

Fourth Quarter Office Market Report 2015





Fourth Quarter Office Market Report

NAI Sullivan Group

2015

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EXECUTIVE SUMMARY

The Q4 office market absorption has shown a steady increase in net absorption during the last 3 quarters. With the average leasing rate improving and positive absorption in two of the 3 office property types.

Class A office space absorption was a positive 85,652 square feet with an average rental rate of \$20.19 and an overall vacancy of 5.8%, Class B office space absorption was a positive 99,806 square feet with an average rental rate of \$16.47, and Class C office space absorption was a negative 36,271 and an average rental rate of \$13.09.

The office market vacancy rate has steadily increased over the last 2 quarters from a low of 7.2% in mid 2015 to the current vacancy rate of 7.7%.

We are seeing steady sales – with 44 transactions totaling \$35M with an average price of \$129.72, up from the \$115.00 average in Q3.

We anticipate as much as a 1% to 1.5% vacancy rate increase over the next 12 months if energy prices remain at current levels, although the rates should maintain steady at current levels.



Bob Sullivan
Bob Sullivan
CEO

Leasing Activities

Total Inventory	57,205,200 SF
Overall Rental Rate	\$15.78/SF/YR
Total Vacancy Rate	7.70%
Under Construction	1,663,473 SF

Sales Activities

Number of Transactions	44
Total Sales Volume	\$35,199,095
Average Price per Bldg. SF	\$129.72



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NATIONAL ECONOMY

The long-awaited interest rate increase is here. The Fed will raise rates between 0.25 percent and 0.5 percent and will gradually increase the interest rate as the domestic economy strengthens. The increase of key interest rates indicates consumers have the ability to bear higher borrowing costs, and the national economy has officially fully recovered from the financial crisis while the global economy struggles. The disturbing Chinese stock market, declining economy, continuing depreciation of Chinese currency, sluggish economy in Europe and Japan, recession of Canada-strong domestic demand and weak foreign demand plus the stronger dollar value, will further decrease United State exports. Congressional leaders have voted to lift the 40-year-old ban on oil exports. Despite this lift, low oil and gas prices remain the largest hurdle in the energy industry. If prices continue to stay low, we likely won't see immediate change to the export impact on energy companies' balance sheets. Kiplinger predicts that U.S. GDP growth will increase from 2.5 percent in 2015 to 2.7 percent in 2016, despite continuing difficulties in the export and oil and gas industries. The unemployment rate is predicted to fall from 5.0 percent at the end of 2015 to 4.6 percent in 2016.

LOCAL ECONOMY

2015 was a tough year for Oklahoma energy companies as oil and gas prices continued to stay low. According to the Oklahoma Employment Security Commission, Oklahoma City's energy sector lost 14.3 percent of jobs compared to the previous year – more than 11,000 jobs in 2015. Despite the energy industry's downturn, we still saw investments coming from in-state as well as out-of-state. Many new projects were planned, under construction or opening in 2015. Some of these include the 27-story BOK Park Plaza Tower at 499 West Sheridan Avenue breaking ground, WP Climcher planning to expand Classen Curve and Chilsholm Creek witnessing the opening of Cabela's, TopGolf and the planning of a 277-unit, \$45 million luxury apartment complex. Oil and gas prices are expected to remain low in 2016. This is truly a year to see how much Oklahoma's economy has diversified during the past decade.

OKLAHOMA CITY OFFICE MARKET LEASING

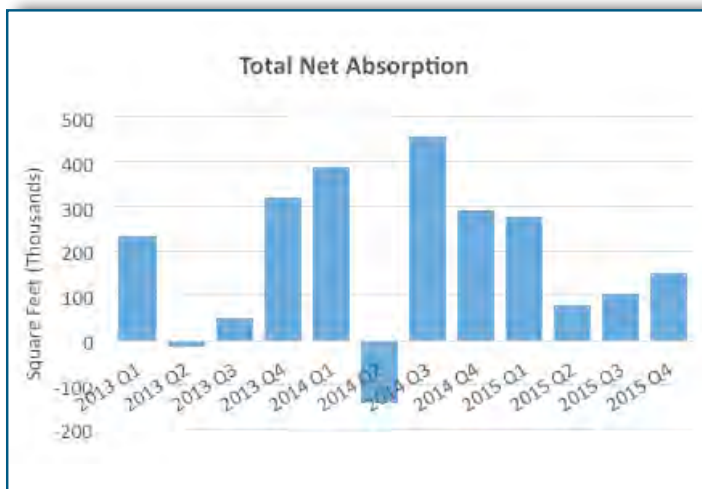
The largest lease signings that occurred in 2015 include the 57,786 SF lease signed by United Health Group at Presbyterian Health Building 4, the 31,122 SF lease signed by Integris Health Inc. at 4509 Integris Parkway and the 20,885 SF lease signed by Hunter's Specialty Pharmacy at Deaconess Medical Building.



