



Arkansas

Oklahoma

Kansas

2019

Mid-Year

Apartment Report Oklahoma City Tulsa

*Providing professional apartment brokerage
and marketing services for over 34 years*

Mike Buhl

CRRC - OKC

405.360.5966

buhl@crcc.us

Darla Knight

CRRC - Tulsa

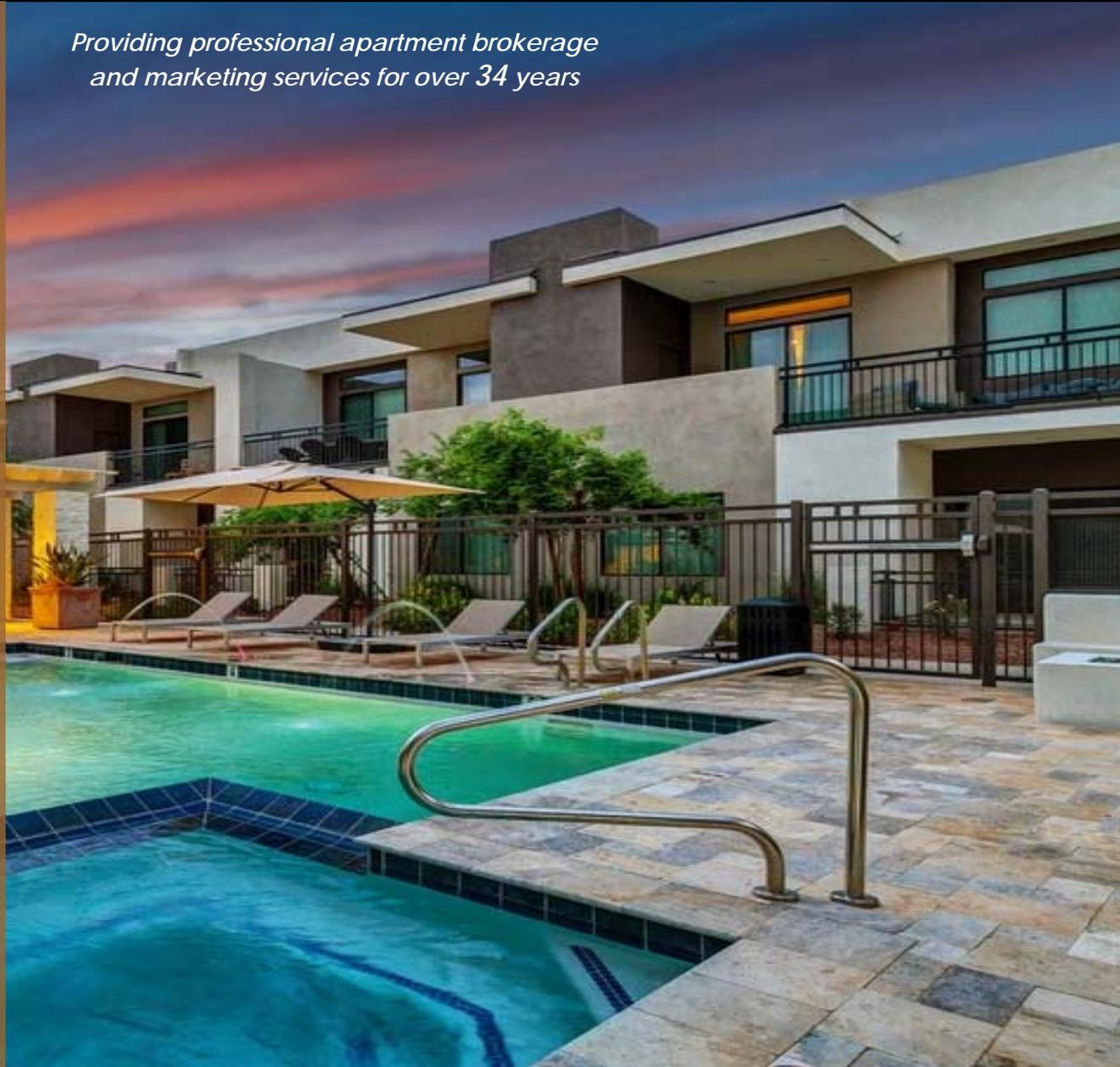
918-557-5966

darla@crcc.us

www.crcc.us



COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES



2019 Mid-Year Multifamily Apartment Report

The multifamily market entered 2019 after posting an exceptional year in 2018. It's hard to imagine how things can get much better for the sector, but that success can make it surprisingly difficult for investors to find acquisition deals that make sense. That seems to be the sentiment in 2019, even coming off a year with the strongest sales environment ever recorded. That's great news, except that many potential buyers might consider a pause before assuming they can squeeze much more value on the acquisition side. Equally, many potential sellers may be showing some pause as well. That's because even if they can get a good price in today's environment, after the sale is done, they may not be able to find another property to buy. Being able to redeploy capital is an issue for a lot of investors at this stage of the cycle.

Making matters worse is that buyers and sellers may have difficulty in 2019 agreeing on the right price for a property. Buyers are probably shifting more to underwriting that is based on current performance, whereas sellers are holding to the belief that underwriting is based on results going forward. Meaning, if the offering is labeled value-add, then the seller wants the buyer to pay for it up front. And there is really no indication that sellers are ready to lower their prices. For buyers, the biggest opportunities may come with having patience. Buyers that make uninformed decisions with aggressive pricing will have uncertain results. Even discerning investors can rationalize stretching on their underwriting assumptions to help make a deal. Suffice it to say, eager money typically pays too high a price.

One of the best takeaways may come from the research conducted by National Real Estate Investor and included in the November/December 2018 issue of NREI. In part, it states that 41 percent in the current survey plan to buy more apartments in 2019 with another 44 percent being content to hold existing assets and only 14 percent planning to sell. Given those dynamics, then the disparity of sellers (*only 14 percent*) to buyers will continue to put sellers in a strong position, which we think extends the trend of stubbornly low cap rates. No doubt there are exceptions to the preceding, but we think this is directionally correct.

