
3Q24

Austin Industrial Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate increased by four basis points year-over-year to 3.4% but remains well below the five-year average of 3.9%.
- Compared to August 2023, employment growth decelerated by 190 basis points to 1.4%.
- Most sectors reported employment growth, with mining and constructions leading job gains at 5.0% over the past 12 months.
- All industrial-using job sectors in the market reflected yearly growth, with manufacturing, trade/transportation/utilities and mining and construction all reflecting growth of 0.1%, 1.2% and 5.0%, respectively.

Major Transactions

- Electric vehicle manufacturer Tesla signed the third quarter of 2024's largest lease, securing 183,000 SF at Taylor Logistics Park in the Round Rock submarket.
- All five of the largest leases in the third quarter of 2024 were new, signaling sustained healthy demand for high-quality industrial space in the market.
- Class A warehouse space continued to dominate market share, accounting for 44.1% of this quarter's leasing transactions.
- Advanced manufacturing played a significant role in leasing, with Tesla and Tokyo Electron signing two of the largest leases in the third quarter of 2024.

Leasing Market Fundamentals

- The market realized 322,167 SF of positive absorption in the third quarter of 2024, marking the first quarter of under 1.0 MSF of positive absorption since the third quarter of 2023.
- Overall rental rates grew 14.1% year over year to \$14.95/SF, a slight decline of 0.4% from the historic high set in the first quarter of 2024.
- The construction pipeline recorded deliveries of 559,662 SF in the third quarter of 2024, with a record 19.1 MSF currently under construction.
- Following two years of new deliveries outpacing annual demand, vacancy increased by 220 basis points year-over-year to 10.2%.

Outlook

- The Austin industrial market is poised for an influx of new supply in the near term, with 13.5% of the current market's inventory being under construction. New deliveries, which are 42.4% preleased, will outpace demand in the near term as the market absorbs its elevated under-construction pipeline and deliveries.
- Vacancy rates are projected to rise as supply is expected to outpace occupancies in the near term.
- Asking rents are likely to continue increasing, driven by elevated inflation and construction costs resulting from a large pipeline of quality new product commanding premium pricing entering the market.

1. Economy
2. Leasing Market Fundamentals

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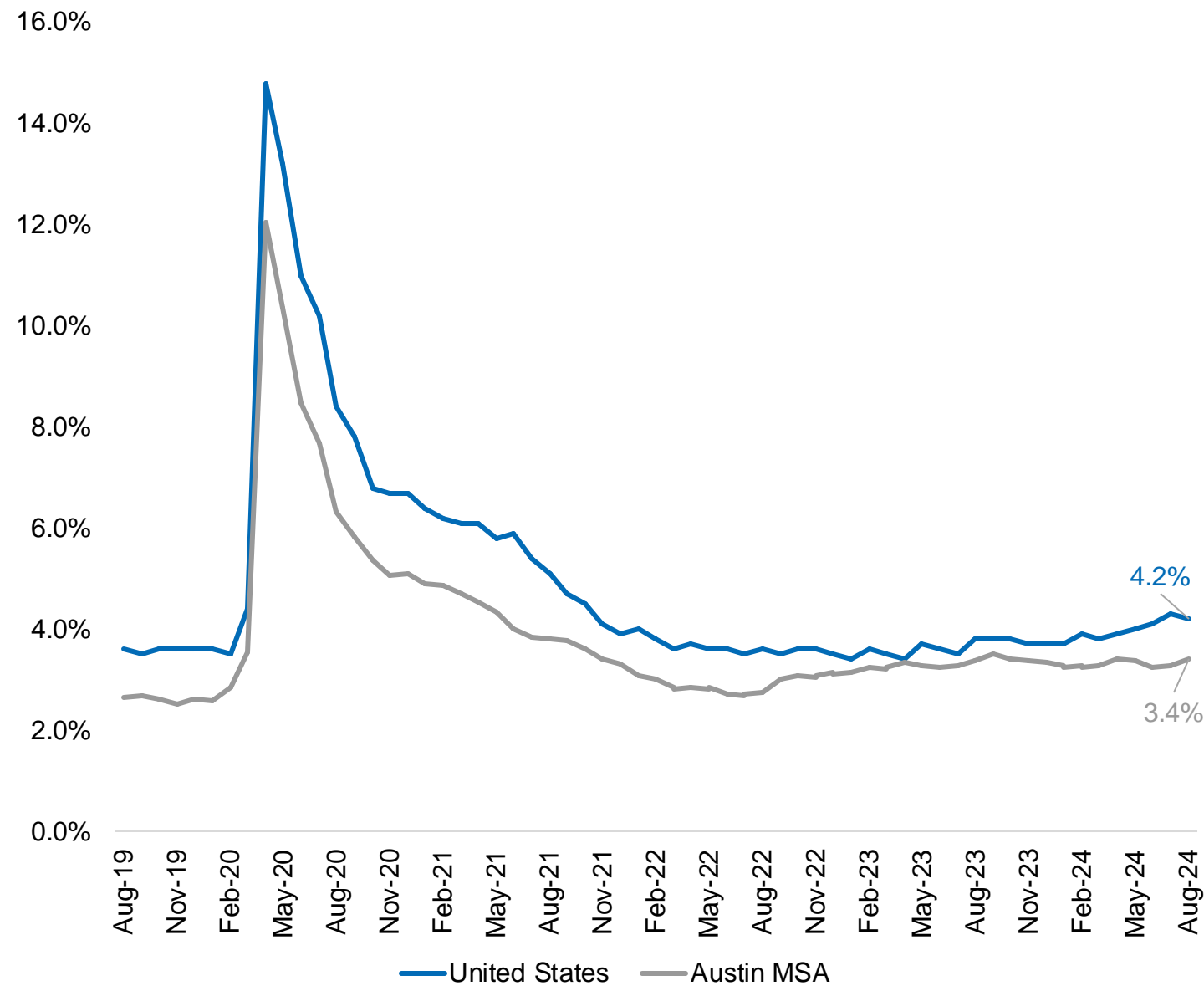
Economy



