Arkansas Oklahoma Kansas

2016 Apartment Report
Oklahoma City
Tulsa

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2016
Multifamily Apartment Report

Strong investor demand, low interest rates and falling capitalization rates were once again the trends that made 2016 so busy in the multifamily sector. In fact, my opinion is that this low interest rate environment has been the single biggest factor in helping to fuel apartment acquisitions during this market cycle. It seemed likely interest rates could rise 100 basis points or more during 2016, but this just didn't happen. While the often-repeated theory is that they will creep back up sooner or later, there is just not a lot of upward pressure on interest rates. So for now, I think rates will remain lower than anyone expected. And for those that do anticipate an increase, do not expect the needle to move very far. The impact of a single rate hike will likely be inconsequential. It's the cumulative effect of several increases that might occur throughout 2017 that could matter.

Capital is readily available and it remains a pretty good environment to be a borrower. Some local banks have pulled back a bit due to concerns about concentration risk, but for every bank that has said they are taking a pause, there are a couple of others that have said they are looking to increase production. HUD, local/regional banks and Fannie Mae and Freddie Mac are considered to be the most significant sources of debt capital. Fannie and Freddie are still the best lending source for permanent debt, for both price and loan dollars. Typical interest rates for their permanent, fixed-rate loans have ranged from 4.15 to 4.50 percent or 225 to 250 basis points over the yield on 10-year Treasury bonds, for loans that cover 70 to 80 percent of the value of a property. However, Fannie and Freddie cannot cover the permanent financing needs of all properties.

If the availability of capital has helped fuel the boom in multifamily sales, should there be a growing concern that asset prices driven by low interest rates, rather than rent growth, could cause the industry to get in trouble? Those in the business will argue that lending standards today are a lot more stringent than they were in 2006 and 2007, which will prevent this from happening, but one wonders if this is a true-to-reality assessment. The question is whether interest rates are artificially low, which is compressing cap rates and pushing prices past their intrinsic value, or are interest rates determined by the real growth rate of the economy and interest rates are low because of low inflation and low economic growth and instead not at all artificial.

Either way, investors will be watching cap rates for signs of change, while also keeping a close eye on interest rates going into 2017 knowing that a rising interest rate environment will impact the cost of capital and could create a headwind for investment sales.

With so many buyers investing in multifamily, the challenge is to find good properties to buy and strong management to help operate them. This coincides with the lower sales volume and the number of units sold when comparing 2016 to the previous year. As the market moves into the later stage of this cycle, investors may start pivoting away from paying benchmark pricing for core assets and then expecting those assets to deliver consistent, predictable returns. This could provide the backdrop for investors to start looking for owners that have become a bit stagnant or resting on their laurels in terms of maintaining an asset and pushing rental rates. These proactive investors, upon taking over a property, will look for ways to improve property performance, including finding alternative uses for nonrevenue and unused space. For example, in a moderate repositioning of the Crosswinds Apartments at 6101 N. May Avenue, Altus Equity Group, who acquired the property for $5,430,000 in October of 2016, will look to upgrade unit interiors on the 126-unit property and revitalize the indoor swimming pool. They will also repurpose the common area space that had sat empty since 2007.

2016

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The key to succeeding in this space is location, location, location. It's really about submarket locations and specific opportunities that exist within the submarkets as opposed to blanket-brushing the entire metro areas. While the common thread for investors is to acquire, upgrade, and then sell for a profit, there is an underlying need they are meeting by providing good quality affordable housing in a market where new multifamily housing built is mostly priced for the luxury market. Many of these older communities and apartment units exhibit functional obsolescence if their design features are outdated, not useful or not competitive with new and more modern designs. Owners that have become "stagnant" will view these outdated units to be in good condition and perfectly livable. To reduce the decline of affordable housing inventory, investors and owners will need to take a different approach and tackle functional obsolescence with upgraded units that meet today's standards. This could be viewed as the next place to invest in 2017 as buyers weigh these opportunities, and especially for those buyers that are priced out of the top end of the market.

According to the 2016 State of the Nation's Housing report from the Joint Center for Housing Studies of Harvard University, more than one in every three people in the U.S. struggles with the high cost of housing, which is the highest level ever recorded. The number of people living in households that pay more than 50 percent of their income for housing has grown to 114 million, according to the study.

