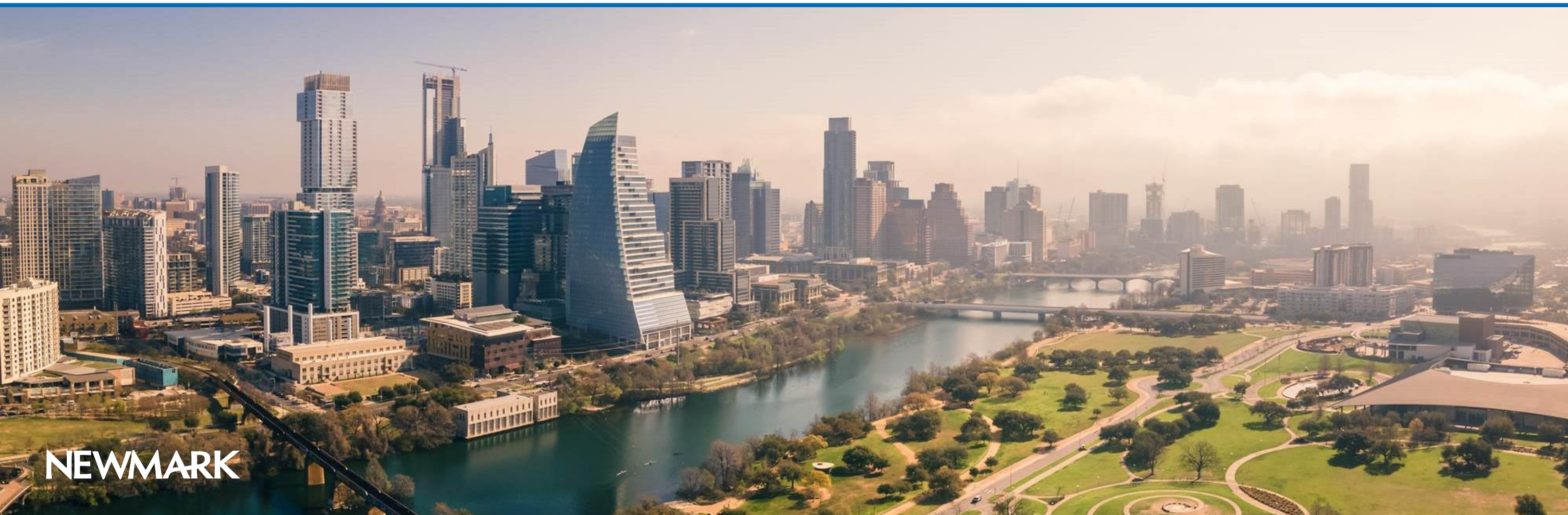


3Q24

Austin Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate ticked up by four basis points year over year to 3.4%, remaining below the five-year average of 3.9%.
- Employment growth decelerated by 190 basis points to 1.4% compared to August 2023.
- Most sectors reported employment growth, with mining and construction leading job gains at 5.9% over the past 12 months.
- Office-using employment in the market dipped 2.3% from their historic high to 415,610 jobs as of the end of August 2024 but reflected a 29.6% increase since year-end 2019.

Major Transactions

- The largest lease signed in the third quarter of 2024 was IBM’s 320,095-SF assumption of Meta’s lease at Domain 12.
- Companies appear to favor Austin’s “Second Downtown” over Austin’s traditional Central Business District, as two of the largest leases of the signed in the third quarter of 2024 were in The Domain.
- Despite recent downsizing and hiring slowdowns in business and professional services and technology, tech firms played a dominant role in the third quarter of 2024’s leasing activity, with companies such as IBM and PayPal, signing all of the quarter’s largest leases.
- The majority of the quarter’s largest signed leases were subleases, reflecting a preference for flexibility and cost-effective options amid ongoing economic uncertainty.

Leasing Market Fundamentals

- Annual full-service rental rates remain near record highs at \$40.97/SF, marking a 0.2% increase year-over-year and just \$0.01 below the record set during the fourth quarter of 2023.
- Direct availabilities rose by 20 basis points on a quarterly basis, pushing the overall vacancy up by 20 basis points quarter-over-quarter, to an all-time high of 24.1%.
- The under-construction pipeline has stabilized after a seven-quarter decline from the recent peak of 6.3 MSF recorded in the fourth quarter of 2022, with 2.7 MSF currently in progress. This shift reflects the effects of restrictive fiscal policy and rising building costs that have reverberated throughout the financial markets.
- Financial and political uncertainty have depressed total leasing activity down to 1.5 MSF, well below the 16-year third-quarter average of 1.8 MSF.

Outlook

- The Austin office market has begun showing signs of recovery as technology companies have started mandating employees return to the office. However, near-term growth is expected to remain slow. Office investment activity will remain subdued in the near term due to elevated inflation, higher borrowing costs, and muted demand in both the near and midterm.
- The expiration of leases signed pre-pandemic will likely push more tenants to shed underutilized space and opt for 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, accounting for 3.2% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals

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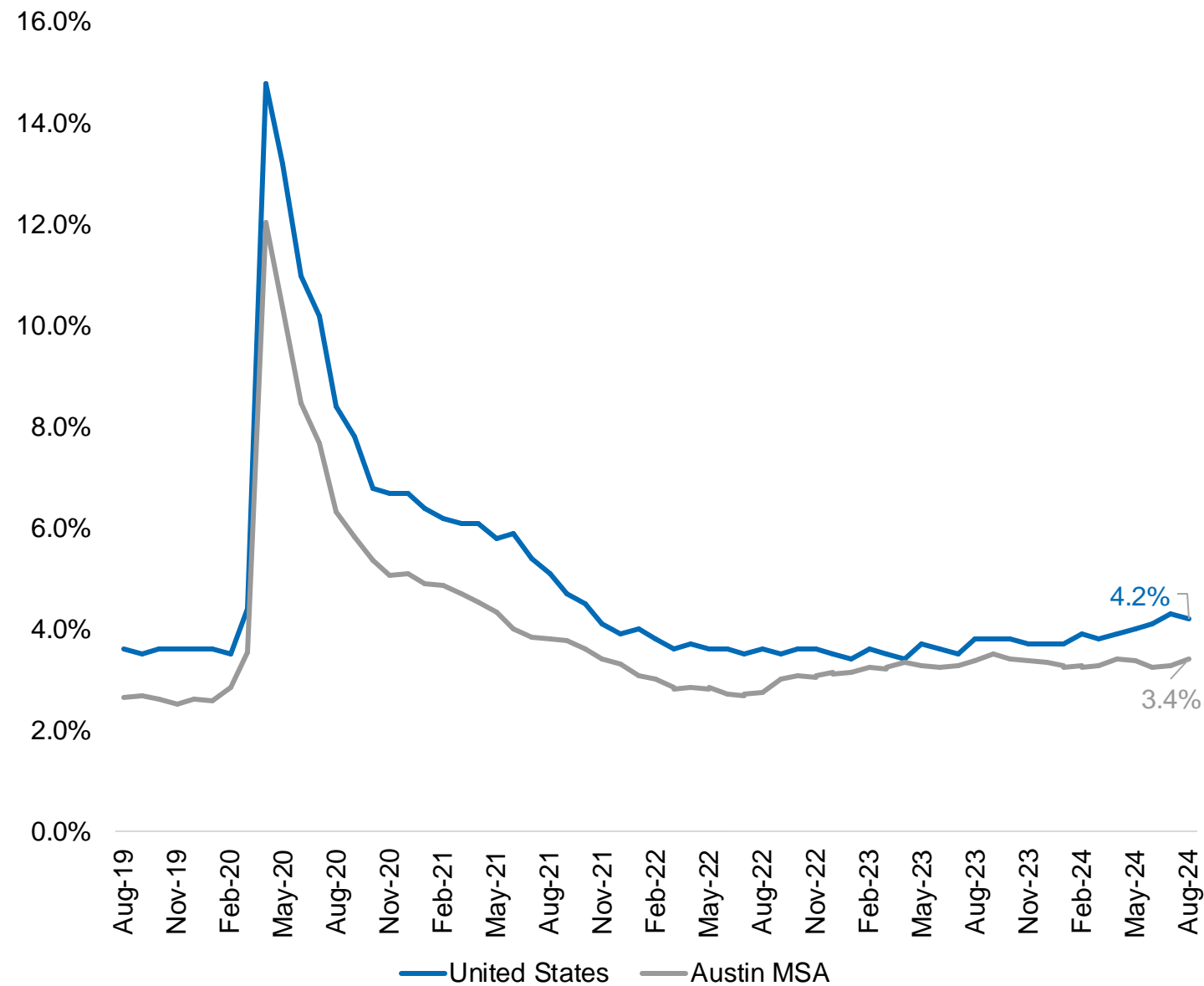
Economy



