.37 acres for 615-unit multifamily apartment development.
- The Links at Oklahoma City Phase II at NE 122nd and Kelley – 10.13 acres for multifamily apartment development.
- 17.24 acres at SW 34th and I-35 in Moore – 17.24 acres for multifamily apartment development.
- 16.53 acres at 3400 W. Tecumseh in Norman - multifamily apartment development with 230-units.
- The Avenue at Norman – 314-units at 3301 12th Avenue SE in Norman
- The Millennium at Lindsey and Classen Blvd in Norman – 197-units with 705 beds for student housing.
- Liberty Pointe at 6600 SE 74th Street – 312-units under construction
- The Icon at Norman at 36th Ave NW and Indian Hills – 256-units under construction
- Falls at Brookhaven at 3730 W. Rock Creek Road in Norman – 154-units in final lease-up.

Multifamily construction is booming because vacancy is down and rents are rising, making investments in apartments particularly attractive. Despite the optimism though, there is concern of overbuilding. There is such a pent-up demand from investors to buy apartments that it's hard to tell if the demand for new units is being driven by investors or tenants. A statistic favoring tenant demand comes from the U.S. Census Bureau that places Oklahoma as the 17th fastest growing state in the nation. The estimate means the state population grew by some 34,788 people over the past year ending July 1st. This marks the second consecutive year the Oklahoma rate of growth has bested the previous year. When you look at population growth, it's driven by the economy. And all these new residents need places to live, work and shop, which has led to a ramp-up in overall development and multifamily has led the way.

But here's a statistic favoring investor demand and it relates to the surge in student housing developments in Norman. According to Institutional Research and Reporting from the University of Oklahoma, Norman on-campus enrollment for Fall- 2013 totaled 23,944, a -0.8% change from 24,144 in Fall 2012 and only slightly better than the 23,850 for Fall 2011. New freshman enrollment was -2.1% between Fall- 2012 and 2013. Yet, there are 1,928-beds that have been added or planned for the Norman market. So, there must be demand being created from something other than on-campus student enrollment, right? A recent sign along Highway 9 and 12th Avenue read "$199 Move-In, Smart, Simple, and Student Living." Even though it's just one small sign, it is an indication of concessions returning to the market. The question is whether this is a warning of new construction as a whole. Even with the growing Oklahoma population, there may be more demand for the idea of new construction than from tenants to fill the added supply.

There is no question that the Oklahoma economy has done exceptionally well and population growth is a great indicator, but should there be concern how many people can afford the influx of new inventory coming to the market. At some point, the upper end of the apartment market will reach a rent ceiling that may create more concessions and favor home ownership.

Total Non-farm Employment in the Oklahoma City MSA increased by 13,800 jobs from August 2012 to August 2013, an increase of 2.3 percent, according to the Oklahoma Employment Security Commission. The Tulsa MSA increased by 5,400 for the same period, a 1.3 percent increase. According to predictions from Oklahoma State University economist Dan Rickman, Oklahoma will add 20,000 jobs to the workforce in 2014. Many of these jobs will be in the administrative and support services sector, accommodations, food service, leisure and hospitality. Rickman also forecast new jobs in state and local government and retail in 2014.

General Electric’s $110 million Oil and Gas Technology Center has found a home east of downtown Oklahoma City near the University Research Park. Construction on the 95,000 square-foot research center will begin in the spring and is expected to open in the spring of 2015. Oklahoma City Mayor Mick Cornett said the research center is an endorsement of the city’s economic development efforts. “Getting one of America’s most successful and admired companies to further invest in Oklahoma City is a great validation to how far we’ve come,” Cornett said in an article by The Oklahoman, December 6, 2013.

The Tulsa suburb of Owasso is getting 1,500 full- and part-time jobs in April 2015 when the national retailer Macy’s Inc. will open a new $170 million distribution center. The company looked at 150 sites in four states before choosing the Tulsa area. Macy’s Inc., based in Cincinnati, operates Macy’s and Bloomingdale’s department stores.

The amount of sales in 2012 and 2013 is somewhat astounding. Consider that dollar volume in the Oklahoma City metro topped $607 million over this 24-month period on sales of over 10,600 apartment units. As compared to 2012, transaction volume in 2013 was up 4.5 percent at $310.6 million. The sale of newer vintage properties and Class “A” communities has reached unparalleled levels. Tulsa ended the year at $187.8 million, up from $131.9 million in 2012. The overall average price per unit in 2013 was $56,327 in Oklahoma City and $35,742 in Tulsa, although overall averages should only be used as a statistical measurement and not benchmarks.