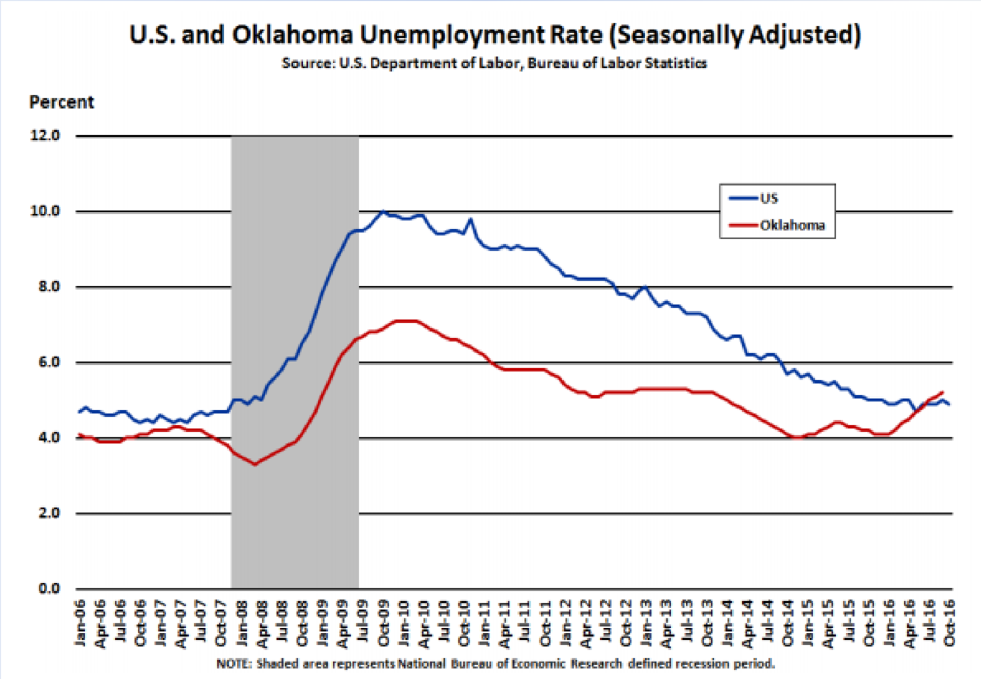
Ian Colgan, assistant executive director of the Oklahoma Housing Authority, sees a similar crisis in affordable housing ahead for Oklahoma City if current trends continue. According to Colgan, Oklahoma City's rent grew at a rate of 18 percent from 2010 to 2014. During that same time period, Oklahoma City built five affordable units for every 100 households paying 50 percent or more of their income toward housing. While Oklahoma City's median rent is one of the lowest of major cities in the country, the number is growing rapidly. So what lies ahead?

Developers will continue to produce higher end multifamily as the cost to produce each unit has been going up as a result of higher construction and labor costs. Consequently, there will be a growing demand for more affordable apartments in our metro area markets. And it goes beyond just using government programs like the federal low-income housing tax credit (LIHTC) that can be used for so many different things. It involves creating housing for the range of incomes. Downtown markets like OKC and the Inner Dispersal Loop (IDL) in Tulsa are especially susceptible. Why? Because developers think they want to create glorious facilities that look really, really good, but the problem is it costs a lot of money to do that. When it costs a lot of money to build, you have to charge that back in rent. There is not much availability for the group that is in the $25,000 to $40,000 annual wage range and this group cannot afford to pay $1,000 to $2,000 a month for an apartment. However, the economy needs the restaurant worker and clerical positions to be able to run businesses in downtown.

Cathy O'Conner, director of the Oklahoma City Urban Renewal Authority, might have said it best in an article published November 22, 2016, "Everybody should be able to live in a safe place and have access to high-quality schools, amenities and to be able to get to work." This may become more of a focus for investors in 2017, as groups like Altus acquire properties within a segment of the market where there is proven demand.

