



M Office
Oklahoma City **MARKET**

Summer • 2006

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MARKET CONDITIONS IN OKLAHOMA CITY, SUMMER 2006

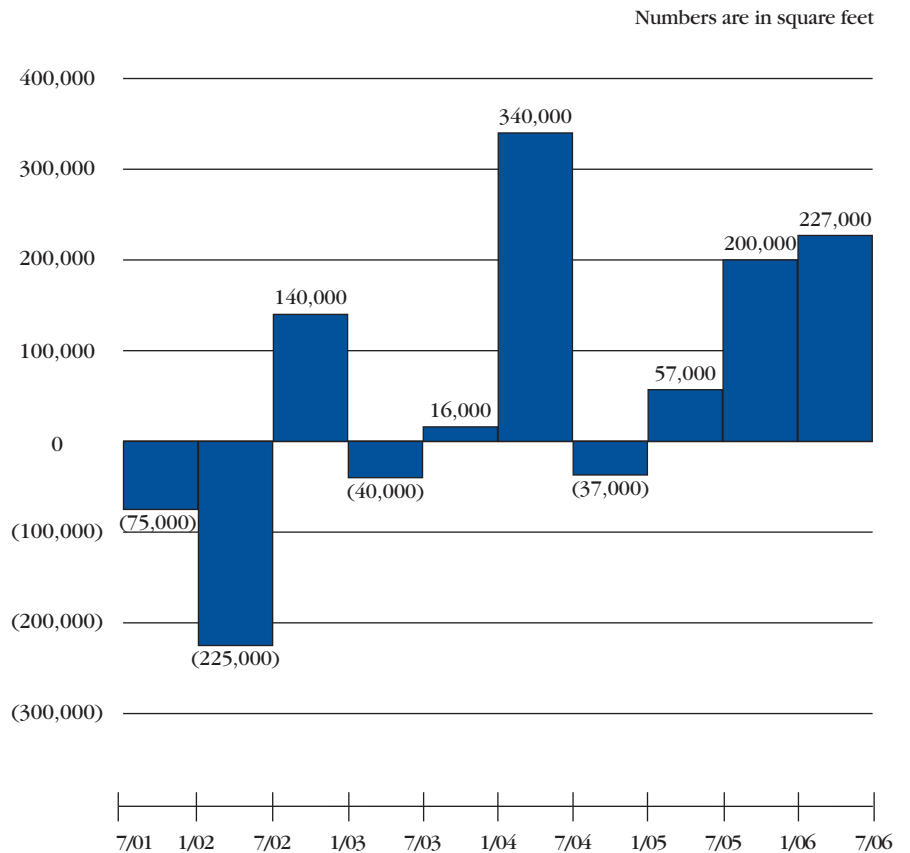
The first half of 2006 has produced a continuation of strong absorption in Oklahoma City's office market, with 227,000 square feet of net new leasing. Over the past 12 months, the total has been 427,000 square feet. Every submarket in the city has had positive absorption in the past six months.

Vacancy rates in the suburbs now average 10.9% overall, their lowest level in many years. The tightest submarket is the North submarket, with a vacancy rate of 5.5% in the 25 buildings containing 1.5 million square feet of office space. The Midtown submarket has a 10.1% vacancy rate, the Memorial submarket has a 10.8% vacancy rate, and the Northwest submarket, the largest of the suburban submarkets with 4.6 million square feet of office space, has an 11.7% vacancy rate. At the time of our last survey, in January, 2006, the overall suburban vacancy rate was 12.5%, and a year ago, it was 14.5%.

