

# Second Quarter Office Market Report 2018







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NAI Sullivan Group

2018

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## EXECUTIVE SUMMARY

The office leasing market showed continued negative absorption in Q2 2018 as the total negative absorption was just over 200,000 square feet. When added to the loss of over 700,000 square feet in 2017, this market continues to remain soft. The opening of the BOK Center in Q1 18 will place additional stress on the office market as well as the announced layoffs this past Q1.

Leasing rates have leveled and started to decline overall with full service rates averaging \$16.81 per SF. We believe office rates will continue to be soft throughout 2018 and we will see some concessions as landlords begin to combat rising vacancies, currently averaging 7.1%, which is still a very low vacancy percentage.

The sale of office properties in Q2 18 were up showing 48 transactions totaling \$48,739,000.00. This averaged \$130.67 per SF. The increased interest rates are having the effect of urgency to purchase properties before the rates go up again.



Respectfully,

Bob Sullivan  
CEO

### Leasing Activities

Total Inventory	61,860,491 SF
Total Net Absorption	-208,922 SF
Overall Rental Rate	\$16.81/SF/YR
Total Vacancy Rate	7.10%
Under Construction	473,471 SF

### Sales Activities

Number of Transactions	48
Total Sales Volume	\$48,739,500
Average Price per Bldg. SF	\$130.67



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## NATIONAL ECONOMY

The Federal Reserve raised its target federal fund rate to a still low range of 1.75 percent to 2 percent during the second quarter 2018. It is now expected there will be four rate hikes this year which is up from three in the previous forecast. The acceleration of rate hikes indicates growth and strength of the economy which partly results from increasing consumer and business spending due to the tax cut. Kiplinger estimated the GDP during the second quarter at nearly 4 percent. Unemployment dropped to 3.8 percent, and now there are more job openings than the number of people who are looking for jobs which becomes harder for employers to find suitable candidates.

The United States stock market has been volatile during the past three months partly from the negotiations between United States and its trading partners including China, Europe, Canada and Mexico. If the trade war is going to be full blown, it will weaken the world's largest two economies. Companies will encounter higher costs which will reduce jobs and consumers are going to pay higher prices for products.

## LOCAL ECONOMY

According to the report from the Oklahoma Employment Security Commission, the Oklahoma state unemployment rate was 4 percent in May, the third consecutive month at the same rate. We saw continuing recovery from the oil and gas industry as the crude oil prices surged to a more than three-year high. Stock prices for local energy companies also increased and some recorded double-digit gains in the second quarter.

The Oklahoma commercial real estate industry remains active during the second quarter 2018 and continues to attract investors and developers due to low living and business costs. Amazon plans to build a massive fulfillment center near Will Rogers World Airport which will employ 1,750 people when completed, and the City Council has approved a \$1.7 million incentive to help Amazon open the fulfillment center. Global Payments plans a seven-story office building along Automobile Alley as its new North American headquarters, which will bring more than 600 jobs to downtown OKC. The proposed eight-story Boulevard Place will include 241 apartments, 2,2000 SF of retail space, a daycare center and rooftop terrace. The \$288 million new convention center started its construction in the second quarter and is expected to open by 2020; the \$27 million Oklahoma City Boulevard is well under construction and is set to open by late 2019, and the Scissortail Park is set to open by the summer 2019.

## OKLAHOMA CITY OFFICE MARKET LEASING

The largest office lease signings based on square feet during Q2 2018 includes the 53,760 SF office lease at 3817 NW Expressway in Oklahoma City signed by EOG Resources Inc. with an asking rent from \$21 to \$24/SF/YR full service gross, the 12,427 SF lease at 4747 Gaillardia Pky in Oklahoma City signed by Interlink Mortgage Services with a rental rate of \$23.02/SF/YR plus electric, and the 11,520 SF lease at 1001 W Wilshire Blvd. in Oklahoma City signed by Novo Oil with a rental rate of \$21.50/SF/YR full service gross.

