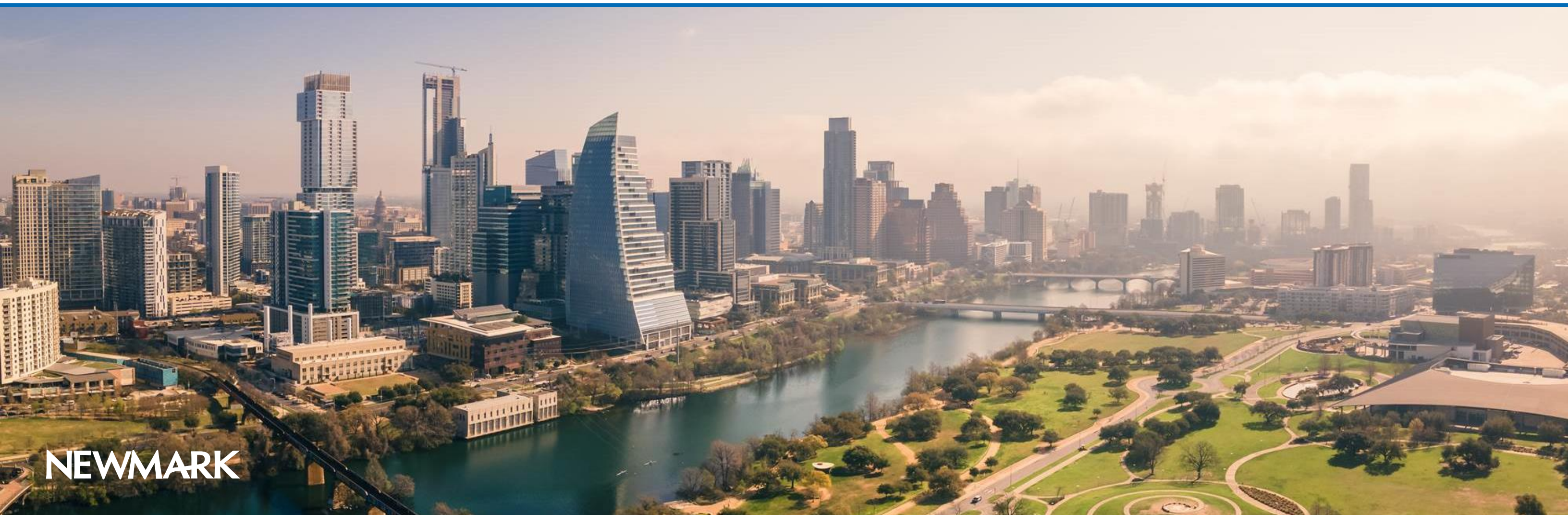


2Q25

Austin Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked down by 14 basis points year over year to 3.4%, remaining below the five-year average of 4.0%.
- Employment growth in May 2025 decelerated by 75 basis points year over year to 1.6%.
- Most sectors reported employment gains, with education and healthcare leading job gains at 3.9% over the past 12 months.
- Office-using jobs in the market dipped by 1.1% from their historic high to 418,305 jobs as of the end of May 2025, but still reflected a 30.5% increase since year-end 2019.

Major Transactions

- The largest lease signed during the second quarter of 2025 was SonarSource's 65,050-SF renewal and expansion at Capitol Tower.
- Technology companies defied expectations as they signed most of the second quarter's notable leases amid headlines that Austin's reputation as a tech hub may be on the decline.
- Most of the quarter's largest signed leases were renewals and subleases, indicating that companies are taking a cautious approach to new leasing decisions and were capitalizing on advantageous market conditions to secure high-quality office space in favorable locations.

Leasing Market Fundamentals

- Annual full-service rental rates dropped from the first quarter's historic high to \$44.78/SF, reflecting a 0.6% decrease from the previous quarter and a 5.6% increase year over year.
- Direct availabilities increased by 10 basis points while sublet availabilities declined by 10 basis points on a quarterly basis. Overall, vacancy held steady on a quarterly basis at 23.6% as the market continues to work through the elevated level of deliveries that occurred during the past several years.
- The under-construction pipeline mildly ticked up, ending the quarter with 2.0 MSF under construction as restrictive fiscal policies and rising building costs curbed new office groundbreakings in the market.
- Macroeconomic uncertainty slowed quarterly leasing activity to 1.1 MSF, well below the 16-year second-quarter average of 2.0 MSF.

Outlook

- Near-term growth in Austin's office market is projected to remain slow. Office investment activity is expected to stay subdued in the near term due to elevated inflation, higher borrowing costs, and muted demand.
- Continued expiration of leases signed pre-pandemic will likely push tenants to shed underutilized space and opt to lease smaller spaces in higher-quality, well-located assets.
- The office market is expected to remain tenant friendly, with continued muted demand keeping overall asking rents flat or slightly lower.
- Vacancy is expected to trend upward as the construction pipeline, accounting for 2.3% of inventory, continues to deliver.

1. Economy
2. Leasing Market Fundamentals
3. San Antonio Appendix

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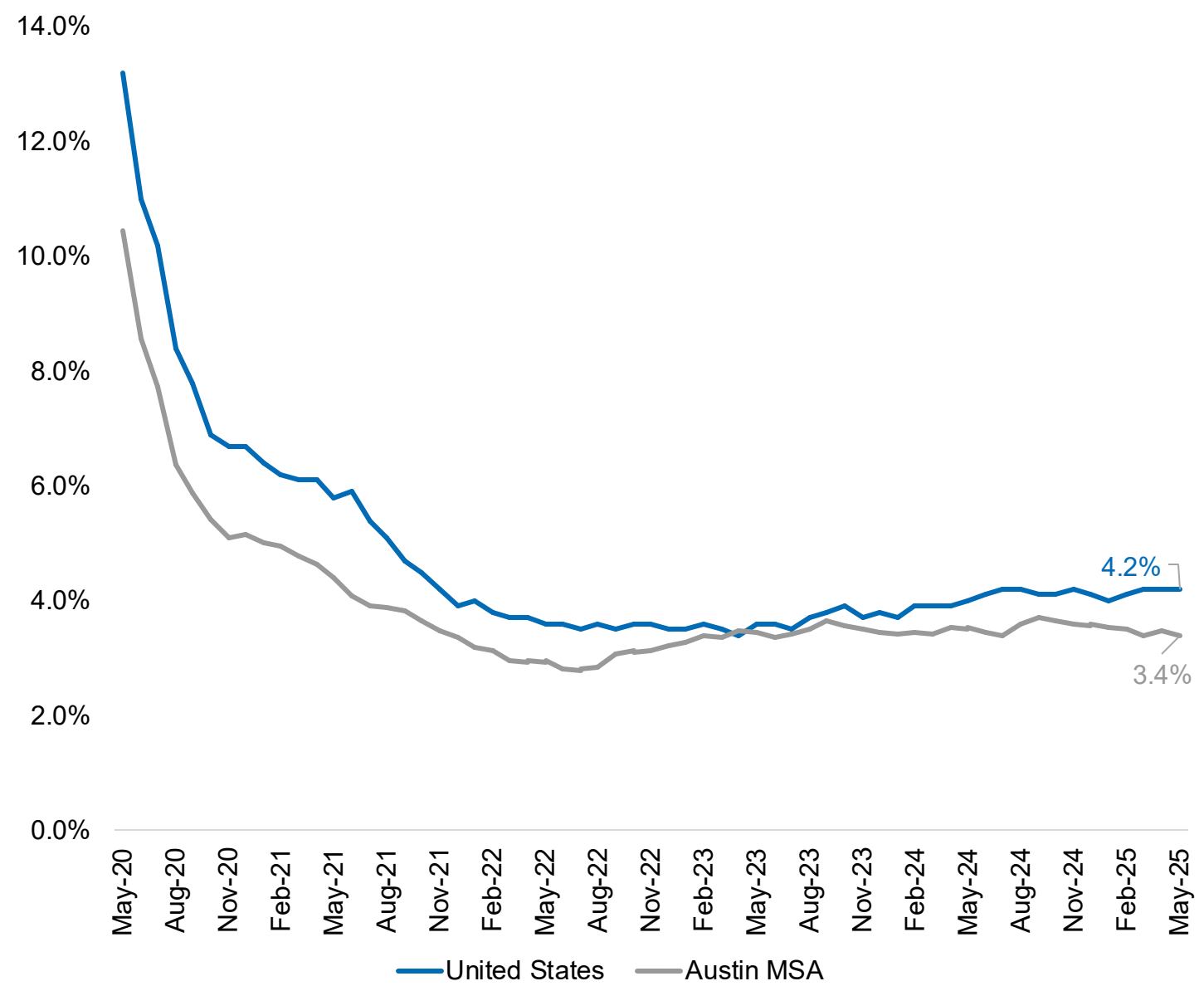
Economy



