

2009 seen as opportunistic, but challenging

BY KELLEY CHAMBERS
THE JOURNAL RECORD

OKLAHOMA CITY – As 2008 winds down and 2009 approaches, a group of commercial real estate experts said while Oklahoma City has felt some of the economic woes plaguing much of the nation, the metro area has emerged relatively unscathed so far.

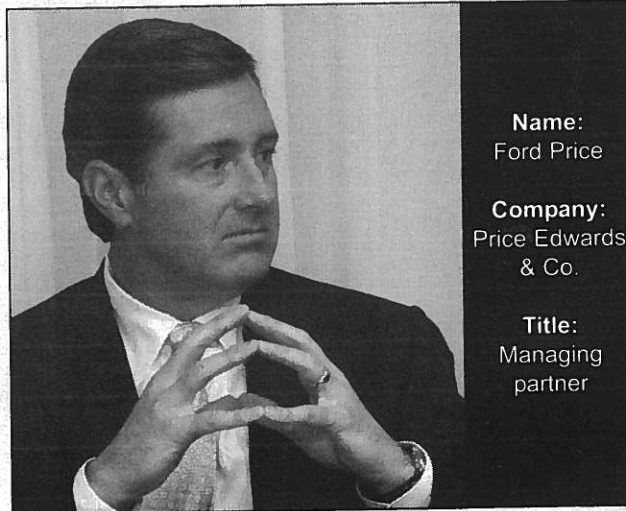
A roundtable discussion in October at the *Journal Record* offices brought together veteran brokers Ford Price and Louis Almaraz as well as the expertise of Andy Burnett, Brent Conway, and Sean O'Grady.

Price served as moderator and asked the panel members for their analysis of 2008 and what they expect to see in 2009. All reported that some interest has waned, especially from out-of-state interests, but most of that has to do with the national credit crunch and investors paring back expansion, and others who would like to enter this market but are having trouble moving their inventory on the East and West coasts.

Each participant said he remains optimistic that 2009 will shape up to be a good year based on Oklahoma's strong economy and healthy real estate market.

- **Ford Price**, a veteran of commercial real estate with more than 20 years of experience in the field, is managing partner at Price Edwards & Co. He founded the firm with co-managing partner Carl Edwards in

1988. Since then the firm has grown to be one of the largest commercial real estate firms in the Southwest and has a current portfolio composed of about 8 million square feet of commercial space in Oklahoma, Texas and Louisiana. Price oversees management and leasing of the firm's 4 million-square-foot office portfolio. Price served as moderator for the roundtable.



Name:
Ford Price

Company:
Price Edwards
& Co.

Title:
Managing
partner

- **Louis Almaraz** is in the retail group with Grubb & Ellis Levy Beffort. Almaraz has more than 25 years of experience in real estate and has seen the highs and lows in the Oklahoma City commercial market. He now specializes in site selection and disposition, particularly for national and regional retailers and restaurants.

- **Sean O'Grady** retired from a career in professional boxing in 1983

"2009 will be a moment of opportunity, but we're all going to have to work harder in this business to find those opportunities and create new ideas. But for many people, I feel this is what they've been waiting for."

Sean O'Grady,
NAI Sullivan Group

and has been involved in numerous projects to benefit charities around the state. He now works for the NAI Sullivan Group as a broker associate specializing in sales, leasing, and marketing of industrial properties. He works alongside his wife, Robin O'Grady, who works in the company's retail group.

- **Brent Conway**, is a broker associate with CB Richard Ellis Oklahoma, specializing in the office market. Conway also deals in land transactions representing both buyer and seller. He has been with the company for four years.

- **Andy Burnett** is an associate with Sperry Van Ness Oklahoma and specializes in multifamily. In 2007 Burnett was presented the Sperry Van Ness Rookie of the Year Award

and brokered \$50 million in commercial transactions his first year.

