



Austin Industrial Market

Record-Breaking Construction and Manufacturing Dominate in 2Q22

Robust development has pushed Austin’s industrial market to the number-three spot, behind Dallas and Houston, for industrial space under construction among the nation’s major markets. The Austin market’s unprecedented levels of development and record-low vacancy rates have carried through to the second quarter of 2022. For the quarter, the market realized 1.4 million square feet of positive absorption. Completions outpaced absorption by almost 600,000 square feet as 2.0 million square feet of space delivered. Vacancy rose incrementally to 3.8% but maintains an overall downward trend since 2020. Year-over-year, the vacancy rate has decreased by 220 basis points. Demand from ecommerce and tech manufacturing, along with new building stock, continues to drive rental rates higher. In the second quarter of 2022, the average industrial rental rate climbed to \$12.27/SF, an increase of 5.8% in the past 12 months. Since the start of 2020, rental rates have risen 14.7% in the Austin industrial market. New product is expected to keep prices elevated for the foreseeable future. Rents are highest in the East submarket at \$19.99/SF, followed by the Central submarket at \$17.79/SF. In total, six submarkets have rents above the market

Current Conditions

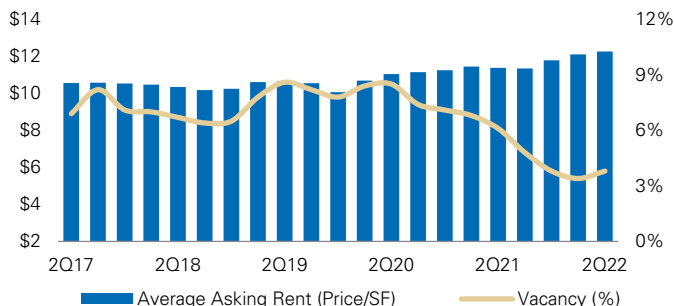
- The market realized 1.4 million square feet of positive absorption in the second quarter of 2022.
- Overall vacancy stands at 3.8%, a decrease of 220 basis points year-over-year.
- Leasing activity totaled 1.7 million square feet.
- The Austin Industrial market delivered 22 buildings totaling more than 2.0 million square feet.

Market Summary

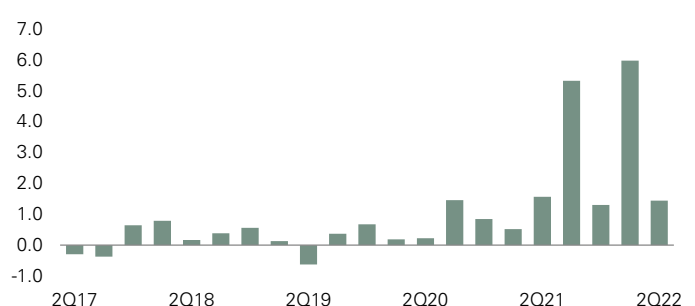
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	111.0 M	109.0 M	98.5 M	↑
Vacancy Rate	3.8%	3.3%	6.0%	↑
Quarterly Net Absorption (SF)	1.4 M	5.9 M	1.5 M	↑
Average Asking Rent/SF	\$12.27	\$12.48	\$11.59	↑
Under Construction (SF)	10.7 M	8.8 M	14.5 M	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



average. The Georgetown-Round Rock submarket has the lowest rental rate at \$9.17/SF but is likely to see rate hikes correlating to new product deliveries over the next year.

As companies shore up supply chains, just-in-time distribution is expected to phase out, ushering in increased demand for distribution space. The tight industrial market in Austin and south along the I-35 Corridor is fueled by rising demand from ecommerce, supply chain logistics and the influx of tech manufacturing. The push to revive American manufacturing and establish a resilient supply chain will help drive the Austin industrial market in the coming years.

Leasing Activity

In the second quarter of 2022, leasing activity in the Austin industrial market totaled 1.7 million square feet, with 135 deals completed. Year-to-date, leasing activity totals 3.7 million square feet and remains moderately lower than levels seen throughout 2021. Notable leases for the quarter include Wesco's sublease at 301 W. Howard Ln. for 126,500 square feet and Bosworth Papers's lease for 109,203 square feet at 6301 E. Stassney Ln. In Kyle, California-based Outer Aisle Gourmet LLC leased a 117,000-square-foot buildout at Plum Creek Industrial Center. Construction is expected to begin in January, with completion by year-end 2023. The automated manufacturing plant will allow Outer Aisle to expand operations and add 150 employees.

