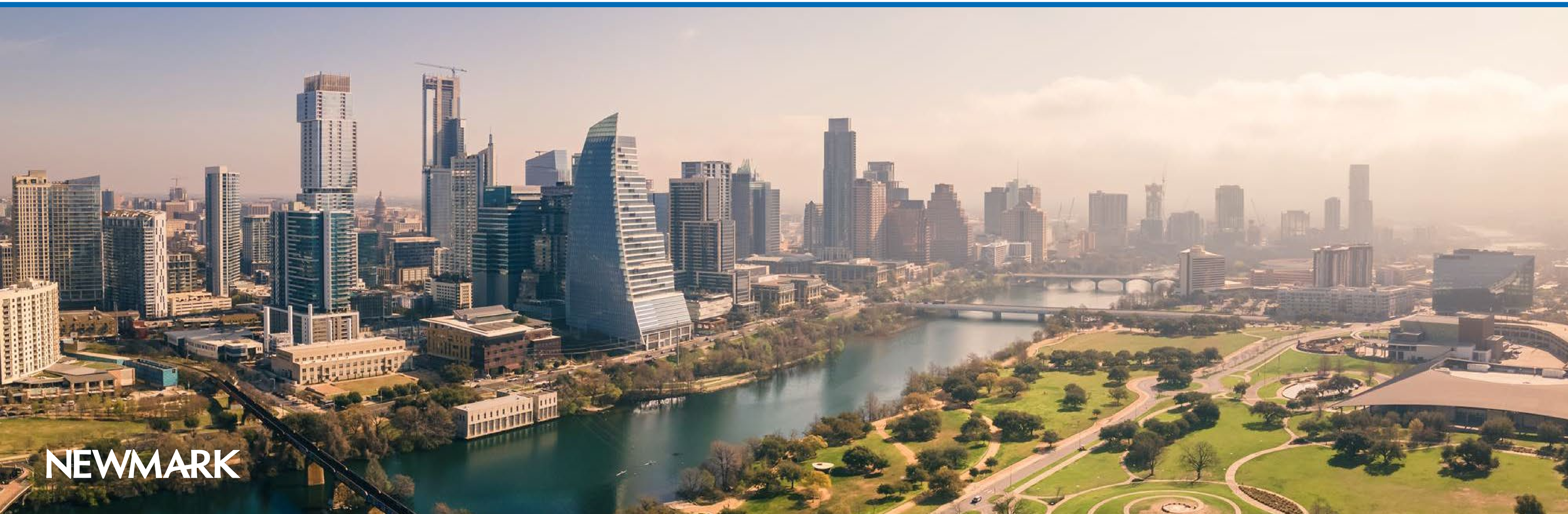
2Q24

Austin Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate dropped by six basis points year over year to 3.4% but remains below the five-year average of 3.9%.
- When compared with May 2023, employment growth declined by 264 basis points to 2.4%.
- Most sectors reported employment growth, with other services leading job gains at 6.8% over the past 12 months.
- Office-using jobs in the market dipped 0.9% from their historic high to 421,290 jobs as of the end of May 2024, reflecting a 31.4% growth rate since 2019.

Leasing Market Fundamentals

- Annual full-service class rental rates remain elevated at $40.34/SF, a 0.5% decrease year over year.
- Direct availabilities increased by 200 basis points on a quarterly basis, causing the overall vacancy rate to increase by 150 basis points year over year, to a historical high of 23.8%.
- The under-construction pipeline has continued its six-quarter decline from the peak of 6.3 MSF recorded in the fourth quarter of 2022 and closed out the quarter with 3.8 MSF currently in progress, as the impacts of restrictive fiscal policy have been felt throughout the financial markets.
- Financial and political uncertainty have pushed total leasing activity down to 903,626 SF, well below the 16-year second-quarter average of 1.9 MSF.

Major Transactions

- The largest lease signed in the second quarter of 2024 was O'Melveny & Myers LLP's 56,000-SF lease at The Republic.
- In contrast to recent headlines dominated by businesses leaving Central Business Districts all over the country, Austin's two biggest leases of the second quarter of 2024 were in the CBD.
- Contrary to the recent downsizing and reduction in hiring seen in business and professional services and technology, law firm O'Melveny & Myers and construction software company Procore signed the second quarter of 2024's largest leases.
- Most of the quarter's largest signed leases were direct new leases, indicating a healthy demand for space in the market.

Outlook

- The Austin office market has begun to show signs of recovery but will report slower growth in the near term. Office investment activity will remain subdued in the near term due to elevated inflation, steeper cost of debt and muted demand in both the near and midterm.
- The expiration of leases signed pre-pandemic will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly, with continued muted demand. As a result, overall asking rents are projected to stay flat or inch lower.
- Vacancy is expected to increase as the construction pipeline, which currently accounts for 4.6% of inventory, continues to deliver.

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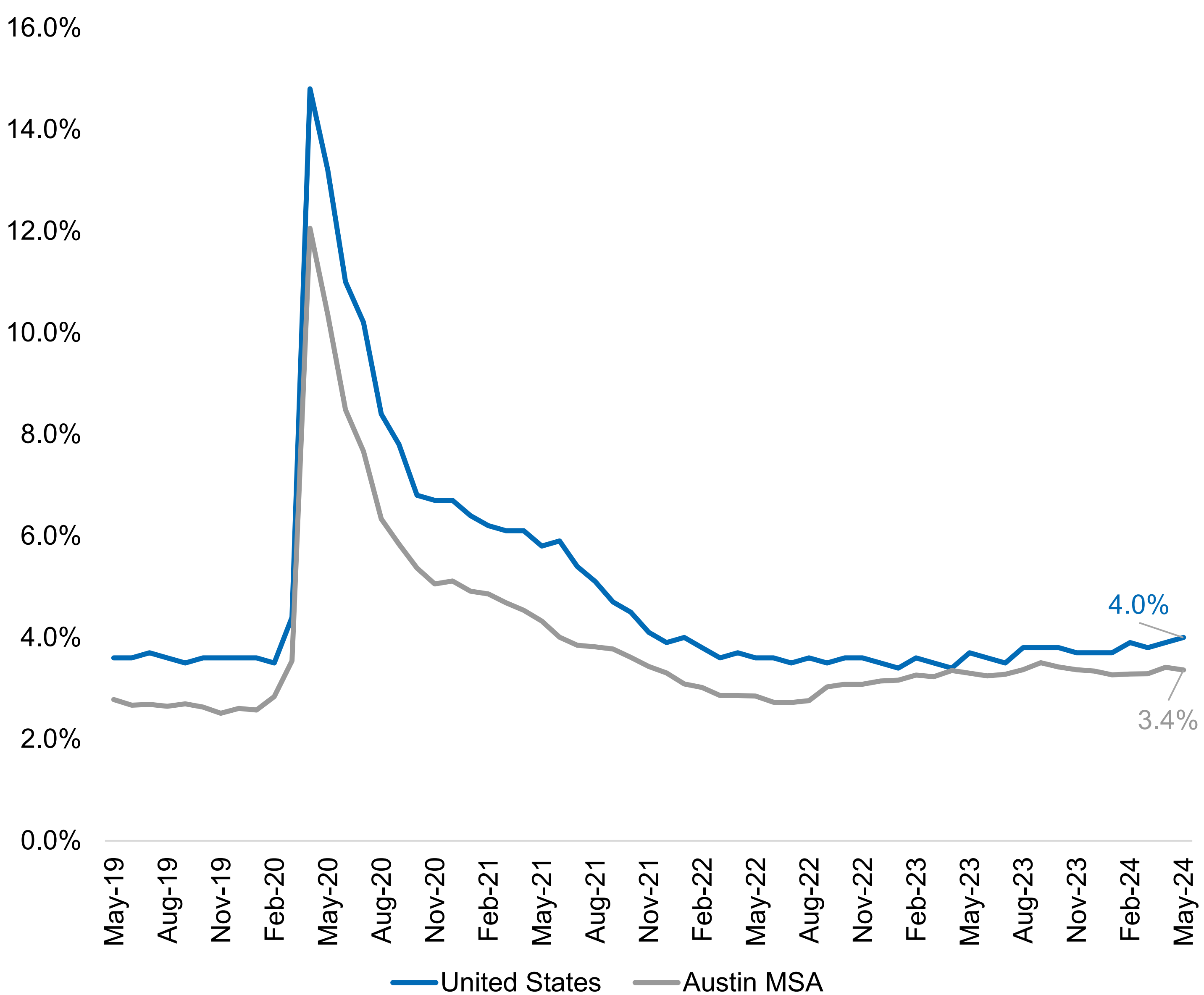
Economy

