Sage Group
A National Appraisal Network

TEXAS REAL ESTATE UPDATE

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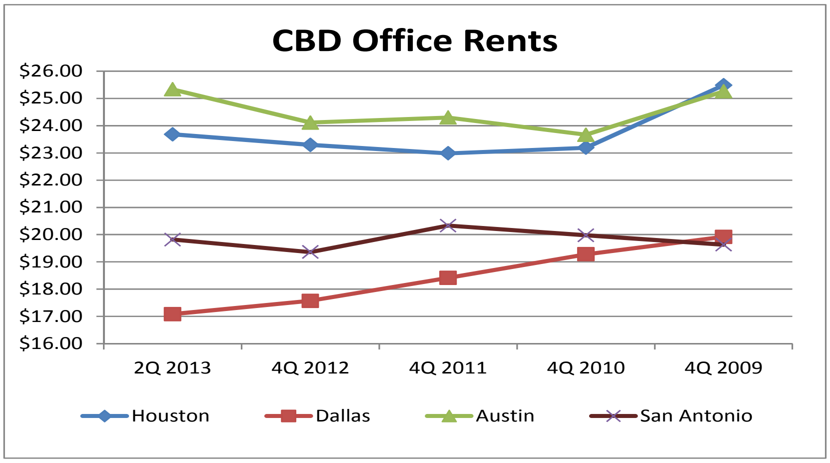
"I don't measure a man's success by how high he climbs, but how high he bounces when he hits bottom." - General George S. Patton

How High Can It Go?

The Texas commercial real estate market is steadily bouncing back and rental rates are a leading indicator of market demand. Following is a summary of the Central Business District Class A office rental rate trends:



CBD - Class A - Office				
	Houston	Dallas	Austin	San Antonio
2Q 2013	$23.68	$17.08	$25.33	$19.82
4Q 2012	$23.29	$17.57	$24.11	$19.36
4Q 2011	$22.98	$18.41	$24.30	$20.33
4Q 2010	$23.19	$19.28	$23.67	$19.97
4Q 2009	$25.49	$19.92	$25.26	$19.63

While Dallas remains in a declining trend, Houston, Austin and San Antonio rents are increasing. Current rental rates in Austin and San Antonio now exceed year-end 2009 levels. With positive employment growth projected for all four cities, expect continued rental rate growth.

But we have a long way to go to make the World's Most Expensive markets!

Top Ten - Most Expensive Office Markets		
Rank	Location	Cost / SF
1	Hong Kong (Central), Hong Kong	$235.23
2	London - Central (West End), United Kingdom	$222.58
3	Beijing (Finance Street), China	$195.07
4	Beijing (CBD), China	$187.06
5	New Delhi (Connaught Place - CBD), India	$178.96
6	Hong Kong (West Kowloon), Hong Kong	$173.90
7	Moscow, Russian Federation	$165.05
8	Tokyo (Marunouchi/Otemachi), Japan	$161.16
9	London - Central (City), United Kingdom	$132.94
10	New York (Midtown Manhattan),U.S.	$120.65

Next Month

Specialty use buildings are becoming more commonplace and discussions around use and efficiency will be our next topic.

Dr. Kenneth Eugene Lehrer will also provide a snapshot view of the economy.

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Spring Cleaning...in the Fall

As a very hot summer season draws to a close, children have returned to school, the symphonies and the theatre get ready for their new seasons, the government gets ready for their year-end budget fights, and businessmen get ready to try and meet their yearly projections. It is a good time to stop and reflect about changes in the operational aspects of business enterprises.

In many decades past, when the fall season came into focus, it was a good time to undertake “spring cleaning”. Unnecessary or unwanted data, furniture, fixtures and equipment were tossed. Companies tended to reorganize their physical plants and facilities in order to maximize their space and minimize their ongoing costs, and a “run for the results,” namely using the last quarter, to obtain solid yearly outcomes, was the name of the game. Those who undertook such activities had a more significant chance of eking out those extra few cents of EPS, and every cent counts in both public and private organizations. However, many methods that were once viable for reducing costs are no longer at the forefront of cost reduction.

Hence, the home office, namely having a solid amount of employees working out of their homes or at less costly and remote off site facilities, has replaced prior established cost-cutting methods. While this concept can clearly save corporations significant dollars, consideration must also be given to the broader implications that such decisions will have upon our economy and society. Having significant numbers of mid-level employees working from home, even working from home or remote offsite locations only three (3) days per week, clearly fosters reduced corporate expenses, but also impacts our national employment cost base. Those working at home will tend to expense less for out-of-home food. Clothing that was once an important part of a middle manger’s business wardrobe will either cease to be important, or the purchased items will last longer as they are worn less and placed under less stressful and deteriorating conditions. Reduced breakfast and clothing costs gives way to fewer purchased snacks, gasoline and reliance on personal or public transportation and of course, fewer drinks at the local watering hole after work.

Lastly, but by no means least, is the decreased reliance on multi-purpose office buildings. Too much speculative multi-purpose office space is being developed in areas outside of major cities wherein office facilities are usually absorbed by either Fortune 500 organizations or overseas organizations and could lead to a solid glut of office facilities. Those in the mid-markets are prone to seek to reduce costs via one of last well-recognized cost reduction methods that have an impact – namely causing workers to either work from their homes or from specialty off-site facilities on a much reduced cost basis.

While the concept of home or reduced off-site employment is not new, what IS NEW and worth denoting, in time of prolonged total recovery (2009 – 2013) many of the ingredients that were part of or lent support for prior recoveries are either being reduced (transportation costs) or are no longer solid segments of our daily scene (expensive business attire). As such, reliance upon specific functions for growth from weakened periods are no longer available or able to lend contributory recovery support.

With limited methods of cost-cutting available, several of the methods now being employed to reduce costs, including working from abridged site locations do not lead to long term stability once a recovery has been undertaken or gained foothold. Controlling expenditures for unnecessary future needs in order to both reduce taxes on those least capable of paying and seeking to balance all forms of budgets (Federal, State and Local) will foster a base for both recovery and as a future sustained foundation.

After corporations clean, may it be in the spring or fall, those responsible for public implementation of the cleansed results need to look to the right and to the left in order to observe the output and make sure the discarded items are either properly recycled or being discarded with solid and meaningful coordination.

Dr. Kenneth Eugene Lehrer—Senior Economist
The Sage Group

— 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 is managed by John Fisher, CCRA, LEED AP, W. F. “Buddy” Trotter, Jr., MAI, Michael L. Miller, MAI, Andre Suissa, MAI, Greg Zachary, Senior Appraiser and H. E. "Skip" Preble MAI, CCIM. Dr. Kenneth Eugene Lehrer manages financial services practices. For more information about us or to sign up to receive our newsletter, contact Michael L. Miller, MAI at 713.358.8450 or mmiller@sageappraisalnetwork.com.