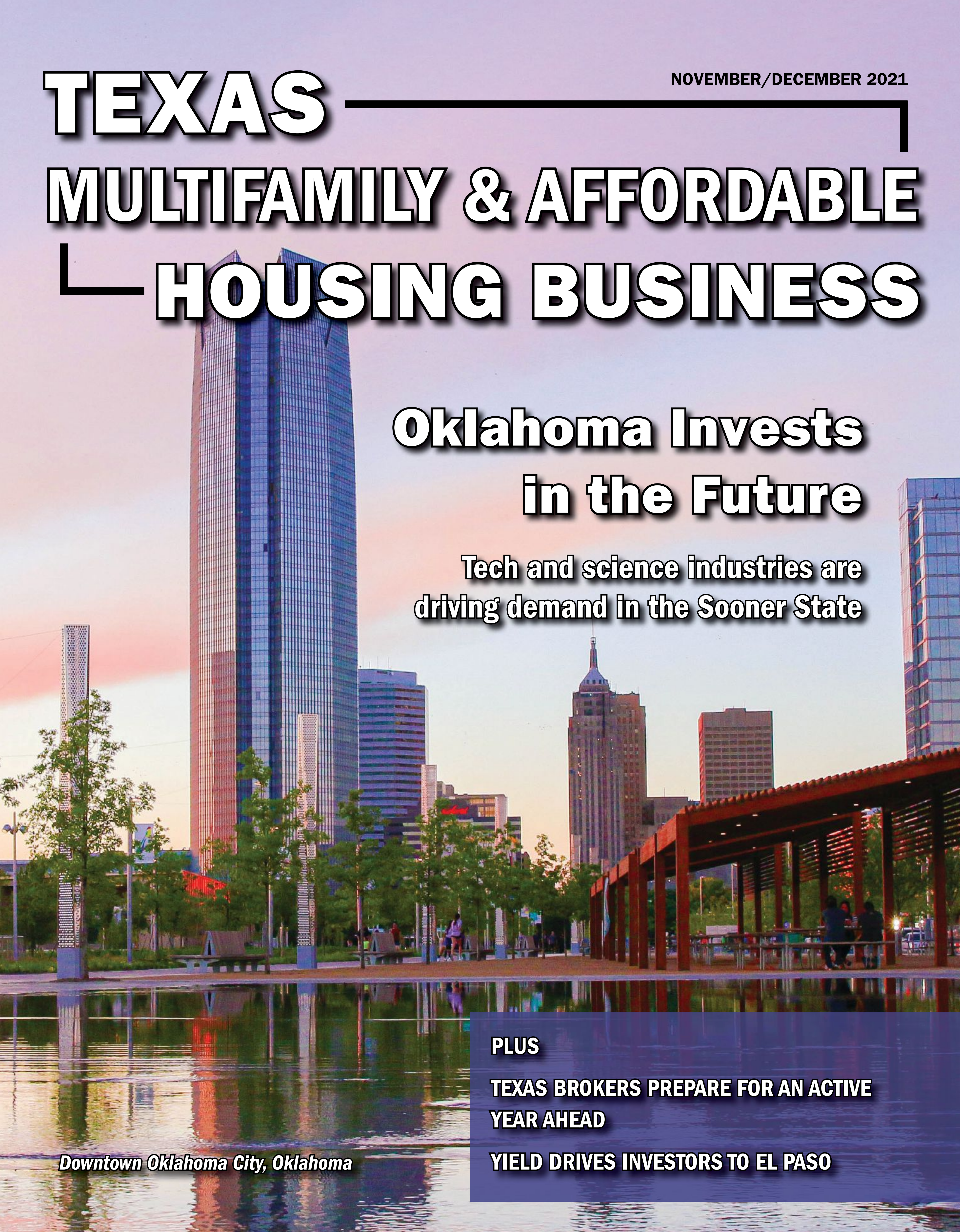
NOVEMBER/DECEMBER 2021

TEXAS MULTIFAMILY & AFFORDABLE HOUSING BUSINESS



Oklahoma Invests in the Future

Tech and science industries are driving demand in the Sooner State

Downtown Oklahoma City, Oklahoma

PLUS

TEXAS BROKERS PREPARE FOR AN ACTIVE YEAR AHEAD

YIELD DRIVES INVESTORS TO EL PASO

Why Tech and Science Industries Are Drawn to Oklahoma

The low cost of living and business incentives in Oklahoma City are setting the biotech, aerospace and energy industries in motion, spurring population growth.

