

Reason for hope

by Kirby Lee Davis

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Tulsa's industrial vacancy rate is at a 12-year high. The closure of the 1.4-million-square-foot Zeledyne Glass Plant is a major contributing factor. (Rip Stell)

TULSA – Vacancy rates for Tulsa's 60.37-million-square-foot industrial market finished 2011 at a 12-year high of 12.25 percent, according to a new report by CBRE's Richard Ellis of Oklahoma.

On the positive side, average rental rates hit an 11-year high of \$4.78 per square foot, topping \$4.55 at mid-2011 and \$4.51 at year-end 2010 marks.

CBRE industrial broker Jamie Hill, who authored the report, said that 2011 lease rate continued the slow, steady climb Tulsa industrial building operators have enjoyed since CBRE charted \$3.88-per-square-foot lease rates in December 2001.

That marks a far different trend from their volatile vacancy rates, which seesawed from a 10-year low of 3.97 percent in mid-

2008 to today's level, the highest CBRE has reported since 1999.

Tulsa actually recorded 424,597 square feet of positive absorption through the first half of 2011, Hill said in a telephone interview, and would have charted overall improvement for the year except for the summer 2011 shuttering of Tulsa's 1.4-million-square-foot Zeledyne Glass Plant. That left the sector with 1.2 million feet of negative absorption for the year, its 12.25-percent vacancy rate up from 11.03 percent at year-end 2010 and 10.4 percent at mid-2011.

That weighed most heavily on buildings of 60,000 square feet and up, which represent 54 percent of Tulsa's industrial product. Sites of 60,000 to 100,000 square feet averaged 12.68-percent vacancy, while those more than 100,000 square feet – 44.6 percent of Tulsa's inventory – recorded 15.4-percent vacancy.

All of Tulsa's smaller spaces recorded vacancies below that, with the 4,999-square-foot and below category at just 5.88-percent vacancy.

"With the exception of the Zeledyne Glass Plant closure, we really feel encouraged that this year will bring about some stabilizing vacancy rates," Hill said in a telephone interview. "Frankly, they may get a little better this calendar year."

His caution stems from the condition of some of Tulsa's older warehouse product, with their ceiling heights too low for modern needs, their crane capacity too limited and docks and yard space often insufficient for other applications. Hill said Tulsa faces a difficult Catch-22 – a sizable inventory of older vacant buildings, their structural conditions below what's sought by today's manufacturers and distributors, and an equally sizable inventory of newer buildings almost completely full.

"Tulsa has a large inventory of bulk warehouse space that in many ways is less desirable compared to the newer facilities that Kansas City Life developed over the last decade," he said. "The trick is we need more manufacturing space. If we could convert our old warehouses to manufacturing, we'd be in very good shape, but we can't do that."

With the state's strong energy and aviation industries continuing to fuel Tulsa's manufacturing sector, Hill said he expects that industrial real estate segment to drive more construction.

"We still have really terrific demand for functional, well-located, newer manufacturing facilities," he said. "We have a good number of users out there in the market at any given time that, when a building becomes available, they'll look at it, size ranges really from 30,000 to 100,000 square feet. It's a pretty viable range."

That's one reason why Fleming Construction will soon join with a group of local investors to build one of Tulsa's first speculative commercial buildings in years, a 42,000-square-foot industrial site at the Tulsa Port of Catoosa.

"At this time we have three potential tenants," Hill said in a telephone interview. "That will break ground very, very soon, within the next 30 days."

Construction just started on a 127,556-square-foot, build-to-suit building in the Greenhill Distribution Center for the largest lease announced in 2011, to American Tire Distributors. Other manufacturing and warehouse construction projects on the books include Webco Industries' \$55 million plant refit in Sand Springs and a planned expansion by Limco Airepair.

"We're optimistic we will see a slight uptick in construction," Hill said. "Chiefly that would be attributable to build-to-suits for larger companies. We're not seeing activity from some of the smaller users."

On the flip side, Hill said sale prices in industrial property transactions were mixed, with the average price per square foot falling to \$51.83 from \$73.01 at June 30. But buildings of 40,000 to 60,000 square feet showed strong improvement, their average price rising from \$29.57 to \$36.02 a square foot.

The mixed nature of his report, and Tulsa's industrial environment, made him struggle to offer an outlook for 2012.

"Overall there seems to be a lot more activity across the board," he said. "I don't want to say we're going great guns, but there seems to be some controlled optimism about the future."