

COMMERCIAL REAL ESTATE

NICK SIMONITE | ABJ



Craig Plackis, owner of Craig O's Pizza & Pastaria, said lease terms for space like his six restaurants occupy tend to get better as one gets farther from Austin's core.

Let's make a deal

Opportunities exist for buyers and renters, but not in all areas or types of property

KATE HARRINGTON | STAFF WRITER

Craig Plackis knows pizza, but he also knows commercial real estate. After all, the owner of Craig O's Pizza & Pastaria leases space in five locations, so he's had ample opportunity to hunt for good deals.

Plackis — with space leased in San Marcos, Onion Creek, Georgetown, near FM 2222 and near U.S. Highway 290 — said the deals he's seen have manifested themselves in higher tenant improvement allowances from landlords and longer periods of free or reduced rent.

And although Plackis, other tenants and real estate brokers have not seen Austin's lease and sales numbers nosedive drastically, they say the down economy is offering deals, both in submarkets outside the city's center and among certain types of property.

"The farther out you go, the better deals you're getting," Plackis said, recalling two shopping centers he looked in for space. "It also comes down to the company. Simon Properties is a good example; they're willing to give the farm away to get tenants. Whereas with Hancock [Center], it's owned by a smaller [real estate investment trust], and they're sticking to their guns more."

Rick Culleton, owner of Discount Electronics, said he's also found impressive deals by working with out-of-town sellers. Culleton recently bought two properties, about an acre each, in Round Rock and South Austin.

Office overload

Office space tenants may have an opportunity to be aggressive when negotiating leases in second-generation buildings that are seeing tenants leave, said Nate

Stricklen, an associate with CB Richard Ellis' Austin office. Similarly, landlords of existing buildings know they must compete with a slew of new office space that's come on line recently, and sometimes offer generous concessions, he said.

While landlords throughout the city are beginning to offer concessions, Stricklen said some submarkets, such as the far northwest, may offer significant opportunities for tenants because of greater vacancy there. According to Oxford Commercial, that submarket has a vacancy rate of about 27 percent.

"Over the last six to 12 months, we've seen concession packages improve for both new and existing construction," Stricklen said.

But a submarket's vacancy isn't the only consideration, said Jeff Coddington, a partner with Oxford Commercial. While Coddington has seen aggressive deals in nonpremium office submarkets — those outside the Central Business District and the southwest part of the city — such deals usually involve buildings of lower quality or farther from executive housing.

Nevertheless, Coddington thinks now is a good time to consider buying rather than renting. During a recent tour with a prospective buyer looking for a 25,000-square-foot to 60,000-square-foot space, they saw buildings priced 40 percent to 50 percent less per square foot than they were one year ago, he said.

"We've seen some aggressive deals being made and

offered due to the economic climate," Coddington said.

Moving on down

Ken Satterlee, president of San Diego-based St. Croix Capital Corp., said development deals remain nearly nonexistent, which has translated into steady leasing activity in Austin. In particular, he said there's a lot of "move down" activity — tenants going from Class A office space to Class B or Class C space, and in some cases what he calls a "flight to flex," referring to so-called flexible space.

The average flex rental rate is about \$9.50 per square foot annually, Satterlee said. By comparison, Class A office space throughout Austin averaged \$28.49 per square foot annually, according to Oxford Commercial's second quarter 2009 office market report.

Many tenants in St. Croix's University Business Center, a flex building, have moved to that space from Class A or Class B offices. As a result, it has gone from nearly vacant to 90 percent occupied in seven months.

The doctors are in

Other types of commercial real estate developers are taking advantage of certain trends to create opportunities for potential tenants.

Onair Development offers physicians equity in the medical office buildings it develops, President and CEO Kerry Angus said. Medical office space, according to real



Stricklen



Satterlee



Coddington

DEALS: Many potential investors waiting for opportunities to buy debt to emerge

FROM PAGE 11

estate research firms, remains a relatively strong sector in commercial real estate. And doctors, squeezed by hospital structures and plummeting reimbursement rates from health insurers and Medicaid, are increasingly interested in making the switch from renting in hospitals to owning a piece of the space they practice in, Angus said.

Doctors get equity in Onair's buildings by paying the equivalent of market medical space rental rates, which range from \$26 per square foot to \$10 per square foot, according to Site Solutions Inc.

Opportunity not yet knocking for all

Now is a good time for those who are well-capitalized to save on rentals and purchases, said Daniel Roth, a principal with Southwest Strategies Group. But he said bargain seekers won't always find

dramatic 50 percent savings in rental and sales prices that some may hope are out there; such cuts are closer to 10 percent or 15 percent.



Roth

And in many cases, Roth said, this environment has not yielded better deals, particularly in some of the older properties he works with. That may be because their owners bought them with more equity, which Southwest Strategies started doing several years ago, and have the cushion to wait longer.

Meanwhile, many potential investors are sitting on the sidelines waiting for deals to emerge so they can buy debt, said Steve Lemmon, a bankruptcy lawyer with Brown McCarroll LLP. But that time hasn't come yet, he said.

"As soon as you see banks taking write-offs, you'll see deals," Lemmon said.