

Fourth Quarter Industrial Market Report 2015



Fourth Quarter Industrial Market Report

NAI Sullivan Group

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NAI EXECUTIVE SUMMARY

Q4 saw a positive absorption of 73,653 SF which is substantially less than the 751,411 square feet of absorption in the Q3 although Q3 absorption was all owner occupied. We did see a small increase in the overall rate but mostly industrial leasing rates remained flat, even with a low overall vacancy rate of 4%. Class C industrial lease rates saw the biggest rental increase from an average of \$4.13 in Q3 to \$4.74 in Q4 matching the average rate of Class B Properties. With 3 M SF delivered in Q4, 75% was owner occupied.

We have yet to see the effects of the low oil prices affecting the industrial market but we're watching many oil and gas companies who are downsizing and/or merging. With Baker Hughes moving into their new headquarters at Memorial and Santa Fe, that move will bring a vacancy of 65,000 sf of office space and over 85,000 sf of industrial space onto the market as vacant.

Q4 saw 76 sales transactions of industrial properties totaling \$47,918,661 with an average price of \$63.99. This is skewed somewhat by the sale of a \$6.6M industrial site at 4050 W I-40 that had 22 acres of land and the sale of 10625 SW 4th with 72 acres of land both causing the average sales price per square foot to be higher. We expect continued strong demand for investment and owner occupied industrial properties in the Oklahoma City metro area for 2016.



Bob Sullivan
CEO

Leasing Activities

Total Inventory	113,276,291 SF
Overall Rental Rate	\$5.17/SF/YR NNN
Total Vacancy Rate	4.10%
Under Construction	2,900,355 SF

Sales Activities

Number of Transactions	76
Total Sales Volume	\$47,918,661
Average Price per Bldg. SF	\$63.99



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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 INDUSTRIAL MARKET LEASING

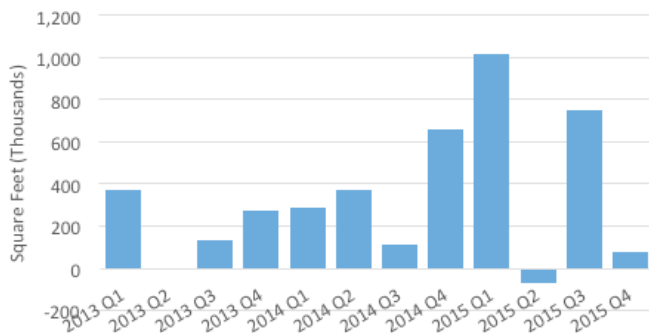
The largest lease signings that occurred in 2015 include the 95,525 SF lease signed by CPD Tech Pack at 4001 NW 3rd Street, the 82,699 SF lease signed by Custom Composites at 3949 NW 36th Street and the 80,000 SF lease signed by Armstrong Logistics at 501 N Miller Avenue.

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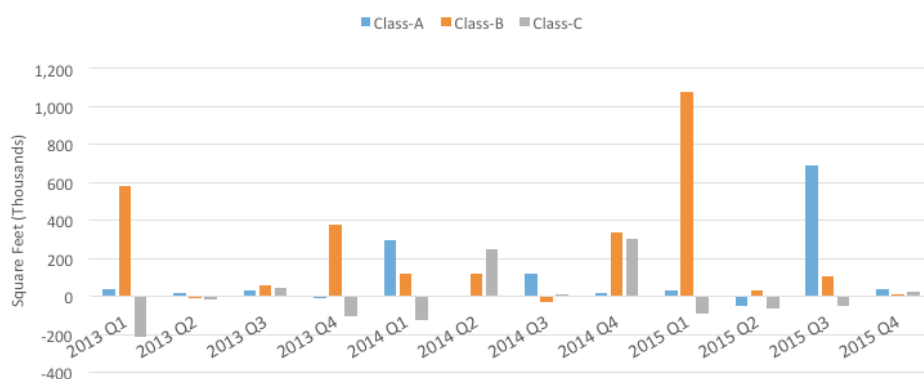
NET ABSORPTION AND INVENTORY

Total Net Absorption



- The total net absorption was a positive 73,653 SF.
- The total net absorption decreased from 751,411 SF at the end of Q3 2015.
- The total inventory was 113,276,291 SF.
- The total inventory increased from 112,064,429 SF at the end of Q3 2015.