Activity

Price: "How would you generally compare 2008 activity levels to 2007 in your respective asset areas? Louis, let's start with you."

Almaraz: "2007 was certainly an active, robust year. The first half of 2008 was off quite a bit in the retail sector but in the last quarter our company

came on really strong. That might have been some pent-up activity we had earlier in the year. Right now we're down slightly in my sector but still optimistic about what's in front of us. And a few folks are expanding in certain categories in the retail sector."

Burnett: "We're down about 30 percent in transaction volume in multifamily from '08 versus '07. Price-wise we're holding steady. But if some of the things that are lined up to go through in the fourth quarter come through then it will be a good year again, but that will be skewed to a couple of deals. I think transaction-wise we're going to be down regardless of what happens in the fourth quarter."

O'Grady: "The huge difference between 2007 and 2008 is in 2007 our company was way ahead of where we are at this time this year. Personally I've done a lot better in '08 than in '07. Industrial is still really strong in Oklahoma."

Conway: "I feel like the year-end numbers will reflect that the overall office market has loosened a little bit. Granted, our vacancy numbers are still historically low, but through the last half of the year there was a marked slowdown in leasing activity. We've been a little spoiled, though, because 2007 was a record year for overall absorption, though we saw that number dip slightly in the first half of 2008. I expect this trend to continue for the last half of the year as well, but keep in mind that though the numbers might be off what we saw in 2007, they're still extremely encouraging when compared to a few years ago."

Credit crisis

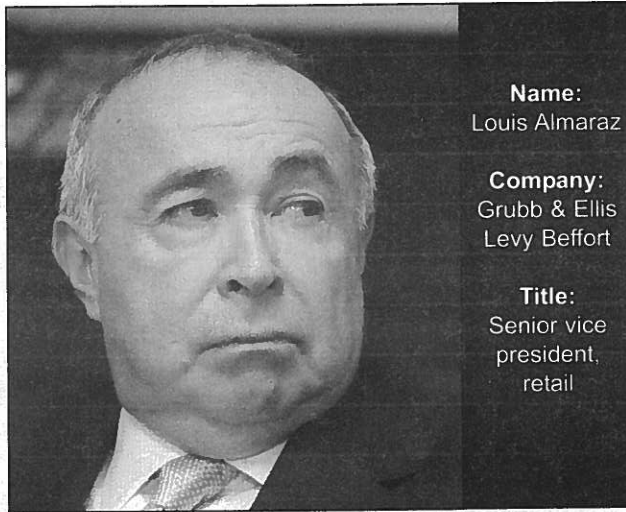
Price: "How has your business been affected in the last month or so with the worldwide credit crisis? Have you had deals delayed or killed due to financing issues?"

O'Grady: "I have not. What's happening nationally just doesn't seem to be happening in Oklahoma in the industrial sector. We've been through this before. We remember the 1980s, and we remember how difficult it was. Oil and gas is definitely driving our economy. But sometimes we talk to some people in the NAI network and they're singing the blues."

Conway: "The projects that my team and I are involved with are still receiving a great deal of interest. We still have local lenders with money to loan, and the cost

of capital is still relatively low. The challenge comes in the form of investors who are coming into the market without local banking relationships, or history. While the local lenders have money to give, many of them are not really looking to start a new relationship right now."

Almaraz: "A lot of retail is national or regional in nature and so I'm seeing a much stronger impact in a negative sense in my sector for the very reason that credit is the life-blood for a retailer. I am seeing a much sharper impact in retail. And still through all of that, I do still see occasionally the retailer or the restaurant that's expanding because he has a good track record, a good business model and good credit. But a number of national and regional retailers are cutting back, and we are seeing a pullback, and that's been going on for about a year."



