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Year-End Reports Show a Struggling CRE Market

By [Crystal Proenza](#)

ATLANTA-The local commercial real estate market began to feel the effects of the economic crisis and credit freeze after the second quarter, finishing the year with vacancies on the rise, along with slowed leasing and investment activity. Absorption also struggled within each of the sectors because of a significant amount of new deliveries in each sector, brokers agree.

Industry experts expected store sales to affect the retail sector, and found their predictions were correct by year-end. "The wrap-up to 2008 was as advertised," Tony Cerniglia, vice president of retail services with CB Richard Ellis in Atlanta, tells GlobeSt.com. A steady barrage of bad news on the credit front and from retailers will make the market outcome no surprise, he says. Research reports on the retail sector have not yet been released.

"Atlanta, in relation to the rest of the country, has fared better than most," Cerniglia says. "We still enjoy demographics that are increasing, including a growing population." However, a "tremendous amount of new retail added this year has greatly weakened the market, bringing rental rates down as much as 30% in comparison to last year." On a positive note, many new projects expected to come online after 2008 have been halted or abandoned, which should create a more healthy environment for 2009.

The industrial market experienced a negative overall absorption of 1.3 million square feet--the first time that number has gone down in many years, says Wit Truitt, senior vice president with CBRE. Cushman and Wakefield reports that the region has seen an average absorption of 14 million square feet every year since 2004, making 2008 the lowest level of yearly absorption since 2003. "That shows how difficult 2008 has been," says Truitt.

Industrial leasing activity declined from the first to last quarter of 2008 and finished 25.7% below 2007, Cushman reports. In addition, only 25% of 6.5 million square feet of new space that was delivered last year was leased by the fourth quarter. Despite the added inventory, rents have remained flat, and even slightly up in certain sectors, brokers agree. Cushman reports that rents finished the year up 15 cents from 2007 at \$3.99 per square foot. Vacancy has risen to 9.1% by year end, according to the brokerage.

“For the end of 2008 there has been a lack of big box transactions over 300,000-square-feet,” reveals Truitt. “Because of the uncertainty in the economy, companies are holding off on making regional consolidation decisions. Also, with fluctuating fuel prices and uncertainty in the energy sector and changes in user habits, companies are rethinking their logistics strategies.” Users are considering various options, such as spreading out distribution centers into smaller spaces that are closer to their customers versus having fewer and larger centers, he tells GlobeSt.com.

The office market also reported a negative absorption of 411,917 square feet in the fourth quarter of 2008, according to locally based Richard Bowers & Co. However, the firm reports, overall the region still had positive absorption of 391,277 square feet for the entire year. “That number is down more than 2.4 million square feet from the 2.864 million absorbed in 2007,” says the report.

Office investment sales were at 9.7 million square feet at year’s end, a 44% drop from 2007, Cushman reports. About 30% of that activity involved sale-leaseback transactions with AT&T. Despite the slow down in the market, rents remained flat from the third to fourth quarter, with average rental rates in the Urban Corridor at \$24.42 and \$20.29 for the suburban markets, according to Richard Bowers & Co. Overall average Atlanta rental rates ended the year at \$21.66, slightly up from last year’s average of \$21.15.

Office vacancy rates have gone up one percentage point from 15.4% in fourth quarter 2007 to 16.3% for fourth quarter 2008, according to Richard Bowers & Co. A total of 3.5 million square feet of office, mainly located in the Buckhead and Midtown submarkets, were under construction as of the year end, according to Cushman & Wakefield. Only 7% of that space was pre-leased by the end of the fourth quarter.

However, local brokers are still confident that leasing activity is strong in the urban markets, Jones Lang LaSalle’s Lanie Rea told GlobeSt.com of the [office market](#) earlier this year. The market’s most recent lease signings took place at Atlanta’s 12th & Midtown development. Seyfarth Shaw LLP has leased 84,000 square feet and the the Boston Consulting Group Inc. will lease 37,000 square feet at the 725,000-square-foot office tower located at 1075 Peachtree St., making them the first tenants in the building.

“Overall, the year ended quietly,” says Truitt, but the slowed down commercial real estate market is expected to pick back up by the third quarter of 2009, brokers project. Although vacancy rates are expected to rise through the first two quarters, halted construction will allow for a recovery of the market over the next few years, experts agree. “Long-term growth prospects remain healthy given Atlanta’s strong population growth, diversified industry base and status as a logistics and distribution hub,” reports Cushman.

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