

# Austin Industrial

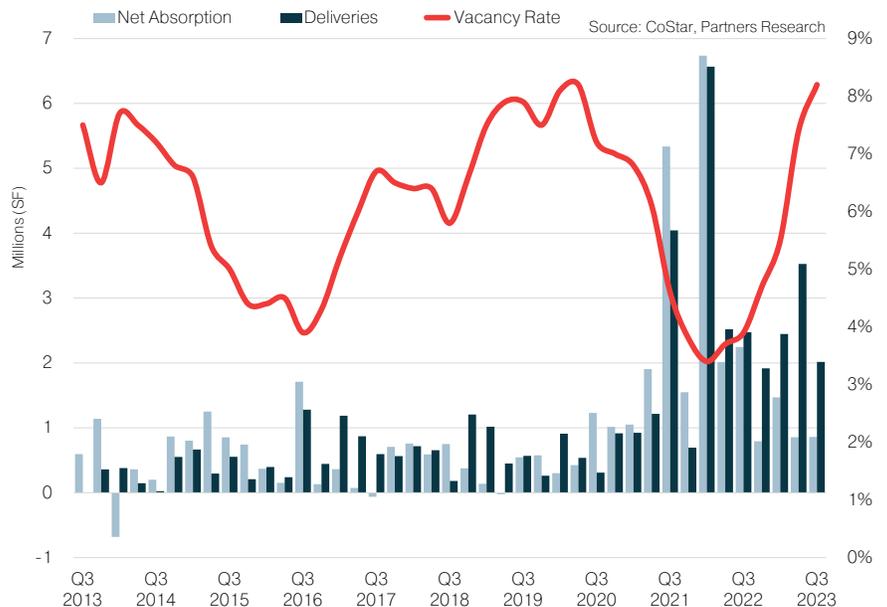
## Q3 2023

## Austin Industrial posts 17th consecutive quarter of positive absorption

### Q3 2023 in Review

By the end of Q3 2023, the overall vacancy rate in the Austin industrial market rose 80 basis points quarter-over-quarter, from 7.4% to 8.2%. Net absorption continued its positive streak—17 straight quarters—at 858,845 sq. ft., up slightly from 855,054 sq. ft. in Q2 2023. Year-to-date, net absorption is at 3.1 million sq. ft. GAF Energy’s and US Faranthane’s move-ins contributed to the third quarter’s positive absorption. Leasing activity approached 3 million sq. ft. as Tesla added 1.0 million sq. ft. of space with a multi-warehouse lease signed in July 2023. Construction remains at record levels despite economic tailwinds with 17.4 million sq. ft. underway in Q3 2023. Lastly, the average monthly rental rate is at \$1.06 per sq. ft., down slightly from \$1.08 per sq. ft. in Q2 2023.

### Supply and Demand



### Austin Economic Update

Austin’s unemployment rate increased to 3.6% in August 2023, slightly up from 3.5% in July 2023. The metro’s jobless rate was lower than both the nation’s rate (3.8%) and the state’s rate (4.1%). Austin’s employment fell 1.9% in August, the first month the rate declined since February 2021. The largest declines by sector included: health and educational services (-5,033 jobs, -32.4%), leisure and hospitality (-1,503 jobs, -11.7%), and financial activities (-480 jobs, -6.6%). The largest gains by sector included: construction and mining (1,475 jobs, 23.2%) and government (1,871 jobs, 12.8%). Year-to-date, Austin’s payroll employment has grown 3.8%, higher than both the nation (1.9%) and the state (3.3%).

