Arkansas Oklahoma Kansas

2018 Mid-Year

Apartment Report
Oklahoma City
Tulsa

Providing professional apartment brokerage and marketing services for over 33 years

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COMMERCIAL REALTY RESOURCES CO
MULTIFAMILY INVESTMENT SERVICES

2018 Mid-Year
Multifamily Apartment Report

The multifamily industry is off to another strong year and investors remain very confident in the market. The perception of any increased risk in 2018 seems absent and there are no discernable trends showing the market to be slowing. In fact, sales data for mid-year bears out the theory that 2018 will see continued demand for apartments and push this upward cycle out yet another year. A case could even be made that the market has just normalized at this very high level and investors are accepting relatively low yields on their acquisitions. It's easy to buy at record low cap rates today because everybody else is doing it. Aside from those sentiments, 2018 could be a transition year for the market. The reason is that there has been an increase in owners looking to sell. As of mid-June, there were 24 properties in the Oklahoma City metro, totaling 4,323 units, and 13 properties in the Tulsa metro, totaling 1,892 units, being shown for sale on Internet listing and brokerage firm web sites. On the surface that is good news, except many of these would-be-sellers have been short term owners of a few years or less. So, the first question pointing to a possible transition is whether the fundamentals on these properties have risen to the point of providing a profitable exit. The second component to that question is if the next set of buyers will be willing to pay that next level of pricing for these owners to become sellers. If that is the case, we will see the market reach higher valuations in the second half of the year and be on track to surpass the peak year of 2015 when 8,483 units were sold.

Another interesting point is that it appears interest rate hikes do not matter much. One would expect that the cumulative impact of rate increases over time would eventually influence the sector, but that has not happened yet. If the Federal Reserve does continue with rate hikes this year, cap rate spreads may have to compress. But at this stage, rate hikes are being absorbed and remain manageable and there is scant evidence of an uptick in cap rates.

Overall, we expect occupancy and rent growth to basically mirror that of 2017, though certain sub-markets will face bigger challenges. Multifamily developers have also slowed the pace of new construction, which should improve the outlook for demand. The Class-A market may face the greatest challenge in terms of achieving forward rent growth. There is more competition in this space making it harder to push rents, especially in the neighborhoods with the highest completions. In that regard, we foresee concessions and rent specials to become more widespread in the market.

Freddie Mac remains the go to source for multifamily lending. They offer relatively high levels of leverage, low interest rates and certainty of execution to a broad range of borrowers. It is estimated that roughly 85 percent of the deals funded by Freddie Mac have included an interest only period, in which the borrower paid interest on the loan but not principal. Why is this important? It allows a buyer to underwrite pricing more aggressively because of the increased cash flow in the beginning years of the loan.

But this raises yet another question. If the operating fundamentals of the property have not increased following its acquisition and the next buyer is not able to get the same interest only period on the financing, then the value of the asset will be stressed simply because of the added principal payment. Even though financing is widely accessible for acquisitions, some buyers are unable to take advantage of it because of large penalties on existing loans that discourages a seller's prepayment. Sometimes then, the only alternative is a loan assumption where the buyer takes over the current borrower's position. But this usually comes with a higher level of equity and the new borrower must then underwrite principal into the equation, which is not as favorable as that interest only period. While this doesn't sound that dreadful, it is having an impact on "the next buyer paying more" mentality. While it is an important factor to note, I don't anticipate seeing a reset of property prices to a lower level because of it.

2018 Mid-Year
Multifamily Apartment Report

Prices are high and rising for apartments in both metros. Valuations are perhaps the highest ever, with cap rates at all-time lows. But despite that, I think some owner's lofty expectations have them concerned they may not get the price they want and are leaning more towards refinancing in lieu of selling. I have also seen cases where developers that have built new properties are not getting the prices they want, or it is taking longer to complete lease-up and stabilize the asset. In some instances, these developers are refinancing construction loans with permanent debt with plans to hold the properties longer than anticipated. Why is this important? It reveals a sentiment that property valuations will keep rising, lulling some owners into believing that values will always be higher tomorrow than they are today.