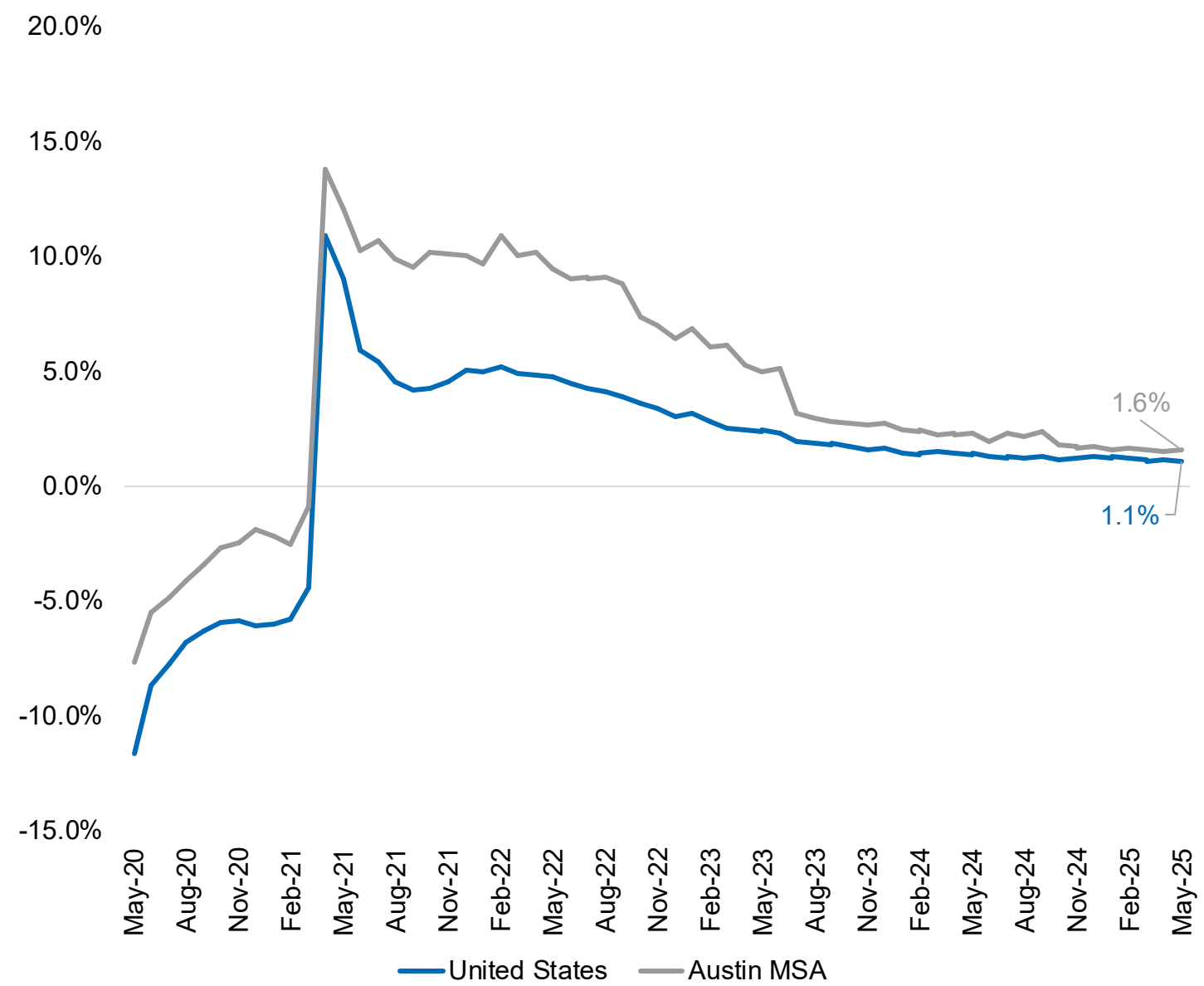
Austin, Defying Expectations, Reports Yearly Decline in Unemployment

Austin has historically reported lower unemployment rates compared to the national average, while being an outperformer in employment growth. While the gap between Austin's outperformance of the United States average has closed in recent quarters, Austin remains an outperformer in employment growth and unemployment during the current quarter. Most nonfarm payroll yearly growth has been concentrated in the education and healthcare sectors, financial activities and government sectors. Despite continued national economic headwinds in the second quarter of 2025, the region's unemployment rate ticked down by 14 basis points year over year. Meanwhile, employment growth decelerated by 75 basis points compared to the prior year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

