

4Q23

Austin Industrial Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 62 basis points year over year to 3.4% but remained well below the five-year average of 3.9%.
- When compared to November 2022, employment growth declined by 370 basis points.
- Most sectors reported employment growth, with mining and construction leading job gains at 10.4% over the past 12 months.
- Industrial-using jobs in the market reflected mixed yearly growth, with mining and construction and trade/transportation/utilities jobs showing 10.4% and 0.8% growth, and manufacturing jobs declining by 2.0% year over year.

Major Transactions

- Most of the largest leases in the fourth quarter of 2023 were new, indicating there is still a healthy appetite for space in the market.
- Class A warehouse space continued to dominate market share as it accounted for 47.1% of this quarter's largest transactions and 55.3% of the year's transactions.
- Advanced manufacturing played less of a dominant role in leasing transactions this quarter when compared to previous quarters as other industries looked to take space in the market.

Leasing Market Fundamentals

- The market realized 1.2 MSF of positive absorption in the fourth quarter of 2023, bringing year-to-date totals to 4.4 MSF.
- Overall rental rates grew 10.3% year over year to \$14.16/SF, reaching a new historical high.
- The construction pipeline recorded deliveries of 3.6 MSF in the fourth quarter of 2023, with a record 19.9 MSF under construction.
- Following yearly supply outpacing demand, vacancy increased by 540 basis points year over year to 9.8%.

Outlook

- The Austin industrial market will likely see an influx of supply on the market in the near term, due to 15.2% of the current market's inventory being under construction. The new deliveries will result in outpacing 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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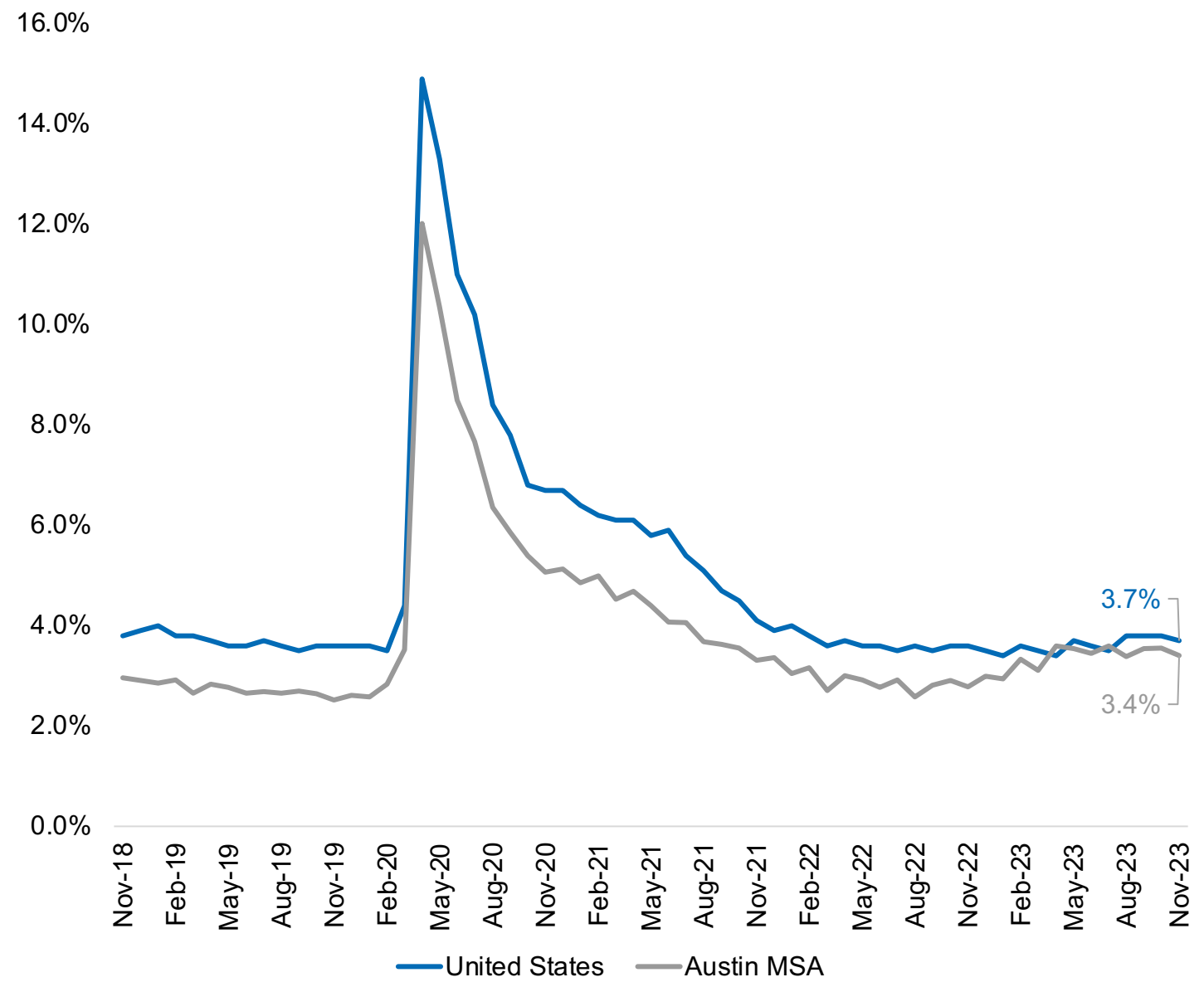
Economy



