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## Anchorage's office space looking to tighten in 2011

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Office vacancy rates are expected to decline as demand outpaces the amount of new space coming online in the coming year, a trend Anchorage hasn't seen for the past two years. *File PHOTO/AJOC*

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square feet of additional space during the 2011 calendar year while new construction only supplies 40,000 square feet, Roli said.

"Absorption ... is outpacing new deliveries. Now that's the first time we've seen that in two years," Roli said.

So far this year, vacancy rates for class A space overall have changed little, and stand at 6.6 percent. But breaking that down, "new" class A space, or properties built within the last 10 years, has seen vacancy go down from 16.4 percent in January to 15.7 percent now.

Class A "existing" properties, or those built in 2000 or earlier, are experiencing vacancies of 3.5 percent, Roli said.

Vacancies among class B properties have gone down from 8.9 percent in January to 8.6 percent currently. And when class A and class B vacancy rates are combined, the picture has improved from an overall rate of 7.2 percent in January to a 7.1 percent rate today.

Roli warned, however, that his survey of class A properties was exhaustive, where with class B properties he had to look at merely a representative sample. He also did not include office space in industrial buildings, but he did include government offices.

Roli's assessment follows increasingly upbeat overall financial forecasts offered by economists earlier this year. A certain gloom hung over most 2010 forecasts, with the state Department of Labor and Workforce Development foreseeing a 0.4 percent decrease in employment in Anchorage, but the year fared far better than expected. And according to state estimates published in January, 2011 may see an employment increase in Anchorage of 0.4 percent.

While the state's estimate has employment overall increasing, employment in natural resources and mining is forecasted to decrease by 3.7 percent, Roli said, and overall government employment,

Things are looking up for office real estate in Anchorage, with vacancy rates likely to decrease this year as demand outpaces new space, said a real estate expert at a business luncheon.

Per Bjorn-Roli, a managing member with advisory firm Reliant Advisory Services LLC, told the Building Owners and Managers Association of Anchorage April 8 that vacancy for class A properties would, in an optimistic scenario, decrease from 6.6 percent to 5.4 percent.

But even in a conservative estimate, vacancy likely won't increase, he said. Roli's survey of the industry covered a period through April 2012.

"And, the reality is, we'll probably fall somewhere between the two," he said.

Increasing demand will grow faster this year than supply, with companies expected to gobble up 60,000

largely driven by losses in federal and local government employment, is estimated to drop 0.6 percent.

"Now, in Anchorage, at least, these two sectors represent office (space). These are office jobs," he said.

But these estimates were contingent upon lower oil prices, Roli said, a condition that became less certain as unrest in the middle east fueled speculation, increasing prices dramatically.

Alaska crude reached \$120.42 per barrel April 11. With the state flush with cash, vacancies will be lower lower, Roli said, as money in the pockets of oil companies and the state treasury will keep workers employed and offices filled.

"Now, when we look back at the history of this market, there have been very few years, in fact I can't indentify any, where we've had strong oil prices and employment contraction," Roli said.

Limited exploration on the North Slope may lead to lower employment out on the field, Roli said, "but in terms of the office jobs here in Anchorage, it really does suggest that maybe this forecast is conservative now and we should make an adjustment to it."

One of the biggest obstacles in sheltering Anchorage from the effects of the national recession has been psychology, Roli said, as 20 percent vacancy rates in office real estate nationwide scare local building owners.

Educating local business community becomes paramount.

Roli also gave a preview of some new projects that would be constructed within the next few years. At Alaska Pacific University, the school's Glenn Olds Hall will see a 19,650-square-foot addition, he said, with an expected delivery in 2012.

A new Anchorage Neighborhood Health Center building in midtown Anchorage will measure up at 40,000 square feet and be delivered in 2012.

Roli also mentioned another midtown building that is expected to come online in 2012 and will measure up at 40,000 square feet total. The building will be 100 percent occupied upon completion, he said.