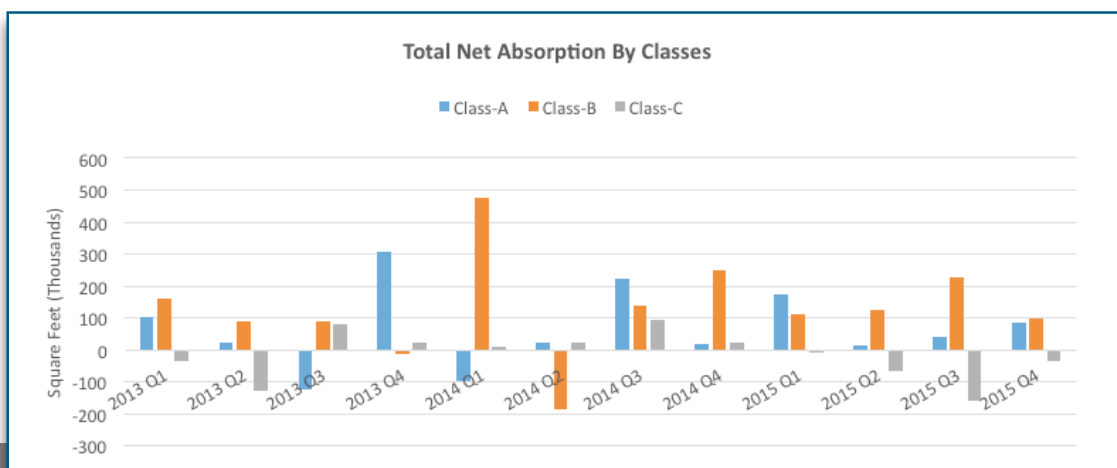
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NET ABSORPTION AND INVENTORY



- The total office net absorption was a positive 149,187 SF.
- The total net absorption increased from its net absorption of 105,109 SF at the end of Q3 2015.
- The total office inventory was 57,205,200 SF.
- The total office inventory increased from its inventory of 56,831,287 SF at the end of Q3 2015.



- Class-A property net absorption yielded a positive 85,652 SF, which increased from the net absorption of 39,797 SF at the end of Q3 2015.
- Class-B properties yielded a positive 99,806 SF, which decreased from the net absorption of 226,042 SF at the end of Q3 2015.
- Class-C properties yielded a negative 36,271 SF, which increased from the net absorption of negative 160,730 SF at the end of Q3 2015.



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RENTAL RATES AND VACANCY RATES

Office Market Vacancy Rate Vs. Rental Rate



- The overall office market gross rental rate averaged \$15.78/SF/YR.
- The overall office market rental rate increased from the \$15.46/SF/YR rate at the end of Q3 2015.
- The overall office market vacancy rate was 7.7%.
- The overall office market vacancy rate increased from 7.4% at the end of Q3 2015.

Class-A Office Vacancy Rate Vs. Rental Rate



- Class-A property gross rental rate averaged \$20.19/SF/YR.
- Class-A property gross rental rate increased from the \$20.15/SF/YR rate at the end of Q3 2015.
- Class-A vacancy rate was 5.8%.
- Class-A vacancy rate increased from the 5.6% rate at the end of Q3 2015.

Class-B Office Vacancy Rate Vs. Rental Rate



- Class-B property gross rental rate averaged \$16.47/SF/YR.
- Class-B property gross rental rate increased from the \$16.13/SF/YR rate at the end of Q3 2015.
- Class-B property vacancy rate was 7.7%.
- Class-B property vacancy rate increased from the 7.4% rate at the end of Q3 2015.



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Class-C Vacancy Rate Vs. Rental Rate



- Class-C property gross rental rate averaged \$13.09/SF/YR.
- Class-C property gross rental rate increased from the \$12.70/SF/YR rate at the end of Q3 2015.
- Class-C property vacancy rate was 8.6%.
- Class-C property vacancy rate increased from the 8.4% rate at the end of Q3 2015.

