

AUSTIN OFFICE | Q2 2021 QUARTERLY MARKET REPORT

Net absorption returns to positive territory in Austin Office market

JULY 2021

EXECUTIVE SUMMARY

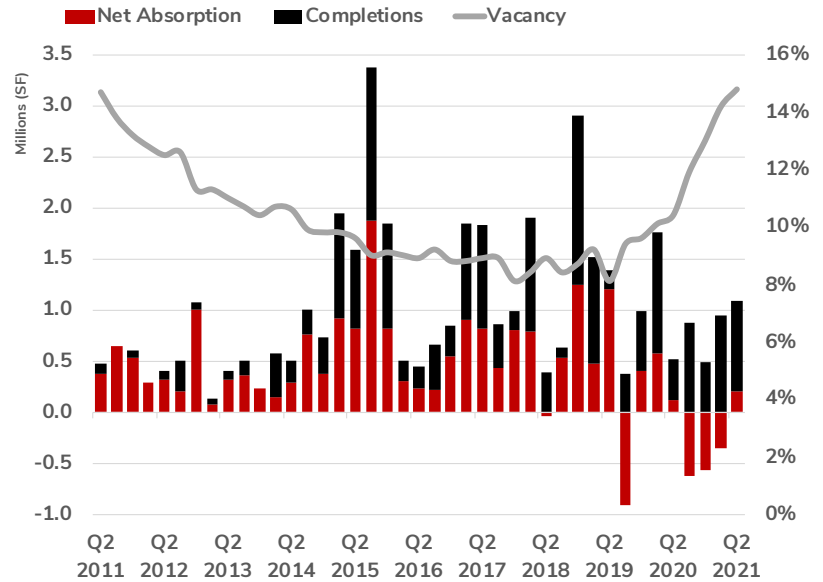
VACANCY RATE INCREASES TO 14.8%

The Austin office market's overall vacancy rate of 14.8% in the second quarter represented an increase from Q1's 14.2%, and a significant jump year-over-year from 10.4%. The vacancy rate for Class A properties is at 14.7%, and Class B at 16.3%. Overall net absorption came out of the red, ending the quarter at positive 209,000 sq. ft.—with the bulk of positive gains made up almost entirely of Class A space. Of the 7.2 million sq. ft. currently under construction, slightly over half of that space has been spoken for. Of the 2.0 million sq. ft. completed so far in 2021, 69% of that space is available. The overall Austin average asking full-service rent is at \$39.85 per sq. ft.—up 4.6% from Q1 2021's \$38.08 per sq. ft.—while Class A space in the Central Business District is averaging \$57.48 per sq. ft.

AUSTIN ECONOMIC INDICATORS

The Federal Reserve Bank of Dallas reported that the Austin economy continued to post a strong performance in May, led by declines in the unemployment rate and recent broad-based job gains. Austin's unemployment rate declined in May to 4.6%, its lowest level since March 2020. This is well below the state's jobless rate of 6.5% and the nation's 5.8% rate. Austin payrolls expanded an annualized 6.3%, or 17,235 net jobs, in the three months ending in May. Leisure and hospitality led job growth (30.0%, or 7,400 jobs), followed by professional and business services (14.4%, or 7,140 jobs). Sectors that posted net job losses were construction and mining (-5.8%, or 1,090 jobs), and financial activities (-2.4%, or 420 jobs). As of May, 91.9% of the 133,211 jobs lost at the onset of the pandemic in March and April 2020 had been recovered.

