

A photograph of the Austin skyline at dusk. Several skyscrapers are illuminated, including the Frost Tower with its distinctive spires. In the foreground, a group of people is sitting on a green lawn, some on blankets, enjoying the evening. The sky is a clear, deep blue.

**AVISON
YOUNG**

Austin Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Austin ranks as one of the top U.S. metropolitan statistical areas (MSAs) for office-using job growth, totaling **12,400 jobs** or **2.5 percent** between February 2020 and May 2021. The market has a larger office workforce than it did prior to the start of the pandemic.
- Austin has recovered **89.5 percent** of the total jobs lost at the height of the pandemic.



Recovery rate

- The overall post-COVID rate of recovery based on extrapolated cell phone data is **60.2 percent**.
- Office employers have taken unique approaches in their return-to-work efforts, with financial services returning more quickly than tech firms. However, overall return-to-work efforts remain low, measuring just **22.2 percent** compared with pre-COVID levels.



Office demand

- Austin continues to be a magnet for net-new demand from outside of the state as companies relocate to the area due to the area's high talent concentration and lower cost of living compared to peer tech-centric markets. In 2021 alone, Austin has seen over **20 companies** commit to relocating to their headquarters to the area.
- Austin reported **146,106 sf** of positive net absorption in Q2 2021 due to this out-of-state demand.
- Sublease space accounted for **88.5 percent** of total net absorption in Q2 2021.

Key takeaways



Office supply

- The total vacancy rate, including direct and sublease options, stands at **13.0 percent**.
- Sublease availability has declined by **17.1 percent** since Q4 2021 as companies have begun to reconsider listing their space and demand for discounted rates and flexible lease terms grows.
- Approximately **4.6 msf** is under construction across Austin, which is **59.0 percent** preleased.



Pricing trends

- Asking rents have grown by **8.7 percent** since Q4 2020 as landlords remain bullish on the market.
- Demand is starting to increase as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market



Capital markets

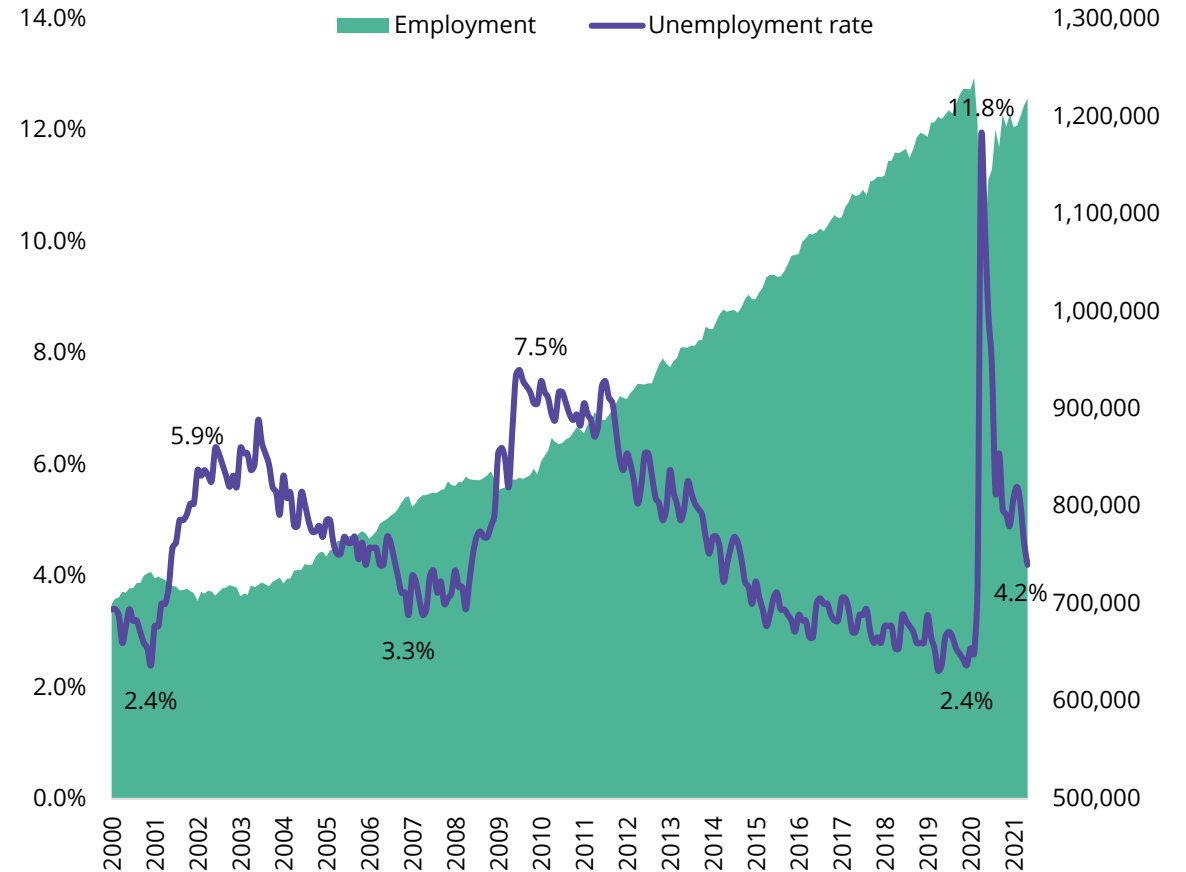
- The market saw more than **2.0 msf** of sales activity in 2021 compared to **1.4 msf** of sales activity in 2020.
- The notable trade of Indeed Tower for **\$580 million (\$795 psf)** in the CBD underscores landlords' bullish expectations for the Austin market.

Employment and unemployment rate

4.2%

Austin MSA unemployment rate as of May 2021, dipping below the height of the Global Financial Crisis

Historically tightened labor market conditions were halted by the pandemic with nearly 204,971 job losses between February 2020 and May 2020. However, Austin has recovered 89.5% of the jobs lost at the height of the pandemic.



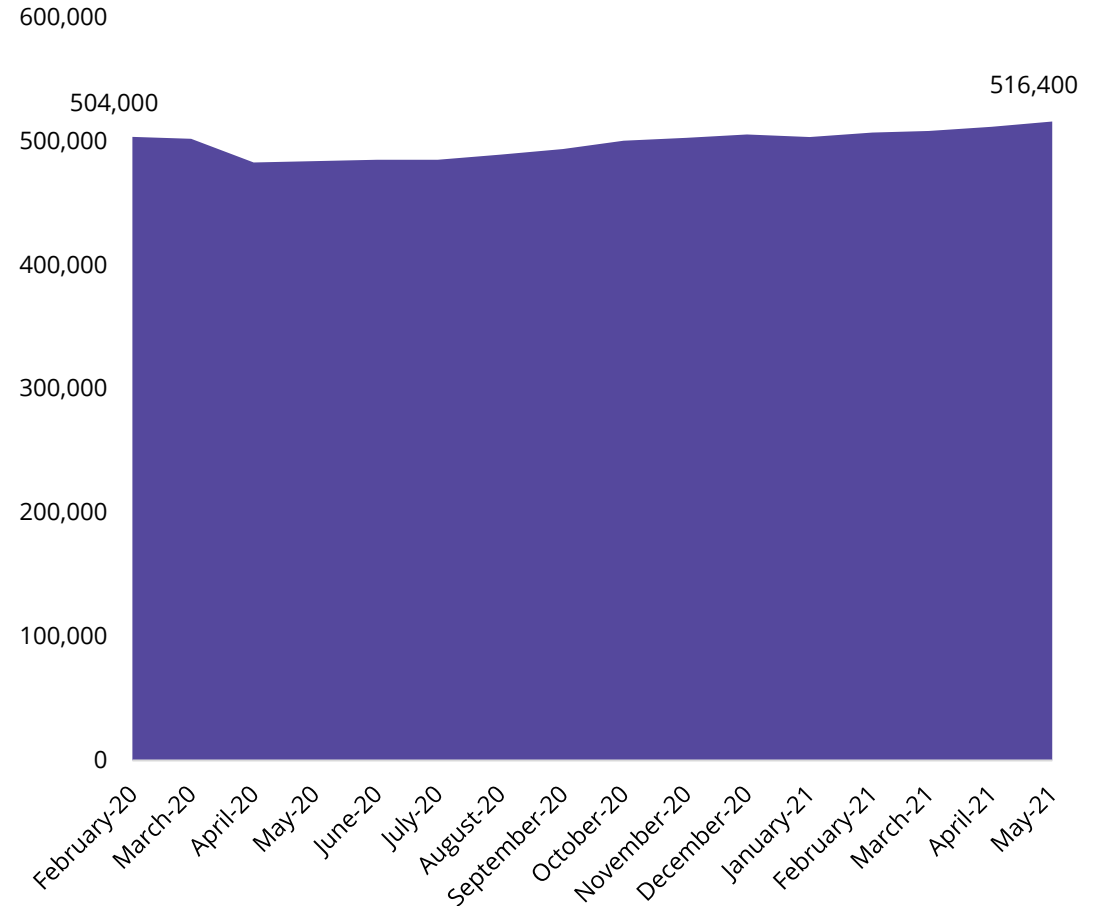
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

