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Office Building Market Update Austin Metropolitan Area

Third Quarter 2015



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Overview

The Austin area economy and, by extension, the local office market, continue to reap the benefits of population growth accompanied by coveted gains in the job market. The Austin metro area is ranked the third fastest-growing metro in the nation for 2015. More than 57,000 new residents flooded the Austin area between July 2013 and July 2014. Equally as important, job growth in the Austin metro area grew by 29,300 jobs over the past twelve months ending in September for an annual growth rate of 3.2%. Combined, these drivers work together to generate demand for office space.

Demand for office space translated into 705,793 square feet of positive net absorption in the third quarter which raised the year-to-date net gain to more than 1.3 million square feet. While a growing tech industry is a major contributor, a larger number of companies looking for local office space is not tech-related but rather traditional office users found in the professional services industry (such as accounting, consulting, research, etc.). At 6.7%, this employment sector recorded the largest annual growth rate reporting a gain of 10,200 new jobs over the past twelve months.

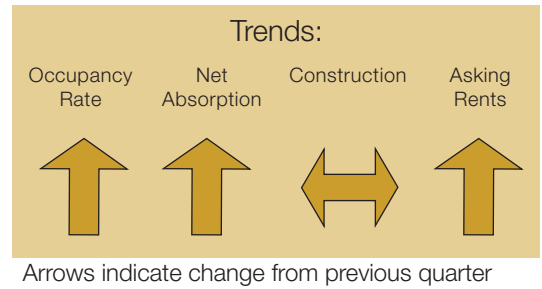
Steady demand continues to support new development. New construction delivered two projects in the third quarter including Rollingwood 1 & 2 (217,060 sf) in the Southwest sector anchored by EZ Corp and LatinWorks and Parmer 3.2 (192,000 sf) in the Northeast sector to be anchored by Natera (93,000 sf). There are currently more than 2.5 million square feet of office projects under construction, including Domain 8 which broke ground in the third quarter. More than a million square feet is slated to come online before the end of the year. While some of the projects have been successful in achieving significant pre-leasing, the majority of space is being delivered without any leasing commitments. As a result, the citywide vacancy rate will likely soften next quarter but is expected to quickly improve as the new projects proceed through lease-up.

The local office market closed the third quarter with a citywide vacancy rate of 9.5% - stable compared to the previous quarter and up only slightly compared to 9.0% recorded in the same quarter a year ago. The Southwest sector, which has gained the majority of new inventory so far this year, stands with a vacancy rate of 11.2% compared to 7.7% last year at this time.

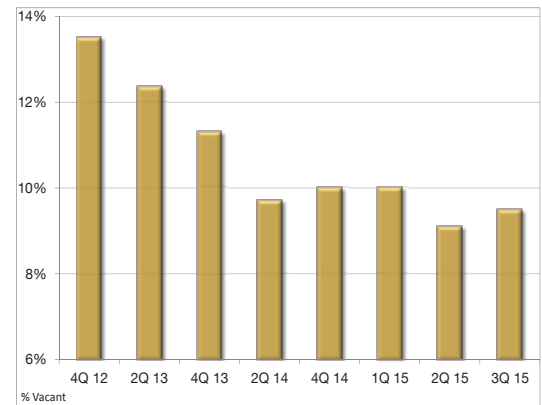
The downtown submarket remains tight with a current vacancy rate of 7.4% and a commanding average rental rate of \$40.72 per square foot on an annual full-service basis with rents for top-tier Class A space in the CBD ranging up to \$55.00 and averaging more than \$48.00. (To adjust for buildings which 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.) By comparison, the cost for renting office space outside the CBD averages \$28.33 with Class A properties coming in at just over \$34.00.

Austin's strong fundamentals continue to attract investment activity. Topping transactions in the third quarter, Tier REIT purchased two buildings at the Domain totaling 332,000 square feet with the interest in two additional buildings totaling 337,000 square feet. Investors continue to be very bullish on Austin office assets evidenced by historically high sales prices.

