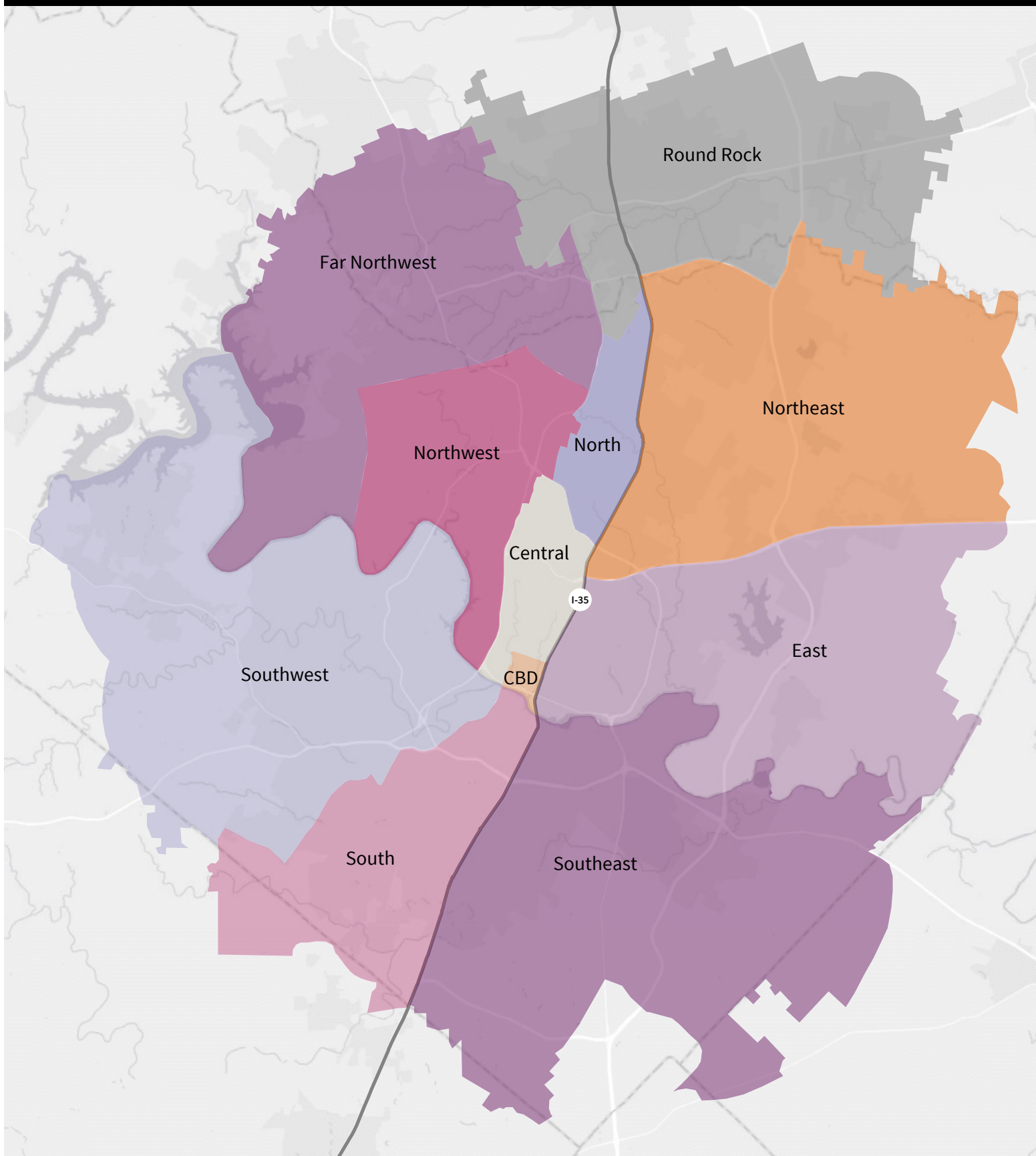


Austin



Office Report

Q2 2017



Q2 2017

Office Insight

Technology users continue to drive demand

- Austin has added over 1.2 million square feet of new office product so far this year, 77 percent of which was pre-leased upon completion
- Large available blocks tick up in the CBD and Southwest submarkets
- 60 percent of all tenants actively seeking space in the Austin market are targeting the CBD, Northwest and Southwest submarkets