+2.5%

Change in Austin office employment from February 2020 to May 2021

Austin ranks as one of the top MSAs for office-using job growth since February 2020. Austin's office-centric employment is now higher than they were prior to the pandemic as Austin has added 12,400 office-centric jobs since February 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

[VIEW DASHBOARD](#)

Austin MSA office-using job losses

+6.7%

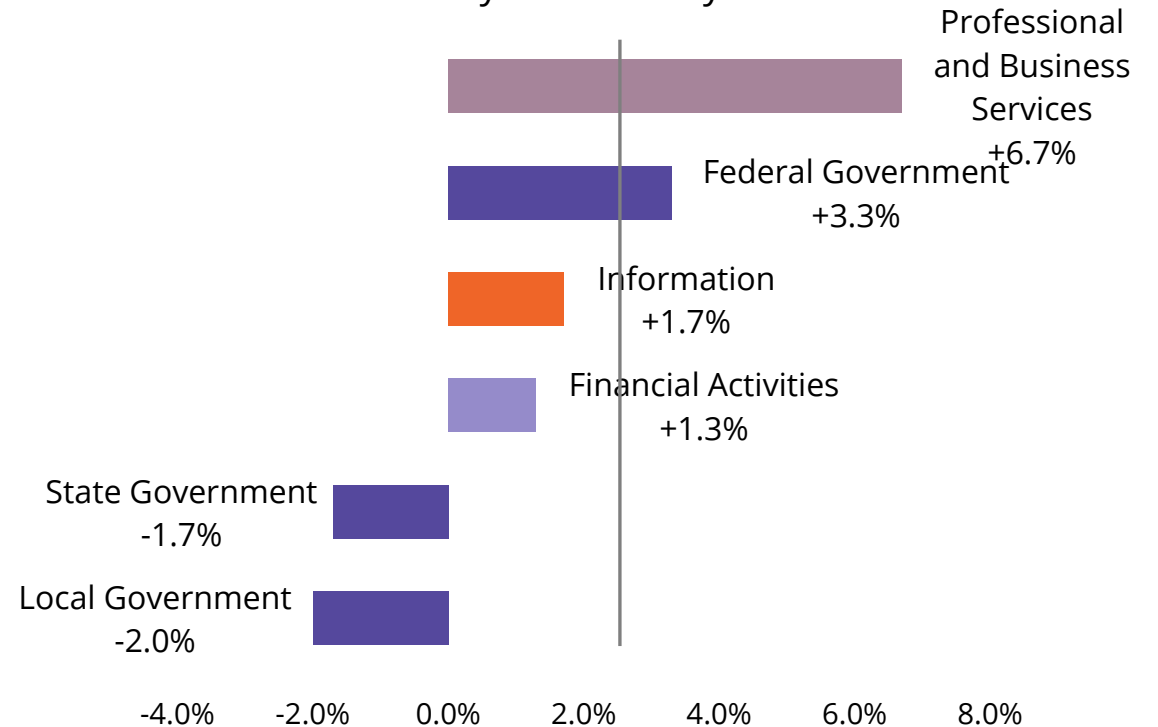
Professional & business services jobs from February 2020 to May 2021

The Austin office labor market continued to strengthen after the onset of the pandemic, as demonstrated by strong job gains by private and public sectors alike.

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Total change in Austin MSA* job gains/(losses)

February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area includes New York City, Northern New Jersey, Long Island and southeast New York.

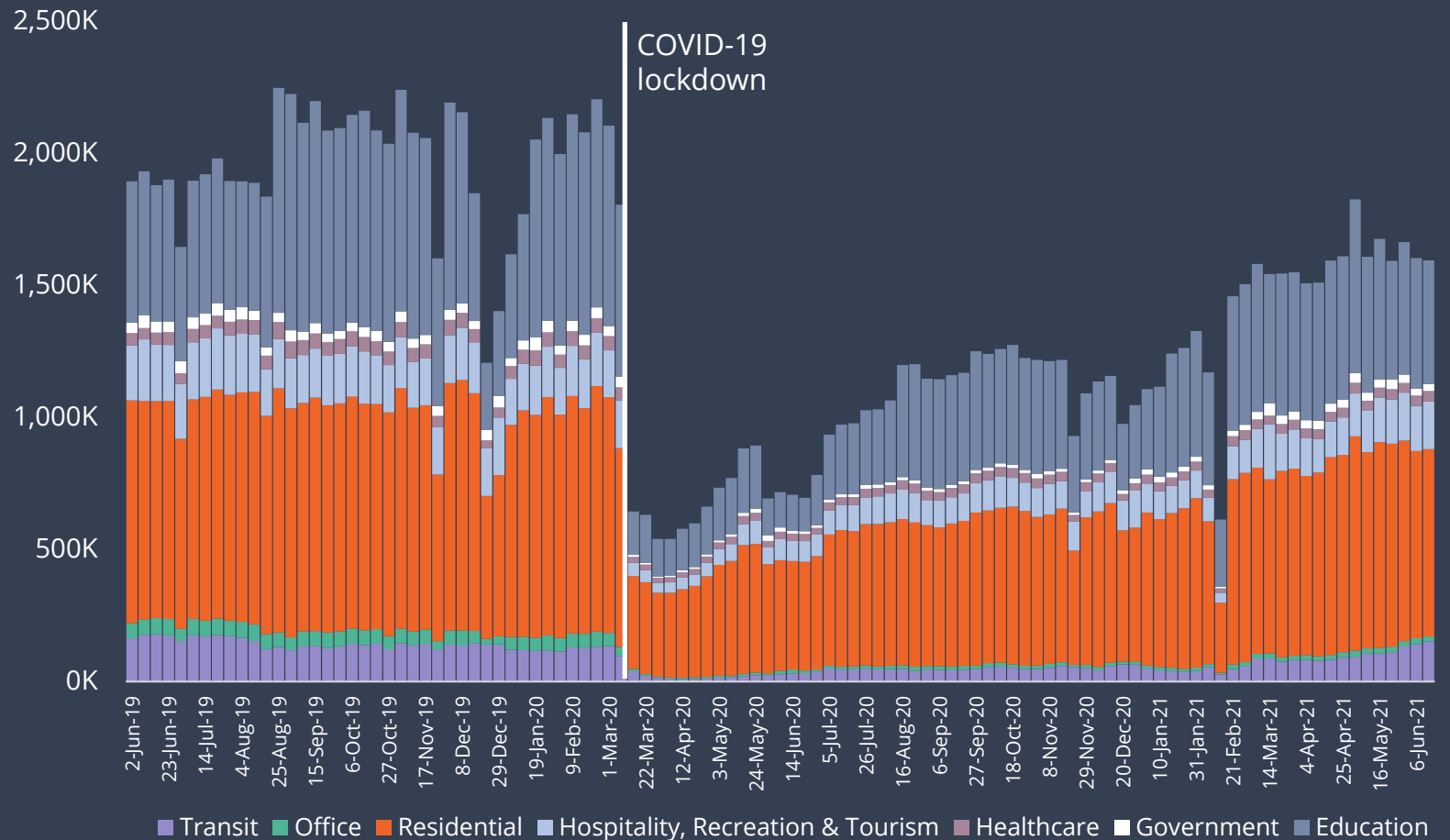
Source: Bureau of Labor Statistics

Recovery index

60.2%

Post-COVID rate of recovery based on representative locations through 6/20/2021

Activity levels have escalated in recent months and continue to trend upward. Activity has increased by 125.5% year-over-year, underpinned by strong growth in hospitality (+191.1%) and transit (+154.4%).



