



# Austin Office Market

## Occupancy Falls but Ends Year on A Positive Note

The Austin office market reported a decline in demand in the fourth quarter of 2022, the only quarter of the year that reflected negative net absorption. The occupancy decline was largely driven by occupiers remaining cautious due to growing economic headwinds. Despite net absorption ending the fourth quarter of 2022 at negative 503,829 square feet, the positive activity earlier in the year resulted in overall net absorption to end 2022 on a positive note at 119,901 square feet. Occupancy declines led overall vacancy rates in the market to increase by 80 basis points quarter over quarter and 220 basis points year over year to 19.5%. Supply remained robust, with 2.3 million square feet delivered in 2022, accounting for 2.9% of the market's office inventory. The under-construction pipeline remained at peak historical levels, with 6.3 million square feet still under construction. Overall rental rates continued to trend upward as landlords attempted to keep pace with inflation. Face rates will likely remain elevated, despite softening economic conditions, and will be coupled with attractive concessions packages to help alleviate the impact of increasing prices. In 2023, the market may see similar investments levels as in 2022, due to high inflation and rising capital costs. Overall, the Austin office market's long-term outlook remains positive, given the market's strong economic and labor market fundamentals that will help the market tackle the near-term softening macroeconomic landscape.

### Current Conditions

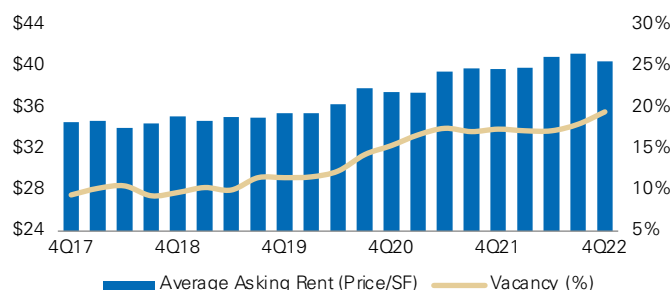
- Annual full-service asking rental rates rose to \$40.49/SF, increasing by 1.5% year over year.
- Occupancy fell for the first time this year with the market closing the quarter at -503,829 square feet of net absorption.
- Construction pipeline remains robust with 6.1 MSF under construction accounting for 7.7% of the market's current inventory.
- Unemployment rate remained low in the market at 2.8% compared to the national rate at 3.7% as of November 2022.

### Market Summary

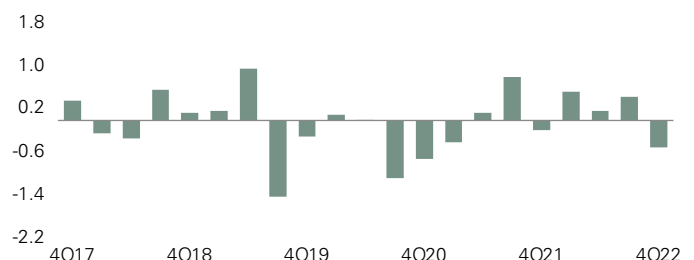
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	79.8 M	79.7 M	77.5 M	↑
Vacancy Rate	19.5%	18.7%	17.3%	↑
Quarterly Net Absorption (SF)	-503,829	23,746	183,286	↑
Average Asking Rent/SF	\$40.49	\$39.73	\$39.89	↔
Under Construction (SF)	6.1 M	5.4 M	4.6 M	↓

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF, MILLIONS)



## RESEARCH Q4 2022

### Rental Rates Remain Elevated

As increasing operating costs and inflation continued impacting the national economy throughout 2022, the Austin office market responded with increasing rental rates. The fourth quarter of 2022 was no exception, with overall asking rents increasing to \$40.49/SF, a 1.9% increase quarter over quarter and a 1.5% increase year over year. Class A rates ended the year at \$45.78/SF, while Class B ended at \$33.42/SF. Asking rates for direct space increased by 4.7% year over year to \$41.90/SF. Submarkets with the most expensive overall rental rates were the Central Business District at \$58.89/SF, North at \$41.35/SF and Southwest at \$39.12/SF. Asking rents are likely to remain elevated, while concessions offered will help bring effective rents down for any new leases signed as market demand softens. This will help the market adjust rents on the backend and offset high prices as demand shifts or changes.

