

Savills Studley Report Austin office sector

Q3 2018



SUMMARY

Market Highlights

LEASING DECLINES AS SPACE OPTIONS REMAIN TIGHT

Tenants leased 1.1 million square feet (msf), a 23.1% decline compared to the previous quarter. Brisk competition for space, particularly in new buildings, has depleted options for tenants. Deal volume totaled 6.2 msf in the four most recent quarters.

SHARP DROP IN CLASS A AVAILABILITY

Aggressive leasing among top firms continues to make a dent in the Class A availability rate. The Class A availability rate fell by 210 basis points to 13.3%. Class

B and C availability rose slightly, increasing by 60 basis points to 12.3%. The overall availability rate dropped by 70 basis points to 12.9%.

LITTLE CHANGE IN RENT

Class A asking rent for the entire region inched up by 0.2% to \$39.62. Class B and C asking rent averaged \$28.65, down by 3.9% from a quarter ago.

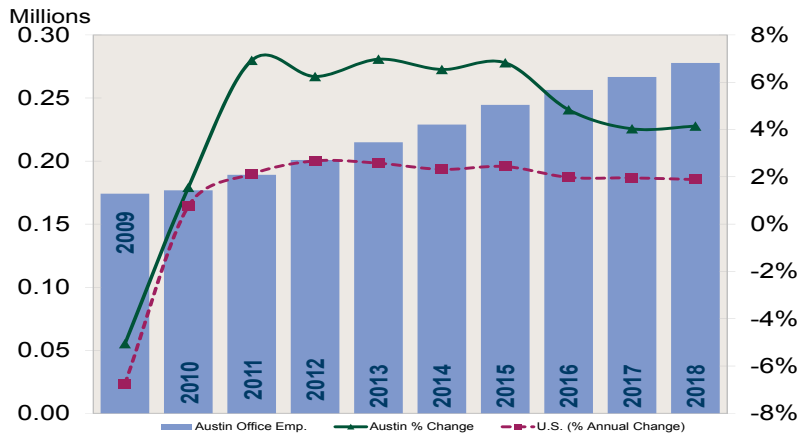
SALES DOWN

Office property sales during the first seven months of the year totaled \$698 million, a 42% decrease compared to the first seven months of 2017.

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"There seems to be no end in sight for demand for space, particularly new product, from top tech firms. Facebook, HomeAway and others dipped further into the next wave of proposed buildings, increasing the possibility that massive projects such as Broadmoor could get started in this cycle. "

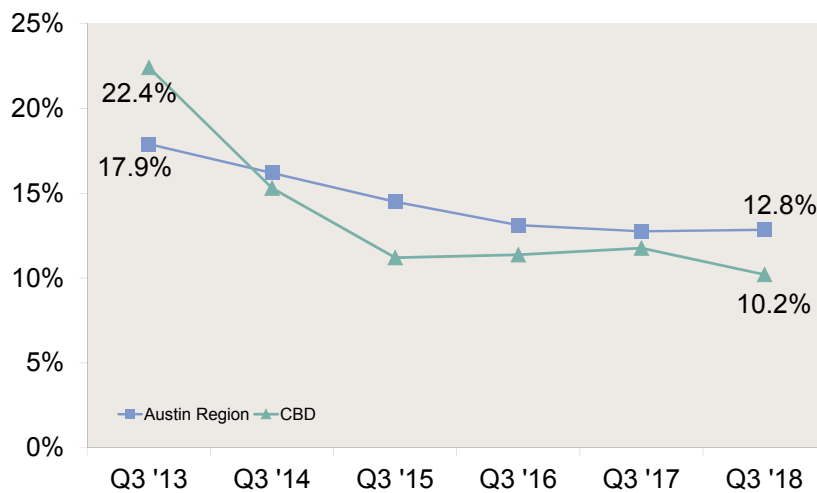
Brad Hauser,
Research Director
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Office-Using Employment Trends