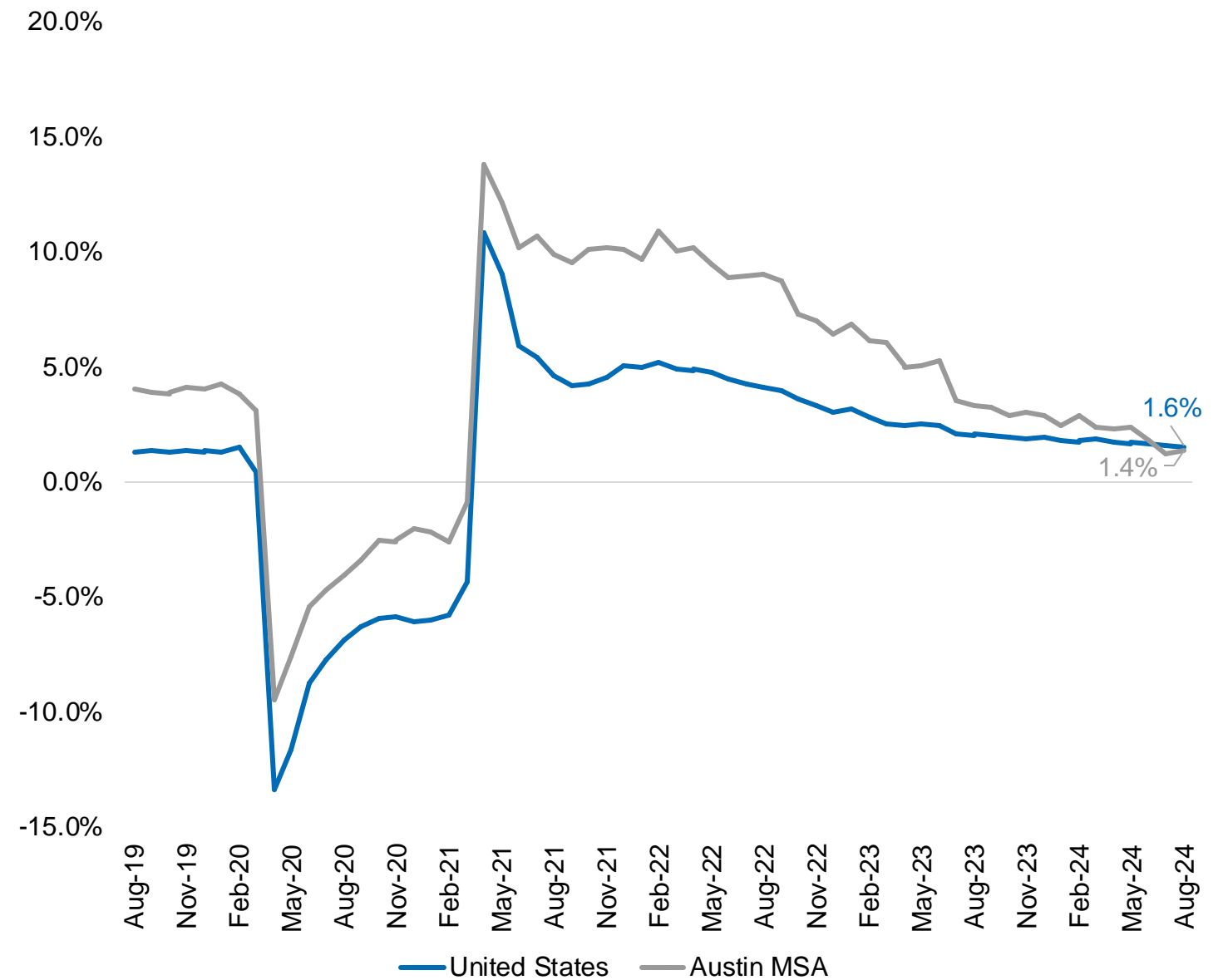
Job Growth Decelerates to Below National Average

Austin has consistently reported lower unemployment rates compared to the national average, while being an outperformer in employment growth. However, this trend partially reversed in the third quarter of 2024, as the annual nonfarm payroll growth rate slowed by 190 basis points to 1.4%, falling below the national average of 1.6%. Continued national economic headwinds impacting non-industrial employment sectors contributed to a year-over-year increase in the region's unemployment rate, rising by four basis points to 3.4%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