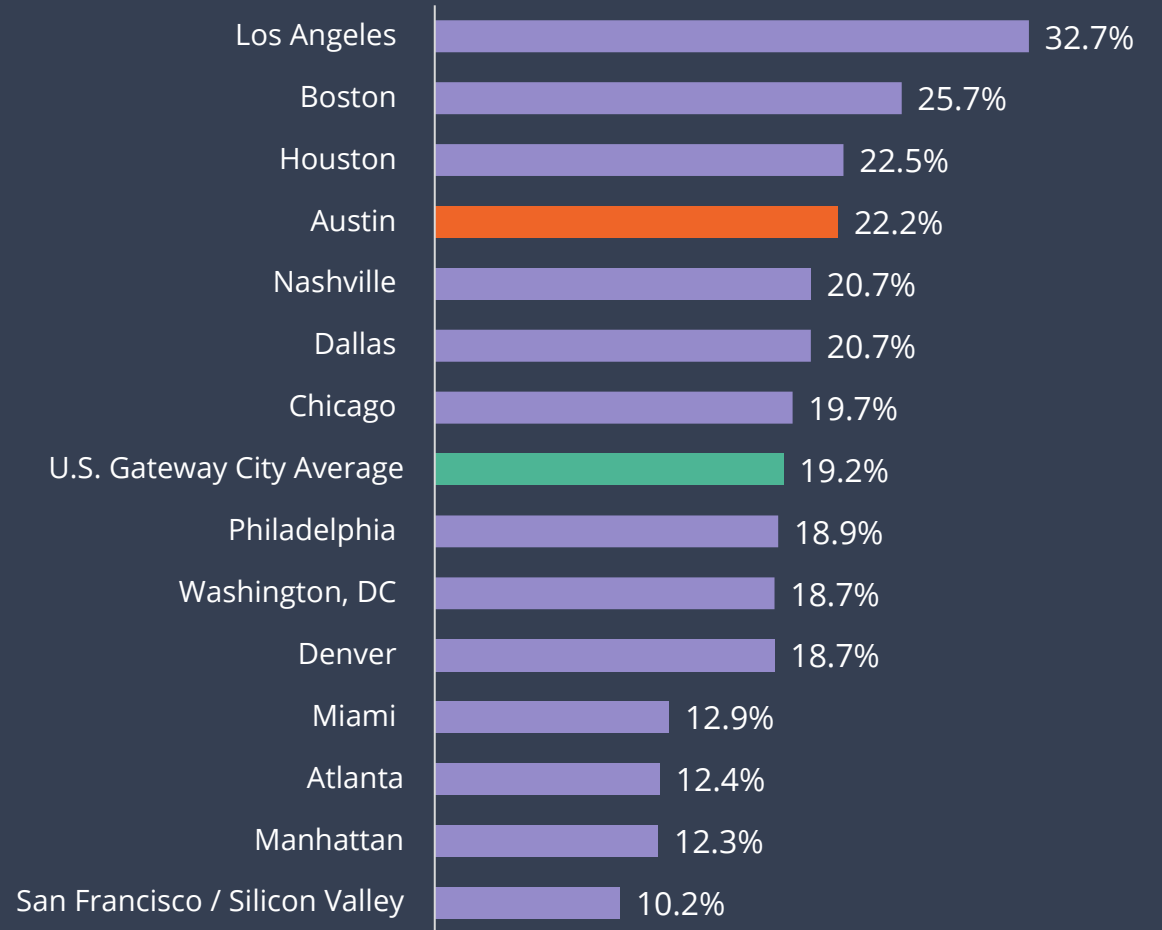
Note: Representative areas of interest.
Pre-COVID period measured as 6/1/2019 to 3/8/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insight, AVANT by Avison Young

Office recoveries across U.S. gateway cities

19.2%

Average post-COVID rate of recovery for representative office employers across U.S. gateway cities

Austin office employers have shown a comparatively high willingness to return to the office, as measured by the fourth-highest recovery rate of 22.2% among U.S. gateway cities.



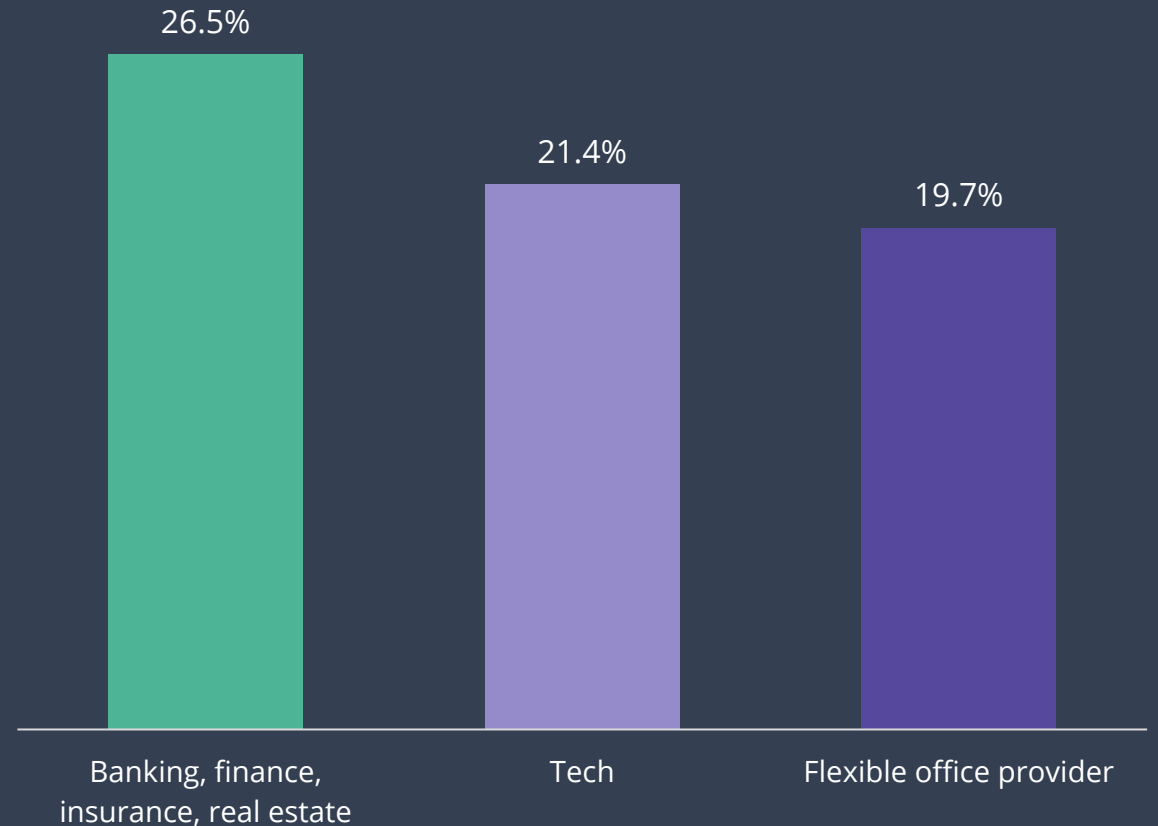
Note: Select, representative occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Recovery index for select office occupiers

22.2%

Post-COVID rate of recovery for representative Austin office occupiers through 6/20/2021

Office employers have taken unique approaches in their return-to-work efforts, with financial services returning more quickly than tech and coworking firms. Bellwether companies, namely banks, are increasingly requesting their employees to return to the office by Labor Day, which should cause this index to rise considerably.



