

Arkansas

Oklahoma

Kansas

2019

Apartment Report Oklahoma City Tulsa

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COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES



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2019 Multifamily Apartment Report

The eagerness of investors continues to push the price of apartments to new highs with seemingly no end in sight. Despite record levels of investment last year, the number of investors interested in the multifamily sector is still growing. Yet, it is increasingly challenging to uncover opportunities. That statement should not suggest there are no properties to buy though. To the contrary, I think there are plenty of properties to purchase if one is prepared to pay the price. That means buyers may have to give a second look to properties that they passed on just six months ago. With sellers showing no indication they are ready to lower their prices; the challenge becomes if the acquisition is going to deliver the opportunity the investor is seeking. Notwithstanding, if you believe, as a lot of people do, that the multifamily sector will continue this positive direction, then you need to buy if you want to participate in this cycle.

And why should we expect a change in direction? Cap rates in the sector remain historically low and seem to be getting lower. New investors keep finding reasons to buy apartments and prices just keep rising. New investors are coming to this market at rates never seen before. Equity for new deals is continually being raised by groups that may or may not have real estate experience that want to get in on the action and take advantage of the rental demographic. This continues to put sellers in a strong position. In fact, we have not encountered many scenarios where a seller has lost optimism to achieve record pricing, even if his asset has issues or struggling performance. Today, sellers theorize that if the last price was high the next one will be higher, and buyers are not wondering if they are paying too much.

For the most part, we in the brokerage community have done a really great job getting buyers into a frenzied state by labeling a property a value-add asset, even if it is an older, more difficult deal. We have all been selling that the prototypical multifamily investment still exists; while you might overpay initially, the property will perform so well with completed capital improvements that you are going to have a home run at the end of the day. As such, everything is being labeled as value-add. The caveat now is that a lot of the marketed properties are assets that have already sold once as a value-add deal and now would have to undergo a stage 2 or stage 3 value-add renovation. And a lot of the older communities, such as those built in the 1960s and 1970s might be more difficult to upgrade, operate or maintain to that next level.

Low interest rates are certainly a factor in price growth. At the end of 2018, we thought it was less likely that prices would rise as quickly in the future as they had in the past. We thought that the trend of higher interest rates might cause more pricing pressure and prompt a broader reassessment of values. Well, that forecast was amiss as the Fed cut interest rates three times in 2019 and those lower rates prompted investor behavior and supported more pricing growth. Remember, it was only a year ago that the Fed indicated rates would steadily increase. Generally, it just doesn't feel like there is much room left for cap rates to go lower even with lower interest rates. Which means if prices are to continue moving up then that will need to come through an uptick in occupancy, rent growth or higher net operating incomes.

In the near-term some of the pricing levels we have seen might appear at peak, but long-term investors should still prevail because the longer their investment horizon, the greater the chances to achieve those outcomes.

Candidly though, it feels like some buyers late in this cycle have paid their "exit" price for the acquisition. Meaning, certain assets could be headed towards a pricing plateau, or decline in price, if they are unable to achieve those occupancies, rent growth or better net operating incomes leaving them more exposed to short-term risk.

According to data released from the Oklahoma Employment Security Commission, unemployment rates were higher in November than a year earlier in 75 of Oklahoma's 77 counties. Oklahoma County, the state's largest county, had a jobless rate of 3.2% up from 2.8% for November 2018. Tulsa County, the second largest county, had an unemployment rate of 3.4% up from 2.9% for November 2018.

The Tulsa region, however, did show steady growth in 2019 and continues to attract and expand high quality employers. Tulsa's Future, the public-private regional economic development partnership led by the Tulsa Regional Chamber, helped create 2,609 jobs and generate \$829 million of capital investment in 2019. Notable economic development projects announced from 2019 include Milo's Tea Company's \$60 million production plant in Owasso; the relocation of 85 Triumph Aerospace Structures employees to downtown Tulsa; and the addition of 615 jobs at the American Airlines' Tulsa maintenance base.

