

Fort Worth Business Press

January 23, 2004

Potential "Players" Still Could Be Waiting At Year End

With 2004 upon us, I wish I had terrific news for at least someone in the commercial and industrial real estate market. But as I look into my crystal ball, what I see is more of the same.

From a user or investor perspective, if you are looking for a super deal on a new lease or to buy a building at a discounted rate, don't bet on it. Reasonable mortgage rates are creating a high cap atmosphere, regardless of rents. From the supply side,



Karen Simon
Guest Columnist

if you are hoping for an economic recovery so that you can charge higher rates or unload a building, I don't see that happening, either. Eager buyers are hard to find.

On the investor front, unlike the unstable situation of a decade ago, there are now more lenders chasing good deals than there are good deals to be had. But while potential investors have money in hand, they are in a holding pattern, their inaction a result of fears over a growing deficit, terrorism and the weakening of the dollar. And as long as owners think the market is rebounding and interest rates remain low, there will be little incentive to deal aggressively.

While the commercial and industrial real estate markets have been on a three-year slide, at least the environment is healthier in Fort Worth than Dallas. In the area as a whole, CoStar Group, a national commercial real estate

information provider, says third quarter office space vacancy was 25.8 percent. That's an increase of almost one percent over the previous quarter and 2.5 percent since third quarter 2002. The news was not so bad in Fort Worth, where the Central Business District vacancy was 12 percent, northeast Fort Worth 14.1 percent and south Fort Worth 14.5 percent. Three years ago, the average quoted office rate in the Fort Worth/Dallas area was \$20 a square foot and the vacancy rate was 18 percent. Now the average quoted rate is \$17.75 a square foot and the vacancy rate is 25.8 percent. Six of the seven Dallas sub-markets have higher vacancy rates than the Fort Worth sub-markets.

In the industrial market, the third quarter showed a slight decrease in vacancies in the Fort Worth/Dallas area, declining one tenth of one percent from the previous quarter to 12.2 percent. That is still up over one percent from the third quarter last year. South Fort Worth industrial vacancies increased slightly less than one percent to end the third quarter at 12.3 percent. Vacancies in north Fort Worth increased slightly to 6.2 percent.

Over the coming year, investors will move cautiously, looking for the right deal and will settle for lower returns in exchange for a guaranteed source of revenue. In the industrial market, properties under 50,000 square feet will continue to be attractive to investors and users. There always will be some speculators looking for a distress sale and they might find some bargains in niche markets such as large office vacancies, big box and Class A showroom space.

Users will be active in the market

depending on whether they buy and sell their goods abroad. If a manufacturer such as an aerospace-related company uses domestic materials and sells to foreign markets, it will be in a more competitive situation because of the dollars' decreasing value against other currencies.

Once again during the coming year, look for only a handful of new construction projects, although some will be large. Construction should be limited to a few build-to-suits and a couple of large speculative warehouses funded by deep pockets.

Looking toward the end of 2004, there are two factors that could dramatically change the real estate climate. A couple of quarters of good office rate absorption could drive up rent prices and reduce the incentive for owners to sell their buildings. Or we could see the other extreme.

If people lose confidence in the economic recovery, we could see vacancies increasing, rates going down and owners trying to unload properties to cover other expenditures. My crystal ball tells me that the only thing certain about this uncertain climate, is that at this time next year, many potential players will still be waiting.

Karen Simon is Senior Vice President and Managing Director for the Fort Worth office of Bradford Companies