

Austin Office

Q2 2023

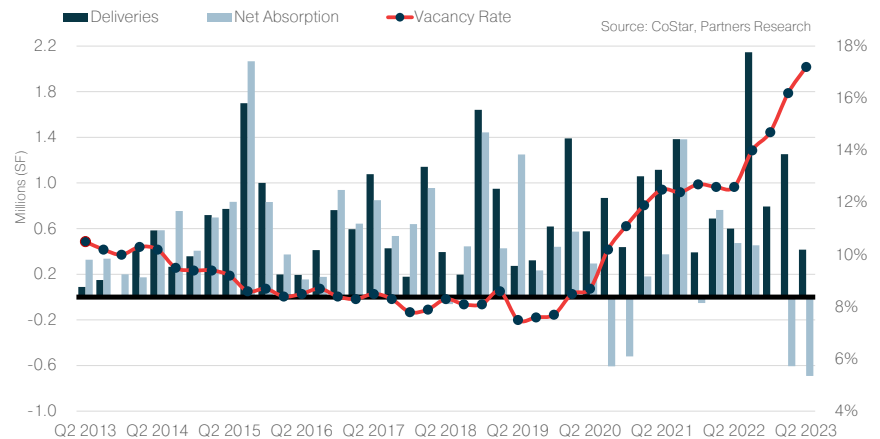
Executive Summary

Up nearly 50%, Austin Office leasing activity on the rebound in Q2.

Q2 In Review

By the end of Q2 2023, the overall vacancy rate in the Austin office market rose 100 basis points quarter-over-quarter, from 16.2% to 17.2%. Net absorption decreased further quarter-over-quarter from -605,451 sq. ft. in Q1 2023 to -691,168 sq. ft. in Q2 2023. By next year, net absorption is expected to return to positive territory, as large move-ins such as Amazon (332,865 sq. ft.) and Texas Retirement System of Texas (235,000 sq. ft.) fill office space in January 2024 and March 2024, respectively. On the quarter, construction is at 6.8 million sq. ft. with the CBD accounting for 2.3 million sq. ft.—35% of all space under development. Deliveries decreased 67% from 1.2 million sq. ft. to 415,647 sq. ft. in Q2 2023. Asking rents continue to trend upward quarter-over-quarter from \$40.95 per sq. ft. in Q1 2023 to \$41.49 per sq. ft. in Q2 2023.

Supply & Demand



Austin Economic Update

The Austin unemployment rate increased to 3.5% in May 2023, slightly up from 3.2% in April 2023. The metro's jobless rate was lower than both the nation's rate (3.7%) and the state's rate (4.1%). Construction and mining (1,670 jobs, 28%) and financial services (1,091 jobs, 17.6%) saw the most growth, while information (411 jobs, 8.8%) experienced the largest decline among the sectors. Although wages decreased by an annualized 2.1% in May 2023, hourly earnings (\$33.46) were still above the nation's average (\$33.32) and the state's average (\$31.21).

Key Market Indicators

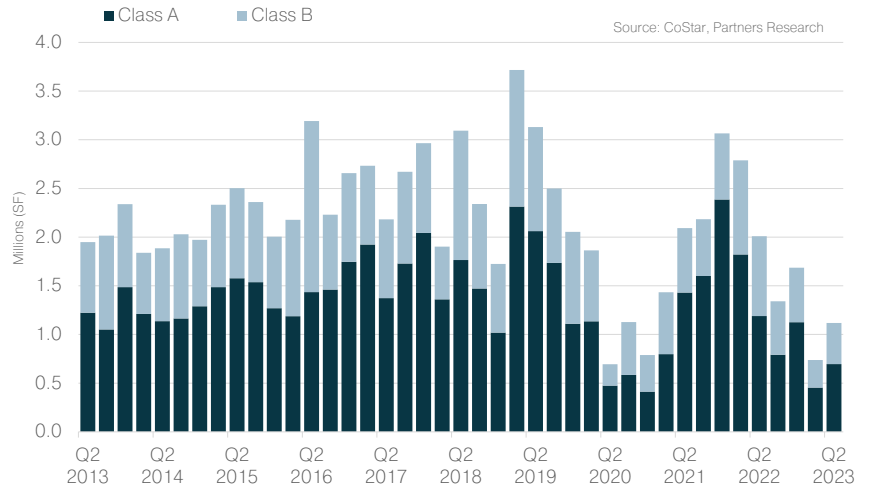
	CURRENT Q2 2023	PRIOR QUARTER Q1 2023		PRIOR YEAR Q2 2022	
Vacant Total	17.2%	16.2%	▲	12.6%	▲
Vacant Direct	13.9%	13.4%	▲	11.1%	▲
Available Total	21.8%	21.5%	▲	18.0%	▲
Available Direct	16.7%	17.0%	▼	15.8%	▲
Net Absorption (SF)	-691,168	-605,451	▼	473,502	▼
Leasing Activity (SF)	1,135,705	769,351	▲	2,054,270	▼
Construction (SF)	6,857,728	7,016,375	▼	8,269,715	▼
Deliveries (SF)	415,647	1,251,759	▼	600,415	▼
Avg Asking Rent (Gross)	\$41.49	\$40.95	▲	\$40.84	▲
Inventory (SF)	106,465,471	106,049,824	▲	101,859,560	▲

