AUSTIN OFFICE | Q1 2022
QUARTERLY MARKET REPORT

Austin Office market remains tech-driven and energetic.

APRIL 2022

EXECUTIVE SUMMARY

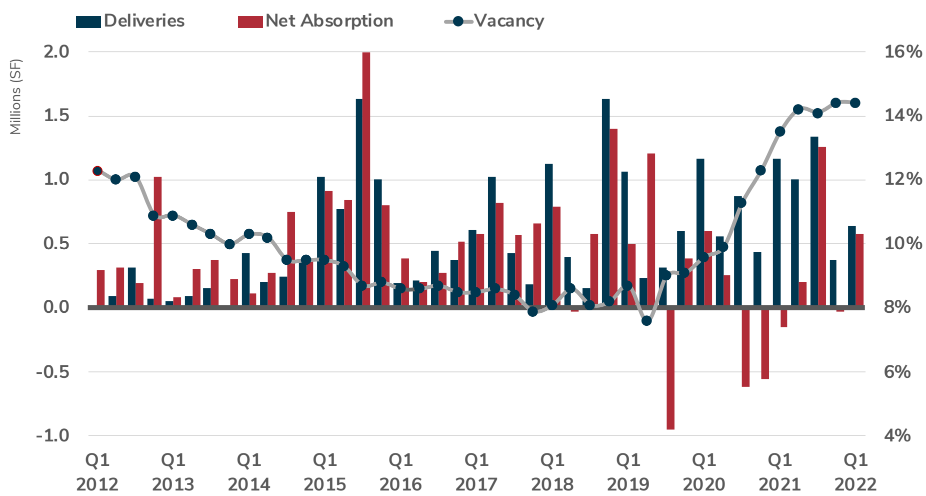
AUSTIN OFFICE SPACE AVAILABILITY REMAINS HIGH

Overall space availability, which includes current, sublease, and future vacancy, is at 18.6%. The East/Southeast submarket ended Q1 2022 with an availability rate of 22.8%, followed by the Northwest at a 21.7% availability rate, and in third place, the South submarket at 21.1%. The difference between this figure and the vacancy rate reflects expected future move-outs. As Covid-19 fears decrease, many large technology companies are preparing to welcome employees back to the office — or have already done so. The Austin office market is showing signs of demand improvement, as leasing volume increased in the first quarter by 44% to 2.1 million sq. ft. compared to this time last year at 1.5 million sq. ft. However, Q1 2022 marks the 11th consecutive quarter that delivered supply (636,000 sq. ft.) outpaced demand (represented by net absorption at 577,000 sq. ft.). With current projects under construction at 7.1 million sq. ft., demand will have to increase for the high availability rate to have an opportunity to decrease gradually.

AUSTIN ECONOMY STRENGTHENED IN FEBRUARY

Austin's unemployment rate remained at 3.2% in February, the lowest level since the beginning of the pandemic. This is well below the state's jobless rate of 4.7% and the nation's rate of 3.8%. Growth in the metro labor force increased from an annualized 1.4% in January to 5.8% in February. Austin employment increased at a 2.1% annualized pace, or by 6,353 net jobs, in the three months ending in February. Leisure and hospitality (up 13.5%, or 4,122 jobs) led overall growth, followed closely by manufacturing (up 11.7%, or 1,833 jobs).

SUPPLY & DEMAND



Source: CoStar, NAI Partners Research

MARKET INDICATORS

	CURRENT Q1 2022	PRIOR QUARTER Q4 2021		PRIOR YEAR Q1 2021	
Vacant Total	14.4%	14.4%	—	13.5%	↑
Vacant Direct	12.4%	12.4%	—	11.1%	↑
Available Total	18.6%	19.1%	↓	18.9%	↓
Available Direct	16.6%	16.7%	↓	15.4%	↑
Net Absorption (SF)	576,996	-29,523	↑	-148,748	↑
Leasing Activity (SF)	2,092,381	3,101,444	↓	1,454,188	↑
Construction (SF)	7,285,801	6,293,862	↑	7,058,034	↑
Deliveries (SF)	636,307	377,385	↑	1,163,582	↓
Avg Asking Rent (Gross)	$40.65	$40.46	↑	$37.75	↑
Inventory (SF)	101,057,258	100,420,951	↑	97,707,900	↑

