

THE CoSTAR OFFICE REPORT

FIRST QUARTER 2014

Austin Office Market

Presented By:



CoSTAR GROUP

AUSTIN OFFICE MARKET

CoSTAR GROUP

OVERVIEW

AUSTIN'S VACANCY INCREASES TO 9.4%

Net Absorption Positive 248,987 SF in the Quarter

The Austin Office market ended the first quarter 2014 with a vacancy rate of 9.4%. The vacancy rate was up over the previous quarter, with net absorption totaling positive 248,987 square feet in the first quarter. Vacant sublease space increased in the quarter, ending the quarter at 468,868 square feet. Rental rates ended the first quarter at \$28.30, an increase over the previous quarter. A total of 12 buildings delivered to the market in the quarter totaling 435,033 square feet, with 2,412,129 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Austin office market was positive 248,987 square feet in the first quarter 2014. That compares to positive 518,043 square feet in the fourth quarter 2013, positive 362,832 square feet in the third quarter 2013, and positive 418,443 square feet in the second quarter 2013.

Tenants moving out of large blocks of space in 2014 include: OneWest Bank Group moving out of 69,100 square feet at The Domain Gateway; Financial Corporation of America moved out of 36,440 square feet at 12515 Research Blvd - Building 2; and Sony Online Entertainment LLC moving out of 34,438 square feet at Prominent Pointe II.

Tenants moving into large blocks of space in 2014 include: Jacobs Engineering moving into 20,000 square feet at Chase Park V; Dropbox Inc. moving into 19,823 square feet at Bank of America Center; and Sale Amp moving into 14,234 square feet at Chase Northcross.

The Class-A office market recorded net absorption of positive 256,078 square feet in the first quarter 2014, compared to

positive 302,288 square feet in the fourth quarter 2013, negative (2,936) in the third quarter 2013, and positive 37,987 in the second quarter 2013.

The Class-B office market recorded net absorption of negative (65,422) square feet in the first quarter 2014, compared to positive 230,012 square feet in the fourth quarter 2013, positive 367,475 in the third quarter 2013, and positive 317,996 in the second quarter 2013.

The Class-C office market recorded net absorption of positive 58,331 square feet in the first quarter 2014 compared to negative (14,257) square feet in the fourth quarter 2013, negative (1,707) in the third quarter 2013, and positive 62,460 in the second quarter 2013.

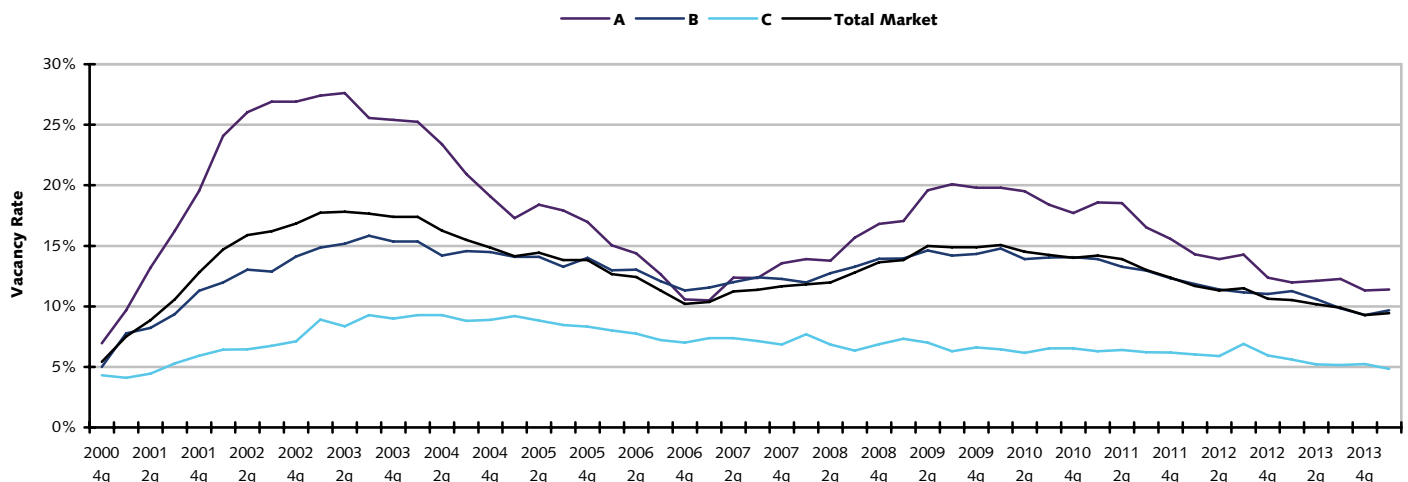
Net absorption for Austin's central business district was positive 72,107 square feet in the first quarter 2014. That compares to positive 14,371 square feet in the fourth quarter 2013, negative (10,103) in the third quarter 2013, and negative (85,077) in the second quarter 2013.

