

Fourth Quarter Office Market Report 2017





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2017

NAI Sullivan Group

CONTENTS

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- 03 Executive Summary
- 04 National Economy
- 04 Local Economy
- 04 Oklahoma City Office Market Leasing
- 05 Net Absorption and Inventory
- 06 Rental and Vacancy Rates
- 07 Construction, Delivery, Net Absorption and Vacancy Rate
- 08 Oklahoma City Office Market Sales
- 09 OKC Market Significant Office Sale Transactions during Q4 2017
- 11 About NAI Sullivan Group





Fourth Quarter Office Market Report

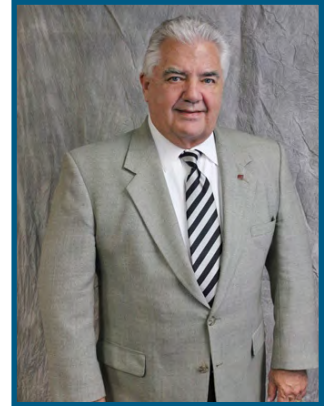
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EXECUTIVE SUMMARY

OFFICE MARKET SOFTENS

The office leasing market continued to decline in Q4 as an additional 412,721 SF of negative absorption continued the plague the office market sector. That brings to 750,000 SF negative office market absorption in the last 3 quarters. All 3 classes of office buildings showing negative absorption with Class A being relatively flat, Class B having 300,000 SF of negative absorption and Class C showing 100,000 SF of negative absorption.



Leasing rates continue to rise slightly as Landlords have yet to realize the office market has slowed significantly in 2017. With 6.70% overall vacancy, it is still a very tight market for selection of available lease space, but a continuation of the negative absorption could begin to cause Landlord concessions in 2018.

The highest vacancy rate in this decade was an overall vacancy rate of 9.2% in Q4 2010, which steadily declined to a low of 5.2% in Q1 2017. Q4 2017 vacancy rate is 6.7%, an increase of 1.5% in 2017, which is a 28% increase in vacancy in one year.

The sale of office properties in Q4 were only 25 transactions totaling \$5,343,000.00. Q3 and Q2 combined were \$40,000,000.00 sales showing 73 transactions. It is also significant to note that capitalization rates have moved from 7.7 % average in Q4 2016 to an average of 9.6% in Q4 2017. We will continue to see that rate climb as interest rates increase. The offset would be increasing lease rates.

Respectfully,

Bob Sullivan
CEO

Leasing Activities

Total Inventory	59,798,726 SF
Total Net Absorption	-412,721 SF
Overall Rental Rate	\$17.32/SF/YR
Total Vacancy Rate	6.70%
Under Construction	1,024,935 SF

Sales Activities

Number of Transactions	25
Total Sales Volume	\$5,343,000
Average Price per Bldg. SF	\$102.04



Fourth Quarter Office Market Report

2017

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NAI NATIONAL ECONOMY

The Trump Administration's plan to significantly cut business and personal taxes has been signed into law as of December 2017. Everybody should benefit under this new policy. Improving profits for business and increasing savings for consumers will definitely boost the economy in the coming years. The Federal Reserve raised interest rates to a range of 1.25 percent to 1.5 percent in December, the third time in 2017, and foresees three more hikes in 2018. According to Kiplinger, 2017 finished with a GDP rate at 2.3 percent, and the rising household wealth and income, job gains will solidly bump up the GDP to 2.9 percent in 2018. We saw the fourth quarter ended with an unemployment rate at 4.1 percent and Kiplinger predicted the unemployment rate drop to 3.8 percent at the end of 2018. During the fourth quarter 2017, OPEC agreed to extend the production cut by about 1.8 million barrels a day throughout 2018. Oil and gas prices has been recovering and West Texas Intermediate crude oil price reached over \$60 per barrel by the end of 2017.

NAI LOCAL ECONOMY

According to the report from the Oklahoma Employment Security Commission, the state unemployment rate was down to 4.2 percent in November 2017, 0.2 percent down from the previous month, and 0.7 percent down from a year ago. We saw continuing recovery from the oil and gas industry. Energy companies have been focusing on techniques in recent years and trying to be profitable at the current price level. OPEC's decision to continue to cut production plus the Trump Administration's plan to open nearly all federal waters to offshore drilling will definitely benefit local energy companies.

