

Job market woes likely to ripple, expert says

Area's commercial real estate market will continue to feel effects of weak job market, economist predicts.

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Austin's job market will remain sluggish over the next year, with a ripple effect felt in all sectors of the commercial real estate market, a Texas A&M University economist predicted Tuesday.

Mark Dotzour, chief economist at Texas A&M's Real Estate Center, said employers will continue to cut jobs locally into next spring, with the employment picture slowly starting to improve by next summer as the region and the country begin recovering from the recession.

Nationally, the recovery will be jobless, but Austin will do better than the country as a whole, Dotzour said at the annual forecast lunch sponsored by the Real Estate Council of Austin. The event drew almost 700 people to the Hilton Austin hotel.

In Central Texas, Dotzour said office landlords especially will be affected by the flat job market. The overall office occupancy rate has slipped below 80 percent, leaving the area with 9 million square feet of empty space — more than is in all of downtown.

Landlords are having to make aggressive deals to attract and retain tenants. Some larger companies with good credit ratings are getting discounts as high as 40 percent off asking rates, and even smaller tenants are getting 20 percent discounts, Dotzour said.

His take on other commercial sectors:

- **Retail:** In the past year, some national retailers "got cold feet and didn't expand or start construction that was proposed," Dotzour said. Target Corp., for example, cut planned new store openings from 140 to 40.

The national pullback has led to an abrupt end to retail construction in Central Texas after several years of aggressive expansion.

In a recent report, Charles Heimsath, an Austin real estate consultant whose data Dotzour drew from in his forecasts, said that overall retail rents dropped 12.3 percent from December to June — the largest decline since 1988.

However, Dotzour said the good news is that quality projects are still seeing healthy leasing activity and are not having to "give space away." And the scant new retail development expected during the three years should help demand catch up with supply.

• **Apartments:** Dotzour said renters are taking on roommates or moving back home, even postponing divorces, because they can't afford two households.

Fewer people also are moving to the Austin area, dampening demand for apartments in a market that some experts have said is overbuilt.

But Dotzour said the pipeline of new apartments is shrinking, with 1,000 units to be added next year and between zero to 500 units expected to be completed in 2011.

Historically, there have been only a couple of years since 1992 when there were as few as 1,000 apartment units added, Dotzour said.

"This will be an unprecedented decrease in supply," he said.

In Heimsath's latest office-market report, he said the citywide occupancy rate, which has been dropping since the end of 2007, fell to 89.5 percent in June from 91.4 percent in December.

• **Industrial space:** Vacancies have climbed from 18 percent at the end of 2008 to 22 percent in June.

Job cuts at Dell Inc. have created sizeable chunks of vacant industrial space, Dotzour said. In addition, he said, Applied Materials Inc., which had been retaining thousands of suppliers on short-term contracts, now has reduced the number by 50 percent.

In the future, demand for industrial space is expected to come from biotech and clean-technology companies as well as data and call centers, he said.

Courtesy of JB Goodwin