The economy as a whole remains sluggish due to oil and gas prices. While the employment declines have slowed and stabilized over the past few months, Oklahoma City continues to lose energy sector jobs. For the year ending in November, Oklahoma City's job growth was flat with a 4.2 percent unemployment rate. Oklahoma City had the largest increase in unemployment over the year among large metropolitan areas in the United States, according to data released by the U.S. Labor Department. Unemployment in the Oklahoma City metro area grew from 3.5 percent from a year earlier according to Labor Department numbers. Tulsa County, the state's second-largest county, had an unemployment rate for November of 4.6 percent, up from 3.9 percent in November 2015. While energy and manufacturing jobs took the hardest hit initially from the decline in oil and gas prices, service sector and retail jobs are now also showing declines, according to Lynn Gray, chief economist for the Oklahoma Employment Security Commission. Gray went on to say for an article in the Oklahoman, "it's not surprising that we would eventually see industries that are really dependent on disposable income hit in this recession". "We are really starting to see it cycle through other parts of the economy now". Unemployment rates increased in 59 of Oklahoma's 77 counties in November from November 2015, according to the data.

When it comes to national numbers, Oklahoma was one of two states that showed a significant year-over-year statistical increase in their unemployment percentages. While these results are hardly signs of impending doom, they do lay emphasis on a change in direction. That does not necessarily mean we are heading into a decline either, it could just mean the economy is finding its balance.



Oklahoma City

While we did see a continuation of 2015 in many respects, one area that did not repeat was transactional activity. The comparison between 2015 and 2016 underscores the gap. In 2016, there were 46 sales on properties that exceed 25 units in size for a total of 6,000 units. This was down from 52 sales and 8,483 units sold in 2015. Total sales volume was $308 million in 2016, as compared to $439.6 million for 2015, a 30 percent decline. The bright spot is that the overall average price per unit on apartment communities with 25 units or more ended 2016 at $51,333, down only marginally from $51,827 per unit in 2015.

For Pre-1980's properties, there were 33 transactions in 2016 involving 3,734 units for an average price per unit of $34,906. There were only two distressed sales in 2016 for a total of 194 units and an average per unit price of $7,603. Total sales volume for this category in 2016 was $130.3 million, as compared to $167.8 million in 2015. Wedgewood Village at 4101 NW Expressway was the most notable sale for this category. The 302 unit property built in 1974 sold for $67,880 per unit.

The average for 1980's vintage properties in 2016 was $46,502, as compared to $60,442 in 2015 and $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. While Oxford Oaks sold for an undisclosed price on the County records, the purchase price can be traced back to the recorded mortgage of $34.86 million. Looking at the average for 2015 without the Oxford sale would have generated an average per unit value of $48,481. The aggregate for this category in 2016 is six sales for a total of 915 units. Total volume was $42.5 million, as compared to $100.6 million for the 1,665 units sold in 2015.

Post-1990's generated sales volume of $132.7 million in 2016, representing 43% of total volume for the year. This compares to $161.2 million in 2015, but once again falling well short of the peak years 2012 and 2013 when volume was $231.5 million and $229.5 million respectively for 76% of total volume for those years. This does underscore my idea that investors have been pivoting towards earlier vintage properties as prices have escalated rapidly on new construction and Class "A" communities. There were six transactions in 2016 involving 1,287 units for an average price per unit of $103,180. The year 2015 showed a similar price per unit of $104,712 for six transactions on 1,540 units sold.

There was one former tax credit deal sold in 2016 for $2.3 million. The price per unit was $36,250 for the 64 units. There were two similar sales in 2015 for comparison at $35,238 per unit for the combined 280-units. These are deals where the original tax credits had expired and the properties remained subject to the extended compliance periods.

