

2.4 New Office Construction

Construction of commercial office buildings is on the decline. Some markets though will continue to develop.

Canadian architects are perceived by some to provide better services to developers.

Almost 40% of all premium office space in the U.S. has been built since 1975.

Vacancy rates are beginning to soar both downtown and in the suburbs.

Construction of commercial office buildings has been booming in the last decade in the United States. However, oversupply and lowering demand will sharply brake speculative development in this sector during the next ten years. Some specific geographic markets will continue to boom, though, and represent opportunities for Canadian firms with experience and expertise in design of commercial office buildings.

Canadian architects are perceived by many U.S. developers to provide more substantial service than American firms. Quality of design, technical detailing, and rigorous construction review, in particular, set Canadians apart. In addition, our cold weather experience has made Canadian architects more responsive to concerns over energy conservation.

2.4.1 The Recent Past

Slightly more than 36% of all existing Primary office space (Classes A and B) in the United States, or 1.3 billion square feet, has been built since 1975. An average of 300 million square feet of office space has been built every year since 1981, nearly double the rate of the 1970's. This volume of construction is equivalent to building five Manhattans in six years.

Reasons for this surge in commercial building are diverse. Millions of Baby Boomers were absorbed into the workforce. The job creation rate - most of it in the white collar service sector - averaged 2.5% between 1975 and 1985. High rates of inflation in the late 1970's and early 80's encouraged speculation. A large supply of readily available capital existed in numerous syndicates, pension funds, insurance companies and banks. Foreign investors, attracted by high rates of return in the U.S., streamed into the commercial office space market. In terms of tax, many projects had more value to investors in their ability to accelerate depreciation than the actual income they produced.

The result of this development has been a massive oversupply of office buildings virtually all over the U.S. The national vacancy rate last September for downtown