

COVER STORY

TECHTOWN: *If you're in technology*



Zilliant Inc. employees are loving their relatively new space downtown after spending years in the plush – but remote – hills just west of Austin.



Mass Relevance workers bask in the sun on the ground floor of their downtown office about a block away from Congress Avenue.

STORY BY CHRISTOPHER CALNAN
PHOTOS BY NICK SIMONITE

Last year, software maker Zilliant Inc. sprung at the chance to turn part of a downtown parking garage into brilliant office space.

It was a drastic change for the company that spent its first 10 years in two nondescript buildings in quiet Southwest Austin, and the payoff couldn't have been more evident than when Zilliant hosted a users conference for more than 100 customers.

A short walk from the new offices, visitors and the company's 130 employees who create sales-optimization software could easily stroll to any number of hotels, restaurants and bars. It meant Zilliant was cast in the exact light executives wanted, and the company is not alone.

More than 100 technology companies can downtown Austin home now, and it's putting pressure on developers to build more skyscrapers. Builders haven't caught up with demand yet, and that means one of the world's most sought-after tech havens is faced with skyrocketing rental rates and space shortages.

The big ones – such as Google Inc., according to real estate sources – have had little luck finding enough contiguous downtown space to meet their needs.

But for those who can get it, a spot downtown is pretty sweet, to say the least.

"There's no question that there's a hip factor being downtown," Zilliant CEO Greg Peters said. "You just have a much more vibrant environment than sitting below a Toys 'R' Us," as Zilliant did off of Loop 360.

operating from downtown spaces instead of less expensive buildings on the margins of the city. And Austin's downtown is definitely no longer just for the more traditional law offices, banks and accounting firms.

Predictably, tech company executives are citing worker recruiting and retention as the major factors in selecting downtown offices. Tech workers want the flexibility to work their own hours without being isolated from the flow of the city.

That means being close to the office, with that office being so close to amenities that there's no need to get in a car. Unless it's a big, alluring brand like Apple, Google, Dell, HP or Samsung – all of which are far in the northern suburbs – it's no longer easy for tech companies to attract quality workers while operating at a nondescript building in a remote office park.

The migration has been happening for several years, but the tipping point was arguably when the tech business incubator Capital Factory made a major expansion in the Omni Austin Downtown in mid-2012.

When it took over the entire top floor of the building and provided co-working space while hosting events for budding entrepreneurs – most of them with Web-based tech startups – Capital Factory Director Joshua Baer was well on his way to fulfilling his goal of yielding Austin's "entrepreneurial center of gravity."

Less than a year later, President Barack Obama visited Capital Factory as a part of a day-long tech tour in Austin.

Although Capital Factory is geared toward startups, it has attracted a team of technology veterans who frequent the space to mentor budding entrepreneurs. The dynamics have created a critical mass of technologists and service providers to make downtown as popular as ever for such businesses.

A recruiting tool like no other

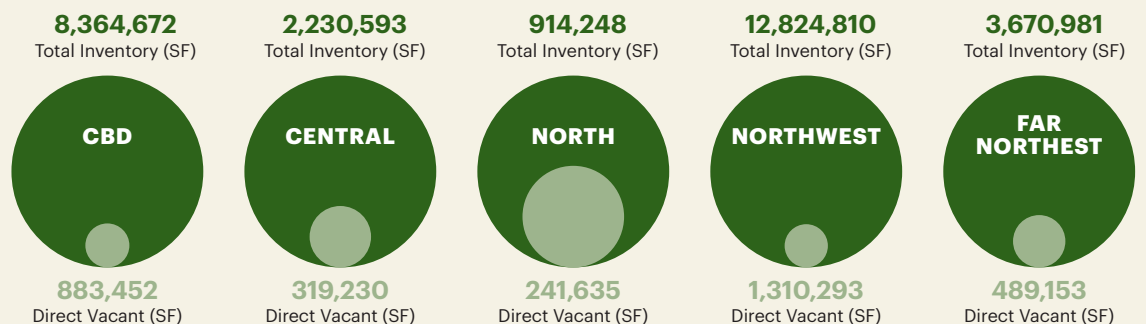
Austin technology companies are mirroring a national trend by more frequently

