Arkansas Oklahoma Kansas

2012
Apartment Report
Oklahoma City & Tulsa

Providing professional apartment brokerage and marketing services for over 27 years

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MULTIFAMILY INVESTMENT SERVICES

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Multifamily Apartment Report

I read an article recently that said "Oklahoma City commercial property values have risen, but not to the astronomical levels as larger markets". The article went on to say that "historically, the market (Oklahoma City) does not experience the extreme lows or highs of most major markets". I would make the argument that the multifamily market in Oklahoma City is not following historical trends and did see astronomical values in 2012. And there is increasing optimism by industry professionals that this will continue into 2013. Another interesting comment from this article is that "Oklahoma City is an ideal market for low volatility". While this may be true for all commercial property types in general, could there be more volatility for the multifamily market in 2013 than what the professionals think?

Volatility could return in various forms that may affect the current dynamics of supply and demand. For the most part, the market delivered more demand than supply in 2012. Most certainly, new construction will underscore any increased volatility in 2013. I think that volatility though may be isolated to only submarkets and maybe even just specific properties, as opposed to broad market conditions. Certain submarkets like the Quail Springs Mall area, downtown Oklahoma City, south Oklahoma City and Moore are at greater risk because of the numerous planned developments and construction starts in those areas. On a smaller scale, specific properties may see more volatility because of acquisition pricing that may narrow profit margins.

Non-traded, or non-listed, REITs (Real Estate Investment Trust) were very active in Oklahoma in 2012 and could be even more so in 2013. At first glance this is positive, but could this buying trend also lead to greater volatility for properties or submarkets? According to an October 2012 article in National Real Estate Investor1, non-listed REITs were designed specifically to be non-liquid assets. Meaning, investors put their money in for the life of the vehicle. So, by and large, once you're in, you're in, the article says. It goes on to say "that in the early stages of a non-listed REIT's life span the entities often pay out dividends not from cash flow but from capital raised by new investors and/or debt". "Non-listed REITs generally have four phases; raising capital, acquisitions, operating, liquidation". David Steinwedell, a managing partner with Blue Vault Partners, stated in this article that "because of the way they're designed they (non-listed REITs) first operate in a deficit, but then they overcome it". One final comment worth noting from this article is that "traditionally, non-listed REITs have had life spans of about a decade". "That's beginning to shorten to four to six years with some newer issues".

While volatility can be seen in various forms; premium pricing, a short life span for the investment and starting from an operating deficit can certainly lead to the likelihood of greater volatility, assuming the viewpoints of the NREI article are correct. While volatility can be managed fairly well on a single asset basis, having a portfolio of assets with those similar characteristics can increase ones risk.

Unrelated to the above, Steadfast Income REIT has managed in a very short period of time to do what has taken others years to accomplish; assemble a sizable multifamily portfolio in Oklahoma City and Tulsa valued at over $115 million. While Steadfast has been an aggressive buyer in Oklahoma, their performance is indicative of the changing dynamic in our multifamily market. We have seen in 2012 that investments in Oklahoma are being made for cash flow and not necessarily upside. Historically, investors would say "what's my upside in the deal", even if it's an institutional grade property.

That trend is now shifting and more investors are saying “I don’t care if I sell the asset for what I paid for it so long as it generates good cash flow during the period I own it”. I hear more and more of this philosophy and I think it reflects on Oklahoma as a whole. We have gone from being a secondary market to the preferred choice for many investors.

Here’s another way to demonstrate this changing dynamic; according to a recent Brookings Institution report, the Oklahoma City metropolitan area ranked sixth in the nation for economic performance from 2011 to 2012. So, if investors are targeting the best markets economically to invest, they are only going to look at five other metro areas that ranked higher than Oklahoma City in this report; Houston, San Jose, Calif., Salt Lake City, Louisville, KY and Austin, Texas. The Tulsa metro area came in at No. 14 in the same report. By comparison, I think Tulsa and Oklahoma City are much easier for buyers to get their arms around than these other top markets. This explains the dramatic increase in investor activity and is a big factor in causing demand to outweigh supply.

With the U.S. economy still on shaky ground, Oklahoma has been thriving. One of the main forces has been the energy boom. Last year, drilling activity in the U.S., which serves as a reliable indicator of job growth in the energy sector, was near a 30-year high. This year, the U.S. Energy Information Administration, an independent provider of statistics and analysis on the energy industry, projects that total crude oil production in the U.S. will average 6.3 million barrels per day, an increase of 12.5 percent from last year and will climb to 6.8 million barrels per day in 2013, the highest level of production in 10 years.