Name:
Louis Almaraz

Company:
Grubb & Ellis
Levy Beffort

Title:
Senior vice
president,
retail

Burnett: "Apartments are somewhat insulated from the credit crisis just from a fundamental standpoint operationally. Rents have been strong and occupancy has been strong. But on a transaction scale, it's been affecting things on a day-to-day basis. We've had a couple of projects come apart because the lending climate just wasn't there. It's tougher, but deals are still getting done, and those deals are now getting done by the local banks."

Price: "Talk about how the brokerage business has changed, if at all, for you the last several years in terms of getting listings, finding buyers or tenants, dealing with sellers or landlords, and expectations in your role as the broker."

Almaraz: "Since I've been in the business, I've seen quite a bit happen. It's been a great ride. Every year continually has gotten better incrementally since we started coming out of the energy crunch in the '80s and early '90s. What we try to

instill in our brokers is to communicate with the client today more than ever because they want and need that feedback and communication be that an owner or the tenant. Communication is key, more so than ever."

Conway: "Oklahoma City has emerged as more of a destination for investors and businesses, versus a flyover town. During that time, the health of our market – in particular in the office sector – has improved dramatically. That said, there's a healthy inventory of investors and tenants, but setting realistic expectations with sellers and landlords have been the key – over the last year in particular. Given the outrageous cap rates we've seen here for office properties, as well as the inflated dirt prices the last couple of years have brought, a lot of owners say, 'Why not me?'"

O'Grady: "The biggest change I've seen is we now have to rely on the experience of the Ford Prices and the Louis Almarazes, the people who know the business up and down and we need to rely on the people who have been through this before. We also never want to give owners a false sense of the worth of their property and that's probably the hardest part with the changing economic climate."

Burnett: "What I hear most is 'I received an offer of \$30 million for this two years ago' and I say 'well that's no longer the price, and it's difficult. It's about staying ahead of the market and letting your seller know the reality of the situation. Prior to the later

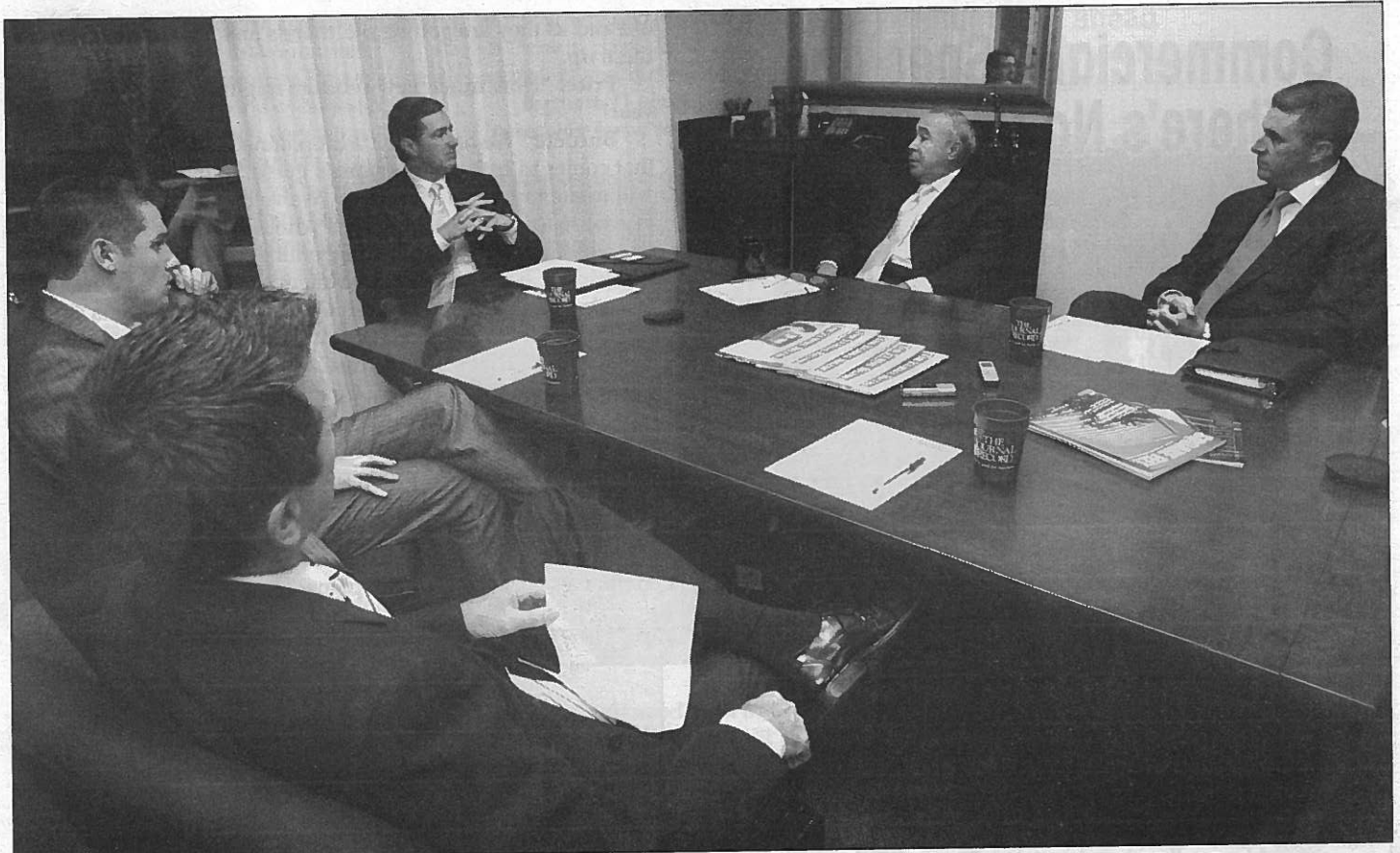
portions of 2007, it was easy. You came out there with a price and they were surprised and excited at that price – and you could generally deliver that price, but now it has really taken a bit of a turn."

