

Austin's industrial market has had one of the best years in its history.

Executive Summary

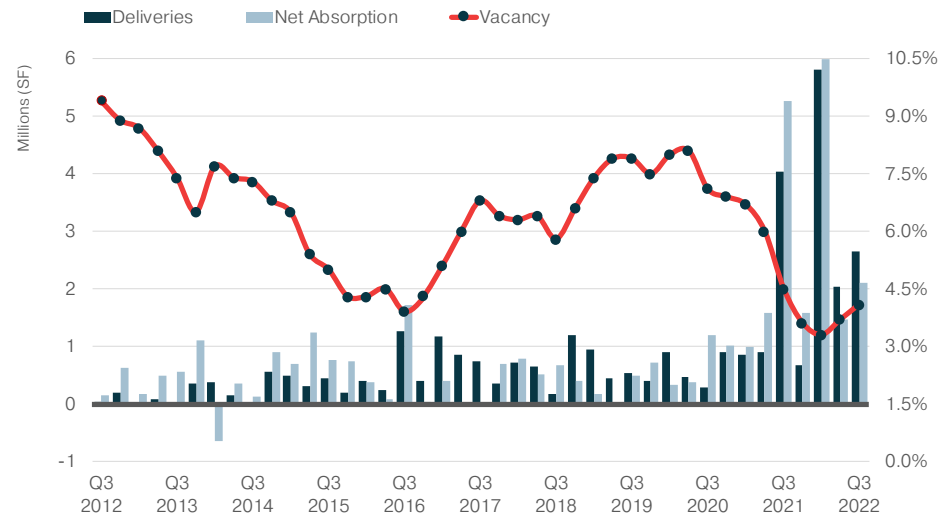
Vacancy gauge moves to 4.1%

The vacancy rate has loosened to a tight 4.1% in the Austin industrial market. Quarter-over-quarter, the increase in vacancy was 40 basis points from 3.7%, while year-over-year, the market experienced a drop of 40 basis points from 4.5%. 2.7 million sq. ft. was delivered to the market during Q3 2022, bringing the year-to-date total to 10.5 million sq. ft., with only 5% of that space available. Q3 2022 saw supply (2.7 million sq. ft.) outpace demand (2.1 million sq. ft. net absorption). Following last quarter, the seven consecutive quarter streak that demand for industrial space outpaced supply was broken in the Austin metro. Leasing remained strong, with Austin recording 3.2 million sq. ft. of activity, above the ten-year quarterly average of 2.1 million sq. ft. Investor interest and tenant demand continue to drive intensified industrial activity in what is arguably the Austin area's strongest real estate asset class.

Austin's economy slowed in August

Austin's unemployment rate fell to 2.8% in August, which compares to the state at 4.1% and the nation at 3.7%. Austin employment fell an annualized 4.6%, or by 4,933 net jobs, in August. This was due to declines in professional and business services (11.9%, or 2,814 jobs), construction and mining (11.5%, or 749 jobs), and trade, transportation, and utilities (10.2%, or 1,831 jobs). However, other services (15.4%, or 577 jobs) and leisure and hospitality (6.6%, or 728 jobs) saw increases. As of August, Austin payrolls have increased 6.1% year over year and 5.0% year to date. Austin's three-month moving average for wages declined to \$32.70 in August, remaining higher than the U.S. average of \$32.24 and the state average of \$29.92. Year-over-year wage growth for Austin declined to 3.5%, remaining above Texas' 2.7% gains but no longer outpacing the U.S. growth of 5.2%.

