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ARTICLE: by Zach Smith

Xceligent: Vacancy rates continue decline

Rate Hike

Continued declines in vacancy rates contributed to increased average annual asking prices for industrial and retail space across the Springfield area. A second-quarter comparison:

OFFICE

2016	Vacancy rate: 8.4%▼ Asking rate: $14.68▼	2015	Vacancy rate: 9.3% Asking rate: $14.72

INDUSTRIAL

2016	Vacancy rate: 4.7%▼ Asking rate: $4.11▲	2015	Vacancy rate: 5.7% Asking rate: $3.73

RETAIL

2016	Vacancy rate: 4.8%▼ Asking rate: $11.35▲	2015	Vacancy rate: 5.1% Asking rate: $10.03

Source: Xceligent Market Trends report

Vacancy rates continue to drop across Springfield's commercial real estate market, according to the most recent Xceligent Market Trends report.
As a result, rental rates have increased slightly, with retail leases growing the most in the second quarter. Retail rents are up 13 percent to $11.35 per square foot compared with the same time last year.

"Fortunately, as economic conditions have improved, we've seen more influx of demand for quality retail, industrial and office space," R.B. Murray Co. Vice President Ross Murray said of the sectors covered by the report. "That's a positive outlook for the community."

Retail rush
Springfield's retail sector experienced some of the largest second-quarter changes in the market. Xceligent's report shows positive absorption of nearly 57,000 square feet for retail space, referring to the net of square footage occupied or vacated.

The biggest move was Missouri State University's lease of 35,080 square feet at Glen Isle Center, 1444-1540 S. Glenstone Ave. MSU signed a 29-month lease at$13.35 per square foot with Warren Davis Properties VIII LLC. The space will house MSU's music, education and psychology departments as Ellis and Hill halls are renovated.

The largest transaction by square footage also was in the retail sector: the sale of a 48,000-square-foot shopping center at 1827 E. Seminole St. from Tower Grove Shopping Center Inc. to Tower Grove Center LLC. Anchored by The Carpet Shoppe Inc., the property was listed by R.B. Murray for $3.79 million.

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Retailers new to the Springfield market also are showing interest, according to commercial realtors. Murray is working with eight to 10 national retail and restaurant companies exploring the area. Sperry Van Ness/Rankin Co. Senior Adviser Jeff Childs said Springfield Plaza on the city's western edge is well on its way to filling up with tenants new to the Springfield market.

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"I think we're up to about 80,000 or 90,000 square feet," Childs said of the planned $78 million, 150,000-square-foot mixed-use development.

He declined to disclose the new tenants.

In addition to new tenants and developers, Murray said Springfield's retail sector is experiencing a wave of remodeling and renovation.

On South Campbell Avenue, retail properties with improvements completed or in progress include Kickapoo Corners and the Westlake Ace Hardware shopping center south of Bass Pro Shops. Murray said the latter property, which he helped sell last year, is about 70 percent through a remodel that includes adding a new facade, awnings and a large monument sign.

"That's going on all over the city," Murray said. "Older shopping centers that are in a good geographic location are being rebranded to bring them up to date."

Office space, rates decline
Office space continues to experience a slow recovery, but vacancy rates in the sector continued to generally decline to 8.4 percent from 9.3 percent in 2015.

Average asking rates for office space were the sole sector to decline year-to-year, dropping slightly to $14.68 per square foot in 2016.

Roberts & Associates appraiser Eric Roberts said while office space has long-trailed retail and industrial absorption, properties like Metropolitan National Bank's former operations center at 3340 E. Cherry St. present good opportunities for prospective single tenants. The 25,300-square-foot building was the largest to be vacated during the second quarter, and it's listed by Sperry Van Ness/Rankin for $3.8 million.

"It's pretty large, and in a location that wouldn't necessarily affect the regular rental market but would put it in competition with some other service areas," Roberts said, noting the property's access to U.S. Highway 65 and high visibility.

Citing properties listed on Xceligent.com, Roberts noted five available office spaces exceeding 40,000 square feet in Springfield. Large offices include over 65,000 square feet at the former United-Healthcare location, 1930 W. Bennett St., and 56,000 square feet in The Frisco Building, 3253 E. Chestnut Expressway.

Roberts noted Hammons Tower downtown is at 71 percent occupancy, with nearly 57,000 square feet vacant.

"There's quite a bit of square footage available, but like anything it might not fit a particular user's need," Roberts said. "I think that's what keeps office space pretty competitive. The larger ones – the same as in industrial – have less people looking at them."

Industrial vacancies
Xceligent reported a negative absorption of 64,255 square feet for industrial space in the quarter – meaning more space was vacated than occupied.

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Leading the exodus was Ozark-based Martin's Antiques and Collectibles vacating nearly 21,000 square feet. Another 35,000 combined square feet in northwest Springfield was vacated separately by Southern Material Handling Co., Greater Ozarks Equipment Service and The Arc of the Ozarks.

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Even with the losses, the city's industrial sector reported the largest year-to-year improvement with respect to vacancy rates, moving one point to 4.7 percent this year from 5.7 percent in 2015. As with retail space, fewer vacancies prompted higher asking prices for industrial square footage, with rates increasing 10 percent to $4.11 per square foot.

Roberts said Roberts Industrial Rental, in which he is a partner, has filled abouthalf of a 30,000-square-foot warehousing and light industrial space at 2640 N. Westgate Ave. over the past two years with tenants Dish Network and CK Power.

"All in all, it is pretty well occupied over there," Roberts said of the northwest side's industrial space.

Murray said the losses in northwest Springfield wouldn't have a large effect on the overall market. With space being absorbed and increased demand, he anticipates new construction to continue for the next 18-24 months.

"If the market starts losing 50,000-square-foot chunks over an extended period of time that's not good, but we're not seeing any of that," Murray said of industrial, noting high demand has created a shortage of available space specifically in the 20,000-50,000-square-foot range.

"There is some class C inventory in the industrial market that has sat for awhile, but newer, quality product in that size range is a little scarce," Murray added.