

AUSTIN OFFICE MARKET

AUSTIN DISPLAYS SOLID FUNDAMENTALS

Vacancy continues to trend downward following the delivery of two properties, confirming strong growth within the Austin market. Vacancy market wide is currently 9.7%, down from the second quarter of 10.1%. Absorption remains positive at 142,000 SF for the fourth quarter, down approximately 44% from the last quarter's 255,000 SF figure. Leasing activity has also trended down, however—by roughly 30% from the volume observed at the start of the year. Overall, the market saw approximately 5 million SF of leasing activity in the year.

The average rent in the market rose modestly over the year, from \$34.32 at the start of the year to \$35.16 at the end of the fourth quarter, which represents a 2.4% change over the year. Direct asking rent experienced the largest change overall in the market, gaining approximately 3.7% over the year. Construction activity remains robust, with three new buildings added into the pipeline, bringing the total to 3.7 million SF of properties under construction. Of the 3.7 million SF of space under construction, approximately 54.9% of that space has already been pre-leased. Looking back at the past 12 months, the Austin market has added 1.4 million SF of projects into its pipeline.

AUSTIN'S CBD CONTINUES TO SEE ACTIVITY

Austin's CBD continues to bustle with activity; the vacancy rate in the submarket is down to 6%, the lowest level ever recorded in the city. Leasing activity has ebbed and flowed through the year, but, cumulatively, the submarket experienced 1.16 million SF of leasing in 2018. While this represents a decrease of approximately 35% from 2017, demand is still active and absorption remains positive. Over the fourth quarter, the submarket absorbed approximately 112,800 SF of space, with 386,700 SF absorbed in total during 2018. Rental rates continue to climb and are currently holding at \$49.14. Austin's CBD is undergoing continued development; media reports recently confirmed WeWork's intent to develop their own office town in Downtown Austin along Waller Park Place. Austin's Innovation District, located along IH-35, is also experiencing growth. The intention behind the district is to foster collaboration and harmony between the academic, corporate and medical professionals within the area around downtown.

SLUGGISH NORTH/DOMAIN SUBMARKET REBOUNDS

During the fourth quarter, Austin's North/Domain submarket recovered from a previously less than stellar 2018. After three consecutive quarters of negative absorption, positive absorption made a welcome return this quarter, with 145,000 SF absorbed in the submarket.

CURRENT CONDITIONS

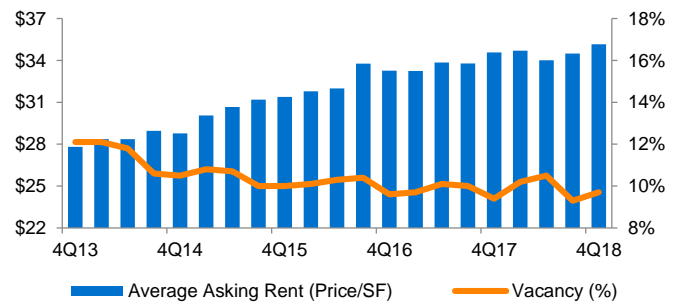
Austin Class A market vacancy continues to trend down currently at 8.6%.

Class A absorption continues to be positive, 570 KSF absorbed over the year.

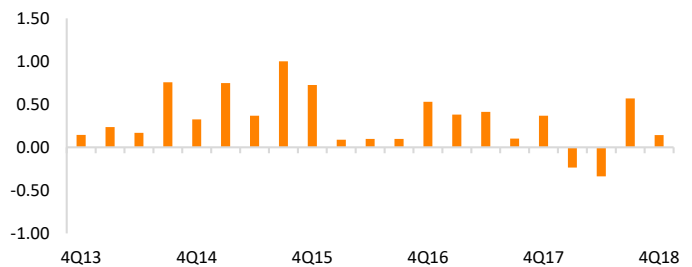
Rental rate up 2.4% over the year.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	62.8 MSF	62.8 MSF	62.5 MSF	↑
Availability Rate	9.7%	10.0%	9.5%	↓
Quarterly Net Absorption	142,470	255,785	380,634	↓
Average Asking Rent	\$35.16	\$34.44	\$34.33	↑
Under Construction	890.4 KSF	763.4 KSF	971.7 KSF	↑
Deliveries	0	2	0	↑

Leasing activity appears to be waning slightly from the third quarter to the fourth; only 78,400 SF was leased this quarter, compared to 119,000 SF of space leased in the third quarter. Nonetheless, the submarket saw some significant rental rate growth during the course of the year. The average rental rate in the market grew by 7% over the year, while sublet rates ticked up a massive 27.6%. The North/Domain submarket also experienced some notable leasing transactions during the year, including the Texas Commission on Environmental Quality's 195,946 SF lease in May. Meanwhile, this past quarter software developer CCC Information Services completed a 29,302 SF lease near the MoPac Expressway.

