CBRE

Austin industrial market maintains strength following record year

▼ **5.3%**
Vacancy Rate

▼ **1,058,827**
SF Net Absorption

▲ **16,565,046**
SF Construction

▼ **$11.21**
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

— Industrial asking rents were down 3.0% from Q4 2022 to a market average of $11.21 NNN.

— As of Q1 2023, owner-occupied properties are now included in CBRE Research's tracked inventory for Austin Industrial to better reflect the entire market. This change in survey criteria, coupled with strong leasing activity, caused the vacancy and availability rate to decrease quarter-over-quarter.

— Developers in Austin have responded to supply chain realignment that has driven industrial demand across the country with 16 million sq. ft. slated for delivery by year-end.

Demand for industrial product continued to drive market fundamentals in Q1 on the heels of a record-breaking year. CBRE Research tracked over one million sq. ft. of positive net absorption in the first three months of the year, roughly keeping pace with positive net absorption during the first quarter of 2022. Developers continued to add space to the market, and 1.7 million sq. ft. of new product was delivered in Q1 2023. Concessions remained minimal as occupiers head to industrial submarkets on the northern and southern ends of the city. Consumer goods, e-commerce, and manufacturing related to the opening of Tesla's 10 million sq. ft. gigafactory continue to drive demand.

FIGURE 1: Net Absorption and Vacancy
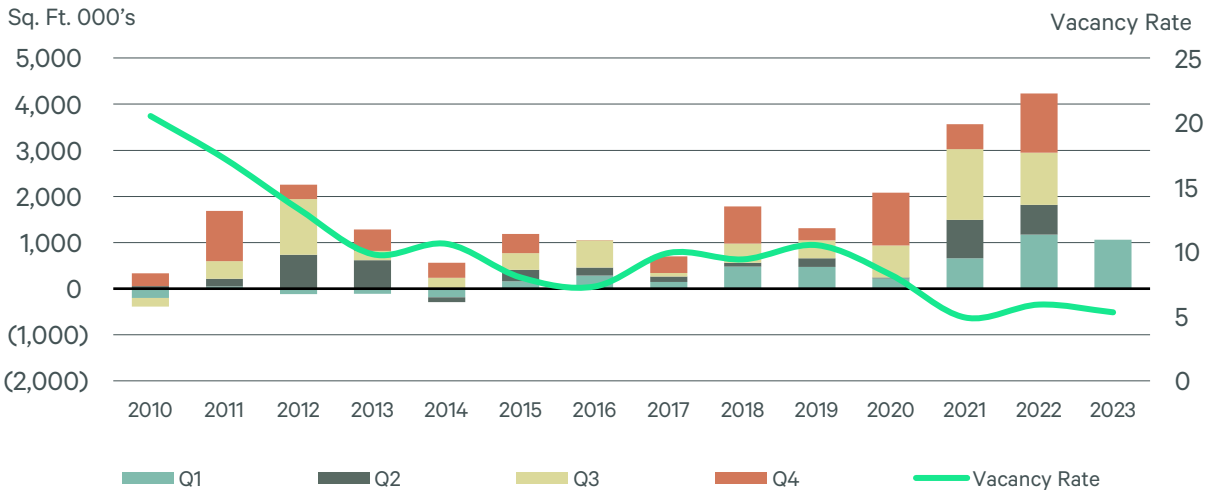
Source: CBRE Research, Q1 2023.

*As of Q1 2023, owner-occupied properties are now included in our tracked inventory to better reflect the entire market.

