

FIGURES | AUSTIN INDUSTRIAL | Q2 2023

Construction pipeline remains robust with record deliveries in Q2 2023

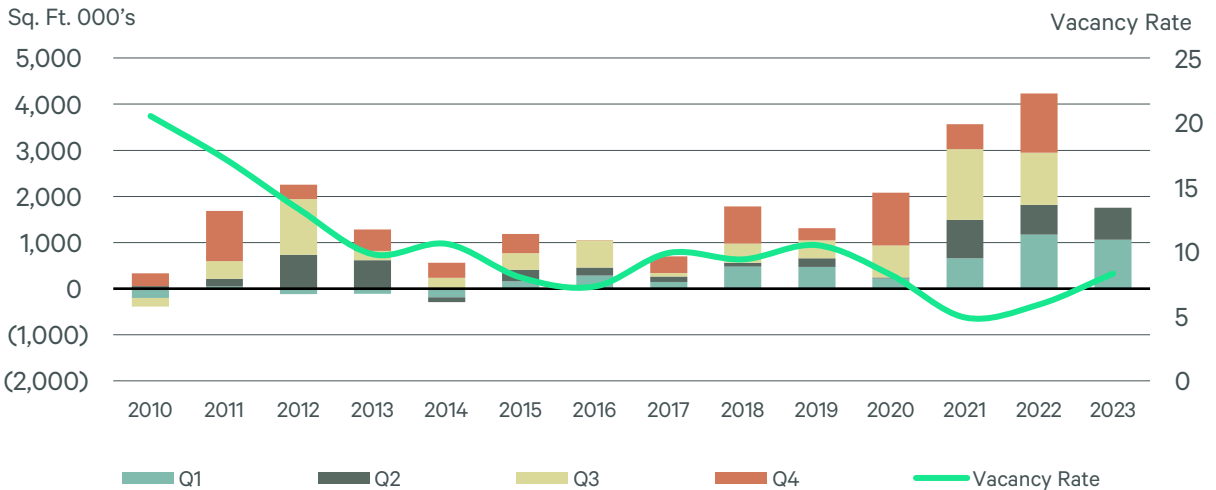


Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Developers in Austin have responded to supply chain realignment that has driven industrial demand across the country with 15 million sq. ft. of product underway, of which 33.3% is pre-leased.
- A record 4.5 million sq. ft. of new product delivered in Q2, which was 30.2% pre-leased.
- Industrial asking rents increased 1.4% from Q1 2023 to a market average of \$11.37 NNN.
- Net absorption remained positive but dropped significantly to 693,845 SF in Q2; absorption is projected to climb again in the second half of 2023 as several major pre-leased projects are expected to deliver.
- Market wide vacancy increased by three percentage points in the second quarter; this is largely due to an influx of sizeable speculative deliveries at the northern and southern ends of the market delivering unleased. Two 100% pre-leased projects totaling 747,937 sq. ft. delivered in the Far North submarket with tenants set to occupy in the third quarter, temporarily spiking vacancy.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q2 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)	Q2 2023 Deliveries (SF)	Q2 2023 Net Absorption	2023 YTD Total Net Absorption
BASTROP COUNTY	796,062	2.3%	2.3%	6.00	606,521	-	0	-
CALDWELL COUNTY	415,763	0.0%	0.0%	0.00	167,794	-	0	-
CEDAR PARK	7,306,872	2.5%	3.2%	19.16	112,660	-	0	29,277
CENTRAL	1,737,426	6.9%	10.3%	16.21	-	-	7,612	(147)
EAST	9,500,486	3.0%	4.0%	19.04	860,657	-	(49,200)	(12,541)
FAR NORTH	7,010,750	41.7%	27.8%	8.25	1,809,141	2,179,404	103,980	476,513
FAR NORTHEAST	2,542,887	22.5%	18.1%	10.89	2,697,919	-	(15,054)	69,882
HAYS COUNTY	12,639,452	19.6%	20.5%	8.83	2,519,812	1,633,769	290,526	210,593
NORTH	16,102,628	4.2%	10.5%	14.63	-	125,030	39,773	121,016
NORTHEAST	26,820,499	4.8%	6.2%	11.68	2,191,958	503,417	235,972	681,581
NORTHWEST	708,902	0.4%	1.3%	17.00	-	50,620	48,120	48,120
ROUND ROCK	5,226,036	2.9%	1.0%	12.52	1,358,036	-	16,258	16,258
SOUTH	2,753,375	2.2%	4.3%	18.54	655,311	-	(3,000)	38,313
SOUTHEAST	17,404,803	3.7%	7.3%	10.48	2,220,802	20,000	35,800	100,521
SOUTHWEST	3,879,856	4.3%	8.0%	15.00	-	-	(16,942)	(26,714)
AUSTIN TOTAL	114,845,797	8.3%	10%	11.37	15,200,611	4,512,240	693,845	1,752,672

