CBRE

Q2 absorption driven by owner-user activity; market-wide vacancy ticks upward

▲ **11.0%**
Vacancy Rate

▼ **1,614,096**
SF Net Absorption

▼ **14,731,998**
SF Construction

▼ **$12.67**
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

— Austin posted 1,614,096 sq. ft. of total net absorption in Q2 2024, driven by strong owner/user activity which accounted for approximately 70.0% of absorption.

— Major owner/users taking occupancy in Q2 included ZT Systems (435,714 sq. ft.); Tesla's Drive Unit (423,032 sq. ft.), and Southeastern Freight (268,199 sq. ft.).

— Inclusive of Samsung and Tesla's forthcoming facilities, Austin's total construction pipeline comprises 14.7 million sq. ft., equal to nearly 12% of the total existing Industrial inventory. More than 61.7% of product underway is speculative distribution space.

— 4.4 million sq. ft. of new construction delivered in the second quarter, which was 25.3% pre-leased.

— Industrial asking rents dipped 4.7% in Q1 to $12.67 market-wide.

— Vacancy climbed to 11.0%, a 230-basis point (bps) increase quarter-over-quarter, largely attributable to new construction delivering unleased.

FIGURE 1: Net Absorption and Vacancy

Sq. Ft. (000's) — Vacancy Rate (%)

Legend: Q1 | Q2 | Q3 | Q4 | Vacancy Rate
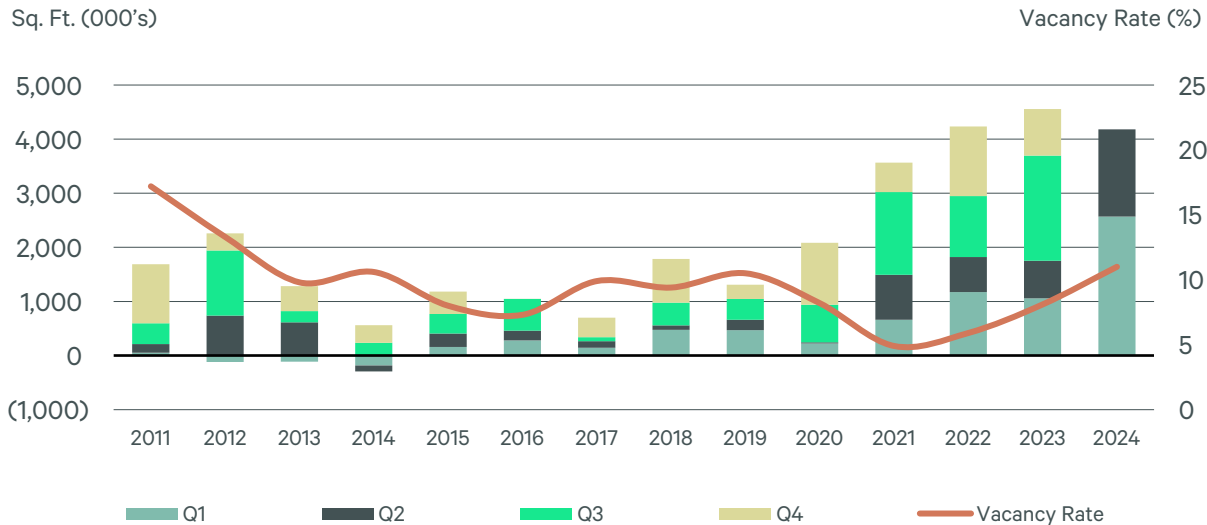
Source: CBRE Research, Q2 2024.

*As of Q1 2023, owner-occupied properties are now included in our tracked inventory..

