

AUSTIN OFFICE | Q4 2020

Quarterly Market Report

JANUARY 2021

EXECUTIVE SUMMARY

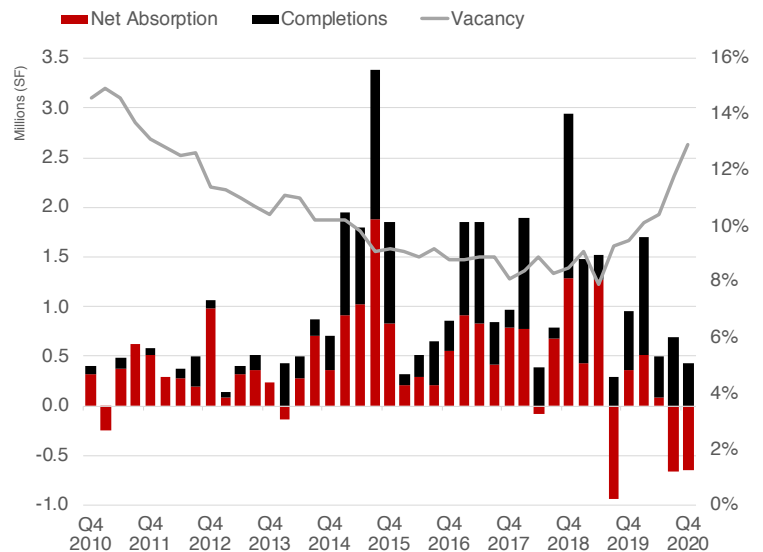
Vacancy rate increases to 12.9%

The Austin office market's overall vacancy rate of 12.9% in the fourth quarter represented an increase from Q3's 11.8%, and a significant 340-basis-point jump year-over-year from 9.5%. The vacancy rate for Class A properties is at 14.8%, and Class B at 11.7%. In the fourth quarter, overall net absorption totaled negative 645,000 sq. ft.—equally divided between Class A representing negative 321,000 sq. ft. and Class B also totaling negative 321,000 sq. ft. Full-year 2020 total net absorption was negative 697,000 sq. ft. Of the 8.7 million sq. ft. currently under construction, about 47% of that space has been spoken for. Of the 2.7 million sq. ft. completed in 2020, 74% of that space is occupied. The overall Austin average asking full-service rent is at \$38.21 per sq. ft.—down from Q3 2020 at \$38.51 per sq. ft.—while Class A space in the Central Business District (CBD) is averaging \$51.05 per sq. ft.

Economic indicators

The Federal Reserve Bank of Dallas reported that the Austin economy slowed in November as the Austin Business-Cycle Index decelerated due to an increase in the unemployment rate. However, job growth was positive in most industries, and regional consumer spending since mid-July continues to hold at pre-COVID-19 levels. Austin's unemployment rate increased to 6.3% in November, while the state's rate rose to 8.1%, and the nation's rate fell to 6.7%. The rise in metro and state unemployment rates was largely due to an increase in individuals reentering the labor force seeking jobs. Austin payrolls grew an annualized 7.4%, or 19,320 net jobs, in the three months ending in November. Financial activities led job expansion (25.5%, or 4,000 jobs). Financial activities and professional and business services were the only sectors to post positive job growth for the first 11 months of the year.

Supply & Demand



Market Indicators

	Current Q4 2020	Prior Quarter Q3 2020	Year Ago Q4 2019
Vacant Direct	12.9%	11.8% ↑	9.5% ↑
Vacant Total	10.6%	10.0% ↑	8.4% ↑
Available Direct	20.4%	18.4% ↑	13.8% ↑
Available Total	16.4%	15.1% ↑	12.2% ↑
Net Absorption (SF)	-645,423	-658,811 ↑	358,985 ↓
Leasing Activity (SF)	717,501	1,165,111 ↓	1,855,877 ↓
Construction (SF)	8,650,102	7,381,820 ↑	8,197,310 ↑
Deliveries (SF)	436,300	691,160 ↓	596,188 ↓
Avg Asking Rent (Gross)	\$38.21	\$38.51 ↓	\$38.22 ↓
Inventory (SF)	93,215,307	92,779,007 ↑	90,492,971 ↑

