

# AUSTIN INDUSTRIAL | Q2 2022

## QUARTERLY MARKET REPORT

Austin industrial's fast-growing, high-tech manufacturing sector is boosted by chipmakers.

JULY 2022

### EXECUTIVE SUMMARY

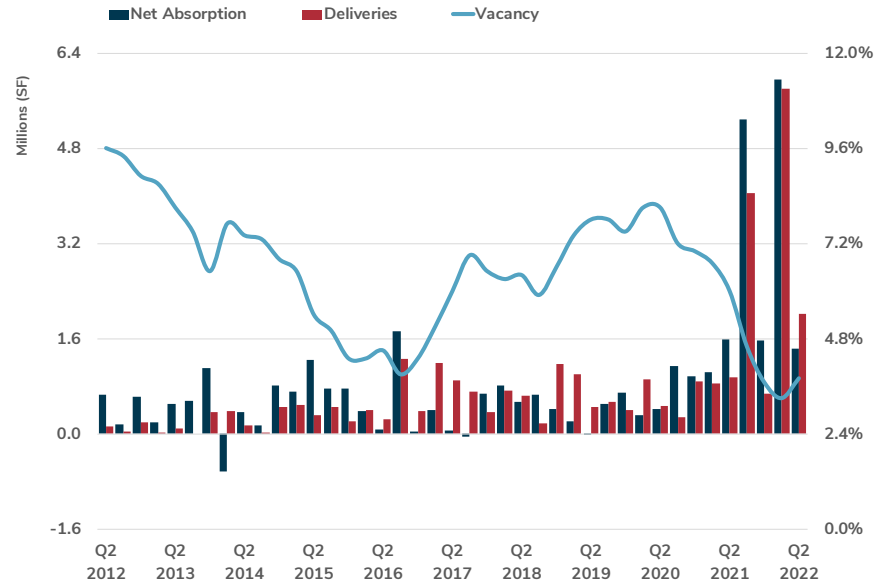
#### VACANCY GAUGE MOVES TO 3.8%

The vacancy rate has loosened to 3.8% in the Austin industrial market. Quarter-over-quarter, the increase in vacancy was 50 basis points from 3.3%, while year-over-year, the market experienced a decline of 220 basis points from 6.0%. 2.0 million sq. ft. was delivered to the market during Q2 2022, bringing the year-to-date total to 7.8 million sq. ft., with 93% of that space spoken for. Q2 2022 broke the seventh consecutive quarter streak that demand for industrial space (1.4 million sq. ft. of net absorption) outpaced supply (2.0 million sq. ft. delivered) in the Austin metro. Leasing remained strong, with Austin recording 1.8 million sq. ft. of activity, just below the ten-year quarterly average of 2.1 million sq. ft. With 7.8 million sq. ft. delivered since the beginning of the year, 10.8 million sq. ft. under construction, and another 13.5 million sq. ft. proposed through 2023, the demand for industrial real estate should resume outpacing the amount of sq. ft. delivered.

#### AUSTIN'S ECONOMY CONTINUED TO GROW IN MAY, THOUGH AT A SLOWER PACE

Austin's unemployment rate dropped to a revised 2.9% in May—a new low since the beginning of the pandemic. This is comparable with the state's jobless rate of 4.2% and the nation's rate of 3.6%. Austin employment increased at a 4.5% annualized pace, or by 13,600 net jobs, for the three months ending in May. Growth was led by manufacturing (up 10.6%, or 1,700 jobs), followed by leisure and hospitality (up 8.4%, or 2,600 jobs), and professional and business services (up 7.3%, or 4,500 jobs). Construction and mining remained weak, seeing a net decline in employment (down 8.0%, or 1,500 jobs). As of May, all major sectors except leisure and hospitality, government, and other services were above pre-pandemic levels.

