

# Austin Office

## Q4 2023

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## Quarterly Market Report

Austin Office market absorption is back in black

### Executive Summary

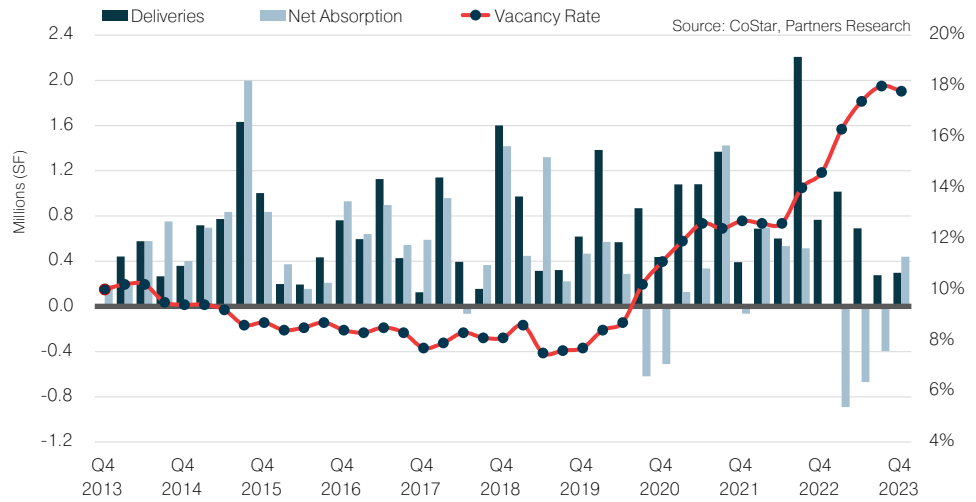
#### Q4 in Review

By the end of Q4 2023, the overall vacancy rate in the Austin office market rose 320 basis points year-over-year, from 14.6% to 17.8%. Only 30% of year-to-date deliveries have been fully leased, contributing to the overall increase in the vacancy rate. Deliveries are at 297,568 sq. ft., 61% down year-over-year from 766,469 sq. ft. Year-to-date, deliveries are at 2.2 million sq. ft., down from the prior year-to-date tally of 4.2 million sq. ft. On the flip side, net absorption turned positive by year-end, registering at 439,401 sq. ft. as Class A and Class B spaces recorded net absorption of 265,360 sq. ft. and 179,300 sq. ft., respectively. Lastly, the average asking rent (FSG) increased slightly year-over-year, currently standing at \$41.43 per sq. ft.

#### Austin Economic Update

According to the latest release of Austin's Economic Indicators, Austin's unemployment rate remained flat at 3.6% from September to October 2023. The metro's jobless rate lagged the state and the national rates at 4.1% and 3.9%, respectively. Austin's employment is at 1.3 million as of October 2023—increasing 0.1% in October, much less than the 5.7% gain in September. The largest gains by sector include: construction and mining (+1,316 jobs, 20.4%), health and education (+1,062 jobs, 8.6%), and professional and business services (+1,880 jobs, 8.1%). The largest declines by sector included: leisure and hospitality (-1,877 jobs, -14.1%), and manufacturing (-845 jobs, -13%).

### Supply & Demand



### Key Market Indicators

	CURRENT Q4 2023	PRIOR QUARTER Q3 2023		PRIOR YEAR Q4 2022	
Vacant Total	17.8%	18.0%	↓	14.6%	↑
Vacant Direct	14.6%	14.5%	↑	12.1%	↑
Available Total	22.0%	22.2%	↓	18.1%	↑
Available Direct	16.8%	17.1%	↓	16.3%	↑
Net Absorption (SF)	439,401	-394,814	↑	19,712	↑
Leasing Activity (SF)	1,137,404	873,213	↑	1,756,666	↓
Construction (SF)	6,436,132	6,633,700	↓	7,839,477	↓
Deliveries (SF)	297,568	276,139	↓	766,469	↓
Avg Asking Rent (FSG)	\$41.33	\$41.33	↑	\$40.91	↑
Inventory (SF)	107,126,224	106,828,656	↑	106,828,656	↑