MARKET OVERVIEW

Continued negative net absorption

During the second half of 2020, Austin’s office market saw an increase in the number of tenants moving out of space compared to the first half of 2020. The aggregate effect of the net occupancy decrease was 697,000 sq. ft. of negative net absorption for full-year 2020. The amount of total office inventory that is being marketed for lease was up 200 basis points quarter-over-quarter at an availability rate of 20.4%. The difference between this figure and the vacancy rate reflects expected future move-outs. The overall vacancy rate in the CBD is at 10.2%, although the availability rate is at 24.1%. This wide margin holds truer in Class A space in the CBD at 12.7% vacancy compared to 30.3% availability.

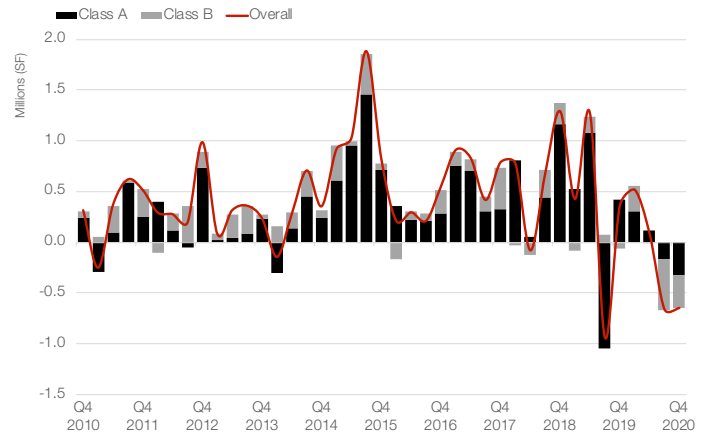
Leasing activity slowed

Quarterly leasing velocity slowed to below 1 million sq. ft. during the fourth quarter at 718,000 sq. ft.—only the second time Austin has registered a sub-1 million-sq.-ft. quarter of leasing since Q4 2009, with both decelerations taking place in 2020. In comparison, year-over-year, Q4 2019 leasing activity registered at 1.9 million sq. ft. Top transactions during the fourth quarter included Poly signing a renewal for 88,787 sq. ft. at 7700 W. Parmer Lane in the Far Northwest submarket; Everi Games signing a renewal for 51,000 sq. ft. at 206 Wild Basin Road S. in the Southwest submarket; and The Austin Stone renewing 20,149 sq. ft. at 313 E. Anderson Lane in the Central submarket.

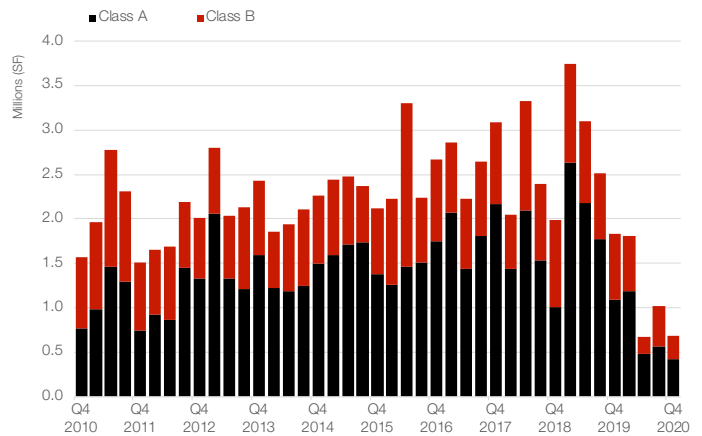
Record-setting construction activity

An all-time high—8.7 million sq. ft.—of new construction is underway to end the year in 2020. During the last five years, overall inventory has increased by 14.7% or 12 million sq. ft. to register at 93.2 million sq. ft. Class A space has grown by 25.8% reaching a total inventory of 47.5 million sq. ft. during the same time period. Developers have been busy across Austin, particularly in the CBD and the East/Southeast submarkets making up over half of the space under construction. In a crowded tech labor market such as Austin, companies are doing all they can to recruit and retain talent by leasing well located offices with ample amenities. New supply delivered to the market in Q4 2020 stood at 436,000 sq. ft., with an annual total in 2020 of 2.7 million sq. ft. of which 75% has been leased.

