



Austin Office Market

Office Market Not Yet Seeing Vaccine Bump in Metrics

Austin and much of the Texas economy began to see limited benefits of the strong COVID vaccine roll out during the first quarter of 2021. As the state begins to slowly and smartly re-open, the office market in Austin during the quarter did not yet see the same positive bumps as the overall economy. However, several smaller slivers of positive news denote confidence that the bottom of the downturn has been reached and the remainder of 2021 and into 2022 will see more positive office market metrics.

Austin Metrics Begin to Show Potential Volatility

Rental rates remained fairly flat, but showed a gain of \$0.54/SF to \$36.36 per square foot in the quarter. Total vacancy reached 17.1% with total availability remained north of 22%. The Class A market, consisting of more than 50% of the region's building stock, saw an even more significant impact, as vacancy levels topped 19% and availability rates held above 25% during the quarter. Occupiers continued to give back space as the quarter saw more than 401 KSF of negative absorption. The overall absorption amount marked the seventh straight quarter where the office market saw more space given back after a stretch of 13 out of 15 quarters of positive take up.

Current Conditions

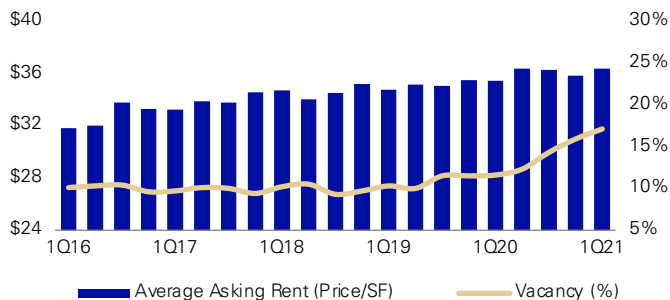
- Absorption rebounds slightly, but 7th consecutive quarter of overall negative
- Sublease space remains north of 3.5 MSF; double that of Q1 2020
- Third out of the last 4 quarters with sub 1.0 MSF overall leasing activity
- Austin recently named one of the top markets for CRE investment as a whole; portends a stronger close to 2021

Market Summary

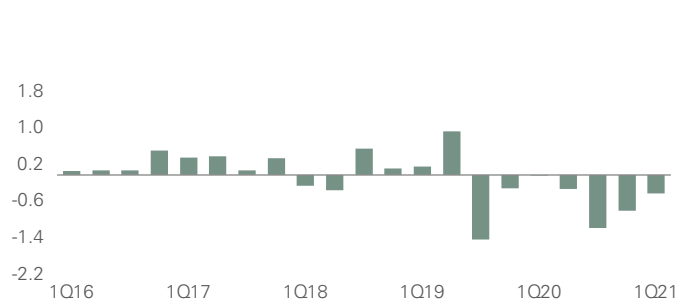
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	72.9 MSF	72.1 MSF	71.6 MSF	↑
Vacancy Rate	17.1%	15.9%	11.9%	↑
Quarterly Net Absorption (SF)	-401,268	-784,799	-80,076	↓
Average Asking Rent/SF	\$36.36	\$35.82	\$36.14	↑
Under Construction (SF)	7.2 MSF	6.8 MSF	4.2 MSF	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Somewhat positive momentum was seen in the quarter’s overall leasing trends, as more than 900,000 square feet of new leasing activity took place, a rebound over the prior quarter’s all time low. Additional rumors concerning both TikTok and Facebook being in the market for sizable Austin offices have been making the rounds and could have legs in the next 12 to 18 months thanks to the region’s continued demand drivers and business friendly environment. However, on a per transaction basis, the square footage shrank further and now stands at sub 4,000 square feet per lease. As previously mentioned, the area continues to see a mix of tenants either renewing for shorter terms, less space or pushing off real estate decisions in their entirety as the companies continue to grapple with the COVID 19 impact and a work-force that is still not occupying their existing space. At the last check of the data, roughly 25% of office space in the market was currently occupied by workers during the pandemic, as the shift to work-from-home during the COVID protocols shows limited signs of abating in the short term.

Tech Demand and Volatility Key Post COVID Market

Thankfully, Austin is driven largely still by a robust tech economy, which is least affected by any pandemic-related economic slowdown. Due largely to companies like Google, Indeed, Amazon, and Apple, Austin’s tech economy could continue to perform well as demand for IT services increases as work-from-home continues. Austin has also been attracting companies from expensive east and west coast markets to set up operations in Austin, even during a pandemic. Oracle is the latest announcement, with the company stating their nearly 1 million square foot office in the East Riverside corridor as their new US headquarters. Additionally, multiple smaller tech and corresponding sector companies continue to look to Austin as the preeminent city to open new regional and national

headquarters, thanks to the strong economic and social growth patterns in Austin.

