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2017 Mid-Year

Apartment Report
Oklahoma City
Tulsa

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2017 Mid-Year
Multifamily Apartment Report

The mood today remains largely optimistic for multifamily, even though few would argue there is still uncertainty in the industry. At this point in 2016, there was tremendous concern centered on the oil industry. Despite that concern, all four of the state's metropolitan areas posted lower jobless rates compared to a year ago. Oklahoma City's rate was the lowest among metropolitan areas at 3.8 percent, down from 4.1 in 2016. Tulsa's unemployment rate was 4.4 percent, compared to 4.8 percent a year earlier. Lawton's unemployment rate was 4.1 percent, while Enid's was 3.7 percent, according to data from the Oklahoma Employment Security Commission. As a whole, unemployment rates were lower in 74 of Oklahoma's 77 counties compared to a year ago. So even though there is some lingering uncertainty, 2017 is shaping up to be another great year for the multifamily industry.

Overbuilding though does foreshadow a downturn. While it comes down to what is being built and where it is being built, speculation remains that developers will keep building product and adding inventory. What I expected at this time last year was that developers would start to tap the brakes a bit on a number of construction projects. But that really didn't happen. The amount of new construction coming to the market without some kind of slowdown does seem a bit aggressive. Markets always need a pause for absorption to allow for supply and demand equilibrium. But for now, I expect the market to remain weighed more to the supply side. It's been said though that in the long-term, supply and demand always wins.

Alternatively, we could just look at multifamily fundamentals and not worry about the broader uncertainties. Fundamentals are expected to stay sound as they have been over the last few years. As this is proving out again in 2017, investors look set to continue on the same path and go after apartment assets in the face of high prices. Whether you look at this as being a window in time for investors or a window in time for sellers, know that those fundamentals in place the last few years; rising rents, easily accessible debt, and low interest rates, can change. For investors, making sure you can back up your underwriting assumptions with a "measure-twice, cut-once" approach would be a good forward strategy. And for sellers who have taken a wait-and-see stance and not felt much pressure to sell, especially if they have cash-flowing assets, now might be the time. By my own definition, the window of opportunity is that the 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 we are decidedly not at that point right now. And if you are an investor hoping for a bump in the road that would translate to better pricing, think again. 2017 appears to be on par, if not better than 2016 in terms of pricing, which is favoring sellers.

Few would disagree that buyers have been overpaying in this up cycle. A full list of transactions for 2017 can be found in the Sale Highlights section of this report, but first here's a look at a few specific sales for some clarity. For those that can identify with neighborhoods, NW 29th and MacArthur, SE 44th and Sooner Road and NW 10th Street are a few notable locales. Trinity Ridge Apartments at 5800 NW 29th sold for $2,700,000, or $50,000 per unit for the 54 units. The property was built in 1972 and remodeled in 2014 to include new siding and windows. Sunnyview Apartments at 4502 Sunnyview Drive on the edge of Oklahoma City and Del City sold for $9,500,000, or $42,410 per unit for the 224 units that were built in 1974. The previous owner acquired the property for $4,100,000 in December of 2010. Both are good examples of owners selling on the up cycle.

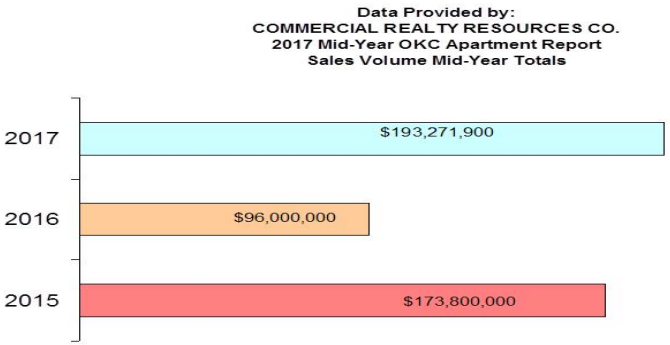
And then there is NW 10th Street. While the sale price of the Lantana Apartments is not notable in itself, the redevelopment plans make it worth mentioning. The price was only $150,000 for the 152 units that were built in 1972, according to County records. Who would think you could buy an apartment complex in Oklahoma City for less than a dollar per square foot. But the property had become a public nuisance. City Hall has repeatedly identified 7408 NW 10th Street as the most egregious offender on its abandoned properties list. The sale occurred as a result of City Council members unanimously approving an economic development agreement with Hartford at 10th LLC to make the abandoned complex accessible to tenants again. Hartford will invest about $3.1 million in exchange for forgiveness of liens owed to the city. The notable part of this sale is that this is the first time in recollection that someone will spend this kind of money for a property on 10th Street, not only adding it back to the ad valorem tax base that will benefit the public school districts, but helping to revitalize the neighborhood. This could truly be the single most important sale in recent history for the 10th Street corridor.