## Oklahoma City

There were 34 sales on properties that exceed 25 units in size, for a total of 5,516 units. This was up 7% from 5,152 units sold in 2012. Probably no one would have predicted that the 2012 figures could be beaten at the time, but it happened. Total sales volume was $310.6 million in 2013, as compared to $297.2 million for 2012. The overall average price per unit on apartment communities with 25 units or more ended 2013 at $56,327, down only slightly from $57,701 per unit in 2012. *As I have stated in previous reports, the averages and statistics are going to have some wide disparities going forward because of the volume and higher sale prices of Post-1990’s properties; something that has not happened in past reports.*

For Pre-1980’s properties, there were 23 transactions in 2013 involving 3,152 units for an average price per unit of $19,802. Sales of distressed assets accounted for 39% of these transactions, which is on par with 37% on 2012 sales. While we did see about the same amount of lender owned properties between 2012 and 2013, those that did sell generated slightly better pricing in 2013 with the changing market. The most distressed of these sales was recorded at $5,932 per unit, followed by $7,729 per unit. The average for Pre-1980’s properties exhibited a 14 percent rebound from $17,321 per unit in 2012. This occurred because we had several sales of stabilized properties that exceeded $30,000 per unit.

In particular, the 170-unit Tudor Crossing Apartments, the 186-unit Chandelaque Apartments and the 118-unit Sooner Crossing Apartments in Norman recorded sale prices of $30,841, $42,669 and $32,610 per unit respectively.

The average for 1980’s vintage properties in 2013 was $58,458, as compared to $37,309 per unit in 2012. There were four recorded sales in 2013 for a total of 321 units. Total volume for this category was $18.7 million, as compared to $26.8 million for the 719 units sold in 2012. The category was pushed higher with the sale of Sycamore Square in downtown Oklahoma City on the last day of the year. Sycamore was a unique property in an irreplaceable location that helped it generate a price of $108,898 per unit. Although, I don’t think we can count on many more 1980’s vintage assets that will exceed $100,000 per unit that will sustain this pricing level.

Continuing the trend of 2012, the Post-1990's category had the highest volume in 2013 at $229.5 million, representing 75% of the total volume for the year. This category includes new construction projects from the late 1990’s and 2000’s that again recorded some of the highest historical prices. Total volume for this category was about on par with the $231.5 million in 2012. There were 7 transactions involving 2,043 units for an average price per unit of $112,343.

## Tulsa

There were 23 sales on properties that exceed 25 units in size, for a total of 5,256 units. This was up 54% from 3,410 units sold in 2012. Total sales volume increased to $187.8 million in 2013, as compared to $131.9 million in 2012. The overall average price per unit on apartment communities with 25 units or more ended 2013 at $35,742, as compared to $38,702 per unit in 2012.

For Pre-1980’s properties, there were 13 sales for a total of 2,688 units. This compares to 17 transactions recorded in 2012 on 2,072 units sold. The average price per unit ended 2013 at $22,297, up 46% from $15,306 in 2012. There were only four sales on 662 units in 2013 that sold below $15,000 per unit, as compared to nine properties, or 708 units that sold below this level in 2012. As a statistical comparison, the average price per unit between Tulsa and Oklahoma City for this category in 2013 was $22,297 and $19,859 respectively. Lender owned properties in Tulsa are expected to diminish even further in 2014 leaving opportunistic buyers with no measurable inventory.

The average for Post-1980’s properties ended 2013 at $32,366 per unit, as compared to $27,873 in 2012. The average increased because of two sales at the end of the year that exceeded $43,000 per unit. Total volume for this category was $49.3 million in 2013, as compared to just $8.3 million in 2012. There were six properties sold in 2013 for a total of 1,524 units, as compared to three sales of 300 units in 2012.

Post-1990’s properties recorded $67.2 million in sales volume in 2013. The average price per unit was $83,582 on 804 units sold. This compares to three sales in 2012 on 1,038 units for total volume of 91.9 million in sales. The 168-unit Springs at East Fifty First Apartments that were built in 2011 sold for $17 million, or $101,190 per unit. This was followed by the 276-unit Heights at Battle Creek for $69,384 per unit and the Vintage on Yale at $86,250 for the 360-unit property at 5202 E. 81st Street.

