

A Reprint from *Tierra Grande*



The Texas office market has steadily improved during the past several quarters, in large part attributable to a nonfarm employment growth rate about twice the national average. As increases in construction costs eased, credit market concerns kept new construction in the moderate range. A brief overview of Texas' major metro office markets follows.

Austin Torto Wheaton Research (TWR) reports that since the beginning of 2005 more than 3.6 million square feet of positive net absorption has occurred in the overall office market versus only 1.9 million square feet in completions. Local professionals report about three million square feet of office space currently under construction.

Strong rent increases will cause some tenants to trade quality for affordability in the months ahead. However, Austin's economic strength still is producing tenants willing to pay for attractive Class-A space.

Dallas-Fort Worth A positive net absorption of 11.2 million square feet since mid-2004 is almost double the 5.9 million square feet of new DFW office completions during the same period, according to TWR. More than four million square feet of new office space is under construction.

The professional and business services sector, an employment segment critical to office occupancy, increased at a 6 percent annual rate between January 2005 and September 2007. Employment reductions in firms associated with the credit and mortgage industries have recently contributed to a jump in DFW sublease space, now hovering above four million square feet.

Houston The price of oil continues to play an important role in the steady rise in office rents, especially in the Class-A sector. Significant turnover in building ownership is putting pressure on rental rates as new owners attempt to meet aggressive return expectations.

As in Austin, sticker shock is causing some tenants to trade quality for affordability, thus benefitting the Class-B and -C

Office Asking Rental Rates and Occupancy*
(Q3 2007 Overall Market)

City	Rent per Square Foot	Occupancy (Percent)
Austin	\$18.04	85.3%
Dallas	\$18.33	78.2%
Fort Worth	\$17.26	87.9%
Houston	\$18.22	88.1%
San Antonio	\$19.52	86.1%
Detroit, Mich.	\$19.24	79.3%
New York, NY	\$50.11	94.2%
San Jose, Calif.	\$27.93	87.0%

*San Antonio figures reflect full service rates only. All others are weighted average of net and full service rents.

Sources: Torto Wheaton and NAI REOC Partners

sectors in the months ahead. New buildings coming online within the next three years will provide a number of space alternatives, although rental rates on the new space likely will not be a bargain.

San Antonio Improving occupancy levels, strong economic conditions and increased national recognition have been driving investment activity. Well-located Class-A space is difficult to find, leaving many tenants few options for expansion or relocation. Large contiguous spaces have been a challenge to locate as well.

Citywide average rental rates recently hit a record high while overall occupancy is the highest since 2001, according to NAI REOC Partners. The market has recorded two years of positive net absorption totaling more than 1.4 million square feet. Grubb & Ellis reports that about 1.2 million square feet of speculative space is under construction.

Amarillo Officials at BlueCross BlueShield of Texas said the company's 98,000-square-foot customer service center is now completed. When fully operational, the center will have 500 employees, making it one of the area's larger employers. Workers were slated to move into the \$16 million center on 11 acres in the Point West Business Park at 7901 Wallace Blvd. beginning in December 2007.

Lubbock Lubbock Economic Development Association executives and other city leaders have broken ground on the Lubbock Business Park, a 586-acre master-planned office-industrial development located off I-27 north at Yucca Lane.