### SUPPLY & DEMAND



### MARKET INDICATORS

	CURRENT Q2 2022	PRIOR QUARTER Q1 2022	PRIOR YEAR Q2 2021
Vacant Total	3.8%	3.3% <span>▲</span>	6.0% <span>▼</span>
Vacant Direct	3.6%	3.0% <span>▲</span>	5.6% <span>▼</span>
Vacant Sublease	0.2%	0.3% <span>▼</span>	0.5% <span>▼</span>
Available Total	9.1%	7.4% <span>▲</span>	6.5% <span>▲</span>
Available Direct	8.7%	7.0% <span>▲</span>	6.0% <span>▲</span>
Available Sublease	0.4%	0.5% <span>▼</span>	0.5% <span>▼</span>
Net Absorption (SF)	1,428,070	5,965,473 <span>▼</span>	1,594,651 <span>▼</span>
Leasing Activity (SF)	1,757,291	2,002,392 <span>▼</span>	4,223,289 <span>▼</span>
Construction (SF)	10,811,792	8,841,301 <span>▲</span>	14,536,865 <span>▼</span>
Deliveries (SF)	2,017,308	5,807,614 <span>▼</span>	946,764 <span>▲</span>
Avg Asking Rent (NNN)	\$1.02	\$1.04 <span>▼</span>	\$0.97 <span>▲</span>
Inventory (SF)	108,684,002	102,875,588 <span>▲</span>	97,388,857 <span>▲</span>

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## SUBSTANTIAL INDUSTRIAL MARKET DEMAND

Last quarter, Q1 2022, the completion of the Tesla Gigafactory at 4.5 million sq. ft. and Amazon Sat6 at 767,000 sq. ft. added 5.3 million sq. ft. of net absorption to the Austin industrial market. This quarter, 1.4 million sq. ft. of net absorption took place, bringing the total for 2022 to 7.4 million sq. ft. In addition, 1.8 million sq. ft. of leasing activity comprised of both new leases and renewals took place during Q2 bringing the year-to-date total to 3.8 million sq. ft. Ninety-one properties—10,000 sq. ft. and larger—are under construction, tallying 10.8 million sq. ft. with a 55% availability rate. 23.1 million sq. ft. has been added to the Austin Industrial market in the past five years, a 26% increase in total inventory, registering at 111.1 million sq. ft. as of June 30, 2022.

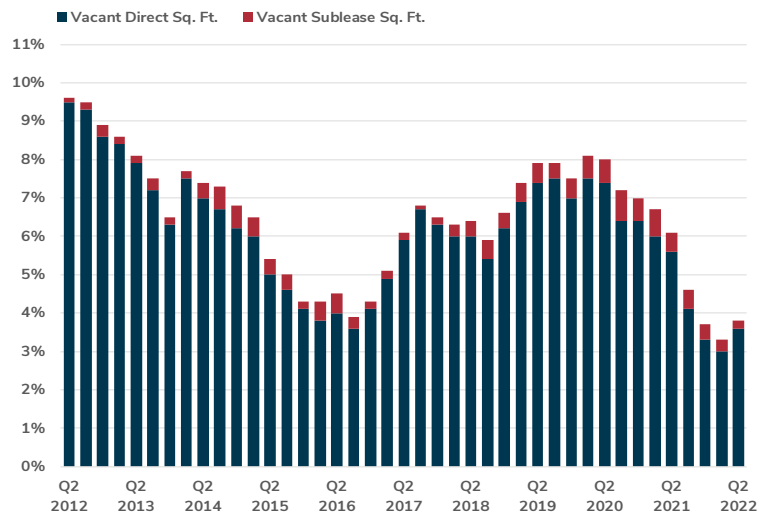
## STRONG LEASING ACTIVITY

The volume of signed lease transactions during the second quarter comprised of both new leases and renewals was 1.8 million sq. ft.—down from the previous quarter’s 2.0 million sq. ft., registering 136 transactions in properties 10,000 sq. ft. and larger. The largest leases signed in the second quarter include Wesco executing a sublease for 126,500 sq. ft. at 301 W. Howard Lane in the Northeast submarket in June; Bosworth Papers leasing 109,203 sq. ft. at 6301 E. Stassney Lane in Expo Business Park in the Southeast submarket in June with a start date in December; 108,160 sq. ft. at 1980 Kohlers Crossing in Kyle in April with a start date in October, and 102,060 sq. ft. leased at 3300 E. Pecan St. in Pflugerville in May with a start date in September.

