



Tuesday, January 23, 2007

W.V. office market set to heat up in 2007

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A THREE-STORY BUILDING under construction on McDowell Road west of Litchfield Road in Goodyear is among many office spaces popping up across the West Valley.

The housing market in the West Valley has been leading the way for the rest of the Valley the past two years, and that soon could be the case for the office-space market as well.

"Everyone realizes it's becoming the hottest market," said Justin Miller, a senior associate with the Grubb & Ellis|BRE Commercial real estate firm in Phoenix.

The Cushman & Wakefield of Arizona real estate firm also dubbed the West Valley office market one to watch in the near future.

Technically, Grubb & Ellis|BRE Commercial research department's "Office Market Trends" publication for fourth quarter 2006 concludes that "The hottest markets for development of new office space will be in the Southeast Valley, along the newly opened San Tan Freeway, and in North Scottsdale."

"But Scottsdale is more expensive - actually overpriced, and there's space in Chandler, but it's expensive, too," Miller said. "The area from Loop 101 south of Glendale [Avenue] to Avondale Boulevard has 1 million square feet of planned space. You'll see a couple hundred thousand square feet start getting built in mid-to-late '07."

Traditionally, West Valley office space tenants have been "smaller ones, 1,300 square feet to 2,500," Miller said. "We're starting to see more and more larger tenants going out there. Once one larger user - 250,000 to 500,000 square feet - goes out there, there will be more."

Miller cited the case of Wells Fargo Financial, which is putting up a 50,000-square-foot office facility at 91st and Glendale avenues.

"They'll see how that goes and could build more," he said, noting that so far, the area around the Westgate City Center is not generating a lot of office space interest. "And I'm not

seeing a lot of interest in the concept of offices above all that retail, either," he added.

420,000 square feet being built

According to the fourth quarter "Office Market Trends," the west Phoenix area - "51st Avenue west, including Avondale, Goodyear and a little of the Sun Cities," Miller explained - currently has some 905,000 square feet of Class A (220,000 square feet), B (607,000 square feet) and C (78,000 square feet) office space.

Class A office space is high-quality, professional office space - "like you see in Palm Valley," Miller said, referring to office buildings along Litchfield Road in Goodyear.

Class B includes the flex office buildings, part office-part industrial, that are springing up around the West Valley, such as the new Goodyear Commerce Center, on Van Buren Street west of Litchfield Road in Goodyear, and RDB Development's new project on the south side of Interstate 10 at El Mirage Road.

"Class C is really old stuff, industrial, that probably should be torn down," Miller explained.

More than 420,000 square feet of new Class A (145,000 square feet) and B (276,000 square feet) office space is under construction.

"We're seeing larger developers entering the area, like the Ryan Companies and Kitchell Construction," Miller said. "More of them are beginning to tie up land in the West Valley."

And even though the fourth quarter "Office Market Trends" shows a 19.8 percent vacancy rate for Class A office space in the west Phoenix submarket, "Most of the space in that 19 percent really isn't leasable," Miller said. "It's old buildings that need to be replaced."

"There's actually a shortage of Class A office space in the West Valley," he added. "Typically, homes come first, retail next and then office. With all the people moving there, there needs to be office space for them."

The West Valley even could see some speculative building, he said.

"And you should see a couple of big users," Miller added. "While 2007 will be a good year for the West Valley office market, you'll really see more space opening up and business in 2008."

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