Arkansas Oklahoma Kansas

2021 Mid-Year

Apartment Report
Oklahoma City
Tulsa

Providing professional apartment brokerage and marketing services for over 36 years

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COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES

2021 Mid-Year
Multifamily Apartment Report

It is difficult to generalize what's happening in the market today and certainly for the period post COVID. But one common theory is that the strength of the multifamily sector is reflective of its tenants, which have prioritized rent payments. Let's be honest, if tenants on a broad scale had stopped paying rent, as many expected would happen early in the pandemic, the market would have stumbled causing a spiral effect. But the opposite happened and rent collections remained good and occupancy levels remained strong. Those dynamics have continued into 2021. So, while some lasting uncertainty is understandable coming out of a pandemic, the sector has performed remarkably well following the beginning days of COVID-19. If a negative sentiment does linger, it is from investors who anticipated lower values but are now paying, on average, even higher prices than before the pandemic. The reason is that multifamily proved to be an essential asset and investors found comfort in that stability.

So, the question now is whether investors can get their return expectations to align with what current market conditions are delivering. It is probably not realistic to expect double-digit returns with the level of asset pricing today. Even with positive leverage from historically low interest rates, assets are not likely to produce those types of returns. The push for yield today is being driven by interest-only debt service. And while that can fundamentally be an advantage, it can also be a longer- term disadvantage.

Take for example a $5 million dollar mortgage at a 3.5% interest rate on a typical 30-year amortization. The principal and interest payment would be $269,426 annually versus an interest-only payment of $175,000 annually, adding another $94,426 to the bottom line. If an investor were to apply that $94,426 in their underwriting, they might pay a higher price than they may have otherwise payed if using the principal and interest payment. Why? Because instead of going to principal reduction that is not liquid, the $94,426 goes directly to cash flow that can be distributed. Often, the premium applied to pricing may just be a percentage of the extra cash flow and not dollar-for-dollar, but not always.

Since valuations didn't compress during the pandemic and post-COVID, it is likely that demand and competition today is going to push multifamily prices even higher, compounding pricing pressures and the use of interest-only underwriting as noted above. But a surplus of demand over supply is never good for rational pricing and usually leads to any notion of intrinsic value getting set aside.

But no matter how ardent one is to multifamily investing, paying a premium beyond any sustainable intrinsic value is not a condition to being successful. Though it may be easy to overlook the premium in the near term, reality does have a horrible habit of intruding at some point. Don't get me wrong – I am not predicting problems for the sector. What I am saying is that navigating this environment, especially on earlier vintage apartments, can be risky for those looking past any sort of intrinsic value.

Even so, investors love the story around multifamily. We have seen tremendous growth in the number of new investors targeting the sector, while at the same time, buyers who have traditionally invested in the market are still active, creating the uneven momentum of demand over supply.

By all accounts, the single-family residential market is as hyperactive as the multifamily market. Some have said that the demand for single-family homes has been overdue for a while due to the number of older millennials who have started having kids. But just because more people are buying homes, doesn't mean the outlook for investment in multifamily will fade. In fact, rising prices of single-family homes are reducing the number of households financially qualified to buy. And current supply chain issues and the cost of materials are making matters worse.

According to a report from QuoteWizard, over the past decade the median price of a home is up nearly 70%, while the median income has grown less than 30%. In Oklahoma, the difference between the increase in housing costs and increase in wages is $90,097, according to the report. The state's median income since 2012 has gone up about 12.5%, while the cost of a home has increased about 37.6%.

Steven Ligon, president of the Oklahoma City Metropolitan Association of Realtors, said in a Journal Record article[1] that the median price for an 1,800 to 2,200 square foot house with three bedrooms, two bathrooms and a two-car garage was $230,250, compared to $193,000 two years ago.

Home construction thrived during the pandemic, but Elisa McAlister, executive officer of the Central Oklahoma Home Builders Association, in the same Journal Record article said that builders will not be able to keep up the pace. The Builder Report shows 6,024 home starts in the metro area in 2020, up from 5,366 the previous year. April 2021 starts numbered 657, up from 370 in April 2020.

