

Market Summary – Quarter 3, 2009

Austin Office Rental Rates Dropping – Distress is Upon Us

In spite of a recent run-up in the stock market over the past six (6) months, don't think for a moment that commercial rental rates are going to follow suit. Rather, they are poised to go in exactly the opposite direction, in my opinion. Recent reports from almost every source find that commercial real estate fundamentals have dramatically weakened. In fact, one significant exception to the Federal Reserve's Beige Book's reports of stabilization was the commercial real estate market, in which **demand for space remained weak**. Nationally, the total value of distressed commercial real estate in August 2009 is \$114.2 billion, including properties in distress, foreclosure, and lender REO, according to Real Capital Analytics.

Richard Parkus, head of CMBS Research at Deutsche Bank stated earlier in the year that property prices were expected to decline 35%-45% (or more) overall during the recession. Among numerous others, one of the main reasons for the decline is the fact that tenants are hunkered down, not expanding, and certainly unwilling to pay pro-forma rental rates when vacancy is soaring.

Quick Stats

		Change from last	
	Current	Yr.	Qtr.
Vacancy	24.19%	↑	↑
Lease Rates	\$26.60	↓	↓
Net Absorption	(952,716)	↓	↓
Construction	376,444	↓	↓

Source: CB Richard Ellis

In Austin, office vacancy is approaching 20%-24% depending on which research reports you read. That means there is between 7,500,000 – 10,000,000 square feet of empty office space sitting vacant. Meanwhile, the unemployment rate both nationally and locally is rising. With no new job growth and negative absorption, almost the only way to compete as a Landlord is to

offer a better economic deal than the building down the street. As such the Tenant is in control and has tremendous leverage for a better deal in Austin's marketplace. Free rent and additional concessions are the norm and this trend is unlikely to change in the near future.

What does this mean for you as a Tenant?

Answer: It means you should strongly consider looking at your lease space alternatives by: 1) renegotiating a better deal at your current location or 2) moving to a more efficient, more attractive building at a lower cost.

If not now, when?

When the Dow fell below 7000, it was a good time to purchase equities. With almost 10,000,000 square feet of vacant space waiting to be leased, the time has arrived to start thinking about a new lease deal.

Submarket	Total RSF	Available SF	% Vacant	Y-T-D Absorption
<i>CBD</i>	8,637,984	1,248,675	14.4%	24,360
<i>Central (C)</i>	2,738,496	390,759	14.3%	(62,466)
<i>East (E)</i>	297,990	48,958	16.4%	26,595
<i>Far Northeast (FNE)</i>				
<i>Far Northwest (FNW)</i>	1,022,986	523,903	51.2%	(36,772)
<i>Georgetown (GT)</i>	27,636	-	-	-
<i>Hays County</i>				
<i>North (N or NC)</i>	2,907,665	701,558	24.1%	(39,062)
<i>Northeast (NE)</i>	1,556,422	357,377	23.0%	(74,107)
<i>Northwest (NW)</i>	11,288,985	2,386,467	21.1%	(240,901)
<i>Round Rock (RR)</i>	1,920,972	942,216	49.1%	(45,001)
<i>South (S or SC)</i>	3,213,742	285,677	8.9%	(51,937)
<i>Southeast (SE)</i>	1,123,825	174,597	15.5%	89,989
<i>Southwest (SW)</i>	6,966,394	1,614,811	23.2%	(92,153)
<i>West Central (WC)</i>	440,589	49,549	11.2%	(37,965)
	41,092,152	9,941,113	20.7%	(539,420)

Source: Grubb & Ellis