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# Big offices now white elephants

## No major office sales so far in 2009

Austin Business Journal - by [Kate Harrington](#) ABJ Staff

Commercial office building sales have all but stopped so far in 2009, a trend real estate experts say will not change until credit becomes available or market values stabilize.

There have been no investment sales of office buildings larger than 30,000 square feet in Austin in the first half of the year, according to a six-month study from Sperry Van Ness Commercial Real Estate Advisors. It is the first six-month period since 1993 that sales in that category have been nonexistent.

The study's results don't mean all office sales have ceased. Smaller buildings have sold, and office users have closed on buildings they occupy or plan to occupy. Other buildings are under contract as well.

Still, with about 20 buildings for sale in Austin, the study reflects the turmoil in commercial real estate, experts say.

"There's uncertainty in the market place," said Helen Jobes, a senior advisor with Sperry Van Ness who compiles the office sales reports every six months. "There's still a lot of vacant space. ... And the other thing influencing value is financing. There's little of it, and what you can get is unattractive."

Victor Young, an investment advisory services specialist with Aquila Commercial, said the biggest factor that's contributed to the market stalling is falling values. That's been happening nationwide, but it has seeped into Austin lately, he said.

"Over the last few years, cap rates have risen at least 200 basis points, and as a result the underlying values of assets have fallen," Young said. "Owners who bought their properties at or near the top of the market cannot sell now without realizing significant losses. As a result, many owners are trying to hold on until the market comes back."

Unless a bank forces an owner to sell right away, he said, it doesn't make much sense to do so.

Austin is not alone in seeing investment office sales plummet. Arthur Jones, senior economist with Torto Wheaton Research in Boston, said office sales have been dwindling

nationwide for two years, primarily because of the liquidity crunch. In early 2007, investors could acquire a building and put only 15 percent, sometimes less, down in equity, he said.

“The reality has shifted away from that, where most of the deals getting done are less highly leveraged, and now loan-to-value ratios are more likely in the neighborhood of 60 percent to 65 percent,” Jones said.

He added that data from research firm Real Capital Analytics shows office building investment sales nationwide are down 50 percent compared with this time last year.

In Austin, one prominent downtown building may be the first to break that trend. Kemp Management has reached an agreement with the Texas General Land Office to buy the 76,000-square-foot Starr Building at Sixth and Colorado streets. The deal will likely close in October or November, said Jim Suydam, press secretary for the General Land Office.

Meanwhile, many continue to watch the Chase Tower on West Sixth Street, which Grubb & Ellis Realty Investors LLC and Endeavor Real Estate Group LLC put on the market in March.

Troy Holme, a senior vice president with CB Richard Ellis’ Austin office, said if leasing deals start moving and absorption increases, the market will gel around certain asking prices. Alternatively, if deals still aren’t happening a year from now, the market will naturally see building prices come down.

“What happens traditionally is that a few buildings in a short time frame will be sold at relatively discounted prices, and that creates comps to look at,” he said. “People use those as barometers.”

Holme said he’s optimistic, however, because Austin is seeing some leasing interest and activity. If the area starts seeing more leasing, investment sales will eventually follow.

“We’re still hoping mid-2010 is when we’ll see some velocity.”