Austin

Office Market Report
Second Quarter 2018

Pre-leasing rates transforming downtown Austin's skyline

Austin's rapid job growth was a key determinant of the city's office market's success during the second quarter of 2018. Job growth was 3.4 percent in the twelve months ending in June 2018, making Austin the second fastest growing major metro. Professional and business services added the most jobs within that time frame, translating to sustained growth in Austin's office-using employment base. As a result, demand for office product in the Austin market persisted through the second quarter.

While base rents showed signs of slowing their rapid growth during the second quarter of 2018, overall gross rents reached record highs, thanks to rising property valuations and the corresponding impact these valuations have on taxes and operating expenses. Class A product continues to experience the greatest increase in operating expenses, at roughly $2.40 psf higher than that of mid-year 2017. These spikes are indicative of the upward pressure occupier demand places on building valuations.

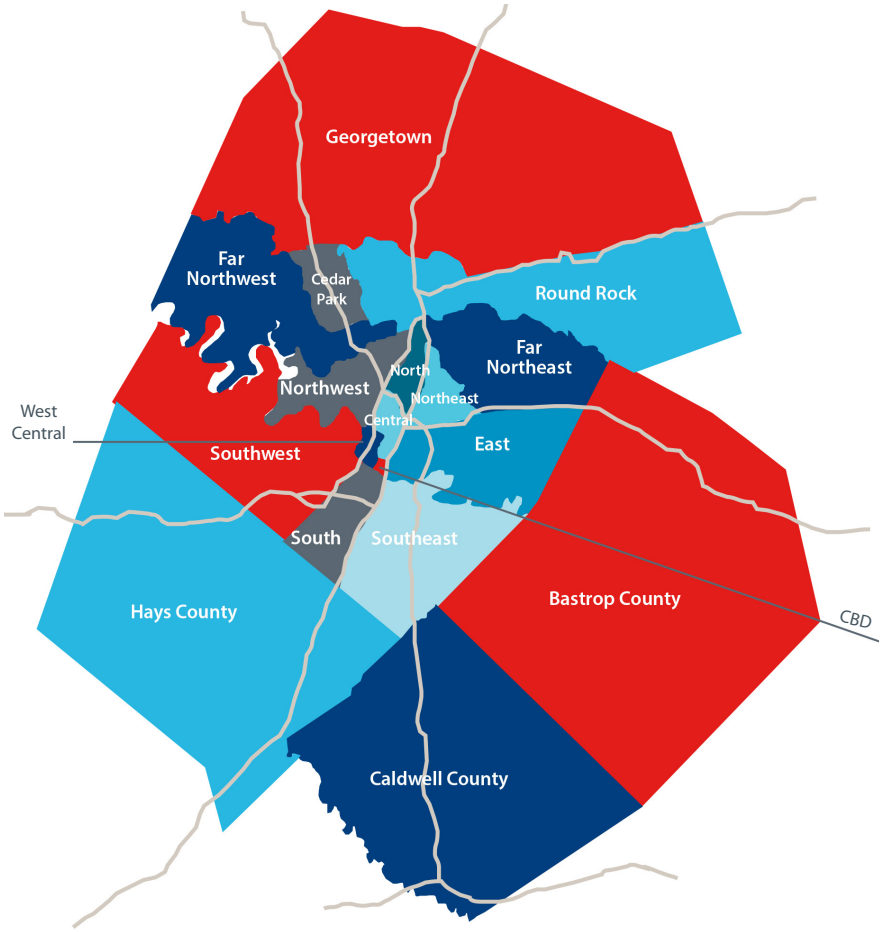
Several large-scale leases signed during the first 180 days of 2018 - such as Indeed's expansion of 307,771 sf at Block 71 and Parsley Energy's 309,000 sf build-to-suit project - signal major changes in the landscape of downtown Austin's tenant base. The lack of big blocks of space in Austin's CBD have incentivized large tenants to partner with developers on custom projects or pre-lease much of the available space. Of the nearly four million sf of under construction office product in the Austin market, approximately 54 percent was pre-leased by the close of the second quarter. As developers achieve record levels of pre-leasing necessary to kick off construction, downtown Austin's skyline will undergo a transformation while higher-than-average pre-leasing rates in Austin's suburban submarkets hint that speculative projects are experiencing success in less competitive submarkets.

Net absorption and vacancy are two key market indicators to watch during the second half of 2018. Six of the eleven submarkets experienced negative absorption from April to June, precipitating a negative market-wide absorption rate for the second quarter. Market-wide vacancy rose to 10.2 percent, largely in part to the nearly-300,000 sf of new product that delivered to the market over the second quarter.

Assuming persistent employment growth and the continued presence of developers in the Austin market, construction cranes will populate Austin's skyline and propel the market through year-end 2018.

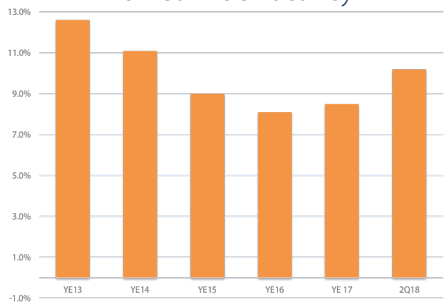
**Avison Young tracks non-owner occupied, non-government/medical owned office buildings 20,000 sf and above.*

Submarket View

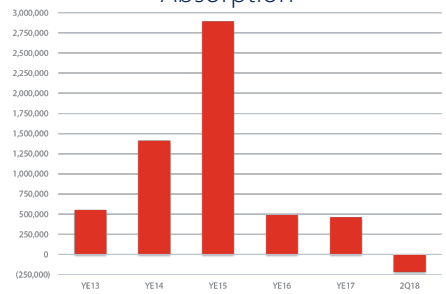


Average Gross Rent

Market-wide Vacancy



Absorption



Market By The Numbers - 2Q18

Submarket	RSF Under Construction	RSF Proposed	RSF Existing	Availability (SF)	Vacant Available (SF)	Vacancy (%)	2Q18 Net Absorption (SF)			Average NNN Rent	Average Opex	Leasing Activity (SF)	2Q18 Deliveries (SF)
							Direct	Sublet	Total				
CBD	1,152,072	2,521,178	10,616,597	1,425,146	940,991	8.86%	(110,373)	19,888	(90,485)	$35.24	$20.95	247,231	0
Central/W Central	0	0	3,041,734	461,221	185,838	6.11%	47,034	11,417	58,451	$23.90	$11.97	41,911	0
East	1,269,180	2,418,028	1,409,956	676,777	331,303	23.50%	17,144	0	17,144	$33.04	$12.13	121,010	64,000
Far NW	226,329	368,700	3,919,522	1,046,445	267,897	6.83%	(7,193)	(2,757)	(9,950)	$23.04	$12.04	80,747	0
North/Domain	985,964	1,194,164	5,868,317	995,589	377,978	6.44%	7,317	(11,831)	(4,514)	$25.69	$12.62	343,264	0
Northeast	204,400	86,300	2,632,729	566,688	449,492	17.07%	(514)	(67,525)	(68,039)	$20.45	$6.97	35,711	0
Northwest	0	50,914	13,977,876	2,101,096	1,292,485	9.25%	(109,393)	46,200	(63,193)	$23.89	$12.71	254,027	0
Round Rock	60,000	0	1,363,268	201,012	131,980	9.68%	2,829	0	2,829	$23.26	$10.68	13,911	95,000
South	0	155,020	1,930,685	321,302	167,171	8.66%	28,944	(7,268)	21,676	$28.70	$12.32	17,459	0
Southeast	0	71,225	2,205,631	657,523	576,983	26.16%	(114,795)	0	(114,795)	$22.83	$9.25	210,178	0
Southwest	128,000	1,158,293	10,133,964	2,654,265	1,101,266	10.87%	30,786	178	30,964	$26.83	$13.87	274,395	135,550
Total	**4,114,803**	**9,297,420**	**57,100,279**	**11,107,064**	**5,823,384**	**10.20%**	**(208,214)**	**(11,698)**	**(219,912)**	**$26.58**	**$13.36**	**1,639,844**	**294,550**

AVISON YOUNG
Intelligent Real Estate Solutions

avisonyoung.com

For more information, please contact:

Avison Young Research
512.474.2411
austin.research@avisonyoung.com

Office Location
515 Congress Ave, Ste 1500
Austin, TX 78701

Austin

Office Market Report
Fourth Quarter 2017

Stable growth key highlight of 2017

Consistency was the theme of the Austin office market during 2017. With market indicators such as absorption, leasing activity and asking rates holding steady through the fourth quarter of 2017, the Austin office market is well positioned for a healthy start to 2018.

Office space continues to be absorbed by the market, whereby total net absorption for the year across all classes and submarkets was positive. Class A product is largely responsible for positive absorption levels, with a YTD total at the close of the fourth quarter of 834,446 sf. Leasing activity registered 4.6 msf by the close of 2017, of which 1.45 msf took place during the fourth quarter. Otherwise known as Austin's core submarkets, the Southwest, Northwest and CBD continue to tout the swiftest leasing velocities in the market, generating approximately 3.12 msf of the annual total.

Deliveries for 2017 measured 1.25 msf by the close of the fourth quarter, a figure roughly 500,000 sf above that of 2016. Notable projects completed during 2017 include 500 W 2nd and Shoal Creek Walk, which are both in Austin's CBD submarket. Not only are their tenant rosters impressive, but these projects indicate the push westward, away from the downtown core. Considering significant transactions such as Parsley Energy's pre-leasing of the 302,000 sf 300 Colorado project in Austin's CBD, it's no surprise developers have maintainted their presence in the Austin market.