Total Sales Volume

30%
Compared to 2015

Total Units Sold

29%
Compared to 2015

Average Price Per Unit

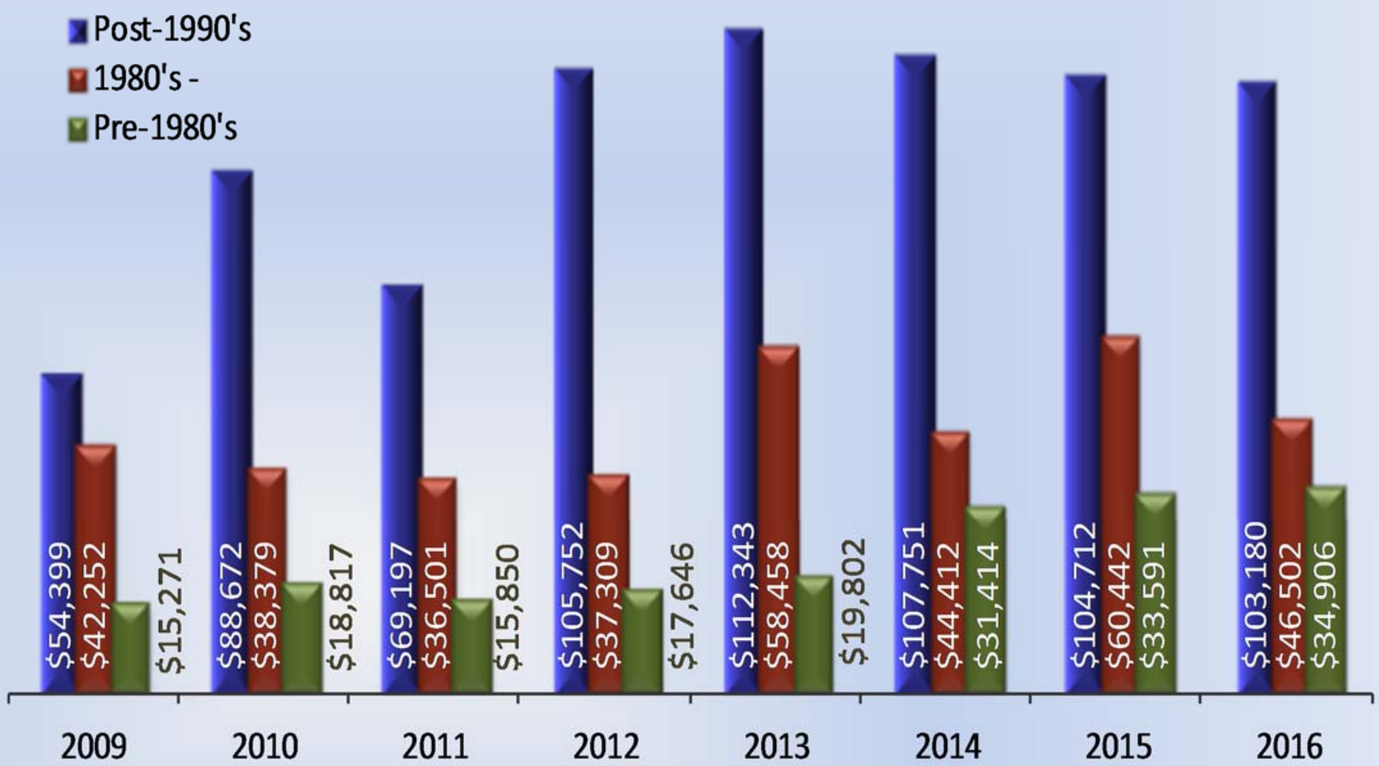
1%
Compared to 2015

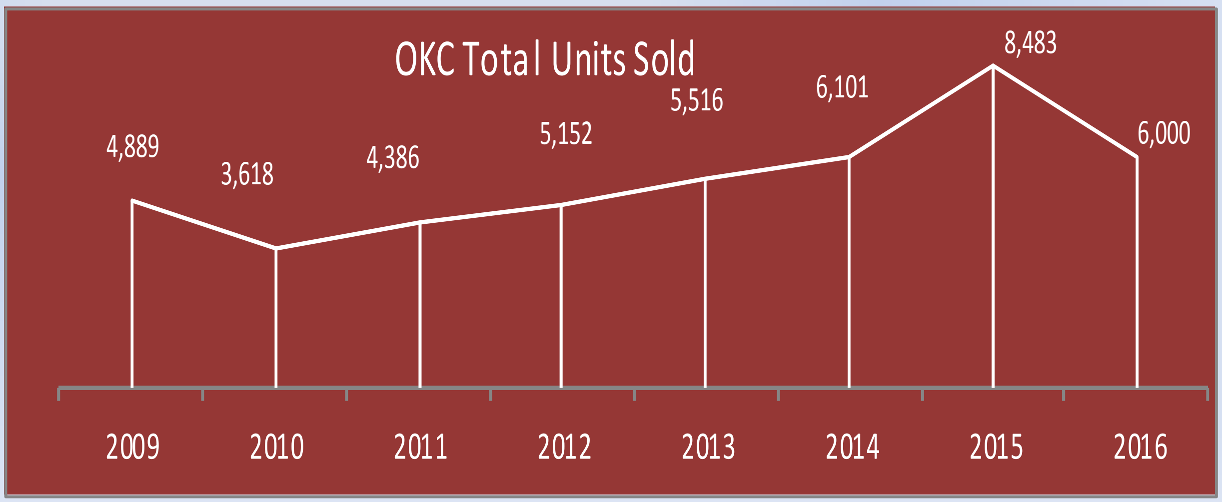
No. of Transactions

12%
Compared to 2015

Oklahoma City

Average Per Unit Prices





Tulsa

There were 16 sales on properties that exceed 25 units in size, for a total of 2,725 units sold in 2016. This was down 33 percent from 4,097 units sold in 2015. Total sales volume also decreased significantly to $112.7 million in 2016, as compared to $171 million in 2015. On a positive note, the overall average price per unit on apartment communities with 25 units or more ended 2016 at $41,392, about even with the $41,747 per unit in 2015.

For Pre-1980's properties, there were 14 sales for a total of 2,288 units. The statistics were similar for 2015 with 12 transactions on 2,209 units sold. The average price per unit ended 2016 at $39,442, down just 8 percent from $42,839 in 2015. There were no distressed sales in 2016. In fact, the lowest per unit sale was $19,126 for the 79-unit Briar Village Apartments at 3218 S. 93rd East Avenue. This follows the trend of 2015 when there were no sales below the $20,000 per unit benchmark. Once again, the non-profit Mental Health Association of Tulsa added to its portfolio in 2016 by purchasing the 134-unit City Gardens Apartments at 3200 S. Hudson Avenue for $5,092,000, or $38,000 per unit.

The average for Post-1980's properties ended 2016 at $47,727 per unit, as compared to $40,471 in 2015. However, there was only one sale in this category for a statistical comparison. Total volume was only $6.3 million, as compared to $76.4 million in 2015. There were seven properties sold in 2015 for a total of 1,888 units, as compared to the one sale with 132-units in 2016.

