

Better Than OK

Oklahoma City's strong economy capitalizes on public-private partnerships to transform its office market. **By Ben Johnson**

In the depths of the most severe national recession in decades, Oklahoma's largest city will soon sprout a new office tower surpassing anything built since the 1980s. When completed in 2012, the state's tallest skyscraper, at 54 stories, will become the latest chapter in Oklahoma City's renaissance due largely to a unique series of public-private partnerships.

While still primarily energy driven, Oklahoma City's economy has diver-

sified in the last few years, and now includes biosciences, health care and aerospace. This year the city has enjoyed a lower unemployment rate — 5.7% in May 2009 — versus the national rate of 9.4% in May. And the rest of the world has taken notice.

Forbes magazine ranked Oklahoma City the sixth "most livable city" this year and in 2008 dubbed it "America's most recession-proof city," thanks to its burgeoning health

care, aerospace and higher education industries.

"Other cities are coming here to find out our secret," says Roy Williams, president of the Greater Oklahoma City Chamber. "It's really simple. We have figured out how to make public/private partnerships work."

Devon goes big

From a commercial real estate standpoint, the culmination of this outside recognition will soon be easily viewed in the form of a major new addition to the city's skyline. In October 2009, Oklahoma City-based Devon Energy Corp., the largest U.S.-based independent oil and gas producer, plans to break ground on a \$750 million office tower downtown.

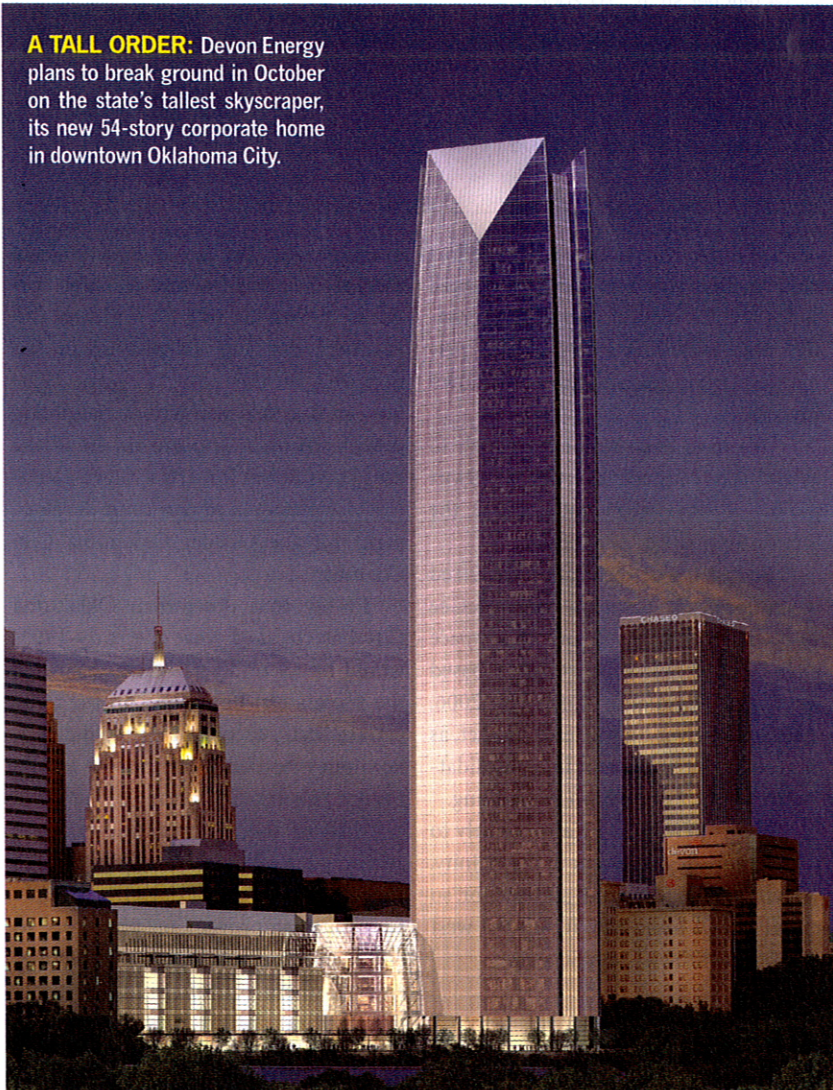
The building, which will be fully occupied by Devon's 1,500 local employees, is being developed by Houston-based Hines and designed by Pickard Chilton Architects.

"Oklahoma City will finally have an iconic tower that will clearly define our skyline," notes Klay Kimker, president of Devon Realty Advisors. Thanks to a new downtown tax increment finance district approved by the city council, the tower's development will also spawn an estimated \$175 million in new taxes to be used to redevelop streetscapes in an area around the Devon building.

