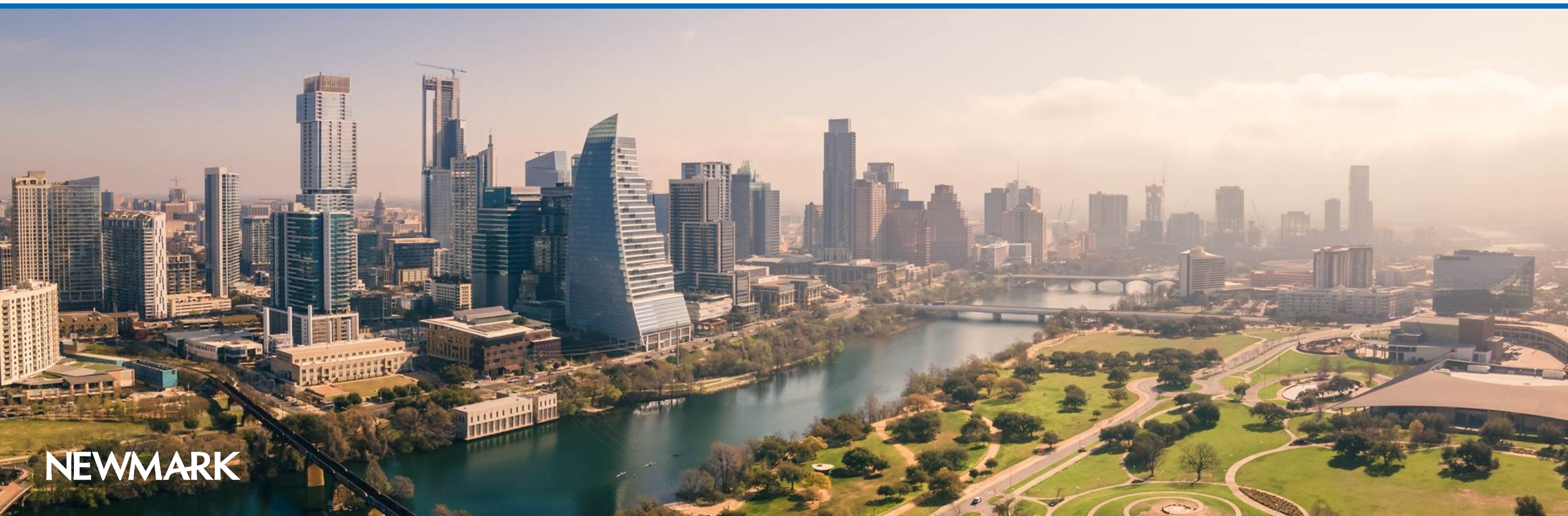


4Q23

# Austin Office Market Overview



NEWMARK

# Market Observations

## Economy

- The market's unemployment rate climbed by 62 basis points year over year to 3.4%, below the five-year average of 3.9%.
- When compared to August 2022, employment growth declined by 370 basis points.
- Most sectors reported employment growth, with mining and construction leading job gains at 10.4% over the past 12 months.
- Office-using jobs in the market recorded a historic high of 424,510 jobs as of the end of November 2023, reflecting 33.2% growth since 2019.

## Major Transactions

- The largest signed lease for the fourth quarter of 2023 was Advanced Micro Devices's renewal for a 98,920-SF lease at The Summit of Lantana.
- In contrast to headlines dominated by technology company firings and downsizings, technology companies like Advanced Micro Devices and Apple continued to play an outsized role in Austin's office leasing market by signing three of the largest leases of the quarter.
- The two largest transactions were concentrated in the Southwest submarket.

## Leasing Market Fundamentals

- Annual full-service class rental rates remain elevated at \$41.12/SF, a 1.8% increase year over year.
- Occupancy declined, causing overall vacancy rates to increase by 420 basis points year over year, to 22.2%.
- The under-construction pipeline dropped slightly to 4.7 MSF currently in progress.
- Total leasing activity closed the quarter at 994,928 SF, well below the 16-year fourth-quarter average of 1.7 MSF.

## Outlook

- The Austin office market will likely see continued suppressed growth this year. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- The increasing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly with continued muted demand. As a result, overall asking rents are projected to stay flat.
- Vacancy is expected to increase as the construction pipeline, which currently accounts for 5.9% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals



