

1Q24

Austin Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate dropped by eight basis points year over year to 3.4%, below the five-year average of 3.9%.
- When compared to February 2023, employment growth declined by 306 basis points.
- Most sectors reported employment growth, with other services leading job gains at 7.4% over the past 12 months.
- Office-using jobs in the market recorded a historic high of 427,000 jobs as of the end of February 2024, reflecting a 33.2% growth rate since 2019.

Major Transactions

- The largest signed lease for the first quarter of 2024 was IBM’s 50,000-SF lease at Parmer 3.4.
- In contrast to headlines dominated by technology company firings and downsizings, technology and electronics manufacturing companies, like IBM and Quantic Wenzel, continued to play an outsized role in Austin’s office leasing market by signing the two largest leases in the first quarter of 2024.
- The largest transactions in the first quarter of 2024 were concentrated in Austin’s northern submarkets, specifically the North and Northeast.
- Most of the quarter’s largest signed leases were subleases.

Leasing Market Fundamentals

- Annual full-service class rental rates remain elevated at \$38.98/SF, a 2.6% decrease year over year.
- Direct vacancies increased by 150 basis points on a quarterly basis, causing the overall vacancy rate to increase by 280 basis points year over year, to 22.5%.
- The under-construction pipeline has continued its five-quarter decline from the peak of 5.9 MSF recorded in the fourth quarter of 2022 and closed out the quarter with 3.8 MSF currently in progress.
- Total leasing activity closed the quarter at 1.0 MSF, well below the 16-year first-quarter average of 2.0 MSF.

Outlook

- The Austin office market has begun to show signs of recovery but will report slower growth in the near term. Office investment activity will remain subdued in the near term due to elevated inflation, steeper cost of debt and muted demand in the near term and mid-term.
- The expiration of leases signed pre-pandemic will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly with continued muted demand. As a result, overall asking rents are projected to stay flat.
- Vacancy is expected to increase as the construction pipeline, which currently accounts for 4.6% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals

1Q24

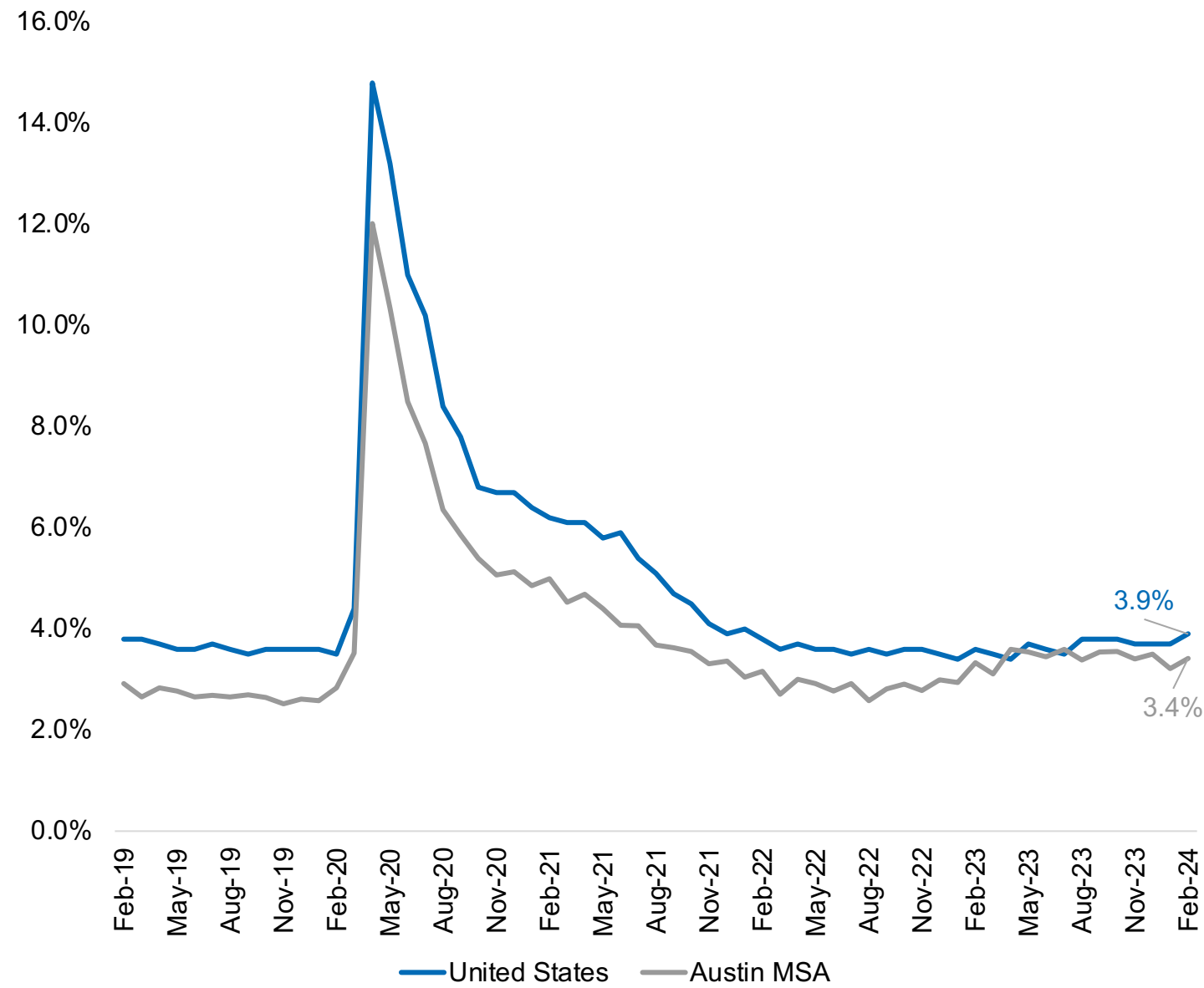
Economy



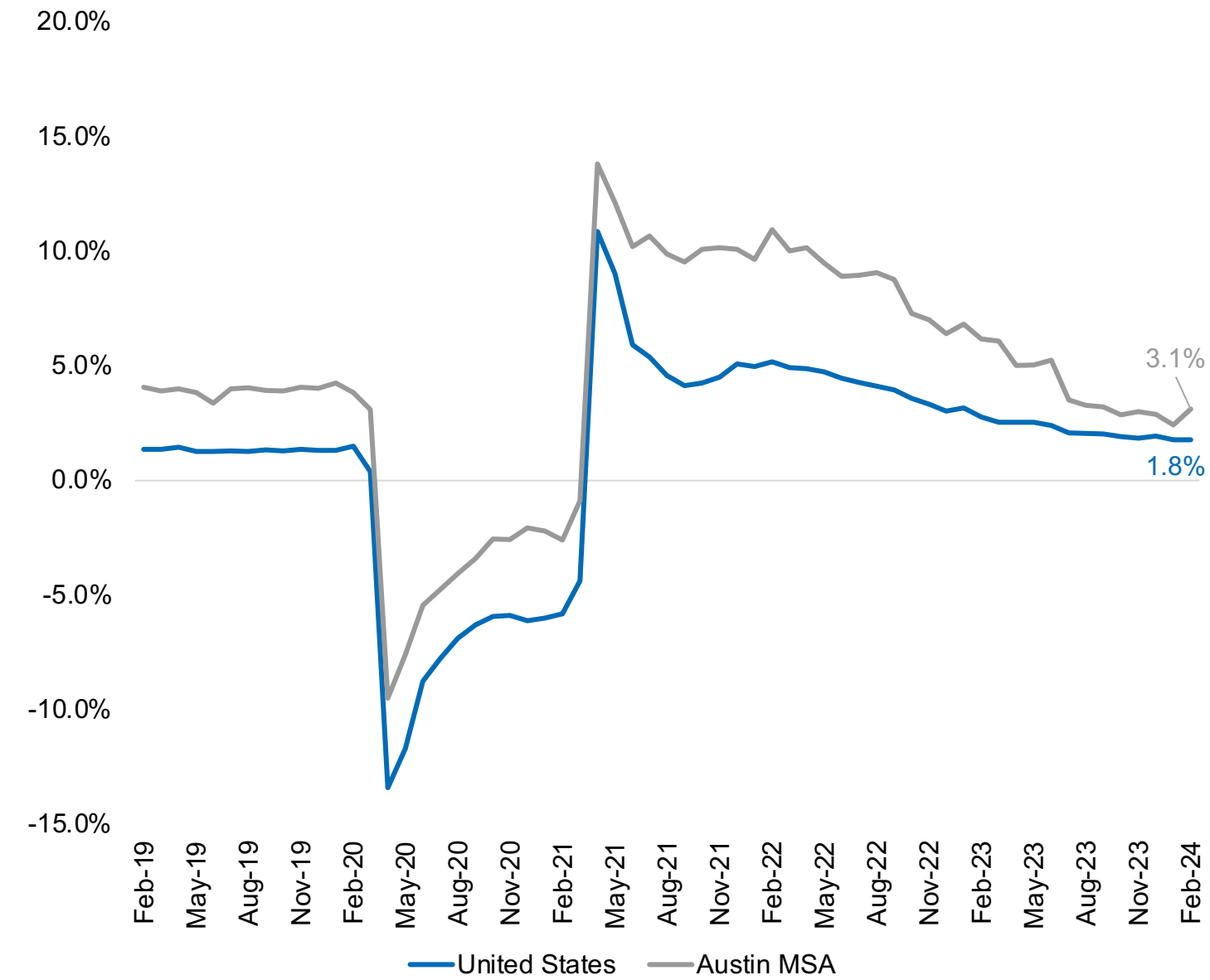
Employment Trends Signal a Slowing Economy

Austin has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Continued recent national economic headwinds in the first quarter of 2024 have caused the region's unemployment rate to increase by eight basis points year over year, while the employment year-over-year growth rate slowed by 306 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

