

## Tulsa Retail, H2 2014

# New construction increasing as Class A space availability dwindles in key submarkets

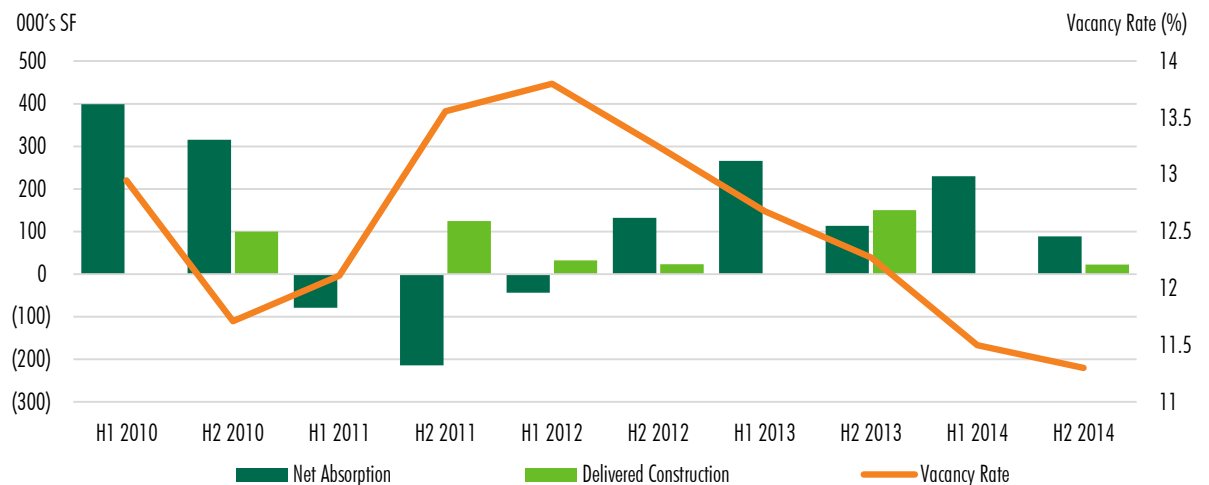
Net Absorption  
88,930 SF

Vacancy Rate  
11.3%

Avg. Asking Rate  
11.29 \$/SF

Construction  
148,400 SF

Figure 1: Historical Market Conditions



Source: CBRE Research, H2 2014.

Tulsa's retail market continues to see increasing tenant demand as Class A vacancy declines to 5.3%. The region's economy was one of the country's bright spots during the recent recession, and with continued population, job, and income growth, Tulsa has become an attractive expansion market. National tenants expanding into Tulsa include Nordstrom Rack, Costco, Gander Mountain, Urban Outfitters, West Elm, and Main Event. New construction announcements include three outlet malls, The Walk at Tulsa Hills, and the Shops at Aspen Creek. Urban infill projects have begun construction on Cherry Street and Brookside. Downtown Tulsa's retail vacancy rates have dropped so significantly that the annual Christmas pop-up shops were cancelled this year due to lack of space available. As demand remains high, conditions continue to be suitable for new construction.

New construction broke ground for The Walk at Tulsa Hills, one of the region's largest in recent years, and has signed Gander Mountain, Aldi, Carmike Cinema's, and Chuy's giving the Walk substantial preleasing. Main Event is opening a location in close proximity to the Walk at 81<sup>st</sup> and Union Avenue, with plans to open a new 80,000 sq. ft. location in 2015. South Broken Arrow's Warren Theater opened during H2 2014 to much fanfare. The Shops at Aspen Creek, a 500,000 sq. ft. retail development, is planned for the area surrounding the theater. Two new 100 plus unit multifamily projects have already been announced within a mile of the new Warren Theater as development eye's begin to shift towards this market as an emerging retail center. Costco's 140,000 sq. ft. new location

at 103<sup>rd</sup> Street and Memorial Drive will add another new construction project to the South Memorial corridor, one of Tulsa's fastest growing retail markets in recent years.

Tulsa's urban Brookside neighborhood is continuing to evolve as it adds more boutique and restaurant tenants. Urban Outfitters, currently under construction, will be opening a new location in a former nightclub location. Tenants are currently vacating a full block between 37<sup>th</sup> and 38<sup>th</sup> street along Peoria Avenue, which will make way for a new approximately 20,000 sq. ft. retail development. Cherry Street is also seeing new construction. The former Clear Water Car Wash between Trenton and St. Louis Avenue was demolished during H2 2014 to make way for 15,000 sq. ft. of new ground floor retail and 15,000 sq. ft. of second floor office space.

The big story of proposed developments during H2 2014 is the outlet mall battle. Three different proposals are currently in the works and jousting for pre-leasing commitments in order to begin construction. Simon Properties is purposing it's Premium Outlets concepts 1 mile north of the Tulsa Hills Power Center in the Southwest

submarket. The Cherokee Nation has proposed a similar sized joint venture with Woodmont Outlets on it's Hard Rock Casino site in the East submarket. Horizon Properties, who constructed Oklahoma City's outlet mall, has proposed a similar concept a few miles west of the Cherokee Outlets in the East submarket. Even as each outlet center is located within a three hour drive of 19 million people, the Tulsa market can likely only support one major outlet center.

The Tulsa market experienced strong multi-tenant sales in 2014 with 26 centers trading hands for an aggregate value of \$125 million. This is the highest total number of sales and total transaction value since pre 2007. The largest of H2 sales was Southroads Center, marking the highest sale price of any center since Smith Farm Marketplace in Owasso sold in 2013. The Tulsa Retail Center, located adjacent to Woodland Hills Mall in the South Central submarket, sold twice in 2014. The center was initially acquired in H1 2014, and with increasing occupancy to 100 percent and Ashley Furniture, Natural Grocers, and Golf Galaxy as anchors, the center sold in December for a 22% escalation from just 10 months prior.

