

# M Office Oklahoma City MARKET

Summer • 2011



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# MARKET CONDITIONS IN OKLAHOMA CITY, SUMMER 2011

Absorption of office space in Oklahoma City improved dramatically in the first half of 2011, with a net gain of 322,500 square feet, compared with a net loss of 85,500 square feet in the second half of 2010. The first half absorption represents 2.2% of the total of 14.7 million square feet of multi-tenant office space surveyed for this report.

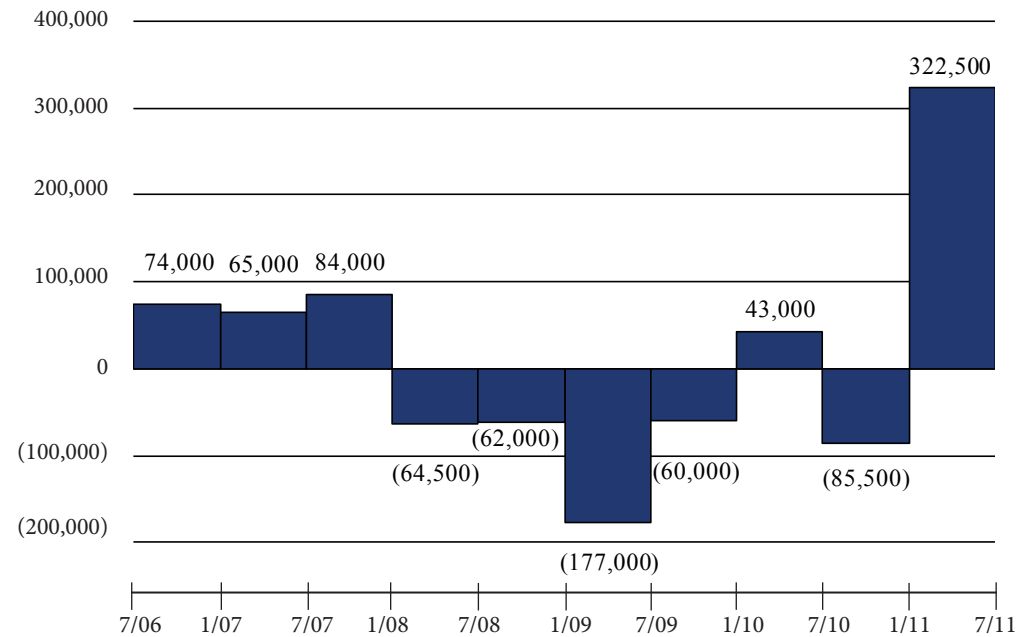
Two factors account for the bulk of this absorption. First, the space vacated by Farmer's Insurance last year in Shepherd Mall (which was largely responsible for the period's negative absorption) was mostly absorbed by expansion of the Oklahoma Health Care Authority and MidFirst Bank. Second, Chesapeake Energy's continued growth off-campus consumed the bulk of the remaining space in Caliber Center. As a result, the Northwest submarket showed a net gain in occupancy of 167,000 square feet in the first half of 2011, and the Midtown submarket showed a net gain of 109,000 square feet.

Other submarkets showed much more modest changes, ranging from a gain of 29,000 square feet in the West, to gains of less than 10,000 square feet in the Downtown, Memorial, North, and Lincoln submarkets. Significantly, no submarket showed negative absorption during this survey period.

