



# The Source

Better information, better decisions.

## Office Building Market Update Austin Metropolitan Area

### Second Quarter 2014



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

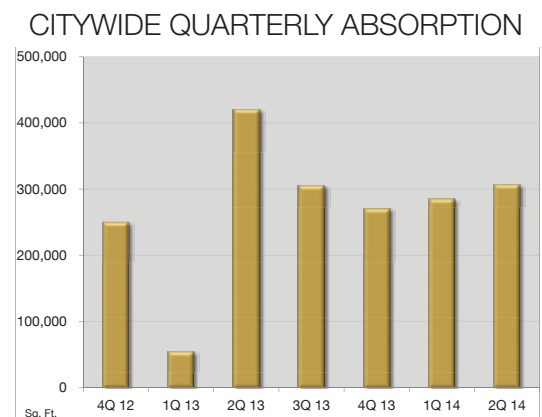
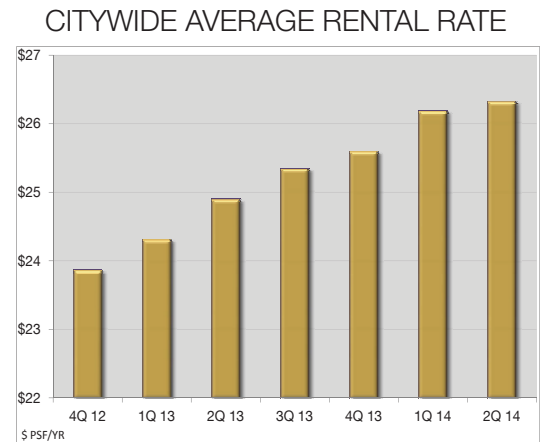
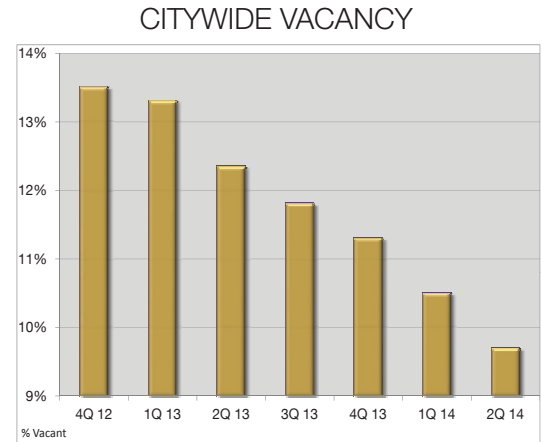
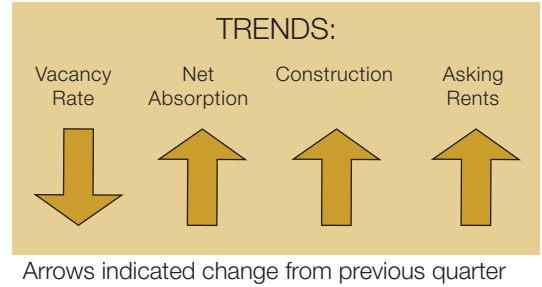
New leases and expansions generated 306,517 square feet of positive net absorption in the second quarter which raised the year-to-date total gain to nearly 636,000 square feet, according to the survey of more than 41.7 million square feet of Austin-area office lease space. In response, the citywide vacancy rate tightened to 9.7% compared to 10.5% last quarter and 12.3% recorded in the same quarter a year ago. As supply tightens, prices rise. At the end of June, the citywide average quoted rental rate climbed to \$26.32 per square foot per year on a full-service basis which is up \$0.14 over the previous quarter and \$1.52 compared to a year ago for a dynamic annual increase of more than 6%. (Buildings quoted on a triple net basis are adjusted to include expenses in order to provide a full-service equivalent.)

Continued demand resulting in declining vacancy rates and increased rental rates has set the stage for developers to deliver new product - which is exactly what they are busy doing. Nearly 2.3 million square feet of office space is currently under construction and nearly half of it is situated in the scenic Southwest sector. Two new projects recently broke ground including Capital Ridge (217,490 sf) - a 7-story office building located near the intersection of Loop 360 and Bee Caves Road - and the first of two buildings at Encino Trace (159,000 sf) - a 4-story office building located at 5707 Southwest Parkway. ARM Holdings inked a lease for 120,000 square feet at Encino Trace which will likely provide the comfort level needed for the developer, Brandywine Realty Trust, to kick off construction on a twin building planned at the project. In the Northwest sector, work has begun on two 4-story office buildings at Champion Office Park (230,000 sf) at N Capital of Texas Highway.

