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Business

Report says Inland office market still has momentum

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Inland offices are still going up -- and rents are on the rise too -- according to a report released Tuesday by commercial real estate firm Grubb & Ellis Co.

Vacancy rates for office buildings are still low, Grubb & Ellis reports, but absorption -- the total amount of office space occupied at the end of a period less the amount occupied at the beginning -- is down 41 percent from a year ago, which could indicate that too many office buildings were going up.

According to the report, the region is keeping its momentum.

"We anticipate absorption will pick up as pre-leased buildings emerge through the construction pipeline," said Dain Fedora, Grubb & Ellis's Inland research services manager. "That was the trend in 2006 with 86 percent of the year's 1.2 million square feet of absorption coming from leases in newly completed buildings."

Fedora said several tenants have committed to space still under construction. That's one reason he is confident that absorption will rebound. Just Mortgage Inc. is moving its current headquarters from Pomona to 60,000 square feet in Rancho Cucamonga, and Wells Fargo Home Mortgage will occupy more than 230,000 square feet in San Bernardino. The space will count as absorption when the tenants move in, Fedora said.

The vacancy rate for office space in the first quarter was 7.6 percent, up slightly from last year's 7 percent. Industry professionals have said that a market in balance would show a 10 percent vacancy rate.

Net absorption for the quarter totaled 244,793 square feet, down from 412,412 square feet in the first quarter of 2006.

The amount of office space under construction rose to 2.7 million square feet in the first quarter, compared to 2.1 million square feet for the same period a year ago, Grubb & Ellis reported.

The average asking rate for Class A space -- described typically as newer buildings in desirable locations with preferred amenities -- rose from $1.99 a month per square feet to $2.12, according to the report. Class B rates rose from $1.80 to $1.84.

One cause for caution, the Grubb & Ellis report said, is how the Orange County market will respond to a slow pace in office leasing.

The county has a vacancy rate of 8.5 percent, Grubb & Ellis says, and half of the 5 million square feet being developed there has yet to be leased.

However, Fedora said, Orange County's vacancies will not put a damper on Inland absorption.

"The Inland Empire is still underserved by office users supporting the local population and will continue a growth trend well into this year," Fedora said.

Fedora said absorption will not be as robust as it was in 2006 totals because of a slowing housing economy, including banks and for-profit educational institutions that are playing catch-up to serve a local population that recently topped 4 million.

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