One segment that should see sustained volume is workforce housing. This is where investors will find the lower-price-point product, comparatively speaking, with the greatest opportunities to raise rents. That is why there has been more interest in the affordable side of the market, mostly because it is viewed as providing safer investments. And the data supports it. In 2017, 47 of the 54 sales in Oklahoma City, or 87 percent, were older assets in the pre-80's category. The statistics for 2018 are similar with 23 of the 28 total sales, or 82 percent. This segment is attractive to investors because they believe there will always be demand for apartments with affordable rents. And keeping a property affordable gives it a competitive edge. It really should not be about hitting home runs in this segment but embracing safer, less speculative and predictable returns. Let's face it, high returns at the low-risk end of the spectrum are scarce in today's environment.

The economy is also helping this demographic as most Oklahoma counties showed improved employment in 2018. The statewide jobless rate for April 2018 was 4 percent. The Oklahoma City metropolitan area added 15,200 jobs compared to April 2017, a change of 2.4 percent according to the Oklahoma Employment Security Commission. The Oklahoma City area currently employs 648,600. The Tulsa metropolitan area added 11,200 jobs compared to April 2017, a 2.5 percent change and Tulsa currently employs 457,100.

As I always begin this section, mid-year statistics can be a bit indistinct in conveying market direction. Sales volume can start the year slow and finish strong, or the opposite. For instance, one might discern that prices are trending downward if comparing year-over-year statistics between 2017 and 2018. However, there were four sales below the $20,000 per unit mark; two of those being below $10,000 per unit, and then one large sale in the 1980's category that dragged valuations down a bit. Notwithstanding, 2018 is showing similar trends of past years. Apart from the peak in 2015 at $439 million in volume, the historic yearly average has been in the $300 million range dating back to 2013 *(see Table 1)*. Transaction volume for Oklahoma City for the first six months of 2018 stands at $162.4 million, as compared to $193.2 million for the first six months of 2017, suggesting a 16% decline. But the market is really performing quite well if you look at mid-year totals going back to 2013 *(see Table 2).* An even more dramatic comparison would be to look at 2011 when transactional volume was $136.5 million for the full twelve months, and no one was complaining then about low volume. The number of units sold in 2018 is 4,428 and the number of transactions is 28, as compared to 4,624 and 27 for the same six-month period of 2017. Despite the appearance of a moderate slowdown, we are still at a very high level. But worth an underscore is that volume could be a whole lot less if financing were not so widely available.

The year-over-year statistics for Tulsa have similar implications of a downward trend. Transaction volume for was $69.4 million for the first six months of 2018, as compared to $115.6 million for the same period of 2017. The number of units sold in 2018 is just 1,313 on seven transactions, as compared to 2,093 units and eight transactions for the same six-month period of 2017.

Oklahoma City

For the first six months of 2018, there were 28 sales on properties that exceed 25 units in size, for a total of 4,428 units. This was down only 4% from 4,624 units sold at Mid-year 2017. Total sales volume was $162.4 million in 2018, as compared to $193.2 million for the first six months of 2017. The overall average price per unit on apartment communities with 25 units or more is $36,687, which is down $5,111 per unit, or 12%, from the same period of 2017.

For Pre-1980's properties, there were 23 transactions involving 3,248 units for an average per unit price of $29,795. The category showed a significant decrease from mid-year 2017 when there was $150.7 million in sales on 24 transactions, involving 4,018 units, for an average price per unit of $37,514. The metrics for Mid-year 2017 showed that 87% of the total units sold were within this asset class, versus 73% for 2018. The notable sales were the 44-unit Hartford House Apartments that sold for $50,000 per unit and the 126-unit Quail Creek Apartments that sold for $51,587 per unit. At the low end was the 160-unit Timberwood Park Apartments on NW 16th Street that sold for $4,828 per unit and the Heritage Pointe Apartments at 2502 N. Kelley that sold for $9,742 per unit. The Timberwood property was boarded up at the time of sale and had been vacant for probably the past nine years. Timberwood has had several owners, including two Receivers, dating back to 1998 when Trinity Foundation first acquired the property from Michael Mastro using tax exempt bonds from the Oklahoma County Finance Authority. On a similar level of distress, Heritage Pointe was a defunct LIHTC property.

Within the 1980's category, there were two sales for a total of $41.7 million on 948 units. The average price per unit was $43,987, which was down 29% from $61,940 per unit at Mid-year 2017. The largest sale was the 896-unit Highlands Apartments at 12601 and 12701 N. Pennsylvania that sold for $39.5 million. The second sale involved the 52-unit Summerfield Village Apartments in Norman that sold for $2,200,000, representing $42,307 per unit.

