

# Second Quarter Retail Market Report 2017



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NAI Sullivan Group

# 2017

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# Second Quarter Retail Market Report

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## EXECUTIVE SUMMARY

Q2 retail absorption continued to be slow as our report shows a negative absorption for all retail space at minus 16,635 SF, essentially flat. That is a decrease from Q1 near 500,000 SF as the trend is continuing for decreased demand for retail users in the area. Lease rates increased slightly in Q2 2017 from \$12.03/SF/YR NNN overall in Q1 to 2017.

We continue to see Edmond and Norman as the strongest demand markets, with vacancies in both markets and 3.6% in Edmond and 2.6% in Norman. Vacancy rate in the Oklahoma City market remains strong at 5.4%.

New Construction continues at Chisolm Creek and the construction of the retail center at NW 150th and Pennsylvania and Memorial and May are being opened with new tenants. We see the demand for retail to continue to be strong in 2017 and that these new shops will fill rapidly at the higher end of retail rates approaching \$26.00 to \$32.00 per square foot.

The appetite to purchase retail centers in Q2 2017 was very strong having 71 sales of retail properties totaling \$166,160,934.00. This includes the outlet mall sale of \$130,000,000. When we remove that sale we have \$36,160,934 sales volume with 62 transactions.

Bob Sullivan  
CEO



*Bob Sullivan*

### Leasing Activities

Total Inventory	89,672,950 SF
Total Net Absorption	-16,635 SF
Overall Rental Rate	\$12.41
Total Vacancy Rate	5.40%
Under Construction	618,499 SF

### Sales Activities

Number of Transactions	71
Total Sales Volume	\$166,160,934
Average Price per Bldg. SF	\$208.77

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## NATIONAL ECONOMY

The Fed has raised the interest rate by a quarter-point for the third time in six months to a still low range of 1 percent to 1.25 percent based on the current economy. The increase in Fed's short-term interest rate could lead to higher borrowing costs for consumers and businesses, but better returns for savers. It is expected that the Fed will raise the interest rate for another time this year but the exact time is not known yet. Energy stocks slumped after OPEC extended its production cut to another nine months, which indicates that investors believe in a longer process of recovery for oil and gas prices. In the meantime, the United States have seen increasing numbers of drilling rigs during the second quarter, and pulling out of the Paris Climate Agreement might trigger more production even though the number of drilling rigs is expected to scale back if the oil and gas prices remain low. According to Kiplinger, GDP growth should pick up to an annual pace of 2.5 percent or so in the final three quarters of 2017, leaving growth for the full year at about 2.1 percent, and the national unemployment rate has ticked up to 4.4 percent during the Q2 2017.

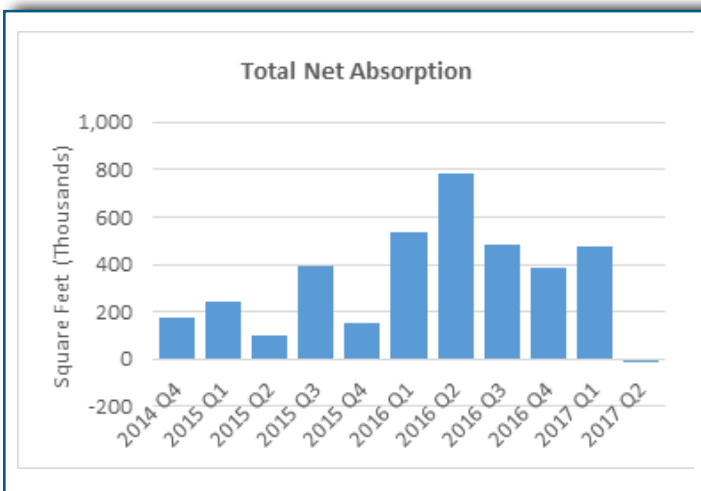
## LOCAL ECONOMY

Oklahoma City remains attractive for investors due to its lower rent expense, utility bills, and employment costs, despite the low oil and gas prices. The Commercial Real Estate industry has seen a more active quarter compare to the Q1 2017-Oklahoma City Outlet Shoppes has a new owner and are adding more landscaping to bring in more retailers; BOK Park Plaza is well under construction and First National Center will start its conversion this coming September, and more. Manufacturing activity in Oklahoma increased during the second quarter and is expected to continue to grow, including the energy industry. Haliburton, among other local companies are hiring. State employment continues to grow and unemployment rates remain low at 4.3 percent at the end of Q2 2017.

