

Second Quarter Retail Market Report 2015



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Second Quarter Retail Market Report

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EXECUTIVE SUMMARY

The retail market continues to be a shining star as vacancy rates continue to fall and rental rates remain at all-time highs.

We track 85,928,742 square feet of retail space, which saw a net absorption of 164,491 square feet for Q2 2015 with overall vacancy at 6.3 percent and average lease rates at \$11.17. New projects have registered leasing rates as high as \$35.00 per square foot in newly developing areas.

There are 388,225 square feet under construction including the Sam's Club at NW 40th and May Avenue and Cabela's at Chisolm Creek. Retail will continue to grow and expand as our local economy continues to prosper. The continued development of our central core expands our retail market.

There is a huge appetite for retail investment real estate in our market, which tends to shy away from secondary markets because it is not as liquid as the primary markets. The 6,000 SF strip center at 14201 N Pennsylvania that is anchored by Chipotle sold at a 6 percent cap for \$3,000,000.00. Kite Realty Group Trust purchased a five-property portfolio for \$51 million in Q2.



A handwritten signature in black ink that reads "Bob Sullivan". The signature is fluid and cursive.

Bob Sullivan
CEO

Leasing Activities

| | |
|---------------------|-------------------|
| Total Inventory | 85,928,742 SF |
| Overall Rental Rate | \$11.17/SF/YR NNN |
| Total Vacancy Rate | 6.30% |
| Under Construction | 388,225 SF |

Sales Activities

| | |
|----------------------------|--------------|
| Number of Transactions | 85 |
| Total Sales Volume | \$90,694,615 |
| Average Price per Bldg. SF | \$150.76 |



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NAI NATIONAL ECONOMY

The U.S. dollar value continues to remain strong, reducing United States exports. If the escalating Greek crisis reaches a point that drags the Euro zone back into recession, United States exports will further decrease. Part of the analysis states that oil prices passed their summer peak in May, will stay flat throughout the summer, reach roughly \$70 per barrel by the end of the year, and continue to rise in 2016. Kiplinger predicts the crude oil trading price will rise to \$65 per barrel by August. With concerns regarding low paychecks and the status of many individuals ceasing to look for employment, the U.S. Labor Department reported that the unemployment rate reached 5.3 percent at the end of the second quarter and is expected to hit 5.1 percent by the end of 2015. The Federal Reserve vice chairman Stanley Fisher reports that the U.S. economy bounced back to an annual growth rate of around 2.5 percent in the second quarter of 2015. Similar to last year, we expect to see a strong rebound during the second half of 2015 as Kiplinger predicts a growth rate of more than 4 percent. The Fed has not revealed a specific time to set the interest rate yet, but as the market becomes stronger, economists predict they will implement the first interest rate increase this September and continue to steadily increase the rate moving forward.

NAI LOCAL ECONOMY

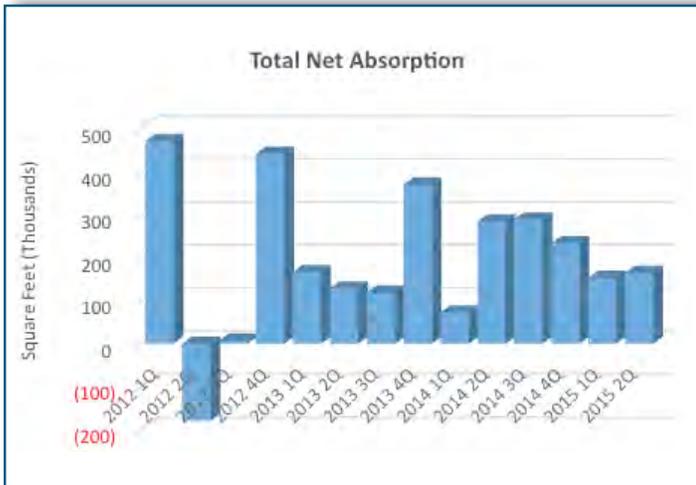
Oklahoma City's unemployment rate rose to 3.8 percent during the second quarter, according to the U.S. Labor Department. Energy jobs in Oklahoma City are down 5 percent from a year ago, according to the Oklahoma Employment Security Commission, but the low oil and gas prices have not stopped national or local investors from investing in the diversified Oklahoma economy. Although we lost some absorption in the office and industrial markets in the second quarter due to the layoffs in the oil and gas industry, we are seeing strong activity in the retail and multi-family markets. Many new hotels, apartments, and other real estate projects have been proposed or are currently under construction in the Oklahoma City market, especially in the West downtown area and along Northwest 10th Street. The new convention center site is still under selection process, but the city is expected to make the final decision in late July or early August, which will certainly bring more energy to Oklahoma City's economy while accelerating development.

