

OKLAHOMA CITY
2003 Mid-Year Apartment Report

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APARTMENT REPORT

Fueled by low interest rates and a lack of alternative investments, multifamily properties in Oklahoma City are still in high demand. As interest rates reach 45-year lows, it is now fairly common to see a 5 percent rate used for underwriting multifamily deals. In many instances, it is the interest rate alone that determines if a deal works. Rental income has declined due to increased vacancy and concession losses and expenses have risen due to insurance, taxes and maintenance costs. As operating performance struggles, it is clear that if interest rates were not at these historical lows, multifamily values would be declining instead of holding steady as they did during the first six months of 2003. As in 2002, this low interest rate environment has disguised poor operating performance.

Although low interest rates have fueled refinancing and acquisitions, they become a double-edged sword as tenants take advantage of the same low rates to become homeowners, thereby reducing occupancy. The big losers in this environment are the owners who lose occupancy due to tenants buying homes at low interest rates, but are unable to refinance themselves. This also is fairly common as many owners have conduit loans, lockout provisions and yield maintenance clauses that prohibit early payoffs. If values are truly being driven by just lower interest rates, then owners with non-prepayable loans are at a clear disadvantage in this current environment.

Can the cycle of rising values in light of poor property fundamentals continue? At least for now, the returns in the multifamily sector are more attractive than other available investments. Today, a sub-10 percent return for a multifamily property looks more attractive than a sub-4 percent return on Treasury investments. The risk is much greater, but the long-term prospects for the multifamily sector will keep the cycle going, at least for now.

Although concessions remain prevalent citywide, the real figure to watch is out-right rental rate decreases. As long as a tenant is still paying market rent, the concession will only effect the short-term performance. For instance, \$100 off the first month's rent will effect only the first month's income. The rent then returns to the market rate in the second month. This may occur month after month, but once the concession is stopped, the income can quickly return to its previous level. However, a \$20 discounted rent will effect the full lease term and the tenant becomes use to paying the lower rent. It is much easier to remove the concession side than it is to later increase rents. Tenants will favor a concession and oppose a rate increase, even if you fully explain that the initial rate being offered will return to "Market" at the end of their lease term.

With regard to new construction, an additional 616 units will start leasing in the second half of 2003. These include the 232-unit Highland Pointe Apartments at 500 Pointe Parkway Blvd. in Yukon; the 144-unit Alameda Pointe in Norman; the 96-unit Greens at Pebble Creek in Mustang; and the 144-unit Dillon Park Apartments in Edmond. Still leasing from the beginning of 2003 are the 240-unit Oak Place Apartments at 12500 S. Western; the second phase of The Greens at Moore with 336 units; and the second phase of Countryside Village with 360 units at 9516 S. Shields in Moore. Planned developments for 2004 include Legacy Corner in Midwest City with 298 units; Legacy Summit in downtown with 257 units, Brookstone Park in Norman with 160 units, Chapel Ridge of West Oklahoma City with 200 units, Chapel Ridge at Thomas in Edmond with 160 units and The Gardens at Moore with 92 units, for a combined total of 1,167 units. There have been approximately 8,100 units since 1995 that have been built or that are currently under construction in the metro area. By the end of 2004, this number could increase to around 9,250-units, which will keep the average at approximately 1,000 new units added to the metro area each year.

The University of Oklahoma in Norman will also see new student housing in 2004 and early 2005 when the existing 500-bed Yorkshire Apartments are replaced with a new 1,200-bed facility. The \$60 million complex will be funded through a bond issue by the Cleveland County Educational Facilities Authority. The Yorkshire Apartments were originally built in 1969 and will be razed to make way for the new development. The new complex will include 17 three-story apartment buildings with modern features for the students, as well as community amenities that include a swimming pool, tennis and basketball courts and a community center. Replacing aging student housing is a trend seen at many colleges and universities across the country. There are two additional student-housing properties in Norman that offer by-the-bed rentals: University Commons and Sterling University Greens.

