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## Office Building Market Update Austin Metropolitan Area

### First Quarter 2015



office 512 346 5180  
fax 512 346 9742

[reocaustin.com](http://reocaustin.com)  
[reocaustinblog.com](http://reocaustinblog.com)

9015 Mountain Ridge Dr., Suite 100  
Austin, Texas 78759

## OVERVIEW

New construction delivered three major projects totaling more than 560,000 square feet of office space to the Austin office market in the three months of the year yet the citywide vacancy rate remained stable. Leading the wave of first quarter completions, Colorado Tower (373,334 sf) came online roughly 95% pre-leased anchored by Parsley Energy, Inc., which occupies more than 135,000 square feet in the newest tower downtown. The Seaholm Tower (150,000 sf), also downtown, came online 100% pre-leased to two tenants - athenahealth (103,000 sf) and Under Armour (47,000 sf). Finally, The Offices at Bowie (40,985 sf) came online in the Central sector fully leased to Whole Foods.

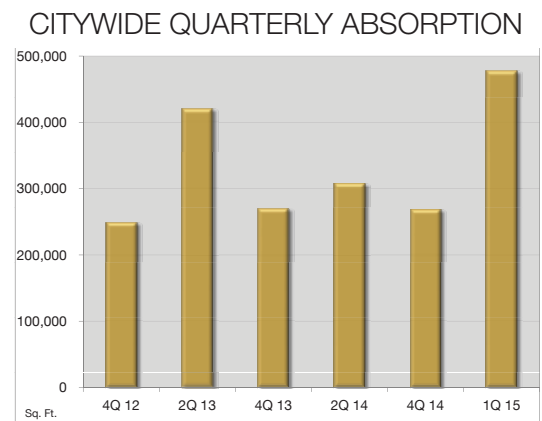
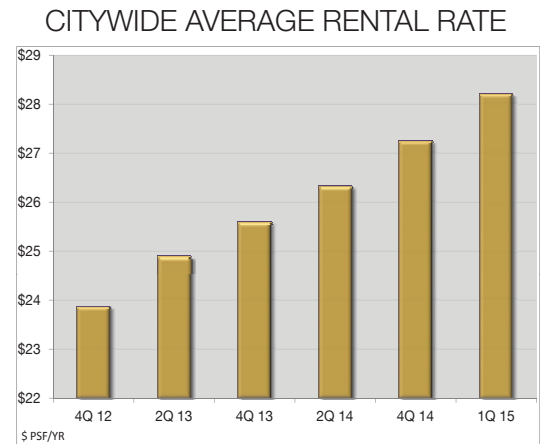
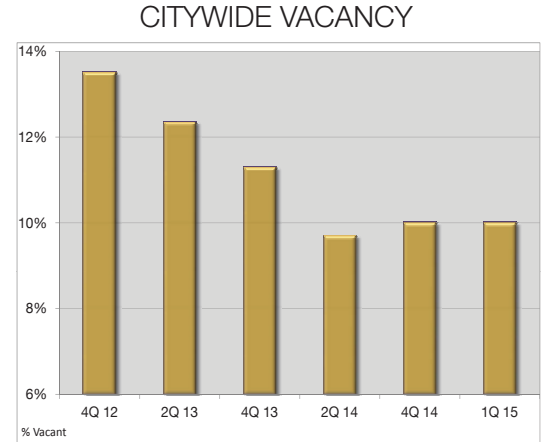
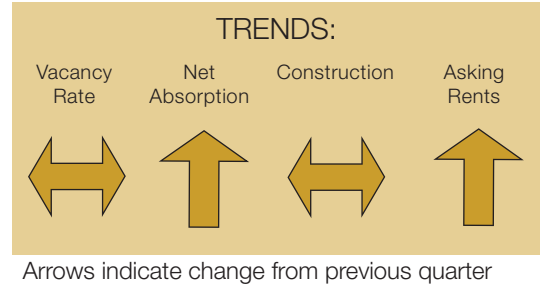
Pre-leasing achieved in newly completed buildings actually exceeded the total amount of positive net absorption recorded in the first quarter for the market as a whole. However, after accounting for tenant moves in other areas, including Freescale completing its move out of more than 152,000 sq. ft. at 7700 W Parmer Lane, the market experienced a total of 476,797 sq. ft. of positive net absorption, according to the survey of nearly 43.6 million sq. ft. of Austin-area office lease space. Additional activity will add to the positive absorption in coming quarters. Indeed, com, for example, inked a lease for roughly 213,000 sq. ft. at the recently completed Champion Office Park in the Northwest sector. Local office properties are on track for another very strong year and will likely top a million sq. ft. of absorption again this year.

