

# Fourth Quarter Office Market Report 2014



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Leasing Activities	
Total Net Absorption	97,685 SF
Total Inventory	54,881,886 SF
Overall Rental Rate	\$14.83/SF/YR
Total Vacancy Rate	7.60%
Under Construction	511,671 SF
Sale Activities	
Number of Transactions	32
Total Sales Volume	\$31,351,500
Average Price per Bldg. SF	\$106.65

## National Economy

During the fourth quarter, the plummeting price of oil has been either a huge concern or a big comfort for investors. The price of oil has decreased more than \$50 per barrel by the end of the fourth quarter, which is more than a 50 percent decrease compared to the price of oil in the summer of 2014 when it was \$107 a barrel. The lower prices have increased the demand for oil and gas, especially during the holiday season. At the same time, Conoco Phillips has already announced that they will cut their drilling budget, and Chevron decided to withhold its budget for 2015. With the increasing demand and the tightening supply, the price of oil should hit a plateau early this year and gradually increase. The oil price plunge that started in the fourth quarter will lead to some layoffs in the energy industry, but it is too early to worry about a new recession across the nation.

Throughout the year of 2014, the Dow Jones Industrial Average has increased 7.5 percent, NASDAQ has increased 13 percent, and S&P 500 has increased 11 percent. The higher stock market pricing has validated a strong national economy throughout 2014. It is expected that the stock market will march higher in 2015, though with turbulences. Kiplinger states that GDP grew at an annual rate of 2 percent during the fourth quarter and it is expected to grow at 3 percent in 2015; the national unemployment rate ended the fourth quarter at 5.8 percent and the rate is expected to reach around 5.3 percent by the end of 2015. Strategists think the US economy has been strong enough and borrowers are able to withstand higher borrowing costs, it is the time for the Fed to increase interest rate gradually starting in late 2015.

## Local Economy

Due to Oklahoma City's strong community of small business, low cost of living, low cost of operating a business and its well-educated workforce, Kiplinger has recently ranked Oklahoma City as the top hot spot for business startups. At the beginning of the fourth quarter, according to the US Department of Labor, Oklahoma City had one of the lowest unemployment rates in the nation at 3.9 percent. The strong economy has attracted investors and developers nationwide to invest in Oklahoma City. Chicago-based developer Clayco is set to build a pair of 25-story office buildings, one is to house OG&E's new headquarters and a pair of 26-story residential towers. Houston-based Hines' proposal to build a 27-story tower in downtown Oklahoma City was approved by the Downtown Design Review Committee. Oklahoma City attracts national retailer such as WinCo Foods and Natural Grocers to invest in the Oklahoma City area. National retailers such as Fresh Market, Costco and Save-A-Lot are hunting for space in the Oklahoma City metro area as well.

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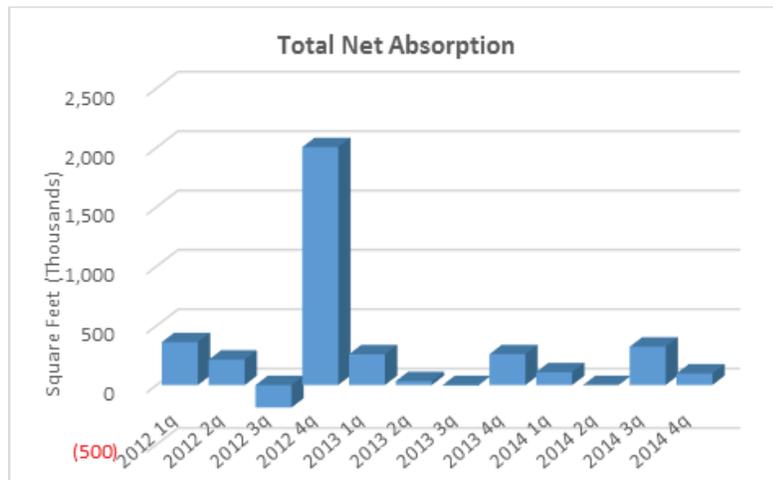
## Local Economy

Oklahoma is not as dependent on the oil and gas industry as before, but the energy sector is still one of Oklahoma's major economic driving forces. The decreasing price of oil has reduced some of the major companies' production. For example, Continental Resources has cut its drilling budget to almost half of their original forecast for 2015. Though the overall employment rate is expected to increase in 2015, it is expected the employment in the energy sector will decline. Will the decreasing oil prices cause problems for Oklahoma's economy? According to Chad Wilkerson, economist for the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, stated "only if it lasts for more than three to six months".

