

Savills Studley Report Austin office sector

Q2 2018



SUMMARY

Market Highlights

LEASING DOWN SLIGHTLY

Tenants leased 1.4 million square feet (msf) in the second quarter, and have leased 7.3 (msf) in the four most recent quarters, well above the long-term market annual average.

AVAILABILITY JUMPS

The market's overall availability rate rose by 170 basis points to 14.0%. The Class A availability rate spiked by 130 basis points to 15.2%.

RENTS DOWN SLIGHTLY

Class A asking rent for the entire region fell by 1.6% quarter-on-quarter, averaging \$39.62 in the second quarter. Class B and C asking rent averaged \$29.04, unchanged from a year ago.

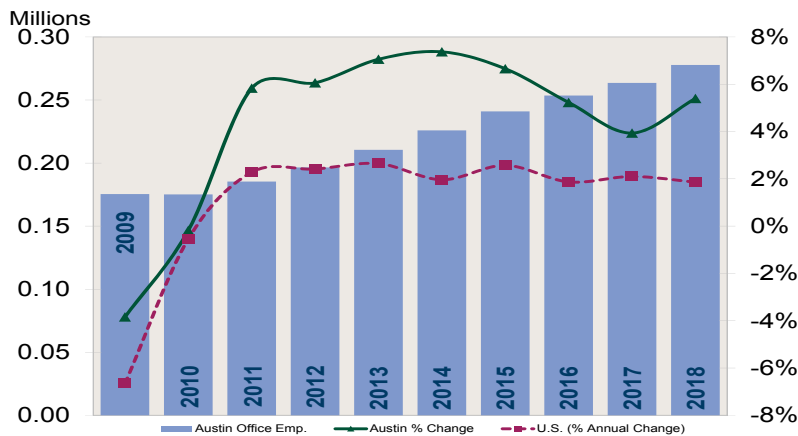
SALES DOWN

Sales volume during the last six months (through May) totaled \$510 million, down by 54% from the \$1.1 billion during the previous six months.

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"Top tech firms in Austin are taking different routes to secure additional space for their growing workforces. Some are expanding on corporate campuses, others are making aggressive moves on future development sites. In general, the competition for space is becoming as fierce as the battle for talent."