Through Mid-year 2018, there was only one sale in the Post-1990's category involving the Brandon Place Apartments at 6700 W. Memorial Road. The property was purchased with $3.7 million in cash and the assumption of the U.S. Department of Housing and Urban Development Section 221(d)(4) loan. It was originated as a 35-year fully amortized loan with an interest rate of 3.95 percent. BSR REIT bought the 200-units for $22,750,000, or $113,750 per unit, from Cornerstone Development, headed by Gary Brooks, who built the property in 2011.

Table 1
Historical Sales Volume
Year-End $ Totals

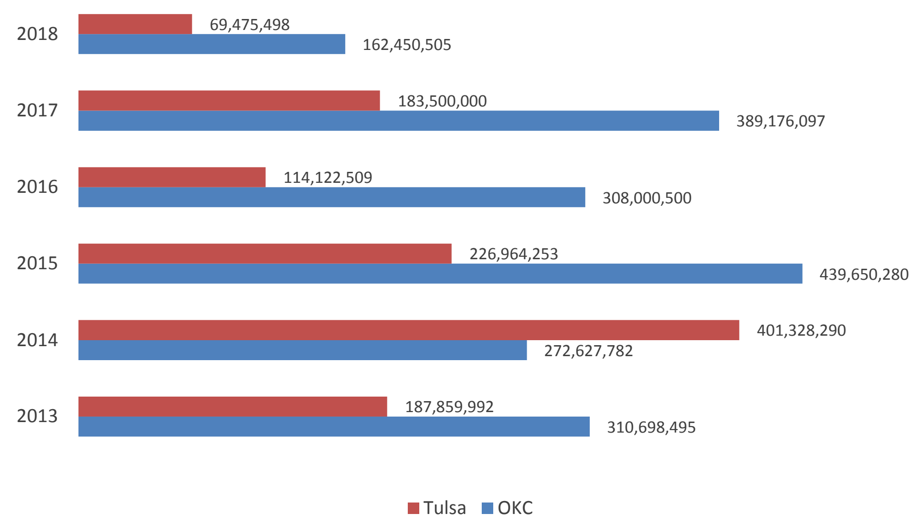
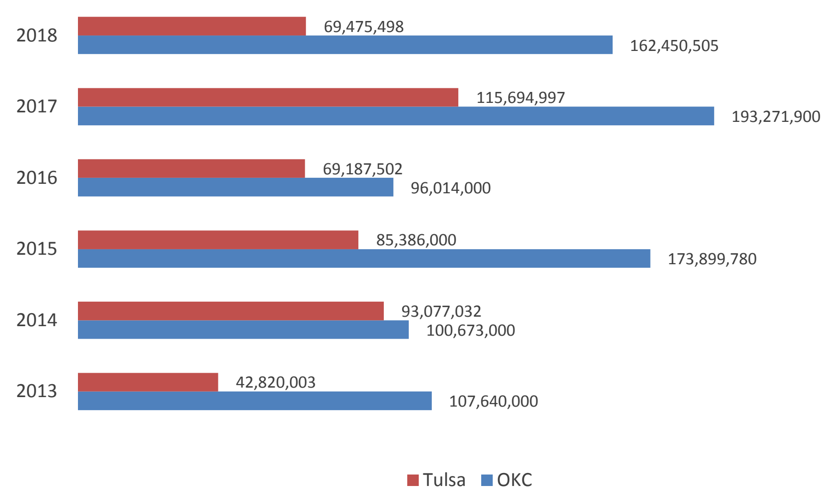


