



**Marketing & Investment Sales**

Helen Jobs, CCIM, a partner with Capella Commercial LLC, specializes in the sale and leasing of office, retail, and industrial property as well as investment sales in Central Texas, San Antonio, Houston and the Rio Grande Valley.

During her 36-year career, Jobs has leased over 800,000 sq. ft. of office space and sold more than 4.419 million sq. ft. of commercial real estate including office/warehouse, office, retail centers, apartments and land.

Jobs served as the investment sales broker at Trammell Crow (now CBRE) and was principal and founder of Gold Eagle Investments for ten years. She also served as the Regional Director of Marketing and Investment Sales for Kennedy Wilson for three years.

She is a member and served 11 years on the board of the Real Estate Council of Austin and is a past president and member of the Austin Commercial Real Estate Society. She is also a member of the Urban Land Institute and the Central Texas Commercial Brokers Association.

**Austin Office Investment Market – Booming**

**MARKET OVERVIEW**

As in 2017, Austin has one of the highest rates of pre-leasing for office space in the country which has fueled the consistent increase in rates and building values. In addition, the City is enjoying one of the lowest vacancy rates on record and about 82% of square footage slated to deliver in 2019 through 2022 is already pre-leased. Also adding to these positive reports, the City's unemployment remains significantly below the State and National rates at 2.9%. Office base rental rates rose at 3% and expenses at a whopping 8% for 2018. Austin Energy and property taxes are increasing at a faster rate than construction costs making opex the head wind. The average sales price has risen 9.3% with \$332 psf setting a record.

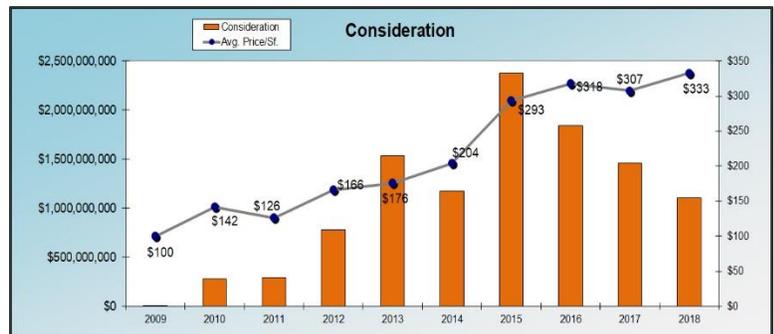
The escalating rental rates and expenses as well as parking limitations in the CBD, have recently pushed new office development to the East side with its close proximity. However, there is also now increased interest in the Southeast area with flex space morphing into Class A office space and older buildings going through upgraded renovation. 5202 E. Ben White, a building in the old AMD campus, now has new HVAC, roof, corridors, restrooms, parking lots, landscaping, exterior windows, utility connections, elevators, multiple lobbies and Class A office finishes. It is housing City of Austin and The Mexican Consulate and sold in December. This high growth area has a lot of advantages over downtown for half the cost of downtown nets.

Also seeing continued expansion is the North/Domain area with most of the new buildings leased prior to delivery. HPI and Stonelake Capital Partners are finishing Domain 12 in the second quarter and it is 100% leased to Indeed and currently on the market. In January Endeavor and Tier Reit purchased Stonecreek I and II (on a 9.5 acre tract) located on the north side of the Domain, and rebranded them Domain Point I and II. They plan to add 1 million square feet to the site with three buildings, Domain 9, 10 and 12.

The declining number of transactions is assumed to be due to high occupancy and increased revenue making continued ownership attractive.

	2003	2004	2005	2006	2007	2008	2009	2010
<b>Transactions</b>	11	23	33	14	34	18	1	12
<b>Consideration</b>	\$100,368,670	\$533,357,318	\$1,021,550,163	\$1,029,712,000	\$2,768,090,000	\$555,495,000	\$7,500,000	\$280,992,000
<b>Square Footage</b>	999,789	4,410,413	5,886,328	5,982,971	11,151,996	2,789,994	75,000	1,890,185
<b>Avg. Price/Sf.</b>	\$100	\$121	\$174	\$172	\$223	\$199	\$100	\$142

	2011	2012	2013	2014	2015	2016	2017	2018
<b>Transactions</b>	17	28	13	39	39	42	36	25
<b>Consideration</b>	\$407,625,668	\$778,475,224	\$1,537,239,842	\$1,217,087,439	\$2,377,911,013	\$1,843,240,122	\$1,432,385,943	\$1,554,932,554
<b>Square Footage</b>	3,227,561	4,506,860	8,597,424	5,637,662	8,106,169	5,798,810	4,650,333	4,657,317
<b>Avg. Price/Sf.</b>	\$126	\$166	\$176	\$207	\$293	\$318	\$308	\$333





## FINANCING AVAILABILITY

Texas Realty Capital (“TRC”), based in Austin, TX recently returned from the Commercial Mortgage Bankers Association Conference in San Diego. The debt providers for Commercial Real Estate are continuing to increase allocations to the asset class as borrower performance compares well to other asset classes. The two main concerns on the mind of the debt providers were (i) the performance of US markets in this late cycle stage and (ii) the fact that on a relative value basis there is pressure to increase spreads on CRE mortgages in order to offset spread increases in other asset classes, mainly corporate bonds.