While average asking rates have entered new territory as a result of high demand, gross asking rates will be something to watch in 2018 as new operating expense figures are introduced. If the past is any indication of what's to come, gross asking rates will simultaneously be impacted by rising operating expenses and climbing base rates.

Competition for space in the CBD remains, despite the lack of available large blocks of space, high rental rates, and the growing challenge of parking. As previously reported, the East submarket has seen the greatest increase in overall activity as the overflow and outright relocation of tenants from Austin's CBD holds firm. Accordingly, projects requiring preleasing have seen the most success in Austin's East submarket. While attractive rents continue to entice tenants to the Southwest and Northwest submarkets, development restrictions have hindered new construction and overall volume, generating an existing market that's friendly to small to medium sized tenants but less welcoming of larger users.

Looking into 2018, Austin's office tenants should expect to see a continued yet moderate rise in rental rates as the immediate supply of new and existing Class A office space remains scarce. Though 2.21 msf of new product was under construction in the Austin market by the end of 2017, pre-leasing activity, especially in the metro's most influential submarkets, is expected to limit the impact the delivery of this product would otherwise have on overall market health.

Avison Young tracks non-owner occupied, non-government/medical owned office buildings 20,000 sf and above.

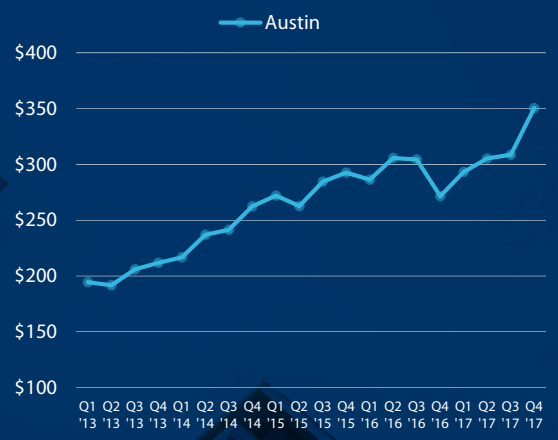
Office Investment Sales

$350
Average sale price per sf during 4Q17

$372M
Total office sales volume during 4Q17

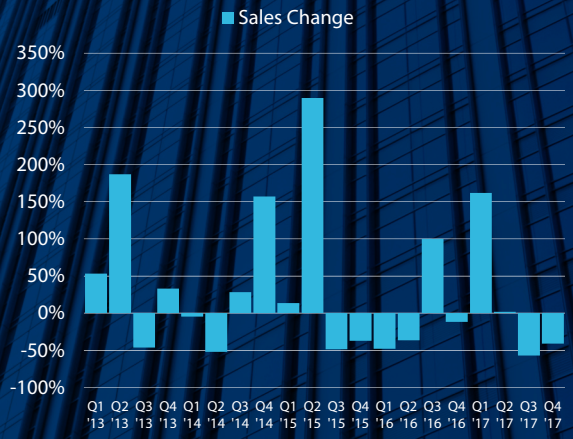
-40.9%
Decrease in total sales between 4Q16 & 4Q17

Average Sale Price ($/sf)



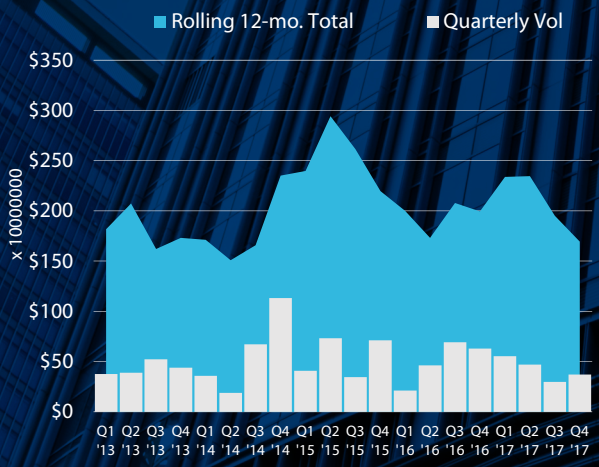
Change in Sales (Y.O.Y)

(% change in total sales volume over 12 month period)



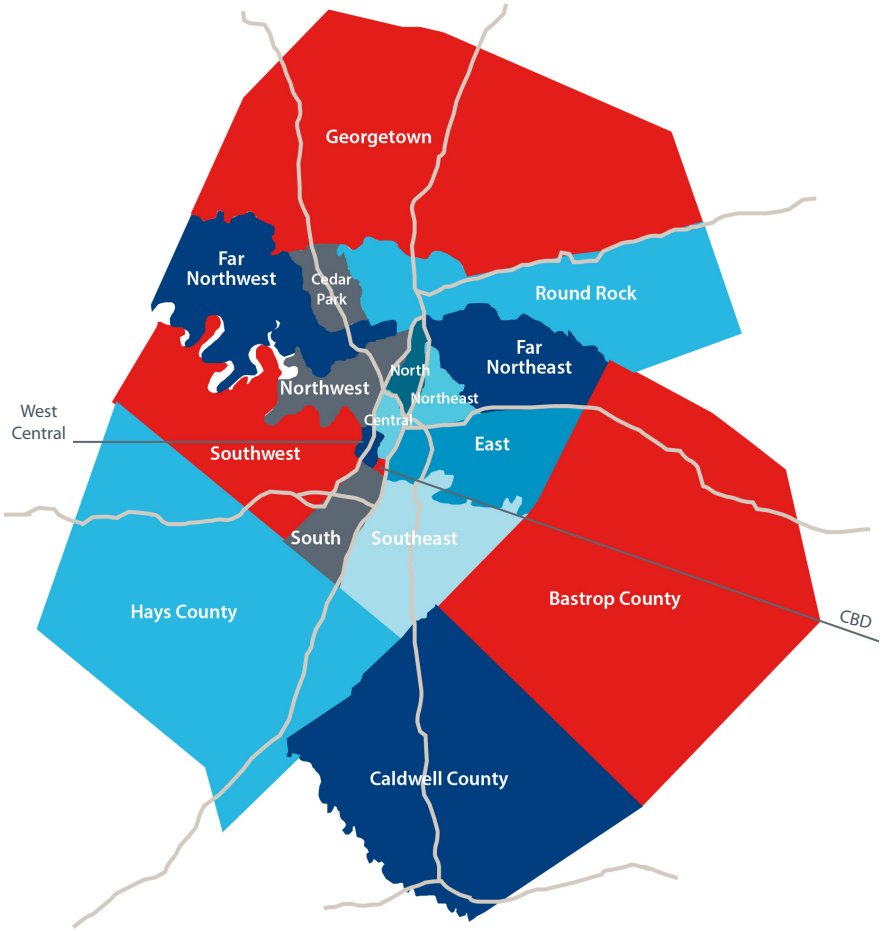
Sales Volume

(Total volume of sales in $)



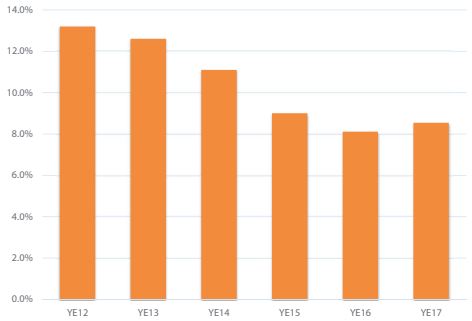
Information above obtained from Real Capital Analytics

Submarket View

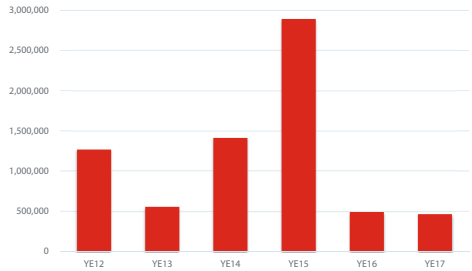


Class A Average Gross Rent

Vacancy



Absorption



Market By The Numbers

Submarket	Inventory (RBA)			Total Available SF	Total Vacant Available SF	Vacancy (%)	2017 Absorption			Average NNN Asking Rate	Average Gross Asking Rate	2017 Total Leasing Activity (SF)	2017 Total Deliveries (SF)
	Under Construction	Proposed	Existing				Direct Absorption	Sublet Absorption	Total Absorption				
CBD	347,072	309,000	10,441,531	1,493,722	833,610	7.98%	95,572	(71,848)	23,724	$34.99	$54.36	970,775	719,143
Central/W Central	95,863	0	3,123,039	469,230	192,699	6.17%	16,107	(7,172)	8,935	$22.50	$33.54	270,288	0
East	552,522	100,000	1,599,072	730,055	269,742	16.87%	(116,440)	0	(116,440)	$31.42	$44.59	62,272	57,761
Far NW	220,000	321,200	3,792,294	908,801	237,603	6.27%	(92,264)	14,697	(77,567)	$21.98	$32.98	158,859	0
North/Domain	309,883	80,000	5,662,328	868,772	315,469	5.57%	314,909	13,459	328,368	$27.02	$39.54	486,050	291,058
Northeast	242,257	0	2,632,729	459,968	345,061	13.11%	3,724	(20,226)	(16,502)	$20.40	$24.17	229,797	0
Northwest	0	50,914	12,910,718	2,092,433	1,239,366	9.60%	(34,097)	(16,825)	(50,922)	$23.82	$36.96	995,795	0
Round Rock	90,500	142,000	1,210,619	205,738	41,537	3.43%	8,394	2,743	11,137	$23.86	$33.07	62,745	0
South	0	115,200	2,058,075	314,768	70,554	3.43%	50,621	10,955	61,576	$31.40	$41.40	188,105	0
Southeast	195,718	910,367	1,230,524	184,549	165,544	13.45%	58,446	2,528	60,974	$18.17	$26.72	48,794	145,796
Southwest	154,476	0	10,001,012	2,582,043	957,249	9.57%	283,376	(53,840)	229,536	$27.71	$41.21	1,156,853	0
Total	**2,208,291**	**2,028,681**	**54,661,941**	**10,310,079**	**4,668,434**	**8.54%**	**588,348**	**(125,529)**	**462,819**	**$26.98**	**$40.10**	**4,630,333**	**1,247,927**