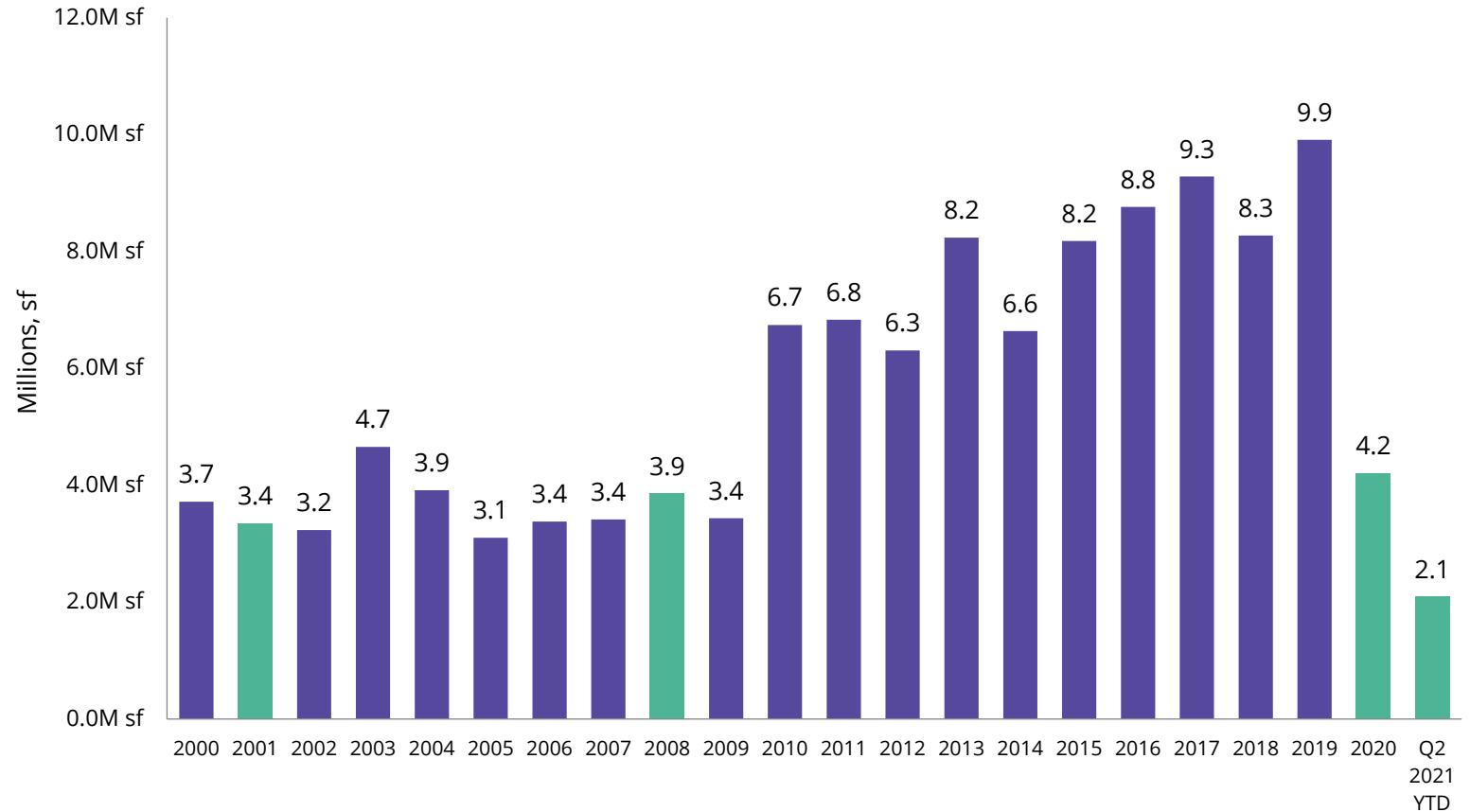
Note: Select, major occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Office leasing activity

37.8%

Sublease share of leasing activity in Q2 2021

Short-term space options provided an outlet in Q2 2021 as office occupiers continue to navigate their longer-term workplace strategies.

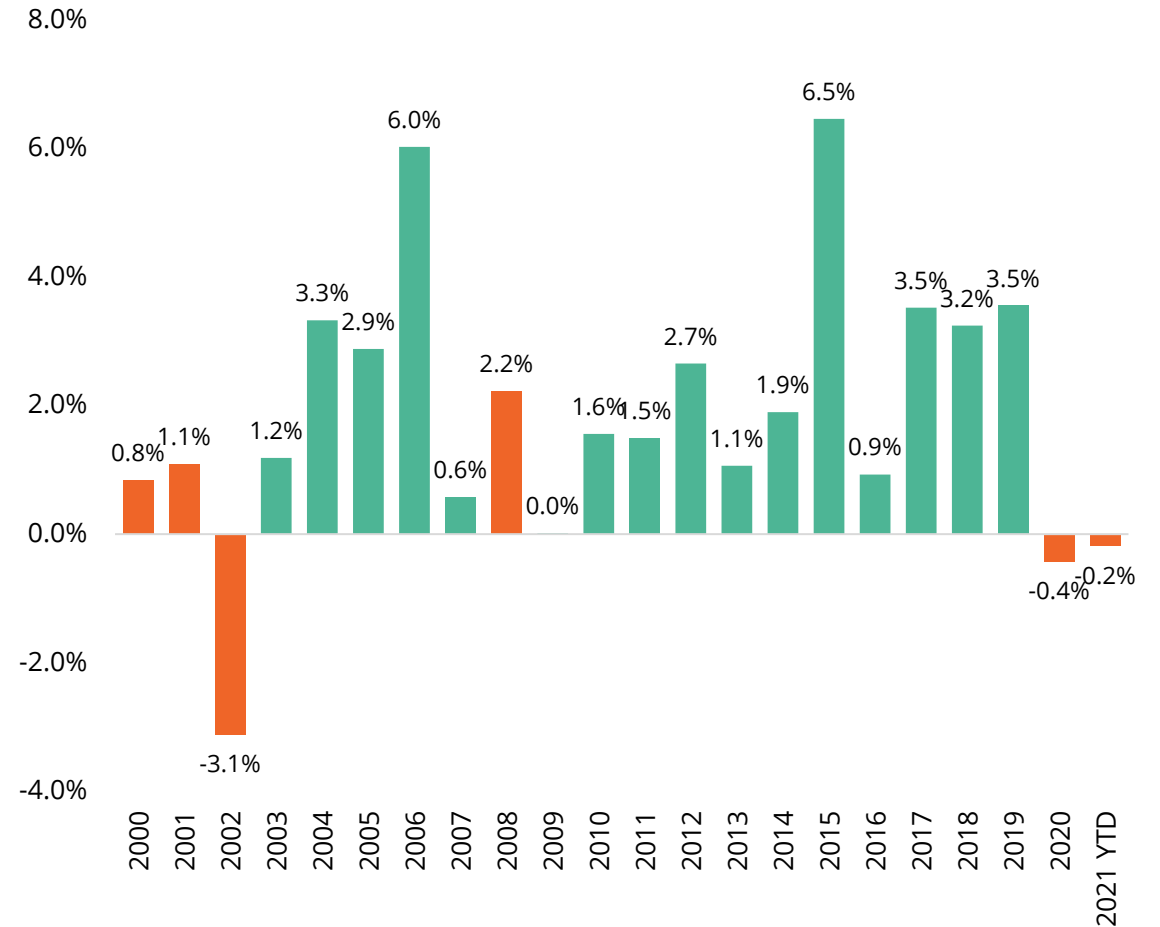


Source: AVANT by Avison Young

146,106 sf

Net absorption in Q2 2021

After three consecutive quarters of negative absorption, Austin saw almost 150,000 sf of positive net absorption in Q2 2021 as Austin continues to attract net-new demand from companies situated outside of Texas.



