

FIGURES | AUSTIN OFFICE | Q4 2022

# Vacancy levels dip as tenants flock to new construction

▼ 18.9%  
Vacancy Rate

▲ 130,507  
SF Net Absorption

▼ 6,245,140  
SF Construction

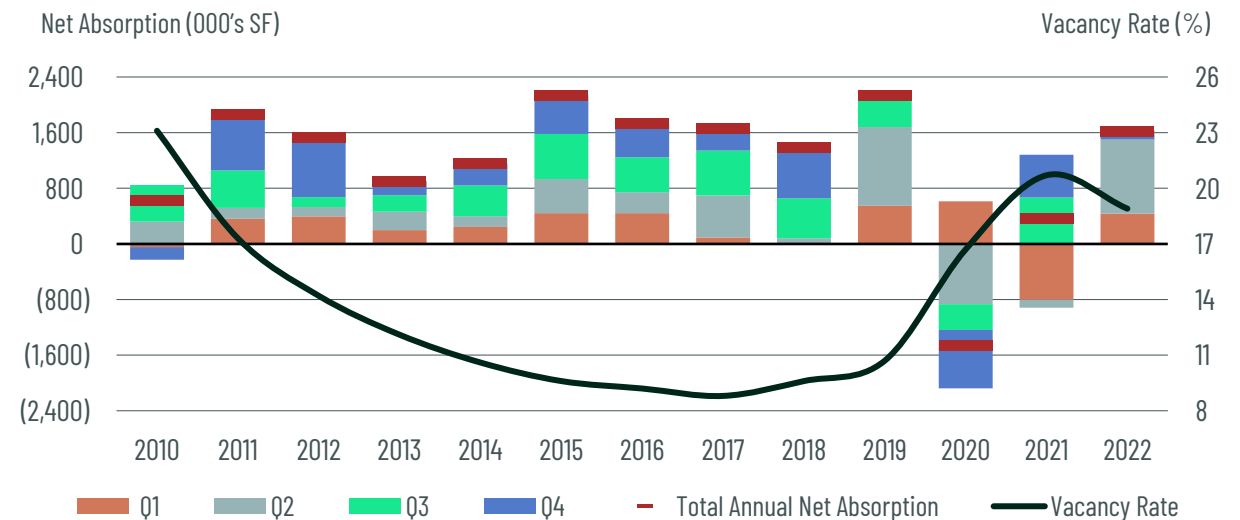
▲ \$47.62  
FSG / Lease Rate

Note: Arrows indicate change from previous quarter.

## KEY TAKEAWAYS

- Positive direct net demand in newly constructed office buildings caused overall vacancy to dip 40 basis points (bps) quarter-over-quarter, from 19.3% in Q3 2022 to 18.9% in Q4 2022.
- Sublease availabilities across the Austin office market continued to incline in the second half of 2022, with 975,554 sq. ft. of sublease space added to the market this quarter.
- Average asking rates among all classes continued to trend upward to \$47.62 per sq. ft. in Q4 2022, reflecting a \$0.31 quarter-over-quarter increase and a \$1.16 increase since Q1 2022.
- One project totaling 19,200 sq. ft. delivered this quarter in the Far Northwest submarket.
- Premium office product continued to hit the construction pipeline, with two buildings totaling 218,699 sq. ft. breaking ground in Q4 2022.
- Austin continued to lead the top metros in the nation in return-to-work efforts with an average building occupancy rate of 65.9% as of December 7, 2022, according to Kastle Systems' weekly Back to Work Barometer.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2022.