**Total Sales Volume**

5%
Compared to 2012

**Total Units Sold**

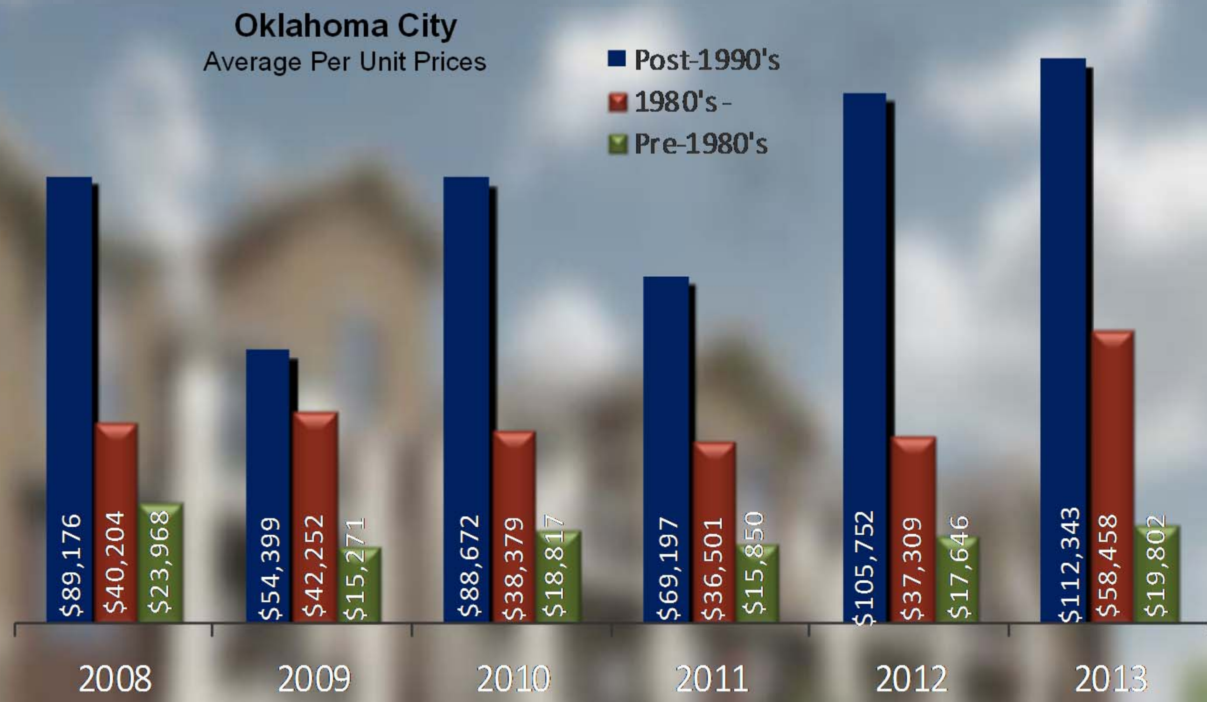
7%
Compared to 2012

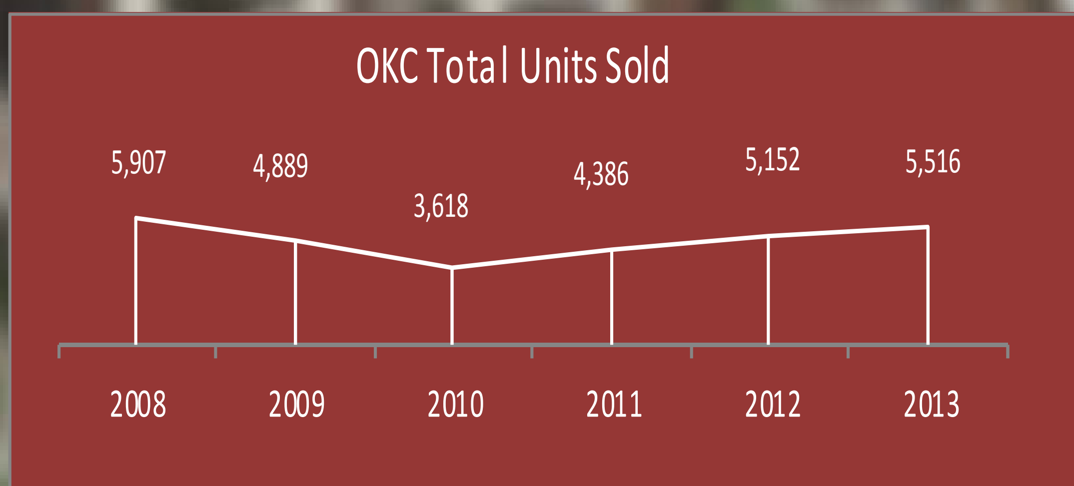
**Average Price Per Unit**

2%
Compared to 2012

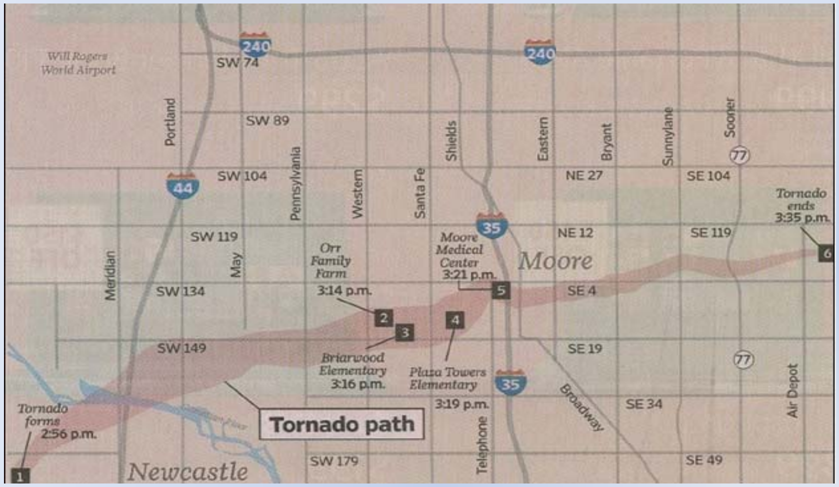
**No. of Transactions**

3%
Compared to 2012



## Moore Tornado Path




| **Oklahoma City** | **Post 1990's** | **1980's** | **Pre-1980's** |
|---|---|---|---|
| Number of Transactions | 7 | 4 | 23 |
| Total Number of Units | 2,043 | 321 | 3,152 |
| Total Number of Sales OKC | 5 | 2 | 17 |
| Total Number of Sales Edmond | 1 | 0 | 1 |
| Total Number of Sales Norman | 0 | 1 | 2 |
| Total Number of Sales Other | 1 | 1 | 3 |
| Price High per unit<br>Price Low per unit | $161,000<br>$78,804 | $108,898<br>$38,888 | $42,669<br>$5,932 |

| **Tulsa** | **Post 1990's** | **1980's** | **Pre-1980's** |
|---|---|---|---|
| Number of Transactions | 3 | 6 | 13 |
| Total Number of Units | 804 | 1,524 | 2,688 |
| Total Number of Sales Tulsa | 2 | 5 | 13 |
| Total Number of Sales Other | 1 | 0 | 0 |
| Total Number of Sales Sand Springs | 0 | 1 | 0 |
| Price High per unit<br>Price Low per unit | $101,190<br>$69,384 | $44,894<br>$23,780 | $40,982<br>$6,640 |

