



Arkansas

Oklahoma

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2016
Mid-Year

Apartment Report Oklahoma City Tulsa

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2016 Mid-Year Multifamily Apartment Report

Investors continue to go after apartment assets, in spite of high prices. It's just too early to tell if the high prices being paid for multifamily can support their value. The speculation is that investor appetite for acquisitions has resulted in sale prices being pushed higher than their underlying values. There is a point when both price and value are in unison and that balance translates to fair market value. But what happens when fair market value is overlooked? Sellers love when this happens because it creates the backdrop for buyers to overpay in an up cycle. Buyers also love this in the short term because it has allowed them to take advantage of abundant capital at historic low interest rates. But what cannot be overlooked is that the underlying values must be there to support these high prices. While an owner can chase the value through higher income or lower expenses, the value must catch up to the price at some point if the owner expects to exit with a profit. And it's not realistic to expect the market to just keep going up forever as a cure-all. There will come a point in the cycle when it becomes clear if fevered projections for higher occupancy and continued rent growth materialize on many of the eye-popping sales of 2014 and 2015. This may be especially true for properties where huge renovation budgets were used to get to that higher pricing.

Some have worried that the high price investors have paid for apartments and the large number of transactions are unsustainable. This could start to prove out in 2016 as the pendulum may swing the other way forced by sustained low oil prices, layoffs and business bankruptcies in the energy sector. If nothing else, negative press creates uncertainty that could stall the trend.

The silver lining to the energy downturn could come from a supply perspective. The cooling of the economy may force some developers to tap the brakes on a number of construction projects. And I think you would be hard pressed to find a local apartment owner who thinks that's a bad thing. There are a lot of new projects planned and being built. The amount of new stock that has come into the market without some kind of slowdown just seemed a bit aggressive. The market is due for a pause regardless of oil prices and without it, concessions will begin appearing in some areas and rents might taper off. The market needs a chance to catch its breath and absorb, which will set the stage for more normalized conditions going forward.

Sellers have really become lulled into buyers playing offense. This could make pricing challenging in 2016 if sellers do not change their expectations and buyers begin playing more defensively caused by market uncertainties. But do not mistake a downturn in the energy sector for distressed pricing on multifamily. Oklahoma City has evolved with other industries to complement the oil industry. This will not be a repeat of the 1980's. And here's why. Oklahoma City lost 4,100 energy-related jobs over the year ending in April, a 21.1 percent decline, according to the Oklahoma Employment Security Commission. Still, Oklahoma City's jobless rate in April was only two-tenths of a percentage point higher than the 3.5 percent rate a year ago, according to the U.S. Department of Labor.

What I've said previously is that I don't expect there to be a big correction. Fast forward to June 2016, and I expect that instead of a downward correction, the market might simply be heading for flat terrain. That's not really a bad thing - except for some, not going up will have the same feeling as going down. There are still enough buyers in the market to keep cap rates low for the time being. No one is getting cold feet just yet. The "fear of missing out" mentality, though, is being replaced with a bit more caution. In recent past, I think caution was secondary to doing the deal because being cautious could mean missing the deal entirely.



2016 Mid-Year Multifamily Apartment Report

So if buyer and seller expectations don't align in 2016, one solution is to simply make the pie bigger by including more options. Meaning, investors will try and look at areas where everybody else isn't looking. I get calls frequently where buyers want off-market deals that nobody else has seen. I have even heard examples where buyers are calling properties directly to ask if it is for sale. The search extends to even older assets that could be a good fit for renovation or redevelopment. A good example is the sale of Willow Cliff Apartments in early 2016. The Presidium Group based in Austin, Texas purchased the 396-unit property from a seller who had owned the property for 23 years. The buyer paid \$10.75 million for the 1974 vintage property with plans for major upgrades. This was an asset that just hadn't been a target for repositioning in the past and was not on anyone's radar. Presidium was looking at a segment of the market that others were not in terms of location, asset size and scope of renovation. These types of sales can be profitable to a seller because renovation budgets are so subjective to the individual investor and his vision for the property. One investor might plan to spend \$5,000 per unit adding new amenities and appliances while another might plan \$15,000 per unit. The difference can translate to favorable pricing for the seller depending on the renovated product the investor envisions. Many investors are seeing this as a huge unmet need in the market.