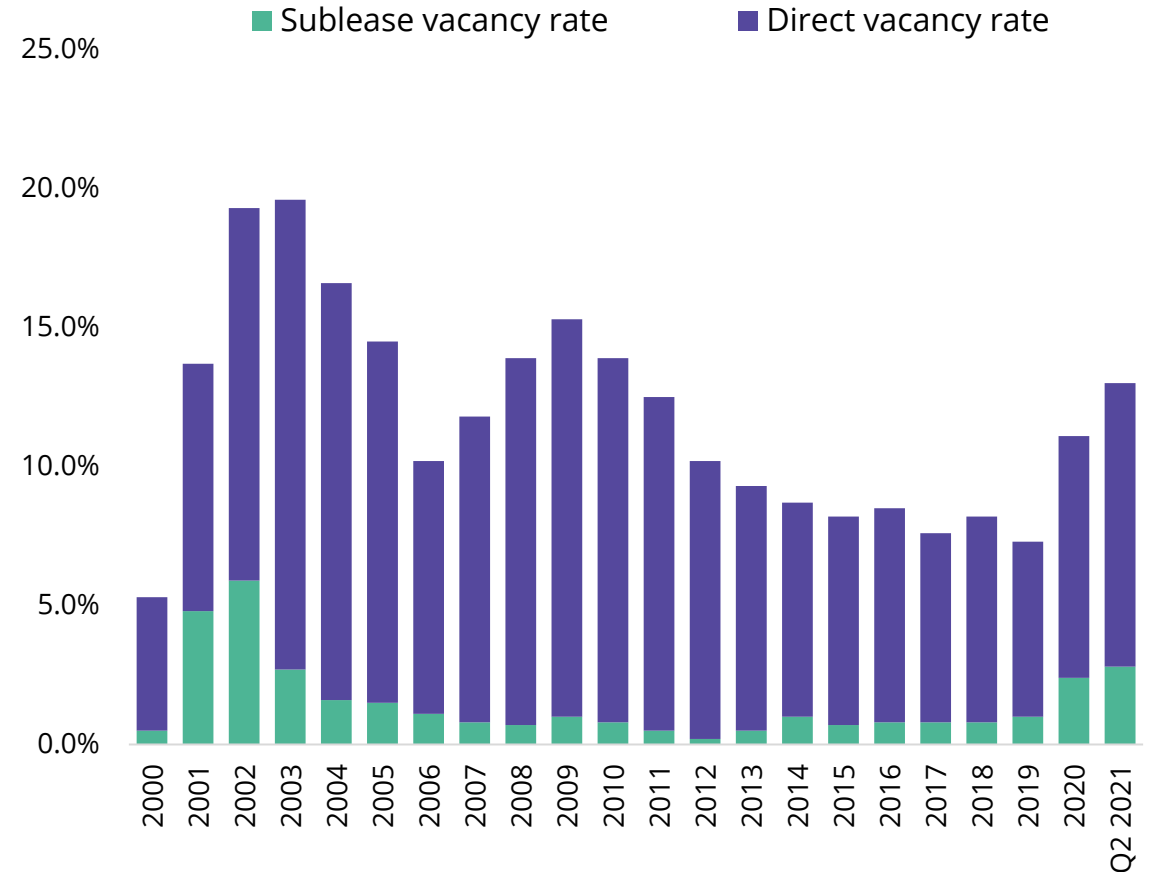
Source: AVANT by Avison Young

Vacancy rate

13.0%

Austin overall vacancy as of Q2 2021

While sublease vacancy rates achieved levels last experienced in 2003, this rate dipped by 17.1% from Q2 2020 to Q1 2021 as tenants begin to capitalize on cheaper options with shorter or more flexible lease terms compared with direct offerings.