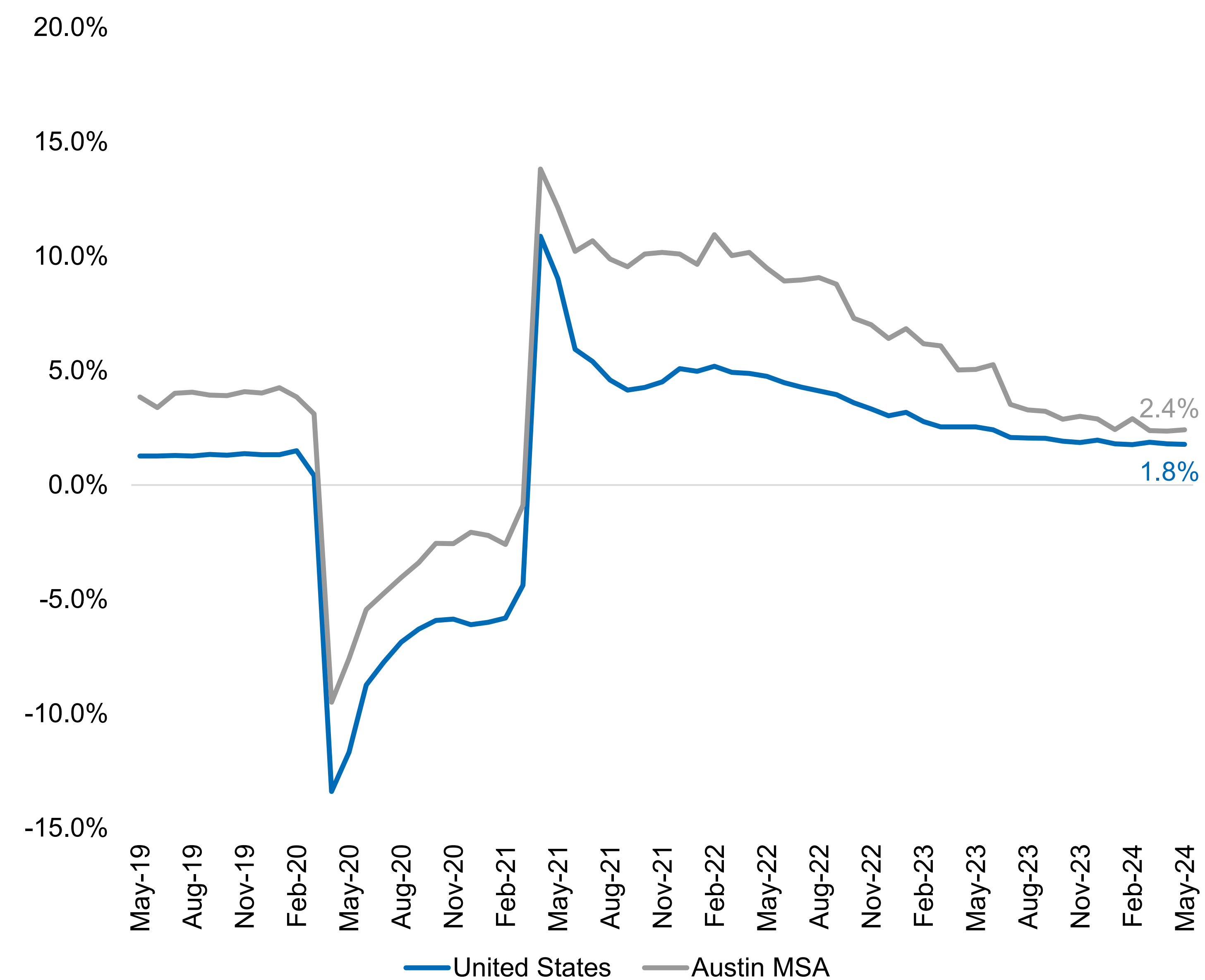
Continued Decline in the Employment Growth Rate Signals a Slowing Economy

Austin has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Continued recent national economic headwinds in the second quarter of 2024 have caused the region's unemployment rate to increase by six basis points year over year, while the employment year-over-year growth rate slowed by 264 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

