Georgetown, Texas: State of the CRE Market

Revathi Greenwood, Americas Head of Research
November 2019
AGENDA

01 The Big Picture

02 Georgetown CRE

03 Capital Markets

04 Takeaways and Discussion
MOST GEOGRAPHICAL EVENTS DO NOT MATTER
G7 COUNTRIES, UNEMPLOYMENT RATE

Source: OECD, Cushman Wakefield Research
THE CYCLE DOES
G7 COUNTRIES, UNEMPLOYMENT RATE

Source: OECD, Cushman Wakefield Research
U.S. CYCLE HAS BROKEN ALL RECORDS

Source: NBER, Cushman Wakefield Research
GEORGETOWN VS US

Real GDP

Unemployment Rate

Office Using Job Growth

Wage Growth

Source: Moody’s Analytics, Cushman Wakefield Research
### 2020 Elections

<table>
<thead>
<tr>
<th>Polling Firm</th>
<th>CNN</th>
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<td></td>
<td>45%</td>
<td>36%</td>
<td>47%</td>
</tr>
<tr>
<td></td>
<td>51%</td>
<td>43%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: FiveThirtyEight, Cushman Wakefield Research
Report Card

- Democrat: 2.8%
- Republican: 2.7%

Investment sales vol (2001)
- Democrat: $284 B
- Republican: $278 B
TRADE WARS
US CHINA TRADE TARIFFS IN 2018

Source: Cushman Wakefield Research
2019 AND BEYOND
US CHINA TARIFFS IMPLEMENTED & THREATENED

Chinese Exports to U.S.
- Proposed 25% on $325B
- 10% to 25% on $200B
- 25%
- 10% to 25% on $60B

U.S. Exports to China

Source: Cushman Wakefield Research
IMMIGRATION
REFORM
IMMIGRATION DRIVING WORKFORCE

47.8% of U.S. population growth in 2017 from foreign immigration

69.5% of foreign immigrants working age, compared to 59.6% of U.S. residents
WORKING AGE POPULATION DECLINES WITHOUT IT

Source: Cushman Wakefield Research
2.1 Million
## Labor Shortages Are a Problem

**Unemployment Rate:** Williamson County 2007 Avg = 3.7; Aug 2019 = 2.8

<table>
<thead>
<tr>
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<td>Riverside</td>
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<td>Dallas</td>
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<td>3.1</td>
<td>Baltimore</td>
<td>3.6</td>
<td>3.8</td>
<td>Nashville</td>
<td>4.1</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, Cushman & Wakefield Research
# Job Growth to Slow but Remain Healthy

## Top 25: Total Nonfarm Employment Gains, 000’s

<table>
<thead>
<tr>
<th>Rank</th>
<th>Metro Area</th>
<th>Job Growth 2018</th>
<th>Job Growth 2019</th>
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<td>1</td>
<td>Dallas</td>
<td>87.9</td>
<td>111.0</td>
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<td>2</td>
<td>New York</td>
<td>127.6</td>
<td>108.0</td>
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<td>Houston</td>
<td>63.6</td>
<td>81.4</td>
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<td>Los Angeles</td>
<td>96.3</td>
<td>67.1</td>
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<td>San Francisco</td>
<td>54.5</td>
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<td>6</td>
<td>Phoenix</td>
<td>68.7</td>
<td>58.7</td>
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<td>Chicago</td>
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<td>Miami</td>
<td>50.5</td>
<td>55.9</td>
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<td>9</td>
<td>Seattle</td>
<td>48.1</td>
<td>55.2</td>
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<td>10</td>
<td>Atlanta</td>
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<td>52.9</td>
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<tr>
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<td>Orlando</td>
<td>45.9</td>
<td>46.8</td>
</tr>
<tr>
<td>12</td>
<td>Washington</td>
<td>36.1</td>
<td>32.3</td>
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<tr>
<td>13</td>
<td>Charlotte</td>
<td>28.0</td>
<td>30.8</td>
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<td>14</td>
<td>San Jose</td>
<td>20.0</td>
<td>30.0</td>
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<td>15</td>
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<td>16</td>
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<td>17</td>
<td>Austin</td>
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<td>18</td>
<td>Boston</td>
<td>24.3</td>
<td>25.2</td>
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<td>19</td>
<td>Tampa</td>
<td>31.1</td>
<td>24.8</td>
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<td>20</td>
<td>Denver</td>
<td>36.8</td>
<td>24.3</td>
</tr>
<tr>
<td></td>
<td>Williamson County</td>
<td>8.6</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, Moody’s Analytics Forecasts, Cushman & Wakefield Research
By 2020 how will demand for these increase?

- **75%** Multi-Purpose Space
- **71%** Lounge / Social Area
- **63%** Fitness Services
- **57%** Outdoor Patio / Seating Area
- **52%** Fitness Center
- **50%** Outdoor Recreation Area / Walking Paths
- **45%** Coffee Shop / Bakery
- **43%** Quiet Room/ Child Care
- **41%** Nursing / Lactation Area
- **40%** Full-Service Cafeteria / Food Services

Source: Corenet Sodexho Survey, 265 respondents
By 2020 how will demand for these increase?

