

AUSTIN INDUSTRIAL MARKET

SLOW RECOVERY FROM COVID SEEN IN FUNDAMENTALS

The Austin industrial market continued 2020 with an average rental rate increase of \$0.10/SF NNN and increases in leasing during the third quarter. Additionally, despite nearly 5 million square feet of new construction starts during the quarter, strong leasing and absorption of more than 1.45 MSF saw vacancy rates drop to 7.4% market-wide. Nearly four million square feet of the new construction is underway in the Northeast submarket as its proximity to the 290 and I-35 corridors make it highly desirable for distribution and last mile services. Investment activity continues to see a severe COVID 19 related impact, with only 7 buildings trading hands during the quarter totaling just under 1.0 million square feet. Additionally, as the COVID 19 impact continues through the end of 2021, the next 12 months of the industrial market are poised to present previously unseen shifts in demand and user needs. Continued positive momentum that has resulted from demand changes is seen in the spike in demand for cold storage industrial space, as large scale grocers and retailers look to capitalize on the continued change in consumer sending habits as it relates to food and grocery purchases and the shift seen to on-line.

NET ABSORPTION

Continuing the positive trend seen throughout the last nine quarters, the Austin industrial market absorbed 1.45 million square feet of space in the quarter. This marks the 11th out of the past 12 quarters that the Austin market saw positive take up. The Southwest, Georgetown and Southeast submarkets all saw take up greater than 300,000 square feet, and these three submarkets accounted for much of the market gains.

CONSTRUCTION

The construction pipeline in the Austin industrial market remains robust, with more than 6.7M SF currently underway across 36 buildings. The Northeast submarket accounts for the largest share of developing space with just over 4 million square feet of space. The five-year quarterly average has now breached 2.0M SF of new space, as the upward trend in construction continues. In the quarter, just over 400,000 SF delivered across the market. Currently, it appears that demand is able to keep pace with the new stock arriving to market and keeps the market in an equilibrium state. With the anticipated COVID related demand spike for last-mile and cold storage space during the next 12 to 18 months, it will be interesting to watch the quality and stock of new construction in the market shifting.

CURRENT CONDITIONS

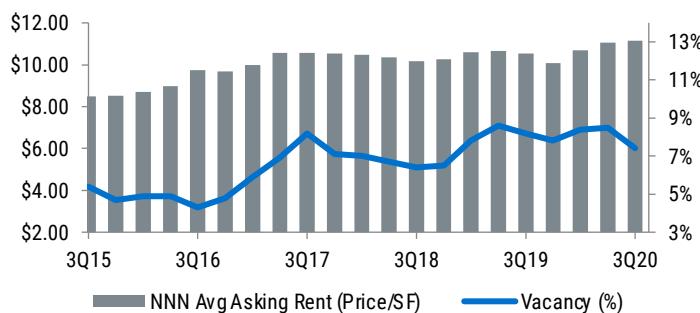
Market recovery from recession beginning to be seen, vacancy falls below 8.0%

The average asking rental rate for available industrial space gained nearly \$0.10/SF to \$11.15/SF NNN

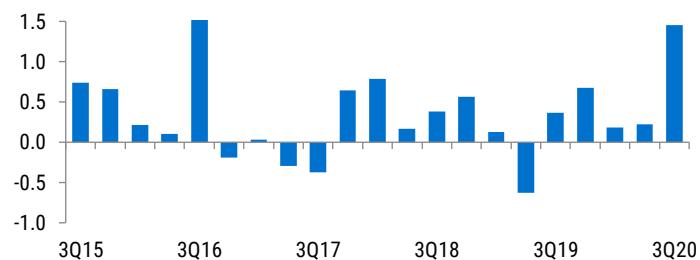
Nearly 5M SF of U/C space began construction during Q3; demand to meet cold storage and last mile needs in suburban areas

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	94.4 MSF	94.0 MSF	91.6 MSF	↑
Vacancy Rate	7.4%	8.5%	7.9%	↑
Quarterly Net Absorption	1.45 MSF	221,640	132,414	↓
Average Asking Rent	\$11.15	\$11.05	\$10.37	↓
Under Construction	6.7MSF	1.9 MSF	1.2MSF	↓
Deliveries (SF)	430K SF	300K SF	724K SF	↑

RENTAL RATES

The average asking rental rate for available industrial space rose this quarter to \$11.15/SF NNN. Rates have risen from where they were a year ago, when they averaged \$10.41/SF NNN. The highest rates occurred in the Northwest submarket where they reached \$16.23/SF NNN. This represents a more than \$4.00/SF rise in asking rents from the submarket's third quarter 2019 rates. Likewise, sublease rates reversed their Q2 trends and now stand at \$9.27/SF. Four submarkets currently have sublease rates in excess of the market average. Sublease rates in the Northwest submarket continue to be significantly higher than the market average at \$15.00/SF NNN.

