

Austin Office

Q1 2024

Austin Office | Q1 2024 Quarterly Market Report

Positive absorption persists amid surging new office spaces

Executive Summary

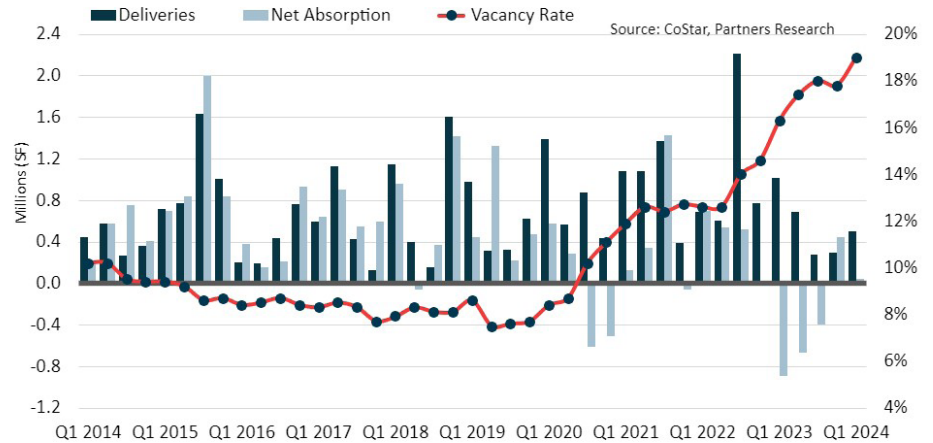
Q1 in Review

By the end of Q1 2024, the overall vacancy rate in the Austin office market rose 250 basis points year-over-year, from 16.5% to 19%. Despite two quarters of positive net absorption, the total vacancy rate increased primarily because new construction deliveries outpaced net absorption by a wide margin. This increase in the total vacancy rate has put downward pressure on asking rates, which have decreased over the past year by 2.7%. Like many markets across the country, Class A properties, particularly newer properties, have strongly outperformed Class B properties. In the first quarter, Class A properties recorded 150,144 sq. ft. of positive net absorption, while Class B properties recorded a negative 111,183 sq. ft.

Austin Economic Update

According to the latest release of Austin's Economic Indicators, Austin's unemployment rate rose to 3.5%, remaining below the state's and the nation's rate of 3.9%. In February, the local labor force increased an annualized 8.8%, while the state's increased 2.1% and the nation's fell 0.1%. Austin employment increased 9.5% in February after decreasing 1.0% in January. Sectors with the most growth were professional and business services (4,811 jobs), government (3,119 jobs), and leisure and hospitality (1,382 jobs). Sectors that saw a decline included trade, transportation and utilities (-952 jobs) and manufacturing (-112 jobs). Year to date, Austin has seen 4.1% employment growth, below the state's 4.3% but above the nation's 2.1%.

Supply & Demand



Key Market Indicators

	CURRENT Q1 2024	PRIOR QUARTER Q4 2023		PRIOR YEAR Q1 2023	
Vacant Total	19.0%	17.8%	▲	16.5%	▲
Vacant Direct	15.2%	14.6%	▲	13.7%	▲
Available Total	23.0%	22.0%	▲	21.4%	▲
Available Direct	17.9%	16.8%	▲	16.9%	▲
Net Absorption (SF)	38,961	439,401	▼	-668,048	▲
Leasing Activity (SF)	1,094,393	1,137,404	▼	1,178,964	▼
Construction (SF)	6,378,731	6,436,132	▼	7,249,389	▼
Deliveries (SF)	496,669	297,568	▲	1,117,342	▼
Avg Asking Rent (FSG)	\$39.74	\$41.43	▼	\$40.84	▼
Inventory (SF)	95,003,775	107,126,224	▼	101,216,021	▲

Market Overview

Net Absorption Flat for the Quarter

Net absorption—move-ins minus move-outs—was positive but relatively flat at 38,961 sq. ft., this is down from last quarter’s 439,401 sq. ft. but a big improvement from a year ago, when net absorption was a negative 668,048 sq. ft. On a submarket level, the South and North/Domain submarkets had the strongest levels of demand, with 153,824 sq. ft. and 90,516 sq. ft. of net absorption in the first quarter, respectively. Notable move-ins in the first quarter include Apple taking 81,360 sq. ft. at Las Cimas I; Dun & Bradstreet taking 36,248 sq. ft. at Domain Gateway; and National Veterinary Associates taking 30,636 sq. ft. of sublease space at Bouldin Creek South.

