# MARKET REPORT

**Office**

*Austin Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

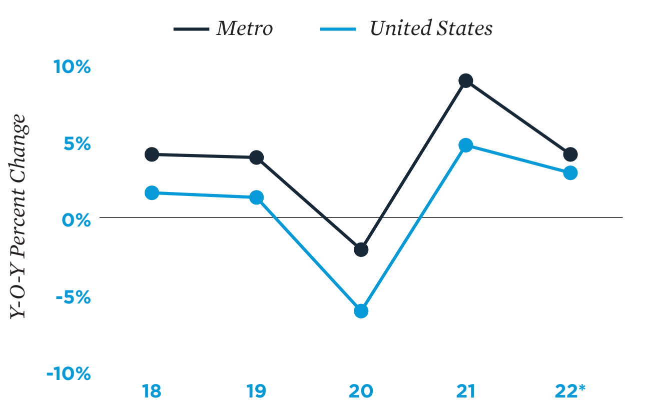
2Q/22

## Prominent Firms Plant Flags; Supply and Demand Rank Among the Highest in the U.S.

**Austin places itself amid top markets in several metrics.** Economic tailwinds like population growth and robust hiring activity, in conjunction with a rapidly expanding tech sector, make Austin an enticing destination for firms. These demand drivers will propel net absorption to reach nearly 5.4 million square feet in 2022, expected to be the third-highest total in the nation, behind only Boston and New York City. For context, those two Northeast metros have a combined vacant stock nearly nine times larger than Austin as of March, making the absorption measure more noteworthy as there is significantly less space to be absorbed. On that same note, a substantial share of the floor plans taken up this year will be at new builds, as Austin's 4.9 percent inventory expansion is bigger than any other major U.S. market, and it is not very close. No other metro is expected to have a supply addition exceeding 3.3 percent this year.

**New arrivals create a gravitational pull.** After a banner second half of 2021, which saw the likes of Meta, Amazon and Tesla set up major operations or expand, leasing remained strong in the first quarter. TikTok bolstered its commitment, signing a 10-year sublease for a 150,000-square-foot spot in the CBD, after initially probing the market with a much smaller floorplate last year. Meanwhile, mid-size firms seeking collaboration and a shared talent pool are eyeing offices near recent renowned corporate arrivals. In Downtown Austin, the new home of Meta and TikTok, roughly 85 percent of the 2.2 million square feet finalizing in 2022 was accounted for as of May.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook

**50,000 JOBS**
*will be created*

### EMPLOYMENT:

Through April of this year, the profesional and business services segment, which traditionally utilizes physical offices, has 49,000 more jobs than the pre-pandemic count. Across all sectors, metro employment is expected to rise by 4.1 percent in 2022.

**5,400,000 SQ. FT.**
*will be completed*

### CONSTRUCTION:

More than 2 million square feet will finalize in the urban core, with the remaining 3 million-plus square feet of new supply dispersed throughout the market. The annual completion total exceeds last year's volume by about one-third.

**80 BASIS POINT**
*decrease in vacancy*

### VACANCY:

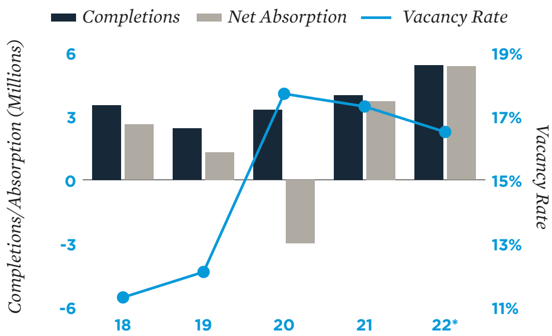
New supply delivering in 2022 is more than 65 percent pre-leased as of the second quarter, pointing to additional vacancy compression. The rate is projected to plunge to 16.5 percent by the end of 2022, as net absorption eclipses 5 million square feet.

