

With sky-high construction levels, the Austin office market remains one of the most dynamic in the country.

### Executive Summary

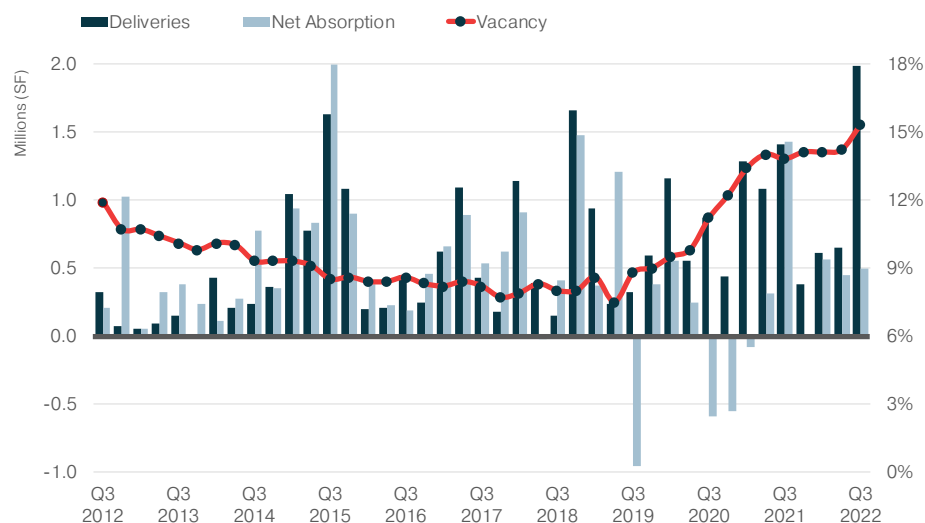
#### Vacancy rate at 15.3%

The overall vacancy rate in the Austin office market was up quarter-over-quarter from 14.2% in Q2 2022 and year-over-year from 13.8% in Q3 2021. The vacancy rate for Class A properties is 15.4%. In Q3 2022, overall net absorption totaled positive 501,000 sq. ft., bringing the year-to-date amount to positive 1.5 million sq. ft. Of the 9.4 million sq. ft. currently, under construction, 53% of that space is available. The overall Austin average asking full-service rent is at \$41.42 per sq. ft.—up from last year’s \$40.06 per sq. ft.—while the asking price for Class A space in the Central Business District is averaging \$61.83 per sq. ft.

#### Austin’s economy slowed in August

Austin’s unemployment rate fell to 2.8% in August, compared to the state at 4.1% and the nation at 3.7%. Austin employment fell an annualized 4.6%, or by 4,933 net jobs, in August. This was due to declines in professional and business services (11.9%, or 2,814 jobs), construction and mining (11.5%, or 749 jobs), and trade, transportation, and utilities (10.2%, or 1,831 jobs). However, other services (15.4%, or 577 jobs) and leisure and hospitality (6.6%, or 728 jobs) saw increases. As of August, Austin payrolls have increased 6.1% year over year and 5.0% year to date. Austin’s three-month moving average for wages declined to \$32.70 in August, remaining higher than both the U.S. average of \$32.24 and the state average of \$29.92. Year-over-year wage growth for Austin declined to 3.5%, remaining above Texas’ 2.7% gains, but no longer outpacing the U.S. growth of 5.2%.

### Supply & Demand



Source: CoStar, NAI Partners Research

### Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q1 2022		PRIOR YEAR Q3 2022	
Vacant Total	15.3%	14.2%	▲	13.8%	▲
Vacant Direct	13.1%	12.3%	▲	12.1%	▲
Available Total	21.5%	20.4%	▲	18.6%	▲
Available Direct	18.4%	18.0%	▲	16.4%	▲
Net Absorption (SF)	500,978	450,779	▲	1,430,927	▼
Leasing Activity (SF)	1,278,378	1,848,041	▼	2,224,643	▼
Construction (SF)	9,415,330	9,284,453	▲	6,530,791	▲
Deliveries (SF)	1,986,009	647,142	▲	1,410,216	▲
Avg Asking Rent (Gross)	\$41.42	\$40.86	▲	\$40.06	▲
Inventory (SF)	105,086,506	103,100,497	▲	101,463,274	▲