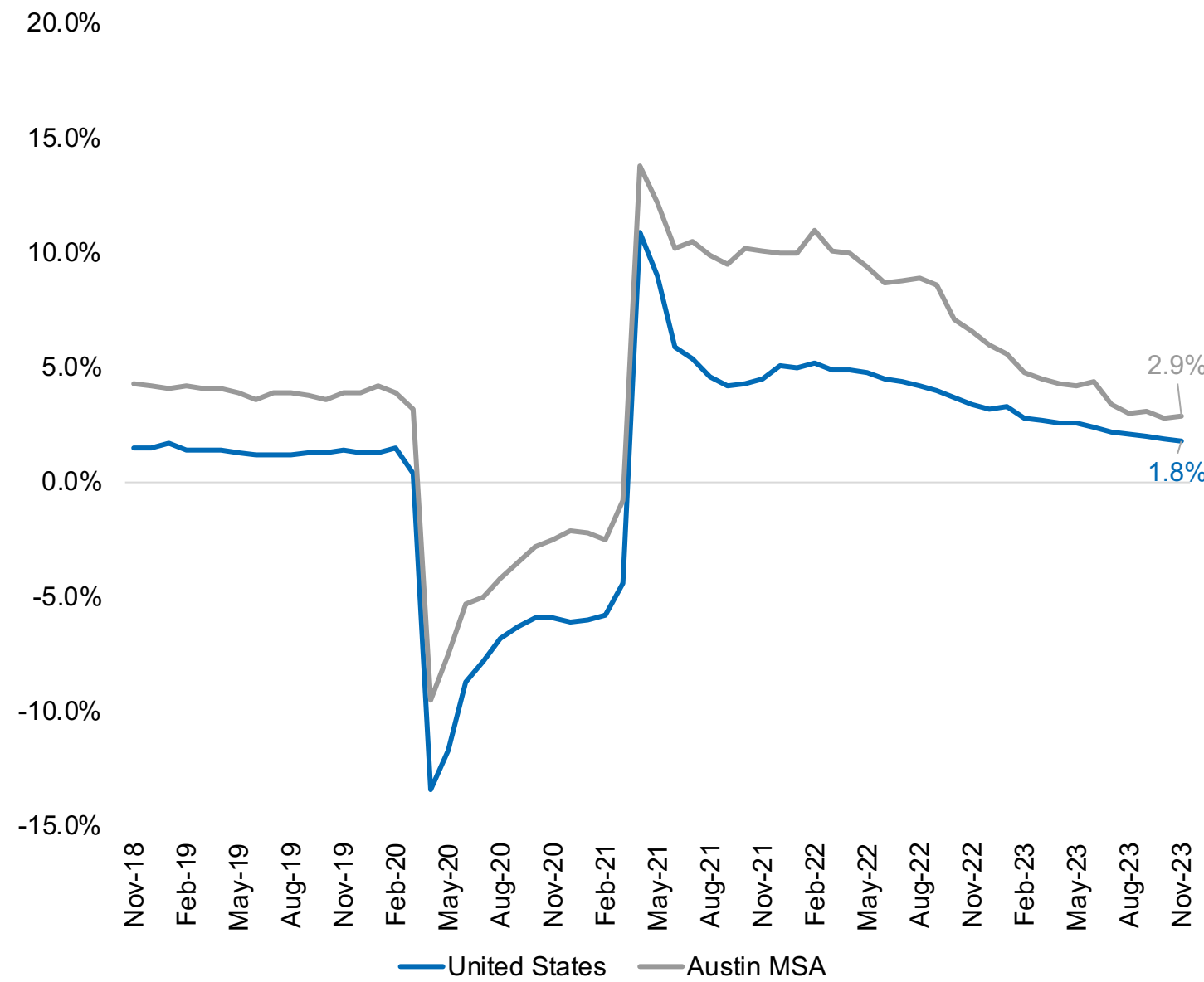
Employment Trends Signal a Slowing Economy

Austin has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Continued recent national economic headwinds have caused the region's unemployment rate to increase by 62 basis points year over year, while the employment year-over-year growth rate slowed by 370 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