Total Sales Volume

**42%**
Compared to 2012

Total Units Sold

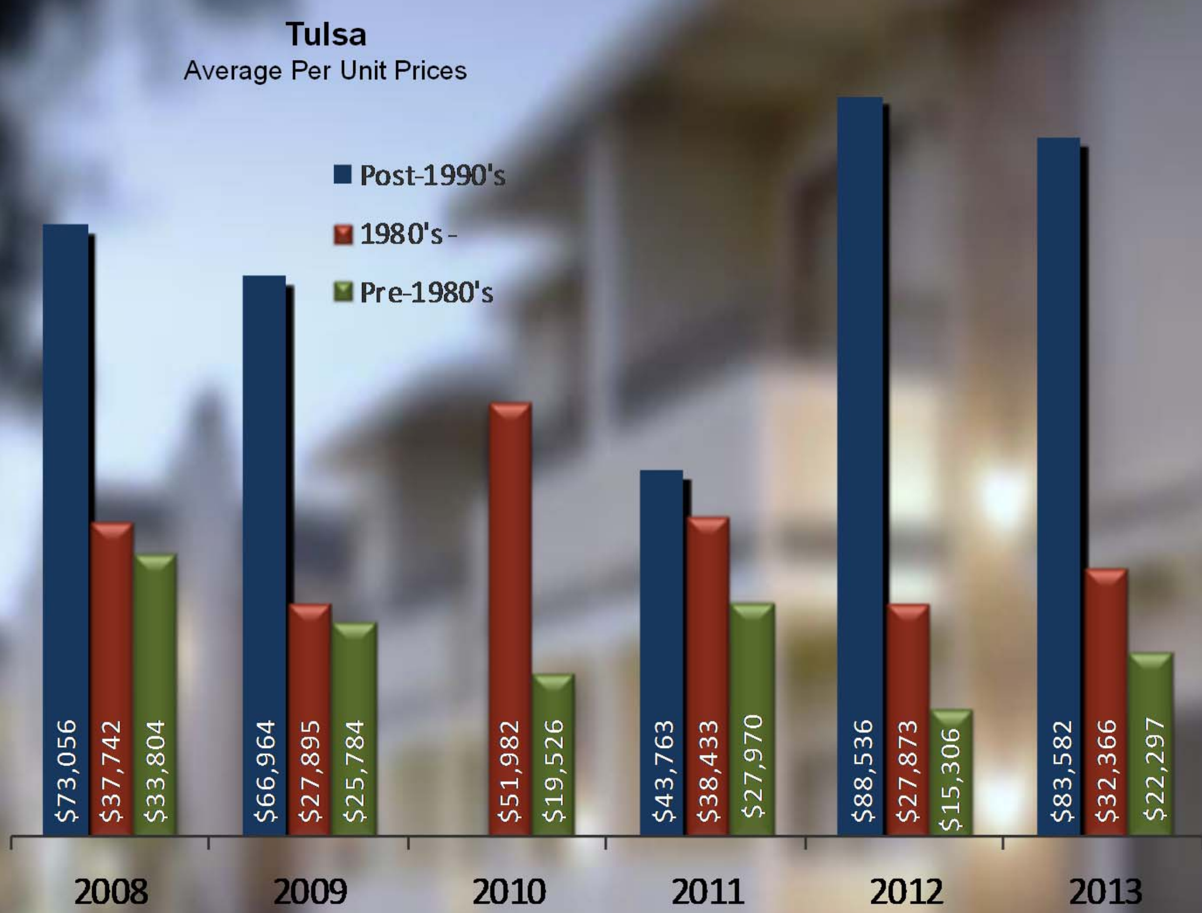
**54%**
Compared to 2012

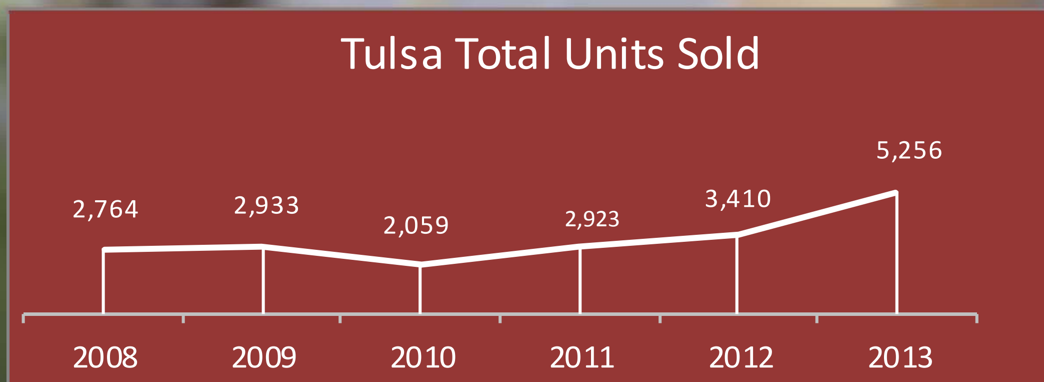
Average Price Per Unit

**8%**
Compared to 2012

No. of Transactions

**Even**
Compared to 2012



Arkansas Oklahoma Kansas

## Outlook

Our outlook for 2014 is simple mathematics. When it comes to yields, investors will expect more from the bottom line. Cap rates are expected to rise in tandem with higher expenses and higher interest rates and we think that will happen at some point in 2014.

