

First Quarter Office Market Report 2016





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2016

NAI Sullivan Group

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EXECUTIVE SUMMARY

Q1 2016 showed a slight decrease in the average rental rates for Class A, B and C office properties. This decrease in rates, although slight, could be the beginning of a softening of rental rates due to problems in the energy sector. Surprisingly, it has taken over a year for the energy downturn to affect the office market.

We also saw the overall vacancy rate increased for the 4th straight quarter standing at 8.5% from a low of 7% in Q1 2015.

We expect this new trend of softening rates and increased vacancy to continue for the next three quarters as companies continue to downsize and adjust to continued weakness in the oil and gas industry and government budget cuts.



The sale of office properties remains strong with 65 sales totaling \$65M, an average of \$166.19 per square foot.

Bob Sullivan
CEO

Leasing Activities

Total Inventory	57,870,375 SF
Overall Rental Rate	\$15.53/SF/YR
Total Vacancy Rate	8.5%
Under Construction	1,161,039 SF

Sales Activities

Number of Transactions	65
Total Sales Volume	\$64,944,879
Average Price per Bldg. SF	\$166.19



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NAI 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 US 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.

NAI 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 has 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.

NAI OKLAHOMA CITY OFFICE MARKET LEASING

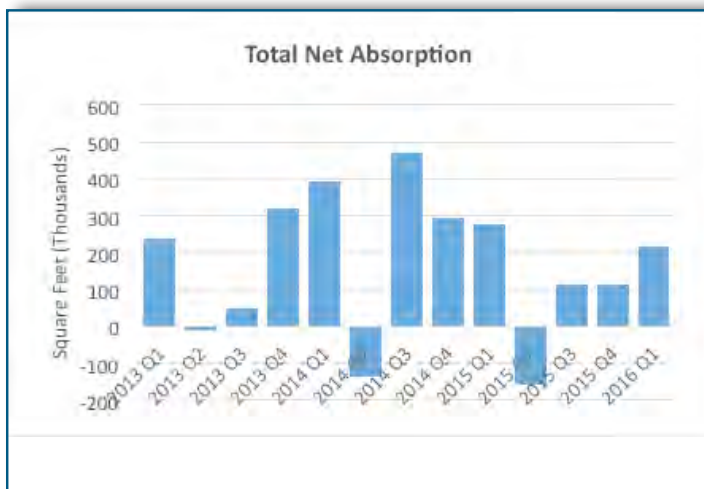
The largest lease signings which occurred during Q1 2016 include the 61,730 SF lease signed by University of Oklahoma at 865 Research Building 7 in University Research Park, the 14,910 SF lease signed by University of Oklahoma Health Club also at 865 Research Building 7 in University Research Park and the 11,397 SF lease signed by Dobson Communications at 14101-14201 Wireless Way.



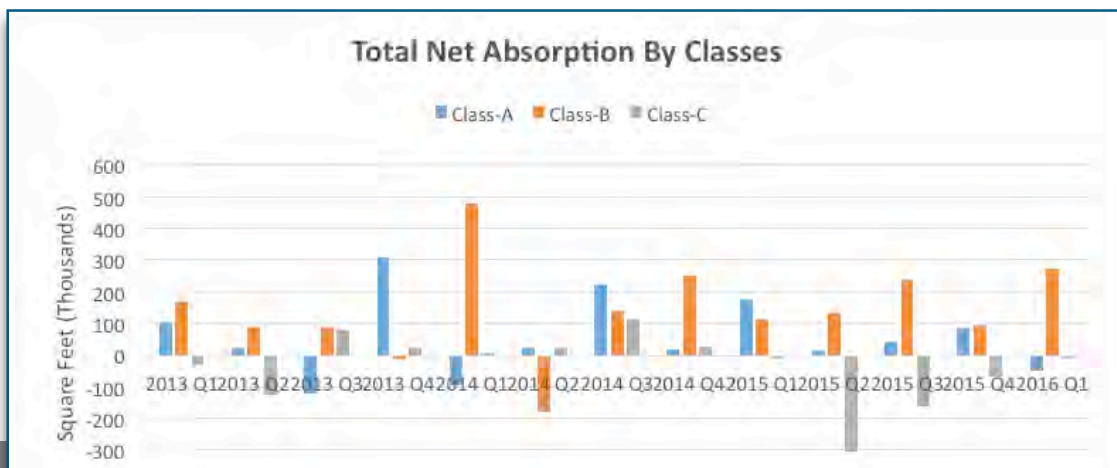
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NET ABSORPTION AND INVENTORY



- The total net absorption was 215,683 SF.
- The total net absorption increased from 112,804 SF at the end of Q4 2015.
- The total inventory was 57,870,375 SF.
- The total inventory increased from 57,205,200 SF at the end of Q4 2015.