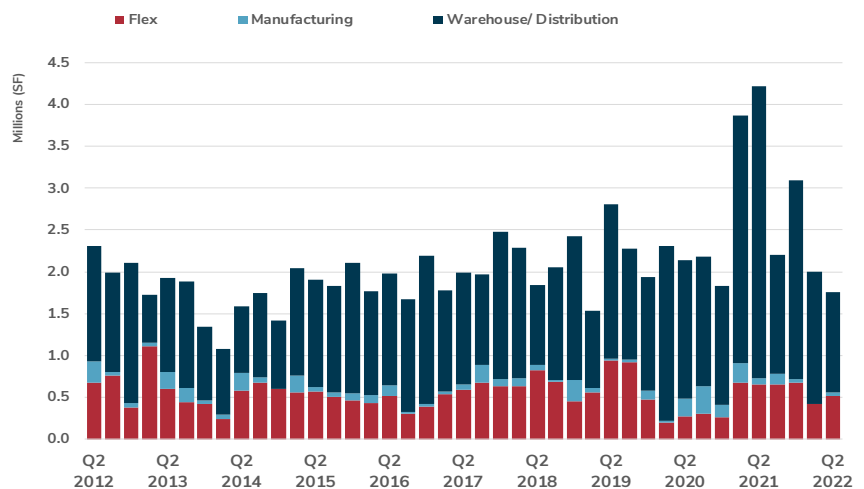
## INVESTMENT SALES TRENDS

Real Capital Analytics data reports the industrial quarterly sales volume for Q2 2022 in the Austin area at \$93.3 million, down 75% from Q2 2021 at \$350.7 million. The primary capital composition for buyers so far in 2022 was made up of 69% institutional investors and 29% private investors. The seller composition was 53% REIT/listed investors and 47% private. A recent notable transaction involved the sale of Innovation Business Park, a 361,467-sq.-ft. industrial development located in the northern Austin suburb of Hutto. The two-building complex is leased to Western Industries, Three Way Logistics, and Barnsco. CenterPoint Properties purchased the asset for an undisclosed price from a partnership between Ledo Capital Group and St. Clair Commercial Real Estate.