# Market Overview

## Net Absorption Turns Positive in Q4

Net absorption—move-ins minus move-outs—increased to 439,401 sq. ft., improving year-over-year from 19,712 sq. ft. Following three consecutive quarters in the red, net absorption turned positive in the fourth quarter as Class A and Class B spaces recorded net absorption of 265,360 sq. ft. and 179,300 sq. ft., respectively. Notable move-ins that took place towards the end of the year included City of Kyle filling a 450,000-sq.-ft. office building at 1760 Kohlers Crossing Road in September, and Capital Metropolitan Transportation Authority inhabiting 145,390 sq. ft. of office space at 3100 East Fifth Street in August. Year-to-date, net absorption is at -1.5 million sq. ft.

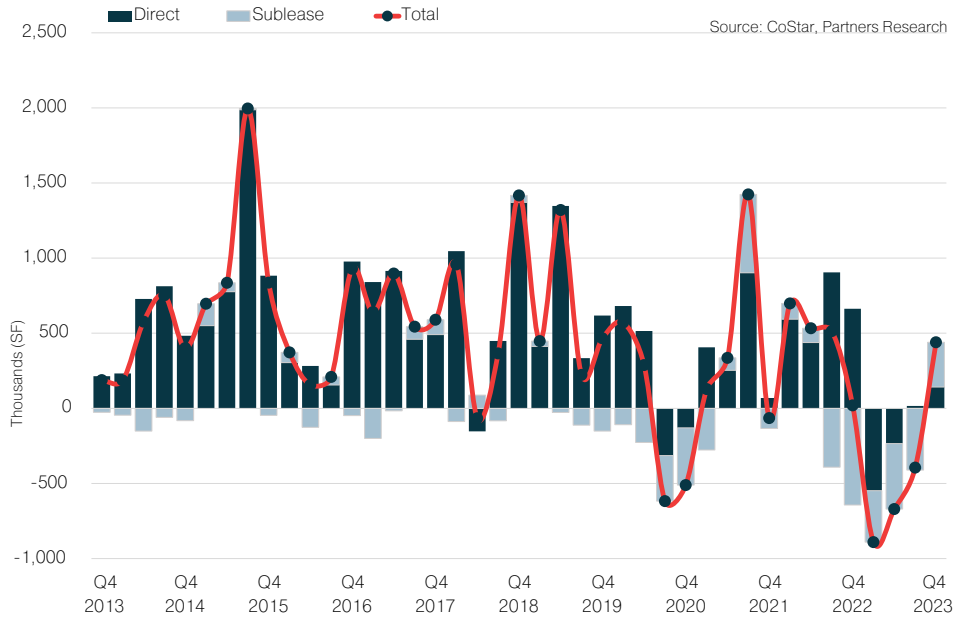
## The CBD and Northeast Submarkets Lead Deliveries

Deliveries are at 297,568 sq. ft., 61% down year-over-year from 766,469 sq. ft. Year-to-date, deliveries are at 2.2 million sq. ft., down from the prior year-to-date tally of 4.2 million sq. ft. The Northeast and CBD submarkets led year-to-date deliveries—accounting for 486,299 sq. ft. (21%) and 445,265 sq. ft. (20%) of space completed in 2023, respectively. However, the largest delivery of the year was a 335,000-sq.-ft. office building (Domain 9) at 2904 Palm Way (North/Domain submarket) in April. Construction is at 6.4 million sq. ft., 18% down year-over-year from 7.8 million sq. ft. Over the last three years, construction has averaged 7.4 million sq. ft. annually. Despite the slowed onset of supply, Austin maintains the most active construction pipeline in the country relative to its size, according to CoStar Market Analytics.