The only transaction in 2016 for Post-1990's vintage was the sale of the Woodland Manor Apartments at 8641 East 61st. The 305-unit property that was built in 1998 sold for $16,250,000, or $53,278 per unit. There were no sales in 2015 for a statistical comparison. Looking back though, transactional volume was $196.5 million in 2014 on 1,945 units sold for an average price per unit of $101,054. That 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	1	1	14
Total Number of Units	305	132	2,288
Total Number of Sales Tulsa	1		13
Total Number of Sales Other		1	
Total Number of Sales Broken Arrow			1
Price High per unit Price Low per unit	$53,278 $53,278	$47,727 $47,727	$63,314 $19,126

Oklahoma City	Post 1990's	Post 1980's	Pre-1980's
Number of Transactions	6	6	33
Total Number of Units	1,287	915	3,734
Total Number of Sales OKC	3	4	23
Total Number of Sales Edmond	1		1
Total Number of Sales Norman	1		7
Total Number of Sales Other	1	2	2
Price High per unit Price Low per unit	$135,513 $65,234	$84,459 $38,470	$67,880 $4,062

3rd and 4th Qtr Sale Highlights Tulsa

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Pickwick Arms	139 N. Garnett Tulsa	$6,731,000	259	1973	$25,988
Addison	10156 E. Admiral Pl Tulsa	$3,850,000	160	1973	$24,062
Regency Point	5477 E. 71st Street S Tulsa	$9,392,500	192	1979	$48,919
Wildwood	11602 E. 80th Street N Owasso	$6,300,000	132	1984	$47,727
Indian Springs	2177 S. Jasper Ave W Broken Arrow	$16,525,000	261	1975	$63,314
City Gardens	3200 S. Hudson Ave	$5,092,000	134	1970	$38,000
Southern Hills Villa	6609 S. Lewis Ave	$4,000,000	107	1965	$37,383
Palazzo Park	6030 S. Newport	$1,047,000	41	1973	$25,536
Woodland Manor	8641 E. 61st	$16,250,000	305	1998	$53,278
Plaza Hills East	13025 E. 16th Place S	$6,100,000	170	1963	$35,882
Briar Village	3218 S. 93rd Ave E	$1,511,000	79	1973	$19,126
Ridgeview	701 S. 101st Ave E	$5,495,000	155	1973	$35,451
Quail Creek Villa	7334 S. Memorial	$5,400,000	120	1978	$45,000

