

Austin Office, Q4 2018

# 2018 proves to be another robust year for Austin office market

Vacancy  
9.6%

Under Construction  
4,913,727 SF

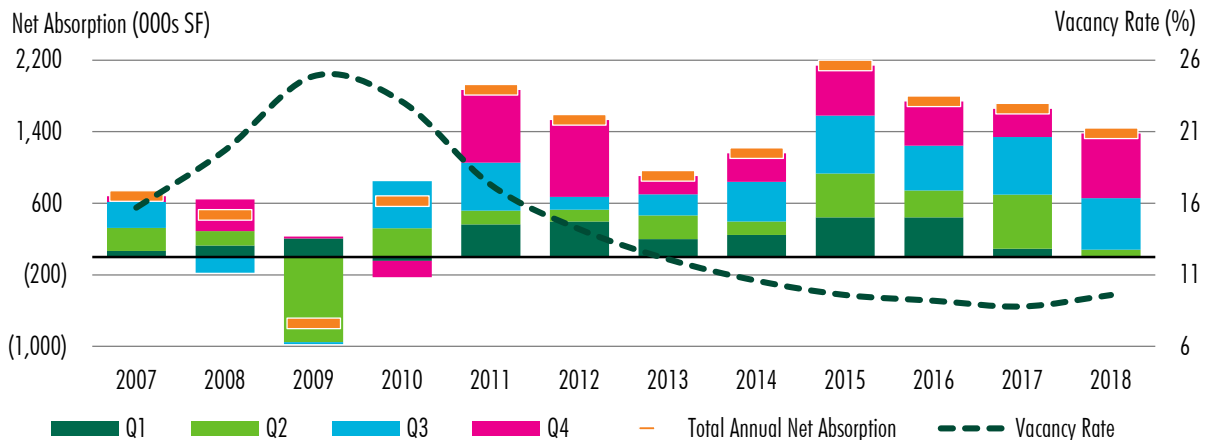
Deliveries  
0 SF

Net Absorption  
723,773 SF

Avg. Asking Rate  
\$36.64 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2018.

As 2018 draws to a close, absorption levels in the office market completely rebounded from the flat first half of the year, surpassing 1.3 million sq. ft. of positive net demand for the year. As vacancy slipped below 10% and citywide average asking rates climbed to a new historic high, developers demonstrated their continued faith in Austin's upward momentum by kicking off an additional 500,000 sq. ft. of new construction.

End of year absorption activity registered 723,773 sq. ft. of positive net demand, bringing the annual total to 1,380,173 sq. ft.; this is the 5<sup>th</sup> year in a row that Austin has seen yearly absorption crest 1 million sq. ft. Vacancy rates decreased 50 basis points from 10.2% in Q3 2018 to 9.6% in Q4 2018. The booming development pipeline added an additional 500,000 sq. ft. in Q4 2018, bringing the total to 4,913,727 sq. ft. across 37 projects.

The cooling temperatures that have settled across the Texas Hill Country have had zero effect on subduing rising operational costs throughout Austin. Costs rose to \$10.60 per sq. ft. in Q4 2018, a \$0.22 increase from Q3 2018. The citywide NNN asking rate increased \$0.93, rising to \$26.04 per sq. ft. Combined, the Full Service Gross asking rate for Q4 2018 was \$36.64 per sq. ft., a new record high for the Austin market. Tenant demand remains robust leading into 2019, with more than 9 million sq. ft. of tenant demand currently in the market.

The Austin Business-Cycle Index (a collection of employment and payroll indicators) expanded at 7.9% in Q4 2018, above the long-term growth average of 6.0%. Total employment in 2018 has increased by 3.4%, with the Construction and Mining sector being the largest contributor to job growth in Austin.

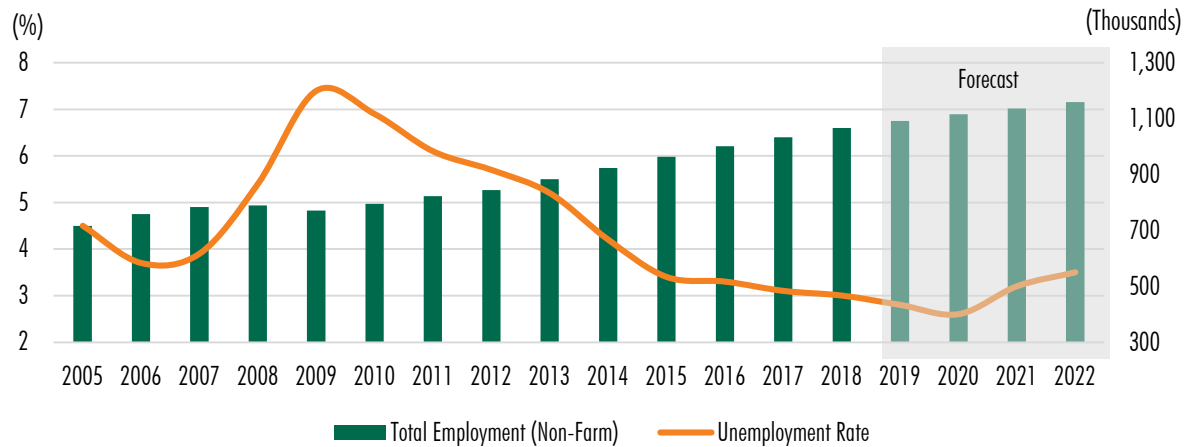
**Figure 2: Austin Office Market Statistics**

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate (\$)	Under Construction (SF)	Q4 2018 Deliveries (SF)	Q4 2018 Net Absorption	2018 Net Absorption
CBD	10,996,720	6.3	8.8	47.88	1,539,304	-	162,083	558,794
Class A	8,073,060	5.0	7.4	52.66	1,539,304	-	160,000	498,170
Class B	2,611,510	10.0	11.6	43.47	-	-	3,778	54,999
Northwest	14,549,865	9.1	11.5	36.72	709,519	-	483,533	445,607
Class A	8,959,927	9.5	12.3	40.68	709,519	-	359,387	432,180
Class B	5,411,806	8.4	10.3	32.59	-	-	132,741	22,518
Far Northwest	4,531,614	6.6	12.1	32.76	396,329	-	53,518	77,807
Class A	3,012,320	7.6	11.1	35.70	396,329	-	54,221	117,876
Class B	1,392,161	4.7	14.9	29.45	-	-	(5,668)	(37,082)
Northeast	2,103,166	16.4	24.8	28.00	204,390	-	28,897	(35,900)
Class A	1,031,394	17.1	26.2	28.56	-	-	2,393	(30,172)
Class B	891,268	18.3	19.8	25.23	204,390	-	27,056	(9,772)
North	734,307	13.6	15.4	27.80	-	-	(28,432)	45,653
Class A	-	-	-	N/A	-	-	-	18,578
Class B	723,307	13.2	15.0	27.8	-	-	(28,432)	27,075
Central	1,930,818	10.2	12.3	33.14	205,161	-	(20,809)	(1,941)
Class A	522,914	8.2	11.3	45.42	178,770	-	(20,238)	45,368
Class B	1,218,995	11.2	13.1	29.96	26,391	-	(41)	(34,285)
Round Rock	864,126	21.0	22.3	27.88	59,476	-	(12,373)	899
Class A	151,134	77.3	77.3	31.15	-	-	-	1,050
Class B	670,874	9.3	10.9	24.63	59,476	-	(12,373)	2,364
East	711,658	17.0	17.2	43.82	1,004,146	-	(8,279)	(24,059)
Class A	149,360	61.0	61.8	46.72	793,146	-	(9,637)	(4,771)
Class B	452,823	5.0	5.0	38.17	211,000	-	1,358	(19,288)
South	1,141,364	4.4	4.9	31.00	170,183	-	(11,898)	102,221
Class A	399,458	1.3	1.3	47.93	129,201	-	(5,191)	110,596
Class B	405,857	2.2	3.7	34.80	40,982	-	4,648	15,493
Southeast	1,127,958	16.1	16.4	26.47	138,850	-	45,028	49,905
Class A	155,022	13.4	13.4	31.62	71,225	-	3,456	(13,117)
Class B	876,225	17.8	18.2	27.46	67,625	-	41,572	61,135
Southwest	11,102,764	11.4	15.7	36.64	486,369	-	32,505	161,187
Class A	7,730,533	12.1	17.7	40.93	427,102	-	21,068	159,621
Class B	3,225,191	9.9	11.4	31.00	59,267	-	10,743	(536)
<b>Austin Total</b>	<b>49,794,360</b>	<b>9.6</b>	<b>12.8</b>	<b>36.64</b>	<b>4,913,727</b>	<b>-</b>	<b>723,773</b>	<b>1,380,173</b>
<b>Class A</b>	<b>30,185,122</b>	<b>9.5</b>	<b>13.1</b>	<b>42.25</b>	<b>4,244,596</b>	<b>-</b>	<b>565,459</b>	<b>1,335,379</b>
<b>Class B</b>	<b>17,880,017</b>	<b>9.8</b>	<b>12.0</b>	<b>31.84</b>	<b>669,131</b>	<b>-</b>	<b>175,382</b>	<b>82,621</b>

Although Class C is not shown, totals are inclusive of all classes of data.

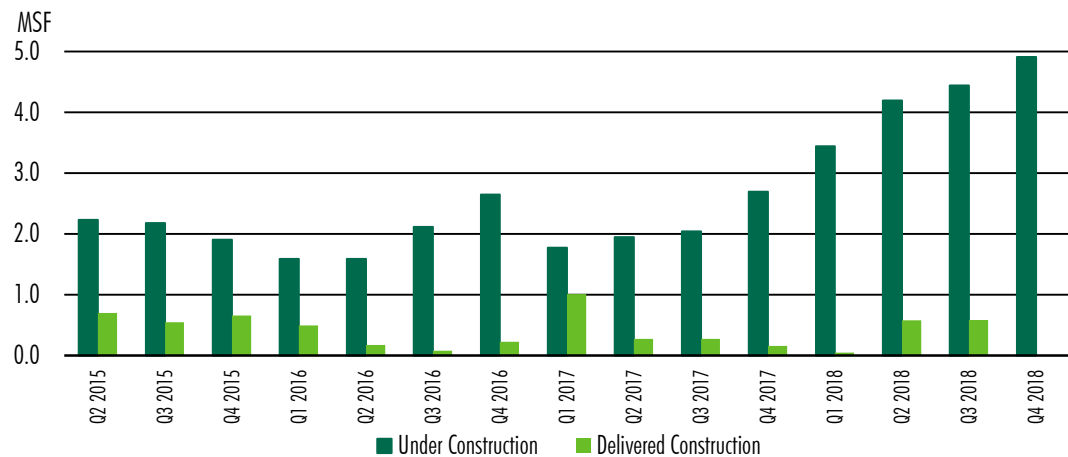
Source: CBRE Research, Q4 2018.

Figure 3: Austin Labor Force & Unemployment



Source: Moody's Analytics, October 2018.

Figure 4: Historical Construction and Deliveries



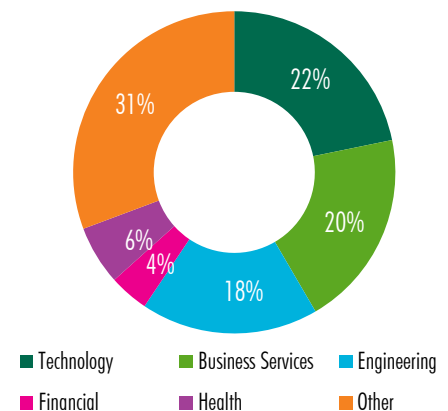
Source: CBRE Research, Q4 2018.

Figure 5: Significant Leases / Sales of Q4 2018

Lease (Tenant)	Property	Total SF
Cognitive Scale Inc	9500 Arboretum	54,070
EBQuickstart	Bergstrom Tech Center	41,406
Industrious	823 Congress	23,659
Sale (Building)	Address	Total SF
Prominent Pointe I & II	8310 N Capital of Texas	252,943
Cambridge Tower	1801 Lavaca St	240,000

Source: CBRE Research, Real Capital Analytics, Q4 2018.

Figure 6: Q4 2018 Signed Leases by Industry



Source: CBRE Research, Q4 2018.

**Figure 7: Historical Market Statistics**

	2011	2012	2013	2014	2015	2016	2017	YTD 2018
<b>CBD</b>								
Absorption (Net SF)	167,794	177,023	64,099	369,822	649,300	97,639	564,236	558,794
Asking Rent, Avg. Annual	34.07	36.08	38.15	40.1	41.33	47.67	44.95	47.88
Delivered Construction (SF)	-	-	-	167,871	557,470	195,863	745,936	122,667
Vacancy Rate (%)	13.3	12	12	9.4	7.1	7.8	7.9	6.3
<b>NORTHWEST</b>								
Absorption (Net SF)	1,103,368	677,714	179,614	224,246	669,701	286,950	471,598	445,607
Asking Rent, Avg. Annual	25.37	25.83	26.28	29.48	31.96	32.8	33.84	36.72
Delivered Construction (SF)	-	-	-	143,331	591,973	372,235	386,921	308,000
Vacancy Rate (%)	20.2	15.3	10.4	9.4	8.8	8.8	8.6	9.1
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	366,763	79,360	198,389	336,470	230,820	77,807
Asking Rent, Avg. Annual	N/A	N/A	27.85	28.95	30.95	30.62	31.79	32.76
Delivered Construction (SF)	N/A	N/A	-	-	128,700	-	-	-
Vacancy Rate (%)	N/A	N/A	12.2	13.8	9.5	9.4	6.3	6.6
<b>NORTHEAST **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	64,819	(35,900)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	24.05	28.00
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	115,000
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	9.6	16.4
<b>NORTH CENTRAL ***</b>								
Absorption (Net SF)	103,556	(109,170)	90,741	222,683	90,066	251,093	N/A	N/A
Asking Rent, Avg. Annual	21.12	21.63	23.14	22.89	27.29	25.95	N/A	N/A
Delivered Construction (SF)	-	-	-	-	214,962	46,000	N/A	N/A
Vacancy Rate (%)	21.6	23	23.8	15.4	13.1	10.2	N/A	N/A
<b>NORTH**</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	(18,159)	45,653
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.81	27.80
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	-	-
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	15.5	13.6
<b>CENTRAL**</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	52,348	(1,941)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	31.39	33.14
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	-	-
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	6.2	10.2
<b>ROUND ROCK</b>								
Absorption (Net SF)	37,083	8,592	26,097	41,367	19,892	18,801	(9,845)	899
Asking Rent, Avg. Annual	23.02	21.17	22.67	23.77	24.99	22.91	21.11	27.88
Delivered Construction (SF)	-	-	-	-	-	59,043	22,500	164,486
Vacancy Rate (%)	21.5	19.3	15.1	9.8	6.6	7	8.3	21.0
<b>EAST</b>								
Absorption (Net SF)	(32,154)	387,386	1,722	49,392	58,736	428,135	49,398	(24,059)
Asking Rent, Avg. Annual	16.19	16.38	17.2	16.71	19.55	20.13	34.67	43.82
Delivered Construction (SF)	-	-	30,451	-	191,990	199,408	59,655	246,711
Vacancy Rate (%)	27.6	12.7	16.7	14.9	17.9	6.6	7.5	17.0
<b>SOUTH</b>								
Absorption (Net SF)	52,136	83,355	25,359	70,143	33,337	158,472	23,598	102,221
Asking Rent, Avg. Annual	15.13	15.38	15.13	14.73	15.02	24.68	31.90	31.00
Delivered Construction (SF)	24,440	-	-	-	-	-	57,500	115,246
Vacancy Rate (%)	23.6	21	19.9	16.3	14.4	16	12.1	4.4
<b>SOUTHEAST**</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	71,123	49,905
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.55	26.47
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	29,205	-
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	20.2	16.1
<b>SOUTHWEST</b>								
Absorption (Net SF)	367,752	205,677	149,911	101,327	419,723	159,982	154,081	161,187
Asking Rent, Avg. Annual	25.47	26.8	29.83	31.78	34.34	35.99	34.31	36.64
Delivered Construction (SF)	-	-	92,008	76,500	1,062,477	-	410,295	135,500
Vacancy Rate (%)	12.3	9.9	8.4	8.4	10.3	9.7	10.7	11.4
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	1,799,535	1,430,577	904,306	1,158,340	2,139,144	1,737,542	1,654,017	1,380,173
Asking Rent, Avg. Annual	25.35	26.24	28.15	29.56	31.81	34.83	34.39	36.64
Delivered Construction (SF)	24,440	-	122,459	387,702	2,747,572	872,549	1,712,012	1,207,610
Vacancy Rate (%)	17.5	14.2	12.1	10.6	9.6	9.2	8.8	9.6

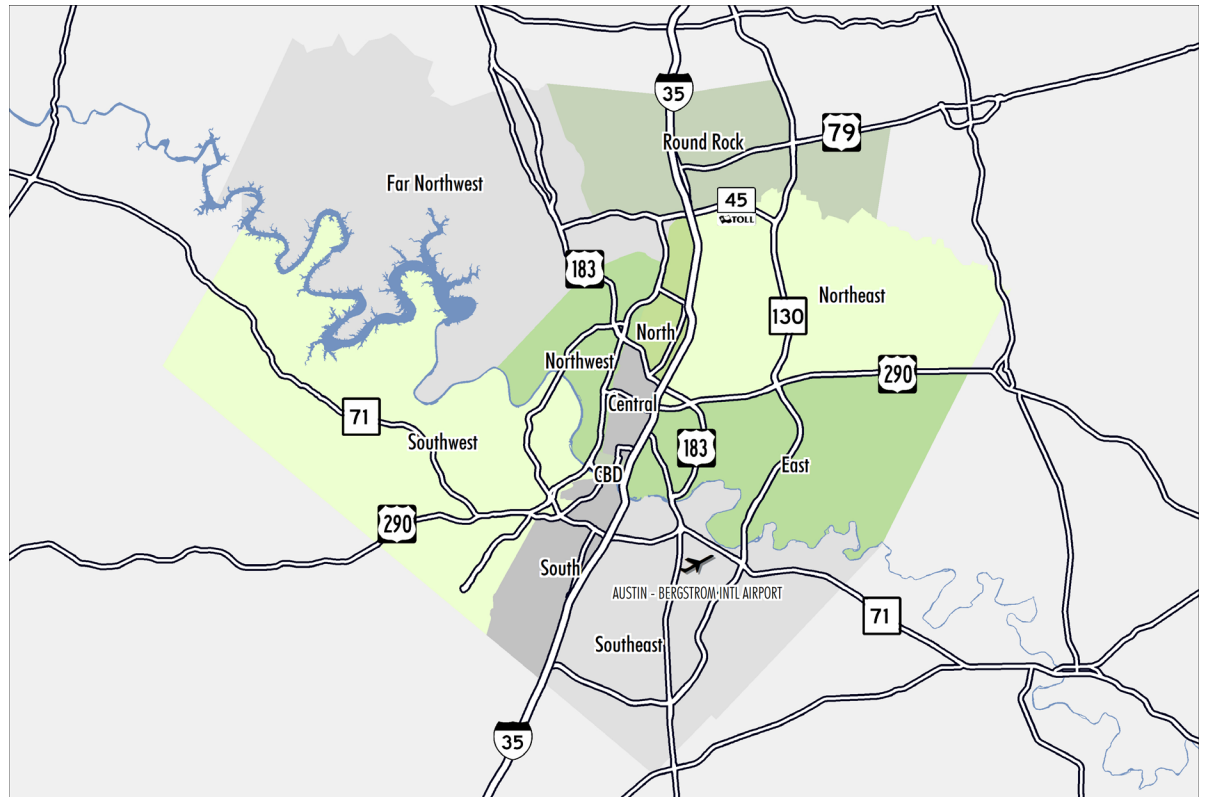
Source: CBRE Research, Q4 2018.

\*Submarket created in 2013

\*\*Submarket created in 2017

\*\*\*Submarket removed in 2017




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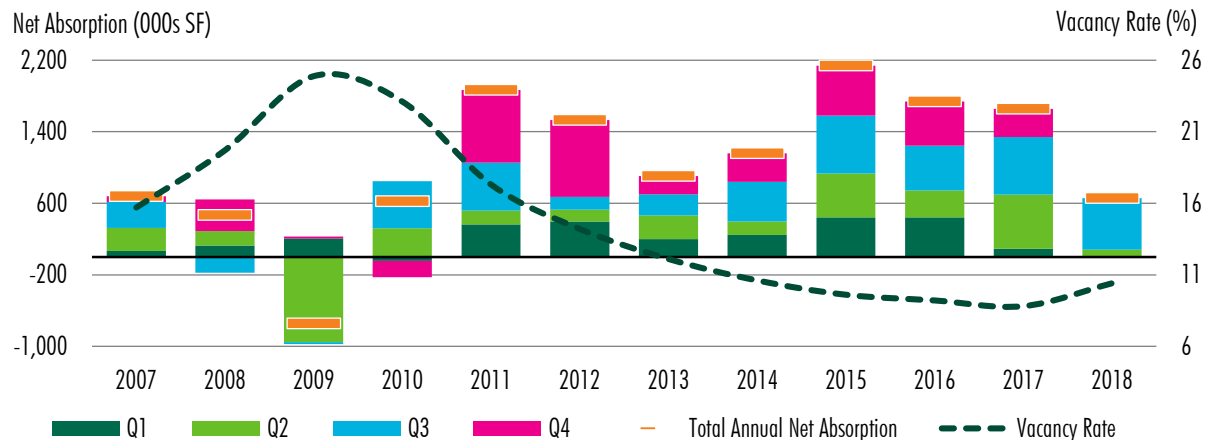
## Austin Office, Q3 2018

# Down with vacancy and up with absorption in Q3 2018



\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy



Source: CBRE Research, Q3 2018.

Absorption levels in the Austin office market rebounded in Q3 2018 from a relatively flat first half of the year, cresting 575,000 sq. ft. of positive space demand during the quarter. With vacancy steadily floating around the 10.0% mark and asking rates near historic highs, developers continue to read positively into Austin's position during this late expansion stage of the market cycle.

Despite the substantial level of positive net absorption in Q3 2018, year-to-date activity remains relatively low compared to the past three years of absorption activity in the market. Vacancy rates decreased 50 basis point from 10.7% in Q2 2018 to 10.2% in Q3 2018. Approximately 200,000 sq. ft. of new construction kicked off in Q3 2018, bringing the total amount of new activity currently under development to 4.4 million sq. ft.

Just as Austin once again saw a blazing hot summer, operational costs once again rose in Q3 2018, climbing \$0.20 per sq. ft. to \$10.38 per sq. ft. Conversely, the citywide NNN asking rate decreased \$0.55 in Q3 2018 to \$25.11 per sq. ft. Combined, the Full-Service Gross asking rate for Q3 2018 was \$35.49 per sq. ft., and while this was a quarter-over-quarter decrease of \$0.35, demand in the Austin office market has remained robust, with 9.97 million sq. ft. of current user demand in the market.

The Austin Business-Cycle Index (a collection of employment and payroll indicators) expanded at 4.3% in Q3 2018, below the long-term growth average of 6.0%. Total employment in 2018 has increased by 3.6%, with the Construction & Mining sector being the largest contributor to job growth in Austin.

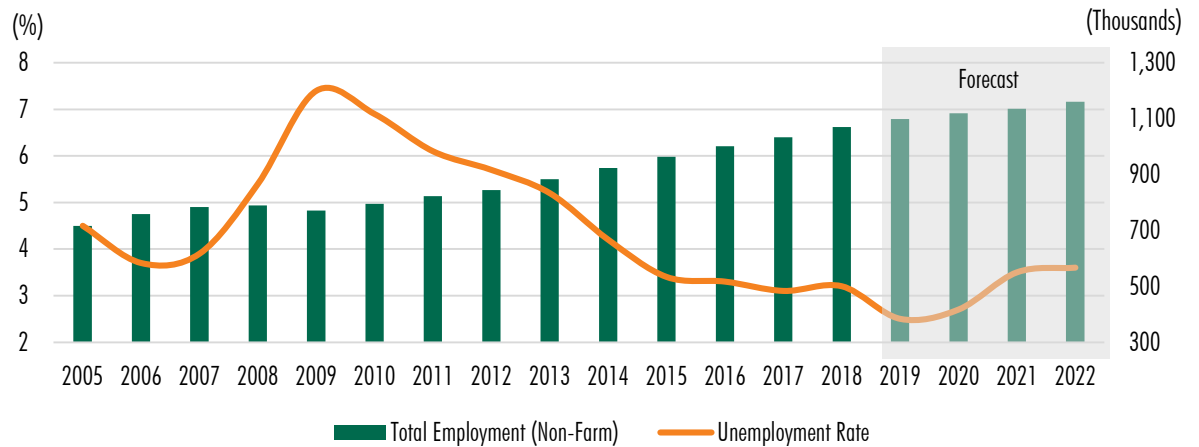
Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate (\$)	Under Construction (SF)	Q3 2018 Deliveries (SF)	Q3 2018 Net Absorption	2018 Net Absorption
CBD	10,996,720	7.2	9.9	47.02	1,539,304	20,001	302,381	396,711
Class A	8,021,093	6.2	9.1	52.23	1,539,304	20,001	258,365	338,170
Class B	2,532,105	9.5	11.4	41.78	-	-	39,576	51,221
Northwest	14,549,865	10.0	12.2	35.73	635,964	308,000	(35,785)	(37,926)
Class A	9,141,673	10.5	12.6	39.90	635,964	308,000	13,533	72,793
Class B	5,117,560	9.8	12.2	31.28	-	-	(50,992)	(110,223)
Far Northwest	4,531,614	7.8	13.9	33.23	431,384	-	43,594	24,289
Class A	2,854,424	6.3	8.9	36.57	431,384	-	27,227	63,655
Class B	1,550,057	10.5	23.7	30.16	-	-	20,059	(31,414)
Northeast	2,103,166	17.8	27.8	25.02	204,390	115,000	53,009	(64,797)
Class A	1,031,394	17.3	29.5	25.92	-	115,000	29,837	(32,565)
Class B	891,268	21.4	23.2	23.90	204,390	-	23,172	(36,828)
North	734,307	11.4	17.9	26.42	-	-	13,026	74,085
Class A	114,091	19.8	52.8	25.89	-	-	125	18,578
Class B	609,216	9.3	10.9	27.52	-	-	12,901	55,507
Central	1,961,081	9.0	10.2	31.73	26,391	-	1,840	18,868
Class A	522,914	4.2	5.1	44.04	-	-	(8,591)	65,606
Class B	1,249,258	10.9	12.4	29.03	26,391	-	4,706	(34,244)
Round Rock	864,126	19.6	20.8	28.25	59,476	46,986	11,163	13,272
Class A	151,134	77.3	77.3	31.17	-	46,986	0	1,050
Class B	670,874	7.5	9.1	24.06	59,476	-	11,163	14,737
East	841,102	15.9	15.9	43.86	815,640	-	(15,802)	(15,780)
Class A	373,804	33.4	33.4	47.33	604,640	-	0	4,866
Class B	357,823	6.7	6.7	38.62	211,000	-	(15,802)	(20,646)
South	1,141,364	3.3	3.8	32.08	129,201	90,500	109,611	114,119
Class A	399,458	0.0	0.0	46.22	129,201	90,500	94,389	115,787
Class B	405,857	3.4	4.2	35.62	-	-	19,033	10,845
Southeast	1,127,958	20.1	21.2	26.06	138,850	-	7,453	4,877
Class A	155,022	15.6	21.4	32.81	71,225	-	(2,277)	(16,573)
Class B	876,225	22.6	23.0	26.99	67,625	-	8,506	19,563
Southwest	11,102,764	11.7	15.9	34.90	464,758	-	85,437	128,682
Class A	7,730,533	12.6	18.0	39.02	405,452	-	51,500	138,553
Class B	3,225,191	9.8	11.2	30.58	59,306	-	34,771	(11,279)
<b>Austin Total</b>	<b>49,954,067</b>	<b>10.2</b>	<b>13.6</b>	<b>35.49</b>	<b>4,445,358</b>	<b>580,487</b>	<b>575,927</b>	<b>656,400</b>
<b>Class A</b>	<b>30,495,540</b>	<b>10.1</b>	<b>13.7</b>	<b>41.30</b>	<b>3,817,170</b>	<b>580,487</b>	<b>464,108</b>	<b>769,920</b>
<b>Class B</b>	<b>17,485,434</b>	<b>10.8</b>	<b>13.6</b>	<b>30.95</b>	<b>628,188</b>	<b>-</b>	<b>107,093</b>	<b>(92,761)</b>

Although Class C is not shown, totals are inclusive of all classes of data.

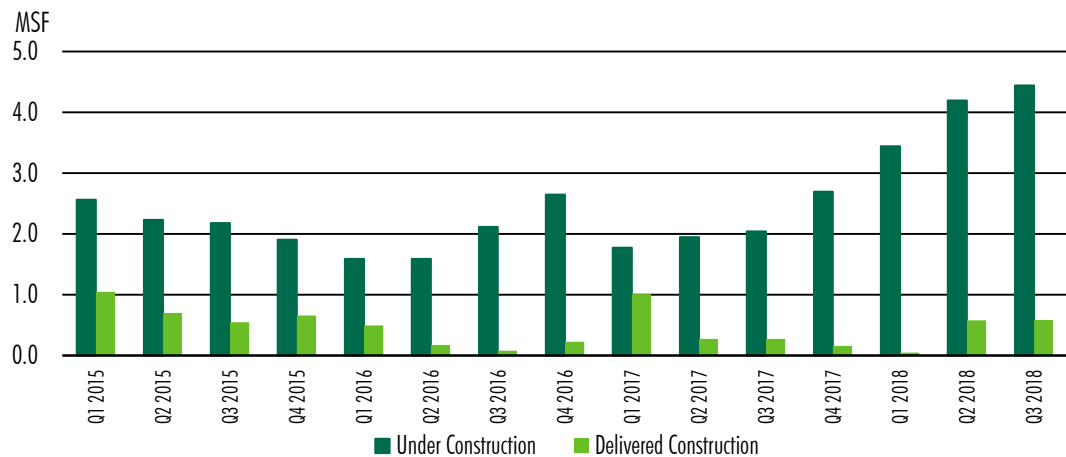
Source: CBRE Research, Q3 2018.

Figure 3: Austin Labor Force & Unemployment



Source: U.S. Bureau of Labor Statistics, Moody's Analytics, June 2018.

Figure 4: Historical Construction and Deliveries



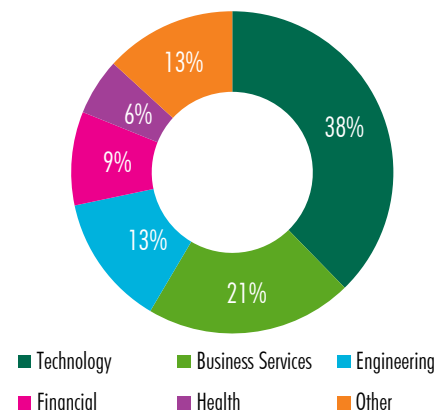
Source: CBRE Research, Q3 2018.

Figure 5: Significant Leases / Sales of Q3 2018

Lease (Tenant)	Property	Total SF
HEB Grocer/Favor	UpCycle	81,711
PIMCO	Frost Bank Tower	47,244
Keller Williams Realty	Barton Skyway III	41,883
Sale (Building)	Address	Total SF
Austin Oaks Office Park	3409-3737 Executive Center Drive	443,444
Stonebridge Plaza I & II	9606 N MoPac Expressway	386,146

Source: CBRE Research, Real Capital Analytics Q3 2018.

Figure 6: Q3 2018 Signed Leases by Industry



Source: CBRE Research, Q3 2018.

**Figure 7: Historical Market Statistics**

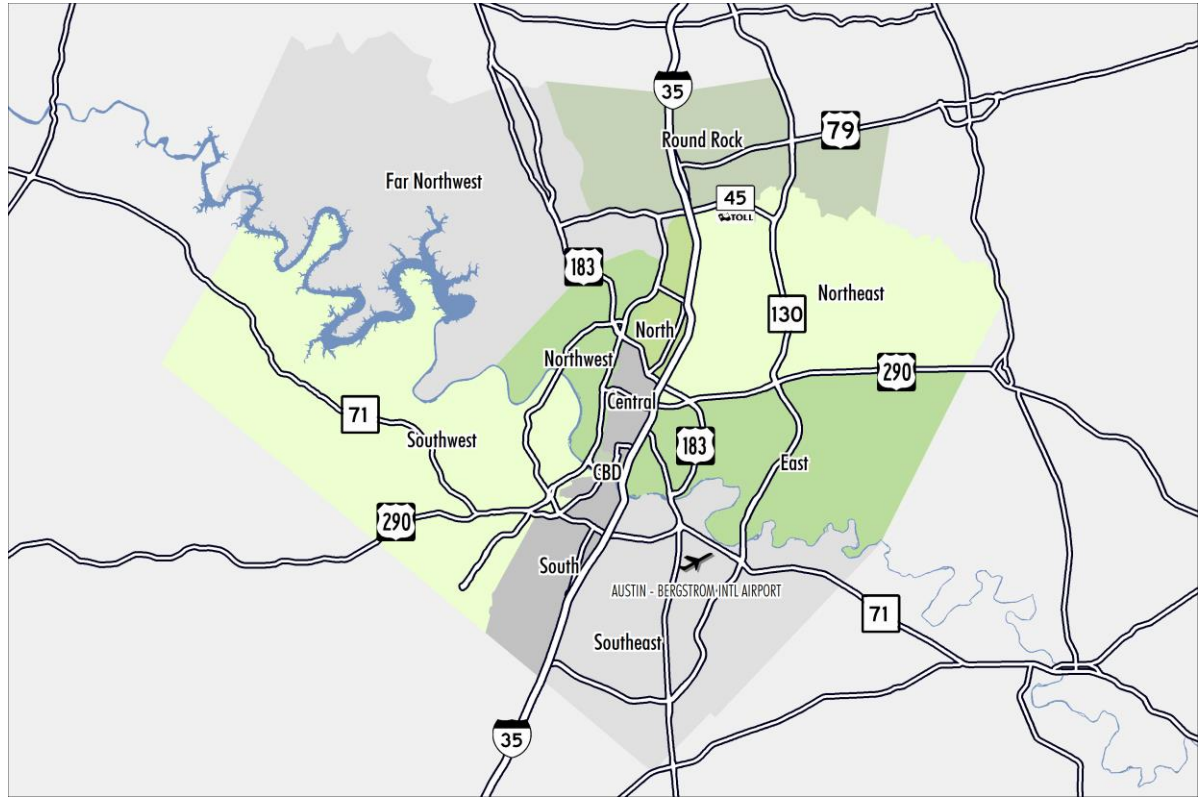
	2011	2012	2013	2014	2015	2016	2017	YTD 2018
<b>CBD</b>								
Absorption (Net SF)	167,794	177,023	64,099	369,822	649,300	97,639	553,795	396,711
Asking Rent, Avg. Annual	34.07	36.08	38.15	40.1	41.33	47.67	44.95	47.02
Delivered Construction (SF)	0	0	0	167,871	557,470	195,863	745,936	122,667
Vacancy Rate (%)	13.3	12	12	9.4	7.1	7.8	7.9	7.2
<b>NORTHWEST</b>								
Absorption (Net SF)	1,103,368	677,714	179,614	224,246	669,701	286,950	467,810	(37,926)
Asking Rent, Avg. Annual	25.37	25.83	26.28	29.48	31.96	32.8	33.84	35.73
Delivered Construction (SF)	0	0	0	143,331	591,973	372,235	386,921	308,000
Vacancy Rate (%)	20.2	15.3	10.4	9.4	8.8	8.8	8.6	10.0
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	366,763	79,360	198,389	336,470	199,294	24,289
Asking Rent, Avg. Annual	N/A	N/A	27.85	28.95	30.95	30.62	31.79	33.23
Delivered Construction (SF)	N/A	N/A	0	0	128,700	0	0	0
Vacancy Rate (%)	N/A	N/A	12.2	13.8	9.5	9.4	6.3	7.8
<b>NORTHEAST **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	64,819	(64,797)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	24.05	25.02
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	115,000
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	9.6	17.8
<b>NORTH CENTRAL ***</b>								
Absorption (Net SF)	103,556	(109,170)	90,741	222,683	90,066	251,093	N/A	N/A
Asking Rent, Avg. Annual	21.12	21.63	23.14	22.89	27.29	25.95	N/A	N/A
Delivered Construction (SF)	0	0	0	0	214,962	46,000	N/A	N/A
Vacancy Rate (%)	21.6	23	23.8	15.4	13.1	10.2	N/A	N/A
<b>NORTH **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	(18,159)	74,085
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.81	26.42
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	15.5	11.4
<b>CENTRAL **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	52,348	18,868
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	31.39	31.73
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	6.2	9.0
<b>ROUND ROCK</b>								
Absorption (Net SF)	37,083	8,592	26,097	41,367	19,892	18,801	(12,545)	13,272
Asking Rent, Avg. Annual	23.02	21.17	22.67	23.77	24.99	22.91	21.11	28.25
Delivered Construction (SF)	0	0	0	0	0	59,043	22,500	164,486
Vacancy Rate (%)	21.5	19.3	15.1	9.8	6.6	7	8.3	19.6
<b>EAST</b>								
Absorption (Net SF)	(32,154)	387,386	1,722	49,392	58,736	428,135	114,217	(15,780)
Asking Rent, Avg. Annual	16.19	16.38	17.2	16.71	19.55	20.13	34.67	43.86
Delivered Construction (SF)	0	0	30,451	0	191,990	199,408	59,655	246,711
Vacancy Rate (%)	27.6	12.7	16.7	14.9	17.9	6.6	7.5	15.9
<b>SOUTH</b>								
Absorption (Net SF)	52,136	83,355	25,359	70,143	33,337	158,472	93,359	114,119
Asking Rent, Avg. Annual	15.13	15.38	15.13	14.73	15.02	24.68	31.90	32.08
Delivered Construction (SF)	24,440	0	0	0	0	0	57,500	115,246
Vacancy Rate (%)	23.6	21	19.9	16.3	14.4	16	12.1	3.3
<b>SOUTHEAST **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	71,123	4,877
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.55	26.06
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	29,205	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	20.2	20.1
<b>SOUTHWEST</b>								
Absorption (Net SF)	367,752	205,677	149,911	101,327	419,723	159,982	155,443	128,682
Asking Rent, Avg. Annual	25.47	26.8	29.83	31.78	34.34	35.99	34.31	34.90
Delivered Construction (SF)	0	0	92,008	76,500	1,062,477	0	410,295	135,500
Vacancy Rate (%)	12.3	9.9	8.4	8.4	10.3	9.7	10.7	11.7
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	1,654,017	656,400
Asking Rent, Avg. Annual	25.35	26.24	28.15	29.56	31.81	34.83	34.39	35.49
Delivered Construction (SF)	24,440	0	122,459	387,702	2,747,572	872,549	1,709,994	1,207,610
Vacancy Rate (%)	17.5	14.2	12.1	10.6	9.6	9.2	8.8	10.2

Source: CBRE Research, Q3 2018.

\*Submarket created in 2013

\*\*Submarket created in 2017

\*\*\*Submarket removed in 2017


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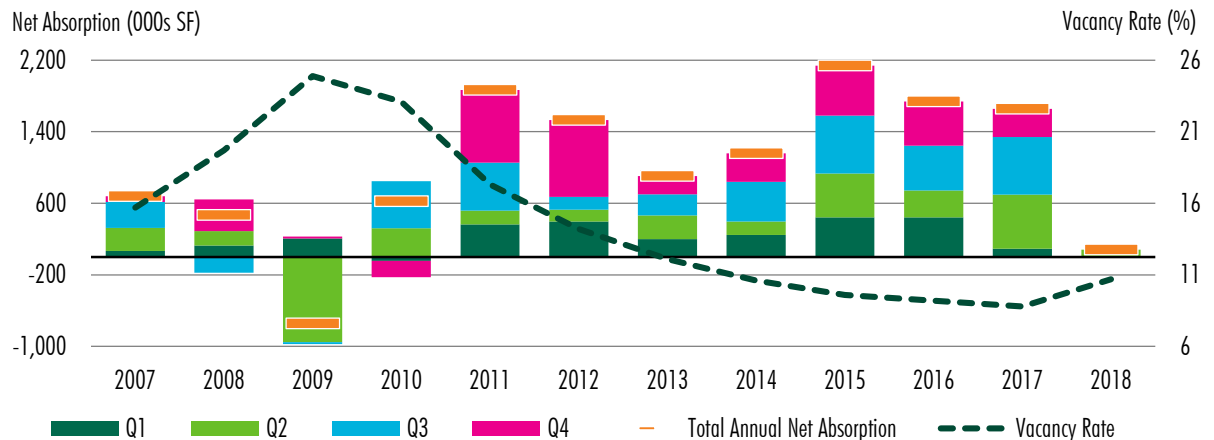
Austin Office, Q2 2018

# Resilient market pushes fundamentals during cycle's late expansion stage

Vacancy  
10.7%Under Construction  
4,195,359 SFDeliveries  
579,877 SFNet Absorption  
76,902 SFAvg. Asking Rate  
\$35.84 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q2 2018.

Austin office absorption levels during the first half of 2018 were relatively flat compared to the past three years, with slightly more than 80,000 sq. ft. of new space demand. Despite the lackluster level of absorption, Austin's office market is durable during its advancement into the late expansion stage of the cycle, with vacancy remaining low and asking rents climbing to record highs.

While positive net absorption in Q2 2018 was more substantial than Q1 2018, the nearly 77,000 sq. ft. taken down during the last 90 days is relatively low compared to prior periods. Vacancy ticked upwards a full percent to 10.7%, largely due to the delivery of six new office buildings encompassing close to 580,000 sq. ft. Approximately 800,000 sq. ft. of new construction kicked off in Q2 2018, bringing the total now underway to 4.2 million sq. ft., demonstrating the strong demand that exists in the market.

As expected, Austin operational costs rose once more climbing \$0.44 per sq. ft. to a citywide annual average of \$10.18 per sq. ft. The citywide NNN asking rate rose \$0.41 quarter-over-quarter to \$25.66 per sq. ft., and combined, the Q2 2018 citywide annual average full service gross rate was elevated to a historic high of \$35.84 per sq. ft. annually. Connected with the ever-increasing average area asking rent is the fact that occupiers remained highly interested in Austin, with more than 7.4 million sq. ft. of current demand in the market.

The Austin Business-Cycle Index (a collection of employment and payroll indicators) expanded at 7.0% in Q2 2018, above the long-term growth average of 6.0%. Jobs grew at a healthy 2.9% annualized rate in Q2, with construction, trade, transportation and utilities leading the pace.