FIGURE 2: Austin Industrial Market Statistics

Submarket	Net Rentable Area (SF)*	Total Vacancy (%)	Total Availability (%)	Asking Rate, NNN Avg. Annual ($/SF)	Under Construction (SF)	Q1 2023 Deliveries (SF)	Q1 2023 Net Absorption	2023 YTD Total Net Absorption
BASTROP COUNTY	847,334	2.2	2.2	6.00	105,000	-	-	-
CALDWELL COUNTY	415,763	-	-	-	167,794	-	-	-
CEDAR PARK	7,306,872	2.5	2.4	9.78	149,000	-	29,277	29,277
CENTRAL	1,737,426	7.4	9.4	16.48	-	-	(7,759)	(7,759)
EAST	9,500,486	2.1	3.8	11.23	288,199	120,337	36,659	36,659
FAR NORTH	5,045,540	20.5	21.3	9.48	3,701,869	187,558	372,533	372,533
FAR NORTHEAST	2,462,106	14.5	16.9	10.77	2,211,268	628,030	84,936	84,936
HAYS COUNTY	11,005,503	10.3	12.9	7.85	3,625,518	495,525	(79,933)	(79,933)
NORTH	16,176,309	4.1	9.3	16.13	125,030	-	81,243	81,243
NORTHEAST	26,613,073	3.8	5.2	11.04	2,382,310	191,400	445,609	445,609
NORTHWEST	658,282	-	1.1	12.00	50,620	-	-	-
ROUND ROCK	5,242,381	3.0	1.2	13.88	1,334,676	-	-	-
SOUTH	2,753,375	2.1	3.8	19.71	655,311	-	41,313	41,313
SOUTHEAST	17,384,803	4.8	10.4	9.70	1,769,251	103,742	64,721	64,721
SOUTHWEST	3,879,856	3.9	6.6	15.00	-	-	(9,772)	(9,772)
AUSTIN TOTAL	**111,029,109**	**5.3**	**7.9**	**11.21**	**16,565,846**	**1,726,592**	**1,058,827**	**1,058,827**

Source: CBRE Research, Q1 2023..

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MARKET FUNDAMENTALS

Q1 2023 marked the 35th consecutive quarter of positive demand for the Austin industrial market. While Austin has not traditionally been considered a bulk warehouse market, trends that have spurred demand in larger distribution markets have also resulted in increased demand as companies look to realign their logistics networks and deepen coverage of last-mile delivery. Furthermore, Austin's location along I-35, which forms the spine of an auto manufacturing megaregion that spans from the Bajio in Mexico to North Texas, makes for an excellent location for OEM suppliers up and down this major transportation artery. In the most recent publication of the *PwC Emerging Trends in Real Estate*, Austin was named one of five 'Supernova' cities. Supernova cites were markets that were identified as having between one million and two million residents, while also experiencing phenomenal economic and population growth. On CBRE's most recent U.S. Investor Intention Survey for 2023, Austin was ranked as the second most preferred market for real estate investment.

ASKING RATES

Surveyed industrial asking rates dropped slightly to $11.21 per sq. ft. NNN, a 3.0% decrease quarter-over-quarter. Concessions remained minimal throughout the market.

DEVELOPMENT PIPELINE

Product under construction continued to grow and CBRE Research tracked 16.6 million sq. ft. in projects at the end of the quarter, which was 24.7% pre-leased. This is the largest amount of active industrial developments tracked by CBRE Research in the Austin market. Part of the reason for inflated under construction volume is due to the extended time it is taking buildings to deliver, and developers are having to source construction materials earlier in the building process. Several institutional owners are actively developing in Austin, along with regional players. The most active submarkets with product underway continue to be at the northern and southern ends of Austin. Developers kicked off just nearly four million sq. ft. in new developments market-wide. Most of the new projects were for distribution use, with the most notable groundbreaking being the Samsung Semiconductor, a 1.2M sq. ft. build-to-suit project in the Far Northeast submarket.

