

Modest improvement

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Published: January 10th, 2012



The Southwoods Apartments in Oklahoma City.
(Maiké Sabolich)

TULSA – Oklahoma City multifamily properties finished 2011 with their highest rental rate growth in two decades, according to the new year-end report by CB Richard Ellis of Oklahoma brokers William T. Forrest and Eva M. Wills.

Tulsa apartment operators managed less than 1-percent rent growth, according to that city's year-end report by CBRE multifamily brokers David Forrest and Brian J. Donahue.

"Even though overall rents posted a slight gain in 2011, today's average rental rates are still below the highs set at the end of 2008," the Tulsa duo wrote.

While they noted one exception, an increase for two-bedroom, one-bath units to average \$597 a month, even that fell below the \$606 average charted at mid-2011.

The reports both recorded minor increases in occupancy rates. Oklahoma City properties finished 2011 at 92 percent, their highest point since 2002, while Tulsa apartment operators averaged 91.5 percent, equal to the midyear 2011 level and up from 91 percent at year-end 2010.

Neither report anticipates significant occupancy changes for 2012. The Oklahoma City analysis foresees continued 92-percent overall, while the Tulsa report declines to guess.

"We expect more of what we have seen in the previous two years – slow improvement," wrote Forrest and Donahue.

Oklahoma City rent growth marked the one diversion from such conservative stands, and that remained limited to moderate rent growth averaging 3 percent.

These two reports present a more cautious outlook from more boisterous forecasts released over the last two weeks by Hendricks and Partners, Sperry Van Ness and other commercial real estate companies.

While all of these studies reflect the same general economic conditions – strong employment growth, limited competition from still-recovering housing sectors, increased multifamily construction fueled by continued consumer demand – David Forrest attributed the more cautious CBRE reports to a couple of factors:

- Using in-house surveys of local property owners rather than data gained from national property management companies.
- Drawing from more than two decades of personal experience and interaction with apartment managers and owners in both markets.

While that glosses over some factors – Commercial Realty Resources Co. maintains its own transaction database to more accurately track property values, for example, while Hendricks and Partners employs its own research staff to keep pace with each national market it serves – it does reflect the historical trends CBRE emphasizes in its market observations for what has been Oklahoma's hottest commercial real estate sector three years running.

David Forrest actually factors that historical approach into his Tulsa analysis, separating out newer apartment complexes so that their performance would not distort his overall database. While he admitted that could weigh down overall averages and downplays the competitive impact new construction can have, Forrest said it helps his report deliver more realistic appraisals of Tulsa's different subsectors and of its older properties, which still make up the vast majority of the marketplace.

"I see myself as kind of a realist," he said in a telephone interview. "As I said in my report, it's kind of a story of haves and have-nots. You have an uneven distribution of demand and how properties are doing. There's more than just location that falls into the equation, but properties that are more in the sweet spot for the renters are doing better and properties that aren't aren't. Management plays into all of that as well."

The Oklahoma City report found that rental rates for one-bedroom apartments jumped 5.6 percent last year to average \$482 a month. Two-bedroom rates climbed 4.1 percent to \$586, while three-bedroom rates rose 4.3 percent to \$755.

That report anticipated more stability in occupancy rates, noting Oklahoma City has ranged from 90 percent to 93 percent over the last two decades. William Forrest and Eva Wills found average occupancies improving in five of Oklahoma City's six submarkets, with only Edmond – at 94 percent – seeing any decline.

"Our broader study of average occupancy by age category indicates properties built prior to 1980 have an average occupancy of 89 percent, while properties built after 1980 exhibited an average occupancy of 94 percent," they wrote.

The survey of about 100 different Tulsa properties by David Forrest and Donahue found one-bedroom rental rates rising 0.8 percent to average \$477 a month, two-bedroom, one-bath units up 0.3 percent to \$597, and two-bedroom, two-bath units up 0.6 percent to \$643.

"Rent specials and concessions were somewhat common in Tulsa's apartment market, especially toward the end of the year," they wrote. "Approximately 50 percent of the properties surveyed were running some form of special or rent concession. The most common specials were \$200 off a 12-month lease, as well as \$99 move-in specials and several different 'look and lease' related specials such as waived application fees and/or security deposits."

Tulsa's 91.5-percent overall occupancy rate compared to the 93-percent occupancy charted by the 20 Tulsa properties built since 1999. Those separated properties averaged 92-percent occupancies in 2010.

With properties generally performing by category – Class A's outperforming B's, for example, and the wealthier demographics of south Tulsa keeping its properties ahead of those in the lower-income east Tulsa area – David Forrest foresees 2012 following in line with 2011.

"I think we'll just have more than what we have seen," he said in an interview.