

Fourth Quarter Industrial Market Report 2014



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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.

Leasing Activities	
Total Net Absorption	443,220 SF
Total Inventory	110,485,601 SF
Overall Rental Rate	\$4.86/SF/YR
Total Vacancy Rate	5.00%
Under Construction	2,822,985 SF
Sale Activities	
Number of Transactions	51
Total Sales Volume	\$71,213,833
Average Price per Bldg. SF	\$30.29

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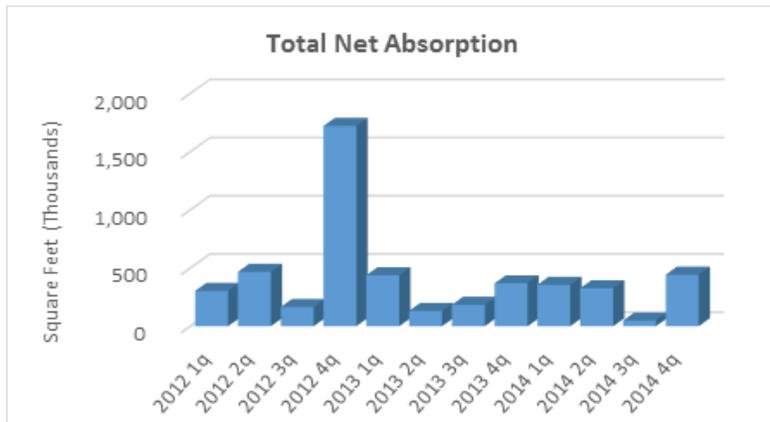
Local Economy

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 Industrial Leasing

The largest lease signings occurring in 2014 included: the 322,129 square foot lease signed by Alliance Steel at 3333 South Council Road; the 315,000 square foot deal signed by ATC Drivetrain at 200 Northeast 36th Street-Building 1; and the 153,544 square foot lease signed by Smith & Nephew at 76 South Meridian Avenue in the Oklahoma County Market.

Net Absorption



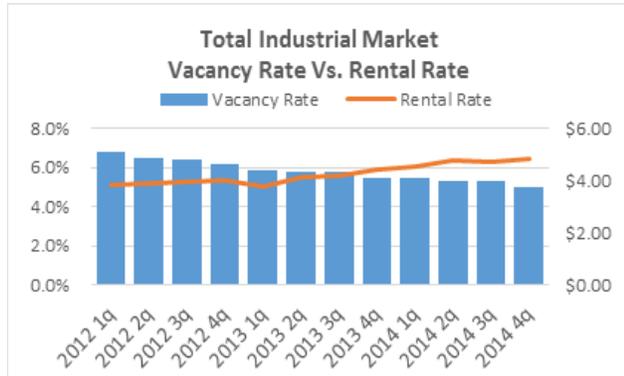
- **The total net absorption was 443,220 SF.**
- **The total net absorption significantly increased** compared to its net absorption of 49,080 SF in the third quarter 2014.
- **The total inventory was 110,485,601 SF.**
- **The total inventory increased** slightly compared to its inventory of 110,300,845 SF at the end of the third quarter 2014.



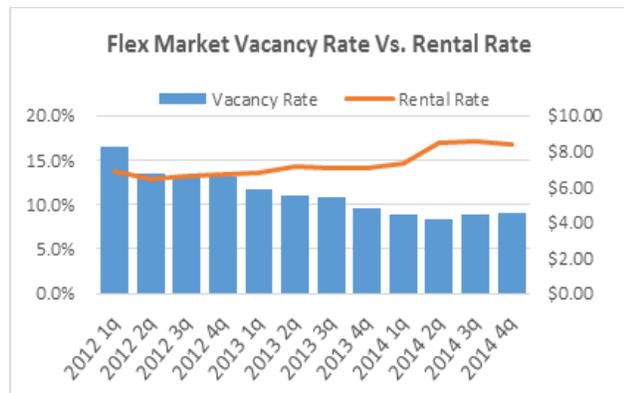
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Rental Rates and Vacancy Rates

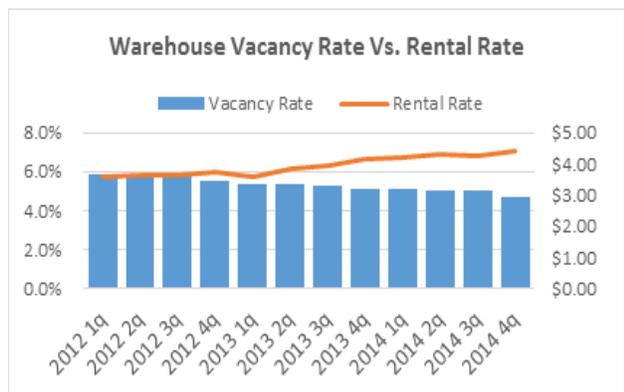
	Under 30,000 SF	Over 30,000 SF
Rental Rate	\$5.82	\$3.77
Vacancy Rate	2.70%	6.20%



- **The industrial rental rates was \$4.86/SF/YR**
- **The industrial rental rate increased** slightly compared to its rental rate of \$4.73/SF/YR at the end of the third quarter 2014.
- **The industrial vacancy rate was 5.00%.**
- **The industrial vacancy rate decreased** compared to its vacancy rate of 5.40% at the end of third quarter 2014.