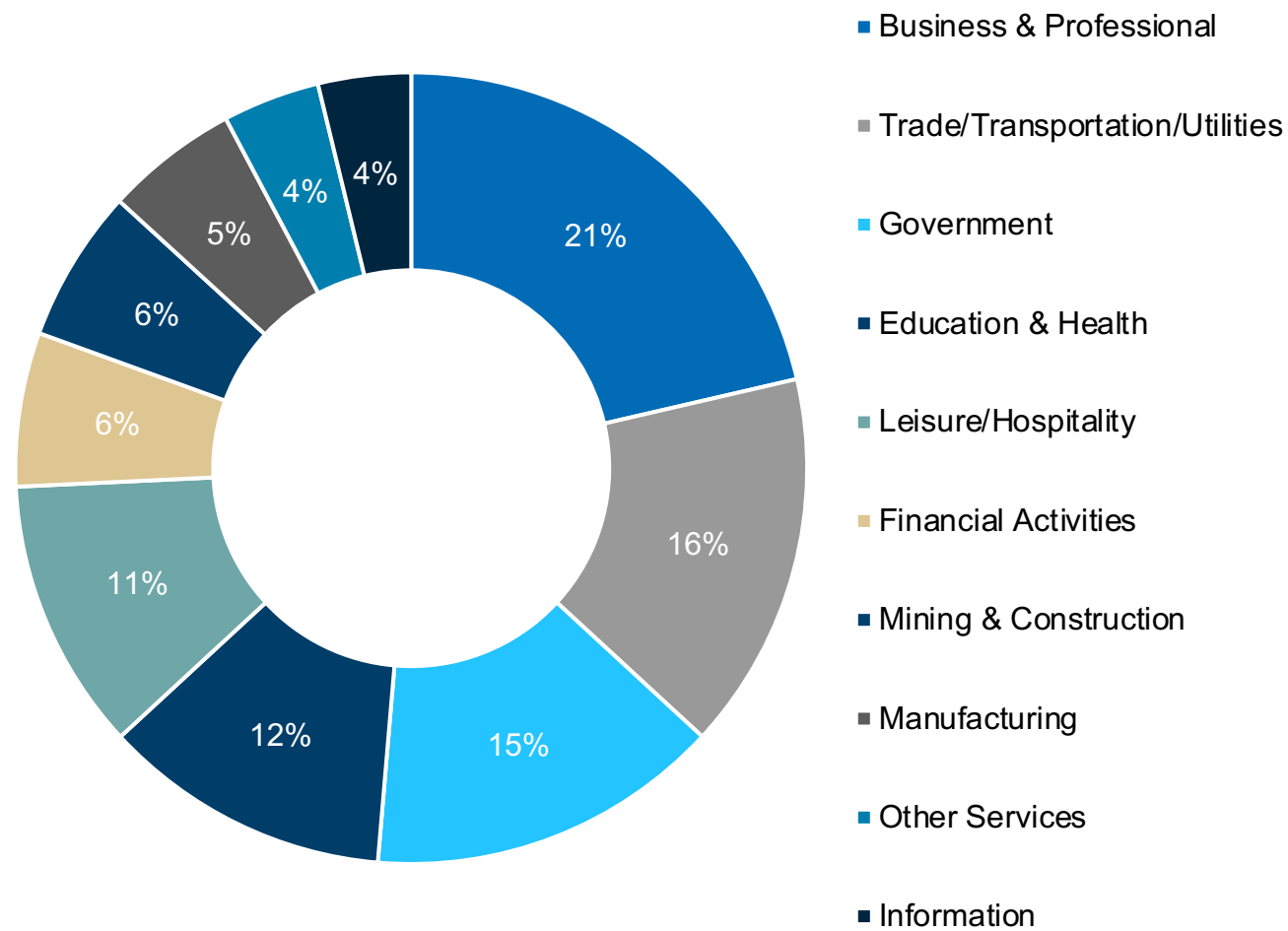


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

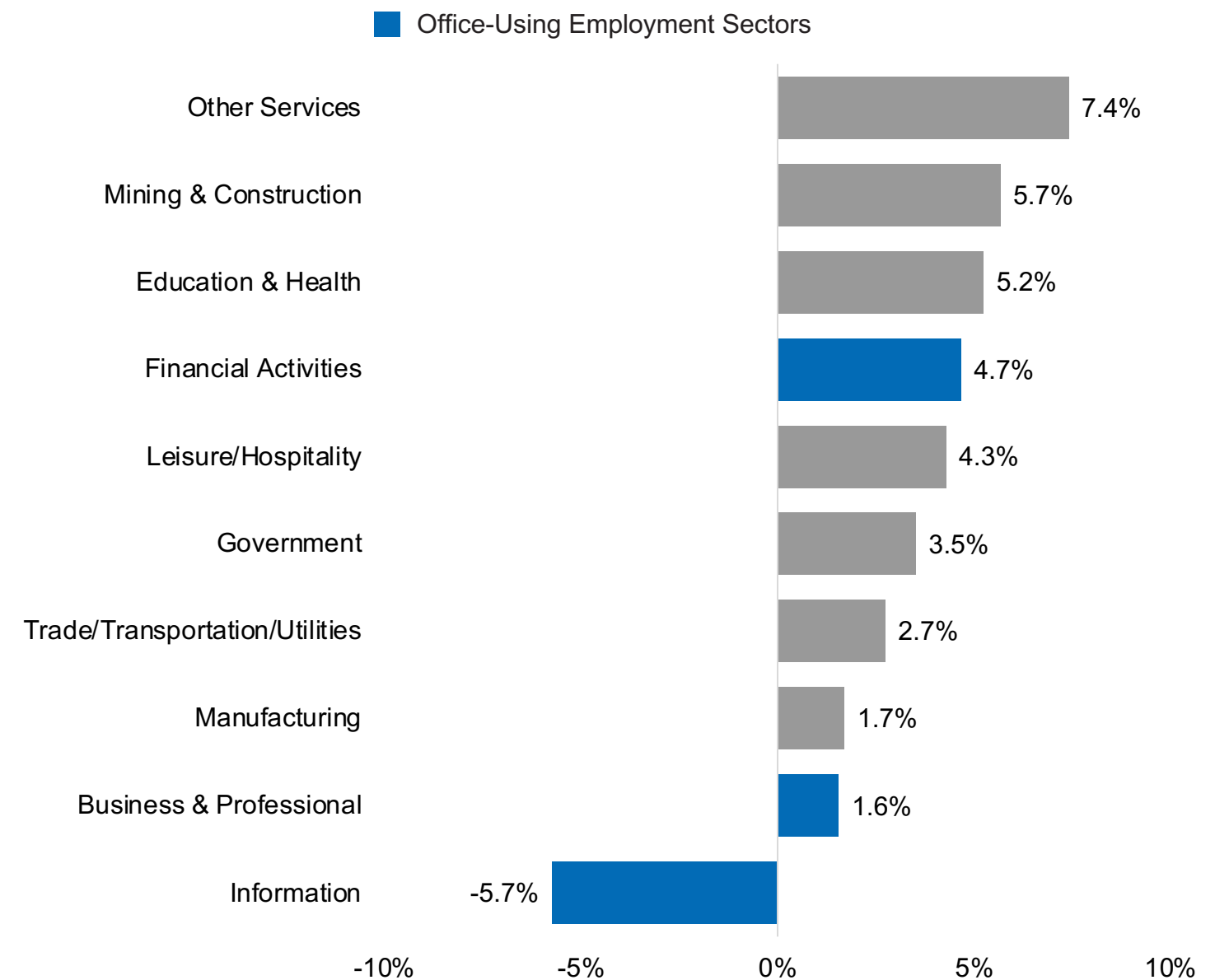
Employment Growth Continues across Most Sectors

Known for its technology sector, the Austin market's top-two employment industries, business and professional and trade/transportation/utilities, account for 36.9% of jobs. The office-using employment's business and professional sector is the largest industry sector, at 21.4%. All industries, except information, reported year-over-year job growth. The financial activities and business and professional sectors reported 4.7% and 1.6% year-over-year growth, respectively. Meanwhile, the information sector reported a decline of 5.7% growth year over year.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

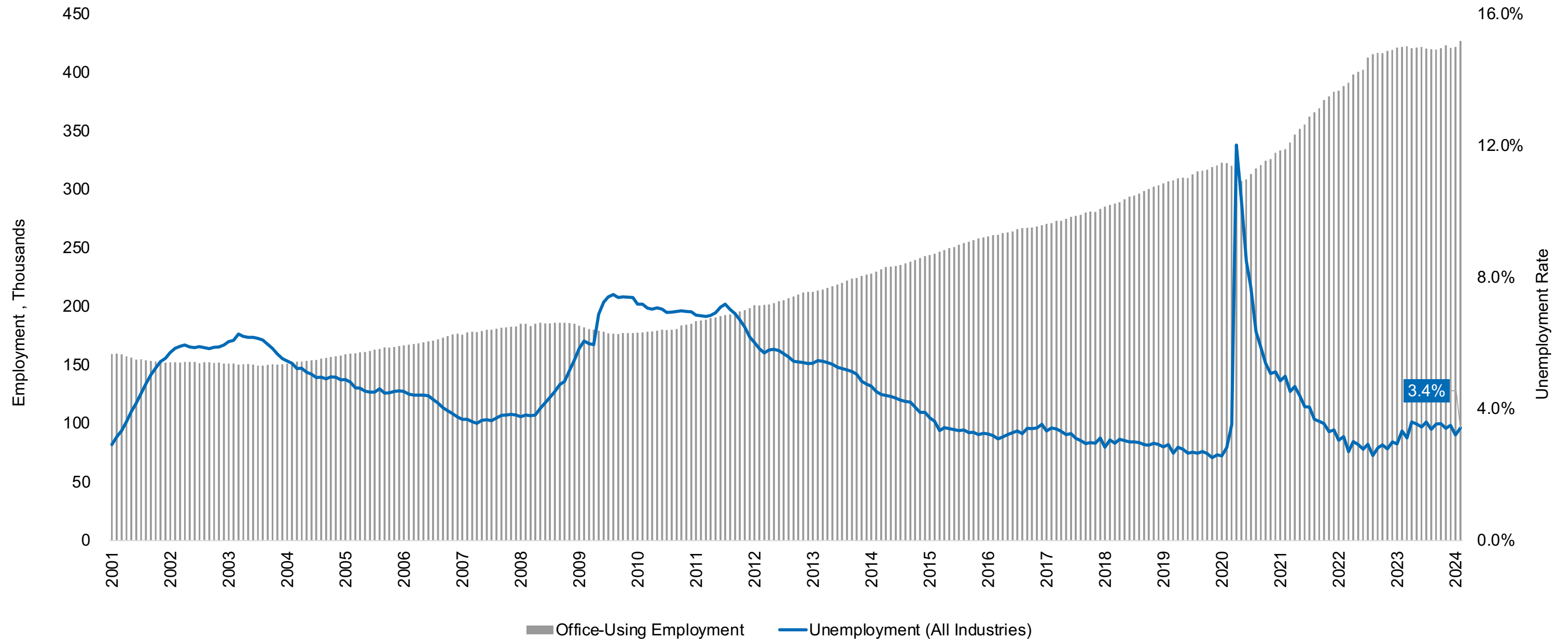


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

Overall Office-Using Employment Records Historical High

Office-using employment in the Austin market recorded an all-time historical high during the first quarter of 2024, ending February 2024 with 427,000 office-using employees. Currently, the seasonally adjusted unemployment rate is 3.4%, marginally higher than the average levels reported in 2019. The office-using information sector was the only employment sector that showed negative yearly job growth. Most job losses in office-using employment have been in information. The losses seen in information have been offset by yearly job gains in the financial activities and business and professional services sectors that were large enough to push office-using employment to a record high. Additionally, the information sector has begun to show recent signs of improvement as the sector has begun to modestly hire again and fewer separations are occurring.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