Lynn Peisner

The Innovation District is a 1.3-square-mile area in Northeast Oklahoma City that is dedicated to accelerating biosciences. Gardner Tanenbaum and Robinson Park Investments announced in 2020 plans for a 400,000-square-foot mixed-use project to be built on 2.7 acres within the district.

Most picture 20th-century icons when Oklahoma comes to mind. But the Sooner State is more than horse shows and oil rigs. A number of 21st-century industries are blossoming alongside the bread-and-butter oil and gas industry, and multifamily growth is following.

Most of the new growth and economic expansion in the state is being built off already existing institutions. Tinker Air Force Base, for example, is tied to the growth in private aerospace companies branching out in Oklahoma. Tinker is located in Oklahoma City and reports having about a $6 billion economic impact in 2020. Growing in concert with the active base are approximately 290 aerospace firms that employ about 43,250 workers, according to the Greater Oklahoma City Chamber.

While the base provides the main attraction, the state is offering coordinating incentives for private-industry growth. Aerospace companies hiring engineers in a variety of fields can receive a tax credit equal to about five to 10 percent of the compensation paid to the engineer via the Aerospace Industry Engineer Workforce Tax Credit. Recently, North Star Scientific Corporation announced plans to expand to Oklahoma City.

Additionally, Boeing is spending $20 million to build onto its Oklahoma facility. The high-bay addition will foster collaboration with Boeing's Air Force customers. This expansion is expected to create about 300 engineer openings. Other aerospace companies moving into OKC include Skydweller Aero, Pratt & Whitney and Kratos Defense & Security Solutions.

While the Air Force base is an impetus for aerospace industry growth, the University of Oklahoma is serving as a catalyst for healthcare and biotech advancements. The Greater Oklahoma City Chamber reports that bioscience companies bring in annual revenues of about $6.7 million.

The Innovation District, for example, is a 1.3 square mile area in northeast Oklahoma City that is expected to accelerate bioscience growth even more. The district is a multi-component development in various stages of construction that will support research-oriented institutions, companies, cultural amenities and retail and residential space.

Back in 2017, Brookings and the Project for Public Spaces released a report called "Positioned for Growth: Advancing the Oklahoma City Innovation District." The report examined the city's Medical District, a traditional academic medical center that, according to Brookings, "is now positioned to cross-pollinate its long-term strength in life science research into industries like energy and aerospace that drive employment throughout the broader Oklahoma City economy."

The city is a major contributor to the build-out of the district. A sales tax fund referred to as MAPS (Metropolitan Area Projects) 4 is contributing $71 million to the development.

Additionally, Gardner Tanenbaum and Robinson Park Investments announced in 2020 plans for a 400,000-square-foot mixed-use project to be built on 2.7 acres of land within the Innovation District. Plans call for research labs, office space, a hotel, retail space and a public area.

The facilities will feature shared technology for 3D imaging and printing, as well as biomedical research and laboratories.

Wheeler Labs will be that project's anchor tenant. Wheeler is a clinical laboratory with plans to expand into the bio-manufacturing industry. In addition, the University of Oklahoma is committed as an educational and research partner.

"We see opportunities for additional pharmaceutical manufacturing here," says Jeff Seymour, executive vice president for economic development with the Greater Oklahoma City Chamber. "That's the goal of the Innovation District — to help the bio tech cluster grow but also to have opportunities for the innovation that happens when biotech collides with the aerospace and energy clusters."

An example might be data science technology that crosses all those sectors, or medical imaging.

"That district is designed to take in a lot of our historical healthcare assets — primarily the assets of the University of Oklahoma Health Science center."

The district as a whole is projected to provide more than 6,000 jobs over the next three to five years, according to the nonprofit group The Oklahoma City Innovation District.

Elsewhere in the city, large companies are also thriving. OKC is home to offices for AT&T, Dell, Hertz, Costco, Southwest Airlines and more. The city is also home to the national headquarters of Hobby Lobby, OG&E, Devon, Paycom, Sonic, Midfirst Bank, Love's, Bancfirst, Enable Midstream, American Fidelity, Continental Resources and Dolese Bros.

All of this amounts to an influx of residents. Greater Oklahoma City Chamber Research Economist Eric Long reports that the city has added about 170,000 people over the past decade, making Oklahoma City the 22nd largest city in the nation.

"That's about a 1.4 percent year-over-year annual growth rate," he says. "Population always follows jobs, so we've added about 60,000 jobs over that same 10-year period."