## OKLAHOMA CITY RETAIL MARKET LEASING

The largest lease signings occurred in 2017 included: the 50,835 SF lease signed by Statuary World at 3700-3806 W Reno Avenue; the 25,000 SF lease signed by Vintage Stock at 1101-1241 Garth Brooks Blvd; and the 20,172 SF lease signed by Planet Fitness at 10904-10948 N May Avenue.

## NET ABSORPTION AND INVENTORY

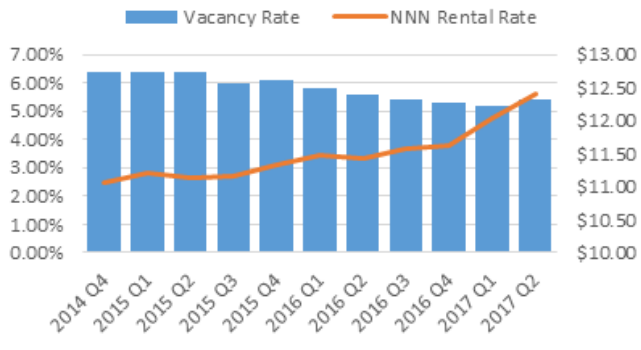


- The total retail net absorption was a negative 16,635 SF.
- The total retail net absorption decreased from 474,949 SF at the end of Q1 2017.
- The total retail inventory was 89,672,950 SF.
- The total retail inventory increased from 86,141,046 SF at the end of Q1 2017.

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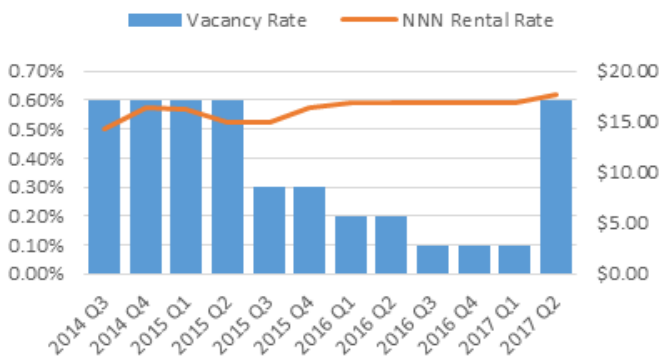
## RENTAL AND VACANCY RATES

**Overall Retail Vacancy Rate Vs. Rental Rate**



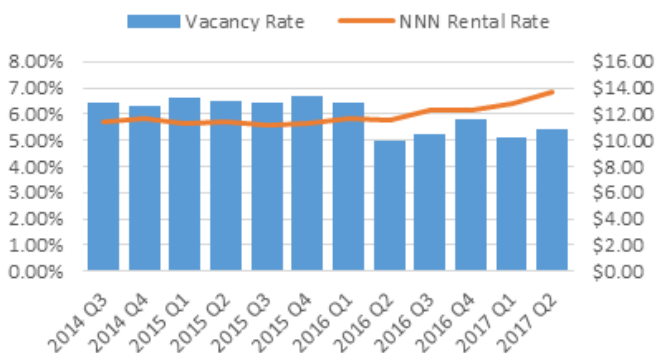
- The retail market rental rate averaged \$12.41/SF/YR NNN.
- The retail market rental rate increased from the \$12.03/SF/YR NNN at the end of Q1 2017.
- The retail market vacancy rate was 5.40%.
- The retail market vacancy rate slightly increased from the 5.20% rate at the end of Q1 2017.

**Outlet Shoppes Vacancy Rate Vs. Rental Rate**



- The outlet shoppes rental rate averaged \$17.68/SF/YR NNN.
- The outlet shoppes rental rate increased from the \$16.95/SF/YR NNN at the end of Q1 2017.
- The outlet shoppes vacancy rate was 0.60%.
- The outlet shoppes vacancy rate increased from the 0.10% rate at the end of Q1 2017.