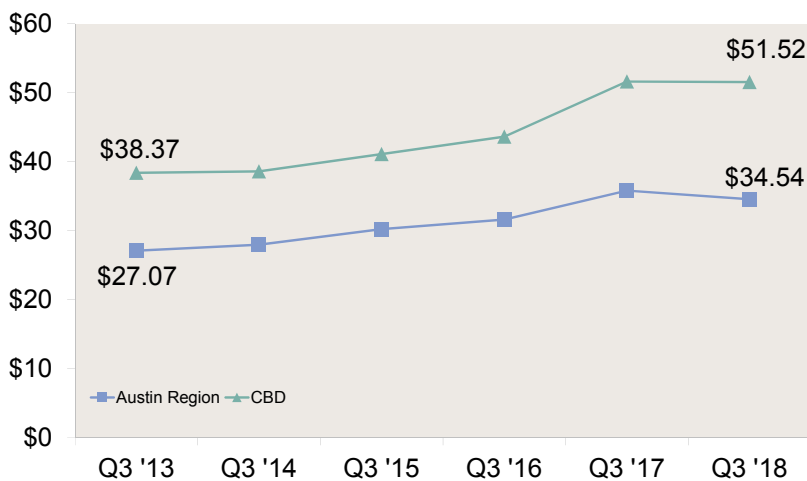


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Unrelenting Competition for Talent and Space

The sense of urgency among larger and mid-sized employers in Austin to land talent and competitive space to house them remains very high. Over the course of the summer, top tech firms dipped further into the next set of proposed buildings. Smaller firms may not feel as much pressure but they certainly face rising rent costs and challenges competing for skilled employees. The local economy shows few signs of an imminent slowdown. Office-using employment jumped by nearly 11,000 jobs (4.1%) in the last 12 months, well above the national increase of 1.9%.

Domain Leasing Quickly

Facebook is doing its part to heighten the sense of urgency for space. They signed a 320,000-sf lease for the entirety of 3110 Esperanza Crossing at Domain. The new lease with TIER REIT would establish its fourth major location in Austin, with a major presence in north Austin and downtown. New development activity at the Domain could intensify as more buildings are pre-leased. TIER REIT also disclosed that it has more than 350,000 sf in letters of intent for Domain 10, which is only 300,000 sf.

The REIT has plans for a three additional buildings after Domain 10 – Domain 9, Domain D and Domain G. They could construct as much as 4 msf more in mixed-use development in The Domain and Domain Point. Asking rent for new office space at The Domain is on the increase, rising to about mid-\$30/sf but this is still about \$20 below Downtown. TIER REIT's Third & Shoal, for example, is reportedly priced about \$50/sf NNN. The 29-story project is reportedly nearing a 20,000 sf expansion by Facebook that would push its occupancy to 250,000 sf.

HomeAway added another 20,000 sf at D3 in Domain Northside. Like some other top local employers, HomeAway has spread operations across the region. The travel-booking site has approximately 1,700 employees scattered across six different offices in the Domain, South Austin and Downtown. It expects to double headcount in the next several years. Earlier this year HomeAway signed a 315,000-sf lease for the entirety of Domain 11, which is slated for mid-year 2019. The Expedia subsidiary recently announced that its operating income rose to \$63 million, more than doubling from what it reported in 2017.

Broadmoor on the Horizon

As leasing at the Domain rushes forward, Brandywine Realty Trust's Broadmoor suddenly seems likely to start in this cycle. The 66-acre complex would have 6.0 msf of commercial and residential development, connected by 23 miles of trails and a light-rail system. Initial plans call for 3.2 msf of office space; 300 hotel rooms, nearly 100,000 sf of retail and more than 2,000 multi-family units. In late July Brandywine secured rezoning that would allow them to build towers of up to 30 stories. Approval is contingent upon the relocation of the Red Line train station to the campus. The new zoning could entitle the project to as much as 5.7 msf of total development, roughly the same of Domain's 5.5 msf of office space. This would likely take more than decade to build out. Brandywine hopes to start the first phase in 2019.

Other landlords are still trying to secure approvals for their projects, including 6 Guadalupe. The 66-story mixed-use building would be Austin's tallest, fitting for a cycle which has seen rent and the region's office-using employment reach new heights. Additionally, Lincoln Property Company and Phoenix Property Company are trying to secure approvals for the Republic. The 37-story, 711,400-sf building at 308 Guadalupe would be built on a site previously considered as a location for a new county courthouse.