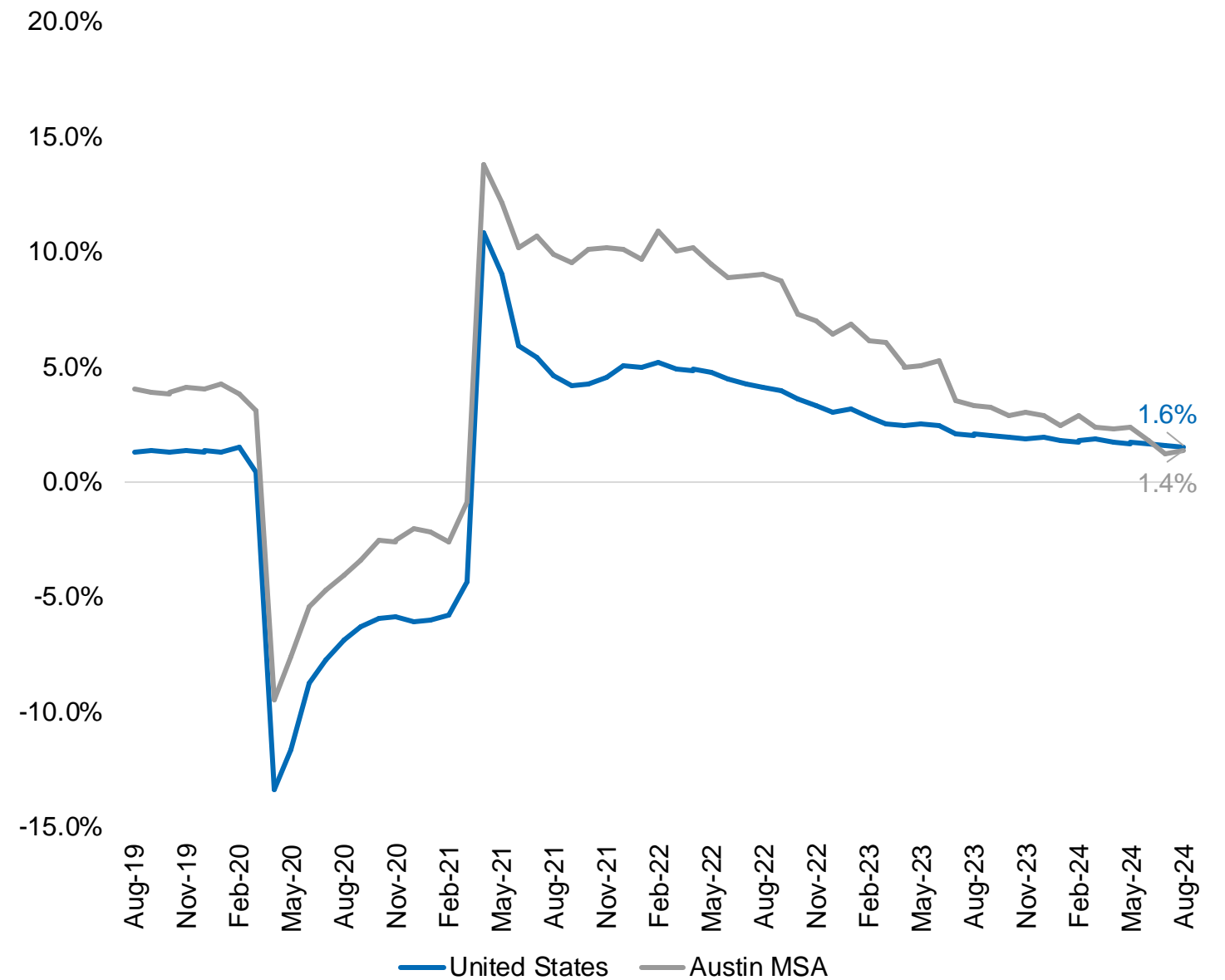
Tech & Professional Services Slowdown Pushes Growth Below National Average

Austin has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. However, the widely reported slowdown in tech and business and professional services hiring, along with recent layoffs, has reversed this trend. Continued national economic headwinds in the third quarter of 2024 have led the region's unemployment rate to tick up by four basis points year over year, while employment growth decelerated by 190 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

