

Real Estate

PHOTO BY FRANK AYAMAMI



Corporate Realty agent Colleen Kuebel Berthelot is concerned by an increase in available sublease space in the area, such as office space in Metairie.

Filling the void

Sublease market growing as companies merge, move

By Deon Roberts

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AS THE NATION TRIES TO climb out of a recession, the New Orleans commercial real estate industry is keeping a close eye on sublease space in the metro area.

A commercial tenant, such as a company in a New Orleans office tower that no longer needs all of its space, can offer it to another tenant under a sublease arrangement. It allows the original tenant to move out without canceling any contracts or paying penalties, while the new tenant pays the rent.

Even in a normal market, chances are there's available sublease space in any given city.

But in the New Orleans area, some in the commercial real estate industry say the amount of sublease space coming online is cause for concern, starting with an increase in the number of spaces offered last year.

They say they haven't noticed a substantial increase in sublease space, although some agents say Metairie is more susceptible than downtown New Orleans in the national economic slump.

"I can definitely say we are seeing a rise in subleases," said **Gaines Seaman**, leasing director for Heritage Plaza, an 18-story office building in Metairie.

"I'd say middle of 2008, we started seeing more tenants that gave us notice here in Heritage that they were going to vacant" and put their suites up for sublease, he said.

As of Jan. 21, Heritage Plaza had three companies that left their spaces but were still paying rent, he said.

Seaman points to consolidations as a factor. For

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stat of the week

Market comparisons

While the average selling price for a home in the New Orleans area dropped from 2007 to 2008, the number of homes sold, the average number of days properties sat on the market and the total volume sold all decreased year over year.

Year	Homes sold	Average price	Days on market	Volume
2008	8,949	\$205,536	96	\$1.8 billion
2007	11,609	\$208,172	80	\$2.4 billion

Source: New Orleans Metropolitan Association of Realtors

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example, one Heritage Plaza tenant moved out last year to consolidate with an office on the North Shore. Their space is being offered for sublease.

"I think the recession is driving parts of this because the companies that are consolidating are somehow impacted by larger corporations that are affected nationwide," he said.

Colleen Kuebel Berthelot, an agent with New Orleans-based Corporate Realty, called the sublease situation "something to pay attention to." She said she is concerned about the amount of sublease space on the market and the sluggish demand for it.

Berthelot said she first noticed the sublease trend around September.

There are areas of growth for the New Orleans-area commercial real estate market, such as legal, insurance and engineering firms, she said, but she wonders whether it's enough to consume the sublease space.

Brian Rourke, a commercial real estate agent with Latter & Blum, said he noticed a growth in sublease space six months ago.

"A lot of it's just starting to come online," Rourke said.

"It's fairly predictable, I think, given the cuts in the job market. When companies cut their payrolls, they don't need as much office space."

Bryan Burns, senior vice president of Transwestern, said there is not a lot of sublease space in the buildings his company represents in the Central Business District: 400 Poydras St., 650 Poydras St. and 909 Poydras St. The buildings have a little less than 2 million square feet of office space combined, he said, but very little of it is subleased.

Suburban markets, such as Metairie, are more likely to see a rise in sublease space because companies there are more likely to be impacted by the "national economic challenges," Burns said.

Greg Riera, senior vice president of Jones Lang Lasalle Americas, agrees.

"Out in Metairie, there could be an uptick," he said. "It makes sense because ... there's a lot of national companies that have branch offices out in Metairie, and they may be more affected by the national economy, where downtown you have some large national companies but you also have a lot of law firms and such that aren't as affected as a national company would be."

As for downtown, there has not been a noticeable increase in sublease space, Riera said.

Bruce Sossaman, leasing director of Equity Office in New Orleans, said the amount of sublease space in Metairie and downtown New Orleans is "on a historic basis, very low."

There is 20,000 square feet of Class A office space in Metairie for sublease, 1 percent of the total. In Metairie's Class B market, there is about 19,000 square feet of sublease space, or 1.5 percent.

In the Central Business District, there is 44,000 square feet of sublease space in the Class A market, about 0.5 percent of the high-end office space in the district.

"I actually thought there would have been more sublease space," Sossaman said, adding that there could be more in the next six to nine months.

Omni Bank has space for sublease at 321 Veterans Blvd.

The bank signed a lease for the property more than a year ago but is "not ready to expand there now," spokesman Todd Murphy said.


"Basically the bank is just, I guess like every business, evaluating their future expansion plans as to when and where we expand," he said. "We're going to take a cautious approach on that."

Omni began offering it for sublease about two months ago, he said. There haven't been any takers. •

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BRIAN ROURKE
Latter & Blum commercial real estate agent

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