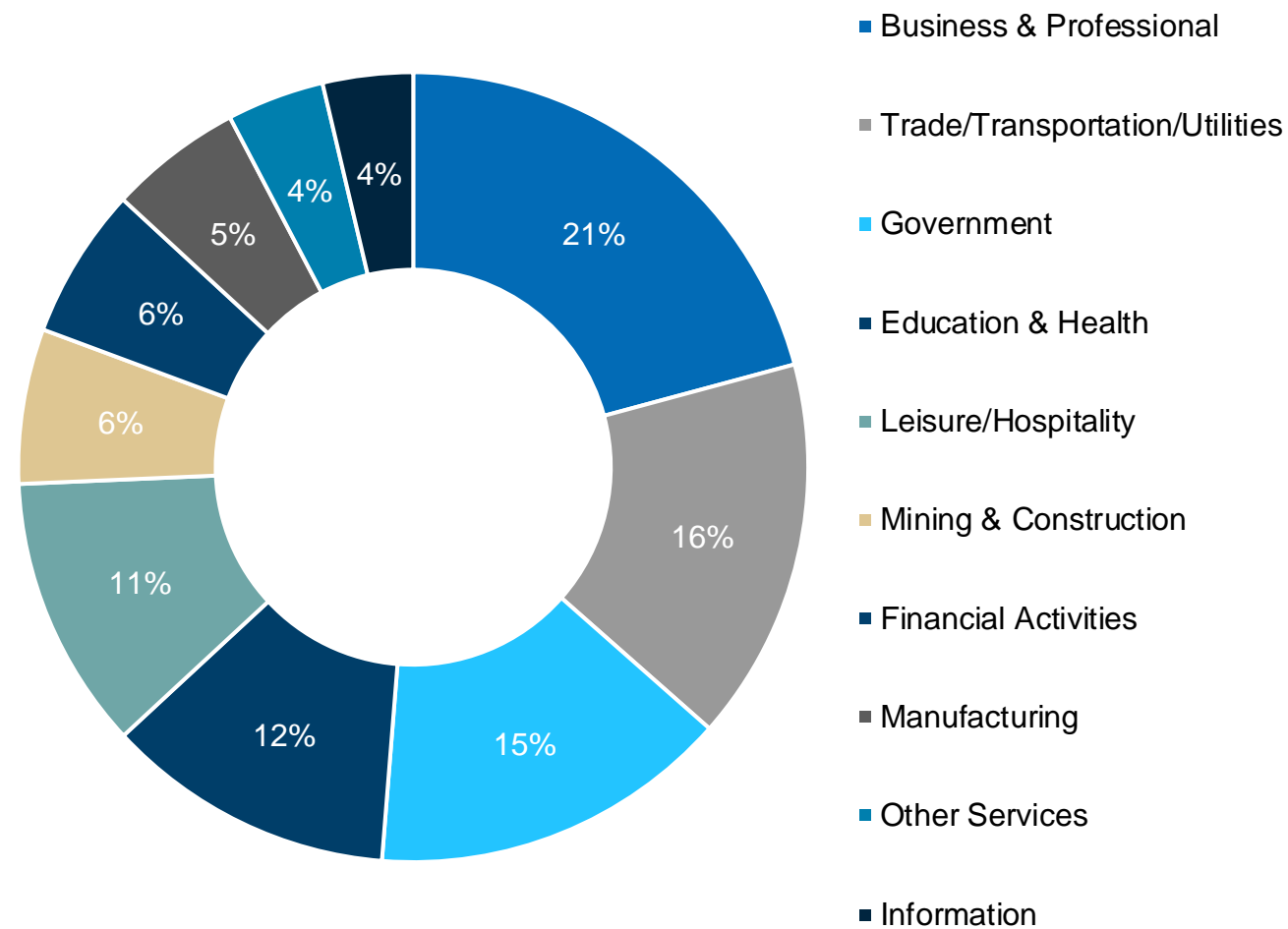


Source: U.S. Bureau of Labor Statistics, Austin-Round Rock MSA

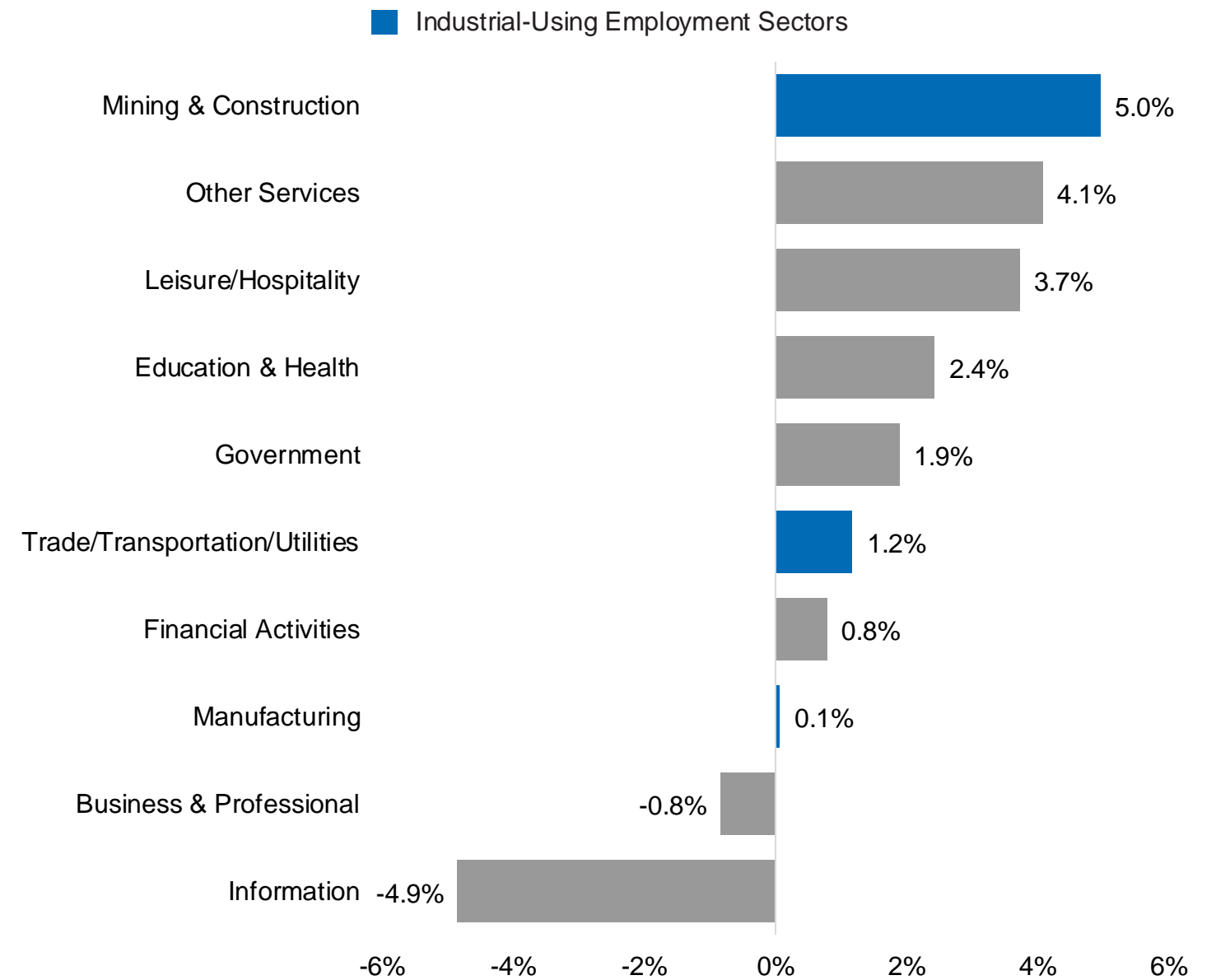
Employment Growth Continues Across All Industrial Sectors

Known for its technology sector, the Austin market's top two employment industries—business and professional and trade/transportation/utilities—account for 36.4% of jobs. The industrial-using employment sector of trade/transportation/utilities sector is the second largest industrial sector in the Austin market, representing 15.7% of the workforce. Year-over-year growth was reported across all industry sectors except business and professional services, and information. The manufacturing, trade/transportation/utilities, and mining and construction sectors posted growth of 0.1%, 1.2%, and 5.0%, respectively.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