Oklahoma City commercial real estate was active during the fourth quarter of 2017 - American Fidelity Assurance Co. filed plans for the first phase of an 100-acre mixed use development south of its campus on Broadway Extension and Britton Road, which includes both hotel and office as well as a 30,000 SF as potential restaurant space. The Downtown Boulevard construction is well underway. More details have been revealed regarding the new convention center and the Omni Hotel. Both are moving forward; Wheeler District is ready to start its construction in spring 2018 which will benefit the Capitol Hill Redevelopment efforts as well.

NAI OKLAHOMA CITY OFFICE MARKET LEASING

The largest lease signings during Q4 2017 include the 19,874 SF lease signed at 621 N Robinson Avenue in Oklahoma City; the 13,050 SF lease signed at 9802 N Morgan Rd. in Yukon with an asking rental rate at \$15/SF/YR NNN; and the 11,289 SF lease signed by Topographic at 13800 Wireless Way in Oklahoma City with an asking rental rate at \$15.50/SF/YR modified gross.

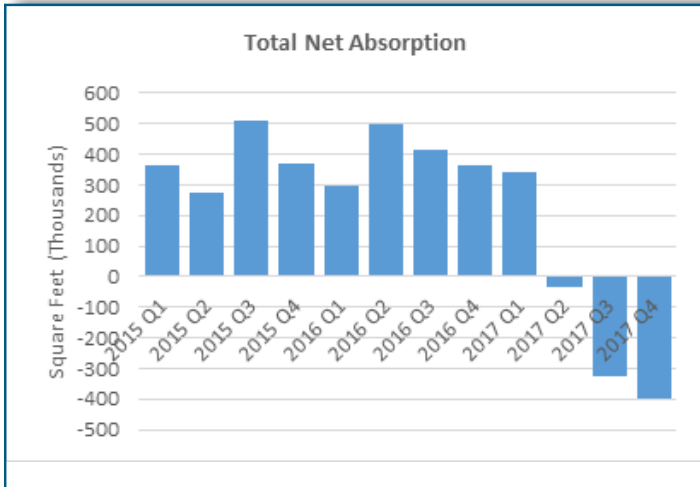


Fourth Quarter Office Market Report

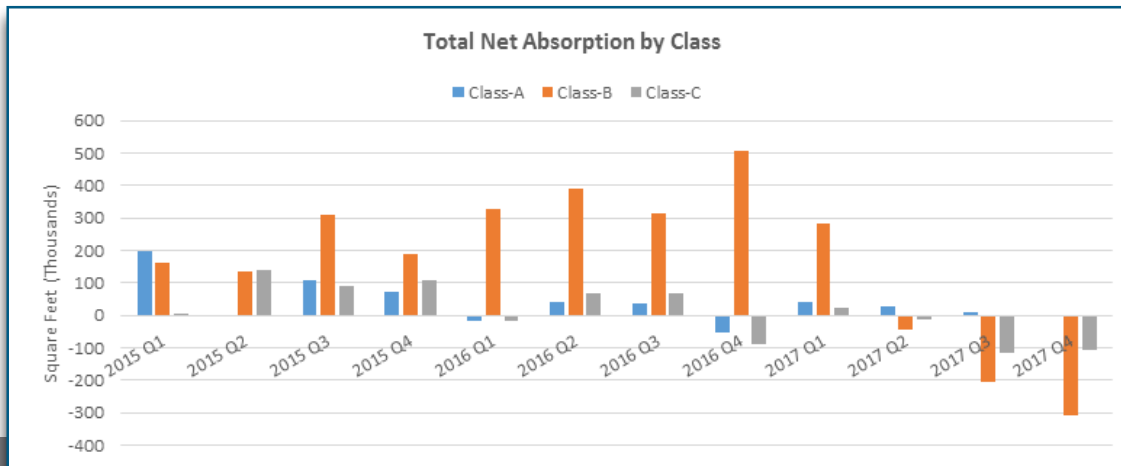
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NET ABSORPTION AND INVENTORY



- The total net absorption was a negative 412,721 SF at the end of Q4 2017.
- The total net absorption continue to decrease compare to previous quarters.
- The total office inventory was 59,798,726 SF at the end of Q4 2017.
- The total office inventory increased from 59,738,984 SF at the end of Q3 2017.



- Class-A property net absorption was a negative 1,046 SF, which decreased from the net absorption of a positive 8,773 SF at the end of Q3 2017.
- Class-B property net absorption was a negative 307,358 SF, which decreased from the net absorption of a negative 202,861 SF at the end of Q3 2017.
- Class-C property net absorption was a negative absorption of 104,317 SF, which remains negative compare to a negative 116,885 SF at the end of Q3 2017.