AVISON YOUNG
Intelligent Real Estate Solutions

avisonyoung.com

For more information, please contact:

Corey Martin
Managing Director & Principal
512.717.3084
corey.martin@avisonyoung.com

Sullivan Johnston
Research Coordinator
512.717.3073
sullivan.johnston@avisonyoung.com

Office Location
515 Congress Ave., Ste. 1500
Austin, TX 78701
512.474.2411

Austin

Office Market Report
Third Quarter 2017

New construction setting the tone early for 2018

Once again, Austin's office market showed signs of strength during the third quarter of 2017. With sustained demand and new construction setting the pace for the year, vacancy and rental rates have remained stable while market-wide net absorption is positive and leasing activity abounds.

New construction activity was ever-present during the third quarter, with over 806,000 sf breaking ground between July and September 2017. Among those are SXSW's headquarters 140,000 sf building in the CBD, the North/Domain's 315,000 sf Domain 11 (fully leased to HomeAway), the East's 140,000 sf Plaza Saltillo, the Southeast's 115,200 sf MetCenter Creative Office, and Round Rock's 95,000 sf Summit II at La Frontera. An additional 5.07 million sf of new construction is proposed to the greater Austin market, of which most is scheduled to be developed in the CBD.

Despite the delivery of roughly one million square feet of new office product throughout the year, vacancy remains low and rental rates remain on the rise. Market-wide vacancy dropped between the second and third quarters of 2017 by one percentage point to 7.85%. Moreover, vacancy across all classes has been on a steady decline since the first quarter of 2016, highlighting Austin's resiliency and uninterrupted appeal to office tenants. Class A and B vacancy rates at the close of the third quarter of 2017 were 8.36% and 7.71%, respectively.

Asking rates rose through the third quarter to $40.17 psf, with Class A average asking rates reaching an all-time high of $44.49 psf. Average asking rates were highest in the CBD and the East submarkets, thanks to strong demand for Class A office product that continues to command rates upwards of $56 psf. Though operating expenses have played a large role in rising asking rates, growing affinity for contemporary office space has translated to increasing asking rates in an already landlord-favorable market.

Year-to-date net absorption at the close of the third quarter 2017 was positive at 259,037 sf. In line with previous quarters, net absorption was kept positive by the market's sustained absorption of mass quantities of Class A product, while Class B and Class C product continued to see negative net absorption. A prime example of this is the North Domain submarket, where Class A product registered 454,822 sf of positive net absorption for the year by the close of the third quarter while Class B and C product together registered 82,767 sf of negative net absorption during that same time. Leasing activity, which, so far this year, has been dominated by tech tenants, reached a YTD total of 3.2 msf by the close of the third quarter. The greatest leasing velocity continues to come out of the Southwest, Northwest and CBD, with 2.12 msf of the YTD total housed among these three core submarkets.

As the year progresses, rental rates are likely to remain along the same trend line as the three previous quarters, while vacancy compression is expected to marginally relax with the [anticipated] delivery of 729,000 sf of new construction by the end of the fourth quarter of 2017. Net absorption will largely be determined by demand for recently-developed product while leasing activity is predicted to reach a level similar to that of 2016. Looking ahead to 2018, Austin's staggering development pipeline is forecasted to play a pivotal role in all market indicators.

Avison Young tracks non-owner occupied, non-government/medical owned office buildings 20,000 sf and above.

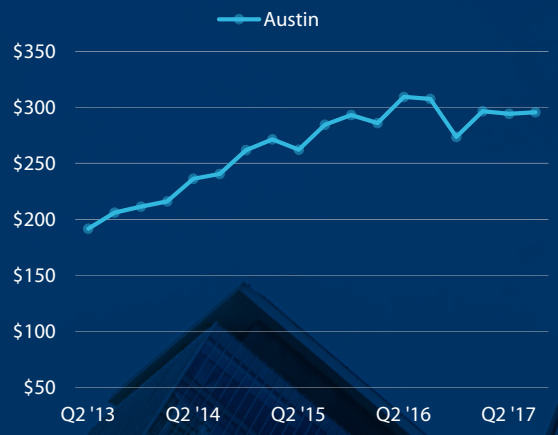
Office Investment Sales

$296
Average Sale Price PSF

$250M
total office investment sales volume during 3Q17

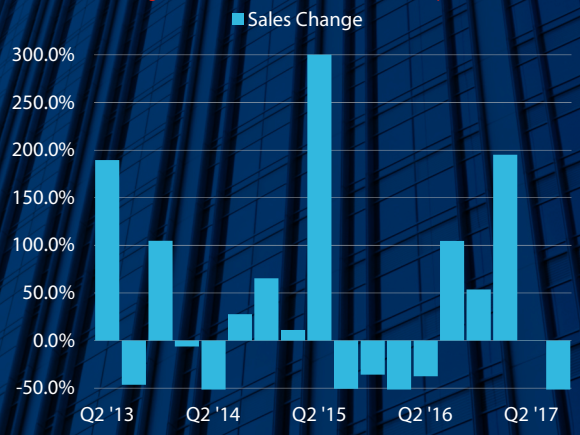
41.7%
decrease in total sales volume between 3Q16 & 3Q17

Average Sale Price ($/sf)



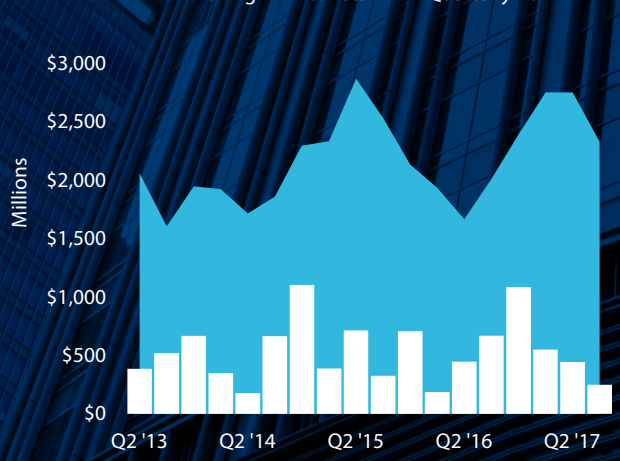
Change in Sales (Y.O.Y)

(% Change in total sales volume over 12 month period)



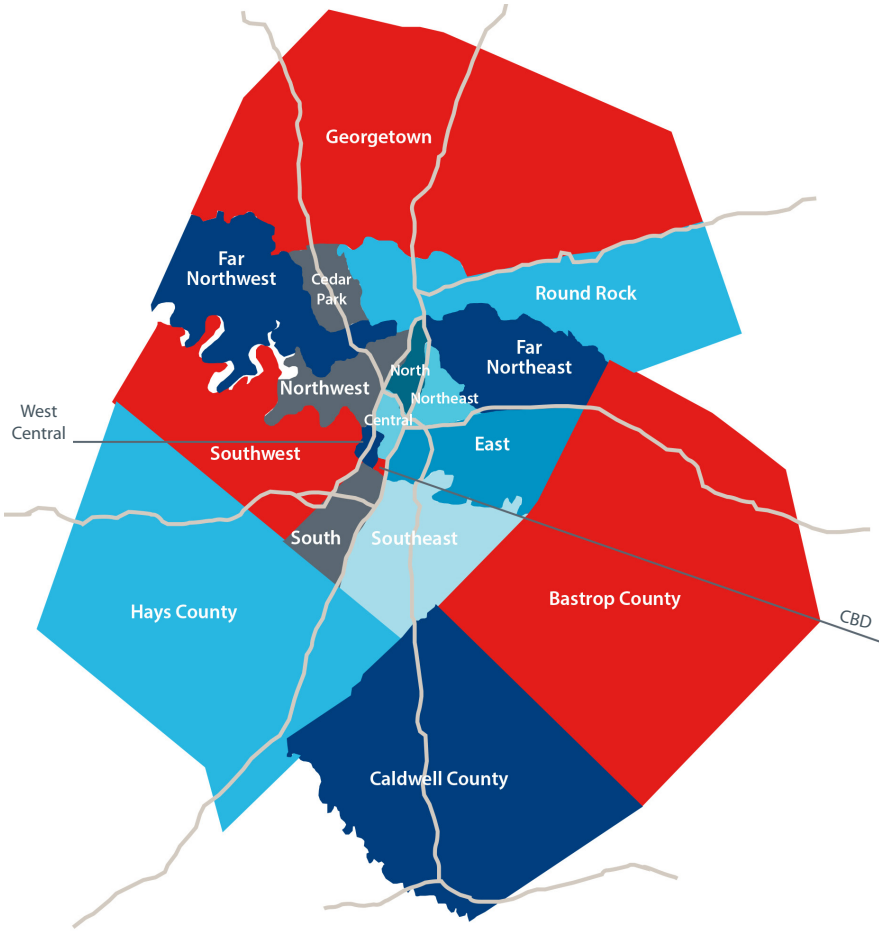
Sales Volume

(Total volume of sales in $)