Permanent lenders continue to be most interested in Industrial, Office, Medical Office and Multi-Family. Out of favor property types include single tenant properties with a remaining lease term shorter than 10 years and big box retail. Other property types like strip retail, self-storage and hospitality are attracting capital but lenders are less likely to stretch on pricing or proceeds to win these deals. Their strategy is to win deals with pricing – not proceeds. TRC is currently finding that 10-year fixed rate transactions are priced in the 4.30-4.60% range, but for larger (+\$15MM) deals that are below 60% LTV with a solid rent roll the rate could be as low as 4.00%. A number of lenders indicated that they are looking for Borrowers that want loans with longer terms, +15 years.

CMBS lenders are actively offering 10-year fixed rate loans at higher rates with spreads in the 180-225 bps range, but will usually offer higher proceeds and longer amortizations than life company lenders. On loans less than 65% LTV, they often offer interest only for the full loan term. Non-recourse loans from Debt Funds and Bridge Lenders are widely available. Rates and fees will be based on the project’s in-place debt coverage and overall amount of cash equity from the sponsor. Most transactions are being priced in the 6.00%-8.00% range – with the more conservatively underwritten deals attracting some lenders to price sub-6.00%. The term on these loans is commonly less than 5 years and the lenders often charge 1-2% origination and 1-2% exit fees.

Central Texas remains a very desirable area for Lenders as job growth and real estate fundamentals continue to outperform almost all other US markets. TRC is a correspondent for over 20 life insurance companies from all over the United States and is actively working on loan sizes from \$1,000,000 to \$75,000,000 per transaction.

- Austin is No. 3 on ranking of Markets Emerging as the Life Sciences Industry’s Next Hot Spots. (CBRE)
- Austin is No. 1 in LinkedIn’s ranking of U.S. Cities Attracting the Most Workers. (LINKEDIN)
- Austin ranks No. 2 on CNBC’s list of Cities Where Jobs are Plentiful and Businesses are Thriving. (CNBC)

## BUILDING SALES/VALUES

World Class Holdings continued their investment in the Austin area with the purchase of the 3M campus in February which included not only 1.79 mm square feet of buildings but 158 acres with room for extended development.

The Southfield Building, which was purchased empty in 2017, was sold in February 2018 to the Austin Independent School District. Valor Capital Partners continued their investment in office with the purchase of Overlook at Rob Roy I, II and III. Velocity Credit Union purchased Quarry Lake Business Center for administration. Rockpoint Group LLC made their first acquisition in Austin with Las Cimas II and III, 313,718 sf for \$344 per square foot.

The Azrieli Group made their second acquisition in Austin with the purchase of 3700 San Clemente, 249,870 square feet for \$402 per square foot. The Azrieli Group is an Israeli real estate and holding company named after its founder David Azrieli. The company is engaged mainly in the development and management of shopping malls and office buildings in Israel. The company has also purchased properties in Houston.

Other experienced Austin office market buyers continued purchasing in 2018 including Braun Enterprises, Intercontinental Real Estate Corporation, Brandywine Realty, HPI Real Estate Services, Walton Street Capital with Vanderbilt Partners and Lionstone

The Luzzato Company made their first acquisition in Austin with Austin Oaks, 445,322 square feet for \$220 per square foot. Ramrock Real Estate of Dallas purchased the YETI Headquarters at Lantana Ridge, 168,923 square feet. YETI has a lease through July 2027 and the property includes an outdoor kitchen and game area, a rooftop terrace, fitness center with showers and an outdoor courtyard with food truck parking and jogging trails.

## MARKET FORECAST

The combination of a steady stream of demand for office space with limited construction will continue to create higher rents and low vacancy. The Austin economy grew at a healthy pace during 2018 adding 40,400 net new jobs with an employment growth of 3.9%, making Austin the #2 fastest growing major metro. Austin is one of the prime locations for millennials and with the tech labor force and favorable tax laws, we will continue to see an influx of companies spurring continued office development.

For detailed information on the contents of this report or information on commercial real estate investment contact me today!

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