

# AUSTIN OFFICE | Q1 2021 QUARTERLY MARKET REPORT

Austin Office market continues to attract tech headquarters relocations

APRIL 2021

## EXECUTIVE SUMMARY

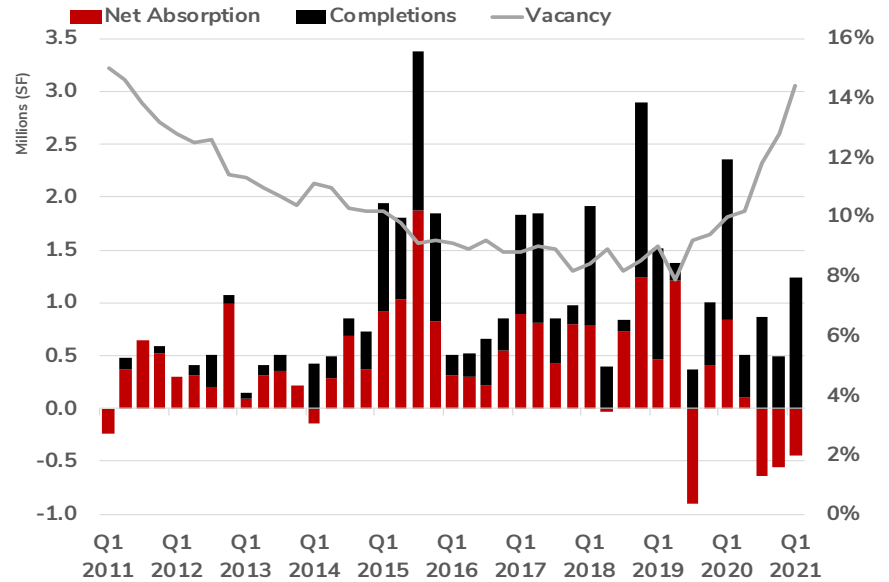
### VACANCY RATE INCREASES TO 14.4%

The Austin office market's overall vacancy rate of 14.4% in the first quarter represented an increase from Q4's 12.8%, and a significant 440-basis-point jump year-over-year from 10.0%. The vacancy rate for Class A properties is at 16.5%, and Class B at 11.7%. In the first quarter, overall net absorption totaled negative 440,000 sq. ft.—Class A representing negative 516,000 sq. ft. and Class B totaling positive 97,000 sq. ft. Of the 8.0 million sq. ft. currently under construction, about half of that space has been spoken for. Of the 1.2 million sq. ft. completed so far in 2021, 72.2% of that space is available. The overall Austin average asking full-service rent is at \$38.27 per sq. ft.—up from Q4 2020 at \$38.17 per sq. ft.—while Class A space in the Central Business District (CBD) is averaging \$53.65 per sq. ft.

### AUSTIN ECONOMIC INDICATORS

The Federal Reserve Bank of Dallas reported that the Austin economy continued to expand in February, albeit at a slower pace. While jobs were added, Austin's unemployment rate ticked up to 5.3% in February from 5.1% in January. This is well below the state's jobless rate of 6.9% and the nation's 6.2%. Austin payrolls grew by 12,915 net jobs in the three months ending in February. The "other services" sector led the job expansion (1,945 jobs), followed by professional and business services (8,390 jobs) and construction and mining (2,180 jobs). Two sectors declined—government (5,585 jobs) and manufacturing (800 jobs). As of February, 76.3% of the 135,520 jobs lost at the onset of the pandemic in March and April of last year have been recovered.