### Key Market Indicators

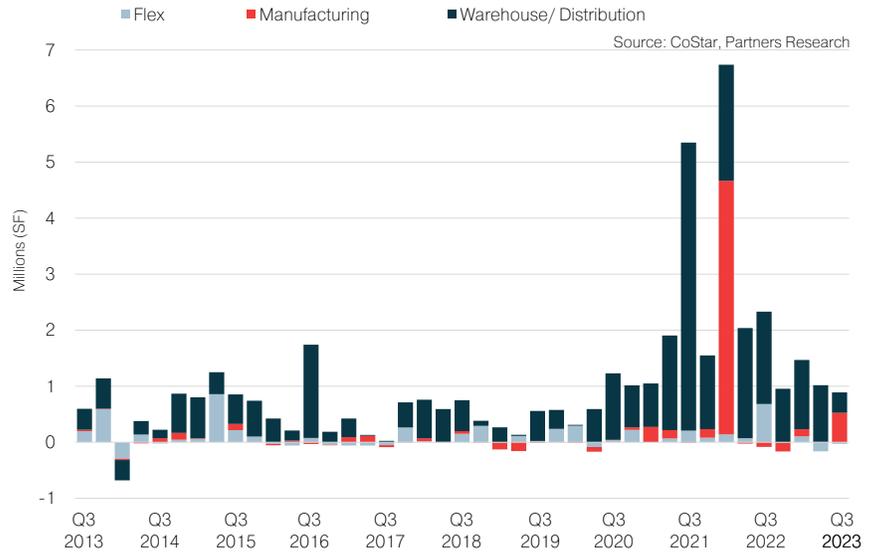
	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	8.2%	7.4%	▲	3.9%	▲
Vacant Direct	7.4%	6.7%	▲	3.5%	▲
Available Total	14.9%	14.7%	▲	9.5%	▲
Available Direct	13.9%	13.9%	▬	9.1%	▲
Net Absorption (SF)	858,845	855,054	▲	2,246,605	▼
Leasing Activity (SF)	2,969,153	2,211,308	▲	3,487,369	▼
Construction (SF)	17,426,890	17,535,820	▼	11,623,589	▲
Deliveries (SF)	2,015,858	3,526,369	▼	2,474,005	▼
Avg Asking Rent (NNN/MO)	\$1.06	\$1.08	▼	\$1.11	▼
Inventory (SF)	126,628,758	124,612,900	▲	116,724,394	▲

## 01

### Positive Net Absorption Continues Through Q3 2023

Net absorption—move-ins minus move-outs—is at 858,845 sq. ft., up slightly from 855,054 sq. ft. in Q2 2023, continuing its positive streak of 17 straight quarters. Year-to-date, net absorption has totaled 3.1 million sq. ft. with Warehouse/Distribution space and Manufacturing space recording positive absorption of 2.6 million sq. ft. and 654,886 sq. ft., respectively. Flex space logged negative absorption of -86,577 sq. ft. GAF Energy occupied a 450,000-sq.-ft. manufacturing facility at 110 Southeast Interloop Road in September, marking one of the largest contributors to positive net absorption in Q3 2023. In addition, US Faranthane filled a 262,874-sq.-ft. distribution center at 900 FM 972 also in September.