FIGURE 2: Austin Industrial Market Statistics

Submarket	Net Rentable Area (SF)*	Total Vacancy (%)	Total Availability (%)	Asking Rate, NNN Avg. Annual (S/SF)	Under Construction (SF)	Q2 2024 Deliveries (SF)	Q2 2024 Net Absorption	YTD 2024 Total Net Absorption
BASTROP COUNTY	1,317,583	1.4	1.4	6.00	222,346	-	-	521,521
CALDWELL COUNTY	614,839	26.8	26.8	-	312,000	-	37,262	37,262
CEDAR PARK	7,145,606	5.9	8.0	17.94	503,437	71,660	13,228	(55,360)
CENTRAL	1,584,121	9.0	5.7	11.36	-	-	(17,352)	(30,533)
EAST	10,152,376	2.7	3.8	13.45	3,55,728	423,032	685,131	769,733
FAR NORTH	8,500,115	27.0	20.8	14.09	856,216	604,064	513,313	984,564
FAR NORTHEAST	3,237,052	25.2	25.6	10.84	3,301,579	20,500	14,783	231,315
HAYS COUNTY	13,821,220	14.5	12.5	10.83	1,421,000	142,930	56,615	1,274,095
NORTH	16,391,305	8.1	13.2	13.02	-	-	(182,608)	(613,390)
NORTHEAST	27,891,368	6.9	8.3	13.74	2,111,529	808,670	327,167	660,187
NORTHWEST	708,902	4.2	3.9	17.00	-	-	(5,000)	(9,540)
ROUND ROCK	6,305,434	8.0	8.8	14.77	498,679	322,900	282,576	628,481
SOUTH	2,765,013	8.9	9.0	13.66	-	-	(50,575)	(36,056)
SOUTHEAST	19,724,631	16.5	19.8	8.91	1,729,524	1,961,425	(43,764)	(130,535)
SOUTHWEST	3,799,114	4.9	8.6	21.69	269,959	-	(16,680)	(49,482)
AUSTIN TOTAL	123,958,679	11.0	12.2	12.67	14,731,998	4,355,181	1,614,096	4,182,262

Source: CBRE Research, Q2 2024..

*As of Q1 2023, the CBRE Research statistical methodology for Austin Industrial has been adjusted to ensure alignment with the market and peer market comparisons. As such, consistent historical/pre-Q1 2023 statistics for new or substantially adjusted submarkets are not available and historical metrics reported for these areas will not sum to historical Austin market totals.

MARKET FUNDAMENTALS

Q2 2024 marks the 40th consecutive quarter of positive net demand for the Austin industrial market. 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 original equipment manufacturer (OEM) suppliers up and down this major transportation artery. Samsung and Tesla have invested heavily in the Austin MSA, prompting an influx of multinational and U.S.-based automotive and semiconductor OEM suppliers to the region, notably including Tesla suppliers HBPO, Simwon North America Corp., and U.S. Farathane; and Samsung suppliers LS Electric Co. and Hanyang Eng USA. In February, Samsung announced its total 2023 economic impact of $26.8 billion in Central Texas, driven by Austin operations and the construction of Samsung's new manufacturing facility in Taylor, TX.

In the most recent publication of the PwC Emerging Trends in Real Estate, Austin was once again named one of five 'Supernova' cities and was ranked among the top five cities to watch in 2024 for overall real estate prospects. Supernova cites are markets that were identified as having between one million and two million residents, while also experiencing phenomenal economic and population growth. Additionally, Austin led the nation in corporate headquarter relocations over the past five years, with 66 HQs relocating to the metro area, according to CBRE Research.

ASKING RATES

Marketwide industrial asking rates dipped to $12.67 per sq. ft. NNN, down 4.7% quarter-over-quarter. Distribution/Logistics rents dropped by 8.6% quarter-over-quarter to $11.53 per sq. ft., while Flex/R&D rates came down just slightly to $14.76, a 2.7% decrease quarter-over-quarter. Manufacturing rates increased by 2.7% to $13.39 per square foot. 13.2% to $15.17 per sq. ft. Because Flex/R&D spaces command higher rates per square foot than distribution spaces, the inclusion of older Class B Flex/R&D spaces in surveyed rental rates creates the illusion that Class B rates are higher than Class A rates. In fact, Class A rates for like kind assets remain higher than their Class B counterparts across the market.