## SUPPLY & DEMAND



## MARKET INDICATORS

	CURRENT Q1 2021	PRIOR QUARTER Q4 2020	PRIOR YEAR Q1 2020
Vacant Total	14.4%	12.8% <span>▲</span>	10.0% <span>▲</span>
Vacant Direct	11.9%	10.7% <span>▲</span>	8.8% <span>▲</span>
Available Total	21.2%	21.2% <span>■</span>	14.4% <span>▲</span>
Available Direct	17.5%	15.9% <span>▲</span>	12.6% <span>▲</span>
Net Absorption (SF)	-440,408	-560,270 <span>▲</span>	844,491 <span>▼</span>
Leasing Activity (SF)	1,021,674	805,484 <span>▲</span>	2,042,612 <span>▼</span>
Construction (SF)	8,033,148	8,735,019 <span>▼</span>	7,358,366 <span>▲</span>
Deliveries (SF)	1,240,121	487,209 <span>▲</span>	1,516,916 <span>▼</span>
Avg Asking Rent (Gross)	\$38.27	\$38.17 <span>▲</span>	\$38.19 <span>▲</span>
Inventory (SF)	95,475,715	94,235,594 <span>▲</span>	92,470,509 <span>▲</span>

**CONTINUED NEGATIVE NET ABSORPTION**

During the past three quarters, Austin's office market saw more tenants moving out of space than moving in. The aggregate effect of the net occupancy decrease during Q3 2020, Q4 2020 and Q1 2021 was 1.6 million sq. ft. of negative net absorption. The amount of total office inventory that is being marketed for lease remained unchanged quarter-over-quarter at an availability rate of 21.2%. The difference between this figure and the vacancy rate reflects expected future move-outs. The overall vacancy rate in the CBD is at 13.0%, although the availability rate is at 23.7%. This wide margin holds truer in Class A space in the CBD at 16.4% vacancy compared to 29.3% availability.

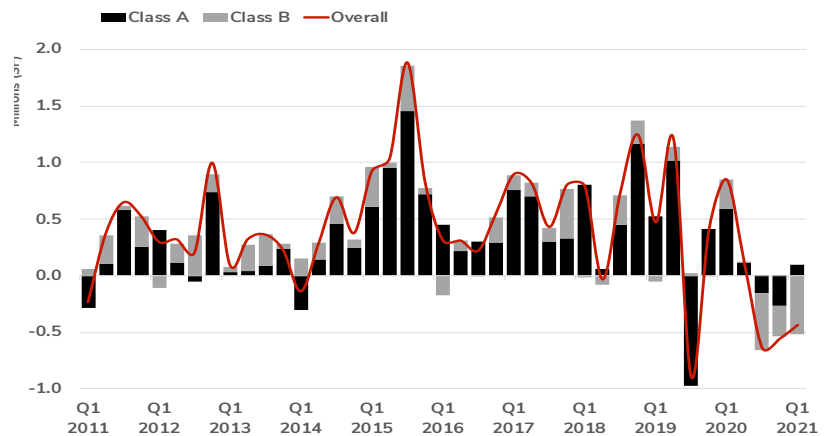
**LEASING ACTIVITY TICKED UP**

Quarterly leasing velocity—which is comprised of both new leases and renewals—increased to 1.0 million sq. ft. during the first quarter—up from 805,000 sq. ft. in Q4 2020—only the second time Austin has registered a sub-1 million-sq.-ft. quarter of leasing since Q4 2009, with both slowdowns taking place in 2020. In comparison, year-over-year, Q1 2020 leasing activity registered at 2.0 million sq. ft. Top transactions during the first quarter included Vinson & Elkins LLP signing a new lease for 50,273 sq. ft. at 200 W. 6th St. in the CBD submarket; 46,825 sq. ft. taken at 2117 Perseverance Dr. in the West Central submarket; and a deal inked for 44,171 sq. ft. at 3601 Congress Ave. in the South submarket.

