

Savills Studley Report Austin office sector

Q1 2018



SUMMARY

Market Highlights

LEASING INCREASES

Tenants leased 1.9 million square feet (msf) in the first quarter, and have leased 6.7 (msf) in the four most recent quarters, well above the long-term market annual average.

AVAILABILITY FALLS

The market's overall availability rate decreased by 130 basis points to 13.2%. The Class A availability rate fell by 230 basis points to 14.1%.

RENTS RISE

Class A asking rent for the entire region increased by 6.7% year-on-year, averaging \$36.40 in the first quarter. Class B and C asking rent averaged \$30.20, up by 9.4% year-on-year.

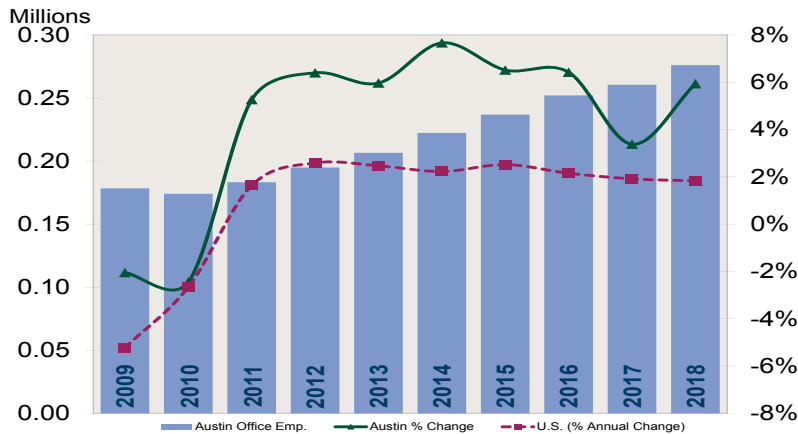
SALES DOWN

Sales volume during the last six months (through February) totaled \$763 million, down by 16% from the \$911 million during the previous six months.

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"Despite permitting constraints, developers have been moving ahead with projects, not only in the CBD, but also in Austin's 'second downtown' at the Domain. And, they have been rewarded with significant pre-completion leasing activity."