FIGURE 2: Austin Office Market Statistics

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Avg. Gross Asking Rate (\$)	Under Construction (SF)	Q4 2022 Deliveries (SF)	Q4 2022 Net Absorption	2022 YTD Total Net Absorption
CBD	14,474,962	17.3	23.7	65.78	2,712,157	-	(75,150)	1,306,629
Class A	11,550,799	16.5	23.3	68.68	2,712,157	-	75,665	1,450,356
Class B	2,612,013	20.1	24.2	55.08	-	-	(142,466)	(131,072)
CENTRAL	2,071,089	22.5	25.1	32.93	92,217	-	(30,188)	(28,034)
Class A	649,611	24.1	30.1	48.80	92,217	-	(26,331)	(29,871)
Class B	1,146,470	20.6	25.1	28.74	-	-	3,001	4,936
EAST	3,008,521	30.3	30.8	51.85	1,837,899	-	86,077	322,669
Class A	2,239,719	35.4	34.2	53.62	1,807,818	-	87,747	302,539
Class B	748,327	16.0	21.1	33.42	30,081	-	(1,670)	15,143
FAR NORTHWEST	6,397,849	31.4	43.0	39.25	82,690	19,200	(24,567)	(32,448)
Class A	4,921,571	35.3	45.2	40.07	-	-	(26,398)	(60,763)
Class B	1,445,294	18.6	35.9	37.11	82,690	19,200	3,476	26,760
NORTH	2,454,512	22.1	23.3	35.80	348,000	-	(28,445)	(42,050)
Class A	-	-	-	-	348,000	-	0	0
Class B	2,443,512	22.2	23.3	35.85	-	-	(28,028)	(41,633)
NORTHEAST	2,658,287	22.0	27.6	28.03	487,000	-	49,491	24,561
Class A	1,567,725	23.0	31.2	29.05	487,000	-	41,225	24,832
Class B	891,268	23.3	25.9	27.70	-	-	8,926	(294)

Source: CBRE Research, Q4 2022.

FIGURE 2: Austin Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy (%)	Total Availability (%)	Avg. Gross Asking Rate (\$)	Under Construction (SF)	Q4 2022 Deliveries (SF)	Q4 2022 Net Absorption	2022 YTD Net Absorption
NORTHWEST	16,496,678	15.2	22.2	42.78	332,865	-	(72,459)	(90,285)
Class A	10,509,760	14.0	23.2	48.41	332,865	-	(96,348)	(240,258)
Class B	5,808,786	17.8	21.0	34.84	-	-	24,479	148,892
ROUND ROCK	946,102	4.5	9.7	32.18	33,669	-	6,106	45,845
Class A	233,110	9.6	9.6	36.02	-	-	4,519	31,860
Class B	670,874	2.6	10.0	26.26	33,669	-	1,587	13,985
SOUTH	2,188,216	27.6	30.8	50.31	318,643	-	115,246	77,096
Class A	1,289,198	27.0	30.7	61.39	318,643	-	109,208	82,699
Class B	552,701	32.5	33.5	42.43	-	-	3,619	(25,992)
SOUTHEAST	1,716,430	12.2	27.1	33.67	-	-	137,851	108,944
Class A	670,594	19.3	14.0	36.28	-	-	0	(11,525)
Class B	949,125	7.9	36.7	33.30	-	-	137,324	122,568
SOUTHWEST	11,702,325	14.8	23.8	44.24	-	-	(33,455)	(77,166)
Class A	8,310,535	15.2	24.4	49.79	-	-	(65,198)	(130,567)
Class B	3,244,750	14.3	22.7	36.22	-	-	34,274	55,394
<b>AUSTIN TOTAL</b>	<b>64,114,971</b>	<b>18.9</b>	<b>25.9</b>	<b>47.62</b>	<b>6,245,140</b>	<b>19,200</b>	<b>130,507</b>	<b>1,615,761</b>
<b>Class A</b>	<b>41,942,622</b>	<b>19.5</b>	<b>27.0</b>	<b>54.07</b>	<b>6,098,700</b>	<b>-</b>	<b>104,089</b>	<b>1,419,302</b>
<b>Class B</b>	<b>20,513,120</b>	<b>17.9</b>	<b>24.1</b>	<b>36.74</b>	<b>146,440</b>	<b>19,200</b>	<b>44,522</b>	<b>188,687</b>

Source: CBRE Research, Q4 2022.

