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***Commercial real estate market flat, but that's OK***

This year the commercial real estate market in Anchorage has been flat, with activity off about one-third from last year. In comparison to the national economic problems, flat is pretty good.

Buildings are generally full, except for some of the new Class A office buildings. Few investment properties are for sale, and lease rates and selling prices have not changed during the year.

There is a wait-and-see attitude. The bad news in the rest of the nation makes everyone nervous. But the major drivers in Anchorage's economy and commercial real estate market are different from the rest of the country's, which is why we are doing relatively better.

The big question hovering over our market is the possibility of a natural gas pipeline from the North Slope to the Lower 48. We probably won't know the answer until 2011. Also, the planned Chukchi Sea oil exploration would be a great help to the economy.

Here is a year-end overview of the market.

Office space vacancy overall is about 9 percent, with A space at 7 percent and B space at 11 percent. About two-thirds of the vacant A space is in newly constructed buildings. Excluding those buildings, the rest of the class A buildings have about a 2.5 percent vacancy rate, which is extremely low. Office lease rates for A space are around \$2.75 per square foot in older buildings and about \$3.25 in new buildings. Class B space lease rates are from about \$1.25 to \$2.25.

Warehouse space has a low vacancy rate of about 3 percent. Lease rates in general are around \$1 per square foot. The way rates are quoted in Anchorage is atypical. Nationally warehouse rates are quoted as a net rate, with the tenant paying for taxes, insurance maintenance and utilities. But here, the tenant generally pays only for utilities and maintenance. To compare our rates to a Lower 48 market, subtract about 15 cents per square foot from our rate.

Retail is generally tight, with only a 4 percent vacancy. Larger blocks of space available in a few locations account for about a quarter of the vacancy. Most notably is the available space in Glenn Square, the new outdoor mall at the Glenn Highway across from the Northway Mall. This shopping

center was committed to before Target announced plans to locate in the nearby Tikahtnu Commons, a newer shopping center that subsequently drew many of the tenants that Glenn Square anticipated.

Retail rates have a wide range, from as low as \$1 per square foot for older strip malls to \$2.25 in new developments and as high as \$2.95 downtown.

With the national recession, no new big-box developments are being looked at for Anchorage. A few small-space nationals and even a national restaurant chain are considering Anchorage, but the pace of retail development we have experienced over the past 15 years has come to a halt for now.

Land prices have flattened after a steady increase for the 10 years. Strip business land prices are from about \$15 to \$30 per square foot, with Midtown and land adjacent to retail development commanding the highest prices. Industrial land is about \$12 per square foot. Downtown varies tremendously with prime locations on the west end as high as \$125 per square foot while the east side of downtown is as low as \$20 per square foot.

Investment buildings are few and far between. Lots of buyers are fed-up with low investment returns from banks and other financial investment vehicles and see real estate offering a much higher return. But owners seem happy with holding on to what they have.

For years, investors outside the state have been telling me they will not invest here because Anchorage is a small, unstable, risky market. How ironic to now find that Anchorage is a tower of stability and the envy of the rest of the country, which is plagued by high vacancies, foreclosures, plummeting lease rates and prices. We have had 20 years of steady growth and this year has only a moderate slowdown.

Here is wishing you happy holidays and most prosperous 2010.

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**Chris Stephens, CCIM**, is a local associate broker specializing in commercial and investment real estate. His opinion column appears every month.