

Austin Industrial Market

Industrial Begins to Emerge from COVID Downturn

Austin's industrial sector started to emerge from the COVID downturn in the first quarter of 2021, as the market reaches to meet the needs of the growing workforce, population and commercial tenants. The high level of continued interest in the region, burgeoning population and increasing development allow the market to be well poised to meet consumer demands, especially in the distribution and cold storage sectors as rooftops continue to expand in the region and allows the Austin industrial market to see 2021 as a year of positive metrics in the market.

Austin Metrics Enforce Strong Market Outlook

The average asking rental rate for available industrial space rose this quarter to \$11.45/SF NNN. Rates have continued to climb across all property types of industrial stock, even as the COVID pandemic impacted retail and office stock. The highest rates occurred in the Northwest and Central submarkets with rates of \$15.12/SF and \$13.75/SF respectively. Also, sublease rates reversed their Q4 trends and now stand at \$9.25/SF. Three submarkets currently have sublease rates in excess of the market average. Sublease rates in the Northwest submarket continue to be significantly higher than the market average at \$14.95/SF NNN.

Current Conditions

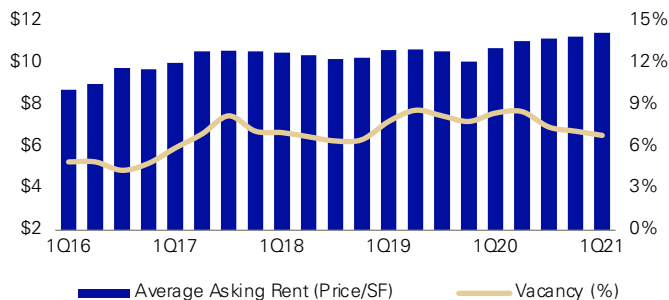
- 517K absorption marks 8th consecutive quarter of positive take up
- Most leasing activity still within the 25,000 to 50,000 SF range for the market
- Overall leasing of just over 2.5M SF for Q1 tracks with 5 year quarterly average; transaction volume up 50 transactions and 600K SF from Q4 2020
- UC of 11.4MSF nearly 10MSF more than Q1 2020

Market Summary

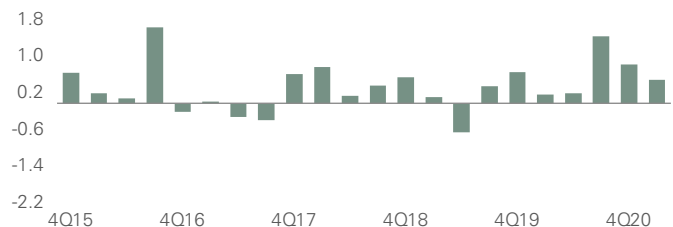
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 95.9 MSF | 95.7 MSF | 93.7 MSF | ↑ |
| Vacancy Rate | 6.8% | 7.1% | 8.2% | ↓ |
| Quarterly Net Absorption (SF) | 517,062 | 847,562 | 305,659 | ↓ |
| Average Asking Rent/SF | \$11.45 | \$11.25 | \$10.81 | ↑ |
| Under Construction (SF) | 11.4 MSF | 10.5 MSF | 2.4 MSF | ↑ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2021

Austin's industrial market saw continued strong leasing activity. At 2.5M square feet leased, activity continued to be strong, and rose by roughly 600K SF from the previous quarter. Leasing transactions this quarter averaged just over 18,000 square feet. Leasing activity remains a key market health indicator to watch as the vaccine roll outs allow a return to a new normal in Austin. COVID-19's impact has been muted in the industrial sector as more tenants shift their needs to meet consumer demand changes brought on by WFH and social distancing needs.

Continuing the positive trend seen throughout the last nine quarters, the Austin industrial market absorbed just over 500 thousand square feet of space in the quarter. This marks 8th consecutive and overall, the 12th out of the past 13 quarters that the Austin market saw positive take up. The Southwest and Georgetown submarkets saw take up greater than 200,000 square feet, and these two submarkets account for the majority of the positive absorption seen in the last 90 days. On a slightly more concerning note, four submarkets showed negative absorption during the quarter, and this furthers the "one step forward, two steps back" thought on the market's emergence from COVID.

Thankfully, Austin is driven largely still by a robust tech economy, which is least affected by any pandemic-related economic slowdown. Tesla continues to push into all parts of Texas, with the Austin market being Elon's preferred home for multiple parts of the company. The massive manufacturing plant that has been discussed previously continues to show a mid 2021 completion and will generate nearly 5,000 new jobs in the area. Continued positive momentum that has resulted from demand changes is seen in the spike in demand for cold storage industrial space, as large scale grocers and retailers look to capitalize on the continued change in consumer sending habits as it relates to food and grocery purchases.