Table 2
Historical Sales Volume
Mid-Year $ Totals



Oklahoma City

Total Sales Volume

16%
Compared to Mid-Year 2017

Total Units Sold

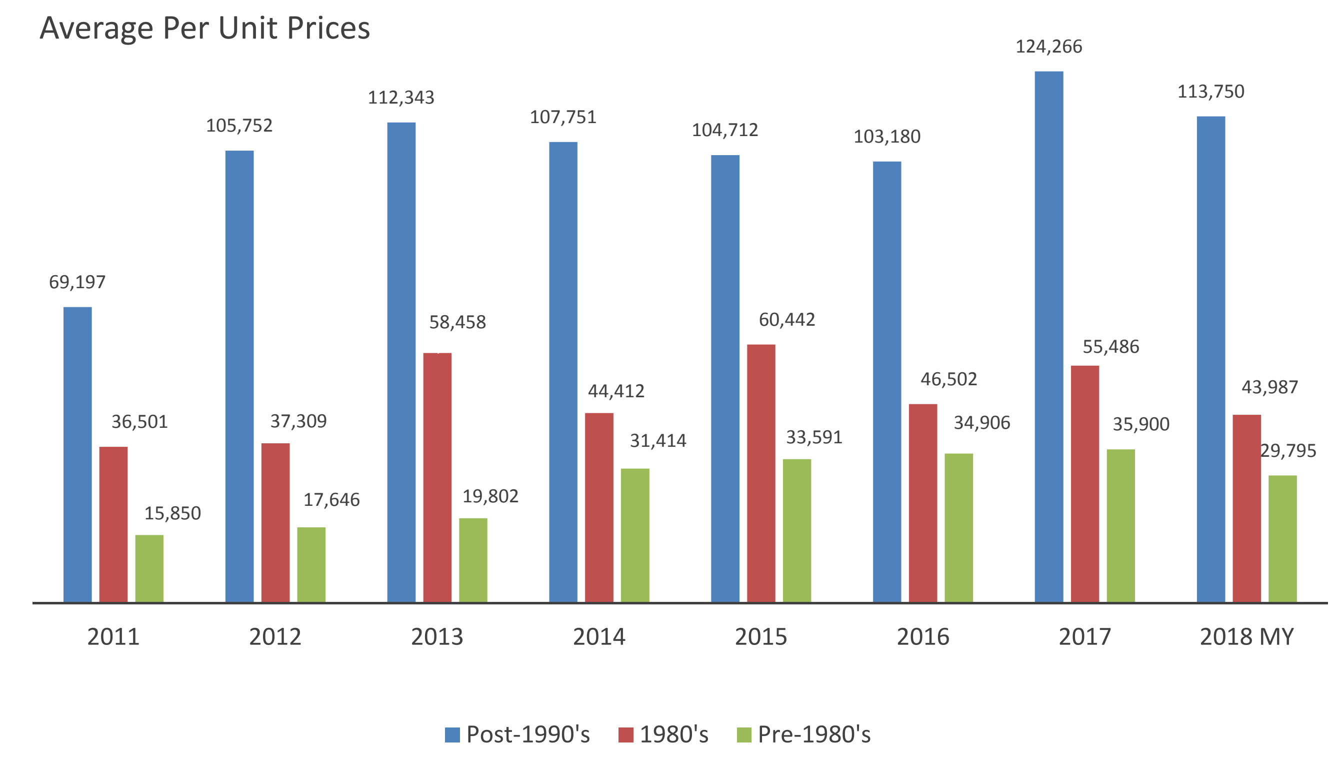
4%
Compared to Mid-Year 2017

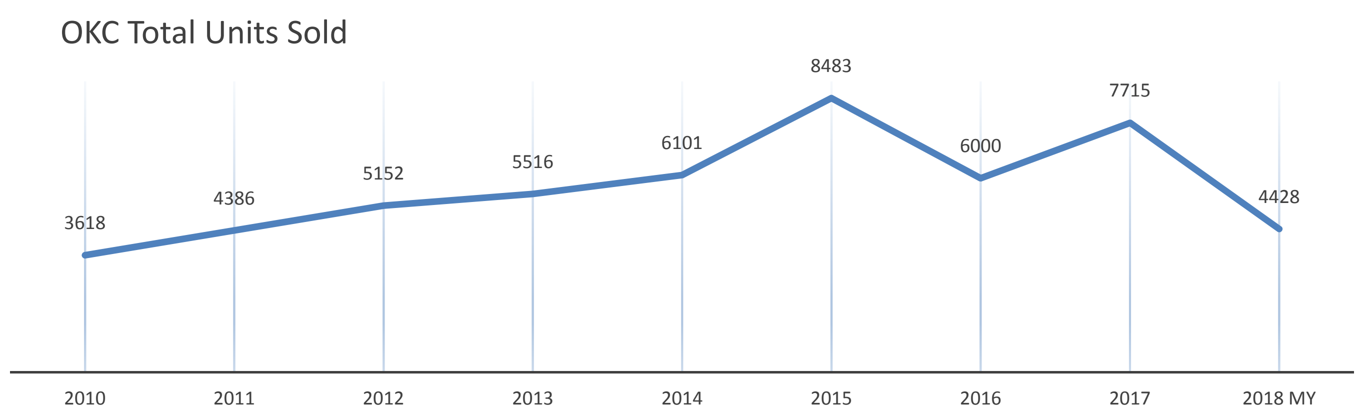
Average Price Per Unit

12%
Compared to Mid-Year 2017

No. of Transactions

4%
Compared to Mid-Year 2017





Tulsa

There were 7 sales in Tulsa during the first six months of 2018 on properties that exceeded 25 units in size, for a total of 1,313 units sold. This was 37% less than the 2,093 units sold at Mid-year 2017.

Total transaction volume in Tulsa was $69.4 million, which was down 40% from $115.6 million for the first six months of 2017. The overall average price per unit in Tulsa was $52,914 versus $55,277 at Mid-year 2017.

For Pre-1980's properties, there were 4 transactions involving 881 units for an average per unit price of $40,508. Total volume represented $35.6 million for the category. The four sales involved the Heatherwood, Contempra, Lakeside Place and Shoreline Apartments. The notable sales were Heatherwood that contained 117-units at 3002 E. 51st Street that sold for $6,100,000, or $52,136 per unit, and Shoreline with 464-units at 9601 E. 21st Place that sold for $18,800,000, or $40,517 per unit.

Tulsa	Post 1990's	1980's	Pre-1980's
Number of Transactions	2		4
Total Number of Units	356		881
Total Number of Sales Tulsa			4
Total Number of Sales Other	2		
Total Number of Sales Broken Arrow			
Price High per unit Price Low per unit	$101,000 $56,224	$ $	$52,136 $27,581

Oklahoma City	Post 1990's	1980's	Pre-1980's
Number of Transactions	1	3	23
Total Number of Units	200	948	3,248
Total Number of Sales OKC	1	2	21
Total Number of Sales Edmond			
Total Number of Sales Norman		1	
Total Number of Sales Other			2
Price High per unit Price Low per unit	$113,750 $113,750	$44,084 $42,307	$51,587 $4,828