The economy has been the backdrop for successes in the commercial real estate sector, landing Oklahoma City and Tulsa on the radar of some of the largest companies in the world. The Amazon Fulfillment Center near Will Rogers World Airport, at SW 89th and Portland will have more than 1,700 job openings. The new \$140 million center is expected to be operational as early as the third quarter of 2019. Amazon also announced plans to add a second fulfillment center in Tulsa.

Costco, at 13200 N. Western, opened its first store in Oklahoma City in 2019. Costco already had a location at 10220 S. Memorial in Tulsa that it opened in 2016. When companies like Costco, who is the second-largest retailer in the world, choose a market, it becomes a huge economic driver and recruitment tool for other businesses.

Boeing Co. has created an engineering capability center in Oklahoma City that serves not only the U.S. Air Force, but other Boeing customers throughout the globe. The Air Force announced in October 2018 that Tinker Air Force Base was selected to coordinate maintenance and sustainment of the B-21 Raider, the next generation long-range strike bomber. "This announcement underscores how important Tinker Air Force Base is to the future success of the U.S. military," said Roy H. Williams, president and CEO of the Greater Oklahoma City Chamber. "As the largest single-site employer in Oklahoma and the hub of our aerospace defense industry, the continued growth of Tinker's maintenance and repair work is also a positive sign of growth for the region's economy."



2019 Mid-Year Multifamily Apartment Report

Downtown Oklahoma City continues to transform through the MAPS projects, creating the Oklahoma City Streetcar, Scissortail Park and attracting the OMNI Hotel. The 605-room OMNI Hotel is expected to be complete in 2021 and will be built just north of the new convention center, near the MAPS 3 Scissortail Park and the Chesapeake Energy Arena. The design calls for 50,000 square feet of ballroom and meeting room space to complement the space that will be available in the convention center.

Special mention is being made to these developments because nationally recognizable retailers, businesses and hoteliers like these are changing the identity and personality of Oklahoma, making it recognizable to apartment investors and developers from across the country.

