

AUSTIN OFFICE | Q3 2020

Quarterly Market Report

OCTOBER 2020

EXECUTIVE SUMMARY

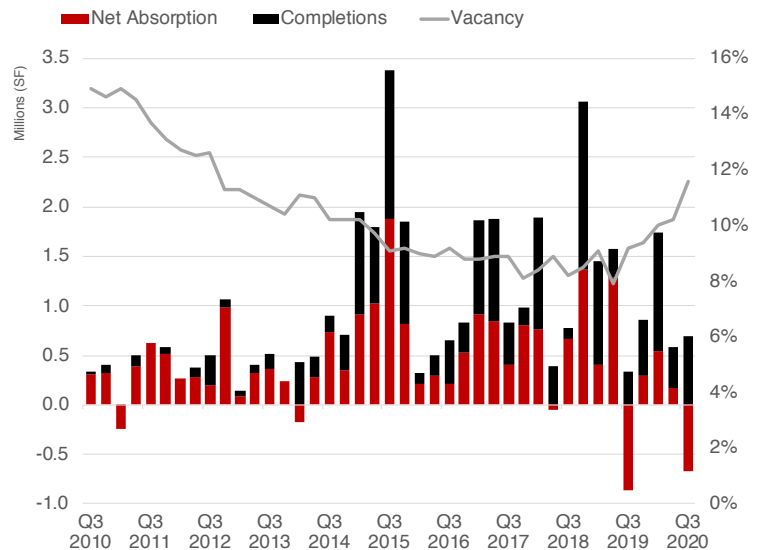
Vacancy rate at 11.6%

The overall vacancy rate in the Austin office market in the third quarter of 11.6% represented an increase from Q2's 10.2%, and a substantive 240-basis-point jump year-over-year from 9.2%. The vacancy rate for Class A properties is at 13.4%, and Class B at 10.6%. In the third quarter, overall net absorption totaled negative 675,000 sq. ft.—Class A represented negative 149,000 sq. ft. and Class B tallied negative 502,000 sq. ft. Of the 7.2 million sq. ft. currently under construction, about 44% of that space has been spoken for. Of the 2.3 million sq. ft. completed in 2020, 78% of that space is occupied. The overall Austin average asking full-service rent is at \$38.56 per sq. ft.—up from Q3 2019 at \$36.03 per sq. ft.—while Class A space the Central Business District (CBD) is averaging \$53.32 per sq. ft.

Economic indicators

The Federal Reserve Bank of Dallas reported that the Austin economy continued to improve in August. While jobs and the unemployment rate improved in June, July and August, neither metric has returned to its March level. Regional consumer spending since mid-July held at pre-COVID-19 levels. Austin's unemployment rate fell further to a still elevated 5.4% in August. The jobless rate ticked down to 6.8% in Texas and 8.4% in the nation. Austin payrolls expanded 6.1% (nonannualized), or by 62,620 net jobs, in the three months ending in August. Leisure and hospitality led the expansion with a 19.1% increase, or 16,570 jobs. Sectors that experienced losses were construction and mining (-1.2%, or 840 jobs) and information (-0.6%, or 210 jobs). Manufacturing and financial activities were the only sectors to post positive job growth for the first eight months of the year.

Supply & Demand



Market Indicators

	Current Q3 2020	Prior Quarter Q2 2020	Year Ago Q3 2019
Vacant Direct	11.6%	10.2% ▲	9.2% ▲
Vacant Total	9.9%	8.8% ▲	8.3% ▲
Available Direct	18.5%	16.7% ▲	12.0% ▲
Available Total	15.3%	14.2% ▲	10.9% ▲
Net Absorption (SF)	-674,622	174,305 ▼	-861,902 ▲
Leasing Activity (SF)	1,025,317	702,539 ▲	2,606,678 ▼
Construction (SF)	7,153,668	7,475,153 ▼	6,911,387 ▲
Deliveries (SF)	690,485	409,129 ▲	330,679 ▲
Avg Asking Rent (Gross)	\$38.56	\$38.94 ▼	\$36.03 ▲
Inventory (SF)	92,925,388	92,234,903 ▲	90,074,208 ▲

MARKET OVERVIEW

Negative net absorption

During the third quarter, Austin’s office market saw an increase in the number of tenants moving out of space compared to both the prior quarter, as well as a year ago in Q3 2019. The aggregate effect of the net occupancy decrease was 675,000 sq. ft. of negative net absorption for Q3 2020. The amount of total office inventory that is being marketed for lease was up 180 basis points quarter-over-quarter at an availability rate of 18.5%. The difference between this figure and the vacancy rate reflects expected future move-outs. The CBD overall vacancy rate is at 8.0%, although the availability rate is at 22.0%. This wide margin holds truer in Class A space in the CBD at 9.6% vacancy compared to 27.4% availability.

