

Landlord/tenant equilibrium shift

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The Outlet Shoppes in Oklahoma City. (Maïke Sabolich)

TULSA – Oklahoma City retail property vacancy rates ended 2011 at 9.88 percent, its lowest point in four and a half years, according to a new year-end report by CBRE Richard Ellis of Oklahoma.

The city's average lease rate hit a two-year high of \$10.90 per square foot, CBRE retail broker and report author Ryan Storer said in a telephone interview.

Those two trends point toward Storer's 2012 outlook – an equilibrium shift in landlord/tenant relations after a recession-era run where the merchants held the strongest hand.

While not as positive as his fellow CBRE brokers, Storer acknowledged that several

signs point to retail market improvements this year, with retail giant Costco studying both Oklahoma City and Tulsa for possible market entries.

"The general sense is we're going to have a more robust volume in 2012," he said, summarizing views in CBRE's Oklahoma City office. "There's going to be more deals and generally more brokerage activity."

Charting buildings with more than 25,000 square feet of retail space, the CBRE survey found 2.6 million square feet vacant among the 26.3 million square feet active at 229 metropolitan Oklahoma City properties.

That 9.88-percent vacancy rate represented the region's lowest mark since 9.89 percent was registered in June 2007. While that historical number actually proved a fraction higher than the latest result, Storer kept the midyear 2007 mark as his yardstick for two reasons: concerns over the accuracy of the sampling method used at that time and his belief that the actual 2007 vacancy rate was a bit lower.

"That was kind of the highest point of the market," he said. "The most leasing, the most sales."

Positive space absorption over the last six months allowed landlords to get more aggressive in pricing properties, Storer said. Oklahoma City's year-end 2011 average lease rate easily topped the \$10.32 recorded at mid-2011, the \$10.69 average at year-end 2010 and mid-2010's \$10.79. The rates averaged \$10.97 at Dec. 31, 2009.

Part of Storer's caution toward 2012 reflects the strength of 2011. All seven Oklahoma City submarkets charted occupancy growth, although two set just negligible growth. The west submarket led the way, raising its occupancy rate to 92.47 percent despite adding 380,000 square feet of retail space in The Outlet Shoppes at Oklahoma City, which boosted the submarket's inventory 9.56 percent.

"The Outlet Shoppes at Oklahoma City opened in mid-August with unbelievable sales for the majority of tenants as the grand opening stopped traffic for miles in each direction," Storer wrote in his report. "Tenants are still bragging about their impressive sales and comparing their numbers to other outlet malls across the county."

Despite that success, Storer said the outlet mall has already seen some vacancy arise – and

has filled it.

"There's been some turnover but the guys who developed that are doing great," he said. "It is amazing that you can bring on a full 300,000-square-foot building, or whatever square footage I said it was, and have it 100 percent leased."

Other strong 2011 entrants included Marshalls, which helped take four empty Circuit City big-box properties off the inventory rolls, Pioneer Library System filling a former Borders space in Norman, and Gold's Gym taking up the former Sportsman's Warehouse along the key Memorial Road and Pennsylvania Avenue retail corridor.

Whole Foods, Sunflower Farmers Market and several healthy foods and fitness chains also made successful entries last year, with some continuance expected this year.

Storer said these moves effectively filled most of Oklahoma City's empty big-box sites, meaning the next round of retail entrants or expansions may need to build properties to claim Class A traffic locations.

His report pointed to a number of highly anticipated market entries for 2012. Among them:

- Costco, which Storer said has shown major interest in Oklahoma City and Tulsa. Some Tulsa brokers anticipate that Costco executives will scout out properties for expansion this winter.

"I know that they are circling the market," Storer said of Oklahoma City. "It's hard to say if it's going to happen in a year or more, but Costco definitely has strong, strong interests in Oklahoma City."

As a magnet traffic generator on the level of Wal-Mart and Target, Storer said it will be interesting to watch what areas Costco eyes for store locations. In other markets the company has not been afraid to forgo established retail corridors and create new ones.

"Any time a big user comes into the area, those are the users that draw smaller tenants and just kind of create their own traffic patterns," he said. "That's when activity starts to happen."

Storer suggested retail giant Wal-Mart Stores will not let this challenge into its primary territory go unanswered.

"Wal-Mart and Sam's Club have plans to grow," he wrote in his report.

- Dick's Sporting Goods, which opened three Tulsa stores last year. Storer said it is also considering multiple locations in Oklahoma City.
- Anthropologie, which opened a Utica Square location last year, will open a store at Classen Curve.
- HomeGoods by TJ Maxx.
- Nordstrom Rack.
- Hobby Lobby affiliate Hemisphere's Furniture.

"A lot of them aren't announced yet, so it's just hearsay, basically," said Storer of these expansions. "But we have a strong idea that that is coming to the market soon."

Such moves could spur more retail construction.

"In general there's not a lot of construction that we have forecasted for this area, but as new tenants come into the market you're going to see pressure," he said. "A lot of these things you've got to think are going to be new construction."