4Q23

# Economy

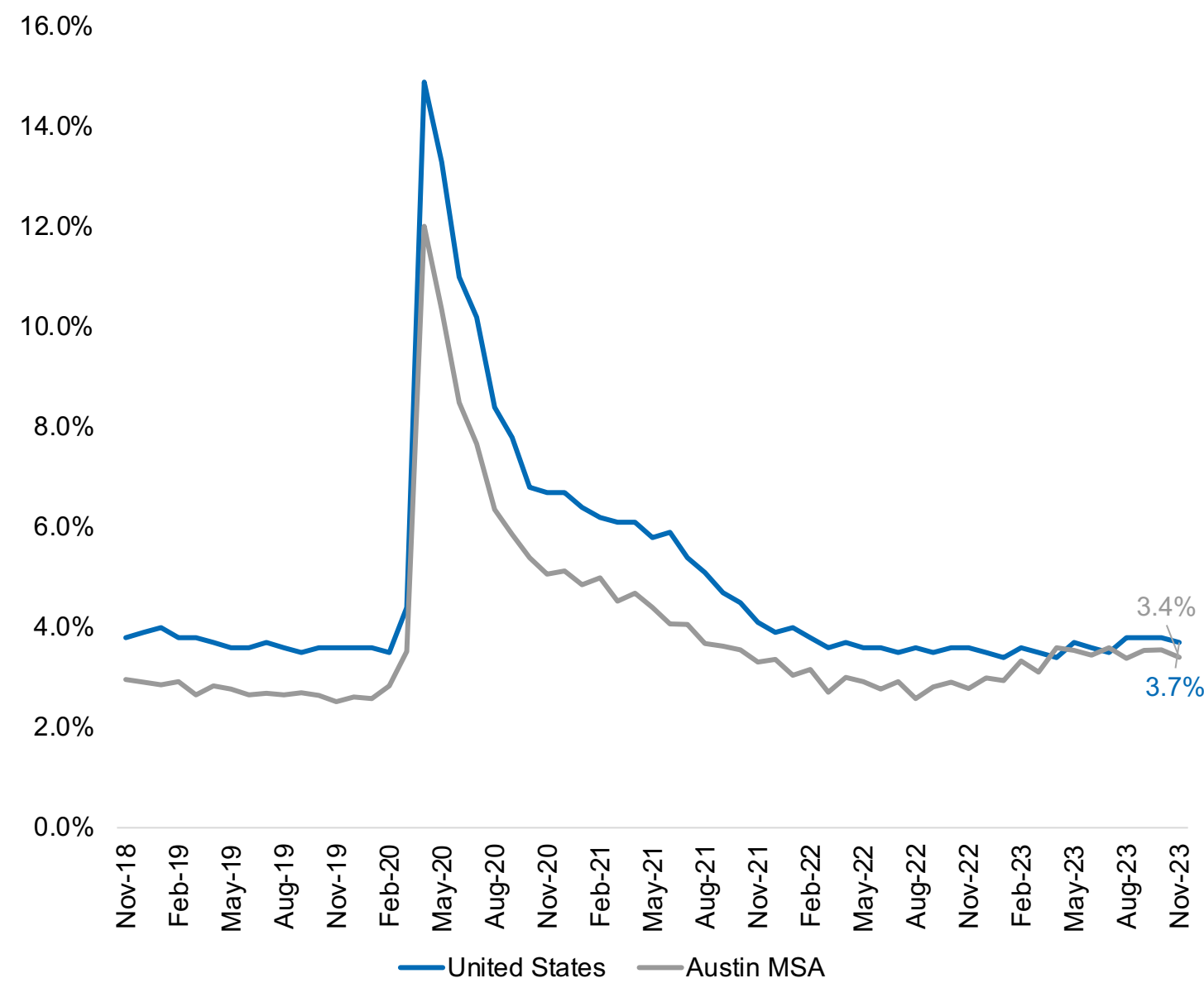




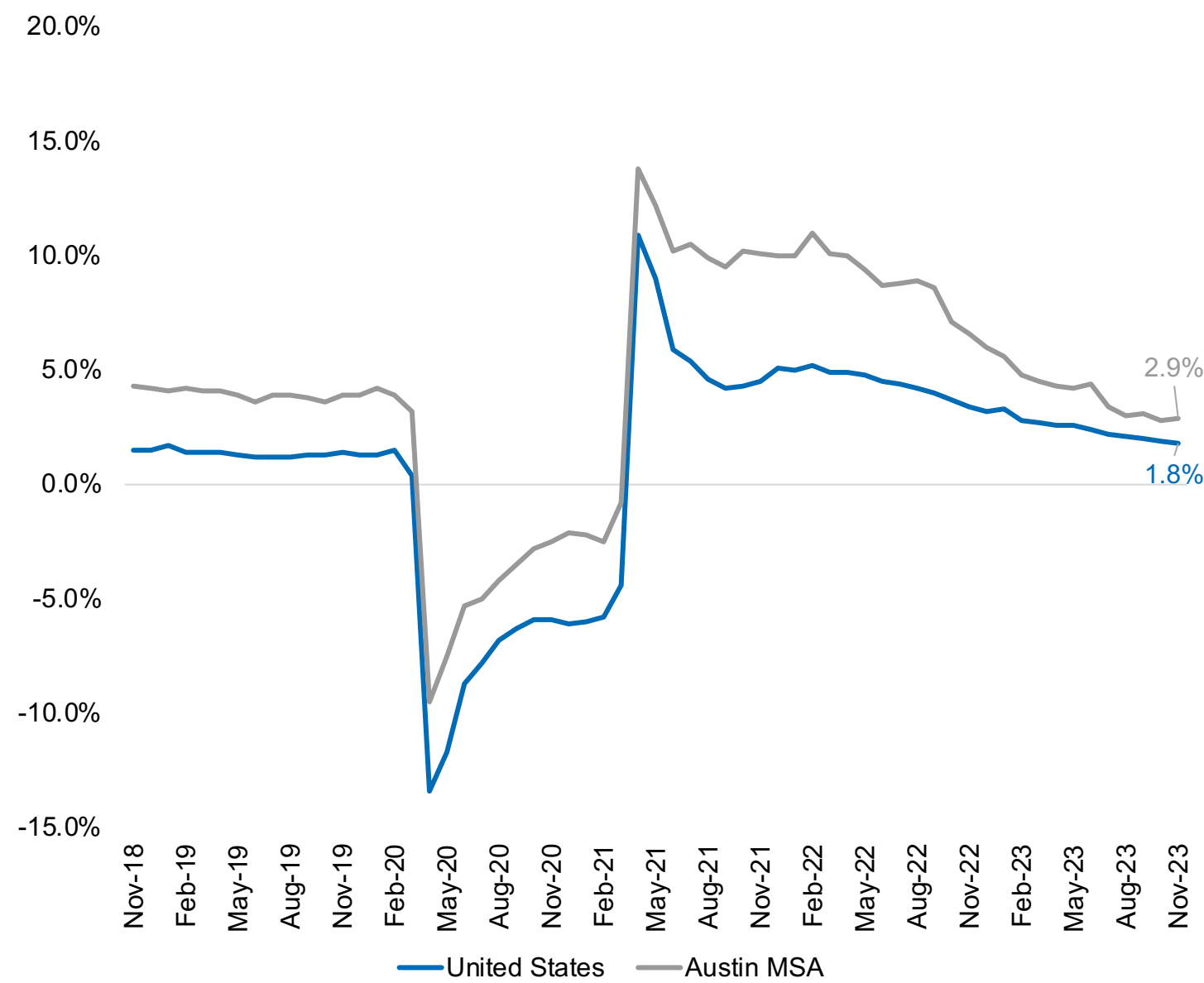
# Employment Trends Signal a Slowing Economy

Austin has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Continued recent national economic headwinds have caused the region's unemployment rate to increase by 62 basis points year over year, while the employment year-over-year growth rate slowed by 370 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

