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**Office Building Market Update**  
 Austin Metropolitan Area  
**First Quarter 2017**



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Extending last year's momentum, the Austin office market furthered its growth trend in the first quarter. New leases and expansions generated 127,930 square feet of positive net absorption through the first three months of the year. The most notable of office leases included U-Ship Inc. (45,000 sf) at 205 E. Riverside Dr., Indeed (43,713 sf) at Reserve at Bull Creek B and True Car (39,187 sf) at Galleria Oaks I.

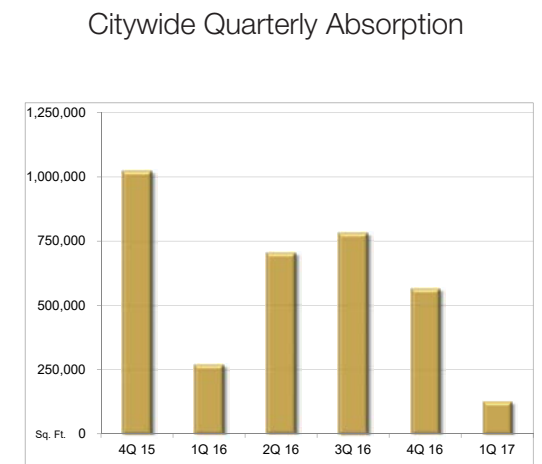
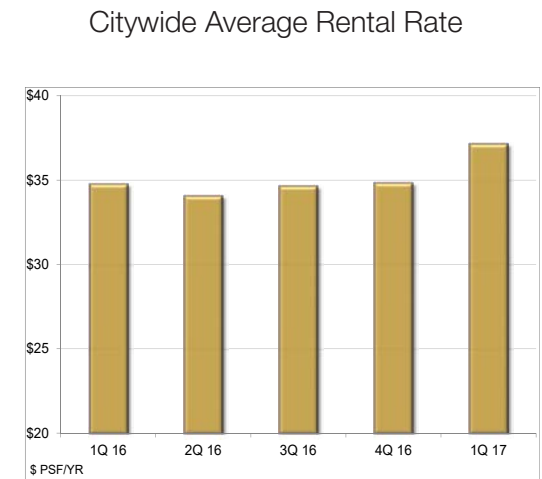
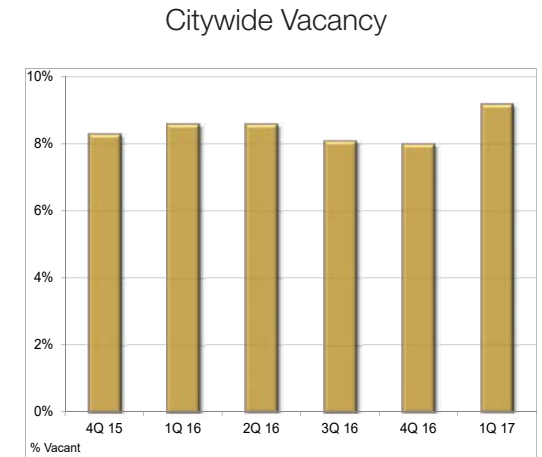
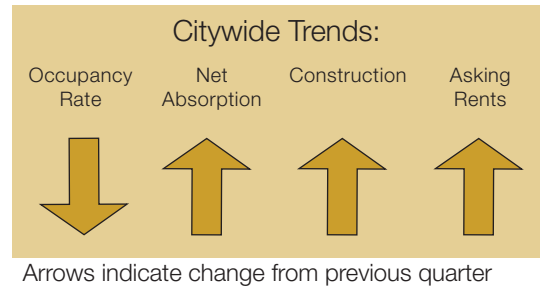
New completions added more than 930,000 square feet of new office space to the citywide inventory in the first quarter. Nearly 54% of the new space was contributed by the completion of 500 W 2nd St. (500,511 sf) which came online 77% occupied. New supply outpaced demand which softened the citywide vacancy rate from 8.0% last quarter to 9.2% at the end of the first quarter. Despite the increase over the quarter, citywide vacancy is currently lower than the 8.4% recorded in the same quarter a year ago.

Strong demand has propelled rental rates yet again. At the close of the first quarter, the citywide average rental rate reached \$37.19 per square foot on an annual basis which marks a healthy 9% annual increase over the same period last year. Topping the charts, Class A office space carries a citywide average of \$41.29 per square foot – a marked disparity compared to Class C office space which averages \$15.58. (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.)