## MARKET FUNDAMENTALS

Sublease availabilities across the Austin office market continued to incline in the second half of 2022. Market wide sublease available space grew to nearly 4.0 million sq. ft. in Q4 2022. This is up 2.5 million sq. ft. since Q1 2020. Over the course of the last several months, inflation and interest rate hikes accelerated decision-making regarding the workplace, causing many large users to either sublease or downsize office space. Though new sublease additions have surged over the last 12 months, the leasing outlook for 2023 remains optimistic as more than 70 tenants are actively looking for space totaling over 3.4 million sq. ft. Additionally, Austin continued to lead the top metros in the nation in return-to-work efforts with an average building occupancy rate of 65.9% as of December 7, 2022, according to Kastle Systems' weekly Back to Work Barometer. This is well above the top 10 city average occupancy of 48.4%.

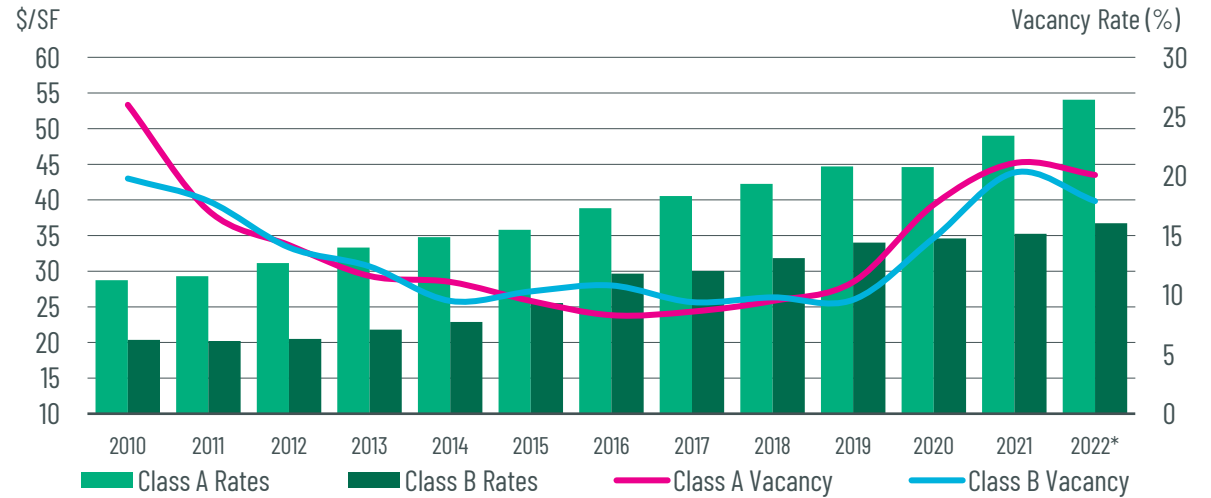
### Asking Rates & Vacancy

Average asking rates among all classes continued to trend upward to \$47.62 per sq. ft. in Q4 2022, reflecting a \$0.31 quarter-over-quarter increase and a \$1.16 increase since Q1 2022. New top-tier office product pushed Class A direct asking rents up \$0.73 per sq. ft. since the first quarter of 2022. 500,900 sq. ft. of positive direct net demand was registered this quarter, causing overall vacancy to dip 40 bps quarter-over-quarter. Though overall vacancy tightened, new sublease additions caused market-wide availability to grow 100 bps from 24.9% in Q3 2022 to 25.9% in Q4 2022.

### Development Pipeline

One project totaling 19,200 sq. ft. delivered this quarter in the Far Northwest submarket. Premium office product continued to hit the construction pipeline, with two buildings totaling 218,699 sq. ft. breaking ground in Q4 2022. The most notable groundbreaking was Zilker Point, a 185,000-sq.-ft. office development just south of the city's CBD. Of the total office space underway in Austin, approximately 26% is pre-leased.

