

VIEWPOINT

2018 AUSTIN, TX OFFICE ANNUAL REPORT

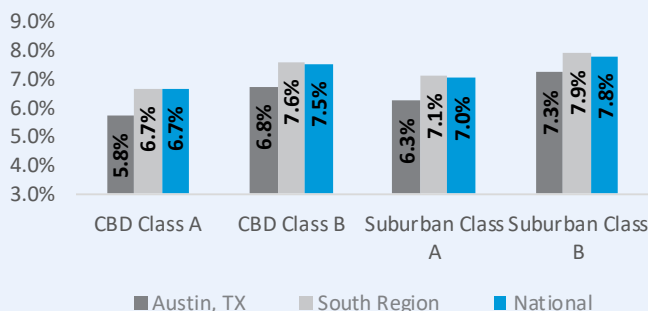
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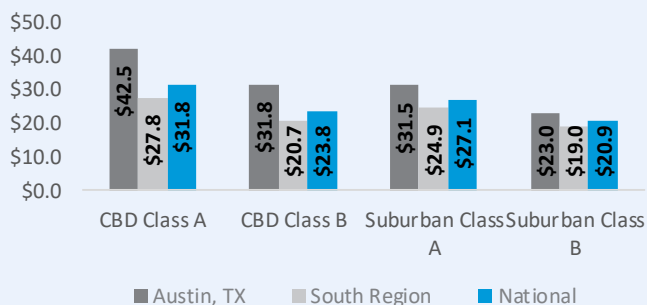
Market Rate Indicators (Y/Y)

Categories	CBD Class A	Suburban Class A
Going In Cap Rate (%)	◀▶	◀▶
Asking Rent (\$/SF)	▲	▲
Vacancy Rate (%)	▲	▲

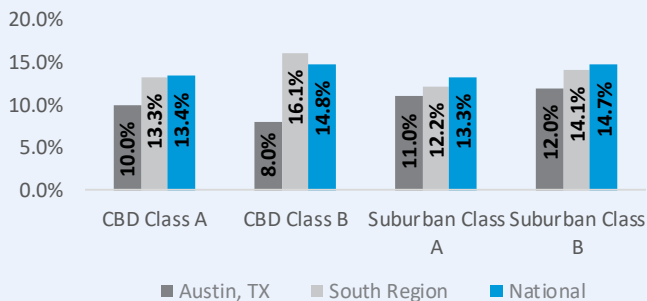
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



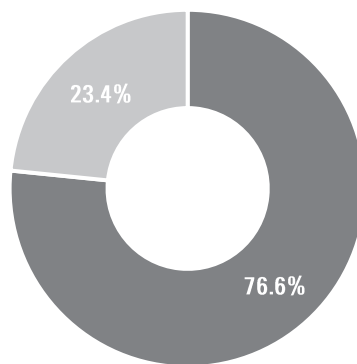
Vacancy Rates (%)



Austin, TX Office Market Overview

In 2017, population growth coupled with a vibrant economy helped maintain the office sectors expansion. Although that is the case, around mid-2017, the increased deliveries seemed to not be met head on with the demand experienced in prior years which ultimately resulted in an uptick in the overall vacancy rate. With population growth slated to continue at a slower pace, 2018 may experience a cold start, though as employers and businesses still seek to make Austin home, due to its attractive business environment, demand should ultimately catch up with supply. Many new major projects underway, such as the coming to the area will feature owner user rather than speculative or pre-leased space, thus having limited upward pressure on vacancy rates. For example, Oracle, a major leader in the tech industry has their 560,000-square foot campus under construction, slated for completion in early to mid-2017. Developers are beginning to stir a bit about the potential for new mixed-use projects around the campus which would provide for new office and retail for which the area is underserved. As more businesses set their eye on the Austin market, demand will follow and the office sector can be expected to enjoy growth, albeit subtle compared to prior years.

