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2015 Apartment Report
Oklahoma City
Tulsa

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2015
Multifamily Apartment Report

"It's time to stop kidding ourselves; new data clearly show the idea that insatiable demand outpacing supply for many moons to come is a myth." This is a quote from Ryan Severino in an article for Multifamily Executive Magazine. Ryan Severino is a senior economist and director of research at the real estate research and analysis firm, Reis. He is also an adjunct professor at Columbia University and NYU. Critics will say this time is different, though. To Severino, different means "there's a seemingly infinite and insatiable pool of demand for rental units, because Generation Y is huge, with millions of them living at home just salivating at the prospect of moving out". "And they have a preference for renting versus owning". "Therefore, vacancy rates are going to keep falling, beyond a horizon that anyone can predict, and rent growth will remain stout". This sounds great, except that Severino suggests it's wrong and "dangerous to believe".

While I might be able to temper his theories a bit with some local perspective, I can't completely dismiss some potential upcoming softness for the multifamily industry in terms of vacancy and rental rates. The top end of the product spectrum has the most risk because developers keep adding new product to this Class-A space. Any developer though will tell you that their property will outperform all the others being built. Again, Severino offers this; "competition today is fierce, and seldom, if ever, can properties really set themselves apart, especially in the face of rising vacancy rates, no matter how many lazy rivers they have, how large their infinity pools are, or what a great view their properties boast from the roof-deck fire pit".

Some products in that top end of the spectrum will also face a new breed of competition from renovated Class-B product. For example, in the past, properties like The Warwick in northwest Oklahoma City and Avista *(formerly Bryant Square)* in Edmond have never offered much of an alternative to Class-A until their recent acquisitions and significant renovations. The renovated units at Avista have porcelain faux wood flooring and premium finishes with granite counters, dark oak cabinets, new light fixtures, and decorative fiberglass interior doors. They have also installed front-loading washer and dryers. The exterior has new windows and roofs and is being completely bricked to replace old composite siding. The level of renovation and premium finishes now move this former B-grade asset to a whole new classification.

With the added competition also comes the added risk for occupancy and rental rate compression. So, developers and owners hoping for continued compression in vacancy and escalating rents for the distant future may instead be faced with an environment of more concessions and flat conditions for both occupancy and rents.

Does this mean the market is going to experience a severe downturn? The short answer is no. I don't expect there to be a big correction. With that said, I do think we are nearing a peak, but the industry will squeeze a bit more out of this upturn. What I do expect is that instead of the market making a downward correction, it just levels off. That's not really a bad thing - although for some, not going up will have the same sensation as going down. Specifically for those deals that forecasted continued rent growth on acquisition to support their higher prices.

So my local perspective is that the overall market is pretty healthy. I also don't think we will enter a market correction that is driven by the broader state economy. Instead, I think we will enter a period where multifamily takes a breather because tenant demand is not as deep as we had hoped.

Most Class-B and C assets will be a bit more insulated because in those segments supply hasn't overrun demand. New construction and Class-A communities have the most exposure because they are all looking for tenants to pay upwards of $1.00 to $1.20 per square foot, or higher, in an environment of increasing inventory and a renter pool that may be shallower than predicted. Specific sectors like student housing may be most at risk of suffering a true correction because developers are creating housing that caters only to affluent students. For instance, the new Millennium Apartments, a 698-bed community at 900 E. Lindsey in Norman, is a $40 million development and University House Norman, a 917-bed community that is replacing the razed Bishops Landing Apartments, is a $55 million development. And much like the conventional side of the market, I'm not sure the renter pool, in terms of enrollment growth, is as deep as hoped.