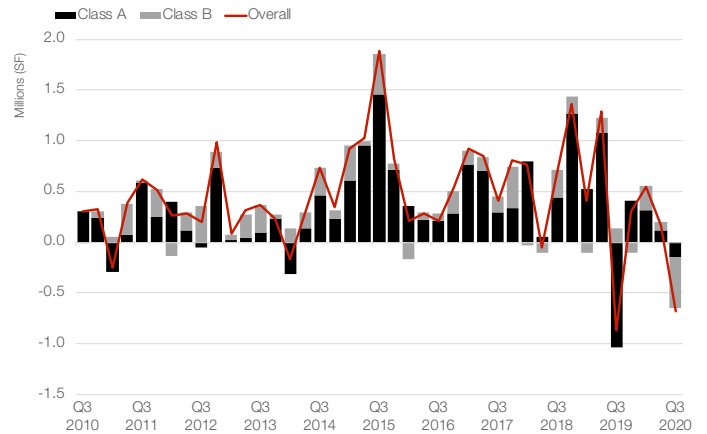
Leasing activity increased

Leasing velocity rose to 1 million sq. ft. during the third quarter—up from the previous quarter’s 703,000 sq. ft.— and down from this time last year at 2.6 million sq. ft. Top transactions during the third quarter included Auctane LLC signing a deal for 104,158 sq. ft. at 4301 Bull Creek Road in the West Central submarket; and a deal inked for 41,068 sq. ft. at 2909 Flintrock Trace in The Overlook at Lakeway, a new construction Class A office/medical project in the Southwest submarket. BAE Systems Inc. announced in August it plans to build a large corporate campus in North Austin. The aerospace and defense contractor plans to employ more than 1,400 at a \$150-million, 390,000-sq.-ft. facility to be built in the Parmer Austin business park. Construction is scheduled to begin this year and be completed in 2022. BAE will continue their lease at 6500 Tracor Lane with plans to transition to the new facility at Parmer Austin once completed.

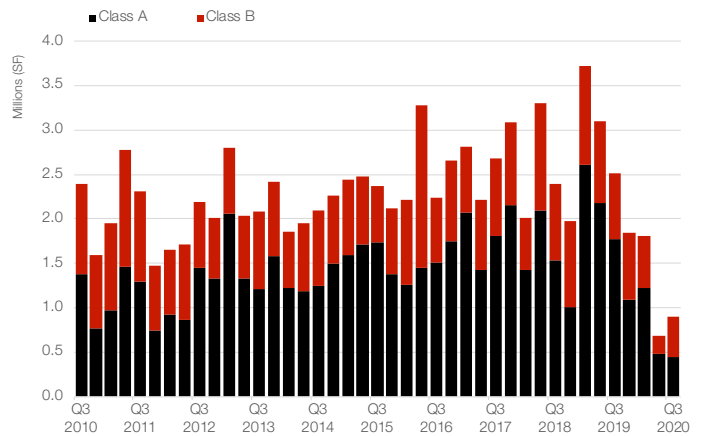
Office construction

New supply delivered to the market in Q3 2020 stood at 690,000 sq. ft. The record-setting amount of new construction that has taken place during the last 24 months has increased the overall inventory by 7.2% at 93 million sq. ft. Class A space has grown by 13.2% reaching a total inventory of 47.4 million sq. ft. during the same time period. Developers have been busy across Austin, particularly in the CBD. Tenants like Main Street Hub (now GoDaddy) and Oracle have looked beyond traditional office locations like East Austin and Southeast Austin, opting for less expensive locations that are still close to urban areas. In a crowded tech labor market such as Austin, companies are doing all they can to recruit and retain

