



# Austin office market report

Q1 2023

**AVISON  
YOUNG**

# Austin office market trends

## 4.8%

### Annual employment growth remains strong

Despite recent tech layoffs nationwide, Austin's metro economy continues to perform well with a diverse, growing job market and sustained low unemployment. Austin's annual job growth rate of 4.8% ranks among the top performing markets in the country.

The long-term outlook remains positive, given the area's strong economic and labor market fundamentals that will help tackle the near-term softening macroeconomic landscape. The city's rapid population growth, competitive quality of life, and growing clout as a tech hub will continue attracting companies and driving the highest return to office rates in the nation.

## 21.8%

### Vacancy climbs higher as tenants reduce their footprint

Austin's office market fundamentals have softened with its second straight quarter of negative absorption and largest occupancy loss since the onset of the pandemic. Leasing activity has also cooled down mainly due to the national economic headwinds prompting many companies to delay making long-term real estate space commitments.

Due to the temporary pullback in leasing demand combined with deliveries, vacancy surpassed the 20% mark with the bulk of the occupancy losses resulting from companies reducing their footprint and placing sublet space on the market.

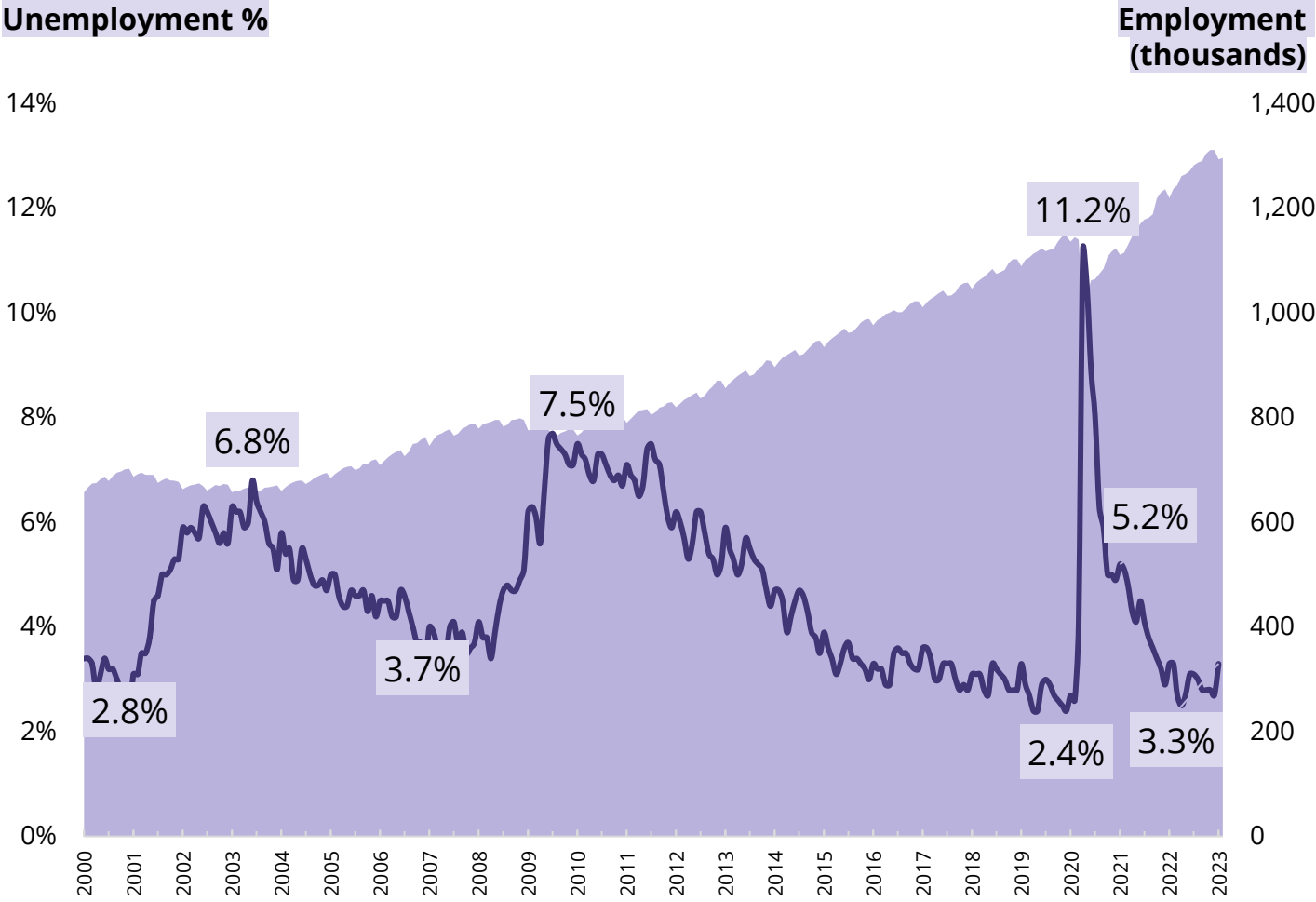
## 4.9 msf

### Sublet available space climbs to post-pandemic high

Sublease availabilities across the Austin office market increased for the fourth consecutive quarter reaching an all-time high. Sublease space offerings rose by 395k sf in Q1 2023 and have climbed nearly 2.8 msf over the prior 12 months as companies fully assess their space needs due to a growing hybrid work policy and potential economic slowdown.