01

Leasing Activity Increases 48% Quarter-over-Quarter

The volume of signed lease transactions during the second quarter—comprised of new leases and renewals—was 1.1 million sq. ft., up 48% from the previous quarter’s 769,351 sq. ft. The recent increase can be attributed to one of the largest leases recently signed in Austin within the past year. IBM, a long-standing information technology firm, inked a deal for a 320,000-sq.-ft. lease occupying almost two full towers within The Domain in May 2023. IBM plans to be fully moved into the towers by 2027.

Leasing Activity

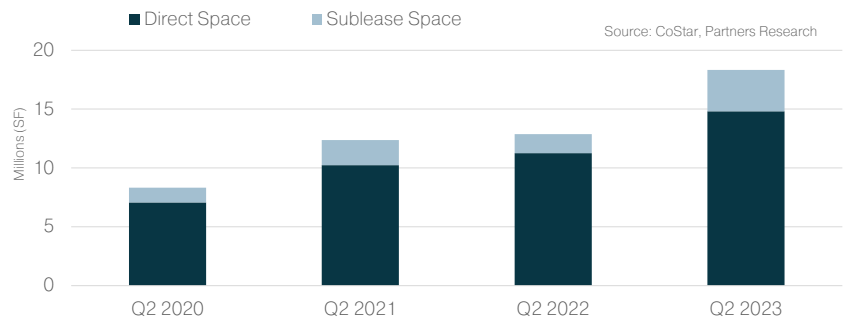


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Vacancy Rate Increases To 17.2%

The overall vacancy rate in the Austin office market is 17.2%, up 100 basis points from 16.2% in Q1 2023. Class A and Class B properties have vacancy rates of 19.4% and 15.9%, respectively. Class A submarkets with the greatest year-over-year increases in vacancy rates include: South (16.2% to 21.2%), CBD (22.1% to 24.5%), and Southeast (22.8% to 24.0%). Class B submarkets with the greatest year-over-year increases include Northeast (14.5% to 17.2%), Central (14.8% to 16.5%), and Southwest (14.5% to 15.4%). Many big tech companies in Austin are downsizing or putting lots of space up for sublease, thereby increasing the vacancy rate in recent months. For example, Accenture announced that it was laying off more than 200 employees in June 2023, and Home Depot put a 300,000-sq.-ft. office building on 13011 McCallen Pass up for sublease in May 2023.

Vacancy

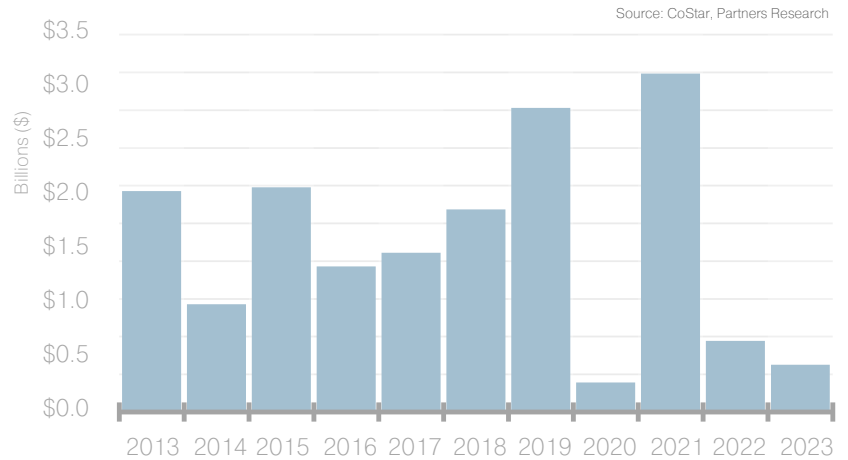


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Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at \$439 million in Austin's office market. With 146 deals completed thus far in 2023, the average transaction price currently stands at \$241 per sq. ft. with an average cap rate at 5.5%. By year-end of 2022, the cumulative 12-month sales volume was \$659 million, and 397 deals were completed with an average transaction price of \$517 per sq. ft. and an average cap rate of 6.2%. a notable acquisition within Q2 2023 included Cap Metro, a regional public transportation provider, closing on a three-building, 182,716-sq.-ft. office facility at East Fifth and Tillery Street for \$87 million in June 2023, and Hippo, an insurance provider, purchasing a 48,000-sq.-ft. office building at 701 East Fifth Street for \$26 million in April 2023.