In addition to those announcements, both Oklahoma City and Tulsa were named among the 50 best cities to start a business by *Inc. Magazine*. Tulsa also outpaced the rest of the nation in wage growth, ranking the No. 1 city in wage growth by *Inc. Magazine*. Oklahoma City ranked fifth in rate of entrepreneurship, 23rd in wage growth and 27th in job creation. The magazine pointed to many features of the city's Innovation District as drivers of Oklahoma City's strong showing in the rankings.

Transactional volume in Oklahoma City not only exceeded 2018 but set another record at \$541.3 million. To put this in perspective, there has been nearly \$1 billion dollars in apartment sales over the past 24 months. The total number of units sold in Oklahoma City in 2019 was 7,403 marking its fourth best year on record. Tulsa recorded its second-best year on record with 6,469 units sold and had \$362.7 million in total volume.

Oklahoma City Metro

For the twelve months of 2019, there were 48 sales on properties that exceed 25 units in size, for a total of 7,403 units. This was down nineteen percent from 9,118 units sold in 2018 but was overshadowed by sales volume. Total sales volume was \$541.3 million in 2019, as compared to \$453.9 million in 2018, a nineteen percent increase. For 2019, the overall average price per unit on apartment communities with 25 units or more is \$73,130, a solid forty-seven percent increase from \$49,783 at year end 2018.

For Pre-1980's properties, there were 28 transactions involving 3,250 units for an average per unit price of \$45,403. Of the total units sold, forty-four percent of the 7,403 was in this Pre-1980's vintage. The demand for workforce housing and the fact that this asset class is viewed as a safer investment has kept the earlier vintage properties in high demand. Apart from that, the category was down from \$216.7 million in sales in 2018 on 46 transactions, involving 5,909 units sold. The delineating number was the average price per unit that was up twenty-four percent in 2019 from \$36,684 in 2018.

The 1980's category recorded eight sales for a total of \$121.2 million on 1,577 units. The average price per unit was \$76,908. By comparison, there were six transactions in 2018 for \$78.5 million in sales representing 1,673 units sold. The average price per unit for the category was up by sixty-four percent from \$46,951 in 2018. Why such a notable increase? The asset class is nearing 40 years old and as properties age, they tend to evolve into mainstream workforce housing. So much like those assets built in the 1960s and 1970s, many in this category are becoming less competitive because of physical obsolescence. The difference is that properties built in this era had better architectural characteristics than those earlier assets of the 1960s and 1970s making them especially attractive to those investors looking for the formulaic value-add play. Pricing follows demand and there is more demand than supply for this product type, which explains the 64 percent increase in the average price per unit.

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Post-1990's properties had eight sales in 2019 for a total of \$260 million on 2,220 units. The average price per unit was \$117,159. This compares to seven sales in 2018 for a total of \$157.3 million on 1,504 units sold. The average price per unit was up twelve percent in 2019 from \$104,644 in 2018. The largest sale in terms of size was the Lincoln at Central Park Apartments with 708 units and the highest per unit sale was The Reserve at Quail North at \$138,214 per unit for the 280-unit community.

Student Population Trends

Only one reference is being made to student housing in Norman and that is because I have covered it in past reports. Notably, the numbers speak for themselves. According to data prepared by Institutional Research & Reporting, the total Norman campus unduplicated enrollment for Fall-2019 was 28,089, versus 28,582 in Fall-2018, a decrease of 493. The enrollment in Fall-2009 was 26,540, an increase of 1,549 students over the eleven-year period between 2009 and 2019, which is roughly one-half percent annual enrollment growth over the past decade.