SUPPLY & DEMAND



MARKET INDICATORS

	CURRENT Q2 2021	PRIOR QUARTER Q1 2021	PRIOR YEAR Q2 2020
Vacant Total	14.8%	14.2% ▲	10.4% ▲
Vacant Direct	12.4%	11.7% ▲	9.0% ▲
Available Total	19.7%	20.1% ▼	16.2% ▲
Available Direct	16.7%	16.5% ▲	13.8% ▲
Net Absorption (SF)	208,539	-348,973 ▲	112,822 ▲
Leasing Activity (SF)	1,502,609	1,040,149 ▲	764,426 ▲
Construction (SF)	7,244,177	7,584,641 ▼	7,763,607 ▼
Deliveries (SF)	882,324	951,234 ▼	409,105 ▲
Avg Asking Rent (Gross)	\$39.85	\$38.08 ▲	\$38.82 ▲
Inventory (SF)	95,912,750	95,030,426 ▲	92,723,428 ▲

NET ABSORPTION REBOUNDS

Net absorption rallied to end the quarter at positive 209,000 sq. ft. This was a significant turnaround after the past three quarters registered negative net absorption totaling 1.5 million sq. ft. The amount of total office inventory that is being marketed for lease decreased quarter-over-quarter at an availability rate of 19.7% from 20.1% in Q1 2021. The difference between this figure and the vacancy rate reflects expected future move-outs. The overall vacancy rate in the CBD is at 15.6%, although the availability rate is at 21.9%. This wide margin holds true in Class A space in the CBD at 20.1% vacancy, compared to 27.1% availability.

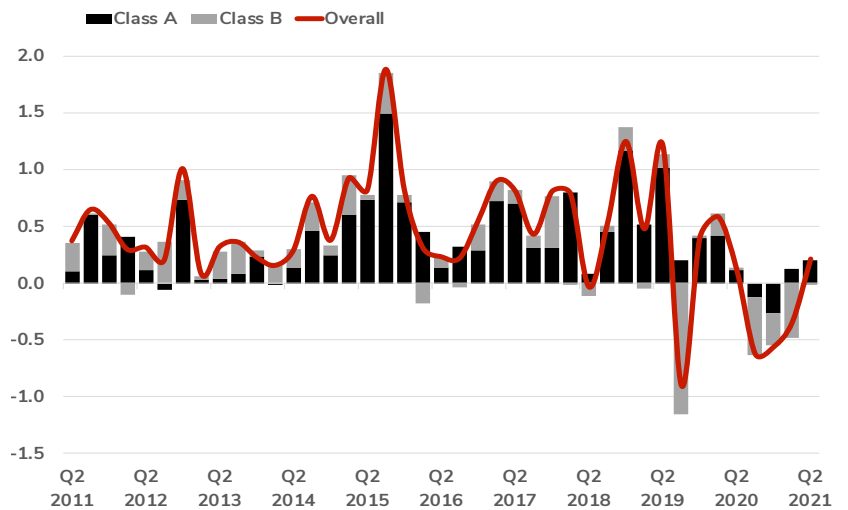
LEASING ACTIVITY TICKED UP

Quarterly leasing velocity—which is comprised of both new leases and renewals—increased to 1.5 million sq. ft. during the second quarter—up from 1 million sq. ft. in Q1 2021, and from 746,000 sq. ft. a year ago. Top transactions during the second quarter included ZT Systems signing a sublease in June for 49,312 sq. ft. at 12301 Research Blvd. in the Northwest submarket; 40,656 sq. ft. of sublease space taken at 501 Congress Ave. in the CBD submarket by Bestow Life Insurance in May; and a new deal inked by Kirkland & Ellis in April for 39,870 sq. ft. at 401 Congress Ave. in the CBD submarket.

