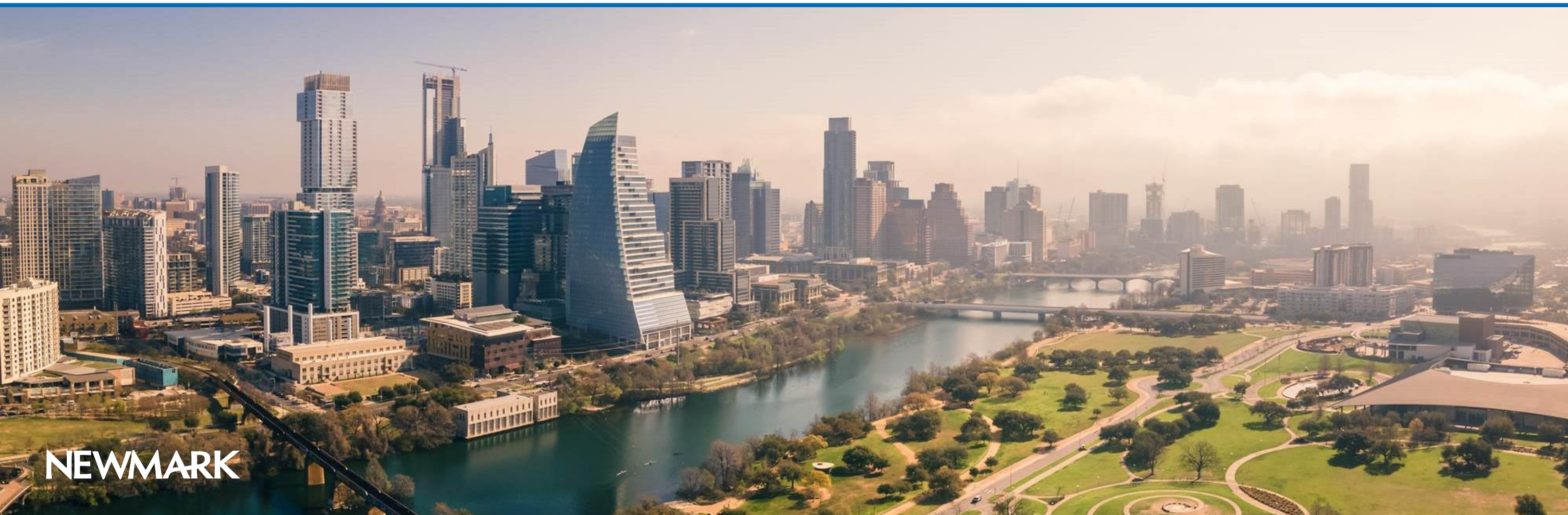


4Q24

Austin Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate ticked up by 13 basis points year over year to 3.5%, remaining below the five-year average of 4.0%.
- Employment growth decelerated by 143 basis points to 1.6% compared to November 2023.
- Most sectors reported employment gains, with mining and construction leading job gains at 4.6% over the past 12 months.
- Office-using jobs in the market dipped by 1.5% from their historic high to 418,760 jobs as of the end of November 2024, but reflected a 30.6% increase since year-end 2019.

Major Transactions

- The largest lease signed in the fourth quarter of 2024 was Action Behavior Center’s 93,353-SF new lease at Dimensional Place II.
- A notable shift this quarter was the Southwest submarket’s increased activity. Three of the quarter’s largest leases were in this submarket, a submarket that has not generally seen large transactions throughout 2024.
- Tech companies continue to favor the North/Domain submarket, highlighted by Wise’s decision to relocate its headquarters to Domain 2.
- Most of the quarter’s largest signed leases were direct new leases, indicating companies’ preference to capitalize on favorable tenant conditions to secure highly-desirable space.

Leasing Market Fundamentals

- Annual full-service rental rates remain near record highs at \$41.09/SF, reflecting a 0.1% decrease year over year and just \$0.05 shy of the record set in the fourth quarter of 2023.
- Direct availabilities declined by 70 basis points on a quarterly basis, pushing overall vacancy down by 30 basis points quarter over quarter to 23.2%.
- The under-construction pipeline continued to contract, ending the year with 2.5 MSF under construction as restrictive fiscal policies and rising building costs curbed new office groundbreakings in the market.
- Financial uncertainty has decreased total yearly leasing activity to 6.1 MSF, well below the 16-year yearly average of 7.7 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 projected to remain slow. Office investment activity is expected to stay subdued in the near term due to elevated inflation, higher borrowing costs, and muted demand. A recent bright spot was Cousins Properties’ \$521.8M acquisition of Sail Tower from Trammell Crow.
- The expiration of leases signed pre-pandemic will likely drive more tenants to shed underutilized space and opt for leasing smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly, with continued muted demand keeping overall asking rents flat or slightly lower.
- Vacancy is expected to increase as the construction pipeline, accounting for 2.8% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals

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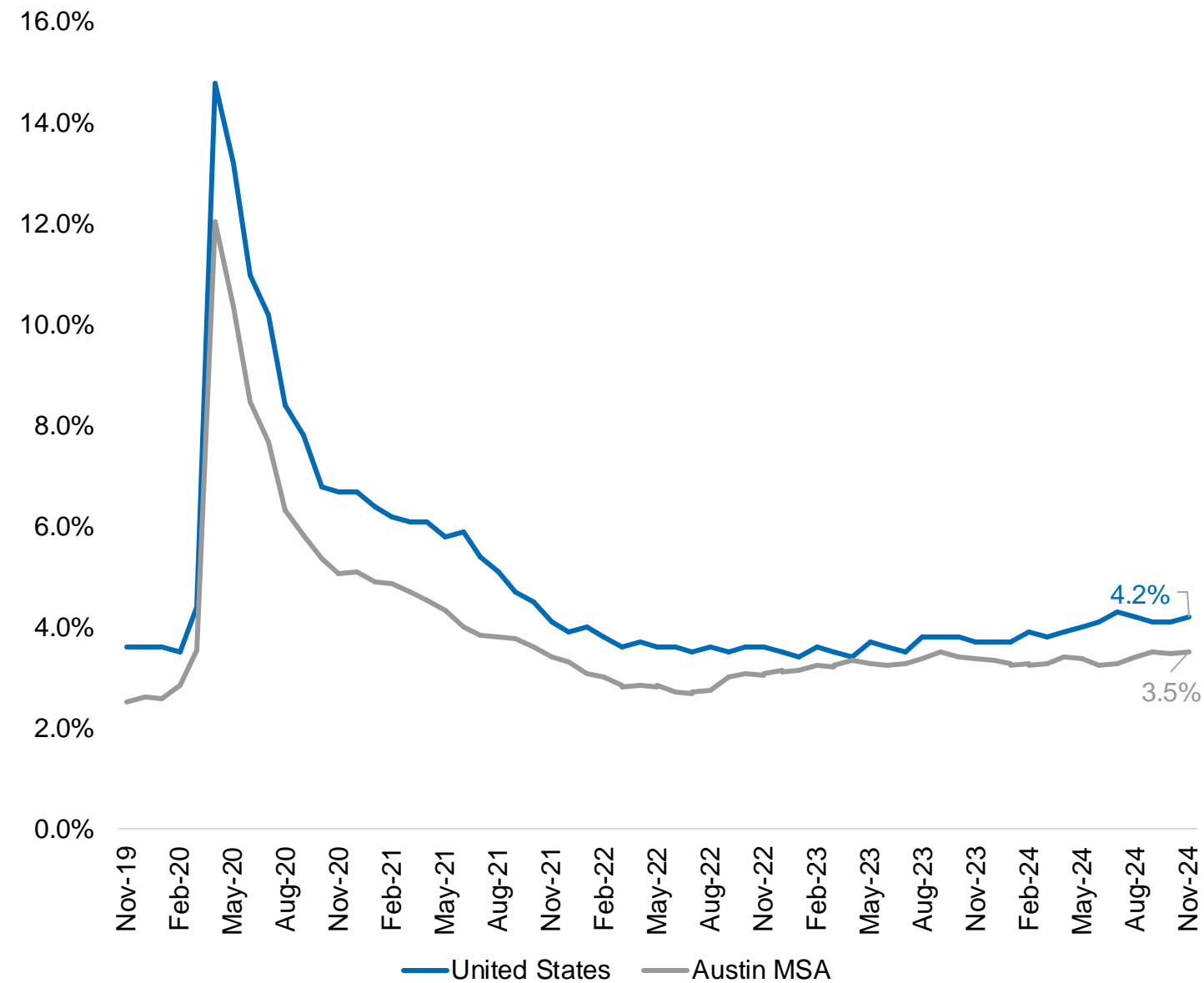
Economy



