Arkansas Oklahoma Kansas

2020 Mid-Year Apartment Report Oklahoma City Tulsa

Providing professional apartment brokerage and marketing services for over 35 years

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COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES

2020 Mid-Year
Multifamily Apartment Report

My 2019 Outlook ended by saying “there likely would have to be something that creates a shock to the system to really disrupt the current momentum in the multifamily sector”. At mid-year 2020 we now know that COVID-19 was that shock to the system that no one saw coming. It suddenly and unexpectedly interrupted everything. This pandemic has been the disrupter to the theory that rents will continue to go up. There is nothing happening in the market that would cause rents to flatten or decline, the logic went. But now, a key differentiator for investors going forward will be underwriting discipline. And the differentiator for owners will be protecting their basis. Both sides will need to stop what they are doing and reassess current conditions.

There could be a fundamental shift *(how properties perform)* from value-add to downside protection. That may mean leaving a few dollars on the table in rent growth in exchange for generating returns that are foreseeable and sustainable. This translates to achieving returns over a longer period. Protecting one’s basis *(what they paid/invested)* may become more paramount than hoping the next buyer will pay more for the property than they did. This theory may be best described by Chas Craig, president of Meliora Capital in Tulsa, in a Capital Perspectives column he wrote for the Journal Record on July 1, 2020, where he offers his definition between investment versus speculation. Here is the excerpt from his column;

Investment: When you purchase or continue to hold an asset at a discount to what you think it is worth after performing adequate due diligence.

Speculation: When you purchase or continue to hold an asset based on what price you think others will soon pay for it.

If Craig’s definition can be applied to the apartment sector, then we may see a greater focus to investment than speculation.

Investors have hastily underwritten rent growth and occupancy increases following an acquisition or renovation, with the expectation that the property will increase its market penetration. But now, sellers and buyers alike may need to honestly assess whether those rents and occupancies are maxed out, forming a fundamental shift in the market. When market conditions change, it may put some owners in a precarious position of paying out returns to investors or putting money back into the property in the form of maintenance and improvements.

From a strategic standpoint, putting money back into a property is meant to enhance competitiveness. But there is a time when delaying these items can quickly turn to capital needs such as roof replacements or mechanical systems that often cost more and may be inconsequential for competitiveness or to enhance operating profit. This can also result in longer term reputational risk by underperforming the market. So, whether you intend to buy, sell or operate, there should be more risk management going forward. This may be particularly relevant today as there are probably some owners who paid a price that they wish they hadn’t paid. And the crisis is going to exacerbate any weakness that was occurring before COVID.

The apartment sector will continue to attract new investors, but instead of bidding up prices they may be more focused on risk-adjusted returns. Like it or not, there are now more uncertainties with property fundamentals that have created concern. It comes down to figuring out the valuation (how much a property is worth) and buyers and sellers will have opposing views. It is certain though that buyers will be looking for clues on where prices might be headed. The reality is that if they (valuations) have moved down, it is very difficult today to figure out just how much.

At least for the time being, buyers will be more risk-averse and not paying for “value-add” on the front end as they were doing pre COVID. This means saying “no” to more opportunities than in the past. It may also mean being less dependent on high leverage and low interest rates to mask the real equity return.

While it does seem a pricing correction may be inevitable, it is just too early to gauge how much prices may adjust and exactly when they might reach bottom. Right now, it is all about pricing discovery and that is going to depend on how the pandemic and the recession progresses.

There are a lot of buyers looking for that owner that must sell, which could lead to some distressed pricing. But I think this may be more wishful thinking than reality in the short run. The lender forbearance that is available to borrowers is going to buy some time before we see distressed assets move to the market. But don’t expect that every deal is going to get repriced. It may only be a small percentage of transactions and cap rates may only adjust by 100 basis points or less. I would caution against extreme thinking because there is so much variance between property types, performance and locations that will make every deal a bit different.

Oklahoma’s economy has been upended as well by the collective effect of a drop in energy demand, the oil price war and the COVID virus. Here are a few insights taken from various printed sources.

In the third quarter of 2019, the mining sector of Oklahoma's economy (consisting primarily of oil and gas) was the largest contributor to the state's gross domestic product at 22.6%, according to data provided by the Oklahoma Employment Security Commission.

