

Fourth Quarter Office Market Report 2018





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NAI Sullivan Group

2018

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EXECUTIVE SUMMARY

The Q4 2018 Oklahoma City office market absorption was the strongest we have seen since Q1, 2017, almost 2 years. The exception was BOK moving into the BOK tower in Q1 2018. Total absorption was 150,129 square feet for Q4. The biggest absorption was in Class B office properties with 105,874 sf positive absorption and Class A office properties with 57,704 square feet.

Rental rates continue to remain steady with Class A rates at \$22.32 per sf annually and Class B rates at \$16.53 per sf annually. We expect these rates to remain steady throughout 2019 with little speculative construction anticipated.

The sale of office buildings remains strong with 59 sale of office properties recorded during Q4 2018 totaling \$40MM and an average price of \$121.19 per square foot.

We expect all investment sales to remain strong as there is little product available for sale and cap rates continue to receive pressure holding them down as demand continues to rise.

Respectfully,

Bob Sullivan
CEO



Leasing Activities

Total Inventory	62,609,121 SF
Total Net Absorption	150,129 SF
Overall Rental Rate	\$16.84/SF/YR
Total Vacancy Rate	7.40%
Under Construction	447,393 SF

Sales Activities

Number of Transactions	59
Total Sales Volume	\$40,495,908
Average Price per Bldg. SF	\$121.19



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NAI NATIONAL ECONOMY

The Federal Reserve raised its target federal fund rate by a quarter point to a range of 2.25 percent to 2.5 percent in the fourth quarter 2018 despite the pressure from President Donald Trump to keep it unchanged. The Fed lowered its forecast to two hikes in 2019 amid the recent stock market sell-off and uncertain growth prospects. According to Kiplinger, national economy is growing at a 2.8 percent annualized rate in the fourth quarter, leaving a yearly average of 2.9 percent. Kiplinger predicts the yearly GDP growth in 2019 down to 2.5 percent. Unemployment rose to 3.9 percent in December as more people start looking for jobs, and Kiplinger expects the rate to go down to 3.4% by the end of 2019.

NAI LOCAL ECONOMY

Despite the falling oil and gas prices in December 2018 after the most expensive November at the pump in four years, Oklahoma City commercial real estate industry remains active and strong. Dolese Bros. is out of room at its downtown corporate headquarters and plans to build a new facility in north Oklahoma City. Industrial market is improving thanks to the e-commerce growth, interstate system and also the new marijuana law. The Amazon distribution center in Oklahoma City is expected to open by the end of 2019. First Costco is well under construction and is expected to open during the summer 2019. Cranes are up throughout the Core to Shore area with the construction of the new convention center and the 17-story Omni hotel as well as the Scissortail Park.

NAI OKLAHOMA CITY OFFICE MARKET LEASING

The largest office lease signings based on square feet during Q4 2018 include the 85,710 SF lease signed by Heartland Payment Systems at 606 N Broadway Ave in Oklahoma City, the 60,000 SF lease signed by Dolese Bros Co at 9000 N Broadway Ext in Oklahoma City, and the 19,189 SF lease signed at 525 Central Park Dr. in Oklahoma City.

