

First Quarter Industrial Market Report 2017





First Quarter Industrial Market Report

NAI Sullivan Group

2017

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EXECUTIVE SUMMARY

We continue to see a big appetite for industrial buildings to purchase with limited inventory available for sale. Q1 2017 saw 30 transactions totaling \$25MM with an average price per sf of \$41.29. This average price is below the average prices sold for all of 2016 and is more indicative of older properties and obsolete properties being sold as opposed to values dropping.

The industrial properties vacancy rate overall increased in Q1 as net absorption was a negative 177,356 square feet as the inventory increased 254,634 square feet. That will put pressure on lease rates that are already flat and showing a small uptick in Q1. Lease rates are averaging \$4.86 per square foot for all buildings with newer buildings at or above \$6.50 per sf NNN.



There is new activity in the industrial market in the southwest industrial sector as this is the prime area for industrial expansion.

We see very little in new construction with only 125,000 square feet of new construction being reported. I believe 2017 will see vacancy rates flat to lower depending, of course, on the energy sector and Washington.

Bob Sullivan

Leasing Activities

Total Inventory	68,912,893 SF
Overall Rental Rate	\$4.86/SF/YR NNN
Total Vacancy Rate	6.70%
Quarterly Net Absorption	-177,356 SF

Sales Activities

Number of Transactions	30
Total Sales Volume	\$24,967,000
Average Price per Bldg. SF	\$41.29



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NATIONAL ECONOMY

The Fed has raised the interest rate for the second time in three months, and the third time since the financial crisis to a range between 0.75 percent and 1 percent. The Fed will increase the interest rate gradually, probably two additional hikes, since the economy is not notably strengthened despite the national unemployment rate that has decreased to 4.7 percent during the first quarter 2017.

President Trump has signed executive orders and granted permits for Keystone XL and Dakota Access. We have yet to see more concrete economic policies to be carried out by the new administration. Trump's pro-business policy will lower hurdles for businesses but it takes time to eliminate regulations. Oil prices have been increasing for several months and recently we saw the number of drilling rigs in the United States soar and, which in turn increased inventories, which sent oil prices lower in March.

LOCAL ECONOMY

Oklahoma's drilling rig count has been increasing despite the decrease in oil prices. Energy companies are catching up with production to cover their cost while the price is still profitable. Chesapeake, Continental Resources, Deveon Energy, and SandRidge are among those companies planning to increase drilling activity. According to Baker Hughes report, Oklahoma's rig count increased to 118 by the end of Q1 2017, the highest level since April 2015 and up 55 from one year ago.

As everything is picking up from the downturn, we have seen a more active quarter than the Q4 2016. Wilshire Point is scheduled to start its construction soon, the 10-story, 182-room Renaissance Hotel construction will begin in May, and Wheeler district along the Oklahoma River is set to start its construction in June; Oklahoma City Council has approved the zoning change which allows an additional retail building to be added to Penn Square Mall; Midwest City has given approval to build a 14-screen Warren Theater; and the Bank of Oklahoma Park Plaza is well under construction. According to the Greater Oklahoma City Chamber's 2017 economic forecast report, the Oklahoma City market is expected to see 0.7 percent job growth by the end of 2017, which is due to the recovery of the energy downturn, and it is going to be a year of recovery and improvements.

