



RESEARCH Q2 2021



Austin Office Market

Office Market Seeing Rebound Thanks to Strong Metrics and Vaccine

As the second quarter closed, Austin saw an office market that showed strong metrics overall. With the vaccine becoming more widespread, the economy and office market overall in Austin have begun to rebound more rapidly than other major Texas markets. As demand drivers such as job growth, company relocations and expansions, and a business friendly environment continue to persist, Austin's office market will continue to rebound to a position of strength in H2 2021 and into 2022.

Austin Metrics Begin to Show Return to pre-COVID

Rental rates rebounded sharply in the second quarter, and gained more than \$3.00/SF to \$39.51 per square foot in the quarter. Total vacancy reached 17.8% 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 took up more space than they gave back in the quarter with more than 187K of positive absorption. The overall absorption amount marked the first time in the past 2 years that the quarterly mark was positive for the market. This, along with flattening vacancy and increasing market rents, shows a market rebounding from the past 18 months of COVID impact.

Current Conditions

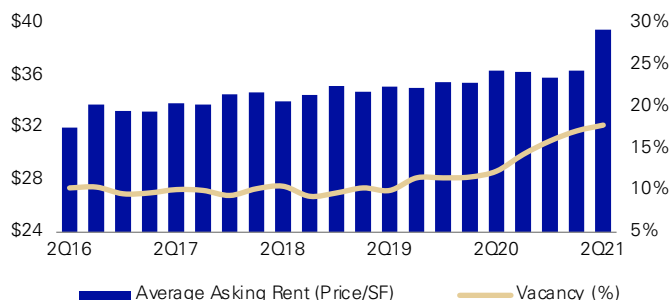
- Absorption number of 187 KSF is first positive quarter in last 2 years
- Sublease space drops by nearly 700 KSF to lowest mark in past 12 months
- Leasing activity of 1.3 MSF highest quarter since pre-COVID
- Austin recently named one of the top markets for CRE investment as a whole; portends a stronger close to 2021

Market Summary

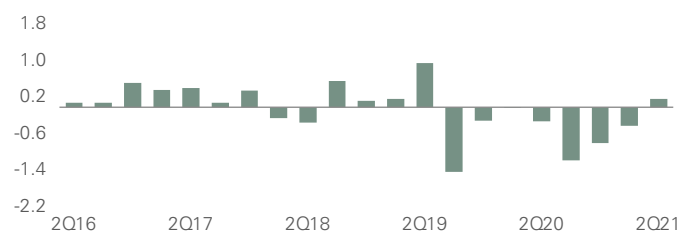
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	73.5 MSF	72.9 MSF	71.5 MSF	↑
Vacancy Rate	17.8%	17.1%	12.4%	↑
Quarterly Net Absorption (SF)	187,115	-401,268	-315,042	↓
Average Asking Rent/SF	\$39.51	\$36.36	\$37.60	↑
Under Construction (SF)	7.5 MSF	7.2 MSF	4.2 MSF	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Somewhat positive momentum was seen in the quarter's overall leasing trends, as more than 1.3 million square feet of new leasing activity took place, a continuation of Q1's rebound from 2020's all time lows. Furthermore, on a per transaction basis, the deal activity during the quarter gained nearly 1,000 square feet each time, and crossed the 5,000 square foot barrier for the first time since early 2020. 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. Finally, after 11 consecutive quarters of increasing sublease square footage in the market, the overall amount of 2.8 million square feet available during the second quarter is down nearly 1.0 million square feet from the all-time high seen in late 2020. At the last check of the Kastle data, roughly 45% 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 appears to have abated as the vaccines continue to be widely accepted and the Austin market continues to open back up.

Tech Demand and Volatility Key Post COVID Market

Thankfully, Austin is driven largely still by a robust tech economy, which continues to be shielded from 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 a return to office by companies is balanced by increased demand from those still working from home. Austin has also been attracting companies from expensive east and west coast markets to set up operations in Austin, even during a pandemic. At last check, over the past 15 months, nearly 150 companies have announced plans to relocate or expand within Austin. Currently, the city has over \$112 million worth of incentive deals in place with approximately 9 companies that are actively looking

to relocate and expand.

