

Reflecting on real estate



Vacancy rates decline across commercial real estate market

BY LINDA LIPP

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Vacancy rates in Fort Wayne office and industrial buildings appear to be declining, and retail vacancies are at their lowest point in 10 years.

Demand for all kinds of space — office, industrial and retail — has improved, said Karl Behrens, partner in BND Commercial.

“It picked up last year. Business owners seem more confident,” Behrens said.

But there is a big question mark hanging over downtown Fort Wayne. The city’s downtown redevelopment initiatives not withstanding, the biggest single factor likely to affect the office

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Lincoln Tower and the Allen County Courthouse are reflected in the windows of the National City Center on West Berry Street.

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market in the central city is whether Lincoln Financial Group decides to stay in its Harrison and Clinton Street buildings.

Lincoln's lease for the adjoining properties, which contain about 750,000 square feet of space, is up Aug. 31, 2009.

Should Lincoln leave downtown Fort Wayne, it would leave a huge hole that would be difficult to fill. And the ripple effects could affect the entire office market, experts said.

Lincoln is currently evaluating its options, said Steven Brody, senior vice president of Delaware Investments, a Lincoln subsidiary.

"Certainly, staying in this building would be one option," Brody said. Leasing space in another Fort Wayne building or even building a new structure also are possibilities, he added. The Harrison Street building, modeled after the Lincoln Memorial in Washington, was built in the early 1920s. Ground was broken for the adjoining building in 1968. The properties were sold in 1984, with a deal for Lincoln to lease them back for 25 years.

The sale/leaseback arrangement allowed Lincoln to use its capital more efficiently, and in the beginning the lease rates were lower, Brody said.

But automatic increases in the lease rates over the years may make the property more expensive than the rest of the downtown market, Brody acknowledged.

The lease has a provision for six 5-year extensions. There is no inherent right for Lincoln to renegotiate to reduce its costs, Brody said, "but the parties understand the realities of the situation."

Lincoln still occupies most of the space, despite having fewer than half the number of employees here than it did before the company moved its corporate headquarters to Philadelphia in 1999.

Market Trends Analysis 2005, a new commercial real estate report by John M. Thistlethwaite Interests LLC, found wide differences in office vacancy estimates, depending on who performed the study.

A survey by the Society of Industrial and Office Realtors (SIOR) pegged the Class A office vacancy rate in downtown Fort Wayne at 6 percent and the suburban rate at 5.8 percent, while estimates by NAI Harding Dahm put the downtown Class A rate at 18 percent, the same as the suburban rate.

The two were closer in estimating Class B vacancies, which SIOR put at 20.5 percent downtown and 16.4 percent suburban, and Harding Dahm estimated at 22 percent for both downtown and suburban.

In general, "I think the reality is a trend of people moving out of downtown," Behrens said. The vacated downtown spaces are not easily filled, because there's not enough expansion in the market to absorb the space left by businesses moving to the city's outlying areas, he added.

But big downtown office buildings, such as the National City Center, One Summit Square and the Lincoln Tower, still tend to attract law firms and other businesses that benefit by being close to the Allen County Courthouse and the city and county offices.

Office condos, such as those at Scott and Illinois roads, have become popular alternatives for owners of small and mid-sized businesses who want to build equity by owning their own property, Behrens said.

Miller-Valentine raised eyebrows in the late 1990s when it took a bold step and began construction on a series of large-tenant office buildings near Dupont Road and Interstate 69. The fourth of the "spec" buildings — constructed on the "if you build it they will come" philosophy — was finished right before the Sept. 11, 2001 terrorist attacks.

The buildings leased more slowly than anticipated, but are now at 89-percent occupancy, said Brian Geeting, Miller-Valentine's managing director in Fort Wayne.

The company also got the \$18.75 per square-foot rents it asked for the Class A space, something observers doubted could be done.

According to the Market Trends report, rents for suburban Class A office space average about \$16 per square foot, whereas downtown Class A space leases for an average of \$12 per square foot.

Tenants at the Dupont complex include Triple Crown, Tri-State University, IBM, Aon and Crowe Chizek.

Miller-Valentine already has drawn up site plans for another office development, but probably won't go forward for another 12 to 18 months, Geeting said.

The exact location has not been determined; it could be "anywhere but downtown," Geeting said. And it's unlikely building will begin unless the company signs some tenants first.

"We couldn't do 100-percent spec for a long time," Geeting said.