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Third Quarter Office Market Report

EXECUTIVE SUMMARY

Q3 2018 is a continuation of the soft Office Market activity that has prevailed since Q2 2017. As you can see by the charts, we have had a negative absorption of approximately 600,000 SF in the past 15 months, which is only 1% of total office inventory. The spike in Q1 2018 was the delivery of the Bank of Oklahoma Building 499 W Sheridan. We are fortunate that we have not had more new construction in this time period.

We would expect the office market to continue to strengthen in the months ahead as the local economy continues to expand and oil and gas prices continue to improve.

The sale of office properties over 50,000 SF has been limited to distressed office properties as 3 have sold this year, including the Cotter Ranch Tower in the CBD, 6600 N Meridian, and 4004 and 4013 NW Expressway all had the same seller. The market saw three premium office buildings sell in arm’s length transactions including the 60,441 SF Fisher Hall Office Building at 3540 S Broadway in Edmond, selling for $162.72 per SF, at 7% cap rates, selling in April, 2017; the 81,000 SF medical facility on the Integris Campus selling for $11,100,000.00 which is a cap rate of 5.9% and $140.00 per SF; and the former Sand Ridge building at 120 N Robinson, an 84,000 SF office building that sold for $10,750,000.00, $128.00 per SF and still in frame stage. These 3 office building sales are in the $128.00 to $162.00 per SF range.

We currently have for sale only 3 multi-tenant office property in Oklahoma City over 50,000 square feet. One of these properties has been on the market for 7 months, 92,000 square feet, 91% occupied, at a price of $6,750,000.00 which is a 7.1 capitalization rate.

We believe the multi-tenant office investment market will have investment buyers between 7.75% and 8.5% capitalization rate with little or no deferred maintenance.

Respectfully,

Bob Sullivan
CEO

<table>
<thead>
<tr>
<th>Leasing Activities</th>
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<tbody>
<tr>
<td>Total Inventory</td>
<td>62,385,610 SF</td>
</tr>
<tr>
<td>Total Net Absorption</td>
<td>-48,922 SF</td>
</tr>
<tr>
<td>Overall Rental Rate</td>
<td>$16.77/SF/YR</td>
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<tr>
<td>Total Vacancy Rate</td>
<td>6.90%</td>
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<tr>
<td>Under Construction</td>
<td>320,669 SF</td>
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<table>
<thead>
<tr>
<th>Sales Activities</th>
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</thead>
<tbody>
<tr>
<td>Number of Transactions</td>
<td>59</td>
</tr>
<tr>
<td>Total Sales Volume</td>
<td>$51,074,136</td>
</tr>
<tr>
<td>Average Price per Bldg. SF</td>
<td>$58.81</td>
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The Federal Reserve raised its target federal fund rate by a quarter point to a range of 2 percent to 2.25 percent in the third quarter 2018. It is expected that the Fed will continue to increase the rate gradually and there will be three more rate hikes in 2019. The rate hikes are supported by strong domestic demand as U.S. retail sales rose more than expected and manufacturing output has been rising steadily. It is reported that the U.S economy is growing at a 4.3 percent annualized rate in the third quarter.

United States, Canada and Mexico has reached a new agreement for NAFTA. The trade war between United States and China has escalated as the two countries have already imposed import taxes on $50 billion worth of each other’s goods, and President Trump threatens to add more if China retaliates. It will weaken the world’s largest two economies, and companies will encounter higher costs which will reduce jobs and consumers are going to pay higher prices for products.

According to the report from the Oklahoma Employment Security Commission, the Oklahoma State unemployment rate dropped to 3.7 percent in August. We saw continued recovery from the oil and gas companies. As the United States becomes the world’s largest oil producer and oil prices continue to surge, it will benefit local oil and gas companies.

The Oklahoma commercial real estate industry has been more active as oil and gas prices continue to rise, and as the new law for medical marijuana takes effect. The Oklahoma City Council has approved $1,000,000.00 in job creation payments and another $2.3 million in tax increment financing for Heartland Payment System’s headquarter in downtown; Rural Sourcing is set to open an office employing 150 people at the Rock Island Plow building in Bricktown; the $288 million new convention center is well under construction and is expected to open by 2020; the $27 million Oklahoma City Boulevard is set to open by late 2019, and the Scissortail Park is set to open by the summary 2019.

The largest office lease signings based on square feet during Q3 2018 include the 154,584 SF lease signed by Enable Midstream Partners at BOK Park Plaza at 499 W Sheridan in Oklahoma City, the 40,154 SF office lease at 5600 N May Avenue in Oklahoma City signed by Range Resources Corporation with a rental rate at $16.50/SF/YR modified gross, and the 10,414 SF office lease at 2601 NW Expressway St. in Oklahoma City signed by Neuro Pain Care with an asking rental rate of $17/SF/YR full service gross.
• The total net absorption was a negative 48,922 SF at the end of Q3 2018.
• The total net absorption improved compared to the negative absorption of 188,016 SF at the end of Q2 2018.
• The total office inventory was 62,385,610 SF at the end of Q3 2018.
• The total office inventory increased from 62,345,189 SF at the end of Q2 2018.

