

# Austin Office

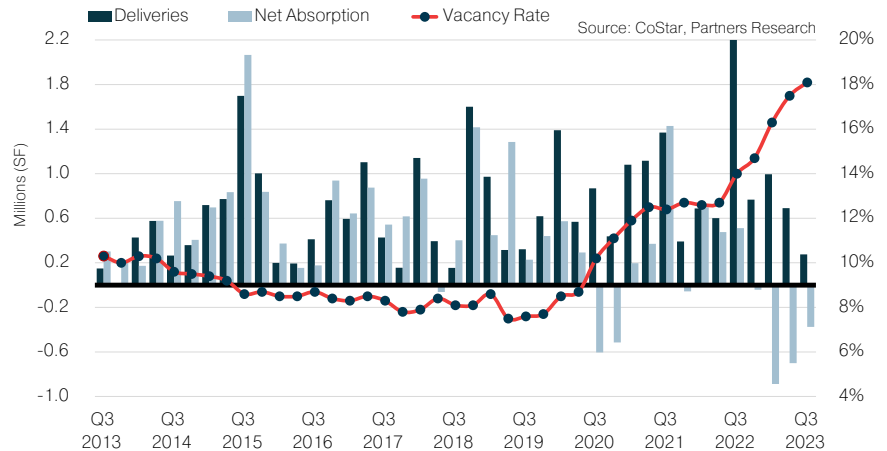
## Q3 2023

## Austin Office vacancy rate nears all-time high

### Q3 In Review

By the end of Q3 2023, the overall vacancy rate in the Austin office market rose 60 basis points quarter-over-quarter from 17.5% to 18.1%—approaching the highest vacancy rate ever recorded (18.4% in Q2 2003). Although still negative at -375,637 sq. ft., net absorption improved from -700,440 sq. ft. in Q2 2023, due to large move-ins like Google (264,400 sq. ft.) and Capital Metropolitan Transportation Authority (145,390 sq. ft.) occupying office space in July and August. Year-to-date, net absorption is at -1.9 million sq. ft. Leasing activity decreased 25% quarter-over-quarter to 857,825 sq. ft. Year-to-date, leasing activity is at 2.7 million sq. ft. Office construction is at 6.4 million sq. ft., across 30 buildings, with 3.5 million sq. ft. (55%) available for lease. The CBD accounted for 53% of the third quarter’s deliveries with a single completion—a 144,507-sq.-ft., Class A office space at 600 W 5th Street delivered in September 2023. Year-to-date, deliveries are at 1.9 million sq. ft. Lastly, the average asking rent increased slightly year-over-year, currently standing at \$41.33 per sq. ft.

### Supply & Demand



### Austin Economic Update

Austin’s unemployment rate increased to 3.6% in August 2023, slightly up from 3.5% in July 2023. The metro’s jobless rate was lower than both the nation’s rate (3.8%) and the state’s rate (4.1%). Austin’s employment fell 1.9% in August, the first month the rate declined since February 2021. The largest declines by sector included: health and educational services (-5,033 jobs, -32.4%), leisure and hospitality (-1,503 jobs, -11.7%), and financial activities (-480 jobs, -6.6%). The largest gains by sector included: construction and mining (1,475 jobs, 23.2%) and government (1,871 jobs, 12.8%). Year-to-date, Austin’s payroll employment has grown 3.8%, higher than both the nation (1.9%) and the state (3.3%).