These sales show that investors are going further out on the risk spectrum. In fact, eight of the twenty-four sales, 35 percent, in the pre-80's category averaged $37,000 per unit and another five were at or above $50,000 per unit. In this cycle, it has been difficult to forecast just how high investors will go to acquire multifamily assets. Among the factors fueling that demand is the desire to capture higher returns. And garden apartment communities are outperforming the rest of the market in attracting investor interest.

There is still the common thread that value-add plays a role in most of these sales. The differences we are seeing in value-add today versus a few years back is that most "value-add" properties are well occupied, some in the mid to upper 90's. So the definition of "value-add" may have changed over the years as well. It used to mean the previous owner ran out of money or the incentive to put more money back into a property that caused occupancy to drop. But today, value-add means a lot more than simply bringing in equity and increasing occupancy. It is not only doing interior and exterior renovations but also improving management and the financing structure. For instance, if a buyer can replace an existing higher interest rate loan with a new Fannie or Freddie at a lower rate and a few years of interest only payments, he will view that as bringing value to the deal. The financing structure has become an integral part of the value-add component because it provides for the property to throw off more cash that allows a buyer to pay more for the property and/or fund capital improvements. While every investor would like an asset with a value-add component, the most successful "value-add" deals are the ones that can provide the best housing options within the given price point.

The good news for borrowers is that capital is still relatively cheap and readily available for new loans and refinancing. So far, there has been a lot of talk about rising interest rates, but little impact. In terms of potential increases, for those investing in apartments for the long-term, 50 basis points or so probably won't make or break a deal. But for short-term investors, it will be big enough to matter. The biggest uncertainty going forward is what happens with Fannie and Freddie, as the mandate for the agencies funding expires at the end of the year. It remains to be seen whether Congress will pass legislation that maintains the status quo and simply puts funding back in place, or if there is major restructuring ahead to privatize, consolidate or dissolve the two agencies. There has been a tremendous amount of financing that has come from Fannie and Freddie, so the market will not respond well to a disruption in these sources.

Mid-year statistics can be a bit indistinct in conveying market direction. For instance transaction volume for Oklahoma City for the first six months of 2017 stands at $193.2 million. This is well above the $96 million for the first six months of 2016 and would therefore suggest the market is up 100%. But by comparison, the market is about on track with 2015 at $173.8 million for that same six month period. The number of units sold in 2017 is 4,624 and the number of transactions is 27, as compared to 2,174 and 14 for the same six month period of 2016. The end result though is that the market is experiencing a strong upward trajectory.



One might conclude the same for Tulsa. Transaction volume for Tulsa was $115.6 million for the first six months of 2017, as compared to $69.1 million for the same period of 2016. The number of units sold in 2017 is 2,093 and the number of transactions is eight, as compared to 1,591 and nine for the same six month period of 2016. The metrics for both metro markets suggest very positive mid-year trends.

Oklahoma City

For the first six months of 2017, there were 27 sales on properties that exceed 25 units in size, for a total of 4,624 units. This was up 113% from 2,174 units sold at Mid-year 2016. Total sales volume was $193.2 million in 2017, as compared to $96 million for the first six months of 2016. The overall average price per unit on apartment communities with 25 units or more is $41,798, which is down five percent from the same period of 2016 at $44,165.

For Pre-1980's properties, there were 24 transactions involving 4,018 units for an average per unit price of $37,514. Of the overall $193.2 million in sales, $150.7 million was Pre-1980's vintage, showing that investors continue to look beyond core assets to find opportunity. The category showed a significant increase from mid-year 2016 with $29.5 million in sales on 10 transactions, involving 1,098 units, for an average price per unit of $26,930. Looking past the metrics, it's clear to see where investors are placing their bets when 87% of the units sold are within one asset class.

