



Owasso, Oklahoma: 2015 Economic Outlook

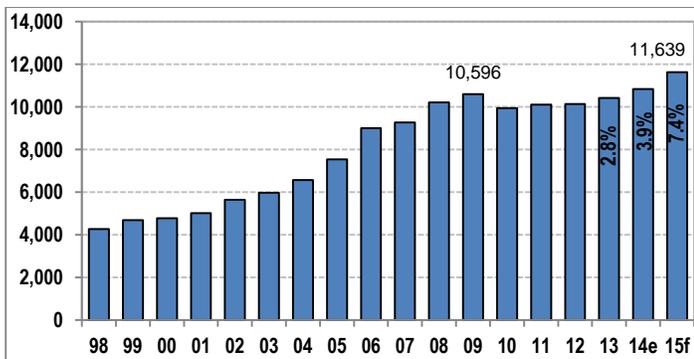
Owasso's economic recovery continues to build momentum. Growth in the city's key retail and housing sectors reflects continued strong population gains. Hiring at the new distribution center will only add to Owasso's core strength in the 2nd half of the year.

Outlook Summary:

- The Owasso economic expansion accelerated for a third consecutive year in 2014
- Local job growth is expected to rise to 7.4% in 2015 as the region adds 800 new jobs
- Nearly all new jobs are expected in the services sectors
- The Macy's facility will produce roughly half of the local job gains expected in 2015
- The key housing and retail markets are expected to remain strong driven by continued population gains

Recap of 2014: The Owasso Recovery Continues to Accelerate. Local economic conditions accelerated at a solid pace for a third consecutive year in 2014. Private sector job growth reached an estimated 3.9% rate (410 new jobs), a full percentage point above the revised 2.8% pace for 2013 (Figure 1).

Figure 1. Owasso Private Wage & Salary Employment



The key retail and housing sectors gained further ground in 2014 driven by steady in-migration of new residents into the city. Total wage and salary earnings paid by businesses operating in Owasso grew at a solid 4.9% pace in 2014.

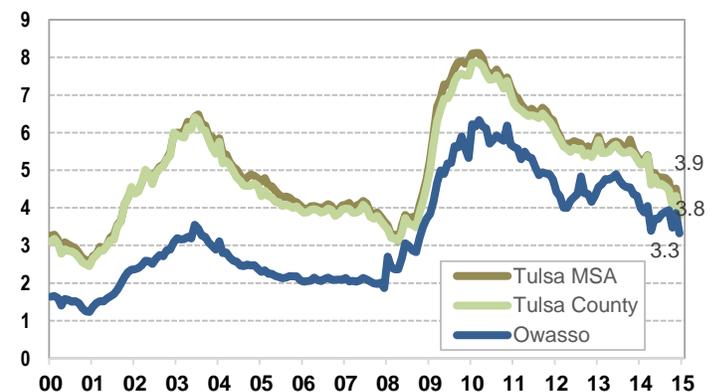
Local retail spending managed to accelerate for a third consecutive year, as taxable retail sales increased 9.6% in 2014, well above gains of 7.3% in 2013 and 5.2% in 2012. The formation of private business establishments was similarly strong, increasing by an estimated 1.8% in 2014, well above the 0.8% gain posted in 2013.

Local jobless rate finally reflects local growth. Owasso's unemployment rate hovered above 4.0% in both 2012 and 2013, but it finally pushed sharply lower in 2014

(Figure 2). The unemployment rate dropped to 3.8% for all of 2014 after averaging 4.6% in 2013. The seasonally adjusted rate for January 2015 is already down to 3.3%, suggesting a strong start for the year. The number of unemployed workers in Owasso declined from about 640 in 2013 to 510 in 2014, the lowest level since 2008.

It is important to note that the local unemployment rate is calculated for residents living in Owasso, regardless of where they work. The strong out-commuting pattern for Owasso residents suggests that the local rate is highly reflective of the broader Tulsa economy. The Tulsa metro jobless rate has in fact followed a similar pattern in the recovery with sluggishness in both 2012 and 2013. The metro jobless rate is now down to 3.9%, while the rate for Tulsa County is 3.8%. We expect Owasso to continue to track the jobless rate in the broader metro area throughout 2015 and maintain a relatively small gap of about 0.5%.

