

AUSTIN RETAIL MARKET

2008 Mid-Year Summary



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The contrast between this year and last couldn't be more striking. Construction has slowed, leasing activity has been curtailed, occupancy is dropping, and rents are lower. The completion of new space dropped to 933,045 sq. ft., absorption also dropped to 570,635 sq. ft. and occupancy decreased slightly by 0.74 percentage points to 91.0%. Average rental rates for vacant space also decreased \$1.23 per sq. ft., down from \$22.41 in December to \$21.18 in June. Absorption was 570,635 sq. ft. for the first half of 2008, which is 362,410 sq.ft. less than the 933,045 sq. ft. of new space added during the first six months of 2008. The construction of new shopping centers has been curtailed due to the slowdown in Austin area new home sales and the lack of activity in many suburban subdivisions. In addition, the national housing crisis has caused the national retail chains to cut back their expansion plans, resulting in the postponement of new store completions in the Austin market.

During the first six months of 2008, another phase of South Park Meadows opened on Slaughter Lane bringing this "mega center" to more than 2 million square feet. The Second Street Market District expanded by 42,000 sq. ft. and more retail space was added in the West Campus market area. The Triangle in Central Austin added 75,000 sq. ft. The Gateway at Leander opened with 350,000 sq.ft., and the Galleria at Red Oak mixed-use development added 14,583 sq. ft. in Cedar Park.

During the first half of 2008, absorption was 513,043 sq. ft. which was only 24% of the absorption that occurred in the last half of 2007. Almost all of the positive absorption was due to the completion of leased space in South Park Meadows and The Gateway at Leander. Most other areas in the city experienced negative absorption due to store closures or the recent completion of vacant "shop" space.

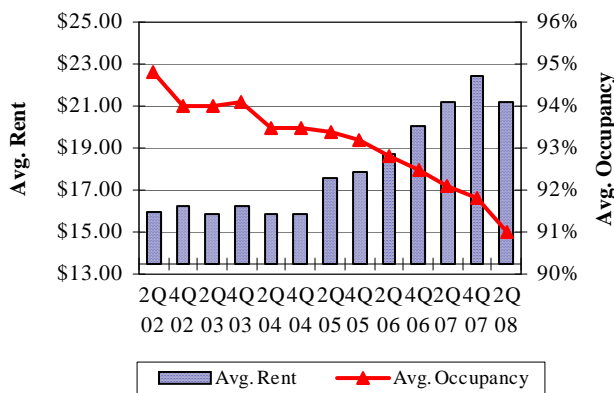
As noted above, citywide occupancy for multi-tenant shopping center space decreased slightly from 91.8% in December 2007 to 91.0% in June 2008. Regional mall occupancy decreased slightly from 94.7% to 93.6%. Community centers decreased from 91.5% to 91.3%, neighborhood centers decreased slightly from 92.9% to 90.9%, and strip centers decreased from 88.1% to 87.2%.

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Average rental rates decreased another 5.5% from December, erasing the gains of last year and resulting in a mid-year average of \$21.18. As noted in previous reports, this rate is only partially reflective of the rates obtained in new centers, because the available vacant space is primarily located in older, unanchored centers, in less accessible locations. Rental rates in the new centers range from \$24.00 to \$36.00 (or higher) per square foot for the non-anchor tenants.

So far, 2008 is a real disappointment, particularly in contract with the remarkable performance of 2007. The national housing crisis and the severe limits on credit have caused the national tenants to curtail their expansion plans, which have, in turn, put many new projects in Austin in jeopardy. Currently, there are several large new centers under construction but the pace of construction in these centers has slowed. Positive absorption, which is substantially driven by new center completions, will continue, but at a much slower pace. Rental rates in new centers will continue to command higher than average rents, particularly in "high traffic" locations and in centers with strong anchor tenants. The cloud caused by the "credit crunch" due to the sub-prime melt-down, has turned into a nasty storm which is affecting the expansion plans of many national retail chain stores.

Rental Rates and Occupancy



Completion and Absorption Data