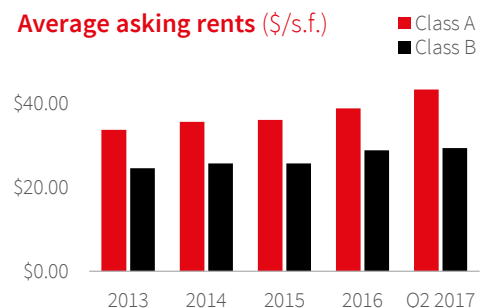
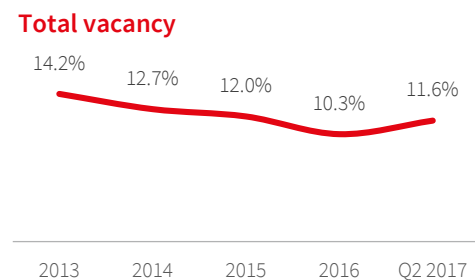
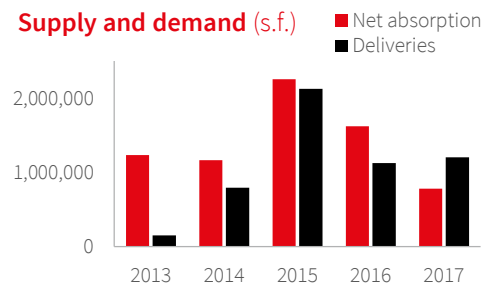
Uber and Lyft made their triumphant return, a major acquisition of Austin-based Whole Foods was announced and the city approved its first economic incentive agreement in years for Merck to build an IT facility. All in all, Austin had a good second quarter and it doesn't stop at the news headlines. More than 275,000 square feet delivered this quarter, all of which are on the south side of the market. These buildings are Yeti's build to suit project Lantana Ridge I & II (175,000 s.f. – Southwest), Galleria Oaks II (74,532 s.f. – Southwest) and 2301 E Riverside (29,205 s.f. – Southeast). There is still almost 1.9 million square feet under construction around the market, 32 percent of which has already been pre-leased.

Tenants in the market are still extremely active, with more than 12 million square feet of active requirements throughout the city. While a majority of this demand continues to focus on the CBD, Northwest and Southwest submarkets, many tenants have set their sights on smaller, secondary submarkets such as the East, South and North. These submarkets offer discounted asking rates and less competition for space while still being within close proximity to the urban core. Technology-related tenants are the most active, accounting for nearly one third of all active tenants in the market.

Outlook

Construction activity slowed slightly this quarter following a robust start during the first few months, but things are projected to pick back up during the second half of the year. There is nearly 1.5 million square feet between 10 projects that is planned to break ground by year end while more than 1.1 million square feet is projected to deliver throughout the remainder of this year. Though overall vacancy has increased since 2016, nearly 1 million square feet of pre-leased new construction is expected to be absorbed over the course of the next few quarters. This paired with high demand from tenants should keep the overall vacancy rate stable for the foreseeable future.

| Fundamentals | 12 Month Forecast |
|-----------------------------|-------------------|
| YTD net absorption | 743,118 s.f. ▲ |
| Under construction | 1,892,932 s.f. ▲ |
| Total vacancy | 11.6% ► |
| Average asking rent (gross) | \$37.34 p.s.f. ▲ |
| Concessions | Decreasing ▼ |