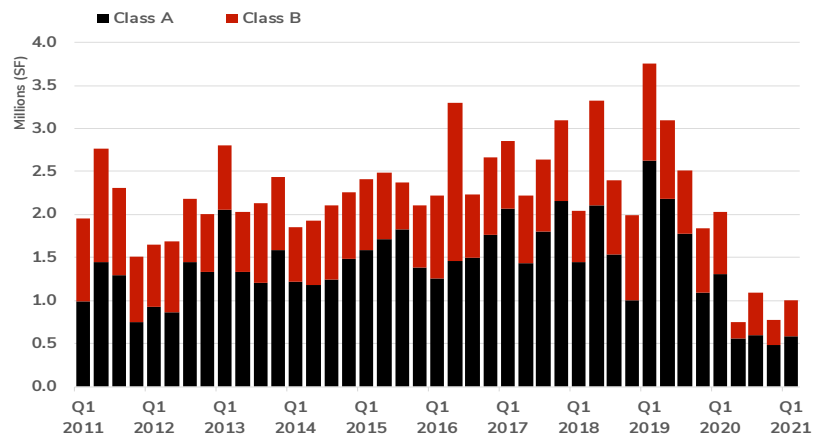
**CONSTRUCTION ACTIVITY REMAINS HIGH**

8.0 million sq. ft. of new construction is underway to finish the first quarter in 2021. During the last five years, overall inventory has increased by 16.6% or 13.6 million sq. ft. to register at 95.5 million sq. ft. Class A space has grown by 29.5% or 11.2 million sq. ft. reaching a total inventory of 49.3 million sq. ft. during the same time period. Developers have been active across Austin, predominantly in the CBD and the East/Southeast submarkets making up over half of the space under construction. Companies are doing all they can to recruit and retain talent by leasing well located offices with abundant amenities. New supply delivered to the market in Q1 2021 stood at 1.2 million sq. ft. of which 72.2% is available for lease.

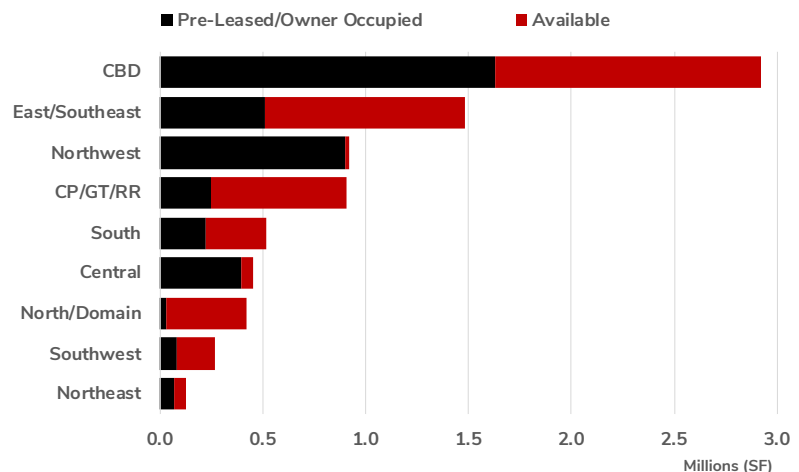
**NET ABSORPTION**



**LEASING ACTIVITY**



**CONSTRUCTION**



## INVESTMENT SALES TRENDS

Real Capital Analytics data reports office sales volume for Q1 2021 in the Austin area at \$252.4 million, down from this time last year at \$483.9 million. The primary capital composition for buyers so far in 2021 was made up of 91.6% private investors, and for sellers, the majority was 49.0% private investors, and 47.8% institutional. A significant transaction that took place during the first quarter was Moore & Associates selling Frontera Crossing in north Austin. The 163,772-sq.-ft. office building at 101 W. Louis Henna Blvd. was sold to Montana Avenue Capital Partners. Current tenants at the time of sale include Celink, Brown & Gay and Micron Technology.

