

First Quarter Office Market Report 2018





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2018

NAI Sullivan Group

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EXECUTIVE SUMMARY

OFFICE MARKET SOFTENS

The office leasing market showed a small positive absorption in Q1. The total negative absorption of the last 3 quarters of 2017 was about 700,000 SF. The opening of the BOK Center will place additional stress on the office market as well as the announced layoffs this past Q1.

Leasing rates have leveled off with all 3 office classes. 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, we are at an overall vacancy of 6.80%, still very low overall, but with the announcement of the various layoffs and budget tightening, we feel this vacancy rate will increase in 2018.

The sale of office properties in Q1 2018 were 25 transactions totaling \$19,819,864.00. This averaged \$125.85 per square foot. Notable transactions in Q1 2018 were Parkway Medical Building at 3500 NW 56th, a 45,000 SF building selling at \$9,200,000.00 which is \$204.52 per square foot and Quail Ridge Tower, a 50,000 SF office building at 11212 N May Avenue selling for \$2,000,000.00, \$40.32 per square foot.

Respectfully,

Bob Sullivan
CEO



Leasing Activities

Total Inventory	61,547,015 SF
Total Net Absorption	520,516 SF
Overall Rental Rate	\$16.96/SF/YR
Total Vacancy Rate	6.80%
Under Construction	823,874 SF

Sales Activities

Number of Transactions	25
Total Sales Volume	\$19,819,864
Average Price per Bldg. SF	\$125.85



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NATIONAL ECONOMY

The Federal Reserve raised its target federal funds rate to a range of 1.50 percent to 1.75 percent during first quarter 2018. We are expected to see three or more rate hikes this year and another two or three in year 2019, which could end year 2018 at 2.5 percent and 3 percent at the end of 2019. Kiplinger predicted a solid GDP growth rate of 3 percent, but Goldman Sachs, Barclays, and other firms have trimmed their growth forecast below 2 percent despite of the \$1.5 billion tax cut which is supposed to increase consumer spending and business investment. The growth uncertainty mainly comes from the world trade triggered by protectionist policies. The Trump administration announced during Q1 the tariffs on steel and aluminum and directed action against Chinese imports. If the trade war is going to happen, we expect to see product prices go up and the increasing tariffs will hurt consumers.

OPEC and its allies started the output cuts since January 2017, and plan to continue the output cut through the end of 2018. Oil prices have been on the rise since Q4 2017 and has stayed in the \$60-\$65 range during Q1 2018. While OPEC is cutting its output, United States is pumping more oil than ever. For the first time, OPEC forecasted that new oil supplies will exceed demand growth this year.

LOCAL ECONOMY

According to the report from the Oklahoma Employment Security Commission, The Oklahoma State unemployment rate has held steady and is unchanged at 4.1 percent in February compared to January and was 0.5 percent down from a year ago. We saw continuing recovery from the oil and gas industry, and continued cutting of oil production by OPEC and its allies will benefit Oklahoma energy companies.

Oklahoma City is named as one of the top-10 travel destinations in the United States for 2018. Money Magazine said, that it gives travelers the most value for their dollar. Low cost of living and business cost continue to attract developers and investors to Oklahoma City. The City Council has approved a \$3 million economic development incentive to bring Costco to the southeast corner of Western Avenue and the John Kilpatrick Turnpike; CACI International announced it will open a Shared Services Center in Oklahoma City in July which will bring 550 jobs. Oklahoma City new convention center's design gained City Council's approval and moved one step closer to its grand opening in mid-2020. The Streetcar system is under test drive and is expected to be ready at the end of this year. BOK Park Plaza has been completed and Bank of Oklahoma is occupying 100,000 SF. Oklahoma City's commercial real estate industry remains active during Q1 2018.

