

AUSTIN INDUSTRIAL Monthly Market Snapshot

SEPTEMBER 2018

Market Highlights

Vacancy continues to fall. Nearing the end of the third quarter, the vacancy rate dropped 10 basis points to 6.4%, compared to this time last month at 6.5%. Occupancy of the 1.1 million sq. ft. delivered to the market year-to-date stands at 60.7%, and of the 40 properties with 2.6 million sq. ft. currently under construction, 88.5% of that space is available for lease. Year-to-date net absorption totals 1.5 million sq. ft., while there have been 327 deals accounting for 2.8 million sq. ft. of leasing activity. The average asking rate of renting industrial space increased \$0.26 to \$10.00 per sq. ft. on a triple net basis from \$10.26 this time in August.

Year-to-date through August investment sales up. According to Real Capital Analytics, investment sales of industrial properties in the Austin area totaled \$479.0 million, a 72.3% increase from one year ago. Private capital continues to be the most active buyer type for 2018, comprising 78.0% of Austin's total sales volume, followed by cross-border buyers at 16.0% and institutional investors of the remaining 6.0%.

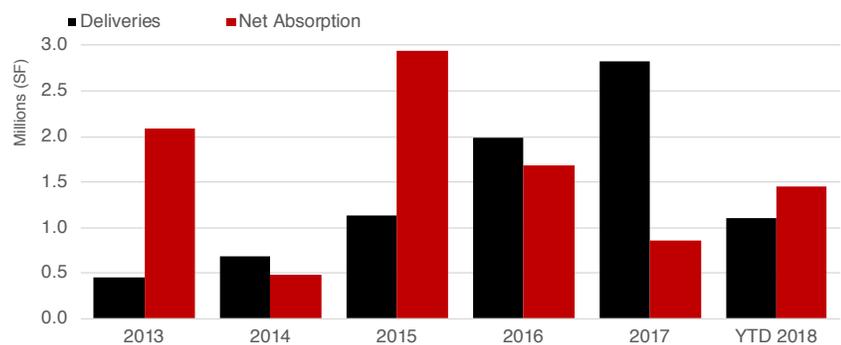
Top 10 sale completed by NAI Partners. NAI Partners Austin recently arranged the sale of a 57,500-sq.-ft. industrial property located at 10611 N. I-35 in the Northeast submarket – the 8th-largest industrial sale of the year in Austin. The seller, Apollo Paint and Body Shop, Inc., primarily operates in the body shop, automotive business industry.

Market Activity

(includes industrial and flex properties)

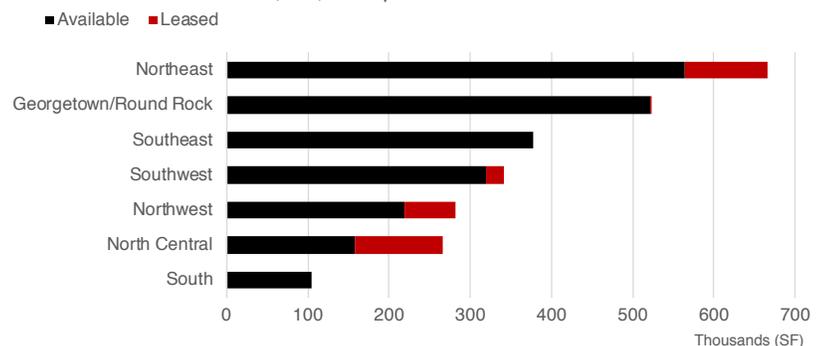
	Year-to-Date 2018	
	September	August
Vacancy	6.4% ↓	6.5%
Availability	11.5% ↑	11.4%
Net Absorption (SF)	1,454,858	1,255,910
Leasing Activity (SF)	2,909,395	2,562,629
Deliveries (SF)	1,101,590	1,081,590
Under Construction (SF)	2,557,348	2,460,848
NNN Avg Asking Rent (PSF)	\$10.00 ↓	\$10.26

Supply & Demand



Construction Activity by Submarket

Total Under Construction 2,557,348 sq. ft.