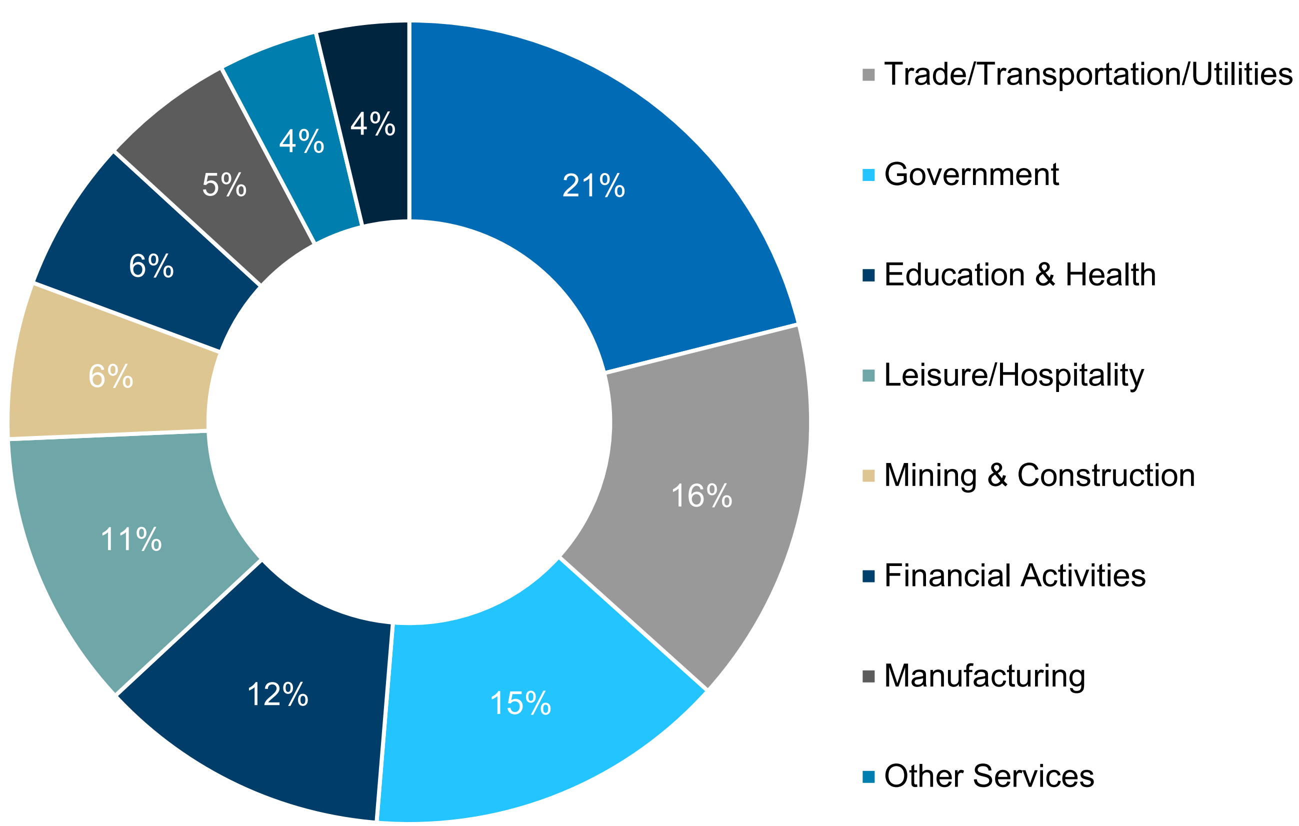


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

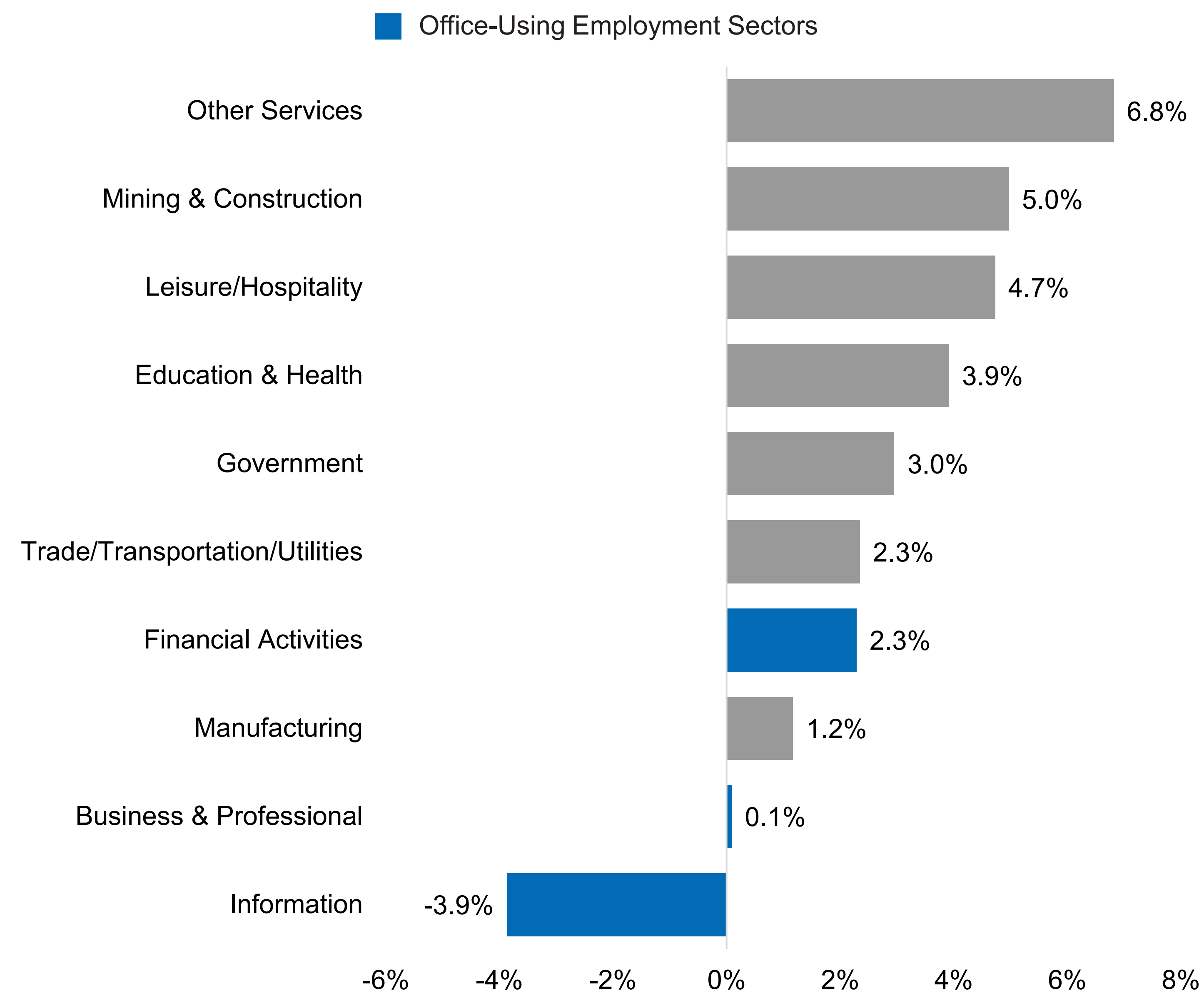
Employment Growth Continues across Most Sectors

Known for its technology sector, the Austin market's top-two employment industries, business and professional and trade/transportation/utilities, account for 36.7% of jobs. The office-using employment's business and professional sector is the largest industry sector, at 21.1%. All industries, except information, reported year-over-year job growth. The financial activities and business and professional sectors reported 2.3% and 0.1% year-over-year growth, respectively. Meanwhile, the information sector reported a decline of 3.9% growth year over year.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