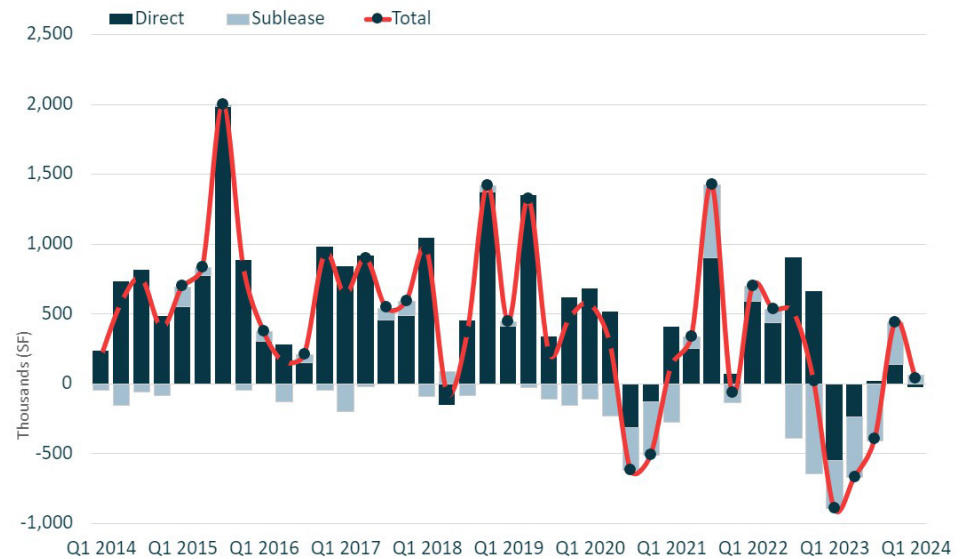
North/Domain and Central Submarkets Lead Deliveries

Deliveries are at 496,669 sq. ft., up from last quarter but down by 56% from one year ago when 1.1 million sq. ft. was delivered. There were two significant deliveries in the first quarter of 2024, Uptown ATX, a 363,000-sq.-ft. office project in North/Domain and 7001 Burnet, a 100,000-sq.-ft. building in the Central submarket. Of the office projects delivered in the first quarter, only a minimal amount was pre-leased (15%). The under-construction pipeline has been trending down over recent quarters (down 12% over the past year) but with almost 6.4 million sq. ft. still underway, net absorption will need to increase significantly to keep the total vacancy rate from rising further throughout 2024/2025.

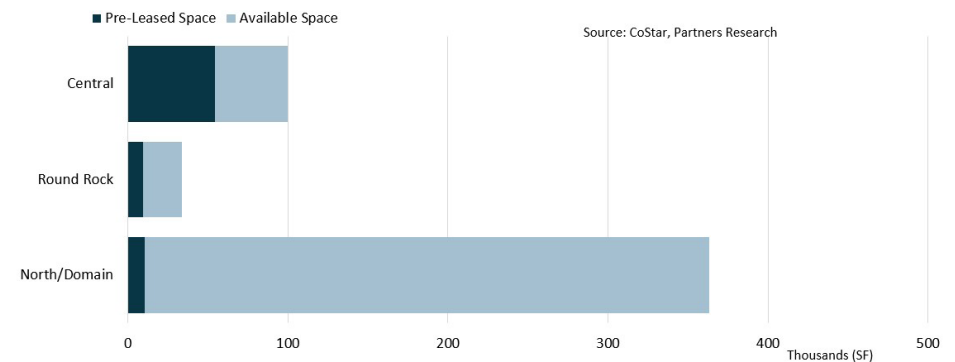
Vacancy Rate at 19%

The overall vacancy rate in Austin’s office market is at 19%. Quarter-over-quarter, the vacancy rate increased 120 basis points from 17.8%. Year-over-year, the vacancy rate increased 250 basis points from 16.5%. Class A and Class B space have vacancy rates at 20.5% and 16.8%, respectively. The Northeast, South and CBD submarkets currently have the highest vacancy rates at 31.6%, 23.2% and 22.6%, respectively. Only one submarket is not in the double digits, Georgetown/Round Rock remains healthy with a 5.9% total vacancy rate.