## Oklahoma City Market Office Leasing

The largest lease signings occurring in 2014 included: the 154,000-square-foot lease signed by Oklahoma Health Care Authority at 4345 N Lincoln Boulevard in the Oklahoma County market; the 89,951-square-foot deal signed by Sprint Spectrum at 8525 Silver Crossing in Oklahoma County; and the 74,632-square-foot lease signed by Crowe & Dunlevy at the Braniff Building, which is located at 324 N Robinson Avenue in Oklahoma County.

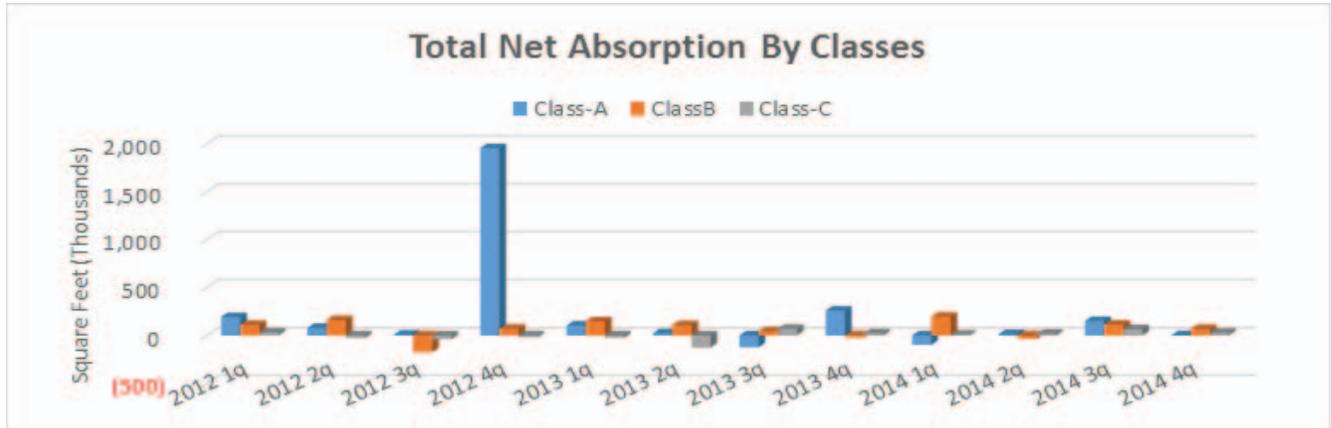
## Net Absorption



- **The total net absorption was 97,685 SF.**
- **The total net absorption decreased** compared to its net absorption of 323,552 SF at the end of the third quarter 2014.
- **The total inventory was 54,881,886 SF.**
- **The total inventory increased** compared to its inventory of 54,621,942 SF at the end of the third quarter 2014.



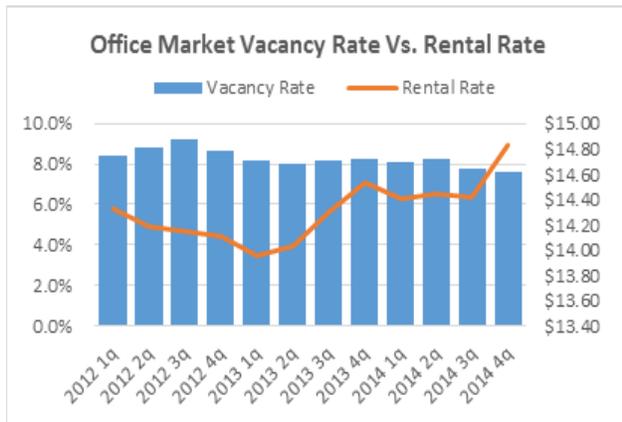
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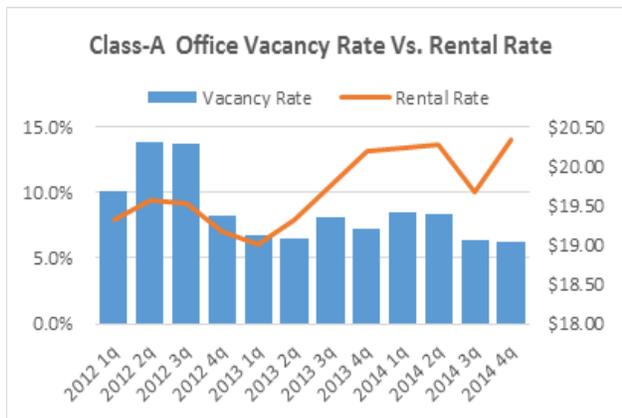
- **Class-A property net absorption was a positive 1,815 SF; it decreased** compared with its net absorption of 151,217 SF at the end of the third quarter 2014.
- **Class-B property net absorption was a positive 67,925 SF; it decreased** compared with its net absorption of 112,967 SF at the end of the third quarter 2014.
- **Class-C property net absorption was a positive 27,945 SF; it decreased** compared with its net absorption of 59,368 SF at the end of the third quarter 2014.