Construction and Investment Remain Strong

Austin has maintained its robust development pipeline in to the new year, with at least fourteen office properties proposed across the market. On a percentage of inventory basis, Austin at year end 2020 had the most office square footage under construction among the major US markets. The market currently has more than 7.3 million square feet of space under construction, with a slight majority of 4.8million square feet under way in the suburban markets. Within the CBD, construction started on 6 X Guadalupe, Austin’s tallest tower. The project is being developed by Lincoln Property Co. and will include 589,661 square feet of office space, 349 apartments and 11,675 square feet of retail space once complete. Block 185, at the corner of Cesar Chavez and Nueces streets, is also underway. The 723,000 square foot building is already 100% pre-leased by Google and features a prominent sail-like design. Google expects to move in sometime in 2023. There is almost 3.5M SF of sublease space on the market, and this indicator should be watched as more new stock arrives to market to see the impact that flight to quality may have on older market stock in and around Austin.

The investment cycle in the Austin market has begun to show signs of life as well as investors have regained their confidence in the market. The single largest transaction of the quarter was Carr’s purchase of 100 Congress in the CBD from Invesco for \$315M, or \$765/SF. This transaction represents a high water mark in terms of per square foot value and can be seen as a strong indicator of investors’ desire to deploy powder within Austin on premiere assets.

Asking Rent by Submarket			
ASKING RENT	1Q2021	1Q2020	
CBD	\$51.27/SF	\$51.44/SF	↓
Southwest	\$36.94/SF	\$38.65/SF	↓
North	\$30.83/SF	\$29.40/SF	↑
Suburban	\$33.78/SF	\$34.12/SF	↓
Northwest	\$32.27/SF	\$33.58/SF	↓

Vacancy Rate by Submarket			
VACANCY RATE	1Q2021	1Q2020	
East/Northeast	25.2%	22.2%	↑
South/Southeast	13.4%	8.9%	↑
Southwest	14.8%	8.6%	↑
Suburban	17.4%	13.2%	↑
Northwest	22.7%	18.0%	↑

COVID-19 Impact Remains Far Reaching

Austin's market may be more insulated than other Texas markets against COVID impacts, but the market could be impacted significantly if the crisis causes many companies to rethink their work-from-home policies. As Austin is already the top telecommute market in the country, according to the U.S. Census any escalation to that trend would negatively impact demand for office space long term. However, there are two sides to every coin, and savvy commercial real estate investors and owners also need to consider how social distancing may force companies to take on additional space to accommodate fears of the virus (or any future pandemic), which could offset space given back by companies that are shifting to a more frequent work-from-home environment. Longer term, Austin's office market has been resilient across cycles. The economy continues to outperform the broader U.S., and Austin continues to lead the nation in terms of population growth over the last decade plus. The market's combination of relative affordability compared to other tech-heavy markets, strong in-migration, a public university with a strong STEM student base, and a local and state government backed by business friendly incentives for companies looking to relocate should continue to spur additional demand for office space across cycles. Additionally, the metro's supply pipeline could be considered an asset post-pandemic.

New office space is better able to incorporate the best and latest technology for virus mitigation like WELL certification. Building managers are better able to control airflow and circulation, and additional new technology could be the amenities needed to get tenants to pay up for some of the most expensive space in the market. As we look ahead to a return to the new normal in a post-COVID pandemic world buoyed by the vaccine deployments, while uncertainty on just how soon the Austin office market will recover remains, the metro's strong creative environment and robust talent pool should keep companies expanding in Austin long term.

Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Unknown	Austin – CBD	3601 S Congress	New – Direct	44,171
Unknown	Austin - CBD	816 Congress	New – Direct	34,560
Unknown	Austin – South	200 Academy Dr	New – Direct	21,638
Unknown	Austin – CBD	816 Congress	New – Direct	21,240
Unknown	Austin - NW	6011 W Courtyard	Sublease	20,916
Unknown	Austin – CBD	816 Congress	New - Direct	15,601

Sales Transactions

Buyer/Seller	Market	Building	Price	Price/SF
Carr/Invesco	Austin – CBD	100 Congress	\$315,000,000	\$765
Unknown/Kawa Capital	Austin – Northeast	Parmer 3.1	\$67,606,107 (rumor)	\$339