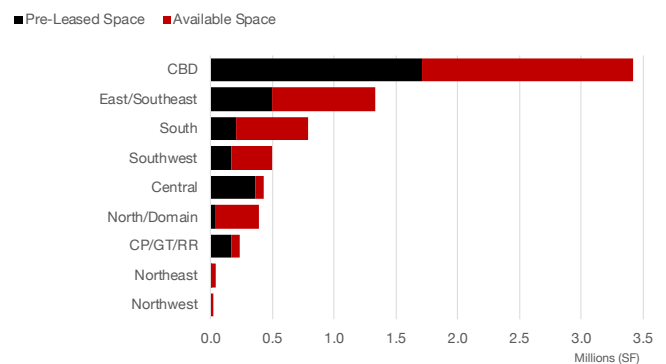
Net Absorption



Leasing



Construction



talent by leasing well located offices with amply amenities.

Investment sales activity

Real Capital Analytics data reports office sales volume for Q3 2020 in the Austin area at \$88.7 million, down sharply from this time last year at \$825.2 million. The primary capital composition for buyers in 2020 was made up of 56.8% private investors, and 29.3% cross-border (a transaction is defined as cross-border if the buyer or major capital partner is not headquartered in the same country where the property is located). For sellers, the majority was 71.1% private investors, and 12.3% cross-border.

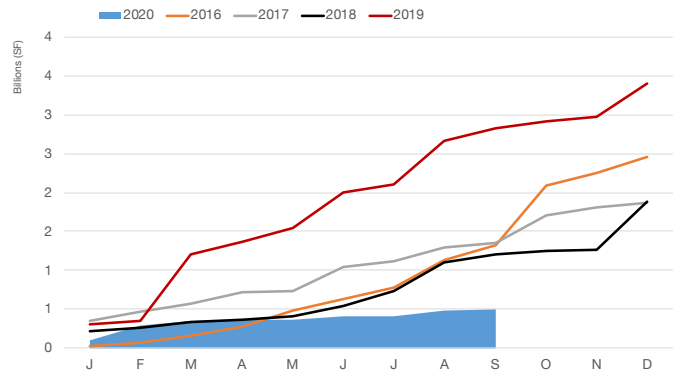
Average asking rents

The Austin overall full-service average rates are at \$38.56 per sq. ft., a 7.0% increase year-over-year from \$36.03 per sq. ft. Asking rates for Class A space are averaging \$42.61 and Class B are averaging \$33.19 per sq. ft. Rent growth has varied across Austin’s submarkets. Many submarkets saw asking rates increase or remain the same, while some saw decreases. Office tenants may have more leverage with regards to negotiating rental rates, terms, tenant improvements and concessions than they have had in the past. However, since the market was healthy prior to the current situation, the relative impact to occupancies and rents in the future is uncertain.

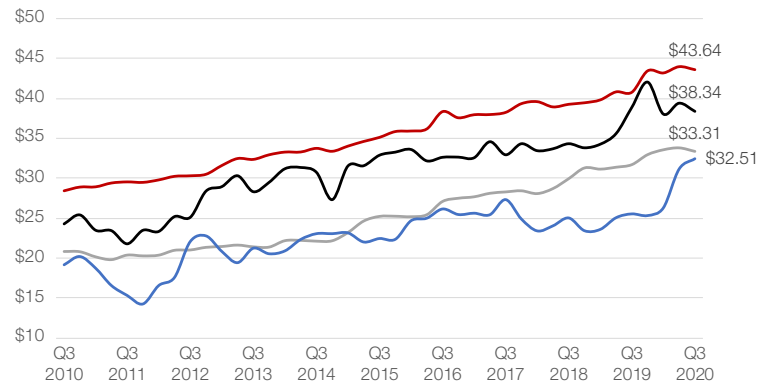
Dealing with uncertainties

According to an annual report by the Urban Land Institute and PwC, Austin, the reigning champ, has been unseated and dropped to the No. 2 spot—behind North Carolina’s Triangle—for the top market in the country for real estate prospects heading into the new year. The report is among the largest in the industry and comprises a survey of around 3,000 real estate professionals to forecast the trends and markets to watch in the coming year. ULI and PwC also rank the top 80 U.S. cities in the country based on their real estate prospects headed into 2021. A frequent subject in the report is the pandemic’s acceleration of trends in demographic shifts, retailing, as well as working from home. Additionally, uncertainty is high for the future of office space as companies around the country continue loosening restrictions on work-from-home policies, opening up more options for where workers may choose to live and work. All this could spell opportunity for markets like Austin, though the impact of demand for office space long term is yet to be clear.

