MARKET REPORT

Office

Austin Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

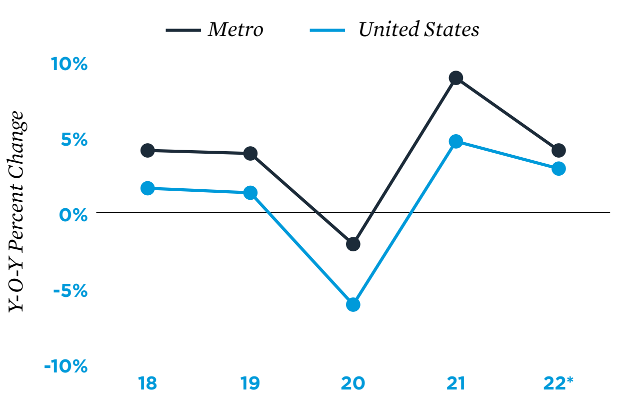
4Q/22

Strong Population and Job Growth in Austin Continue to Lure Employers and Developers

Leasing activity is building momentum. The metro's deep talent pool, strong population growth and lower tax burden relative to other markets is a huge draw for new or expanding employers. In fact, Austin has added roughly 68,000 jobs in traditionally office-using sectors since February 2020, ranking third among all major metros in the nation. Alongside this, office fundamentals have vastly improved in recent quarters. During the trailing 12-month period ending in June, a net of more than 3.1 million square feet was taken off the market, slicing 70 basis points from the metro's vacancy rate. Several companies inked large deals during the second quarter, including AMD, which leased nearly 68,000 square feet at the Met Center Creative Office Park in Southeast Austin. Additionally, PayPal committed to 60,000 square feet at The Domain in North Austin. By year-end, net absorption is projected to eclipse 4 million square feet metrowide, the second-highest annual total on record.

Developers are bullish on Austin. Construction levels in the market are among the highest in the nation. As of September, nearly 12 million square feet of office space was underway, equating to 11 percent of existing inventory. Projects slated for near-term delivery are concentrated in the CBD and East Austin. Newly-built space is highly coveted, as the metro's tight labor market has employers seeking well-located, highly-amenitized offices to recruit and retain talent. Although demand for office space is strong, the crowded pipeline is expected to inch up metrowide vacancy in the second half.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

50,200 JOBS *will be created*

EMPLOYMENT:

Employers are on pace to expand headcounts by 4.1 percent in 2022, with the hiring of 40,000 new workers through August. Nearly half of all the jobs added this year will come from traditional office-using positions.

4,800,000 SQ. FT. *will be completed*

CONSTRUCTION:

Annual supply additions surpass the 4 million-square-foot threshold for the second consecutive year, as developers increase office stock by 4.3 percent. Austin will record the largest office inventory increase among all major markets in the U.S. in 2022.

10 BASIS POINT *decrease in vacancy*

VACANCY:

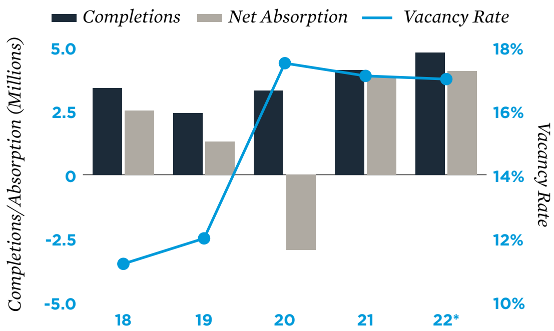
Availability rises over the second half as 3.8 million square feet of new supply comes online. However, at 17 percent, the rate will remain below the 2021 level and at least 450 basis points lower than the Dallas and Houston metros.

4.6% INCREASE *in asking rent*

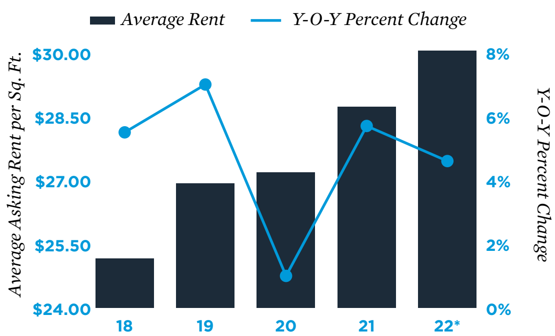
RENT:

Asking rents in Austin continue their upward trajectory, rising at a pace much higher than the national average of 1.1 percent in 2022. The average asking rate will climb to $30.05 per square foot by year-end.

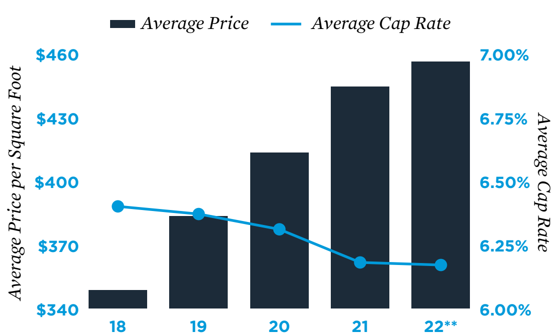
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

2,968,000 sq. ft. completed

- Developers increased office inventory by 2.7 percent over the past year ending in June, with the bulk of new supply delivering in the CBD, East and North Austin submarkets.
- Roughly 550,000 square feet of medical office space is underway, with completions concentrated in Southwest Austin, Cedar Park and Georgetown.

VACANCY

70 basis point decrease in vacancy Y-O-Y

- The vacancy rate fell over the trailing 12-month period ended in June to 16.9 percent, driven by the 110-basis-point decline that was recorded in Class A office buildings.
- Availability plummeted 300 basis points in the CBD to 15.8 percent, while the suburban rate slid 20 basis points during this span to 17.1 percent.

RENT

4.5% increase in the average asking rent Y-O-Y

- The average asking rent for Class A office buildings climbed 6.2 percent during the past four quarters ending in June. Meanwhile, rents in Class B/C buildings advanced by 2.3 percent.
- The CBD led all submarkets in rent growth, with the average asking rate elevating 8.6 percent during this time frame to $39.77 per square foot.

Investment Highlights

- One reason buyers are attracted to office assets in Austin is that sale prices can appreciate quickly. Entry costs in the past decade have more than doubled on average, registering at $456 per square foot during the yearlong period ended at the midway point of 2022. Although Austin has emerged as one of the higher priced office markets in the nation, the average cap rate is still at least 120 basis points above major metros like New York, Los Angeles and San Francisco — appealing to yield-driven investors.
- According to Kastle Systems, employers are utilizing office space more often in Austin relative to other major metros across the nation. As of September, local office-usage rates eclipsed 60 percent, while major markets like New York, Chicago, San Francisco and Los Angeles ranged anywhere from 39 to 46 percent. This should give investors targeting office buildings in Austin confidence moving forward, as employers in the metro are outpacing much of the nation in the return-to-office initiative.
- Class A/B assets continue to be highly sought after, accounting for more than 85 percent of all deals in the past 12 months. Northwest and Southwest Austin have been the most liquid submarkets as of late; however, buyer interest is also strong in the CBD and East Austin.