### Key Market Indicators

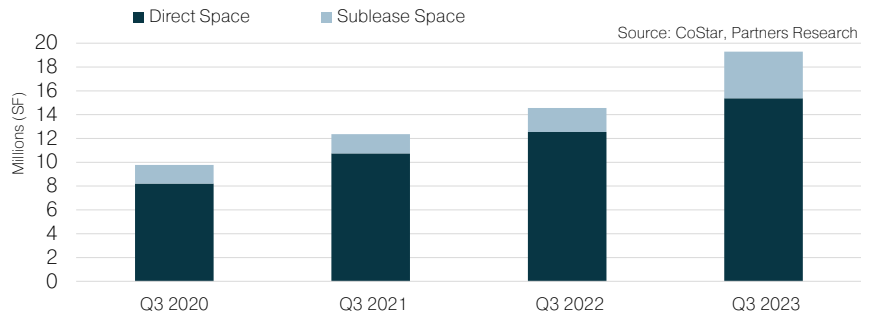
	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	18.1%	17.5%	▲	14.0%	▲
Vacant Direct	14.4%	14.2%	▲	12.1%	▲
Available Total	22.4%	21.8%	▲	19.4%	▲
Available Direct	17.1%	16.7%	▲	16.5%	▲
Net Absorption (SF)	-375,637	-700,440	▼	511,484	▼
Leasing Activity (SF)	857,825	1,138,180	▼	1,421,254	▼
Construction (SF)	6,492,642	6,740,981	▼	7,573,917	▼
Deliveries (SF)	276,139	690,647	▼	2,205,167	▼
Avg Asking Rent (Gross)	\$41.33	\$41.55	▼	\$40.27	▲
Inventory (SF)	106,592,623	106,316,484	▲	103,864,124	▲

## 01

### Vacancy Rate Increases To 18.1%

The overall vacancy rate in the Austin office market is 18.1%, up 60 basis points from 17.5% in Q2 2023. Only 29% of year-to-date deliveries have been fully leased, contributing to the increase in the overall vacancy rate. Class A and Class B properties have vacancy rates of 20.6% and 16.5%, respectively. Class A submarkets with the greatest year-over-year increases in vacancy rates include: the North Domain (16.8% to 21.8%), the South (21.2% to 25.1%), and the CBD (25.0% to 25.8%). Class B submarkets with the greatest year-over-year increases include: the Northeast (17.2% to 19.1%), the Southwest (14.9% to 16.4%), and the Northwest (16.4% to 17.4%).

### Vacancy Rate

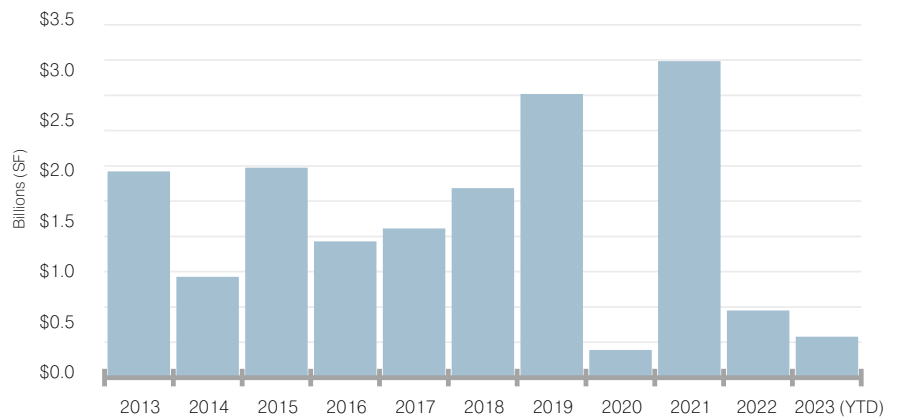


## 02

### Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at \$405 million in Austin's office market. With 183 deals completed thus far in 2023, the average transaction price currently stands at \$300 per sq. ft. with an average cap rate of 5.4%. A notable acquisition in Q3 2023 included Brandywine Realty Trust selling a 173,000-sq.-ft. office building (Three Barton Skyway) for \$53.3 million to an affiliate of Riverside Resources in August 2023. Built in 2021, Three Barton Skyway is located at 1221 South MoPac Expressway and is part of a larger four-building campus in Southwest Austin.