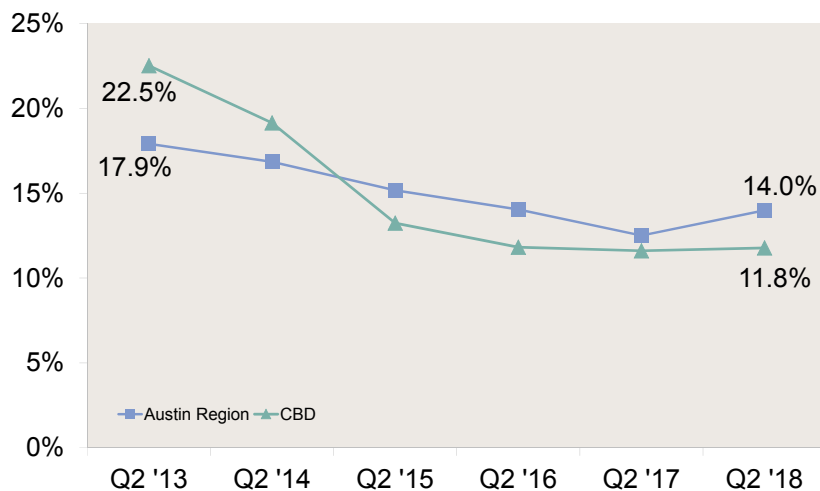
*Brad Hauser,
Research Director*

Office-Using Employment Trends

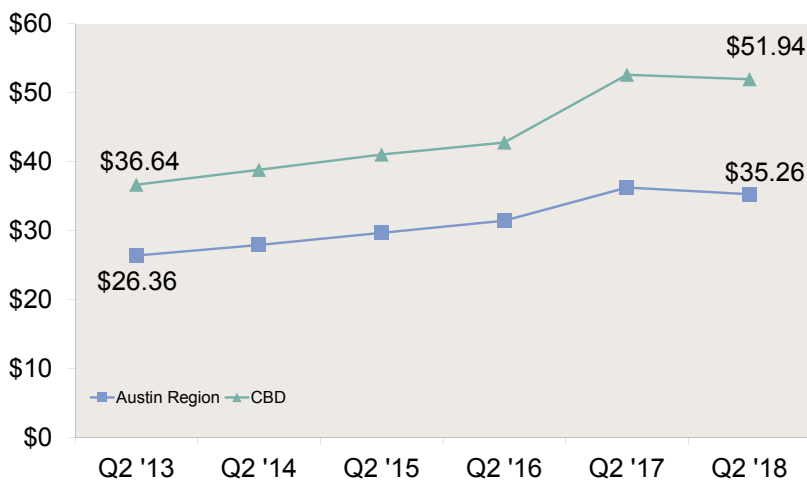


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Development Activity Heats Up

The Austin market is benefiting from remarkable growth among both tech heavyweights and a myriad of startups. The top tech firms in the region account for a very high share of Austin's tenant base. An analysis of the top 10 tech companies in Austin shows that they own or lease approximately 6.0 msf - or nearly 10% of the market. For the time being, the outsized and growing presence of these firms is creating very tight market conditions. Speculative buildings may be empty when they first break ground, but most properties are fully leased well before they deliver. Extensive payroll expansion among companies stokes a sense of urgency for firms anticipating extensive future space needs. There is little sign that this tech rally is slowing, but on the flip side the downturn has the potential to be volatile in such a top-heavy market.

Scramble for Space Takes Different Routes

The region's top employers take very divergent approaches to satisfying their space needs. Some tech heavyweights such as Apple, Google, Parsley Energy and Oracle have been active in locking down near term expansion space. Others such as Facebook, Homeaway and Indeed have established major presences in multiple locations across Austin. Indeed for example, recently signed a 307,000 sf lease for the top 10 floors of Block 71 in Downtown Austin. It plans to consolidate Downtown locations at the new building, upon its completion in 2021. This will give Indeed three outposts in the region - its campus in the Champion Office Park, 300,000 sf in the Domain and the newest location Downtown.

Other top tech firms, such as Oracle, have a single site for their operations. Oracle's recently submitted site plan application for phase two of its Austin campus, which would add 420,000 sf of new office space, has drawn some concerns from groups in the area. Oracle still has to negotiate with the city to get the plan approved. The local headcount is expected to grow to 3,000 in the coming months, but company executives have said it could grow eventually to as many as 10,000. The campus is not set in the heart of bustling Austin the company offers its employees extensive amenities including dog-friendly amenities, food trucks and a sports training center.

Most firms do not have the benefit of owning a campus that they can easily grow

into over the course of multiple cycles. The largest companies have to be aggressive in their pursuit of space. Austin has very few 300,000 sf blocks of available space, much less blocks over 100,000 sf. Just over 60% of the 4.4 msf currently under construction across the region is pre-leased.

Indeed's aggressive move at 201 W 6th Street makes sense against the backdrop of tight availability. Several other tenants are in the market with significant space requirements. Austin Energy, for example, is looking for 300,000 sf so it can consolidate all of its 1,700 employees under one roof. The public utility has until 2020 to make a move. In 2014 the company came up with a plan in 2014 to build a \$67-million, 180,000-sf headquarters, but ultimately ran into opposition due to concerns about the cost of the project – private corporations for the time being are generally not restrained in their real estate budgets.