Year-To-Date Cumulative Sales Volume

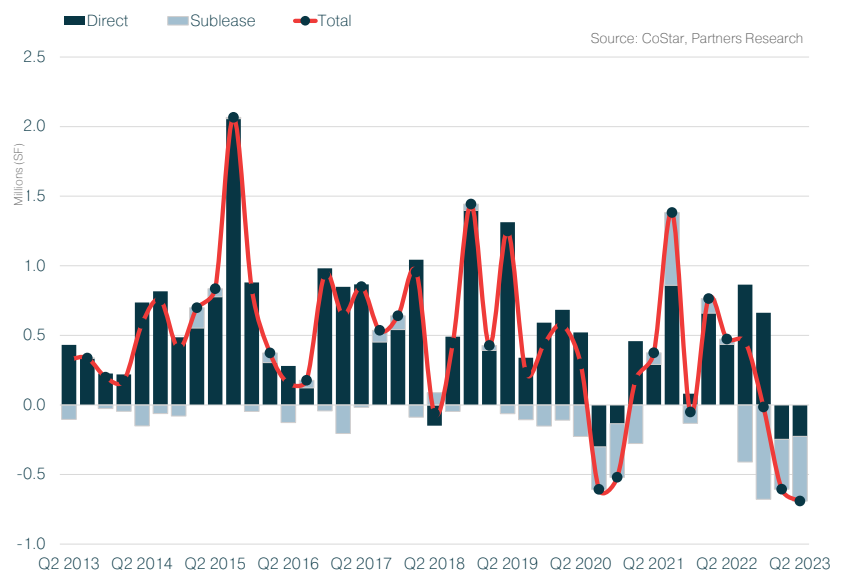


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Negative Absorption in Q2 2023

Net absorption—move-ins minus move-outs—decreased further quarter-over-quarter from -605,451 sq. ft. in Q1 2023 to -691,168 sq. ft. in Q2 2023. Year-to-date, net absorption is at -1,296,619 sq. ft. Despite the decrease, large move-ins in the coming quarters are expected to prop up net absorption levels in the year ahead. Amazon will occupy 332,865 sq. ft. of office space at 2904 Palm Way (Domain 9) in January 2024, and Teacher Retirement System of Texas (TRS) will fill 235,000 sq. ft. of office space at 46555 Mueller Boulevard (Mueller Business District) in March 2024.

Net Absorption

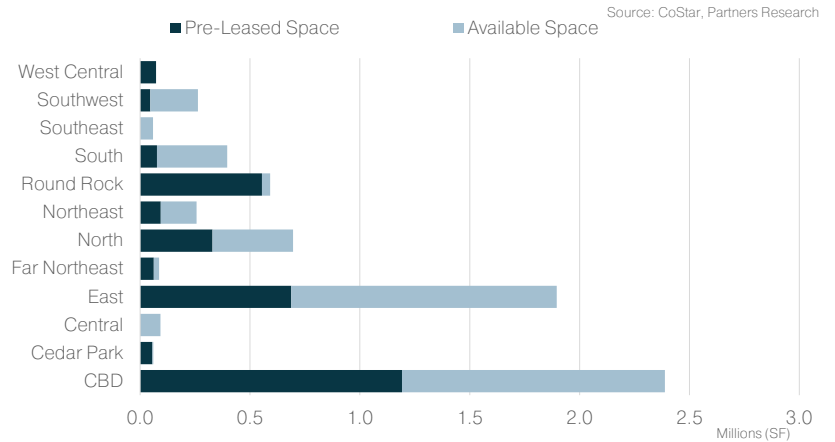


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6.8 Million Sq. Ft. In The Pipeline

Office construction is at 6.8 million sq. ft. across 35 buildings, with 3.6 million sq. ft. (54%) available for lease. The CBD submarket leads construction with 2.3 million sq. ft.—35% of all space under development—followed by the East submarket with 1.8 million sq. ft. (28%). New construction starting in Q2 2023 included a 257,000-sq.-ft. office space at 5300 Riata Park Court in May 2023. Deliveries decreased 67% from 1.2 million sq. ft. in Q1 2023 to 415,647 sq. ft. in Q2 2023. Despite the decrease, year-to-date deliveries thus far in 2023 totaled 1.6 million sq. ft., which is 35% higher than the year-to-date deliveries (1.2 million sq. ft.) this time last year.

