# Anchorage Commercial Property Looking Good

## Some withdrawal, but overall Alaska holds strong

By Jack E. Phelps

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On a recent afternoon, Grace Mischenko pulled her red suburban into the parking lot at Tikahtnu Commons, the new 950,000-square-foot shopping complex off Muldoon Road in northeast Anchorage. The mother of seven from Wasilla says she likes having a shopping choice near the north end of town.

"It's convenience," she says, "having Best Buy, Kohl's and Target all together just off the highway coming into town. The guys can go their way and I can go mine. I like shopping at Kohl's, and the Target is nice too."

Her teenage boys like Best Buy and the Game Stop. "We also like the movie theater," Mischenko says, "we've already gone to the movies there a couple times."

### Yes! Success!

Tikahtnu Commons is one of the recent success stories in commercial lease space in the Anchorage Bowl. Located on 95 acres of land acquired from the federal surplus property program by Cook Inlet Region's real estate development group, the $100 million project broke ground in 2007. It has attracted major national retailers, including Kohl's, which opened its first-ever Alaska location at the Commons in April 2009. Just six months earlier, Target, America's second-largest retail chain, opened two stores in Alaska, one of them at Tikahtnu Commons.

"Retail lease space in Anchorage is doing well," says Jan Sieberts, a longtime expert in Alaska commercial lending, adding: "2011 is going to be a good year for the commercial market. It could be better if the private sector could get moving again. I don't see a lot of new private construction starting up this year. Most of the construction we see is public construction."

### Private Down/Expansions Up

Sieberts cites the "Gulf of Mexico effect" for some of the slowdown in private-construction spending. The regulatory uncertainty surrounding new development in Alaska's oil fields is having a negative effect on private-construction spending, Sieberts says.

Expansion of existing retail space is also a positive factor in the overall commercial space picture. Wal-Mart is adding nearly 55,000 square feet to its existing store in midtown. Kendall Toyota is expanding its automotive retail center on the Old Seward Highway by 80,000 square feet at a cost of approximately $20 million. The project is expected to be finished before summer 2011.

### Some in Survival Mode

Two shopping centers in northeast Anchorage have been struggling. Glenn Square in Mountain View, which began construction about the same time as Tikahtnu Commons, has been disappointing. Vacancy rates are unsatisfactory and the parking lot is rarely full. The older Northway Mall, just across Veteran's Memorial Highway, is likewise struggling, with less than 30 percent of the space under lease. Red Robin has recently pulled out, as have GAP and Banana Republic.

Sam's Club, which has anchored the east end of the mall for decades, is preparing to relocate to Tikahtnu Commons. Plans are under way to turn Northway Mall into an outlet center, but financing and lease agreement issues have slowed the process, according to David Irwin, of Irwin Development Group.

### Retail 'Fine'

Nonetheless, Sieberts and other local experts remain optimistic. "Retail is fine, office space is relatively stable and the little strip malls seem to be doing well," Sieberts says. In a recent forecast for the Building Owners and Managers Association (BOMA), Irwin demonstrated that as of last November, retail sales were up in every major category except drug stores, compared to the same period one year earlier. Average monthly change over the previous 12 months showed the same trend. In addition, the Alaska Department of Labor expects a slight upward movement in employment for 2011. This bodes well for continued growth in available services, including new retail lease space.

No one expects the retail building boom of the previous five years to continue in Anchorage, however.

According to Irwin, nearly 1.57 million square feet were added to the base in the 2005-2010 period, and more than 1 million square feet in the five years before that. The forecast for the next five years is less than 1 million square feet. Irwin believes, however, that growth may accelerate in other parts of the state, such as Wasilla and Fairbanks, even as it slows in Anchorage. Sportsman's Warehouse, for example, plans to open a new, 46,000-square-foot location in Soldotna during the first quarter of 2011. Cabela's is looking at Fairbanks as well as Anchorage, for opening its first Alaska stores.

## Office Space Tight

In the category of office space, the story is similar. JL Properties has been developing the Centerpoint Drive location, between Arctic Boulevard and C Street in midtown, for the past decade. The Arctic Slope Regional Corp.'s (ASRC) headquarters building on the corner of 40th Avenue and C Street, was completed and occupied in 2002. The 10-story building contains 210,000 square feet of Class A office space and is under a 20-year lease to ASRC. Since that time, additional office buildings have been added to the complex, including the five-story Centerpoint Financial Center (2006), the 14-story JL Tower (2008) and the eight-story Centerpoint West (2010). These three buildings added a combined 600,000 square feet of new Class A office space to the city.

Overall, office lease space in Anchorage is relatively tight.

According to Theodore Jensen, of Reliant Advisory Services, the national vacancy rate is 17 percent, with Detroit and Phoenix leading the pace at nearly 30 percent and 25 percent, respectively; in Anchorage it is only 6.6 percent for Class A space. Combining the figures for Class A and B, the rate is slightly over 7 percent.

"The vacancy rate on Class A space is between 5 percent and 7 percent in the entire town," Sieberts said. "It's a little higher in the B and C classes, but we're still ahead of most of the rest of the country."

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As Jensen puts it, this "office vacancy rate is still considered (to be) very healthy."

There are very few new office buildings expected to be completed in 2011. The largest is the 40,000-square-foot project in southwest Anchorage, off C Street near Klatt Road, under construction by CIRI. The good news is that this project, for which Sieberts' Washington Capital Management Inc. arranged the financing, is 100 percent pre-leased, according to CIRI officials. This is the only new office building to come on line this year in south Anchorage. The next largest new structure is a 9,000-square-foot building in the downtown area. More than 900,000 square feet of new office space is in the planning stage around town, according to Jensen, but most of these are on hold due to lack of pre-leasing agreements.

## Industrial Weak

The final major category of leased commercial space is the industrial sector. Experts believe this to be the weakest segment. The average industrial lease listings were nearly 40 percent higher in 2010, than they were at the end of 2003. According to Brandon Walker, commercial sales associate at Bond, Stephens and Johnson, this can be attributed to obsolescence of existing space. Factors such as lack of access to three-phase power, inadequate ceiling heights and lighting and docking problems contribute heavily to the problem. Many Anchorage warehouse facilities were constructed before 53-foot semi-trailers were common. They simply do not provide adequate room for maneuvering trucks at the dock.

The availability of suitable land and the price of what is available, combined with the cost of construction make new investments in industrial lease space less likely over the next few years, experts say. The combined cost will run approximately $225 per square foot, according to Walker's estimates. Moreover, the Municipality of Anchorage has zoning restrictions in place that could further impede new warehousing space. Historically, a lot of the goods available to consumers are already warehoused in Seattle and Tacoma and shipped to Alaska on an as-needed basis. Sieberts believes this trend will continue, given the difficulties faced by those who would like to increase the supply of industrial lease space in the Anchorage Bowl.

"It's just too expensive right now to expand the available industrial lease space in Anchorage," he says.

In summary, it can safely be said that the commercial lease space sector of Alaska's economy is holding up well. Compared to the rest of America, Alaska, and particularly Anchorage, has it pretty good. Only time will tell how long this will continue, or whether it will improve. A great deal depends on whether several new oil prospects and opportunities develop and on how successful the state is in diversifying its basic economy. But for now the sector continues to be a bright spot in Alaska's economic future. ❑