Figure 2. Owasso & Tulsa MSA Unemployment Rate (%)



Overall growth pattern remains strong. Jointly, these broad economic measures provide a clear pattern of continued acceleration in the core local economy. It also sets the stage for further gains in 2015. The nearly completed Macy's distribution center will only add to what is already a strong economic trajectory.

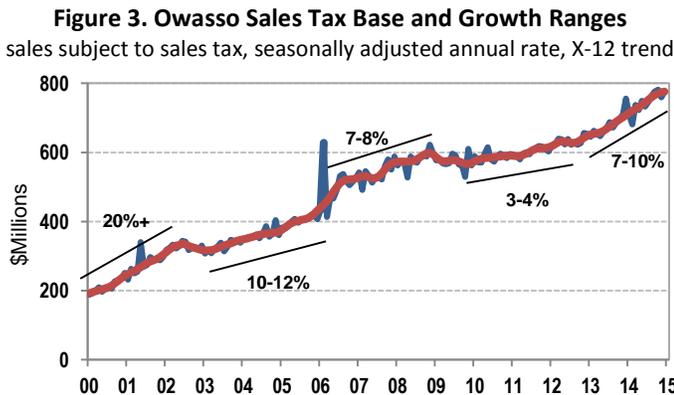
International, domestic, and state growth prospects present both opportunities and challenges for Owasso. The ongoing national expansion should provide strong support to local growth in 2015. The ongoing U.S. expansion continues to progress at a very steady pace and will soon extend across

six years. Gains in the U.S. labor market are especially supportive to local growth as hiring continues to strengthen in nearly all states. Declining energy prices should provide an additional boost to household spending this year. The strong economic performance expected at the national level should work to buoy overall growth in Owasso and the broader Tulsa area in 2015.

However, concerns over international instability and energy-related weakness in Oklahoma cannot be overlooked as risk factors. Factors such as stagnant conditions in Europe, continued slowing in China, and potential political instability traced to Russia present real risks to growth. Nonetheless, these risks are well-known and have been in place for some time now. We believe they will diminish further in importance throughout 2015.

More immediate concerns remain over the degree to which the sharp fall in oil prices will affect the overall Oklahoma economy. Although oil and gas-related capital spending in the state has slowed, rig counts are down, and jobless claims in the industry have started to move up, we are still very early in the adjustment process. State hiring growth is expected to slow throughout 2015, but we anticipate that any spillover from oil and gas cutbacks will be more evident in the second half of the year and into 2016. The Owasso economy has only limited direct exposure to oil and gas activity, which should insulate it to some degree early in the cycle. Only if the energy contraction is protracted will it become a greater risk factor for Owasso, and likely not until 2016.

Retail remains a key source of growth for Owasso. Owasso's retail surge is being driven by a continued cyclical rebound, strong population growth, and a desirable mix of new and existing retailers. Mirroring the overall local economy, the cyclical recovery in the local retail sector that began in 2012 continues to accelerate. The 9.6% gain in Owasso retail sales in 2014 represents the fastest pace of growth since a large spike occurred in retail sales in 2006. (Figure 3).



The current trend growth rate in retail activity is now solidly in the 7-10% range, slightly faster than the pace enjoyed just prior to the recent recession and more than double the rate in the early stages of the current expansion.