OKC OFFICE MARKET INFORMATION BY SUBMARKETS

	CBD	Northwest	Edmond	Norman & Moore
Rental Rate	\$15.45	\$16.04	\$16.77	\$15.74
Vacancy Rate	14.10%	7.00%	8.30%	5.60%
Existing Buildings	198	812	542	550
Existing SF	12,024,202 SF	13,335,025 SF	3,380,808 SF	4,210,226 SF
Cap rate	9.30%	8.50%	7.80%	7.90%

CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

We saw 1,663,473 SF of rentable office space under construction at the end of Q4 2015 with an average asking rental rate of \$19.9/SF/YR full service. Most under-construction office properties are going to be owner-occupied. Regarding the for-lease properties under construction, we are seeing the rental rate as high as \$24.5/SF/YR modified gross for the 11,072 SF Class-B office building under construction at 8308 N May Avenue. The largest two projects with the most rentable building area were the 316,062 Boeing office building located at 6811 S Air Depot in Oklahoma City which is scheduled to be delivered in September 2016, and the 250,000 SF Class-A medical office building located at 3219 W Rock Creek Road in Norman which is scheduled to be delivered in December 2016.

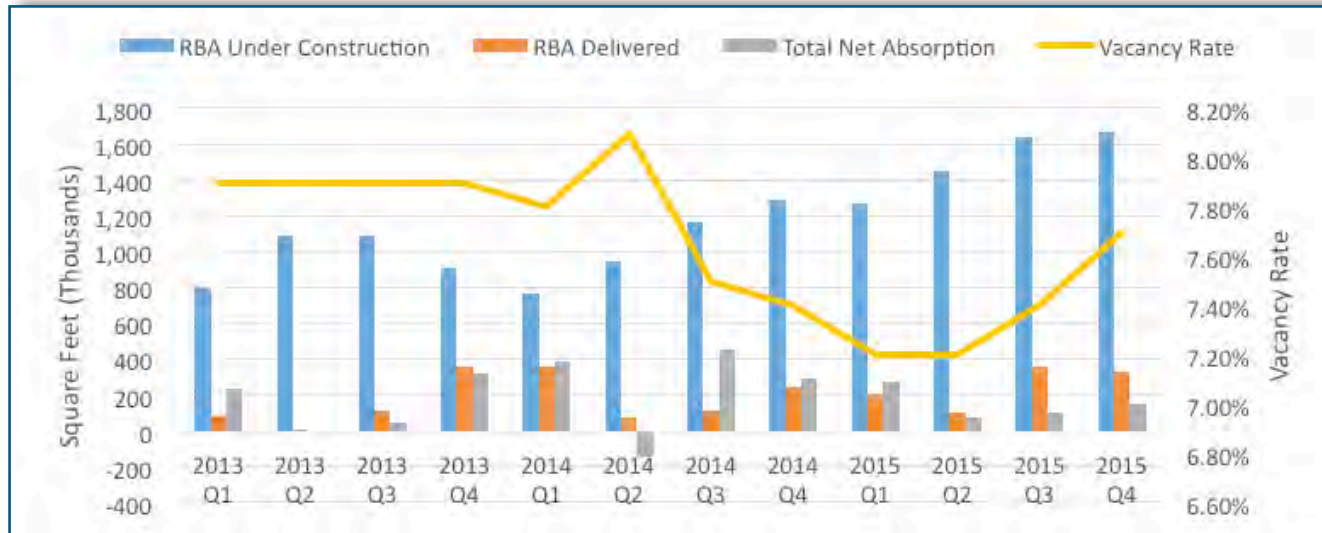


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Under Construction

Building Name	Building Address	City	RBA	Delivery Time
Boeing	6811 S Air Depot Blvd	OKC	316,062 SF	Sep 2016
Medical Office Building	3219 W Rock Creek Rd	Norman	250,000 SF	Dec 2016
Westgate One	10401 W Reno Ave	OKC	200,000 SF	Jan 2016
Gulfport Energy	3001 Quail Springs Pky	OKC	141,512 SF	Nov 2016
Gulfport Energy Corp HQ	3001 Quail Springs Pky	OKC	95,160 SF	Oct 2016
GE Oil & Gas Technology Center	300 NE 10th St	OKC	95,000 SF	Apr 2016
Baker Hughes	12701 N Santa Fe Ave	OKC	90,000 SF	Feb 2016
Paycom	7501 W Memorial Rd	OKC	80,000 SF	Jun 2016
HPI Broadway Mediplex	9800 Broadway Extension	OKC	74,998 SF	Feb 2016
OKC Municipal Courts Building	701 Couch Dr	OKC	65,000 SF	Feb 2017



