



Austin Office Market

A Lukewarm Start to 2022 for Austin Office Market

The Austin office market is working its way toward recovery in fits and starts, as evidenced by muted demand and rental rate hikes in the first quarter of 2022. Rental rates continue the upward trend, while vacancy remains elevated at almost 18%. Although leasing demand fell 50.0% quarter-over-quarter, construction started on over 1.6 million square feet of space in the first quarter of 2022. At the start of the year, Austin was the hottest job market in the country, with increasing demand for workers in the region. After sitting at the number-three spot for several years, Austin ranked number two in the Milken Institute's 2022 Best-Performing Cities List. Coming in behind Provo-Orem, Utah, Austin secured the ranking due to its local talent, low tax rate and relatively low cost of living. Opportunities for investors in the Austin market has no doubt helped the city secure high rankings such as this, with \$1.5 billion in investment volume in the fourth quarter of 2021 and \$414.9 million so far in 2022.

Rental Rates Push Upward as Vacancy Flatlines

Prior to the pandemic, Austin's office rents were steadily trending upward, gaining 7.2% from the start of 2019 to the start of 2020. In the first quarter of 2022, rental rates maintained the upward trend at \$40.31/SF, an increase of 7.5% year-over-year. Direct rates increased to \$40.58/SF, while sublease rates decreased slightly to \$38.26/SF for an

Current Conditions

- Rental rates rose 7.5% year-over-year and stand at \$40.31 per square foot.
- Sublease inventory decreased by 1.1 million square feet
- Construction starts in the first quarter of 2022 totaled 1.2 million square feet
- Austin ranks #2 in Milken Institute's 2022 Best-Performing Cities List

Market Summary

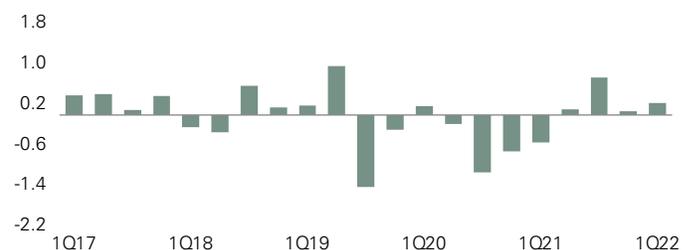
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 76.0 M | 75.6 M | 73.8M | ↑ |
| Vacancy Rate | 17.8% | 17.6% | 16.9% | ↓ |
| Quarterly Net Absorption (SF) | 236,135 | 75,224 | 733,072 | ↑ |
| Average Asking Rent/SF | \$40.31 | \$39.99 | \$37.48 | ↑ |
| Under Construction (SF) | 4.1 MSF | 3.8 MSF | 4.2 MSF | ↑ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q1 2022

average price discount of 5.7% on sublease space. Vacancy is at 17.8%, having plateaued in recent quarters, but remains significantly higher than levels seen throughout the pandemic. The market's vacancy rate has increased 5.3% from the same period a year prior. The Class A market, which consists of more than 50% of the region's building stock, had slight decreases in both vacancy and availability, which dropped marginally to 17.0% and 22.1%, respectively. The Austin market realized healthy positive absorption at 236,135 square feet. This marks the fourth consecutive quarter of positive absorption, reversing the negative trend seen throughout the pandemic.

While many markets' central business districts are struggling with record high vacancy rates and over saturation, Austin's Downtown submarket continues to draw big tenants and development interest. At 19.0%, vacancy in the CBD is elevated, increasing 187 basis points year-over-year, but remains well below vacancy rates seen in other central business districts in Texas. The submarket realized 4,529 square feet of negative absorption in the first quarter of 2021. Leasing activity totaled 341,312 square feet, an indication that the submarket is still attracting attention. Demand in the CBD continues to push rates higher but at a slower pace than was seen in 2021. In the first quarter of 2022, the overall asking rate jumped to \$58.61/SF, an increase of \$0.65/SF quarter-over-quarter.

Demand for Downtown

In the first quarter of 2022, leasing activity in the Austin market was on par with levels seen a year prior at 1.3 million square feet; however, activity fell about 51% from the fourth quarter of 2021 when activity reached 2.8 million square feet. Transactions totaled 254 for the quarter, and the average lease size was 5,500 square feet. Sublease activity, which accounted for 314,061 square feet of the total, helped to bring overall sublease availability down to 2.3 million square feet. The amount of sublease space on the market has decreased by roughly 1.1 million square feet since the start of 2021 as tenants take advantage of discounted space or regain need of space due to employees returning to the office.

Video-based social media company TikTok announced it leased around 150,000 square feet of space at 300 Colorado in Austin's

CBD. The company will occupy space on the top six floors of the building, which delivered in 2021 and totals 369,000 square feet.