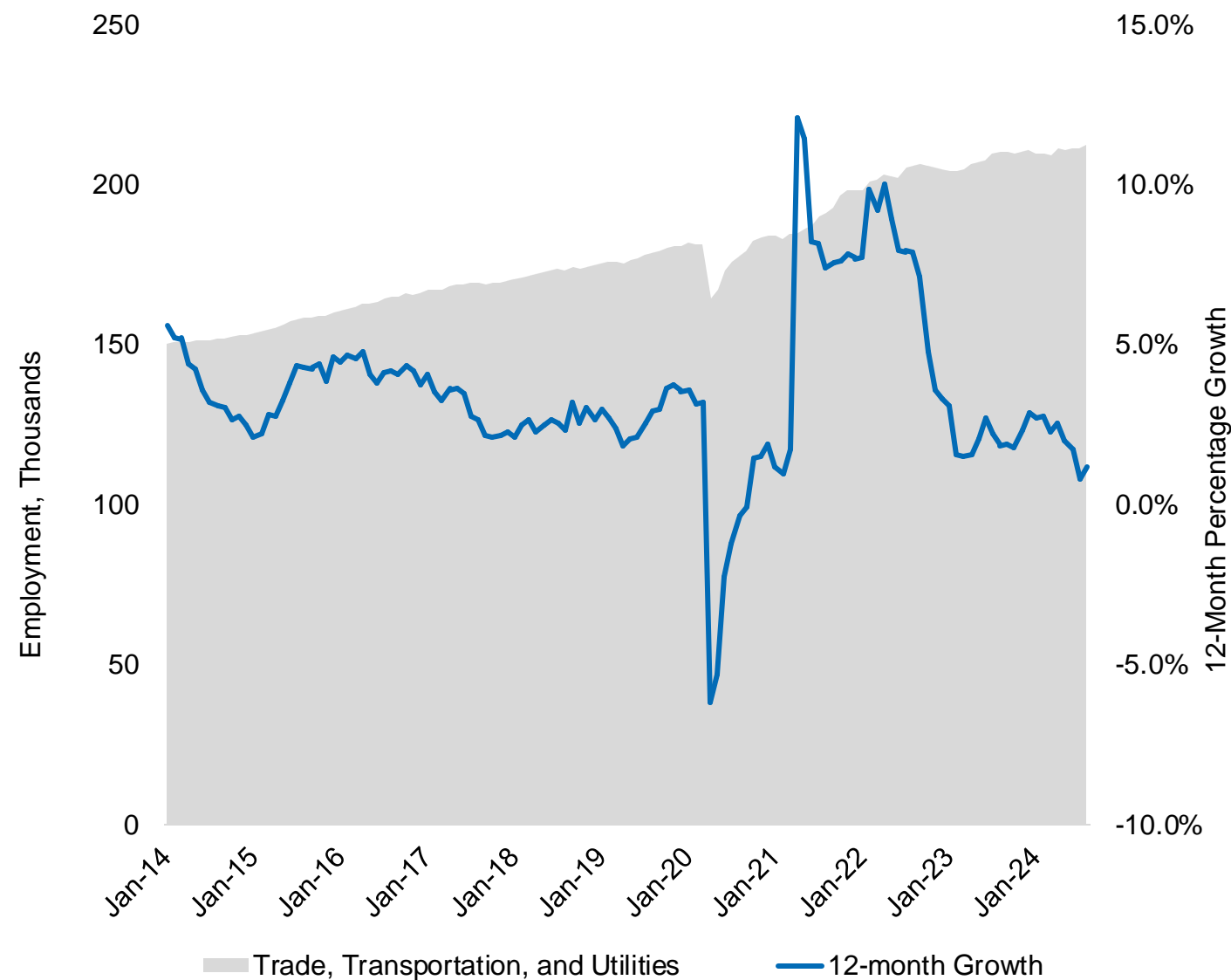


Source: U.S. Bureau of Labor Statistics, Austin MSA

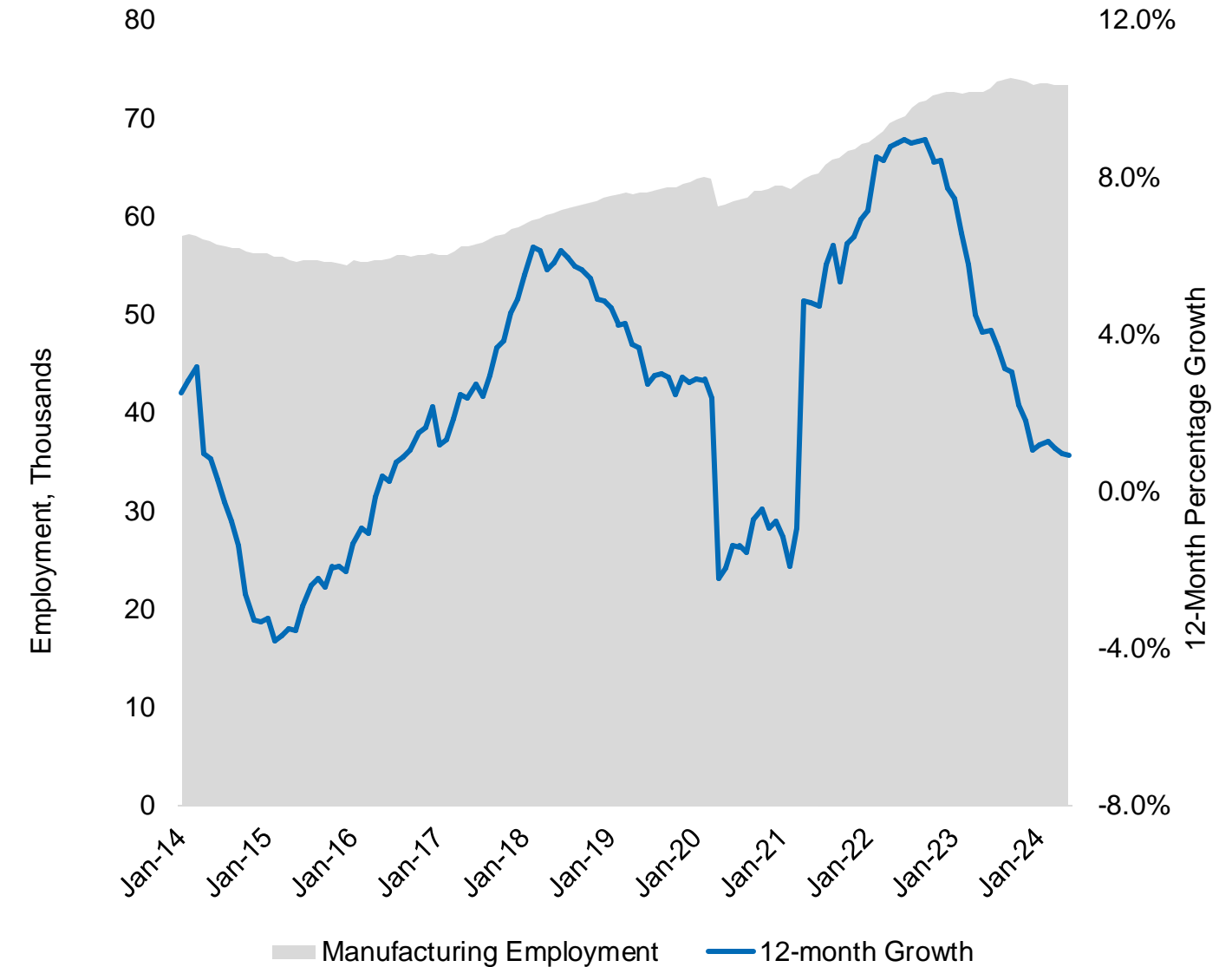
Industrial Employment Records Positive Yearly Growth

As of August 2024, employment in the trade/transportation/utilities sector reached a new peak of 212,600 jobs. Manufacturing employment approached its historic high of 74,080 jobs, recorded in September 2023, ending August 2024 with 73,940 jobs, a slight decrease of 0.18% from the peak. Overall, industrial-using employment posted yearly gains, with trade/transportation/utilities growing by 1.2% and manufacturing by 0.1%.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Austin MSA