The construction pipeline in the Austin industrial market remains robust, with almost 11.4M SF currently underway across 30 buildings. The increase of almost 1M square feet this quarter is largely due increases in the Northeast and Southwest submarkets' under construction stock. Additionally, the Northeast submarket accounts for the second largest share of developing space with just over 4 million square feet of space. The five-year quarterly average has now breached 2.0M SF of new space, as the upward trend in construction continues. In the quarter, just over 300,000 SF delivered across the market, which is down from Q4's nearly 750,000 SF. Currently, it appears that demand is able to keep pace with the new stock arriving to market and keeps the market in an equilibrium state. With the anticipated COVID related demand spike for last-mile and cold storage space during the next 12 to 18 months, it will be interesting to watch the quality and stock of new construction in the market shifting.

In Pflugerville, a 3.8 million square foot distribution center is currently in the planning stages. The proposed project on 94 acres just east of State Highway 130 is rumored to belong to Amazon.com Inc. Plans for the facility include 43,000 square feet of office space, 780,552 square feet of warehouse space, and 3.0 million square feet of space for robotics. If the facility does belong to Amazon, it would become the company's largest distribution center in Texas, four times larger than the company's current facility in San Marcos. Additional on-line retailers such as Wayfair, Igloo and others are rumored to be looking at the Austin and surrounding submarkets to expand their footprints or enter the booming market.

| Asking Rent by Submarket | | | |
|--------------------------|------------|------------|---|
| ASKING RENT | 1Q2021 | 1Q2020 | |
| Northwest | \$15.12/SF | \$13.40/SF | ↑ |
| Central | \$13.75/SF | \$13.07/SF | ↑ |
| North | \$12.32/SF | \$10.01/SF | ↑ |
| East | \$10.86/SF | \$11.01/SF | ↓ |
| Southeast | \$13.29/SF | \$12.28/SF | ↑ |

| Vacancy Rate by Submarket | | | |
|---------------------------|--------|--------|---|
| VACANCY RATE | 1Q2021 | 1Q2020 | |
| Central | 6.6% | 7.6% | ↓ |
| Southwest | 7.9% | 15.2% | ↓ |
| Northwest | 5.5% | 6.5% | ↓ |
| East | 2.4% | 4.8% | ↓ |
| Georgetown/RR | 9.7% | 10.3% | ↓ |

| Lease/User Transactions | | | | |
|-------------------------|-------------------------|--------------------|----------------|-------------|
| Tenant | Market | Building | Type | Square Feet |
| Unknown | Austin – Southwest Hays | 16310 Bratton Ln | New – Sublease | 99,200 |
| Unknown | Austin - North | 1307 Smith Rd | New – Direct | 88,081 |
| Unknown | Austin – Georgetown/RR | 220 S. Elmo Rd E | New – Direct | 86,300 |
| Unknown | Austin - Southeast | 2120 Grand Ave Pky | New – Sublease | 84,000 |
| Unknown | Austin - North | 19200 Market Place | New – Direct | 61,970 |
| Unknown | Austin – Northeast | 1150 New Tech Blvd | New – Direct | 58,260 |

| Sales Transactions | | | | |
|----------------------------|------------------------|----------------------------|---------|----------|
| Buyer/Seller | Market | Building | Price | Price/SF |
| Ledo Capital/Titan Develop | Austin – Georgetown/RR | Innovation Business Park 2 | Unknown | Unknown |
| Longpoint Realty/Wright | Austin – North | 11550 Stonehollow | Unknown | Unknown |