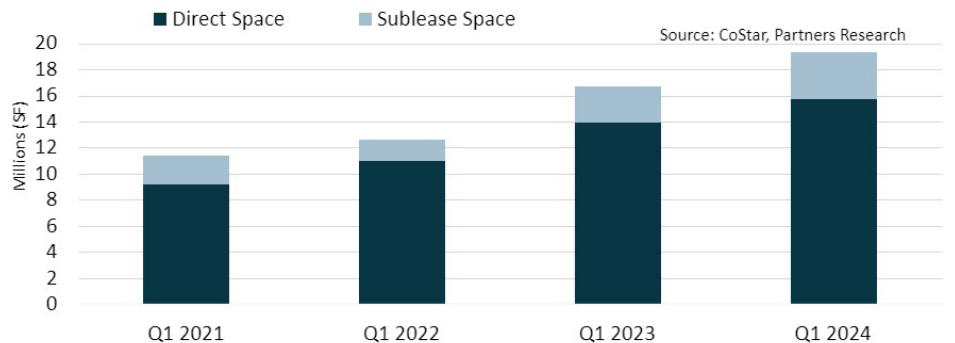
Net Absorption



Deliveries



Vacancy



Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q1 2024 at \$272 million. Over the past year, 57 office properties have been sold at an average \$336 price per sq. ft. and an average cap rate of 7.1%. Recent sales include, the City of Austin buying 2400 Grove as part of a redevelopment project; Teacher's Retirement System of Texas buying the newly constructed 245,000-sq.-ft. Bravo building in the Mueller Business District; and HPI buying Barton Oaks Plaza II and III, two 118,650-sq.-ft. multi-tenant office properties that were sold by Invesco.

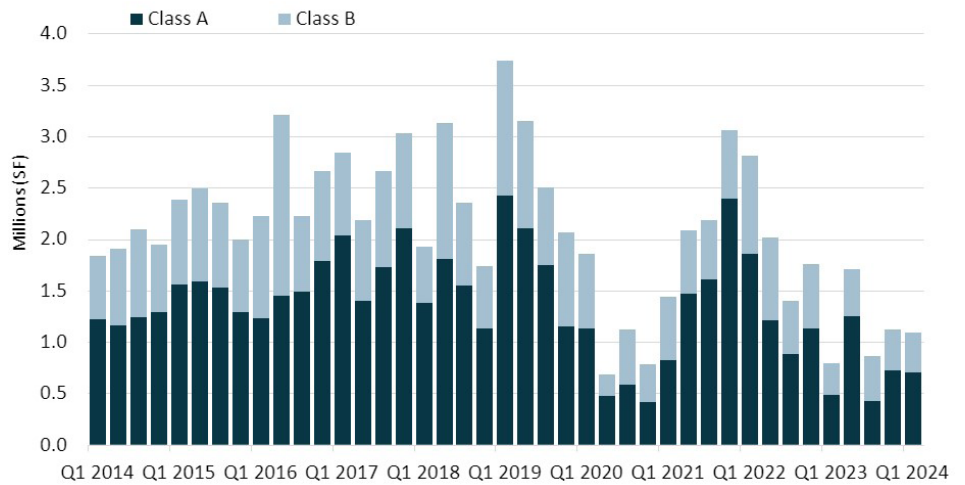
Leasing Down Trending Down Quarterly and Year-Over-Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 1.1 million sq. ft. — down 3.8% over the past quarter and down 7.2% year-over-year. Notable new leases signed for the quarter include IBM signing a lease for 50,000 sq. ft. at Parmer 3.2; Quantic Wenzel signing a lease for 45,308 sq. ft. at Kramer 1; and Tecovas signing a 28,981 sq. ft. sublease deal at 901 E 6th St.