# Market Overview

## Austin office space availability increases

Overall space availability, which includes current, sublease, and future vacancy, is at 21.5%. The South submarket ended Q3 2022 with an availability rate of 30.6%, followed by the East/Southeast at a 27.4% availability rate and the Northwest at 26.2%. The difference between this figure and the vacancy rate reflects expected future move-outs. Q3 2022 marks the 13th consecutive quarter—over three years—that delivered supply (2 million sq. ft.) outpaced demand (represented by net absorption at 501,000 sq. ft.). With current projects under construction at 9.4 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.

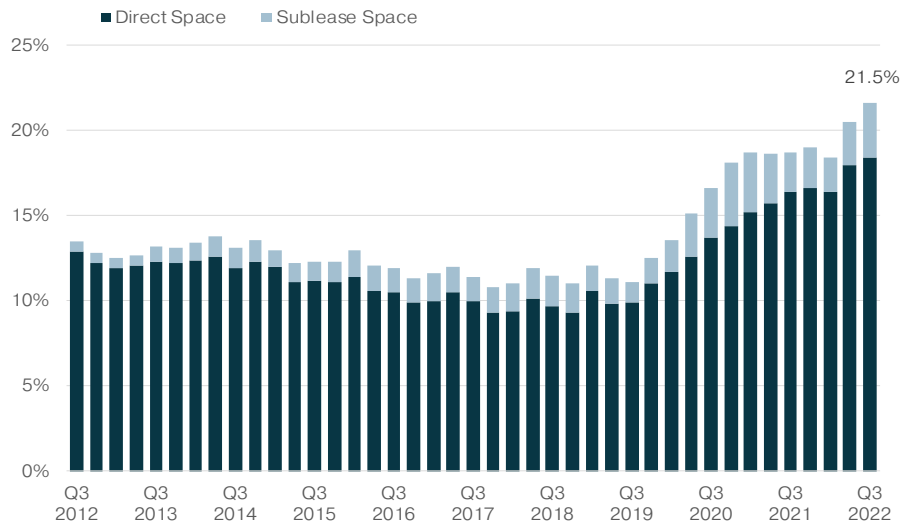
## Positive net absorption in Q3 2022

Net absorption in the Austin office market remained positive for the third consecutive quarter. Class A represented positive 550,471 sq. ft. and Class B negative 43,198 sq. ft. The submarkets leading positive net absorption year-to-date in 2022 are the CBD at 317,711 sq. ft., followed by the Northwest submarket at 315,841 sq. ft., and coming in third, the Southwest submarket at 197,338 sq. ft.

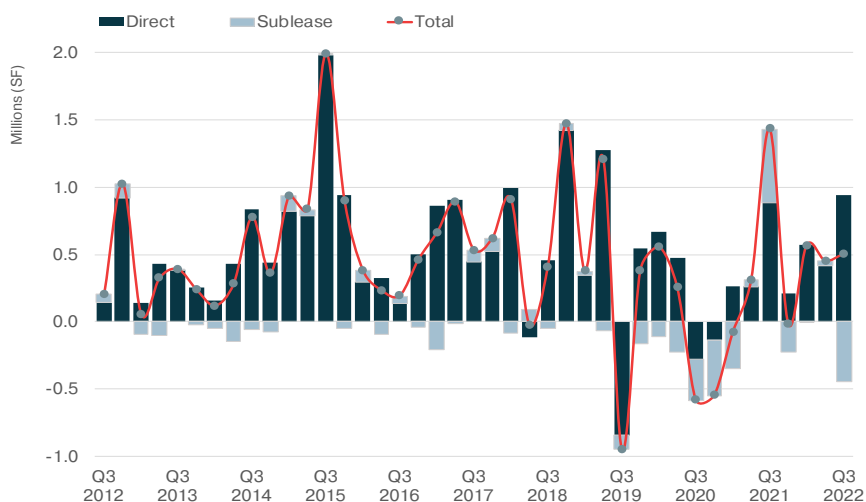
## Construction activity remains high

Construction levels in Austin are among the highest in the nation. 11.3 million sq. ft. is underway (47% preleased)—representing 10.1% of inventory—on top of the 3.3 million sq. ft. delivered (67% preleased) so far in 2022. There is 5.1 million sq. ft. of proposed projects in the remainder of 2022 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.

