

# Austin



*Office Insight & Observations*

*Q1 2017*

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## Office Insight

# More cranes on the horizon for Austin

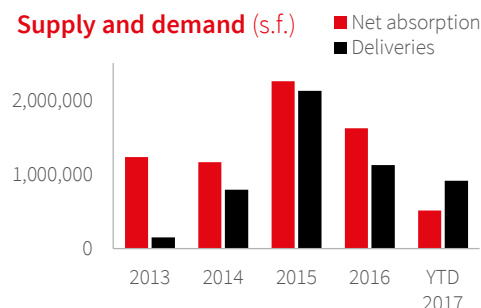
- Austin's population growth exceeded expectations in 2016 adding an estimated 58,000 residents bringing total population to over 2,050,000
- Annual job growth continues upward at a rate of 3.5% as Austin added 34,000 new jobs last year, making it the 5<sup>th</sup> fastest growing metro
- The unemployment rate has increased from 3.2% at the beginning of 2016 up to 3.4% as of January

As we kick off the new year, it seems there is no stopping Austin's recent momentum. Over 900 thousand square feet delivered during the first quarter as five buildings completed construction and two new projects broke ground bringing the total number of square feet under construction to nearly 2.1 million. The average asking rental rate continues to creep up, reaching \$37.61 at the start of 2017, an 11.5 percent year over year increase. Class A rates saw a 12.8 percent increase since last year from \$38.36 to \$43.25, while Class B went from \$27.04 to \$29.63, a 9.6 percent increase year over year. Overall vacancy ticked up to 11 percent due to this quarter's large construction delivery but should level out over the next few months since 80 percent of those construction deliveries have already been preleased. The submarkets with the lowest vacancy rates are Northeast (5.3 percent), Central (5.3 percent) and North (7.3 percent). Several large tenants moved into office space this quarter, such as Home Depot moving into their call center space Northeast (185,400 square feet), Centene filling in the remainder of their 220,000 square foot space Southeast (109,712 square feet) and Samsung expanding their current space Southwest (101,596 square feet), which helped with this quarter's positive net absorption of over 500,000 square feet. Investment sales were a little slower to take off this year but there has still been three notable buildings that have changed hands totaling almost \$280 million in office sales so far.

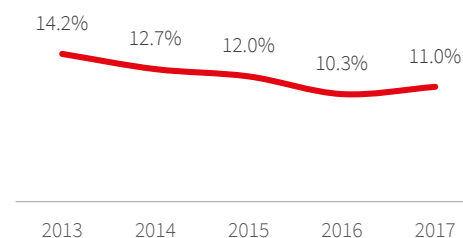
## Outlook

This quarter finally broke Austin's dropping vacancy streak largely in part due to the 900 thousand square feet of new construction that delivered vacant. As tenants begin move in to the new construction space, vacancy could dip back down again but the remaining 1.3 million square feet of new construction projected to deliver throughout the remainder of the year is only 37 percent preleased at this time.

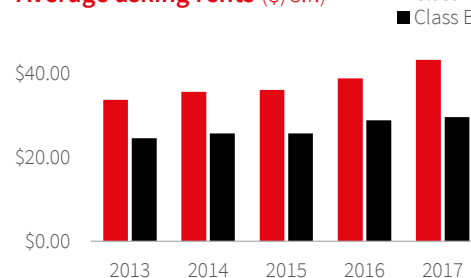
Fundamentals	12 Month Forecast
YTD net absorption	514,005 s.f. ▲
Under construction	2,046,321 s.f. ▲
Total vacancy	11.0% ►
Average asking rent (gross)	\$37.61 p.s.f. ▲
Concessions	Stable ►



## Total vacancy



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



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# Office Observations

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1

*Over 900 thousand square feet delivered this quarter, accounting for nearly half of all projected deliveries for the whole year*

- 5 buildings delivered this quarter: 500 West 2nd Street (CBD – 489,404 SF), Domain 8 (NW – 291,000 SF), Galleria Oaks I (SW – 74,532 SF), Diamond Building at Mueller (E – 37,198 SF) and The Station on Manor (E – 22,760 SF)
- 2 buildings broke ground this quarter: 901 E 6th (E – 129,444 SF) and Mirabeau (S – 24,600 SF)

2

*There is no shortage of tenants actively looking for space in the Austin market*

- 81 percent of the 245 tenants in the market are looking for space that is 50,000 square feet or smaller making up 3.3 million of the total 8.9 million square feet in demand by all tenants in the market
- The Northwest, Southwest and CBD submarkets continue to have the highest demand; 73 percent of all tenants have at least one of these submarkets listed as a target market