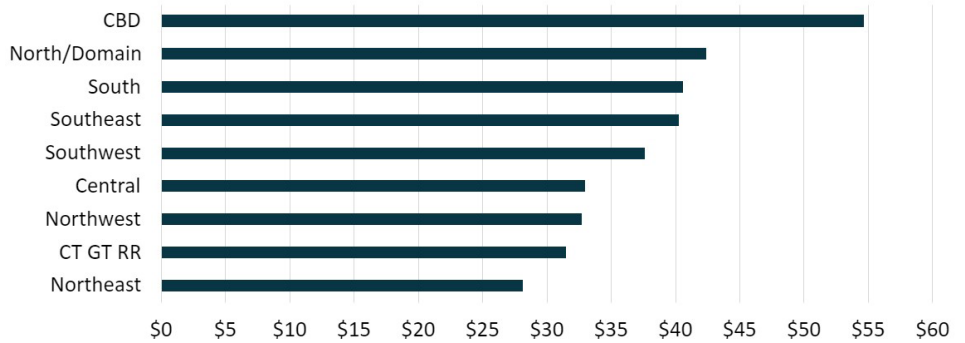
Rates Dipped as Sublease Space and Higher Vacancy Weighed on the Market

Austin's full-service average rent stands at \$39.74 sq. ft., down quarter-over-quarter and year-over-year by 4.1% and 2.7%, respectively. Asking rents for Class A and Class B space are \$45.31 per sq. ft. and \$31.88 per sq. ft., respectively. On the quarter, submarkets with highest asking rents include CBD (\$54.69 per sq. ft.), North Domain (\$42.41 per sq. ft.), and Southeast (\$40.63 per sq. ft.). The Northeast submarket logged the lowest asking rent at \$28.18 per sq. ft.). Partners is forecasting that average asking rates will decrease by roughly 3% throughout the remainder of 2024.

Leasing Activity



Overall Gross Asking Rent (\$/PSF)



