

2Q24

# Austin Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The market's unemployment rate dropped by six basis points year over year to 3.4% but remains below the five-year average of 3.9%.
- When compared with May 2023, employment growth declined by 264 basis points to 2.4%.
- Most sectors reported employment growth, with other services leading job gains at 6.8% 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 5.0%, 2.3% and 1.2%, respectively.

## Major Transactions

- Furniture manufacturer and supplier Four Hands signed the second quarter of 2024's largest lease when it leased 570,489 SF at Building 2 of the Airport Logistics Center in the Southeast submarket.
- All of the largest leases in the second quarter of 2024 were new, indicating there is still a healthy appetite for high-quality industrial space in the market.
- Class A warehouse space continued to dominate market share as it accounted for 42.6% of this quarter's largest transactions.
- Advanced manufacturing played an outsized role in the second quarter of 2024's leasing, with Tesla, FMT and Control Panels USA securing four of the largest leases, including two by Tesla.

## Leasing Market Fundamentals

- The market realized 1.2 MSF of positive absorption in the second quarter of 2024, its third continuous quarter of over 1.0 MSF of positive absorption.
- Overall rental rates grew 11.5% year over year to \$14.49/SF, 1.5% lower than the historic high set during the previous quarter.
- The construction pipeline recorded deliveries of 3.1 MSF in the second quarter of 2024, with 16.7 MSF currently under construction.
- Following new deliveries outpacing yearly demand for the previous two years, vacancy increased by 290 basis points year over year to 10.4%.

## 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 41.9% preleased, 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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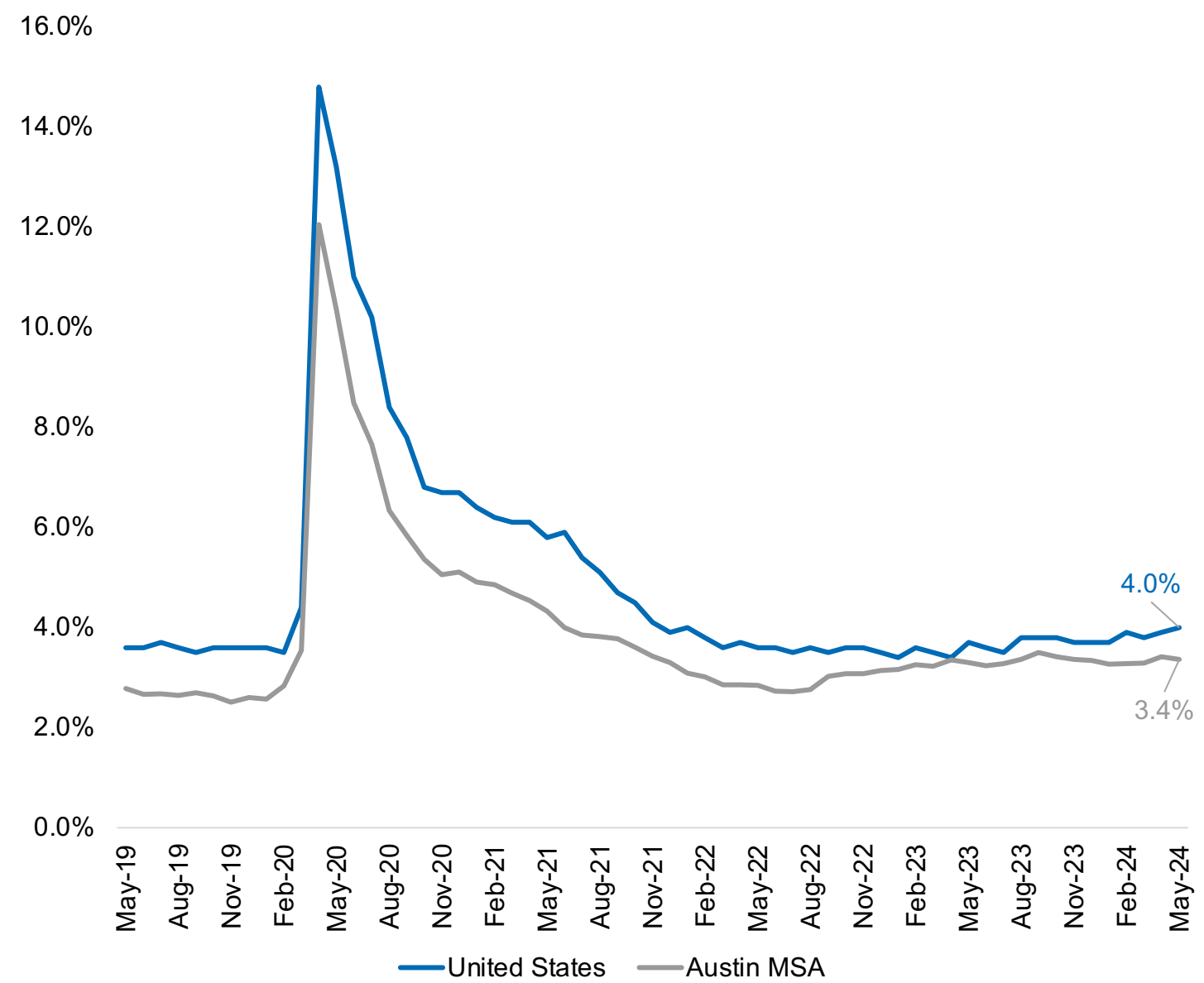
# Economy



