



S.A. office market is slowing, but still growing

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San Antonio's office market is coming off record growth, but despite a slowdown during the first half of 2008, the sector is still in positive territory.

"Overall, leasing has slowed, but the market is still in good shape," said Gardner Peavy, managing principal of Cambridge Realty Group.

Net absorption, the square feet leased in a given time after deducting space vacated during the same period, remained positive at 306,000 square feet, but that's a 44 percent decline from the 545,000 square feet of absorption in the first half of 2007, according to a midyear office market report from Delta Associates, a commercial real estate research firm. There was a record 812,367 square feet of absorption in 2006.

"San Antonio is affected by the broader economy, and to say we're completely shielded from it is inaccurate," Peavy said. "But it may be less dramatic here."

The slowdown in San Antonio's office sector is caused partly by uncertainty in the national economy, Peavy said.

"A lot of companies are delaying decisions, so that in turn delays expansions," he said. "What could happen is when things stabilize, I could see absorption spiking up again."

The North Central submarket had the strongest first half of 2008, with 392,000 square feet of net absorption. The West submarket saw net absorption of negative 128,000 square feet. Downtown had negative 8,000 square feet of net absorption.

Citywide vacancy remained virtually the same, at 10.7 percent after the second quarter of 2008, which is down from 10.8 percent at the same time last year.

During the first half of 2008, rents for Class A space increased 1.9 percent to \$21.45 per square foot per year.

With the slowing demand for office space, rather than decrease rental rates, landlords have been able to increase rates by offering more concessions such as generous finish-outs.

“To keep rents where they are, which is high, in some cases those concessions are happening,” Peavy said. “It’s a time for landlords to make smart operating decisions and run their buildings the best way they can. It’s a great time for tenants to see what’s out there.”

There is 2.1 million square feet of office space under construction, 50 percent more than midway through 2007. But that won’t create too much future space, said Kevin Roberts, president of the Central Texas Region for Transwestern, a Houston-based real estate firm.

“There were a lot of new starts, and there’s a lot under construction now, but the capital market kind of acted as a governor,” he said.

In the first half of this year, 198,600 square feet of office space opened, compared with 610,900 square feet in the first half of 2007.

A successful second half of 2008 for the office market hinges on companies being able to get capital, Roberts said.

“I think the second half will be fairly steady,” he said. “The big question is when are the capital markets going to free up, allowing some sales? It’ll probably be status quo through the end of the year.”