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2014
Apartment Report
Oklahoma City & Tulsa

CRRC

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2014
Multifamily Apartment Report

Multifamily is increasing beyond predictions and demand is even stronger than expected. But, has the time come to for predicting how many more years the industry can squeeze out of this upturn? I'm not sure about making those predictions, but I will say I was a little more concerned at the beginning of the year than I am now. The things I'm seeing in play today would lead me to believe the upturn is going to last a bit longer. For the most part, interest rates have remained at 50-year lows and it doesn't appear they are going to trend upward in the short-term. This low interest rate environment has been a major compelling force for investors to pay higher prices and developers to keep building. While the market does show signs of being overheated, I don't think it's going to get derailed. The fact is that prices on existing properties have approached or exceeded replacement costs, something that has historically not been the case in Oklahoma. This has really been the catalyst that has helped the sector stay ahead of new construction.

When you look at the three primary ways to make money on multifamily; it's development, operationally and buying and selling assets. Development is the area that is most likely to stall momentum because of the potential for over-supply. But frankly, 50-year low interest rates will lessen the impact of longer absorption periods on new developments. Meaning, new supply may soften the market but not stall it. The new developments will lease up in my opinion, maybe just not as fast as expected. But lower debt service will make those lease-up costs more manageable in the long run.

New construction pushes rent growth higher. That's because rents at new apartment communities tend to be higher than the rest of the rental market, helping to raise the benchmark for everyone. But that doesn't mean landlords can charge whatever they want for apartments either. Competition among new developments can create a ceiling. Moore, south Oklahoma City and northwest Norman may be prime examples. Specifically, the area bounded by Western Avenue on the West, I-35 to the East, Tecumseh Road on the South and SW 119th Street to the North. This roughly 14-square mile area has six new developments with 1,563 units. Dropping another mile south to Rock Creek increases the number of new and planned developments to over 1,900 units. For the most part, the market doesn't face the threat of overbuilding, but as in the case above, there are certain submarkets with greater exposure to that risk. Absorption in this highlighted submarket has been keeping pace with supply for now, but only 418 of the new units are currently leasing. So when all 1,900+ units are on-line and competing for tenants in later 2015, it could be a different story.

Investors might start pricing the risk of overbuilding into their underwriting as well. An example of this might be seen in the sale of Traditions at Westmoore. The property had been listed for sale at $17,750,000, or $110,937 per unit for the 160-units at 12205 S. Western. Ultimately, it sold for only 84% of this number, or $14,832,000 representing $92,700 per unit. Somewhat of a turnaround from the overly aggressive pricing we have seen from investors on class "A" product.

There is also a similar story with the student housing market in Norman. The per-bedroom sector has had remarkably strong occupancy the past several years. But, this strong occupancy has now spurred the development of four new properties for an additional 2,878 beds. And in addition to this, a proposed redevelopment of the Bishops Landing Apartments at 403 E. Brooks is in the works by Inland American Communities and Elsey Partners is working to rezone a 4.19 acre tract on the north side of Page Street to a Planned Unit Development (PUD) District. Both of these new sites adjoin the BNSF Railroad and propose even more student housing developments.

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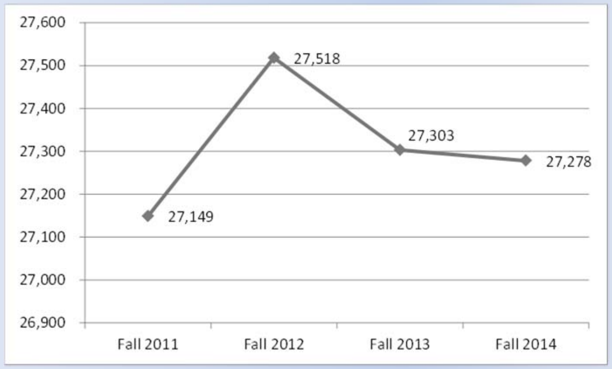
With the majority of the new student inventory not on the market yet, can absorption and occupancy be sustained without pulling tenants from existing inventory and softening the overall market? The big picture suggests yes. According to published reports, the Department of Education projects college enrollment's to climb through 2019. The demographics of the echo boomers are also projected to extend at least three to five years, and more high school graduates are going to college. Data like this is what's producing the confidence that's driving the sector beyond traditional supply and demand. Looking at data provided by Institutional Research and Reporting from the University of Oklahoma, that data shows that the unduplicated headcount for the Norman campus for Fall enrollment has been steady at around 27,300 between 2011 through 2014, but actually declined slightly between 2013 and 2014. So, while developers appear confident in the broad data for the sector, on a micro level the data doesn't support more students for the added supply; suggesting a possible softening for the sector that would reverse its remarkable run the past several years.