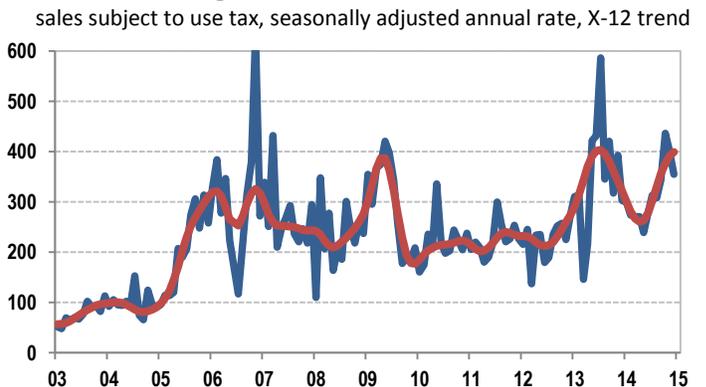
For all of 2014, Owasso was the second-fastest growing retail market among the 30 largest markets in Oklahoma (Figure 4). Only Chickasha's 12.9% gain managed to outpace retail growth in Owasso. Gains for other Tulsa-area markets ranked among the 30 largest include Broken Arrow (6.0%), Sands Springs (4.6%), Tulsa (3.4%), Sapulpa (2.8%), and Claremore (0.8%). Statewide retail sales were strong in the period, posting a 5.2% year-over-year gain for all of 2014.

Figure 4. 30 Largest Oklahoma Retail Markets

Rank	City*	12-mo Total		Rank	City*	12-mo Total	
		Dec-14	%chg			Dec-14	%chg
1	Chickasha	298,441,364	12.9%	16	McAlester	390,922,592	3.0%
2	Owasso	744,246,653	9.6%	17	Sapulpa	300,572,030	2.8%
3	Duncan	440,817,998	7.8%	18	Altus	255,120,988	2.7%
4	Ardmore	575,934,130	6.4%	19	Yukon	474,327,132	2.5%
5	Broken Arrow	1,274,486,530	6.0%	20	Muskogee	599,100,744	2.2%
6	Edmond	1,668,323,015	5.6%	21	Moore	813,646,071	1.7%
7	Ponca City	400,444,859	5.6%	22	Tahlequah	282,043,987	1.4%
8	Sand Springs	307,257,742	4.6%	23	Bartlesville	561,917,987	1.2%
9	Oklahoma City	10,972,558,512	4.6%	24	Elk City	422,660,392	1.0%
10	Ada	381,235,331	4.5%	25	Claremore	365,069,935	0.8%
11	Norman	1,860,159,152	4.4%	26	Woodward	375,398,770	0.2%
12	Durant	335,748,358	4.3%	27	Midwest City	843,626,429	-0.1%
13	Stillwater	844,051,072	3.5%	28	Enid	890,042,142	-1.0%
14	Tulsa	7,570,062,848	3.4%	29	El Reno	234,392,268	-1.4%
15	Lawton	1,111,746,240	3.2%	30	Shawnee	576,081,057	-2.1%

Sales subject to the local use tax rebounded steadily throughout 2014 (Figure 5). Although sales subject to use tax were down sharply on a year-over-year basis from the strong gain posted in 2013, the use tax base accelerated steadily throughout 2014 to more than \$400 million on an annual basis in December 2014. This is roughly equal to the all-time trend peaks of about \$400 million reached in both 2009 and 2013.

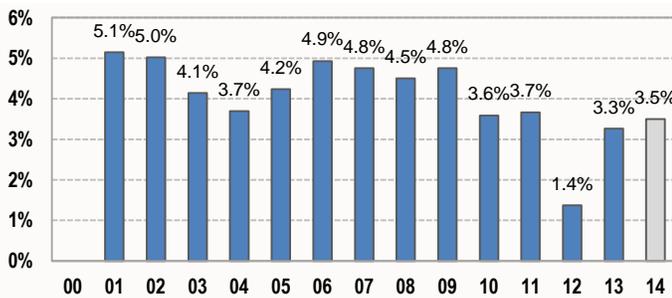
Figure 5. Owasso Use Tax Base



Combined, local taxable transactions subject to both sales and use tax reached \$1.06 billion for all of 2014, a 3.0% year-over-year gain relative to 2013.

