

AUSTIN INDUSTRIAL MARKET

INDUSTRIAL FEELS MUTED COVID IMPACT

The Austin industrial market continued 2020 with an average rental rate increase of \$0.37/SF NNN and increases in leasing during the second quarter. However, with new space arriving vacant, and an additional 300,000 SF arriving, vacancy rate rose to 8.5%. At the half way mark, another 1.9M SF is under construction. Roughly three-fourths the space under construction is set to deliver without a tenant in place, an indication that supply is beginning to outpace demand. Investment activity continues to see a severe COVID 19 related impact, with only 4 buildings trading hands during the quarter totaling 225,000 square feet. Additionally, as the COVID 19 impact continues through the end of 2020, the next 12 months of the industrial market are poised to present unforeseen and long-standing challenges. One bit of positive momentum that has begun to be seen in the industrial sector resulting from this is 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 221,640 square feet of space in the quarter. While the first half of 2020 put the market on pace with 2019's marks it is anticipated that the COVID impact will be seen in H2 2020 and reverse the absorption trend. The Southeast submarket had the greatest absorption numbers for the quarter, at 182,337 square feet while the Southwest submarket accounted for 131,331 square feet of space taken up over the course of the quarter, and these two submarkets accounted for much of the market gains.

CONSTRUCTION

The construction pipeline in the Austin industrial market remains robust, with more than 1.9M SF currently underway across 30 buildings. The Georgetown submarket accounts for the largest share of developing space with just under 900,000 square feet of space. The five-year quarterly average is nearing 1.9M SF of new space, as the upward trend in construction continues. In the quarter, just over 300,000 SF delivered across the market. 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

COVID-19 impact being felt throughout the Austin markets with vacancy rates rising to 8.5%

The average asking rental rate for available industrial space gained nearly \$0.40/SF to \$11.05/SF NNN

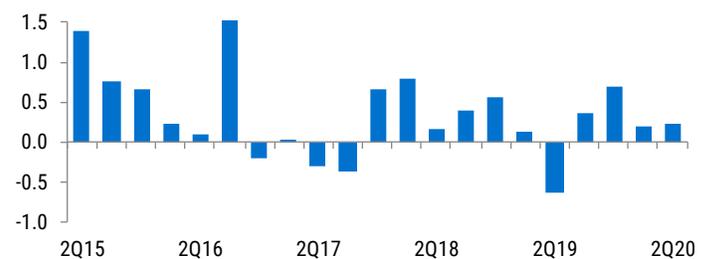
Nearly 3/4th of the under construction developments remain unleased

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	94.0 MSF	93.8 MSF	91.6 MSF	↑
Vacancy Rate	8.5%	8.4%	7.9%	↑
Quarterly Net Absorption	221,640	187,486	132,414	↓
Average Asking Rent	\$11.05	\$10.67	\$10.37	↓
Under Construction	1.9 MSF	1.6 MSF	1.2MSF	↓
Deliveries (SF)	300K SF	1.0 MSF	724K SF	↑

RENTAL RATES

The average asking rental rate for available industrial space rose this quarter to \$11.05/SF NNN. Rates have risen from where they were a year ago, when they averaged \$10.37/SF NNN. The highest rates occurred in the Northwest submarket where they reached \$13.51/SF NNN. While sublease rates were previously trending upward, they fell again in the second quarter. At \$8.86/SF NNN, sublease rates dropped by about \$0.75/SF NNN from year end 2019. Sublease rates in the Northwest submarket continue to be significantly higher than the market average at \$15.00/SF NNN.

LEASING ACTIVITY

Austin's industrial market saw continued strong leasing activity. At 1.6M square feet leased, activity continued to be strong, and rose by roughly 1.0M SF from the previous quarter. Leasing transactions this quarter averaged 16,632 square feet. Leasing activity remains a factor to watch during the remainder of 2020 and into 2021 as, COVID-19 is forecast to cause industrial demand to weaken in the remainder of 2020 and into 2021 as a combination of job layoffs and tightening fiscal responsibilities impact companies' real estate needs.

ECONOMY

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.

Recently the Austin market was ranked No. 1 in the PwC and Urban Land Institute Emerging Trends in Real Estate 2020 report. Austin jumped five spots on the list from last year, surpassing Dallas as the top ranking. In-migration and the growth of tech industry firms helped move the market up the list.

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

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. Additionally, the fact that the Austin market remains in close competition with Tulsa for the next GigFactory from Tesla could mean an additional influx of talent as the potential 1.0M SF industrial factory should be awarded later this year.

OUTLOOK

The unemployment rate in Austin, while better performing than much of the state, saw the COVID-19 impact on jobs during the second 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.