Total Net Absorption By Classes



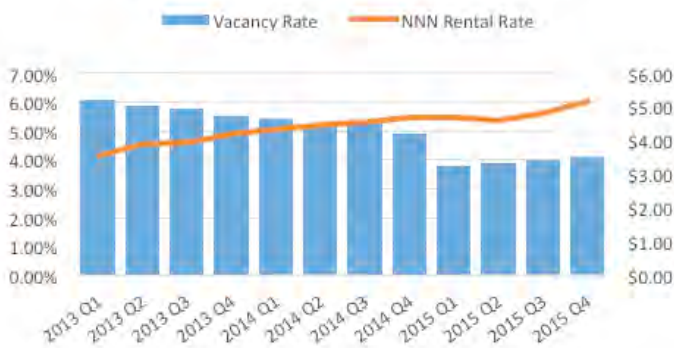
- Class-A property net absorption yielded a positive 41,100 SF, which decreased from 689,600 SF at the end of 2015.
- Class-B property net absorption yielded a positive 9,547 SF, which decreased from 108,399 SF at the end of Q3 2015.
- Class-C property net absorption yielded a positive 23,006 SF, which increased from a negative 46,588 SF at the end of Q3 2015.

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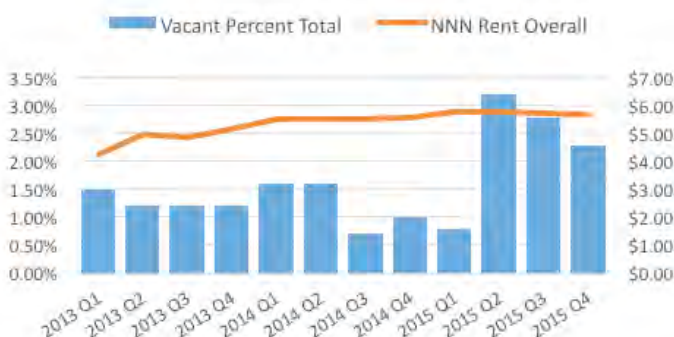
RENTAL RATES AND VACANCY RATES

Total Industry Vacancy Rate Vs. Rental Rate



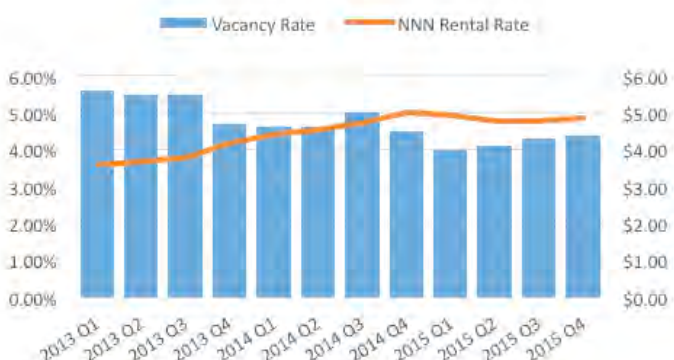
- The overall industrial rental rates were \$5.17/SF/YR NNN.
- The overall industrial rental rate increased from \$4.84/SF/YR NNN at the end of Q3 2015.
- The overall industrial vacancy rate was 4.1%.
- The overall industrial vacancy rate increased from the 4.0% rate at the end of Q3 2015.

Class-A Industrial Property Vacancy Rate Vs. Rental Rate



- Class-A industrial property rental rate was \$5.69/SF/YR NNN.
- Class-A industrial property rental rate slightly decreased from the \$5.72/SF/YR NNN at the end of Q3 2015.
- Class-A property vacancy rate was 2.3%
- Class-A property vacancy decreased from 2.8% at the end of Q3 2015.

Class-B Industrial Property Vacancy Rate Vs. Rental Rate



- Class-B industrial property rental rate averaged \$4.86/SF/YR NNN.
- Class-B industrial property rental rate increased from \$4.78/SF/YR NNN at the end of Q3 2015.
- Class-B industrial property vacancy rate was 4.4%.
- Class-B industrial property vacancy rate increased from 4.3% at the end of Q3 2015.