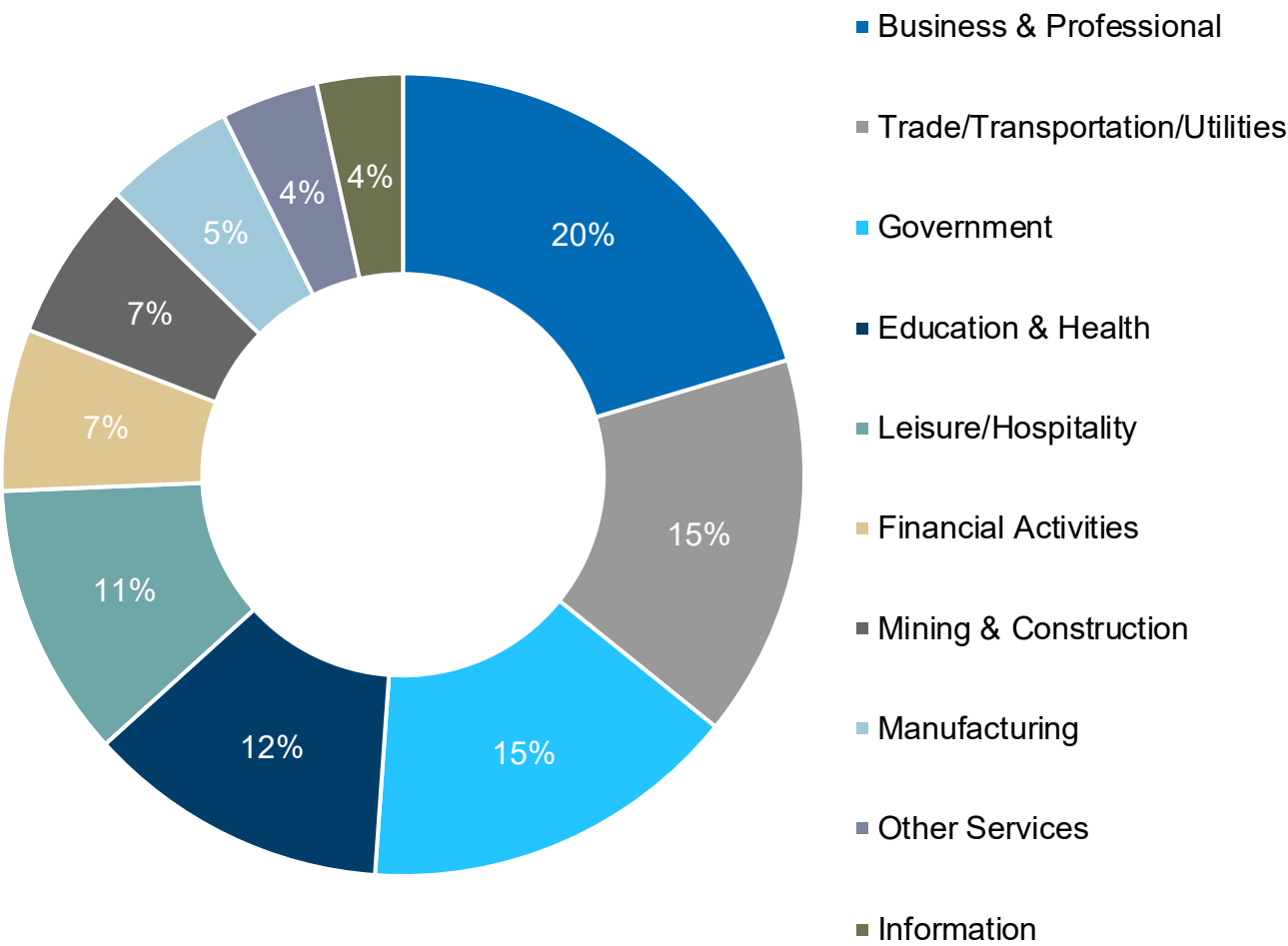


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

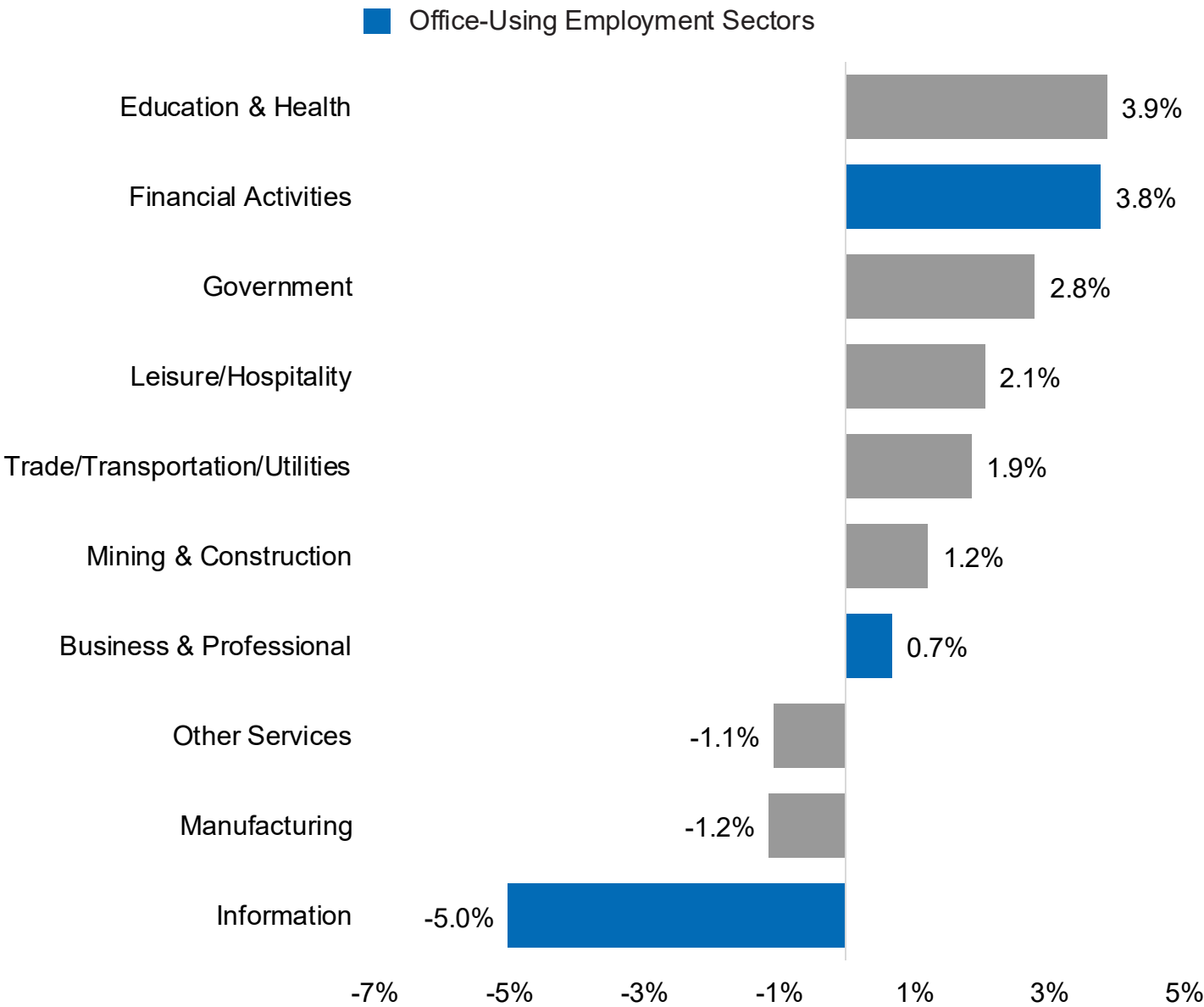
Most Office-Using Jobs Sectors Report Yearly Job Growth

Known for its tech sector, Austin’s top employment industries —business and professional services and trade/transportation/utilities— account for 35.8% of jobs. The business and professional services sector, a key driver of office employment, represents the largest industry at 20.4%. All industries, except other services, manufacturing and information, reported yearly job growth. The financial activities and business and professional services sectors reported year over year job growth of 3.8% and 0.7%, respectively. Meanwhile, the information sector reported a yearly decline of 5.0%.

