
1Q24

Austin Industrial Market Overview

NEWMARK

Market Observations

Economy

- The market’s unemployment rate dropped by eight basis points year over year to 3.4% but remained well below the five-year average of 3.9%.
- When compared to February 2023, employment growth declined by 306 basis points to 3.1%.
- Most sectors reported employment growth, with other services leading job gains at 7.4% over the past 12 months.
- All industrial-using job sectors in the market reflected yearly growth, with mining and construction and trade/transportation/utilities and manufacturing jobs all reflecting growth of 5.7%, 2.7% and 1.7%, respectively.

Major Transactions

- Most of the largest leases in the first quarter of 2024 were new, indicating there is still a healthy appetite for industrial space in the market.
- Class A warehouse space continued to dominate market share as it accounted for 45.2% of this quarter’s largest transactions.
- The “Tesla Effect” was in full-swing this quarter as automotive part manufacturing companies, namely FMT and US Farathane, continue to follow Tesla to the Austin area and sign two of the quarter’s largest leases.

Leasing Market Fundamentals

- The market realized 3.0 MSF of positive absorption in the first quarter of 2024, the first time that demand outpaced supply since the first quarter of 2022.
- Overall rental rates grew 12.3% year over year to \$14.83/SF, reaching a new historical high.
- The construction pipeline recorded deliveries of 2.5 MSF in the first quarter of 2024, with 16.3 MSF currently under construction.
- Following new deliveries outpacing yearly demand in 2023, vacancy increased by 380 basis points year over year to 9.1%.

Outlook

- The Austin industrial market will likely see an influx of new supply on the market in the near term, due to 12.2% of the current market’s inventory being under construction. New deliveries, which are 48.9% pre-leased, will outpace demand in the near term.
- Vacancy rates are expected to increase in the near term as supply is expected to outpace occupancies.
- Asking rents will likely continue to increase, due to elevated inflation and a large pipeline of quality new product commanding higher pricing coming online.

1. Economy
2. Leasing Market Fundamentals

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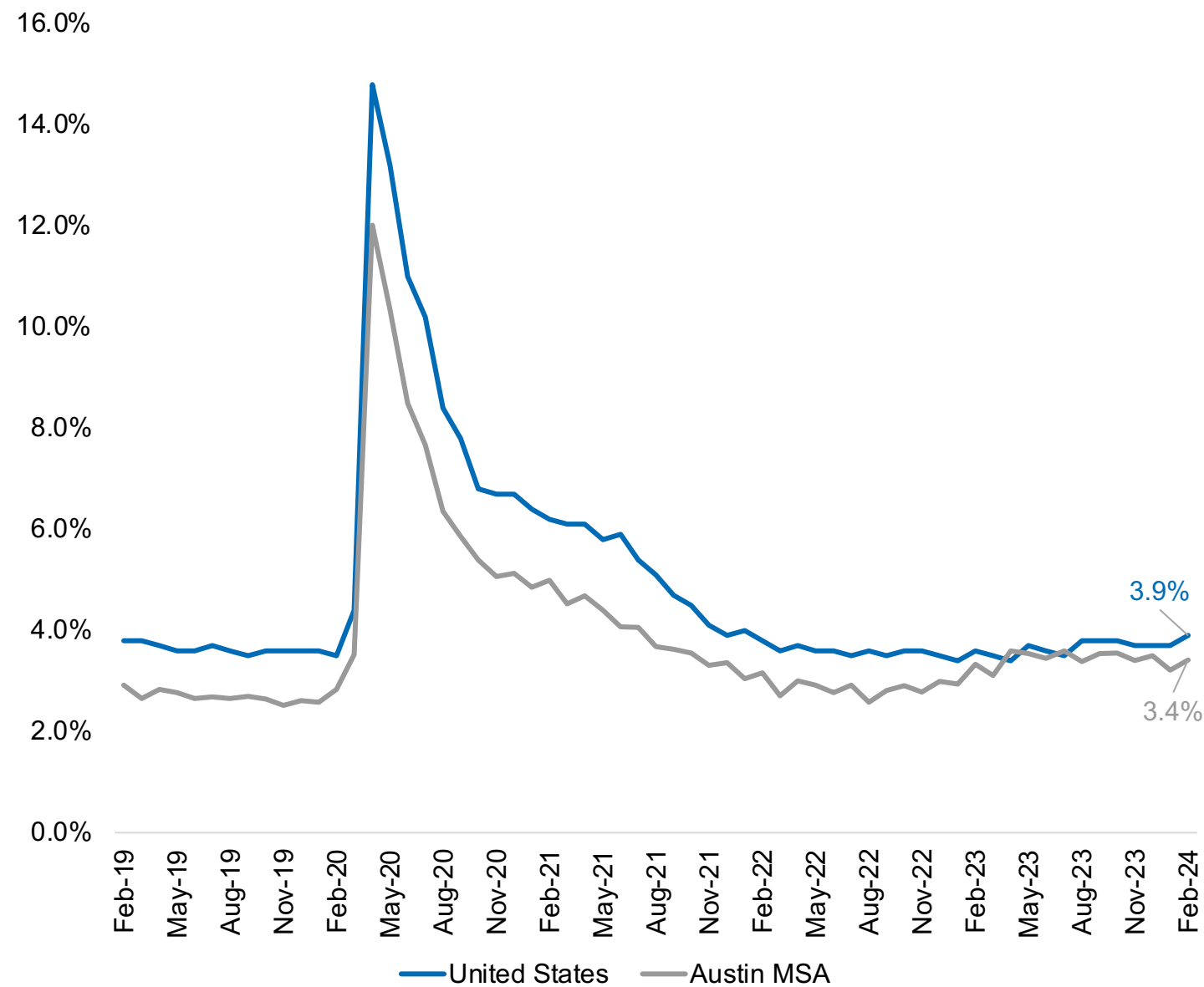
Economy