DEVELOPMENT PIPELINE

Developers added 3.2 million sq. ft. of new construction to the pipeline in Q2. Inclusive of Samsung and Tesla's forthcoming facilities, Austin's total construction pipeline comprises 14.7 million sq. ft., equal to nearly 12% of the total existing Industrial inventory. More than 61.7% of product underway is speculative distribution space.
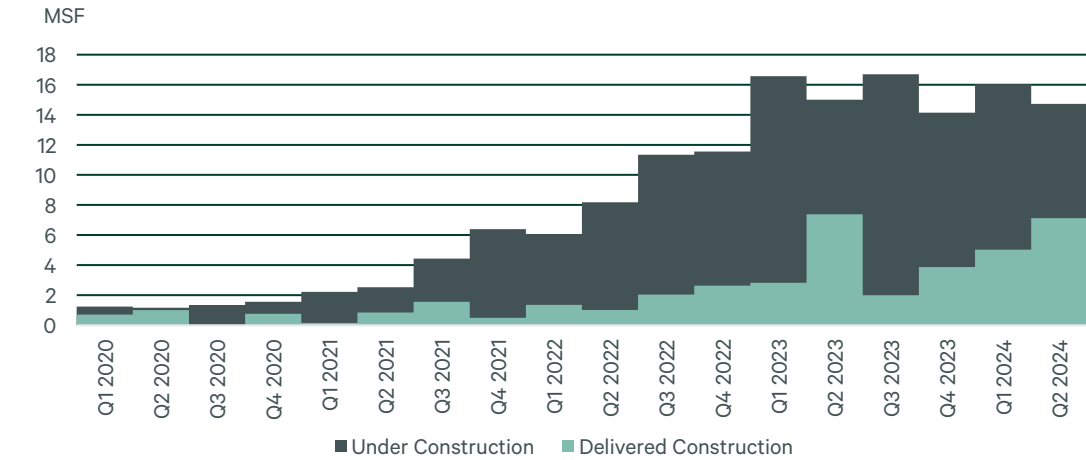
4.4 million sq. ft. of new construction delivered in the second quarter, which was 25.3% pre-leased.

FIGURE 3: Asking Rates & Vacancy, Warehouse/Distribution & Flex/R&D
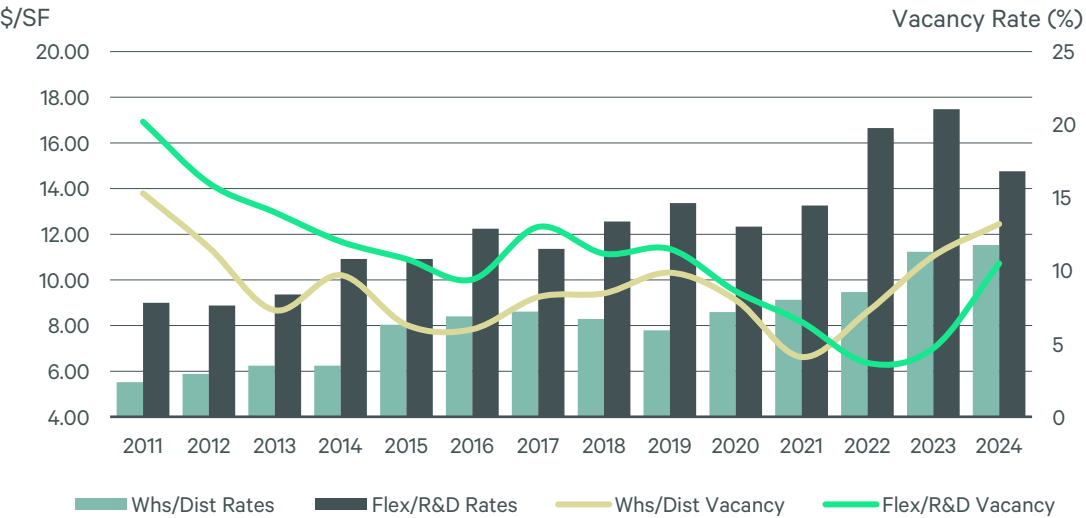
Source: CBRE Research, Q2 2024.