Total Sales Volume

34%
Compared to 2015

Total Units Sold

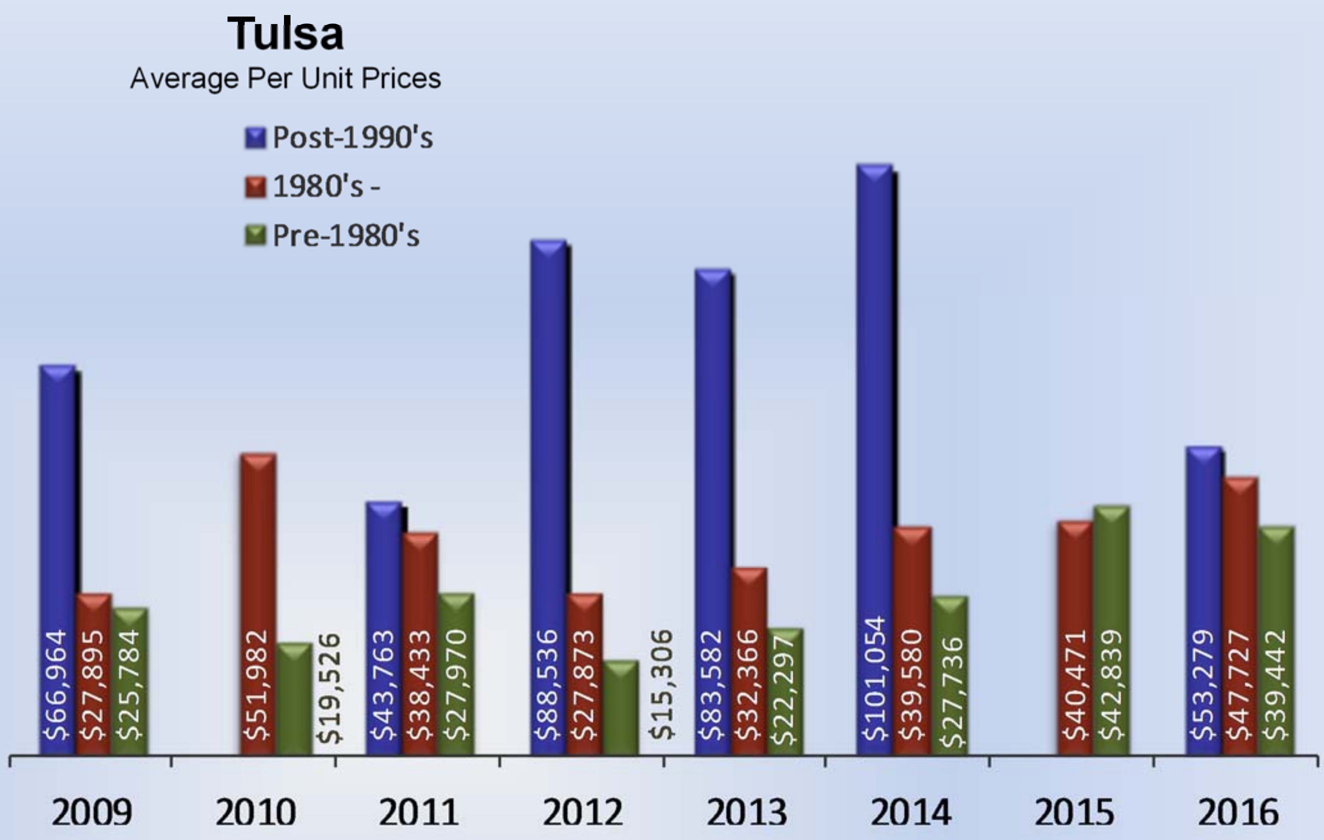
33%
Compared to 2015

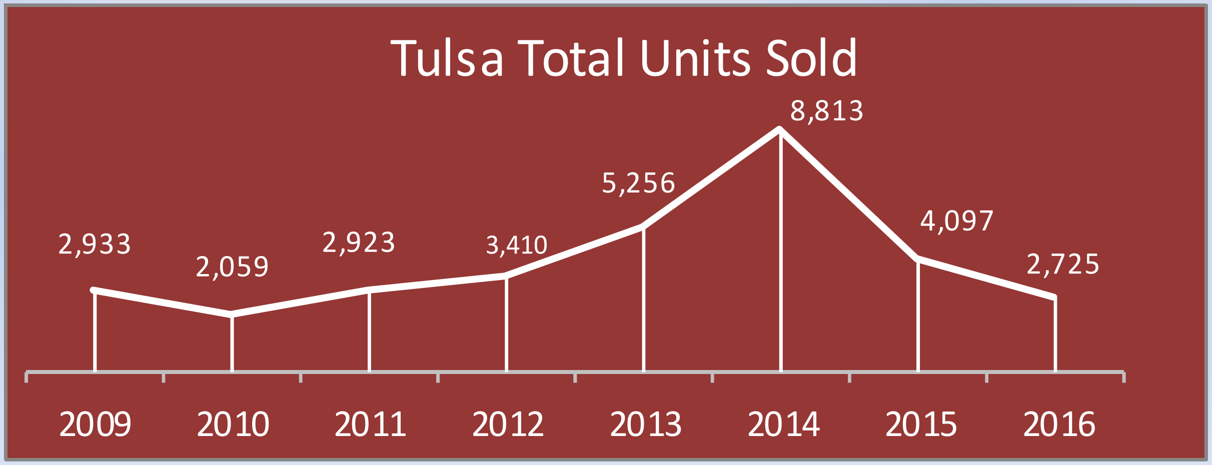
Average Price Per Unit

1%
Compared to 2015

No. of Transactions

16%
Compared to 2015





Arkansas Oklahoma Kansas

Outlook

The multifamily market is fundamentally healthy with positive rent growth and good occupancy rates. However, leverage and the availability of capital could be lower and the cost of capital could be higher going into 2017. It could be a bit harder to make deals pencil out which will be good for the market by keeping supply and values in check. Over the past couple of years we have seen very strong pricing as a result of returning confidence in the market and increasing asset valuations. There does seem to be a foreboding that the record pricing created in this stage of the cycle could stall, however. Where investors get in trouble in their planning is they think the current status of a market is going to be there forever.

Is today's market expensive? Sure. But even with some potential pull-back, average pricing should hold up well in 2017. Plus, there are still not a lot of better options than multifamily for yield-hungry investors. And as we leave 2016, fear of any major shift in the market seems to be muted.

