

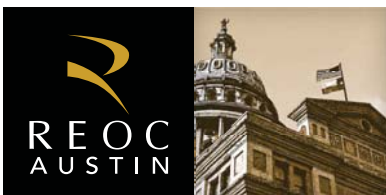


# The Source

Better information, better decisions.

## Office Building Market Update Austin Metropolitan Area

### First Quarter 2014



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## OVERVIEW

Throughout the Austin metro area, demand for office space continued to drive local office market activity in the first quarter. According to the survey of nearly 41.6 million square feet of office space, new leases and expansions generated 284,205 square feet of positive net absorption for the period beginning in January and ending in March. As a result, the citywide vacancy rate tightened to 10.5% compared to 11.3% last quarter and 12.6% recorded in the same quarter a year ago.

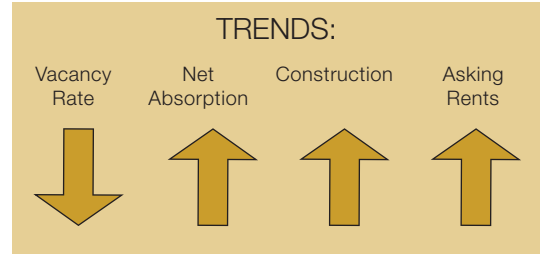
With the exception of the South sector, all of the city's sectors experienced positive absorption in the first quarter. The Northwest sector saw the greatest gain with 76,729 square feet of positive net absorption. Vacancy in the Northwest submarket dropped below ten percent mark to close the quarter at 9.7%. The Southwest sector followed with 61,260 square feet of positive net gain which improved vacancy to a very tight 8.4%.

As vacancy rates continue to decrease, rental rates maintain their upward climb. The citywide average quoted rental rate increased to \$26.18 per square foot – up \$0.59 compared to last quarter and \$1.87 compared to last year at this time which marks a notable annual jump of 7.7%. (Buildings quoted on a triple net basis are adjusted to include expenses in order to provide a full-service equivalent.) Office properties in the CBD command the highest rental rates in the city. At the close of the first quarter, the cost for downtown office space increased to an average \$35.99 – up \$3.99 compared to a year ago marking an annual increase of 10.4% but the rate of increase was even stronger in the Southwest sector where the average rental rate increased to \$28.63 – up \$3.04 or 11.9% compared to the first quarter of 2013.

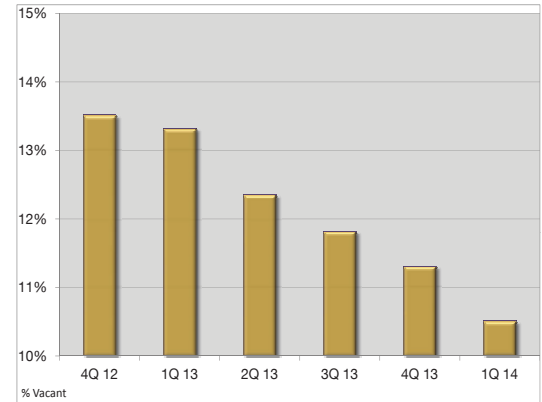
Decreasing vacancy rates confirm the need for new supply and increasing rental rates support the economics of delivering new construction. In addition to seven major office projects currently under construction, another sizeable office project entered the development pipeline in the first quarter. Ground was broken on Rollingwood Center, a two-building project including a 4-story (155,000 sf) and 2-story (60,000 sf). Latin-Works will anchor the project having reportedly leased approximately 50,000 square feet in Building 2. Rollingwood Center will join 3700 San Clemente (250,000 sf) in the Southwest sector which was reported last quarter along with anchor tenant Spiceworks (95,000 sf). In all, more than 1.8 million square feet of office space is currently under construction. With large blocks of existing space becoming scarce, new construction projects provide options for tenants with sizeable space requirements. AthenaHealth, Inc., for example, recently pre-leased roughly 103,000 square feet at the Seaholm redevelopment project currently underway in the CBD.

Plans for two more projects recently added to the development buzz. In the downtown market, the waterfront redevelopment of the Green Water Treatment Plant, located in the Seaholm District at San Antonio Street and Cesar Chavez Street, moved forward in the first quarter with the City of Austin's purchase of Block 1 – a 1.776 acre parcel slated for a 38-floor mixed-use tower including 40,000 square feet of office and retail space. One of the partners in the Green Water project is Trammell Crow Company – also involved in the Saltillo Collaborative which announced plans to redevelop 11 acres east of Interstate Highway 35 at Sixth and Chicon streets. Known as Eastside Village, the mixed-use redevelopment of the Arnold Oil property proposes the construction of 132,000 square feet of creative office space, 470 residences along with a hotel and retail space.