Net absorption for the suburban markets was positive 176,880 square feet in the first quarter 2014. That compares to positive 503,672 square feet in fourth quarter 2013, positive 372,935 in the third quarter 2013, and positive 503,520 in the second quarter 2013.

Vacancy

The office vacancy rate in the Austin market area increased to 9.4% at the end of the first quarter 2014. The vacancy rate was 9.3% at the end of the fourth quarter 2013, 9.9% at the end of the third quarter 2013, and 10.2% at the end of the second quarter 2013.

VACANCY RATES BY CLASS 2000-2014



Source: CoStar Property®

Class-A projects reported a vacancy rate of 11.4% at the end of the first quarter 2014, 11.3% at the end of the fourth quarter 2013, 12.3% at the end of the third quarter 2013, and 12.1% at the end of the second quarter 2013.

Class-B projects reported a vacancy rate of 9.7% at the end of the first quarter 2014, 9.3% at the end of the fourth quarter 2013, 9.8% at the end of the third quarter 2013, and 10.6% at the end of the second quarter 2013.

Class-C projects reported a vacancy rate of 4.8% at the end of the first quarter 2014, 5.2% at the end of fourth quarter 2013, 5.1% at the end of the third quarter 2013, and 5.2% at the end of the second quarter 2013.

The overall vacancy rate in Austin's central business district at the end of the first quarter 2014 increased to 9.9%. The vacancy rate was 9.6% at the end of the fourth quarter 2013, 9.7% at the end of the third quarter 2013, and 9.7% at the end of the second quarter 2013.

The vacancy rate in the suburban markets increased to 9.4% in the first quarter 2014. The vacancy rate was 9.2% at the end of the fourth quarter 2013, 9.9% at the end of the third quarter 2013, and 10.3% at the end of the second quarter 2013.

Largest Lease Signings

The largest lease signings occurring in 2014 included: the 115,000-square-foot lease signed by Athena Health at the Power Plant Building in the CBD market; the 25,355-square-foot deal signed by Websense at Quarry Oaks Atrium Bldg. A in the Northwest market; and the 25,005-square-foot lease signed by Google at University Park in the Central market.

Sublease Vacancy

The amount of vacant sublease space in the Austin market increased to 468,868 square feet by the end of the first quarter 2014, from 397,128 square feet at the end of the fourth quarter 2013. There was 372,610 square feet vacant at the end of the

third quarter 2013 and 358,809 square feet at the end of the second quarter 2013.

Austin's Class-A projects reported vacant sublease space of 269,939 square feet at the end of first quarter 2014, up from the 230,464 square feet reported at the end of the fourth quarter 2013. There were 192,447 square feet of sublease space vacant at the end of the third quarter 2013, and 176,794 square feet at the end of the second quarter 2013.

Class-B projects reported vacant sublease space of 182,851 square feet at the end of the first quarter 2014, up from the 136,979 square feet reported at the end of the fourth quarter 2013. At the end of the third quarter 2013 there were 158,575 square feet, and at the end of the second quarter 2013 there were 172,228 square feet vacant.

Class-C projects reported decreased vacant sublease space from the fourth quarter 2013 to the first quarter 2014. Sublease vacancy went from 29,685 square feet to 16,078 square feet during that time. There was 21,588 square feet at the end of the third quarter 2013, and 9,787 square feet at the end of the second quarter 2013.

Sublease vacancy in Austin's central business district stood at 76,310 square feet at the end of the first quarter 2014. It was 60,238 square feet at the end of the fourth quarter 2013, 55,567 square feet at the end of the third quarter 2013, and 49,190 square feet at the end of the second quarter 2013.

Sublease vacancy in the suburban markets ended the first quarter 2014 at 392,558 square feet. At the end of the fourth quarter 2013 sublease vacancy was 336,890 square feet, was 317,043 square feet at the end of the third quarter 2013, and was 309,619 square feet at the end of the second quarter 2013.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$28.30 per square foot per year at the end of the first quarter 2014 in the Austin market area. This represented a 1.8% increase in quoted rental rates from the end of the fourth quarter 2013, when rents were reported at \$27.79 per square foot.