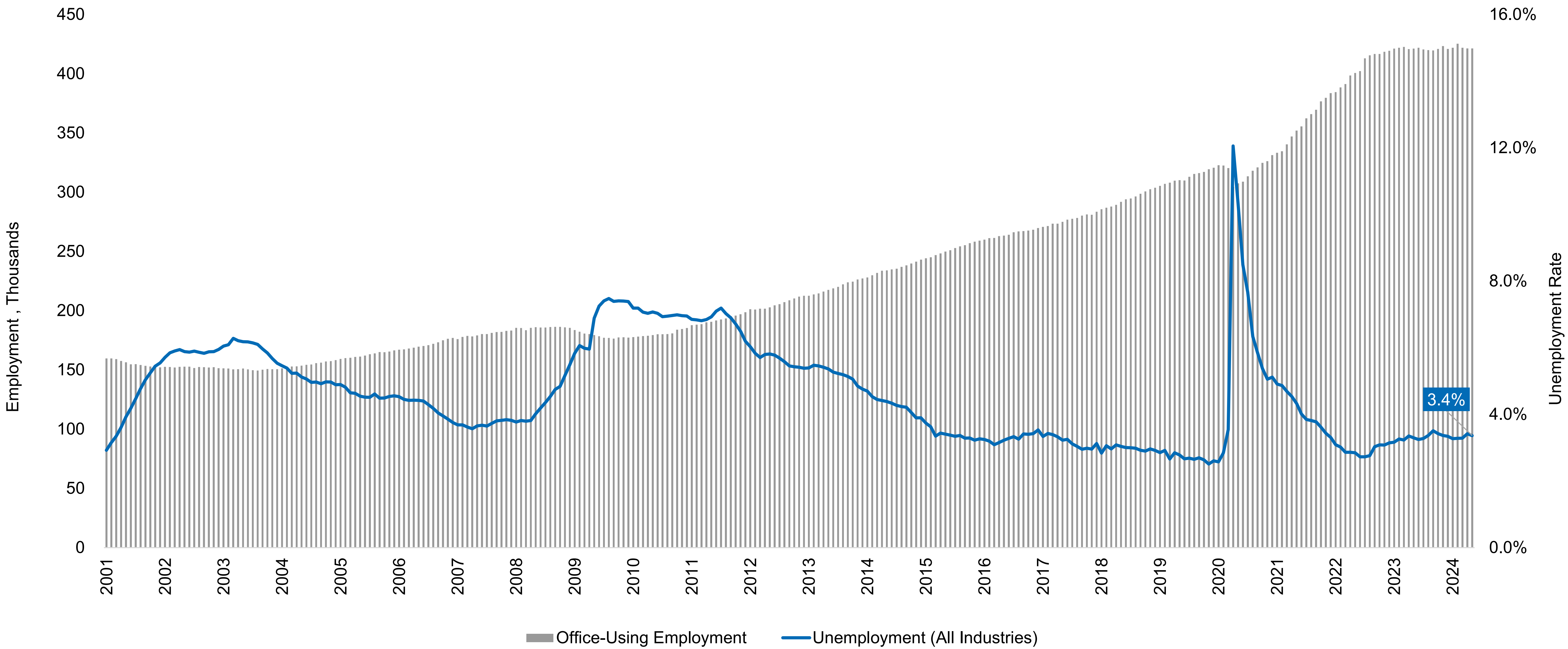


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

Overall Office-Using Employment Marginally Drops from Historical High

Office-using employment in the Austin market ended May 2024 with 421,290 office-using employees, slightly below the historical high recorded during the first quarter of 2024. Currently, the seasonally adjusted unemployment rate is 3.4%, marginally higher than the average levels reported in 2019. Most job losses reported in Austin to date are largely found in the office-using information sector, which was the only employment sector that showed negative yearly job growth. Additionally, there have only been marginal job gains in the office-using business and professional employment sector. Taken in sum, this indicates that negative and marginal job growth in these sectors is having an outsized impact on Austin's unemployment rate and pushing office-using jobs numbers down.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

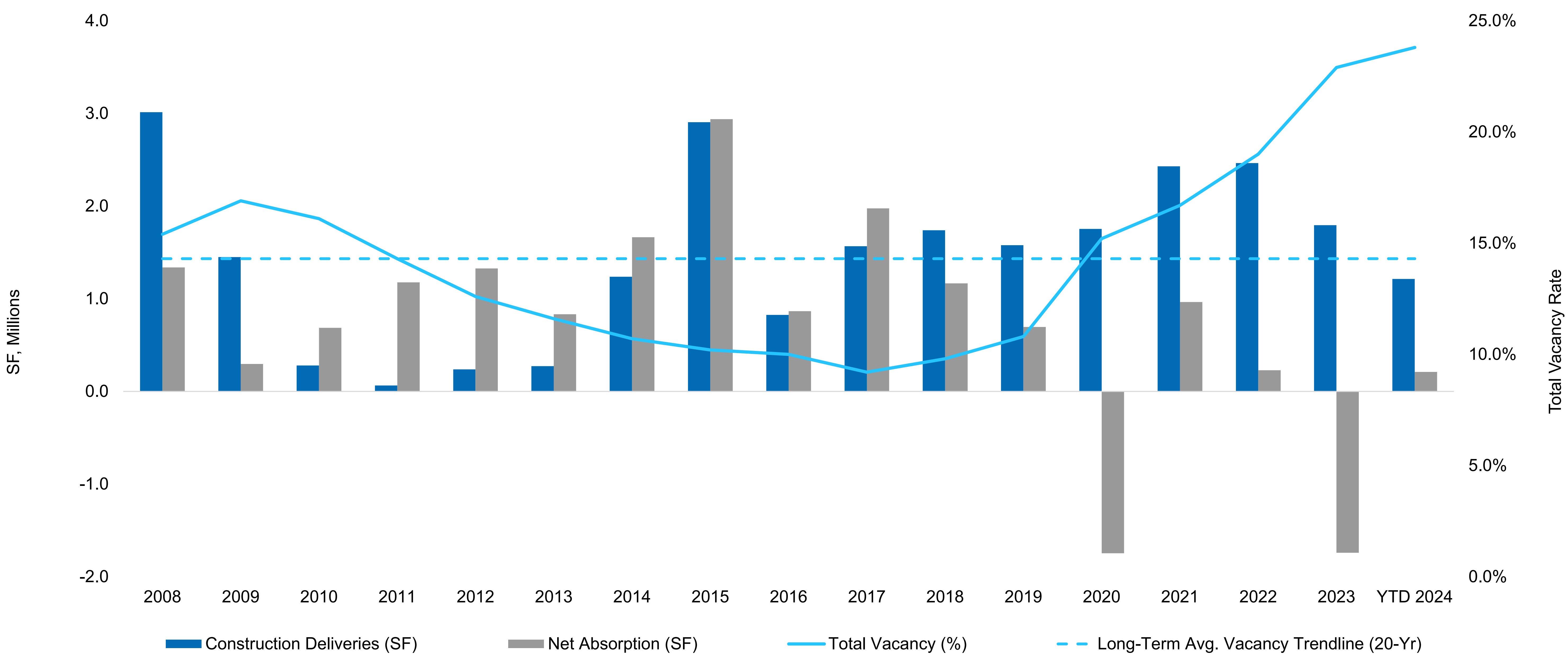
2Q24

Leasing Market Fundamentals

Negative Absorption and Elevated Deliveries Push Vacancy to Record High

The Austin office overall vacancy rate increased by 150 basis points year over year to a historic high of 23.8% in the second quarter of 2024, well above the 20-year vacancy average of 14.3%. Since the onset of the pandemic and resultant transition to hybrid and remote work in 2020, vacancy rates have steadily increased in the market, albeit at a recent slower pace. The second quarter of 2024 reported slightly negative absorption, reversing the positive absorption trend reported during the previous two quarters. The continuous increase in the vacancy rate can be attributed to a few factors, including continued historically elevated construction deliveries that have recently begun to abate and recent negative absorption.