Figure 2: Austin Office Market Statistics

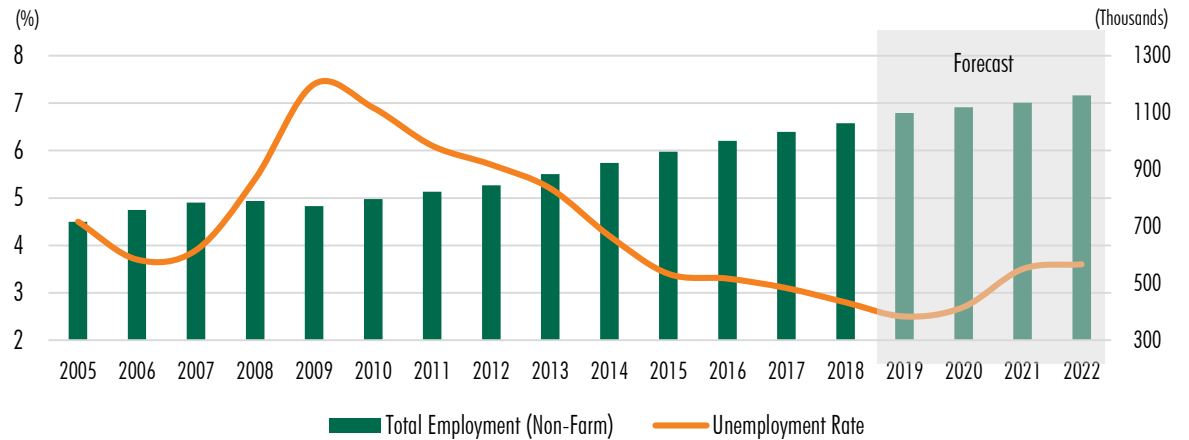
Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate (\$)	Under Construction (SF)	Q2 2018 Deliveries (SF)	Q2 2018 Net Absorption	2018 Net Absorption
CBD	10,929,693	9.0	12.2	46.99	1,171,560	102,666	70,059	94,330
Class A	7,972,830	8.0	11.4	52.32	1,171,560	102,666	47,753	79,805
Class B	2,513,341	11.2	14.1	41.10	-	-	34,970	11,645
Northwest	14,358,664	10.2	12.5	36.16	932,743	-	18,910	(2,141)
Class A	8,833,673	10.2	12.8	40.61	932,743	-	32,764	59,260
Class B	5,234,359	10.5	12.7	30.81	-	-	(22,877)	(59,231)
Far Northwest	4,484,628	6.9	8.6	32.67	450,622	-	(41,407)	(19,305)
Class A	2,807,438	5.7	8.4	37.84	170,000	-	(13,259)	36,428
Class B	1,550,057	9.0	9.2	27.47	280,622	-	(26,428)	(51,473)
Northeast	1,779,131	17.5	28.3	24.36	307,430	-	(81,550)	(117,806)
Class A	711,994	13.2	30.9	25.67	-	-	(93,632)	(62,402)
Class B	891,268	24.0	24.0	23.23	307,430	-	7,809	(60,000)
North	734,307	12.1	20.3	25.87	-	-	20,721	61,059
Class A	114,091	19.9	52.9	24.86	-	-	18,453	18,453
Class B	609,216	10.1	13.8	26.50	-	-	2,268	42,606
Central	1,961,081	8.8	9.9	30.91	44,391	-	16,278	17,028
Class A	522,914	2.2	3.4	40.86	18,000	-	863	74,197
Class B	1,249,258	10.5	11.7	29.02	26,391	-	(22,675)	(38,950)
Round Rock	864,126	20.9	23.0	27.39	59,476	95,000	8,255	2,109
Class A	151,134	77.3	1.3	30.76	-	-	2,200	1,050
Class B	670,874	9.1	1.5	22.74	59,476	95,000	8,570	3,574
East	691,183	13.3	13.3	43.42	948,264	246,711	3,503	22
Class A	244,360	33.4	33.4	45.33	731,367	-	-	4,866
Class B	357,823	2.2	2.2	37.91	216,897	246,711	3,503	(4,844)
South	1,050,864	5.4	6.4	32.54	187,656	-	(3,136)	4,508
Class A	308,958	1.3	1.3	42.54	187,656	-	-	21,398
Class B	405,857	8.1	10.6	34.50	-	-	(3,136)	(8,188)
Southeast	1,127,958	20.6	21.4	25.77	-	-	638	(2,576)
Class A	155,022	14.2	19.9	32.21	-	-	(3,842)	(14,296)
Class B	876,225	23.5	23.5	26.66	-	-	4,855	11,057
Southwest	11,086,097	12.2	15.9	35.76	93,217	135,500	64,631	43,245
Class A	7,730,533	12.9	17.9	40.04	33,911	55,500	63,409	87,053
Class B	3,208,524	10.5	11.3	30.91	59,306	80,000	(776)	(46,050)
<b>Austin Total</b>	<b>49,067,732</b>	<b>10.7</b>	<b>13.7</b>	<b>35.84</b>	<b>4,195,359</b>	<b>579,877</b>	<b>76,902</b>	<b>80,473</b>
<b>Class A</b>	<b>29,552,947</b>	<b>10.3</b>	<b>14.2</b>	<b>42.04</b>	<b>3,245,237</b>	<b>158,166</b>	<b>54,709</b>	<b>305,812</b>
<b>Class B</b>	<b>17,566,802</b>	<b>11.5</b>	<b>13.1</b>	<b>30.34</b>	<b>950,122</b>	<b>421,711</b>	<b>(13,917)</b>	<b>(199,854)</b>

Although Class C is not shown, totals are inclusive of all classes of data.

Source: CBRE Research, Q2 2018.

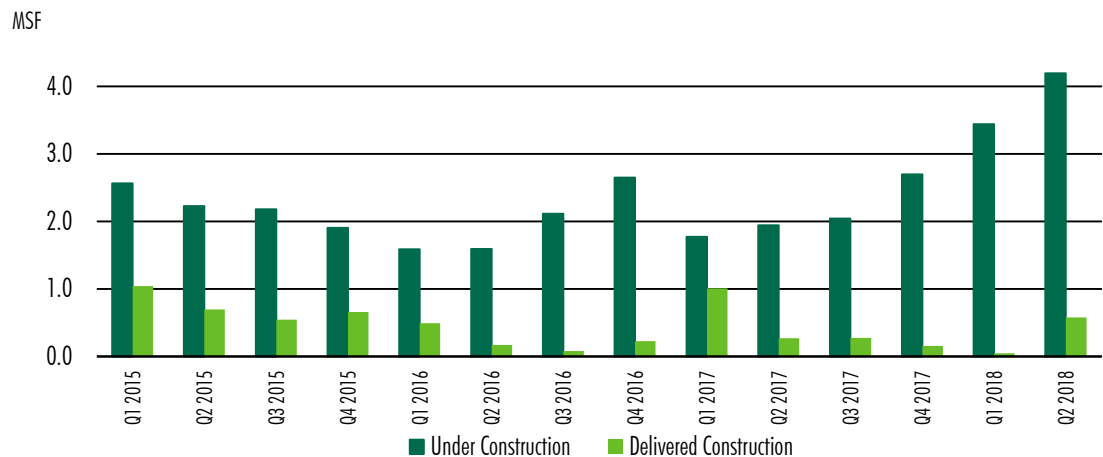


Figure 3: Austin Labor Force & Unemployment



Source: U.S. Bureau of Labor Statistics, Moody's Analytics, April 2018.

Figure 4: Historical Construction and Deliveries



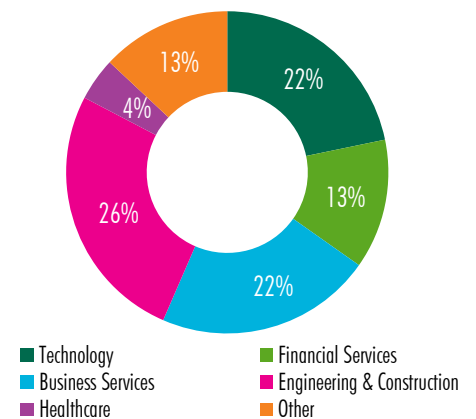
Source: CBRE Research, Q2 2018.

Figure 5: Significant Leases / Sales of Q2 2018

Lease (Tenant)	Property	Total SF
Indeed	Block 71	300,000
Internal Revenue Service	IRS Compliance Center	206,418
Texas Commission on Environmental Quality	Colonnade Office Center	197,496
Sale (Building)	Address	Total SF
Quarry Lake Business Center	4515 Seton Center Pkwy	117,265
The Overlook at Rob Roy	6836 Bee Caves Rd	113,767

Source: CBRE Research, Real Capital Analytics Q2 2018.

Figure 6: Q2 2018 Signed Leases by Industry



Source: CBRE Research, Q2 2018.

**Figure 7: Historical Market Statistics**

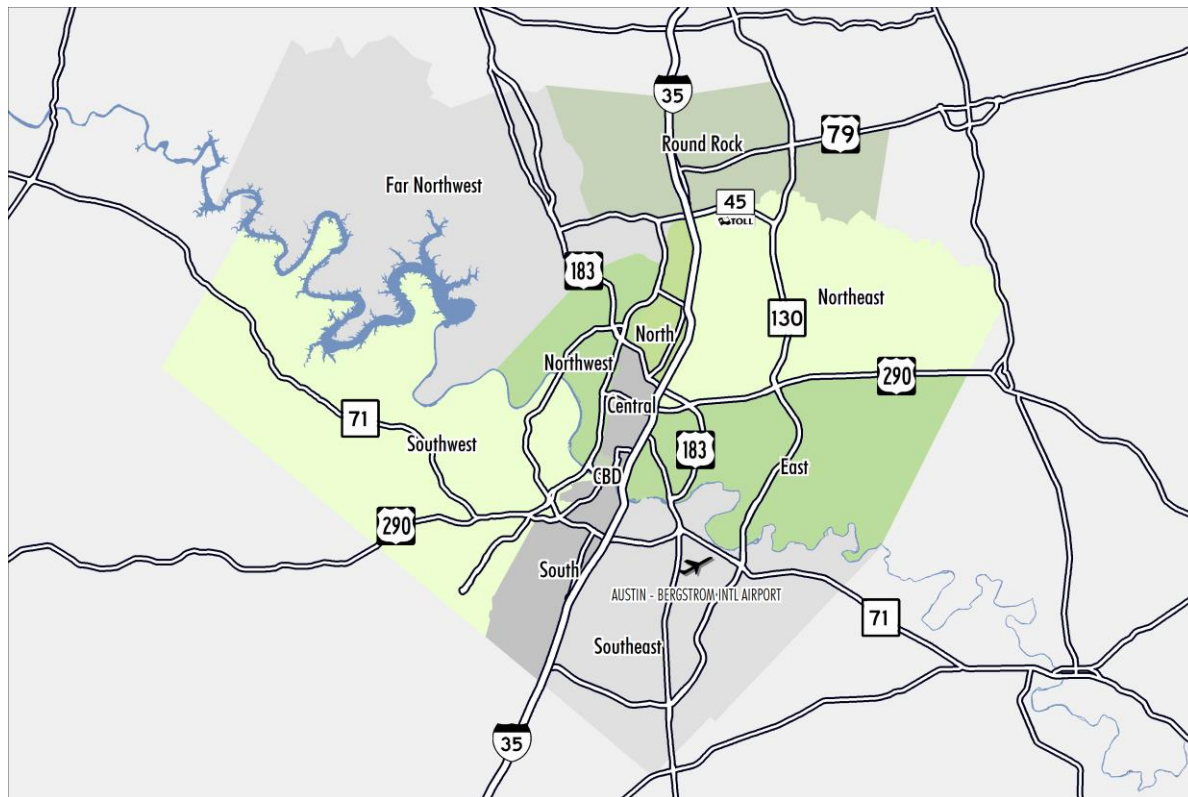
	2011	2012	2013	2014	2015	2016	2017	YTD 2018
<b>CBD</b>								
Absorption (Net SF)	167,794	177,023	64,099	369,822	649,300	97,639	553,795	94,330
Asking Rent, Avg. Annual	34.07	36.08	38.15	40.1	41.33	47.67	44.95	46.99
Delivered Construction (SF)	0	0	0	167,871	557,470	195,863	745,936	102,666
Vacancy Rate (%)	13.3	12	12	9.4	7.1	7.8	7.9	9.0
<b>NORTHWEST</b>								
Absorption (Net SF)	1,103,368	677,714	179,614	224,246	669,701	286,950	467,810	(2,141)
Asking Rent, Avg. Annual	25.37	25.83	26.28	29.48	31.96	32.8	33.84	36.16
Delivered Construction (SF)	0	0	0	143,331	591,973	372,235	386,921	0
Vacancy Rate (%)	20.2	15.3	10.4	9.4	8.8	8.8	8.6	10.2
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	366,763	79,360	198,389	336,470	199,294	(19,305)
Asking Rent, Avg. Annual	N/A	N/A	27.85	28.95	30.95	30.62	31.79	32.67
Delivered Construction (SF)	N/A	N/A	0	0	128,700	0	0	0
Vacancy Rate (%)	N/A	N/A	12.2	13.8	9.5	9.4	6.3	6.9
<b>NORTHEAST **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	64,819	(117,806)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	24.05	24.36
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	9.6	17.5
<b>NORTH CENTRAL ***</b>								
Absorption (Net SF)	103,556	(109,170)	90,741	222,683	90,066	251,093	N/A	N/A
Asking Rent, Avg. Annual	21.12	21.63	23.14	22.89	27.29	25.95	N/A	N/A
Delivered Construction (SF)	0	0	0	0	214,962	46,000	N/A	N/A
Vacancy Rate (%)	21.6	23	23.8	15.4	13.1	10.2	N/A	N/A
<b>NORTH **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	(18,159)	61,059
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.81	25.87
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	15.5	12.1
<b>CENTRAL **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	52,348	17,028
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	31.39	30.91
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	6.2	8.8
<b>ROUND ROCK</b>								
Absorption (Net SF)	37,083	8,592	26,097	41,367	19,892	18,801	(12,545)	2,109
Asking Rent, Avg. Annual	23.02	21.17	22.67	23.77	24.99	22.91	21.11	27.39
Delivered Construction (SF)	0	0	0	0	0	59,043	22,500	117,500
Vacancy Rate (%)	21.5	19.3	15.1	9.8	6.6	7	8.3	20.9
<b>EAST</b>								
Absorption (Net SF)	(32,154)	387,386	1,722	49,392	58,736	428,135	114,217	22
Asking Rent, Avg. Annual	16.19	16.38	17.2	16.71	19.55	20.13	34.67	43.42
Delivered Construction (SF)	0	0	30,451	0	191,990	199,408	59,655	246,711
Vacancy Rate (%)	27.6	12.7	16.7	14.9	17.9	6.6	7.5	13.3
<b>SOUTH</b>								
Absorption (Net SF)	52,136	83,355	25,359	70,143	33,337	158,472	93,359	4,508
Asking Rent, Avg. Annual	15.13	15.38	15.13	14.73	15.02	24.68	31.90	32.54
Delivered Construction (SF)	24,440	0	0	0	0	0	57,500	24,746
Vacancy Rate (%)	23.6	21	19.9	16.3	14.4	16	12.1	5.4
<b>SOUTHEAST **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	71,123	(2,576)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.55	25.77
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	29,205	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	20.2	20.6
<b>SOUTHWEST</b>								
Absorption (Net SF)	367,752	205,677	149,911	101,327	419,723	159,982	155,443	43,245
Asking Rent, Avg. Annual	25.47	26.8	29.83	31.78	34.34	35.99	34.31	35.76
Delivered Construction (SF)	0	0	92,008	76,500	1,062,477	0	410,295	135,500
Vacancy Rate (%)	12.3	9.9	8.4	8.4	10.3	9.7	10.7	12.2
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	1,654,017	80,473
Asking Rent, Avg. Annual	25.35	26.24	28.15	29.56	31.81	34.83	34.39	35.84
Delivered Construction (SF)	24,440	0	122,459	387,702	2,747,572	872,549	1,709,994	627,123
Vacancy Rate (%)	17.5	14.2	12.1	10.6	9.6	9.2	8.8	10.7

Source: CBRE Research, Q2 2018.

\*Submarket created in 2013

\*\*Submarket created in 2017

\*\*\*Submarket removed in 2017


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Austin Office, Q1 2018

# New submarket boundaries, flat absorption, and record high rents define Q1 2018



Vacancy  
9.7%



Under Construction  
3,440,866 SF



Deliveries  
47,246 SF



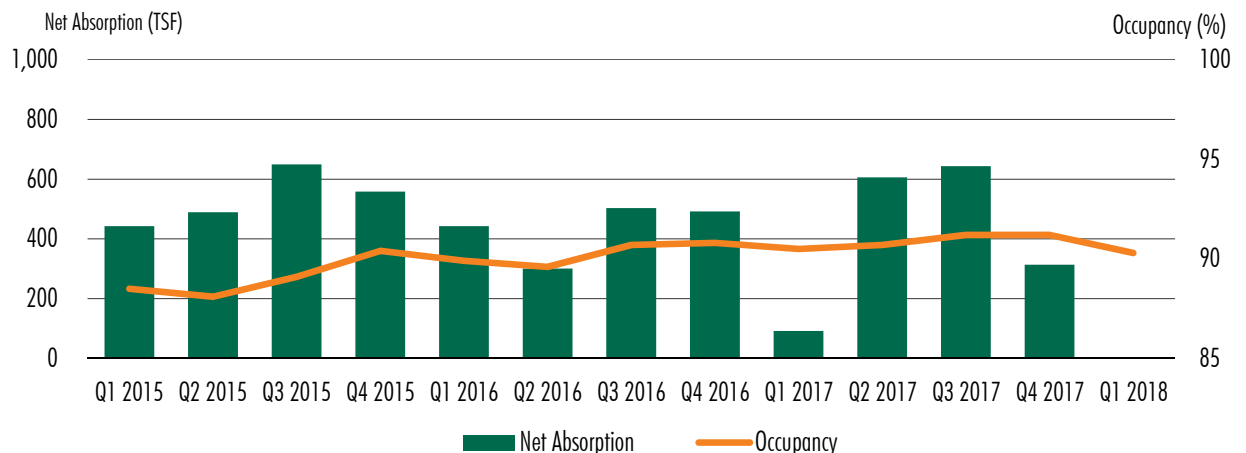
Net Absorption  
3,571 SF



Avg. Asking Rate  
\$34.99 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q1 2018.

At the beginning of 2017, CBRE Research redrew the Austin office submarket boundaries to better define the expanding market. CBRE Research created a Northeast and a Southeast submarket by dividing the East and split up the North Central submarket into North and Central. After tracking these new submarkets for the past year, CBRE Research is unveiling them this quarter.

The first 90 days of 2018 fell flat as the Austin office market registered a mere 3,571 sq. ft. of net absorption as vacancy increased 90 basis points to 9.7%, after spending the last half of 2017 at the 16-year low of 8.8%. Despite the delivery of only two buildings this quarter in the suburbs, the development cycle remained blistering as an additional 700,00 sq. ft. of new projects kicked off this quarter, bringing the under-construction total to 3.4 million sq. ft.

Operational costs rose again, climbing \$0.17 per sq. ft. to a citywide annual average of \$9.74 per sq. ft. Despite the increased vacancy and flat overall absorption this quarter, (Class A exceeded positive growth of 250,000 sq. ft., yet Class B and C acted as an anchor to the market), landlords have identified the prominent space demand in the market and elevated the citywide annual average full service gross rate to \$34.99 per sq. ft., a new leasing market high. With more than 4.3 million sq. ft. of demand in the market (particularly for Class A space), Austin landlords appear to remain confident in near-term local leasing activity.

Meanwhile, the Austin Business-Cycle index (a collection of employment and payroll indicators) grew at 7.8% in 2017, a marked acceleration when compared to the growth slowdown the region experienced in 2016.

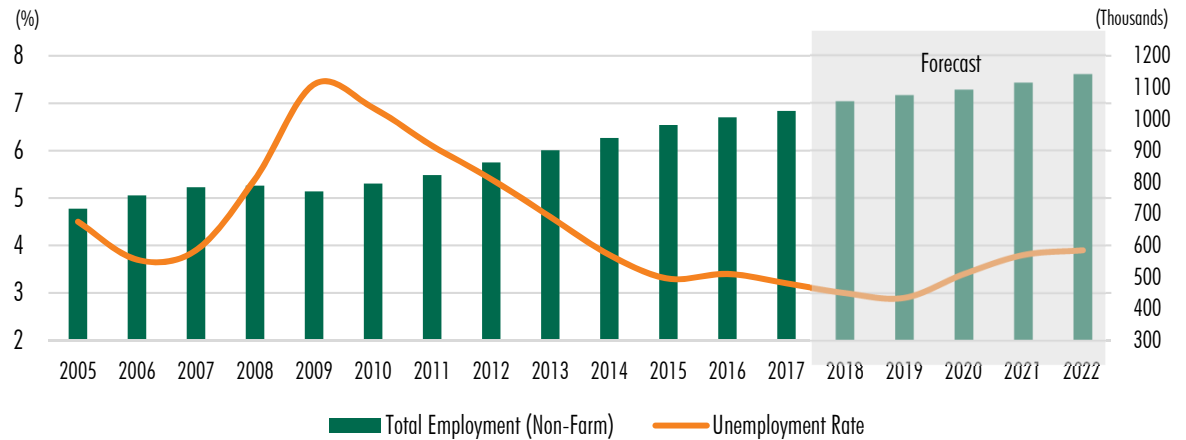
**Figure 2: Austin Office Market Statistics**

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate (\$)	Under Construction (\$F)	Q4 2017 Deliveries (\$F)	Q1 2018 Net Absorption	2018 Net Absorption
CBD	10,827,027	8.1	10.3	46.57	591,137	-	24,271	24,271
Class A	7,870,164	6.8	9.2	52.59	591,137	-	32,052	32,052
Class B	2,513,341	11.9	13.7	41.51	-	-	(23,325)	(23,325)
Northwest	14,523,162	9.8	14.0	35.25	625,862	-	(21,051)	(21,051)
Class A	8,784,554	10.2	15.7	39.65	625,862	-	26,496	26,496
Class B	5,447,976	9.5	11.7	30.61	-	-	(36,354)	(36,354)
Far Northwest	4,450,354	5.6	9.2	32.77	415,567	-	22,102	22,102
Class A	2,807,438	5.3	8.8	38.22	170,000	-	49,687	49,687
Class B	1,550,057	6.2	10.3	26.45	245,567	-	(25,045)	(25,045)
Northeast	1,779,131	12.6	16.3	22.73	307,430	-	(36,256)	(36,256)
Class A	711,994	0	0	N/A	-	-	31,230	31,230
Class B	891,268	24.2	24.2	23.44	307,430	-	(67,809)	(67,809)
North	752,371	13.1	19.0	23.99	-	-	40,338	40,338
Class A	114,091	36.1	66.1	21.44	-	-	0	0
Class B	609,216	8.7	10.3	25.68	-	-	40,338	40,338
Central	1,961,081	9.6	10.3	30.47	44,391	-	750	750
Class A	522,914	2.4	3.2	40.73	18,000	-	73,334	73,334
Class B	1,249,258	8.7	9.4	28.88	26,391	-	(16,275)	(16,275)
Round Rock	769,126	11.7	13.6	23.91	154,476	22,500	(6,146)	(6,146)
Class A	56,134	42.7	0.3	29.50	-	22,500	(1,150)	(1,150)
Class B	670,874	9.8	1.5	21.66	154,476	-	(4,996)	(4,996)
East	650,386	2.2	2.2	35.30	924,078	-	(3,481)	(3,481)
Class A	162,649	0	0	N/A	616,367	-	4,866	4,866
Class B	398,737	2.9	2.9	35.95	307,711	-	(8,347)	(8,347)
South	1,050,864	5.0	5.2	32.21	187,656	24,746	7,644	7,644
Class A	308,958	1.3	1.3	42.54	187,656	-	21,398	21,398
Class B	405,857	7.0	7.4	34.36	-	-	(5,052)	(5,052)
Southeast	1,127,958	20.5	20.7	23.58	-	-	(3,214)	(3,214)
Class A	155,022	11.7	13.3	31.00	-	-	(10,454)	(10,454)
Class B	876,225	23.8	23.8	24.22	-	-	6,202	6,202
Southwest	10,950,597	11.6	15.9	35.29	190,269	-	(21,386)	(21,386)
Class A	7,595,033	12.3	18.1	39.59	89,411	-	23,644	23,644
Class B	3,208,524	10.2	11.0	30.42	100,858	-	(45,274)	(45,274)
<b>Austin Total</b>	<b>48,842,057</b>	<b>9.7</b>	<b>13.0</b>	<b>34.99</b>	<b>3,440,866</b>	<b>47,246</b>	<b>3,571</b>	<b>3,571</b>
<b>Class A</b>	<b>29,088,951</b>	<b>9.0</b>	<b>13.3</b>	<b>41.49</b>	<b>2,298,433</b>	<b>47,246</b>	<b>251,103</b>	<b>251,103</b>
<b>Class B</b>	<b>17,821,333</b>	<b>10.8</b>	<b>12.5</b>	<b>29.94</b>	<b>1,142,433</b>	<b>-</b>	<b>(185,937)</b>	<b>(185,937)</b>

Although Class C is not shown, totals are inclusive of all classes of data.

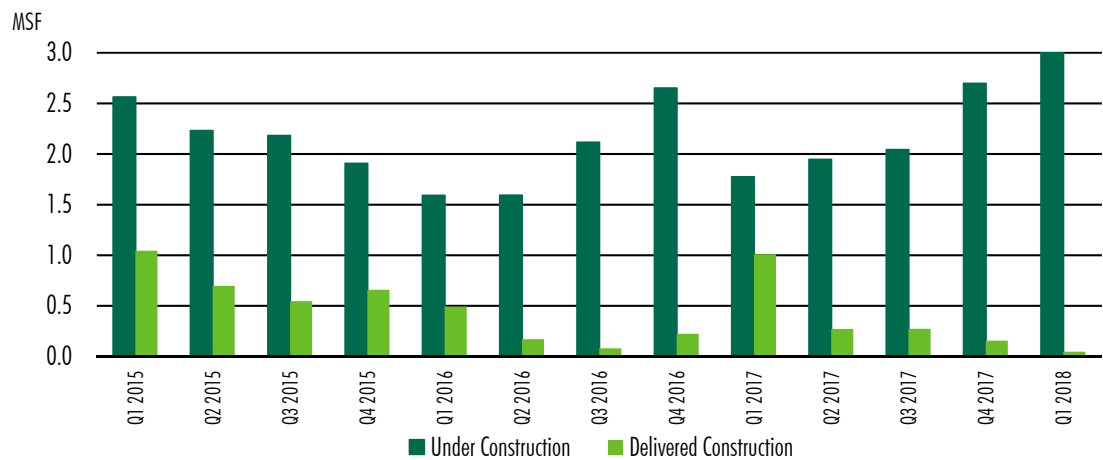
Source: CBRE Research, Q1 2018.

Figure 3: Austin Labor Force & Unemployment



Source: U.S. Bureau of Labor Statistics, Moody's Analytics, March 2018.

Figure 4: Historical Construction and Deliveries



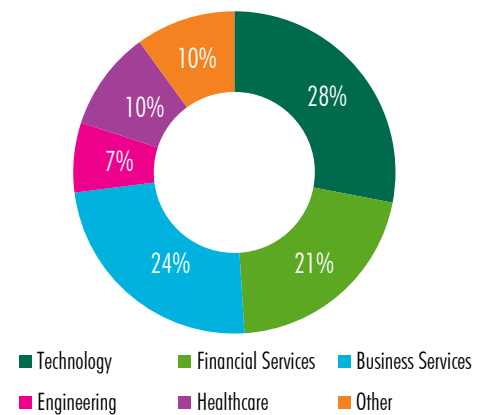
Source: CBRE Research, Q1 2018.

Figure 5: Significant Leases / Sales of Q1 2018

Lease (Tenant)	Property	Total SF
Parsley Energy	300 Colorado	300,000
Sailpoint Technologies	Four Points Centre	165,000
State of Texas	Braker Pointe III	115,000
Sale (Building)	Address	Total SF
Rollingwood Center I & II	2500 Bee Caves Rd	214,000
Latana Ridge	7601 Southwest Pkwy	175,000

Source: CBRE Research, Real Capital Analytics Q1 2018.

Figure 6: Q1 2018 Signed Leases by Industry



Source: CBRE Research, Q1 2018.

**Figure 7: Historical Market Statistics**

	2011	2012	2013	2014	2015	2016	2017	YTD 2018
<b>CBD</b>								
Absorption (Net SF)	167,794	177,023	64,099	369,822	649,300	97,639	553,795	24,271
Asking Rent, Avg. Annual	34.07	36.08	38.15	40.1	41.33	47.67	44.95	46.57
Delivered Construction (SF)	0	0	0	167,871	557,470	195,863	745,936	0
Vacancy Rate (%)	13.3	12	12	9.4	7.1	7.8	7.9	8.1
<b>NORTHWEST</b>								
Absorption (Net SF)	1,103,368	677,714	179,614	224,246	669,701	286,950	467,810	(21,051)
Asking Rent, Avg. Annual	25.37	25.83	26.28	29.48	31.96	32.8	33.84	35.25
Delivered Construction (SF)	0	0	0	143,331	591,973	372,235	386,921	0
Vacancy Rate (%)	20.2	15.3	10.4	9.4	8.8	8.8	8.6	9.8
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	366,763	79,360	198,389	336,470	199,294	22,102
Asking Rent, Avg. Annual	N/A	N/A	27.85	28.95	30.95	30.62	31.79	32.77
Delivered Construction (SF)	N/A	N/A	0	0	128,700	0	0	0
Vacancy Rate (%)	N/A	N/A	12.2	13.8	9.5	9.4	6.3	5.6
<b>NORTHEAST **</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	64,819	(36,256)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	24.05	22.73
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	9.6	12.6
<b>NORTH CENTRAL***</b>								
Absorption (Net SF)	103,556	-109,17	90,741	222,683	90,066	251,093	N/A	N/A
Asking Rent, Avg. Annual	21.12	21.63	23.14	22.89	27.29	25.95	N/A	N/A
Delivered Construction (SF)	0	0	0	0	214,962	46,000	N/A	N/A
Vacancy Rate (%)	21.6	23	23.8	15.4	13.1	10.2	N/A	N/A
<b>NORTH**</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	-18,159	40,338
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.81	23.99
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	15.5	13.1
<b>CENTRAL**</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	52,348	750
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	31.39	30.47
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	6.2	9.6
<b>ROUND ROCK</b>								
Absorption (Net SF)	37,083	8,592	26,097	41,367	19,892	18,801	-12,545	(6,146)
Asking Rent, Avg. Annual	23.02	21.17	22.67	23.77	24.99	22.91	21.11	23.91
Delivered Construction (SF)	0	0	0	0	0	59,043	22,500	22,500
Vacancy Rate (%)	21.5	19.3	15.1	9.8	6.6	7	8.3	11.7
<b>EAST</b>								
Absorption (Net SF)	-32,154	387,386	1,722	49,392	58,736	428,135	114,217	(3,481)
Asking Rent, Avg. Annual	16.19	16.38	17.2	16.71	19.55	20.13	34.67	35.30
Delivered Construction (SF)	0	0	30,451	0	191,990	199,408	59,655	0
Vacancy Rate (%)	27.6	12.7	16.7	14.9	17.9	6.6	7.5	2.2
<b>SOUTH</b>								
Absorption (Net SF)	52,136	83,355	25,359	70,143	33,337	158,472	93,359	7,644
Asking Rent, Avg. Annual	15.13	15.38	15.13	14.73	15.02	24.68	31.90	32.21
Delivered Construction (SF)	24,440	0	0	0	0	0	57,500	24,746
Vacancy Rate (%)	23.6	21	19.9	16.3	14.4	16	12.1	5.0
<b>SOUTHEAST**</b>								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	71,123	(3,214)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.55	23.58
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	29,205	0
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	20.2	20.5
<b>SOUTHWEST</b>								
Absorption (Net SF)	367,752	205,677	149,911	101,327	419,723	159,982	155,443	(21,386)
Asking Rent, Avg. Annual	25.47	26.8	29.83	31.78	34.34	35.99	34.31	35.29
Delivered Construction (SF)	0	0	92,008	76,500	1,062,477	0	410,295	0
Vacancy Rate (%)	12.3	9.9	8.4	8.4	10.3	9.7	10.7	11.6
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	1,654,017	3,571
Asking Rent, Avg. Annual	25.35	26.24	28.15	29.56	31.81	34.83	34.39	34.99
Delivered Construction (SF)	24,440	0	122,459	387,702	2,747,572	872,549	1,709,994	47,246
Vacancy Rate (%)	17.5	14.2	12.1	10.6	9.6	9.2	8.8	9.7

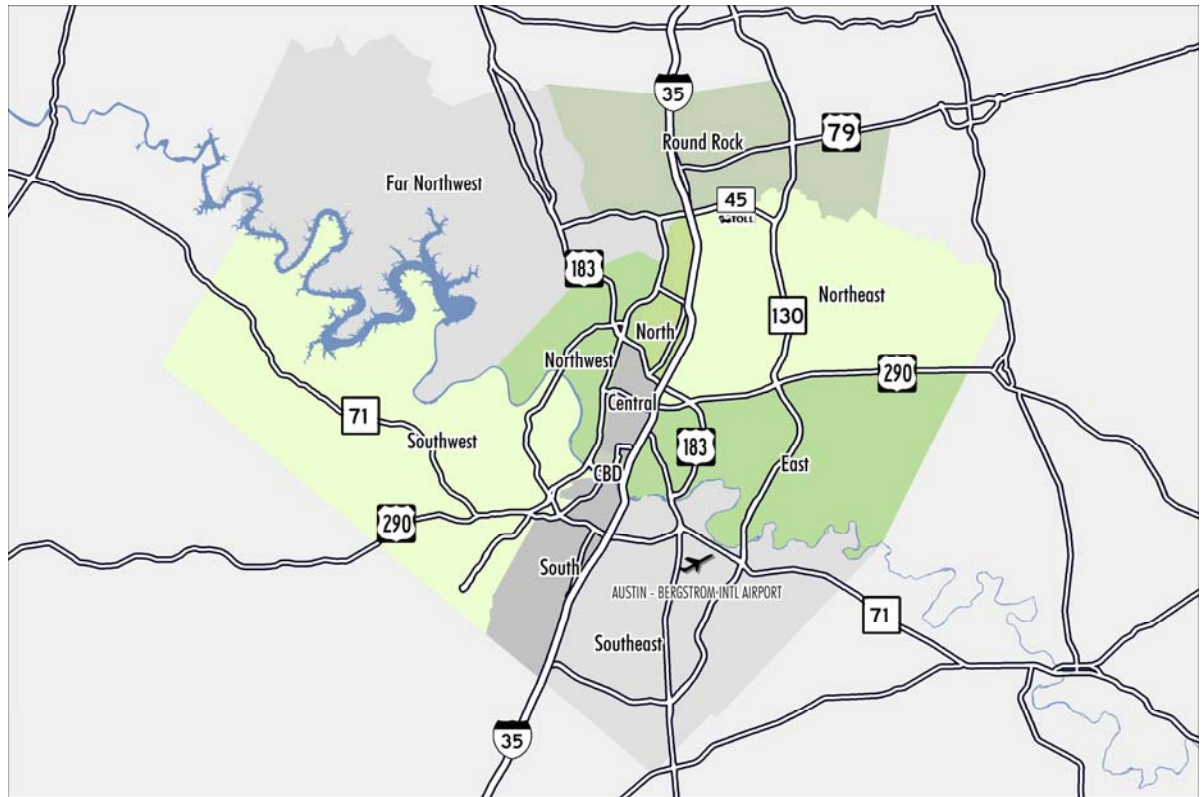
Source: CBRE Research, Q1 2018.

\*Submarket created in 2013

\*\*Submarket created in 2017

\*\*\*Submarket removed in 2017




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Austin Office, Q4 2017

# Active year for Austin occupiers, developers and landlords (again)



Vacancy  
8.8%



Under Construction  
2,695,843 SF



Deliveries  
156,031 SF



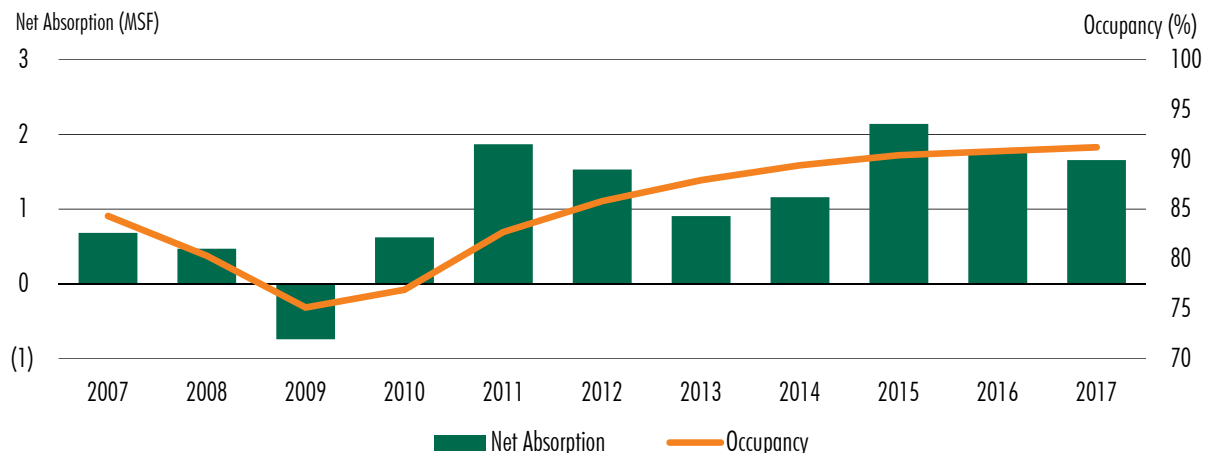
Net Absorption  
313,395 SF



Avg. Asking Rate  
\$34.39 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q4 2017.

As 2017 comes to a close, the Austin office market once again registered an active year of over 1.0 million sq. ft. of positive net absorption as vacancy was pushed down to a 16-year low. The development cycle has remained fiery as developers kicked off an additional 600,000 sq. ft. of new construction, closing out the year with approximately 2.7 million sq. ft. of new office space. With new supply in lockstep with demand, 2018 is looking to be another year of solid leasing activity within Austin's office market.

Absorption activity during the past 90 days, though, was muted compared to the previous three quarters, registering 313,395 sq. ft., with tenants giving back space in three submarkets. The technology sector continued to account for the majority of new leases, as 32% originated from tech related companies. Financial and business services accounted for 29% of new leases.

Vacancy held steady this quarter at 8.8% , a low not seen since Q2 2001. Operational costs in Austin rose \$0.86 per sq. ft. in the past 180 days , climbing to a citywide annual average of \$9.57 per sq. ft. In order to offset the increasing operational costs, landlords have been pressed to again lower NNN asking rates to a citywide average of \$24.82 per sq. ft., down from \$25.22 per sq. ft. in Q3 2017 and \$26.12 per sq. ft. in Q2 2017. Despite the decreasing NNN asking rate, the citywide average FS Gross rate rose \$0.07 per sq. ft. from Q3 2017 to \$34.39 per sq. ft.

In October 2017, Austin's unemployment fell to 2.6%, the lowest level since the late 1990s. Year-to-date labor growth was 1.4%, more than double the state's rate of 0.6%. The Austin Business-Cycle index grew at 7.3% annually, above the long-term growth trend of 6.0%, spurred by strong job numbers.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate (\$)	Under Construction (SF)	Q4 2017 Deliveries (SF)	Q4 2017 Net Absorption	2017 Net Absorption
CBD	10,776,719	7.9	10.0	45.29	446,137	-	149,303	553,795
Class A	7,819,856	6.8	8.7	52.05	446,137	-	135,293	565,599
Class B	2,513,341	10.9	13.6	39.19	-	-	15,768	(18,748)
Northwest	14,198,823	8.6	12.8	34.01	625,862	95,863	131,614	467,810
Class A	8,784,554	8.7	13.2	37.66	625,862	95,863	(37,975)	243,999
Class B	5,246,615	8.6	12.4	30.45	-	-	169,589	224,184
Far Northwest	4,243,782	6.3	8.9	32.08	245,567	-	(8,768)	199,294
Class A	2,807,438	7.0	8.7	35.50	-	-	(21,554)	143,183
Class B	1,343,485	5.1	9.8	28.04	245,567	-	12,786	54,844
North Central	3,243,171	7.7	10.7	27.36	44,391	-	(20,644)	82,644
Class A	687,005	8.3	20.0	34.90	18,000	-	(25,246)	10,560
Class B	2,215,215	8.0	8.7	26.40	26,391	-	3,762	70,536
Round Rock	777,248	8.3	10.0	21.22	154,476	-	7,617	(12,545)
Class A	33,634	3.1	3.1	34.00	-	-	4,645	6,775
Class B	701,496	9.1	10.9	21.18	154,476	-	457	(19,320)
East	2,411,073	7.5	9.8	25.53	831,508	-	32,658	114,217
Class A	874,643	4.1	7.7	38.72	406,367	-	32,332	105,822
Class B	1,271,561	10.4	12.4	25.91	425,141	-	(2,872)	(1,186)
South	2,180,031	12.1	12.3	25.90	212,402	-	65,608	93,359
Class A	439,234	2.6	3.2	34.25	212,402	-	21,657	19,998
Class B	1,318,677	18.6	18.8	26.61	-	-	35,993	60,291
Southwest	10,853,834	10.7	14.9	34.49	135,500	60,168	(43,993)	155,443
Class A	7,534,865	11.8	17.3	38.77	55,500	60,168	(76,503)	58,832
Class B	3,171,929	8.1	9.5	31.06	80,000	-	32,561	96,563
<b>Austin Total</b>	<b>48,684,681</b>	<b>8.8</b>	<b>12.0</b>	<b>34.39</b>	<b>2,695,843</b>	<b>156,031</b>	<b>313,395</b>	<b>1,654,017</b>
<b>Class A</b>	<b>28,981,229</b>	<b>8.6</b>	<b>12.5</b>	<b>40.54</b>	<b>1,764,268</b>	<b>156,031</b>	<b>32,649</b>	<b>1,154,768</b>
<b>Class B</b>	<b>17,782,319</b>	<b>9.4</b>	<b>11.8</b>	<b>30.05</b>	<b>931,575</b>	<b>-</b>	<b>268,044</b>	<b>467,164</b>

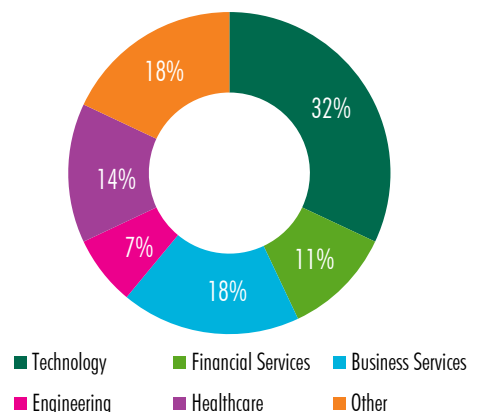
Although Class C is not shown, totals are inclusive of all classes of data.  
Source: CBRE Research, Q4 2017.

Figure 3: Significant Leases / Sales of Q4 2017

Lease (Tenant)	Property	Total SF
Samsung	3900 San Clemente	42,287
BMC Software, Inc.	Avallon — Bldg. IV	36,000
Quest Software, Inc.	Braker Pointe III	29,303
Sale (Building)	Address	Total SF
Encino Trace I & II	5707 Southwest Pkwy	319,743
Cielo Center	1250 Capital of Texas Hwy	270,711

Source: CBRE Research, Q4 2017.

Figure 4: Q4 2017 Signed Leases by Industry



Source: CBRE Research, Q4 2017.

