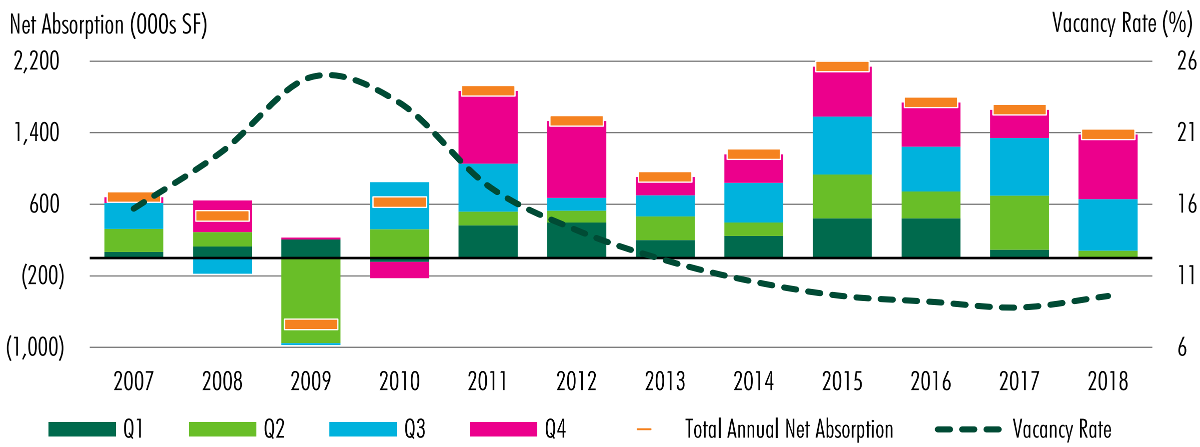
Austin Office, Q4 2018

2018 proves to be another robust year for Austin office market

Vacancy	Under Construction	Deliveries	Net Absorption	Avg. Asking Rate
9.6%	4,913,727 SF	0 SF	723,773 SF	$36.64 PSF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2018.

As 2018 draws to a close, absorption levels in the office market completely rebounded from the flat first half of the year, surpassing 1.3 million sq. ft. of positive net demand for the year. As vacancy slipped below 10% and citywide average asking rates climbed to a new historic high, developers demonstrated their continued faith in Austin's upward momentum by kicking off an additional 500,000 sq. ft. of new construction.

End of year absorption activity registered 723,773 sq. ft. of positive net demand, bringing the annual total to 1,380,173 sq. ft.; this is the 5th year in a row that Austin has seen yearly absorption crest 1 million sq. ft. Vacancy rates decreased 50 basis points from 10.2% in Q3 2018 to 9.6% in Q4 2018. The booming development pipeline added an additional 500,000 sq. ft. in Q4 2018, bringing the total to 4,913,727 sq. ft. across 37 projects.

The cooling temperatures that have settled across the Texas Hill Country have had zero effect on subduing rising operational costs throughout Austin. Costs rose to $10.60 per sq. ft. in Q4 2018, a $0.22 increase from Q3 2018. The citywide NNN asking rate increased $0.93, rising to $26.04 per sq. ft. Combined, the Full Service Gross asking rate for Q4 2018 was $36.64 per sq. ft., a new record high for the Austin market. Tenant demand remains robust leading into 2019, with more than 9 million sq. ft. of tenant demand currently in the market.

The Austin Business-Cycle Index (a collection of employment and payroll indicators) expanded at 7.9% in Q4 2018, above the long-term growth average of 6.0%. Total employment in 2018 has increased by 3.4%, with the Construction and Mining sector being the largest contributor to job growth in Austin.