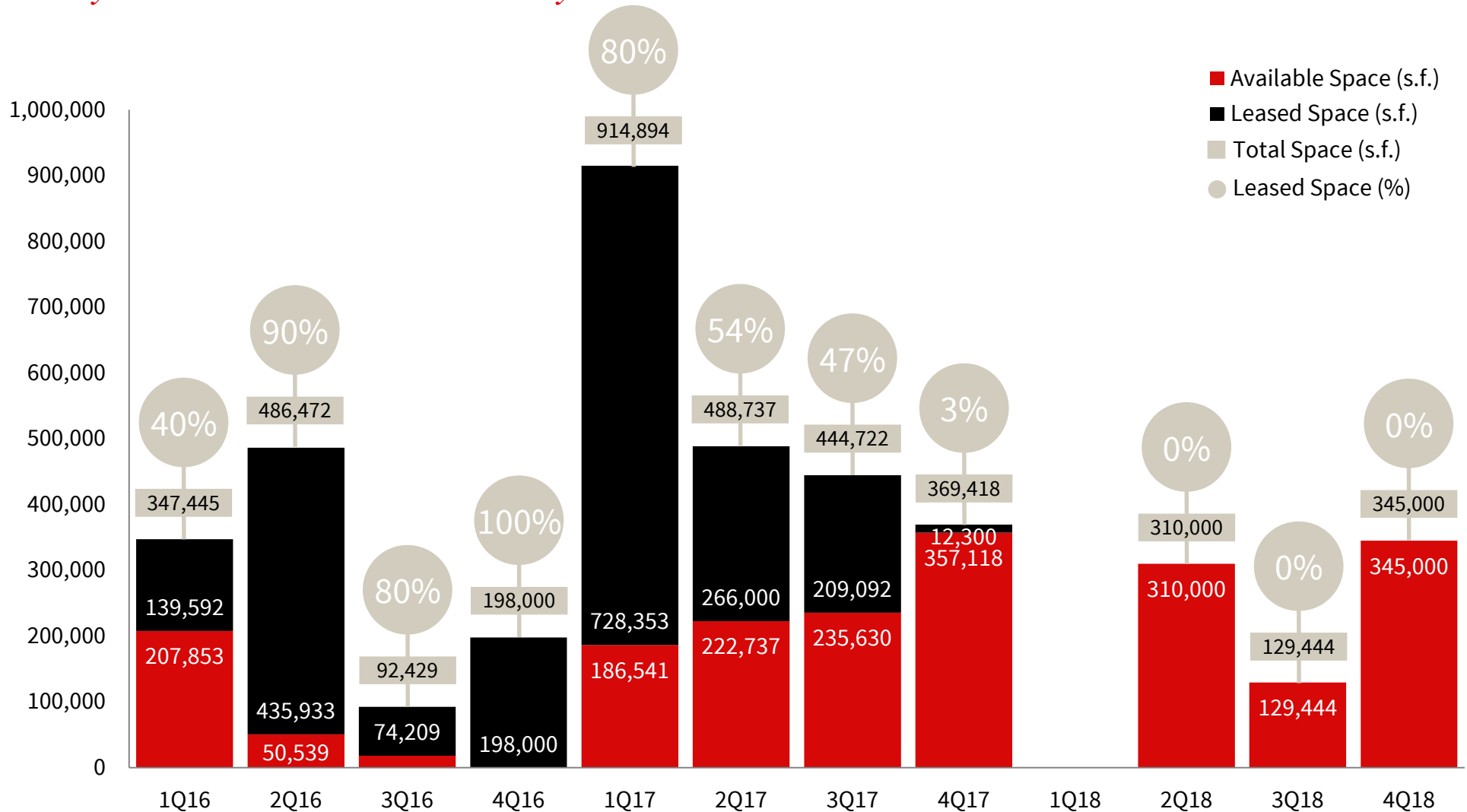
3

*The difference between downtown and suburban rental rates continues to grow*

- On average tenants are paying more than a \$20.00 rent premium for downtown office space over suburban space
- The difference between downtown and suburban rates has grown 97 percent over the past 5 years