## VACANCY

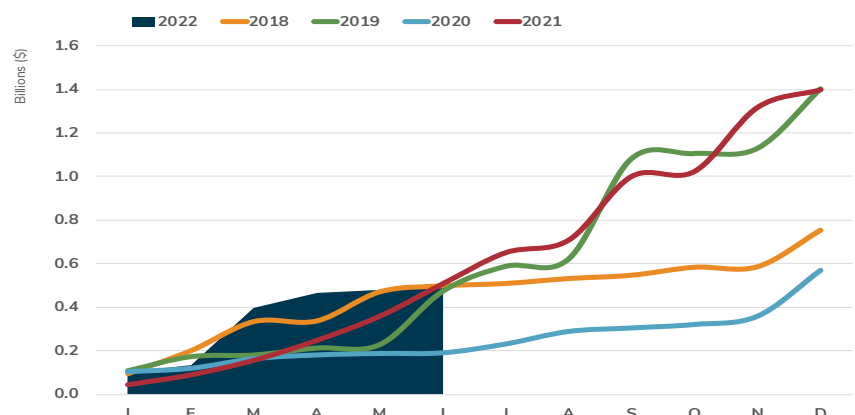


## LEASING ACTIVITY



## CUMULATIVE MONTHLY SALES VOLUME

SOURCE: REAL CAPITAL ANALYTICS



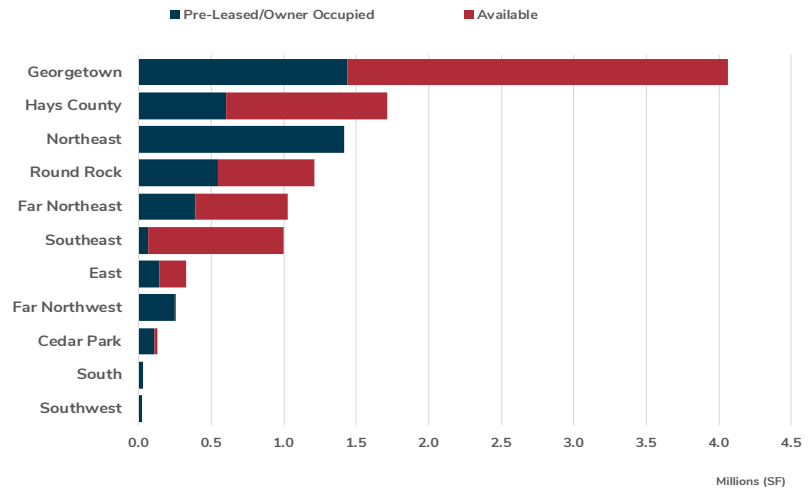
**CONSTRUCTION REMAINS ROBUST**

There is 10.8 million sq. ft. under construction, with 55% available for lease. There are 91 projects under construction, up from 54 projects this time last year. Warehouse/Distribution space currently makes up 90% of the total space under construction, with Flex space responsible for 9% and Manufacturing projects the remaining 1%. Of the 7.8 million sq. ft. completed so far in 2022, only 7% or about 550,000 sq. ft. is available for lease. Some of the largest projects underway include 9700 E. Highway 290— Applied Materials Logistics Center Building 37 totaling 725,000 sq. ft., delivering in Q4 2022 in the Northeast submarket; 1760 Kohlers Crossing Road—Kyle Public Safety Center at 450,000 sq. ft., scheduled for completion in Q3 2023; and the 426,240 sq. ft. Georgetown Logistics Park Building 1 located at the SWC of Aviation Drive and South Interstate Highway 35 Service Road, in Georgetown, delivering in Q1 2023.

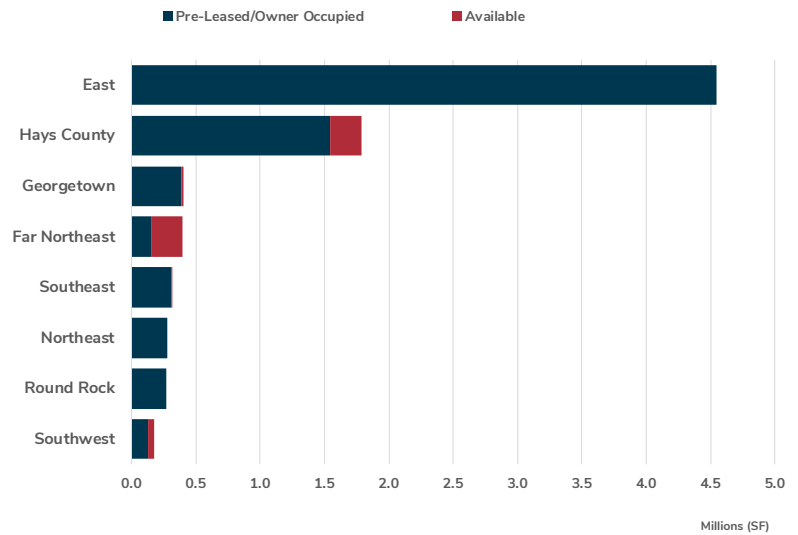
**AVERAGE ASKING NNN RENT**

On average, monthly rental rates for the Austin industrial metro were \$1.02 per sq. ft. as of the end of Q2 2022, down from \$1.04 per sq. ft. quarter-over-quarter and an increase year-over-year from \$0.97. The monthly average rate for Flex space is currently at \$1.45 per sq. ft.; Manufacturing rates are at \$1.17, and Warehouse/Distribution space sits at \$0.88. The Southeast (\$1.44 PSF) and Northwest (\$1.41 PSF) submarkets currently have the highest monthly overall average rates, followed by North Central (\$1.21 PSF). The shift towards e-commerce and the recent institutional quality of the property type has steered the market to increased rent growth, leading landlords nationwide to feel encouraged.