For more information, contact: Emily Hunt | emily.hunt@am.jll.com

Q2 2017

Office Statistics

| | Class | Inventory (s.f.) | Total net absorption (s.f.) | YTD total net absorption (s.f.) | YTD total net absorption (% of stock) | Direct vacancy (%) | Total vacancy (%) | Average direct asking rent (\$ p.s.f.) | YTD completions (s.f.) | Under construction (s.f.) |
|----------------|---------------|---------------------|-----------------------------------|---------------------------------------|---|-----------------------|----------------------|--|------------------------------|---------------------------------|
| Downtown | Totals | 9,893,298 | 136,302 | 35,976 | 0.4% | 10.0% | 11.4% | \$54.64 | 500,512 | 666,069 |
| CBD | Totals | 9,893,298 | 136,302 | 35,976 | 0.4% | 10.0% | 11.4% | \$54.64 | 500,512 | 666,069 |
| Central | Totals | 2,534,029 | 7,820 | 45,602 | 1.8% | 5.0% | 5.7% | \$34.90 | 0 | 0 |
| East | Totals | 892,408 | -5,898 | -6,004 | -0.7% | 31.8% | 31.8% | \$27.91 | 59,958 | 421,155 |
| Far Northwest | Totals | 4,443,616 | 37,938 | 115,233 | 2.6% | 7.3% | 8.4% | \$32.37 | 0 | 0 |
| North | Totals | 1,273,917 | -11,836 | -21,471 | -1.7% | 9.0% | 9.9% | \$24.57 | 0 | 0 |
| Northeast | Totals | 1,978,515 | -3,271 | 172,570 | 8.7% | 7.6% | 7.7% | \$22.51 | 0 | 0 |
| Northwest | Totals | 15,243,733 | 37,863 | 58,024 | 0.4% | 10.0% | 12.6% | \$34.17 | 291,000 | 554,818 |
| Round Rock | Totals | 989,620 | -6,581 | -2,951 | -0.3% | 8.1% | 8.6% | \$29.35 | 0 | 0 |
| South | Totals | 1,166,797 | 20,109 | -47,511 | -4.1% | 9.6% | 9.9% | \$28.89 | 0 | 115,100 |
| Southeast | Totals | 2,080,441 | 4,245 | 115,184 | 5.5% | 15.5% | 16.0% | \$26.19 | 29,205 | 0 |
| Southwest | Totals | 10,794,094 | 104,455 | 278,466 | 2.6% | 10.3% | 12.0% | \$38.43 | 324,064 | 135,790 |
| Suburbs | Totals | 41,397,170 | 184,844 | 707,142 | 1.7% | 10.0% | 11.7% | \$33.22 | 704,227 | 1,226,863 |
| Austin | Totals | 51,290,468 | 321,146 | 743,118 | 1.4% | 10.0% | 11.6% | \$37.34 | 1,204,739 | 1,892,932 |
| Downtown | A | 7,737,097 | 107,925 | 24,391 | 0.3% | 10.6% | 11.9% | \$56.29 | 500,512 | 666,069 |
| CBD | A | 7,737,097 | 107,925 | 24,391 | 0.3% | 10.6% | 11.9% | \$56.29 | 500,512 | 666,069 |
| Central | A | 825,174 | 1,150 | -1,463 | -0.2% | 4.9% | 5.4% | \$51.77 | 0 | 0 |
| East | A | 182,712 | 0 | -2,305 | -1.3% | 36.7% | 36.7% | \$42.00 | 37,198 | 174,444 |
| Far Northwest | A | 3,240,588 | 42,487 | 118,736 | 3.7% | 8.5% | 10.0% | \$33.15 | 0 | 0 |
| Northeast | A | 558,373 | -732 | 167,171 | 29.9% | 4.5% | 4.8% | \$24.88 | 0 | 0 |
| Northwest | A | 9,086,517 | 106,761 | 119,153 | 1.3% | 8.5% | 11.2% | \$38.07 | 291,000 | 554,818 |
| South | A | 284,951 | 0 | 0 | 0.0% | 1.4% | 1.4% | \$44.95 | 0 | 115,100 |
| Southeast | A | 265,260 | 2,231 | 4,839 | 1.8% | 32.3% | 35.2% | \$31.01 | 29,205 | 0 |
| Southwest | A | 7,860,145 | 95,753 | 262,490 | 3.3% | 10.7% | 12.7% | \$40.29 | 324,064 | 135,790 |
| Suburbs | A | 22,303,720 | 247,650 | 668,621 | 3.0% | 9.5% | 11.5% | \$38.27 | 681,467 | 980,152 |
| Austin | A | 30,040,817 | 355,575 | 693,012 | 2.3% | 9.7% | 11.6% | \$43.31 | 1,181,979 | 1,646,221 |
| Downtown | B | 2,156,201 | 28,377 | 11,585 | 0.5% | 7.8% | 9.4% | \$46.60 | 0 | 0 |
| CBD | B | 2,156,201 | 28,377 | 11,585 | 0.5% | 7.8% | 9.4% | \$46.60 | 0 | 0 |
| Central | B | 1,708,855 | 6,670 | 47,065 | 2.8% | 5.1% | 5.8% | \$27.07 | 0 | 0 |
| East | B | 709,696 | -5,898 | -3,699 | -0.5% | 30.6% | 30.6% | \$23.56 | 22,760 | 246,711 |
| Far Northwest | B | 1,203,028 | -4,549 | -3,503 | -0.3% | 3.9% | 4.3% | \$27.71 | 0 | 0 |
| North | B | 1,273,917 | -11,836 | -21,471 | -1.7% | 9.0% | 9.9% | \$24.57 | 0 | 0 |
| Northeast | B | 1,420,142 | -2,539 | 5,399 | 0.4% | 8.8% | 8.9% | \$22.03 | 0 | 0 |
| Northwest | B | 6,157,216 | -68,898 | -61,129 | -1.0% | 12.1% | 14.8% | \$30.14 | 0 | 0 |
| Round Rock | B | 989,620 | -6,581 | -2,951 | -0.3% | 8.1% | 8.6% | \$29.35 | 0 | 0 |
| South | B | 881,846 | 20,109 | -47,511 | -5.4% | 12.2% | 12.7% | \$28.31 | 0 | 0 |
| Southeast | B | 1,815,181 | 2,014 | 110,345 | 6.1% | 13.0% | 13.2% | \$24.45 | 0 | 0 |
| Southwest | B | 2,933,949 | 8,702 | 15,976 | 0.5% | 9.1% | 10.0% | \$32.62 | 0 | 0 |
| Suburbs | B | 19,093,450 | -62,806 | 38,521 | 0.2% | 10.6% | 11.8% | \$27.97 | 22,760 | 246,711 |
| Austin | B | 21,249,651 | -34,429 | 50,106 | 0.2% | 10.3% | 11.6% | \$29.39 | 22,760 | 246,711 |

