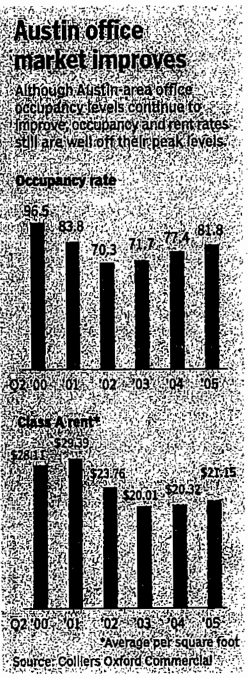

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Rebound of office market continues

Rising occupancy spurs higher rents, renewed construction activity

By Shonda Novak
AMERICAN-STATESMAN STAFF

Landlords are starting to get the upper hand in the Austin-area office market, new figures show.

Citywide, average rents for first-class space rose to $21.15 a square foot in the second quarter, up from $20.32 in the same quarter last year, according to Colliers Oxford Commercial, a brokerage that tracks the numbers. The area's buildings were 81.8 percent occupied, up from 77.4 percent in the second quarter of 2004.

The area's job growth, coupled with a lack of new office construction, has helped boost occupancies and rents in a market where they had plummeted three years ago during the economic downturn. And local brokers are optimistic the uptick will continue if job growth does.

"The playing field is starting to even out between landlords and tenants," said Brett Arabie, a vice president at Colliers Austin. "The tenants have had their way for going on three years now, so it's starting to even out a little bit."

Arabie said there is an active group of companies ranging from tech startups to financial services and oil services companies looking for office space.

"We're seeing companies that are actually adding employees, or that are planning to add employees," Arabie said.

Diana Holford, president of the Austin office of the Staubach Co., which helps tenants find space, also said her company is seeing "a good number of our clients expanding."

"Many tenants who have been

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slowly shopping for space over the last year now have the confidence to secure new or additional space," Holford said. "While landlords are pushing rates higher, we have been able to secure other concessions such as robust tenant improvement allowances or lease flexibility. The business climate feels stronger, and as a result, companies are willing to sign on to additional lease space."

The Far Northwest sector, the area hammered hardest during the downturn, and Southwest Austin are seeing the most leasing interest, Arabie said. Much of the activity is from tenants that signed leases at high rates during the boom. Those leases are now expiring, and the tenants are now able to get nicer digs for the same or less rent.

Occupancies in the Far Northwest soared to 85 percent during the second quarter from 76.3 percent a year earlier, and rents climbed from $18.40 to $20.08.

In Southwest Austin, occupancy levels, which have been high, increased to 86.6 percent and rents are averaging $19.31.

'It takes a long time to stop that downward slide.'

Tom Stacy
Developer who bought the Bank of America building. He says rents are stabilizing downtown

Such high occupancy levels have spurred developers to move ahead with new construction in these areas.

Stratus Properties Inc. plans to break ground next month on an 80,00-square-foot building at its Lantana mixed-use development, where Advanced Micro Devices Inc. plans to consolidate its Austin workforce into 825,000 square feet of space.

"For the most part, there's not much space in the Southwest, and rents have gotten to the point to justify new construction," said Stratus CEO Beau Armstrong. "It's become a very attractive office market out there."

Arabie thinks a "nice, healthy market" will emerge in the next 18 months, assuming job growth continues. But, he said, "I feel it's going to be at least two to three years before we see rent levels that justify any substantial new construction."

Downtown, which saw two large new office buildings with nearly 1 million square fee open during the tech downturn, is still seeing lower occupancies.

The market for landlords, however, is starting to bounce back.

First-class office space downtown was 73.8 percent occupied in the second quarter, up from 71.4 percent during the same quarter a year ago.

Although occupancy levels have increased downtown, rents have only marginally increased from $24.19 a year ago to $24.87.

Tom Stacy, a developer who last year bought the Bank of America building at Fifth Street and Congress Avenue, said rents are stabilizing downtown. He expects occupancies to rise significantly later this year, but said that because rents lag occupancy, it could be several more quarters before rents experience a similar climb.

"It takes a long time to stop that downward slide," he said.

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