Charleston Office Occupancy Remains Strong

Posted Tuesday, September 8, 2009 ; 05:51 PM | View Comments | Post Comment

Despite the recession, most of the Capitol City's downtown, Class A office space is occupied.

Commentary by Howard Swint

The economic health of a city is reflected in its downtown central business district, with demand for office space a leading indicator of overall economic condition.

A strong downtown can itself be an engine for economic growth that helps drive demand for regional retail and housing markets.

For West Virginia, Charleston always has been a bellwether of economic activity because it is the traditional hub of commerce for a sizable portion of the state and the state capital.

Its diversification of industries and strong service sector, such as health care, traditionally have helped contribute to a stable economy.

The most recent downturn in the economy demonstrates the degree of economic insulation that downtown Charleston enjoys, especially as reflected in the market for office space in its six Class A towers.

Last year at this time, the market for Class A space was effectively at full capacity with the spillover in demand helping to drive higher occupancy rates in Class B properties, such as those along Capitol Street.

Out of just over 1 million square feet of space available in the Class A market only small pockets representing an estimated 35,000 square feet of space were available.

This 97 percent occupancy rate would be the envy of most cities virtually anywhere in the country because it provided for not only economic stability but also opportunities for new construction.

But just like any other city, Charleston would be impacted by the financial crisis of 2008 that eventually would affect market forces for more localized industries, especially energy.

As demand for natural gas and coal helped drive up demand for office space in downtown Charleston before the downturn, the precipitous drop in energy prices would necessarily reflect in reduced office space demand afterwards. Happily, the impact so far has been negligible as indicated in the still strong vacancy rate of just below 6 percent for the Class A towers.

To be sure, scheduled consolidation of regional operations, such as with Cabot Oil & Gas in Pittsburgh, has yet to be fully realized while the brunt of Chesapeake Energy's downsizing soon will be reflected in the market as well.

And as long as energy prices remain low, further energy sector retrenchment will take place, as will be the case with allied industries that provide supporting goods and services.

Two energy bright spots remain.

Drilling continues in the Marcellus Shale natural gas deposits that literally are rewriting the history of natural gas exploration and production in the Appalachian Basin.

An estimated 70 active rigs currently are in operation in West Virginia despite comparatively low prices in the natural gas market compared to last year, according to an industry executive insider.

Appalachian wells are considered more cost effective operations in large part because of proximity to markets and lower overall costs of production verses alternatives such as offshore.

The second is fairly stable, low-sulfur coal markets for end use electricity production. Those coal reserves also have proximity to energy-consuming markets. Of course, proposed "cap-and-trade" legislation remains a huge unknown, but billions of dollars of energy production infrastructure resides in West Virginia that has been the beneficiary of literally billions more in pollution controls.

While other industry trends are also hard to predict, economic history in West Virginia continues to suggest that a strong service sector in the form of heath care, higher education and various white-collar business professions will continue to provide a buffer to an otherwise sharper economic downward.

This also is true for state government and to a lesser degree the chemical industry, which in the past has provided a measure of economic insulation, too.

What is known is that downtown Charleston and the region as a whole remain vibrant contributors to the state's economic base and will continue to do so for the foreseeable future.

And as the city and state continue down the decades-long path towards industrial and business diversification — the North Star of sustainable economic development — our economy will continue to grow more resilience to swings in market forces.

Howard Swint is an associate broker with WV-Commercial Real Estate (formerly McCabe Henley LP) in its Charleston office.