

# AUSTIN OFFICE MARKET

## 2016 Mid-Year Summary



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The occupancy rate of “direct” space in the Austin office fell slightly to 91.9%, as over 1.18 million square feet of new office space was added in the first six months of 2016. The large amount of new multi-tenant space, all of which is considered Class “A” space, drove an increase in quoted rental rates to \$33.99 per square foot. Occupancy rates increased or remained steady in most market areas, except for the Far Northwest and Northwest market areas, which experienced a decline. There were six large new multi-tenant office buildings that opened in the first half of 2016, and five smaller multi-tenant buildings, three of which were 100% preleased before opening. Absorption, including sublease space, for the first six months of 2016 was 461,967 square feet. The absorption of “direct” lease space was 824,598 square feet.

The growth in gross rental rates continued, increasing \$2.81 from December to reach \$33.99 per square foot. Citywide Class “A” space is quoted, on average, at \$37.36 per square foot, Class “B” space is quoted at \$28.98, and Class “C” space is renting at \$19.84 per square foot. The CBD market area had the highest average Class “A” rental rates, at \$48.68 per square foot. Average “quoted” rents in the suburban market areas rose 9.79% since December 2015, to \$31.84 per square foot.

The majority of building sales in the first half of 2016 took place in the Far Northwest market area, which accounted for 32.7% of sales, including Arbor Square, Lakewood on the Park B & C, the six-building Parmer Business Park that sold to Intercontinental, as well as Briarcroft and the new Quarry Oaks III. In the CBD, 900 Congress Avenue (along with an associated parking garage), Austin Centre, and Meridian Executive Plaza all sold, accounting for 21.6% of office sales. In the Southwest market area (20.3% of total sales), Barton Creek Plaza II & III and Plaza on the Lake I & II both changed hands, and two smaller buildings, 260 Addie Roy and Bee Caves Corner also sold. Other notable transactions include the sale of University Park Office by Spear Street Capital in Central Austin, and the brand new Arnold Office sold in the Northeast market area. In total, just over 2.0 million square feet of office space changed hands citywide in the first six months of 2016.

The office market added over 1.18 million square feet of new space, dropping the occupancy slightly to 91.9%, as quoted rental rates continued to climb to \$33.99 per square foot.

Two new office buildings continue construction in the CBD: 500 W. 2nd Street and 5th+Colorado, and one project (Third+Shoal - 212,200 sq.ft.) commenced construction. In addition, one small building continues construction in the Central market area, one building is under construction in the Far Northwest market area, and there is 192,000 sq.ft. under construction in the North Central market area. In addition, the Diamond Building commenced construction in Mueller, Domain 8 continues construction in the Northwest market area, and 26,000 square feet is scheduled to deliver soon in Round Rock. The Southwest market area currently has the most multi-tenant office space under construction after the CBD, with 400,611 square feet under construction in six buildings. All together, there is currently 1.8 million square feet of multi-tenant office space under construction.

Quoted lease rates continue to rise in most market areas, and citywide absorption remains strong as tenant interest in expansion and relocation continues. The CBD continues to lead the market in rental rate increases and strong preleasing.

New office construction and deliveries continue to add inventory throughout the city. Currently there is more than 1.8 million square feet of office space in 15 buildings under construction. Out of that total, 784,000, or 86.2%, is scheduled for completion in the last half of 2016. Preleasing has been particularly strong in the CBD, Southwest and Central markets. With job growth occurring in all market areas, demand for a variety of office space remains strong and should translate into strong positive absorption through the end of 2016.