Market conditions

Price: "Louis, we read about certain retailers either having filed for bankruptcy or on the verge of it. What type of retailers do you think are the most vulnerable? And conversely which ones do you think might do well in the next few years?"

Almaraz: "In generalizing those retailers that rely on discretionary spending are the most vulnerable. Certainly the retailers like Wal-Mart, Target, Costco and Sam's are probably on a little firmer footing than those that rely on the discretionary dollar."

Price: "Development of big-box power centers has been very active in Oklahoma City, Edmond, Midwest City, Mustang, Moore and Norman. Do you see that



OKC roundtable participants (Clockwise from bottom) Sean O'Grady, Andy Burnett, moderator Ford Price, Louis Almaraz and Brent Conway.

Photo by Maïke Sabolich

continuing?"

Almaraz: "We're seeing a lot of pullback in development of those centers, but in Oklahoma we don't have a tremendous overflow situation. We have seen a few national retailers pull out of projects. Will they come back? Absolutely, but right now we're seeing some paring back."

Price: "How does the amount of retail space we have per capita compare to the other cities, and do we have too much retail space given our population?"

Almaraz: "In all classes we have about a 39 million-square-foot retail market. We have about 1.2 million population, so that puts it in the mid-30s in square feet per capita. And that's probably at the high end per capita of cities of similar size."

Price: "Brent, given the Devon announcement, what impact do you think it will have on the downtown market both short- and long-term?"

Conway: "The short-term impacts are likely to be an increase in the overall vacancy numbers downtown - that's a given. Long-term, I see the building as being a huge positive for the CBD. It will

be iconic and will be a statement-maker for our city. In that same vein, the freed up space that Devon leaves could create more opportunity downstream."

Price: "The suburban market has had positive absorption for the last several

right now, because I see where there's the potential for the growth trend to continue. At the same time, you have to be realistic in looking at the numbers. A lot of the absorption in the suburbs has been created through oil and gas expansion.