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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www.naipartners.com

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AUGUST 2018

Market Highlights

Vacancy tightens to 6.5%. Midway through the third quarter, the vacancy rate dropped 30 basis points to 6.5%, compared to this time last month at 6.8%. Occupancy of the almost 1.1 million sq. ft. delivered to the market year-to-date stands at 60.9%, and of the 38 properties with 2.5 million sq. ft. currently under construction, 86.4% of that space is available for lease. Year-to-date net absorption totals about 1.3 million sq. ft., while there have been 292 deals accounting for 2.4 million sq. ft. of leasing activity. The average asking rate of renting industrial space is \$10.26 per sq. ft. on a triple net basis.

Year-to-date through July investment sales up. According to Real Capital Analytics, investment sales of industrial properties in the Austin area totaled \$447.0 million, a 103.0% increase from one year ago. Private capital has been the most active buyer type for 2018, comprising 74.0% of Austin's total sales volume, followed by cross-border buyers at 14.0% and institutional investors of the remaining 12.0%.

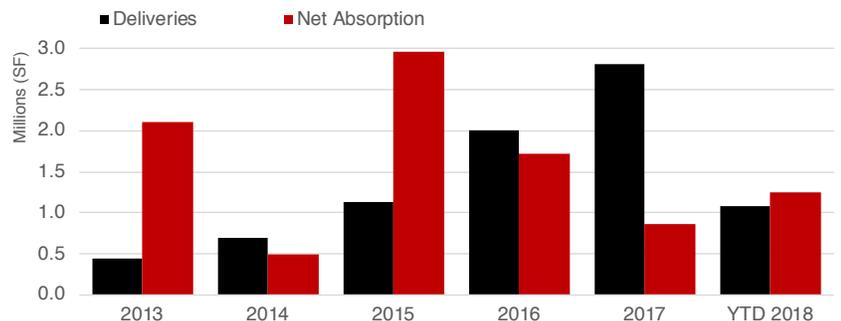
Economic activity continues at robust pace in June. Job growth remains healthy as Austin payrolls grew at a 2.5% annualized rate over the three months through June. Growth has been seen in most industries, with year-to-date construction and mining employment surging at 8.3%, and only the health and education services sector seeing a decline. Austin's seasonally adjusted unemployment rate ticked up to 3.0% in June, though well below the 4.0% rate for both Texas and the U.S.

Market Activity

(includes industrial and flex properties)

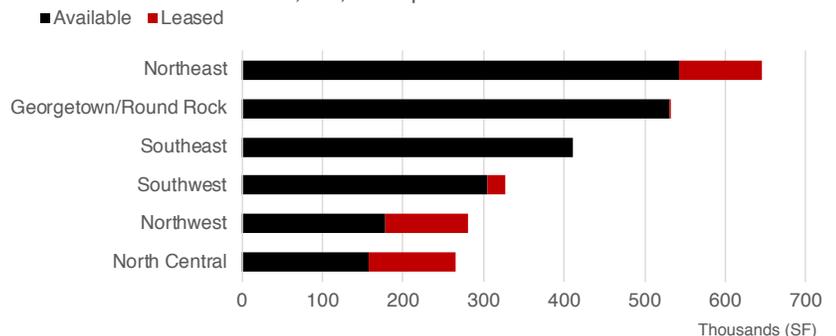
	Year-to-Date 2018	
	August	July
Vacancy	6.5% ↓	6.8%
Availability	11.4% ↑	11.3%
Net Absorption (SF)	1,255,910 ↑	927,545
Leasing Activity (SF)	2,562,629 ↑	2,067,036
Deliveries (SF)	1,081,590 ↑	990,940
Under Construction (SF)	2,460,848 ↑	2,272,866
NNN Avg Asking Rent (PSF)	\$10.26 ↓	\$10.45

Supply & Demand



Construction Activity by Submarket

Total Under Construction 2,460,848 sq. ft.



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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www.naipartners.com

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MAY 2018

Market Highlights

Austin vacancy remains tight at 7.0%. Activity in the Austin industrial market is steady midway through the second quarter of 2018 with the vacancy rate up marginally by 10 basis points at 7.0%, from 6.9% at the end of the first quarter. The total amount of square feet occupied grew to almost 800,000 sq. ft. of positive net absorption, while new supply is level to demand, delivering 835,000 sq. ft. to the market so far this year—this on the heels of the 2.8 million sq. ft. delivered in all of 2017, the highest yearly total recorded since NAI Partners began reporting on this data. The average cost of renting industrial space increased to \$10.75 per sq. ft. on a triple net basis, up \$0.27 from the end of March, and the highest rate ever recorded.