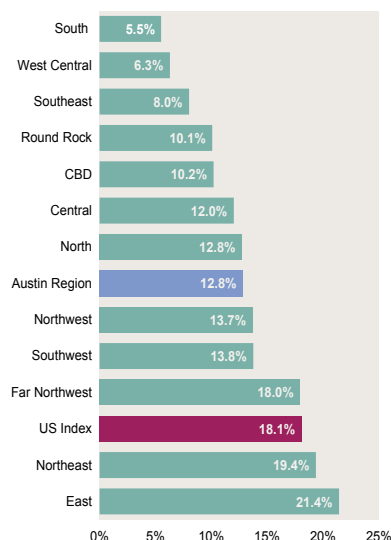
In addition to these private developments, plans for the redevelopment of the Texas State Capitol are gaining traction. The first phase of a new state government complex, scheduled for May 2022, calls for a 14-story, 603,000-sf tower at 1801 Congress Avenue and a 12-story, 420,000-sf building at 1601 Congress Avenue as well as 3,800 parking spaces. A second phase could bring another 1 msf of office space.

Tech Rally Lures Diverse Tenant Base

Austin's thriving and innovative tech sector and strong university system is also attracting a diverse set of non-tech tenants. In July, following a search of 150 U.S. cities, the U.S. Army selected Austin for the home of its new Futures Command center. The UT System Board of Regents will provide the U.S. Army space in the UT System building at 210 W. Seventh Avenue in Downtown. In addition to bringing 500 jobs into the area, the location will likely attract defense contractors and consultants.

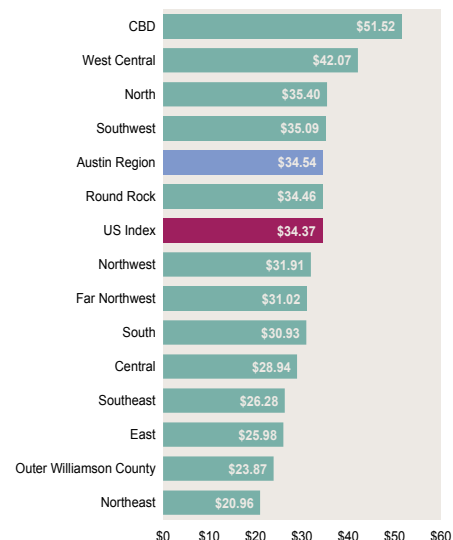
Law firms, banks and real estate are

*Availability Rate Comparison



*The availability rate in Outer Williamson is 48%

Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Facebook	320,000	Domain 12	North
City of Austin	175,668	5202 East Ben White Blvd	Southeast
Tangoe	46,893	2420 Ridgepoint Dr	Northeast
Zebra Insurance	40,000	1801 East 6th	East
IAS	40,000	8201 North FM 620	Northwest
MHNet	22,328	9606 N MoPac Expy	Northwest
Dickinson Wright	22,300	Third + Shoal	CBD
HomeAway	20,000	Domain 3	North
Shopgate	12,946	2222 Rio Grande St	CBD
Firmspace	9,300	500 West 2nd	CBD
Sum of Top Leases	389,435	Sum of 3rd Quarter Leasing Activity	1.1 MSF

benefitting from a market relatively flush with capital. During the summer 500 W. 2nd St. topped out construction and added three additional tenants to its roster. Professional services firm Deloitte, international law firm King & Spalding and CBRE Group Inc. signed long-term leases at the building.

Steady Sales

Investor demand remains very strong. Newport Beach, California-based KBS Realty recently sold Stonebridge Plaza I & II in Northwest to Intercontinental Real Estate Corp. The price for the 338,024-sf complex was not disclosed. The seller paid \$124.3 million for the buildings just over two years ago. In the sales, Azrieli Group paid \$100.5 million (\$402/sf) for 3700 N. Capital of Texas Highway. The 249,780-sf building constructed in 2015 was fully leased.

