Austin Overview & Forecast

Presented By:
Sam Tenenbaum
Director of Analytics, Central Texas
ECONOMY
Now In The Longest Expansion Since WW2

GDP Index

Sources: BEA; CoStar Market Analytics

As of 19Q3
## Texas Leading The Nation In Population Growth

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>308,745,538</td>
<td>325,719,178</td>
<td>16,973,640</td>
<td>5.5%</td>
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<tr>
<td>Texas</td>
<td>25,145,561</td>
<td>28,304,596</td>
<td>3,159,035</td>
<td>12.6%</td>
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<tr>
<td>California</td>
<td>37,253,956</td>
<td>39,536,653</td>
<td>2,282,697</td>
<td>6.1%</td>
</tr>
<tr>
<td>Florida</td>
<td>18,801,310</td>
<td>20,984,400</td>
<td>2,183,090</td>
<td>11.6%</td>
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<tr>
<td>Georgia</td>
<td>9,687,653</td>
<td>10,429,379</td>
<td>741,726</td>
<td>7.7%</td>
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<td>North Carolina</td>
<td>9,535,483</td>
<td>10,273,419</td>
<td>737,936</td>
<td>7.7%</td>
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<tr>
<td>Washington</td>
<td>6,724,540</td>
<td>7,405,743</td>
<td>681,203</td>
<td>10.1%</td>
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<tr>
<td>Arizona</td>
<td>6,392,017</td>
<td>7,016,270</td>
<td>624,253</td>
<td>9.8%</td>
</tr>
<tr>
<td>Colorado</td>
<td>5,029,196</td>
<td>5,607,154</td>
<td>577,958</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Sources: U.S. Census Bureau, Texas State Demographer
Population Growth Expected To Double

From 1970 to 2010 (40 years), Texas added 13.9 million people – an average rate of 349,000 per year.

Sources: U.S. Census Bureau, Texas State Demographer 2014 Projections (2000-2010 Scenario)
Population Growth Expected To Double

From 1970 to 2010 (40 years), Texas added 13.9 million people – **an average rate of 349,000 per year**

From 2010 to 2050 (40 years), Texas will add nearly 30 million people – **an average rate of about 750,000 per year**

Sources: U.S. Census Bureau, Texas State Demographer 2014 Projections (2000-2010 Scenario)
Austin's Employment Growth Showing Signs Of Life

Source: BLS
As of Dec-19
Second-Fastest Growth Nationwide

Y/Y Employment Growth

- Raleigh: 3.5%
- Austin: 3.0%
- Dallas - FW: 3.0%
- Orlando: 3.0%
- San Antonio: 3.0%
- Phoenix: 3.0%
- Seattle: 3.0%
- Jacksonville: 3.0%
- San Jose: 2.5%
- Houston: 2.5%
- Charlotte: 2.5%

U.S. Average: 1.4%

Sources: BLS; CoStar
As of Dec-19
Austin Job Growth By Employment Sector

<table>
<thead>
<tr>
<th>Employment Sector</th>
<th>Employment Growth Last 12 Months</th>
<th>Nominal Employment Growth</th>
<th>Employment Growth %</th>
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</thead>
<tbody>
<tr>
<td>Total Nonfarm</td>
<td>37,800</td>
<td></td>
<td></td>
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<tr>
<td>Office-Using</td>
<td>12,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Activities</td>
<td>1,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prof/Biz Services</td>
<td>10,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>2,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edu/Health Services</td>
<td>7,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>5,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>5,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>400</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: BLS; CoStar Market Analytics
As of Dec-19
Key Sectors Remain Healthy

Employment Growth

Source: Haver; CoStar
As of Nov-19
But Unemployment Is Tight

Unemployment Rate

Source: BLS; TX Workforce Commission; CoStar
As of Nov-19
Which May Constrain Overall Job Growth Moving Forward

Source: CoStar, Oxford Economics
It’s Tight Everywhere, So Maybe Not So Bad

Current Unemployment Rate

U.S. Average: 3.5%

Sources: BLS; CoStar
As of Nov-19
Strong Job Growth + Tight Labor Market = Population Growth

Population Growth (2017-18)