OKLAHOMA CITY OFFICE MARKET LEASING

The largest office lease signings during Q1 2018 includes the 120,000 SF office lease at 10401 W Reno Ave signed by NTT Data Services in Oklahoma City with an asking rental rate of \$18.50/SF/YR full service gross, the 21,855 SF lease signed at 14101-14201 Wireless Way in Oklahoma City by Mach Resources, with an asking rental rate of \$22/SF/YR full service gross, and the 18,816 SF lease signed at 210 Park Ave. in Oklahoma City with an asking rental rate of \$24/SF/YR full service gross.

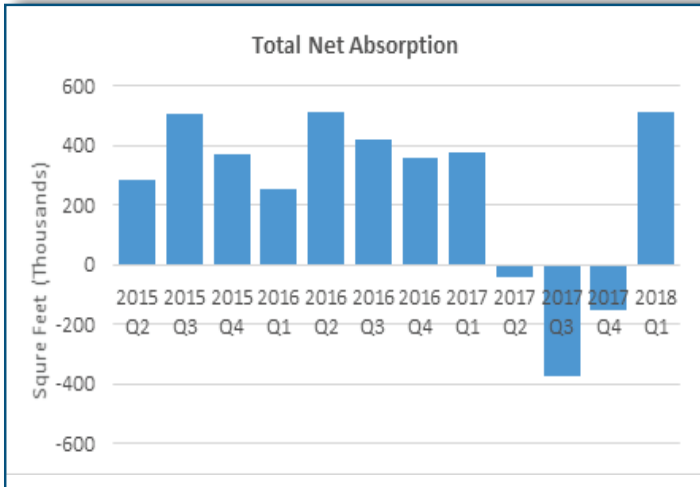


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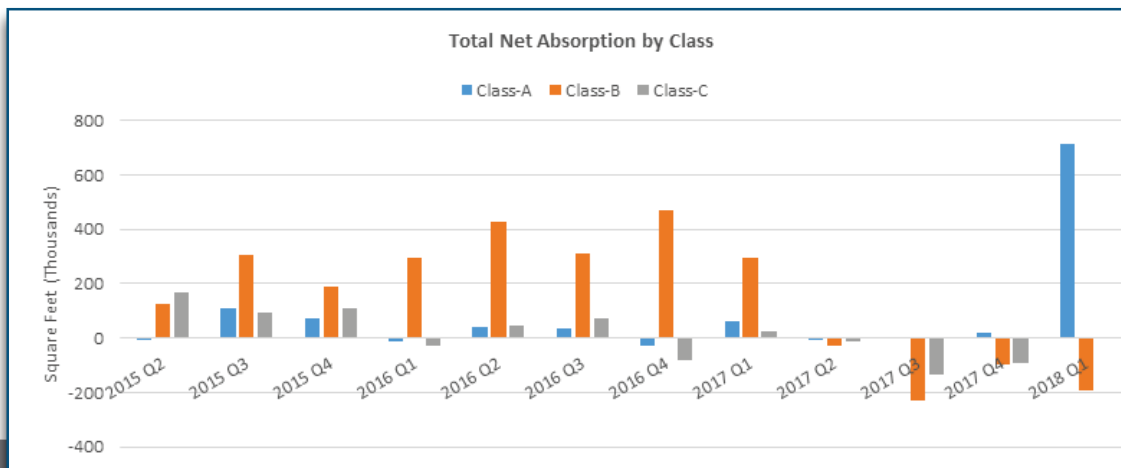
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NET ABSORPTION AND INVENTORY



- The total net absorption was a positive 520,516 SF at the end of Q1 2018.
- The total net absorption increased compared to the negative 154,639 SF at the end of Q4 2017.
- The total office inventory was 61,547,015 SF at the end of Q1 2018.
- The total office inventory increased from 59,798,726 SF at the end of Q4 2017.



