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Third Quarter Sees Big Drop-Off in Office & Industrial Absorption

While CBD Office Markets Improve, Suburban Office Markets Slide

The national office market posted net absorption of 18.9 million square feet in the third quarter, the second-lowest quarterly net absorption in the last 3 1/2 years, according to CoStar Group's Third Quarter 2007 Office and Industrial Report. Only the first quarter of this year posted a lower net absorption figure.



Through the end of the third quarter, net office absorption totaled 61.5 million square feet versus 90.3 million at the same time last year, a decline of slightly more than 32%.

Overall, net office absorption is down in 32 markets compared with last year and up in just 19 markets.

The picture isn't much better in the industrial markets. Net industrial absorption is down in 30 markets and up in just 21.

Through Sept. 30, net industrial absorption totaled 124.5 million square feet versus 185.1 million at the same

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time last year. That, too, is a decline of slightly more than 32%.

(Editor's Note: CoStar's Third Quarter 2007 Office and Industrial Reports are now available free to all CoStar Property Professional subscribers and also available for purchase. The reports provide an in-depth statistical analysis of current and historical rental rates, vacancy, construction, and sales activity across the country.)

Office

The entire decline in net office absorption this year has occurred in the suburban office markets -- 45.08 million this year vs. 74.71 million in the same time frame last year. That's a falloff of 40%.

On the other hand, central business district (CBD) net absorption has gone up this year to 16.46 million, about 1 million more square feet than was absorbed last year at this time.

Net absorption is off more than 80% this year in many markets along the Atlantic Coast: Broward County, FL; Orlando, Northern New Jersey, Baltimore and South Florida. It was also off that percentage in Austin, Las Vegas and St. Louis.

Two markets have negative net absorption so this year. Memphis posted a negative 180,006 square feet and Palm Beach County, FL, registered a negative 509,383 square feet.

Net absorption more than doubled this year compared with last year in Richmond, VA, 1.16 million square feet and Nashville at 1.15 million square feet. It also picked up strength heading west, more than doubling in Indianapolis, 1.1 million, San Antonio, 529,189, Salt Lake City, 995,459, East Bay/Oakland, 520,271 and San Diego, 2.22 million.

The overall U.S. office market ended the

third quarter at a vacancy rate of 11.1%, virtually unchanged over the last five quarters.

The vacancy rate in Class A properties has been improving all year from 11.8% at the start of the year to 11.5% now. Again, the improvement is in the central business districts. In Class A CBD properties, the vacancy rate has dropped from 10.4% at the start of the year to single digits at 9.7%. In the suburbs it has gone up from 11.3% to 11.6%.

Class A is also improving at the expense of Class B, which reported a vacancy rate of 12.2% at the end of third-quarter 2007, up from 11.9% at the start of the year.

The average quoted asking rental rate for available office space, all classes, was \$23.81 per square foot per year at the end of the third quarter. This is more than \$1 higher than at the start of the year and represents a 4.8% increase.

Industrial

The decline in net industrial absorption this year has occurred pretty evenly between flex and warehouse & distribution space. Warehouse space net absorption for the year was at 110.7 million square feet at the end of the third quarter, down 32% from same time last year.

Flex space net absorption for the year stood at 13.8 million, off 37% from 21.8 million square feet absorbed last year during the same time.

Net absorption is off more than 100% this year in many markets, including Broward County, FL; Dayton, OH; East Bay/Oakland, CA; Hampton Roads, VA; Long Island, Los Angeles, Memphis, Northern New Jersey, Palm Beach County, FL; Raleigh/Durham, NC; Richmond, NC, San Diego, South Florida, St. Louis, Tucson, AZ; and Westchester/So. Connecticut.

Of those markets, only Richmond, Dayton, East Bay/Oakland and South Florida have posted positive net absorption this year. All of South Florida's net absorption occurred in the Miami/Dade County market, where net absorption was a strong 1.3 million square feet compared with 345,000 square feet through this time last year.

Other markets where net absorption improved noticeably (showing a more than 200% increase) included Columbus, OH, Kansas City, MO, Detroit, San Francisco and Salt Lake City.

The Inland Empire market in California and Dallas/Fort Worth have been the two strongest markets this year, with 16.3 million and 10.9 million square feet of net absorption, respectively. Both of those figures are up from last year.

The U.S. industrial market ended the third quarter at a vacancy rate of 8.5%, virtually unchanged over the last five quarters, similar to the office markets.

The vacancy rate in warehouse properties has been steady at 8%, while flex space vacancy has declined slightly this year to 11.9% from 12.2% at the start of the year.

The average quoted asking rental rate for available industrial space, both types, was a penny shy of \$6 per square foot per year. This is up from \$5.78 at the start of the year.