While the multifamily sector is delivering historic numbers and the economy is poised to further that momentum, we believe apartment buyers evaluating acquisitions for the coming year should take a more cautious approach toward income projections and capital improvement budgeting. The argument goes that buyers should recognize they can't count on property appreciation by itself to compensate for miscalculating the upside of a property's "value-add" component. Buyers also should be aware of the risks associated with allowing a recency bias to influence their investment choices. A recency bias involves basing one's conclusions upon relatively recent trends without considering longer-term evidence. Digging a bit deeper, there have been a few sales with exit pricing that suggests this theory has merit.

As margins grow tighter, asset acquisition will become riskier. It's essential, then, to understand what you are buying before making the investment and not trying to make a transaction possible where it might otherwise not exist. Buyers may have the latitude to underwrite a higher value on the acquisition, but it will eventually matter what their asset is worth when they go to sell. Putting valuations aside, multifamily owners should press harder in 2019 to operate more efficiently. If you want an advantage among buyers, then that may come from having a property with a solid and proven track record.

From a capital standpoint, 2019 will be more of the same. There will be an abundance of capital from banks, agencies, life companies and CMBS lenders. And the Federal Housing Finance Agency announced in November that it is setting its 2019 lending caps for Fannie Mae and Freddie Mac at \$35 billion, the same as last year. The Fed has also indicated that it will slow the pace of any rate hikes for the remainder of 2019. So, it is probably safe to expect that interest rates will remain in a narrow range, maybe moving only 20 to 25 basis points up or down. Even if interest rates do move higher, it might not have a meaningful negative impact on buyer demand anyways.



2019 Mid-Year Multifamily Apartment Report

Oklahoma City

For the first six months of 2019, there were 19 sales on properties that exceed 25 units in size, for a total of 2,792 units. While this was down from 4,428 units sold at Mid-year 2018, total sales volume was up at \$215.8 million in 2019, as compared to \$162.4 million for the same six-month period of 2018. The overall average price per unit on apartment communities with 25 units or more is \$77,312. While the average price per unit is up significantly from \$36,687 at Mid-year 2018, the average was driven by four large institutional grade properties that accounted for 51 percent of the total units sold and over \$156 million of the total volume year-to-date.

For Pre-1980's properties, there were 11 transactions involving 1,098 units for an average per unit price of \$40,502. The average price per unit increased from \$29,795 at Mid-year 2018, but with sales volume at less than half. At Mid-year 2019, there was \$44.4 million in sales on 11 transactions, as compared to \$96.7 million on 23 transactions for the same period of 2018. The metrics for Mid-year 2019 show that 42% of the total units sold were within this asset class, versus 73% for the six-month period of 2018. The notable sales were the 32-unit Flamingo Apartments at 1844 NW 23rd Street that sold for \$82,375 per unit and the 162-unit Belmont Apartments at 1800 N. Rockwell that sold for \$49,413 per unit. The lowest price per unit was \$25,274 for the 91-unit Autumn Run Apartments at 1000 NW 105th Street, which is near Hefner and Western.

Within the 1980's category, there were only two small sales for a total of \$2.3 million on 62 units. The average price per unit was \$38,468. This is in stark contrast to Mid-year 2018 when total volume exceeded \$41 million on 948 units, for an average price per unit of \$43,987.

The Post-1990's category held 75 percent of total volume for the six-month period of 2019. To put this in perspective, the category had \$161.5 million of the \$215.8 million for the year. Here's the breakdown; the 252-unit Landing Apartments at 4800 E. I-240 Service Road, which was a new construction property from 2017, sold for \$32 million, or \$126,984 per unit, the 708-unit Lincoln at Central Park sold for \$81.6 million, or \$115,254 per unit, the 36-unit Dillon Park Apartments in Edmond, a 144-bedroom student housing property, sold for \$4.9 million, or \$136,111 per unit, the 216-unit Quail Landing Apartments at 14200 N. May sold for \$23.5 million, or \$108,796 per unit and then finally there was the Traditions at Westmoore Apartments at 12205 S. Western that sold for \$19.5 million, or \$97,750 per unit.