- Class-A property net absorption yielded a negative 50,907 SF, which decreased from the net absorption of 85,652 SF at the end of Q4 2015.
- Class-B property net absorption yielded a positive 273,819 SF, which increased from the net absorption of 95,730 SF at the end of Q4 2015.
- Class-C property net absorption yielded a negative 7,229 SF, which decreased from the net absorption of 68,578 SF at the end of Q4 2015.



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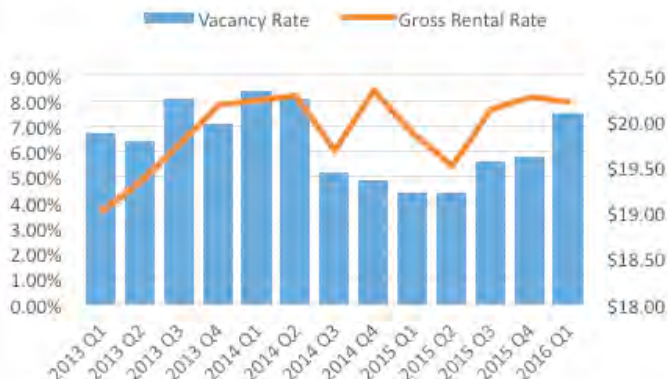
RENTAL RATES AND VACANCY RATES

Office Market Vacancy Rate Vs. Rental Rate



- The overall market gross rental rate averaged \$15.53/SF/YR.
- The overall office market rental rate decreased from the \$15.81/SF/YR at the end of Q4 2015.
- The overall office market vacancy rate was 8.5%.
- The overall office market vacancy rate increased from 5.1% at the end of Q4 2015.

Class-A Office Vacancy Rate Vs. Rental Rate



- Class-A property gross rental rate averaged \$20.21/SF/YR.
- Class-A property gross rental rate decreased from \$20.26/SF/YR at the end of Q4 2015.
- Class-A property vacancy rate was 7.8%.
- Class-A property vacancy rate increased from 5.8% at the end of Q4 2015.

Class-B Office Vacancy Rate Vs. Rental Rate



- Class-B property gross rental rate averaged \$16.27/SF/YR.
- Class-B property gross rental rate decreased from \$16.48/SF/YR at the end of Q4 2015.
- Class-B property vacancy rate was 8%.
- Class-B property vacancy rate increased from 7.7% at the end of Q4 2015.



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Class-C Office Vacancy Rate Vs. Rental Rate



- Class-C property rental rate averaged \$12.92/SF/YR.
- Class-C property rental rate decreased from \$13.17/SF/YR at the end of Q4 2015.
- Class-C property vacancy rate was 9.9%.
- Class-C property vacancy rate remained the same compared to the rate at the end of Q4 2015.



OKC OFFICE MARKET INFORMATION BY SUBMARKETS

	CBD	Northwest	Edmond	Norman & Moore
Rental Rate	\$15.15	\$16.20	\$17.01	\$15.98
Vacancy Rate	16.1%	6.8%	6.9%	6.7%
Existing Buildings	198	818	552	560
Existing SF	12,036,886 SF	13,367,188 SF	3,426,391 SF	4,284,224 SF
Cap rate	9.3%	8.5%	7.7%	6.4%



CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

We saw 1,161,039 SF of rentable office space under construction at the end of Q1 2016 with an average gross rental rate of \$19.80/SF/YR. The highest asking rental rate for an office building under construction belongs to the property located at 301 Lilac Dr. in Edmond at \$21.50/SF/YR. The largest two projects with the most square feet were the 316,062 SF Boeing office building located at 6811 S Air Depot Blvd in Oklahoma City which is scheduled to be delivered in September 2016 and the 250,000 SF Class-A medical office building located at 3421 W Rock Creek Rd in the Legacy Office Park in Norman, which is scheduled to be delivered in December 2016. Office market vacancy rate has been up since Q1 2015 due to continuous layoffs in the oil and gas industry.