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

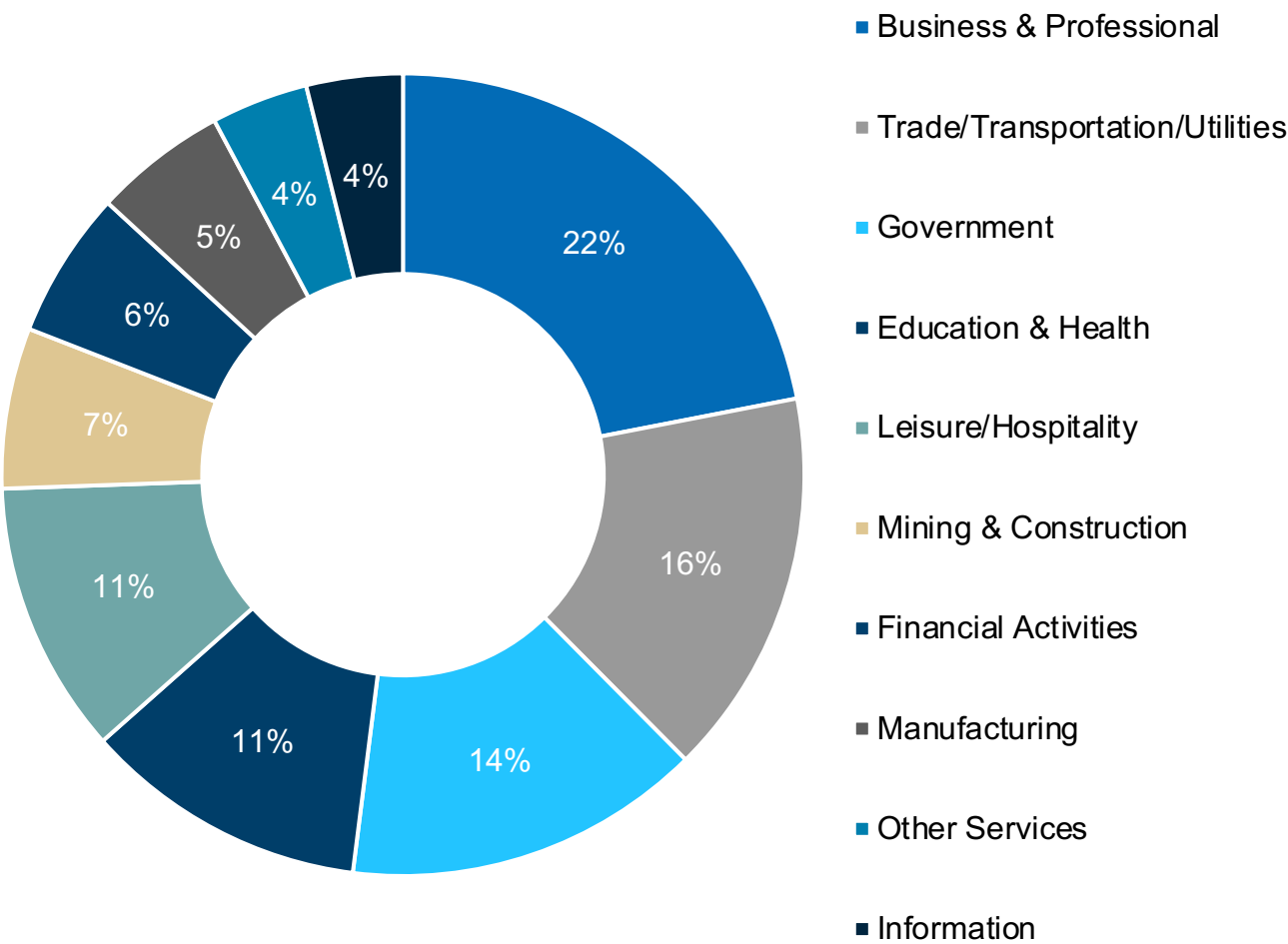


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

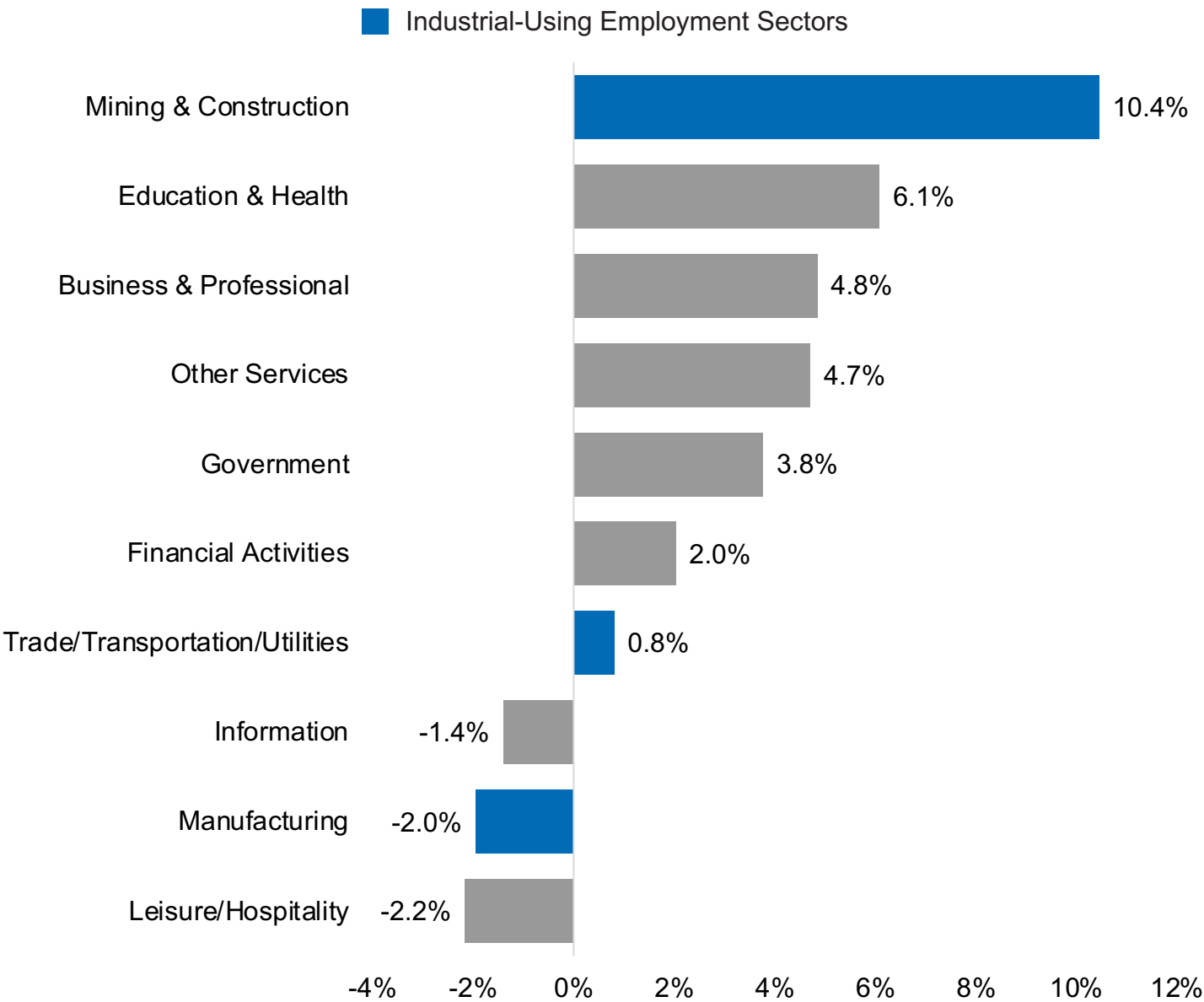
Employment Growth Continues across Most Sectors

Known for its technology sector, the Austin market’s top-two employment industries, business and professional and trade/transportation/utilities, account for 37.6% of jobs. The industrial-using employment’s trade/transportation/utilities sector is the largest industrial sector in the Austin market, accounting for 16.0% of the workforce. Most industries reported year-over-year job growth. The mining and construction and trade/transportation/utilities sectors reported 10.4% and 0.8% year-over-year growth, respectively. Meanwhile, the manufacturing sector reported a decline of 2.0% growth year over year.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