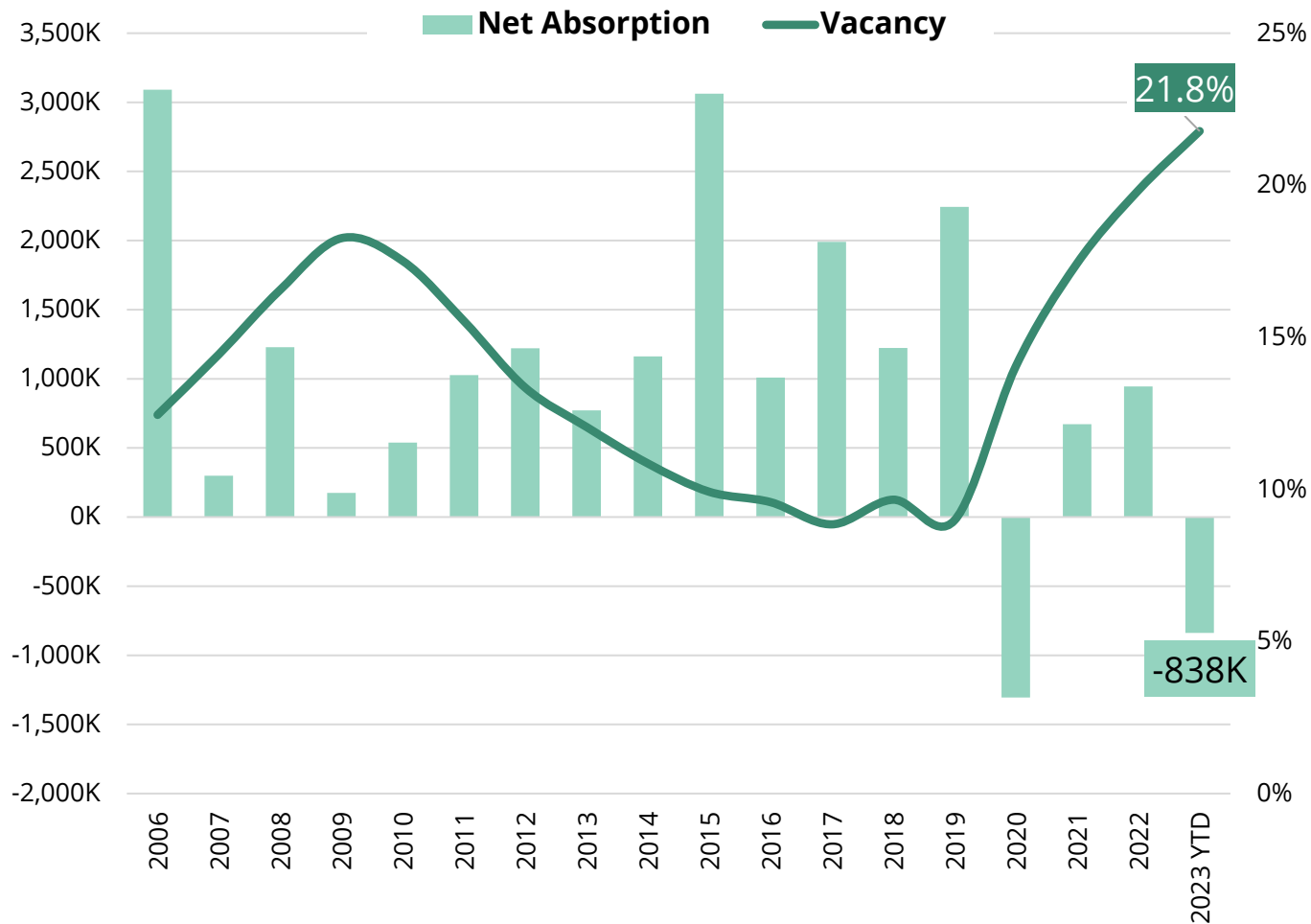
The increase in sublet space options could benefit large to mid-size occupiers looking to secure shorter lease terms and lower rental rates with 71% of the sublease inventory consisting of blocks greater than 20k sf.

# Austin economy ranks among top markets



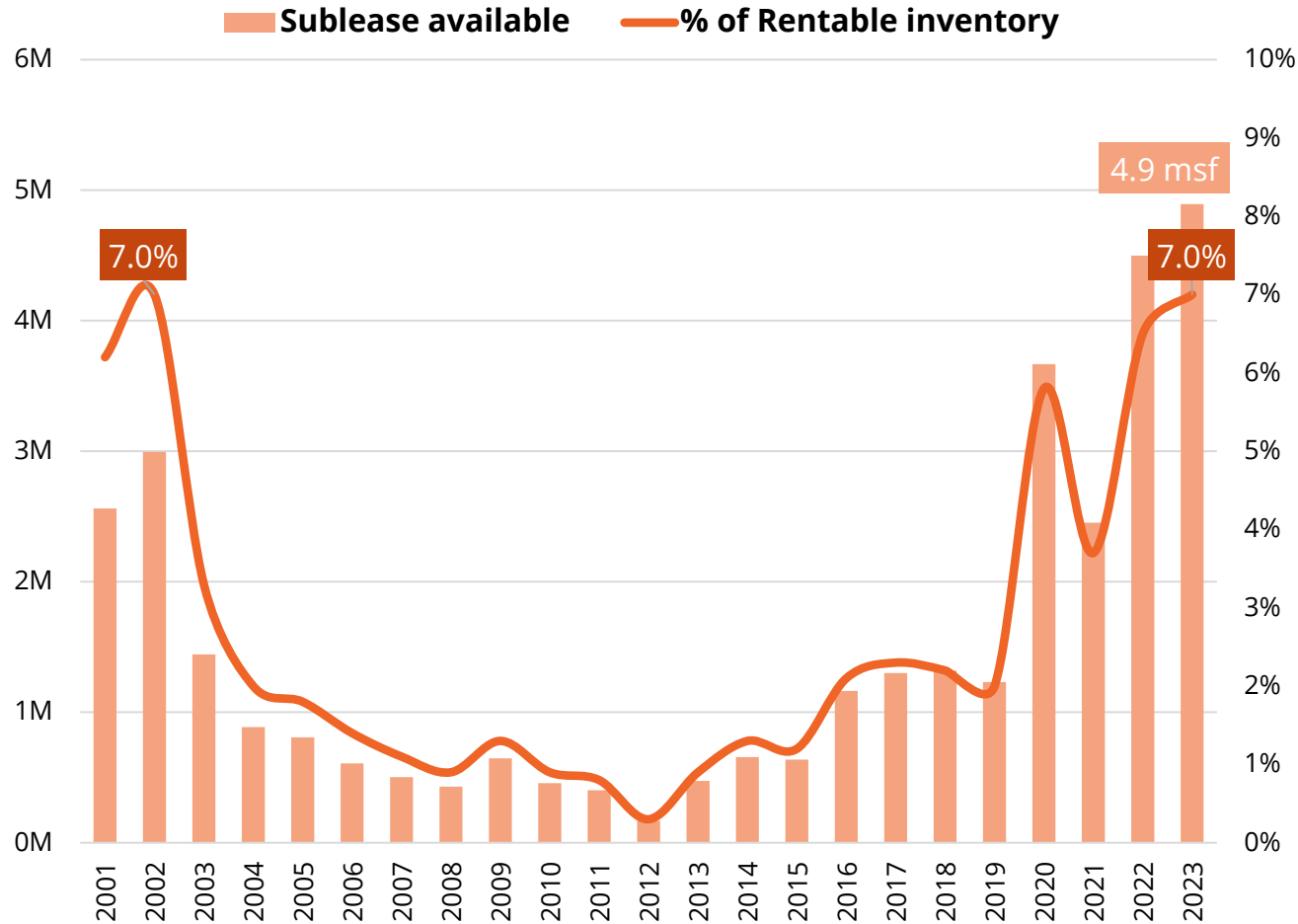
**Austin's annual job growth rate of 4.8% ranks fifth among the top performing U.S. markets with 58,800 jobs created through February 2023.**