Development

The robust industrial construction in the Austin market carried through the second quarter of 2022, with over 10.7 million square feet in the pipeline. Roughly 5.6 million square feet of the market's current total is expected to deliver by year-end. Year-to-date, more than 7.8 million square feet of new product has delivered across the Austin industrial market. Construction starts are forecasted for 1.9 million square feet of space in the third quarter of 2022. In the Northeast submarket, 2.5 million square feet of industrial space is underway, including Building 37 at Applied Logistics Center. The property will total 725,000 square feet of warehouse space upon completion in December and is fully leased. Construction broke ground on Building 3 at 130 Crossing, a Class B distribution building that will total 170,000 square feet when finished.

In June, Titan Development Ltd. announced it plans to build Mega TechCenter northeast of Austin in Hutto. The project is expected to break ground by year-end and will comprise upward of 2.0 million square feet of speculative high-tech industrial space. The campus will be located not far from Samsung's chip making plant, as the area in Williamson County continues to attract tech manufacturers. In total, the Georgetown-Round Rock

submarket has over 4.8 million square feet of space under construction. The submarket has been added more than 1.1 million square feet of industrial product to its inventory since the second quarter of 2021 and has another 11.8 million square feet of proposed development through 2024.

Manufacturing Moving In

Global supply chain disruptions resulting from the pandemic, increased consumer demand and ecommerce volume have driven a recent push for the return of American manufacturing. Earlier this year, the Biden-Harris administration laid out plans to secure critical supply chains and revitalize American manufacturing, including modernizing transportation systems, strengthening the manufacturing workforce and expanding access to capital for small manufacturers. The Austin industrial market is sure to capitalize on the expansion of US-based manufacturing and logistics due to its location along the I-35 Corridor in Central Texas. Located less than 90 minutes south of Austin, San Antonio provides access to several major highways and an airport. Together, the two metros are expected to see unprecedented population growth and development in the coming years, with many projecting that the two will end up merging into a metroplex, like Dallas-Fort Worth.

Investors and occupiers are already taking note of the region's potential, with big names like Tesla and Navistar committing to mega-developments. The Corridor is quickly becoming an automotive hub, as San Antonio was already home to Toyota and Caterpillar. Recently, DeLorean announced it was moving its headquarters from a Houston suburb to San Antonio as it plans to revive the iconic car in an electric version. Domestic battery production is expected to quadruple by 2025, according to data from AlixPartners. At the start of the year, 25 lithium-ion battery projects were considering the region per the Greater Austin Chamber of Commerce. Currently, there are 28 industrial developments greater than 100,000 square feet under construction or proposed along the I-35 Corridor between Austin and San Antonio.

Recent announcements to monitor in the coming months include Samsung's application to expand incentives for up to 11 fabrication plants in Northeast Austin. The incentives application includes up to \$200 billion in investment, which, if realized, would make it the largest economic development deal in American history. Samsung's initial \$17.0-billion chipmaking plant in Taylor is underway and will bring 2,000 jobs to the area. Tesla is also seeking approval to expand its operations at Gigafactory Texas with an additional 500,000 square foot building, which would house two assembly lines. Gigafactory currently has over 4 million square feet of space in operation.

Submarket Statistics								
	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	2,011,046	0	7.3%	2,834	21,944	\$17.79	-	\$17.79
East	10,901,715	327,405	0.8%	57,380	4,641,275	\$19.99	-	\$19.99
Georgetown/RR	12,816,979	4,869,662	6.4%	393,875	474,836	\$9.10	\$18.00	\$9.17
North	16,120,095	0	4.2%	41,155	-84,493	\$14.26	\$10.38	\$13.49
Northeast	25,309,106	2,545,350	4.0%	230,792	253,572	\$11.07	\$10.78	\$11.06
Northwest	7,842,831	387,872	2.1%	12,186	7,197	\$17.35	\$14.99	\$16.91
Southeast	20,614,121	1,015,905	2.7%	-10,545	370,847	\$17.38	\$15.41	\$17.27
Southwest Hays	15,449,164	1,650,165	4.8%	715,826	1,723,798	\$12.85	-	\$12.85
Market	111,065,057	10,796,359	3.8%	1,443,503	7,408,976	\$12.30	\$11.69	\$12.27

Lease/User Transactions				
Tenant	Submarket	Building	Type	Square Feet
Wesco	Northeast	301 W. Howard Ln.	Sublease - New	126,500
Bosworth Paper	Southeast	6301 E. Stassney Ln.	Direct – New	109,203
Outer Aisle Gourmet	Northeast	Plum Creek Industrial	Direct – New	117,000
Kroger	Northeast	2401 Ferguson Ln.	Direct – New	70,121
Johnstone Supply	Northeast	Heatherwilde & SH 45	Direct – New	47,965