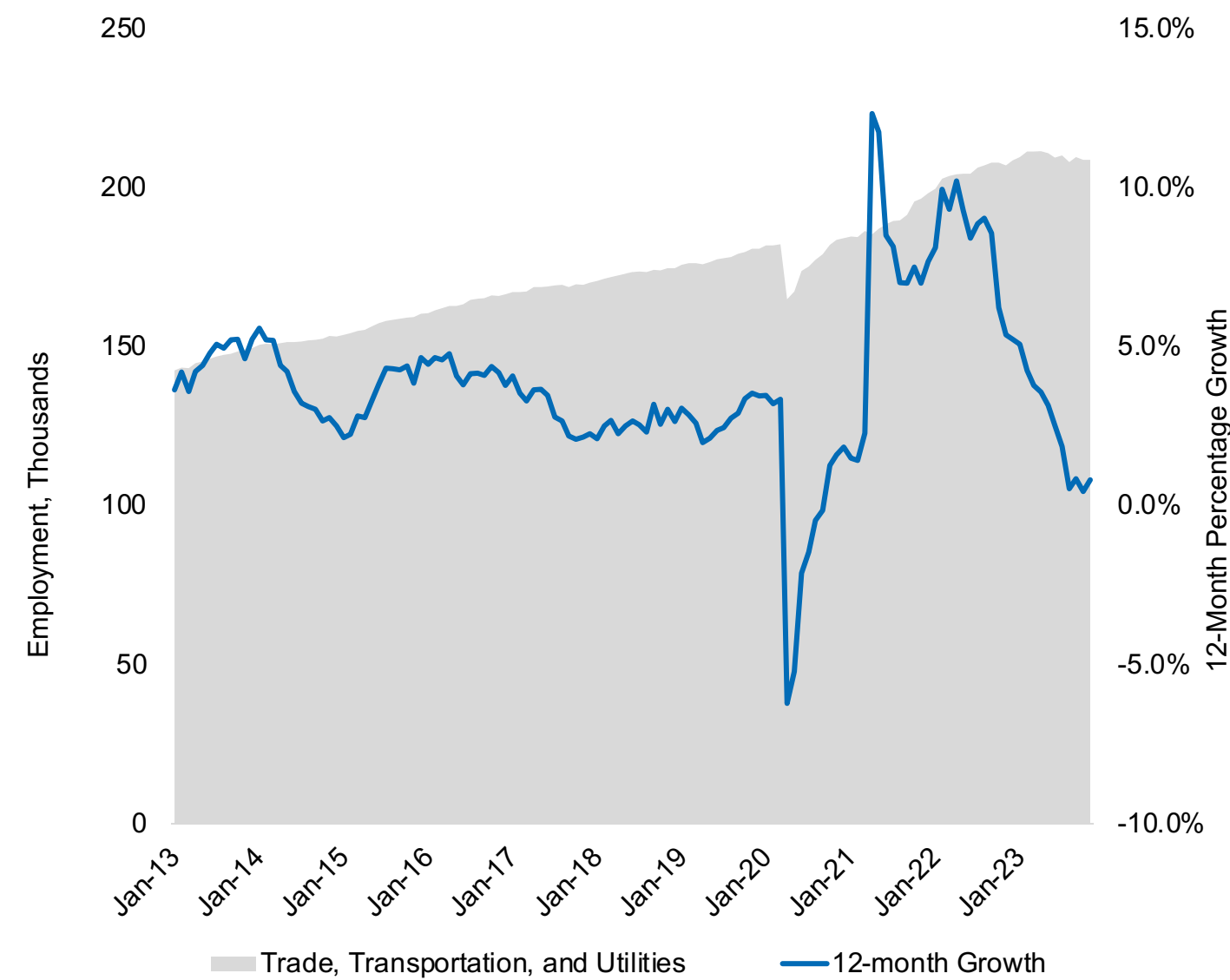


Source: U.S. Bureau of Labor Statistics, Austin MSA

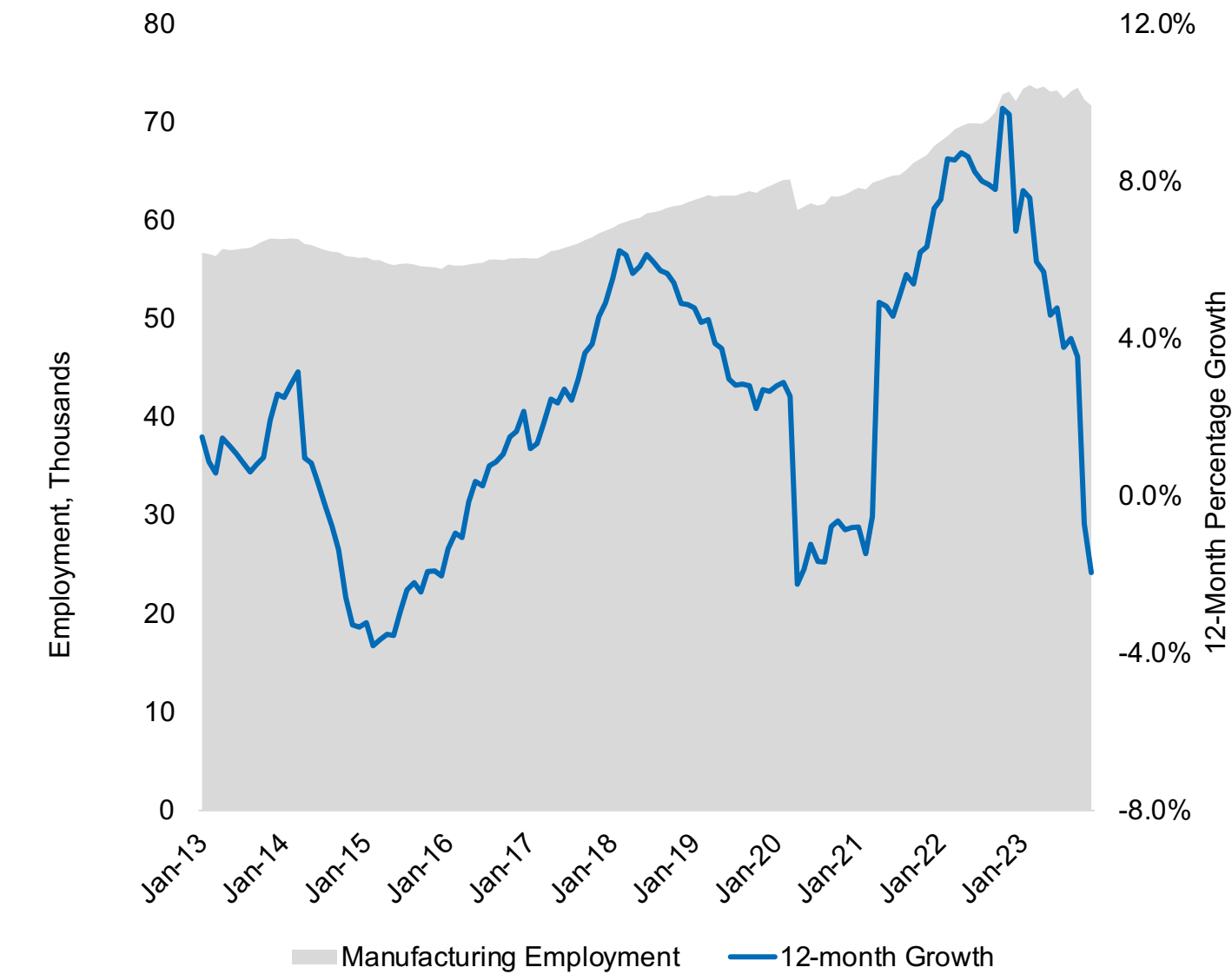
Industrial Employment Shows Mixed Results

Trade/transportation/utilities employment have declined from the peak of 211,410 employees recorded in April 2023, to 208,690 employees in November 2023. Manufacturing employment has continued to decline from its historical high of 73,790 employees recorded in February of 2023 and recorded 71,710 employees as of November 2023. Overall, industrial-using employment showed mixed results as trade/transportation/utilities showed yearly growth while manufacturing showed a yearly decline.