Absorption in Austin's CBD flipped in the fourth quarter of 2022, ending at negative 122,430 square feet. Vacancy in the submarket increased by 280 basis points year over year to 20.7% in the fourth quarter of 2022. While tenants gave back space in the fourth quarter, absorption was positive for the year, with a total of 594,034 square feet taken up. Asking rents in the CBD continue to trend upward, with overall rates hovering just below \$60.00/SF at \$58.89/SF. Direct rates increased by 9.2% year over year to \$62.52/SF, while sublease rates dropped to \$44.53/SF, a decrease of 25.8% for the same period. Rental rates in the CBD are well above those seen in other submarkets, which are seeing rates in the \$30.00/SF to \$40.00/SF range. Leasing activity fell to 174,362 square feet in the fourth quarter of 2022, decreasing by 82.2% from levels seen in the fourth quarter of 2021. Strong leasing activity in the first quarter of 2022 helped the CBD realize over 1.5 million square feet of total activity for the year.

### Leasing Activity

Demand for space in the Austin market remains elevated but softened in the fourth quarter of 2022. Leasing activity totaled

980,067 square feet, down 18.2% quarter over quarter and a 66.8% decrease year over year. Transactions totaled 158 for the quarter, and the average lease size was 6,203 square feet. Sublease activity has diminished significantly since the start of the year, an indication that tenants are still right sizing footprints, rather than moving into sublease space. In the first quarter of 2022, sublease activity totaled 765,561 square feet, compared with only 156,198 square feet in the fourth quarter of 2022. Occupiers have added 2.5 million square feet of sublease space to the Austin market since the start of the year. Austin's sublease market could prove beneficial for occupiers looking to score shorter lease terms and lower rental rates in some of the market's top buildings. Facebook parent Meta Platforms Inc. announced it no longer plans to occupy the 589,000 square feet it leased earlier this year at Sixth and Guadalupe, instead putting the entire space up for sublease.

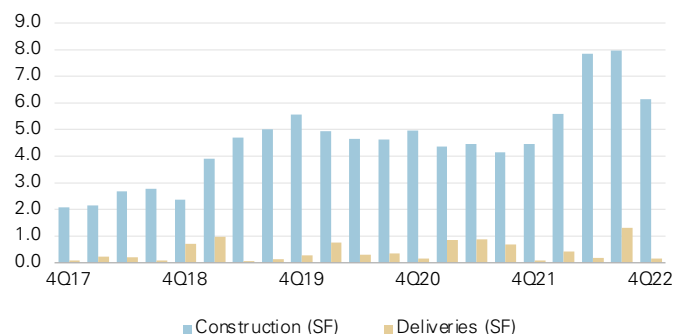
In the South/Southeast submarket, VA Financial Services took 67,625 square feet in Building B at MetCenter Creative Office. The firm will move into the space in April 2023. Page, an engineering and architecture firm, signed a seven-year lease at Indeed Tower in the CBD. The firm will occupy 51,031 square feet on the 18th floor starting in March 2023. With Page's lease, Indeed Tower will be 76.8% leased.

### Investors Keep Austin's Construction Pipeline Full

Austin's construction pipeline grew in the fourth quarter of 2022 up to 6.1 million square feet of space. The construction pipeline grew by 32.4% year over year, an indication that investors are still confident in Austin's market. Proposed construction projects total 14.6 million square feet with 5.0 million set to get underway in the first quarter of 2023. At 7.6%, the amount of office space under construction in the Austin market is among the highest in the nation on a percentage of inventory basis. Construction starts in the fourth quarter of 2022 totaled 912,383 square feet and two buildings delivered to add 166,500 square feet to the market's inventory.

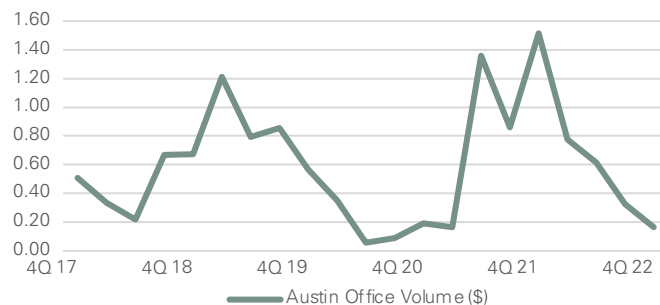
### Construction and Deliveries

SQUARE FEET, MILLIONS



### Office Investment Sales

SALES VOLUME (\$, BILLIONS)



Source: Real Capital Analytics

## RESEARCH Q4 2022

In the CBD, construction got underway on The Republic at 401 W. 4th St. Upon completion in 2025, the building will total 816,580 square feet of Class A office space. The submarket has 2.7 million square feet under construction, including Waterline Tower (640,000 square feet) and Sixth and Guadalupe (607,522 square feet), both of which got underway in the second half of 2022.