Employment by Industry, May 2025



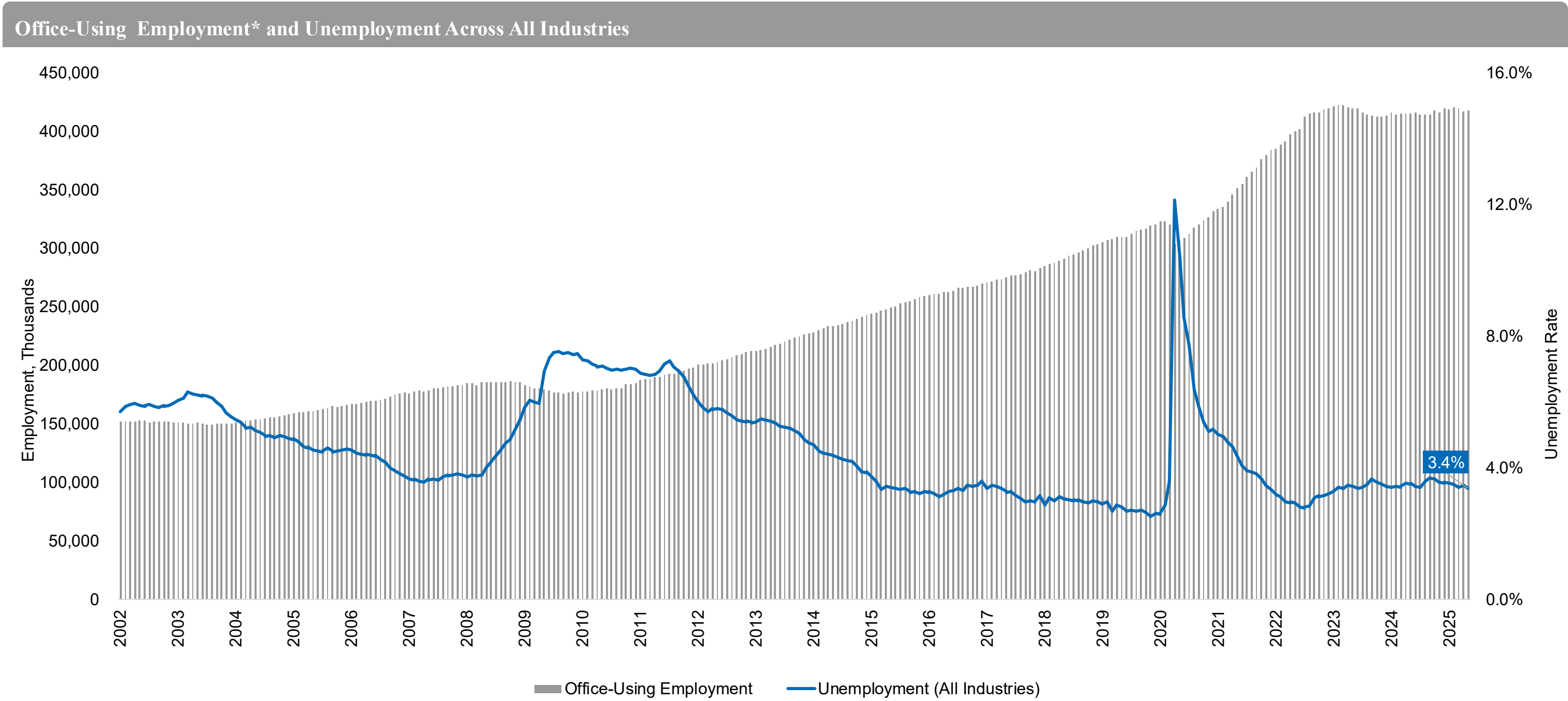
Employment Growth by Industry, 12-Month % Change, May 2025



Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

Financial Activities; Business & Professional Services Drive Annual Office Job Growth

Office-using employment in Austin ended May 2025 with 418,305 office-using employees, down 1.1% from the historical high observed in the the first quarter of 2023. The seasonally adjusted unemployment rate stands at 3.4%, unchanged from the previous quarter and 14 basis points lower than May 2024. Overall yearly gains in office-using jobs, concentrated in the financial activities and business and professional services sectors, outweighed losses in the information sector to increase overall office-using employment by 0.6% on an annual basis.



Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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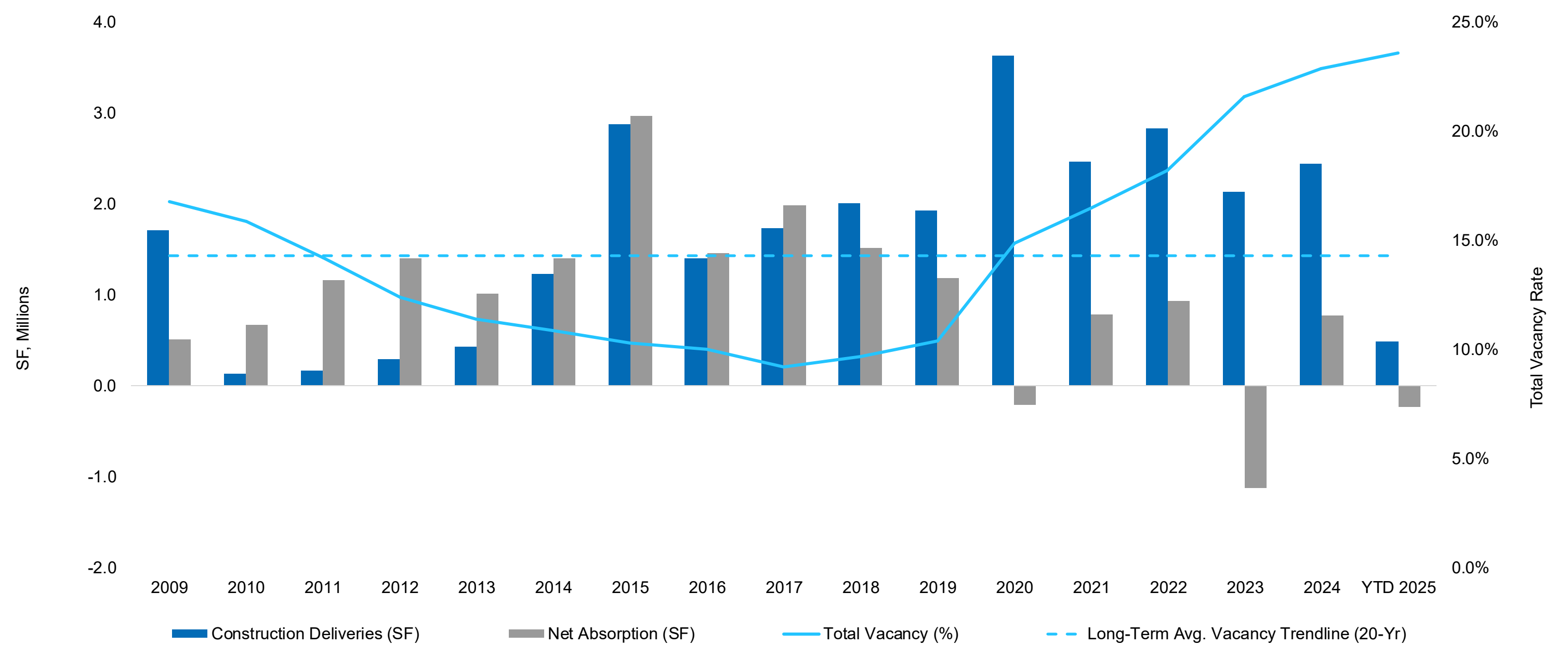
Leasing Market Fundamentals



Vacancy Holds Steady at Record High

Austin’s overall office vacancy rate held steady at 23.6% quarter over quarter in the second quarter of 2025, reflecting an annual increase of 50 basis points and is well above the 20-year vacancy average of 14.3%. Since the pandemic and the shift to hybrid and remote work in 2020, vacancy rates have generally risen, though at a slower pace recently. The quarter closed with 24,783 SF of positive absorption. A rising vacancy rate is being driven by elevated construction deliveries and recent negative absorption from technology and business and professional services companies shedding excess space and workers amid macroeconomic uncertainty and the implementation of artificial intelligence into workflows.