Source: CBRE Research, Q2 2023.

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MARKET FUNDAMENTALS

Q2 2023 marks the 36th 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 Bajío 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

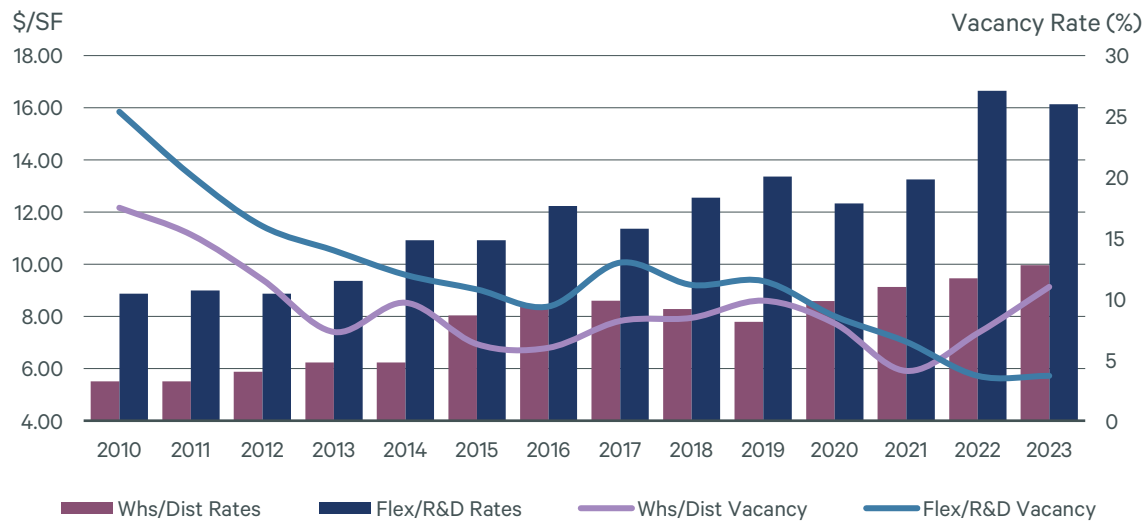
Surveyed industrial asking rates increased slightly to \$11.37 per sq. ft. NNN, a 1.4% increase quarter-over-quarter. Concessions remained minimal throughout the market.

DEVELOPMENT PIPELINE

Product under construction began to taper in Q2 as major developments started to come online, with a whopping 4.5 million sq. ft. delivered market wide. 30.2% of delivered space was pre-leased. Research tracked 15.2 million sq. ft. in projects under construction at the end of the quarter, which was 33.3% pre-leased. The most active submarkets with product underway continue to be clustered in the northeast and southern ends of the market.