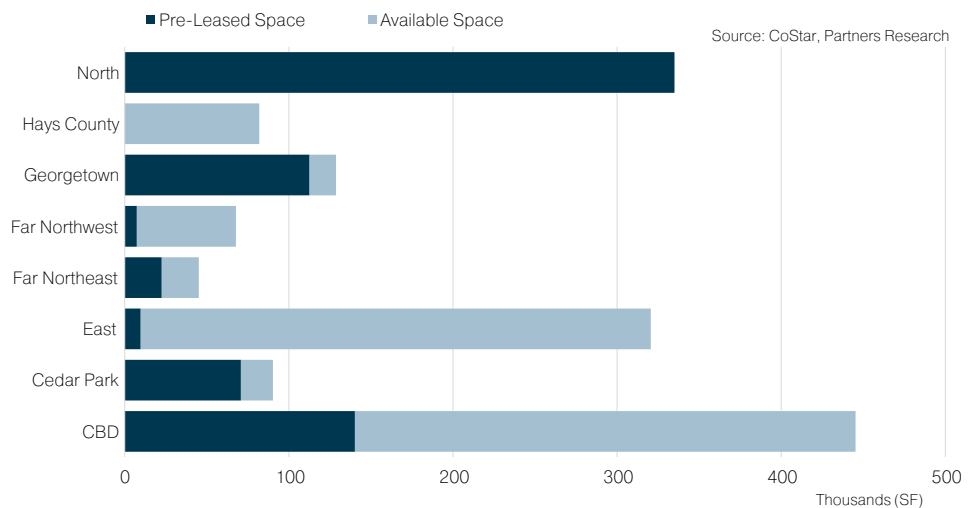
## Vacancy Rate at 17.8%

The overall vacancy rate in Austin’s office market is at 17.8%. Quarter-over-quarter, the vacancy rate decreased 20 basis points from 18.0%. Year-over-year, the vacancy rate increased 320 basis points from 14.6%. Only 30% of year-to-date deliveries have been fully leased, contributing to the increase in the overall vacancy rate. Class A and Class B space have vacancy rates at 20.4% and 16.1%, respectively. Class A submarkets with the greatest year-over-year increases include: Northwest (14.1% to 18.6%), North Domain (10.7% to 19.2%), and South (13.8% to 21.8%). Class B submarkets with the greatest year-over-year increases include: South (26.5% to 32.5%), Northwest (13.3% to 16.9%), and Cedar Park/Georgetown/Round Rock (5.0% to 8.5%). As of year-end, Austin holds the second-lowest overall office vacancy rate in Texas, succeeding San Antonio at 15.0%.

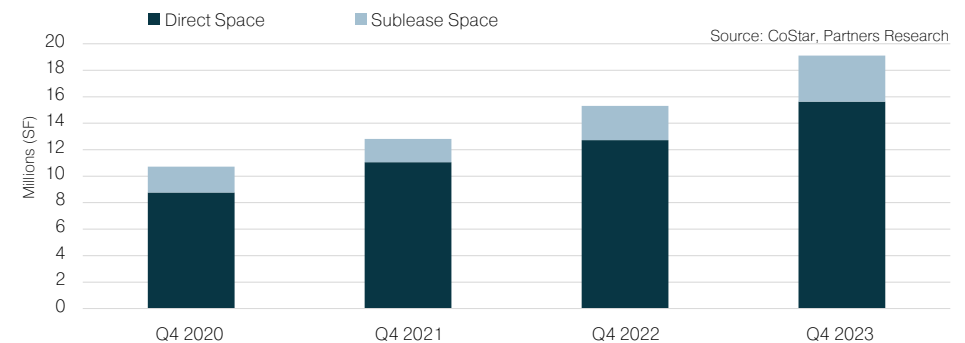
## Net Absorption



## Deliveries



## Vacancy



## Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q4 2023 at \$329 million, 67% down from \$1.0 billion in Q4 2022. By year-end, 232 deals were completed in the Austin office market with an average transaction price of \$303 and an average cap rate of 5.8%. A significant sales transaction in 2023 included Oak Street Real Estate Capital acquiring a 424,322-sq.-ft. office campus from Intel Corporation at 1300 South MoPac Expressway for \$111 million in July. In addition, Capital Metropolitan Transportation Authority secured a 182,716-sq.-ft. office building from CIM Group, LP at 3100 East 5th Street for \$87.2 million in August.