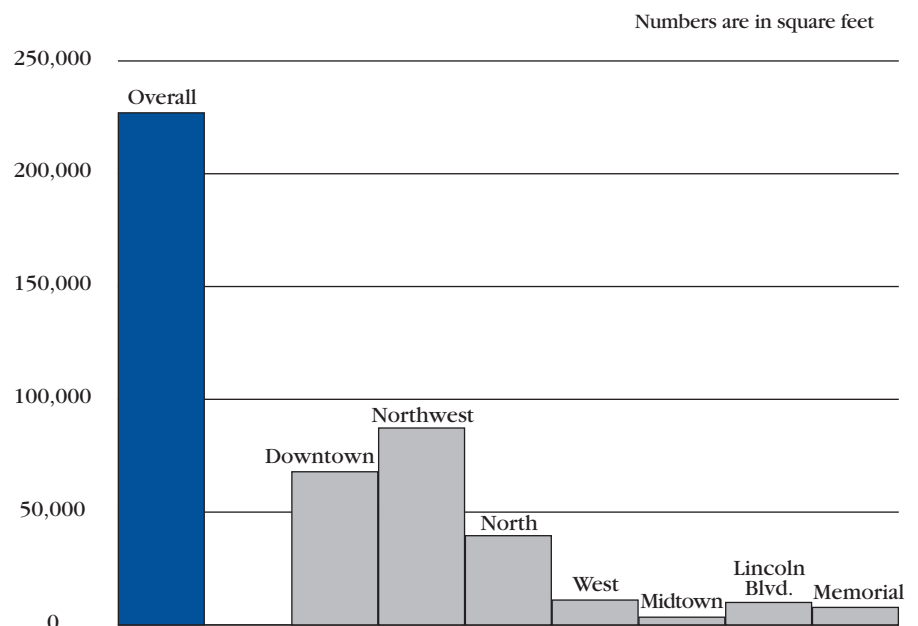
Downtown, the story is similar. Because of the large inventory of old class C buildings, the vacancy percentages are significantly higher, but overall vacancies are now down to 30.7%. If the class C buildings are ignored, the vacancies in class A and B buildings now average 17.5%, down from 20.5% in January, 2006, and 26.9% a year ago.

As one would expect, rent rates are moving upward in response to the increased demand and shrinking supply. Weighted average asking rent rates are up in every submarket and every class. While average increases in the last six months range from \$.20 to \$1.25 in different submarkets, the numbers in the largest submarkets suggest that the overall average is closer to \$.50 or \$.60 per square foot. We expect to see these increases continue for a while, not only because of tightening market conditions, but because replacement costs have increased significantly, and so have acquisition prices paid by investors acquiring office buildings. On all fronts, rent expectations have risen.