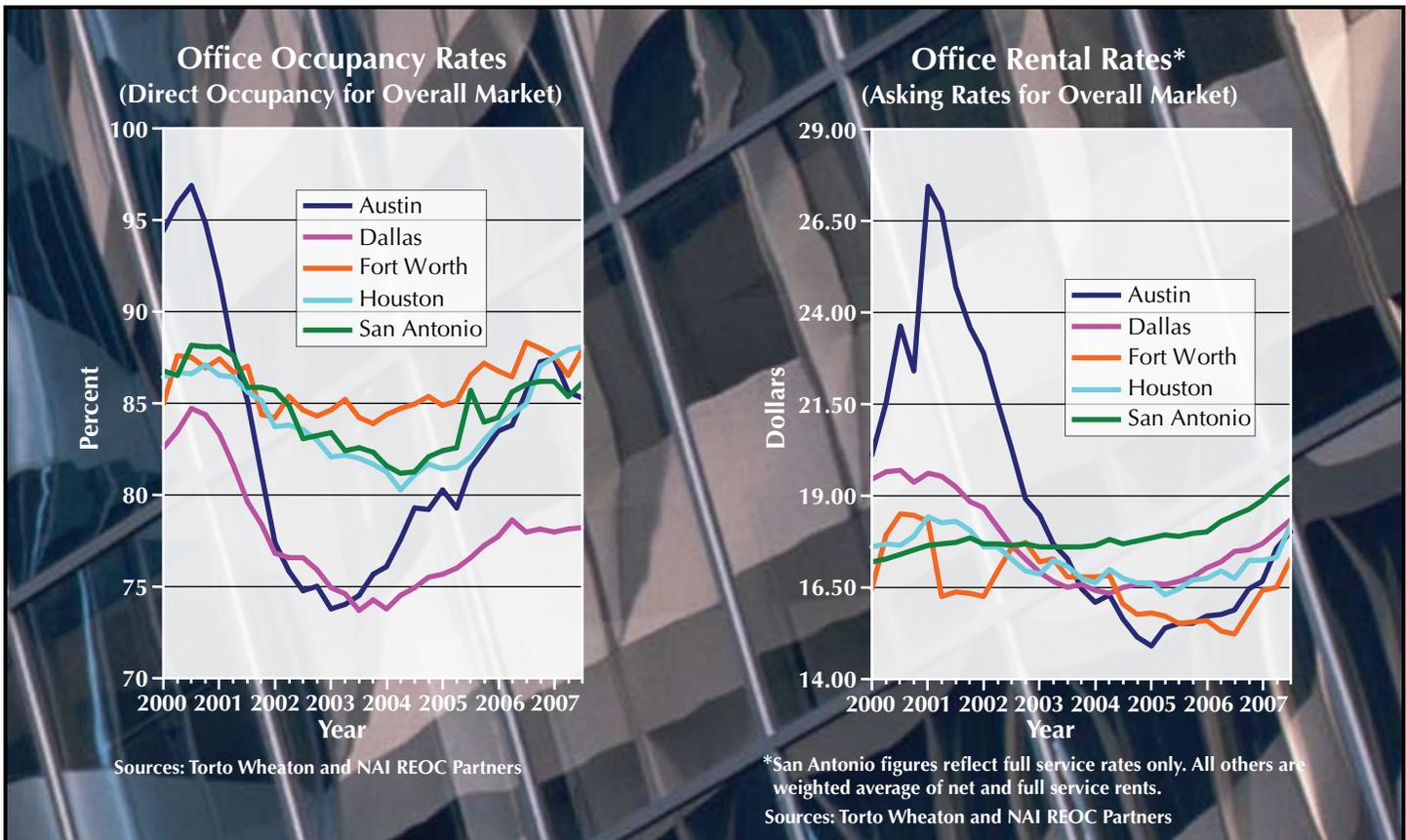
McAllen-Edinburg-Mission Convergys, a Cincinnati-based call center company, announced plans to add a second call center in Pharr and hire about 250 employees by January 2008. This latest office property is set to go up at the southeast corner of Jackson Road and Sam Houston Boulevard. When changes to the existing building are complete, the company will employ about 2,000. Convergys has operated a 1,750-employee call center in Pharr at El Centro Mall since 1999.

Texarkana Harte-Hanks Inc. inked a five-year lease for a 40,000-square-foot building, 1900 N. Robinson Rd., to become one of Texarkana's largest employers. According to Jerry Sparks, economic development director for the Texarkana Chamber of Commerce, the call center is staffed with 500 full-time employees and 250 part-time workers. The operation could generate an estimated annual payroll of \$14 million after full ramp-up.

Tyler The annual Burns & Noble Commercial Real Estate Office Survey shows improvements in all areas of the city. The citywide occupancy rate improved to 89.7 percent while the average lease rate quoted by landlords jumped to \$12.87 per square foot, the highest rate since the inception of the survey. Only six buildings report contiguous space of 5,000 square feet or more. Class-A buildings continue to post the highest occupancy level at 95 percent.

For more news about Texas real estate markets, visit the market news section of the Real Estate Center's website at <http://recenter.tamu.edu/mnews/>. 📍

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