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Austin Q2 2017

Submarket Overview

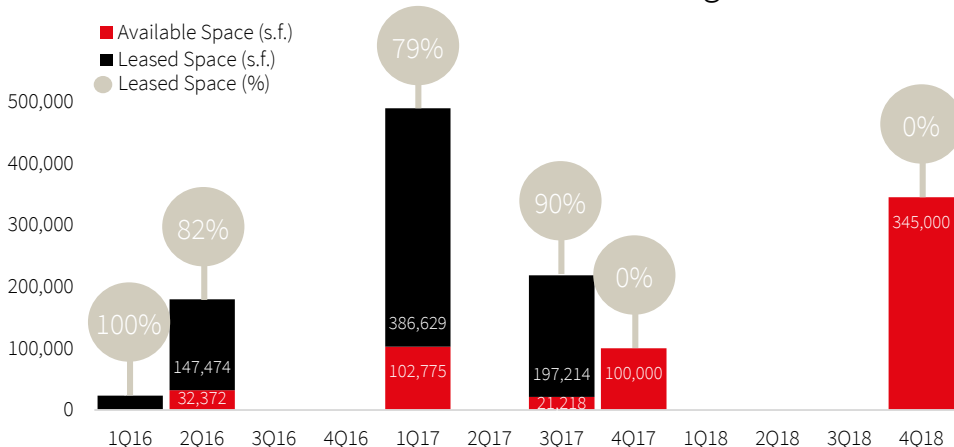
Quarter in review

- Downtown vacancy dipped back down to 11.4% this quarter after it jumped up to nearly 13% due to the newly delivered 500 West 2nd Street which added 500,000 square feet of vacant space last quarter. Class A vacancy decreased from 13.3% down to 11.9% this quarter and Class B vacancy dropped to 11.4% from 9.4%.
- While there is still a limited supply, the CBD added two new spaces to it's large vacant blocks this quarter bringing it up from four to six blocks total. Of these six blocks, five are between 25,000 and 50,000 square feet. This leaves very few options those 30+ tenants in the market who are targeting the CBD with requirements larger than 25,000 square feet.
- Asking rents have increased 8.6% year-over-year from \$50.31 to \$54.64. Class A rates saw an impressive 7.6% increase since this time last year going from \$52.30 to \$56.29 while Class B rates downtown jumped up 13.9% from last year reaching \$46.60 this quarter from \$40.91 in Q2 2016.