Because of the energy boom, Oklahoma’s economy has been growing at a much faster pace than the rest of the country. Oklahoma has added more than 42,200 jobs since October 2011, an increase of 2.7 percent, according to the Oklahoma Employment Security Commission. Oklahoma’s unemployment rate was 5.3 percent in October, compared to 6.3 percent in October 2011. The national unemployment rate was 7.9 percent in October. Oklahoma City’s metro area unemployment rate was 4.9 percent in October 2012 and Tulsa’s metro area unemployment rate was 5.6 percent for the same month, according to the Oklahoma Employment Security Commission. Oklahoma City added 18,700 jobs since October 2011. The U.S. Bureau of Economic Analysis also put the Oklahoma City and Tulsa metro areas in its highest category of income growth for 2011, both having income growth of 7.6 percent.

A host of new data shows a surge in development activity in the multifamily sector. I estimate that new construction could see another 3,000+ units in the Oklahoma City Metro that are leasing, under construction or planned in 2013. And it appears that apartment developers aren’t going to slow down anytime soon. It’s easy to see why multifamily construction is booming; vacancy rates are falling and rents are on the rise, making investments in multifamily particularly attractive. Despite the optimism though, there is concern of overbuilding. One reason to be cautious is low interest rates. Low-cost debt may be the driving force of new developments, even more so than the demand for those units. Also of concern is that the majority of new apartment units being delivered today fall in the luxury category and there are only so many people that can afford them.

The residential market has also remained relatively strong, adding yet another source of potential volatility to the apartment market. It is widely believed that home ownership is on the decline and that would-be homeowners are favoring the rental markets. The local statistics suggest otherwise. The housing market here has experienced sustained sales and steady construction. According to the Oklahoma City Metropolitan Association of Realtors, total closed sales for October 2012 were 1,544, up from 1,286 in October 2011. The average home price increased from $153,120 to $169,714 for the same period. The average interest rate for a home loan was 3.70% in October 2012, making home ownership still very affordable. The fact is that homeowner defections and high cost of home ownership are not synonymous with Oklahoma. The most important factor that will lead to even more home sales in 2013 is raising rents. At some point, the upper end of the apartment market will reach a rent ceiling that will favor home ownership versus renting.

As compared to 2011, transaction volume in 2012 was up 114 percent in Oklahoma City and 36 percent in Tulsa. The increase is again fully attributable to sales of newer vintage properties and Class “A” communities. Total sales volume ended 2012 at $292 million in Oklahoma City and $131 million in Tulsa. The overall average price per unit in 2012 was $60,513 in Oklahoma City and $41,030 in Tulsa, although these figures should be used as only a statistical measurement and not a benchmark.

Oklahoma City

2012 had some impressive statistics, driven by the sales of newer vintage properties and Class “A” communities. There were 29 sales on properties that exceed 25 units in size, for a total of 4,831 units. This was up 10% from 4,386 units sold in 2011. Total sales volume showed the biggest increase up 114% to $292 million in 2012, as compared to $136.5 million for 2011. The overall average price per unit on apartment communities with 25 units or more ended 2012 at $60,513, up 94% from $31,122 per unit in 2011. The averages and statistics are going to have some wide disparities going forward because of the volume and higher sale prices of Post-1990’s properties; something that has not happened in past reports.

For Pre-1980’s properties, there were 19 transactions in 2012 involving 1,922 units for an average price per unit of $17,646. Sales of distressed assets accounted for 37% of these transactions, which is down from 45% on 2011 sales. The most distressed of these sales was recorded at $6,445 per unit, followed by $9,500 per unit. The average for this category though is not going to exhibit a big rebound until we see more sales of stabilized properties push the $30,000 per unit range. We did see a glimpse of this in 2012 with the sale of a 60-unit property in Edmond at $55,000 per unit and a 32-unit property in Norman at $42,968 per unit. Lender owned properties are diminishing and those that we will see in 2013 will probably demand better pricing with the changing market. Opportunistic buyers looking for deep discounts in 2013 will be disappointed.