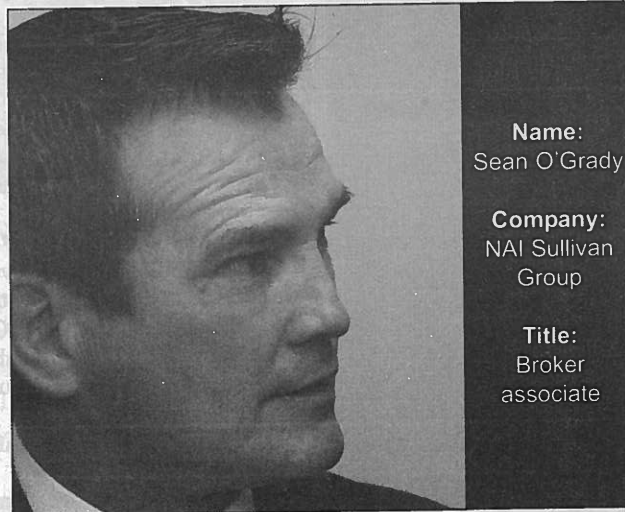
Should that market falter, absorption could go flat."

Price: "Are there any new speculative office developments you see breaking ground?"

Conway: "I see some speculative buildings coming up, but most are for owner-occupant buyers as opposed to multitenant office buildings. There's a lot of dirt moving around town, but much of that is for pre-leased and sold offices."

Price: "Andy, tell us why there have been several apartment foreclosures this year, but at the same time record pricing on certain transactions - how do you reconcile that phenomenon?"

Burnett: "You're achieving strong purchase prices because the A properties are doing very well. 1990s and newer apartments vacancy rates are closer to 5 percent, 1970s and 1960s vacancy rates are closer to 12 percent. We have a lot of older properties that are just getting



Name:
Sean O'Grady

Company:
NAI Sullivan
Group

Title:
Broker
associate

years; do you expect that to continue?"

Conway: "There are a lot of variables at play that lead me to believe that 2009 could be more challenging than the last few years have been, for sure. I kind of have a 'wait and see' attitude about '09

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old and as they are getting old there's just not the money to fix them up."

Price: "How much new product might we see in the next year?"

Burnett: "We have quite a bit planned, but how much of that comes to fruition is anyone's guess. Edmond and Norman will definitely see some activity. We've had great rent growth in A properties and there's not a whole lot of it, so some of that will definitely start to come online."

Price: "So many of the apartment sales involved out-of-town buyers, particularly from California; is Oklahoma City still being looked at by out-of-town investors?"

Burnett: "That's still the case, but it's not all California. It's also New York and Chicago. California's still there but they're having trouble with their 1031 exchange because they're not able to sell their property and come here, which is what they all want to do. They're sitting on the sidelines until they can move their inventory there. Local guys are just starting to put their toe back into the market here."

Price: "Sean, let's talk industrial. Are you seeing companies curtail expansion plans?"

Name:
Brent Conway

Company:
CB Richard
Ellis
Oklahoma

Title:
Broker
associate

O'Grady: "I still see a lot of growth and expansion. There were 139 sales last year and 32 of those in the last three months. People still have to have a place to set up their distribution. As long as the economy stays strong here it's an unprecedented time for opportunity in Oklahoma especially if you have cash, or a great portion of cash to put into the opportunities here."

Price: "Vacancies have been low for several years; do you expect significant new development in 2009?"

O'Grady: "I don't see that right now. There is a dearth of good buildings in the 5,000- to 50,000-square-foot range. I am talking to a lot of people about developing parks but people are still apprehensive about what's going to happen in the next few months."

Price: "How do you think rents and occupancies will be affected in 2009?"

O'Grady: "I've seen them creep up a little bit. What we might lose out of this are the triple-nets as they may go to a modified gross or a different kind of lease so they can salvage their tenants, but there are still a lot of great opportunities out there."