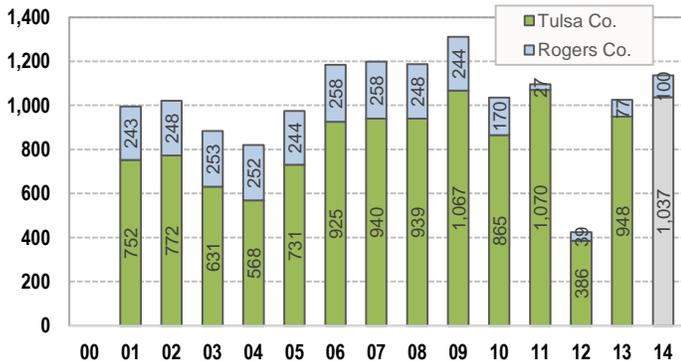
Slight upward revision to latest population estimate. Following a weak population estimate for 2012, recent Census estimates suggest much faster growth resumed in Owasso in 2013. Our initial forecast of 3.2% growth for 2013 remains quite close to the current Census estimate of 3.3%. Our current point estimate for Owasso’s 2014 population gain is 3.5%. This equates to a bit more than 1,100 new residents in the area on an annual basis. The gain for 2013 was slightly more than 1,000 new residents.

Figure 6. Owasso Population Revisions and Forecasts



While Census estimates continue to suggest that local population growth slowed sharply to only 1.4% in 2012, we anticipate that this estimate will be revised upward over time. Given that population changes are generally quite smooth over time in the absence of some form of an economic shock, other economic data suggest that the estimate for 2011 is likely too high while the 2012 estimate is too low. Beyond 2014, our near term population growth estimates suggest continue growth in the 3.0-3.5% range.

Figure 7. Owasso Population Revisions and Forecasts



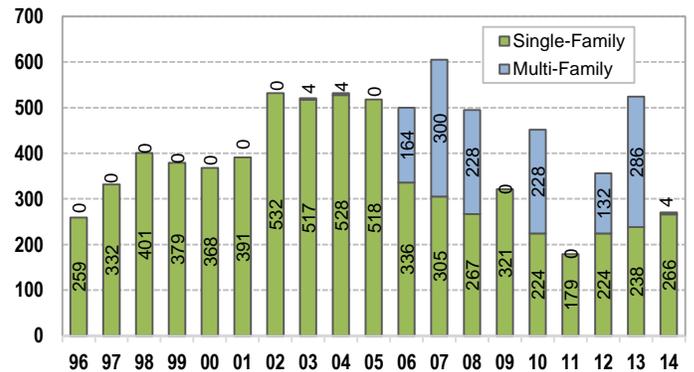
A clear shift is also present in the breakdown of recent Owasso population gains by county (Figure 7). Estimates suggest that the annual number of new city residents located in Rogers County has dropped dramatically since 2009 to less than half the level in the previous decade. The number living in Tulsa County was reportedly weak in 2012 but quickly returned to its trend level of around 950 new

residents by 2013. We expect Tulsa County gains to dominate once again in 2014 as it becomes home to more than 91% of new Owasso residents.

Housing market reflects steady population growth. Much like retail, population, and employment, the single-family construction market expanded at a healthy pace in 2014. Single-family housing permits reach 266 units in 2014, up 11.8% over 2013 (Figure 8). However the annual number of single-family housing permits remains at roughly half the level prior to the recent recession. We expect single-family permits to edge higher once again in 2015 to 285 units, a 7.0% gain.

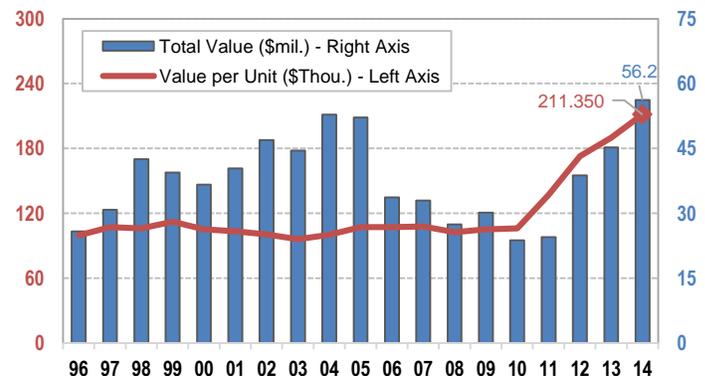
On the multi-family side, the market is digesting strong unit growth in both 2012 and 2013. Only 4 multi-family units were permitted in 2014 versus 286 units in 2013 (Figure 8).