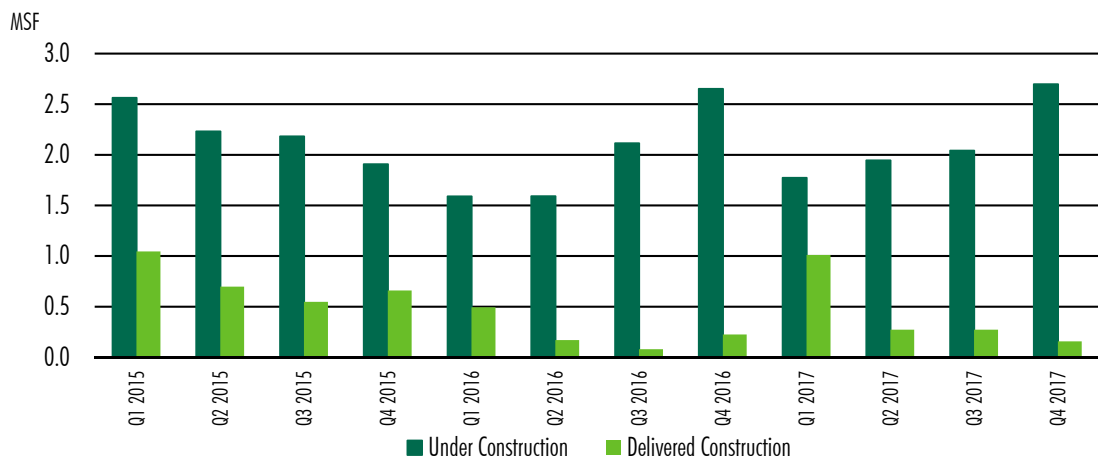
Figure 5: Historical Market Statistics

	2010	2011	2012	2013	2014	2015	2016	2017
<b>CBD</b>								
Absorption (Net SF)	190,764	167,794	177,023	64,099	369,822	649,300	97,639	553,795
Asking Rent, Avg. Annual	33.33	34.07	36.08	38.15	40.10	41.33	47.67	45.29
Delivered Construction (SF)	0	0	0	0	167,871	557,470	195,863	745,552
Vacancy Rate (%)	15.9	13.3	12.0	12.0	9.4	7.1	7.8	7.9
<b>NORTHWEST</b>								
Absorption (Net SF)	14,469	1,103,368	677,714	179,614	224,246	669,701	286,950	467,810
Asking Rent, Avg. Annual	24.91	25.37	25.83	26.28	29.48	31.96	32.80	34.01
Delivered Construction (SF)	0	0	0	0	143,331	591,973	372,235	386,921
Vacancy Rate (%)	27.6	20.2	15.3	10.4	9.4	8.8	8.8	8.6
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	N/A	366,763	79,360	198,389	336,470	199,294
Asking Rent, Avg. Annual	N/A	N/A	N/A	27.85	28.95	30.95	30.62	32.08
Delivered Construction (SF)	N/A	N/A	N/A	0	0	128,700	0	0
Vacancy Rate (%)	N/A	N/A	N/A	12.2	13.8	9.5	9.4	6.3
<b>NORTH CENTRAL</b>								
Absorption (Net SF)	122,855	103,556	(10,917)	90,741	222,683	90,066	251,093	82,644
Asking Rent, Avg. Annual	18.42	21.12	21.63	23.14	22.89	27.29	25.95	25.52
Delivered Construction (SF)	0	0	0	0	0	214,962	46,000	0
Vacancy Rate (%)	29.2	21.6	23.0	23.8	15.4	13.1	10.2	7.1
<b>ROUND ROCK</b>								
Absorption (Net SF)	(7,999)	37,083	8,592	26,097	41,367	19,892	18,801	(12,545)
Asking Rent, Avg. Annual	24.52	23.02	21.17	22.67	23.77	24.99	22.91	21.22
Delivered Construction (SF)	0	0	0	0	0	0	59,043	0
Vacancy Rate (%)	47.0	21.5	19.3	15.1	9.8	6.6	7.0	8.3
<b>EAST</b>								
Absorption (Net SF)	(26,865)	(32,154)	387,386	1,722	49,392	58,736	428,135	114,217
Asking Rent, Avg. Annual	16.71	16.19	16.38	17.20	16.71	19.55	20.13	25.53
Delivered Construction (SF)	0	0	0	30,451	0	191,990	199,408	109,726
Vacancy Rate (%)	29.4	27.6	12.7	16.7	14.9	17.9	6.6	7.5
<b>SOUTH</b>								
Absorption (Net SF)	31,047	52,136	83,355	25,359	70,143	33,337	158,472	93,359
Asking Rent, Avg. Annual	18.01	15.13	15.38	15.13	14.73	15.02	24.68	25.90
Delivered Construction (SF)	0	24,440	0	0	0	0	0	57,500
Vacancy Rate (%)	25.3	23.6	21.0	19.9	16.3	14.4	16.0	12.1
<b>SOUTHWEST</b>								
Absorption (Net SF)	295,845	367,752	205,677	149,911	101,327	419,723	159,982	155,443
Asking Rent, Avg. Annual	25.76	25.47	26.80	29.83	31.78	34.34	35.99	34.49
Delivered Construction (SF)	0	0	0	92,008	76,500	1,062,477	0	410,295
Vacancy Rate (%)	16.0	12.3	9.9	8.4	8.4	10.3	9.7	10.7
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	620,116	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	1,654,017
Asking Rent, Avg. Annual	25.27	25.35	26.24	28.15	29.56	31.81	34.83	34.39
Delivered Construction (SF)	0	24,440	0	122,459	387,702	2,747,572	872,549	1,709,994
Vacancy Rate (%)	23.1	17.5	14.2	12.1	10.6	9.6	9.2	8.8

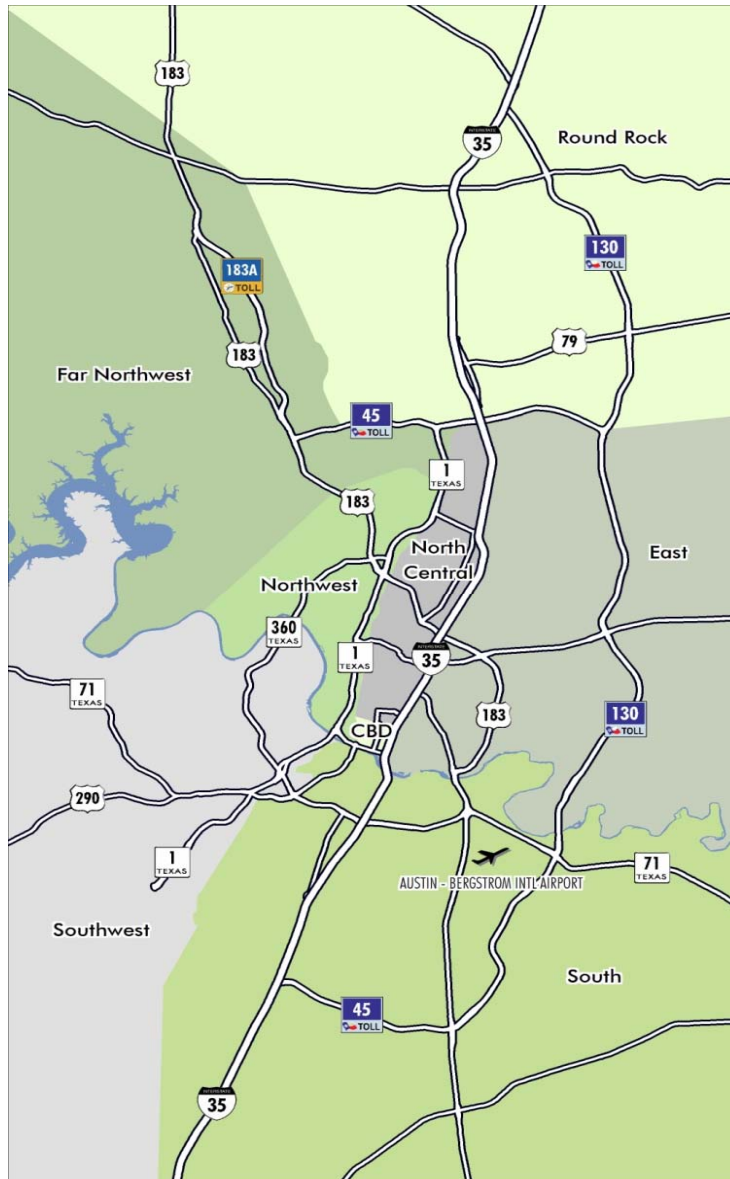
Source: CBRE Research, Q4 2017.

\*Submarket created in 2013

Figure 6: Historical Construction and Deliveries



Source: CBRE Research, Q4 2017.


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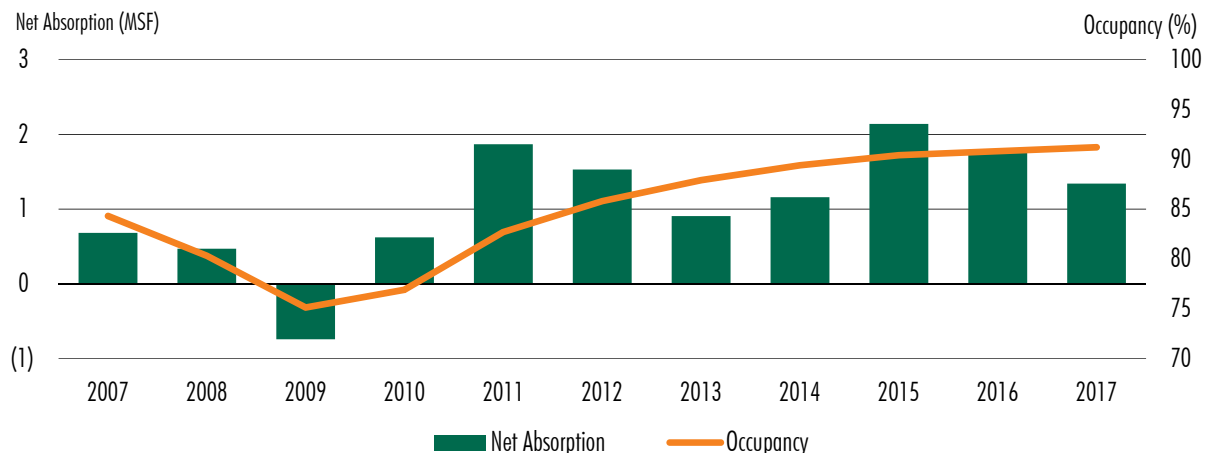
Austin Office, Q3 2017

# Citywide absorption crests 1M sq. ft. as vacancy hits new 16 year low

Vacancy  
8.8%Under Construction  
2,041,035 SFCompletions  
272,315 SFNet Absorption  
643,290 SFAvg. Asking Rate  
\$34.32 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q3 2017.

Robust activity during Q3 2017 continued to demonstrate the resiliency of the Austin office market as tenant demand remained robust, pushing yearly absorption past the 1.0 million sq. ft. mark. With approximately 2.0 million sq. ft. of new office space currently under construction, the consistent demand for space in Austin has boded well for developers who continue to bet on Austin's growing prominence.

Absorption activity during Q3 2017 surpassed 640,000 sq. ft., with only two submarkets registering negative absorption throughout the quarter. The technology sector accounted for 31% of new leases signed in Q3 2017, maintaining the prominence of the industry in Austin. Engineering firms elucidated their attraction to Austin as well, with 16% of new leases signed coming from this market segment.

Vacancy fell 50 basis points (bps) this quarter to 8.8%, the lowest vacancy rate the office market has registered since Q2 2001. The average annual asking rate compressed \$0.51 per sq. ft. from Q2 2017 to \$34.32 per sq. ft. Operational costs rose from a citywide average of \$8.71 per sq. ft. in Q2 2017 to \$9.10 per sq. ft., while the average NNN asking rate fell from \$26.12 per sq. ft. to \$25.22 per sq. ft. Landlords have been motivated to slightly wane asking rates to accommodate for rising operational costs to entice tenant demand.

In July 2017, the unemployment rate in Austin fell to 2.8%, the second-lowest jobless rate among the nation's major metro areas. Job growth through July was 1.7%, and the business-cycle index grew at 4.8% annualized in July, 120 bps below the long-term growth rate of 6.0%, suggesting that Austin is still adjusting to the expansive growth it experienced during the post-Recession period.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate (\$)	Under Construction (SF)	Q3 2017 Deliveries (SF)	Q3 2017 Net Absorption	YTD 2017 Net Absorption
CBD	10,769,214	7.6	10.1	44.91	446,137	245,116	328,589	404,492
Class A	7,812,351	6.8	8.9	51.26	446,137	245,116	319,551	430,306
Class B	2,513,341	9.9	13.0	38.47	-	-	11,464	(34,516)
Northwest	14,102,960	9.0	11.8	33.83	405,863	-	180,751	336,196
Class A	8,688,691	8.4	10.8	37.83	405,863	-	91,765	281,974
Class B	5,246,615	10.2	13.8	30.07	-	-	88,986	54,595
Far Northwest	4,259,577	5.6	6.7	31.57	245,567	-	118,356	208,062
Class A	2,823,233	5.8	7.4	34.65	-	-	96,214	164,737
Class B	1,343,485	5.2	5.4	28.03	245,567	-	18,475	42,058
North Central	3,243,171	7.1	10.5	25.52	-	-	8,812	103,288
Class A	687,005	4.6	13.9	28.94	-	-	6,064	35,806
Class B	2,215,215	8.1	10.2	25.90	-	-	4,953	66,774
Round Rock	777,248	9.3	10.7	22.52	154,476	-	(276)	(20,162)
Class A	33,634	16.9	16.9	34.00	-	-	4,000	2,130
Class B	701,496	9.1	10.7	22.06	154,476	-	(6,504)	(19,777)
East	2,411,073	8.8	11.3	26.68	524,078	-	9,607	81,559
Class A	874,643	7.8	11.4	32.72	406,863	-	(21,992)	73,490
Class B	1,271,561	10.2	12.4	26.41	117,711	-	28,407	1,686
South	2,038,263	15.3	15.4	28.40	149,246	-	35,776	27,751
Class A	297,466	5.7	5.7	33.63	149,246	-	4,934	(1,659)
Class B	1,318,677	21.4	21.5	30.14	-	-	34,278	24,298
Southwest	10,860,592	10.2	14.4	33.80	115,668	27,199	(38,325)	199,436
Class A	7,541,623	10.8	16.1	37.85	115,668	-	(59,070)	135,335
Class B	3,171,929	8.7	10.6	30.15	-	27,199	18,433	64,002
<b>Austin Total</b>	<b>48,462,098</b>	<b>8.8</b>	<b>11.6</b>	<b>34.32</b>	<b>2,041,035</b>	<b>272,315</b>	<b>643,290</b>	<b>1,340,622</b>
<b>Class A</b>	<b>28,758,646</b>	<b>8.2</b>	<b>11.4</b>	<b>40.31</b>	<b>1,523,777</b>	<b>245,116</b>	<b>441,466</b>	<b>1,122,119</b>
<b>Class B</b>	<b>17,782,319</b>	<b>10.1</b>	<b>12.4</b>	<b>30.16</b>	<b>517,754</b>	<b>27,199</b>	<b>198,492</b>	<b>199,120</b>

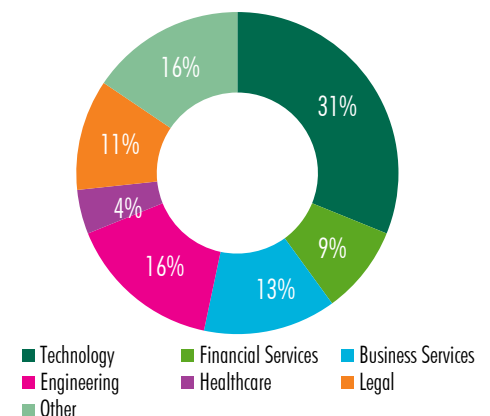
Although Class C is not shown, totals are inclusive of all classes of data.  
Source: CBRE Research, Q3 2017.

Figure 3: Significant Leases / Sales of Q3 2017

Lease (Tenant)	Property	Total SF
3M	Parmer 3.3	272,000
SailPoint Technologies	Four Points	170,000
iFLY Holdings	Bridgepoint IV	22,820
Sale (Building)	Address	Total SF
5th + Colorado*	201 W 5 <sup>th</sup> St.	179,846
3900 San Clemente	3900 N Capital of Texas Hwy	251,143

\*This is the largest PSF sale in Austin office history  
Source: CBRE Research, Q3 2017.

Figure 4: Q3 2017 Signed Leases by Industry



Source: CBRE Research, Q3 2017.

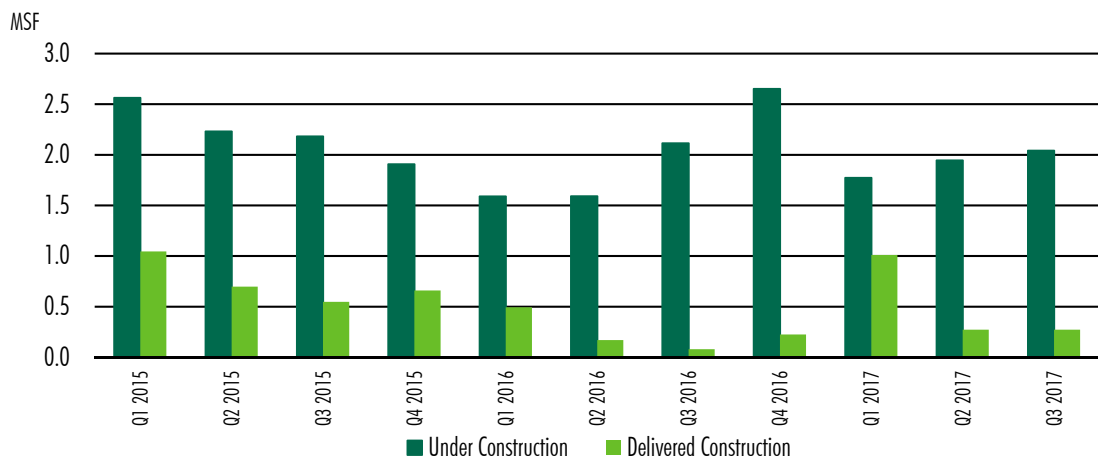
Figure 5: Historical Market Statistics

	2010	2011	2012	2013	2014	2015	2016	YTD 2017
<b>CBD</b>								
Absorption (Net SF)	190,764	167,794	177,023	64,099	369,822	649,300	97,639	404,492
Asking Rent, Avg. Annual	33.33	34.07	36.08	38.15	40.10	41.33	47.67	44.91
Delivered Construction (SF)	0	0	0	0	167,871	557,470	195,863	745,552
Vacancy Rate (%)	15.9	13.3	12.0	12.0	9.4	7.1	7.8	7.6
<b>NORTHWEST</b>								
Absorption (Net SF)	14,469	1,103,368	677,714	179,614	224,246	669,701	286,950	336,196
Asking Rent, Avg. Annual	24.91	25.37	25.83	26.28	29.48	31.96	32.80	33.83
Delivered Construction (SF)	0	0	0	0	143,331	591,973	372,235	291,058
Vacancy Rate (%)	27.6	20.2	15.3	10.4	9.4	8.8	8.8	9.0
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	N/A	366,763	79,360	198,389	336,470	208,062
Asking Rent, Avg. Annual	N/A	N/A	N/A	27.85	28.95	30.95	30.62	31.57
Delivered Construction (SF)	N/A	N/A	N/A	0	0	128,700	0	0
Vacancy Rate (%)	N/A	N/A	N/A	12.2	13.8	9.5	9.4	5.6
<b>NORTH CENTRAL</b>								
Absorption (Net SF)	122,855	103,556	(10,917)	90,741	222,683	90,066	251,093	103,288
Asking Rent, Avg. Annual	18.42	21.12	21.63	23.14	22.89	27.29	25.95	25.52
Delivered Construction (SF)	0	0	0	0	0	214,962	46,000	0
Vacancy Rate (%)	29.2	21.6	23.0	23.8	15.4	13.1	10.2	7.1
<b>ROUND ROCK</b>								
Absorption (Net SF)	(7,999)	37,083	8,592	26,097	41,367	19,892	18,801	(20,162)
Asking Rent, Avg. Annual	24.52	23.02	21.17	22.67	23.77	24.99	22.91	22.52
Delivered Construction (SF)	0	0	0	0	0	0	59,043	0
Vacancy Rate (%)	47.0	21.5	19.3	15.1	9.8	6.6	7.0	9.3
<b>EAST</b>								
Absorption (Net SF)	(26,865)	(32,154)	387,386	1,722	49,392	58,736	428,135	81,559
Asking Rent, Avg. Annual	16.71	16.19	16.38	17.20	16.71	19.55	20.13	26.68
Delivered Construction (SF)	0	0	0	30,451	0	191,990	199,408	109,726
Vacancy Rate (%)	29.4	27.6	12.7	16.7	14.9	17.9	6.6	8.8
<b>SOUTH</b>								
Absorption (Net SF)	31,047	52,136	83,355	25,359	70,143	33,337	158,472	27,751
Asking Rent, Avg. Annual	18.01	15.13	15.38	15.13	14.73	15.02	24.68	28.40
Delivered Construction (SF)	0	24,440	0	0	0	0	0	57,500
Vacancy Rate (%)	25.3	23.6	21.0	19.9	16.3	14.4	16.0	15.3
<b>SOUTHWEST</b>								
Absorption (Net SF)	295,845	367,752	205,677	149,911	101,327	419,723	159,982	199,436
Asking Rent, Avg. Annual	25.76	25.47	26.80	29.83	31.78	34.34	35.99	33.8
Delivered Construction (SF)	0	0	0	92,008	76,500	1,062,477	0	350,127
Vacancy Rate (%)	16.0	12.3	9.9	8.4	8.4	10.3	9.7	10.2
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	620,116	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	1,340,622
Asking Rent, Avg. Annual	25.27	25.35	26.24	28.15	29.56	31.81	34.83	34.32
Delivered Construction (SF)	0	24,440	0	122,459	387,702	2,747,572	872,549	1,553,963
Vacancy Rate (%)	23.1	17.5	14.2	12.1	10.6	9.6	9.2	8.8

Source: CBRE Research, Q3 2017.

\*Submarket created in 2013

Figure 6: Historical Construction and Deliveries



Source: CBRE Research, Q3 2017.




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Austin Office, Q2 2017

# Cranes abound as construction activity heats up



Vacancy  
9.3%



Under Construction  
1,944,728 SF



Completions  
271,724 SF



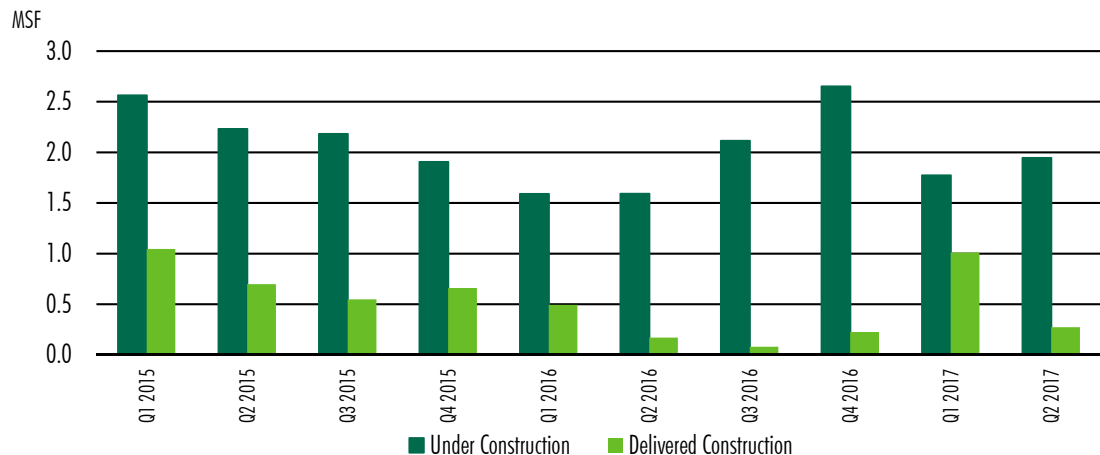
Net Absorption  
605,602 SF



Avg. Asking Rate  
\$34.83 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Historical Construction and Deliveries



Source: CBRE Research, Q2 2017.

There is a saying amongst the locals of Austin that the new official bird of the city is the majestic Crane; no matter where one looks, the skyline is filled with these construction machines building up the city even further. With approximately 2.0 million sq. ft. of new office space currently under construction, developers are working diligently to fill demand, all the while forever altering the Austin horizon.

During 2Q 2017, absorption activity soared from the previous quarter, with more than 600,000 sq. ft. being occupied over the past 90 days. The technology sector rebounded from the low activity of 1Q 2017, with 48% of new leases signed during 2Q 2017 being tech related. Business and financial services accounted for 25% of new leases, while the engineering sector saw no new activity this quarter. Healthcare activity jumped slightly, accounting for 6% of new leases.

Market fundamentals rebounded this quarter as citywide vacancy fell 20 basis points (bps) to 9.3% from 1Q 2017, and the average annual asking rate rose \$0.94 per sq. ft. from 1Q 2017 to \$34.83 per sq. ft., tying the record high rate set in 4Q 2016. Availability ticked downwards, falling 10 bps to 12.3% from 1Q 2017.

The Austin economy continued to hum along during 2Q 2017, as the unemployment rate fell to 3.3% in April 2017, close to the 15-year low of 3.1%. Job growth has remained subpar at 2.6%, while the business-cycle index expanded at 5.7%, 30 bps below the long-term growth rate of 6.0%. As the metro continues to expand and attract corporate relocations, Austin must address the affordability and transportation issues that have gripped the area, or potentially face an economic cooling in the near future.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Rate (\$)	Under Construction (SF)	Deliveries (SF)	Q2 2017 Net Absorption	YTD 2017 Net Absorption
CBD	10,481,705	8.0	11.0	46.04	682,344	0	92,240	75,903
Class A	7,566,810	7.4	10.2	53.91	682,344	0	31,618	110,755
Class B	2,471,373	9.9	13.5	37.33	0	0	65,358	(45,980)
Northwest	14,104,669	10.1	13.0	34.43	405,863	0	117,515	155,445
Class A	8,692,016	9.4	12.0	37.69	405,863	0	160,782	190,209
Class B	5,244,999	11.5	15.2	31.74	0	0	(41,893)	(34,391)
Far Northwest	4,259,577	7.3	9.3	29.79	245,567	0	79,671	89,706
Class A	2,823,233	8.1	10.7	32.72	0	0	36,224	68,523
Class B	1,343,485	5.8	6.6	26.92	245,567	0	45,847	23,583
North Central	3,243,171	7.3	10.4	26.10	0	0	9,592	94,476
Class A	687,005	5.5	15.6	35.77	0	0	22,075	29,742
Class B	2,215,215	8.3	9.6	25.00	0	0	(17,210)	61,821
Round Rock	679,937	10.0	12.1	25.34	59,476	0	(9,506)	(19,886)
Class A	33,634	28.8	28.8	34.00	0	0	(1,317)	(1,870)
Class B	604,185	8.8	11.3	25.11	59,476	0	(8,189)	(13,273)
East	2,293,065	9.7	11.0	26.86	259,365	22,760	46,295	71,952
Class A	779,643	6.0	6.0	33.71	213,711	0	65,222	95,482
Class B	1,248,553	12.7	15.1	26.37	45,654	22,760	(17,637)	(26,721)
South	2,038,263	15.7	16.1	27.22	149,246	0	36,205	(8,025)
Class A	297,466	7.3	7.3	32.61	149,246	0	2,231	(6,593)
Class B	1,318,677	21.8	22.3	28.49	0	0	26,716	(9,980)
Southwest	10,834,072	9.4	14.0	34.17	142,867	248,964	233,590	237,761
Class A	7,541,623	9.6	15.3	38.26	115,668	248,964	202,096	194,405
Class B	3,145,409	8.9	11.0	29.96	27,199	0	30,821	45,569
<b>Austin Total</b>	<b>47,934,459</b>	<b>9.3</b>	<b>12.3</b>	<b>34.83</b>	<b>1,944,728</b>	<b>271,724</b>	<b>605,602</b>	<b>697,332</b>
<b>Class A</b>	<b>28,421,430</b>	<b>8.6</b>	<b>12.2</b>	<b>41.19</b>	<b>1,566,832</b>	<b>248,964</b>	<b>518,931</b>	<b>680,653</b>
<b>Class B</b>	<b>17,591,896</b>	<b>10.7</b>	<b>13.2</b>	<b>30.17</b>	<b>377,896</b>	<b>22,760</b>	<b>83,813</b>	<b>628</b>

Although Class C is not shown, totals are inclusive of all classes of data.

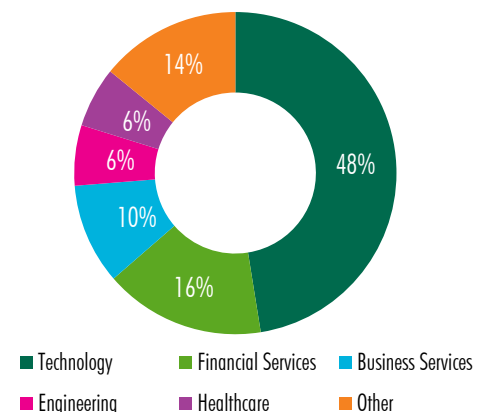
Source: CBRE Research, Q2 2017.

Figure 3: Significant Leases / Sales of Q2 2017

Lease (Tenant)	Property	Total SF
HomeAway	Domain 11	315,000
AlienVault, Inc.	Encino Trace I	30,000
Cycle Solutions, Inc.	Uplands Corporate Center	23,767
Sale (Building)	Address	Total SF
The Campus at Arboretum, Bldgs. I-V	10415 Morado Circle	318,226
Capital Ridge	320 S Capital of Texas Hwy	217,490

Source: CBRE Research, Q2 2017.

Figure 4: Q2 2017 Signed Leases by Industry



Source: CBRE Research, Q2 2017.

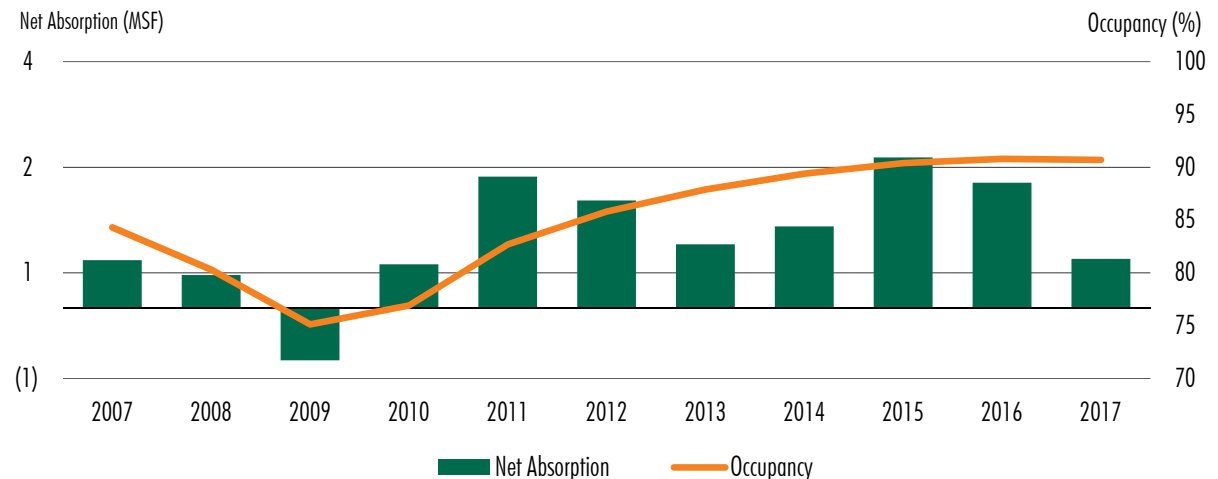
Figure 5: Historical Market Statistics

	2010	2011	2012	2013	2014	2015	2016	YTD 2017
<b>CBD</b>								
Absorption (Net SF)	190,764	167,794	177,023	64,099	369,822	649,300	97,639	75,903
Asking Rent, Avg. Annual	33.33	34.07	36.08	38.15	40.10	41.33	47.67	46.04
Delivered Construction (SF)	0	0	0	0	167,871	557,470	195,863	500,436
Vacancy Rate (%)	15.9	13.3	12.0	12.0	9.4	7.1	7.8	8.0
<b>NORTHWEST</b>								
Absorption (Net SF)	14,469	1,103,368	677,714	179,614	224,246	669,701	286,950	155,445
Asking Rent, Avg. Annual	24.91	25.37	25.83	26.28	29.48	31.96	32.80	34.43
Delivered Construction (SF)	0	0	0	0	143,331	591,973	372,235	291,058
Vacancy Rate (%)	27.6	20.2	15.3	10.4	9.4	8.8	8.8	10.1
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	N/A	366,763	79,360	198,389	336,470	89,706
Asking Rent, Avg. Annual	N/A	N/A	N/A	27.85	28.95	30.95	30.62	29.79
Delivered Construction (SF)	N/A	N/A	N/A	0	0	128,700	0	0
Vacancy Rate (%)	N/A	N/A	N/A	12.2	13.8	9.5	9.4	7.3
<b>NORTH CENTRAL</b>								
Absorption (Net SF)	122,855	103,556	(10,917)	90,741	222,683	90,066	251,093	94,476
Asking Rent, Avg. Annual	18.42	21.12	21.63	23.14	22.89	27.29	25.95	26.10
Delivered Construction (SF)	0	0	0	0	0	214,962	46,000	0
Vacancy Rate (%)	29.2	21.6	23.0	23.8	15.4	13.1	10.2	7.3
<b>ROUND ROCK</b>								
Absorption (Net SF)	(7,999)	37,083	8,592	26,097	41,367	19,892	18,801	(19,886)
Asking Rent, Avg. Annual	24.52	23.02	21.17	22.67	23.77	24.99	22.91	25.34
Delivered Construction (SF)	0	0	0	0	0	0	59,043	0
Vacancy Rate (%)	47.0	21.5	19.3	15.1	9.8	6.6	7.0	10.0
<b>EAST</b>								
Absorption (Net SF)	(26,865)	(32,154)	387,386	1,722	49,392	58,736	428,135	71,952
Asking Rent, Avg. Annual	16.71	16.19	16.38	17.20	16.71	19.55	20.13	26.86
Delivered Construction (SF)	0	0	0	30,451	0	191,990	199,408	109,726
Vacancy Rate (%)	29.4	27.6	12.7	16.7	14.9	17.9	6.6	9.7
<b>SOUTH</b>								
Absorption (Net SF)	31,047	52,136	83,355	25,359	70,143	33,337	158,472	(8,025)
Asking Rent, Avg. Annual	18.01	15.13	15.38	15.13	14.73	15.02	24.68	27.22
Delivered Construction (SF)	0	24,440	0	0	0	0	0	57,500
Vacancy Rate (%)	25.3	23.6	21.0	19.9	16.3	14.4	16.0	15.7
<b>SOUTHWEST</b>								
Absorption (Net SF)	295,845	367,752	205,677	149,911	101,327	419,723	159,982	237,761
Asking Rent, Avg. Annual	25.76	25.47	26.80	29.83	31.78	34.34	35.99	34.17
Delivered Construction (SF)	0	0	0	92,008	76,500	1,062,477	0	322,928
Vacancy Rate (%)	16.0	12.3	9.9	8.4	8.4	10.3	9.7	9.4
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	620,116	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	697,332
Asking Rent, Avg. Annual	25.27	25.35	26.24	28.15	29.56	31.81	34.83	34.83
Delivered Construction (SF)	0	24,440	0	122,459	387,702	2,747,572	872,549	1,281,648
Vacancy Rate (%)	23.1	17.5	14.2	12.1	10.6	9.6	9.2	9.3

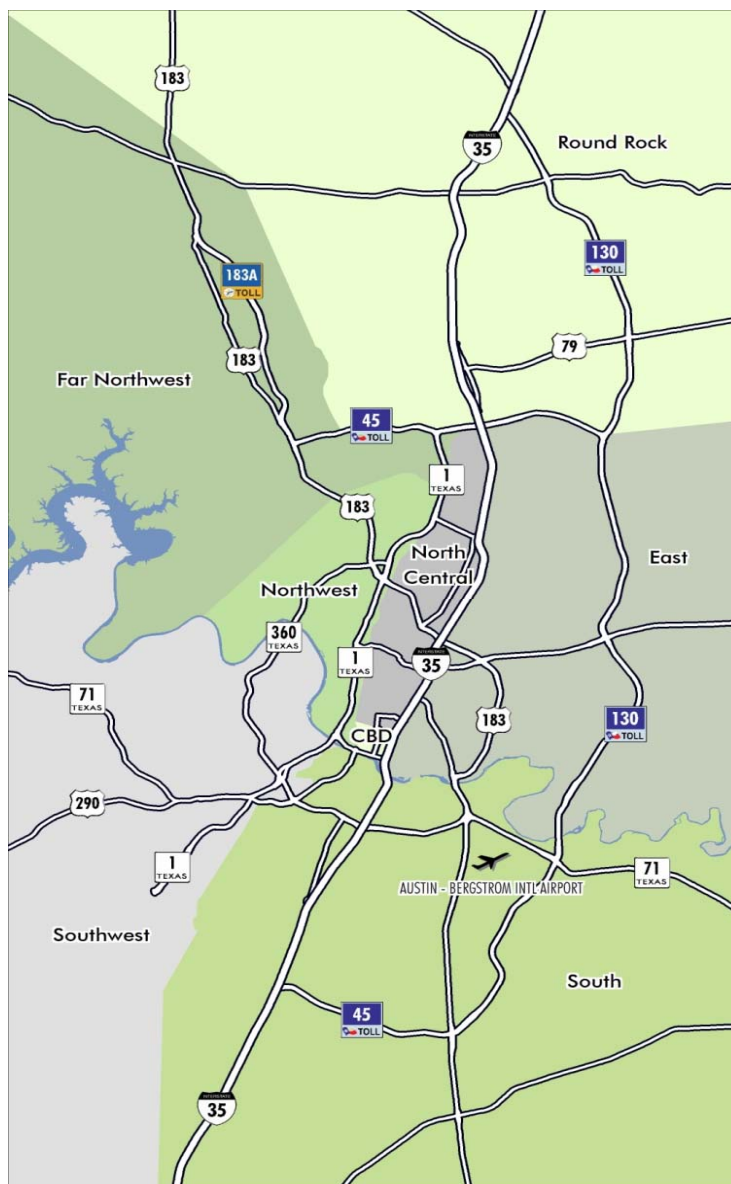
Source: CBRE Research, Q2 2017.

\*Submarket created in 2013

Figure 6: Net Absorption and Occupancy



Source: CBRE Research, Q2 2017.


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Austin Office, Q1 2017

# Construction, new deliveries to set market pace for 2017



Vacancy  
9.5%



Under Construction  
1,772,283 SF



Completions  
1,009,924 SF



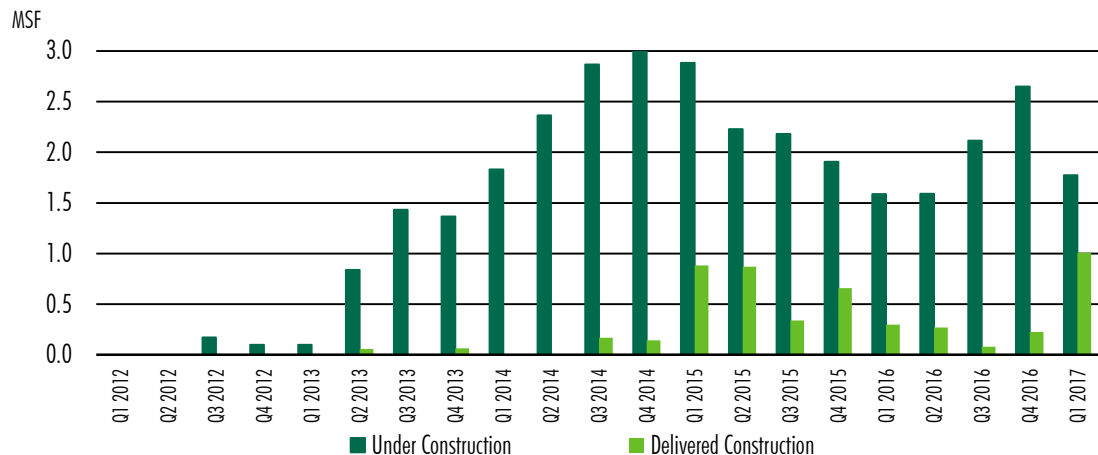
Net Absorption  
91,730 SF



Avg. Asking Rate  
\$33.89 PSF

\*Arrows indicate change from previous quarter.

Figure 1: Historical Construction and Deliveries



Source: CBRE Research, Q1 2017.

This year, the 72,000 people who attended the internationally renowned South by Southwest (SXSW) festival were greeted by a city with an ever expanding Austin skyline. During Q1 2017, developers delivered approximately 1.0 million sq. ft. to the market, with an additional 1.7 million sq. ft. under construction.

While construction activity certainly appears robust through the opening of Q1 2017, net absorption rates fell from previous quarters with approximately 91,000 sq. ft. of new demand during the past 90 days. Activity in the technology sector diminished, with only one out of every four leases signed this quarter coming from tech-related companies. This is down from previous quarters, where it was common to see tech companies account for one-third of new leases on average. Meanwhile, the business and financial services sector accounted for 40% of new leases.

This quarter saw a slight dampening on market fundamentals: citywide vacancy ticked upwards 50 basis points (bps) to 9.7% from Q4 2016, and the average annual asking rate slipped \$0.94 per sq. ft. from the record high of \$34.89 per sq. ft. in Q4 2016 to \$33.89 per sq. ft. in Q1 2017. Availability ticked upwards as well, climbing 86 bps to 12.7% from Q4 2016.