The average quoted rate within the Class-A sector was \$33.34 at the end of the first quarter 2014, while Class-B rates stood at \$23.73, and Class-C rates at \$19.43. At the end of the fourth quarter 2013, Class-A rates were \$33.09 per square foot, Class-B rates were \$23.20, and Class-C rates were \$18.66.

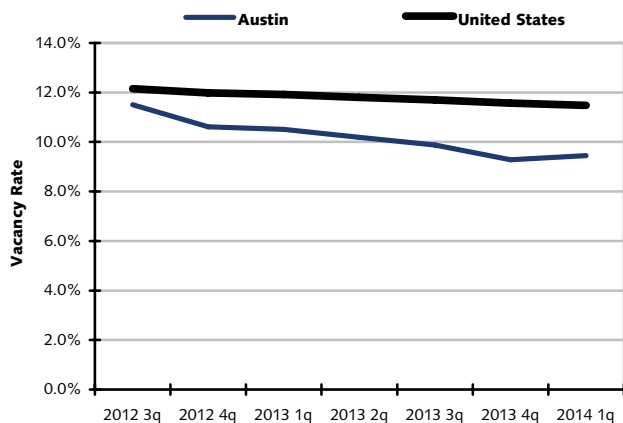
The average quoted asking rental rate in Austin's CBD was \$39.18 at the end of the first quarter 2014, and \$26.20 in the suburban markets. In the fourth quarter 2013, quoted rates were \$39.17 in the CBD and \$25.28 in the suburbs.

Deliveries and Construction

During the first quarter 2014, 12 buildings totaling 435,033 square feet were completed in the Austin market area. This compares to one building totaling 1,805 square feet that was

U.S. VACANCY COMPARISON

Past 7 Quarters



Source: CoStar Property

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completed in the fourth quarter 2013, nine buildings totaling 111,419 square feet completed in the third quarter 2013, and 147,855 square feet in five buildings completed in the second quarter 2013.

There were 2,412,129 square feet of office space under construction at the end of the first quarter 2014.

Some of the notable 2014 deliveries include: Power Plant Building, a 115,000-square-foot facility that delivered in first quarter 2014 and is now 100% occupied, and Apple Campus - Phase I, an 88,000-square-foot building that delivered in first quarter 2014 and is now 100% occupied.

The largest projects underway at the end of first quarter 2014 were Green Water, a 485,327-square-foot building, and Colorado Tower, a 371,348-square-foot facility that is 35% pre-leased.

Inventory

Total office inventory in the Austin market area amounted to 87,940,715 square feet in 4,268 buildings as of the end of the first quarter 2014. The Class-A office sector consisted of 31,473,317 square feet in 228 projects. There were 1,888 Class-B buildings totaling 41,090,976 square feet, and the Class-C sector consisted of 15,376,422 square feet in 2,152 buildings. Within the Office market there were 177 owner-occupied buildings accounting for 7,919,880 square feet of office space.

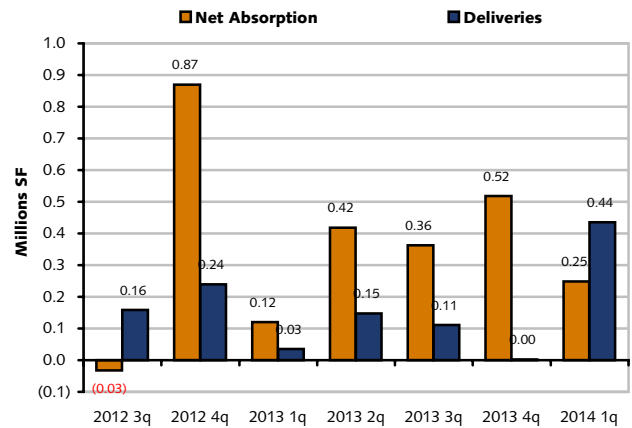
Sales Activity

Tallying office building sales of 15,000 square feet or larger, Austin office sales figures fell during the fourth quarter 2013 in terms of dollar volume compared to the third quarter of 2013.

In the fourth quarter, nine office transactions closed with a total volume of \$363,516,080. The nine buildings totaled 1,722,631 square feet and the average price per square foot equated to \$211.02 per square foot. That compares to eight transactions totaling \$406,331,250 in the third quarter 2013. The total square footage in the third quarter was 2,077,846 square feet for an average price per square foot of \$195.55.