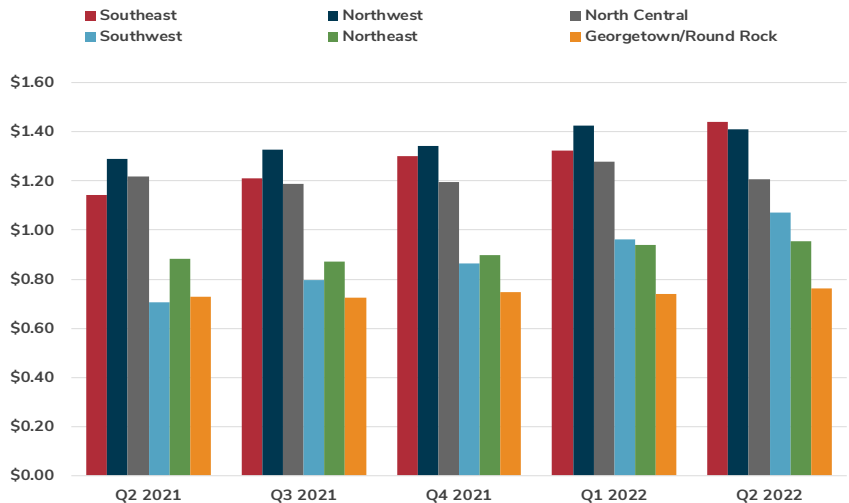
**CONSTRUCTION**



**DELIVERIES**



**AVERAGE ASKING MONTHLY NNN RENT**



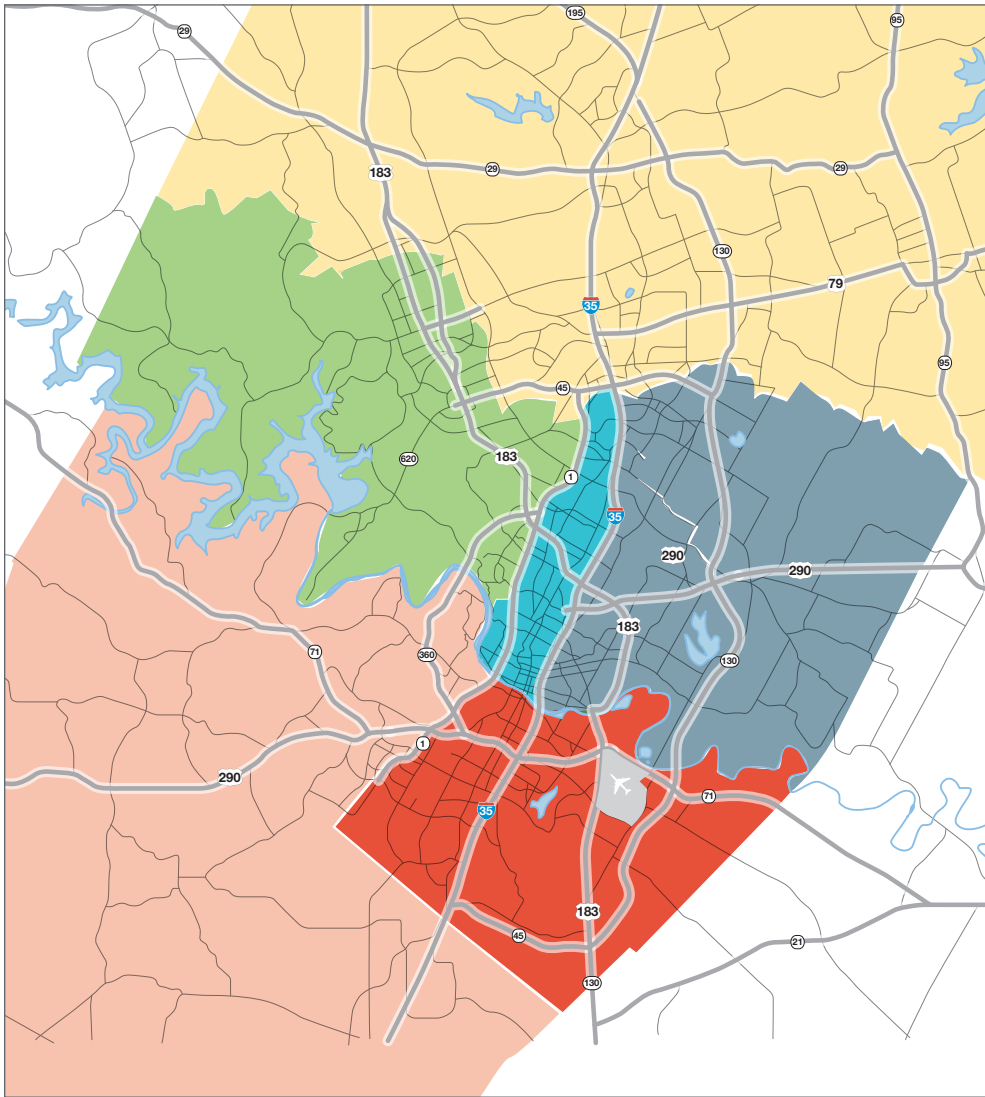
# MARKET OVERVIEW

## SUBMARKET STATS

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2022 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2022 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/MO/PSF)
<b>Austin Market Total</b>	<b>111,063,249</b>	<b>3.8</b>	<b>9.1</b>	<b>1,428,070</b>	<b>7,393,543</b>	<b>2,017,308</b>	<b>7,824,922</b>	<b>10,811,792</b>	<b>1.02</b>
Flex	21,268,849	4.5	6.8	8,662	78,779	0	0	953,493	1.45
Manufacturing	21,040,625	1.7	2.3	-24,595	4,503,012	0	4,542,562	110,000	1.17
Warehouse/Distribution	68,753,775	4.2	11.6	1,444,003	2,811,752	2,017,308	3,282,360	9,748,299	0.88
<b>Georgetown/Round Rock Total</b>	<b>12,712,355</b>	<b>6.5</b>	<b>20.3</b>	<b>277,251</b>	<b>358,212</b>	<b>289,200</b>	<b>332,486</b>	<b>4,986,286</b>	<b>0.76</b>
Flex	1,376,792	3.4	4.7	-1,407	-35,782	0	0	46,650	1.32
Manufacturing	2,069,164	0.0	0.0	0	0	0	0	110,000	0.90
Warehouse/Distribution	9,266,399	8.4	25.0	278,658	393,994	289,200	332,486	4,829,636	0.75
<b>North Central Total</b>	<b>18,131,141</b>	<b>4.5</b>	<b>7.7</b>	<b>43,989</b>	<b>-62,549</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1.21</b>
Flex	4,582,049	6.4	11.7	-8,547	25,487	0	0	0	1.38
Manufacturing	1,432,524	1.5	1.5	-45	0	0	0	0	1.21
Warehouse/Distribution	12,116,568	4.2	6.9	52,581	-88,036	0	0	0	1.06
<b>Northeast Total</b>	<b>36,313,637</b>	<b>3.1</b>	<b>5.1</b>	<b>389,363</b>	<b>4,996,038</b>	<b>673,086</b>	<b>5,215,648</b>	<b>2,771,564</b>	<b>0.95</b>