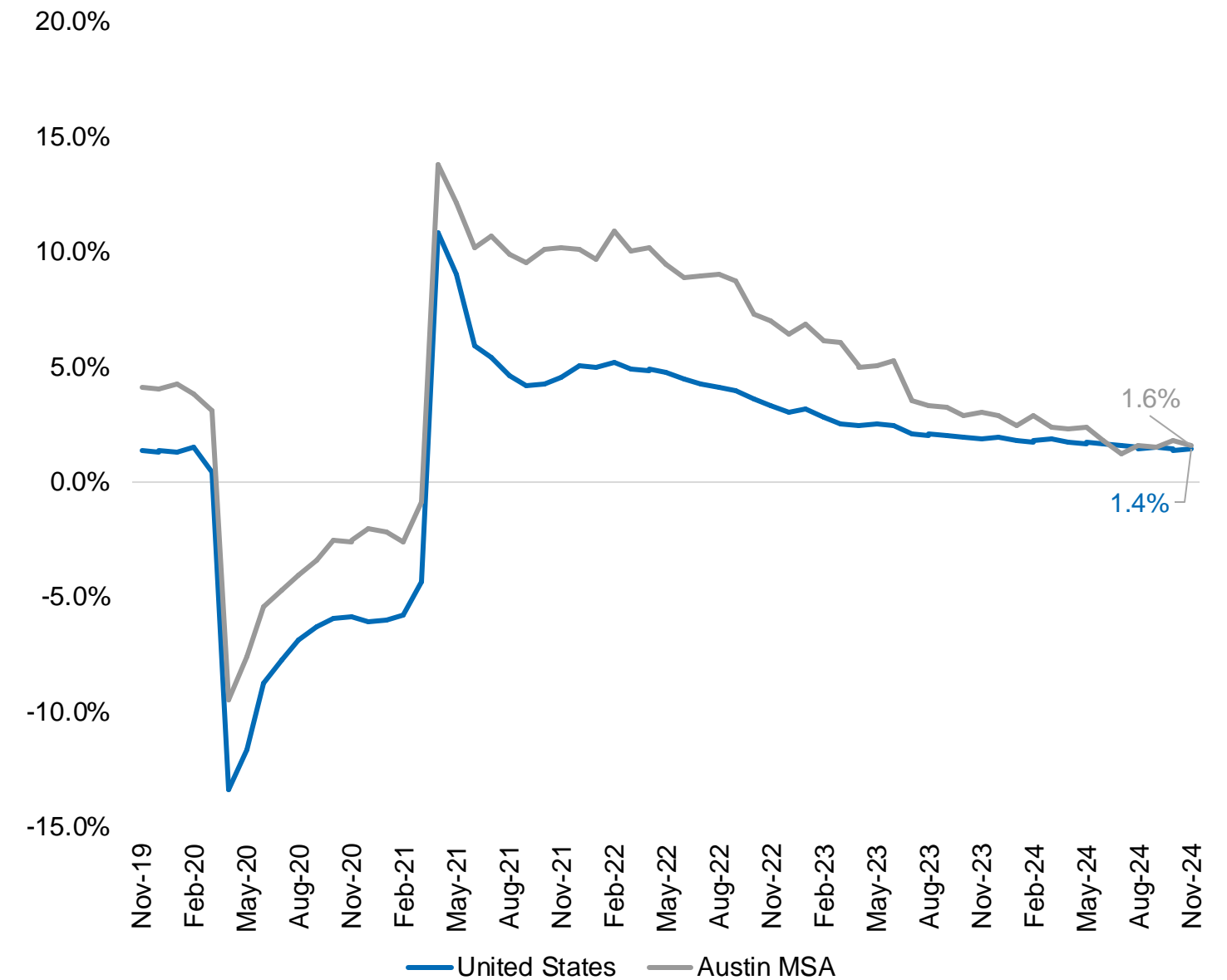
Tech & Professional Services Slowdown Keeps Unemployment Elevated

Austin has historically reported lower unemployment rates compared to the national average, while being an outperformer in employment growth. However, slowdowns in tech and business and professional services hiring, coupled with recent layoffs, has tempered this trend. Most nonfarm payroll growth has been concentrated in the mining and construction and education and healthcare sectors. Continued national economic headwinds in the fourth quarter of 2024 have led the region's unemployment rate to tick up by 13 basis points year over year, while employment growth decelerated by 143 basis points compared to the prior year.