The model, in its simplest form, is that an investor can buy and renovate an older class-B or class-C apartment building and then cater to people earning median incomes. It's improving an older building, raising the rents and attracting residents who want more than a typical, aging class-B or class-C property. The second part of the equation is that investors typically expect to pay significantly less for class-B and class-C properties to justify the renovation budgets. But this doesn't always happen. Take for example the "value-add" sales of The Warwick Apartments in Oklahoma City and Westwood Park Apartments in Norman that sold in 2015 and 2014 for \$73,500 and \$62,451 per unit respectively. At these price levels, it's not clear if the buyers really captured any discount on the acquisition, which would dispel the notion that aging class-B and class-C properties will command a discount.

Mid-year statistics might suggest the early stages of a pause on the horizon. Transaction volume for Oklahoma City for the first six months of 2016 stands at \$96 million, as compared to \$173.8 million for the same period of 2015, a 45% drop using that metric. The number of units sold in 2016 is 2,174, as compared to 3,797 for the same six month period of 2015. Transaction volume for Tulsa was a little less volatile at \$69.1 million for the first six months of 2016, as compared to \$85.3 million for the same period of 2015, a less precipitous drop of 19%. The number of units sold in 2016 is 1,591, as compared to 2,171 for the same six month period of 2015.



Oklahoma City

For the first six months of 2016, there were 14 sales on properties that exceed 25 units in size, for a total of 2,174 units. This was down 43% from 3,797 units sold at Mid-year 2015. Total sales volume was \$96 million in 2016, as compared to \$173.8 million for the first six months of 2015. The overall average price per unit on apartment communities with 25 units or more is \$44,165, which is marginally lower than the \$45,799 for the same period of 2015.

For Pre-1980's properties, there were 10 transactions involving 1,098 units for an average per unit price of \$26,930. Of the total sales for the year, \$29.5 million were Pre-1980's vintage. This shows that investors continue to look beyond core assets to find opportunity. The category did show a decline from mid-year 2015 when there was \$101.8 million in sales on 17 transactions, involving 2,501 units, for an average price per unit of \$40,721.

The average for 1980's vintage is \$39,421 per unit, as compared to \$49,604 for the same time last year. Total volume for this category was \$21.4 million, as compared to \$49.4 million for the first six months of 2015. The breakdown for 2016 includes the 240-unit Whitehorse Apartments in Yukon that sold for \$9,750,000, representing \$40,625 per unit, and the 304-unit Rockwell Plaza Apartments in Oklahoma City that sold for \$11,695,000, or \$38,470 per unit.

Post-1990's properties recorded two sales. The first involved the sale of Phase I and Phase II of the Coffee Creek Apartments in Edmond for \$16,700,000, or \$65,234 per unit. Both phases were originally developed by ERC under their Chapel Ridge brand. The first phase with 160-units was built in 1995 under the Low Income Housing Tax Credit Program and Phase II with 96-units was added in 1998 offering market rate apartments. The second sale involved The Residence at North Penn, a 276-unit property that was built in 2009. This property sold for \$28,300,000 or \$102,536 per unit and was reportedly 85% occupied at the time of sale.

For comparison on the Edmond sale, a similar sale occurred in 2015 on the Chapel Ridge Apartments in Norman that was developed in 1999 by ERC under the same Low Income Housing Tax Credit Program. Chapel Ridge in Norman sold for \$6,900,000, or \$47,916 per unit for the 144-unit community. Going back even a step further, the Senior Cottages in Norman sold in 2014 for \$3,100,000, or \$36,904 per unit for the 84-unit property that was built in 1998 under the LIHTC program.



