

# AUSTIN OFFICE | Q3 2021

## QUARTERLY MARKET REPORT

Leasing and net absorption continue on upward trajectories in Austin Office market

OCTOBER 2021

### EXECUTIVE SUMMARY

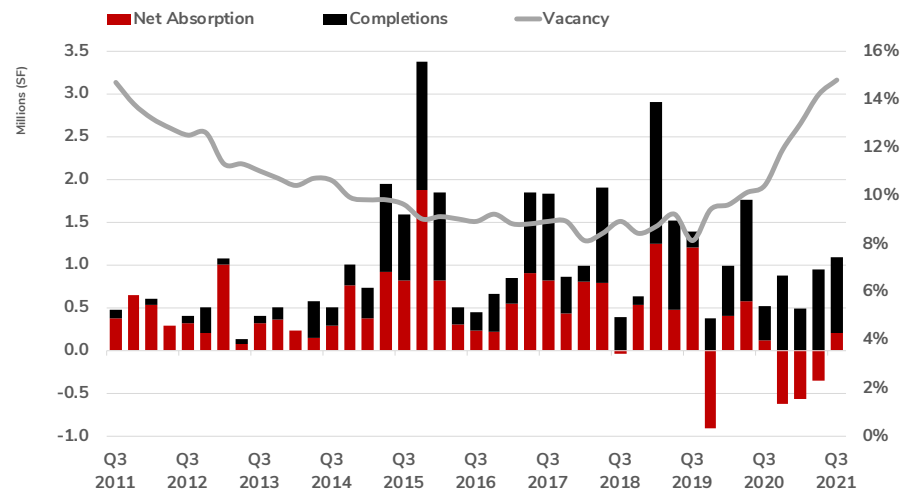
#### LEASING VOLUME UP 13.5% IN Q3

The Austin office market is showing signs of demand improvement, as leasing volume increased in the third quarter by 13.5% from the second quarter to 2.0 million sq. ft. Sublease space has declined at the fastest rate of any major market in the country since the start of the year, according to CoStar. With major tech companies like Apple, Google, Oracle, and Tesla in the process of major expansions, Austin looks like it is beginning to regain ground in the office market. However, a close eye will need to be kept on the possibility of increasing remote work, shifting the amount of space companies will need in the future. According to the U.S. Census, even before the pandemic, Austin had one of the highest remote-work markets in the U.S. In the long run, Austin's economy continues to outperform the broader U.S., and no other market in the country has surpassed its population growth.

#### AUSTIN ECONOMY

Austin was one of only a few markets that have recovered all the jobs lost during the pandemic. Job growth has seen the highest concentration in the professional and business services sector, which is made up of many of Austin's tech-related jobs. Two companies, Oracle, and Tesla, have recently announced they'd be moving their headquarters from Silicon Valley to Austin. Low business costs, pro-business policies, and a high quality of life should continue to draw businesses to Austin. In addition, Austin is likely to outperform many of its peer markets thanks to its high percentage of young adults, contributing to the city's economic growth.

### SUPPLY & DEMAND



### MARKET INDICATORS

	CURRENT Q3 2021	PRIOR QUARTER Q2 2021	PRIOR YEAR Q3 2020
Vacant Total	14.7%	14.8% ↓	11.8% ↑
Vacant Direct	12.8%	12.4% ↑	10.1% ↑
Available Total	19.6%	19.3% ↑	17.4% ↑
Available Direct	17.2%	16.3% ↑	14.4% ↑
Net Absorption (SF)	1,214,022	222,080 ↑	-614,089 ↑
Leasing Activity (SF)	2,032,708	1,790,889 ↑	1,266,839 ↑
Construction (SF)	5,972,745	6,639,036 ↓	7,237,147 ↓
Deliveries (SF)	1,324,179	998,650 ↑	868,594 ↑
Avg Asking Rent (Gross)	\$40.09	\$39.70 ↑	\$38.20 ↑
Inventory (SF)	98,645,555	97,321,376 ↑	94,630,935 ↑

**NET ABSORPTION REMAINS POSITIVE**

Net absorption rallied to end the quarter at positive 1.2 million sq. ft. This was a significant turnaround compared to this time last year at negative 614,000 sq. ft. The availability rate is 19.6%, up from 19.3% in Q2 2021. The difference between this figure and the vacancy rate reflects expected future move-outs. The overall vacancy rate in the CBD is at 15.2%, although the availability rate for that submarket is at 22.3%. This wide margin also tracks for Class A space in the CBD at 19.6% vacancy, compared to 28.2% availability.