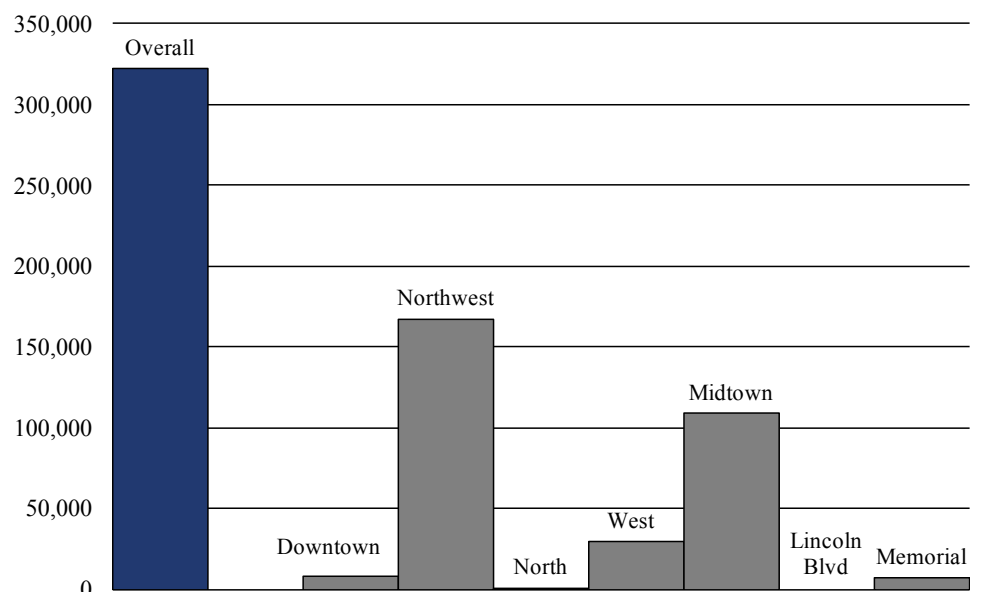
Overall occupancy rates are now strongest in the Midtown, North, and Northwest submarkets, at 96.2%, 88.3%, and 88.2% respectively. The Memorial submarket is now at 84.2% occupancy, and the two smallest submarkets, Lincoln and West are now at 71.4% and 71.6% respectively. Overall occupancy Downtown now stands at 73.5%, but in class A and B buildings, the overall occupancy is 83.7%. Options for large users of office space are more limited today than at any time in recent memory.

Weighted average asking rent rates have not changed significantly in any submarket since our last survey, except for Midtown where the leases at Shepherd Mall have altered the mix of