Within the 1980's category, there were two sales for a total of $24.9 million on 402 units. The average price per unit was $61,940. The largest sale was the WatersEdge Apartments at 4317 SW 22nd that sold for $23.6 million for the 368-units that were built in 1986. The reported cap rate for this transaction was 6.07. A brief recap of last year shows total volume for the first six months of 2016 at $21.4 million on two sales involving 544 units. The average price per unit was $39,421. The two sales last year involved 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 only one sale. But it's a sale worth highlighting from both a property and market standpoint. The property involved the sale of the Reserve on Stinson Apartments in Norman for $17,639,904, or $86,470 per unit. The Reserve was built in 2005 with 204-units containing 612 bedrooms serving students at the University of Oklahoma. At $76.42 per square foot, the property sold for less than replacement value. The history for this property is that it was originally sold by the developer for $30,500,000 in December of 2006 and then later sold for $22,948,000 in January of 2012. Is this is a sign of things to come for Norman? That part is unclear. But a 42% drop in value over a ten year period is fairly clear, and likely not one that was part of anyone's earlier forecast.

Core Norman LLC, the purchasing entity of Core Spaces, took out a new loan with Western Alliance Bank of Arizona for $19,678,180, suggesting their renovation budget could be as much as $2 million. But this value-add has another element of risk because of enrollment numbers at the University of Oklahoma and the increasing per-bedroom inventory in Norman.

Inventory

Not counting on-campus housing being developed by the University of Oklahoma, there have been 3,195 student bedrooms added to the market since 2014. Adding smaller duplex developments that include 6 to 8 bedrooms each, along with the OU housing, and the number surpasses 4,000 new student bedrooms to the market. While it's a tough time to be a student landlord in Norman, the effects of overbuilding the sector will have a broad impact.

Student Population Trends

According to data prepared by Institutional Research & Reporting, the total Norman campus unduplicated enrollment for Fall-2016 was 27,937, versus 27,445 in Fall-2015, an increase of 492. If you look back to Fall-2013 before the latest construction boom, the enrollment was 27,303, an increase of 634. Jumping back a bit further to Fall-2008, enrollment was 26,201, an increase of 1,736 students over the nine year period between 2008 and 2016. So unless 2017-Fall enrollment figures defy the historical trend, developers have created a vast oversupply of student housing. Even though demand for student housing around campus is a constant, it is fair to say the math may simply not work on this one.

	Fall 2015	Fall 2016	% Change
Norman Campus			
Norman On-Campus	24,406	24,882	2.0%
Tulsa - Norman Campus Programs	640	628	-1.9%
OU Outreach Programs			
Academic Programs	40	22	-45.0%
Advanced Programs	956	994	4.0%
Center for Independent and Distance Learning (CIDL)	617	980	58.8%
Liberal Studies	1,908	1,872	-1.9%
Total Norman Campus Unduplicated Headcount	**27,445**	**27,937**	**1.8%**

	Fall 2008	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
Total Norman Campus	**26,201**	**26,540**	**26,490**	**27,149**	**27,518**	**27,303**	**27,278**	**27,445**	**27,937**