Oklahoma City Average Per Unit Prices



Total Sales Volume



45%

Compared to 2015 Mid-Year

Total Units Sold



43%

Compared to 2015 Mid-Year

Average Price Per Unit



4%

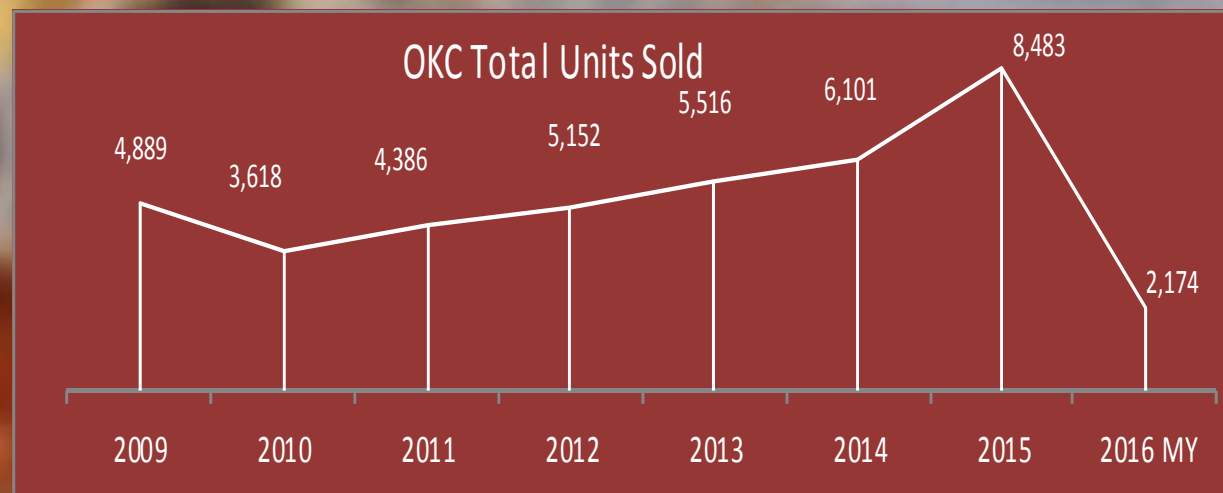
Compared to 2015 Mid-Year

No. of Transactions



36%

Compared to 2015 Mid-Year



Tulsa

There were 9 sales in Tulsa during the first six months of 2016 on properties that exceeded 25 units in size, for a total of 1,591 units sold. This was down 27% from the 2,171 units sold at mid-year 2015.

Total transaction volume in Tulsa was \$69.1 million, as compared to \$85.3 million for the first six months of 2015. The overall average price per unit in Tulsa was \$43,487 versus \$39,330 at mid-year 2015.

For Pre-1980's properties, there were 7 transactions involving 1,154 units for an average per unit price of \$40,414. Total volume represented \$46.6 million for the category. The highest sale in this category involved the Indian Springs Apartments in Broken Arrow. The 261-unit property at 2177 S. Jasper sold for \$16,525,000, or \$63,314 per unit. Once again, the non-profit Mental Health Association of Tulsa acquired a property at 3200 S. Hudson in Tulsa.

This sale involved the 134-unit City Gardens Apartments that sold for \$5,092,000, or \$38,000 per unit; a premium over the \$2,400,000 the previous owner paid for the property back in December of 2012.

There was only one sale in the 1980's category as of mid-year 2016. The sale involved the 132-unit Wildwood Apartments in Owasso for \$6,300,000, or \$47,727 per unit. The property was built in 1984. This compares to mid-year 2015 with \$60.3 million in sales on 5 transactions, involving 1,384 units, for an average price per unit of \$43,613.

There was also only one sale in the Post-1990's category during the first half of 2016. Woodland Manor Apartments at 8641 E. 61st sold for \$16,250,000 or \$53,278 per unit. The property contained 305-units that were built in 1998.