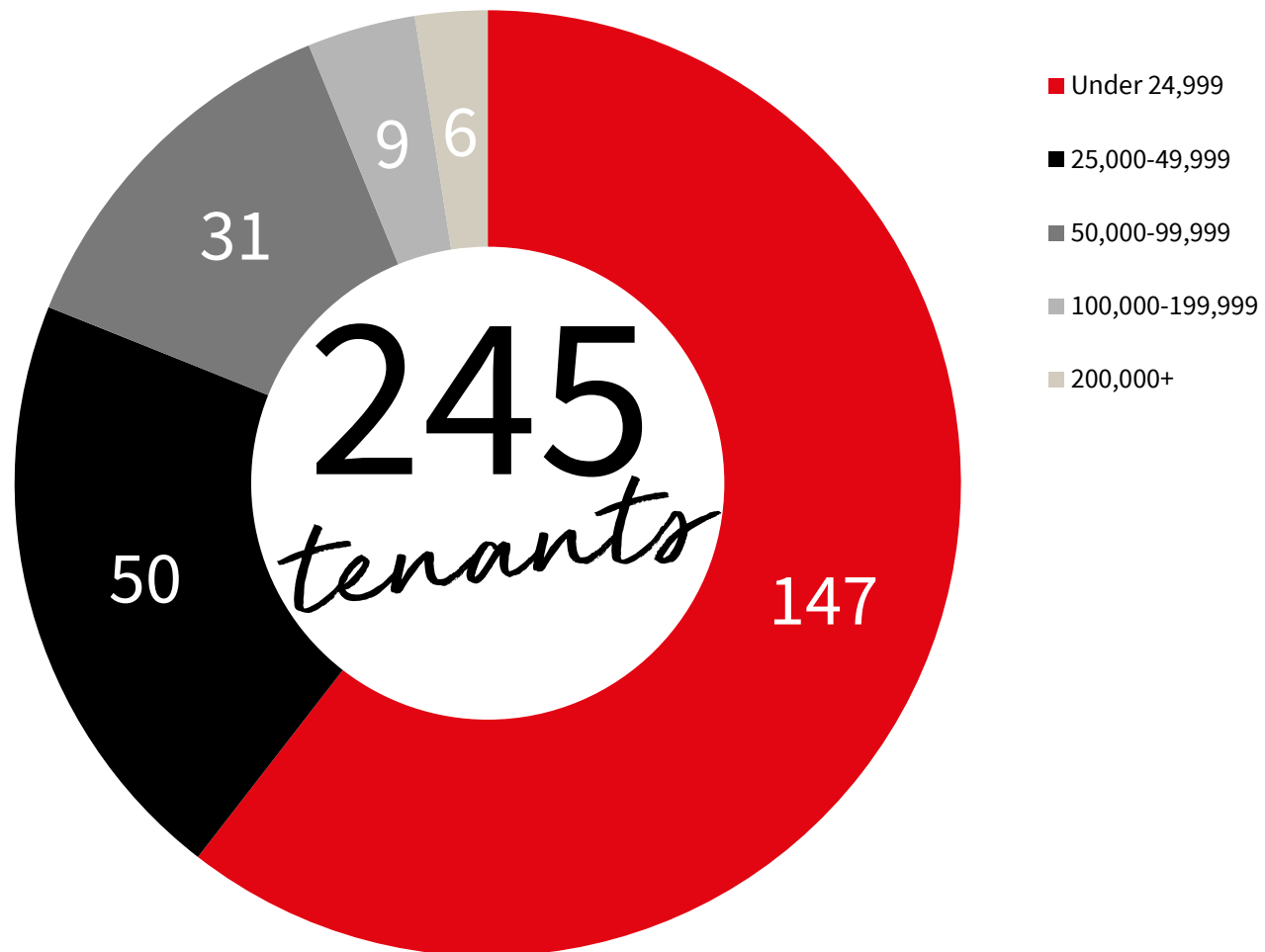
# Austin Development Pipeline and Preleasing

*Austin is projected to deliver over 2.2 million square feet of new construction in 2017, nearly double what delivered last year*



