

## Back to a bullish market: Burnett brothers project healthy apartment sales

by Kirby Lee Davis

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The Pheasant Run Apartments at 2002 E. 73rd St. in Tulsa sold for \$5.86 million in October. (Rip Stell)

TULSA – Oklahoma City will see apartment sales breaking the \$100,000-per-unit barrier this year, according to forecasts by Sperry Van Ness multifamily broker Andy Burnett.

“We’re going to see prices trending toward \$90,000-plus per-unit for Tulsa,” said his brother, fellow SVN multifamily broker David Burnett. “We haven’t seen anything approaching that for Tulsa since 2008.”

Considering the strong market fundamentals upholding both cities and the favorable capitalization rates available for apartment transactions, the Burnett brothers suggested that these sales feats could have happened in 2011 if owners

had put more quality properties up for sale.

“When we’ve bought properties to market, typically if it’s a nice product in a nice area with nice operating numbers, you’ll have 10 offers in the first month and they’re at cap rates that are the equivalent at what we’re seeing in the boom times, 2005 to 2008,” Andy Burnett said in a telephone interview.

With interest rates staying low, he said he expects that multifamily cap rates will also hold their compressed levels through most of 2012. For Class A, that’s in the 6.5-percent range.

“We feel quite confident in both markets you’ll see properties trading in the first quarter closer to \$90,000 and \$100,000 (per unit),” David Burnett said. “There’s already some that are in the works that should be closing, from what we’ve been hearing and from what we know is on the market.”

In analyzing property transactions for their year-end market reports, the Burnetts separated performing properties from nonperforming ones. Andy Burnett said that helps identify actual values by sorting out unusual data-skewing results, foreclosure waves and other trends.

They defined a performing property as one having a cap rate in place at the time of sale.

“These are stabilized properties generally in above-average locations in above-average condition,” Andy Burnett wrote in his report. “Nonperforming properties are typically distressed assets being sold by the lender. They have significant amounts of vacancy that will be very difficult to cure due to the location of the asset and the condition of the property.”

Oklahoma City saw nine performing property sales last year, their 2,224 units going for \$99.26 million, or \$44,634 per unit. That compared to 11 such properties in 2010, their 1,233 units selling for \$59.69 million, or \$48,413 a unit.

“I think that’s a function of what’s trading,” Andy Burnett said in a telephone interview. “Values are higher today than last year, but the numbers don’t reflect that because you don’t have the right properties changing hands.”

On the other side of the spectrum, 10 nonperforming properties sold in 2011, their 1,312 units selling for \$9.6 million, or \$7,329 a unit. That compared to 12 properties with 1,497 units

selling for \$17 million, or \$11,380.09 per unit, in 2010.

All but one of the 2011 sales represented a foreclosure, special servicers, loan modification or other sort of distressed situation.

"I would say in 2012 you're going to see about the same number," Andy Burnett said. "They're not going to recover."

Burnett left one skewing sale out of his statistics, the \$13.09 million Renaissance of Norman sale.

"We anticipate only one or two more Class A properties to require lenders or special servicers," he wrote in his report.

Charting apartment sales of 50 or more units, David Burnett said Tulsa saw 1,768 units at six performing properties change hands in 2011 – 78 percent more than the 990 units at seven such properties sold in 2010. But the average price inched just 1 percent higher to \$35,927 from \$35,500.

Seven nonperforming property sales put 640 units in new hands last year, down 19 percent from 766 units at five nonperforming complexes sold in 2010. The average price per unit slipped 2 percent to \$12,523 last year from \$12,851.

Barring major reform to Fannie Mae or Freddie Mac, David Burnett projected interest rates would remain below 5 percent this year, leading more regional investors to consider Tulsa and Oklahoma City apartment deals.

"Now you're starting to see a more sophisticated investor that's leading a large equity fund and is looking at us," Burnett said. "He sees the long-term fundamentals in our market, sees the long-term growth in our market and they're starting to come here in numbers."

He also expects rising prices for performing properties to spur better pricing for nonperforming apartments.

"We're already starting to see somewhat of a cascading effect," he said in a telephone interview. "1970s stuff is starting to hit up to that \$28,000-to-\$32,000 range. To me, that's a big signal that we're starting to return to those days when apartments were a bullish segment."

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