As an example, according to data provided by Institutional Research and Reporting from the University of Oklahoma, the unduplicated headcount for the Norman campus Fall enrollment has been steady at around 27,300 between 2011 through 2015. It actually declined slightly between 2013 and 2014 and was up only marginally at 0.6% between 2014 and 2015. So, while developers keep adding inventory, the data doesn't support more students for the added supply. The headlines from two editions of The Norman Transcript may describe it best: the first, "Building new housing", appeared on the front page November 3, 2015; the second, "Housing oversupply", appeared on the front page November 4, 2015.


Improved Hield ready for his final season
Smaller goals paying off for OU
THE NORMAN TRANSCRIPT
Applications accepted for board
Building new housing
State court grants stay
NMF 9 headliners unveiled


THE NORMAN TRANSCRIPT
Shooting motive called into question
CULTURAL BEACON
Housing oversupply
Standing in solidarity on campus

What that means across the broader market is that investors might start pricing greater risk into their valuations in 2016.

Higher oil prices are good for some and yet bad for others. The same goes for lower oil prices, as well. Prices have remained low and are expected to remain steady or even decline in the foreseeable future. Where this has the greatest impact for tenants is in reduced gas prices. As of this writing, the statewide average of $1.86 a gallon for gasoline was the lowest in the country. This causes a boost in discretionary income that remains in their wallets. This has generally been considered a good thing for most apartment residents, providing they have kept their jobs and haven't been laid off. The beneficiaries have been owners that have been raising rents in an environment where tenants have more discretionary income. I think most of us, though, would rather see higher gas prices and a healthier oil industry.

Over the past year, Oklahoma has lost 11,600 energy sector jobs, according to data released by the Oklahoma Employment Security Commission. Yet, Oklahoma's unemployment rate was 4.3 percent in October, which was down three-tenths of a percentage point from the previous month, according to data released by the U.S. Labor Department. Oklahoma City's unemployment rate stood at 3.6 percent in November, one-tenth of a percentage point higher than one year ago. So, the local and state economy is holding up well despite declining energy sector jobs.

In fact, according to a preliminary affordable housing study conducted by Integra Realty Resources, Oklahoma showed surprising economic resilience in the face of continued low oil and gas prices. A third of the 108 Oklahoma communities surveyed this summer reported higher adjusted median household incomes since the year 2000, according to Senior Director David Puckett. "The state weathered the Great Recession very well, even better than I expected," said Puckett.

Oklahoma City

There were 52 sales on properties that exceed 25 units in size, for a total of 8,483 units. This was up from 6,101 units sold in 2014. Total sales volume was $439.6 million in 2015, as compared to $272.6 million for 2014. The overall average price per unit on apartment communities with 25 units or more ended 2015 at $51,827, up from $44,686 per unit in 2014.

For Pre-1980's properties, there were 37 transactions in 2015 involving 4,998 units for an average price per unit of $33,591. There were five lender-owned sales in 2015 for a total of 915 units and an average per unit price of $15,290. Investors are simply paying a premium for good quality older assets in good locations, which trickled down to even the lowest end of the market. In particular, the 358-unit Aspen Place Apartments, the 424-unit Warwick Apartments and the 136-unit Esplanade Apartments recorded sale prices of $44,832, $73,500 and $60,036 per unit, respectively. Total sales volume for this category in 2015 was $167.8 million, as compared to $74.7 million in 2014.

The average for 1980's vintage properties in 2015 was $60,442, as compared to $44,412 per unit in 2014. The 2015 figure was heavily skewed because of the sale of Oxford Oaks Apartments in Edmond at $89,293 per unit for the 488-units built in 1985. Notably, the price per square foot at $117 makes it comparable with new construction, but with an average square footage of only 762 per unit. While Oxford Oaks sold for an undisclosed price on the County records, its purchase price can be calculated using an 80% loan-to-value. The new entity, filed on August 31st, was exempt from documentary stamps at the Oklahoma County Courthouse, but Cornerstone Oxford Oaks LLC filed a new $34.86 million mortgage covering the property on August 31st. The average for this category would have still been up at $48,481 per unit even excluding this sale, which might be a little better measurement considering it might be a while before we see another mid-80's property sell for this type of pricing. Combined for this category, there were seven sales in 2015 for a total of 1,665 units. Total volume was $100.6 million, as compared to $142.3 million for the 3,205 units sold in 2014.

