Austin Industrial

Q4 2024

QUARTERLY MARKET REPORT

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Austin's Industrial Market Sees Resilient Leasing Activity Amid Rising Vacancies and Moderating Rents

Executive Summary

Q4 In Review

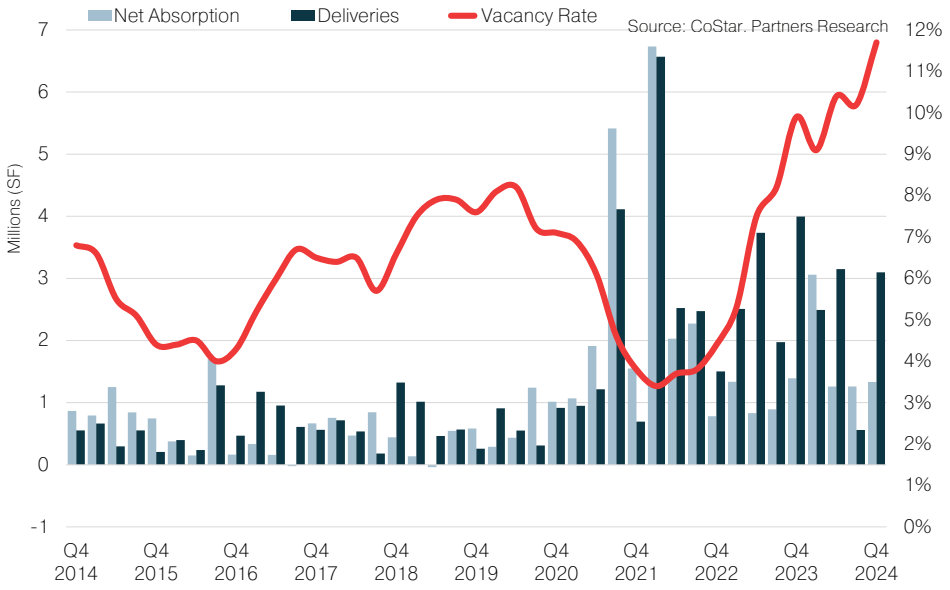
The Austin industrial market displayed mixed dynamics in the fourth quarter, with positive net absorption of 1.3 million square feet—a significant rebound from the previous quarter but a 4% year-over-year decline. While Warehouse/Distribution properties remained the strongest performers, accounting for 1.2 million square feet of absorption, Flex and Manufacturing properties saw far lower demand. Leasing activity surged by 30% quarter-over-quarter to 2.4 million square feet, on par with historical averages. Notable leases include Hanwha Advanced Materials America and Mattress Firm, signaling continued interest in Austin's industrial landscape.

The construction pipeline, while elevated at 18.3 million square feet, showed a slight decline from its record peak earlier in the year. Warehouse/Distribution properties dominate this pipeline, and with half of the projects pre-leased, the remainder is likely to push vacancy rates higher. The vacancy rate rose to 11.7%, up 150 basis points from the prior quarter, driven by a wave of new deliveries outpacing demand.

Austin Economic Update

According to the latest release of Austin's Economic Indicators, Austin experienced modest employment growth in November accompanied by a stable unemployment rate. Average hourly wages were up, and retail sales tax collections were flat. The Austin Business-Cycle Index, a broad measure of economic activity, grew an annualized 3.5% in November, slower than the 3.8% gain in October. Year over year, the index was up 1.1%. Austin's unemployment rate remained at 3.5% in November, below the state and national rates of 4.2%. In November, the local labor force held steady, while the state's increased 3.1% and the nation's contracted 1.4%. Growth was broad based, with the greatest gains seen in professional and business services (2,700 jobs) and government (2,700 jobs). Sectors that saw declines included leisure and hospitality (600 jobs) and manufacturing (500 jobs). Year to date in November, Austin's employment growth was sluggish at an annualized 0.5%, slower than the state's 1.6% increase and the nation's 1.4% growth.