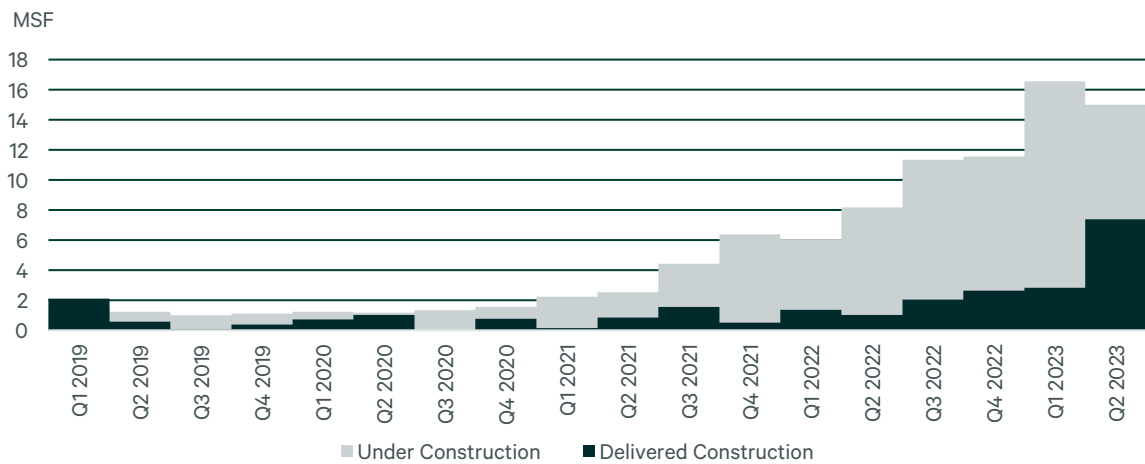
Several institutional owners are actively developing in Austin, along with regional players. Developers kicked off over three million sq. ft. in new developments market wide, most notably including TaylorPort Rail Park, BFG 9000 Way – Phase III, and Tesla’s \$700M Gigafactory expansion.

FIGURE 3: Asking Rates & Vacancy, Warehouse/Distribution & Flex/R&D



Source: CBRE Research, Q2 2023.

FIGURE 4: Historical Construction & Deliveries



Source: CBRE Research, Q2 2023.

AUSTIN METRO ECONOMIC TRENDS

Unemployment in Austin was 3.5% in May, below the statewide figure of 4.1%. Total nonfarm employment grew by 4.0% year-over-year in May. The leisure and hospitality sector continued to lead in employment gains as Austin has emerged as a popular destination for group travel. The sector experienced 8.7% year-over-year growth, or about 11,900 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 up 4.6% year-over-year at the end of May, according to the BLS. Increased investment in semiconductor manufacturing in Texas and Mexico should be beneficial to the regional high-tech manufacturing sector.