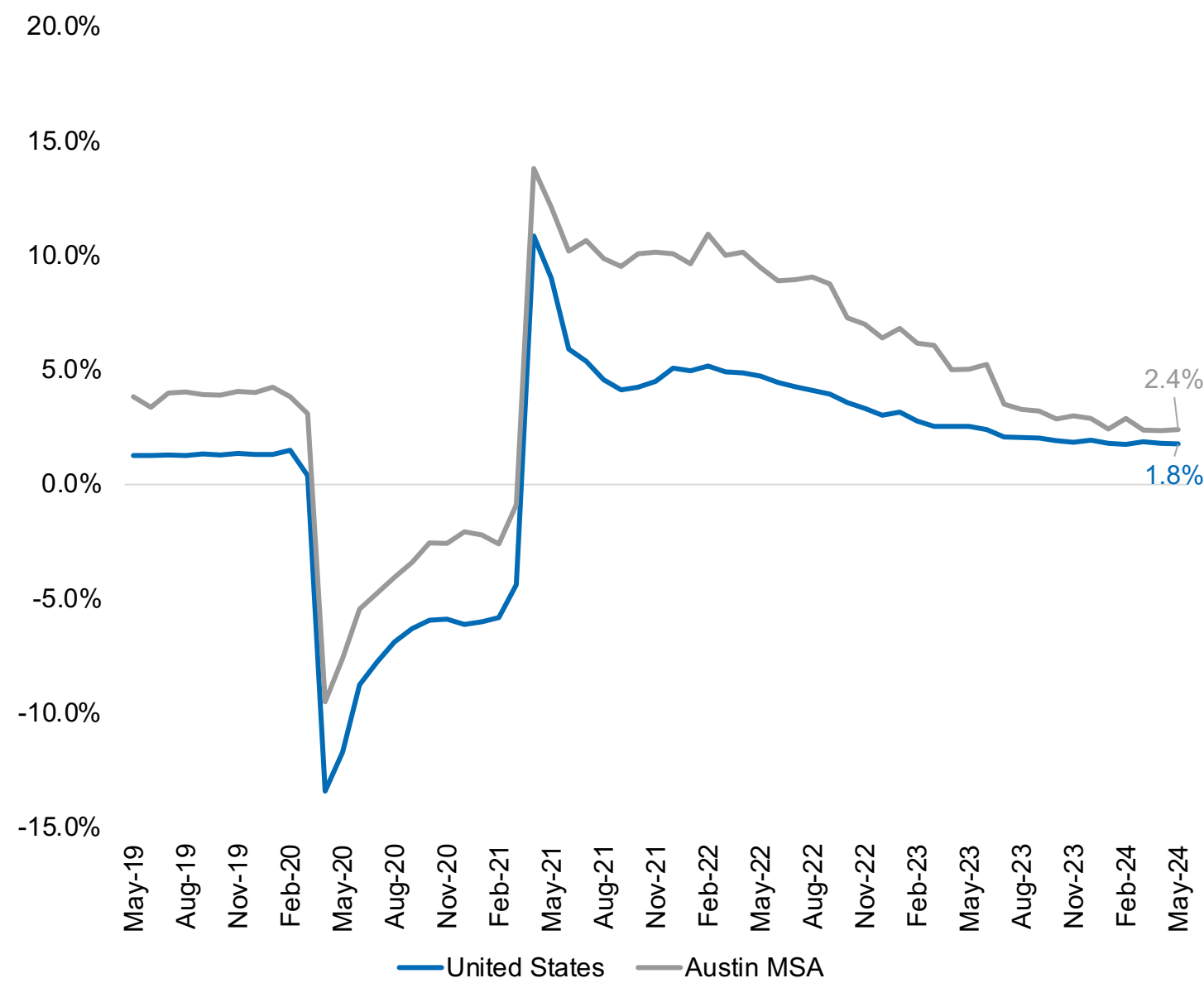
# Continued Decline in the Employment Growth Rate Signals a Slowing Economy

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 six basis points year over year, while the employment year-over-year growth rate slowed by 264 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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



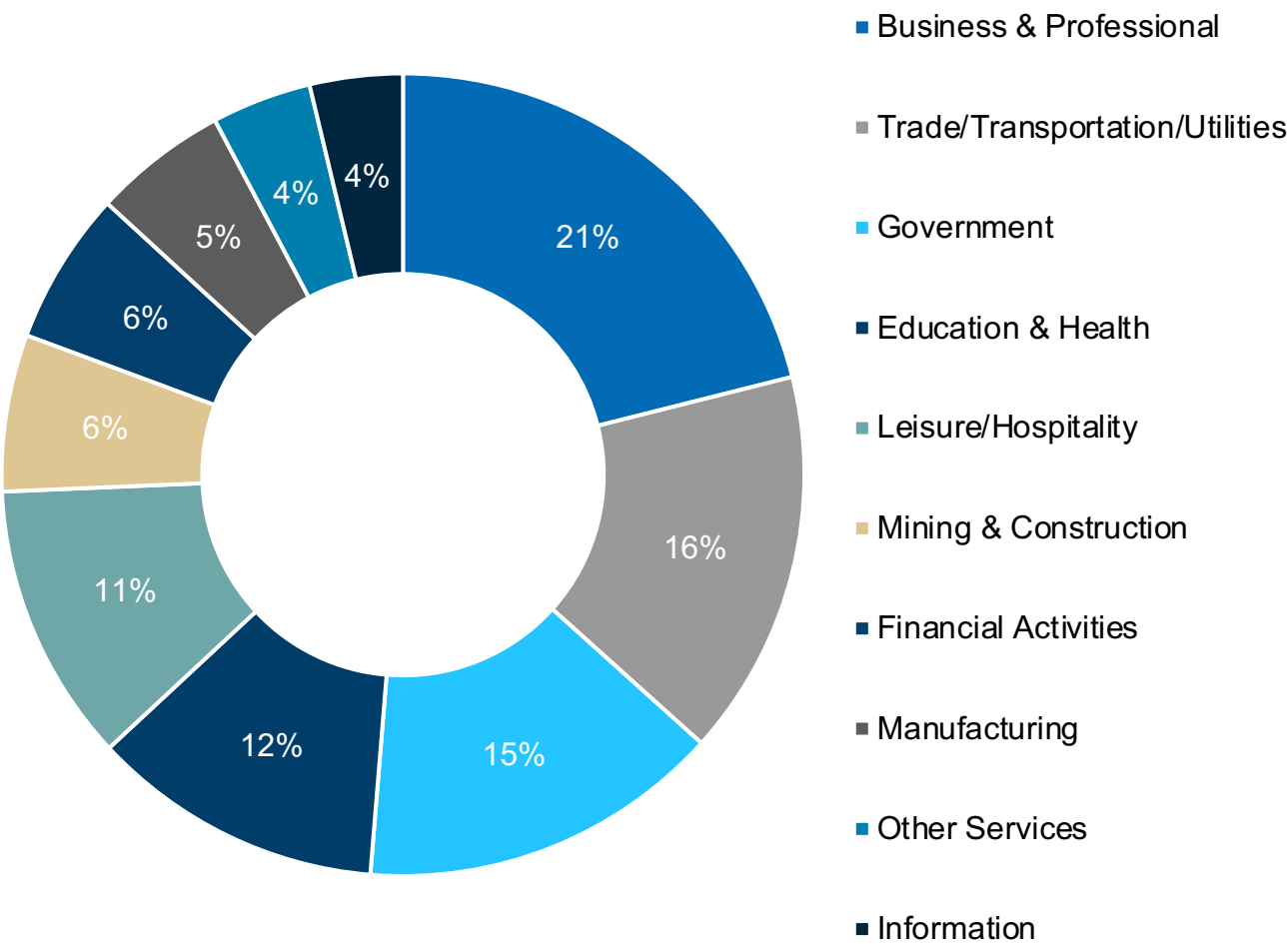
Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA



