

Austin Office | Q3 2022 Quarterly Market Report

January 2023

The Austin Office development pipeline has reached the second-highest level of all-time at 7.9 million.

Executive Summary

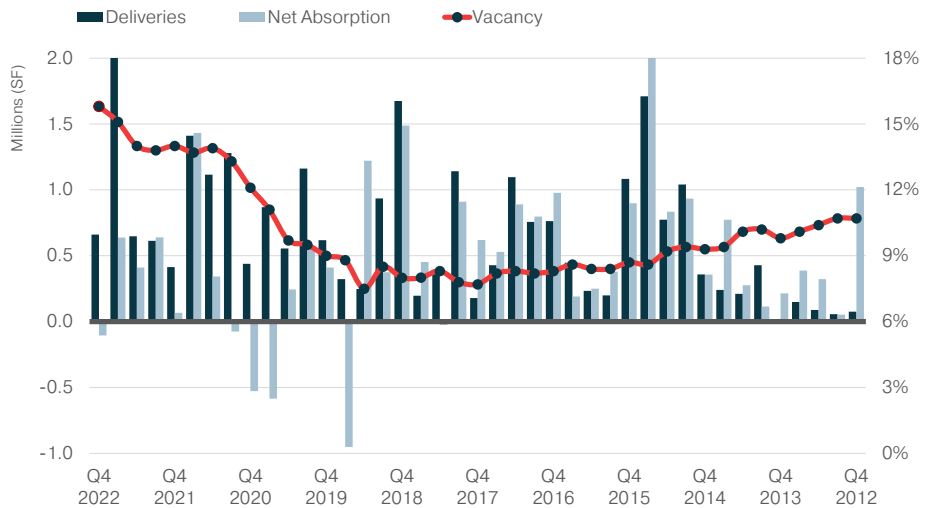
Vacancy rate at 15.8%

The overall vacancy rate in the Austin office market was up 70 basis points quarter-over-quarter from 15.1% and up 180 basis points year-over-year from 13.8%. The vacancy rate for Class A properties is 23.8%. In Q4 2022, overall net absorption went into the red at negative 150,177 sq. ft., bringing the year-to-date amount to positive 1.6 million sq. ft. Of the 8 million sq. ft. currently, under construction, 47% of that space is available. The overall Austin average asking full-service rent is at \$40.95 per sq. ft.—up from last year’s \$40.40 per sq. ft.—while the asking price for Class A space in the Central Business District is averaging \$61.40 per sq. ft.

Austin Economic Indicators

In November, Austin’s economy continued to grow as employment increased and the unemployment rate fell. At the same time, Austin’s housing market continued to cool down due to rising mortgage rates that caused both housing sales and median prices to decline. Austin’s unemployment rate fell further to 2.8% in November. This was lower than the state’s jobless rate of 4.0% and the nation’s 3.7% rate. Austin employment grew by an annualized 5.4%, or by 40,854 net jobs in November. Growth was led by leisure and hospitality (42.1%, or 4,229 jobs), and health and education services (14.3%, or 1,605 jobs). Two sectors experienced declines in the past month: professional and business services (8.1%, or 1,889 jobs), and construction (7.2%, or 461 jobs). As of November, Austin payrolls grew 5.1% year over year.

Supply & Demand



Source: CoStar, Partners Research

Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q1 2022		PRIOR YEAR Q3 2022	
Vacant Total	15.8%	15.1%	▲	14.0%	▲
Vacant Direct	12.9%	12.9%	▬	12.1%	▲
Available Total	21.1%	20.3%	▲	18.7%	▲
Available Direct	17.1%	17.2%	▼	16.5%	▲
Net Absorption (SF)	-105,468	638,237	▼	67,240	▼
Leasing Activity (SF)	1,308,695	1,302,975	▲	3,147,705	▼
Construction (SF)	7,979,941	7,695,433	▲	7,017,846	▲
Deliveries (SF)	659,875	2,150,164	▼	412,985	▲
Avg Asking Rent (Gross)	\$40.95	\$40.25	▲	\$40.40	▲
Inventory (SF)	106,996,229	106,298,458	▲	102,888,456	▲

partners
PARTNERSREALESTATE.COM

Independently written, researched, edited, and produced in-house by Partners.