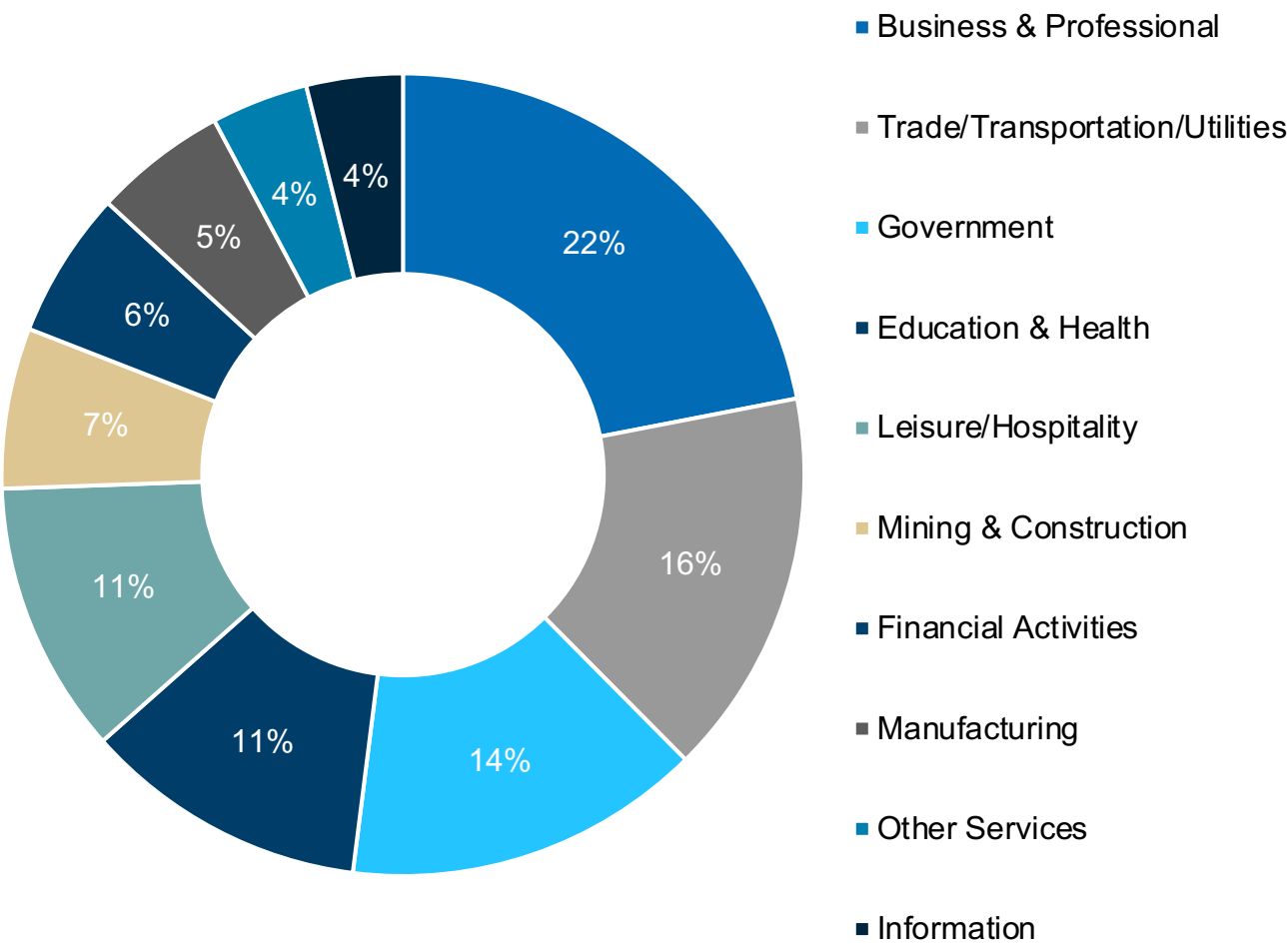


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

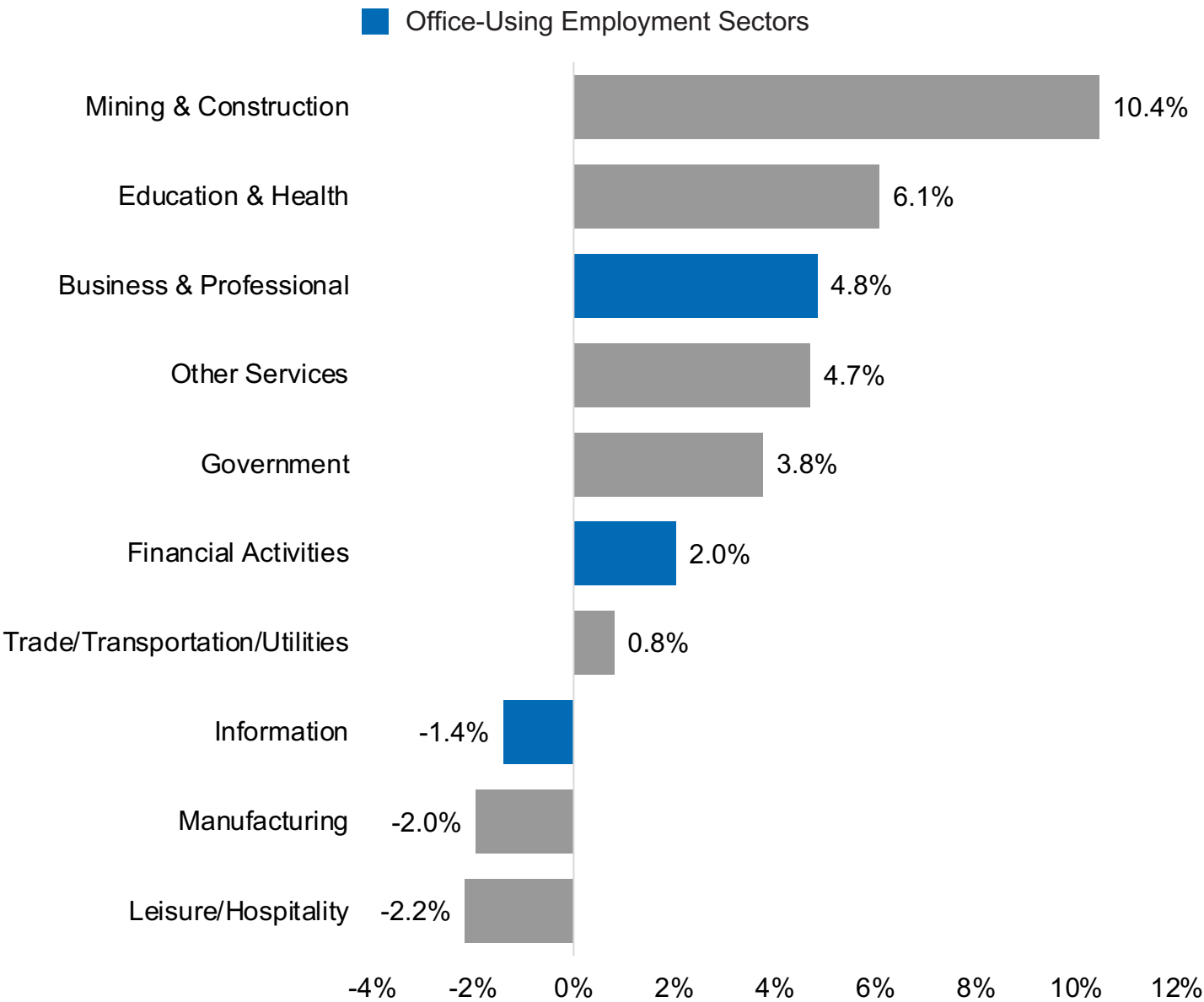
# Employment Growth Continues across Most Sectors

Known for its technology sector, the Austin market’s top-two employment industries, business and professional and trade/transportation/utilities, account for 37.6% of jobs. The office-using employment’s business and professional sector is the largest industry sector at 22.0%. Most industries reported year-over-year job growth. The business and professional and financial activities sectors reported 4.8% and 2.0% year-over-year growth, respectively. Meanwhile, the information sector reported a decline of 1.4% growth year over year.