http://www.ou.edu/content/irr/data-center/enrollment-statistics.html

Total Sales Volume

101%
Compared to 2016 Mid-Year

Total Units Sold

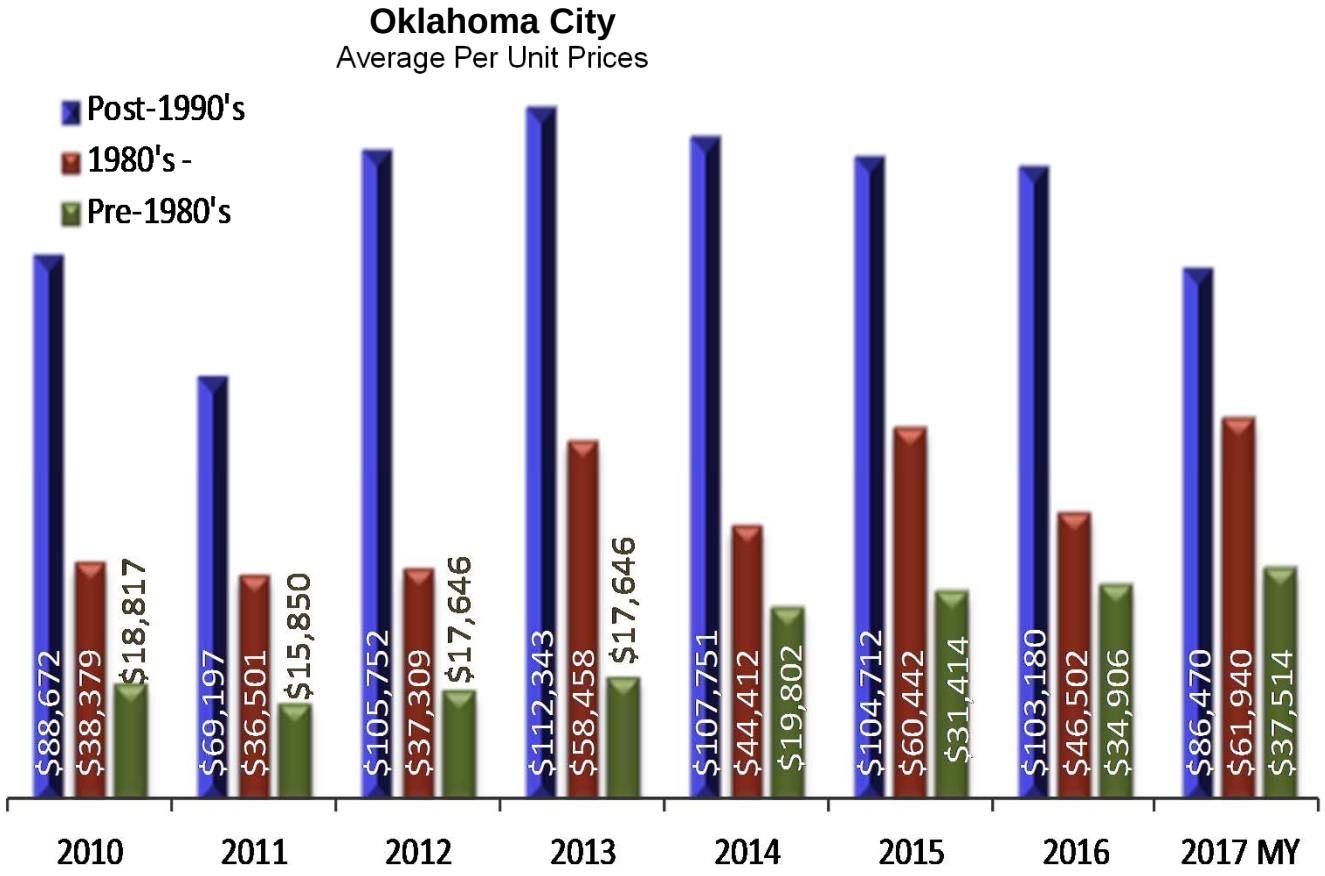
113%
Compared to 2016 Mid-Year

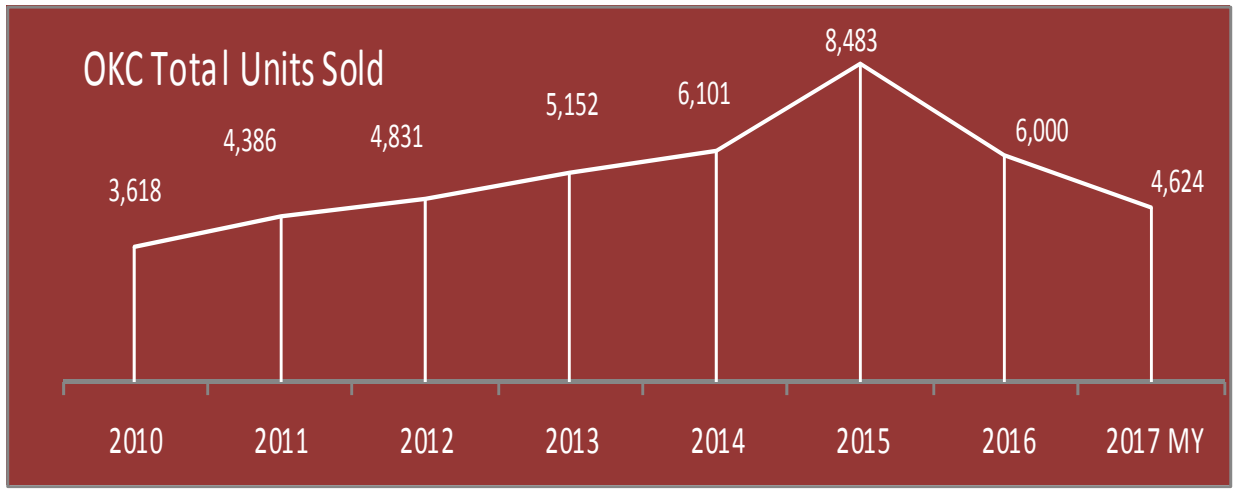
Average Price Per Unit

5%
Compared to 2016 Mid-Year

No. of Transactions

93%
Compared to 2016 Mid-Year





Tulsa

There were 8 sales in Tulsa during the first six months of 2017 on properties that exceeded 25 units in size, for a total of 2,093 units sold. This was slightly above the 1,591 units sold at mid-year 2016.

Total transaction volume in Tulsa was $115.6 million, which was also up from $69.1 million for the first six months of 2016. The overall average price per unit in Tulsa was $55,277 versus $43,486 at mid-year 2016. The difference for Tulsa is that the majority of sales, 87 percent, occurred in the 1980's or newer product.

For Pre-1980's properties, there were 4 transactions involving 372 units for an average per unit price of $38,965. Total volume represented $14.4 million for the category. The four sales involved the Willow bend, Melrose and French Villa Apartments in Tulsa and the Venue Apartments in Broken Arrow. Willow bend contained 132-units at 3038 S. 101st East Avenue that sold for $4,050,000, or $30,681 per unit. French Villa is 100-units at 4752 S. Harvard that sold for $5,845,000 and Venue contained 88-units that sold for $3,000,000, or $34,090 per unit.

Tulsa	Post 1990's	1980's	Pre-1980's
Number of Transactions	1	3	4
Total Number of Units	132	1,589	372
Total Number of Sales Tulsa		3	3
Total Number of Sales Other	1		
Total Number of Sales Broken Arrow			1
Price High per unit Price Low per unit	$102,272 $102,272	$59,600 $32,421	$58,450 $30,681

Oklahoma City	Post 1990's	1980's	Pre-1980's
Number of Transactions	1	2	24
Total Number of Units	204	402	4,018
Total Number of Sales OKC		2	15
Total Number of Sales Edmond			3
Total Number of Sales Norman	1		2
Total Number of Sales Other			4