While market fundamentals softened slightly in Q1 2017, investors and users in the Austin office market have demonstrated a calm optimism leading into the year. Austin still presents itself as a beehive for technological innovation and cultural activities. With more than 1.7 million sq. ft. of new product currently under construction, the office leasing market is expected to retain its positive momentum through 2017 based on the projected job growth of 29,000 new Austin payrolls.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Rate (\$)	Under Construction (SF)	Deliveries (SF)	Q1 2017 Net Absorption	YTD 2017 Net Absorption
CBD	10,447,213	7.9	10.2	49.32	664,317	500,436	(16,337)	(16,337)
Class A	7,551,676	6.8	8.4	57.24	664,317	500,436	79,137	79,137
Class B	2,471,373	12.5	14.6	31.75	0	0	(111,338)	(111,338)
Northwest	13,944,004	9.7	12.8	33.50	405,863	291,058	37,930	37,930
Class A	8,688,514	9.1	11.3	35.36	405,863	291,058	29,427	29,427
Class B	5,087,836	11.0	15.6	30.95	0	0	7,502	7,502
Far Northwest	4,259,577	9.2	12.8	31.36	0	0	10,035	10,035
Class A	2,823,233	9.3	13.2	35.11	0	0	32,299	32,299
Class B	1,343,485	9.2	12.5	27.55	0	0	(22,264)	(22,264)
North Central	3,247,647	7.6	9.8	26.49	0	0	84,884	84,884
Class A	687,005	8.7	14.3	36.66	0	0	7,667	7,667
Class B	2,215,215	7.6	9.1	23.87	0	0	79,031	79,031
Round Rock	679,937	8.6	10.7	20.96	0	0	(10,380)	(10,380)
Class A	33,634	24.9	24.9	0	0	0	(553)	(553)
Class B	604,185	7.5	9.9	20.96	0	0	(5,084)	(5,084)
East	2,270,305	7.0	9.1	20.17	215,600	86,966	25,657	25,657
Class A	779,643	1.2	1.2	26.25	132,000	57,761	30,260	30,260
Class B	1,225,793	10.9	14.7	20.90	83,600	29,205	(9,084)	(9,084)
South	2,038,263	17.5	17.7	25.15	90,500	57,500	(44,230)	(44,230)
Class A	297,466	8.1	8.1	31.53	90,500	0	(8,824)	(8,824)
Class B	1,318,677	23.8	24.1	24.44	0	57,500	(36,696)	(36,696)
Southwest	10,585,108	10.8	15.0	36.74	396,003	73,964	4,171	4,171
Class A	7,292,659	11.2	16.8	38.12	357,555	73,964	(7,691)	(7,691)
Class B	3,145,409	9.9	11.0	31.96	38,448	0	14,748	14,748
<b>Austin Total</b>	<b>47,472,054</b>	<b>9.5</b>	<b>12.4</b>	<b>33.89</b>	<b>1,772,283</b>	<b>1,009,924</b>	<b>91,730</b>	<b>91,730</b>
<b>Class A</b>	<b>28,153,830</b>	<b>8.6</b>	<b>11.8</b>	<b>37.47</b>	<b>1,650,235</b>	<b>923,219</b>	<b>161,722</b>	<b>161,722</b>
<b>Class B</b>	<b>17,411,973</b>	<b>11.3</b>	<b>13.9</b>	<b>29.32</b>	<b>122,048</b>	<b>86,705</b>	<b>(83,185)</b>	<b>(83,185)</b>

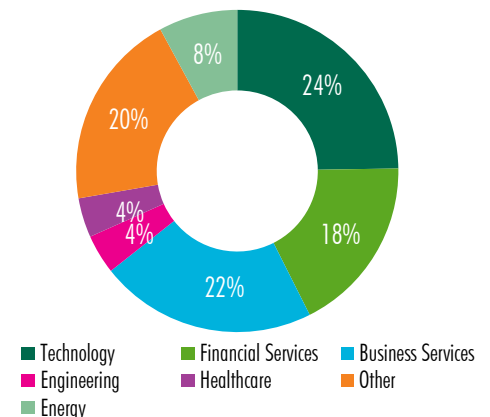
Source: CBRE Research, Q1 2017.

Figure 3: Significant Leases / Sales of Q1 2017

Lease (Tenant)	Address	Total SF
Newgistics	7171 Southwest Parkway	43,000
Gerson Lehrman Group	301 Congress Avenue	42,000
Spectrum	13620 Ranch Road 620	29,000
Sale (Building)	Address	Total SF
Chase Tower	221 W 6 <sup>th</sup> Street	404,713
Quarry Oaks I	10900 Stonelake Boulevard	290,000

Source: CBRE Research, Q1 2017.

Figure 4: Q1 2017 Signed Leases by Industry



Source: CBRE Research, Q1 2017.

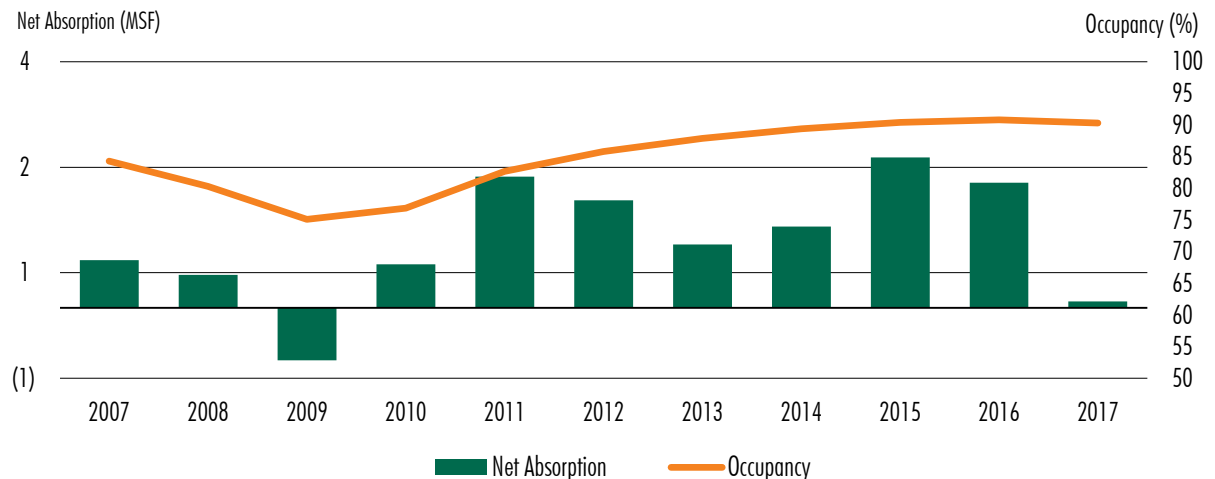
Figure 5: Historical Market Statistics

	2010	2011	2012	2013	2014	2015	2016	2017 YTD
<b>CBD</b>								
Absorption (Net SF)	190,764	167,794	177,023	64,099	369,822	649,300	97,639	(16,337)
Asking Rent, Avg. Annual	33.33	34.07	36.08	38.15	40.10	41.33	47.67	49.32
Delivered Construction (SF)	0	0	0	0	167,871	557,470	195,863	500,436
Vacancy Rate (%)	15.9	13.3	12.0	12.0	9.4	7.1	7.8	7.9
<b>NORTHWEST</b>								
Absorption (Net SF)	14,469	1,103,368	677,714	179,614	224,246	669,701	286,950	37,930
Asking Rent, Avg. Annual	24.91	25.37	25.83	26.28	29.48	31.96	32.80	33.50
Delivered Construction (SF)	0	0	0	0	143,331	591,973	372,235	291,058
Vacancy Rate (%)	27.6	20.2	15.3	10.4	9.4	8.8	8.8	9.5
<b>FAR NORTHWEST *</b>								
Absorption (Net SF)	N/A	N/A	N/A	366,763	79,360	198,389	336,470	10,035
Asking Rent, Avg. Annual	N/A	N/A	N/A	27.85	28.95	30.95	30.62	31.36
Delivered Construction (SF)	N/A	N/A	N/A	0	0	128,700	0	0
Vacancy Rate (%)	N/A	N/A	N/A	12.2	13.8	9.5	9.4	9.2
<b>NORTH CENTRAL</b>								
Absorption (Net SF)	122,855	103,556	(10,917)	90,741	222,683	90,066	251,093	84,884
Asking Rent, Avg. Annual	18.42	21.12	21.63	23.14	22.89	27.29	25.95	26.49
Delivered Construction (SF)	0	0	0	0	0	214,962	46,000	0
Vacancy Rate (%)	29.2	21.6	23.0	23.8	15.4	13.1	10.2	7.6
<b>ROUND ROCK</b>								
Absorption (Net SF)	(7,999)	37,083	8,592	26,097	41,367	19,892	18,801	(10,380)
Asking Rent, Avg. Annual	24.52	23.02	21.17	22.67	23.77	24.99	22.91	20.96
Delivered Construction (SF)	0	0	0	0	0	0	59,043	0
Vacancy Rate (%)	47.0	21.5	19.3	15.1	9.8	6.6	7.0	8.6
<b>EAST</b>								
Absorption (Net SF)	(26,865)	(32,154)	387,386	1,722	49,392	58,736	428,135	25,657
Asking Rent, Avg. Annual	16.71	16.19	16.38	17.20	16.71	19.55	20.13	20.17
Delivered Construction (SF)	0	0	0	30,451	0	191,990	199,408	86,966
Vacancy Rate (%)	29.4	27.6	12.7	16.7	14.9	17.9	6.6	7.0
<b>SOUTH</b>								
Absorption (Net SF)	31,047	52,136	83,355	25,359	70,143	33,337	158,472	(44,230)
Asking Rent, Avg. Annual	18.01	15.13	15.38	15.13	14.73	15.02	24.68	25.15
Delivered Construction (SF)	0	24,440	0	0	0	0	0	57,500
Vacancy Rate (%)	25.3	23.6	21.0	19.9	16.3	14.4	16.0	17.5
<b>SOUTHWEST</b>								
Absorption (Net SF)	295,845	367,752	205,677	149,911	101,327	419,723	159,982	4,171
Asking Rent, Avg. Annual	25.76	25.47	26.80	29.83	31.78	34.34	35.99	36.74
Delivered Construction (SF)	0	0	0	92,008	76,500	1,062,477	0	73,964
Vacancy Rate (%)	16.0	12.3	9.9	8.4	8.4	10.3	9.7	10.8
<b>AUSTIN TOTAL</b>								
Absorption (Net SF)	620,116	1,799,535	1,528,830	904,306	1,158,340	2,139,144	1,737,542	91,730
Asking Rent, Avg. Annual	25.27	25.35	26.24	28.15	29.56	31.81	34.83	33.89
Delivered Construction (SF)	0	24,440	0	122,459	387,702	2,747,572	872,549	1,009,924
Vacancy Rate (%)	23.1	17.5	14.2	12.1	10.6	9.6	9.2	9.5

Source: CBRE Research, Q1 2017.

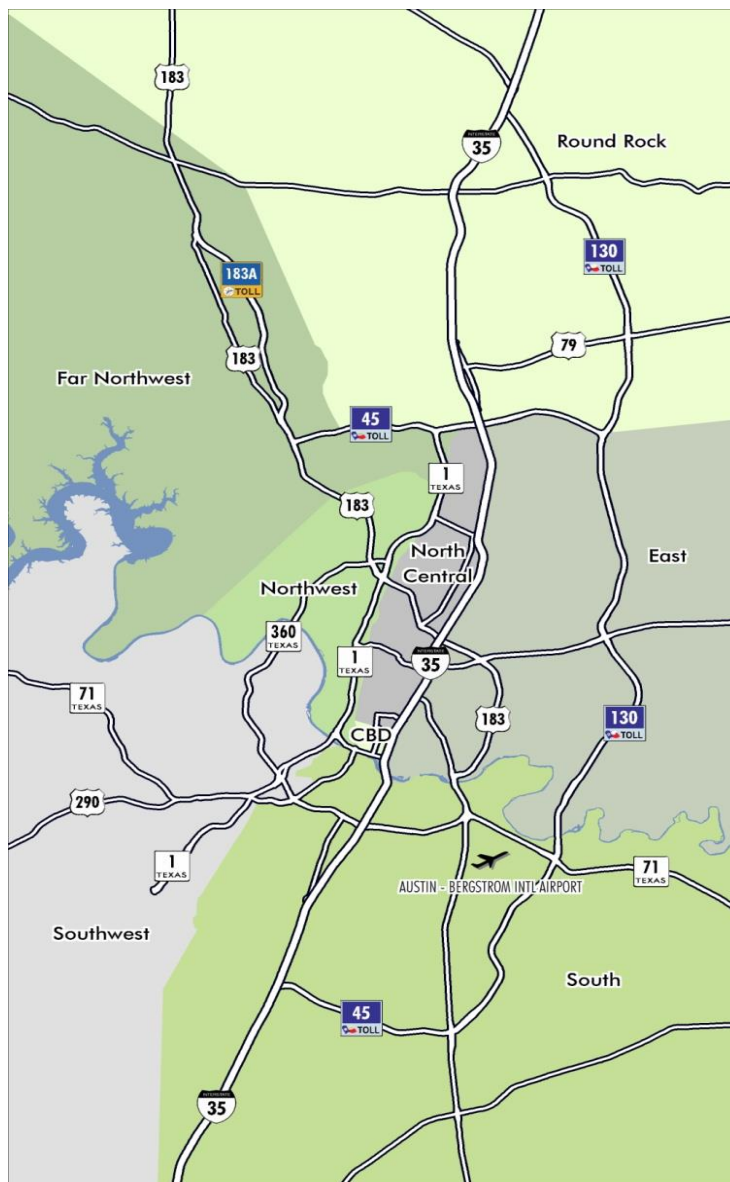
\*Submarket created in 2013

Figure 6: Unemployment and Jobs



Source: CBRE Research, Q1 2017.




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# Resiliency characterizes 2016 performance metrics



Vacancy Rate  
9.2%



Avg. Asking Rate  
\$34.83/SF



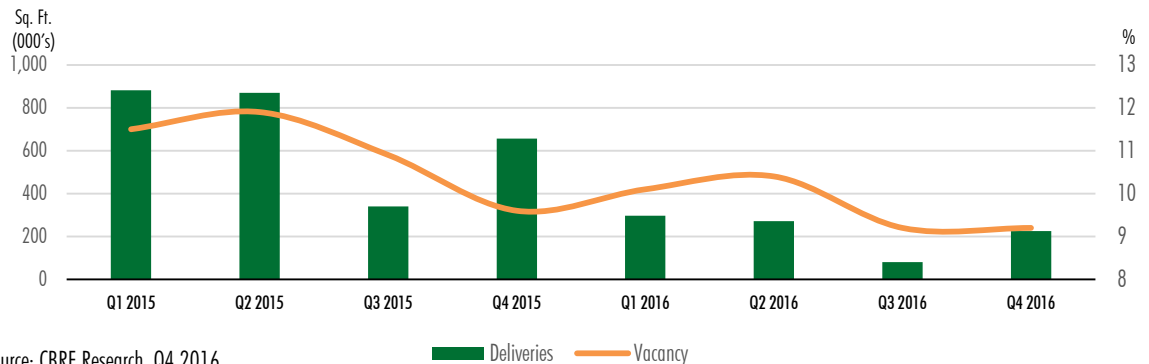
Net Absorption  
491,623 SF



Under Construction  
2.6 MSF

Figure 1: Deliveries vs. Vacancy

\*Arrows indicate change from previous quarter.



Source: CBRE Research, Q4 2016.

Despite what seemed to be nonstop turbulence during 2016 on the global and national level, Austin's office market provided a consistent narrative that correlates with the general economy of the Live Music Capital of the World: sustained growth and continued expansion. Occupier demand topped out over 1.7 million sq. ft. and citywide average asking rents hit a new historic high of \$34.83 per sq. ft.

The top leasing activity that occurred during the fourth quarter came from eBay, which renewed its lease for more than 214,000 sq. ft., and from MedSpring, which renewed its lease for more than 100,000 sq. ft.

During the fourth quarter, the Central Business District (CBD) became awash with curiosity and general excitement as eight developers submitted bids to build one of Austin's most high-profile infill parcels. The site is a 77,215 sq. ft. surface parking lot and one of the last vacant parcels in the CBD outside the Capitol View Corridor and zoned for about 2 million square feet of development. Conceivably, it could eventually house the tallest building in Austin. CBRE has been retained to market the deal and as such, we will follow the progress of this development with the absolute diligence it deserves.

The end of 2016 saw another uptick in the citywide average asking rent. Class A landlords hit a new record high of \$38.84 per sq. ft., a \$0.55 increase from Q3 2016. While hardy demand has certainly helped rents to this ascension, landlords have also been facing ever increasing operating expenses. CBRE Research expects robust demand coupled with increasing property values and utility costs to continue this drumbeat into 2017 and beyond.

Other quarterly highlights include Austinites passing a \$720 million mobility bond in November that is intended to improve select transportation corridors throughout the city. The bond will also increase and improve upon existing urban trails, expand sidewalks, and increase bicycle lanes. The bond is intended to alleviate traffic conditions in Austin by encouraging residents to utilize alternative means of transportation. With more new developments than ever before catering to the "live-work-play" mentality, office occupiers will be able to more easily attract the growing STEM (science, technology, engineering, and math) labor force that desires to commute to work utilizing alternative means. With the bond passage, Austin has primed itself for another expansionary year in 2017.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable (SF)	Total Vacancy (%)	Total Availability Rate (%)	Average Asking Rate (\$)	Q4 2016 Net Absorption	YTD Net Absorption
CBD	9,946,701	7.8	9.7	47.67	(106,896)	118,653
Class A	7,051,164	7.9	9.5	51.06	(138,035)	131,566
Class B	2,471,373	7.4	8.8	42.11	34,412	7,102
Northwest	13,658,281	8.8	11.9	32.80	(20,716)	286,950
Class A	8,402,791	7.5	10.6	34.28	26,273	412,653
Class B	5,087,836	11.2	14.4	30.50	(48,686)	(126,362)
Far Northwest	4,254,345	9.4	12.5	30.62	31,051	336,470
Class A	2,823,233	10.5	13.6	31.72	(26,625)	268,242
Class B	1,338,253	7.6	10.7	27.00	56,910	65,868
North Central	3,247,647	10.2	12.4	25.95	(6,310)	251,093
Class A	687,005	9.9	16.3	35.57	(967)	195,065
Class B	2,215,215	11.1	12.4	23.58	(3,460)	39,993
Round Rock	679,937	7.0	9.1	22.91	24,688	18,801
Class A	33,634	23.3	23.3	25.00	0	(7,825)
Class B	604,185	6.6	9.0	23.23	24,688	26,626
East	2,333,164	6.6	7.0	20.13	285,117	429,699
Class A	742,445	1.0	1.0	26.25	305,757	384,465
Class B	1,325,850	9.4	10.2	20.88	(15,264)	46,022
South	1,951,558	16.0	16.4	24.68	215,888	178,724
Class A	297,466	5.1	5.9	31.00	(3,889)	(10,852)
Class B	1,231,972	22.5	22.7	24.29	218,754	184,606
Southwest	10,539,771	9.7	13.8	35.99	68,801	159,352
Class A	7,218,695	9.4	15.9	37.75	171,291	272,862
Class B	3,174,036	10.6	9.1	31.33	(105,472)	(109,801)
<b>Totals</b>	<b>46,357,104</b>	<b>9.2</b>	<b>11.8</b>	<b>34.83</b>	<b>491,623</b>	<b>1,779,742</b>

Although Class C is not individually listed, totals are inclusive of all classes of data.

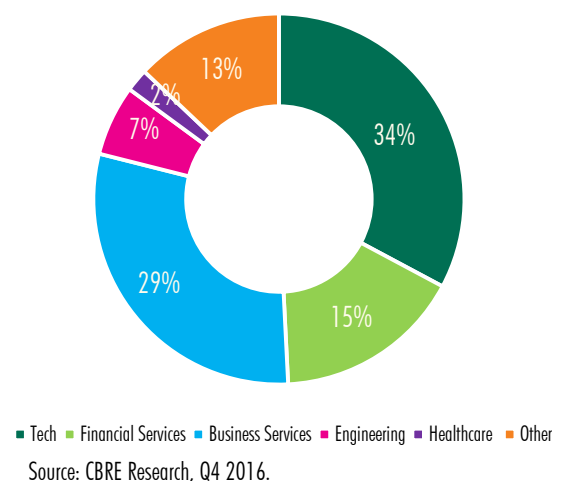
Source: CBRE Research, Q4 2016.

Figure 3: Significant Leases / Sales of the Quarter

Lease (Tenant)	Address	Total SF
eBay, Inc	7700 W Parmer Ln	214,691
MedSpring (Fresenius)	3711 S MoPac Expy	102,587
Indeed.com, Inc	7501 N Capital of Texas Hwy	88,000
Sale (Buyer)	Property Name	Total SF
Cousins Properties (Atlanta)	One Eleven Congress Plaza	548,823
Cousins Properties (Atlanta)	San Jacinto	410,248
TIER REIT (Dallas)	Domain 2, Domain 7	336,638

Source: CBRE Research, Q4 2016.

Figure 4: 2016 Signed Leases by Industry



### YEAR END RENTS REACH NEW HEIGHTS

During 2016, rents continued to climb to historic heights, peaking at \$34.83 per sq. ft. at years end. While robust demand has certainly driven landlords to increase their average asking rents, ever increasing operating expenses have played as just an important role in pushing rents higher.

Approximately 872,000 sq. ft. of new construction was delivered to the market in 2016, which helped raise Class A rents to \$38.84 per sq. ft., up from \$38.29 per sq. ft. last quarter.

### AN EXPANDING SKYLINE

For the 24<sup>th</sup> consecutive quarter, Austin saw positive net absorption of 491,623 sq. ft., bringing the 2016 total to 1,779,742 sq. ft. The CBD, East, Northwest and Southwest submarkets not only saw the greatest absorption activity, but also saw the largest amount of new construction starts. The downtown Austin skyline continued to morph and expand throughout 2016, with new high rise buildings burst from the ground and scrape the sky.

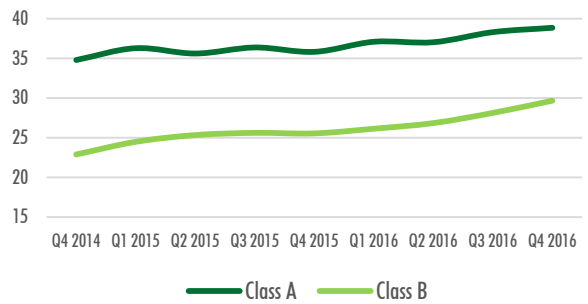
### VACANCY/AVAILABILITY FALL TO NEW LOWS

Year-over-year vacancy fell 40 basis points in 2016 to 9.2%, down from 9.6% in 2015. Overall availability fell 320 basis points from 2015 to 11.8%. Space user demand has remained hot, which has allowed the market to continue absorbing existing product, pressing vacancy and availability to fall. The CBD, Northwest, and Southwest submarkets remain the most sought after for both users and developers.

### OPTIMISTIC OUTLOOK FOR AUSTIN

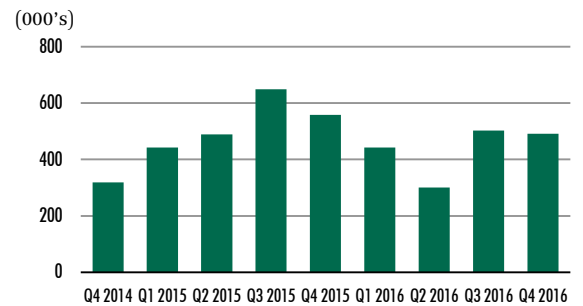
Two buildings delivered in the fourth quarter for a total of 224,817 sq. ft.; a market uptick from Q3 2016 delivery of 79,634 sq. ft. 2016 saw the expansionary market cycle continue as space users continued to absorb the 872,549 sq. ft. of new construction that was delivered to the market during 2016. Leading into 2017, there are 21 office projects under construction across five submarkets for approximately 2.6 million sq. ft. Developers and investors clearly remain optimistic about the future of the office market and the influx of new companies requiring space.

Figure 5: Lease Rates



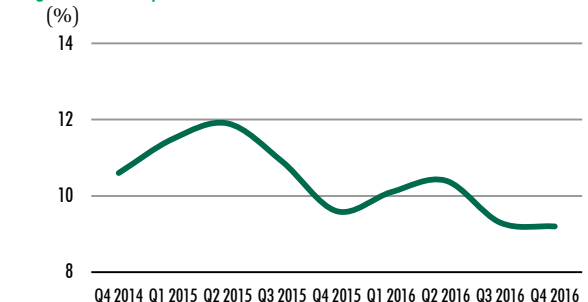
Source: CBRE Research, Q4 2016.

Figure 6: Net Absorption



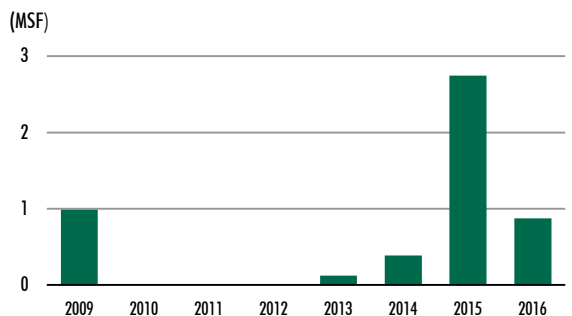
Source: CBRE Research, Q4 2016.

Figure 7: Vacancy

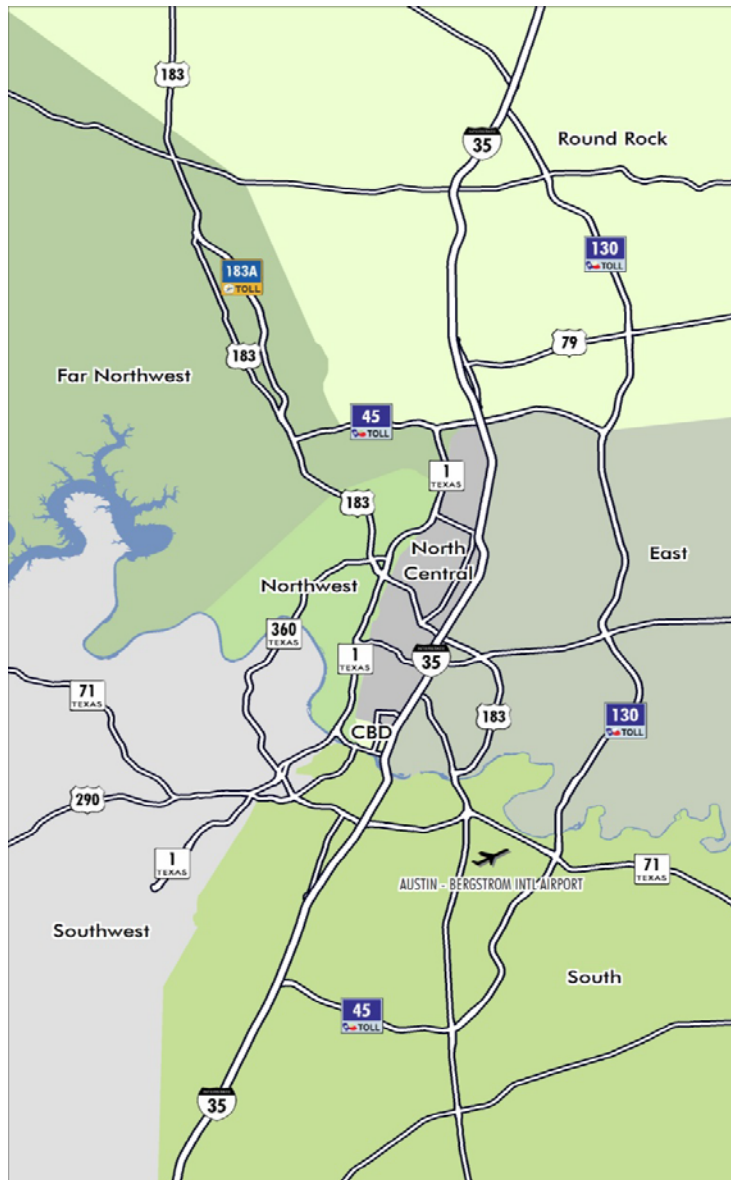


Source: CBRE Research, Q4 2016.

Figure 8: Construction Completions



Source: CBRE Research, Q4 2016.


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Austin Office, Q3 2016

# The new high and low: Austin office rents and vacancy



Vacancy Rate  
9.3%



Avg. Asking Rate  
\$34.01/SF



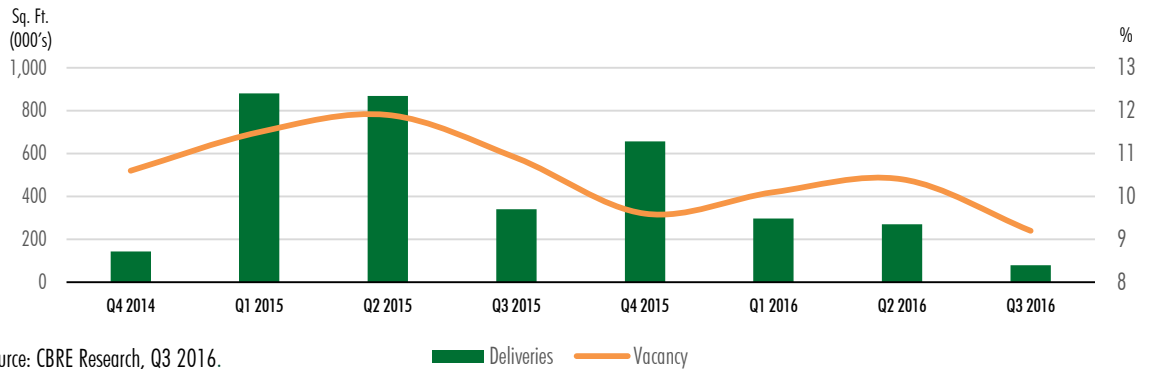
Net Absorption  
502,730 SF



Under Construction  
2.1 MSF

Figure 1: Deliveries vs. Vacancy

\*Arrows indicate change from previous quarter.



Source: CBRE Research, Q3 2016.

As the third quarter of 2016 came to a close, Austin continued to set new records for compressed vacancy and gains in asking rents. Riding the influx of technology companies migrating to Texas' Capital City, the office market now has vacancy in the single digits with this year's occupier demand crossing over 1.2 million sq. ft.

The top leasing transactions that occurred during this quarter came from tech companies expanding their presence locally. Two international companies increased their operations in Austin by more than 200,000 sq. ft., while another signed a lease for 112,000 sq. ft.

While the CBD and the Northwest submarkets have historically held the most appeal to tech companies, the software company Oracle decided to take a chance on the East Riverside Drive corridor. In August, the company began major site work on the 25-acre, 560,000-sq.-ft. campus; this development has kick started other types of commercial construction bringing an influx of multifamily developers who are in the process of expanding the housing options available in this section of the metro along the Riverside Drive corridor.

The recent quarter also saw another significant rise in Austin's asking rents. In fact, Class A landlords have hit a new record high of \$38.29 per sq. ft. The relentless demand for office space has pressured rents to climb to historic levels, with a citywide average rate of \$34.01 per sq. ft. Due to this increase, many small startups are looking toward alternative means to accommodate their location needs, such as coworking office space, which remains a popular concept in Austin.

Meanwhile, Austin's population is expected to grow faster than any other U.S. city of more than a million residents by 2040, doubling to four million. This bodes well for the long-term economic outlook; businesses will continue to come to Austin in pursuit of the widespread STEM (science, technology, engineering, and math) Austin labor force. While Austin face challenges associated with this growth (utilities, transportation, etc.), the office sector's outlook will be tied to this type of residential and jobs growth particularly as the employment base diversifies over the next 25 years into emerging sectors such as healthcare, biotech and advanced manufacturing.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable (SF)	Total Vacancy (%)	Total Availability Rate (%)	Average Asking Rate (\$)	Q3 2016 Net Absorption	YTD Net Absorption
CBD	9,953,924	6.7	8.1	47.00	111,343	225,549
Class A	7,058,387	6.0	7.2	50.89	113,896	269,601
Class B	2,471,373	8.0	9.3	40.20	-1,735	-27,310
Northwest	13,659,881	8.7	10.9	32.59	239,758	307,666
Class A	8,402,791	7.9	10.6	34.67	322,057	386,380
Class B	5,089,436	10.2	11.7	29.43	-79,443	-77,676
Far Northwest	4,254,055	10.1	11.0	30.09	68,792	305,419
Class A	2,822,943	9.5	9.5	30.57	71,209	294,867
Class B	1,338,253	11.8	14.4	29.46	-8,377	8,958
North Central	3,247,647	10.0	12.5	26.33	-2,397	257,403
Class A	687,005	9.7	19.1	33.51	2,563	196,032
Class B	2,215,215	11.0	11.6	23.79	-4,433	43,453
Round Rock	654,528	7.2	9.4	24.83	-13,110	-5,887
Class A	336,34	23.3	23.3	25.00	-7,825	-7,825
Class B	578,776	6.8	9.3	24.80	-5,285	1,938
East	2,133,756	11.2	11.7	22.02	24,459	144,582
Class A	543,037	20.9	20.9	25.57	-15,495	78,708
Class B	1,325,850	8.3	9.1	20.09	31,234	61,286
South	1,968,391	15.7	15.6	20.8	-27,885	-35,118
Class A	297,466	3.8	4.6	29.45	0	-6,963
Class B	1,248,805	22.2	22.3	21.67	-31,494	-34,148
Southwest	10,484,922	10.4	13.8	36.33	101,770	90,551
Class A	7,218,695	11.7	15.9	38.05	88,389	101,571
Class B	3,119,187	7.4	9.1	30.82	14,485	-4,329
<b>Totals</b>	<b>46,357,104</b>	<b>9.3</b>	<b>11.0</b>	<b>34.01</b>	<b>502,730</b>	<b>1,290,165</b>

Although Class C is not individually listed, Totals are inclusive of all classes of data

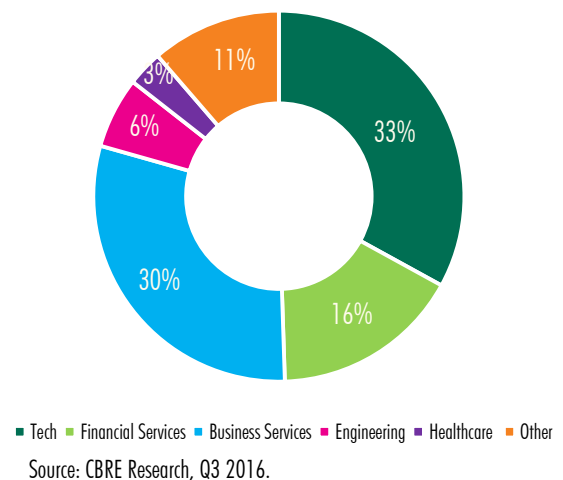
Source: CBRE Research, Q3 2016.

Figure 3: Significant Leases / Sales of the Quarter

Lease (Tenant)	Address	Total SF
Samsung	3900 N Capital of Texas Hwy	112,000
Cadence Design Systems	12301 Research Blvd	68,245
WeWork	11801 Domain Blvd	61,245
Sale (Buyer)	Property Name	Total SF
Invesco RE	100 Congress	411,536
Partners Group (Switzerland)	Research Park I & II	271,882
KBS Realty Advisors	Stonebridge Plaza I & II	386,101

Source: CBRE Research, Q3 2016.

Figure 4: 2016 Signed Leases by Industry



### RATES CONTINUE THEIR RECORD-SETTING CLIMB

Citywide rents continued their historic climb during the third quarter of 2016. The average citywide asking rate rose to \$34.01 per sq. ft., an all-time new high. While 2015 saw a dramatic spike in construction completions, the market has managed to maintain strong demand to absorb the supply while simultaneously pressuring rates to climb. Citywide Class A rates jumped to \$38.29 per sq. ft. this quarter from \$37.02 per sq. ft. last quarter.

### "THE USUAL SUSPECTS"

For the 23<sup>rd</sup> consecutive quarter, Austin saw positive net absorption, surpassing last quarter with 502,730 sq. ft. While last quarter saw the most activity in the North Central, Far Northwest and East submarkets, Q3 2016 numbers showed a return to 'the usual suspects' of Northwest, Southwest and CBD submarkets. The Northwest submarket saw the highest rate of absorption at 322,057 sq. ft., which is primarily due to the expansion of two international tech companies in the area.

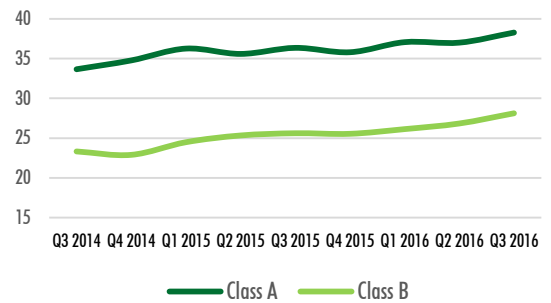
### VACANCY/AVAILABILITY FALL TO NEW LOWS

Citywide vacancy fell 110 basis points (bps) in the third quarter of 2016 to 9.3%, while overall availability fell 380 bps to 11.3%. Q3 2016 saw a sharp slump in delivered construction, which allowed the market to continue absorbing existing product, causing vacancy and availability to fall. As in past quarters, certain submarkets have been sought after more heavily than others.

### OPTIMISTIC OUTLOOK FOR AUSTIN

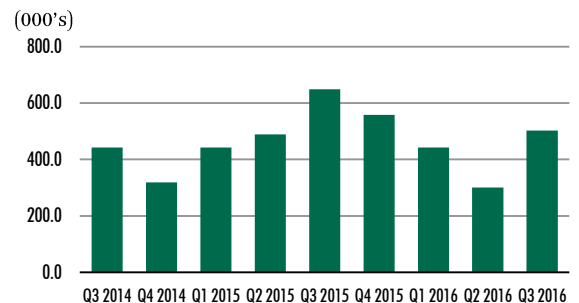
Two buildings delivered in the third quarter for a total of 79,634 sq. ft.; this is a marked decline from Q2 2016 delivery total of 270,667 sq. ft. The slowdown in delivery has allowed the market a chance to continue absorbing the newly delivered construction from 2015 to year-to-date 2016. At quarter close, there were 21 office projects under construction across seven submarkets for approximately 2.1 million sq. ft. This sharp increase in construction activity shows that developers and investors continue to remain optimistic about the future of the office market and the influx of new companies requiring space.

Figure 5: Lease Rates



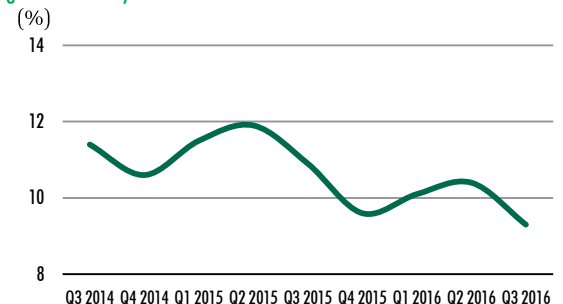
Source: CBRE Research, Q3 2016.

Figure 6: Net Absorption



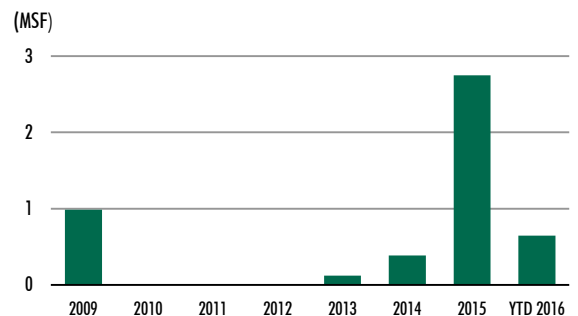
Source: CBRE Research, Q3 2016.

Figure 7: Vacancy



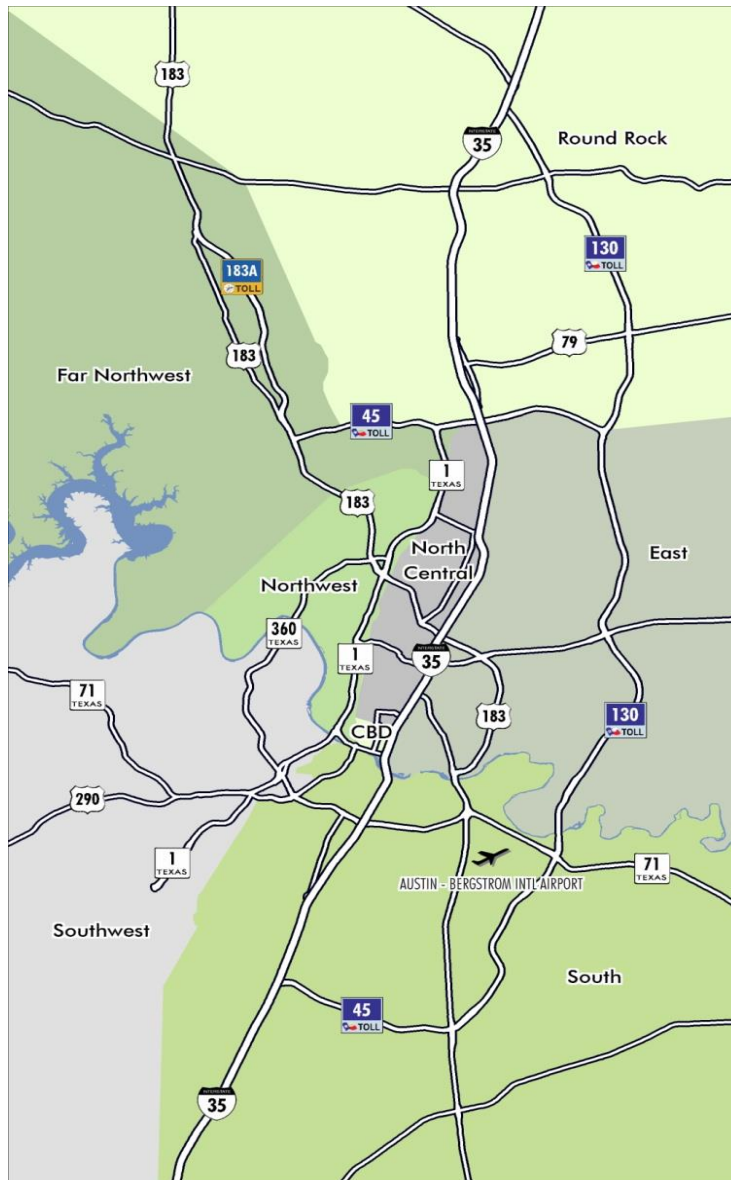
Source: CBRE Research, Q3 2016.

Figure 8: Construction Completions



Source: CBRE Research, Q3 2016.




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Austin Office, Q2 2016

# Steady stream of office deliveries sustains



Vacancy Rate  
10.4%



Avg. Asking Rate  
\$33.22/SF



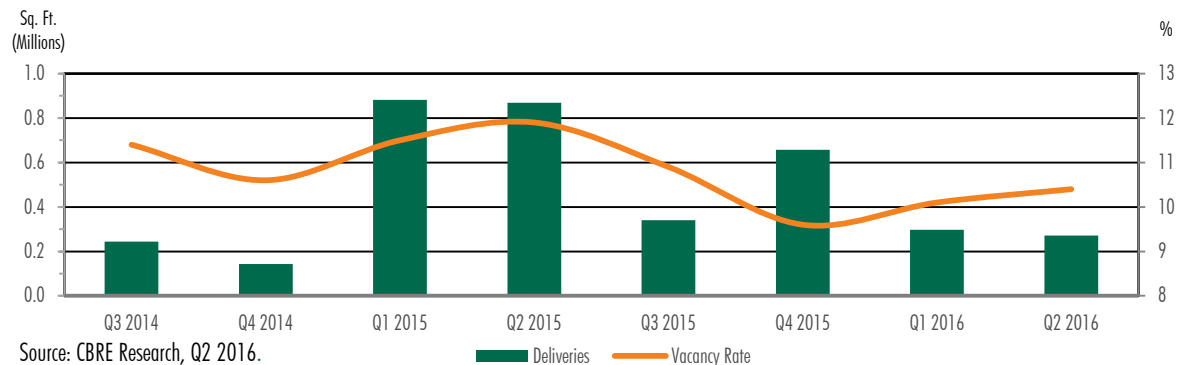
Net Absorption  
300,427 SF



Under Construction  
1.6 MSF

Figure 1: Deliveries vs. Vacancy

\*Arrows indicate change from previous quarter.