### Cumulative Sales Volume

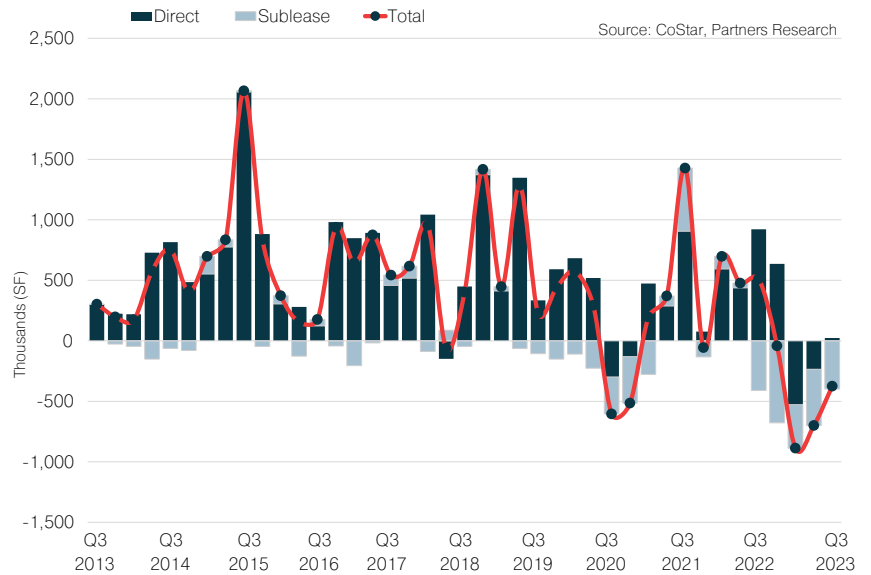


## 03

### Negative Net Absorption Improves Due To Large Move-Ins

Net absorption—move-ins minus move-outs—remains in negative territory at -375,637 sq. ft., although large occupancies have alleviated downward pressure from the previous quarter’s net absorption (-700,440 sq. ft.). Year-to-date, net absorption is at -1.9 million sq. ft. Notable move-ins in Q3 2023 include Google occupying 264,600 sq. ft. of office space at 601 West 2nd Street in July, and Capital Metropolitan Transportation Authority filling 145,390 sq. ft. of office space at 3100 East 5th Street in August. Other tenants have consolidated their office footprint—Indeed vacated an entire building (183,911 sq. ft.) at 2900 Esperanza Crossing (Domain Gateway) in August. In addition, Austin-American-Statesman returned 34,600 sq. ft. of office space to the sublease market at 8000 Metropolis Drive also in August.

### Net Absorption

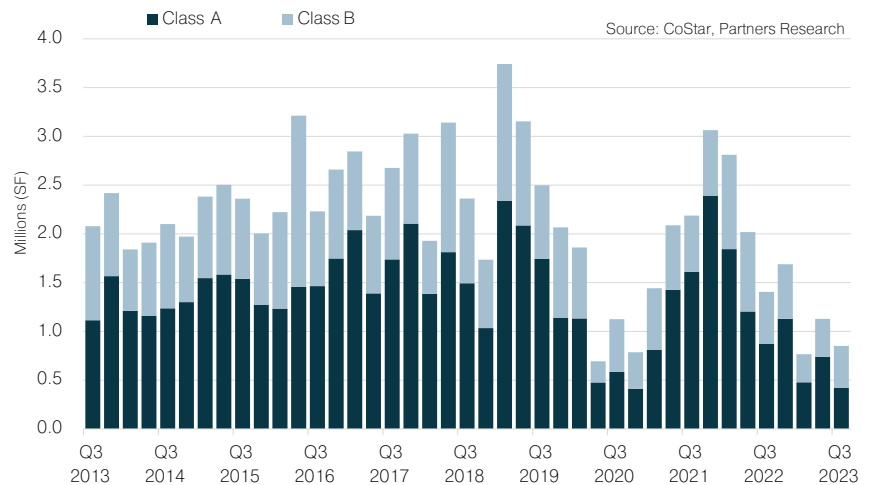


## 04

### Leasing Down 25% From Prior Quarter

Quarterly leasing velocity—which is comprised of new leases and renewals—stood at 857,825 sq. ft.—down 25% from 1.1 million sq. ft. in Q2 2023. Year-to-date, leasing activity registered at 2.7 million sq. ft. The Southwest submarket accounted for 25% of the total leasing activity in Q3, which includes the largest lease inked—a 27,208-sq.-ft. office space at 2500 Bee Caves Road in August. In addition, a 20,000-sq.-ft. office lease was signed at 5301 Southwest Parkway in September.