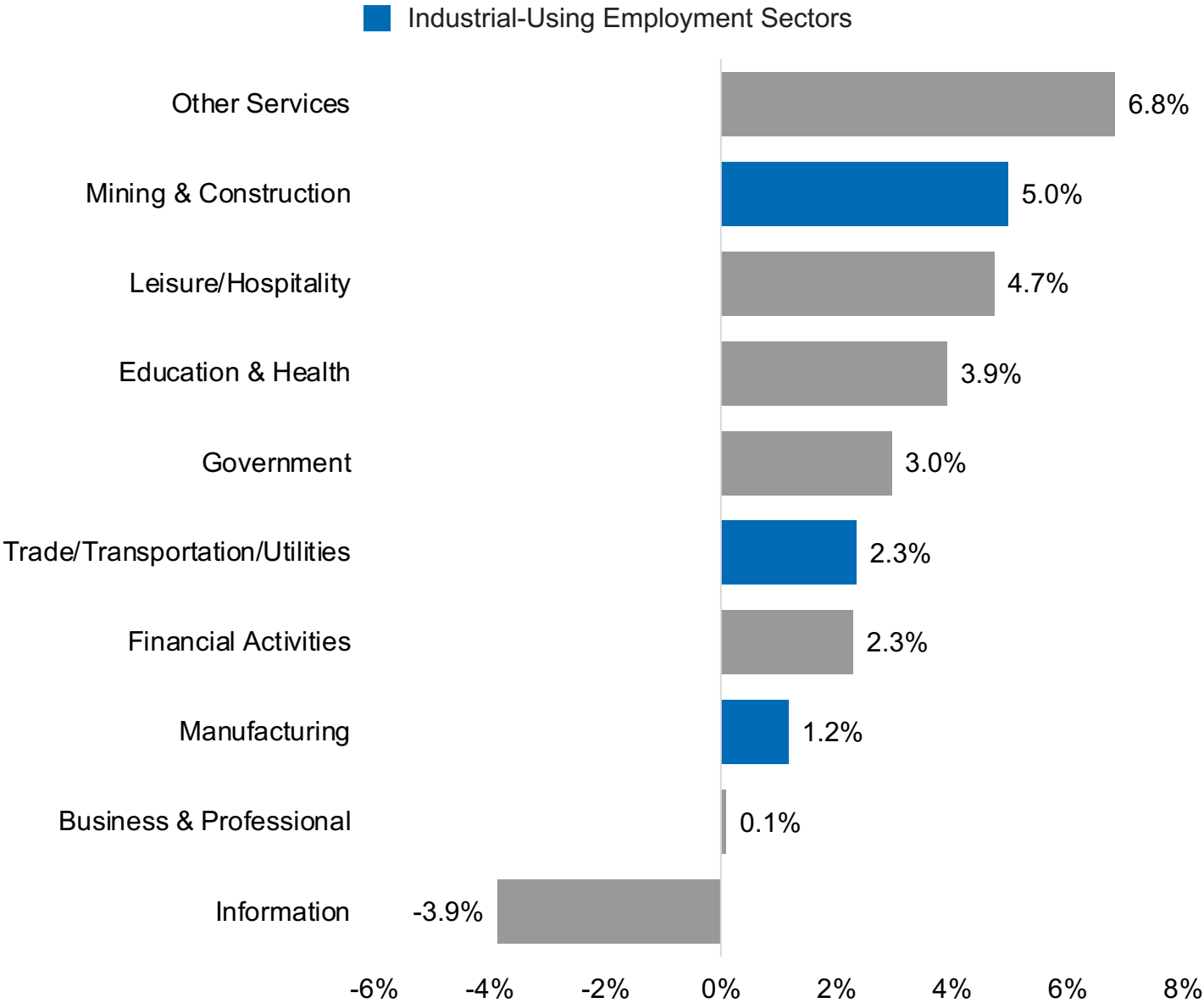
# Employment Growth Continues across All Industrial Sectors

Known for its technology sector, the Austin market’s top two employment industries, business and professional and trade/transportation/utilities, account for 36.7% of jobs. The industrial-using employment’s trade/transportation/utilities sector is the second largest industrial sector in the Austin market, accounting for 15.6% of the workforce. All industry sectors, except for information, reported yearly growth. The mining and construction, trade/transportation/utilities and manufacturing sectors reported 5.0%, 2.3% and 1.2% year-over-year growth, respectively.