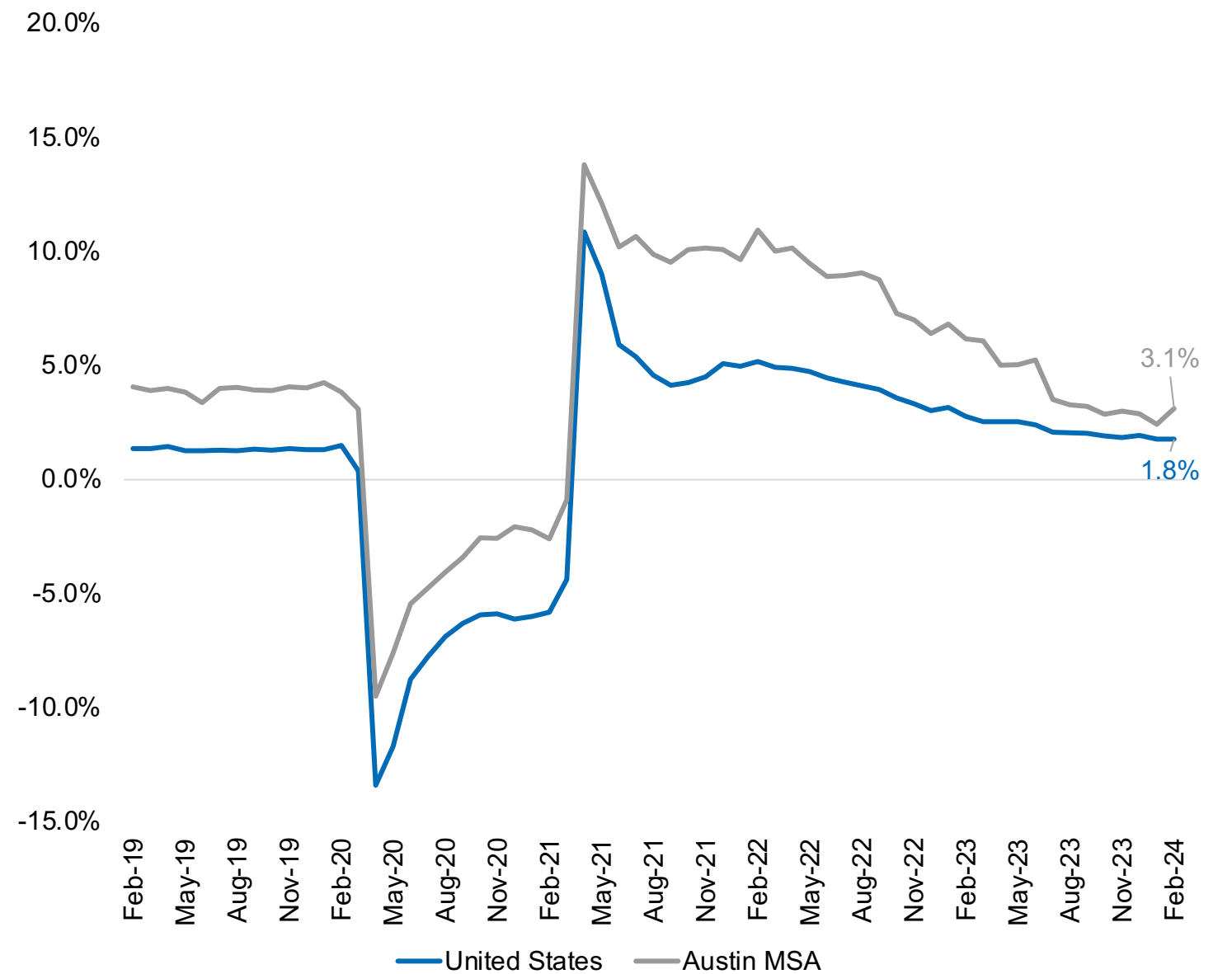
Employment Trends Signal a Slowing Economy

Austin generally reports lower unemployment rates compared with the national average, while being an outperformer in employment growth. Continued recent national economic headwinds in the first quarter of 2024 caused the region's unemployment rate to increase by eight basis points year over year, while the employment year-over-year growth rate slowed by 306 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