Historical Construction Deliveries, Net Absorption, and Vacancy

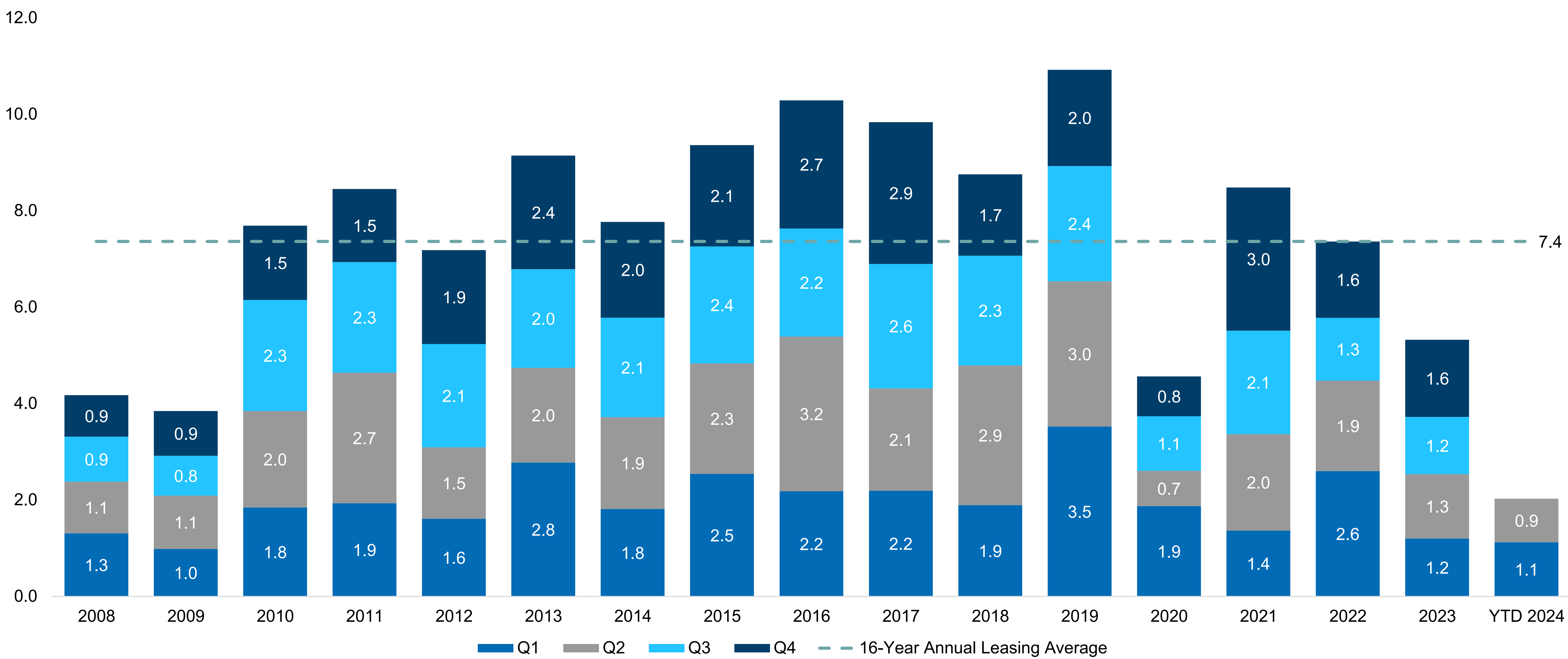


Source: Newmark Research, CoStar

Economic and Political Uncertainty Results in Slowing Leasing Activity

Leasing activity in the market remains slow, with the second quarter of 2024 reporting total leasing activity of 903,626 SF. Leasing activity remains well below the 16-year second-quarter average of 1.9 MSF. The slowing pace of leasing activity is largely attributed to fewer deals being done, likely impacted by a more uncertain political and financial environment and companies being slower to assess office space utilization. Companies are taking a more measured approach to space needs as they navigate the adoption of hybrid and remote work and job cuts resulting from an emphasis on corporate efficiency due to tighter fiscal policy stemming from the Fed's fight against inflation.

Total Leasing Activity (msf)

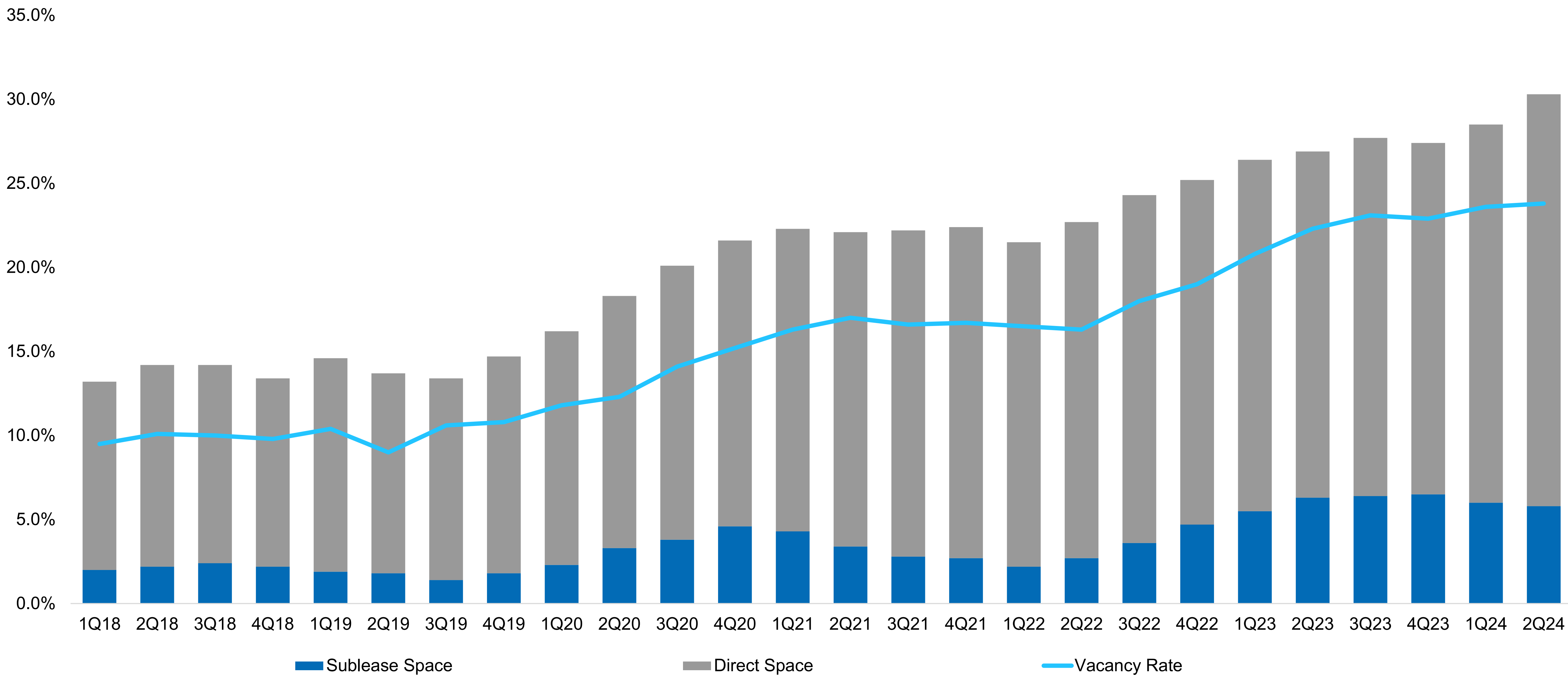


Source: Newmark Research, CoStar

Elevated Availability Pushes Vacancy to Record High

Sublease availabilities in Austin continued to decline from the peak of 6.5% recorded during the fourth quarter of 2023. As of the second quarter of 2024, sublease availability was 5.8%, a 20-basis-point quarter-over-quarter and a 50-basis-point year-over-year decrease. Direct availability increased 200 basis points quarter over quarter and increased 390 year over year, to a record high of 24.5%. Overall, the increase in direct space and historically elevated sublease availabilities resulted in overall vacancy increasing to a record high of 23.8%.