Also in the CBD, Under Armour signed for 22,000 square feet at River South, a newly completed midrise office building. Under Armour joins existing tenants Alert Media (70,000 square feet), Baker Botts (52,700 square feet) and WP Moore (11,000 square feet). River South, which totals 350,611 square feet, is now 55.0% occupied.

In South Austin, Atmosphere took 114,413 square feet at 2043 S. Lamar Blvd. and is expected to move in July 2022. The property was built in 2020 and is now 98.0% occupied by Atmosphere and Splunk, which occupies 52,700 square feet in the building. Roku, the streaming media device company, recently expanded its footprint in Austin by leasing an additional 22,292 square feet at 9606 N. Mopac Expy. in the Northwest submarket.

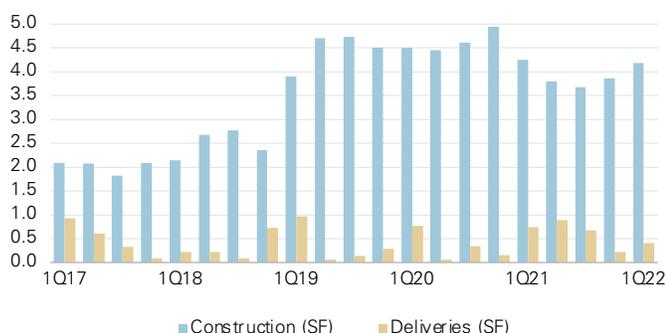
Austin Area an Oasis for Development

While demand in the Austin market is currently still in recovery, developers appear to have gone all-in on expectations of future growth in the market. Austin's construction pipeline remains robust, with extensive projects throughout all phases of development. At least 20 office properties are proposed across the market in 2022, totaling over 4.6 million square feet. Two buildings delivered in the first quarter of 2022, adding 410,057 square feet of space to the market's inventory. On a percentage of inventory basis, Austin has the most office square footage under construction among the major US markets. The market currently has more than 4.1 million square feet of space under construction, with the bulk of new building stock happening in the CBD. Construction starts in the first quarter of 2022 totaled 1.6 million square feet.

Within the Central Business District, there are currently six properties under construction, which will add 2.4 million square feet of space to the submarket. Upon completion, 6 X Guadalupe, which is under construction, will be 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.

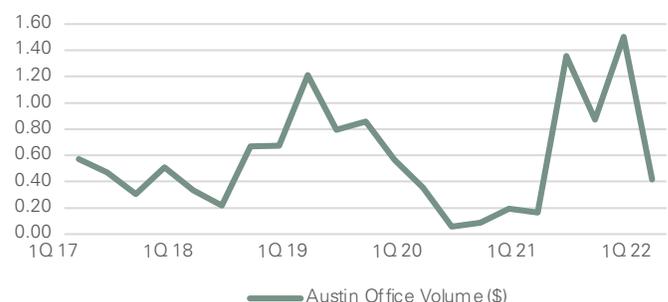
Construction and Deliveries

SQUARE FEET, MILLIONS



Office Investment Sales

SALES VOLUME (\$, BILLIONS)



Source: Real Capital Analytics

RESEARCH Q1 2022

The property, however, may not be the city's tallest for long. The City of Austin recently approved permitting for a 73-story building at 98 Red River St., also to be developed by Lincoln Property Co. Initial plans for the building include 350 apartments, a 251-room hotel and 686,000 square feet office space. Tishman Speyer officially broke ground on 321 West, a 58-story mixed-use tower at 321 W. 6th St. Downtown. The New York-based company is developing the property in conjunction with Ryan Cos., which is based out of Minneapolis and highlights the continued interest of out-of-state investors. The project will be one of the city's tallest buildings upon completion, which is slated for 2024.

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. Innovation Tower is nearing completion, with a delivery set for May 2022. The office tower will contain 324,500 square feet of space and is the flagship building of the Innovation District.

In the East/Northeast submarket, over 1.1 million square feet of space is under construction, the second highest in the market. Most of the development is within Parmer Austin corporate park, which is being developed by Karlin and will total over 1.8 million square feet when finished. About 70% of the current construction in the East/Northeast submarket is set to wrap up by year end and will add around 818,000 square feet to the submarket.

North of Austin, development in Williamson County is reaching new heights, with at least 18 megadevelopments in the works. Most notably is Samsung's announcement to build a \$17.0-billion semiconductor factory in Taylor, the largest foreign investment ever

in Texas. The development is expected to bring roughly 2,000 high-tech jobs to the town. Several mixed-use developments are in the planning stages, as well, including Northline, a 115-acre project in Leander. The project is designed to be a downtown-esque destination and will include 700,000 square feet of office and 300,000 square feet of retail space, along with a 150,000-square-foot hotel and 300 townhomes. The first phase is expected to deliver in 2023, with the full development complete by 2031.

