

# COMMERCIAL INVESTMENT Real Estate

The Magazine of the CCIM Institute

Write

Advertise

Subscribe

Search



Sep.Oct.10

---

 Editorial Calendar
 

---



---

 Media Planner
 

---



---

 Reprints
 

---



---

 Issue/Article Orders
 

---



---

 Issue Index
 

---



---

 Current Advertisers
 

---



---

 Contact
 

---

+ WEB EXCLUSIVE +

## Office Detours: A Regional Roundup

The September/October 2010 cover story, "Running on Empty," examines the recovery of the office investment market in light of the struggling economy and other factors. The following roundup of regional office markets in the U.S. gives voice to some of the valuable designee insights that could not be included in the article.

### MIDWEST

**Matthew B. Fenster, CCIM  
Detroit**

Office properties currently trading in the metropolitan Detroit market are either lender-owned or owned by institutions looking to exit the market. Another phenomenon is lenders "brokering" sales of properties on their distressed assets list. They are arranging sales of properties that are either in default or in the foreclosure/redemption process. The buyers usually are bank customers that have the ability to close so that the lender does not have to take title and place it on the books as an other real estate-owned property.

### SOUTH

**Sam DiFranco, CCIM, SIOR  
Cary, N.C.**

Medical office is holding up fairly well in the Raleigh-Durham, N.C., marketplace. There is a flight to quality by tenants and buyers that want to take advantage of the current market conditions. Most are leaving functionally obsolete spaces in search of newer buildings and amenities at the same cost or less. Buyers are taking advantage of a depressed real estate market and historic low interest rates.

Lenders are still financing the purchase of owner-occupied properties without hesitation. The Small Business Administration programs help by offering 10 percent down payments and no fees. There is limited new construction as second-generation space hovers in the 15 percent vacancy range across the region.

**Henry Hagendorf, CCIM, LEED-AP  
Houston**

There is a huge appetite for stabilized office properties being offered at market capitalization rates. The distressed property market has not produced the volume of properties that the market originally thought it would, so the investment market shifted. The few distressed properties that have come to the market in good condition are attracting offers if they are priced right.

I expect the Houston market to remain flat for the balance of 2010. This will allow most landlords to meet their obligations, pay the debt service, and have funds available to attract new tenants. Investment sales will remain slow because there is little incentive for property owners to sell stable properties at market cap rates. As capital accumulates in the search for solid investments, cap rates will trickle down by 50 basis points to 75 basis points.

[ShareThis](#)



---

#### Most Viewed Articles:

[Market Trends](#)  
[Regional Outlook](#)  
[Deal Makers](#)  
[Buyers Guide](#)  
[CCIM Connections](#)  
[International Beat](#)  
[CCIM Connections Cont](#)  
[Cap Rate Follies](#)  
[Cap Rate Calculations](#)  
[Non-Traded REITs Offer](#)  
[Portfolio Diversification](#)

---

#### Most Emailed Articles

[Cap Rate Calculations](#)  
[Non-Traded REITs Offer](#)  
[Portfolio Diversification](#)  
[Best Investment Picks](#)  
[Cleaning Up After Dry C](#)  
[Cap Rate Crazy?](#)  
[Wireless Communicatio](#)  
[Acquisition](#)  
[Landlord Strategies for](#)  
[Relief Requests](#)  
[Industrial Wakes Up](#)  
[Cap Rate Follies](#)  
[Capitalizing Unimprove](#)  
[Development Costs](#)

**WEST****Soozi Jones-Walker, CCIM, SIOR  
Las Vegas**

Currently the majority of offices properties that are actually selling in Las Vegas are either bank real estate-owned properties purchased by owner-users, or 50 percent- to 60 percent-occupied REO properties selling for substantially less than reconstruction cost to existing tenants. Shell pricing on office space three years ago was \$200 to \$300 per-square-foot plus \$85 psf for tenant improvements. Now, fully built-out office is selling for \$100 psf.

We are expecting an increase in REO sales during the second half of the year. There is leasing going on but at such low rates that I believe there has truly been a reset in value.