# Negative absorption pushes vacancy higher



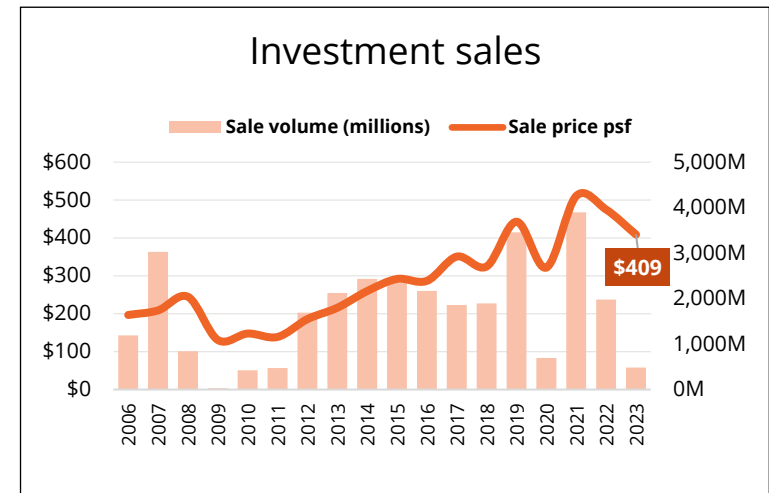
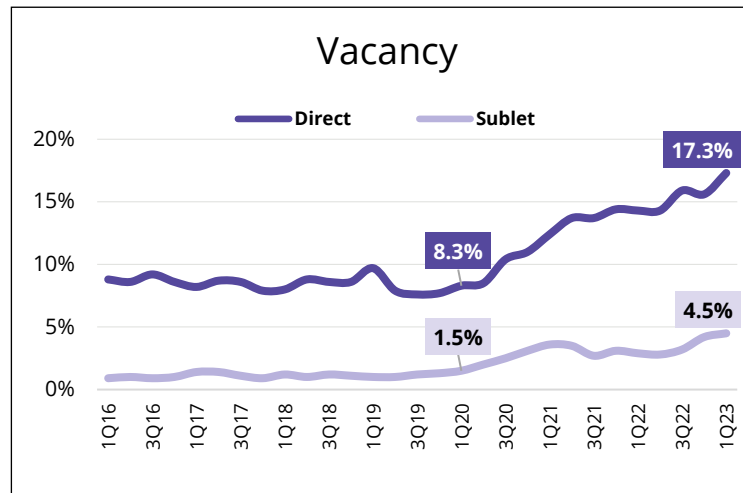
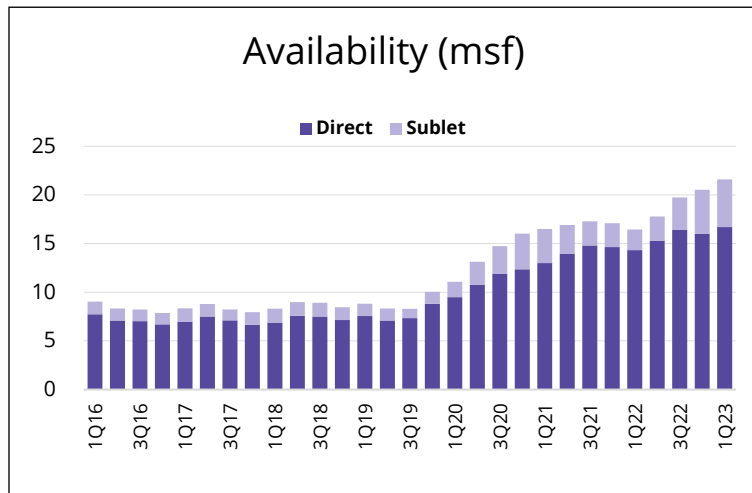
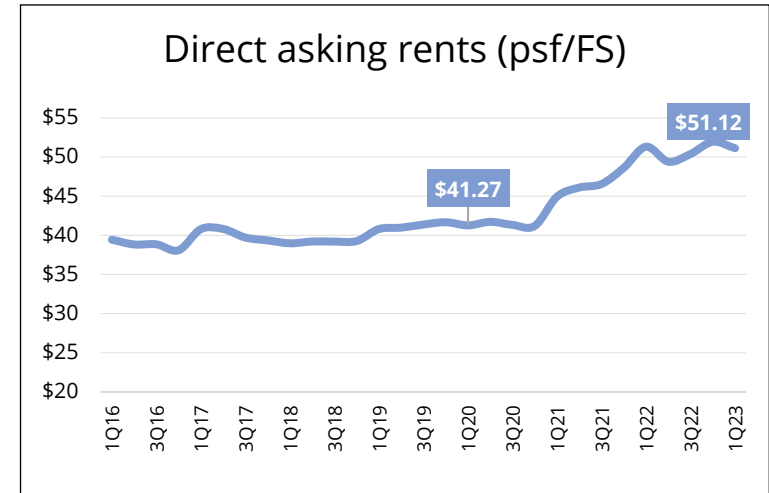
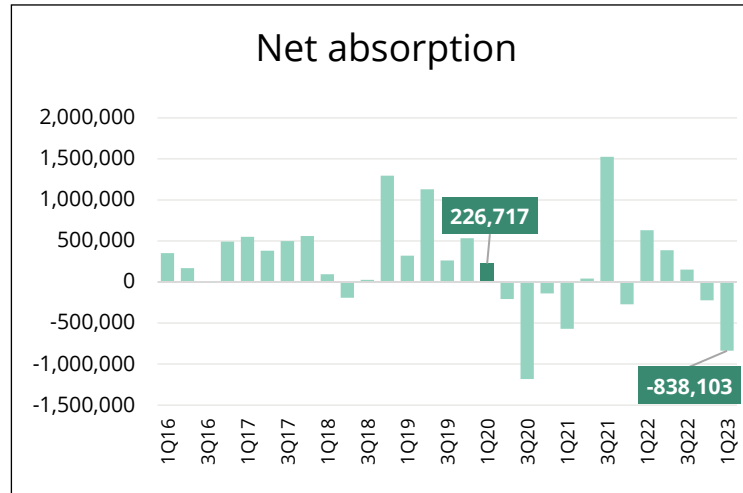
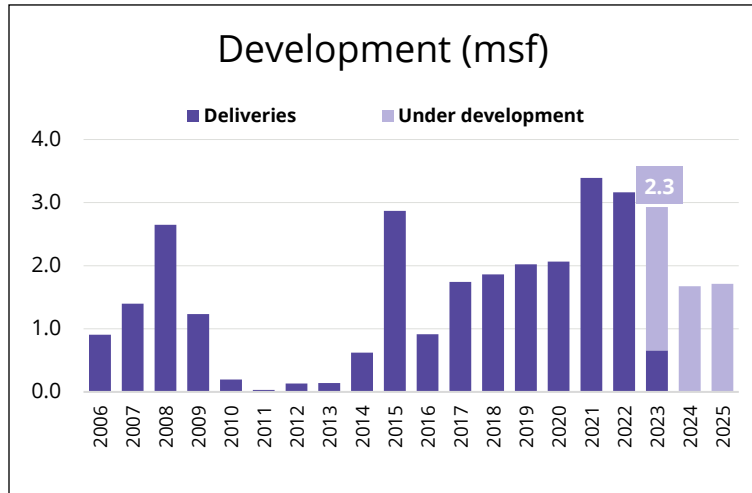
**Slower leasing velocity in recent months combined with construction deliveries have pushed vacancy to a 20-year high.**

