

Austin Industrial

Q1 2023

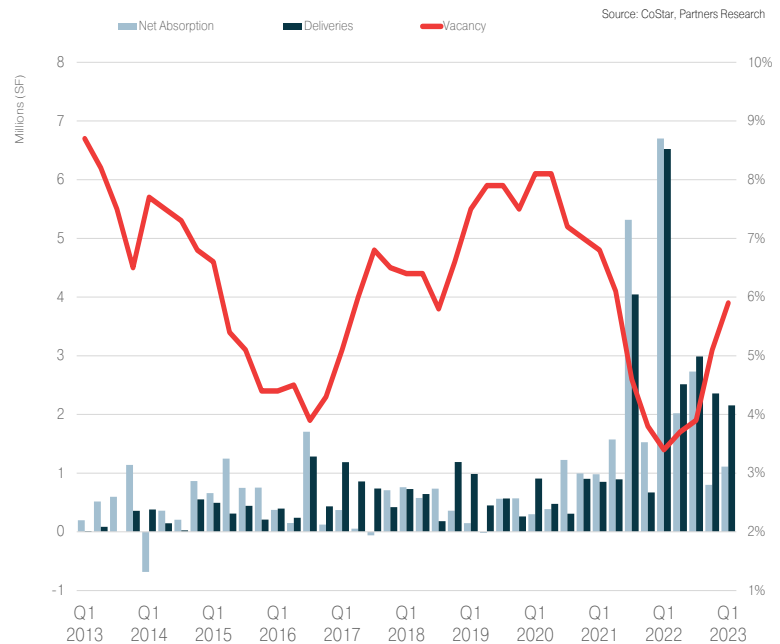
Executive Summary

Austin Industrial records 15th straight quarter of positive absorption

Q1 2023 in Review

By the end of Q1 2023, the vacancy rate bumped up 80 basis points quarter-over-quarter from 5.1% to 5.9%. This was due to record-breaking construction outperforming demand, fueled by optimism in a blossoming Manufacturing sector. Construction surged by 21% quarter-over-quarter, and a remarkable 74% year-over-year, reaching 16.7 million sq. ft. by the end of Q1 2023. Industrial rental rates have also kept up with inflation, steadily increasing from 6% last year, currently standing at \$1.10 per sq. ft. In turn, leasing slowed but remained strong with 1.3 million sq. ft. in deals executed by quarter's end. Austin's industrial market is cooling down and leveling off from 2022, but still holds its own within Texas's industrial markets.

Supply & Demand



Austin Economic Update

The Austin unemployment rate increased to 3.3% in February—ticking up from 2.6% last November. The metro's jobless rate was lower than both the national rate (3.6%), and the state's rate (4.0%). The hospitality (452 jobs, or 3.7%) and government (242 jobs, or 1.6%) sectors experienced the most growth in February, while construction and mining (688 jobs, or 9.8%) and other services (421 jobs, or 9.7%) had the largest regressions.

