

Valley's commercial market vacancy rates still falling

BY MIKE PADGETT

mpadgett@bizjournals.com

Metro Phoenix's office and industrial markets continue shifting in favor of landlords as vacancy rates drop and demand rises.

That's the word according to new quarterly reports and property owners in the Valley.

The third-quarter reports from real estate services companies show continued improvement across commercial markets.

The office vacancy rate declined for the 10th consecutive quarter to 13.1 percent from 16.6 percent a year ago, according to CB Richard Ellis' Phoenix office.

Further tightening the office market are conversions of office buildings into for-sale space or residential condominiums.

In the past 12 months, "Phoenix has seen as much as 1 million square feet of tradi-

tional, existing, multi-tenant office buildings undergo conversion to for-sale space," according to the third-quarter report from Grubb & Ellis/BRE Commercial.

Office vacancy rates are projected to keep sliding because of increasing construction costs, increasing land values, "and residential developers competing for sites to develop high-rise residential housing," the CBRE report said.

Phoenix's Central Avenue corridor is receiving more attention because of work on the light rail system and several multimillion-dollar downtown projects, said Matt Root, one of the principals in The Shidler Group, a San Diego company that in August bought the three-building City Square project at Central and Clarendon avenues.

"Downtown Phoenix will continue to gain

momentum" because of the current expansion of the Phoenix Civic Plaza, completion of the Translational Genomics Research Institute and Arizona State University's plans for an expanded downtown campus, according to the CBRE report.

The report says that in metro Phoenix, about 218,000 square feet of office space was added in the third quarter of 2005 and an additional 2.9 million square feet of office space are planned.

CBRE also shows about 2.7 million square feet of office space under construction, including:

- 300,000 square feet in Hayden Ferry Lakeside in Tempe.
- 173,000 square feet at Raintree Corporate Center in North Scottsdale.
- 210,000 square feet at Pinnacle in Kier-

land in northeast Phoenix.

- 150,000 square feet at North Scottsdale Corporate Center.
- 165,000 square feet at Portales Corporate Center.

Most of the new construction is in the Valley's suburban areas where much of the new leasing is occurring near freeways, especially the Loop 101, said Gwen Miller, a director with Cushman & Wakefield of Arizona.

This year's new construction of about 2.7 million square feet of office space is in contrast to 2004 at this time when about 470,000 square feet were under construction, according to Cushman & Wakefield's latest report.

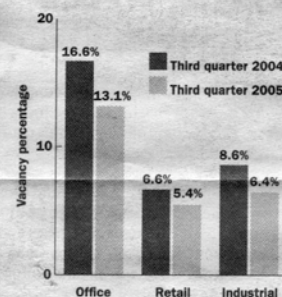
RETAIL/INDUSTRIAL TRENDS

In the retail category, the Valleywide vacancy rate is 5.4 percent, which marks the ninth consecutive quarter of decline and a drop from 6 percent at the end of 2004, according to CBRE.

Metro Phoenix has 915 retail centers with a total of 120.5 million square feet. Another 4.5 million square feet are under construc-

VACANCY RATES

Vacancy rates for Valley commercial space by category*:



* — Rates vary slightly between sources because of a difference in methodology.
Source: CB Richard Ellis

DALE BROWN/THE BUSINESS JOURNAL

tion at several projects in the region, the CBRE report says.

Industrial space also is in high demand this year, prompting developers to race to add new projects to keep up.

Year-to-date net absorption in the industrial market has reached more than 6.2 million square feet, compared to 1.2 million at the same time a year ago, according to Rob Stephens, a senior director with Cushman & Wakefield.

His data shows that the Valleywide industrial vacancy rate is 6.3 percent, down from 6.8 percent in the second quarter.

Submarkets with less than 5 percent vacancy include west Phoenix, southwest Phoenix, Mesa and Gilbert.

FUELING THE TRENDS

Helping fuel all parts of the region's real estate industry is job growth.

The state of Arizona is predicting the state's job growth could reach 4.6 percent by December and then slow to 3.7 percent in 2006, according to the CBRE report.

Overall, according to the new reports, the coming year in the metro Phoenix commercial real estate industry looks bright.

"For the building owners, the increased demand and decrease in availability creates a landlord's market where rental rates will continue to rise and fewer concessions will be offered," according to the Grubb & Ellis/BRE report. "For the developers bringing new space on line in the near future, the prospective tenant base seems endless."