One of the more recent announcements concerned Samsung negotiating a deal to build a chip factory that it owns in northeast Austin. This is in addition to companies such as Tesla, BAE, and Apple all expanding or relocating into the region.

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 7.5million 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. As mentioned, nearly 2.8M SF of sublease space on the market, and while the stock is trending down, it has nearly doubled in the last 12 months.

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 the purchase of Indeed Tower in the CBD by Kilroy. This trophy asset sale helped to set a new high water mark in the region by trading hands at \$792/SF or roughly \$562 million dollars. Additionally, C-III purchased the Barton Creek complex of value-add office buildings from TA Realty for \$385/SF or \$78 million dollars.

Asking Rent by Submarket

ASKING RENT	2Q2021	2Q2020	
CBD	\$56.30/SF	\$51.47/SF	↑
Southwest	\$38.60/SF	\$36.82/SF	↑
North	\$30.83/SF	\$29.40/SF	↑
Suburban	\$35.19/SF	\$34.52/SF	↑
Northwest	\$33.94/SF	\$33.31/SF	↑

Vacancy Rate by Submarket

VACANCY RATE	2Q2021	2Q2020	
East/Northeast	26.4%	23.3%	↑
South/Southeast	13.5%	9.4%	↑
Southwest	14.9%	8.6%	↑
Suburban	17.5%	13.2%	↑
Northwest	23.0%	17.9%	↑

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 – Northwest	Research Park Plaza IV	New – Sublease	49,312
Unknown	Austin - CBD	401 Congress Ave	New – Direct	39,870
Unknown	Austin – Northeast	Parmer 3.2	New – Sublease	33,934
Unknown	Austin – Northeast	Parmer 4.1	New – Direct	30,897
Unknown	Austin – Northeast	Parmer 4.1	New – Direct	30,787
Unknown	Austin – East	1801 E 6 th Street	New – Sublease	30,305

Sales Transactions

Buyer/Seller	Market	Building	Price	Price/SF
C-III Investment/TA Realty	Austin – South	Barton Creek Plaza I-III	\$77,900,000	\$385
Kilroy Realty/Trammell Crow	Austin – CBD	Indeed Tower	\$561,439,500	\$792

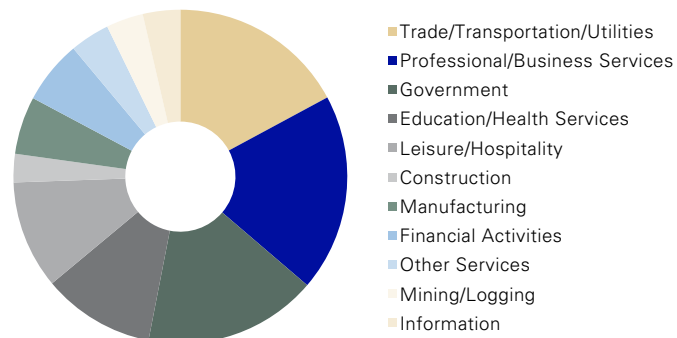
Submarket Statistics (Combined Class A&B)								
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	13,451,122	1,715,295	28.0%	185,958	246,123	\$57.85	\$50.85	\$56.30
Cedar Park/GT/RR	3,705,605	716,400	14.8%	53,265	-124,265	\$30.96	\$32.15	\$31.14
Central/West Central	5,243,072	250,000	15.8%	-43,944	-53,964	\$32.92	\$33.32	\$32.96
East/Northeast	7,386,747	1,391,500	33.4%	-23,070	208,290	\$38.49	\$31.77	\$37.57
North	8,122,588	389,446	14.1%	129,866	34,815	\$29.02	\$29.04	\$29.02
Northwest	17,893,891	897,776	26.8%	-76,567	-458,500	\$35.10	\$29.70	\$33.94
South/Southeast	6,208,836	557,461	14.6%	-11,583	19,447	\$37.77	\$41.11	\$37.96
Southwest	11,436,136	316,262	19.9%	-26,210	-200,510	\$38.34	\$39.39	\$38.60
Suburban	60,074,069	4,272,501	21.7%	1,157	-460,750	\$35.69	\$32.92	\$35.19
Market	73,525,191	7,530,550	22.9%	187,115	-214,153	\$40.04	\$37.20	\$39.51