Figure 8. Owasso Single Family Housing Permits



The shift underway in the Owasso housing market toward much higher-valued single-family housing units continued in 2014 (Figure 9). The average permit value for a new single family home in Owasso climbed to more than \$211,300 in 2014, up 11.2% over 2013. This is roughly 10% below the \$233,730 average nationally, and about 10% above the average of \$201,630 in Oklahoma in 2014. We anticipate that further increases in average home value will be increasingly difficult to maintain going forward.

Figure 9. Owasso Single Family Housing Permit Values



The total value of new single-family homes permitted in Owasso increased by nearly 25% to \$56.2 million in 2014, driven by both increased volume and a higher average cost (Figure 9). This pace is unlikely to be maintained in 2015, with the value of single-family permits expected to rise by 8.2% to \$60.8 million.

Our 2015 outlook for Owasso calls a year of sharply accelerated local job growth. Our local hiring outlook reflects a continued acceleration in the core economy boosted by job gains at the Macy’s distribution center in the second half of 2015. We anticipate 7.4% private sector job growth (800 jobs) in the Owasso area in 2015 (see Table 1). Historically, this is not an exceptionally large job gain for the area economy. Owasso produced an average of 8.5% annual private sector job growth in the fifteen years prior to the recent recession. It would, however, represent the fastest job growth in the city since the 10.1% gain posted in 2008 just prior to the recent national recession.

The local unemployment rate is expected to resume falling given a more rapid pace of job formation locally and continued strengthening of the recovery in the broader Tulsa region. The local jobless rate should fall to 3.5% for all of 2015, and move toward 3.0% by the end of 2015.

Locally earned wage and salary income will be boosted by the expected job gain to 11.1% in 2015. Retail sales growth has tremendous momentum and is expected to slow just marginally to a 9.2% gain for all of 2015.

Other than construction, the goods-producing sectors added few new jobs in 2014. (Figure 10). Construction firms added an estimated 150 net new jobs in 2014 versus relatively flat hiring in both the mining and manufacturing sectors.

The overall performance of the goods-producing sectors will likely be repeated in 2015. The bounce in construction hiring in 2014 is tied to the Macy’s facility and we expect it to reverse out and leave a small decline in construction jobs in 2015. Weak hiring in Owasso’s relatively small oil and gas sector is expected to reflect the overall slowing of the sector statewide. We do, however, expect small gains in hiring in the local manufacturing sector in 2015.

The overall level of hiring in the goods-producing sectors remains well below levels from a decade ago. We expect this weakness to continue, with fewer than 15 net new jobs created in the goods-producing sectors in 2015 (Figure 10).

Nearly all local job gains in 2015 are expected in the services sectors. All major service-providing sectors are expected to add jobs in 2015. Our forecast calls for a total of 791 new service-sector jobs in Owasso in 2015.

Our outlook assumes a net increase of 430 jobs in the trade and transportation sector on an annual basis. The majority of these jobs represent expected hiring at the Macy’s facility, with most of the job gains back-loaded to the second half of the year. This represents roughly half of all new jobs expected locally in 2015.

Part of the forecasted hiring in trade and transportation reflects the ongoing strength in the retail and wholesale trade sectors in Owasso. These sectors are expected to generate roughly 10 percent of the job growth forecasted in the trade and transportation sector in 2015.

The health services sector is expected to add 140 new jobs in 2015, consistent with the strong trend in place in health-related hiring in most areas of the state.

Financial services has posted two consecutive years of accelerated hiring and is expected to post a third in 2015 with 45 additional jobs.