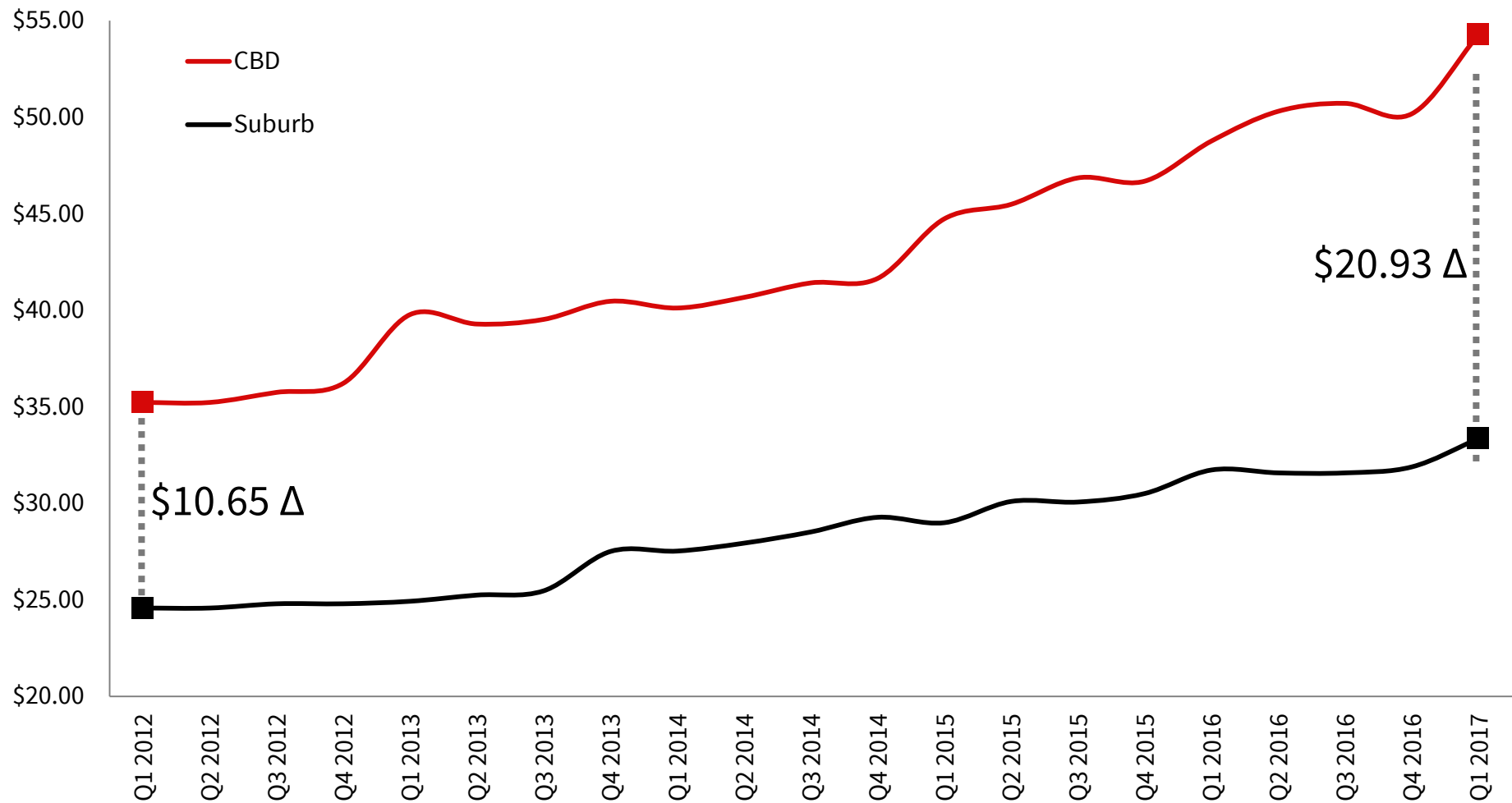
# Active Tenants in the Market by Size Requirement

*There are currently 245 active tenants in the market looking for over 8.9 million square feet of office space, a majority of which are looking for smaller space*