Construction review

- There were no building deliveries or new projects that broke ground this quarter in the CBD. Looking ahead, Shoal Creek Walk, which has already been more than 90% pre-leased by big tenants like Cirrus Logic and Vida Capital, is planned to deliver during the third quarter this year and the Westview renovation is expected to be completed in the fourth quarter. Third + Shoal, the third project currently under construction downtown, is still approximately a year away from delivering but already has several tenants interested in pre-leasing space.
- There are a few projects waiting to break ground later this year, as well. These projects are 405 Colorado (195,511 s.f.), 410 Uptown (240,000 s.f.) and 1400 Lavaca (145,000 s.f.), SXSW's new headquarters.

CBD New Construction Deliveries & Pre-Leasing



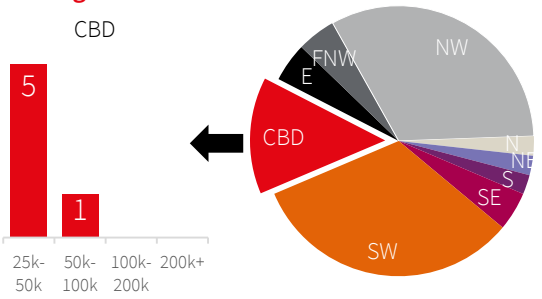
For more information, contact: Emily Hunt | emily.hunt@am.jll.com

Fundamentals

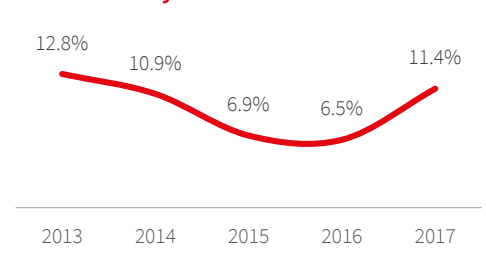
12 Month Forecast

| | |
|-----------------------------|------------------|
| Total inventory (s.f.) | 9,893,298 s.f. ▲ |
| Total vacancy | 11.4% ► |
| YTD net absorption | 35,976 s.f. ► |
| Under construction | 666,069 s.f. ▲ |
| Average asking rent (gross) | \$54.64 p.s.f. ► |
| 12-month rent growth | 8.6% ▲ |

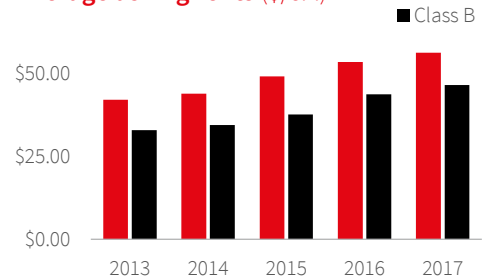
Large Vacant Blocks



Total vacancy



Average asking rents (\$/s.f.)



Austin Northwest & Far Northwest

Austin Q2 2017

Submarket Overview

Quarter in review

- Overall Northwest vacancy continued to increase slightly this quarter, rising from 12.3% last quarter to 12.6%, while vacancy in the Far Northwest dipped down from last quarter going from 9.2% to 8.4% in the second quarter.
- Large blocks remain fairly scarce in the Far Northwest submarket with only two total blocks greater than 25,000 square feet. The Northwest holds steady with 14 large blocks, half of which are less than 50,000 square feet. A new block larger than 100,000 square feet hit the Northwest submarket this quarter at Park Centre Building III.
- The Northwest continues to be the hottest submarket for investor sales in 2017. So far this year 50% of all major building sales have been Northwest averaging around \$255 per square foot for a total of nearly \$250 million in sales volume.

