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VANTAGE POINT

THE COVID SHUTDOWN FIVE YEARS LATER

How the Pandemic Affected the Austin Office Real Estate Market

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THE COVID SHUTDOWN, FIVE YEARS LATER

How the Pandemic Affected the Austin Commercial Real Estate Market

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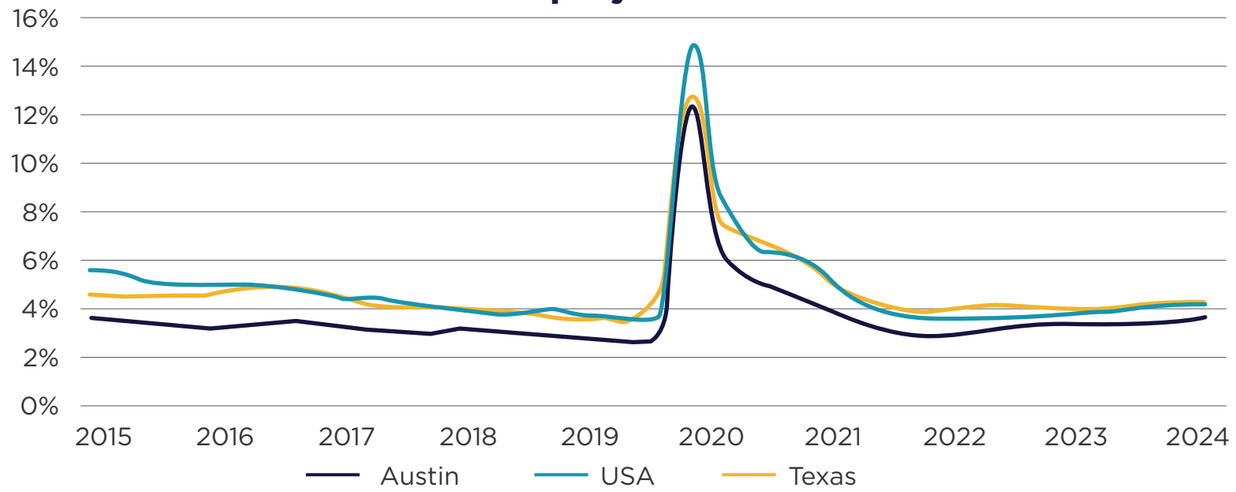
A LOOK BACK

On March 11, 2020, the World Health Organization officially declared the novel coronavirus (COVID-19) a global pandemic. The arrival of the pandemic created an economic shock that pushed the global economy and the U.S. into a recession. Policies initiated to “flatten the curve” of potential infection included the voluntary and mandated shutdown of large sectors and regions of the economy. No industry was unaffected. Offices, retail establishments, restaurants, passenger transportation, schools, and leisure activities all ground to a halt with much of the population self-quarantining and practicing social distancing.

This lightening quick disruption to the economy had a significant effect on unemployment in every state and every industry. By April of 2020, the national unemployment rate had climbed from a pre-pandemic (February 2020) low of 3.5% to an unprecedented level of 14.8%. Every state reached unemployment rates greater than their highest levels during the Great Recession, which peaked at 10.0% in the fall of 2009. Over the last two weeks of March 2020, a cumulative 10 million people had applied for unemployment benefits—by far the largest number of applications in history since record-keeping began in 1967. By February 2021, unemployment rates had declined from the highs seen early in the pandemic but remained elevated at 6.2%. In the end, damage to the national economy was severe and long-lasting, with some industries suffering more than others.

While Austin unemployment levels never reached the lows experienced by other large U.S. metro areas, the city experienced its own highs and lows. The following is a look back on how the pandemic affected the office real estate market in Austin, and what the future might hold.

Unemployment Rate



Ripple Effects of COVID-19

ECONOMIC CONTRACTION

U.S. GDP declined by 3.5% in 2020, the most since the 2008 financial crisis

SURGE IN UNEMPLOYMENT

Unemployment rates soared, peaking at 14.8% in April 2020

SUPPLY CHAIN DISTRUPTIONS

Global supply chains were severely disrupted, causing shortages of goods and delays in production

SHIFT TO REMOTE WORK

Many businesses transitioned to remote work to curb the spread of the virus, leading to changes in work patterns

THE COVID SHUTDOWN, FIVE YEARS LATER

Austin Office Market

A SHARP FALL

Prior to the COVID-19 pandemic, the Austin office market was arguably the hottest in the country. Office vacancies hovered below 10% and large blocks of available space were hard to find. To address demand, developers flocked to Austin to build a slew of new trophy class office buildings.

Then came the pandemic, turning the office market on its head. Most office-using tenants shifted to remote or hybrid work, leaving buildings nearly vacant.

TECH BOOM

Then came the tech boom. An influx of tech companies and start-ups fled other large cities to capitalize on Austin's business-friendly climate and lower cost of living. Fortune 500 companies like Google, Meta, Apple and Oracle doubled down on Austin, bringing thousands of new workers to the city. Once again, large blocks of quality office space were in high-demand as companies anticipated a quick return to pre-pandemic normal. As such, many newly constructed office buildings were fully preleased before completion, and developers continued to add inventory.