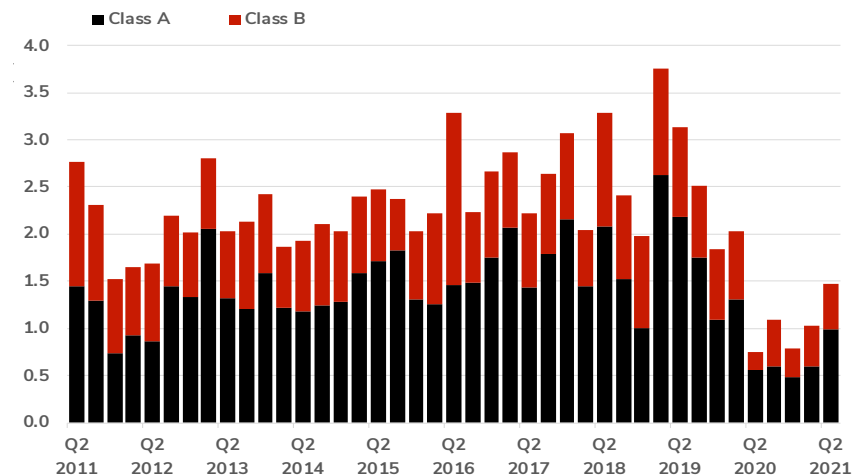
CONSTRUCTION ACTIVITY REMAINS HIGH

During the last year, Austin’s inventory increased by 3.4% to almost 96 million sq. ft., with another 7.2 million underway to finish the second quarter in 2021. Class A space has grown by 5.9% or 2.7 million sq. ft. reaching a total inventory of 48 million sq. ft. during the same time period. Developers have been active across Austin, predominantly in the CBD and the East/Southeast submarkets which collectively comprise over half of the space under construction. New supply delivered to the market in Q2 2021 stood at 882,000 sq. ft., bringing the year-to-date total to almost 2 million sq. ft. of which about 70% is available.

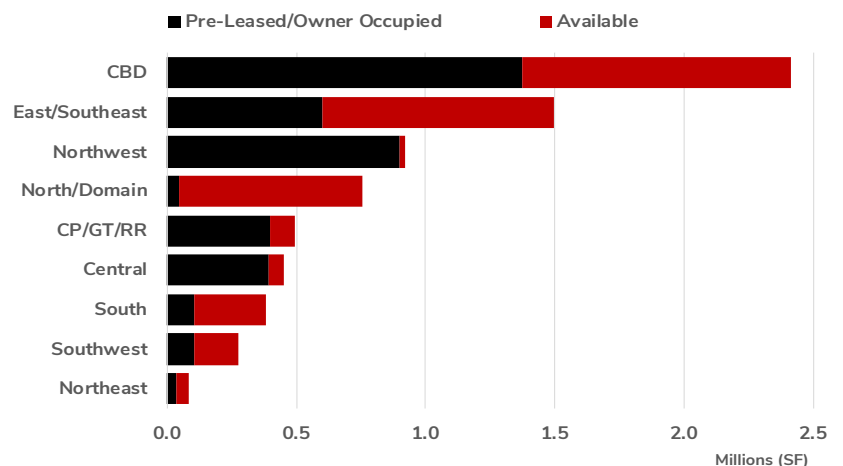
NET ABSORPTION



LEASING ACTIVITY



CONSTRUCTION



INVESTMENT SALES TRENDS

The largest office transaction in Austin's recent history took place in June, as Kilroy Realty announced it had closed a deal on the Indeed Tower for \$580 million. The 36-story building located at the intersection of W. Sixth and Colorado streets is approximately 730,000 sq. ft. and currently 62.9% leased. Trammell Crow developed the new tower that was completed in Q1 2021. The building occupies a full city block in the central business district and includes 10,000 sq. ft. of ground-floor retail space. The Austin office market's primary capital composition for buyers so far in 2021 was made up of 35.2% REIT/listed investors, 29.3% institutional, and 23.1% 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 81.1% institutional investors, and 17.2% private investors.