Making an impact

Price: "When you look back at what Oklahoma City has accomplished as a community, and you look back at all the tremendous things our community has done, what do you

think has had the biggest positive impact on the our local real estate markets?"

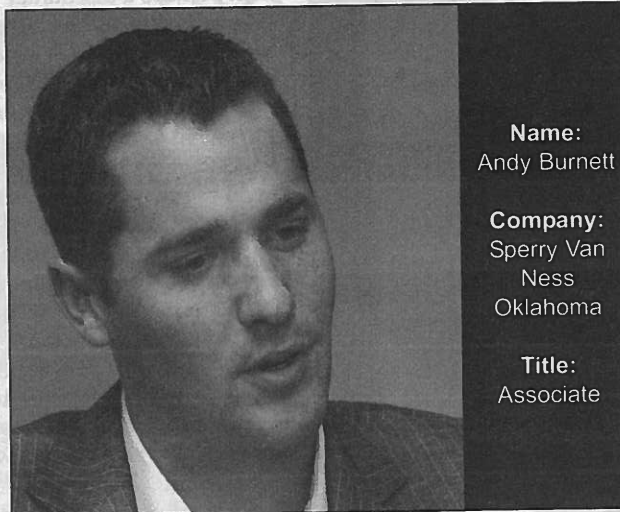
Almaraz: "In Oklahoma City we've been fortunate to have the kind of leadership that's coalesced and been very aggressive and has done a tremendous job leading the community. That is one of the things that has done the most to make Oklahoma City as attractive as it is today and we see manifestations of that everywhere."

O'Grady: "The NBA coming here has just been a huge thing for our city. I watched my first pre-season game Tuesday night and it was fantastic. We're just going to keep feeling that momentum across the board. Just look at the developments in the city like Bricktown, the river and all the redevelopment."

Conway: "I think the best is yet to come in terms of community impacts to the local real estate market. The best thing that we've done as a community to date, in my opinion, is the MAPS project. Our community's commitment to see it through to completion will ultimately create a dynamic and lasting impact on the local real estate market. Everything we've done under MAPS has led us to a

point where Oklahoma City is recognized as 'best in class.' It's become a place where investors and businesses want to be."

Burnett: "I agree. We've had some incredibly forward-thinking mayors and



Name:
Andy Burnett

Company:
Sperry Van
Ness
Oklahoma

Title:
Associate

what they planned with MAPS has really started to kick in. You see it in so many different projects. It gives people a sense of pride. When I graduated from college most of my friends went to Dallas. That's not the case anymore. Now people want to find a way to stay here."

some investors who overestimated their investment's potential that might be looking for an early exit. As for tenants, even factoring in new-construction pricing, Oklahoma City's office rental rates are among the lowest in the nation. There are a lot of really good leasing

Looking ahead

Price: "Where do you see the most opportunities for investors and or tenants in 2009?"

Burnett: "A and A-plus and the newer multifamily. As people can no longer go out and find cheap money to buy a house they're going to be moving into nicer apartments. We've seen that with our vacancy rates and out rental rates. I think that is going to continue to be a good product to put your money in."

O'Grady: "In industrial 5,000- to 50,000-square-foot warehouses. It's a great time for that product in Oklahoma."

Conway: "For investors, I think 2009 could be a pretty good opportunity in general cap-rate investments. I think the market has peaked, in terms of cap rates, and sadly I think there were