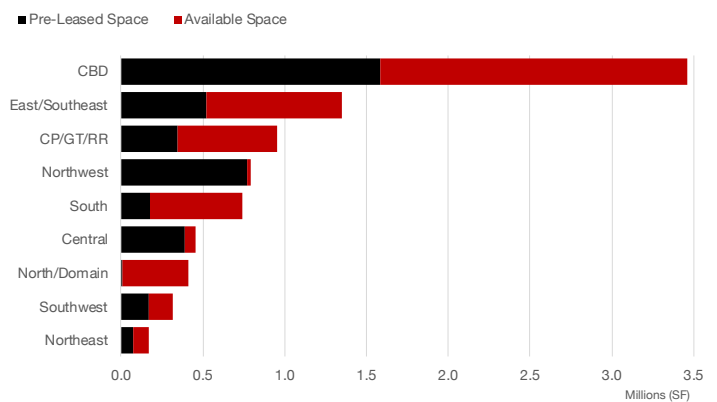
Net Absorption



Leasing



Construction



Investment sales activity

Real Capital Analytics data reports office sales volume for Q4 2020 in the Austin area at \$89.6 million, down sharply from this time last year at \$565.7 million. The primary capital composition for buyers in 2020 was made up of 52.9% private investors, and 24.9% cross-border investors (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 66.8% private investors, and 10.4% cross-border. A significant transaction that took place during the fourth quarter was Menlo Equities purchase of 7000 West at Lantana, a two-building, 136,075-sq.-ft. office complex 15 minutes southwest of downtown Austin. The complex was purchased from Starwood Capital Group for an undisclosed amount and fully leased at the time of sale to semiconductor manufacturer Advanced Micro Devices and medical equipment maker Smith + Nephew.

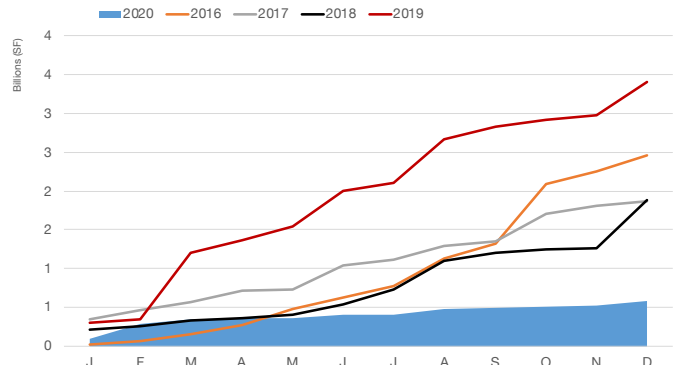
Average asking rents

Austin's overall full-service average rates are at \$38.21 per sq. ft., down slightly from this time last quarter at \$38.51, and on par year-over-year at \$38.22 per sq. ft. Asking rates for Class A space are averaging \$41.73 and Class B are averaging \$33.75 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.

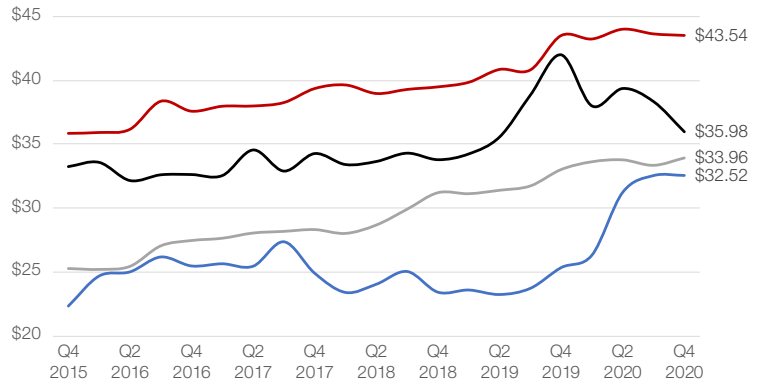
Oracle moving HQs to Austin

Oracle is applying a more flexible employee work location policy and has changed its corporate headquarters from Redwood City, California to Austin, Texas. Oracle recently made headlines for its joint bid with Walmart to buy social media platform TikTok, part of the latest big tech companies transferring to Texas. Hewlett-Packard Enterprises and several smaller tech companies such as SignEasy, QuestionPro and DZS have also moved from California to Texas. In addition, Tesla and SpaceX CEO Elon Musk announced that he had moved to Texas as well, though his companies will continue to be headquartered in California.