The average for 1980’s vintage properties in 2012 was $37,309, as compared to $35,449 per unit in 2011. There were three recorded sales in 2012 for a total of 719 units. Total volume for this category was $26.8 million, as compared to $43 million for the 1,217 units sold in 2011. The lowest sale in this category was the Lightning Creek Apartments at 8113 S. Western. The property was built in 1984 and was one of the first mixed-use developments in Oklahoma City containing apartments on the upper lever and retail on the ground floor.

Many of the lower level storefronts were converted to apartments over the past 20 years, leaving a mix of 95 apartment units and 32 retail spaces at the time it sold. The purchase price for the 127-units was $3,850,000, or $30,315 per unit. The highest sale involved the Winchester Run Apartments that were built in 1985. The purchase price for the 192-units at 201 SE 89th Street was $7,975,000, or $41,536 per unit.

The Post-1990's category had the highest volume in 2012 at $231.5 million, representing 79% of the total volume for the year. This category includes new construction projects from the late 1990’s and 2000’s that recorded some of the highest historical prices. Total volume for this category was up 416% from $55.6 million in 2011. There were 7 transactions involving 2,190 units for an average price per unit of $105,752. Two of these sales involved student housing properties near the University of Oklahoma in Norman. The Reserve on Stinson, a 612 bed community, sold for $112,488 per unit and Cottages of Norman, a 644 bed community, sold for $193,103 per unit.

The purchase price for Cottages of Norman at 1601 E. Imhoff Road was estimated to be $33,600,000 by applying an 80% loan-to-value on the $26,880,000 mortgage that was recorded of public record. Documentary Stamps for this transaction were not a reliable source to confirm this sale.

The other sales involved; the 252-unit Spring Creek Apartments in Edmond for $76,785 per unit, the 276-unit Village at Quail Springs Apartments at 14520 N. Pennsylvania for $77,717 per unit, the 708-unit first and second phase of Lincoln at Central Park Apartments for $108,757 per unit, the 360-unit Montclair Parc Apartments at 10900 S. Pennsylvania for $99,305 per unit and the 216-unit Quail Landing Apartments at 14200 N. May for $99,537 per unit.

2012 Sales - Outlying Markets

Property	City	Price	Price/Unit	# Units	Age
Sherlin	Lawton	$1,825,000	$23,101	79	1984
Gables	Newcastle	$755,000	$15,729	48	2001
Summit Springs	Lawton	$14,000,000	$56,910	246	2009
Candlewood	Lawton	$550,000	$6,321	87	1975
Yorktowne	Stillwater	$1,130,000	$16,617	68	1960
Country Club Villa	Pryor	$1,960,000	$28,823	68	2000