Overall Absorption Six Month Periods



Submarket Absorption Current Period



Occupancy & Rent Rate Trends by Submarket

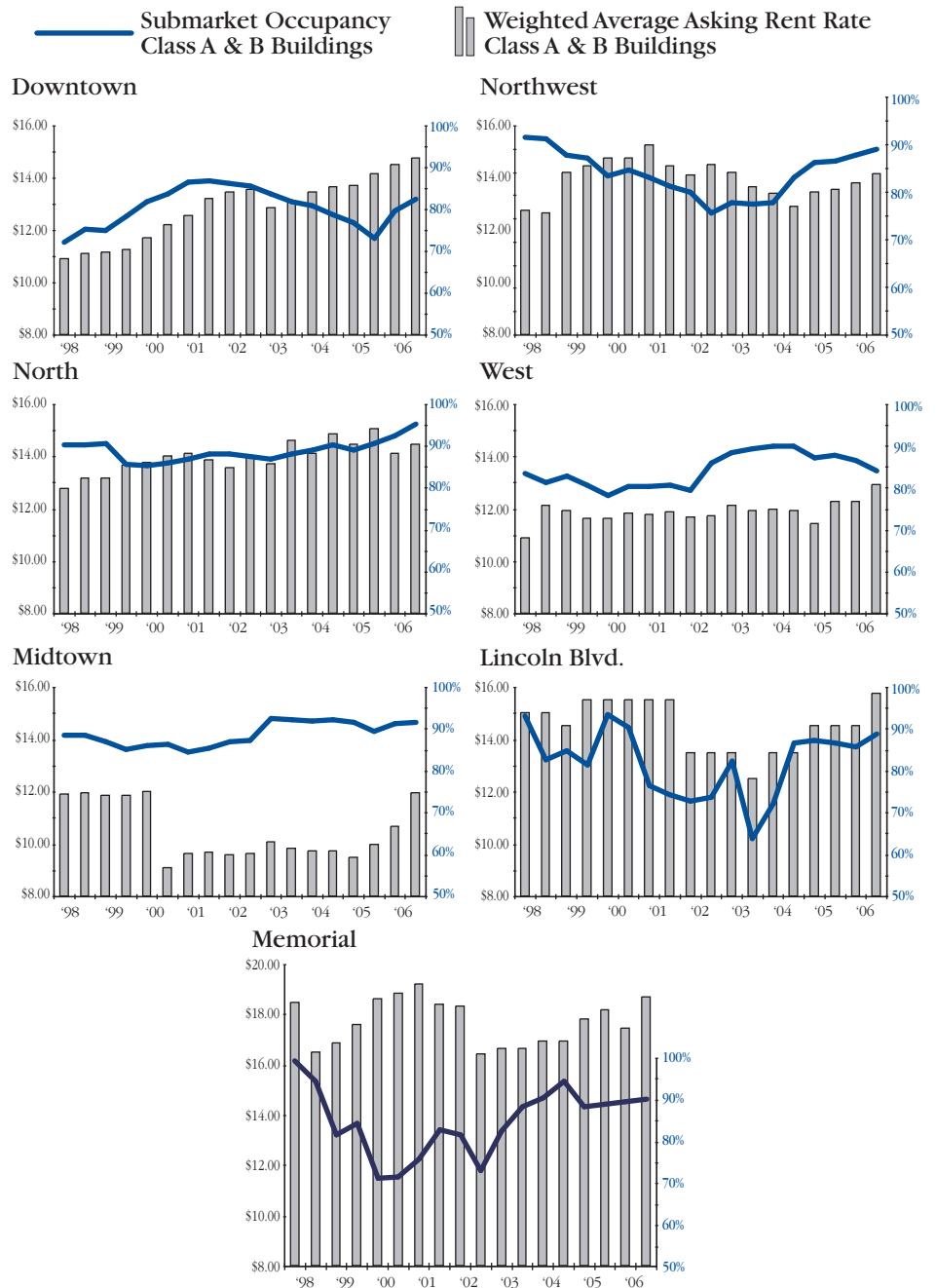
Landlords' operating costs are up, most notably energy costs, and also real estate taxes, in many cases. However, as occupancy levels increase, and rent rates rise as well, net income streams improve, supporting the prices paid by recent purchasers, and encouraging expectations for future building values.

The investment sales market remains very strong, with buildings changing hands at historically high prices (which seem like a bargain to investors on both coasts). Low cap rates have been holding their own in the face of increased short term interest rates, and upward creep in long term interest rates as well.

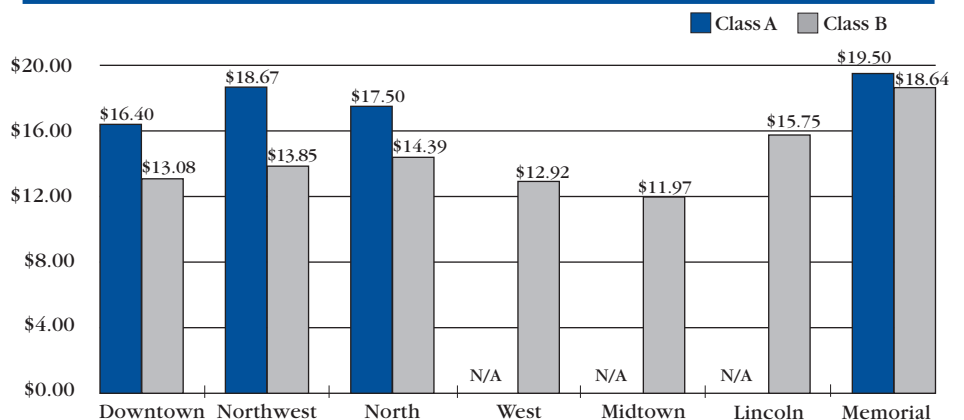
A cloud was cast on downtown by the recent announcement of Anadarko Petroleum's acquisition of Kerr McGee and its plan to move the corporate office to Houston. Because Kerr McGee has never rented out space in its 500,000 square foot tower, a large potential vacancy has never shown up in our surveys. To date, Anadarko has given no indication of its plans for the building, and if they eventually put the building on the market for sale, it will probably be a while before the effect on the rental market is known. Our expectation is that the large investment required for acquisition, tenant improvements, and conversion to multi-tenant occupancy, will contribute to a lengthy disposition and conversion process, and that rental pricing will be at the upper end of the class A market.