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MARKET OVERVIEW

POSITIVE NET ABSORPTION RECORDED FOR Q1 2022

Net absorption closed the first quarter at positive 577,000 sq. ft. This was a significant turnaround compared to this time last year at negative 149,000 sq. ft. The vacancy rate is 14.4%, up from 13.5% this time last year and unchanged quarter over quarter. The overall vacancy rate in the CBD is 14.1%, and the availability rate is 16.2%. A wider margin tracks for Class A space in the overall market at 14.0% vacancy, compared to 19.2% availability.

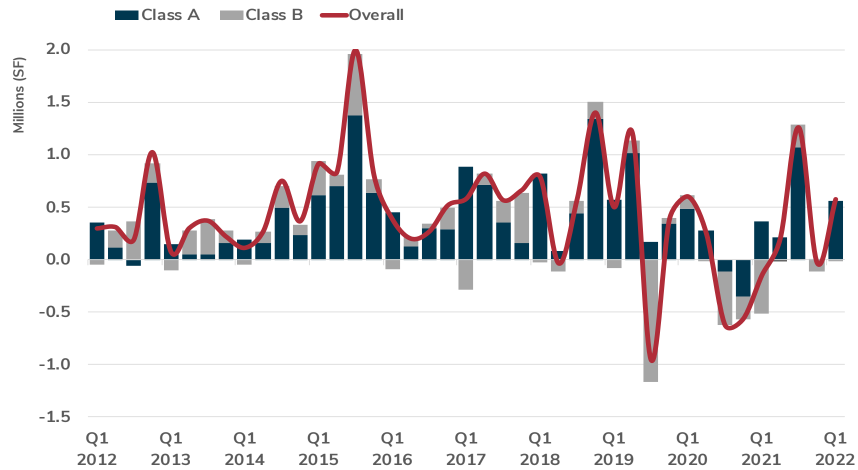
LEASING REMAINS ACTIVE

Quarterly leasing velocity comprised of both new leases and renewals tapered to 2.1 million sq. ft. during the first quarter—down from 3.1 million sq. ft. quarter-over-quarter. One recent significant transaction includes Atmosphere, a streaming television startup, signing a lease for 114,000 sq. ft. in the Bouldin Creek office building, almost six times the size of its current office on Congress Avenue. The company will occupy space on the first, third and fourth floors. Another transaction involves TikTok signing a lease for 125,000 sq. ft. at 300 Colorado Street, joining Meta and Google's downtown presence. In addition, due in part to the new construction added to the market, the average asking full-service rent in the Austin office market metro is at $40.65 per sq. ft., up significantly by $2.90 or 7.7% from this time last year.

