

Austin Industrial

Q4 2023

Austin Industrial | Q4 2023

Quarterly Market Report

18 straight quarters of positive absorption for Austin Industrial market

Executive Summary

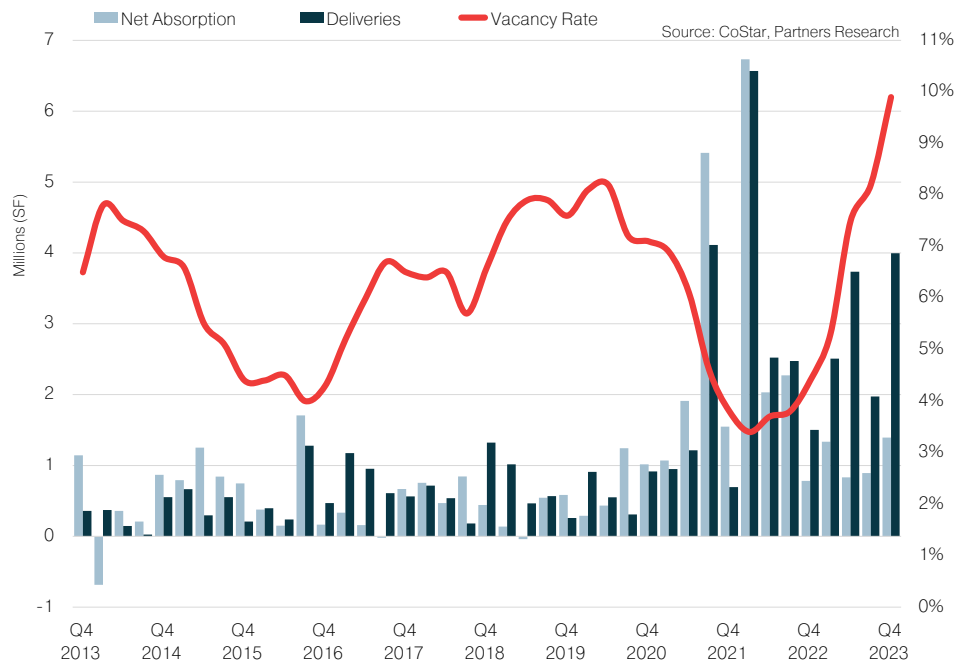
Q4 in Review

By the end of Q4 2023, the overall vacancy rate in Austin's industrial market rose 550 basis points year-over-year, from 4.4% to 9.9%. This is mainly due to a surge in available space resulting from robust construction and speculative deliveries. Construction is at 18.7 million sq. ft.—a record-high for Austin's industrial sector—up 38% from 13.6 million sq. ft. in Q4 2022. Samsung's Semiconductor—a 2.8 million sq. ft. warehouse—started in March and marked the largest construction start of 2023. Deliveries are at 3.9 million sq. ft. Supply continues to outpace demand—year-to-date deliveries tallied 12.2 million sq. ft., and year-to-date net absorption amounted to 4.4 million sq. ft. However, notable move-ins—SpaceX Project Echo (521,521 sq. ft.) and RK Logistics Group (200,000 sq. ft.)—contributed to net absorption nearly doubling year-over-year to 1.3 million sq. ft. Leasing activity is at 2.3 million sq. ft.—bringing year-to-date leasing activity to 10.8 million sq. ft. Lastly, the average monthly rental rate (NNN) reached \$1.18 per sq. ft.—a record-high for the metro's industrial sector.

Austin Economic Update

According to the latest release of Austin's Economic Indicators, Austin's unemployment rate remained flat at 3.6% from September to October 2023. The metro's jobless rate lagged the state and the national rates at 4.1% and 3.9%, respectively. Austin's employment is at 1.3 million as of October 2023—increasing 0.1% in October, much less than the 5.7% gain in September. The largest gains by sector include: construction and mining (+1,316 jobs, 20.4%), health and education (+1,062 jobs, 8.6%), and professional and business services (+1,880 jobs, 8.1%). The largest declines by sector included: leisure and hospitality (-1,877 jobs, -14.1%), and manufacturing (-845 jobs, -13%).