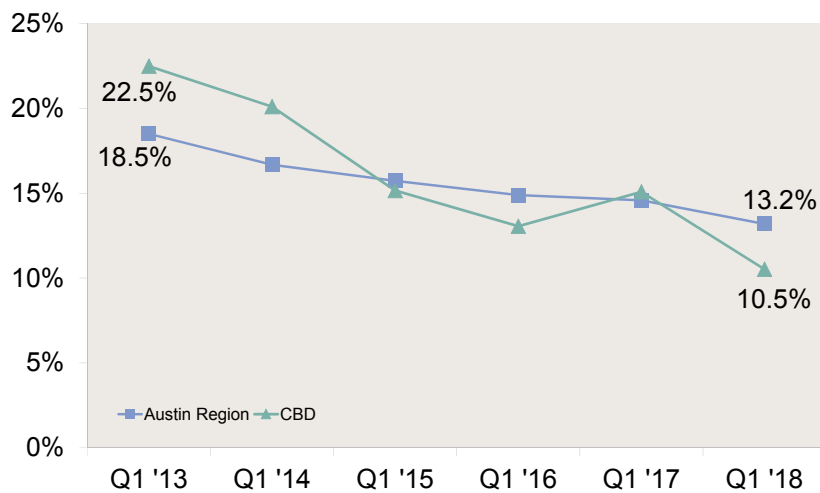
*Alan Peters,
Senior Managing Director*

Office-Using Employment Trends

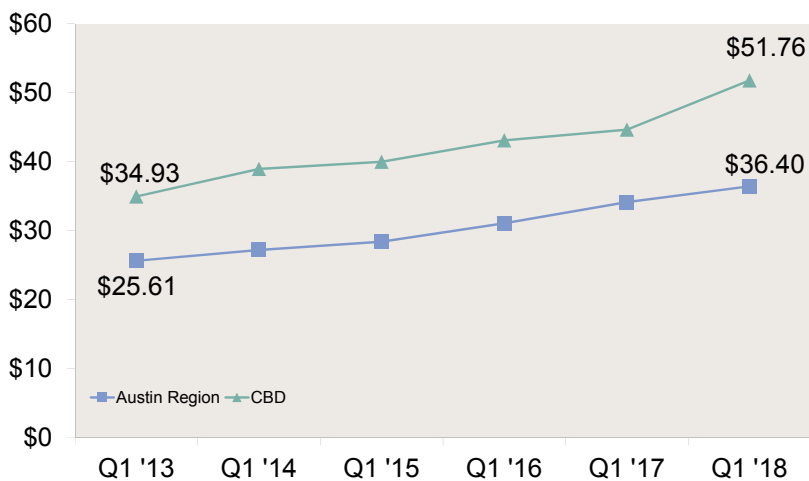


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Flush with Funding, Tech Firms Stay Active

Following trends in many tech centers, Austin's labor and office market present companies with significant supply shortages. Larger firms requiring either a deep supply of skilled labor or big blocks of quality office space face limited options. Steady leasing and controlled construction have pushed the Class A availability rate in the CBD down sharply from a year ago. Many larger tenants have turned their attention to the Domain, depleting quality space options in this high-demand submarket as well.

As Austin enters the eighth year of its recovery, office-using employment growth continues to outpace national trends. Austin has gained more than 97,000 office-using jobs since its low point in September of 2009 – putting Austin in the same league as San Jose, San Francisco, Seattle and Raleigh/Durham which have seen gains of 30.0% or higher.

Race for Innovation Heats Up

According to Moody's, high-tech employment in Austin totals just over 95,000 (9.5%) of the region's employment base. This is nearly twice the U.S. average with 4.8% of employment in high tech. Austin's total is likely understated. In addition to expansion among tech mainstays such as Facebook, Dell and Samsung, much of the recent demand for local tech talent is coming from companies that are in entirely different industries. Blue chip firms such as Walmart, Merck and Pimco are setting up innovation centers in Austin. These companies—hailing from retail, pharmaceuticals and finance—have embraced the reality that innovation is critical to survival.

Walmart, for example, officially opened its first tech hub at the original Alamo Drafthouse Cinema Theater. The retailer is trying to catch up with competitors by designing innovative technologies that use AI and data science to improve back-office operations. Merck is tapping into the region's medical expertise and will be basing its innovation center at the new Dell Medical School. Finally, PIMCO has yet to choose a location. This most recent set of innovation centers builds on the success seen by GM, Union Pacific and Home Depot that were the first to establish such hubs in Austin in the early days of this cycle.

West Coast Connection Deepens

Austin's recent influx of Millennials are

benefiting from the far-flung expansion of California's top tech companies. Amazon, Apple and Facebook have fanned out to nearly every city in pursuit of talent. Austin's connection with the West Coast and the Bay Area continues to deepen also thanks to startups that may be priced out of Bay Area labor markets.

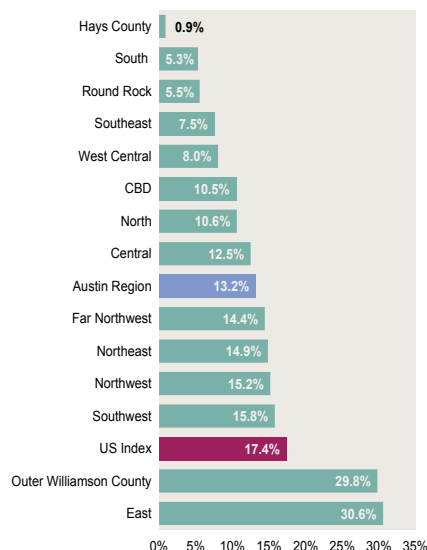
Ample Funding

San Francisco-based JASK Inc., for example, recently selected Austin for its second headquarters. The cybersecurity software company has 50 employees, about half are located in Austin. Startups such as JASK are flourishing as the venture capital hiccoughs that occurred in 2015 and early 2016 have largely dissipated. According to Crunchbase, venture capitalists poured \$368 million into Austin startups during the first quarter of 2018, accounting for nearly two-thirds of all funding in the state of Texas. Fundings during early 2018 included a \$64 million round going to BigCommerce. The startup powers e-commerce sites for the likes of Sony, Toyota and 60,000 other merchants. In an even larger funding, WP Engine raised \$250 million. The company secured the round from Silver Lake, a private equity firm that helped Dell go private in 2013. On the other hand, YETI has pulled back from its IPO plans.