Total Sales Volume

114%
Compared to 2011

Total Units Sold

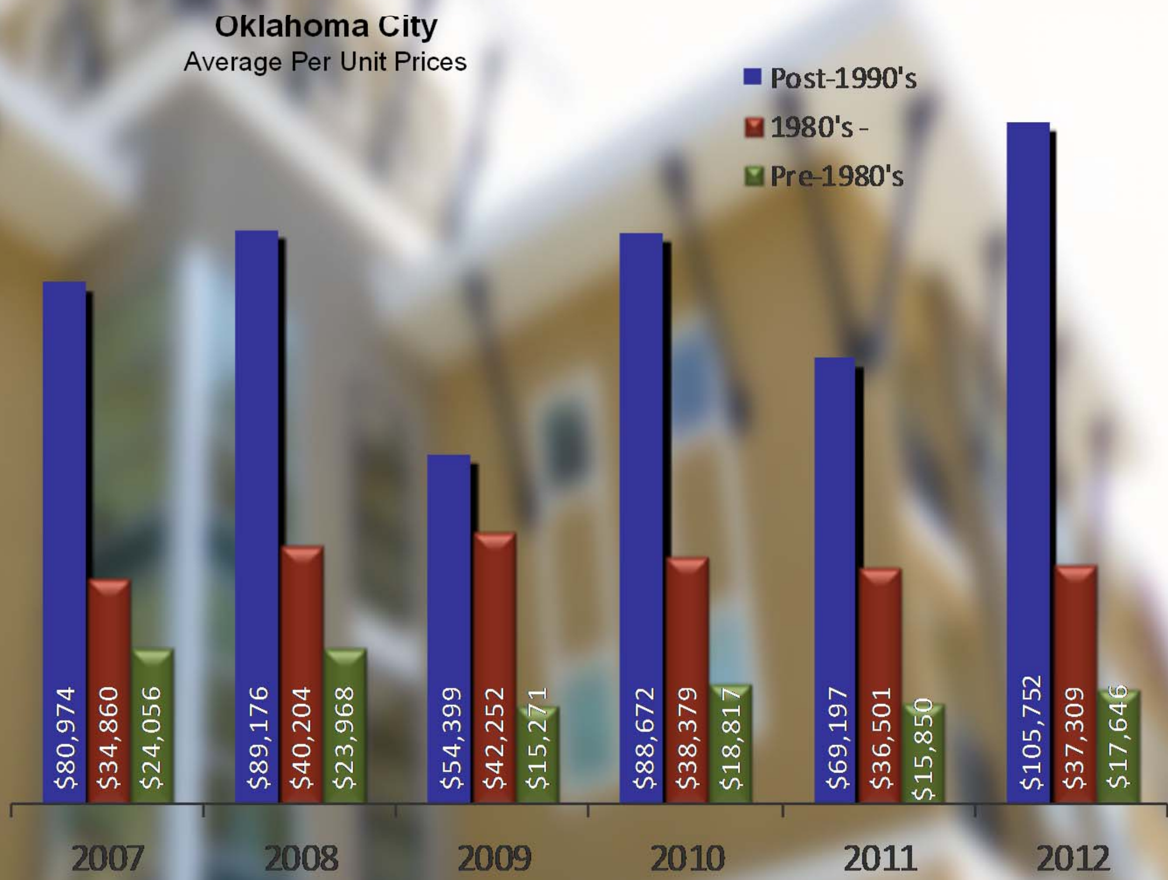
10%
Compared to 2011

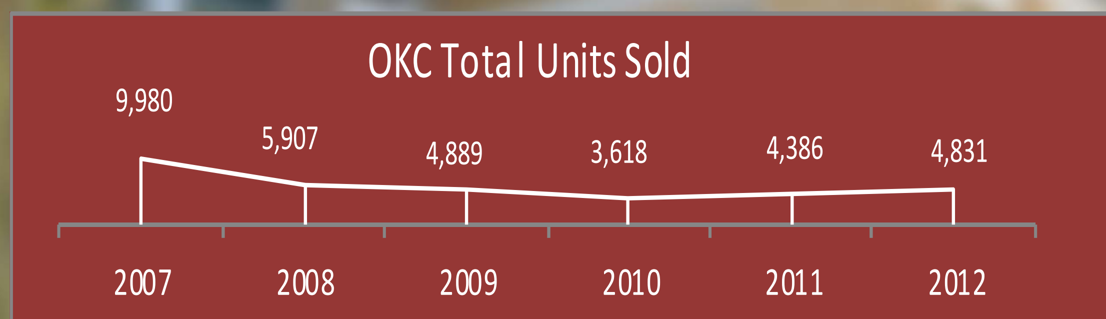
Average Price Per Unit

94%
Compared to 2011

No. of Transactions

7%
Compared to 2011





Tulsa

There were 22 sales on properties that exceed 25 units in size, for a total of 3,194 units. This was up a modest 9% from 2,923 units sold in 2011. Total sales volume increased to $131 million in 2012, as compared to $96.5 million in 2011. The overall average price per unit on apartment communities with 25 units or more ended 2012 at $41,030, up 24% from $33,028 per unit in 2011.

Pre-1980's properties delivered 16 sales for a total of 1,856 units. There were 13 transactions recorded in 2011 on 1,698 units sold. The average price per unit ended 2012 at $16,589, down 40% from $27,619 in 2011. The decline occurred because of nine properties, or 708 units, that sold below $15,000 per unit. As a statistical comparison, the average price per unit between Tulsa and Oklahoma City for this category in 2012 was about the same at $16,589 and $17,646 respectively. The gap narrowed due to more distressed sales in Tulsa in 2012. But as with Oklahoma City, lender owned properties are expected to diminish in 2013 leaving those same opportunistic buyers with no measurable inventory.

The average for Post-1980's properties ended 2012 at $27,873 per unit, as compared to $38,433 in 2011. The average per unit price was down 27%, but that happened because of two sales in 2011 that exceeded $40,000 per unit and no sales that exceeded this benchmark in 2012. Total volume for this category was only $8.3 million in 2012, as compared to $28.5 million in 2011 for the same number of transactions. There were three properties sold in 2012 for a total of 300 units, as compared to three sales of 744 units in 2011.