FIGURE 4: Historical Construction & Deliveries

Source: CBRE Research, Q2 2024.

CBRE ECONOMIC HOUSE VIEW

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a "soft landing" in 2024. Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.
A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most awelcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this autumn will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

AUSTIN METRO ECONOMIC TRENDS

Austin's job growth continued to lead the top 50 metros in the nation with a 4.7% growth rate in 2023, more than doubling the national rate of 2.3%, according to Oxford Economics. Job growth was concentrated in Austin's headquarters sector, state and local government, and restaurants. Austin's GDP is forecasted to grow 3.9% annually during 2024, with 2.5% growth over the subsequent four years. GDP growth continues to be driven by real estate and tech-related services. The Austin Business-Cycle Index (a broad measure of economic activity created by the Federal Reserve Bank of Dallas) increased by 5.3% year-over-year as of May 2024; this increase was driven by population and wage growth.

FIGURE 5: Employment Sectors That Comprise the Austin Workforce
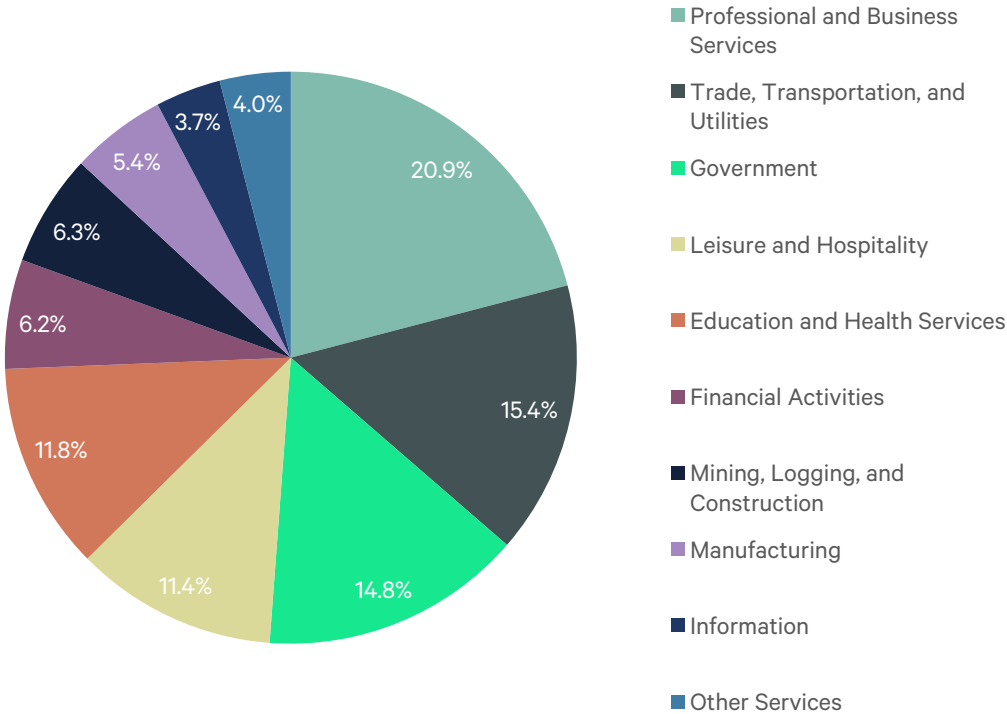
Source: BLS, May 2024.

