

First Quarter Office Market Report 2015



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Leasing Activities	
Total Inventory	55,272,521 SF
Overall Rental Rate	\$14.58/SF/YR
Total Vacancy Rate	7.30%
Under Construction	584,890 SF
Sale Activities	
Number of Transactions	31
Total Sales Volume	\$22,216,501
Average Price per Bldg. SF	\$131.98

National Economy

The harsh weather this winter, especially in the eastern U.S., has slowed the housing starts and decreased consumer spending; the rise in the value of the dollar during the first quarter has increased U.S. imports. Based on these factors, according to Kiplinger, the annual growth rate of GDP for the first quarter is only 1 percent. The continuing job gains and growth will increase consumer spending and Kiplinger predicted 2015 will end with an annual GDP growth rate of 3 percent. Oil prices have been staying low since last summer. Analysts from big oil service companies have predicted that oil prices will stay between \$40 and \$50 per barrel until the end of 2015, and oil prices could fall further since we are seeing increasing oil supply. Big oil service companies such as Schlumberger, Halliburton, and Baker Hughes have already started their first round of layoffs. Many small companies who cannot maintain their profits under such low prices have had to close their offices. We will definitely see more layoffs in the oil and gas industry in the coming quarters. Low oil and gas prices also save consumers money and we will see growing consumer spending on gasoline, cars and other products and services, which will increase employment in other industries. According to the Department of Labor, unemployment rates stayed at 5.5 percent in March, and we are looking for an unemployment rate of 5.3 percent at the end of 2015. As the job market continues its growth, economists predict that the Federal Reserve will increase interest rates this September.

Local Economy

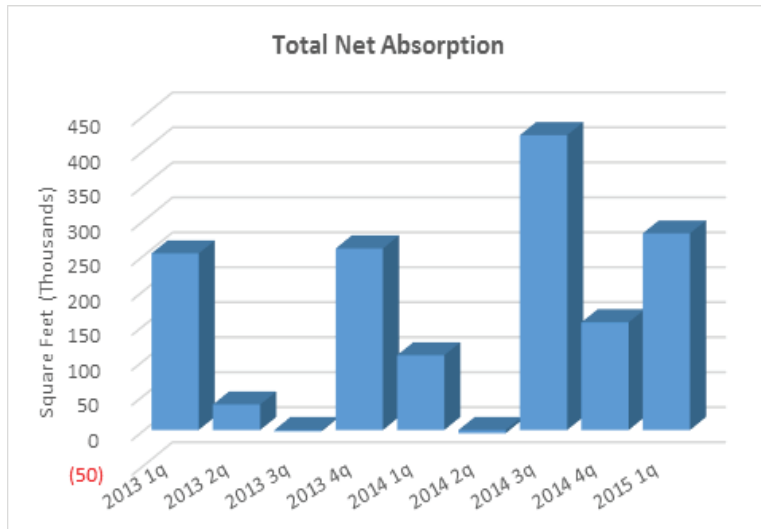
Seven months have passed since the decline of the oil and gas prices. As a state with abundant oil and gas resources, Oklahoma could not avoid seeing layoffs in the oil and gas industry; it's reported that 2,400 energy jobs have been lost just this February. Despite the layoffs in the energy industry, Oklahoma still sees job growth and has one of the lowest unemployment rate in the nation. The unemployment rate decreased to 3.9 percent this February, and stayed unchanged in March. Oklahoma's economy is more diversified and less dependent on the oil and gas industry than in prior years and the decline in the energy industry has been countered by gains in construction, trade, transportation and utilities and government jobs. A new maintenance plant for the KC-46 A Tanker is going to be constructed at Tinker AFB, which will create more than 1,300 jobs; the massive Baker Hughes campus is well under construction at the Southwest Corner of the Kilpatrick Turnpike and Santa Fe and will bring 475 new jobs to Oklahoma City. Grocery and utility costs in the Oklahoma City area are 10.1 percent below the national average; Forbes ranked Oklahoma City as the number 4 most affordable city in the United States on its recent news release.