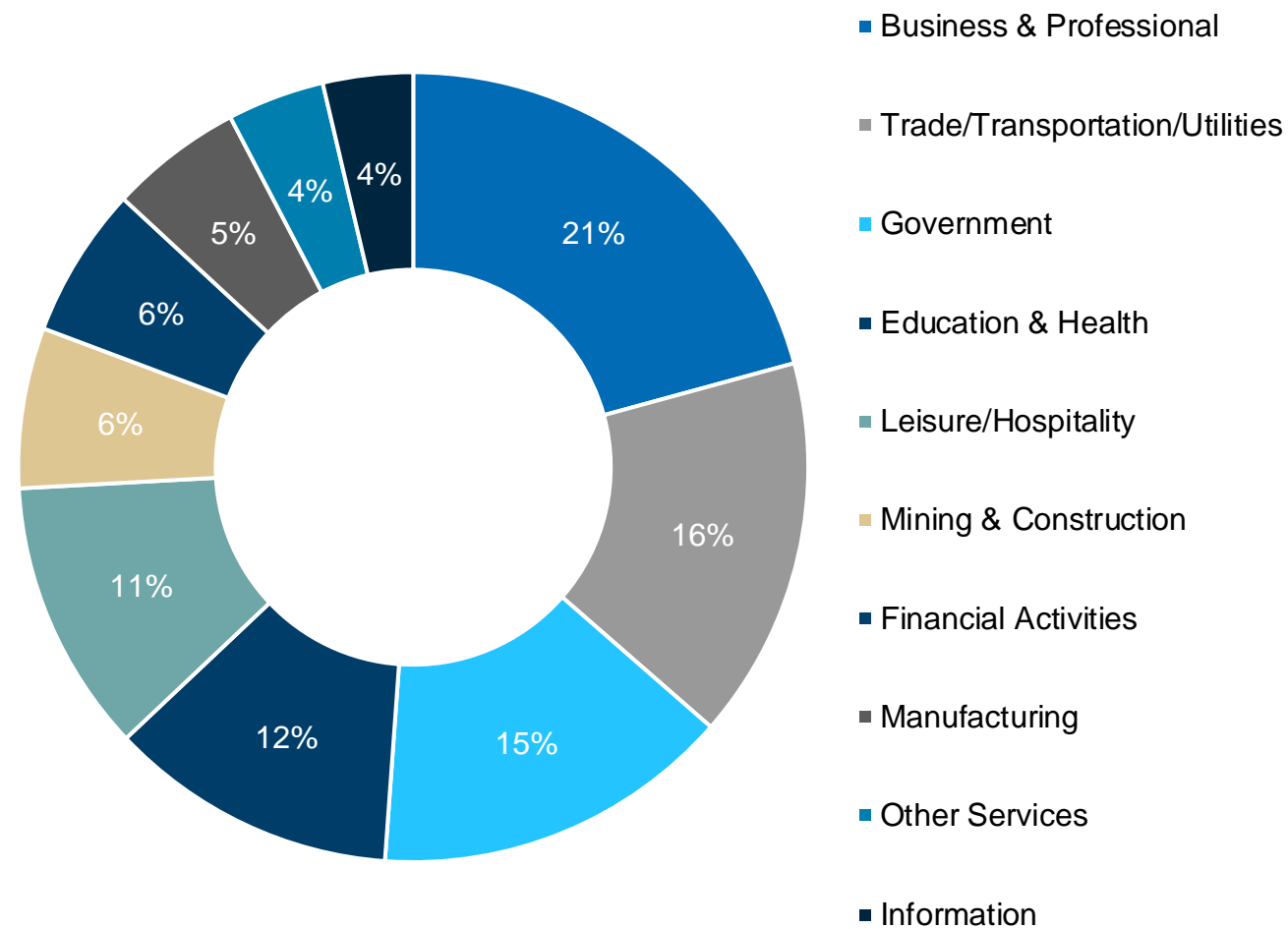


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

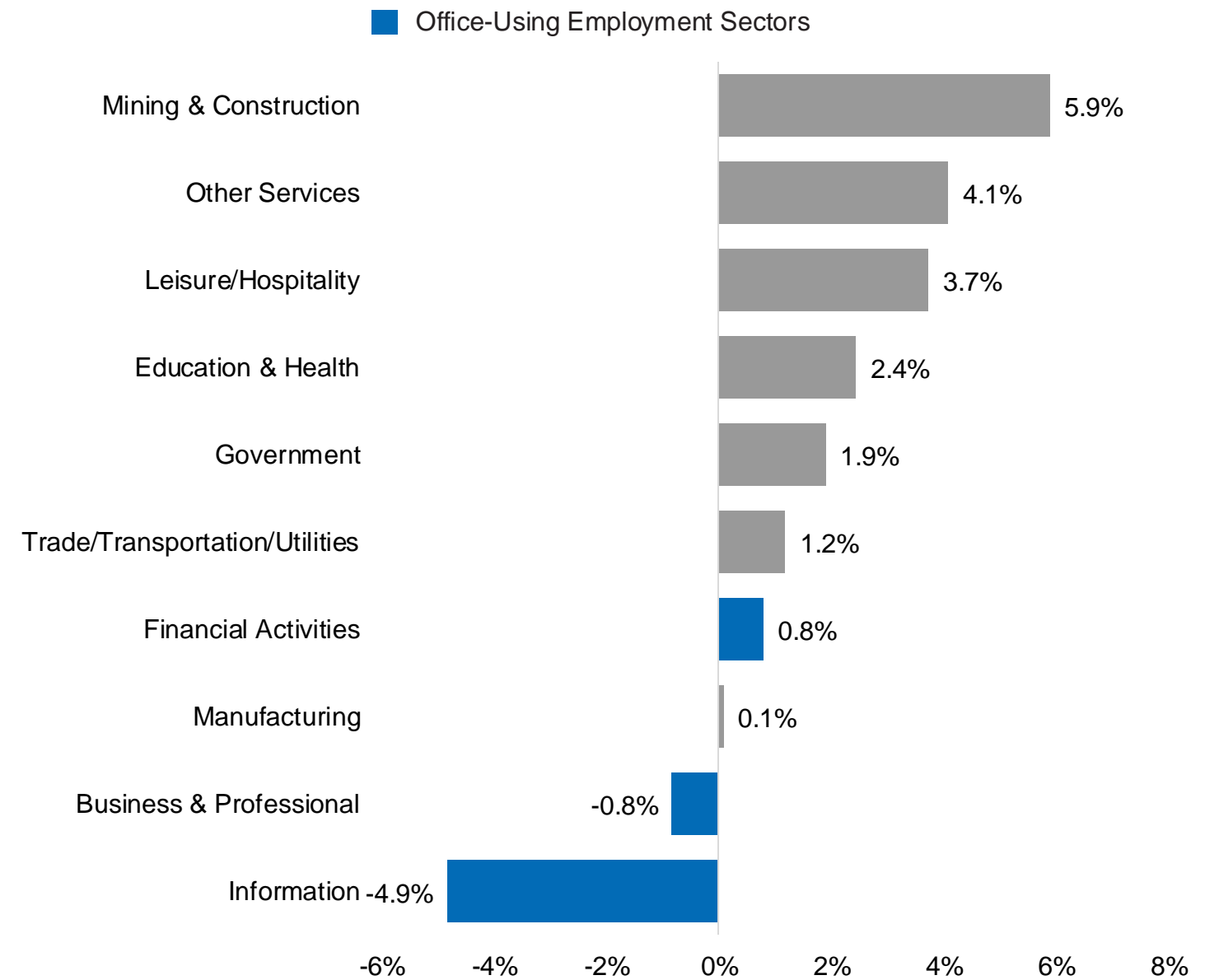
Most Office-Using Jobs Sectors Report Negative Yearly Job Growth

Known for its tech sector, Austin's top-two employment industries, business and professional services and trade/transportation/utilities, account for 36.4% of jobs. The business and professional services sector, a key driver of office employment, represents the largest industry at 20.8%. All industries, except business and professional services and information, reported yearly job growth. The financial activities sector reported 0.8% year-over-year growth. Meanwhile, the business and professional services and information sectors reported declines of 0.8% and 4.9% year over year.