Supply & Demand



Source: CoStar, Partners Research

Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q2 2022		PRIOR YEAR Q3 2021	
Vacant Total	4.1%	3.7%	▲	4.5%	▼
Vacant Direct	3.9%	3.5%	▲	4.1%	▼
Available Total	9.6%	9.1%	▲	6.2%	▲
Available Direct	9.3%	8.7%	▲	5.8%	▲
Net Absorption (SF)	2,111,963	1,466,501	▲	5,259,832	▼
Leasing Activity (SF)	3,229,812	2,007,828	▲	2,243,705	▲
Construction (SF)	18,699,761	18,056,814	▲	12,584,280	▲
Deliveries (SF)	2,654,722	2,031,558	▲	4,044,886	▼
Avg Asking Rent (Gross)	\$1.11	\$1.06	▲	\$0.97	▲
Inventory (SF)	113,791,938	111,137,216	▲	102,626,695	▲

Market Overview

Substantial industrial market demand

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 in the first quarter of 2022. In Q3 2022, 2.1 million sq. ft. of net absorption took place, bringing the total for 2022 to 9.6 million sq. ft. In addition, 3.2 million sq. ft. of leasing activity comprised of both new leases and renewals happened during Q3 bringing the year-to-date total to 7.3 million sq. ft. 107 properties—10,000 sq. ft and larger—are under construction, tallying 18.7 million sq. ft. with a 45% availability rate. 25.7 million sq. ft. has been added to the Austin Industrial market in the past five years, a 28% increase in total inventory, registering at 113.8 million sq. ft. as of September 30, 2022.

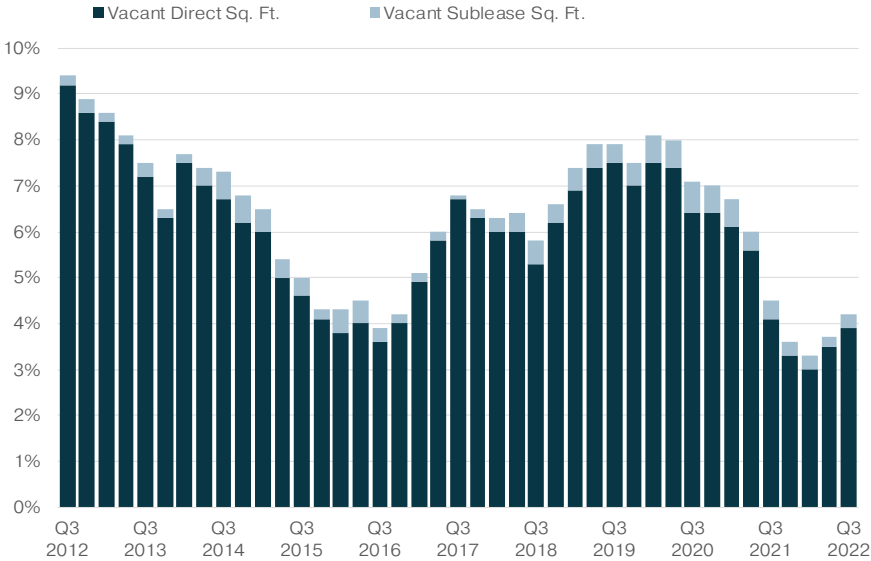
Strong leasing activity

The volume of signed lease transactions during the third quarter comprised of both new leases and renewals was 3.2 million sq. ft.—up from the previous quarter’s 2.0 million sq. ft., registering 137 transactions in properties 10,000 sq. ft. and larger. The largest leases signed so far in 2022 include GAF Energy signing a lease for 450,000 sq. ft. at GAF Energy Solar Shingle Plant in Georgetown in July; Amazon inking a deal for 294,297 sq. ft. at 2550 S. IH 35 Service Road in Georgetown in April with a move-in date of Q1 2023; 244,085 sq. ft. taken by Four Hands at Buda Midway, Building 3 in Hays County in September; and 181,440 sq. ft. leased at Crossroads Logistics Center 2 in Manor in the Far Northeast submarket in July.