Economic Indicators

The rebound of the Austin economy from the COVID pandemic impact can now be more readily seen in the second quarter data. The data shows the impact that an opening economy and vaccine distribution has had regarding a return to a new normal. Across 12 of the 12 employment sectors tracked, 12 month growth percentages have rebounded to positive growth. 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.

Employment By Industry

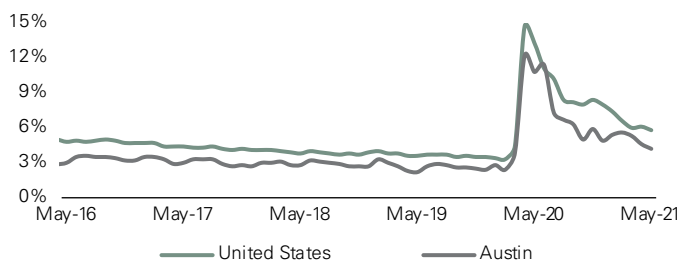
AUSTIN, MAY 2021



Source: US Bureau of Labor Statistics, November 2020

Unemployment Rate

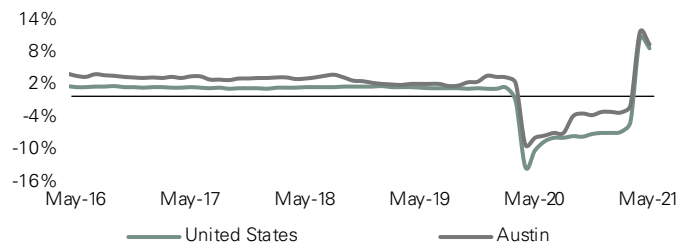
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

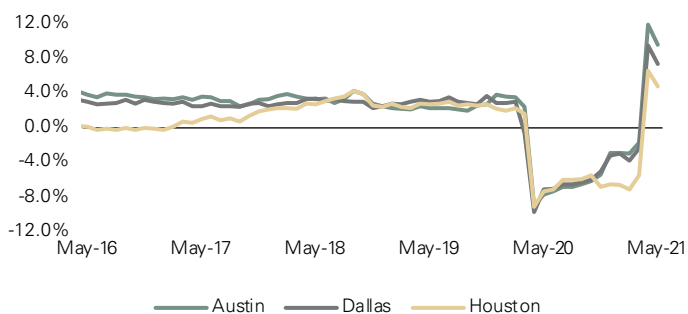
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Payroll Employment – Select Texas Markets

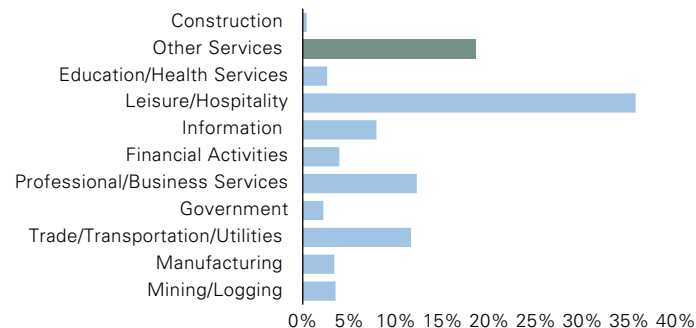
TOTAL NONFARM, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



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

Employment Growth (Industry)