Unemployment Rate, Seasonally Adjusted



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

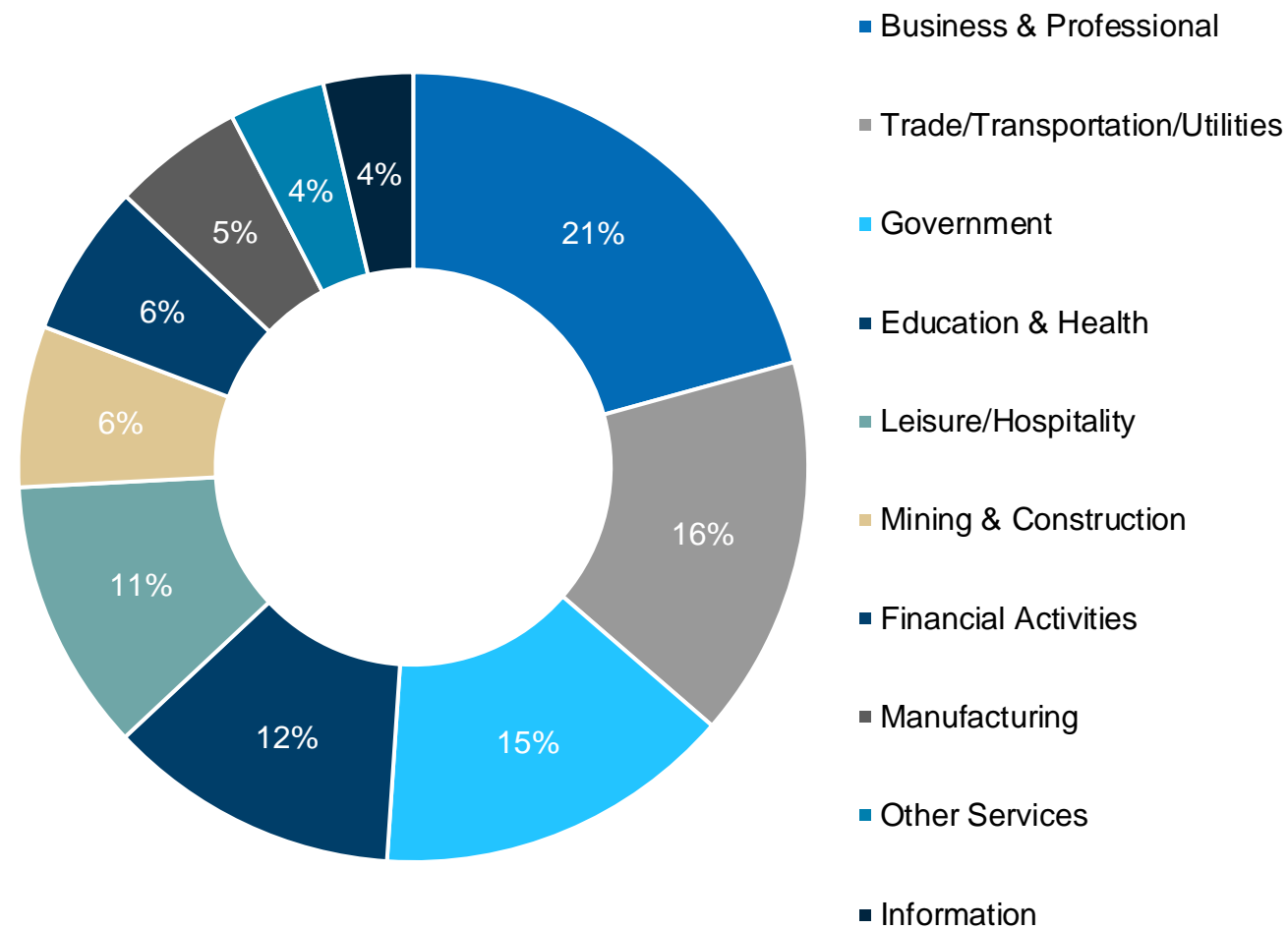


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

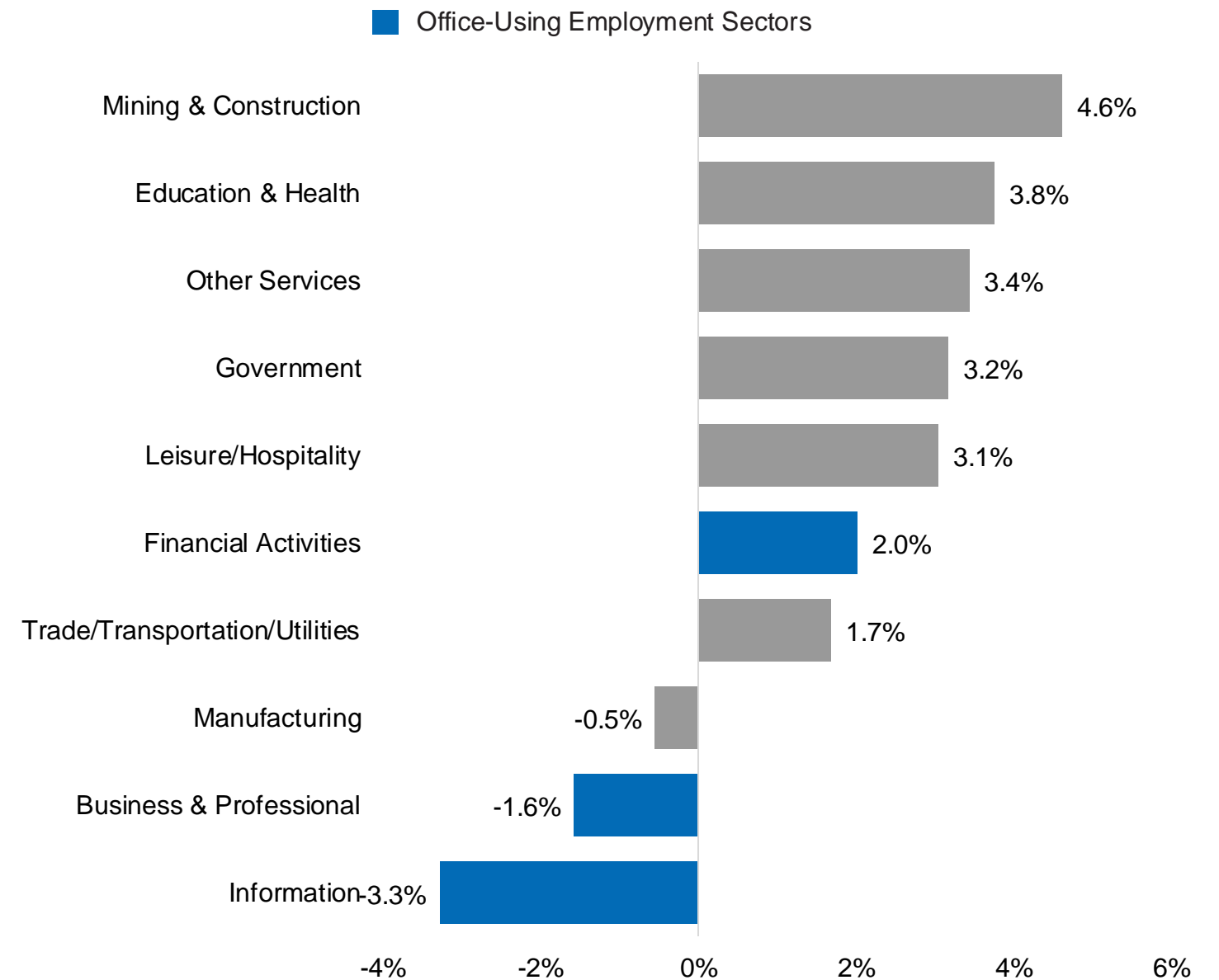
Most Office-Using Jobs Sectors Report Negative Yearly Job Growth

Known for its tech sector, Austin's top employment industries —business and professional services and trade/transportation/utilities— comprise 36.3% of jobs. The business and professional services sector, a key driver of office employment, represents the largest industry at 20.7%. All industries, except manufacturing, business and professional services and information, reported yearly job growth. The financial activities sector reported 2.0% year-over-year growth. Meanwhile, the business and professional services and information sectors reported declines of 1.6% and 3.3% year over year.