### Leasing Activity

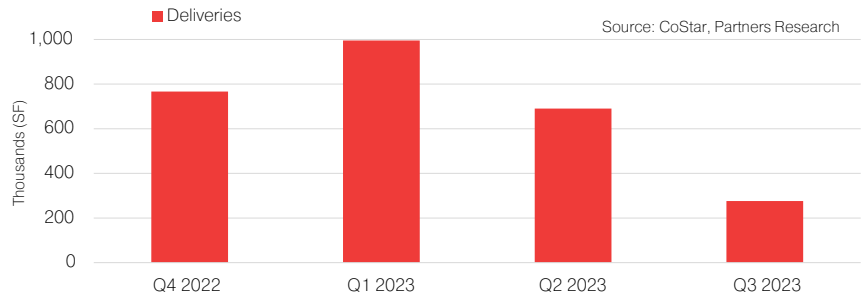


## 05

### The CBD Submarket Accounted For More Than Half of Q3 Deliveries

Office construction is at 6.4 million sq. ft., across 30 buildings, with 3.5 million sq. ft. (55%) available for lease. The CBD submarket leads construction with 2.2 million sq. ft.—35% of all space under development—followed by the East submarket with 1.7 million sq. ft. (27%). Deliveries decreased 60% from 690,647 sq. ft. in Q2 2023 to 276,139 sq. ft. in Q3 2023. Located in the CBD submarket, one completion accounted for 52% of the third quarter’s deliveries—a 16-story, 144,507-sq.-ft., Class A office space at 600 W 5th Street in September 2023. Year-to-date, deliveries amounted to 1.9 million sq. ft.

### Deliveries

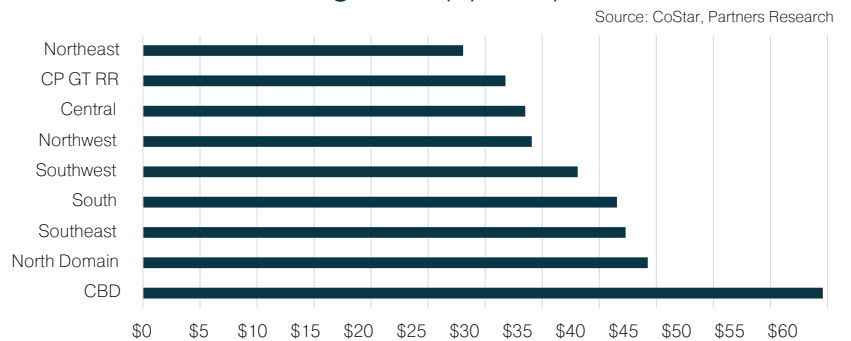


## 06

### Rent Increases Slightly Year-Over-Year

The Austin overall full-service average rate stands at \$41.33 per sq. ft., down slightly from the previous quarter’s \$41.55 per sq. ft., and up slightly from the previous year’s \$40.27 per sq. ft. Asking rates for overall Class A and Class B space are at \$47.08 per sq. ft. and \$23.85 per sq. ft., respectively. On the quarter, submarkets with the highest asking rates include: the CBD at \$59.60 per sq. ft., followed by the North Domain at \$44.26 per sq. ft.

