

# MARKETBEAT

# AUSTIN OFFICE

Office Q2 2017



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### Economic Indicators

	Q2 2016	Q2 2017	12-Month Forecast
Austin Employment	994k	1,023k	▲
Austin Unemployment	3.0%	3.6%	▲
U.S. Unemployment	4.9%	4.4%	▼

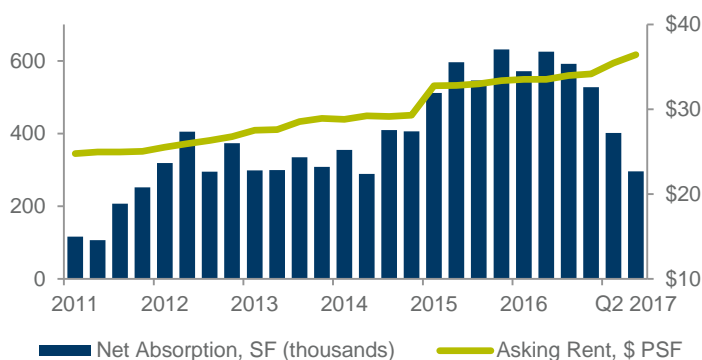
### Market Indicators (Overall, All Classes)

	Q2 2016	Q2 2017	12-Month Forecast
Vacancy	9.0%	10.5%	▲
Net Absorption (sf)	654k	228k	▼
Under Construction (sf)	1.6M	2.6M	▲
Average Asking Rent*	\$33.54	\$36.45	▲

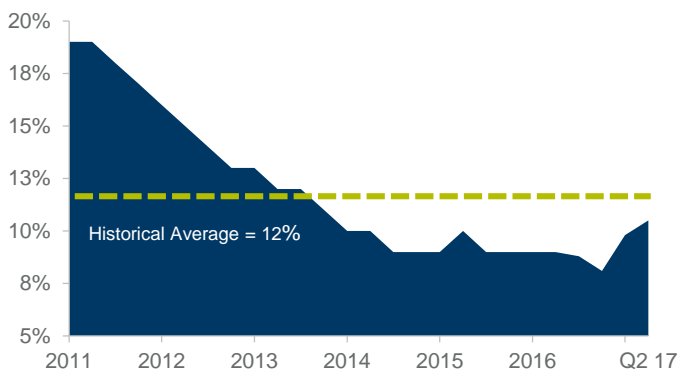
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

The Austin economy remained steadfast to close out the first half of 2017. With an unemployment rate of 3.6%, Austin remains significantly lower than the national average of 4.4%, and job growth in the region also continues to outpace national averages. According to the U.S. Bureau of Labor statistics, the Austin MSA added more than 29,000 new jobs to the area in the past 12 months, a 2.9% increase. Construction remains robust across Austin as well. Several high-profile construction projects reflect the confidence taking place in the city, including the 37-story Fairmont Hotel in downtown Austin, as well as The Independent, a 58-story residential tower that will be the tallest residential tower west of the Mississippi once it is completed in 2018.

## Market Overview

New building deliveries in Austin were the highlight of Q2 2017, as more than 928,000 square feet (SF) of new office product came online, including 500 West 2<sup>nd</sup>, Domain 8, and Galleria Oaks I & II. Citywide, total net absorption for the quarter was just under 228,000 square feet (SF), while the Central Business District (CBD) alone saw positive net absorption of 206,000 SF. The overall vacancy rate in Austin increased to 10.5%, which was up slightly from the 9.8% posted in Q1 2017. In the CBD, overall vacancy increased to 9.8%, an increase of 230 basis points from Q1 2017. However, much of this increase can be attributed to the delivery of 500 West 2<sup>nd</sup> (505,000 SF), where the majority of the building's tenants will only occupy their space in late 2017. Asking rates were up yet again across all submarkets where the overall asking rate for the entire Austin market increased to \$36.45 per square foot (PSF) – a year-over-year increase of 8.6%. The CBD maintained its position as the highest of all submarkets with an average rental rate of \$50.74 PSF. The average "Class A" rate in the CBD also increased, to an average asking rate of \$54.11 PSF.

## Outlook

While sublease activity is up slightly from Q1 2017, leasing activity remains robust and confidence seems intact with tenants and landlords alike. Several significant office developments have recently broken ground and several others have been announced this quarter. National tenants continue their expansion into Austin, and while growth has slowed slightly, the city's future remains bright.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
<b>CBD</b>	<b>10,520,697</b>	<b>233,548</b>	<b>799,009</b>	<b>9.8%</b>	<b>205,513</b>	<b>116,209</b>	<b>659,252</b>	<b>\$50.74</b>	<b>\$54.11</b>
Central	1,137,208	33,892	42,356	6.7%	(6,439)	(16,912)	0	\$40.28	\$45.69
Far Northwest	14,285,038	353,657	1,270,824	11.4%	29,725	(11,945)	530,704	\$33.66	\$34.29
North Central	2,589,277	45,868	239,023	11.0%	(80,341)	160,280	0	\$22.55	\$22.50
Northeast	2,174,478	26,772	149,245	8.1%	(37,032)	(15,916)	378,711	\$26.52	\$39.05
Northwest	4,323,009	60,617	354,092	9.6%	(33,924)	(47,122)	95,863	\$31.29	\$34.55
South Central	2,152,971	200	116,640	5.4%	(35,761)	(39,835)	90,500	\$28.54	\$44.95
Southeast	992,890	0	235,921	23.8%	(2,665)	(13,254)	579,955	\$25.12	\$28.16
Southwest	10,411,123	305,029	908,052	11.7%	174,937	173,206	312,624	\$36.69	\$37.42
Round Rock	1,156,315	4,725	53,948	5.1%	13,715	1,308	0	\$28.04	\$31.44
<b>AUSTIN TOTALS</b>	<b>49,743,006</b>	<b>1,064,308</b>	<b>4,169,110</b>	<b>10.5%</b>	<b>227,728</b>	<b>306,019</b>	<b>2,647,609</b>	<b>\$36.45</b>	<b>\$39.19</b>

\*Rental rates reflect gross asking \$psf/year

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*
Class A	32,702,331	763,047	2,724,519	10.7%	455,059	696,328	2,647,609	\$39.19
Class B	13,865,758	299,899	1,365,454	12.0%	(206,529)	(463,789)	0	\$30.24
Class C	2,952,656	1,362	79,137	2.7%	(20,802)	73,480	0	\$26.67

## Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Domain 11	315,000	HomeAway	Direct	FNW
Broadmoor	55,404	IBM	Direct	FNW
Regency Office Center	55,000	Mood Media	Direct	SC
Paloma Ridge A	30,000	Charter	Direct	FNW

## Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Capital Ridge	217,000	Riverside Resources / GLL RE Partners	\$94,745,243 / \$437	SW
Cedar Park Medical Bldg B	83,393	Duke Realty / Healthcare Trust of America	Undisclosed	FNW
Crystal Park Plaza	58,145	Farmers New World / Hayman Properties	Undisclosed	RR
916 S. Capital of Texas Hwy	55,216	JMA Ventures / Austin Stone Church	\$11,120,000 / \$201	SW

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