

# INVESTMENT FORECAST

Office  
Austin

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Tech Ecosystem Stimulates New Leases, Helping the Recovery Make Headway and Lifting Investor Sentiment

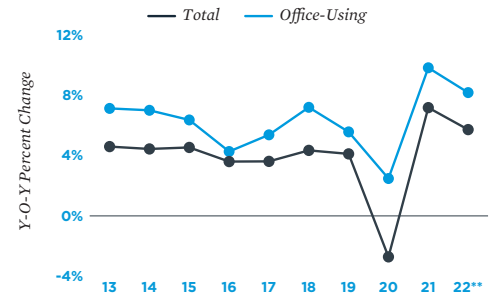
**Inflow of tech firms a catalyst for additional office absorption.** Fundamentals in Austin are in a solid position relative to the grim period in 2020, and the rebound will be enhanced this year. Net absorption is expected to surpass 4 million square feet, bringing the two-year total above 9 million square feet, about 34 percent larger than the next-highest 24-month count over the past decade. A growing local tech scene is helping drive the upswing in demand. Many companies in the sector have migrated to the metro from other areas for a variety of reasons, including lower business costs, a plethora of skilled workers and opportunities for collaboration with parallel firms. This trend is not novel for the market; however, location preferences are shifting. The northern submarkets were the undisputed top choices for tech-based tenants in recent years, but many are now looking to the CBD and East Austin. TikTok subleased 65,000 square feet in Downtown Austin last year while Facebook has laid claim to 33 floors of a future landmark skyscraper. In East Austin, Cloudflare and Atlassian plan to occupy 120,000-square-foot-plus floorplans in early 2022.

**Escalating prices are a reverberation of buyer demand.** The upside potential of acquiring office properties in one of the fastest-growing tech hubs in the nation is drawing investor attention nationwide. Competition precipitates a dynamic bidding environment, applying upward pressure to sale prices. The average per-square-foot entry cost of an office building in Austin has more than doubled since 2014, reaching \$425 in 2021. First-year returns also dipped 40 basis points over that seven-year span to an average of 6.3 percent. Transactions are not bound by geographic zones, with seven different submarkets recording notably higher deal flow last year relative to 2020. Investors will likely opt to keep their search parameters wide in 2022 as fundamental improvement and strengthening demand drivers generate buy-side contention for assets in the most desired locales like Northwest Austin, Cedar Park and Round Rock.

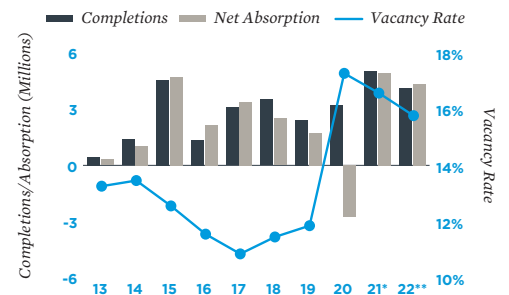
## 2022 Market Forecast

- Employment** up 5.6%  
For the second straight year, the office-using segment grows by 25,000-plus spots as the overall count rises by 66,000 jobs.
- Construction** 4,100,000 sq. ft.  
Completions taper by 900,000 square feet relative to last year, but the volume is nevertheless the second-largest going back to 2016. Roughly half of the space coming online is pre-leased.
- Vacancy** down 80 bps  
Austin's vacancy rate falls to 15.8 percent, down 240 basis points from the pandemic peak. Still, an elevated Class A rate keeps the overall mean 400 basis points above the 2019 level.
- Rent** up 4.6%  
The market's average asking rent climbs to \$29.40 per square foot in 2022. This will be the fourth time in five years that the annual gain in Austin exceeds 4.0 percent.
- Investment**  
New developments and modern facilities in East Austin present long-term prospects to buyers of Class A space. Tesla's arrival has invigorated leasing activity by other tech firms in the area.

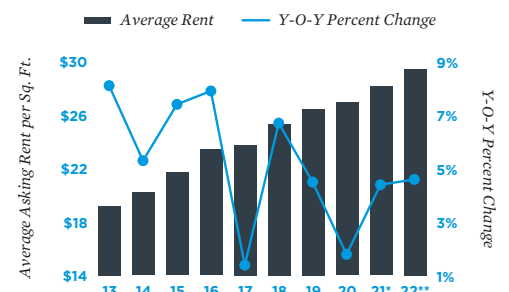
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.