Employment by Industry, November 2024



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

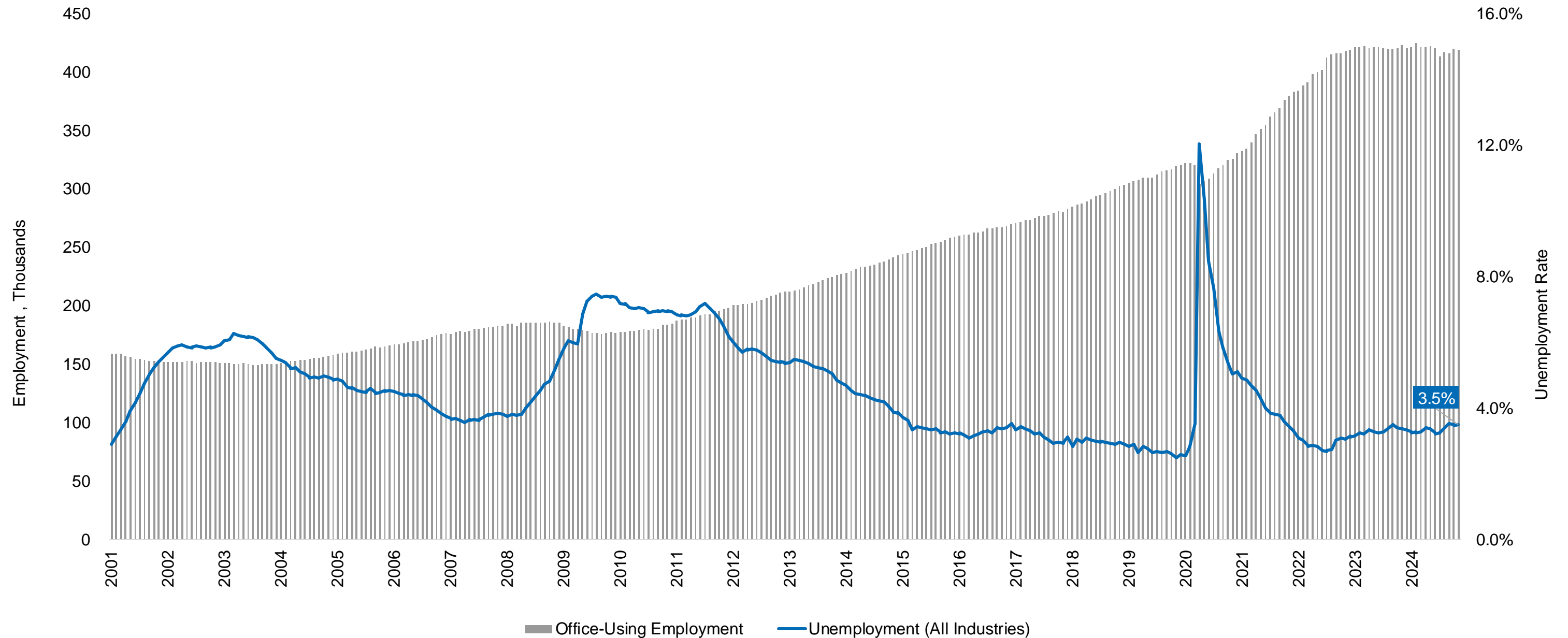


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

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

Office-using employment in Austin ended November 2024 with 418,765 office-using employees, down 1.5% from the historical high reached in the the first quarter of 2024. The seasonally adjusted unemployment rate stands at 3.5%, a decrease of two basis points quarter over quarter and increase of 13 basis points year over year. Yearly job losses, concentrated in the business and professional and information sectors, outweighed gains in financial activities, contributing to the overall decline in office-using employment.

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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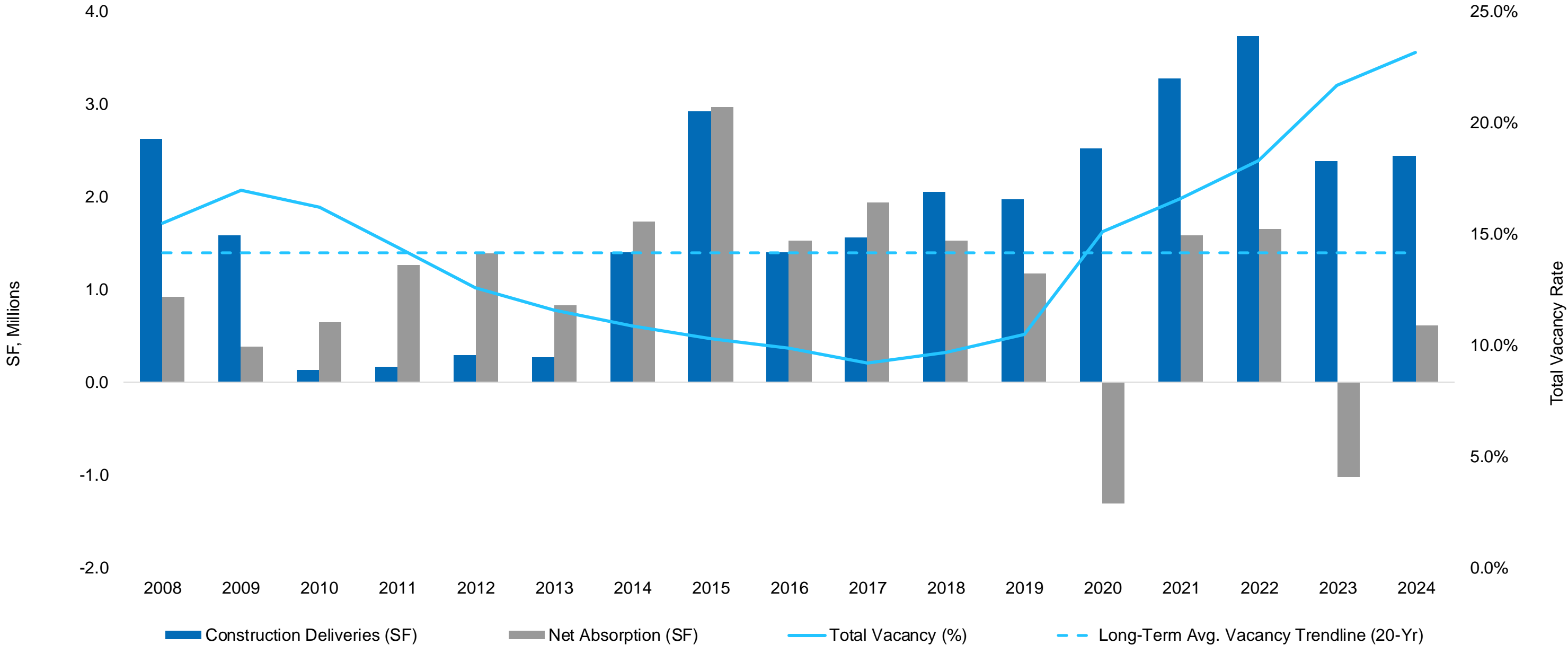
Leasing Market Fundamentals



Vacancy Drops from Record High as 4Q24 Reports Positive Net Absorption

Austin's overall office vacancy rate declined slightly from its historic peak recorded during the third quarter of 2024 to 23.2% in the fourth quarter of 2024, up 150 basis points year over year and well above the 20-year vacancy average of 14.2%. Since the pandemic and the shift to hybrid and remote work in 2020, vacancy rates have generally risen, though at a slower pace recently. The year closed with 441,144 SF of positive absorption, primarily during the first and fourth quarters. Rising vacancy is driven by elevated construction deliveries —now beginning to slow—and negative absorption from technology and business and professional services companies shedding space amid economic uncertainty during the second and third quarters.