Supply & Demand



Key Market Indicators

	CURRENT Q4 2023	PRIOR QUARTER Q3 2023		PRIOR YEAR Q4 2022	
Vacant Total	9.9%	8.2%	▲	4.4%	▲
Vacant Direct	9.2%	7.4%	▲	3.8%	▲
Available Total	15.4%	14.9%	▲	11.7%	▲
Available Direct	14.3%	13.9%	▲	10.8%	▲
Net Absorption (SF)	1,393,278	892,411	▲	782,096	▲
Leasing Activity (SF)	2,389,561	3,127,484	▼	2,365,465	▲
Construction (SF)	18,792,671	18,432,050	▲	13,651,383	▲
Deliveries (SF)	3,996,353	1,973,528	▲	1,503,297	▲
Avg Asking Rent (NNN)	\$1.18	\$1.06	▲	\$1.07	▲
Inventory (SF)	130,367,609	126,371,256	▲	118,155,012	▲

Market Overview

Net Absorption Nearly Doubles Year-Over-Year

Net absorption—move-ins minus move-outs—is at 1.3 million sq. ft., nearly doubling year-over-year from 782,096 sq. ft., continuing its positive streak for 18 straight quarters. Year-to-date, net absorption is at 4.4 million sq. ft. Warehouse/Distribution space and Flex space recorded positive absorption of 1.4 million sq. ft. and 20,550 sq. ft., respectively. Manufacturing space logged negative absorption of -91,545 sq. ft. SpaceX Project Echo moved into a 521,521-sq.-ft. warehouse at 815 FM 209 in December—the largest contributor to positive net absorption in 2023. In addition, RK Logistics Group occupied a 200,000-sq.-ft. distribution center at 400 Vista Ridge Drive in March.

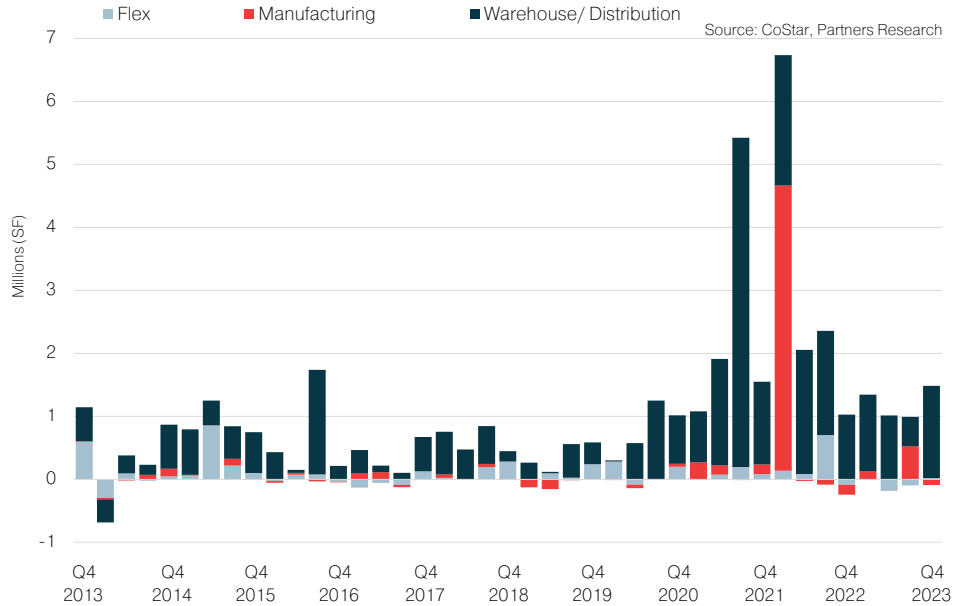
Leasing Activity Remains Robust

Quarterly leasing velocity—comprised of new leases and renewals—stood at 2.3 million sq. ft., increasing by 24,096 sq. ft. year-over-year. Year-to-date, leasing activity is at 10.8 million sq. ft., compared to the prior year's 11.5 million sq. ft. Industrial leasing activity remains robust—averaging 2.7 million sq. ft. over the last three years—as recent expansions among manufacturing firms helped lift total leased space in 2023 above pre-pandemic averages. By year-end, 136 deals were signed, averaging 52,467 sq. ft., with notable exceptions from Tesla (1.0 million sq. ft.) in July and ZT Systems (435,714 sq. ft.) in October. Located along Kyle's southern gateway, Tesla's 3-warehouse, 1.0 million-sq.-ft. deal stood as the largest contributor to leasing activity in 2023.