Total Norman Campus Unduplicated Headcount
Data Provided Institutional Research and Reporting 11/03/2014

While there are submarkets and sectors that are at greater risk to over building, I don't see the industry as a whole getting derailed though. The reason for this is on the operational side, which is the second of the three primary ways to make money on multifamily. The operational side leads to more long-term sustainability. There was a time when any blip in performance or any unforeseen hurdle could cause a property to get in trouble. But strong operating fundamentals today are overshadowing those concerns, or maybe allowing them to be pushed out into the future a bit. In any event, vacancy is at decade lows in Tulsa and Oklahoma City which is causing a lot of good things to happen. I have seen many properties' sell today that the numbers wouldn't have supported just a few short years ago. So, today's strong occupancy and rent growth is leading to heightened buying and selling of assets; the third primary way of making money on multifamily. 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.

A look at major developments for 2015 shows Oklahoma remains attractive from a business and retail standpoint. General Electric will build a $110 million Oil and Gas Technology Center east of downtown Oklahoma City near the University Research Park. Construction on the 95,000 square-foot research center is expected to open in the spring of 2015. "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," said Oklahoma City Mayor Mick Cornett.

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.

Groundbreaking will be next summer for a new outlet mall in east Tulsa, which officials said will provide 1,200 permanent and an additional 1,600 seasonal jobs to the area. The upscale mall to be built by Michigan based Horizon Group Properties is the third outlet mall announced for the Tulsa area. Horizon Group is the developer of the popular Outlet Shoppes at Oklahoma City. The planned mall in Tulsa will feature 90 stores and be built near where Interstate 44 connects with Interstate 244.

The other two malls include the Cherokee Outlets, with more than 300,000 square feet of leasable space for about 100 retailers and an upscale outlet mall planned by Simon Property Group, the owner of Woodland Hills Mall in Tulsa. The proposed Cherokee Outlets will be located west of the Hard Rock Hotel & Casino and Simon's development will be located north of the Tulsa Hills area near U.S. 75 and 61st Street.

Oklahoma City and Tulsa were also among a list of the most-affordable big cities in the United States in a ranking assembled by Kiplinger. Oklahoma City ranked ninth with a cost of living 9.7 percent lower than the national average. Kiplinger also reported that a city survey found that local residents had more positive attitudes about living and working in Oklahoma City than the average national respondent. Tulsa ranked fifth in the list with a cost of living 11.7 percent lower than the national average. Kiplinger noted that the average Tulsa apartment rents were about one-third less than the national average.

Oklahoma City had one of the lowest unemployment rates in the nation for large cities in October 2014 at 3.9 percent, according to data by the U.S. Department of Labor. Over the past 12 months ending in October, Oklahoma City added 19,600 jobs, a 3.2 percent increase. Tulsa added 7,600 jobs for a 1.76 percent increase for the same period.

The amount of sales in 2014 was again somewhat astounding, especially in Tulsa where transaction volume exceeded $400 million. Property fundamentals are improving and there is an abundance of capital that is driving some of the prolific sales we are seeing. Consider that dollar volume in the Oklahoma City metro topped $580 million over the past 24-months on sales of over 11,600 apartment units. The year-over-year comparison is $272.6 million in total sales volume in 2014 and $310.6 million in 2013. Tulsa ended 2014 at $401.3 million, up from $187.8 million in 2013. The overall average price per unit in 2014 was $44,686 in Oklahoma City and $45,538 in Tulsa. *Overall averages though should only be used as a statistical measurement and not benchmarks.*

Oklahoma City
There were 37 sales on properties that exceed 25 units in size, for a total of 6,101 units. This was up 11% from 5,516 units sold in 2013. Total sales volume was $272.6 million in 2014, as compared to $310.6 million for 2013. The overall average price per unit on apartment communities with 25 units or more ended 2014 at $44,686, down from $56,327 per unit in 2013. *The averages and statistics are going to have some wide disparities because of the volume and higher sale prices of Post-1990's properties; something that has not happened in earlier reports.*

