



KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	→	↑↑
Vacant Space	→	→	→
Construction Levels	↑	→	↑↑
Leasing Volume	↑↑	→	↑↑
Investment Volume	↑	→	↑

As the growth of Austin’s workforce has increased demand for office and industrial product, the city’s recent population growth has fueled Austin’s retail sector and helped to mitigate the effects of the national retail downturn. Occupancy rates for retail product have hovered around 96% since 2014 and further projected growth in rental rates is expected in 2020. With additional in-migration and retail tenants finding new ways to adapt, Austin’s retail market is expected to remain strong in 2020.

Corporate expansions within Austin and the resulting migration of talent from around the country diminished Austin’s unemployment rate while creating a sturdy employment base. Austin’s unique cultural and demographic makeup are what attracts both established and growing companies, as the area’s dynamic workforce and pro-business policies are seen as poised to nurture the expansion of their brand.

Transportation is one of Austin’s trademark issues;

improvements to roads and infrastructure have been outpaced by the city’s rapid growth. As in-migration persists, alternative means of transportation and the metro’s ability to accommodate new residents will remain a focal point of city planning.

As a result of Austin’s current economic boom, affordability has increasingly become a concern for residents. While, compared to some major metro areas, Austin’s housing remains relatively affordable, however, residents have begun to feel the pinch of rising home prices and property taxes. Despite record issue rates of new residential construction permits, home prices have continued to escalate and remain a concern for the coming year. Alongside the increase in housing prices has been the increase in residential rental rates with the unintended consequence of impacting lower income and service sector employees. Despite these challenges, Austin is expected to measure continued growth in 2020 across all key economic indicators and property market fundamentals.

EXECUTIVE SUMMARY

- Corporate relocations have become a fixture of the Austin CRE landscape given the deep bench of talent and unique lifestyle that Austin has to offer.
- Sustained population growth will continue to underpin the overall economic expansion of Austin throughout 2020.
- Housing affordability and transportation remain growing concerns for the Austin market as corporate expansions and in-migration of a new workforce increase demand.
- Austin’s office and industrial market are expected to measure continued growth as tenant demand will remain strong throughout 2020.
- Investment volume across all property sectors will continue as Austin’s thriving economy and expanding property market draw continued demand from institutional investors.

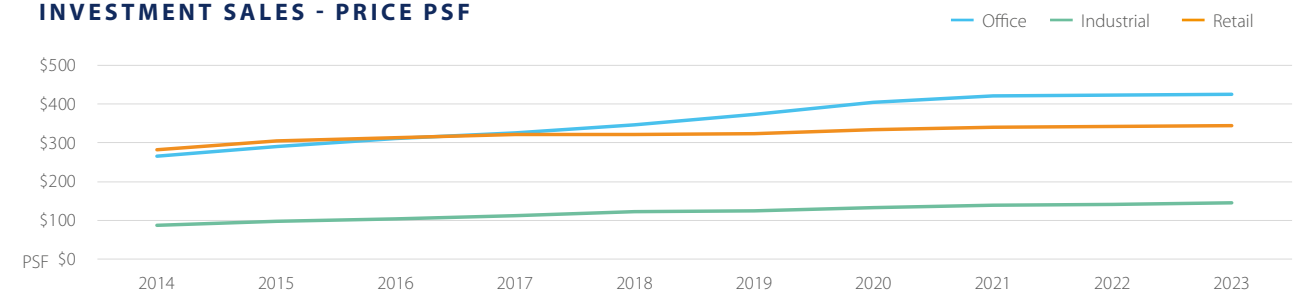
Austin’s Chamber of Commerce marks “the community’s clear-eyed commitment to its economy” and investment in economic development policies as the reason for the city’s current and future success; even during periods of uncertainty. While fears of an impending recession are whispered at the national level and year-over-year job growth shows signs of tempering, Austin’s overall economic forecast for 2020 remains positive. Sustained population growth will continue to underpin overall economic expansion in 2020, with job growth and activity expanding at a more moderate pace.

Austin’s office market shows few signs of slowing with nearly 8.0 million square feet (msf) of office product under construction at the close of 2019 and net absorption rates totalling upwards of 2.1 msf annually. Overall vacancy for office stood at 6.9% at the close of the year, signal persistent demand for product even as rental rates and operating expenses reach record-high levels. Tenant demand is expected to remain strong going into 2020 and as a result, Austin’s office market will continue along the recent trajectory measured over recent years.

Historically, Austin has not been a major industrial hub, however growth in the region has positioned the city’s industrial market for growth in 2020. Vacancy is low at 6.4% thanks to the 5.8 msf of leasing activity taking place between the third quarter of 2018 and 2019. Investors and developers are increasingly taking notice of Austin’s industrial market potential with as a result of the unprecedented demand for space putting upward pressure on leasing volume and rental rates. The Urban Land Institute ranked Austin as the number one market for overall real estate prospects in 2020, with industrial real estate projected to outperform all other property sectors.

Investment activity across all product types is robust with asking prices per square foot on the rise since 2009 and is forecasted to continue along this same trajectory into 2020 and beyond. Investors are predicted to extend their boundaries beyond Austin city limits into adjacent communities where more affordable options are offered.

INVESTMENT SALES - PRICE PSF



Source: Real Capital Analytics