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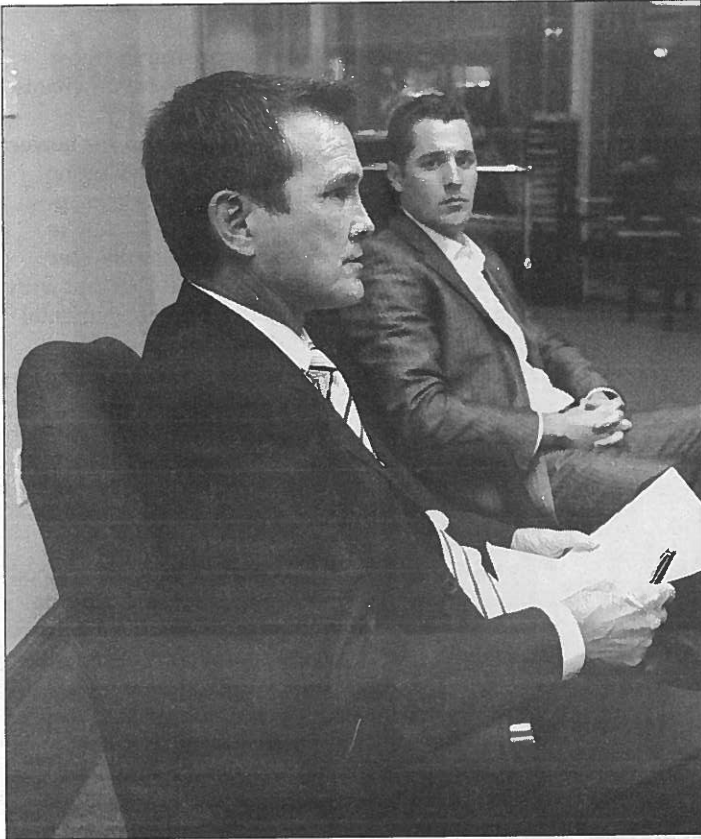
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Sean O'Grady, NAI Sullivan Group, and Andy Burnett, Sperry Van Ness.
Photo by Maike Sabolich

opportunities here – it's something that I hear from national clients and colleagues consistently."

Almaraz: "You have to be well-capitalized today, and for the well-capitalized investor, if he wants retail, certainly a good safe haven would be a grocery anchored or shadow anchored location, with perhaps a discounter to make sure that there is good, intrinsic value in the real estate and not just to buy investments based on inflated rents, which if something goes wrong with the tenant, the investor is left with a property he has overpaid for."

Price: "If you guys were going to make a bold prediction for 2009 what would it be?"

Conway: "I gave up on making bold predictions in 2005, but I will say that I believe 2009 will be challenging in a lot of ways. Despite the uncertainty of the future, I believe that 2009 will present a tremendous amount of opportunities for investors with cash to spend. I think there will be some great leasing opportunities as well despite the tightening margins that landlords will likely face."

O'Grady: "2009 will be a moment of opportunity, but we're all going to have to work harder in this business to find those opportunities and create new ideas. But for many people, I feel this is what they've been waiting for."

Burnett: "My wife has warned me about bold predictions. In multifamily I think we'll close '08 with a bang. But I think '09 will be much slower. You've got to have cash, and a lot of people don't have cash. We've done a lot of what we've done over the last seven years with leverage, and that's starting to unwind. It's going to be interesting to see how that plays out."

Almaraz: "It's going to be a good time to buy in '09. On the other side of it, it's also a good time to sell because there are some values out there and it's a good time for owners who bought right."

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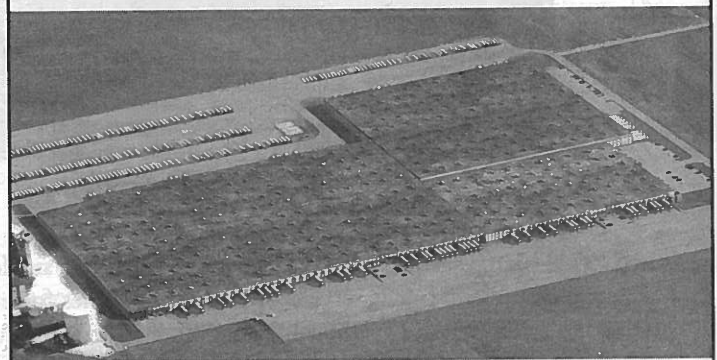
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