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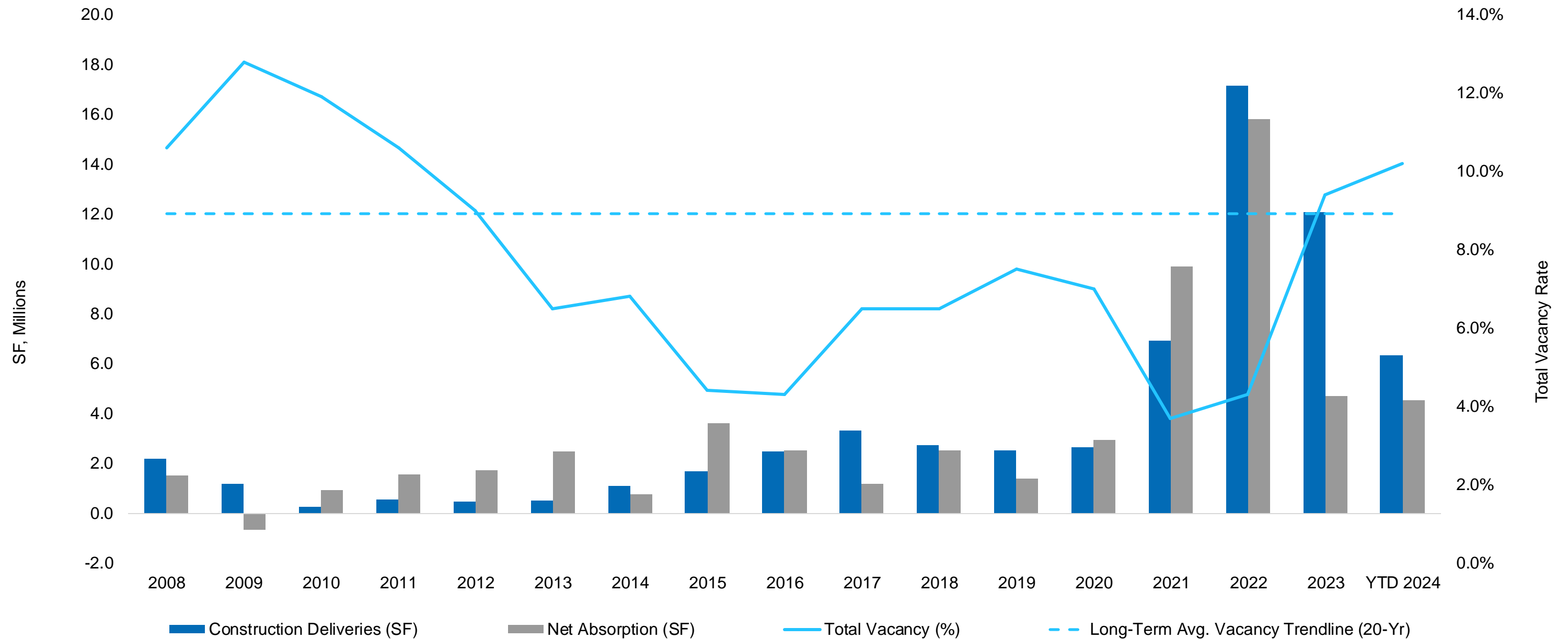
Leasing Market Fundamentals



Elevated Deliveries, Muted Demand Push Vacancies to High

The Austin industrial vacancy rate rose by 220 basis points year over year to 10.2% in the third quarter of 2024. While deliveries decelerated quarter over quarter to 559,662 SF, they remain historically elevated. Despite national economic headwinds, demand for industrial space continues to remain positive for the 21st consecutive quarter as companies continue building out their supply chains along the I-35 trade corridor. Advanced manufacturers are also following Tesla and Samsung into the region, leveraging their regional investments.

Historical Construction Deliveries, Net Absorption, and Vacancy

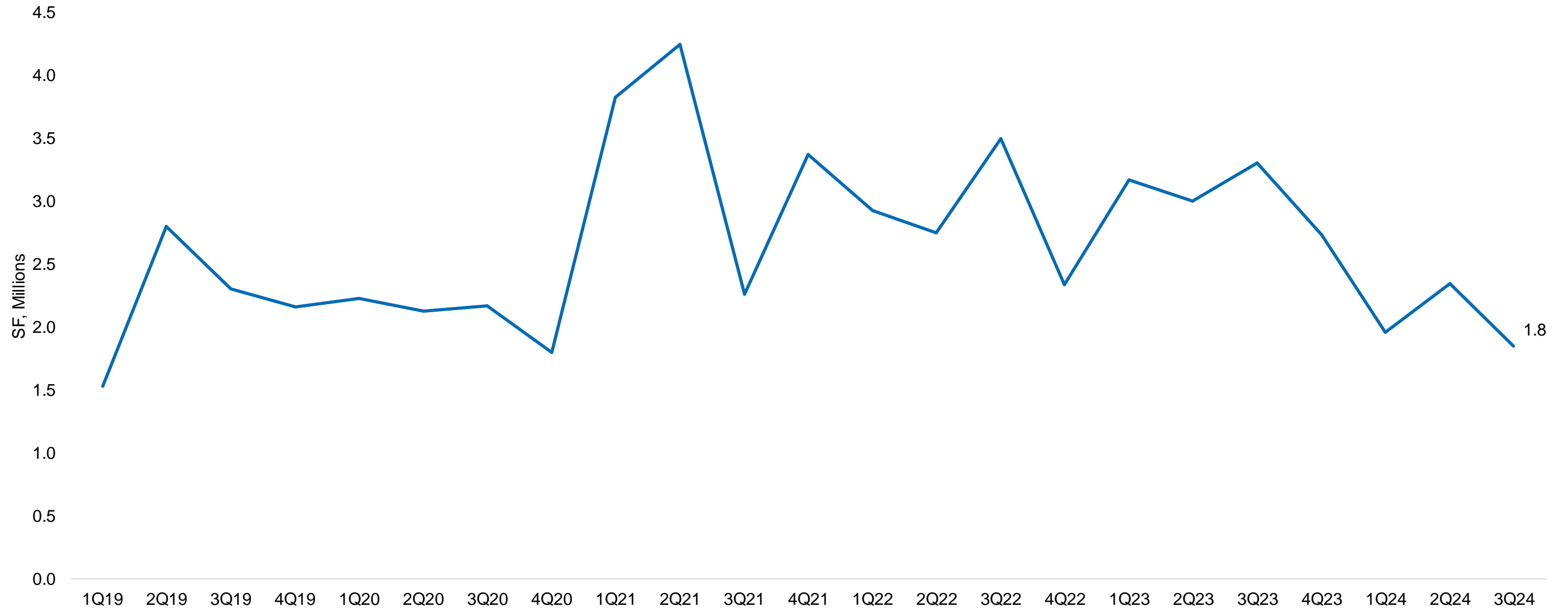


Source: Newmark Research, CoStar

Industrial Leasing Activity Tumbles Year Over Year; Quarter Over Quarter

Leasing activity in Austin totaled 1.8 MSF at the close of the third quarter of 2024, marking its lowest level since the fourth quarter of 2020, a 21.3% decrease quarter-over-quarter and a 44.1% decline year-over-year. Despite a slowdown driven by economic headwinds and political uncertainty, demand in the market remains positive.

