

Office Leasing Advisory

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Office market slows to a crawl; flood of sublease space causes delays of some new buildings

Leasing activity slowed noticeably in the second quarter as the office market struggled to deal with over 2 million sq. ft. of available sublease space. The northwest sector was the hardest hit as it suffered the effects of having not only the majority of the city's sublease space, but also the impending delivery of three new buildings.

Proof of the northwest slowdown came in mid-May when construction was suspended on the 150,000 sq. ft. Riata Gateway building (183 between Duval and Oak Knoll). With its large 50,000 sq. ft. floors and its proximity to the Riata apartment and office complexes, Riata Gateway would have been in high-demand a year ago. However, the situation was substantially different this spring as the building suddenly found itself competing with over 500,000 sq. ft. of sublease space located within a 2-minute drive (see list, p.2).

Rental rates in the northwest area were reduced in some existing buildings by as much as \$5-6 per sq. ft. The "best buys" for companies looking for space continued to be in the sublease inventory as competition heated up for credit-worthy subtenants. Rates fell as tenants made deals to get subtenants in their unused space.

Even the southwest sector showed signs of the



slowdown as construction was further delayed on the previously-announced RobRoy 360 and San Clemente office projects. Rental rates, however, held firm along S. Mopac and S. 360, maintaining the area's longtime trend of being the last to be affected by a slowdown. One developer even broke ground on a 125,000 sq. ft. project on Southwest Parkway while others considered the remaining office site at the intersection of S.360 & S. Mopac.

Leasing activity continued to slow in the downtown submarket with some buildings reporting little or no

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OFFICE LEASING ADVISORS

The Tenant Representation Specialists

“. . .the 'best buys' for companies continued to be in the sublease inventory as competition heated up for credit-worthy subtenants. . .”

leasing activity. One 60,000 sq. ft. Class B building did report substantial interest on its two available floors, but this was largely due to a rate reduction of \$8.00 per sq. ft. Overall, the activity in the central business district is expected to continue slowly as up to 750,000 sq.ft. comes onto the market between now and March 2002.

Office Leasing Advisors now projects that rental rates in the CBD will fall 20-25% from the all-time high rates seen last year. Conditions citywide are thus expected to continue to improve for tenants (especially those downtown), not only for the remainder of this year but through the first part of 2002.

Office Leasing Advisors' Success Story



Bill Anderson of **Office Leasing Advisors** represented Eltekon Financial on a sublease of 5481 sq. ft. at 100 Congress in downtown Austin. The deal resulted in Eltekon getting 17th floor “view” space for a rental rate that was \$6.00/sq. ft. “below market”. The views of Town Lake from this Class A space are the nicest in downtown Austin.

Work began in January as Eltekon’s Mike Calvin and Mark Mangum worked with Anderson to scout for offices either downtown or along South 360. An investments and financial services company, Eltekon required Class A space to provide the right image for its clients, many of whom are involved in high-profile sports and entertainment ventures.

The focus shifted to downtown because of the amenities provided by nearby hotels and restaurants and the fact that many of the buildings have 24-hr. security and superior health club facilities, both of which were important to Eltekon. Anderson quickly uncovered a sublease opportunity in 100 Congress that was the perfect fit for Eltekon.

This particular space had been leased by another tenant in the fall of 2000, yet had never been occupied. The Eltekon team thus took advantage of the master tenant’s dilemma (i.e. paying rent on a space they weren’t using) by negotiating a rental rate that was substantially “below market”. The company moved-in May 15 when the construction work was completed “on-time” by Lance Odom and the team at O’Donnell Snider Odom, Inc.

The success of this deal was due to **Office Leasing Advisors’** knowledge of the sublease market and skills in negotiating with a master tenant who no longer needed the space. The result was brand-new space for a rental rate that was 20% “below market.” Another way **Office Leasing Advisors** serves the needs of the tenant!

— STAFF —

| | |
|------------------|--------------------------|
| Bill Wendlandt | President |
| Don Prater | Vice President |
| Bill Anderson | Vice President |
| Chris Roberts | Leasing Associate |
| Regan Williamson | Marketing Communications |

Office Leasing Advisors
515 Congress Ave., Suite 2620
Austin, TX 78701
TEL (512)472-1234 FAX (512)472-1242

FEATURED NEW BUILDING



Computer Sciences Corp. Bldg., 400 W. Cesar Chavez
111,000 sq. ft. of sublease space
July 2001

Major Sublease Space (as of 6/1/01)

| <u>Name</u> | <u>Location</u> | <u>Sq. Ft.</u> | <u>Sublessor</u> |
|---------------------|-----------------|----------------|------------------|
| Research Park Plaza | 183 North | 350,000 | Charles Schwab |
| Motorola Complex | Parmer Lane | 211,000 | Motorola |
| Riata | 183 North | 180,000 | Janus |
| CSC Bldg. | W. 1st Street | 111,000 | CSC |
| Wild Basin | 360 South | 78,000 | VTEL |
| Stonecreek Park | Duval Rd. | 77,000 | Agillion |
| Avallon Bldg. | Jollyville Rd. | 72,000 | BMC |

