CENTRAL PA OFFICE MARKET

MANY TIMES I HEAR THAT CENTRAL PENNSYLVANIA'S ECONOMIC FORTUNES ARE UNLIKE OTHER PARTS OF THE COUNTRY. THE OBSERVATION IS A GROSS GENERALIZATION AND MAY BE MISLEADING TO BOTH LANDLORDS AND TENANTS. WHEN I MANAGED APARTMENTS IN STATE COLLEGE, PENNSYLVANIA, IN THE EARLY 1970'S, THE APARTMENT VACANCY RATE WAS AROUND 20%. THE REALITY WAS THAT APARTMENTS IN-TOWN WERE AROUND 5%, AND OUTLYING UNITS, THOSE NOT WITHIN WALKING DISTANCE TO PENN STATE'S CAMPUS, HAD A VACANCY RATE OVER 30%. EVEN IN A SMALL GEOGRAPHICAL, SPECIALIZED MARKET LIKE STATE COLLEGE, THE VACANCY AND UNIT RATES VARIED GREATLY AND WERE NOT TO BE RELIED ON WHEN FORECASTING INDIVIDUAL PROPERTY'S BUDGETS. HOW DOES THIS RELATE TO THE CENTRAL PENNSYLVANIA OFFICE MARKET?

WE ARE IN A PERIOD WHEN EVERY BUILDING SHOULD BE CONSIDERED UNIQUE AND ITS POSITION IN THE MARKET AS TO RATES, BUILDOUTS, AND AMENITIES NEEDS CAREFUL CONSIDERATION. CURRENT LEASE PROSPECTS HAVE BEEN SURPRISED AT THE RATE DISPARITY BETWEEN SIMILAR CLASS BUILDINGS, BECAUSE MANY OF THE HIGHER RENTS WERE AT BUILDINGS THAT DID NOT HAVE COMMON AREA UPGRADES AND AMENITIES, AND THE OVERALL CLEANLINESS WAS NOT UP TO THE LEVEL OF COMPETING BUILDINGS. IN ALMOST ALL CASES, MORE DESIRABLE BUILDINGS ARE OWNED AND MANAGED BY REAL ESTATE PROFESSIONALS WILLING TO OFFER THEIR SPACE AT LOWER RENTS WITH CONCESSIONS THAT OTHER LANDLORDS WOULD NOT. POINT BEING, THE BETTER DEALS ARE AT BUILDINGS WHERE THE OWNERS ARE MORE AWARE OF CURRENT MARKET CONDITIONS.

UNFORTUNATELY, CURRENT AND PROPOSED FACTORS AFFECTING OFFICE BUILDING OCCUPANCIES AND OPERATING COSTS ARE NOT POSITIVE. (1) DEMAND FOR OFFICE SPACE HAS BEEN FALLING DUE TO THE EFFECTS OF HIGHER UNEMPLOYMENT. UNEMPLOYMENT IN ONE YEAR INCREASED FROM 4.4% TO 7.5% IN DAUPHIN COUNTY AND FROM 4% TO 6.8% IN CUMBERLAND COUNTY. THERE IS NO REASON TO BELIEVE OFFICE OCCUPANCY RATES WILL

IMPROVE UNTIL UNEMPLOYMENT LEVELS OFF AND BEGINS TO DECREASE. (2) AN ONGOING TREND OF LESS SQUARE FOOTAGE PER EMPLOYEE HAS ALSO WEAKENED DEMAND. (3) INCREASED REAL ESTATE TAXES DUE TO MUNICIPAL, SCHOOL, AND COUNTY SHORTFALLS ARE CURRENTLY BEING ENACTED OR PROPOSED IN MANY AREAS. A REVIEW OF FOUR OF THE LARGER AREA SCHOOL DISTRICTS SHOWED ONE YEAR INCREASES OF 1.7% TO 7.5% IN TAX RATES. (4) RATE CAPS BEING TERMINATED IN DECEMBER 2009 FOR PP&L AND DECEMBER 2010 FOR MET-ED, PECO, AND OTHERS WILL ALLOW INCREASES ANTICIPATED BEING AT LEAST 25% TO 40% ON THE GENERATION PORTION OF ELECTRIC BILLS.

HAVING BEEN THROUGH OTHER DOWNTURNS IN THE OFFICE MARKET, I BELIEVE THIS PERIOD OF WEAK DEMAND WILL BE LONGER AND HAVE A MUCH GREATER AFFECT ON PROPERTY OWNERS. SOME NATIONAL FORECASTS PROJECT COMMERCIAL VACANCIES TO INCREASE OVER THE NEXT 18 TO 24 MONTHS AND THAT POSITIVE GROWTH WILL NOT BE REALIZED UNTIL AT LEAST 2012.

WHAT ARE THE ANSWERS? AS ALWAYS, OWNERS WHO FOLLOWED THE BASICS OF INVESTING AND ARE AGGRESSIVE MANAGERS AND MARKETERS OF THEIR PROPERTIES WILL FARE THE BEST. PROPERTY OWNERS AND MANAGERS SHOULD BE EVALUATING EVERY ASPECT OF THEIR INVESTMENT AND BE PROACTIVE. FROM CURB APPEAL AND SIGNAGE TO UTILITY SAVINGS, INSURANCE COVERAGES, AND TAX ASSESSMENT APPEALS, EVERYTHING IMPACTING THE INCOME AND OPERATING COSTS MUST BE CONSIDERED RATHER THAN SIMPLY WAITING FOR “THE MARKET TO COME BACK.” EVALUATING AND RENEGOTIATING LEASES 1 TO 2 YEARS PRIOR TO EXPIRATION MAY BE ADVANTAGEOUS TO BOTH LANDLORDS AND TENANTS WHOSE GOALS OF STABILITY AND SAVINGS DO NOT NECESSARILY HAVE TO BE AT ODDS WITH ONE ANOTHER.

THOSE THAT POSITION THEIR PROPERTIES PROPERLY THROUGH MARKETING AND EFFICIENT MANAGEMENT WILL ALWAYS DO WELL.

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