

Rent growth likely to slow as uncertainty from COVID-19 looms over the market

Prior to the March onset of the COVID-19 pandemic, and related virus control measures bringing business across the state to a halt, the Austin office market witnessed some softening in availability as asking rents continued to push higher. At the end of the first quarter, the overall average asking rent stood at \$39.28 per square foot (psf), reflecting annual (9.2%) and quarterly (2.4%) increases. Class A asking rents increased by 5.8% over the year to \$42.93 psf. Central Business District and suburban asking rents increased by 6.7% and 7.7% year over year through the first quarter, respectively. As the market adjusts itself to the shifts that COVID-19 has created, rental rate growth is expected to slow. Downward pressure is likely to come from an influx of sublease space on the market as venture-capital-funded technology companies implement cost-saving measures.

Availability rates see year over year softening and are expected to continue to rise as COVID-19 reality sets in

Austin's overall availability rate increased by 10 basis points over the quarter, and 280 basis points year over year, to 13.8% in the first quarter of 2020. In comparison, the average Class A availability rate declined 20 basis points over the quarter, but is still up 430 basis points on an annual basis (14.9%). Market fundamentals differ some in the core and surrounding markets, the Central Business District availability rate rose by 200 basis points to 11.1%, while the average suburban availability rate declined by 30 basis points, to 14.5%. Submarket availability rates ranged from 4.8% in Round Rock and 8.2% in the North submarket, to 39.0% and 32.7% in the Northeast and East submarkets, respectively.

Quarterly leasing activity experienced a slowdown, due in part to a lack of existing large blocks of contiguous space

Total first-quarter leasing activity stood at 1.5 million square feet (msf), down significantly from the same period last year. In addition to the onset of uncertainty in March, the decrease in leasing activity could also largely be attributed to a lack of available options. Across the entirety of the Austin office market there are currently just nine properties that have contiguous blocks larger than 50,000 square feet (sf) available. As businesses re-evaluate capital, workforce, and ultimately office space needs going forward, this is likely to bring additional space options to market - which may present opportunity for those still looking to enter or expand.

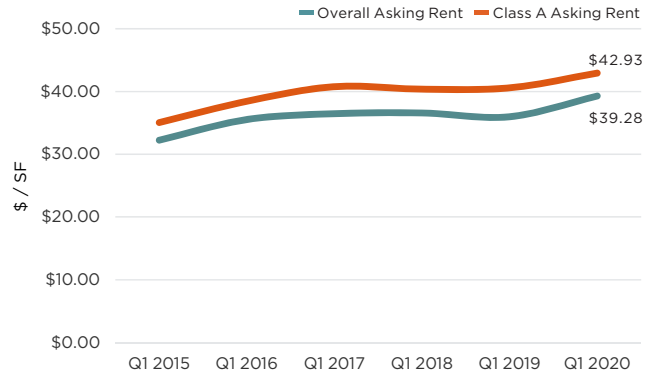
Outlook

- Increased availability and a shift toward tenant favorability are expected to occur as leasing activity stalls for the near future
- Prior to the COVID-19 shutdown, Austin employment was projected to grow by 2.7% per year over the next five years, resulting in an aggregate of 148,000 new jobs through year-end 2024
- Revised projections, which assume a 20% net decline in U.S. employment in 2020, imply a 22.5% job loss in the region over the same period

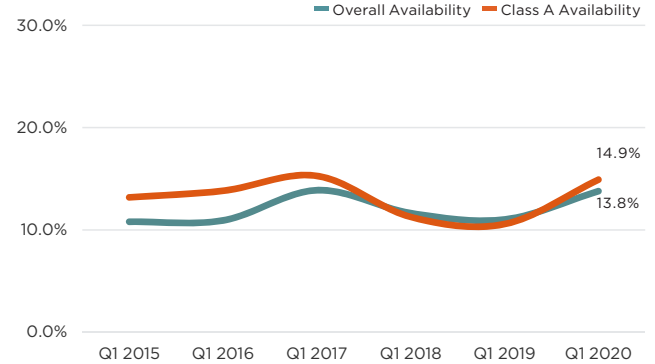
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	66.4 MSF	67.8 MSF	▲
Availability Rate	11.0%	13.8%	▲
Asking Rental Rate	\$35.98	\$39.28	▲
Class A Asking Rental Rate	\$40.58	\$42.93	▲
Quarterly Leasing Activity	2.7 MSF	1.5 MSF	▼

