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# Doron F. Eghbali Commercial Leasing Law

## [Office Leasing Shows Signs of Recovery ONLY in City Downtowns](#)

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Office leasing may be slowly and cautiously recovering. Nonetheless, such tepid recovery seems to be mostly concentrated in city downtowns while suburban office leasing is still experiencing severe occupancy problems. Let us further analyze the rationale for such disparate office leasing phenomenon and its pernicious effects on commercial investors and landlords.

### **SOME BACKGROUND**

City suburbs for a long time provided companies long-ranging advantages from shorter commute to lower rent and less crime. Nonetheless, the latest data suggest a shift as city downtowns seem to be stopping losing tenants or even attracting new tenants while suburbs are losing constantly. This is a rather ominous sign and another indicator of geographically uneven real estate recovery.

### **SOME DATA FOR SUCH REVERSAL**

The latest data indicate suburban office leasing was hit harder by the recession than city downtowns and are recovering more slowly. The national office vacancy rate in city downtowns was 14.9% at the end of the third quarter, this is relatively at the same level as it was in 2005. In contrast, such vacancy rate in suburban markets is around 19%, around 2.3% higher than what the vacancy rate was in 2005, according to Reis, Inc.

In fact, ominously, in the first three quarters of this year, city suburbs have lost a net 16 million square feet of occupied office space, tantamount to virtually 280 football fields. In contrast, city downtowns in the same period have lost only 119,000 square feet and seems to be stabilizing.

## **SOME RATIONALE FOR SUCH REVERSAL**

### **1. RECESSION HIT HARDER SUBURBAN BUSINESS SECTORS**

The most apparent reason for such phenomenon could be the fact recession hit harder businesses mostly concentrated in suburban areas such as mortgage industry and home builders. In contrast, downtowns seem to be home to sectors hit relatively less or recovered, for various reasons relatively faster, such as government and big banks.

### **2. DOWNTOWN RESURRECTION AND REVITALIZATION OCCURRING FASTER**

City downtowns have probably undergone some kind of real estate and identity metamorphosis over the last decade or so since there are new retail, nightlife and condominium projects in city downtowns. Nonetheless, it seems, none of these reasons seem to account for such fast decline and reversal. Hence, there might be some other shift for such phenomenon. Notably, a mental shift in office leasing might be occurring.

### **3. POSSIBLE SECULAR SHIFT OCCURRING IN OFFICE LEASING**

The other rationale for such phenomenon could be related to a shift in how office leasing is conceived now. It is probable that new office tenants long to be congregated in one place, such as a city downtown, instead of scattered all over. This might help such tenants, they might contemplate, in terms of attracting more clients or seeking professional assistance from other likely-minded professionals.

In fact, according to Reis, Inc., in suburban Los Angeles and Orange County the amount of office space has dropped by a combined 12.4 million square feet from January 2009 to the end of September 2010. This decline was much less severe in downtown Los Angeles.

## **SOME REAL RAMIFICATIONS FOR COMMERCIAL INVESTORS AND LANDLORDS**

If this trend persists, as it appears, this could have very real and rather adverse ramifications for commercial investors and landlords. Hence, it behooves such real estate industry participants to prepare themselves legally and financially to protect themselves against this ominous horizon, already in the making.

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