What is the outlook then for single-family residential and its impact to multifamily and the outlook going forward? Rising construction costs will continue to put upward pressure on home values making it more difficult for households to financially qualify. While multifamily values have steadily increased, so have seller's expectations on what their properties are worth. The combination will be positive for multifamily and should deliver exceptional stats again in 2021.

Oklahoma City

When comparing mid-year figures from 2020 to 2021, or even back a bit further, one thing stands out, there were no downward effects on the market as a result of the pandemic. It is hard to imagine that something so significant as COVID-19 would not cause a misstep in the market, but it didn't and the numbers prove it out, see Table 2.

There were eighteen sales on properties that exceed 25 units in size, for a total of 2,387 units. The number of transactions increased from seven at this same time last year. There were 1,640 units sold at Mid-year 2020 versus the 2,387 for 2021. Total sales volume was up twenty-five percent at $214.3 million in 2021, as compared to the same six-month period of 2020. Underscored should be the $171.7 million in sales volume for the first six-months of 2020, amid the pandemic. The overall average price per unit on apartment communities with 25 units or more is $89,808 which is down fourteen percent from $104,732 at Mid-year 2020.

For Pre-1980's properties, there were nine transactions involving 907 units for an average per unit price of $48,010, about on par with $49,014 for last year. At Mid-year 2021, there was $43.5 million in sales on nine transactions, as compared to $31.8 million on three transactions for the same period of 2020. The notable sale was the 358-unit Aspen Place Apartments at 2700 Indian Creek Blvd. that sold for $19,456,000 or $54,346 per unit. The sale included a seller financed mortgage of $20,542,000 with an initial maturity date of January 2024, suggesting the buyer will be working to implement a value-add strategy, much like the previous owner did when they purchased the property for $16,050,000 and then subsequently upgraded it in April of 2015.

Oklahoma City

The Post-1980's category had two sales at Mid-year 2021, however, there were no sales in this category during the first six months of last year for a statistical comparison. Total sales volume for the category was $18.7 million on 296 units for an average per unit price of $63,395.

The Post-1990's category again overshadowed transactions with sixty-eight percent of total volume for 2021. The category recorded $146.7 million of the $214.3 million for the year. There were six transactions involving 1,078 units for an average per unit price of $136,097. The average price per unit was on par with 2020 at $141,221. By comparison, there were four sales for the first six months of 2020 of $139.9 million on 991 units sold. A surprisingly close comparison given the pandemic last year.

Taking a closer look at these Post-1990's sales, The Edge at Midtown, a 252-unit community in Downtown Oklahoma City, sold for $55 million. The upscale community was built in 2013 and sold for $218,254 per unit. The sale included a 168,960 square foot, six story, parking structure with ground floor retail and was financed with a $44 million Fannie Mae loan.

The J Marshall Square Apartments at 9017 N. University Avenue also changed ownership in 2021 although no documentary stamps were filed on the Deed to calculate pricing. The property near W. Britton Road and N. Western Avenue was built in 2015 with 280 units. A new Fannie Mae mortgage was filed on the property on February 10, 2021, in the amount of $37,095,000.

There was a portfolio sale that involved three LIHTC properties that exited the affordable program under the Qualified Contract Process. The three properties, with 512-units, were Crown Ridge of Edmond that sold for $14,700,000, Chapel Ridge of Yukon that sold for $17,100,000, and Chapel Ridge of Tinker that sold for $10,950,000.

Tulsa

There were fifteen sales in Tulsa during the first half of 2021 on properties that exceeded 25 units in size, for a total of 1,746 units sold. This is about fifteen percent less than the 2,055 units sold during the first six months of 2020 amid the pandemic.

Total transaction volume in Tulsa was $121.3 million, which is up ten percent from the $109.9 million for the first six months of 2020. The overall average price per unit in Tulsa was $69,525, up from $53,501 at Mid-year 2020.

For Pre-1980's properties, there were ten transactions involving 794 units for an average per unit price of $53,552. Total volume represented $42.5 million for the category. This compares to eight transactions involving 1,151 units sold as of Mid-year 2020. The average price per unit for that six-month period of 2020 was $40,910 with total volume for the category at $47 million. The highest per unit price involved the 232-unit Barcelona Apartments at 5160 S. Yale that sold for $73,275 per unit.