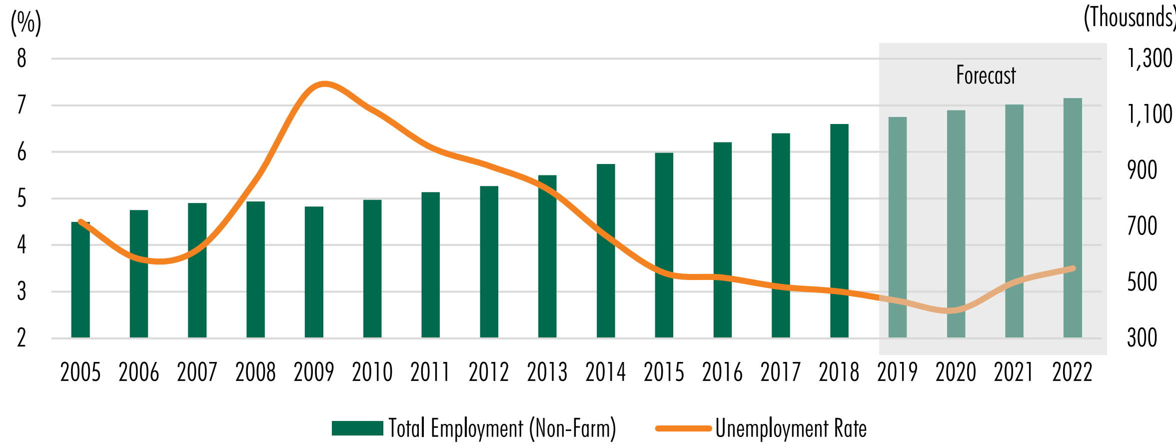
Figure 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. FSG Asking Rate ($)	Under Construction (SF)	Q4 2018 Deliveries (SF)	Q4 2018 Net Absorption	2018 Net Absorption
CBD	10,996,720	6.3	8.8	47.88	1,539,304	-	162,083	558,794
Class A	8,073,060	5.0	7.4	52.66	1,539,304	-	160,000	498,170
Class B	2,611,510	10.0	11.6	43.47	-	-	3,778	54,999
Northwest	14,549,865	9.1	11.5	36.72	709,519	-	483,533	445,607
Class A	8,959,927	9.5	12.3	40.68	709,519	-	359,387	432,180
Class B	5,411,806	8.4	10.3	32.59	-	-	132,741	22,518
Far Northwest	4,531,614	6.6	12.1	32.76	396,329	-	53,518	77,807
Class A	3,012,320	7.6	11.1	35.70	396,329	-	54,221	117,876
Class B	1,392,161	4.7	14.9	29.45	-	-	(5,668)	(37,082)
Northeast	2,103,166	16.4	24.8	28.00	204,390	-	28,897	(35,900)
Class A	1,031,394	17.1	26.2	28.56	-	-	2,393	(30,172)
Class B	891,268	18.3	19.8	25.23	204,390	-	27,056	(9,772)
North	734,307	13.6	15.4	27.80	-	-	(28,432)	45,653
Class A	-	-	-	N/A	-	-	-	18,578
Class B	723,307	13.2	15.0	27.8	-	-	(28,432)	27,075
Central	1,930,818	10.2	12.3	33.14	205,161	-	(20,809)	(1,941)
Class A	522,914	8.2	11.3	45.42	178,770	-	(20,238)	45,368
Class B	1,218,995	11.2	13.1	29.96	26,391	-	(41)	(34,285)
Round Rock	864,126	21.0	22.3	27.88	59,476	-	(12,373)	899
Class A	151,134	77.3	77.3	31.15	-	-	-	1,050
Class B	670,874	9.3	10.9	24.63	59,476	-	(12,373)	2,364
East	711,658	17.0	17.2	43.82	1,004,146	-	(8,279)	(24,059)
Class A	149,360	61.0	61.8	46.72	793,146	-	(9,637)	(4,771)
Class B	452,823	5.0	5.0	38.17	211,000	-	1,358	(19,288)
South	1,141,364	4.4	4.9	31.00	170,183	-	(11,898)	102,221
Class A	399,458	1.3	1.3	47.93	129,201	-	(5,191)	110,596
Class B	405,857	2.2	3.7	34.80	40,982	-	4,648	15,493
Southeast	1,127,958	16.1	16.4	26.47	138,850	-	45,028	49,905
Class A	155,022	13.4	13.4	31.62	71,225	-	3,456	(13,117)
Class B	876,225	17.8	18.2	27.46	67,625	-	41,572	61,135
Southwest	11,102,764	11.4	15.7	36.64	486,369	-	32,505	161,187
Class A	7,730,533	12.1	17.7	40.93	427,102	-	21,068	159,621
Class B	3,225,191	9.9	11.4	31.00	59,267	-	10,743	(536)
Austin Total	**49,794,360**	**9.6**	**12.8**	**36.64**	**4,913,727**	**-**	**723,773**	**1,380,173**
Class A	**30,185,122**	**9.5**	**13.1**	**42.25**	**4,244,596**	**-**	**565,459**	**1,335,379**
Class B	**17,880,017**	**9.8**	**12.0**	**31.84**	**669,131**	**-**	**175,382**	**82,621**