Reversing the trend of 2014, Post-1990's returned to almost the highest sales volume of the three categories in 2015. At $161.2 million, it represented 37% of total volume for the year. This still didn't surpass 2012 and 2013 though when volume was $231.5 million and $229.5 million respectively for 76% of total volume for those years. This does shows that investors have been placing more capital in the earlier vintage properties as prices have escalated rapidly on new construction and Class "A" communities. There were six transactions in 2015 involving 1,540 units for an average price per unit of $104,712. 2014 recorded three transactions on 515 units sold for an average of $107,751 per unit.

There were two former tax credit deals sold in 2015 for a total of $9.8 million. The average price per unit was $35,238 for the combined 280 units. There was one sale in 2014 for comparison at $36,905 per unit for the 84-unit Cottages of Norman, a former tax credit property for seniors. These are deals where the original tax credits had expired, but they remained subject to the extended compliance periods.

Total Sales Volume

61%
Compared to 2014

Total Units Sold

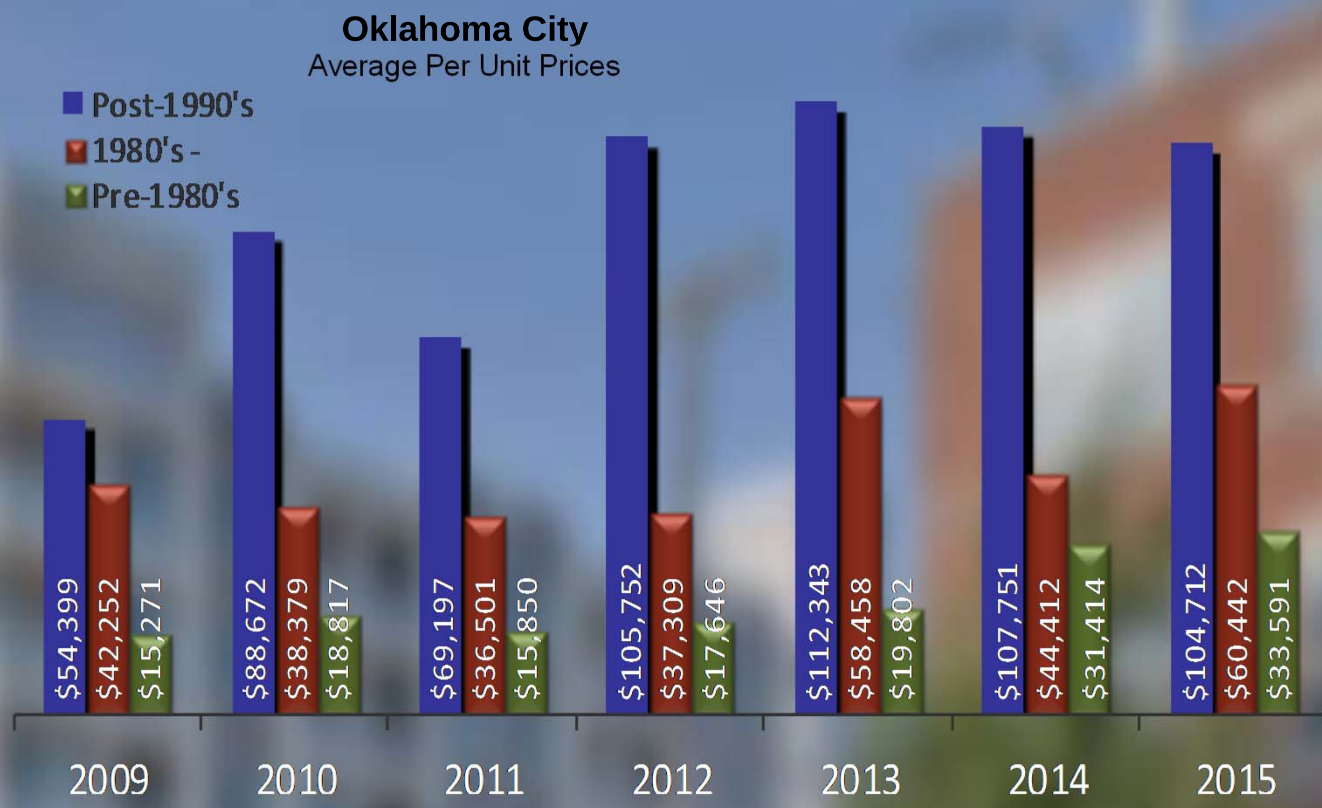
39%
Compared to 2014