Information above obtained from Real Capital Analytics

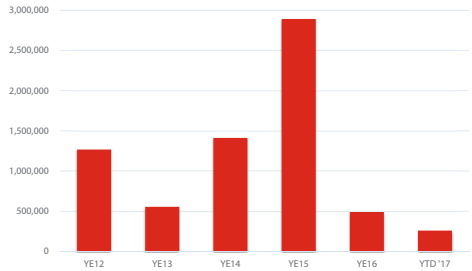
Submarket View



Class A Average Gross Rent

Vacancy

Absorption



Market By The Numbers

Submarket	Inventory (RBA)			Total Available SF	Total Vacant Available SF	Vacancy (%)	YTD Absorption			Average NNN Asking Rate	Average Gross Asking Rate	YTD Leasing Activity (SF)	YTD Deliveries (SF)
	Under Construction	Proposed	Existing				Direct Absorption	Sublet Absorption	Total Absorption				
CBD	705,714	2,353,946	10,222,776	2,075,411	803,178	7.86%	34,318	(86,715)	(52,397)	$35.75	$54.58	618,273	505,000
Central/W Central	95,863	0	3,270,944	506,834	165,777	5.07%	68,398	(3,630)	64,768	$24.83	$35.96	163,494	0
East	569,078	100,000	1,326,672	520,958	42,624	3.21%	37,194	0	37,194	$33.34	$47.62	30,384	57,761
Far NW	0	321,200	4,038,546	911,187	273,297	6.77%	(117,139)	17,887	(99,252)	$20.54	$31.84	136,503	0
North/Domain	623,862	1,030,102	5,573,360	1,806,578	315,067	5.65%	382,962	(10,907)	372,055	$30.02	$44.46	266,739	291,058
Northeast	50,826	0	2,632,729	364,447	227,431	8.64%	(2,627)	(24,736)	(27,363)	$20.69	$23.93	224,556	0
Northwest	0	210,914	12,915,161	2,167,324	1,214,561	9.40%	(77,784)	(70,546)	(148,330)	$24.10	$36.84	670,624	0
South	203,394	0	2,058,843	260,641	101,724	4.94%	(36,974)	337	(36,637)	$31.87	$33.44	151,630	0
Southeast	115,200	0	1,208,716	234,084	9,591	0.79%	(37,952)	819	(37,133)	$18.31	$26.85	27,432	0
Southwest	115,668	963,509	10,176,061	2,503,779	1,093,221	10.74%	273,456	(92,256)	181,200	$27.19	$38.65	837,257	75,000
Round Rock	59,476	95,000	1,225,354	210,844	44,376	3.62%	2,189	2,743	4,932	$23.07	$32.55	54,942	0
Total	**2,539,081**	**5,074,671**	**54,649,162**	**11,562,087**	**4,290,847**	**7.85%**	**526,041**	**(267,004)**	**259,037**	**$27.88**	**$40.89**	**3,181,834**	**928,819**

AVISON YOUNG
Intelligent Real Estate Solutions

avisonyoung.com

For more information, please contact:

Michael Kennedy, J.D.
Managing Director
512.717.3099
mike.kennedy@avisonyoung.com

Sullivan Johnston
Research Coordinator
512.717.3073
sullivan.johnston@avisonyoung.com

Office Location
515 Congress Ave., Ste. 1500
Austin, TX 78701
512.474.2411

Austin

Office Market Report
Second Quarter 2017

Office market unphased by skeptics

Despite recent suggestions that the Austin economy may be slowing, the Austin office market finished the second quarter of 2017 strong. Demand for office space from large technology tenants relocating to the Austin market remains strong, driving leasing activity and rental rates to new highs. Vacancy appears to be stabilizing as new office product delivers and office users broaden their footprint.

Construction deliveries that were slow to come online during the first quarter of 2017 made for a dramatic rebound during the second quarter of 2017, with over 870,000 SF of office product delivering during the second quarter. Among the Q2 2017 deliveries were 500 W 2nd Street (with anchor-tenant Google), Domain 8, and Galleria Oaks II. Another 1.88 msf was under construction in the Austin market by the close of the second quarter, of which 728,917 sf is expected to deliver by the end of 2017, while an additional 2.28 msf is proposed.

Lower-than-average preleasing in new construction is indicative of developers' confidence in the Austin forecast, even in light of a relative slowdown in the metro's business-cycle index toward the end of the second quarter. Moreover, low preleasing in suburban construction may also signal developers' anticipation of demand trending away from Austin's urban core into non-traditional submarkets that offer lower rates and decreased competition for space.

Negative absorption levels seen in early 2017 have begun to diminish, as the delivery of new construction has helped to temper high levels of demand. A striking 275,199 sf of the total 534,633 sf absorbed by the market during the second quarter was derived from the North Domain submarket, which is considered 'white-hot' by all market indicators. Given the 982,165 sf of leasing activity that took place during the second quarter, absorption levels are expected to stay positive over the coming months.

Rental rate growth market-wide persisted through the second quarter of 2017, waging near a $5 psf increase over Q2 2016. While climbing operating expenses are largely responsible for such marked increases due to rising building valuations commanding higher taxes, sustained demand has held rates at an upward clip. Following recent historical patterns, the CBD continues to boast the highest average asking rate while the lowest rates can be found in the Northeast and South submarkets.

Overall office vacancy for the second quarter was low at 8.66%, and only a slight increase over that of the first quarter. Vacancy has tightened in Austin's up-and-coming submarkets, like the East and South where office product inventory is low, while submarkets with increasing inventory have seen vacancy climb.

As 2017 progresses and class A supply grows, rental rates are projected to remain high. An expanding educated workforce that attracts office-using employers to the market will support the large-scale mixed-use projects that continue to fill the development pipeline, ultimately keeping vacancy and absorption in check.

Avison Young tracks non-owner occupied, non-government/medical owned office buildings 20,000 sf and above.

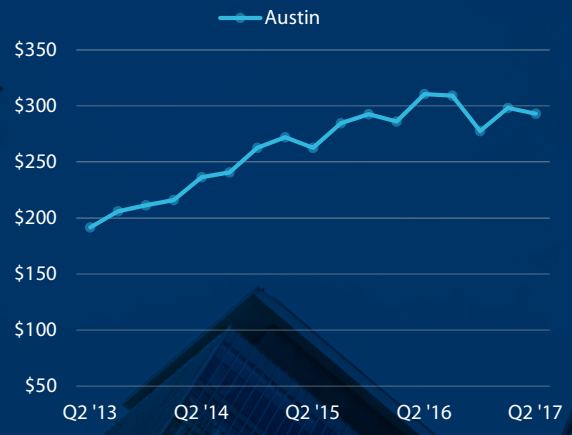
Office Investment Sales

$293
Average Sale Price PSF

$299M
total office investment sales volume during 2Q17

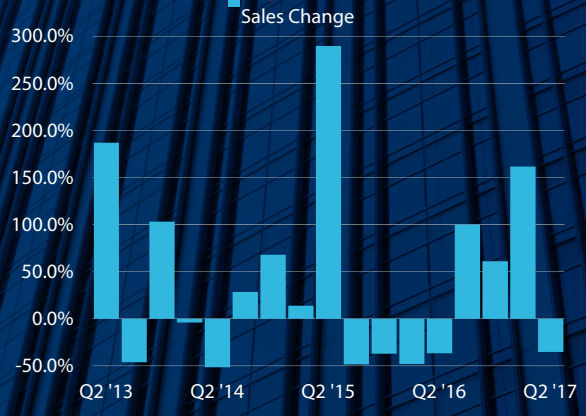
26.5%
increase in total sales volume between 2Q16 & 2Q17

Average Sale Price ($/sf)



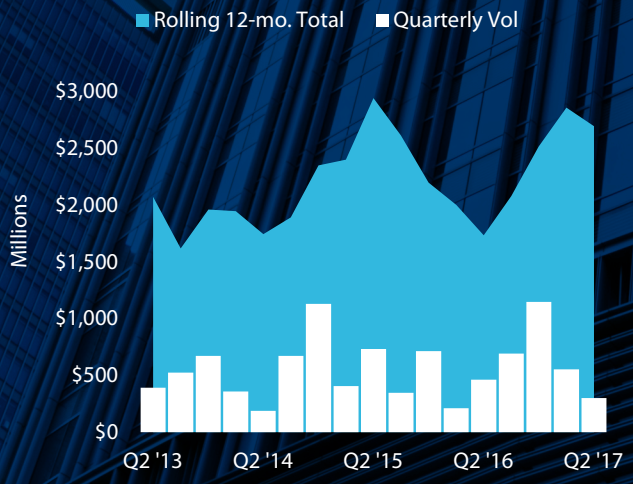
Change in Sales (Y.O.Y)

(% Change in total sales volume over 12 month period)