### Overall Gross Asking Rent (\$/PSF)



# Market Overview

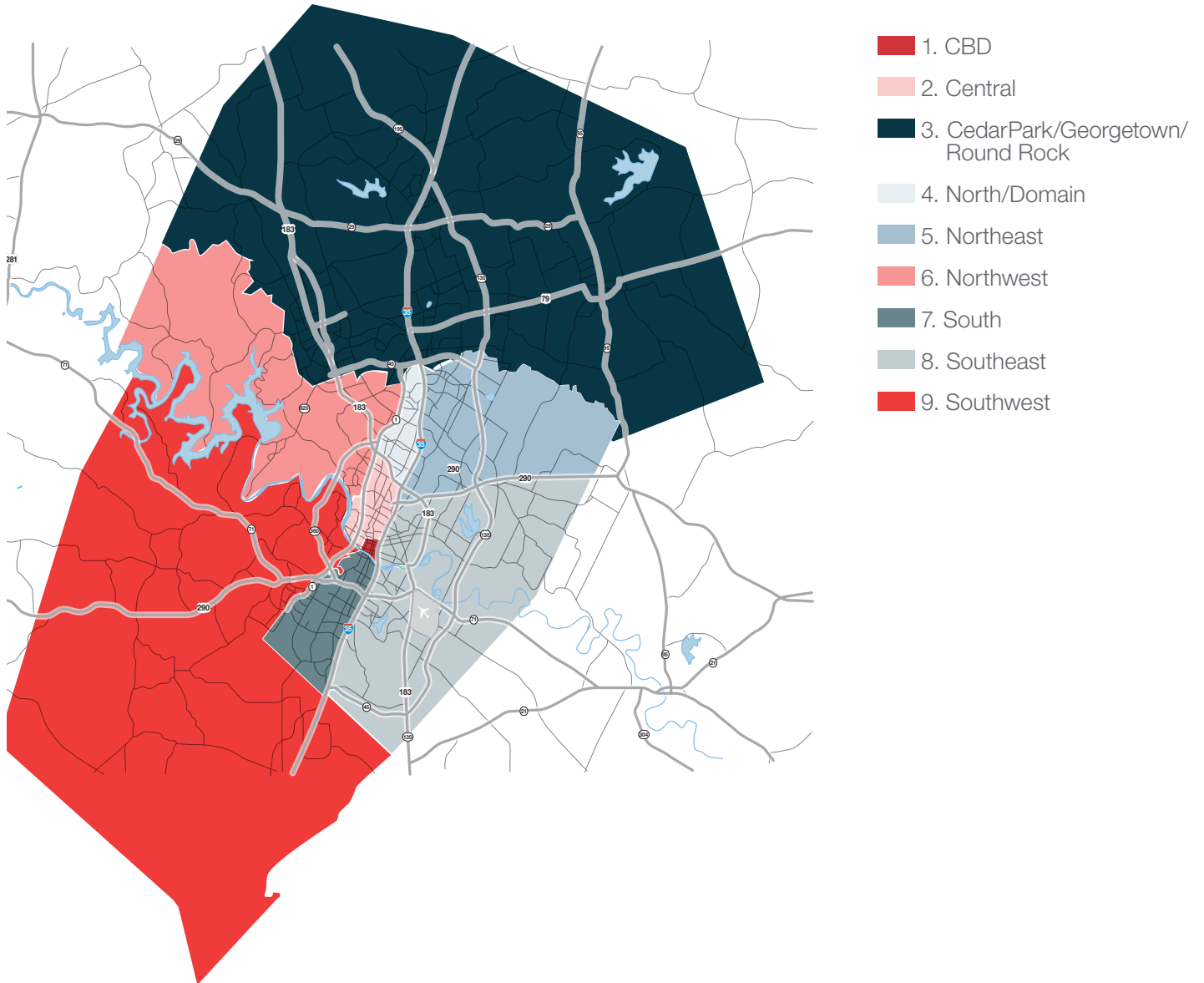
07

## Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q3 2023 Leasing Activity (SF)	Q3 2023 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Austin Market Total</b>	<b>106,592,623</b>	<b>18.1</b>	<b>22.4</b>	<b>-375,637</b>	<b>-1,963,452</b>	<b>857,825</b>	<b>276,139</b>	<b>41.33</b>
Class A	57,425,696	20.6	26.5	-161,165	-1,033,758	422,141	216,139	47.08
Class B	43,805,610	16.5	18.7	-186,095	-878,059	428,923	60,000	32.85
<b>CBD Total</b>	<b>21,153,461</b>	<b>20.1</b>	<b>25.0</b>	<b>14,296</b>	<b>-231,841</b>	<b>107,820</b>	<b>144,507</b>	<b>59.60</b>
Class A	14,277,715	25.8	31.0	-10,370	-264,927	86,781	144,507	63.26
Class B	5,552,041	10.0	12.7	24,666	33,966	21,039	0	43.15
<b>Central Total</b>	<b>6,962,312</b>	<b>12.9</b>	<b>15.7</b>	<b>-1,535</b>	<b>-127,373</b>	<b>62,413</b>	<b>0</b>	<b>33.52</b>
Class A	2,239,779	12.1	18.7	11,593	-1,426	9,209	0	42.27
Class B	3,538,477	16.9	17.7	-14,378	-127,811	47,670	0	28.86
<b>Cedar Park/Georgetown/ Round Rock Total</b>	<b>8,520,610</b>	<b>5.3</b>	<b>7.9</b>	<b>-3,565</b>	<b>14,645</b>	<b>45,536</b>	<b>0</b>	<b>31.78</b>
Class A	4,821,586	3.7	6.8	-30,260	33,859	8,638	0	30.75
Class B	3,264,957	8.4	9.9	26,695	-19,214	36,898	0	32.24
<b>North/Domain Total</b>	<b>10,025,441</b>	<b>18.3</b>	<b>18.3</b>	<b>-254,698</b>	<b>-277,384</b>	<b>95,787</b>	<b>0</b>	<b>44.26</b>
Class A	5,292,657	21.8	20.7	-265,906	-292,934	39,432	0	50.13
Class B	4,643,384	14.7	15.6	11,208	15,550	56,355	0	31.65