## Overall Absorption Six Month Periods



## Submarket Absorption Current Period

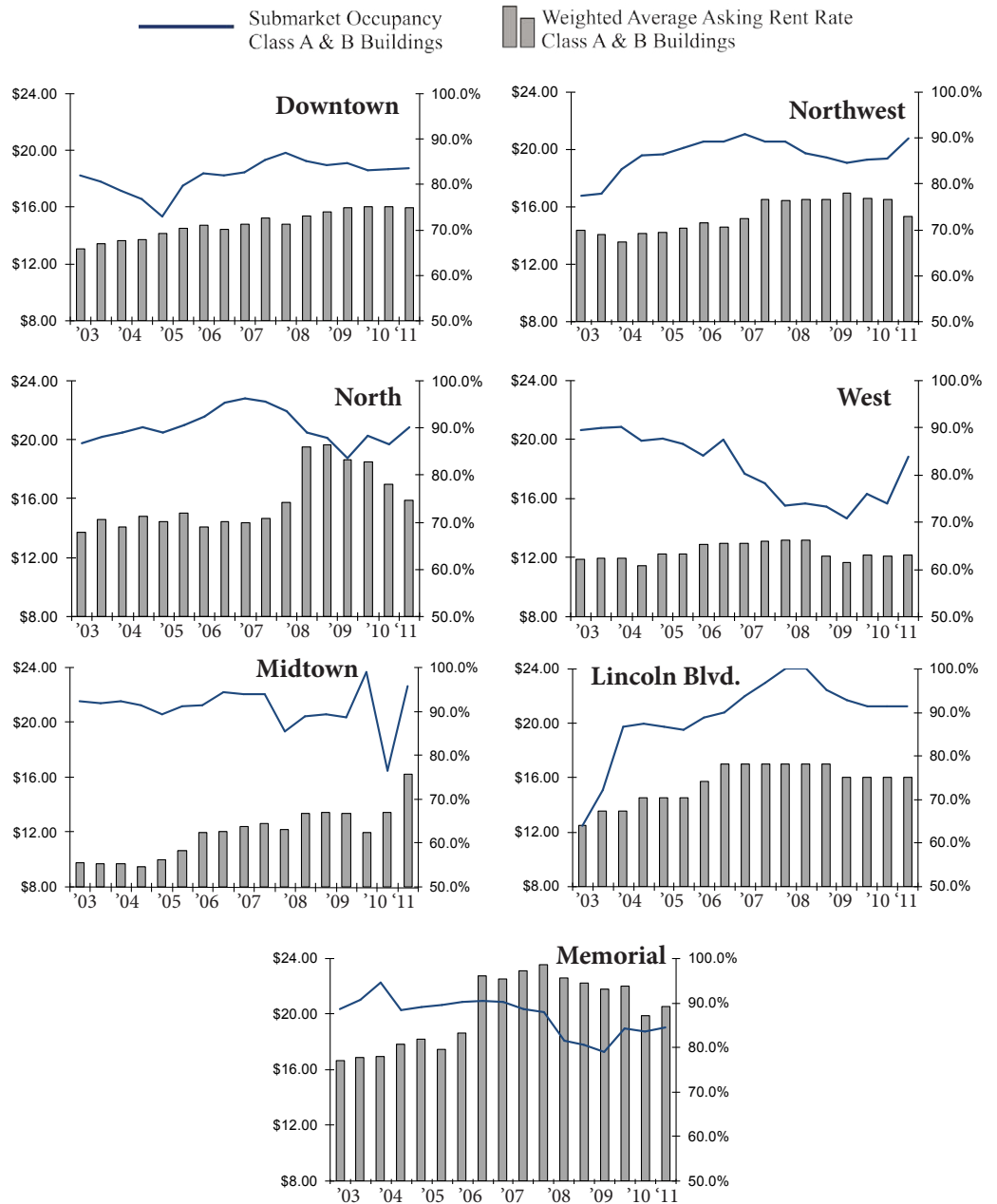


remaining available space. In general, class A rent rates range from \$16 to \$22 per square foot downtown, and \$17 to \$24 per square foot in the suburbs. Class B rent rates range generally from \$13 to \$17 per square foot downtown and \$13 to \$20 per square foot in the suburbs. Quoted rent rates vary by building, location, age, condition, and quality of finish of the interior space, and actual deal terms fluctuate with the lease term, tenant improvement allowance, and other particulars of the individual lease. Except in the newest, highest priced space, rent rates are firm and landlords are not making concessions.

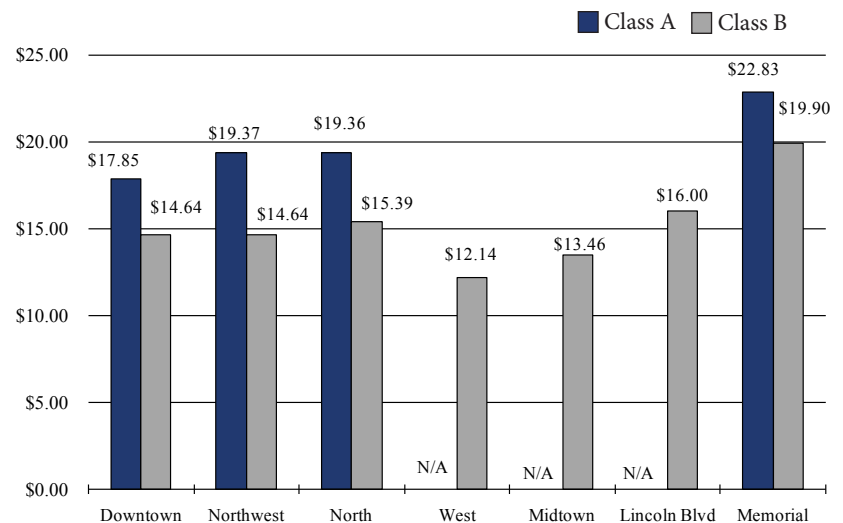
The volume of investment sale transactions continues to be far below historic levels. While mortgage debt is available at very attractive rates, buyers' appetites are constrained by low loan to value ratios, tighter underwriting by lenders, and difficulty in finding bargains. Most owners are enjoying strong operating income and little motivation to sell into a slow market. There are a few exceptions, of course, to these generalizations. Well leased premium properties continue to bring premium prices, and heavily leveraged owners with short term debt sometimes face challenges refinancing or raising capital. With few transactions to guide valuation, owners, lenders, sellers and buyers are continuing to operate in poorly charted waters. Income and cash flow are the only measuring sticks that buyers and sellers can trust.