OKLAHOMA CITY INDUSTRIAL MARKET LEASING

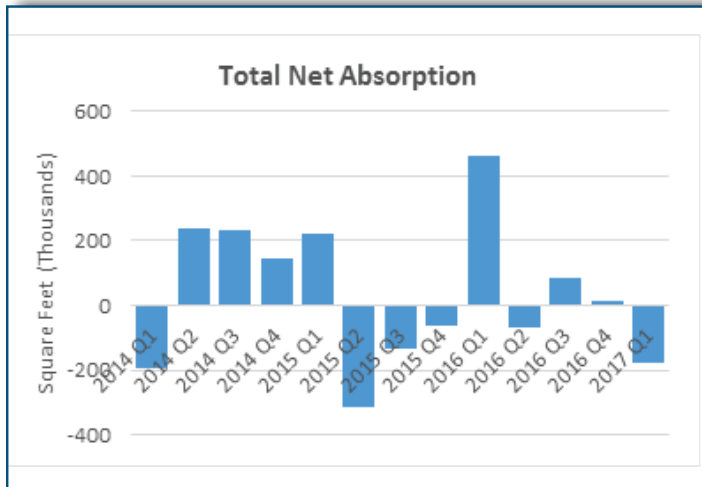
The largest industrial lease signings occurring in Q1 2017 included the 101,000 SF lease signed by ATC Drivertrain at 701 N Tulsa Avenue in Oklahoma City, the 59,852 SF lease signed by Stafford-Smith, Inc. at 3400 Melcat Dr. in Oklahoma City, and the 41,600 SF lease signed by State of Oklahoma Fleet Management Division at 317 NE 31st St. in Oklahoma City.



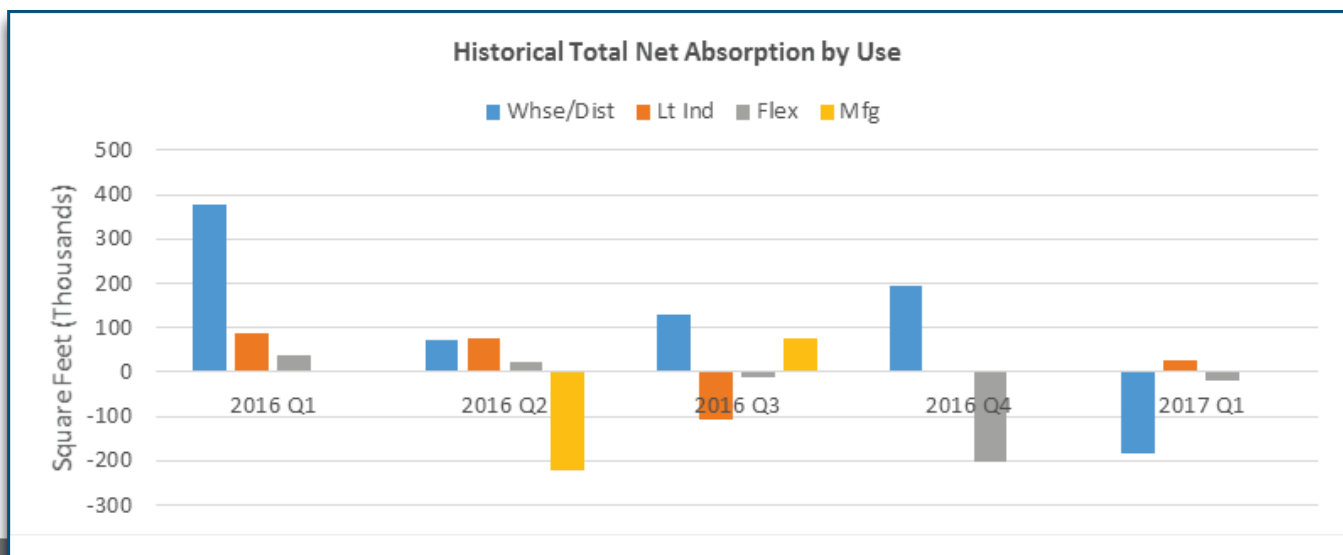
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NET ABSORPTION AND INVENTORY



- The total net absorption was a negative 177,356 SF at the end of Q1 2017.
- The total net absorption decreased from the positive absorption of 14,389 SF at the end of Q4 2016.
- The total inventory was 68,912,893 SF at the end of Q1 2017.
- The total inventory increased 254,634 SF from the end of Q4 2016.



