

## More bodies, more business

by Darren Currin

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From left, Randy Lacey, Mark Beffort and Louis Almaraz answer questions from the audience during the Forecast 2011 event at the Oklahoma City Museum of Art Tuesday morning. (Maik Sabolich)

OKLAHOMA CITY – As the commercial real estate market reaps the benefits of Oklahoma City's expanding economy and population, a local expert said the key to reaching the next level is improving the depth of corporations here.

Mark Beffort, president and CEO of Grubb & Ellis/Levy Beffort, said Oklahoma City must strive to lure more companies and people so the pool of tenants seeking space improves beyond current demand. Doing so would reduce a sizable amount of the risk in the city's office market and other commercial real estate sectors, he said.

"I think Oklahoma City's greatest real estate risk today is our lack of depth,"

Beffort said. "We need to increase our corporations and our population. We need more bodies and more people doing business in Oklahoma City."

Beffort said investors think it's faster to lease 20,000 square feet of office space in markets like Dallas; Houston; Austin, Texas; and Charlotte, N.C., than in Oklahoma City. This has created more perceived financial risk for investors when they consider Oklahoma City commercial buildings, he said.

"We need to grow our population base to 1.8 to 2 million people to reduce the financial risk associated with our real estate," Beffort said. "We need to go to the next level and start finding who will be the next Devon, Chesapeake or SandRidge."

Beffort made his comments as part of the Forecast 2012 breakfast at the Oklahoma City Museum of Art on Tuesday. The event served as a kickoff to Grubb & Ellis/Levy Beffort's release of its annual Forecast report on local and national commercial real estate trends.

As an example, Beffort discussed his firm's marketing of downtown's Oklahoma Tower last year. Institutional investors and real estate investment trusts showed significant interest in a property that would have gained scant notice 10 years ago, he said.

However, Beffort said one hurdle investors could not overcome was their concern about how downtown would absorb excess office space to be vacated by Devon Energy when it completes relocation to its new 50-story office tower.

"They just could not get over the depth of our market," he said. "They couldn't get over that it would financially affect their yield."

Beffort said increasing the corporate depth of the city is the catalyst needed to grow office rental rates to the next tier. He said it would prove to be stronger than such common rent growth factors as inflation and rising construction costs.

Even though rents will continue to trend upward in 2012, Beffort said, Oklahoma City is still leasing office space at nearly the same rent level as the early 1980s. Until the city increases its corporate base, he said, don't expect significant growth in rents or occupancy.

Grubb & Ellis/Levy Beffort executives said the city is moving in the right direction as Boeing and Continental Resources plan to bring hundreds of jobs here. The city is expanding its

corporate base with high-paying, stable jobs. Executives said this type of growth would help backfill large vacant spaces in all sectors of the market.

Randy Lacey, vice president of industrial properties for Grubb & Ellis/Levy Beffort, said the increase of new businesses in the metro area, combined with the growing trend of retrofitting existing buildings to meet the needs of modern industrial tenants, has had a tremendous effect on the market. Vacancy has been lowered. Large properties like the former Lucent Technologies plant, the former General Motors plant and the former Bridgestone-Firestone plant have been brought back to life.

"There was a time where all three of those facilities were vacant and all on the market at the same time, and in my mind I thought how are we going to get through this, but entrepreneurs have found ways to make these properties work, and work in a better way than before," Lacey said.

Overall, Beffort said Oklahoma City's commercial real estate market and economy are poised for continued growth. He labeled the current period of growth in the city as the development stage. The stage began in 2000 and will continue until 2020. What he called the significance stage will occur between 2020 and 2040, he said.

"We are on our way toward the significance stage of our city, which is why now is the time to be involved in the real estate market," Beffort said.

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