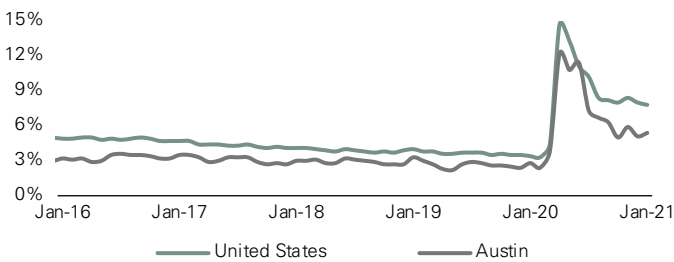
Submarket Statistics (Combined Class A&B)								
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	12,555,989	2,842,901	24.8%	60,539	60,539	\$53.61	\$46.59	\$51.27
Cedar Park/GT/RR	3,547,281	716,400	13.0%	-51,839	-51,839	\$30.94	\$31.26	\$31.00
Central/West Central	5,243,072	250,000	16.2%	-10,024	-10,024	\$32.76	\$33.32	\$32.85
East/Northeast	7,989,708	1,391,500	35.4%	231,396	231,396	\$36.33	\$28.88	\$34.94
North	8,122,588	389,446	13.3%	-95,041	-95,041	\$29.56	\$33.63	\$30.83
Northwest	17,893,891	897,776	27.8%	-392,226	-392,226	\$33.58	\$27.74	\$32.27
South/Southeast	6,208,836	557,461	15.0%	30,947	30,947	\$36.75	\$40.63	\$36.98
Southwest	11,436,136	316,262	21.1%	-174,300	-174,300	\$38.27	\$33.06	\$36.94
Suburban	60,441,512	4,272,501	22.3%	-461,807	-461,807	\$34.66	\$30.50	\$33.78
Market	72,997,501	7,360,771	22.7%	-401,268	-401,268	\$37.07	\$33.95	\$36.36

Economic Indicators

The continued impact on Austin of the COVID pandemic (and to a smaller extent, the oil-price worries more widely impacting Houston and Dallas) can now be more readily seen in other areas of economic data. The data also shows the slow emergence from the recession that Austin is beginning to see. Across 7 of the 12 employment sectors tracked, 12 month growth percentages have continued to be negative. A deeper dive however shows only 3 of those with negative growth greater than 2% in the 12 month cycle. Combined with unemployment rates continuing to rebound, companies continuing to ramp up hiring in and around the region, and the aforementioned California to Texas pipeline that is open and flowing in terms of major company headquarters relocations, the Austin economy is poised to recover perhaps the quickest of all the Texas metros in a post-COVID landscape.

Unemployment Rate

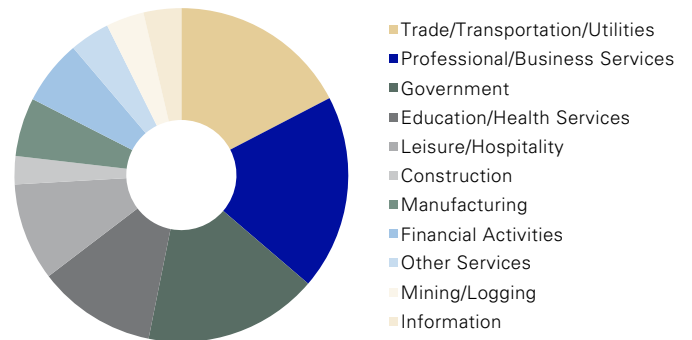
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Employment By Industry

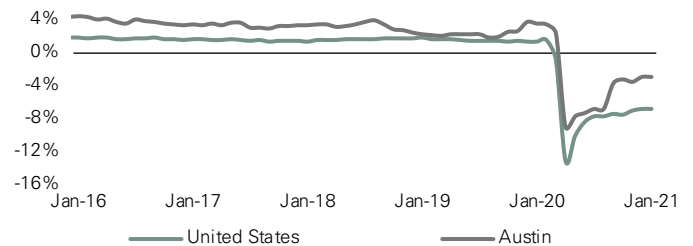
AUSTIN, JANUARY 2021



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

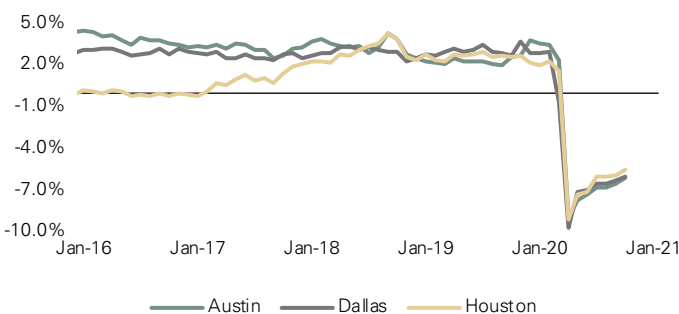
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2020