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RENTAL RATES AND VACANCY RATES



- Class-C industrial property rental rate averaged at \$4.74/SF/YR NNN.
- Class-C industrial property rental rate increased from \$4.13/SF/YR at the end of Q3 2015.
- Class-C industrial property vacancy rate was 3.8%.
- Class-C industrial property vacancy rate decreased from 3.9% at the end of Q3 2015.

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OKC INDUSTRIAL MARKET INFORMATION BY SUBMARKETS

	CBD	Midtown	West/ Central	OKC South	Edmond	Moore/ Norman
Rent per SF	\$8.36	\$3.55	\$4.49	\$4.18	\$7.70	\$6.24
Existing Buildings	141	406	1,466	1,162	241	463
Existing SF	1,476,579 SF	5,729,721 SF	35,931,283 SF	17,920,502 SF	4,760,220 SF	6,354,773 SF
Sale Price per SF	\$63.00	\$30.00	\$64.00	\$40.00	\$83.00	\$47.00
Cap Rate	7.50%	11.00%	9.00%	8.30%	10.00%	10.00%

OKC INDUSTRIAL MARKET INFORMATION BY CLASSES

	Class-A	Class-B	Class-C
Vacancy Rate	2.30%	4.40%	3.80%
Rent per SF	\$5.69	\$4.86	\$4.74
Existing Buildings	47	1,546	4,124
Existing SF	7,877,003 SF	47,480,167 SF	51,849,573 SF
Sale Price per SF	\$71.00	\$53.00	\$52.00
Cap Rate	9.00%	8.40%	10.00%

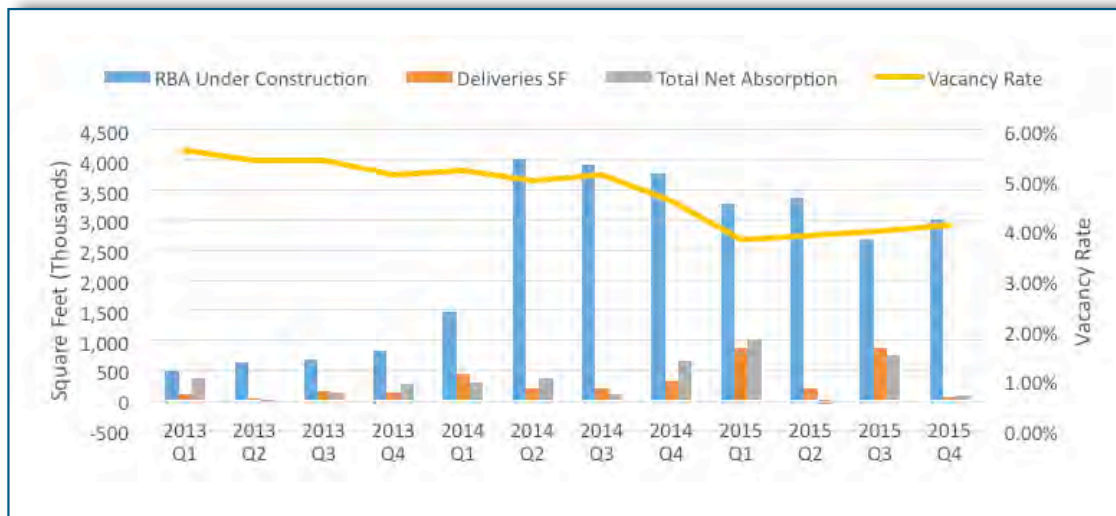
OKC INDUSTRIAL MARKET INFORMATION BY SIZES

	Up to 30,000 SF	From 30,000 SF
Vacancy Rate	3.10%	3.90%
Rent per SF	\$6.14	\$3.92
Existing Buildings	5,177	636
Existing SF	43,603,417 SF	64,791,446 SF
Sale Price per SF	\$62.00	\$47.00
Cap Rate	10.00%	8.40%