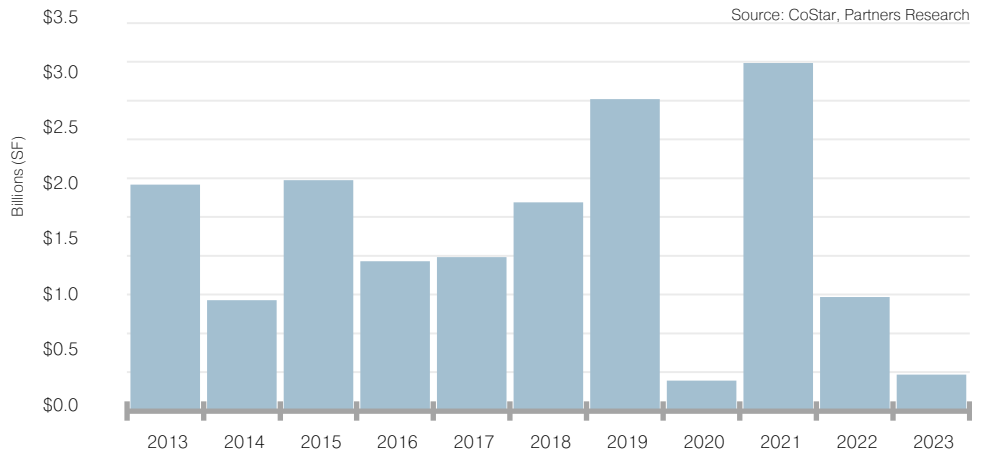
## Leasing Down 35% Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 1.1 million sq. ft.—35% down from 1.7 million sq. ft. in Q4 2022. Year-to-date, leasing activity is at 4.5 million sq. ft., down from the prior year-to-date tally of 8.0 million sq. ft. By year-end, 39 leases were signed, averaging 45,262 sq. ft., with notable exceptions in April by IBM (319,998 sq. ft.)—the largest lease signed in 2023—and in November by Advanced Micro Devices Inc. (98,920 sq. ft.). Large-scale leases, which were once particularly common among technology companies in the Austin office market, have been relatively few this year—only 15% of leases were above 80,000 sq. ft. in 2023. In addition, the ongoing “downsizing” trend still prevails—Tokyo Electron, a Japanese electronics and semiconductor company—announced in September that they plan to sell their U.S. headquarters—a 189,795-sq.-ft. campus and 60-acre tract—at 2400 Grove Boulevard. In December, Tokyo Electron signed a 98,761-sq.-ft. lease at 401 South First Street—a 91,034-sq.-ft. reduction in office space.

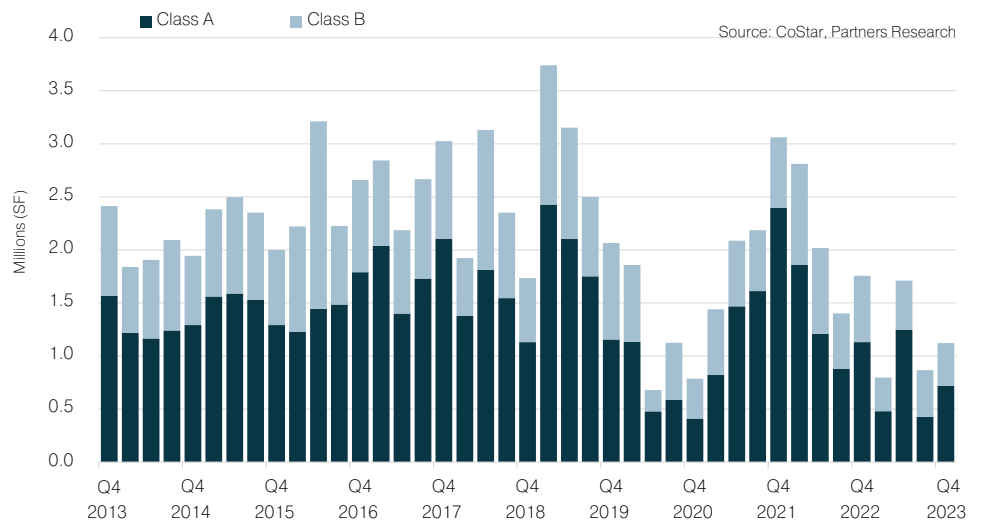
## Asking Rent Increases Slightly Year-Over-Year