Some notable deliveries during 2015 included the 137,783 SF Hobby Lobby Finance & Technology facility at 7700 SW 44th Street that delivered in the first quarter of 2015 and is now 100 percent occupied and the 108,000 SF Linn Energy building at 14701 Hertz Quail Springs Parkway that delivered during the fourth quarter of 2015 and is now 75 percent occupied.

We are seeing offices built in 2015 have an average asking rental rate of \$21.12/SF/YR full service gross. Asking rental rate is as high as \$25/SF/YR full service gross for Class-A office condominiums at 3151 W Tecumseh Road in Norman and as low as a rental rate of \$15.75/SF/YR for the Class-B office building at 717 26th Ave NW in Norman.



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OKLAHOMA CITY OFFICE MARKET SALES

There were 44 sale transactions totaling \$35,199,095 recorded during Q4 2015. The largest individual office property sale based on dollar value was the sale of the 98,344 SF Grand Centre office building located at 5400 NW Grand Boulevard. Oklahoma Public Employees Retirement System purchased this property from Marco Capital Group for \$12,300,000 on December 31, 2015.

Despite the increasing vacancy rate resulting from layoffs in the energy industry. We are still seeing jobs brought in or created from out-of-state as well as in-state. Boeing company will bring 800 to 900 new jobs to Oklahoma City, and local company, Paycom plans to create more than 1,000 jobs over the next five years. We are also seeing new development of office space in the downtown area. The Bricktown Commission has approved plans to build a 104,000 square-foot 10-story building which will house office tenants on levels three through eight. Plus, the newly proposed seven-story parking structure at the southwest corner of Oklahoma and Sheridan will ease the parking situation and prepare for more jobs to be brought to the downtown area. The office market in Oklahoma will continue to stay stabilized during 2016 while we are going through the downturn in oil and gas industry.

Summary

Number of Transactions	44
Total Sales Volume	\$35,199,095
Total Bldg. SF	312,995 SF
Total Land in Acres	32.66 Acres
Average Price per Bldg. SF	\$129.72
Median Price per SF	\$125.25



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OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q4 2015



Property Name: Grand Centre
Address: 5400 NW Grand Boulevard, OKC
Sale Price: \$12,300,000
Building SF: 98,344 SF
Price per SF: \$125.07
Sale Date: 12/31/2015



Property Name: 307 E Danforth Road
Address: 307 E Danforth Road, Edmond
Sale Price: \$2,400,000
Building SF: 19,136 SF
Price per SF: \$125.42
Sale Date: 12/02/2015



Property Name: 9301-9401 Cedar Lake Avenue
Address: 9301-9401 Cedar Lake Avenue, OKC
Sale Price: \$2,345,649
Building SF: 15,243 SF
Price per SF: \$153.88
Sale Date: 11/13/2015



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Property Name: 13128 N MacArthur Boulevard
Address: 13128 N MacArthur Boulevard, OKC
Sale Price: \$1,775,000
Building SF: 7,279 SF
Price per SF: \$243.85
Sale Date: 10/07/2015



Property Name: River Oaks Plaza
Address: 3625 W Main Street, Norman
Sale Price: \$1,500,000
Building SF: 11,421 SF
Price per SF: \$131.34
Sale Date: 12/29/2015



Property Name: 710 Cedar Lake Boulevard
Address: 710 Cedar Lake Boulevard, OKC
Sale Price: \$1,487,836
Building SF: 11,134 SF
Price per SF: \$133.63
Sale Date: 10/30/2015



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NAI Sullivan Group has launched a new application for the iPad and iPhone. This app is free of charge and is available for download in the Apple App Store under NAI Sullivan Group. Clients can use the app to review all our company listings, find agent contact information, perform calculations, review our current market reports and much more. This app allows a client to simply take a photo of the property they are interested in and their request will instantly be submitted to the sales associate of the client's choice and the associate will contract the client with details of the property in question.

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4045 NW 64th Street, Suite 340 | Oklahoma City, OK 73116
Office: 405.840.0600 | Fax: 405.840.0610
www.naisullivangroup.com