Office space leasing slowed in third quarter

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The pace of office leasing continues to slow across the metro Atlanta office market, as companies remain uncertain about the direction of the economy and the country’s leadership.

Overall leasing activity in the third quarter should end up somewhere near 2 million square feet within the region’s top office markets, including trophy towers located in downtown, Midtown, Buckhead and those along Georgia 400 in Dunwoody, Sandy Springs and Alpharetta.

The 2-million square-foot figure is a preliminary number according to some of the larger commercial real estate brokerages. More details from Jones Lang LaSalle, Colliers International, and others will be coming out during the first half of October.

Leasing activity is a closely-followed gauge of confidence in the economy, and its slowdown indicates companies are putting major expansions and relocations on hold until they see greater economic and political clarity, both domestically and abroad.

Last month, Georgia State University economist Rajeev Dhawan said Georgia’s economy has hit a standstill amid concerns over the looming fiscal cliff, “political dithering” in Washington, plunging corporate confidence and consumers who remain in an “iffy” mood. Many CEOs have expressed doubts surrounding the outcome of the U.S. election, tax increases and spending cuts, and fears about a European debt crisis that could eventually engulf the global economy. Lately, political unrest in the Middle East has added to the volatility.

In metro Atlanta, the unemployment rate rose to 9.3 percent in July.

But, there are bright spots that offer encouragement.

The most active office market in Atlanta was Central Perimeter, the area that includes Dunwoody and Sandy Springs.

In June, State Farm announced it would lease 425,000 square feet at the vacant 64 and 66 Perimeter Center East buildings.

That transaction was largely responsible for somewhere between 600,000 and 1 million square feet in absorption the region’s office market is likely to post in the third quarter. During the worst of the recent downturn, as more space was added to the market for lease, absorption turned negative.

Cushman & Wakefield said third-quarter absorption totaled 646,320 square feet, resulting in year-to-date positive absorption of 2.3 million square feet, well ahead of the 2011 pace and the strongest since 2007.

Office vacancy, meanwhile, has hovered near 20 percent across metro Atlanta.

“As submarkets improve to a 10 percent or less vacancy, the likelihood of stabilization across the submarket becomes reality,” Bob Mathews, president and CEO of Colliers-International Atlanta, said in an email.

“However, we are still in the aftermath of the recession across the metro region and asset stabilization will continue to be a challenge for all owners until we begin to see significant job growth.”

Commercial real estate brokerages are generally an optimistic lot, and the leaders of the biggest Atlanta firms reflect it in their analysis of the third quarter.

“The pending election has had limited impact on leasing activity,” said John O’Neill, market leader of Cushman & Wakefield in Atlanta. “The ability for companies to commit long term is prevalent in 2012, which was not the case during the last presidential election.”

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O'Neill said most of the big leasing deals happened earlier this year, creating a "shortage of large lease transactions" in the third quarter.

"The pipeline for fourth quarter is robust so we expect a strong finish," O'Neill said.

Clark Gore, regional managing principal for the Atlanta office of Cassidy Turley, said, "We came out of the gate pretty hard early this year." Even so, third quarter leasing activity for his firm looks better than expected.

"I think we have all learned to be successful in an environment of uncertainty," Gore said.

The fundamental problem for Atlanta’s office market remains sluggish job growth, said Mike Sivewright, Jones Lang LaSalle’s Atlanta market director.

"I don't think it's any secret that Atlanta and Georgia are lagging this time around," he said.

Nationally, technology and energy have helped lead job growth.

"Those just are not sectors with a big presence in our market, yet," Sivewright said.

One positive is that construction for new office buildings remains all but shut down across metro Atlanta. At the end of the third quarter, 450,000 square feet of speculative office was being developed. All of it was associated with Jamestown Properties' mixed-use redevelopment of Ponce City Market in Midtown.

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