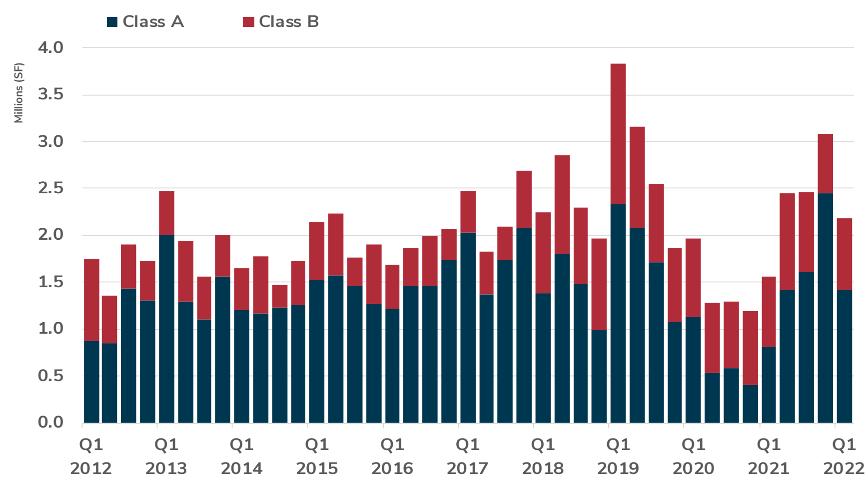
CONSTRUCTION ACTIVITY REMAINS ELEVATED

Construction levels in Austin are among the highest in the nation. 7.3 million sq. ft. is underway (61% preleased)—representing 7.2% of inventory—on top of the 636,000 sq. ft. (47% preleased) that was delivered during Q1 2021. There is 8.3 million sq. ft. of proposed projects that have been announced, although they have not broken ground yet. The amount of construction underway and in the pipeline is easily understandable as the Austin office market has been one of the most dynamic in the country. Cielo Property Group is breaking ground on the Perennial, a 46-story, 750,000-sq.-ft. office tower on 0.81 acres along Fourth St. between Brazos St. and San Jacinto Blvd. - immediately east of Frost Bank Tower. Construction is planned to begin in the summer of 2022. 37,000 sq. ft. has been dedicated to retail, restaurants, and entertainment settings. Construction is scheduled for completion in late 2025.

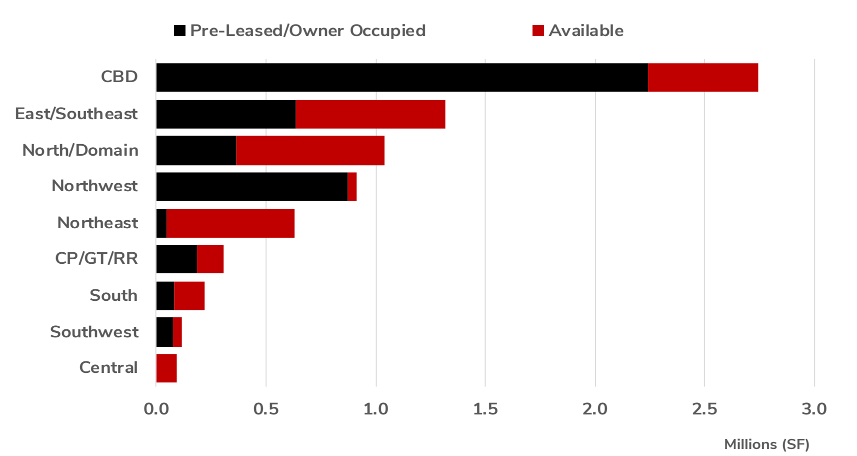
NET ABSORPTION



LEASING ACTIVITY



CONSTRUCTION



INVESTMENT SALES ACTIVITY

Real Capital Analytics data reports the cumulative monthly value as of March 31, 2022, in the Austin metro area at $414 million, up over 250% of the amount this time last year at $166 million. One of the most notable office transactions in Austin in Q1 2022 was OakPoint Real Estate closing on 8300 N Mopac Expressway in Austin. The property consists of 93,312 sq. ft. of office space occupying 6.19 acres. This transaction is significant because the buyers now own almost 13 contiguous acres of land with frontage on both Steck Ave. and MoPac Service Road/MoPac Expressway. The primary capital composition for buyers so far in 2022 was made up of 60% private investors and 40% institutional. For sellers, the majority were 80% private investors and 9% REIT/listed.

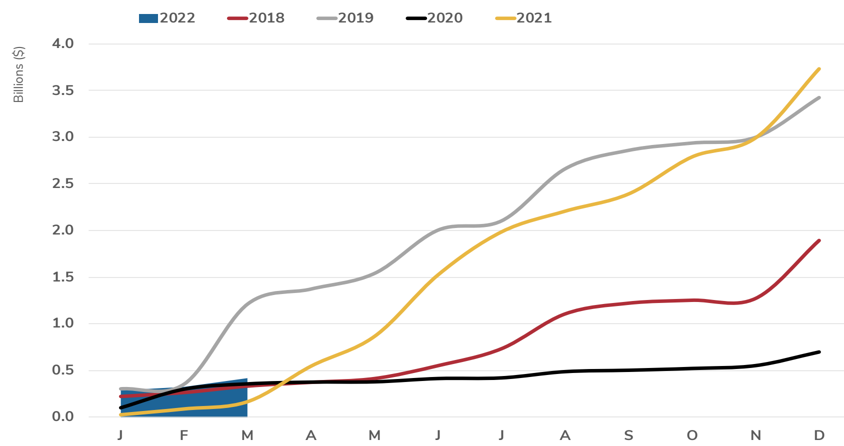
GROWING DEMAND FOR OFFICE SPACE IN NEW DOWNTOWN TOWERS