Key Market Indicators

Source: CoStar, Partners Research

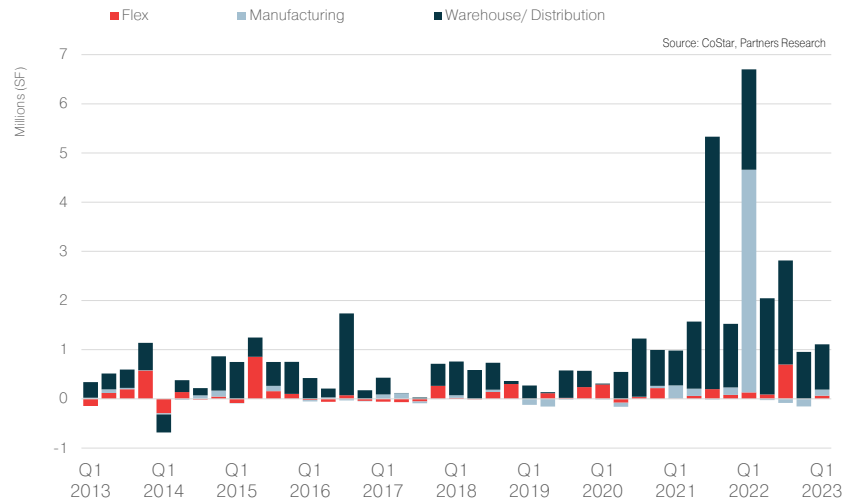
	CURRENT Q1 2023	PRIOR QUARTER Q4 2022		PRIOR YEAR Q1 2022	
Vacant Total	5.9%	5.1%	▲	3.4%	▲
Vacant Direct	5.2%	4.5%	▲	3.0%	▲
Vacant Sublease	0.6%	0.6%	▬	0.4%	▲
Available Total	14.5%	12.2%	▲	7.3%	▲
Available Direct	13.6%	11.3%	▲	6.7%	▲
Available Sublease	0.8%	0.9%	▼	0.5%	▲
Net Absorption (SF)	1,110,241	800,328	▲	6,702,113	▼
Leasing Activity (SF)	1,367,785	2,383,002	▼	2,924,158	▼
Construction (SF)	16,708,913	13,806,995	▲	9,579,257	▲
Deliveries (SF)	2,153,474	2,357,650	▼	6,522,614	▼
Avg Asking Rent (NNN)	\$1.10	\$1.07	▲	\$1.04	▲
Inventory (SF)	120,786,508	118,633,034	▲	110,772,789	▲

01

15 Straight Quarters of Positive Absorption

Net absorption (move-ins minus move-outs) registered a positive 1.1 million sq. ft.—predominately comprised of Warehouse/Distribution space—at the end of the quarter, up 39% from 800,000 sq. ft. from Q4 2022. This marked the 15th straight quarter of positive net absorption for the Austin industrial market, dating back to Q2 2019.

Net Absorption

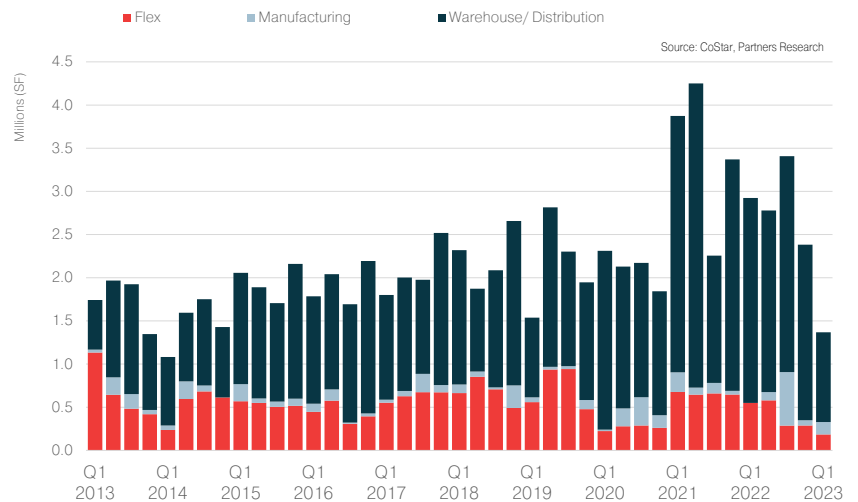


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Austin Industrial Leasing Leveling Off From 2022 Peak

Quarterly leasing velocity slowed during the first quarter of Q1 2023—finishing with 1.3 million sq. ft. of deals in the books. The previous quarter and year recorded 2.3 million sq. ft. and 2.9 million sq. ft., respectively. Leasing velocity peaked during Q3 2022, a quarter that saw an all-time high of 3.4 million sq. ft. in deals. The tightening of credit and slower consumer demand will result in many speculative buildings being shelved in 2023, resulting in lessened leasing activity. In a notable transaction, Ferguson Enterprises—the largest U.S. distributor of plumbing supplies and fire products—recently took over a 207,180-sq.-ft. building—one of four in Austin’s new industrial park. This park (ATX 130) will stretch across 67 acres at Texas and Elroy Road, breaking ground in an under-supplied submarket and will service tenants that need up to 395,000 sq. ft.