Strong rents coupled with a sub-ten percent vacancy rate signal a green light for developers to keep building. There is more than 2.3 million square feet of office lease space currently under construction and much of the space has already been pre-leased. For example, Domain 3 and 4 have been preleased for a combined 70% in the Northwest submarket. Galleria Oaks II (73,965 sf) will soon be completed in the second quarter in the Southwest submarket with 65% already pre-leased.

The largest project currently underway remains the Oracle Campus (625,000 sf) which will feature an eight story parking garage and other amenities. In the multi-tenant lease market, the pre-leasing success reported in current projects has spurred plans for more development. A renovation for the Westview building will add 98,500 square feet to the CBD market and the Walsh Tarlton Overlook project is planned to bring about 55,000 square feet of class A office space to the Southwest market in the third quarter. In summary, almost 1.5 million square feet of new office lease space is set to deliver within the year with an estimated 75% of which is already preleased. Keep in mind that Lantana Ridge 1 & 2 (175,000 sf) are fully pre-leased by YETI and no tenants have been announced yet for the Domain Tower project or Third + Shoal.

The booming local economy continues to fuel corporate relocations and expansions. According to the Texas Workforce Commission, the Austin-Round Rock metro area added 32,700 new jobs over the past twelve months ending March which equates to an annual growth rate of 3.3%. Essentially, Austin is operating at full employment with a reported unemployment rate of 3.6% which compares favorably to the overall Texas rate of 5.0% and the national rate of 4.6%. There is much anticipation awaiting the news of tenants that will fill the newly completed projects as they come along. Looking ahead, as Austin continues to be a highly sought after business atmosphere, coupled with strong employment rates, it's apparent that the Austin office market will continue with the growth while maintaining tight vacancy rates.





Austin Office Market 1Q 2017	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	Quarterly Net Absorption (SF)	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	10,572,824	1,089,611	10.3%	(67,053)	(67,053)	\$45.86
Central	2,596,687	110,608	4.3%	4,183	4,183	\$31.59
North	1,938,737	331,084	17.1%	(19,197)	(19,197)	\$27.32
Northwest	14,878,206	1,264,373	8.5%	247,872	247,872	\$28.49
Far Northwest	3,482,822	275,474	7.9%	(12,131)	(12,131)	\$20.81
Northeast	2,786,269	321,795	11.5%	30,908	30,908	\$14.11
South	1,734,619	145,891	8.4%	(6,519)	(6,519)	\$28.55
Southeast	1,414,518	91,957	6.5%	9,417	9,417	\$27.44
Southwest	9,670,394	931,210	9.6%	(53,390)	(53,390)	\$32.42
Round Rock	1,012,234	70,665	7.0%	(6,160)	(6,160)	\$15.28
<b>Totals</b>	<b>50,087,310</b>	<b>4,632,668</b>	<b>9.2%</b>	<b>127,930</b>	<b>127,930</b>	<b>\$37.19</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
Uship Inc.	205 E. Riverside Dr.	45,000	South
Indeed	Reserve at Bull Creek B	43,713	Northwest
True Car	Galleria Oaks I	39,187	Southwest
Atkins	Domain I	38,197	Northwest
Trusource Labs, Inc	PARMER 3.2	32,565	Northeast
Banker's Toolbox	Riata Corporate Park Bldg 4	31,715	Northwest
Indeed	Reserve at Bull Creek Bldg C	30,577	Northwest

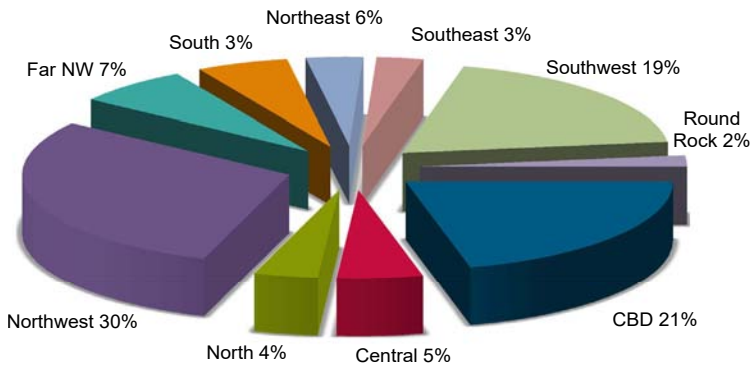
### Current Quarter Sales Transactions

Building	Buyer	Size	Submarket
Chase Tower	Sixth Street Tower LLC	389,503	CBD
Quarry Oaks I	Goldman Sachs Asset Management	160,000	Northwest
1300 Guadalupe	Zurich American Life Insurance Company	51,967	CBD
Oak Creek Plaza	TMF Health Quality Institute	50,000	Northwest
Treemont Plaza	Hans Kahler	54,000	Southwest

