Foresight

Central Business District

Office Market Report

Central Business District

OVERVIEW

Austin's Central Business District, for the first time in almost two decades, is awash with new vacancies. New buildings are coming online, many tenants have compressed their space needs post-Covid and venture capital deployment has decreased sharply the last 18 months. Large subleases have softened the market along with 'see through buildings' that were not pre-leased and, as a result, are carrying big block vacancies with little activity. These factors have created a perfect storm sending vacancy to a historic high in excess of 24%, creating new found leverage for occupiers. Meanwhile, many office property owners are dealing with impending debt maturities in the wake of these headwinds.


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1 TO 5 BEDROOM PLANS — LIMITED RESIDENCES REMAIN
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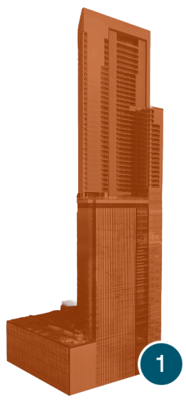
LEGACY BUILDINGS

- Older legacy office properties built before 2013 have suffered the most in a softening market
- Tenants relocating to newer construction at similar costs, causing a “flight to quality” given rent realignment
- Nationwide, tenants are increasingly attracted to more modern assets that are highly amenitized
- Rental rates in older stock are trending at $10.00 to $15.00 PSF below newer Class A office properties
- Free rent inducements in legacy buildings are significant with some recent lease comps with as much as 12 months of net rental abatement

