



US
Unemployment
4.2%



Texas
Unemployment
3.9%



Austin
Unemployment
3.7%



Austin
Job Growth
2.2%



Direct
Vacancy
21.5%



Under
Construction
4,209,837 SF



Quarter
Absorption
88,486 SF



Avg. Class A
Asking Rate
\$53.93



TRAVIS COUNTY'S 5-YEAR POPULATION GROWTH IS IMPRESSIVE

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, forecasts show the Austin-Round Rock metro will increase by roughly 100,000 people by 2026.



AUSTIN RANKS #1 ON BEST PERFORMING CITIES LIST

The Milken Institute, a nonprofit think tank, has been publishing the index since 1999 and ranks cities on a variety of metrics, including job creation, wage growth and output growth. The list is designed to help the public and private sectors evaluate and compare cities throughout the nation, the list is particularly handy for job recruiters and site selectors. Austin climbed to the top of the heap largely because of growing jobs and wages. Austin last held top spot in 2013. Milken described the city as having a "well-balanced assortment" of industry positions that make it one of America's best performing metros.



AUSTIN LEADS NATION IN HQ RELOCATIONS

The past 5 years have been an active period for HQ relocations with 465 moves identified since 2018. Texas has attracted the most HQ relocations over the past 5 years with 206, 66 moving to Austin, 32 to Dallas and 25 to Houston. The most common reasons for HQ relocations are tied directly to cost savings, most commonly a favorable business climate and low taxes. Business leaders are also expanding the definition of business environment to include factors beyond the tax code, including regulatory policies, crime, homelessness and other social factors. Austin has become a hub for HQ relocations in the past 5 years. Half (33) of the Austin based moves were in the tech industry. Having a welcoming business environment, easy access to talent, lower cost of living, and no state income tax allows Austin to continue to be on every site selection committee's list.



ECONOMISTS PREDICT STRONG GROWTH FOR AUSTIN ECONOMY IN 2024

The Austin Business Journal surveyed a number of leading economists to get their forecast for Austin in 2024. They said the jobs and the people will keep flocking here throughout 2024. Peter Rodriguez (Rice University Business Dean) said, "As long as there is not a major national economic disruption, Austin is going to be at the head of the pack. It would take something really strange to make Austin stumble." Since COVID, Austin's GDP has climbed by a whopping 10.5% in 2021 and a huge 7.4% in 2022. And while 2023 data is not yet available, experts believe GDP will probably be around 4% in 2023, still almost double the national average. Economists also mentioned that Austin has plenty of magnets to attract new residents and workers. They include the \$17B semiconductor plant being built in Taylor (Samsung), the growing regional footprint of electric vehicle maker Tesla, and the myriad of other companies that have expanded or relocated to the area in recent years.



AUSTIN LED NATION IN TECH JOB GROWTH BETWEEN 2020-2022

A report by the Brookings Institute showed that Austin saw a 40% growth in tech jobs from 2020 to 2022. As tech jobs are being dispersed out of Silicon Valley and San Francisco to smaller hubs, Austin has become the leader of non coastal tech hubs. Currently Austin has 2.1% of all tech jobs nationally and while that pales in comparison to the 5.9% located in San Francisco, San Fran is losing tech jobs (down from 6.2%) while Austin is gaining. Another factor in Austin's success is the city's ability to do well in "any weather" the economy may forecast.

EDITOR'S NOTE

As I mentioned in my Q4 2023 update, I felt Austin was at or near the bottom of the cycle, and while I'm not quite ready to say we are on the other side of the bell curve, the first quarter did show some encouraging signs. Most notable, Austin had positive absorption for the first time in five quarters and sublease space continues to decline. In addition, new construction continues to decline while rental rates remain strong in the growing submarkets. I still believe we will face headwinds until after the general election in November, but I now believe those winds could be light to moderate with clearing skies in our 2024 future.

MISLEADING VACANCY STATISTICS?

A new study conducted by JLL found that over 60% of office vacancy is centralized in 10% of buildings, with 39% of buildings having no vacant space. Buildings that are new and cater to the current lifestyles and needs of tenants have escaped demand driven headwinds in the market – for the most part. Those buildings make up a small portion of supply, as less than 25% of office buildings were constructed after 2000. Owners of lower-tier buildings have been spending years trying to adapt to the changes in the market, but they've struggled due to the cost of updates and decline in demand. A recent LPC report on CBD vacancy confirms this flight to quality. Email asmith@LPC.com for a copy of the report.

RENTAL RATES

Class A rental rates continue to hold their own. For the entire market, rates increased slightly from \$53.60 to \$53.93. From a submarket perspective, the big gainers were the CBD (\$0.78↑), S. Central (\$1.81↑) and The Domain (\$0.80↑) with only Round Rock (\$0.02↓) and Southwest (\$0.48↓) losing ground.

ABSORPTION/OCCUPANCY

While Austin experienced 88,486 SF of positive absorption in the first quarter, overall vacancy increased slightly from 20.8% to 21.5% due to new construction delivering. We did see vacancy decline in East Austin, The Domain, S. Central and Southeast submarkets, but saw minor increases everywhere else.

LEASE CONCESSIONS

From mid-2022 through end of 2023 we saw lease concessions increase significantly. In the first quarter of 2024 we did not see any real increase, nor did we see any decline. Expect lease concessions to remain at current levels for the foreseeable future. I would not expect a decline until we see vacancy drop back down into the mid-teens.

UNDER CONSTRUCTION

The amount of space under construction continues to decline as new deliveries hit the market. We have seen our under construction numbers fall by 1.7M square feet in the past 5 quarters. If there is any good news here, it is that no projects are even in the planning stages right now. I would not expect a new office project to begin in Austin for the next 18-24 months, meaning there may not be a single delivery from 2027-2030+.

SUBLEASE SPACE

Available sublease space across the market is currently on a downward trajectory, experiencing a decrease of almost 8% from the previous quarter. Class A sublease space fell by over 8.5% in the past quarter and the market experienced almost 220,000 SF of positive net absorption.

The bulk of sublease availability is found in three industries: Technology (43%), Insurance (15%), and Manufacturing (11%).

AUSTIN OFFICE MARKET

MARKET AREA	MARKET SIZE	ABSORPTION	VACANCY	CLASS A RATES	UNDER CONSTRUCTION
CBD	15,362,002	(63,950)	21.7%	\$66.97	1,810,583
Central/North	4,118,668	(30,032)	19.3%	\$45.04	-
East	3,061,677	(31,224)	31.5%	\$55.35	1,604,519
Domain	4,113,712	338,243	14.2%	\$55.90	374,739
Far NW	13,216,448	(116,889)	21.7%	\$46.69	
Northeast	3,391,869	46,052	37.2%	\$32.94	
Northwest	4,824,119	(1,071)	19.2%	\$40.66	
Round Rock	1,382,062	8,261	15.0%	\$36.29	
S. Central	2,491,222	13,885	22.9%	\$60.10	344,996
Southeast	1,753,938	16,860	14.8%	\$35.50	-
Southwest	11,675,867	(91,649)	16.5%	\$48.41	75,000
TOTALS	65,391,584	88,486	21.5%	\$53.93	4,209,837