LEASING AND CONSTRUCTION ACTIVITY

Austin's industrial market saw continued strong leasing activity. At 2.1M square feet leased, activity continued to be strong, and rose by roughly 500K SF from the previous quarter. Leasing transactions this quarter averaged 14,398 square feet. Leasing activity remains a factor to watch during the remainder of 2020 and into 2021 as, COVID-19's impact has been muted in the industrial sector as more tenants shift their needs to meet consumer demand changes brought on by WFH and social distancing needs.

Tesla's new factory has broken ground. The nearly 5 MSF factory will have an office component and is expected to be completed by mid 2021. The over \$1B factory is projected to eventually employ more than 5,000 workers

In Pflugerville, a 3.8 million square foot distribution center is currently in the planning stages. The proposed project on 94 acres just east of State Highway 130 is rumored to belong to Amazon.com Inc. Plans for the facility include 43,000 square feet of office space, 780,552 square feet of warehouse space, and 3.0 million square feet of space for robotics. If the facility does belong to Amazon, it would become the company's largest distribution center in Texas, four times larger than the company's current facility in San Marcos

ECONOMY

Austin's rapid population growth is propelling demand across all real estate services, including industrial, as the market reaches to meet the needs of the growing workforce, population and commercial tenants. The high level of continued interest in the region, burgeoning population and increasing development indicate that the Austin industrial market has the necessary tools in place as it waits for stronger demand from tenants to bolster activity.

The tech industry will continue to shape the landscape of the Austin economy in 2020 and beyond. The available labor pool from the University of Texas coupled with in-migration from other tech locales, including Silicon Valley, and a lower cost of living continue to play a role in the relocation and expansion of tech companies in the Austin area. Moody's Analytics reported pre-COVID that the Austin metro will outpace both the state and the nation in 2020, led by high-tech and homebuilding

OUTLOOK

The unemployment rate in Austin, while better performing than much of the state, saw the COVID-19 impact on jobs during the quarter. All major Texas metros saw massive drops in employment and Austin is no different. As the next few months unfold, and BLS data becomes more refined, it is anticipated that Austin, despite its tech insulation, will see job losses and unemployment spikes for the remainder of 2020 and into 2021. However, positive momentum on the unemployment front was seen during the last 60 days of the quarter, with unemployment rates falling as jobs began to return to the Austin market.

For the next 12 to 18 months, Austin will mirror other major Texas markets and should outpace the US economy that is currently paused and slowly trying to come to grips with the new COVID-19 normal in terms of recovery.

AVERAGE ASKING RENT BY SUBMARKET

Average Asking Rent (\$/SF)

	Current Quarter	3Q19	12 Month Change
Northwest	\$16.23/SF	\$12.18/SF	↑
Central	\$13.21/SF	\$14.20/SF	↓
North	\$10.10/SF	\$10.49/SF	↓
East	\$11.07/SF	\$12.69/SF	↓
Southeast	\$12.76/SF	\$12.26/SF	↑

VACANCY BY SUBMARKET

Vacancy Rate (%)

	Current Quarter	3Q19	12 Month Change
Central	7.9%	6.8%	↑
Southwest	11.8%	9.1%	↑
Northwest	4.6%	7.1%	↓
East	6.1%	5.0%	↑
Georgetown	10.8%	10.4%	↑

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
3-Way Logistics	116 E Old Settlers Blvd	Georgetown/RR	Direct	130,438
Omni Logistics	4801 Freidrich Ln	Southeast	Direct	126,364
Lowes	1980 Kohlers Crossing	Southwest Hays	Direct	119,113

SELECT SALES TRANSACTIONS YTD 2020

Buyer/Seller	Submarket	Sale Price	Price/SF	Square Feet
GMF Capital/Karlin Real Estate	Northeast	\$42,650,000	\$324	131,425 SF
Alex Brown Realty/EVS Metal	Northeast	\$14,900,000	\$124	120,000 SF
Prologis/IPT (3 building portfolio)	North	\$44,100,000	\$85	334,000 SF

