

# Second Quarter Office Market Report 2017







# Second Quarter Office Market Report

# 2017

NAI Sullivan Group

## CONTENTS

NAI Sullivan Group

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 Q2 2017
11	About NAI Sullivan Group





# Second Quarter Office Market Report

# 2017

NAI Sullivan Group

## EXECUTIVE SUMMARY

The Q2 2017 office market reported its first negative absorption overall since Q3, 2013. The pullback in the oil and gas industry is the obvious reason for the soft market, but additional contributing factors are the uncertainty of the federal government, and the Oklahoma State budget crisis.

Lease rates for Class-A properties was \$22.38 per SF annually, and vacancy stood at 6.50%. Lease rates for Class-B properties were reported at \$16.61 per SF annually, and Class-C lease rates averaged \$13.57 per SF annually.

The vacancies reported for Q2 2017 were 6.00% overall, Class A properties reported 6.50% up from 5.30% from Q2 2017, Class B vacancies were 6.60%, up from 6.30% at the end of Q2 2017, and Class C office vacancies stood at 4.50% up from 4.40% at the end of Q2 2017. It is common to see a move from Class A properties to Class B properties and a move from Class B properties to Class C properties when there is stress on companies' profitability.



The highest vacancy is in the Northwest submarket showing 8.40%.

We believe we will continue to see vacancies rise slightly for the rest of 2017 and we expect lease rates to continue to remain flat to slightly lower through the balance of 2017.

Office sales showed sales of 37 properties totaling \$20,239,438 an average sales price of \$100.27 per square foot. Capitalization rates averaged 8.05% for office income properties.

The 2017 office market should continue to be sluggish from the landlord's point of view as nothing is on the horizon to create an increase in demand is evident.

Bob Sullivan  
CEO

### Leasing Activities

Total Inventory	59,319,100 SF
Overall Rental Rate	\$16.59
Total Net Absorption	-32,568 SF
Total Vacancy Rate	6.00%
Under Construction	823,536 SF

### Sales Activities

Number of Transactions	37
Total Sales Volume	\$20,239,438
Average Price per Bldg. SF	\$100.27



# Second Quarter Office Market Report

# 2017

NAI Sullivan Group

## NAI NATIONAL ECONOMY

The Federal Reserve 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.

## NAI 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.

## NAI OKLAHOMA CITY OFFICE MARKET LEASING

The largest office lease signings occurred during Q2 2017 include the 19,747 SF lease signed by Allstate Insurance at 14000 N Quail Springs Pky. in Oklahoma City, the 10,300 SF lease signed by United Systems at 5700 N Portland Ave. in Oklahoma City, and the 10,000 SF lease signed at 7301 NW Expressway St. in Oklahoma City.

