



REAL ESTATE

After Job Cuts, Banks Start To Dump Office Space

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By John Adams

With banks shedding tens of thousands of jobs, many markets are bracing for a flood of available commercial space as leases are not renewed and banks try to sublease and avoid paying rent on empty cubicles.

Office vacancy rates in markets with a high number of financial services jobs—such as New York, Boston, Chicago, Charlotte, San Francisco and Orange County, CA—have been easing upward over the past year. Except for subprime-heavy Orange County, vacancy rates are still healthy by historical norms. But commercial real estate sources say office dumping will get worse going forward; banks are now in the midst of layoffs and office consolidation is still to come.

The Independent Budget Office in New York projects the city will lose about 33,000 financial sector jobs as a result of the credit crisis, resulting in about 60,000 total job losses as financial sector layoffs spread to other industries that support finance. Bob Freedman, CEO of GVA Williams in New York, has tracked financial sector layoffs in New York since the summer of 2007 and extrapolated a rough estimate on the demand for New York office space. "In the next quarter, you might have another 3.7 million square feet come on the market in New York," he says.

Among the financial firms reportedly dumping office space in New York is JPMorgan Chase, which is expected to sublease about one million square feet as it assimilates Bear Stearns. JPMorgan Chase would not comment.

The current vacancy rate in New York is just under five percent, but Freedman says when one includes the number of leases set to expire and not be renewed the total vacancy rate nears 10 percent.

Freedman says 20 to 25 percent of the current available office space in Manhattan is sublease space. Overall vacancy rates of close to 10 percent and sublease levels of about 40 percent would create downward pressure on rental rates, he says.

"New York is the most finance-oriented city, with about one-third of office space dedicated to financial firms," says Jon Southard, an analyst for CBRE/Torto Wheaton Research in Boston.

So far the big loser has been Orange County, CA, which has been hit by a slew of bankruptcies among subprime lenders such as New Century. The OC's vacancy rate has risen more than 10 percent in a year as the market tries to absorb the newly available space and eight million square feet of new construction.

"We've lost three to four million square feet of occupied space to the credit crunch, and the total market in Orange County is about 107 million square feet," says Jerry Holdner, vp of market research for Voit Commercial Brokerage in Irvine, CA. "This is probably the worst decline in office space that Orange County has seen. It's pretty similar to what Silicon Valley went through during the dotcom implosion."

One mitigating factor is that firms tend to hold onto office space as a reserve against a recovery on both the financial services sector and the commercial leasing market. "Banks staff up quickly just as they shed

workers quickly," says Freedman. "If you've shed too much office space, you could wind up paying higher rents later." (c) 2008 U.S. Banker and SourceMedia, Inc. All Rights Reserved.
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