Supply & Demand



Key Market Indicators

	CURRENT Q4 2024	PRIOR QUARTER Q3 2024		PRIOR YEAR Q4 2023	
Vacant Total	11.7%	10.2%	▲	9.2%	▲
Vacant Direct	11.0%	9.6%	▲	8.5%	▲
Available Total	17.4%	16.5%	▲	14.0%	▲
Available Direct	16.3%	15.3%	▲	13.0%	▲
Net Absorption (SF)	1,334,362	363,217	▲	1,393,278	▼
Leasing Activity (SF)	2,410,184	1,853,060	▲	2,389,561	▲
Construction (SF)	18,337,222	19,026,916	▼	18,607,443	▼
Deliveries (SF)	3,096,824	559,662	▲	3,894,438	▼
Avg Asking Rent (NNN)	$14.72	$15.00	▼	$14.46	▲
Inventory (SF)	146,040,819	141,354,012	▲	135,641,455	▲

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Market Overview

Net Absorption Remains Positive, but Trending Down Over Recent Quarters

Net absorption—move-ins minus move-outs—is at 1,334,362 sq. ft., this up from the 363,217 sq. ft. last quarter and down 4% from year over year levels. Flex properties and Manufacturing properties showed the lowest levels of demand, with flex properties recording 16,244 sq. ft. and manufacturing recorded 149,938 sq. ft. in the fourth quarter. Warehouse/Distribution remained much healthier with a positive 1,168,180 sq. ft.

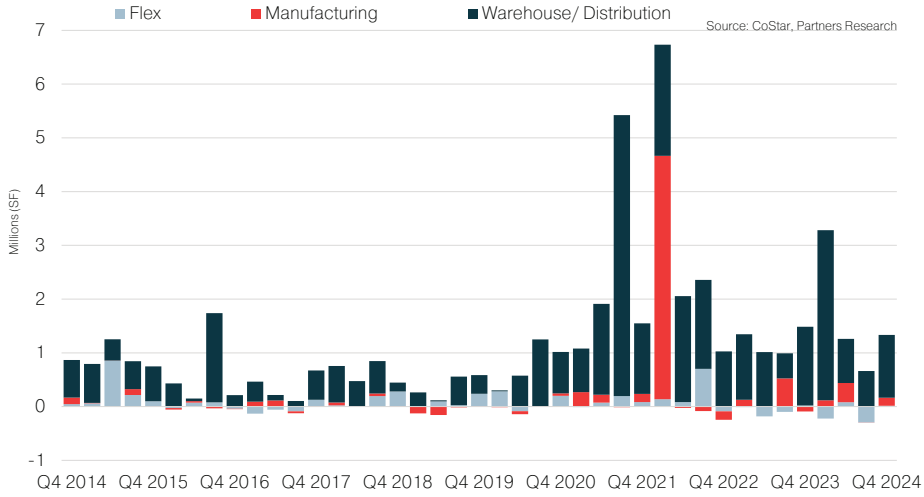
Leasing Activity Up Strongly for the Quarter but Flat Year Over Year

Quarterly leasing velocity—comprised of new leases and renewals—stood at 2.4 million sq. ft., up 30% from the 1.9 million last quarter, and up 0.9% from the 2.4 million sq. ft. in Q4 2023. Historically leasing activity has averaged 2.3 million sq. ft. per quarter over the past 10 years, but saw record high volumes in the 2021/2022 time period. Recent leasing activity includes Hanwha Advanced Materials America leasing 200,000 sq. ft. at 4104 N Interstate 35 and Mattress Firm leasing 119,952 sq. ft. at Whisper Hills West.