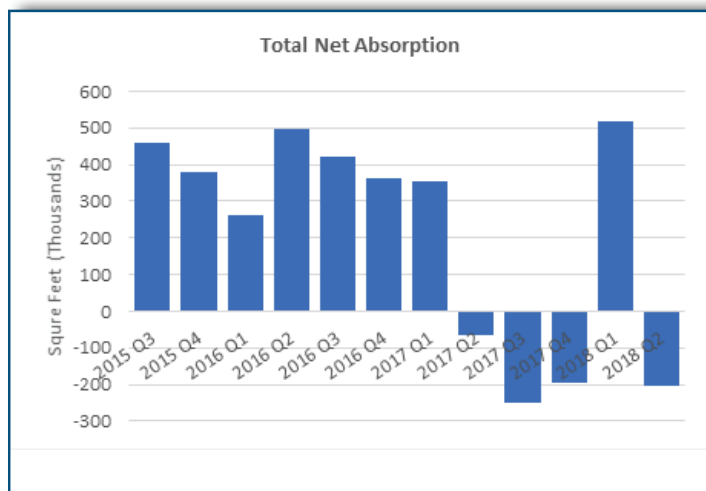


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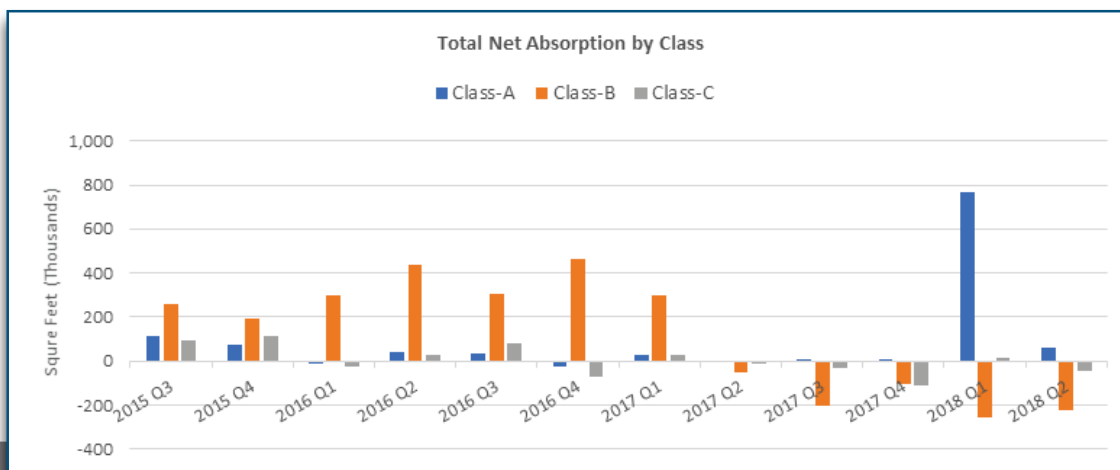
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## NET ABSORPTION AND INVENTORY



- The total net absorption was a negative 208,922 SF at the end of Q2 2018
- The total net absorption decreased compared to the positive 516,184 SF at the end of Q1 2018
- The total office inventory was 61,860,491 SF
- The total office inventory increased from 61,547,015 SF at the end of Q1 2018



- Class-A property net absorption was a positive 59,892 SF, which decreased from the net absorption of a positive 764,249 SF at the end of Q1 2018
- Class-B property net absorption was a negative 226,293 SF, which remains negative compare to the net absorption of a negative 255,236 SF at the end of Q1 2018
- Class-C property net absorption was a negative 42,521 SF, which decreased from the positive net absorption of 16,639 SF at the end of Q1 2018