**Paul Carr, CCIM  
Seattle**

Medical office vacancy rates in the Puget Sound region for projects larger than 20,000 sf have held steady at 6 percent from the last half of 2009 through the first half of 2010. The measurement criteria are based by tracking approximately 6 million square feet of 100 percent medical office buildings over 20,000 sf in the greater Seattle metropolitan market.

Medical office lease rates have held steady in buildings on campus and adjacent to campus where the underlying hospital system is healthy. Medical office buildings in community settings or those that are dependent on hospitals with real or perceived stability issues experienced headwinds similar to those of the general office market. Average rents have declined from \$23.19 NNN in 2Q09 to \$22.64 NNN in 2Q10.

Approximately 3.5 million square feet of medical office inpatient and outpatient projects are planned or under construction in the region. The bulk of these projects are sponsored by large and growing regional health systems. Compared to the 1.9 million sf of general office space currently under construction (the majority of which has been leased by large, local tenants), it is clear that MOB development is alive and well.

The state of Washington limits the growth of inpatient facilities under a Certificate of Need directive. This system gives the current healthcare incumbents a significant advantage. Therefore the majority of the growth is driven from the well-established medical institutions. The large national for-profit hospital groups are struggling to gain a foothold in this market. The organic growth stems from battles between existing health systems who are interested in gaining market share by expanding their footprints. The area of growth has been focused on the boundaries of each institution's geographic power base. As a community expands, each faction/group is fighting for the mindshare of a growing population base.

The type of product being added to the medical base is driven in part by the CON restrictions. Hospital-like facilities are the face of this current expansion. These buildings are typically emergency departments or urgent care facilities designed to address the immediate needs of a community, with the intent both to serve the growing communities and to direct more critical care or long-term requirements to hospitals within their own system.

There is significant opportunity for commercial real estate development in the health care sector. The firms that are financially stable, patient, and creative will benefit from this growth market.

**Trisha Talbot, CCIM**  
**Scottsdale, Ariz.**

In the Phoenix metropolitan area, distressed office properties are trading, specifically properties received through the foreclosure process or low cash-flow properties that an existing owner wants to sell at bargain prices.

However, a large hospital recently sold its Phoenix medical office portfolio to a large real estate investment trust. The portfolio has a strong tenant mix, high occupancy, and great proximity to the hospitals.

The Phoenix market has seen new construction on and around hospital campuses. Phoenix Children's Hospital is building a new on-campus MOB, and Banner Gateway is planning a second on-campus MOB in the new future. A new MOB also is being constructed next to the Catholic Healthcare West's Mercy Gilbert Medical Center called Mercy Medical Commons. Several other MOB developments are planned, but preleasing will determine if they are viable projects.

**CANADA**

**Brian Ker, CCIM**  
**Montreal, Quebec**

Montreal is a secondary office market where tenants' primary concerns/goals are efficiency and cost, not prestige. At the same time, NERs and cash flows have been rising through the downturn as sublease space -- not direct space -- has increased the vacancy rate, and tenants have not been motivated to move but have renewed on an as-is basis.

Trading activity has been concentrated on midtown and downtown properties where substantial value has been created over the past few years. Most downtown class A owners are not interested in selling as the vacancy rate is only 8 percent. And with no new supply forecasted for three years to four years, they are anticipating major rent increases in the short- to medium-term.

REITs have raised a lot of capital in Canada, and have been spending it as the opportunities come forward. Dundee, Morguard, Allied Properties REIT are all active in the Montreal marketplace. In addition, pension funds that are underweight in our market have moved aggressively to take positions when opportunities arise.

Montreal's office market fortunately is not distressed. Loans were conservatively underwritten and the leasing market was never frothy enough for an extended period to allow for extremely optimistic rent growth forecasting. Most office towers are owned by major pension funds and international institutions, with a limited amount of assets held by private equity/opportunity funds.



Copyright© 2010 CCIM Institute. All rights reserved. For more information call 312.321.4460 or [e-mail](mailto:info@ccim.org) us.