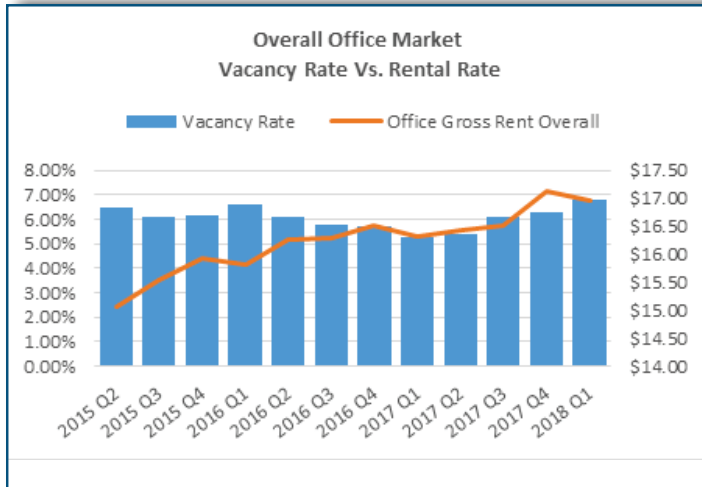
- Class-A property net absorption was a positive 714,736 SF, which increased from the net absorption of a positive 18,328 SF at the end of Q4 2017.
- Class-B property net absorption was a negative 194,376 SF, which continue to decrease from previous three quarters.
- Class-C property net absorption was a positive 156 SF, which increased from a negative absorption of 93,056 SF at the end of Q4 2017.



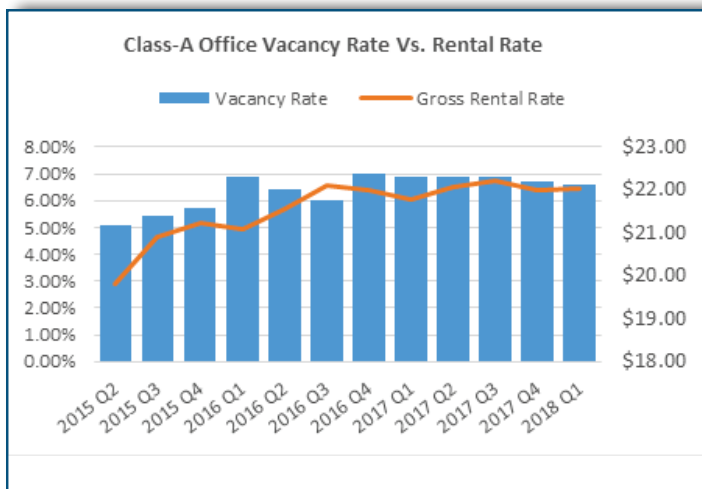
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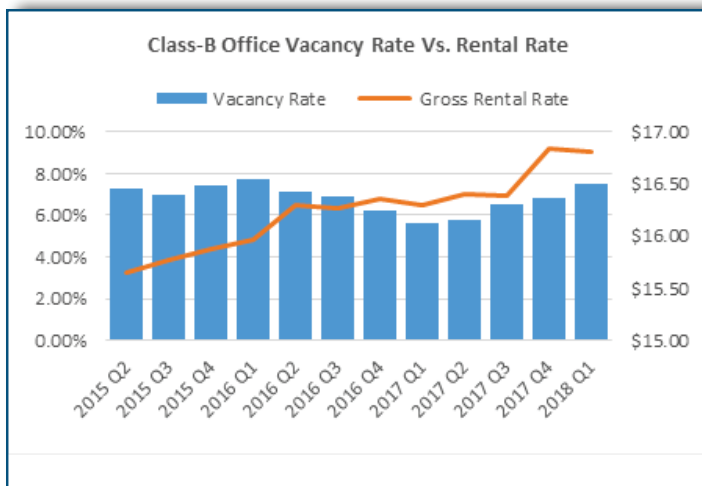
RENTAL AND VACANCY RATES



- The overall office market gross rental rate averaged at \$16.96/SF/YR at the end of Q1 2018.
- The overall office market gross rental rate decreased from the \$17.13/SF/YR rate at the end of Q4 2017.
- The overall office market vacancy rate was 6.80% at the end of Q1 2018.
- The overall office market vacancy rate increased from the 6.30% rate at the end of Q4 2017.