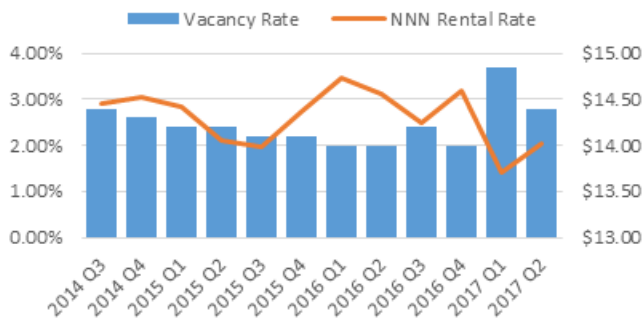
**Strip Center Vacancy Rate Vs. Rental Rate**



- The strip center rental rate averaged \$13.68/SF/YR NNN.
- The strip center rental rate increased from the \$12.74/SF/YR NNN rate at the end of Q1 2017.
- The strip center vacancy rate was 5.40%.
- The strip center vacancy rate increased from the 5.40% rate at the end of Q1 2017.

# Second Quarter Retail Market Report

Power Center Vacancy Rate Vs. Rental Rate

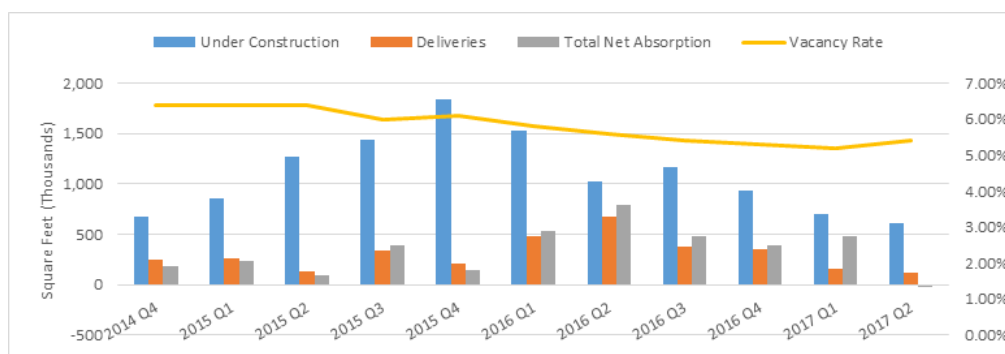


- The power center rental rate was \$14.01/SF/YR NNN.
- The power center rental rate increased from the \$13.71/SF/YR NNN rate at the end of Q1 2017.
- The power center vacancy rate was 2.80%.
- The power center vacancy rate has decreased from the 3.70% rate at the end of Q2 2017.

## OKC RETAIL MARKET INFORMATION BY SUBMARKET

	Northwest	Edmond	Moore/Norman
NNN Rental Rate per SF	\$11.20	\$17.11	\$16.20
Vacancy Rate	5.70%	3.60%	2.60%
Existing Buildings	1,254	702	1221
Existing SF	15,856,348	8,387,708	13,297,040
Cap Rate	6.20%	7.60%	6.60%

## CONSTRUCTION, DELIVERY, NET ABSORPTION & VACANCY RATE



By the end of Q2 2017, there were 618,499 SF of retail space under construction. The two largest properties under construction was the 160,000 SF regional mall, the Market at Czech Hall, which is scheduled to be delivered in July 2017, and the 91,027 Shoppes at Quail Springs, which is also scheduled to be delivered in July 2017. The average asking rental rate for under construction retail properties in the Oklahoma City market is at \$20.84/SF/YR NNN. The asking rental rate for a 3 star restaurant at 119 E Reno Avenue is about \$38/SF/YR full service gross, and asking rental rate for the Chisholm Creek Westgate Retail Center ranges from \$35 to \$36/SF/YR NNN. Top under construction retail properties can be seen in the following table.