Total Leasing Activity (SF)

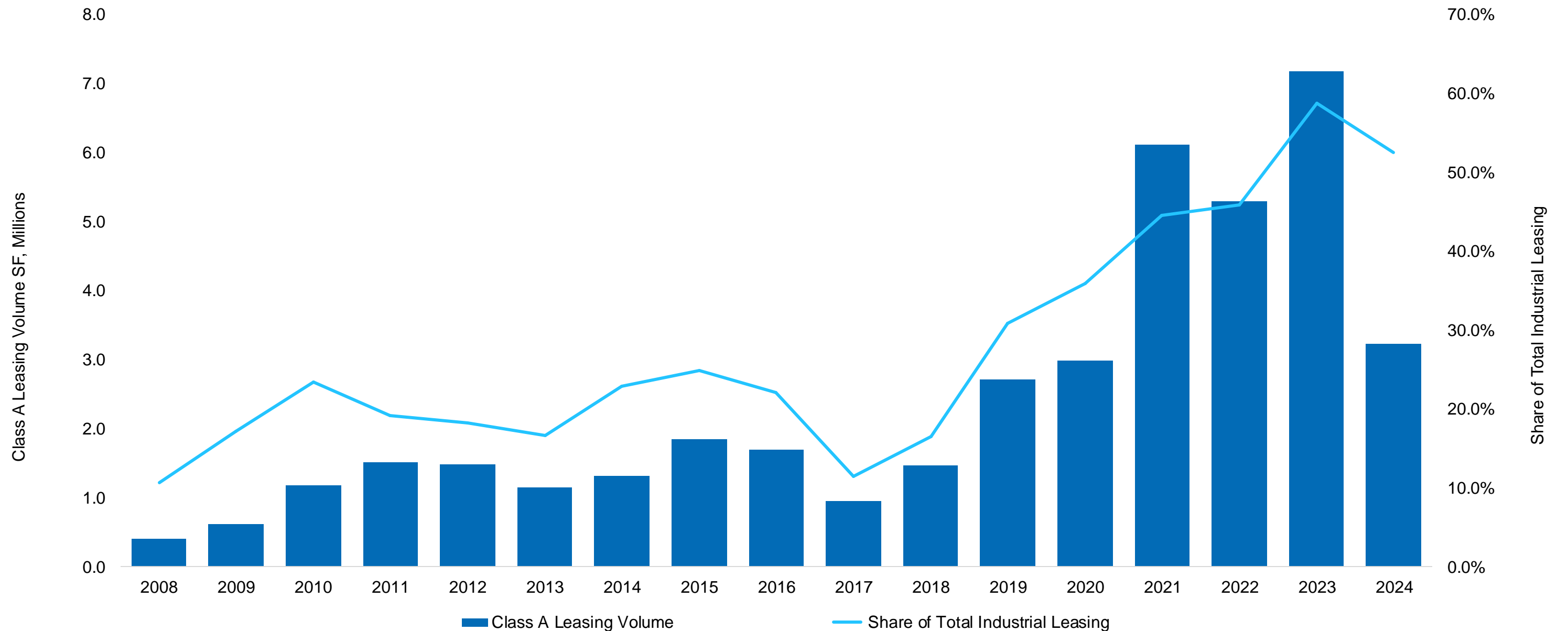


Source: Newmark Research, CoStar

Class A Warehouse Transaction Volume Shows Yearly & Quarterly Decreases

Leased square footage for Class A warehouse dropped by 40.4% from the previous quarter to 815,475 SF but remained above the historic third-quarter average of 662,498 SF dating back to 2008. Class A warehouse's share of leasing activity fell alongside the decline in square footage, accounting for 44.1% of overall activity in the third quarter of 2024. This reflects a decrease of 1,416 basis points quarter-over-quarter and 2,140 basis points year-over-year. However, year-to-date Class A's share of leasing activity remains well above the pre-pandemic yearly average of 19.5% recorded from 2008 to 2019.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

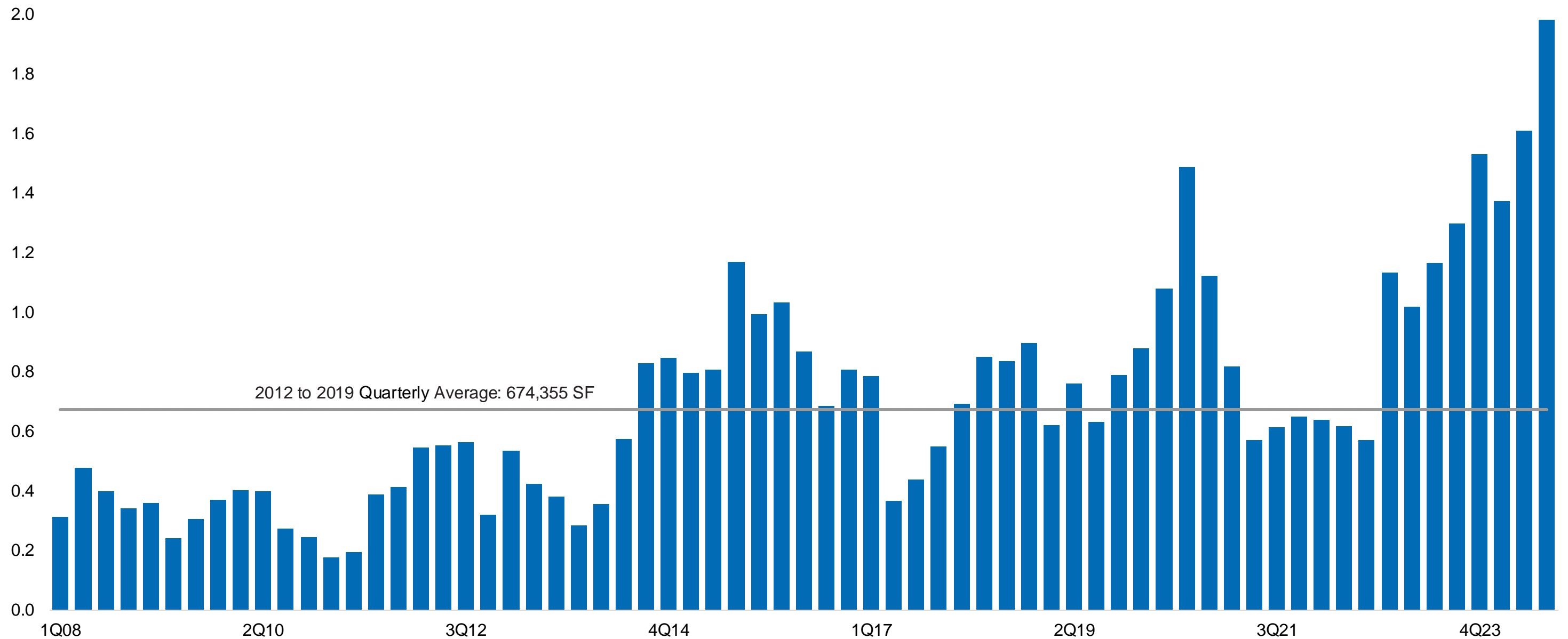


Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes to Record High

At the end of the third quarter of 2024, sublease availabilities rose by 23.2% quarter-over-quarter and 52.5% year-over-year to 2.0 MSF. The effects of tightened fiscal policy, driven by the Fed's efforts to normalize inflation, along with declining consumer demand due to elevated inflation, are prompting some firms to control costs. This is largely being achieved through supply chain optimization and consolidation, including putting excess or underutilized space up on the sublease market.