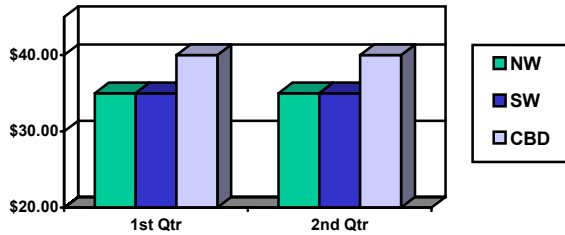
Every quarter, the Office Leasing Advisory highlights a building that is either under construction or that has large blocks of available space. The tenant representatives at Office Leasing Advisors can help answer your questions about these buildings or any other available office space.

**CALL US FOR YOUR NEXT MOVE,
EXPANSION, OR LEASE RENEWAL!**
512-472-1234 (ext. 14 or 20)

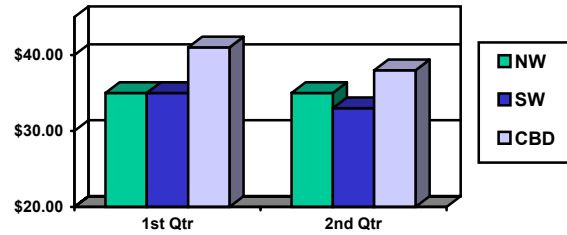
Austin Building Rental Rates Second Quarter 2001 Update

(Class A, per sq. ft., gross)

NEW BUILDINGS



EXISTING BUILDINGS



| | <u>1st Qtr.</u> | <u>2nd Qtr.</u> |
|-----------|-----------------|-----------------|
| Northwest | \$33-35 | \$30-35 |
| Southwest | \$33-35 | \$31-33 |
| Downtown | \$38-40 | \$35-40 |

| | <u>1st Qtr.</u> | <u>2nd Qtr.</u> |
|-----------|-----------------|-----------------|
| Northwest | \$30-35 | \$28-35 |
| Southwest | \$31-35 | \$30-33 |
| Downtown | \$35-41 | \$30-38 |

Influential business newsletter features Office Leasing Advisors

Office Leasing Advisors was featured in a recent issue of the *Neal Spelce Austin Letter*, a weekly “insider” newsletter that covers Austin business and politics. The full-page article highlighted OLA’s predictions that 2001 would see reduced rental rates and stabilized market conditions.

The article went on to quote **Office Leasing Advisors** extensively, noting that OLA accurately predicted that the Southwest sector would not see the dramatic effects of massive subleasing that currently affect the northwest area.

The *Neal Spelce Austin Letter* began publishing in 1979 and is widely read by business executives, politicians, and city leaders. For more information about this article, please visit www.austinletter.com.

Forbes magazine article touts ClearCube’s computer technology

Office Leasing Advisors’ client ClearCube Technology was the subject of a two-page feature article in the May 14, 2001 issue of *Forbes* magazine. The story described how ClearCube’s rack-mount computer technology helps call centers and other “high-volume” computer users improve the maintenance, security, and efficiency of their computer systems.

Entitled “Blade Runner”, the magazine article touted ClearCube’s engineering feats in developing the technology that allows multiple computers to be remotely-located to a single, centralized location. *Forbes* has 4.6 million readers worldwide and a paid circulation of almost 900,000.

ClearCube Technology is the lead tenant at the Colina West office building located on North 360.

Slow office market can mean new opportunities for tenants

With more than 2 million sq. ft. of sublease space available, today’s office market is dramatically different than a year ago. Here are some ways to take advantage of the slowdown to help improve the terms in your office lease:

- **Negotiate an early lease renewal.** If your company is within 1-2 years of a lease expiration, it is likely your landlord would be willing enter into negotiations for a lease renewal. Building owners know how much space is now available, and they will make an attractive deal to keep you as a tenant.
- **Look for opportunities to expand.** Many companies today are trying to give-back space. If you need more space (or know you will in the future), now is a good time to explore such an addition. Tenant finish allowances will be greater, and you can add things like renewal clauses, expansion options, and other things that will help accommodate your company in future years.
- **Renegotiate an existing lease.** On rare occasions, an existing lease can be renegotiated to provide better terms for the tenant, in exchange for the tenant agreeing to extend the overall term. While not likely now, this would be possible in an extremely “down” market.

Congratulations to these clients for their recently-completed lease transactions!



Henslee, Fowler, Hepworth & Schwartz, LLP

McMahon Basez Interiors

OFFICE LEASING ADVISORS

515 Congress, Suite 2620
Austin, TX 78701

ADDRESS CORRECTION REQUESTED