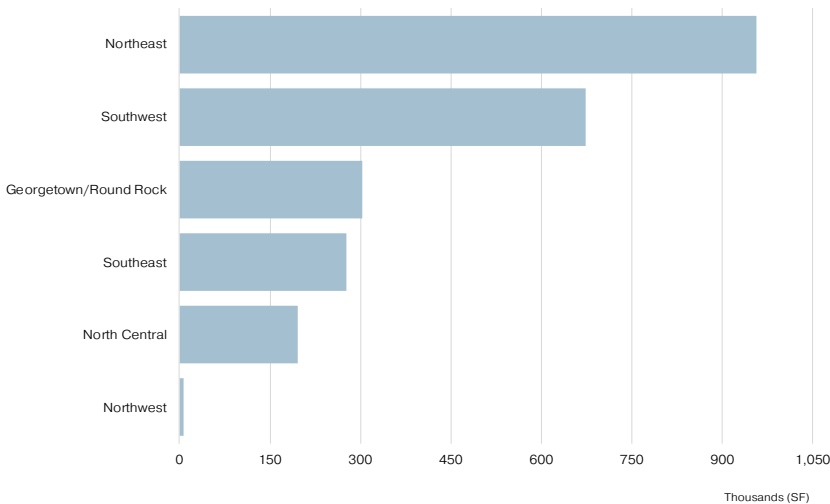
Investment sales trends

Real Capital Analytics data reports the industrial quarterly sales volume for Q3 2022 in the Austin area at \$353 million, down 28% from Q3 2021 at \$487 million. The primary capital composition for buyers so far in 2022 was made up of 73% institutional investors and 26% private investors. The seller composition was 63% REIT/listed investors and 36% private. After completing development this summer, United Properties and PCCP have sold phase one of Buda Midway industrial park in Buda. Phase one consists of three buildings that total 474,465 sq. ft., located off Interstate 35 along Fire Cracker Drive. The properties were all fully preleased prior to completion, with furniture company Four Hands occupying Buildings 2 and 3 and solar energy company CED Greentech and fashion designer Sherri Hill sharing Building 1. The sale price was not disclosed.

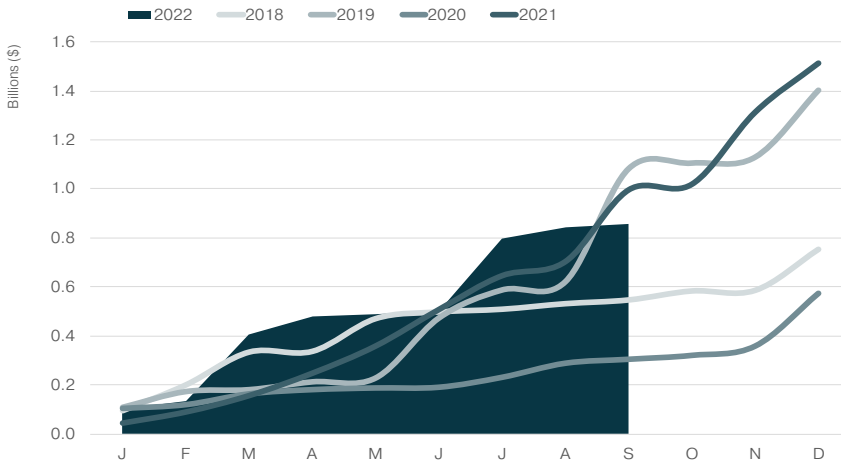
Vacant Space



Leasing Activity



Cumulative Monthly Sales Volume



Source: Real Capital Analytics

Construction remains vigorous

There is 18.7 million sq. ft. under construction, with 45% available for lease. There are 107 projects underway, up from 56 projects this time last year. Warehouse/Distribution space currently makes up 65% of the total space under construction, with Manufacturing space responsible for 35% and Flex projects the remaining 1%. Of the 10.6 million sq. ft. completed so far in 2022, only 5% or about 542,000 sq. ft. is available for lease. The largest projects underway include Samsung’s \$17 billion, 6 million-sq.-ft. mega plant located south of Hwy. 79 and west of FM 973 in Taylor; 9700 E. Highway 290— Applied Materials Logistics Center Building 37 totaling 725,000 sq. ft., delivering in Q4 2022 in the Northeast submarket; and 1760 Kohlers Crossing Road—Kyle Public Safety Center at 450,000 sq. ft., scheduled for completion in Q3 2023.

