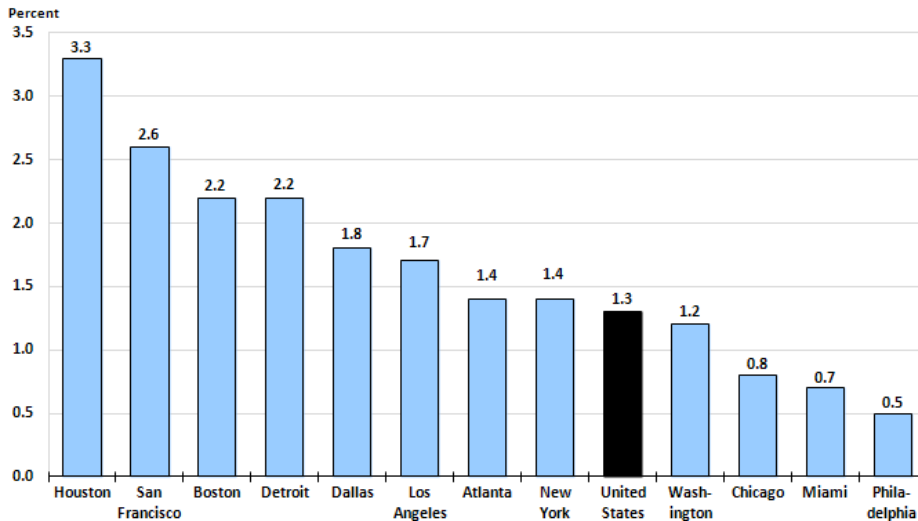


## Texas Employment

Thank your lucky stars you live in Texas! Houston leads the nation in employment (YTD change) through June 2012. Dallas is not far behind at 5th, though significantly trailing Houston in terms of percent growth:



Source: U.S. Bureau of Labor Statistics

## Forecasted Office Demand

Historical trends provide interesting benchmarks to assist in determining future projections, and by using occupied office space per person, future demand trends can be made. The following reflects historical office per person using civilian employment statistics and occupied space as reported by O'Connor & Associates:

Occupied Office Space / Civilian Employed = Space PP				
	Austin	DFW	Houston	San Anto-
2Q 2012	73	89	65	53
4Q 2011	74	91	67	55
4Q 2010	76	93	68	53
4Q 2009	65	80	70	N/A
4Q 2008	83	79	69	N/A

Based on the U.S. Conference of Mayors projected employment growth for each city, 12 month demand can be estimated and compared to the amount of office inventory under construction and proposed:



Office Catering to 1,000 to 7,000 SF Tenants

## Next Month

National Sports Services will provide insight into how the entertainment and sports industries and venues affect real estate economics. Sporting events at high school, collegiate, semi-professional and professional events attract massive crowds and team performance and fan following is important to the economics of a program. Periodic entertainment venues using those facilities at off times and seasons can bridge the gap between being “in the black” versus “in the red.” Those factors affect the occupancy and rental rates of adjacent commercial properties. A survey of those occupancies and rental rates will be detailed to determine whether it is opportunistic for businesses to pay premium pricing for those locations.

# TEXAS REAL ESTATE UPDATE

## Office Supply and Demand

Prospective Demand Based on Employment Growth x Space PP				
	Austin	DFW	Houston	San Antonio
Empl. Growth	2.4%	1.9%	1.7%	1.7%
Jobs	23,222	63,633	52,176	17,578
Office Demand/SF				
High	1,919,628	5,912,163	3,667,405	960,925
Low	1,499,376	5,019,668	3,400,652	927,765
Average	1,716,080	5,506,543	3,540,533	939,631
New Supply/SF				
Proposed	1,360,576	5,164,092	7,358,554	369,016
Under Construction	173,335	3,648,397	2,031,869	887,673

Supply Source: O'Connor & Associates

Combined proposed and under construction inventory is closely tracking demand in these markets, with the exception of Houston. With the potential to add almost 9.4 million SF, developers, lenders and investors should be closely monitoring this market for potential oversupply in 2013/14. Even if Houston outperforms the other metro areas, significant potential inventory may be added.

As new supply enters the market, buildings with functional, physical and/or locational deficiencies will likely suffer. It may be a good time to renovate these types of buildings, if a favorable cost basis exists. Some owners/managers are filling niches and maximizing building performance that include:

- Catering to smaller tenants;
- Purchasing in bulk and negotiating in the competitive market for the lowest electric rates; and
- Amenitizing buildings with ground level dry cleaner, restaurant, salon and/or tailor that become active tenants.

## Working From Home, Part-Time and Outsourcing

Internet access has allowed businesses to reduce their office space requirements, as more employees work from home. Texas and the US overall report 80.23% of households with internet access. This number is likely to continue to grow.

Dallas boasts the highest level of office space per person of the four major metro areas, which reinforces the “white collar” job market in Dallas. Companies characterized by “white collar” jobs tend to encourage their employees to come to the office. San Antonio has the lowest ratio and employers seem to allow more flex and remote hour working environments.

## About Sage Group

We are a group of appraisal professionals working together to provide a single source of information and analysis for commercial real estate professionals across the country. Our team includes Patrick O'Connor, MAI; John Fisher, CCRA, LEED AP; Wilburn F. “Buddy” Trotter, Jr., MAI and Mike Miller, MAI.

For more information about us or to sign up to receive our newsletter, contact Mike Miller at 713.358.8450 or [mmiller@sageappraisalnetwork.com](mailto:mmiller@sageappraisalnetwork.com).