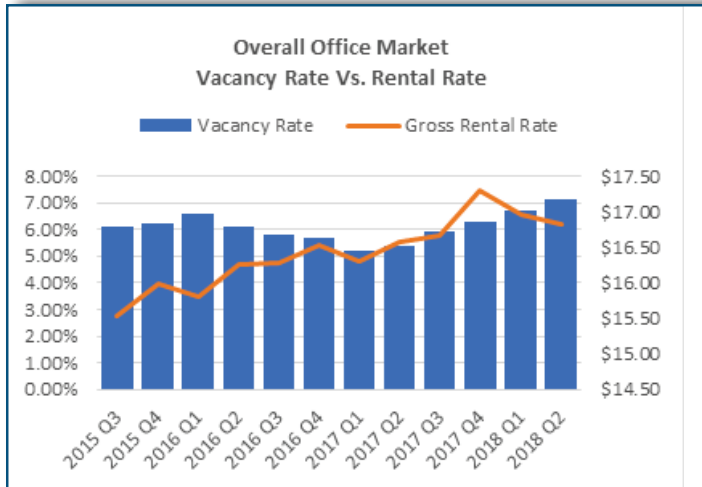


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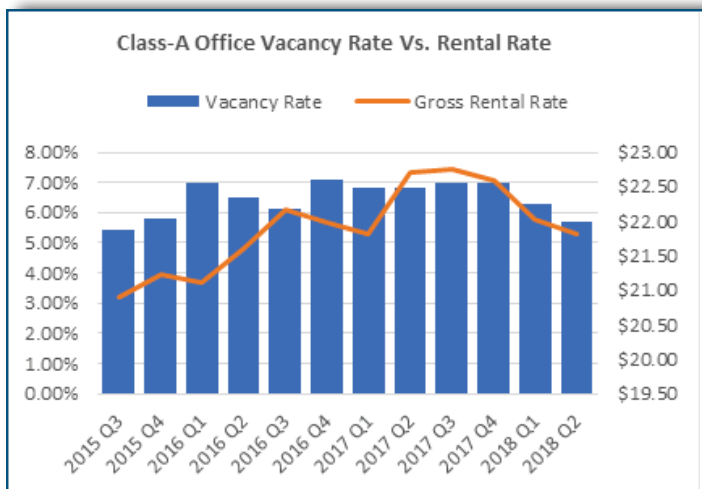
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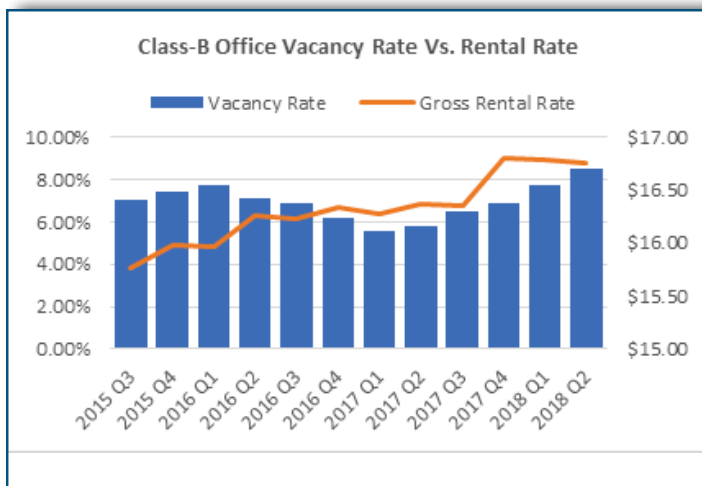
## RENTAL AND VACANCY RATES



- The overall office market gross rental rate averaged \$16.81/SF/YR at the end of Q2 2018
- The overall office market gross rental rate decreased from the \$16.96/SF/YR rate at the end of Q1 2018
- The overall office market vacancy rate was 7.10% at the end of Q2 2018
- The overall office market vacancy rate increased from the 6.70% rate at the end of Q1 2018



- Class-A property gross rental rate averaged \$21.81/SF/YR at the end of Q2 2018
- Class-A property gross rental rate decreased from the \$22.03/SF/YR rate at the end of Q1 2018
- Class-A property vacancy rate was 5.70% at the end of Q2 2018
- Class-A property vacancy rate decreased from the 6.30% rate at the end of Q1 2018