	Fall 2018	Fall 2019	% Change
Norman Campus			
Norman On-Campus	26,165	25,875	-1.1%
OU-Tulsa - Norman Campus Programs	695	702	1.0%
Extended Campus	3,398	3,911	15.1%
Total Norman Campus Unduplicated Headcount	28,582	28,089	-1.7%

	Fall 2009	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016	Fall 2017	Fall 2018	Fall 2019
Total Norman Campus	26,540	26,490	27,149	27,518	27,303	27,278	27,445	27,937	28,541	28,582	28,089
Resident	17,427	17,673	17,768	17,766	17,472	16,979	16,994	17,358	17,710	17,524	16,966
Nonresident	9,113	8,817	9,381	9,752	9,831	10,299	10,451	10,579	10,831	11,058	11,123

(<http://www.ou.edu/content/irr/data-center/enrollment-statistics.html>)

I asked the question in my 2018 report "Where is the market for student housing headed?" To expand a bit on my answer and now based on these enrollment numbers, clearly in the wrong direction. There is also a large lawsuit pending with a developer and the University. For that, see the article "OU housing developer sues university, state", as it appeared in The Oklahoman, Tuesday, December 17, 2019.

Tulsa

There were 36 sales in 2019 on properties that exceeded 25 units in size, for a total of 6,469 units sold. This was similar with 2018 when there were 37 sales for a total of 6,258 units sold.

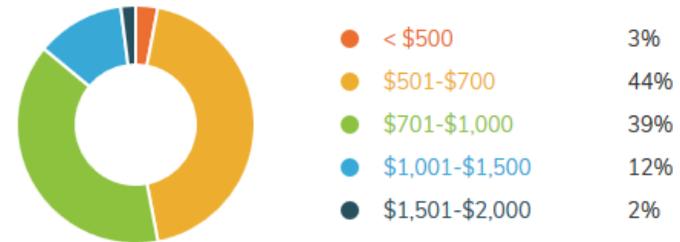
Total transaction volume in Tulsa was \$362.7 million in 2019, which was up eleven percent from \$328.2 million in 2018. The overall average price per unit in Tulsa was \$56,080 versus \$52,448 in 2018, a seven percent increase.

For Pre-1980's properties, there were twenty-four transactions involving 3,463 units for an average per unit price of \$41,605. This compares to twenty-five transactions on 3,565 units sold in 2018 for an average price per unit of \$39,058. Total volume in 2019 was \$144 million, versus \$139.2 million in 2018. The largest sale in terms of size was the Crossings at Silver Oak Apartments at 7110 S. Granite with 544-units.

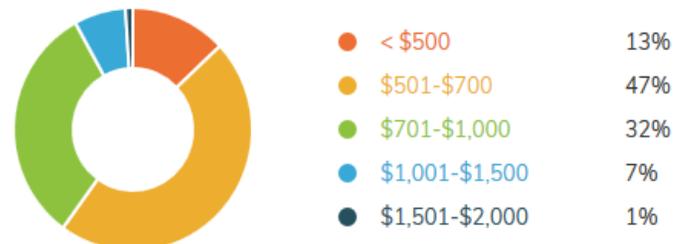
Post 1980's recorded eight transactions for 1,908 units sold in 2019. Combined sales accounted for \$103.1 million for an average price per unit of \$54,069. This compares to 2018 which had five sales for \$67 million involving 1,296 units for an average price per unit of \$51,720. The highest price per unit in this category for 2019 was \$63,679 for the Somerset Park at Union Apartments. The 424 units were built in 1984 and located at 9416 E. 65th Street.

Post-1990's vintage had four transactions for 1,098 units sold in 2019. Combined sales accounted for \$115.5 million for an average price per unit of \$105,228. This compares to 2018 with six sales for \$119.8 million involving 1,321 units. The average price per unit in 2019 was up sixteen percent from \$90,706 in 2018.

Oklahoma City, OK Apartment Rent Ranges



Tulsa, OK Apartment Rent Ranges



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Outlook

If cap rates do move, either to the positive or negative, we think it will be slight. Nonetheless, the disconnect will continue in that there is not much disparity in the ratio among class-A assets and older assets.

While the sector is strong and steady, it is difficult to prove that there will not be a slowdown on the horizon, as some have argued. For this reason, investors should be well informed when evaluating properties. I think some decisions to purchase properties in this market are rationalized by what an investor cannot find in other markets. They (*investors*) should be careful not to broadly generalize the market and take caution that properties in different submarkets of the same metro may perform very differently from each other.