NAI OKLAHOMA CITY RETAIL MARKET LEASING

Top lease signings that occurred in the second quarter of 2015 included: the 23,500 square foot new lease signed by Habitat for Humanity at 1100 West Main Street, the 5,000 square foot new lease signed by Michael Jasper Williams at 3034-3040 Del View Drive, and the 5,000 square foot new lease signed by Zena Scoggins & Pamela Poteat Day Care at 3034-3040 Del View Drive.

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NET ABSORPTION AND INVENTORY



- The total retail net absorption was 164,491 SF.
- The total retail net absorption increased compared to its net absorption of 152,773 SF at the end of Q1 2015.
- The total inventory was 85,928,742 SF.
- The total inventory increased compared to its inventory of 85,239,568 SF at the end of Q1 2015.

RENTAL RATES AND VACANCY RATES



- The retail market rental rate averaged at \$11.17/SF/YR NNN.
- The retail market rental rate slightly decreased compared to its rate of \$11.26/SF/YR NNN at the end of Q1 2015.
- The retail market vacancy rate was 6.30%.
- The retail market vacancy rate slightly decreased compared to its rate of 6.35% at the end of Q1 2015.



- The outlet shoppes rental rates averaged at \$12.54/SF/YR NNN.
- The outlet shoppes rental rates stayed the same compared to its rate at the end of Q1 2015.
- The outlet shoppes vacancy rate was 0.70%.
- The outlet shoppes vacancy rate stayed the same compared to its rate at the end of the Q1 2015.

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Strip Center Vacancy Rate Vs. Rental Rate



- The strip center rental rate averaged \$11.23/SF/YR NNN.
- The strip center rental rate increased compared to its rate of \$11.17/SF/YR NNN at the end of Q1 2015.
- The strip center vacancy rate was 6.50%.
- The strip center vacancy rate decreased compared to its rate of 6.70% at the end of Q1 2015.

Power Center Vacancy Rate Vs. Rental Rate



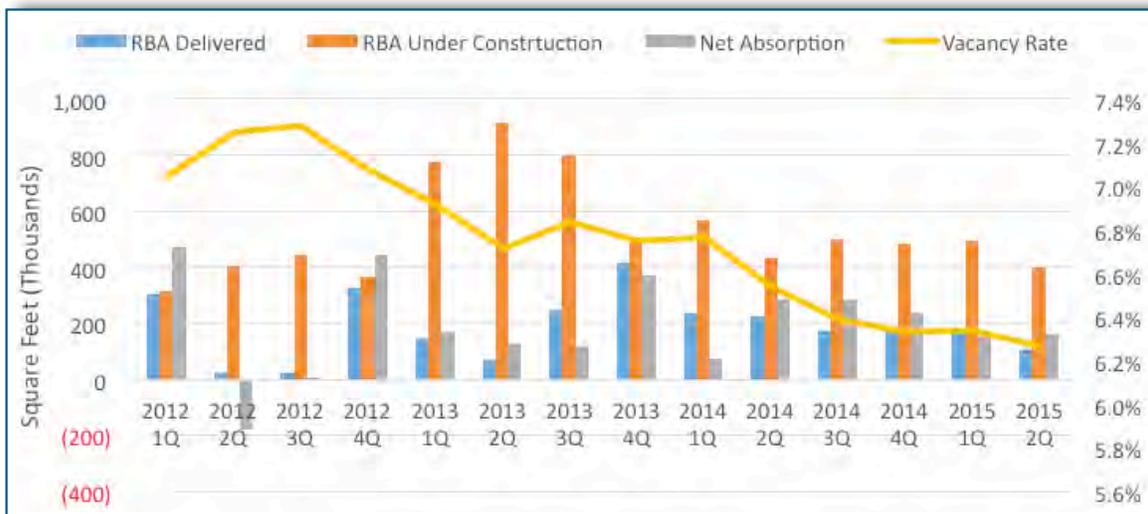
- The power center rental rate averaged at \$14.05/SF/YR NNN.
- The power center rental rate decreased compared to its rate of \$14.42/SF/YR NNN at the end of the Q1 2015.
- The power center vacancy rate was 2.40%.
- The power center vacancy rate stayed the same compared to its vacancy rate at the end of the first quarter 2015.

