

Austin Office

Q2 2024

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Quarterly Market Report

Vacancy rate increased due to a combination of new construction and muted demand, still asking rates overall increased slightly for the quarter.

Executive Summary

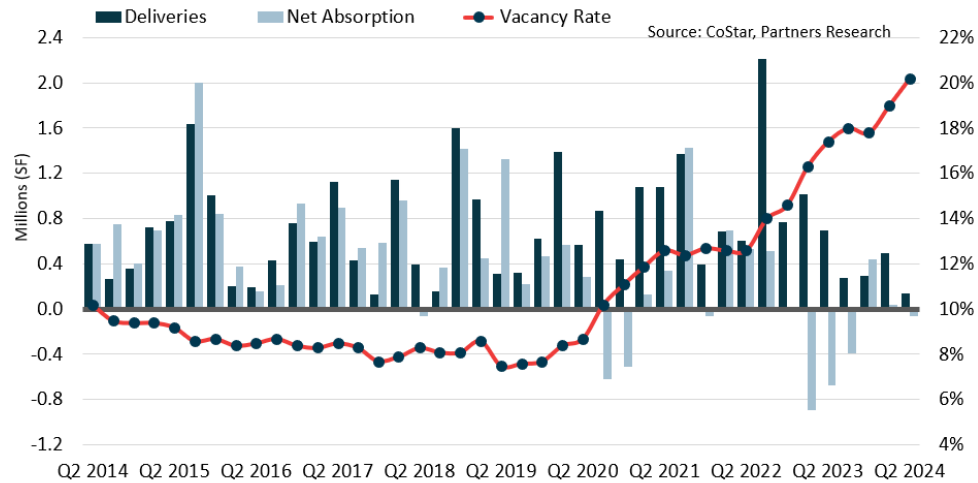
Q2 In Review

Austin's office market experienced a challenging Q2 2024, marked by negative net absorption, declining leasing activity, and rising vacancy rates. New supply, exacerbated by sluggish demand due to recent tech layoffs, continues to pressure the market. While sublease space is decreasing, it remains a significant burden weighing on market fundamentals. Despite these headwinds, rental rates increased slightly for the quarter, and investment sales, though subdued, saw some notable transactions.

Austin Economic Update

According to the latest release of Austin's Economic Indicators, Austin's unemployment rate stayed at 3.4% in May, remaining below the state's and nation's rates of 4.0%. In May, the local labor force increased an annualized 2.3%, while the state's increased 2.9%, and the nation's fell 1.8%. Austin employment grew 2.9% in May after increasing 3.4% in April. The sectors with the most growth were leisure and hospitality (1,916 jobs) and trade, transportation and utilities (974 jobs). Sectors that saw a decline included professional and business services (-1,198 jobs) and information (-429 jobs). Year to date, Austin employment growth was 2.2%, below the state's 2.8% gains and above the nation's 1.9% increase.

Supply & Demand



Key Market Indicators

	CURRENT Q2 2024	PRIOR QUARTER Q1 2024		PRIOR YEAR Q2 2023	
Vacant Total	20.2%	19.0%	▲	19.0%	▲
Vacant Direct	17.0%	15.2%	▲	16.1%	▲
Available Total	25.2%	23.0%	▲	22.4%	▲
Available Direct	20.6%	17.9%	▲	17.6%	▲
Net Absorption (SF)	-64,718	38,961	▼	-638,028	▲
Leasing Activity (SF)	943,107	1,094,393	▼	1,317,032	▼
Construction (SF)	5,259,297	6,378,731	▼	6,325,704	▼
Deliveries (SF)	138,161	496,669	▼	668,009	▼
Avg Asking Rent (FSG)	\$41.64	\$39.74	▲	\$42.08	▼
Inventory (SF)	96,484,278	95,003,775	▲	94,625,175	▲

Market Overview

Net Absorption Slightly negative in Q2 2024

Net absorption—move-ins minus move-outs—was a negative 64,718 sq. ft. for the quarter. Both Class A and Class B properties struggled in the second quarter, recording a negative 23,290 sq. ft. and a negative 41,428 sq. ft., respectively. Notable move-ins for the quarter include IBM moving into 50,000 sq. ft. at Parmer 3.2, National Veterinary Associates subleasing 30,646 sq. ft. at Bouldin Creek South and Dun & Bradstreet moving into 36,248 sq. ft. of sublease space at Domain Gateway.