Although Class C is not shown, totals are inclusive of all classes of data.

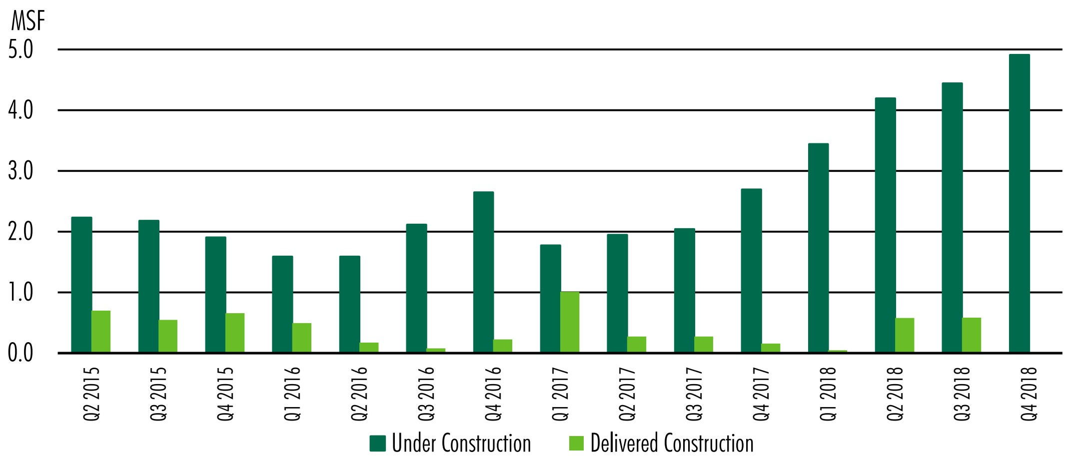
Source: CBRE Research, Q4 2018.

Figure 3: Austin Labor Force & Unemployment



Source: Moody's Analytics, October 2018.

Figure 4: Historical Construction and Deliveries



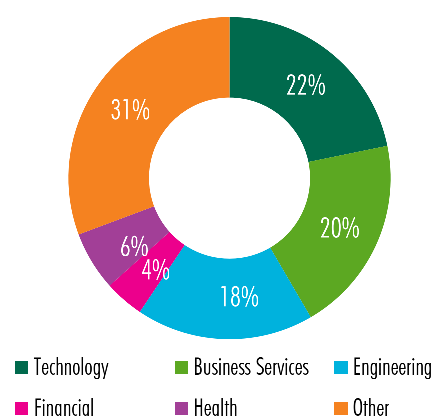
Source: CBRE Research, Q4 2018.

Figure 5: Significant Leases / Sales of Q4 2018

Lease (Tenant)	Property	Total SF
Cognitive Scale Inc	9500 Arboretum	54,070
EBQuickstart	Bergstrom Tech Center	41,406
Industrious	823 Congress	23,659
Sale (Building)	**Address**	**Total SF**
Prominent Pointe I & II	8310 N Capital of Texas	252,943
Cambridge Tower	1801 Lavaca St	240,000

Source: CBRE Research, Real Capital Analytics, Q4 2018.