For much of 2020 and into 2021, Austin will mirror other major Texas markets and much of the US as its economy remains 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	2Q19	12 Month Change	
Northwest	\$13.51/SF	\$12.27/SF	↑	
Central	\$12.32/SF	\$13.40/SF	↓	
North	\$9.66/SF	\$10.55/SF	↓	
East	\$11.16/SF	\$12.78/SF	↓	
Southeast	\$13.16/SF	\$11.77/SF	↑	

VACANCY BY SUBMARKET

Vacancy Rate (%)				
	Current Quarter	2Q19	12 Month Change	
Central	9.6%	3.4%	↑	
Southwest	15.5%	9.3%	↑	
Northwest	6.4%	6.8%	↓	
East	5.9%	5.9%	↑	
Georgetown	12.7%	10.1%	↑	

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Amazon	I-35 and Chisholm	Georgetown/RR	Direct	441,000 SF
Amazon	9500 Metric and 4616 Howard	Northwest	Direct	228,300 SF
Nadine West	Global Business Park C	Northeast	Direct	51,200 SF

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	9.5%	-38,223	-83,928	\$12.28	\$13.00	\$12.32
East	6,044,652	0	5.9%	-78,335	-39,845	\$11.16		\$11.16
Georgetown/Round Rock	9,782,091	899,213	12.7%	75,030	63,424	\$10.37	-	\$10.37
North	16,398,225	0	6.0%	1,017	-130,650	\$11.45	\$7.20	\$9.66
Northeast	20,055,812	224,185	6.4%	-79,767	152,289	\$11.73	\$7.82	\$11.29
Northwest	7,744,974	46,000	6.4%	28,209	142,416	\$13.14	\$15.00	\$13.51
Southeast	19,890,420	235,254	7.6%	182,337	179,985	\$13.84	\$10.30	\$13.16
Southwest Hays	12,467,413	237,850	15.5%	131,331	178,172	\$8.50		\$8.50
Austin Total	94,031,816	1,895,352	8.5%	221,640	409,126	\$11.48	\$8.86	\$11.05

SELECT TEXAS MARKETS- LARGEST SUBMARKETS

Austin, May 2020

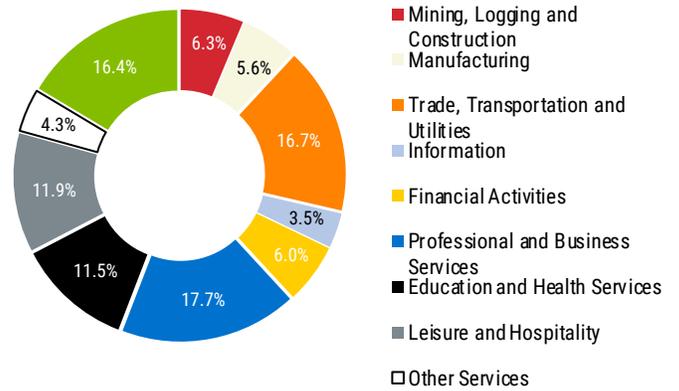
Top 10 Submarkets by Rentable Square Feet

Rank	Submarket	RSF
1	Northwest Houston	175.4 M
2	DFW South Stemmons	124.0M
3	DFW Great SW – Arlington	120.0 M
4	Northeast Dallas	118.5 M
5	Northwest Dallas	114.5 M
6	North Houston	114.4 M
7	North Ft. Worth	111.4 M
8	Southeast Houston	108.4 M
9	South Dallas	108.1 M
10	South Ft. Worth	89.1 M

Source: Newmark Knight Frank

EMPLOYMENT BY INDUSTRY

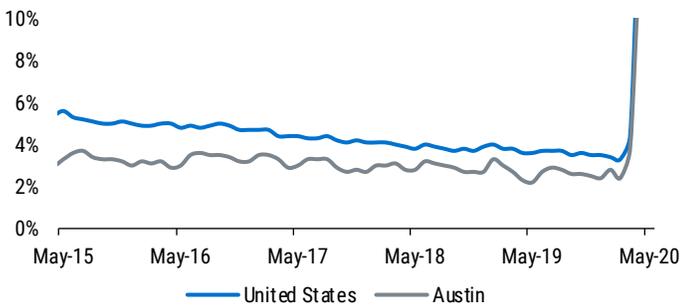
Austin, May 2020



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

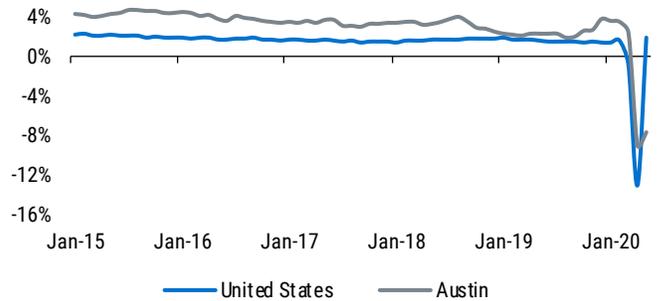
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

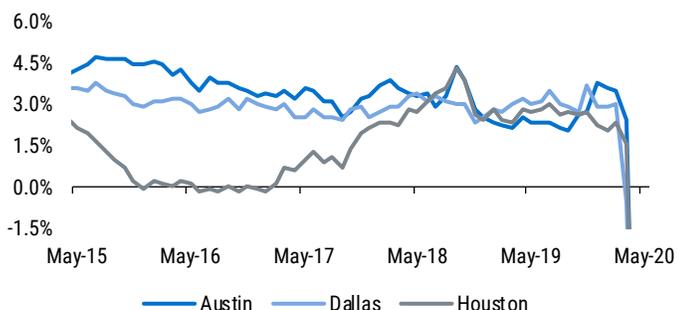
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT- SELECT TEXAS MARKETS