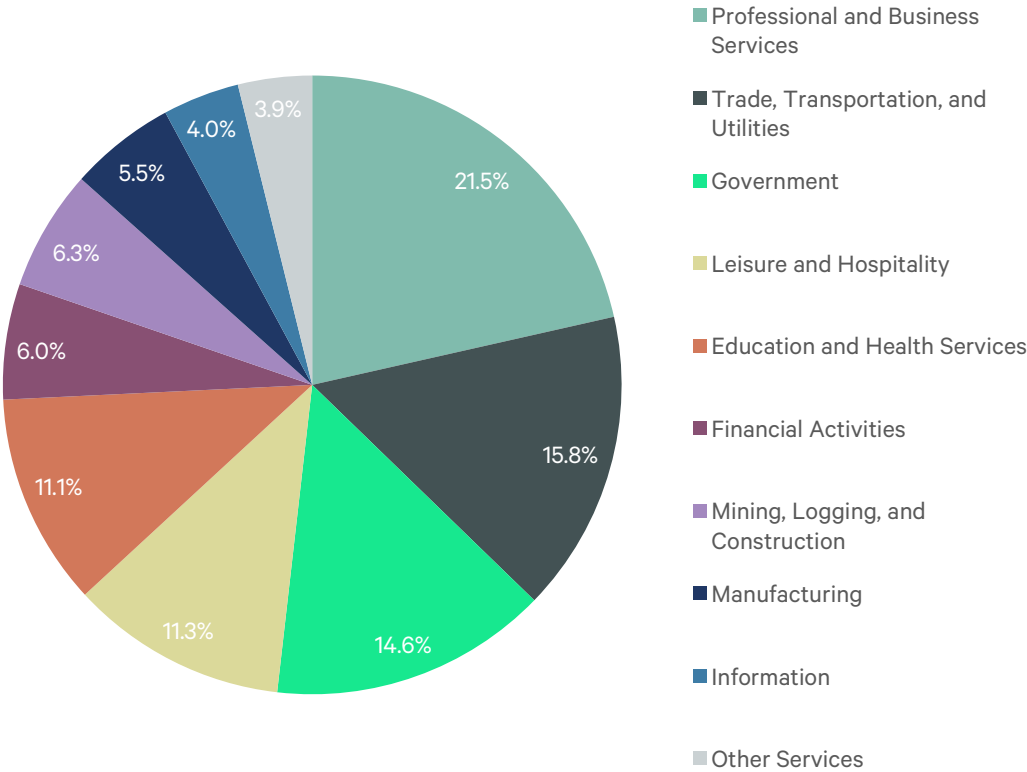
CBRE ECONOMIC HOUSE VIEW

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE’s baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 a last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

FIGURE 5: Employment Sectors That Comprise the Austin Workforce



Source: BLS, May 2023.

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

Submarket	NNN \$/SF	DISTRIBUTION/LOGISTICS				FLEX/R&D				MANUFACTURING		
		Total Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	NNN \$/SF	Total Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	NNN \$/SF	Total Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)
		Total RBA (SF)				Total RBA (SF)				Total RBA (SF)		
BASTROP COUNTY	6.00	0 536,671	-	-	N/A	- 42,685	-	-	6.00	18,500 216,706	8.5	-
CALDWELL COUNTY	-	0 236,906	-	-	N/A	0 30,150	-	-	-	0 148,707	-	-
CEDAR PARK	19.16	60,857 2,358,076	2.6	-	20.00	120,888 3,917,017	3.1	-	-	0 1,031,779	-	-
CENTRAL	16.21	105,200 902,694	11.7	-	13.88	15,182 711,738	2.1	7,612	-	0 122,994	-	-
EAST	19.04	279,653 4,240,067	6.6	(49,200)	11.06	7,169 315,919	2.3	-	-	0 4,944,500	-	-
FAR NORTH	8.25	2,434,150 5,154,312	47.2	124,195	22.49	35,394 814,181	4.3	(20,215)	-	450,880 1,042,257	43.3	-
FAR NORTHEAST	10.89	565,236 2,311,112	24.5	(15,054)	19.00	6,650 17,700	37.6	-	-	0 214,075	-	-
HAYS COUNTY	8.83	2,411,264 10,856,733	22.2	290,526	10.00	6,508 255,070	2.6	-	-	62,135 1,527,649	4.1	-
NORTH	14.63	355,340 10,393,083	3.4	63,432	16.63	313,243 5,234,310	6.0	(23,659)	-	0 475,235	-	-
NORTHEAST	11.68	927,960 15,857,836	5.9	234,259	16.01	236,120 7,112,014	3.3	1,713	-	112,000 3,850,649	2.9	-
NORTHWEST	17.00	2,500 708,902	0.4	48,120	0.00	- -	-	-	-	0 0	-	-
ROUND ROCK	12.52	130,438 3,822,792	3.4	9,553	17.50	18,888 1,025,567	1.8	6,705	-	0 377,677	-	-
SOUTH	18.54	58,282 1,782,846	3.3	(3,000)	32.50	2,450 480,204	0.5	-	-	0 490,325	-	-
SOUTHEAST	10.48	432,174 10,028,655	4.3	30,800	10.01	213,486 6,416,173	3.3	5,000	-	0 959,975	-	-
SOUTHWEST	15.00	25,370 820,061	3.1	-	0.00	18,614 355,261	5.2	(16,942)	-	124,000 2,704,534	4.6	-
AUSTIN TOTAL	11.37	7,788,424 70,010,746	11.0	733,631	16.14	994,592 26,727,989	3.7	(39,786)	6.00	767,515 18,107,062	1.8	-