Distribution of Total Inventory



■ CBD Class A ■ CBD Class B

10,770,000 SF
CBD Office Inventory
N/A - 12 Mo. Proj.
Construction/Inventory

Integra Realty Resources - Austin

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Jeffery Cusick, Managing Director, jcusick@irr.com

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Change In Value Next 12 Months



2% - 3.9%

CBD Class A

.1% - 1.9%

CBD Class B



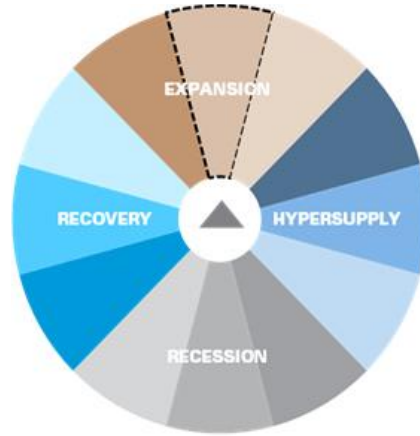
2% - 3.9%

Suburban Class A

.1% - 1.9%

Suburban Class B

Market Cycle: Expansion Stage 2



- Med/High Rental Rate Growth
- Decreasing Vacancy Rates
- Moderate/High New Construction
- Moderate/High Employment Growth
- High Absorption

Forecasts

Austin, TX 12-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Remain Steady - no change	Remain Steady - no change	Increase 1-24 bps	Increase 1-24 bps
Discount Rate	Remain Steady - no change	Remain Steady - no change	Increase 1-24 bps	Increase 1-24 bps
Reversion Rate	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Construction (SF)				
Years to Balance	1	2	2	3

Austin, TX 36-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	3.00%	3.00%	3.00%	3.00%
Expense Rate Change	3.00%	3.00%	3.00%	3.00%
Change in Value	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%
Annual Absorption (SF)	100,000	16,750	650,000	600,000

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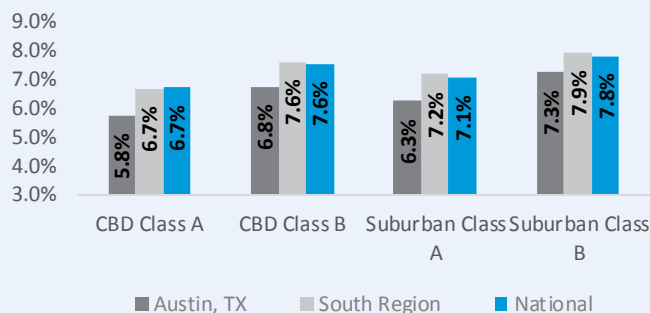
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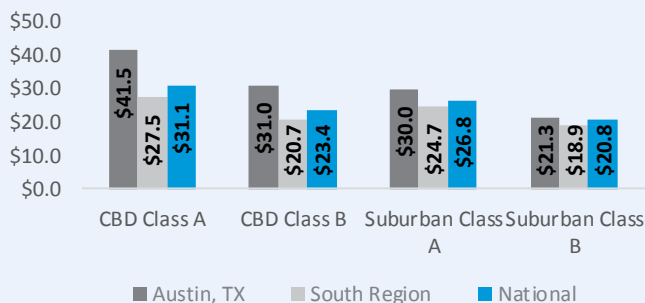
Market Rate Indicators (Y/Y)

Categories	CBD Class A	Suburban Class A
Going In Cap Rate (%)	◀▶	◀▶
Asking Rent (\$/SF)	▲	▲
Vacancy Rate (%)	◀▶	◀▶

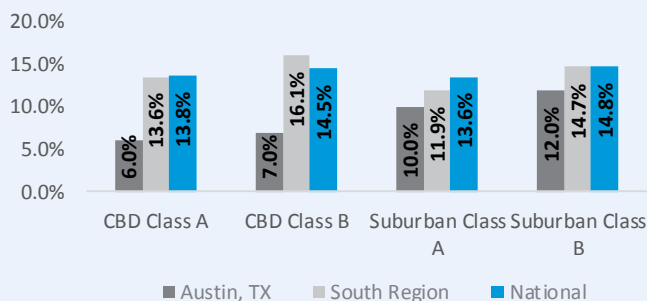
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