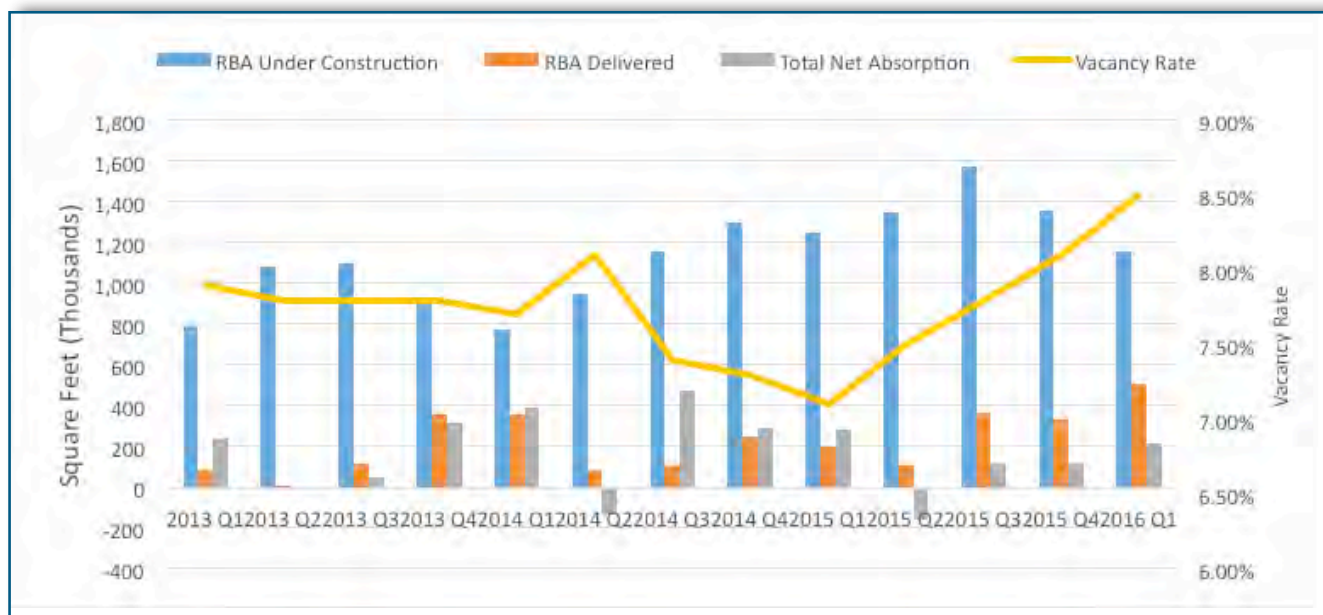


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Under Construction

Building Name	Building Address	City	RBA	Delivery Time
Boeing	6811 S Air Depot Blvd	OKC	316,062 SF	Sep 2016
-	3421 W Rock Creek Rd	Norman	250,000 SF	Dec 2016
Gulfport Energy HQ	3001 Quail Springs Pky	OKC	141,512 SF	Oct 2016
GE Oil & Gas Technology Center	300 NE 10th	OKC	95,000 SF	Apr 2016
Paycom	7501 W Memorial Rd	OKC	80,000 SF	Jun 2016
Oklahoma City Municipal Courts Building	701 Couch Dr	OKC	65,000 SF	Feb 2017
Delaware Resource Group HQ	3220 Quail Springs Pky	OKC	35,575 SF	Jun 2016
-	301 Lilac Dr	Edmond	17,500 SF	Sep 2016
Avondale Square	2100 N Eastern Ave	Moore	16,370 SF	Jul 2016
-	2500-2510 Boardwalk	Norman	10,600 SF	May 2016



Some notable deliveries during Q1 2016 included the 200,000 SF Westgate One at 10401 W Reno Ave delivered in March 2016, the 90,000 SF Baker Hughes office building at 12701 N Santa Fe Ave that delivered in February 2016 and the 74,998 SF HPI Broadway Mediplex at 9800 Broadway Extension delivered in March 2016.

We are seeing non-owner occupied offices built during Q1 2016 have an average asking rental rate of \$17.63/SF/YR, full service gross. We are seeing several newly built Class-B office buildings in Edmond have an asking rental rate of \$20/SF/YR full service gross.