Popularity, but at a price

Since 2008, the average price for all class-

THE BIG PICTURE

The number crunchers and space watchers at REOC Austin take a look at the office market each quarter and here's how the submarkets stacked up at last count. The dots within the circles represent the amount of vacant space in each submarket. In the Central Business District, 10 percent of office space is available now but there are no huge blocks of space open at this time, meaning large tenants must seek space in another submarket.



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and can afford it, downtown is the place to be



HomeAway Inc. invested tens of millions of dollars to consolidate many of its employees at a downtown headquarters. Workers can walk across the street to Whole Foods' flagship store, Austin icons Waterloo Records and Amy's Ice Creams – and the lake's hike-and-bike trail is just two blocks away.

es of downtown office space has increased from \$31.81 a square foot to \$38.15 per square foot, said Nate Stricklin, first vice president of real estate firm CBRE. That may not seem like much, but it can add up to tens or hundreds of thousands of dollars to a tenant's annual lease costs.

But it's apparently worth it to Colorado-based TechStars and Philadelphia-based DreamIt Ventures LP. Those tech incubators also deemed it essential to pick a downtown spot in the past year. So, like Capital Factory, when they graduate companies in the future, those executives running those fledgling startups will already be acclimated to life downtown.

DreamIt Ventures CEO Kerry Rupp said her group considered 50 locations before choosing a small spot on the 10th floor of Lavaca Plaza just two blocks from Congress Avenue. Being downtown was essential, she said, because the nascent

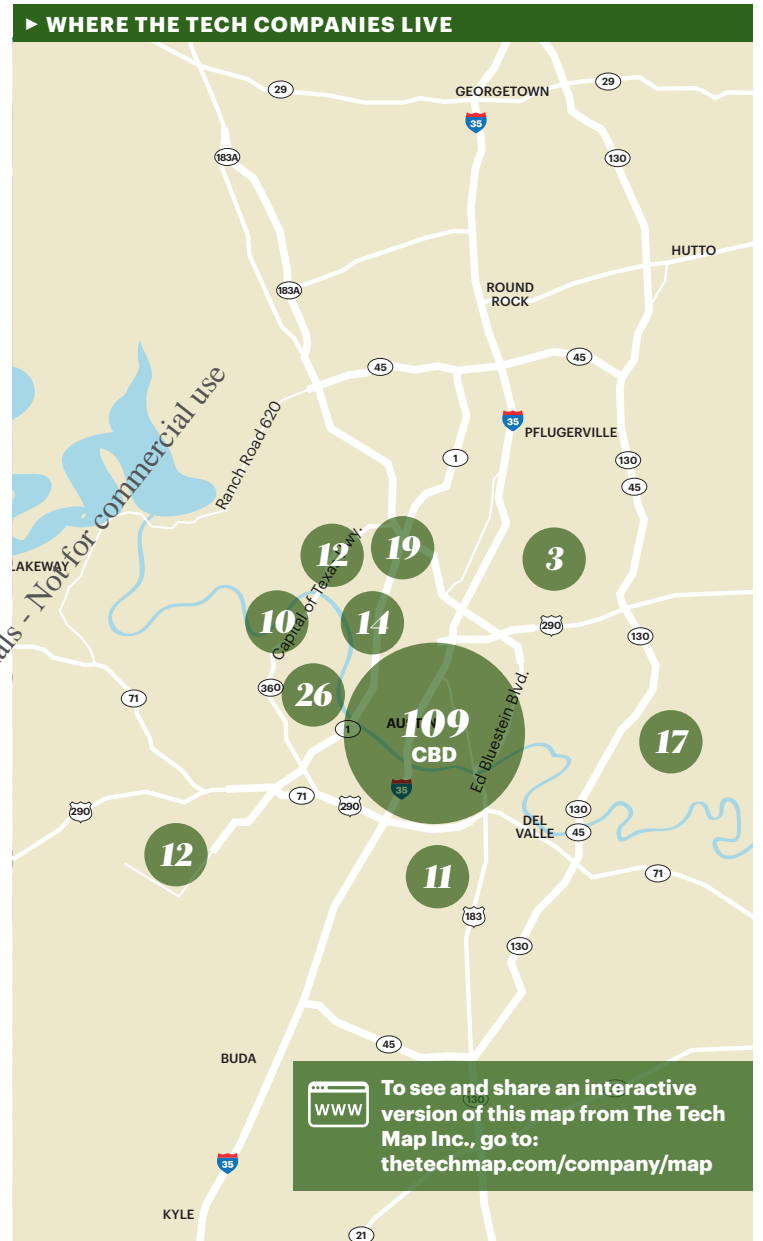
business people she coaches need ready access to the many contacts necessary to get a company off the ground.

