

INVESTMENT FORECAST

Office
Austin

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

One-Fourth of Austin's Office Space Was Built in The Past Decade, Escalating Market Segmentation

New supply a blessing and a curse. Metro office stock will grow by more than 3 percent in 2024, reaching that mark for the fifth straight year. This boosts Austin to the 22nd-largest major U.S. office market by total square feet, after being outside the top 32 just a decade ago. By year-end, over one-quarter of Austin's inventory will have been built in the past 10 years, compared to a share of roughly 9 percent for the country as a whole. Amid a post-pandemic flight-to-quality to attract in-person workers, this spotlights Austin for its plethora of options. At the same time, the magnitude of new supply is saturating the market and competing with sublease stock as companies re-evaluate physical office needs. This dynamic produces unique trends in 2024, with Austin projected for the sixth-strongest net absorption total — albeit modest by historic norms — among major Sun Belt metros, while having the fastest rising vacancy in the region. A skilled labor pool fueled by the University of Texas continues to attract firms, but supply and demand are unlikely to realign until construction abates and tempered economic growth subsides.

Market bifurcation could signal opportunities. With recent vacancy pressure exacerbated by elevated construction over the past decade, performance metrics are segmented in Austin. Entering this year, upper-tier vacancy was roughly 700 basis points above the historical average, while the Class B/C rate was within 400 basis points of its long-term mean. Investors responding to this trend, as well as financing challenges that have highlighted yields, may increasingly favor mid- and lower-tier assets in specific locations of stronger demand. Class B/C move-ins have been noteworthy in the northern corridor spanning Hyde Park up to The Domain, as well as in pockets of southwest Austin, which offer greater proximity to residential neighborhoods popping up in Bee Cave and beyond.

2024 MARKET FORECAST

+2.6%



EMPLOYMENT: Overall job growth tapers to its slowest rate since the 2020 shock with 35,000 roles added this year. Over 40 percent of these are in traditional office-using fields, the highest share in Texas.

3,600,000
SQ. FT.



CONSTRUCTION: After leading major U.S. markets for supply growth in each of the past two years, Austin dips to second-fastest in 2024. East Austin and Round Rock feature heavily in the pipeline.

+210 BPS



VACANCY: Net absorption holds positive for a fourth straight year, yet represents less than 10 percent of new supply. This elevates vacancy by a similar clip as the last two years to a rate of 22.4 percent.

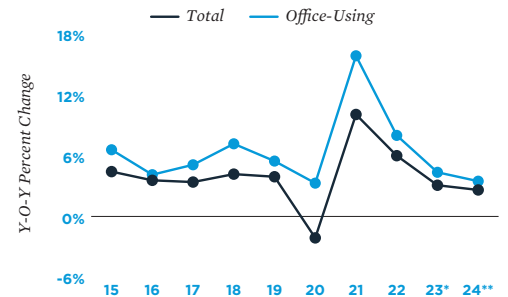
-3.6%



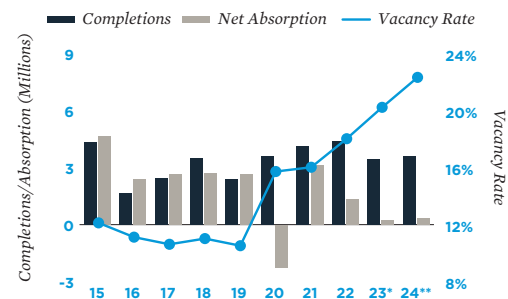
RENT: A vacancy rate about 800 basis points above the historical average curtails marketed rates this year. The mean asking rent slides to \$27.92 per square foot, still 2.7 percent higher than in 2019.

INVESTMENT: Georgetown entered 2024 with the second-tightest Class B/C vacancy among all of Texas' major submarkets with at least 1.5 million square feet of such stock. Buyers seeking higher occupancy could look here.

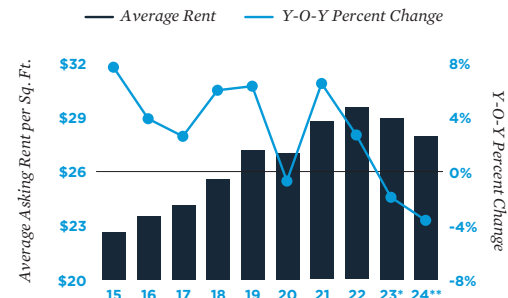
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.