There were three sales in the 1980's category involving 626 units for an average per unit price of $56,230. Total volume represented $35.2 million for the category. This compares to two transactions involving 340 units sold as of Mid-year 2020. The average price per unit for that six-month period was $44,721 with total volume for the category at $15.2 million. The largest sale was the 344-unit Eagle Point Apartments at 5808 E. 71st Street that sold for $21.1 million or $61,482 per unit. The sale was financed with a new Freddie Mac loan of $19,015,000 that matures June 2028.

Table 1
Historical Sales Volume
Year-End $ Totals

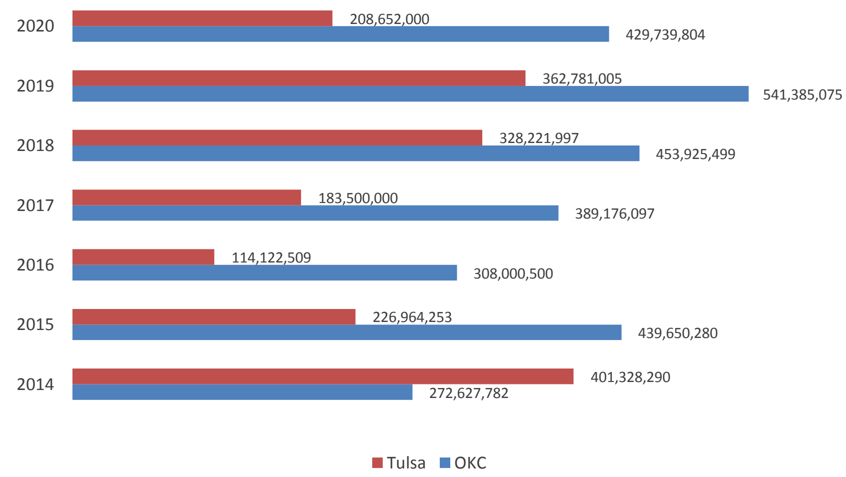
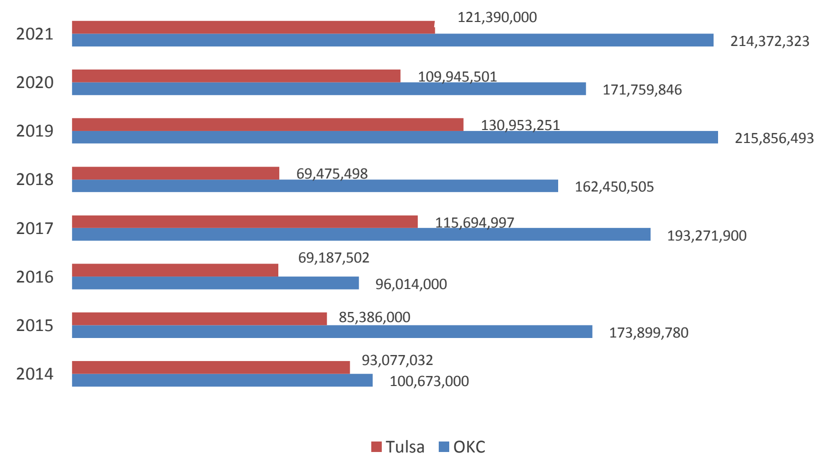