INSTITUTIONAL INVESTORS MAINTAIN HEAVY PRESENCE

Year to date, 24 properties within the Austin area have changed hands, representing approximately \$1.27 billion in sales, a decline of 25% from last year's \$1.69 billion total. According to Real Capital Analytics, institutional investors saw a net acquisition volume of \$99 million, while Cross-Border investors posted a negative net acquisition value of \$8.2 million. Year to date, institutional investors accounted for the majority of buyers and sellers within the Austin market, at 38.2% and 51.5%, respectively. One of the most significant purchases of this quarter was the acquisition of a three-property portfolio by Brandywine Realty Trust from DRA advisors. The portfolio comprises Four Points Centre, Barton Skyway and River Place Corp and achieved a price point of \$537 million.

A TIGHT LABOR MARKET AND BOOMING INVESTMENTS POSE CHALLENGES

Austin's economy continues to grow at a solid pace. The metro added 40,400 jobs in the 12-month period ending in October, which represents an approximately 3.9% increase in employment. The unemployment rate dropped to 2.7%, which is significantly lower than the state-wide unemployment level of 3.7%. The record low unemployment rate, while a net positive, brings with it some concerns, as Austin's labor force may face challenges meeting the growing demand. Employment in Austin is up 35% since the top of the last business cycle expansion. Recent reporting by the U.S. Bureau of Economic Analysis (BEA) showed that the personal income within Austin's five-county metro totaled \$116.0 billion in 2017. Austin's total personal income grew by 6.4% in 2017, bringing the average wage per worker in the metro to \$60,142, up 4.4% from 2016.

While Austin was not a finalist in Amazon's search for its second headquarters, the city will see a sizeable investment in part by Apple, which announced that it would devote \$1 billion dollars for the development of a new 133-acre campus in the Williamson county area. Apple has said that it intends to expand its workforce within the area to 15,000, making it the largest private sector employer in the metro. The city of Austin is currently the second largest employer in the metro with 6,200 employees.

AVERAGE ASKING RENT BY SUBMARKET

Average Asking Rent (\$/SF)			
	Current Quarter	4Q17	12 Month Change
CBD	\$49.14/ SF	\$48.36/SF	↑
Southwest	\$38.73/SF	\$35.94/SF	↑
North	\$32.17/SF	\$29.77/SF	↑
Suburban	\$33.32/SF	\$31.34/SF	↑
Northwest	\$33.57/SF	\$32.00/SF	↑

VACANCY BY SUBMARKET

Vacancy Rate (%)			
	Current Quarter	4Q17	12 Month Change
East/ Northeast	24.7%	22.3%	↑
South/Southeast	12.4%	8.6%	↑
Southwest	10.7%	10.7%	=
Suburban	10.6%	9.5%	↑
Northwest	8.5%	8.1%	↑

The new Apple campus will host a broad range of functions, including engineering, R&D, operations, finance, sales and customer support, according to Apple's press release. In seeking to secure the investment from Apple, the Wilco Commissioner's Court approved an approximate \$16 million tax abatement, while the state of Texas contributed \$25 million to the effort. As with the Amazon decision on HQ2, some have expressed concerns regarding the impact on affordability that the new campus might cause. Austin currently features the highest median home price in Texas at \$300,000, up 50% over the past six years, according to data from the Texas A&M University's Real Estate center. The influx of millennials, mostly due to the booming tech sector, has pushed out some long-term residents and helped to gentrify some of Austin's neighborhoods, such as the East Austin area.

