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.

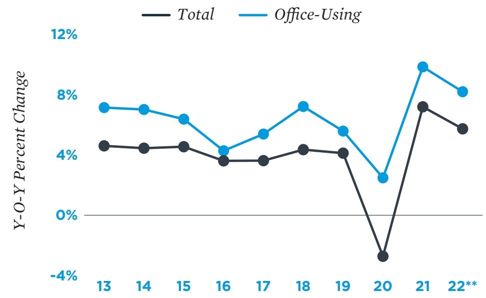
Rent
up 4.6%

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.

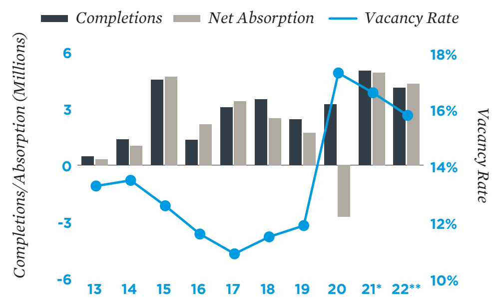
Investment

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.

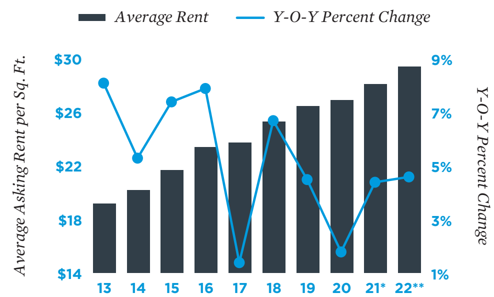
Employment Trends



Supply and Demand



Rent Trends



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

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