Since there were no sales in the 1980's category for a statistical comparison, I will highlight the three sales that occurred in Mid-year 2017. Those sales involved Westport on the River, Creekwood/Columbine and Prescott Woods. Westport is 682-units, built in 1984 that sold for $40,600,000, or $59,530 per unit. Creekwood/Columbine sold for $38,800,000, or $59,600 per unit for the 651-units that were built in 1984 and 1986. Prescott Woods at 1337 E. 61st Street contained 256-units and sold for $8,300,000, or $32,421 per unit. The combined sales accounted for $87.7 million on 1,589 units for an average price per unit of $55,192.

The two sales in the Post-1990's category were both in Owasso. Preston Lakes Apartments sold for $26,350,000, or $101,346 per unit for the 260-units that were built in 2008. The second sale involved Three Lakes Apartments that sold for $5,397,500, or $56,223 per unit for the 96-units that were built in 1996.

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Sale Highlights Tulsa					
Heatherwood	3002 E. 51st Street	$6,100,000	117	1972	$52,136
Contempra	8145 E. 16th Street	$2,537,500	92	1969	$27,581
Preston Lakes	14700 E. 88th Place	$26,260,000	260	2008	$101,000
Lakeside Place	2186 S. 99th E. Ave	$8,250,000	208	1975	$39,663
Three Lakes	11697 E. 83rd Street	$5,397,500	96	1996	$56,224
Shoreline	9601 E. 21st Place	$18,800,000	464	1974	$40,517
Kirkwood LIHTC	400 E. 6th Street	$2,130,500	76	1987	$28,032
Sale Highlights Oklahoma City					
The Highlands	12601 & 12701 N. Pennsylvania	$39,500,000	896	1985	$44,084
Chandelaque	5528 N. Portland	$9,000,00	186	1974	$48,387
Los Pueblos	717 Santa Rosa	$9,000,000	201	1972	$44,776
Boulder Ridge	8501 Candlewood	$12,000,000	328	1971	$36,585
Chestnut Square	6000 Will Rogers	$3,000,000	104	1972	$28,846
Lamplight	5811 NW 34th Street	$4,080,000	126	1968	$32,380