Market Overview

Austin office space availability increases

Overall space availability, which includes current, sublease, and future vacancy, is at 21.1%. The South submarket ended 2022 with an availability rate of 31.4%, followed by the Northwest at a 26.7% availability rate and the Southwest at 24.5%. The difference between this figure and the vacancy rate reflects expected future move-outs. Q4 2022 marks the third consecutive quarter that delivered supply (660,000 sq. ft.) outpaced demand (represented by net absorption at negative 105,000 sq. ft.). With current projects under construction at 8 million sq. ft., demand will have to significantly increase for the high availability rate to have an opportunity to decrease. Also, increasing remote work could slow the market's growth moving forward. Austin has many smaller tech companies that could decide to remain remote for the longer haul, altering the required space in the future.

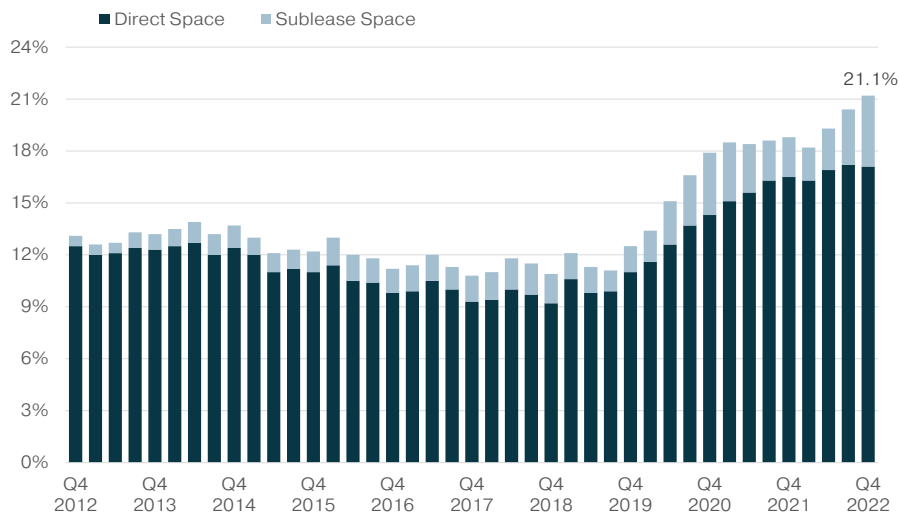
Net absorption

Net absorption in the Austin office market dropped into the red during Q4 2022, although total net absorption for the year was in positive territory at 1.6 million sq. ft. Class A represented positive 1.8 million sq. ft. and Class B negative 212,000 sq. ft. The submarkets leading positive net absorption year-to-date in 2022 are the Southeast at 713,000 sq. ft., followed by the CBD at 710,000 sq. ft., and coming in third, the Northwest submarket at 460,000 sq. ft.