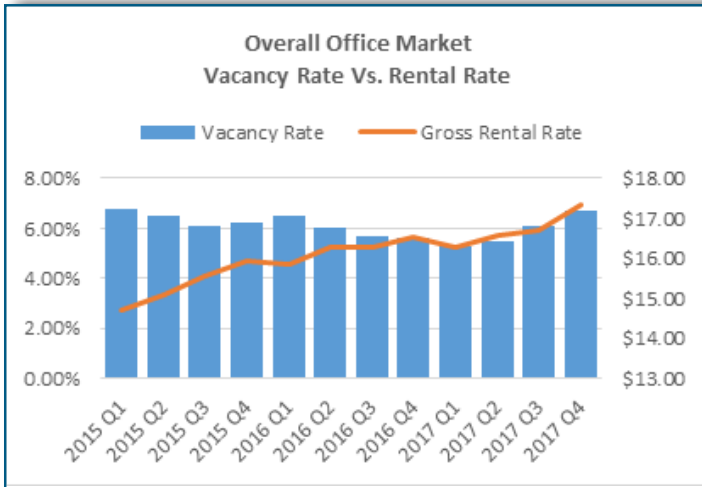


Fourth Quarter Office Market Report

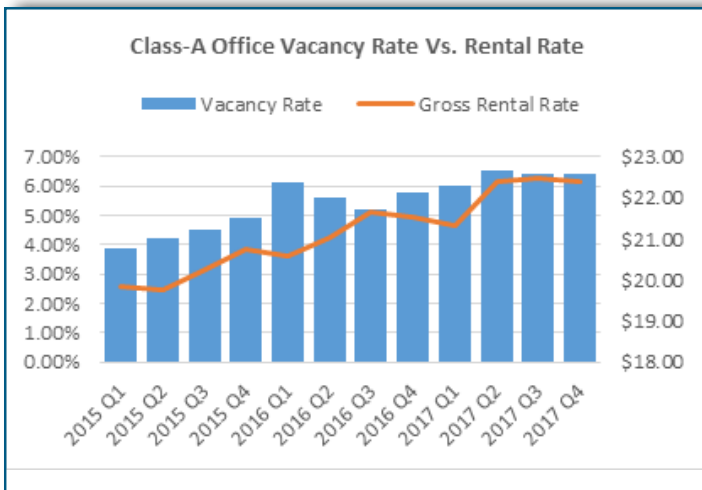
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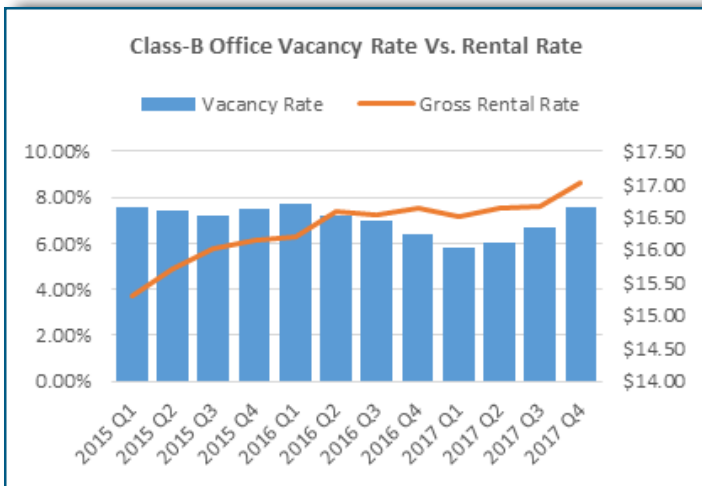
RENTAL AND VACANCY RATES



- The overall office market gross rental rate averaged \$17.32/SF/YR at the end of Q4 2017.
- The overall office market gross rental rate increased from the \$16.69/SF/YR rate at the end of Q3 2017.
- The overall office market vacancy rate was 6.70% at the end of Q4 2017.
- The overall office market vacancy rate increased from the 6.10% rate at the end of Q3 2017.



- Class-A property gross rental rate averaged \$22.39/SF/YR at the end of Q4 2017.
- Class-A property gross rental rate decreased from the \$22.47/SF/YR rate at the end of Q3 2017.
- Class-A property vacancy rate was 6.40% at the end of Q4 2017.
- Class-A property vacancy rate remained the same as the rate at the end of Q3 2017.



