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Fresh Signs of Life in Office Market

By ANTON TROIANOVSKI

The amount of occupied U.S. office space increased for the first time in nearly three years during the fourth quarter of 2010 as more companies that had been postponing real-estate decisions got back into the leasing market.



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A real-estate fund is paying \$105 million for the Miami Tower, above. Investors are beginning to see signs of stability in the office market.

Average office rents also rose by 0.2%, to \$22.09 per square foot, registering their first uptick since the second quarter of 2008, according to property-research firm Reis Inc. While the 79 metropolitan areas tracked by Reis vary greatly, the national trend means that in many regions the balance of power is shifting to landlords from tenants.

The office market has been hard hit by job losses. From January 2008 to September 2010, businesses vacated 137.8 million square feet of office space—more than the inventory in Chicago's central business district. In the final three months of 2010, however, occupied office space in the U.S. grew by 2.5 million square feet.

On the whole, the office-market recovery remains weak. The national vacancy rate of 17.6%, which remained unchanged from the third quarter of 2010, is the highest since 1993, according to Reis. Average rents are still well below highs of more than \$25 per square foot in mid-2008.

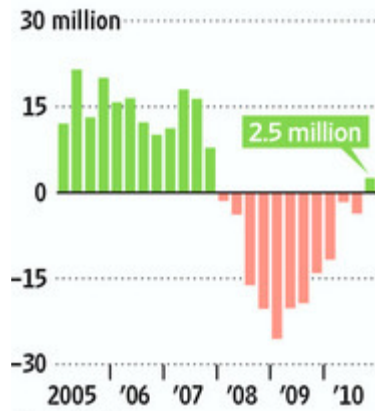
Real-estate developers expect further pain this year as more debt comes due, refinancing options remain limited for many, and supply continues to exceed demand in overbuilt markets such as Phoenix and Las Vegas.

But as businesses gain confidence about their growth prospects amid a strengthening economy, markets across the U.S. are seeing signs of improvement. The biggest increases in average rents in the fourth quarter came in Pittsburgh, New York City and San Francisco, thanks in part to demand for space from financial-services and technology firms. French financial giant Société Générale last month announced a 20-year, 444,000-square-foot lease on Manhattan's Park Avenue, the biggest office lease in Manhattan in 2010.

In Cleveland, closely held technology provider MCPc Inc. last week announced a 98,000-square-foot, 10-year lease in a downtown building. To accommodate growth in recent years, MCPc had been

Office Space Uptick

Quarterly change in occupied U.S. office space, in square feet



Source: Reis Inc.

adding satellite facilities, accumulating 65,000 square feet in the suburbs. Now the company wants to consolidate in a more visible location.

"It's been inefficient, but it's got us through the recession," said Chief Executive Mike Trebilcock. "It's time to come out of the comfort of the suburbs and put ourselves front and center."

Deep-pocketed real-estate investors are taking note of signs of stability in the office market and making bets in cities where office buildings were hit hard by the recession. In Atlanta, Parkway Properties Inc. said last month it was under contract to buy the office and retail portion of a 50-story tower in the upscale Buckhead neighborhood for \$167.3 million, or about \$346 per square foot. It is one of the priciest office-building deals Atlanta has seen in years, and comes despite a glut of new office space in Buckhead.

Meanwhile in Miami, a real-estate fund managed by an affiliate of Jones Lang LaSalle Inc., the commercial real-estate brokerage, is paying \$105 million for the landmark Miami Tower. "Miami is a cyclical market that, we think, will recover sometime," said Jim Hutchinson, who runs the fund.

Miami's 15.9% vacancy rate is slightly below the national average. Other Sun Belt metropolitan areas are suffering from even greater oversupply, with vacancy rates still hovering around 25% in Las Vegas, Phoenix and California's Inland Empire.

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