Prices for West Texas Intermediate crude oil, which is used to make gasoline, dropped below $0 per barrel for the first time in history on April 20th. Economists at Oklahoma State University say an economic slump brought on by coronavirus-related business restrictions has caused the downturn in prices.

Dr. Dan Rickman, an economics professor at the Spears School of Business at OSU, predicts that Oklahoma's economy “will get worse before it gets better” due to the impact of the coronavirus. “It’s not a pretty picture,” Rickman said. “Oklahoma faces economic fallout from both COVID-19 and collapsing oil prices.” Rickman went on to say, “As oil prices fall, Oklahoma's gross production tax revenues are dropping as well, creating major issues for state leaders as they begin to evaluate how much money is available for the coming fiscal year that starts July 1, and the one beyond that”.

Oklahoma, a state heavily dependent on the oil industry, could take longer to recover than other states, OSU researchers said in a recent economic forecast. The second fiscal quarter could show signs of improvement, however.

“We’re not experiencing as severe a drop in the second quarter because the energy sector has a lag response to price changes, but as we start restoring parts of the national economy later this year, we’ll still face the fallout from the decline in the energy sector. That will give us additional weakness through to the end of the year,” Rickman said.

“The ongoing pandemic and price war leaves no question that this is going to be a dire circumstance for the state and the industry that will impact not only government and companies, but mineral owners across Oklahoma,” said Steve Agee, an economics professor who is the dean of the Meinders School of Business at Oklahoma City University.

“It will get better over time, but there are two things that will have to happen,” Agee said.

“Because the coronavirus has shut down our economy, the demand for energy is way, way low and we are stockpiling those resources,” he said. “We have got to get through this coronavirus to restore demand.”

As for Saudi Arabia and Russia, Agee said it would help if those countries could settle their differences and take steps to cut their production to rebalance global oil markets.

“That could pretty quickly boost the price back up," Agee said. "But we are just going to have to wait to see what happens.”

Average Rent in Oklahoma City, OK

Last updated February 2020

Average Rent	Y-o-Y Change	Average Apartment Size
$787	4%	848 sq. ft.

Average Rent in Tulsa, OK

Last updated February 2020

Average Rent	Y-o-Y Change	Average Apartment Size
$717	5%	820 sq. ft.

Average Rent in Lawton, OK

Last updated February 2020

Average Rent	Y-o-Y Change	Average Apartment Size
$662	3%	837 sq. ft.

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Oklahoma City

On the deals that did happen during the first half of 2020, there was no downward movement on pricing from pre COVID levels. There were seven sales on properties that exceed 25 units in size, for a total of 1,640 units. While pricing held up, the number of transactions did drop 41% from this same time last year. There were 2,792 units sold at Mid-year 2019 versus the 1,640 for 2020. Total sales volume was also down at $171.7 million in 2020, as compared to $215.8 million for the same six-month period of 2019, a twenty percent drop. The overall average price per unit on apartment communities with 25 units or more is $104,732. While that price is up significantly from $77,312 at Mid-year 2019, the average was largely comprised of newer vintage communities. There were four properties in the Post-1990 category that accounted for eighty-one percent, or $139.9 million, of total volume for the year.

For Pre-1980's properties, there were three transactions involving 649 units for an average per unit price of $49,014. The average price per unit increased from $40,502 at Mid-year 2019 with 28% less volume in 2020. At Mid-year 2020, there was $31.8 million in sales on three transactions, as compared to $44.4 million on eleven transactions for the same period of 2019. Much like the thirty-nine percent in 2019, the metrics show that forty percent of the total units sold at mid-year were within this asset class. The notable sales were the 328-unit City Heights North Apartments at 8501 Candlewood Drive that sold for $50,305 per unit and the 223-unit Seminole Ridge Apartments at 125 W. I-240 Service Road that sold for $48,206 per unit. The lowest price per unit, if that even applies, was $46,530 for the 98-unit Villas on Meridian Apartments at 5418 N. Meridian.

There were no sales as of mid-year in the 1980's category for a statistical comparison. Looking back for some perspective, there were two small sales at Mid-year 2019 for a total of $2.3 million on 62 units. The average price per unit for those two sales was $38,468. At Mid-year 2018, total volume exceeded $41 million on 948 units, for an average price per unit of $43,987.