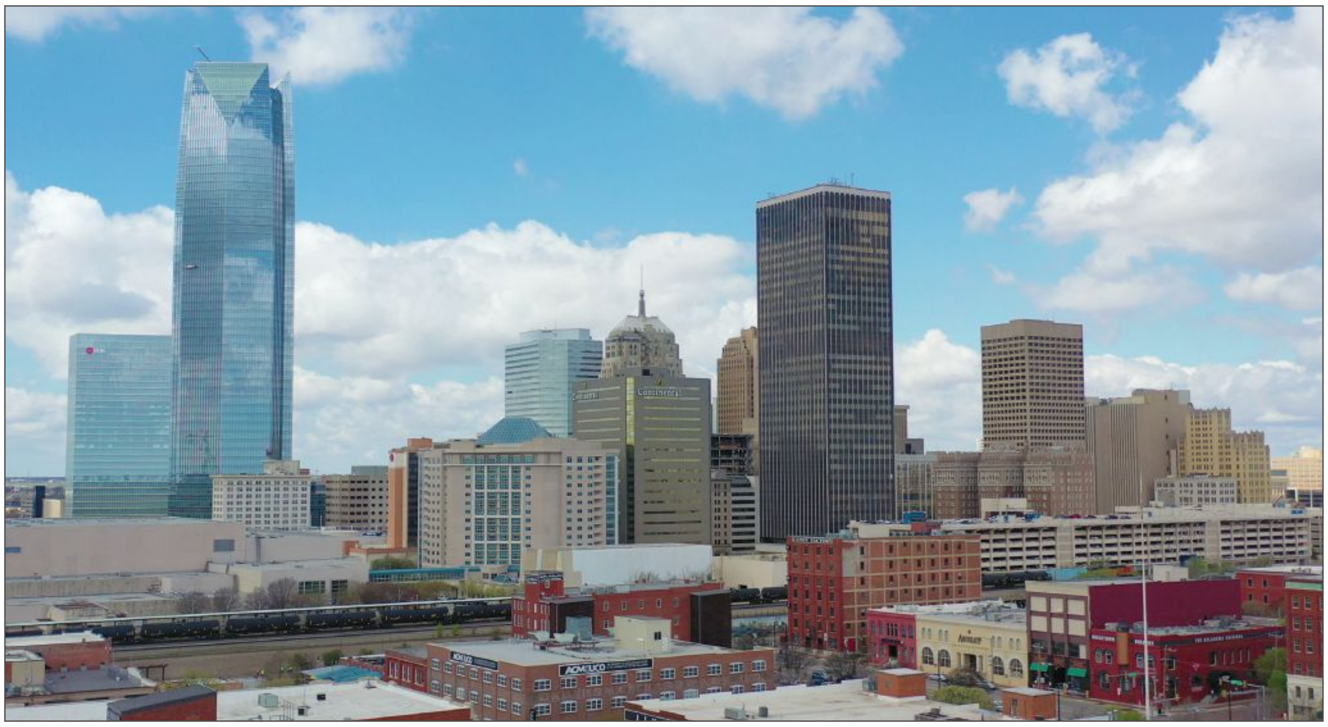
OK Multifamily Trends

Long reports that vacancy rates in the OKC metro are hovering around 7 percent, which he says are the lowest they've been since 2014.

"These low vacancy rates are a combination of having a manageable number of deliveries taking place in recent years, combined with a healthy flow of renters signing new leases," he says. "Asking rents over the past 12 months are up about 8 percent. This all ties back into the job-growth numbers that we've experienced over the past decade."

Long says that there are about 1,100 units of multifamily planned or under construction for the downtown Oklahoma City area, which, compared to the rate of job growth, sets the stage for realistic but solid conditions for growth in the market. "We're not having huge numbers of new apartments in the market," he says. "What we're seeing is manageable, slow growth."

One major project in the city is the renovation of the 1930s-era First National Bank building. Cornerstone Development is redevel-



City officials say that multifamily development in Oklahoma City is well matched to the city's growing population, leading to predictions of managable and stable growth. (Photo courtesy of the Greater Oklahoma City Chamber.)

Oklahoma City has been steadily investing in economic improvement initiatives via a sales tax called MAPS (metropolitan area projects). The city will be providing, for example, $71 million for Innovation District projects. (Photo courtesy of the Greater Oklahoma City Chamber.)

oping the 32-story, Art Deco building into the First National Center that will consist of apartments, retail, dining and a hotel.