### Net Absorption

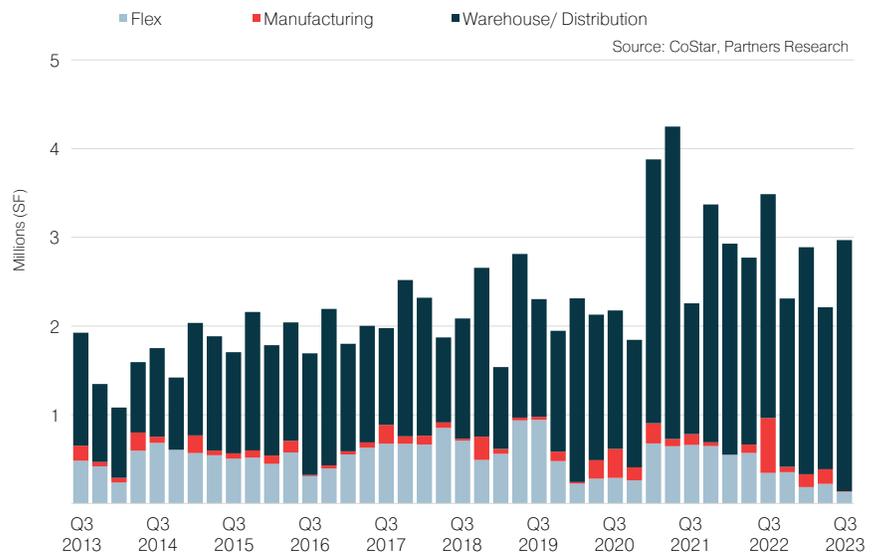


## 02

### Quarterly Leasing Activity Nears 3 Million Sq. Ft.

Quarterly leasing velocity—which is comprised of both new leases and renewals—amounted to 2.9 million sq. ft.—up 34% from the previous quarter’s 2.2 million sq. ft.—up 34% from the previous quarter’s 2.2 million sq. ft. Year-to-date, leasing activity registered at 8.0 million sq. ft. Tesla added 1.0 million sq. ft. (35%) to the third quarter’s leasing activity. Leases for Warehouse 1 (474,397 sq. ft.), Warehouse 2 (247,180 sq. ft.), and Warehouse 3 (224,240 sq. ft.) located at 24801 Interstate 35 in Kyle, Texas were signed in July 2023. In addition, Manifest Commerce secured a 90,000-sq.-ft. lease in August 2023 at 912 Flustern Road in San Marcos.

### Leasing Activity

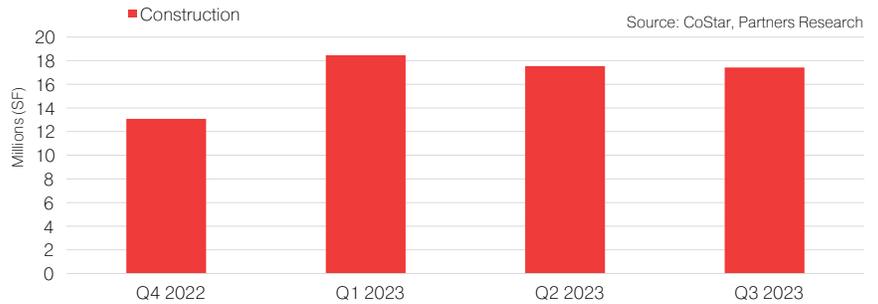


## 03

### Construction Remains At Record Levels

Developers have slowed the pace of new groundbreakings, as rising availability rates and tightening lending standards continue to constrain the viability of new projects. Despite the deceleration, under-construction levels remain near record-highs around 17 million sq. ft to 18 million sq. ft. Austin's industrial construction pipeline consists of 17.4 million sq. ft. of space, slightly down from the prior quarter's 17.5 million sq. ft., but a 50% increase year-over-year from 11.6 million sq. ft. Recent construction starts in Q3 2023 include a 264,600-sq.-ft. warehouse along Highway 290 and a 250,000-sq.-ft. warehouse at 2303 South Mays Street. Deliveries decreased 43% from 3.5 million sq. ft. in Q2 2023 to 2.0 million sq. ft. in Q3 2023. Year to date, deliveries are at 7.9 million sq. ft.