Source: CBRE Research, Q2 2016.

As the second quarter closes and this real estate cycle enters its later innings, noteworthy milestones and trends have made themselves apparent. For years now, the Austin office market has been known for its tech-heavy base of users – this is a decades old story. In this cycle though, there have been new wrinkles to this Austin narrative.

Austin has seen the number of big block users grow. As of quarter close, CBRE Research identified 37 spaces taken by users with footprints greater than 100,000 sq. ft. If expanded to 50,000 sq. ft. the number increases to 124 spaces. For perspective, CBRE identified over 1,300 office users in Austin with spaces of 5,000 or larger.

Who are these big users? Some are homegrown local names like Silicon Labs, HomeAway, Yeti, and Solar Winds. However, more and more are blue chip large cap companies that are either expanding their presence in the market or setting up shop for the first time. Companies like Home Depot, General Motors, Oracle, and Office Depot have recognized the value of having corporate offices in Austin. And though many of these companies are not tech companies, they still have tech needs, and Austin provides the ample STEM (science, technology, engineering, and math) labor force that fills those needs.

Conversely, Austin has witnessed office growth from the bottom up as well. The city is awash with startups and many of which got their start in shared office environments. Though not a new concept, traditional Regus space has been around since the 1980s and the idea has gained traction; the emergence of open layouts have since differentiated this concept and allow for more collaboration. For example WeWork, which embraces these open layouts, currently has three locations in Austin and is in the market looking for more.

Thinking beyond the fact that these shared working spaces are office occupiers on their own, they also serve another real estate function. A typical office lease is not something that meets the needs of today's modern company. Between their quickly changing space requirements and tight budgets, traditional arrangements can be burdensome. However, with the flexibility of the shared workspace, these hardships are mitigated. Because of these advantages, otherwise unfeasible business concepts are allowed to spread their wings and grow into bona fide office users. It is because of this dynamic that these coworking spaces can influence the larger market.

Figure 2: Austin Office Market Statistics

Submarket	Net Rentable (SF)	Total Vacancy (%)	Total Availability Rate (%)	Average Asking Rate (\$)	Q2 2016 Net Absorption	YTD Net Absorption
CBD	9,954,349	7.8	10.2	44.83	25,998	93,192
Class A	7,058,812	7.6	9.4	47.93	85,832	155,705
Class B	2,471,373	7.9	11.2	38.33	(36,082)	(25,575)
Northwest	13,668,581	10.4	17.2	32.99	59,116	67,908
Class A	8,402,791	11.7	20.7	34.62	42,331	64,323
Class B	5,098,136	8.6	11.9	29.44	14,967	1,767
Far Northwest	4,446,051	11.2	13.2	30.05	108,843	236,627
Class A	3,016,637	11.3	13.9	30.94	96,057	223,658
Class B	1,336,555	11.2	11.4	28.38	12,786	17,355
North Central	3,201,647	10.1	14.8	28.01	129,240	259,800
Class A	641,005	10.8	19.6	36.48	90,231	193,469
Class B	2,215,215	10.8	14.4	23.72	27,033	47,884
Round Rock	620,894	5.5	8.3	24.55	(3,909)	7,223
Class A	0	0	0	0	0	0
Class B	578,776	5.9	8.9	24.55	(3,909)	7,223
East	2,133,756	12.3	20.6	21.89	90,274	119,509
Class A	543,037	18.0	18.0	25.50	94,203	94,203
Class B	1,325,850	10.6	23.9	21.23	(3,147)	30,052
South	1,746,355	16.0	18.0	16.48	(18,382)	(29,531)
Class A	297,466	3.8	5.4	25.94	(6,963)	(6,963)
Class B	1,026,769	23.9	26.0	15.30	(5,855)	(2,654)
Southwest	10,484,922	11.4	19.5	35.74	(90,753)	(10,589)
Class A	7,218,659	13.0	16.8	37.18	(46,344)	13,812
Class B	3,119,187	7.8	11.0	30.36	(42,252)	(18,814)
<b>Totals</b>	<b>46,256,555</b>	<b>10.4</b>	<b>15.1</b>	<b>33.22</b>	<b>300,427</b>	<b>743,189</b>

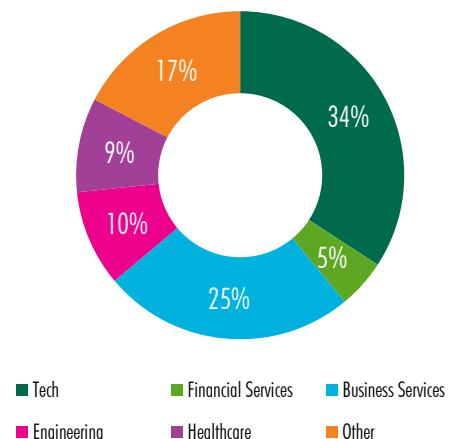
Although Class C is not individually listed, Totals are inclusive of all classes of data  
Source: CBRE Research, Q2 2016.

Figure 3: Significant Leases / Sales of the Quarter

Lease (Tenant)	Address	Total SF
Gerson Lehrman Group	301 Congress	41,803
Aristocrat Technologies	11801 Domain Dr.	24,412
People Admin	807 Las Cimas Pkwy.	24,166
Sale (Buyer)	Property Name	Total SF
Plaza on the Lake One LLC	Plaza on the Lake I & II	236,561
Capridge Partners	Lakewood on the Park B&C	180,558
Cielo Realty Partners	900 Congress	56,391

Source: CBRE Research, Q2 2016.

Figure 4: 2016 Signed Leases by Industry



Source: CBRE Research, Q2 2016.

### NEW QUARTER, NEW RECORD HIGH RATES

Rent increases showed no sign of slowing down in the second quarter. The average citywide asking rate once again reached a new all-time high of \$33.22 per sq. ft. The recent onslaught of completions has not tempered the rise in rates, with the market maintaining the demand to offset the new supply. Citywide Class A rates did see a minute \$0.06 per sq. ft. decrease, but this was merely due to a small shift in the mix of available space.

### UNLIKELY SUSPECTS FOR ABSORPTION

Austin office saw its 22<sup>nd</sup> consecutive quarter of positive net absorption and finished the period at 300,427 sq. ft. Typically the Northwest, Southwest and CBD will see the bulk of absorption in any given quarter, however, this was not the case in the second quarter when the North Central, Far Northwest, and East submarkets felt the majority of the activity. It is worth noting that it was mostly recently completed buildings that comprised the absorption within these three submarkets.

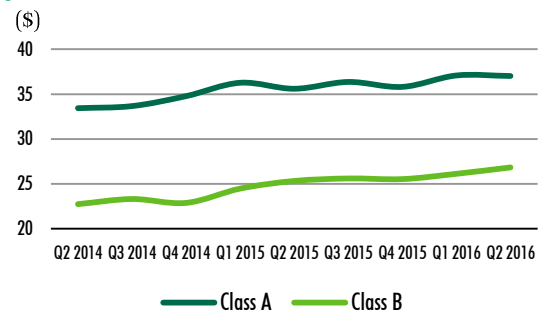
### VACANCY/AVAILABILITY UP WITH NEW SUPPLY

Citywide vacancy increased 30 bps in the second quarter. Vacancy has been relatively stable the last several quarters despite the heavy leasing and absorption in the market. The addition of new product seems to roughly be keeping pace with demand, thereby keeping vacancy constant. This holds true for the market at large, but has not been equal among all submarkets.

### COMPLETIONS FOLLOWED WITH NEW STARTS

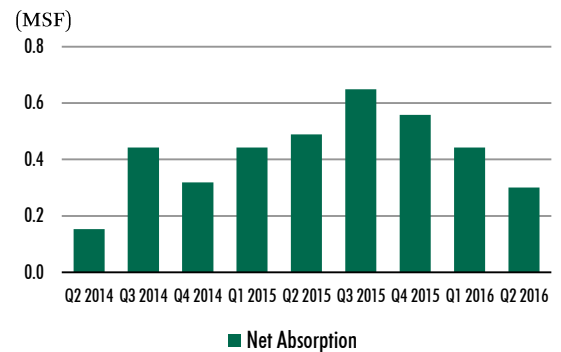
Three buildings delivered in the second quarter for a total of 270,667 sq. ft., two in the CBD and one in the Northwest submarket. All three projects have seen strong leasing activity, with just 10,000 sq. ft. uncommitted in the 5th and Colorado project downtown. At quarter close, 11 office projects were under construction across six submarkets for a total 1.6 million sq. ft. of product. Much of the construction that started off the current post-recession cycle has completed or is nearing completion, yet developers stay optimistic about the near future demonstrated by projects like Parmer 3.1 and Lantana Ridge that recently broke ground.

Figure 5: Lease Rates



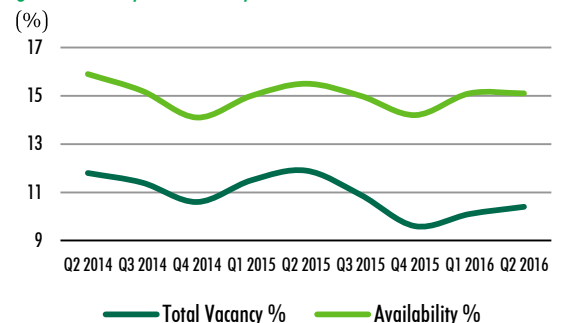
Source: CBRE Research, Q2 2016.

Figure 6: Net Absorption



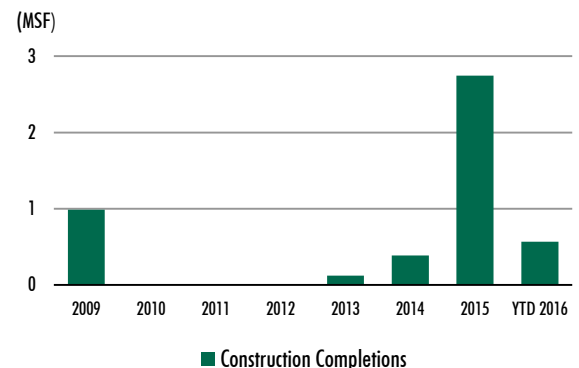
Source: CBRE Research, Q2 2016.

Figure 7: Vacancy & Availability

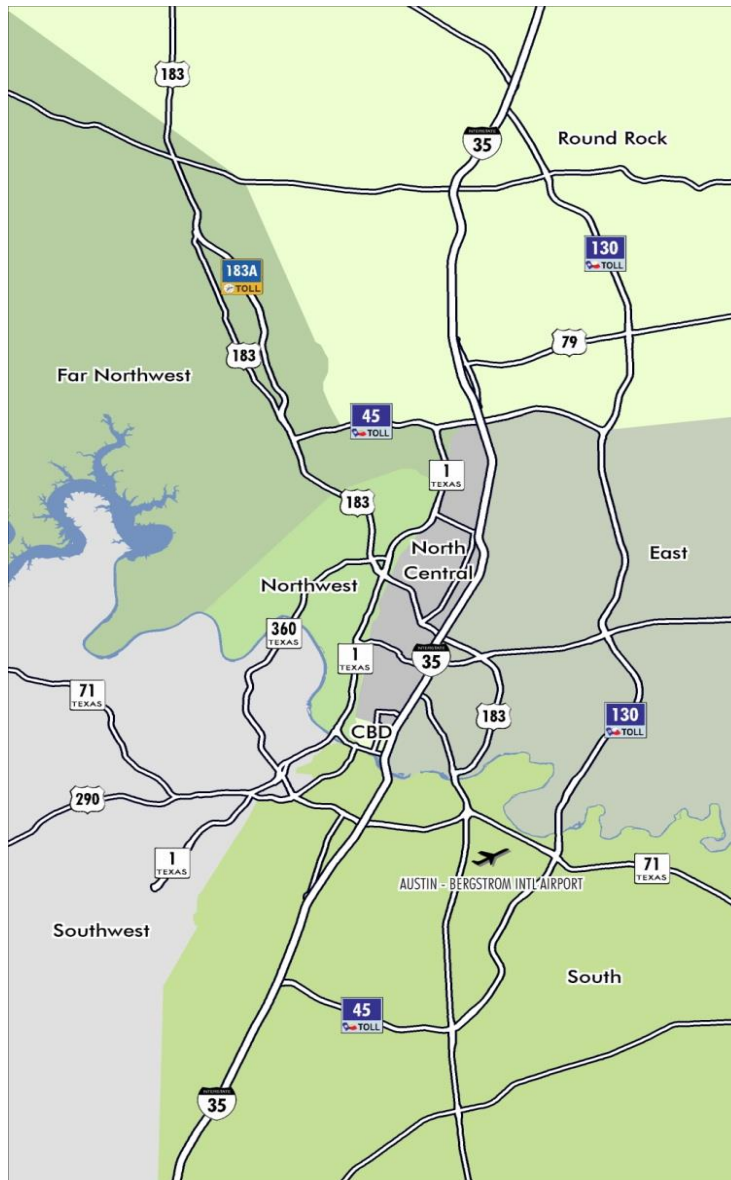


Source: CBRE Research, Q2 2016.

Figure 8: Construction Completions



Source: CBRE Research, Q2 2016.



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Austin Office, Q1 2016

# The Stable Office Market: Austin's New Normal?



Vacancy Rate  
**10.1%**



Avg. Asking Rate  
**\$32.65 \$/SF**



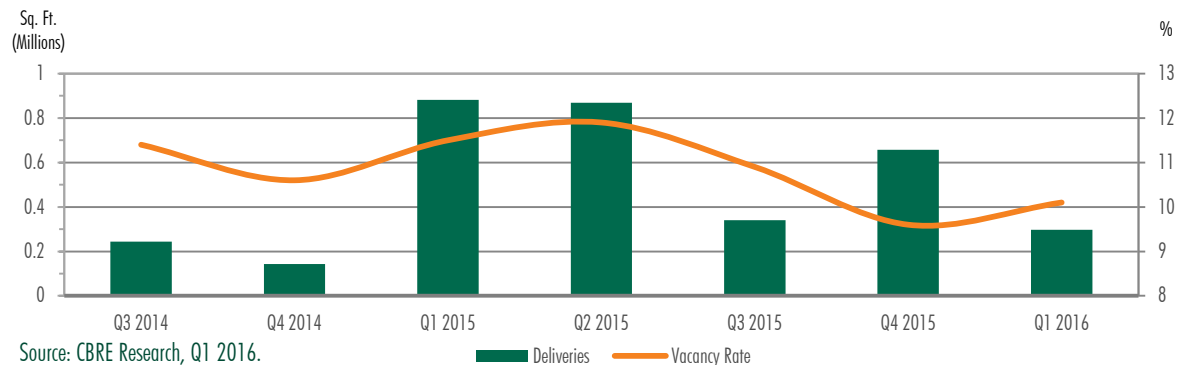
Net Absorption  
**442,762 Sq. Ft.**



Under Construction  
**1.6 MSF**

Figure 1: Deliveries vs. Vacancy

\*Arrows indicate change from previous quarter.



Last year saw a record high in full service gross asking rents, and also reached a new peak in yearly total absorption. Vacancy scored its lowest mark in a generation. More than 2 million sq. ft. delivered. Safe to say 2015 was a monumental year.

Then towards the end of 2015 the Federal Reserve raised the overnight rate for interest rates by 25 basis points (bps), accompanied with the forecast that more rate hikes were to come in the near future. This was followed by turmoil in the financial markets to begin 2016 to a less than auspicious start. The S&P 500, Dow Jones, and Nasdaq all saw wild swings in value with a heavy bias to the downside. The yield on the ten year treasury dipped down to 1.64% despite the short end of the yield curve seeing the rate hike. Doubt and uncertainty began to creep across markets.

Since the turbulent beginning of the year, the stock market has partially rebounded and stabilized for the time being. The U.S. ten year treasury recouped some of the yield dip and has been hovering just under 2.00%. The 'fear trade' on Wall Street seems to have subsided.

Why is this all important, what does it have to do with the Austin office market?

Though the Capital City escaped the deeper scars emerging from the recent recession, the memory of the havoc it wreaked elsewhere has not been forgotten. And with these recent strides in the Austin office market, the question surrounding when will the local market peak is becoming a more dominant question.

While stock market gains and losses might not have a direct cause and effect relationship to Austin's office market, they can be a broad macro gauge for the industry. Plans of expansion could be shelved (2 CBD speculative projects await a first to tenant to kick off) while parties considering acquisitions could become more likely to take a wait and see attitude.

Still, the Austin market has by no means fallen off the edge of a cliff. In fact, the Q1 2016 results for the Austin office market are quite robust and early indicators are they will remain so in the year ahead. The market absorbed 442,762 sq. ft. Rents saw gains among all classes and the citywide overall rate hit an all time high. Vacancy remained contained to the 10% range while construction is tapering. If Austin sustains a disciplined pipeline, we may see stable become the new normal in the Hill Country.



Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Average Asking Rate (\$)	Q4 Net Absorption	YTD Net Absorption
CBD	9,732,884	5.9	11.4	44.61	67,194	67,194
Class A	6,862,949	5.8	10.6	47.52	69,873	69,873
Class B	2,445,771	6.3	12.6	37.62	-10,507	-10,507
Northwest	13,593,777	10.4	16.9	32.18	8,792	8,792
Class A	8,327,987	11.4	20.2	33.77	21,992	21,992
Class B	5,098,136	8.9	12.0	28.84	-13,200	-13,200
Far Northwest	4,446,051	13.7	13.8	30.75	127,784	127,784
Class A	3,016,637	14.4	13.6	33.47	127,601	127,601
Class B	1,336,555	12.1	14.2	28.65	4,549	4,549
North Central	3,201,647	14.1	20.9	26.74	130,560	130,560
Class A	641,005	24.9	29.2	37.15	103,238	103,238
Class B	2,215,215	12.0	19.5	23.11	20,853	20,853
Round Rock	620,894	4.8	8.4	24.91	11,132	11,132
Class A	0	N/A	N/A	N/A	0	0
Class B	578,776	5.2	9.0	24.91	11,132	11,132
East	213,3756	16.6	18.6	21.33	28,285	28,285
Class A	543,037	35.4	18.0	25.50	0	0
Class B	1,325,850	10.4	20.2	20.46	33,199	33,199
South	1,746,355	15.0	17.2	15.48	-11,149	-11,149
Class A	297,466	1.4	3.8	20.37	0	0
Class B	1,026,769	23.3	25.6	14.77	-3,201	-3,201
Southwest	10,484,922	9.3	14.6	35.11	80,164	80,164
Class A	7,218,659	10.5	16.8	36.65	60,156	60,156
Class B	3,119,187	6.5	9.6	29.44	23,438	23,438
Totals	45,960,286	10.1	15.1	32.65	442,762	442,762

Although Class C is not included, Totals are inclusive of all classes of data

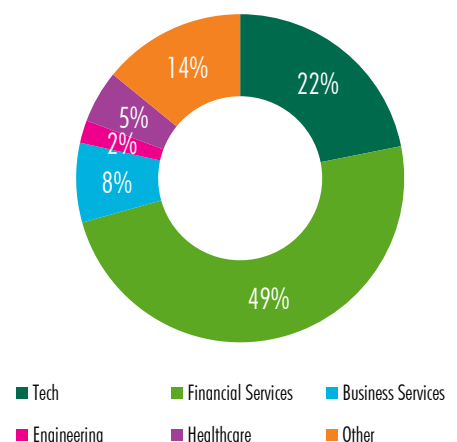
Source: CBRE Research, Q1 2016.

Figure 3: Significant Leases / Sales of the Quarter

Lease (Tenant)	Address	Total SF
Houghton Mifflin Harcourt	1300 W. Loius Henna Blvd.	87,745
Navitus	12515 Research	25,937
Forcepoint	10900 Stonelake Blvd.	60,000
Sale (Buyer)	Property Name	Total SF
Lionstone Investments	University Park	204,297
OakPoint	Donley Plaza	67,000
Valor Capital Partners	Briarcroft Building	64,010

Source: CBRE Research, Q1 2016.

Figure 4: 2016 Signed Leases by Industry



Source: CBRE Research, Q1 2016.



### TAXES & LEASE RATES: INCREASES COME IN Q1

Rent increases tended to be steep in the first quarter in recent years, and Q1 2016 was no exception. This trend is partially explained by new operating expenses being released at the beginning of the each year from landlords. Largely fueled by property tax increases, trophy towers in the CBD have witnessed operating expenses breaching the \$20.00/sq. ft./yr. threshold. Compound that with a robust market sees Austin's office market being on the end result of steadily rising rates.

### POSITIVE ABSORPTION TURNS "21"

Austin office saw its 21<sup>st</sup> consecutive quarter of positive net absorption and finished the period at 442,762 sq. ft. As usual, both the CBD and the Southwest submarkets saw much of that action, but surprisingly the Northwest came in with a tame 8,792 sq. ft. absorbed. However, the North Central submarket absorbed 130,560 sq. ft., much of that having been the Kendra Scott headquarters at Lamar Central, and the new WeWork location at University Park.

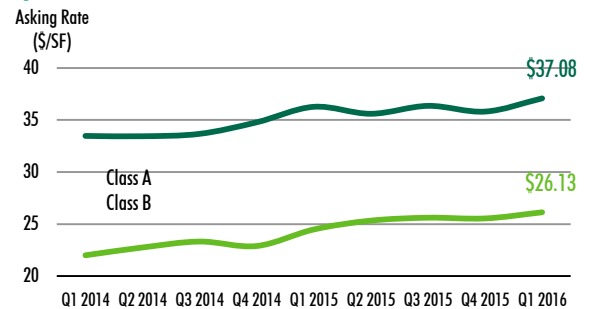
### VACANCY/AVAILABILITY UP WITH NEW SUPPLY

Overall vacancy increased 50 bps in Q1 2016 due to the delivery of two new vacant buildings and the addition of two previously constructed buildings being added to the CBRE tracked set that were largely vacant. This overshadowed the absorption gains as availability followed vacancy and moved up to 15.1% to finish the quarter.

### TENANT WANTED: NEW SUPPLY HAS VACANCY

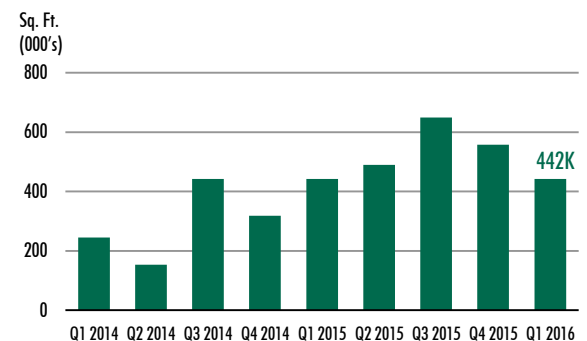
Two buildings delivered in Q1 2016 for a total of 297,431 sq. ft., both in the Northwest submarket. Research Park Plaza V delivered at 32.4% preleased while Domain 1 delivered 100% vacant and available. At quarter close, 11 office projects were under construction across 5 submarkets for a total 1.6 million sq. ft. of product. Much of the construction that started off the cycle coming out of the last recession has completed or is nearing completion, and if the development pipeline completes this cycle, Austin's office market will have some runway to absorb the space over time.

Figure 5: Lease Rates



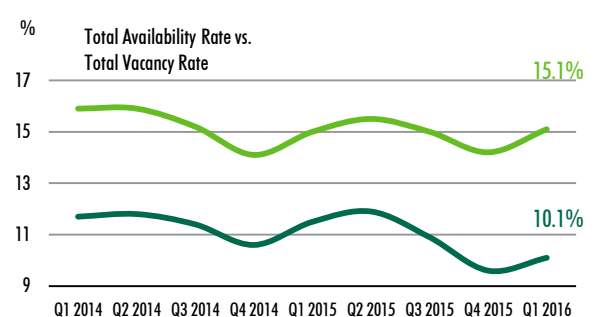
Source: CBRE Research, Q4 2015.

Figure 6: Net Absorption



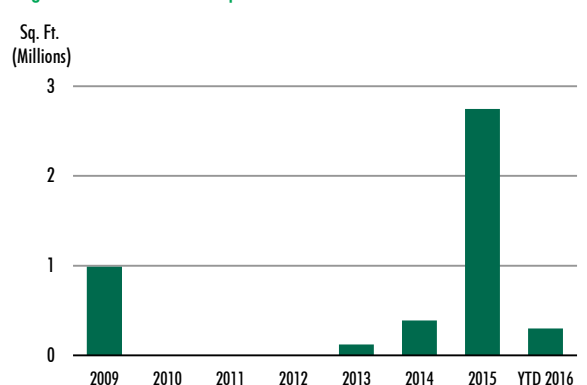
Source: CBRE Research, Q1 2016.

Figure 7: Vacancy & Availability

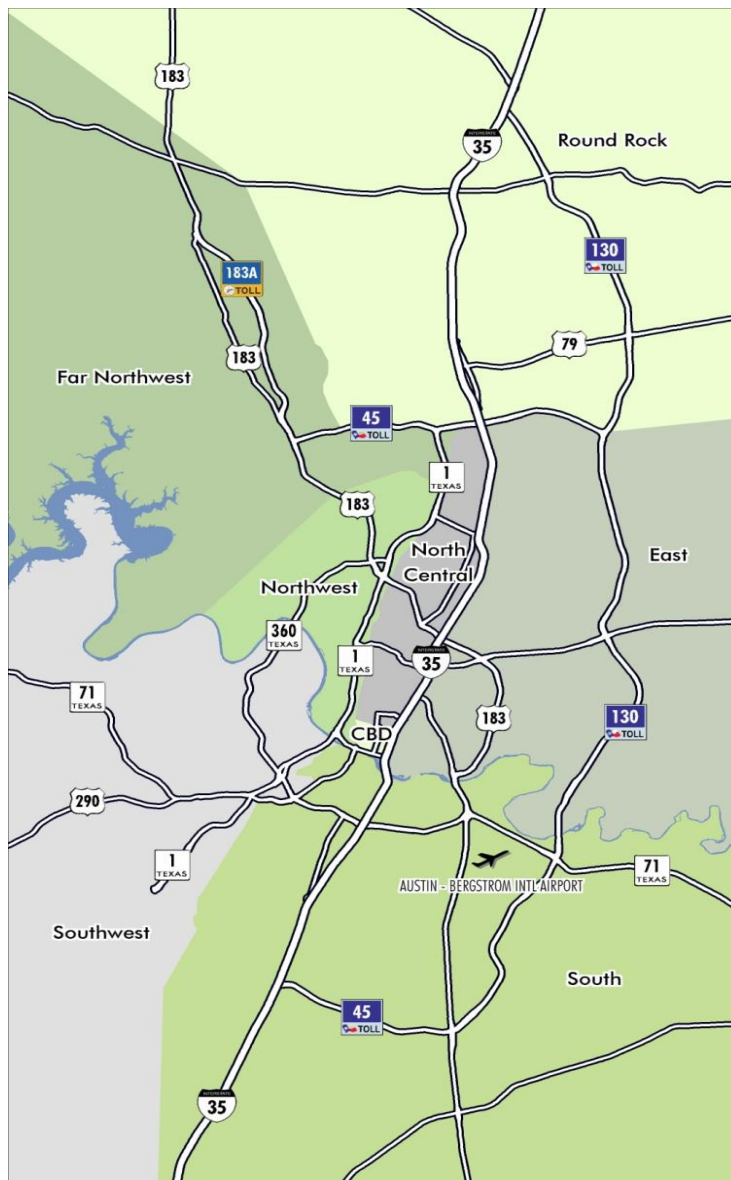


Source: CBRE Research, Q1 2016.

Figure 8: Construction Completions



Source: CBRE Research, Q1 2016.


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Austin Office, Q4 2015

# M<sup>3</sup>: Market's multiple milestones stretched 2015 finish line.

Vacancy Rate  
9.6 %

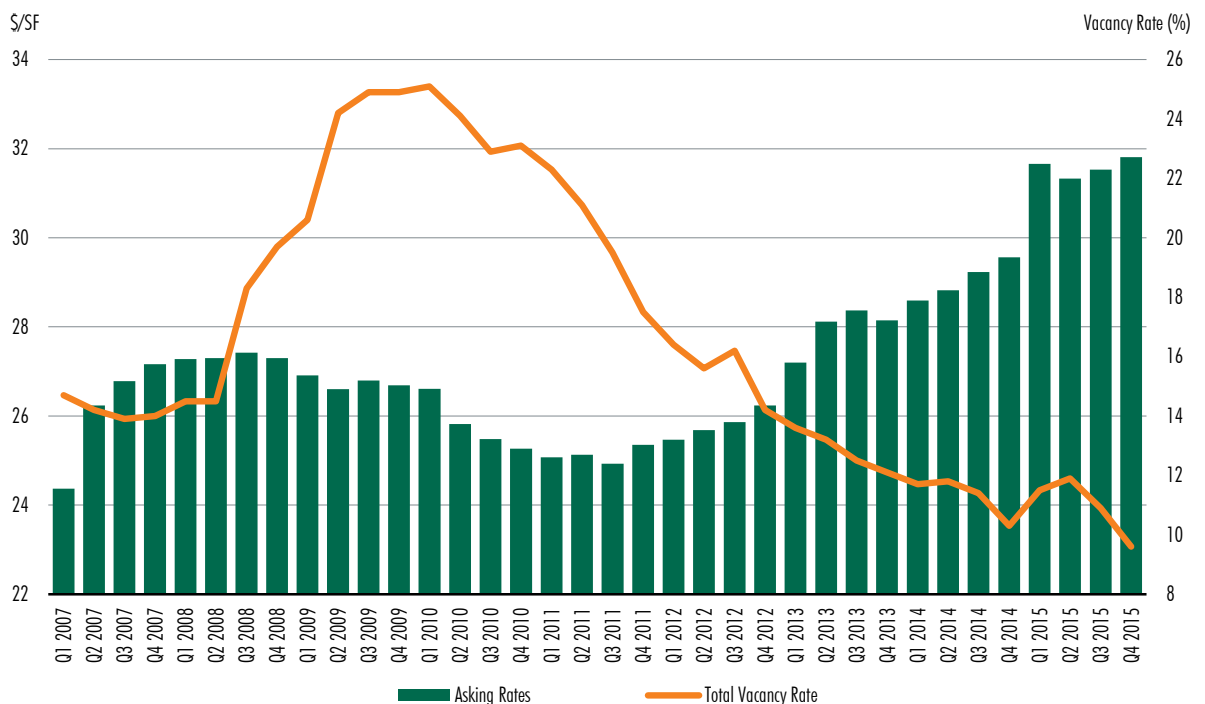
Avg. Asking Rate  
\$31.81/SF

Net Absorption  
557,940 SF

Completions  
657,307 SF

\*Arrows indicate change from previous quarter.

Figure 1: Asking Rates, Gross Avg. Annual and Vacancy Rates



Source: CBRE Research, Q4 2015.

- The Austin market delivered 657,307 sq. ft. of new product to the market in Q4 2015, bringing the year-to-date total to over 2.7 million sq. ft.
- Going west: ending the year with a robust quarter for net absorption of 557,940 sq. ft. with 3/4<sup>th</sup> of the demand (405,262 sq. ft.) in the Northwest and Southwest submarkets.
- Average full service asking rents climbed to a new high stepping to citywide ascent at \$31.81 per sq. ft. per year.

Austin's office market charged to the finish line during Q4 2015 ending the banner year with a new record for positive annual net absorption of 2.1 million sq. ft. and 557,940 sq. ft. for the quarter.

This benchmark now surpasses the previous high-water mark set in 2011 of nearly 1.9 million sq. ft. Roaring out of the recession, occupiers have chalked up five straight years of new demand - or 20 consecutive quarters dating back to Q4 2010.

Following suit, asking rents also reached new milestones. The citywide full service gross average asking rate made a new all-time high in Q4 2015, and came in at \$31.81, surpassing the mark set in Q1 2015 by \$0.15. With the market as tight as it has been, and property values on the rise, this has been a trend that will continue.

Not only did absorption and asking rates break previous benchmarks but vacancy did as well. Austin citywide total office vacancy fell to 9.6%, the lowest level on record since the dot-com bust in 2001, and a 1.3% quarterly decrease. This marked only the third quarter since 2001 where total vacancy sunk below 11.0%, all three of which have come in the last 5 quarters.

Tenant appetite was greatest for premium space. Class A lead the Austin office market with 382,722 sq. ft. positive net absorption, which nearly doubled the 194,919 sq. ft. of office product absorbed in class B product. Class C lost ground in Q4 2015 and gave back 19,701 sq. ft. to the market as the oldest of Austin's office product finds it hard to compete with the open floor plates, amenities and space preferences of professional upscale occupiers.

The Northwest submarket represented nearly half of the positive net absorption for the quarter at 274,207 sq. ft. Much of this was attributed to one tenant, Indeed.com, relocating and expanding. They moved out of their facilities at The Reserve at Bull Creek where they had about 70,000 sq. ft., and into their new facility at Champion Office Park where they took 230,000 sq. ft. Not far behind was Bazaarvoice taking 137,615 sq. ft. at Quarry Oaks III. They relocated and expanded from their location at 3900 San Clemente.

The Southwest submarket trailed the Northwest and posted 131,055 sq. ft. of positive net absorption. Two big tenant moves largely shaped that number. A global hardware and software producer expanded their presence in the market and took 217,490 sq. ft. at Capital Ridge, the entire building. And, as previously stated, Bazaarvoice left their location at 3900 Clemente, where they had occupied 112,000 sq. ft.

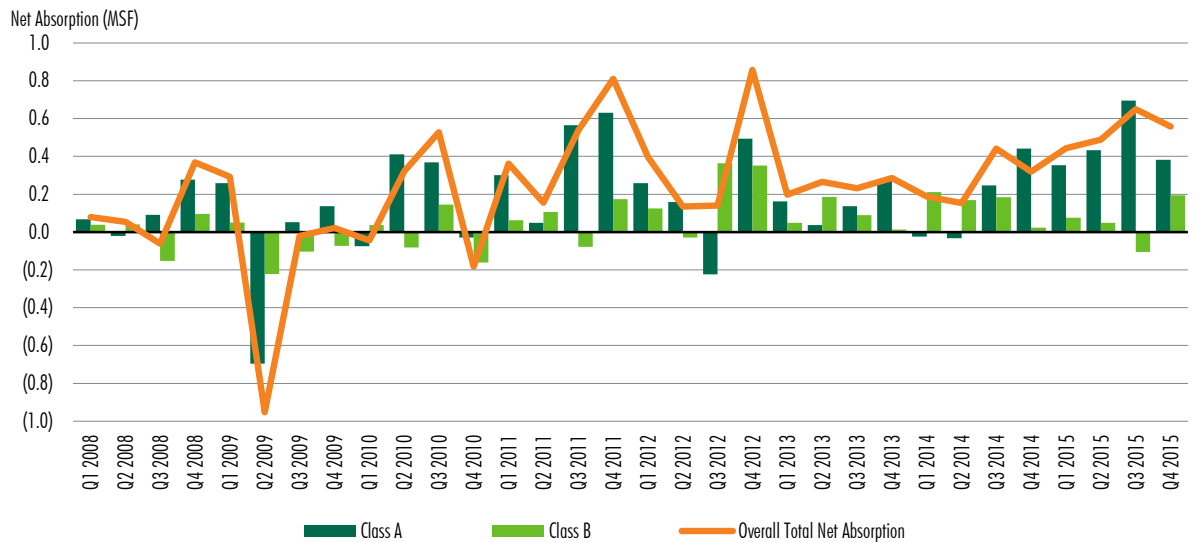
The CBD followed the Southwest and finished Q4 2015 with 83,341 sq. ft. of positive net absorption. Techspace, a provider of shared workspace, took about 28,000 sq. ft. at San Jacinto Center. WeWork, another shared workspace provider, expanded their presence at One America Center, as did Facebook.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	2015 Net Absorption (SF)	2015 Delivered Construction (SF)	Under Construction (SF)	Avg. Direct Asking Lease Rates (\$/SF/YR)	
								Class A	Class B
CBD	9,732,884	687,955	7.1	83,341	649,300	557,470	911,022	43.64	36.52
Northwest	13,296,346	1,175,572	8.8	274,207	669,701	591,973	728,911	34.14	27.59
Far Northwest	4,239,279	400,626	9.5	37,105	198,389	128,700	-	32.86	27.76
North Central	3,201,647	418,399	13.1	21,833	90,066	214,962	46,000	39.06	21.95
Round Rock	620,894	41,207	6.6	9,698	19,892	-	-	N/A	24.99
East	2,133,756	381,511	17.9	9,049	58,736	191,990	131,806	N/A	22.57
South	1,746,355	250,858	14.4	-8,348	33,337	-	-	20.37	14.59
Southwest	10,484,922	1,027,527	9.8	131,055	419,723	1,062,477	87,748	35.85	28.89
<b>Totals</b>	<b>45,456,083</b>	<b>4,383,655</b>	<b>9.6</b>	<b>557,940</b>	<b>2,139,144</b>	<b>2,747,572</b>	<b>1,905,487</b>	<b>35.81</b>	<b>25.54</b>

Source: CBRE Research, Q4 2015.

Figure 3: Net Absorption



Source: CBRE Research, Q4 2015.

Also in the CBD, at 816 Congress AllClear ID signed a lease for about 33,000 sq. ft.

The only submarket that showed a negative net absorption in Q4 2015 was the South at a modest 8,348 sq. ft. decrease. This was similar to the previous quarter where only the East submarket showed any decline at all.

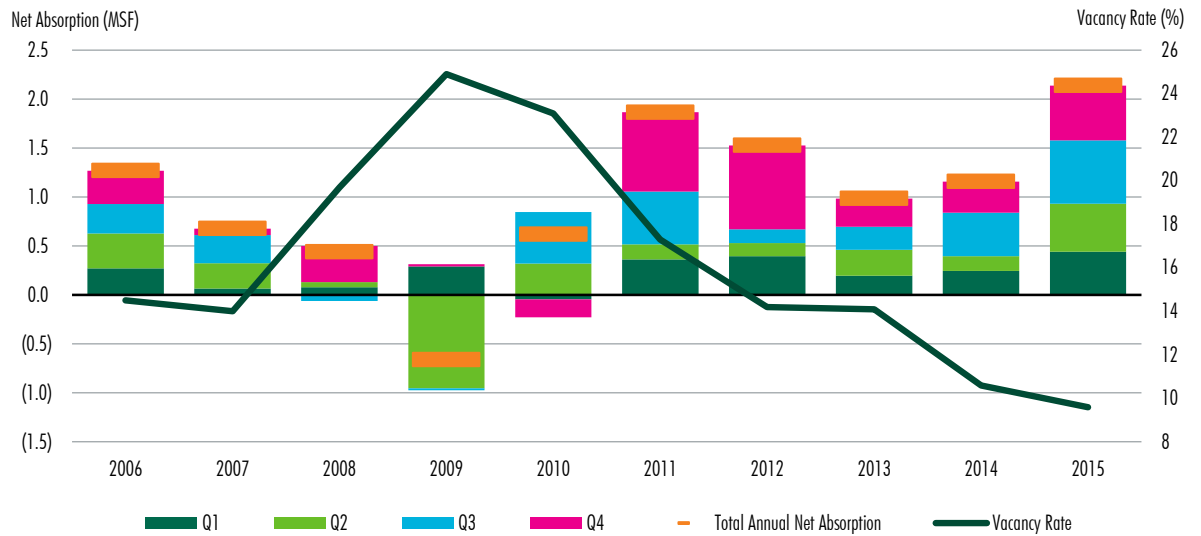
All eight submarkets in Austin finished 2015 with positive net absorption. The majority of it was in the CBD, the Southwest, and the Northwest, and accounted for 81.2% of the 2,139,144 sq. ft. of annual absorption in the market. These submarkets have historically been the drivers for absorption in the market. With vacancies as tight as they were at the end of the Q4 2015, it was possible that other submarkets might start to gain share in the near future.

Following that thought, it was recently reported that Oracle announced plans to build a 560,000 sq. ft. campus in the South submarket. Located along Lady Bird Lake and near the border of the CBD, Oracle expected the campus to house about 1,100 workers, most of whom would be sales and marketing professionals. Ryan Companies U.S. has been named to develop and build the campus.

Vacancy was tight across the market as of the close of Q4 2015. Citywide direct vacancy finished the quarter at 8.2%. The CBD was the tightest submarket with a 6.5% direct vacancy rate, followed by both the Southwest and Northwest coming in at 7.3%. This trend has made it hard for big block users (50,000 sq. ft. and up) of space to find homes. In the CBD, big blocks of contiguous space were nowhere to be found in existing buildings. The situation was similar in the Northwest and Southwest, although not as severe.

With demand being so high for space, construction activity has remained robust. At the close of the quarter there were 12 buildings under construction that comprised 1,905,487 sq. ft. Eight of these twelve buildings were in CBD and Northwest submarkets, and made up 1,639,933 sq. ft. Construction in the Southwest submarket has dried up since all the deliveries this year with only one project underway for 87,748 sq. ft. Land once easily developed in the CBD has become scarce. Projects wanting to be near the core of the city might start being pushed to the south such as the recently announced Oracle campus, or to the East, a long awaited trend that has yet to fully materialize.

Figure 4: Net Absorption and Vacancy Rate



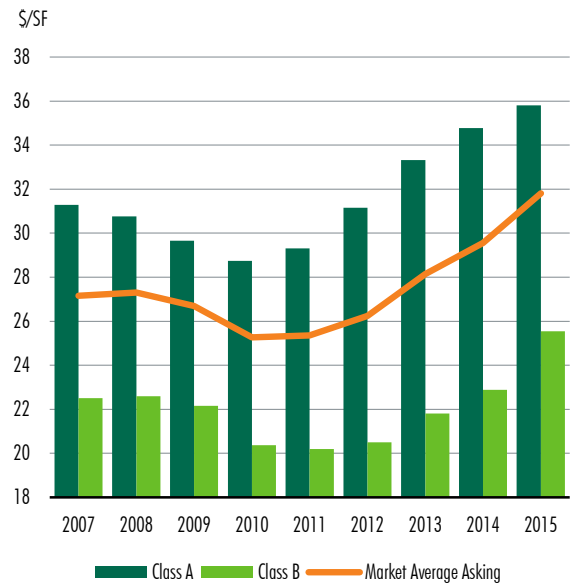
Source: CBRE Research, Q4 2015.

#### OFFICE ASKING RATES

The citywide average asking rents continued their seemingly unfettered ascent and concluded the quarter at \$31.81 per sq. ft., a new all-time high. Since the beginning of this cycle in Q3 2011, citywide average asking rates have raised \$6.88 per sq. ft., a 27.6% increase. Average asking rates in the CBD finished Q4 2015 at \$41.33 per sq. ft., a 3.1% increase over this time last year. Q4 2015 witnessed the most expensive lease transaction to date. A tenant leased the top floor at 100 Congress, 12,000 sq. ft., for ten years at a \$40.00 per sq. ft. triple net starting rate, and with operating expenses at \$18.65 for 2015. Austin has essentially reached \$60.00 per sq. ft. full service rents for prime CBD spaces.

Even with asking rates reaching new highs, it has been important to note some nuances in how they are reported. They were derived from asking rates of currently available spaces. In a tight market like Austin with a very low vacancy, choice available spaces were fewer and farther between. What was not immediately snatched up constituted the pool from which the rates were derived. The resulting effect in a market like this was likely an under-reporting of where rates truly are in the market.