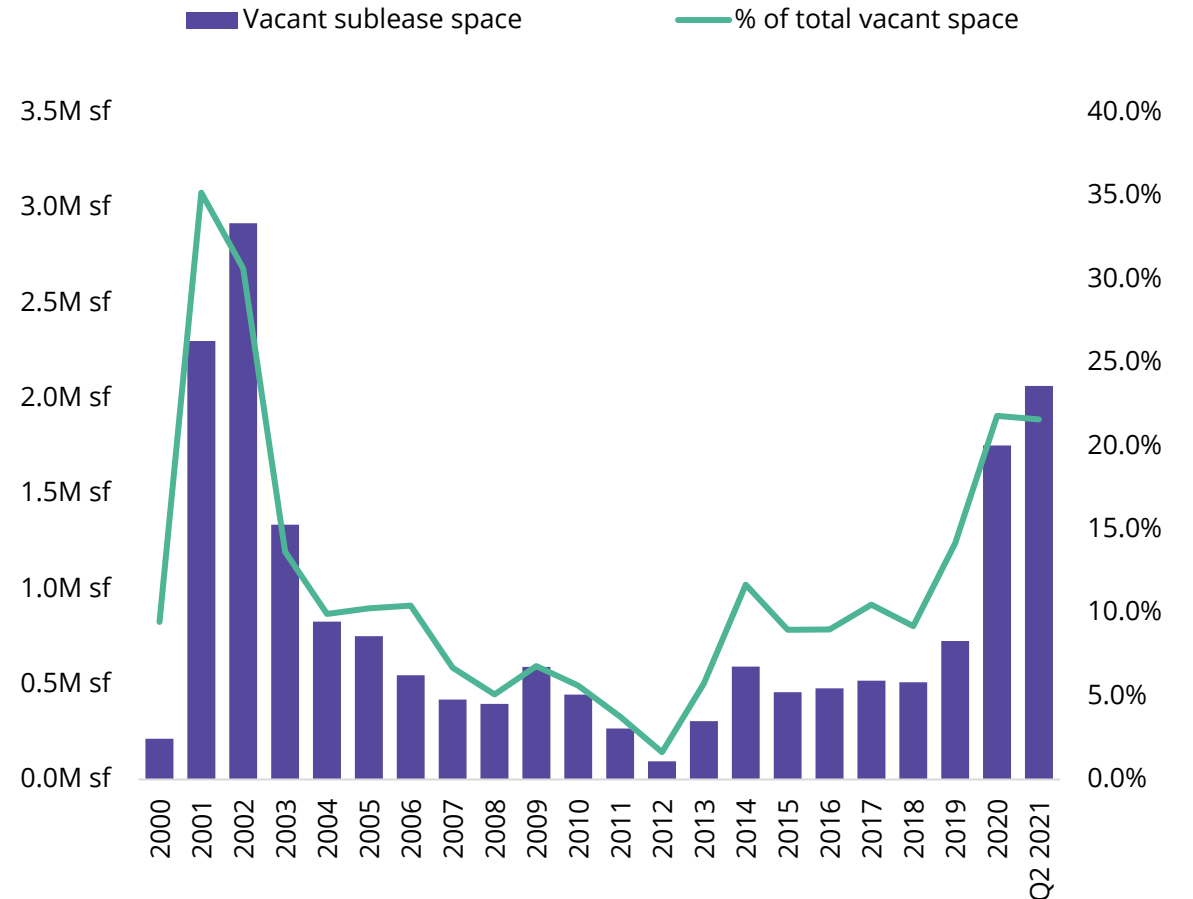
Source: AVANT by Avison Young

Vacant sublease space

2.1 msf

Record levels of sublease vacant space

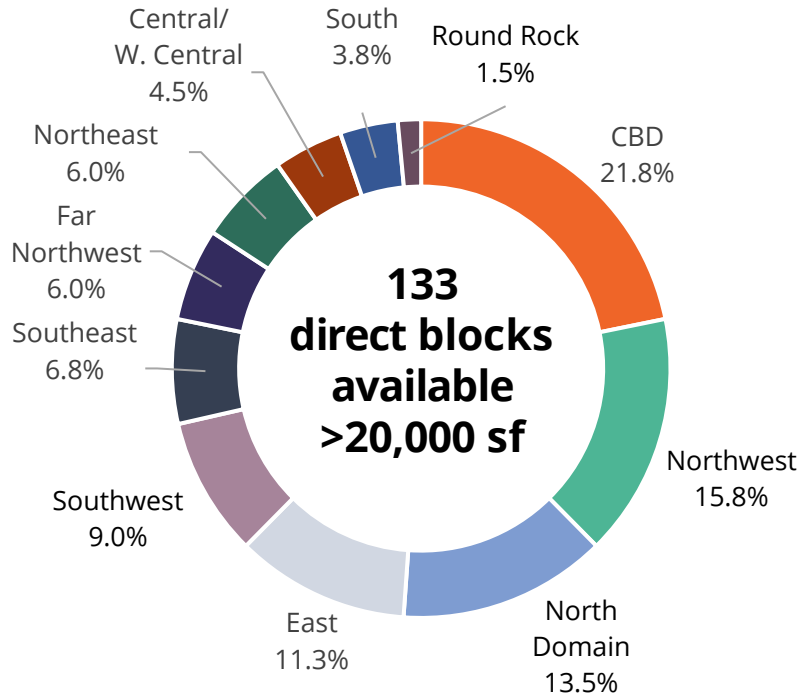
The share of sublease-to-total vacant space of 21.6% continues to climb as companies continue to evaluate their future space needs. However, sublet levels are still well below those of the early 2000s following the the Dot-com Recession.