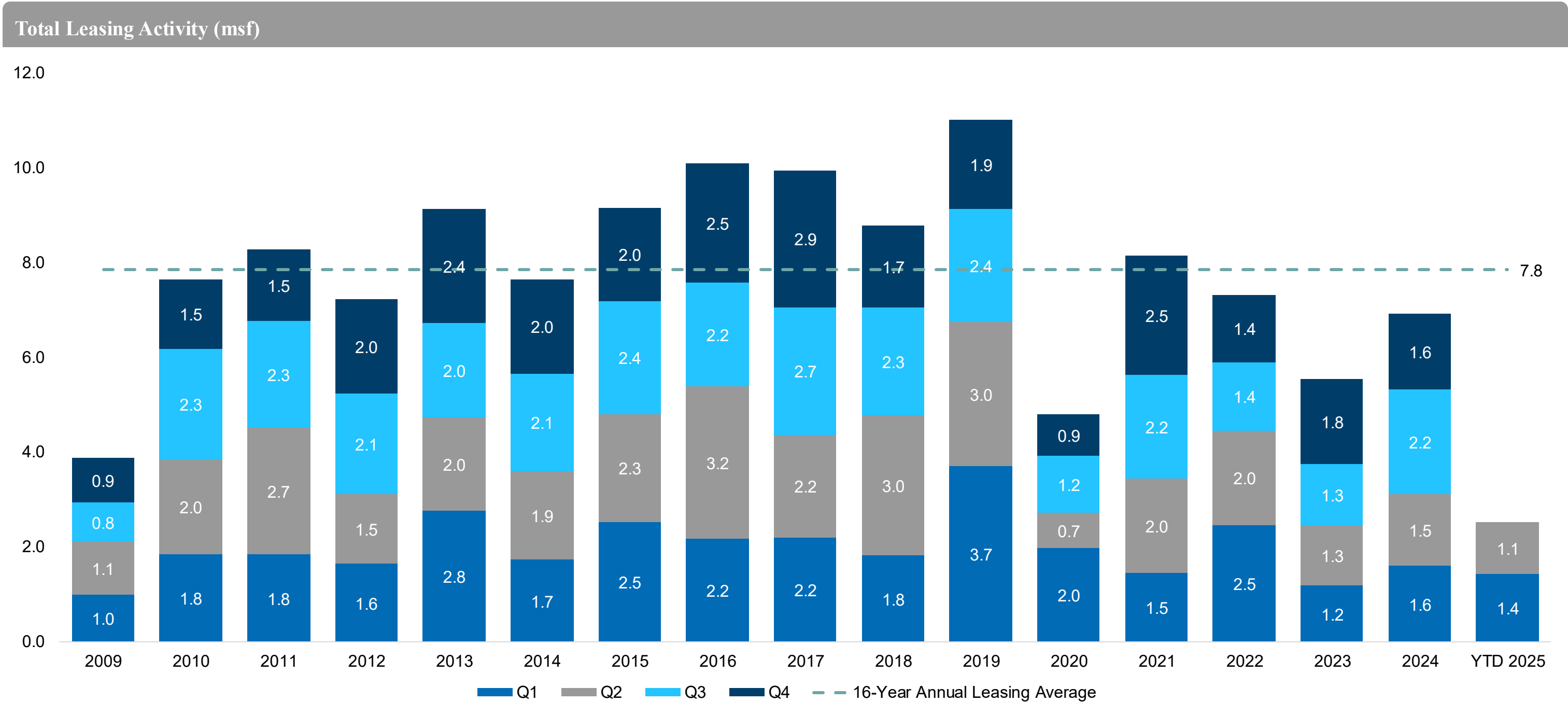
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Economic Uncertainty Results in Slowing Leasing Activity

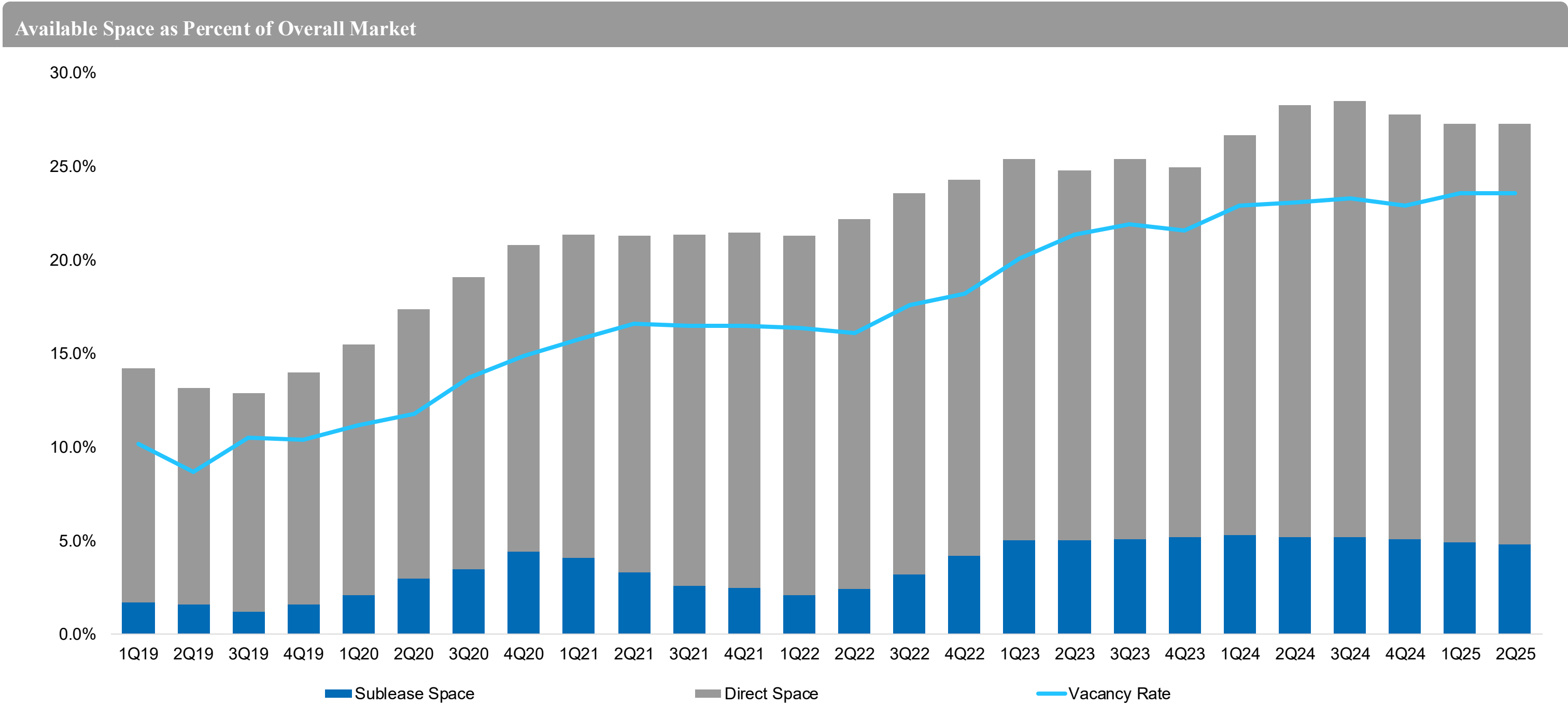
Leasing activity in Austin declined both quarterly and annually, with the second quarter of 2025 reporting total leasing activity of 1.1 MSF, well below the 16-year second quarter average of 2.0 MSF. The slowdown reflects companies prioritizing efficiency through a right-sizing of their workforces and office space amid an uncertain economic environment stemming from elevated inflation and tariffs. Further complications include the future of work from home and hybrid work policies. However, leasing could rebound as more companies phase out these work from home policies and require more space to implement full-time in-person work. Average deal size for the first quarter of 2025 was 4,825 SF, down from the first quarter of 2025's average deal size of 5,893 SF.