Employment by Industry, August 2024



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

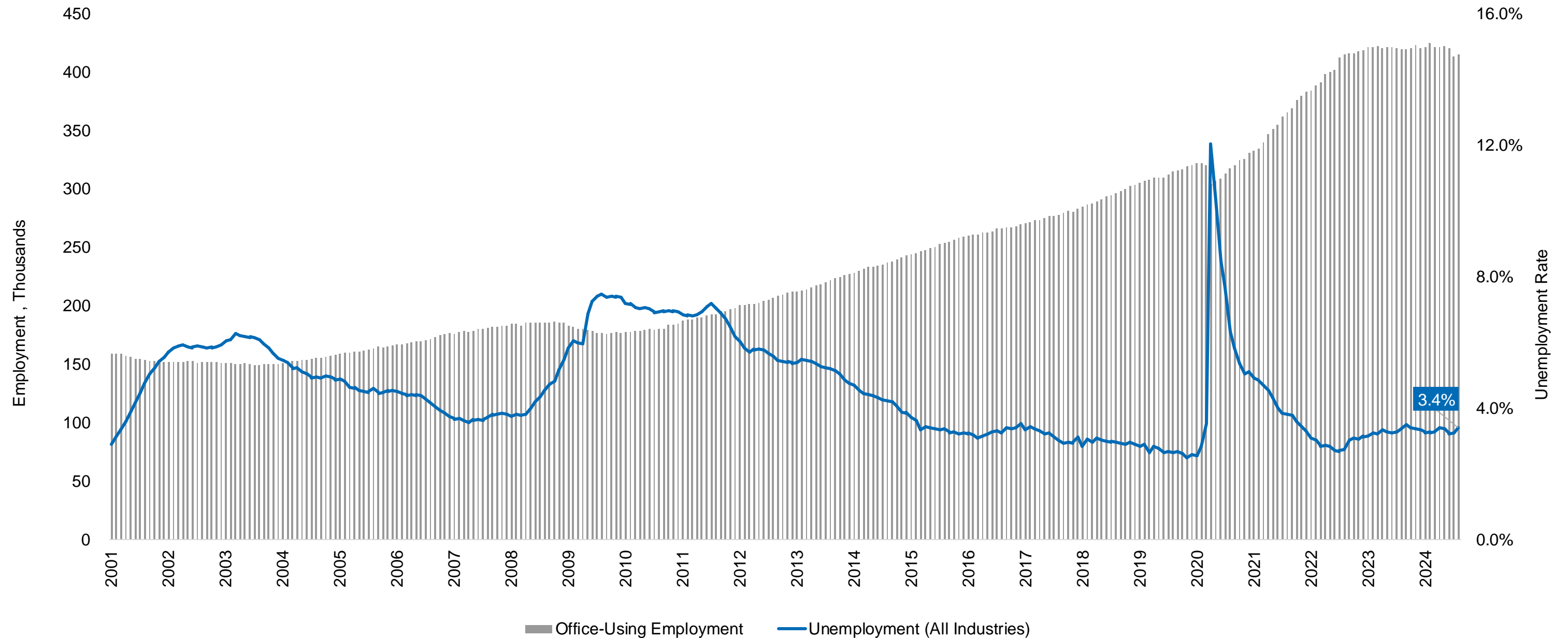


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

Tech, Business & Professional Job Losses Push Down Office-Using Employment

Office-using employment in Austin ended August 2024 with 415,613 office-using employees, 2.3% below the historical high recorded during the first quarter of 2024. The seasonally adjusted unemployment rate stands at 3.4%, up 14 basis points quarter-over-quarter increase and four basis points year-over-year. Job losses were concentrated in the business and professional and information sectors, the only employment industries with negative yearly job growth. This decline offset gains in the financial activities sector, driving overall office-using employment 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.

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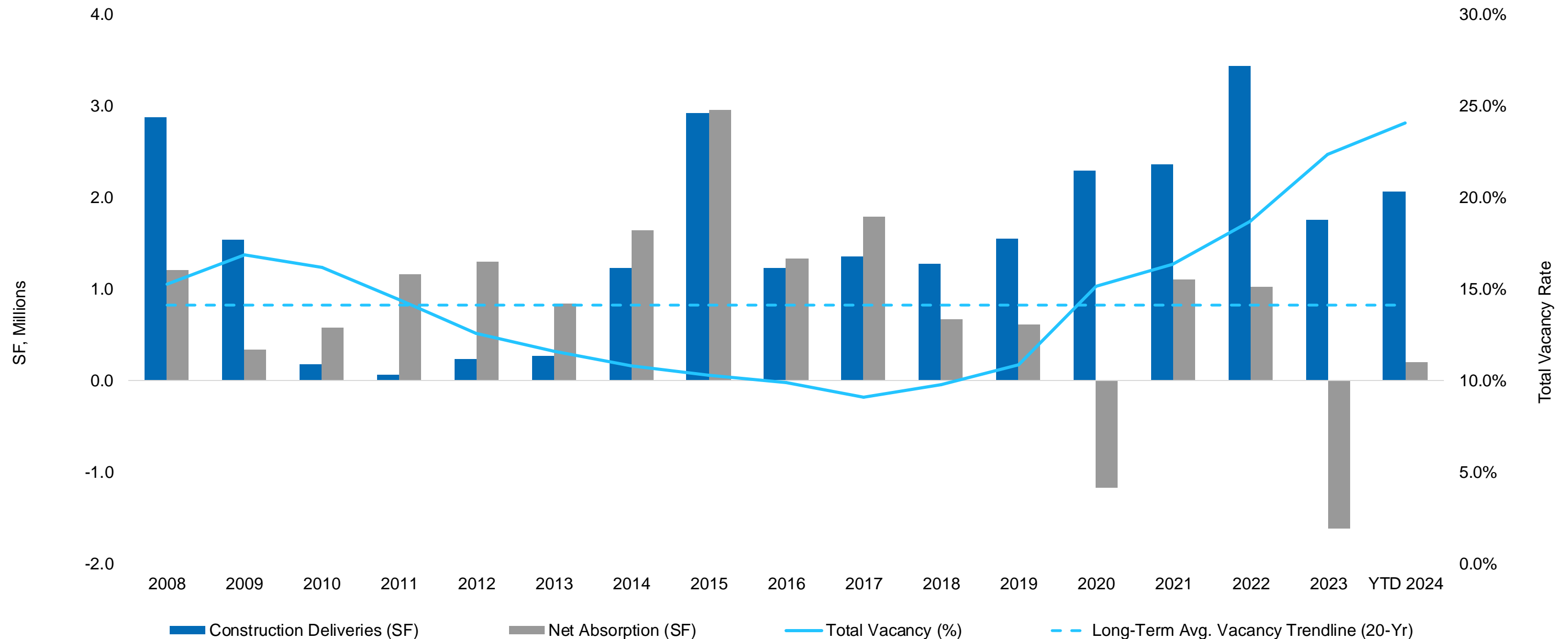
Leasing Market Fundamentals



Negative Quarterly Absorption & Elevated Deliveries Push Vacancy to Record High

Austin's overall office vacancy rate reached a historic high of 24.1% in the third quarter of 2024, up 150 basis points year over and well above the 20-year vacancy average of 14.2%. Since the pandemic and resultant shift to hybrid and remote work in 2020, vacancy rates have steadily climbed, albeit at a recent slower pace. The second and third quarters of 2024 each reported slightly negative absorption; however, absorption remains positive year to date. The rising vacancy rate is driven by several factors, including continued recent historically elevated construction deliveries that have recently begun to abate and recent negative absorption from technology and business and professional services companies shedding space amid economic uncertainty.