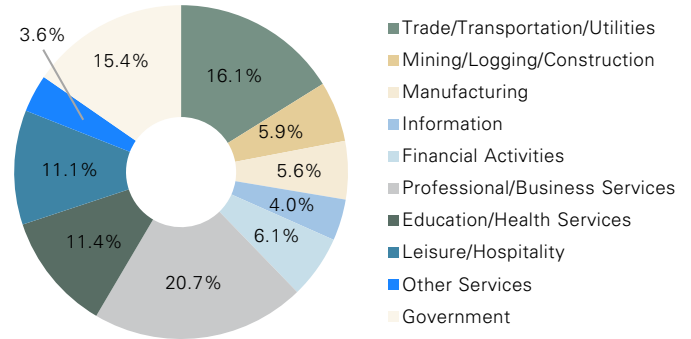
Sales Transactions				
Buyer/Seller	Submarket	Building	Sale Price	Price/SF
Innovative Industrial Properties/Texas Original Compassionate Cultivation	Other – Bastrop	176 FM 969	\$12,000,000	\$141
YMCA/ Cadence Bank	Northwest	8124 N. FM 620	\$9,300,000	\$282
Emelody Worldwide Inc	Southeast	3500 Dime Circle	\$4,480,000	\$161
Undisclosed Buyer/ Michael Norman	Cedar Park/ Georgetown/ Round Rock	15841 Ronald W. Reagan Blvd.	\$4,250,000	\$408

Economic Indicators

The Austin Business Cycle Index expanded by 10.7% in April and remains in mid-expansion. The Metro’s economy is expected to outperform the U.S. for the year. Unemployment rose slightly in April to 2.8% but remains well below the state’s unemployment rate of 4.3%. The Austin Metro added 21,731 net jobs for the three-month period ending in April, a 7.4% increase year-over-year. The median home price in Austin was \$529,959 in April, a 10.7% increase year-over-year. Housing affordability in Austin continues to decline as prices increase and mortgage rates rise. In May, all industries saw employment growth, except for mining/logging/construction, which contracted 1.4% year-over-year. The leisure and hospitality industry had the largest employment growth, expanding at an annualized rate of 15.1%.

Employment By Industry

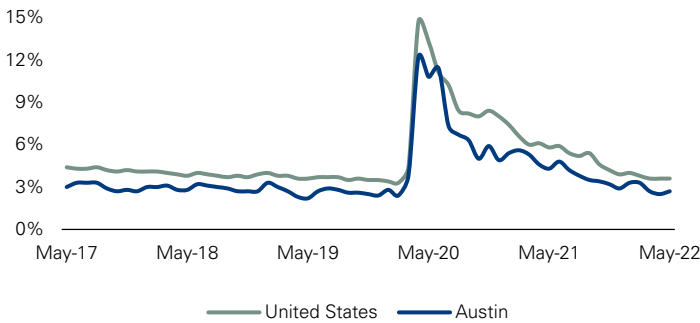
AUSTIN, MAY 2022



Source: U.S. Bureau of Labor Statistics, June 2022

Unemployment Rate

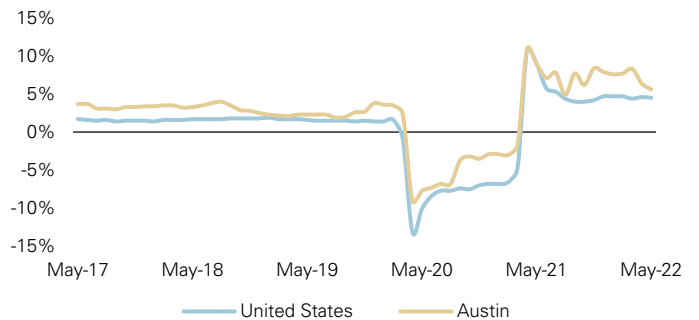
NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, June 2022

Payroll Employment

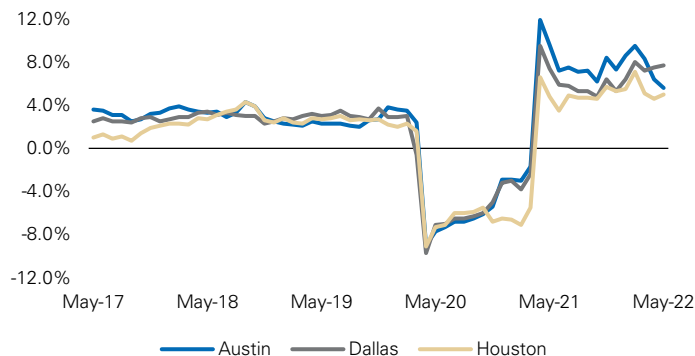
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, June 2022