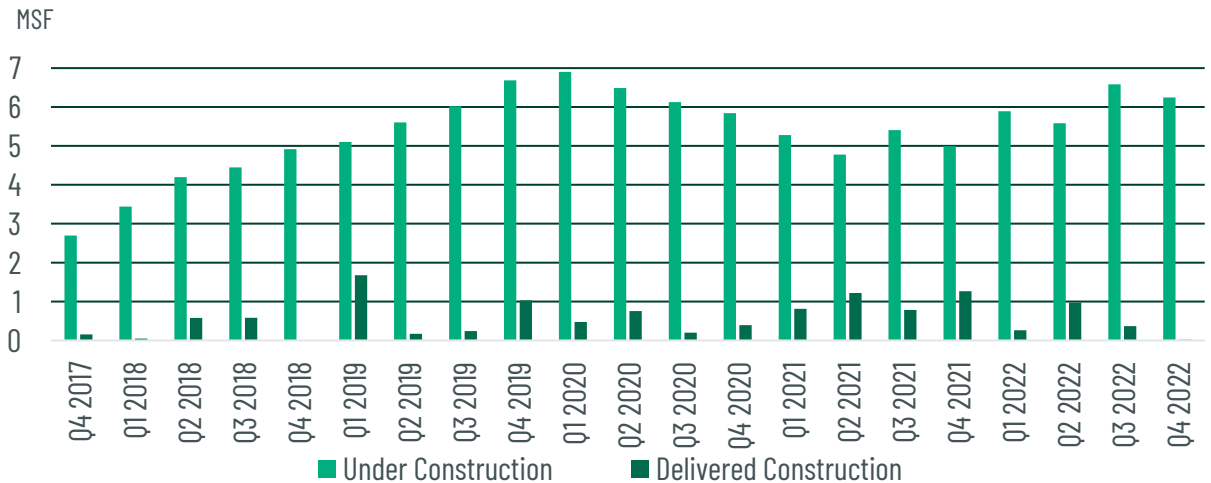
FIGURE 3: Asking Rates & Vacancy, Class A & Class B



Source: CBRE Research, Q4 2022.

\*To improve accuracy, quoted asking rents were grossed up at the property level in Q1 2022, causing an additional increase to overall rates.

FIGURE 4: Historical Construction and Deliveries



Source: CBRE Research, Q4 2022.

## AUSTIN METRO ECONOMIC TRENDS

The overall economic health of the Austin metro area remained robust in the fourth quarter of 2022, driven by strong consumer demand and payroll gains. The Austin Business-Cycle Index (a broad measure of economic activity created by the Federal Reserve Bank of Dallas) increased by 10.6% annually in November; this index increase was driven by job gains.

Median home prices fell across the metro by roughly 5.3% from \$507,959 in July to \$481,107 in November, according to the Federal Reserve Bank of Dallas. Rising interest rates are contributing to the decline in home prices.

### Unemployment Trends

Austin’s economic recovery has been driven by the strong job growth that has occurred throughout the region since January 2021. As of Q4 2022, the unemployment rate has decreased approximately 149 basis points (bps) since Q4 2021.

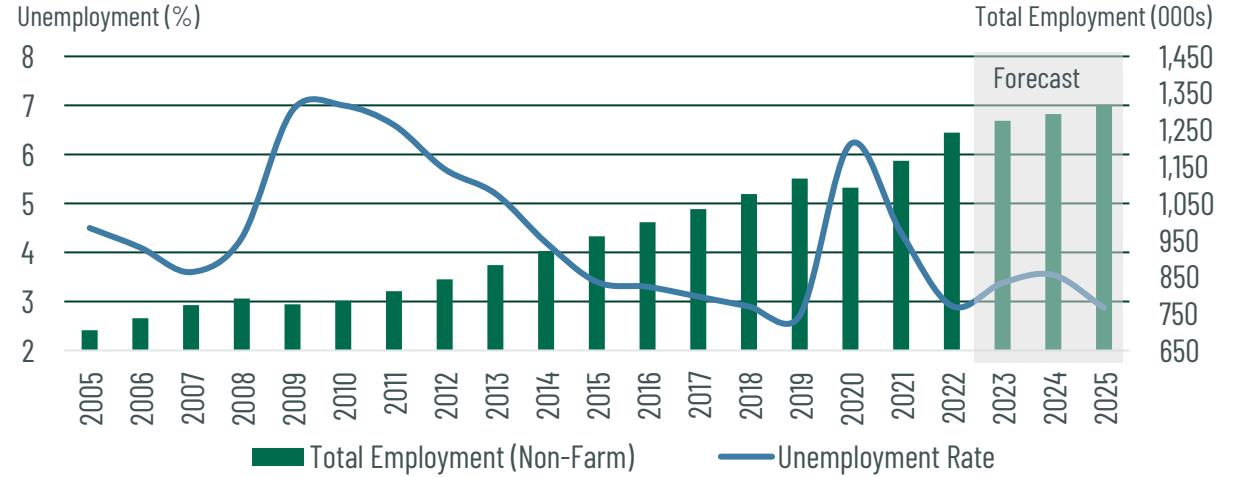
- During the period from October 2021 to October 2022, the Leisure and Hospitality sector showed the most growth, increasing by 17.0%.