Employment by Industry, November 2023



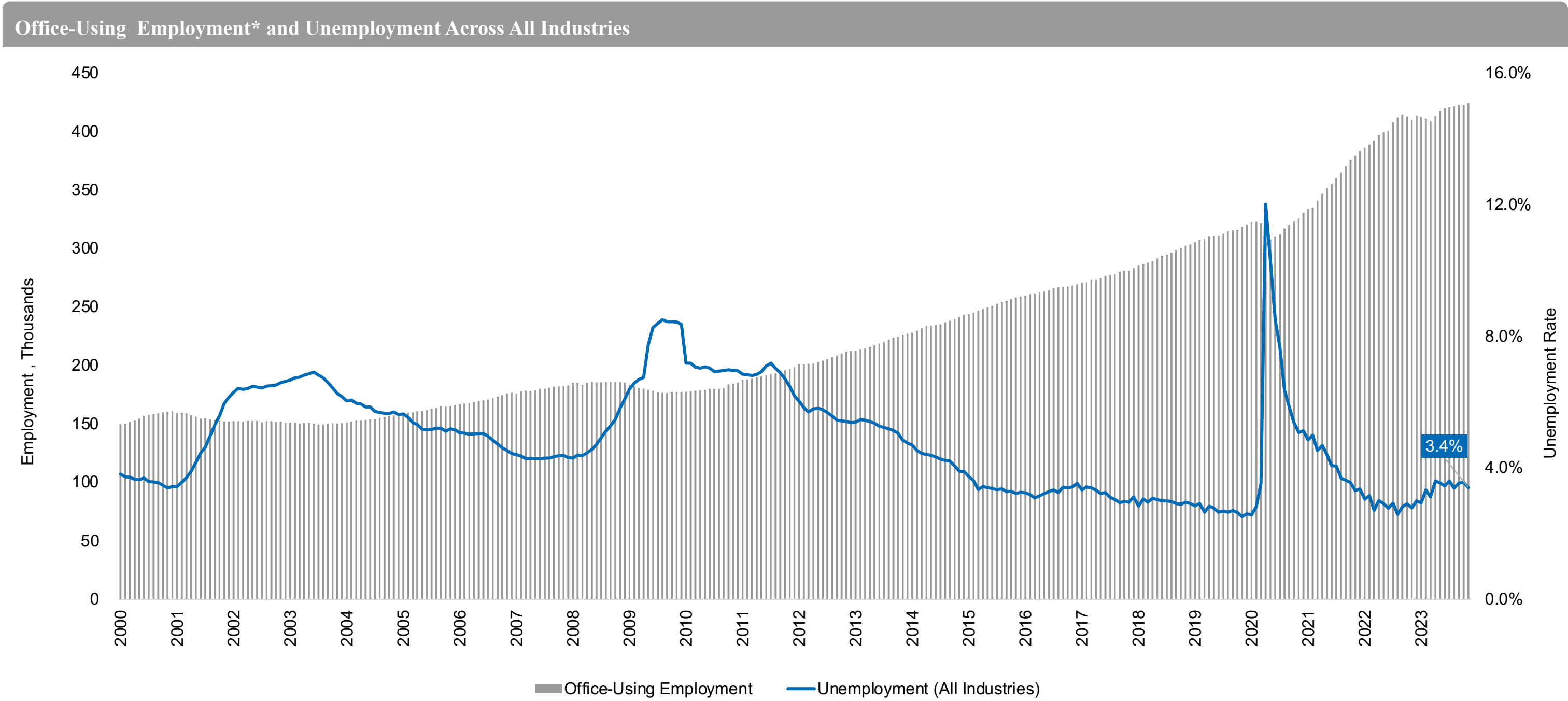
Employment Growth by Industry, 12-Month % Change, November 2023



Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

# Overall Office-Using Employment Records Historical High

Office-using employment in the Austin market recorded an all-time historical high during the fourth quarter of 2023, ending November 2023 with 424,510 office-using employees. Currently, the seasonally adjusted unemployment rate is 3.4%, greater than the 2.7% average levels reported in 2019, indicating that office-using jobs are likely contributing to most of the unemployment rate.



Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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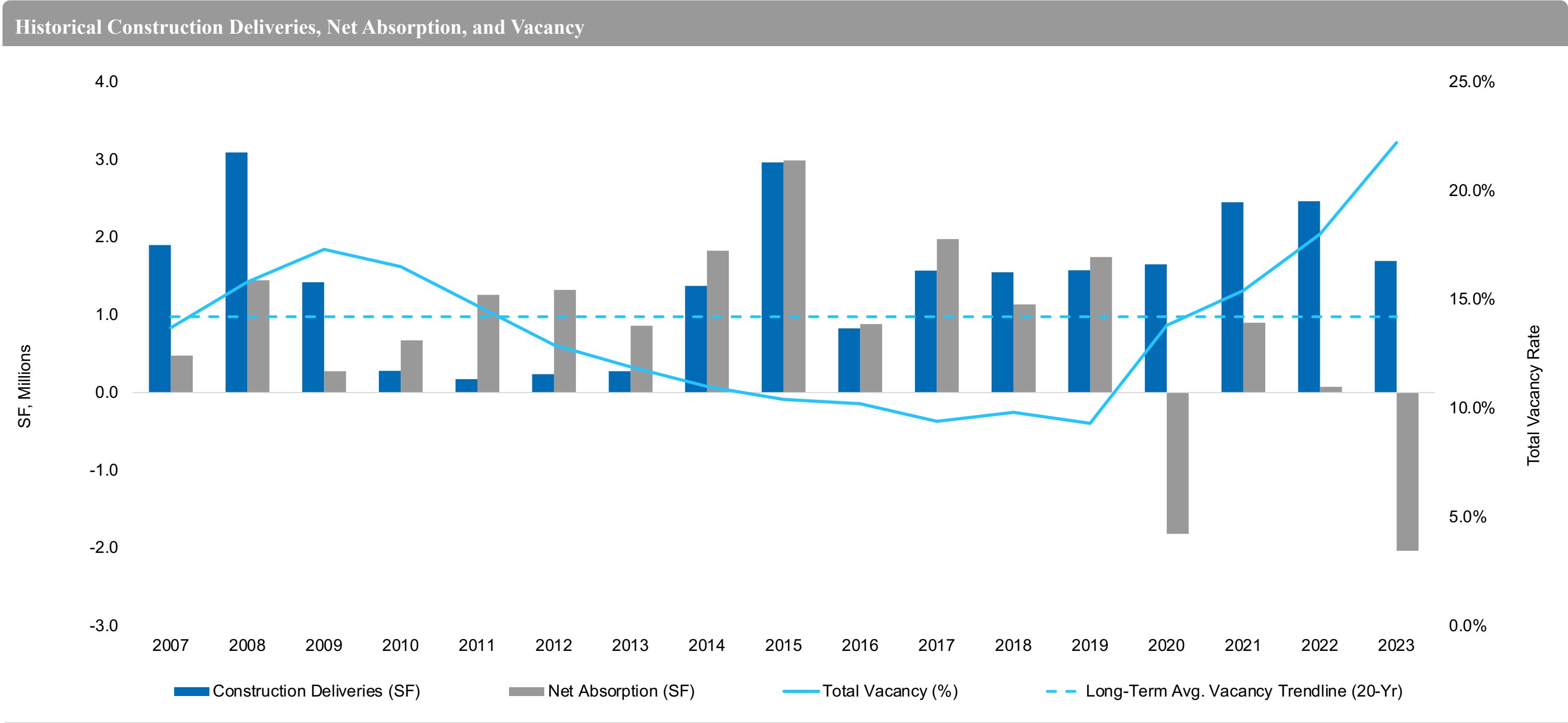
# Leasing Market Fundamentals





