

CAUTION AHEAD IN OFFICE MARKET

Rising confidence continues to spur the office market but we see caution ahead as average asking office leasing rates continue to rise, new construction comes on line, and vacancy rates increase. With Chesapeake Energy increasing their office holdings by \$40 million with the purchase of over 500,000 SF over the last three years, this could be considered a “false” strength of our office market.

However, this could be overcome by.....

- Strong financial forecast for the City of Oklahoma City.... A five year economic forecast prepared for the City of Oklahoma City indicates that the per capita income for Oklahoma City is 107% of the national average. These factors along with city leaders that are pro-business make Oklahoma a business friendly city.
- NBA ownership relocating to OKC will bring a need for more office space in the CBD.
- The demand for class A space will be driven by the energy, finance, and medical sectors.
- However, proposed new construction of approximately one million square feet of office space along the Memorial and Broadway Extension corridor will impact absorption. Planned new construction is priced at \$24.00 per SF.

Rates:

2007 experienced a rise in overall office leasing rates for full service properties from an average of \$12.95 per square foot at the beginning of 2007 to \$13.39 per square foot at the end of 2007, an increase of 3.4%. Leasing rates for full service office properties at the end of the second quarter of 2008 rose to \$13.93 per square foot, a rise of 5.4%.

Absorption:

The first half of 2008 shows a net negative absorption of 180,397 square feet, with much of this negative absorption coming from the sale of the Hertz building at 3817 NW Expressway, and the completion of office properties along Memorial being counted as available properties for lease.

Vacancy:

Overall vacancy at the end of the first half of 2008 was 10.4% compared to the end of 2007 which registered 9.8%. Vacancy at the beginning of 2007 stood at 8.6%. The 18 month period saw a rise in vacancies of 1.8%.

OFFICE REPORT

MID-YEAR 2008

The survey of 2,351 office buildings comprising of 41,437,268 square feet is divided into 9 sectors.

A breakdown of the sectors, vacancy, lease rates, and net change from the 4th quarter 2007 is as follows:

Sector	Vacant SF	Vacancy %	Avg. Rate	Vacancy % End of 2007
CBD	2,053,304	19.6%	\$13.92	19%
Edmond	136,807	6.1%	\$14.91	6%
Midtown	139,850	6.7%	\$13.85	7%
Moore	49,544	6.2%	\$10.75	7%
Norman	152,766	9.5%	\$17.20	8%
North OKC	361,350	4.6%	\$11.10	5%
N. West OKC	932,501	8.5%	\$15.19	7%
South OKC	115,263	5.4%	\$12.06	6%
West/Central	416,809	14.2%	\$11.03	12%

Edmond, North and Northwest Oklahoma City continue to be the strongest markets with the lowest vacancy and highest rents.

TOTAL OFFICE SUBMARKET STATISTICS

Market	Existing Inventory		Vacancy			YTD Deliveries	Under Construction SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vacancy %			
North	557	7,872,436	354,112	361,350	4.6%	0	239,298	\$11.10
South	174	2,141,255	94,917	115,263	5.4%	0	0	\$12.06
Moore	95	793,737	49,544	49,544	6.2%	0	14,010	\$10.75
Norman	132	1,605,123	152,766	152,766	9.5%	0	70,268	\$17.20
West/Central	202	2,933,876	323,139	416,809	14.2%	0	0	\$11.03
Northwest	583	10,960,464	902,883	932,501	8.5%	3	58,908	\$15.19
Edmond	215	2,247,287	122,464	136,807	6.1%	1	8,500	\$14.91
CBD	199	10,469,159	2,013,787	2,053,304	19.6%	0	0	\$13.92
Midtown	194	2,413,931	139,850	161,830	6.7%	0	0	\$13.85
TOTALS	2,351	41,437,268	4,153,462	4,380,174		4	390,984	\$13.33