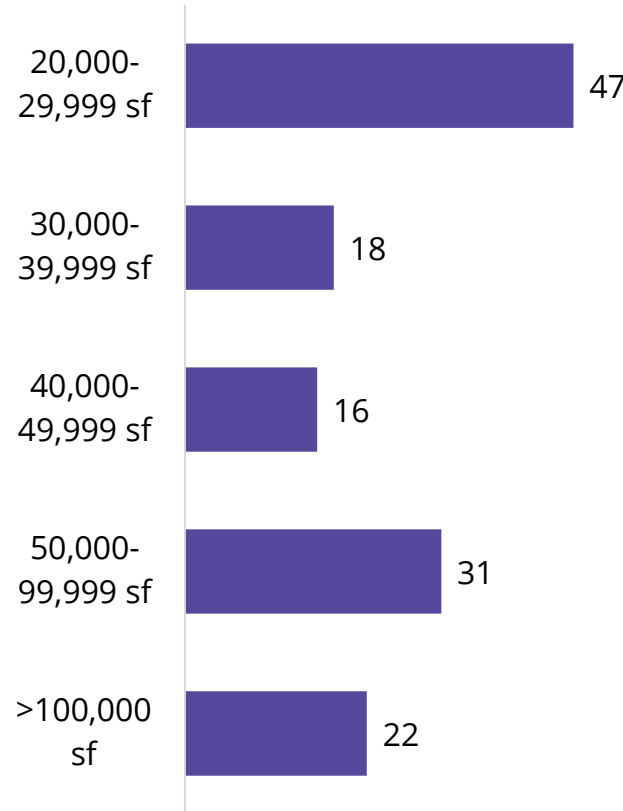
Source: AVANT by Avison Young

Direct large-block supply >20,000 sf

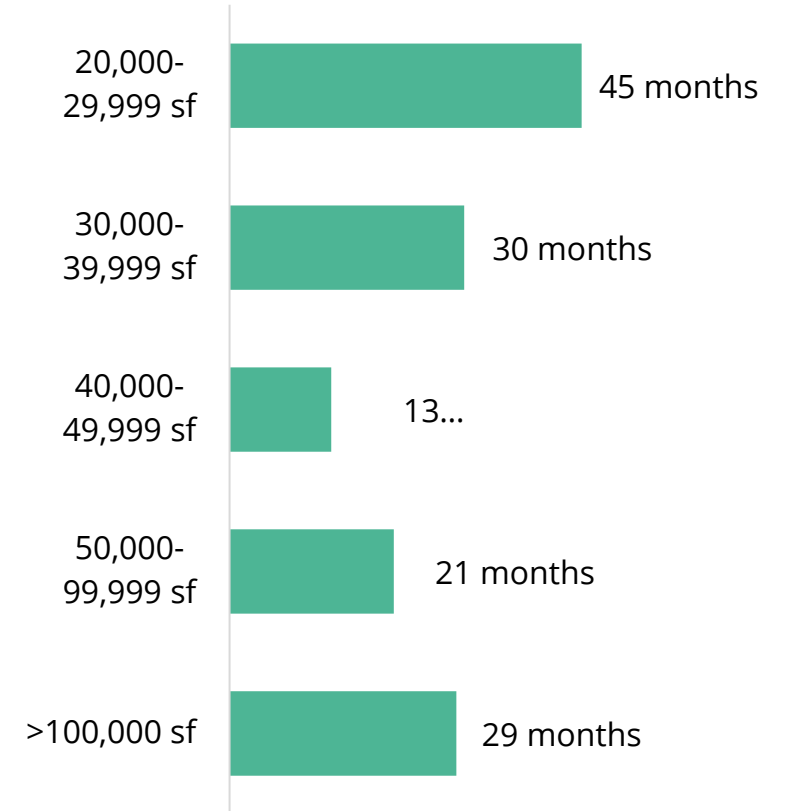
Direct availability by submarket



Direct availability by size tranche



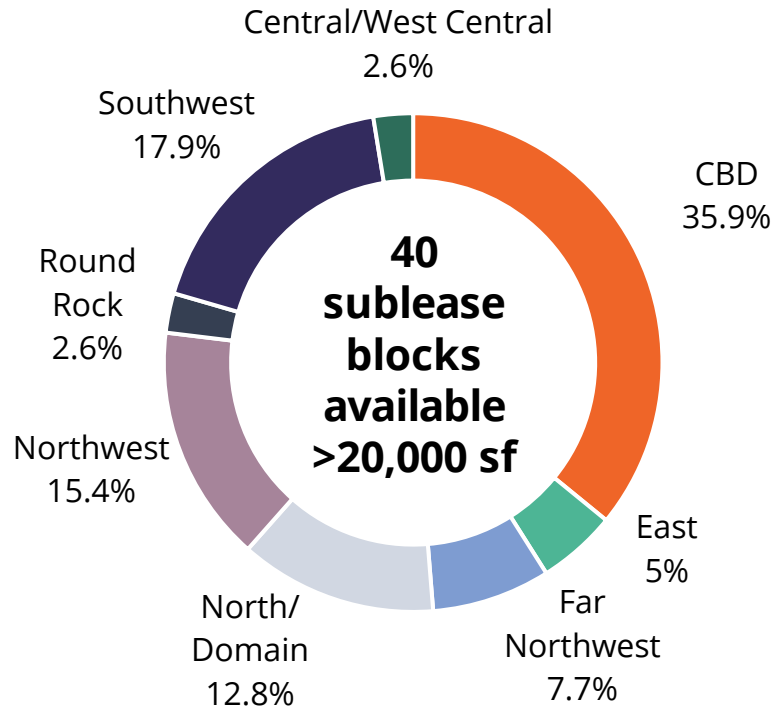
Average time on market by size tranche



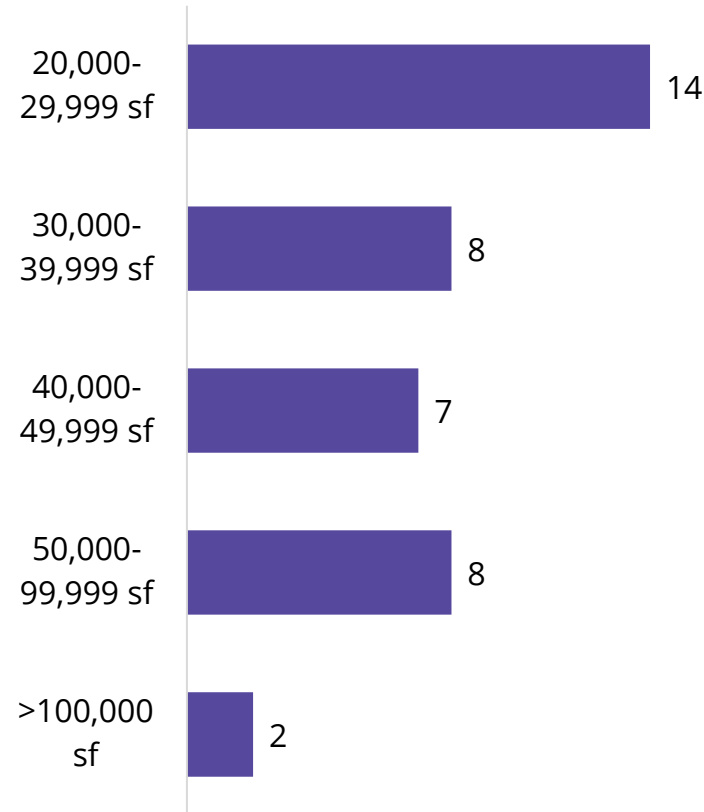
*Existing and UC supply
Source: AVANT by Avison Young

Sublease large-block supply >20,000 sf

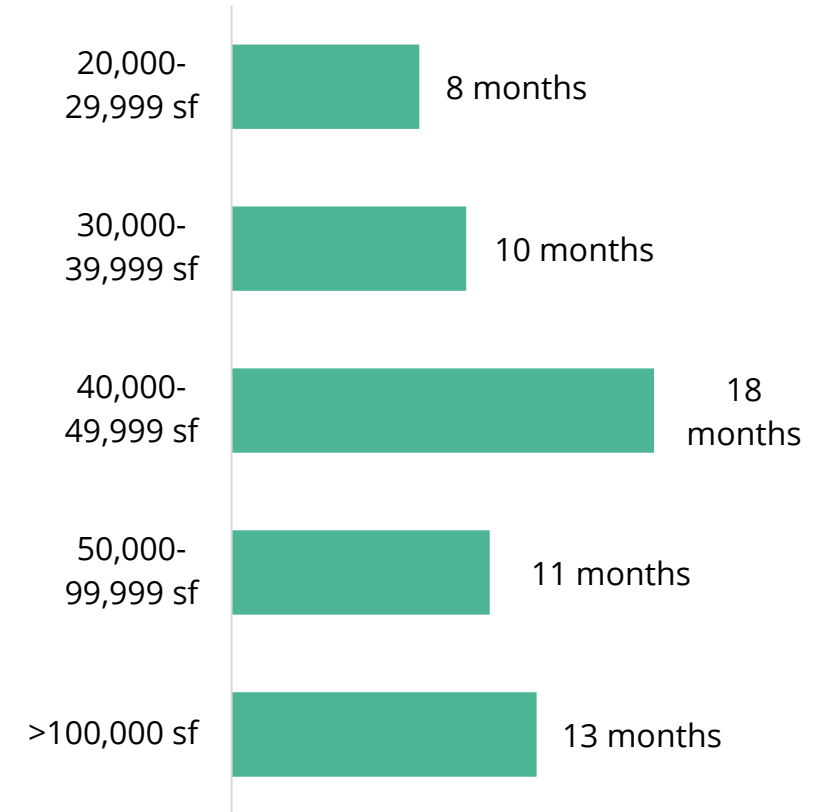
Sublease availability by submarket



Sublease availability by size tranche



Average time on market by size tranche



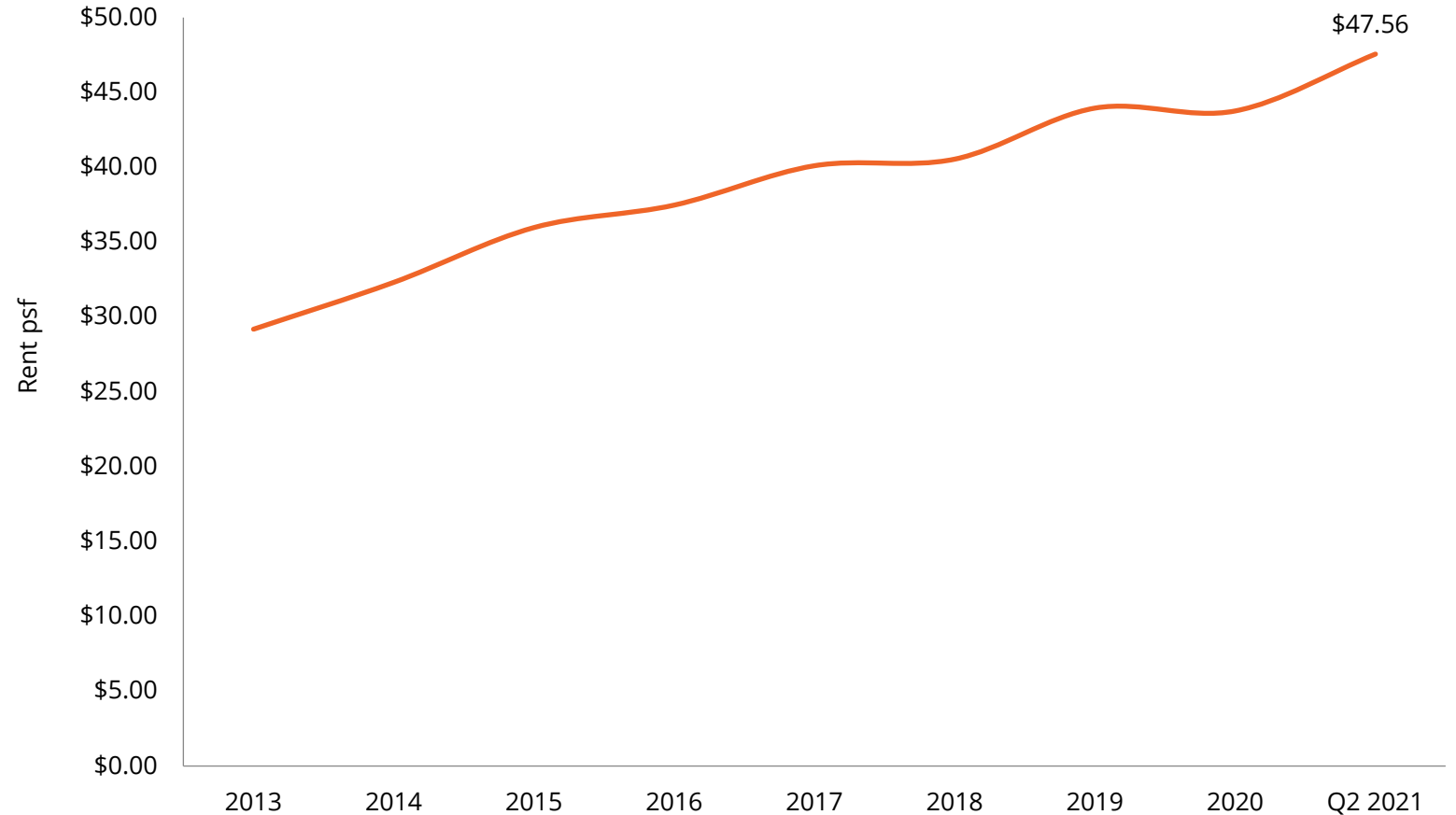
Source: AVANT by Avison Young

Gross direct asking rents

+8.7%

Increase in gross direct asking rents between Q4 2020 and Q2 2021

Asking rents have incrementally grown since 2013 as net-new demand continues to flood the market. More than 250,000 jobs have been added since 2013.