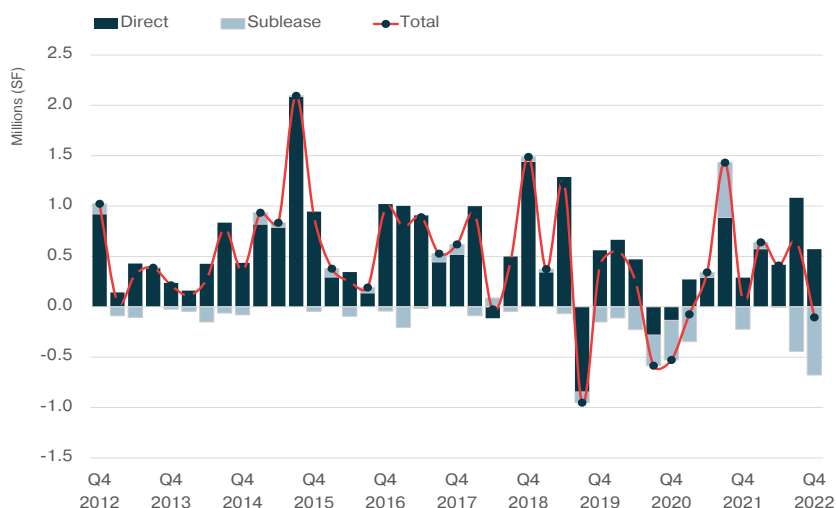
Construction activity remains high

Construction levels in Austin are among the highest in the nation. 8 million sq. ft. is underway (53% preleased)—representing 7.5% of inventory—on top of the 4.1 million sq. ft. delivered (72% preleased) in 2022. There is 2.6 million sq. ft. of proposed projects in 2023 that have been announced, although they have yet to break ground. The amount of construction underway and in the pipeline is easily comprehensible, as the Austin office market remains one of the most dynamic in the country. New York-based Related Companies is planning a 15-story office tower called One Ladybird Lake. It will be at 208 Barton Springs Road on the current site of the Hyatt Regency Austin's parking lot in the CBD. Construction is scheduled to begin in Q4 2023, with completion slated for late 2025.

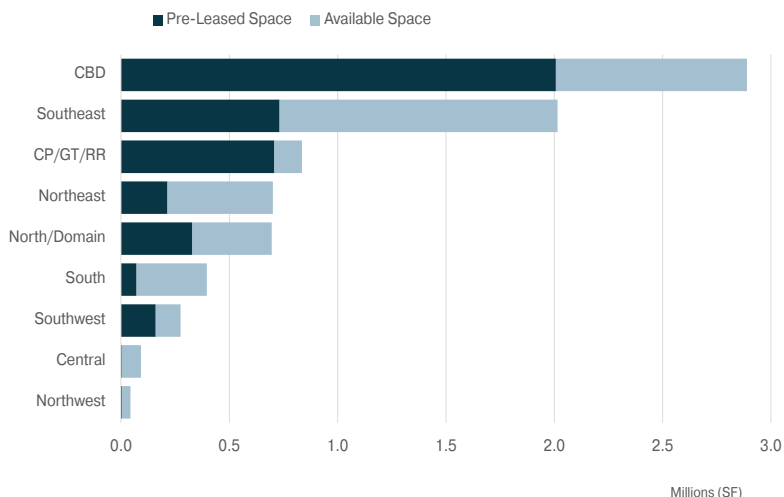
Availability Rates



Net Absorption



Construction



Investment sales trends

Real Capital Analytics data reports quarterly sales volume for Q4 2022 in the Austin metro area at \$158 million, down significantly from last year when Kilroy Realty closed the deal on Indeed Tower for \$580 million. The primary capital composition for buyers so far in 2022 was made up of 53% private investors and 32% institutional. For sellers, the majority were 67% private investors, 22% institutional, and 10% REIT/listed. One of Austin's most notable office transactions in in the second half of 2022 was Beacon Capital Partners purchasing The Foundry from Tishman Speyer. The Foundry in East Austin consists of two buildings totaling 240,000 sq. ft. The asset, 96% leased at the time of sale, was sold for an undisclosed price.