TECH DOWNTURN

2022 brought new pain to Austin's office sector. Soaring inflation, higher interest rates, and uncertain economic conditions caused a major disruption to the market. Tech stocks fell more than 30% in 2022, rivaling only 2008 and the 2000 dot.com crash. Many of the tech giants with newly inked office leases changed course, abandoning plans to fill these large blocks of space. However, new building deliveries kept coming, with limited leasing activity and reduced office utilization, causing a large disconnect between supply and demand.

SUBLEASE SURGE & RECORD VACANCY

A combination of company layoffs, hybrid work, and reduced real estate needs led to a massive surge in sublease space throughout Austin. The amount of available sublease space has grown by more than 400% since the start of the pandemic, with much of this space attributed to large tech companies. Coupled with an oversupply of brand-new office buildings, vacancy levels have hit an all time of nearly 30%.

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WHAT'S NEXT?

The bright side for Austin is its population continues to grow, and many companies are continuing to relocate their businesses to Central Texas. This has led to a slow but steady increase in office leasing activity, and many companies are returning to in-person work. All this should help ease vacancy issues somewhat. However, an abundance of new office supply, including some that has yet to deliver, will take years to work through, so its expected higher vacancies will linger for the next several years.

SUPPLY & DEMAND

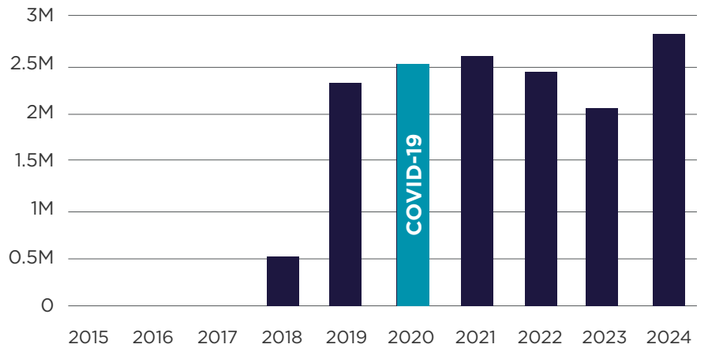
2.5 MSF
5-YEAR ANNUAL AVERAGE CONSTRUCTION COMPLETIONS

1.9 MSF
REMAINS UNDER CONSTRUCTION

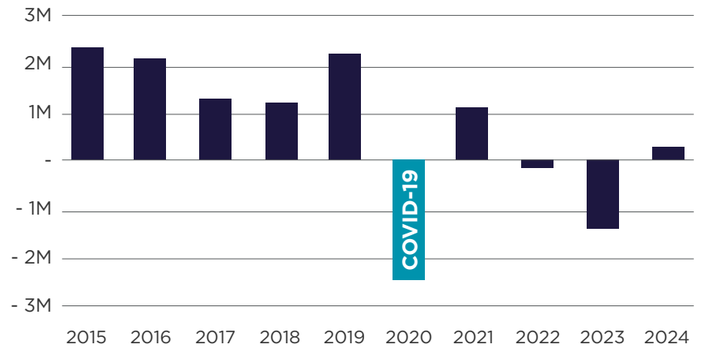
4.8 MSF
AVAILABLE SUBLEASE SPACE

-533K SF
2020-2024 YEARLY AVERAGE NET ABSORPTION

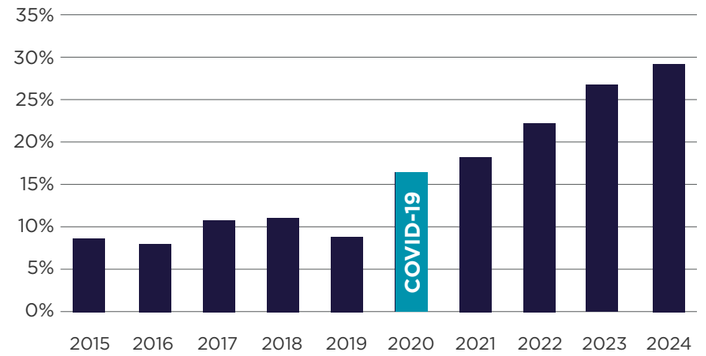
DELIVERIES (SF)



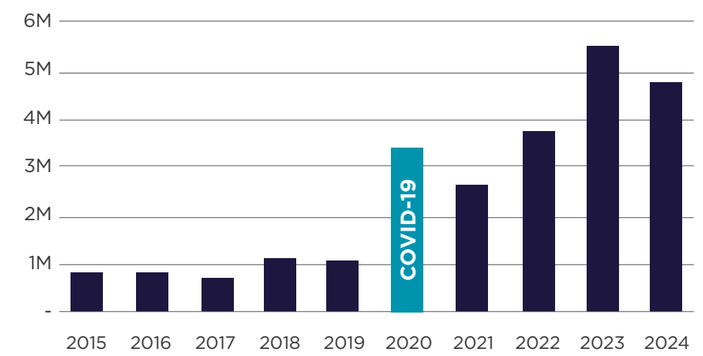
OVERALL NET ABSORPTION (SF)



OVERALL VACANCY RATE (%)



SUBLEASE HISTORY (SF)



FOR MORE INFORMATION, PLEASE CONTACT:

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ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2024, the firm reported revenue of $9.4 billion across its core service lines of Services, Leasing, Capital markets, and Valuation and other. Built around the belief that Better never settles, the firm receives numerous industry and business accolades for its award-winning culture.

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