Other tech companies are also increasing their investment in Austin. Samsung is making a \$291 million investment to update its Samsung Austin Semiconductor plant, while Resideo Technologies announced that it would relocate its headquarters from New Jersey to East Austin.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Chatsworth Products Inc.	Settler Crossing- Building 2	Cedar Park/ Georgetown/ Round Rock	Expansion	33,922

SELECT SALE TRANSACTIONS

Buyer/Seller	Building	Submarket	Sale Price	\$/SF
Vanderbilt Partners/GLL Real Estate Partners Inc	8310 N Capitol of Texas Highway	Northwest	\$82,500,000	\$326.16
State Farm Mutual Insurance Company/Hempstead Associates	5750 Balcones Drive	Northwest	\$753,000	\$474.48
Riverside Resources Corp/PRE Management	7600 Burnet Road	Northwest	Undisclosed	TBD

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
CBD Total	11,455,428	0	6.0%	112,824	386,721	\$49.47	\$46.04	\$49.14
Class A	7,750,812	0	6.1%	84,335	361,004	\$51.36	\$48.57	\$51.07
Class B	3,046,976	0	6.3%	19,724	26,762	\$46.45	\$40.27	\$45.97
Cedar Park/Georgetown/Round Rock Total	1,996,352	59,510	5.8%	109,099	133,403	\$29.92	\$24.39	\$29.85
Class A	922,631	59,510	7.4%	106,386	104,001	\$31.65	-	\$31.65
Class B	853,262	0	5.6%	365	26,304	\$24.14	\$24.39	\$24.20
Central West Central Total	4,106,761	0	9.5%	-115,936	-176,355	\$32.26	\$32.38	\$32.31
Class A	1,064,738	0	7.8%	12,112	-33,534	\$43.77	\$44.39	\$43.92
Class B	2,065,891	0	12.6%	-97,611	-110,936	\$30.59	\$27.58	\$30.10
East Northeast Total	4,652,684	338,767	24.7%	-194,028	-48,753	\$27.28	\$23.66	\$25.88
Class A	822,075	338,767	2.4%	1,457	29,290	\$28.75	\$30.65	\$30.32
Class B	3,388,869	0	30.9%	-195,485	-72,975	\$28.09	\$19.15	\$25.05
North Total	6,568,150	0	6.6%	145,583	3,437	\$32.13	\$32.18	\$32.17
Class A	2,302,420	0	2.0%	107,911	22,197	\$40.35	\$43.91	\$40.61
Class B	4,040,834	0	7.0%	39,037	-6,169	\$27.44	\$27.46	\$27.41
Northwest Total	17,916,611	226,329	8.5%	13,906	-77,650	\$34.47	\$27.50	\$33.57
Class A	9,928,619	226,329	9.5%	12,222	20,774	\$35.73	\$29.66	\$35.10
Class B	6,617,686	0	8.5%	-716	-96,322	\$31.50	\$23.13	\$30.06
South Southeast Total	5,817,039	138,850	12.4%	99,024	-137,734	\$29.68	\$20.72	\$28.27
Class A	1,111,932	138,850	22.8%	-4,831	19,959	\$36.64	\$23.00	\$36.09
Class B	3,683,097	0	10.9%	59,815	-138,788	\$26.59	\$19.91	\$25.23
Southwest Total	10,381,010	128,000	10.7%	-28,002	73,361	\$40.05	\$33.31	\$38.73
Class A	7,497,845	0	10.9%	-43,308	46,482	\$42.17	\$33.87	\$40.25
Class B	2,790,027	128,000	10.3%	15,306	24,387	\$35.36	\$29.36	\$34.73
Suburban Total	51,438,607	891,456	10.6%	29,646	-230,291	\$34.21	\$28.71	\$33.32
Class A	23,650,260	763,456	9.4%	191,949	209,169	\$37.81	\$32.43	\$37.02
Class B	23,439,666	128,000	12.3%	-179,289	-374,499	\$30.11	\$23.19	\$28.88
Austin Total	62,894,035	891,456	9.7%	142,470	156,430	\$36.09	\$30.01	\$35.16
Class A	31,401,072	763,456	8.6%	276,284	570,173	\$39.84	\$33.68	\$38.98
Class B	26,486,642	128,000	11.6%	-159,565	-347,737	\$31.53	\$23.78	\$30.23