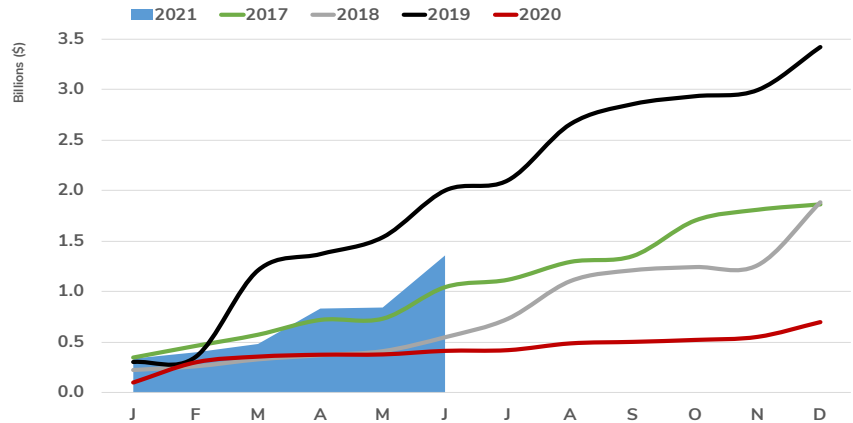
POTENTIAL \$17B SAMSUNG PLANT IN TAYLOR

Samsung is exploring sites in Central Texas for a planned chipmaking plant. The facility will produce the company's most advanced computer chips and the cities of Austin and Taylor are in the running. Factors ranging from a strong talent pool, a semiconductor environment, economic development opportunities, and an established utility infrastructure are being taken into account. Samsung may also choose to add to its massive manufacturing campus in North Austin, where it's already invested \$17 billion since 1997.

AVERAGE ASKING RENTS

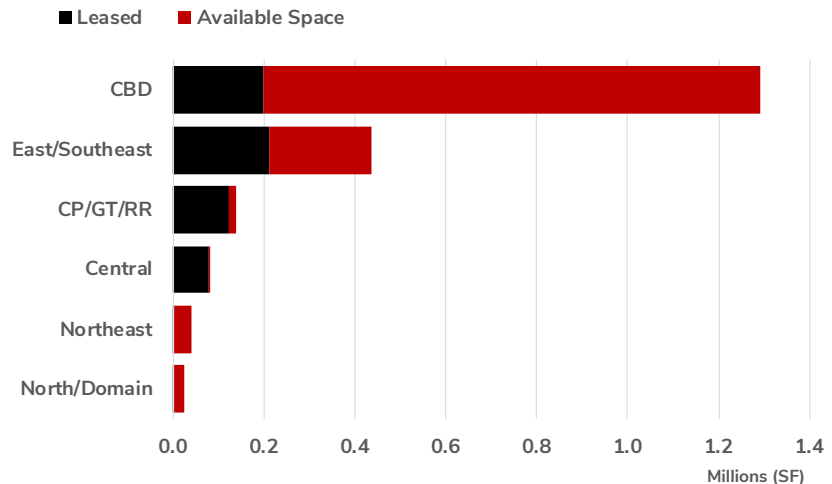
Austin's overall full-service average rates are at \$39.85 per sq. ft., up 4.6% from this time last quarter at \$38.08, and 2.7% year-over-year at \$38.82 per sq. ft. Overall asking rates for Class A space are averaging \$44.46 and Class B are averaging \$33.67 per sq. ft. Rent growth has varied across Austin's submarkets. Many submarkets saw asking rates increase or remain the same, while some saw decreases. In this heightened period of uncertainty, rent fluctuations are likely more significant on the effective rent side than the asking rent side at first, with landlords offering more generous tenant improvement allowances or free rent.