Source: CBRE Research, Q2 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 (%)	-	-	-	-	-	-	-	2.3
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	-	-	-	-	-	-	-	19.16
	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	(147)
	Asking Rent, Avg. Annual	12.60	10.02	9.49	14.02	15.59	17.18	17.24	16.21
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	4.1	6.2	6.1	4.7	5.6	10.3	8.0	6.9
EAST	Absorption (Net SF)	202,575	75,265	(70,360)	49,085	(117,749)	264,377	407,720	(12,541)
	Asking Rent, Avg. Annual	13.44	12.69	6.94	7.49	8.16	12.83	14.17	19.04
	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	3.0
FAR NORTH	Absorption (Net SF)	-	-	-	-	-	-	-	476,513
	Asking Rent, Avg. Annual	-	-	-	-	-	-	-	8.25
	Delivered Construction (SF)	-	-	-	-	-	-	-	2,366,962
	Vacancy Rate (%)	-	-	-	-	-	-	-	41.7

Source: CBRE Research, Q2 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	69,882
	Asking Rent, Avg. Annual	6.48	11.12	10.78	9.23	9.58	10.47	8.87	10.89
	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	22.5
HAYS COUNTY	Absorption (Net SF)	51,585	66,030	(45,343)	(219,415)	567,665	758,841	1,333,876	210,593
	Asking Rent, Avg. Annual	6.00	11.40	12.62	9.55	6.90	7.32	7.65	8.83
	Delivered Construction (SF)	-	-	341,500	588,741	347,840	534,058	1,402,708	2,129,294
	Vacancy Rate (%)	7.6	-	28.9	41.6	16.3	3.9	8.0	19.6
NORTH	Absorption (Net SF)	(26,184)	163,017	1,002,508	307,926	(63,126)	271,490	46,510	121,016
	Asking Rent, Avg. Annual	9.84	9.86	11.21	10.38	10.71	12.02	16.77	14.63
	Delivered Construction (SF)	50,759	80,340	276,493	-	96,462	-	-	125,030
	Vacancy Rate (%)	6.7	9.2	6.4	5.7	7.3	4.5	3.3	4.2
NORTHEAST	Absorption (Net SF)	82,339	51,761	258,348	120,216	25,163	303,651	711,783	681,581
	Asking Rent, Avg. Annual	8.76	8.78	10.34	9.73	9.34	10.66	12.36	11.68
	Delivered Construction (SF)	-	240,821	82,826	354,734	-	303,356	70,121	694,817
	Vacancy Rate (%)	4.9	9.5	7.8	9.4	7.8	8.6	2.8	4.8
NORTHWEST	Absorption (Net SF)	108,260	12,478	34,234	(94,690)	195,446	(14,900)	(35,216)	48,120
	Asking Rent, Avg. Annual	11.52	14.99	15.27	11.35	9.12	16.13	13.81	17.00
	Delivered Construction (SF)	55,000	-	231,030	-	-	-	-	50,620
	Vacancy Rate (%)	2.8	3.6	2.7	5.9	1.7	2.2	3.6	0.4
ROUND ROCK	Absorption (Net SF)	134,762	92,709	(70,623)	57,289	670,891	452,935	260,566	16,258
	Asking Rent, Avg. Annual	9.72	9.61	8.60	10.05	11.29	10.41	14.60	12.52
	Delivered Construction (SF)	-	58,500	200,728	217,610	614,814	75,600	344,689	20,000
	Vacancy Rate (%)	6.7	3.8	11.5	18.5	11.0	1.9	4.7	2.9

Source: CBRE Research, Q2 2023.