ABSORPTION & DELIVERIES

Past 7 Quarters



Source: CoStar Property*

Total office building sales activity in 2013 was down compared to 2012. In the twelve months of 2013, the market saw 29 office sales transactions with a total volume of \$1,376,095,330. The price per square foot averaged \$200.04. In the same twelve months of 2012, the market posted 30 transactions with a total volume of \$1,644,526,804. The price per square foot averaged \$230.65.

Cap rates have been lower in 2013, averaging 6.36% compared to the same period in 2012 when they averaged 7.10%.

One of the largest transactions that occurred within the last four quarters in the Austin market was the Portfolio Sale of nine buildings in Austin. This sale totaled 701,773-square-feet and sold for \$165,000,000, or \$235.12 per square foot. The properties sold on 10/16/2013, at a 6.70% cap rate.

Reports compiled by: Jim Filler, CoStar Research Manager

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FIGURES AT A GLANCE

CLASS A MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bastrop County	1	35,000	4,000	4,000	11.4%	0	0	0	\$29.62
Caldwell County	0	0	0	0	0.0%	0	0	0	\$0.00
CBD	26	6,900,551	1,036,407	1,088,959	15.8%	37,294	115,000	1,093,038	\$40.95
Cedar Park	2	232,274	19,627	19,627	8.4%	0	0	86,000	\$28.00
Central	7	706,156	189,050	189,050	26.8%	33,355	0	0	\$32.61
East	3	254,821	0	0	0.0%	30,451	30,451	0	\$0.00
Far Northeast	0	0	0	0	0.0%	0	0	0	\$0.00
Far Northwest	16	2,370,052	448,166	448,166	18.9%	(172,617)	0	44,020	\$26.11
Georgetown	0	0	0	0	0.0%	0	0	0	\$0.00
Hays County	2	138,190	23,937	23,937	17.3%	13,076	0	0	\$30.68
North	13	1,839,969	102,303	149,895	8.1%	9,020	0	365,304	\$29.30
Northeast	4	503,753	25,446	25,446	5.1%	(10,970)	0	0	\$21.09
Northwest	80	8,013,909	838,270	909,284	11.3%	242,787	176,000	0	\$30.75
Round Rock	12	2,300,595	33,535	35,440	1.5%	2,121	0	0	\$31.84
South	22	2,956,427	244,026	262,846	8.9%	56,896	0	0	\$33.52
Southeast	1	154,939	7,221	7,221	4.7%	16,559	0	0	\$25.00
Southwest	35	4,469,678	317,079	395,135	8.8%	(18,389)	0	289,870	\$32.08
West Central	4	597,003	27,688	27,688	4.6%	16,495	0	0	\$38.64
Totals	228	31,473,317	3,316,755	3,586,694	11.4%	256,078	321,451	1,878,232	\$33.34

Source: CoStar Property®

CLASS B MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bastrop County	28	169,660	7,600	7,600	4.5%	(1,700)	0	0	\$8.82
Caldwell County	10	37,916	12,103	12,103	31.9%	0	0	0	\$0.00
CBD	147	4,379,100	153,734	177,492	4.1%	25,845	0	0	\$30.92
Cedar Park	107	1,092,610	94,560	99,187	9.1%	12,538	27,170	23,793	\$24.72
Central	103	2,863,418	270,576	279,538	9.8%	24,803	0	0	\$21.49
East	63	1,542,528	329,037	329,037	21.3%	(923)	0	0	\$21.32
Far Northeast	31	208,859	13,536	13,536	6.5%	12,244	8,928	36,000	\$25.27
Far Northwest	86	1,604,536	97,442	97,442	6.1%	8,729	0	0	\$22.53
Georgetown	99	1,128,635	81,026	81,026	7.2%	11,337	0	0	\$26.80
Hays County	103	1,010,201	125,149	127,558	12.6%	(2,041)	36,000	30,210	\$21.19
North	81	4,776,912	338,733	341,533	7.1%	736	0	0	\$20.96
Northeast	47	2,129,000	280,332	287,405	13.5%	3,432	0	0	\$18.28
Northwest	235	6,350,050	548,748	639,517	10.1%	(14,197)	36,000	245,340	\$26.23
Round Rock	208	2,158,933	242,418	254,382	11.8%	5,515	0	94,000	\$24.19
South	148	2,436,626	98,851	98,851	4.1%	9,348	0	18,080	\$24.66
Southeast	47	3,292,762	745,269	747,029	22.7%	(228,847)	0	0	\$18.26
Southwest	277	4,965,712	314,107	332,763	6.7%	68,546	5,484	86,474	\$25.67
West Central	68	943,518	40,058	50,131	5.3%	(787)	0	0	\$31.67
Totals	1,888	41,090,976	3,793,279	3,976,130	9.7%	(65,422)	113,582	533,897	\$23.73