Figure 5: Asking Rates, Gross Avg. Annual



Source: CBRE Research, Q4 2015.

## OFFICE PRODUCT

Even after delivering over 2 million sq. ft. of office product through the first three quarters of 2015, the Austin market showed no signs of slowing construction patterns. 657,307 sq. ft. of new product were added to the market in Q4 2015 to finish the year. These were five projects coming on line across four submarkets. This has been the largest annual total of office space completed in the market since 2008.

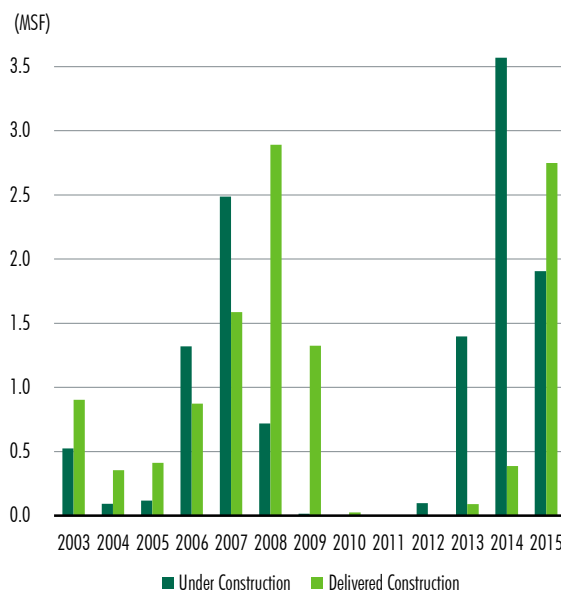
construction citywide with the CBD and the Northwest submarkets having seen the bulk of the attention. There were four projects under construction in the CBD for a total of 911,022 sq. ft., including Shoal Creek Walk, a 218,800 sq. ft. building that kicked off this quarter. All four CBD projects had sizeable amounts of preleasing activity.

## UNEMPLOYMENT

Local unemployment continued its recent trend in the month of October, creeping up with another 10 bps increase to close the quarter at 3.3% - still a very healthy number. State unemployment followed this pattern and began to climb higher; it jumped up 30 bps and ended October at 4.4%. National unemployment countered the trend seen locally and at a state level. The national unemployment rate dipped 10 bps in October at 5.0%. Despite the recent upticks in the state and local rates, all three unemployment rates have registered year-over-year improvements.

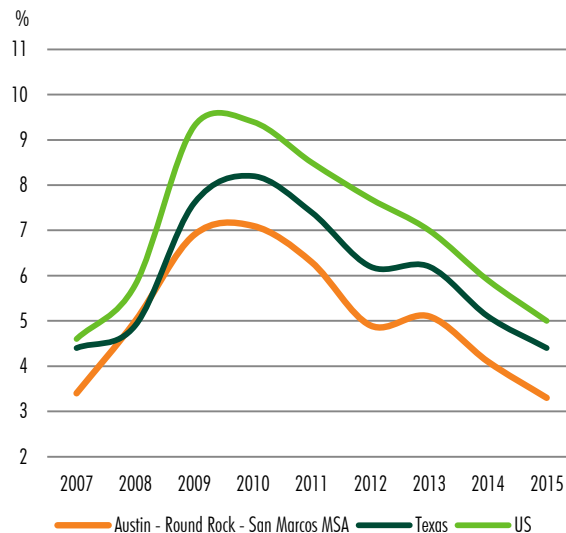
To fully appreciate the strength of the Austin job market it has been helpful to look at population growth in the area. According to the city of Austin demographics, The Austin-Round Rock MSA surpassed two million people this year and finished October at 2,020,452. The population in April of 2001 was 1,249,763, which amounted to a 61.7% increase since 2000.

Figure 6: Construction



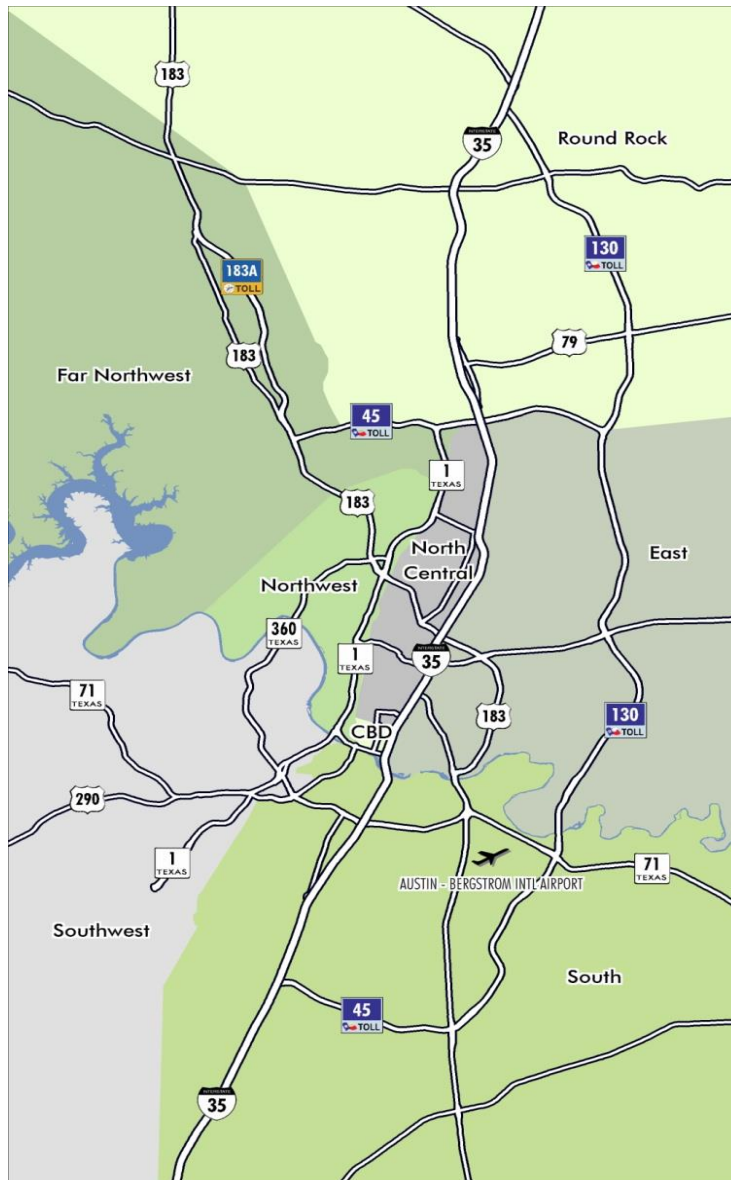
Source: CBRE Research, Q4 2015.

Figure 7: Unemployment



Source: CBRE Research, Q4 2015.




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Austin Office, Q3 2015

# Market Posts Highest Net Absorption Since 2012

Vacancy Rate  
10.9 %

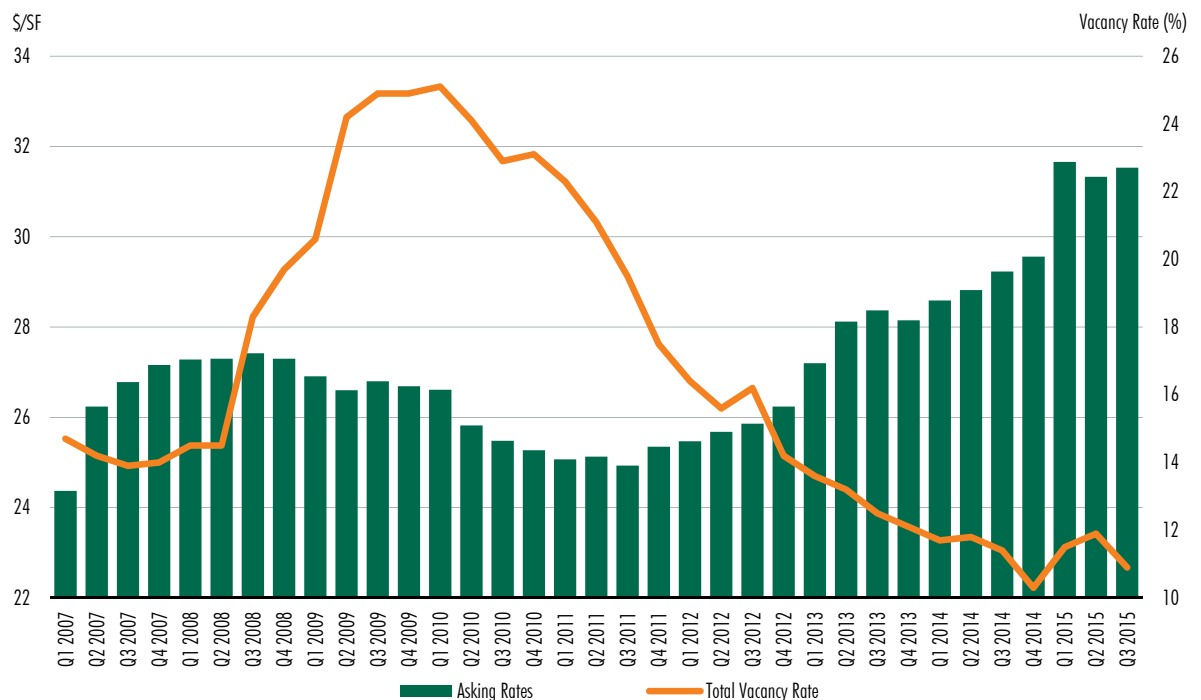
Avg. Asking Rate  
31.53 \$/SF

Net Absorption  
649,339 SF

Completions  
339,890 SF

\*Arrows indicate change from previous quarter.

Figure 1: Asking Rates, Gross Avg. Annual and Vacancy Rates



Source: CBRE Research, Q3 2015.

- The Austin office market posted 649,339 sq. ft. of positive net absorption for the quarter, the highest single quarter since Q4 2012 posted 857,000 sq. ft.
- The year-to-date net absorption surpassed 1.5 million sq. ft. and is less than 300,000 sq. ft. from setting a new all-time high for annual net absorption.
- Delivered construction broke two million sq. ft. with the delivery of two more buildings to the market totaling 339,890 sq. ft. This is the first time this level of new product was delivered to the market since 2008, when over 2.8 million sq. ft. was added.

With one quarter to go in the year, the Austin office market is poised to set a new all-time high for net absorption for a year. The market posted 649,339 sq. ft. of positive net absorption, the highest level since Q4 2012. With another strong quarter to close out 2015, not only would the fifth consecutive year of every quarter experiencing positive net absorption, but would also set a new record for year-to-date net absorption for a year previously set in 2011 when the year saw 1.9 million sq. ft. of positive net absorption.

After back-to-back quarters that saw vacancy rise, the strong quarter posted by Q3 2015 brought vacancy down 100 basis points (bps). The quarter closed at 10.9%, which drops the vacancy rate below 11% for just the second time ever, the other time being Q4 2014. Direct vacancy ended up falling 60 bps to 10.2%, down from 10.6%.

The vast majority of positive net absorption was experienced by Class A product, which saw 695,078 sq. ft. of positive net absorption for the quarter. This brought the year-to-date net absorption for Class A up to nearly 1.5 million sq. ft. After two quarters of modest absorption, Class B space saw returned 104,669 sq. ft. to the market. Class C product finished the quarter with 58,930 sq. ft. of positive net absorption.

Three submarkets had a quarter of positive net absorption over 100,000 sq. ft., led by the Southwest submarket with 200,870 sq. ft. This was followed by the Far Northwest with 154,290 sq. ft., and the CBD posting 135,085 sq. ft. Major move-ins including a confidential tenant and Oracle taking a combined 128,000 sq. ft. at 7700 Parmer – Bldg B, Fresenius occupying 63,000 sq. ft. at the Park on Barton Creek 2, and Drop Box moving into 34,151 sq. ft. at the Old Bank of America Building.

Negative net absorption was very modest, as only one submarket returned space to the quarter. The East posted 5,828 sq. ft. of negative net absorption for the quarter. The year-to-date net absorption for the submarket still remained positive, which currently stands at 49,687 sq. ft. By the end of Q3 2015, every submarket has positive net absorption year-to-date.

After a Q2 2015 that saw rates decline, citywide average asking rates got back nearly 66% of what was lost quarter-over-quarter. Rents bumped up \$0.20 per sq. ft. on a Full Service Gross (FSG) basis, after declining \$0.33 per sq. ft. the previous quarter. This caused rates to finish Q3 2015 at \$31.53 per sq. ft., which is \$2.30 per sq. ft. greater than where rental rates were just a year ago.

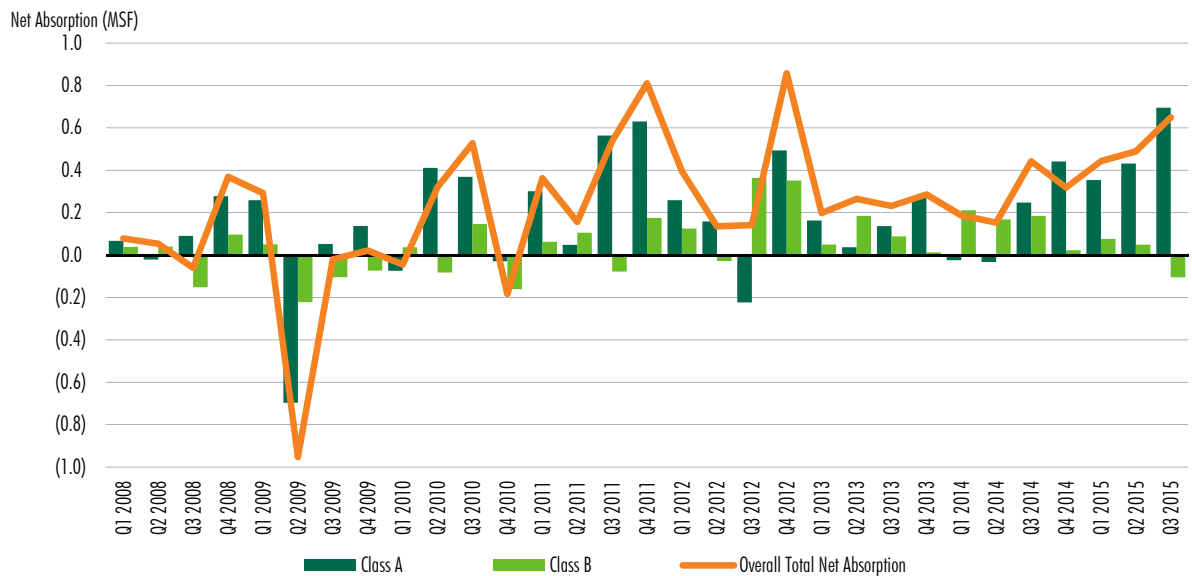
Two more buildings had development completed and were delivered to the market, adding another 339,890 sq. ft. to the market. The buildings include Parmer 3.2 (191,990 sq. ft.) in the East submarket and Rollingwood Center I (147,900 sq. ft.) in the Southwest. The total space delivered was 28% preleased by the time of completion, and while no tenants moved into their space by quarter close, Naterra is expected to occupy 94,000 sq. ft. in Parmer 3.2 by the end of the year.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	2015 Net Absorption (SF)	2015 Delivered Construction (SF)	Under Construction (SF)	Avg. Direct Asking Lease Rates (\$/SF/YR)	
								Class A	Class B
CBD	9,809,755	767,892	7.8	135,085	565,959	557,470	669,842	44.17	33.55
Northwest	13,158,731	1,282,164	9.7	83,407	395,494	451,973	803,658	33.26	28.71
Far Northwest	4,110,579	437,731	10.6	154,290	161,284	-	128,700	33.81	27.52
North Central	3,036,685	440,232	14.5	55,902	68,233	50,000	164,962	34.28	22.27
Round Rock	620,894	50,905	8.2	2,070	10,194	-	-	-	24.71
East	2,133,756	390,560	18.3	(5,828)	49,687	191,990	96,510	-	22.13
South	1,746,355	242,510	13.9	23,543	41,685	-	-	29.00	14.41
Southwest	10,257,625	1,260,690	12.3	200,870	288,668	838,832	317,293	35.03	29.12
<b>Totals</b>	<b>44,874,380</b>	<b>4,872,684</b>	<b>10.9</b>	<b>649,339</b>	<b>1,581,204</b>	<b>2,090,265</b>	<b>2,180,965</b>	<b>36.36</b>	<b>25.61</b>

Source: CBRE Research, Q3 2015.

Figure 3: Net Absorption



Source: CBRE Research, Q3 2015.

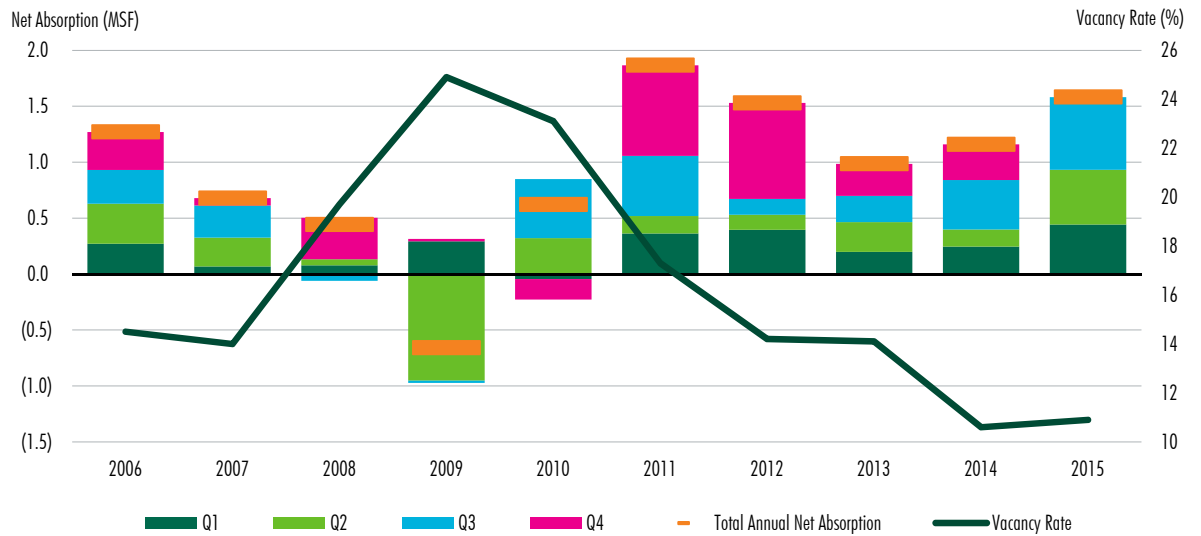
The vacancy of the CBD continues to tighten, as the quarter closed with vacancy at 7.8%. Class B product currently has the lowest vacancy downtown at 5.3%, followed by the 6.7% in Class C space and 8.8% in Class A. As tenants continue to move into new product that has been recently delivered, it can be expected that this trend will continue. The suburban vacancy also saw a decrease this quarter, falling 70 bps quarter-over-quarter to 11.7%. Class B space holds the highest vacancy rate in the suburban market closing at 12.2%, a 20 bps increase quarter-over-quarter, followed by Class A and C product which finished the quarter at 11.9% and 4.1% respectively.

Availability across the market returned to Q1 2015 levels, falling the same amount that it increased in the previous quarter. With just over 6.7 million sq. ft. available throughout the market, the quarter closed with 15.0% availability. The East holds the highest availability among submarkets at 18.3%, while the CBD and Round Rock hold the lowest at 7.8% and 8.2% respectively. Class A availability throughout the market saw increases in both Class A and B product, which finished the quarter at 19.3% and 14.8%. Class C saw the lone decrease in availability, falling to 4.8%.

Four market requirements of over 100,000 sq. ft. led a quarter that saw over 1.5 million sq. ft. of new demand in the market. Major tenants include Netspend seeking up to 175,000 sq. ft. in the market and CAPCOG nearly 50,000 sq. ft. South of downtown. The largest requirement in the market belong to Texas Mutual, who is seeking over 200,000 sq. ft. Current demand levels now stand at over 4.35 million sq. ft., a 700,000 sq. ft. increase year-over-year.

For tenants looking into a specific market for their requirements, the Northwest submarket holds the highest level of demand, with 333,000 sq. ft. This was then followed by the CBD, which posted 230,500 sq. ft. of users in the market requirements, and the Southwest submarket with 153,000 sq. ft. It is no coincidence that the top three submarkets also lead in the market in key market indicators, as all three have been a hot spot for new tenants coming into the market.

Figure 4: Net Absorption and Vacancy Rate



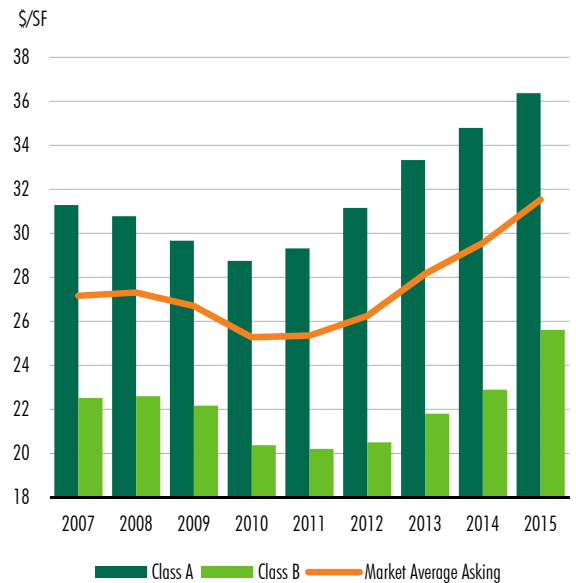
Source: CBRE Research, Q3 2015.

#### OFFICE ASKING RATES

Rates fell in for the first time since Q4 2013 in the previous quarter, but the decline was short lived as the growth in rental rates that the market has been experiencing since the end of 2011 continued. Since Q3 2011, citywide average rates have grown 21%, or \$6.60 per sq. ft. as rents finished the quarter at \$31.53 per sq. ft. As with the overall market, Class A rates bounced back from a decline in Q2 2015 and rose \$0.76 up to \$36.36 per sq. ft. Class B and C product also saw increases, closing the quarter at \$25.61 and \$21.50 per sq. ft. respectively.

The highest rates remain in the CBD, which rose another \$0.24 quarter-over-quarter, and finished at \$40.53 per sq. ft. The CBD is followed by the Southwest, which closed the quarter at 33.77 per sq. ft., and the Northwest which rose another \$0.84 up to \$31.43 per sq. ft. Average suburban rates also saw a quarter-over-quarter increase, as well as across all product types, mirroring the what the overall market experienced for the quarter. Suburban rates closed the quarter at \$29.61 per sq. ft., and increase of \$0.91 per sq. ft. Average Class A rental rates finished the quarter at 34.12 per sq. ft., while class B and C rates posted \$24.74 and \$18.00 per sq. ft. respectively.

Figure 5: Asking Rates, Gross Avg. Annual



Source: CBRE Research, Q3 2015.

## OFFICE PRODUCT

After a quarter that saw over 869,000 sq. ft. delivered from seven projects, Q3 2015 saw only two more buildings deliver for a total of 339,890 sq. ft. The completions of Rollingwood Center I (147,900 sq. ft.) in the Southwest and Parmer 3.2 (191,990 sq. ft.) in the East, brought the year-to-date total of delivered construction past 2 million sq. ft. This is the third time since 2002, when over 2 million sq. ft. was added for a year, the other two coming in 2002 (2,321,519 sq. ft.) and 2008 (2,889,406 sq. ft.)

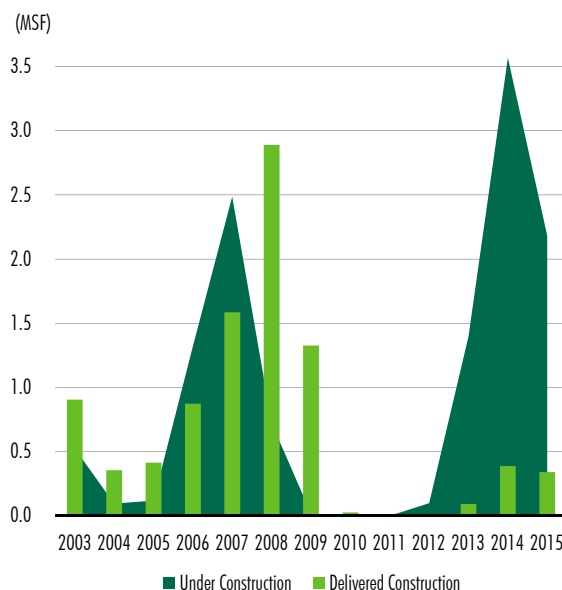
Construction began on another building in the market, as Domain 8 broke ground in the Northwest. While there is currently no preleased space, the building will eventually add 291,000 sq. ft. to the market. By the close of the quarter, nearly 2.2 million sq. ft. of office product was under construction, which marks the sixth straight quarter where construction levels were above 2 million sq. ft.

## UNEMPLOYMENT

Local unemployment saw a slight rise in the month of August, creeping up with a 10 bps increase to close the quarter at 3.2% - a tight figure by any measure nonetheless. State and national unemployment saw yet another decrease, falling 20 and 40 bps respectively and closing the at 4.1% and 5.1%. Since closing 2014 at 4.1%, local unemployment has fallen a total of 90 bps, remaining ahead of the national level with 80 bps, but behind the state level by 100 bps. - still outpacing national and state levels.

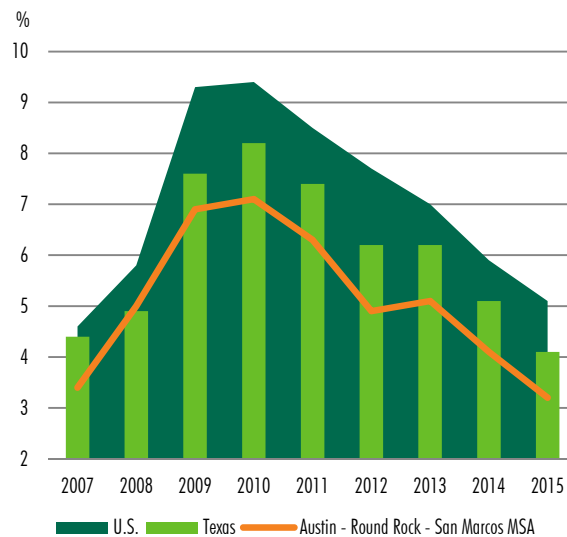
Austin, and Texas for that matter, has garnered major attention from local and national media based on low unemployment numbers in the midst of a surging population boom. When comparing the socioeconomic strengths of over 500 communities, WalletHub listed Austin as the fastest-growing economy among large U.S. cities. In-state competitors Fort Worth and Houston landed in the third and tenth spot, while Houston capped off the Top 10.

Figure 6: Construction

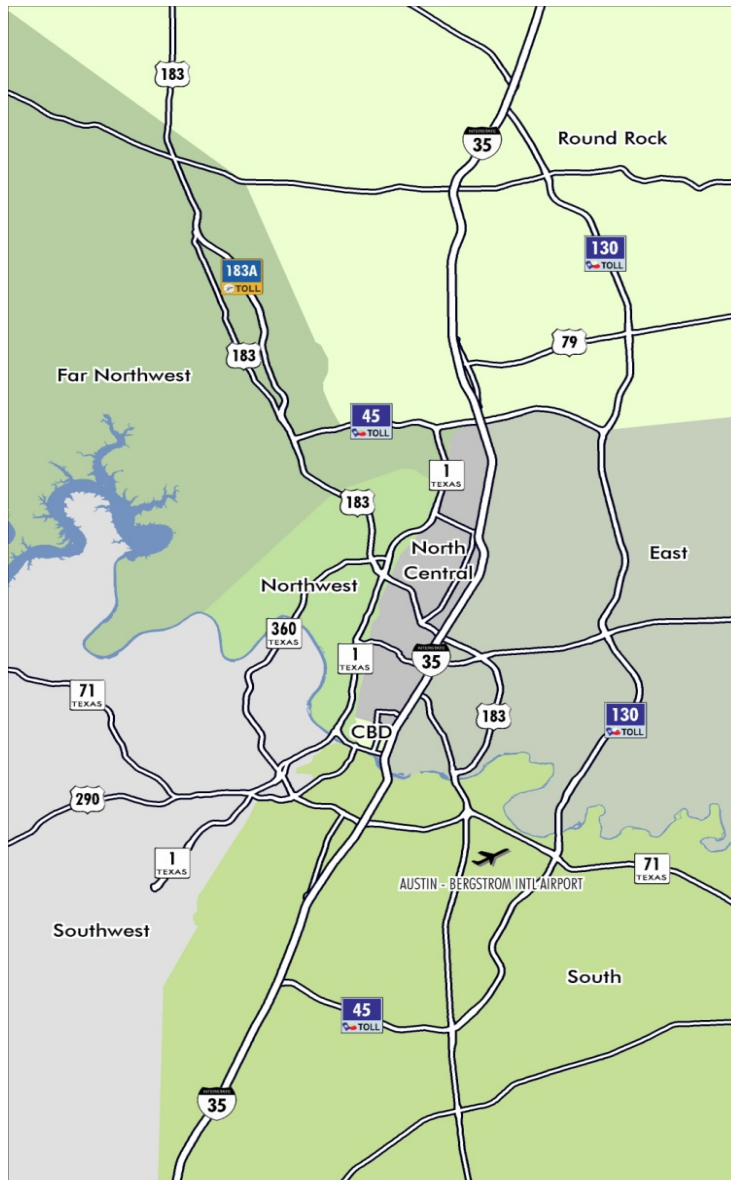


Source: CBRE Research, Q3 2015.

Figure 7: Unemployment



Source: CBRE Research, Q3 2015.


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Austin Office, Q2 2015

# Tightest Vacancy in Texas; YTD Demand Nears 1.0 Million SF

 Vacancy Rate  
**11.9 %**

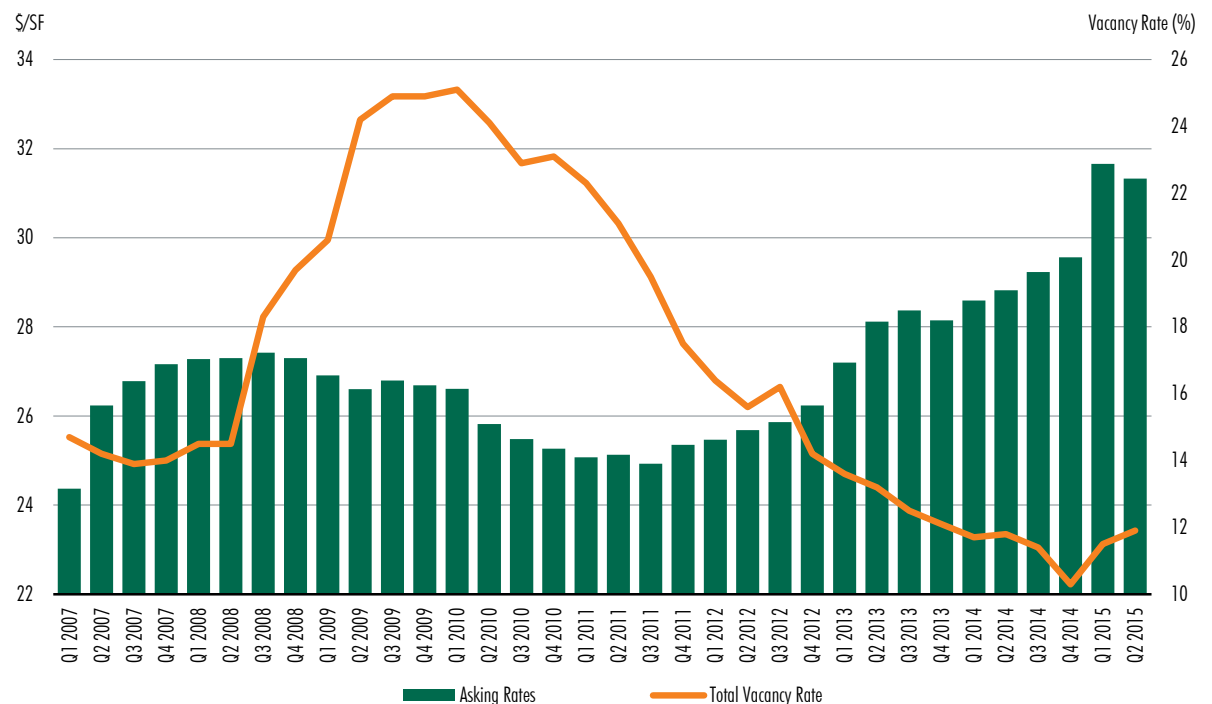
 Avg. Asking Rate  
**31.33 \$/SF**

 Net Absorption  
**489,183 SF**

 Completions  
**869,280 SF**

\*Arrows indicate change from previous quarter.

Figure 1: Asking Rates, Gross Avg. Annual and Vacancy Rates



Source: CBRE Research, Q2 2015.

- Austin's office market delivered 869,280 sq. ft. of new product this quarter, representing nearly a 2% increase in net rentable area and brought the year-to-date total of completions to 1,750,375 sq. ft. And the market is not yet done: even with all the completions so far this year, there is another 2.2 million underway.
- Still, the Capital City posted a robust quarter for net absorption with nearly 300,000 sq. ft. absorbed in the past 90 days in the CBD and nearly another 200,000 sq. ft. in the suburbs.

Even with the recent uptick to 11.9%, Austin's office vacancy is the tightest amongst state major metros. This explains why CBRE Research is closely tracking the seven office buildings delivered in Q2 2015 for a total of 869,280 sq. ft. Only one of the buildings was in the CBD, an office portion of the mostly residential building at 311 Bowie; 40,985 sq. ft. had been pre-leased by Whole Foods. Meanwhile, the Southwest submarket delivered the most product; four buildings totaling of 663,295 sq. ft. - the largest 3700 San Clemente.

Also delivering along with 3700 San Clemente on Capital of Texas Hwy and just behind in size was the Capital Ridge building. This 217,490 sq. ft. Class A building was developed by Riverside Resources and had been rented in entirety to a global technology company. Following those two was the delivery of Encino Trace 1. This Class A building had a rentable area of 160,935 sq. ft. and was built at 5707 Southwest Parkway. Bringing up the rear in the Southwest, Rialto A delivered 35,000 sq. ft. of Class B office space.

In the Northwest submarket, Champion 2 delivered. The 115,000 class B building is located at 6500 Capital of Texas Hwy. Like Champion 1, it was preleased in entirety to the job search website Indeed.com. Finally, to round out the list of completions, a 50,000 sq. ft. office building delivered at 1705 Guadalupe. This Class A building is located in the North Central submarket just northwest of the State Capitol.

As of the end of Q2 2015, there were 15 other projects under construction in the Austin market.

Three of these are in the CBD for a total of 669,842 sq. ft. The Southwest tied for the most with four projects for a total of 465,193 sq. ft. The Northwest also had four projects underway for 512,658 sq. ft. The East submarket had two projects under construction for 288,500 sq. ft. And lastly the North Central had one project underway for 164,962 sq. ft. In total there was 2,229,855 sq. ft. of product under construction at the end of the quarter.

The Austin office market witnessed its 18th consecutive quarter of positive net absorption and finished at 489,183 sq. ft. That was a 46,501 sq. ft. increase over Q1 2015, and a year-over-year gain of 336,122 sq. ft. 291,638 sq. ft. of that net absorption was in the CBD, while the other 197,545 sq. ft. was in suburban submarkets.

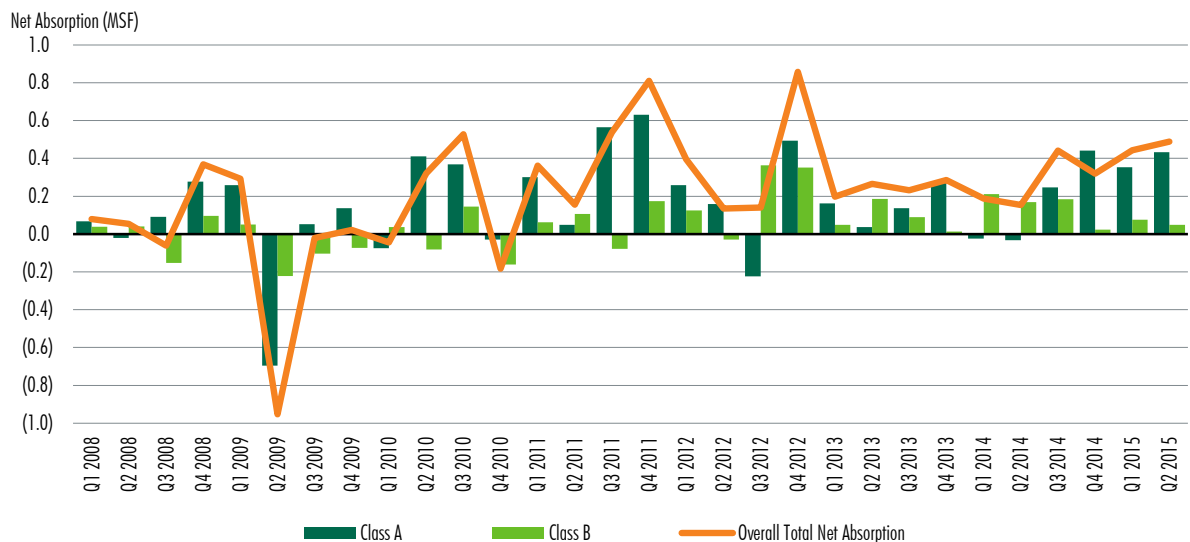
The 291,638 sq. ft. of absorption in the CBD was 152,402 sq. ft. more than Q1 2015. Class A CBD office space saw a net absorption of 294,955 sq. ft. Much of that absorption was attributable to tenants turning the lights on in the Colorado Tower that delivered last quarter. Class B & C space in the CBD had mixed results. Class B space witnessed a decrease of 13,011 sq. ft. of net absorption while Class C saw a gain of 9,646 sq. ft. of net absorption.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	2015 Net Absorption (SF)	2015 Delivered Construction (SF)	Under Construction (SF)	Avg. Direct Asking Lease Rates (\$/SF/YR)	
								Class A	Class B
CBD	9,809,755	1,000,267	10.2	291,638	430,874	557,470	669,842	41.90	36.43
Northwest	13,158,731	1,356,169	10.3	200,957	312,087	451,973	512,658	32.74	27.45
Far Northwest	4,110,579	640,027	15.6	(20,021)	6,994	-	128,700	31.50	27.33
North Central	3,036,685	496,134	16.3	(22,263)	12,331	50,000	164,962	33.38	22.19
Round Rock	620,894	52,975	8.5	17,024	8,124	-	-	-	24.43
East	1,941,766	253,314	13.1	6,113	55,515	-	288,500	-	22.39
South	1,746,355	266,053	15.2	(5,891)	18,142	-	-	28.00	14.94
Southwest	10,109,725	1,234,463	12.2	21,626	87,798	690,932	465,193	33.76	27.71
<b>Totals</b>	<b>44,534,490</b>	<b>5,299,396</b>	<b>11.9</b>	<b>489,183</b>	<b>931,865</b>	<b>1,750,375</b>	<b>2,229,855</b>	<b>35.60</b>	<b>25.33</b>

Source: CBRE Research, Q2 2015.

Figure 3: Net Absorption



Source: CBRE Research, Q2 2015.

Total vacancy decreased this quarter to 10.2% downtown. This was a 260 basis points (bps) decrease quarter-over-quarter.

The Northwest submarket followed the CBD with second most net absorption for the quarter. It finished with a gain of 200,957 sq. ft. of absorption, 89,827 sq. ft. more than Q1 2015. Of the absorption this quarter in the Northwest submarket, 174,243 sq. ft. of that was in Class A product. Much of this was tenants moving into Domain 7 which delivered last quarter. Class B space in the Northwest registered a 25,690 gain of net absorption for the quarter, and class C space posted a modest 1,024 sq. ft. gain.

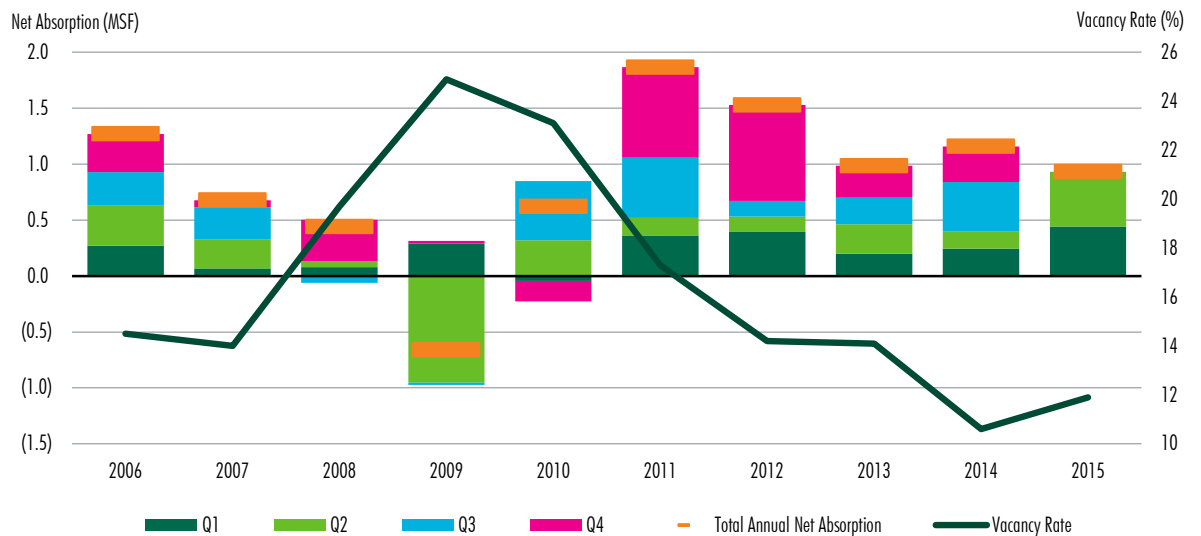
The Southwest submarket posted a gain of 21,626 sq. ft. of net absorption in Q2 2015. This was a quarter-over-quarter decrease of 44,546 sq. ft. Class A space saw a decrease of net absorption of 30,207 sq. ft. Class B space on the other hand saw an increase of 49,411 sq. ft. of net absorption.

The CBD, Northwest, and Southwest submarkets have experienced unusual fluctuations in vacancy rates recently. This phenomenon needed to be

addressed. So much inventory delivering so quickly has been warping the vacancy numbers in these submarkets. When product has been delivered, it was delivered vacant, despite the fact that it was often preleased. It is not considered occupied until the build-outs are done and tenants move in. So, when products delivered, there would have been a spike up in vacancy rate until the build-out is complete. This trend is expected to continue in Austin throughout this construction cycle.

Austin's office availability increased 50 basis points (bps) and ended the quarter at 15.5%. The Far Northwest submarket had the highest availability at 18.4%. It was followed by the North Central submarket with an availability of 18.2%. The East and CBD submarkets tied for the lowest availability at 14.0%.

Figure 4: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2015.