### Population Growth

The continued trend of relocations and expansions in the region were spearheaded by two notable developments. The construction of Apple’s new campus in Northwest Austin and Tesla’s corporate headquarters relocation to the new Gigafactory in Southeast Austin have spurred strong population growth across the region over the past two years.

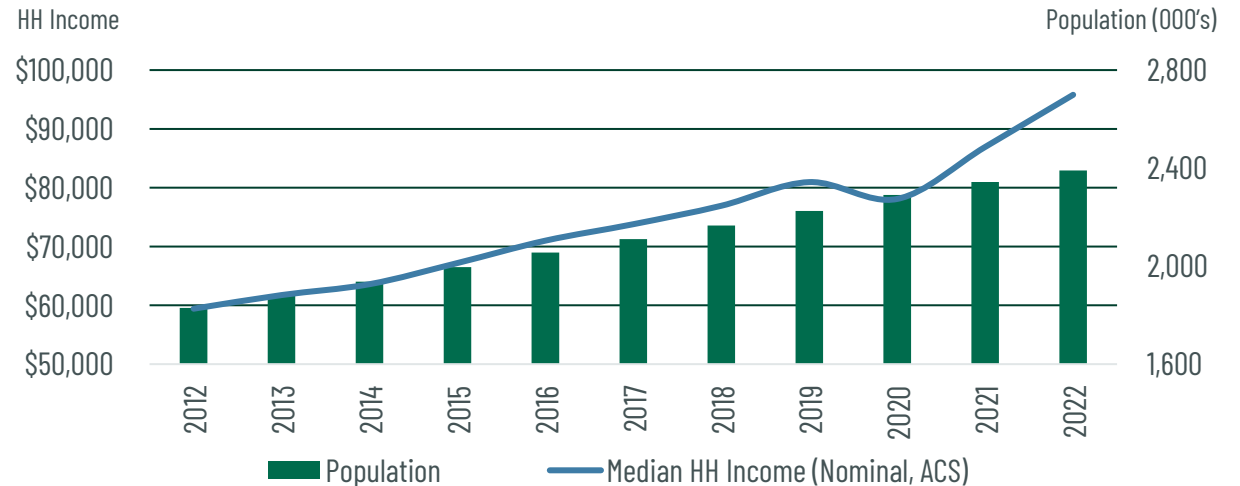
- According to data from Oxford Economics, the population of the Greater Austin Metropolitan area increased from Q4 2021 to Q4 2022 by more than 47,000 people.
- Data from Oxford Economics forecasts that population will increase by roughly 230,700 people over the next five years.

FIGURE 5: Austin Labor Force and Unemployment



Source: Oxford Economics, December 2022.