The parent company of messaging app Snapchat, Snap Inc., signed a lease for two floors at 405 Colorado St. downtown for about 38,000 sq. ft. This will be its first office location in Texas, becoming just the latest technology operation to commit to office space in the Texas capital. Snapchat's Austin lease is also the latest from a major technology or social media company committing to or expanding its office space in the market. CoStar recently reported that digital streaming device company Roku expanded its office lease in Northwest Austin at Stonebridge Plaza I at 9606 N. MoPac Expressway for a total of nearly 90,000 sq. ft.

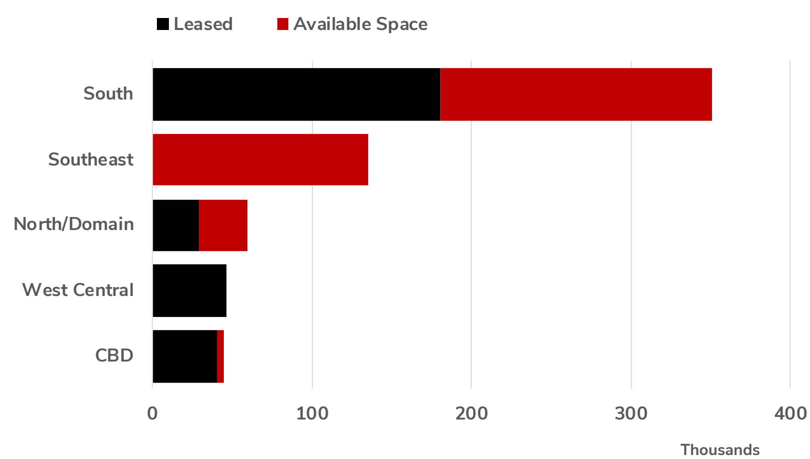
AVERAGE ASKING RENTS

Austin's overall full-service average rates are at $40.65 per sq. ft., up 7.7% from this time last year at $37.75 and 0.5% quarter over quarter. Overall asking rates for Class A space is averaging $46.04, and Class B is averaging $33.35 per sq. ft. Over the long term, the outlook for rent growth in Austin should be optimistic. During the past ten years, average annual rent growth has been about 5%, with a couple of peak years during 2015 and 2016 at 8%. Considering the performance over the past decade, there should be little doubt that the market can return to strong rent growth.

