



Timothy Norton, SIOR

Office stats don't tell full story of market's recovery

By Tom Harton

Vacancy rates for multi-tenant office buildings ticked up and absorption slipped in the first quarter, according to statistics compiled by two of three of the city's major brokerages. But market observers say the negative numbers obscure positive trends in the local market.

The local office of Cassidy Turley reported negative absorption of 98,000 square feet in its first-quarter office report. Most of that occurred in the central business district. The suburban market accounted for 29,000 square feet of the total.

The central business district vacancy rate jumped a half-point, from 17.1 percent at the end of last year to 17.6 percent March 31. The suburban rate grew to 22.5 percent from 22.3 percent.

In spite of the numbers, "I can't envision a scenario where we're going to end the year in negative territory," said Jason W. Tolliver, Cassidy Turley's research director.

Tolliver said the pace of leasing activity is the best he's seen in 18 to 24 months. He attributed the negative absorption to corporate tenants following through on belt-tightening they decided to do a year or more ago.

Summit Realty Group also reported slippage in the numbers but predicts better times ahead for the local office market. Summit, a Cushman & Wakefield affiliate, reported almost 70,000 square feet of negative absorption, more than half of

that occurring downtown. The vacancy rate for the market was essentially flat at 22.4 percent.

Tim Norton, Summit's executive vice president, attributed some of the negative absorption to companies' continuing to downsize. Another factor is companies that are moving out of multi-tenant buildings into buildings they've purchased.

But there are reasons to be optimistic, Norton said. Among them is the number of companies shopping for space compared with a year ago, when most tenants were still sitting on the sidelines.

Now they're back in the game and are signing longer-term leases than they had been in the depths of the recession. Before the recession, the average deal length was about five years. Interest in such deals has returned, and some companies are locking in space for 10 to 15 years, he said.

Although tenant activity is strong, some building owners are still vulnerable to losing their buildings, which could hurt the market, Norton said. Properties in default, or with no cash to make tenant improvements, often cause tenants to move to other leased space or leave the rental market entirely.

CB Richard Ellis was the only one of the three brokerage firms that reported positive absorption in the quarter. It reported positive absorption of more than 25,000 square feet in the downtown area and almost 14,000 square feet in the suburbs.
