

The COVID-19 Impact on the Downtown Austin Office Market and Tenants

Introduction

When will downtown tenants and their employees return to their offices?

This very important question and others are critical to understanding the impact that the COVID-19 pandemic has on the downtown Austin office market. As part of our response to the current public health crisis, the Downtown Austin Alliance's research team sought to answer key questions about the current office market, tenant sentiments, building modifications, plans for the future, and real estate outlook.

This short report will highlight the key findings from our study, providing the reader insight on how downtown office properties have managed during this pandemic, what concerns their tenants have, and what the future may look like.

About the Downtown Austin Alliance

The Downtown Austin Alliance is a Public Improvement District who leads and participates in a broad range of programs and initiatives that create, preserve and enhance the value and vitality of downtown Austin. We provide direct services to downtown, advocate for and invest in other organizations' efforts, create signature activations that bring Austin's public spaces alive, and provide critical research used in planning and development.

Research Methodology

This study was completed using qualitative interviews conducted with 11 individuals representing 10 companies that either own, develop, manage, and or lease office space in downtown Austin. Prior to selecting those individuals, the Downtown Alliance's research team along with several internal staff members and industry experts conducted several internal meetings to develop a set of 14 questions.

Interviews were conducted between May 18th and May 28th. Interview responses were placed into a qualitative matrix to assess common themes and generate key findings.

Summary of Findings

Downtown's office tenant return will be slow and in phases, carefully addressing barriers and employee concerns. As local public health orders went into effect and tenants began leaving their downtown spaces, property managers and owners quickly adapted their operations. This included purchasing additional equipment, redefining deep cleaning practices, and increasing communication by providing tenants with return-to-office guidance. Ten key findings summarized what we heard.

Participant Profile Representation



10,500,000

Square Feet of Office



30

of Buildings



485

Approx. # of Tenants



69%

of Downtown's Multi
Tenant Inventory

Ten Key Findings

#1 Offices Emptied Quickly

According to all interviewees, once the public health orders went into effect in mid-March, approximately 80% of tenants temporarily closed down their office space. Offices that remained open were designated as essential businesses. Those businesses had a limited number of employees present at a given time. At the time of the survey, physical occupancy in their office buildings ranged from 5% to 25%.

#2 The Return of the Tenant is Unknown

All interviewees anticipate a slow return to the office and acknowledge some degree of uncertainty. Most tenants did not have a plan or return date in place. Those who did have a plan mentioned June 1st to the end of the year as their target return date. Interviewees stated that decisions to return will be based on state and local government orders, factors related to corporate decisions, local health trends, and the effectiveness of employee telework.

#3 Many Barriers Hinder Tenant Return to Office

All interviewees described a wide range of decisions tenants must make before returning to their downtown office space. Those tenant decisions varied due to multiple factors ranging from the practicality and effectiveness of staggering office hours/days, health concerns related to internal office layout, to the availability of childcare options.

#4 Return to Office Plans Vary by Tenant

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#5 Property Managers Engage in Direct Communications

All interviewees reached out directly or directed their property managers to reach out to tenants to gain understanding of concerns and return-to-office plans. Most interviewees reported sending best practice material or reopening guidance to their tenants. Some interviewees also implemented a tenant survey in April or May to understand how tenants thought about returning to the office.

Ten 10 Key Findings (Continued)

#6 Property Managers and Owners Adapt Operations

Property managers and owners are taking significant action to keep their tenants safe. Interviewees reported implementing a wide array of new policies, procedures that will enable tenants to return to their offices safely. The most common themes were: installing new signage throughout the property providing general guidelines, installing social distancing floor markers for the lobby and other common areas to encourage physical distance in lobbies and elevators, implementing policies that limit or temporarily prohibit the use of shared tenant spaces such as fitness centers and conference rooms.

#7 Office Tenants Have Mostly Paid Rent On-time

Most interviewees reported over 95% on-time rent for April and May with less than 5% of office tenants inquiring about forbearance. Interviewees were hopeful that this trend would continue in June but expressed that they would be less optimistic the longer the social distancing and re-opening restrictions remain in place, or if the spread of the virus spikes upward as restrictions are lifted.

#8 Leasing Activity has Slowed Significantly

Most interviewees described a very stagnant leasing market but emphasized that lease deals that were successfully progressing prior to COVID continue to move forward.

#9 Office Market Insights and Outlook

The short-term outlook for the office market is generally uncertain. While all interviewees anticipate an increase in sublease space available and downward pressures on rent, they express some uncertainty regarding the severity and longevity of the pandemic's impact. The long-term outlook is optimistic as all interviewees expressed confidence that the downtown Austin office market will bounce back in the long-term due to its market strength going into the pandemic and its attractiveness to top talent.

#10 Real Estate Development Insights and Outlook

Across the board, interviewees anticipate that all new development projects currently under construction will be completed, but projects in the development pipeline will not advance until there is greater confidence in the market and the reliability of financing capital. All interviewees indicated strong optimism and assert the development pipeline will resume in the long-term as Austin will remain an attractive market for corporate relocation and expansion.

Conclusion

The economic ramifications of COVID-19 continue to ripple across various industries as commercial leasing activity has slowed significantly. In the short term, it's still too early to know how the thousands of downtown tenants will fair or what the economic impact will be on the downtown office market. In the long-term, each person interviewed expressed sincere optimism. They were confident that Austin will recover because of our strong economy prior to the crisis and our strong response during the crisis.