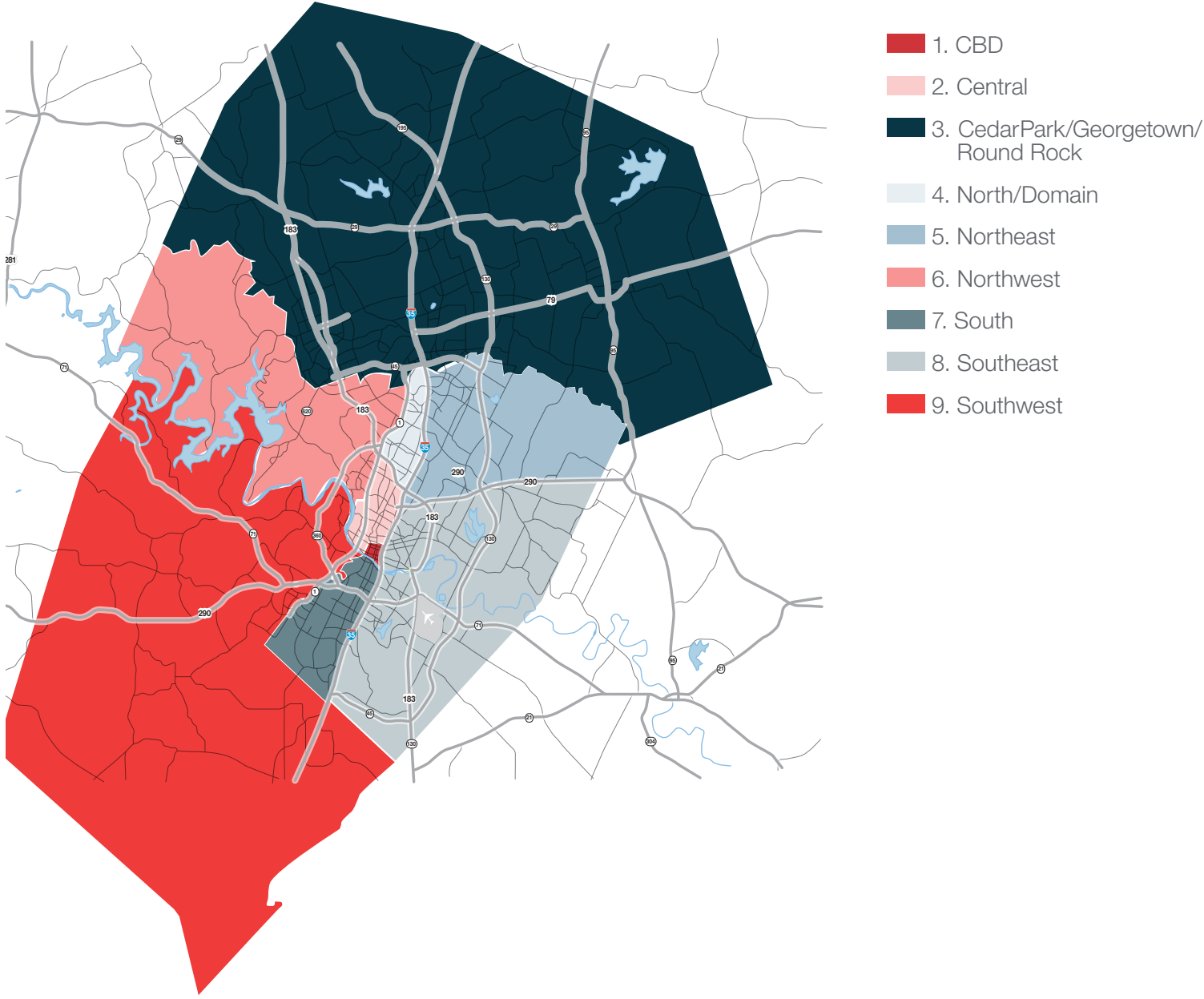
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Vacancy (%)	Total Availability (%)	Q1 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q1 2024 Leasing Activity (SF)	Q1 2024 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	19.0%	23.0%	38,961	38,961	1,051,945	496,669	39.74
Class A	20.5%	25.6%	150,144	150,144	692,220	463,000	45.31
Class B	16.8%	19.1%	-111,183	-111,183	359,725	33,669	31.88
CBD Total	22.6%	26.2%	-123,309	-123,309	137,743	0	54.69
Class A	26.6%	30.4%	-96,123	-96,123	109,719	0	57.48
Class B	11.6%	13.8%	-27,186	-27,186	28,024	0	40.98
Central Total	18.8%	21.6%	48,054	48,054	27,538	100,000	33.02
Class A	20.8%	28.1%	73,782	73,782	13,233	100,000	41.13
Class B	17.8%	18.3%	-25,728	-25,728	14,305	0	28.15
Cedar Park/Georgetown/ Round Rock Total	5.9%	9.0%	18,215	18,215	27,571	33,669	31.51
Class A	3.6%	7.7%	14,928	14,928	20,834	0	30.15
Class B	9.4%	10.5%	3,287	3,287	6,737	33,669	32.10
North/Domain Total	16.4%	17.8%	90,516	90,516	127,758	363,000	42.41
Class A	17.5%	17.5%	109,697	109,697	77,817	363,000	49.44
Class B	14.9%	19.0%	-19,181	-19,181	49,941	0	30.33
Northeast Total	31.6%	37.0%	-29,347	-29,347	126,587	0	28.18
Class A	43.0%	51.8%	5,629	5,629	106,100	0	31.07
Class B	21.6%	22.6%	-34,976	-34,976	20,487	0	25.62
Northwest Total	18.0%	22.4%	-47,695	-47,695	229,410	0	32.72
Class A	19.1%	23.4%	-83,219	-83,219	132,025	0	35.05
Class B	16.2%	20.6%	35,524	35,524	97,385	0	28.57
South Total	23.2%	28.3%	153,824	153,824	74,500	0	40.62
Class A	17.0%	29.9%	49,905	49,905	67,323	0	48.19
Class B	28.5%	28.5%	103,919	103,919	7,177	0	35.38
East/Southeast Total	21.3%	25.0%	-273,609	-273,609	152,230	0	40.30
Class A	21.2%	30.0%	-25,875	-25,875	91,735	0	48.18
Class B	21.3%	21.3%	-247,734	-247,734	60,495	0	31.95
Southwest Total	17.3%	21.8%	202,312	202,312	148,608	0	37.65
Class A	18.1%	23.7%	101,420	101,420	73,434	0	40.06
Class B	15.5%	17.8%	100,892	100,892	75,174	0	34.48
Suburban Total	18.0%	22.1%	162,270	162,270	914,202	496,669	35.71
Class A	18.3%	23.8%	246,267	246,267	582,501	463,000	40.06
Class B	17.6%	19.9%	-83,997	-83,997	331,701	33,669	31.03

Market Overview

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.

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