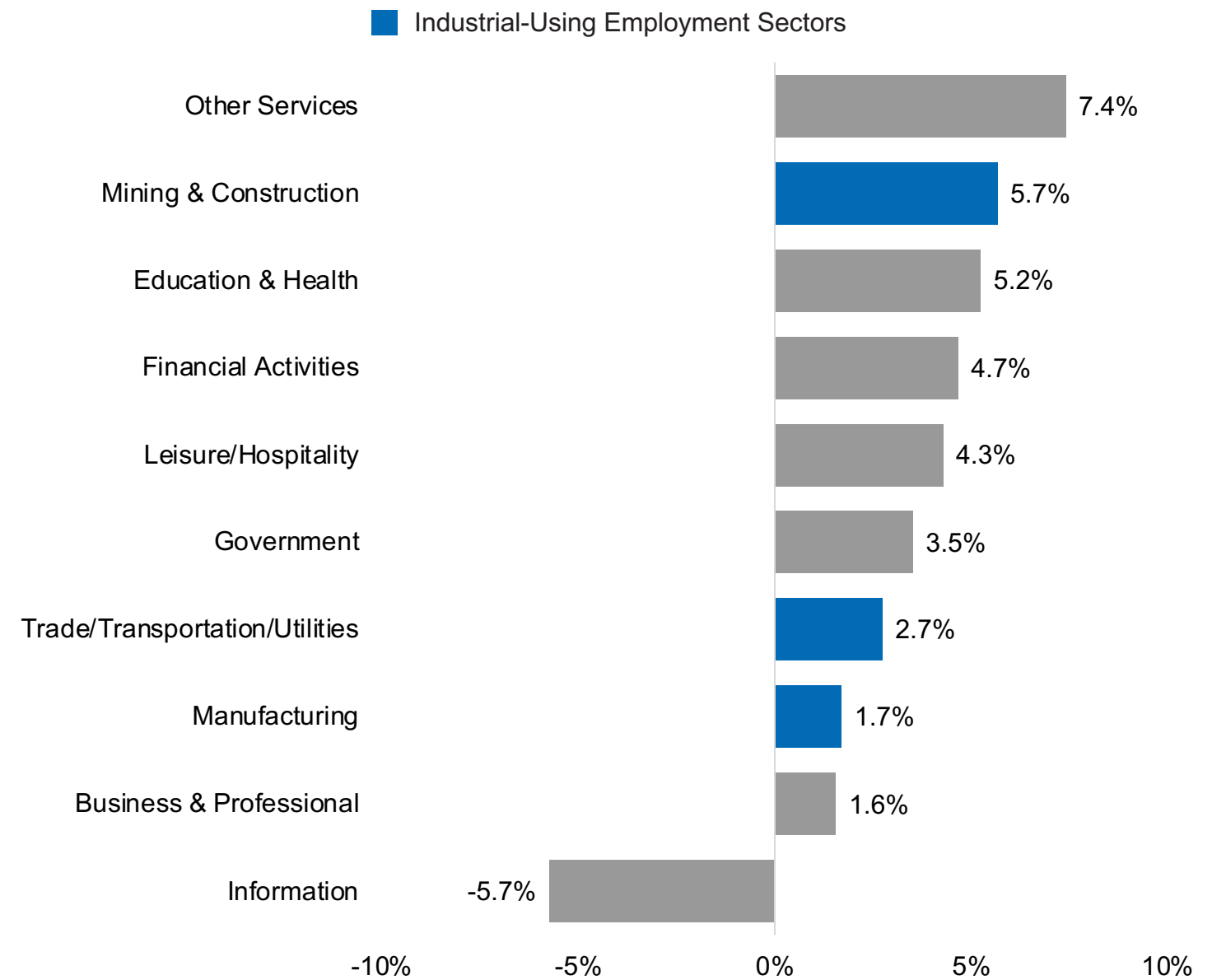
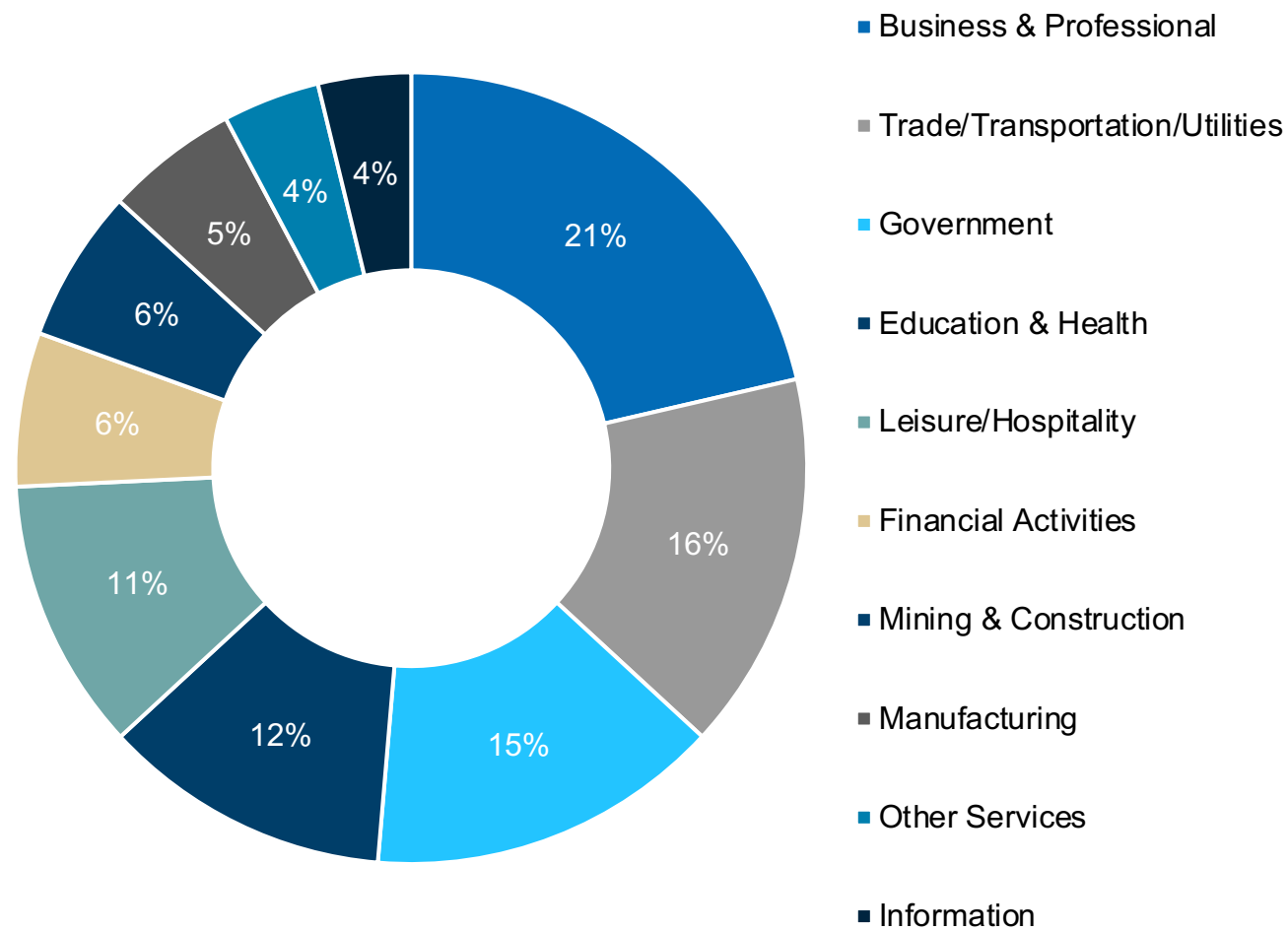
Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

Employment Growth Continues across all Industrial Sectors

Known for its technology sector, the Austin market's top-two employment industries, business and professional and trade/transportation/utilities, account for 36.9% of jobs. The industrial-using employment's trade/transportation/utilities sector is the second largest industrial sector in the Austin market, accounting for 15.5% of the workforce. Most industries reported year-over-year job growth. The mining and construction, trade/transportation/utilities, and manufacturing sectors reported 5.7%, 2.7%, and 1.7% year-over-year growth, respectively.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

