

Monday, August 18, 2008 - 3:05 PM

Economist: Austin will recover faster than the rest of the U.S.

Austin Business Journal - by [Jean Kwon](#) ABJ Staff

In the coming year Austin will outperform the rest of the country in job growth and in the health of its housing market, according to Mark Dotzour, chief economist at Texas A&M University's Real Estate Center.

Austin will add 8,500 new jobs between now and August 2009, despite a negative job growth across the country, he says. The local housing market will turn around faster than the rest of the country by next summer, Dotzour predicts.

In the meantime there will be a marked drop in new construction next year as a result of tightened debt and equity markets, Dotzour says. Still, the credit crunch is starting to thaw, and the pressure on national banks is beginning to move to regional banks including those in Texas. Those banks are tightening the terms on outstanding loans and demanding additional collateral or partial paydowns based on reappraisals. Loans for single family developments will bottom out between now and next summer and some builders will leave the market involuntarily, says Dotzour. By next fall he predicts a turnaround in the market and a renewed uptick in homebuilding.

The local demand for apartments is at an all-time low, says Dotzour. There will be demand for about 2,500 units next year, a fraction of the 9,000 to 11,000 units that will come online. **He anticipates occupancy will be 90.4 percent and rents will fall to an average of 94 cents-a-foot.**

The office market will see very little new construction in 2009 and 2010 as a result of the recent credit crunch. But that means when the economy picks up in mid-2009 the region will see the next wave of rent growth, says Dotzour.

About 350,000 square feet of office space is likely to be absorbed next year, and 700,000 square feet will come online. Occupancy will be 84.7 percent.

Industrial development is seeing the biggest wave of construction in the history of Austin despite a 25 percent increase in construction costs last year, says Dotzour. He predicts ownership will begin to change hands as rents stagnate.

Dotzour predicts 250,000 square feet of flex/R&D space will be absorbed and that 400,000 square feet will be completed next year. The warehouse and distribution market will see 2 million square feet come

online, and 376,000 square feet of that will be absorbed. Occupancy rate will be 82.4 percent and rents will be down 7 percent.

Local downtown retailers like REI, Whole Foods and Anthropologie have fared well but retailers will likely struggle in the coming year. Investor demand in retail is low and institutional investors have broken off deals as a result of being over-allocated in real estate, says Dotzour. The International Council of Shopping Centers predicts store closings in 2008 could reach 5,770 nationwide, the highest number since 2004. Unless gasoline prices return to under \$3 a gallon, discretionary consumer spending will languish, Dotzour says.

If demand slows for local commercial real estate there could be a decline in construction material costs in the coming months, he adds.

"If this hypothesis doesn't hold water, and oil is still 125 bucks a gallon and steel costs what it does now, then we're in an entirely new era for living in the U.S. where things cost a whole lot more than they used to," says Dotzour.

Courtesy of JB Goodwin