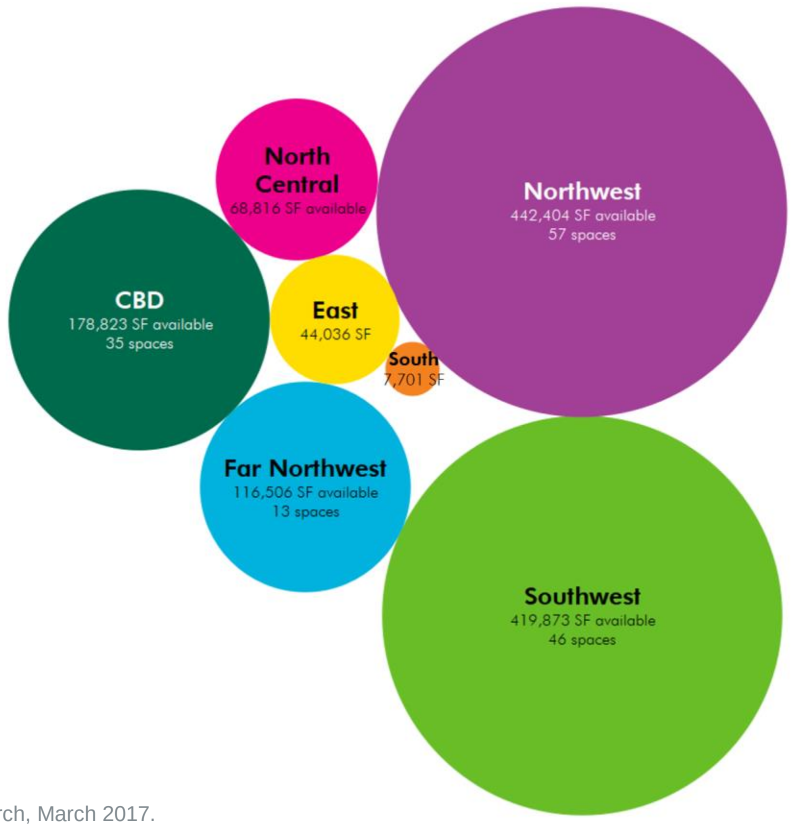
Austin Office Sublease: On the Rise but Why? Answer Might Surprise.

- Austin's available office sublease space grew to 1.3 million sq. ft. in Q1 2017.
- Sublease availability increased from 1.9% to 2.7% of the total office market from Q3 2016 to the present quarter. Although not a troubling trend, CBRE Research will continue to follow the office sublease market closely.
- Tech firms located in the Northwest, Southwest, and CBD submarkets have unloaded the majority of space on the sublease market.
- Occupiers are marketing subleases primarily due to space contraction but secondarily to growth.

Sublease Availability in Austin's Tech Submarkets



Source: CBRE Research, March 2017.

Sublease Space: Two Sides to Every Set of Measures

On one hand, sublease market fluctuations indicate overall office market health as a rise in marketed sublease space along with slower leasing activity may point to occupier contraction in the office sector. On the other hand, a deeper dive uncovers firms outgrowing space, relocating/expanding, and controlling for future growth. As tracked by CBRE TX-OK Research, available sublease space[1] in Austin's office market totaled nearly 1.3 million sq. ft. market-wide at the end of Q1 2017, up 400,000 sq. ft. from Q3 2016. A small portion, roughly 25% of all available sublease spaces, are blocks over 10,000 sq. ft. each, yet these spaces contribute 64% of the total available space currently on the sublease market. Larger subleases compete with one another offering reduced rates and funded tenant improvement allowances, while smaller subleases are seeing less frequent viewing activity.

So Who is on the Move and Where?

Austin's Northwest, Southwest, and CBD submarkets contain 81% of space available for sublease. Zoomed in, most of these spaces are clustered along Congress Avenue (CBD), Capital of Texas Highway (SW), Southwest Parkway (SW), MoPac Expressway (NW), and Research Boulevard (NW). Of interest to both landlords and occupiers is that the sublease availability is strongest in submarkets delivering the bulk of new office supply.

Still, as expected the tech industry, one of Austin's largest drivers of office demand, accounts for approximately 556,000 sq. ft. of available sublease space currently on the market followed by health care and financial services companies with 183,000 sq. ft. and 112,000 sq. ft. respectively. Together these three industries comprise over two-thirds of sublease availability currently on the market. As tech-centric firms continue to drive office demand, Austin may be more vulnerable in the next downturn as tech firms are sensitive to market fluctuations.

The Top 30 and Reasons for Subleasing

CBRE Research took a deeper dive into the top 30 largest available spaces to explore reasons for subleasing. Together these top 30 make up nearly 53% of the total sublease market.

Contraction takes the cake as the top reason for subleasing with 435,000 sq. ft. (65% of the top 30 spaces) attributed to tenants leasing more space than needed due to consolidation, downsizing or companies exiting the market. Firms marketing space in this category include BMC Software (market exit), Actian, SolarWinds, EZ Corp (took more space than needed), and Blackbaud (downsized space).

Expansion—tenants outgrowing and disposing of space due to enlargement and relocation—took second place with almost 167,000 sq. ft. of space on the market (25% of the top 30 spaces). Users leasing space in this category include Arthrocare, Cadence Design, Samsung (relocating to 3900 San Clemente).

Controlling growth—tenants with growth expectations with the intent of eventually expanding into space—represented 72,000 sq. ft. of space (10% of the top 30 spaces). For example, YETI leased excess space with the intent of eventually expanding. Although recently taken off market, Dropbox marketed growth space for sublease at the Bank of America Center annex downtown.

As a result, the explanation behind the slight increase is a mixed one. Only two-thirds of the largest sublease listings currently available in Austin align with the more conventional idea that an occupier just simply has too much space for current employee headcount and doesn't necessarily see that present situation changing anytime soon. The interesting twist is with the remaining third: growth.

Not all sublease is cold water to the leasing market.

[1]Space provided by co-working occupiers is omitted, and previous Q3 2016 numbers excluded spaces under 2,500 sq. ft.