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

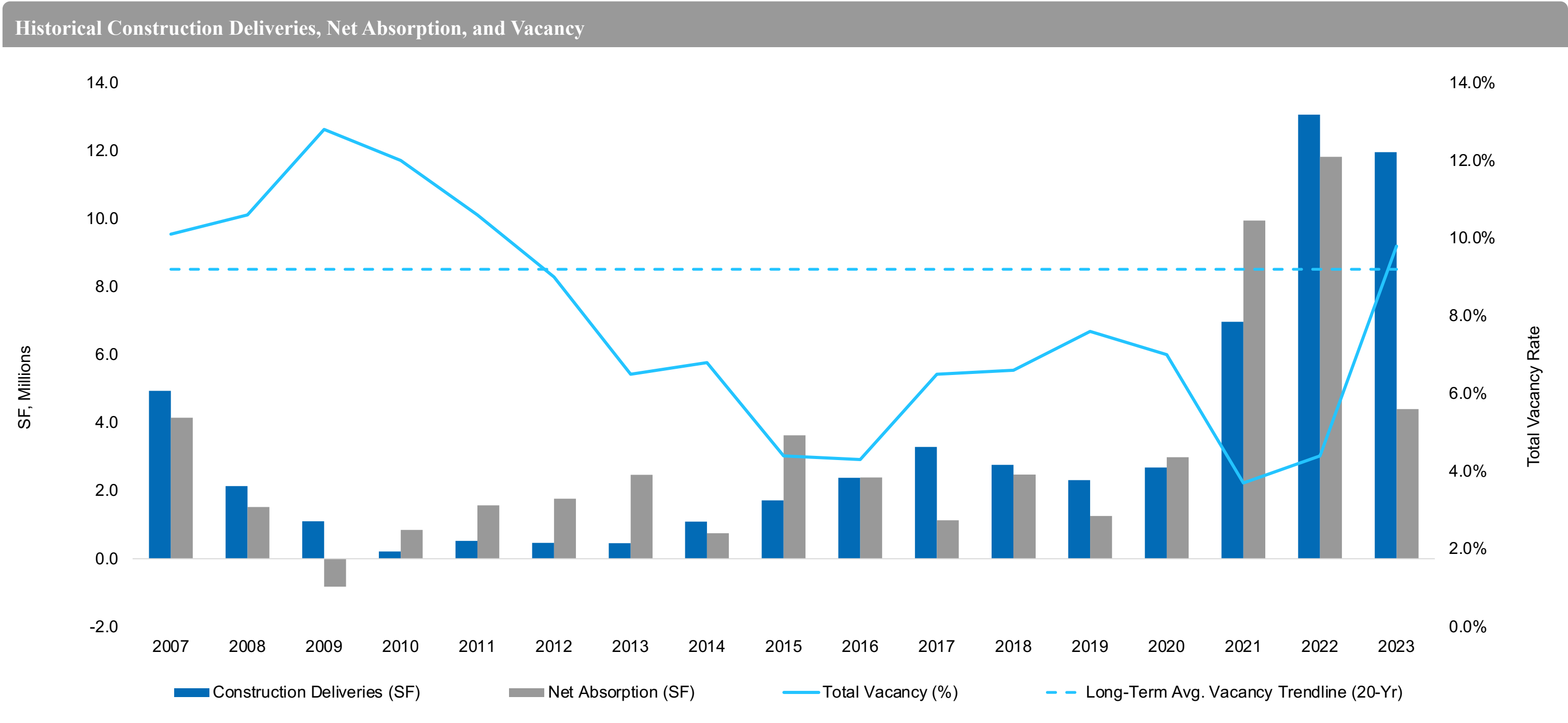
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Leasing Market Fundamentals



Deliveries Increase Quarter over Quarter, End Year Near Record High

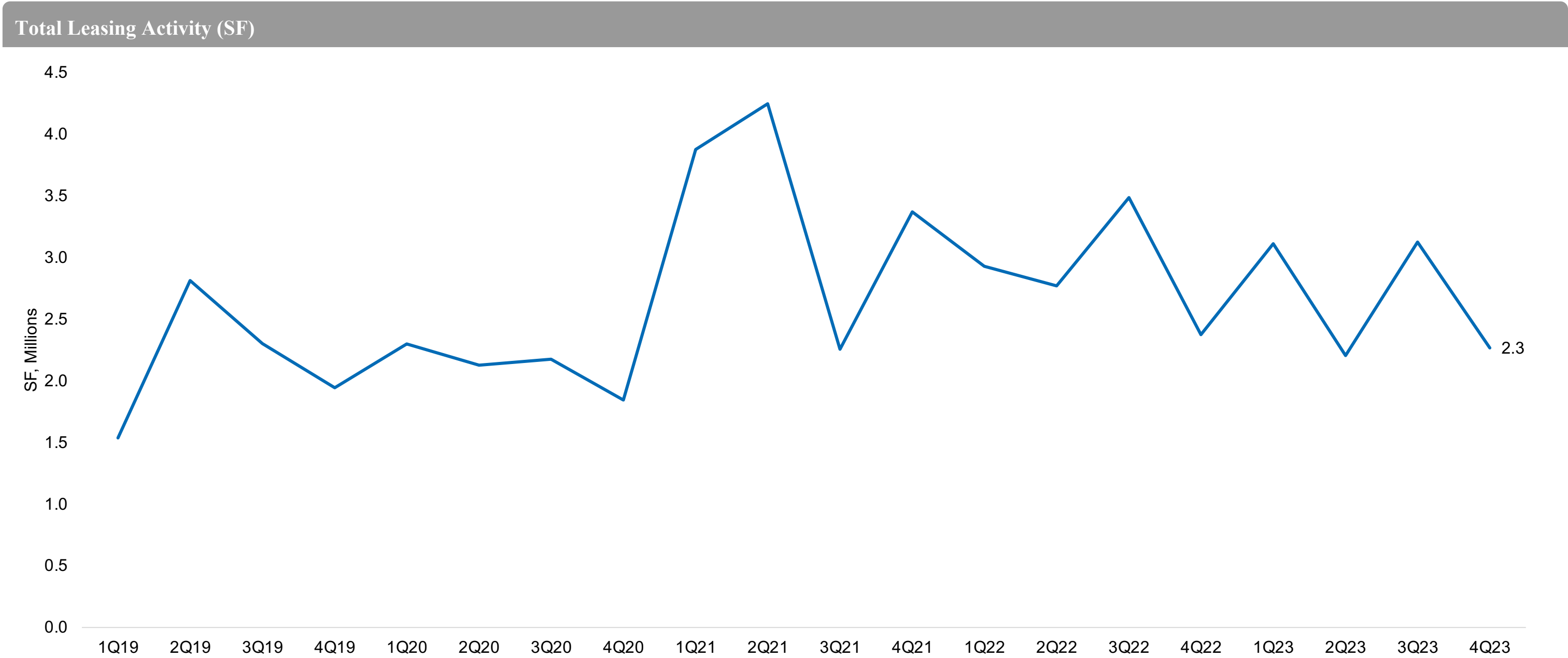
The Austin industrial vacancy rate increased by 540 basis points year over year to 9.8% in the fourth quarter of 2023, with supply continuing to outstrip demand since 2021. Deliveries continue to remain historically high in the market, with new supply in 2023 only being historically lower than deliveries in 2022. 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, Quarter over Quarter

In the fourth quarter of 2023, leasing activity decreased by 27.5% quarter over quarter and 4.5% year over year to 2.3 MSF. Despite slowing leasing activity, likely resulting from national economic headwinds, demand continues to remain positive in the market.

