AUSTIN OFFICE MARKET

2016 Year-End Summary

CAPITOL MARKET RESEARCH

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Strong demand continues to push up occupancy and rental rates to unprecedented new levels. The occupancy rate of "direct" space in the Austin office has climbed from 91.9% in June 2016 to a current rate of 93.7%, as just 449,810 square feet of new office space was added in the last six months of 2016. Due to the lack of new multi-tenant Class "A" space, quoted rental rates rose just $0.06 from June to reach $34.05 per square foot. There were two large new multi-tenant office buildings that opened in the last half of 2016, and two smaller multi-tenant buildings, one of which was 100% preleased before opening. Absorption, including sublease space, also increased in the last half of 2016, at 1,371,727 square feet. The absorption of "direct" lease space was slightly lower, at 1,234,802 square feet.

The growth in gross rental rates slowed in the last half of 2016, due to the small amount of new Class "A" space added, reaching $34.05 per square foot. Citywide Class "A" space is quoted, on average, at $37.63 per square foot, Class "B" space is quoted at $29.69, and Class "C" space is renting at $18.53 per square foot. The CBD market area had the highest average Class "A" rental rates, at $53.40 per square foot. Average "quoted" rents in the suburban market areas dropped slightly since June 2016, to $31.70 per square foot.

The majority of building sales in the last half of 2016 took place in the Central Business District, which accounted for 33.1% of sales, as Cousins Properties acquired Parkway Properties and its assets, including One Congress Plaza and San Jacinto Center. In addition, Cielo Property Group also sold 823 Congress, and the mixed-use Seaholm Development sold to CIM Group. The Northwest market area also saw a large number of sales, with Domain 2 and Domain 7 acquired fully by TIER REIT, the four building Exchange Park, and four additional buildings sold. In the Far Northwest market area six buildings changed hands. In North Central Austin, the 13 building The Offices at Braker was sold, while two buildings in South Central Austin, and two buildings in Southwest also changed hands. In total, over 3.7 million square feet of office space was sold citywide in the last six months of 2016.

> The market continues to show strong demand, with occupancy rising to 93.7% and "gross" rental rates for office space currently at $34.05 per square foot.

Two office buildings continue construction in the CBD: 500 W. 2nd Street and Shoal Creek Walk, and one "rehab" project (Westview) commenced construction. There are three office projects under construction in North East Austin, one remodeled flex space, one new flex space, and the Diamond Building in Mueller. One project, Domain 8, continues construction in Northwest Austin, while two (Domain Tower and MoPac Center) have started construction. In addition, a small Class "A" buildings is scheduled to deliver in February in Round Rock, 801 Barton Springs has started construction in South Central, and one building in Southeast Austin continues construction. The Southwest market are currently has the most multi-tenant office space under construction after the CBD, with nine buildings under construction. All together, there is currently 2.28 million square feet of office space under construction.

Quoted lease rates dropped slightly in most market areas, but citywide absorption increased as tenant interest in expansion and relocation continues, and a minimal amount of new space was delivered. The CBD continues to lead the market in rental rate increases and strong preleasing.

New office construction and deliveries continue to add inventory throughout the city. Currently there is more than 2.2 million square feet of office space in 21 buildings under construction, with 51.6% scheduled for completion in the first half of 2017. Preleasing has been particularly strong in the CBD, Southwest and Round Rock markets. Job growth has slowed, and with the slowdown there has been less demand for office space. But high quality buildings in attractive submarkets continue to experience strong tenant leasing activity.