1Q24

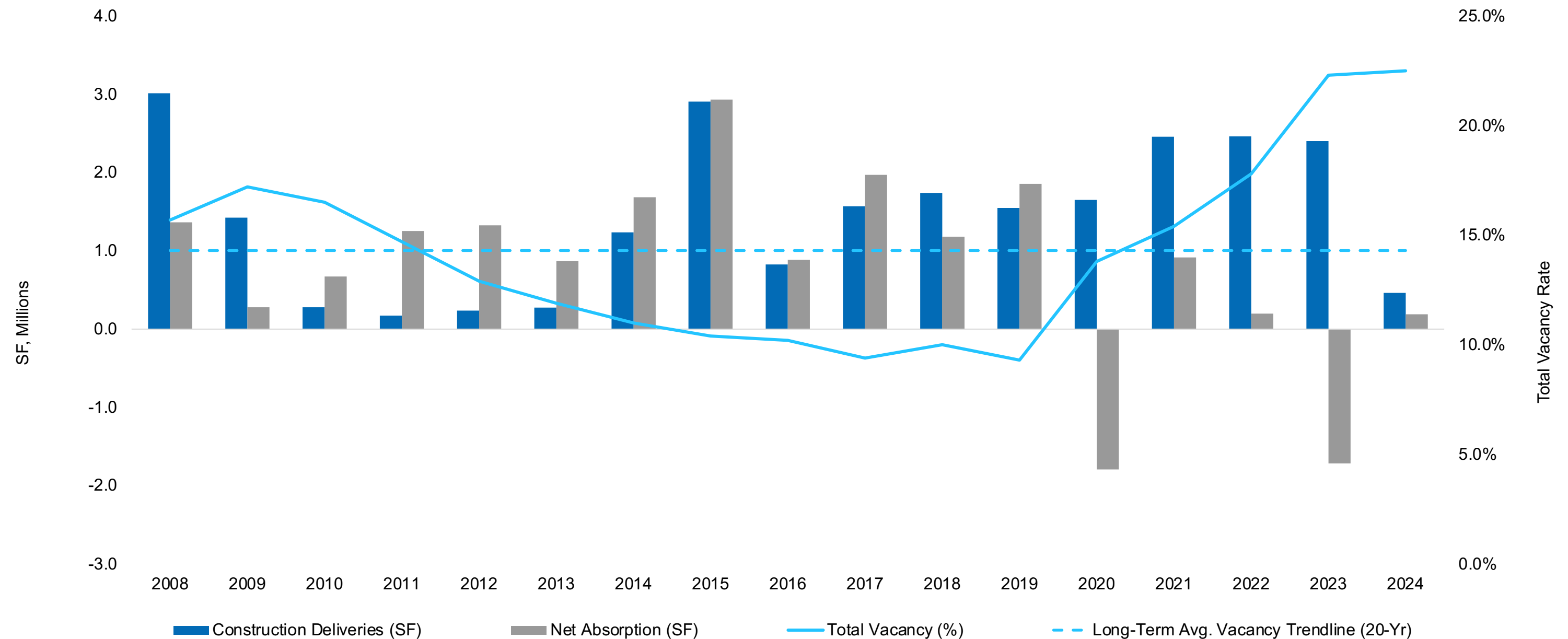
Leasing Market Fundamentals



Vacancy Marginally Increases as Net Absorption is Positive for the First Quarter

The Austin office vacancy rate increased by 280 basis points year over year to 22.5% in the first quarter of 2024, well above the 20-year vacancy average of 14.3%. Since 2020, vacancy rates have steadily increased in the market and have recently begun to level off. This can be attributed to a few factors, including continued historically high construction deliveries and recent negative yearly absorption. In contrast, the first quarter of 2024 reported positive absorption. The overall vacancy rate ended the quarter just 10 basis points shy of the post-pandemic high of 22.6% set in the third quarter of 2023.