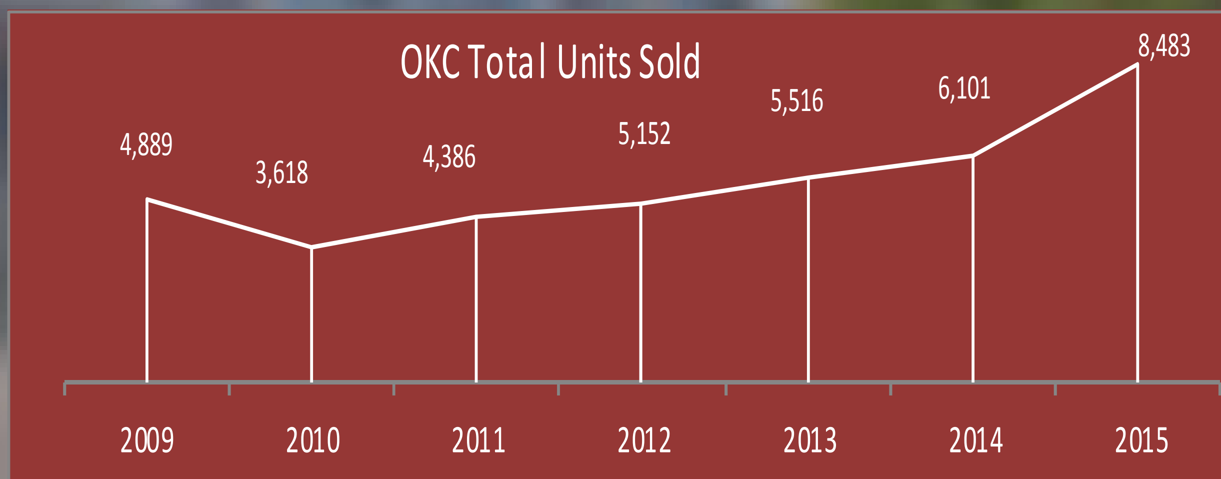
Average Price Per Unit

16%
Compared to 2014

No. of Transactions

41%
Compared to 2014





Tulsa

There were 18 sales on properties that exceed 25 units in size, for a total of 3,825 units. This was down sharply from 8,813 units sold in 2014. Total sales volume also decreased significantly to $159.9 million in 2015, as compared to $401.3 million in 2014. The overall average price per unit on apartment communities with 25 units or more ended 2015 at $41,811, as compared to $45,538 per unit in 2014.

For Pre-1980's properties, there were 11 sales for a total of 1,937 units. This compares to 33 transactions recorded in 2014 on 5,662 units sold. The average price per unit ended 2015 at $43,116, up 55% from $27,736 in 2014. There were no sales in 2015 that sold below $15,000 per unit, as compared to two in 2014, four in 2013 and nine in 2012. These low per unit deals, which are generally considered value-add opportunities, have diminished rapidly. In fact, there were no sales in 2015 even below the $20,000 per unit benchmark. Oddly, one of the highest prices was paid by the non-profit Mental Health Association of Tulsa at $51,636 per unit for the 220-unit Pheasant Run Apartments that were built in 1977.