CUMULATIVE MONTHLY SALES VOLUME

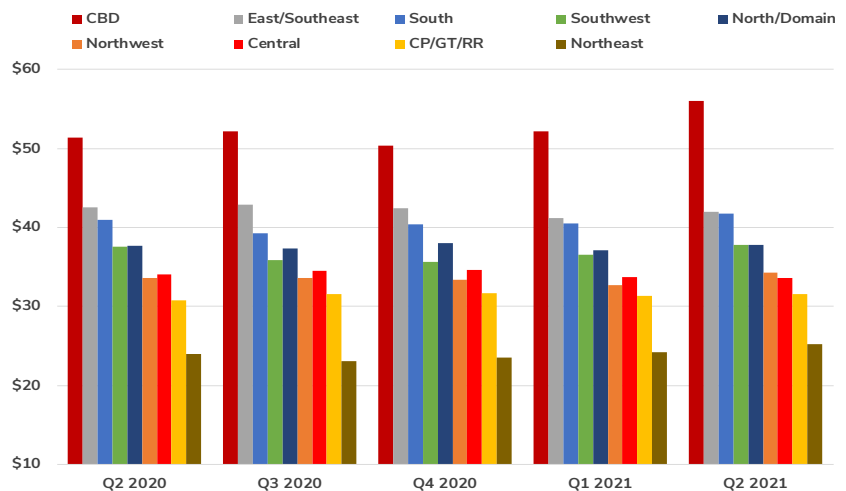


Source: Real Capital Analytics

DELIVERIES YEAR-TO-DATE



HISTORICAL AVERAGE GROSS ASKING RENT



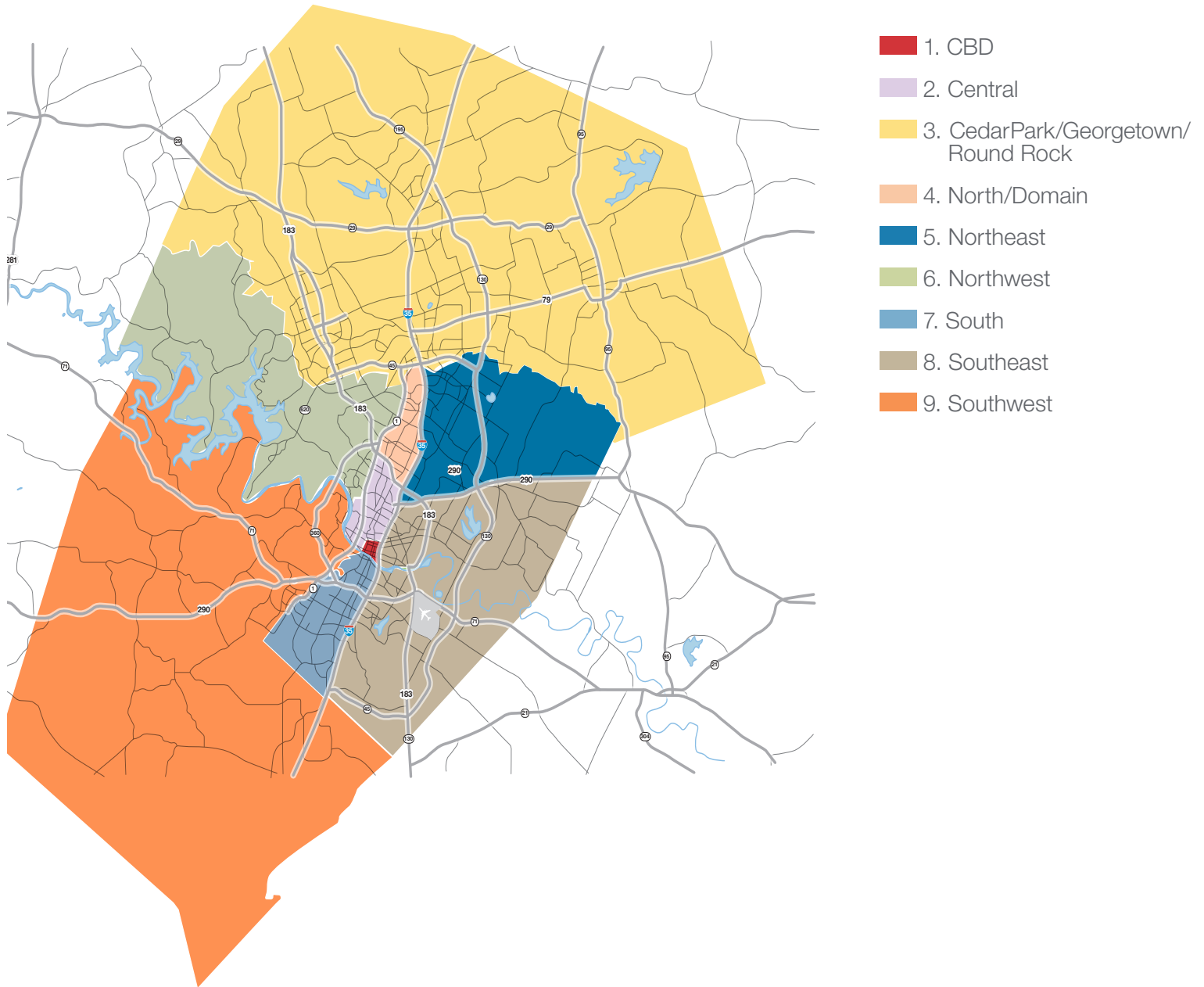
MARKET OVERVIEW

SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q2 2021 Leasing Activity (SF)	Q2 2021 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	95,912,750	14.8	19.7	208,539	-140,434	1,502,609	882,324	7,244,177	39.85
Class A	47,904,529	14.7	21.5	205,726	334,935	987,994	767,650	6,656,519	44.46
Class B	42,000,260	16.3	19.4	-20,519	-497,657	488,326	114,674	472,658	33.67
CBD Total	16,897,840	15.6	21.9	189,383	245,779	359,304	730,000	2,412,081	56.05
Class A	11,254,177	20.1	27.1	186,637	286,602	316,638	730,000	2,390,081	57.48
Class B	4,481,383	7.2	10.5	2,746	-34,342	43,559	0	22,000	48.77
Central Total	6,320,608	13.1	13.8	-30,774	4,864	104,940	0	453,085	33.65
Class A	1,708,341	18.0	12.8	-9,034	42,135	78,539	0	296,000	39.77
Class B	3,574,283	12.4	16.1	-36,041	-3,721	19,757	0	157,085	32.45
Cedar Park/Georgetown/Round Rock	6,649,381	9.6	9.9	84,317	-36,905	95,476	20,000	420,889	31.54
Class A	3,503,474	7.2	7.5	46,723	37,211	40,658	0	195,000	32.80
Class B	2,711,446	13.3	13.9	37,594	-52,788	54,818	20,000	155,889	29.87
North/Domain Total	9,891,949	9.7	20.1	129,266	-2,296	31,939	0	753,311	37.81
Class A	4,592,132	3.1	18.3	76,862	44,686	28,592	0	724,511	48.60
