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Office Building Market Update
 Austin Metropolitan Area
Second Quarter 2017



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The Austin office market continued its growth trend into the second quarter. New leases and expansions brought in more than a million square feet of positive net absorption heading to mid-year. The abnormally high absorption total is partly due to 500 West 2nd St. (500,511 sf) coming online nearly fully occupied and anchored by Google. In addition, Domain 8(290,983 sf) was delivered with Amazon and Facebook pre-leasing a combined 239,022 square feet.

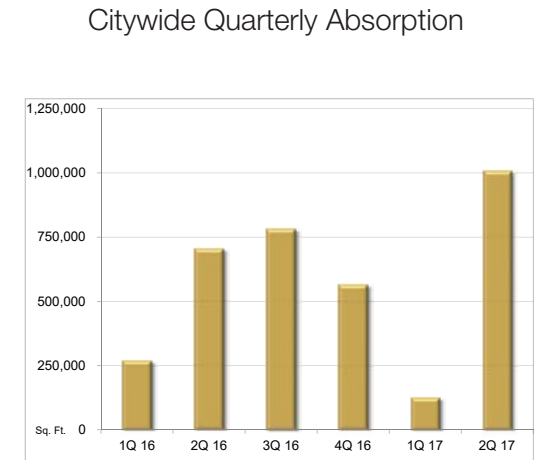
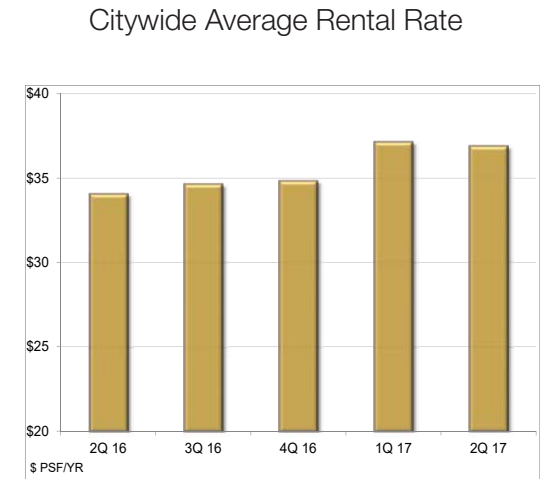
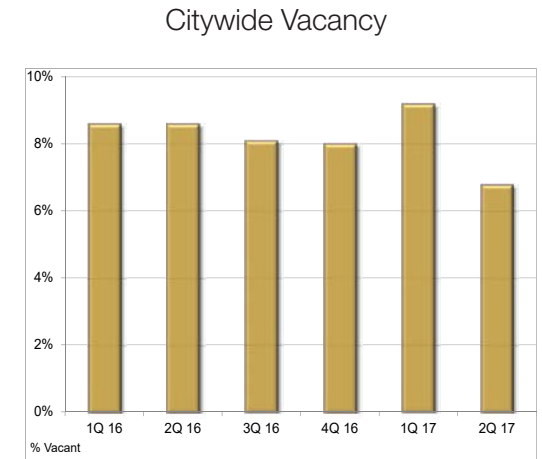
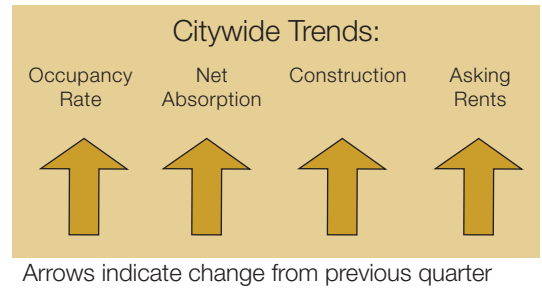
In all, new completions added more than 1,040,000 square feet of new office space to the citywide inventory in the second quarter. Demand remains strong and new supply is on a fast pace to keep up. The citywide vacancy rate dropped to 7.3% at the end of the second quarter compared to 9.2% last quarter and 9.9% recorded this time last year.