Compared with many cities, Oklahoma City's office market looks very strong.

Our expectation is for continuing improvement in occupancy levels and significant increases in rent rates during the next year or two. As suburban vacancy rates continue to decline, and the number of suburban space options dwindle, rents will move upward, pushing downtown rates up as well, and making downtown space options more attractive. Meanwhile, the remarkable growth in downtown hotel rooms, sports and entertainment offerings, and residential options makes the office environment an increasingly attractive alternative to the suburbs.



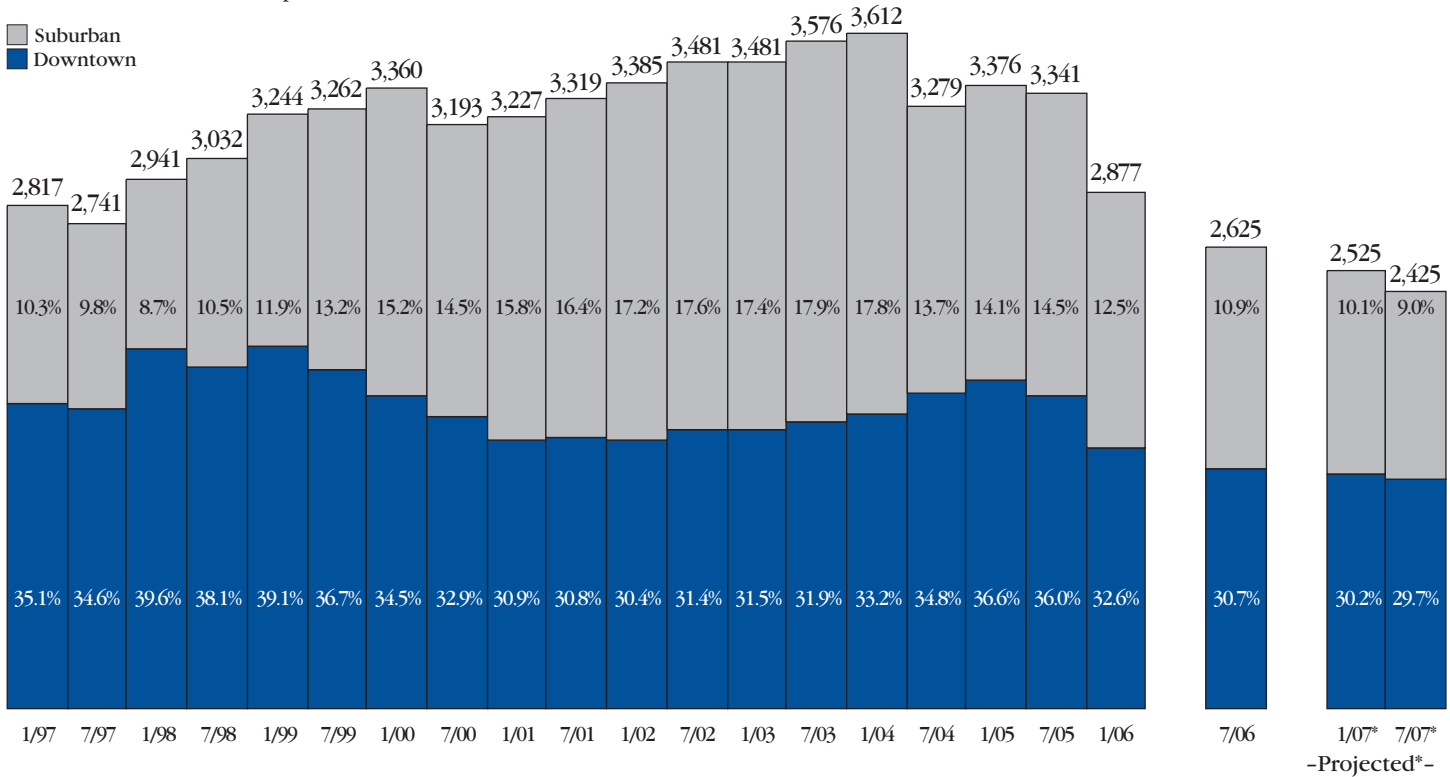
Weighted Average Asking Rent Rates by Submarket