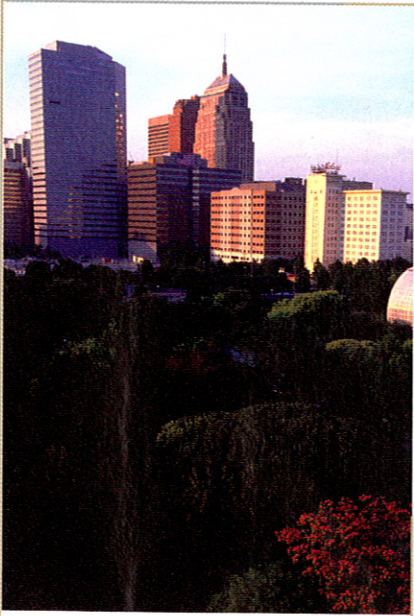
For the local real estate community, Devon's project is a shot in the arm. "It's the biggest real estate story in 25 years," says Tim Strange, owner of the Oklahoma City-based Sperry Van Ness/Tim Strange & Associates. "We haven't seen that scale of development in Oklahoma City since I've been in the real estate business."

Unfortunately, Devon's plans also have a downside for local building owners. Devon's goal is to consolidate nearly 1 million sq. ft. of office space it current-

A TALL ORDER: Devon Energy plans to break ground in October on the state's tallest skyscraper, its new 54-story corporate home in downtown Oklahoma City.



OKLAHOMA CITY - BY THE NUMBERS



LARGEST PRIVATE EMPLOYERS

1. OG&E Energy Corp.
3,100 employees
2. AT&T
3,000 employees
3. Chesapeake Energy Corp
2,800 employees

Source: Greater Oklahoma City Chamber

CITY POPULATION

1.2 million
Source: U.S. Census Bureau

UNEMPLOYMENT RATE:

5.7%
Source: U.S. Bureau of Labor Statistics

METRO AREA VITAL SIGNS

Office:

16.6% vacancy, 1Q 2009
14.5% vacancy, 1Q 2008
\$12.34 rent per sq. ft., 1Q 2009
\$12.58 rent per sq. ft., 1Q 2008

Source: Reis

Multifamily:

8.9% vacancy, 1Q 2009
8.2% vacancy, 1Q 2008
\$519 effective rent 1Q 2009
\$502 effective rent 1Q 2008

Source: Reis

Retail:

13.1% vacancy, 1Q 2009
11.8% vacancy, 1Q 2008
\$9.71 rent per sq. ft., 1Q 2009
\$9.97 rent per sq. ft., 1Q 2008

Source: Reis

Industrial:

9% vacancy, 1Q 2009
14.2% vacancy, 1Q 2008
\$3.60 rent per sq. ft., 1Q 2009
\$1.14 rent per sq. ft., 1Q 2008

Source: Grubb & Ellis/Levy Beffort

Hotel:

55.8% occupancy, 1Q 2009
61.3% occupancy, 1Q 2008
\$75.90 average daily rate, 1Q 2009
\$75.75 average daily rate, 1Q 2008

Source: Smith Travel Research

MAJOR PROJECTS

Devon Tower: The new corporate home for Devon Energy Corp. will change the city's skyline. The \$750 million, 54-story tower is expected to break ground in October 2009. At 1.9 million sq. ft., the structure could eventually house as many as 3,000 workers. Devon is the largest U.S.-based independent oil and gas producer. The tower represents the city's biggest current office project.

Developer: Hines

Completion: Late 2012

Cost: \$750 million

Core to Shore: This 750-acre area of undeveloped land between the southern edge of downtown and the Oklahoma River is the "next big thing" on the city leadership's agenda. As part of the city's 20-year plan, the area will be home to retail, housing, hotels, offices and a new convention center. Development of a centerpiece for the project, a large urban park, could begin as early as next year.

Developer: To be determined

Completion: 2030

Cost: Unofficial estimate \$3 billion

ly occupies in five downtown buildings, or nearly 20% of the total office market in the central business district. Kimker says the company began talking with the affected landlords more than a year ago to give them as much lead time as possible to plan for the departure.

Still, it hurts. "The announcement is really bittersweet from a landlord's perspective," says Emily Dobson-Timm, senior property manager for the city's largest office tower, the 78-year-old First National Center. Devon leases nearly 225,000 sq. ft. in the building, which is undergoing a massive redevelopment.

Based on the latest figures from Oklahoma City-based Grubb & Ellis/Levy Beffort, the downtown vacancy rate for Class-A and Class-B space would jump from 28.1% in the first quarter of 2009 to more than 42%, if the new Devon building were completed today.