Austin’s full-service average rent stands at \$41.43 sq. ft., up slightly quarter-over-quarter and year-over-year from \$41.33 per sq. ft. and \$40.91 per sq. ft., respectively. Asking rents for Class A and Class B space are at \$47.33 per sq. ft. and \$32.72 per sq. ft., respectively. On the quarter, submarkets with highest asking rents include CBD (\$58.87 per sq. ft.), North Domain (\$43.98 per sq. ft.), and Southeast (\$42.30 per sq. ft.). The Northeast submarket logged the lowest asking rent at \$28.33 per sq. ft.). CoStar Market Analytics projects year-over-year rent growth to cool (-5.2%) by Q4 2024.

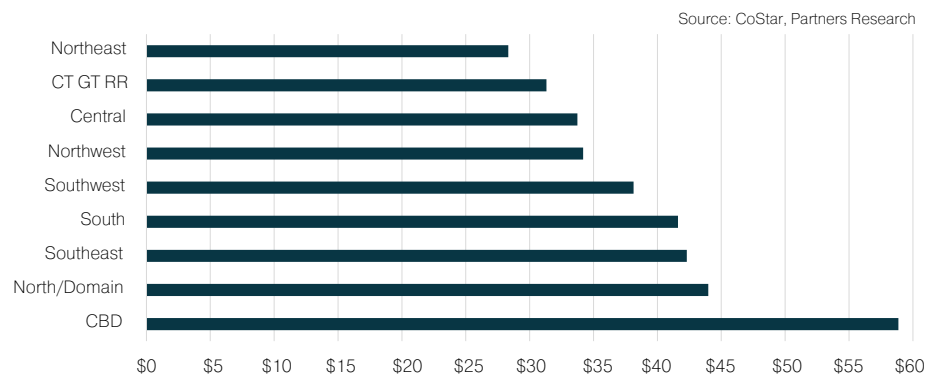
## Cumulative Sales Volume



## Leasing Activity



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



# Market Overview

## Submarket Stats

Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Leasing Activity (SF)	Q4 2023 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Austin Market Total</b>	<b>107,126,224</b>	<b>17.8%</b>	<b>22.0%</b>	<b>439,401</b>	<b>-1,515,718</b>	<b>1,137,404</b>	<b>297,568</b>	<b>41.43</b>
Class A	57,746,459	20.4%	26.2%	265,360	-764,673	720,014	138,014	47.33
Class B	43,832,597	16.1%	18.1%	179,300	-707,043	401,996	159,554	32.73
<b>CBD Total</b>	<b>21,477,208</b>	<b>19.5%</b>	<b>24.2%</b>	<b>104,752</b>	<b>-165,256</b>	<b>161,683</b>	<b>0</b>	<b>58.87</b>
Class A	14,277,715	25.0%	30.4%	155,869	-147,225	132,041	0	63.12
Class B	5,800,788	10.5%	12.9%	-54,921	-20,955	29,642	0	40.97
<b>Central Total</b>	<b>7,028,293</b>	<b>12.8%</b>	<b>16.2%</b>	<b>75,751</b>	<b>-51,622</b>	<b>79,024</b>	<b>72,230</b>	<b>33.74</b>
Class A	2,239,779	12.8%	19.2%	-16,077	-17,503	13,233	0	42.02
Class B	3,612,239	15.8%	18.0%	99,723	-28,088	63,299	72,230	28.62
<b>Cedar Park/Georgetown/ Round Rock Total</b>	<b>8,523,904</b>	<b>5.5%</b>	<b>7.7%</b>	<b>74,093</b>	<b>81,238</b>	<b>32,798</b>	<b>87,324</b>	<b>31.32</b>
Class A	4,844,086	3.9%	7.3%	-13,122	20,737	9,621	0	30.16
Class B	3,245,751	8.5%	9.0%	87,215	60,501	23,177	87,324	31.87
<b>North/Domain Total</b>	<b>9,976,881</b>	<b>16.9%</b>	<b>18.6%</b>	<b>125,575</b>	<b>-121,468</b>	<b>8,047</b>	<b>0</b>	<b>43.98</b>
Class A	5,292,657	19.2%	20.7%	109,697	-152,896	7,349	0	49.98
Class B	4,594,824	14.5%	16.4%	15,878	31,428	698	0	32.20
<b>Northeast Total</b>	<b>6,189,446</b>	<b>28.3%</b>	<b>32.3%</b>	<b>41,041</b>	<b>-65,330</b>	<b>43,109</b>	<b>0</b>	<b>28.33</b>
Class A	2,301,409	46.7%	56.4%	0	73,235	33,250	0	31.07
Class B	3,113,696	17.7%	16.7%	41,991	-92,766	9,859	0	26.57