The Post-1990's category overshadowed transactions with eighty-one percent of total volume for 2020. The category recorded $139.9 million of the $171.7 million for the year. There were four transactions involving 991 units for an average per unit price of $141,221. The average price per unit increased from $114,413 at Mid-year 2019 when there were sales of $161.5 million on 1,412 units sold.

The breakdown of those four communities include the 303-unit Avana Arts District in Downtown Oklahoma City that was built in 2007 and sold for $58.9 million, or $194,389 per unit. The sale included a 108,952 square foot parking structure and was financed with a $59.1 million loan through Fannie Mae. The 82-unit Del Norte at Surrey Hills duplex development in Yukon sold for $14.3 million, or $174,390 per unit. Each of the units are three-bedroom floor plans with attached garages and market rents averaging $1,228 monthly. The 398-unit Sycamore Farms Apartments at 14900 N. Pennsylvania sold for $44 million, or $110,552 per unit and was financed with a $33.7 million Freddie Mac loan. And rounding out the four was the 208-unit Legacy Trail Apartments at 2501 Pendleton Drive in Norman.

Table 1
Historical Sales Volume
Year-End $ Totals

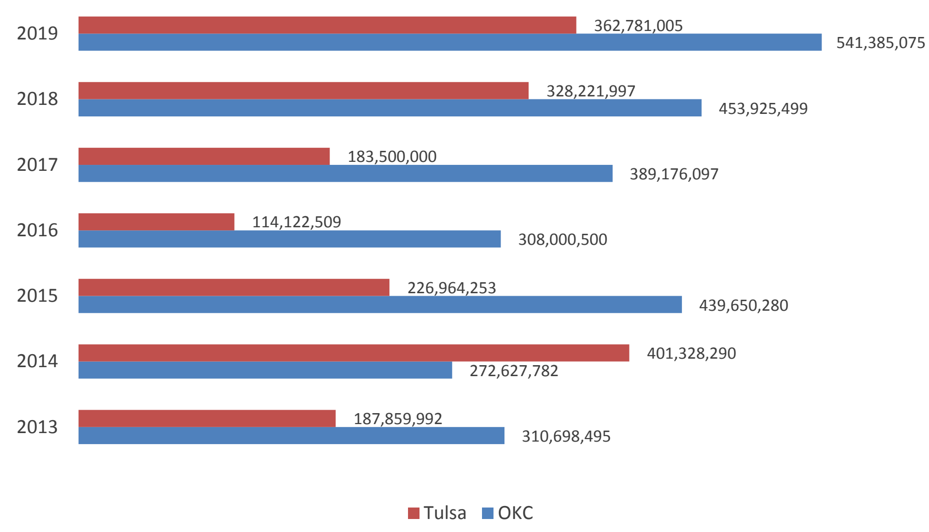
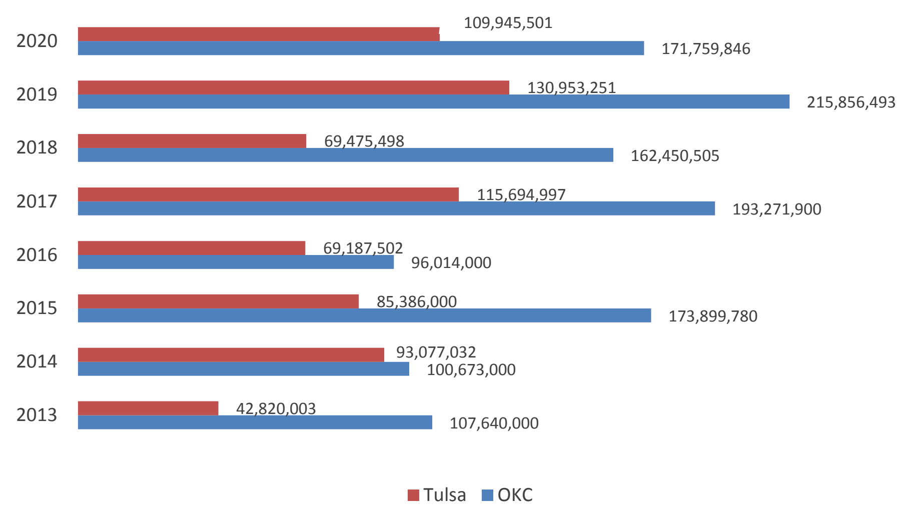