The average for Post-1980's properties ended 2015 at $40,471 per unit, as compared to $39,580 in 2014. Total volume for this category was $76.4 million, as compared to $47.7 million in 2014. There were seven properties sold in 2015 for a total of 1,888 units, as compared to seven sales and 1,206 units sold in 2014. The highest sale in this category was the 240-unit Sheridan Pond Apartments at 8130 S. Lakewood Place that sold for $61,625 per unit, followed by Chardonnay Apartments at 7209 S. 92nd East Avenue at $50,850 per unit.

There were no sales in 2015 within the Post-1990's category. Looking back, there was $196.5 million in sales volume in 2014. The average price per unit then was $101,054 on 1,945 units sold. This compares to $83,582 per unit in 2013 on $67.2 million in sales volume.

Tulsa	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions		7	11
Total Number of Units		1,888	1,937
Total Number of Sales Tulsa		7	10
Total Number of Sales Other			1
Total Number of Sales Broken Arrow			
Price High per unit Price Low per unit	NA NA	$61,625 $30,122	$57,935 $21,839

Oklahoma City	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	6	7	37
Total Number of Units	1,540	1,665	4,998
Total Number of Sales OKC	2	4	30
Total Number of Sales Edmond	3	3	
Total Number of Sales Norman	1		2
Total Number of Sales Other			5
Price High per unit Price Low per unit	$120,833 $79,091	$89,293 $32,258	$73,500 $7,291

Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Brookwood	1325 E. 48th Place S	$1,786,000	73	1964	$24,465
Fairmont Terrace	1111 E. 60th Street S	$13,600,000	336	1975	$40,476
Silvercreek	10710 E. 41st Street S	$10,100,000	320	1980	$31,562
Boulder Plaza	1840 S. Boulder	$1,900,000	87	1953	$21,839
Waterstone	1054 E. 57th Place	$6,500,000	243	1965	$26,748
Eagle Point	5808 E. 71st Street S	$13,300,000	344	1980	$38,662
Sheridan Pond	8130 S. Lakewood Pl.	$14,790,000	240	1986	$61,625
Chardonnay	7209 S. 92nd Ave East	$10,170,000	200	1983	$50,850
Red River	1502 E. 71st Street	$12,000,000	280	1980	$42,857
Mira Vista	10149 E. 32nd St S	$3,800,000	112	1972	$33,928
Boca Vista	10851 E. 33rd St	$5,000,000	120	1974	$41,667
Vista Shadow Mountain	6000 S. Memorial	$34,355,455	593	1974	$57,935
Village on the Green	758 W. B St N - Jenks	$2,325,000	48	1974	$48,437
Observation Point	4104 S. 130th E. Ave	$12,048,800	400	1982	$30,122
Old South	5137 E. 47th Place S	$1,650,000	57	1967	$28,947
Pheasant Run	2002 E. 73rd St	$11,360,000	220	1977	$51,636