Available Industrial Sublease Volume (msf)

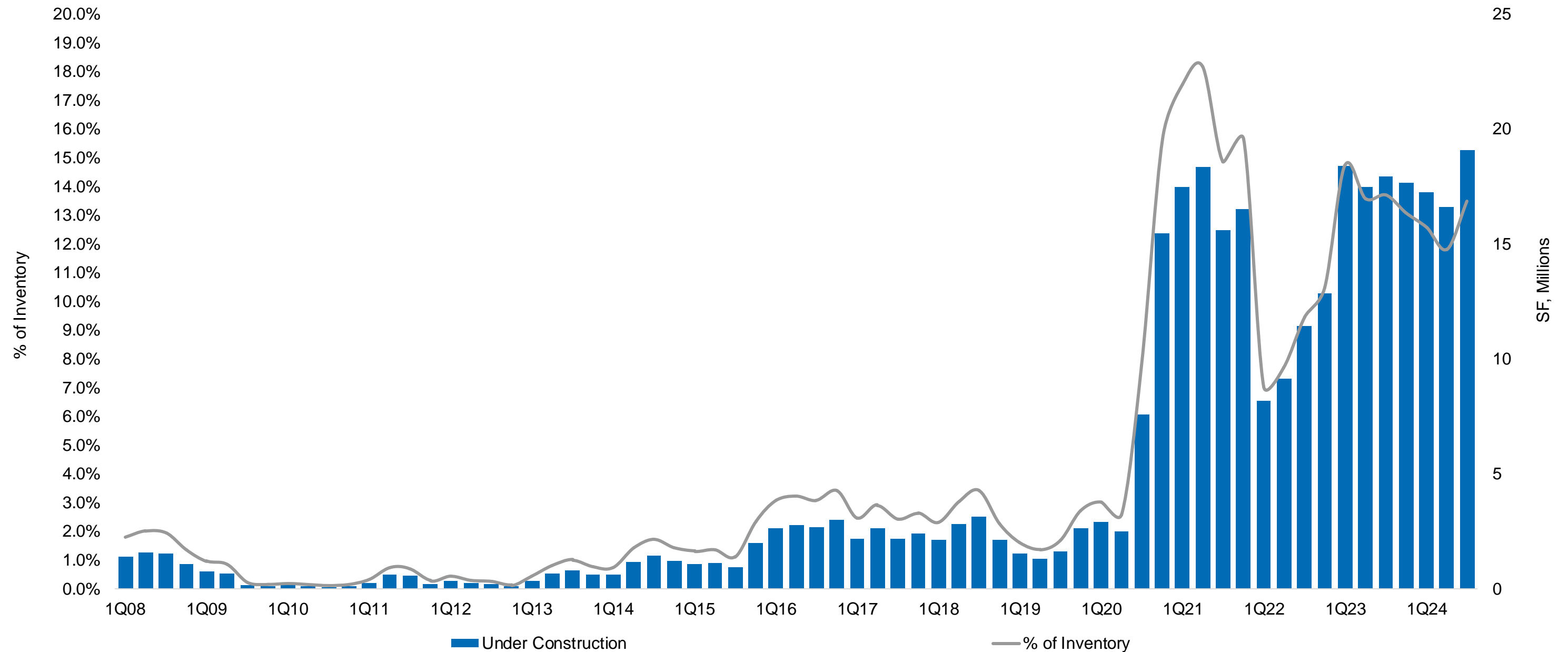


Source: Newmark Research, CoStar

Bucking Trends, Industrial Supply Pipeline Expands to Historic High

The construction pipeline had been decreasing since the third quarter of 2023, but this trend reversed in the third quarter of 2024, expanding to a record high of 19.1 MSF. Developers continue to launch new projects, anticipating demand from advanced manufacturing companies. As firms like Tesla and Samsung make significant regional investments, other companies are expanding supply chains along the I-35 Corridor. The construction surge growth is likely driven by investor optimism tied to regional industrial growth, despite a challenging financing environment for new construction resulting from the Fed's fight to bring inflation down. Currently, 42.4% of under-construction projects are preleased.