### Construction

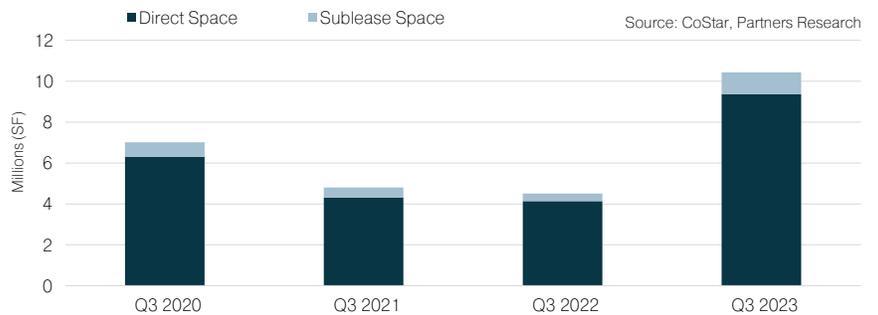


## 04

### Vacancy Rate Ticks Up to 8.2%

The overall vacancy rate in the Austin industrial market rose to 8.2%, increasing 80 basis points from the prior quarter (7.4%). Only 51% of year-to-date deliveries have been fully leased, contributing to the increase in the overall vacancy rate. Flex, Manufacturing, and Warehouse/Distribution space have vacancy rates of 6.8%, 1.90%, and 10.40%, respectively. As a record amount of construction is completed in the near future, vacancies are expected to remain on an upward trajectory—a 9% to 10% vacancy rate is projected for Q4 2023.

### Vacancy

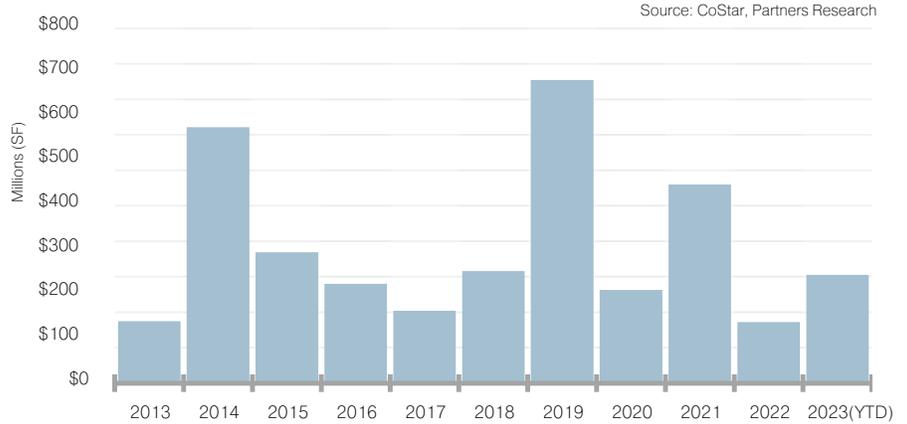


## 05

### Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023, at \$244 million in the Austin industrial market. With 138 deals completed thus far in 2023, the average transaction price currently stands at \$160 per sq. ft. with an average transaction cap rate at 6.3%. A notable transaction in Q3 2023 included Peak Rock Capital closing on three industrial buildings (Clovis Barker Business Center) in July 2023. Located in the Southwest submarket (Hays County), this acquisition consists of one warehouse (77,703 sq.ft.) and two distribution centers (137,859 sq. ft.).