FIGURE 3: Asking Rates & Vacancy, Warehouse/Distribution & Flex/R&D
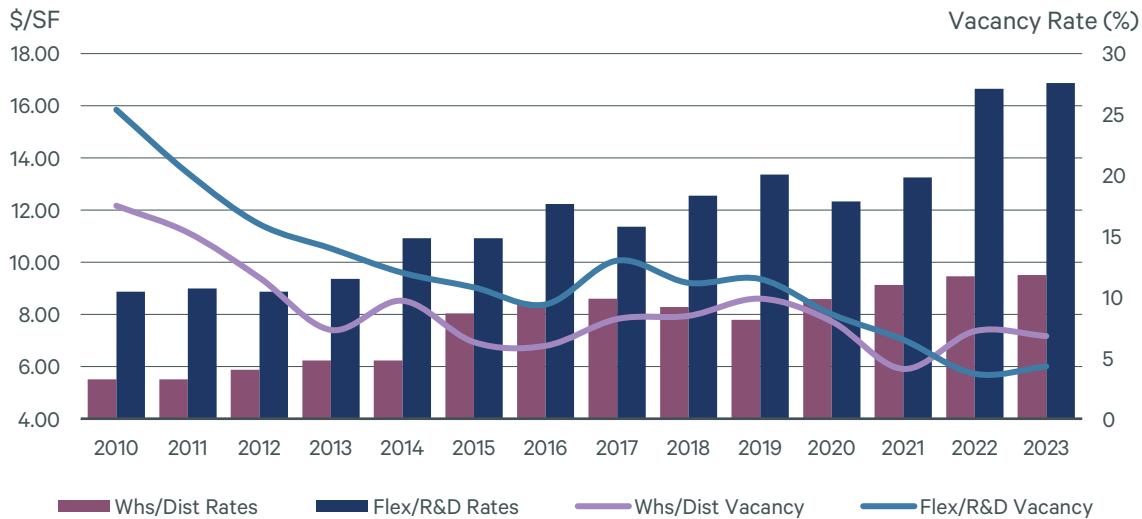
Source: CBRE Research, Q1 2023.

FIGURE 4: Historical Construction & Deliveries
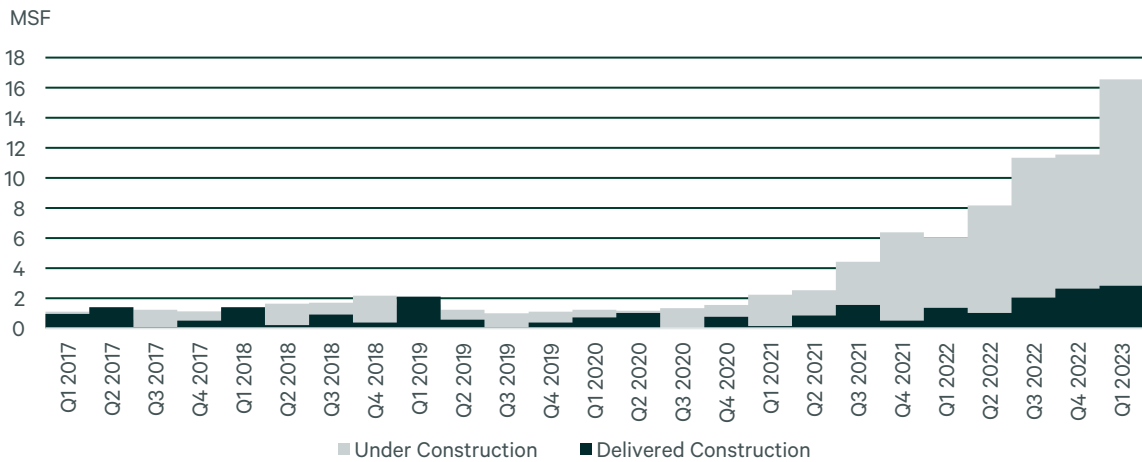
Source: CBRE Research, Q1 2023.