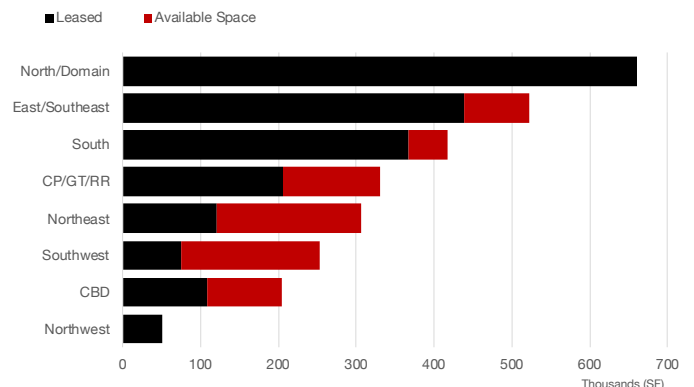
Cumulative Monthly Sales Volume Austin Office
Source: Real Capital Analytics



Average Full-Service Asking Rent



Completions



MARKET OVERVIEW

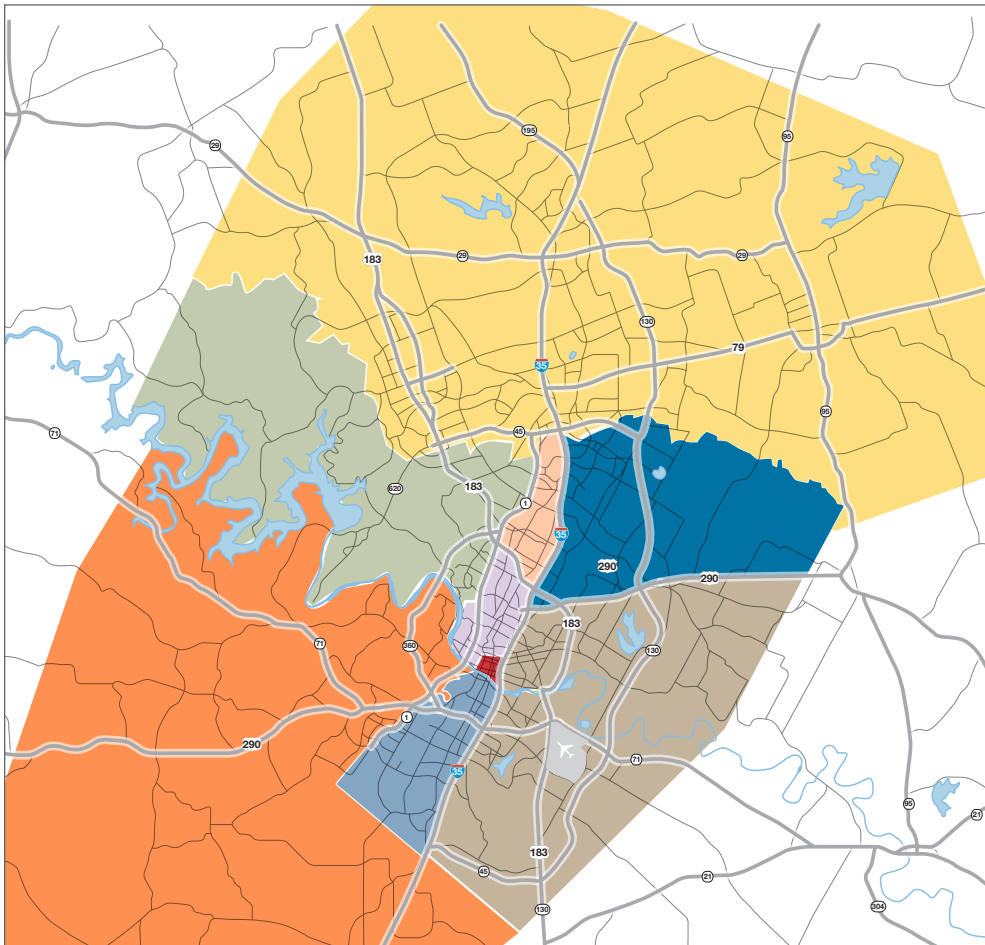
Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2020 Net Absorption (SF)	2020 YTD Net Absorption (SF)	Q4 2020 Leasing Activity (SF)	Q4 2020 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	93,215,307	12.9	20.4	-645,423	-697,160	717,501	436,300	8,650,102	38.21
Class A	47,547,333	14.8	24.4	-320,669	-62,291	424,712	360,540	7,879,643	41.73
Class B	40,052,651	11.7	16.8	-321,339	-585,129	263,372	75,760	770,459	33.75

