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Builders steer clear of new office space
Without guaranteed tenants, developers remain cautious
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If the commercial real estate market in central Indiana were made into a movie, the trailer might read: If you build it, you had better have someone to rent it.

The opposite -- "If you build it, they will come," lifted from "Field of Dreams" -- hasn't applied to office space here in quite some time, according to local real estate professionals.

Blame it on the economy, or the possible war on Iraq, or post 9/11 fears -- office space in the Greenwood/southern Indianapolis area might be featured on the next segment of the game show "Let's Make a Deal."

Cathy Richards, sales and leasing adviser with a specialty in offices with Grubb and Ellis in Greenwood, referred to commercial real estate as a soft market.

"It's kind of one of those things right now where people are not doing the 'build it and they will come,' " she said. "It's more like 'make sure you have something signed and in writing, and we'll build it.' "

Richards segues into a popular trend in the commercial real estate business: Developers are constructing their own buildings only after securing guaranteed rent. Tony Alderson, president of Allen Commercial Group, said his company is building on a design-build basis, meaning clients already are signed before the first brick is laid.

"In this market, you almost have to have it that way to be able to build a building," Alderson said. "Any developer will say the same thing. Specialty developments are almost nonexistent right now."

For example, Allen is breaking ground this fall on a 30,000-square-foot office complex on County Line Road, near Emerson Avenue.

That building is fully leased with medical profession tenants, a specialty that Alderson said has stayed strong despite the commercial market's downturn.

Alderson said the retail market also has stayed strong. Allyne Parke on Ind. 135 opened before all the space was occupied.

"We haven't had a problem filling retail space," Alderson said. "People say they go hand-in-hand. . . . We have the beautiful (Allyne Parke), and Stein Mart opened before we had businesses committed."

Retail and industrial real estate has proven to be more steady than commercial, so much so that K.L. Presnell Development dropped its office holdings because of the fluctuating market, according to John Barker, sales, leasing and marketing director for the company.

"Right now, there's a glut in office space," he said. "Office real estate tends to fluctuate."

Some of it might be blamed on overbuilding.

"Either (office space) is fully leased, or all of a sudden everyone is trying to meet the demand, everyone will build and when everyone builds, there's too much product," Barker said. "Offices, throughout the decades, always have been more volatile, as opposed to industrial and retail."

That is especially true with today's lean economy.

"It's definitely slower than it was a year ago," Alderson said. "Considering the world arena, with Iraq and everything else going on, I can see how that would happen. Businesses seem to be downsizing and not on the growth path that they were a year or so ago."

The empty space isn't just a southside phenomenon, according to Alderson. He estimated that the Northside of Indianapolis has about 5 million to 6 million square feet of empty office space. The Southside totals about 500,000 square feet, he said.

"I talk to people on the other side of town, and they're seeing the same thing," Alderson said. "They have multilevel vacancies."

Despite the vacant office buildings, Richards remained optimistic.

"There is still a lot of investment out there," she said. "As far as people investing their money, real estate is the safest place. I do think it's on the upswing. The more stable the economy gets, the better off we'll be as far as getting spaces rented out."

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