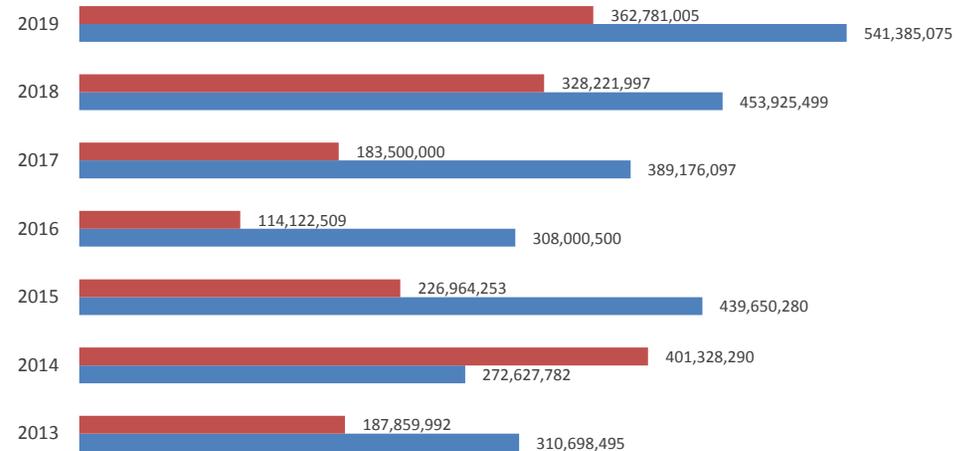
We will watch sales volumes and valuations over the next several months to see what trends materialize for 2020. In reflecting on 2019, we think the window has closed on acquisitions that represent any sort of discount to pricing and classify most sales in 2019 as roughly fair deals.

Referring to quotes from Harold Hamm, Continental Resources' chairman and CEO, in the Business section of The Oklahoman on November 21, 2019, "The early people who came in and took an equity position and then flipped it to someone else made a lot of money. They did well," he said. But those that followed? Not so much. "Today, we just say that model is broken, because a lot (of companies and investors) are stuck," Hamm said. "A lot of folks who raised their money from investors basically have been burned and stung, and that helped sour the market." Still, he said it has been a remarkable decade for the industry.

That "industry" and those comments from Hamm are obviously referring to oil and natural gas and not real estate. While his comments may have nothing to do with real estate in general or multifamily specifically, what if they have everything to do with them if proven similarly accurate or foretelling. While that could be worrisome, there likely would have to be something that creates a shock to the system to really disrupt the current momentum in the multifamily sector.

Despite the length of this cycle, we're just not seeing any widespread deterioration or red flags that would suggest a downturn is coming. We really expected that the next move for apartment pricing might be marginally down, or at least holding steady, but that has been replaced by higher values and no one seems to be spooked by those higher values. Looking forward, we don't expect prices to decline in 2020, but hesitate to predict they will keep going up at this same record pace. The time may just be running out for investors needing that three to five-year quick return on a value-add flip deal. For those investors, they may have to diversify what they do.

Table 1
Historical Sales Volume
Year-End \$ Totals



Oklahoma City, OK Rent Trends

Average Rent	Nov / 2016	Mar / 2017	Jul / 2017	Nov / 2017	Mar / 2018	Jul / 2018	Nov / 2018	Mar / 2019	Jul / 2019	Nov / 2019
Oklahoma City, OK	\$730	\$718	\$726	\$733	\$731	\$741	\$752	\$754	\$775	\$782
National	\$1,351	\$1,347	\$1,379	\$1,381	\$1,384	\$1,420	\$1,429	\$1,433	\$1,469	\$1,473