Available Space as Percent of Overall Market

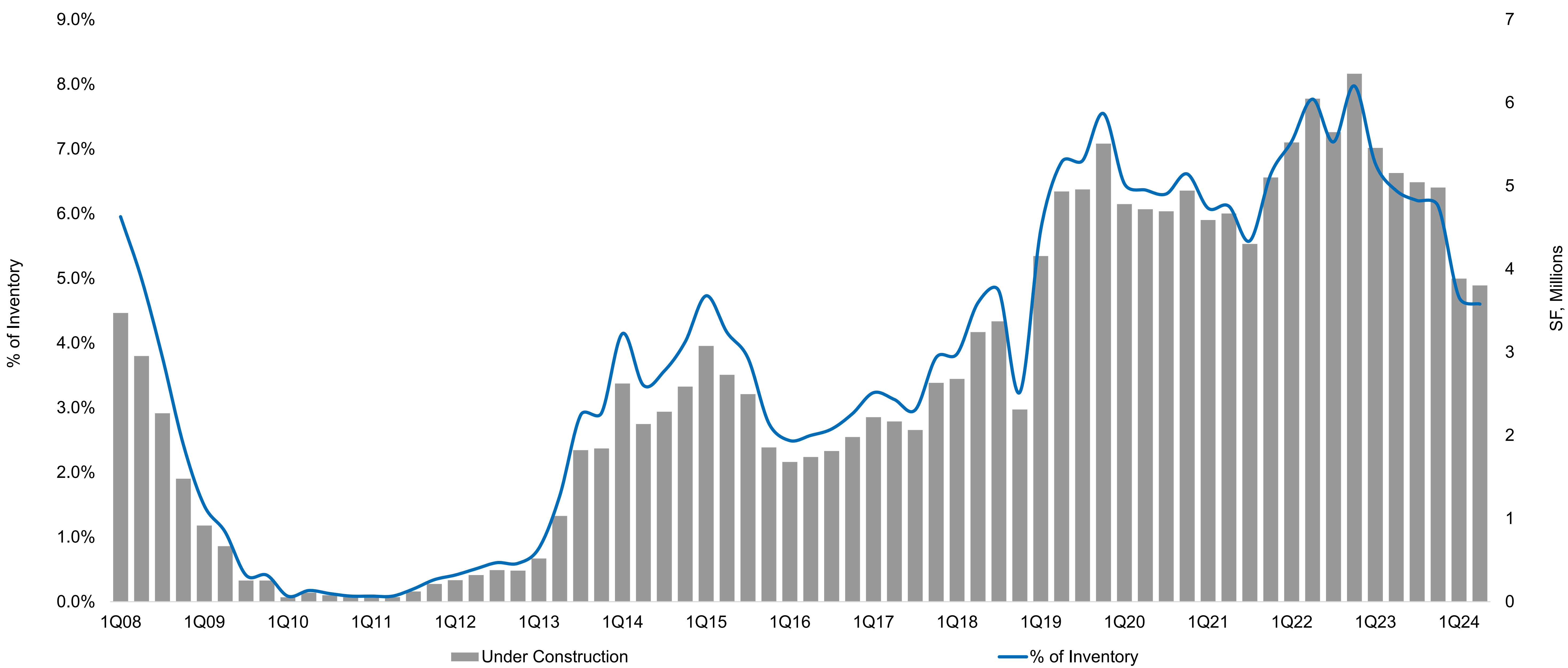


Source: Newmark Research, CoStar

Construction Activity Continues Declining

Construction activity has rapidly increased since the first quarter of 2019, impacted by the technology sector's office usage ; however, the construction pipeline has been continually on the decline since recording a peak of 6.3 MSF in the fourth quarter of 2022. As of the second quarter of 2024, the market had 3.8 MSF under construction, accounting for 4.6% of the market's inventory.