- Class-A property gross rental rate averaged \$22.02/SF/YR at the end of Q1 2018.
- Class-A property gross rental rate increased from the \$21.98/SF/YR rate at the end of Q4 2017.
- Class-A property vacancy rate was 6.60% at the end of Q1 2018.
- Class-A property vacancy rate slightly decreased from the 6.70% rate at the end of Q4 2017.



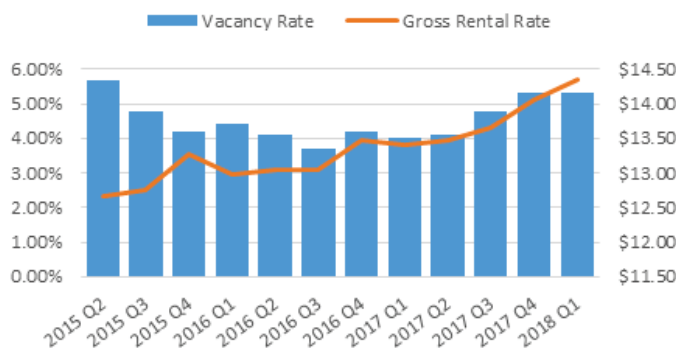
- Class-B property gross rental rate averaged \$16.81/SF/YR at the end of Q1 2018.
- Class-B property gross rental rate slightly decreased from the \$16.84/SF/YR rate at the end of Q4 2017.
- Class-B property vacancy rate was 7.50% at the end of Q1 2018.
- Class-B property vacancy rate increased from the 6.80% rate at the end of Q4 2017.



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Class-C Office Vacancy Rate Vs. Rental Rate



- Class-C property gross rental rate averaged \$14.34/SF/YR at the end of Q1 2018.
- Class-C property gross rental rate increased from the \$14.05/SF/YR rate at the end of Q4 2017.
- Class-C property vacancy rate was 5.30% at the end of Q1 2018.
- Class-C property vacancy rate remained the same compare to previous quarter.

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	May 2018
SE 67th St & Sooner Rd	Oklahoma City	35,000 SF	Mar 2019
401 S Coltrane Rd	Edmond	24,000 SF	Jul 2018
1129 E Hefner Rd	Oklahoma City	15,000 SF	Apr 2018
1008 S Bryant Ave	Edmond	12,500 SF	Jun 2018
421 E Memorial Rd	Edmond	12,000 SF	Aug 2018
9300 N Kelley Ave	Oklahoma City	11,700 SF	Apr 2018
12304 Market Dr	Oklahoma City	11,700 SF	Apr 2018

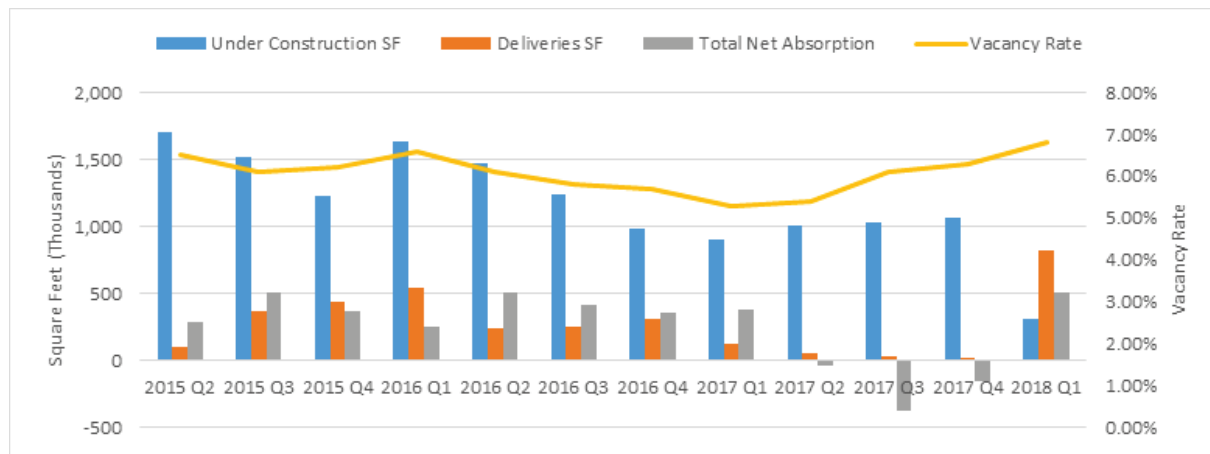
There were 823,874 SF of office space under construction at the end of Q1 2018. The average asking rental rate of under construction rentable office space averaged \$22.67/SF/YR. The two projects with the largest building area were the 120,000 SF Paycom IV building at 7501 W Memorial Rd, which is scheduled to be delivered in May 2018, and the 35,000 SF Crimson Spire at SE 67th St. & Sooner Rd., which is scheduled to be delivered in March 2019 with an asking rental rate of \$27/SF/YR NNN.

