



Huntsville Real Estate: Current trends in office leasing sector

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 **Alabama Center for Real Estate (ACRE)**
By



John Hayden, SIOR, ACRE council member, shares current trends & commentary associated with the office sector of Huntsville's real estate market.

On the national scale, office space vacancy is closely tied to employment and as the unemployment rate increases, so do vacancy rates.

The office market in Huntsville has fared better than most secondary markets during the recession that began in 2008. When the State of Alabama unemployment rate was 9.6% (May 2011), the Huntsville unemployment rate was 7.9%. When the office market nationwide was experiencing a 17.6% vacancy rate, the Huntsville market was at 12%.

The reason is not just a story of job stability, since jobs were lost in this area of the state too. But the BRAC (Base Realignment and Closure) expansion of 4,600 Federal jobs and thousands of new contractor jobs at Redstone Arsenal, plus the news that Huntsville was a great place in which to ride out the recession, created an expansion of jobs that exceeded those jobs lost due to the recession and the winding down of some NASA and Army programs.

Thanks in large part to the BRAC announcement in 2005, Huntsville led the state in both jobs announcements and announcements of new and expanding firms in 2010, according to the Huntsville/Madison County Chamber of Commerce's 2011 Economic Growth Report.

New office space needed for the Army Commands that were relocated to Huntsville has been built inside Redstone Arsenal. The contractor support jobs associated with the BRAC move created demand for office space, primarily in or around the Cummings Research Park area.

The lack of construction lending for speculative office development during this period resulted in very little new construction. Therefore demand for office space worked to reduce the inventory of sublease space and office building vacancy.

In contrast to the rest of the market, Corporate Office Properties Trust (COPT) started their first of three Class A office buildings at its Redstone Gateway development at Gate 9 into Redstone Arsenal. This new development is intended to accommodate the long term growth of office demand in the Cummings Research Park area.

Current Office Market Trends

An informal survey of active Landlords in the Huntsville market revealed trends in the Huntsville Office Market. Some of the results may not be unique to North Alabama, but viewing all ten areas of the survey will provide a sense of what Landlords have been experiencing when it comes to leasing office space. After each question the respondents were asked to indicate "Same", "Slightly More" or "Slightly Less".

1. **Amount of vacant space since May 2010?** 63% of the respondents responded less space in the market over the last 12 month period.
2. **Amount of vacant space in the period of 1/1/2011 to 5/30/2011?** For the last six months, 75% of the respondents stated that there was less availability of space.
3. **Time required to negotiate a Lease?** 50% of the respondents indicated that it took the same amount of time to negotiate a Lease. Another 38% of respondents indicated that it took more time to negotiate a Lease.
4. **Amount of Tenant Improvements (TI) Required?** 50% of the respondents reported that the amount to TI had increased over the past year. 38% of respondents stated that the amount spent on TI had not changed since May 2010.
5. **Length of Lease Term?** 75% of respondents report that the lease term being offered has not changed over the past year. If tenants were demanding flexibility in the term of the lease in 2010, that situation has not changed yet.
6. **Tenants Represented by Brokers?** All respondents reported that the number of Tenants represented by Brokers over the past year had increased.
7. **Average Square Feet per Lease?** In this category, the majority of responses were that Landlords were seeing the same or larger office requirements.
8. **Rental Concessions Compared with 2010?** The largest number of respondents reported slightly more concessions for leases in 2011 than

given in 2010. The next smaller reporting group indicated the same level of concessions.

9. **Rental Rate Increase or Decrease?** 75% of the Huntsville Landlords reported no change in rental since 2010 with only 12.5% reporting that their rental rates were slightly up or down.

10. **Amount of Sublease Space in Your Property?** Given that this category of available office space is a minor portion of the market, 38% of the Landlord reported slight growth in Sublease space and 25% reported a reduction in sublease space.

These trends over the past year may be influenced in the future by several factors.

One factor is the completion of the BRAC relocation on October 1, 2011. The question is whether the area will continue to generate net new jobs once the transfer of jobs is complete and the local economy feels the impact generated by the BRAC expansion?

Another factor will be the pressure on the federal budget. Huntsville has nearly 24% of its workforce in the category of "government" according the Bureau of Labor Statistics (January 27, 2011), so a reduction in federal, state and local government spending can impact the overall economy of Huntsville harder than most cities.

Huntsville has been striving to diversify its employment base with automotive and biotech growth, and the fact that Huntsville is now the home of several Army Commands will provide some stability in the area of military support.

At a glance, the Huntsville office market has been the healthiest sector in commercial real estate across North Alabama. Currently, vacancies are dropping, but most recent lease negotiations have resulted in increased costs to the Landlord without much increase in the rental rates.

Even before 2008, office and retail Landlords in Huntsville have made it a priority to preserve tenant occupancy at the expense of rental income.

However, as more vacant office space is absorbed, Landlords will be less likely to offer rental concessions, and rental rates will be pushed to reflect the increased cost of improvements.

Landlords will offer space with less flexible terms and attempt to further limit the amounts spent on re-fitting office space. That is if trends continue.

Commentary for article was provided by John Hayden, **SIOR**, qualifying broker of the **Concourse Group**, and member of the **ACRE Leadership Council**.

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