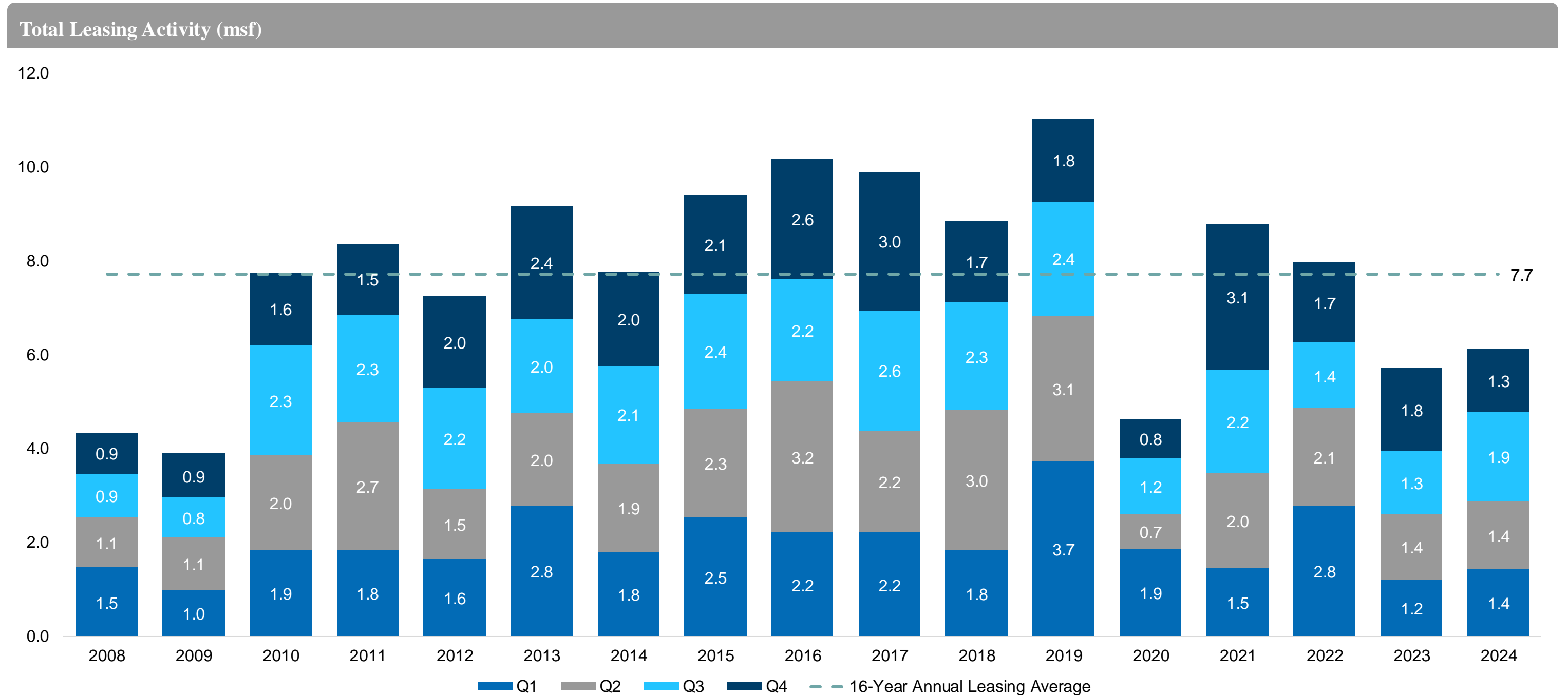
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Economic Uncertainty Results in Slower Leasing Activity

Leasing activity in Austin declined both quarterly and annually, with the fourth quarter of 2024 reporting total leasing activity of 1.3 MSF. Overall leasing activity closed out 2024 with 6.1 MSF, well below the 16-year historical average of 7.7 MSF. The slowdown reflects companies prioritizing efficiency amid tighter fiscal policies aimed at controlling inflation. Further challenges include financial uncertainty, hybrid work policies, and job cuts to improve efficiency. However, leasing could rebound as more companies phase out work from home policies and require more space to implement in-person work.

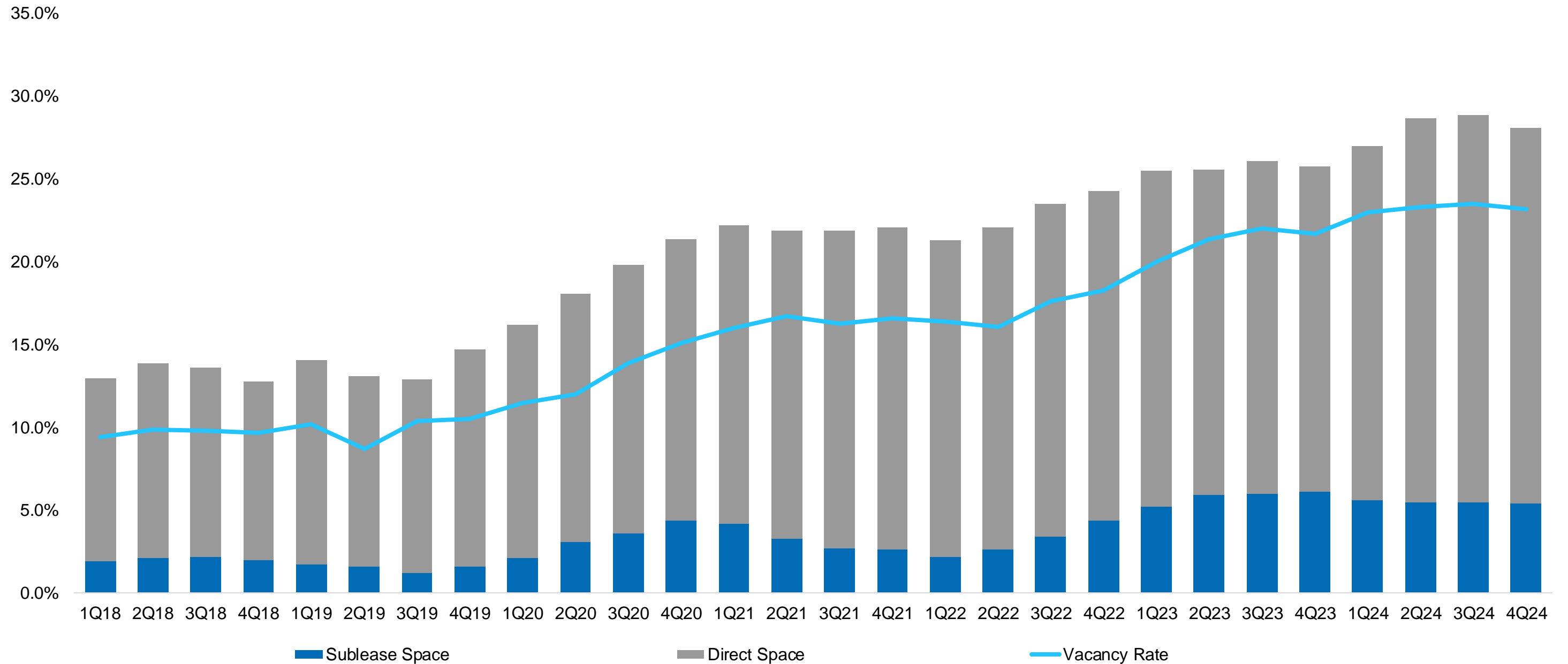


Source: Newmark Research, CoStar

Declines in Sublet, Direct Availability Push Overall Vacancy Marginally Lower

Sublease availabilities in Austin edged down to 5.4% when compared with the third quarter of 2024 and declined by 70 basis points from the 6.1% peak recorded during the fourth quarter of 2023. Direct availability declined by 70 basis points quarter over quarter and increased 300 basis points year over year to 22.7%. Combined, the declines in direct and sublet space availability reduced overall vacancy by 20 basis points from its record high, ending 2024 at 23.2%.

