



The Austin commercial real estate market holds some positive and some negative aspects. The office, apartment, and retail markets should continue to see improvement as economic growth continues, while the industrial and hotel sectors show some signs of possible weakening.

## Office

- CCIM designees and candidates rated the Austin office market at 9.5 on a scale of 1 to 10, with 10 being high, for fourth quarter 2006 – the highest performance rating given to any of the property types in the Austin area.
- Overall fundamentals in the Austin office market continue to strengthen, especially in the CBD office subsector. Strong employment growth has led to increased demand for office space, resulting in a lower vacancy rate and increased new construction.
- RERC's transaction analysis shows that office properties in the Austin area are selling for an average price of \$136 per square foot, slightly more than the South regional average of \$130 per square foot, but well below the national average of \$167 per square foot.
- The average capitalization rate for office properties in the Austin area is 6.7 percent, well below both the South region and national average capitalization rates, which are 7.4 percent and 7.2 percent, respectively.

*Already the strongest commercial real estate sector in the area, the Austin office market is heating up, and there are no signs of a slowdown anytime in the near future. With population and employment growth expected to stay strong, fundamentals within the market should continue to improve.*

## Industrial

- CCIM designees and candidates rated the Austin industrial market performance at 7.3 on a scale of 1 to 10, with 10 being high.

- The availability rate for Austin industrial space declined for the fourth consecutive quarter. Net absorption and rental rates grew, while the amount of new development also increased. R&D properties continued to be the strongest subsector within the Austin industrial market.
- RERC's transaction analysis indicates industrial properties within the Austin area are selling for an average price of \$86 per square foot, in line with the national average of \$83 per square foot, and above the South regional average of \$64 per square foot.
- The average capitalization rate is 7.6 percent for industrial properties within the Austin market, higher than the regional and national average rates, which are 7.3 percent and 7.4 percent, respectively.

*Although fundamentals in the Austin industrial market are improving, this sector may be headed toward more downside risk. The average sale price of Austin industrial space is fairly comparable to the national average, but the capitalization rate is higher, indicating that Austin industrial properties hold slightly more risk.*

## Retail

- CCIM designees and candidates rated the Austin retail sector performance at 8.0 out of 10, with 10 being high.
- The average sale price for retail properties in the Austin area is \$172 per square foot, according to RERC's

## Demographics & Economy

### Population:

2006 (est.): 1.5 million  
2011 (proj.): 1.8 million

### Unemployment Rate:

Austin - 3.2%  
Texas - 4.1%  
National - 4.5%

### Economic Performance Rating\*:

Austin - 9.0  
National - 6.0

\*Rating given by CCIM designees and candidates in the study area, based on a scale of 1 to 10, with 10 high.

transaction analysis, above the regional and national average prices of \$140 and \$169 per square foot, respectively.

- The average capitalization rate for retail property in the Austin market is 7.4 percent, higher than the regional average of 7.1 percent and the national average of 6.9 percent.

*As employment continues to grow in the Austin area, the retail sector should continue to strengthen. However, Austin retail properties are experiencing higher sales prices than regionally and nationally, and are also seeing a higher average capitalization rate.*

## Apartment

- CCIM designees and candidates rated the Austin apartment sector at 7.0, the lowest rating given to the five property types tracked by RERC for the Austin area.
- Single-family homes have appreciated greatly, forcing some would-be buyers out of the market. Apartment supply is tight, due in large part to some Class A space being converted into condominiums. This has helped push down vacancy rates and increase rental rates, further strengthening the market.

## National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume (in millions)</b>						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
<b>Unit Price Averages</b>						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	-
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	-
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	-
All	\$167	\$83	\$169	\$107,833	\$110,713	-
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	-
<b>Capitalization Rates (All)</b>						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

- RERC's transaction analysis indicates the average sale price for apartment properties in the Austin area is \$67,568 per unit, less than the regional and national average prices.

- The average capitalization rate for the Austin apartment market is 5.8 percent, well below the regional and national averages of 6.5 percent and 6.3 percent, respectively.

*Austin retail properties are experiencing a lower average sale price and capitalization rate than regionally and nationally, signaling possible upside potential. As fundamentals should improve, the average sale price may increase, coming more in line with the national average.*

### Hotel

- CCIM designees and candidates rated the Austin hotel sector at 9.0 on a scale of 1 to 10, with 10 being high.

- The average sale price for hotel properties in the area is \$107,203 per unit, slightly below the national average of \$110,713 per unit, but above the regional average of \$94,532 per unit.

- The average transaction-based capitalization rate is 9.0 percent for hotel properties in the Austin area, higher than the regional and national averages of 8.9 percent and 8.7 percent, respectively.