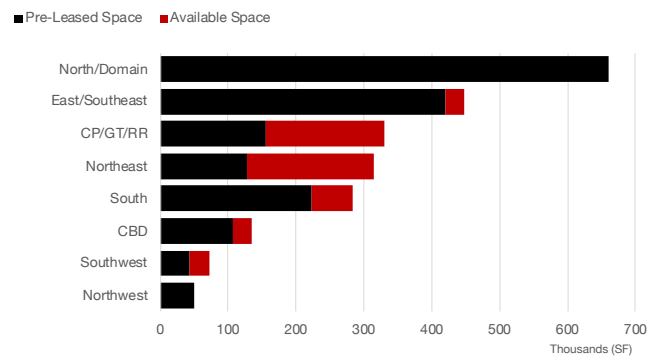
Cumulative Monthly Sales Volume Austin Office
Source: Real Capital Analytics



Average Full-Service Asking Rent



Completions



MARKET OVERVIEW

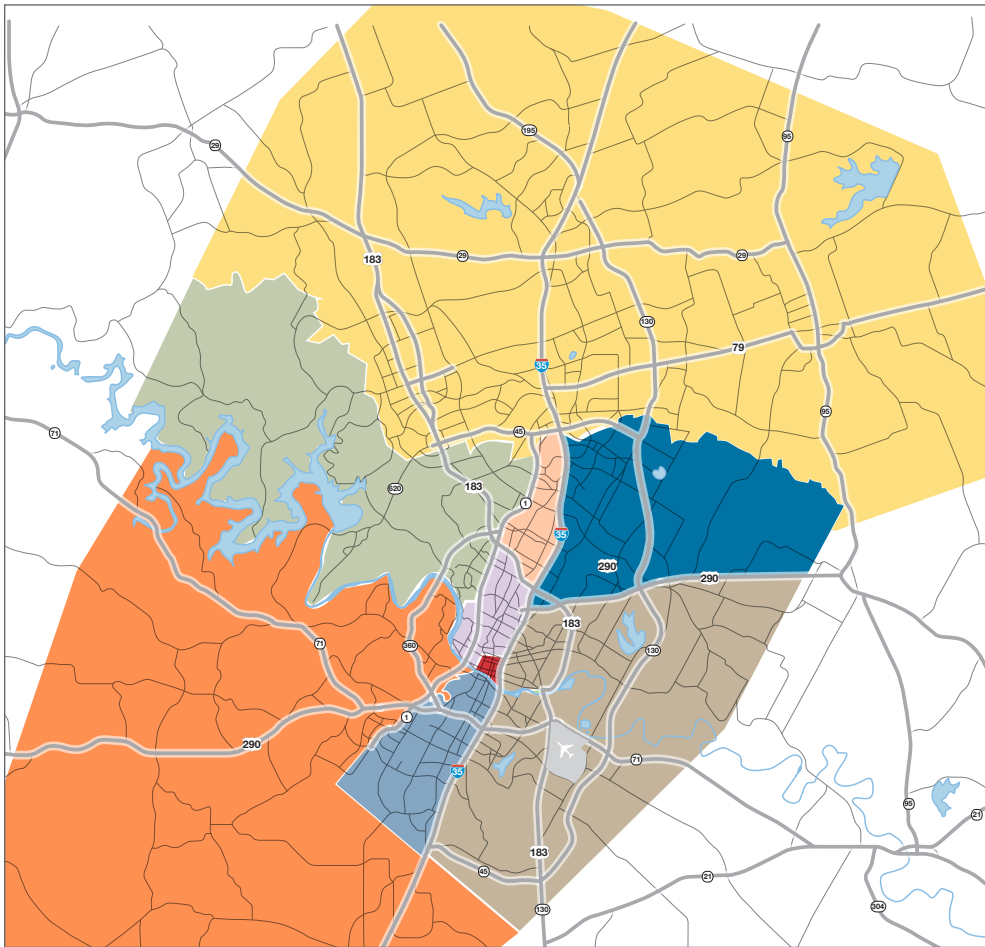
Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2020 Net Absorption (SF)	2020 YTD Net Absorption (SF)	Q3 2020 Leasing Activity (SF)	Q3 2020 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	92,925,388	11.6	18.5	-674,622	41,853	1,025,317	690,485	7,153,668	38.56
Class A	47,392,876	13.4	22.5	-148,808	288,505	441,797	585,574	6,568,502	42.61
Class B	39,754,153	10.6	14.7	-502,092	-181,746	455,209	104,911	585,166	33.19