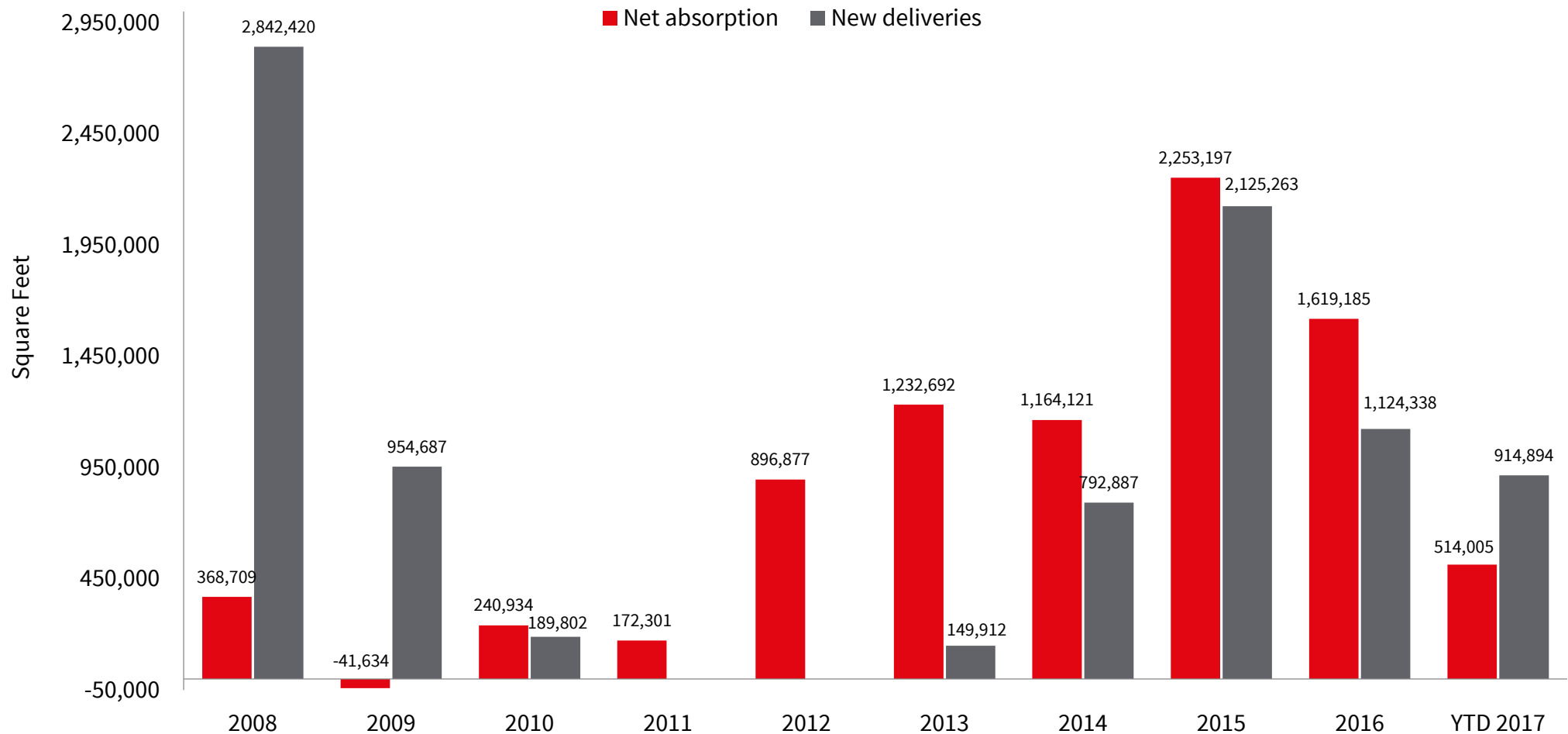
# Average Asking Rates CBD vs Suburban

*The difference between CBD and Suburban asking rates has nearly doubled in 5 years*