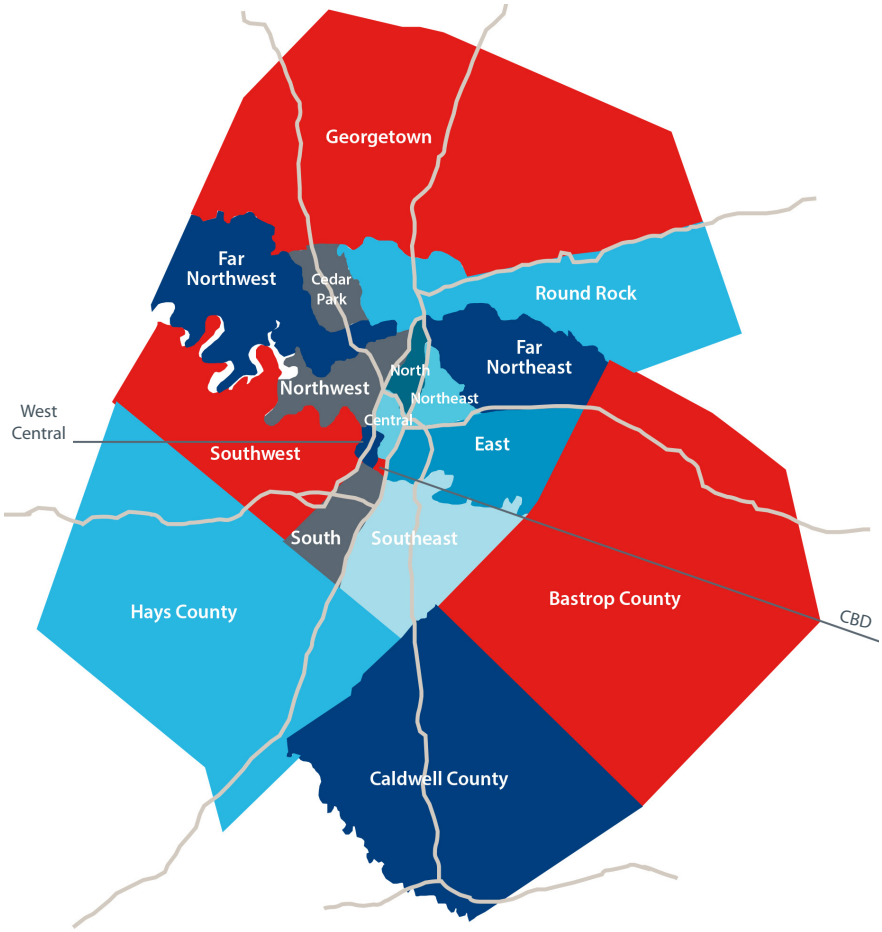
Sales Volume

(Total volume of sales in $)



Information above obtained from Real Capital Analytics

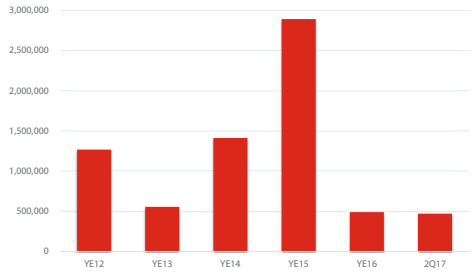
Submarket View



Class A Average Gross Rent

Vacancy

Absorption



Market By The Numbers

Submarket	Buildings	Inventory (RBA)			Total Available Space (SF)	Total Vacant Available	Vacancy (%)	2Q17 Total Absorption	YTD Total Absorption	Average Asking Rate (NNN)	Avg OPEX PSF	Average Gross Rental Rate	2Q17 Leasing Activity (sf)	Deliveries YTD	
		Under Construction	Proposed	Existing										Buildings	SF
CBD	66	565,714	206,946	10,227,308	2,054,230	749,319	7.33%	282,816	136,311	$35.67	$19.00	$54.66	233,847	1	505,000
Central/West Central	55	95,863	0	3,270,944	454,707	216,622	6.62%	13,544	9,715	$23.91	$8.29	$32.20	86,093	0	0
East	18	555,078	240,000	1,326,672	696,736	50,010	3.77%	629	25,815	$32.61	$14.76	$47.37	13,473	1	57,761
Far NW	36	0	321,200	3,982,646	927,015	268,530	6.74%	79,136	183,770	$20.50	$11.15	$31.65	7,321	0	0
North/Domain	55	308,000	170,000	5,573,360	1,129,099	481,645	8.64%	275,199	335,579	$25.93	$13.40	$39.33	54,286	1	291,058
Northeast	37	50,826	0	2,579,617	333,809	228,605	8.86%	(2,583)	7,694	$18.66	$2.40	$21.06	24,538	0	0
Northwest	185	0	210,914	12,915,161	2,320,070	1,407,431	10.90%	(157,352)	(278,794)	$23.39	$12.81	$36.20	163,347	0	0
South	39	124,669	0	2,058,843	345,861	155,737	7.56%	(23,307)	(86,119)	$28.18	$3.09	$31.27	42,302	0	0
Southeast	13	0	71,225	1,208,716	231,780	6,918	0.57%	(2,950)	(3,755)	$17.92	$8.69	$26.60	7,228	0	0
Southwest	134	115,668	963,509	10,176,061	2,681,557	1,069,098	10.51%	77,641	175,957	$27.18	$12.48	$39.65	313,694	1	75,000
Round Rock	22	59,476	95,000	1,262,004	257,525	92,782	7.35%	(8,140)	(35,798)	$22.87	$8.90	$31.77	36,036	0	0
Total	**660**	**1,875,294**	**2,278,794**	**54,581,332**	**11,432,389**	**4,726,697**	**8.66%**	**534,633**	**470,375**	**$26.97**	**$12.94**	**$39.91**	**982,165**	**13**	**928,819**

AVISON YOUNG
Intelligent Real Estate Solutions

avisonyoung.com

For more information, please contact:

Michael Kennedy, J.D.
Managing Director
512.717.3099
mike.kennedy@avisonyoung.com

Sullivan Johnston
Research Coordinator
512.717.3073
sullivan.johnston@avisonyoung.com

Office Location
515 Congress Ave., Ste. 1500
Austin, TX 78701
512.474.2411

Austin

Office Market Report
First Quarter 2017

New development expected to dictate remainder of 2017

Delays in new construction deliveries during the first quarter of 2017 kept market swings at bay, resulting in little change in major market indicators between quarters. Rental rates ticked upward while vacancy dipped slightly. Despite nearly 1 million square feet of leasing activity taking place during the first quarter, limited available space drove market-wide absorption rates to new lows, ending the quarter at a negative amount for the first time since 2011.

Construction activity remains high with nearly 1.6 million square feet of office product currently under construction. The East submarket's 57,761 square foot Diamond Building was the only 20,000+ square foot building to deliver to the market during the first quarter of 2017. However, as new product delivers over the coming quarters, vacancy rates are expected to rise while rental rates stabilize and positive absorption is again realized.

The market-wide average gross asking rate was $37.72 psf during the first quarter of 2017 - a $1.60 psf increase over that of the fourth quarter of 2016. Class A average gross asking rates reached $42.48 psf while class B rates settled at $31.64 psf for the first quarter of 2017. The North/Domain saw a 9.5% increase in class A average gross asking rates between quarters while the Southwest's rate remained nearly unchanged. Due in large part to increasing operating expenses and record high building valuations, class A average gross asking rates in the CBD surpassed $55 psf, with some buildings commanding gross rates upwards of $65 psf. Lack of office product inventory has played a pivotal role in the Austin market's expanding asking rates, specifically in the burgeoning East submarket where low inventory of existing class A product and rising demand have spiked the average gross asking rate to $43.97 psf - the second highest asking rate in the Austin market.

As predicted, market-wide vacancy rates remained low through the first 90 days of 2017, though marginally softer than that of 2016. 8.53% of the market was vacant and available at the close of the first quarter 2017 - only a slight uptick from the 8.15% vacancy at the close of the fourth quarter of 2016. Among the three core submarkets, the CBD had the lowest vacancy at 7.53% while the North/Domain and Southwest ended the quarter at 8.16% and 10.50% vacancy, respectively.

Market-wide absorption fell to negative 64,258 square feet during Q1; though class A absorption was positive overall for the quarter, 229,428 square feet of negative absorption among class B product caused the market-wide total to plunge. As ± 600,000 square feet of office product delivers over the next 90 days and high amounts of leasing activity continue, absorption is expected to return to positive levels. A critical indicator of market health, absorption will be an important metric to track over the coming quarters.

Avison Young tracks non-owner occupied, non-government/medical owned office buildings 20,000 sf and above.