Tulsa

Total Sales Volume

40%
Compared to Mid-Year 2017

Total Units Sold

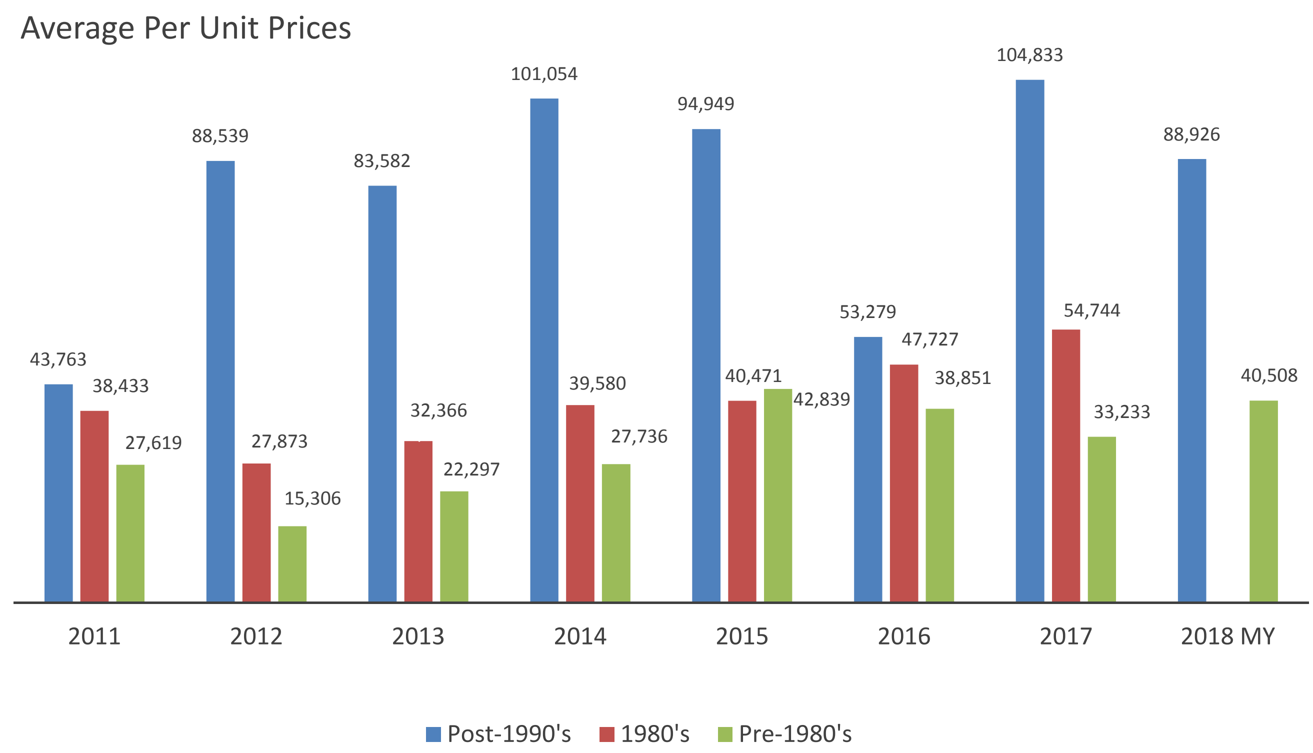
37%
Compared to Mid-Year 2017

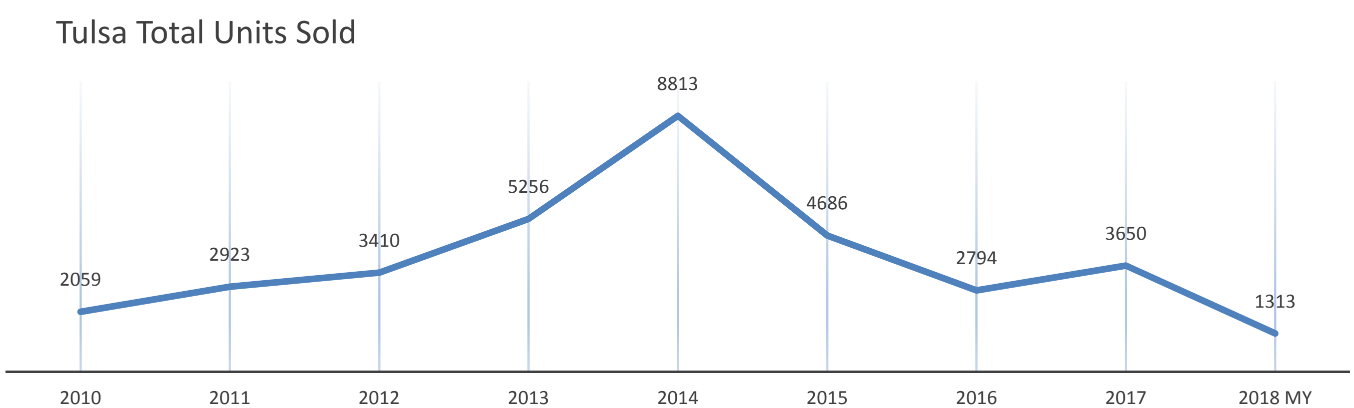
Average Price Per Unit

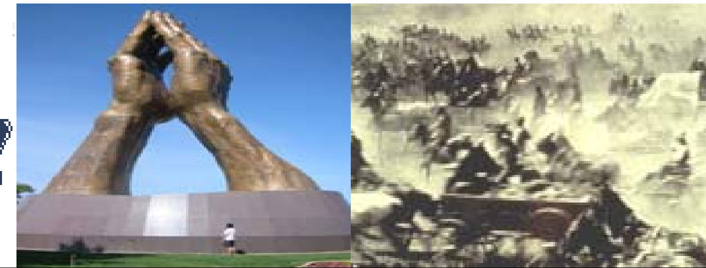
4%
Compared to Mid-Year 2017

No. of Transactions

13%
Compared to Mid-Year 2017







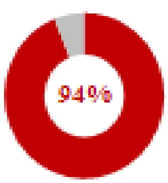
Arkansas Oklahoma Kansas

Outlook

The bottom line for our outlook is to reasonably predict that 2018 will end as another good year for the multifamily sector with a broad-based set of investors pursuing opportunities. We think this will prolong the upward cycle of the market yet another year, maybe more. But, we should keep a watchful eye on interest rates ahead as the era of value appreciation merely through cap rate compression may be coming to an end, which might signal a transition for the market. Speculative investors, those planning to be in the market for a few years or less, may want to take a more traditional long-term approach to investing and not try to time the cycle.

CRRC has sold over 34,000 apartment units. We deliver value to our clients by providing exceptional service that increases their bottom line. **CRRC** has one of the best success rates of any of its competitors for achieving the highest sale to list price at 94%*.