For Pre-1980's properties, there were 22 transactions in 2014 involving 2,381 units for an average price per unit of $31,414. There were no distressed sales in 2014, which contributed to a 68% increase in the average price per unit from $19,802 in 2013. The other factor for this increase is that investors are paying a premium for good quality older assets in good locations. In particular, the 201-unit Los Pueblos Apartments, the 40-unit Cedar Creek Apartments in Yukon and the 257-unit Westwood Park Apartments in Norman recorded sale prices of $39,801, $38,750 and $62,451 per unit respectively. Scholar's West Apartments, a 33-unit property in Norman that was built in 1968 brought $54,545 per unit. Total sales volume for this category in 2014 was $74.7 million, as compared to $62.4 million in 2013.

The average for 1980's vintage properties in 2014 was $44,412, as compared to $58,458 per unit in 2013. The 2013 figure was somewhat skewed because of the sale of Sycamore Square Apartments in downtown Oklahoma City at $108,898 per unit for the 59-units built in 1985. The property really has an irreplaceable location that helped it generate such an unprecedented price. The average for 2013 excluding this sale would have equaled $47,099 per unit, which is a little better measurement against the 2014 average. There were twelve recorded sales in 2014 for a total of 3,205 units. Total volume for this category was $142.3 million, as compared to $18.7 million for the 321 units sold in 2013.

Somewhat reversing the trend of the past several years, the Post-1990's category had the lowest sales volume in 2014 at $55.4 million, representing only 20% of the total volume for the year. This is down from $229.5 million in 2013 when it represented 75% of the total sales for that year. This category includes new construction projects from the late 1990's and 2000's that have been selling at historical prices. There were only three transactions in 2014 involving 515 units for an average price per unit of $107,751.

Tulsa
There were 48 sales on properties that exceed 25 units in size, for a total of 8,813 units. This was up 68% from 5,256 units sold in 2013. Total sales volume increased to $401.3 million in 2014, as compared to $187.8 million in 2013. The overall average price per unit on apartment communities with 25 units or more ended 2014 at $45,538, as compared to $35,742 per unit in 2013.

For Pre-1980's properties, there were 33 sales for a total of 5,662 units. This compares to 13 transactions recorded in 2013 on 2,688 units sold. The average price per unit ended 2014 at $27,736, up 24% from $22,297 in 2013. There were only two sales on 249 units in 2014 that sold below $15,000 per unit, as compared to four properties that sold below this level in 2013 and nine in 2012. These low price per unit deals, which are generally considered value-add opportunities, are expected to diminish even further in 2015.