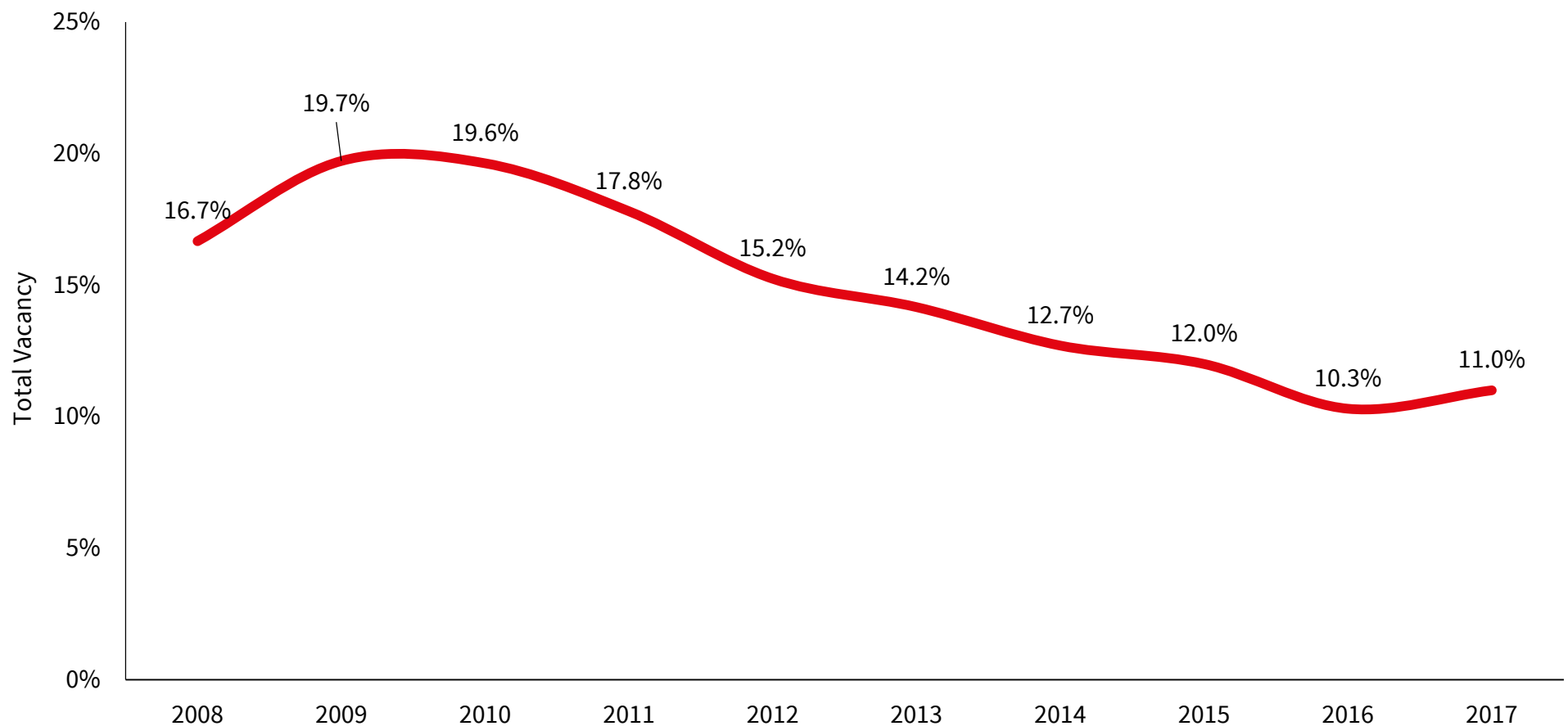
# Net Absorption and New Deliveries

*2017 kicked off with robust net absorption*



# Total Vacancy

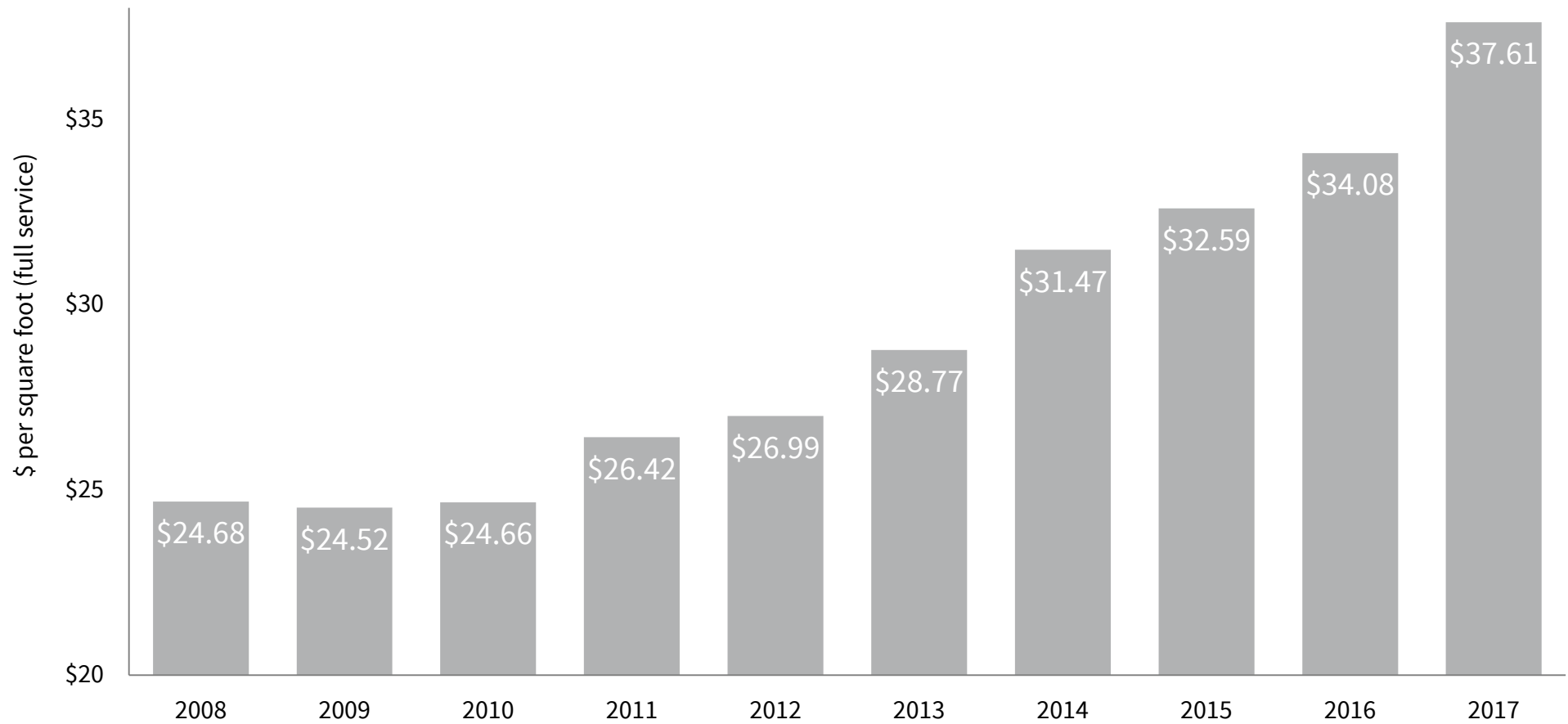
*Office vacancy increases due to construction deliveries in the first quarter*