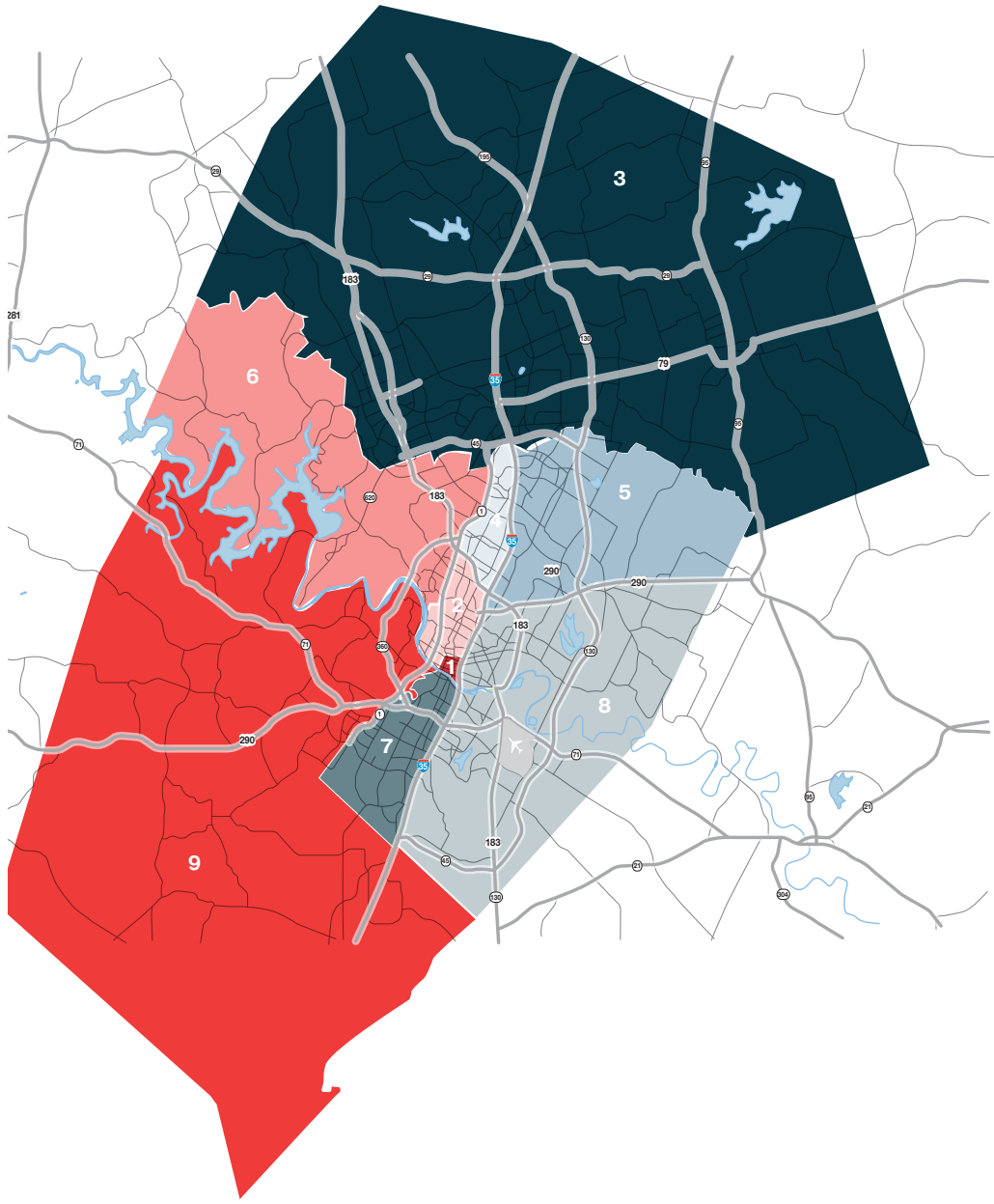
# Market Overview

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Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Leasing Activity (SF)	Q4 2023 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Northwest Total</b>	<b>20,772,524</b>	<b>17.9%</b>	<b>23.9%</b>	<b>18,598</b>	<b>-786,742</b>	<b>271,727</b>	<b>0</b>	<b>34.19</b>
Class A	11,870,237	18.6%	24.6%	34,673	-532,317	97,430	0	36.40
Class B	8,668,354	16.9%	23.2%	-15,369	-251,682	170,581	0	31.75
<b>South Total</b>	<b>4,797,717</b>	<b>26.3%</b>	<b>31.4%</b>	<b>18,117</b>	<b>-263,954</b>	<b>160,049</b>	<b>0</b>	<b>41.61</b>
Class A	2,025,842	21.8%	33.3%	24,179	-162,661	141,300	0	48.45
Class B	2,438,987	32.5%	32.2%	-6,062	-113,416	18,749	0	38.93
<b>East/Southeast Total</b>	<b>13,208,810</b>	<b>18.0%</b>	<b>23.0%</b>	<b>24,426</b>	<b>74,434</b>	<b>52,735</b>	<b>93,000</b>	<b>42.30</b>
Class A	5,272,128	20.6%	30.0%	-6,522	251,927	14,961	93,000	47.62