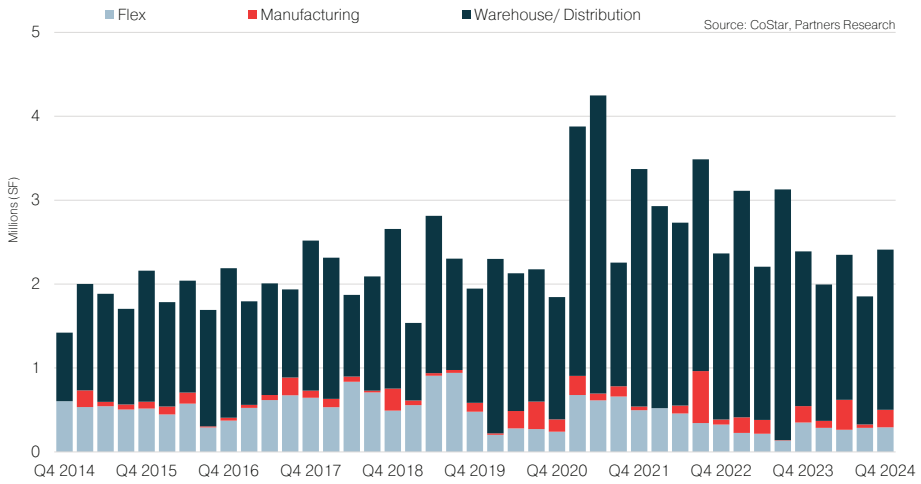
Construction Pipeline Still Elevated at 18.3 million sq. ft., Trending Downward

Austin's industrial pipeline has been trending down from a record 19 million sq. ft. in the third quarter to 18.3 million sq. ft. in the fourth quarter. Most of the construction pipeline is concentrated in warehouse/distribution properties (64%), while Flex and Manufacturing properties make up 3% and 33%, respectively. Roughly half of the construction pipeline has been pre-leased, while the other half is expected to outpace demand over the short term.

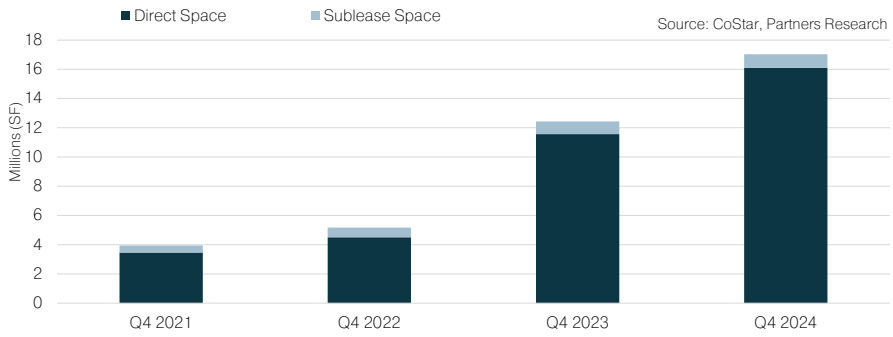
Net Absorption



Leasing Activity



Vacancy



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Construction Deliveries Outpace Demand and Vacancy Rates Increases as a Result to 11.7%

The overall vacancy rate in the Austin industrial market is at 11.7%. Quarter-over-quarter, the vacancy rate increased 150 basis points from 10.2%. Flex, Manufacturing, and Warehouse/ Distribution space have vacancy rates of 11.5%, 2.3%, and 14.3%, respectively. There's still strong demand for industrial space, particularly warehouses and distribution centers. However, with a robust under construction pipeline still underway, the vacancy rate is likely to rise moderately over the next few quarters.