Flex	6,591,080	5.4	5.2	-33,248	-123,651	0	0	548,971	1.46
Manufacturing	10,237,012	1.7	1.9	-24,550	4,503,012	0	4,542,562	0	1.17
Warehouse/Distribution	19,485,545	3.0	6.7	447,161	616,677	673,086	673,086	2,222,593	0.78
<b>Northwest Total</b>	<b>7,842,831</b>	<b>2.1</b>	<b>2.6</b>	<b>12,186</b>	<b>7,197</b>	<b>0</b>	<b>0</b>	<b>387,872</b>	<b>1.41</b>
Flex	3,448,328	3.5	3.8	12,197	7,208	0	0	332,872	1.44
Manufacturing	1,266,909	0.0	0.0	0	0	0	0	0	-
Warehouse/Distribution	3,127,594	1.5	2.1	-11	-11	0	0	55,000	1.06
<b>Southeast Total</b>	<b>20,614,121</b>	<b>2.7</b>	<b>8.2</b>	<b>-10,545</b>	<b>370,847</b>	<b>0</b>	<b>317,572</b>	<b>1,015,905</b>	<b>1.44</b>
Flex	4,267,733	2.7	7.8	70,319	165,975	0	0	0	1.70
Manufacturing	1,753,908	1.1	1.4	0	0	0	0	0	1.08
Warehouse/Distribution	14,592,480	2.9	9.1	-80,864	204,872	0	317,572	1,015,905	1.22
<b>Southwest Total</b>	<b>15,449,164</b>	<b>4.8</b>	<b>12.4</b>	<b>715,826</b>	<b>1,723,798</b>	<b>1,055,022</b>	<b>1,959,216</b>	<b>1,650,165</b>	<b>1.07</b>
Flex	1,002,867	3.4	6.0	-30,652	39,542	0	0	25,000	1.07
Manufacturing	4,281,108	3.1	5.8	0	0	0	0	0	0.50
Warehouse/Distribution	10,165,189	5.7	15.4	746,478	1,684,256	1,055,022	1,959,216	1,625,165	1.07

# MARKET OVERVIEW

## AUSTIN INDUSTRIAL SUBMARKETS



- 1. Georgetown/  
Round Rock
- 2. North Central
- 3. Northeast
- 4. Northwest
- 5. Southeast
- 6. Southwest

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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