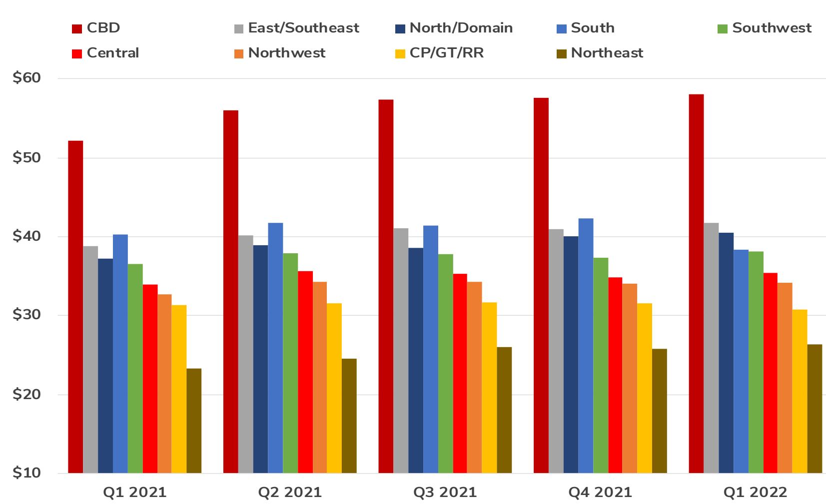
CUMULATIVE MONTHLY SALES VOLUME



DELIVERIES YEAR-TO-DATE



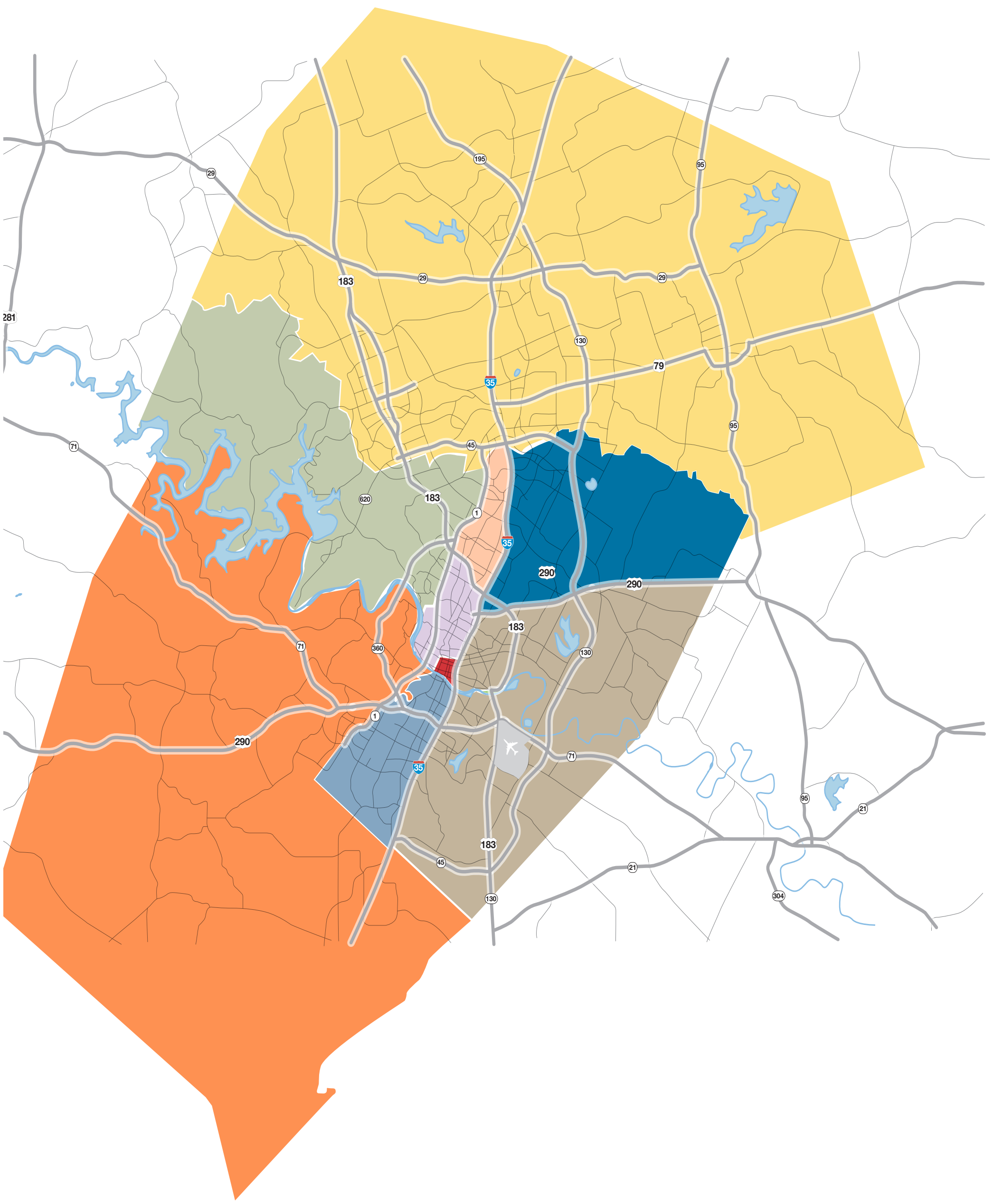
HISTORICAL AVERAGE GROSS ASKING RENT



MARKET OVERVIEW
SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2022 Net Absorption (SF)	2022 YTD Net Absorpiton (SF)	Q1 2022 Leasing Activity (SF)	Q1 2022 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent ($/PSF)
Austin Market Total	**101,057,258**	**14.5**	**19.4**	**576,996**	**576,996**	**2,092,381**	**636,307**	**7,285,801**	**40.65**
Class A	50,438,372	14.0	19.2	555,533	555,533	1,426,667	396,611	6,904,815	46.04
Class B	44,105,108	16.5	19.9	-2,803	-2,803	631,643	239,696	380,986	33.35
CBD Total	**18,737,529**	**14.1**	**16.2**	**176,758**	**176,758**	**665,520**	**45,000**	**2,744,727**	**58.03**
Class A	12,062,733	18.1	19.1	121,397	121,397	608,338	0	2,744,727	60.94
Class B	5,044,719	8.4	11.6	62,381	62,381	56,302	45,000	0	46.17
Central Total	**6,915,937**	**12.1**	**15.4**	**97,210**	**97,210**	**142,510**	**46,000**	**91,548**	**35.37**
Class A	2,388,147	11.2	17.4	88,539	88,539	16,434	46,000	91,548	43.10
Class B	3,438,978	15.6	17.6	7,491	7,491	118,100	0	0	31.34
Cedar Park/Georgetown/ Round Rock	**7,376,327**	**4.7**	**10.5**	**116,150**	**116,150**	**39,783**	**0**	**306,719**	**30.77**
Class A	4,024,368	4.9	9.9	48,012	48,012	32,357	0	167,285	32.68
Class B	2,896,564	5.1	12.8	46,810	46,810	7,426	0	139,434	28.58
North/Domain Total	**9,909,722**	**11.5**	**16.6**	**-74,024**	**-74,024**	**124,117**	**59,446**	**1,039,804**	**40.55**
Class A	4,616,209	1.8	14.6	-18,047	-18,047	14,831	0	1,039,804	50.83
Class B	5,207,500	20.4	19.1	-55,977	-55,977	109,286	59,446	0	33.29
Northeast Total	**5,546,466**	**11.4**	**20.3**	**-17,725**	**-17,725**	**156,936**	**0**	**629,826**	**26.32**
