



US Unemployment
3.7%



Texas Unemployment
4.0%



Austin Unemployment
3.0%



Austin Job Growth
3.3%



Direct Vacancy
20.8%



Under Construction
4,373,053 SF



Quarter Absorption
-237,330 SF



Avg. Class A Asking Rate
\$53.60

EDITOR'S NOTE

Here's the good news...2023 has come to an end and we appear to be nearing the bottom of the cycle. Now we begin the process of waiting to see how long we skip along the bottom or begin to see positive markers that lead to recovery. My sense is that things will begin to improve in 2024, but not dramatically. Deal volume may continue to be sluggish, but should start to gain momentum in the second half of the year as interest rates stabilize and recession fears subside (Hopefully!). However, many decision makers will want to wait on the results of the pending election before making key economic decisions. There is a dim light at the end of the tunnel, but patience will continue to be a key virtue in 2024.

AUSTIN ECONOMY

The overall Austin economy continues to show positive signs. The Business-Cycle Index, a broad measure of economic activity created by the Federal Reserve Bank, showed Austin's index score had increased by 6.6% annually, which continues to outperform national averages. This was driven by solid job growth, population growth and wage growth. Data provided by Oxford Economics stated the greater Austin metro area's population increased by over 82,000 since the first quarter of 2022. In addition, forecast show the Austin-Round Rock metro will increase by roughly 100,000 people by 2026.

RENTAL RATES

Rental rates remained relatively flat in the 4th quarter, but softened in a number of high-profile markets. The CBD, Domain, South Central and East Austin all saw rates decline ever-so-slightly (\$0.12 avg.) from the previous quarter. There was an uptick in rates in the Southwest, Far Northwest and Southeast submarkets, but all-in-all the average Class A rents fell from \$53.20 to \$53.14 in the 4th Quarter. Expect rates to remain flat in trophy assets, but to begin to decline in the lesser quality assets as leasing velocity continues to be slow.

ABSORPTION/OCCUPANCY

Occupancy continued to fall in virtually every submarket. Vacancy in the overall market increased from 19.7% to 20.8% and in the CBD it increased from 18.4% to 20.2%. For the 4th quarter we saw negative absorption of 237,330 SF making the total for 2023 a negative 1.3M square feet. In the past 14 years this marks only the second time Austin has experienced negative annual absorption. In the year of COVID (2020) Austin experienced 1.4M square feet of negative absorption. Expect vacancy to rise as more than 3M square feet of new product is expected to deliver before 2025.

LEASE CONCESSIONS

Concessions continue to climb as the market softens. Yes, rates have remained relatively flat, but as we have reported for the last several quarters, concessions are skyrocketing to new heights. It is not uncommon to see 1 month of free rent for each year of lease term and tenant improvements are in the range of \$10-\$12 per year of lease term. I would not expect this to change in 2024.

UNDER CONSTRUCTION

The good news is there were no significant new construction starts in 2023. The bad news is that we still have over 4M square feet of product under construction that will deliver over the next several years. No new construction starts are anticipated for quite some time. It would not be surprising to see no new starts in Austin until late 2025 or early 2026.

SUBLEASE SPACE

While the rate of sublease availabilities hitting the market slowed in the 4th Quarter, we continued to see leased space added to the sublease market. Sublease space increased 2.3% (132,000 SF) from the 3rd Quarter. The total amount of sublease square footage increased to somewhere between 5.5M -6.0M square feet. For comparison, in 2020 (COVID) we reached 5.5M square feet of sublease space in the market, but this number was reduced to less than 2M square feet by 2022.

LEASING ACTIVITY

As you would expect, leasing velocity continues to be slow and the average deal size has fallen by 23%. Deals are still getting done, but are driven more by companies that must transact (lease expiration) versus companies making strategic transactions (growth, relocations). As of December, 84 tenants are actively seeking space totally 2.8M square feet. We did see some signs of larger deals re-appearing as both Apple (82,000 SF) and Tokyo Electronics (98,000 SF) signed leases in the 4th quarter. It was also encouraging to see AMD renew its lease for 400,000 SF in Southwest Austin.

2023 SIGNIFICANT TRANSACTIONS:

Tenant	Building	Square Feet	Submarket	Type	Date
AMD	The Summit	443,000	Southwest	Renew	4Q 2023
Apple	Las Cimas I	80,000	Southwest	New	4Q 2023
Tokyo Electronics	RiverSouth	98,000	South	New	4Q 2023
IBM	IBM Tower	320,000	Domain	New	2Q 2023

AUSTIN OFFICE MARKET

Market Area	Market Size	Absorption	Vacancy	Class A Rates	Under Construction
CBD	15,067,172	(48,310)	20.2%	\$66.19	1,810,583
Central/North	4,118,668	(2,815)	19.4%	\$44.82	92,217
East	3,051,157	69,764	33.5%	\$55.25	1,628,519
Domain	3,765,924	107,561	16.8%	\$55.10	363,000
Far NW	13,253,171	(15,284)	20.8%	\$46.04	
Northeast	3,391,869	8,797	36.5%	\$33.74	
Northwest	4,858,710	(247,160)	19.2%	\$40.43	
Round Rock	1,348,393	(6,998)	13.3%	\$36.27	
S. Central	2,491,222	7,568	23.0%	\$58.29	344,996
Southeast	1,753,938	(15,699)	15.6%	\$34.98	58,738
Southwest	11,676,038	(94,754)	16.0%	\$48.89	75,000
TOTAL	64,776,262	(237,330)	20.8%	\$53.60	4,373,053