# Sublet availability climbs to record high



Market wide sublease availability has climbed to 4.9 msf matching its prior peak with 71% of this space consisting of blocks greater than 20k sf.

# Austin office market indicators



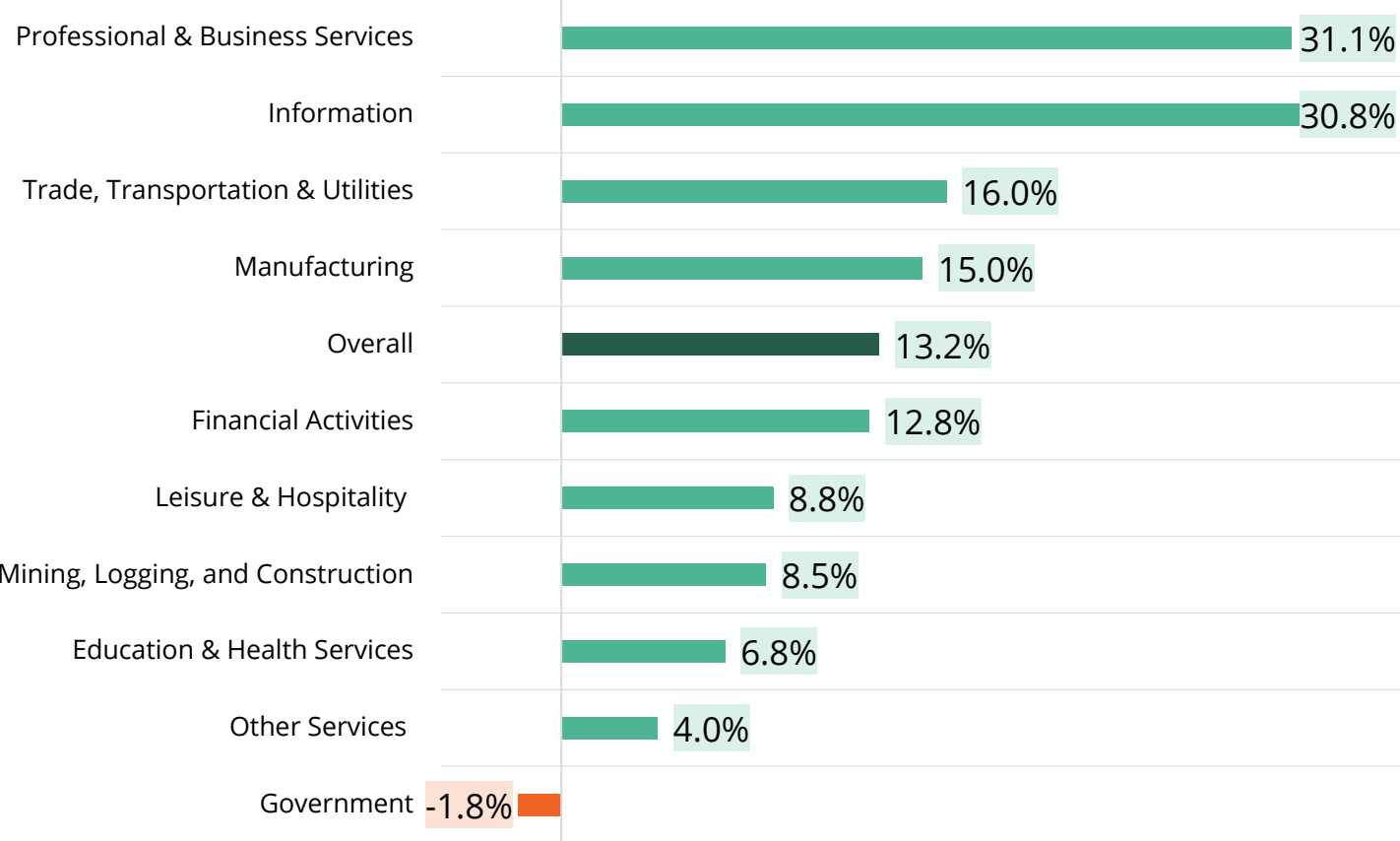
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# Let's examine more prevailing office trends