Employment by Industry, May 2024



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

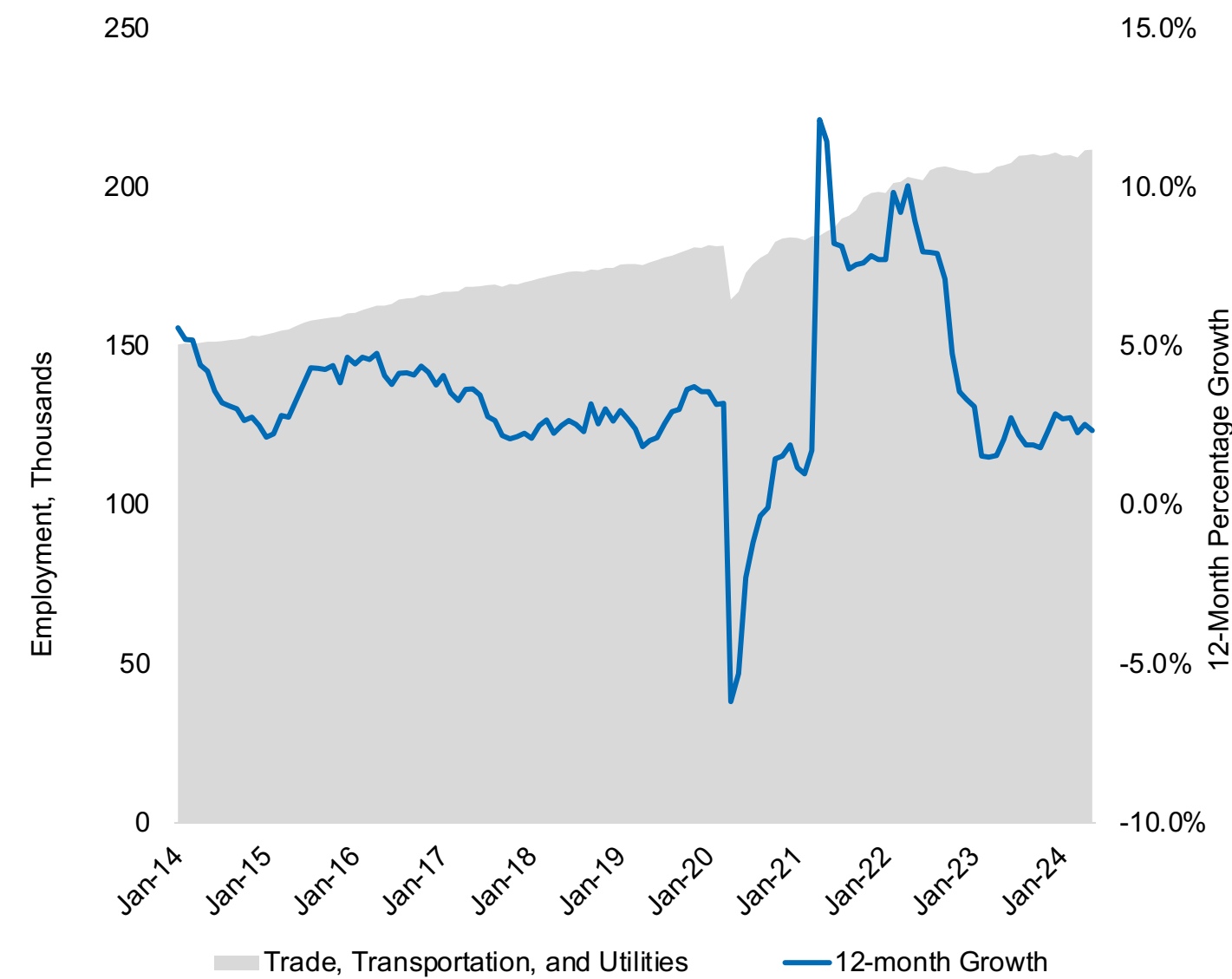


Source: U.S. Bureau of Labor Statistics, Austin MSA

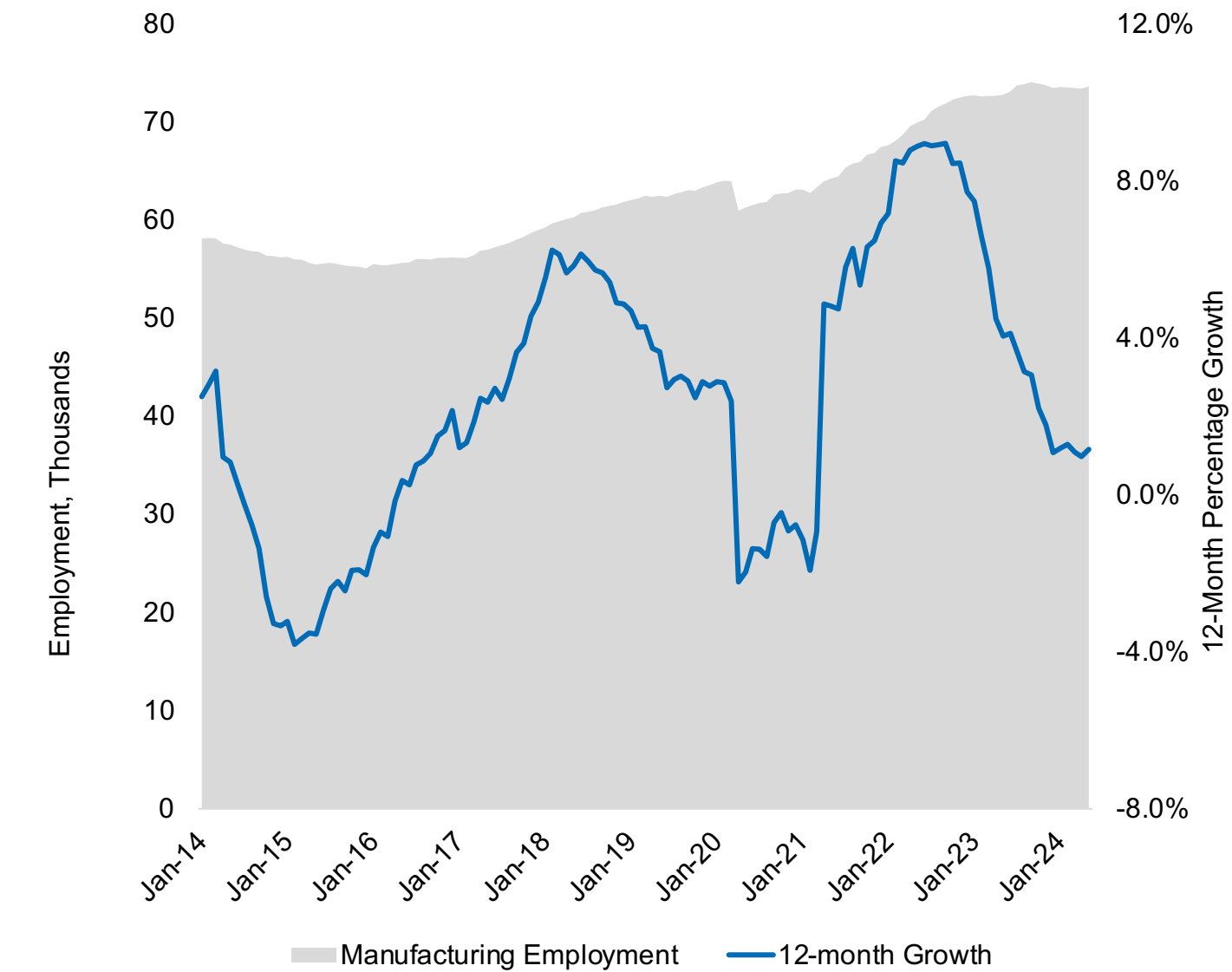
# Industrial Employment Records Positive Yearly Growth

At the end of May 2024, employment in the trade/transportation/utilities sector recorded a new peak of 211,840 jobs. Manufacturing employment declined by 0.6% from its historical high recorded in September 2023 to 73,620 employees at the end of May 2024. Overall, industrial-using employment showed yearly gains as trade/transportation/utilities and manufacturing showed growth of 2.3% and 1.2%, 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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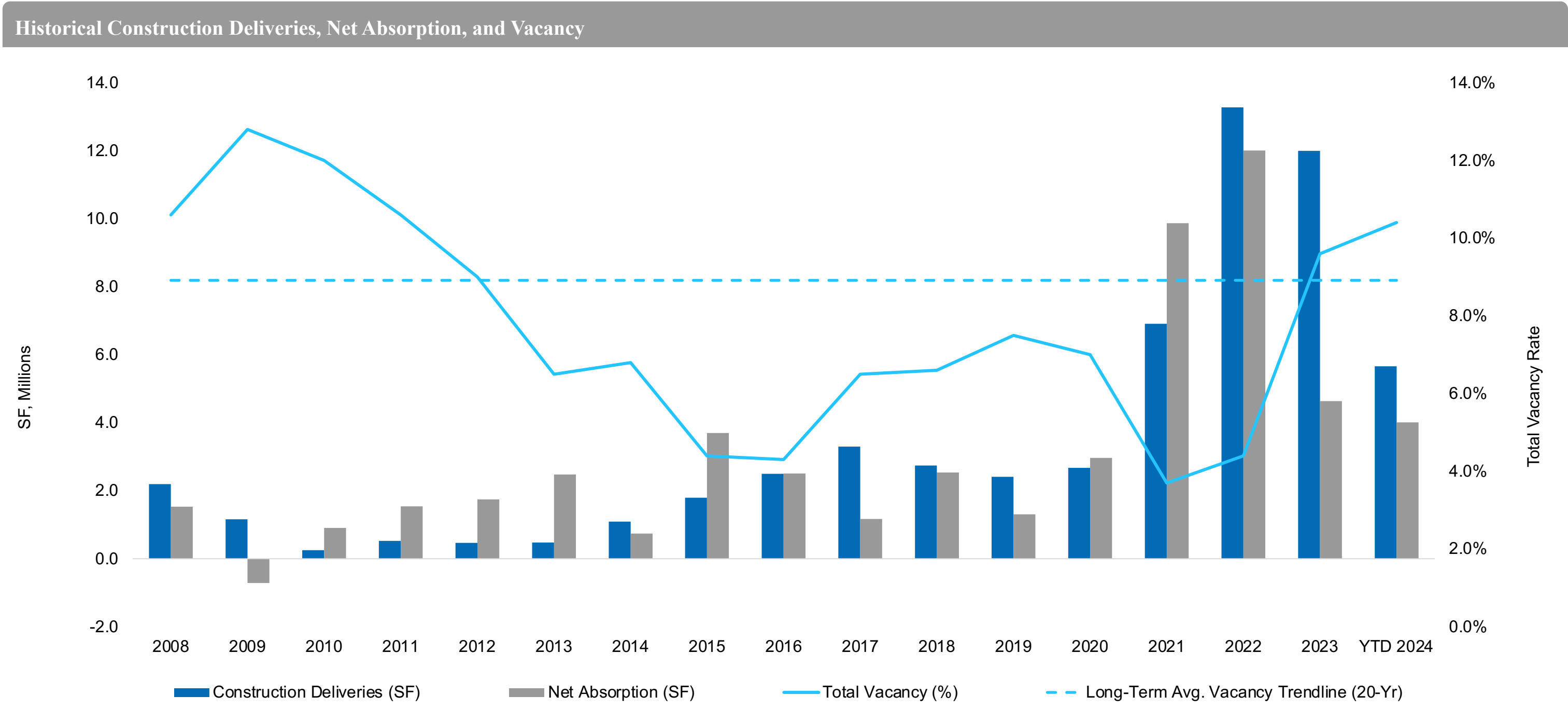
# Leasing Market Fundamentals