Available Space as Percent of Overall Market

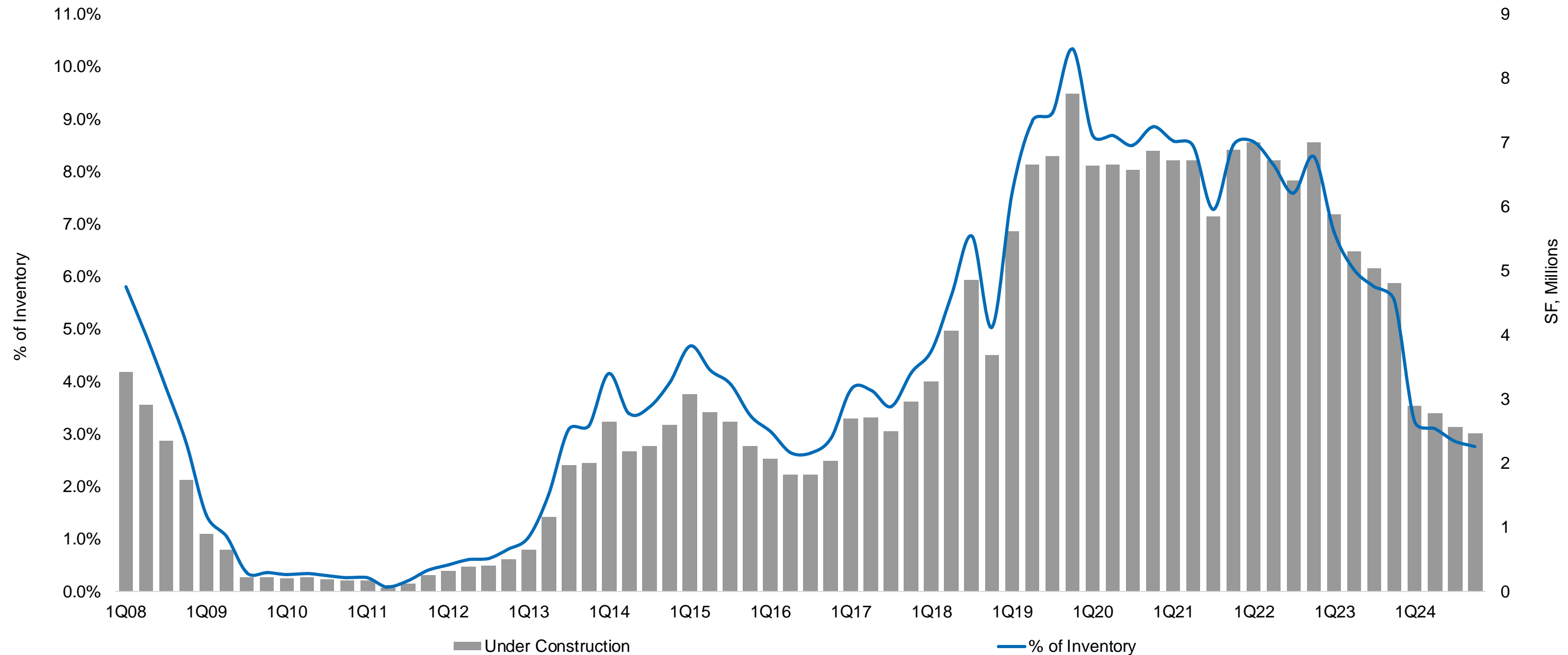


Source: Newmark Research, CoStar

Construction Pipeline Continues to Empty

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 since peaking at 7.0 MSF during the first quarter of 2022 with the sharpest decline reported during the first quarter of 2024. By the fourth quarter of 2024, 2.5 MSF remained under-construction, representing 2.8% of total office inventory.