- The warehouse/Distribution property net absorption was a negative 184,294 SF, a decrease from a positive 194,665 SF at the end of Q4 2016.
- The Light Industry property net absorption was a positive 25,166 SF, increased from a positive 724 SF at the end of Q4 2016.
- The Flex property net absorption was a negative 18,222 SF, increased from a negative 200,293 SF at the end of Q4 2016.
- The Manufacturing property net absorption was 0 SF, which remained the same compare to the net absorption at the end of Q4 2016.

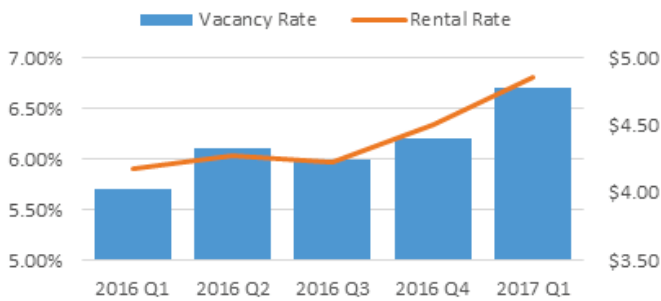


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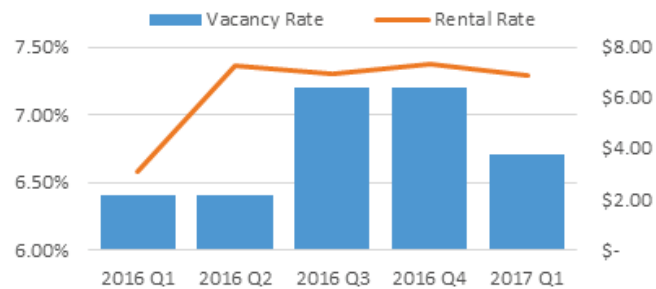
RENTAL AND VACANCY RATES

Overall Industrial Market
Vacancy Rate Vs. Rental Rate



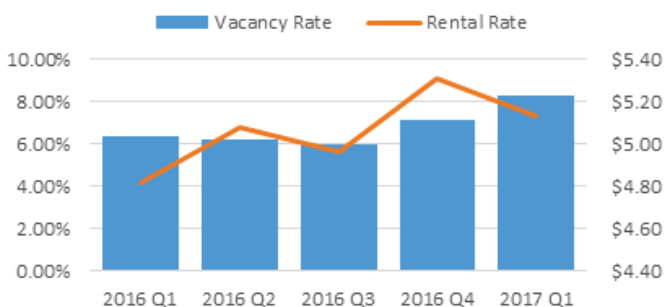
- The overall industrial market rental rate was \$4.86/SF/YR at the end of Q1 2017.
- The overall industrial rental rate increased from the rate of \$4.51/SF/YR at the end of q4 2016.
- The overall industrial market vacancy rate was 6.70% at the end of Q1 2017.
- The overall industrial market vacancy rate increased from the 6.20% rate at the end of the Q4 2016.

CBD Submarket
Vacancy Rate Vs. Rental Rate



- CBD submarket rental rate was \$6.88/SF/YR at the end of Q1 2017.
- CBD submarket rental rate decreased from the \$7.34/SF/YR rate at the end of Q4 2016.
- CBD submarket vacancy rate was 6.70% at the end of Q1 2017.
- CBD submarket vacancy rate decreased from the 7.20% rate at the end of Q4 2016.

Northwest Submarket
Vacancy Rate Vs. Rental Rate



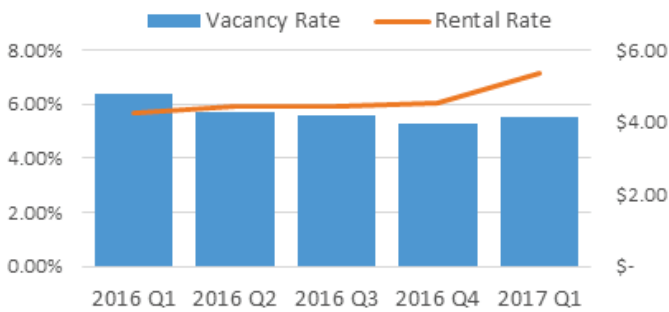
- Northwest submarket rental rate was \$5.13/SF/YR at the end of Q1 2017.
- Northwest submarket rental rate decreased from the \$5.31/SF/YR rate at the end of Q4 2016.
- Northwest submarket vacancy rate was 8.30% at the end of Q1 2017.
- Northwest submarket vacancy rate increased from the 7.10% rate at the end of Q4 2016.