Tulsa, OK Rent Trends

Average Rent	Nov / 2016	Mar / 2017	Jul / 2017	Nov / 2017	Mar / 2018	Jul / 2018	Nov / 2018	Mar / 2019	Jul / 2019	Nov / 2019
Tulsa, OK	\$676	\$663	\$671	\$677	\$673	\$678	\$684	\$685	\$697	\$709
National	\$1,351	\$1,347	\$1,379	\$1,381	\$1,384	\$1,420	\$1,429	\$1,433	\$1,469	\$1,473

Oklahoma City

Total Sales Volume



19%
Compared to 2018

Total Units Sold



19%
Compared to 2018

Average Price Per Unit



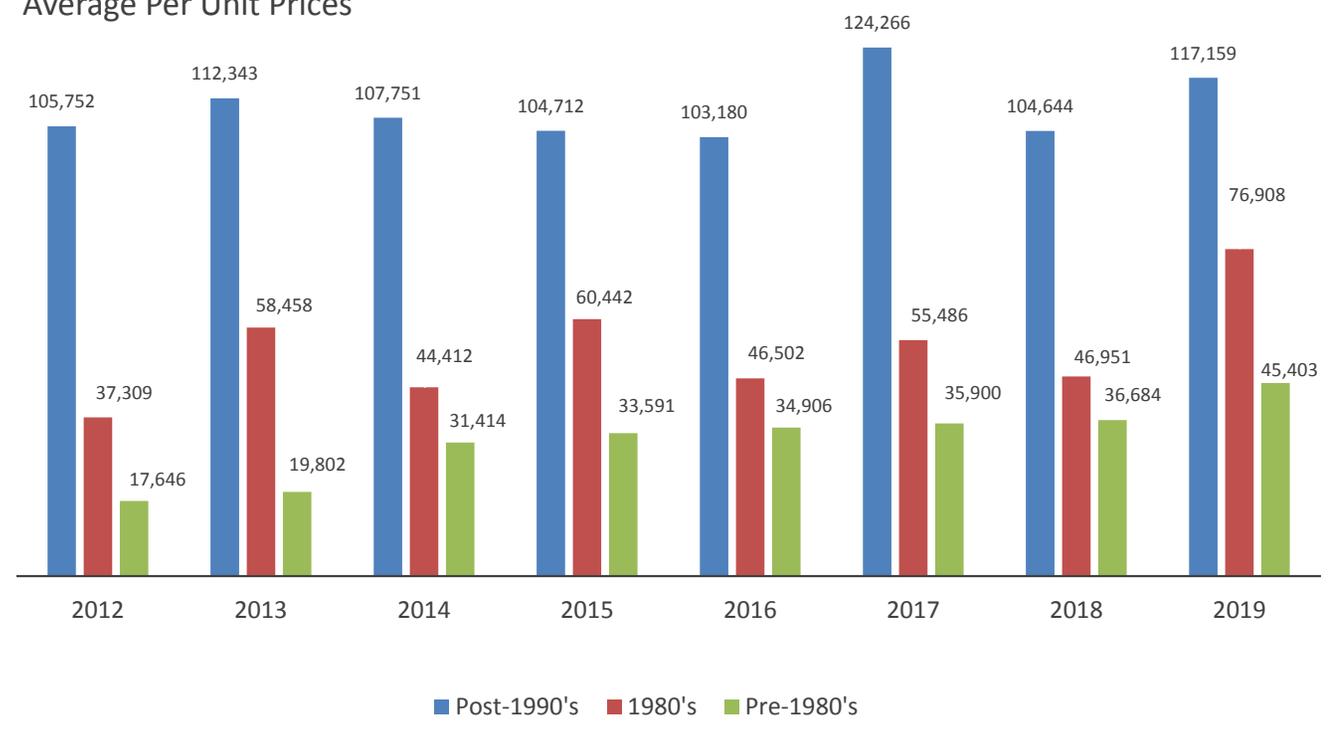
47%
Compared to 2018

No. of Transactions

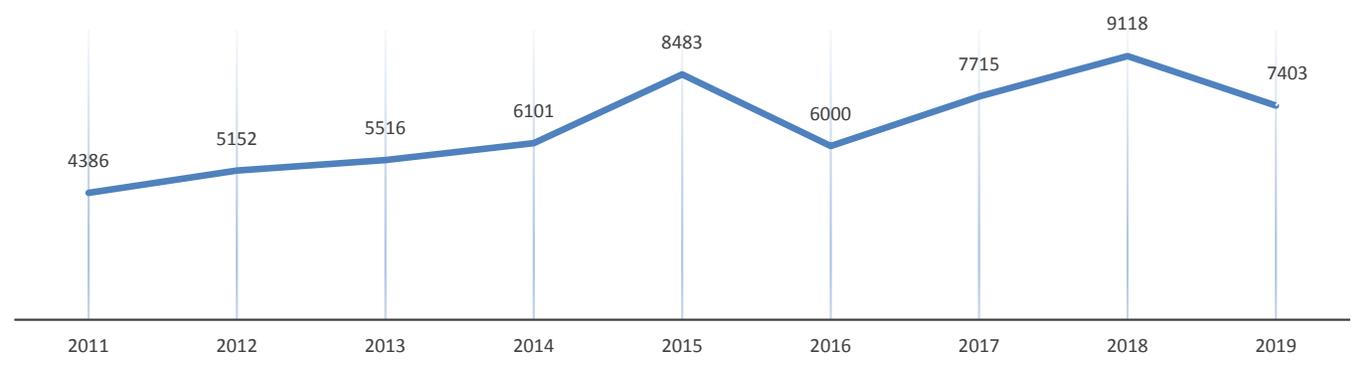


23%
Compared to 2018

Average Per Unit Prices



OKC Total Units Sold



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<u>Tulsa</u>	Post 1990's	1980's	Pre-1980's
Number of Transactions	4	8	24
Total Number of Units	1,098	1,908	3,463
Total Number of Sales Tulsa	2	7	21
Total Number of Sales Other	1		3
Total Number of Sales Broken Arrow	1	1	
Price High per unit	\$104,366	\$65,140	\$60,562
Price Low per unit	\$87,236	\$32,422	\$12,500

<u>Oklahoma City</u>	Post 1990's	1980's	Pre-1980's
Number of Transactions	8	8	28
Total Number of Units	2,220	1,577	3,250
Total Number of Sales OKC	4	8	18
Total Number of Sales Edmond	3		2
Total Number of Sales Norman			4
Total Number of Sales Other	1		4
Price High per unit	\$136,111	\$138,461	\$82,375
Price Low per unit	\$97,750	\$26,911	\$23,958

2 LIHTC sales on 220-units and 136-units

