



**Note:**

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# 2017 BOMA Forecast

Anchorage Office Market



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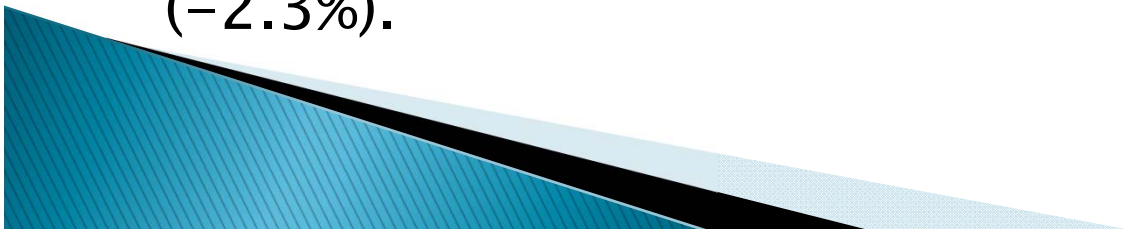


# 2016 in Review



# Back in January 2016:

- ▶ Most of the increase in Class A vacancy from a year prior had simply been due to new deliveries at that point.
- ▶ Economic conditions were just beginning to create noticeable softening in the office market.
- ▶ No new Class A deliveries were expected during 2016.
- ▶ Job losses of 1,200 positions (-0.8%) were expected in 2016.
- ▶ Actual employment loss turned out to be 3,600 (-2.3%).







**How Bad Is It Out There?**



# ... It Depends.

- ▶ YOUR perspective of the office market is shaped by YOUR situation.
- ▶ Landlords:
  - Full building, longer-term leases, and/or long-standing tenants? You are largely shielded. Softer market conditions may only show up to a small degree when negotiating renewals.
  - Larger or longer-term vacancies? You are likely motivated and getting aggressive to grab tenants from other buildings. You may be getting creative in your wooing...
- ▶ Tenants:
  - New/moving? May have some success negotiating initial free or reduced rent, starting rate discount, more TIs, included parking.
  - Renewing? You may get some TIs to sweeten the pot, but are likely facing about the same rent you have now (unless a Class A tenant in new construction that got in at the top of the market).





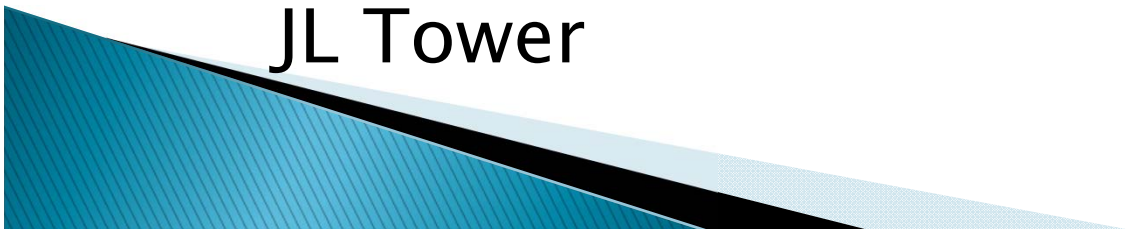
# During 2016:

- ▶ Class A office vacancies:
  - Class A (overall) increased from 7.1%
  - Newer Construction increased from 11.1%
- ▶ Class B is a bit less certain:
  - Vacancy apparently *dropped* in the first half of 2016... but it increased in the 2<sup>nd</sup> half.
  - This is most likely due to our data sampling.
- ▶ Average rents held surprisingly steady:
  - Class A average is down slightly (newer construction properties are facing the most downward pressure).
  - Class B rents have generally been flat



