MARKET REPORT

Marcus & Millichap

INDUSTRIAL

Tulsa, Oklahoma

FIRST HALF 2019

Tulsa Showing Signs of Robust Property Performance

Rising tenant demand boosts need for modern and functional logistics facilities. A recovering energy sector and healthy demand among aerospace parts manufacturers has Tulsa's industrial property market on solid footing, pushing occupancies higher and pressuring rental rate growth. E-commerce and shifting consumer habits are generating new sources of space demand, motivating Amazon to announce it will occupy a 2.56 million-square-foot distribution facility in the metro, its second location in Oklahoma. Whirlpool also has plans to grow its supply chain, taking space at an 800,000-square-foot distribution center that recently broke ground across from its manufacturing plant. A skilled local workforce and centralized location will ensure long-term space demand as more firms look to expand operations, which should encourage developers to add new and modern warehouses and logistics facilities to the metro in the coming years. The market's vacancy rate has held under 4 percent since 2015 and new space fills quickly when it becomes available.

Yield-driven buyers boost sales activity to highest level of the cycle. A lower entry level and less competition than in other parts of the Southwest have investors scouring the Tulsa metro for remaining upside. Yields in the region average above those recorded in Oklahoma City, between the high-7 to 9 percent range, roughly a 40-basis-point premium. Despite higher-yielding assets that typically draw out of market attention, the majority of buyers are local private investors, keeping pricing more stable as bidding wars have not materialized. Though investor demand in the region remains on the rise, lifting transaction velocity to a cycle-high last year, deal flow could be held back by the limited number of listings on the market. This year's healthy increase to inventory may provide investors with new opportunities should merchant builders decide to list. Older properties remain available for opportunistic buys as well, providing increased rent rolls upon completion of renovations and upgrades. With more investors vying for properties across the region, a competitive bidding environment could arise over the next 18 months, boosting asset appreciation at a greater clip.

2019 Industrial Forecast

1.9%
increase
in total employment

EMPLOYMENT:
A tight unemployment rate slows employment growth in 2019 from the 2.1 percent gain registered last year as employers add 9,000 workers to company payrolls.

540,000
square feet
will be completed

CONSTRUCTION:
Deliveries trend upward from the nearly 230,000 square feet constructed in 2018 as at least 10 projects are scheduled for completion this year, primarily south of the city in Glenpool.

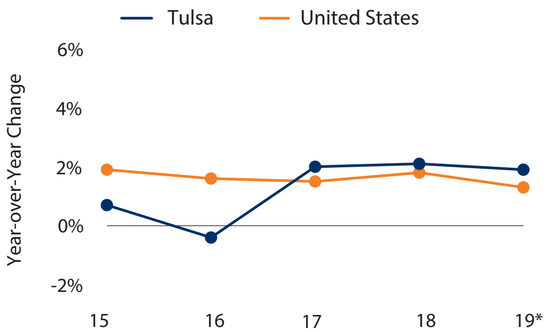
10
basis point
decrease in vacancy

VACANCY:
Tenant demand edges past supply growth in 2019 to bring the vacancy rate down to 3.4 percent, adding to the 10-basis-point decline posted one year earlier.

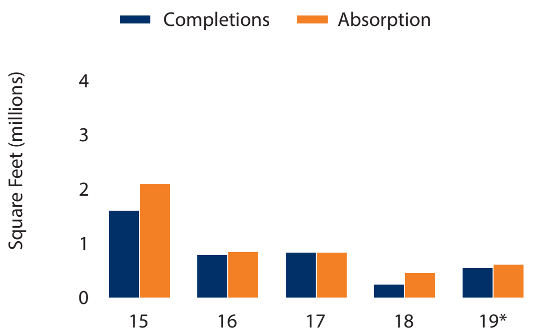
3.5%
increase
in asking rents

RENTS:
Following a 3.3 percent increase in 2018, the average asking rent climbs to $5.35 per square foot this year.

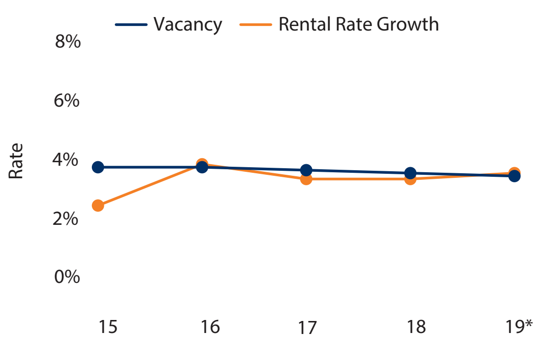
Employment Trends



Completions and Absorption



Rent and Vacancy Rate Trends



** Forecast*

Employment

- Led by the manufacturing sector, which created nearly 2,100 jobs in 2018, employment gains totaled 9,700 last year. The leisure and hospitality sector was the second greatest contributor, adding just over 2,000 workers to company payrolls in 2018.
- The unemployment rate declined 110 basis points in December from one year earlier to 3.2 percent, the lowest reading since 1999. A smaller labor pool from which employers can draw from will be a challenge to job growth in 2019.

Outlook: A healthy manufacturing sector and stable gains in other sectors will support the creation of 9,000 jobs in 2019, a 1.9 percent expansion to employment.

Construction

- Following the completion of 820,000 square feet in 2017, deliveries slowed substantially last year with just over 226,000 square feet coming online. The largest delivery over the past year was a 66,000-square-foot warehouse in southwest Tulsa.
- At least 10 structures will be completed this year, the largest being a 170,000-square-foot warehouse in Glenpool. The majority of new construction has already been pre-leased.

Outlook: Approximately 540,000 square feet will be built this year, with millions more on tap as major projects for Amazon and Whirlpool get underway.

Vacancy and Rents

- Net absorption outpaced supply growth in 2018, compressing the vacancy rate 10 basis points in the fourth quarter from a year earlier to 3.5 percent. A decline of 10 basis points was posted in 2017 as well.
- Tight availability lifted the average asking rent to $5.17 per square foot in the fourth quarter, up 3.3 percent from one year ago.

Outlook: Strong preleasing keeps the vacancy rate on a downward trajectory this year, declining 10 basis points to 3.4 percent, contributing to a 3.5 percent increase to the average asking rent, climbing to $5.35 per square foot.

Sales Trends

- A flight to higher yields and remaining upside boosted transaction velocity 10 percent over the past year in comparison with the prior period.
- Pricing held relatively stable, averaging $47 per square foot during the past year. The average cap rate recorded in 2018 was in the upper-7 percent to upper-9 percent territory.

Outlook: Investors will become more strategic and increase activity in smaller tertiary markets, underscoring elevated sales activity in Tulsa. Particularly, opportunistic buys, low pricing on a per square foot basis and attractive first-year yields will bolster investment activity, primarily from in-state investors.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Real Capital Analytics; U.S. Census Bureau