Construction

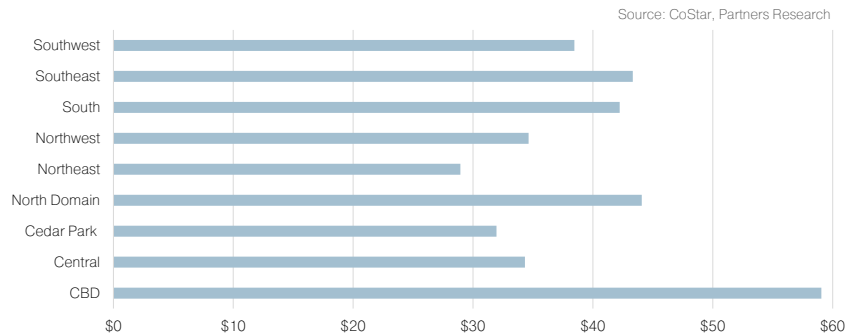


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Rent Growth Trends Upward

The Austin overall full-service average rate stands at \$41.49 per sq. ft., up slightly from the previous quarter's and the previous year's \$40.95 per sq. ft. and \$40.84 per sq. ft., respectively. Asking rates for overall Class A and Class B space are at \$46.61 per sq. ft. and \$33.97 per sq. ft., respectively. On the quarter, submarkets with the highest asking rates include: CBD at \$59.05 per sq. ft., followed by North Domain at \$44.07 per sq. ft.

Overall Gross Asking Rent (\$/PSF)



Market Overview

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Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q2 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	106,465,471	17.2	21.8	-691,168	-1,296,619	1,135,705	6,857,728	41.49
Class A	56,631,867	19.4	26.5	-559,640	-508,594	696,191	5,954,167	46.61
Class B	44,036,400	15.9	17.1	-49,058	-682,770	422,124	875,761	33.97
CBD Total	21,335,347	19.3	23.4	-165,890	100,675	269,981	2,388,612	59.05
Class A	14,408,253	24.5	28.5	-196,908	92,255	222,275	2,388,612	61.95
Class B	5,603,389	10.3	13.2	25,316	9,300	47,706	0	47.65
Central Total	6,957,957	12.9	14.9	-20,082	-125,838	83,088	164,447	34.33
Class A	2,239,779	12.6	17.8	33,306	-13,019	46,079	92,217	41.65
Class B	3,534,122	16.5	16.9	-61,807	-113,433	37,009	72,230	29.66
Cedar Park/Georgetown/ Round Rock Total	8,472,087	5.0	7.3	11,829	-52,587	60,591	651,593	31.96
Class A	4,829,441	3.1	5.8	-23,033	822	14,756	0	33.10
Class B	3,175,909	8.8	10.2	34,862	-53,409	45,835	623,793	31.44
North/Domain Total	9,702,479	12.9	15.2	-32,750	-24,821	173,287	695,865	44.07
Class A	4,957,657	11.8	18.8	-39,254	-29,163	157,642	695,865	50.02
Class B	4,655,422	14.9	11.1	6,504	4,342	15,645	0	32.85
Northeast Total	6,193,060	28.5	31.8	-86,001	-77,230	20,299	343,000	28.94
Class A	2,307,837	49.0	54.8	-1,290	16,586	0	257,000	31.07
Class B	3,110,882	17.2	18.1	-84,711	-76,967	20,299	86,000	27.46
Northwest Total	20,726,491	17.4	24.0	-254,399	-626,896	236,540	0	34.63
Class A	11,147,011	17.5	24.3	-128,082	-367,504	128,178	0	36.14
Class B	8,942,330	16.4	23.0	-23,459	-167,890	90,972	0	23.52
South Total	4,724,539	25.7	33.4	-57,014	-190,586	48,149	396,110	42.23
Class A	2,026,495	21.2	36.2	-96,369	-106,502	32,865	396,110	51.01
Class B	2,424,419	31.6	33.2	36,355	-85,402	15,284	0	38.50
East/Southeast Total	13,088,755	19.1	22.2	-50,799	-199,429	77,257	1,955,005	43.33
Class A	5,019,284	24.0	33.7	-35,032	-40,813	13,139	1,861,267	47.16
Class B	7,252,354	17.7	13.3	-17,934	-160,783	64,118	93,738	35.14
Southwest Total	15,264,756	16.8	23.9	-36,062	-99,907	166,513	263,096	38.45
Class A	9,696,110	18.0	27.1	-72,978	-61,256	81,257	263,096	41.57
Class B	5,337,573	15.4	18.9	35,816	-38,528	85,256	0	32.49
Suburban Total	85,130,124	16.7	21.3	-525,278	-1,397,294	865,724	4,469,116	37.40
Class A	42,223,614	17.6	25.7	-362,732	-600,849	473,916	3,565,555	41.43
Class B	38,433,011	16.7	17.8	-74,374	-692,070	374,418	875,761	32.44