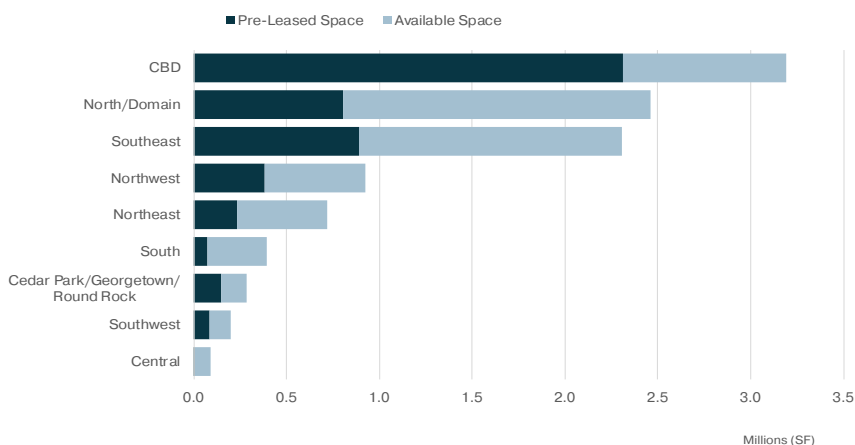
## Availability Rates



## Net Absorption



## Construction



## Investment sales trends

Real Capital Analytics data reports quarterly sales volume for Q3 2022 in the Austin metro area at \$368 million, down 57% from last year at \$858 million. The primary capital composition for buyers so far in 2022 was made up of 58% private investors and 36% institutional. For sellers, the majority were 63% private investors, 25% institutional, and 10% REIT/listed. One of Austin’s most notable office transactions in Q3 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.

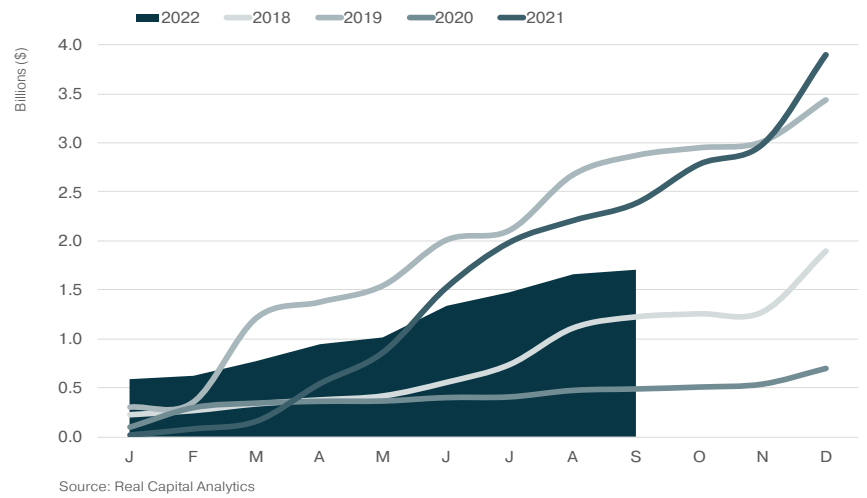
## Leasing activity

The volume of signed lease transactions during the third quarter—which is comprised of both new leases and renewals—was 1.3 million sq. ft. compared to the previous quarter’s 1.8 million sq. ft. and a year ago at 2.2 million sq. ft. Leasing volume year-to-date in the Austin metro is 5.5 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.

