

First Quarter Industrial Market Report 2016



First Quarter Industrial Market Report

NAI Sullivan Group

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EXECUTIVE SUMMARY

The industrial market continues to move sideways as no big changes occurred over the past four quarters. The vacancy rate remains flat, around 4.4% up slightly from 3.8% in Q1 2015, and average rental rates remain flat, near \$5.00 per SF NNN. Class A industrial space remains at \$5.71 NNN.

Currently, there is some new construction of smaller industrial space in Edmond amidst the area's increased demand. The Edmond market for 2,000 to 7,000 SF hovers at \$7.50 per SF NNN.

We have not yet seen the effects of the economic slowdown in oil and gas and government budgeting but expect to see an effect in the coming quarters.

The big delivery of 2M SF for Hobby Lobby skewed the delivery segment.

The sale of industrial properties remains strong with 59 sale transactions totaling \$31.9M, averaging \$48.40 per square foot.




Bob Sullivan
CEO

Leasing Activities

Total Inventory	116,854,754 SF
Overall Rental Rate	\$5.03/SF/YR NNN
Total Vacancy Rate	4.4%
Under Construction	483,019 SF

Sales Activities

Number of Transactions	59
Total Sales Volume	\$31,952,857
Average Price per Bldg. SF	\$48.40



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NATIONAL ECONOMY

The global economy is slowing down, and in turn, the United States is also affected. A strong dollar value continues to discourage U.S. exports and increase imports. The slowing economy in China particularly has a negative impact on U.S. exports. Last December, the Fed predicted that in 2016 the economy would grow 2.4 percent and it would raise the interest rate four times. While under the current global economy, which adds more volatility to the U.S. economy, the Fed is not going to raise its key interest rate as expected, and only plans two rate hikes in 2016, predicting the growth rate at 2.2 percent for 2016, 0.2 percent down from the previous forecast. The world oil inventory is still at a historical high, and the 2016 average crude oil price is estimated to stay between \$40 and \$50 a barrel. International Energy Agency indicates that it will take at least another year to reach a new balance between crude oil supply and demand. In addition, the unemployment rate is predicted to reach 4.6 percent at the end of 2016, down from the current five percent.

LOCAL ECONOMY

As a state abundant with oil and gas resources, the pain continues while crude oil prices stay low. Massive layoffs in the oil and gas industry have led to the increasing vacancy rate in both office and industrial properties. Devon Energy has laid off 1,000 people in the first quarter of 2016. The pain won't fade away soon as the inventory of crude oil is still at historical highs, and we are going to see more layoffs, mergers and acquisitions or bankruptcies in the coming quarter.

Despite the oil and gas downturn, we are still seeing a lot of interest from across the nation and internationally, among many other exciting developments and opportunities. Continued expansion at Chisholm Creek is well under construction with the additions of new shops and housing. Wheeler District site construction has begun which will include a Ferris wheel, public art and a food truck plaza, expected to open this summer. Developers are continuing to seek opportunities to build hotels in the downtown area. The new convention center is expected to start its construction in 2018 with a 2020 completion date.

OKLAHOMA CITY INDUSTRIAL MARKET LEASING

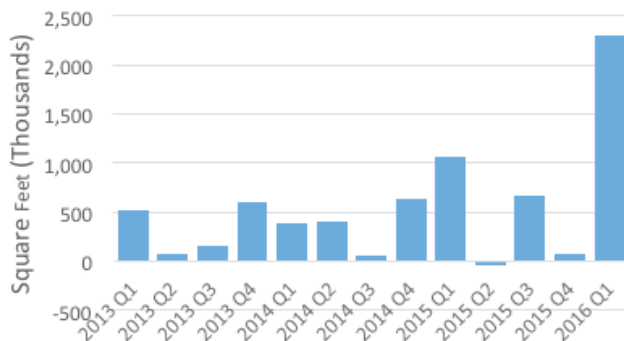
The largest lease signings that occurred in Q1 2016 included the 33,750 SF lease signed by Complemar at 3500 S Macarthur Blvd, the 27,340 SF lease signed by Word Industries Fabrication at 521 E Choctaw Ave and the 26,880 SF lease signed by Remedi SeniorCare at 4243 Will Rogers Pkwy.