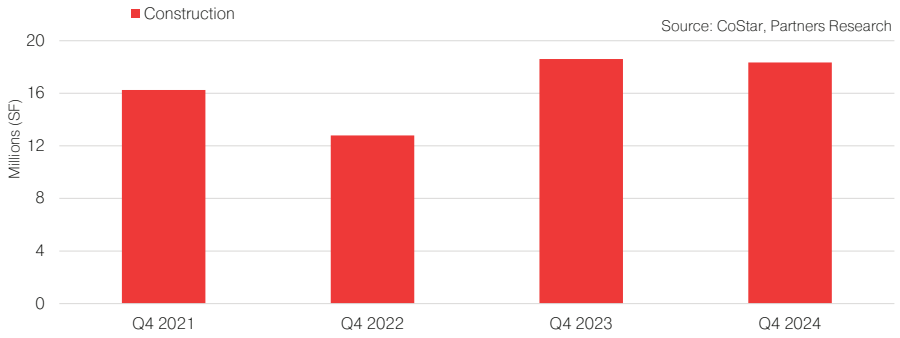
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume for Q4 2024 at $386 million. Over the past year, 131 properties were sold with an average transaction price of $192 per sq. ft. and an average cap rate of 7.7%. Notable recent transactions include Alliance Industrial Company sold the 1,392,379 sq. ft. logistics park, Kyle35. Completed in 2023, Kyle 35 Logistics Park consists of five state-of-the-art industrial Class A buildings ranging from 140,300 to 474,397 sq. ft. The property is 100% leased to Tesla. Also, Fortress Investment Group purchased the 221,500 sq. ft. Butler Manufacturing Building from the San Marcos Development Company. The property was vacant at the time of the sale.

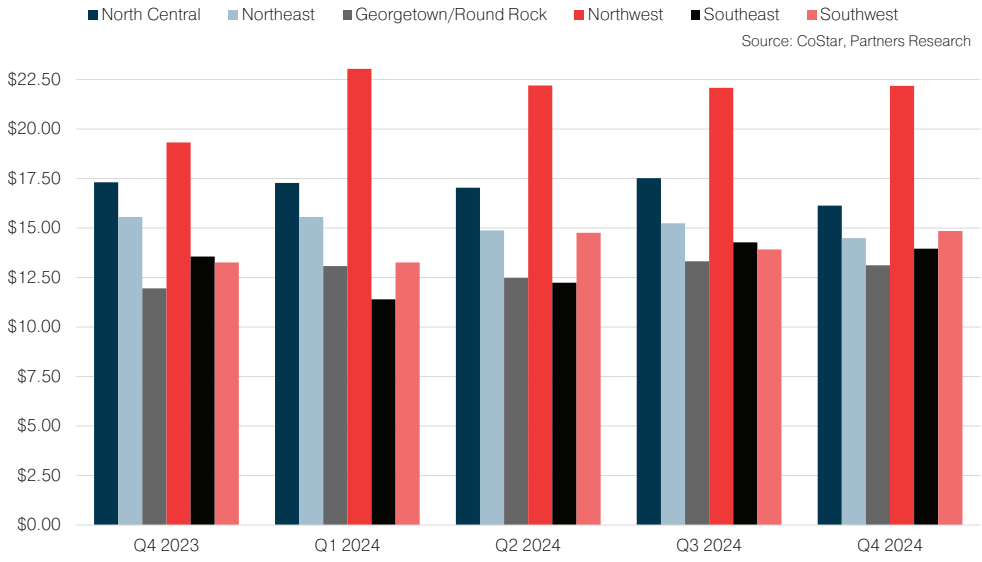
Overall Asking Rates Dipped Slightly for the Quarter, But Still Up Year Over Year

The average monthly rental rate (NNN) for Austin's industrial market is currently $14.72 per sq. ft.—this a slight decrease by 1.9% from record highs last quarter, still year over year, rates are up 2%. The average rate per square foot for Flex space stood at $18.65 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were at $12.61 per sq. ft. and $13.24 per sq. ft., respectively. The Northwest submarket commands the highest overall monthly average rate at $22.18 per sq. ft., followed by the North Central submarket at $16.13 per sq. ft.