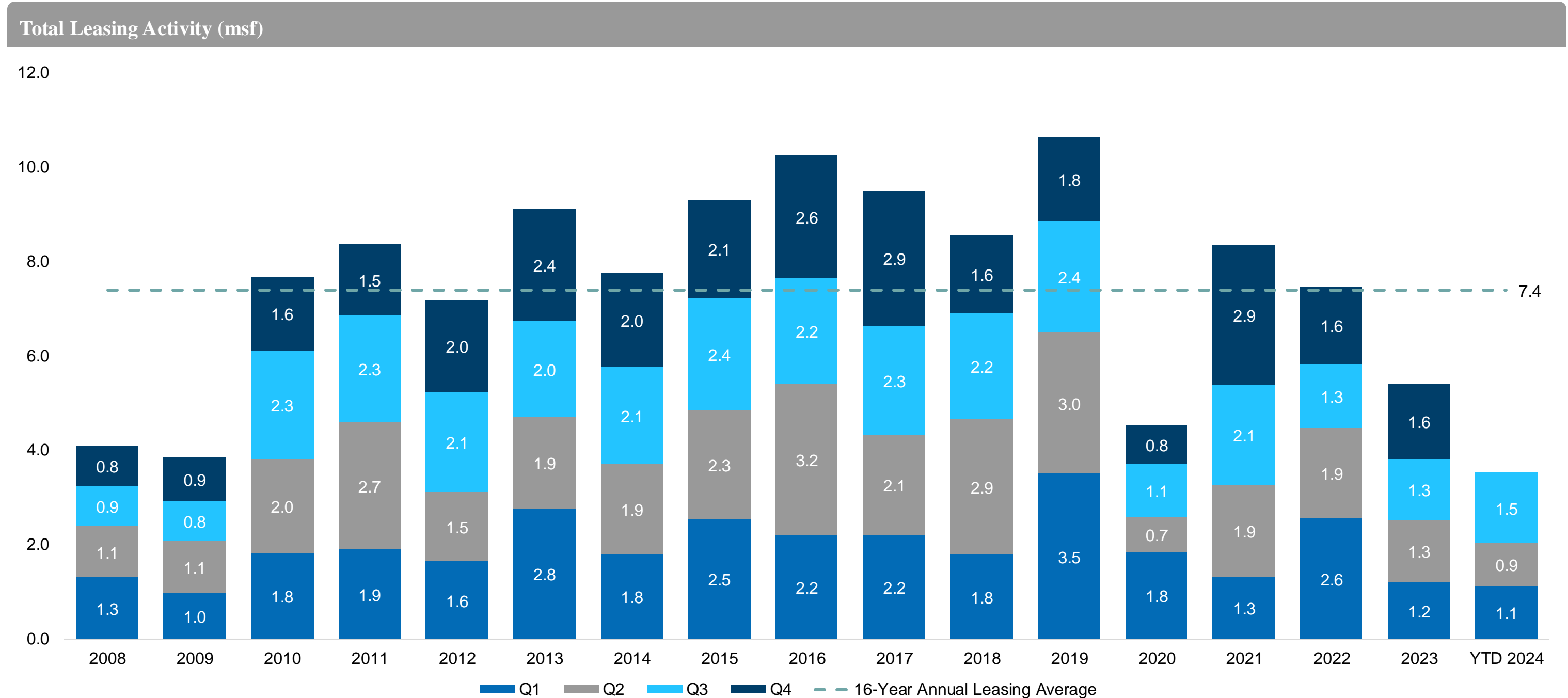
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Economic & Political Uncertainty Results in Depressed Leasing Activity

Leasing activity in Austin increased both quarterly and annually, with the third quarter of 2024 reporting total leasing activity of 1.5 MSF. However, this remains well below the 16-year third-quarter average of 1.8 MSF. The slowing pace of leasing activity is largely attributed to companies taking a more cautious approach to space needs and emphasizing corporate efficiency as the result of tighter fiscal policy stemming from the Fed's fight to normalize inflation. Further challenges include an uncertain political and financial environment, hybrid work policies, and job cuts aimed at improving efficiency.

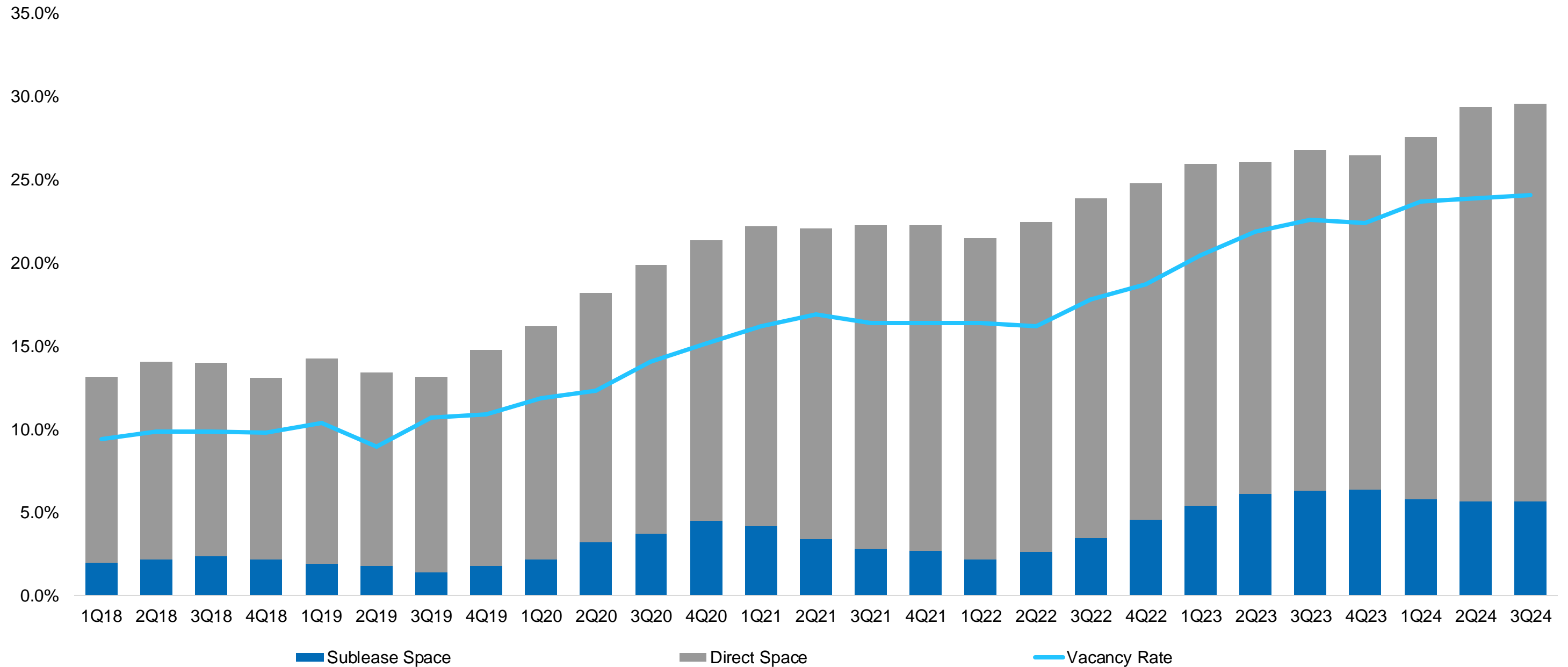


Source: Newmark Research, CoStar

Record Direct Availability Pushes Vacancy to Historic High

Sublease availabilities in Austin remained steady at 5.7% when compared with the second quarter of 2024 but have declined from the 6.4% peak recorded during the fourth quarter of 2023. This reflects a 60 basis-point yearly decrease. Direct availability rose by 20 basis points quarter-over-quarter and 340 basis points year-over-year, to a record high of 23.9%. Overall, the increase in direct space and historically elevated sublease availabilities resulted in overall vacancy increasing to a record high of 24.1%.