# Austin's job growth remains strong

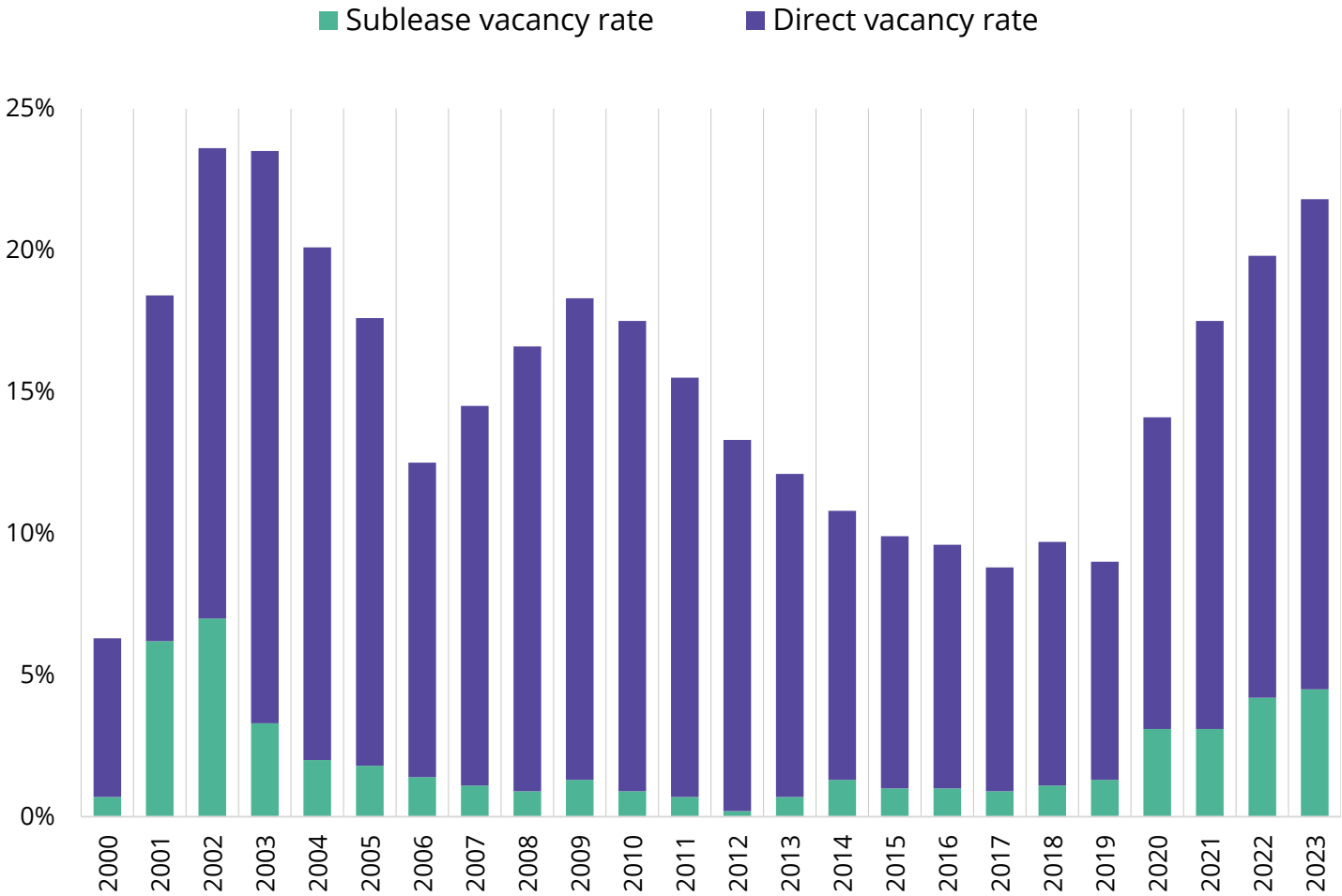
Austin Metropolitan Statistical Area  
February 2020 to February 2023



**Austin ranks first for job growth in the U.S. over the past 3 years led by the professional & business services sector.**