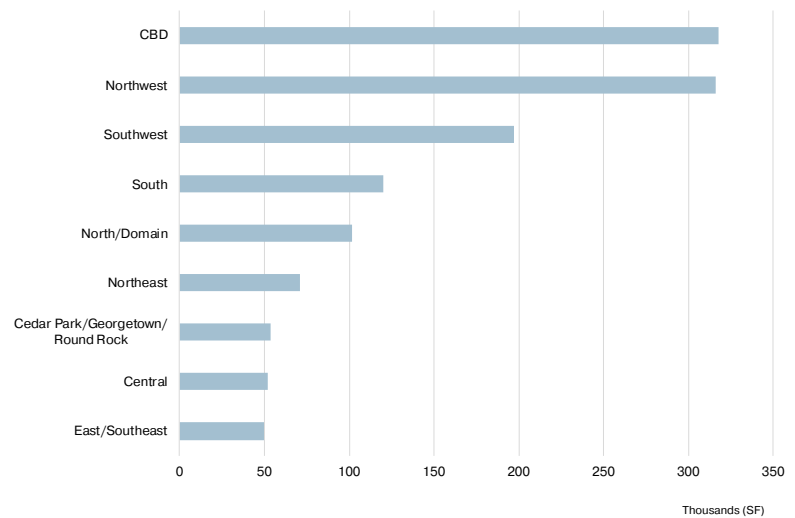
## Rent growth continues on an upward path

Austin’s overall full-service average rates are at \$41.42 per sq. ft., up 3.4% from this time last year at \$40.06 and up 1.4% quarter over quarter from \$40.86. Overall asking rates for Class A space is \$46.85, 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.