Leasing Activity

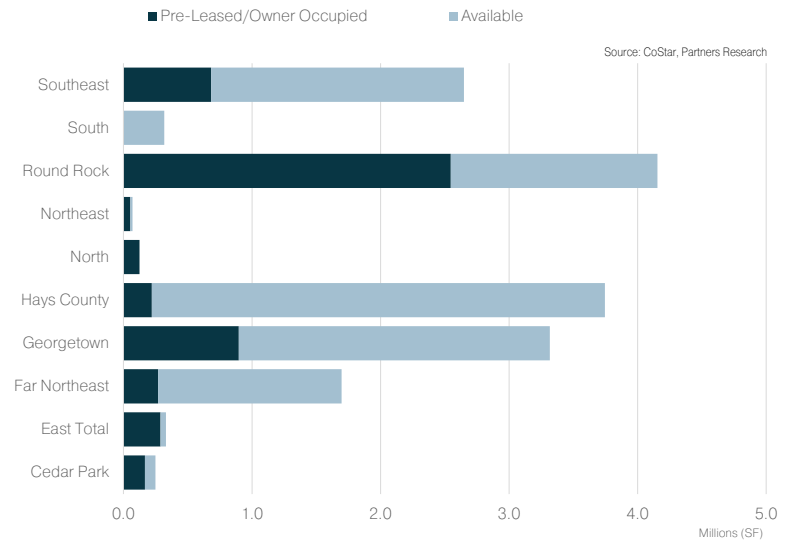


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Record-High 16 Million-Sq.-Ft. Construction Pipeline

Austin's industrial construction pipeline surged to a new record-high of 16.7 million sq. ft.—a substantial 74% increase from Q1 2022. The majority of the pipeline consisted of 16 million sq. ft. in Warehouse/Distribution space and rounded out by 500,000 sq. ft. of Manufacturing space. The Round Rock submarket leads construction, with 4.1 million sq. ft.—or 24% of all space under development—followed by the Hays County submarket with 3.7 million sq.ft. (22%). Meanwhile, Austin's deliveries totaled 2.1 million sq. ft., with the Georgetown submarket leading with 1.2 million sq. ft.—41% of the total. The largest builds in Q1 2023 include a 408,000-sq.-ft. warehouse, built in March, situated near Texas State Highway 130 at 12821 Titanium St.; and a 297,000-sq.-ft. distribution center located at 1805 Aviation Dr.

Construction

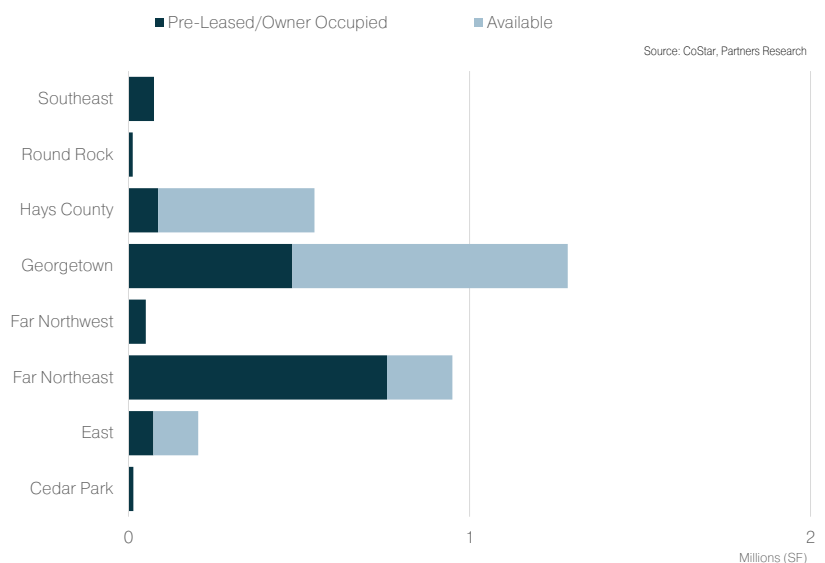


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Vacancy Rate Increases to 5.9%

Three months into 2023, the overall vacancy rate in the Austin industrial market is 5.9%, up 80 basis points from 5.1% during the previous quarter, and up 250 basis points (3.4%) from the previous year. The uptick in the vacancy rate is largely due to the volume of consistent deliveries—approximately 2 million sq. ft.—produced since Q1 2022 (6,522,614 sq. ft.). As market fundamentals adjust and supply fills the market, experts predict vacancy to rise to 8.0% by the end of 2023 as a result.