Figure 2: Market Statistics

Market	Total Leasable (SF)	Total Vacant (SF)	Vacancy Rate (%)	Asking Rate NNN Avg. Annual (\$/SF)	Net Absorption (SF)	Under Construction (SF)
East	1,430,256	409,243	28.6	6.57	23,415	-
Midtown	2,532,080	120,706	4.8	17.97	(4,428)	-
North Central	1,640,083	331,921	20.2	7.11	(40,176)	-
Northeast	1,633,401	79,273	4.9	12.47	1,524	-
Northwest	416,586	79,632	19.1	9.09	10,268	-
South	957,158	134,587	14.1	13.98	(2,700)	-
South Central	7,136,437	643,451	9.0	12.49	87,381	-
Southeast	2,062,359	248,938	12.1	11.69	8,892	-
Southwest	784,069	10,981	1.4	17.60	(2,181)	148,400
West	556,892	102,337	18.4	8.00	6,935	-
<b>Total Market</b>	<b>19,149,321</b>	<b>2,161,069</b>	<b>11.3</b>	<b>11.29</b>	<b>88,930</b>	<b>148,400</b>

Source: CBRE Research, H2 2014.

### VACANCY

The vacancy rate continues to decline in most submarkets. 71<sup>st</sup> Street's Woodland Hills area has made a strong recovery after the 2008 recession had left several big box spaces vacant. New to the market retailers like Nordstrom Rack, Conn's, Ashley Furniture, and Northern Tool have helped push occupancy levels back to pre-recession levels. Overall market wide Class A vacancy rates have tightened even more through H2 2014, ending the year at 5.3%, which comprises 42% of tracked inventory in the region.

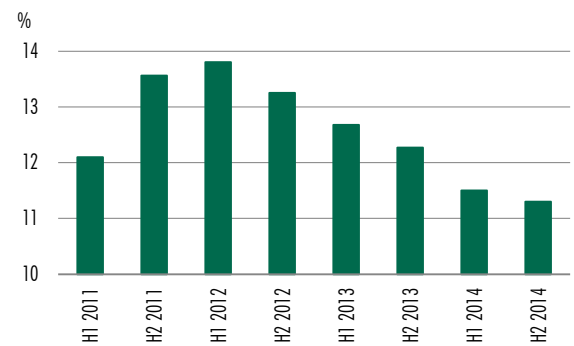
### ASKING RATES

As Class A retail space continues to be absorbed metropolitan wide, asking rates declined due to larger amounts of Class C product weighting the average down. However, Class A asking rates have increased by 3% over the year. New construction rates in the high demand submarkets are attaining approximately \$30.00 NNN per sq. ft. rates in the Southwest, South, and Midtown submarkets. Rates will continue to see an upwards pressure from landlords unless significant large-scale developments are built outside of the three outlet malls proposals.

### NET ABSORPTION

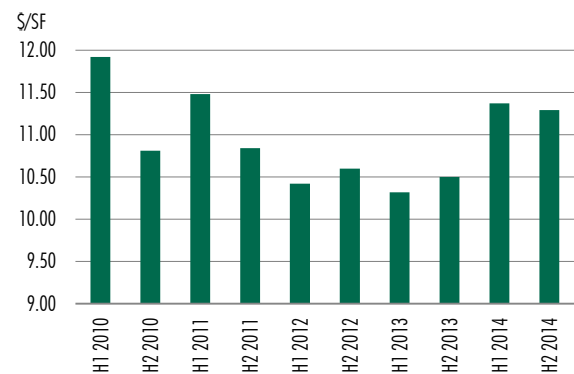
Net absorption was 88,930 sq. ft. for H2 2014. Demand continues to be high in the Tulsa region as the regional economy was strong in 2014. The Oklahoma region was one of the few bright spots during the recession, and became one of the few markets attractive for retail expansion. Constraints on market growth have been due to the lack of new construction in the region. Tulsa's only major retail center constructed over 200,000 sq. ft. since 2006 has been Tulsa Hills, which experienced such high demand that vacancy rates are around 1% and is attaining some of the regions highest rental rates. As trends move away from neighborhood strip centers into regional power centers and lifestyle centers, additional construction in these types would allow more national tenants to enter the market.

Figure 3: Vacancy Rate



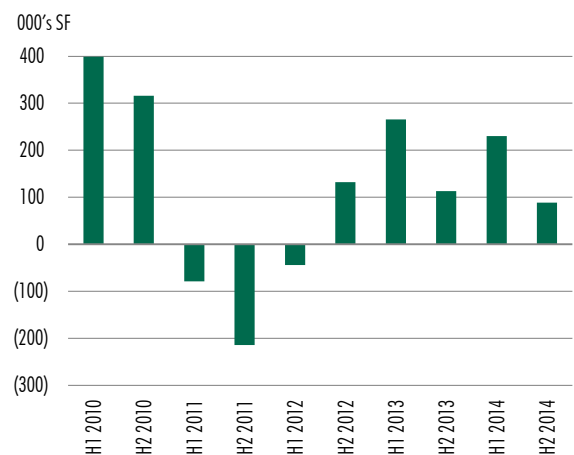
Source: CBRE Research, H2 2014.

Figure 4: Asking Rates, NNN Avg. Annual



Source: CBRE Research, H2 2014.

Figure 5: Net Absorption



Source: CBRE Research, H2 2014.



### CONTACTS

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