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UNDER CONSTRUCTION, DELIVERY AND NET ABSORPTION



Under Construction

Building Name	Building Address	City	R.B.A.	Delivery Time
Hobby Lobby Building 6	6900 SW 29th St	OKC	2,000,000 SF	Jan 2016
Baker Hughes Manufacturing Center	12701 N Santa Fe Ave	OKC	230,000 SF	Feb 2016
Baker Hughes Workshop	12701 N Santa Fe Ave	OKC	150,000 SF	Feb 2016
-	605 N Tulsa Ave	OKC	140,000 SF	Apr 2016
Scott Rice Warehouse	6900 N Bryant Ave	OKC	80,000 SF	May 2016
-	6120 SW 29th St	OKC	61,000 SF	Apr 2016
Airport Business Center	3800 S Macarthur Blvd	OKC	60,000 SF	Sep 2016
-	6707 W Interstate Dr	Norman	35,000 SF	Mar 2016
Building L	3825 NW 166th St	Edmond	30,066 SF	May 2016

Looking at the end of the fourth quarter, there were 2,900,355 SF of industrial space under construction. We can see from the table above that most industrial space under construction is expected to be owner-occupied. We saw the average rental rate for newly built industrial properties in 2015 was \$6.87/SF/YR NNN.

Some of the notable deliveries in 2015 include the 365,000 SF Mathis Brothers Furniture at 413 S Portland Avenue, which was delivered during Q3 2015 and is now 100 percent occupied and the 250,000 SF Hobby Lobby building B at 7600 SW 44th Street, which was delivered in Q1 2015 and is now 100 percent occupied.



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OKLAHOMA CITY INDUSTRIAL MARKET SALES

During the fourth quarter, 76 transactions totaling \$47,918,661 were recorded. The largest transaction based on dollar volume was the sale of the 14,097 SF industrial service building located at 4050 W I 40 Service Rd in Oklahoma City. Rw Timms Investments LLC, purchased this property from Seventy Seven Land Co LLC on November 25th, 2015 for \$6,600,000. Hodges Trucking Company was the tenant at the time of sale.

Summary

Number of Transactions	76
Total Sales Volume	\$47,918,661
Total Bldg. SF	1,777,565 SF
Total Land in Acres	459.03 Acres
Average Price per Bldg. SF	\$63.99
Median Price per SF	\$56.25

Oil and gas prices remained low throughout 2015 and are not expected to rebound soon. Apart from the oil and gas industry, we are seeing exciting announcements and development in the Oklahoma City market. Hobby Lobby has completed several industrial buildings for its campus in 2015 and the rest is well under construction. Boeing has also started its new Aircraft Modernization and Sustainment division headquarters near Tinker Air Force Base in Oklahoma City. We will continue to see an increase in the industrial vacancy rate while the rental rate will slightly increase or stay flat.



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OKC MARKET SIGNIFICANT INDUSTRIAL SALE TRANSACTIONS DURING Q4 2015



Property Name: 4050 W I 40 Service Road
Address: 4050 W I 40 Service Road, OKC
Sale Price: \$6,600,000
Building SF: 14,097 SF
Sale Price per SF: \$468.18
Sale Date: 1/25/2015



Property Name: 10625 NW 4th
Address: 10625 NW 4th, Yukon
Sale Price: \$4,210,000
Building SF: 13,864 SF
Sale Price per SF: \$303.66
Sale Date: 11/12/2015



Property Name: Lakeside Business Park
Address: 3701 S Thomas Road, OKC
Sale Price: \$4,175,000
Building SF: 94,373 SF
Sale Price per SF: \$44.24
Sale Date: 12/02/2015



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Property Name: Beverly Terrace, LCC
Address: 5301 Beverly Ter, OKC
Sale Price: \$1,540,000
Building SF: 14,000 SF
Sale Price per SF: \$110.00
Sale Date: 11/12/2015



Property Name: 200 E Hill Street
Address: 200 E Hill Street, OKC
Sale Price: \$1,500,000
Building SF: 41,272 SF
Sale Price per SF: \$36.34
Sale Date: 12/11/2015



Property Name: 1001 N Morgan Road
Address: 1001 N Morgan Road, OKC
Sale Price: \$1,300,000
Building SF: 26,635 SF
Sale Price per SF: \$48.81
Sale Date: 11/13/2015

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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