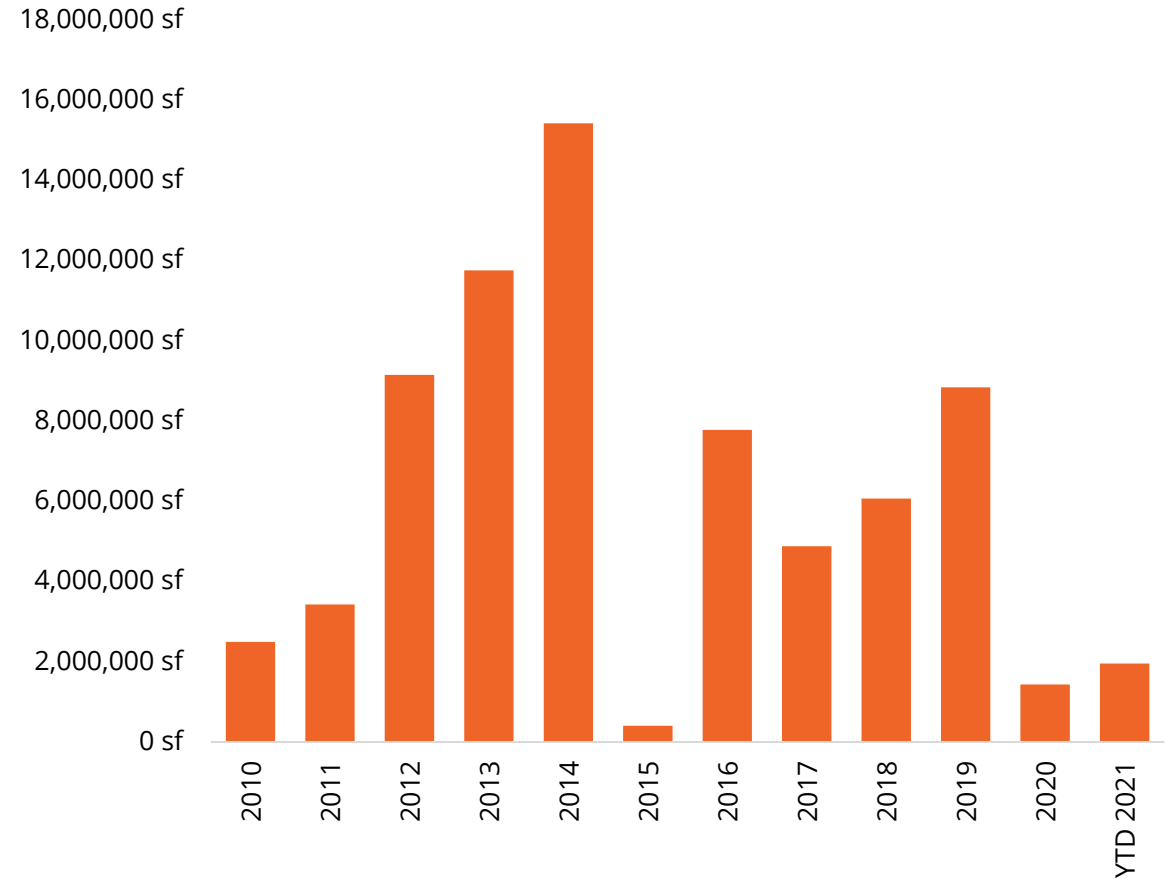
Source: AVANT by Avison Young

Office investment sales activity

2.0 msf

Austin office sales volume in 2021

Sales activity in 2021 has surpassed 2020 levels as investors are gaining more certainty around market conditions and future demand.



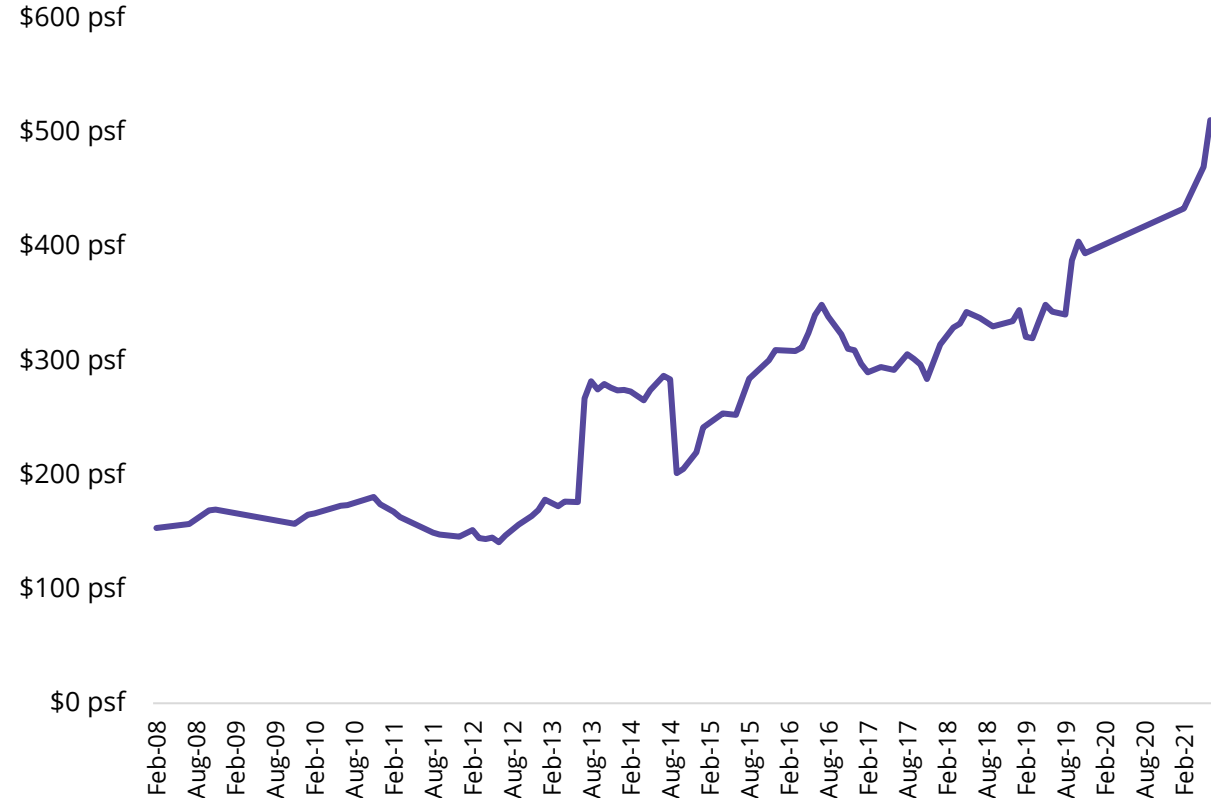
Source: AVANT by Avison Young, RCA

Office asset pricing

26.3%

Austin office pricing growth since 2019

Pricing has steadily grown over the last decade as Austin continues to attract new talent and employers. The sale of Indeed Tower in Q2 2021 has been one of the most notable sales this quarter at just under \$800 psf.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- Touring activity has begun to pick up throughout the market. Most tenants 10,000+ sf will not return to the office until after **Labor Day** and likely result in **increased demand from the fourth quarter of 2021 through 2022.**
- **Companies' migration from outside of the state** into Austin is expected to continue as they take advantage of the area's high quality of life and deep, talented labor pool.
- **Office leasing demand is incrementally rising** which should apply downward pressure on vacancy rates.
- **Capital markets activity is poised to increase** as investors gain more certainty around market conditions and future office space utilization.



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Let's talk

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