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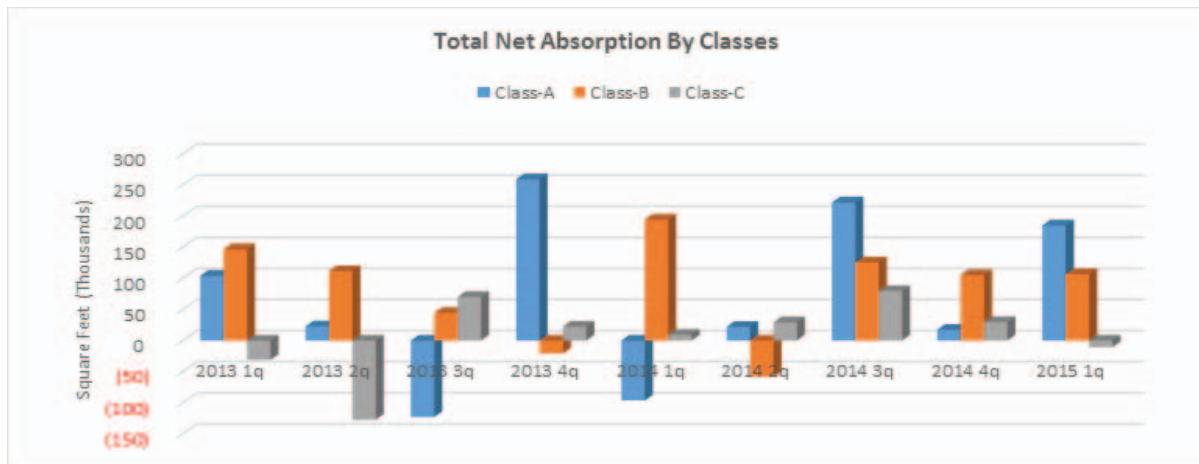
Oklahoma City Market Office Leasing

The largest lease signings occurring in in the first quarter of 2015 included: the 11,292 square foot lease signed by Lincare Inc. at 300 Meridian Place; the 8,572 square foot lease signed by Trevo at Valliance Tower; and the 7,500 square foot lease signed by Ward & Glass LLP at 1821 E Imhoff Road.

Net Absorption



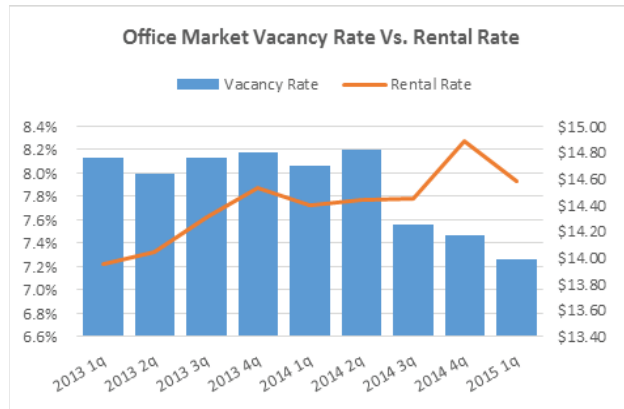
- **The total office net absorption was 281,071 SF.**
- **The total net absorption increased** compared to the net absorption of 154,020 SF at the end of the fourth quarter 2014.
- **The total inventory was 55,272,521 SF.**
- **The total inventory increased** compared to the inventory of 54,881,886 SF at the end of the fourth quarter 2014.



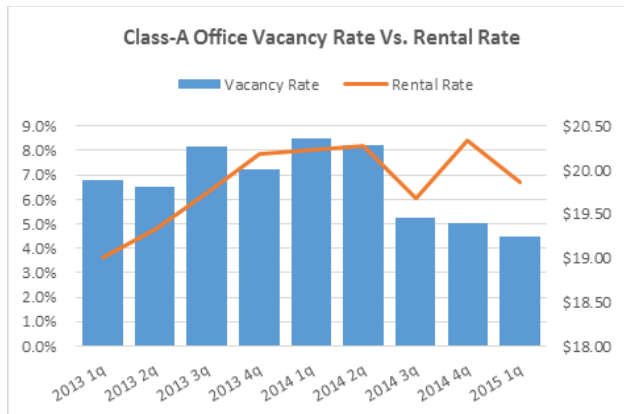
- **Class-A property net absorption was a positive 185,145 SF; it significantly increased** compared to the net absorption of 17,370 SF at the end of the fourth quarter 2014.
- **Class-B property net absorption was a positive 106,696 SF; it increased** compared to the net absorption of 105,305 SF at the end of the fourth quarter 2014.
- **Class-C property net absorption was a negative 10,770 SF; it decreased** compared to the net absorption of 31,345 SF at the end of the fourth quarter 2014.

