

REAL ESTATE

Job growth keeps area real estate healthy, economists say

Strong performances expected in housing, retail and apartment sectors

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Backed by healthy job growth, Central Texas' real estate market is expected to remain strong in 2008, a Texas economist predicts.

The strength should span the region's housing, retail and apartment sectors, though the office market might lose some steam, said Mark Dotzour, chief economist and director of research at the Texas A&M Real Estate Center. Dotzour made his comments Tuesday at the Real Estate Council of Austin's annual forecast event.

Dotzour said national job growth will be only about 1 percent but that Texas' rate probably will be double that. And he predicted that Central Texas will outperform both the nation and the state with 3.5 percent job growth.

"Austin is blowing the doors off the state of Texas," Dotzour told a crowd of more than 1,000 people.

On the housing front, Dotzour said, the Austin metro area should see healthy sales and price appreciation. He also forecast rising retail, apartment and office rents but said he expects the office occupancy rates to dip 3 percent.

Dotzour's forecast draws from a range of local real estate professionals, including Charles Heimsath, president of Austin-based Capitol Market Research.

Home sales were at near-record levels at mid-2007 with a low, four-month supply, Dotzour said, not far below the two-month inventory level seen in booming 1999. It's no surprise, he said, that Central Texas home prices appreciated 11 percent in early 2007 compared with a year earlier, according to federal housing data. That outpaced rates of 6.87 percent in Texas, 4.34 percent in Florida and 1.19 percent in California.

"I would expect at the current low levels of inventory, home prices are likely to continue to appreciate substantially in the next 12 months, possibly rising in the 8 to 10 percent range," Dotzour said in an interview.

However, Dotzour said rising interest rates have had a "dramatic impact" on the ability of entry-level buyers to get mortgages across the country, including Austin.

And he warned that if uncertainties in the mortgage market continue for a prolonged period, homes sales could suffer in every U.S. market, including Austin.

Other highlights from two real estate forecasts released Tuesday.

Retail: Market was robust in first half of 2007, with 1.7 million square feet of space absorbed and rents up 5.8 percent since December. In the next 12 months, demand for 2.5 million square feet of new retail space is expected, with 3 million square feet becoming available. The occupancy rate will likely drop slightly, to 91.4 percent from about 92 percent, but rents are expected to rise \$2 a square foot.

Apartments: Rents and occupancies increased through the first half of the year. Citywide, the June 2007 occupancy rate was 96.8 percent, up 2 percentage points from December. Rents averaged 94 cents per square foot in June, up 3 cents since December.

Offices: Results were disappointing in the first half of 2007. Though rents increased, occupancy dipped.

Looking ahead

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Offices: Rents have risen; occupancy has slipped.

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