Figure 6: Q4 2018 Signed Leases by Industry



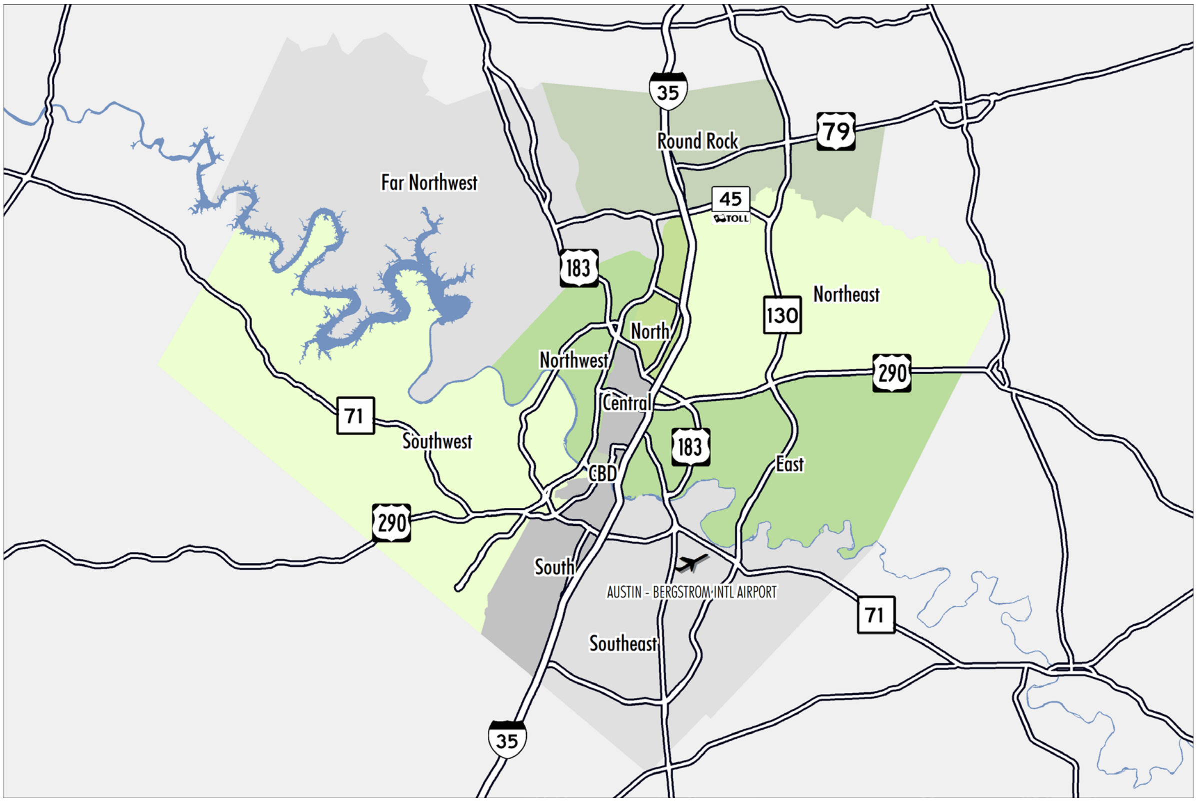
Source: CBRE Research, Q4 2018.