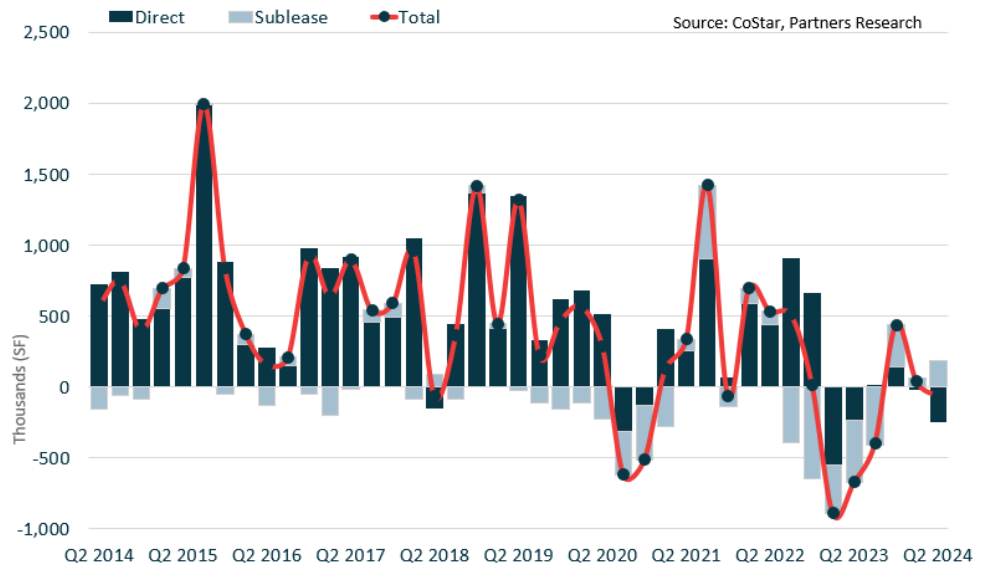
Construction Pipeline Decreasing, but Still Above the Norm

Deliveries were at 138,161 sq. ft for the quarter, this is down significantly from 500,000 delivered in Q1 2024 and 668,009 sq. ft. in Q2 2023. Still, new deliveries still outpaced demand, pushing the vacancy rate higher. With the construction pipeline still at almost 5.3 million sq. ft. the vacancy is expected to increase over the next few quarters as new supply has been outpacing demand. Given the recent layoff announcements from several large tech companies in Austin, demand is unlikely to keep up with the new supply in the short term.

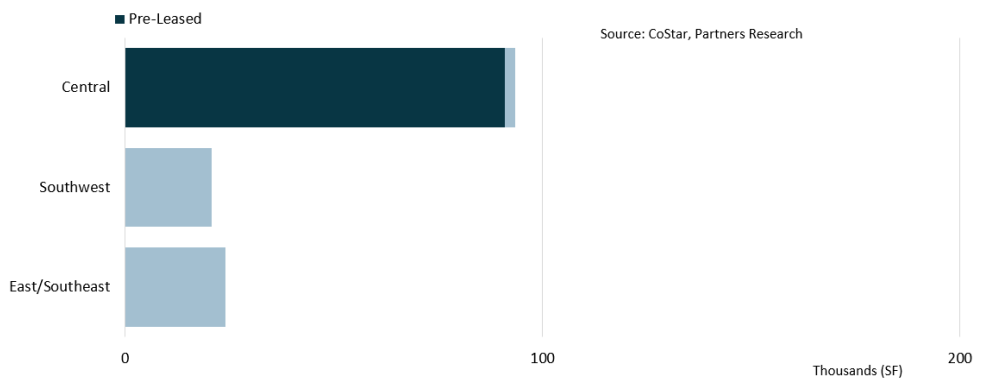
Leasing Activity Muted So Far in 2024

Quarterly leasing velocity—comprised of new leases and renewals—stood at 943,107 sq. ft.—down 14% from the last quarter. Notable large new leases signed include that Studio by Tishman Speyer is scheduled to move into 20,000 sq. ft. in early 2025 at ATX Tower.

