

Office space declines as demand rises

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By RICH LADEN THE GAZETTE

If it's tougher to find a space in your office complex parking lot these days, there's a reason.

An improved economy, more jobs and millions of dollars in spending by area defense contractors are combining to boost demand for office space.

A new report by Turner Commercial Research, a Colorado Springs company that follows the office, industrial and retail markets, estimates office vacancies fell to 8.9 percent in the first quarter of this year — a noticeable decline from 9.5 percent at the same time last year and down from 9.2 percent at the end of 2004.

The improvement signals that the commercial real estate market continues to dig out from the slump that began when the economy slid into a recession in early 2001 — conditions made worse by the Sept. 11 attacks — said Paul Turner, who operates Turner Commercial.

"Everything is onward and upward from here on out," Turner said Tuesday.

Office space is a key component of the commercial real estate market, which includes industrial buildings and shopping centers.

The office segment took a hit when many companies went out of business or downsized starting in 2001 and needed less space for employees. Office vacancies climbed to double digits the past few years — their highest levels in a decade.

The area gained jobs in 2004 for the first time in years, a trend that's continuing this year. At the same time, Colorado Springs city sales tax collections are up and home construction this year is on pace to eclipse last year's record.

"It's not setting the world on fire yet," Stan Kensinger, an office specialist with Springs commercial brokerage Olive Real Estate Group, said of the office market.

Yet, he said, "We see the market gradually coming back and getting stronger."

As proof, a 68,000-squarefoot office building at Fountain Boulevard and Jet Wing Drive developed by Kensinger and partner Jim DiBiase, which has stood empty since its construction a few years ago, finally will get a major tenant. Defense contractor Northrop Grumman Corp. will take at least 50,000 square feet.

Office building landlords and owners are counting on the defense industry to absorb empty space; contractors cater to several Springs-area military installations, including Peterson and Schriever Air Force bases, U.S. Northern Command, NORAD and Fort Carson.

Terry Vice, the managing broker for Hoff & Leigh, another Springs brokerage, said vacancies among Class A — or top-of-the-line — office buildings remain high at 23 percent. Class A vacancies, however, are falling.

"It's not going down by leaps and bounds," Vice said. "But it's trending down. The economy is picking back up."

Class B offices — buildings with less desirable locations or amenities than Class A space — continue to experience rough times, Vice said. He estimates that one-third of Class B space remains vacant.

Meanwhile, Turner's report estimates industrial building vacancy rates also improved in the first quarter, dropping to 10 percent from 10.1 percent a year ago and from 11.2 percent at the end of 2004.

Shopping center vacancies of 7.6 percent in the first quarter were up from 7.3 percent a year ago but down from 8.5 percent at the end of 2004.

Commercial real estate vacancy rates*

* Excludes sub-lease space