As a result, the Austin office market closed the first quarter with a citywide vacancy rate of 10.0% - unchanged from last quarter and improved slightly compared to 10.5% recorded in the first quarter of 2014. The fact that the market can bring on more than half a million sq. ft. of new office space and still maintain a stable occupancy demonstrates the strength of our local market. The Class A submarket currently posts a citywide vacancy rate of 10.9% - a level that typically indicates that there is still room for more development.

There are currently thirteen major office building projects rolling through the development pipeline totaling nearly 2.4 million sq. ft. More than 1.7 million sq. ft. of that total is expected to come online before the end of 2015. To date, roughly 890,000 sq. ft. or 52% of the space scheduled to come online this year has already been successfully pre-leased. Spiceworks, for example, will anchor 3700 San Clemente (250,000 sf), EZ-Corp will occupy Rollingwood Center (215,000 sf) and Bazaarvoice will fill Quarry Oaks III (140,000 sf). Most recently, Google announced plans to lease nearly 208,000 sq. ft. at 500 West Second Street (489,404 sf) and Kendra Scott Design pre-leased more than 43,500 sq. ft. at Lamar Central (131,722 sf).

Additional strength is demonstrated by the notable increase in rental rates. At the close of the first quarter, the average citywide quoted rental rate increased to \$28.20 per sq. ft. on an annual full-service basis – up \$0.96 or 3.5% compared to last quarter and up an impressive \$2.02 or 7.7% compared to a year ago. (To adjust for buildings which quote rents on a triple net basis, operating expense figures have been added into the equation to arrive at an average equivalent full-service rate.)

Expect vacancy rates to fluctuate as new projects come online but don't expect higher vacancy rates to stick around too long. Area job growth has been strong, especially in the Information and Professional/Business Services categories. For the twelve-month period ending in April, the Austin-Round Rock-San Marcos Metropolitan Statistical Area added 29,500 jobs for an annual growth rate of 3.2%, according to the Texas Workforce Commission. Meanwhile, the unemployment rate fell from 3.8% in April of 2014 to a very tight 3.0%. Austin's thriving tech sector and overall healthy job market will continue to drive demand for office space.



Austin Office Market 1Q 2015	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	9,058,508	725,552	8.0%	563,087	\$38.98
Central	2,285,947	324,886	14.2%	(3,837)	\$25.00
North	1,621,681	215,550	13.3%	16,701	\$21.07
Northwest	13,251,685	1,562,959	11.8%	(21,418)	\$28.64
Far Northwest	3,532,896	523,489	14.8%	(218,995)	\$24.72
Northeast	1,855,269	225,539	12.2%	6,238	\$18.28
South	1,688,035	57,899	3.4%	14,520	\$27.92
Southeast	915,462	93,972	10.3%	22,695	\$20.01
Southwest	8,463,667	539,778	6.4%	92,220	\$29.92
Round Rock	884,716	101,093	11.4%	5,586	\$23.22
<b>Totals</b>	<b>43,557,866</b>	<b>4,370,717</b>	<b>10.0%</b>	<b>476,797</b>	<b>\$28.20</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.

## CURRENT QUARTER LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Indeed	Champion Office Park	213,000	Northwest
Google*	500 W Second Street (Under Construction)	208,000	CBD
Kendra Scott Design*	Lamar Central (Under Construction)	43,547	Central
Cognitive Scale, Inc. (Sublease)	9500 Arboretum	35,751	Northwest
Moody National Bank	400 W 15th	12,868	CBD
Edgecare, Inc.	Chase Park I	12,782	Northwest
M/I Homes of Austin	6801 N Capital of Texas Hwy	12,672	Northwest

\* Pre-leasing

## CURRENT QUARTER SALES TRANSACTIONS

Building	Buyer	Size	Submarket
River Place (7 Bldgs)	Brandywine Realty Trust	591,000	Southwest
Riata Crossing North	Apple	359,049	Northwest
Prominent Pointe I & II	GLL Real Estate Partners	256,027	Northwest
Strataum Executive Center	DRA Advisors	249,140	Northwest
Rialto I & II	Dividend Capital Diversified Property Fund (DPF)	157,620	Southwest
Lavaca Plaza	Lavaca Plaza LLC	118,643	CBD

