

## Office Landlords Welcome February Labor Jump

by Parke Chapman

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February brought encouraging news for office landlords who have been concerned about weak hiring trends. The Labor Department reported that non-farm payrolls rose by 262,000 last month, following January's lackluster gain of 132,000 jobs. February's data represented the fastest payroll growth in four months.

Office landlords are particularly happy to see the rise in professional and business services jobs--the kind of slots that require office space. The economy added 81,000 jobs in those categories in February, up from only 24,000 in January.

According to Bob Bach, national director of research at Grubb & Ellis, at this rate of job creation, the national vacancy rate in the office sector, now nearly 17% CK, could decline by roughly 2 percentage points annually. "The labor market looks poised to generate 200,000 to 250,000 net new jobs per month in 2005," he says. "And that will continue to reduce vacancy rates."

Even if Bach is right--and he says he's not being over-optimistic--it will still take years to get back to where the market was before the recession hit. In the third quarter of 2000 office vacancies were just 8.5%. According to Bach's math, it will take until 2008 just to get down to 10.8%.

Why, after so many quarters of economic growth, has so much office space gone empty? "What really slowed down the recovery in office absorption was shadow space, and the fact that many employers were simply backfilling their vacant space when they made a new hire," says Bach.

He admits that data on shadow space—defined as leased space that isn't occupied—is hard to trust. Anecdotally, however, Bach believes that much of this shadow space (and its easier-to-track cousin, sublease space) have vanished over the past 18 months.

Also, the February employment numbers do not prove that office payrolls will drive more space needs. "Every new job added is good news," says Ray Torto of Torto-Wheaton Research. But, he points out that 30,000 jobs were categorized as temporary and few can expect to become permanent. He also believes that many industries got burned in 2000 by over-hiring, which is one reason for all that shadow space. Even if employers are convinced that economic recovery is for real, they will continue to hire conservatively.

"The job growth numbers overall are still moderate, and this continues what has been a very slow hiring recovery," says Torto.

Paul Briggs, senior real estate economist at Property & Portfolio Research, warns against drawing any conclusions from the monthly jobs report. "It was a phenomenal number of new jobs to add," he says. "But it's unrealistic to expect that we could generate 262,000 new jobs per month. I'm always hesitant to read too much into these numbers."