Office Under Construction and % of Inventory

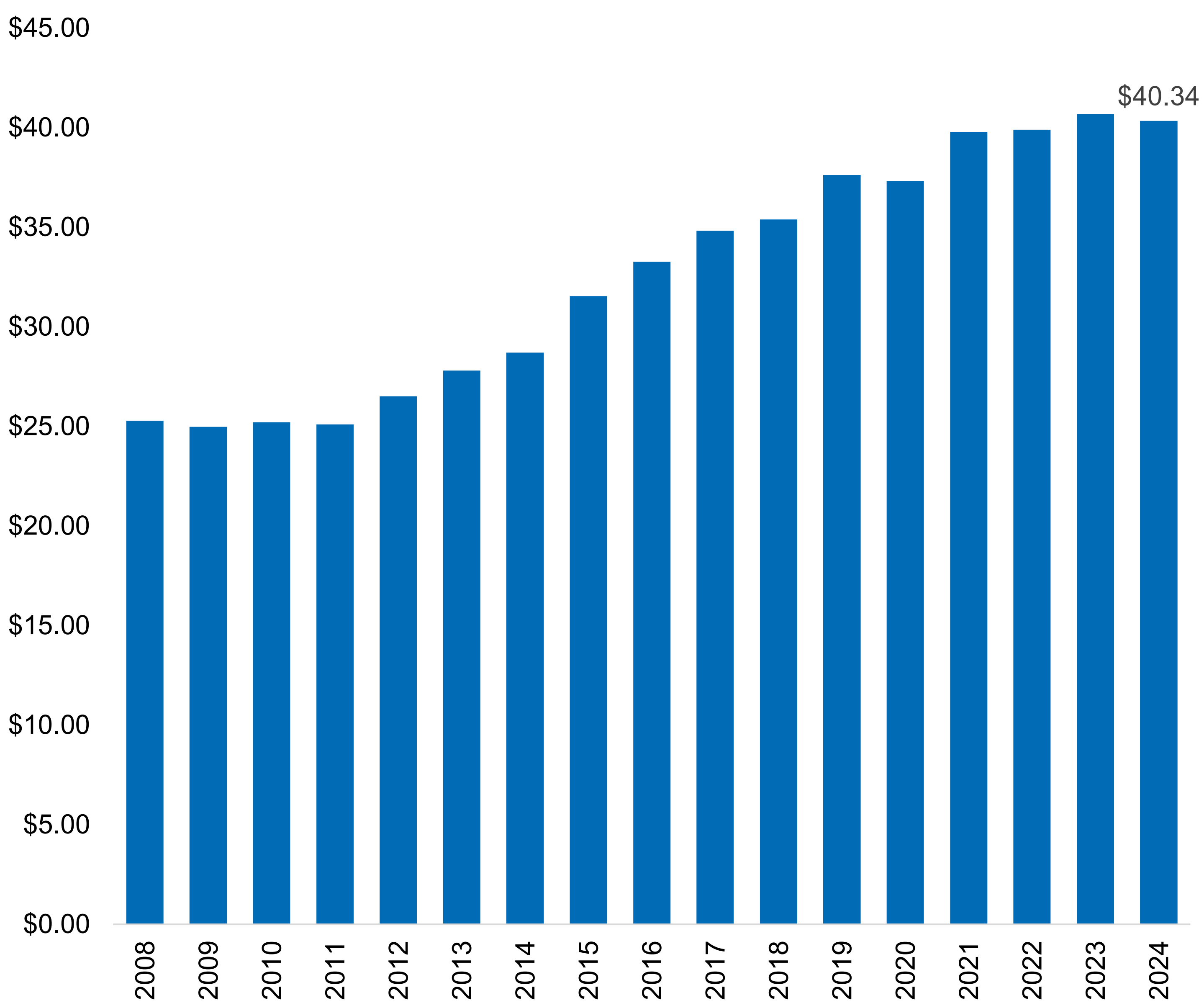


Source: Newmark Research, CoStar

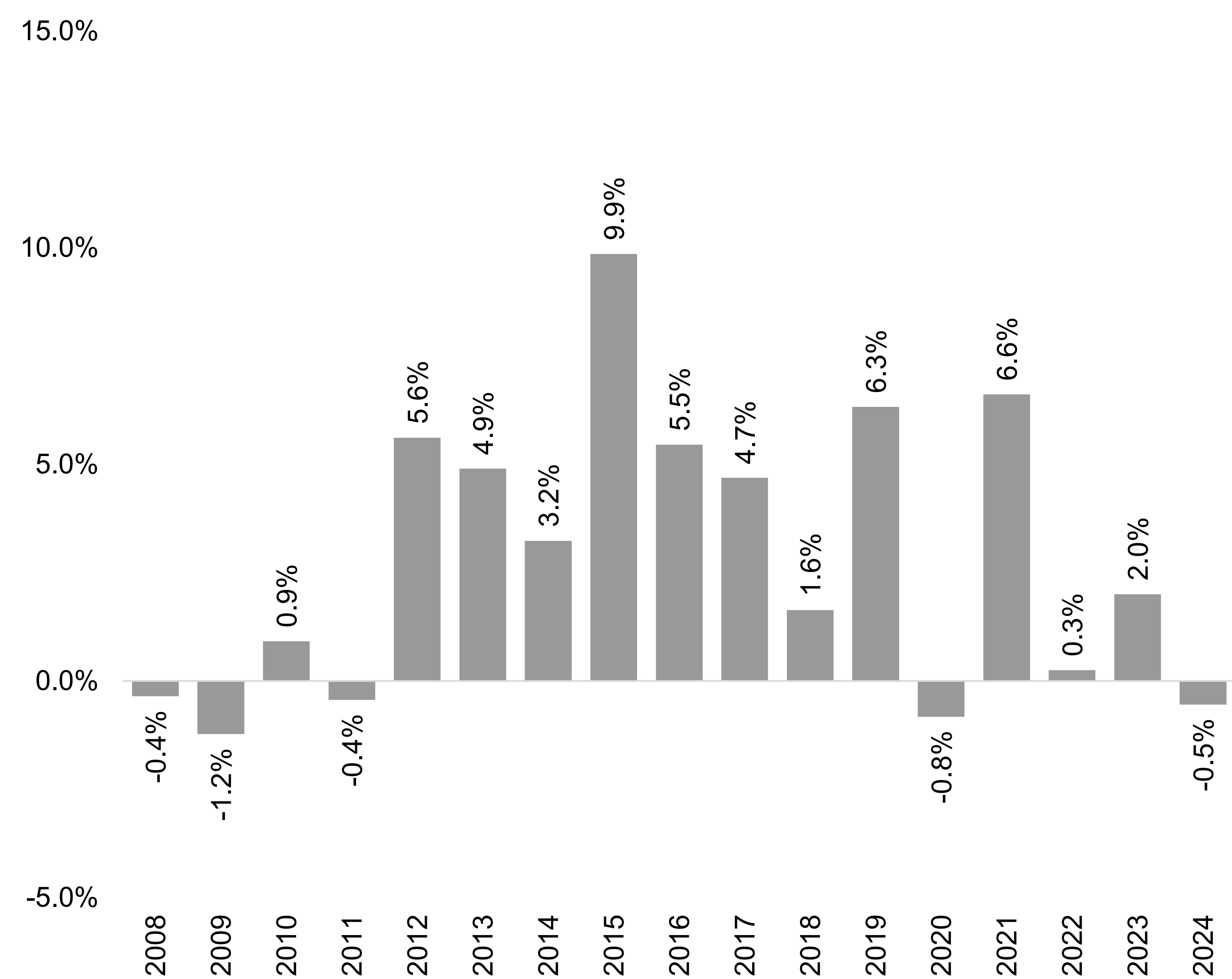
Rents Increase Quarter over Quarter, Inch Lower from Historic High Year over Year

Rents increased by 3.8% quarter over quarter and decreased by 0.5% year over year to $40.34/SF. The negative asking rent growth can be attributed to several factors, including an elevated development pipeline, rising vacancy stemming from a recent decline in leasing activity and continued negative absorption.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