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OKLAHOMA CITY OFFICE MARKET SALES

There were 65 transactions totaling \$64,944,879 recorded during Q1 2016. The largest individual office property sale based on dollar value was the sale of the property located at 3110 SW 89th Street in Oklahoma City. Fountain Park Spine LLC purchased this 39,324 SF Class-B office building for \$7,500,000 on February 10, 2016.

Vacancy rate in the OKC office market has been climbing up since Q1 2015 due to layoffs in the oil and gas industry. With the crude oil inventory at a historical high while oil and gas prices continue to stay low, we probably won't see the vacancy rate get better any time soon. Despite the downfall in the oil and gas industry, we still see interests from across the nation and internationally to come to Oklahoma City to invest. Most buyers of properties above \$3 million in Q1 2016 were from out of state. Boeing's office building is well under construction which will bring 800 to 900 new jobs to Oklahoma City and Paycom is adding more office space with its plans to create more than 1,000 jobs over the next five years. Gulfport Energy Corporation is also building office space to prepare for the rebound of oil and gas prices.

Summary

Number of Transactions	65
Total Sales Volume	\$64,944,879
Total Bldg. SF	513,967 SF
Total Land in Acres	79.45 Acres
Average Price per Bldg. SF	\$166.19
Median Price per SF	\$136.59



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OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q1 2016



Property Name: 3110 SW 89th St.
Property Address: 3110 SW 89th St., OKC
Sale Price: \$7,500,000
Building SF: 39,324 SF
Price per SF: \$381.45
Sale Date: 02/10/2016



Property Name: Commerce Center
Property Address: 9520 N May Ave., OKC
Sale Price: \$6,150,000
Building SF: 65,940 SF
Price per SF: \$93.27
Sale Date: 03/01/2016



Property Name: 3115 SW 89th St
Property Address: 3115 SW 89th St., OKC
Sale Price: \$5,050,000
Building SF: 14,676 SF
Price per SF: \$344.10
Sale Date: 03/07/2016



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Property Name: 416 NE 46th St.
Property Address: 416 NE 46th St., OKC
Sale Price: \$4,400,000
Building SF: 4,400 SF
Price per SF: \$1,000
Sale Date: 02/18/2016



Property Name: 1616 S Kelly Ave.
Property Address: 1616 Kelly Ave.,
Sale Price: \$4,399,779
Building SF: 15,635 SF
Price per SF: \$281.41
Sale Date: 01/20/2016



Property Name: Salvation Army Building
Property Address: 5101 N Pennsylvania Ave., OKC
Sale Price: \$4,100,000
Building SF: 21,933 SF
Price per SF: \$186.93
Sale Date: 02/29/2016



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NAI Sullivan Group strives for excellence in all facets of real estate services in order to maintain our position as an industry leader. Our team transforms forward thinking ideas into cutting edge applications, to achieve maximum results for our clients, company, and community.

Whether around the corner or around the world, NAI Sullivan Group is a dynamic member of NAI Global, the world's leading managed network of commercial real estate firms. With over 6,700 professionals, more than 375 offices and over 380 million square feet of properties managed. We bring together people and resources to deliver results for our clients wherever needed. Our clients come to us for our extensive knowledge. They build their businesses on the power of our global managed network.

NAI Sullivan Group provides a complete inventory of office, industrial and retail properties, including those that are fully occupied. It contains thousands of details on every facet of every building tracked. Also, NAI Sullivan Group provides detailed information on all contacts and companies in various markets.

NAI Sullivan Group is a leader in the adoption of new technologies to improve business operations as a means of speeding communications, optimizing performance, delivering the highest quality services to clients and facilitating the sharing of best practices among our brokers.

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.

CoStar Group is the primary provider for commercial real estate information, analytics and marketing services. CoStar conducts extensive on going local market research to produce and maintain the largest and most comprehensive database of Commercial Real Estate information. Their online services enables the sales associate to analyze, interpret and gain unmatched insight on commercial property values, market conditions, and current availability.

REALTrac™ Online is NAI Global's Web-based transaction management software, which helps to coordinate projects and facilitate the transaction cycle. REALTrac™ enables the Buyer, the Seller, the Lessee and the Lessor to view online the progress of their transaction.

STARST™ is an acronym which stands for Strategic Transaction Administration and Reporting System. STARST™ is NAI's proprietary system for providing a time line of events to clients in transactions.

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