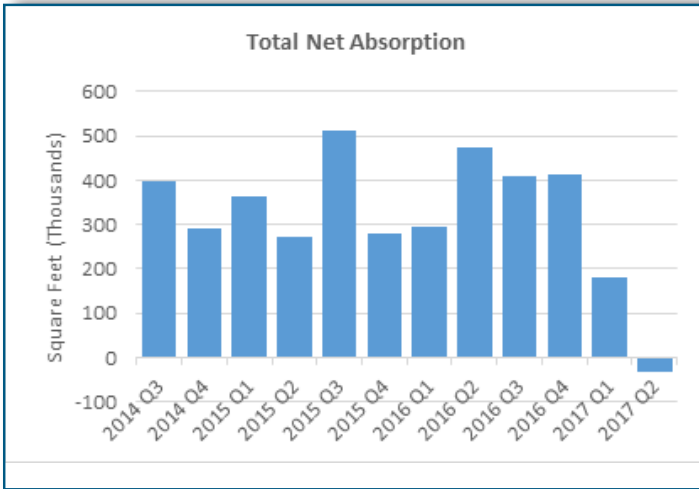


# Second Quarter Office Market Report

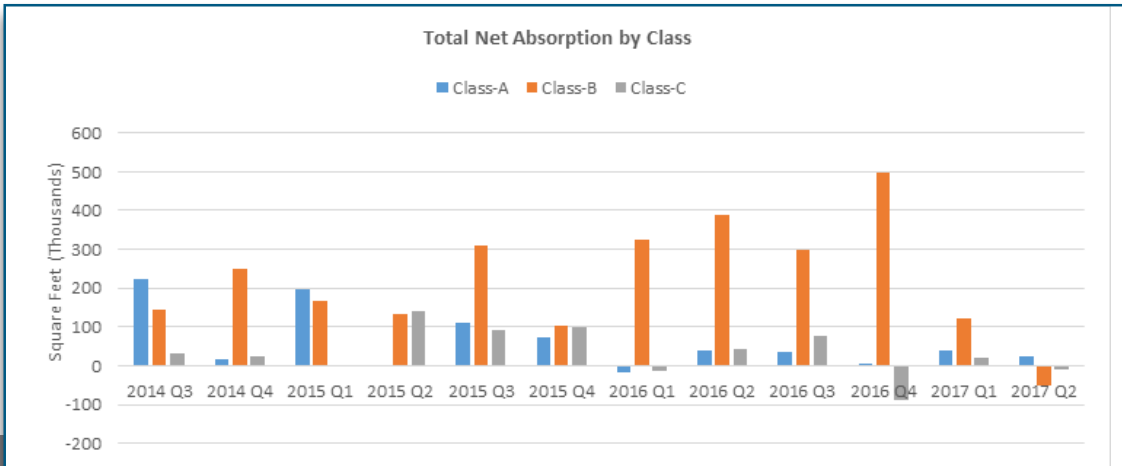
# 2017

NAI Sullivan Group

## NET ABSORPTION AND INVENTORY



- The total net absorption was a negative 32,568 SF.
- The total net absorption decreased from a positive 180,823 SF at the end of Q1 2017.
- The total office inventory was 59,319,100 SF.
- The total office inventory increased from 59,063,525 SF at the end of Q1 2017.



- Class-A property net absorption was a positive 25,256 SF, which decreased from the net absorption of a positive 39,452 SF at the end of Q1 2017.
- Class-B property net absorption was a negative 49,171 SF, which decreased from the net absorption of a positive 120,326 SF at the end of Q1 2017.
- Class-C property net absorption was a negative 8,653 SF, which decreased from the net absorption of a positive 21,045 SF at the end of Q1 2017.