Additional planned mixed-use developments include: Wolf Lakes Village, a 164-acre project in Georgetown that kicked off in 2021; Leander Springs, located at the southwest corner of FM 2243 and the 183 Toll Road, is a \$1.1-billion public-private partnership that will include more than 1 million square feet of commercial space, 1,600 multi-family units and a hotel.

The Year Ahead

All signs point to a continuing boom for the Austin market in both the short and mid-term. Austin's CBD has not witnessed the contraction that other large cities are experiencing, with companies continuing to pursue the limited Class A space available. Demand is expected to outpace supply, which could negatively impact the market in the mid-term if the construction pipeline runs dry. The sizable developments that are planned throughout the market will keep construction numbers elevated for the time being, but most of the development is focused on mixed-use rather than sole office space. The influx of company relocations and high-pay tech jobs have left many concerned about Austin's affordability long term, as home prices are skyrocketing and affordable housing options are becoming scarce. But despite the increasing cost of living, albeit lower compared to other high-tech focused areas, Austin remains a highly desirable locale for companies and residents alike.

Lease/User Transactions

| Tenant | Market | Building | Type | Square Feet |
|----------------|-----------------------|--------------------|----------------|-------------|
| TikTok | Austin – CBD | 300 Colorado | New – Direct | 150,000 |
| Atmosphere | Austin – South | 2043 S. Lamar Blvd | New – Direct | 114,413 |
| Next Insurance | Austin – North/Domain | 11500 Alterra Pky | New – Sublease | 51,059 |
| Under Armour | Austin – CBD | RiverSouth | New – Direct | 22,000 |
| Roku | Austin – Northwest | 9606 N. Mopac Expy | New – Direct | 22,292 |

Sale Transactions

| Buyer/Seller | Market | Building | Price | Price/SF |
|--|--------------------|---|--------------|----------|
| Oakpoint Capital Partners/ Senior Housing Properties Trust | Austin – Southwest | Vista Ridge I 912 S. Capital of Texas Highway | \$15,700,000 | \$216 |
| Curative Inc/ Cielo Realty Partners | Austin – CBD | 900 Congress Ave | \$43,650,000 | \$774 |
| Oakpoint/ DivcoWest | Austin – Northwest | The Park-8300 N Mopac Expy | \$30,400,000 | \$326 |

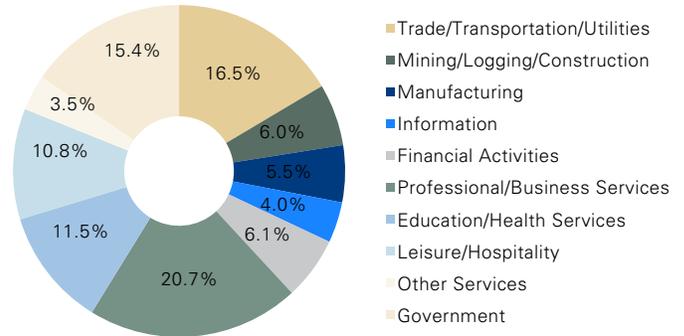
| Submarket Statistics | | | | | | | | |
|-----------------------------|----------------------|-------------------------|-------------------------|-------------------------|---------------------|-------------------------------|-------------------------------|------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Availability Rate | Quarter Absorption (SF) | YTD Absorption (SF) | Direct Asking Rent (Price/SF) | Sublet Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
| CBD | 13,810,150 | 935,622 | 28.4% | -97,404 | 576,448 | \$57.51 | \$60.03 | \$57.99 |
| Cedar Park/GT/RR | 3,933,496 | 36,000 | 16.1% | 168,978 | 57,984 | \$31.42 | \$31.20 | \$31.38 |
| Central/West Central | 5,317,848 | 91,548 | 20.1% | -110,269 | -171,200 | \$35.23 | \$26.94 | \$35.10 |
| East/Northeast | 7,754,348 | 1,271,421 | 34.9% | -59,714 | 386,593 | \$40.24 | \$33.92 | \$39.97 |
| North | 8,487,112 | 59,446 | 13.1% | 69,227 | 83,009 | \$33.36 | \$30.43 | \$33.07 |
| Northwest | 17,627,340 | 0 | 25.5% | 144,512 | -142,104 | \$35.70 | \$27.83 | \$34.30 |
| South/Southeast | 6,757,557 | 422,211 | 17.9% | -77,947 | -113,599 | \$38.21 | \$35.50 | \$37.85 |
| Southwest | 11,498,212 | 0 | 19.7% | -147,907 | -472,112 | \$38.14 | \$36.57 | \$37.84 |
| Suburban | 61,375,913 | 1,880,626 | 22.2% | -13,120 | -379,429 | \$36.88 | \$31.54 | \$36.18 |
| Market | 75,186,063 | 2,816,248 | 23.4% | -110,524 | 205,019 | \$40.59 | \$38.90 | \$40.35 |