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

Submarket	DISTRIBUTION/LOGISTICS				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	-	- / 1,058,192	-	-	-	- / 42,685	-	-	6.00	18,500 / 216,706	8.5	-
CALDWELL COUNTY	-	- / 419,689	-	37,262	-	- / 30,150	-	-	-	165,000 / 165,000	100.0	-
CEDAR PARK	14.31	104,014 / 2,078,404	5.0	(9,572)	19.90	284,467 / 3,987,423	7.1	10,800	17.00	36,000 / 1,079,779	3.3	12,000
CENTRAL	10.54	114,144 / 905,694	12.6	(5,944)	16.93	28,621 / 555,433	5.2	(11,408)	-	0 / 122,994	-	-
EAST	13.45	216,903 / 4,468,291	4.9	257,848	-	61,022 / 370,913	16.5	4,251	-	- / 5,313,172	-	423,032
FAR NORTH	12.45	2,263,637 / 6,889,074	32.9	520,175	22.00	33,276 / 814,181	4.1	(6,862)	-	0 / 796,860	-	-
FAR NORTHEAST	10.84	817,029 / 3,005,277	27.2	14,783	-	- / 17,700	-	-	-	- / 214,075	-	-
HAYS COUNTY	10.18	1,932,547 / 11,968,151	16.1	28,265	11.55	12,000 / 275,070	4.4	-	14.51	41,135 / 1,527,649	2.7	-
NORTH	12.20	647,843 / 10,428,703	6.2	(74,109)	13.75	678,778 / 5,487,367	12.4	(108,499)	-	- / 475,235	-	-
NORTHEAST	13.10	1,301,973 / 17,185,093	7.6	352,674	14.48	630,099 / 6,665,526	9.5	(137,507)	-	0 / 3,850,649	-	112,000
NORTHWEST	17.00	29,580 / 708,902	4.2	(5,000)	-	- / -	-	-	-	- / -	-	-
ROUND ROCK	13.46	463,462 / 4,877,190	9.5	288,042	17.50	14,692 / 1,025,567	1.4	(5,466)	15.00	25,000 / 402,677	6.2	-
SOUTH	11.83	158,717 / 1,794,484	8.8	(30,493)	21.50	86,167 / 480,204	17.9	(20,082)	-	- / 490,325	-	-
SOUTHEAST	13.00	2,346,701 / 12,382,110	19.0	17,491	8.87	911,730 / 6,342,144	14.4	(61,255)	-	- / 1,000,377	-	-
SOUTHWEST	21.12	28,799 / 764,861	3.8	-	21.70	33,944 / 329,719	10.3	(16,680)	-	124,000 / 2,704,534	4.6	-
AUSTIN TOTAL	11.53	10,425,349 / 78,934,115	13.2%	1,391,422	14.76	2,774,796 / 26,424,082	10.5	(352,708)	13.39	409,635 / 18,360,032	2.2	547,032

Source: CBRE Research, Q2 2024.

As of Q1 2023, the CBRE Research statistical methodology for Austin Industrial has been adjusted to ensure alignment with the market and peer market comparisons. As such, consistent historical/pre-Q1 2023 statistics for new or substantially adjusted submarkets are not available and historical metrics reported for these areas will not sum to historical Austin market totals.