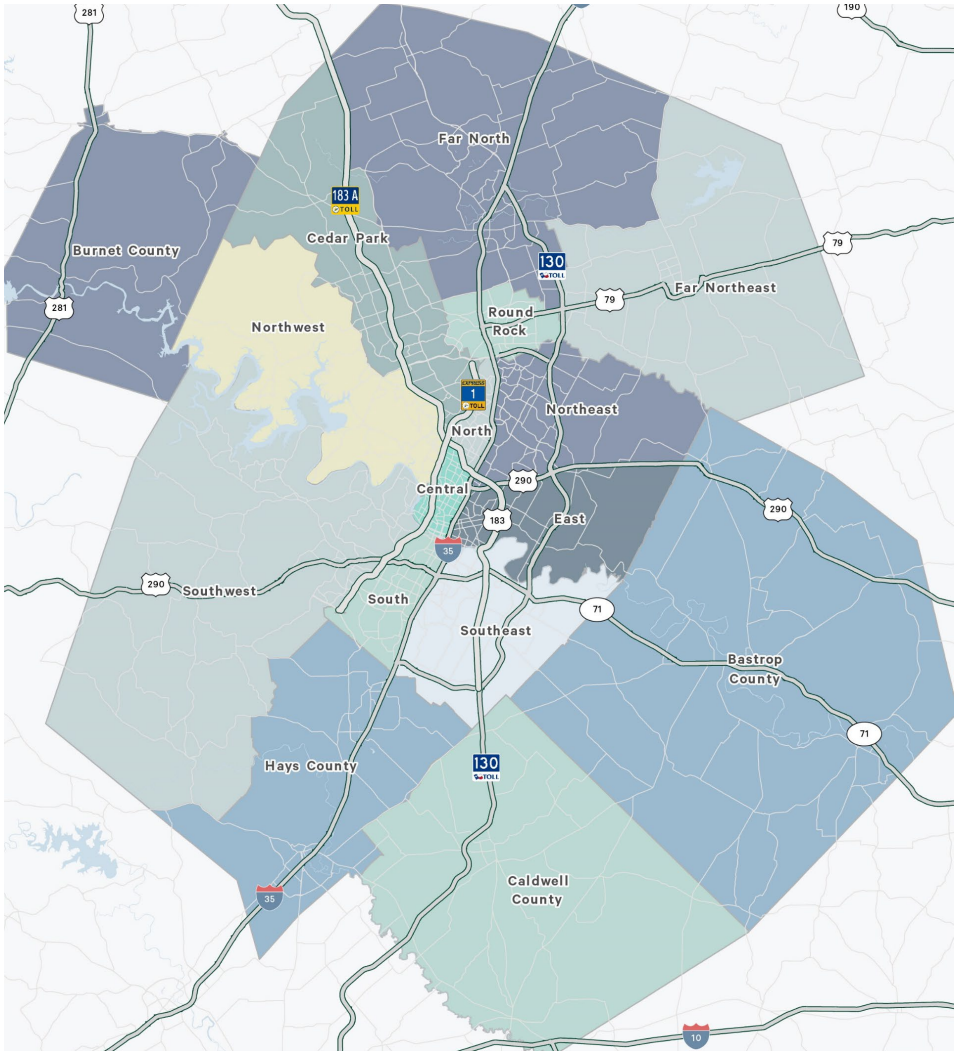
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SOUTH	Absorption (Net SF)	1,583	7,305	(84,327)	61,093	53,736	56,636	(1,628)	38,313
	Asking Rent, Avg. Annual	12.60	11.6	17.70	18.04	17.91	18.19	18.04	18.54
	Delivered Construction (SF)	-	-	117,087	23,978	-	-	-	-
	Vacancy Rate (%)	2.1	2.4	6.8	5.8	5.7	3.7	3.8	2.2
SOUTHEAST	Absorption (Net SF)	307,315	184,309	450,896	427,400	676,526	973,650	225,914	100,521
	Asking Rent, Avg. Annual	9.48	8.23	9.94	8.51	10.31	10.21	9.00	10.48
	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	3.7
SOUTHWEST	Absorption (Net SF)	35,551	3,585	10,025	34,374	(8,900)	11,500	-	(26,714)
	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	-	-	4.3
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	1,727,672
	Asking Rent, Avg. Annual	10.20	10.15	10.53	9.80	10.17	11.07	11.56	11.37
	Delivered Construction (SF)	554,759	1,756,061	1,751,178	1,891,737	1,508,249	1,857,838	4,297,257	6,238,832
	Vacancy Rate (%)	7.3	9.9	9.4	10.5	8.2	4.9	5.9	8.3

Source: CBRE Research, Q2 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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