**Spaces to socialize & entertain**
- 75% Multi-Purpose Space
- 71% Lounge / Social Area

**Spaces for privacy when needed**
- 43% Quiet Room
- 41% Nursing / Lactation Area

**Fitness & Wellbeing**
- 63% Fitness Services
- 57% Outdoor Patio / Seating Area
- 52% Fitness Center
- 50% Outdoor Recreation Area / Walking Paths

**Food**
- 45% Coffee Shop / Bakery
- 40% Full-Service Cafeteria / Food Services
- 43% Child Care

Source: Corenet Sodexho Survey, 265 respondents
MASLOW’S HIERARCHY OF NEEDS

- Physiological
- Safety
- Love/Belonging
- Esteem
- Self-Actualization
Commuting
COMMUTE TIMES SIGNIFICANT PAIN POINT

National Average Commute Time: 26.6 minutes

Source: Cushman & Wakefield Research
How do people get to work?

- 85.3% Car, Truck, or Van
- 5.0% Public Transportation (excluding taxi(s))
- 5.2% Worked at Home
- 2.7% Walked
- 0.5% Bicycle
- 1.3% Other

Source: Cushman & Wakefield Research; Census American Community Survey, 2017
CRE FUNDAMENTALS
OFFICE VACANCY BOTTOMING?

U.S. TOTAL NET ABSORPTION, CONSTRUCTION DELIVERIES (MSF) AND VACANCY RATE

Source: Cushman & Wakefield Research
Key Engines Powering Office Demand

- *Gross Leasing, 2011-2019Q3 MSF
Since January 2010, **58 of the 89** San Francisco Bay Area headquartered (100,000 SF+) tech and life science companies have taken **30.4 MSF** of office space across the U.S. representing:

- **Austin Metro No 1**
- **Boston** 1.7 MSF
- **New York** 5.0 MSF
- **Washington, DC** 1.0 MSF
- **Chicago** 2.5 MSF
- **Austin** 6.1 MSF
- **Seattle** 5.1 MSF
- **Portland** 1.0 MSF
- **Denver** 0.9 MSF
- **3.1 MSF Southern California**

Source: Cushman & Wakefield Research, CoStar
HI-TECH OFFICE WORKER

4 - 5 X MULTIPLIER

NON HI-TECH OFFICE WORKER

2 - 3X MULTIPLIER

Source: Cushman & Wakefield Research
U.S. Office New Supply

- Strongest 3-year Stretches on Record (1995-2018)

51% 
late 1990’s

18% 
previous cycle

- 1999: 343 MSF
- 2000: 103 MSF
- 2001: 128 MSF
- 2007: 60 MSF
- 2008: 84 MSF
- 2009: 75 MSF
- 2017: 168 MSF
- 2018: 168 MSF
- 2019: 168 MSF
## Where Is Supply Coming From?

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Completions (msf)</th>
<th>% of Inv.</th>
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</thead>
<tbody>
<tr>
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<td>10.3</td>
<td>4.3%</td>
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<td>2</td>
<td>San Jose</td>
<td>8.6</td>
<td>4.0%</td>
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<td>3</td>
<td>Dallas</td>
<td>7.9</td>
<td>3.9%</td>
</tr>
<tr>
<td>4</td>
<td>Chicago</td>
<td>7.3</td>
<td>3.1%</td>
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<tr>
<td>5</td>
<td>Washington</td>
<td>6.9</td>
<td>6.4%</td>
</tr>
<tr>
<td>6</td>
<td>Atlanta</td>
<td>6.2</td>
<td>4.4%</td>
</tr>
<tr>
<td>7</td>
<td>Austin</td>
<td>6.2</td>
<td>12.4%</td>
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<tr>
<td>8</td>
<td>San Mateo County</td>
<td>5.8</td>
<td>10.6%</td>
</tr>
<tr>
<td>9</td>
<td>San Francisco</td>
<td>5.8</td>
<td>7.4%</td>
</tr>
<tr>
<td>10</td>
<td>Seattle</td>
<td>5.5</td>
<td>8.4%</td>
</tr>
<tr>
<td>11</td>
<td>Denver</td>
<td>5.2</td>
<td>4.6%</td>
</tr>
<tr>
<td>12</td>
<td>Raleigh/Durham</td>
<td>4.9</td>
<td>9.4%</td>
</tr>
<tr>
<td>13</td>
<td>Phoenix</td>
<td>4.7</td>
<td>4.6%</td>
</tr>
<tr>
<td>14</td>
<td>Los Angeles Non-CBD</td>
<td>4.5</td>
<td>2.6%</td>
</tr>
<tr>
<td>15</td>
<td>Boston</td>
<td>4.5</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

**Georgetown**

Ranks 64th with 256,121 of completions; 12.2% of inventory

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Estimated New Completions in the U.S., 2018-2020
Georgetown data source: CoStar
Austin suburban office sector overview

Source: Cushman & Wakefield Research
### US Office Vacancy Today

**Oversupplied** (Vacancy over historical avg.)

<table>
<thead>
<tr>
<th>City</th>
<th>2019Q3</th>
<th>10-Yr Average</th>
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</thead>
<tbody>
<tr>
<td>New York - Downtown</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Nashville</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Washington D.C.</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Houston</td>
<td>21%</td>
<td>16%</td>
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**Tight** (Vacancy under historical avg.)