Table 2
Historical Sales Volume
Mid-Year $ Totals



Oklahoma City

Total Sales Volume

25%
Compared to Mid-Year 2020

Total Units Sold

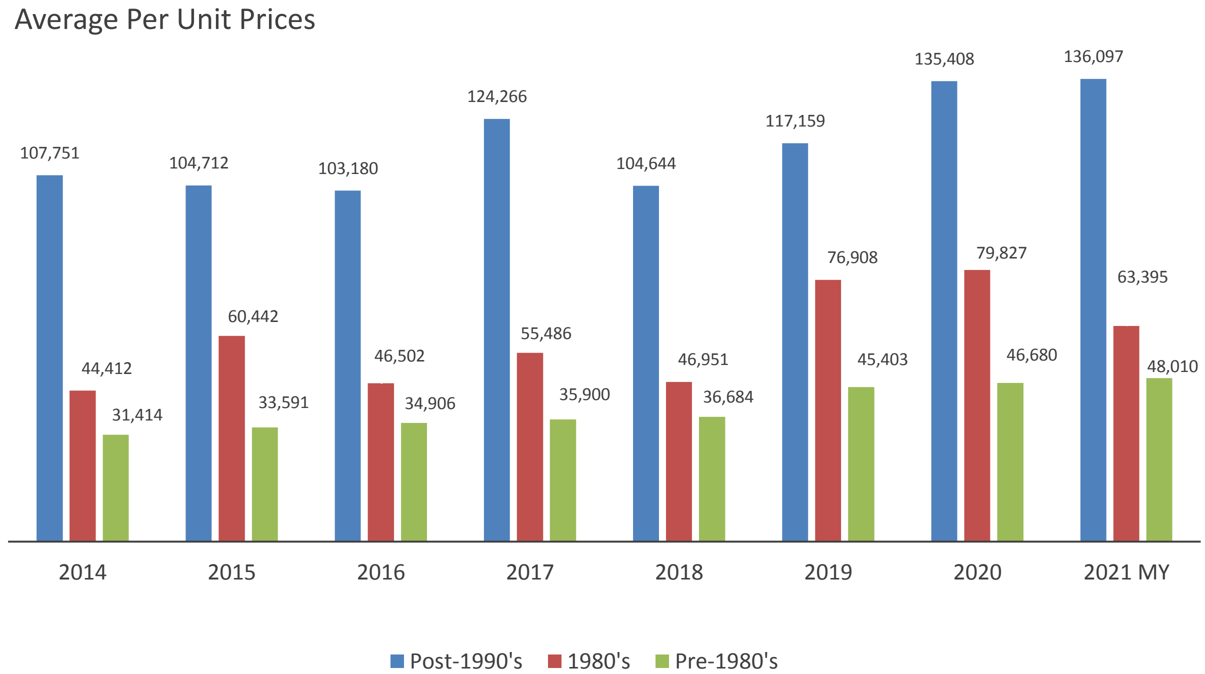
46%
Compared to Mid-Year 2020

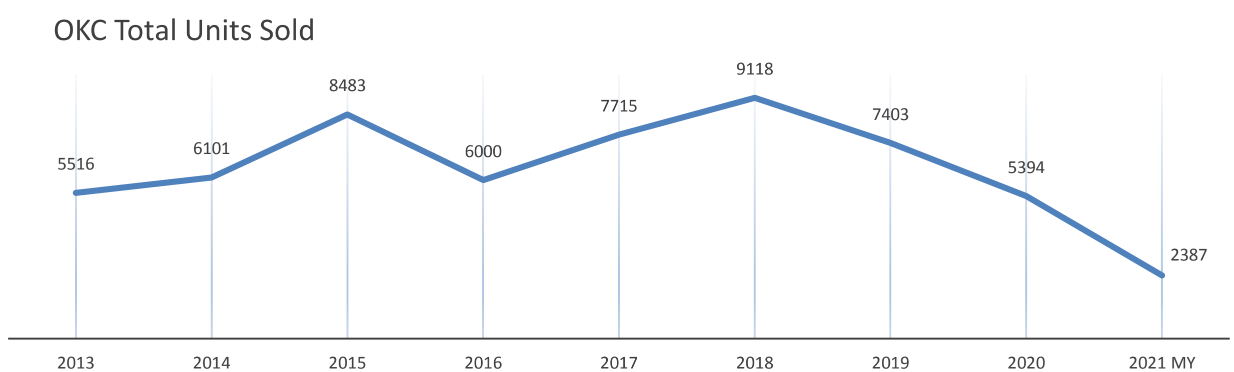
Average Price Per Unit

14%
Compared to Mid-Year 2020

No. of Transactions

157%
Compared to Mid-Year 2020





Tulsa

The Post-1990's category had two sales involving 326 units for an average per unit price of $133,957. Total volume represented $43.6 million for the category. This compares to three transactions involving 464 units sold as of Mid-year 2020. The average price per unit then was $97,603 with sales of $45.2 million.

One of the sales in 2021 was on a 38-unit upscale townhome community in Owasso that sold for $6.2 million. The property had average floor plans of 1,262 square feet with attached one and two-car garages. The second sale involved the Springs at Woodlands South at 7541 S. Mingo, a 288-unit community that was built in 2015 and sold for $37,440,000, or $130,000 per unit.