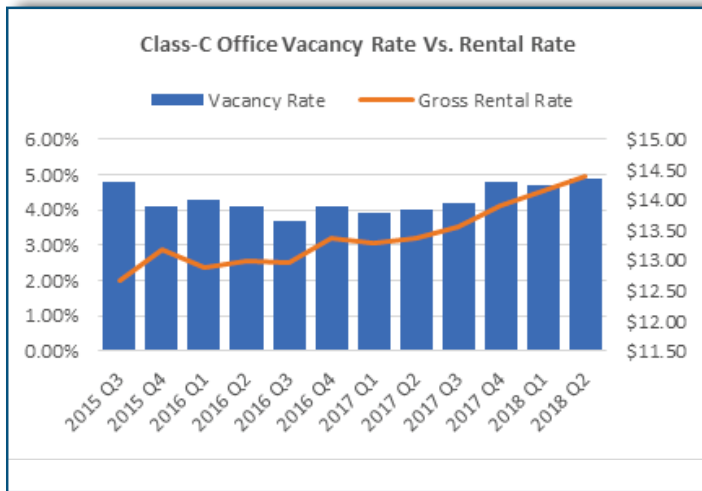
- Class-B property gross rental rate averaged \$16.75/SF/YR at the end of Q2 2018
- Class-B property gross rental rate remained about the same compare to the \$16.79/SF/YR at the end of Q1 2018
- Class-B property vacancy rate was 8.50% at the end of Q2 2018
- Class-B property vacancy rate increased from the 7.70% rate at the end of Q1 2018





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- Class-C property gross rental rate averaged \$14.39/SF/YR at the end of Q2 2018
- Class-C property gross rental rate increased from the \$14.14/SF/YR rate at the end of Q1 2018
- Class-C property vacancy rate was 4.90% at the end of Q1 2018
- Class-C property vacancy rate increased from the 4.70% rate at the end of Q1 2018

## CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

### NOTABLE OFFICE PROPERTIES UNDER CONSTRUCTION

Building Name	City	RBA	Delivery Time
7501 W Memorial Rd	Oklahoma City	120,000 SF	Dec 2018
N Western & Pennsylvania Ave	Oklahoma City	100,000 SF	Sep 2018
3000 S Telephone Rd	Moore	44,000 SF	Mar 2019
401 S Coltrane Rd	Edmond	24,000 SF	Aug 2018
5600 SE 67th St	Oklahoma City	20,179 SF	Apr 2019
1129 E Hefner Rd	Oklahoma City	15,000 SF	Jul 2018
421 E Memorial Rd	Edmond	12,000 SF	Aug 2018
9300 N Kelley Ave	Oklahoma City	11,700 SF	Aug 2018

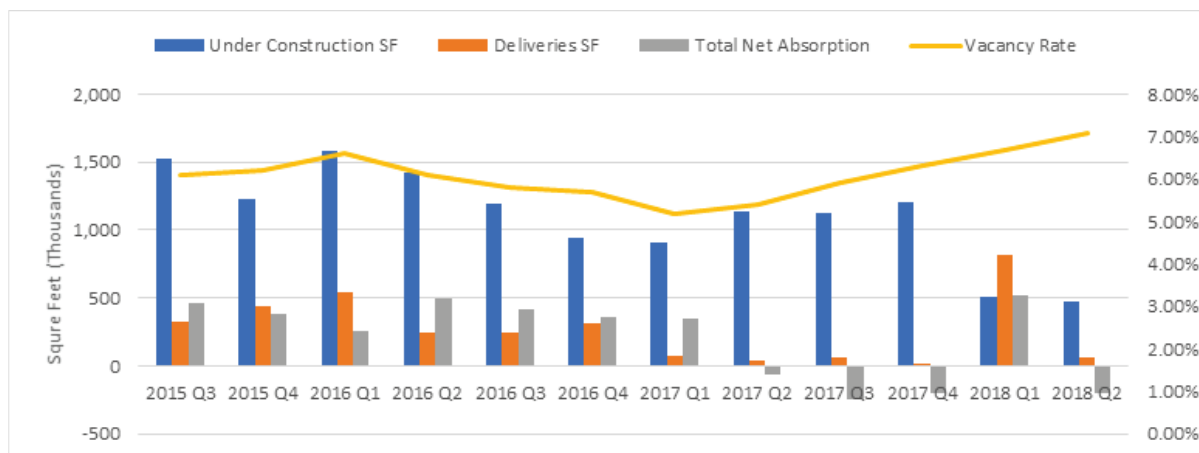
There was 473,471 SF of office space under construction at the end of Q2 2018. The asking rental rate of under construction rentable office space averaged \$21.32/SF/YR. The two properties with the largest building area under construction were the 120,000 SF Paycom IV building at 7501 W Memorial Rd., which is scheduled to be delivered in December 2018, and the 100,000 SF office space in Chisholm Creek at N Western and Pennsylvania Ave. which is scheduled to be delivered in September 2018 with an estimate rental rate range from \$22 to \$27 full service gross.