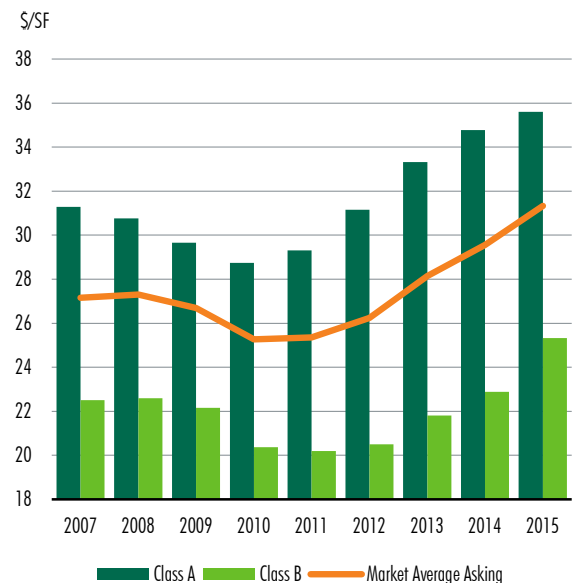
#### OFFICE ASKING RATES

After robust gains in Q1 2015, asking rates retreated a bit during the past 90 days. The citywide average asking rate posted a quarter-over-quarter decline of \$0.33 and ended up at \$31.33. The citywide Class A rate dropped \$0.67 this quarter and finished at \$35.60. Class B rates on the other hand rose citywide. They came in with a quarter-over-quarter increase of \$0.85 to \$25.33.

The trend for rates was similar in the CBD. Class A rates declined (they went from \$43.83 in Q1 to \$41.90 in Q2) and class B rates increased (\$35.85 in Q1 to \$36.43 in Q2). The average rate among all classes in the CBD was \$40.29 for Q2 2015.

Suburban rates went a different direction. Class A average asking rates increased \$0.47 this quarter and landed at \$32.86 per sq. ft. The Class B sector rose \$0.57 and finished the quarter at \$24.10 per sq. ft. Class C rates went the other way. They experienced a quarter-over-quarter \$0.79 decline and finished at \$17.72. The average asking rate for all classes in Q2 2015 was \$28.70 which was a \$0.48 quarter-over-quarter increase.

Figure 5: Asking Rates, Gross Avg. Annual



Source: CBRE Research, Q2 2015.

## OFFICE PRODUCT

Seven office buildings delivered this quarter. One of these buildings was in the CBD, and added 40,985 of Class A space to the market. Four buildings delivered in the Southwest submarket for 663,295 sq. ft. Three of the buildings were class A, one was class B. There was delivery in the North Central submarket, a Class A 50,000 sq. ft. property. And, lastly, the Northwest delivered a 115,000 Class B building.

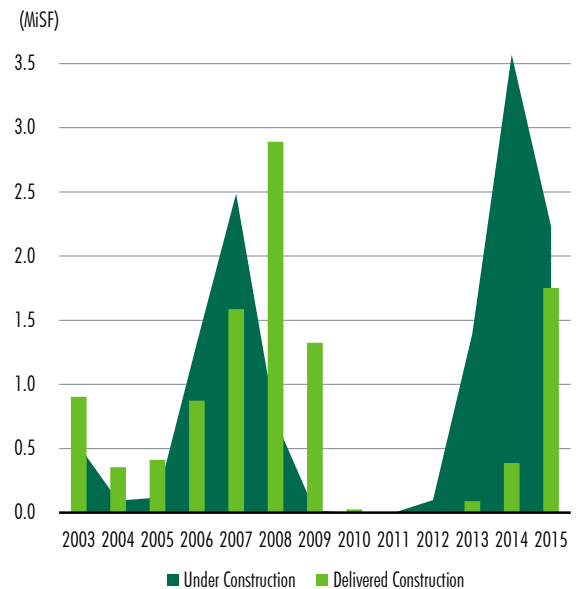
At the end of Q2 2015, the Austin market had over 2.2 million sq. ft. of office space under construction. Of that, over one-third had been preleased. As of quarter close, there were 15 buildings under construction in the Austin market. The CBD had the most rentable area under construction at 669,842 sq. ft. of product spread across 3 projects. There was 1,560,013 sq. ft. of product under construction in suburban submarkets. It was comprised of 12 projects in five submarkets.

## UNEMPLOYMENT

Seasonally adjusted unemployment improved at the national and state level and remained constant at the local level. As of Q2 2015, national unemployment saw a drop of 10 bps to settle in at 5.5%. Texas unemployment saw a decrease and came in at 4.3%. The Austin-Round Rock- San Marcos MSA did not change as of the end of the quarter. Austin still comparatively leads national and state levels and registered in at 3.1%. Job growth remains strong in the area.

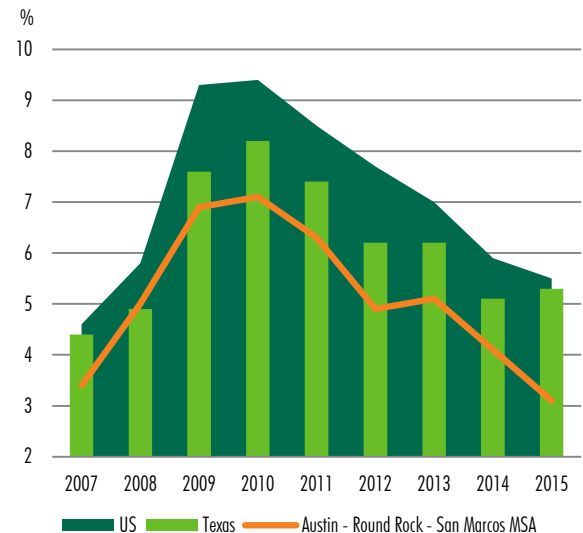
Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by *Forbes*, and Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.

Figure 6: Construction

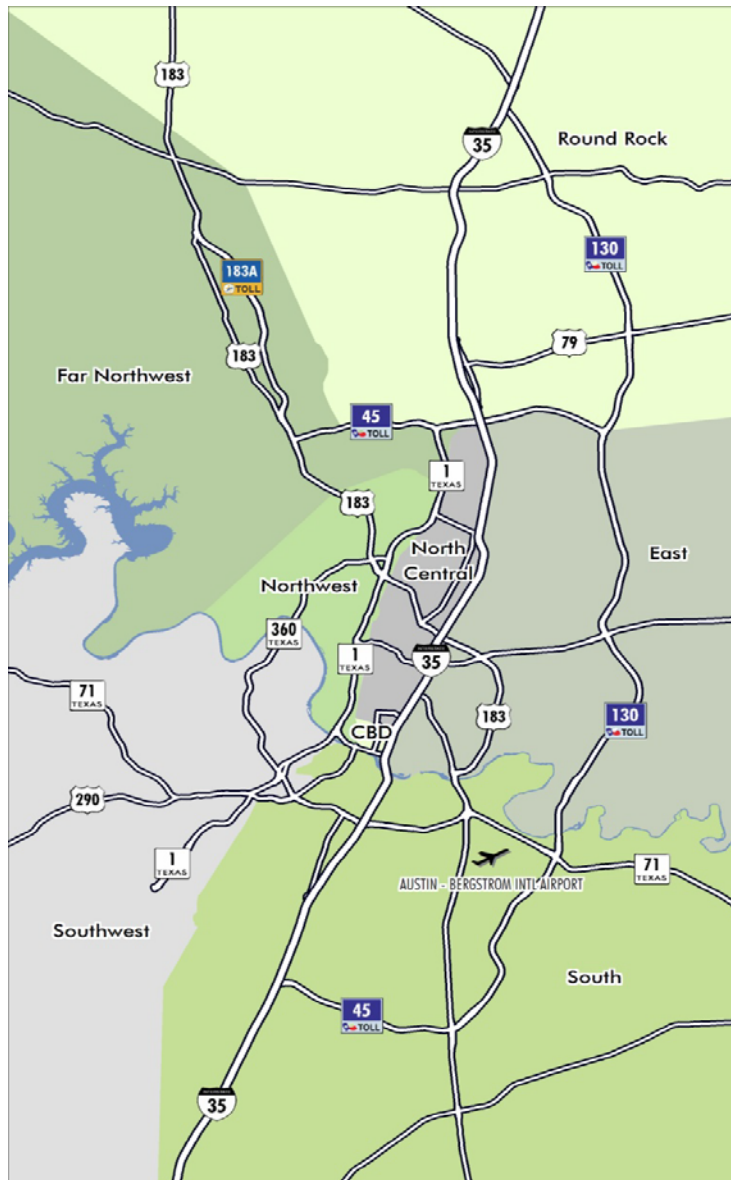


Source: CBRE Research, Q2 2015.

Figure 7: Unemployment



Source: CBRE Research, Q2 2015.


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Austin Office, Q1 2015

# Citywide average asking rates breach \$30 mark

Vacancy Rate  
11.5 %

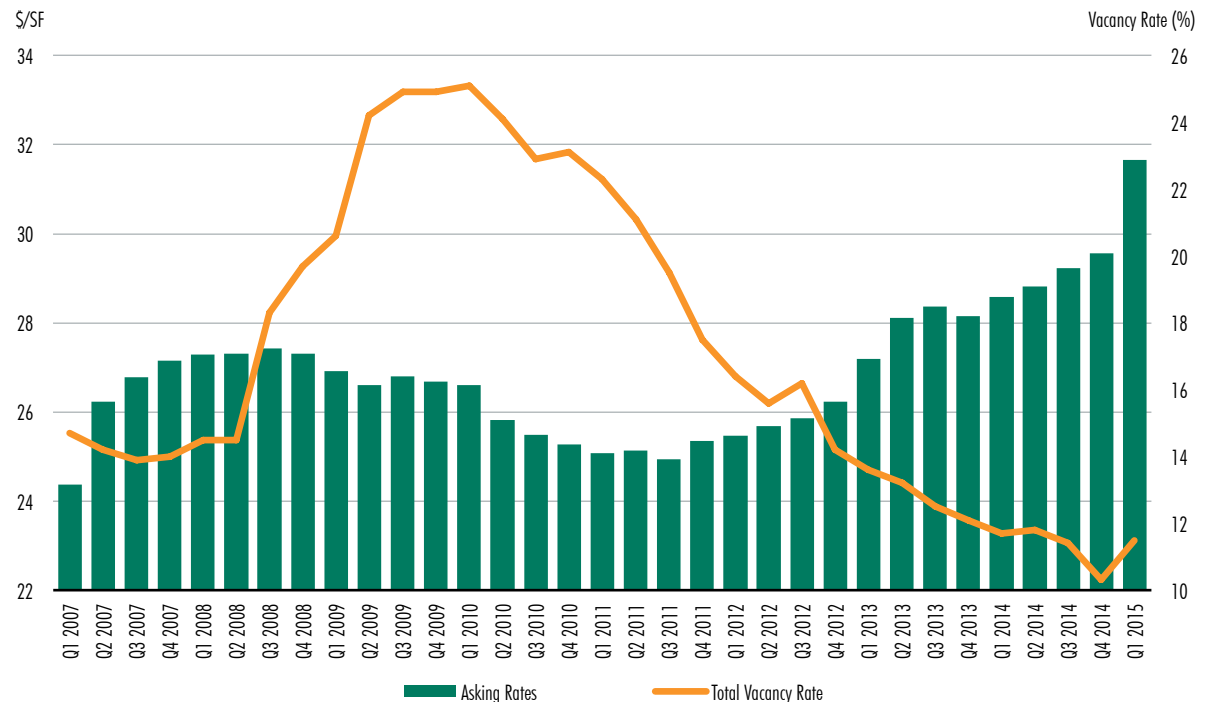
Avg. Asking Rate  
31.66 \$/SF

Net Absorption  
442,682 SF

Completions  
881,095 SF

\*Arrows indicate change from previous quarter.

Figure 1: Asking Rates, Gross Avg. Annual and Vacancy Rates



Source: CBRE Research, Q1 2015.

- The Austin market delivered 881,095 sq. ft. of new product to the market, representing over a 2% increase in net rentable area.
- Average asking rates experienced a steep increase. Average Class A CBD rates rose to \$43.83. Average suburban Class A rates finished the quarter at \$32.39.
- Austin posted a robust quarter for net absorption. 139,236 sq. ft. were absorbed in the CBD and 303,446 sq. ft. were absorbed in suburban submarkets for a combined market total of 442,682 sq. ft.

The Austin office market delivered five buildings of office product in Q1 2015 for a total of 881,095 sq. ft. Two of the buildings were in the CBD, the Colorado Tower and the Seaholm redevelopment with 373,334 sq. ft. and 143,151 sq. ft. respectively. Both of these projects were mostly preleased. Seaholm had AthenaHealth and Under Armour constituting most of the space, while at the Colorado Tower the two biggest tenants were Atlassian and Parsley Energy. This was 516,485 sq. ft. added to the



inventory of the CBD and brought the net rentable area of the submarket to 9,768,770 sq. ft.

Similarly, the Northwest delivered two buildings as well. The first of which was Champion I. The 115,000 sq. ft. building had largely been preleased by Indeed.com. Domain 7 also delivered in the Northwest submarket in Q1 2015. The six story 221,973 sq. ft. building leased two floors to Amazon and one to Ottobock prior to delivery. In the Southwest, Rialto B delivered 27,637 sq. ft. of office space. It has no known tenants.

As of the end of Q1 2015, there were 20 other projects under construction in the Austin market. Four of these were in the CBD for a total of 733,389 sq. ft. The Southwest had the most with 8 projects for a total of 1,123,663 sq. ft. The Northwest rounded out the top 3 submarkets with 3 projects underway for 424,115 sq. ft. In total there was 2,883,552 sq. ft. of product under construction at the end of the quarter.

Asking rates were another major talking point this quarter. The citywide average full service gross (FSG) asking rate for office product finished

Q1 2015 at \$31.66. This represents a dramatic \$3.07 rise year-over-year, or a 10.7% increase.

In the CBD, Class A rates experienced a \$2.38 year – over-year per sq. ft. increase this quarter. Class B rates saw an even more drastic increase, going from \$30.13 in Q1 2014 to \$35.85 this quarter. The average asking rate across all classes ended the quarter at \$41.64 in the CBD, a year-over-year gain of \$3.61 per sq. ft.

Big asking rate increases were not limited to the CBD. Average suburban asking rates increased \$3.00 to finish Q1 2015 at \$28.22. Suburban Class A rates had a healthy jump from this time last year, finishing the quarter up \$2.33 at \$32.39. Similarly, average Class B suburban rates saw a \$2.38 increase from Q1 2014 and finished this quarter at \$23.53.

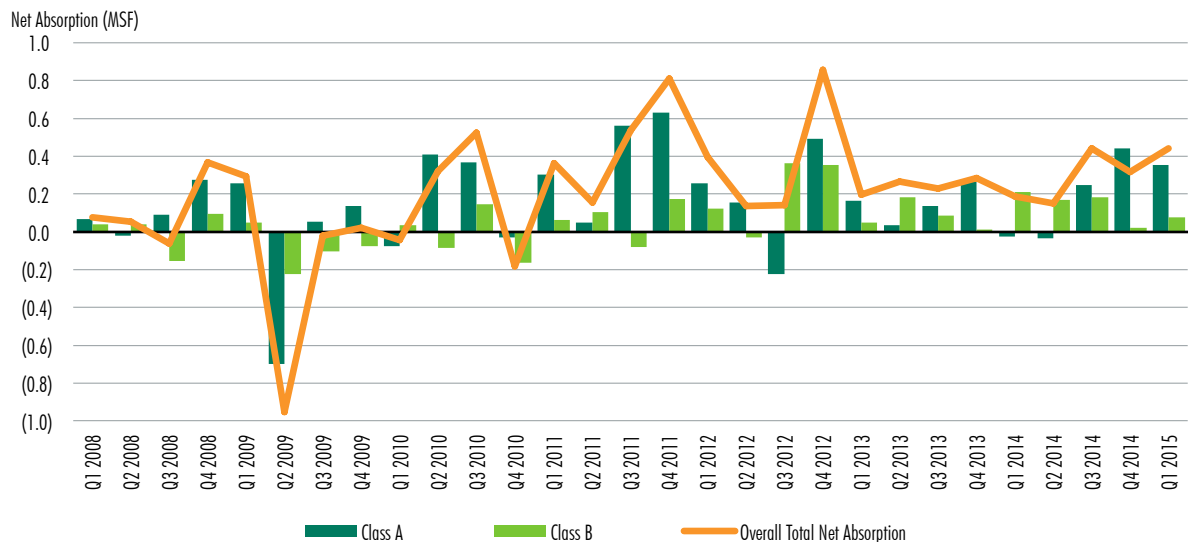
Asking rates in the Northwest averaged at \$30.46, a \$2.68 increase from Q1 2015. Class A rates in the Northwest jumped \$2.86 in this timeframe and Class B rates followed suit at a \$2.08 increase. Results in the Southwest were similar. At the end of Q1 2015, the southwest average rate was \$31.63, a \$2.61 per sq. ft. increase year-over-year .

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	2015 Net Absorption (SF)	2015 Delivered Construction (SF)	Under Construction (SF)	Avg. Direct Asking Lease Rates (\$/SF/YR)	
								Class A	Class B
CBD	9,768,770	1,250,920	12.8	139,236	139,236	516,485	733,389	43.83	35.82
Northwest	13,043,731	1,425,647	10.9	111,130	111,130	336,973	424,115	32.06	26.71
Far Northwest	4,110,579	572,000	13.9	27,015	27,015	-	128,700	31.13	27.21
North Central	2,986,685	423,871	14.2	34,594	34,594	-	165,682	32.53	21.92
Round Rock	620,894	69,999	11.3	(8,900)	(8,900)	-	-	-	24.74
East	1,941,766	259,427	13.4	49,402	49,402	-	308,000	-	22.33
South	1,746,355	260,162	14.9	24,033	24,033	-	-	27.50	14.56
Southwest	9,446,430	753,729	8.0	29,201	29,201	27,637	1,123,663	34.35	27.37
<b>Totals</b>	<b>43,665,210</b>	<b>5,015,755</b>	<b>11.5</b>	<b>442,682</b>	<b>442,682</b>	<b>881,095</b>	<b>2,888,552</b>	<b>36.27</b>	<b>24.48</b>

Source: CBRE Research, Q1 2015.

Figure 3: Net Absorption



Source: CBRE Research, Q1 2015.

The Austin office market witnessed its 17th consecutive quarter of positive net absorption and finished at 442,682 sq. ft. That was a 124,047 sq. ft. increase over Q4 2014, and a year-over-year gain of 198,054 sq. ft. 139,236 sq. ft. of that net absorption was in the CBD, while the other 303,446 sq. ft. was in suburban submarkets.

The 139,236 sq. ft. of absorption in the CBD was 37,374 sq. ft. less than Q4 2014. Class A CBD office space saw a net absorption of 159,817 sq. ft. Class B & C, however, had a combined drop of 20,581 sq. ft. Total vacancy increased this quarter to 12.8% downtown. Positive net absorption and increase in vacancy was due to the completion of construction and delivery of two new office projects. Most of this space had been leased already and was waiting for tenants to move-in.

The Northwest submarket followed the CBD with second most net absorption for the quarter. It finished with a gain of 111,130 sq. ft. of absorption, 25,755 sq. ft. more than Q4 2014. Of the absorption this quarter in the Northwest submarket, 68,842 sq. ft. of that was in Class A product and 43,312 sq. ft. in Class B space. Like the CBD, the total vacancy rate increase coincided along with positive net absorption due to the

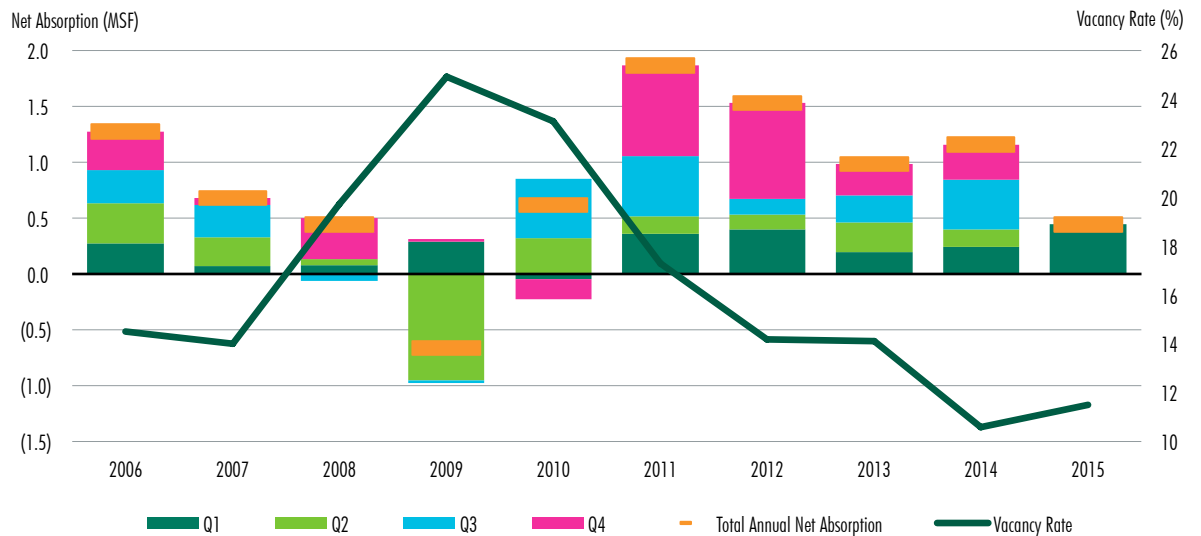
completion and delivery of two office projects in the submarket.

The Southwest submarket posted a gain of 66,172 sq. ft. of net absorption in Q1 2015. This was a quarter-over-quarter increase of 36,971 sq. ft. However, the Southwest did see a 45,623 sq. ft. decrease in net absorption for Class B space, but that was offset by a 108,078 sq. ft. gain in Class A space.

The only submarket to show any negative net absorption in Q1 2015 was Round Rock with (8,900) sq. ft. The South submarket had the highest total vacancy for the quarter finishing at 14.9%. This was followed by the North Central with a total vacancy of 14.2%. Rounding out the top three for highest total vacancy was the far Northwest finishing the quarter at 13.9%.

The citywide Austin office availability rate increased 90 basis points (bps) and ended the quarter at 15.0%. The far Northwest submarket had the highest availability at 17.6%. It was followed by the CBD with an availability of 17.3%. The East submarket had the lowest availability at 11.6% followed by the Southwest at 11.8%.

Figure 4: Net Absorption and Vacancy Rate



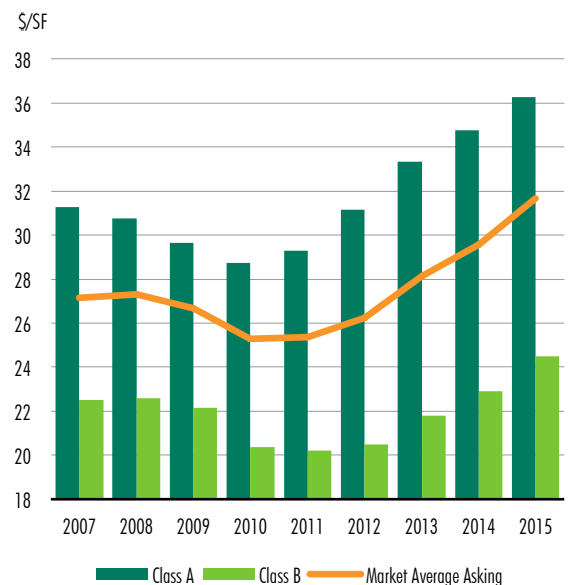
Source: CBRE Research, Q1 2015.

#### OFFICE ASKING RATES

Citywide office average asking rates once again reached a new high in Q1 2015, coming in at \$31.66 per sq. ft. This robust jump was largely explained by three factors. First, the quoted Austin rental rate was a full service gross value. That means that taxes and operating expenses were included in it. Taxes increased at the beginning of the year so added increases in Q1 2015 rates were factored in. On top of that, with the success of the Austin market, property values on office product are outpacing broader averages, and thus so are property taxes. Secondly, the delivery of over 880,000 sq. ft. of new product influenced rates. This was a large addition of space with all of it being higher in quality than the market average, thus they were also drawing higher asking rates, pushing the citywide average up. And lastly, Austin has been a competitive market with vacancy low and demand high resulting in upward pressure on asking rates.

Rate increases were felt across all class types for the quarter. Class A citywide average asking rates climbed to \$36.27. Class B rates came in at \$24.48, a \$1.59 quarter-over-quarter increase. Class C rates finished the quarter at \$23.05, a \$0.99 per sq. ft. increase this quarter.

Figure 5: Asking Rates, Gross Avg. Annual



Source: CBRE Research, Q1 2015.

### OFFICE PRODUCT

Five office buildings delivered this quarter. Two buildings in the CBD, Colorado Tower and the Seaholm redevelopment, delivered 373,334 sq. ft. and 143,151 sq. ft. respectively. The Northwest submarket delivered the 115,000 sq. ft. Champion 1 and the 221,973 sq. ft. Domain 7. The Southwest rounded out the deliveries with the 27,637 sq. ft. Rialto B.

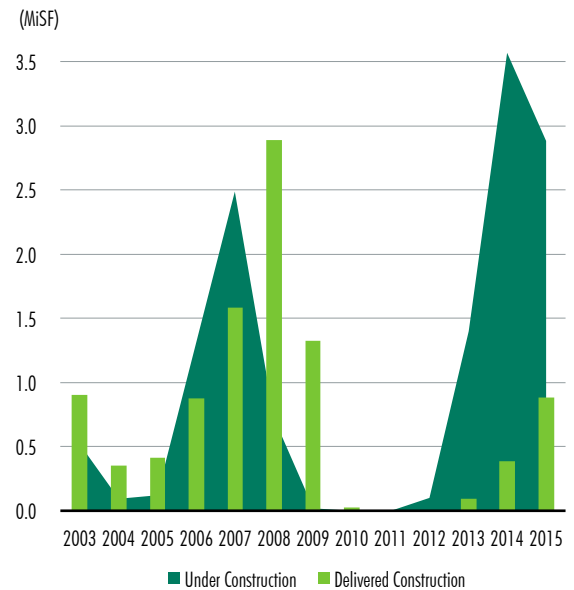
At the end of Q1 2015, the Austin market had over 2.8 million sq. ft. of office space under construction. Of that, over one-third had been preleased. As of quarter close, there were 20 buildings under construction in the Austin market. The Southwest submarket currently has the most buildings currently under construction with 8 being built for 1,123,663 sq. ft. of product. The southwest was trailed by the CBD with 733,389 sq. ft., and the Northwest at 424,115 sq. ft.

### UNEMPLOYMENT

Seasonally adjusted unemployment improved at national, state, and local levels. As of Q1 2015, national unemployment saw a drop of 30 bps to settle in at 5.6%. Texas unemployment saw a decrease and came in at 4.6%. Likewise, the Austin-Round Rock- San Marcos MSA experienced a decrease. Austin still comparatively leads national and state levels and registered in at 3.9%. Job growth remains strong in the area. According to Moody's Analytics, Austin registered seasonally adjusted year-over-year office job growth of 4.0%.

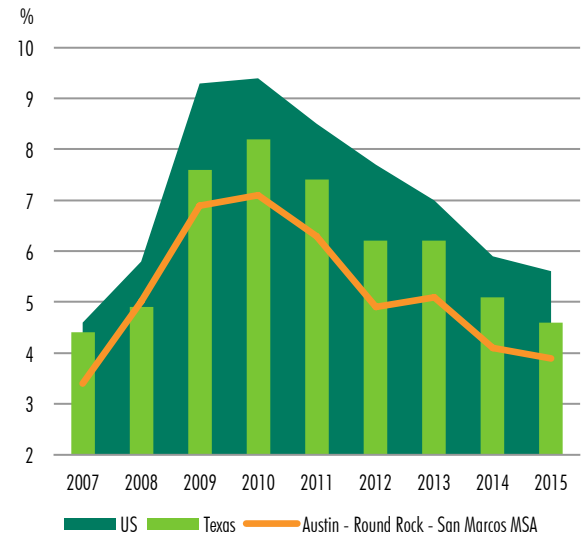
Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by Forbes, and Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.

Figure 6: Construction

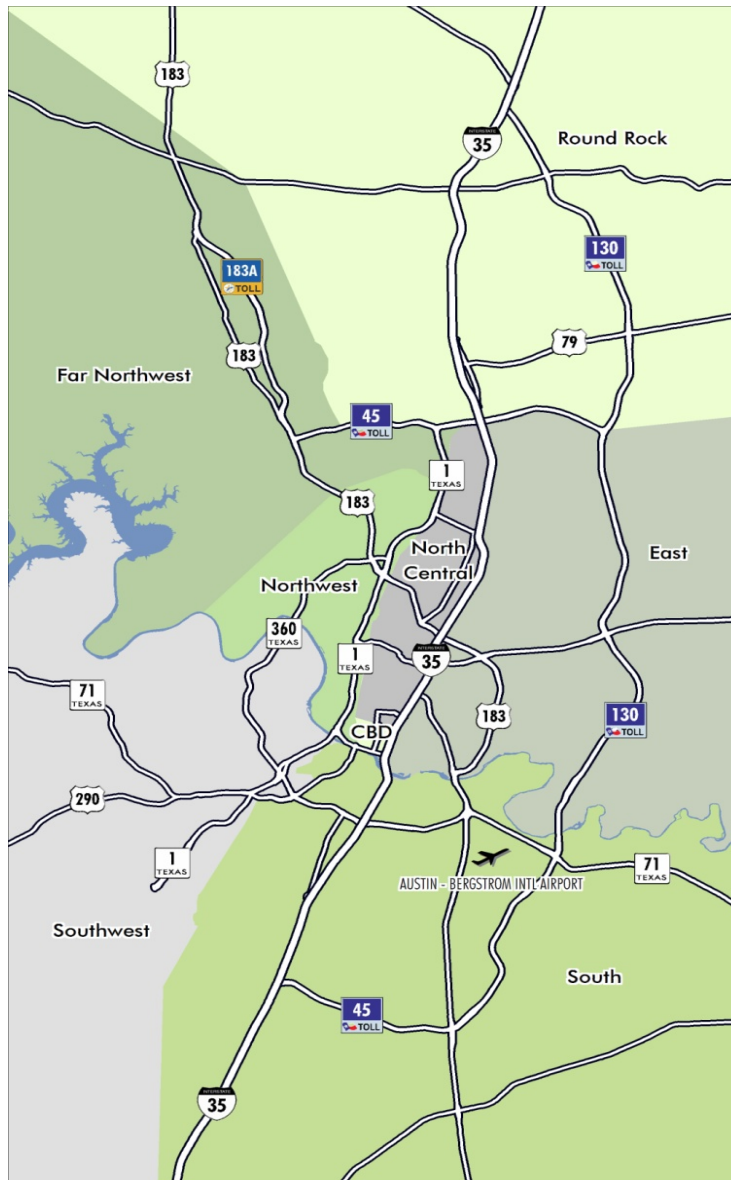


Source: CBRE Research, Q1 2015.

Figure 7: Unemployment



Source: CBRE Research, Q1 2015.



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Austin Office, Q4 2014

# Citywide average asking rates reach new heights again

 Vacancy Rate  
10.6%

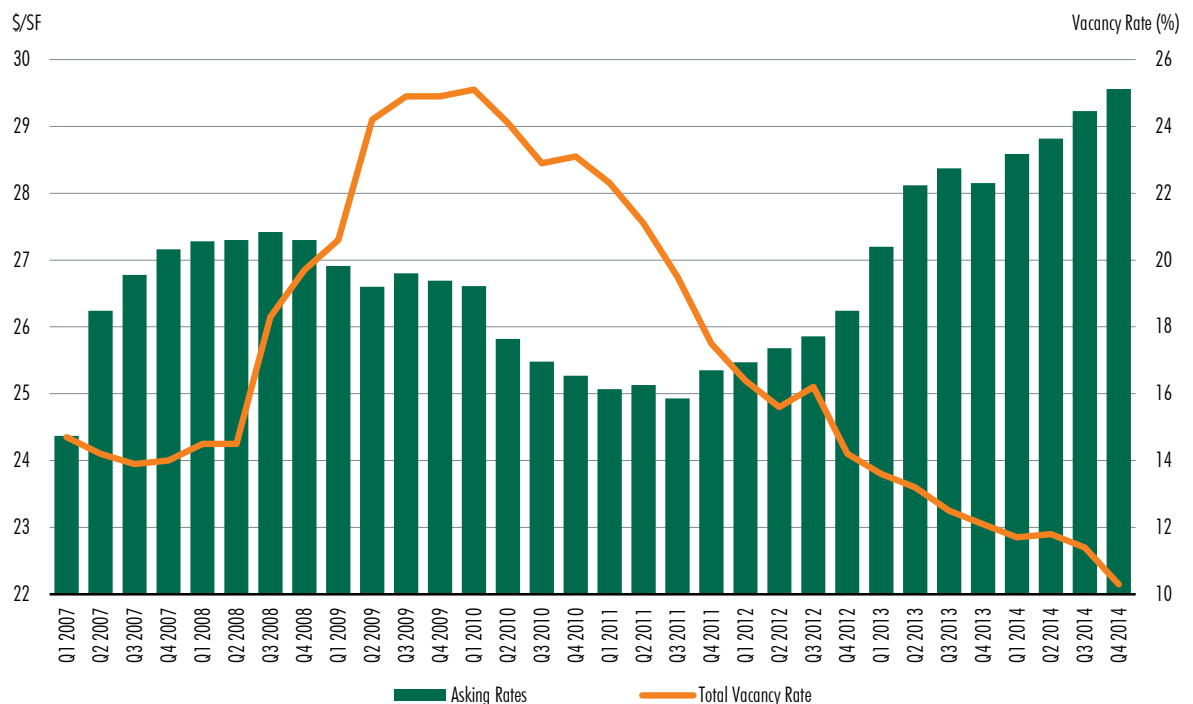
 Avg. Asking Rate  
29.56 \$/SF

 Net Absorption  
318,635 SF

 Completions  
143,331 SF

\*Arrows indicate change from previous quarter.

Figure 1: Asking Rates, Gross Avg. Annual and Vacancy Rates



- Citywide Average asking rates reached new all time highs again at \$29.56 per sq. ft. per year on a full service gross basis. Class A CBD rates climbed to \$43.13 per sq. ft. per year.
- Citywide direct vacancy dropped to 9.5%. The Southwest lead all submarkets with a direct vacancy rate of 6.8%, followed by the Northwest and CBD at 8.1% and 8.7% respectively
- Domain 2 delivers 143,331 sq. ft. in Northwest submarket, over 600,000 sq. ft. of new office product broke ground in the Central Business District

The Austin office Market delivered its 16<sup>th</sup> consecutive quarter of positive net absorption to finish the year. Austin posted a positive net gain of 318,635 sq. ft. for Q4 2014 and finished the year up 1,158,340 sq. ft. The CBD posted a strong quarter of positive net absorption with 176,610 sq. ft. A large portion of this was explained by tenants moving into the new IBC Bank Plaza building that delivered last quarter.

Likewise, suburban submarkets experienced healthy positive net absorption. The Northwest submarket lead the pack finishing Q4 2014 with 85,375 sq. ft. of positive net absorption. This was after it had lost 71,160 sq. ft. in Q3 2014. The Southwest submarket followed the Northwest with 29,201 sq. ft. of absorption. Only the East submarket showed negative net absorption in Q4 2014, and that was only 5,576 sq. ft.

Total vacancy continued its recent downward trajectory, finishing the quarter at 10.6%. This was a quarter-over-quarter decline of 80 basis points (bps). Citywide direct vacancy fell to 9.5%. This was the first time since Q2 2001 that citywide direct vacancy has been below 10%. CBD direct vacancy finished Q4 2014 at 8.7%, and suburban submarkets finished at 9.7%.

Citywide average asking rates reached new heights in Q4 2014 finishing at \$29.56 per sq. ft. This was a \$0.33 increase over the previous quarter's \$29.23 per sq. ft. on a full service gross (FSG) basis. Class A asking rates saw an increase across all Austin area submarkets, with the citywide Class A rate finishing Q4 2014 at an average of \$34.51 per sq. ft.

This was a \$0.84 increase over Q3 2014. Class B and C, however, witnessed decreased rates in both the CBD and suburban submarkets. Class B citywide rates finished at an average of \$22.85, a \$0.47 decrease quarter-over quarter.

Construction remained a noteworthy topic this quarter. Construction began on a new 179,00 sq. ft. CBD office tower at 5th & Colorado being developed by Lincoln properties. The 371,348 sq. ft. Colorado Tower two blocks south has been scheduled to deliver in December, but has yet to do so. Construction on the 456,459 sq. ft. Greenwater building being developed by Trammel Crow has just broke ground. Most of this new CBD development was going into the Southwest region of the submarket, potentially drawing attention away from the trophy buildings lining north Congress Avenue towards the state capital. Ground broke on the new 137,615 sq. ft. Bazaarvoice headquarters at 10901 Stonelake Blvd. Endeavor's Domain 2 delivered its 5 story 143,331 sq. ft. building in the Northwest submarket. Homeaway housed one of its five area locations in the building, leasing 114,665 sq. ft. of the available space.

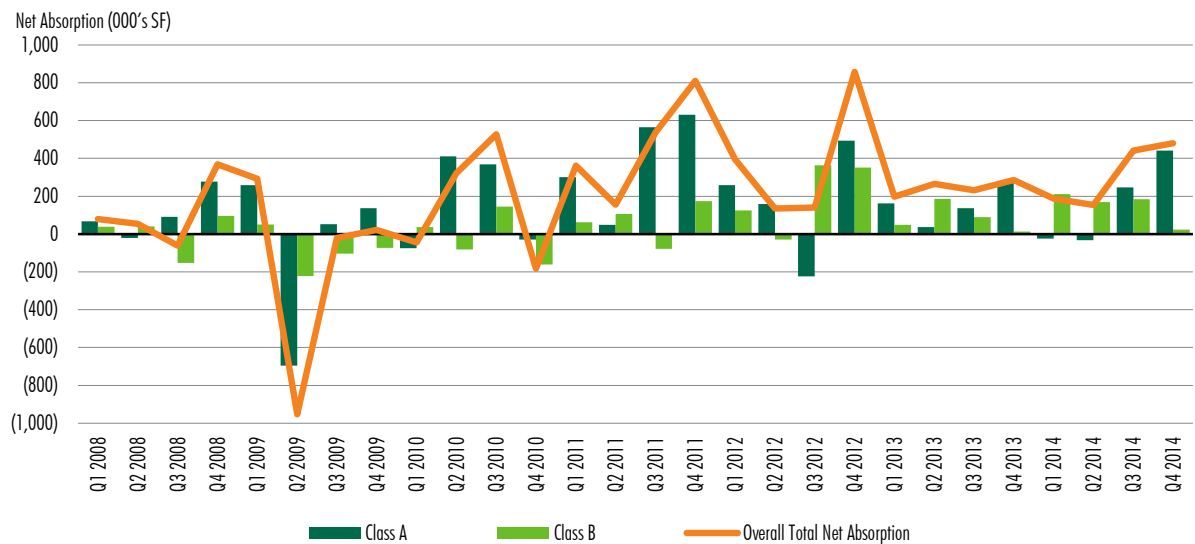
Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	2014 Net Absorption (SF)	2014 Delivered Construction (SF)	Under Construction (SF)	Avg. Direct Asking Lease Rates (\$/SF/YR)	
								Class A	Class B
CBD	9,252,285	873,671	9.4	176,610	369,822	167,871	1,131,227	43.13	34.12
Northwest	12,706,758	1,190,580	9.4	85,375	224,246	143,331	870,615	30.83	25.96
Far Northwest	4,110,579	568,981	13.8	7,937	79,360	-	212,400	29.88	27.02
North Central	2,986,685	458,465	15.4	6,103	222,683	-	128,360	31.40	21.75
Round Rock	620,894	61,099	9.8	10,168	41,367	-	-	-	24.34
East	1,941,766	288,940	14.9	(5,576)	49,392	-	192,000	-	12.00
South	1,746,355	284,195	16.3	8,817	70,143	-	-	27.00	14.06
Southwest	9,458,793	792,264	8.4	29,201	101,327	76,500	1,034,614	34.87	27.41
<b>Totals</b>	<b>42,824,115</b>	<b>4,518,195</b>	<b>10.6</b>	<b>318,635</b>	<b>1,158,340</b>	<b>387,702</b>	<b>3,569,216</b>	<b>34.78</b>	<b>22.89</b>

Source: CBRE Research, Q4 2014.



Figure 3: Net Absorption



The Austin Office market posted a net absorption gain of 318,635 sq. ft. for Q4 2014, and a 1,158,340 sq. ft. gain for the year. This represented a 254,034 sq. ft. year-over-year gain for the Austin market as a whole. The CBD submarket led Austin with a yearly net absorption gain of 368,822 sq. ft. The CBD was followed by the Northwest submarket with a 284,246 sq. ft. gain in net absorption to finish 2014, a 104,632 sq. ft. increase from Q4 2013. Surprisingly, the North Central rounded out the top three and absorbed 222,683 sq. ft.

The only submarket to show any negative absorption in Q4 2014 was the East with a total of negative 5,576 sq. ft., and no submarkets showed any negative net absorption for the year. The Southwest only showed 101,327 sq. ft. of positive net absorption for the year, a 48,584 sq. ft. decrease year-over-year. This was largely due to the lack of available product in the submarket.

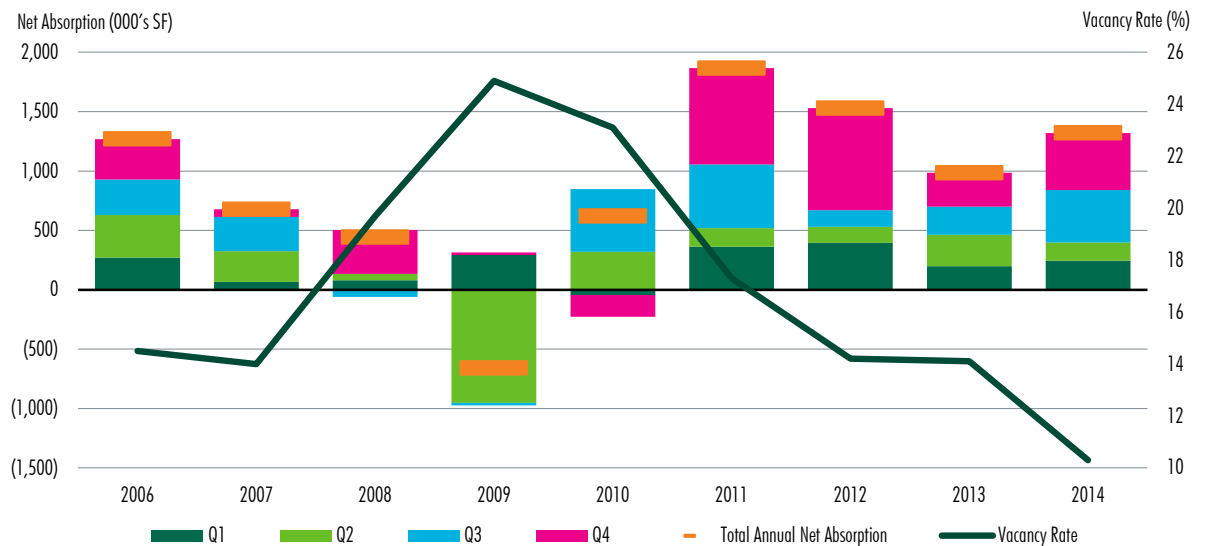
Of the 318,635 sq. ft. of positive net absorption the Austin market posted in Q4 2014, 280,096 sq. ft. was Class A space. Large portions of this were seen in the Northwest at Domain 2 with Homeaway occupying half their space, and tenants beginning to move into the IBC Bank building in the CBD. The North Central was the only submarket to show any negative net absorption in Class A space with a modest 3,350 sq. ft.