Looking Forward

Tenants are leasing new development

nearly as fast as landlords unveil blueprints. Landlords remain very bullish, evidenced by Austin's growing development pipeline. New York-based McCourt Global is seeking a joint venture partner for a proposed \$1 billion complex to be called Waller Park Place. The site near Lady Bird Lake envisions more than 3.0 msf of residential and office space. Endeavor Real Estate, the master developer for the 19-acre Austin American Statesmen site, has proposed a mix of offices, shops and residences totaling about 2.1 msf. The region has 4.5 msf of new office space underway, 2.6% is pre-leased. It will likely be 2020 or later before the next set of buildings at the Domain and proposed projects such as Broadmoor or Waller Place start to deliver. Nevertheless, considering the long list of projects on the horizon, larger tenants who have a lease expiration in 2020 or later may enjoy significantly more options.

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	1,632	1,218	-13.3%	1,443	10.2%	-1.3%	11.8%	\$51.52	-0.8%	\$51.60
	CBD - Class A	8,691	1,460	949	-14.9%	1,121	10.9%	-2.1%	13.1%	\$54.08	-0.9%	\$54.29
2	Central	3,280	340	394	-4.4%	441	12.0%	0.6%	12.2%	\$28.94	4.5%	\$28.48
	Central - Class A	472	133	39	-20.3%	85	8.4%	-2.1%	18.1%	\$35.77	1.3%	\$42.36
3	East	1,617	155	346	1.2%	499	21.4%	5.3%	23.4%	\$25.98	-7.0%	\$35.72
	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	325	717	-5.3%	340	18.0%	-1.0%	8.5%	\$31.02	-3.6%	\$31.66
	Far Northwest - Class A	2,666	287	361	-8.8%	278	13.5%	-1.3%	10.4%	\$32.51	-0.7%	\$33.05
5	Hays County	91	15	0	0.0%	0	0.0%	0.0%	0.0%	\$0.00	0.0%	\$0.00
	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	5,860	1,081	0	12.5%	0	12.8%	1.2%	10.3%	\$35.40	8.0%	\$30.80
	North - Class A	2,580	757	0	45.3%	0	14.5%	3.1%	6.4%	\$41.97	10.0%	\$37.22
7	Northeast	2,534	113	491	-7.3%	0	19.4%	-0.7%	11.8%	\$20.96	-3.3%	\$22.44
	Northeast - Class A	741	45	149	6.1%	48	20.1%	1.2%	6.4%	\$22.98	0.6%	\$24.51
8	Northwest	12,788	846	1,751	-12.8%	1,809	13.7%	-2.0%	14.1%	\$31.91	-5.2%	\$33.41
	Northwest - Class A	7,168	575	1,035	-20.7%	1,147	14.4%	-3.9%	16.1%	\$35.07	-0.4%	\$35.59
9	Outer Williamson County	97	0	46	40.6%	49	48.0%	24.7%	34.7%	\$23.87	-11.6%	\$26.82
	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	32	131	40.6%	143	10.1%	-0.1%	10.9%	\$34.46	-1.1%	\$28.16
	Round Rock - Class A	537	3	99	0.0%	7	18.4%	-4.0%	1.5%	\$36.98	1.3%	\$35.38
11	South	2,441	213	135	14.2%	148	5.5%	1.0%	5.7%	\$30.93	0.1%	\$31.02
	South - Class A	604	132	40	-1.8%	28	6.7%	-0.1%	4.6%	\$38.30	1.1%	\$35.07
12	Southeast	2,760	248	221	2.2%	314	8.0%	0.2%	11.4%	\$26.28	0.1%	\$23.97
	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	10,137	1,091	1,394	-12.7%	1,595	13.8%	-2.0%	15.8%	\$35.09	-4.8%	\$34.90
	Southwest - Class A	7,302	809	1,077	-15.3%	1,112	14.7%	-3.0%	15.6%	\$36.64	-3.6%	\$36.92
14	West Central	508	38	32	-37.2%	81	6.3%	-2.1%	13.3%	\$42.07	-1.8%	\$41.36
	West Central - Class A	370	18	27	-37.5%	43	7.3%	-4.4%	11.7%	\$42.94	-0.6%	\$44.44
1-14	Austin Region	59,338	6,127	7,625	-7.8%	7,763	12.8%	-0.7%	12.8%	\$34.54	-3.3%	\$35.79
	Austin Region - Class A	31,736	4,318	4,217	-11.9%	4,075	13.3%	-2.1%	13.1%	\$38.97	-1.5%	\$40.82

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(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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