Industrial Under Construction and % of Inventory

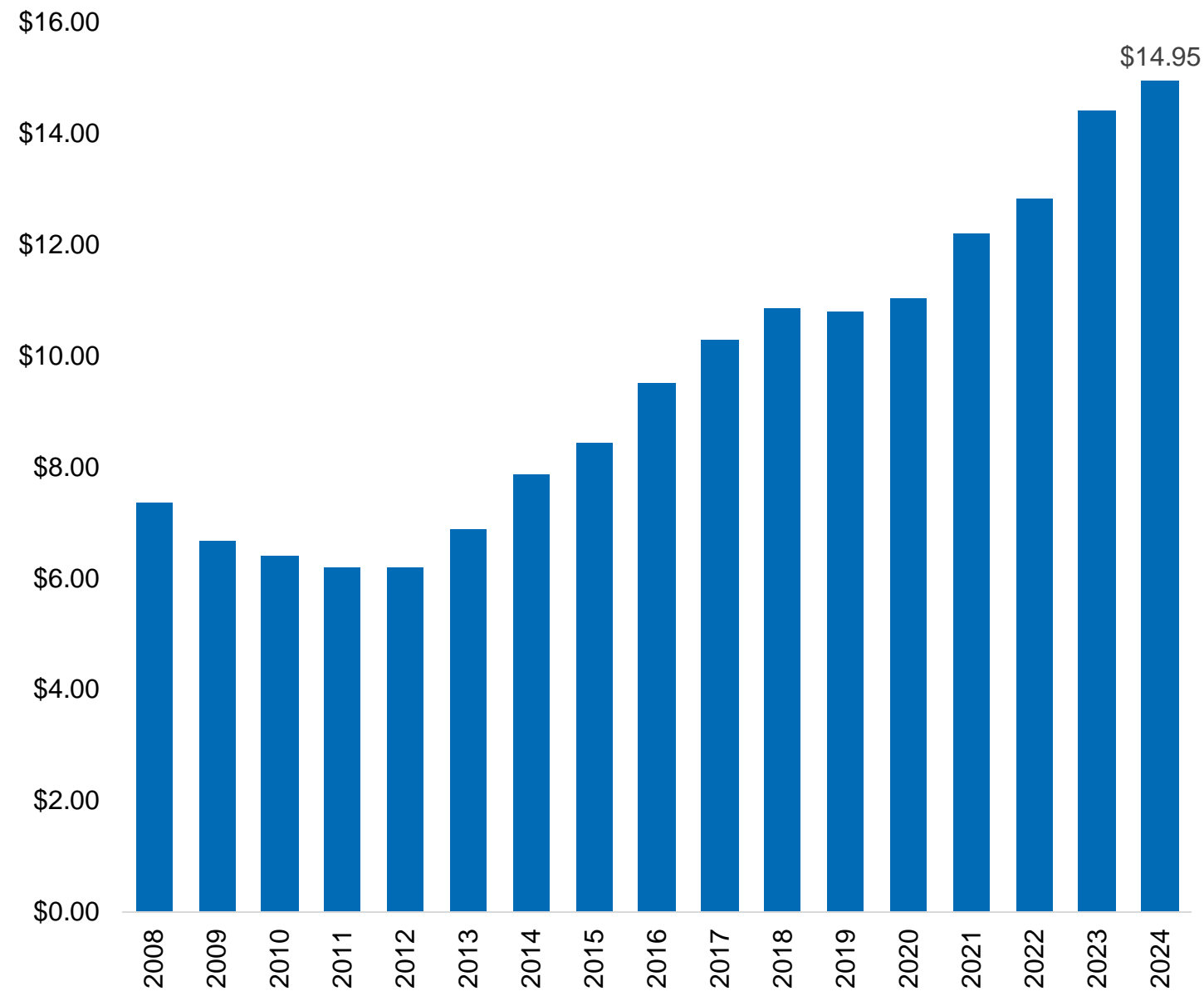


Source: Newmark Research, CoStar

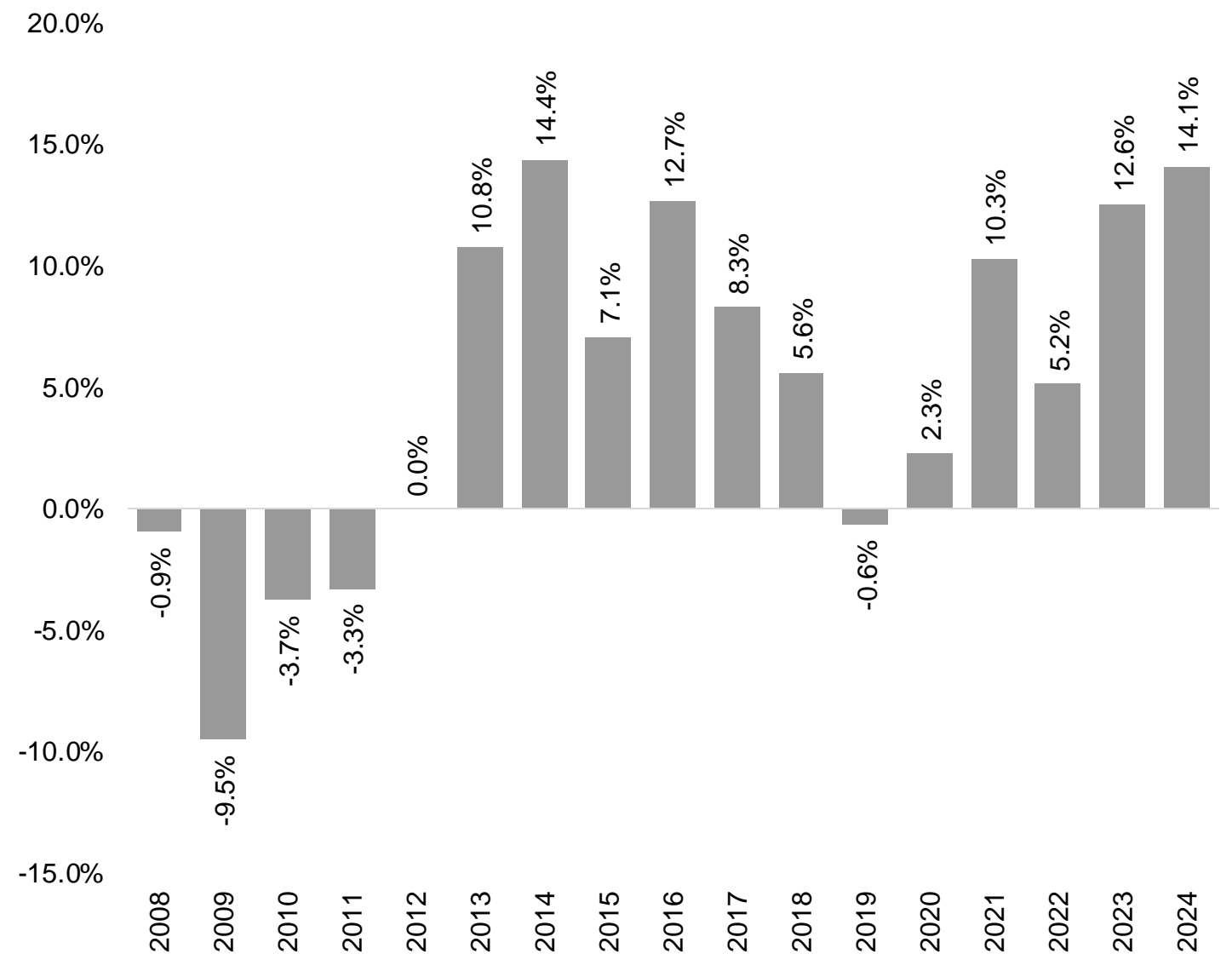
Asking Rents Show Quarterly Increase, Remain Marginally Below Record High

At the end of the third quarter of 2024, industrial average asking rents inched higher to \$14.95/SF, but remain slightly below the historic high of \$15.01 set in the first quarter of 2024. This marks a 1.2% quarterly increase and a 14.1% yearly gain. Rent growth is expected to continue, though at a slower pace, as vacancy rises with the ongoing delivery of new, high-quality assets.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Advanced Manufacturing Anchors Leasing Activity in Slowing Market

Leasing activity dropped off in the third quarter of 2024 on a quarterly and annual basis, with quarterly leasing activity at 1.8 MSF, but remained above the third-quarter quarterly average of 1.6 MSF reported since 2000. Advanced manufacturing maintained a key role, with Tesla and Tokyo Electron signing two of the quarter's largest leases. Class A spaces dominated, accounting for 44.1% of total leasing transactions as new deliveries continued. All major leases signed in the third quarter of 2024 were new direct leases, indicating continued strong demand for industrial space in the market.

Notable 3Q24 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Tesla <i>Electric vehicle manufacturer Tesla continued its Austin expansion as it signed the third quarter of 2024's largest lease at 1069 FM 3349 in Taylor. It is expected to move into the building in September 2025.</i>	Taylor Logistics Park	Round Rock	Direct New	183,000
Hotline Delivery Systems <i>Shipping logistics company Hotline Delivery expanded its Texas delivery infrastructure by signing a 120,440-SF lease at SH 130 and Elroy Road in Austin.</i>	ATX 130 – Building 1	Southeast	Direct New	120,440
Texas Plumbing Supply <i>Wholesale plumbing supply company Texas Plumbing Supply signed a 117,919-SF lease for Building 5 of 1225 Fortuna Road in San Marcos.</i>	Whisper 35 – Building 5	Hays County	Direct New	117,919
Tokyo Electron <i>Japanese semiconductor manufacturer Tokyo Electron signed a 111,169-SF lease at Building 15 of 7301 Metro Center Drive in Austin.</i>	Met Center 15	Southeast	Direct New	111,169
Mason Road Sheet Metal <i>Texas-based custom sheet metal fabrication company Mason Road Sheet Metal signed a 92,041-SF lease at Building 3 of Bluebonnet Business Center at Johnny Morris Road and Old Manor Road in Austin.</i>	Bluebonnet Business Center – Building 3	East	Direct New	92,041



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