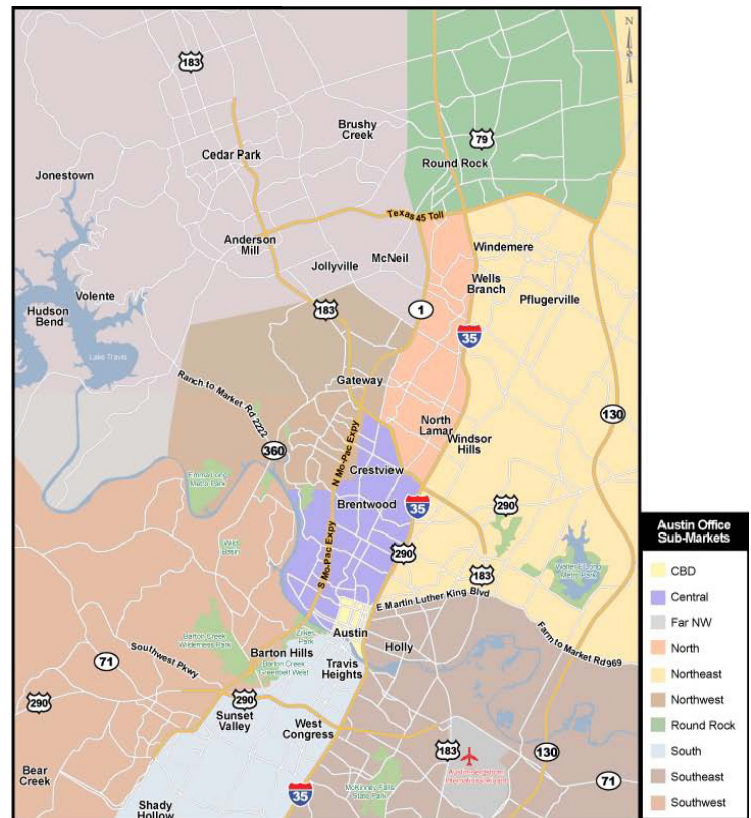
### New Development

Project	Comments	Size	Submarket
Greenwater / 500 W 2nd St	Completed 1Q 17; 72% pre-leased	500,512	CBD
Domain 8	Completed 1Q 17; 94% pre-leased	290,983	Northwest
Galleria Oaks I	Completed 1Q 17; 52% leased	73,965	Southwest
The Diamond Building	Completed 1Q 17; mixed use on ground floor	37,198	Northeast
2301 Riverside Dr	Completed 1Q 17; 100% vacant	29,205	Southeast
Oracle Campus	Completion set for 1Q 18; main campus, 8 level garage	625,000	Southeast
Third + Shoal	Completion set for 4Q 17; 29 story office building	317,481	CBD
Domain Tower	Completion set for 4Q 17; eleven story office building	308,000	Northwest
Shoal Creek Walk	Completion set for 3Q 17; 60% pre-leased	218,180	CBD
Lantana Ridge 1 & 2	Completion set for 2Q 17; 100% pre-leased (YETI)	175,000	Southwest
Domain 3	Completion set for 3Q 17; 74% pre leased	170,009	Northwest
Domain 4	Completion set for 1Q 18; 66% pre leased	156,754	Northwest
Westview (renovation)	Completion set for 3Q 17; remodeled office space	98,500	CBD
Eastside Village	No completion date set yet; Mixed use project	94,500	Northeast
Galleria Oaks II	Completion set for 2Q 17; 65% pre-leased	73,965	Southwest
Walsh Tarlton Overlook	Completion set for 3Q 17; Class A office building	55,000	Southwest
The Reserve at Oaks Hill	Completion set for 2Q 18; Three story office building	38,448	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

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