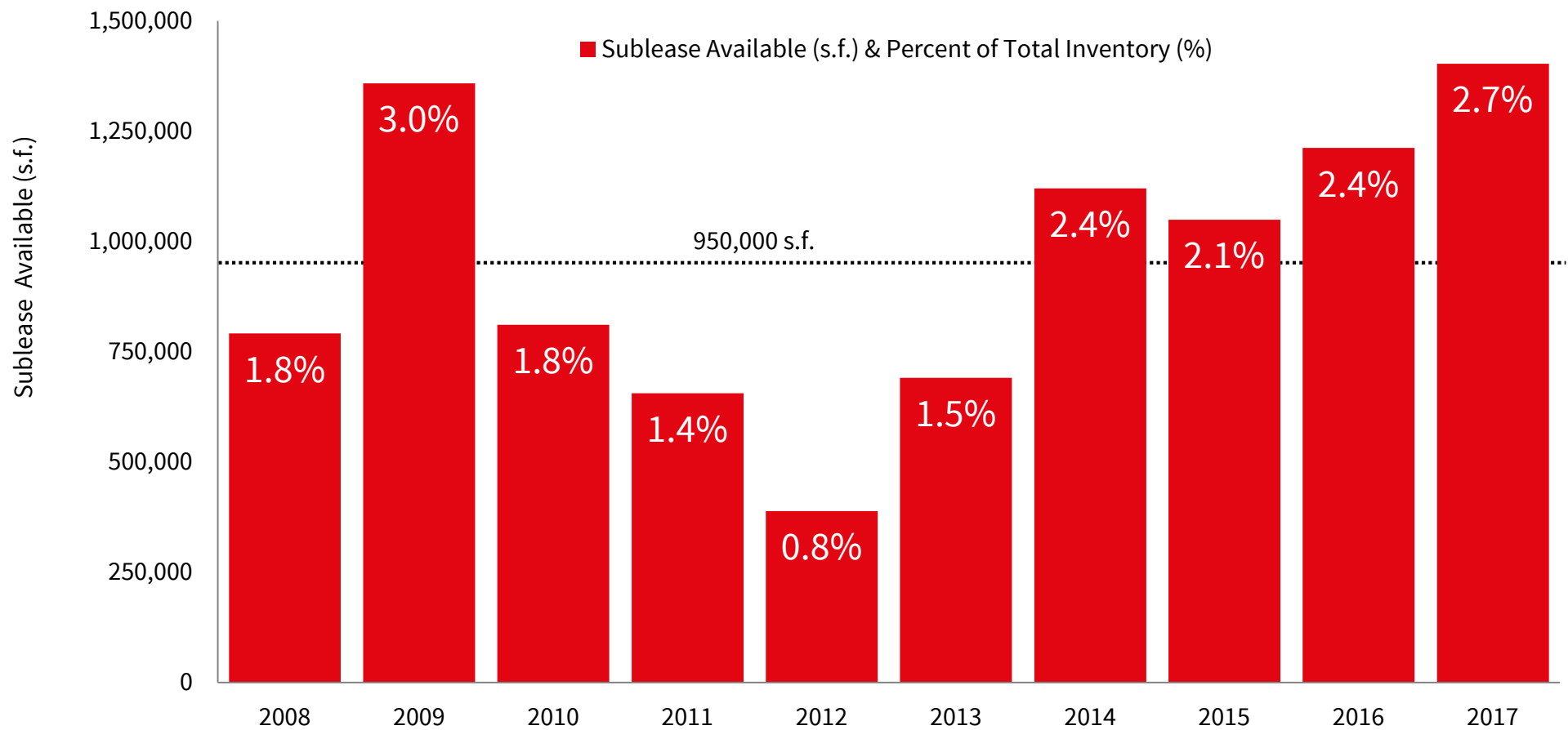
# Direct Average Asking Rents

*Austin's overall asking rate is on a steady incline, increasing over 10 percent since last quarter*



# Sublease Space

*Total available sublease space on the market still sits above the long-term average of 950,000 square feet*