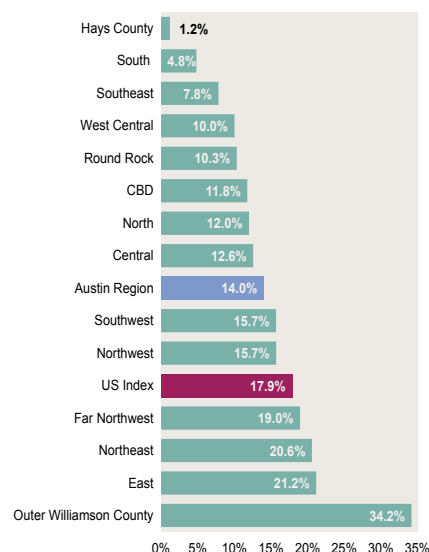
New Product on the Horizon

Tight availability is prompting more developers to push forward with new projects. Lincoln Property is teaming up with Phoenix Property company, on a potential 37-story tower at 401 W. Fourth Street. Currently being called "The Republic" the project on one of the last undeveloped and unrestricted blocks downtown (near the W Hotel) would be just slightly taller than Trammell Crow's Block 71 project. The 1.42-msf building overlooking the recently renovated Republic Square, would have 711,401 sf of office space, ground-floor retail and 1,644 parking spaces. Still in the planning stages, Lincoln is moving ahead with another tower - 600 Guadalupe Street - first.

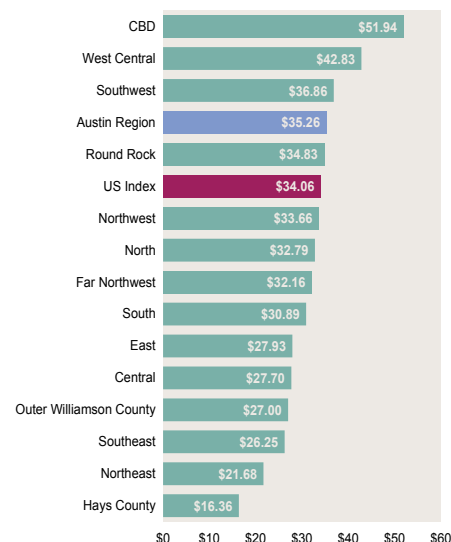
In North Austin, the Domain's prolific growth continues. TIER REIT is about to start work on Domain 12, a new 17-story spec tower with an estimated 2019 completion date. The building is just across from HomeAway's future headquarters, which will house 1,700 local employees. TIER will be in the discussion for years to come they plan to have 4.2 msf upon full buildout at the property. Additionally, on the south side of the Domain, Stonelake Capital Partners and HPI Real Estate intend to construct two new tower. Both will be between eight to 10 stories and about 300,000 sf each.

Tenants have been drawn to the Domain's live-work-play setting and rent that is still discounted relative to Downtown. With such strong demand at the Domain, discussion about potential development of the 7,000-

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Indeed	307,000	200 W 6th St	CBD
Health and Human Services Commissic	58,117	1106 Clayton Ln	Northeast
eHealth	26,878	13620 Ranch Road 620 N	Far Northwest
Youeareedit	25,804	206 E 9th St	CBD
Peak Rock Capital	22,918	13413 Galleria Cir	Southwest
eRelevance	20,421	6011 W Courtyard Dr	Northwest
Gardere Wynne Sewell	18,951	600 Congress Ave	CBD
CreditShop	15,556	504 Lavaca St	CBD
HNTB Corporation	14,600	701 Brazos St	CBD
Shopgate	12,946	2222 Rio Grande St	CBD
Sum of Top Leases	523,191	Sum of 2nd Quarter Leasing Activity	1.4 MSF

acre Robinson Ranch is gathering traction. Robinson ranch actually allows for higher-density development. The project has entitlements to build more than 10 Domains.

Brandywine's Broadmoor Campus redevelopment is garnering attention. Across Burnet Road from The Domain, the development could eventually have as much as 6 msf of commercial development. The REIT paid \$211 million to buy the massive 66-acre complex from IBM nearly three years ago. In late June it won approval from the Austin City Council for high-density construction as well as much taller building heights. Additionally, the Kramer Metro Rail Station will be moved from Kramer Land and additional bus stops are planned. Brandywine may kick off development as early as 2019. In addition to extensive new office product, the plan call for up to 2,000 housing units, two hotels and additional parking.

In addition to new development, tenants are also responding positively to some innovative adaptive re-use projects catering to creative office space tenants. EverWest Real Estate Partners is working on 2498 E. Sixth Street. A redevelopment of the former Balcones Recycling Plant, the building will have unique features such as a patio space, conference space, collaborative areas, bike storage, coffee bar and showers. Stream Realty Partners expects to have the renovations completed this summer.

