

Suburban Office Gains Traction as CBDs Lag

Globe St.com By [Paul Bubny](#) | National June 1, 2015

SEATTLE—The real story of **office** performance in the first quarter was the comparatively strong showing by suburban markets as compared to the central-city counterparts, according to **Colliers International**. Amid a sluggish quarter, the suburbs across the US saw a combined 9.6 million square feet of positive absorption, whereas absorption in the CBDs virtually ground to a halt.

That being said, both suburbs and CBDs were off compared to Q4 2014. However, the drop for CBDs was far more precipitous: at 436,000 square feet, CBDs saw less than 10% of the 7.9 million square feet of absorption they experienced in the previous quarter. The Q1 figure was also down sharply on a year-over-basis from 4.2 million in Q1 of last year.

By contrast, the suburbs were ahead on a Y-O-Y basis from nine million square feet. And although 9.6 million square feet of absorption represents a falling-off from Q4's 16.7 million square feet, it's still more than half of the previous quarter's total.

Vacancy across North America was essentially flat at 12.9%, with Canada's vacancy rate ticking up a modest 19 basis points to 8.5%, while the much larger US market was unchanged at 13.2%, according to Colliers. "Despite the Q1 slowdown, it is important to note that absorption has been volatile on a quarter-to-quarter basis throughout the post-2008 recovery, and thus one particularly strong or weak quarter is not necessarily indicative of a trend," according to Colliers' Office Market Outlook for Q1 2015, released late last week.

Moreover, "absorption has not always correlated with economic trends in a given quarter during the recovery," the report states. "For example, since the beginning of 2011, the weakest quarter for absorption was Q1 2013," a quarter in which real GDP and office-using employment registered healthy gains of an annualized 2.7% and 243,000 jobs, respectively.

"Indeed, we believe that weakness in office market absorption in Q1 2015 was an aberration, and that growth will resume during the remainder of 2015 alongside stronger job creation and tenant demand," according to Colliers. In addition, the continued positive absorption in suburban markets, despite multiple economic headwinds, illustrates how much traction that segment of the market has gained. The firm predicts positive absorption in the North American office market for this year.

"The office market mirrors what is happening with the overall economy, and all signs point to a bounce-back in 2015 that will be similar to what we saw in 2014," says **Cynthia Foster**, president of national office services at Colliers. "Last year we saw winter weather have a negative impact on real GDP in the first quarter, just as it has this year, but growth rebounded throughout the rest of the year. Already this year, job creation is rebounding and the housing market is improving. We expect the office market to once again experience momentum and we are advising our clients accordingly to prepare for this improvement."

Accordingly, the firm says investor demand for US and Canadian office properties from both domestic and foreign buyers is expected to remain robust through this year. "Relatively strong, improving market fundamentals, coupled with attractive yields compared with other investments should drive transaction volume in both gateway cities as well as the resurging secondary and suburban markets," according to Colliers.