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Tech Job Growth to Plateau, Likely Slowing Office Expansion

Over the past several years, technology firms helped the nation's office markets recover from the impact of a crushing recession. As a result, giddy leasing brokers have been loath to point that growth was going anywhere but up for the tech sector—until now. Most office sector experts credit the recent tech jobs boom for the uptick in occupancy and the continued high demand for space—and higher rents—in many markets. Tech firms added more than one million jobs in the past five years, according to a July report from real estate services provider CBRE, and these firms increased leasing activity as overall share of nationwide office leasing from 11 percent in 2011 to 18 percent in 2015, the most growth of any job sector. A recent report published by real estate services firm JLL shows that there are 13.1 percent more U.S. tech jobs today than there were at the height of the dot-com boom in 2001, with most companies adding tech-savvy employees due to the evolution of consumer-based applications, enterprise cloud software and social media platforms. However, even though the tech sector growth rate is still double the total U.S. employment growth rate, the JLL report indicates that a drop in venture capital spending this year will result in a pullback in hiring. A recent Fitch Ratings report also warned of a weakening in venture capital funding because of lackluster tech IPO performance, fewer private equity financings and selective layoffs at marquee tech companies. The Fitch report noted that office REITs overly dependent on technology firms for leasing and development are at risk. A run-up in venture capital investment during 2014-15 fueled the tech hiring and office expansion, notes Amber Schiada, director of technology research for JLL. Investors shying away from the housing and stock markets during the recession needed somewhere to place their money, and the technology sector seemed like a good bet for growth, resulting in massive amounts of cash invested in Internet firms. Now, these companies are merging and maturing, and are concentrating more on efficiencies, and the amount of new break-through firms has dwindled, Schiada says, slowing down investment in seed and early-stage IPO rounds this year. An impact can already be seen in the office sector—the drop in venture capital funding led to a combined 30.7 percent drop in tech leasing in the past 12 months in the top markets of San Francisco, Silicon Valley and New York City, she notes. "When the venture capital money was flowing, the tech job growth was at three times the national rate, so we're already seeing a slowdown," Schiada says. "What we're now expecting is a plateauing of the trend." The likelihood of a company burning out has become much more important to investors, according to Steffen Kammerer, tech practice group lead for JLL. He says venture capitalists are starting to increase their level of scrutiny when it comes to tech investments, which should chill the frenzy of firms gobbling up office space over the next 15 months. The top office markets likely won't see much further impact on occupancy this year, Schiada says, but the newest emerging markets, such as those housing new satellite tech offices, could feel the pinch if firms facing a major correction decide to pull back employees to headquarters in industry hubs. "What we believe is that we won't see much more of a contraction in tech job hiring, so there won't really be a decline; we just think it won't be as overheated as it has been," Schiada says. "It's good to have a pull-back now, so that there's not a threat of a consequent crash later." **(National Real Estate Investor/Robert Carr)**

Energy Slump Means More Office Space in Downtown Denver

The Denver central business district now has 1 million square feet of available office space as a result of the troubled oil and gas sector, according to a report from commercial real estate firm Newmark Grubb Knight Frank. Consolidations, relocations and bankruptcies have plagued the oil and gas industry for well over a year now. The Denver office market started feeling the effects at the end of last year and the impact has grown. In the second quarter of this year, the central business district experienced negative absorption of more than 93,000 square feet, contributing to the overall availability of space once occupied by oil and gas companies. Absorption rate refers to the net square feet that are either leased or vacated during a given period. Negative absorption occurs when more space is vacated than is leased. While the 1 million square feet figure is significant, it's important to put it in context, said Tim Harrington, executive managing director at NGKF. Basically, he said, the overall office market is healthy enough to sustain the losses stemming from oil and gas companies downsizing or closing their Denver office space. Companies in other industries are expanding in the central business district, and some oil and gas companies are growing, even as others contract. Laramie Energy, Synergy Resources and Antero Resources have expanded or announced plans to do so amid the downturn. Also important to note, according to Harrington, the entire central business district contains 26.3 million square feet of office space and is the second-largest office market in the metro area. The southeast suburban market, where the Denver Tech Center is located, has 28.3 million square feet of office space, according to NGKF. Overall, the metro-area office market had positive absorption of 284,330 in the second quarter, according to NGKF's data, and the metro area's office vacancy rate in the second quarter was 13.7 percent. Historically, the metro Denver office market took a much bigger hit during the last oil and gas downturn, Harrington said. Around 1985, the vacancy rate hit 30 percent. Of the 1 million oil and gas-related square feet that was available as of mid-August, about 400,000 square feet of that is space that has gone directly back to the landlord, leaving the space altogether. The remaining 600,000 square feet is available for sublease from the original tenant, Harrington said. **(Denver Business Journal)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.50	.25
3 MONTH LIBOR	.83	.74	.33
PRIME RATE	3.50	3.50	3.25
10 YEAR TREASURY	1.62	1.58	2.15
30 YEAR TREASURY	2.29	2.30	2.90