Source: Newmark Research, CoStar

Direct and Sublet Availabilities Hold Vacancy Steady Quarter over Quarter

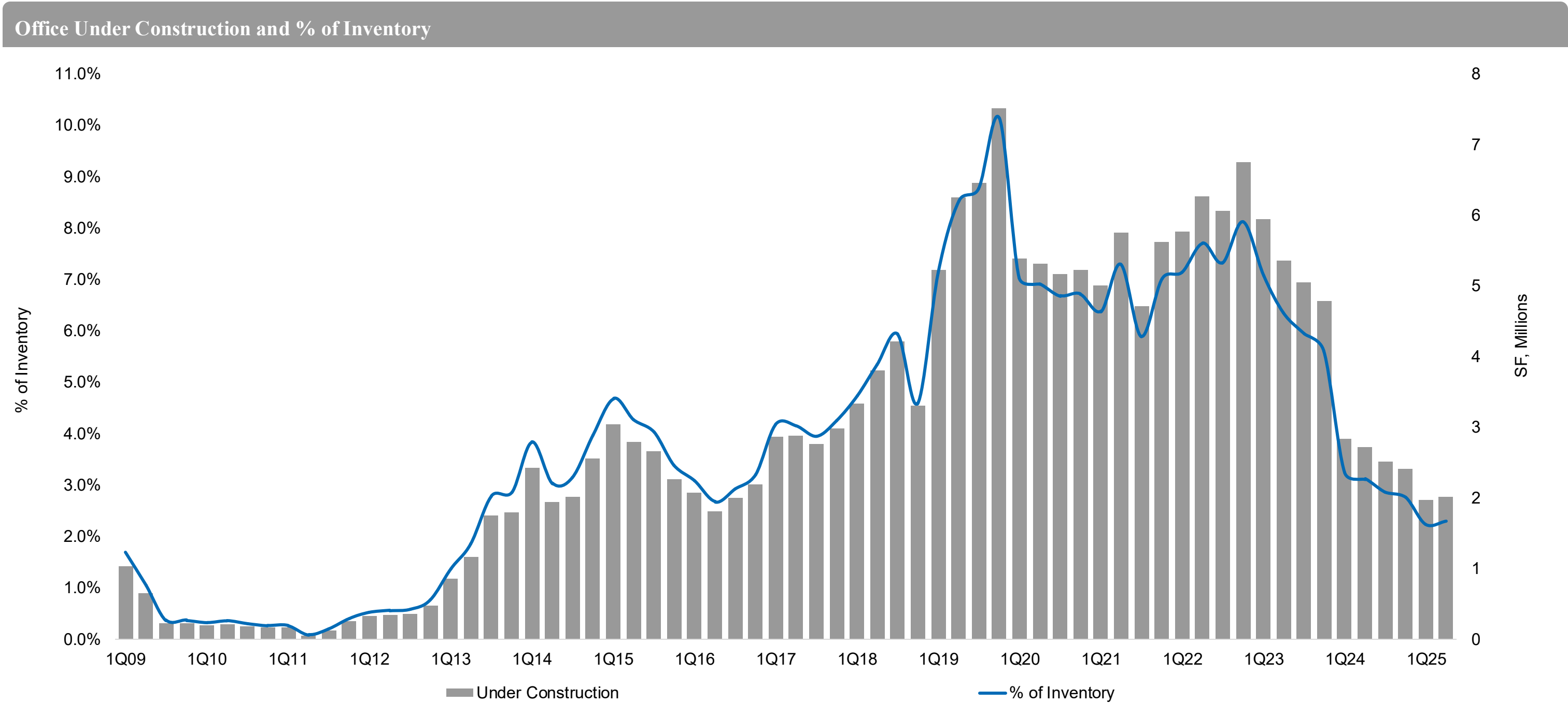
Sublease availabilities in Austin edged down 10 basis points to 4.8% when compared with the first quarter of 2025 and declined by 40 basis points on an annual basis. Direct availability increased by 10 basis points quarter over quarter and decreased 60 basis points year over year to 22.5%. Overall, the vacancy rate held steady at 23.6% when compared to the first quarter of 2025 and reflected an increase of 50 basis points on an annual basis.



Source: Newmark Research, CoStar

Construction Pipeline Ticks Up

Construction activity in the market spiked during the first quarter of 2019 and remained elevated through the end of 2023, fueled by the growth of Austin’s technology sector and demand for high-quality office space. The construction pipeline has generally declined since recording a recent peak of 6.8 MSF during the fourth quarter of 2022, with the sharpest decline occurring during the first quarter of 2024. At the end of the second quarter of 2025, approximately 2.0 MSF remained under construction, representing 2.3% of total office inventory, slightly above the recent low recorded during the first quarter of 2025.