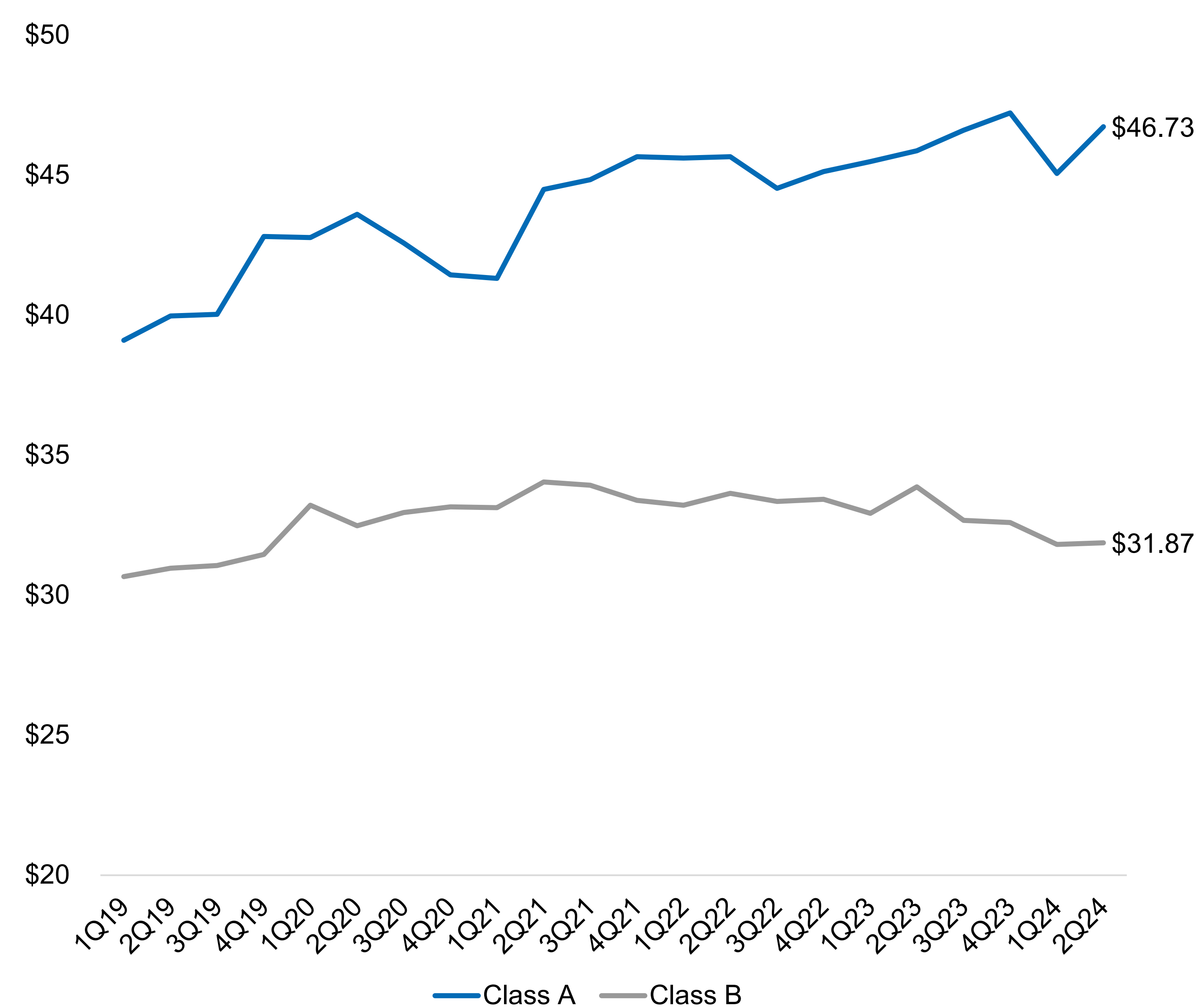


Source: Newmark Research, CoStar

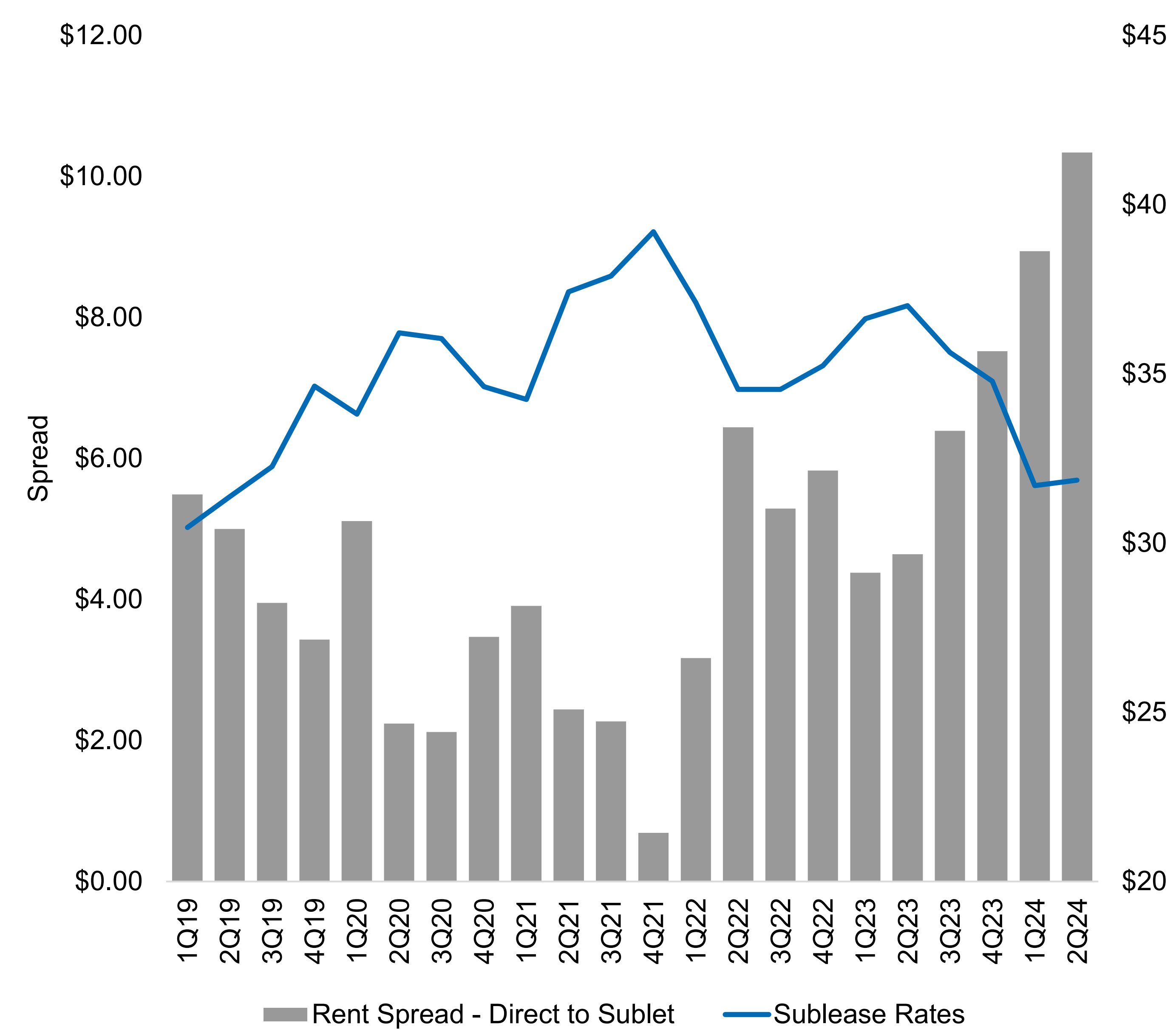
Rent Spread between Class A and Class B Increases to Historic High

As of the end of the second quarter of 2024, Class A rents ended at $46.73/SF, while Class B reported $31.87/SF. The rent difference between the two assets is $14.86/SF, a 30.8% spread increase since the fourth quarter of 2019. Quarter over quarter, the rent spread increased by 12.2%. The quarter-over-quarter rebound in Class A rents can likely be attributed to the historically elevated level of new building deliveries seen during the first half of 2024, and the decline in Class B rents is likely due to landlords lowering rates to entice tenants to lease. Asking rents for sublease space have marginally increased by 0.5% on a quarterly basis as space has exited the market, whether through conversion to directly available space or subleases being signed. Meanwhile, sublease rates have decreased on a 13.9% yearly basis to entice companies to sublease space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Signs of Life in the Central Business District

Despite slowing leasing activity in the market, flight to quality continues as a trend in the Austin office market. O'Melveny & Myers LLP, taking a new 56,000-SF space, signed the largest lease of the quarter. The two largest transactions were concentrated in Austin's CBD. Even with a widely reported slowdown in technology and professional services companies' hirings and office downsizings, technology and professional services companies are continuing to play an outsized role in Austin's lease transactions as multinational law firm O'Melveny & Myers and construction software company Procore signed the two largest leases in the second quarter of 2024. Most of the leases signed this quarter were new direct leases.

Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
O'Melveny & Myers LLP	The Republic	CBD	Direct New	56,000
Multinational law firm O'Melveny & Myers signed the quarter's largest lease when it leased the eighth and ninth floors of 401 W 4th Street in downtown Austin.				
Procore	Procore Tower	CBD	Direct New	30,939
Construction software company Procore expanded its presence at 221 West 6th Street in downtown Austin when it leased the second floor.				
ResiBrands	Riata Corporate Park 7	Northwest	Sublease	30,870
ResiBrands, parent company of That 1 Painter, Garage Up and Pink's, sublet the second floor of 12357-C Riata Trace Parkway until April 2027.				
Industrious	Alto	East	Direct New	21,660
Co-working space provider Industrious has signed a lease for the second floor of 924 East 7th Street, which is scheduled to deliver in August 2024.				
LSG Group	Colorado Crossing – Building B	Southeast	Renewal	20,182
German aviation logistics company LSG Group has renewed its lease at 7000 Burleson Road, which it has occupied since 2019.				

Source: Newmark Research, CoStar

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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