Payroll Employment – Select Texas Markets

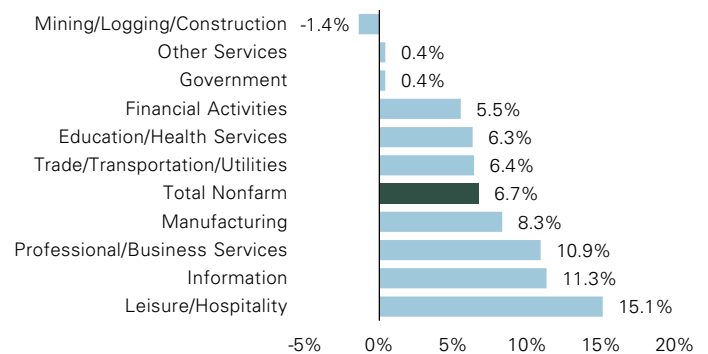
TOTAL NONFARM, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, June 2022

Employment Growth (Industry)

AUSTIN, MAY 2022, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, June 2022

For more information:

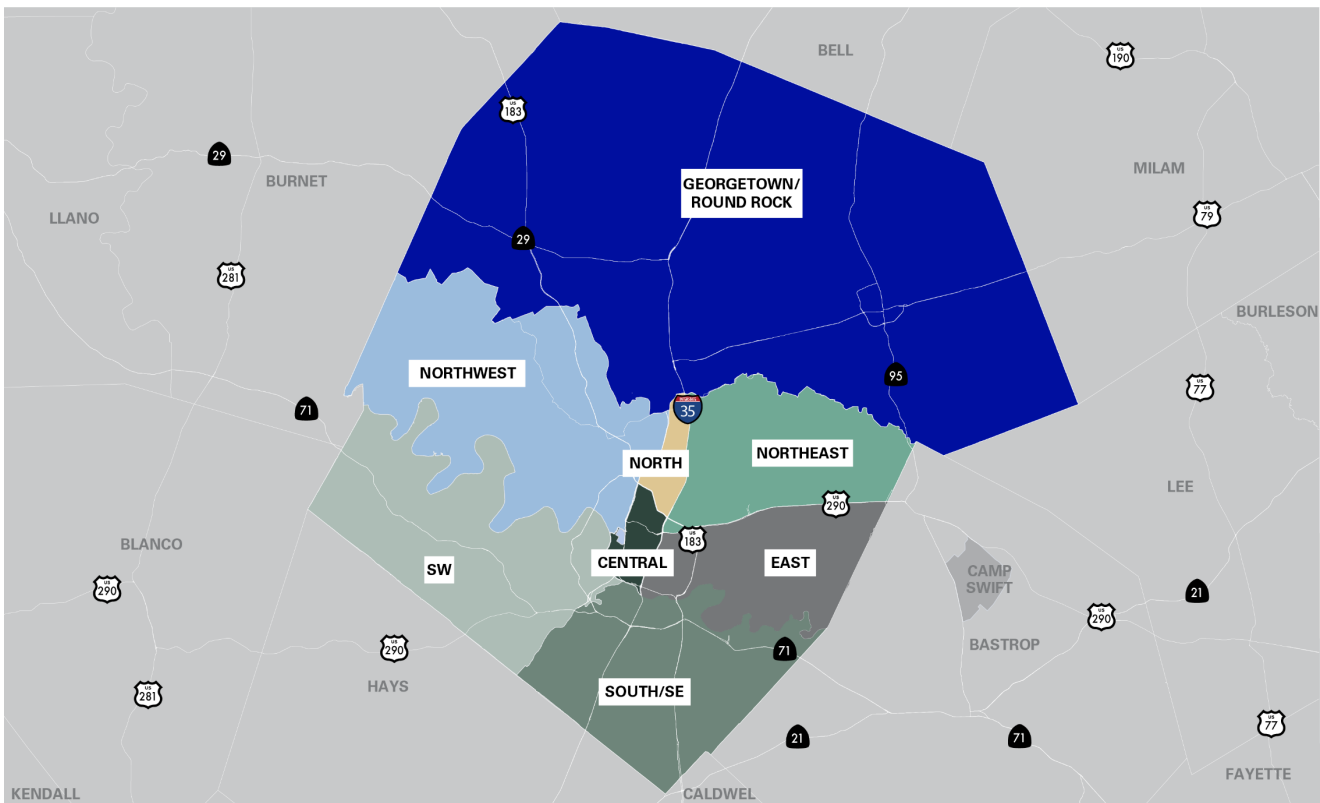
Austin

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

Kirsten Kempf

Research Analyst
Texas
kirsten.kempf@nrmk.com

nrmk.com



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