



AT WORK

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Chad Barrett
Principal
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As principal of Aquila Commercial, Chad Barrett keeps his pulse on the state of the real estate industry. Barrett has been in the real estate business since 1999. After working for a Chicago firm, Barrett moved to Austin in 2001, smack dab in the midst of the tech bust. Even though the nation is experiencing a recession, Barrett says it's different this time around, and remains optimistic for the Austin market.

Q: How has the office market in 2008 shaped up so far?

A: The credit market fallout has taken its toll on the Austin office market in 2008. Tenants have been reluctant to make long-term commitments due to the uncertainty of their own businesses coupled with expensive buildout figures, which in turn has caused a general slowdown. Downtown has been the bright spot, however, with several significant deals being signed. The other primary office submarkets — the northwest and southwest — have been softer.

Q: With all the new developments in northwest Austin, has there been much activity in that area?

A: Historically, the northwest market on average absorbs roughly half of what the entire market absorbs, which on average is somewhere between 1 million to 1.2 million square feet of space. Based on CBRE's numbers, we've only absorbed 112,745 square feet citywide with a negative 172,075 square feet in the northwest submarket, so absorption is substantially off. Again, tenants are hesitant to make long-term commitments.

Q: What does this mean for landlords?

A: In a better market, landlords are reluctant to do short-term deals, but because of the uncertainty in the market, they're more willing to work out deals. That's clearly a negative for newer projects.

Q: How do you define short-term?

A: Three years or less.

Q: What are landlords doing to attract new tenants?

A: You're seeing more landlord concessions and rates dropping a bit, but not to the extremes of 2002-2004.

If you're looking for space and you're willing to do a five-year deal — at a minimum — you're looking at a substantial amount of free rent. That's the biggest thing we're seeing now — people giving away free rent. The rationale behind free rent is, landlords are trying to keep their face rate, so in the event that the market improves and after that free rent period has burned off, that face rate is higher.

Q: You were in real estate when the market had another slowdown in the industry during 2001-2004. How is this slowdown different?

A: Back then, tenants took on too much space based on future growth projections. This time around, it's the landlords who are feeling the heat because they have speculatively built product in anticipation that tenant demand would increase. That has not come to fruition.

Q: So, how has the citywide vacancy rate been affected?

A: We're seeing an overall vacancy rate of 18.3 percent and, with some speculative product still to come online, that number will likely increase some. In comparison to five years ago, amid the tech fallout, the citywide vacancy rate went north of 30 percent.

Q: Why should a company move to another space in this economy?

A: Certainly, everyone is watching their expenditures and there are definite costs associated with moving. But I think there are many attractive deals to be had out there and it may make a lot of sense for tenants to move right now. But they need to factor in the costs of moving with how much more efficient their space can be. They can go into a more efficient space and save money.

Q: With everyone cutting back, do you fear your job?

A: The economy and financial crisis is clearly an eye-opener for all businesses. We're always evaluating expenditures, but even in a down market, we're always going to have transactions. We may not be transacting as many deals in this marketplace, but our clients are relying on us probably more in this market than in a good market.

We're acting as an adviser to them on a daily basis to make sure they make the best decision possible. We try to stay ahead of the curve.

Q: How do you stay ahead of the curve?

A: We've invested in the personnel and resources to provide the next level of service.

We also track active clients in the marketplace as well as the future explorations of tenants so that we're providing our clients the best information possible.

Q: What are your predictions for 2009?

A: Although these challenging times are likely to remain present in 2009, we see this as an opportune time for tenants to upgrade their offices, become more efficient with their space needs as well as take advantage of less costly finish out expenses, as these numbers are beginning to show signs of decreasing from '07-'08 levels.