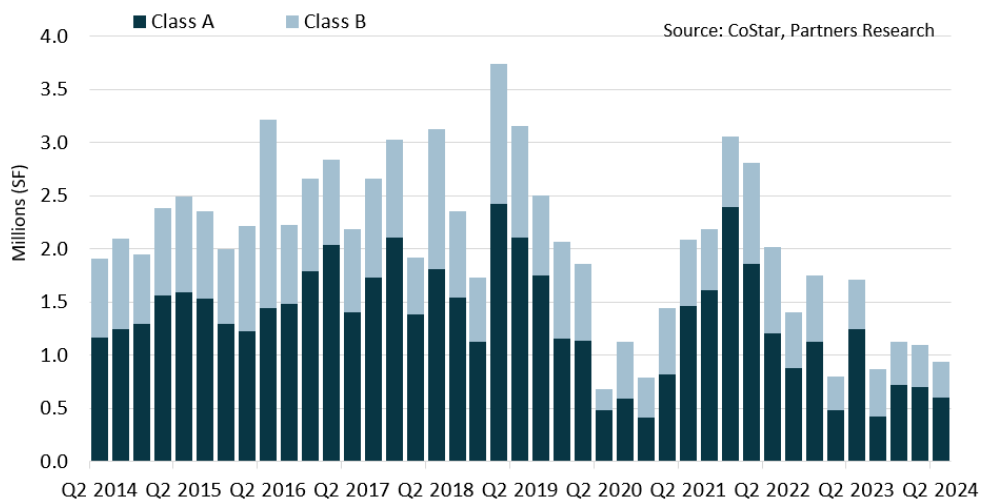
Net Absorption



Deliveries



Leasing Activity



Vacancy Rate at 20.2%

The overall vacancy rate in Austin's office market is at 20.2%. The total vacancy rate has been trending higher due to a combination of new spec construction with minimal leasing and companies continuing to downsize their footprints when leases have expired. On the sublease front, which has been a drag on the market, there has been a significant decrease in leasing activity and some rolling over to direct vacant space. Sublease space available is at 5.2 million sq. ft., this is down from the 5.8 million sq. ft. in late 2023.

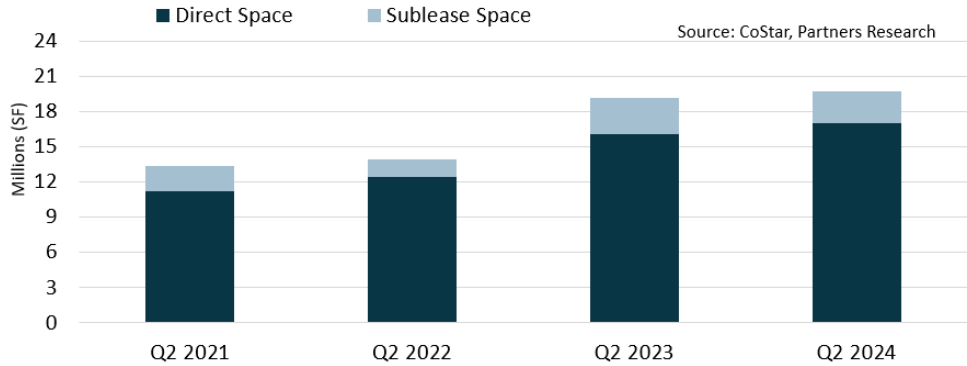
Investment Sales Trends Remain Subdued

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q2 2024 at \$148 million. For the past year, 57 office properties were sold with an average \$289 price per sq. ft. and an average cap rate of 7.2%. Notable recent transactions include Invesco selling the two building (237,300 sq. ft.) office portfolio, Barton Oaks II & III. HPI was the buyer, they plan to make some cosmetic upgrades to the buildings which had 85% occupancy at the time of sale. Also, Shorenstein Properties sold the second office property in the Mueller Business District, which is known as the Bravo building. Teacher's Retirement System of Texas purchased the 245,000 sq. ft. office property which they 100% occupy.