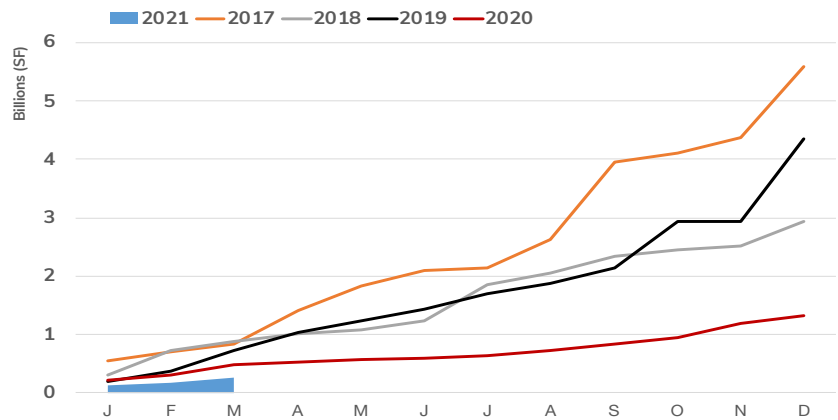
## CROWDSTREET MOVING HQ TO AUSTIN

Another technology firm has changed its corporate headquarters to Austin, Texas from Portland, Oregon. CrowdStreet becomes the latest company to move to Texas, following similar corporate relocations from firms like Digital Realty Trust and Oracle moving to Austin and HP Enterprises and Realty.com moving to Houston. CrowdStreet has not yet selected an office location but the company is said to be searching for space downtown and in the Domain. The company listed several reasons for choosing Austin including the tech talent pool, access to a major research university, the comparatively lower cost of living and the absence of a personal income tax in Texas.

## AVERAGE ASKING RENTS

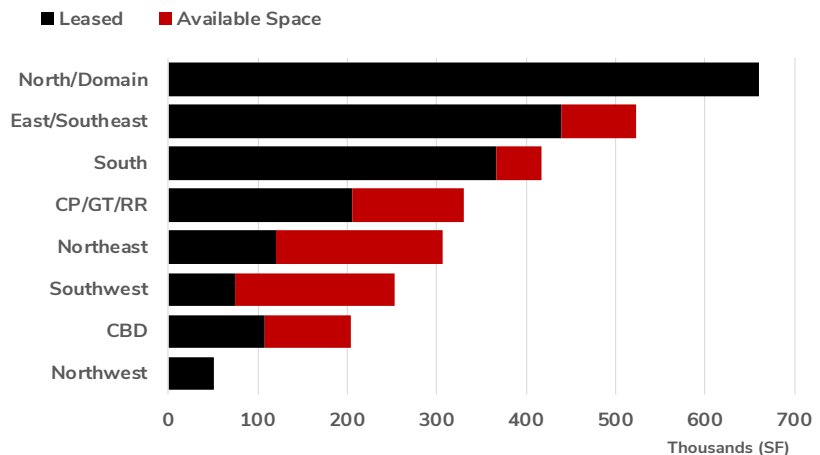
Austin's overall full-service average rates are at \$38.27 per sq. ft., up slightly from this time last quarter at \$38.17, and year-over-year at \$38.19 per sq. ft. Asking rates for Class A space are averaging \$41.92 and Class B are averaging \$33.75 per sq. ft. Rent growth has varied across Austin's submarkets. Many submarkets saw asking rates increase or remain the same, while some saw decreases. Office tenants may have more leverage with regards to negotiating rental rates, terms, tenant improvements and concessions than they have had in the past. However, since the market was healthy prior to the current situation, the relative impact to occupancies and rents in the future remains uncertain.

