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Q&A WITH BOB SULLIVAN

SUBLEASE SPACES CAUSE RISE IN THIRD-QUARTER OFFICE VACANCY

Q: Third-quarter numbers are in. What's happened to the office vacancy rate in Oklahoma City over the past year? Quarter?

A: The vacancy rate for the third-quarter of 2009 is 10 percent overall, an increase from 9.4 percent at the end of the second-quarter, 9.2 percent in the first-quarter and 8.6 percent in the fourthquarter of 2008. This rise is caused from an increase in sublease space, depressed economy nationally and low natural gas prices, as well as delivery of 268,000 square feet of office space to the market in the third-quarter. Also, Chesapeake Energy has lost its appetite for purchasing buildings.

Q: At midyear, you reported office lease rates as steady, but with downward pressure coming from downsizing tenants and competing landlords. What do the new statistics show?

A: The new statistics continue to show a steady market in that quoted rates are steady to slightly higher. Our second-quarter report noted a steady market for three years with vacancy between 8.4 percent and 9.1 percent. We have clearly broken out of that range and we continue to expect downward pressure on rates but believe it will be short-lived and slight as we begin to see improvement in our market with lower unemployment and a strengthening economy.

Q: Why are shorter office lease terms "in" for tenants, and why are landlords cooperating?

A: Tenants are asking for as short a lease term as possible because of the uncertainty of which of their customers are affected by the slow economic times. Landlords, if they do not have to put in much in the way of improvements, are happy to have the tenant no matter what the term. It is a very 180-degree turn from two years ago when a landlord could demand and get three- to 10-year terms.

Q: What's your outlook for the local office market for the rest of the year?

A: The real estate market moves slowly. All local and national news impacts our thoughts and decisions. The West Coast real estate housing market is humming once again, and as confidence is gained we will see companies begin to make longer-term decisions, but that will probably not be until mid 2010. The only office buildings being built are build-to-suit and owner-occupant. Sublease space, as it continues to come onto the market, is a great threat, as are low natural gas prices and higher unemployment. I believe we will continue to see steady rents and hold the vacancy to the 10- to 10.5-percent range.

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