


## Devon Energy's move casts shadow on office investment in downtown Oklahoma City

What is spooking big institutional investors, such as insurance companies and pension funds, is the several hundred thousand square feet of space that Devon Energy Corp. will leave behind in several downtown office buildings when it moves into its new 50-story headquarters later this year.

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Even before Oklahoma Tower, the downtown skyscraper, went on the market last summer, the owners were getting offers.

“We had significant interest from large investment players,” Mark Beffort, part of the ownership group led by Roy T. Oliver, said Tuesday.

But even with a firm, steep asking price of \$62.5 million — more than twice what Oliver paid for it six years earlier — Beffort said one thing kept catching potential buyers short: “How are you going to fill that Devon space?”

“If I heard it 50, I heard it 100 times. ‘How are you going to fill that Devon space? How are you going to fill that Devon space?’” Beffort said at Forecast 2012, the annual market outlook presented by Grubb & Ellis-Levy Beffort, the commercial realty firm where he is a principal and office specialist.

The “Devon space” that spooks big institutional investors, such as insurance companies and pension funds, is the several hundred thousand square feet that Devon Energy Corp. will leave behind in several downtown office buildings when it moves into its new 50-story, 1.8-million-square-foot tower at 333 W Sheridan later this year.

All that to-be-darkened space, some 800,000 square feet in several buildings, has cast about the only shadow on Devon Energy Center since the \$750 million project was announced almost four years ago.

Some office market watchers seem to be ready for it, confident that strong demand for downtown office space — especially by the booming energy sector — will fill the vacated Devon space sooner rather than later.

Enid's Continental Resources helped fuel such optimism early last year when it was revealed as the actual purchaser behind a proxy buyer of the 19-story, 307,000-

square-foot current Devon headquarters at 20 N Broadway the October before.

Beffort said investors looking through a longer lens aren't convinced — yet.

“But people are looking at us,” he told property brokers, developers and others at the morning event at the Oklahoma City Museum of Art.

Beffort said he expected another 200,000 square feet or so of former Devon space to be filled this year not long after it's vacated. Away from downtown, he said, another couple of smaller speculative office buildings are in the works in the northwest suburbs.

Whether local buyers or institutional out-of-state investors, people should share the optimism, Beffort said. Continental Resources' move wasn't the first instance of a new user unexpectedly coming in to keep sweeping downtown office vacancy off the lease rolls after a previous user's left.

Most recently, in summer 2007, Anadarko Petroleum in suburban Houston bought Kerr-McGee Corp. and closed down its 78-year operation here. But then SandRidge Energy absorbed almost all of it by buying the Kerr-McGee properties, which totaled some 500,000 square feet.

Smaller but similarly daunting vacancies haven't remained empty long lately either. Enogex LLC, for example, is taking some 130,000 square feet previously occupied mostly by Tronox Inc., a Kerr-McGee spinoff that went into bankruptcy three years ago and turned back the space.

Chesapeake Energy, although not downtown, is doing its part for the general office market, as well.

“They continue to expand, and they've actually expanded on their campus as well as outside the campus with significant acquisition of office buildings,” he said. “The interesting thing about that is as they continue to grow, they will buy an office building, and those tenants in those office buildings will then scatter to other buildings, so it helps strengthen the overall office market.”

Meanwhile, no letup is foreseen in demand by oil-and-gas field service companies for equipment yards with smallish warehouses — say, 6,000- to 15,000-square-foot shops on anywhere from a few to 15 acres — said Randy Lacey, vice president and industrial specialist with Grubb & Ellis-Levy Beffort.

High demand is causing prices to spike for any properties that come available, even those that don't quite suit the buyer or lessee and require renovation, he said.

Also, retail is recovering, said Louis Almaraz, Grubb & Ellis-Levy Beffort vice president and retail specialist. “The ask-for-a-rent-reduction epidemic seems to be over,” he said, with landlords in their strongest position since the onset of the recession.