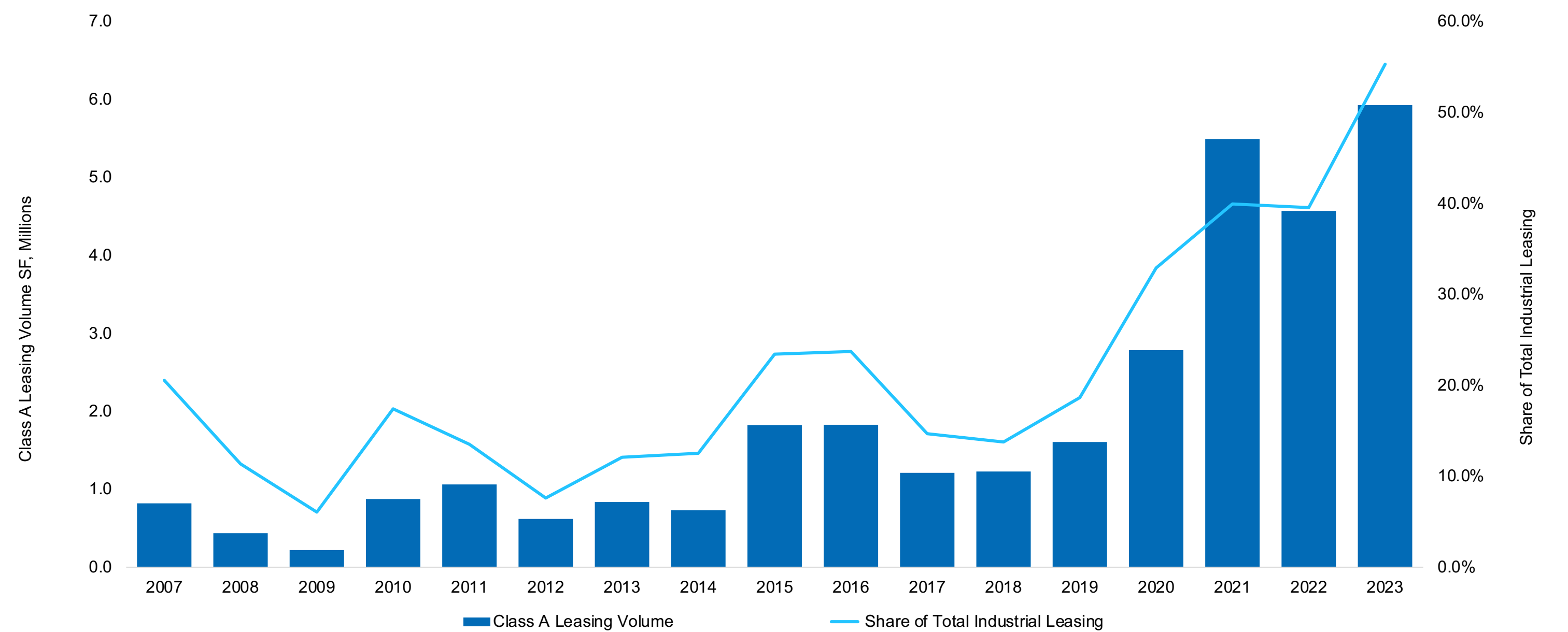


Source: Newmark Research, CoStar

Class A Warehouse Jumps to Record High Percentage of Transactions

Class A warehouse space leasing activity in the fourth quarter of 2023 has decreased from the historic high reported in the third quarter of 2023, to 1.1 MSF. This is due to an influx of high-quality deliveries that have hit the market during this same time period, with Class A warehouse deliveries finishing the quarter near the record high set in in the second quarter of 2023. Class A warehouse leasing represented 55.3% of overall activity in 2023, up from 39.5% from the previous year and well above the pre-pandemic average at 15.0% from 2007 to 2019.

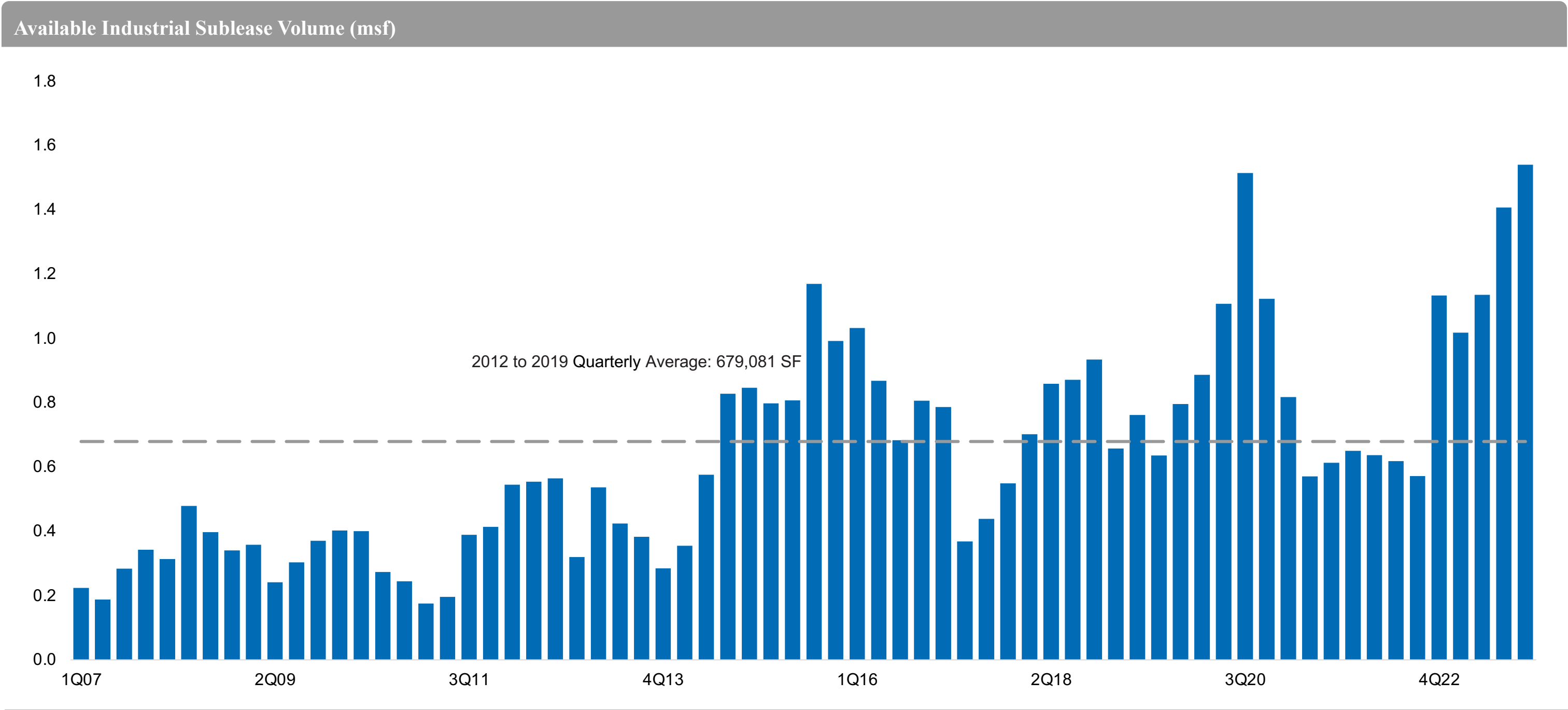
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

