

Austin, Texas
Lure for Businesses:
Inexpensive Real Estate
By TINA PENG
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As Austin continues to recover from its early 2000s tech downturn, the metro area's relatively cheap real estate has been a big factor in luring businesses to the city.

Austin lost more than 41,000 jobs as the high-tech bubble burst but has gained 90,000 jobs since February 2004. While home prices are stalled or flat in many parts of the country, they're still rising in Austin. And the office market in the city is starting to rebound, with a vacancy rate of 13.3%, down from 16.4% a year ago, according to Property and Portfolio Research. Some 100 new business have moved to the city since 2004.

"Austin fell so hard in the 2000 recession and the tech bust that it's really only beginning its climb upward," says Jon Southard, chief economist at Torto Wheaton Research, a Boston-based firm that studies real-estate markets.

While home prices are stalled or flat in many parts of the country, they're still rising in Austin. Over the past year, Austin saw population growth 3.5 times the national average and labor force growth more than double the national average.

Median home price at the end of the second quarter of 2007 was \$186,600, up 5.6% from 2006; nationally, home prices declined 1.5% over the same period, according to the National Association of Realtors.

Several of the companies coming to town are California-based, attracted by the Austin region's lower costs and well-educated labor base (in 2005, 39.1% of residents had a bachelor's degree or higher, compared with 27.2% nationally). In April, software developer Borland Software Corp. announced it was moving its corporate headquarters to Austin; in July, money-transfer company Paypal Data Services Inc. said it would establish a technology center there.

"It had to do with the right type of professionals we had to attract," says Paypal spokesperson Amanda Pires. "The employee base was a good fit for our needs as our business grows."

Also, investment firm Dimensional Fund Advisors announced last August it would place a major office in Austin, potentially bringing up to 600 jobs to the region.

Some tech firms in Austin are revving up again. In June, Samsung Electronics Co. opened another \$3.5 billion, 1.5-million-square-foot semiconductor factory in the city, hiring 700 employees, and Advanced Micro Devices Inc. is expanding its Austin campus.

Several financial-services and digital-media companies have also moved to the city. Austin's Chamber of Commerce is trying to diversify the businesses it brings to the region "so that next time there's a recession or downturn, we don't get as hammered as we did last time," says Dave Porter, the Chamber of Commerce's senior vice president of economic development.

Office vacancies dropped significantly from 2006 as businesses filled almost one million square feet of existing space that had been built during the tech downturn. Construction is ramping up, too. About 1.5 million square feet should be complete by the end of the

year.

Preleasing of new space has slowed down, however. About 24% of 1.7 million square feet of construction has been preleased, where "based on historical trends you'd expect 50%," says Charles Heimsath of Austin-based Capitol Market Research. "There just seems to be a hesitancy among tenants in the market to commit to much more expensive space."

That's true in the city's central business district as well, largely due to a spike in office rents, says Hale Umstattd, senior vice president of Transwestern Austin. "There's been very little absorption so far in '07," he said.

Downtown, four high-rise condo projects are under construction, and more are on the way, but there is no sign of a bubble yet. Analysts say some projects that have yet to start construction have already sold almost half their units. Atlanta-based Novare Group Inc. has sold more than 75% of the units in its 44-story 360 development, due to complete in spring 2008. Median first-quarter condo price in the Austin region was \$169,000, up 14.4% from a year ago, according to the National Association of Realtors.