Tulsa	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	1	1	7
Total Number of Units	305	132	1,154
Total Number of Sales Tulsa	1		6
Total Number of Sales Other		1	
Total Number of Sales Broken Arrow			1
Price High per unit	\$53,278	\$47,727	\$63,314
Price Low per unit	\$53,278	\$47,727	\$24,062

Oklahoma City	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	2	2	10
Total Number of Units	532	544	1,098
Total Number of Sales OKC	1	1	8
Total Number of Sales Edmond	1		1
Total Number of Sales Norman			1
Total Number of Sales Other		1	
Price High per unit	\$102,536	\$40,625	\$40,412
Price Low per unit	\$65,234	\$38,470	\$4,062

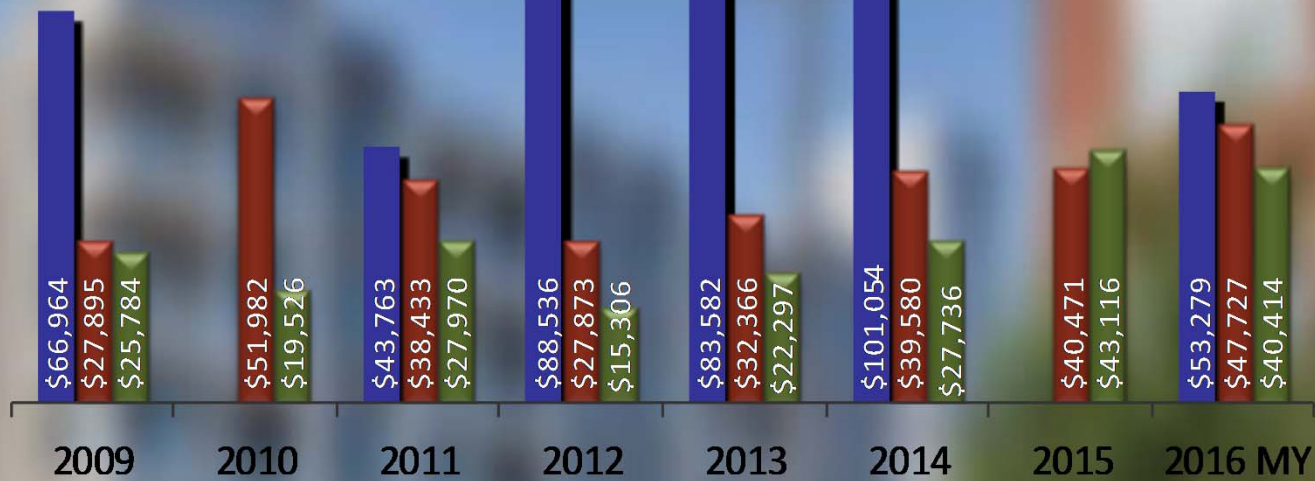
Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
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Sale Highlights Tulsa

Pickwick Arms	139 N. Garnett Tulsa	\$6,731,000	259	1973	\$25,988
Addison	10156 E. Admiral Pl Tulsa	\$3,850,000	160	1973	\$24,062
Regency Point	5477 E. 71 st Street S Tulsa	\$9,392,500	192	1979	\$48,919
Wildwood	11602 E. 80 th Street N Owasso	\$6,300,000	132	1984	\$47,727
Indian Springs	2177 S. Jasper Ave W Broken Arrow	\$16,525,000	261	1975	\$63,314
City Gardens	3200 S. Hudson Ave	\$5,092,000	134	1970	\$38,000
Southern Hills Villa	6609 S. Lewis Ave	\$4,000,000	107	1965	\$37,383
Palazzo Park	6030 S. Newport	\$1,047,000	41	1973	\$25,536
Woodland Manor	8641 E. 61 st	\$16,250,000	305	1998	\$53,278