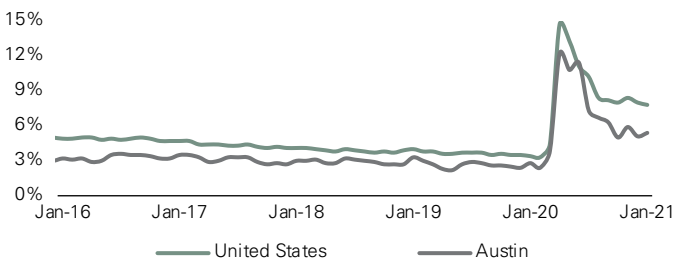
| Submarket Statistics (Combined Class A&B) | | | | | | | | |
|---|----------------------|-------------------------|-------------------------|---------------------|---------------------|-------------------------------|-------------------------------|------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Availability Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Direct Asking Rent (Price/SF) | Sublet Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
| Central | 1,923,020 | - | 7.2% | 9,630 | 9,630 | \$13.81 | \$13.00 | \$13.75 |
| Georgetown/RR | 11,290,768 | 1,271,456 | 16.2% | 337,270 | 337,270 | \$9.41 | - | \$9.41 |
| East | 6,207,295 | 4,500,000 | 2.6% | -2,558 | -2,558 | \$10.86 | - | \$10.86 |
| North | 16,536,620 | - | 6.9% | -35,887 | -35,887 | \$13.65 | \$7.94 | \$12.32 |
| Northeast | 20,314,451 | 4,497,970 | 7.5% | -11,956 | -11,956 | \$11.81 | \$7.39 | \$11.78 |
| Northwest | 7,733,656 | 226,385 | 5.1% | 4,870 | 4,870 | \$15.12 | \$14.95 | \$15.12 |
| Southeast | 19,722,880 | 431,226 | 8.7% | -31,316 | -31,316 | \$13.72 | \$10.67 | \$13.29 |
| Southwest Hays | 12,265,201 | 544,058 | 10.7% | 247,009 | 247,009 | \$8.28 | - | \$8.28 |
| Market | 95,993,379 | 11,471,095 | 6.8% | 517,062 | 517,062 | \$11.64 | \$9.25 | \$11.45 |

Economic Indicators

The continued impact on Austin of the COVID pandemic (and to a smaller extent, the oil-price worries more widely impacting Houston and Dallas) can now be more readily seen in other areas of economic data. The data also shows the slow emergence from the recession that Austin is beginning to see. Across 7 of the 12 employment sectors tracked, 12 month growth percentages have continued to be negative. A deeper dive however shows only 3 of those with negative growth greater than 2% in the 12 month cycle. Combined with unemployment rates continuing to rebound, companies continuing to ramp up hiring in and around the region, and the aforementioned California to Texas pipeline that is open and flowing in terms of major company headquarters relocations, the Austin economy is poised to recover perhaps the quickest of all the Texas metros in a post-COVID landscape.

Unemployment Rate

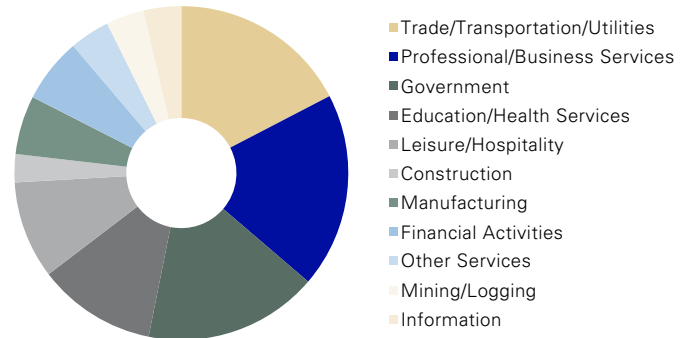
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Employment By Industry

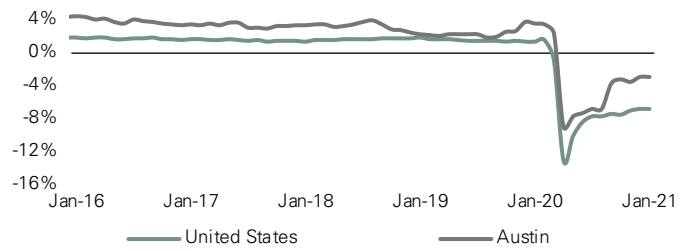
AUSTIN, JANUARY 2021



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

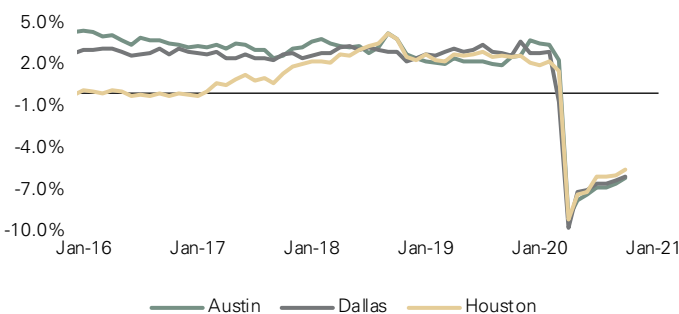
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2020