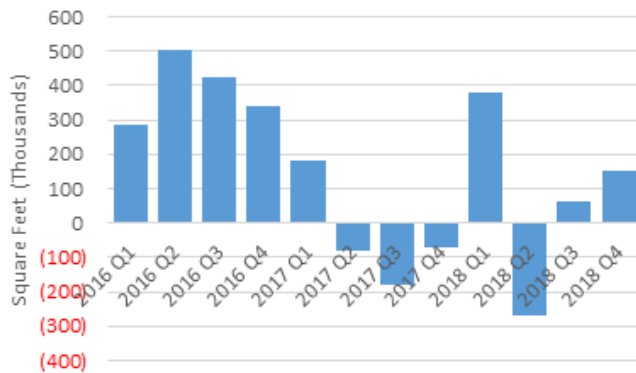


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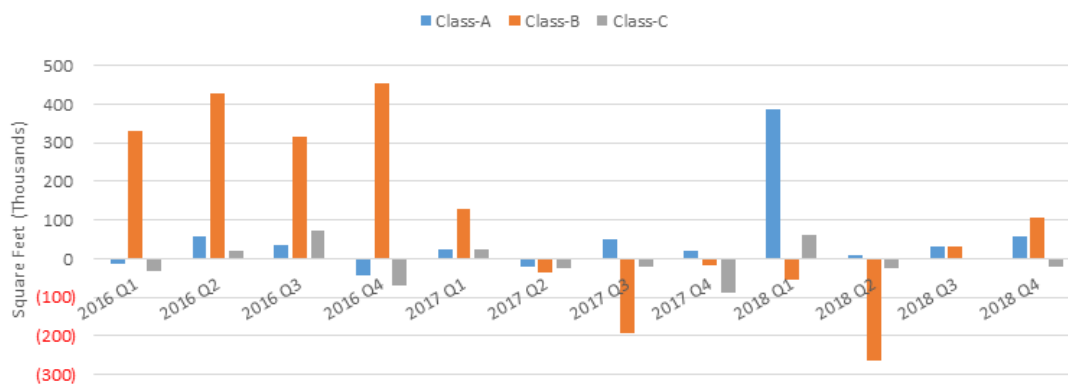
NET ABSORPTION AND INVENTORY

Total Net Absorption



- The total net absorption was a positive 150,129 SF at the end of Q4 2018
- The total net absorption improved compared to the positive absorption of 62,918 SF at the end of Q3 2018
- The total office inventory was 62,609,121 SF at the end of Q4 2018
- The total office inventory increased from 62,557,001 SF at the end of Q3 2018

Total Net Absorption by Class



- Class-A property net absorption was a positive 57,507 SF, which increased from the net absorption of a positive 33,356 SF at the end of Q3 2018
- Class-B property net absorption was a positive 105,874 SF, which increased from the net absorption of a positive 31,571 SF at the end of Q3 2018
- Class-C property net absorption was a negative 13,252 SF, which remains negative compare to the net absorption of a negative 2,009 SF at the end of Q3 2018

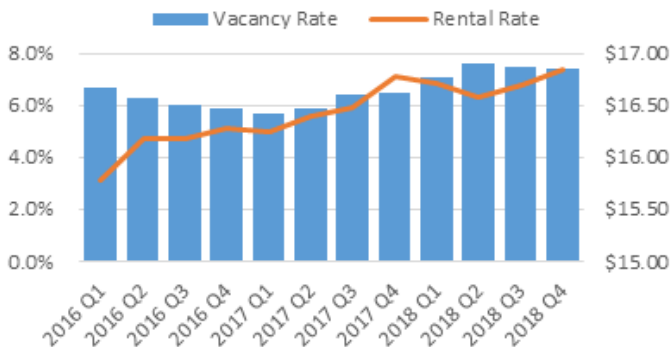


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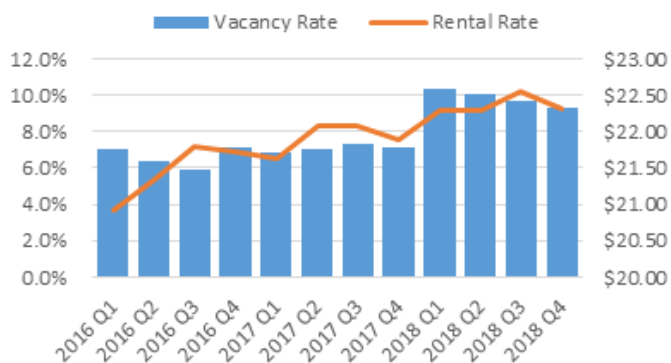
RENTAL AND VACANCY RATES

Overall Office Market
Vacancy Rate Vs. Rental Rate



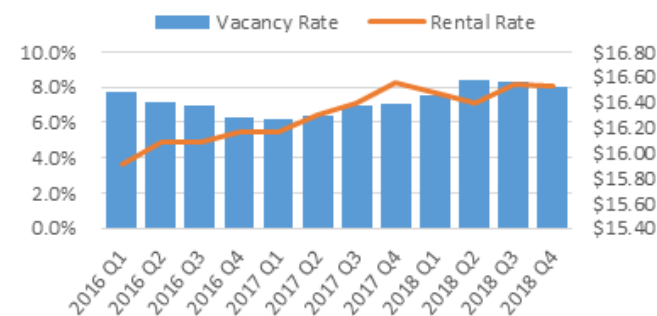
- The overall office market rental rate averaged \$16.84/SF/YR at the end of Q4 2018
- The overall office market rental rate increased from the \$16.70/SF/YR at the end of Q3 2018
- The vacancy rate was 7.40 % at the end of Q4 2018
- The vacancy rate decreased from the 7.50% rate at the end of Q3 2018