Table 1
Historical Sales Volume
Year-End \$ Totals

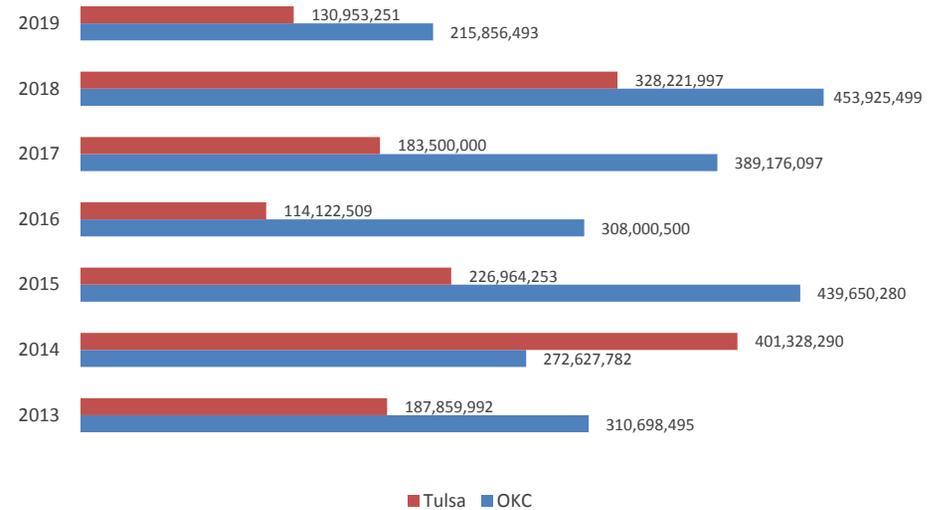
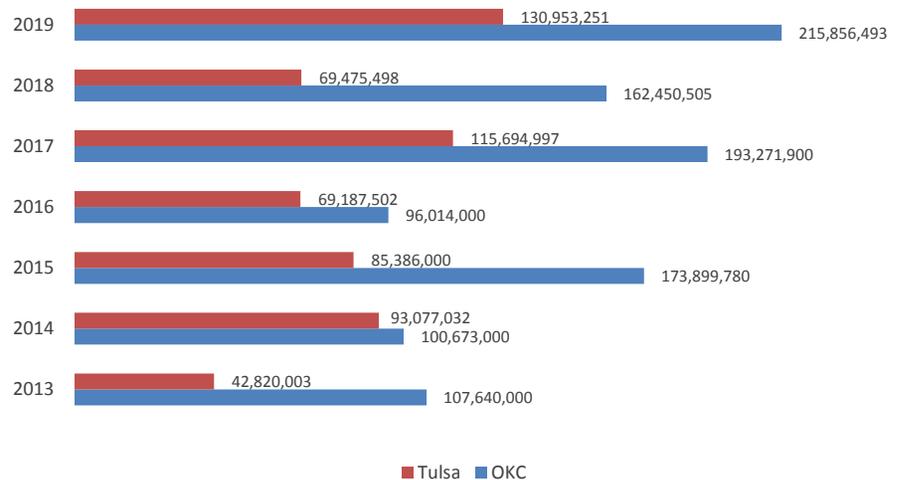