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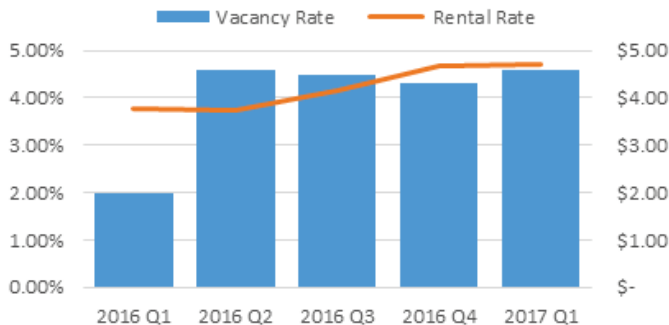
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**Northeast Submarket
Vacancy Rate Vs. Rental Rate**



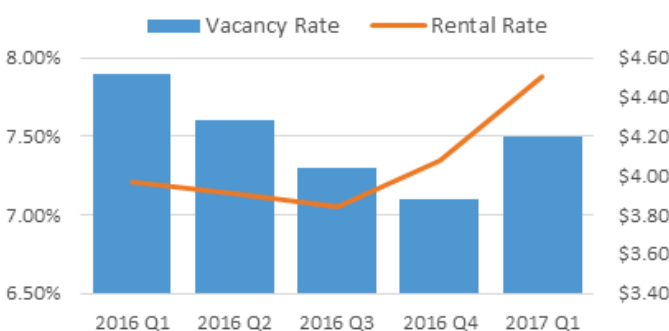
- Northeast submarket rental rate was \$5.37/SF/YR at the end of Q1 2017.
- Northeast submarket rental rate increased from the \$4.53/SF/YR at the end of Q4 2016.
- Northeast submarket vacancy rate was 5.50% at the end of Q1 2017.
- Northeast submarket vacancy rate increased from the 5.30% rate at the end of Q4 2016.

**Southeast Submarket
Vacancy Rate Vs. Rental Rate**



- Southeast submarket rental rate was \$4.71/SF/YR at the end of Q1 2017.
- Southeast submarket rental rate increased from the \$4.68/SF/YR at the end of Q4 2016.
- Southeast submarket vacancy rate was 4.60% at the end of Q1 2017.
- Southeast submarket vacancy rate increased from the 4.30% rate at the end of Q4 2016.

**Southwest Submarket
Vacancy Rate Vs. Rental Rate**



- Southwest submarket rental rate was \$4.50/SF/YR at the end of Q1 2017.
- Southwest submarket rental rate increased from \$4.08/SF/YR at the end of Q4 2016.
- Southwest submarket vacancy rate was 7.50% at the end of Q1 2017.
- Southwest submarket vacancy rate increased from the 7.10% rate at the end of Q4 2016.

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OKC INDUSTRIAL MARKET INFORMATION BY SUBMARKET

	CBD	Midtown	West/ Central	OKC South	Moore/ Norman
Vacancy Rate	15.70%	3.50%	4.70%	2.30%	2.00%
Rent per SF	\$9.73	\$4.60	\$5.05	\$5.20	\$7.21
Existing Buildings	140	417	1,593	1,246	553
Existing SF	1,516,236 SF	6,053,511 SF	42,382,455 SF	19,497,181 SF	7,447,486 SF
Sale Price per SF	\$70	\$29	\$52	\$52	\$62
Cap Rate	9.00%	11.00%	8.20%	8.70%	9.40%

UNDER CONSTRUCTION, DELIVERY AND NET ABSORPTION

As we can see from the table below, significant under construction properties include the 100,000 SF warehouse-distribution property owned by Hobby Lobby Stores Inc. Oklahoma Corp. at 6435 SW 44 Street, the 11,550 SF Flex/R&D building owned by Holto LLC at 1000 Garth Brooks Blvd, and the 11,200 SF light industrial building owned by Lucky Partners LLC at 2710 Global Pkwy.