Total Sales Volume

60%
Compared to 2014

Total Units Sold

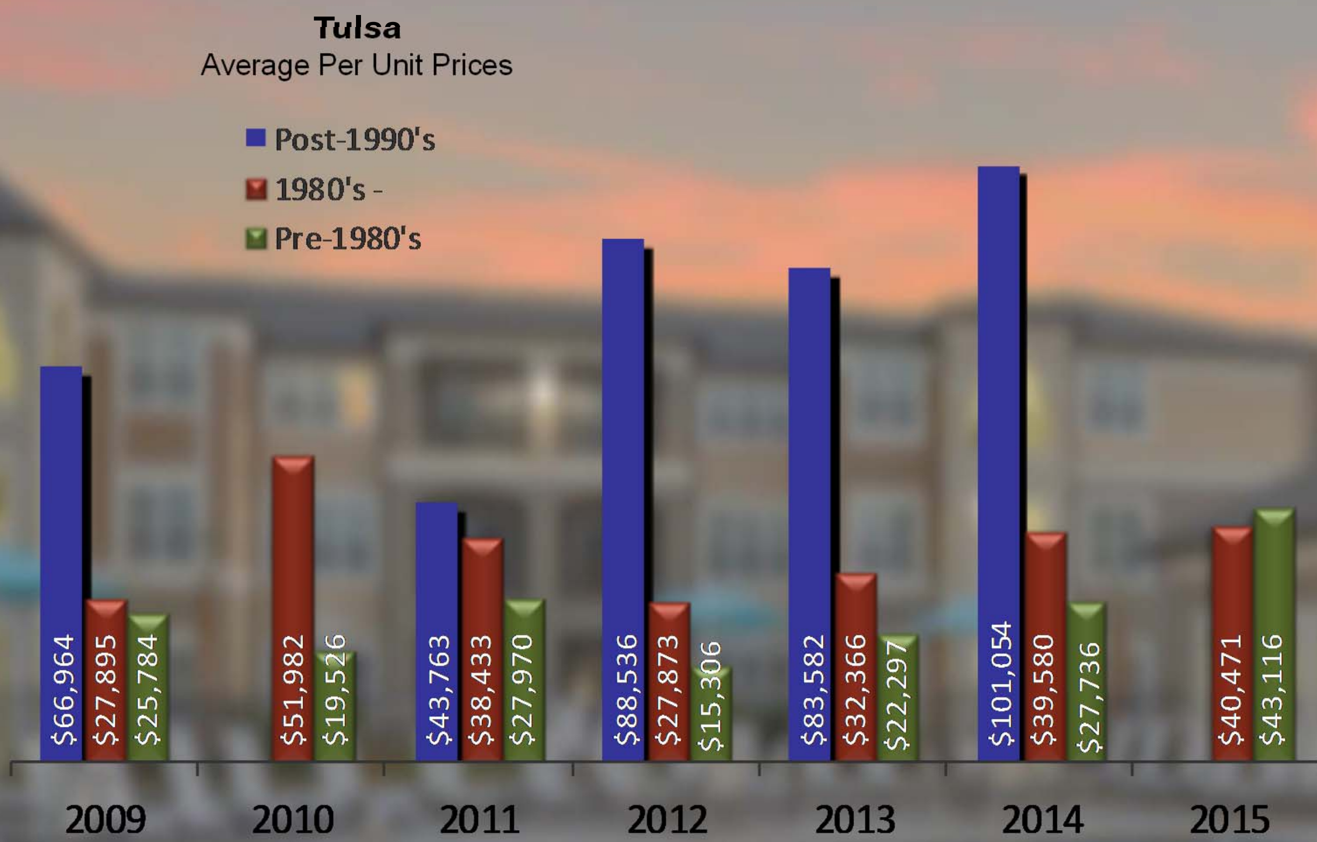
57%
Compared to 2014

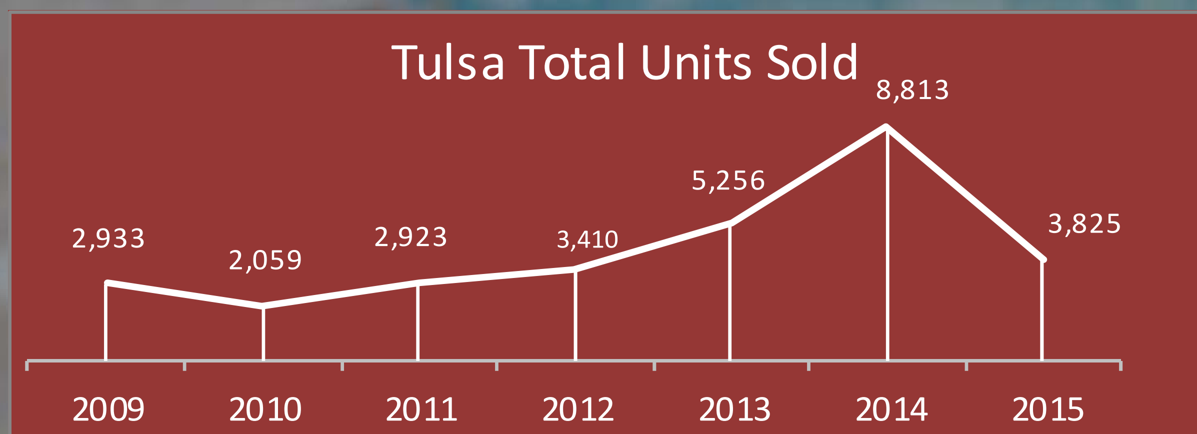
Average Price Per Unit

8%
Compared to 2014

No. of Transactions

63%
Compared to 2014





Arkansas Oklahoma Kansas

Outlook

This unique “heads, we win; tails, we win” dynamic we are in now may be a sign to re-evaluate where we are in the real estate cycle. Of course, it’s virtually impossible to predict with certainty when the tides will turn, but I think the question of whether we are nearing this cycle’s peak remains relevant. I do think we have time before there is cause for worry, but it may be a good time to start adjusting expectations.

2015 was a year where strong fundamentals were among several other factors fueling investor interest. The other factors included historic low interest rates and robust sales activity. As record pricing and transaction volume went up, it became the norm. As this new normal took root, the investors that followed, less reluctantly, paid higher prices and the upward cycle continued. This was 2015… As we enter 2016, absorption on new starts could be slower as inventory increases. So, we will continue to watch new construction questioning when it might begin to outrun demand and if the multifamily sector can continue its unabated upward cycle.