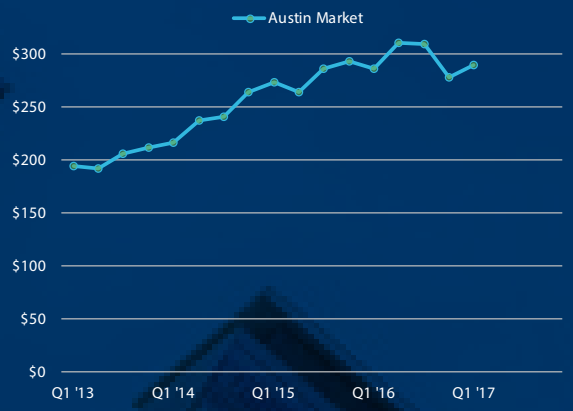
Office Investment Sales

$289
Average Sale Price PSF

$446M
total office investment sales volume during 1Q17

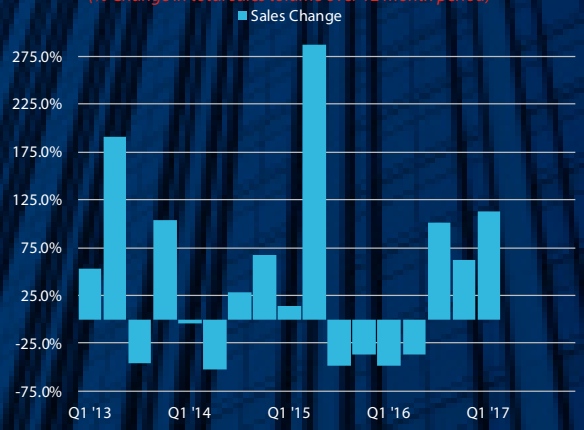
113%
increase in sales between 1Q16 & 1Q17

Average Sale Price ($/sf)



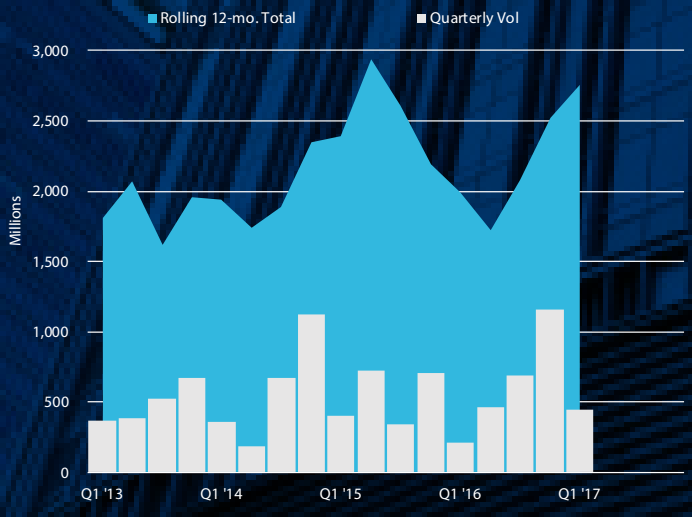
Change in Sales (Y.O.Y)

(% Change in total sales tolume over 12 month period)

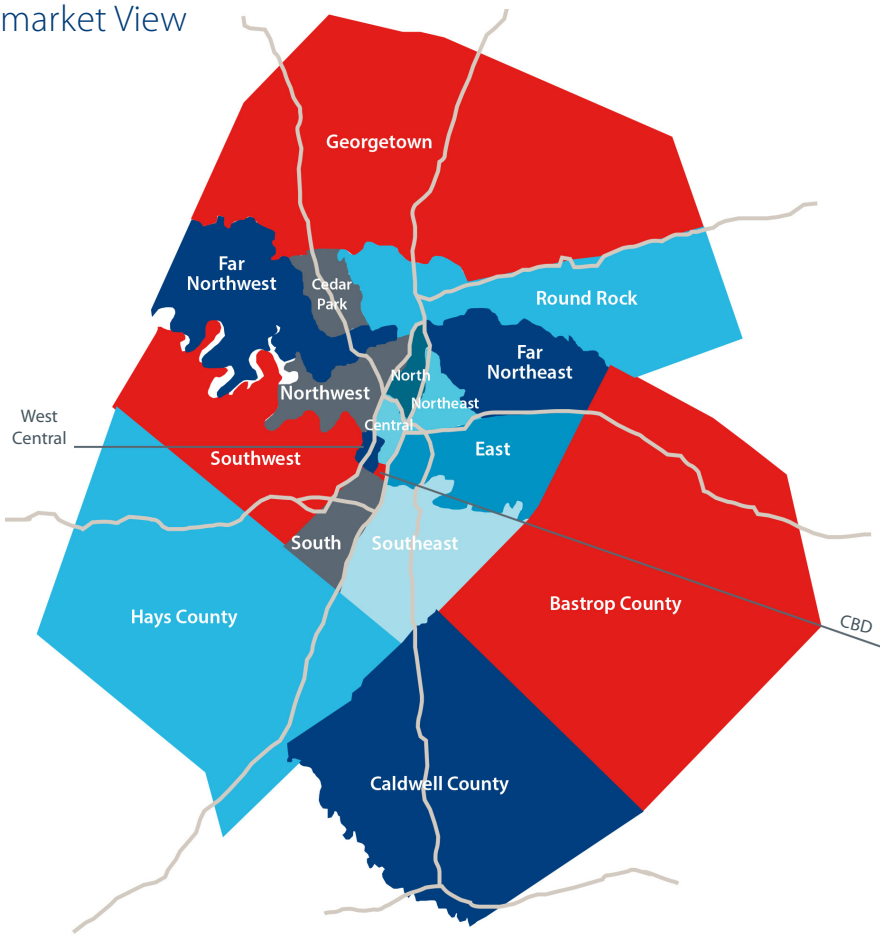


Sales Volume

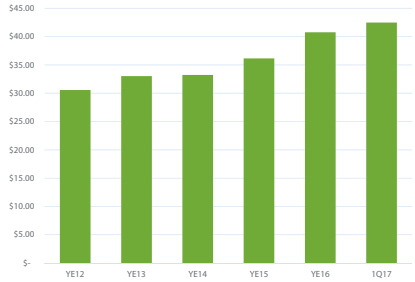
(Total volume of sales in $)



Submarket View

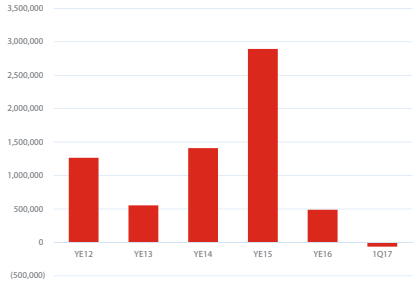


Class A Asking Rate (Gross)



Vacancy

Absorption



Market By The Numbers

Submarket	Buildings	Inventory (RBA)		Total Available Space (SF)	% Vacant	1Q17	YTD	1Q17 Leasing Activity (sf)	Average Asking Rate (NNN)	Average Asking Rate (Gross)
		Under Construction	Existing			Total Absorption	Total Absorption			
CBD	67	1,066,226	9,748,597	2,109,392	7.53%	(146,505)	(146,505)	134,016	$35.18	$53.44
Central/West Central	54	0	3,295,506	362,075	7.45%	(3,829)	(3,829)	231,399	$21.78	$30.41
East	19	0	1,326,672	161,315	4.41%	25,186	25,186	27,129	$29.53	$32.31
Far NW	38	0	3,969,750	982,476	6.60%	104,634	104,634	194,587	$21.49	$32.80
North/Domain	57	291,058	5,282,302	626,933	8.16%	60,380	60,380	447,756	$23.19	$34.72
Northeast	37	0	2,579,617	389,378	7.64%	10,277	10,277	287,239	$15.99	$17.83
Northwest	184	0	12,677,441	1,925,408	10.00%	(121,442)	(121,442)	1,270,079	$22.37	$35.23
South	40	90,500	2,058,843	431,039	9.03%	(62,812)	(62,812)	156,827	$24.49	$27.95
Southeast	13	0	1,208,716	228,657	19.34%	(805)	(805)	245,804	$17.02	$25.60
Southwest	142	134,700	10,156,744	1,847,149	10.50%	98,316	98,316	1,060,264	$24.62	$36.63
Round Rock	22	0	1,181,500	205,382	8.92%	(27,658)	(27,658)	37,458	$22.74	$30.91
Total	**673**	**1,582,484**	**53,485,688**	**9,269,204**	**8.53%**	**(64,258)**	**(64,258)**	**4,092,558**	**$25.50**	**$37.72**

AVISON YOUNG
Intelligent Real Estate Solutions

avisonyoung.com

For more information, please contact:

Michael Kennedy, J.D.
Managing Director
512.717.3099
mike.kennedy@avisonyoung.com

Sullivan Johnston
Research Coordinator
512.717.3073
sullivan.johnston@avisonyoung.com

Office Location
515 Congress Ave., Ste. 1500
Austin, TX 78701
512.474.2411

Austin

OFFICE MARKET REPORT

Fourth Quarter 2016

Market Overview

2016 was a year of consistent, uninterrupted expansion for both the Austin economy and the Austin office market, a direct comment on the city's ability to maintain unprecedented growth in an otherwise unstable international and domestic market. Holding the title of "8th in Global Strategy" as ranked by fDi Intelligence, Austin continues to see interest from international investors while waging an inviting platform for both large corporations and niche-market startups to intermingle. Innovation remains a cornerstone of Austin's business climate, thus positioning the city for continued growth.

While the city's economic indicators collectively show signs of strength, employment growth for the three months ending in November was 0.6 percent – a much slower pace than seen in quarters prior. Austin's annualized job growth for the twelve months ending in November 2016 was 2.2 percent, despite the continued disappearance of regional manufacturing and construction jobs. Multifamily construction trailed off while the single-family home permit market expanded and the median home price swelled to a record high. High-tech industries continue to anchor the Austin economy, with tech companies receiving the lion's share of venture capital investment. Add in the staggering 4,000 patents issued to Austin inventors in 2016, and the region's ability to maintain its competitive edge is undeniable.