Deliveries

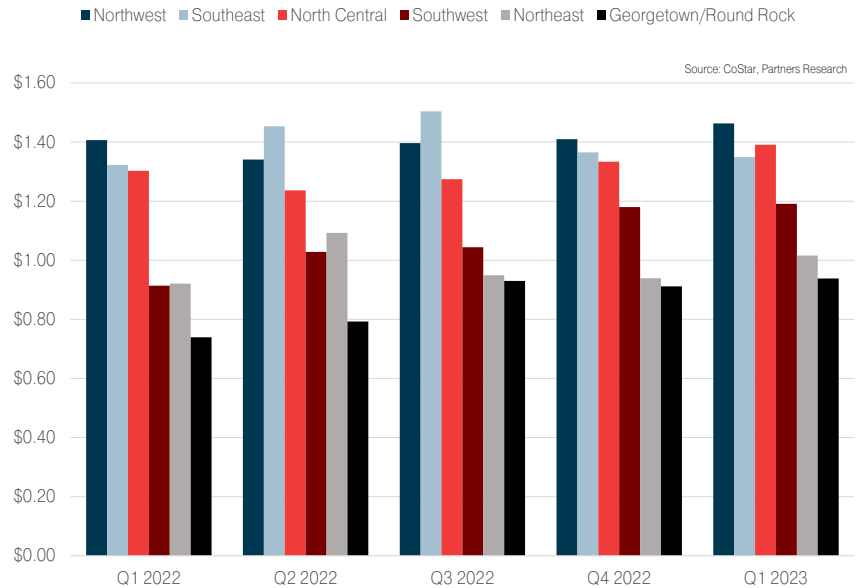


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Rental Rates Continue to Trend Upward

The average monthly rental rate for the Austin market was \$1.10 per sq. ft. as of the end of Q1 2023, up quarter-over-quarter at \$1.07 per sq. ft. and up from \$1.04 sq. ft. year-over-year. The average monthly rate per square foot for Flex space stood at \$1.48, while rates for Manufacturing space and Warehouse/Distribution space were \$1.23 and \$0.98, respectively. The Northwest submarket currently has the highest monthly overall average rate at \$1.46 per sq. ft., followed by the North Central submarket at \$1.39 per sq. ft. Overall, the Austin rental market continues to see an upward trend in rental rates, with Flex Space pricing the highest.