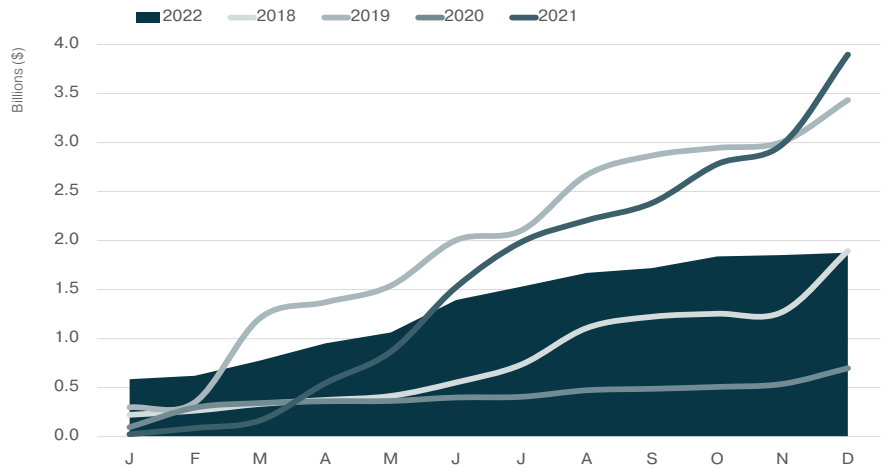
Leasing activity

The volume of signed lease transactions during 2022—which is comprised of both new leases and renewals—was 6.8 million sq. ft. compared to the previous year's 8.9 million sq. ft. Significant transactions that were signed in 2022 include TRS signing a lease for 235,000 sq. ft. in Mueller Business District - Bravo in East Austin; Whole Foods Market headquarters subleasing 188,111 sq. ft. at 525 N. Lamar Blvd. in the CBD; Teacher Retirement System of Texas inking a deal for 158,163 sq. ft. in Mueller Business District - Alpha in East Austin; and TikTok subleasing 126,429 sq. ft. at 300 Colorado Street in the CBD.

Rent growth continues to grow

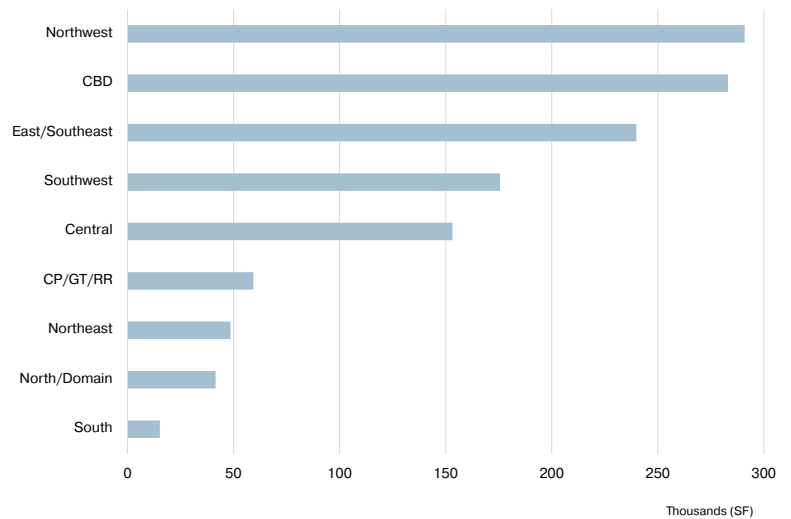
Austin's overall full-service average rates are at \$40.95 per sq. ft., up 1.4% from this time last year at \$40.40 and up 1.7% quarter over quarter from \$40.25. Overall asking rates for Class A space is \$46.14, and Class B is \$33.49 per sq. ft. The asking rate is what is officially quoted for any given building and will differ from the 'bottom line' actual rental after negotiations, known as the effective rate. Over the long term, the outlook for rent growth in Austin should be optimistic. In marginal terms, rent has surpassed most major markets across the U.S. to become the fourth most expensive in the country, according to CoStar. While the near-term outlook may contain more downside risk, the performance over the past decade should leave little doubt that the market can sustain above-average rent growth over the long term.