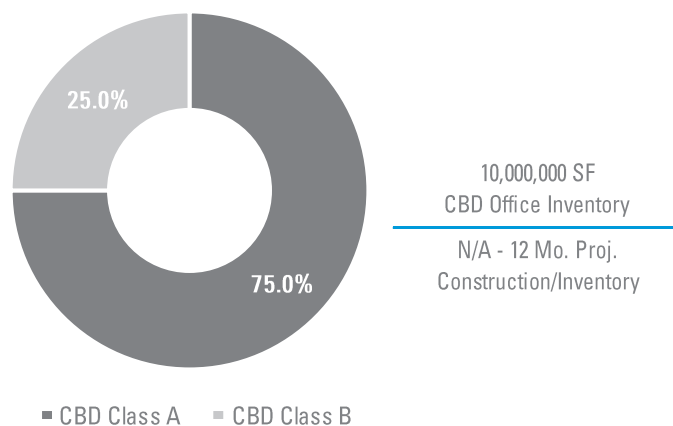
Vacancy Rates (%)



Austin, TX Office Market Overview

Strong population growth and a thriving local economy continue to drive the expansion of Austin's office market. The city's office property sector performed exceptionally well in 2016 with improving vacancy rates, increasing rental rates, high absorption, and a significant amount of new office construction – and 2017 is shaping up to be a similar year. The overall vacancy rate has steadily decreased over the past five years and is expected to continue sliding downward as the year goes on, even with nearly 900,000 square feet of new supply becoming available over the next 12 months. Asking rents in both the Central Business District and suburban areas are steadily increasing. Absorption has remained positive since 2011 with more than 3 million square feet of space absorbed in 2016, and this pattern is expected to continue over the coming years. Cap rates and discount rates decreased slightly in 2017 and may decline slightly further as the new year progresses, if they vary at all. The tech industry is still a major economic driver of the Austin economy, with companies such as Google, Apple, Inc., Oracle, and Amazon filling office space in the city. Downtown Austin continues to be a hot spot for both new office construction and the redevelopment of older properties into mixed-use developments with office components, such as Northshore, a development with multifamily, retail, and office space that is nearing completion. The 500,000 square-foot Block 23 office tower and Shoal Creek Walk, a \$52 million office tower with ground floor retail, are also under construction in Austin's Central Business District and are anticipated to be complete in early 2017. New office space is also being developed in suburban Austin including the continued expansion of the Domain with an additional 300,000 square feet under construction and more office space being added at the master-planned development of La Frontera in Round Rock. Austin's office market is expected to further expand and perform well throughout 2017.

Distribution of Total Inventory



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Change In Value Next 12 Months



2% - 3.9%

CBD Class A



2% - 3.9%

Suburban Class A

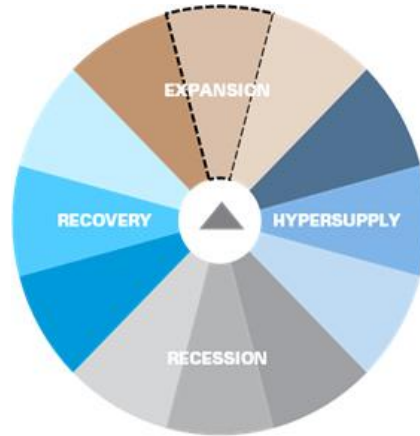
.1% - 1.9%

CBD Class B

.1% - 1.9%

Suburban Class B

Market Cycle: Expansion Stage 2



- Med/High Rental Rate Growth
- Decreasing Vacancy Rates
- Moderate/High New Construction
- Moderate/High Employment Growth
- High Absorption

Forecasts

Austin, TX 12-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Decrease 1-24 bps	Decrease 1-24 bps	Remain Steady - no change	Remain Steady - no change
Discount Rate	Decrease 1-24 bps	Decrease 1-24 bps	Remain Steady - no change	Remain Steady - no change
Reversion Rate	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change
Construction (SF)	-	-	-	-
Years to Balance	1	2	2	3

Austin, TX 36-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	3.00%	3.00%	3.00%	3.00%
Expense Rate Change	3.00%	3.00%	3.00%	3.00%
Change in Value	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%
Annual Absorption (SF)	100,000	16,750	650,000	600,000