Table 2
Historical Sales Volume
Mid-Year \$ Totals



Oklahoma City

Total Sales Volume



33%

Compared to Mid-Year 2018

Total Units Sold



37%

Compared to Mid-Year 2018

Average Price Per Unit



111%

Compared to Mid-Year 2018

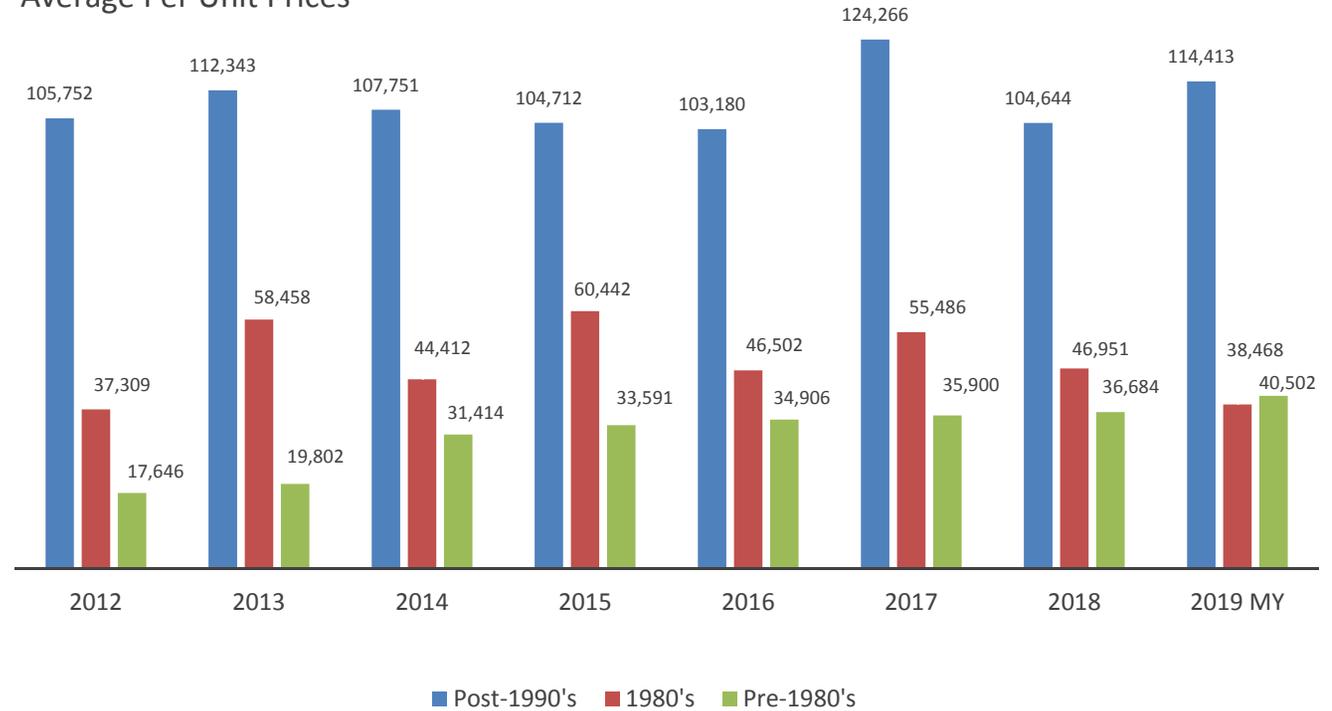
No. of Transactions



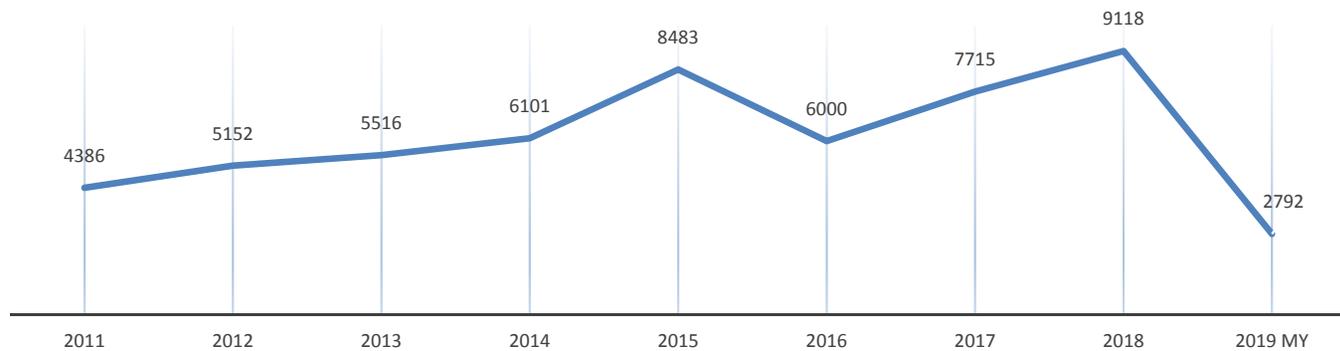
32%

Compared to Mid-Year 2018

Average Per Unit Prices



OKC Total Units Sold



Tulsa

There were 12 sales in Tulsa during the first six months of 2019 on properties that exceeded 25 units in size, for a total of 2,206 units sold. This was 40 percent higher than the 1,313 units sold at Mid-year 2018.