Class B	5,213,804	15.7	22.3	52,404	-46,982	3,347	0	28,800	31.23
Northeast Total	5,397,986	13.5	19.3	-24,657	194,038	154,530	0	86,300	25.17
Class A	1,840,621	17.8	33.8	-26,576	294,837	95,618	0	0	29.33
Class B	2,851,023	13.1	13.8	3,589	-94,454	56,694	0	86,300	25.21
Northwest Total	21,074,761	20.0	22.5	-85,975	-439,441	327,470	0	919,660	34.26
Class A	11,168,195	15.8	17.2	-67,013	-325,141	194,184	0	897,076	33.99
Class B	9,090,245	26.7	31.3	-15,164	-167,412	125,010	0	22,584	36.40
South Total	4,649,840	13.5	17.6	18,094	59,597	53,787	0	380,611	41.77
Class A	1,627,948	16.6	27.4	-1,711	24,785	37,756	0	380,611	45.49
Class B	2,373,075	13.4	12.0	6,541	4,128	12,025	0	0	43.50
East/Southeast Total	10,971,422	15.2	22.3	46,421	22,957	119,486	132,324	1,544,585	42.00
Class A	3,133,492	13.3	29.9	31,945	44,474	34,354	37,650	1,544,585	43.43
Class B	6,953,260	17.5	19.6	13,241	-27,713	79,094	94,674	0	38.43
Southwest Total	14,058,963	13.3	18.1	-117,536	-189,027	255,677	0	273,655	37.81
Class A	9,076,149	14.1	20.4	-32,107	-114,654	161,655	0	228,655	41.07
Class B	4,751,741	12.4	14.5	-85,429	-74,373	94,022	0	0	32.48
Suburban Total	79,014,910	14.7	20.7	19,156	-386,213	1,143,305	152,324	4,832,096	35.52
Class A	36,650,352	16.5	24.7	19,089	48,333	671,356	37,650	4,266,438	38.56
Class B	37,518,877	14.0	17.9	-23,265	-463,315	444,767	114,674	450,658	31.75

MARKET OVERVIEW

AUSTIN OFFICE SUBMARKETS



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