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

Silver Springs	6112 S. 87 th E Ave	\$14,591,250	272	1984	\$53,644
Chateau 68	6805 S. Lewis	\$9,775,000	218	1970	\$44,839
Reserve Aspen Creek	1100 W. Tucson	\$29,900,000	240	2018	\$124,583
Silver Creek	10710 E 41st	\$14,640,000	320	1980	\$45,750
Village Green	758 Plaza Dr - Jenks	\$2,900,000	48	1974	\$60,416
Park Coffee Creek	14100 E 106th	\$19,890,000	228	2011	\$87,236
Park Plaza	5020 S 67 th E Ave	\$1,000,000	32	1973	\$31,250
Prescott Woods	1337 E 61st	\$8,300,000	256	1985	\$32,422
Vintage on 66	1140 S 101 st E Ave	\$775,000	62	1963	\$12,500
El Dorado	3221 E 30 th Place	\$3,050,000	56	1965	\$54,464
Magnolia Manor	4747 S Darlington	\$2,100,000	89	1965	\$23,595
Somerset Park	9416 E 65th	\$27,000,000	424	1984	\$63,679
Crossings Portfolio (1)	7 Properties	\$57,667,200	1,538	1965 – 1980	\$37,495
Brownstone	3377 E Skelly	\$3,310,345	72	1963	\$45,977
Stratford House	4111 E 51st	\$4,689,655	102	1965	\$45,977
Ashford Overlook	6339 S. 33 rd W Ave	\$18,500,000	284	1984	\$65,140
Ashford Ridge	4334 E. 66 th S Street	\$9,250,000	142	1983	\$65,140
Sunset Court	140 E. 21 st Street	\$1,363,000	27	1932	\$50,481
Beaumont Cove	3147 S. 108 th Ave	\$4,578,000	136	1974	\$33,661
Parkwood Gardens Bixby	600 S. Main Court	\$5,400,000	100	1970	\$54,000
Stockton (2)	6609 S. Lewis	\$3,098,000	107	1965	\$28,953