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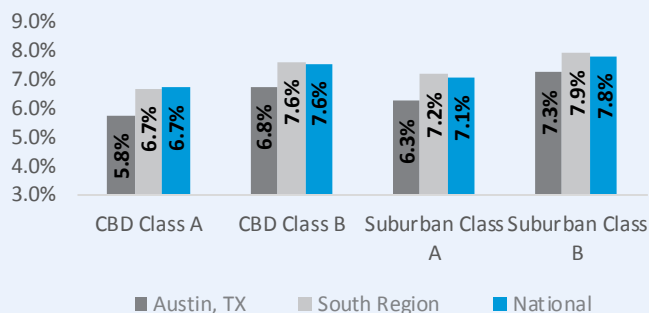
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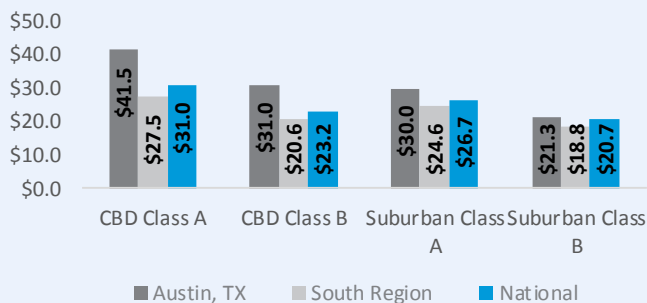
Market Rate Indicators (Y/Y)

Categories	CBD Class A	Suburban Class A
Going In Cap Rate (%)	▼	▼
Asking Rent (\$/SF)	▲	▲
Vacancy Rate (%)	▼	◄

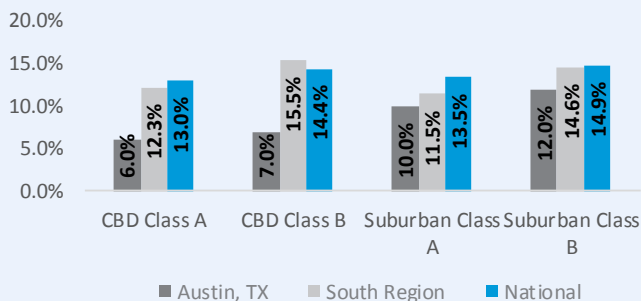
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



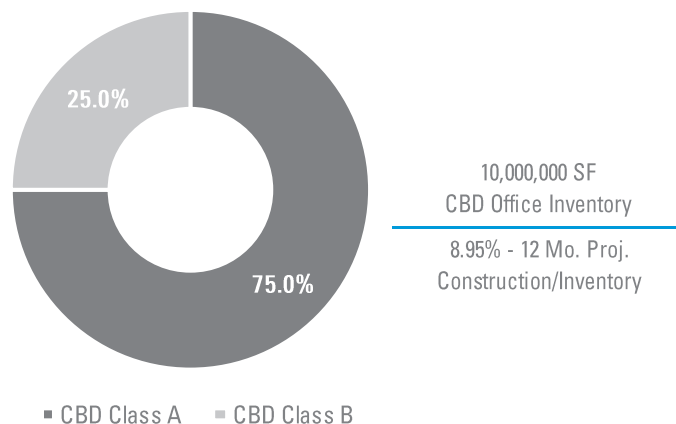
Vacancy Rates (%)



Austin, TX Office Market Overview

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Distribution of Total Inventory



Integra Realty Resources - Austin

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Change In Value Next 12 Months



2% - 3.9%

CBD Class A

.1% - 1.9%

CBD Class B



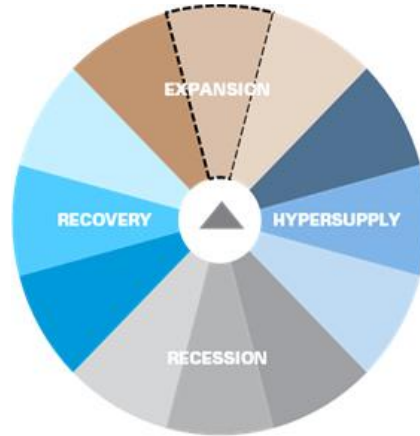
2% - 1.9%

Suburban Class A

.1% - 1.9%

Suburban Class B

Market Cycle: Expansion Stage 2



- Med/High Rental Rate Growth
- Decreasing Vacancy Rates
- Moderate/High New Construction
- Moderate/High Employment Growth
- High Absorption