Source: CoStar Property®

CLASS C MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bastrop County	52	187,452	300	300	0.2%	3,200	0	0	\$12.15
Caldwell County	9	27,829	1,012	1,012	3.6%	0	0	0	\$14.25
CBD	273	2,335,903	76,371	76,371	3.3%	8,968	0	0	\$24.11
Cedar Park	47	137,276	0	0	0.0%	1,314	0	0	\$16.40
Central	280	2,457,973	94,665	94,665	3.9%	17,895	0	0	\$18.67
East	164	831,967	82,998	82,998	10.0%	(5,626)	0	0	\$21.07
Far Northeast	27	253,896	6,604	6,604	2.6%	0	0	0	\$15.24
Far Northwest	79	410,915	31,361	31,361	7.6%	(750)	0	0	\$19.40
Georgetown	153	543,859	31,366	31,366	5.8%	(307)	0	0	\$19.21
Hays County	95	445,286	32,750	38,093	8.6%	(6,261)	0	0	\$19.50
North	89	602,201	33,333	33,333	5.5%	20,749	0	0	\$17.24
Northeast	55	976,768	125,702	125,702	12.9%	23,430	0	0	\$12.78
Northwest	123	1,794,490	23,542	23,542	1.3%	265	0	0	\$22.61
Round Rock	133	702,734	46,203	46,563	6.6%	(2,486)	0	0	\$17.42
South	273	1,918,216	74,839	85,214	4.4%	(1,726)	0	0	\$19.76
Southeast	33	386,190	30,184	30,184	7.8%	0	0	0	\$16.84
Southwest	131	816,032	27,349	27,349	3.4%	1,093	0	0	\$24.50
West Central	136	547,435	10,914	10,914	2.0%	(1,427)	0	0	\$28.21
Totals	2,152	15,376,422	729,493	745,571	4.8%	58,331	0	0	\$19.43

Source: CoStar Property®

TOTAL OFFICE MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bastrop County	81	392,112	11,900	11,900	3.0%	1,500	0	0	\$12.30
Caldwell County	19	65,745	13,115	13,115	19.9%	0	0	0	\$14.25
CBD	446	13,615,554	1,266,512	1,342,822	9.9%	72,107	115,000	1,093,038	\$39.18
Cedar Park	156	1,462,160	114,187	118,814	8.1%	13,852	27,170	109,793	\$26.19
Central	390	6,027,547	554,291	563,253	9.3%	76,053	0	0	\$24.12
East	230	2,629,316	412,035	412,035	15.7%	23,902	30,451	0	\$21.24
Far Northeast	58	462,755	20,140	20,140	4.4%	12,244	8,928	36,000	\$23.71
Far Northwest	181	4,385,503	576,969	576,969	13.2%	(164,638)	0	44,020	\$25.11
Georgetown	252	1,672,494	112,392	112,392	6.7%	11,030	0	0	\$24.46
Hays County	200	1,593,677	181,836	189,588	11.9%	4,774	36,000	30,210	\$22.65
North	183	7,219,082	474,369	524,761	7.3%	30,505	0	365,304	\$25.01
Northeast	106	3,609,521	431,480	438,553	12.1%	15,892	0	0	\$17.72
Northwest	438	16,158,449	1,410,560	1,572,343	9.7%	228,855	212,000	245,340	\$28.70
Round Rock	353	5,162,262	322,156	336,385	6.5%	5,150	0	94,000	\$24.35
South	443	7,311,269	417,716	446,911	6.1%	64,518	0	18,080	\$29.63
Southeast	81	3,833,891	782,674	784,434	20.5%	(212,288)	0	0	\$18.44
Southwest	443	10,251,422	658,535	755,247	7.4%	51,250	5,484	376,344	\$28.81
West Central	208	2,087,956	78,660	88,733	4.2%	14,281	0	0	\$34.72
Totals	4,268	87,940,715	7,839,527	8,308,395	9.4%	248,987	435,033	2,412,129	\$28.30

Source: CoStar Property®