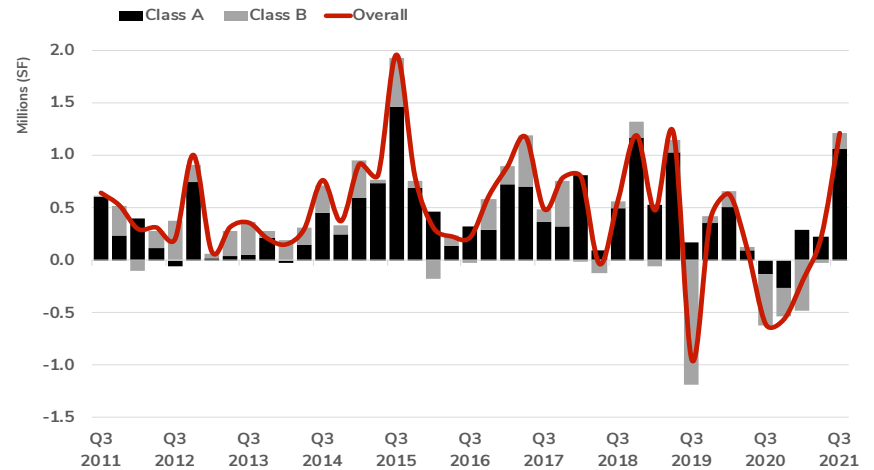
**LEASING ACTIVITY TICKED UP**

Quarterly leasing velocity—which is comprised of both new leases and renewals—increased to 2.0 million sq. ft. during the third quarter—up from 1.3 million sq. ft. year-over-year. Top transactions during the third quarter included Apple renewing its lease in August for 216,511 sq. ft. at Capital Ridge in the Southwest submarket; Cloudflare signing a new lease for 124,393 sq. ft. at Foundry II in the East submarket in July; Peak6 inking a deal for 114,417 sq. ft. in East6 in the East submarket in September; and Skyworks taking 96,467 sq. ft. in Building 2 in Eastlake at Tillery in the East submarket in July.

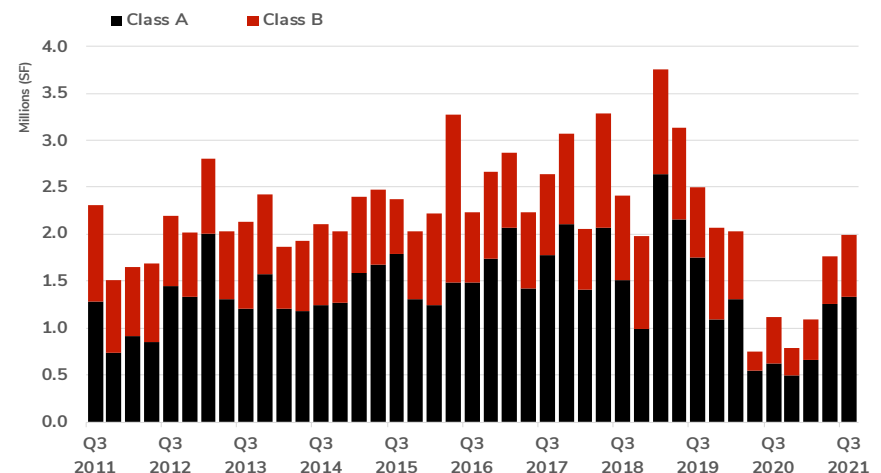
**CONSTRUCTION ACTIVITY REMAINS ELEVATED**

Construction levels in Austin are among the highest in the nation according to CoStar. About 6 million sq. ft. is underway (54% preleased)—representing 6% of inventory—on top of the 3.5 million sq. ft. (45% preleased) that delivered during 2021. There is 3.7 million sq. ft. of proposed projects that have been announced, although they have not broken ground yet. The amount of construction underway and in the pipeline is easily understandable as the Austin office market has been one of the most dynamic in the country.

**NET ABSORPTION**



**LEASING ACTIVITY**



**CONSTRUCTION**



## INVESTMENT SALES TRENDS

The largest office transaction in Austin's recent history took place this year, as Kilroy Realty announced it had closed a deal on Indeed Tower for \$580 million. The 36-story building located at the intersection of W. Sixth and Colorado streets is approximately 730,000 sq. ft. and currently 63.2% leased. Trammell Crow developed the new tower that was completed in Q1 2021. The building occupies a full city block in the central business district and includes 10,000 sq. ft. of ground-floor retail space. Tenants include Indeed, Vinson & Elkins, Heritage Title, and Brown Advisory. The Austin office market's primary capital composition for buyers so far in 2021 was made up of 29.5% institutional investors, 29.3% REIT/listed, and 18.1% private. For sellers, the majority was 63.8% institutional investors, and 20.0% private investors.

