

REAL ESTATE INC.

The grim reality: Austin residential, retail, office rents going up dramatically

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If you're trying to rent any type of property in Austin these days, the amount you'll pay is going up dramatically. This point was driven home by a pair of reports distributed Wednesday to attendees at the Real Estate Council of Austin's mid-year forecast event, which is taking place this week at the downtown JW Marriott Austin hotel.



MICHAEL THEIS/ABJ

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Residential market

Residential rents in the Austin area have increased sharply in the first six months of the year, up 5.5 percent to \$1.33 per square foot in June, according to a mid-year report from Capitol Market Research. Meanwhile, occupancy rates have held steady at about 94 percent since the start of the year, stemming a nearly 4 percent drop in occupancy rates that began in the second quarter of 2012.

According to the data, rents increased in all Austin submarkets in the first half of the year. They were led by an 8.3 percent increase in rents in Round Rock to a 2.5 percent increase in rents in San Marcos so far in 2015.

"Strong job growth and population immigration are supporting the market increases in rent and net absorption," the report said. "Leasing in new properties continues to be strong and should result in some gains in occupancy and average rent, even though more than 6,000 units are scheduled for delivery by year's end."

Retail market

During the first six months of the year, occupancy levels in the Austin retail real estate market increased from 92.7 percent to 94 percent. As occupancy levels rose, rental rates for vacant space in the city increased by \$1.16 per square foot to \$21.01 in June.

New retail construction was almost entirely made up of ground-floor retail in new mixed-use projects such as Lamar Union, Seaholm, and Corazon concentrated in the region's downtown core. And there's even more to come. According to data distributed at the conference by Capitol Market Research, more than 1.6 million square feet of new shopping center space has already broken ground, and more than 3.7 million square feet of future retail space is planned. This means that a lot of new inventory is coming on the market through 2016.

Office market

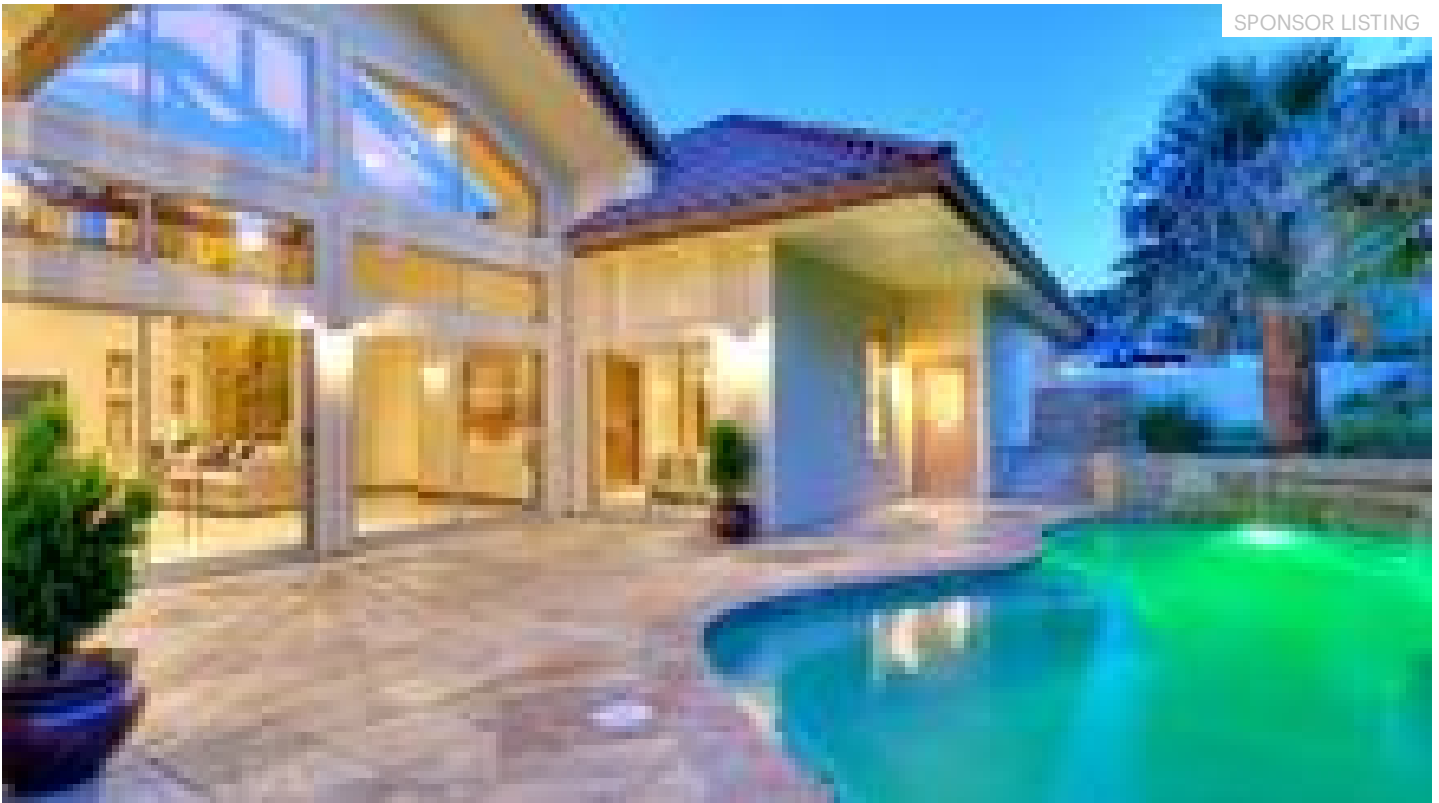
A separate report distributed at the conference from Cushman & Wakefield gave the mid-year update for the Austin office market. Again, it points out that office rental rates are climbing even as vacancies are slightly increasing in this sector. This is because a crop of new commercial office development has come online in the past year.

"The Austin office market continues to operate in peak conditions," reads the report. "New construction continues to dominate the skyline, as many buildings are spoke for prior to their respective completions. Such pre-leasing activity leads to new developments doing little to alleviate the declining vacancy rates currently being experienced."

In June, the average office rental rate climbed up to \$32.83 per square foot, \$3.62 per square foot more than at the same time in 2014. If you're trying to find premium office space, get out your checkbook. Class A average rents rose 10.6 percent compared to the same time last year to \$47.80 per square foot

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