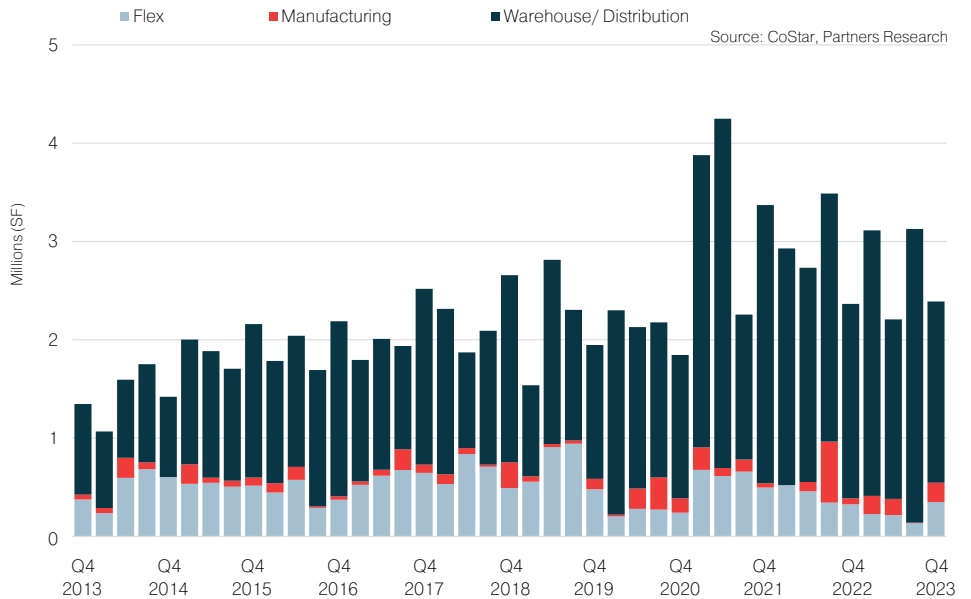
Vacancy Rate Increases to 9.9%

The overall vacancy rate in the Austin industrial market is at 9.9%. Quarter-over-quarter, the vacancy rate increased 170 basis points from 8.2%. Year-over-year, the vacancy rate increased 550 basis points from 4.4%. Flex, Manufacturing, and Warehouse/Distribution space have vacancy rates of 7.4%, 2.5%, and 12.5%, respectively. The upward trajectory is mainly due to the surge of available space resulting from robust construction and upcoming speculative deliveries, which will continue to increase vacancies for the next year—a 12-13% overall vacancy rate is projected by the end of 2024.

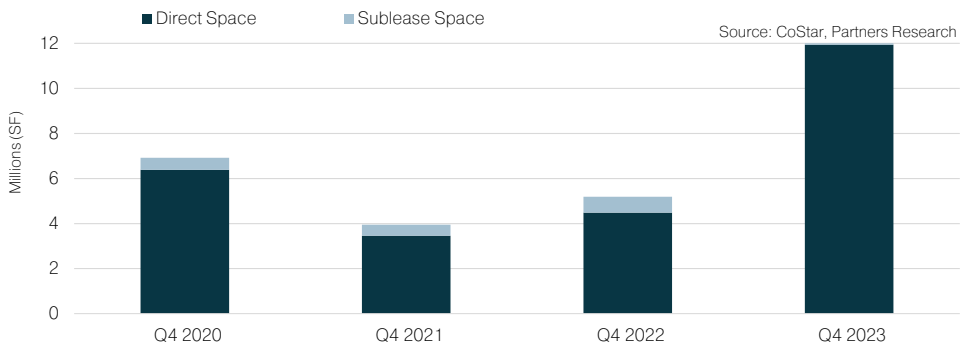
Net Absorption



Leasing Activity



Vacancy



Record-High Construction Pipeline Approaches 19 Million Sq. Ft

Austin's industrial pipeline remains in a period of supply expansion due to population growth, the e-commerce boom, and large occupiers entering the market. By the end of the fourth quarter, construction reached 18.7 million sq. ft.—a record-high for Austin's industrial market. Quarter-over-quarter, construction increased 2% from 18.4 million sq. ft. Year-over-year, construction increased 38% from 13.6 million sq. ft. Over the prior three years, construction averaged 9.4 million sq. ft. annually. The Georgetown/Round Rock submarket led construction with 6.9 million sq. ft. underway (37%), followed by the Northeast submarket with 6.1 million sq. ft. underway (33%). Samsung's Semiconductor—a 2.8 million sq. ft. warehouse—started in March and located at 900 County Road 401 (Georgetown/Round Rock submarket) was the largest construction start in 2023. Deliveries are at 3.9 million sq. ft., surging year-over-year from 13.6 million sq. ft. Year-to-date, deliveries are at 12.2 million sq. ft.