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## Top Under Construction Retail Properties

Building Name	Building Address	City	RBA	Delivery Time
Phase I	N Czech Hall Rd & I-40	Yukon	160,000 SF	Jul 2017
Shoppes at Quail Springs	13601 N May Ave	OKC	91,027 SF	Jul 2017
WinCo Foods	3601 NW 39th St	OKC	85,000 SF	Aug 2017
WinCo Foods	7601 E Reno Ave	OKC	85,000 SF	Aug 2017
-	1333 W Memorial Rd	OKC	30,000 SF	Jan 2018
-	14170 N Santa Fe Ave	Edmond	19,398 SF	Jul 2017
Building 1	14275-14333 N Santa Fe Ave	Edmond	15,000 SF	Aug 2017
Chisholm Creek Westgate Retail Center	13140 N Pennsylvania Ave	OKC	14,825 SF	Nov 2017
Route 66 Plaza Phase I	4000 N Sara Rd	Yukon	11,185 SF	Jul 2017
-	13429 N Macarthur Blvd	OKC	10,000 SF	Jul 2017

## OKLAHOMA CITY RETAIL MARKET SALES

The second quarter of 2017 saw 71 transactions totaling \$166,160,934. On May 1st, 2017 a joint venture between CBL & Associates Properties, Inc. and Horizon Group Properties, Inc. sold the 394,246 SF Outlet Shoppes (containing 9 retail properties) located at 7638 W Reno Avenue in Oklahoma City to a joint venture between The Outlet Retail Group and Singerman Real Estate, LLC for \$130 million, or approximately \$330 per square foot, on May 1st, 2017. The Outlet Shoppes was 95 percent occupied at the time of sale.

### Summary

Number of Transactions	71
Total Sales Volume	\$166,160,934
Total Bldg. SF	1,144,062 SF
Total Land in Acres	131.25
Average Price per Bldg. SF	\$207.53
Median Price per Bldg. SF	\$168.14
Average Cap Rate	6.73%

The largest individual retail sale was the sale of the Charleston's at 5608 W Memorial Rd. Charter Oak Production Co. purchased the 6,551 SF retail building which is located on a 82,886 SF parcel, for \$5,413,533, or \$826.37/SF on May 31st, 2017. Oklahoma City retail market remains active during Q2 2017 despite some big box retailers announcing their closure. Oklahoma City Outlet Shoppes' new owner plans to update the properties and add more landscaping to attract more retailers; Hey Day opens in Bricktown where former Red Pin was located, and added an internal stair to have a new 2nd floor; WinCo has opened its first store in Moore, and two more are well under construction; Oklahoma City is going to get one of the very first new concept Target stores at 13924 N Pennsylvania near Quail Springs Mall; Costco is said to have interest in investing in the southeast corner of N Western and Memorial Rd., which is right across Western from Chisholm Creek development. The retail market remains strong.

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## OKC MARKET SIGNIFICANT RETAIL SALE TRANSACTIONS DURING Q2 2017



Property Name: Charleston's  
Address: 5608 W Memorial Rd., OKC  
Sale Price: \$5,413,533  
Building Size: 6,551 SF  
Sale Price per SF: \$826.37  
Sale Date: May 31st, 2017  
Cap Rate: 6.65%



Property Name: Charleston's  
Address: 2000 S Meridian Ave., OKC  
Sale Price: \$5,052,631  
Building Size: 7,000 SF  
Sale Price per SF: \$721.80  
Sale Date: May 31st, 2017  
Cap Rate: 6.65%



Property Name: Target  
Address: 800 SW 44th St., OKC  
Sale Price: \$2,575,000  
Building Size: 137,630 SF  
Sale Price per SF: \$18.71/SF  
Sale Date: 05/04/2017



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Property Name: Wendy's  
Address: 1908 W Main St.  
Sale Price: \$2,176,771  
Building Size: 2,592 SF  
Sale Price per SF: \$860.72  
Sale Date: 04/03/2017  
Cap Rate: 7.00%



Property Name: Willow Creek Shopping Center  
Address: 322-432 S Santa Fe Ave., Edmond  
Sale Price: \$2,175,000  
Building Size: 31,200 SF  
Sale Price per SF: \$69.71/SF  
Sale Date: 06/03/2017



Property Name: Restaurant Building  
Address: 5930 NW Expressway, OKC  
Sale Price: \$1,735,000  
Building Size: 9,750 SF  
Sale Price per SF: \$177.95/SF  
Sale Date: 06/08/2017

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