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Central	1,923,020	0	7.9%	31,898	-52,056	\$13.31	\$13.00	\$13.21
East	6,058,356	0	6.1%	-8,265	-48,105	\$11.07		\$11.07
Georgetown/Round Rock	10,233,751	1,300,436	10.8%	404,058	467,482	\$10.04	\$11.50	\$10.06
North	16,361,094	0	5.5%	83,895	-47,859	\$11.72	\$7.43	\$10.10
Northeast	20,126,021	4,036,370	6.7%	12,276	164,555	\$11.74	\$7.80	\$11.06
Northwest	7,691,923	58,800	4.6%	139,772	283,186	\$16.64	\$15.00	\$16.23
Southeast	19,827,829	411,226	6.6%	336,168	516,153	\$13.22	\$10.66	\$12.76
Southwest Hays	12,238,768	826,818	11.8%	458,101	638,273	\$9.24		\$9.24
Austin Total	94,460,762	6,770,595	7.4%	1,457,903	1,867,029	\$11.49	\$9.27	\$11.15

SELECT TEXAS MARKETS- LARGEST SUBMARKETS

Austin, September 2020

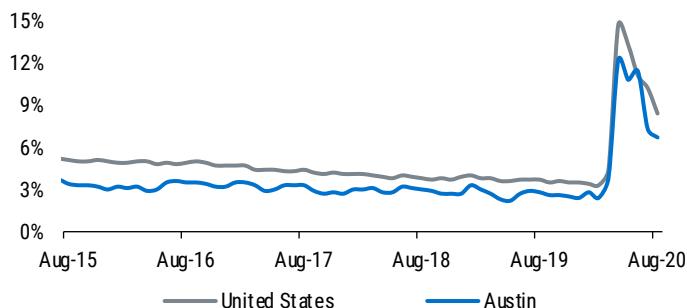
Top 10 Submarkets by Rentable Square Feet

Rank	Submarket	RSF
1	Northwest Houston	177.1 M
2	DFW South Stemmons	124.2 M
3	DFW Great Southwest	120.1 M
4	Northeast Dallas	119.9 M
5	Northwest Dallas	115.6 M
6	North Houston	115.6 M
7	South Dallas	110.0 M
8	North Ft. Worth	112.2 M
9	Southeast Houston	110.0 M
10	South Ft. Worth	90.2 M

Source: Newmark Knight Frank

UNEMPLOYMENT RATE

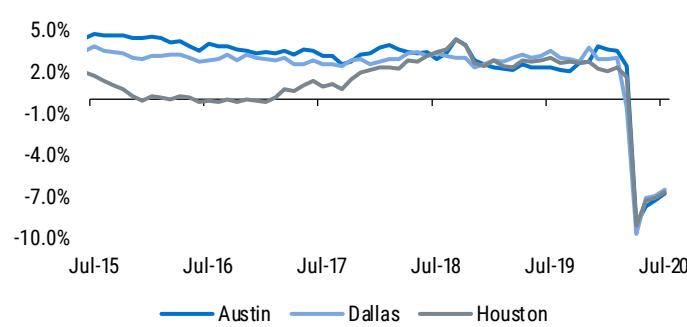
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT- SELECT TEXAS MARKETS

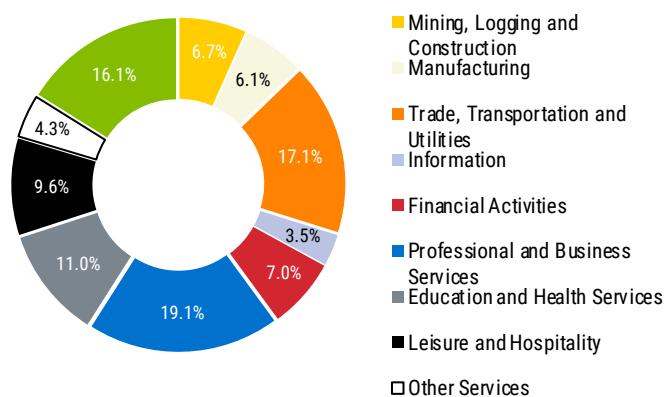
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

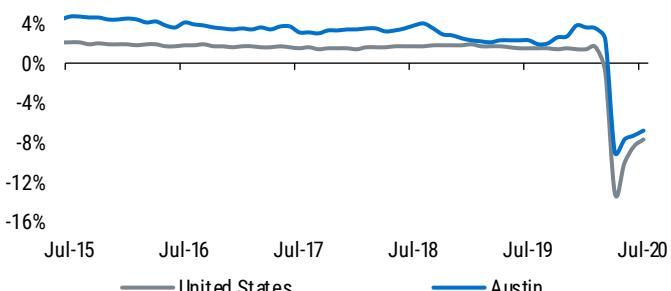
Austin, August 2020



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

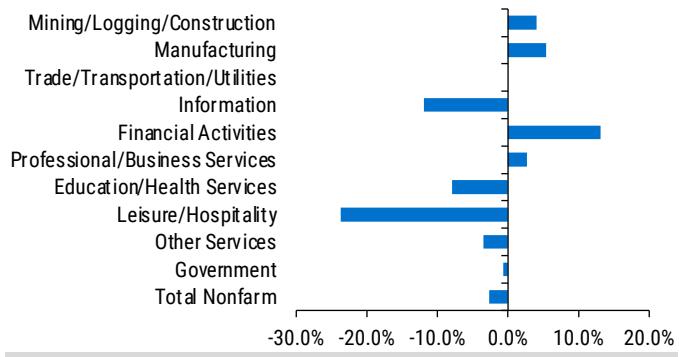
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