Class-A Office Market
Vacancy Rate Vs. Rental Rate



- Class-A property rental rate averaged \$22.32/SF/YR at the end of Q4 2018
- Class-A property rental rate decreased from the \$22.54/SF/YR rate at the end of Q3 2018
- Class-A property vacancy rate was 9.30% at the end of Q4 2018
- Class-A property vacancy rate decreased from the 9.70% rate at the end of Q3 2018

Class-B Office Market
Vacancy Rate Vs. Rental Rate



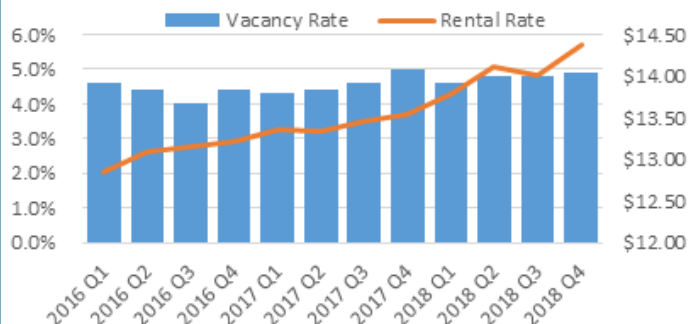
- Class-B property rental rate averaged \$16.53/SF/YR at the end of Q4 2018
- Class-B property rental rate remained about the same compare to the \$16.54/SF/YR rate at the end of Q3 2018
- Class-B property vacancy rate was 8.00% at the end of Q4 2018
- Class-B property vacancy rate decreased from the 8.30% rate at the end of Q3 2018



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**Class-C Office Market
Vacancy Rate Vs. Rental Rate**



- Class-C property rental rate averaged \$14.37/ SF/YR at the end of Q4 2018
- Class-C property rental rate increased from the \$14.02/SF/YR rate at the end of Q3 2018
- Class-C property vacancy rate was 4.90% at the end of Q4 2018
- Class-C property vacancy rate slightly increased from the 4.80% at the end of Q3 2018

CONSTRUCTION, DELIVERY, NET ABSORPTION AND VACANCY RATE

NOTABLE OFFICE PROPERTIES UNDER CONSTRUCTION

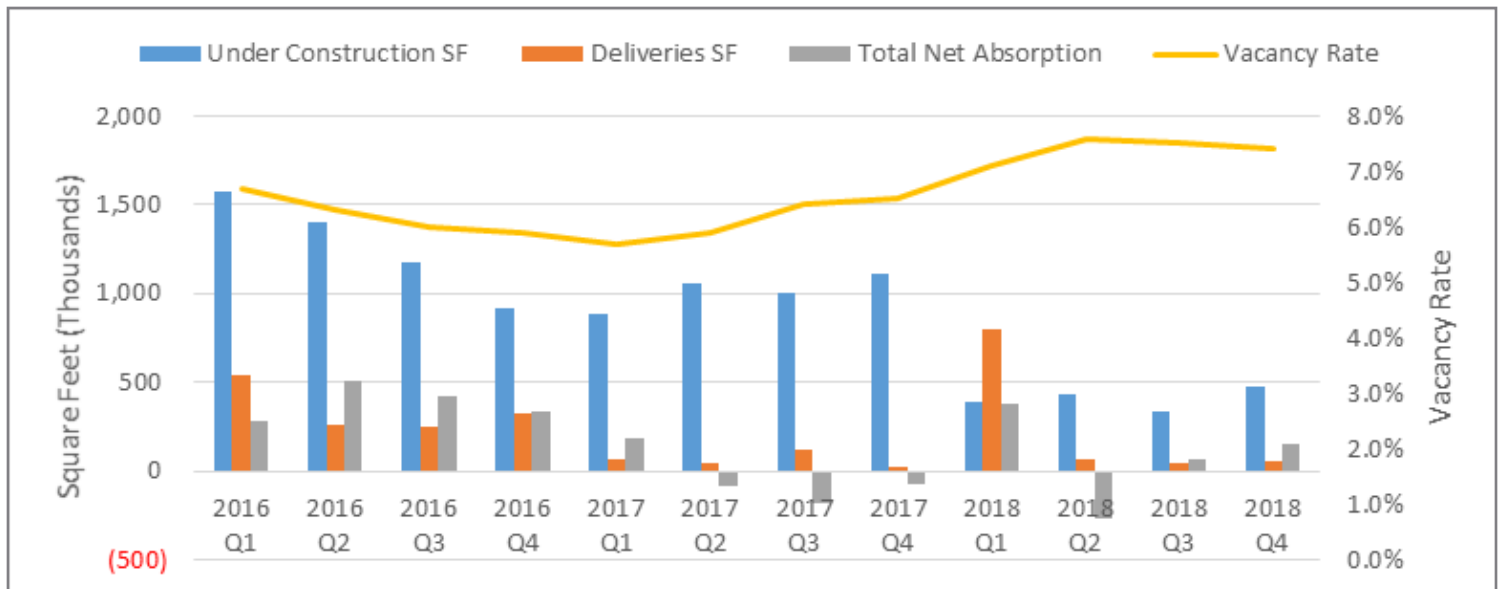
Building Name	Building Address	City	RBA	Delivery Time
Heartland Payment Systems	606 N Broadway Ave	OKC	100,000 SF	May 2020
Dolese Headquarters	9000 N Broadway Ext	OKC	60,000 SF	Feb 2020
Monarch	1133 N Robinson Ave	OKC	54,000 SF	Apr 2019
Broadway Park	1122 N Broadway Ave	OKC	47,000 SF	Mar 2019
-	3000 S Telephone Rd	Moore	44,000 SF	Mar 2019
Crimson Spire	5600 SE 67th St	OKC	20,179 SF	Apr 2019
-	1129 E Hefner Rd	OKC	15,000 SF	Nov 2019
-	9300 N Kelley Ave	OKC	11,700 SF	Nov 2019
-	838 NW 70th St	OKC	11,000 SF	Sep 2019