FIGURE 8: Historical Market Statistics

		2017	2018	2019	2020	2021	2022	2023*	2024 YTD
BASTROP COUNTY	Absorption (Net SF)	-	-	-	-	-	-	-	521,521
	Asking Rent, Avg. Annual	-	-	-	-	-	-	6.00	6.00
	Delivered Construction (SF)	-	-	-	-	-	-	-	521,521
	Vacancy Rate (%)	-	-	-	-	-	-	2.3	1.4
CALDWELL COUNTY	Absorption (Net SF)	-	-	-	-	-	-	167,794	37,262
	Asking Rent, Avg. Annual	-	-	-	-	-	-	-	-
	Delivered Construction (SF)	-	-	-	-	-	-	167,794	-
	Vacancy Rate (%)	-	-	-	-	-	-	-	26.8
CEDAR PARK	Absorption (Net SF)	-	-	-	-	-	-	(21,930)	(55,360)
	Asking Rent, Avg. Annual	-	-	-	-	-	-	18.80	17.94
	Delivered Construction (SF)	-	-	-	-	-	-	45,000	-
	Vacancy Rate (%)	-	-	-	-	-	-	4.0	5.9
CENTRAL	Absorption (Net SF)	(28,441)	64,038	84,444	(83,190)	(54,819)	29,314	5,003	(30,533)
	Asking Rent, Avg. Annual	10.02	9.49	14.02	15.59	17.18	17.24	16.64	11.36
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	6.2	6.1	4.7	5.6	10.3	8.0	6.6	9.0
EAST	Absorption (Net SF)	75,265	(70,360)	49,085	(117,749)	264,377	407,720	121,865	769,733
	Asking Rent, Avg. Annual	12.69	6.94	7.49	8.16	12.83	14.17	18.50	13.45
	Delivered Construction (SF)	27,000	-	-	-	-	84,094	120,337	423,032
	Vacancy Rate (%)	23.2	11.1	9.7	13.3	4.4	7.0	2.5	2.7
FAR NORTH	Absorption (Net SF)	-	-	-	-	-	-	1,690,245	984,564
	Asking Rent, Avg. Annual	-	-	-	-	-	-	7.52	14.09
	Delivered Construction (SF)	-	-	-	-	-	-	4,251,903	1,064,528
	Vacancy Rate (%)	-	-	-	-	-	-	33.5	27.0

Source: CBRE Research, Q2 2024.

*As of Q1 2023, the CBRE Research statistical methodology for Austin Industrial has been adjusted to ensure alignment with the market and peer market comparisons. As such, consistent historical/pre-Q1 2023 statistics for new or substantially adjusted submarkets are not available and historical metrics reported for these areas will not sum to historical Austin market totals.

FIGURE 8: Historical Market Statistics

|		2017	2018	2019	2020	2021	2022	2023*	2024 YTD
FAR NORTHEAST	Absorption (Net SF)	84,699	78,521	422,117	149,781	234,115	747,085	273,010	231,315
	Asking Rent, Avg. Annual	11.12	10.78	9.23	9.58	10.47	8.87	11.30	10.84
	Delivered Construction (SF)	110,100	-	557,954	-	192,429	1,221,546	831,501	386,615
	Vacancy Rate (%)	8.0	6.7	11.6	5.2	2.7	11.0	17.3	25.2
HAYS COUNTY	Absorption (Net SF)	66,030	(45,343)	(219,415)	567,665	758,841	1,333,876	460,516	1,274,095
	Asking Rent, Avg. Annual	11.40	12.62	9.55	6.90	7.32	7.65	13.00	10.83
	Delivered Construction (SF)	-	341,500	588,741	347,840	534,058	1,402,708	2,661,862	718,799
	Vacancy Rate (%)	-	28.9	41.6	16.3	3.9	8.0	20.7	14.5
NORTH	Absorption (Net SF)	163,017	1,002,508	307,926	(63,126)	271,490	46,510	363,445	(613,390)
	Asking Rent, Avg. Annual	9.86	11.21	10.38	10.71	12.02	16.77	15.92	13.02
	Delivered Construction (SF)	80,340	276,493	-	96,462	-	-	125,030	-
	Vacancy Rate (%)	9.2	6.4	5.7	7.3	4.5	3.3	3.5	8.1
NORTHEAST	Absorption (Net SF)	51,761	258,348	120,216	25,163	303,651	711,783	949,676	660,187
	Asking Rent, Avg. Annual	8.78	10.34	9.73	9.34	10.66	12.36	17.05	13.74
	Delivered Construction (SF)	240,821	82,826	354,734	-	303,356	70,121	1,298,897	1,012,470
	Vacancy Rate (%)	9.5	7.8	9.4	7.8	8.6	2.8	5.2	6.9
NORTHWEST	Absorption (Net SF)	12,478	34,234	(94,690)	195,446	(14,900)	(35,216)	30,580	(9,540)
	Asking Rent, Avg. Annual	14.99	15.27	11.35	9.12	16.13	13.81	17.00	17.00
	Delivered Construction (SF)	-	231,030	-	-	-	-	50,620	-
	Vacancy Rate (%)	3.6	2.7	5.9	1.7	2.2	3.6	2.8	4.2
ROUND ROCK	Absorption (Net SF)	92,709	(70,623)	57,289	670,891	452,935	260,566	138,347	628,481
	Asking Rent, Avg. Annual	9.61	8.60	10.05	11.29	10.41	14.60	12.00	14.77
	Delivered Construction (SF)	58,500	200,728	217,610	614,814	75,600	344,689	25,000	885,422
	Vacancy Rate (%)	3.8	11.5	18.5	11.0	1.9	4.7	1.0	8.0