Table 2
Historical Sales Volume
Mid-Year $ Totals



Oklahoma City

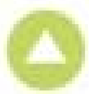
Total Sales Volume

20%
Compared to Mid-Year 2019

Total Units Sold

41%
Compared to Mid-Year 2019

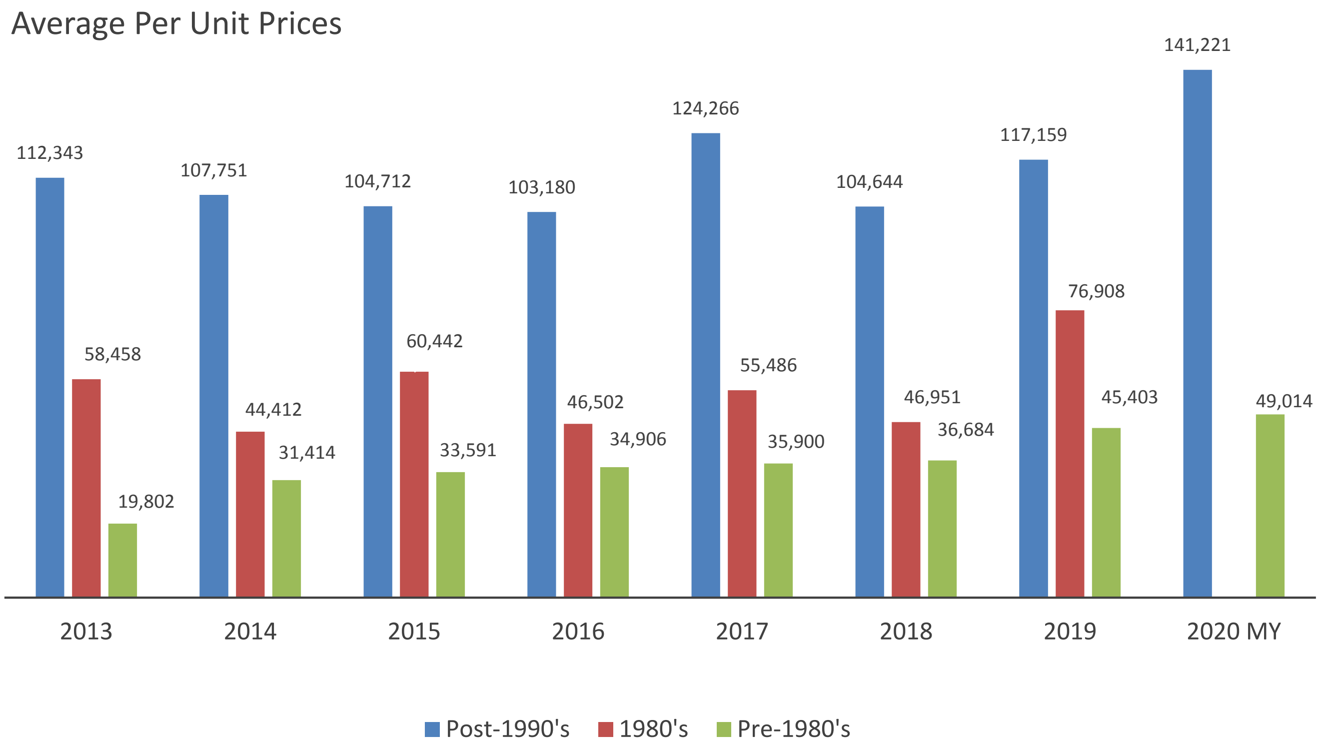
Average Price Per Unit

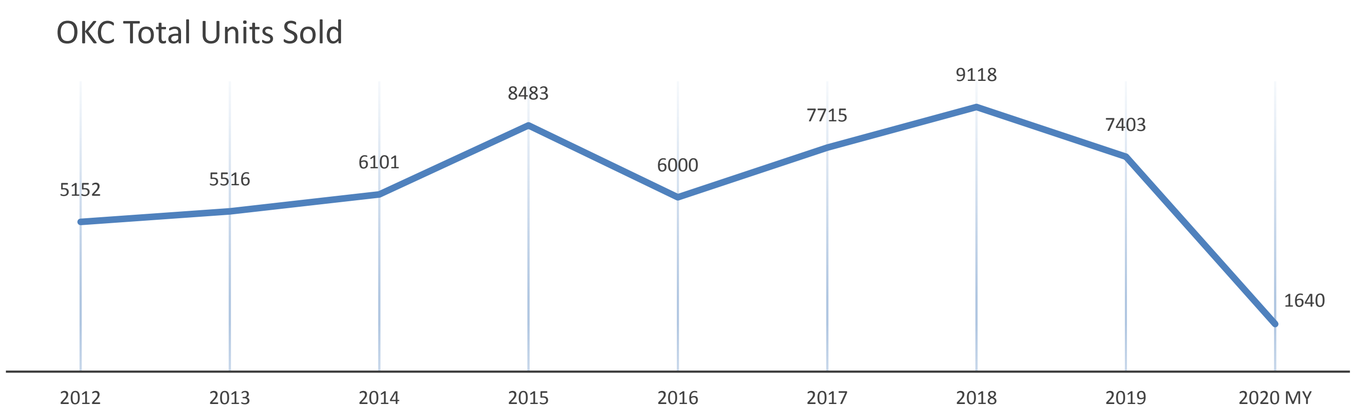


35%
Compared to Mid-Year 2019

No. of Transactions

63%
Compared to Mid-Year 2019





Tulsa

There were fourteen sales in Tulsa during the first half of 2020 on properties that exceeded 25 units in size, for a total of 2,055 units sold. This was only seven percent lower than the 2,206 units sold at Mid-year 2019.

Total transaction volume in Tulsa was $109.9 million, which was down sixteen percent from $130.9 million for the first six months of 2019. The overall average price per unit in Tulsa was $53,501 as compared to $59,362 at Mid-year 2019.

For Pre-1980's properties, there were eight transactions involving 1,151 units for an average per unit price of $40,910. Total volume represented $47 million for the category. The highest per unit price involved the 100-unit Brookwood Apartments at 1311 N. Ash in Owasso that sold for $57,500 per unit. The other notable sale was the Village at Brookside Apartments with 93-units that sold for $5.1 million, or $54,838 per unit.

There were only two sales in the 1980's category. While this may seem low, there were only two sales at this same time last year as well. The two sales involved Red River Apartments at 1502 E. 71st Street and Columbia Condos at 10965 E. 23rd Street in Tulsa. Red River is 280-units, built in 1980, that sold for $12.8 million or $45,893 per unit. Columbia is a 60-unit property that was built in 1983 that sold for $2.3 million or $39,250 per unit.