FIGURE 6: Population Growth & Household Purchasing Power

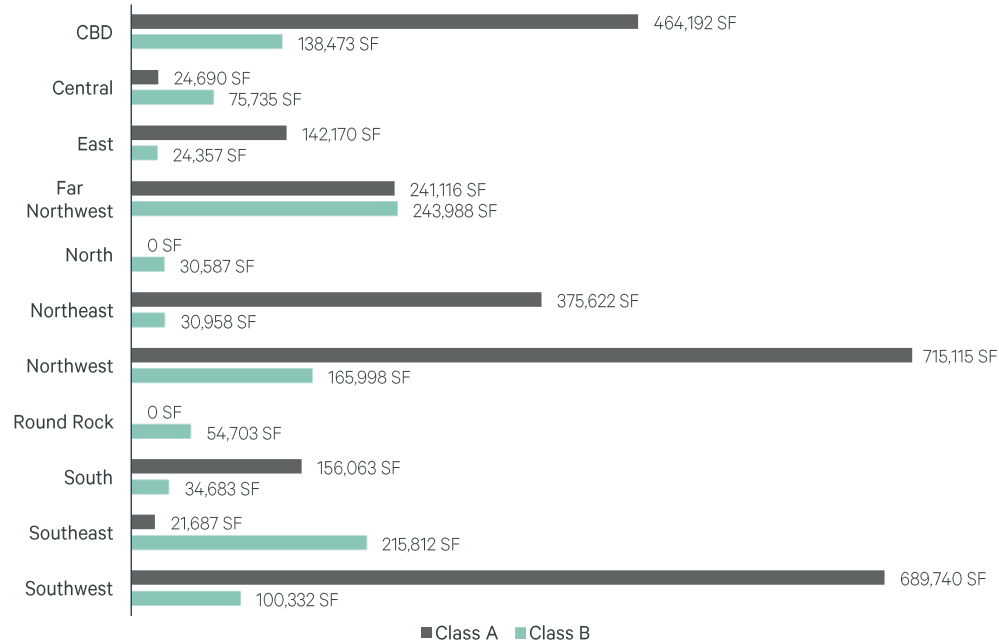


Source: Oxford Economics, December 2022.

## SUBLEASE ACTIVITY

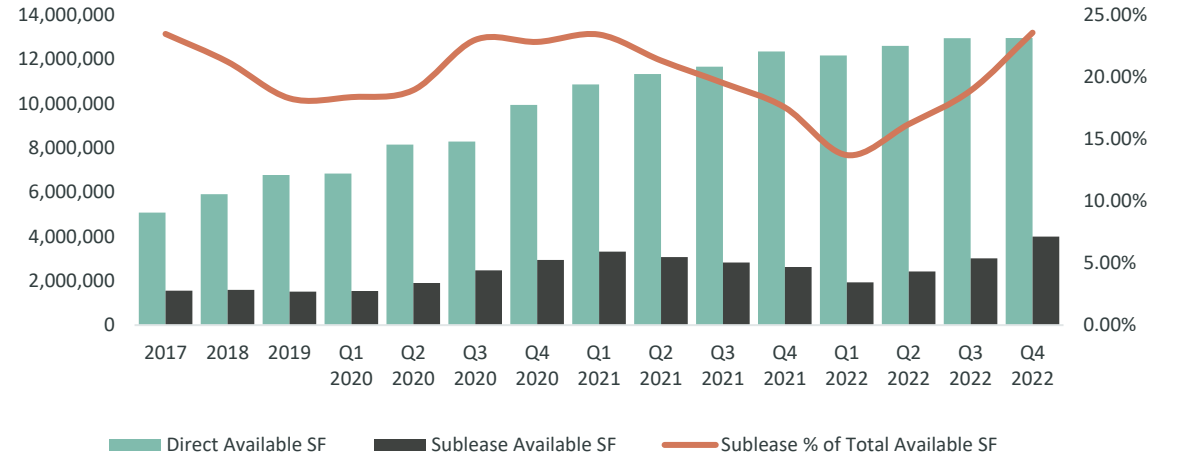
Large blocks of sublease space continued to hit the market in Q4 2022, with 975,554 sq. ft. of sublease space added to the market this quarter. Moreover, sublease net demand impacted market wide net absorption, with over 370,000 sq. ft. of negative sublease net absorption in Q4 2022. Class A sublease availability increased 40.0% quarter-over-quarter, while Class B sublease availability rose 17.0%. Sublease additions in Q4 2022 were concentrated in the Northwest, Southwest, and Northeast submarkets where a few sizeable users listed multiple floors for sublease. The lion's share of sublease availability remained concentrated in three industries: Technology (30%), Insurance (19%), and Retail & Consumer Goods (14%).

FIGURE 7: Sublease Availability by Submarket and Class



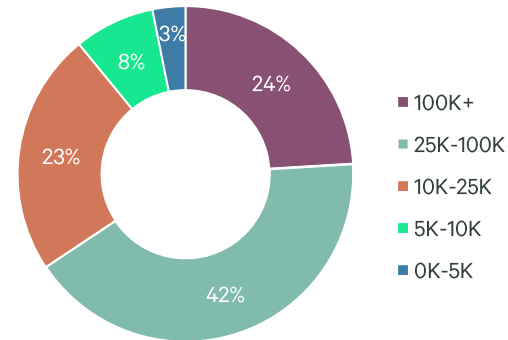
Source: CBRE Research, Q4 2022.

