

Commercial space painfully plentiful

Prices locally may have stopped sliding, but 'we're still in that hole'

By Dale Quinn

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The commercial real estate market in Tucson hobbled through 2010 with persistently high vacancy rates and lower rents.

And while conditions won't likely get worse in 2011, it's going to be a few years before any noticeable recovery, commercial brokers said this week at economic forecasts.

The Building Owners and Managers Association of Greater Tucson and the Institute of Real Estate Managers held their 2011 economic forecast breakfast Tuesday while Tucson Realty & Trust Co. held a separate event Wednesday.

NATIONAL ANGLE

U.S. homebuilders are coming off their two worst years in more than a half-century, the U.S. Commerce Department reported Wednesday.

Homebuilders broke ground on a total of 587,600 homes in 2010, just slightly better than the 554,000 started in 2009, the department said.

Those are the lowest annual totals on records dating back to 1959.

Economists say it could take three more years before the industry begins building homes at a healthy rate.

The Associated Press

"The good news is it looks like the market has bottomed out and prices have stopped sliding," said Hank Amos, Tucson Realty & Trust Co.'s chairman. The bad news, he said, is that "we're still in that hole."

Here's a breakdown by sector:

RETAIL

In 2010, Tucson saw the absorption of more than 61,000 square feet of retail space, said Greg Furrier, of Picor Commercial Real Estate Services.

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The overall vacancy rate for the year was 8.6 percent, he said.

"We see ourselves at bottom and headed in the right direction," Furrier said.

Another glimmer of hope is that holiday sales came in stronger than previous years, said David Hogue with Tucson Realty & Trust Co. While some stores will continue to close their doors, Hogue anticipated more openings than closures in the coming year.

OFFICE

The vacancy rate for office buildings remained high at 17.1 percent, but it has shown some improvement compared with last year, said Bruce Suppes, of CB Richard Ellis.

Rental rates for multi-tenant office buildings ended the fourth quarter at \$19.34 per square foot, which is more than \$1 per square foot less than at the end of 2009, Suppes said.

Even with the lower rates, tenants still expect landlords to make substantial property improvements. And when it comes to lease renewals, "fear still lingers," Suppes said. Rather than looking at multi-year lease extensions, most tenants are looking at one-year renewals, he said.

LAND

"The land market in Tucson continued on a downhill

slide in 2010," said Mick Cluck, of Tucson Realty & Trust Co. Builders did move to purchase finished lots in the second quarter of 2010 when there were some signs the market might be coming back, Cluck said. But that came to a standstill when residential sales halted with the expiration of the homebuyers tax credit.

Cluck predicted another round of land foreclosures in the coming year, as sales have been slow and financing is difficult to obtain.

The land market in 2011 will continue to move forward at a "snail's pace," as foreclosures and slow sales continue to weaken the residential market, Cluck said.

APARTMENTS

Vacancies peaked and rents hit their low in 2010, said Michael Sandahl of CB Richard Ellis. Recent waves of foreclosures didn't help apartment complexes much as many people moved in with family or other acquaintances rather than renting.

Still, Sandahl said apartment complexes are expected to begin filling up in coming years. While the market has struggled with financially distressed properties, there's some indication that situation is geared to show improvement as well, he said. Half of those properties have now cleared the market, Sandahl said.

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