INVESTMENT FORECAST

OFFICE

Austin Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2020

Top-Tier Office Space Prioritized by Both Tenants and Investors; Expanding Supply Bears on Tight Market

Exhaustive pipeline to create some headwinds for well-performing market. Completions will increase total inventory by 4.8 percent this year, the highest margin in the nation. The pipeline will bring an annual delivery volume exceeding 4 million square feet for the first time since 2015, when 4.2 million square feet was finalized. In that year absorption maintained pace at 4.3 million square feet, and in the years following lease-up has remained in line with deliveries. Strong demand drivers buoyed by the flourishing technology sector bode well for another strong year of absorption in 2020. Although, tenants relocating to newly built, larger footprints may weigh on vacancy until the smaller spaces they leave behind are backfilled. Amazon pre-leased 250,000 square feet being added to The Domain, and Google signed a 150,000-square-foot lease at the Plaza Saltillo project due for completion later this year. Corporations are targeting the highest-quality space, to boost their appeal to skilled workers amid a historically tight labor market.

Newly built assets catching buyers' eyes. Record-level appreciation over the course of this cycle now slots Austin near the top nationally in terms of average price per square foot, behind only a handful of distinguished coastal markets. The average cap rate has held in the mid-6 percent range as investors are strategically targeting growth areas outside of the CBD. Out-of-state investors, particularly from East Coast markets, are eying newly built properties near The Domain in north Austin. Technology companies have been frequently relocating here, boosting demand, while first-year returns remain higher than those found in most coastal tech hubs. A bevvy of investors are looking southwest of the core, in the vicinity of Oak Hill. This has been a popular region for corporations to relocate in search of lower rent than is found downtown. Buyers targeting medical offices have concentrated in on Cedar Park, where a handful of assets traded hands over the past few months for prices less than $5 million and initial yields in the mid-6 percent range.

2020 Market Forecast

Employment up 2.3% — Employers will create roughly 25,250 positions this year, a moderation from the 36,600 roles added in 2019.

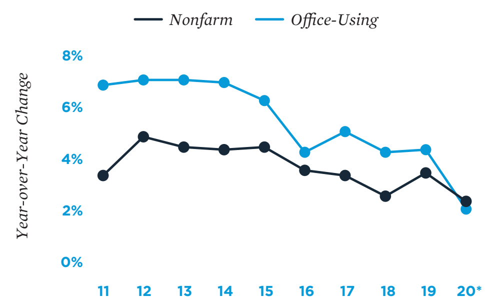
Construction 4.7 million sq. ft. — In 2020, nearly 2.3 million more square feet will be finalized than in the previous year. Of the 4.7 million square feet added, 12 percent will be medical office space.

Vacancy up 30 bps — After vacancy held firm at a cycle low of 11.1 percent last year, record-level construction activity will push vacancy back up to 11.4 percent in 2020.

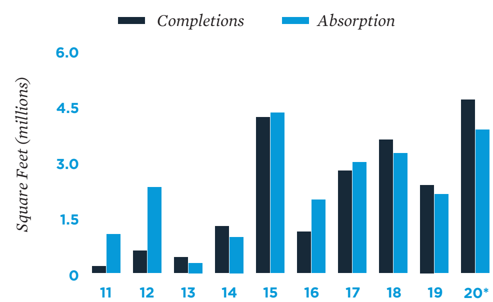
Rent up 3.2% — The pace of growth retreats from the 4.4 percent advance in 2019 as the average asking rent reaches $37.34 per square foot.

Investment — Suburbs northwest and southwest of the core are a focal point for private investors. Class C assets priced under $10 million can be found carrying initial yields as high as 7 percent.

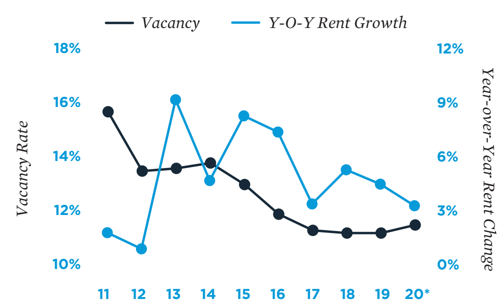
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast
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