OKC INDUSTRIAL MARKET INFORMATION BY SUBMARKET

	CBD	Northeast	Northwest	Southeast	Southwest
# of Buildings	197	204	424	301	406
Inventory (SF)	5,020,451	8,506,980	20,542,989	17,287,424	17,555,049
Total available (SF)	356,541	623,509	2,558,802	1,381,742	1,726,756
Total Vacant (SF)	335,273	470,204	1,715,192	7,947,690	1,318,893
Total Vacancy Rate	6.70%	5.50%	8.30%	4.60%	7.50%
Rental Rate Per SF	\$4.86	\$5.37	\$5.13	\$4.71	\$4.50

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INDUSTRIAL PROPERTIES UNDER CONSTRUCTION

Building Address	City	Rentable Building Area	Asking Rental Rate
6435 SW 44th Street	OKC	100,000 SF	\$6.25 NNN
1000 Garth Brooks Blvd	Yukon	11,550 SF	\$7.00 NNN
2710 Global Pkwy	Midwest City	11,200 SF	\$7.75 NNN

OKLAHOMA CITY INDUSTRIAL MARKET SALES

There were 30 transactions totaling \$24,967,000 recorded in the first quarter of 2017. The largest individual industrial property sale was the sale of the 151,200 SF industrial warehouse-distribution building at 4680 NW 3rd Street in Oklahoma City. SF1 3rd Street LLC acquired the property from NAIFCO Realty Co. LLC for \$5,650,000, or \$37.36 per SF on February 9th, 2017. The property is a 43-year-old, single store industrial building located in the SW quadrant of NW 3rd Street and Meridan Avenue.

Summary

Number of Transactions	30
Total Sales Volume	\$24,967,000
Average Price	\$891,678.57
Average Size SF	21,006 SF
Average Price per Bldg. SF	\$41.29
Average Cap Rate	8.22%

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NAI OKC MARKET SIGNIFICANT INDUSTRIAL SALE TRANSACTIONS DURING Q1 2017



Property Name: Metro Industrial IV
Property Address: 4680 NW 3rd St, OKC
Sale Price: \$5,650,000
Building SF: 151,200 SF
Price per SF: \$37.36
Sale Date: 02/09/2017



Property Name: 2330 NW 10th St.
Property Address: 2330 NW 10th St, OKC
Sale Price: \$2,150,000
Building SF: 43,442 SF
Price per SF: \$49.49
Sale Date: 01/10/2017



Property Name: 9505 W Reno Ave.
Property Address: 9505 W Reno Ave., OKC
Sale Price: \$1,750,000
Building SF: 20,800 SF
Price per SF: \$84.13
Sale Date: 03/07/2017

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Property Name: 2013 SE 18th St.
Property Address: 2013 SE 18th St. OKC
Sale Price: \$1,600,000
Building SF: 99,179 SF
Price per SF: \$16.13
Sale Date: 02/17/2017



Property Name: 1401 Enterprise Ave.
Property Address: 1401 Enterprise Ave. OKC
Sale Price: \$1,478,000
Building SF: 20,300 SF
Price per SF: \$72.80
Sale Date: 01/12/2017



Property Name: Bill Veazy's Party Shop
Property Address: 1646 W Main St., OKC
Sale Price: \$1,170,000
Building SF: 31,725 SF
Price per SF: \$36.87
Sale Date: 01/09/2017



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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. The associate will then contact the client with details of the property in question.

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Resources mainly come from CoStar, Xceligent, The Oklahoman, and The POINT.

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

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