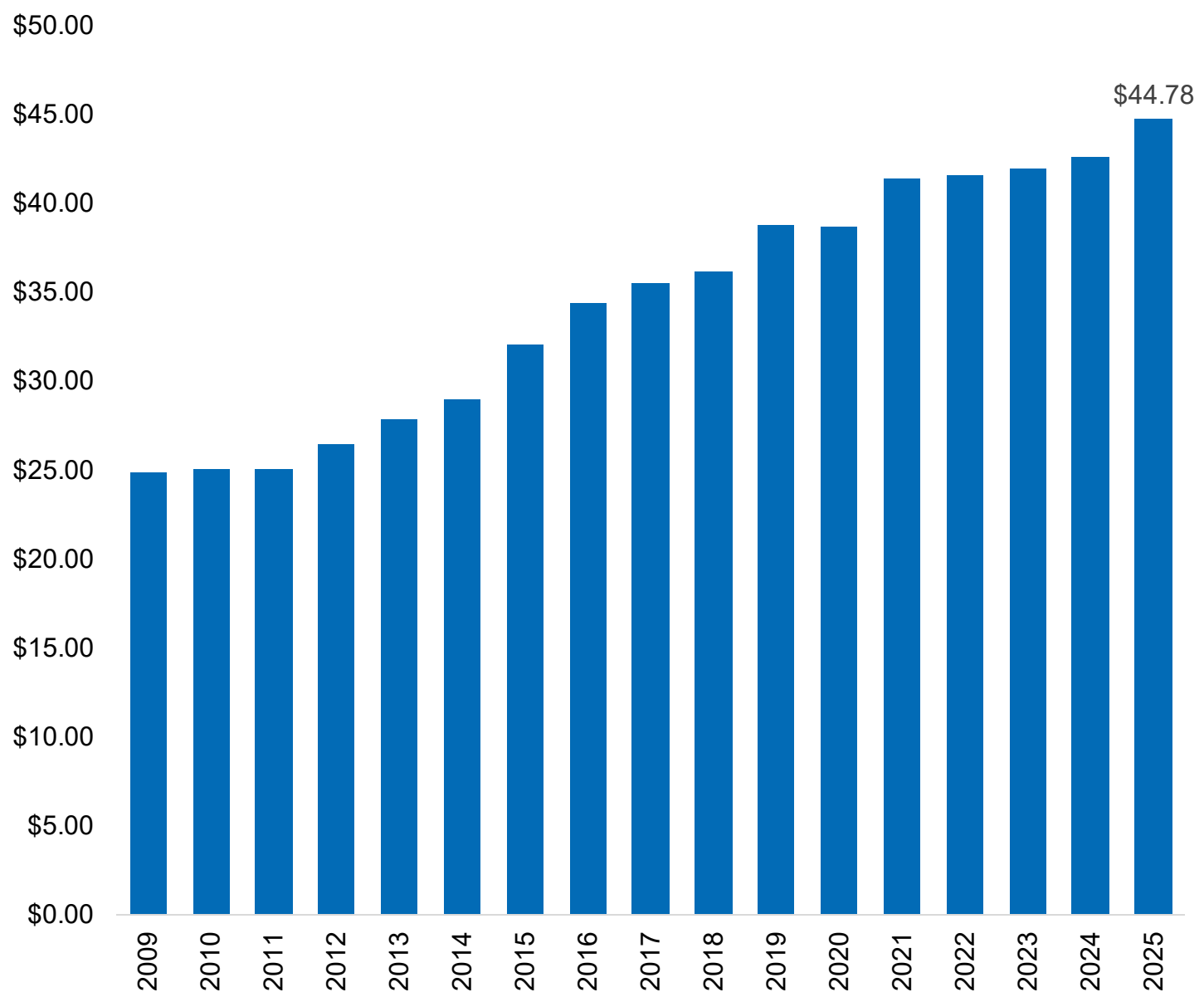


Source: Newmark Research, CoStar

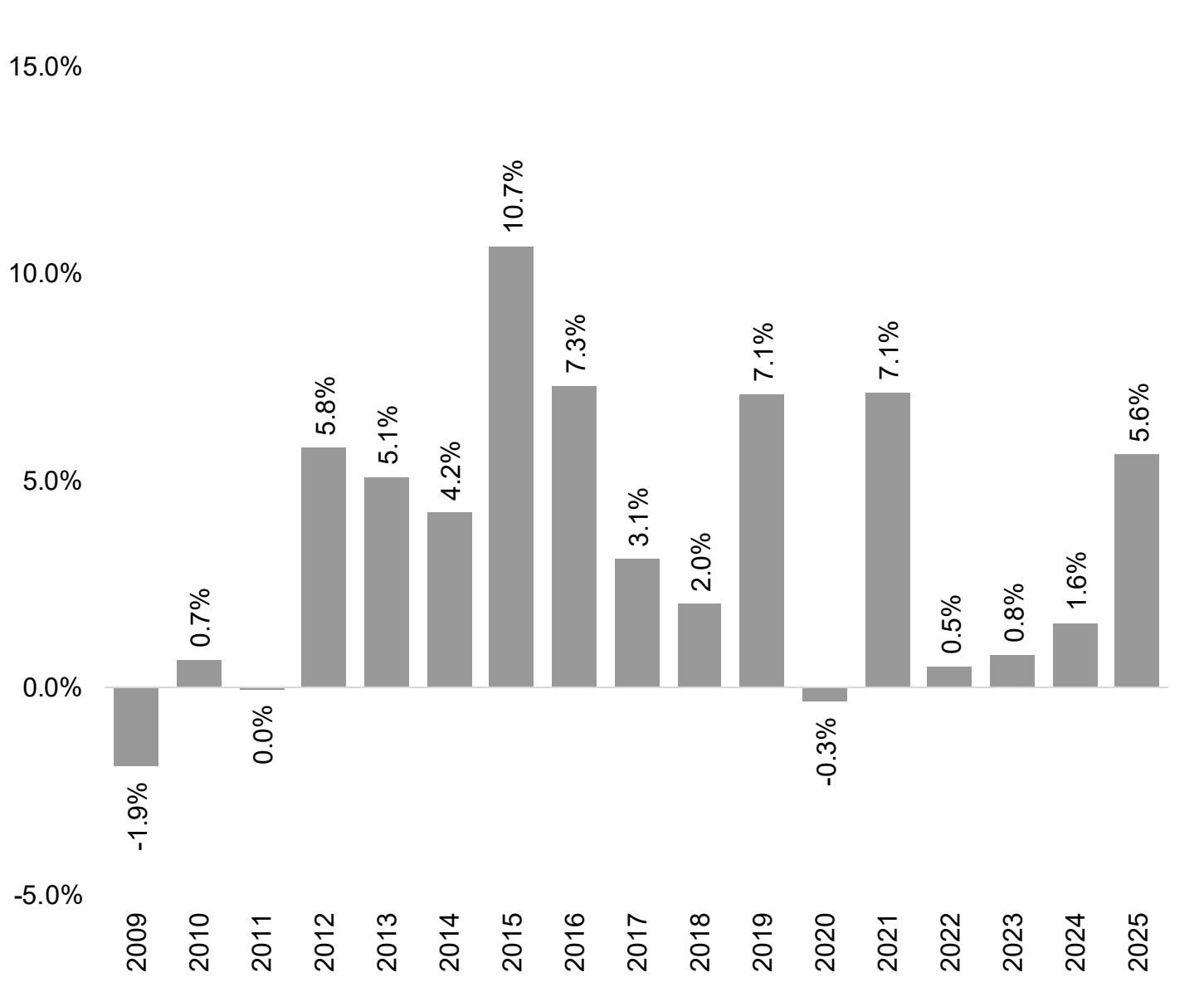
Asking Rents Drop from Record High

Asking rents declined 0.6% from their high set during the previous quarter and increased by 5.6% year over year to \$44.78/SF. Since 2012, Austin has generally reported positive yearly rent growth, with the trend continuing into the second quarter of 2025. The annual increase can likely be attributed to landlords raising asking rates to compensate for higher costs related to stubborn inflation and the recent delivery of new high-quality space into the market. This trend may reverse as landlords compete to fill space amid an uncertain economic environment.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