Strong demand propelled rental rates yet again. At the close of the second quarter, the citywide average rental rate reached \$36.91 per square foot on an annual basis which marks a healthy 8% annual increase over the same period last year. Topping the charts, Class A office space carries a citywide average of \$40.60 per square foot – a marked disparity compared to Class C office space which averages \$23.85. (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 the consistently tightening vacancy rate signal a green light for developers to keep building. There is more than 2.1 million square feet of office lease space currently under construction and much of the space has already begun to report preleasing activity. Progress is still being made on the twenty nine story Third + Shoal project which will bring an additional 317,481 square feet of new office space to the CBD submarket. In the Northwest sector, the Domain Tower (308,000 sf) is expected to reach completion by the end of the year. In addition to new office lease, the largest project currently underway is the owner-occupied Oracle Campus (625,000 sf) in the Southeast sector.

In the multi-tenant lease market, the pre-leasing success reported in current projects has spurred plans for more development without hesitation. For example, Shoal Creek is expected to deliver in the third quarter to the CBD submarket and currently stands 60% pre-leased. Domain 3 is nearly fully leased at 80% and is also expected to deliver in the third quarter in the Northwest.

The booming local economy continues to fuel corporate relocations and expansions. According to the Texas Workforce Commission, the Austin-Round Rock metro area added 28,000 new jobs over the past twelve months ending June which equates to an annual growth rate of 2.8%. Essentially, Austin is operating at full employment with a reported unemployment rate of 3.2% which compares favorably to the overall Texas rate of 4.7% and the national rate of 4.5%. 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 2Q 2017 | Total Inventory (SF) | Total Direct Vacant (SF) | % Vacant | Quarterly Net Absorption (SF) | YTD Absorption (SF) | Avg. Quoted Rent Rate |
|---------------------------------|-------------------------|-----------------------------|-------------|----------------------------------|------------------------|--------------------------|
| CBD | 10,574,469 | 571,501 | 5.4% | 478,986 | 436,863 | \$52.44 |
| Central | 2,596,687 | 97,824 | 3.8% | 4,998 | 7,372 | \$33.90 |
| North | 1,937,322 | 340,594 | 17.6% | (10,925) | (30,122) | \$26.88 |
| Northwest | 14,880,206 | 1,028,238 | 6.9% | 130,172 | 342,890 | \$34.27 |
| Far Northwest | 3,428,195 | 157,865 | 4.6% | 60,582 | 49,951 | \$31.34 |
| Northeast | 2,785,050 | 282,472 | 10.1% | 37,853 | 68,761 | \$21.66 |
| South | 1,734,619 | 103,386 | 6.0% | 11,297 | 10,455 | \$32.75 |
| Southeast | 1,427,783 | 90,764 | 6.4% | 1,193 | 10,610 | \$28.47 |
| Southwest | 9,802,562 | 687,123 | 7.0% | 268,424 | 162,676 | \$36.79 |
| Round Rock | 1,012,702 | 38,737 | 3.8% | 27,203 | 25,768 | \$23.74 |
| Totals | 50,179,595 | 3,398,504 | 6.8% | 1,009,783 | 1,085,224 | \$36.91 |

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 |
|------------------|----------------------|---------|---------------|
| Amazon | Domain 8 | 136,584 | Northwest |
| Facebook | Domain 8 | 102,438 | Northwest |
| Blue Apron | PARMER 3.2 | 65,222 | Northeast |
| Informatica | Paloma Ridge Bldg. B | 42,996 | Far Northwest |
| Kestra Financial | Encino Trace Bldg. 2 | 42,671 | Southwest |
| Firmspace | 500 West 2nd | 33,932 | CBD |

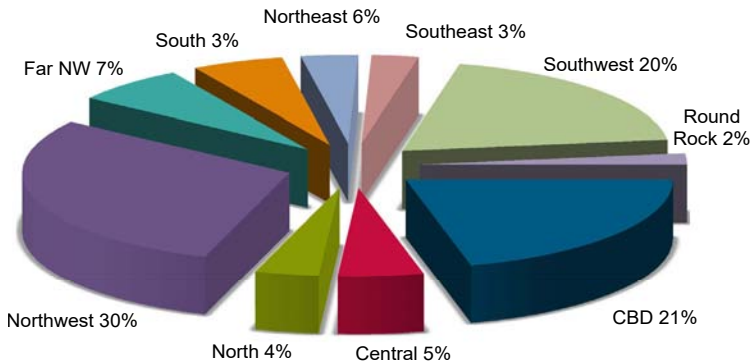
Current Quarter Sales Transactions

| Building | Buyer | Size | Submarket |
|-----------------------------|-------------------------------|-----------|---------------|
| 3M Campus | World Class Capital Group | 1,179,741 | Far Northwest |
| The Campus at the Arboretum | Vanderbilt & True North | 318,534 | Northwest |
| Capital Ridge | GLL Real Estate Partners, Inc | 216,511 | Southwest |
| Nine One Six | Austin Stone Community Church | 55,216 | Southwest |
| Oak Creek Plaza | TMF Health Quality | 49,742 | North |