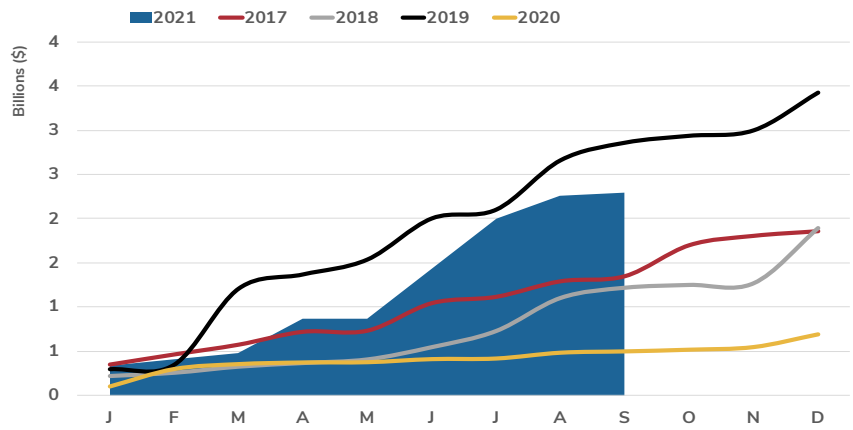
## TESLA TO RELOCATE HEADQUARTERS TO AUSTIN

Electric vehicle maker Tesla is moving its corporate headquarters from Palo Alto, California, to Austin. The company made the announcement in Austin, where it is building a major \$1.1 billion manufacturing plant. Tesla's corporate relocation displays continuing support in a high-demand real estate market. The Texas capital was the most appealing market for investors of all sizes looking to arrange capital in 2021, according to a survey conducted by a national commercial real estate company. The city also topped the list for large investors with more than \$50 billion of assets under management that plan to shift their focus to secondary markets from primary markets this year. In addition, in an investor sentiment survey by AFIRE International, Austin placed No. 1 for the city with the most planned investment in 2021, the first time a tertiary market was first in the rankings.

## AVERAGE ASKING RENTS

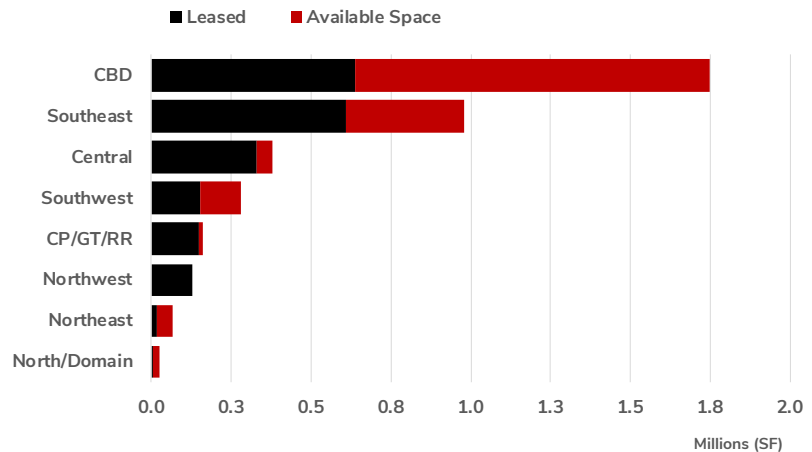
Austin's overall full-service average rates are at \$40.09 per sq. ft., up 4.9% from this time last year at \$38.20, and 1.0% quarter over quarter. Overall asking rates for Class A space are averaging \$44.52 and Class B are averaging \$33.70 per sq. ft. Over the long term, the outlook for rent growth in Austin should be optimistic. During the past ten years, average annual rent growth has been about 5%, with a couple of peak years during 2015 and 2016 at 8%. Considering the performance over the past decade there should be little doubt that the market can return to strong rent growth.