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CBD Total	15,531,371	8.0	22.0	-140,073	-438,860	81,293	0	3,419,400	52.20
Class A	9,957,945	9.6	27.4	-59,880	-368,424	65,203	0	3,419,400	53.32
Class B	4,411,146	5.5	10.1	-60,627	-49,948	16,090	0	0	47.08
Central Total	6,139,821	9.4	12.6	-75,004	-24,523	143,178	134,114	428,819	34.95
Class A	1,592,584	17.9	15.8	-66,972	-4,224	109,295	134,114	319,734	40.80
Class B	3,357,918	7.6	11.0	-2,568	-7,565	28,320	0	109,085	33.39
Cedar Park/Georgetown/ Round Rock	6,562,110	7.1	10.2	129,076	281,517	10,418	27,280	236,719	31.63
Class A	3,554,346	8.4	10.1	95,170	186,525	0	0	80,319	33.60
Class B	2,689,210	6.1	11.5	33,906	98,101	10,418	27,280	156,400	28.94
North/Domain Total	9,461,427	6.5	11.5	-149,245	459,382	39,246	0	390,012	37.36
Class A	4,508,200	2.5	10.9	-14,972	600,693	34,753	0	330,012	45.51
Class B	4,867,214	10.2	12.3	-134,273	-141,311	4,493	0	60,000	29.18
Northeast Total	5,616,397	17.9	20.1	-288,589	-216,901	7,605	0	40,000	23.51
Class A	2,102,116	37.4	41.3	-286,643	-394,077	0	0	40,000	29.40
Class B	2,845,963	7.1	8.3	-1,946	114,877	7,605	0	0	22.71
Northwest Total	20,367,695	17.5	23.5	-273,446	-184,824	120,404	50,000	22,584	33.58
Class A	12,410,256	20.8	25.9	-114,946	-128,502	74,331	0	0	35.59
Class B	7,740,114	12.5	20.1	-159,813	-53,392	45,557	50,000	22,584	31.23
South Total	4,320,667	10.7	22.2	-119,392	-57,917	19,284	0	783,944	39.48
Class A	1,337,915	5.0	31.9	-6,106	181,910	0	0	783,944	40.61
Class B	2,333,935	12.8	14.4	-107,327	-164,741	19,284	0	0	40.93
East/Southeast Total	11,247,846	13.3	20.1	424,417	501,312	390,674	447,631	1,332,164	42.85
Class A	3,169,439	12.4	26.3	416,923	410,306	29,425	420,000	1,095,067	44.21
Class B	6,821,747	15.3	18.8	2,190	108,842	239,367	27,631	237,097	40.63
Southwest Total	13,678,054	10.2	14.8	-182,366	-277,333	213,215	31,460	500,026	35.79
Class A	8,760,075	9.9	15.0	-111,382	-195,702	128,790	31,460	500,026	39.14
Class B	4,686,906	11.1	15.2	-71,634	-86,609	84,075	0	0	31.87
Suburban Total	77,394,017	12.4	17.7	-534,549	480,713	944,024	690,485	3,734,268	35.74
Class A	37,434,931	14.4	20.9	-88,928	656,929	376,594	585,574	3,149,102	39.04
Class B	35,343,007	11.2	15.3	-441,465	-131,798	439,119	104,911	585,166	32.25

MARKET OVERVIEW

Austin Office Submarkets



- 1. CBD
- 2. Central
- 3. CedarPark/Georgetown/Round Rock
- 4. North/Domain
- 5. Northeast
- 6. Northwest
- 7. South
- 8. Southeast
- 9. Southwest

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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NAI Partners
Austin Office

701 Brazos Street, Suite 320
Austin, Texas 78701

tel 512 580 6208

www.naipartners.com/austin

Leta Wauson
Director of Research

leta.wauson@naipartners.com
tel 713 275 9618