Price High per unit Price Low per unit	$86,470 $86,470	$64,130 $38,235	$56,000 $986

The three sales in the 1980's category involved Westport on the River Apartments, Creek wood/Columbine Apartments and Prescott Woods Apartments. Westport is 682-units, built in 1984 that sold for $40,600,000, or $59,530 per unit. Creek wood/Columbine sold for $38,800,000, or $59,600 per unit for the 651-units that were built in 1984 and 1986. Prescott Woods at 1337 E. 61st Street was built in 1985 and contained 256-units. The property sold for $8,300,000, or $32,421 per unit. The combined sales account for $87.7 million on 1,589 units for an average price per unit of $55,192. This compares to mid-year 2016 with $6.3 million in sales for one transaction, involving 132 units, for an average price per unit of $47,727.

The one sale in the Post-1990's vintage category involved the Marquis on Memorial Apartments in Bixby that sold for $13,500,000, or $102,272 per unit for the 132-units that were built in 2009. The Seller acquired the property in December 2014 for $12,750,000, or $96,590 per unit, a 6% increase over a 30-month period.

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Sale Highlights Tulsa					
Willowbend	3038 S. 101st E Ave	$4,050,000	132	1973	$30,681
Venue	512 E. Madison St	$3,000,000	88	1970	$34,090
Westport	703 S. Jackson Ave	$40,600,000	682	1984	$59,530
Creekwood	8418 S. 77th E. Ave	$32,184,000	540	1984	$59,600
Columbine	8115 S. 77th E. Ave	$6,616,000	111	1986	$59,600
Prescott Woods	1337 E. 61st Street	$8,300,000	256	1985	$32,421
French Villa	4752 S. Harvard	$5,845,000	100	1962	$58,450
Melrose	6321 E. 9th Street	$1,600,000	52	1968	$30,769
Marquis on Memorial	14681 S. 82nd	$13,500,000	132	2009	$102,272
Sale Highlights Oklahoma City					
Country Club	5700 S. Agnew	$2,965,000	189	1962	$15,687
MacArthur Park	6100 MacArthur Park	$1,300,000	34	1984	$38,235
Tuscany Village	6900 London Way	$10,000,000	300	1973	$33,333
Summit Crest	701 Culbertson	$1,250,000	37	1948	$33,783
Duke	900 E. Wayne	$835,000	27	1969	$30,925