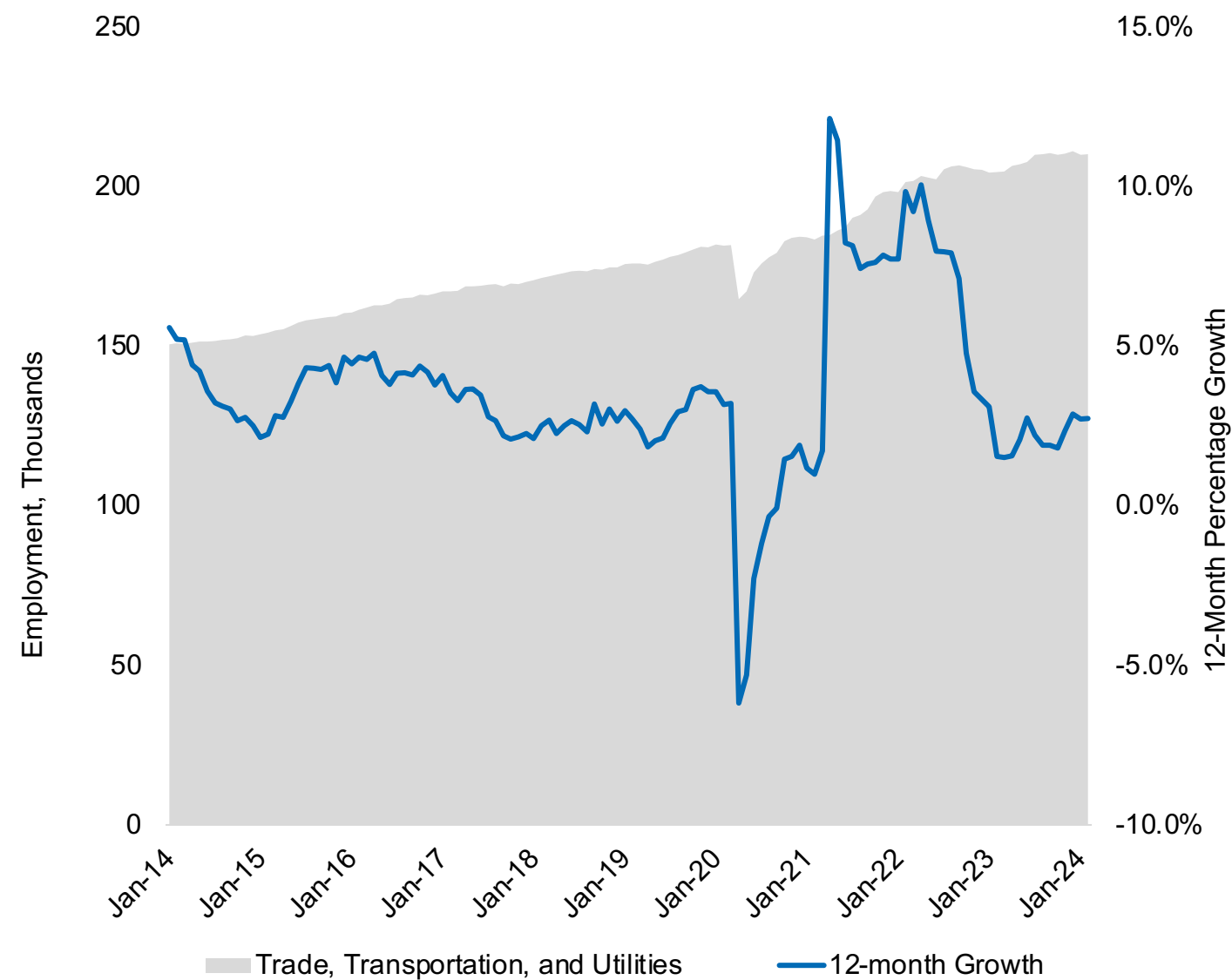


Source: U.S. Bureau of Labor Statistics, Austin MSA

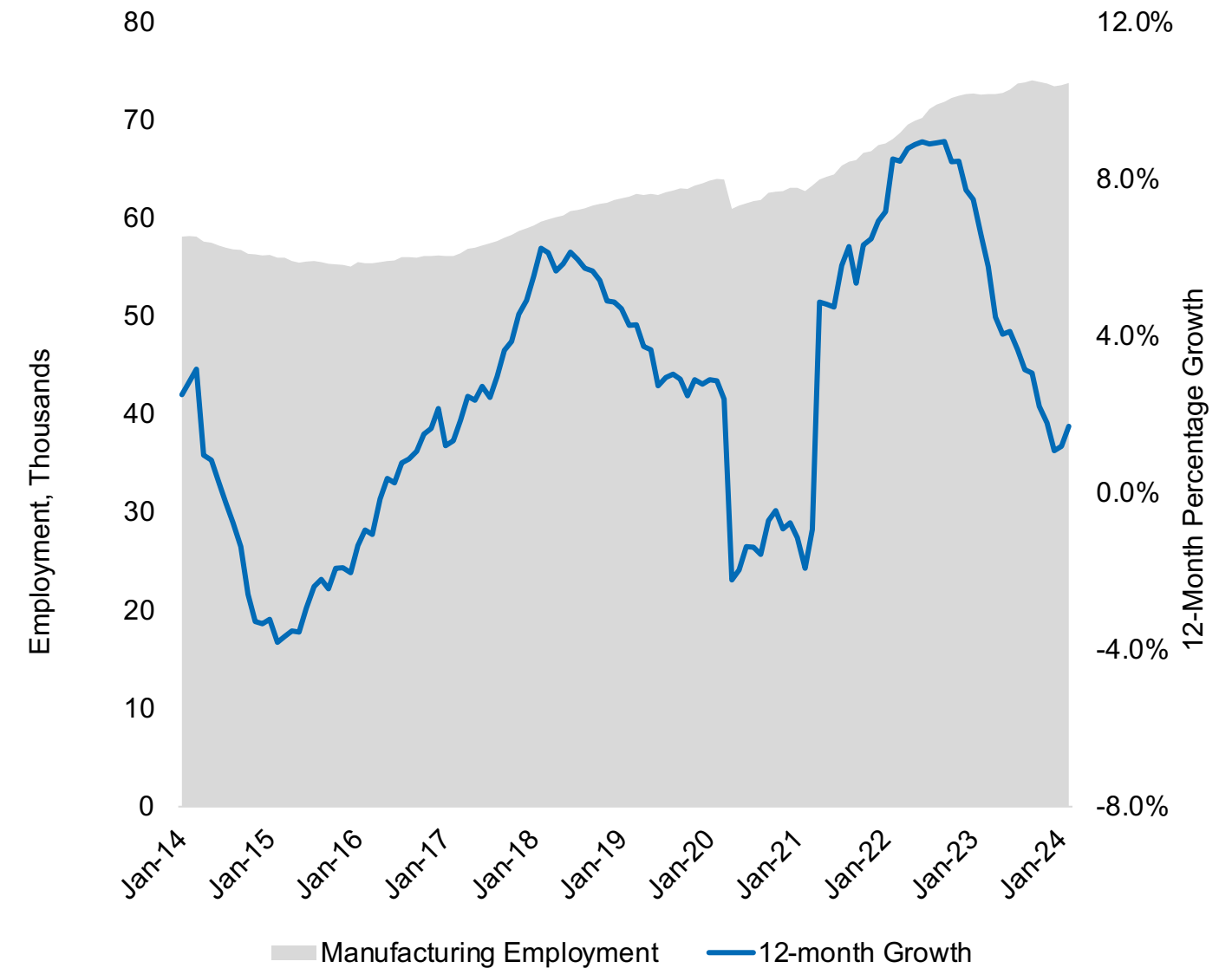
Industrial Employment Records Positive Yearly Growth

As of February 2024, employment in trade/transportation/utilities declined 0.5% from the peak of 211,030 employees reported in December 2023, to 210,030 employees. Manufacturing employment declined by 0.3% from its historical high recorded in September 2023 to 73,820 employees in the first quarter of 2024. Overall, industrial-using employment showed yearly gains as trade/transportation/utilities and manufacturing showed growth of 2.7% and 1.7%, respectively.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Austin MSA

