



NEWS RELEASE

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Knoxville Office Market Remains Stagnant

While local economic indicators improved in 2010, Knoxville's office market continued to struggle. Areawide rentable supply increased only 0.7 percent since third quarter 2009, well below the 10-year annual average of 3.2 percent according to the 2010 Office Market Analysis recently released by the Metropolitan Planning Commission.

A small surplus of new supply, coupled with a decline in demand, led to a large increase in vacant space this year, reaching 16.2 percent. Both downtown and suburban markets experienced increased availability, hitting 13.6 percent and 17.4 percent, respectively. As a result, local office vacancies moved closer in-line with those seen in other markets across the United States.

Despite stagnant economic conditions, the national office market showed small improvements as vacancy rates dropped to 17.5 percent in the third quarter of 2010. This was the first time that a decline in vacant space occurred since the second quarter of 2007. New construction totaled 25.5 million square feet, while space absorption edged into the positive with 4.7 million square feet.

At the local level, occupancy shrunk dramatically since last year as Knoxville's downtown, suburban and areawide market categories all registered negative absorption. Suburban office space registered the largest decrease in occupancy with negative absorption of 397,401 square feet. Although downtown improved slightly from last year, it still had 76,805 fewer square feet occupied in 2010.

The three largest local projects completed this year were the 150,000-square-foot Scripps Networks addition, the 23,600-square-foot Pellissippi Pointe IV and the 20,061-square-foot The Landing, all in West Knox.

Buildings five years old or less struggled most to find tenants, reflecting an inventory heavy with new supply. The local market seemed to take notice as the bulk of recently or soon-to-be completed construction was owner occupied rather than spec. This trend is expected to carry over to any new construction in the coming years.

The information for this report was gathered during the third quarter of 2010 and represents a snapshot of the market at that time.

The complete 2010 Office Market Analysis with statistics on more than 500 Knox County buildings can be purchased for \$75 for a printed copy, and a PDF version is available for \$50. Call 215-2500 or visit the MPC office at 403 City County Building.

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