Brian Donohue, a Tulsa-based vice president with the Investment Properties Group of CBRE — which specializes in sales of investment-grade multifamily properties and portfolios throughout the South Central U.S. — confirms the upward growth trajectory.

"Market fundamentals are just extremely strong right now, with rents up significantly across all asset classes and low, single-digit vacancy rates in all our markets," he says. "These strong fundamentals combined with aggressive lending and bullish investor demand have led to record pricing levels across all asset classes."

Donohue says that, from a transaction standpoint, Oklahoma City has seen more than half a billion dollars of volume through the third quarter, with both Tulsa and Northwest Arkansas at more than $300 million each.

"I think there is a good chance that we'll set volume records in several markets and, based on deals in the pipeline, we will shatter price-per-door records by the end of the year."

Donohue says there is so much inbound capital seeking multifamily that most listings never hit the market, and, if they do, they reset the bar for pricing. "Demand is unlike anything we have ever seen," he says. "In years past, we would typically see 10 to 15 bids on marketed assets. Today, it's not uncommon to receive 30 or more offers, which, for our markets, is unhead of. As a seller's market, I'm not sure why any owner looking to sell an asset wouldn't run a full process to ensure max pricing."

Donohue adds that elevated pricing levels are in part due to investors shifting their focus from coastal markets to middle America. "Typically, we've been private capital markets, but we're seeing a number of major regional and national institutional investors on bid sheets. Investors are looking for high-growth areas outside of primary markets and are in search of more affordable properties with strong returns. This is exactly what you find in Oklahoma, Arkansas, Kansas and Missouri."

Investment Opportunities Vary

Various subsets of the multifamily market are working for a variety of investors. Elkhorn Capital Partners, for example, is a Dallas-based investment group active in buying up distressed assets in Oklahoma.

Bruce Fraser, managing partner with Elkhorn Capital Partners, explains that "distressed" could mean foreclosures, pre-foreclosures, low-occupancy properties or properties that have been mismanaged or that need strategic CAPEX. "This seems counterintuitive, but investing in distressed situations actually seems less risky to us," says Fraser. "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."

Elkhorn acquired four assets during the pandemic, including Arbor Glen and Arbor Vista in Oklahoma City. These were contiguous properties that were run as independent properties.

Dallas-based Elkhorn Capital Partners acquired Arbor Glen and Arbor Vista, pictured above, during the pandemic. At left, the properties after renovations, rebranded to Parkview Flats.

Elkhorn opted to run the properties together as one asset for staffing and efficiencies of scale. The firm rebranded the property as Parkview Flats Apartments and plans to market it for sale in 2022 when the turnaround has been completed. "While the asset is still a class C workforce property, it looks like a radically different place now under Elkhorn's ownership," Fraser says.

"We purchased this asset for less than $30,000 per door and expect to be able to sell it for well over $60,000 per door within only two years of ownership. You simply don't get these conditions with traditional investing in stabilized assets. That said, it is definitely not for everyone — it is frankly a ton of work and is not an approach for the newcomer to multifamily investing."

As an investor in workforce housing, Fraser says he likes the job trends he's seeing in Oklahoma. "Oklahoma is often thought of as heavy oil and gas," he says. "Much like Dallas did after the boom and bust of the '80s, the city has done a good job of diversifying industry. At this point, oil and gas comprises a little less than 5 percent of jobs. They have made the investments in infrastructure to become a growing manufacturing hub, which is a good fit for our targeted tenant base." Additionally, Oklahoma has also maintained low unemployment rates. As of September 2021, the unemployment rate in Oklahoma City was, sitting at 1.9 percent, according to the Bureau of Labor Statistics. The steady job growth, combined with this figure that shows Oklahomans are working, point toward an economy on the up. "We're seeing growth, but it's not overwhelming growth like you're seeing in other places," says Seymour. "We have a compelling economic and social story to tell. So, from an investment perspective, we're seeing a lot more folks take a second look at Oklahoma City." ●

OKLAHOMA CITY MSA METRICS

2020 Population:
1,425,695

Percent change from 2010:
14%

YOY Nonfarm Job Growth:
1.4%

AMI (family of four):
$73,200

Q3 2021 Average Apartment Rental Rate:
$861

Percent change from Q3 2020:
8.8%

Sources: The United States Census Bureau; Bureau of Labor Statistics; HUD; CoStar Group