Payroll Employment – Select Texas Markets

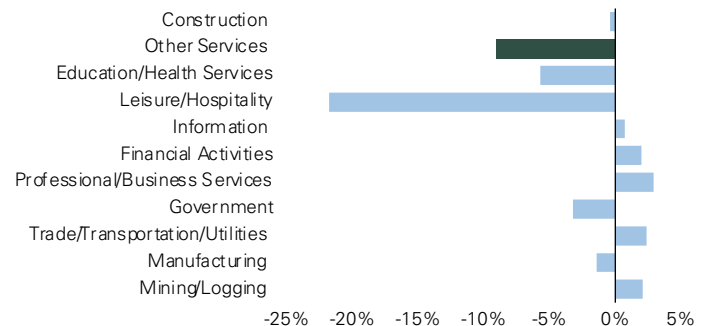
TOTAL NONFARM, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

Employment Growth (Industry)

AUSTIN, FEBRUARY 2021, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

For more information:

Austin

2350 Walsh Tarlton Ln
Suite 250
Austin, TX 78746
t 512-342-8100

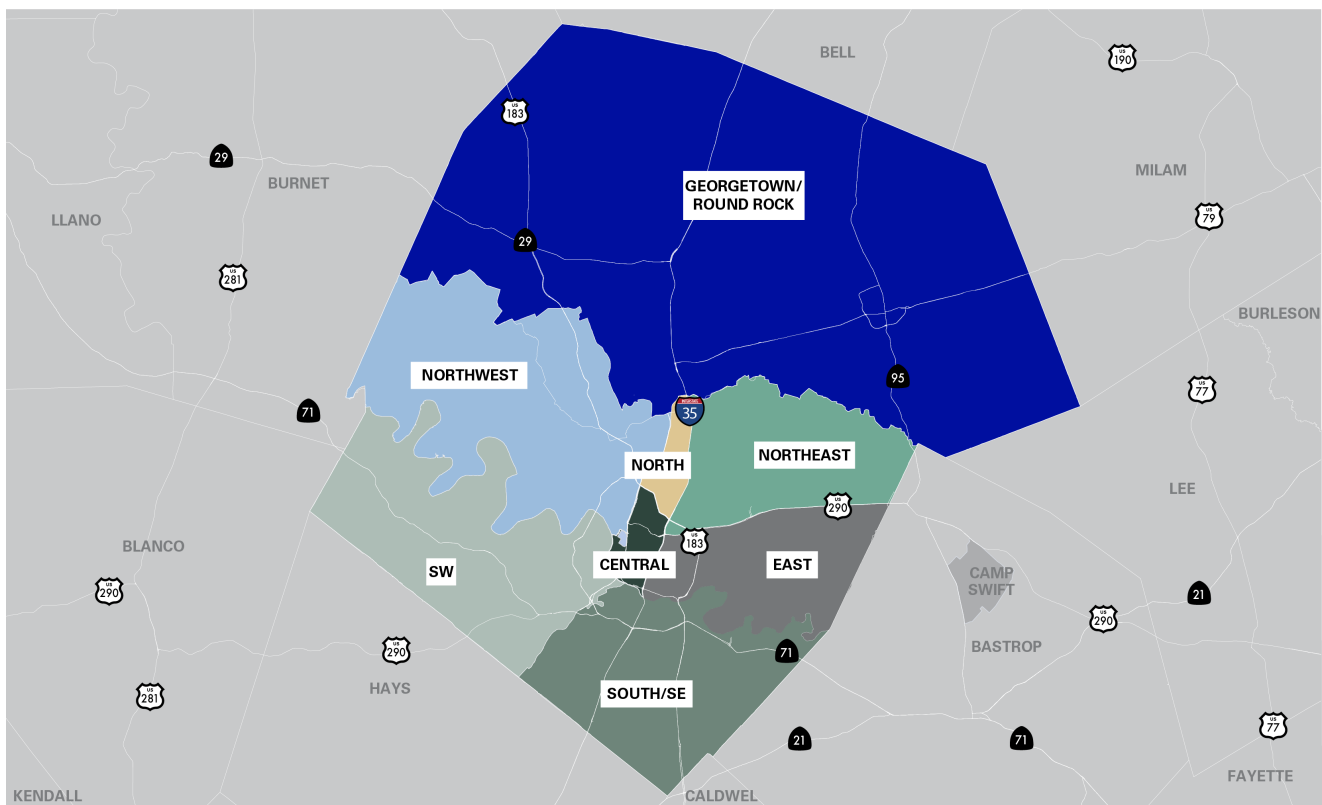
Graham Hildebrand

Director
Texas Research
graham.hildebrand@ngkf.com

Walter Bruton

Research Coordinator
Texas Research
walter.bruton@ngkf.com

nmrk.com



Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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