Tulsa Average Per Unit Prices

- Post-1990's
- 1980's -
- Pre-1980's



Total Sales Volume



19%

Compared to 2015 Mid-Year

Total Units Sold



27%

Compared to 2015 Mid-Year

Average Price Per Unit



11%

Compared to 2015 Mid-Year

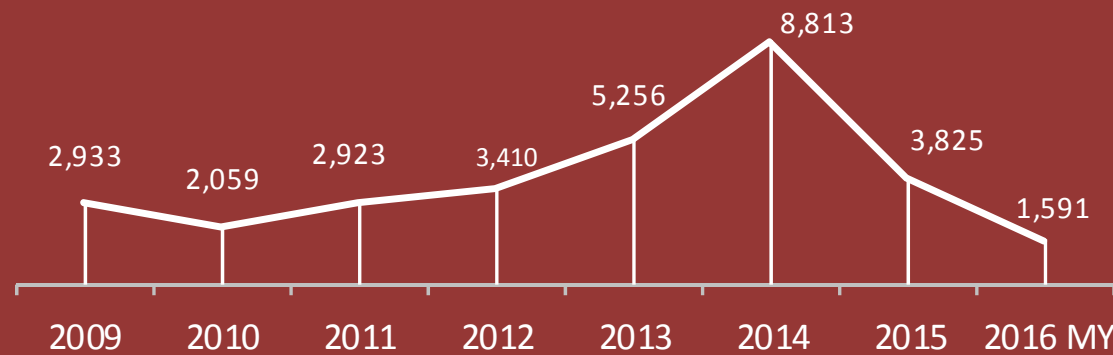
No. of Transactions



10%

Compared to 2015 Mid-Year

Tulsa Total Units Sold





Arkansas

Oklahoma

Kansas

Outlook

Broadly, I'm optimistic. We're enjoying the benefits of a great market. That momentum is expected to continue and 2016 looks poised for another strong year, except that there is a noticeable headwind coming from the slowdown in the energy sector and persistent low oil prices. Low gas prices make just about everyone happy – except those in the oil industry and the economies that rely on them. The impact to the multifamily sector has proved largely unrealized up to now. But the downturn has led several Oklahoma energy companies to file for bankruptcy including; New Gulf Resources, Seventy Seven Energy, Chaparral, Sand Ridge Energy, New Source Energy, Mid-states Petroleum and Osage Exploration, which is forcing uncertainty.

Investors are by no means heading to the sidelines, but I do think there could be a bit of a breather as buyers and sellers readjust expectations in hopes of finding fair market value. Buyers will want a little bit higher cap rate because of market uncertainty and sellers are probably not willing to make that move just yet because property-level fundamentals are still good. But after years of compression, cap rates on multifamily assets may have nowhere to go but up. Meaning, property owners will have to assess their valuations and what trends await them in the year ahead. I think there will be less exuberance from investors in 2016. While there will still be demand, investors may not be willing to push prices higher for the time being.

So if the forecast is for the market to hit a flat terrain, we will have to see how that might influence buyer and seller decisions in the second half of 2016 and beginning of 2017.



Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
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Sale Highlights Oklahoma City

Whitehorse	10801 W. Hwy 66 Yukon	\$9,750,000	240	1985	\$40,625
Rockwell Plaza	8201 N. Rockwell Oklahoma City	\$11,695,000	304	1983	\$38,470
Coffee Creek	501 W. 15 th Edmond	\$16,700,000	256	1995 -98	\$65,234
Willow Cliff	5314 Willow Cliff Oklahoma City	\$10,750,000	396	1974	\$27,146
Copperwood	5800 NW 34 th Oklahoma City	\$1,400,000	51	1967	\$27,451
Jamie's Landing	1701 NW 46 th Oklahoma City	\$5,000,000	136	1964	\$36,764
Westwood	7901 NW 7 th Oklahoma City	\$690,000	28	1969	\$24,642
Creekside	2135 Melrose Court Norman	\$1,750,000	56	1972	\$31,250
Sunset Ridge	930 S. Boulevard Edmond	\$3,920,000	97	1970	\$40,412
The Residence at North Penn	14520 N. Pennsylvania	\$28,300,000	276	2009	\$102,536
The Courtyard	3732 NW 23 rd Oklahoma City	\$730,000	40	1963	\$18,250
Belle Isle Terrace	4809 N. Blackwelder 4810 Oklahoma City	\$3,800,000	96	1974	\$39,583
Timberwood Park	6600 NW 16 th Oklahoma City	\$650,000	160	1974	\$4,062