

MARKETBEAT

AUSTIN OFFICE

Office Q3 2018



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Economic Indicators

	Q3 2017	Q3 2018	12-Month Forecast
Austin Employment	1,035k	1,065k	▲
Austin Unemployment	2.9%	3.0%	▼
U.S. Unemployment	4.4%	3.9%	▼

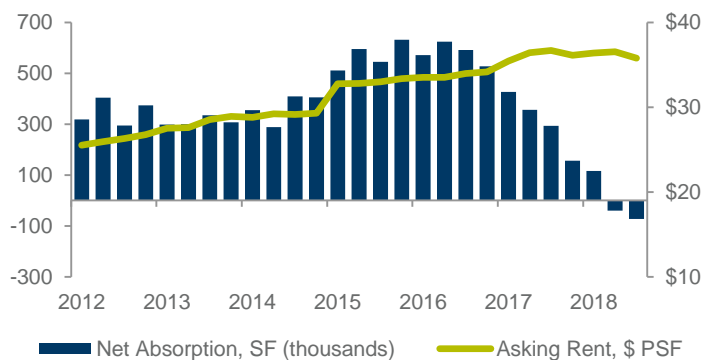
Market Indicators (Overall, All Classes)

	Q3 2017	Q3 2018	12-Month Forecast
Vacancy	10.5%	11.4%	▲
Net Absorption (sf)	9k	36k	▲
Under Construction (sf)	2.8M	3.5M	▲
Average Asking Rent*	\$36.71	\$35.81	▲

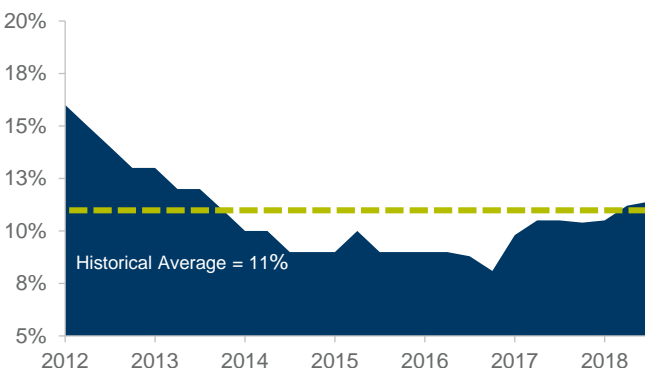
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Austin economy continued on a strong path as it moved into the second half of 2018. Job growth in the Texas capital maintained an upward trend and the unemployment rate remains as one of the lowest in the country, coming in at 3.0%, versus the national average of 3.9%. Nationally, the technology sector is the leading industry for the real estate boom, and that is certainly the case in Austin as major expansions of *Fortune 500* companies continue to set the pace for tech growth in Austin. Additionally, Austin's tourism industry is thriving, with millions of visitors making their way to Austin each year, pumping millions of dollars into the local economy.

Market Overview

The Austin office market recorded just over 36,000 square feet (sf) of net absorption during Q3 2018. Strong absorption levels continued within the Central Business District (CBD), with more than 105,000 sf of positive absorption recorded. Positive absorption of 146,000 sf in the up-and-coming East submarket was also noted as tenants began occupying recently completed office developments. High demand and a lack of quality supply in the CBD has kept overall vacancy rates low, with an overall rate of 8.5% and 6.9% for Class A properties. Citywide, overall vacancy rates also remained relatively low at 11.4%, with Class A properties coming in at 10.6%. The Q3 2018 overall asking rate for the entire Austin market was \$35.81 per square foot (psf), with Class A rates coming in at \$39.91 psf. The CBD maintained its position as the highest across all submarkets with an average rental rate of \$51.75 psf, with the average Class A asking rate in the CBD at \$55.88 psf.

Outlook

These days, the phrase "If you build it, they will come" seems to hold true when referring to new, large office developments in Austin. Of the 3.5 million square feet of office product currently under construction, more than 60% has already been pre-leased. And if rumors can be relied upon, this percentage could skyrocket by year's end. Large lease transactions by well-known tech giants continue to dominate as these juggernaut firms take down large blocks of Class A office space throughout the city. With a seemingly endless demand for high-end office space, we can expect to see even more construction as developers race to add more inventory to the market.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	10,839,252	206,974	717,539	8.5%	105,557	244,533	1,147,293	\$51.75	\$55.88
Central	1,158,586	12,477	103,179	10.0%	-2,953	-27,646	26,391	\$36.50	\$47.95
Far Northwest	14,787,701	319,729	1,103,825	9.6%	92,094	-156,349	1,063,019	\$35.50	\$36.30
North Central	2,494,784	165,891	355,974	20.9%	-95,271	-111,852	0	\$26.90	\$29.46
Northeast	1,811,341	3,388	246,389	13.8%	3,437	-85,563	115,000	\$20.28	\$29.07
Northwest	4,516,797	67,639	555,530	13.8%	-78,997	-183,451	0	\$30.95	\$38.81
South Central	2,036,006	19,867	49,666	3.4%	29,859	142,008	129,201	\$28.11	\$47.39
Southeast	1,026,115	6,370	332,162	33.0%	-57,774	-131,956	138,850	\$27.35	\$38.00
Southwest	10,712,759	470,893	818,646	12.0%	11,359	45,711	155,452	\$36.88	\$37.95
Round Rock	1,390,667	17,806	200,021	15.7%	-117,290	-127,016	154,476	\$31.52	\$33.25
East	614,717	0	100,711	16.4%	146,000	150,866	609,305	\$42.85	\$45.25
AUSTIN TOTALS	51,388,725	1,291,034	4,583,642	11.4%	36,021	-240,715	3,538,987	\$35.81	\$39.91

*Rental rates reflect gross asking \$psf/year

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*
Class A	31,951,870	1,049,037	2,352,837	10.6%	226,312	94,674	3,538,987	\$39.91
Class B	16,357,880	209,276	1,974,461	13.3%	-167,521	-290,178	0	\$31.22
Class C	3,078,975	32,721	256,344	9.4%	-22,770	-45,211	0	\$26.07

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Domain 12	320,000	Confidential	Direct	FNW
Research Park Plaza II	135,813	Visa	Direct	FNW
UpCycle	81,660	H-E-B/Favor	Direct	EAST
100 Congress	61,000	Google	Direct	CBD

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Austin Oaks	445,322	Spire Realty Group / The Luzzatto Co.	Undisclosed	NW
Stonebridge Plaza I & II	385,829	KBS Realty / Intercontinental RE	\$163,000,000 / \$418	FNW
3700 San Clemente	249,870	HPI Real Estate / Azrieli Group	Undisclosed	SW
Research Park Plaza 5	115,206	CapRidge Partners / United Heritage	Undisclosed	FNW

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