Tulsa	Post 1990's	1980's	Pre-1980's
Number of Transactions	2	3	10
Total Number of Units	326	626	794
Total Number of Sales Tulsa	1	2	8
Total Number of Sales Other	1	1	2
Total Number of Sales Broken Arrow			
Price High per unit Price Low per unit	$163,947 $130,000	$61,482 $49,621	$73,275 $14,222

Oklahoma City	Post 1990's	1980's	Pre-1980's
Number of Transactions	6	2	10
Total Number of Units	1078	296	1013
Total Number of Sales OKC	3	2	8
Total Number of Sales Edmond	1		
Total Number of Sales Norman	1		1
Total Number of Sales Other	1		1
Price High per unit Price Low per unit	$218,254 $72,039	$74,739 $42,451	$71,212 $31,067

Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Inhofe Plaza	6565 S. Newport	$7,500,000	150	1981	$50,000
Harpers Lodge	4739 S. Fulton	$4,375,000	88	1978	$49,716
Yale Manor	917 N. Yale	$1,769,000	48	1971	$36,854
Wildwood	Owasso	$6,550,000	132	1984	$49,621
Beckett Ridge	7845 E. 49th	$2,000,000	48	1969	$41,667
Villas at Stonebridge	Owasso	$6,230,000	38	2018	$163,947
McKinley Court	6618 E. Latimer	$768,000	54	1972	$14,222
Casa Linda	1341 E. 62nd	$1,775,000	57	1973	$31,140
Eagle Point	5808 E. 71st	$21,150,000	344	1980	$61,482
One Five	6951 E. 15th	$3,608,000	91	1962	$39,648
The Park@12 Twenty	Pryor	$6,550,000	100	1975	$65,500
Barcelona	5160 S. Yale	$17,000,000	232	1969	$73,275
Stonegate	Owasso	$2,150,000	40	1965	$53,750
Springs at Woodlands South	7541 S. Mingo	$37,440,000	288	2015	$130,000