Some notable office deliveries during the first quarter 2018 include the 692,716 SF BOK Park Plaza at 499 W Sheridan Ave. in Oklahoma City, which was delivered in January 2018; the 65,000 SF Building Three at Market Center at 715 NE 122nd St. in Oklahoma City, which was delivered in January 2018; the 25,686 SF University North Park Professional Center at 3501 24th Ave. NW in Norman, which was delivered in January 2018.



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OKLAHOMA CITY OFFICE MARKET SALES

There were 25 office sale transactions recorded during Q1 2018 totaling \$19,819,864. The largest individual sale based on dollar volume was the sale of the Parkway Medical Building at 3500 NW 56th St. in Oklahoma City. Drawco I LLC purchased the 44,983 SF office building from BKDL Investment LLC for \$9,200,000, or \$204.52/SF on Jan 24th, 2018. The average sale price per building SF was skewed due to several sales of medical building during the first quarter of 2018.

Summary

Number of Transactions	25
Total Sales Volume	\$19,819,864
Total Bldg. SF	904,397 SF
Total Land in Acres	264.25 Acres
Average Price per Bldg. SF	\$125.85
Median Price per Bldg. SF	\$108.98
Average Cap Rate	9.60%

Oklahoma City is still in the process of recovery from the oil and gas industry. Jobs that added to the energy industry mainly lies in rural areas, which is outside of Oklahoma City Metro area. We still see some layoffs of office jobs in the energy industry. The Oklahoma City office market will remain soft.



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NAI OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q1 2018



Property Name: Parkway Medical Building
Property Address: 3500 NW 56th St., OKC
Sale Price: \$9,200,000
Sale Price per SF: \$204.52/SF
Sale Date: 01/24/2018



Property Name: Quail Ridge Tower
Property Address: 11212 N May Ave., OKC
Sale Price: \$2,000,000
Sale Price per SF: \$40.32/SF
Sale Date: 01/09/2018



Property Name: Gaillardia Office Park
Property Address: 5101 W Memorial Rd., OKC
Sale Price: \$2,000,000
Price per SF: \$223.56/SF
Sale Date: 02/26/2018



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Property Name: 708 24th Ave NW
Property Address: 708 24th Ave NW, Norman
Sale Price: \$1,500,000
Price per SF: \$750.00/SF
Sale Date: 02/12/2018



Property Name: 720 W Grand Ave
Property Address: 720 W Grand Ave., Chickasha
Sale Price: \$711,000
Price per SF: \$267.09/SF
Sale Date: 02/02/2018



Property Name: 837 E 33rd St.
Property Address: 837 E 33rd St., Edmond
Sale Price: \$550,000
Price per SF: \$166.46/SF
Sale Date: 01/03/2018



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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.

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