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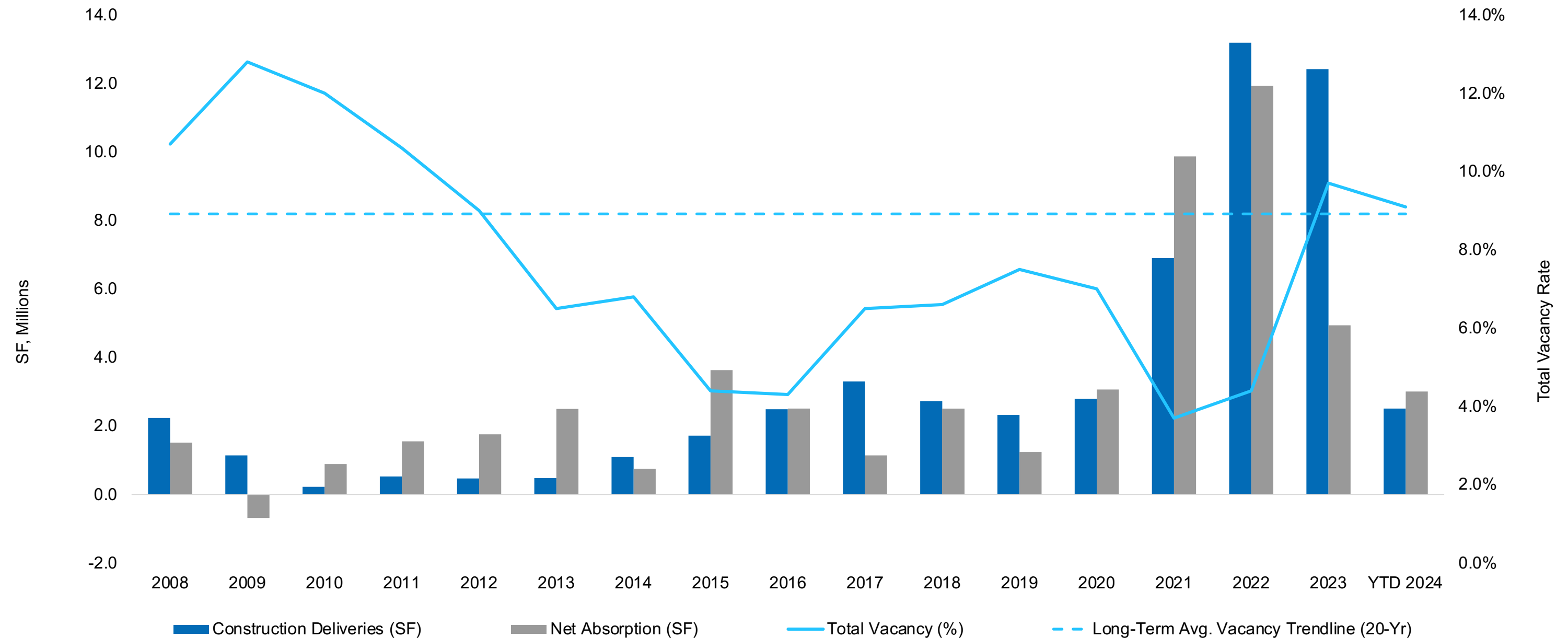
Leasing Market Fundamentals



Vacancy Remains near Historic High

The Austin industrial vacancy rate increased by 380 basis points year over year to 9.1% in the first quarter of 2024. Deliveries continue to remain historically high in the market, as the market continues to work through its historically elevated under-construction pipeline. Despite national economic headwinds, demand continues to remain positive for industrial space in the Austin market. Demand outstripped deliveries for the first time since the first quarter of 2022.

Historical Construction Deliveries, Net Absorption, and Vacancy

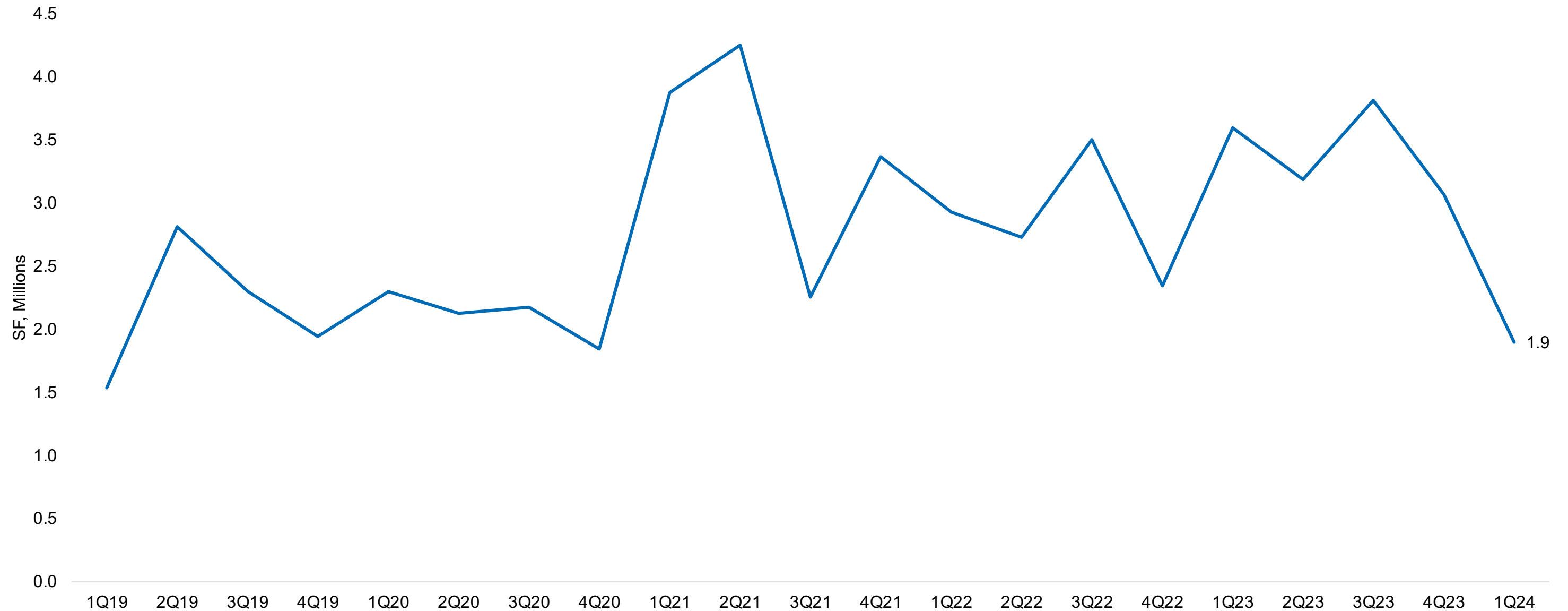


Source: Newmark Research, CoStar

Industrial Leasing Activity Decreases Year over Year, Quarter over Quarter

In the first quarter of 2024, leasing activity decreased by 38.1% quarter over quarter and 47.2% year over year to 1.9 MSF. Despite slowing leasing activity, likely resulting from national economic headwinds, demand continues to remain positive in the market.