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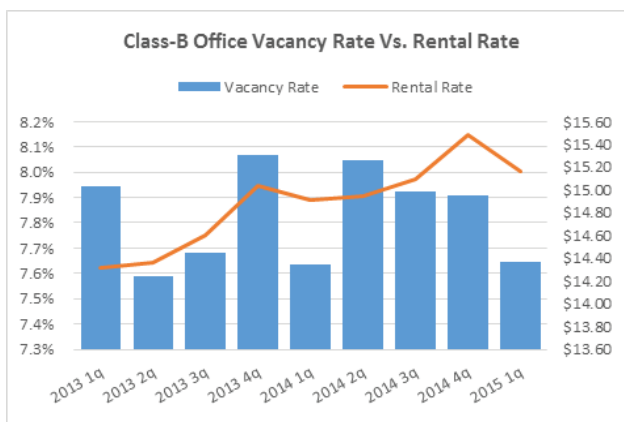
Rental Rates and Vacancy Rates



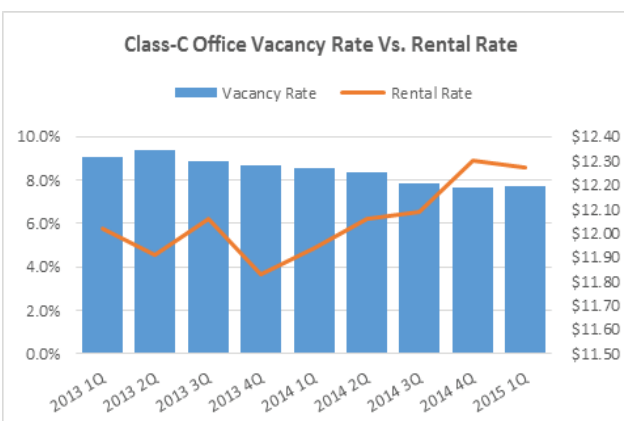
- The office market rental rate averaged **\$14.58/SF/YR**.
- The office market rental rate slightly **decreased** compared to the rate of \$14.89/SF/YR at the end of the fourth quarter 2014.
- The office market vacancy rate was **7.30%**.
- The office market vacancy rate **decreased** compared to the vacancy rate of 7.50% at the end of the fourth quarter 2014.



- Class-A property rental rate averaged **\$19.86/SF/YR**.
- Class-A property rental rate **decreased** compared to the rate of \$20.33/SF/YR at the end of the fourth quarter 2014.
- Class-A property vacancy rate was **4.50%**.
- Class-A property vacancy rate **decreased** compared to the rate of 5.00% at the end of the fourth quarter 2014.



- Class-B property rental rate averaged **\$15.17/SF/YR**.
- Class-B property rental rate **decreased** compared to the rate of \$15.49/SF/YR at the end of the fourth quarter 2014.
- Class-B property vacancy rate was **7.60%**.
- Class-B property vacancy rate **decreased** compared to the rate of 7.90% at the end of the fourth quarter 2014.



- Class-C property rental rate averaged **\$12.26/SF/YR**.
- Class-C property rental rate **decreased** compared to the rate of \$12.67/SF/YR at the end of the fourth quarter 2014.
- Class-C property vacancy rate was **7.80%**.
- Class-C property vacancy rate **stayed the same** compared to the rate of 7.80% at the end of the fourth quarter 2014.

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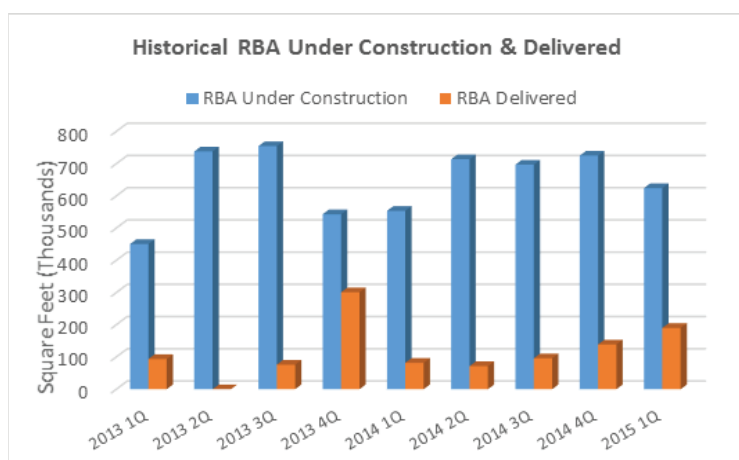
OKC Office Market Information by Submarkets

	CBD	Northwest	Edmond	Norman & Moore
Rental Rate	\$14.63	\$14.58	\$16.98	\$15.74
Vacancy Rate	11.60%	6.90%	6.60%	4.50%
Existing Buildings	196	795	515	530
Existing SF	11,908,541 SF	13,069,246 SF	3,232,861 SF	4,041,164
Cap Rate	-	8.70%	7.50%	-

Many offices in the Central Business District were built at the beginning of the 20th century. The rental rate for those buildings has lowered the average rental rate in the CBD area. The demand for Class-A office space in the CBD is strong with a vacancy rate of just 1.1 percent. We are seeing Class-A office space in CBD at \$23 per square foot per year, full service.