Class A	1,757,093	12.9	34.3	-15,417	-15,417	131,059	0	569,826	28.00
Class B	3,077,816	12.4	13.8	-3,978	-3,978	25,877	0	60,000	26.39
Northwest Total	**21,436,190**	**17.8**	**21.7**	**86,361**	**86,361**	**432,544**	**0**	**913,688**	**34.17**
Class A	10,592,284	12.7	16.3	148,962	148,962	275,176	0	869,286	36.98
Class B	10,051,629	24.3	29.1	-59,172	-59,172	149,621	0	44,402	30.64
South Total	**4,532,190**	**17.1**	**21.1**	**149,826**	**149,826**	**183,883**	**350,611**	**219,845**	**38.40**
Class A	1,989,809	22.1	23.0	117,058	117,058	131,736	350,611	189,845	51.49
Class B	2,092,596	14.2	21.2	33,303	33,303	49,840	0	30,000	35.18
East/Southeast Total	**12,216,201**	**16.4**	**22.8**	**167,016**	**167,016**	**143,305**	**135,250**	**1,221,887**	**41.75**
Class A	3,976,959	16.4	27.6	241,625	241,625	53,204	0	1,149,398	45.48
Class B	7,331,960	17.9	21.6	-63,141	-63,141	75,515	135,250	72,489	35.39
Southwest Total	**14,386,696**	**16.3**	**19.3**	**-124,576**	**-124,576**	**203,783**	**0**	**117,757**	**38.14**
Class A	9,030,770	18.6	21.1	-176,596	-176,596	163,532	0	83,096	40.37
Class B	4,963,346	13.4	17.3	29,480	29,480	39,676	0	34,661	34.40
Suburban Total	**82,319,729**	**14.5**	**19.2**	**400,238**	**400,238**	**1,426,861**	**591,307**	**4,541,074**	**36.80**
Class A	38,375,639	12.7	19.2	434,136	434,136	818,329	396,611	4,160,088	40.96
Class B	39,060,389	17.5	21.0	-65,184	-65,184	575,341	194,696	380,986	32.24

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

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partners

AUSTIN
+ 512 580 6208
701 Brazos Street, Suite 320
Austin, Texas 78701

WWW.NAIPARTNERS.COM

LETA WAUSON
DIRECTOR OF RESEARCH
leta.wauson@naipartners.com
tel 713 275 9618