

Tulsa Industrial, H2 2014

Built to suit development becoming many tenants' only option as market tightens

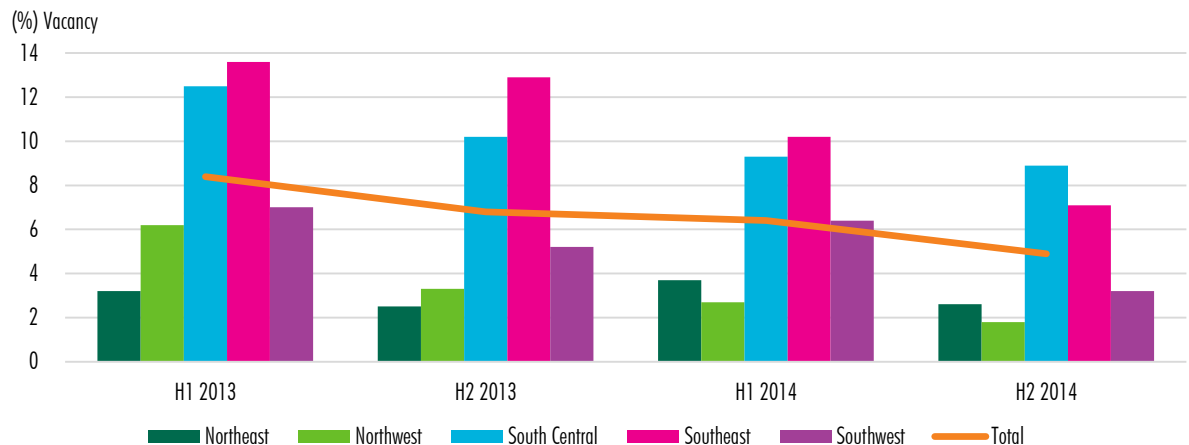
Net Absorption
901,941 SF

Vacancy Rate
4.9%

Avg. Asking Rate
5.50 \$/SF

Construction
140,000 SF

Figure 1: Historical Market Conditions



Source: CBRE Research, H2 2014.

Tulsa's industrial vacancy has reached the lowest point in the market since 2007. Job growth in the region was up 1.6% in 2014, making Tulsa the 19th fastest growing large metropolitan region in the United States. Energy companies and contractor made one of the largest impacts to the market in H2 2014, but aerospace still remained strong in Tulsa too, however. Current tenants in the market are finding few options of high quality space, resulting in many to seek build to suit options on available land. Current tenants in the market represent approximately 2 million sq. ft. of additional demand. As the current vacancy is under 5%, new construction is likely necessary to accommodate demand. Energy prices, however, could signal a potential leveling of demand in 2015 as major oil and natural gas contractors have announced layoffs and capital spending cuts.

Tulsa industrial job growth has attributed directly to the increased demand in industrial product. Tulsa has been ranked by several publications as one of the United States top regions for advanced manufacturing. As national trends for real estate investment have shifted from multifamily to industrial, increased demand for investment quality product will rise in the region. The largest transaction ever recorded in Tulsa County was completed in H2 2014, as Hewlett-Packard bought it's data center from BNP Paribas Leasing Corp. at the Cherokee Industrial Park setting the Tulsa County record for highest sale price. Investment sales have remained strong through H2 2014 with a total of 54 properties trading hands for a total of

\$95 million, excluding the Hewlett-Packard sale. This total is well above the \$59 million half-year average in recent years.

Spirit Aviation announced in December that it sold its Gulfstream project division to Triumph Group, Inc. out of Pennsylvania. Many had feared that Spirit's announcement to sell its Tulsa plant that totals over 1 million sq. ft. would mean the closure and layoffs of over 800 employees. However, with this announcement, Spirit will maintain a presence in Tulsa at this site along with Triumph Group, Inc.

Declining availability of product in both for lease and for sale properties is creating increased demand for build to suit projects in the region. Of tenants over 20,000 sq. ft. in the market during H2 2014, nearly half are considering build to suit projects in various locations in the metropolitan region. Blocks of space over 50,000 sq. ft. at the end of H2 2014 were down to only 20 buildings, totaling 1.7 million sq. ft. As there is over 2 million sq. ft. of tenants in the market with this size requirement, increased new construction remains the only option to accommodate this growth in demand.

Macy's new 1.3 million sq. ft. distribution center, located in the northeast submarket, is currently Tulsa's largest industrial construction project. During H2 2014, Macy's announced that it plans to hire as many as 5,000 employees for this site, nearly 2,000 more than originally expected. New

industrial development sites remain fairly limited in the metropolitan region as well. The Port of Catoosa and Tulsa International Airport in the northeast submarket continue to attract new construction projects as they are well located with rail, air, water, and highway access. The northeast submarket is also the region's largest by inventory size and one of the tightest, with the second lowest vacancy rate behind the northwest submarket. The former Zeledyne Glass Plant has begun major redevelopment, now known as CenterPointe. Harsco signed a 553,000 sq. ft. lease that will allow them to consolidate their metro-wide operations into a single location while expanding by 263,000 sq. ft. to meet future needs.