Post-1990's properties delivered $91.9 million in sales volume in 2012. The average price per unit was $88,536 on the 1,038 units sold. There were three sales in the Post-1990's category in 2012. The Sonoma Grande Apartments that were built in 2009 were sold for $32.2 million, or $95,833 per unit for the 336 units at 9303 E. 81st Street. The second purchase by the same non-traded REIT was Estancia Apartments at 7705 S. Mingo Road that sold for $27.9 million, or $94,898 per unit for the 294-unit community. The final sale was the 408-unit Villas at Bailey Ranch Apartments in Owasso that were built in 2004 and sold for $31.8 million, or $77,941 per unit. The buyer of Villas at Bailey Ranch is the same buyer that purchased the Villas at Countryside in Moore from Tulsa based Case and Associates in 2011. At that time, they paid $74,305 per unit for the 360-unit property that was built in 2002.

Total Sales Volume

36%
Compared to 2011

Total Units Sold

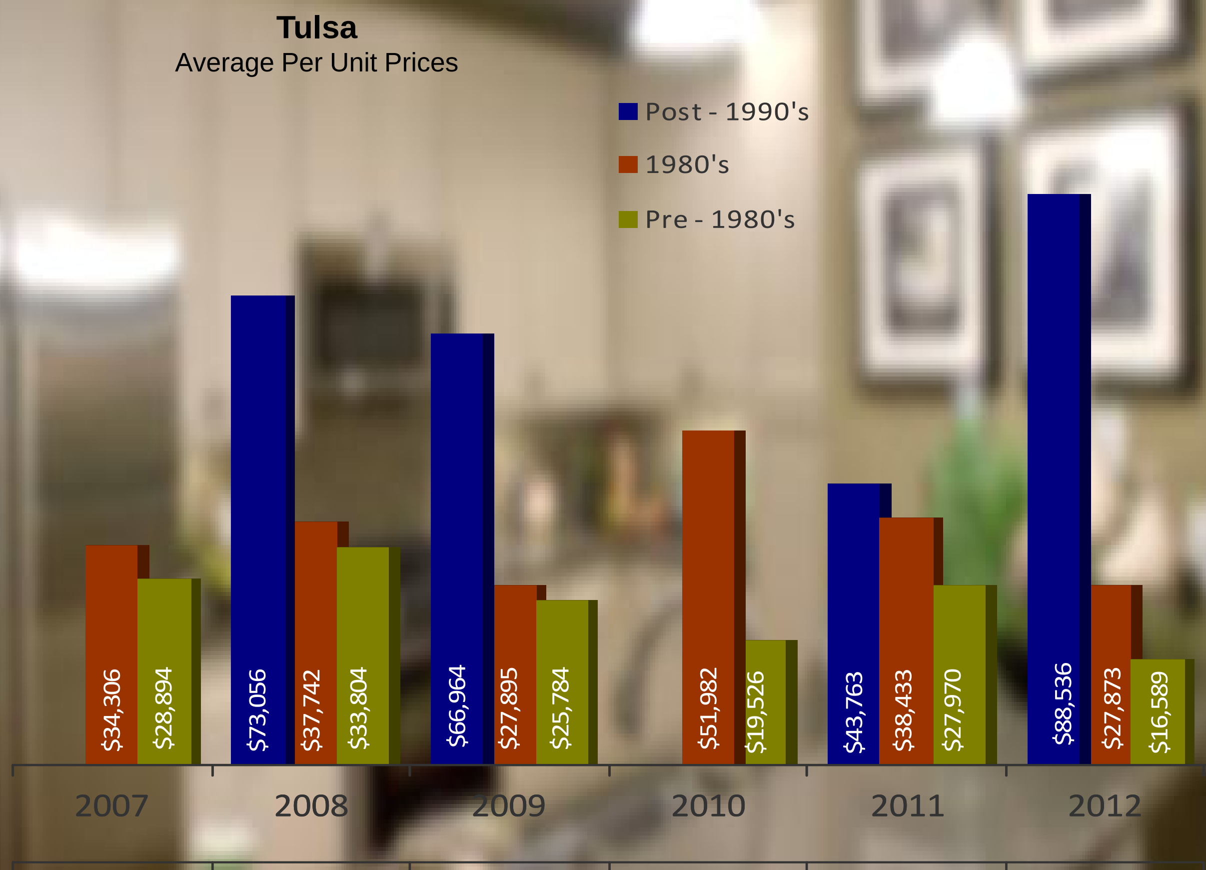
9%
Compared to 2011

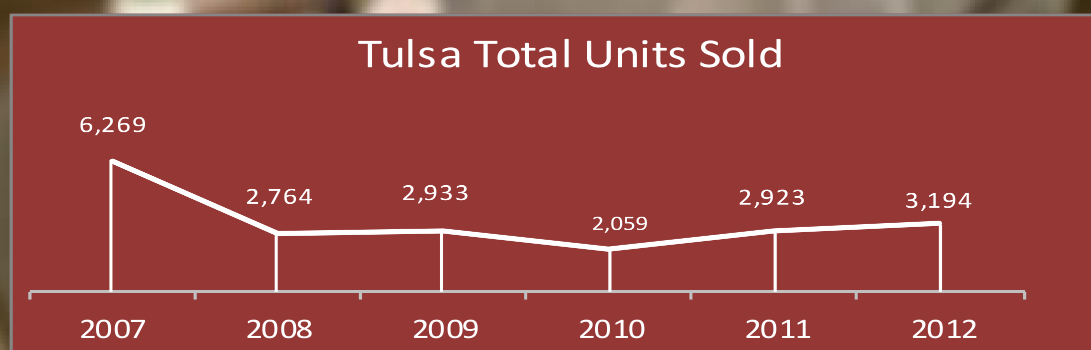
Average Price Per Unit

24%
Compared to 2011

No. of Transactions

22%
Compared to 2011





Arkansas Oklahoma Kansas

Outlook

Oklahoma City and Tulsa continue to experience their lowest vacancy rates in over a decade. Rental rate growth has continued to trend upward while vacancy rates hover in the 7 percent range for both markets. The outlook for 2013 is for rental rates to continue upward in the 2 percent range while occupancies pierce the 93% range. The caveat is that occupancy rates could stay flat or even pull back by 50 basis points or so as a result of new units that are leasing, under construction or planned for 2013.

I estimate cap rates in 2013 on class “A” communities will have a six in front of them; class “B” will be in the mid 7 percent range and class “C” will be 8.5 percent or higher. Investors will still be drawn to class “D” assets that need renovation, but only if the end result can generate cap rates exceeding 10 percent.