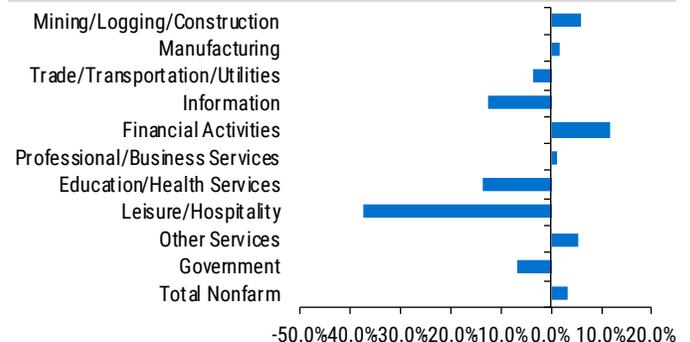
All Items, 12-Month % Change, Not Seasonally Adjusted



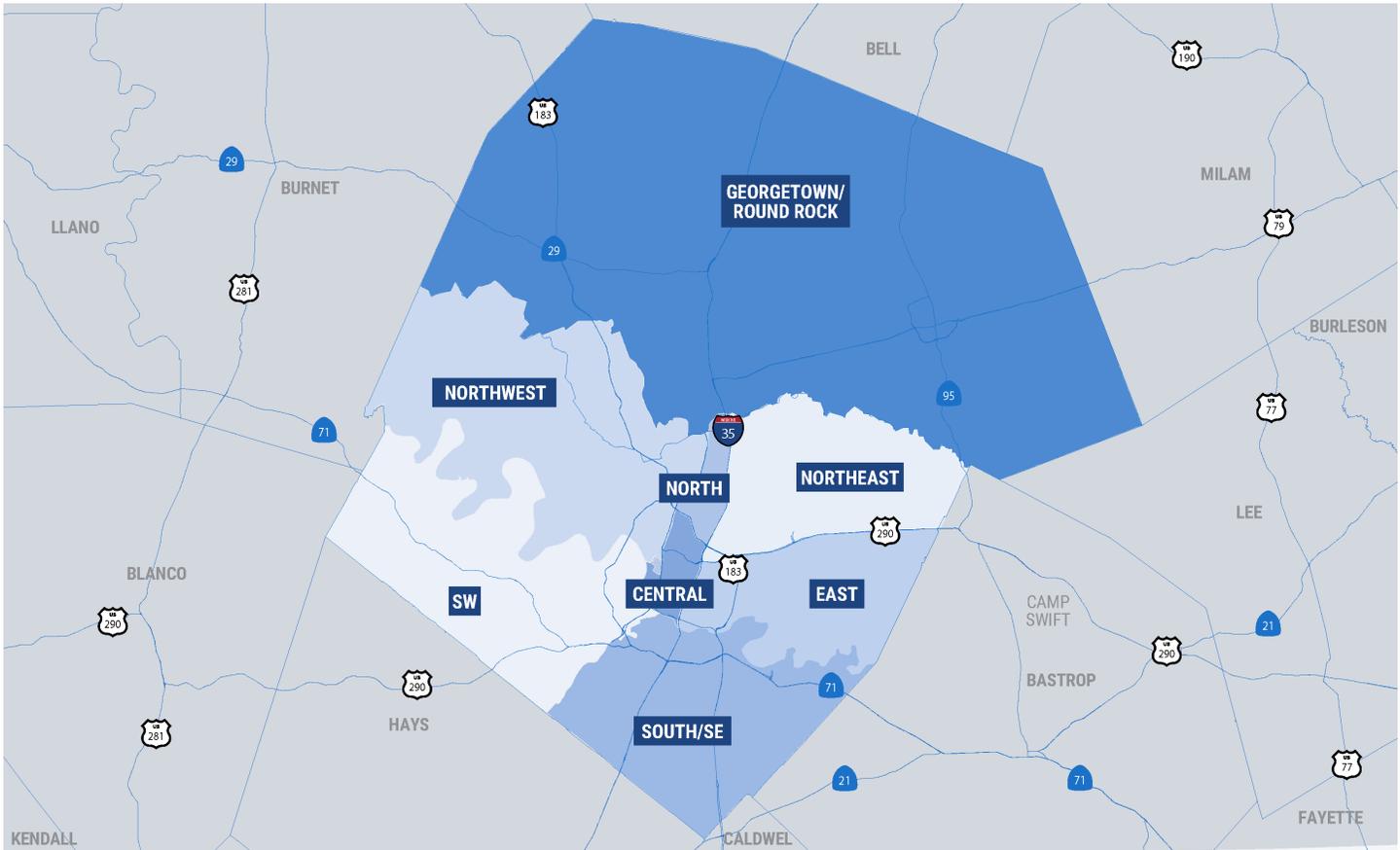
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics

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