Forecasts

Austin, TX 12-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Decrease 1-24 bps	Decrease 1-24 bps	Remain Steady - no change	Remain Steady - no change
Discount Rate	Decrease 1-24 bps	Decrease 1-24 bps	Remain Steady - no change	Remain Steady - no change
Reversion Rate	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change
Construction (SF)	895,000		1,500,000	
Years to Balance	1	2	2	3

Austin, TX 36-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	3.00%	3.00%	3.00%	3.00%
Expense Rate Change	3.00%	3.00%	3.00%	3.00%
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Annual Absorption (SF)	100,000	16,750	650,000	600,000

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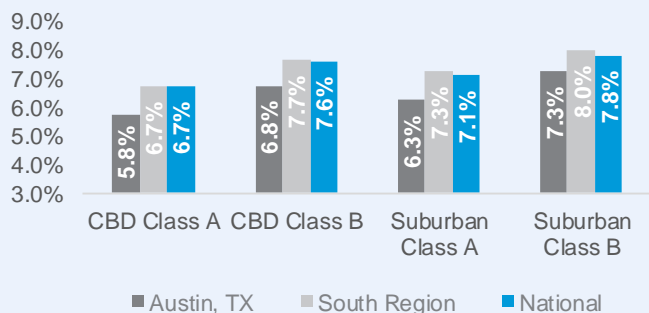
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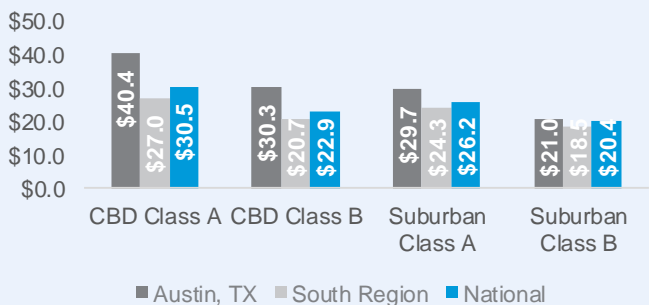
Market Rate Indicators (Y/Y)

Categories	CBD Class A	Suburban Class A
Going In Cap Rate (%)	▼	▼
Asking Rent (\$/SF)	▼	▲
Vacancy Rate (%)	▼	▼

Going In Cap Rate Comparisons (%)

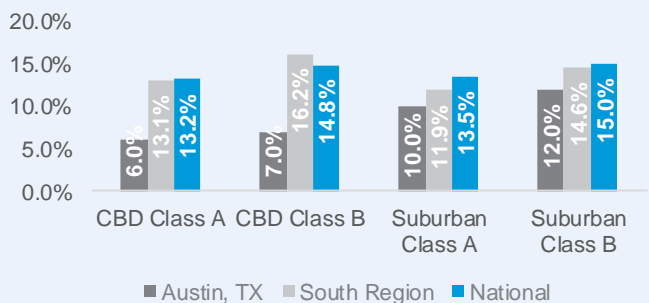


Asking Rents (\$/SF)



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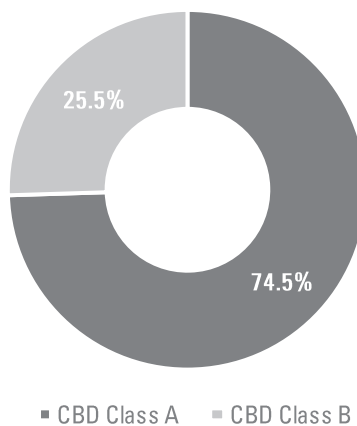
Vacancy Rates (%)



Austin, TX Office Market Overview

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Distribution of Total Inventory



9,820,000 SF
CBD Office Inventory

9.11% - 12 Mo. Proj.
Construction/Inventory

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Integra Realty Resources - Austin

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Change In Value Next 12 Months