FIGURE 8: Historical Sublease Trends



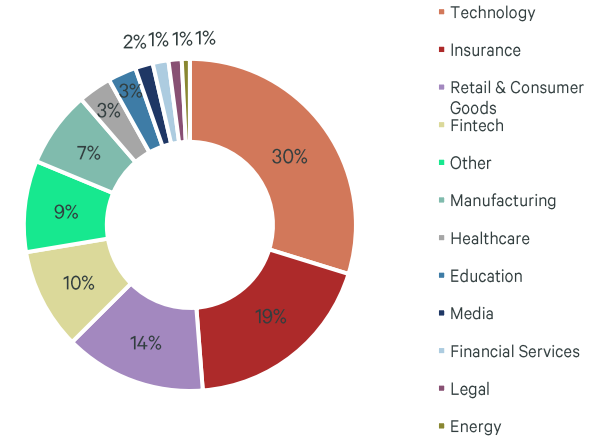
Source: CBRE Research, Q4 2022.

FIGURE 9: Sublease Availability by Space Size



Source: CBRE Research, Q4 2022.

FIGURE 10: Sublease Availability by Industry



Source: CBRE Research, Q4 2022.  
Data is measured by sublease space availabilities over 20,000 sq. ft. in size.

FIGURE 11: Historical Market Statistics

		2015	2016	2017	2018	2019	2020	2021	2022
CBD	Absorption (Net SF)	649,300	97,639	564,236	558,794	622,461	(748,062)	(97,288)	1,306,629
	Asking Rent, Avg. Annual (\$)	41.33	47.67	44.95	47.88	53.04	50.53	56.98	65.78
	Delivered Construction (SF)	557,470	195,863	745,936	122,667	492,637	-	1,759,313	1,192,934
	Vacancy Rate (%)	7.1	7.8	7.9	6.3	6.2	12	20.9	17.3
CENTRAL*	Absorption (Net SF)	N/A	N/A	52,348	(1,941)	66,138	(80,608)	(59,337)	(28,034)
	Asking Rent, Avg. Annual (\$)	N/A	N/A	31.39	33.14	34.16	35.64	36.76	32.93
	Delivered Construction (SF)	N/A	N/A	-	-	26,391	109,008	103,788	-
	Vacancy Rate (%)	N/A	N/A	6.2	10.2	8	17	23.7	22.5
EAST	Absorption (Net SF)	58,736	428,135	49,398	(24,059)	189,211	39,531	420,123	322,669
	Asking Rent, Avg. Annual (\$)	19.55	20.13	34.67	43.82	40.56	48.16	48.82	51.85
	Delivered Construction (SF)	191,990	199,408	59,655	246,711	834,566	210,347	833,524	657,095
	Vacancy Rate (%)	17.9	6.6	7.5	17	9.4	32.8	36.3	37.1
FAR NORTHWEST	Absorption (Net SF)	198,389	336,470	230,820	77,807	95,617	(108,661)	(61,688)	(32,448)
	Asking Rent, Avg. Annual (\$)	30.95	30.62	31.79	32.76	34.86	33.61	35.78	39.25
	Delivered Construction (SF)	128,700	-	-	-	562,043	22,364	145,104	41,784
	Vacancy Rate (%)	9.5	9.4	6.3	6.6	12.6	32.5	31	31.4
NORTH*	Absorption (Net SF)	N/A	N/A	(18,159)	45,653	61,808	(119,451)	8,044	(42,050)
	Asking Rent, Avg. Annual (\$)	N/A	N/A	23.81	27.8	29.9	28.67	34.79	35.8
	Delivered Construction (SF)	N/A	N/A	-	-	-	-	254,806	-
	Vacancy Rate (%)	N/A	N/A	15.5	13.6	5.8	20.6	38.1	22.1
NORTHEAST*	Absorption (Net SF)	N/A	N/A	64,819	(35,900)	175,201	(219,367)	184,220	24,561
	Asking Rent, Avg. Annual (\$)	N/A	N/A	24.05	28	26.38	28.85	31.2	28.03
	Delivered Construction (SF)	N/A	N/A	-	115,000	-	314,000	-	-
	Vacancy Rate (%)	N/A	N/A	9.6	16.4	20.3	29.6	20.1	22

Source: CBRE Research, Q4 2022.