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OKC INDUSTRIAL MARKET INFORMATION BY SUBMARKETS

| | Northwest | Edmond | Moore/Norman |
|------------------------|---------------|--------------|---------------|
| NNN Rental Rate per SF | \$10.08 | \$15.15 | \$15.03 |
| Vacancy Rate | 5.70% | 5.20% | 7.50% |
| Existing Buildings | 1,213 | 672 | 1,142 |
| Existing SF | 15,097,213 SF | 8,051,069 SF | 12,294,190 SF |
| Cap Rate | 7.40% | 7.60% | 3.20% |

CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE



There were 388,225 square feet of retail space under construction at the end of Q2 2015. The largest two properties under construction at the end of the second quarter were the 136,000 square foot building located at 4101 North May Avenue which will be occupied by Sam's Club after its scheduled delivery in March 2016 and the 80,000 square foot building which will be occupied by Cabela's after its scheduled delivery in October 2015. During the second quarter, net absorption exceeded the RBA delivered showing the vacancy rate continues to go down. The strong demand for retail space gives great potential to invest in the Oklahoma City retail market. We will continue to see new starts and deliveries in the coming future. It is expected that 160,292 square feet of retail space will be delivered to the market during the third quarter. Detailed information regarding top retail properties under construction can be seen in the following table.

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Under Construction

| Building Name | Building Address | City | RBA | Delivery Time |
|--------------------------|--------------------|--------|------------|---------------|
| Sam's Club | 4101 N May Ave | OKC | 136,000 SF | Mar 2016 |
| Cabela's | 1200 W Memorial Rd | OKC | 80,000 SF | Oct 2015 |
| Shoppes at Quail Springs | 13601 N May Ave | OKC | 57,000 SF | Jun 2016 |
| Stonebriar Plaza | 1000 NW 192nd St | Edmond | 40,445 SF | Sep 2015 |
| - | 835 SW 19th St | Moore | 34,000 SF | Dec 2015 |

OKLAHOMA CITY RETAIL MARKET SALES

The Oklahoma City retail market had strong activities during the second quarter of 2015. Most retail properties sold during the second quarter were free-standing retail stores, and we are seeing eight strip centers sold during Q2. One large portfolio sale was the purchase of five properties at the Belle Isle Station. Kite Realty Group Trust, based in Indianapolis, purchased the five properties from Chicago-based Heitman, LLC for \$51 million on May 14, 2015. Kite Realty Group Trust is expanding its retail properties in the Oklahoma City area.

Summary

| | |
|----------------------------|--------------|
| Number of Transactions | 85 |
| Total Sales Volume | \$90,694,615 |
| Total Bldg. SF | 1,251,288 SF |
| Total Land in Acres | 393.62 Acres |
| Average Price per Bldg. SF | \$150.76 |
| Median Price per SF | \$86.45 |

We are seeing more and more out-of-state investors coming to Oklahoma City to invest due to the low business and living costs. TopGolf has already opened its store in Chisholm Creek and Cabela's is well under construction. H & M is also planning to open its first store in Oklahoma in Quail Springs Mall, and WP Glimcher of Ohio just revealed a conceptual plan for a new retail, restaurant and commercial complex at NW 63rd & Western; Ted's Café Escondido and The Garage are planned at the west of the Outlet Shoppes, etc. The strong demand and low vacancy rate will continue to push up the rental rate and sale price in the Oklahoma City retail market.

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OKC MARKET SIGNIFICANT RETAIL SALE TRANSACTIONS DURING Q2 2015



Property Name: Body Works Collision Center
Address: 100 E Charlie Christian Avenue, OKC
Sale Price: \$8,000,000
Building SF: 38,470 SF
Price per SF: \$207.95
Sale Date: 4/22/2015



Property Name: Walgreens
Address: 5901 NW 39th Expressway, OKC
Sale Price: \$5,776,000
Building SF: 13,390 SF
Price per SF: \$431.37
Sale Date: 4/23/2015



Property Name: Walgreens
Address: 1601 S Air Depot Boulevard, Midwest City
Sale Price: \$5,776,000
Building SF: 14,328 SF
Price per SF: \$405.67
Sale Date: 4/23/2015

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Property Name: Village Center Plaza
Address: 805 W Covell Road, Edmond
Sale Price: \$4,774,000
Building SF: 12,760 SF
Price per SF: \$374.14
Sale Date: 4/30/2015



Property Name: Glen Eagles Plaza Shopping Center
Address: 1000-1016 NW 150th Street, Edmond
Sale Price: \$4,250,000
Building SF: 20,238 SF
Price per SF: \$210.00
Sale Date: 4/30/2015



Property Name: Walmart Neighborhood Market
Address: 2551 Classen Boulevard, Norman
Sale Price: \$3,340,000
Building SF: 41,000 SF
Price per SF: \$81.46
Sale Date: 5/29/2015

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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 and the associate will contract the client with details of the property in question.

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