## CUMULATIVE MONTHLY SALES VOLUME

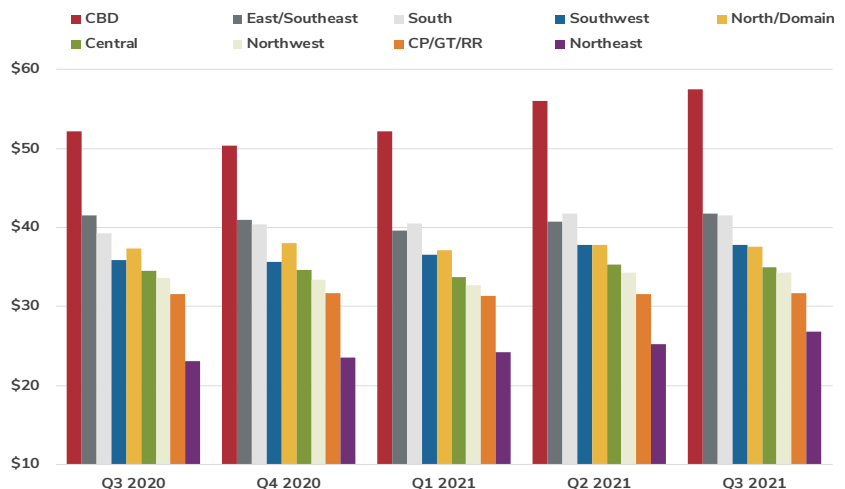


Source: Real Capital Analytics

## DELIVERIES YEAR-TO-DATE



## HISTORICAL AVERAGE GROSS ASKING RENT



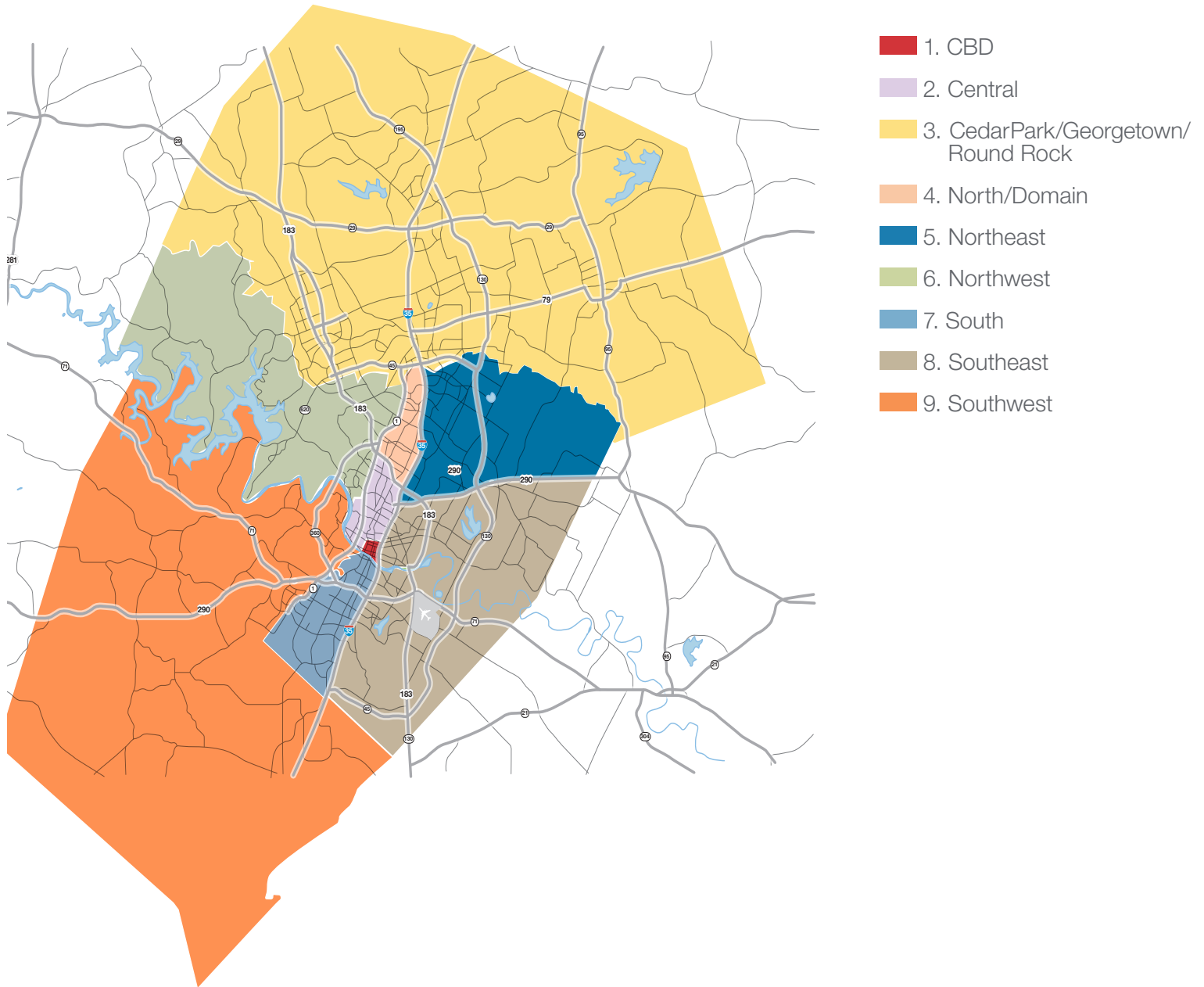
# MARKET OVERVIEW

## SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q3 2021 Leasing Activity (SF)	Q3 2021 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Austin Market Total</b>	98,645,555	14.7	19.6	1,214,022	1,242,899	2,032,708	1,324,179	5,972,745	40.09
Class A	49,857,818	14.7	21.7	1,057,394	1,564,923	1,326,133	1,252,379	5,785,072	44.52
Class B	42,780,320	16.0	18.9	153,341	-347,599	671,913	71,800	157,673	33.70
<b>CBD Total</b>	17,531,567	15.2	22.3	428,681	674,460	449,248	455,726	1,956,335	57.48
Class A	11,887,904	19.6	28.2	390,855	677,457	364,928	455,726	1,934,335	58.69
Class B	4,481,383	6.5	8.5	29,733	-4,609	82,880	0	22,000	50.63
<b>Central Total</b>	6,844,399	12.7	16.0	110,726	262,590	99,314	48,000	137,548	34.97
Class A	2,339,147	14.3	18.8	97,364	265,218	46,746	0	137,548	43.35
Class B	3,443,768	13.1	16.3	16,148	33,708	37,708	48,000	0	32.20
<b>Cedar Park/Georgetown/Round Rock</b>	6,801,258	9.0	12.3	19,873	-5,101	31,050	23,800	379,374	31.62
Class A	3,566,771	7.0	10.2	-23,286	25,856	19,195	0	266,285	32.70
Class B	2,800,026	12.1	16.2	43,159	-9,629	11,855	23,800	83,089	29.79
<b>North/Domain Total</b>	9,830,619	10.6	18.5	-83,540	-85,836	179,547	0	724,511	37.53
Class A	4,592,132	2.4	16.4	32,724	77,410	54,474	0	724,511	47.41