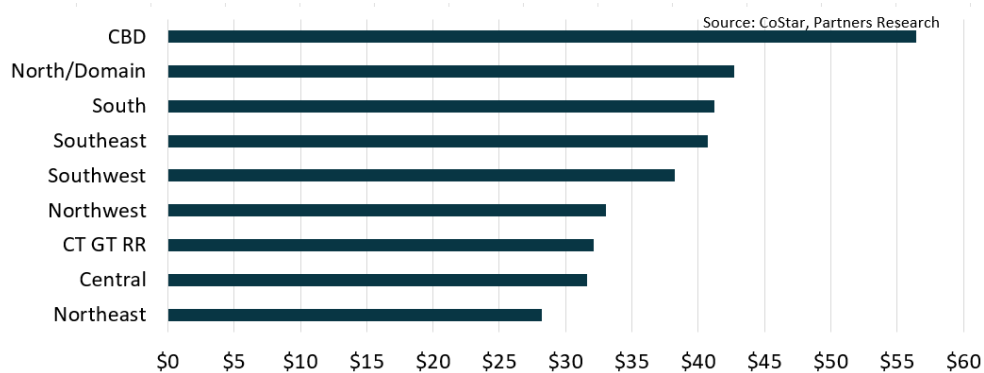
Rent Growth Slightly Up for the Quarter

Austin's full-service average rent stands at \$41.64 per sq. ft., which is up 4.8% from the previous quarter's \$39.74 per sq. ft. Asking rents for Class A and Class B space are at \$47.52 per sq. ft. and \$31.73 per sq. ft., respectively. Despite limited demand over the past few quarters, Class A rates went up in the past quarter, while Class B rates saw a slight decline.

Vacancy | YOY



Overall Gross Asking Rent (\$/PSF)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B Only)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q2 2024 Leasing Activity (SF)	Q2 2024 Deliveries (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Total	21,364,828	23.7%	30.1%	-258,595	-381,904	265,280	0	56.46
Class A	15,062,117	28.7%	36.4%	-202,499	-298,622	234,921	0	58.63
Class B	6,302,711	11.5%	13.4%	-56,096	-83,282	30,359	0	41.52
Central Total	4,297,649	20.1%	23.0%	20,024	68,078	41,905	93,419	31.63
Class A	1,445,717	25.5%	30.1%	5,900	79,682	6,868	93,419	41.21
Class B	2,851,932	17.3%	19.4%	14,124	-11,604	35,037	0	27.76
Cedar Park/Georgetown/ Round Rock Total	8,202,746	6.7%	10.0%	-64,236	-46,021	85,532	0	32.08
Class A	4,880,131	4.5%	8.4%	-44,900	-29,972	54,340	0	32.10
Class B	3,322,615	9.8%	11.8%	-19,336	-16,049	31,192	0	32.07
North/Domain Total	10,430,889	15.6%	17.9%	-1,903	88,613	54,788	0	42.71
Class A	5,595,644	17.1%	19.9%	7,805	117,502	19,231	0	49.68
Class B	4,835,245	13.9%	15.6%	-9,708	-28,889	35,557	0	30.61
Northeast Total	5,121,399	31.9%	39.5%	9,622	-19,725	77,360	0	28.20
Class A	2,356,295	43.8%	54.1%	12,665	18,294	56,100	0	31.07
Class B	2,765,104	21.7%	26.0%	-3,043	-38,019	21,260	0	25.67
Northwest Total	16,660,341	23.6%	27.5%	26,464	-21,231	178,788	0	33.02
Class A	9,981,312	29.0%	32.8%	-14,296	-97,515	70,803	0	36.06
Class B	6,679,029	15.5%	19.6%	40,760	76,284	107,985	0	28.78
South Total	4,430,035	25.0%	32.9%	-84,470	69,354	9,820	0	41.24
Class A	2,030,380	15.7%	33.3%	25,633	75,538	5,564	0	47.86
Class B	2,399,655	32.8%	32.8%	-110,103	-6,184	4,256	0	35.42
East/Southeast Total	12,492,047	20.0%	24.3%	163,660	-109,949	97,170	24,116	40.72
Class A	5,114,447	20.8%	28.0%	69,668	43,793	73,423	0	47.29
Class B	7,377,600	19.4%	19.4%	93,992	-153,742	23,747	24,116	32.51
Southwest Total	13,484,344	16.4%	23.0%	124,716	327,028	132,464	20,626	38.21
Class A	9,091,691	16.6%	24.3%	116,734	218,154	90,724	0	40.22
Class B	4,392,653	16.1%	20.4%	7,982	108,874	41,740	20,626	35.21
Suburban Total	75,119,450	19.2%	23.7%	193,877	356,147	677,827	138,161	36.21
Class A	40,495,617	20.7%	27.6%	179,209	425,476	377,053	93,419	40.91
Class B	34,623,833	17.5%	19.1%	14,668	-69,329	300,774	44,742	30.74
Austin Market Total	96,484,278	20.2%	25.2%	-64,718	-25,757	943,107	138,161	41.64
Class A	55,557,734	22.9%	30.1%	-23,290	126,854	611,974	93,419	47.52
Class B	40,926,544	16.6%	18.2%	-41,428	-152,611	331,133	44,742	31.73

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