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There was 447,393 SF office space under construction at the end of Q4 2018. The asking rental rate of under construction rentable office space averaged \$21.86/SF/YR. The two properties with the largest building area under construction were the 100,000 SF Heartland Payment Systems building at 606 N Broadway Avenue, which is scheduled to be delivered in May 2020, and the Dolese Headquarters at 9000 N Broadway Ext., which is scheduled to be delivered in February 2020.

OKLAHOMA CITY OFFICE MARKET SALES

There were 59 office transactions recorded during Q4 2018 totaling \$40,495,908. The largest individual sale based on dollar volume was the sale of office property at 3727 NW 63rd St., OKC, in Oklahoma City. The property was sold on December 28th, 2018 for \$3,500,000, or \$129.50 per square foot. There was also a portfolio sale for office property located at 400 N Walnut Avenue and 410 N Walnut Avenue. Box Talent Agency, Inc. from Oklahoma City purchased these two properties from Iron Horse Ranch from Edmond for \$5,100,000, or \$109.24 per square feet, on October 2nd, 2018.

Summary

Number of Transactions	59
Total Sales Volume	\$40,495,908
Total Bldg. SF	458,923 SF
Total Land in Acres	37.78 Acres
Average Price per Bldg. SF	\$121.19
Median Price per Bldg. SF	\$110.56
Actual Cap Rate	7.68%



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NAI OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q4 2018



Property Name: 410 N Walnut.
Property Address: 410 N Walnut Ave., OKC
Sale Price: \$3,929,468-Allocated
Price per SF: \$109.24
Sale Date: 10/02/2018



Property Name: Coppertree Centre
Property Address: 3727 NW 63rd St., OKC
Sale Price: \$3,500,000
Price per SF: \$129.50
Sale Date: 12/28/2018



Property Name: 3909 N Classen Blvd.
Property Address: 3909 N Classen Blvd., OKC
Sale Price: \$2,600,000
Price per SF: \$115.70
Sale Date: 12/21/2018



Property Name: New Horizons Facility
Property Address: 3010 NW 149th St., OKC
Sale Price: \$1,700,000
Price per SF: \$139.85
Sale Date: 10/08/2018



Property Name: Franklin Business Park
Property Address: 2776 Washington Dr., Norman
Sale Price: \$1,207,500
Price per SF: \$175.00
Sale Date: 11/02/2018



Property Name: Franklin Business Park
Property Address: 2740 Washington Dr., Norman
Sale Price: \$1,027,500
Price per SF: \$176.49
Sale Date: 12/18/2018



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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.

For more information, please visit our website: www.naisullivangroup.com



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