

# The Clayton-Fillmore Report

Perspectives on Real Estate and Economics

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## Looking Up?

*There's nothing better than good news in a time of doubt, anxiety, and recession. Thus, we'd like to relate the following comments found on the GlobeSt.com website at the end of April.*

"The vacancy rates in most sectors of the commercial real estate market should peak by the end of this year, according to a study of 54 markets nationwide conducted by Portfolio and Property Research (PPR), a Boston-based real estate research group.

"The study notes 'the magnitude and velocity of the recent rise in vacancy rates has certainly varied across markets and property types.' But it adds that 'while further softening is expected, vacancies should begin to correct as the economy continues to recover and demand growth rebounds. In addition, supply levels should have been much more disciplined in this cycle, which will help prevent vacancies from reaching peak levels experienced in the last cycle.'

"'We should see things start to recover by 2003.' [states] Nancy Chesley, real estate economist and product manager at PPR... Chesley points out that construction has begun to shut down in most markets and demand is slowly recovering as the economy is beginning to show signs of improvement and layoffs are beginning to wrap up. In general, it takes about six months for the economic recovery to ripple through the real estate market and Chesley says that this case is no exception. She is quick to add that a lot of markets are still left with... sublease space and some metropolitan markets will take longer to absorb that space than others. In particular the high-tech cities such as **San Francisco** and **Boston**, will probably not see the incredibly low vacancy rates that they were seeing two years ago, but Chesley emphasizes that that is not a bad thing. 'They'll get back to a healthy level,' she says, adding that vacancy rates around four to five percent are not sustainable and 'are a very tight level' for those markets."

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Thank you.

Howard Treibitz, CRF

## THE SOUTH I

### Atlanta, Raleigh, Richmond

*Old Reliable.* **Atlanta**, the invincible Southern Colossus with its steamroller and juggernaut economy and real estate markets, for years defying predictions of slowdown and overbuilding, finally shows some vulnerability. Even Greg Maddux loses a game now and then. But he doesn't lose very often, and the gigantic Atlanta economy hasn't lost much either. While some month-to-month recessionary losses in nonfarm employment were reported last year, average employment for 2001 showed a small net gain. Now, in 2002, month-to-month gains are again being recorded. Indeed, from January through April nonfarm employment in the Atlanta MSA grew by 25,000 jobs. On the **real estate** front, local markets feel the squeeze, caught in the convergence of faltering demand and ongoing construction. An extraordinary amount of regional mall development has taken place here recently; more is being planned.

High-tech **Raleigh-Durham**, the Silicon Valley of the New South, also holds its own. While slowed by recession and the high-tech crunch, job growth nonetheless retains a positive profile. Notable are two new regional malls, one recently opening and the other opening soon. Generally, however, real estate markets are feeling the effects of the slower economy. **Richmond** feels the cold, too, as does its real estate, office and industrial in particular. Notable here, as in Raleigh, are the simultaneous plans to develop two regional malls; they're now competing for tenants and both are getting results.

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#### Coming in July: Northern California:

San Francisco, Oakland/East Bay, San Jose