Available Space Trend Six Month Periods

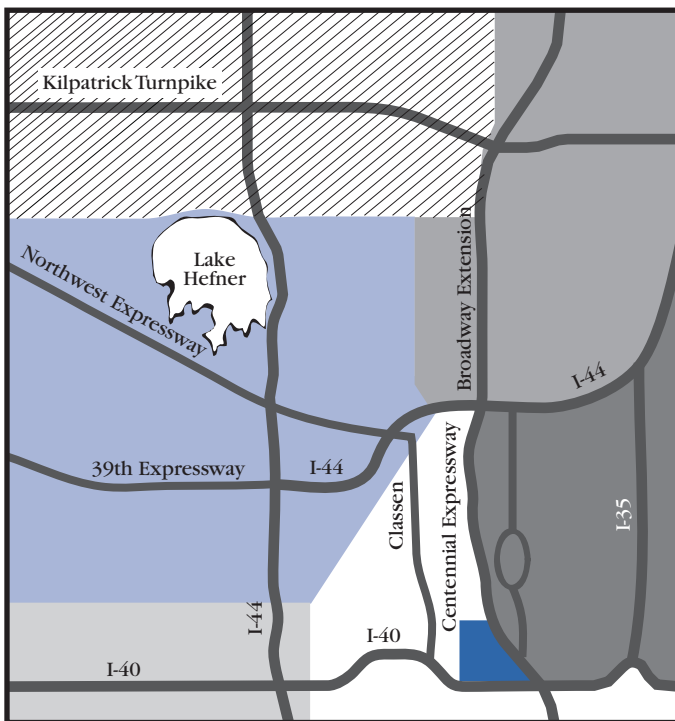
Numbers are in thousands of square feet

Suburban
Downtown



*Assuming no new buildings begin construction for occupancy prior to July, 2007, and that 200,000 sf is leased net of additional vacancies during the next 12 months.

Available Space by Submarket July 2006



Key	Submarket	Total Area (sf)	Available (sf)	% Vacancy
Dark Blue	Downtown	5,238,062	1,605,808	30.7%
Suburban				
Light Blue	Northwest	4,596,758	536,852	11.7%
Gray	North	1,527,197	84,529	5.5%
Light Gray	West	477,260	94,386	19.8%
White	Midtown	1,243,949	125,211	10.1%
Dark Gray	Lincoln Blvd.	613,374	80,818	13.2%
Diagonal Lines	Memorial	897,531	97,002	10.8%
Total Suburban		9,356,069	1,018,798	10.9%
Total Existing		14,594,131	2,624,606	18.0%
New Construction		0	0	0.0%
Total Office Space		14,594,131	2,624,606	18.0%



5801 North Broadway • Suite 120 • Oklahoma City, OK 73118 • 405/842-0100
502 S. Main Street • Suite 450 • Tulsa, OK 74103 • 918/582-8100

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