The East/Northeast submarket has more than 2.3 million square feet under construction and another 1.0 million square feet slated to get underway in the first quarter of 2023. Already under construction, Springdale Green office park is set to deliver in 2024 and will include 832,000 square feet across two buildings. Construction is set to start in the first quarter of 2023 on 350,000 square feet at the Mueller Business District (4811 Mueller Blvd.), which is being developed by Catellus Development Corporation. Stream Realty is also expected to break ground on 1400 East (1400 E 4th St.) in the first quarter of 2023. The property will total 182,500 square feet upon completion in 2024.

### The Year Ahead

The recent softening of the Austin office market should be taken in stride, as the market is well poised to ride out ongoing economic headwinds. Austin's CBD has not witnessed the contraction that other large cities experienced in recent years, making the market better positioned for a slowdown in 2023. Additionally, companies continue to pursue the limited Class A space available, and the increase of sublease space could benefit occupiers still active in the market with shorter lease terms and lower rental rates. While demand has outpaced supply in the past year, that will likely begin to balance as demand slows and the pipeline delivers roughly 3 million square feet in 2023. Austin is likely to see the impact of tech layoffs given the density of tech firms in the Metro, but strong labor fundamentals will give the market more runway to handle any rise in unemployment in the near term.

Lease/User Transactions				
Tenant	Submarket	Building	Type	Square Feet
Undisclosed	Southeast	ATX 130 SH 130 & Elroy Rd	Direct	280,768
Undisclosed	East/Northeast	Centro – Northern	Direct	69,670
VA Financial Services	South/Southeast	MetCenter Creative Office – Bldg B	Direct	67,625
Page	CBD	Indeed Tower	Direct	51,031
Texas Department of Emergency Management	Central/West Central	Chase Park 3	Direct	48,809
Undisclosed	Northwest	9500 Arboretum Blvd	Direct	35,759

Sale Transactions				
Buyer/Seller	Submarket	Building	Price	Price/SF
Alexandria / Texas State Teachers Association	CBD	1000 Red River	\$108 M	\$543
Turnbridge Equities / WBH Ltd Partnership	North	2218 Donley Dr	Undisclosed	Undisclosed
FUSE Workspace / Harren Interests	Northwest	7710 N FM 620 Rd – Bldg 2	Undisclosed	Undisclosed

## Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>CBD</b>	15,939,113	2,787,370	20.7%	-122,430	594,034	\$62.52	\$44.53	\$58.89
<b>Cedar Park/GT/RR</b>	4,222,905	120,077	5.8%	-10,881	243,485	\$32.97	\$31.56	\$32.69
<b>Central/West Central</b>	5,686,356	92,217	13.9%	-46,620	26,876	\$34.90	\$29.59	\$34.08
<b>East/Northeast</b>	8,232,044	2,349,800	24.1%	389,504	473,052	\$39.57	\$33.10	\$38.48
<b>North</b>	8,498,703	695,865	13.5%	-77,955	-165,762	\$41.20	\$42.02	\$41.35
<b>Northwest</b>	18,501,476	43,636	24.3%	-352,911	-646,544	\$35.91	\$29.72	\$34.50
<b>South/Southeast</b>	6,982,428	50,849	18.9%	19,128	-4,524	\$34.59	\$28.63	\$34.27
<b>Southwest</b>	11,814,153	0	19.4%	-301,664	-400,716	\$40.74	\$34.76	\$39.12
<b>Suburban</b>	63,938,065	3,352,444	19.2%	-381,399	-474,133	\$37.60	\$32.82	\$36.64
<b>Market</b>	<b>79,877,178</b>	<b>6,139,814</b>	<b>19.5%</b>	<b>-503,829</b>	<b>119,901</b>	<b>\$41.90</b>	<b>\$34.85</b>	<b>\$40.49</b>