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CBD Total	15,466,107	10.2	24.1	-340,746	-779,606	60,029	0	3,458,154	50.41
Class A	9,957,945	12.7	30.3	-305,394	-673,818	42,291	0	3,458,154	51.05
Class B	4,345,882	6.4	10.4	-32,229	-82,177	10,428	0	0	48.31
Central Total	6,348,768	11.9	16.0	-23,840	-155,158	71,436	46,825	476,994	34.72
Class A	1,685,432	20.7	17.7	2,481	-22,239	16,464	46,825	319,909	40.45
Class B	3,444,017	10.4	16.3	-17,746	-111,410	45,992	0	157,085	33.13
Cedar Park/Georgetown/ Round Rock	6,441,895	7.2	17.9	624	287,073	85,047	0	957,200	32.02
Class A	3,406,163	8.5	19.5	-11,669	172,332	75,500	0	755,319	33.42
Class B	2,674,007	6.3	17.8	10,316	115,873	9,547	0	201,881	29.68
North/Domain Total	9,461,427	7.2	14.2	-69,205	390,177	7,918	0	412,486	38.22
Class A	4,508,200	4.2	14.6	-73,897	526,796	2,186	0	389,446	44.37
Class B	4,867,214	10.1	14.0	4,692	-136,619	5,732	0	23,040	27.87
Northeast Total	5,652,374	17.2	21.9	28,611	-177,024	4,297	0	168,772	23.56
Class A	2,095,009	32.0	41.4	115,092	-286,092	0	0	40,000	28.79
Class B	2,851,023	9.8	12.4	-83,109	31,360	4,297	0	128,772	23.03
Northwest Total	20,474,948	18.0	23.1	-134,561	-315,230	169,545	0	790,670	33.41
Class A	12,410,256	21.4	25.0	-76,641	-205,143	130,596	0	768,086	35.03
Class B	7,847,367	13.1	20.4	-51,895	-101,132	37,803	0	22,584	31.55
South Total	4,445,495	11.7	21.9	76,762	18,845	67,427	133,468	722,076	40.40
Class A	1,471,383	8.9	32.0	69,355	251,265	49,312	133,468	722,076	41.90
Class B	2,325,295	13.7	15.1	-20,859	-185,600	11,534	0	0	41.75
East/Southeast Total	11,059,952	15.8	22.4	-162,084	332,080	64,401	75,000	1,346,971	42.47
Class A	3,094,948	13.7	26.8	-6,513	403,793	28,792	25,000	1,109,874	44.48
Class B	6,982,575	17.8	21.5	-142,008	-40,314	31,209	50,000	237,097	40.07
Southwest Total	13,864,341	11.5	16.2	-20,984	-298,317	187,401	181,007	316,779	35.56
Class A	8,917,997	11.9	16.7	-33,483	-229,185	79,571	155,247	316,779	38.54
Class B	4,715,271	11.3	16.0	11,499	-75,110	106,830	25,760	0	31.88
Suburban Total	77,749,200	12.4	17.7	-304,677	82,446	657,472	436,300	5,191,948	35.74
Class A	37,589,388	15.3	22.5	-15,275	611,527	382,421	360,540	4,421,489	38.68
Class B	35,706,769	12.4	17.6	-289,110	-502,952	252,944	75,760	770,459	32.76

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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