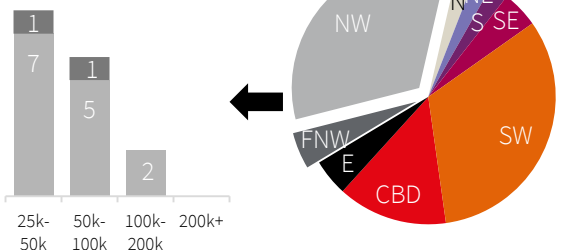
Construction review

- Pre-leasing is picking up in the projects currently under construction in the Northwest submarket. The Broadmoor 906 renovation is more than 50% leased now that IBM is taking two floors and New York Life has leased one floor. MoPac Centre got its first pre-lease commitment from Austin Capital Bank who will be occupying 10,000 square feet. Domain Tower does not have any space pre-leased yet but tenant interest is picking up and this building will likely be mostly spoken for by the time it delivers early next year.
- The Far Northwest submarket has two class A buildings, Four Points Center 3 (167,667 s.f.) and the Preserve at 620 (245,567 s.f.), that are both expected to break ground during the third quarter.

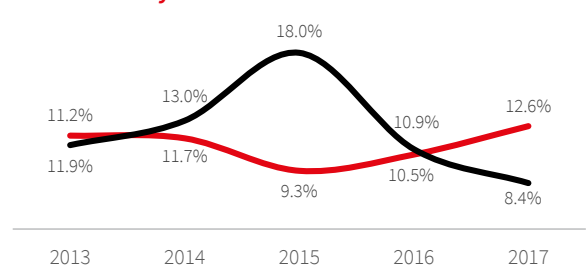
| Fundamentals | 12 Month Forecast | |
|-----------------------------|-------------------|------------------|
| | Northwest | Far Northwest |
| Total inventory (s.f.) | 15,243,733 s.f. ▲ | 4,443,616 s.f. ► |
| Total vacancy | 12.6% ► | 8.4% ► |
| YTD net absorption | 58,024 s.f. ▲ | 115,233 s.f. ► |
| Under construction | 554,818 s.f. ► | 0 s.f. ▲ |
| Average asking rent (gross) | \$34.17 p.s.f. ► | \$32.37 p.s.f. ► |
| 12-month rent growth | 2.5% ▲ | -2.5% ▲ |

Large Vacant Blocks

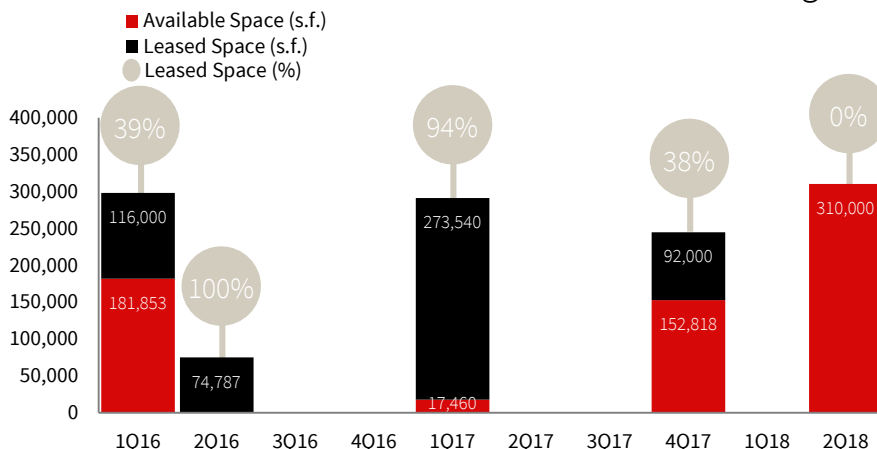
Northwest/Far Northwest



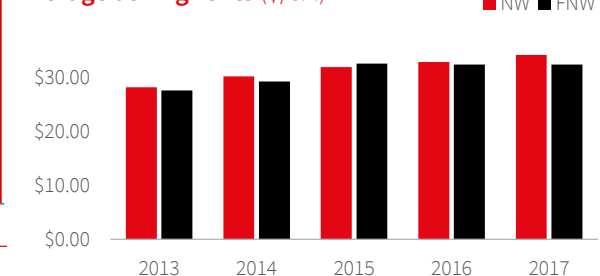
Total vacancy



NW & FNW New Construction Deliveries & Pre-Leasing



Average asking rents (\$/s.f.)