Total Sales Volume

12%
Compared to 2013

Total Units Sold

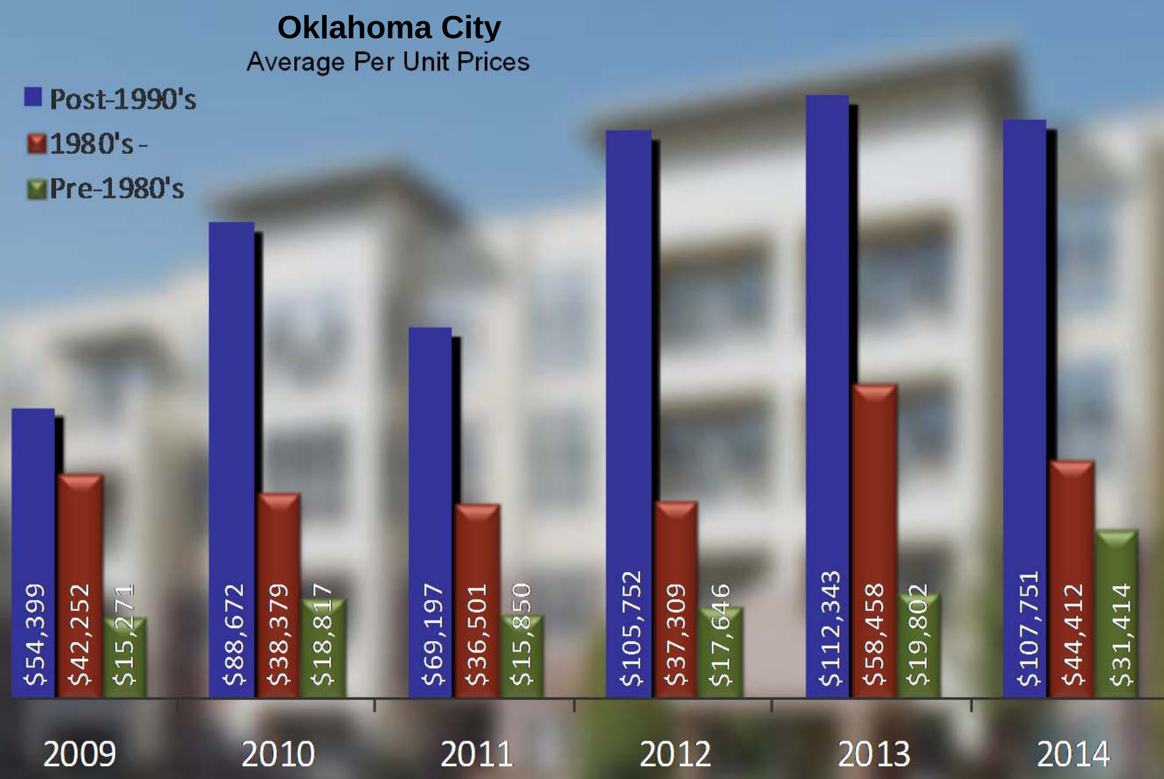
11%
Compared to 2013

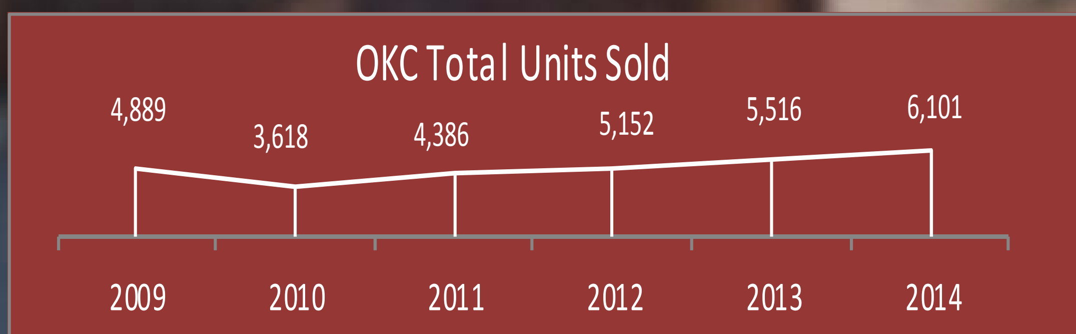
Average Price Per Unit

21%
Compared to 2013

No. of Transactions

9%
Compared to 2013





The average for Post-1980's properties ended 2014 at $39,580 per unit, as compared to $32,366 in 2013. Total volume for this category was $47.7 million, as compared to $49.3 million in 2013. There were seven properties sold in 2014 for a total of 1,206 units, as compared to six sales and 1,524 units sold in 2013. The highest sale in this category was the 256-unit Galleria Apartments at 10011 S. Sheridan that sold for $52,148 per unit, followed by the Brittany Square Apartments at 2842 E. 51st Street at $46,608 per unit.

Post-1990's properties recorded $196.5 million in sales volume in 2014. The average price per unit was $101,054 on 1,945 units sold. This compares to $83,582 per unit in 2013 on $67.2 million in sales volume. There were three sales in 2013 on 804 units. The American Residential portfolio itself involved four properties with 1,041 units and sold for $95 million. The properties were built between 1996 and 2000 and were all in the South Memorial corridor.

The Remington at Memorial Apartments also sold for an undisclosed price. The sale of the 356-unit south Tulsa apartments were not filed at the Tulsa County Courthouse. But on November 19th, Remington Memorial Apartments LLC filed notice with the Tulsa County clerk's office of a new $27.2 million mortgage covering the 8461 E. 81st St. apartment complex.