Economic Indicators

The Austin Business-Cycle Index moved to mid-expansion in the first quarter of 2022. The Business-Cycle Index grew 2.5% in January, and the Metro’s economy is expected to outperform the U.S. for the year. The Austin market has recovered all the jobs lost during the pandemic. In January, unemployment fell to 3.2% the lowest rate since February 2020. Unemployment was at 4.8% for the State of Texas and 4.0% for the nation in January. In February, all industries saw employment growth except for government, which contracted 0.9% year-over-year. The leisure and hospitality industry had the largest employment growth expanding 24.1%. The median home price has risen 27.0% year-over-year, reaching \$500,142 in January. Housing affordability in Austin continues to decline, dropping to 50.3% in the fourth quarter of 2021.

Employment By Industry

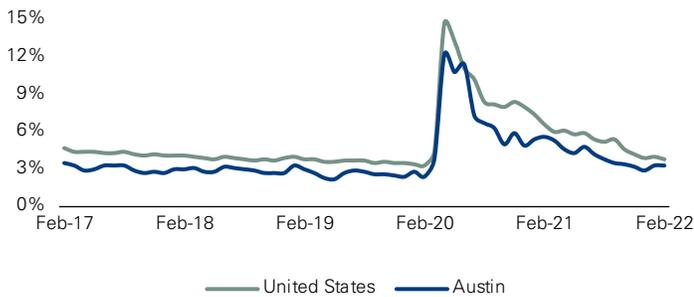
AUSTIN, FEBRUARY 2022



Source: U.S. Bureau of Labor Statistics, March 2022

Unemployment Rate

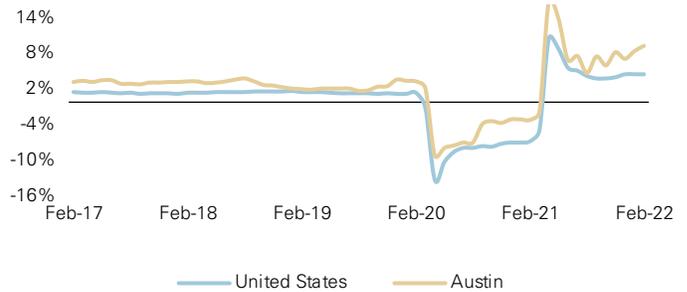
NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022

Payroll Employment

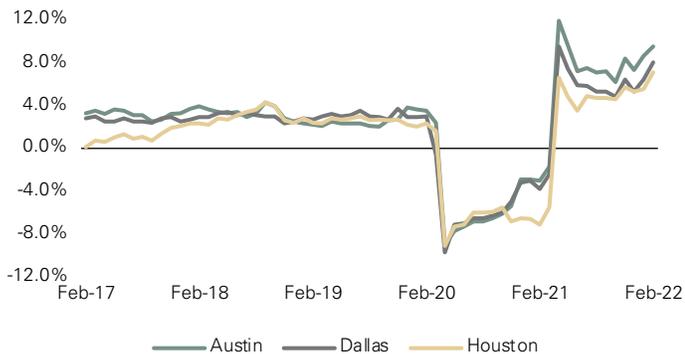
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, March 2022

Payroll Employment – Select Texas Markets

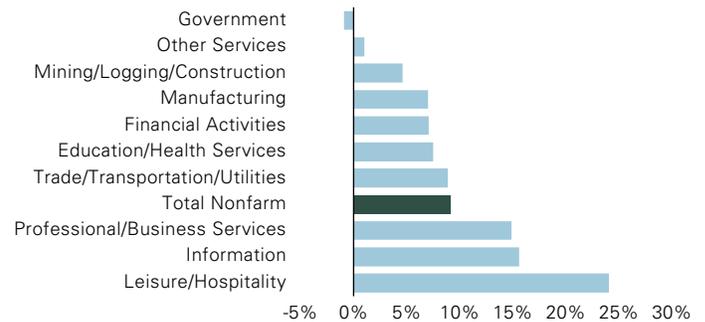
TOTAL NONFARM, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022

Employment Growth (Industry)

AUSTIN, FEBRUARY 2022, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022