"Startup life is a lot of coffee meetings," she said. "Ultimately, this (location) decision was made based on proximity. It's about efficiency but also about the high density of all the people you want to meet being close to you."

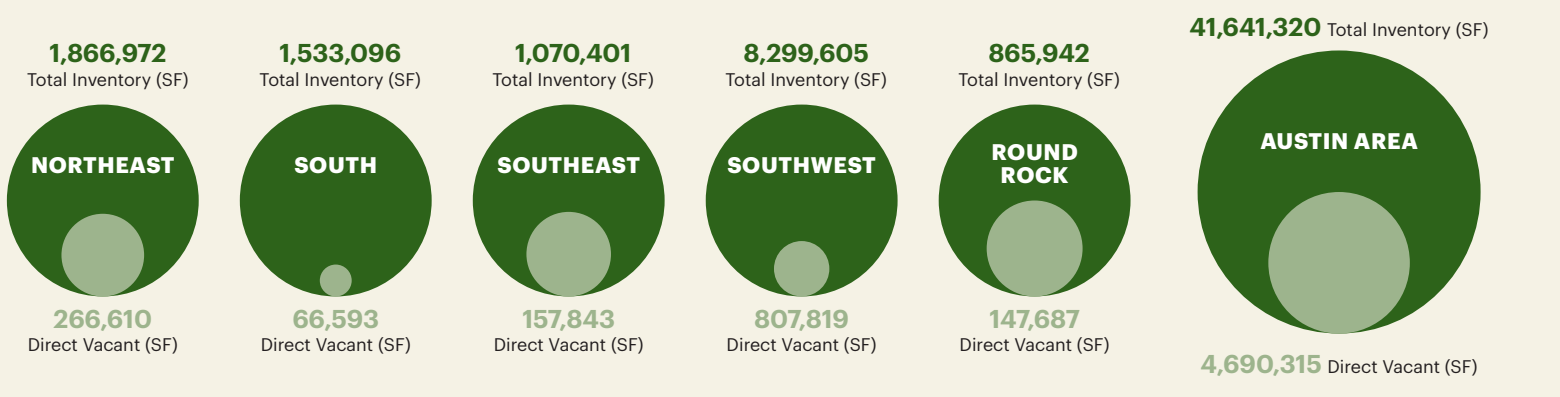
Meanwhile, more established companies such as uShip Inc., HomeAway Inc. (Nasdaq: AWAY), Mass Relevance Inc., Mutual Mobile Inc., Cirrus Logic Inc. (Nasdaq: CRUS) and Silicon Laboratories Inc. (Nasdaq: SLAB) continue to anchor the Central Business District. But it's definitely not for everyone.

Many technology companies simply can't afford the higher rents and downtown parking expense. The costs have cre-

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To see and share an interactive version of this map from The Tech Map Inc., go to: thetechmap.com/company/map



COVER STORY



Zilliant's office space is highlighted by wood, concrete and LED lighting. Want to check it out in detail? Visit our online slideshow here: bizj.us/syiu1

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ated a divide between the deep-pocketed companies and those that are not so lucky, said commercial real estate broker Ryan Bohls, a vice president of JLL.