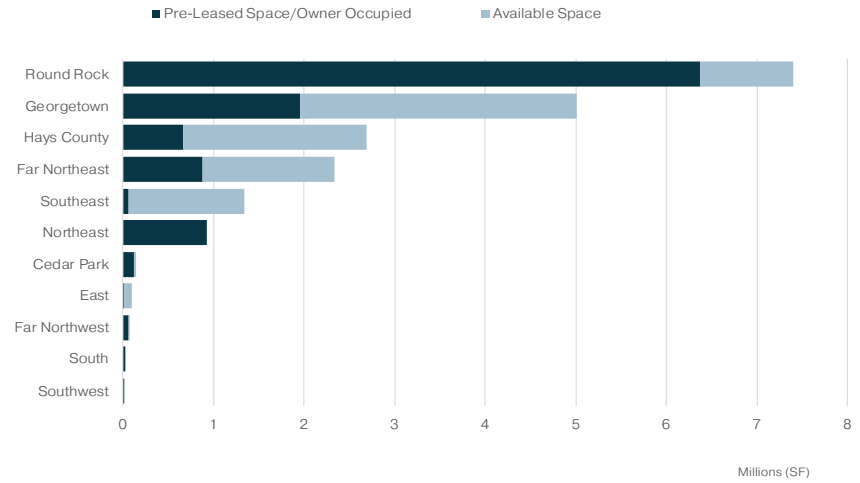
Industrial complex on the way

Rastegar Property Company has broken ground on Infinity Park, a 600,000-sq. ft. industrial complex on 50 acres at 11708 McAngus Road in Del Valle, near the Tesla Gigafactory, Circuit of the Americas racetrack, and Austin-Bergstrom International Airport. The four-building project will be built in two phases. Phase one will include three buildings totaling 357,000 sq. ft. Building two is already fully leased. Phase two will have a 241,920-sq. ft. build-to-suit project. The project is scheduled for completion in 2023.

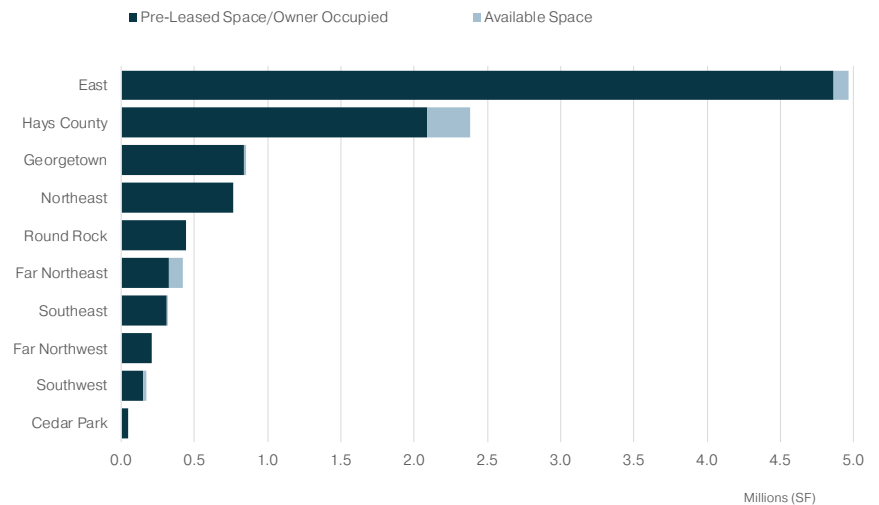
Average asking NNN rent

On average, monthly rental rates for the Austin industrial metro were \$1.11 per sq. ft. as of the end of Q3 2022, up from \$1.06 per sq. ft. quarter-over-quarter and a 14% increase year-over-year from \$0.97. The monthly average rate for Flex space is currently at \$1.47 per sq. ft.; Manufacturing rates are at \$1.25, and Warehouse/Distribution space sits at \$0.97. The Southeast (\$1.49 PSF) and Northwest (\$1.41 PSF) submarkets currently have the highest monthly overall average rates, followed by North Central (\$1.35 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 confident.