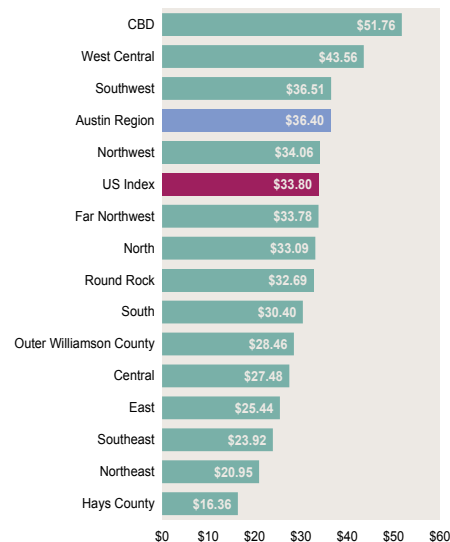
The local cybersecurity sector is growing rapidly. SailPoint Technology Holdings recently raised \$67.8 million in an initial IPO issued in the fourth quarter of 2017. The cybersecurity and identity management software company leased the entire 140,683-sf building being constructed in Far Northwest. This will be a significant jump from the 45,000 sf it leases at Four Points Building II and 56,000 sf at Ladera Bend (7330 Ranch Road 2220). The company added 124 employees in Austin during 2017, increasing headcount to 389 people locally. Construction of the new facility is expected to be complete in early 2019.

While startups and tech mega-fauna can pursue talent and office space almost with a blind eye to cost, most companies must restrict their appetite. Many have been trying to reduce their lease exposure by combining locations. Relocation to a newly constructed building is sometimes the only way for larger tenants to consolidate. Bank of America, for example, has multiple leases and locations and wants to bring them all under one roof. The bank plans to relocate most of their local operations from 515 Congress Avenue to Third + Shoal, scheduled to deliver by early 2019.

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Parsley Energy	302,000	300 Colorado St	CBD
Sailpoint Technologies	140,683	11305 Four Points Dr	Far Northwest
State of Texas	115,000	10801 N MoPac Expy	North
WeWork	86,127	801 Barton Springs Rd	South
Bank of America	53,000	208 Nueces St	CBD
Newgistics	42,000	7171 Southwest Pky	Southwest
Global Foundries	33,642	5113 Southwest Pky	Southwest
ForeFlight	30,309	1801 E 6th St	East
SAS	30,269	1801 E 6th St	East
DPR Construction	25,866	310 Comal St	East
Sum of Top Leases	858,896	Sum of 1st Quarter Leasing Activity	1.9 MSF

Very Tight Conditions in the CBD

As a few more landlords refresh their buildings in the CBD, others feel pressure to follow suit. One American Center, 111 Congress and several other buildings have been recently renovated. Cousin's Properties addition of the Fareground food hall at 111 Congress is drawing a lot of attention. Bank of America Center is getting a \$5-million upgrade following recent leases and expansion at the property. Renovations include a new coffee bar, renovated elevators and entryways. Cloudera Inc signed a 28,000-sf lease at Bank of America Center, doubling its commitment at the building.

Domain's Rising Appeal

As tenants encounter low vacancy in Austin's CBD, The Domain is emerging as a top alternative. Amazon, Facebook and HomeAway are all nearing completion of major facilities at the 300-acre mixed-use project. Indeed.com leased the entire

310,000-sf Domain Tower. The developer, HPI, plans to break ground on a second building. For all that The Domain has to offer, its biggest advantage may be available land to build on. Stonelake Capital Partners holds about 31 acres in the southeast section of the Domain the developer has branded as the "South End District," and has ample parcels for build to suits.