# Near-Record Deliveries Push Vacancy to Recent High

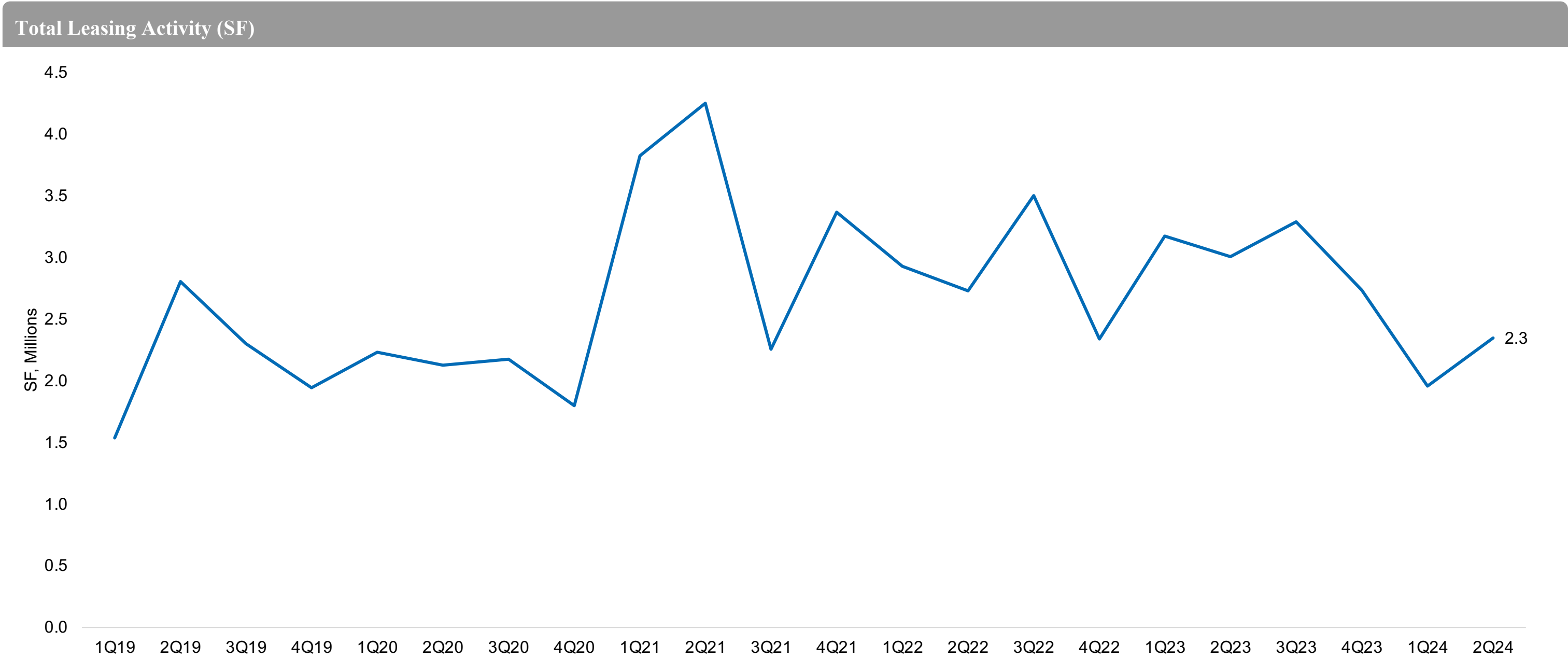
The Austin industrial vacancy rate increased by 290 basis points year over year to 10.4% in the second quarter of 2024. Deliveries continue to remain historically high in the market, as the market continues to work through its historically elevated under-construction pipeline. Despite national economic headwinds, demand continues to remain positive for industrial space in the Austin market.



Source: Newmark Research, CoStar

# Industrial Leasing Activity Decreases Year over Year, Increases Quarter over Quarter

In the second quarter of 2024, leasing activity increased by 19.0% quarter over quarter but decreased by 21.9% year over year to 2.3 MSF. Despite slowing leasing activity, likely resulting from national economic headwinds and political uncertainty, demand continues to remain positive in the market.