AUSTIN METRO ECONOMIC TRENDS
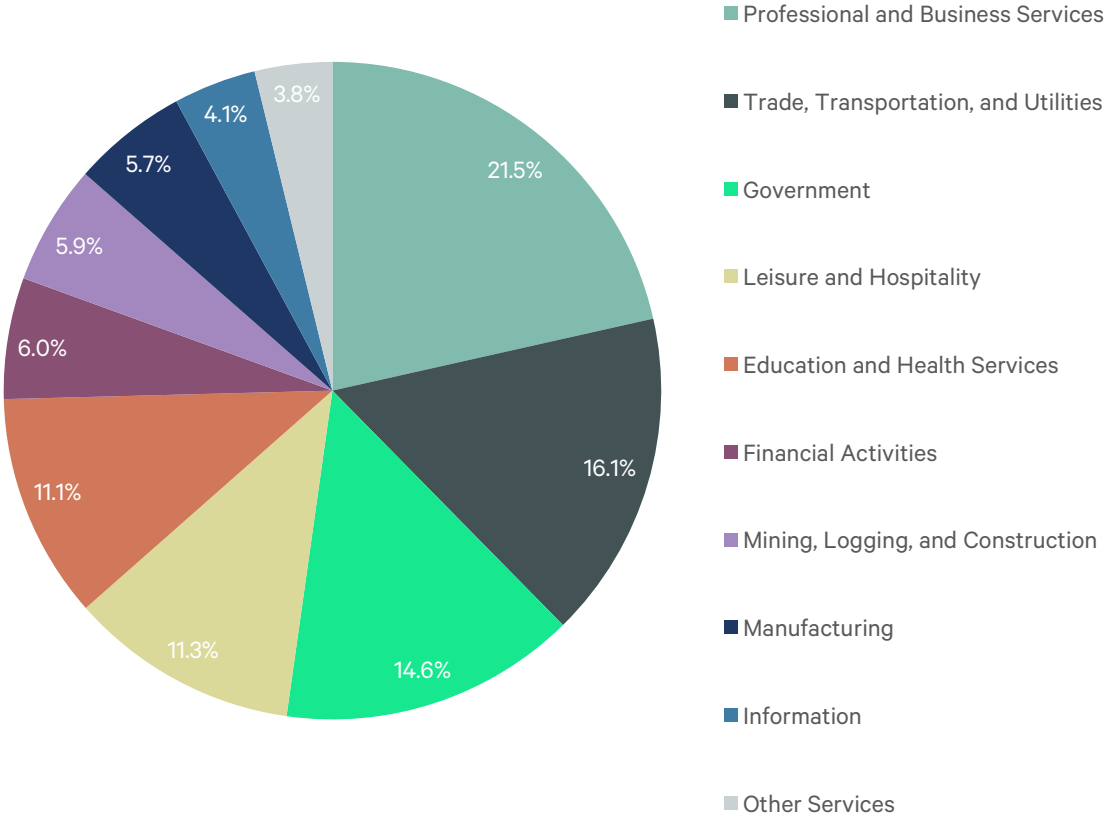
Unemployment in Austin was 3.7% in February, below the state figure of 3.8%.Total nonfarm employment grew by 4.8% year-over-year in February. The sector with the largest employment gains was leisure and hospitality, unsurprisingly as Austin has emerged as a popular destination for group travel. The sector experienced 13.4% year-over-year growth, or about 19,600 jobs, according to the Bureau of Labor Statistics (BLS). Both professional and business services and manufacturing contribute disproportionately to the regional economy compared to other parts of Texas. "Made in the USA" has cachet again, and Austin was the top metro in Texas for manufacturing growth and was up 7.6% year-over-year at the end of February, according to the BLS. In fact, Texas was the state with the most manufacturing gains over the year, just over 47,000 jobs, of which 9,000 landed in the Capitol Metro. Increased investment in semiconductor manufacturing in Texas and Mexico should be beneficial to the regional high-tech manufacturing sector.

CBRE ECONOMIC HOUSE VIEW

Downstream consequences of the Fed's tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months. Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

FIGURE 5: Employment Sectors That Comprise the Austin Workforce

- Professional and Business Services — 21.5%
- Trade, Transportation, and Utilities — 16.1%
- Government — 14.6%
- Leisure and Hospitality — 11.3%
- Education and Health Services — 11.1%
- Financial Activities — 6.0%
- Mining, Logging, and Construction — 5.9%
- Manufacturing — 5.7%
- Information — 4.1%
- Other Services — 3.8%

Source: BLS, March 2023.