# Vacancy Marginally Drops as Net Absorption is Positive for the Fourth Quarter

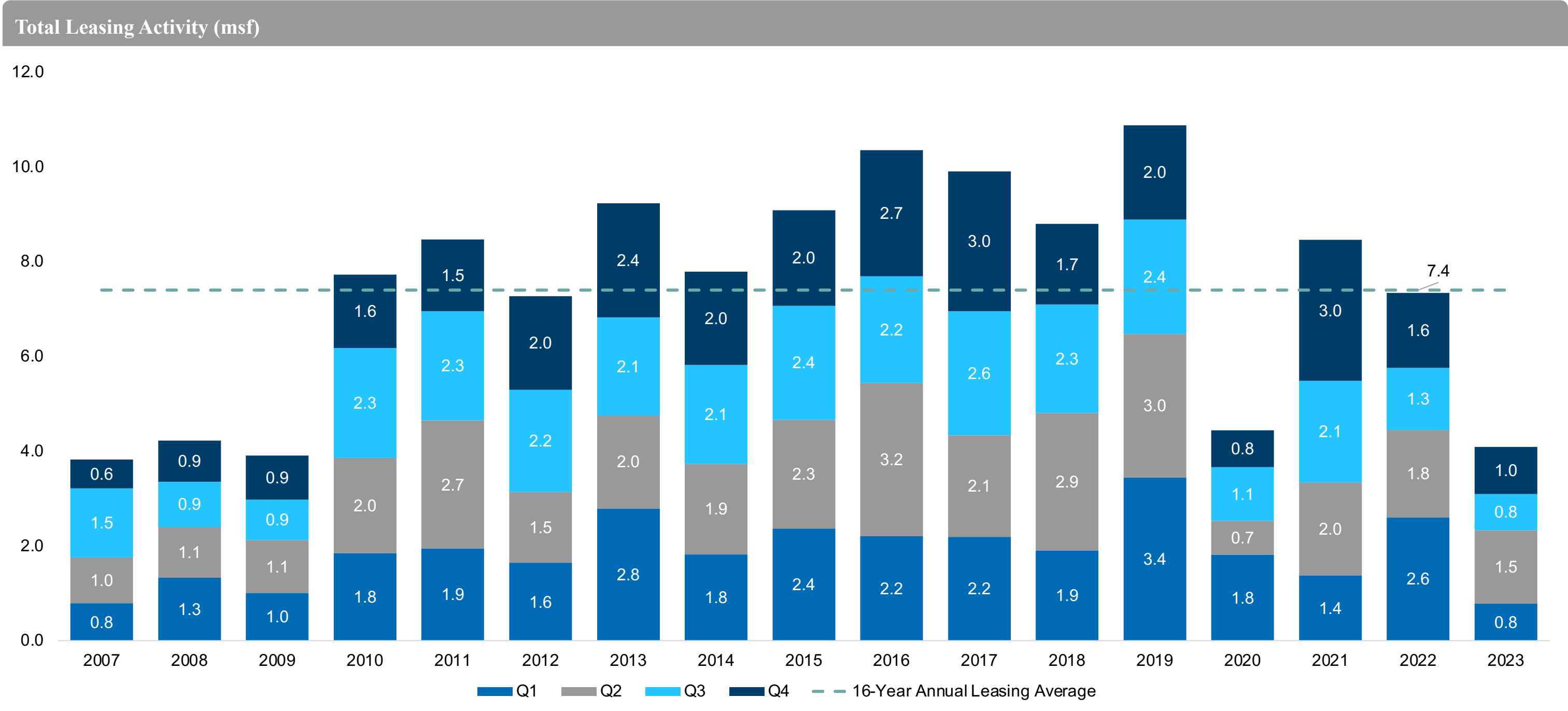
The Austin office vacancy rate increased by 420 basis points year over year to 22.2% in the fourth quarter of 2023, well above the 20-year vacancy average of 14.2%. Since 2019, vacancy rates have steadily increased in the market. This can be attributed to a few factors, including continued historically high construction deliveries and recent negative yearly absorption. Vacancy rates increased following the pandemic and have recently begun to marginally drop from their post-pandemic highs set in the third quarter of 2023.



Source: Newmark Research, CoStar

# Economic Headwinds Results in Slowing Leasing Activity

Leasing activity in the market remains slow, with 2023’s total leasing activity of 4.1 MSF being below the sixteen-year average of 7.4 MSF. The fourth quarter of 2023 reported 994,928 SF of leasing activity, below the 16-year fourth-quarter leasing activity average of 1.7 MSF. Overall, the fourth quarter of 2023 and 2023 overall had the lowest leasing activity since the onset of the pandemic in 2020. The slowing leasing activity pace is largely attributed to fewer deals being done, likely impacted by a more challenging debt liquidity environment, preventing larger deals from occurring as easily, and adoption of hybrid and remote work by office-using industries.

