

Austin Industrial Market

Historical Records Shattered as Market Hits All-Time Supply and Demand Highs

The Austin industrial market had a stellar year, breaking yearly historical records in deliveries under construction and net absorption. A previously constrained supply, likely impacted by demand slowing at the end of fourth quarter of 2022, resulted in 900,392 square feet of quarterly net absorption. The last time the market had quarterly net absorption under 1 million square feet was in 2020 during the pandemic. Yearly net absorption ended at 12.2 million square feet, a record high, bolstered by strong activity earlier in the year. The year ended with an all-time high of 14.2 million square feet of deliveries, outpacing yearly demand by 2.1 million square feet. As a result, overall vacancy rates rose by 130 basis points year over year to 4.9%. Overall asking rents remained relatively unchanged at \$12.09/SF, reflecting a 0.7% decrease year over year. Under-construction activity ended the year at 15.3 million square feet, a new milestone. Assets under construction accounted for 12.9% of the market's current inventory. Deliveries will likely remain high in 2023 due to a robust pipeline of under construction projects. Supply is projected to continue to outpace demand, leading overall vacancy rates to rise as an influx of deliveries hit the market. Overall, the Austin industrial market's outlook remains positive as it continues to be bolstered by synergies resulting from the impact of Samsung's and Tesla's expansions over the coming years.

Current Conditions

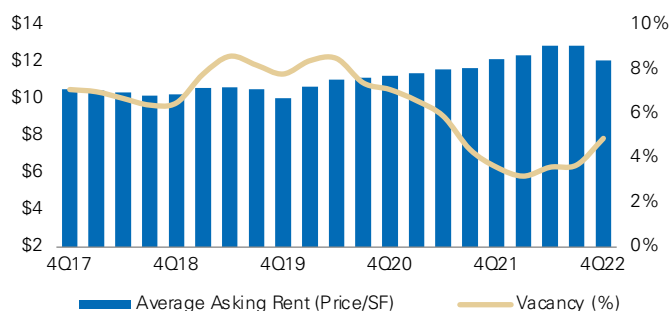
- The market realized 12.2 million square feet of net absorption for the year, a record historical high.
- Under construction activity remains robust at 15.3 million square feet, accounting for 12.9% of the market's current inventory.
- Overall rental rates remained relatively flat with a 0.7% decrease year over year to \$12.09/SF.
- New deliveries totaled 14.2 million square feet, outpacing demand by 2.1 million square feet, resulting in the overall vacancy rate to increase to 4.9%.

Market Summary

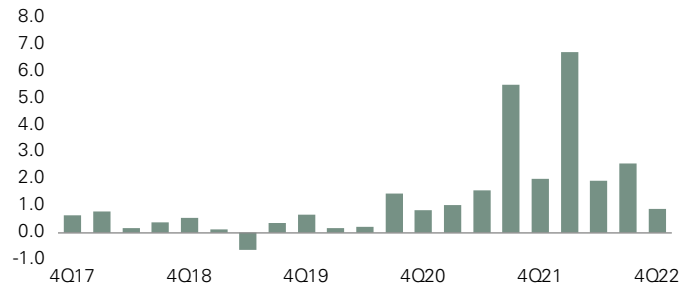
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	118.3M	116.0M	104.1M	↑
Vacancy Rate	4.9%	3.7%	3.6%	↑
Quarterly Net Absorption (SF)	900,392	2.6M	2.0M	↑
Average Asking Rent/SF	\$12.09	\$12.89	\$12.18	↑
Under Construction (SF)	15.3M	14.6M	12.9M	=

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



Leasing Activity

In the fourth quarter of 2022, leasing activity slowed, totaling 1.1 million square feet for the quarter and 8.1 million square feet for the year. This is likely attributed to the constrained supply in the market as tenants competed for space, given the market's tight conditions. Top leases signed in the fourth quarter of 2022 included Valex at 109 Velocity Drive in the Georgetown/Round Rock submarket and Applied Materials at 130 Crossing—Building 3 in the Northeast submarket. Valex's building is its second-planned location in the Austin area, following Samsung's anticipated expansion in Northern Austin. Applied Materials's building is currently under construction and is projected to be completed in 2023. Submarkets that had the highest leasing activity in the fourth quarter of 2022 included the Northeast submarket at 394,898 square feet, the Southeast Hays submarket at 236,301 square feet and the Georgetown/Round Rock submarket at 212,276 square feet. Yearly leasing activity was highest in the Northeast submarket at 2.5 million square feet, the Georgetown/Round Rock submarket at 1.7 million square feet and the Southeast submarket at 1.3 million square feet. Leasing activity will likely continue to be highest in submarkets to the north and south of Austin, as driven by construction activity.