Total transaction volume in Tulsa was \$130.9 million, which was up 47 percent from \$69.4 million for the first six months of 2018. The overall average price per unit in Tulsa was \$59,362 as compared to \$52,914 at Mid-year 2018.

For Pre-1980's properties, there were 8 transactions involving 1,262 units for an average per unit price of \$38,421. Total volume represented \$48.4 million for the category. The highest per unit price involved the small 27-unit Sunset Court Apartments at 140 E. 21st Street that sold for \$59,074 per unit. The lowest sale was \$20,000 per unit for the 40-unit Silverwood Apartments at 2503 S. 87th Avenue. The other notable sale was the Chateau 68 Apartments (*formerly known as Pomeroy Park*) that contained 218-units at 6805 S. Lewis that sold for \$9.7 million, or \$44,839 per unit.

<u>Tulsa</u>	Post 1990's	1980's	Pre-1980's
Number of Transactions	2	2	8
Total Number of Units	630	314	1,262
Total Number of Sales Tulsa	2	1	7
Total Number of Sales Other			1
Total Number of Sales Broken Arrow		1	
Price High per unit	\$104,366	\$53,644	\$59,074
Price Low per unit	\$104,363	\$50,595	\$20,000

<u>Oklahoma City</u>	Post 1990's	1980's	Pre-1980's
Number of Transactions	5	2	11
Total Number of Units	1,412	62	1,098
Total Number of Sales OKC	3	2	7
Total Number of Sales Edmond	1		
Total Number of Sales Norman			1
Total Number of Sales Other	1		3
Price High per unit	\$136,111	\$52,500	\$82,375
Price Low per unit	\$97,750	\$26,911	\$25,274

1 LIHTC sale in Norman on 220-units

There were only two sales in the 1980's category. While this may seem low, there were no sales at Mid-year 2018 for a statistical comparison. The two sales involved Cedar Craft Apartments in Broken Arrow and Silver Springs Apartments at 6112 S. 87th East Avenue in Tulsa. Cedar Craft is 42-units, built in 1984, that sold for \$2.1 million or \$50,595 per unit. Silver Springs was an entity sale where documentary stamps are not included for pricing. The sale did involve a new mortgage of \$11,673,000 that was filed of record on June 28, 2019 and according to a tombstone announcement by Marc Belsky of Eastern Equity, involved a \$5.5 million equity raise. If one were to assume an 80 percent loan-to-value, this would put the sale price at \$14,591,250, suggesting the buyer raised an additional \$2.5 million for property upgrades.

The two sales in the Post-1990's category was Estancia Apartments at 7705 S. Mingo and Sonoma Grande at 9303 E. 81st Street. Both were sold for just over \$104,000 per unit by Steadfast Asset Holdings, a real estate investment trust based in Irvine, California. Estancia contained 294-units that were built in 2006 and acquired by Steadfast for \$94,897 per unit in June of 2012. Sonoma Grande contained 336-units that were built in 2009 and acquired by Steadfast for \$95,833 per unit in May of 2012.

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
The Addison	10156 E. Admiral	\$3,950,000	160	1973	\$24,687
Heather stone	9730 E. 33 rd Street	\$12,200,000	252	1970	\$48,412
Summer stone	1801 S. 132 nd Place	\$7,667,000	172	1974	\$44,575
Estancia	7705 S. Mingo	\$30,683,000	294	2006	\$104,364
Sonoma Grande	9303 E. 81 st Street	\$35,067,000	336	2009	\$104,366
Prairie Village	1220 SE 9 th - Pryor	\$4,225,000	100	1975	\$42,250
Water stone	1054 E. 57 th Place	\$9,100,000	243	1978	\$37,448
Cherry Hill	901 N. Brown Street	\$3,400,000	150	1972	\$22,667
Cedar Craft	289 E. Iola Street	\$2,125,000	42	1984	\$50,595