Park 183 South - Phase I – Building II delivers.

Construction is complete on the Phase I – Building II, 118,081-sq.-ft. industrial spec project in southeast Austin, located at Burleson Road at U.S. Highway 183. Building II is currently 62% pre-leased with their largest tenant Home Trends & Design taking 46,247 sq. ft. The project is adjacent to the Austin Bergstrom International Airport, seven miles from downtown Austin, and 78 miles from San Antonio.

Investment sales up in 2018. Investment sales of industrial properties in the Austin area are off to a strong start in 2018, according to Real Capital Analytics. Annual sales transaction volume totaled \$296.8 million, a 189% increase from one year ago. Private capital has been the most active buyer type for 2018, comprising 83% of Austin's total sales volume, followed by cross-border buyers of the remaining 17%.

Austin economic activity picked up speed in March.

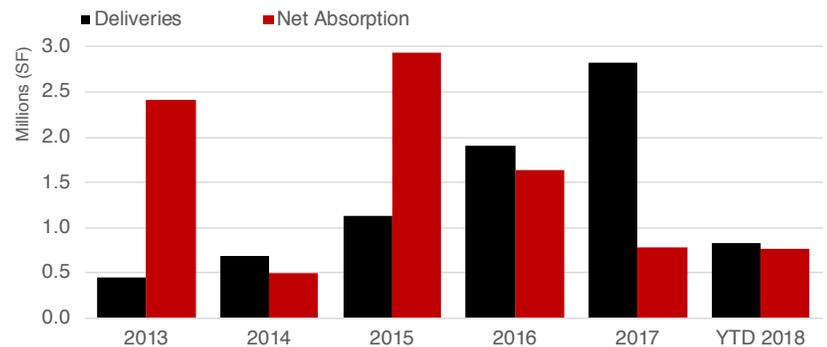
The Austin Business-Cycle Index grew at its fastest pace since late 2015, boosted by strong employment growth over the first two months of the year. The unemployment rate increased slightly to 3.0%, due to a surge in the local labor force, but remained near a two-decade low.

Market Activity

(includes industrial and flex properties)

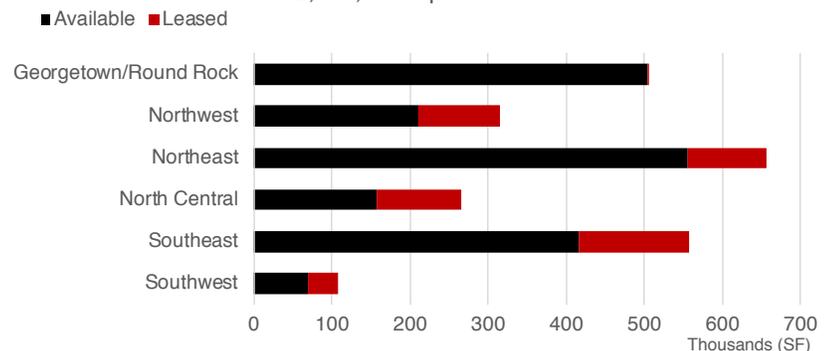
	YTD 2018
Vacancy	7.0%
Availability	11.7%
Net Absorption (SF)	763,468
Leasing Activity (SF)	1,386,805
Deliveries (SF)	834,547
Under Construction (SF)	2,407,005
Avg Asking NNN Rent (PSF)	\$10.75

Supply & Demand



Construction Activity by Submarket

Total Under Construction 2,407,005 sq. ft.



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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AUSTIN INDUSTRIAL Monthly Market Snapshot

MARCH 2018

Market Highlights

Austin vacancy edges down forty basis points to 7.5%. Activity in the Austin industrial market increased nearing the end of the first quarter with the vacancy rate down 40 basis points at 7.5%, from 7.9% this time last month. New leases and expansions generated 378,000 sq. ft. of positive net absorption, while new supply continued to outpace demand, delivering 718,000 sq. ft. to the market so far this year—this on the heels of the 2.8 million sq. ft. delivered in all of 2017, the highest yearly total recorded since NAI Partners began reporting on this data. The average cost of renting industrial space increased to \$10.80 per sq. ft. on a triple net basis, up \$0.21 from February.

Southpark Commerce Center V Delivers.