- **Flex market rental rate was \$8.35/SF/YR.**
- **Flex market rental rate slightly decreased** compared to its rate of \$8.58/SF/YR at the end of the third quarter 2014.
- **Flex market vacancy rate was 9.00%.**
- **Flex market vacancy rate slightly increased** compared to its rate of 8.90% at the end of the third quarter 2014.

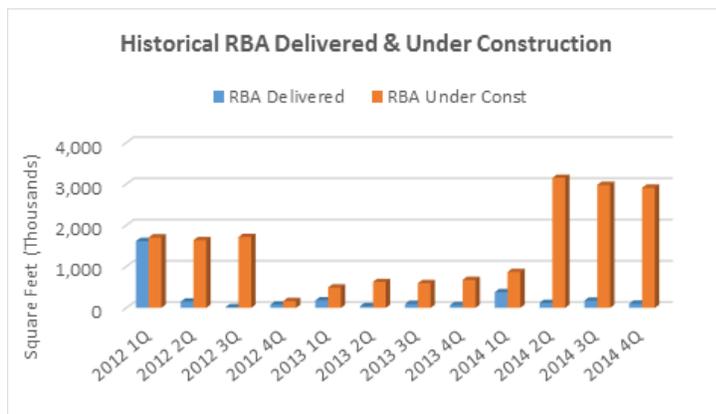


- **Warehouse rental rate was \$4.39/SF/YR.**
- **Warehouse rental rate increased** compared to its rate of \$4.24/SF/YR at the end of the third quarter 2014.
- **Warehouse vacancy rate was 4.70%.**
- **Warehouse vacancy rate decreased** compared to its rate of 5.00% at the end of the third quarter 2014.

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Delivery and Under Construction

There was 2,822,985 square feet of industrial space under construction at the end of the fourth quarter 2014. The two projects with the most rentable building area is the 1,900,000 square foot Hobby Lobby Warehouse located at 6900 Southwest 29th Street, which is 100 percent pre-leased; and a 365,000 square foot property located at 413 South Portland Avenue, which is 100 percent pre-leased. It is expected that 976,680 square feet of industrial space will be delivered to the market during the first quarter of 2015.



Some of the notable 2014 deliveries include: ShurTec Brands, a 280,000 square foot property located at 8301 North I-35 Service Road, it was delivered in the first quarter 2014 and 100 percent occupied; 6200 Southwest 29th Street, a 60,800 square foot building delivered in the third quarter 2014, which is 25 percent occupied.

Oklahoma City Market Industrial Sales

	Under 30,000 SF	Over 30,000 SF
Sale Price per SF	\$61	\$35
Cap Rate	8.40%	7.60%

Number of Transactions	51
Total Sales Volume	\$71,213,833
Total Bldg. SF	2,890,379 SF
Total Land in SF	10,691,802 SF
Average Price	\$1,780,346
Average Price Per Bldg. SF	\$30.29
Median Price Per SF	\$40.83

During the fourth quarter 2014, there were 51 industrial transactions totaling \$71,213,833 recorded. The total sales volume increased compared to the sales volume of \$43,814,000 during the third quarter. The largest transaction based on sales volume was the sale of the FAA Building located at 3601 South Thomas Road. Greenfield Partners LLC purchased the 239,023 square foot property from Deutsche Asset & Wealth Management for \$7,810,000 on October 27th, 2014. The aviation defense industry continues to grow in Oklahoma City due to our strong economy and low cost of business. Boeing relocated about 900 defense and support related jobs to Oklahoma City due to the significant savings in operating costs.

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OKC Market Significant Industrial Sale Transactions during the Fourth Quarter 2014



Name: FAA Building
Address: 3601 S Thomas Rd., OKC
Sale Price: \$7,810,000
Building SF: 239,023 SF
Price/SF: \$32.67
Sale Date: 10/27/2014



Name: 3400 S Kelly Avenue
Address: 3400 S Kelly Avenue, Edmond
Sale Price: \$6,000,000
Building SF: 525,000 SF
Price/SF: \$11.43
Sale Date: 12/29/2014



Name: Alliance Commerce Center
Address: 615 W Wilshire Blvd., OKC
Sale Price: \$5,600,000
Building SF: 192,353 SF
Price/SF: \$29.11
Sale Date: 10/14/2014



Name: Apollo Distribution Center
Address: 5001 SW 36th Street, OKC
Sale Price: \$4,990,000
Building SF: 123,000 SF
Price/SF: \$40.57
Sale Date: 10/27/2014



Name: 37 NW 122nd Street
Address: 37 NW 122nd Street, OKC
Sale Price: \$4,733,333
Building SF: 222,979 SF
Price/SF: \$21.23
Sale Date: 12/24/2014



Name: 400 N Ann Arbor Avenue
Address: 400 N Ann Arbor Avenue, OKC
Sale Price: \$4,500,000
Building SF: 119,700 SF
Price/SF: \$37.59
Sale Date: 11/14/2014

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