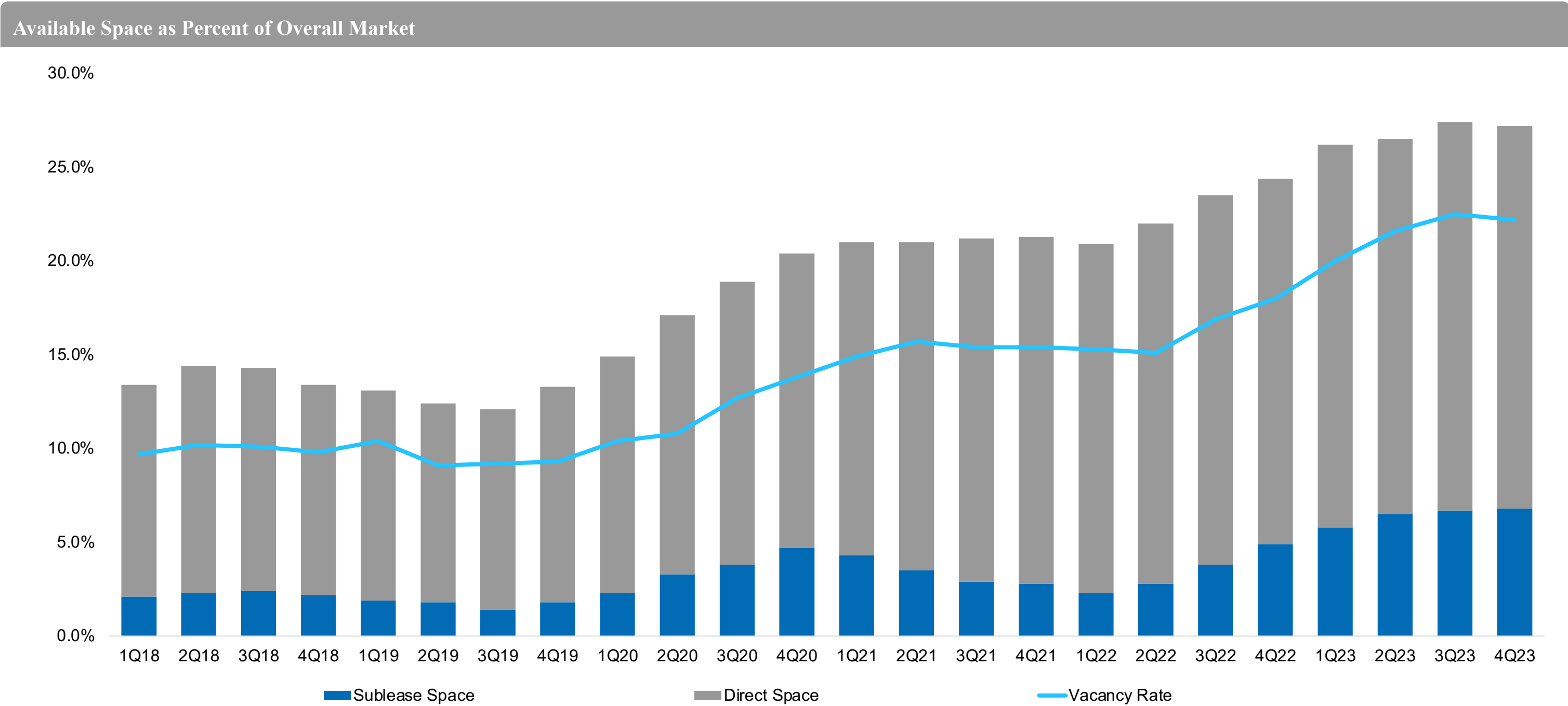


Source: Newmark Research, CoStar



# Vacancy Drops Marginally

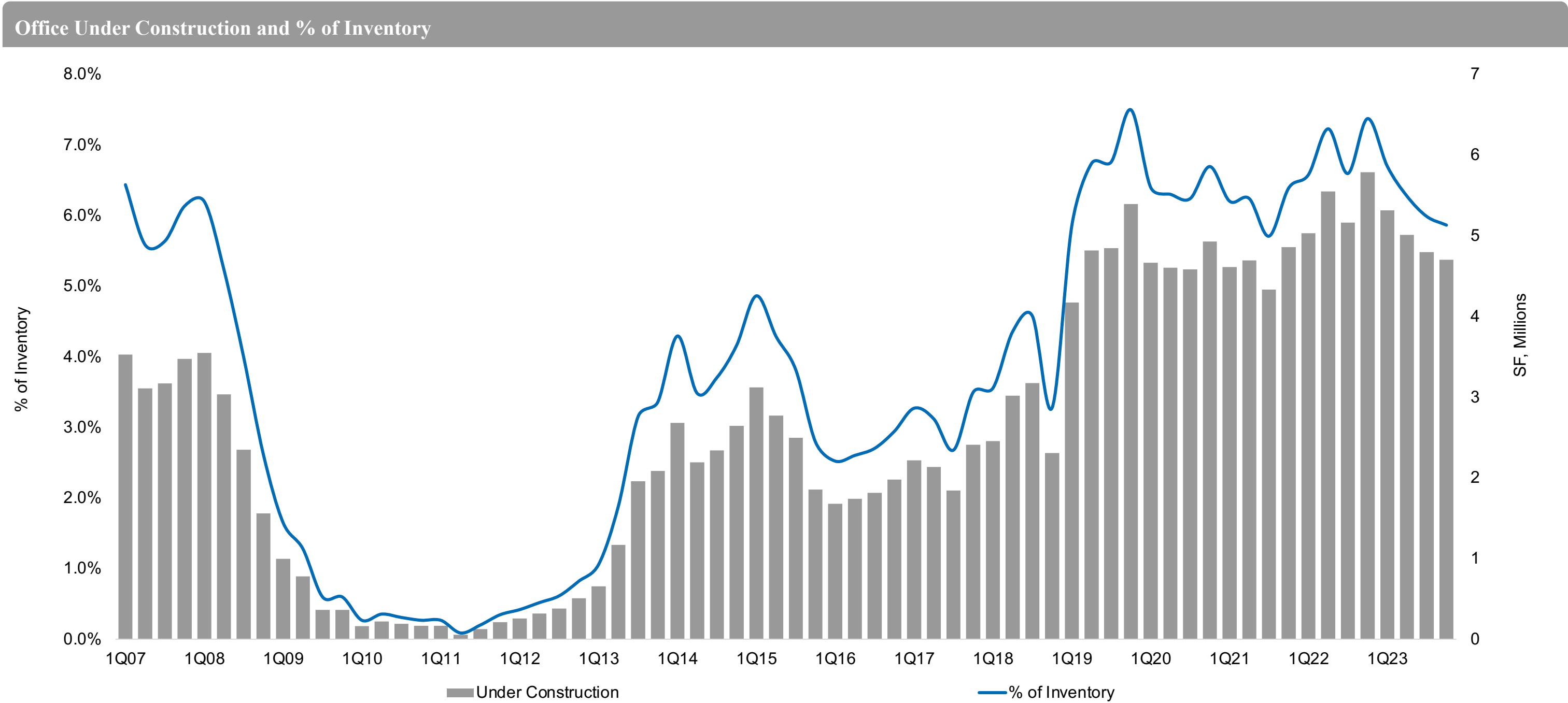
Sublease availabilities in the Austin market have continually recorded all-time highs since the second quarter of 2022. This trend continued into the fourth quarter of 2023. As of the end of the fourth quarter of 2023, sublease availability was 6.8%, a 1.5% quarter-over-quarter increase and a 38.8% year-over-year increase. Direct availability dropped 1.5% quarter over quarter and increased 4.6% year over year to 20.4%. Overall, the decrease in available direct space resulted in the overall vacancy rate dropping to 22.2% from the recent all-time high reported in the third quarter of 2023 of 22.5%.



Source: Newmark Research, CoStar

# Construction Activity Continues Decline

Construction activity has rapidly increased since the start of the first quarter of 2019, impacted by the technology sector's office usage. However, the construction pipeline has been continually declining since recording its peak of 5.8 MSF in the fourth quarter of 2022. As of the fourth quarter of 2023, the market had 4.7 MSF under construction, accounting for 5.9% of the market's inventory.