Mark Beffort, a principal with Grubb & Ellis/Levy Beffort, has a significant stake in the downtown market, since he is a part owner in four of the five affected buildings. His firm manages

45% of downtown's office space. Beffort believes that some of Devon's vacated space will be redeveloped into alternative uses, including sorely needed new parking structures and more downtown housing.

"We have been resilient enough to absorb a lot of space in a relatively short period of time when you look at the long-term picture," says Beffort.

The last major dislocation occurred when local oil company Kerr-McGee vacated 500,000 sq. ft. of office space after being acquired by Houston-based Anadarko Petroleum Corp. in 2006. That space never hit the lease market, as SandRidge Energy swept in, consolidating three offices into a single building.

Devon's new building also is likely to spawn more development in the vicinity. "Devon is a huge magnet and anchor, so it will attract more activity on the west side of downtown," says Strange.

Mapping out its strategy

It's the first time in 20 years that such large blocks of office space have become

available, and the city is eager to help market the space to lure a major corporate tenant or two. Downtown also is where the bulk of investment has occurred in the past 15 years. "The bottom line is if you have a crumbling downtown, then you are rotten in the core," says Robin Roberts Krieger, executive vice president of economic development for the Greater Oklahoma City Chamber.

To say that downtown Oklahoma City has changed since the early 1990s would be an understatement. Much of the success can be pinned on the city's extraordinary success in raising the public money needed to generate a much-needed urban renaissance.

Most of the major development is attributed to MAPS, or Metropolitan Area Projects, a series of publicly funded capital improvement programs to build and upgrade sports, recreation, entertainment, cultural and convention facilities. MAPS was launched in December 1993, when Oklahoma City voters approved a temporary one-cent

“We never overbuilt like a lot of markets do when times are good, but we are definitely going to see vacancies increase.”

— Bob Sullivan, head of NAI Sullivan Group

sales tax. By the time it expired in 1999, the city had collected \$350 million.

The result was a spate of downtown projects, the most visible being the 15,000-seat AT&T Bricktown Ballpark for the local minor league baseball team, the Triple-A affiliate of the Texas Rangers. It was soon followed by the Bricktown Canal, a new downtown library, a rebuilt music hall and a new arena called the Ford Center.

In summer 2008, the arena began playing host to the city's new National Basketball Association team, the Oklahoma City Thunder.

“MAPS has now become this kind of magical word for Oklahoma City,” says Ford Price, managing partner in the real estate firm Price Edwards & Co. “We’ve had three great mayors in a row, and we’ve had great leadership within the city itself. They get it, they

are results oriented and they strike the right balance between protecting the taxpayers and getting projects done.” A second five-year MAPS program was initiated in 2003, with monies targeted to improving the city's public education facilities.

Down to the river

Now a third in the series of MAPS is on the drawing board, and it's expected to be put to a citywide vote this October. Money raised from the new MAPS initiative will likely target an area south of downtown. City leaders are chomping at the bit to begin development of a 750-acre piece of land stretching from the southern edge of downtown to the Oklahoma River, the so-called “Core to Shore.”

In the next few years, the area will be ripe for redevelopment once the state

moves crosstown Interstate-40 — which now bisects the area — to the south. Plans are focusing on a new 1 million sq. ft. convention center and a destination-styled central park, both designed to be a magnet for the area. “It's frankly time to have new construction like this that is substantial,” says Amy Dunn, a 24-year veteran broker in the Oklahoma City office market and vice president with the local franchise office of CB Richard Ellis.

Before that can occur, the city could encounter some headwinds. According to Grubb & Ellis/Levy Beffort, in the first quarter the office market for Class-A and B space posted negative net absorption of 163,000 sq. ft. The vacancy rate for Class-A space rose from 17% at year-end 2008 to 18.2% in the first quarter.

While the oil and gas industry remains a staple of the local economy, lower energy prices during late 2008 and early 2009 were largely to blame for much of the recent downward pressure on the office market.

Development across the city has slowed to a crawl, with only 197,000 sq. ft. of speculative office space under construction in the first quarter of 2009. “We never overbuilt like a lot of markets do when times are good,” says Bob Sullivan, head of NAI Sullivan Group, “but we are definitely going to see vacancies increase.”

For corporate users, in particular, the market dynamic could spell opportunity. “I think we're really well positioned because we're agile, we're smart, we're able to react much more quickly than a more entrenched urban environment and political environment,” says Michael Laird, chair of the real estate practice group at law firm Crowe & Dunlevy.

Charles Wiggin, head of Oklahoma City-based Wiggin Properties, agrees. “We don't tend to get crippled in acrimonious debate. And that's a hugely powerful characteristic.” ■

Ben Johnson is an Oklahoma writer.