The leisure and hospitality sector remains in a steady expansion and is expected to add 90 new jobs in 2015.

March 9, 2015

Figure 10. Owasso 2015 Job Formation – Goods vs. Services

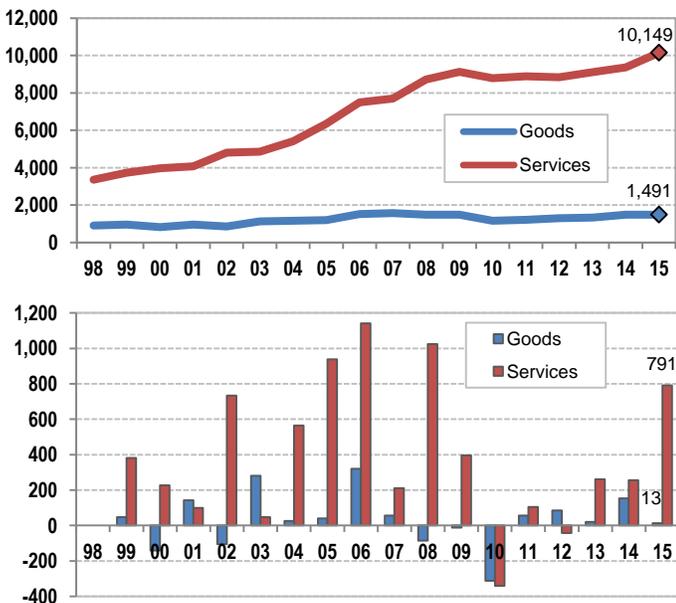


Table 1. Economic Indicators - City of Owasso, Oklahoma
Seasonally adjusted, annual rate