Tulsa

Total Sales Volume

10%
Compared to Mid-Year 2020

Total Units Sold

15%
Compared to Mid-Year 2020

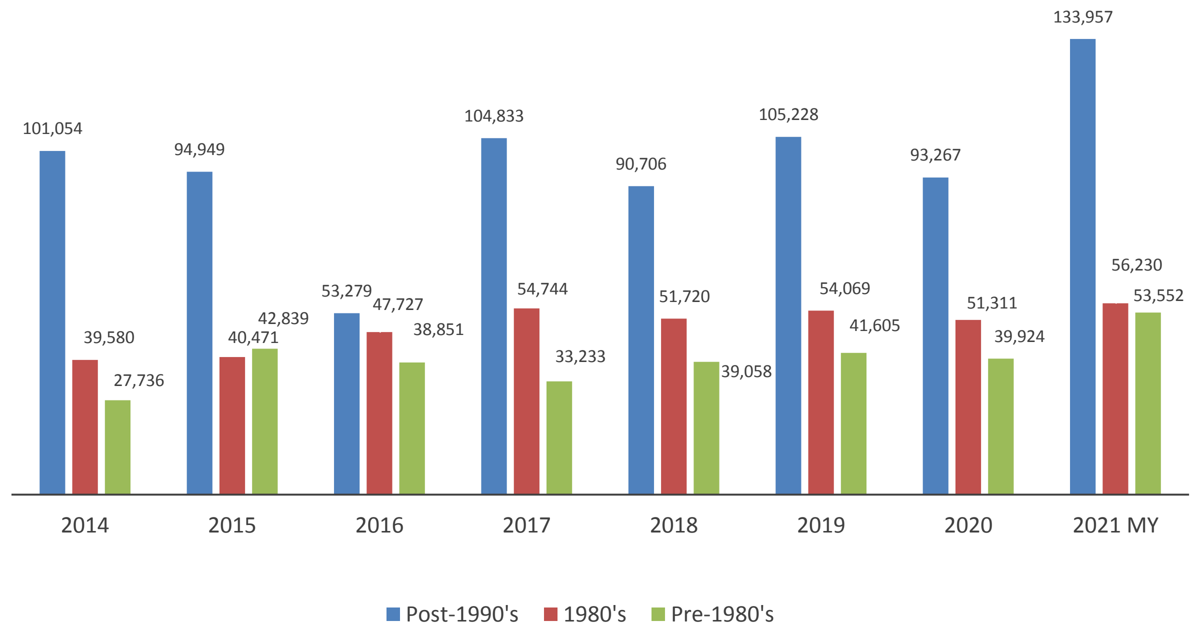
Average Price Per Unit

30%
Compared to Mid-Year 2020

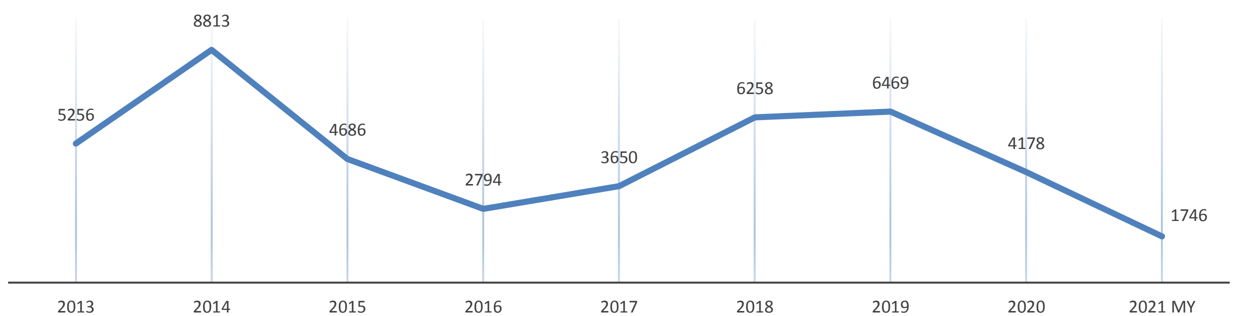
No. of Transactions

7%
Compared to Mid-Year 2020

Average Per Unit Prices



Tulsa Total Units Sold



Arkansas Oklahoma Kansas

Outlook

It is likely that demand and competition today will push multifamily prices even higher. But also expect that rent collections will remain good and occupancy levels strong throughout 2021. There will be some lasting uncertainty coming out of a pandemic, but the sector is expected to perform remarkably well.

Multifamily proved to be an essential asset coming out of the pandemic and investors found solace in that stability. For those investors who anticipated lower values caused by COVID-19, expect to pay more and likely even higher than pre pandemic pricing.

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1 Homeownership out of reach for many, Posted by: Kathryn McNutt on 2021-06-02

Sale Highlights Oklahoma City

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
The Edge at Midtown	1325 N. Walker – Downtown OKC	$55,000,000	252	2013	$218,254
Aspen Place	2700 Indian Creek	$19,456,000	358	1972	$54,346
Raleigh Square	4500 Cherry Hill Ln	$4,415,000	104	1984	$42,452
London Square	7533 NW 6th	$9,350,000	200	1971	$46,750
Rockwell Villa	905 N. Rockwell	$2,200,000	60	1969	$36,667
Jasper Garden	2530 N. Rockwell	$3,200,000	103	1970	$31,068
Stratford Square	Norman	$1,325,000	25	1966	$53,000
Dorchester Garden	2810 Dorchester Dr	$2,848,500	40	1961	$71,212
Airmens	3128 SW 59th	$1,500,000	48	1962	$31,250
Garden Cottages	Norman	$2,593,563	34	2010	$76,281
El Greco	3525-3541 NW 50th	$1,900,000	32	1964	$59,375
Chapel Ridge Tinker	5707 SE 48th	$10,950,000	152	2005	$72,039
Chapel Ridge Yukon	11501 SW 15th	$17,100,010	200	2004	$85,500
Crown Ridge Edmond	2500 Thomas Dr	$14,700,000	160	2004	$91,875
Canterbury Gardens	2321 N. Meridian	$1,765,000	41	1960	$43,060
Hillcrest Green	3317 SW 74th	$5,350,000	106	1973	$50,471

CRRC has sold over 36,000 apartment units on sales nearing $1.1 Billion Dollars. We deliver value to our clients by providing exceptional service that increases their bottom line.