Press Release

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For immediate release

Austin Real Estate Study Paints Rosy '07 Picture

2006 was record year for industrial and office sectors, retail held steady

AUSTIN, Texas – Feb. 2, 2007 – Last year was a banner year for the Austin industrial and office sectors, setting the stage for very healthy growth in 2007.

The industrial vacancy rate rivaled 2001 figures, while absorption of office space set a new city-wide record, according to a new market report by NAI Commercial Industrial Properties Co. NAI CIP has been tracking market information in Central Texas for 20+ years, providing a valuable historical perspective for commercial real estate absorption and development in the Austin area.

The biannual report, called The Source, found:

• Overall industrial vacancy rates declined to 12 percent – the lowest since 2000. The rate had been holding steady at 15 percent from mid-2005 to mid-2006. Net absorption for the last six months of 2006 was 1.1 million square feet. That rate is more than two-and-a-half times the rate recorded in the first six months of 2006, when 428,955 square feet was absorbed – and marks the continuation of a four-year trend of positive absorption.

"The current strength in the industrial market has encouraged developers to move forward with new construction," said Mark Milstead, Industrial Specialist with NAI CIP, noting that more than 2 million square feet are in various stages of the pipeline.

• Austin's office market absorbed 1.16 million square feet in 2006, marking the highest volume since the last economic peak in 2000. The Northwest sector led the way, with the absorption of 649,415 square feet, followed by the Central Business District's 277,416 square feet.

City-wide average rental rates climbed to $24.16 per square foot per year, up 14 percent from 2005's

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$21.11. Meanwhile, vacancy decreased to 13 percent, down from 16 percent from the same period last year.

“Increasing rental rates and decreasing vacancy rates means three things: watch for new construction and higher rental rates in 2007, and then more office land being absorbed,” said Lise Luchsinger Wineland, Office Specialist with NAI CIP. “We will see more than 1 million square feet of speculative space hit the market in 2007.”

• Retail occupancy rates held steady at 93 percent in 2006, which comes as a pleasant surprise when taking into consideration how much new construction hit the market, including IKEA and the Round Rock Premium Outlets, in addition to a 1.6 million square feet of big box retail in south Austin, known as South Park Meadows. NAI CIP retail brokers will be carefully monitoring the market in 2007, as approximately 3.5 million square feet of additional space will come on line. (The Domain, Mueller redevelopment, Hill Country Galleria, etc.).

Due to construction cost increases and increasing land prices, the gap between rental rates for existing centers and rental rates for these new, large projects is rapidly widening.

“The rental rate gap is more prevalent in the peripheral submarkets as the mature, infill submarkets have seen a steady rise in rates over the past several years. This has resulted in higher base rents for existing space as higher population density results in stronger trade areas for retailers,” said Travis Waldrop, Retail Specialist with NAI CIP. “For national retailers who can spread the exposure to these high rates across a portfolio of locations, these rates are easier to absorb. However, for smaller local and regional tenants, these rates can be excessive and will push many of these tenants into smaller developments and second generation space.”

NAI Commercial Industrial Properties Co. is one of Austin’s most successful commercial real estate firms and is the Austin area representative for NAI Global™, the industry’s largest global network of real estate service-providers, comprising 3,500 brokers in 300 offices serving more than 340 markets worldwide. For more information on NAI CIP, please visit www.naicip.com.

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