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Downtown Oklahoma City office market shines compared to U.S.

Office deals are in the works to make Devon Energy Corp.'s move into its new headquarters next month easier for Oklahoma City's central business district to swallow, according to Mark Beffort, downtown building owner and real estate executive with Grubb & Ellis-Levy Beffort.

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Oklahoma City realty executive and downtown property owner Mark Beffort's forecast stood in sharp contrast to the gloomy national outlook outlined by an outsider Tuesday at an annual commercial real estate conference.

Beffort said another new corporate headquarters will be built downtown starting this year, but he didn't say what company. He also said would-be tenants are vying for Devon Energy's current space, but he didn't say who.

The deals are in the works, said Beffort, principal with Grubb & Ellis-Levy Beffort. He spoke at the Skirvin Hilton Hotel at the Forecast Conference of the Commercial Real Estate Council of Oklahoma City.

And to anyone who insists Devon's move into its new 50-story, 1.8-million-square-foot tower starting next month will wreck the downtown market for office space, he said, "I tell you, you are wrong."

He said downtown, with a vacancy rate of 12.9 percent in Class A and Class B office buildings for lease, will take some time to absorb all of the 800,000 square feet Devon will leave behind in several buildings. But he said he expects almost one-third of it — about 250,000 square feet — to be filled in six to nine months.

The country as a whole faces a bleaker future for its leasable office space and other commercial real estate, said Stephen R. Blank, senior resident-fellow with the Urban Land Institute. He presented information and forecasts from the annual "Emerging Trends in Real Estate" publication by the ULI and PricewaterhouseCoopers.

Real estate still looks better than stocks and bonds, he said — or it did until recently — but "demand drivers don't exist, and fundamentals need to catch up."

Blank listed obstacles to real estate recovery: companies sending jobs overseas; reduced need for space because of technology-driven hikes in productivity; personal and government debt loads; an aging population with increasing health care needs; the construction slowdown; global financial chaos; Wall Street downsizing and "recalibration"; and "dysfunctional government with two parties fighting over power and ideology."

Meanwhile, investment capital flows to diversified, 24-hour "gateway cities," creating "wealth islands" in cities on the coasts or with an international hub airport, Blank said. Even at the gateways, property is "priced to disappoint" because of "too much capital chasing too few properties," which can't sustain value over time, he said.

Rigorous loan underwriting persists. "Lenders have no appetite for risk," he said.

Buyers and lenders remain cautious and should “follow the money, and when it looks out of control, retreat,” he said. Banks caught with unpaid commercial real estate loans restructure rather than foreclose, or “extend and pretend,” he said.

Foreign investors, he said, see the U.S. as the “cleanest shirt in the dirty shirt pile.”

Beffort contrasted Oklahoma City to the nation and world.

“It's our time,” he said, but city and business leaders should be looking not just at the next 15 years but the 15 years beyond that.

He compared Oklahoma City to Austin, Texas, and Charlotte, N.C., which 30 years ago took steps Oklahoma City is only starting.

They nursed local business. Oklahoma City has two Fortune 500 companies in Devon Energy and Chesapeake Energy, he said; Austin has two in Dell Computer and Whole Foods, and Charlotte has seven, anchored by Bank of America — and all are homegrown and committed to each city.

They nursed entertainment. Beffort put Bricktown, the Oklahoma City Thunder and the Arts Festival up against Austin's South by Southwest music festival and Charlotte's arts and NASCAR.

They enhanced public transportation with light rail systems. In Oklahoma City, he said, “We should do it, and we should do more than we're thinking about doing.”

They encouraged downtown housing. Oklahoma City's downtown population of about 5,900 pales in comparison to Austin's and Charlotte's, but living downtown is a relatively renewed concept here, he said.



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