Downtown Austin's crane count doubled over the second half of 2016, placing Austin fourth on the list of cities with the most tower cranes. Vacancy rates continued to fall as rental rates rose quarter over quarter. Net changes for 2016 [first quarter - fourth quarter] include a 9.5 percent decrease in vacancy, a $3.94 increase in average asking rates, and the addition of over one million sf of office space to the market. 2017 has the potential to trend along the same path as 2016 as the city explores new growth opportunities alongside a maturing economy.

FOURTH QUARTER TRENDS

657 BUILDINGS | 54.7 MILLION SF

of office space in the Austin market*

19,500

Jobs added in the last 12 months ending November 2016.

3.0%

Unemployment in Austin, well below the national average.

$40.80

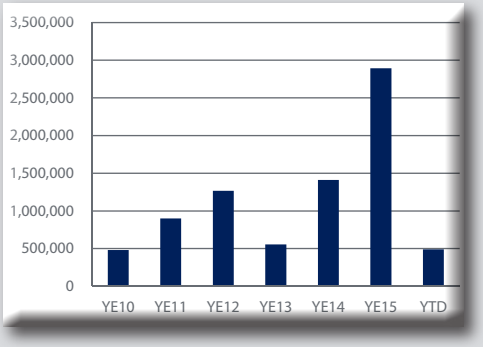
Average Class A Gross Asking Rate.

8.15%

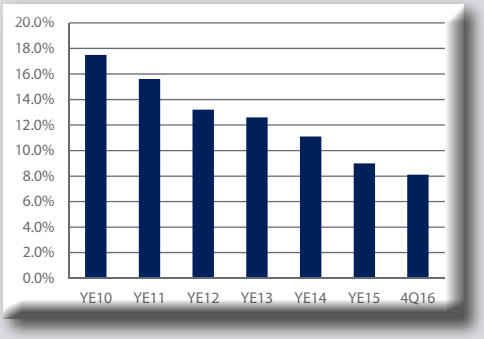
Austin's office market vacancy rate fell from 8.51% to 8.15% between quarters.

**buildings used in survey are 20,000+ sf, non-medical, non-government, non-owner occupied*

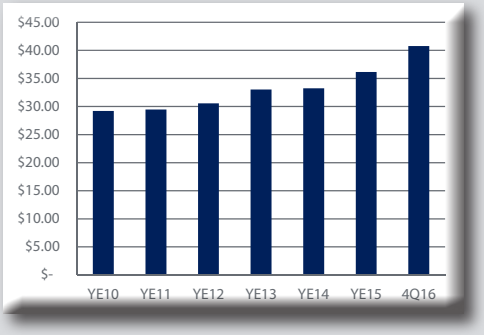
Historical Net Absorption



Historical Vacancy Rate



Historical Class A Gross Asking



Absorption & Demand

Despite several of the largest submarkets experiencing negative absorption [per annum], total market-wide absorption across all classes remained positive between quarters with a YTD total of 488,471 sf. Across the three classes, YTD absorption was highest among Class A space while the Southeast garnered the most absorption across all submarkets. Importantly, however, while absorption remains positive, it is lower than in past years due in large part to limited supply. Market-wide leasing activity totaled 1.8 million by the close of Q4, bringing the YTD total to 5,226,441sf. The Northwest submarket sustained its aggressive growth through the fourth quarter with a YTD leasing activity rate of nearly 1.4 million sf - the highest of all submarkets. Class A space continued to command the highest rate of leasing activity, with the Northwest and Southwest accounting for nearly half of the YTD total of 3,519,455 sf. Should intense demand persist, absorption rates are anticipated to remain positive.

Vacancy & Availability

Market-wide vacancy continued to diminish over the fourth quarter, dropping to 8.15%. Vacancy for Class A space across all submarkets was 7.4% while Class B and C vacancies were 9.5% and 6.2%, respectively. The CBD, Far Northwest, and North/Domain submarkets all experienced a decrease in vacancy between the third and fourth quarters. The largest availabilities were experienced by the Southeast and Southwest, with large blocks of space currently being marketed for lease. This trend will likely repeat itself as development in these three core submarkets continues to flourish.

Asking Rates

Asking rates in the fourth quarter maintained the upward momentum seen in the previous three quarters, especially among Class A rates. The market-wide average gross asking rate across the three classes for Q4 was $36.12- a $.38 increase psf over Q3. Demand for Class A space continues to drive asking rates to new highs, and most dramatically in the CBD. While the Class A market-wide average gross asking rate for Q4 was $40.80, the average gross asking rate for Class A space in the CBD reached a record $52.35 psf. As anticipation for new space mounts and vacancy in existing space tightens, asking rates in the popular North/Domain submarket will likely continue to see upticks before stabilizing. Though building valuations are expected to climb in 2017, asking rates will likely be kept in check by the multiple projects slated for delivery in 2017.

Construction

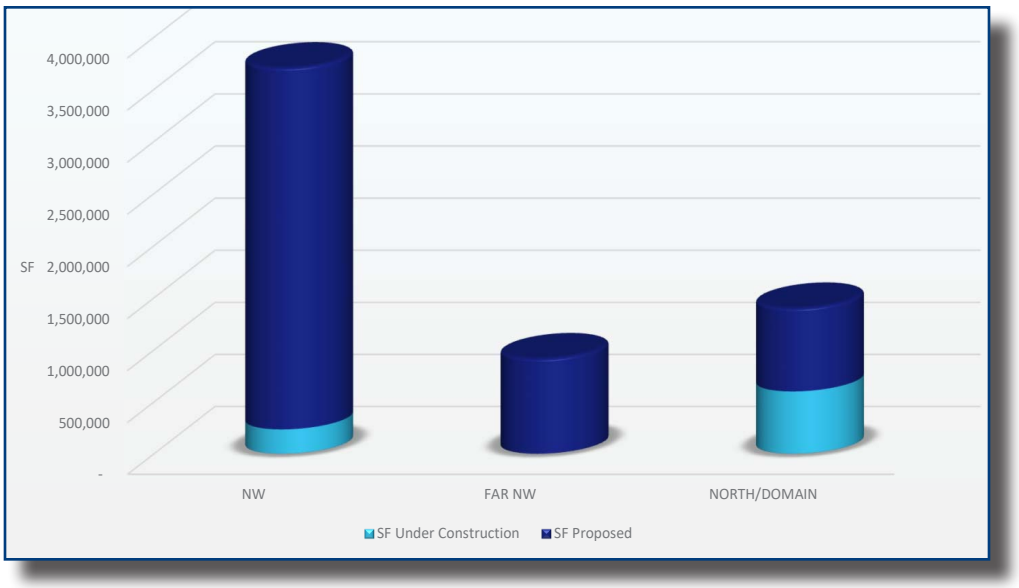
Several significant construction starts took place during the fourth quarter while project completions were few. The Domain's 310,000 sf Domain Tower and the Southwest's 38,448 sf Reserve at Oak Hill broke ground during Q4, while the Northwest's Parmer 3.1- part of the Parmer Business Center development- was the sole 20,000+ sf project to deliver. A total 2.9 million sf of office space was under construction by the close of 2016, including 500 W 2nd St (now 73.8% preleased), Domain 8, Lantana Ridge 1 & 2, and the Diamond Building. Eleven total projects delivered over the course of 2016 while another 2.2 million sf -of which 43% is preleased- is expected to deliver by the end of 2017.

2.9 million sf of office space currently under construction

1.1 MILLION SF
of office space expected to deliver to the CBD by 3Q18

43 corporate relocations to the Austin region since the beginning of 2016

Construction Spotlight: North/Domain, NW, FAR NW



Top Leases for 4Q16

SUBMARKET	BUILDING NAME	SF	TENANT
NORTHEAST	PARMER 3.1	184,500	HOME DEPOT
NORTH DOMAIN	DOMAIN 8	136,584	AMAZON
FAR NW	PALOMA RIDGE B	42,996	INFORMATICA LLC

Contact Information

Mike Kennedy, J.D., SIOR
Managing Director
512.717.3099
mike.kennedy@avisonyoung.com

Sullivan Johnston
Research Coordinator
512.717.3073
sullivan.johnston@avisonyoung.com

Office Location
515 Congress Ave. Ste. 1500
Austin, TX 78701
512.474.2411

AVISON YOUNG | CANADA'S BEST MANAGED COMPANIES

avisonyoung.com

Austin

OFFICE MARKET REPORT

Third Quarter 2016

Market Overview

On the surface, the third quarter continued its stride in proving Austin's strength for attracting high-profile deals and garnering international interest as a top marketplace. That said, there are arguably some signs that the market may be slowing off its torrid pace.

Now known as "the Human Capital of the U.S.", the influx of new residents to the Central Texas metro has been without pause. As such, new-home construction permits reached a new post-recession high, even as home prices continue to rise and affordability tightens.

Commercial property valuations and investment capital also remain on the rise. As permitting bottlenecks and preleasing requirements slow the development process, rental rates continue to increase with the downtown and Northwest submarkets leading the way.

Austin's employment growth maintained its pace through the third quarter, further illustrating the city as a hub for attracting top tech talent. According to recent publications by the Austin Chamber of Commerce and the Dallas Fed, Austin's manufacturing and leisure and hospitality sectors lost traction through the third quarter while professional and business services sectors surged.

The 30,900 net new jobs added to the Austin market - or the 3.2 % growth in the 12 months ending in August - marks Austin as the tenth best performing among the 50 largest metro areas. With 3.5% unemployment, Austin ranks 5th lowest among the 50 largest metro areas and 1st among all Texas metros.