Available Space as Percent of Overall Market

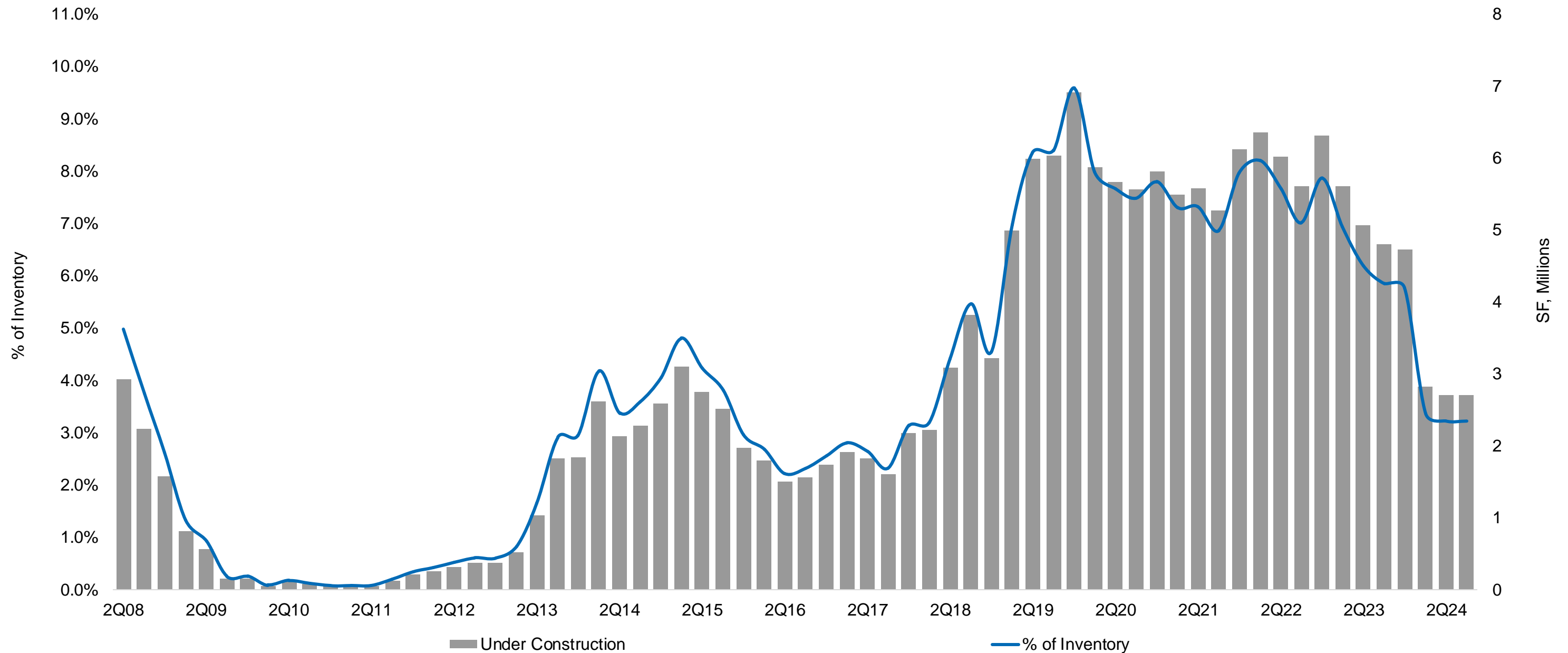


Source: Newmark Research, CoStar

Construction Activity Levels Off

Construction activity in the market spiked during the first quarter of 2019, fueled by the growth of the technology sector and demand for high-quality office space. However, the construction pipeline has generally declined each quarter since peaking at 6.4 MSF during the first quarter of 2022, with the pace of decline accelerating through the first three quarters of 2024. As of the third quarter of 2024, the market stabilized with 2.7 MSF under construction, representing 3.2% of total office inventory.