Office Under Construction and % of Inventory

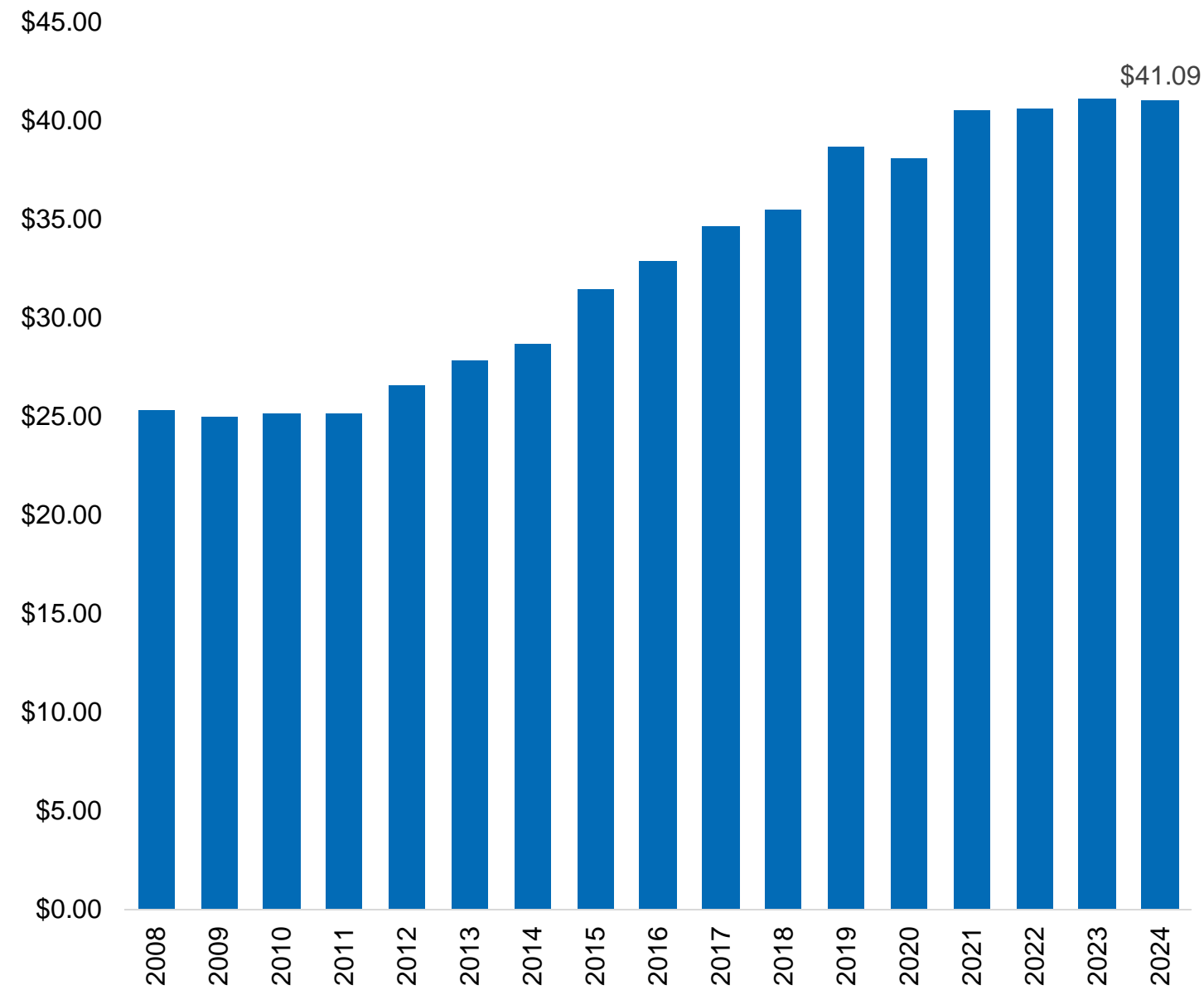


Source: Newmark Research, CoStar

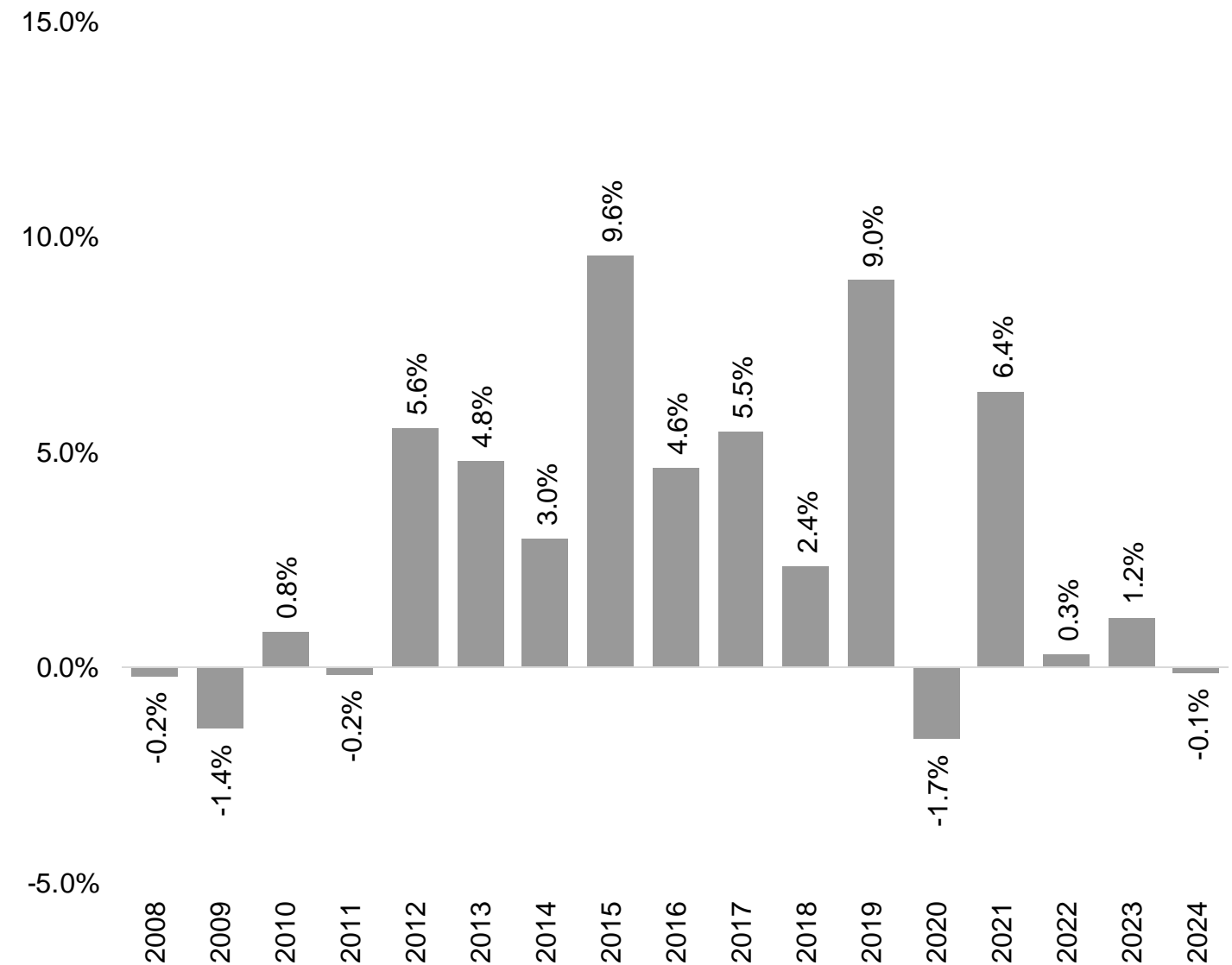
Austin Reports First Annual Asking Rate Decline Since Pandemic

Asking rents rose 0.1% quarter over quarter, but declined by 0.1% year over year to \$41.09/SF. Since 2012, Austin had generally reported positive yearly rent growth, a trend that reversed at year-end 2024 with the first annual decline since 2020. This decrease can likely be attributed to landlords reducing asking rates to entice tenants and spur leasing transaction in the market amid significant new deliveries and weakening demand. This trend may persist as landlords compete to fill space, especially if inflation continues to moderate.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