FIGURE 12: Historical Market Statistics

		2015	2016	2017	2018	2019	2020	2021	2022
NORTHWEST	Absorption (Net SF)	669,701	286,950	471,598	445,607	176,713	(283,481)	(182,679)	(90,285)
	Asking Rent, Avg. Annual (\$)	31.96	32.8	33.84	36.72	37.01	38.49	39.55	42.78
	Delivered Construction (SF)	591,973	372,235	386,921	308,000	709,519	480,612	332,200	59,446
	Vacancy Rate (%)	8.8	8.8	8.6	9.1	14.4	13.2	15.4	15.2
ROUND ROCK	Absorption (Net SF)	19,892	18,801	(9,845)	899	25,452	55,322	22,126	45,845
	Asking Rent, Avg. Annual (\$)	24.99	22.91	21.11	27.88	28.65	28.31	31.93	32.18
	Delivered Construction (SF)	-	59,043	22,500	164,486	59,476	-	22,500	-
	Vacancy Rate (%)	6.6	7	8.3	21	15.6	9.6	9.4	4.5
SOUTH	Absorption (Net SF)	33,337	158,472	23,598	102,221	13,333	71,379	279,778	77,096
	Asking Rent, Avg. Annual (\$)	15.02	24.68	31.9	31	39.62	41.64	42.05	50.31
	Delivered Construction (SF)	-	-	57,500	115,246	117,766	353,267	333,334	-
	Vacancy Rate (%)	14.4	16	12.1	4.4	10.5	29.6	28	27.6
SOUTHEAST*	Absorption (Net SF)	N/A	N/A	71,123	49,905	145,088	(11,416)	(16,649)	108,944
	Asking Rent, Avg. Annual (\$)	N/A	N/A	23.55	26.47	27.03	33.21	29.07	33.67
	Delivered Construction (SF)	N/A	N/A	29,205	-	138,850	-	172,900	-
	Vacancy Rate (%)	N/A	N/A	20.2	16.1	9.5	9.5	20.3	12.2
SOUTHWEST	Absorption (Net SF)	419,723	159,982	154,081	161,187	561,732	(60,079)	(132,643)	(77,166)
	Asking Rent, Avg. Annual (\$)	34.34	35.99	34.31	36.64	39.71	37.54	41.35	44.24
	Delivered Construction (SF)	1,062,477	-	410,295	135,500	178,593	334,431	124,405	-
	Vacancy Rate (%)	10.3	9.7	10.7	11.4	7.8	12.7	16	14.8
AUSTIN TOTAL	<b>Absorption (Net SF)</b>	<b>2,139,144**</b>	<b>1,737,542**</b>	<b>1,654,017</b>	<b>1,380,173</b>	<b>2,132,754</b>	<b>(1,464,893)</b>	<b>364,007</b>	<b>1,615,761</b>
	<b>Asking Rent, Avg. Annual (\$)</b>	<b>31.81</b>	<b>34.83</b>	<b>34.39</b>	<b>36.64</b>	<b>38.89</b>	<b>39.39</b>	<b>42.66</b>	<b>47.62</b>
	<b>Delivered Construction (SF)</b>	<b>2,747,572**</b>	<b>872,549**</b>	<b>1,712,012</b>	<b>1,207,610</b>	<b>3,119,841</b>	<b>1,824,029</b>	<b>4,081,874</b>	<b>1,623,981</b>
	<b>Vacancy Rate (%)</b>	<b>9.6</b>	<b>9.2</b>	<b>8.8</b>	<b>9.6</b>	<b>10.7</b>	<b>16.7</b>	<b>20.7</b>	<b>18.9</b>

Source: CBRE Research, Q4 2022.