New Construction

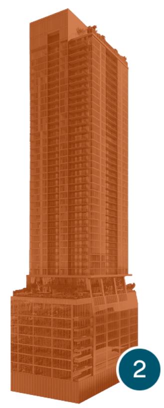
SIXTH AND GUADALUPE



91% VACANCY

OWNER Lincoln

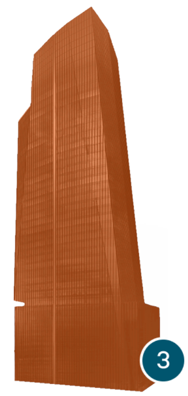
ATX TOWER



68% VACANCY

OWNER TISHMAN SPEYER

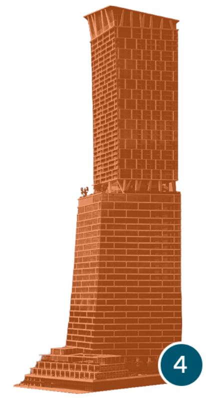
THE REPUBLIC



60% VACANCY

OWNER DIVCOWEST

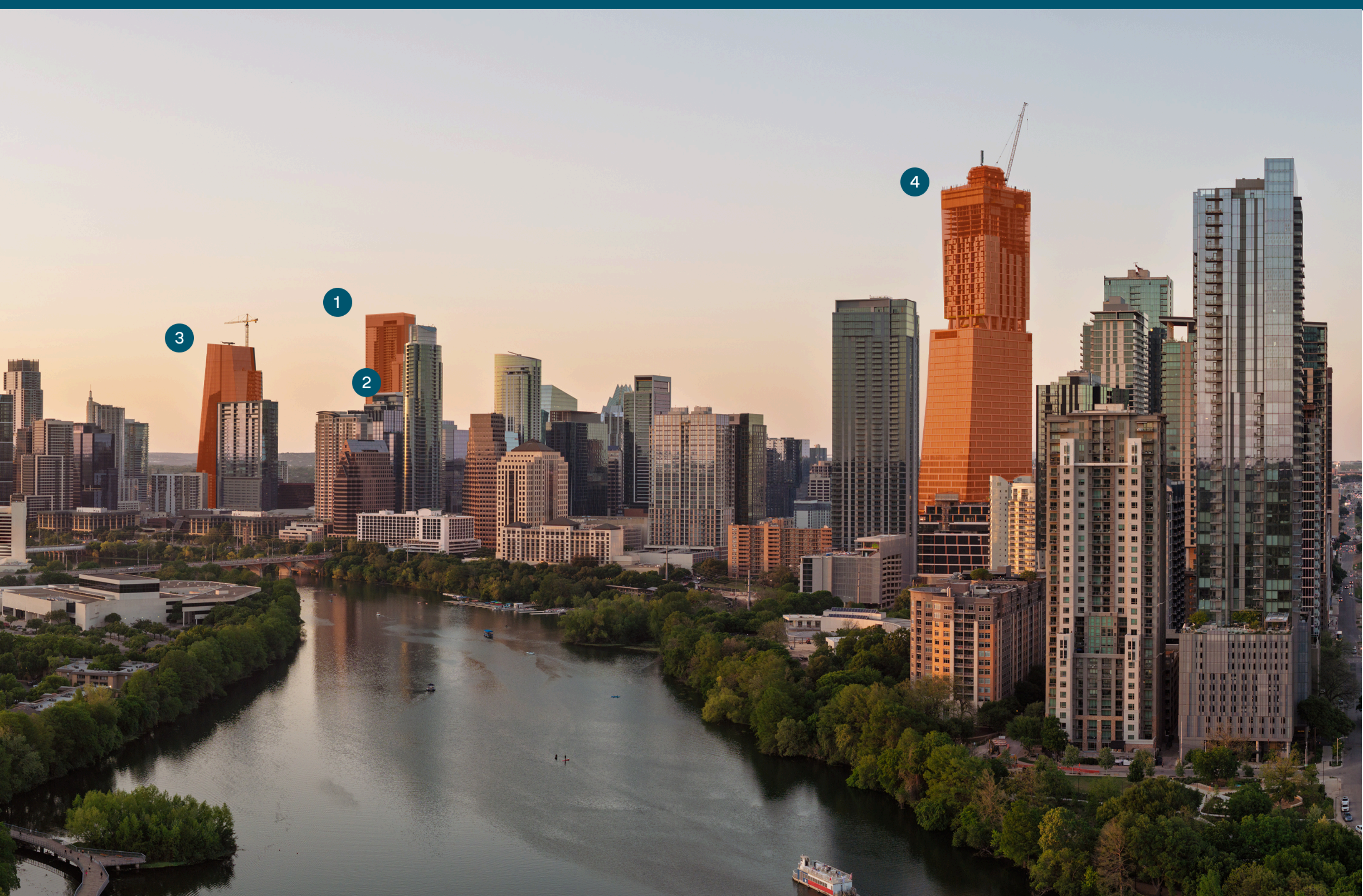
waterline



100% VACANCY

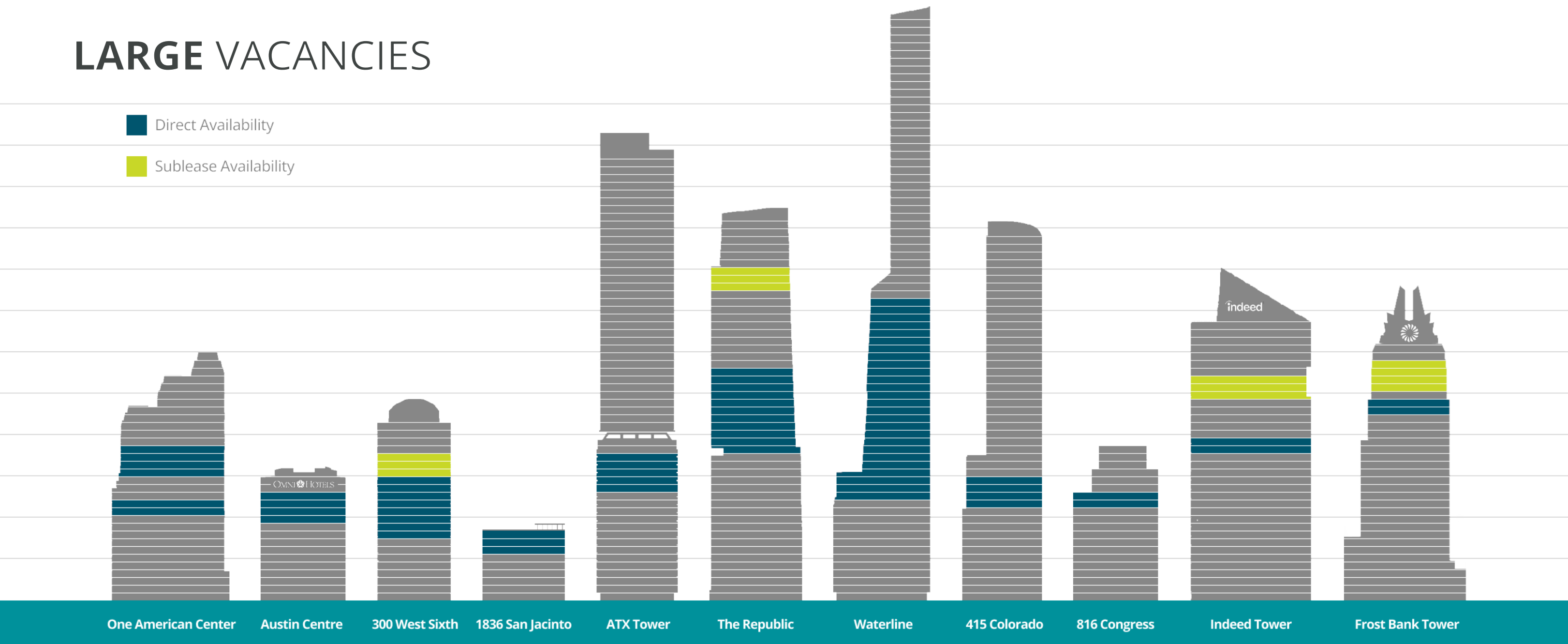
OWNER Lincoln

>2.2M SF NEW SUPPLY



Skyline Report

LARGE VACANCIES



FAST FACTS

4 **New Buildings** Added To Supply

Four new buildings totaling over 2.2M square feet have been added to supply in the last 18 months