Historical Construction Deliveries, Net Absorption, and Vacancy

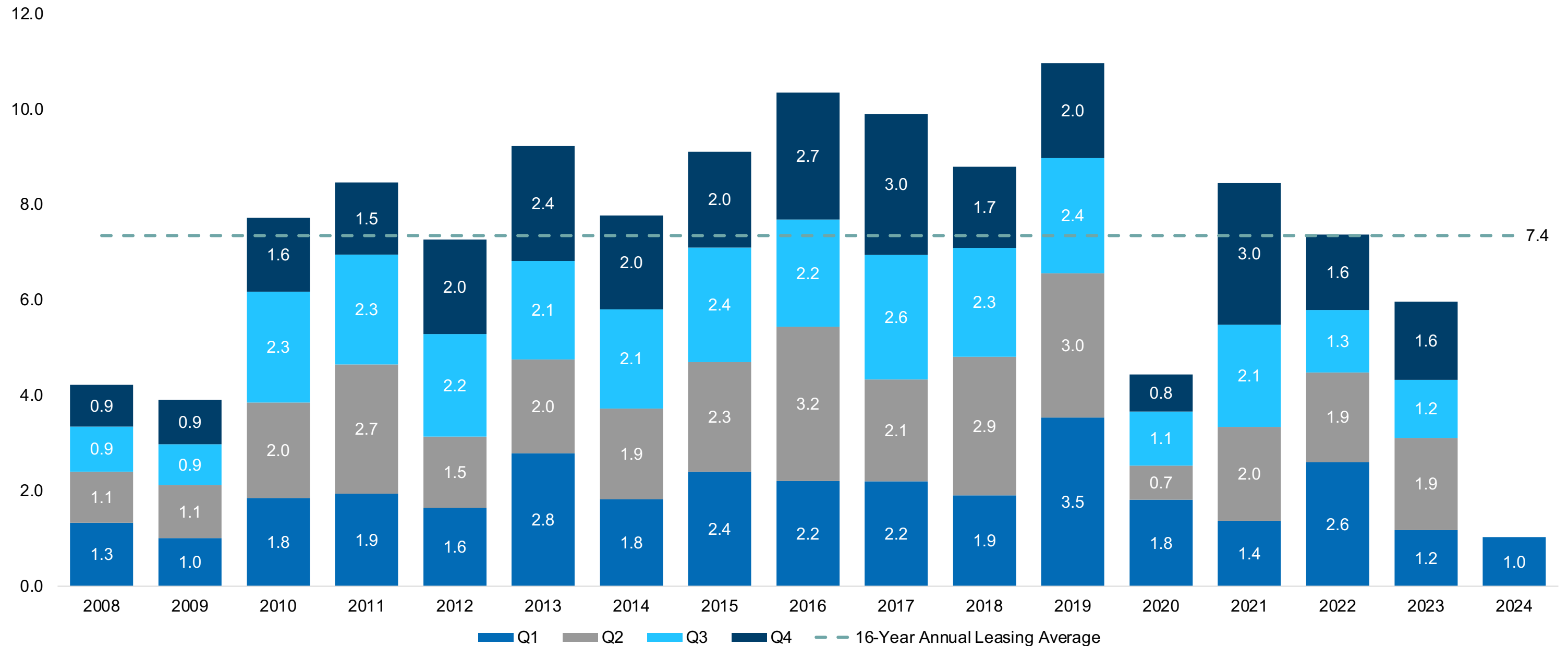


Source: Newmark Research, CoStar

Economic Headwinds Results in Slowing Leasing Activity

Leasing activity in the market remains slow, with the first quarter of 2024 reporting total leasing activity of 1.0 MSF. Leasing activity fell well below the 16-year first-quarter average of 2.0 MSF. Overall, the first quarter of 2024 had the lowest quarterly leasing activity since the onset of the pandemic in 2020. The slowing leasing activity pace is largely attributed to fewer deals being done, likely impacted by a more challenging debt liquidity environment, preventing larger deals from occurring as easily, and adoption of hybrid and remote work by office-using industries.

Total Leasing Activity (msf)

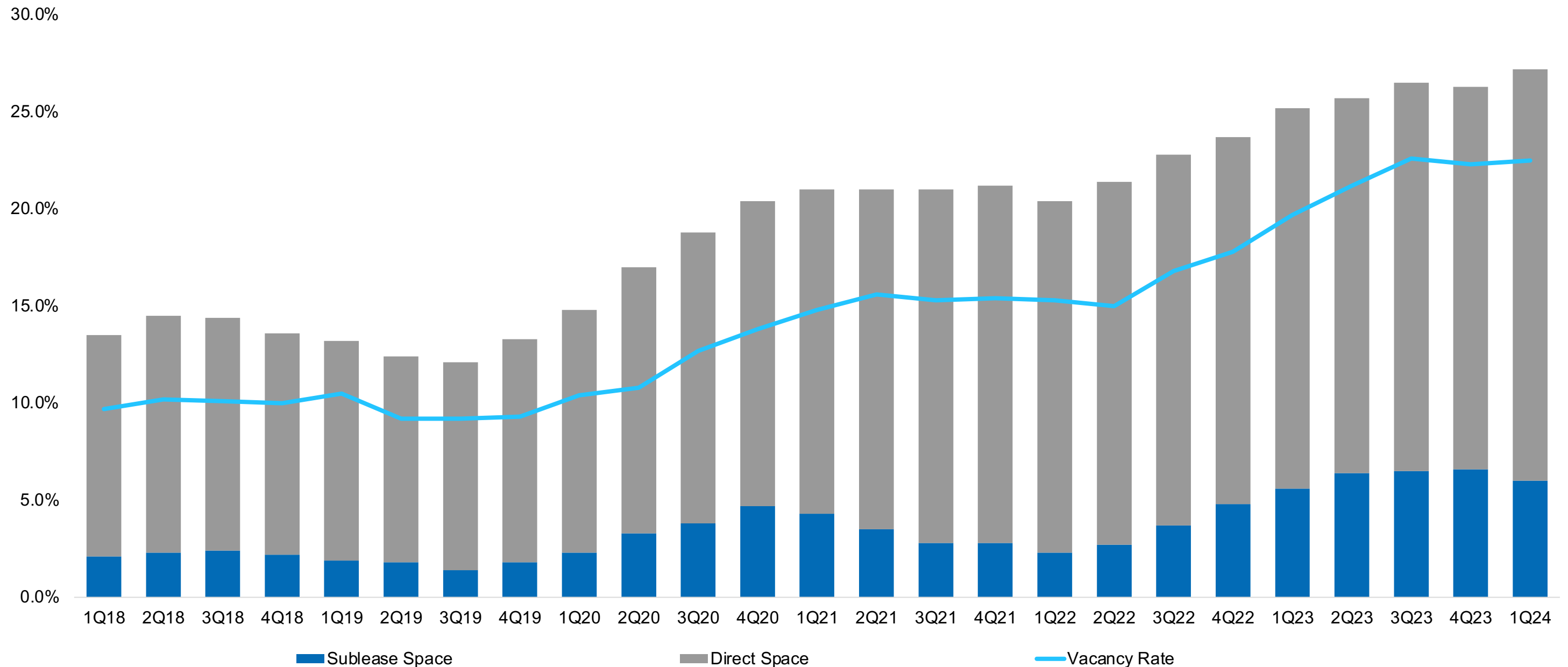


Source: Newmark Research, CoStar

Quarter Closes with Vacancy Near Record High

Sublease availabilities in the Austin market recorded their first decline since the first quarter of 2022. As of the end of the first quarter of 2024, sublease availability was 6.0%, a 60-basis-point quarter-over-quarter decrease and a 40-basis-point year-over-year increase. Direct availability increased 150 basis points quarter over quarter and increased 160 year over year to 21.2%. Overall, the increase in direct availabilities and historically elevated sublease availabilities resulted in the overall vacancy rate rising to a near record high of 22.5%.