Tulsa

Total Sales Volume



88%

Compared to Mid-Year 2018

Total Units Sold



68%

Compared to Mid-Year 2018

Average Price Per Unit



12%

Compared to Mid-Year 2018

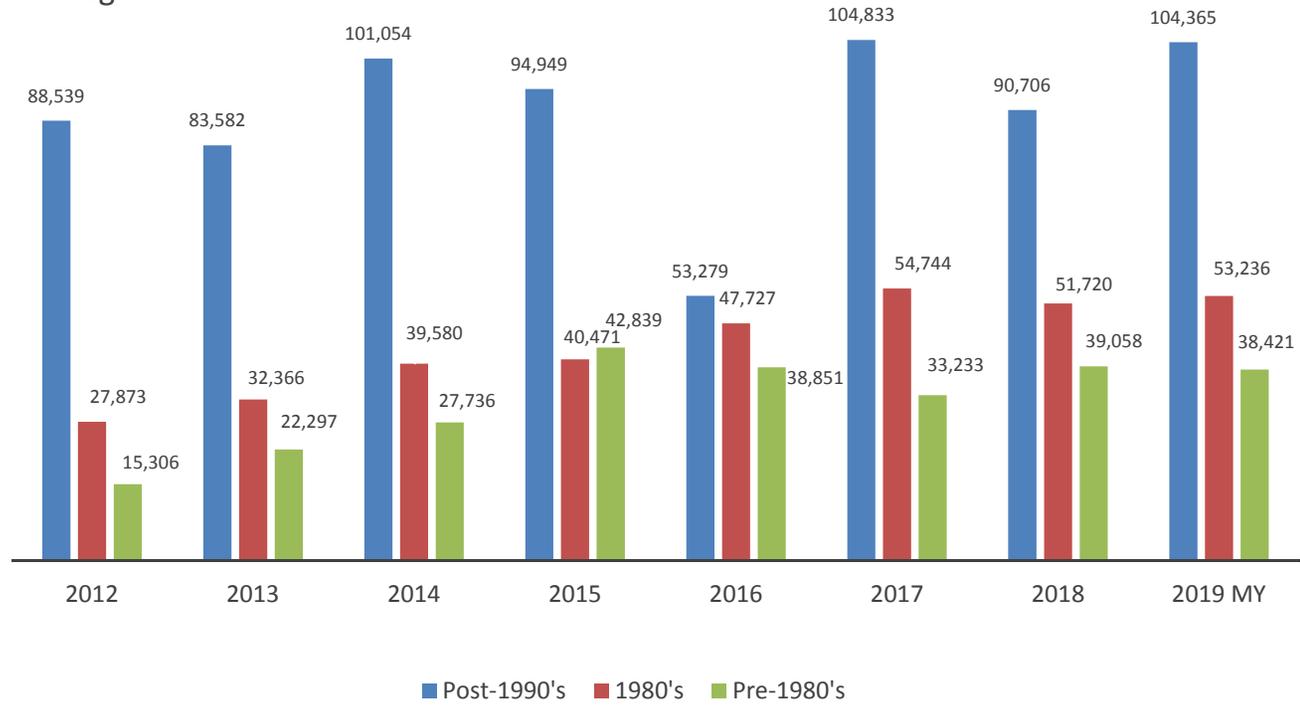
No. of Transactions



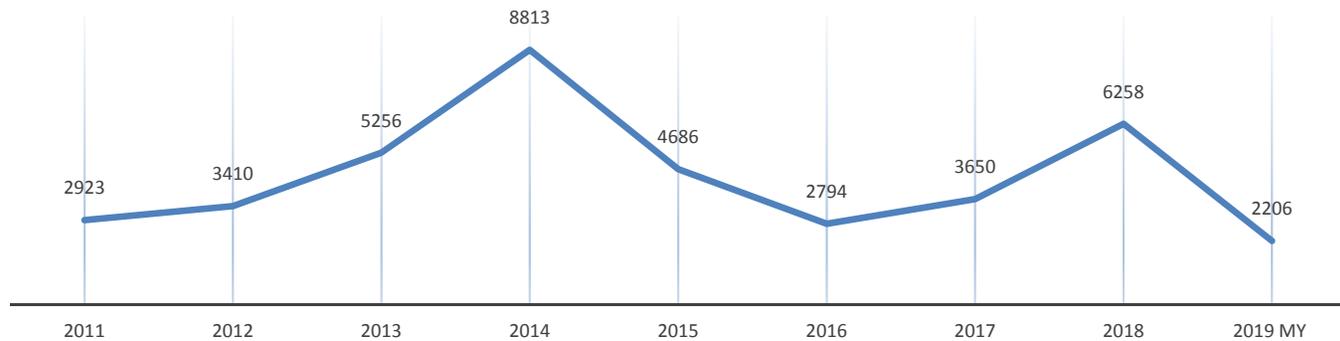
71%

Compared to Mid-Year 2018

Average Per Unit Prices



Tulsa Total Units Sold





Arkansas

Oklahoma

Kansas

Outlook

Are investors preparing for an eventual downturn? Based on our personal observation, we don't think so. In fact, until there is some urgency of owners to sell, which we don't see as being imminent, we think the market maintains its course. Caution is not keeping many on the sidelines. The reality is that multifamily remains a flight to safety for most real estate investors. There is not much to dampen the enthusiasm in the market and both buyers and sellers are holding to a positive outlook for the multifamily sector throughout 2019.

Sellers are predicting stable or improving fundamentals in the coming year and for now buyers are keeping their foot on the gas in terms of acquisitions. Many of those looking for deals will crave the off-market assets as opposed to those that are broadly available to the masses. There was a lot of this in 2018 and we think 2019 is likely to bring more of the same.

There continues to be a comforting level of stability in the sector. But it's not the time in the cycle to become complacent and assume that everything will continue to go well and as planned. Acknowledging uncertainty in the future while being careful and patient just seems like the right thing to do at this point in the cycle.