**5.4% INCREASE**
*in asking rent*

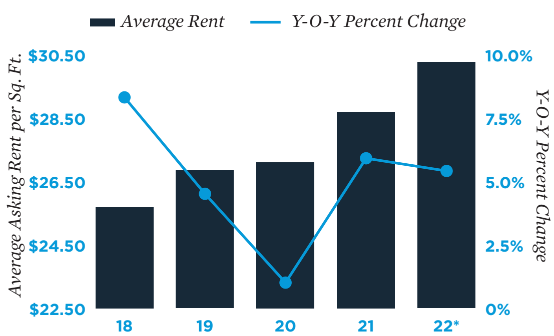
### RENT:

High-end Class A buildings finalizing and entering lease-up, paired with noteworthy demand tailwinds for all types of office space, produces a rent jump in-line with last year's 5.9 percent hike. The average asking rate moves up to $30.25 per square foot.

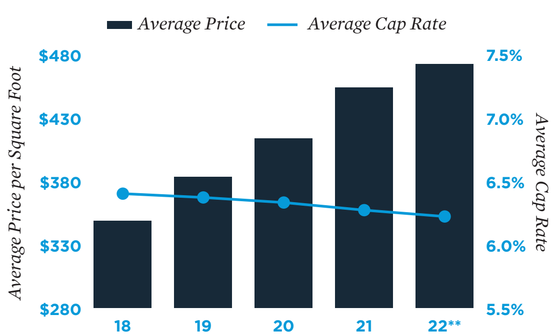
### Supply and Demand




### Rent Trends




### Sales Trends




** Forecast ** Through 1Q*

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

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**3,482,000 sq. ft. completed**

- In the most recent period spanning April 2021 through March 2022, Austin's supply grew 3.3 percent. During the five previous annual intervals ranging those same months, inventory grew by 2.8 percent on average.
- Outside of the CBD, no submarket will add 1 million square feet in 2022, but East and Far Northwest Austin will be the closest.

### VACANCY

**180 basis point decrease in vacancy Y-O-Y**

- Austin's vacancy descent over the past year was the fifth strongest in the nation, ending March at 16.6 percent. The contraction also beat out the other three Texas markets by anywhere from 130 to 210 basis points.
- Class A availability plummeted 330 basis points year-over-year to 16.7 percent in the first quarter, despite annual supply growth of 5.9 percent.

### RENT

**5.3% increase in the average asking rent Y-O-Y**

- Submarkets with the most construction are posting the highest rent gains. The CBD and South Austin, where Class A stock increased more than 10 percent annually, had corresponding rent climbs greater than 8 percent.
- In 2015, the average marketed rate trailed the national mean by nearly $4 per square foot. This March, Austin jumped ahead of the U.S. average.

## Investment Highlights

- Austin's comparatively stronger performance relative to other investor favorites is encouraging deal flow. On an aggregate basis, primary U.S. metros had a vacancy rate 100 basis points higher in March of this year than in 2020, with a rent decline of 1 percent during that span. By comparison, Austin's vacancy rate shed 110 basis points over that period, while the average rent grew more than 7 percent. As such, transaction velocity during the 12-month span ended in March surpassed every year from 2000 through 2020, as buyers who typically focus elsewhere set their sights on Austin.
- Heightened buyer activity helped lift the average sale price 12 percent during the yearlong stretch ended in the first quarter to $472 per square foot. Austin has the fifth-highest entry cost in the nation, behind only the coastal powerhouses of San Jose, San Francisco, New York and Los Angeles. However, the average cap rate of 6.2 percent in Austin is at least 120 basis points higher than those markets, enchanting yield-driven investors.
- During the six-month frame ended in March, Class A/B assets constituted more than 90 percent of total trades. Across the three previous periods of equal length, the Class A/B share ranged from 55 percent to 80 percent, potentially signaling the acceleration of the flight-to-quality movement.

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