FIGURE 6: Austin Market Statistics, Warehouse/Distribution & Flex/R&D

Submarket	WAREHOUSE				FLEX/R&D				MANUFACTURING			
	NNN $/SF	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	Net Absorption (SF)	NNN $/SF	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	Net Absorption (SF)	NNN $/SF	Total Vacant (SF) Total RBA (SF)	Vacancy Rate (%)	Net Absorption (SF)
BASTROP COUNTY	N/A	- 587,943	-	-	N/A	- 42,685	-	-	6.00	18,500 216,706	8.5	-
CALDWELL COUNTY	N/A	- 236,906	-	-	N/A	- 30,150	-	-	-	- 148,707	-	-
CEDAR PARK	9.78	60,857 2,358,076	2.6	13,789	N/A	120,888 3,917,017	3.1	15,488	-	- 1,031,779	-	-
CENTRAL	16.56	105,200 902,694	11.7	(3,423)	15.48	22,794 711,738	3.2	(4,336)	-	- 122,994	-	-
EAST	11.39	190,453 4,240,067	4.5	35,844	11.06	7,169 315,919	2.3	815	-	- 4,944,500	-	-
FAR NORTH	9.17	1,017,806 3,613,360	28.2	372,533	22.62	15,179 840,803	1.8	0	-	- 591,377	-	-
FAR NORTHEAST	10.77	349,822 2,230,331	15.7	91,586	N/A	6,650 17,700	37.6	(6,650)	-	- 214,075	-	-
HAYS COUNTY	7.83	1,067,854 9,222,784	11.6	(79,933)	10.00	6,508 255,070	2.6	0	-	62,135 1,527,649	4.1	-
NORTH	9.88	293,742 10,344,520	2.8	103,456	18.12	367,324 5,356,550	6.9	(26,022)	-	- 475,235	-	3,809
NORTHEAST	9.60	649,602 15,301,574	4.2	290,169	15.88	239,373 7,373,550	3.2	49,940	-	121,000 3,937,949	3.1	105,500
NORTHWEST	12.00	- 658,282	-	-	N/A	- -	-	-	-	- -	-	-
ROUND ROCK	11.50	139,991 3,850,288	3.6	-	15.00	15,462 1,014,416	1.5	-	-	- 377,677	-	-
SOUTH	16.26	55,282 1,782,846	3.1	36,524	32.50	2,450 480,204	0.5	-	-	- 490,325	-	4,789
SOUTHEAST	8.93	460,974 9,902,239	4.7	61,830	10.03	375,140 6,522,589	5.7	2,891	-	- 959,975	-	-
SOUTHWEST	15.00	25,370 820,061	3.1	(8,100)	N/A	1,672 355,261	0.5	(1,673)	-	124,000 2,704,534	4.6	-
AUSTIN TOTAL	9.51	4,416,953 66,051,971	6.7	914,275	16.87	1,180,609 27,233,656	4.3	30,454	6.00	325,635 17,743,482	1.8	114,098

Source: CBRE Research, Q1 2023.

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FIGURE 8: Historical Market Statistics

		2016	2017	2018	2019	2020	2021	2022	2023*
BASTROP COUNTY	Absorption (Net SF)	-	-	-	-	-	-	-	-
	Asking Rent, Avg. Annual	-	-	-	-	-	-	-	6.00
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	-	-	-	-	-	-	-	2.2
CALDWELL COUNTY	Absorption (Net SF)	-	-	-	-	-	-	-	-
	Asking Rent, Avg. Annual	-	-	-	-	-	-	-	-
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	-	-	-	-	-	-	-	-
CEDAR PARK	Absorption (Net SF)	-	-	-	-	-	-	-	29,277
	Asking Rent, Avg. Annual	-	-	-	-	-	-	-	9.78
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	-	-	-	-	-	-	-	2.5
CENTRAL	Absorption (Net SF)	53,480	(28,441)	64,038	84,444	(83,190)	(54,819)	29,314	(7,759)
	Asking Rent, Avg. Annual	12.60	10.02	9.49	14.02	15.59	17.18	17.24	16.48
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	4.1	6.2	6.1	4.7	5.6	10.3	8.0	7.4
EAST	Absorption (Net SF)	202,575	75,265	(70,360)	49,085	(117,749)	264,377	407,720	36,659
	Asking Rent, Avg. Annual	13.44	12.69	6.94	7.49	8.16	12.83	14.17	11.23
	Delivered Construction (SF)	-	27,000	-	-	-	-	84,094	120,337
	Vacancy Rate (%)	24.9	23.2	11.1	9.7	13.3	4.4	7.0	2.1
FAR NORTH	Absorption (Net SF)	-	-	-	-	-	-	-	372,533
	Asking Rent, Avg. Annual	-	-	-	-	-	-	-	9.48
	Delivered Construction (SF)	-	-	-	-	-	-	-	187,558
	Vacancy Rate (%)	-	-	-	-	-	-	-	20.5

Source: CBRE Research, Q1 2023.