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<th>10-Yr Average</th>
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<td>Phoenix</td>
<td>15%</td>
<td>20%</td>
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<tr>
<td>San Diego</td>
<td>12%</td>
<td>17%</td>
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<tr>
<td>San Francisco</td>
<td>5%</td>
<td>10%</td>
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<tr>
<td>Austin</td>
<td>9%</td>
<td>14%</td>
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<td>Raleigh/Durham</td>
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<td>12%</td>
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<td>14%</td>
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<td>San Jose</td>
<td>10%</td>
<td>13%</td>
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**Balanced** (Vacancy at historical avg.)

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<td>17%</td>
<td>18%</td>
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<td>19%</td>
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<td>Philadelphia</td>
<td>14%</td>
<td>14%</td>
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<tr>
<td>Chicago</td>
<td>17%</td>
<td>17%</td>
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<td>Denver</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>New York - Midtown</td>
<td>11%</td>
<td>10%</td>
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<tr>
<td><strong>Georgetown</strong></td>
<td>7%</td>
<td>7%</td>
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</table>

Source: Cushman & Wakefield Research / CoStar
Austin: Office Rent Trends

Austin CBD: Class A vs. Overall

CBD vs. Suburbs

Source: Cushman & Wakefield Research
Demographics
GROUPS OF PEOPLE ARE PREDICTABLE

Source: U.S. Bureau of the Census, 2017
Williamson County Population Projected Growth

Source: Moody's Analytics
Austin Multifamily Market Fundamentals

Inventory = 250,000 units

Source: Axiometrics, Cushman & Wakefield Research
Round Rock/Georgetown Multifamily Market Fundamentals

- Source: Axiometrics, Cushman & Wakefield Research
Green Shoots: Clicks to Bricks

- eCommerce retailers…

**opening physical stores**
- Average: 37%
- Established Retailers: 36%
- New Retailers (Digital Natives): 45%

**closing physical stores**
- Apparel: 10%
- Department: 8%
- Home: 16%
Green Shoots: eGroceries

U.S. Total Market Share

- 2015: 2.4%
- 2016: 3.0%
- 2017: 3.8%
- 2018: 5.1%
- 2019 (F): 7.1%
- 2020 (F): 10.0%
Green Shoots: Food Halls on Fire!

Source: Cushman & Wakefield Research
Round Rock/Williamson County Retail Sector Fundamentals

Source: Reis, Cushman & Wakefield Research
CAPITAL MARKETS
Robust Liquidity in Transaction Market

Rolling 4-Qtr Investment Sales Volume
Dollars in billions

Source: RCA, Cushman & Wakefield Research
Deals over $5M
Fundraising for CRE Remains Strong

Dry Powder Targeted at North America Commercial Real Estate ($ Bn)

<table>
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<th>Year</th>
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<th>Dec-16</th>
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<td>97.4</td>
<td>138.4</td>
<td>149</td>
<td>175.4</td>
<td>211.3</td>
<td>206.9</td>
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+112%
Activity Strong

On Course for Record-Setting 2019

Top Secondary Markets

<table>
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<th>Rank</th>
<th>Market</th>
<th>Sales Volume ($B)</th>
<th>YTD 2019</th>
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<td>Atlanta</td>
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<tr>
<td>4</td>
<td>Phoenix</td>
<td>9.4</td>
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<td>5</td>
<td>Houston</td>
<td>7.8</td>
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<td>6</td>
<td>Miami/So Fla</td>
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<td>7</td>
<td>Austin</td>
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<td>10</td>
<td>Philly Metro</td>
<td>5.1</td>
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</table>

Source: RCA, Cushman & Wakefield Research
Deals over $5 million
On Course For Record Setting 2019

Williamson County

Williamson County Investment Sales ($B)

- Apartment
- Industrial
- Office
- Retail
Spreads Still Attractive

**Austin Yield vs. Treasuries**
- Previous Cycle Average: 307 BP
- Current Cycle Average: 382 BP

**Austin vs. Gateway Cap Rates**
- Previous Cycle Average: 56 BP
- Current Cycle Average: 70 BP

Source: RCA, Cushman & Wakefield Research
Deals over $5 million
Key Takeaways
KEY TAKEAWAYS

• U.S. expansion continues, Austin/Georgetown to outperform
• Mountain of capital targeting markets like Austin suburbs - opportunistic/core-plus
• Office sector – high tech base, strong leasing, suburbs strong
• Retail mixed – all about quality; steer clear of anything challenging Ecommerce directly
• Multifamily - HH formation revving up, structural drivers strong and affordability key
• Strong opportunities - development deals, strategic class B plays, and attractive spreads relative to gateways
Thank you!

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