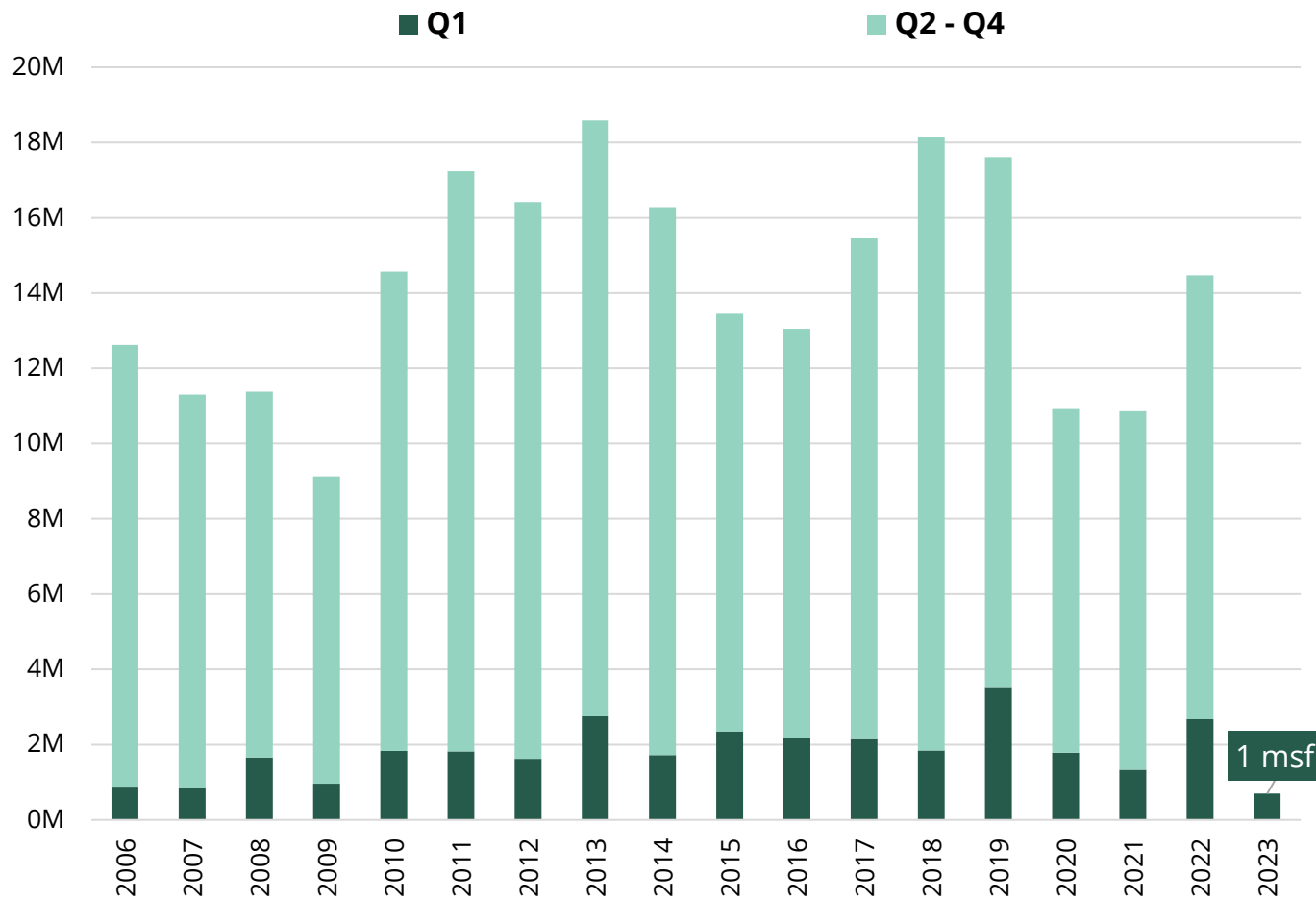


# Vacancy climbs higher as sublet space rises



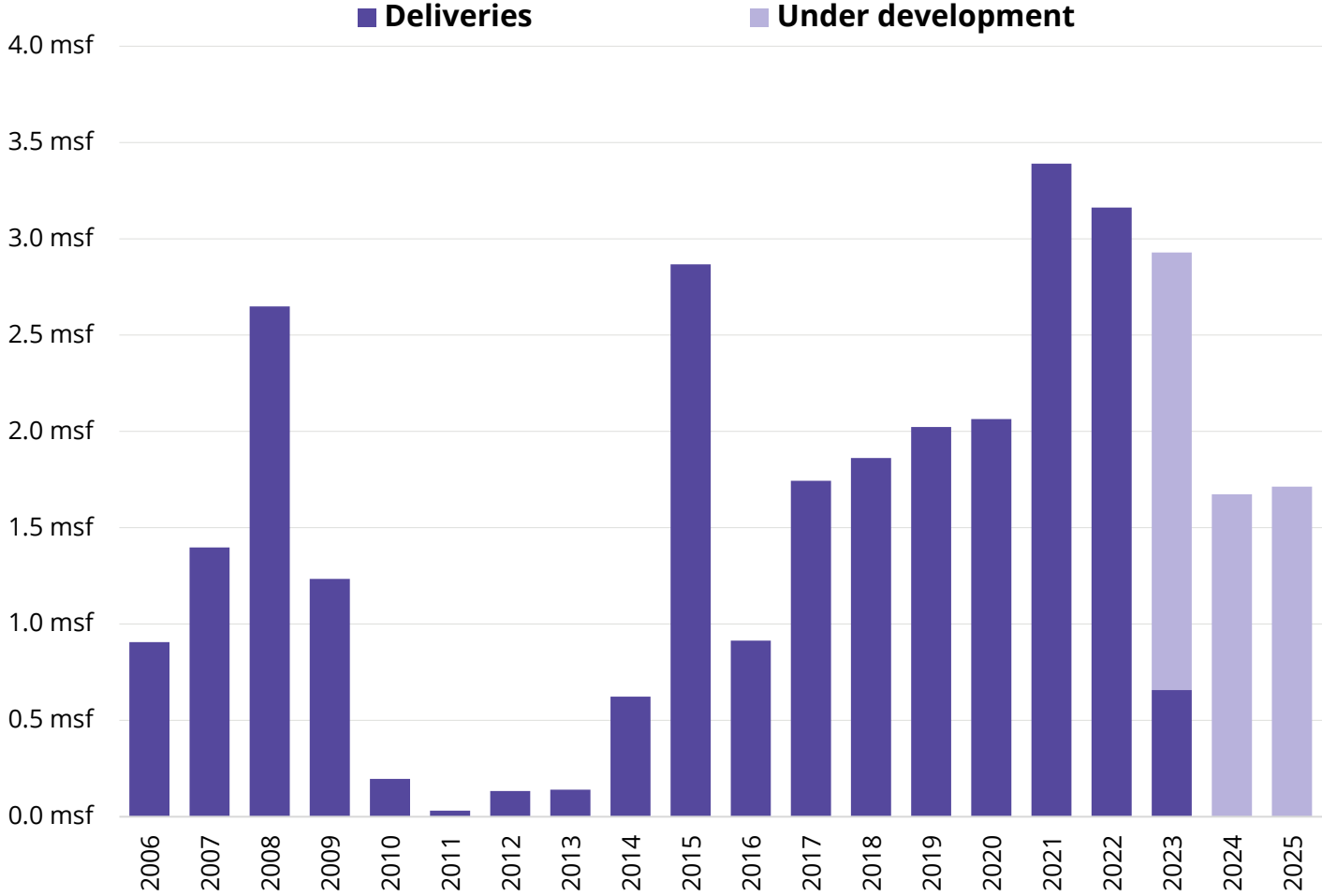
Nearly 71% of the sublease inventory consists of large blocks greater than 20k sf and nearly two-thirds of the sublet space is currently vacant.