### Year-To-Date Investment Sales Volume

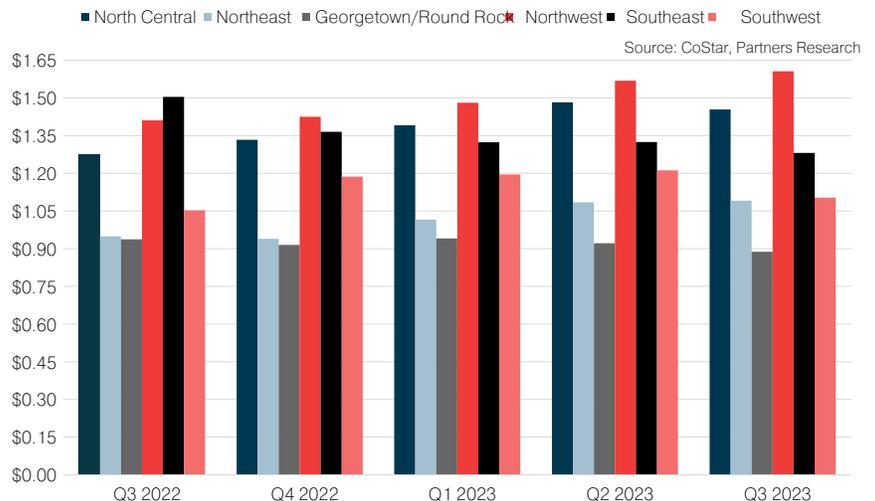


## 06

### Rent Growth Slowing Down

The average monthly rental rate for the Austin industrial market is at \$1.06 per sq. ft., down slightly from the previous quarter's \$1.08 per sq. ft., and the previous year's \$1.11 per sq. ft. The average monthly rental rate per square foot for Flex Space stood at \$1.37 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were \$1.22 per sq. ft. and \$0.98 per sq. ft., respectively. On the quarter, the submarkets with the highest asking rates include the Northwest at \$1.61 per sq. ft., followed by North Central at \$1.45 per sq. ft.