Sources: BLS; CoStar
As of Dec-19
## But Movement To The Suburbs Persists

<table>
<thead>
<tr>
<th>County</th>
<th>U.S. Rank Population Change</th>
<th>Population Change 2017-18</th>
<th>Percent of Change from Natural Increase</th>
<th>Percent Change from Domestic Migration</th>
<th>Percent Change from International Migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comal</td>
<td>67</td>
<td>7,583</td>
<td>5%</td>
<td>93%</td>
<td>2%</td>
</tr>
<tr>
<td>Hays</td>
<td>56</td>
<td>8,354</td>
<td>19%</td>
<td>78%</td>
<td>3%</td>
</tr>
<tr>
<td>Williamson</td>
<td>15</td>
<td>20,771</td>
<td>18%</td>
<td>75%</td>
<td>6%</td>
</tr>
<tr>
<td>Williamson</td>
<td>17</td>
<td>18,779</td>
<td>17%</td>
<td>74%</td>
<td>9%</td>
</tr>
<tr>
<td>Collin</td>
<td>4</td>
<td>33,753</td>
<td>19%</td>
<td>65%</td>
<td>16%</td>
</tr>
<tr>
<td>Denton</td>
<td>11</td>
<td>23,734</td>
<td>26%</td>
<td>64%</td>
<td>10%</td>
</tr>
<tr>
<td>Bexar</td>
<td>9</td>
<td>27,208</td>
<td>51%</td>
<td>30%</td>
<td>19%</td>
</tr>
<tr>
<td>Travis</td>
<td>14</td>
<td>20,972</td>
<td>46%</td>
<td>23%</td>
<td>30%</td>
</tr>
<tr>
<td>Tarrant</td>
<td>8</td>
<td>27,463</td>
<td>54%</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td>Hidalgo</td>
<td>65</td>
<td>7,616</td>
<td>131%</td>
<td>-47%</td>
<td>16%</td>
</tr>
<tr>
<td>Harris</td>
<td>3</td>
<td>34,460</td>
<td>122%</td>
<td>-127%</td>
<td>104%</td>
</tr>
<tr>
<td>Dallas</td>
<td>28</td>
<td>14,973</td>
<td>154%</td>
<td>-149%</td>
<td>96%</td>
</tr>
</tbody>
</table>

*Note: Harris, Dallas and Hidalgo Counties had net negative domestic migration*

*Source: U.S. Census Bureau, 2018 Vintage Population Estimates*
Austin Office Fundamentals

Annual Change in Demand & Supply (Thousands)

Vacancy & Vacancy Average

Annual Rent Growth

Source: CoStar Market Analytics
Austin Posts Top-5 Rent Growth In U.S.

Rent Growth, Y/Y

Sources: CoStar

As of 19Q4
After Bay Area, No Place Seen More Growth Than CBD

Sources: CoStar

Rent Growth Since 07Q4

- SF - MidMarket: 133%
- SF - Rincon/South Beach: 121%
- SF - South Financial District: 101%
- San Jose - Cupertino: 91%
- Austin - CBD: 83%
- SF - Financial District: 82%
- San Jose - Moffett Park: 80%
- San Jose - South: 79%
- SF - Union Square: 79%
- San Jose - Palo Alto South: 78%
- SF - Foster City/Redwood Shrs: 76%
- SF - Menlo Park/East/Palo Alto: 75%
- Austin - South: 74%
- Nashville - Downtown/Harvard Sq: 72%
- East Bay - Emeryville: 67%
- San Jose - Oakmead Park: 67%
- SF - South Beach: 66%
- San Jose - West of Van Ness: 66%
- SF - South Financial District: 65%
But More Underway Than Even The 2000s Cycle

Source: CoStar
As of 19Q4
Why? Tight Labor Market Explains It

Unemployment Rate

Source: BLS; TX Workforce Commission; CoStar
As of Nov-19
Possible Weakness In The Near Future?

