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Commercial real estate vacancy rates predicted to rise in 2010

By Sean Mangat
Alaska Journal of Commerce



Bjorn-Roli

Vacancies at Anchorage's commercial real estate properties are likely to increase as the disparity between demand and production widens in 2010, several local industry leaders said during a Building Owners and Managers Association of Anchorage luncheon Jan. 8.

Per Bjorn-Roli, a managing member with Reliant Advisory Services LLC, said that 1.2 million square feet of proposed product is out there, but that there just aren't enough tenants to fill that real estate.

Bjorn-Roli, speaking on projected changes in office real estate, said Anchorage may see demand decrease by 170,000 square feet in 2010. However, he also noted that this number may not immediately materialize in vacancy rates, and that historically, vacancy rates in Anchorage have been lower than that of the rest of the country.

Neal Fried, an economist with the state Department of Labor, said that as new buildings rise and occupants move from their old buildings into the new ones, vacancy rates tend to rise, but if employment and the economy are on the rise, vacancy rates might not increase.

Nationally, vacancy rates have reached 16.1 percent, but vacancies in Anchorage may hover around 4.8 percent, Bjorn-Roli said.

"We're still blessed, even though it's been a softening year," he said.

Presenters forecasted a slight dip in the local economy, but did not think it would sink as low as that of the rest of the country.

"I don't think since the Great Depression so many states have been swept up into a recession," Fried said.

Fried said employment dropped 1 percent last year in Alaska, but the rest of the nation experienced an average drop in employment of 5 percent.

Construction employment has gradually drifted downward in Alaska since 2005, Fried said. He predicts a drop this year of 300 jobs statewide.

Shaun Debenham, vice president of acquisitions and development at Debenham Properties, said that due to a slowing economy, high rent and high construction costs, the construction of new industrial real estate, which typically reaches a rate of 300,000 square feet per year, will now fall to a rate of 100,000 square feet.

Brian Meissner, of ECI/Hyer, said 2009 was "worse than a horrible year" for retail development. Meissner said due to a large number of retail projects having been built in Anchorage, "we may have reached peak demand."

Meissner said Anchorage is just now exiting its first year in a recession. However, he said government projects may help boost development.

He mentioned a bevy of projects he thinks look promising.

Renovations at Chester Valley Elementary School should run a budget of about \$13



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million, while hospitals under construction in Nome and Barrow should each cost around \$100 million.

Meissner said U.S. Sen. Mark Begich, D-Alaska, was picking up the funding baton where former Sen. Ted Stevens, a Republican, left off in terms of financing military construction projects. A Warriors in Transition Complex is also slated to be built, at a budget of \$33 million.

Renovations to Service High School in Anchorage should cost around \$21.3 million.

Meissner also discussed a new life sciences building at the University of Alaska Fairbanks, which is slated to cost \$103 million.

Though Meissner saw promise in those projects, he was not enthusiastic about the development of the real estate market in the long term.

"As for the rest of the picture, well, it doesn't look so good," he said.

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