Construction



Average Monthly Rental Rate (NNN)



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Market Overview
Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2024 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q4 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (NNN)
Austin Market Total	**146,040,819**	**11.70%**	**17.40%**	**1,334,362**	**4,682,427**	**3,096,824**	**6,201,741**	**18,337,222**	**14.72**
Flex	23,547,239	11.50%	16.10%	16,244	-436,911	116,622	526,000	546,140	18.65
Manufacturing	26,542,533	2.30%	4.70%	149,938	473,153	189,280	487,958	6,053,985	12.61
Warehouse/Distribution	95,951,047	14.30%	21.50%	1,168,180	4,646,185	2,790,922	5,187,783	11,737,097	13.24
Georgetown/Round Rock Total	**23,823,411**	**17.70%**	**20.50%**	**468,546**	**3,059,739**	**828,854**	**2,170,869**	**7,602,411**	**13.12**
Flex	2,347,740	10.30%	23.50%	26,801	402,724	45,104	496,000	296,122	16.78
Manufacturing	3,340,848	3.10%	3.70%	154,432	204,282	189,280	224,732	3,090,000	10.59
Warehouse/Distribution	18,134,823	21.30%	24.90%	287,313	2,452,733	594,470	1,450,137	4,216,289	12.36
North Central Total	**18,991,021**	**9.00%**	**14.20%**	**-12,933**	**-512,924**	**0**	**0**	**0**	**16.13**
Flex	5,107,592	16.00%	19.70%	-69,308	-208,005	0	0	0	19.85
Manufacturing	1,391,254	0.00%	0.00%	0	0	0	0	0	-
Warehouse/Distribution	12,492,175	7.10%	13.50%	56,375	-304,919	0	0	0	13.56
Northeast Total	**48,110,334**	**7.80%**	**15.10%**	**-25,202**	**288,408**	**984,606**	**870,715**	**7,200,028**	**14.49**
Flex	6,245,217	7.90%	16.30%	20,944	-190,286	0	0	0	16.21
Manufacturing	14,329,848	1.90%	1.90%	-45,299	70,664	0	0	2,666,705	19.65
Warehouse/Distribution	27,535,269	10.70%	21.90%	-847	408,030	984,606	870,715	4,533,323	13.69
Northwest Total	8,077,959	9.30%	11.50%	-76,341	-52,743	71,518	295,430	71,518	22.18
Flex	3,451,763	9.10%	10.30%	34,629	-67,585	71,518	0	71,518	23.03
Manufacturing	1,131,072	0.00%	0.00%	0	0	0	0	0	-
Warehouse/Distribution	3,495,124	13.10%	16.50%	-110,970	14,842	0	295,430	0	17.08
Southeast Total	21,841,969	13.60%	20.70%	832,312	199,671	840,770	2,109,882	1,677,654	13.96
Flex	4,374,056	14.00%	14.00%	22,090	-328,758	0	0	112,000	14.34
Manufacturing	1,473,570	3.90%	21.20%	40,805	214,707	0	263,226	297,280	-
Warehouse/Distribution	15,994,343	14.40%	22.80%	769,417	313,722	840,770	1,846,656	1,268,374	13.78
Southwest Total	25,196,125	14.50%	19.60%	147,980	1,700,276	371,076	754,845	1,785,611	14.85
Flex	2,020,871	11.20%	15.40%	-18,912	-45,001	0	30,000	66,500	19.82
Manufacturing	4,875,941	3.50%	12.30%	0	-16,500	0	0	0	13.38
Warehouse/Distribution	18,299,313	17.80%	21.80%	166,892	1,761,777	371,076	724,845	1,719,111	13.48