Map	Submarket	Inventory	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	CBD	11,937	1,747	0	9.0%	0	11.8%	1.3%	11.6%	\$51.94	0.3%	\$52.58
	CBD - Class A	8,691	1,515	1,115	16.8%	1,197	12.8%	1.7%	14.0%	\$54.56	0.7%	\$54.53
2	Central	3,280	314	0	-8.7%	0	12.6%	0.1%	7.9%	\$27.70	0.8%	\$27.46
	Central - Class A	472	136	50	59.9%	8	10.5%	3.9%	1.6%	\$35.32	-0.6%	\$35.24
3	East	1,617	169	0	-47.4%	0	21.2%	-9.4%	15.9%	\$27.93	9.8%	\$25.84
	East - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4	Far Northwest	3,992	562	0	31.4%	0	19.0%	4.5%	7.9%	\$32.16	-4.8%	\$31.73
	Far Northwest - Class A	2,666	510	396	13.9%	284	14.9%	1.8%	10.7%	\$32.74	-3.2%	\$32.09
5	Hays County	91	15	0	0.0%	0	1.2%	0.3%	1.6%	\$16.36	0.0%	\$11.73
	Hays County - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	North	5,540	1,058	0	9.0%	0	12.0%	1.4%	11.8%	\$32.79	-0.9%	\$31.11
	North - Class A	2,260	694	0	14.2%	0	11.4%	1.4%	8.1%	\$38.14	-3.8%	\$37.32
7	Northeast	2,570	382	0	35.2%	0	20.6%	5.7%	10.5%	\$21.68	3.5%	\$21.19
	Northeast - Class A	741	324	141	1570.5%	30	19.0%	17.8%	4.0%	\$22.85	-7.1%	\$24.93
8	Northwest	12,788	971	0	3.2%	0	15.7%	0.5%	15.3%	\$33.66	-1.2%	\$33.54
	Northwest - Class A	7,168	702	1,305	-7.2%	1,310	18.2%	-1.5%	18.4%	\$35.20	-0.8%	\$35.50
9	Outer Williamson County	97	4	0	-21.8%	0	34.2%	4.4%	30.4%	\$27.00	-5.1%	\$25.81
	Outer Williamson Co - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	Round Rock	1,298	74	0	-21.8%	0	10.3%	4.8%	5.2%	\$34.83	6.6%	\$28.05
	Round Rock - Class A	537	31	99	0.0%	32	18.4%	18.1%	7.2%	\$36.50	0.0%	\$35.21
11	South	2,441	285	0	-15.1%	0	4.8%	-0.5%	14.3%	\$30.89	1.6%	\$34.38
	South - Class A	604	143	41	82.7%	183	6.8%	3.1%	30.3%	\$37.88	1.2%	\$33.47
12	Southeast	2,760	412	0	4.1%	0	7.8%	0.3%	9.7%	\$26.25	9.7%	\$23.91
	Southeast - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
13	Southwest	10,180	1,234	0	-0.1%	0	15.7%	-0.1%	15.1%	\$36.86	1.0%	\$35.27
	Southwest - Class A	7,302	925	1,271	0.4%	1,143	17.4%	-0.3%	16.0%	\$38.02	0.4%	\$36.86
14	West Central	508	22	0	4.5%	0	10.0%	2.0%	9.0%	\$42.83	-1.7%	\$45.09
	West Central - Class A	370	6	43	2.7%	49	11.6%	0.3%	13.2%	\$43.20	-0.8%	\$45.45
1-14	Austin Region	59,098	7,250	8,270	3.1%	7,611	14.0%	0.8%	12.5%	\$35.26	-3.1%	\$36.23
	Austin Region - Class A	31,416	5,101	4,787	9.8%	4,497	15.2%	1.2%	14.5%	\$39.62	-1.6%	\$40.58

Please contact us for further information

Savills Studley
300 W. 6th Street
Suite 1510
Austin, TX 78701
(512) 256-8430

Local Contact
Alan Peters
Senior Managing Director
Branch Manager
apeters@savills-studley.com
(512) 256-8436

Corporate Research Contact
Brad Hauser
Regional Director, Research
bhauser@savills-studley.com
(713) 237-5515

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.
^Unless otherwise noted, source for data is Savills Studley.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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