Office Under Construction and % of Inventory

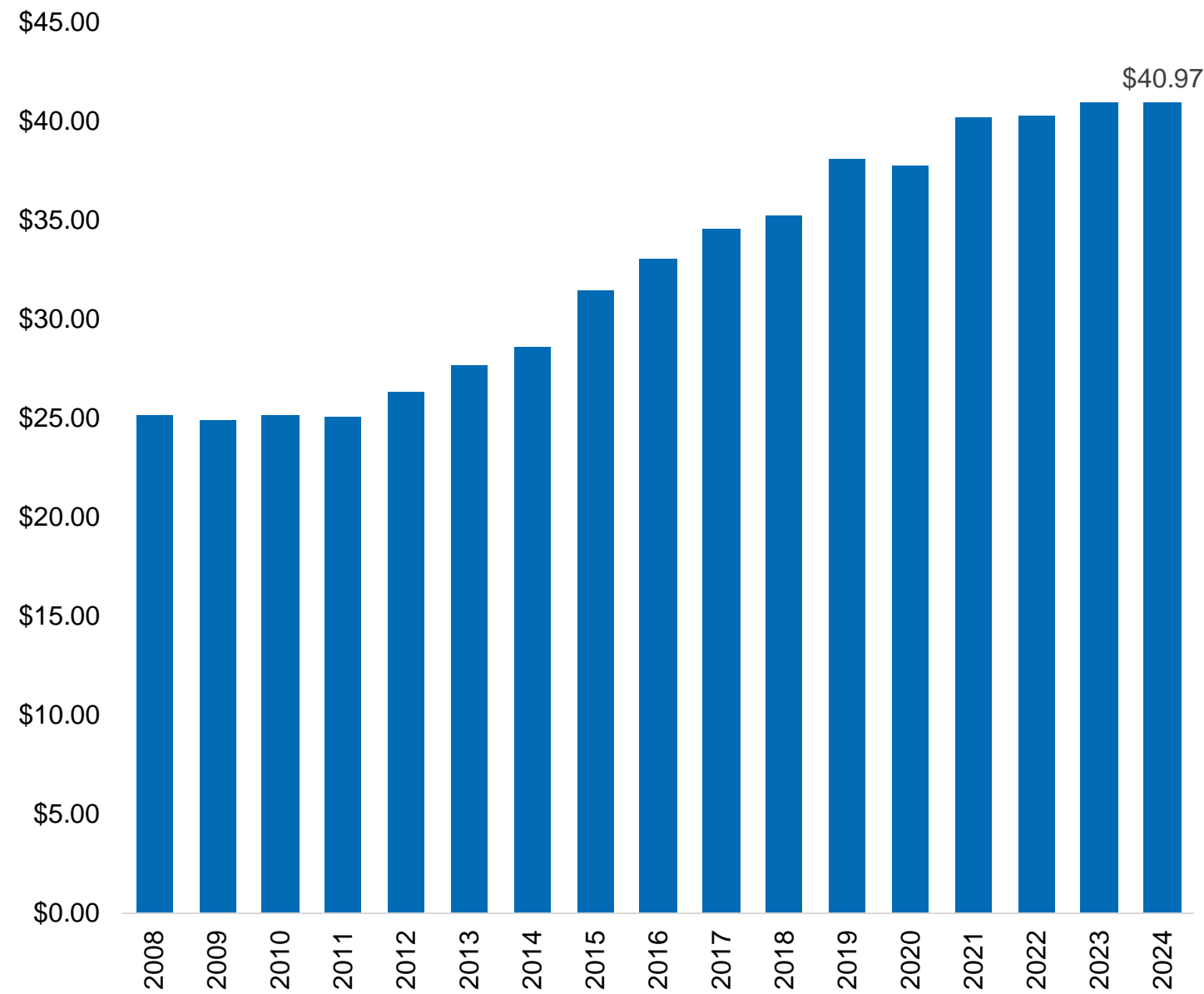


Source: Newmark Research, CoStar

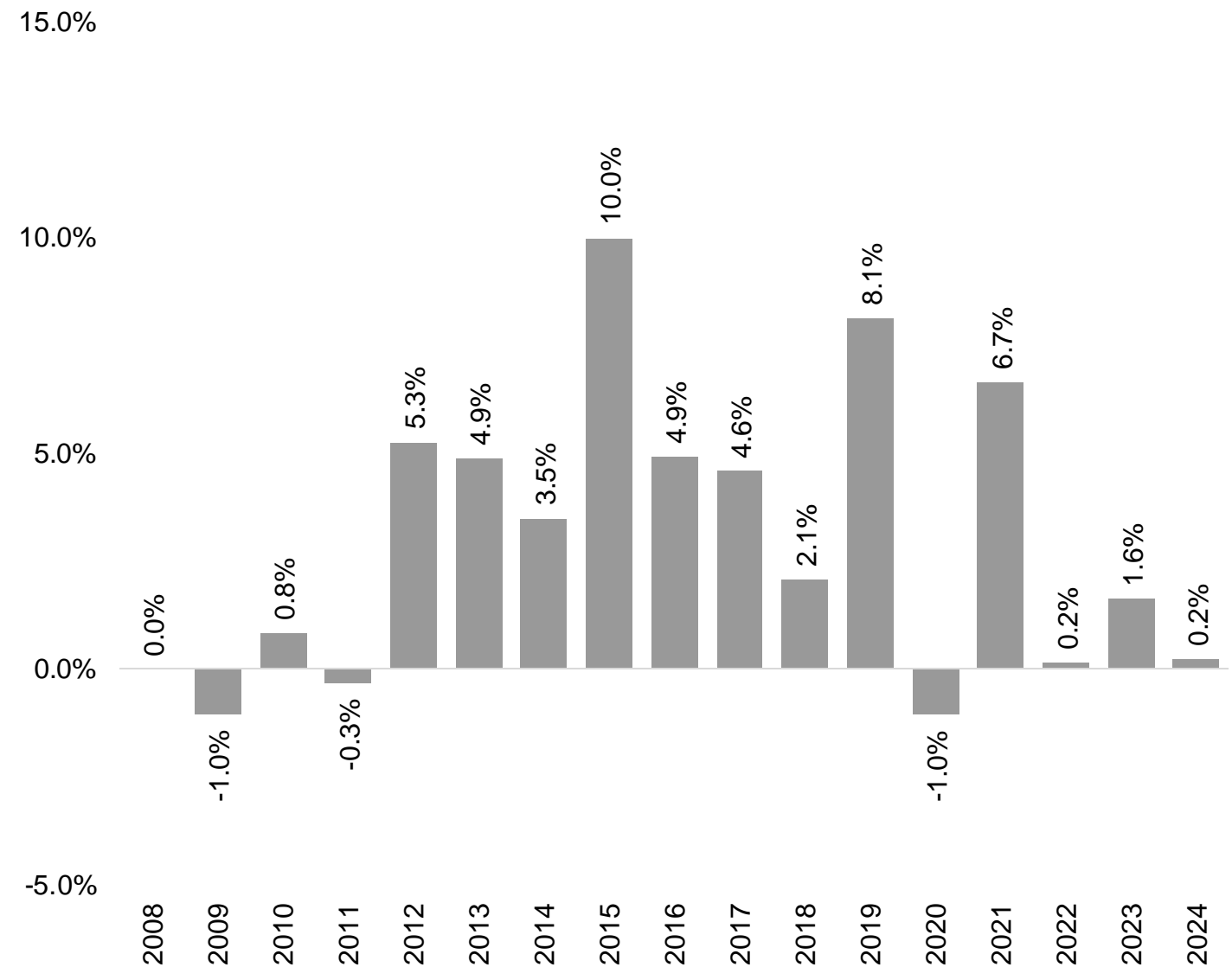
Rents Increase Quarter-Over-Quarter & Year-Over-Year

Rents rose 0.7% quarter over quarter and by 0.2% year over year, reaching \$40.97/SF. While Austin has generally reported positive yearly rent growth since 2012, the third quarter of 2024 marked one of the lowest rates, only surpassing the decline of 2020. The modest rent growth is driven by several factors, including the recent delivery of several high-quality office buildings and rising inflation-related tied to construction and property management.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