> "And as we leave 2016, fear of any major shift in the market seems to be muted"

Contact us for a Free evaluation of your property.

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
3rd and 4th Qtr. Sale Highlights Oklahoma City					
Timberwood Park	6600 NW 16th Oklahoma City	$650,000	160	1974	$4,062
Thirty5 West	769 SW 19th Moore	$42,551,250	314	2015	$135,513
Gardens at Reding	3708 S. Douglas Oklahoma City	$5,417,500	157	1985	$34,506
Country Village	301 Hal Muldrow Norman	$3,600,000	100	1972	$36,000
Western Oaks	7402 NW 23rd Oklahoma City	$4,650,000	174	1967	$26,724
Apple Tree	6032 NW 23rd Oklahoma City	$2,275,000	69	1972	$32,971
Chaparral Townhouses	1301 N. Stiles Ave Oklahoma City	$11,486,500	136	1984	$84,459
University Plaza	542 S. University Norman	$1,640,000	41	1972	$40,000
Rebecca Lane	1203 Rebecca Lane Norman	$5,750,000	131	1975	$43,893
Huntington Place	1401 N. Midwest Blvd Midwest City	$9,900,000	288	1974	$34,375
Willow Park	4814 N. Kristie Drive Del City	$4,150,000	112	1973	$37,053
Seminole Ridge	4809 125 SW Oklahoma City	$8,200,000	224	1970	$36,607
Crosswinds Cove	6101 N. May Oklahoma City	$8,680,000	194	1968	$44,742
Adams Crossing	2400 NW 39th Oklahoma City	$4,736,000	158	1966	$29,974
Forest Oaks	5628 NW 23rd Oklahoma City	$6,000,000	258	1970	$23,255