Citywide office vacancy finished Q4 2014 at 10.6%. The Southwest submarket had the lowest vacancy of the quarter at 8.4%. The CBD, Round Rock, and Northwest all finished 2014 with vacancies under 10%. The South and North Central submarkets had the highest vacancies at 16.3% and 15.4%, respectively. Class B office product had the lowest vacancy at 9.5%, perhaps attributable to the inflating price of Class A space.

Direct vacancy painted a similar picture with the citywide rate finishing the year at 9.5%. The Southwest led all submarkets with the lowest direct vacancy rate of 6.8%. It was followed by the Northwest and the CBD with Q4 2014 rates of 8.1% and 8.7% respectively. These three submarkets make up over 70% of the net rentable area (NRA) in the Austin market, and all have direct vacancies under 9%.

Occupier demand in the market remained strong, though it dipped from last quarter. Fifty-one entities were identified looking for over 3.1 million sq. ft. of office space in the Austin market. That constitutes over two-thirds of all vacant office space in Austin.

Figure 4: Net Absorption and Vacancy Rate

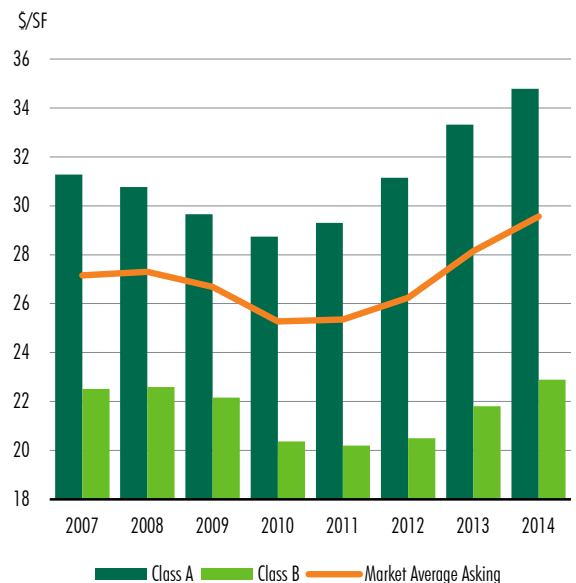


Source: CBRE Research, Q4 2014.

#### OFFICE ASKING RATES

Citywide Average asking rates once again reached a new high in Q4 2014, beating the previous quarter by \$0.33 per sq. ft. and finished at \$29.56. Southwest average class A saw the largest increase over the previous quarter going from \$31.38 per sq. ft. to \$33.91 per sq. ft., a \$2.53 jump. Low vacancies in this submarket are putting significant pressure on asking rents. Not quite as drastic, but also noteworthy, were the increase in rates in the CBD submarket. CBD Class A rates ended the quarter at \$42.24 per sq. ft., a quarter-over-quarter increase of 2%. Class A Suburban rates also saw an increase. They rose \$0.49 per sq. ft. to close the quarter at \$31.16 per sq. ft. Citywide Class A rates followed trend, and ended the quarter up quarter-over-quarter and finished at \$34.51 per sq. ft. However, the gains were not spread over all classes. Both Class B and C properties saw asking rent decreases in the CBD, suburban submarkets, and citywide.

Figure 5: Asking Rates, Gross Avg. Annual



## OFFICE PRODUCT

Construction began in the CBD on the 18 story, 179,00 sq. ft. office tower at 5th & Colorado. Two blocks south, construction is nearly complete on the 371,348 sq. ft. office tower at 303 Colorado, and delivery has been expected any day. Permits have been issued and construction has begun on the Greenwater Tower. Located at 2nd and San Antonio, it is planned to have over 450,000 sq. ft. of office space. The Northwest submarket delivered Domain 2 at 11800 Domain Blvd. The five story, 143,331 sq. ft. building was primarily occupied by Homeaway.

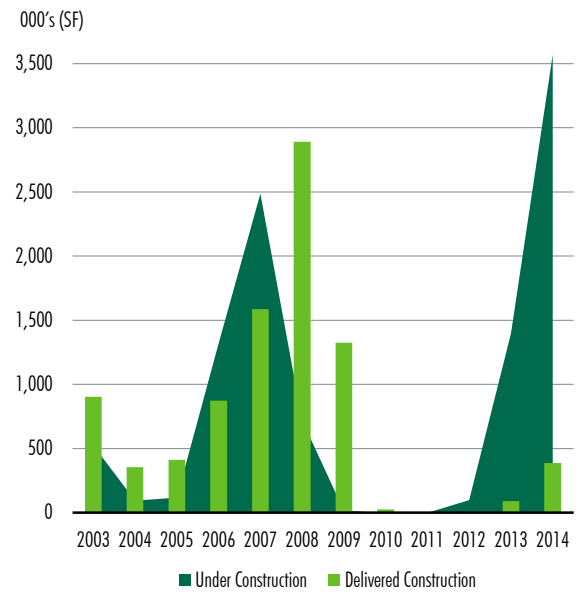
At the end of Q4 2014, the Austin market had 3.6 million sq. ft. of office space under construction. Of that, over one quarter had been preleased. The CBD submarket currently has the most construction underway by sq. ft., but it will give back the lead to the Southwest once the Colorado tower delivers.

## UNEMPLOYMENT

Unemployment changes were mixed across the national, state, and local levels. As of Q4 2014, national unemployment saw a drop of 30 bps to settle in at 5.9%. Texas unemployment remained flat and once again came in at 5.1%. Likewise, the Austin-Round Rock- San Marcos MSA unemployment rate did not change. Yet, Austin still comparatively leads national and state levels and registered in at 4.1% again. Job growth remains strong in the area. According to Moody's Analytics, Austin registered seasonally adjusted year-over-year office job growth of 3.7% as of October.

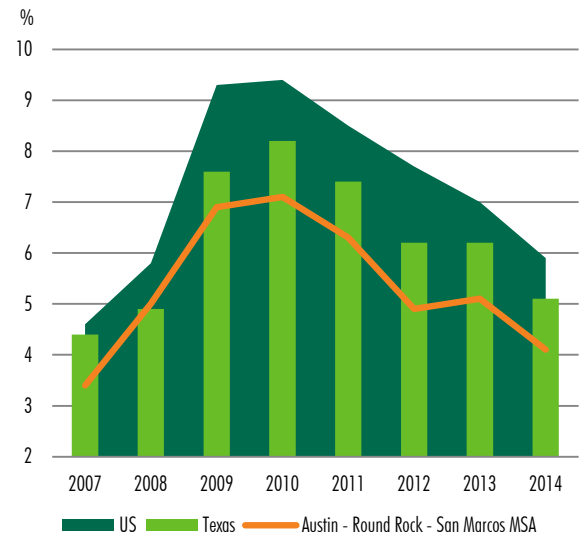
Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by Forbes, and Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.

Figure 6: Construction

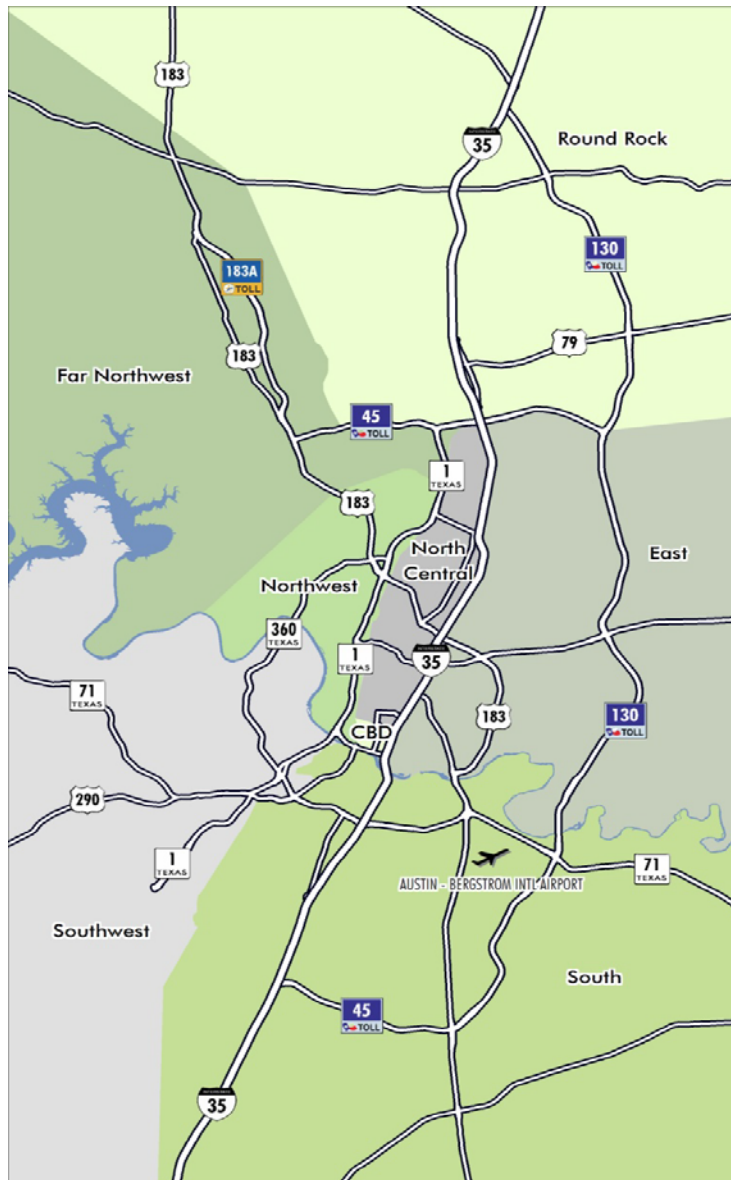


Source: CBRE Research, Q4 2014.

Figure 7: Unemployment



Source: CBRE Research, Q4 2014.


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**VACANCY RATE**  
11.4%

**ASKING RATE**  
\$29.23 per Sq. Ft.

**NET ABSORPTION**  
442,016 Sq. Ft.

**UNEMPLOYMENT**  
4.1 % Y-o-Y

\*Arrows indicate change from previous quarter.

## AVERAGE ASKING RATES CONTINUE RECORD CLIMB: SURPASS \$29.00 PER SQ. FT. FOR FIRST TIME.

Figure 1: Quick Stats

	Q3 2014	Q-o-Q	Y-o-Y
Vacancy	11.4%	↓	↓
Asking Rates	\$29.23 per SF	↑	↑
Net Absorption	442,016 SF	↑	↑
Under Construction	2,867,457 SF	↑	↑
Delivered Construction	244,371 SF	↑	↑

Source: CBRE Research, Q3 2014.

### Hot Topics

Average asking rates construction levels continue steady climbs. Market sees 15th consecutive quarter of positive absorption.

- Forbes ranked Austin as the second-best city in the nation for future job growth.
- The National Association of Realtors lists Austin as a top buying market for aspiring millennial homebuyers.
- Inc. Magazine ranks Austin as the fourth-best city for fast-growing companies.
- Financial website NerdWallet ranked Austin as the second-best city for women in the workforce.
- Austin ranked as the fourth most creative city by Forbes.
- Forbes lists Austin as the third-coolest city.
- Austin landed the eighth spot on Forbes list of best cities for young professionals.

The Austin office market saw its strongest quarter of 2014 with Q3 2014 posting 442,016 sq. ft. of positive absorption, the 15th straight quarter of positive net absorption. After the previous quarter saw vacancy rise slightly, vacancy returned to a downward trend as the vacancy rate fell 40 basis points (bps) quarter-over-quarter, finishing at 11.4%. Total space occupied in the market also saw a rise, up to almost 40 million sq. ft.

In what has been a year of significant pre-leasing in product currently under construction, Q3 2014 continued the trend. This is highlighted by Colorado Tower, a 370,000 sq. ft. downtown office tower, becoming almost 95% preleased. Both Atlassian and Parsley Energy, which both took 73,000 and 24,000 sq. ft. respectively in Q1 2014, leased two additional floors each. Pre-leased construction levels finished the quarter at 963,331 sq. ft., which accounts for almost 35% of product currently under construction. Demand in the market remains at a high level, with 3.65 million sq. ft. of active office requirements.

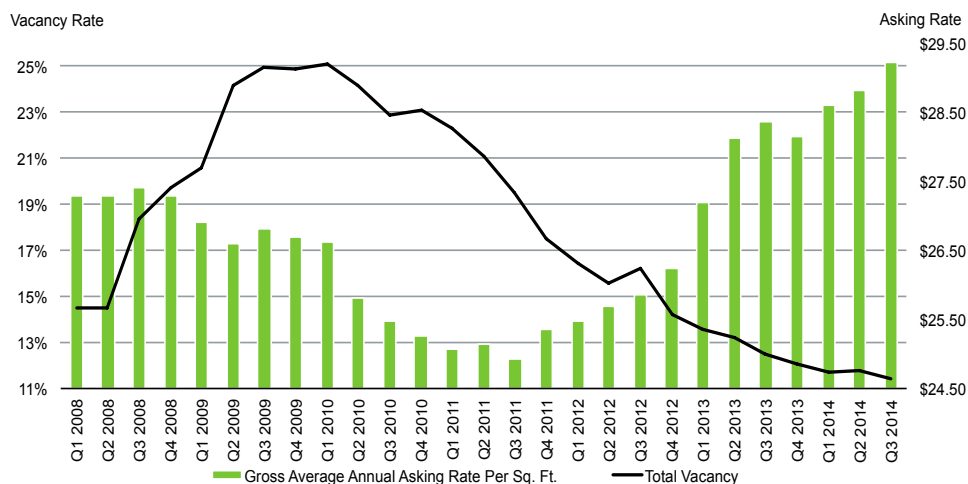
The CBD, posting one of its strongest quarters ever, finished the quarter with 185,807 sq. ft. of positive net absorption. Significant move-ins that attributed to this include Box and Tableau Software taking a combined 33,000 sq. ft. at One American Center, and UT Systems occupying 29,000 sq. ft. at Lavaca Plaza. The CBD was topped by the Southwest submarket, which recovered from its over 100,000 sq. ft. of negative absorption experienced in the previous quarter by posting 187,746 sq. ft. of positive net absorption.

For the first time since 2010, the Northwest submarket finished the quarter with negative net absorption, snapping a streak of fourteen consecutive quarters of positive net absorption. The Northwest returned 71,160 sq. ft. to the market. After surpassing the Southwest as the submarket with the lowest vacancy, the Northwest relinquished its title back to the Southwest by rising 70 bps. The Northwest and Southwest finished the quarter with vacancy rates of 9.4% and 9.2% respectively.

Citywide average asking rates in the market rose above \$29.00 per sq. ft. for the first time ever recorded, rising \$0.41 per sq. ft. quarter-over-quarter, up to \$29.23 per sq. ft. on a full-service gross (FSG) basis. The CBD also saw its second consecutive quarter of increased rates, finishing the quarter at \$38.69 per sq. ft. Increases in taxes and operating expenses are the driving factors behind the continued rise in average asking rates.

The market saw its first buildings of the year delivered to the market, as construction was completed on three projects. The CBD delivered its first building since 2009 with the completion of the IBC Bank Plaza. The 195,000 sq. ft. building delivered over 167,000 sq. ft. of office product, and was over 90% preleased with major tenants including IBC Bank, H + K Strategies and First Trust Portfolio. Delivering in the Southwest were the Judges at Rob Roy, 40,000 sq. ft., and Hill Country Galleria - Bldg W, 36,500 sq. ft. Even with the deliveries, Q3 2014 saw total construction levels rise with six projects breaking ground throughout the market, and bringing the total sq. ft. under construction up to 2,867,457 sq. ft.

Figure 2: Vacancy Rate and Asking Rates



Source: CBRE Research, Q3 2014.

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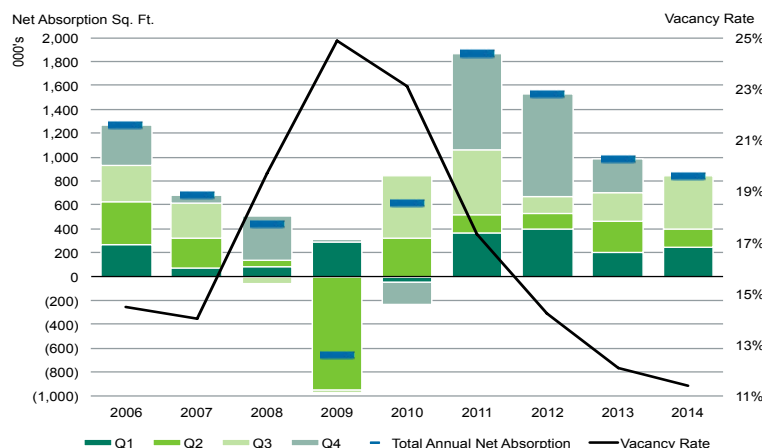
# OFFICE THIRD QUARTER MARKETVIEW

Figure 3: Market Statistics

Market	Rentable Area	Vacant Sq. Ft.	Vacancy Rate	Net Absorption Sq. Ft.	2014 YTD Absorption Sq. Ft.	2014 YTD Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Avg. Direct Asking Lease Rates \$/Sq. Ft./YR	
								Class A	Class B
CBD	9,252,285	1,101,332	11.9%	185,807	193,212	167,871	576,761	\$41.39	\$31.85
Northwest	12,586,758	1,185,399	9.4%	(71,160)	138,871		566,973	\$30.65	\$26.72
Far Northwest	4,110,579	591,648	14.4%	(7,829)	71,423		212,400	\$29.86	\$26.81
North Central	2,986,685	464,568	15.6%	76,042	216,580		128,360	\$31.42	\$21.94
Round Rock	620,894	71,267	11.5%	11,871	31,199			N/A	\$23.56
East	1,958,021	293,864	15.0%	36,093	54,968		192,000	N/A	\$16.72
South	1,746,355	293,012	16.8%	23,446	61,326			\$27.00	\$14.49
Southwest	9,458,793	874,345	9.2%	187,746	72,126	76,500	1,190,963	\$31.38	\$26.86
<b>Totals</b>	<b>42,720,370</b>	<b>4,875,435</b>	<b>11.4%</b>	<b>442,016</b>	<b>839,705</b>	<b>244,371</b>	<b>2,867,457</b>	<b>\$33.67</b>	<b>\$23.32</b>

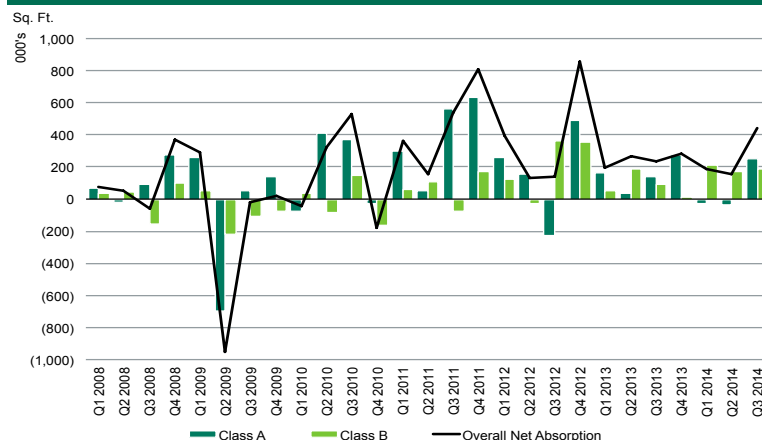
Source: CBRE Research, Q3 2014.

Figure 4: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2014.

Figure 5: Net Absorption



Source: CBRE Research, Q3 2014.

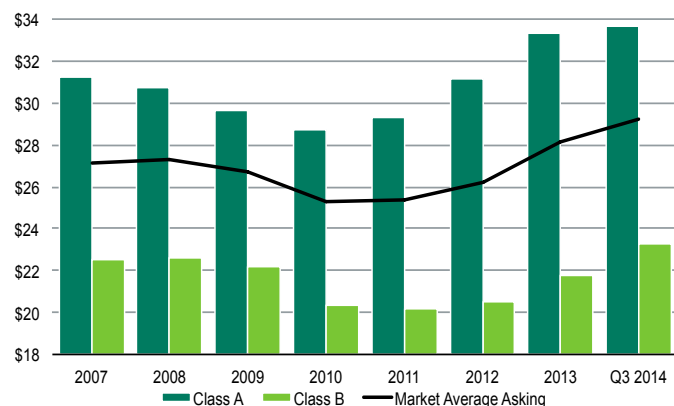
Austin saw its strongest quarter of 2014, with 442,016 sq. ft. of positive net absorption, bringing the year-to-date (YTD) total up to 839,705 sq. ft. After a previous quarter of significant negative absorption over 100,000 sq. ft., the Southwest rebounded and led all submarkets with 187,746 sq. ft. of positive net absorption. The Southwest was followed very closely behind by the CBD, recovering from its own negative net absorption from Q2 2014, with 185,807 sq. ft. Major move-ins include Cross Texas transmission taking 15,000 sq. ft. at City View center and NSS Labs taking 17,532 sq. ft. at Wild Basin Atrium.

Negative net absorption was very modest, with the Northwest and Far Northwest being the only submarkets with negative net absorption for Q3 2014. This is the first time since 2010 that the Northwest ended a quarter with negative net absorption, snapping a streak of 14 consecutive quarters of positive net absorption. The Northwest returned 71,160 sq. ft. to the market, which was led by Apple vacating the entire building at Riata Corporate 4, as they begin occupying their new campus. The Far Northwest posted a far more modest negative net absorption of 7,839 sq. ft. With just under 3.7 million sq. ft. of active requirements in the market, demand continues to grow. In just four quarters, total demand in the market has increased over 1.2 million sq. ft.

Major deals of Q3 2014:

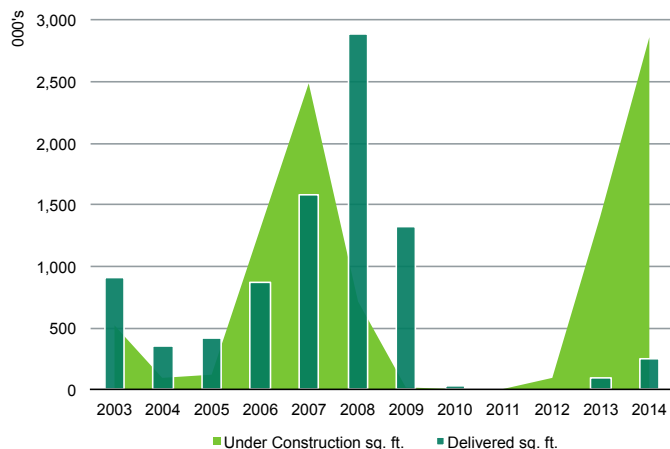
- Personify and Vision Web moved into a combined 34,000 sq. ft. at River Place III.
- Foster Quan vacated 13,472 sq. ft. at 100 Congress.
- Apple vacated the entire building at Riata Corporate 4, in order to begin occupying their nearly completed campus.
- UT Systems occupied 29,149 sq. ft. at Lavaca Plaza.
- Polycom moved out of their 48,000 sq. ft. sublease space at 7700 Parmer - Building C.

**Figure 6: Gross Annual Average Asking Rates, per Sq. Ft.**



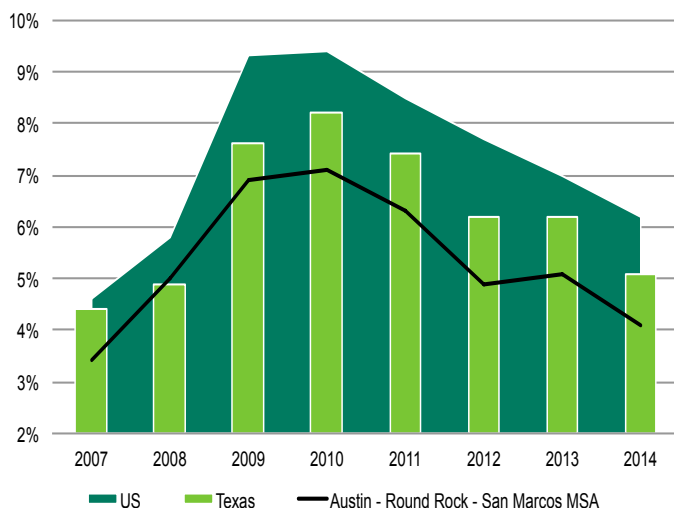
Source: CBRE Research, Q3 2014.

**Figure 7: Construction**



Source: CBRE Research, Q3 2014.

**Figure 8: Unemployment Rate**



Source: U.S. Bureau of Labor Statistics, CBRE Research, Q3 2014.

## OFFICE RENTS

The increase experienced for Q3 2014 in citywide average asking almost doubled the rise in rates that occurred the previous quarter. Rates rose another \$0.41 per sq. ft. quarter-over-quarter, further pushing the record high up to \$29.23. Class A rates recovered from the slight decrease seen in Q2 2014, with a significant jump of \$0.23 per sq. ft., to \$33.67 per sq. ft. Class B and C product also saw increases of \$0.57 and \$0.62 per sq. ft., respectively, which marks the first time in five quarters that all three classes saw rising rates. The CBD also saw rates rise in all three classes, and total average rates finished the quarter at \$38.69 per sq. ft., an increase of \$0.38 per sq. ft. from the previous quarter. Since Q3 2011, when rates were at their lowest point, citywide average asking rates have increased almost 15% in three years.

## OFFICE PRODUCT

The CBD saw construction completed on the IBC Bank Plaza, the first building delivered downtown since 2009, and added over 167,000 sq. ft. of office space to the market. Prior to completion, the project was over 90% preleased. In the Southwest, the Judges at Rob Roy, a 40,000 sq. ft. office medical building, and Hill Country Galleria - W, a mixed-use project with 36,500 sq. ft. of office space, brought the YTD total completed construction up to 244,371 sq. ft. The CBD also has plans for another office tower to break ground, as the city recently issued a building permit for the 5th & Colorado office tower. The 18-story building will add another 179,000 sq. ft. to downtown, and should break ground early next quarter.

Even with these deliveries, total product under construction rose once again, finishing the quarter at 2,867,457 sq. ft. While previous quarters have seen new construction primarily focused in the Southwest, Q3 2014 saw projects breaking ground in multiple submarkets throughout Austin. Major projects include Parmer 3.2 (190,000 sq. ft.) breaking ground in the East, while the North Central saw construction begin on the 128,000 sq. ft. mixed use Lamar Central. The Far Northwest also began construction on two buildings at Paloma Ridge, which will both add roughly 106,000 sq. ft. each.

## UNEMPLOYMENT

Unemployment continued its downward trend at the national, state and local levels, with all seeing the same 10 bps drop in their respective rates. The Austin-Round Rock-San Marcos MSA continues to lead the pack toward full employment, settling in at 4.1% in the month of July. Q3 2014 saw national and state unemployment fall to 6.2% and 5.1% respectively. Austin unemployment has now seen a total decrease of 100 bps since the end of last year. According to Moody's Analytics, Austin has seen a growth of over 4% in its office employment since December 2010, and has added over 500,000 jobs in that timeframe.

Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by Forbes, while Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.





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# Austin Office MarketView 2Q 2014

Q2 2014

CBRE Global Research and Consulting



**VACANCY RATE**  
11.8%



**ASKING RATE**  
\$28.82 per Sq. Ft.



**NET ABSORPTION**  
153,061 Sq. Ft.



**UNEMPLOYMENT**  
4.2 % Y-o-Y

\*Arrows indicate change from previous quarter.

## OVER 2 MILLION SQ. FT. UNDER CONSTRUCTION FOR FIRST TIME SINCE 2008.

**Figure 1: Quick Stats**

	Q2 2014	Q-o-Q	Y-o-Y
Vacancy	11.8%	↑	↓
Asking Rates	\$28.82 per sq. ft.	↑	↑
Net Absorption	153,061 sq. ft.	↓	↓
Under Construction	2.4 million sq. ft.	↑	↑
Delivered Construction	0	↔	↓

### Hot Topics

Positive quarter sees vacancy rise. Asking rates continue to reach record levels. Under construction product reaches six year high.

- Forbes ranks Austin as the fastest-growing city in the nation for the fourth straight year.
- A study by The Business Journals ranked Austin as the top metro area for small businesses.
- According to a study by The Brookings Institute, Austin has been the nation's top performer through both the recession and recovery.
- Niche Link ranked Austin as the second-best city for millennials.
- Austin ranked third on Livability.com's April list of the Top Ten Cities for New College Graduates.
- Highspeedinternet.com lists Austin as the third-best city to start an online business.
- A survey by MyFitnessPal ranked Austin as the Top City for Group Fitness.

### While it was another quarter of positive

absorption, Q2 2014 saw a slight increase in vacancy, to 11.8%, up 10 basis points (bps) quarter-over-quarter. With Q2 2014 posting 153,061 sq. ft. of positive net absorption, this marks the fourteenth straight quarter where there was positive net absorption and the first time in seven quarters that vacancy increased. There is now over 37.5 million sq. ft. of office product currently occupied in the market.

Strong preleasing in Q1 2014 was followed by yet another quarter of significant lease transactions for product currently under construction. This was highlighted by ARM leasing over 120,000 sq. ft. in Encino Trace I, which broke ground this quarter in the Southwest submarket. MapMyFitness also leased the entire second floor at Seaholm, totaling 33,000 sq. ft. This brings the level of preleased construction to just under 900,000 sq. ft, which accounts for almost 40% of product currently under construction. Demand in the market remains at a high level, with over 3.5 million sq. ft. of active office requirements.

The Northwest submarket saw the majority of positive net absorption for the quarter, posting 129,196 sq. ft. The strong quarter was led by Websense taking 59,000 sq. ft. at Quarry Oaks Atrium Bldg A, with plans to expand into 33,000 sq. ft. early next year. The Northwest was followed by the Far Northwest and North Central submarkets, with both posting significant

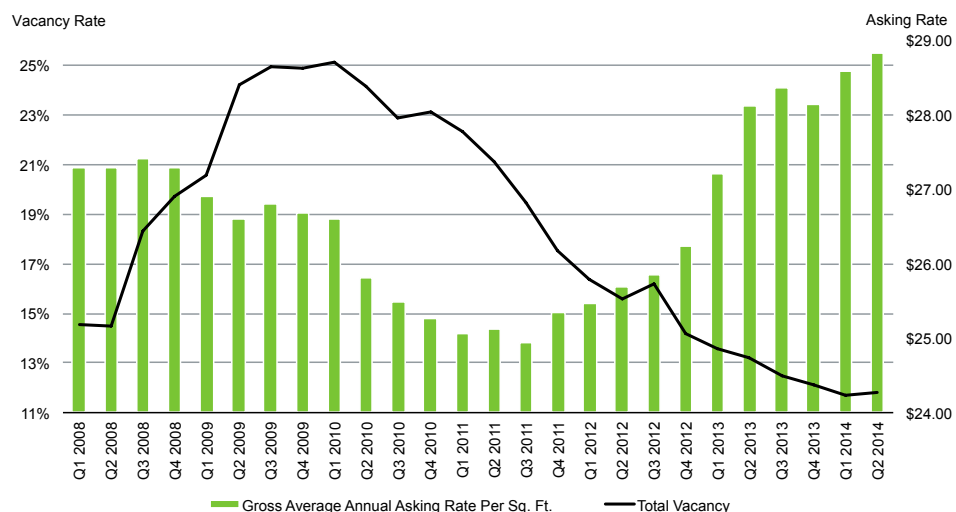
positive net absorption of 57,959 and 57,911 sq. ft. respectively.

The Southwest submarket saw its highest level of negative net absorption in seven quarters, when it returned over 280,000 sq. ft. to the market. By posting 128,463 sq. ft. of negative net absorption, the Southwest relinquished its title as the submarket with the lowest vacancy to the Northwest, which now show vacancy rates of 10.3% and 8.7%, respectively. The only other submarket to record negative net absorption for the quarter was the CBD, which ended the quarter with a modest 13,728 sq. ft. of negative net absorption.

Average asking rates in the market rose another \$0.23 per sq. ft. quarter-over-quarter, up to \$28.82 per sq. ft. on a full-service gross (FSG) basis. The CBD, which saw rates fall in three straight quarters, also saw an increase of \$0.28 per sq. ft. Asking rates are experiencing dramatic spikes due in large part to continued increases in taxes and operating expenses.

New construction once again makes big news with the kickoff of two major projects in the Southwest, totaling over 500,000 sq. ft. The quarter saw both Capital Ridge and the Encino Trace buildings break ground, with ARM acting as the lead tenant for Encino Trace by leasing 120,000 sq. ft. in Building I.

**Figure 2: Vacancy Rate and Asking Rate**



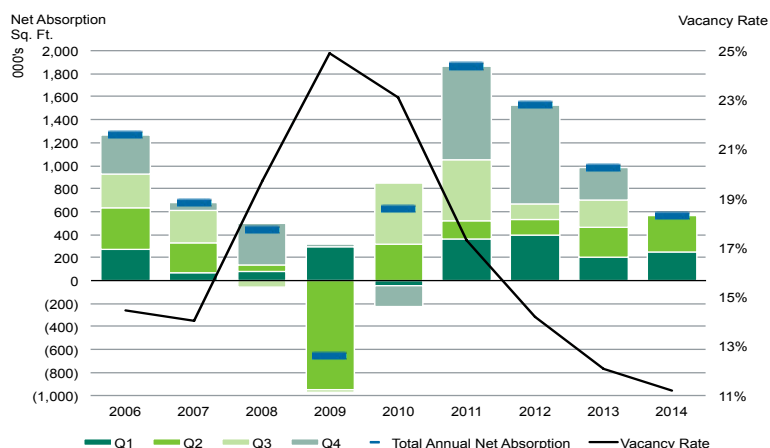
# OFFICE SECOND QUARTER MARKETVIEW INSERT

Figure 3: Market Statistics

Market	Rentable Area	Vacant Sq. Ft.	Vacancy Rate	Net Absorption Sq. Ft.	2014 YTD Absorption Sq. Ft.	2014 YTD Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Avg. Direct Asking Lease Rates \$/Sq. Ft./Yr	
								Class A	Class B
CBD	9,084,414	1,086,559	12.0%	(13,728)	7,405		744,632	\$40.88	\$30.72
Northwest	12,586,758	1,095,297	8.7%	129,196	210,031		566,973	\$29.89	\$25.72
Far Northwest	4,110,579	577,811	14.1%	57,959	79,252			\$29.14	\$26.19
North Central	2,986,685	551,014	18.4%	57,911	140,538			\$30.85	\$21.49
Round Rock	620,894	80,136	12.9%	2,674	19,328			N/A	\$22.49
East	1,958,021	346,534	17.7%	27,202	18,875			N/A	\$16.83
South	1,746,355	308,862	17.7%	20,310	37,880			\$26.00	\$14.37
Southwest	9,382,293	962,464	10.3%	(128,463)	(115,620)		1,054,329	\$30.72	\$26.80
<b>Totals</b>	<b>42,475,999</b>	<b>5,008,677</b>	<b>11.8%</b>	<b>153,061</b>	<b>397,689</b>	<b>0</b>	<b>2,365,934</b>	<b>\$33.44</b>	<b>\$22.75</b>

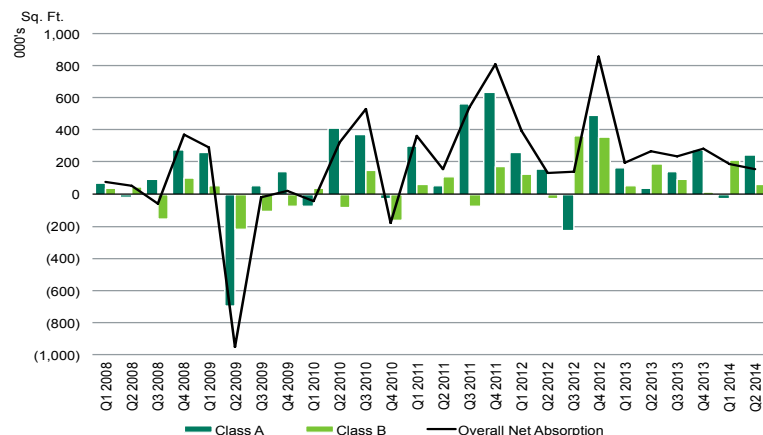
Source: CBRE Research, Q2 2014.

Figure 4: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2014.

Figure 5: Net Absorption by Class



Source: CBRE Research, Q2 2014.

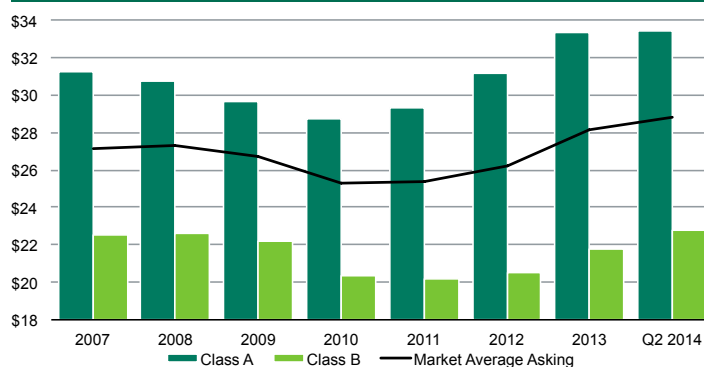
Q2 2014 saw citywide net absorption reach 153,061 sq. ft., marking the 14th straight quarter of positive net absorption, bringing the year-to-date (YTD) total to 397,689 sq. ft. The Northwest submarket accounted for over 120,000 sq. ft. of positive net absorption, making up 80% of total net absorption for the quarter. With the Southwest submarket seeing significant negative net absorption for the quarter, the Northwest took over as the submarket with the lowest vacancy, falling to 8.7%. It was also a strong quarter for the Far Northwest and North Central submarkets, with 57,959 and 57,911 sq. ft. of positive net absorption.

The remaining negative net absorption across the market was modest, with the CBD submarkets being the only other submarket with negative absorption. This also marks only the third time since the start of 2012 that the CBD posted negative net absorption for the quarter. It should be noted that upcoming quarters are expected to see strong positive absorption, with significant space already planned to be occupied. These include Box occupying 20,000 sq. ft. at One American Center and UT Systems moving into 29,000 sq. ft. at Lavaca Plaza next quarter.

Major deals of Q2 2014:

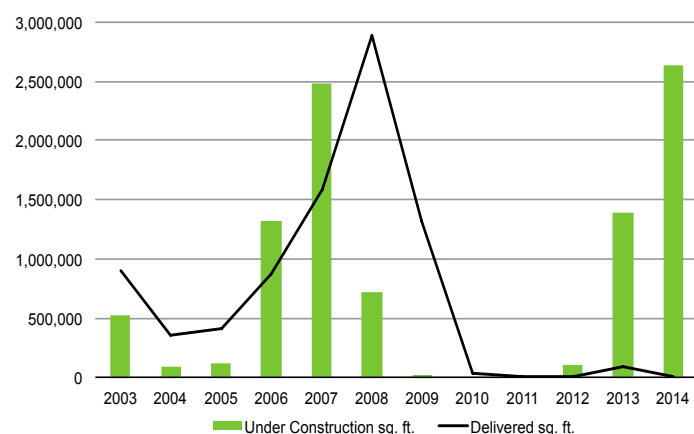
- Solar Wind relocated from the entire 105,500 sq. ft. building at the Park on Barton Creek 2, backfilling into AMD's 227,000 sq. ft. at 7171 Southwest Parkway - 400.
- CMC Americas vacated 22,253 sq. ft. at Stonebridge Plaza II.
- Office Depot moved into 25,000 sq. ft. at Amber Oaks H.
- Marvell downsized its space by 10,000 sq. ft. at Las Cimas II.
- AMD moved out of 118,000 sq. ft. at 7171 Southwest Parkway - 300.

**Figure 6: Gross Annual Average Asking Rates, per Sq. Ft.**



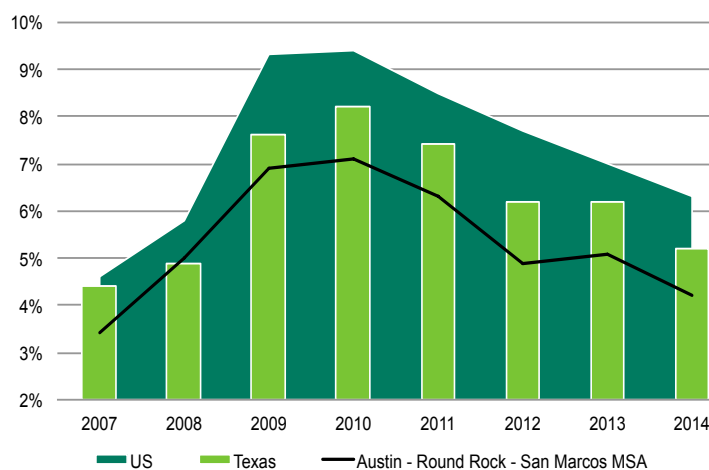
Source: CBRE Research, Q2 2014.

**Figure 7: Construction**



Source: CBRE Research, Q2 2014.

**Figure 8: Unemployment**



Source: Bureau of Labor Statistics, January 2014.

### OFFICE RENTS

Citywide average asking rates rose another \$0.23 per sq. ft. quarter-over-quarter, reaching a new record high of \$28.82. For the first time in ten quarters, Class A rates saw a very slight decrease, falling \$0.03 per sq. ft. to \$33.44 per sq. ft. Conversely, Class B posted significant increases of \$0.75 per sq. ft., rising to \$22.75 per sq. ft. This was also reflected in the CBD, where Class A and B product saw decreases and increases respectively, and total average rates ultimately jumped up to \$38.31 per sq. ft. Class C rates saw significant increases in both the CBD and suburban submarkets.

### OFFICE PRODUCT

Total office product under construction reached its highest levels since 2007, at over 2 million sq. ft. The Southwest, having launched two more large projects in Q2 2014, reached the highest levels ever recorded for the submarket and leads all others with over 1 million sq. ft. The two-building Encino Trace project totals 320,000 sq. ft., with a lead tenant in ARM leasing up 120,000 sq. ft. in Building I. Capital Ridge also broke ground in May and, with no significant space currently leased, is starting construction as largely on spec. The project will be accompanied by the 194-room Hotel Granduca near the intersection of Loop 360 and Bee Caves Rd. When all current projects are completed, the Southwest is poised to surpass over 10 million sq. ft. of total product in the submarket, and remain the second largest submarket.

### UNEMPLOYMENT

While both The United States and Texas continue to show improvement in unemployment, the Austin-Round Rock-San Marcos MSA continues to outpace both, as Q2 2014 saw unemployment fall to just above 4% to 4.2% in the month of April. Since the end of 2013, Austin has seen unemployment fall a total of 90 bps. National and state rates both recorded as 6.3% to 5.2% respectively. According to the U.S. Bureau of Labor Statistics, the state has added over 348,000 jobs since the beginning of the year, with 64,100 of those jobs coming in the month of April.

Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Forbes lists Austin as the third best major city for jobs, with another Texas city, Houston, taking the fifth spot. As projected by demographer Ryan Robertson, the Austin metro area expected surpass the 2 million population mark by next summer, and CNN released a report listing Austin as the fastest growing city in the nation.



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