Class “A” properties will remain in demand in 2013 despite record pricing. The rationale is that the spread between these low cap rates and 10-year Treasuries are at historic highs and interest rates face no immediate upward pressure. But what happens if those low interest rates that have been busily at work fueling the booming apartment market go away? Hopefully the strong fundamentals that have helped change the course of our market do not erode with raising interest rates or oversupply.

Volatility could be a concern going forward, despite being minimal of even immeasurable at first.

1 Myth and Reality. Non-listed REITs fight to shake misconceptions.
October 2012 National Real Estate Investor

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

Sale Highlights Oklahoma City

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Heritage Ridge	7550 NW 10th	$1,100,000	112	1972	$9,821
The Reserve on Stinson	730 Stinson - Norman	$22,947,671	204	2004	$112,488
Springs of Moore	800 NW 12th - Moore	$2,529,000	104	1973	$24,317
Spring Creek	777 E. 15th - Edmond	$19,350,000	252	1974	$76,785
Village at Quail Springs	14520 N. Pennsylvania	$21,450,000	276	2009	$77,717
Lincoln at Central Park	500 Central Park Dr	$77,000,000	708	2008	$108,757
Montclair Parc	10900 S. Pennsylvania	$35,750,000	360	1999	$99,305
Park Forest	4328 SE 46th Street	$2,050,000	216	1974	$9,490

Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Silverstone	13195 E. 31st Street	$3,840,000	128	1983	$30,000
Brighton Park	4881 S. Darlington	$2,880,000	120	1974	$24,000
Riviera West	4811 S. Jackson	$700,000	100	1973	$7,000
Garden Terrace	1140 S. 101st E. Ave	$1,150,000	65	1964	$17,692
Sonoma Grande	9303 E. 81st	$32,200,000	336	2009	$95,833
Villas at Bailey Ranch	8751 N. 97th E. Ave	$31,800,000	408	2004	$77,941
Prescott Woods	1337 E. 61st Street	$4,400,000	255	1975	$17,255
City Gardens	3200 S. Hudson Ave	$2,400,000	134	1970	$17,910
Normandy	6221 E. 38th Street	$7,000,000	208	1968	$33,653