Total Leasing Activity (SF)

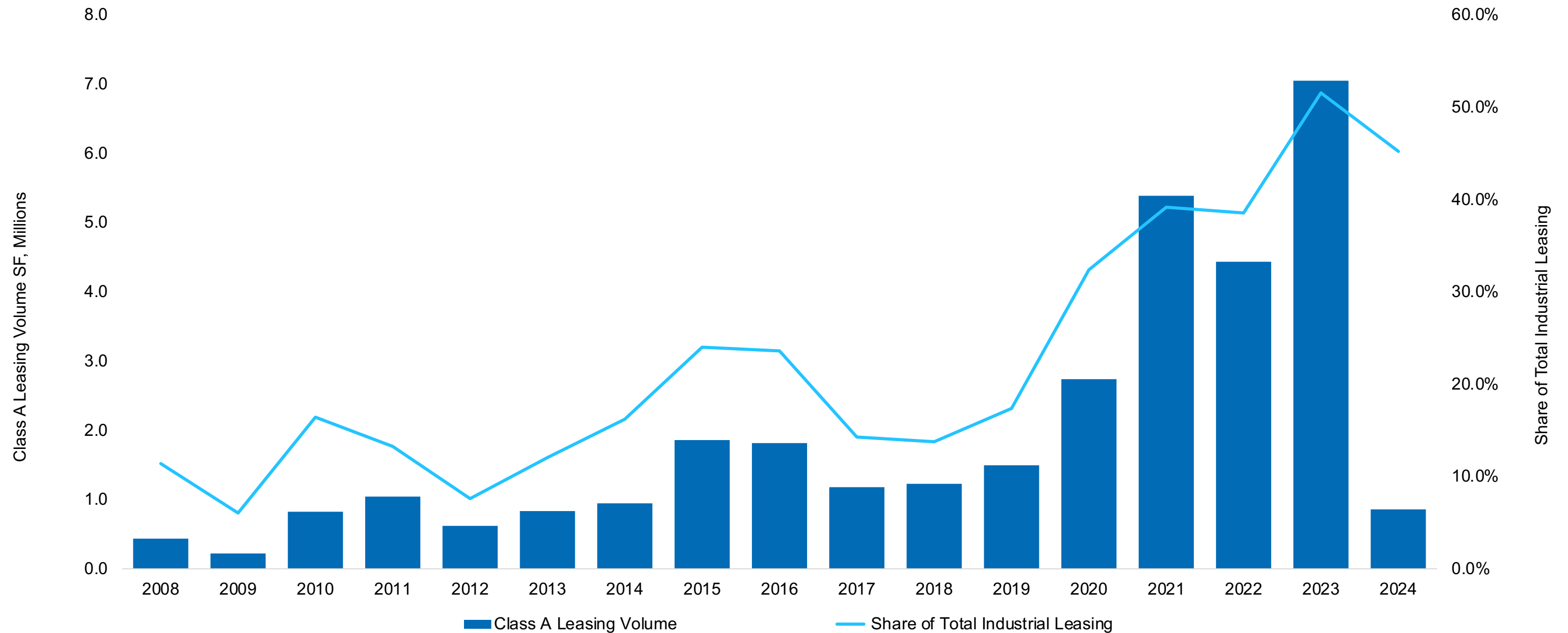


Source: Newmark Research, CoStar

Class A Warehouse Transaction Volume Remains Historically Elevated

Class A warehouse space leasing activity in the first quarter of 2024 continued its decline from the historic high reported in the third quarter of 2023 to 858,941 SF. Class A warehouse leasing represented 45.2% of overall activity in the first quarter of 2024, down from 58.0% in the first quarter of 2023 and well above the pre-pandemic average at 14.3% from 2008 to 2019. This reflects a 418 quarter over quarter basis-point increase and a 1,275 year over year basis-point decrease.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

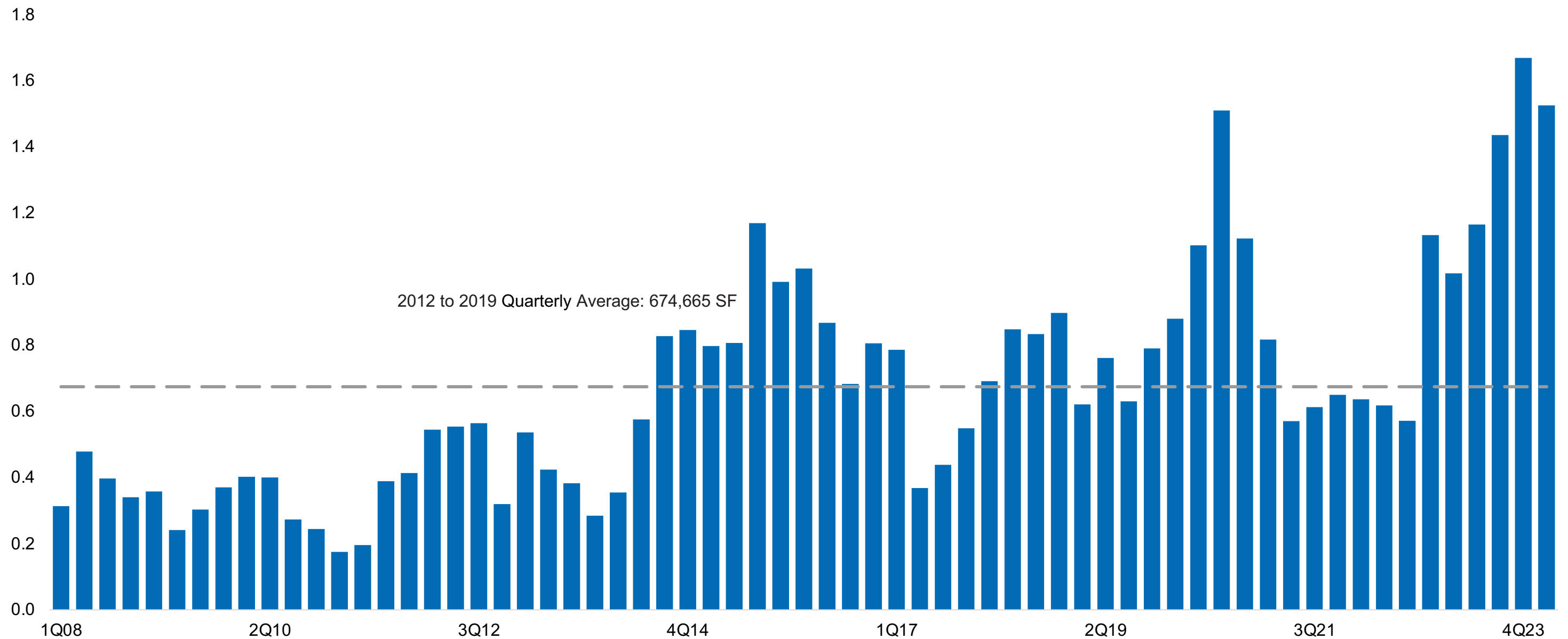


Source: Newmark Research, CoStar

Industrial Sublease Availability Drops from Historic High

Sublease volume declined for the first time since the fourth quarter of 2022. As of the end of the first quarter of 2024, available sublease space recorded 1.5 MSF. Sublease availabilities decreased 8.6% quarter over quarter and increased 49.9% year over year. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)