Figure 7: Historical Market Statistics

	2011	2012	2013	2014	2015	2016	2017	YTD 2018
CBD								
Absorption (Net SF)	167,794	177,023	64,099	369,822	649,300	97,639	564,236	558,794
Asking Rent, Avg. Annual	34.07	36.08	38.15	40.1	41.33	47.67	44.95	47.88
Delivered Construction (SF)	-	-	-	167,871	557,470	195,863	745,936	122,667
Vacancy Rate (%)	13.3	12	12	9.4	7.1	7.8	7.9	6.3
NORTHWEST								
Absorption (Net SF)	1,103,368	677,714	179,614	224,246	669,701	286,950	471,598	445,607
Asking Rent, Avg. Annual	25.37	25.83	26.28	29.48	31.96	32.8	33.84	36.72
Delivered Construction (SF)	-	-	-	143,331	591,973	372,235	386,921	308,000
Vacancy Rate (%)	20.2	15.3	10.4	9.4	8.8	8.8	8.6	9.1
FAR NORTHWEST *								
Absorption (Net SF)	N/A	N/A	366,763	79,360	198,389	336,470	230,820	77,807
Asking Rent, Avg. Annual	N/A	N/A	27.85	28.95	30.95	30.62	31.79	32.76
Delivered Construction (SF)	N/A	N/A	-	-	128,700	-	-	-
Vacancy Rate (%)	N/A	N/A	12.2	13.8	9.5	9.4	6.3	6.6
NORTHEAST **								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	64,819	(35,900)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	24.05	28.00
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	0	115,000
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	9.6	16.4
NORTH CENTRAL***								
Absorption (Net SF)	103,556	(109,170)	90,741	222,683	90,066	251,093	N/A	N/A
Asking Rent, Avg. Annual	21.12	21.63	23.14	22.89	27.29	25.95	N/A	N/A
Delivered Construction (SF)	-	-	-	-	214,962	46,000	N/A	N/A
Vacancy Rate (%)	21.6	23	23.8	15.4	13.1	10.2	N/A	N/A
NORTH**								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	(18,159)	45,653
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.81	27.80
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	-	-
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	15.5	13.6
CENTRAL**								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	52,348	(1,941)
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	31.39	33.14
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	-	-
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	6.2	10.2
ROUND ROCK								
Absorption (Net SF)	37,083	8,592	26,097	41,367	19,892	18,801	(9,845)	899
Asking Rent, Avg. Annual	23.02	21.17	22.67	23.77	24.99	22.91	21.11	27.88
Delivered Construction (SF)	-	-	-	-	-	59,043	22,500	164,486
Vacancy Rate (%)	21.5	19.3	15.1	9.8	6.6	7	8.3	21.0
EAST								
Absorption (Net SF)	(32,154)	387,386	1,722	49,392	58,736	428,135	49,398	(24,059)
Asking Rent, Avg. Annual	16.19	16.38	17.2	16.71	19.55	20.13	34.67	43.82
Delivered Construction (SF)	-	-	30,451	-	191,990	199,408	59,655	246,711
Vacancy Rate (%)	27.6	12.7	16.7	14.9	17.9	6.6	7.5	17.0
SOUTH								
Absorption (Net SF)	52,136	83,355	25,359	70,143	33,337	158,472	23,598	102,221
Asking Rent, Avg. Annual	15.13	15.38	15.13	14.73	15.02	24.68	31.90	31.00
Delivered Construction (SF)	24,440	-	-	-	-	-	57,500	115,246
Vacancy Rate (%)	23.6	21	19.9	16.3	14.4	16	12.1	4.4
SOUTHEAST**								
Absorption (Net SF)	N/A	N/A	N/A	N/A	N/A	N/A	71,123	49,905
Asking Rent, Avg. Annual	N/A	N/A	N/A	N/A	N/A	N/A	23.55	26.47
Delivered Construction (SF)	N/A	N/A	N/A	N/A	N/A	N/A	29,205	-
Vacancy Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	20.2	16.1
SOUTHWEST								
Absorption (Net SF)	367,752	205,677	149,911	101,327	419,723	159,982	154,081	161,187
Asking Rent, Avg. Annual	25.47	26.8	29.83	31.78	34.34	35.99	34.31	36.64
Delivered Construction (SF)	-	-	92,008	76,500	1,062,477	-	410,295	135,500
Vacancy Rate (%)	12.3	9.9	8.4	8.4	10.3	9.7	10.7	11.4
AUSTIN TOTAL								
Absorption (Net SF)	**1,799,535**	**1,430,577**	**904,306**	**1,158,340**	**2,139,144**	**1,737,542**	**1,654,017**	**1,380,173**
Asking Rent, Avg. Annual	**25.35**	**26.24**	**28.15**	**29.56**	**31.81**	**34.83**	**34.39**	**36.64**
Delivered Construction (SF)	**24,440**	**-**	**122,459**	**387,702**	**2,747,572**	**872,549**	**1,712,012**	**1,207,610**
Vacancy Rate (%)	**17.5**	**14.2**	**12.1**	**10.6**	**9.6**	**9.2**	**8.8**	**9.6**

Source: CBRE Research, Q4 2018.

*Submarket created in 2013
**Submarket created in 2017
***Submarket removed in 2017



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