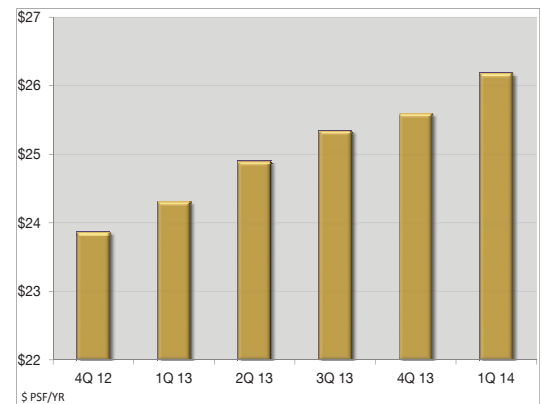
Fueling the local office market, the employment base in the Austin-Round Rock-San Marcos metro area continues to grow. For the twelve months ending March 2014, the greater Austin area boasted an annual growth rate of 3.9% having added 32,900 jobs. The greatest gain was recorded in the Professional and Business Services industry – the sector most likely to generate demand for office space. Based on continued job growth projections, the outlook for the Austin office market remains bright.



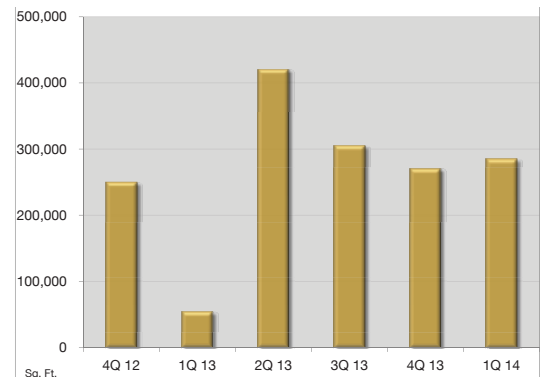
### CITYWIDE VACANCY



### CITYWIDE AVERAGE RENTAL RATE



### CITYWIDE QUARTERLY ABSORPTION



Austin Office Market 1Q 2014	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	8,355,282	830,893	9.9%	45,336	\$35.99
Central	2,234,316	315,310	14.1%	5,676	\$24.61
North	914,248	201,942	22.1%	39,693	\$19.12
Northwest	12,961,255	1,262,084	9.7%	76,729	\$26.58
Far Northwest	3,534,537	457,896	13.0%	35,979	\$22.63
Northeast	1,854,172	262,197	14.1%	5,504	\$17.61
South	1,533,096	76,113	5.0%	(9,520)	\$25.72
Southeast	1,070,401	134,681	12.6%	23,162	\$20.88
Southwest	8,232,947	694,734	8.4%	61,260	\$28.63
Round Rock	886,519	147,301	16.6%	386	\$21.33
<b>Totals</b>	<b>41,576,773</b>	<b>4,383,151</b>	<b>10.5%</b>	<b>284,205</b>	<b>\$26.18</b>

Analysis by REOC Austin based on data provided by Xceligent and approved by Austin Office Advisory Board.

Includes all multi-tenant office projects of 20,000 square feet or more (excluding Owner-Occupied, Medical, Single-Tenant and Government-only buildings). Rental rates reflect the non-weighted strict average rental rates quoted on an annual full-service basis. Rents quoted on a non-full-service basis (such as NNN) have been calculated up to reflect the full-service rate.

### SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Athenahealth *	Seaholm Power Plant Project	103,000	CBD
LatinWorks *	Rollingwood Center Bldg 2	50,000	Southwest
Wincor Nixdorf	Park Central I	36,000	North
Bankers Toolbox	Riata Corporate Park Bldg 3	22,962	Northwest
Amherst	Plaza on the Lake I	21,182	Southwest
Wargaming	The Avallon Bldg III	16,367	Northwest
Topaz	The Terrace VI	12,626	Southwest
Resignation Media	San Jacinto Center	11,288	CBD
Regus Executive Suites	7500 Rialto Blvd Bldg 1	11,230	Southwest

\* Pre-leasing

### SIZEABLE SALE TRANSACTIONS

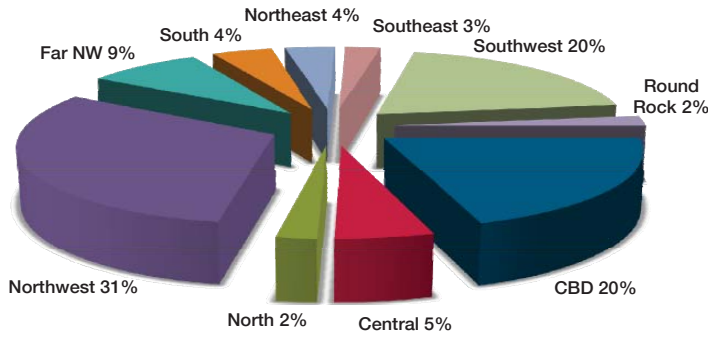
Building	Buyer	Size	Submarket
Aspen Lake Office Portfolio (3 buildings)	Fortis Property Group LLC	379,519	Northwest
The Avallon (5 buildings)	Divco West	318,000	Northwest
823 Congress	Cielo Realty Partners	181,381	CBD
Las Cimas IV	Clarion Partners	138,008	Southwest
Perry Brooks	Barton Creek Capitol	136,585	CBD