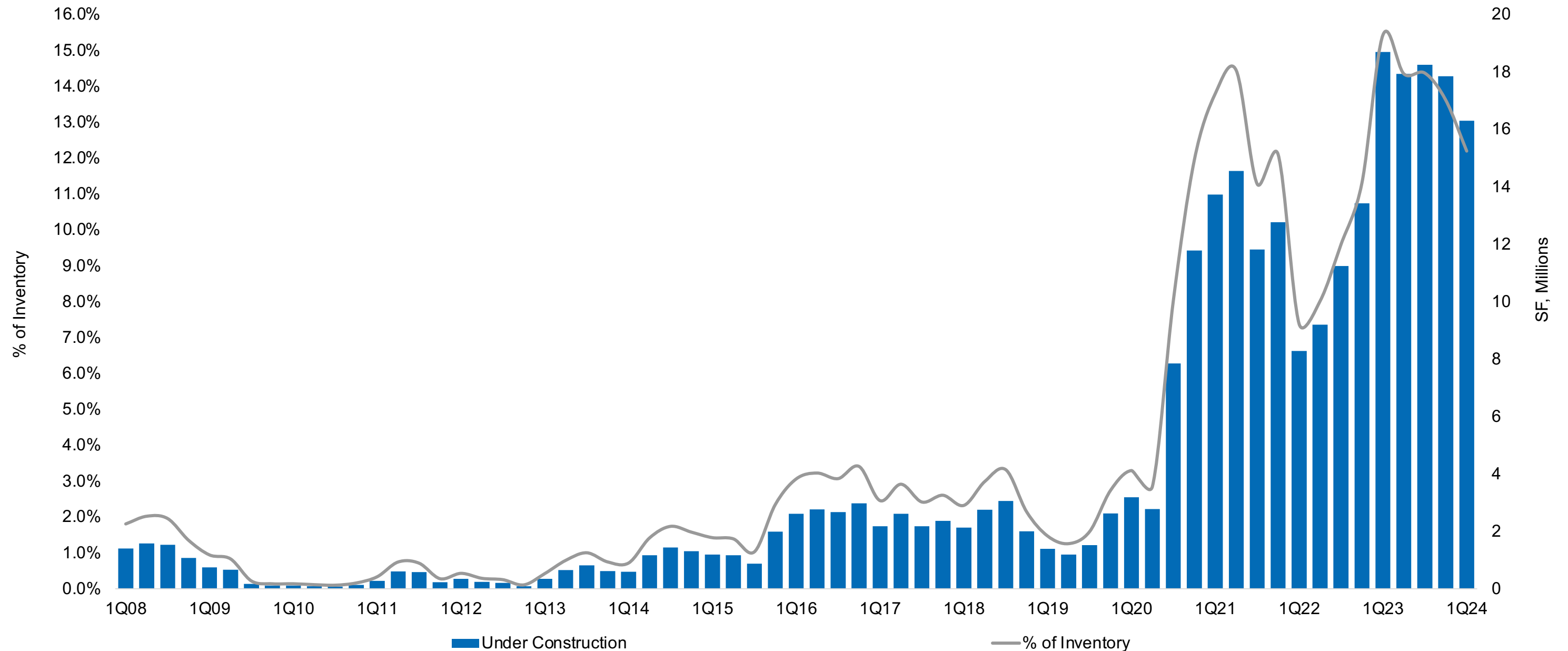


Source: Newmark Research, CoStar

Industrial Supply Pipeline Eases from Historic Highs, Remains Historically Elevated

The construction pipeline decreased for the second consecutive quarter to 16.3 MSF in the first quarter of 2024. Although the pace of new ground breakings has slowed when compared to the first quarter of 2023, developers are continuing to develop new projects to meet Austin's demand for advanced manufacturing space being driven by major investment in the region. The slowing construction growth is likely attributed to a challenging financing environment for new construction. Currently, under-construction projects in the market are 48.9% pre-leased.