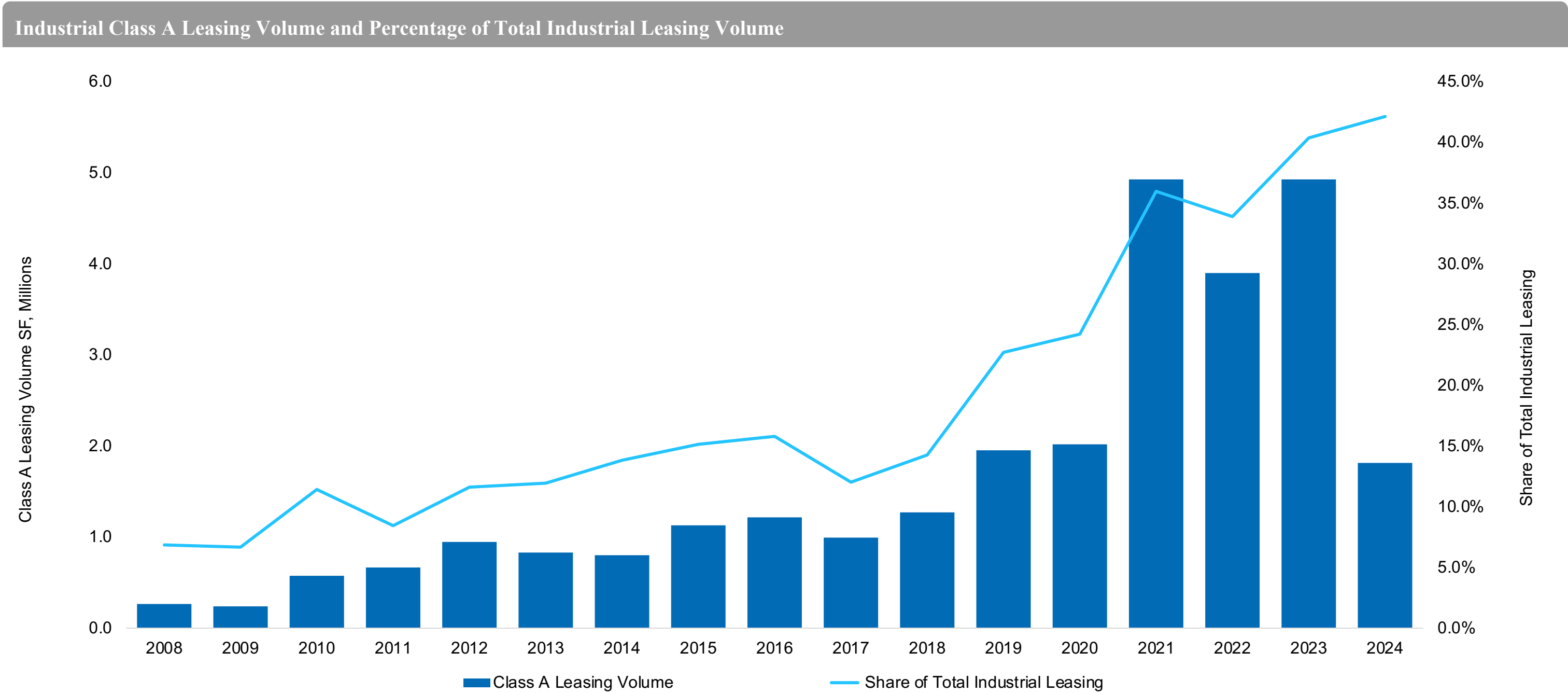


Source: Newmark Research, CoStar



# Class A Warehouse Transaction Volume Increases Quarter over Quarter

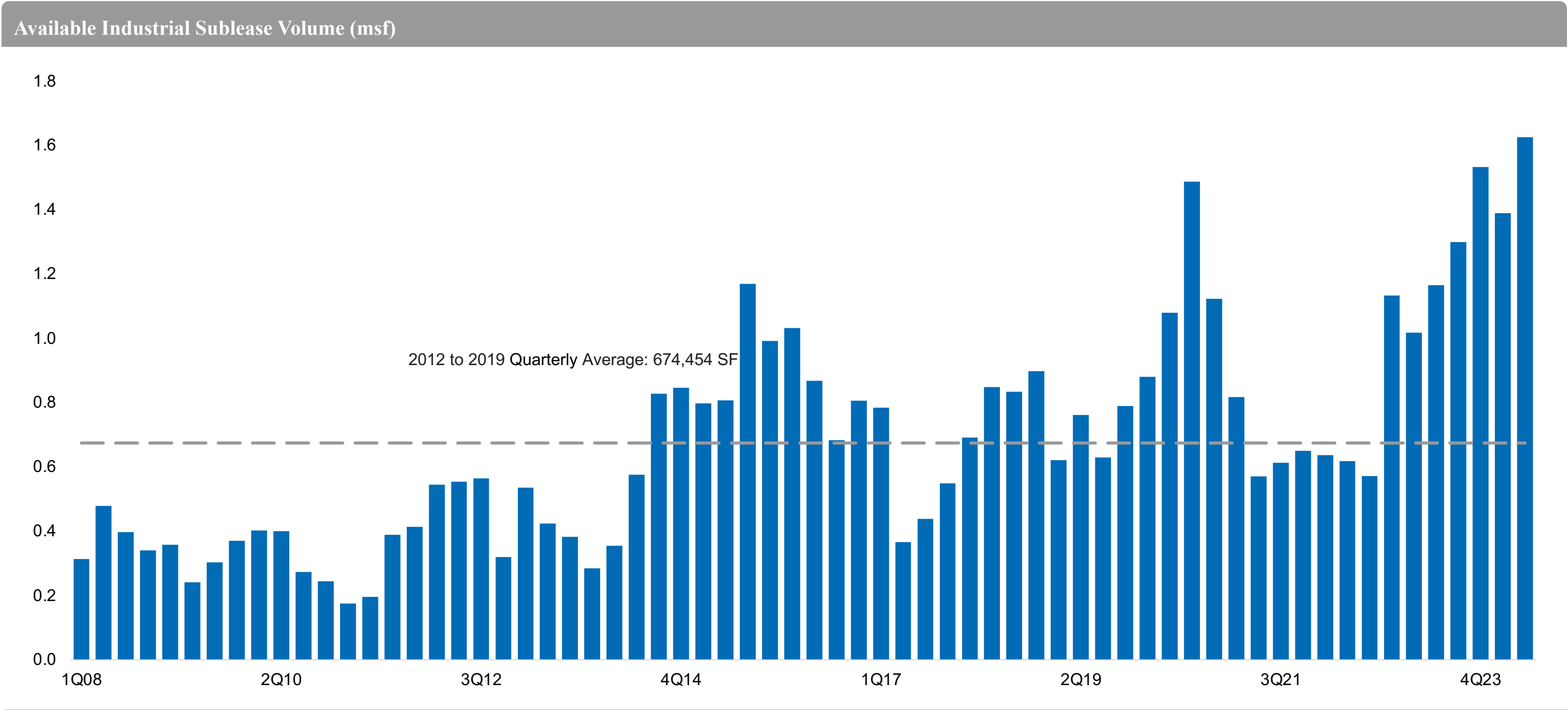
Class A warehouse space leasing activity in the second quarter of 2024 ticked up from the previous quarter to 1.0 MSF but remains below the historic high of 1.9 MSF reported in the third quarter of 2023. Class A warehouse leasing represented 42.6% of overall activity in the second quarter of 2024, reflecting a quarter-over-quarter 100-basis-point increase and a year-over-year 10-basis-point increase. Class A's share of leasing activity remains well above the pre-pandemic average of 12.6% recorded from 2008 to 2019.



Source: Newmark Research, CoStar

# Industrial Sublease Availability Records Historic High

As of the end of the second quarter of 2024, available sublease space recorded 1.6 MSF. Sublease availabilities decreased 17.0% quarter over quarter and increased 39.5% year over year. Elevated 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.