The scarcity of such spaces has enabled building owners to call the shots and demand letters of credit, higher security deposits and larger lease requirements for prospective tenants.

As a result, some tech companies are being pushed out to Southwest or Northwest Austin where rents are 30 percent less and usually include free parking, he said.

The downtown office occupancy rate has now reached about 90 percent. As a result, prices for all classes of office space have risen dramatically.

Class B buildings – which in Austin usually entails a structure built in the 1970s or 1980s – enable tech executives to afford the costs while also enabling them to tailor such “eccentric spaces” to suit their tastes and set the tone and image, said Brian Butterfield, vice president of Oxford Commercial.

“Now tech companies walk in and say, ‘This is a gold mine,’” he said. “The experience of a company starts at the door.”

Of course, a downtown location doesn't guarantee success for any technology company. But it can be valuable to a company with a large number of young workers developing the latest cutting-edge products, Mass Relevance Inc. CEO Sam Decker said.

That company, founded in 2010, monitors and manages social media marketing campaigns for brands such as Target Corp. and Samsung Electronics America Inc. It moved in 2012 to a downtown location that enabled the company to avoid the conventional cubicle layout and create a space that's a blend of urban and earthy.

The company's Brazos Street headquarters now houses 152 of its 159 employees at a cost that's 20 percent to 30 percent higher than it would be at a location further out. The additional annual cost is equivalent to the cost of an extra one or two employees, Decker said.

“It's worth the premium as long as you know you can grow and it fits your culture and style,” he said.



Mass Relevance was highlighted in a recent ABJ article touting cool startup perks. From personal chefs to dog-friendly offices, see them all at: bizj.us/t23tx

► THE COOLEST SPACE OF THEM ALL?



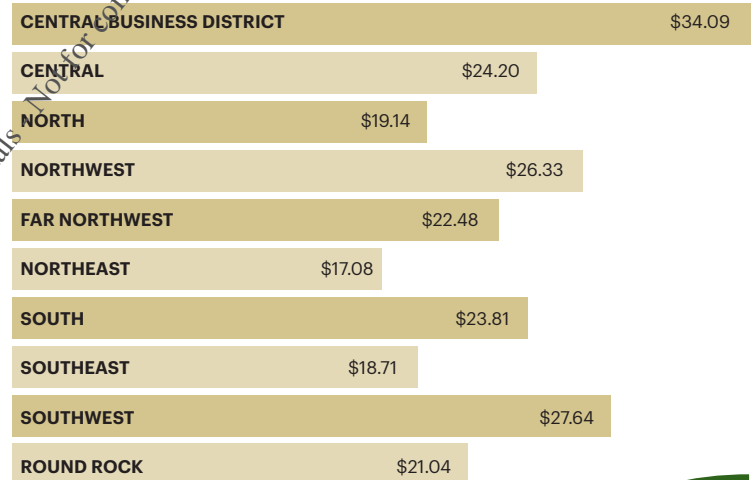
The redevelopment of the Seaholm Power Plant on the shore of Lady Bird Lake may yield the most alluring space for a tech company. Software maker Athenahealth Inc. is on the hook to occupy most of the structure. Office space for hundreds of people will be woven into a 1950s art-deco structure that was intended to only house huge boilers, tons of equipment and only a handful of industrial workers.

For more: bizj.us/udoch

► FOURTH QUARTER 2013

AVERAGE RENTAL RATES

The price for a square foot of office space is noticeably higher downtown. According to REOC Austin, corporate downtown dwellers pay twice as much for space as their counterparts in places such as Pflugerville, which is in the northeast submarket. Even just outside of downtown – in the central submarket – the rates are drastically lower.



VACANCY RATES

With only a few exceptions, the office submarkets in Central Texas are very tight.