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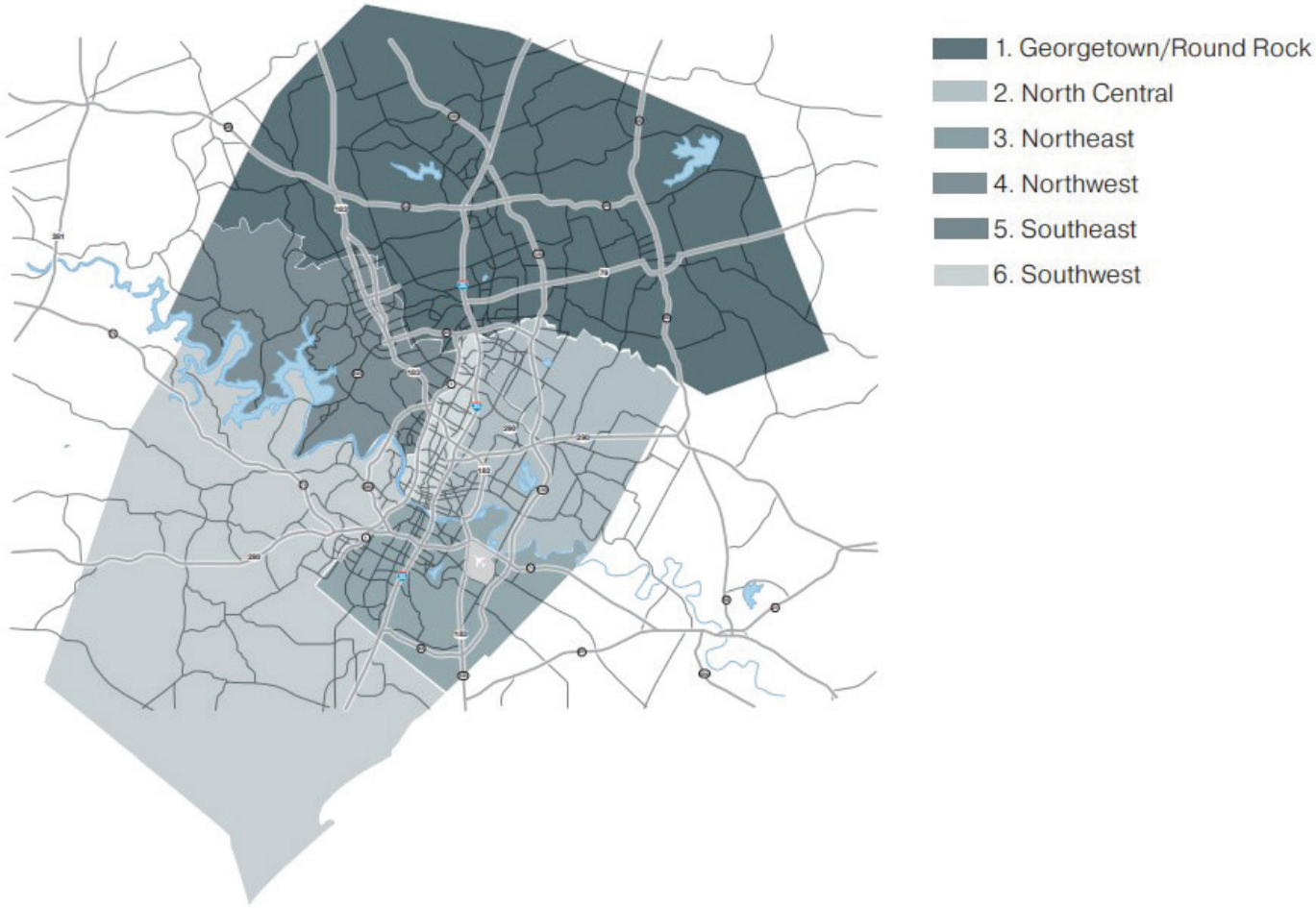
Austin Industrial Submarkets



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Steve Triolet
SVP of Research and Market Forecasting
tel 214 223 4008
steve.triolet@partnersrealestate.com

partners

HOUSTON
+ 713 629 0500
1360 Post Oak Blvd #1900
Houston, Texas 77056

PARTNERSREALESTATE.COM