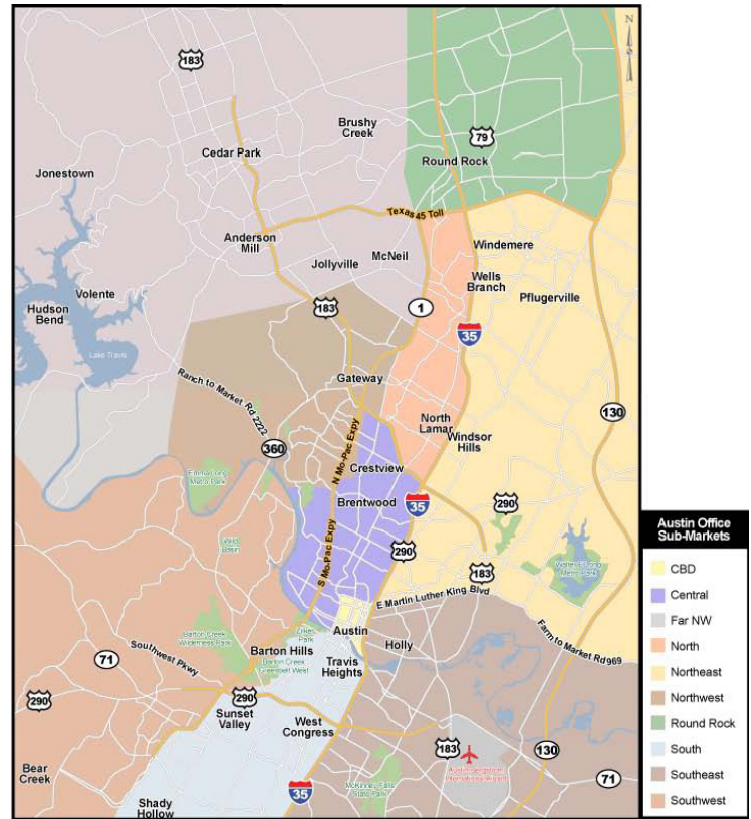
New Development

| Project | Comments | Size | Submarket |
|---------------------------|--|---------|-----------|
| Greenwater / 500 W 2nd St | Completed 1Q 17; 95% leased | 500,512 | CBD |
| Domain 8 | Completed 1Q 17; 98% leased | 290,983 | Northwest |
| Lantana Ridge 1 & 2 | Completed 2Q 17; 100% leased (YETI) | 175,000 | Southwest |
| Galleria Oaks I | Completed 1Q 17; 66% leased | 73,965 | Southwest |
| The Diamond Building | Completed 1Q 17; 87% leased | 37,198 | Northeast |
| 2301 Riverside Dr Bldg. B | 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 |
| Preserve at 620 | Completion set for 1Q 18 | 250,000 | Northwest |
| Shoal Creek Walk | Completion set for 3Q 17; 60% pre-leased | 218,180 | CBD |
| Domain 3 | Completion set for 3Q 17; 80% pre leased | 179,006 | Northwest |
| Springdale General | Completion set for 1Q 18; 15 creative office buildings | 165,000 | Central |
| Domain 4 | Completion set for 1Q 18; 66% pre leased | 156,754 | Northwest |
| 901 E 6th St. | Completion set for 3Q 17; Class A office building | 132,000 | Southeast |
| Westview (renovation) | Completion set for 3Q 17; remodeled office space | 98,500 | CBD |
| MoPac Centre | Completion set for 4Q 17; 4 story office building | 95,863 | Northwest |
| 801 Barton Springs | Completion set for 3Q 17; mixed-use | 90,500 | South |
| Eastside Village | No completion date set yet; Mixed use project | 94,500 | Northeast |
| Galleria Oaks II | Completion set for 3Q 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 Oak 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

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