Private buyers have powered the market in 2003, assisted by low interest rates, 1031 exchange requirements and a lack of alternative investments. There were 17 transactions in 2003 for a total of 1,623 units. Of the 17 transactions recorded, sixteen were by individual private investors and out-of-state investors accounted for 14 of the 17 transactions. The only transactional activity in 2003 occurred in the Pre-1980's category. The average for this category was \$21,207 per unit, which is about even with the \$21,356 per unit recorded at year-end 2002.. The first sale in the defunct Trinity bond portfolio occurred in 2003 with the sale of the Country Estates Apartments, a 168-unit property that sold in two phases for an average of \$3,869 per unit. Country Estates is located just north of 10th Street near an infamous nightclub and was vacant at the time of sale. Another 2,000+ units in defunct bond deals will soon follow suit, having a significant impact on this category.

For Post-1980's properties, there has been little activity in the past eighteen months. The only usable sale within this category occurred in 2002, involving the 96-unit Bryant Square Apartments in Edmond. There have been several properties marketed over the past year, but nothing of significant size that has changed ownership. The area of 122nd and Pennsylvania has seen some marketing activity, as well as south Oklahoma City in the Greenbriar area. There will continue to be low transactional activity in this category, as owners will find it hard to locate similar quality replacement property and will remain reluctant to sell.

There is also a lot of talk about housing demand in downtown Oklahoma City. It is written in headlines across the country that the downtown cores of many major cities are being re-populated by empty nesters, young couples and singles. Is this the next market niche for Oklahoma City, as evidenced by the Deep Deuce Apartments and the planned Legacy Summit at Arts Central? I think the key factor for many of the booming downtown cores is that they are 24-hour cities, which Oklahoma City is not. There are certainly housing opportunities in downtown Oklahoma City due to the numerous developments, and especially due to the expanding entertainment sector. I think the additional 257 units that Legacy will add to the market should be absorbed with little problem. The location of Legacy is excellent to the core business district. Beyond Legacy, Deep Deuce, and the few specialized loft developments, I think our downtown area has sufficient housing at the present time. Any further announcements in the short-term might contribute to an over supply. Concerning downtown, I am not a big proponent of the "if you build it they will come" philosophy. At least not yet.

My outlook for the remainder of 2003 is that operating fundamentals will continue to struggle. Although the citywide occupancy level has been declining, it is not expected to drop below its current 89 to 91 percent range. Values should remain stable, providing the interest rate environment remains the same. The bottom line is that the multifamily market has remained very strong for a good decade. How long it can last is anybody's guess. A sudden rise in interest rates, overdevelopment, or negative economic news could have an impact on the market. The best caveat for investors is to have well defined objectives and exit strategies. As I have witnessed in 2003, investors without an exit strategy usually have few options when things get tough.



Recent Sales Highlights

Property Name	Address	Price	No. of Units	Price Per Unit
Terrace	6640 NW 10 th Street	\$5,700,000	206	\$27,670
Country Estates	6500 NW 11 th Street	\$334,000	112	\$2,982
Country Estates	1121 N. Peniel	\$316,000	56	\$5,643
Morgan Terrace	4749 Ridgeway Drive	\$2,100,000	100	\$21,000
University Park	1428 NW 27 th Street	\$708,000	36	\$19,667
Springdale	4330 S. Barnes	\$3,072,000	128	\$24,000
Plymouth House	4301 N. Pennsylvania	\$1,505,000	72	\$20,903
Tinker Del Village	3017 Del View Drive	\$2,795,000	157	\$17,803
Lyrewood Pointe	7806 Lyrewood Lane	\$6,600,000	215	\$30,698
Drexel Square	4200 N. Drexel	\$4,200,000	165	\$25,454
Rockwell Terrace	520 N. Rockwell	\$1,425,000	60	\$23,750



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 Oklahoma City Metropolitan Area