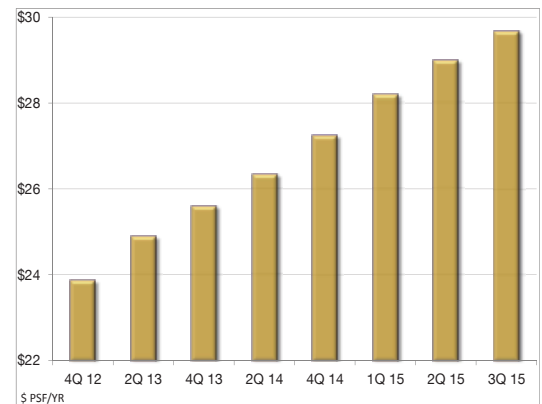
The outlook for the Austin office market remains positive with healthy job gains resulting from a growing business base supporting the demand for office space. Recently announced planned projects, such as Lantana Ridge (175,000 sf), Frontera Ridge (400,000 sf) and 801 Barton Springs (90,500 sf) hope to break ground and land tenants while the window of opportunity remains open in the current development cycle.



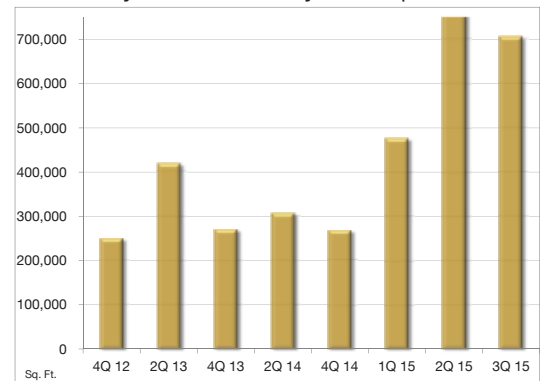
Citywide Vacancy



Citywide Average Rental Rate



Citywide Quarterly Absorption



Austin Office Market 3Q 2015	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	9,174,943	674,935	7.4%	727,911	\$40.72
Central	2,244,962	198,605	8.8%	100,079	\$26.40
North	1,620,992	218,087	13.5%	14,164	\$23.34
Northwest	13,186,415	1,259,236	9.5%	282,305	\$29.32
Far Northwest	3,532,896	233,997	6.6%	67,961	\$26.97
Northeast	2,047,930	424,587	20.7%	(19,153)	\$18.04
South	1,688,035	37,659	2.2%	34,760	\$27.39
Southeast	915,462	72,177	7.9%	24,651	\$18.50
Southwest	9,129,515	1,019,292	11.2%	65,188	\$32.91
Round Rock	1,075,506	94,920	8.8%	35,428	\$23.59
Totals	44,616,656	4,233,495	9.5%	1,333,294	\$29.67

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
Electronic Arts	7700 W Palmer Ln Bldg C	125,000	Far North West
Cirrus Logic	Shoal Creek Walk* (Under Construction)	84,972	CBD
Fresenius	The Park on Barton Creek Bldg 2	63,000	South West
Snow Software	Capstar Plaza	27,149	Central
IP Soft	Colorado Tower	24,184	CBD
Sitestuff	Research Park Plaza IV	23,379	North West

* Pre-leasing

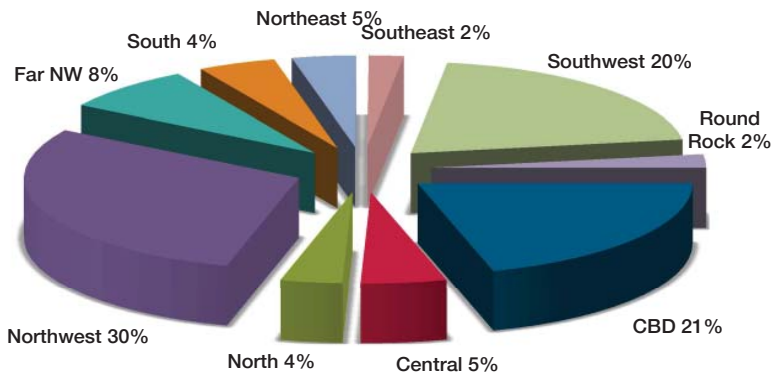
Current Quarter Sales Transactions

Building	Buyer	Size	Submarket
Domain 1,3,4 & 7	Tier REIT, Inc.	668,636	North West
Bank of America Center Tower	KBS (KBSIII 515 Congress LLC)	258,176	CBD
Capital Ridge	Miller Global Properties LLC	215,734	South West
501 Congress Ave	AFIAA 501 Congress LLC	118,808	CBD

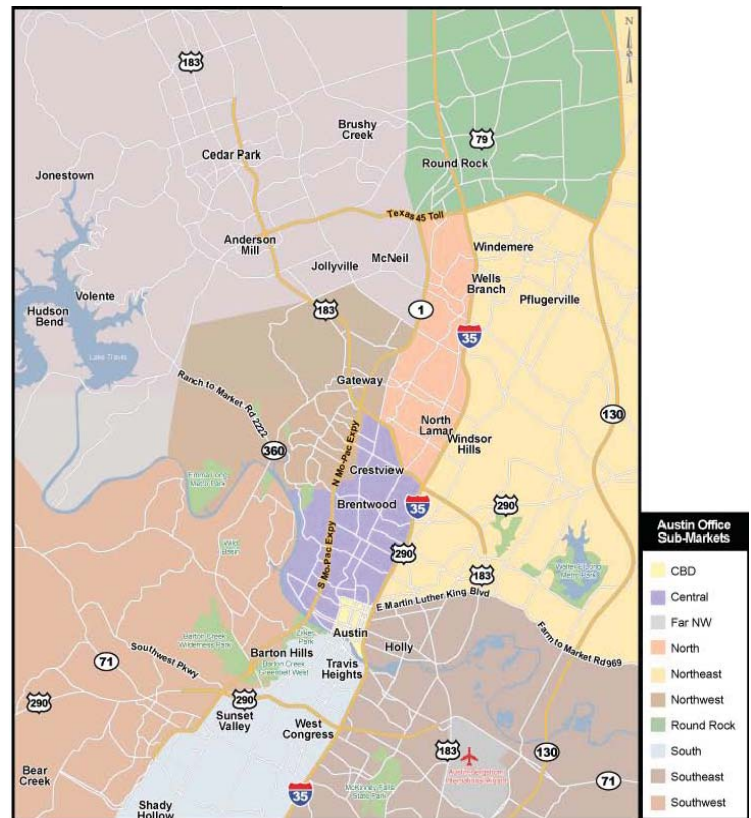
Under Construction

Project	Comments	Size	Submarket
Greenwater / 500 W Second St	Completion set for 1Q 16; 40% pre-leased	489,404	CBD
Domain 8	Completion set for 4Q 16; 0% pre-leased	290,983	North West
Shoal Creek Walk	Completion set for 2Q 17; 36% pre-leased	225,000	CBD
Paloma Ridge 1 & 2	Completion set for 4Q 15; 0% pre-leased	212,400	Far Northwest
5th & Colorado	Completion set for 1Q 16; 10% pre-leased	179,846	CBD
Research Park Plaza V	Completion set for 4Q 15; 0% pre-leased	171,500	North West
Encino Trace II	Completion set for 4Q 15; 15% pre-leased	158,137	South West
Quarry Oaks III	Completion set for 4Q 15; 100% pre-leased	137,617	North West
Lakes at Techridge I	Completion set for 4Q 15; 0% pre-leased	137,000	North East
Lamar Central	Completion set for 4Q 15; 30% pre-leased	131,700	Central
Aspen Lake 2	Completion set for 4Q 15; 100% pre-leased	128,700	Far Northwest
Domain 1	Completion set for 1Q 16; 0% pre-leased	124,578	North West
317 Grace Lane	Completion set for 4Q 16; 2% pre-leased	87,748	South West
Domain 5	Completion set for 1Q 16; 0% pre-leased	74,804	North West

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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