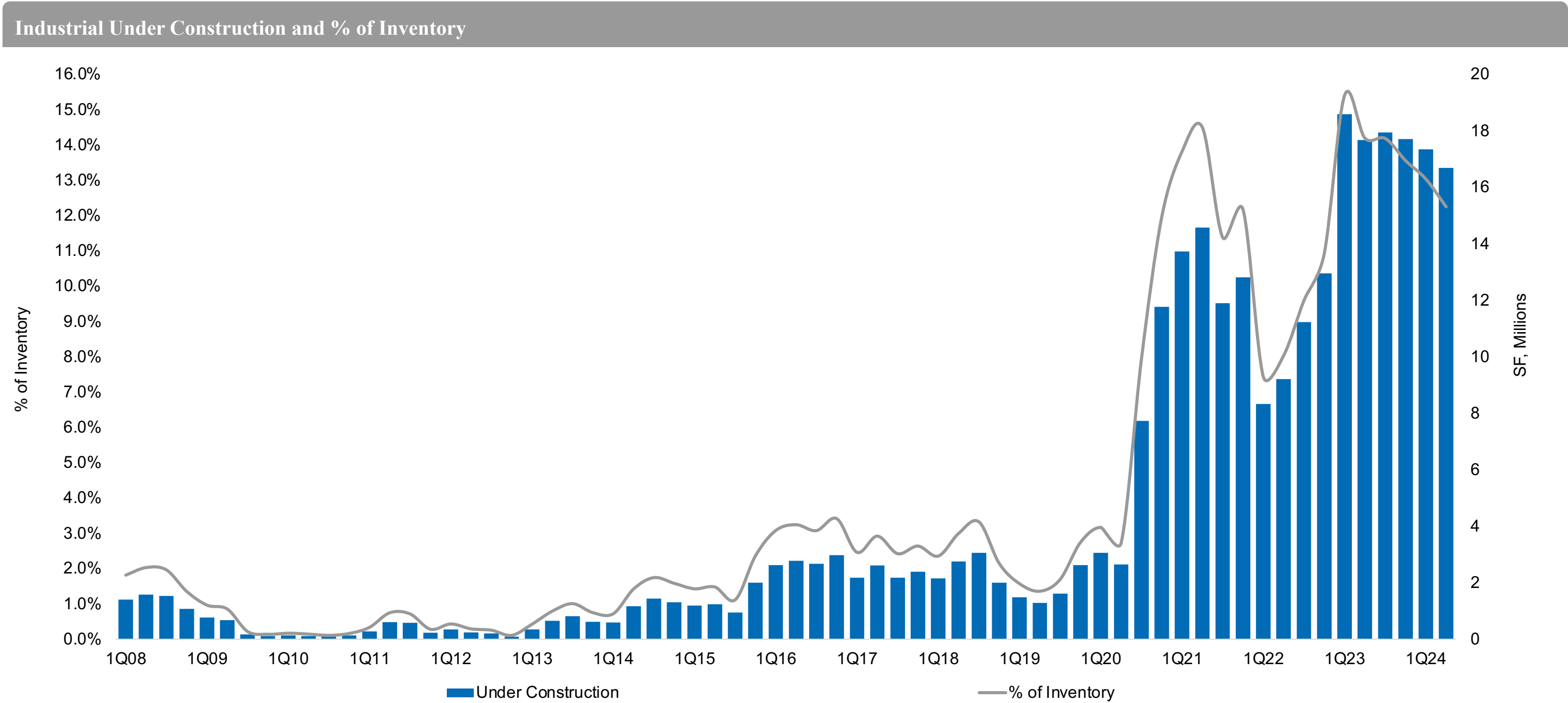


Source: Newmark Research, CoStar



# Industrial Supply Pipeline Continues Decline; Remains Historically Elevated

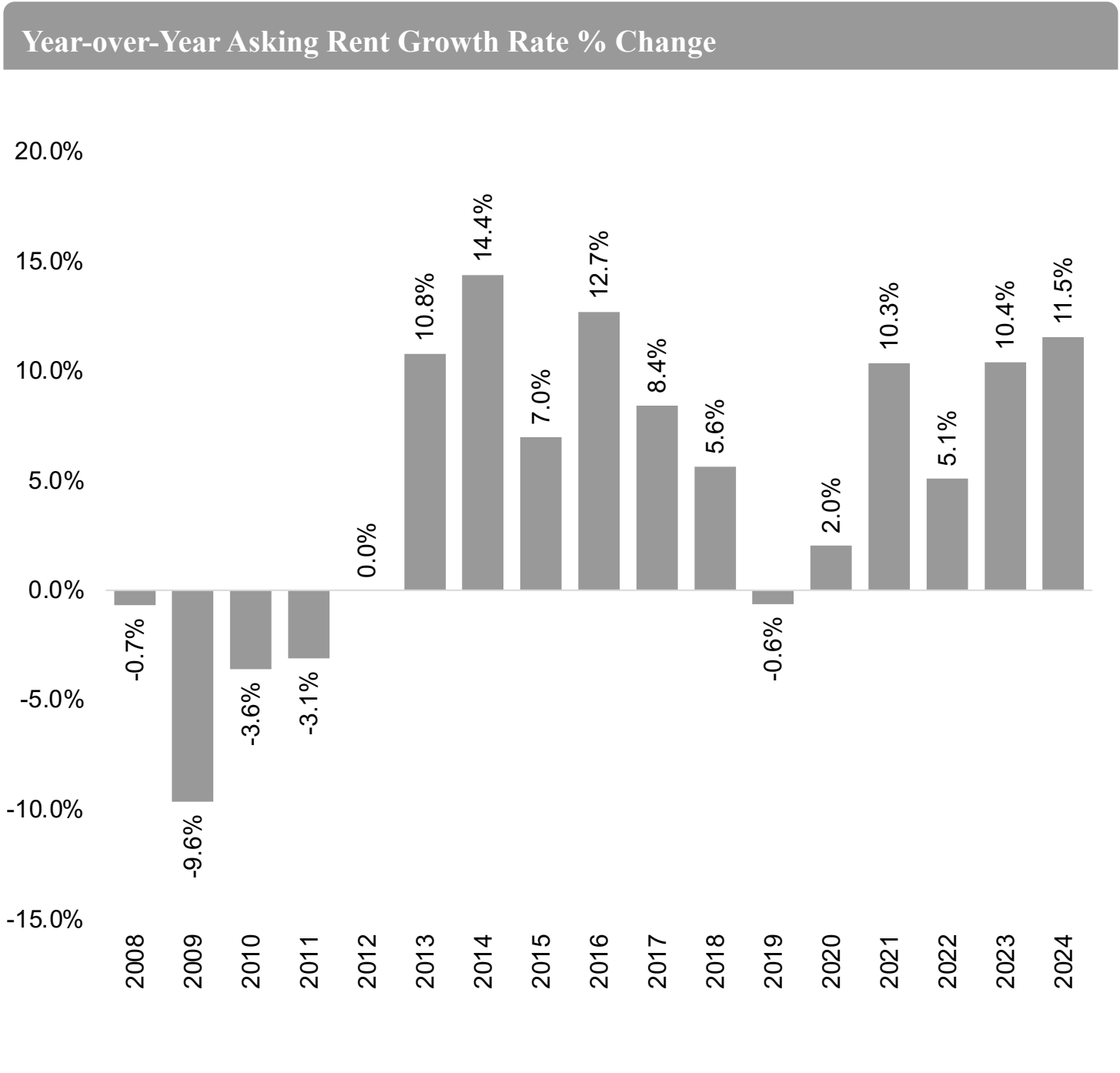
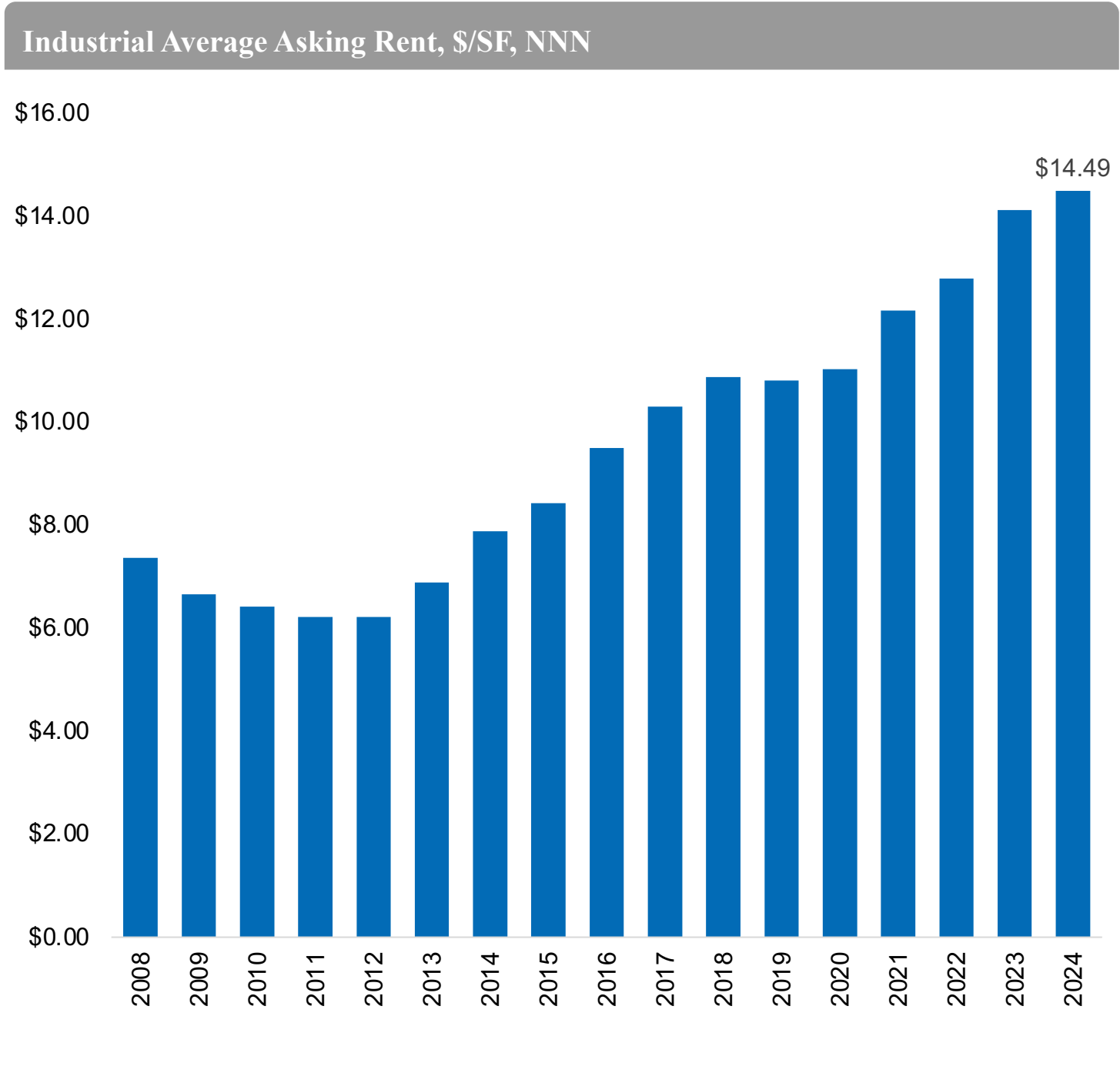
The construction pipeline decreased for the third consecutive quarter to 16.7 MSF in the second quarter of 2024. Although the pace of new groundbreakings has slowed when compared with 2023 levels, developers are continuing to develop new projects to meet Austin’s demand for advanced manufacturing space being driven by major investment in the region. The slowing construction growth is likely attributed to a challenging financing environment for new construction resulting from the Fed’s fight to bring inflation down. Currently, under-construction projects in the market are 41.9% preleased.



Source: Newmark Research, CoStar

# Asking Rents Drop Marginally from Record High

As of the end of the second quarter of 2024, industrial average asking rents inched lower to \$14.49/SF, reflecting a 1.5% decrease from the record high set in the previous quarter but an overall increase of 11.5% year over year. Rent growth is expected to continue increasing, albeit at a slower pace as vacancy in the market continues to grow, as new, high-quality assets continue delivering.



Source: Newmark Research, CoStar



# Advanced Manufacturing Plays Outsized Role in Increased Leasing Activity

Leasing activity ticked up in the second quarter of 2024, with quarterly leasing activity at 2.3 MSF, above the second-quarter quarterly average reported since 2000 at 1.7 MSF. Advanced manufacturing continued to play a dominant role in Austin’s industrial