2015 will bring great optimism for a strong year of industrial growth in the region. Tulsa's industrial market has been recognized as one of the United States' leading advanced manufacturing cities, and brings signs of further growth opportunities. However, caution is being exhibited with the recent crash of oil prices. While not all demand in the Tulsa metropolitan region is oil and gas related, the depressed prices will certainly impact major oil players in the area. Some projects and expansions will likely be put on hold until the price of oil stabilizes in the coming months. With this increased uncertainty in the energy sector, demand will shift to Tulsa's aerospace industry. As energy prices drop, aerospace is likely to benefit as travel will increase and fuel savings will increase profits for airlines.

Figure 2: Market Statistics

Market	Total Leasable (SF)	Total Vacant (SF)	Vacancy Rate (%)	Availability Rate (%)	Asking Rate NNN Avg. Annual (\$/SF)	Net Absorption (SF)
Northeast	19,907,762	510,262	2.6	6.1	5.17	216,956
Northwest	13,701,246	247,246	1.8	4.4	4.39	4,934
South Central	18,164,748	1,622,658	8.9	12.4	6.45	48,268
Southeast	14,743,769	1,042,954	7.1	8.0	6.00	455,552
Southwest	10,072,535	326,639	3.2	4.7	4.95	176,231
Total	76,590,060	3,749,759	4.9	7.5	5.50	901,941

Source: CBRE Research, H2 2014.

VACANCY

Vacancy rates in Tulsa continued to decline since the recession. Vacancy rates climbed to about 8.4% metropolitan wide, and as high as 13.6% in the Northeast submarket as a result. Since that point, rates have dropped to near record lows. Vacant sq. ft. in large blocks remains constrained, and very few of these spaces are in high quality buildings that many tenants are seeking. New construction and build to suit projects are likely need in order to accommodate future growth.

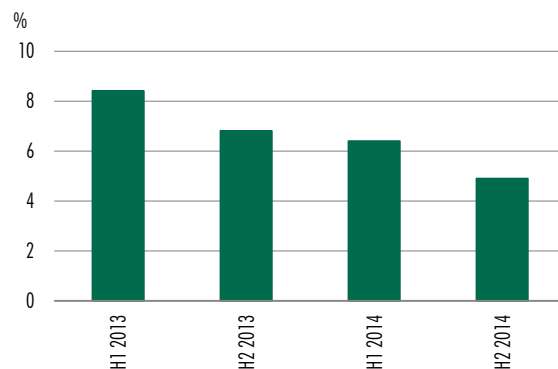
ASKING RATES

Asking rates in the region have been on a steady increase. Overall asking rates have increased from \$5.27 NNN in H1 2013 to \$5.50 NNN in H2 2014, a nearly 5% increase in 2 years. The South Central submarket has experienced the largest increase in asking rates over this period, with rates going from \$5.65 NNN in H1 2013 to \$6.45 NNN in H2 2014, a 13% increase. Rates have climbed in this submarket dramatically due to the repositioning of several large structures into higher class product.

NET ABSORPTION

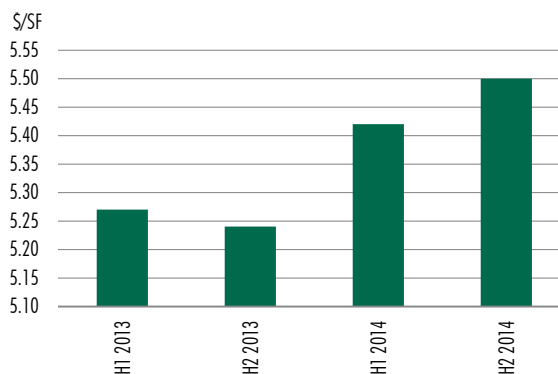
Demand in H2 2014 came from a range of different tenant types. Oil and natural gas companies did attribute to a lot of demand, but aerospace, trade companies, and distribution companies have also exhibited growth in the region. Harsco expanded by 200,000 sq. ft., Whirlpool expanded by 100,000 sq. ft., Video Gaming Technologies expanded by 40,000 sq. ft. Several new to the market tenants impacted growth as well. Elliott Electric Supply, CMI Services Inc., Big Elk Energy, United Rentals Realty, LLC, and others took a combined 500,000 sq. ft. of space off the market in H2 2014.

Figure 3: Vacancy Rate



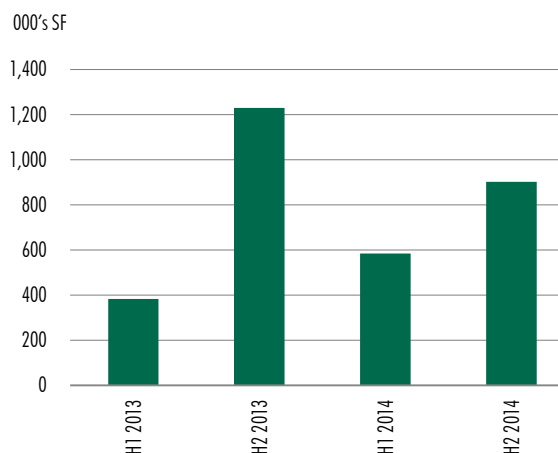
Source: CBRE Research, H2 2014.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, H2 2014.

Figure 5: Net Absorption



Source: CBRE Research, H2 2014.



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