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Section C

## Area office market continues rebound

Amid strong job growth, rents hit a three-year high; vacancy rates are lowest in four years

By **Shonda Novak**

AMERICAN STATESMAN STAFF

Central Texas office buildings have more tenants than they have had in four years, and rents have rebounded to a three-year high, according to the latest report on the region's commercial real estate market. Area brokers say companies of all sizes are

hiring, feeding a demand for office space and underscoring the growing strength of the region's job market.

In the third quarter, office space in Central Texas was 14.7 percent vacant, the lowest level since mid-2001, according to Colliers Oxford, a commercial real estate firm. Overall average rents hit their highest level in nearly three years, with space leasing for an average of \$20.27 a square foot.

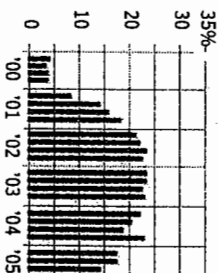
That's down from a vacancy rate of 19.4 percent. Average rent was \$18.54 a square foot in the same quarter of 2004.

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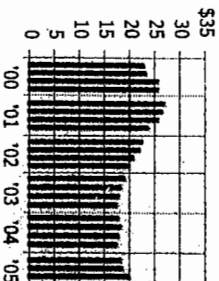
### Austin-area office space

By quarter

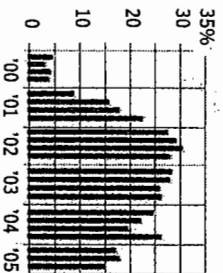
Overall vacancy



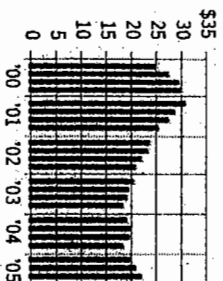
Overall rent



Class A vacancies



Class A rent



Note: Class A is top-quality space; overall includes all categories

Source: Colliers Oxford

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# BUILDINGS: Value of office space also rises

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The pattern was similar for premium, or Class A space, with the vacancy rate at 15.4 percent, down from 20 percent a year ago, and rents at \$22.46 a square foot, up from \$20.02 a year ago.

In downtown Austin, some landlords are getting as much as \$40 a square foot, Colliers said, a figure not seen since the tech boom.

"Markets tend to run in seven- to 10-year cycles, so this may be the beginning of another upward swing," said Mike Kennedy, president of Commercial Texas, an Austin-based office brokerage. "Austin has doubled in size every 20 years since it was founded, so it comes in fits and starts, and this looks like it's another start."

That demand is thanks to job growth, which drives the health

of any office market. Central Texas' jobless rate was 4.3 percent in August, the lowest in more than four years.

## New arrivals

Aside from expansions by local companies, brokers say new ones are moving to town from Dallas, Houston and California, among other places.

"The last time we saw this much activity (of companies entering Austin) was in the late 1999-2000 time period," said Kevin Kimbrough, an associate vice president at Colliers.

Not only that, but "the fundamentals of the companies in Austin today are much stronger than they were during the tech boom of the late '90s," said Sam Houston, a broker with Hill Partners. "They're making profits, they have better balance

sheets, and they are expected to do better over time."

Office values are rising as a result.

Last week, Chicago-based Equity Office Properties Trust paid \$131.7 million for 300 West Sixth, a 23-story office tower in downtown Austin. At \$295 per square foot, the price is thought to be a Texas record.

## Healthy prices

There have been numerous other sales at healthy prices.

"It really is just an indication that the real estate market is recovering and is going strong, and people are very positive about Austin's future," said Mike Morris, who values office buildings for the Travis Central Appraisal District. "We've had more sales in the last eight months than we had for the last

three years."

Signs of a turnaround are most dramatic in Southwest Austin. There, rents for first-class space increased 22.4 percent to \$21.89 a foot, and the vacancy rate fell nearly 13 percent to 10.9 percent compared with a year ago.

Brokers and appraisers say the outlook is for continued improvement, leading to some of the first major new construction in the office market in recent years.

Hill Partners is starting work on the first phase of a 760,000 square foot office project at San Clemente at Davenport, at Capital of Texas Highway (Loop 360) and Westlake Drive. It's the first new project in Southwest Austin since the Terrace 7 building opened in May 2002.

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