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|		2016	2017	2018	2019	2020	2021	2022	2023*
FAR NORTHEAST	Absorption (Net SF)	121,445	84,699	78,521	422,117	149,781	234,115	747,085	84,936
	Asking Rent, Avg. Annual	6.48	11.12	10.78	9.23	9.58	10.47	8.87	10.77
	Delivered Construction (SF)	197,800	110,100	-	557,954	-	192,429	1,221,546	628,030
	Vacancy Rate (%)	10.5	8.0	6.7	11.6	5.2	2.7	11.0	14.5
HAYS COUNTY	Absorption (Net SF)	51,585	66,030	(45,343)	(219,415)	567,665	758,841	1,333,876	(79,933)
	Asking Rent, Avg. Annual	6.00	11.40	12.62	9.55	6.90	7.32	7.65	7.85
	Delivered Construction (SF)	-	-	341,500	588,741	347,840	534,058	1,402,708	495,525
	Vacancy Rate (%)	7.6	-	28.9	41.6	16.3	3.9	8.0	10.3
NORTH	Absorption (Net SF)	(26,184)	163,017	1,002,508	307,926	(63,126)	271,490	46,510	81,243
	Asking Rent, Avg. Annual	9.84	9.86	11.21	10.38	10.71	12.02	16.77	16.13
	Delivered Construction (SF)	50,759	80,340	276,493	-	96,462	-	-	-
	Vacancy Rate (%)	6.7	9.2	6.4	5.7	7.3	4.5	3.3	4.1
NORTHEAST	Absorption (Net SF)	82,339	51,761	258,348	120,216	25,163	303,651	711,783	445,609
	Asking Rent, Avg. Annual	8.76	8.78	10.34	9.73	9.34	10.66	12.36	11.04
	Delivered Construction (SF)	-	240,821	82,826	354,734	-	303,356	70,121	191,400
	Vacancy Rate (%)	4.9	9.5	7.8	9.4	7.8	8.6	2.8	3.8
NORTHWEST	Absorption (Net SF)	108,260	12,478	34,234	(94,690)	195,446	(14,900)	(35,216)	-
	Asking Rent, Avg. Annual	11.52	14.99	15.27	11.35	9.12	16.13	13.81	12.00
	Delivered Construction (SF)	55,000	-	231,030	-	-	-	-	-
	Vacancy Rate (%)	2.8	3.6	2.7	5.9	1.7	2.2	3.6	-
ROUND ROCK	Absorption (Net SF)	134,762	92,709	(70,623)	57,289	670,891	452,935	260,566	-
	Asking Rent, Avg. Annual	9.72	9.61	8.60	10.05	11.29	10.41	14.60	13.88
	Delivered Construction (SF)	-	58,500	200,728	217,610	614,814	75,600	344,689	-
	Vacancy Rate (%)	6.7	3.8	11.5	18.5	11.0	1.9	4.7	3.0

Source: CBRE Research, Q1 2023.

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FIGURE 8: Historical Market Statistics

		2016	2017	2018	2019	2020	2021	2022	2023*
SOUTH	Absorption (Net SF)	1,583	7,305	(84,327)	61,093	53,736	56,636	(1,628)	41,313
	Asking Rent, Avg. Annual	12.60	11.6	17.70	18.04	17.91	18.19	18.04	19.71
	Delivered Construction (SF)	-	-	117,087	23,978	-	-	-	-
	Vacancy Rate (%)	2.1	2.4	6.8	5.8	5.7	3.7	3.8	2.1
SOUTHEAST	Absorption (Net SF)	307,315	184,309	450,896	427,400	676,526	973,650	225,914	64,721
	Asking Rent, Avg. Annual	9.48	8.23	9.94	8.51	10.31	10.21	9.00	9.70
	Delivered Construction (SF)	251,200	1,169,300	482,364	-	85,079	421,365	490,144	103,742
	Vacancy Rate (%)	6.1	13.2	13.9	13.6	8.3	3.4	5.1	4.8
SOUTHWEST	Absorption (Net SF)	35,551	3,585	10,025	34,374	(8,900)	11,500	-	(9,772)
	Asking Rent, Avg. Annual	15.00	13.50	16.83	11.34	10.41	N/A	N/A	15.00
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	6.6	5.7	8.3	4.5	6.8	-	-	3.9
AUSTIN TOTAL	**Absorption (Net SF)**	**1,050,169**	**698,608**	**1,785,512**	**1,307,789**	**2,083,654**	**3,566,600**	**4,234,462**	**1,058,827**
	Asking Rent, Avg. Annual	**10.20**	**10.15**	**10.53**	**9.80**	**10.17**	**11.07**	**11.56**	**11.21**
	Delivered Construction (SF)	**554,759**	**1,756,061**	**1,751,178**	**1,891,737**	**1,508,249**	**1,857,838**	**4,297,257**	**1,176,592**
	Vacancy Rate (%)	**7.3**	**9.9**	**9.4**	**10.5**	**8.2**	**4.9**	**5.9**	**5.3**