Delivery and Under Construction

There were 584,890 square feet of office space under construction at the end of the first quarter 2015. The largest two projects underway are the 109,000 square foot Linn Energy building located at 14501 Hertz Quail Springs Parkway that is now fully pre-leased and is scheduled to be delivered in November 2015; and the 96,439 square foot GE Oil & Gas Research Center located at 300 Northeast 10th Street which is now fully pre-leased and is scheduled to be delivered in June 2016.



It is expected that 384,809 square feet of office space will be delivered to the market during the second quarter 2015. Detailed information regarding selected top office properties under construction can be found in the following table.

Building Name	Building Address	City	RBA	Delivery Time
Linn Energy	14501 Hertz Quail Springs Pky	OKC	109,000 SF	Nov 2015
Parkside Building	120 Robert S Kerr Ave	OKC	70,000 SF	May 2015
Computer Rx	S Telephone Rd @ S 19th	Moore	50,000 SF	May 2015
Offices at Market Center	901 NE 122nd St	OKC	41,500 SF	Oct 2015
GE Oil & Gas Research Center	300 NE 10th St	OKC	96,439 SF	Jun 2016

Some of the notable deliveries during the first quarter 2015 included: the 150,000 square foot Hobby Lobby Corporate located at 7700 Southwest 44th Street which is now 100 percent occupied, and the 5,794 square foot building located at 2561 South Kelly Avenue which is now still vacant.

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Oklahoma City Market Office Sales

There were 31 transactions recorded for the first quarter 2015. The total sales volume of the first quarter was \$22,216,501. The largest transaction based on dollar volume is the sale of the 27, 100 square foot Class-B office building located at 3720 Northwest 36th Street. This building was built in 1999. Teleflora LLC purchased it from Herman Meinders for \$9,500,000 on January 7th, 2015.

Number of Transactions	31
Total Sales Volume	\$22,216,501
Total Bldg. SF	199,436 SF
Total Land in SF	2,022,926
Average Price per Bldg. SF	\$131.98
Median Price per SF	\$93.34

The office market in Oklahoma City has become a hot area for investors and developers across the nation, especially the downtown office market. Chicago-based Clayco is set to build a pair of office towers and a pair of residential towers; the construction of OGE center is set to start in June. Also, a 27-story office proposed by Houston-based Hines is going to be built in the coming future.

While most organizations are proceeding very cautiously when it comes to building purchases and development due in part to the decrease in oil and gas prices, we would consider moving forward with any development plans in the works. More than likely, the decreased oil and gas prices will go back to at least normal within the next 18 months to 2 years. When the prices do come back, there will again be a shortage of office and industrial space for these entities. In reality, it will take about 2 years for completion of most of the proposed projects. Some will take longer than that. These developers will be well positioned for the return of the market while others will be scrambling to start projects and purchase properties at even higher prices.



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OKC Market Significant Office Sale Transactions during the First Quarter 2015



Property Name: Teleflora
Address: 3720 NW 36th Street, OKC
Sale Price: \$9,500,000
Building SF: 68,686 SF
Price per SF: \$138.31
Sale Date: 1/7/2015



Property Name: 2028 E Memorial
Address: 2028 E Memorial, Edmond
Sale Price: \$1,125,000
Building SF: 12,000 SF
Price per SF: \$93.75
Sale Date: 1/26/2015



Property Name: 1109 N Bryant Avenue
Address: 1109 N Bryant Avenue, Edmond
Sale Price: \$671,500
Building SF: 4,476 SF
Price per SF: \$150.02
Sale Date: 1/31/2015



Property Name: 13916 Quail Pointe Dr.
Address: 13916 Quail Pointe Dr., OKC
Sale Price: \$650,000
Building SF: 3,384 SF
Price per SF: \$192
Sale Date: 1/6/2015



Property Name: 320 N Broadway
Address: 320 N Broadway, Edmond
Sale Price: \$645,000
Building SF: 5,984 SF
Price per SF: \$107.79
Sale Date: 1/9/2015



Property Name: 716 Wall Street
Address: 716 Wall Street
Sale Price: \$580,000
Building SF: 3,008 SF
Price per SF: \$192.82
Sale Date: 1/8/2015

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