Sale Highlights Oklahoma City

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Village at Stratford	12831 N. Stratford Dr.	$15,800,000	356	1985	$44,382
University Greens	2900 Oak Tree Ave.	$15,750,000	156	1999	$100,961
Bryant Square	1730 E. 2nd Street	$3,955,750	96	1980	$41,205
Summer Oaks	1442 N. MacArthur	$5,425,000	196	1972	$27,678
Aspen Place	2700 Indian Creek	$16,050,000	358	1972	$44,832
Springdale	4300 S. Barnes	$3,440,000	128	1975	$26,875
Warwick West	3120 NW Expressway	$31,164,000	424	1978	$73,500
The Belmont	1800 N. Rockwell	$2,890,000	162	1969	$17,839
Madison Village	4215 SE 53rd Street	$5,000,000	212	1973	$23,584
The Timbers	1200 E. Ayers	$3,100,000	72	1984	$43,055
Shores at K-Rock	14117 N. Rockwell	$36,250,000	300	2013	$120,833
Park MacArthur	4500 N. MacArthur	$3,700,000	137	1969	$27,007
Cinnamon Square	6624 S. May	$5,275,000	192	1971	$27,474
Hillcrest	1402 SW 59th	$4,330,000	148	1960	$29,256
Drexel Park	4200 N. Drexel	$5,500,000	165	1964	$33,333
Bryan Hill	7208 NW 36th	$6,400,000	232	1972	$27,586
The Gateway of Edmond	14140 Broadway Ave	$17,400,000	220	1996	$79,090
Meadow Creek	616 SW 59th	$1,150,000	68	1963	$16,911
Parkview Village	1253 SW 22nd	$4,000,000	240	1948	$16,667
Castle Tower	5516 NW 23rd	$2,300,000	122	1969	$18,852
Esplanade	4601 W. Nicklas	$8,165,000	136	1970	$60,036
Avana on Second	1919 E. 2nd St. Edmond	$36,070,000	328	1999	$109,969