AUSTIN OFFICE MARKET

2017 Mid-Year Summary

CAPITOL MARKET RESEARCH

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The market continues to show strong demand, with occupancy rising to 94.4% and “gross” average rental rates for office space currently at a record high of $34.91 per square foot.

Strong demand has supported increases in both occupancy and rental rates during the first half of 2017. The occupancy rate of “direct” office space in the Austin market has climbed from 93.7% in December 2016 to a current rate of 94.4%, even as 732,469 square feet of new office space was added in the first six months of 2017. Quoted rental rates rose $0.86 from December 2016 to reach $34.91 per square foot. There was one large new multi-tenant office building that opened in the first half of 2017 (Domain 8), along with eight smaller buildings, two of which were 100% preleased. Absorption, including sublease space, was at 631,068 square feet, as more sublease space was listed in the first six months of 2017. The absorption of “direct” lease space was much higher, at 1,010,557 square feet.

Gross rental rates continued their climb in the first half of 2017, reaching $34.91 per square foot. Citywide Class “A” space is quoted, on average, at $39.26 per square foot, Class "B" space is quoted at $31.96, and Class "C" space is renting at $18.66 per square foot. The CBD market area had the highest average Class “A” rental rates, at $53.80 per square foot. Average “quoted” rents in the suburban market areas have increased since December 2016, from $31.70 to $32.11 per square foot.

The majority of building sales in the first half of 2017 took place in the Far Northwest market area, which accounted for almost half of total sales (49.9%), including The Campus at Arboretum, a 5-building portfolio, Quarry Oaks I & II, and two buildings on Seton Center Parkway. The CBD market area had two buildings change hands; one large building, Chase Tower , and one smaller building, 1300 Guadalupe Street. In the Southwest market area, Treemont Plaza and Capital Ridge, a new office building 100% leased to Apple, were sold. In addition, the two building 8100 Cameron Road complex was sold to H-E-B for its Austin corporate office, subsequently taking the buildings out of the multi-tenant office inventory. Finally, Crystal Park Plaza, was sold in Round Rock. In total, just over 1.7 million square feet of office space was sold citywide in the first six months of 2017.

Four office buildings continue construction in the CBD: 500 W. 2nd Street, which is expecting final “CO” in July, Shoal Creek Walk, and one “rehab” project (Westview), while Third+Shoal commenced construction. Three office projects continue construction in North East Austin, and Plaza Saltillo started construction. In Northwest Austin, Domain Tower and MoPac Center are under construction, while two new buildings in Round Rock started construction. 801 Barton Springs, one new mixed-use development, and one additional small office building are under construction in South Central, and one building n Southeast Austin is almost done with construction. The Southwest market area currently has four buildings with 168,738 sq.ft. of office space that are continuing construction. All together, there are currently 2.48 million square feet of multi-tenant office space under construction.

Quoted lease rates dropped slightly in four market areas, but citywide absorption continued to show strength, as tenant interest in expansion and relocation continues, and approximately 70% of the office space that has been delivered in the past six months was preleased before or during construction. 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 are more than 2.48 million square feet of office space in 20 buildings under construction with i54.0%, scheduled for completion by the end of 2017. Preleasing has been particularly strong in the CBD, South Central, and Northwest markets. Job growth has slowed, but demand for office space has remained healthy, particularly at high quality buildings in attractive submarkets.