Real per capita GDP is up 10.6% over the past 5 years, placing Austin as the ninth best performing metro area in the country. Though Austin's multi-tiered workforce amounts to one of the strongest business environments in the country, some economic indicators display a cooling off between quarters with unemployment and net new job growth in Q2 at 2.9% and 38,300, respectively.

While several trends indicate a healthy demand for office space, there is some evidence that the market may not be moving at the same velocity as in previous quarters. Supply, however, remains in check with moderate construction underway. As large office tenants such as Oracle and Amazon lock in space – and thereby demonstrate confidence in the city – spurring development, diversifying the economy and intensifying faith in the strength of the overall market, Austin is likely to remain a favorable business climate in the near future.

THIRD QUARTER TRENDS

652 BUILDINGS | 54.3 MILLION SF

of office space in the Austin market*

30,900

Jobs added in the last 12 months ending August 2016.

3.5%

Unemployment in Austin, well below the national average.

$40.02

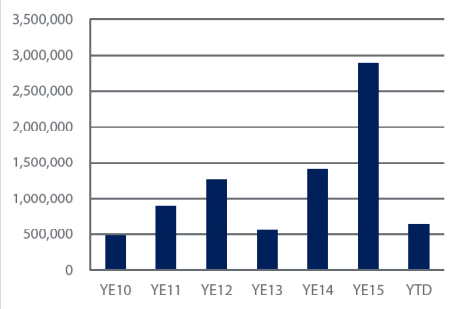
Average Class A Gross Asking Rate.

8.51%

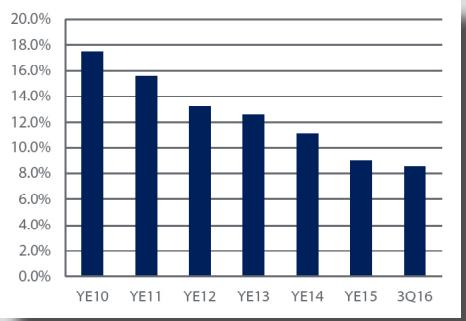
Austin's office market vacancy rate fell from 8.69% to 8.51% between quarters.

**buildings used in survey are 20,000+ sf*

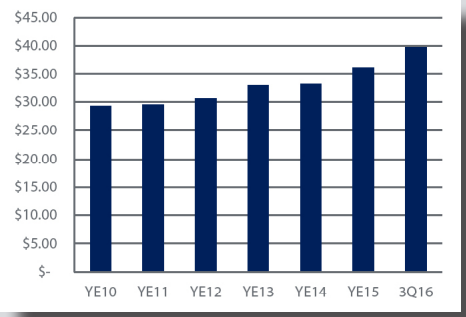
Historical Net Absorption



Historical Vacancy Rate



Historical Class A Asking Rates



Absorption & Demand

Demand within the Austin market continued throughout the third quarter, with Austin attracting large tech tenants to ever-vibrant downtown, the trendy East submarket and the booming Northwest submarket. Year-to-date leasing activity [as measured by signed leases] scaled by 1.5 million sf to 3,602,505 sf by the close of the quarter. The CBD submarket saw the highest rate of leasing activity during the quarter at 381,649 sf.

Unlike Q2, absorption for the quarter reads as positive 368,023 sf, with only 3 submarkets experiencing negative absorption. Up from a negative absorption rate of 4,927 in Q2, the East submarket is back at positive absorption of 90,522 sf. With 5th & Colorado finally delivering to the CBD, absorption rates in the submarket spiked to 168,402 sf- a 155,000 sf increase over Q2. The Southwest submarket, however, continued its pace of negative absorption (107,883) sf for the quarter. Given that leasing activity remains high, absorption in the coming quarters is expected to remain positive.

Vacancy & Availability

Much like the second quarter, market-wide vacancy during the third quarter hovered around 8.51%, displaying the very-little change between individual submarket rates. Vacancy in the CBD increased by .75% while vacancy in the Southwest submarket remained virtually unchanged, holding at 10.5% for both Q2 & Q3. The Northwest submarket's vacancy decreased from 8.98% to 6.91%, establishing this particular submarket's strength in recruiting tenants to the Domain with its attractive rental rates and wealth of amenities. Vacancy rates in the South and East submarkets increased by 3.8% and 3.2%, respectively. While vacancy for the quarter remained low, availabilities grew by 2.1 million sf, with the largest availability among all classes housed in the Northwest submarket. Among the three classes, class B properties had the highest vacancy at 9.20%, with class A trailing behind at 8.39%.

Asking Rates

Market-wide average gross asking rates across all classes topped out for the quarter at $35.74, up from $35.55 in Q2. Demand for class A office space throughout the Austin market remains high, with class A average gross asking rates increasing from $39.78 to $40.02 between quarters. Class A rates in the three core submarkets grew from $51.24 to $51.71in the CBD, from $36.06 to $37.08 in the Southwest, and from $36.12 to $39.49 in the North/Domain submarket between the second and third quarters.

As new development continues in the popular North/Domain submarket rates are expected to stabilize. With a market-wide construction pipeline that appears to be ever-growing to keep up with demand, market-wide rates in the coming quarters have the potential to plateau as new deliveries are completed.

Construction

In comparison to the second quarter, construction activity & building delivery in the third quarter were far more robust. 13 buildings, totaling 378,628 sf delivered to the Austin market during Q3. Among the deliveries were the Central submarket's Pioneer Bank Building, the Northwest's Presidio, the East's Station on Manor, and downtown's long-awaited 5th & Colorado.

By the close of the quarter, roughly 2.2 million sf of office space was under construction. Significant ground-breakings for the quarter include the highly-anticipated Third + Shoal space, and Oracle's mammoth 560,000 sf campus in the Southeast submarket. Other projects under construction during Q3 included the CBD's 500 W. 2nd St, Shoal Creek Walk, and Westview renovation, the Southwest's Overlook at Barton Creek, the Southeast's Project Waterfront, the Northwest's Mopac Center, Parmer 3.3, and Domain 8. Looking ahead to the fourth quarter, there are 8 proposed new construction starts along with 4 major deliveries.

2.2 million sf of office space currently under construction

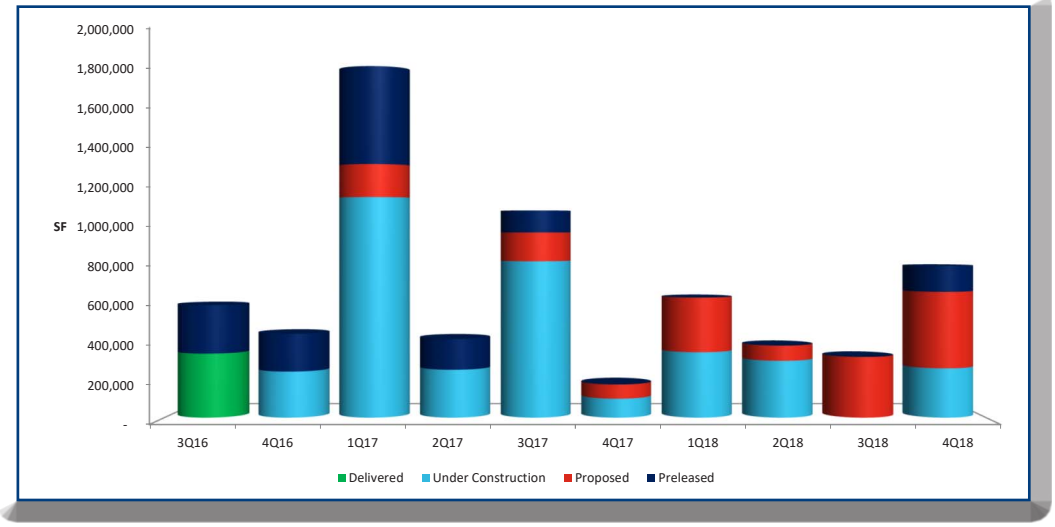
64 BUILDINGS | 15 MILLION SF*

of proposed office space in the Austin Market

12 major corporate expansions & relocations to the Austin market since the beginning of 2016

*Total proposed office space; not all projects indicate a delivery date

Construction Timeline



Top Leases for 3Q16

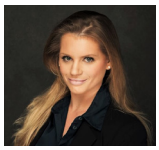
SUBMARKET	BUILDING NAME	SF	TENANT
SOUTHWEST	3900 SAN CLEMENTE	101,596	SAMSUNG SARC
SOUTHWEST	GALLERIA OAKS I & II	49.612	TRUECAR
NORTHWEST	RIATA CORPORATE PARK IV	29,220	BANKERS TOOLBOX
NORTH/DOMAIN	DOMAIN 1	24,916	ARISTOCRAT TECHNOLOGIES

Top Sales for 3Q16

SUBMARKET	BUILDING NAME	RBA	BUYER	SELLER	EST. SALE PRICE
CBD	100 CONGRESS	411,536	INVESCO	METLIFE RE	$125,000,000
NORTHWEST	STONEBRIDGE PLAZA I & II	465,013	KBS REALTY ADVISORS	HEITMAN	$124,299,944

Contact Information

Mike Kennedy, J.D., SIOR
Regional Managing Director
512.717.3099
mike.kennedy@avisonyoung.com



Sullivan Johnston
Research Coordinator
512.717.3073
sullivan.johnston@avisonyoung.com

Office Location
515 Congress Ave. Ste. 1500
Austin, TX 78701
512.474.2411

AVISON YOUNG | CANADA'S BEST MANAGED COMPANIES

avisonyoung.com