## Rental Rates and Vacancy Rates

	Under 20,000 SF	Over 20,000 SF
Rental Rate	\$13.22	\$14.79
Vacancy Rate	5.00%	8.70%



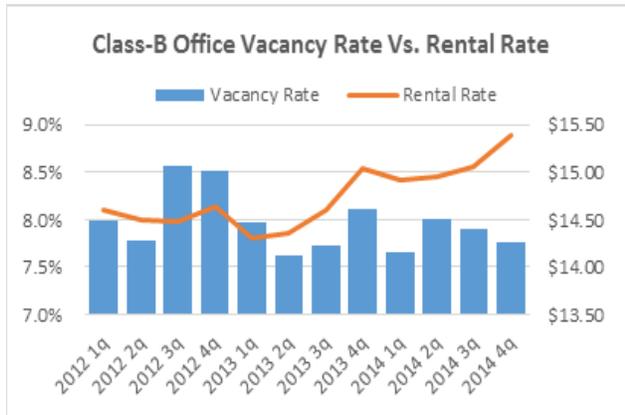
- **The office market rental rate was \$14.83/SF/YR.**
- **The office market rental rate increased** compared to the rate of \$14.42/SF/YR.
- **The office market vacancy rate was 7.60%.**
- **The office market vacancy rate decreased** compared to the rate of 7.80% at the end of the third quarter 2014.



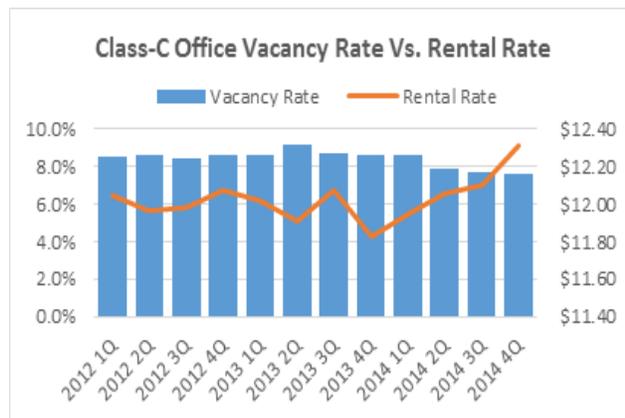
- **Class-A property rental rate was \$20.33/SF/YR.**
- **Class-A property rental rate increased** compared to its rate of \$19.68/SF/YR at the end of the third quarter 2014.
- **Class-A property vacancy rate was 6.30%.**
- **Class-A property vacancy rate stayed the same** compared to its rate at the end of the third quarter.

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## Rental Rates and Vacancy Rates



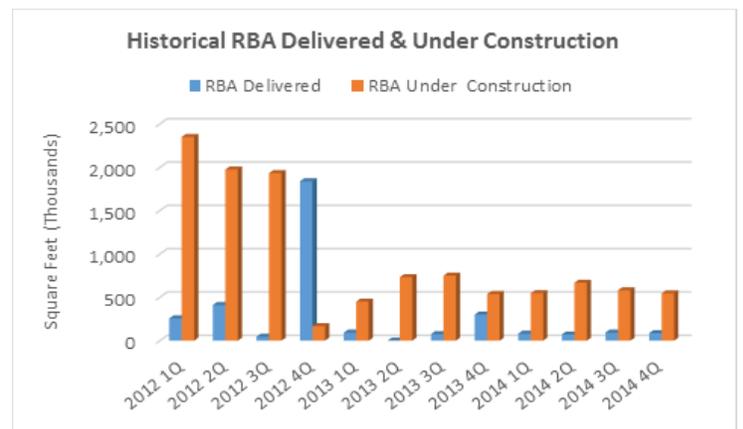
- **Class-B property rental rate was \$15.40/SF/YR.**
- **Class-B property rental rate increased** compared to its rate of \$15.06/SF/YR at the end of the third quarter 2014.
- **Class-B vacancy rate was 7.80%.**
- **Class-B vacancy rate decreased** compared to its rate of 7.90% at the end of the third quarter