Source: CBRE Research, Q1 2023.

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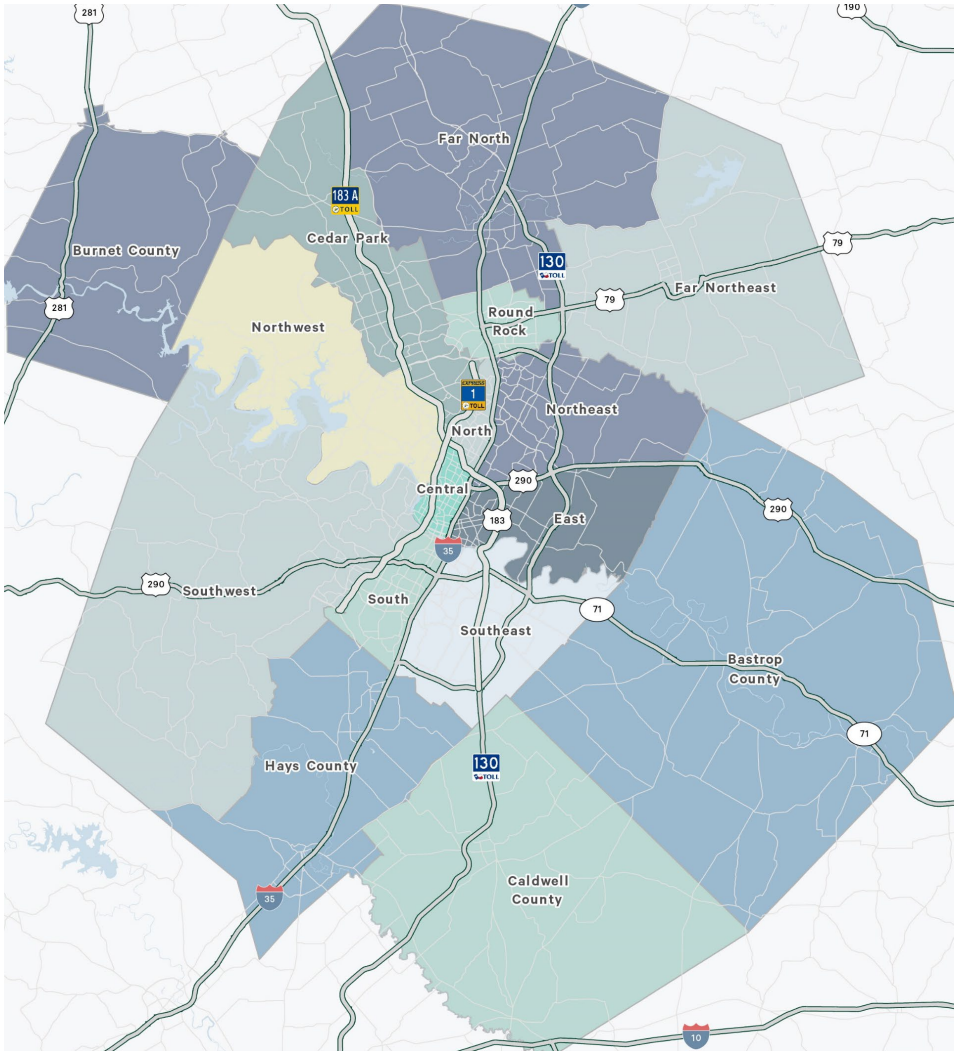
Market Area Overview

Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all owner and non-owner occupied, non-medical industrial buildings 10,000 sq. ft. and greater in size in greater metropolitan area of Austin, TX. Buildings which have begun construction as evidenced by site excavation or foundation work.

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