The ARM lease at Encino Trace is one of several in a growing list of pre-leasing activity within area buildings currently under construction. An estimated 40% of office space currently under construction has already been spoken for already which means that the vacancy rate will not spike as drastically as it otherwise might when these projects reach completion. Although significant leasing activity was reported within existing buildings in the Southwest sector, including the relocation of SolarWinds out of the Park at Barton Creek 2 to approximately 220,000 square feet at the Summit at Lantana, Building 400 (a portion of the former AMD facility located at 7171 Southwest Parkway), the Southwest sector was the only submarket to experience a negative change in the amount of occupied space compared to the previous quarter. The Southwest sector experienced 66,468 square feet of negative net absorption.

On the opposite end of the spectrum, office properties in the Northwest sector experienced the greatest gain with 183,691 square feet of positive net absorption. Notable leases included WebSense, Inc. (62,712 sf) and Accruent (27,000 sf) at Quarry Oaks I and the expansion of Ixia (33,000 sf) at Prominent Pointe II. As a result, the Northwest vacancy rate dropped to an impressive 8.1% while the average cost of renting office space climbed to \$26.76 psf - up \$0.18 from last quarter. Office properties in the Central Business District (CBD) maintained the highest rental rates in the city. At the close of the second quarter, the cost to rent office space downtown increased to an average \$36.15 psf - up more than \$4.00 compared to the previous year. Rents in the CBD are nearly \$8.00 higher than the next highest area which is the Southwest sector where the average rental rate stands at \$28.63 psf.

Attracted to Austin's strong economy and confident in the long-term strength of the market, investors continue to pursue Austin office assets and sales prices are reaching beyond normal levels. 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 June 2014, the greater Austin area boasted an annual growth rate of 3.6% having added 31,200 jobs over the past year. The greatest gain continues to be in the Professional and Business Services industry - the sector the most directly translates into demand for office space. Gains throughout the market continue to boost the local economy and stimulate the expansion of existing businesses which keeps the overall outlook positive.



Austin Office Market 2Q 2014	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	8,355,282	823,650	9.9%	67,363	\$36.15
Central	2,234,316	263,649	11.8%	57,337	\$24.87
North	914,248	178,895	19.6%	57,740	\$18.10
Northwest	12,906,400	1,042,433	8.1%	253,027	\$26.76
Far Northwest	3,534,537	398,063	11.3%	95,812	\$23.08
Northeast	1,855,269	232,011	12.5%	21,238	\$17.22
South	1,533,096	61,676	4.0%	4,917	\$24.28
Southeast	1,070,401	127,707	11.9%	30,136	\$19.78
Southwest	8,413,165	769,961	9.2%	32,097	\$28.63
Round Rock	886,519	131,410	14.8%	16,277	\$21.05
<b>Totals</b>	<b>41,703,233</b>	<b>4,029,455</b>	<b>9.7%</b>	<b>635,944</b>	<b>\$26.32</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
SolarWinds	Summit at Lantana, 400 (former AMD)	220,218	Southwest
ARM Holdings*	Encino Trace (Under construction)	120,000	Southwest
Parsley Energy*	Colorado Tower (Under Construction)	73,843	CBD
WebSense, Inc.	Quarry Oaks I	62,712	Northwest
Dropbox*	501 Congress (Under Construction)	56,000	CBD
Office Depot	Amber Oaks, Building H	49,468	Far Northwest
Whole Foods*	The Bowie (Mixed-Use Under Construction)	40,000	CBD
Ixia (Expansion)	Prominent Pointe II	33,000	Northwest
Main Street Hub	One American Center	32,674	CBD
MapMyFitness*	Seaholm Power Plant (Under Construction)	35,000	CBD
UT Systems	Lavaca Plaza	27,244	CBD