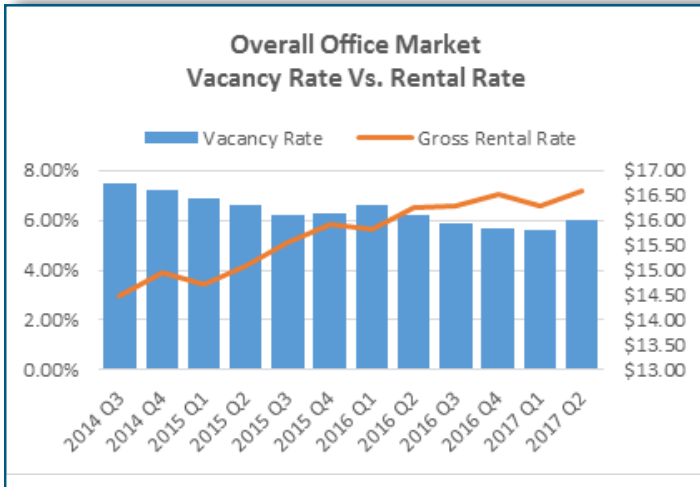


# Second Quarter Office Market Report

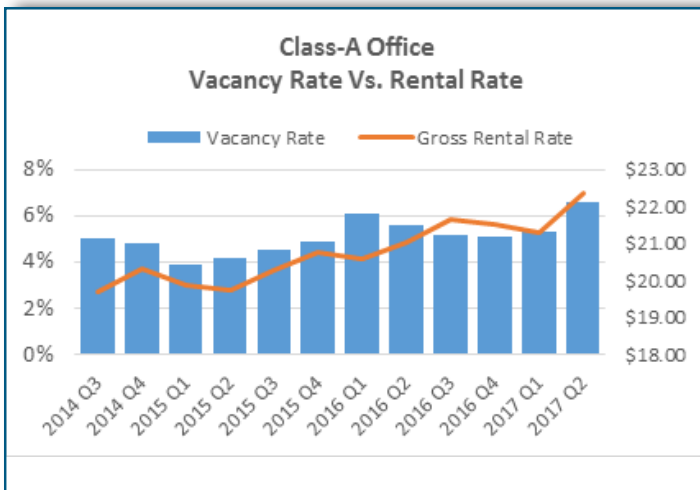
# 2017

NAI Sullivan Group

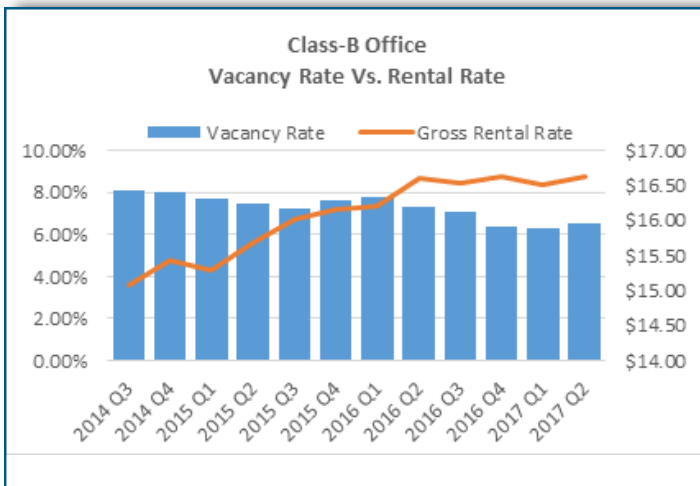
## RENTAL AND VACANCY RATES



- The overall office market gross rental rate was \$16.59/SF/YR.
- The overall office market gross rental rate increased from the \$16.30/SF/YR rate at the end of Q1 2017.
- The overall office market vacancy rate was 6.00%.
- The overall office market vacancy rate increased from the 5.60% rate at the end of Q1 2017.



- Class-A property gross rental rate averaged \$22.38/SF/YR.
- Class-A property gross rental rate increased from the \$21.31/SF/YR rate at the end of Q1 2017.
- Class-A property vacancy rate was 6.50%.
- Class-A property vacancy rate increased from the 5.30% rate at the end of Q1 2017.



- Class-B property gross rental rate was \$16.61/SF/YR.
- Class-B property gross rental rate increased from the \$16.50/SF/YR at the end of Q1 2017.
- Class-B property vacancy rate was 6.6%.
- Class-B property vacancy rate increased from the 6.30% rate at the end of Q1 2017.

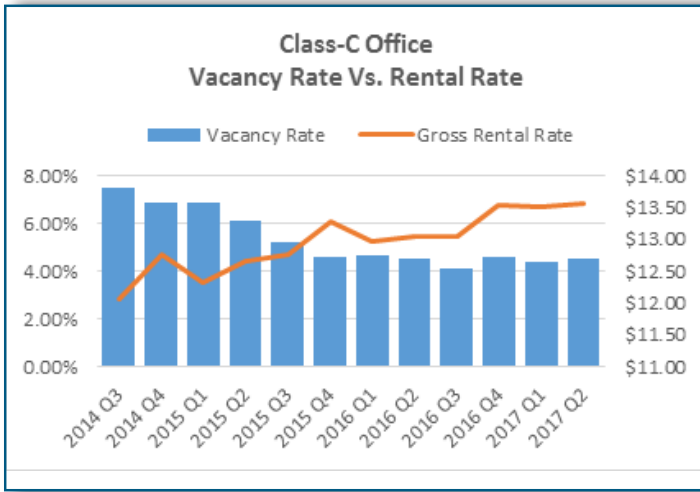




# Second Quarter Office Market Report

# 2017

NAI Sullivan Group



- Class-C property gross rental rate averaged \$13.57/SF/YR.
- Class-C property gross rental rate increased from the \$13.51/SF/YR rate at the end of Q1 2017.
- Class-C property vacancy rate was 4.50%.
- Class-C property vacancy rate slightly increased from the 4.40% rate at the end of Q1 2017.