2% - 3.9%

CBD Class A



2% - 3.9%

Suburban Class A

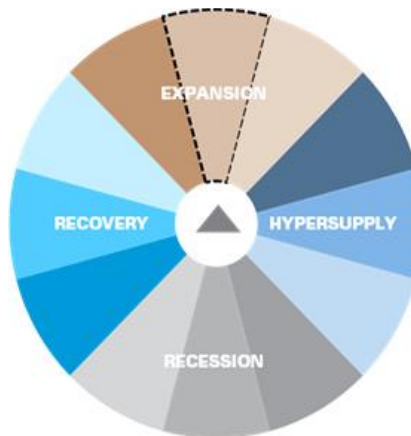
.1% - 1.9%

CBD Class B

.1% - 1.9%

Suburban Class B

Market Cycle: Expansion Stage 2



- Med/High Rental Rate Growth
- Decreasing Vacancy Rates
- Moderate/High New Construction
- Moderate/High Employment Growth
- High Absorption

Forecasts

Austin, TX 12-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Decrease 1-24 bps	Decrease 1-24 bps	Remain +/- 0%	Remain +/- 0%
Discount Rate	Decrease 1-24 bps	Decrease 1-24 bps	Remain +/- 0%	Remain +/- 0%
Reversion Rate	Remain +/- 0%	Remain +/- 0%	Remain +/- 0%	Remain +/- 0%
Construction (SF)	894,250		1,584,310	
Years to Balance	1	2	2	3

Austin, TX 36-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	3.00%	3.00%	3.00%	3.00%
Expense Rate Change	3.00%	3.00%	3.00%	3.00%
Change in Value	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%
Annual Absorption (SF)	100,000	16,750	650,000	600,000

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2016 AUSTIN, TX OFFICE MARKET REPORT

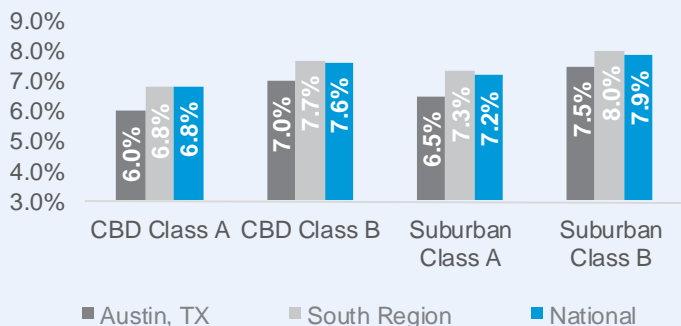
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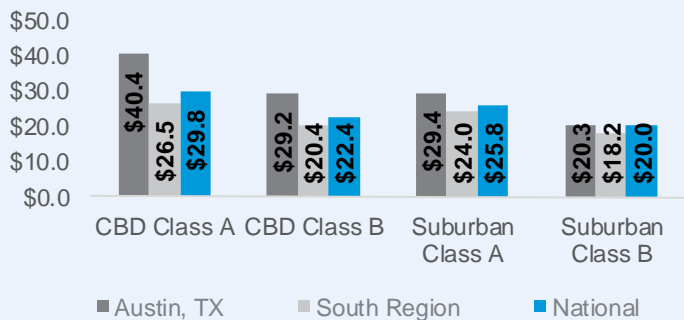
Market Rate Indicators (Y/Y)

Categories	CBD Class A	Suburban Class A
Going In Cap Rate (%)	▼	◀▶
Asking Rent (\$/SF)	▲	▲
Vacancy Rate (%)	▲	◀▶

Going In Cap Rate Comparisons (%)

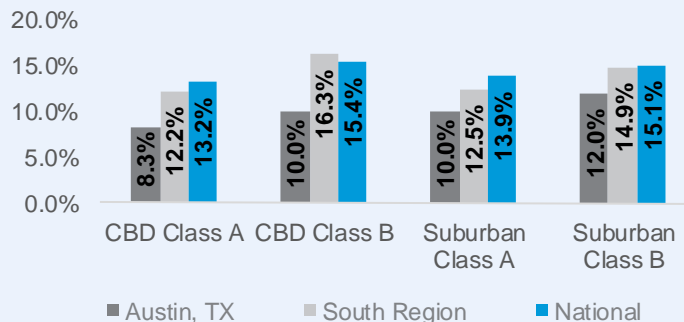


Asking Rents (\$/SF)