## CUMULATIVE MONTHLY SALES VOLUME

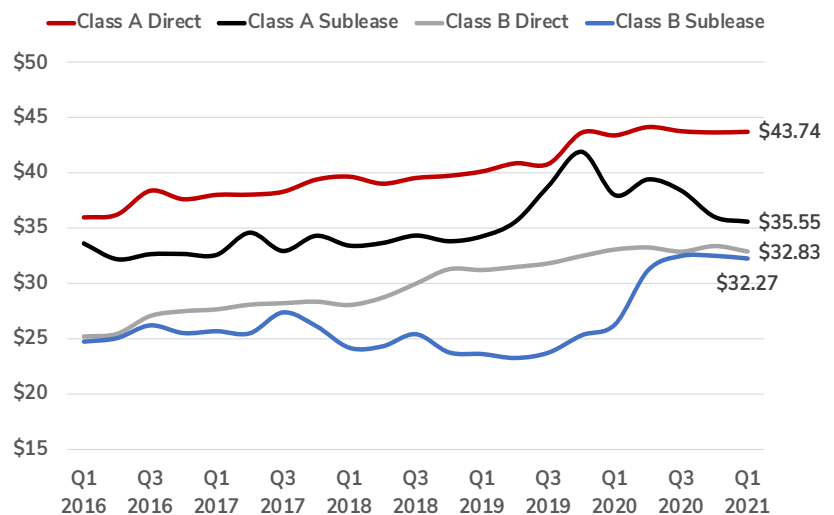


Source: Real Capital Analytics

## DELIVERIES



## HISTORICAL AVERAGE GROSS ASKING RENT



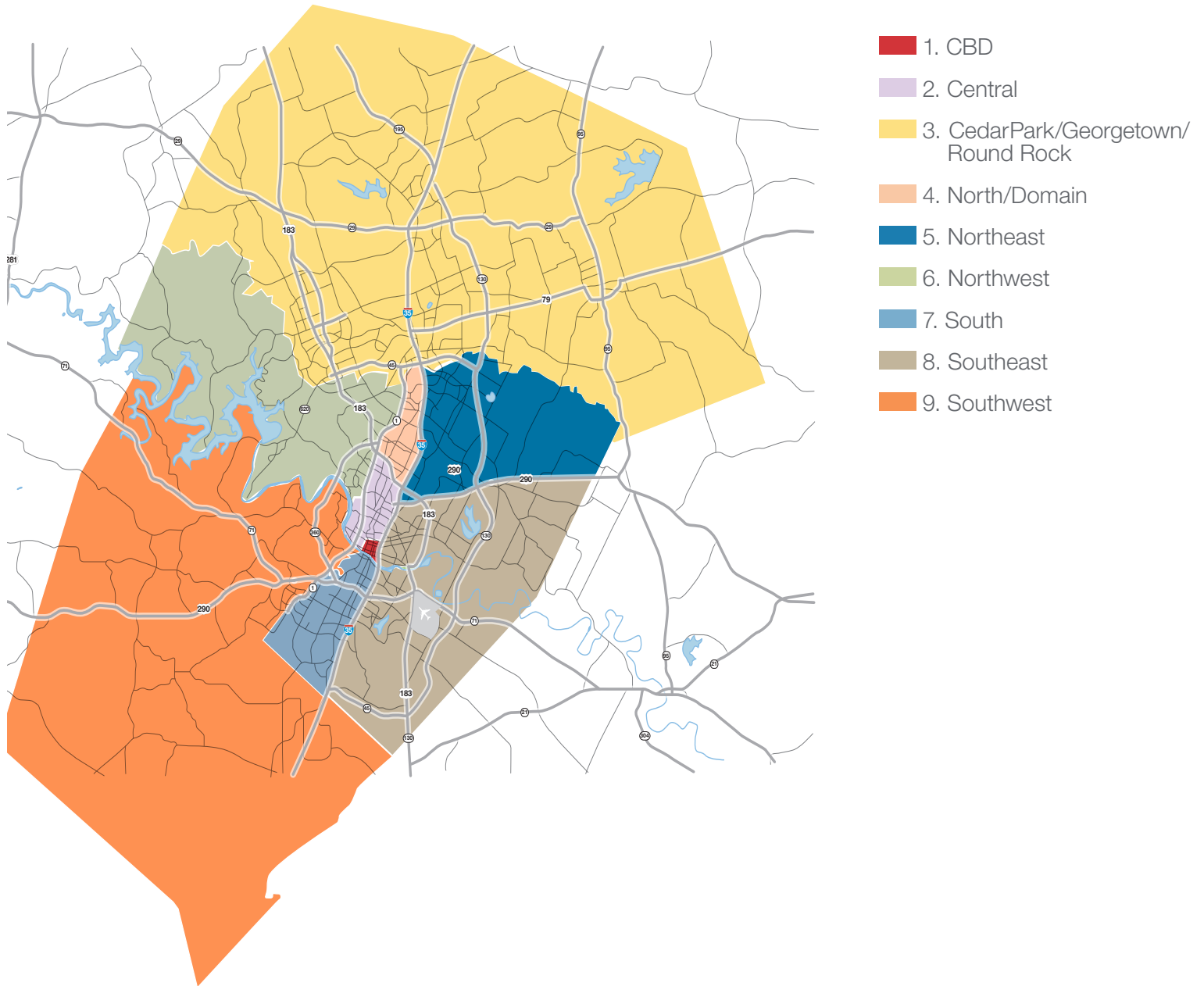
# MARKET OVERVIEW

## SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q1 2021 Leasing Activity (SF)	Q1 2021 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Austin Market Total</b>	95,475,715	14.4	21.2	-440,408	-440,408	1,021,674	1,240,121	8,033,148	38.27
Class A	49,291,795	16.5	25.8	96,857	96,857	585,486	1,020,102	7,486,531	41.92
Class B	40,228,650	11.7	16.8	-515,573	-515,573	421,555	245,114	546,617	33.75
<b>CBD Total</b>	16,002,707	13.0	23.7	56,396	56,396	258,643	560,884	2,923,599	52.17
Class A	10,518,829	16.4	29.3	99,965	99,965	247,887	560,884	2,923,599	53.65
Class B	4,321,598	7.3	11.2	-37,088	-37,088	10,756	0	0	45.72
<b>Central Total</b>	6,371,886	14.0	16.3	-4,120	-4,120	120,744	131,548	453,085	35.30
Class A	1,799,889	21.7	18.5	51,169	51,169	67,668	91,548	296,000	42.14
Class B	3,486,678	11.6	17.3	-6,346	-6,346	47,881	40,000	157,085	32.56
<b>Cedar Park/Georgetown/Round Rock</b>	6,556,315	10.7	19.5	-121,222	-121,222	47,313	117,400	923,800	31.97
Class A	3,503,474	8.6	21.4	-9,512	-9,512	11,560	0	819,319	33.28
Class B	2,691,116	14.0	18.2	-90,382	-90,382	35,753	117,400	104,481	29.48
<b>North/Domain Total</b>	9,637,946	8.7	15.3	-131,562	-131,562	76,941	23,040	418,246	37.07
Class A	4,592,132	4.8	13.8	-32,176	-32,176	33,592	0	389,446	43.66
Class B	4,959,801	12.4	17.1	-99,386	-99,386	43,349	23,040	28,800	27.64
