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EDGE

AUSTIN OFFICE VACANCY HAS MORE THAN DOUBLED SINCE 2019—AND IT'S NOT DONE YET

Availability also rising at an increased clip

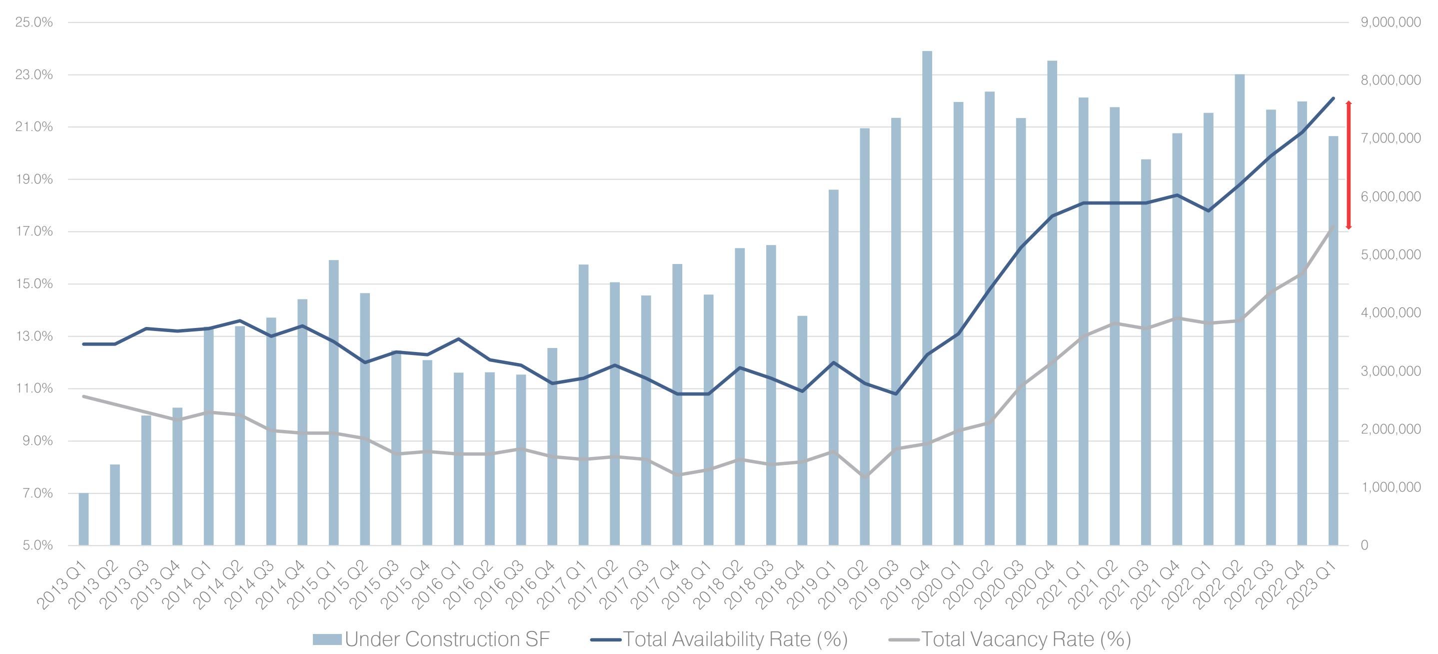
A pull back from tech companies and higher than average construction levels have been moving the total vacancy rate up for the Austin office market since early 2019. Over that time frame, the total vacancy rate has more than doubled moving from a low this cycle of 7.6% in the second quarter of 2019 to a current high in the first quarter of 2023 of 17.2%.

Sublease space has been a large component of this. Austin has 5.2 million square feet of space available, 35% of which is currently vacant. Some of the sublease space has shorter lease terms and is likely to roll over into direct vacant space over the coming quarters.

Also, the construction pipeline remains above the norm. With a little over 7 million square feet currently under construction (roughly half of which is accounted for either via built-to-suit or preleasing), this indicator points to a continued increase in the total vacancy rate over the next two years. The construction completion schedule shows roughly 1.3 million square feet of speculative vacant office space hitting the market in both 2023 and 2024 and then tapering off in 2025, when about 650,000 square feet of spec space is expected to be delivered.

Outside of sublease space and the construction pipeline, one of the most forward-looking indicators is the delta between the availability rate and the vacancy rate. If the delta is increasing on the availability side that is an indication more space is being marketed in advance of future move-outs and vacancy is likely to increase over the near term (space is typically marketed for lease 3 to 12 months before the tenant actually vacates the space, depending on the size of the tenant). The current availability rate has been growing more rapidly than the current vacancy rate. Over the past 10 years, the delta between the availability rate and the total vacancy rate has been 3.8%. Since 2019, however, this gap has widened and now averages 4.9% (over the past three years).

AUSTIN OFFICE AVAILABILITY VS TOTAL VACANCY (%)



While the Austin total office vacancy rate remains low in comparison to most major office markets in the US (many are above 20%), the rising gap between the availability rate, combined with the large construction pipeline point to an increasing vacancy over the next few quarters.

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