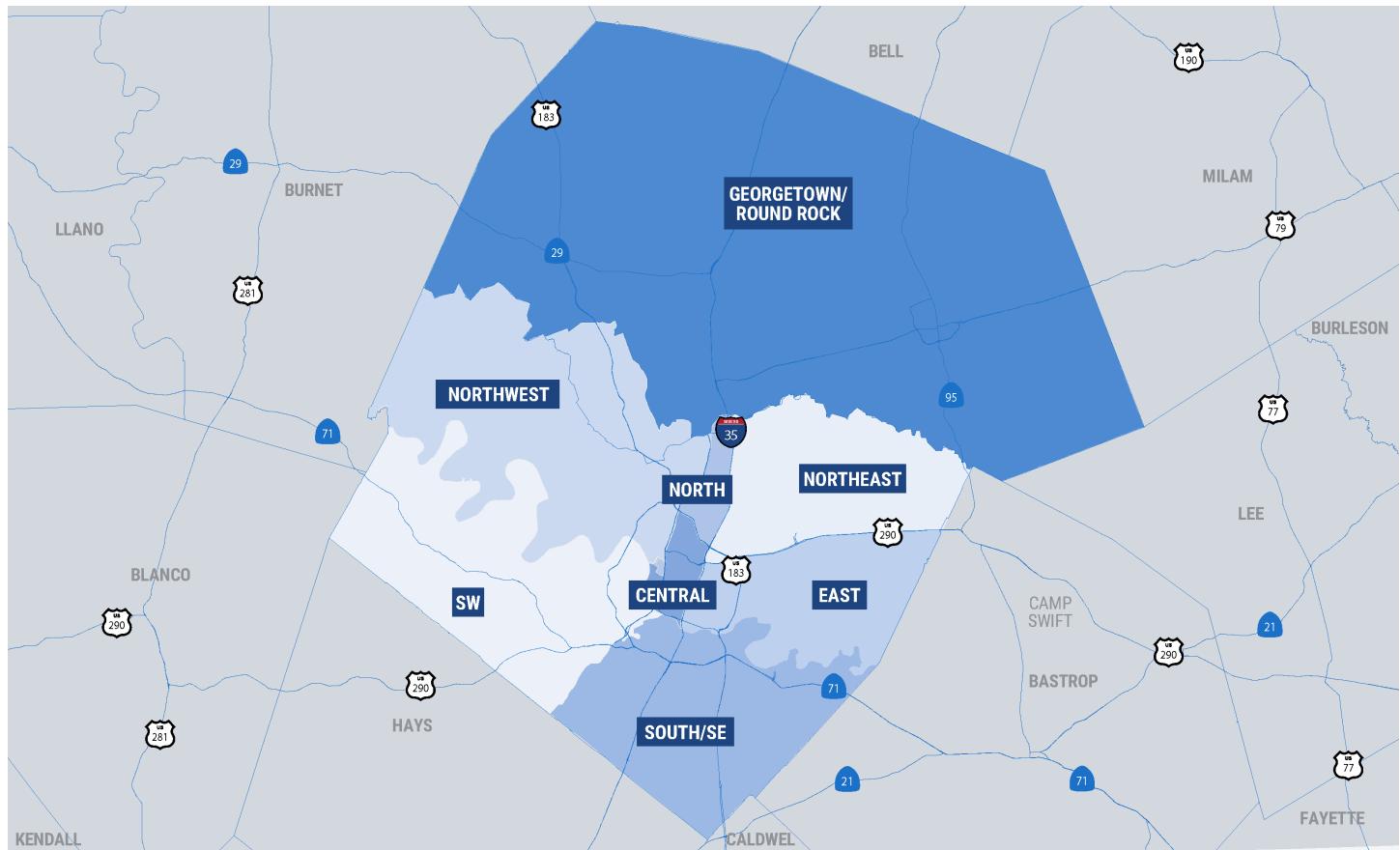
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Austin, August 2020, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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