Development

The Austin industrial market delivered 15.3 million square feet in the fourth quarter of 2022, more than the cumulative deliveries in the first three quarters in the year. Yearly deliveries ended at 14.2 million square feet, an all-time historic high, with new supply increasing by 97.7% year over year. Highest yearly deliveries were in the East submarket at 5.0 million square feet, the Northeast submarket at 2.8 million square feet, the Southwest Hays submarket at 2.8 million square feet and the Georgetown/Round Rock submarket at 2.5 million square feet. Deliveries will likely remain robust in 2023, given that there is currently a record high of 15.3 million square feet under construction, accounting for 12.9% of the market's current inventory. An increase in supply is a welcome change following a tight market, with an influx of demand since the pandemic. Submarkets with the highest volume of under-construction properties include Georgetown/Round Rock at 8.3 million square feet, Southwest Hays at 2.9 million square feet and Northeast at 1.9 million square feet. Approximately 1/3 of the pipeline is preleased, indicating investors and developers are still bullish on the demand for industrial space in the market. Due to the all-time high under construction pipeline, supply is expected to outpace demand in the near term.

Pricing

Asking rental rates remained relatively flat in the fourth quarter of 2022. The year ended with rents at \$12.09/SF, a decrease of 0.7% year over year. The East submarket had the highest rents at \$17.67/SF, followed by the Central submarket at \$17.41/SF and the Northwest at \$17.10/SF. Rents are projected to increase due to a large pipeline of quality new product commanding higher rates coming online, coupled with inflationary pricing increases.

Market Outlook

The Austin industrial market will likely see an influx of supply in the near term due to a record-high under-construction pipeline. The new deliveries will likely push the market's vacancy rates up as supply is expected to outpace demand, given the market's large pipeline. Asking rents will likely increase due to impacts from both inflation, as well as quality spaces commanding higher pricing coming online.

The market will continue to capitalize on the impacts generated from Samsung's and Tesla's expansions. Companies that work closely with either company have already started trickling into Austin and will likely continue to do so as both Samsung and Tesla continue building upon their presence in the market. Construction activity, which leads to leasing activity, will continually be concentrated near these two companies, as well as towards the north and south of the market due to the greater availability of land for buildout. Up-and-coming areas stretch past the southern portion of the Austin industrial market and include the cities of Buda, Kyle and San Marcos, located along the I-35 Corridor leading to San Antonio.

Despite a softening national economy, the Austin industrial market remains attractive to both occupiers and investors. The market boomed from ecommerce activity following the pandemic, which propelled Austin as a distribution center, leading to an increased demand for more big-box warehouse spaces. More recently, Austin has also been at the forefront as a tech manufacturing location, given the market's reputation as a tech hub with a relative lower cost of living, compared with other tech hubs like Silicon Valley, Silicon Beach in Southern California and New York City. The synergies in the ability to combine proximity between tech office space and tech manufacturing space has made Austin a strong contender for companies looking to locationally combine both sides of their business, similar to what Tesla did. Overall, the Austin industrial market will continue to remain positive due to the market's strong economic fundamentals and will remain a market to watch on continued industrial growth.

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	7.8%	-19,018	11,725	\$17.41	-	\$17.41
East	11,315,340	146,427	2.7%	-6,250	4,839,507	\$17.67	-	\$17.67
Georgetown/Round Rock	15,591,931	8,282,867	8.8%	287,218	1,910,028	\$10.67	\$17.50	\$10.68
North	16,263,323	0	3.8%	73,949	37,080	\$15.00	\$12.12	\$14.99
Northeast	27,384,227	1,937,861	4.6%	345,229	2,250,825	\$10.13	\$13.50	\$10.25
Northwest	8,272,112	140,620	2.5%	-16,123	237,661	\$17.00	\$17.36	\$17.10
Southeast	21,216,757	1,858,784	4.7%	-72,138	417,314	\$16.37	\$12.00	\$16.19
Southwest Hays	16,279,266	2,886,623	5.1%	307,525	2,463,005	\$14.15	\$12.96	\$14.08
Market	118,334,002	15,253,182	4.9%	900,392	12,167,145	\$12.04	\$14.45	\$12.09

Lease/User Transactions				
Tenant	Submarket	Building	Type	Square Feet
Valex	Georgetown/RR	109 Velocity Dr	Direct	189,280
Applied Materials	Northeast	130 Crossing – Bldg 3	Direct	170,100
Undisclosed	Georgetown/RR	NorthPark35 – Bldg 3	Direct	86,339
EOS	Northeast	130 Crossing – Bldg 5	Direct	68,040
Frito Lay	Southwest Hays	Stonefield 35 – Bldg 3	Direct	53,232