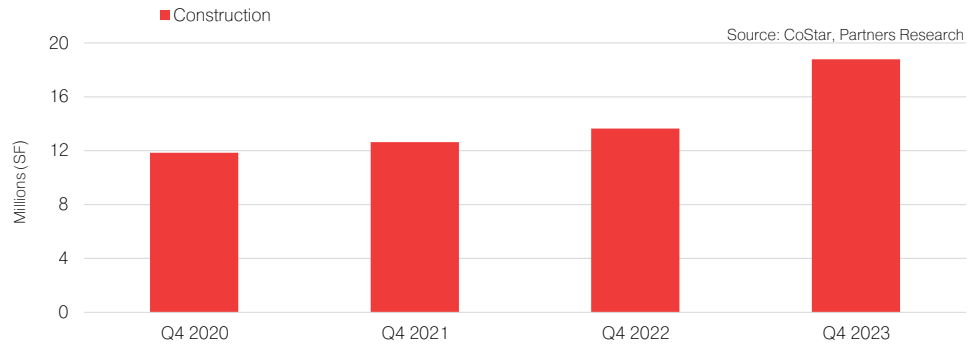
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q4 2023 at \$339 million, up 94% from \$175 million in Q4 2022. By year-end, 215 deals were completed in the Austin industrial market with an average transaction price of \$154 and an average cap rate of 7.3%. Notable transactions in 2023 include Goldman Sachs's acquiring a 623,217-sq.-ft. industrial portfolio—consisting of 5 properties—from TPG for \$126 million in September, and Blackstone acquiring a 3.7 million-sq.-ft. industrial portfolio—consisting of 16 properties—from IDI Logistics \$392 million in June. Both portfolios were 100% leased at the time of sale.

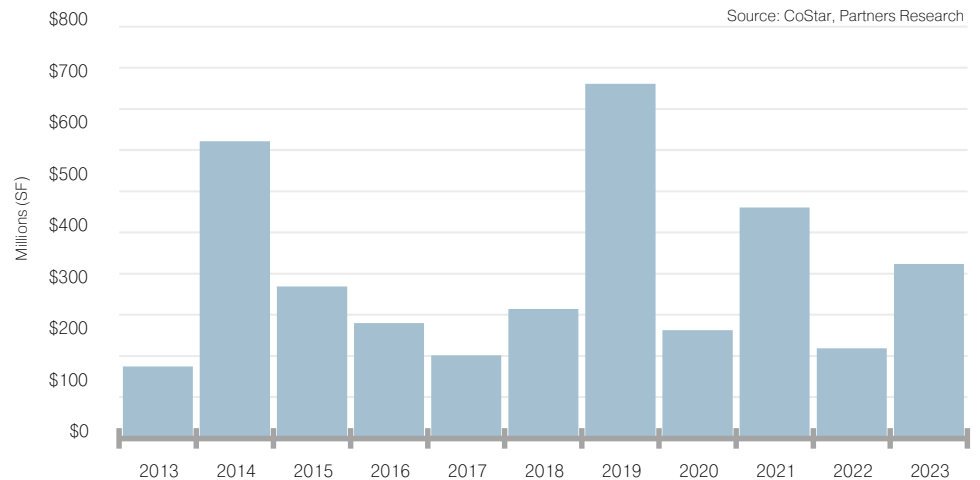
Record-High Asking Rent

The average monthly rental rate (NNN) for Austin's industrial market increased to \$1.18 per sq. ft.—a record-high for the metro's industrial sector—up 9% from the previous year's \$1.07 per sq. ft. The average monthly rate per square foot for Flex space stood at \$1.43 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were at \$1.16 per sq. ft. and \$1.11 per sq. ft., respectively. The Northwest submarket commands the highest overall monthly average rate at \$1.61 per sq. ft., followed by the North Central submarket at \$1.44 per sq. ft.