*Based on $190.5 million in sales on 5,246 units between March 2013 and March 2018.



Sale Highlights Oklahoma City, continued

Property Name	Address	Price	No. of Units	Year Built	Price Per Unit
Walnut Gardens	6700 NW 16th Street	$7,300,000	197	1975	$37,055
Summerfield	920 E. Lindsey	$2,200,000	52	1982	$42,30
Tudor Crossing	1332 SW 74th Street	$5,907,500	170	1967	$34,750
Hartford House	3800 N. Hartford	$2,200,000	44	1964	$50,000
Britton Courtyards	7000 W. Britton Rd	$7,300,000	276	1973	$26,449
Summerscape	3250 SE 44th Street	$2,970,000	118	1968	$25,169
Penn Grand	3700 S. Pennsylvania	$2,200,000	104	1972	$21,153
Planet Plaza	401 Harr Drive	$1,350,000	50	1962	$27,000
Spring Hill	4708 SE 44th Street	$1,600,000	104	1984	$15,384
Courtyard	3732 NW 23rd Street	$950,00	40	1963	$23,750
Pine Lake	6801 NW 12th Street	$1,000,000	60	1950	$16,666
Parkview Village	1253 SW 22nd Street	$5,050,000	242	1948	$20,867
Forest Oaks	5628 NW 23rd Street	$6,250,000	258	1970	$24,224
Rockwell Terrace	520 N. Rockwell	$2,200,000	60	1974	$36,666
Quail Creek	11141 Springhollow	$6,500,000	126	1974	$51,587
Timberwood Park	6600 NW 16th Street	$772,500	160	1974	$4,828
Brandon Place	6700 W. Memorial	$22,750,000	200	2011	$113,750
Meridian Mansions	1309 N. Meridian	$3,420,000	114	1965	$30,000
Meadows	7145 Melrose Lane	$1,400,000	44	1969	$31,818
Heritage Pointe	2502 N. Kelley Ave	$1,325,000	136	1972	$9,742