

U.S. Office Vacancies Climb to 15-Year High on Employment Cuts

By Dan Levy

Jan. 8 (Bloomberg) -- Office vacancies in the U.S. surged to a 15-year high in the fourth quarter and rents fell the most on record as the deepest recession in more than half a century slashed demand for commercial space, according to Reis Inc.

The vacancy rate climbed to 17 percent from 14.5 percent a year earlier, the New York-based research company said. Effective rents, the amount tenants actually pay landlords, dropped 8.9 percent, the biggest year-over-year decline since Reis began tracking the data in 1980.

"Never before have landlords been under so much pressure to offer concessions to attract and retain tenants," Victor Calanog, Reis's research director, said in a statement. The office market won't reach a bottom until businesses begin hiring, he said.

Initial jobless claims rose to 434,000 last week and the number of people collecting extended unemployment benefits increased to 5.44 million in the week ended Dec. 19, the Labor Department said yesterday. Payrolls have declined every month since the recession started in December 2007.

U.S. companies cut an estimated 84,000 jobs in December, more than economists forecast, ADP Employer Services said on Jan. 6. Unemployment may stay above 10 percent through the first half of 2010, according to a Bloomberg survey last month.

Office occupancies plunged by 15.8 million square feet in the fourth quarter, the eighth straight decline, Reis said. As much as 123 million square feet of space was put back on the market since the first quarter of 2008, wiping out the 107.9 million square feet of occupancy gains during the boom period of the previous two years.

National Rate

The national vacancy rate climbed 0.4 percentage point in the quarter from the previous three months, with increases in 63 of the 79 markets covered by Reis.

New York's vacancy rate rose 0.1 percentage point to 11.5 percent in the fourth quarter from the third. The smaller gain than in other markets likely came at the expense of landlords making concessions to retain tenants, Reis said.

Effective office rents in New York fell 5.3 percent in the period, the biggest decline of any U.S. city, and the year-over-year drop was almost 20 percent, the largest in Reis records. New York rents have fallen for six quarters and are down 23 percent from the peak in the third quarter of 2008, at \$44.69 a square foot, according to Reis.

The vacancy rate in Washington decreased 0.2 percentage point to 10.7 percent in the fourth quarter from the third. Rents fell to \$41.77 a square foot, a 1 percent quarterly drop and a 3.3 percent decline from a year earlier, Reis said.

Rents decreased in almost 90 percent of U.S. markets in the quarter. The biggest losses after New York were in San Diego; Rochester, New York; San Jose, California; and Dallas, according to Reis.

San Diego, Seattle, Boston, San Jose, San Francisco and Orange County, California, all had rent declines greater than 10 percent year over year.

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