"OKC is growing and while many believe it's a quiet place, when you come here and really get to know the people and the city, you realize it isn't as far behind cities like Dallas as you may think initially. The development going on is real."

Abe Serouya, principal of AJS Equities, a New York-based real estate investment firm new to Oklahoma

An out-of-state investor paid $72,815 per unit for Aspen Walk Apartments, a 50-year-old complex on South Sunnylane Road. Investors say they have plans to buy more. DOUG HOKE/THE OKLAHOMAN

Apartment investors flock here for more than money

Oklahoma City's affordability, quality of life has brought nearly $1B in sales

Richard Mize The Oklahoman USA TODAY NETWORK

Investors dropped nearly $1 billion buying up apartment complexes in Oklahoma City last year — a record attained thanks to the likes of Bruce Fraser in Dallas, and Abe Serouya and Sonny Safdeye in New York City.

Apartment buyers sunk $961.8 million, to be exact, according to Mike Buhl, owner of Norman-based Commercial Realty Resources Co., which brokers multifamily sales and tracks the metro-area investment market. His detailed year-end report is at crrc.us.

The prospects for making money had Fraser, managing partner of Elkhorn Capital Partners in Dallas, and Serouya and Safdeye, partners in AJS Equities in New York, looking for a new-to-them place to invest in apartments.

It was the tone and flavor of life here that got their attention and held it.

Fraser's firm owns properties across the South and Southwest. His introduction to Oklahoma City was the Oklahoma River.

"Both of my daughters rowed crew, benefiting from the investments that OKC had made in the national training facility in the Boathouse District," Fraser said. "The many trips I made to OKC for their rowing events made me aware of the positive economic trends in the area and the business-friendly environment that Gov. (Kevin) Stitt has created for the state overall.

"Further analysis illustrated a growing economy with continued plans to improve the city via the MAPS projects, history of low unemployment, rental rates that lagged salary growth, as well as a focus on attracting growing industries."

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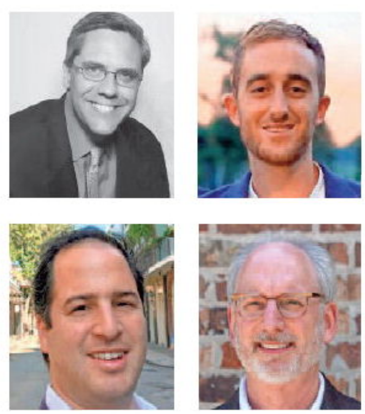

Investors in area apartment complexes include, clockwise from bottom left, Sonny Safdeye, a partner in AJS Equities, a New York-based real estate investment firm new to Oklahoma; Bruce Fraser, managing partner of Dallas-based Elkhorn Capital Partners; and Abe Serouya, principal of AJS Equities. Mike Buhl, owner of Norman-based Commercial Realty Resources Co. tracks the metro investment market.

Apartments

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Serouya, whose firm owns properties in North Carolina, Texas, Florida, New York and New Jersey, compared Oklahoma City favorably to Dallas.

"OKC is growing," Serouya said, "and while many believe it's a quiet place, when you come here and really get to know the people and the city, you realize it isn't as far behind cities like Dallas as you may think initially. The development going on is real.

"And so many people are getting priced out of cities they've lived in their entire lives, OKC is the best affordable option. We believe OKC is a secret that won't be a secret much longer. More and more people are hearing about it and coming whether it's to move and live there or invest."

AJS Equities has bought one apartment complex here, 146-unit Aspen Walk Apartments, 5537 S Sunnylane Road, built in 1974, for $72,815 per unit.

"Wow," Buhl said. Serouya and Safdeye "not unlike many others" in the sizzling multifamily market, "paid a premium" for the 48-year-old complex, Buhl said.

Serouya and Safdeye said they plan to buy more, have one under contract in Yukon, and hope to own close to 400 units within a few months.

Elkhorn Capital has been investing here for about five years and owns about 10 apartment complexes with a combined total of more than 1,500 units, Buhl said. The oldest was built in 1960, and the newest ones were built in 1973, he said.

Fraser said Elkhorn Capital concentrates on "distressed" properties, which can mean foreclosed, headed for foreclosure, low-occupancy properties, mismanaged, or needing an infusion of cash and serious repairs.

"This seems counterintuitive, but investing in distressed situations actually seems less risky to us," Fraser said. "If we acquire a 'broken asset' and fix anything at all, we make money.

"Alternatively, the vast majority of multifamily investors exercise a 'value-add' investment style. In other words, they are buying a well performing asset with very high occupancy, they improve the property in some way and forecast a hopeful plan to drive large rent increases. This seems riskier to us because everything has to go exactly right."

At Elkhorn Capital, Fraser said, "We underwrite everything for income. In other words, we only buy assets where we can make money by owning them, not just by selling them."

That nearly $1 billion sales volume in 2021 far surpassed the previous record of $541.3 million in 2019, Buhl said.

A total of 12,113 units were sold in the Oklahoma City area in 2021, he said — another record.

For apartment renters, the record investment won't mean much except for those who live in complexes that were bought to improve. With improvement, there often comes higher rent rates the next time leases are drawn up — improved return being the point of investment.

Apartment rents are setting records, too, according to Zumper, a San Francisco-based online rental marketplace. However, Oklahoma City is far from the most expensive market, ranking as the 89th most expensive rental market in the nation last month.

The median monthly rent for a one-bedroom apartment was $840, up 9.1% compared with this time last year; and the median for a two-bedroom unit was $980, up 8.9% year over year, Zumper reported.

Nearly $1 billion in sales volume in 2021 far surpassed the previous record of $541.3 million in 2019, Mike Buhl said. A total of 12,113 units were sold in the area in 2021, he said — another record. DOUG HOKE/THE OKLAHOMAN

Tulsa also had record transactions in 2021 at $503.6 million compared with $208.6 million in 2020. The total number of units sold in Tulsa was 6,819, the second highest on record, Buhl said.

What happened?

"Notwithstanding initial fears to the contrary, the pandemic environment turned out to be a great time to invest in multifamily properties," Buhl said in his year-end report. "While uncertainty at the onset of the pandemic prompted a short-lived pullback, the increased capital flowing to the sector now far outweighs the number of available deals."

Historically high transactions in 2021 meant some investors simply couldn't find buying opportunities, the report said. There was an insatiable demand that couldn't be met with supply.

Will it last?

"We think so, at least in the near-term," Buhl said. "Investors are bullish and optimistically underwriting on forward-looking rents."

He sees a more positive outlook for Class A properties than for Class B or Class C.

Class A is high-end luxury apartments, well located, well maintained, and loaded with amenities. Class B is a step down from Class A, but still desirable. Class C is older, often obsolete properties in need of repair.

Workforce housing — often Class C, older apartments with lower rents — has drawn keen investor interest in recent years, but the COVID-19 pandemic took some of the shine off, Buhl said.

"Class-C assets are typically more difficult to manage, and many were more negatively impacted by the pandemic in terms of rent growth and collections," he said.

Class-C apartments also have the most room for improvement, therefore more return on investment, Fraser said, which is why Elkhorn Capital invests in them.

"The returns driven from turning around an asset can be quite sizable — much more robust than some alternative investment styles," Fraser said. "We have repeatedly delivered gains in value to our investment partners in excess of 50% within the first year."

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