The Post-1990's category had three transactions with total volume $45.2 million. There were 464-units sold for an average price per unit of $97,603. The average price per unit declined slightly from $104,365 at Mid-year 2019 with sales of $65.7 million on 630-units sold. The notable sale in 2020 was the Encore at Memorial in Bixby with 248-units that was built in 2011 and sold for $25.5 million, or $103,177 per unit.

Tulsa	Post 1990's	1980's	Pre-1980's
Number of Transactions	3	2	9
Total Number of Units	464	340	1,251
Total Number of Sales Tulsa	1	2	7
Total Number of Sales Other	1		2
Total Number of Sales Broken Arrow	1		
Price High per unit Price Low per unit	$112,500 $86,363	$45,893 $39,250	$57,500 $23,650

Oklahoma City	Post 1990's	1980's	Pre-1980's
Number of Transactions	4	NA	3
Total Number of Units	991	NA	649
Total Number of Sales OKC	2	NA	3
Total Number of Sales Edmond			
Total Number of Sales Norman	1		
Total Number of Sales Other	1		
Price High per unit Price Low per unit	$194,389 $109,375	NA	$50,305 $46,530

Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Vandever Lofts	16 E. 5th Street	$4,500,000	40	1920	$112,500
Village East	11501 E. 22nd Pl	$7,285,000	235	1971	$31,000
Mingo Village	9501 E. 10th Street	$1,380,000	40	1965	$34,500
Clarland	912 S. 95th E Ave	$862,500	25	1952	$34,500
Village at Brookside	1404 E. 41st Street	$5,100,000	93	1965	$54,838
Brookwood	1311 N. Ash - Owasso	$5,750,000	100	1970	$57,500
Encore Memorial	7860 E. 126th - Bixby	$25,588,000	248	2011	$103,177
Red River	1502 E. 71st Street	$12,850,000	280	1980	$45,892
Aspen Village	1947 W. Houston – Broken Arrow	$15,200,000	176	1995	$86,363
London Square	2217 E. 59th Street	$6,625,000	173	1965	$38,295
Columbia Condos	10965 E. 23rd Street	$2,355,000	60	1983	$39,250
Eastgate	14041 E. 24th Street	$12,360,000	240	1973	$51,500
South Glen	5645 S. Peoria	$7,725,000	245	1967	$31,530
Garden Park LIHTC in Sapulpa	207 N. Hickory	$2,365,000	100	1973	$23,650