Source: CBRE Research, Q2 2024.

*As of Q1 2023, the CBRE Research statistical methodology for Austin Industrial has been adjusted to ensure alignment with the market and peer market comparisons. As such, consistent historical/pre-Q1 2023 statistics for new or substantially adjusted submarkets are not available and historical metrics reported for these areas will not sum to historical Austin market totals.

FIGURE 8: Historical Market Statistics

		2017	2018	2019	2020	2021	2022	2023*	2024 YTD
SOUTH	Absorption (Net SF)	7,305	(84,327)	61,093	53,736	56,636	(1,628)	(80,385)	(36,056)
	Asking Rent, Avg. Annual	11.6	17.70	18.04	17.91	18.19	18.04	16.53	13.66
	Delivered Construction (SF)	-	117,087	23,978	-	-	-	-	-
	Vacancy Rate (%)	2.4	6.8	5.8	5.7	3.7	3.8	7.0	8.9
SOUTHEAST	Absorption (Net SF)	184,309	450,896	427,400	676,526	973,650	225,914	468,066	(130,535)
	Asking Rent, Avg. Annual	8.23	9.94	8.51	10.31	10.21	9.00	10.14	8.91
	Delivered Construction (SF)	1,169,300	482,364	-	85,079	421,365	490,144	245,692	2,346,077
	Vacancy Rate (%)	13.2	13.9	13.6	8.3	3.4	5.1	3.4	16.5
SOUTHWEST	Absorption (Net SF)	3,585	10,025	34,374	(8,900)	11,500	-	(8,076)	(49,482)
	Asking Rent, Avg. Annual	13.50	16.83	11.34	10.41	N/A	N/A	20.35	21.69
	Delivered Construction (SF)	-	-	-	-	-	-	-	-
	Vacancy Rate (%)	5.7	8.3	4.5	6.8	-	-	3.9	4.9
AUSTIN TOTAL	**Absorption (Net SF)**	**698,608**	**1,785,512**	**1,307,789**	**2,083,654**	**3,566,600**	**4,234,462**	**4,558,156**	**4,182,262**
	Asking Rent, Avg. Annual	**10.15**	**10.53**	**9.80**	**10.17**	**11.07**	**11.56**	**13.13**	**12.67**
	Delivered Construction (SF)	**1,756,061**	**1,751,178**	**1,891,737**	**1,508,249**	**1,857,838**	**4,297,257**	**9,823,636**	**7,430,124**
	Vacancy Rate (%)	**9.9**	**9.4**	**10.5**	**8.2**	**4.9**	**5.9**	**8.1**	**11.0**

Source: CBRE Research, Q2 2024.

