

Building on job growth

by Kirby Lee Davis

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Workers brick the exterior of a phase-two apartment block of the Park at Mission Hills, a 286-unit addition to a Case and Associates complex with 308 finished units in Broken Arrow. (Rip Stell)

TULSA – Strong consumer demand for apartments will drive Tulsa multifamily vacancy rates lower and rental rates higher over the next two years, even in the face of equally strong apartment construction efforts, according to a 2012 forecast by Hendricks and Partners.

The Phoenix-based multifamily brokerage firm remains almost as bullish for the larger Oklahoma City market. Although new apartment construction rates will not quite match Tulsa's fevered pitch, a new Hendricks report projected strong consumer demand will spur decade-low vacancy rates and stout rental gains.

"Record levels, absolutely," said Associate Partner Tim McKay, looking across almost every data spectrum in the two reports.

"You know, we talk with our Hendricks guys around the country," McKay said in a telephone interview Thursday. "It's almost comical how fortunate we are and how hidden an asset we have here. Until the last few years, you say Tulsa or Oklahoma City nationally and the perception was, that's not Los Angeles or Phoenix or Houston, you know? Now we have investors from all over the country that want to be in Oklahoma that have never been here before. It really is encouraging."

Job growth remains the key force behind all this, McKay said. This proved especially true in Oklahoma City, which ended 2011 with a national low 5.5-percent unemployment rate, according to the Hendricks report. With more than 15,000 new positions added in 2011, this 2.7-percent job growth supported a 6-percent rise in area home sales for the year, and still the Oklahoma City multifamily sector absorbed just more than 1,500 units, despite adding 790 new ones.

That left the Oklahoma City apartment vacancy rate at 6.8 percent for 2011, its lowest point in a decade, even as rental rates grew 2.5 percent to average \$570 a month.

With 2.8-percent job growth, metropolitan Tulsa generated nearly 12,000 new positions in 2011, according to a separate Hendricks report. Unlike Oklahoma City, Tulsa home sales slipped 1.4 percent in 2011, the report said. That helped apartment demand reach a 10-year high of 1,200 move-ins.

Although 300 new units joined the Tulsa multifamily portfolio, Hendricks said the area's vacancy rate hit a decade-low 7 percent for 2011, while average rental rates rose 1.2 percent to \$590.

Economists with Hendricks forecast that Tulsa will chart almost 4-percent job growth in 2012 and 2013, the positions coming from the construction, manufacturing, energy, health care and other professional ranks. The report also forecasted that the city population growth rate will rise from 0.9 percent during the millennium's first decade to 1.3 percent this decade.

With 850 multifamily building permits issued in 2011, Hendricks projected some 700 Class A units will enter the Tulsa marketplace next year, followed by 900 in 2013. But economists at the brokerage firm doubt that will dent consumer demand, projecting that vacancy rates will dip into the 6-percent range both years.

More important for apartment operators, Hendricks forecasted that rents will rise nearly 3 percent in 2012 and 4 percent in 2013, the average rent hitting \$629.

Hendricks projected that Oklahoma City's strong energy sector, supported by continued strength in the construction, health care, hospitality and other professional ranks, will generate 3.5-percent annual job growth through 2013. It also will remain a strong population magnet for job seekers from other states.

"Unlike other metros, the Oklahoma City MSA (metropolitan statistical area) has fully recovered employment to pre-recession levels, putting job totals at record highs in the next two years," according to the report. "The downtown area will remain a center for economic development, with more than \$1.5 billion in private and public projects under way or planned."

With 250 multifamily building permits issued in 2011, Hendricks projected the capital city will add 800 new units in 2012 and 550 in '13. As with Tulsa, Hendricks projected continued strong consumer demand to easily absorb these. It predicts the metro area's vacancy rate will fall to 6.5 percent in 2012 and 6 percent in '13.

Hendricks economists projected 3.5-percent rent growth next year and 4.5 percent in 2013, lifting average rents above \$600.

"These gains will be well above the historical annual average rental gain of 2.5 percent from 2000 to 2011," according to the report.

Through all of these fundamentals, McKay said there would be few if any road bumps.

"The biggest unknown is interest rates, but there is no control any of us have over that," he said. "The other thing that is hanging out there a little bit is what is going to happen in the housing market."

McKay said this strong job growth and the region's relatively low housing prices could spur more people to again consider owning instead of renting. But Hendricks projected apartment demand will still fuel absorption of 900 Tulsa units in both 2012 and '13. Oklahoma City move-ins may average up to 1,000 both years.

That justifies his support of all the construction projects gearing up across both metro areas. Over the last two years, McKay said Case and Associates has enjoyed strong occupancies at several projects launched in both cities.

"I don't have a concern at all over that," he said. "Those properties will be incredibly successful and will do well."

Almost halfway to the goal in just one year

More than 8,200 jobs were created in 2011 under the Tulsa Metro Chamber's Tulsa's Future program, chamber officials announced Thursday afternoon.

More than 4,000 of those exceeded the program's targeted \$50,000 annual income level. Such jobs help support others, their overall economic benefit topping \$295 million, said Bob Ball, chamber economist.

The Tulsa's Future program operates under a five-year goal to create 10,000 primary jobs at an annual salary of \$50,000 or greater by the close of 2015. Chamber officials said that level should lead to creation of another 16,000 indirect jobs.