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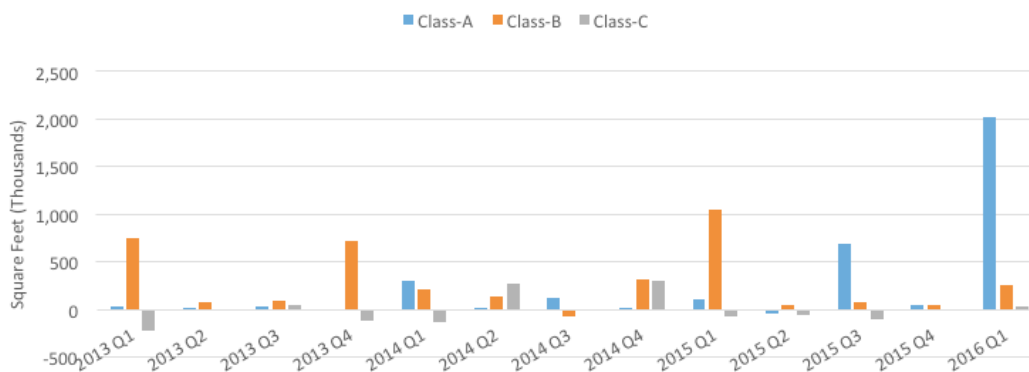
NET ABSORPTION AND INVENTORY

Total Net Absorption



- The total net absorption was a positive 2,303,862 SF.
- The total net absorption increased from 79,786 SF at the end of Q4 2015.
- The total inventory was 116,854,754 SF.
- The total inventory increased from 113,276,291 SF at the end of Q4 2015.

Total Net Absorption By Classes



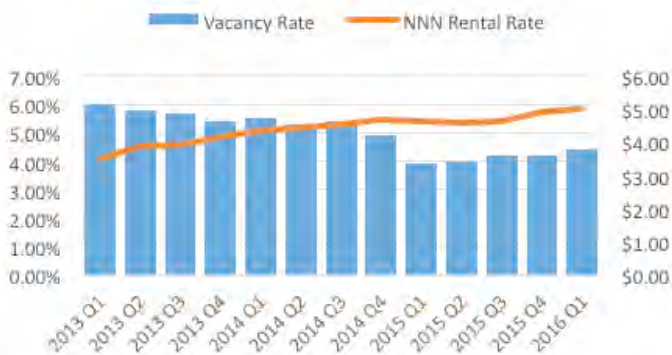
- Class-A property net absorption yielded a positive 2,017,525 SF, which significantly increased from positive 41,100 SF at the end of Q4 2015.
- Class-B property net absorption yielded a positive 260,476 SF, which increased from positive 49,101 SF at the end of Q4 2015.
- Class-C property net absorption yielded a positive 25,861 SF, which increased from negative 25,861 SF at the end of Q4 2015.

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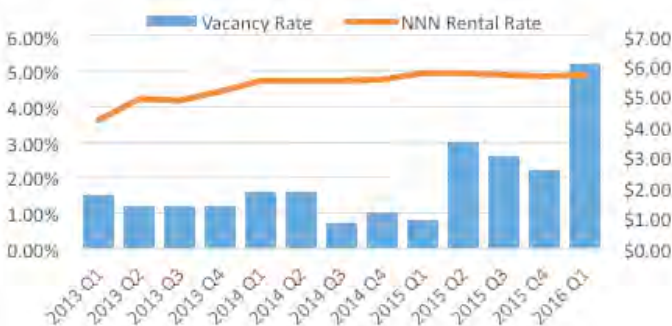
RENTAL RATES AND VACANCY RATES

Total Industrial Vacancy Rate Vs. Rental Rate



- The overall industrial rental rate averaged \$5.03/SF/YR NNN.
- The overall industrial rental rate increased from \$4.94/SF/YR NNN at the end of Q4 2015.
- The overall industrial vacancy rate was 4.4%.
- The overall industrial vacancy rate increased from 4.2% at the end of Q4 2015.