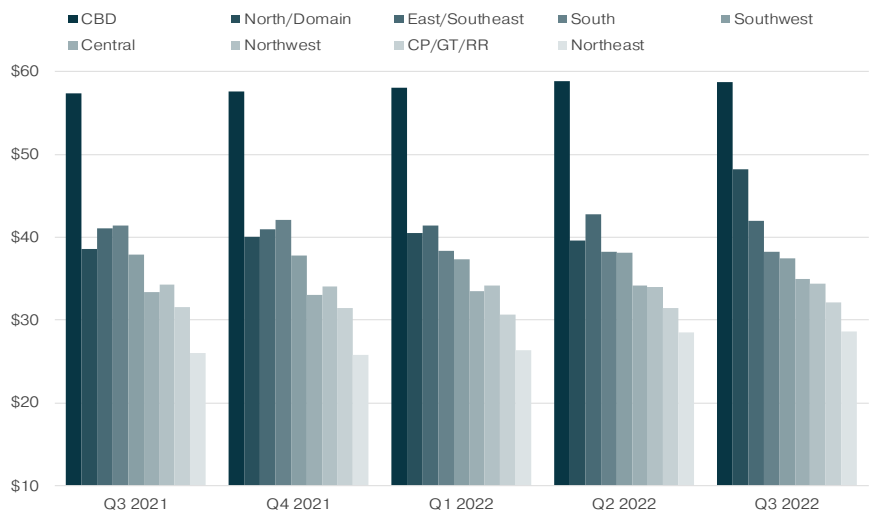
## Cumulative Monthly Sales Volume



## Leasing Activity



## Overall Gross Asking Rent (\$PSF)



# Market Overview

## Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q3 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q3 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Austin Market Total</b>	<b>105,086,506</b>	<b>15.3</b>	<b>21.5</b>	<b>500,978</b>	<b>1,518,687</b>	<b>1,278,378</b>	<b>9,415,330</b>	<b>41.42</b>
Class A	53,827,311	15.4	23.4	550,471	1,738,727	729,503	8,998,763	46.85
Class B	45,659,968	16.8	21.1	-43,198	-211,862	533,315	416,567	33.49
<b>CBD Total</b>	<b>20,369,915</b>	<b>15.9</b>	<b>17.9</b>	<b>84,163</b>	<b>797,161</b>	<b>317,711</b>	<b>2,252,193</b>	<b>58.77</b>
Class A	13,382,946	19.8	21.4	236,129	918,639	244,920	2,252,193	61.83
Class B	5,469,211	9.9	11.8	-128,366	-96,135	72,791	0	47.52
<b>Central Total</b>	<b>7,037,957</b>	<b>11.1</b>	<b>14.8</b>	<b>97,824</b>	<b>155,568</b>	<b>51,894</b>	<b>92,217</b>	<b>34.98</b>
Class A	2,367,517	9.6	17.8	49,410	122,947	18,555	92,217	43.68
Class B	3,523,344	14.8	16.4	47,858	30,001	27,018	0	30.09
<b>Cedar Park/Georgetown/ Round Rock Total</b>	<b>7,942,287</b>	<b>3.3</b>	<b>8.1</b>	<b>39,890</b>	<b>267,383</b>	<b>53,387</b>	<b>282,216</b>	<b>32.16</b>
Class A	4,613,213	2.2	6.8	32,080	144,606	4,300	120,946	33.17
Class B	2,895,007	5.5	11.2	7,810	122,777	49,087	161,270	31.50
<b>North/Domain Total</b>	<b>10,385,494</b>	<b>13.3</b>	<b>25.3</b>	<b>-107,277</b>	<b>-29,781</b>	<b>101,550</b>	<b>2,457,597</b>	<b>48.14</b>
Class A	4,948,409	10.1	31.0	-102,656	-100,658	66,586	2,457,597	52.40
Class B	5,351,072	16.6	17.9	-4,621	70,877	34,964	0	33.03
<b>Northeast Total</b>	<b>5,546,466</b>	<b>15.7</b>	<b>21.0</b>	<b>7,345</b>	<b>-261,072</b>	<b>70,876</b>	<b>760,826</b>	<b>28.57</b>
Class A	1,757,093	25.9	32.9	23,041	-242,952	40,100	700,826	33.10
Class B	3,077,816	13.0	15.8	-15,696	-19,790	30,776	60,000	27.26
<b>Northwest Total</b>	<b>21,640,196</b>	<b>19.3</b>	<b>26.2</b>	<b>96,938</b>	<b>102,096</b>	<b>315,841</b>	<b>669,511</b>	<b>34.34</b>
Class A	11,171,680	14.9	21.2	74,431	162,876	179,309	625,875	36.61
Class B	10,234,583	24.3	32.2	14,172	-58,222	127,993	43,636	31.66
<b>South Total</b>	<b>4,696,187</b>	<b>20.3</b>	<b>30.6</b>	<b>136,420</b>	<b>-4,668</b>	<b>120,291</b>	<b>395,845</b>	<b>38.23</b>
Class A	2,011,198	14.4	32.5	127,714	288,695	64,914	395,845	48.47
Class B	2,413,198	26.3	31.1	11,280	-305,093	55,377	0	35.59
<b>East/Southeast Total</b>	<b>12,557,413</b>	<b>17.9</b>	<b>27.4</b>	<b>224,896</b>	<b>380,914</b>	<b>49,490</b>	<b>2,305,168</b>	<b>41.95</b>
Class A	4,430,479	20.5	35.1	212,240	434,731	21,191	2,270,168	46.45
Class B	7,294,537	18.2	23.4	3,588	-56,925	27,599	35,000	34.80
<b>Southwest Total</b>	<b>14,910,591</b>	<b>14.7</b>	<b>18.5</b>	<b>-79,221</b>	<b>111,086</b>	<b>197,338</b>	<b>199,757</b>	<b>36.76</b>
Class A	9,144,776	16.2	20.3	-101,918	9,843	89,628	83,096	39.80
Class B	5,401,200	13.1	16.4	20,777	100,648	107,710	116,661	32.44
<b>Suburban Total</b>	<b>84,716,591</b>	<b>15.2</b>	<b>22.4</b>	<b>416,815</b>	<b>721,526</b>	<b>960,667</b>	<b>7,163,137</b>	<b>38.85</b>
Class A	40,444,365	13.9	24.1	314,342	820,088	484,583	6,746,570	43.81
Class B	40,190,757	17.7	22.3	85,168	-115,727	460,524	416,567	32.23

# Austin Office Quarterly Market Report

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## Q3 2022

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