Construction is complete on the three-building, 351,171-sq.-ft. industrial spec project in southeast Austin, located near Interstate 35 and State Highway 71. Building 1 is currently 47% pre-leased to Urban Air and will serve as a 73,823-sq.-ft. service center. Buildings 2 and 3 are rear-load warehouses, at 114,107 sq. ft. and 162,232 sq. ft., respectively.

Investment sales up in 2018. Investment sales of industrial properties in the Austin area slowed in 2017, but are off to a strong start in 2018, according to Real Capital Analytics. Annual sales transaction volume totaled \$213.0 million, a 184.8% increase from one year ago. Private Capital has been the most active buyer type for 2018, comprising 100% of Austin's total sales volume.

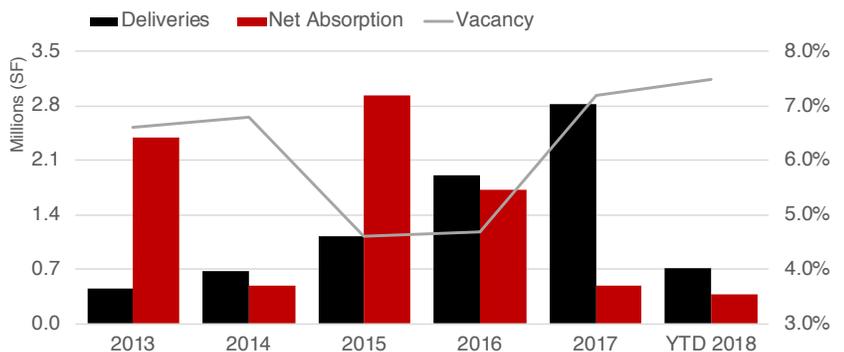
Austin economy the most robust in nearly two decades. The Austin-area unemployment rate continued to fall during 2017, reaching a seasonally unadjusted rate of 2.6% in November, pushing wages up and in some cases, making it more difficult to fill job openings as employers compete for workers in a shrinking labor pool. AngelouEconomics' annual economic forecast reported a fairly sunny outlook for the year ahead: the economy will grow, albeit at a slower pace than in the past.

Market Activity

(includes industrial and flex properties)

	YTD 2018
Vacancy	7.5%
Availability	10.7%
Net Absorption (SF)	377,042
Leasing Activity (SF)	936,045
Deliveries (SF)	718,461
Under Construction (SF)	1,666,597
Avg Asking NNN Rent (PSF)	\$10.80

Supply & Demand



Under Construction by Submarket



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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FEBRUARY 2018

Market Highlights

Industrial market fundamentals remain strong. The Austin industrial market vacancy rate stood at 7.9% midway through the first quarter—up from 7.5% as of the end of Q4 2017—with year-to-date net absorption at 11,601 sq. ft. New supply completed during 2018 totals 416,029 sq. ft., current projects under construction weigh in at 2.0 million sq. ft., the average asking NNN rent sits at \$10.59 per sq. ft., and year-to-date leasing activity is at 535,879 sq. ft.

Nonprofit preleases industrial space. Goodwill will fully occupy the 107,780-sq.-ft. warehouse in Heritage Crossing, Building 5, at 2300 Scarbrough Drive in the North submarket upon its delivery, scheduled for end of 2018. Heritage Crossing industrial development covers 792,839 sq. ft. located near Interstate 35.

Slow down with investment sales. Investment sales of industrial properties in the Austin area slowed in 2017, according to Real Capital Analytics. Annual sales transaction volume totaled \$345.2 million, a 25.1% decrease from one year ago, while fourth-quarter volume totaled \$55.8 million, down 27.7% from the third quarter. Private Capital was the most active buyer type for 2017, comprising 30% of Austin's total sales volume, followed by institutional capital at 29% and public listed/REITs at 23%. User/other buyers made up the remaining 18%.