Some notable office deliveries during the second quarter 2018 include 12,924 SF office building at 1008 S Bryant Ave. in Edmond, which was delivered in June with an asking rent of \$21/SF/YR full service gross, and the 6,598 SF office building at 1460 N Mustang Rd in Mustang, which was delivered in Apr 2018.



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## OKLAHOMA CITY OFFICE MARKET SALES

There were 48 office sale transactions recorded during Q2 2018 totaling \$48,739,500. The largest individual sale based on dollar volume was the sale of the Northwest Medical Center at 3330 NW 56th St. in Oklahoma City. Healthcare Realty Trust Incorporated from Nashville, TN purchased the 81,705 SF office building from local Arnold Oil Properties for \$11,400,000, or \$139.53 per SF, on May 21st, 2018.

### Summary

Number of Transactions	48
Total Sales Volume	\$48,739,500
Total Bldg. SF	678,577 SF
Total Land in Acres	183.15 Acres
Average Price per Bldg. SF	\$130.67
Median Price per Bldg. SF	\$130.87
Average Cap Rate	7.31%

Despite a soft office market as we see the vacancy rate has been increasing and lease rates have been decreasing, the Oklahoma City office market continues to attract investors and developers. Midtown Renaissance Group plans to build a four-story office building along Robinson Ave., and Global Payments plans a seven-story office building along Automobile Alley as its new North American headquarters. It will take some time to absorb the vacant office space due to weak oil prices, and new deliveries to the market.





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## NAI OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q2 2018



Property Name: Northwest Medical Center  
Property Address: 3330 NW 56th St., OKC  
Sale Price: 11,400,000  
Price per SF: \$139.53/SF  
Sale Date: 05/21/2018



Property Name: Parkside Building  
Property Address: 120 Robert S Kerr Ave., OKC  
Sale Price: \$10,750,000  
Price per SF: \$127.98/SF  
Sale Date: 05/10/2018



Property Name: 700 24th Ave. NW  
Property Address: 700 24th Ave. NW, Norman  
Sale Price: \$4,350,000  
Price per SF: \$233.22/SF  
Sale Date: 04/19/2018  
Cap Rate: 7.00%



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Property Name: 8308 N May Ave.  
Property Address: 8308 N May Ave., OKC  
Sale Price: \$2,950,000  
Price per SF: \$266.44/SF  
Sale Date: 06/21/2018



Property Name: Outland Building  
Property Address: 621 SW 24th Ave., Norman  
Sale Price: \$2,500,000  
Price per SF: \$185.19/SF  
Sale Date: 04/16/2018



Property Name: Country Club Office Park II  
Property Address: 4117 NW 122nd St., OKC  
Sale Price: \$1,700,000  
Price per SF: \$132.79/SF  
Sale Date: 04/05/2018



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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.

For more information, please visit our website: [www.naisullivangroup.com](http://www.naisullivangroup.com)



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