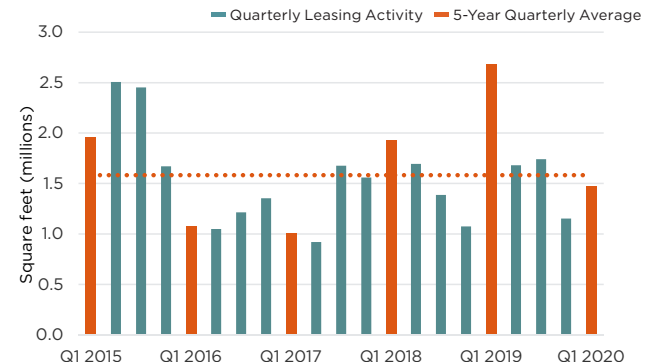
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

major transactions were new locations or relocations

30.2%

of large transactions occurred in the Far Northwest submarket

66.4%

TAMI tenants represented a combined 66.4% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Altassian Corporation PLC	157,540	1401 E 6th Street	Relocation	East	TAMI
Q2 Holdings, Inc.	128,990	10355 Pecan Park Boulevard	Relocation	Far Northwest	TAMI
ShoreTel	59,820	6500 River Place Boulevard	Renewal	Northwest	Telecommunications
Wells Fargo	45,255	5301 Southwest Parkway	New Location	Southwest	Financial Services
AECOM	43,022	13620 Briarwick Drive	Renewal	Far Northwest	Professional Services
Advanced Micro Devices	34,995	7000 William Cannon Drive W	New Location	Southwest	TAMI
GateHouse Media	34,600	8000 Metropolis Drive	Relocation	Southeast	TAMI
Ascension Health Alliance	29,220	10801 N MoPac Expressway	New Location	North	Healthcare
Civitas Learning	22,001	1501 S Mo Pac Expressway	New Location	South	TAMI
Zinda Law Group PLLC	14,107	8834 Capital Of Texas Highway N	Extension	Northwest	Legal Services

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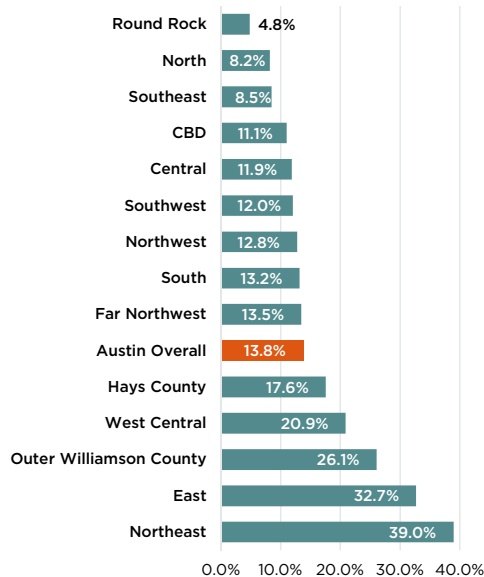
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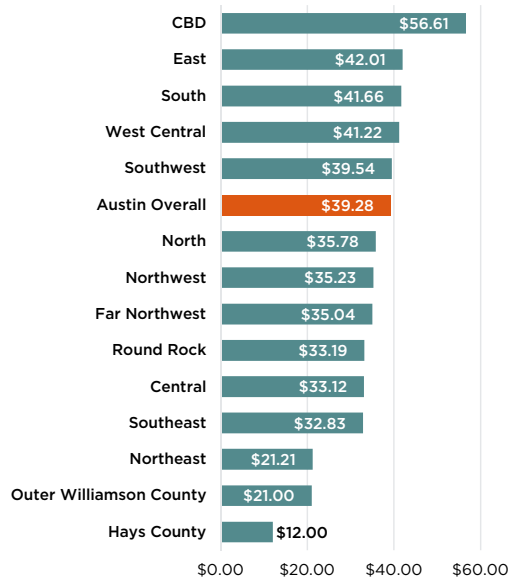
AVAILABILITY RATE COMPARISON

Austin Submarkets



RENTAL RATE COMPARISON (\$/SF)

Austin Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot (psf). Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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