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Office Building Market Update Austin Metropolitan Area

Fourth Quarter 2014



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OVERVIEW

The Austin office market featured new deliveries and healthy leasing activity in the final three months of the year resulting in a sound fourth quarter performance. Pre-leasing achieved in the newly delivered buildings contributed to the 267,427 square feet of positive net absorption tallied in the final quarter of the year, according to the survey of more than 43 million square feet of Austin-area office lease space. Domain 7, for example, came online 75% pre-leased featuring Ottobock Healthcare LP (38,000 sf), Lee & Hayes PLLC (10,000 sf) and Huckabee architectural firm. Similarly, the IBC Bank Plaza, anchored by the building's namesake, IBC Bank (27,000 sf), came online nearly 90% pre-leased. Strong demand for Class A space allowed the top-tier properties to outperform other segments of the market. The Class A submarket experienced the greatest amount of positive net absorption for both the quarter and the year, marking 223,734 square feet and 822,735 square feet, respectively. Overall, the net change in occupied space for the year totaled more than 1.2 million square feet for the office market as a whole.

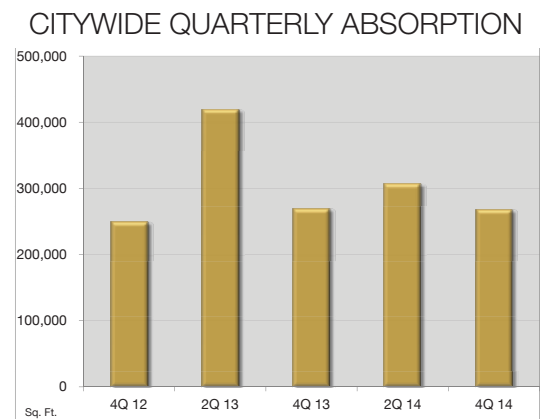
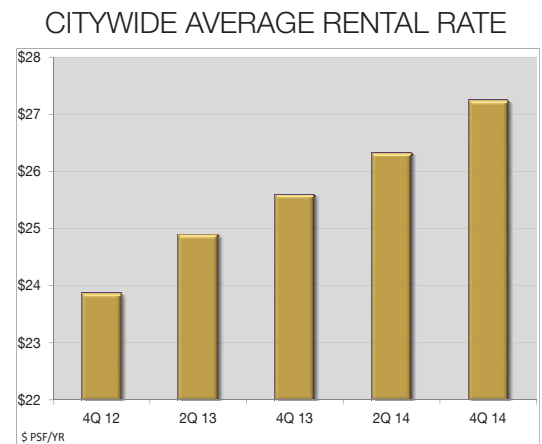
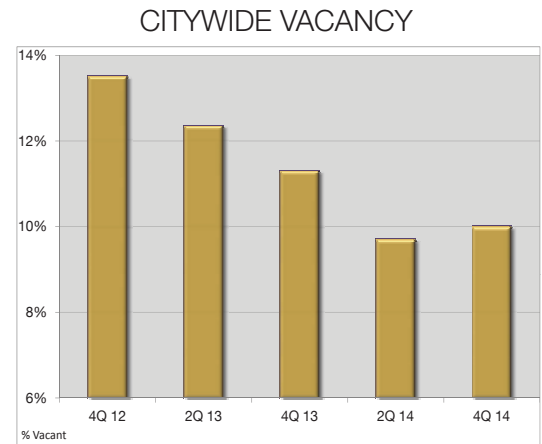
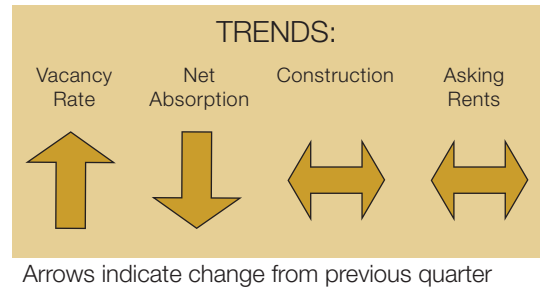
Positive net absorption was offset by new supply resulting in a relatively stable vacancy rate compared to last quarter. The office market closed the year with a citywide vacancy rate of 10.0% which is up compared to 9.0% last quarter but improved compared to 11.3% recorded in the same quarter of 2013. Following suit, vacancy in the Class A submarket closed the year with a vacancy rate of 11.1% - up from 9.1% last quarter but slightly improved compared to 11.8% recorded a year ago.

The average citywide quoted rental rate remained stable over the quarter at \$26.06 per square foot on an annual full-service basis which is \$0.47 or 1.8% higher than 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.) By comparison, the average quoted rental rate for Class A office space climbed \$1.36 compared to the previous year to reach \$32.61 for an annual increase of 4.4%. The average rent for suburban office space stands at \$26.25 compared to \$36.52 in the CBD. Likewise, Class A properties in the suburban submarkets average \$31.54 while Class A buildings downtown command an average of \$42.99.

Consistent demand has been the driving force behind new construction in the CBD, Northwest and Southwest sectors. Twenty major office projects totaling roughly 3 million square feet are currently pushing through the development pipeline. By the close of 2015, the Austin office market will boast an inventory of approximately 46 million square feet - an increase of nearly 7%. Many projects are reporting strong pre-leasing activity, such as Colorado Tower, reportedly 95% pre-leased already. In fact, buildings currently under construction are closing in on a pre-leasing rate of nearly 40%.

It may be tempting to interpret such strong pre-leasing activity as a signal for more development but the excitement regarding reported pre-leasing must be counter-balanced with the reality of vacancies which will be created by tenant moves out of existing buildings. Rollingwood Center (138,900 sf), for example, will come online later this year 100% pre-leased to EZCorp but the pawn shop chain and payday lender will consolidate out of six existing lease spaces in order to make that move. As a result, vacancy rates will fluctuate as tenant moves and consolidations impact the market over the coming year.

Vacancy rates may fluctuate as new projects come online but area job growth will continue to translate into demand for office space. For the twelve-month period ending in December, the Austin-Round Rock-San Marcos Metropolitan Statistical Area added 25,500 jobs for an annual growth rate of 2.9%, according to the Texas Workforce Commission. Meanwhile, the unemployment rate fell from 4.5% in December of 2013 to 3.4% at the close of 2014. The forecast for steady job growth remains strong for 2015 - more jobs generally translates into demand for more office space.



Austin Office Market 4Q 2014	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	8,550,031	766,735	9.0%	267,487	\$36.52
Central	2,246,769	280,064	12.5%	77,898	\$25.22
North	1,619,764	235,947	14.6%	103,864	\$20.07
Northwest	13,414,009	1,551,039	11.6%	269,385	\$28.19
Far Northwest	3,532,895	313,714	8.9%	180,161	\$23.20
Northeast	1,855,269	231,777	12.5%	21,472	\$18.26
South	1,688,035	72,419	4.3%	9,646	\$27.10
Southeast	915,462	116,667	12.7%	35,704	\$21.29
Southwest	8,464,371	632,134	7.5%	200,524	\$29.13
Round Rock	884,716	95,919	10.8%	49,965	\$22.56
Totals	43,171,321	4,296,415	10.0%	1,216,106	\$27.24

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
EZCORP *	Rollingwood Center I	140,000	Southwest
Bazaarvoice *	Quarry Oaks III	137,600	Northwest
Amazon.com	Domain 7	74,473	Northwest
SHI (Expansion)	Two Barton Skyway	42,261	Southwest
Ottobock Healthcare LP	Domain 7	38,000	Northwest

* Pre-leasing

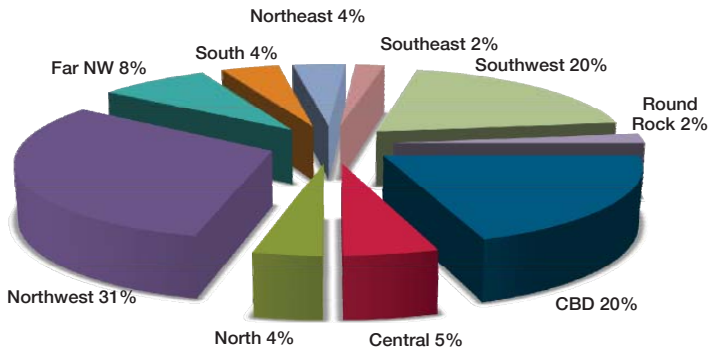
CURRENT QUARTER SALE TRANSACTIONS

Building	Buyer	Size	Submarket
River Place Corporate Park	Leon Shadowen	575,000	Northwest
One Congress Plaza	Parkway Properties	549,000	CBD
San Jacinto Center	Parkway Properties	403,329	CBD
Research Park Place, 7 & 8	Espyder Corp LLC	251,403	Northwest
Lakewood Center I-II	DivcoWest Real Estate	213,114	Northwest
3600 San Clemente, Building B	Scher Investment	90,267	Southwest

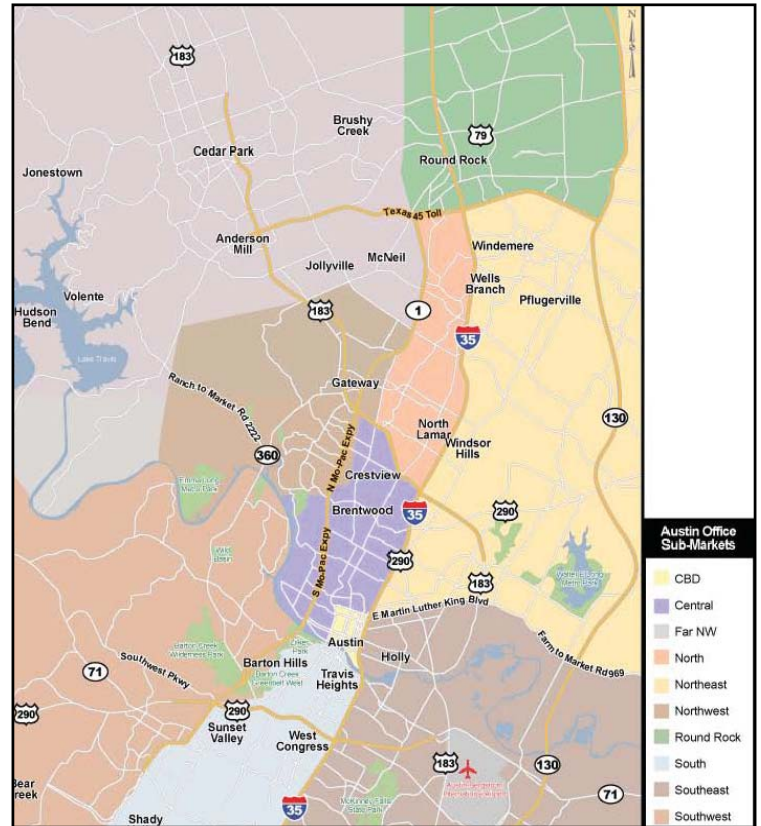
2014 NEW DEVELOPMENT - MAJOR PROJECTS

Project	Comments	Size	Submarket
Domain 7	Delivered; 6-story	221,888	Northwest
IBC Bank Plaza	Delivered; 13-story; IBC to occupy 27,000 sf	194,749	CBD
Domain 2	Delivered; 5-story; HomeAway-115,000 sf	140,000	Northwest
Champion Office Park I	Delivered; 4-story	116,800	Northwest
Champion Office Park II	Delivered; 4-story	103,800	Northwest
Hill Country Galleria, Bldg W	Delivered	50,000	Southwest
500 W 2nd St (Green Water)	29-story; broke ground; completion 1Q 2017	489,403	CBD
Colorado Tower	29-story; 95% pre-leased; completion 1Q15	371,348	CBD
3700 San Clemente	5-story; Spiceworks to occupy 95,000 sf; 2Q 15	249,870	Southwest
Capital Ridge	7-story; completion set for 2Q 15	217,490	Southwest
Rollingwood Center - 2500 Bee Caves	4-story (145,437 sf) + 2-story (69,150 sf); 2Q 15	214,587	Southwest
Parmer 3.2	Completion expected 2Q 15	192,000	Northeast
5th & Colorado	201 W 5th St.; 1Q 2016	179,846	CBD
Lamar Central	4-story; Completion expected 3Q 15	164,962	Central
Encino Trace Bldg 1	4-story; ARM Holdings preleased 120K sf; 2Q 15	160,935	Southwest
Encino Trace Bldg 2	4-story; 3Q 15	160,849	Southwest
Quarry Oaks, Phase II	Bazaarvoice 100% pre-leased	137,615	Northwest
Seaholm Power Plant Redevelopment	Mixed-use; office completion expected 1Q 15	113,063	CBD

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