<b>Northeast Total</b>	6,003,481	13.2	22.7	218,695	218,695	13,120	40,000	128,772	24.28
Class A	2,446,116	15.9	37.5	321,413	321,413	0	40,000	0	29.13
Class B	2,851,023	13.3	15.1	-98,043	-98,043	13,120	0	128,772	24.12
<b>Northwest Total</b>	21,042,444	19.7	23.3	-353,466	-353,466	257,614	0	919,660	32.70
Class A	12,420,218	23.5	25.5	-258,128	-258,128	142,858	0	897,076	33.99
Class B	7,859,889	15.5	21.6	-154,459	-154,459	110,576	0	22,584	31.06
<b>South Total</b>	4,648,416	13.9	19.2	41,503	41,503	89,197	0	517,106	40.22
Class A	1,666,723	17.5	30.0	41,555	41,555	12,552	0	452,211	41.95
Class B	2,371,435	13.7	13.1	-2,413	-2,413	76,645	0	64,895	41.84
<b>East/Southeast Total</b>	11,141,130	16.3	24.8	-19,134	-19,134	25,252	237,097	1,480,225	41.54
Class A	3,268,265	17.9	36.0	12,529	12,529	2,698	172,423	1,480,225	43.43
Class B	6,922,942	17.1	19.6	-29,916	-29,916	17,296	64,674	0	35.64
<b>Southwest Total</b>	14,071,390	13.1	19.3	-127,498	-127,498	132,850	130,152	268,655	36.44
Class A	9,076,149	14.5	22.2	-129,958	-129,958	66,671	155,247	228,655	38.98
Class B	4,764,168	11.1	14.7	2,460	2,460	66,179	0	40,000	32.04
<b>Suburban Total</b>	79,473,008	14.7	20.7	-496,804	-496,804	763,031	679,237	5,109,549	35.52
Class A	38,772,966	16.5	24.7	-3,108	-3,108	337,599	459,218	4,562,932	38.56
Class B	35,907,052	14.0	17.9	-478,485	-478,485	410,799	245,114	546,617	31.75

# MARKET OVERVIEW

## AUSTIN OFFICE SUBMARKETS



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## Q1 2021

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