AUSTIN, MAY 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

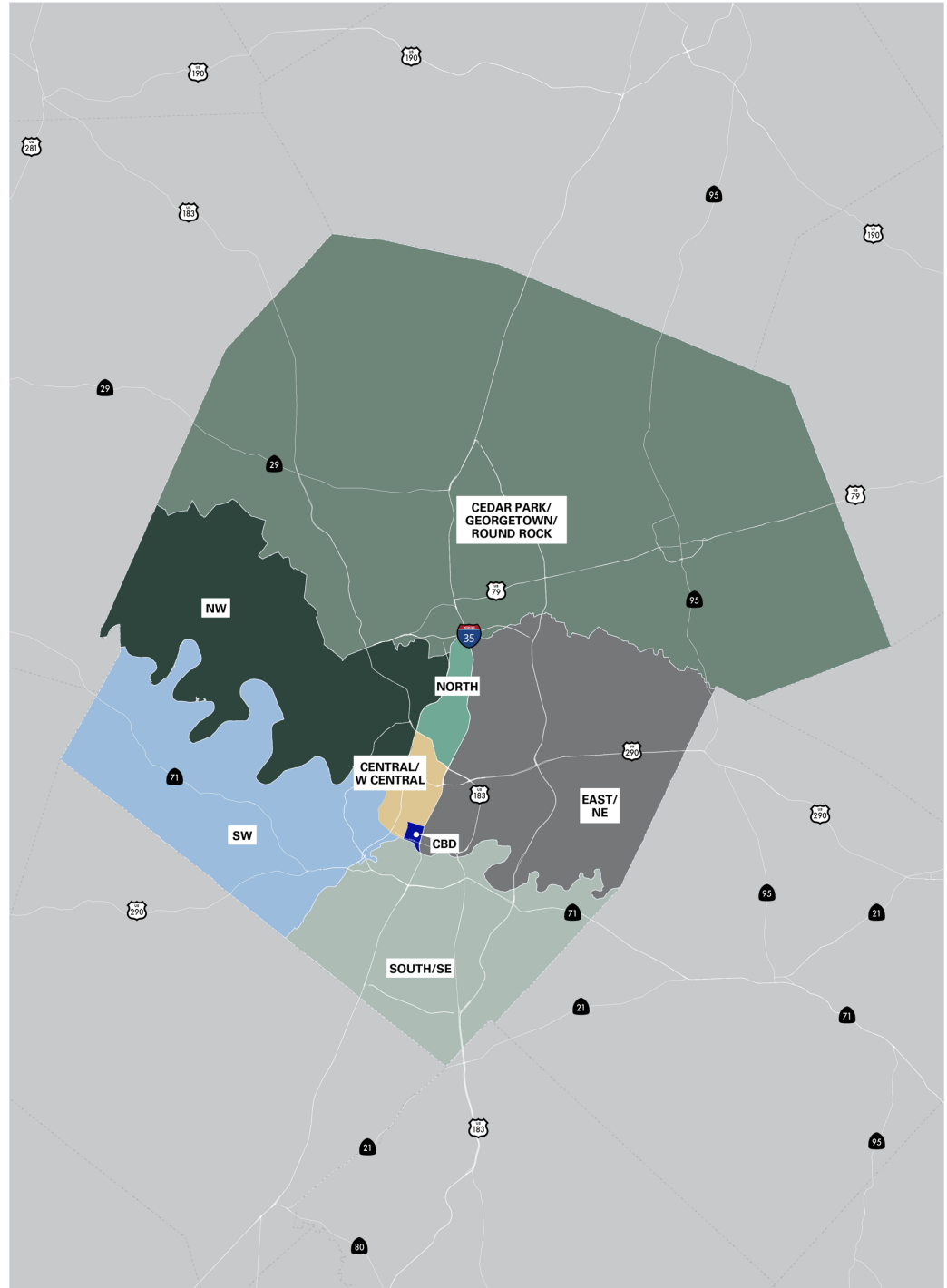
Graham Hildebrand

Director
Texas Research
graham.hildebrand@ngkf.com

Walter Bruton

Research Coordinator
Texas Research
walter.bruton@ngkf.com

nmrk.com



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