Annual Change in Demand & Supply (Thousands)

Vacancy & Vacancy Average

Annual Rent Growth

Source: CoStar Market Analytics

As of 19Q4
MEDICAL OFFICE MARKET UPDATE

CoStar™
Demographics: Age Characteristics

- **United States**
  - 0-19 Years Old: 16%
  - 20-34 Years Old: 25%
  - 35-49 Years Old: 19%
  - 50-64 Years Old: 21%
  - 65+ Years Older: 19%

- **Austin**
  - 0-19 Years Old: 26%
  - 20-34 Years Old: 24%
  - 35-49 Years Old: 23%
  - 50-64 Years Old: 16%
  - 65+ Years Older: 11%

Five Year Change (13-18)

- **United States**
  - 0-19 Years Old: 26%
  - 20-34 Years Old: 24%
  - 35-49 Years Old: 23%
  - 50-64 Years Old: 16%
  - 65+ Years Older: 11%

- **Austin**
  - 0-19 Years Old: 25%
  - 20-34 Years Old: 19%
  - 35-49 Years Old: 16%
  - 50-64 Years Old: 19%
  - 65+ Years Older: 21%

Source: U.S. Census Bureau
Aging Population Demanding More Healthcare

% Of Population Age 65+

Sources: US Census; CoStar

As of 18Q4

Austin - TX

81 83 85 87 89 91 93 95 97 99 01 03 05 07 09 11 13 15 17 19

Austin U.S.

% Of Population Age 65+
Ambulatory Employment Typically Outperforms

Sources: BLS; CoStar Market Analytics
As of Dec 19

Y/Y Job Growth

0% 2% 4% 6% 8% 10%

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19

Ambulatory Services Employment  Austin

CoStar
Medical Office Demand Is Stronger Than Overall Market

Source: CoStar

As of 19Q4

Medical Office Avg: 4.1%
Total Office Avg: 1.9%
But We’re Also Delivering Lots Of Medical Office

Medical Office Avg: 4.7%
Total Office Avg: 2%

Source: CoStar
As of 19Q4
MOB Construction Has Ticked Up Above Historical Average

Source: CoStar
As of 19Q4
The Highest Construction Levels In The Country

% Inventory Underway

Vacancy Rate

Austin
Jacksonville
Fort Lauderdale
Dallas - FW
Tampa
Miami
San Antonio
Boston
Houston
Atlanta
Orlando
Seattle
Los Angeles
Washington, D.C.
Charlotte
Chicago
San Francisco

% Of Inventory Underway

Current Vacancy Rate

National Vacancy Rate

Source: CoStar
As of 19Q4
Vacancies Are Higher Than Overall Office Market

Source: CoStar

As of 19Q4

Medical Office

Total Office

Source: CoStar

As of 19Q4
Higher Vacancies Have Weighed On Rent Growth

Rent Growth, Y/Y

- Medical Office Avg: 4%
- Total Office Avg: 4.6%

Source: CoStar

As of 19Q4
But There Might Be Some Upside

Vacancy Rate

Source: CoStar
As of 19Q4
But Strong 65+ Population Growth Could Be Saving Grace

65+ Population Growth (2014Q4-2019Q4)

Medical Office SF Per Capita (Aged 65+)

Sources: Oxford Economics; CoStar

As of 19Q4
E-Commerce Boosting Industrial Nationally

Source: Census Bureau
But It’s Still A Small Portion Of Retail Sales

Sources: U.S. Department of Commerce; Moody's Analytics; CoStar Portfolio Strategy
As of 18Q4

Total Retail Sales, ex Auto & Gas  E-Commerce Sales  Annual E-Commerce Growth
Austin Industrial Fundamentals

Annual Change in Demand & Supply (Thousands)

Vacancy & Vacancy Average

Annual Rent Growth

Source: CoStar

As of 19Q4
Demand Slowing, Supply Will Catch Up In Most Markets

Change in Supply (19Q4-21Q3)

Change in Demand (19Q4-21Q3)

Source: CoStar Portfolio Strategy
As of 19Q4
Industrial Leads Since 2007

Rent Growth Since 07Q4

Source: CoStar
As of 19Q4
Because Industrial Is Now Institutional

EIF Property Types By SF

Sources: NCREIF; CoStar Portfolio Strategy
As of 18Q4
**Housing Starts Remain A Strong Driver Of Absorption**

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Family Starts</th>
<th>Apartment Deliveries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-03-31</td>
<td>15,000</td>
<td>5,000</td>
</tr>
<tr>
<td>1982-06-30</td>
<td>20,000</td>
<td>10,000</td>
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<td>1982-09-30</td>
<td>25,000</td>
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<td>1982-12-31</td>
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<td>135,000</td>
</tr>
<tr>
<td>1988-12-31</td>
<td>150,000</td>
<td>140,000</td>
</tr>
</tbody>
</table>

*Sources: Oxford Economics; CoStar Market Analytics*
Big Deals Coming From Local Economic Growth
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