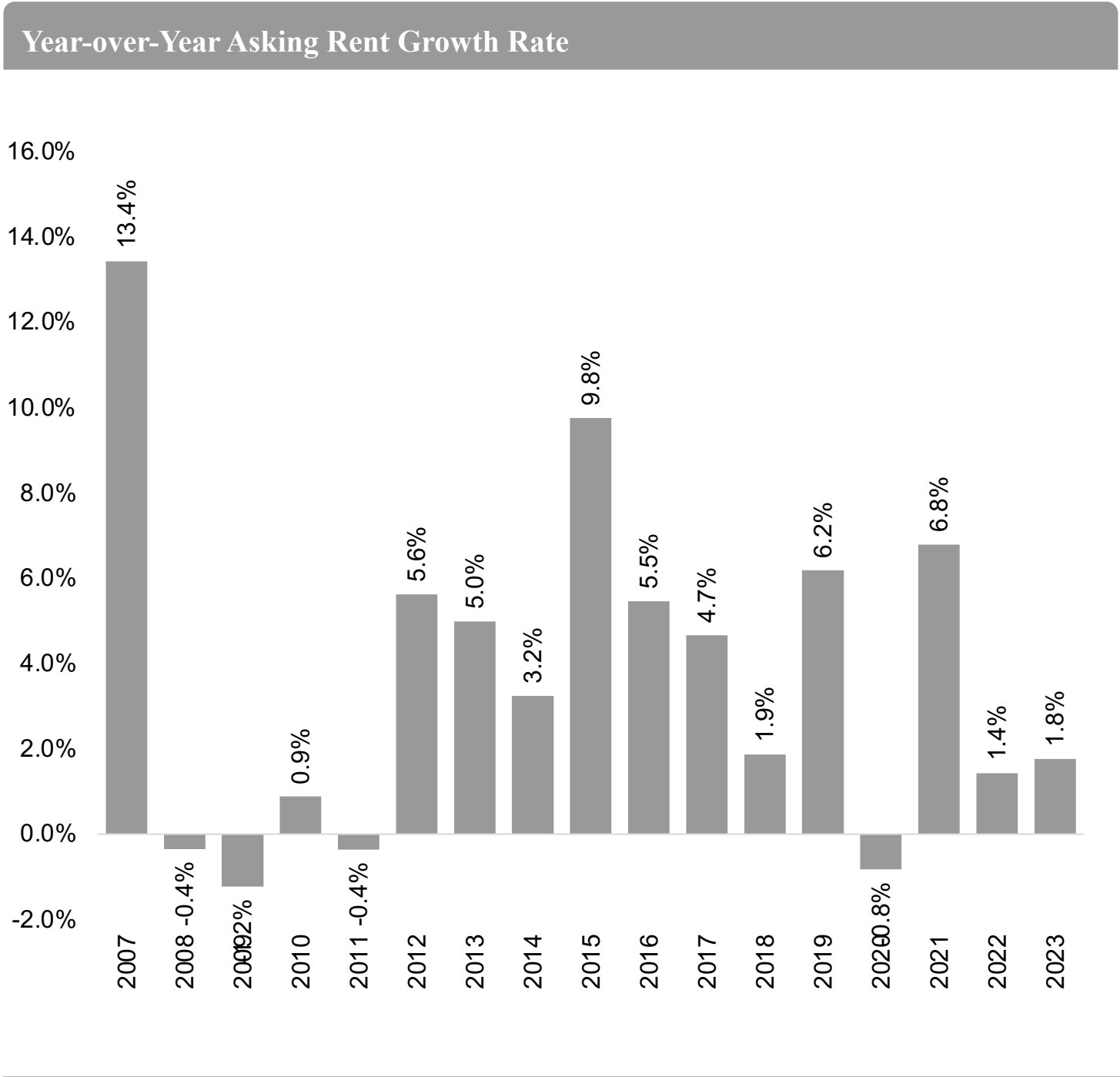
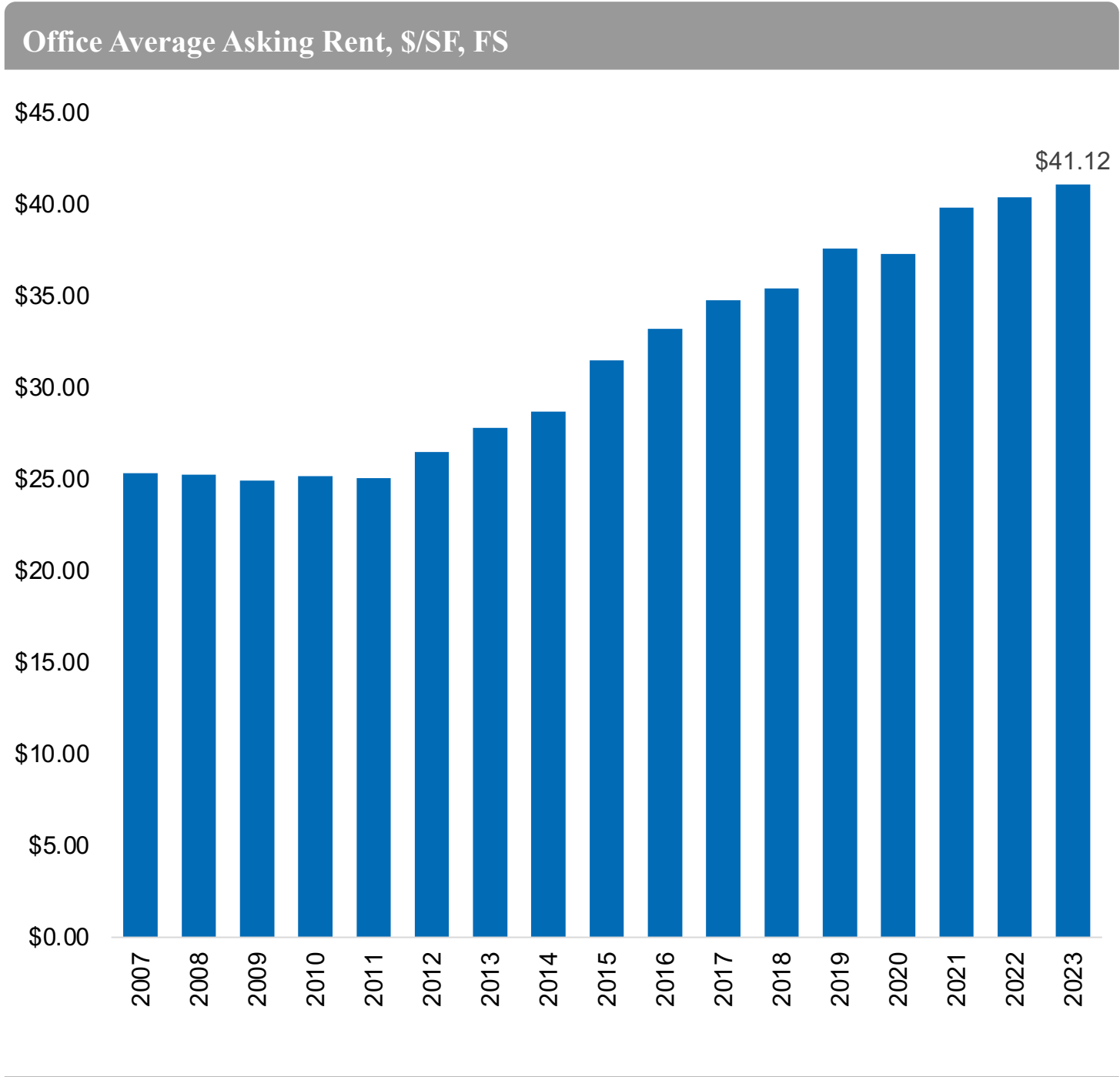


Source: Newmark Research, CoStar



# Rents Attain Historic High; Record Positive Growth for the Year

Rents inched higher by 0.4% quarter over quarter and increased by 1.8% year over year to record a new historic high of \$41.12/SF. The flattening of asking rent growth can be attributed to several factors, including an elevated development pipeline, rising vacancy, a recent decline in leasing activity and continued negative absorption, which was only recently broken this quarter.