The master developer for the majority of the Domain, Endeavor, and their joint venture partners acquired two buildings to the north of the Domain to expand the campus. Brandywine is pursuing entitlements to at least quadruple the size of the Broadmoor campus, across Burnet Road, and home to IBM. Finally even the owners of Robinson Ranch are seeking a master developer. This comes after years of holding out on development on the 7,000-acre ranch, despite watching the 1.0-msf Apple campus go up across the street.

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	12,258	1,639	1,289	-9.5%	1,848	10.5%	-1.1%	15.1%	\$51.76	0.3%	\$44.63
	CBD - Class A	8,572	1,432	955	-16.2%	1,508	11.1%	-2.1%	17.6%	\$54.21	-0.4%	\$46.36
2	Central	3,612	323	452	1.8%	272	12.5%	0.2%	7.5%	\$27.48	-4.5%	\$26.04
	Central - Class A	472	136	31	-68.9%	19	6.6%	-14.6%	4.0%	\$35.53	-15.6%	\$35.80
3	East	2,128	119	651	-23.6%	501	30.6%	-9.4%	23.6%	\$25.44	-30.1%	\$30.42
	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	513	576	57.8%	468	14.4%	5.3%	11.7%	\$33.78	7.0%	\$30.66
	Far Northwest - Class A	2,666	461	348	22.6%	400	13.0%	2.4%	15.0%	\$33.83	0.8%	\$31.25
5	Hays County	123	17	1	-81.7%	22	0.9%	-4.0%	17.6%	\$16.36	-13.6%	\$26.20
	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	5,741	855	610	-30.5%	775	10.6%	-4.7%	13.5%	\$33.09	-8.9%	\$31.79
	North - Class A	2,260	515	225	-49.2%	247	10.0%	-9.7%	10.9%	\$39.66	-8.8%	\$36.76
7	Northeast	2,632	532	391	-1.7%	0	14.9%	-0.3%	16.2%	\$20.95	-0.7%	\$20.65
	Northeast - Class A	741	320	8	-82.6%	20	1.1%	-5.4%	2.7%	\$24.58	-11.2%	\$25.11
8	Northwest	12,825	892	1,947	-6.6%	2,030	15.2%	-1.1%	15.8%	\$34.06	2.5%	\$31.96
	Northwest - Class A	7,133	641	1,406	-5.8%	1,188	19.7%	-1.2%	16.7%	\$35.47	1.3%	\$35.33
9	Outer Williamson County	142	7	42	-26.1%	51	29.8%	-10.5%	36.0%	\$28.46	2.2%	\$24.94
	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	1,312	79	73	-26.1%	111	5.5%	-6.9%	8.4%	\$32.69	13.1%	\$27.27
	Round Rock - Class A	442	36	1	0.0%	34	0.3%	-13.5%	7.7%	\$36.50	2.8%	\$34.56
11	South	2,612	308	139	-31.9%	291	5.3%	-2.5%	11.1%	\$30.40	-21.7%	\$29.60
	South - Class A	604	133	23	-77.6%	36	3.7%	-13.0%	6.0%	\$37.45	-16.4%	\$35.23
12	Southeast	2,760	208	208	-6.5%	265	7.5%	-0.5%	9.6%	\$23.92	-0.9%	\$23.28
	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	10,117	1,218	1,598	-2.3%	1,740	15.8%	-0.4%	17.2%	\$36.51	2.1%	\$34.31
	Southwest - Class A	7,147	913	1,265	5.5%	1,226	17.7%	0.9%	17.1%	\$37.85	0.2%	\$36.02
14	West Central	606	37	49	-27.8%	73	8.0%	-3.1%	12.1%	\$43.56	8.0%	\$41.98
	West Central - Class A	370	14	42	45.5%	55	11.3%	3.5%	14.8%	\$43.56	-0.6%	\$44.57
1-14	Austin Region	60,858	6,748	8,025	-8.8%	8,874	13.2%	-1.3%	14.6%	\$36.40	0.3%	\$34.12
	Austin Region - Class A	31,013	4,723	4,359	-14.2%	4,809	14.1%	-2.3%	15.5%	\$40.28	-2.3%	\$38.72

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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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