Industrial Sublease Availability Records New Historical High

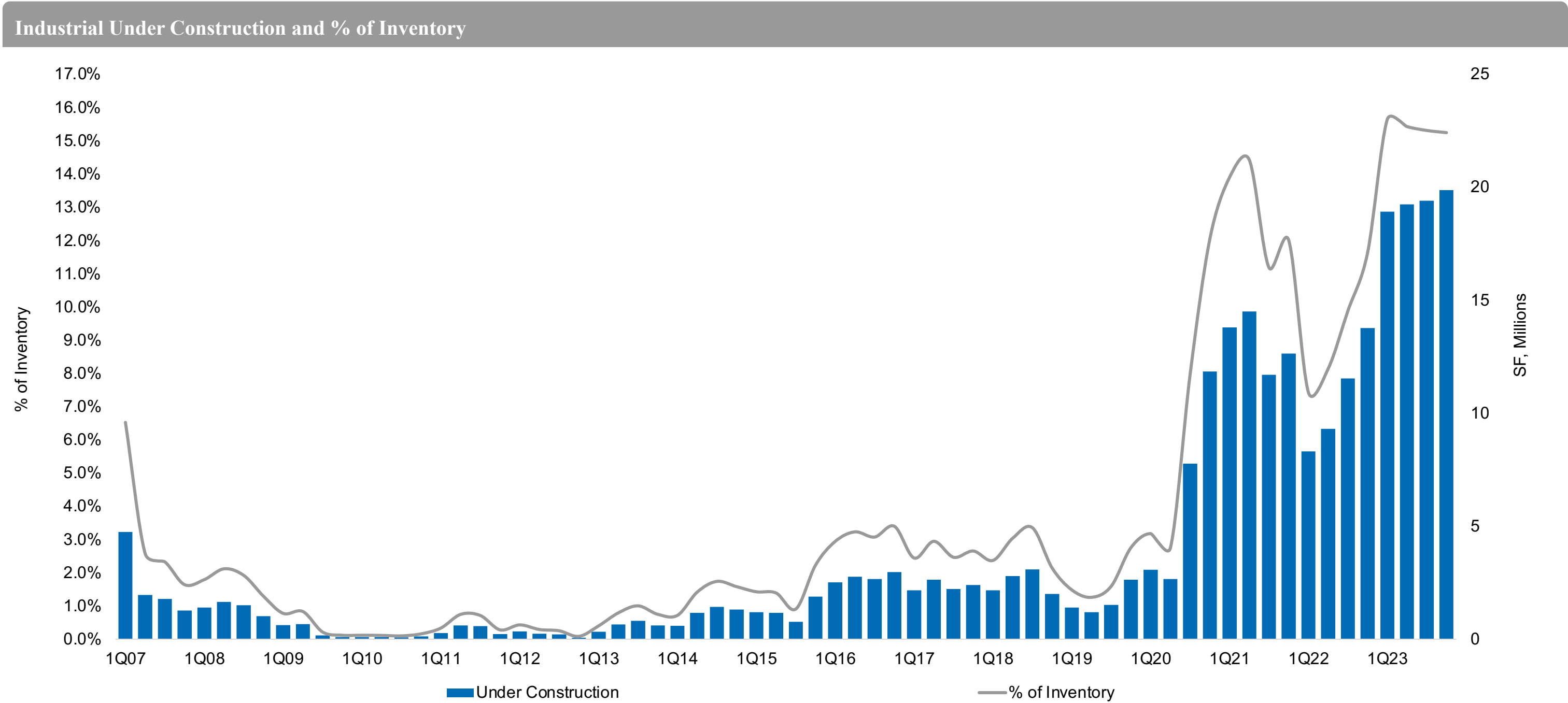
Sublease volume has continued increasing in the market since the first quarter of 2023. As of the end of the fourth quarter of 2023, available sublease space reached a new historical high at 1.5 MSF. Sublease availabilities have increased 9.4% quarter over quarter and 35.9% year over year. Rising interest 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.



Source: Newmark Research, CoStar

Industrial Supply Pipeline Records New High

The construction pipeline increased for the eighth consecutive quarter to a new historic high of 19.9 MSF in the fourth quarter of 2023. Although the pace of new ground breakings has slowed when compared to the fourth quarter of 2022, 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 in construction growth is likely attributed to a challenging financing environment for new construction.