SELECT TEXAS MARKETS- LARGEST SUBMARKETS

Austin, December 2018

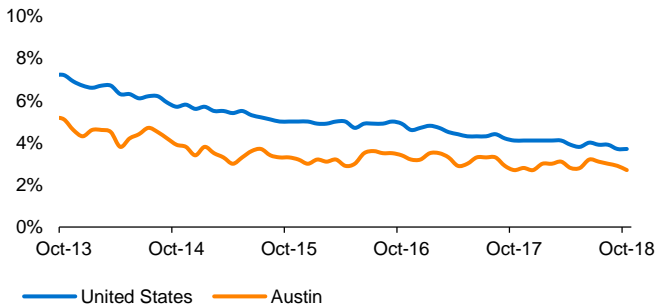
Top 10 Submarkets by Rentable Square Feet

Rank	Submarket	RSF
1	Far North Dallas	43.1 M
2	Houston CBD	37.1 M
3	DFW Las Colinas	32.7 M
4	Dallas CBD	28.3 M
5	DFW Richardson/Plano	24.8 M
6	HOU Galleria/Uptown	23.6 M
7	DFW LBJ Freeway	20.3 M
8	HOU Energy Corridor	20.1 M
9	Northwest Austin	17.9 M
10	DFW Mid-Cities	16.1 M

Source: Newmark Knight Frank

UNEMPLOYMENT RATE

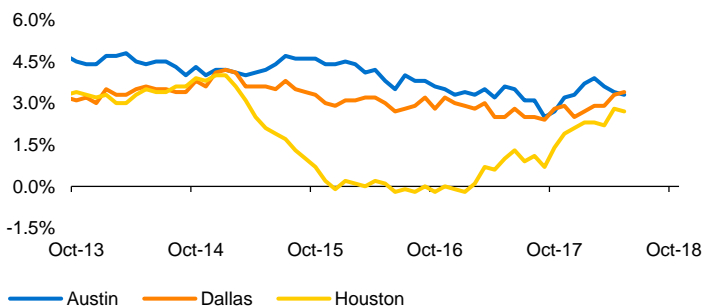
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT—SELECT TEXAS MARKETS

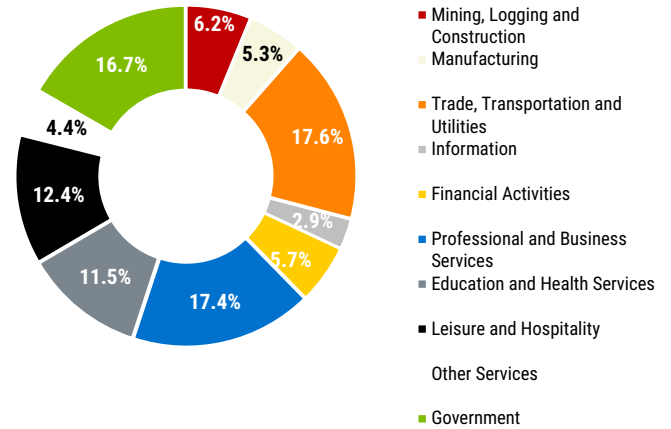
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

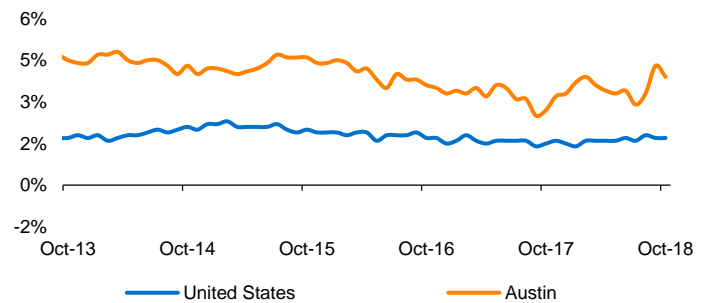
Austin, October 2018



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

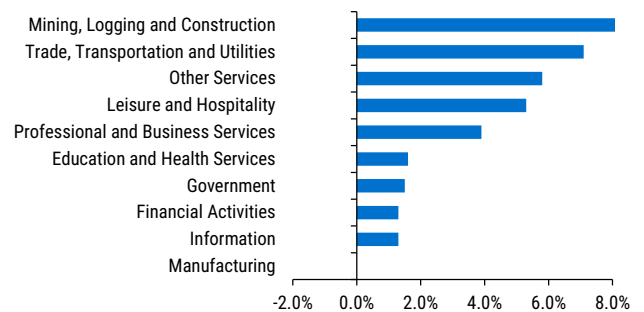
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