- Class-A property net absorption was a negative 53,329 SF, which decreased from the net absorption of a positive 55,502 SF at the end of Q2 2018.
- Class-B property net absorption was a positive 10,771 SF, which increased from the negative absorption of 216,114 SF at the end of 2018.
- Class-C property net absorption was a negative 6,364 SF, which improved from the negative absorption of 27,404 SF at the end of Q2 2018.
The overall office market gross rental rate averaged $16.77/SF/YR at the end of the Q3 2018. The overall office market gross rental rate slightly decreased from the $16.80/SF/YR rate at the end of Q2 2018. The overall office market vacancy rate was 6.90% at the end of Q3 2018. The overall office market vacancy rate slightly increased from the 6.80% at the end of Q2 2018.

Class-A property gross rental rate averaged $22.37/SF/YR at the end of Q3 2018. Class-A property gross rental rate increased from the $21.81/SF/YR rate at the end of Q2 2018. Class-A property vacancy rate was 6.10% at the end of Q3 2018. Class-A property vacancy rate increased from the 5.50% rate at the end of Q2 2018.

Class-B property gross rental rate averaged $16.73/SF/YR at the end of Q3 2018. Class-B property gross rental rate remained about the same compared to the rate at $16.77/SF/YR at the end of Q2 2018. Class-B vacancy rate was 8.40% at the end of Q3 2018. Class-B vacancy rate slightly increased from the 8.30% rate at the end of Q2 2018.
• Class-C rental rate averaged $13.98/SF/YR at the end of Q3 2018
• Class-C rental rate slightly decreased from the $14.03/SF/YR rate at the end of Q2 2018
• Class-C vacancy rate was 4.40% at the end of Q3 2018
• Class-C vacancy rate remained the same compared to the rate at the end of Q2 2018

There was 320,669 SF office space under construction at the end of Q3 2018. The asking rental rate of under construction rentable office space averaged $22.60/SF/YR. The two properties with the largest building area under construction were the 120,000 SF Paycom building at 7501 W Memorial Rd., which is scheduled to be delivered in December 2018, and the 44,000 SF office building at 3000 S Telephone Rd. which is scheduled to be delivered in March 2019 with an asking rental rate of $27.00/SF/YR full service gross.
There were 59 office sale transactions recorded during Q3 2018 totaling $51,074,136. The largest individual sale based on dollar volume was the sale of the Cotter Ranch Tower at 100 N Broadway Avenue in Oklahoma City. BancFirst Corporation purchased the 507,682 SF office building from Estate of James Franklin Cotter for $20,999,998, or $38.38/SF/YR, on August 30th, 2018.

We are seeing more office space back to the market and new deliveries add to the market, which contribute to the vacancy increase and also the decrease in rental rates. We already seen a much more active office market for Q3 18. Enable Midstream Partners LP has signed a lease for 154,584 SF office space at BOK Park Plaza; Rural Sourcing is set to open an office at the Rock Island Plow building in Bricktown; Heartland Payment System is going to build it new headquarter in downtown; and Cotter Ranch Tower has changed hand and is now called BancFirst Tower. As the oil and gas prices go up, the Oklahoma City office market will continue to recover.
OKC MARKET SIGNIFICANT OFFICE SALE TRANSACTIONS DURING Q3 2018

Property Name: Cotter Ranch Tower  
Property Address: 100 N Broadway Ave., OKC  
Sale Price: $20,999,998  
Sale Price per SF: $38.38/SF  
Sale Date: 08/30/2018

Property Name: Possum Creek Place  
Property Address: 6301 N Western Ave., OKC  
Sale Price: $6,249,999  
Price per SF: $279.67/SF  
Sale Date: 09/18/2018

Property Name: 11100 Hefner Pointe Dr.  
Property Address: 11100 Hefner Pointe Dr., OKC  
Sale Price: $2,999,000  
Price per SF: $168.94/SF  
Sale Date: 07/12/2018
Property Name: Lake Park Tower  
Property Address: 6525 N Meridian Ave., OKC  
Sale Price: $2,500,000  
Price per SF: $23.80/SF  
Sale Date: 07/10/2018

Property Name: 4001 N Classen Blvd  
Property Address: 4001 N Classen Blvd., OKC  
Sale Price: $2,065,000  
Price per SF: $124.97/SF  
Sale Date: 07/12/2018

Property Name: Land Law Building  
Property Address: 124 NW 10th St., OKC  
Sale Price: $1,950,000  
Price per SF: $195/SF  
Sale Date: 08/13/2018
NAI SULLIVAN GROUP

NAI Sullivan Group is a leading global service provider offering a full range of premier services, customized to fit your need and exceed your expectations. Our talented and experienced professionals provide benefits to large institutions and small business owners alike. We are your single point of contact for customized real estate services.

NAI Sullivan Group strives for excellence in all facets of real estate services in order to maintain our position as an industry leader. Our team transforms forward-thinking ideas into cutting-edge applications, to achieve maximum results for our clients, company and community.

For more information, please visit our website: www.naisullivangroup.com

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