Average Asking Monthly NNN Rent

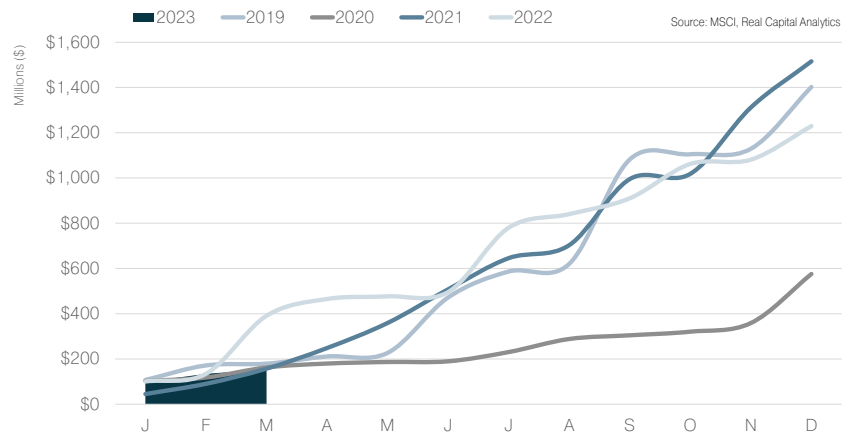


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Investment Sales Trends

Real Capital Analytics data reveals that Q1 2023 industrial sales volume in the Austin region was \$153 million. This indicates a 60% decrease compared to Q1 2022 sales volume of \$390 million. In 2023, the majority of buyers comprised of 86% private and 13% institutional, while the majority of sellers included 89% private and 8% institutional. Endeavor RE Group, a privately held real estate investment firm, was responsible for the largest acquisition of the quarter, buying a 208,110-sq.-ft. warehouse (Austin American–Statesman headquarters) at 305 S Congress Ave. This warehouse is a part of a massive 3.5 million-sq.ft. project that will cost approximately \$252 million—a prominent addition to the Austin market.

Cumulative Monthly Sales Volume



Market Overview

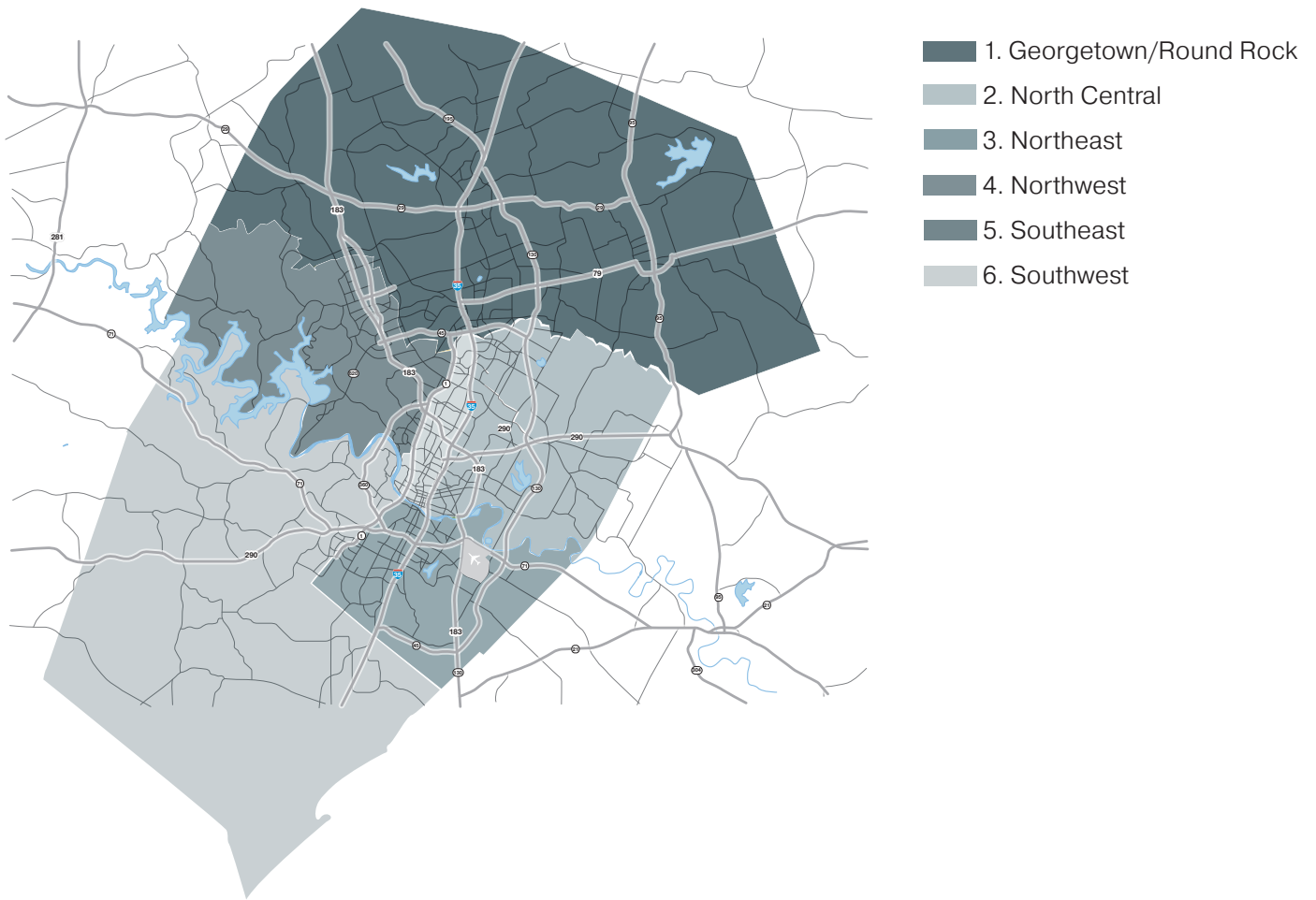
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Submarket Stats