*Although the hotel market in the Austin area has a slightly lower average price per unit than the national market, its capitalization rate is higher, indicating some possible downside risk.*

## South Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume (in millions)</b>						
<\$2 million	\$624	\$1,016	\$1,310	\$924	\$68	\$3,940
\$2-5 million	\$938	\$1,223	\$2,081	\$1,073	\$330	\$5,646
>\$5 million	\$25,735	\$7,093	\$13,161	\$23,008	\$8,648	\$77,644
All	\$27,256	\$9,281	\$16,472	\$24,975	\$9,031	\$87,015
<b>Unit Price Averages</b>						
<\$2 million	\$96	\$57	\$99	\$62,693	\$65,336	-
\$2-5 million	\$147	\$72	\$181	\$73,179	\$60,230	-
>\$5 million	\$153	\$77	\$183	\$90,463	\$109,868	-
All	\$130	\$64	\$140	\$75,192	\$94,532	-
Median of all	\$112	\$54	\$106	\$60,648	\$82,562	-
<b>Capitalization Rates (All)</b>						
Range	4.9 - 10.5	4.8 - 9.8	4.8 - 9.3	4.1 - 9.3	6.2 - 11.8	4.1 - 11.8
Average*	7.4	7.3	7.1	6.5	8.9	7.4

Austin Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
<b>Volume</b>						
< \$5 million	\$21	\$30	\$107	\$79	-	\$237
> \$5 million	\$1,250	\$287	\$613	\$871	\$457	\$3,479
All	\$1,271	\$317	\$720	\$950	\$460	\$3,719
<b>Unit Price Averages</b>						
< \$5 million	\$106	\$62	\$157	\$56,469	-	-
> \$5 million	\$149	\$117	\$200	\$81,917	\$110,193	-
All	\$136	\$86	\$172	\$67,568	\$107,203	-
Median of all	\$125	\$76	\$133	\$56,460	\$121,524	-
<b>Capitalization rates (all)</b>						
Range	5.0 - 8.4	5.7 - 9.5	5.6 - 9.3	4.4 - 7.3	6.8 - 11.3	4.4 - 11.3
Average	6.7	7.6	7.4	5.8	9.0	7.3

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
<b>Total Returns:</b>					
1-Year Rate	23.00%	22.80%	18.60%	14.80%	19.50%
3-Year Rate	17.40%	14.70%	18.90%	13.00%	15.10%
5-Year Rate	9.50%	7.70%	16.40%	8.20%	9.00%
10-Year Rate	13.30%	10.20%	14.80%	9.60%	10.90%
15-Year Rate	11.10%	-	-	-	9.80%
<b>Income Return</b>					
1-Year Rate	7.30%	7.00%	8.00%	5.40%	6.70%
3-Year Rate	8.20%	8.00%	7.80%	5.60%	7.10%
5-Year Rate	9.10%	8.70%	8.20%	5.90%	7.60%
10-Year Rate	9.20%	9.40%	9.00%	7.10%	8.30%
15-Year Rate	8.70%	-	-	-	8.30%
<b>Allocation</b>					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	25%	10%	14%	47%	4%
3-Year Average	28%	14%	13%	43%	3%
5-Year Average	29%	14%	12%	41%	4%
10-Year Average	27%	14%	15%	41%	3%
15-Year Average	37%	10%	13%	31%	10%
Sources: RERC and National Council of Real Estate Investment Fiduciaries					

## Noteworthy Transactions

- Amber Oaks, a 282,000-square-foot office property located at 13640 Briarwick Drive, sold for just under \$47 million, or \$166 per square foot, which is slightly above the Austin area average price per square foot of \$149 per square foot for office properties selling for \$5 million or more.
- The Grand Central Station retail building, containing over 170,000 square feet of space, sold for approximately \$12 million, or nearly \$70 per square foot – only about one-third the average price for retail properties selling for over \$5 million.
- Tintara at Canyon Creeks, a 551-unit apartment complex, sold for \$43 million, or \$78,040 per unit, close to the Austin area average price of \$81,917 per unit for apartments selling above \$5 million.
- Met Center 4-9, the 336,000-square-foot industrial space located at 8201 East Riverside Drive and 7401 East Ben White Blvd., sold for approximately \$44 million, or \$130 per square foot, well above the average sale price of \$117 per square foot for industrial buildings in this price category.
- The 492-room Renaissance Austin Hotel located at 9721 Arboretum Blvd. sold for around \$115 million, or approximately \$233,740 per unit – more than double the Austin area average sale price of \$110,193 per unit for hotels selling over \$5 million.