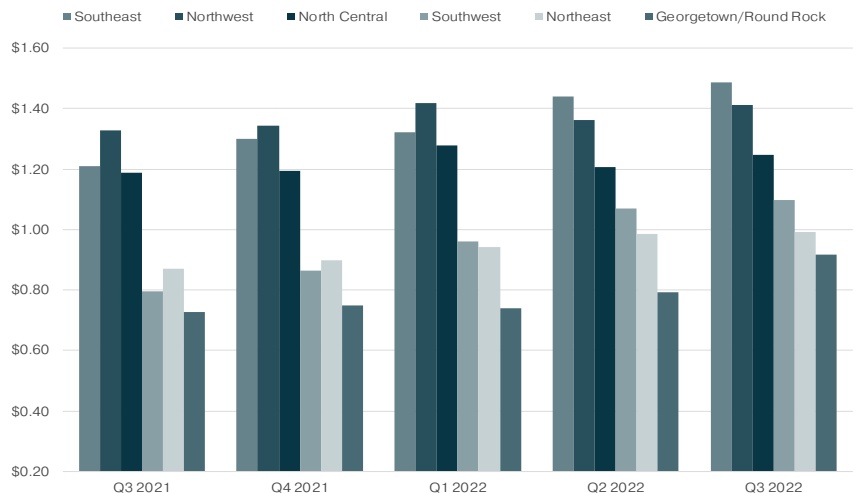
Construction



Deliveries Year-To-Date



Overall NNN Asking Rent (\$/PSF/MO)