- 1) Purchase Price was subject to an intangible personal property allocation
- 2) Sold for \$902,000 less than its previous sale in Apr-2016

Tulsa

Total Sales Volume



11%
Compared to 2018

Total Units Sold



3%
Compared to 2018

Average Price Per Unit



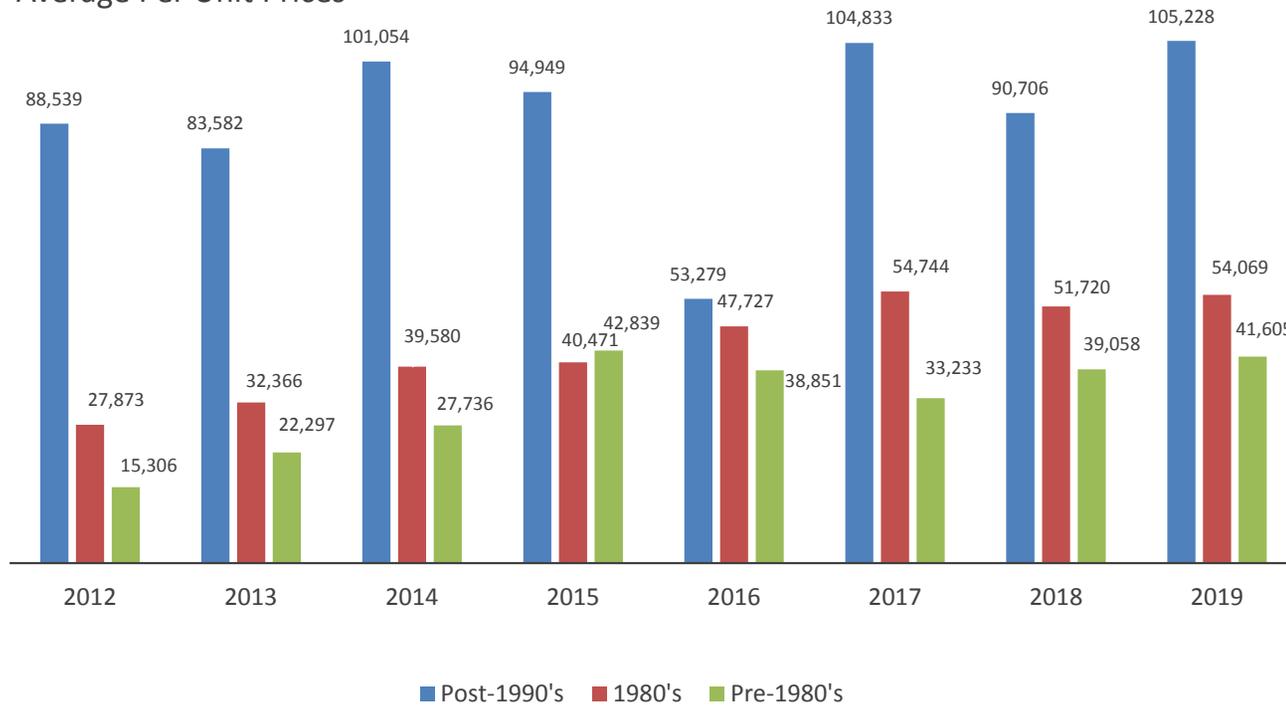
7%
Compared to 2018

No. of Transactions

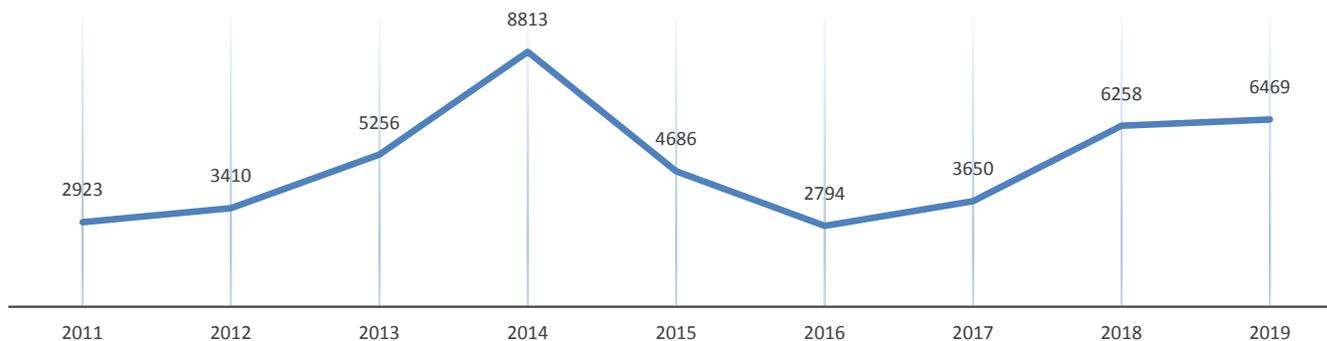


3%
Compared to 2018

Average Per Unit Prices



Tulsa Total Units Sold





Arkansas

Oklahoma

Kansas

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

Chelsea Manor	6300 N. Meridian	\$8,775,000	187	1971	\$46,925
The Haven	601 Robert S. Kerr	\$9,000,000	65	1985	\$138,461
Bridgepoint	5314 Willow Cliff	\$22,000,000	396	1974	\$55,555
Lakewood Estates (1)	7806 Lyrewood Ln	\$10,900,000	208	1971	\$52,403
Reserve Quail North	2600 Watermark	\$38,700,000	280	2016	\$138,214
Taylor Ridge	4759 NW 36th	\$1,800,000	52	1974	\$34,615
Avana on Second	1919 E. 2 nd - Edmond	\$37,442,000	328	1999	\$114,152
Adams Crossing (2)	2400 NW 39 th	\$7,600,000	158	1966	\$48,101
