

# MARKET REPORT

Office  
Austin Metro Area

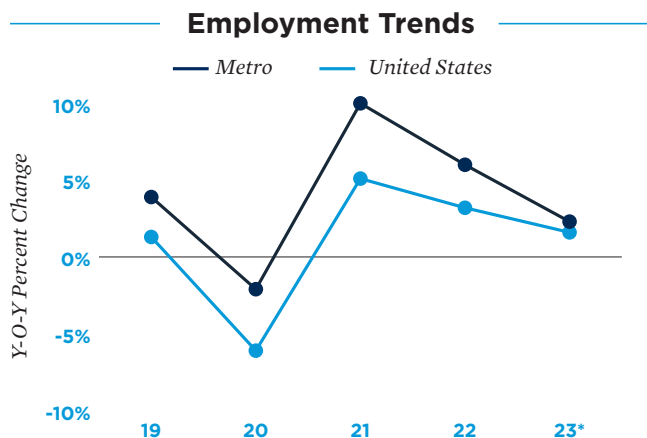
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

4Q/23

## Occupied Stock Hits an All-Time High, yet the Magnitude of New Supply is Swelling Vacancy

**Resilient demand unable to keep pace with development.** Entering the second half of 2023, Austin's vacancy rate stood near 19 percent, about 500 basis points above the metro's long-term average. The ongoing lift has been a byproduct of aggressive construction, however, rather than soft demand. In fact, net absorption from April through June 2023 measured at a five-quarter high. This allowed occupied office stock to hit an all-time record in June 2023, surpassing the pre-pandemic peak by over 2.4 million square feet. At the same time, Austin's inventory expanded by an eye-catching 13.5 percent since 2019. Only three other markets in the country — Salt Lake City, San Jose and Nashville — came anywhere close to that pace at 8.8, 8.3 and 8.1 percent, respectively, which were still considerably below Austin's surge. As of September, an additional 5.2 million square feet was underway in the metro with scheduled delivery dates in 2024-2025, likely maintaining vacancy pressure in the coming years.

**Lower cost offices remain attractive.** In many other markets, a recent flight-to-quality has translated to a surplus of Class B/C vacant stock. Amid Austin's robust influx of new high-end options, it could be expected that this trend would be especially evident locally; however, that has not yet transpired. In the second quarter of 2023, Class A space comprised nearly 60 percent of total vacant supply, compared to 49 percent in 2019. Class B/C demand has meanwhile been the strongest in East and North Austin, as well as Georgetown.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2023 Outlook



**30,000  
JOBS**

*will be created*

### EMPLOYMENT:

Professional and business services led all job sectors with a 6,700-role expansion during the first eight months of 2023, a positive sign for office demand. By year-end, the overall metro headcount will rise by 2.3 percent.



**3,450,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

For the fourth straight year, Austin's office inventory increases by at least 3.0 percent and ranks near the top nationally. On a square foot basis, however, the 2023 volume will measure as the lowest in four years.



**260  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Adding on to the 200-basis-point vacancy elevation recorded in 2022, the rate advances to 20.6 percent this year. The metric will have risen by 1,000 basis points since 2019, among the top four largest lifts in the country.



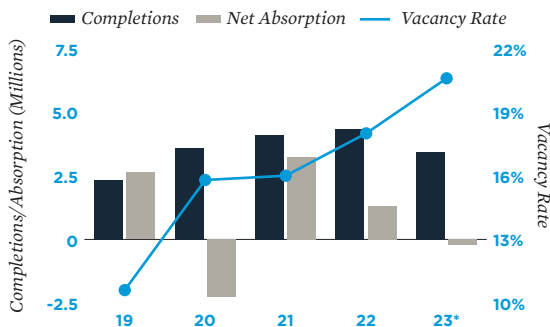
**0.5%  
DECREASE**

*in asking rent*

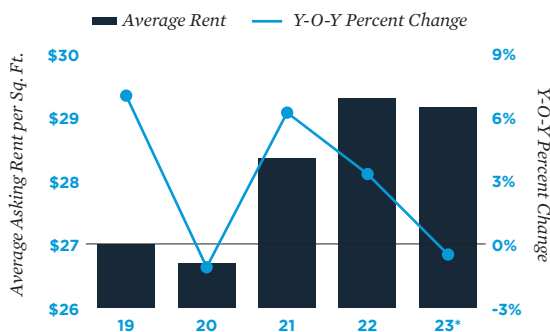
### RENT:

Despite steadily rising vacancy, Austin has avoided rent declines in the past two years. That resilience will fade in 2023, however, as 20-plus percent vacancy prompts an average asking rent ease to \$29.15 per square foot.

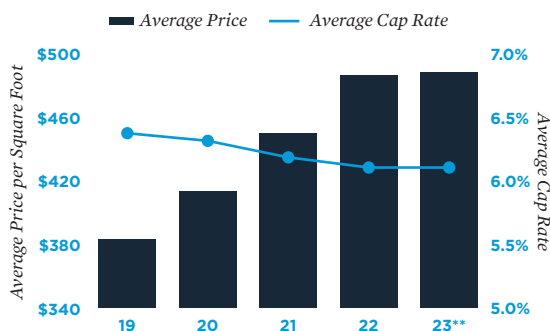
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**4,727,000 sq. ft. completed**

- Austin's 4.2 percent inventory growth during the yearlong span ending in June 2023 not only ranked as the largest in the country, it was also more than twice as fast as the next-highest major metro, San Antonio.
- Local supply expanded by over 12 percent in East, Far Northeast and Far Northwest Austin. The CBD also recorded a notable 9 percent surge.



### VACANCY

**280 basis point increase in vacancy Y-O-Y**

- Vacancy trends were uneven across submarkets during the past year. East Austin and Georgetown had reductions of at least 400 basis points, while Far Northwest and Northeast Austin logged 1,000-plus-basis-point hikes.
- All four areas with at least 10 million square feet of supply noted 100-plus-basis-point vacancy lifts, pushing the overall rate to 18.9 percent in June.



### RENT

**1.0% increase in the average asking rent Y-O-Y**

- Most of the past year's rent growth occurred in the second half of 2022, with the measure inching up 0.1 percent across the first two quarters of 2023. Austin's average asking rent stood at \$29.33 per square foot in June.
- Exemplifying the bifurcated nature of Austin, five submarkets had rent gains above 3 percent, while three areas noted drops of that same margin.

## Investment Highlights

- Softer performance trends amid the ongoing shift in post-pandemic office utilization, alongside higher interest rates and conservative underwriting, have decelerated the local investment market. The number of office asset trades in Austin during the nine months spanning September 2022 through June 2023 roughly matched the three-month average prior to that in 2021-2022. Moderate deal flow has, meanwhile, kept sales metrics relatively firm. The average cap rate on transactions recorded during the 12 months ending in June remained unchanged at 6.1 percent, while the mean sale price slightly adjusted upward to \$488 per square foot.
- Institutions have largely hung on the sidelines while taking a wait-and-see approach, reflected in a 90 percent reduction in \$15 million-plus trades during the first half of this year when compared to the same span of 2022. The decline within the \$1 to \$10 million segment, meanwhile, measured at 60 percent, implying some risk-tolerant private buyers remain active.
- Preliminary July and August 2023 data reflects a slight improvement in deal flow relative to earlier this year. Trades during those two months were spread across eight different submarkets and spanned all three class cuts.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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