



## Turn out the lights -- the office party is over

By JASON HUGHES

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Lord only knows how many clichés there are to describe the situation now facing the office market, but no doubt there's a boatload of such expressions that would apply. I'm going to do everything I can to resist the various hackneyed quips -- that is, except to use one that's especially applicable.

"I told you so."

I'm not going to use such standards as "the blind leading the blind," "fools rush in where angels (my colleagues and I) fear to tread," "there's a sucker born every minute," and so many others, to announce that the frenzied pace of office buildings being sold for soaring prices has come to a screeching and fatal halt.

Attention, greed-driven landlords and other speculators: Turn out the lights, the party's over.

This is not news to anyone who's been listening to what I, and others in my company, have been saying for some time. In a very literal sense, we've been crying warnings in the wind to try and counter the mass hysteria that has defied -- until now -- the basic fundamentals that drive the office leasing market. We've done everything we know to do to alert the marketplace about the underlying vulnerability of the level of user demand needed to support the outrageous prices buyers have been paying for office properties. Our primary concern, of course, was to try to protect our office-leasing tenants from the spiraling rents that landlords would need to cover the almost sinful prices they paid to buy the building.

Now that the high-stakes game is over, there are office building landlords sitting on large blocks of vacant space. There's trouble in "office city."

Back to the fundamentals that have finally come to pass. We've reported here for some time about the lack of important market factors such as the need for broad-based job growth, new company formations and corporate migration. The number of companies being formed or expanded has been anything but robust. Those that have formed businesses or expanded have a very limited tolerance for paying high prices.

One good example is the biotech industry. Most new biotechs, frankly, are virtual companies that have found ways to grow their businesses without hiring scads of new employees or having to lease traditional bricks-and-mortar venues. Given the emerging role biotechs have in our local business mix, one would think those contemplating purchasing office buildings in our area would have taken that into account before rushing in to buy buildings at top prices and decreasing cap rates. They didn't.

What's also apparent is that these overly bullish investors talked themselves into the notion that there were other intangible market drivers that would forgive the inflated prices they were paying for the buildings. Perhaps they were swayed by the 45-year low interest rate environment, which fueled so much of our recent economic boom. They apparently reasoned that the expansion of home building and the home mortgage business together with all the "Cinderella equity" homeowners had in disposable income would somehow translate into fair winds and following seas for the commercial office market.

What was clear to me and anyone else with a three-digit IQ is the fact that the dots didn't connect between the residential market boom and commercial office market. Landlords and property owners have finally awoken to the fact that it's becoming a tenant's market, which is as it should have always been. Nevertheless, their crisis is someone else's opportunity -- in this case, the office tenant.

We're beginning to see early signs that landlords are breaking rank and "adjusting" rents downward to entice tenants into their empty floors of office space. Much has yet to take place, mind you, before landlords fall into this in full swing, but there are the beginnings of a tenant market that will bode well for office tenants who provide the goods and services we need, hire people and keep the lights on in our local economy.

It's about time. We've put up with more than our share of months and even years in which landlords have behaved as if they were immune to free market competition and the idea that one needs to keep their costs -- in this case, what they pay for the buildings they lease to tenants -- as low as possible. Rather than listen to those of us with any lick of common sense warning them to avoid becoming greedy, they went on a multiyear drunken binge and are now having to sober up. For them, the hangover is not without a great deal of pain.

For office tenants, better days are ahead. Enjoy.

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