<b>Northeast Total</b>	<b>6,195,326</b>	<b>28.9</b>	<b>33.4</b>	<b>-28,690</b>	<b>-105,920</b>	<b>58,010</b>	<b>0</b>	<b>28.07</b>
Class A	2,307,837	46.5	56.2	57,100	73,686	0	0	31.07
Class B	3,113,148	19.1	19.1	-57,790	-134,757	58,010	0	26.14
<b>Northwest Total</b>	<b>20,734,984</b>	<b>18.2</b>	<b>24.3</b>	<b>-178,444</b>	<b>-805,340</b>	<b>156,402</b>	<b>0</b>	<b>34.09</b>
Class A	11,684,708	18.8	24.8	-102,567	-554,637	78,605	0	35.92
Class B	8,816,343	17.4	23.9	-83,345	-248,666	77,620	0	31.99
<b>South Total</b>	<b>4,745,454</b>	<b>27.8</b>	<b>34.8</b>	<b>-105,349</b>	<b>-296,756</b>	<b>30,614</b>	<b>0</b>	<b>41.55</b>
Class A	2,025,842	25.1	37.9	-80,338	-186,840	20,344	0	48.36
Class B	2,445,987	32.0	34.0	-16,816	-103,039	10,270	0	38.67
<b>East/Southeast Total</b>	<b>13,101,480</b>	<b>17.7</b>	<b>23.5</b>	<b>248,243</b>	<b>50,008</b>	<b>87,764</b>	<b>71,632</b>	<b>42.31</b>
Class A	5,069,208	19.2	31.6	297,802	256,989	18,796	71,632	47.01
Class B	7,215,155	18.5	17.8	-49,559	-209,148	68,968	0	34.41
<b>Southwest Total</b>	<b>15,153,555</b>	<b>17.4</b>	<b>21.0</b>	<b>-65,895</b>	<b>-183,491</b>	<b>213,479</b>	<b>60,000</b>	<b>38.11</b>
Class A	9,706,364	18.4	21.9	-38,219	-97,528	160,336	0	41.03
Class B	5,216,118	16.4	20.2	-26,776	-84,940	52,093	60,000	32.88
<b>Suburban Total</b>	<b>85,439,162</b>	<b>17.6</b>	<b>21.7</b>	<b>-389,933</b>	<b>-1,731,611</b>	<b>750,005</b>	<b>131,632</b>	<b>36.69</b>
Class A	43,147,981	18.9	17.0	-150,795	-768,831	335,360	71,632	40.93
Class B	38,253,569	17.4	19.5	-210,761	-912,025	407,884	60,000	31.80

## 08

### Austin Office Submarkets



Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.