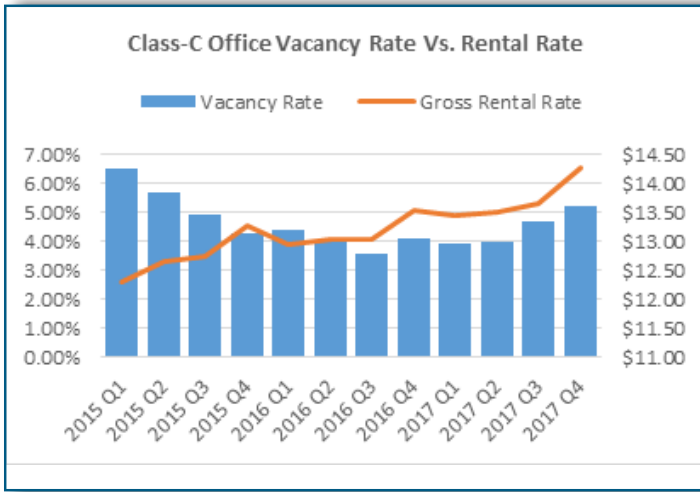
- Class-B property gross rental rate averaged \$17.02/SF/YR at the end of Q4 2017.
- Class-B property gross rental rate increased from the \$16.67/SF/YR rate at the end of Q3 2017.
- Class-B property vacancy rate was 7.60% at the end of Q4 2017.
- Class-B property vacancy rate increased from the 6.70% rate at the end of Q3 2017.



Fourth Quarter Office Market Report

2017

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- Class-C property gross rental rate averaged \$14.27/SF/YR at the end of Q4 2017.
- Class-C property gross rental rate increased from the \$13.66/SF/YR rate at the end of Q3 2017.
- Class-C property vacancy rate was 5.20% at the end of Q4 2017.
- Class-C property vacancy rate increased from the 4.70% rate at the end of Q3 2017.

OKC OFFICE MARKET INFORMATION BY SUBMARKET

	CBD	Northwest	Edmond	Norman & Moore
Rental Rate	\$17.79	\$17.24	\$16.79	\$16.39
Vacancy Rate	6.90%	9.90%	6.50%	8.10%
Existing Buildings	199	850	590	595
Existing SF	11,911,580 SF	13,860,881 SF	3,640,602 SF	4,659,362 SF

CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

Top Under Construction Properties

Building Name	Building Address	City	RBA	Delivery Time
BOK Park Plaza	499 W Sheridan	OKC	692,716 SF	Apr 2018
Paycom IV	7501 W Memorial Rd	OKC	120,000 SF	May 2018
Chisholm Creek	W Memorial & Pennsylvania Ave	OKC	100,000 SF	Feb 2018
-	1129 E Hefner Rd	OKC	15,000 SF	Apr 2018
-	1008 S Bryant Ave	Edmond	12,500 SF	Jun 2018
-	421 E Memorial Rd	Edmond	12,000 SF	Feb 2018

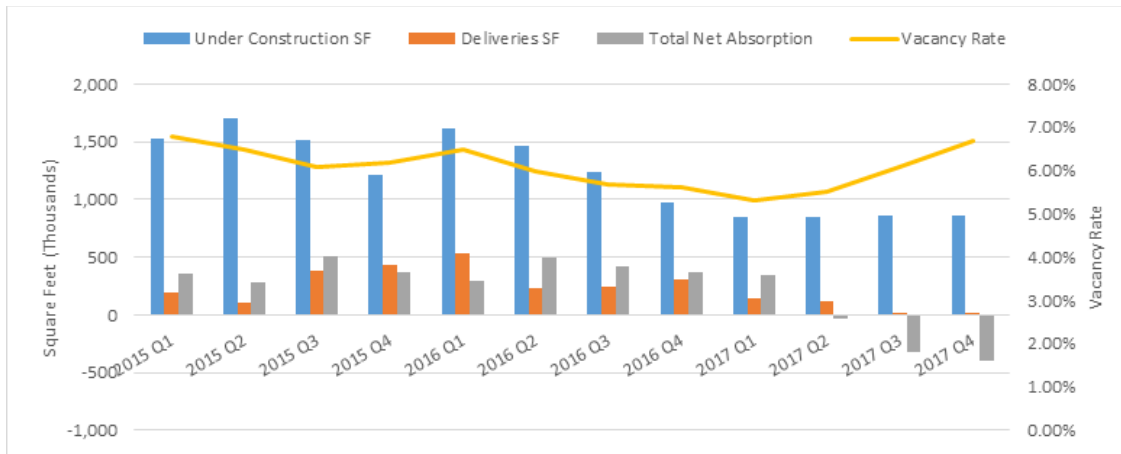
There were 1,024,935 SF of office space under construction at the end of Q4 2017. The average asking rental rate of under construction rentable office space is around \$20/SF/YR. The two projects with the most rentable building area were the 692,716 SF BOK Park Plaza at 499 W Sheridan Avenue, which is scheduled to be delivered in April 2018, and the 120,000 SF Paycom building at 7501 W Memorial Rd., which is scheduled to be delivered in May 2018.