Tulsa

Total Sales Volume

16%
Compared to Mid-Year 2019

Total Units Sold

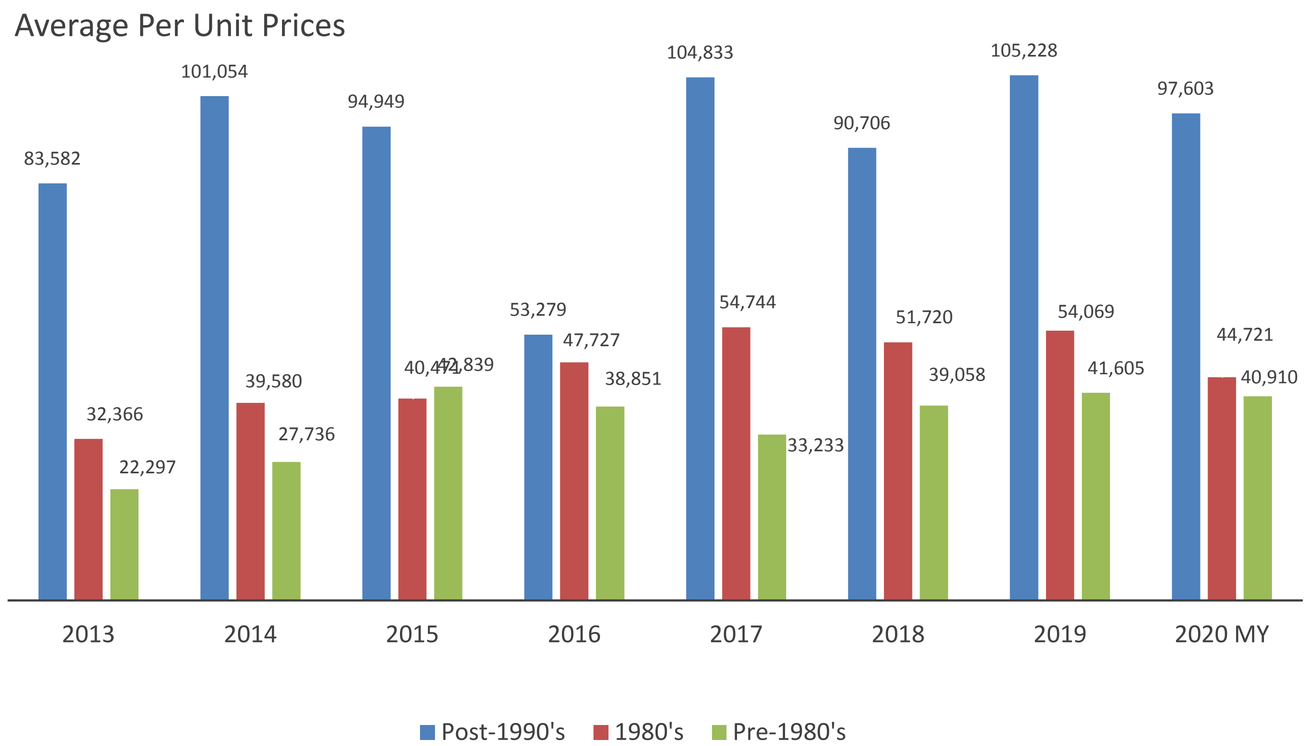
7%
Compared to Mid-Year 2019

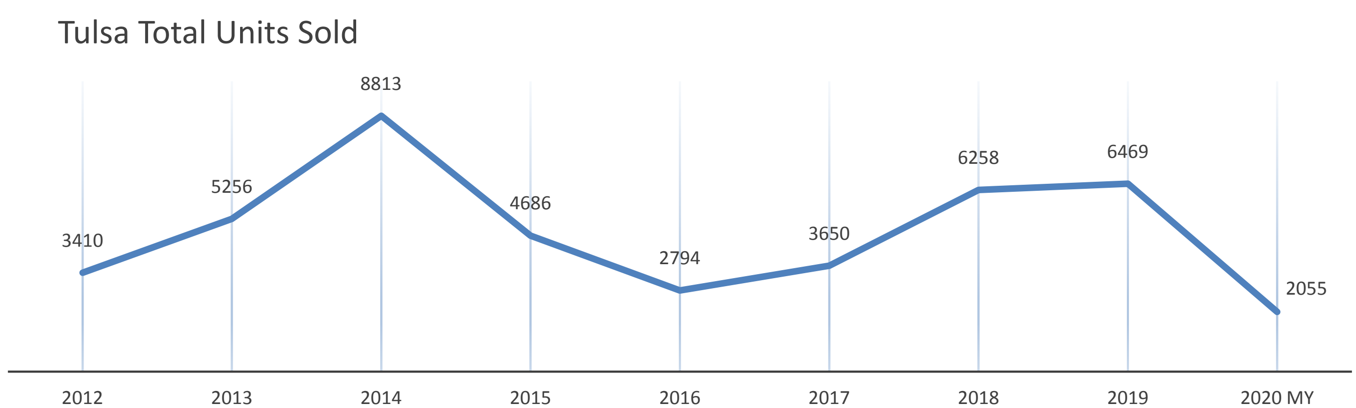
Average Price Per Unit

10%
Compared to Mid-Year 2019

No. of Transactions

17%
Compared to Mid-Year 2019





Arkansas Oklahoma Kansas

Outlook

A lot of investors are on the sidelines waiting for discounted or distressed assets. There will certainly be some winners and losers for the sector, but to anticipate that the entire market is going to seize up and all property types will be adversely affected is a misdirected theory.

It is important to note that while transaction volume may go down, sales will still take place. Despite COVID and the uncertainties in pricing, multifamily remains a "safe bet" for most real estate investors. People will continue to need housing and for those apartment tenants that under different circumstances might have become homeowners, they will remain renters.

There has been some illiquidity in the market because of lender restrictions placed on financing, specifically Fannie Mae and Freddie Mac. But once restrictions ease and widespread economic activity resumes, the market should be positioned for a fast recovery. While the sector will experience some short-term setbacks, we do expect it to return to pre-crisis levels.