Available Space as Percent of Overall Market

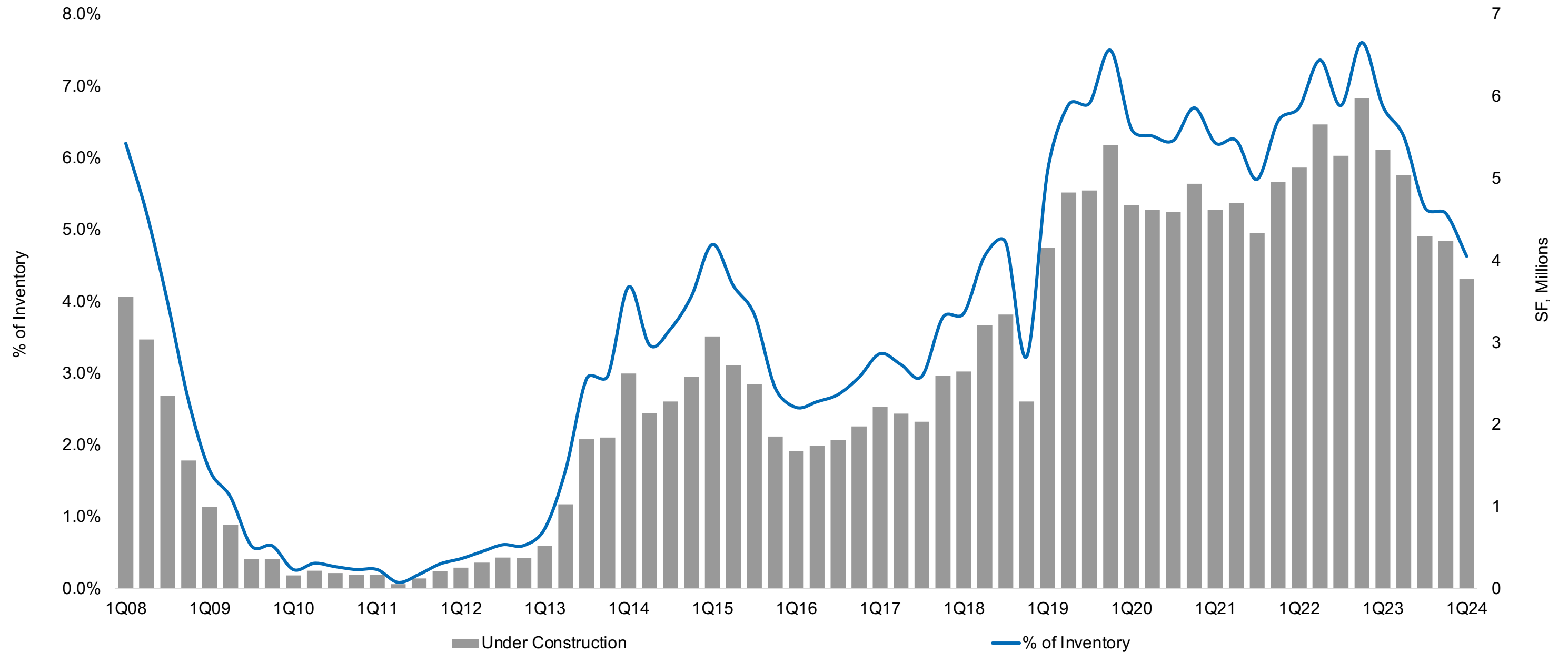


Source: Newmark Research, CoStar

Construction Activity Continues Declining

Construction activity has rapidly increased since the first quarter of 2019, impacted by the technology sector's office usage; however, the construction pipeline has been continually on the decline since recording a peak of 6.0 MSF in the fourth quarter of 2022. As of the first quarter of 2024, the market had 3.8 MSF under construction, accounting for 4.6% of the market's inventory.