Fourth Quarter Office Market Report

2017

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Some notable office deliveries throughout year 2017 include the 65,000 SF office building at 715 NE 122nd St in Oklahoma City, which was delivered in May 2017; the 58,000 SF office building at 3411-3421 W Rock Creek Rd. in Norman, which was delivered in February 2017; and the 25,686 SF University North Park Professional Center in Norman, which was delivered in February 2017.

OKLAHOMA CITY OFFICE MARKET SALES

There were 25 transactions recorded during Q4 2017. The largest individual sale based on dollar volume was the sale of the office building at 3400 N Lincoln Blvd. in Oklahoma City. Soltani Properties LLC purchased this office building from Stec Resources Corp. for \$810,000 on November 16th, 2017.

The Oklahoma City office market is still in the process of recovering from the low oil and gas prices. As we have seen the net absorption has been decreasing since Q2 2016. Increasing vacancy rate may also be a result of a lack of qualified properties in the market as we see the rental rate has been increasing throughout year 2017 despite the increase in vacancy rate; primarily for Class-B properties.

The Class A properties seem to be holding steady, if not slightly decreasing in rate. Again, this could be a result of the impact of the oil and gas market on office leasing. Traditionally, oil and gas companies leased Class A properties, but without the rapid growth experienced in the past by this sector, the demand for Class A space has decreased. With the market still feeling some uncertainty in this sector of the market, users seem to be willing to pay more for Class B space instead of making the jump to Class A space; therefore creating an increase in the rate for Class B space. In spite of some uncertainty, the oil and gas market continues to recover, as evidenced by increased hiring in the energy industry. Crude oil prices steadily increased during the second half of 2017. We expect to see improvement for vacancy rates in 2018 if oil and gas prices continue to increase.

Summary	
Number of Transactions	25
Total Sales Volume	\$5,343,000
Total Bldg. SF	268,974 SF
Total Land in Acres	51.25 Acres
Average Price per Bldg. SF	\$102.04
Median Price per Bldg. SF	\$102.87
Average Cap Rate	9.60%



Fourth Quarter Office Market Report

2017

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NAI OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q4 2017



Property Name: 3400 N Lincoln Blvd.
Property Address: 3400 N Lincoln Blvd., OKC
Sale Price: \$810,000
Sale Price per SF: \$57.03/SF
Sale Date: 11/16/2017



Property Name: 4204-4208 Coletta Dr.
Property Address: 4204-4208 Coletta Dr., OKC
Sale Price: \$601,291
Sale Price per SF: \$189.86/SF
Sale Date: 10/02/2017



Property Name: 4200-4202 Coletta Dr.
Property Address: 4200-4202 Coletta Dr., OKC
Sale Price: \$398,709
Sale Price per SF: \$189.86/SF
Sale Date: 10/02/2017



Fourth Quarter Office Market Report

2017

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Property Name: 13720 N Bryant Ave.
Property Address: 13720 N Bryant Ave., Edmond
Sale Price: \$340,000
Sale Price per SF: \$102.87
Sale Date: 10/03/2017



Property Name: 28 NE 28th St.
Property Address: 28 NE 28th St., OKC
Sale Price: \$330,000
Sale Price per SF: \$66/SF
Sale Date: 10/30/2017



Property Name: 143 N Cedar Branch Way
Property Address: 143 N Cedar Branch Way, Mustang
Sale Price: \$230,000
Sale Price per SF: 105.75/SF
Sale Date: 12/04/2017



Fourth Quarter Office Market Report

2017

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NAI Sullivan Group is a leading global service provider offering a full range of premier services, customized to fit your need and exceed your expectations. Our talented and experienced professionals provide benefits to large institutions and small business owners alike. We are your single point of contact for customized real estate services.

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.

For more information, please visit our website: www.naisullivangroup.com

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