Class-A Industrial Property Vacancy Rate Vs. Rental Rate



- Class-A property rental rate was \$5.71/SF/YR NNN.
- Class-A property rental rate increased slightly from \$5.69/SF/YR NNN at the end of Q4 2015.
- Class-A property vacancy rate was 5.2%.
- Class-A property vacancy rate increased from 2.2% at the end of Q4 2015.

Class-B Industrial Property Vacancy Rate Vs. Rental Rate

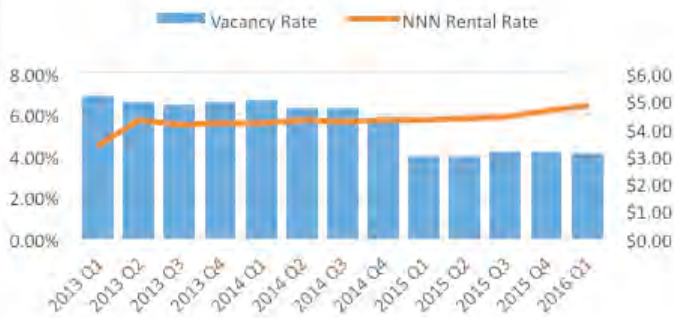


- Class-B property rental rate was \$4.90/SF/YR NNN.
- Class-B property rental rate increased from \$4.84/SF/YR NNN at the end of Q4 2015.
- Class-B property vacancy rate was 4.5%.
- Class-B property vacancy rate decreased slightly from 4.6% at the end of Q4 2015.

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**Class-C Industrial Properties
Vacancy Rate Vs. Rental Rate**



- Class-C property rental rate was \$4.79/SF/YR NNN.
- Class-C property rental rate increased from \$4.61/SF/YR NNN at the end of Q4 2015.
- Class-C property vacancy rate was 4.1%.
- Class-C property vacancy rate decreased from 4.2% at the end of Q4 2015.

OKC INDUSTRIAL MARKET INFORMATION BY SUBMARKETS

	CBD	Midtown	West/ Central	OKC South	Edmond	Moore/ Norman
Vacancy Rate	12.2%	4.3%	4.1%	1.9%	2.6%	2.1%
Rent per SF	\$9.35	\$3.73	\$4.63	\$4.15	\$7.65	\$6.21
Existing Buildings	141	405	1,476	1,173	241	466
Existing SF	1,476,579	5,747,074	38,200,092	18,071,339	4,760,957	6,498,422
Sale Price per SF	\$45	\$39	\$59	\$43	\$73	\$50
Cap Rate	7.5%	11%	8.0%	8.3%	9.4%	10%

OKC INDUSTRIAL MARKET INFORMATION BY CLASSES

	Class-A	Class-B	Class-C
Vacancy Rate	\$5.71	\$4.90	\$4.79
Rent per SF	5.2%	4.5%	4.1%
Existing Buildings	51	1,741	4,542
Existing SF	10,326,870	53,360,709	57,339,378
Sale Price per SF	\$66	\$54	\$52
Cap Rate	8%	9.1%	14.3%

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OKC INDUSTRIAL MARKET INFORMATION BY SIZES

	Up to 30,000 SF	From 30,000 SF
Vacancy Rate	\$6.24	\$4.46
Rent per SF	3.2%	4.9%
Existing Buildings	5,712	719
Existing SF	48,230,830	73,982,887
Sale Price per SF	\$58	\$49
Cap Rate	13.5%	8.8%

CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

Under Construction

Building Address	City	Rentable Building Area	Delivery Time
6910 N Bryant Ave	OKC	80,000 SF	Oct 2016
NW 166th	Edmond	70,000 SF	Jun 2016
6120 SW 29th St	OKC	61,000 SF	Sep 2016
3800 S Macarthur Blvd	OKC	60,000 SF	May 2016
6707 W Interstate Dr	Norman	35,000 SF	May 2016
12121 S Western Ave	OKC	16,000 SF	May 2016
14000 N Harvey Ave	Edmond	15,851 SF	Oct 2016
12121 S Western Ave	OKC	14,000 SF	May 2016
1361 N Fretz Dr	Edmond	12,650 SF	Apr 2016
1371 N Fretz Dr	Edmond	12,650 SF	May 2016
1381 N Fretz Dr	Edmond	12,650 SF	Apr 2016
201 E Memorial Rd	Edmond	12,263 SF	Jun 2016
5700 SW 44th St	OKC	11,600 SF	Sep 2016
2601 S Vermont Ave	OKC	10,570 SF	Jun 2016

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Looking at the end of the first quarter, there were only 483,019 SF of industrial space under construction. We saw the average asking rental rate for the newly built industrial properties in Q1 of 2016 averaged \$7.06/SF/YR.

Some notable deliveries in Q1 2016 included the 2,000,000 SF Class-A Hobby Lobby distribution building at 6900 SW 29th St., which was delivered in February 2016 and is now occupied by Hobby Lobby, significantly contributing to the total net absorption during Q1. The 230,000 SF Class-A Baker Hughes Manufacturing Center at 12701 N Santa Fe Ave and the 150,000 SF Class-A Baker Hughes Workshop was also delivered in February 2016.



OKLAHOMA CITY INDUSTRIAL MARKET SALES

Fifty-nine industrial transactions totaling \$31,952,857 were recorded during Q1 2016. The largest transaction based on dollar volume was the sale of the Victory Packaging Class-B industrial manufacturing building. Industrial Property Trust from Denver purchased the 79,079 SF property for \$3,909,757 on January 13, 2016 from Victory Packaging based in Houston. Seventy-five percent of transactions above \$1 million in Q1 2016 were attributed to local buyers from Oklahoma City market.

Summary

Number of Transactions	59
Total Sales Volume	\$31,952,857
Total Bldg. SF	1,006,423
Total Land in Acres	116.38
Average Price per Bldg. SF	\$48.40
Median Price per SF	\$47.36

Vacancy rate has remained flat since Q1 2015. With oil and gas prices continuing to stay low, we are seeing more layoffs in the oil and gas industry while investment in the oil and gas industry decreases. We will continue to see an increase vacancy rate in the OKC industrial market.

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NAI OKC MARKET SIGNIFICANT INDUSTRIAL SALE TRANSACTIONS DURING Q1 2016



Property Name: Victory Parking
Property Address: 4949 SW 20th St., OKC
Sale Price: \$3,909,757
Building SF: 79,079 SF
Price per SF: \$49.44
Sale Date: 01/13/2016



Property Name: 7300 SW 29th St.
Property Address: 7300 SW 29th St., OKC
Sale Price: \$3,250,000
Building SF: 62,666 SF
Price per SF: \$51.86
Sale Date: 02/12/2016



Property Name: 800 S Broadway Ave.
Property Address: 800 S Broadway Ave., OKC
Sale Price: \$2,409,000
Building SF: 22,261 SF
Price per SF: \$108.22
Sale Date: 01/29/2016



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Property Name: 1301 Cornell Pky
Property Address: 1301 Cornell Pky, OKC
Sale Price: \$1,487,500
Building SF: 35,370 SF
Price per SF: \$42.06
Sale Date: 01/25/2016



Property Name: 1450 Exchange Ave.
Property Address: 1450 Exchange Ave., OKC
Sale Price: \$1,250,000
Building SF: 50,757 SF
Price per SF: \$24.63
Sale Date: 01/15/2016



Property Name: 7915 SW 34th St.
Property Address: 7915 SW 34th St., OKC
Sale Price: \$1,100,000
Building SF: 24,300 SF
Price per SF: \$45.27
Sale Date: 02/03/2016

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