But, as with any forecast there are multiple ways of it going awry. First, values may just keep rising while interest rates and cap rates remain at historic lows. Second, maybe there is no end in sight and headwinds are just a thing of the past, as many in the industry advocate. And the data would be on their side, showing no discernable trends of a market slowdown. But just as our forecast could be off target, those suggesting no end to this upward cycle are no more likely to accurately predict that outcome than we are in our cautious approach.

CRRG has sold over 34,000 apartment units. We deliver value to our clients by providing exceptional service that increases their bottom line



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

Mirador	6220 S. Douglas	\$1,340,000	36	1970	\$37,222
Dillon Park – 144 Bed Student Housing	1015 Chowning Ave	\$4,900,000	36	2004	\$136,111
Autumn Run	1000 NW 105 th Street	\$2,300,000	91	1972	\$25,274
Commons Sunnyslane	4215 SE 53 rd Street	\$8,355,000	212	1973	\$39,410
The Belmont	1800 N. Rockwell	\$8,005,000	162	1969	\$49,413
Willow Park (2)	4814 N. Kristie Dr	\$3,850,000	112	1973	\$34,375
Emerald Greens	2815 S. Dewey	\$7,450,000	220	1998	\$33,863
MacArthur Park (3)	6100 MacArthur Park Ln	\$915,000	34	1984	\$26,911
Apple Tree	6032 NW 23 rd Street	\$3,510,000	69	1972	\$50,869
Quail Landing (1)	14200 N. May	\$23,500,000	216	2000	\$108,796
The Flamingo	1844 NW 23 rd Street	\$2,636,000	32	1961 / 2017	\$82,375
The Landing	4800 E. I-240	\$32,000,000	252	2017	\$126,984
Lincoln at Central	500 Central Park Dr	\$81,600,492	708	2008	\$115,255
Sooner Crossing	1115 Biloxi	\$4,550,000	118	1972	\$38,559
Wilshire Valley	701 E. Wilshire	\$4,500,000	144	1971	\$31,250
Studio 900 & 910	900 NW 13 th Street	\$925,000	26	1946	\$35,576
Belle Isle Terrace	4809 N. Black welder	\$4,500,000	96	1974	\$46,875
Traditions Westmoore	12205 S. Western	\$19,550,000	200	2014	\$97,750

(1) Sold for only \$50,000 more than its previous sale in Nov-2016
 (2) Sold for \$300,000 less than its previous sale in Sep-2016
 (3) Sold for \$385,000 less than its previous sale in Jun-2017