REJOURNALS.COM

- REJournals.com - http://www.rejournals.com -

Observers say activity in East-West Corridor to be slightly less robust in 2012

Posted By Staff Writer On February 22, 2012 @ 4:46 pm | No Comments

While leasing activity in the East-West Corridor remained strong in 2011, some in the real estate industry are forecasting a slightly less active market in 2012.

Jeff Shay, senior vice president at Jones Lang LaSalle, said observers should see an improving market in the East-West Corridor.

"We're coming off of 2011, which was a good year for positive absorption of both ends of the market," he said. "If we don't have any big negative surprises from the overall macro economy, we're cautiously optimistic we'll continue to see some absorption."

However, Shay said there has been no new construction in the East-West Corridor for a number of years, adding that nothing is coming down the pipeline, meaning supply is going to remain flat.

"Unless there's some build-to-suit where a tenant needs a very specific type of structure or a specific use, I just can't see any type of multi-tenant buildings being built, definitely not in 2012," he said.

According to an office market and space data report by Studley, the East-West Corridor's overall availability rate fell quarterly by 1.9 percentage points to 24.6 percent and has decreased by .2 percentage points from a year ago.

"I think the vacancy rate is going to drop again in 2012," Shay said. "It won't be a huge drop but it's definitely going to drop down."

The Studley report also noted that leasing activity in the East-West Corridor was fairly robust in the fourth quarter of 2011. The report used as an example HAVI Global Solutions, which signed a lease to relocate to 130,000 square feet in the former Sara Lee headquarters at Esplanade.

JP Morgan Chase also extended its 173,000-square-foot lease at Highland Landmark IV, and CA Technologies – formerly known as Computer Associates International Inc. – signed an 83,500-square-foot, 11-year lease at 3333 Warrenville Road, Lisle, which was one of the larger relocations of the quarter. CA will move out of a much larger building – 217,718 square feet at 2400 Cabot Drive. And in a much smaller transaction, Dell signed a 15,000-square-foot lease at 1001 Warrenville Road, Lisle, according to the Studley report.

"Last year in the East-West Corridor, in my opinion, you saw mostly renewals. You saw two big relocations, but you saw a lot of strong renewals," said David O. Stein, managing principal of Steinco.

Stein added that he believes leasing activity will not be as robust in 2012 as it was last year.

"I think there will be action, but the velocity of the action won't be as great as it was last year," he said. "Right now I think we all have a euphoric feeling that 2012 is going to be the year. That's not going to translate into absorption of space because I think in the last three years, companies are more conservative with growth. They all had the feeling last year that 2011 was the year. They were teased, and I think they are all a little more cautious."

However, Studley's report points out that "with ample capital to deploy and low yields in most other asset classes, investors have shown increasing willingness to make riskier opportunistic acquisitions."

The report notes that Blackstone Group's $1.08 billion purchase of Duke Realty's 82-building, 10.1 million-square-foot suburban office portfolio diverges from the safer CBD purchases made by most investors in the last two years. Blackstone's primary new assets in suburban Chicago include Executive Towers I, II and III in Downers Grove, as well as O'Hare International Center and the Riverway Complex in Rosemont. The report goes on to say that in contrast to many suburban Chicago properties, most of these complexes are well leased. Executive Towers West I, 1431 Opus Place, has a vacancy rate of approximately 25 percent, but other buildings have vacancy rates of roughly 10 percent.

"After we've come out of the downturn, the last year and half has been dominated by the big deals," said Rena Christofidis, vice president and Midwest/Great Lakes research director at Jones Lang LaSalle.

However, small to mid-size firms have been a little more hesitant to transact due to economic conditions, but Christofidis said that may change if employment numbers improve.

"Firms have kind of revisited their space plans and revisited their business plans," she said. "We've obviously lived through this economy for a couple of years now. They're not as scared to actually make a decision. The only missing piece right now is the employment. Nothing monumental is going to happen to vacancy or absorption until we get some hiring."