

A Snapshot of the Austin Office Market

Written By: Patrick Foley & Steve Shire of Buls Hodge Consulting

Texas continues to experience a boom in commercial real estate as businesses from other parts of the country are enticed to move operations to Texas. This is leading to increased job and population growth, two critical factors in the continued success of commercial real estate. Austin in particular continues to experience a growing commercial market.

Office markets improved statewide during 2006, with most markets experiencing positive absorption and rent growth. The pace of construction costs is finally beginning to slow, with a concern of potential for oversupply in some markets. Austin's barriers to new development should help limit oversupply problems and give the current market a stronger income growth in 2007; other cities' rates statewide should continue to improve at a slower pace.

The current trends in construction for Austin are targeting mixed-use developments, especially in the downtown area, as well as Class A building construction. For the office market, approximately 1 million square feet of space is being built in the Northwest and Southwest areas. These sectors currently boast the highest occupancy rates in the city.

The Austin office market has seen increasing rental rates from 2006, especially with the construction of newer Class A type buildings in the area. The markets that are seeing the highest absorption rates are the Southwest and Northwest areas of Austin; as a result, of the approximately 11 new office buildings under construction in the Austin area, the majority of them

are in the Northwest and Southwest sectors.

In addition to positive absorption, there is a current trend of tenants moving from lower class type properties to nicer facilities. As these tenants move out of lower class properties, we should see Class B and C rental rates either remain flat or trend downward in the coming months.

Office markets improved statewide during 2006, with positive absorption and rent growth almost across the board. Total vacancies, which are the lowest since 2001, are running at approximately 13% to 15%. Average rates in office space have also continued their climbing trend, increasing an average 14% since 2006, with the highest percentage increases occurring in the downtown Class A office space. The citywide average rate is slightly above \$22.00 PSF.

Austin's current population is estimated at approximately 1.4 million people and unemployment figures show a 3.7% unemployment rate for November of 2006. With 2006 retail sales growing by \$2.5 billion (11% growth), a record 17,000 new homes built last year, and estimated job growth for the year at 3.4%, commercial real estate in Austin should remain healthy in 2007. In fact, noted Austin economist, Angelos Angelou, has predicted that Austin will become one of the hottest real estate markets in the United States.

Patrick Foley and Steve Shire are commercial agents at Buls Hodge Consulting in Austin. They can be

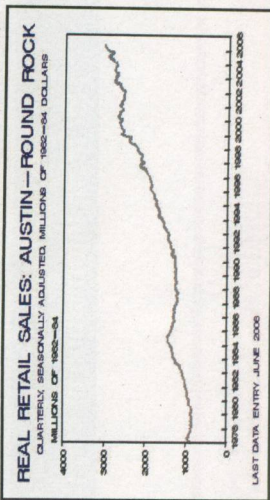
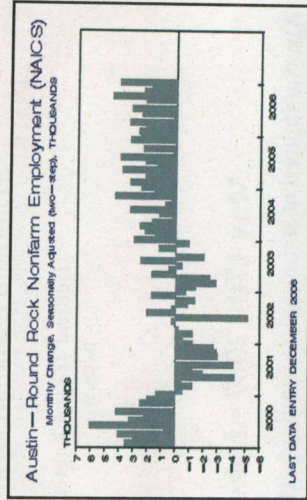
reached by calling 512.480.3131 or by e-mail at patrick.foley@bulshodge.com or steve@bulshodge.com. All opinions stated in this article are the opinions of Messrs. Foley and Shire. All facts contained herein are believed to be reliable, but should be independently verified.



BULS HODGE
Commercial Real Estate Services



Central/South Texas



Graphs are courtesy of the Federal Reserve Bank of Dallas