## NAI OKC OFFICE MARKET INFORMATION BY SUBMARKET

	CBD	Northwest	Edmond	Norman & Moore
Rental Rate	\$16.19	\$17.01	\$16.92	\$16.46
Vacancy Rate	6.30%	8.40%	7.50%	7.80%
Existing Buildings	200	837	584	587
Existing SF	11,916,714 SF	13,728,458 SF	3,559,078 SF	4,613,807 SF
Cap Rate	9.30%	8.30%	6.60%	8.60%

## NAI CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

Building Address	City	Rentable Building Area	Delivery Time
499 W Sheridan	OKC	692,716 SF	Apr 2018
W Memorial & Pennsylvania Ave	OKC	100,000 SF	Oct 2017
16420 Muirfield Rd	Edmond	6,368 SF	Dec 2017
13909 Technology Dr	OKC	4,400 SF	Jul 2017
2616 Covell Village Dr	Edmond	4,209 SF	Jul 2017
2916 Astoria Way	Edmond	4,027 SF	Jan 2018

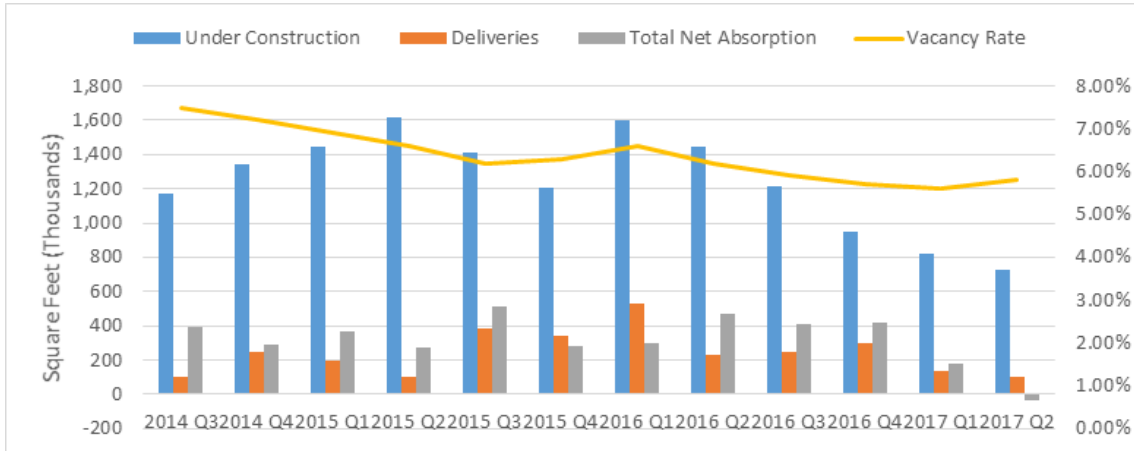


# Second Quarter Office Market Report

# 2017

NAI Sullivan Group

Top under construction office properties during the second quarter can be seen in the above table. We saw a total of 823,536 square feet of office space under construction at the end of Q2 2017, with an asking gross rental rate averaged at \$26.69/SF/YR. The largest two projects with the most square feet were the 692,716



Some notable deliveries during Q2 2017 included the 65,000 SF two-story office building located at 715 NE 122nd St., with a gross rental rate averaged at \$26/SF/YR, which delivered in May 2017; the 17,100 SF office building at 225 Lilac Dr., with a gross asking rate averaged at \$21/SF/YR, which delivered in April 2017; and the 4,800 SF medical office building at 2212 S Post Rd, with a modified gross asking rent averaged at \$16.50/SF/YR, which delivered in June 2017.

## OKLAHOMA CITY OFFICE MARKET SALES

There were 37 transactions totaling \$20,239,438 recorded during Q2 2017. The largest sale was a portfolio sale including the office building at 3613 NW 56th St., and at 3625 NW 56th St. McGee Investment & Management Inc. in Yukon purchased these two buildings for \$8,700,000, or \$88.88 per SF on April 25th, 2017. The largest individual property sale based on dollar volume was the sale of the JMC Building at 1215 Crossroad Blvd in Norman, Eric Fleske in Norman purchased the 14,688 SF office building from Rosalind Bell for \$1,495,000, or \$101.78 per SF, on June 2nd, 2017.