Despite its public sector budget shortfalls, Oklahoma's economy is stronger than most of the rest of the country and Oklahoma City continues to enjoy broad support for its investments in urban infrastructure, venues, and schools. This is evidenced by the voters' commitment to another penny sales tax for MAPs III projects downtown, Devon's progress with its corporate headquarters, and Project 180's reconstruction of all the streets within the CBD. During the next decade more than \$3 billion of public and private investments are committed to the downtown area, an indication that the city's remarkable renaissance is likely to continue.

## Occupancy & Rent Rate Trends by Submarket

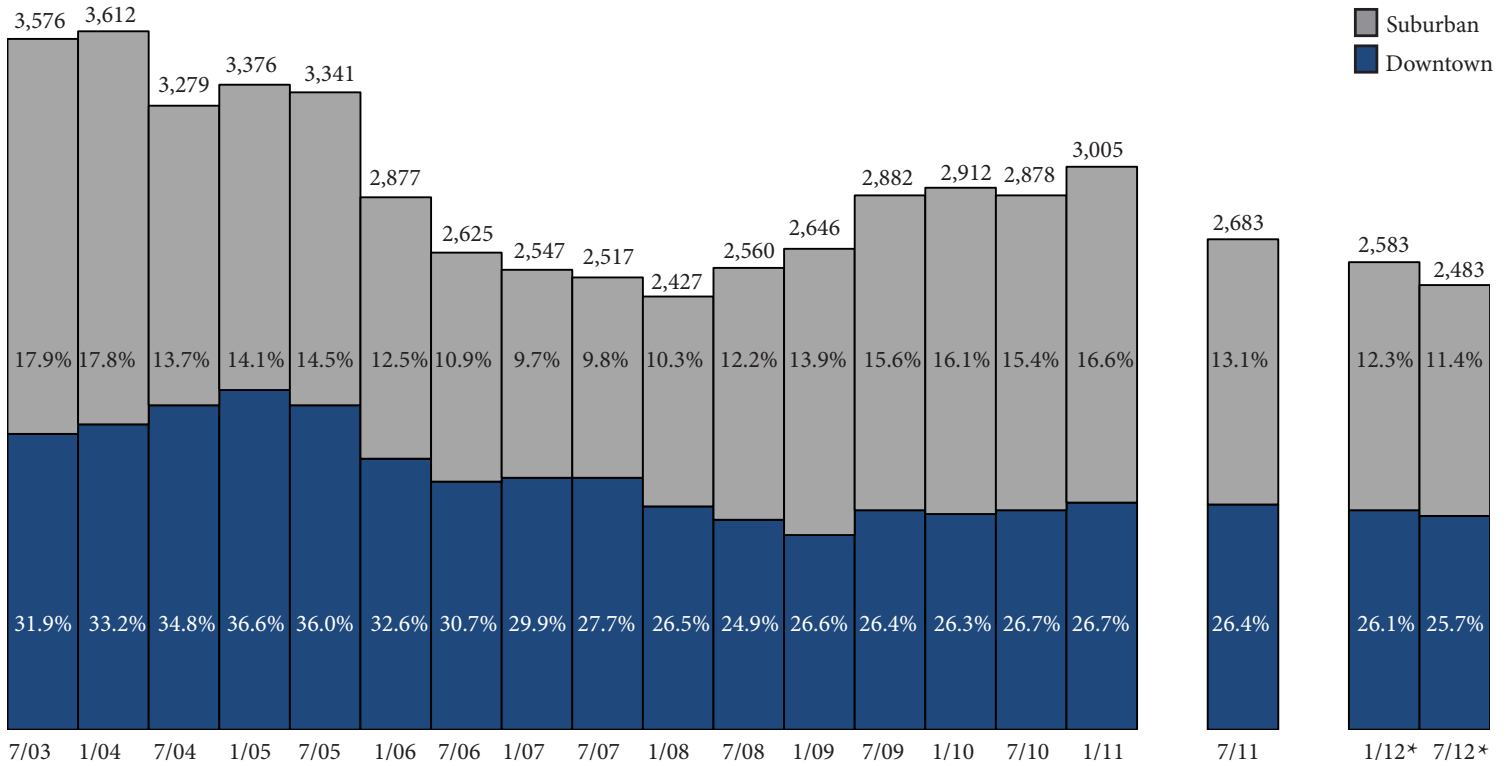


## Weighted Average Asking Rent Rates by Submarket



## Available Space Trend Six Month Period

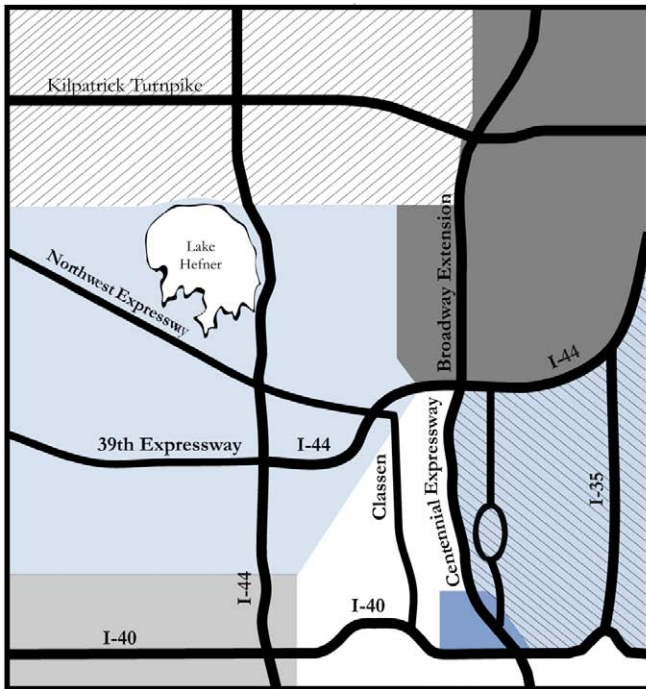
Numbers are in thousands of square feet



\* Assuming that 200,000 SF is leased net of additional vacancies during the next 12 months

\* Projected

## Available Space by Submarket July 2011



Key	Submarket	Total Area (sf)	Available (sf)	% Vacancy
	<b>Downtown</b>	5,657,716	1,502,076	26.5%
<b>Suburban</b>				
	Northwest	4,533,626	534,900	11.8%
	North	1,233,637	143,994	11.7%
	West	430,470	122,166	28.4%
	Midtown	1,199,149	45,700	3.8%
	Lincoln Blvd.	613,374	175,199	28.6%
	Memorial	1,007,918	159,035	15.8%
	<b>Total Suburban</b>	<b>9,018,174</b>	<b>1,180,994</b>	<b>13.1%</b>
<b>Total Office Space</b>		<b>14,675,890</b>	<b>2,683,070</b>	<b>18.3%</b>



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This is a survey of multi-tenant office buildings with 25,000 square feet or more of rentable space. Single tenant, single user, medical, and government buildings are excluded. Data is gathered from cooperating owners and managers without whose help this survey would be impossible. The information and analysis is compiled using our best efforts but without warranty. This survey is copyright 2011 and may be copied with attribution upon prior request.