Sales Transactions				
Buyer/Seller	Submarket	Building	Sale Price	Price/SF
TA Realty / United Properties & PCCP	Southeast	Buda Midway Phase 1	\$88.8	\$187
Property Reserve Inc. / Titan Development	Georgetown/RR	Gateway 35 Commerce Center	\$51.2	\$174

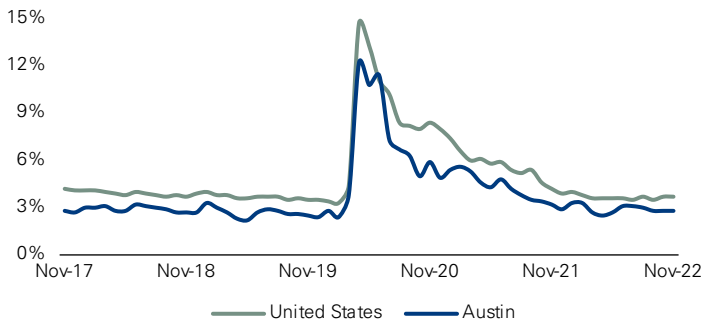
RESEARCH Q4 2022

Economic Indicators

Austin's labor market fundamentals have generally outperformed the U.S. historically with the fourth quarter of 2022 being no exception. Despite growth slowing in the second half of 2022, payroll employment in Austin continued to increase by 4.7% year over year, 150 basis points higher than the nation's growth. The market's unemployment rate ended November 2022 at 2.8%, plateauing at the same rate since September and remaining at least 90 basis points or lower than the national unemployment rate for more than half the year. Compared to large Texas metros like Dallas-Fort Worth and Houston, Austin historically had lower unemployment rates except briefly in mid-2020. This was likely due to a high concentration of technology tenants willing to quickly support a full pivot to work-from-home because of the pandemic. All industries, except the mining/logging/construction industry, reported positive employment growth over the past year while predominately industrial-occupier industries such as manufacturing and trade/transportation/utilities grew by 9.2% and 3.1%, respectively. Austin's strong labor market fundamentals will continue to help the market overcome any impacts from slowing economic activity and help it be one of the first to recover nationally should a recession occur.