# Leasing activity declines in Q1 2023



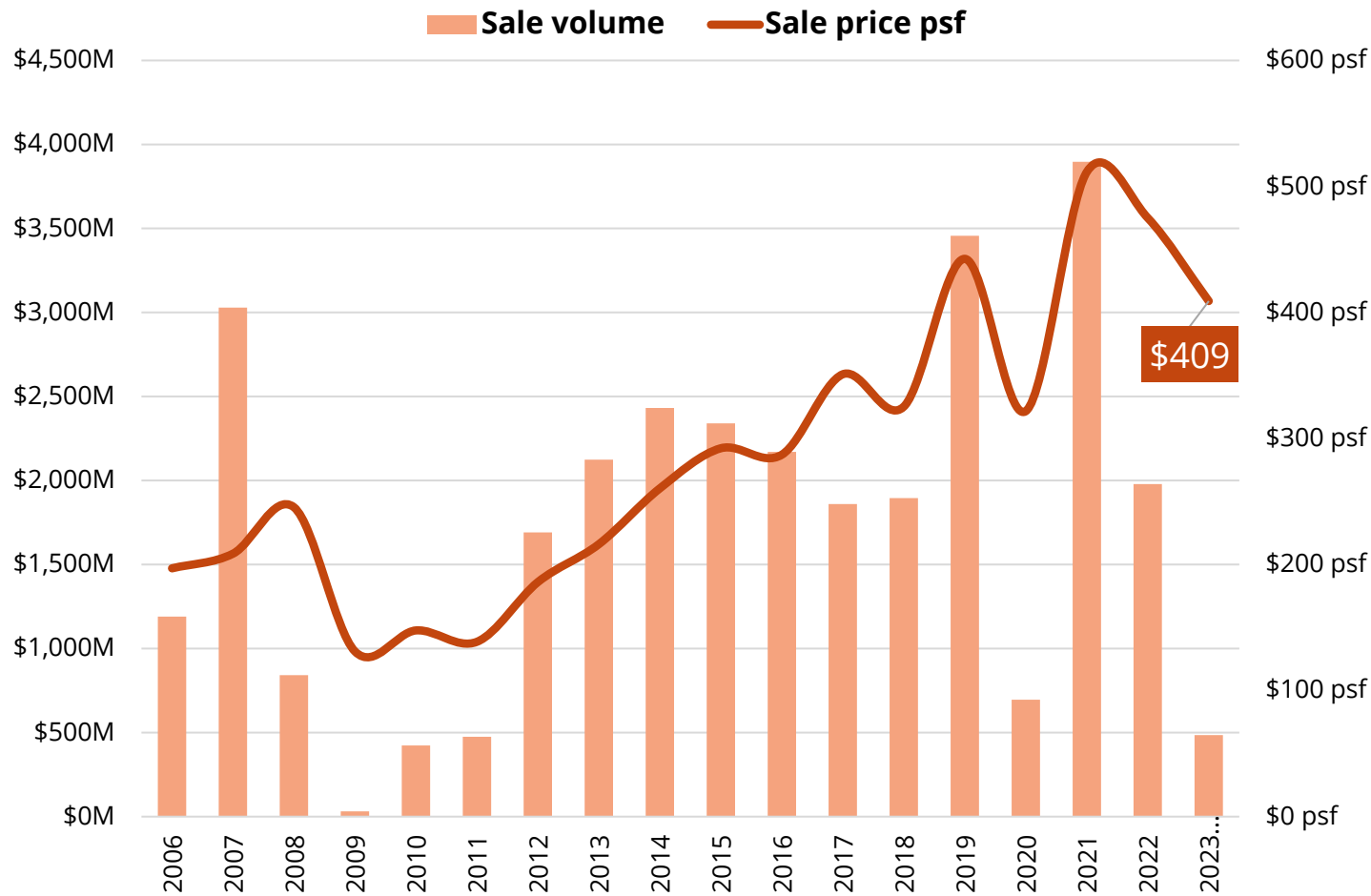
**Leasing momentum has slowed in recent months with Q1 leasing volume down 67% below the 10-year pre-pandemic average.**

# Office development activity remains robust



**Construction levels remain robust with 5.5 msf underway already 48% pre-leased representing 7.9% of the competitive inventory base.**

# Office sales activity cools down



**Investment sales activity remains depressed as potential buyers are waiting on the sidelines for some clarity in the market.**

# Austin office market stats

## Recent leasing activity

Tenant name	Building name	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Coworking operator	301 Congress	March 2023	20,573	New	Direct	CBD
ePay Policy	5000 Plaza on the Lake	January 2023	19,953	New	Direct	Southwest
LJA	La Frontera Plaza	February 2023	18,575	New	Sublease	Round Rock
GD4 Test Services, Inc.	Parmer Business Park - Bldg E	January 2023	18,514	New	Direct	Northwest
Activision	Research Park Plaza V	January 2023	15,022	New	Sublease	Northwest
Excellcius	1825B Kramer Ln	March 2023	14,769	New	Direct	North Central
Panic Button	9737 Great Hills Trl	March 2023	14,100	New	Direct	Northwest

## Top projects under development

Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
Springdale Green A & B	1017 Springdale Rd	January 2024	832,800	0%	Jay Paul Company	East
The Republic	401 W 4th St	June 2025	816,583	24%	Divco West & Lincoln Property	CBD
Waterline Tower	98 Red River St	May 2026	640,000	2%	Kairoi & Lincoln Property	CBD
6th and Guadalupe	400 W 6th St	August 2023	607,522	100%	Kairoi & Lincoln Property	CBD
Uptown ATX - One Uptown	11501 Burnet Rd	September 2023	363,000	0%	Brandywine Realty Trust	North Central
Domain 9	2904 Palm Way	September 2023	332,865	100%	Cousins Properties	North Central
Mueller Business District Bravo	4655 Mueller Blvd	March 2024	235,000	100%	Catellus Development Corporation	East