Office Under Construction and % of Inventory

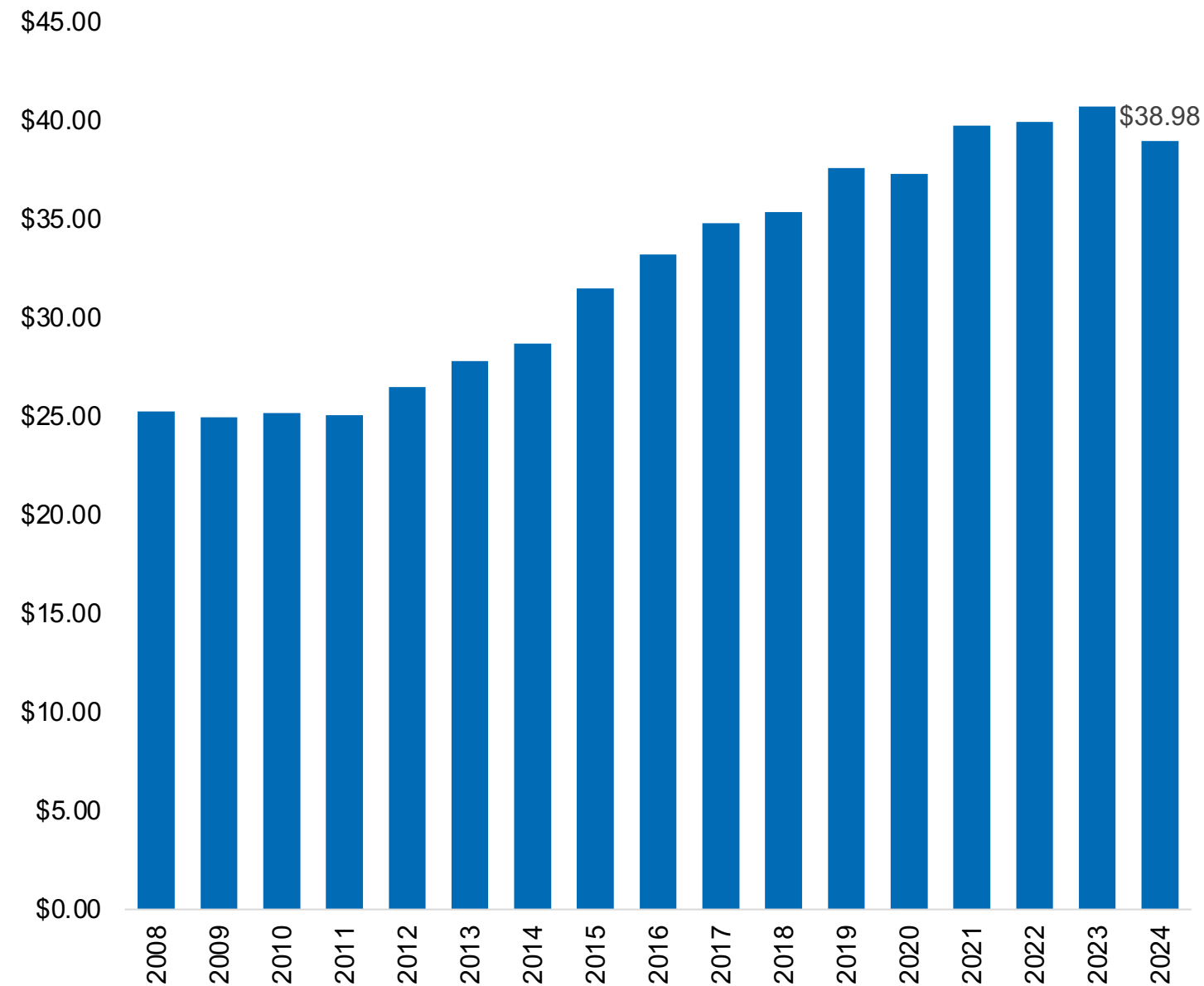


Source: Newmark Research, CoStar

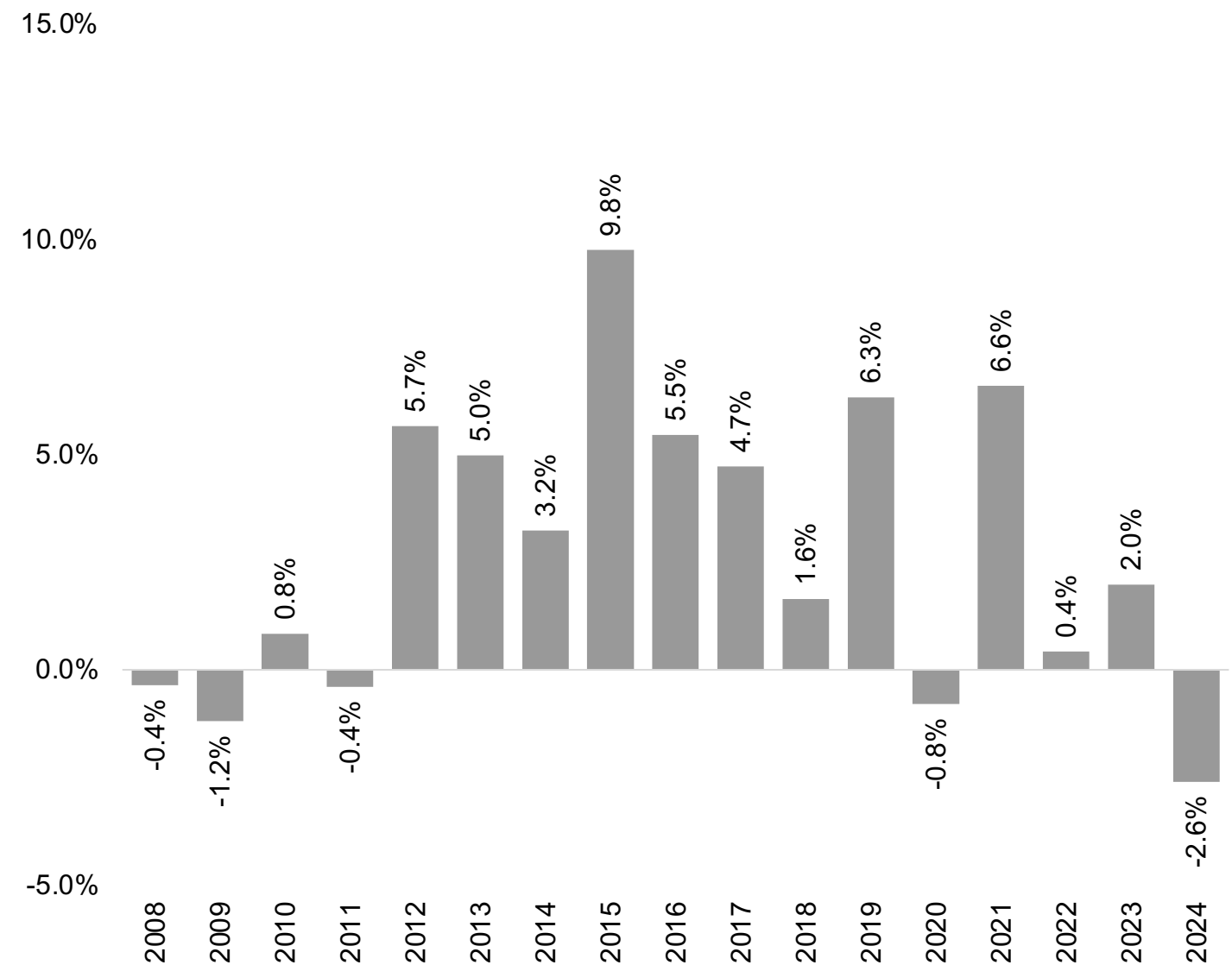
Rents Drop from Historic High

Rents dropped by 4.3% quarter over quarter and by 2.6% year over year to \$38.98/SF. The negative asking rent growth can be attributed to several factors, including an elevated development pipeline, rising vacancy, a recent decline in leasing activity and continued negative absorption.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

