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## **Austin's office market stratifies, creates deals for tenants**

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Businesses across Austin have been holding their collective breath. With a death-defying crash of the stock market, convulsions of the bailout and a crunch in credit reaching a point of panic in recent weeks, anxiety in the region is high.

While Austin has unique long-term characteristics, the city's efforts to be part of a thriving global economy both enhance its industry diversity and tie it to the ebbs and flows of a worldwide economy. Austin's commercial real estate community is in a far more challenging environment as we approach 2009 and the dynamics are once again changing.

Austin's primary submarkets are defined as the Central Business District (CBD); the Southwest Market (SW), generally south Mopac Expressway and Loop 360, south of the Pennybacker Bridge; and the Northwest/Far Northwest Market (NW/FNW), generally north of Mopac Expressway, 183N to Highway 620/SH45 and east of I-35.

From 2003 to 2006, all of Austin's markets were on the rise, experiencing increasing absorption and comparable vacancy rates. In 2007, however, the CBD market rose to the top as the place to be. Yet, for the SW and the NW/FNW markets, occupancy percentages dropped due to increased inventory and declining absorption.

Given Austin's job growth from 2003 to 2006, the economic turnaround following the high-tech bust, low interest rates and the free flow of capital with a significantly reduced vacancy rate in the SW and NW/FNW submarkets, there were plenty of fundamentals in place to expect ongoing demand. Developers saw a strategic opportunity and, in the course of 24 to 36 months, roughly 3 million square feet of new office space is being added to the market in response. In strong economic times, Austin has historically averaged absorption approximately 800,000 square feet per year. With the inventory currently available, vacancy rates will rise and may remain high for some time.

For business owners seeking to expand and make strategic decisions about their space requirements, it's important to weigh options and look at the long term. As the office market begins to soften in coming months due to increasing vacancies, landlord concessions are likely to be offered.

For businesses anticipating a slowdown, these concessions are very attractive over the next year. But, it's possible the downturn could have ramifications on some businesses beyond the next year. The longer-term cost of the lease obligation and its flexibility must not get lost in a shorter-term gain.

As the summer of 2009 approaches, it's possible the cracks in the global economy will begin to surface in the office market and continue to transform it to a tenant-driven environment. The CBD is likely to remain tight, but NW/FNW office space is plentiful and conveniently located to the predominant portion of the region's workforce. There are, and will continue to be, attractive terms over the next year beyond downtown.