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Vacancy Rates (%)

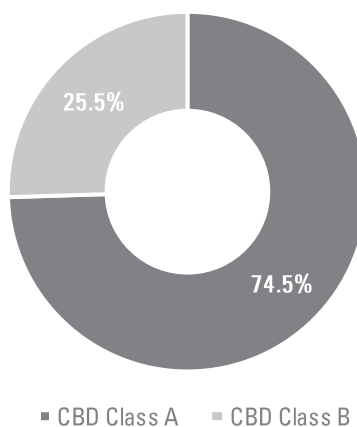


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Austin, TX Office Market Overview

Austin is thriving – and the office market is following suite. The tech industry continues to grow in Austin, with companies such as Google, Apple, Inc., and Amazon filling office space in the city. IT giant Oracle just announced a new 27-acre campus-style facility to be built in SE Austin, they also plan on increasing their Austin-based workforce by over 50%. The ingredients for an expanding office market are all in place – improving vacancy rates, increasing rental rates, and high absorption. The overall vacancy rate decreased slightly throughout 2015 and will likely continue this trend into 2016, even with an influx of new office space slated for 2016. Rental rates in both the Central Business District and suburban areas continue to climb, further indication of a strengthening office market. Absorption has been positive since 2011 with more than 2 million square feet of space absorbed last year, and this pattern is expected to hold over the coming years. Overall cap rates and discount rates varied little the last part of 2015 will likely remain steady going into 2016. More than 2 million square feet in office space is expected to be added in the next 12 months. Downtown Austin continues to be a hot spot for new office construction and the redevelopment of older properties into mixed-use developments with office components. Northshore, a mixed-use development with multifamily, retail, and office space is currently under construction in the Central Business District. In the northern suburbs, new office construction is slated around the Round Rock/Georgetown area. The strong local economy, booming population growth, and increased construction should continue to drive the expansion of the Austin office market into 2016.

Distribution of Total Inventory



9,819,000 SF
CBD Office Inventory
6.82% - 12 Mo. Proj.
Construction/Inventory

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Change In Value Next 12 Months



+ 2% - 3.9%

CBD Class A



+ 2% - 3.9%

Suburban Class A

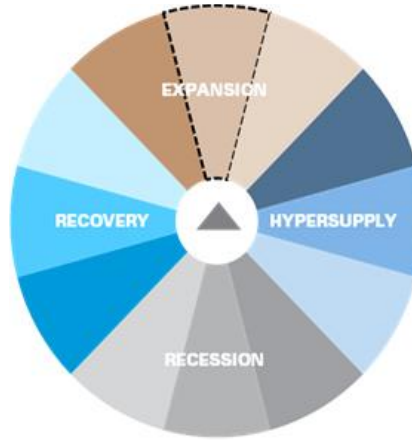
+ .1% - 1.9%

CBD Class B

+ .1% - 1.9%

Suburban Class B

Market Cycle: Expansion Stage 2



- High Absorption
- Med/High Rental Rate Growth
- Moderate/High New Construction
- Moderate/High Employment Growth
- Decreasing Vacancy Rates

Forecasts

Austin, TX 12 Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Decrease 1-24 bps	Decrease 1-24 bps	Remain Steady - no change	Remain Steady - no change
Discount Rate	Decrease 1-24 bps	Decrease 1-24 bps	Remain Steady - no change	Remain Steady - no change
Reversion Rate	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change	Remain Steady - no change
Construction (SF)	670,000		1,572,000	
Years to Balance	1	2	2	3

Austin, TX 36 Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	Increase 3% - 4.9%	Increase 1% - 2.9%	Increase 3% - 4.9%	Increase 1% - 2.9%
Expense Rate Change	Increase 1% - 2.9%	Increase 1% - 2.9%	Increase 1% - 2.9%	Increase 1% - 2.9%
Change in Value	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%
Annual Absorption (SF)	100,000	16,750	650,000	600,000

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