### Average Asking Monthly NNN Rent



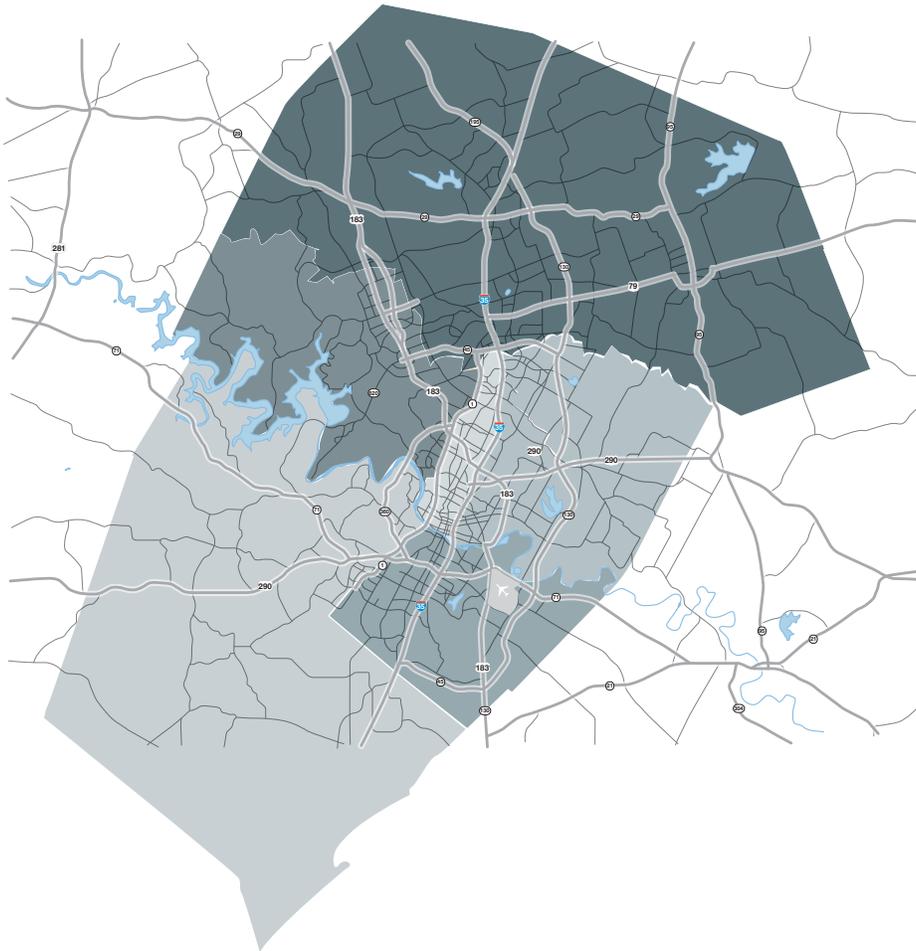
## 07

### Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Avg Asking Rent (NNN/MO)
<b>Austin Market Total</b>	<b>126,628,758</b>	<b>8.20</b>	<b>14.90</b>	<b>858,845</b>	<b>3,183,249</b>	<b>2,015,858</b>	<b>7,988,527</b>	<b>17,426,890</b>	<b>1.06</b>
Flex	22,725,534	6.60	12.30	-30,042	-86,577	73,320	188,320	471,950	1.37
Manufacturing	21,796,449	1.90	4.20	524,220	654,886	450,880	461,280	678,973	1.22
Warehouse/Distribution	82,106,775	10.40	17.90	364,667	2,614,940	1,491,658	7,338,927	16,275,967	0.98
<b>Georgetown/Round Rock Total</b>	<b>18,694,650</b>	<b>17.60</b>	<b>23.90</b>	<b>826,410</b>	<b>1,720,955</b>	<b>1,731,338</b>	<b>3,953,435</b>	<b>6,974,508</b>	<b>0.89</b>
Flex	1,654,544	3.00	25.30	21,661	13,847	0	15,000	211,200	0.81
Manufacturing	2,554,023	1.20	9.70	574,497	563,372	450,880	461,280	249,732	1.09
Warehouse/Distribution	14,486,083	22.10	25.70	230,252	1,143,776	1,280,458	3,477,155	6,513,576	0.89
<b>North Central Total</b>	<b>19,118,139</b>	<b>6.60</b>	<b>11.10</b>	<b>65,432</b>	<b>-89,625</b>	<b>0</b>	<b>125,030</b>	<b>0</b>	<b>1.45</b>
Flex	5,219,216	11.10	18.20	17,029	-129,050	0	0	0	1.63
Manufacturing	1,446,594	0.30	0.30	0	16,322	0	0	0	0.00
Warehouse/Distribution	12,452,329	5.40	9.40	48,403	23,103	0	125,030	0	1.32
<b>Northeast Total</b>	<b>40,438,926</b>	<b>3.70</b>	<b>8.90</b>	<b>-42,503</b>	<b>1,292,925</b>	<b>93,130</b>	<b>1,379,617</b>	<b>4,403,600</b>	<b>1.09</b>
Flex	7,031,994	4.90	9.10	-90,665	-3,911	53,130	53,130	0	1.52
Manufacturing	10,492,797	2.00	2.20	0	70,790	0	0	321,186	1.31
Warehouse/Distribution	22,914,135	4.20	11.50	48,162	1,226,046	40,000	1,326,487	4,082,414	0.96
<b>Northwest Total</b>	<b>7,996,715</b>	<b>4.80</b>	<b>6.20</b>	<b>-55,571</b>	<b>-42,205</b>	<b>65,190</b>	<b>129,933</b>	<b>256,873</b>	<b>1.61</b>
Flex	3,484,551	5.30	7.60	38,044	-26,641	20,190	20,190	222,750	1.69
Manufacturing	1,266,909	0.00	0.00	0	0	0	0	0	0.00
Warehouse/Distribution	3,245,255	6.30	7.10	-93,615	-15,564	45,000	109,743	34,123	1.39
<b>Southeast Total</b>	<b>21,899,362</b>	<b>5.30</b>	<b>17.30</b>	<b>115,269</b>	<b>37,591</b>	<b>111,200</b>	<b>186,050</b>	<b>3,254,996</b>	<b>1.28</b>
Flex	4,253,042	6.60	10.20	-15,740	-20,266	0	0	0	1.55
Manufacturing	1,753,908	2.90	7.20	-50,277	-26,233	0	0	108,055	0.00
Warehouse/Distribution	15,892,412	5.20	19.90	181,286	84,090	111,200	186,050	3,146,941	1.25
<b>Southwest Total</b>	<b>18,480,966</b>	<b>15.40</b>	<b>20.40</b>	<b>-50,192</b>	<b>263,568</b>	<b>15,000</b>	<b>2,214,462</b>	<b>2,536,913</b>	<b>1.10</b>
Flex	1,082,187	5.40	6.20	-371	79,444	0	100,000	38,000	1.54
Manufacturing	4,282,218	2.90	6.80	0	30,635	0	0	0	1.25
Warehouse/Distribution	13,116,561	20.30	25.10	-49,821	153,489	15,000	2,114,462	2,498,913	1.03

## 08

### Austin Industrial Submarkets



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

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