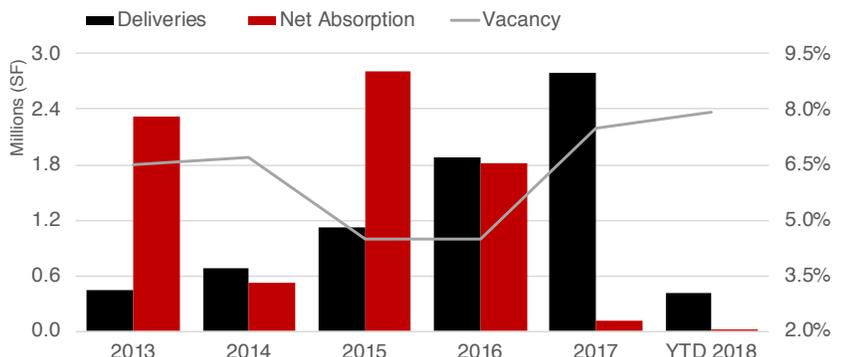
Austin economic growth remained robust in December. The Austin unemployment rate held firm at 2.8% in December 2017, well below the state level at 3.9%, and the U.S. rate at 4.1%. Job growth accelerated at a 5.1% annualized rate over the fourth quarter 2017. In addition, trade, transportation and utilities saw a moderate 4.5% increase, due in part to a recouping in retail hiring.

Market Activity

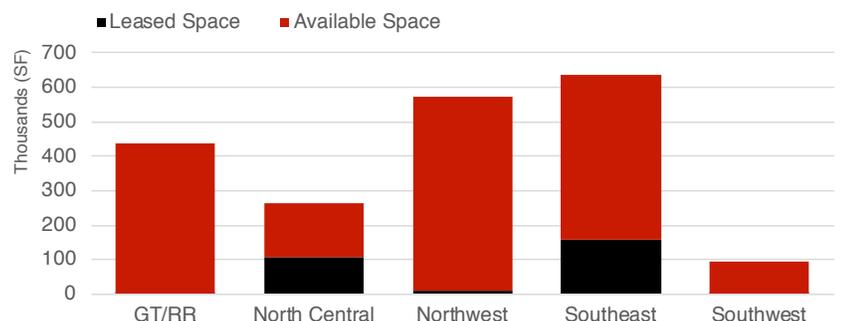
(includes industrial and flex properties)

	YTD 2018
Vacancy	7.9%
Availability	10.6%
Net Absorption (SF)	11,601
Leasing Activity (SF)	535,879
Deliveries (SF)	416,029
Under Construction (SF)	2,002,619
Avg Asking NNN Rent (PSF)	\$10.59

Supply & Demand



Under Construction by Submarket



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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NOVEMBER 2017

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Net absorption rebounding back to black quarter-to-date. New supply completed during 2017 stands close to 2.6 million sq. ft., with year-to-date net absorption at -35,203 sq. ft., although quarter-to-date net absorption is rebounding from four straight quarters of negative net absorption to positive 482,415 sq. ft. The current amount of space under construction is 1.1 million sq. ft., with 80% of that space available for lease.

Investment sales volume down year-over-year. RCA data reports year-to-date industrial sales volume in the Austin area at \$289.4 million, resulting in a year-over-year change of -26%. The buyer composition is spread equally with 30% institutional, 24% private, 24% public listed/REITs, and 21% cross-border. The most recent significant year-to-date transaction in the local market took place in August: the acquisition by TA Realty of a three-building, 322,600-sq.-ft. industrial/flex property, Freeport Tech Center South, at 6320 E. Stassney Lane, in southeast Austin, from HPI Real Estate.

Innovation Business Park breaking ground. The City of Hutto in the Georgetown/Round Rock submarket is ready to break ground on Titan Development's Innovation Business Park. Initial construction on the project will include a 100,000-sq.-ft. spec building projected to be delivered in nine to 12 months, and will be made available for occupancy Spring 2019. The complete plan for phase one of the \$100 million speculative development calls for the construction of 800,000 sq. ft. of total of building space.

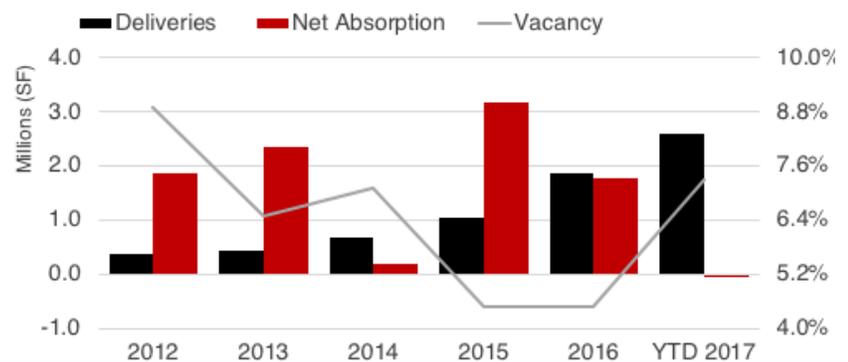
Economy grows at a strong pace in September. The Austin economy expanded at a robust pace in September. Austin jobs grew at a 3.0% annualized rate over the third quarter with a notable exclusion of professional and business services, which fell primarily due to declines in administrative services. The local unemployment rate fell to 2.7%, well below the 4.0% Texas and 4.2% U.S. averages.