Class B	5,152,474	18.1	20.9	-116,264	-163,246	125,073	0	0	31.29
<b>Northeast Total</b>	5,513,542	12.4	18.8	62,532	275,642	20,551	0	32,000	26.75
Class A	1,840,621	14.5	35.6	59,637	354,474	0	0	32,000	29.46
Class B	2,966,579	13.1	11.8	2,895	-72,487	18,135	0	0	26.84
<b>Northwest Total</b>	21,187,279	19.4	21.2	229,080	-210,361	313,205	0	790,670	34.29
Class A	11,303,809	15.7	15.6	126,108	-199,033	183,303	0	768,086	36.61
Class B	9,091,193	25.5	30.0	107,618	-59,794	128,712	0	22,584	31.31
<b>South Total</b>	4,972,279	10.9	16.2	84,164	142,880	137,233	0	380,611	41.48
Class A	1,633,395	12.4	23.4	68,266	93,051	117,174	0	350,611	44.65
Class B	2,690,067	11.2	12.9	15,070	18,317	13,359	0	30,000	41.29
<b>East/Southeast Total</b>	11,725,483	15.6	22.6	457,956	470,754	549,322	651,094	1,488,600	41.77
Class A	3,690,299	17.4	29.9	389,107	433,581	346,516	651,094	1,488,600	43.80
Class B	7,150,514	16.2	19.6	66,476	28,604	195,325	0	0	35.79
<b>Southwest Total</b>	14,239,129	14.8	18.6	-95,450	-282,129	253,238	145,559	83,096	37.73
Class A	9,003,740	15.8	20.7	-83,381	-163,091	193,797	145,559	83,096	39.75
Class B	5,004,316	13.6	15.6	-11,494	-118,463	58,866	0	0	34.46
<b>Suburban Total</b>	81,113,988	14.6	19.0	785,341	568,439	1,583,460	868,453	4,016,410	36.65
Class A	37,969,914	13.2	19.5	666,539	887,466	961,205	796,653	3,850,737	40.05
Class B	38,298,937	17.2	20.1	123,608	-342,990	589,033	71,800	135,673	32.77

# MARKET OVERVIEW

## AUSTIN OFFICE SUBMARKETS



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