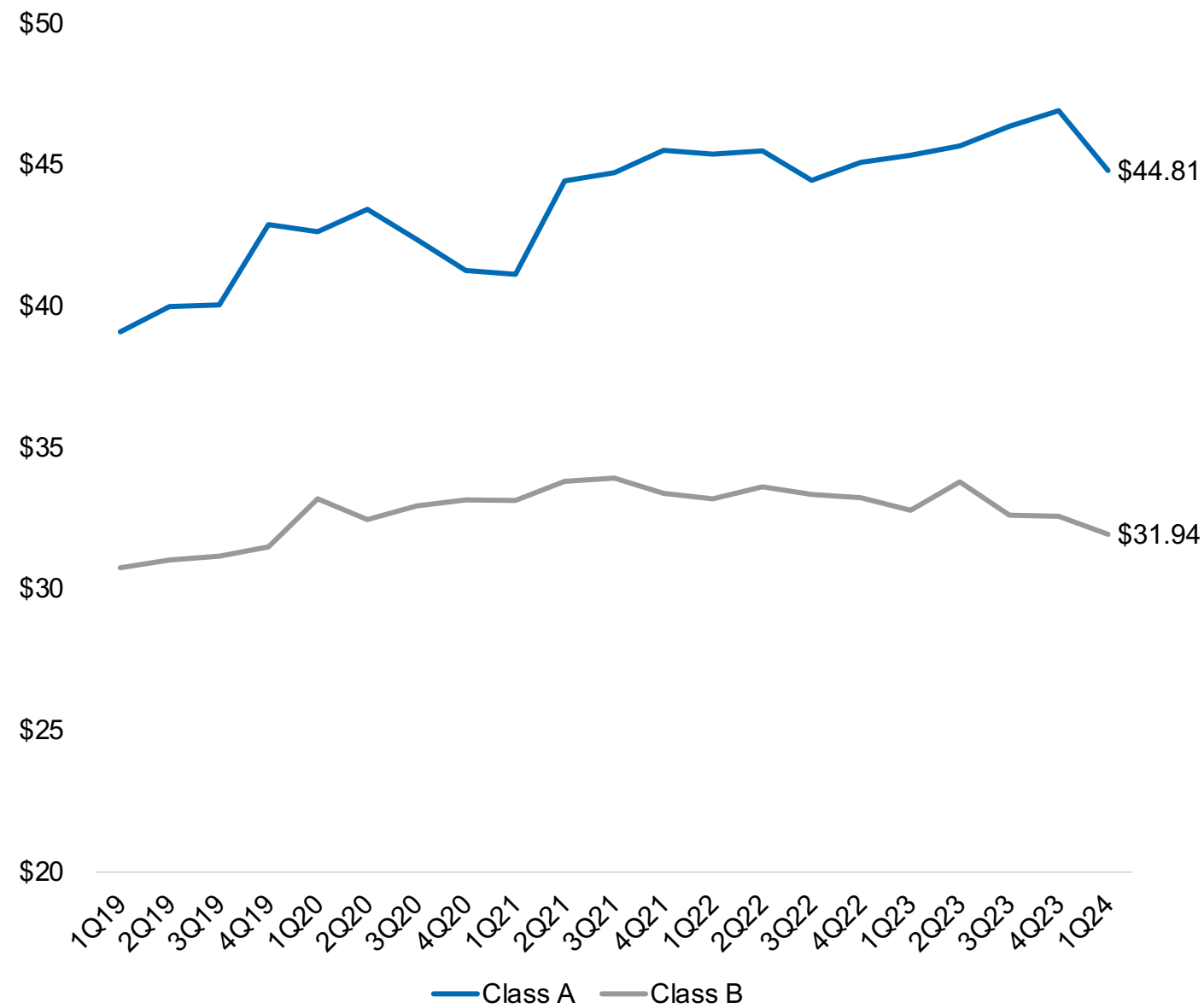


Source: Newmark Research, CoStar

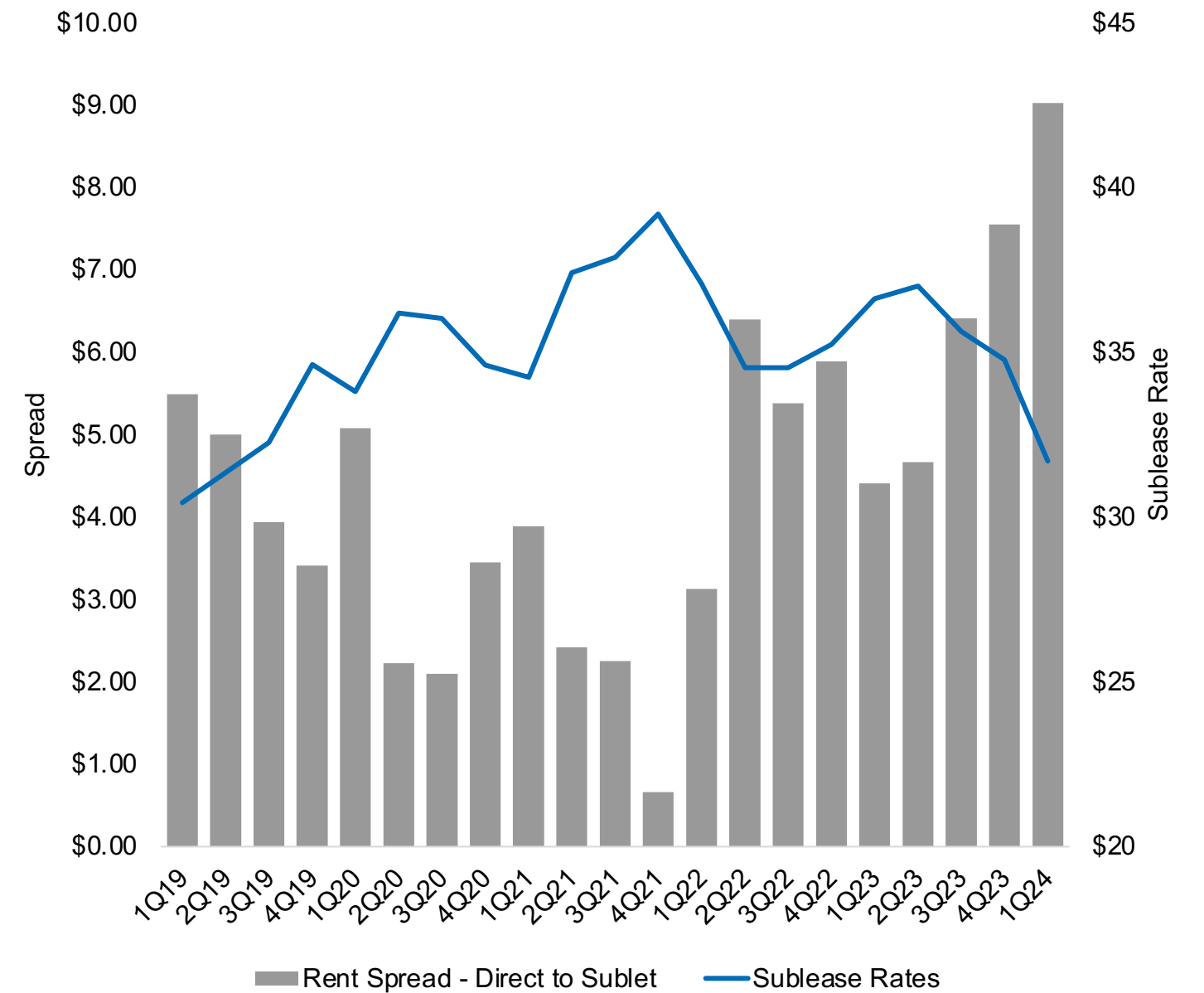
Rent Spread Between Class A and Class B Drops from Historic High

As of the end of the first quarter of 2024, Class A rents ended at \$44.81/SF, while Class B reported \$31.94/SF. The rent difference between the two assets is \$12.87/SF, a 12.8% spread increase since the fourth quarter of 2019. Quarter over quarter, the rent spread decreased by 10.3%. The greater decline in Class A rents, when compared to Class B rents, will likely drive more tenants to shed unused space in less desirable assets and lease smaller footprints in higher-quality assets. As sublease space has continued to enter the market, asking rents for sublease space have been declining. First-quarter asking sublease rates have decreased by 8.9% quarter over quarter and declined 13.5% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Continues

Despite slowing leasing activity in the market, flight to quality continues as a trend in the Austin office market. IBM, taking a new 50,000-SF space, signed the largest lease of the quarter. The three largest transactions were concentrated in Austin's northern submarkets, namely the North and Northeast. Even with a widely reported slowdown in technology company hirings and office downsizings, technology and electronics manufacturing companies are continuing to play an outsized role in Austin's lease transactions as IBM and Quantic Wenzel signed the two largest leases in the first quarter of 2024. Most of the leases signed this quarter were subleases.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
IBM	Parmer 3.4	Northeast	Direct New	50,000
<i>The biggest lease of the quarter was IBM's new 50,000-SF lease on the first and second floors at 13011 McCallen Pass.</i>				
Quantic Wenzel	Kramer 1	North	Direct New	45,308
<i>Ultra-low phase noise oscillator and frequency source manufacturer Quantic Wenzel has signed a lease on the first floor of 1835 Kramer Lane.</i>				
Dun & Bradstreet	Domain Gateway	North	Sublease	36,248
<i>Data analytics firm Dun & Bradstreet has signed a four year, 36,248-SF sublease for the fourth floor of 2900 Esperanza Crossing.</i>				
National Veterinary Associates	Bouldin Creek	South	Sublease	30,646
<i>National Veterinary Associates has signed an 18-month, 30,646-SF sublease on the third floor of 2043 South Lamar Boulevard.</i>				
Tecovas	901 East 6 th Street	East	Sublease	28,981
<i>Consumer leather goods manufacturer and retailer Tecovas has signed a five year, 30,646-SF sublease on the third floor of 901 East 6th Street.</i>				



Please reach out to your
Newmark business contact for this information

For more information:

Andrew Cook

Research Analyst

Andrew.Cook@nmrk.com

Ching-Ting Wang

Head of Southeast Research

ChingTing.Wang@nmrk.com

Austin

2530 Walsh Tarlton Ln

Suite 200

Austin, TX 78746

t 512-342-8100

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK