



The Source

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Office Building Market Update Austin Metropolitan Area

Fourth Quarter 2013



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OVERVIEW

Austin-area office properties turned in another strong performance in the final quarter of the year to close out 2013 on a high note. New leases and expansions generated 269,356 square feet of positive net absorption in the fourth quarter. By class, Class A and B properties garnered nearly equal gains with 155,791 square feet and 129,058 square feet, respectively.

By sector, the Northwest and Far Northwest sectors recorded the greatest gains. In the Northwest sector, for example, Visa moved into 50,000 square feet at Research Park Plaza III and will reportedly take down additional space later in the year. Bankers Tool Box leased 22,963 square feet at Riata Corporate Park Building 3. In the Far Northwest, Zenoss leased 43,779 square feet at Four Points Centre Building 1 while Office Depot moved into 25,000 square feet at Amber Oaks Building H and will fill nearly that same amount again before mid-year.

Combined with the gains logged earlier in the year, fourth quarter activity pushed the annual total absorption figure over the one million mark to 1,071,129 square feet. In turn, the positive absorption tightened the citywide vacancy rate to 11.3% - a level not seen since 2007. The current vacancy level is down compared to 11.8% last quarter and 12.8% recorded in the same quarter a year ago. Over the past two years, tenant demand for office space has steadily filled former “see-through” buildings and other large blocks of vacant space. With the area’s vacancy rate restored to a pre-recession level, the market is ready for growth once again.

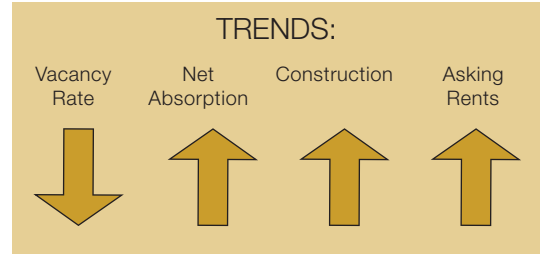
Two projects delivered more than 64,000 square feet of office space to the market in the fourth quarter. In all, new construction delivered a total of 142,561 square feet in 2013.

At this point last year, the market was characterized ‘poised for growth’ but now there are eight major projects currently under construction which will deliver more than 1.6 million square feet of office lease space in 2014. Three new projects have reported recent starts. See New Development section on opposite page for more details.

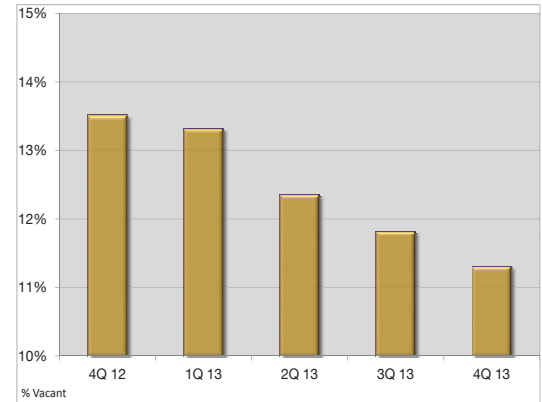
Developers have moved forward with projects after watching rental rates steadily increase over the past two years finally reaching levels that justify new construction. At the close of 2013, the citywide average quoted rental rate climbed to \$25.59 per square foot per year on a full-service basis - which is up \$1.68 or 7.0% compared to a year ago. (Buildings quoted on a triple net basis are adjusted to include expenses in order to provide a full-service equivalent.) The increase was even more dramatic for top-tier, Class A space where the average quoted rent increased \$2.99 or 10.6% over the year to land at \$31.25. The addition of new inventory will cause some fluctuations in quoted rental rates but modest growth is expected in the near-term.

With the market showing both strength and growth, investors remain bullish on Austin-area assets. See Sizeable Sale Transactions section on opposite page for details.

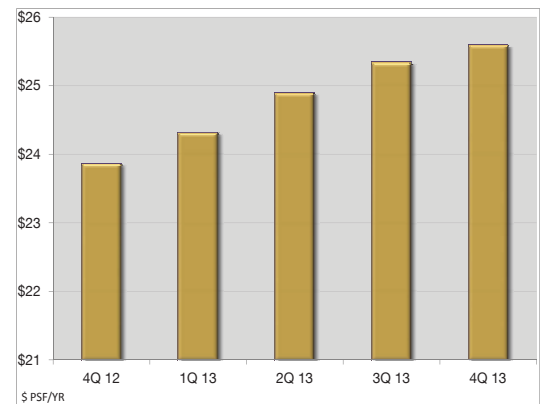
The Austin office market finished strong in 2013 and the momentum is expected to continue into 2014. The delivery of new inventory will expand the market and ease supply limitations, especially in the downtown market, which may slow the pace of rental rate growth somewhat but the trend trajectory continues upward.



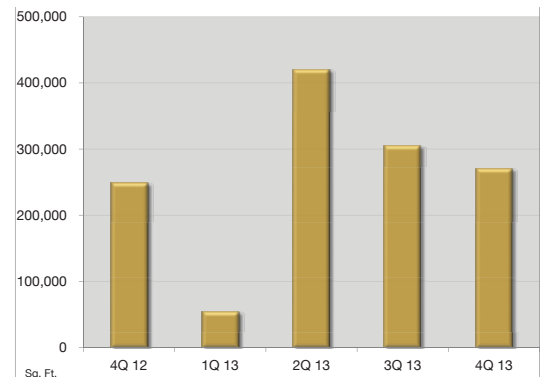
CITYWIDE VACANCY



CITYWIDE AVERAGE RENTAL RATE



CITYWIDE QUARTERLY ABSORPTION



Austin Office Market 4Q 2013	Total Inventory (SF)	Total Direct Vacant (SF)	% Vacant	YTD Absorption (SF)	Avg. Quoted Rent Rate
CBD	8,364,672	883,452	10.6%	98,701	\$34.09
Central	2,230,593	319,230	14.3%	28,828	\$24.20
North	914,248	241,635	26.4%	104,362	\$19.14
Northwest	12,824,810	1,310,293	10.2%	172,564	\$26.33
Far Northwest	3,670,981	489,153	13.3%	314,391	\$22.48
Northeast	1,866,972	266,610	14.3%	14,980	\$17.08
South	1,533,096	66,593	4.3%	18,457	\$23.81
Southeast	1,070,401	157,843	14.7%	34,067	\$18.71
Southwest	8,299,605	807,819	9.7%	262,099	\$27.64
Round Rock	865,942	147,687	17.1%	22,680	\$21.04
Totals	41,641,320	4,690,315	11.3%	1,071,129	\$25.59

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
Spiceworks *	San Clemente (under construction)	95,000	Southwest
Visa	Research Park Plaza III	50,000	Northwest
Office Depot	Amber Oaks Building H	49,468	Far Northwest
Zenoss	Four Points Centre Bldg 1	43,779	Far Northwest
Scott, Douglass & McConnico LLP *	Colorado Tower (under construction)	40,011	CBD
DuBois, Bryan & Campbell LLP *	Colorado Tower (under construction)	24,342	CBD
Bankers Tool Box	Riata Corporate Park Bldg 3	22,963	Northwest
Reddwerks Corp.	Cityview Center	19,105	Southwest
Munsch Hardt Kopf & Harr PC *	Colorado Tower (under construction)	14,768	CBD

* Pre-leasing

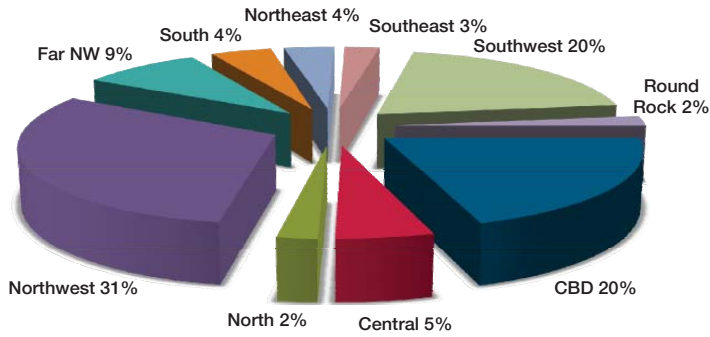
SIZEABLE SALE TRANSACTIONS

Building	Buyer	Size	Submarket
Austin Oaks (12 Buildings)	Spire Realty	445,641	Northwest
Four Points Centre	Brandywine Realty Trust	192,396	Far Northwest
Arboretum Point	Fort Point Investments LLC	150,033	Northwest
StoneCreek Park	Drawbridge Realty Trust	76,910	Northwest

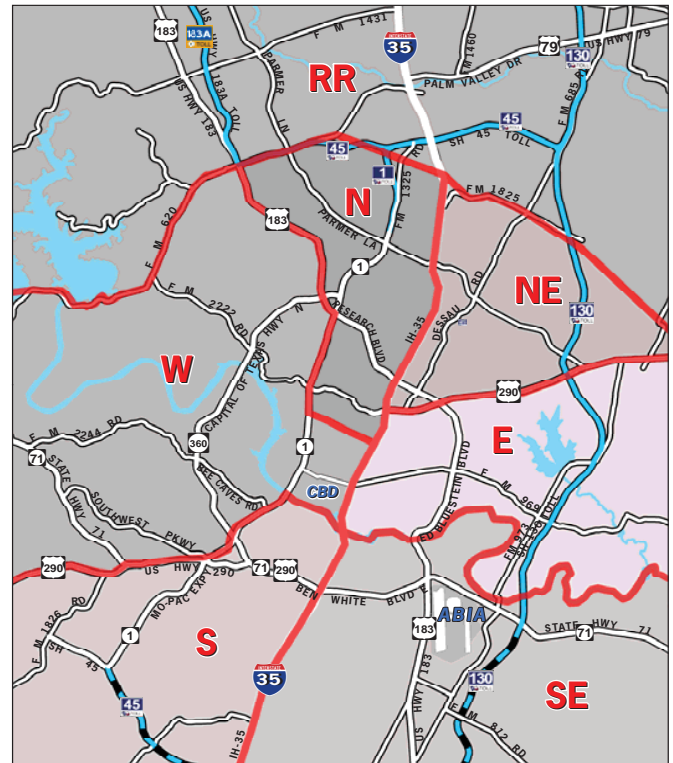
NEW DEVELOPMENT

Project	Comments	Size	Submarket
9225 Bee Cave Road, Bldg E	Delivered 4Q 2013	34,008	Southwest
2021 E. 5th	Delivered 4Q 2013; 2-story; 100% leased	30,100	East
Colorado Tower	29-story; completion set for 4Q 14	371,348	CBD
3700 San Clemente	5-story; Spiceworks to occupy 95,000 sf	250,000	Southwest
Champion Office Park	Two 4-story bldgs; completion set for 2Q 14	230,000	Northwest
Domain 7	6-story; completion set for 4Q 14	221,973	Northwest
IBC Bank Plaza	13-story; IBC to occupy 27,000 sf	194,749	CBD
Seaholm Power Plant Redevelopment	Mixed-use; office completion set for 2Q 14	145,138	CBD
Domain 2	5-story; HomeAway to lease 115,000 sf	140,000	Northwest
Hill Country Galleria, Bldg W	Broke ground 4Q 14; set for 3Q 14	50,000	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

REOC Austin is actively involved in all aspects of real estate brokerage, landlord representation, site location, tenant and buyer representation and consulting.

For more information, please contact Kim Gatley, Senior Vice President and Director of Research.