Total Sales Volume

67%
Compared to 2016 Mid-Year

Total Units Sold

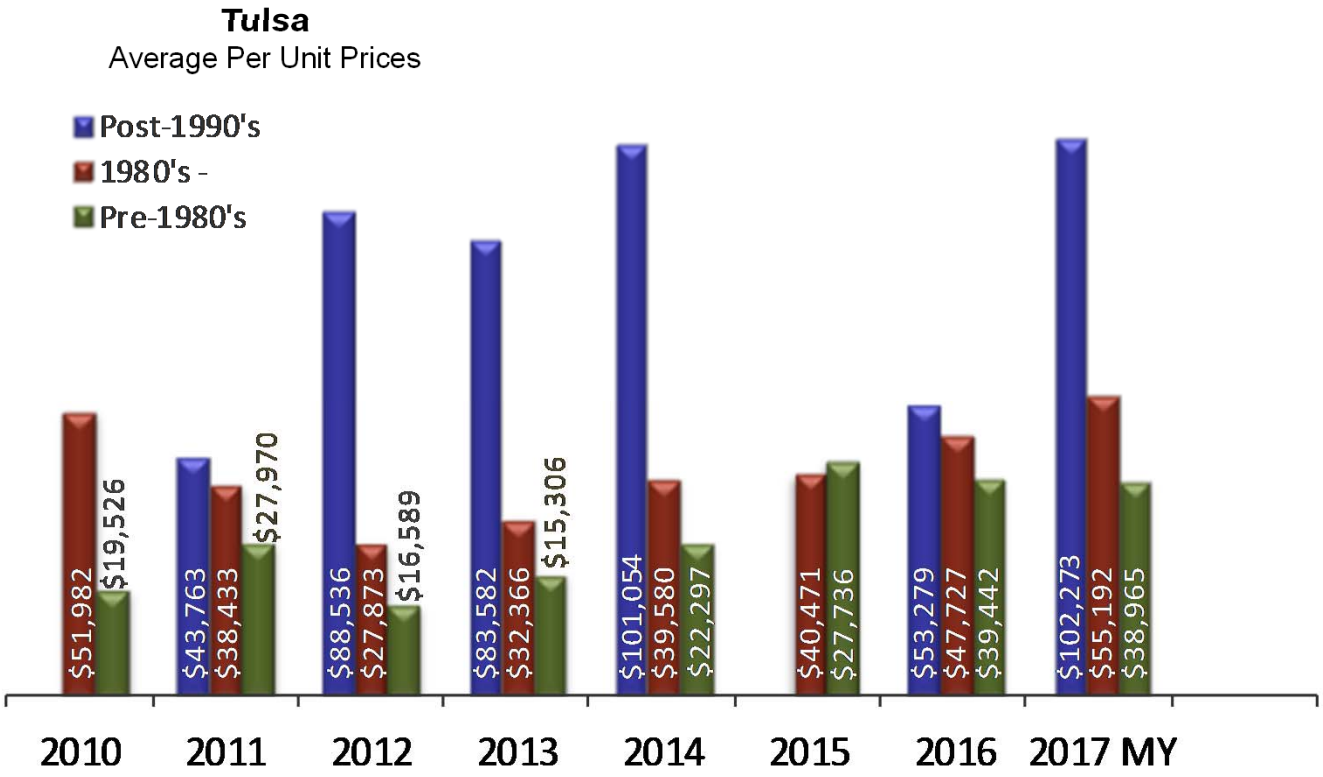
32%
Compared to 2016 Mid-Year

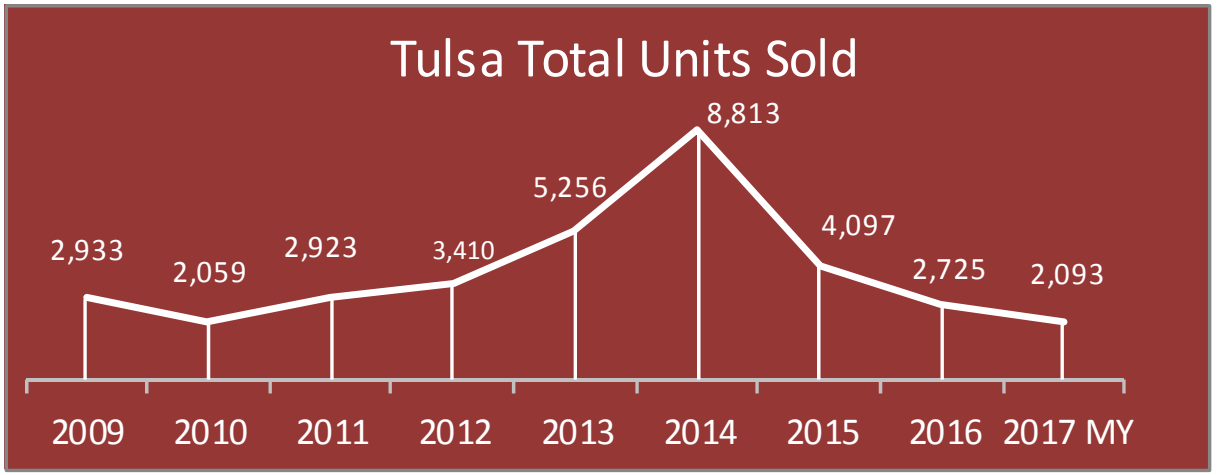
Average Price Per Unit

27%
Compared to 2016 Mid-Year

No. of Transactions

11%
Compared to 2016 Mid-Year









Arkansas Oklahoma Kansas

Outlook

The outlook for 2017 is that it could be a year of both risk and opportunity. In the past there was a "fear of missing out" mentality that kept cap rates low. Today I think it is a lack of for-sale product that is sustaining pricing. In either event, and even with higher prices, investors are not backing off from acquisitions.

As we look a bit further down the road, I expect changes in property values for the most part will be moderate. Hopefully, the ten-year historical valuation of the Reserve Apartments in Norman is not similarly repeated. The concern will be for those projects that have increased in value merely because of cap rate compression. The outlook for 2018 then becomes even more uncertain because the market will be one more year farther into what has already been a very prolonged up cycle. ■

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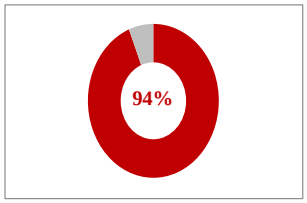