I am not dismissing that there is still uncertainty with the Oklahoma economy and on the spread of the virus and its impact, but through mid-year the apartment sector has held up relatively well in terms of rent collections and performance. Much of that has been due to the CARES Act and its supplemental unemployment payments, which has been credited to keeping rent payments as high as they have been. The supplemental payments have put people in as good, if not better, positions than when they were working. The market is not broken but adjusting to a broad external fallout that it was not ready for. Owners may take a temporary hit to their profits and while that will be unwelcome, it will be manageable.

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Sale Highlights Oklahoma City					
Avana Arts District	301 N. Walker – Downtown OKC	$58,900,000	303	2007	$194,389
Del Norte Surrey Hills	11600 NW 12100 - Yukon	$14,300,000	82	2018	$174,390
City Heights North	8501 Candlewood Dr	$16,500,000	328	1971	$50,305
Sycamore Farms	14900 N. Pennsylvania	$44,000,000	398	1997	$110,552
Seminole Ridge	125 W I-240 Service Road	$10,750,000	223	1970	$48,206
Villas on Meridian	5418 N. Meridian	$4,500,000	98	1975	$46,530
Legacy Trail	2501 Pendleton Dr - Norman	$19,337,500	208	2016	$92,968

Sale Highlights Lawton

Lawton sales are being shown as a special insert since it was an active market in 2020

Pinewood	2505 NW 82nd	$3,361,000	102	1980	$32,951
Winchester	1821 NW 82nd	$4,581,000	142	1984	$32,260
Fox Valley	2408 NW 52nd	$3,900,000	120	1980	$32,500
Invitational	4645 W. Gore	$5,267,000	229	1964	$23,0000

CRRC has sold over 35,000 apartment units on sales exceeding $1 Billion Dollars. We deliver value to our clients by providing exceptional service that increases their bottom line.