That may be slower to develop among Class-A product where activity has been so strong, but expect more upward pressure on cap rates on smaller and lesser-positioned properties that attract more high-leverage buyers.

In the short-term, continued strong demand from investors should keep in check any significant hikes to cap rates, but we think higher expenses and debt costs will have a greater impact in 2014 and especially for those owners that can't keep raising rents. We think that buyers will begin to associate these risks-to-pricing with acquisitions in 2014.

### Sale Highlights Tulsa

| Property Name | Address | Price | Units | Year Built | Price Per Unit |
|---|---|---|---|---|---|
| Rockwood South | 1441 E. 62nd St | $780,000 | 57 | 1970 | $13,684 |
| Avondale | 6760 S. Trenton | $7,800,000 | 328 | 1980 | $23,780 |
| Southern Hills | 6609 S. Lewis | $2,350,000 | 107 | 1965 | $21,962 |
| Bristol Park | 4414 S. Garnett | $11,500,000 | 512 | 1979 | $22,460 |
| Shoreline | 9601 E. 21st Place | $12,240,000 | 464 | 1974 | $26,379 |
| Cedar Ridge | 3301 S. 113th | $1,600,000 | 64 | 1986 | $25,000 |
| The Landing | 9743 E. 12th St | $1,150,000 | 128 | 1973 | $8,984 |
| Western Pines | 2409 S. Maybelle | $5,400,000 | 200 | 1971 | $27,000 |
| Springs at 51st | 5091 S. 136th E. Ave | $17,000,000 | 168 | 2011 | $101,190 |
| Autumn Ridge | 1713 S. memorial | $4,250,000 | 182 | 1968 | $23,351 |
| Lakeside Place | 2186 S. 99th Ave E. | $4,887,500 | 208 | 1975 | $23,497 |
| Tower Crossing | 4409 S. 109th Ave E. | $5,749,500 | 216 | 1980 | $26,618 |
| Battlecreek | 1800 W. Granger | $19,150,000 | 276 | 2006 | $69,384 |
| Stonegate | 7218 S. 89th Ave | $11,400,000 | 240 | 1997 | $47,500 |
| Vintage on Yale | 5202 E. 81st St | $31,050,000 | 360 | 1999 | $86,250 |

### Sale Highlights Oklahoma City

| Property Name | Address | Price | Units | Year Built | Price Per Unit |
|---|---|---|---|---|---|
| Park Place | 215 NE 28th Street | $4,226,000 | 223 | 1967 | $18,950 |
| Park MacArthur | 4500 N. MacArthur | $2,700,000 | 137 | 1969 | $19,708 |
| Grand Hill | 401 Tinker Diagonal | $2,150,000 | 208 | 1973 | $10,336 |
| Willow Run | 1025 NW 86th | $3,500,000 | 90 | 1984 | $38,888 |
| Stoneridge | 2681 Jefferson - | $6,600,000 | 126 | 1983 | $52,380 |
| Deep Deuce | 314 NE 2nd | $38,220,000 | 294 | 2001 | $130,000 |
| Olde Londontown | 5516 NW 23rd St | $1,900,000 | 121 | 1969 | $15,702 |
| Yorkshire | 2512 N. Glenhaven | $2,800,000 | 111 | 1970 | $25,225 |
| Watermark | 2701 Watermark Blvd | $25,250,000 | 240 | 2012 | $105,208 |
| Wentwood | 1130 N. Purdue Ave | $1,750,000 | 295 | 1973 | $5,932 |
| Chandelaque | 5528 N. Portland | $7,936,496 | 186 | 1974 | $42,669 |
| Sooner Crossing | 1115 Biloxi - Norman | $3,848,000 | 118 | 1972 | $32,610 |
| Riviera | 5101 N. Hales | $1,825,000 | 80 | 1964 | $22,812 |
| Avana Downtown | 301 N. Walker | $48,783,000 | 303 | 2007 | $161,000 |
| Avana MWC | 777 N. Air Depot | $31,588,000 | 298 | 2004 | $106,000 |