## Economic Indicators

Austin's labor market fundamentals have generally outperformed the U.S. historically with fourth quarter of 2022 being no exception. Despite growth slowing in the second half of 2022, payroll employment in Austin continued to increase by 4.7% year over year, 150 basis points higher than the nation's growth. The market's unemployment rate ended November 2022 at 2.8%, plateauing at the same rate since September and remaining at least 90 basis points or lower than the national unemployment rate for more than half the year. Compared to large Texas metros like Dallas-Fort Worth and Houston, Austin historically had lower unemployment rates except briefly in mid-2020. This was likely due to a high concentration of technology tenants willing to quickly support a full pivot to work-from-home because of the pandemic. All industries, except the mining/logging/construction industry, reported positive employment growth over the past year while predominately office-occupier industries such as professional/business services and financial activities grew by 3.5% and 0.3%, respectively. Austin's strong labor market fundamentals will continue to help the market overcome any impacts from slowing economic activity and help it be one of the first to recover nationally should a recession occur.

## Unemployment Rate

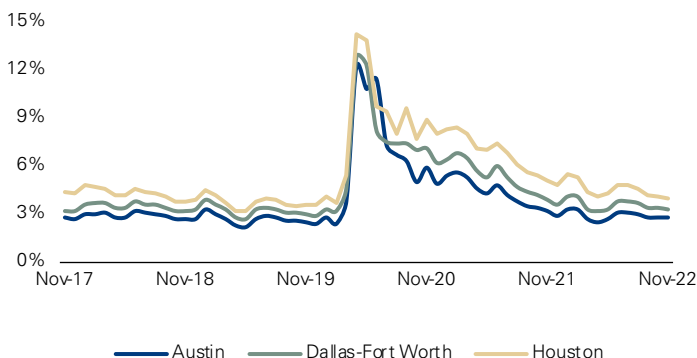
### NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, December 2022

## Unemployment Rate – Select Texas Markets

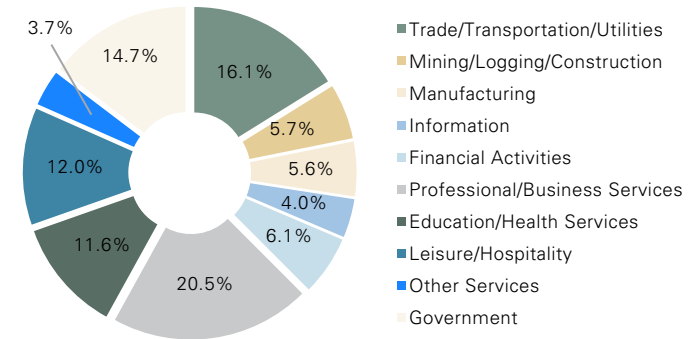
### NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, December 2022

## Employment By Industry

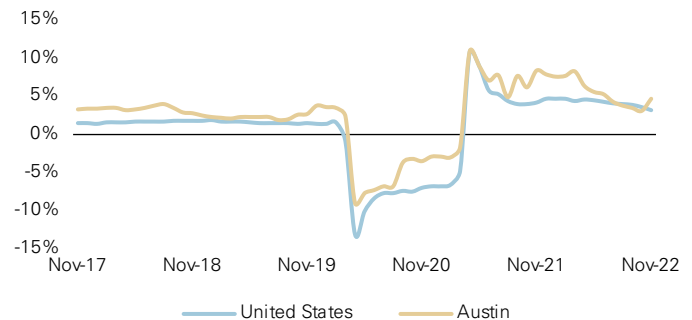
### AUSTIN, NOVEMBER 2022



Source: U.S. Bureau of Labor Statistics, December 2022

## Payroll Employment

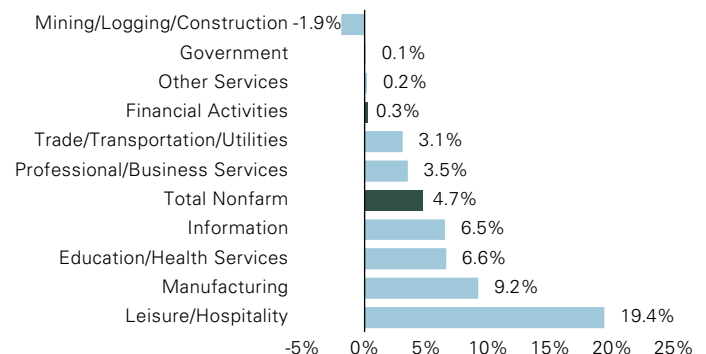
### TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, December 2022