- **Class-C rental rate was \$12.67/SF/YR.**
- **Class-C rental rate increased** compared to its rate of \$12.03/SF/YR at the end of the third quarter 2014.
- **Class-C vacancy rate was 8.00%.**
- **Class-C vacancy rate decreased** compared to its rate of 8.10% at the end of third quarter 2014.

## Delivery and Under Construction

There were 511,671 square feet of office space under construction at the end of the fourth quarter 2014. The largest two projects underway at the end of the fourth quarter are the 150,000 square foot Hobby Lobby expansion located at 7700 Southwest 44th Street that is 100 percent pre-leased, and the 95,000 square foot GE Oil & Gas Technology Center located at 1st Northeast 10th Street which is now 100 percent pre-leased. It is expected that 341,640 square feet of office space will be delivered to the market during the first quarter of year 2015.



Some of the notable deliveries in 2014 include: 1001 North Pennsylvania Avenue, a 50,000-square foot property that delivered in the third quarter 2014 and is now 100 percent occupied by Salvation Army, and the Monterey located at 307-309 Northwest 13rd Street, a 22,000 square foot property that delivered in the second quarter 2014 and is now 85 percent occupied.

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## Oklahoma City Market Office Sales

	Under 20,000 SF	Over 20,000 SF
Sale Price per SF	\$116	\$92
Cap Rate	7.50%	7.80%

There were 32 transactions recorded for the fourth of quarter 2014. The total sales volume of the fourth quarter was \$31,351,500. The largest transaction based on dollar volume is the sale of a 68,860 square foot medical office building located at 3400 West Tecumseh Road. Healthcare Realty Trust, Inc. purchased the property from Lockard Development, Inc. and Oklahoma Sports & Orthopedics for \$17.445 million.

Number of Transactions	32
Total Sales Volume	\$31,351,500
Total Bldg. SF	381,273
Total Land in SF	3,717,846
Average Price	\$1,119,696
Average Price Per Bldg. SF	\$106.65
Median Price Per SF	\$81.86

The office market in Oklahoma City has become a hot area for investors and developers across the nation, especially the downtown office market. Besides the four towers that Chicago-based Clayco is going to build downtown, another 27-story commercial building proposed by Houston-Based Hines has just been approved by the Downtown Design Review Committee.



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## OKC Market Significant Office Sale Transactions during the Fourth Quarter 2014



Name: HealthPlex  
Address: 3400 W Tecumseh Rd, Norman  
Sale Price: \$17,445,500  
Building SF: 68,860 SF  
Price/SF: \$253.35  
Sale Date: 10/29/2014



Name: 2525 NW Expressway  
Address: 2525 NW Expressway, OKC  
Sale Price: \$3,750,000  
Building SF: 82,110 SF  
Price/SF: \$45.67  
Sale Date: 11/6/2014



Name: 5832 NW 135th Rd-Building 2  
Address: 5832 NW 135th Rd, OKC  
Sale Price: \$1,036,000  
Building SF: 5,000 SF  
Price/SF: \$207.20  
Sale Date: 12/1/2014



Name: 921 NW 63rd Street  
Address: 921 NW 63rd Street, OKC  
Sale Price: \$946,000  
Building SF: 10,669 SF  
Price/SF: \$88.67  
Sale Date: 10/8/2014



Name: 780 E Britton Road  
Address: 780 E Britton Road, OKC  
Sale Price: \$900,000  
Building SF: 5,100  
Price/SF: \$176.47  
Sale Date: 11/17/2014



Name: 2795 Broce Dr.  
Address: 2795 Broce Dr., Norman  
Sale Price: \$640,000  
Building SF: 11,100 SF  
Price/SF: \$57.66  
Sale Date: 11/10/2014

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