11 **Vacancies** Over 50,000SF

Eleven direct vacancies exceed 50,000 square feet

4 **Vacancies** Over 25,000SF

Four sublease vacancies exceed 25,000 square feet

>80% **Pre-Leased** Previous Cycle

Properties constructed from 2013 to 2018 were over 80% pre-leased

>30% **Pre-Leased** New Buildings

New supply since 2020 pre-leased less than 30%

18 **Months Sublease** Space Influx

A glut of sublease space from big tech companies like Google, Facebook & Indeed further softened the market the last 18 months

DOWNTOWN DASHBOARD

By the Numbers

14.8M SF
TOTAL INVENTORY

1.9M SF
UNDER CONSTRUCTION

$67.13
AVERAGE CLASS A RENT

-168K SF
YEAR TO DATE ABSORPTION

27.3%
CLASS A VACANCY

>24%
MARKET-WIDE VACANCY

An influx of poorly timed new supply

Decreased demand evident with negative absorption numbers

Work-from-home compressing space needs

Venture capital deployment decreased resulting in less tech growth

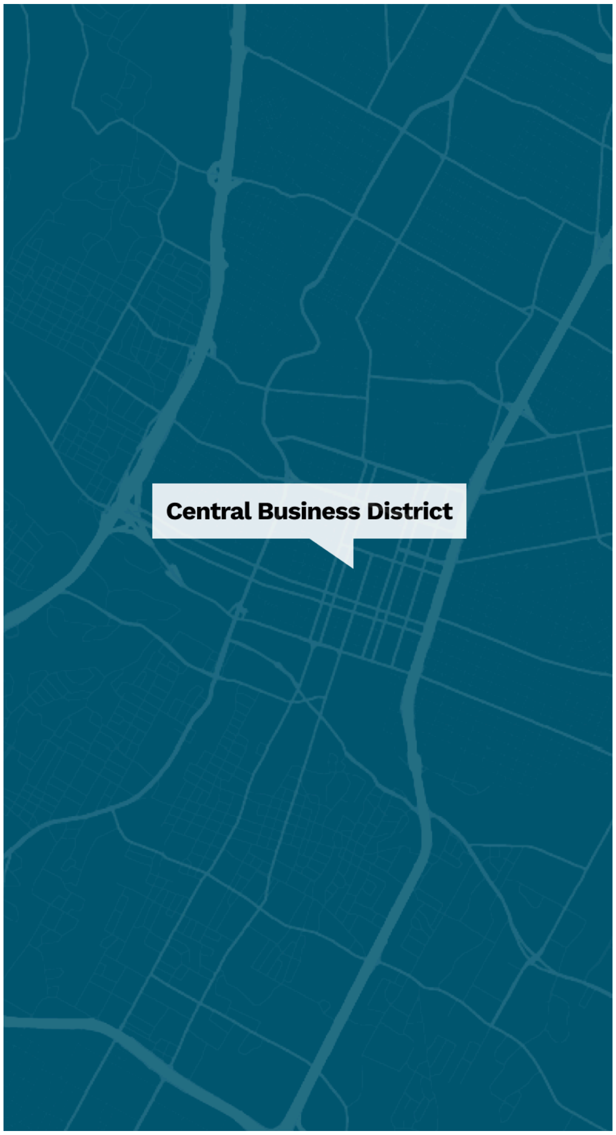
Pre-leasing under 30% for new construction projects since 2020

Historic vacancy

Tenant Opportunity

Tenants in the Central Business District have never had more leverage driven by the sudden increase of supply and demand compression

- With increased options come the ability to upgrade to newer properties that are now more economically viable
- As a result, tenants who prefer to remain in their existing building upon their lease expiration are extending their leases early, realigning the economics of their current deal, obtaining rent reductions, abatement while securing robust tenant improvement allowances
- As property owners face impending loan maturities, tenants have a stronger position with landlords that can't lose rental income lest they face potential default
- Occupiers must hedge against risk of property owners' loan defaults by securing subordination, non disturbance, & attornment agreements to protect lease terms



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