## Employment Growth (Industry)

### AUSTIN, NOVEMBER 2022, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, December 2022

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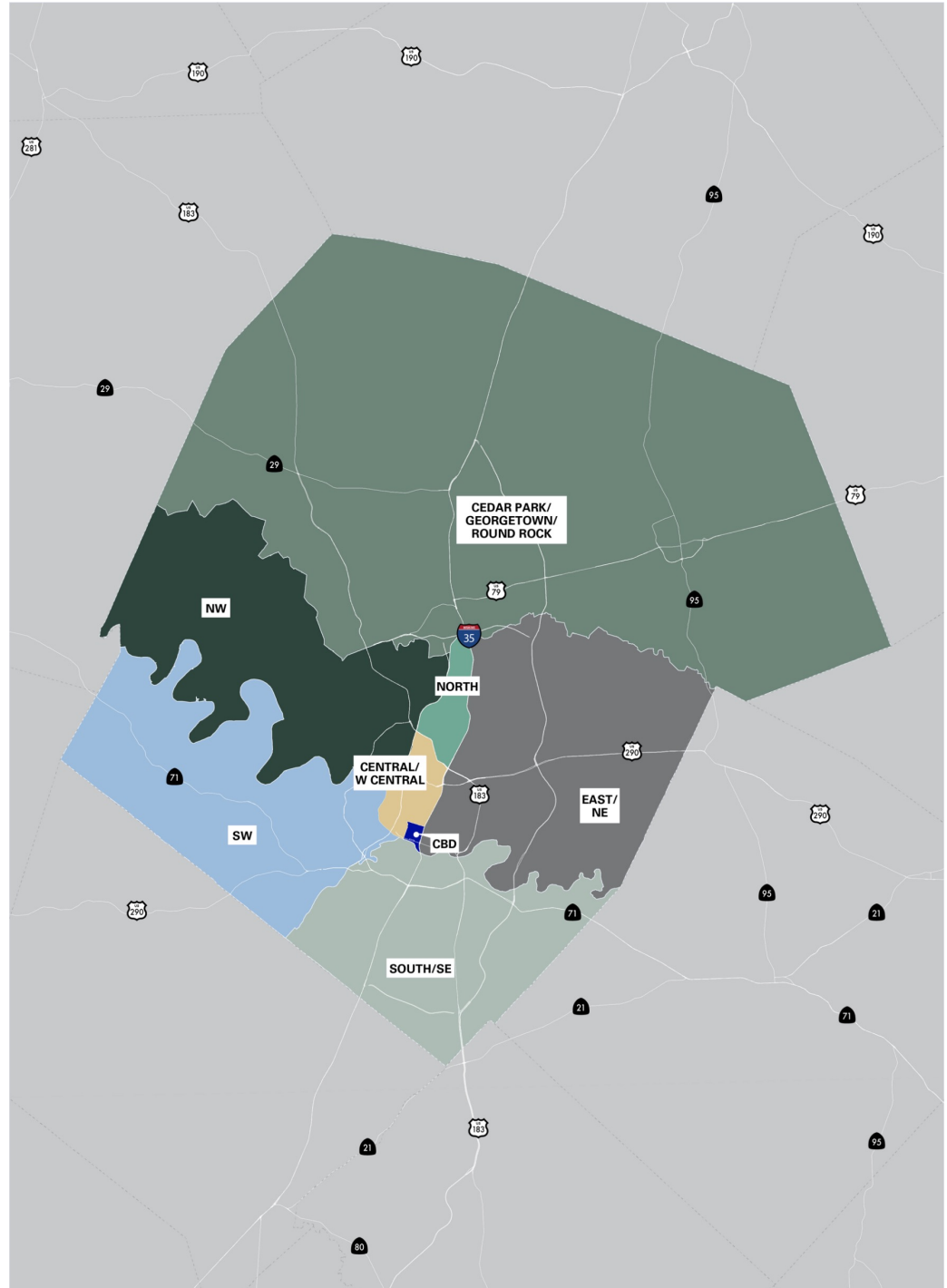
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