

Local Office Market Heating Up

By David Suffia

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The commercial office real estate market in Southwest Washington continues to improve, according to local real estate professionals contacted by the Journal.

The overall vacancy rate for top-tier class A and B office properties has dropped to 16 percent or less, from a high point of about 21 percent a few years ago, according to Adam Roselli, commercial broker at Eric Fuller & Associates.

“Everyone is feeling better about the commercial marketplace,” Roselli said. “It’s not overheated like it was before the economy crashed; it’s just a good healthy market right now.” Downtown Vancouver, Cascade Park, Vancouver Mall and Salmon Creek are the hottest areas right now, with smaller spaces of 2,500 square feet or less leasing pretty quickly, he said.



The mall area may be the hottest of all, with a vacancy rate of only 8 percent.

“Generally, areas closest to the Columbia River are doing the best,” according to Roselli. “At the lowest point, our vacancy rate hit about 21 percent. We’d consider anything around a 14 percent or lower rate to be a healthy market, so we’re doing pretty well.”

He said lease rates are averaging about \$20 a square foot and his company is seeing a lot of short-term leases because “people want to maintain some flexibility.”

Most of the office spaces available are in existing properties. Roselli thinks rental rates would need to rise to about \$25 a square foot to justify more new construction.

“However, rental rates have stabilized and we are looking for them to go up. We think lessees might want to start thinking about locking in longer-term agreements,” Roselli said.

Tamara Fuller, vice president at NAI Norris, Beggs & Simpson, thinks “there is a definite upward trend, although it’s better in some pockets than others.”

“User-owner properties are really on an upswing,” she said, referring to office properties purchased by companies for their own use.

“We’re also seeing an uptick in leased office space. Lease rates are averaging around \$18 a square foot for class B space and about \$24 for class A. Things are much better than two or three years ago. I think 2015 should show definite improvement as well,” she said. “We have active clients looking at all sizes, from small spaces up to 50,000 square feet.”

Jim West, broker at Coldwell Banker, says the office vacancy rate for Vancouver is in a slow, general downward trend.

“There is a total of about 8.6 million square feet of office space in about 336 buildings in Vancouver, and that has held pretty steady. About a million square feet of that remains vacant year to year, with some shifting as some companies move from one space to another,” West said. “So far this year, there has been about 400,000 square feet in new leases, and that’s the slowest we’ve seen in the past three years, and again it’s mostly companies moving from one building to another.

“We’re still not seeing much new office construction in Vancouver, and the vacancy rate will have to come down to encourage that,” he added. “The average office space is renting for about \$18 a square foot, a little higher for class A properties. Lower vacancy rates would raise rental rates and that would encourage new construction.”

West said the office market in Vancouver is somewhat spotty with about 20 percent of buildings having at or near 100 percent occupancy, while a third of the properties have 30 to 40 percent vacancy rates.

“What we’re seeing is some companies upgrading their space,” he said. “The average time an office space is vacant is about 18 months to two years once it goes vacant. That’s okay because most landlords can keep slogging along and paying off the mortgage if they have at least 50 percent occupancy.

West said the general rule is that growth in the commercial office sector follows a rise in residential construction by a year.

“We’ve seen good growth here in residential construction for the past year, although it’s slowed the past couple of months, so I hope that will lead to a little surge in office construction ahead.”

Jordan Menashe, of Portland-based Menashe Properties, feels strongly enough about the future of commercial office leasing in Southwest Washington that his firm recently purchased the seven-story Main Place building in downtown Vancouver for \$12.15 million.

“There is a ton of upside in Vancouver,” said Menashe, second-generation partner in the Portland investment company. “We’re very pleased to be here.”

Menashe said he is in the process of making major upgrades to Main Place, which has 80,000 square feet of leasable space plus an adjacent parking garage with 230 spaces. Included will be renovation of

the lobby, upgraded lighting and carpeting, exterior landscaping and placement of a major sculpture outside the building.

“I want to show that I’m here to stay,” Menashe said. “We’re trying to get some tech firms from across the river to move over here. I’d like to see a business incubator move in and I’m willing to make a deal for the right tenant.

“The vacancy rate for class A office space in Vancouver is headed down to 10 or 12 percent,” he added. “I’m seeing a lot of activity and a huge opportunity in Vancouver or I wouldn’t have bought there.”

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