Oklahoma City	**Post 1990's**	**Post 1980's**	**Pre-1980's**
Number of Transactions	3	12	22
Total Number of Units	515	3,205	2,381
Total Number of Sales OKC	2	11	15
Total Number of Sales Edmond	0	1	2
Total Number of Sales Norman	1	0	3
Total Number of Sales Other	0	0	2
Price High per unit Price Low per unit	$114,969 $92,700	$56,818 $20,500	$62,451 $9,759

Tulsa	**Post 1990's**	**Post 1980's**	**Pre-1980's**
Number of Transactions	8	7	33
Total Number of Units	1,945	1,206	5,662
Total Number of Sales Tulsa	6	5	33
Total Number of Sales Other	1	1	0
Total Number of Sales Broken Arrow	1	1	0
Price High per unit Price Low per unit	$175,000 $72,727	$52,148 $19,261	$45,601 $7,812

Total Sales Volume

114%
Compared to 2013

Total Units Sold

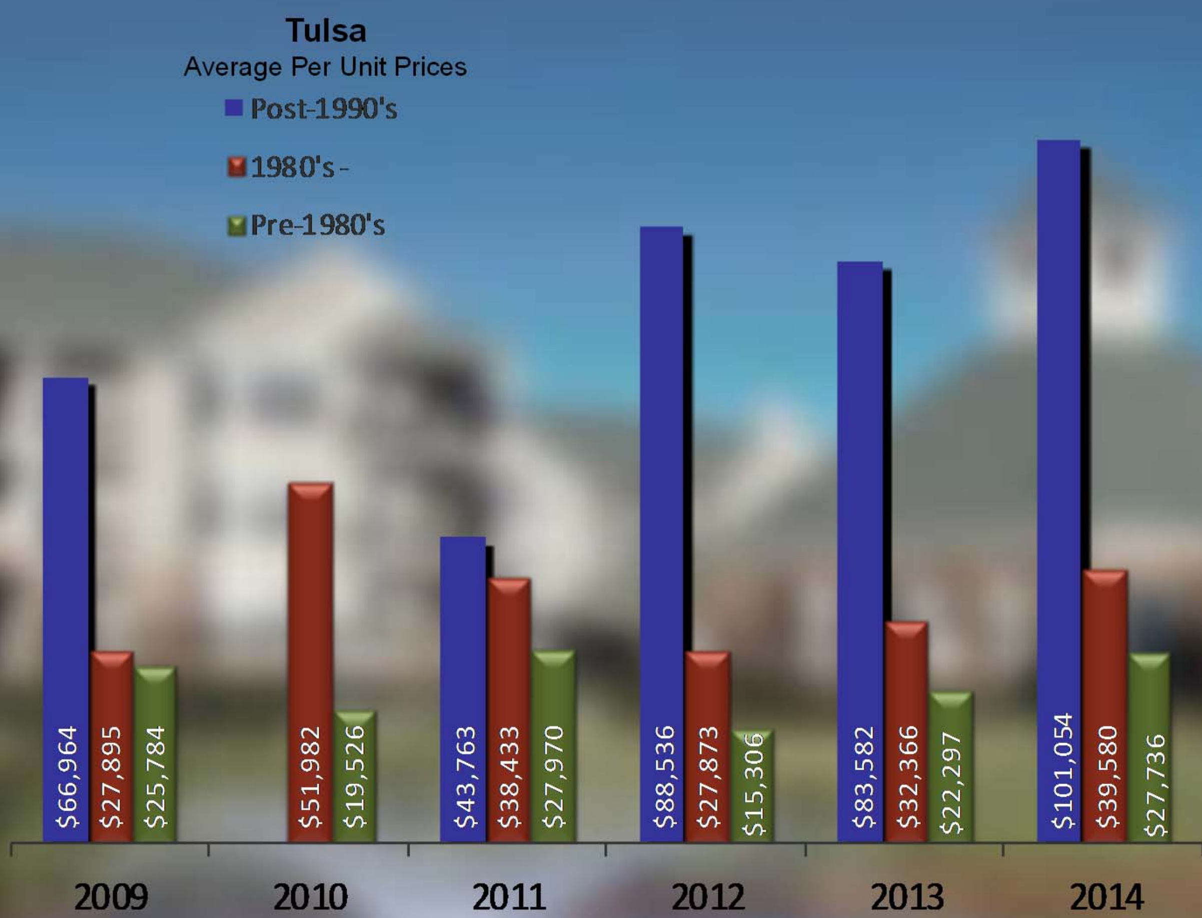
68%
Compared to 2013

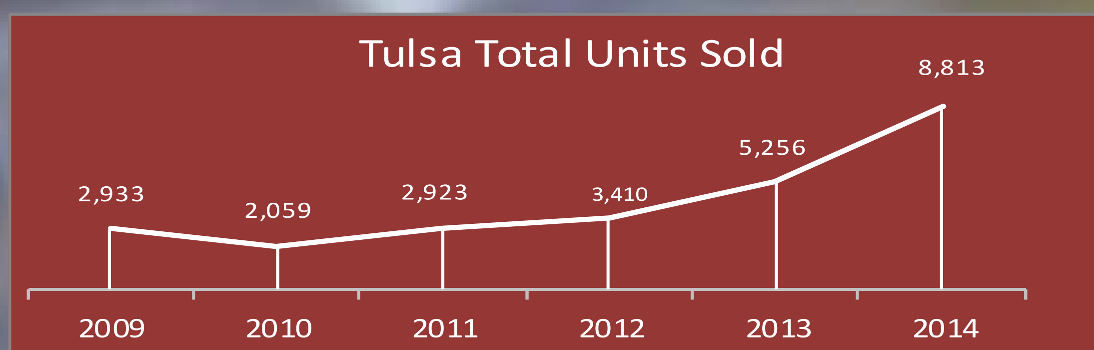
Average Price Per Unit

27%
Compared to 2013

No. of Transactions

118%
Compared to 2013





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Outlook

Improving fundamentals and readily available debt have made this the best environment for apartment sales in years. We've been on a great run and we'll see how long that goes. While some observers may predict a slow down or over-supply, it just hasn't yet materialized. Admittedly, current supply is being met with demand, but absorption on new starts could be slower in 2015 as inventory increases. We will continue to watch new construction in 2015, questioning when it might begin to outrun demand.

One other caution will be that investors and developers not rely too heavily on the broad data supporting a decline in homeownership. The national homeownership rate fell to 64.3 percent in the third quarter of 2014, its lowest point in almost 20 years. The latest figures from the U.S. Census Bureau show that the percentage of Americans who own their home fell from 64.7 percent in the second quarter of this year, and dipped below where it stood in the first quarter of 1995 – 64.4 percent. The share of Americans with the