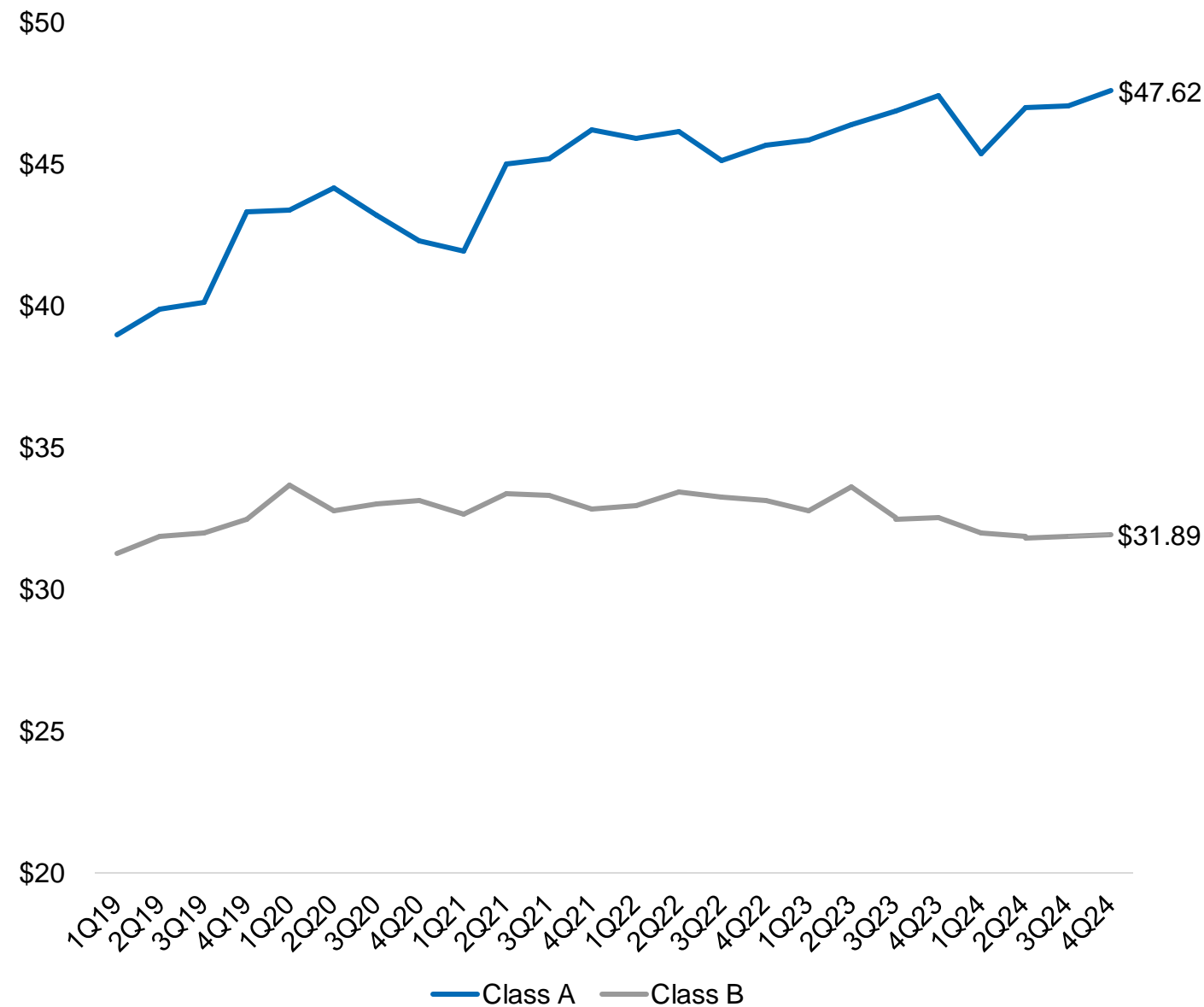


Source: Newmark Research, CoStar

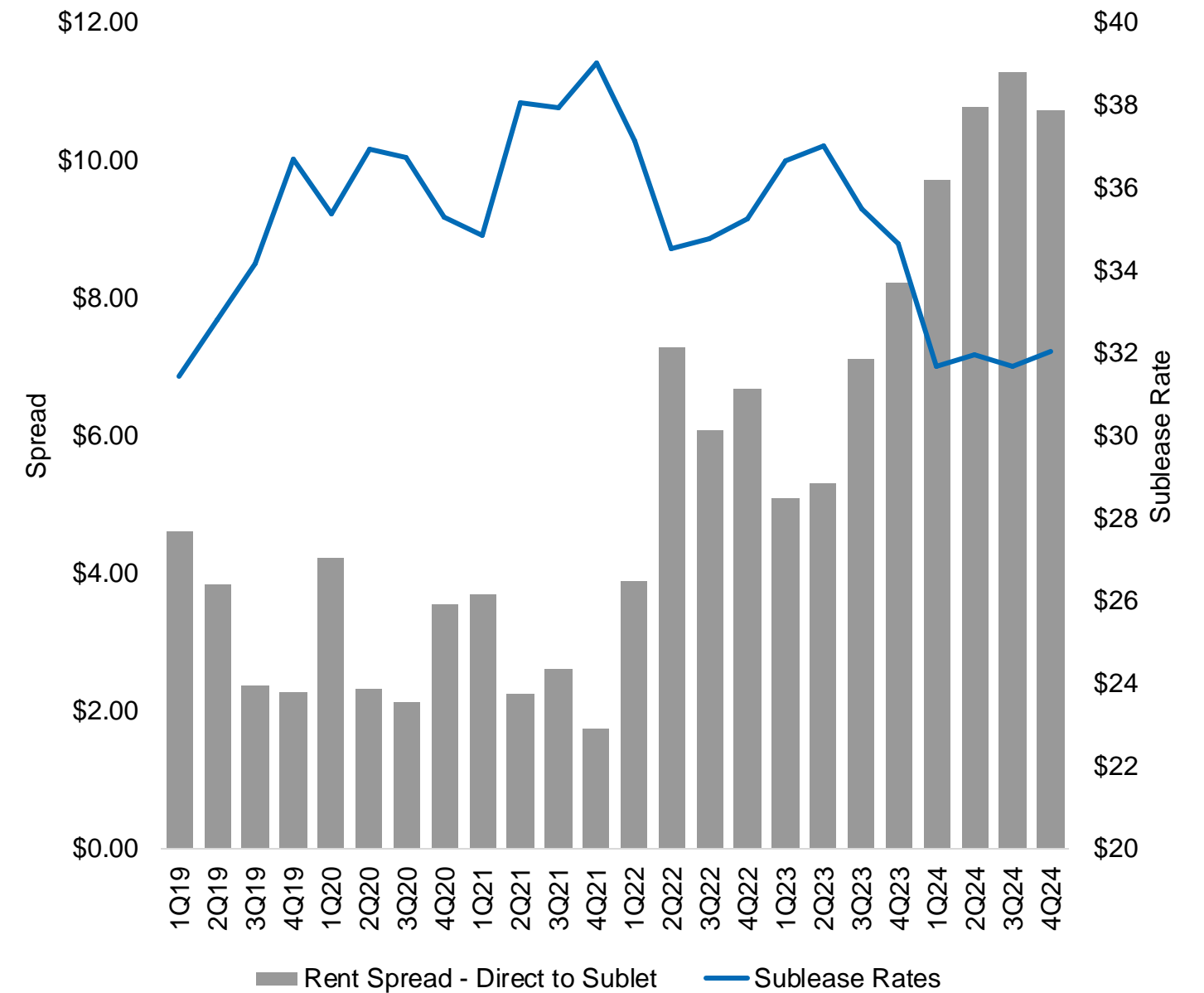
Class A & Class B Rent Spreads Widen to Historic High

As of the end of the fourth quarter of 2024, Class A rents averaged \$47.62/SF, while Class B rents were \$31.92/SF, a 44.4% spread increase since the fourth quarter of 2019. This represents a 3.1% quarterly increase and a 5.4% yearly increase. Class A asking rents rose by 0.4% on a yearly basis, while Class B asking rents fell 2.0%. The increasing divergence between Class A and Class B rents is likely driven by landlords lowering Class B rates to compete with Class A assets and attract tenants and Class A landlords leveraging growing demand for highly amenitized spaces. Sublease asking rents increased 1.2% quarterly but dropped 7.5% on a yearly basis as sublease availability modestly declined, suggesting prior rates were too high to spur sublease leasing activity. Current sublease rates are at one of their lowest points since the second quarter of 2019.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Southwest Submarket Shines In Q4

Action Behavior Center signed the largest lease of the fourth quarter of 2024, leasing the second through fourth floors of Dimensional Place II. Three of the largest leases were in the Southwest submarket, though the Domain remained a key location, hosting the quarter’s second-largest lease. Most large leases were direct new leases, reflecting companies capitalizing on market weakness to secure high-quality space at favorable terms. In contrast to last quarter, there was greater diversity in large leases being signed as only one of fourth quarter’s largest leases were signed by a tech company.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Action Behavior Center	Dimensional Place II	Southwest	Direct New	93,353
<i>Action Behavior Center signed the largest lease of the quarter when it leased the second through fourth floors of 6300 Bee Caves Road and is expected to move in by June 2025.</i>				
Wise	Domain Tower 2	North/Domain	Direct New	60,682
<i>Fin-tech company Wise expanded its presence and relocated its U.S. headquarters to Austin when it leased the 16th and 17th floors of 10025 Alterra Parkway. They are expected to move in by July 2025.</i>				
U.S. Money Reserve	Seven Oaks East	Southwest	Direct New	59,634
<i>Precious metals dealer U.S. Money Reserve leased space on the second, fourth and fifth floors of 8701 Farm to Market 2244 for a November 2025 move-in.</i>				
Surveying and Mapping	Parkway at Oak Hill II	Southwest	Renewal	51,243
<i>Mapping and engineering solutions company Surveying and Mapping has extended its lease at 4801 Southwest Parkway.</i>				
National Veterinary Associates	1301 S Lamar	South	Direct New	37,389
<i>Animal healthcare provider National Veterinary Associates leased the fourth floor of the newly-delivered 1301 South Lamar. They are expected to move in by July 2025.</i>				



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