Class B	7,119,565	18.1%	18.2%	30,948	-179,660	29,888	0	33.58
<b>Southwest Total</b>	<b>15,151,441</b>	<b>18.2%</b>	<b>21.1%</b>	<b>-42,952</b>	<b>-217,018</b>	<b>328,232</b>	<b>45,014</b>	<b>38.13</b>
Class A	9,622,606	20.0%	23.1%	-23,337	-97,970	270,829	45,014	40.91
Class B	5,238,393	15.9%	18.3%	-20,103	-112,405	56,103	0	32.88
<b>Suburban Total</b>	<b>85,649,016</b>	<b>17.4%</b>	<b>21.4%</b>	<b>334,649</b>	<b>-1,350,462</b>	<b>975,721</b>	<b>297,568</b>	<b>36.58</b>
Class A	43,468,744	18.9%	24.7%	109,491	-617,448	587,973	138,014	40.82
Class B	38,031,809	16.9%	18.9%	234,221	-686,008	372,354	159,554	31.77

# Market Overview

## Austin Office Submarkets



- 1. CBD
- 2. Central
- 3. CedarPark/Georgetown/Round Rock
- 4. North/Domain
- 5. Northeast
- 6. Northwest
- 7. South
- 8. Southeast
- 9. Southwest

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

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