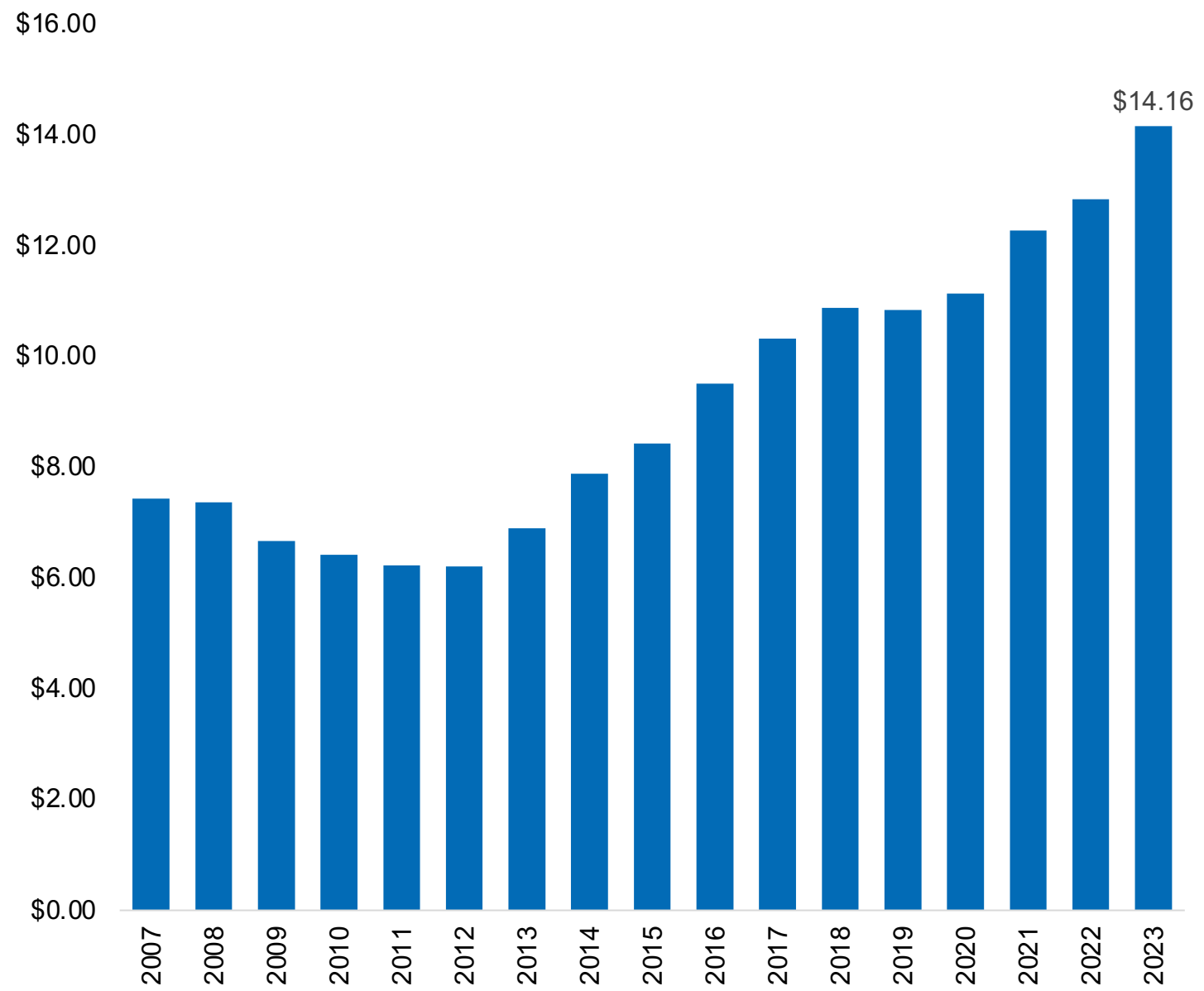


Source: Newmark Research, CoStar

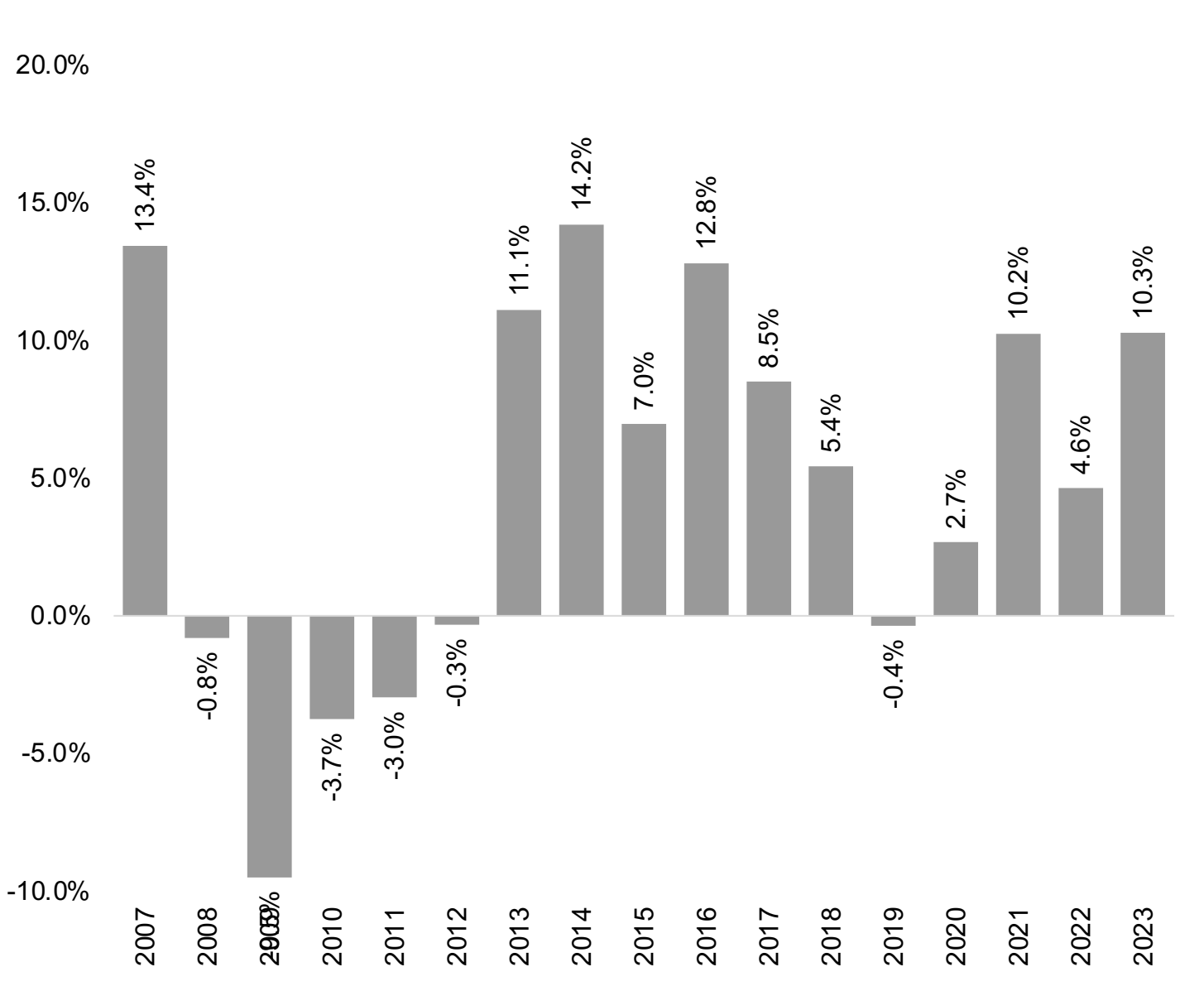
Asking Rents Reach New Historical High

Industrial average asking rents reached a new high at \$14.16/SF, as of the end of the fourth quarter of 2023, increasing by 10.3% 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

Notable 4Q23 Lease Transactions

Leasing activity slowed in the fourth quarter of 2023, with quarterly leasing activity at 12.9 MSF, below quarterly averages reported since 2010 at 15.7 MSF. Advanced manufacturing played less of a dominant role in Austin’s industrial leasing transactions this quarter when compared with previous quarters as companies in other industries looked to take space in the market. High-quality spaces continued to command the market as new space was delivered. Class A warehouse transactions accounted for 47.1% of total leasing transactions that occurred this quarter and 55.3% of total leasing transactions that occurred this year.

Select 4Q23 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
ZT Systems <i>Networking company ZT Systems signed the largest lease of the quarter, a 435,714-SF lease, at 101 Velocity Drive in Georgetown.</i>	NorthPark35 - Building 6	Georgetown	Direct	435,714
Four Hands <i>Wholesale furniture supplier Four Hands has signed a 181,660-SF lease at 14625 Campo Del Sol Road in Buda.</i>	14625 Campo Del Sol Rd	Southeast	Direct	181,660
CUBEWORK <i>On-demand warehouse space provider CUBEWORK leased 112,000 SF of space at 8119 Exchange Drive in Austin to provide companies with flexible warehousing options without having to sign long-term leases.</i>	8119 Exchange Dr	Northeast	Sublease	112,000
Three Way Logistics <i>Supply chain solutions architect Three Way Logistics signed a 110,440-SF lease at 12600 Titanium Drive in Austin.</i>	12600 Titanium Dr – Building 3	Far Northeast	Direct	110,440
Western Pacific Building Materials <i>Building material supplier Western Pacific Building Materials has renewed its 87,000-SF lease at 15855 Long Vista Drive in Austin.</i>	15855 Long Vista Dr	North	Renewal	87,000

Source: Newmark Research



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