leasing transactions this quarter as manufacturers FMT, Tesla and Control Panels USA signed four 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 42.6% of total leasing transactions that occurred during this quarter. All the second quarter of 2024’s largest leases were direct new leases, indicating there is still healthy demand for industrial space in the market.

## Notable 2Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Four Hands <i>Furniture manufacturer and supplier Four Hands signed the largest lease of the quarter when it signed a 570,489-SF lease at Building 2 of Airport Logistics Center at 6106 Ross Road in Del Valle.</i>	Airport Logistics Center – Building 2	Southeast	Direct New	570,489
FMT <i>Plastics injections molding and manufacturer FMT has signed a 232,912-SF lease at Building 3 of the Gateway35 Commerce Center at 600 State Highway 130 in Georgetown.</i>	Gateway35 – Building 3	Georgetown	Direct New	232,912
Tesla <i>Electric car manufacturer and battery storage company increased its investment in Austin when it signed a new lease at Building 1 of 24801 Interstate 35 in Kyle.</i>	Kyle35 – Building 1	Hays County	Direct New	224,240
Tesla <i>Tesla signed a second lease during the quarter at Building 4 of Kyle35 Business Park at 24801 Interstate 35 in Kyle, bringing its total quarterly leasing activity to 430,502 SF.</i>	Kyle35 – Building 4	Hays County	Direct New	206,262
Control Panels USA <i>Control panel and relay rack assembly manufacturer Control Panels USA signed a lease for 145,450 SF at 4811 North Interstate 35 in Georgetown.</i>	Crosspoint – Building 2	Georgetown	Direct New	145,450





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