Apartment Communities in Excess of 25 Units

Number of Transactions-----	17
Total Number of Units Sold-----	1,623
Average Sale Price-----	\$21,207 per unit
Average Sale Price of Pre-1980's Properties-----	\$21,207 per unit
Average Sale Price of Post-1980's Properties-----	\$ per unit
Average Sale Price of Post-1990's Properties-----	\$ per unit

BREAKDOWN OF PRE-1980'S PROPERTIES

Total Number of Transactions-----	17
Total Number of Units-----	1,623
Number of Sales in Oklahoma City-----	15
Number of Sales in Norman-----	0
Number of Sales in Edmond-----	0
Number of Sales in Del City-----	2

Price Per Unit: High \$32,571 Low \$2,982
Buyer Profile: Private Investors and Syndicators: (17) Non-Profit's: (0)
Seller Profile: Private: (14) REIT's: (0) Institutional: (0) Non-Profit's: (3)

BREAKDOWN OF POST-1980'S PROPERTIES

Total Number of Transactions-----	
Total Number of Units-----	
Number of Sales in Oklahoma City-----	
Number of Sales in Edmond-----	

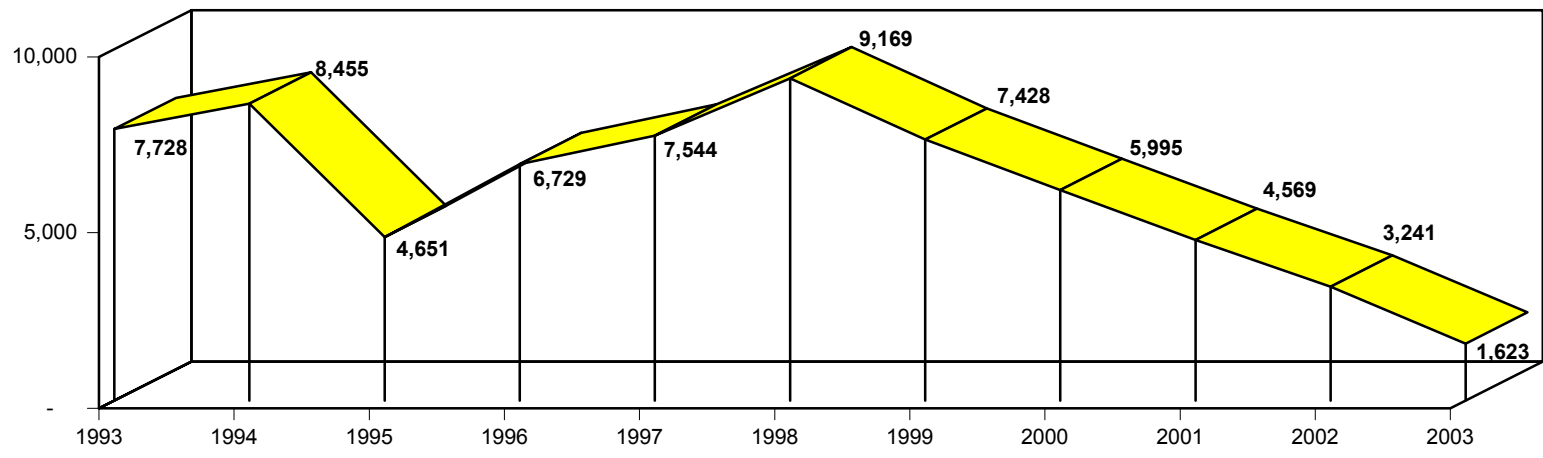
Price Per Unit: High \$0 Low \$0
Buyer Profile: Private Investors and Syndicators: (0) Non-Profit's: (0)
Seller Profile: Private: (0) REIT's: (0) Institutional: (0)

BREAKDOWN OF POST-1990'S PROPERTIES

Total Number of Transactions-----	
Total Number of Units-----	
Number of Sales in Norman-----	

Price Per Unit: High \$0 Low \$0
Buyer Profile: Private Investors and Syndicators: (0) Non-Profit's: (0)
Seller Profile: Private: (0) REIT's: (0) Institutional: (0)

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- Post-1990's
- Post-1980's
- Pre-1980's