Q1 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	23,704	23,704	0.2%	10.2%	11.0%	\$54.29	489,404	663,432
<b>CBD</b>	<b>Totals</b>	<b>9,893,298</b>	<b>23,704</b>	<b>23,704</b>	<b>0.2%</b>	<b>10.2%</b>	<b>11.0%</b>	<b>\$54.29</b>	<b>489,404</b>	<b>663,432</b>
Central	Totals	2,534,029	40,026	40,026	1.6%	4.5%	5.3%	\$35.05	0	0
East	Totals	892,408	-106	-106	0.0%	31.2%	31.2%	\$27.82	59,958	294,444
Far Northwest	Totals	4,443,616	147,680	147,680	3.3%	7.3%	7.6%	\$32.41	0	0
North	Totals	1,273,917	208	208	0.0%	7.3%	7.3%	\$24.71	0	0
Northeast	Totals	1,978,515	16,092	16,092	0.8%	5.1%	5.3%	\$21.90	0	0
Northwest	Totals	15,243,733	-8,840	-8,840	-0.1%	10.5%	12.3%	\$34.85	291,000	558,818
Round Rock	Totals	989,620	30,174	30,174	3.0%	6.7%	7.9%	\$29.95	0	0
South	Totals	1,166,797	-68,007	-68,007	-5.8%	11.6%	11.7%	\$29.50	0	115,100
Southeast	Totals	2,051,236	114,004	114,004	5.6%	13.9%	14.4%	\$25.08	0	29,205
Southwest	Totals	10,544,562	219,070	219,070	2.1%	9.2%	11.2%	\$37.82	74,532	385,322
<b>Suburbs</b>	<b>Totals</b>	<b>41,118,433</b>	<b>490,301</b>	<b>490,301</b>	<b>1.2%</b>	<b>9.7%</b>	<b>11.0%</b>	<b>\$33.36</b>	<b>425,490</b>	<b>1,382,889</b>
<b>Austin</b>	<b>Totals</b>	<b>51,011,731</b>	<b>514,005</b>	<b>514,005</b>	<b>1.0%</b>	<b>9.8%</b>	<b>11.0%</b>	<b>\$37.61</b>	<b>914,894</b>	<b>2,046,321</b>
Downtown	A	7,737,097	16,707	16,707	0.2%	10.8%	11.5%	\$56.25	489,404	663,432
<b>CBD</b>	<b>A</b>	<b>7,737,097</b>	<b>16,707</b>	<b>16,707</b>	<b>0.2%</b>	<b>10.8%</b>	<b>11.5%</b>	<b>\$56.25</b>	<b>489,404</b>	<b>663,432</b>
Central	A	825,174	-369	-369	0.0%	4.8%	5.3%	\$47.10	0	0
East	A	182,712	-2,305	-2,305	-1.3%	36.7%	36.7%	\$38.82	37,198	129,444
Far Northwest	A	3,240,588	146,406	146,406	4.5%	8.8%	9.1%	\$33.04	0	0
Northeast	A	558,373	2,638	2,638	0.5%	0.9%	1.2%	\$24.43	0	0
Northwest	A	9,086,517	-68,604	-68,604	-0.8%	10.3%	12.0%	\$38.21	291,000	558,818
South	A	284,951	0	0	0.0%	1.4%	1.4%	\$36.90	0	115,100
Southeast	A	236,055	7,705	7,705	3.3%	18.9%	22.2%	\$30.00	0	29,205
Southwest	A	7,610,613	199,147	199,147	2.6%	9.2%	11.8%	\$39.86	74,532	385,322
<b>Suburbs</b>	<b>A</b>	<b>22,024,983</b>	<b>284,618</b>	<b>284,618</b>	<b>1.3%</b>	<b>9.5%</b>	<b>11.2%</b>	<b>\$38.03</b>	<b>402,730</b>	<b>1,217,889</b>
<b>Austin</b>	<b>A</b>	<b>29,762,080</b>	<b>301,325</b>	<b>301,325</b>	<b>1.0%</b>	<b>9.8%</b>	<b>11.3%</b>	<b>\$43.25</b>	<b>892,134</b>	<b>1,881,321</b>
Downtown	B	2,156,201	6,997	6,997	0.3%	8.1%	9.4%	\$44.89	0	0
<b>CBD</b>	<b>B</b>	<b>2,156,201</b>	<b>6,997</b>	<b>6,997</b>	<b>0.3%</b>	<b>8.1%</b>	<b>9.4%</b>	<b>\$44.89</b>	<b>0</b>	<b>0</b>
Central	B	1,708,855	40,395	40,395	2.4%	4.4%	5.3%	\$28.69	0	0
East	B	709,696	2,199	2,199	0.3%	29.8%	29.8%	\$24.32	22,760	165,000
Far Northwest	B	1,203,028	1,274	1,274	0.1%	3.1%	3.5%	\$27.54	0	0
North	B	1,273,917	208	208	0.0%	7.3%	7.3%	\$24.71	0	0
Northeast	B	1,420,142	13,454	13,454	0.9%	6.8%	6.9%	\$21.76	0	0
Northwest	B	6,157,216	59,764	59,764	1.0%	10.9%	12.6%	\$30.18	0	0
Round Rock	B	989,620	30,174	30,174	3.0%	6.7%	7.9%	\$29.95	0	0
South	B	881,846	-68,007	-68,007	-7.7%	15.0%	15.0%	\$29.28	0	0
Southeast	B	1,815,181	106,299	106,299	5.9%	13.2%	13.4%	\$24.16	0	0
Southwest	B	2,933,949	19,923	19,923	0.7%	9.2%	9.6%	\$32.55	0	0
<b>Suburbs</b>	<b>B</b>	<b>19,093,450</b>	<b>205,683</b>	<b>205,683</b>	<b>1.1%</b>	<b>9.9%</b>	<b>10.7%</b>	<b>\$28.22</b>	<b>22,760</b>	<b>165,000</b>
<b>Austin</b>	<b>B</b>	<b>21,249,651</b>	<b>212,680</b>	<b>212,680</b>	<b>1.0%</b>	<b>9.7%</b>	<b>10.6%</b>	<b>\$29.63</b>	<b>22,760</b>	<b>165,000</b>

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