Payroll Employment – Select Texas Markets

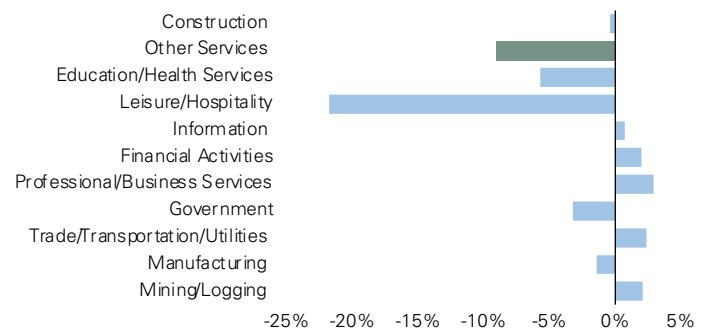
TOTAL NONFARM, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

Employment Growth (Industry)

AUSTIN, FEBRUARY 2021, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

For more information:

Austin

2350 Walsh Tarlton Ln
Suite 250
Austin, TX 78746
t 512-342-8100

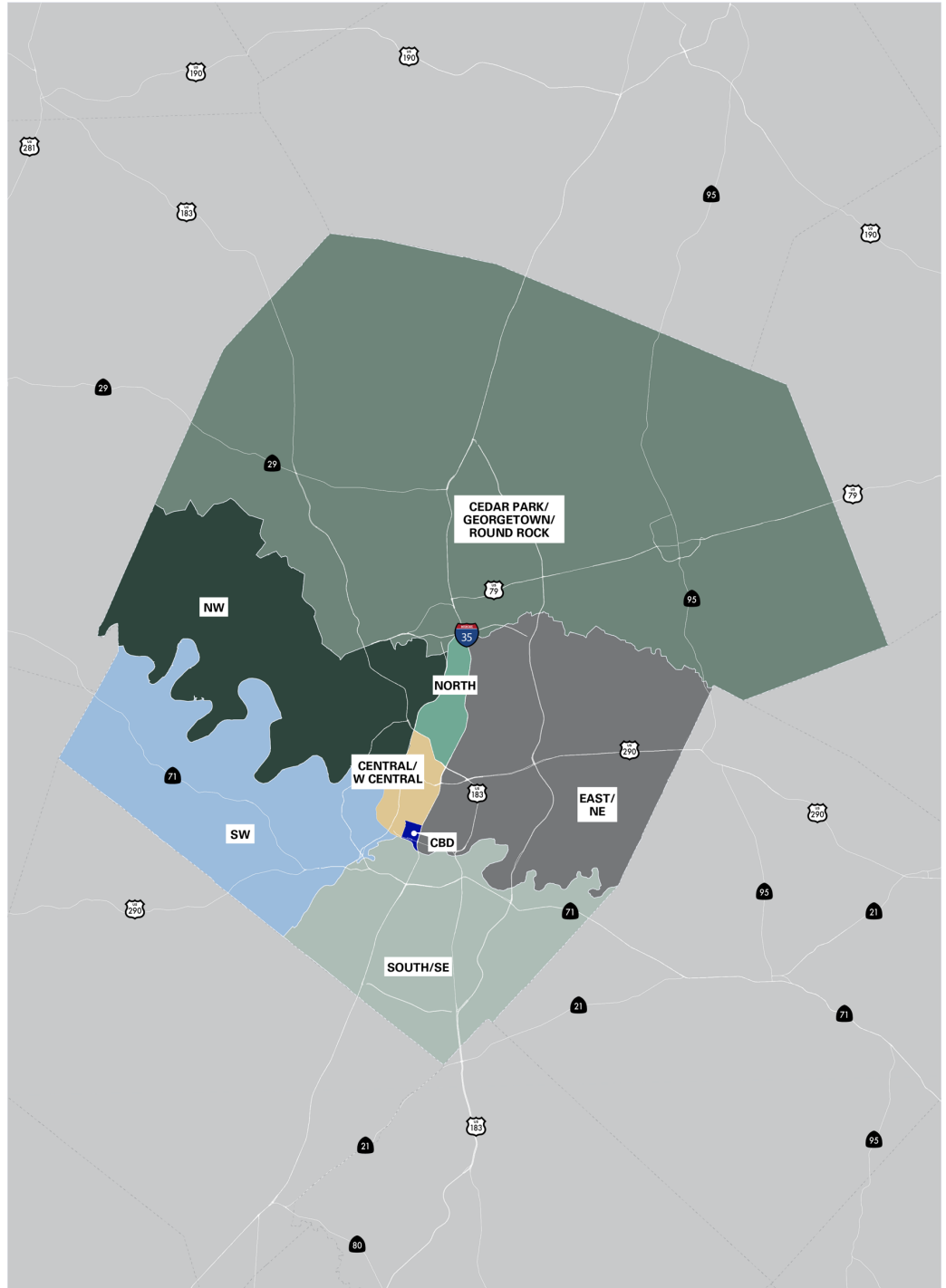
Graham Hildebrand

Director
Texas Research
graham.hildebrand@ngkf.com

Walter Bruton

Research Coordinator
Texas Research
walter.bruton@ngkf.com

nmrk.com



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