Submarket Statistics	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q1 2023 Net Absorption (SF)	Q1 2023 YTD Net Absorption (SF)	Q1 2023 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Austin Market Total	120,786,508	5.9	14.5	1,110,241	1,110,241	2,153,474	2,153,474	16,708,913	1.10
Flex	22,305,539	5.2	8.6	63,531	63,531	58,000	58,000	339,970	1.48
Manufacturing	21,071,241	2.3	2.5	126,234	126,234	0	0	498,180	1.23
Warehouse/Distribution	77,409,728	7.0	18.7	920,476	920,476	2,095,474	2,095,474	15,870,763	0.98
Georgetown/Round Rock Total	15,704,486	12.0	26.2	302,448	302,448	706,698	706,698	8,039,245	0.94
Flex	1,388,817	3.6	8.8	-1,586	-1,586	15,000	15,000	97,150	1.48
Manufacturing	2,072,743	6.0	2.2	10,400	10,400	0	0	498,180	1.14
Warehouse/Distribution	12,242,926	14.0	30.6	293,634	293,634	691,698	691,698	7,443,915	0.92
North Central Total	18,980,930	5.9	9.5	-72,621	-72,621	0	0	125,030	1.39
Flex	5,189,307	8.8	15.1	-44,856	-44,856	0	0	0	1.52
Manufacturing	1,446,594	1.4	0.0	0	0	0	0	0	0.00
Warehouse/Distribution	12,345,029	5.2	8.4	-27,765	-27,765	0	0	125,030	1.20
Northeast Total	39,634,033	2.8	7.0	1,128,921	1,128,921	846,834	846,834	2,430,187	1.02
Flex	7,032,090	2.7	5.8	142,334	142,334	43,000	43,000	80,630	1.46
Manufacturing	10,249,456	1.6	1.8	115,834	115,834	0	0	0	1.31
Warehouse/Distribution	22,352,487	3.5	9.5	870,753	870,753	803,834	803,834	2,349,557	0.82
Northwest Total	8,050,697	2.6	4.2	7,832	7,832	0	0	298,933	1.46
Flex	3,453,124	4.2	4.9	-9,709	-9,709	0	0	124,190	1.52
Manufacturing	1,266,909	0.0	0.0	0	0	0	0	0	0
Warehouse/Distribution	3,330,664	1.8	4.9	17,541	17,541	0	0	174,743	1.30
Southeast Total	21,685,958	6.2	16.0	-277,469	-277,469	54,850	54,850	2,283,200	1.35
Flex	4,269,533	6.3	9.1	-5,887	-5,887	0	0	0	1.44
Manufacturing	1,753,908	1.4	1.4	0	0	0	0	0	1.08
Warehouse/Distribution	15,662,517	6.7	19.1	-271,582	-271,582	54,850	54,850	2,283,200	1.30
Southwest Total	16,730,404	8.5	23.4	21,130	21,130	545,092	545,092	3,532,318	1.19
Flex	972,668	5.6	4.9	-16,765	-16,765	0	0	38,000	1.08
Manufacturing	4,281,631	3.6	6.4	0	0	0	0	0	0.00
Warehouse/Distribution	11,476,105	10.6	29.5	37,895	37,895	545,092	545,092	3,494,318	1.20

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Austin Industrial Submarkets



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