Industrial Under Construction and % of Inventory

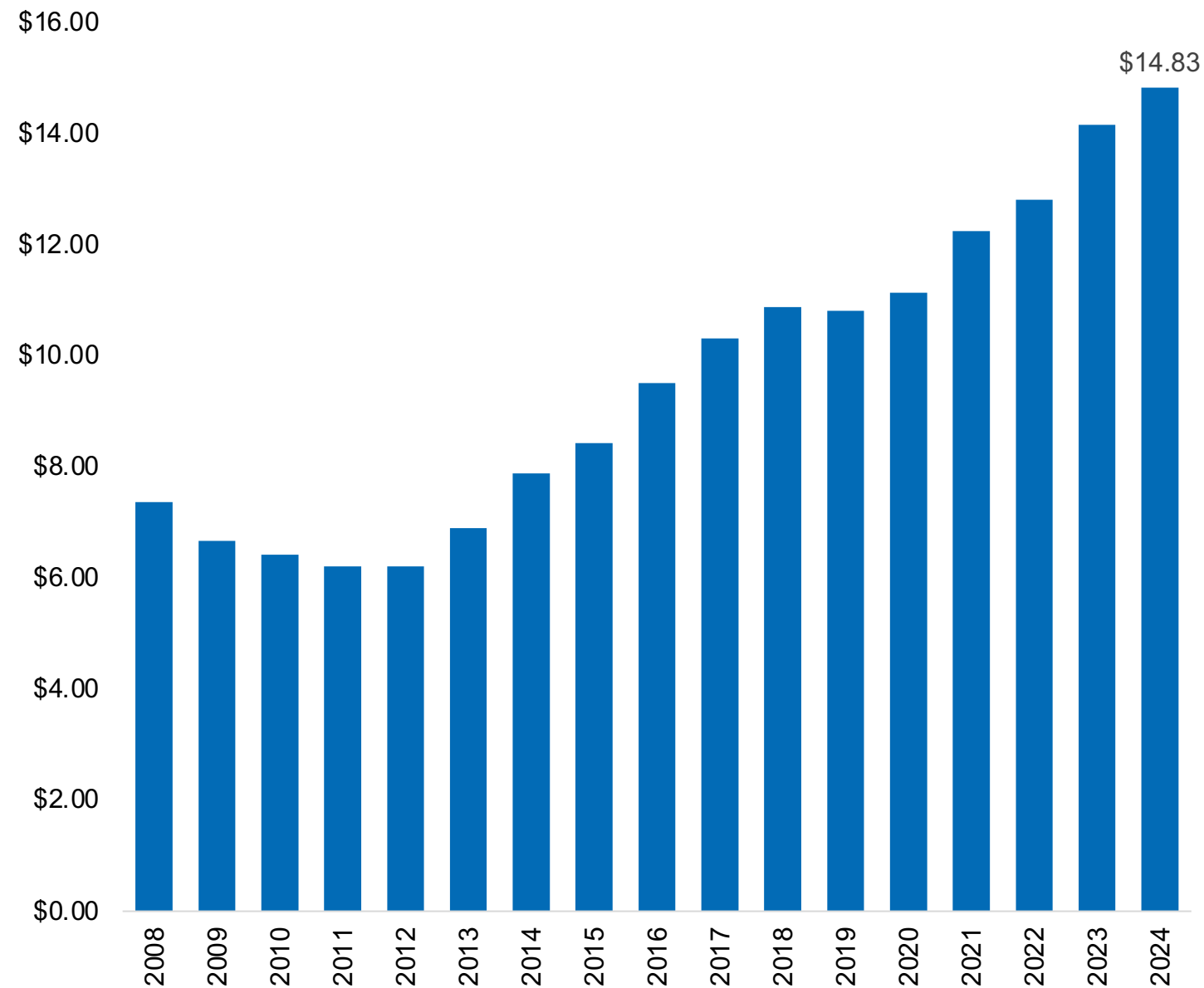


Source: Newmark Research, CoStar

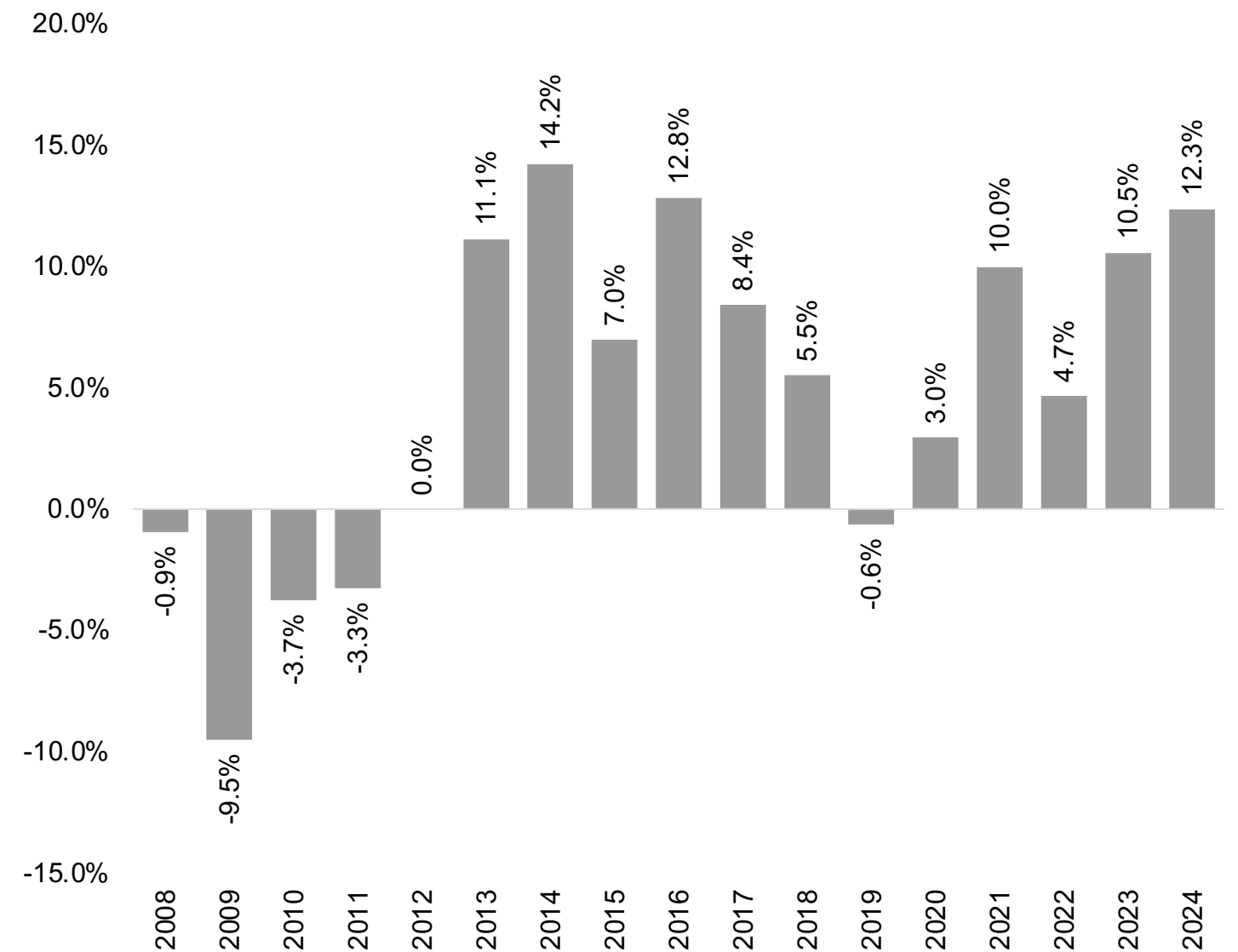
Asking Rents Record Historical High

Industrial average asking rents reached a new high at \$14.83/SF, as of the end of the first quarter of 2024, increasing by 12.3% year over year. Rent growth is expected to continue increasing as new, higher-quality assets continue delivering.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Class A Warehouse Space Still Dominates Leasing Activity

Leasing activity slowed in the first quarter of 2024, with quarterly leasing activity at 1.9 MSF, below quarterly averages reported since 2010 at 2.2 MSF. Advanced manufacturing played a dominant role in Austin's industrial leasing transactions this quarter as car parts manufacturers FMT and US Farathane signed two of the quarter's largest leases. High-quality, Class A spaces continued to command the market as new space was delivered. Class A warehouse transactions accounted for 45.2% of total leasing transactions that occurred during this quarter.

Notable 1Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
ProLift Rigging <i>Full-service rigging, transportation, and warehouse solutions provider ProLift Rigging signed a 229,312-SF lease at 1305 Opportunity Boulevard in San Marcos.</i>	Whisper Logistics 35	Hays County	Direct New	229,312
FMT <i>Plastics injections molding and manufacturer FMT has signed a 187,558-SF lease at 500 SH-130 in Georgetown.</i>	Gateway35 – Building 2	Georgetown	Direct New	187,558
Cangshan <i>Professional knife and knife accessory manufacturer Cangshan signed a 158,351-SF lease at 201 Velocity Drive in Georgetown.</i>	NorthPark35 – Building 2	Georgetown	Sublease	158,351
Flextronics <i>Electronics manufacturer Flextronics, now known as Flex, signed a 152,400-SF lease at 2200 Chisholm Trail Road in Round Rock.</i>	Settlers Grove I	Round Rock	Direct New	152,400
US Farathane <i>Vehicle parts manufacturer US Farathane signed a lease for 146,948 SF at 600 Farm to Market 972 in Georgetown.</i>	GTX Logistics Park	Georgetown	Direct New	146,948

Source: Newmark Research



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