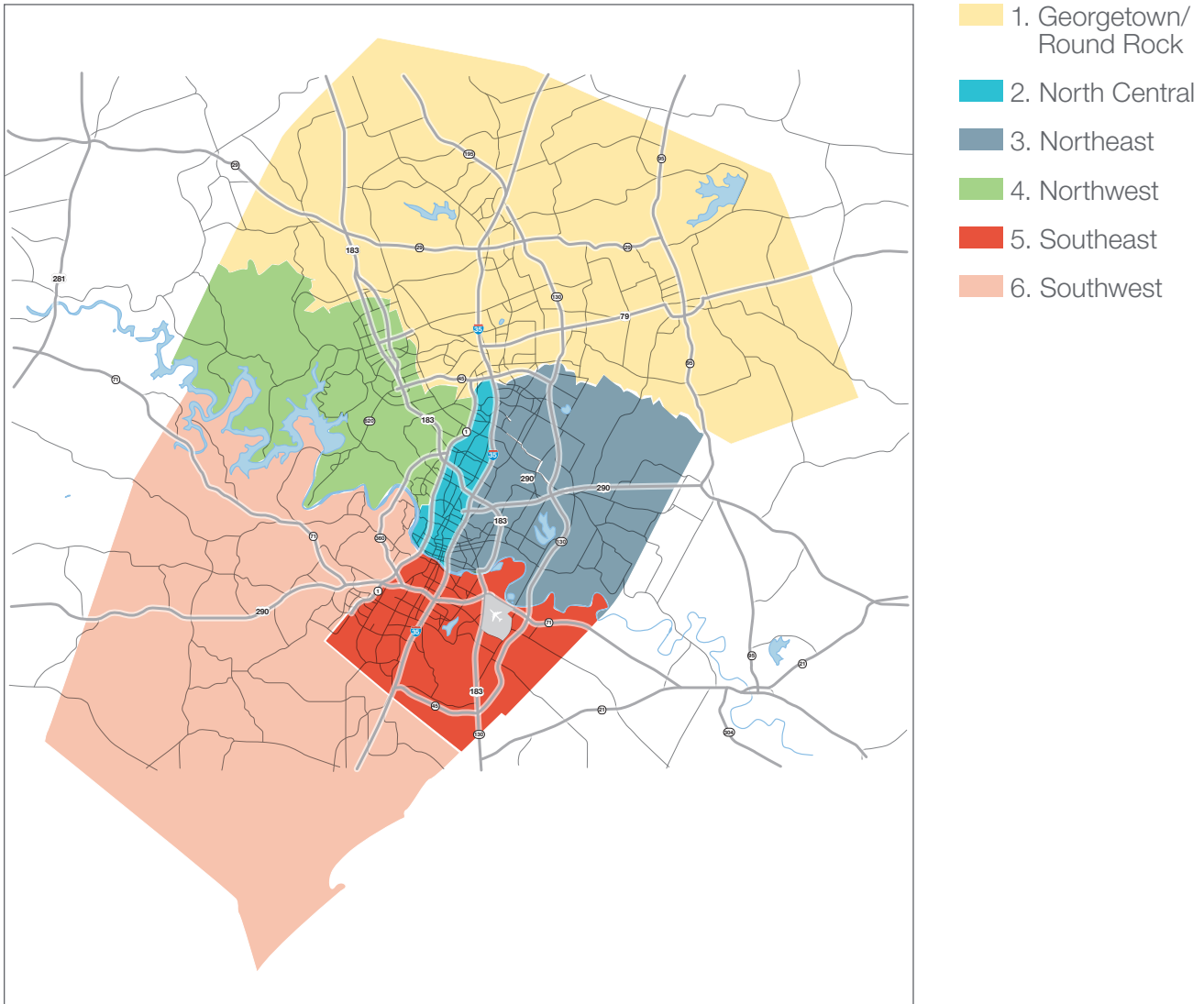
Market Overview

Submarket Stats

Submarket Statistics	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q3 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	2022 YTD Deliveries (SF)	Under Construction (SF)	NNN Avg Asking Rent (\$/PSF)/MO
Austin Market Total	113,791,938	4.1	9.6	2,111,963	9,564,937	10,493,894	18,699,761	1.11
Flex	21,742,798	4.3	6.9	558,107	700,386	606,385	203,137	1.47
Manufacturing	21,066,282	2.2	1.9	-90,327	4,412,685	4,542,562	6,482,700	1.25
Warehouse/Distribution	70,982,858	4.6	12.9	1,644,183	4,451,866	5,344,947	12,013,924	0.97
Georgetown/Round Rock Total	13,636,742	7.4	17.6	744,801	1,098,513	1,298,937	12,052,066	0.92
Flex	1,325,182	1.7	1.9	3,279	-10,503	0	25,650	1.32
Manufacturing	2,069,164	6.3	1.7	-130,438	-130,438	0	6,482,700	0.90
Warehouse/Distribution	10,242,396	8.4	27.5	871,960	1,239,454	1,298,937	5,543,716	0.90
North Central Total	18,185,245	4.7	8.4	-17,577	-80,126	0	0	1.35
Flex	4,582,049	4.3	11.8	92,929	118,416	0	0	1.45
Manufacturing	1,446,594	1.4	1.4	14,070	14,070	0	0	1.21
Warehouse/Distribution	12,156,602	5.2	7.9	-124,576	-212,612	0	0	1.06
Northeast Total	37,078,631	3.3	3.6	766,754	5,769,593	6,123,778	2,336,998	0.99
Flex	6,901,535	4.8	4.7	402,996	289,595	396,000	30,000	1.47
Manufacturing	10,248,076	1.7	0.8	6,041	4,509,053	4,542,562	0	1.31
Warehouse/Distribution	19,929,020	3.6	4.5	357,717	970,945	1,185,216	2,306,998	0.84
Northwest Total	8,150,108	1.8	3.0	216,937	255,384	232,824	205,107	1.41
Flex	3,693,151	3.1	4.7	185,498	223,956	210,385	122,487	1.43
Manufacturing	1,266,909	0.0	0.0	0	0	0	0	-
Warehouse/Distribution	3,190,048	1.1	2.1	31,439	31,428	22,439	82,620	1.13
Southeast Total	20,729,226	2.3	9.1	86,288	457,135	317,572	1,367,445	1.49
Flex	4,270,489	5.2	9.0	-107,127	58,848	0	0	1.69
Manufacturing	1,753,908	0.0	1.4	20,000	20,000	0	0	1.08
Warehouse/Distribution	14,704,829	1.7	10.0	173,415	378,287	317,572	1,367,445	1.27
Southwest Total	16,011,986	6.1	16.1	314,760	2,064,438	2,520,783	2,738,145	1.10
Flex	970,392	5.5	5.7	-19,468	20,074	0	25,000	1.07
Manufacturing	4,281,631	3.1	5.8	0	0	0	0	0.50
Warehouse/Distribution	10,759,963	7.3	20.1	334,228	2,044,364	2,520,783	2,713,145	1.10

Market Overview

Austin Industrial Submarkets



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

Austin Industrial Quarterly Market Report

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