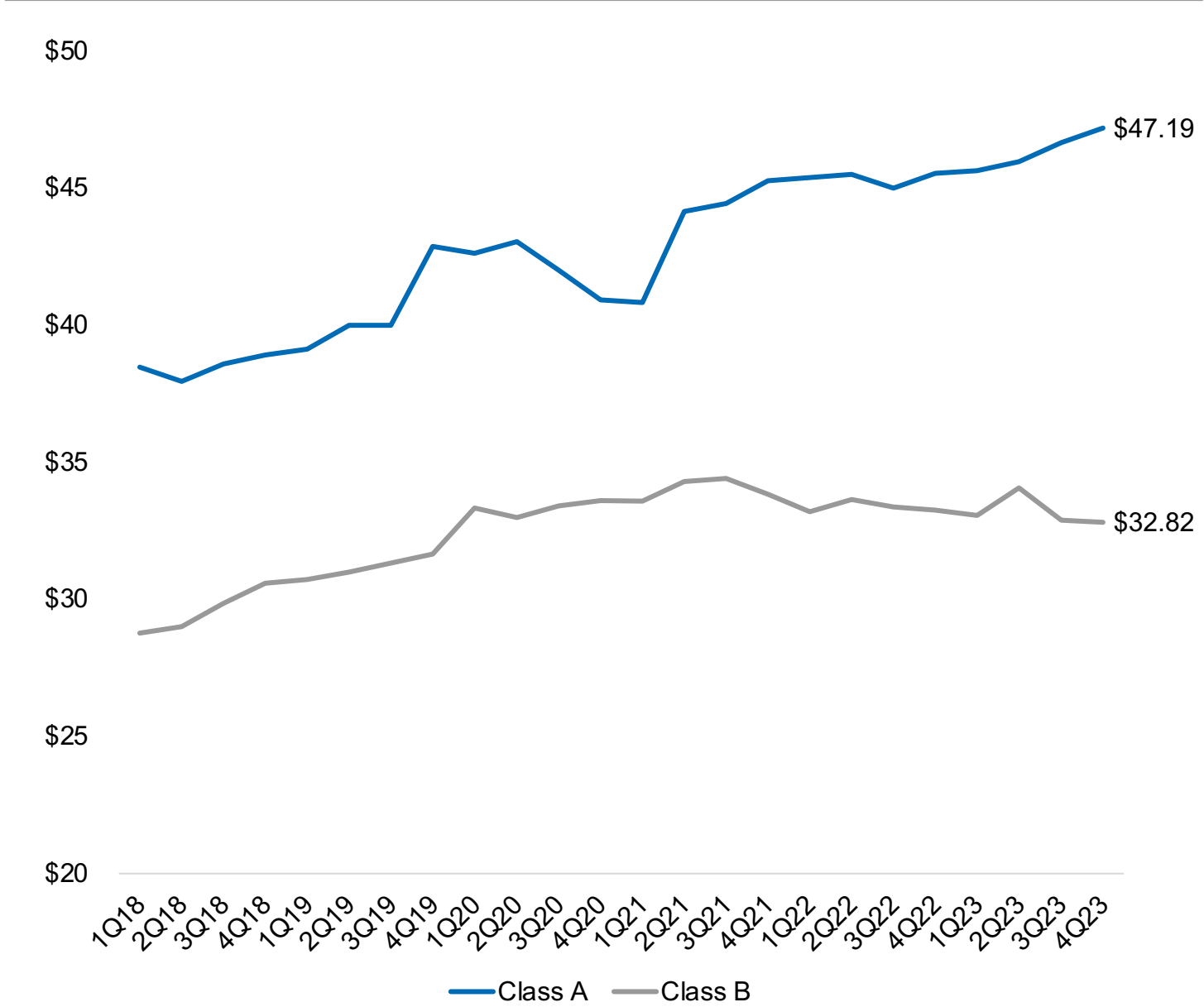


Source: Newmark Research, CoStar

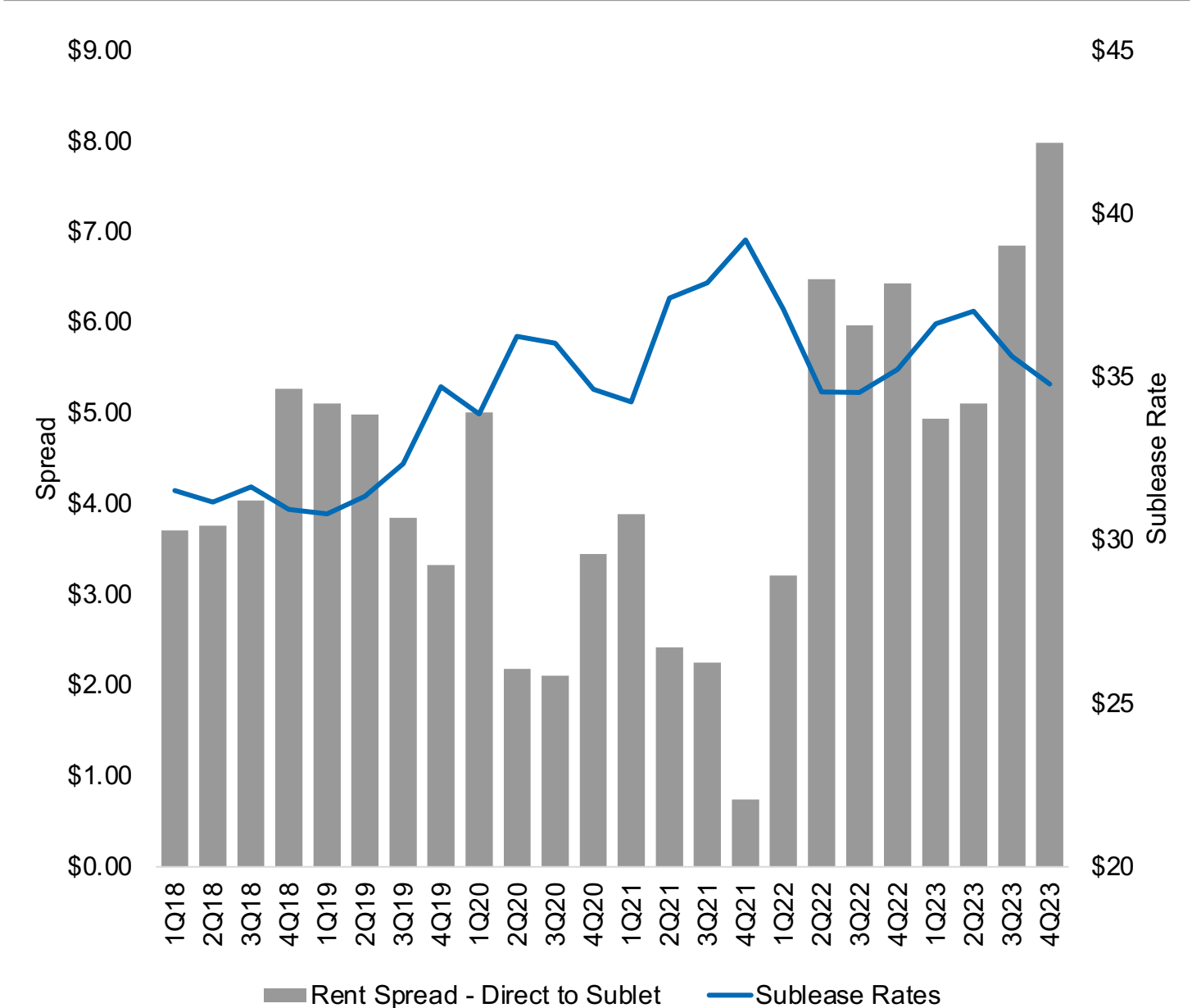
# Rent Spread Between Class A and Class B Reaches New High

As of the end of the fourth quarter of 2023, Class A rents ended at \$47.19/SF, while Class B reported \$32.82/SF. The rent difference between the two assets is \$14.37/SF, a 28.2% spread increase since the fourth quarter of 2019. Quarter over quarter, the rent spread increased by 4.4%. The increasing divergence between Class A and Class B assets will likely drive more tenants to shed unused space in less desirable assets and lease smaller footprints in higher-quality assets. As sublease space has continued to enter the market, asking rents for sublease space have been declining. Fourth-quarter asking sublease rates have decreased by 2.4% quarter over quarter and declined 1.3% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues as a trend in the Austin office market. Advanced Micro Devices, renewing its 443,000-SF space, signed the largest lease of the quarter. The two largest transactions were in the Southwest submarket. Even with a widely reported slowdown in technology company hirings and office downsizings, technology companies are continuing to play an outsized role in Austin’s lease transactions as they accounted for four of the quarter’s largest transactions.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Advanced Micro Devices	The Summit at Lantana	Southwest	Renewal	443,000
The biggest lease of the quarter was semiconductor company Advanced Micro Devices’ 13-year renewal for 443,000 SF at The Summit at Lantana.				
Apple	Las Cimas I	Southwest	Direct	80,433
Apple has signed a 80,433-SF lease for space on the first, second, and third floors of 804 Las Cimas Parkway.				
Tokoyo Electron	RiverSouth	South	Direct	98,000
Japanese electronics and semiconductor manufacturer Tokoyo has signed a 98,000-SF lease for the eighth, ninth, and tenth floors of 401 S 1 <sup>st</sup> St.				
Infinitum	Plaza 35 Building B	North	Direct	71,192
Motor manufacturer Infinitum has signed a new 71,192-SF lease on the first floor of 12334 N Interstate 35.				
Apple	5300 Riata Park Court Building A	Northwest	Direct	43,843
Apple has signed a 43,843-SF lease at Building A of 5300 Riata Park Court.				

Source: Newmark Research, CoStar





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