Number of Transactions	37
Total Sales Volume	\$20,239,438
Total Bldg. SF	323,809 SF
Total Land in Acres	30.81 Acres
Average Price per Bldg. SF	\$100.27
Median Price per Bldg. SF	\$97.48
Average Cap Rate	8.05%

The Oklahoma City market is still trying to recover from the low oil and gas impact. We saw vacancy rate increased for some big office buildings result from low oil and gas prices. Devon is looking to sublease some of the 250,000 SF space pre-leased in the BOK Park Plaza. The oil and gas industry is recovering. We are seeing companies like Haliburton, as well as local companies start to hire more people, but it might take longer for office market to fully recover from the energy downturn.





# Second Quarter Office Market Report

# 2017

NAI Sullivan Group

## NAI OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q2 2017



Property Name: Corporate Plaza-3  
Address: 3623 NW 56th St., OKC  
Sale Price: \$4,456,039-Allocated  
Building Size: 50,133 SF  
Sale Price per SF: \$88.88/SF  
Sale Date: 04/25/2017



Property Name: Corporate Plaza-5  
Address: 3625 NW 56th St., OKC  
Building Size: 47,747 SF  
Sale Price: \$4,243,961-Allocated  
Sale Price per SF: \$88.88/SF  
Sale Date: 04/25/2017



Property Name: JMC Building  
Address: 1215 Crossroads Blvd., Norman  
Building Size: 14,688 SF  
Sale Price: \$1,495,000  
Sale Price per SF: \$101.78/SF  
Sale Date: 06/01/2017  
Cap Rate: 8.60%



# Second Quarter Office Market Report

# 2017

NAI Sullivan Group



Property Name: Physician's Medical Park  
Address: 13301 N Meridian Ave., OKC  
Building Size: 5,315 SF  
Sale Price per SF: \$159.92/SF  
Sale Date: 04/01/2017



Property Name: Sonoma Lake Office Park  
Address: 16212 Sonoma Park Dr., Edmond  
Building Sizes: 4,769 SF  
Sale Price per SF: \$155.17/SF  
Sale Date: 06/09/2017



# Second Quarter Office Market Report

# 2017

NAI Sullivan Group

## NAI SULLIVAN GROUP

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.

Whether around the corner or around the world, NAI Sullivan Group is a dynamic member of NAI Global, the world's leading managed network of commercial real estate firms. With over 6,700 professionals, more than 375 offices and over 380 million square feet of properties managed, we bring together people and resources to deliver results for our clients wherever needed. Our clients come to us for our extensive knowledge. They build their businesses on the power of our global managed network.

NAI Sullivan Group provides a complete inventory of office, industrial and retail properties, including those that are fully occupied. It contains thousands of details on every facet of every building tracked. Also, NAI Sullivan Group provides detailed information on all contacts and companies in various markets.

NAI Sullivan Group is a leader in the adoption of new technologies to improve business operations as a means of speeding communications, optimizing performance, delivering the highest quality services to clients and facilitating the sharing of best practices among our brokers.

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.

CoStar Group is the primary provider for commercial real estate

Resources mainly come from CoStar, Xcelignet, 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.

REALTrac™ Online is NAI Global's web-based transaction management software, which helps to coordinate projects and facilitate the transaction cycle. REALTrac™ enables the Buyer, the Seller, the Lessee and the Lessor to view online the progress of their transaction.

STARST™ is an acronym which stands for Strategic Transaction Administration and Reporting System. STARST™ is NAI's proprietary system for providing a timeline of events to clients in transactions.

LoopNet Inc. is one of the leading information service providers to the commercial real estate industry; it delivers a comprehensive suite of products and services to meet the national and local needs of commercial real estate firms, organizations and professionals. LoopNet members can list, search, market, research and finance commercial real estate properties over the Internet.

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



Download the NAI Sullivan Mobile App  
FREE from the App Store!







4045 N.W. 64th Street, Suite 340 | Oklahoma City, OK 73116  
Office: 405.840.0600 | Fax: 405.840.0610  
[www.naisullivangroup.com](http://www.naisullivangroup.com)