# Austin office market stats

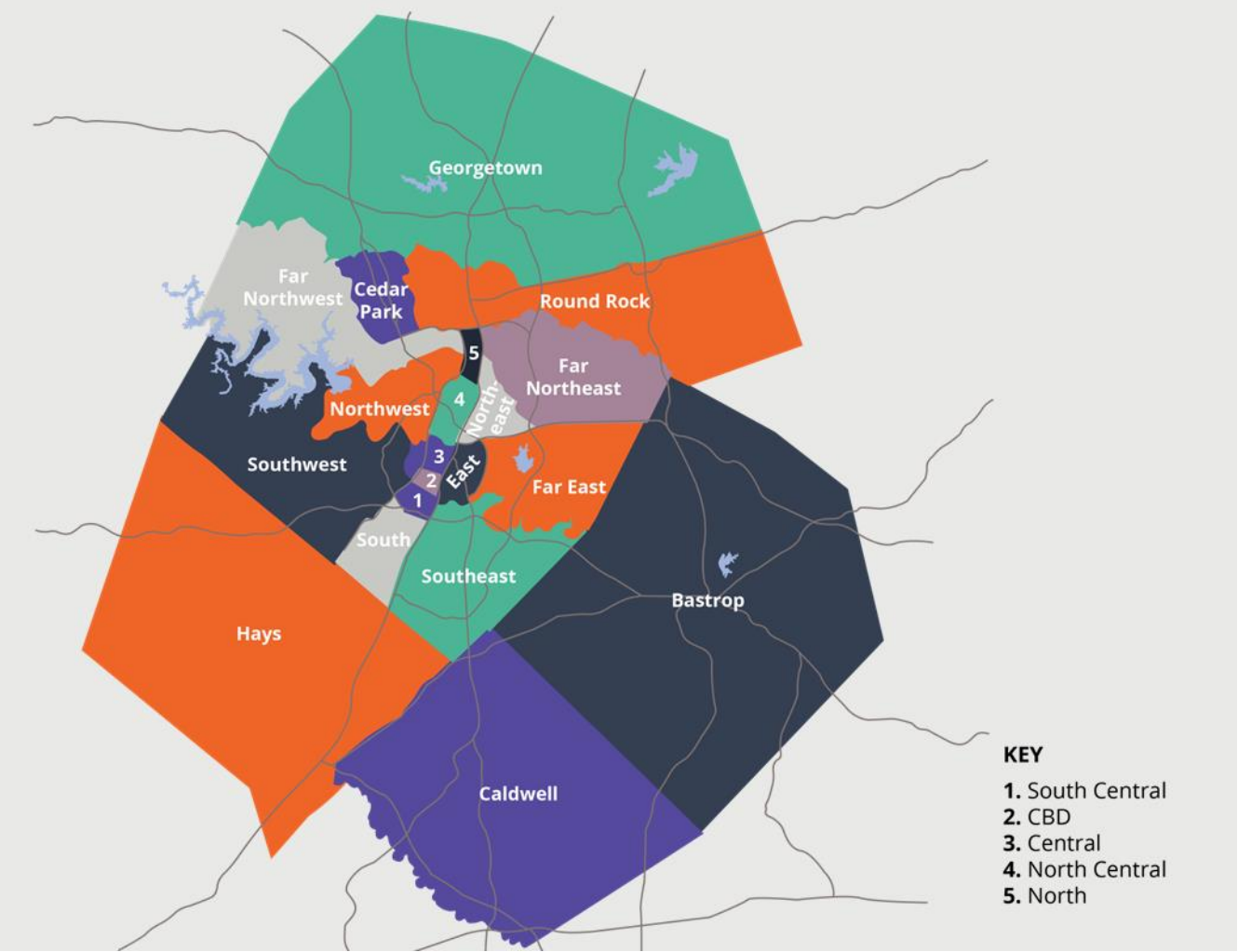
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (YTD)	Direct asking rent FS
CBD	15,160,314	102,000	2,608,870	21.6%	3.4%	24.9%	(85,468)	(85,468)	\$ 66.67
Cedar Park	397,988	0	0	0.0%	0.0%	0.0%	2,388	2,388	
Central	1,371,806	0	92,217	9.8%	3.6%	13.4%	(35,783)	(35,783)	\$ 40.98
East	4,235,170	122,971	1,511,093	23.5%	4.4%	27.9%	(49,615)	(49,615)	\$ 55.83
Far Northwest	3,553,774	45,168	0	13.1%	7.3%	20.4%	(249,878)	(249,878)	\$ 41.76
North	982,572	0	0	40.7%	2.9%	43.6%	(3,004)	(3,004)	\$ 48.80
North Central	9,175,527	0	695,865	11.4%	3.0%	14.4%	(30,730)	(30,730)	\$ 49.66
Northeast	3,578,665	387,000	0	27.1%	12.2%	39.3%	7,321	7,321	\$ 25.87
Northwest	13,059,011	0	0	14.8%	4.8%	19.6%	(116,723)	(116,723)	\$ 39.98
Round Rock	1,175,188	0	33,669	5.3%	1.5%	6.7%	(2,952)	(2,952)	\$ 32.64
South	431,731	0	0	20.0%	3.5%	23.5%	(58,375)	(58,375)	\$ 41.73
South Central	2,674,552	0	344,996	25.7%	4.6%	30.3%	(111,752)	(111,752)	\$ 61.24
Southeast	2,863,450	0	82,025	15.9%	0.3%	16.2%	(70,182)	(70,182)	\$ 34.28
Southwest	11,395,217	0	180,000	14.1%	5.3%	19.4%	(33,350)	(33,350)	\$ 47.31
<b>Market total</b>	<b>70,054,965</b>	<b>657,139</b>	<b>5,548,735</b>	<b>17.3%</b>	<b>4.5%</b>	<b>21.8%</b>	<b>(838,103)</b>	<b>(838,103)</b>	<b>\$51.12</b>

# Austin office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2022)	Net absorption sf (YTD)	Direct asking rent FS
Trophy	5,096,954	0	2,939,970	26.5%	1.5%	28%	63,301	63,301	\$70.16
Class A	33,180,458	611,971	2,436,571	16.1%	5.6%	21.8%	-341,084	-341,084	\$57.02
Class B	29,887,147	45,168	172,194	16.4%	3.9%	20.3%	-389,662	-389,662	\$39.12
Class C	1,890,406	0	0	26.8%	2%	28.8%	-170,658	-170,658	\$32.54
<b>Market total</b>	<b>70,054,965</b>	<b>657,139</b>	<b>5,548,735</b>	<b>17.3%</b>	<b>4.5%</b>	<b>21.8%</b>	<b>-838,103</b>	<b>-838,103</b>	<b>\$51.12</b>



# Austin submarket map





# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and information visit [avisonyoung.com](https://www.avisonyoung.com)

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