Economic Indicator	2006	2007	2008	2009	2010	2011	2012	2013	2014e	2015f
Private Wage & Salary Employment	9,008	9,274	10,213	10,596	9,944	10,104	10,146	10,428	10,836	11,639
% Change	19.4%	3.0%	10.1%	3.8%	-6.2%	1.6%	0.4%	2.8%	3.9%	7.4%
Goods-Producing Employment	1,519	1,574	1,489	1,476	1,164	1,220	1,305	1,325	1,478	1,491
	26.8%	3.7%	-5.4%	-0.9%	-21.1%	4.8%	7.0%	1.5%	11.5%	0.9%
Mining	80	82	83	88	84	87	86	95	103	99
	7.0%	2.8%	2.0%	6.0%	-4.7%	3.8%	-1.5%	10.4%	8.4%	-3.9%
Construction	418	499	478	431	396	421	441	412	553	536
	11.9%	19.3%	-4.1%	-10.0%	-8.1%	6.4%	4.8%	-6.6%	34.1%	-3.0%
Manufacturing	1,021	994	927	957	684	711	778	818	822	855
	36.1%	-2.7%	-6.7%	3.2%	-28.5%	3.9%	9.3%	5.2%	0.5%	4.0%
Service-Providing Employment	7,489	7,700	8,724	9,120	8,780	8,884	8,841	9,103	9,358	10,149
	18.0%	2.8%	13.3%	4.5%	-3.7%	1.2%	-0.5%	3.0%	2.8%	8.5%
Trade, Transportation, and Utilities	2,920	2,735	2,855	2,846	3,094	2,969	2,889	2,980	3,004	3,436
	28.6%	-6.3%	4.4%	-0.3%	8.7%	-4.0%	-2.7%	3.1%	0.8%	14.4%
Information	65	85	98	126	112	128	130	139	147	156
	6.1%	30.3%	15.8%	28.4%	-11.2%	14.1%	1.9%	6.7%	6.1%	5.7%
Financial Activities	507	639	651	678	605	654	619	636	656	700
	4.2%	26.1%	1.8%	4.1%	-10.8%	8.1%	-5.3%	2.7%	3.1%	6.7%
Professional and Business Services	971	763	862	962	756	766	852	903	961	977
	7.5%	-21.4%	13.0%	11.6%	-21.4%	1.4%	11.2%	6.0%	6.4%	1.7%
Educational & Health Services	966	1,230	1,498	1,750	1,658	1,505	1,636	1,606	1,658	1,802
	9.2%	27.3%	21.8%	16.8%	-5.3%	-9.2%	8.7%	-1.8%	3.2%	8.7%
Leisure & Hospitality	1,466	1,614	2,131	2,134	1,909	2,216	2,063	2,170	2,258	2,339
	21.3%	10.1%	32.0%	0.1%	-10.5%	16.1%	-6.9%	5.2%	4.1%	3.6%
Other Services	594	633	629	624	646	646	651	669	674	740
	11.3%	6.7%	-0.7%	-0.7%	3.5%	0.0%	0.9%	2.7%	0.7%	9.8%
Employment (LAUS)	9,325	9,277	12,888	12,843	11,729	12,117	12,352	12,568	13,090	13,724
	0.4%	-0.5%	38.9%	-0.4%	-8.7%	3.3%	1.9%	1.7%	4.2%	4.8%
Labor Force (LAUS)	9,523	9,470	13,273	13,527	12,479	12,728	13,463	13,789	13,599	14,218
	0.5%	-0.5%	40.1%	1.9%	-7.7%	2.0%	5.8%	2.4%	-1.4%	4.6%
Unemployment (LAUS)	197	193	384	684	750	661	582	639	510	494
	-5.6%	-1.9%	98.8%	78.0%	9.7%	-11.9%	-12.0%	9.8%	-20.2%	-3.1%
Unemployment Rate (LAUS)	2.1%	2.0%	2.9%	5.1%	6.0%	5.2%	4.3%	4.6%	3.8%	3.5%
	-5.3%	-1.3%	41.8%	74.6%	18.9%	-13.6%	-16.8%	7.2%	-19.1%	-7.4%
Sales Tax Base (\$Mil)	502.2	541.0	580.0	573.2	587.7	601.7	632.8	678.8	744.2	812.7
	25.1%	7.7%	7.2%	-1.2%	2.5%	2.4%	5.2%	7.3%	9.6%	9.2%
Use Tax Base (\$Mil)	289.6	271.7	230.3	297.7	221.0	225.8	223.4	350.5	315.9	352.0
	41.9%	-6.2%	-15.2%	29.3%	-25.8%	2.2%	-1.1%	56.9%	-9.9%	11.4%
Wage & Salary Earnings (\$Mil)	209.6	220.4	251.5	257.3	250.5	262.3	265.2	298.8	313.4	348.1
	17.9%	5.2%	14.1%	2.3%	-2.6%	4.7%	1.1%	12.7%	4.9%	11.1%
Population	25,193	26,391	27,579	28,890	29,925	31,022	31,447	32,472	33,609	34,785
	6.4%	4.8%	4.5%	4.8%	3.6%	3.7%	1.4%	3.3%	3.5%	3.5%
Business Establishments	689	765	798	781	801	809	830	837	852	875
	2.2%	11.0%	4.3%	-2.1%	2.6%	1.0%	2.6%	0.8%	1.8%	2.7%
Single Family Home Permits (units, annual rate)	323	301	267	327	215	180	224	238	266	285
	-37.7%	-6.8%	-11.3%	22.5%	-34.3%	-16.3%	24.4%	6.3%	11.8%	7.0%
Single Family Home Permits Value (\$millions)	36.1	32.9	27.4	33.8	24.3	24.5	38.7	45.2	56.2	60.8
	-34.5%	-8.9%	-16.8%	23.4%	-28.0%	0.7%	58.0%	16.8%	24.3%	8.2%
New Single Family Home Average Value (\$thou.)	111.8	109.4	102.6	103.3	113.1	136.1	172.8	189.9	211.3	213.6
	-34.5%	-8.9%	-16.8%	23.4%	9.5%	20.3%	26.9%	9.9%	11.2%	1.1%
^e Estimate ^f Forecast	2006	2007	2008	2009	2010	2011	2012	2013	2014e	2015f