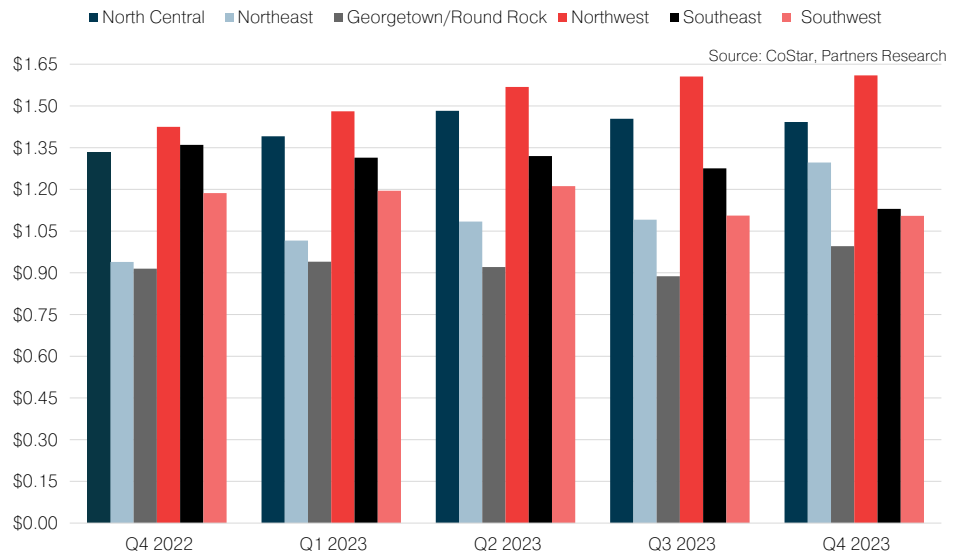
Construction



Cumulative Sales Volume



Average Monthly Rental Rate (NNN)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Deliveries (SF)	2023 YTD Deliveries (SF)	Under Construction(SF)	Overall Average Asking Rent (NNN/MO)
Austin Market Total	130,367,609	9.90%	15.40%	1,393,278	4,454,533	3,996,353	12,212,597	18,792,671	1.18
Flex	22,296,943	7.40%	12.40%	20,550	-268,517	130,830	161,820	870,130	1.43
Manufacturing	21,603,379	2.50%	4.20%	-91,545	563,341	25,000	486,280	2,498,424	1.16
Warehouse/Distribution	86,467,287	12.50%	18.70%	1,464,273	4,159,709	3,840,523	11,564,497	15,424,117	1.11
Georgetown/Round Rock Total	20,256,310	21.40%	21.40%	582,528	2,265,263	1,640,316	5,573,751	6,900,417	1.00
Flex	1,720,684	6.00%	21.90%	5,852	-14,601	50,500	50,500	594,630	0.84
Manufacturing	2,605,329	1.00%	9.50%	30,200	593,572	25,000	486,280	414,012	1.08
Warehouse/Distribution	15,930,297	26.50%	23.00%	546,476	1,686,292	1,564,816	5,036,971	5,891,775	1.02
North Central Total	19,158,006	6.70%	11.80%	-19,090	-108,715	0	125,030	0	1.44
Flex	5,077,808	11.50%	18.00%	-8,490	-137,540	0	0	0	1.65
Manufacturing	1,446,594	0.00%	0.00%	4,500	20,822	0	0	0	0.00
Warehouse/Distribution	12,633,604	5.50%	10.70%	-15,100	8,003	0	125,030	0	1.30
Northeast Total	41,934,251	6.00%	10.60%	394,213	1,617,748	1,366,602	2,703,889	6,124,215	1.30
Flex	7,045,702	5.30%	7.60%	38,673	-33,728	42,330	53,130	0	1.86
Manufacturing	10,492,797	3.20%	2.10%	-126,245	-55,455	0	0	1,821,186	1.17
Warehouse/Distribution	24,395,752	7.40%	15.00%	481,785	1,706,931	1,324,272	2,650,759	4,303,029	1.17

