

ANALYSIS

Office: Absorption Strong; Vacancy Not So Much

PHOENIX-When it came to leasing trends in the office sector, **Lee & Associates'** Q3 market report offered divided news. On the one hand, absorption was close to 725,000 square feet; the first time the region has seen back-to-back positive quarterly absorption in years – but vacancies continue hovering above 25%.



Though Phoenix continues to see positive absorption in office space, vacancy is still high.

Lee & Associates' **Craig Coppola** and **Andrew Cheney** tell **GlobeSt.com** that the upward-ticking absorption trend is good news, at least when looking at the big picture. "I started leasing space in 1984 and never saw the absorption figure go below 1 million square feet net leasing," Coppola explains. "Then came 2008, negatives absorption and all of the sudden the dynamics changed. We saw lease demand going negative three years in a row."

The brokers dub 2012 a baseline in that absorption has been positive after a hiatus during which the figures were in negative territory. As such, the next couple of years will build on the

baseline. However, "anytime there is a 25% vacancy, even in a dynamic growth market, that's too much space available," Cheney observes. In other words, the metro region continues to feel economic pain, with large corporations continuing to consolidate and tenants continuing to move to class A buildings as rents remain flat.

Neither broker sees much change during Q4, especially with the general election involved. "A lot of companies have put plans on hold to wait and see who gets into office," Coppola remarks. The large question is which candidates will favor smaller businesses; Phoenix's office market is, by and large, driven by the small businesses.

On the positive side, however, neither broker sees absorption going back into negative territory, either. Though things continue sluggish, Coppola says the positive absorption seen in 2012 means things are starting to turn around. Taking a look at the longer view, he says overall 2012 absorption will total 1.5 million square feet; in 2012, absorption should be between 1.5 million and 2 million square feet.

When it comes to the troubling vacancy figure, Cheney offers some good news. He believes that 2014 will see vacancy dropping below 20%. At that time, "we can start having real conversations about upward pressure on rents," he adds.



The above statistics, courtesy of Lee & Associates, show that while office absorption during Q3 2012 in Phoenix was positive, office vacancies indicated in the table below are still too high for comfort.