### NEW DEVELOPMENT

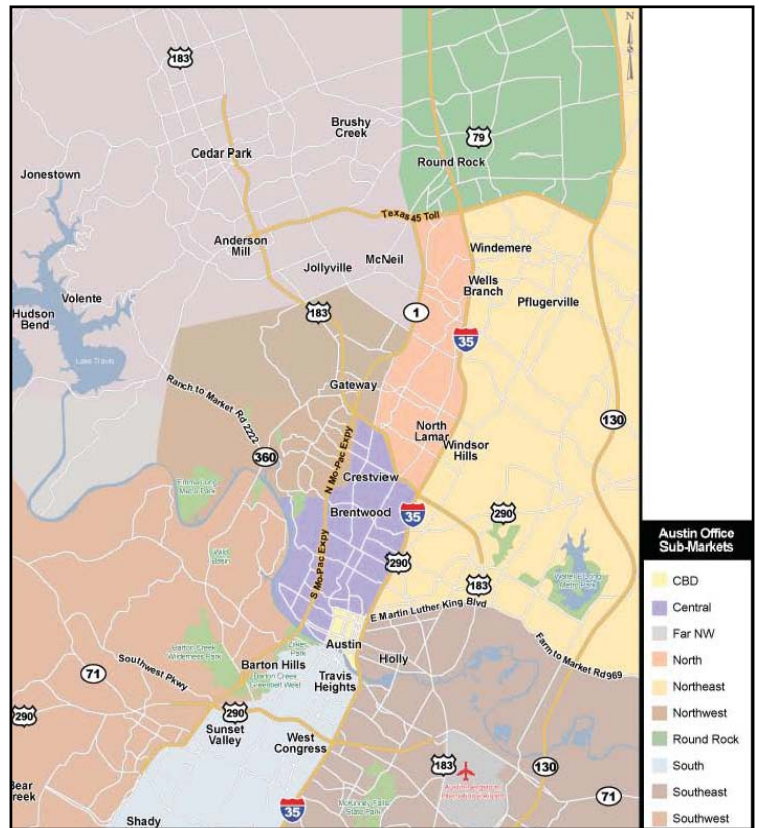
Project	Comments	Size	Submarket
Colorado Tower	29-story; completion set for 4Q 14	371,348	CBD
3700 San Clemente	5-story; Spiceworks to occupy 95,000 sf	250,000	Southwest
Champion Office Park	Two 4-story bldgs; completion set for 2Q 14	230,000	Northwest
Domain 7	6-story; completion set for 4Q 14	221,973	Northwest
Rollingwood Center (2 buildings)	4-story (155,000 sf) + 2-story (60,000 sf)	215,000	Southwest
IBC Bank Plaza	13-story; IBC to occupy 27,000 sf; 3Q 14	194,749	CBD
Seaholm Power Plant Redevelopment	Mixed-use; office completion set for 2Q 14	145,138	CBD
Domain 2	5-story; HomeAway-115,000 sf; 3Q 14	140,000	Northwest
Hill Country Galleria, Bldg W	Broke ground 4Q 13; set for 3Q 14	50,000	Southwest



MARKET SIZE



SUBMARKET MAP



DEFINITIONS

Absorption (Net)

The change in occupied space in a given time period

Available Square Footage

Net rentable area considered available for lease; includes sublease space

Average Asking Rental Rate

Rental rate as quoted from each center's owner/leasing/management company and, if necessary, adjusted to reflect full-service rates.

Direct Vacancy

Space currently available for lease directly with the landlord or building owner; excludes sublease space.

SF/PSF

Square foot/per square foot, used as a unit of measurement

Sublease

Arrangement in which a tenant leases rental property to another and the tenant becomes the landlord to the subtenant.

Sublease Space

Total square footage being marketed for lease by a tenant; sublease space is not considered in the overall occupancy or absorption numbers – only direct leases are included.

Sublease Vacancy

Space currently available in the market for sublease through the tenant to a third party for the remainder of the tenant's lease term

CRITERIA

This study includes office buildings 20,000 square feet or larger in the greater Austin area. These figures do not include owner-occupied, medical or government-only buildings.

OFFICE SERVICES

REOC Austin is actively involved in all aspects of real estate brokerage, landlord representation, site location, tenant and buyer representation and consulting.

For more information, please contact Kim Gatley, Senior Vice President and Director of Research.