Austin Q2 2017

Submarket Overview

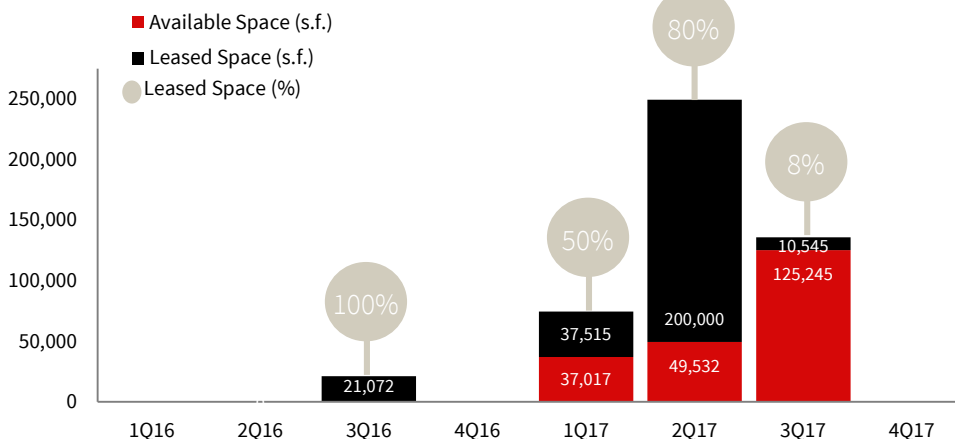
Quarter in review

- Average asking rental rates increased by 1.8% in the second quarter to \$38.43 from \$37.75 at the end of the first quarter in the Southwest submarket. Class A asking rents rose by 1.1% this quarter from \$39.86 to \$40.29 while Class B rates stayed the same, squeaking up by .3% to \$32.62 from \$32.52 last quarter.
- Overall vacancy increased slightly from 11.7% at the end of the first quarter to 12.0% during the second quarter of 2017.
- Tenant demand is strong with 55 active tenants in the market that are targeting the Southwest submarket looking for more than 1.6 million square feet of space. Of these tenants, 60% are looking for space under 25,000 square feet.
- The Southwest submarket saw an increase in the total number of large available blocks this quarter increasing from 12 to 14 blocks. The majority of these large blocks, 78%, fall between 25,000 and 50,000 square feet.

Construction review

- Two buildings delivered this quarter in the Southwest submarket. Galleria Oaks II (74,532 s.f.) delivered 33.5% pre-leased and Lantana Ridge I & II (175,000 s.f.) delivered 100% leased to Yeti.
- The Overlook at Barton Creek (53,901 s.f.), Walsh Tarlton (55,500 s.f.) and Southwest Crossing (27,199 s.f.) are still under construction and are all expected to be completed during the third quarter. After these three buildings deliver, there will be no new projects under construction in the Southwest submarket...until the next wave of projects, such as The Reserve at Oak Hill (38,448 s.f.), Rollingwood Center 3 (124,000 s.f.) and Seven Oaks 1 & 2 (178,000 s.f.), break ground.

SW New Construction Deliveries & Pre-Leasing



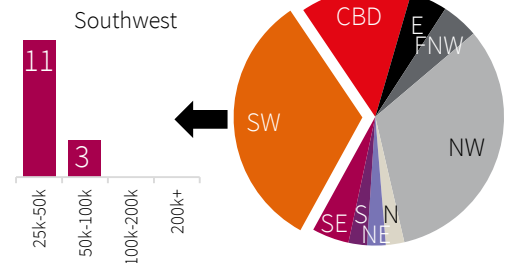
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Fundamentals

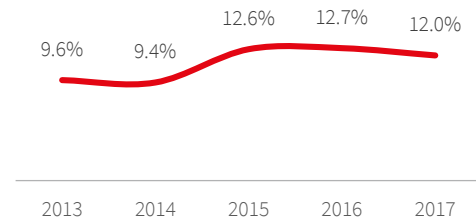
12 Month Forecast

| | |
|-----------------------------|-------------------|
| Total inventory (s.f.) | 10,794,094 s.f. ▲ |
| Total vacancy | 12.0% ► |
| YTD net absorption | 278,466 s.f. ▲ |
| Under construction | 135,790 s.f. ▲ |
| Average asking rent (gross) | \$38.43 p.s.f. ▲ |
| 12-month rent growth | 2.0% ▲ |

Large Vacant Blocks



Total vacancy



Average asking rents (\$/s.f.)