# Class A “New” Construction

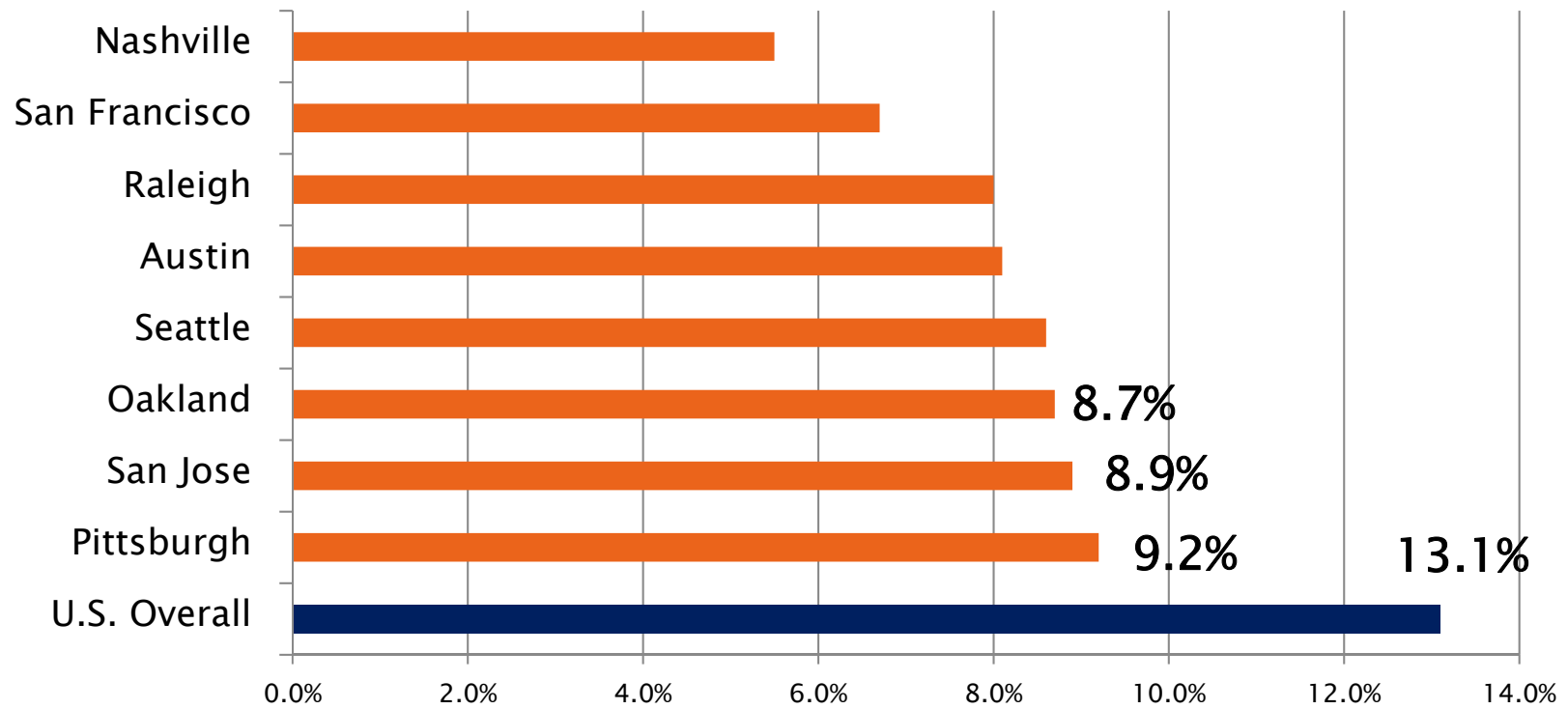
- ▶ January 2011: vacancy peaked at 16%
- ▶ Mid-2014: vacancy had decreased to 5%
- ▶ Today: increasing back towards prior peak
- ▶ There is 25,000 sq ft + available in:
  - Fireweed Business Center
  - Kuukpik Building
  - JL’s International Building
  - Three Cedars
  - 188 WNL Building
  - JL Tower





# We Often Lack Context

## Lowest National Office Vacancy Rates



Source: CBRE,  
3Q2016





# Supply and Demand





# New Supply = Unlikely

- ▶ Last significant additions were finished in 2015:
  - Kuukpik Building (Class A, Midtown)
  - Fireweed Business Center (Class A, Midtown)
  - Huffman Park Building (Class B, South)
- ▶ Some new buildings have been met with extended absorption periods over the last several years.
- ▶ No surprise: no new buildings expected to break ground this year or in 2018.



# Demand = Further Decrease

- ▶ Employment losses in 2016 turned out worse than expected.
- ▶ Further contraction in employment projected for 2017, albeit less than 2016.
- ▶ Large oil companies appear to have already made their space adjustments, overall.
- ▶ Design and professional services have been hit, but some further contraction is likely.





- ▶ Low crude prices obviously impact State government as well oil sector. State government employment has shrunk since 2014, primarily via attrition.
- ▶ Further employment losses are expected, but it is difficult to say exactly where these will ultimately show up.
- ▶ The State is a major tenant, but it also owns substantial office space. It is unclear exactly where office vacancies will appear.
- ▶ In addition, the State has been “squeezing” in many cases over the past few years.





# Future Forecast





# The Math Is Simple:

Decreasing office demand  
+ Stable supply  
= Higher vacancy rate

- ▶ Impacts of oil prices on the office market took a bit to show but are now kicking in. Vacancy increase should continue to be gradual – not drastic like 1986.
- ▶ Rents are likely to decrease a bit.
  - As always, how much you “feel” it will be property-specific.
  - First hit has been to New Class A space. Should begin spreading to Existing Class A space.
  - Class B space will lag, and may not be as strongly impacted.
- ▶ We will know more in a few months, hopefully after the Legislative session. Check back at mid-year ***BOMA MarketWatch***.





**Hang In There!**