Market Activity

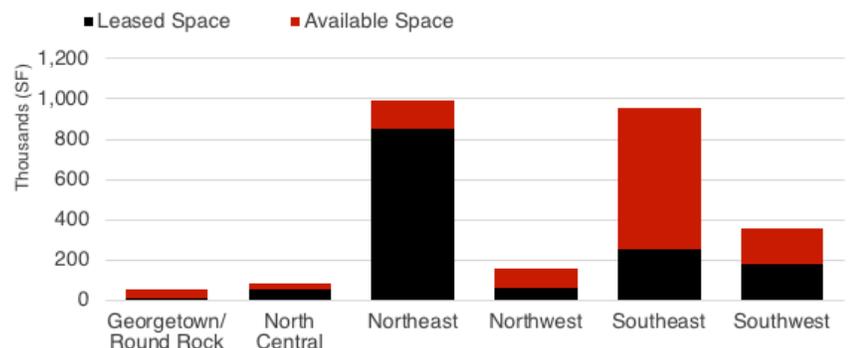
(includes industrial and flex properties)

	YTD 2017
Vacancy	7.3%
Availability	9.5%
Net Absorption (SF)	-35,203
Leasing Activity (SF)	4,426,215
Deliveries (SF)	2,596,540
Under Construction (SF)	1,138,804
Avg Asking NNN Rent (PSF)	\$10.57

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Deliveries



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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Tilt-wall facilities 24 to 30-plus feet clear height reign. Much needed supply has been, and is being, delivered to market. However, almost 50% of this new supply is large Class A tilt-wall facilities. Overall, new supply delivered during 2017 stands at 2.1 million sq. ft., with net absorption dipping into the red., pushing vacancy up to 7.1% year-to-date. On a quarterly basis, supply has outpaced demand for the past five out of six quarters, in sharp contrast to years 2014 and 2015 when net absorption overtook deliveries. The current amount of space under construction is 1.1 million sq. ft., with 70% of that space available for lease.

Potential 1.5 million sq. ft. spec project in Hutto. A major light industrial business park may be coming soon to Northwest Austin. Depending on leasing velocity, the first spec building will be followed by five more buildings in the first phase, which is scheduled to begin in the next two months. The facility will be located on about 71 acres.

Austin industrial investment sales. Sales of all major industrial properties advanced 26% on a yearly basis during the first half of this year, totaling \$201.9 million, signaling strong investor interest, based on Real Capital Analytics data. In addition, industrial properties traded for an average of \$109 per sq. ft., on the high end they posted at \$141, and they ended at \$92 on the low side.

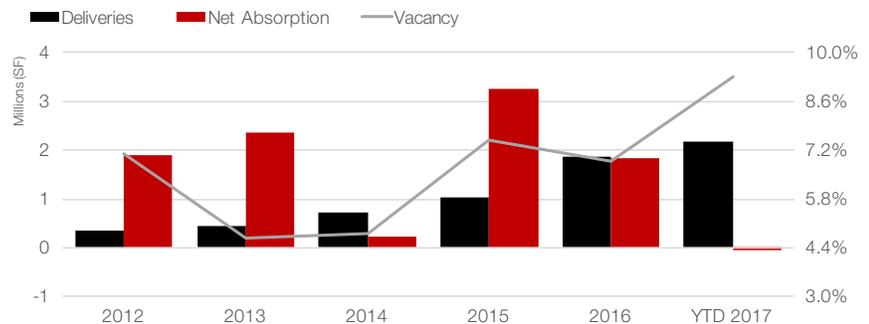
Modest growth in the Austin economy. Austin jobs increased at a 0.6% annualized rate in second quarter 2017. Growth was by and large soft, however manufacturing jobs were strong, and the Austin Purchasing Managers Index suggests continued robust expansion in the sector in the second half of 2017. The Austin unemployment rate fell for a third consecutive month to 2.9%, its lowest level in 16 years since the end of the tech boom in 2001.

