Buffalo Office, Q4 2016

City of Buffalo continues to thrive as overall vacancy drops

- One Seneca Tower redevelopment moves to mixed use from traditional office building.
- Increasing confidence among tenants, resulting in extended lease length.
- Back office high-density users continue to be active in the suburbs.
- “Meds & Eds” and government industry remain strong.

Note: The CBRE | Buffalo Office MarketView reports provide statistics based on a revised set of inventory. All properties are Class A, B, or Flex and are greater than 10,000 square feet. Historical data in all figures is reflective of the current set of inventory rather than previously published report figures.

The Buffalo Office Market vacancy rate continued its decrease to 12.5%, a considerable reduction from the previous year’s rate of 13.5%. In contrast to last year, the market is outperforming the National Office Vacancy of 13%. (CBRE Research, Q3 2016) The market showed positive net absorption with 337,154 sq. ft. absorbed. Downtown continues to be a bright spot with strong activity and interest by tenants, while the suburban submarkets were generally flat. Over 300,000 sq. ft. in completions were added to the office inventory with 257,824 sq. ft. projected. Projected construction has slowed leading into 2017, but projects have been announced and will enter the pipeline in coming years.

An increase in activity was experienced throughout the 2nd half of 2016. High density office tenants seeking efficient layouts and parking remain drawn to the suburban options. The back office industry continues to thrive in Western New York and has become a critical element in the overall stability of the office market. The healthcare industry remains a major driver in medical office building construction nationally and the same is true for Buffalo. (CBRE Research, 2017)
Tenants continue the “flight to quality” and are becoming drawn to the overall “live, work, play” experience with amenity filled buildings which help attract and retain employees. Downtown options continue to grow with redevelopments stretching outside the growing Central Business District (CBD) and creating new hot spots of development. Tenant confidence is growing but...
shrinking footprints and rightsizing continues. While not accounted for in this report, sublease space is still prevalent throughout the submarkets. Tenants are becoming increasingly interested in acquiring quality space as rental rates in the city reach all-time highs.

The uncertain future of the vacant One Seneca Tower no longer remains a mystery with the notable sale of the office building to Douglas Development from Washington, D.C. The redevelopment plan removes a large amount of office space for conversion into other uses. This plan affected the change in vacancy but is not considered absorbed office space. This was reflected in the CBD submarket with the Class A vacancy decreasing by 4.6% to 16.9% and a drop in overall vacancy from 17.8% to 14.7% down 3% from the prior year. The Class B vacancy rate also decreased and is now 13.2% from last year’s 14.6%.

The City Other submarket remained fairly level with little change as the overall vacancy rate went from 11.5% to 11.6% with 125,929 sq. ft. of positive net absorption. The Class A product continued to attract tenants with vacancy dropping 2.6% to 1.1%. Vacancy increased for Class B product to 21%, this comes as new inventory was added outside the CBD. Flex office vacancy dropped to 8.9% from 12% with just under 50,000 sq. ft. being absorbed. The City Other submarket occupancy improved as more and more outdated buildings are being redeveloped and residential projects bring new life to stagnant areas. Rents in the popular Larkin and Hydraulics District push upward with tenants showing a willingness to pay more for quality, amenity filled buildings.

Buffalo’s suburban submarkets continued their historic overall stability. With the revitalization and growing demand for space downtown, it was questioned whether the suburban market would feel the impact in 2016. Any concerns were met with minimal changes in vacancy throughout the product types and in each submarket.

The North submarket Class A vacancy increased slightly to 19.3% with a negative absorption of 4,824 sq. ft. Class B vacancy also rose up 1.9% to 9.2%. The flex office vacancy decreased, down 1.8% to 11% with just under 50,000 sq. ft. of positive absorption. The overall vacancy rate had little change, now 12.4% from 12.2%. Rental rates were largely flat, however reduced rents were seen for space that had been vacant for some time. Crosspoint Business Park continued its expansion with single tenant new builds coming online. The Getzville park has been able to secure new tenants while accommodating growth of large back office employers with high density parking needs.

The South submarket, because of its smaller total inventory reacts to changes in vacancy more substantially than the other submarkets. This was the case in the Flex category as 34,437 sq. ft. was absorbed and the vacancy moved from 21.7% to 11.3%. Overall, the South market has been seeing growth in medical product as providers are expanding to serve their patient base. Both Class A and Class B vacancy remained flat, showing little to no change with Class A down to 7.6% and Class B office space at 13.3%.
The East submarket recorded a slight negative absorption of 1,222 sq. ft. and overall vacancy increased to 9.2%, remaining very healthy in comparison to the national suburban vacancy rate of 14.3%. (CBRE Research, Q3 2016) Class A office vacancy remained flat, while an increase of 1% was seen in Class B space to 7.2%. Flex office space remained largely unchanged with a downtick to 15.7%.

The Buffalo market is poised for positive growth in 2017. Downtown momentum is here to stay with projects planned both in the CBD and outside the city. The Buffalo Niagara Medical Campus (BNMC) evolution continues with over 250,000 sq. ft. planned in future development and firms increasingly being drawn to the campus address.

Unemployment declined in 2016 for the Buffalo-Niagara area while the workforce continues to shrink. Tenants both locally and nationally are competing for skilled workers and this will be reflected in office space requirements. The suburban markets resiliency is matched with the concerns over employee parking and the region’s success in attracting back office service operations. Tenants will continue to shift throughout the submarkets searching for the right deal as leases expire and real estate costs are questioned. The next few years will be closely watched as Buffalo continues its drive to attract new businesses from outside the area.