Cumulative Monthly Sales Volume

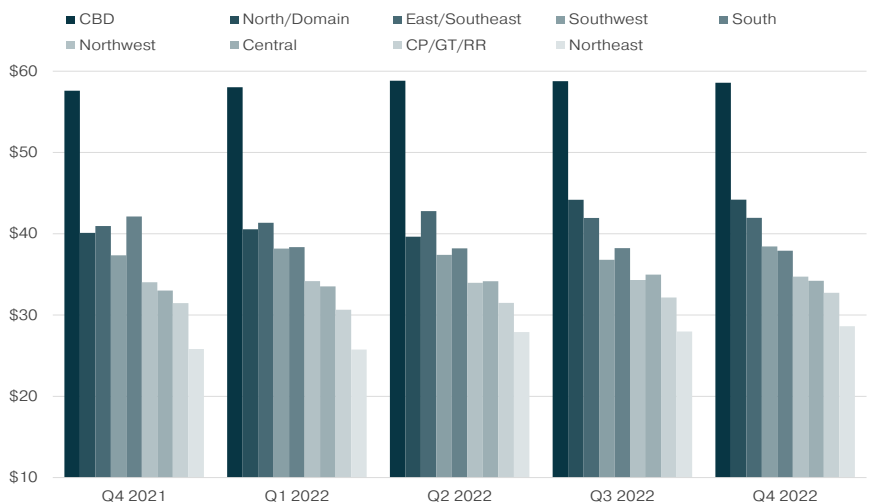


Source: Real Capital Analytics

Leasing Activity



Overall Gross Asking Rent (\$PSF)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q4 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	106,958,333	15.8	21.1	-105,468	1,581,984	1,307,525	7,979,941	40.95
Class A	55,104,392	16.4	23.8	-150,577	1,794,235	756,338	6,957,678	46.14
Class B	45,659,968	16.8	21.1	-43,198	-211,862	533,315	416,567	33.49
CBD Total	20,820,156	16.2	18.9	-91,798	709,573	283,135	2,889,370	58.58
Class A	13,536,072	20.3	22.7	-59,601	859,038	265,798	2,889,370	61.40
Class B	5,469,211	9.9	11.8	-128,366	-96,135	72,791	0	47.52
Central Total	7,037,957	11.1	13.5	-3,718	151,850	153,166	92,217	34.22
Class A	2,367,517	11.8	17.1	-53,588	69,359	14,852	92,217	43.22
Class B	3,523,344	14.8	16.4	47,858	30,001	27,018	0	30.09
Cedar Park/Georgetown/ Round Rock	8,279,616	3.2	7.5	29,600	308,983	59,375	835,016	32.74
Class A	4,615,856	2.4	6.8	2,614	147,220	14,534	120,946	33.04
Class B	2,895,007	5.5	11.2	7,810	122,777	49,087	161,270	31.50
North/Domain Total	10,577,005	13.8	18.2	-81,077	-110,858	41,547	695,865	44.20
Class A	5,108,653	10.3	18.0	-30,236	-130,984	34,047	695,865	51.21
Class B	5,351,072	16.6	17.9	-4,621	70,877	34,964	0	33.03
Northeast Total	5,654,785	20.8	24.5	-233,560	-524,632	48,615	738,722	28.63
Class A	1,763,314	34.9	40.4	-160,878	-403,830	13,038	700,826	31.66
Class B	3,077,816	13.0	15.8	-15,696	-19,790	30,776	60,000	27.26
Northwest Total	22,022,334	19.0	26.7	309,164	459,578	290,947	43,636	34.72
Class A	11,584,955	14.5	21.6	385,684	546,549	146,459	0	36.75
Class B	10,234,583	24.3	32.2	14,172	-58,222	127,993	43,636	31.66
South Total	4,715,646	20.4	31.4	17,104	-14,035	15,238	395,845	37.91
Class A	2,026,495	15.9	34.0	-6,928	255,296	9,474	395,845	46.65
Class B	2,413,198	26.3	31.1	11,280	-305,093	55,377	0	35.59
East/Southeast Total	12,852,567	17.1	21.9	149,540	713,221	239,869	2,014,513	41.96
Class A	4,720,931	21.5	33.2	27,996	622,267	137,295	1,979,513	46.81
Class B	7,294,537	18.2	23.4	3,588	-56,925	27,599	35,000	34.80
Southwest Total	14,998,267	16.3	24.5	-200,723	-111,696	175,633	274,757	28.44
Class A	9,380,599	18.5	28.6	-255,640	-170,680	120,841	83,096	41.80
Class B	5,401,200	13.1	16.4	20,777	100,648	107,710	116,661	32.44
Suburban Total	86,138,177	15.7	21.7	-13,670	872,411	1,024,390	5,090,571	37.53
Class A	41,568,320	15.1	24.2	-90,976	935,197	490,540	4,068,308	41.75
Class B	40,190,757	17.7	22.3	85,168	-115,727	460,524	416,567	32.23

Austin Office Quarterly Market Report

Q4 2022

Leta Wauson

Director of Research

leta.wauson@partnersrealestate.com

tel 713 275 9618

partners

AUSTIN

+ 512 580 6208

701 Brazos Street #320

Austin, Texas 78701

PARTNERSREALESTATE.COM