\* Pre-leasing

## SIZEABLE SALE TRANSACTIONS

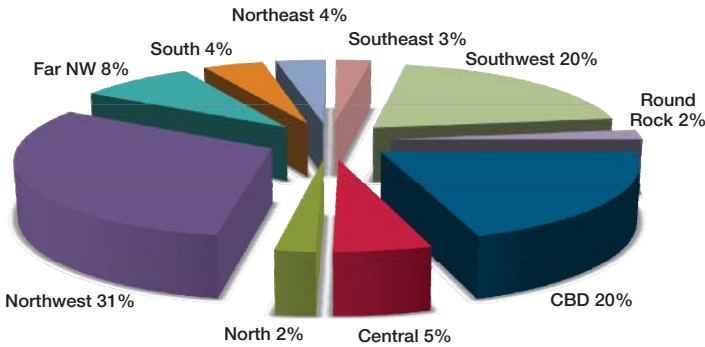
Building	Buyer	Size	Submarket
5900 Corporate Campus (former AMD)	Riverside Resources	219,425	Southeast
Mira Vista & The Overlook (Lionstone)	Clarion Partners	177,624	Southwest
The Overwatch Campus	Drawbridge Realty Trust	164,700	Southwest
Barton Creek Plaza I	TA Associates	74,505	Southwest

## NEW DEVELOPMENT

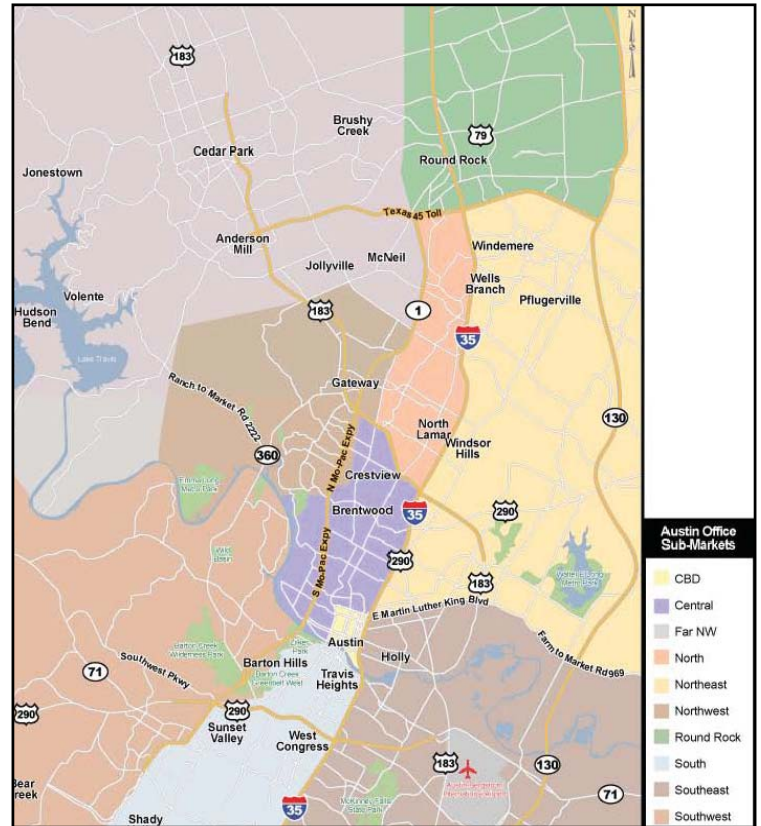
Project	Comments	Size	Submarket
Colorado Tower	29-story; completion set for 4Q 14	371,348	CBD
3700 San Clemente	5-story; Spiceworks to occupy 95,000 sf; 2Q 15	250,000	Southwest
Champion Office Park	Two 4-story bldgs; completion set for 4Q 14	230,000	Northwest
Domain 7	6-story; completion set for 4Q 14	221,973	Northwest
Rollingwood Center (2 buildings)	4-story (155,000 sf) + 2-story (60,000 sf); 2Q 15	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 4Q 14	145,138	CBD
Domain 2	5-story; HomeAway-115,000 sf; 4Q 14	140,000	Northwest
Hill Country Galleria, Bldg W	Broke ground 4Q 13; set for 3Q 14	50,000	Southwest
Capital Ridge	7-story; completion set for 2Q 15	217,490	Southwest
Encino Trace Bldg 1	4-story; ARM Holdings preleased 120K sf; 2Q 15	159,000	Southwest
Summit II at La Fronterra	2-story; 2Q 15	82,000	Round Rock
		<u>2,276,698</u>	



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