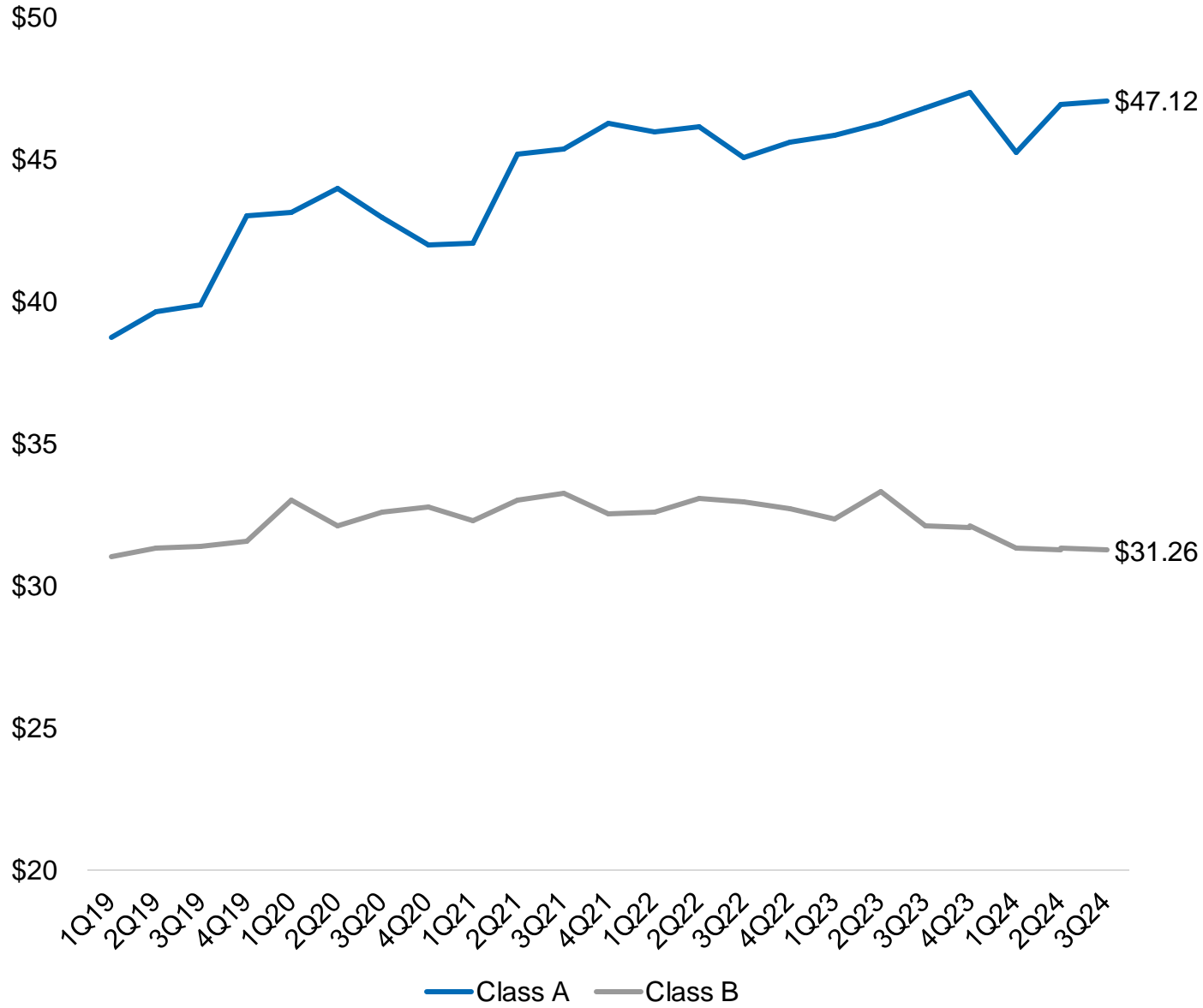


Source: Newmark Research, CoStar

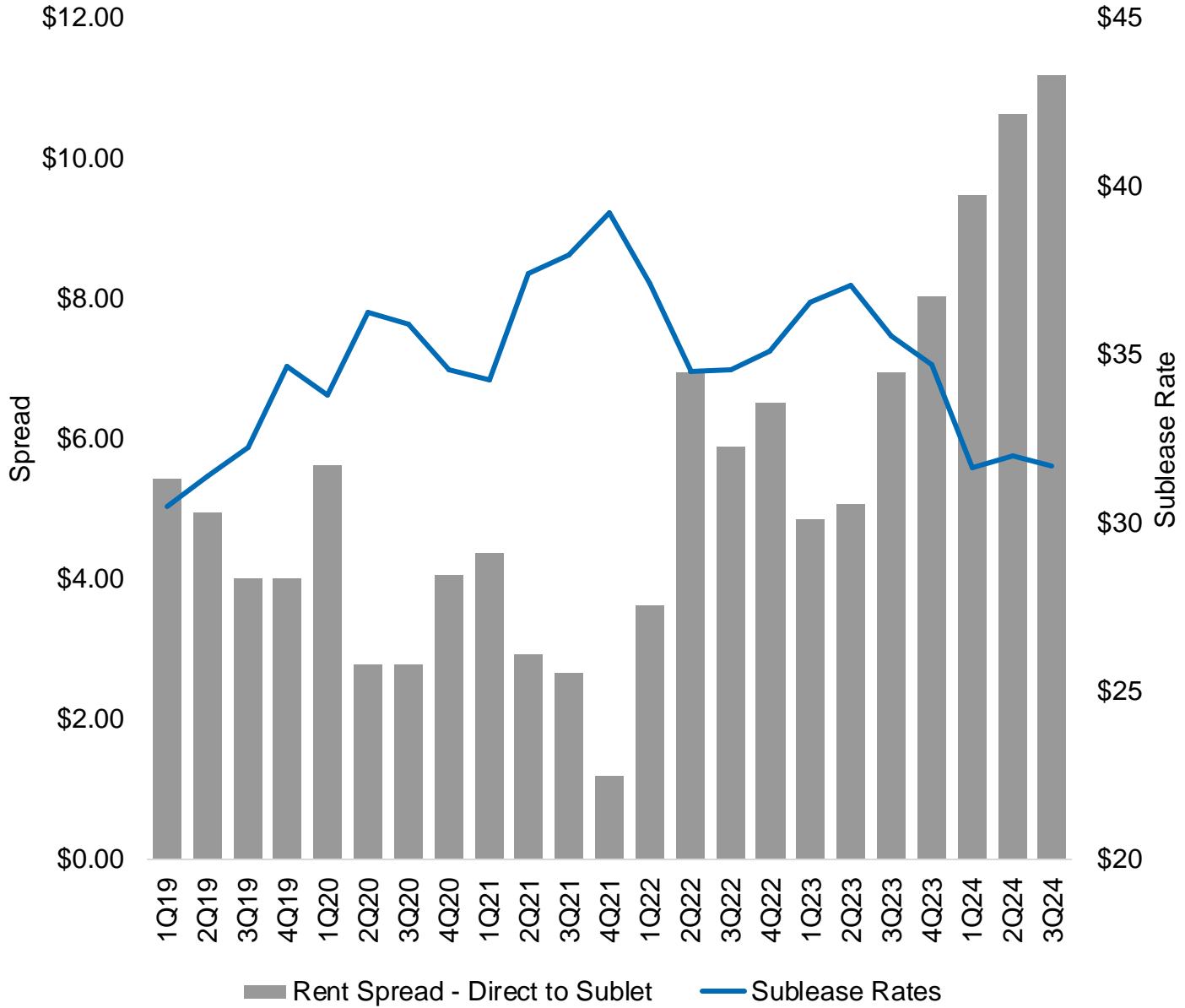
Class A & Class B Rent Spread Inches Up to Historic High

As of the end of the third quarter of 2024, Class A rents reached \$47.12/SF, while Class B rents were \$31.26/SF, marking a 38.0% spread increase since the fourth quarter of 2019. This reflects a 1.2% quarter over quarter increase and a 7.7% year over year increase. The ongoing decline in Class B rents is likely driven by landlords lowering rates to compete with Class A assets and attract tenants. Sublease asking rents have marginally decreased by 0.8% on a quarterly basis and 10.8% on a yearly basis as space has held constant in the market, suggesting that previous rates were not low enough to spur sublease leasing activity. Currently, sublease rates are at their lowest point since the second quarter of 2019.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Tech Companies Favoring Austin’s “Second Downtown”

Meta assigning its lease for 320,095 SF at Domain 12 to IBM, was the largest lease transaction of the quarter. The third quarter of 2024’s two largest transactions were in The Domain, highlighting companies’ growing preference for Austin’s “Second Downtown” over the traditional Central Business District. Despite the slow down in tech hiring and office downsizing, tech firms like IBM and PayPal continue to dominate leasing activity. This trend will likely accelerate as corporate efforts to return employees to the office, like those seen at Dell Technologies and Amazon, gain momentum. Most of the largest leases this quarter were subleases, signaling companies are prioritizing flexible, cost-effective leasing options amid economic uncertainty.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
IBM	Domain 12	North	Direct New	320,095
<i>Meta assigned its lease for the entire 320,102-SF building at 11800 Alterra Parkway, Building 12 in the Domain, to IBM, who plans for a 2026 move-in. IBM extended the lease’s term from 2031 to 2040.</i>				
PayPal	Domain Tower 2	North	Direct New	91,023
<i>PayPal expanded its current footprint at 10025 Alterra Parkway when it leased the 20th through 22nd floors of 10025 Alterra Parkway. They are expected to move in in February 2025.</i>				
Findhelp	7300 Ranch Road 2222 – Building One	Northwest	Sublease	28,501
<i>Social care technology company Findhelp has sublet the space that Khoros previously occupied on the first floor of 7300 Ranch Road 2222.</i>				
Cockroach Labs	Colorado Tower	CBD	Sublease	23,184
<i>Software company Cockroach Labs has sublet the eighteenth floor of 303 Colorado Street until May 2029.</i>				
AV Ride	The Park	Northwest	Sublease	22,022
<i>Autonomous vehicle provider AV Ride has sublet space on the third floor of 8300 North Mopac Expressway until May 2027.</i>				



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