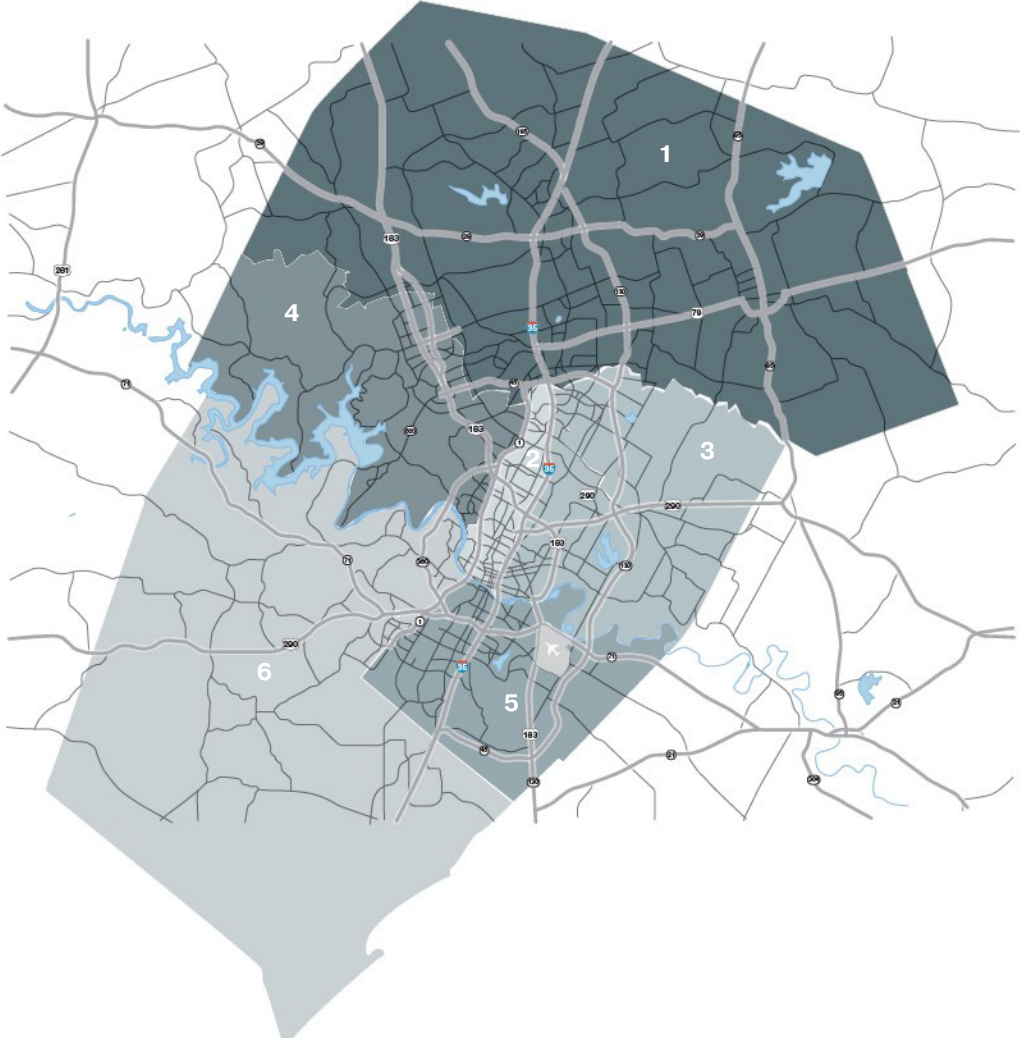
Market Overview

Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/ WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2023 Net Absorption (SF)	2023 YTD Net Absorption (SF)	Q4 2023 Deliveries (SF)	2023 YTD Deliveries (SF)	Under Construction(SF)	Overall Average Asking Rent (NNN/MO)
Northwest Total	7,679,918	4.30%	10.60%	9,042	34,877	24,123	154,056	572,430	1.61
Flex	3,228,862	6.30%	10.20%	-19,537	-46,178	0	20,190	229,000	1.69
Manufacturing	1,022,533	0.00%	0.00%	0	0	0	0	0	0.00
Warehouse/Distribution	3,428,523	3.80%	13.90%	28,579	81,055	24,123	133,866	343,430	1.53
Southeast Total	22,262,978	5.70%	17.40%	369,483	364,390	455,645	823,355	3,060,263	1.13
Flex	4,170,155	7.30%	10.80%	-24,249	-44,515	0	0	0	1.52
Manufacturing	1,753,908	2.90%	8.60%	0	-26,233	0	0	263,226	0.00
Warehouse/Distribution	16,338,915	5.50%	19.80%	393,732	435,138	455,645	823,355	2,797,037	1.10
Southwest Total	19,076,146	17.00%	21.10%	57,102	280,970	509,667	2,832,516	2,135,346	1.11
Flex	1,053,732	6.40%	11.10%	28,301	8,045	38,000	38,000	46,500	1.56
Manufacturing	4,282,218	2.90%	6.80%	0	30,635	0	0	0	1.25
Warehouse/Distribution	13,740,196	22.10%	25.60%	28,801	242,290	471,667	2,794,516	2,088,846	1.03

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.

Alex Babcock

Senior Research Analyst

tel 713 275 9618

alex.babcock@partnersrealestate.com

partners

HOUSTON

+ 713 629 0500

1360 Post Oak Blvd #1900

Houston, Texas 77056

PARTNERSREALESTATE.COM