Market Activity

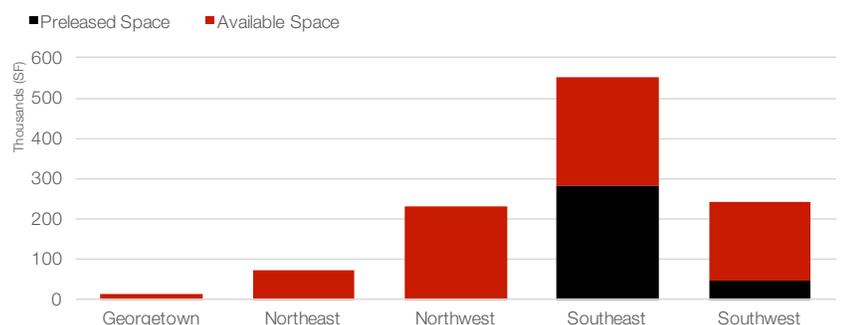
(includes industrial and flex properties)

	YTD 2017
Vacancy Direct	6.9%
Vacancy w/Sublease	7.1%
Available Direct	9.6%
Available w/Sublease	10.1%
Net Absorption (SF)	-34,410
Leasing Activity (SF)	2,238,823
Deliveries (SF)	2,162,340
Under Construction (SF)	1,109,044
Avg Asking NNN Rent (PSF)	\$10.73

Supply & Demand



Under Construction



Leta Wauson

Director of Research

leta.wauson@naipartners.com

tel 713 275 9618

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MARCH 2017

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After a year of construction, the Capitol Wright Distribution Center at 10095 US 290 E is completed. The \$39 million, 500,000-sq.-ft. HQ is located on about 86 acres 12 miles northeast of Austin.

Golfsmith International Holdings Inc. HQ in Austin has been acquired. The 332,345-sq.-ft. property includes a 90,000-sq.-ft. building; three manufacturing and distribution facilities; and over ten acres of open space, located on 40 acres.

Key Economic Indicators

The Austin economy expanded moderately in December. While the Austin seasonally adjusted unemployment rate rose to 3.2%, it continued to have one of the lowest jobless rates among large metro areas across the nation.

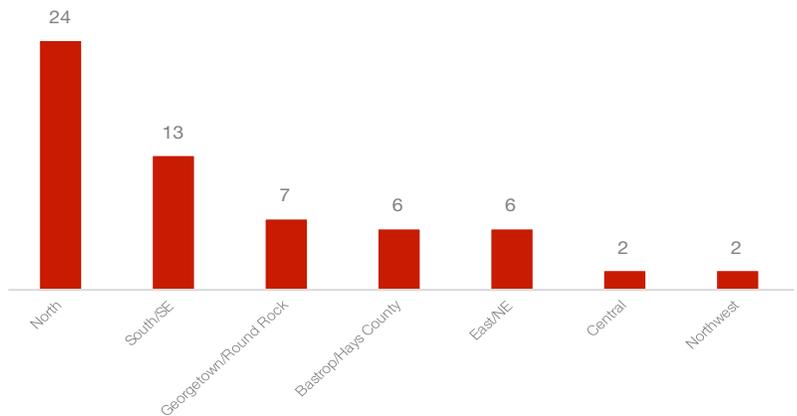
High-tech-related employment in Austin continued to fluctuate between the manufacturing and service sectors. Although high-tech manufacturing activity has stilled, high-tech services continue to grow rapidly.

Market Activity

	QTD Feb-17	Prior Quarter Q4 2016	Year Ago Quarter Q1 2016
Net Absorption	-81,634	-280,719	209,471
Vacancy Rate	6.0%	4.9%	5.1%
NNN Avg Asking Rent	\$10.46	\$9.62	\$9.11
Deliveries	811,735	126,665	346,870
Under Construction	1,437,556	2,269,141	2,023,661

**Industrial properties include manufacturing, warehouse/distribution & flex.*

YTD Lease Transactions by Submarket



Supply & Demand



** Third quarter 2016 delivery and subsequent absorption of the 855,000-square-foot Amazon fulfillment center in Hays County.*

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