*As of Q1 2023, the CBRE Research statistical methodology for Austin Industrial has been adjusted to ensure alignment with the market and peer market comparisons. As such, consistent historical/pre-Q1 2023 statistics for new or substantially adjusted submarkets are not available and historical metrics reported for these areas will not sum to historical Austin market totals.
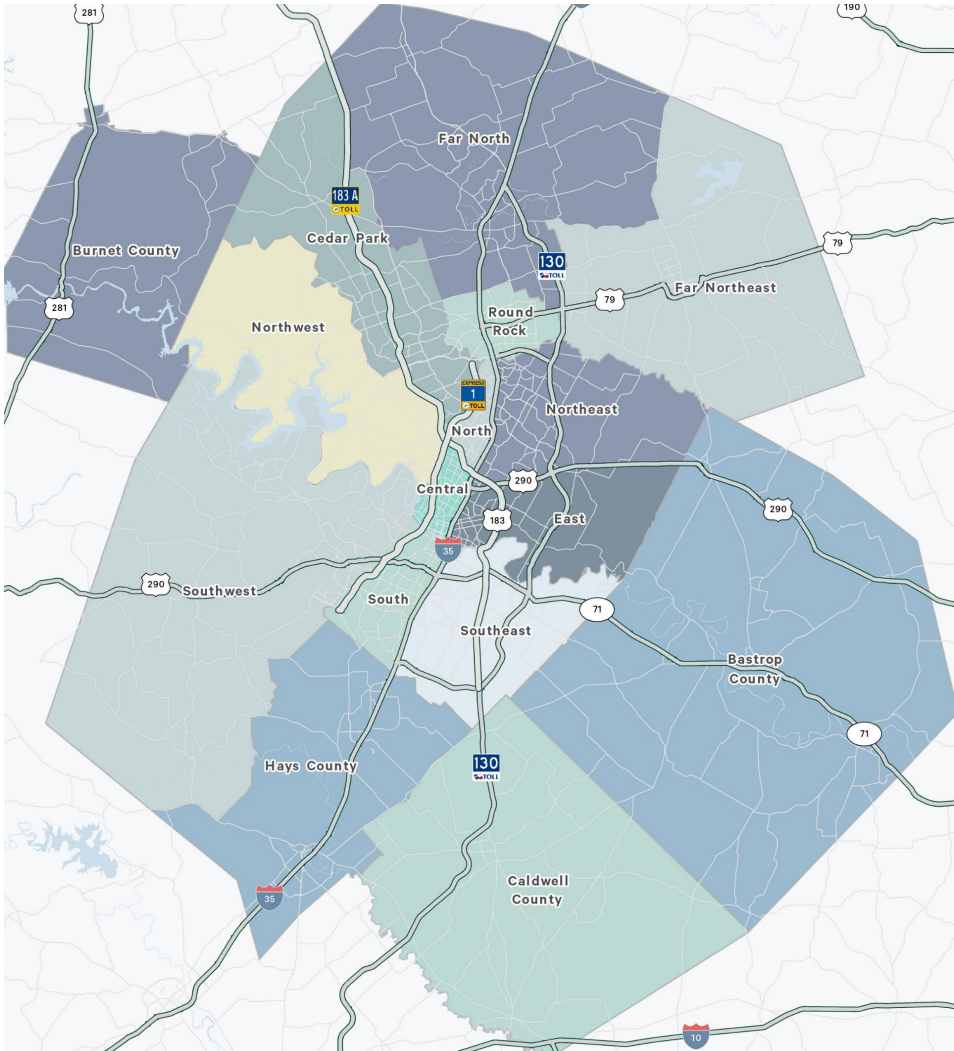
Market Area Overview

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.

Contacts

Kim Thaker

Field Research Analyst
kim.thaker@cbre.com

Marc L. Miller

Research Director
marc.miller1@cbre.com

CBRE AUSTIN OFFICE

500 W 2nd Street, Suite 1700

Austin, TX 78701

CBRE