The Wynn	3621 Wynn - Edmond	\$6,300,000	100	1972	\$63,000
Ashley Park	2600 W. I-240	\$12,200,000	200	1975	\$61,000
University Plaza	542 S. University	\$1,685,000	41	1972	\$41,097
Colonial	1906 N. Broadway	\$1,850,000	57	1965	\$32,456
Mayfair Square	2824 SW 59th	\$10,500,000	252	1973	\$41,667
Creekside	5700 S. Agnew	\$6,400,000	189	1962	\$33,862
Broadmoor 24	515 24 th Ave NW	\$3,012,750	65	1971	\$46,350
Plaza 24 (3)	917 24 th Ave SW	\$4,635,000	99	1969	\$46,818
Ashford Northwest (4)	2301 NW 122nd	\$33,500,000	458	1984	\$73,144
Ashford Park	1301 W. Hefner Rd	\$11,500,000	152	1985	\$75,657
Ashford Walnut Creek	6801 NW 122nd	\$6,500,000	104	1986	\$62,500

CRRC has sold over 35,000 apartment units. We deliver value to our clients by providing exceptional service that increases their bottom line



- (1) 82% increase in value between Aug 2017 and Oct 2019
- (2) 60% increase in value between Oct 2016 and Nov 2019
- (3) 35% increase in value between Dec 2016 and Nov 2019
- (4) 38% increase in value between Dec 2014 and Dec 2019