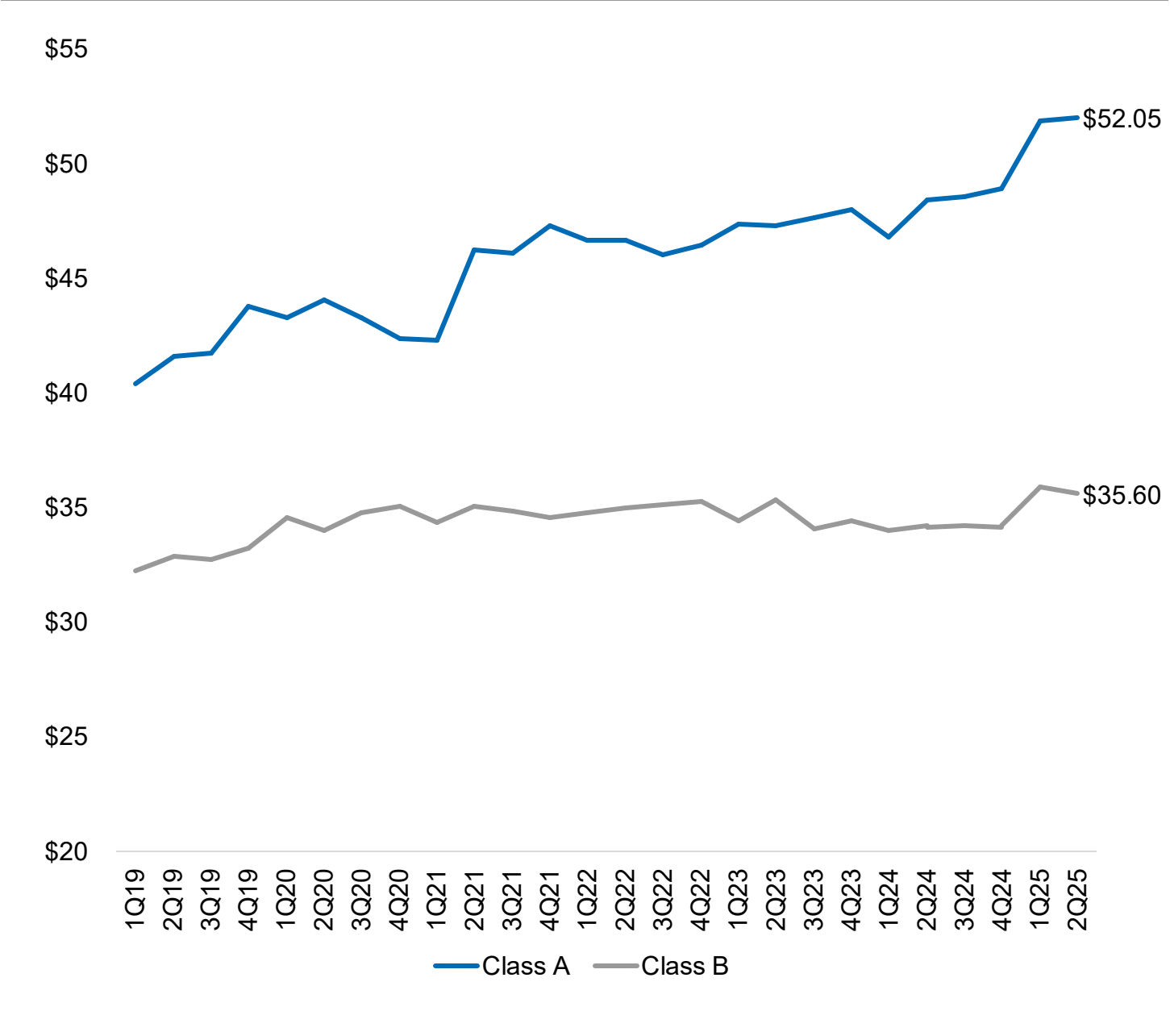


Source: Newmark Research, CoStar

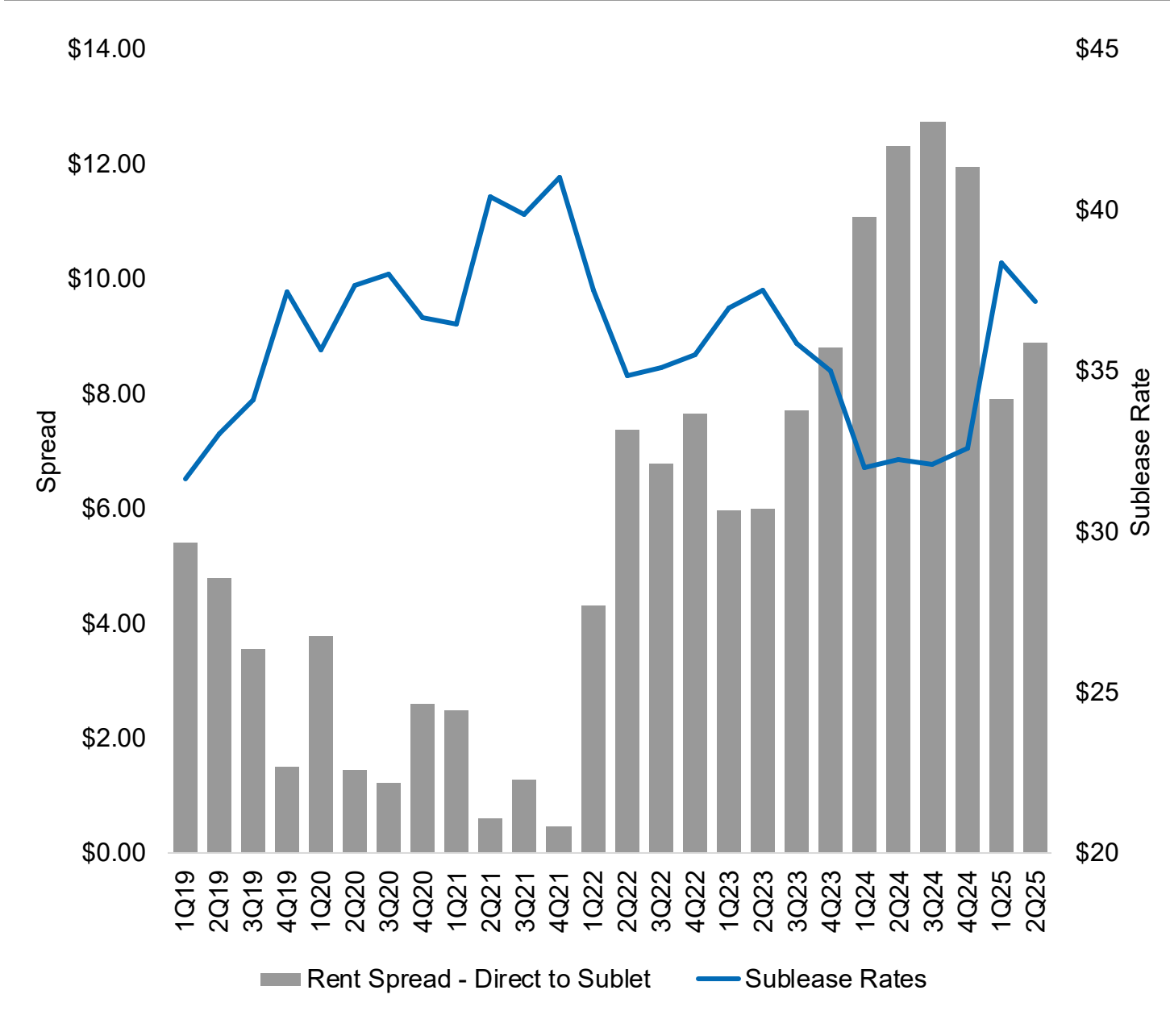
Record Class A Asking Rates, Declining Class B Rates Push Rent Spread to High

As of the end of the second quarter of 2025, Class A rents averaged an all-time high of \$52.05/SF, while Class B rents were \$35.60/SF. Class A asking rents rose by 7.5% on a yearly basis, while Class B asking rents increased 4.1%. Overall rent spread between Class A and Class B asking rents also climbed to a historic high of \$16.45/SF, reflecting a 55.9% increase since the fourth quarter of 2019. The increasing divergence between Class A and Class B rents is likely driven by landlords lowering Class B rates to attract tenants and compete with higher quality assets, while Class A landlords are leveraging growing demand for highly-amenitized spaces to push up asking rents. Sublease asking rents declined by 3.2% quarterly and increased 15.2% on a yearly basis.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Tech Companies, Defying Expectations, Dominate Quarterly Leasing Activity

Contrary to headlines that Austin’s reputation as a tech hub is fading, all of the second quarter’s notable leases were signed by technology companies. Software developer SonarSource signed the largest lease of the second quarter of 2025, renewing its space on the eighteenth floor and expanding to the seventeenth floor of Capitol Tower. A majority of the quarter’s notable leases were renewals and subleases, indicating that companies are taking a cautious approach to new leasing decisions, instead opting to stay in their current locations or take advantage of opportunities to capitalize on favorable market conditions to acquire high-quality office space in desirable locations.

Notable 2Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
SonarSource	Capitol Tower	CBD	Renewal	37,454
Swiss software developer SonarSource signed the largest lease of the quarter by renewing its space on the 18 th floor at 206 E 9 th Street. It will also be expanding to the 17 th floor.				
Zendesk	Foundry II	East	Sublease	33,291
San Francisco-based customer-service software provider Zendesk sublet the sixth floor of 1600 E 4 th Street from Unity Technologies.				
FloSports	Bouldin Creek	South	Sublease	29,621
Sports streaming provider FloSports signed a 29,621-SF sublease on the fourth floor of 2043 South Lamar Boulevard.				
Acumera	Northland Office Building	Northwest	Renewal	26,004
Austin-based network operations and security provider Acumera inked a renewal for its space on the fifth floor of 3307 Northland Drive.				
Activision	Parkline at Lakeline	Cedar Park	Direct New	25,000
Video game developer Activision leased 25,000 SF at 11200 Lakeline Boulevard, where it has previously occupied space.				

Source: Newmark Research, CoStar



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