*Based on $167.6 million in sales on 4,677 units between March 2013 and March 2017.



Sale Highlights Oklahoma City, continued

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Jasper Gardens	2530 N. Rockwell	$3,865,000	103	1970	$37,524
Lantana	7408 NW 10th	$150,000	152	1972	$986
Sooner Court	2500 W. Brooks	$8,500,000	160	1971	$53,125
WatersEdge	4317 SW 22nd	$23,600,000	368	1986	$64,130
Village on the Lake	9268 N. MacArthur	$6,030,000	160	1972	$37,687
French Quarter	240 E. 15th	$2,240,000	59	1966	$37,966
Trinity DorJay	4311 & 4312 SE 9th	$3,150,000	116	1969	$27,155
Woodland Hills	4641 Woodland Blvd	$4,600,000	140	1963	$32,857
Boulder Creek	3621 Wynn Drive	$5,600,000	100	1972	$56,000
Trinity Ridge	5800 NW 29th	$2,700,000	54	1972	$50,000
The Garden	1601 N. MacArthur	$3,950,000	120	1972	$32,916
Portland House	3901 S. Portland	$1,100,000	54	1964	$20,370
Sunnyview	4502 Sunnyview Dr	$9,500,000	224	1974	$42,410
Williamsburg	7301 NW 23rd	$2,400,000	108	1969	$22,222
Olde Orchard	2416 Alexander Ln	$1,550,000	70	1972	$22,142
Britton Courtyards	7000 W. Britton Rd	$7,300,000	276	1973	$26,449
Mosaic	4328 SE 46th	$6,100,000	216	1974	$28,240
Ashwood	3451 SE 44th	$4,292,500	153	1972	$28,055
Reserve on Stinson	730 Stinson	$17,639,911	204	2005	$86,470
Brookwood	9401 S. Shartel	$60,500,000	1128	1970	$53,634