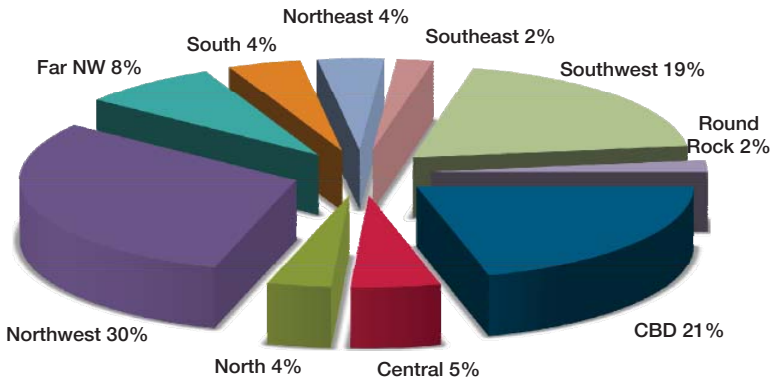
## RECENT COMPLETIONS

Project	Comments	Size	Submarket
Colorado Tower (29 floors)	Complete 1Q; Major tenant = Parsley Energy	373,334	CBD
Seaholm Power Plant Redevelopment	Complete 1Q; Major tenant = athenahealth	150,000	CBD
The Offices at Bowie	Complete 1Q; Major tenant = Whole Foods	40,985	Central

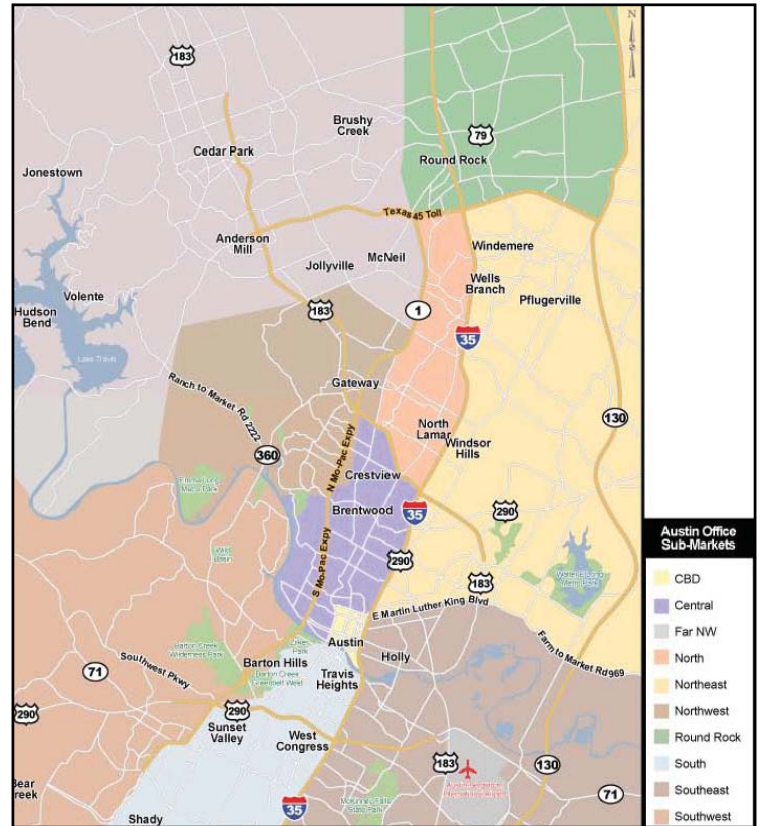
## UNDER CONSTRUCTION

Project	Comments	Size	Submarket
500 W Second St	Completion set for 1Q 17; 40% pre-leased	489,404	CBD
Encino Trace I & II	Completion set for 3Q 15; 40% pre-leased	320,000	Southwest
3700 San Clemente	Completion set for 2Q 15; 38% pre-leased	250,000	Southwest
Rollingwood Center (2 buildings)	Completion set for 3Q 15; 100% pre-leased	215,000	Southwest
Capital Ridge	Completion set for 2Q 15; 100% pre-leased	207,000	Southwest
Research Park Plaza V	Completion set for 4Q 15; 0% pre-leased	173,500	Far Northwest
5th & Colorado	Completion set for 1Q 16; 0% pre-leased	171,000	CBD
Lakes at Techridge I	Completion set for 4Q 15; 0% pre-leased	137,000	Northeast
Quarry Oaks III	Completion set for 4Q 15; 100% pre-leased	140,000	Far Northwest
Lamar Central	Completion set for 3Q 15; 30% pre-leased	131,700	Central
Aspen Lake 2	Completion set for 3Q 15; 50% pre-leased	128,700	Far Northwest

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

For more information about this report, please contact Kim Gatley, Senior Vice President & Director of Research - kgatley@reocaustin.com.

SERVICES

REOC Austin is actively involved in all aspects of commercial real estate: project leasing, acquisition and disposition, buyer and tenant representation, site selection, property management, construction supervision, development, research, marketing and consulting.

For additional information about our services, please contact: Blake Bonner, Senior Vice President, Director of Brokerage