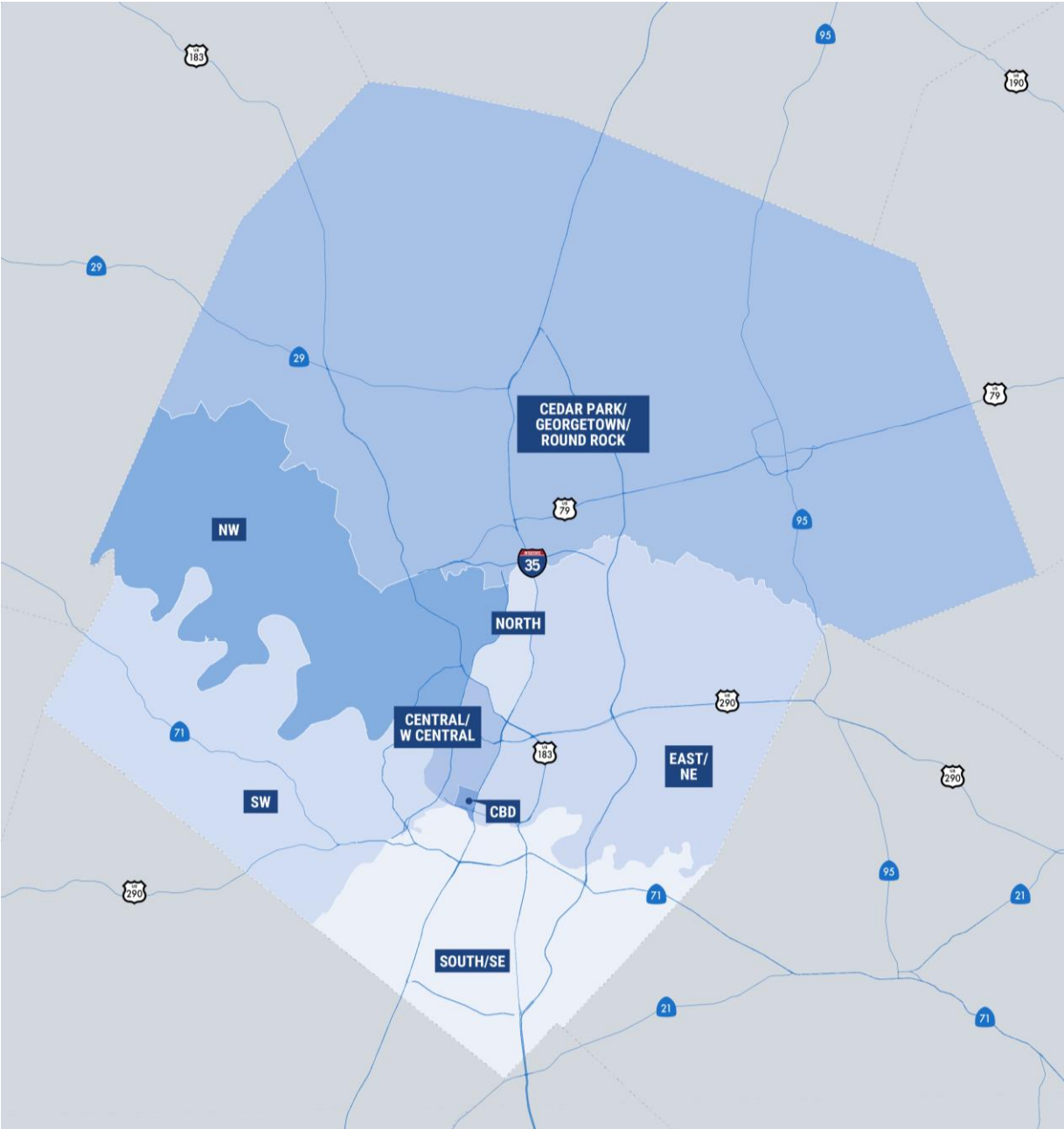
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Austin, October 2018, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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