cash flow and savings to buy a home has fallen, prompting more of them to rent. Although, I'm reminded there is not overwhelming evidence that the broad data supports that trend in Oklahoma. And as noted by Kiplinger, Oklahoma City and Tulsa were among the most-affordable big cities in the United States. Rising homeownership rates locally would not be welcome news for multifamily developers with new starts coming out of the ground.

I think the biggest long-term risk beyond 2015 is if you just bought too expensively during this up-cycle and then overleverage. Cap rates will rise in tandem with higher expenses and higher interest rates. While we thought that might happen at some point in 2014, we are now extending that outlook to 2016 when we think buyers will associate more risk-to-pricing.

Sale Highlights Oklahoma City

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Ashwood	3451 SE 44th Street	$3,588,000	157	1972	$22,853
Los Pueblos	717 Santa Rosa	$8,000,000	201	1974	$39,801
Liberty Pointe	6600 SE 74th	$37,250,000	324	2013	$114,969
Bluff Creek	5757 W. Hefner Rd	$16,050,000	316	1985	$50,791
Westwood Park	1836 W. Robinson	$16,050,000	257	1971	$62,451
Boulder Creek	3621 S. Wynn Drive	$4,350,000	100	1972	$43,500
Arbor Glen	4638 NW 19th Street	$2,496,000	96	1970	$26,000
Belle Isle Terrace	4809 N. Blackwelder	$2,875,000	96	1974	$30,989
Boulder Ridge	8501 Candlewood	$9,500,000	328	1971	$28,963

Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Plantation	5555 E. 47th Place	$3,750,000	138	1965	$27,173
Foxfire	7324 S. Wheeling	$8,600,000	440	1977	$19,545
Canyon Creek	2102 E. 51st Street	$9,600,000	384	1979	$25,000
Southern Slope	4334 E. 66th St. South	$6,064,000	142	1983	$42,704
Riverchase	7900 S. Wheeling Ave	$19,700,000	432	1977	$45,601
Brittany Square	2842 E. 51st Street	$9,881,000	212	1982	$46,608
Sierra Pointe	1433 S. 107th E. Ave	$8,437,260	348	1967	$24,245
Coppermill	7110 S. Granite Ave	$16,500,000	544	1978	$30,330
Enclave at Brookside	1418 E. 39th Street	$42,000,000	240	2014	$175,000