Unemployment Rate

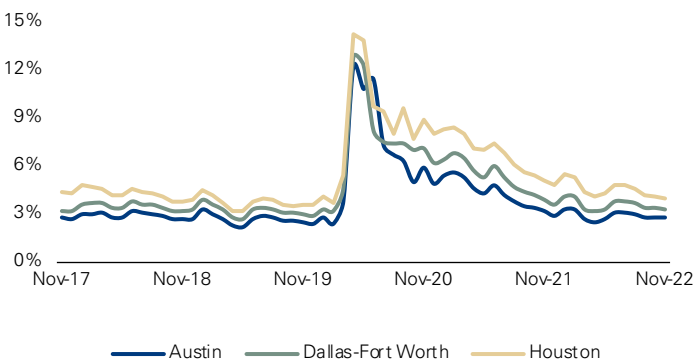
NON-SEASONALLY ADJUSTED



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

Unemployment Rate – Select Texas Markets

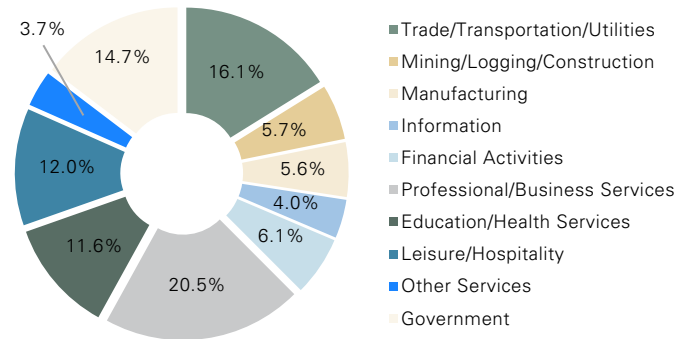
NON-SEASONALLY ADJUSTED



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

Employment By Industry

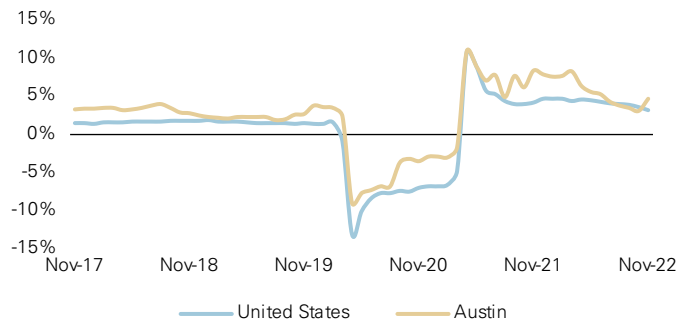
AUSTIN, NOVEMBER 2022



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

Payroll Employment

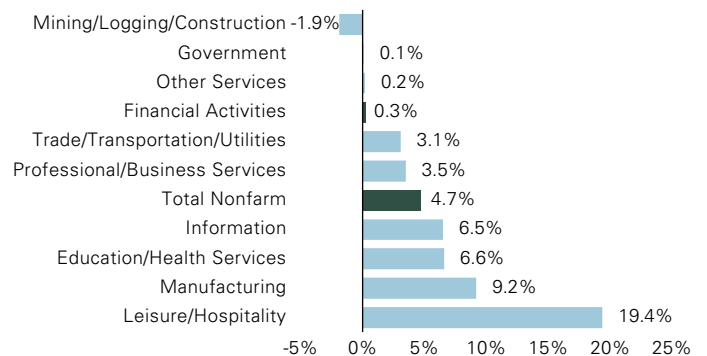
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Employment Growth (Industry)

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



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

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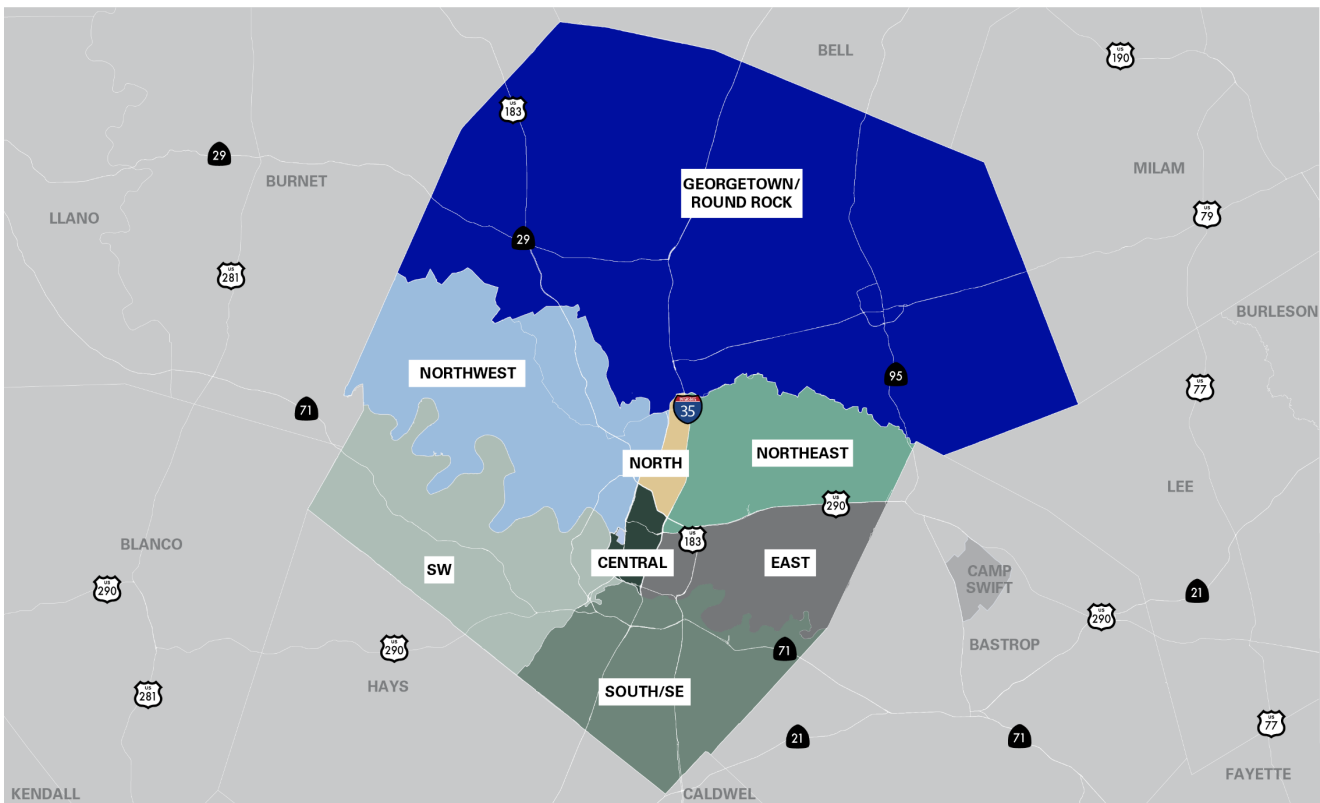
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