

AUSTIN INDUSTRIAL | Q4 2018

Quarterly Market Report

JANUARY 2019

EXECUTIVE SUMMARY

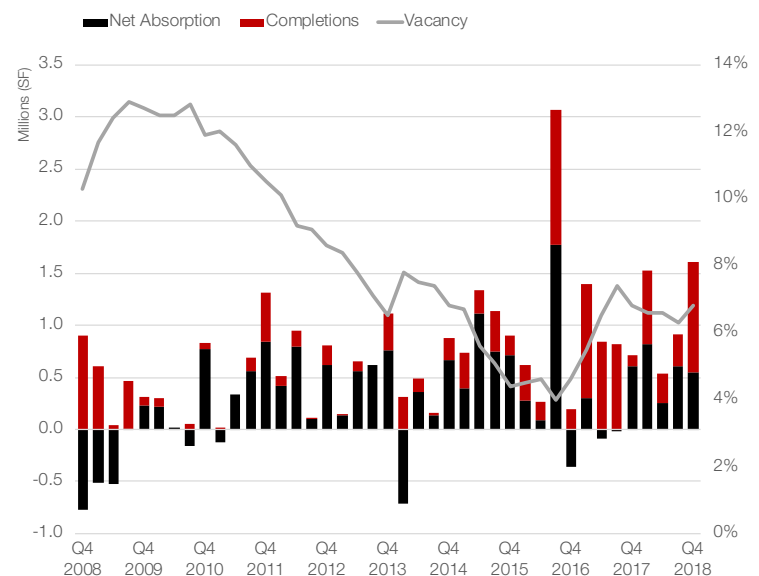
Steady net absorption in 2018

The Austin industrial market's overall vacancy rate rose to 6.8% during the fourth quarter of 2018, an increase of 50 basis points quarter-over-quarter, although unchanged year-over-year. In addition, net absorption remained positive for the fifth consecutive quarter, totaling 543,570 sq. ft., aligned with the average quarterly net absorption during 2018 of 555,332 sq. ft. Continued strong demand kept the overall NNN average monthly asking rent at or above \$0.80 per sq. ft. for the seventh consecutive quarter, ending 2018 at \$0.86 per sq. ft. In addition, close to 2.6 million sq. ft. has been delivered in 2018, with about 58% of that space available for lease.

Austin economic indicators

Austin's unemployment rate remains low at 2.8%, well below the state and national rates, both of which stood at 3.7% in November. The metro's labor force has expanded an annualized 3.3% year to date, compared with the state's 2.2% growth. Recent performance by sector was mixed. Growth was primarily led by health and education services, which accelerated at a soaring annualized rate of 18%, creating 5,200 positions. Professional and business services, and leisure and hospitality experienced small reductions after growth earlier in the year, while the financial activities sector continued to shed jobs. Home affordability in the Austin metro area increased. The percentage of homes sold that the median-income household could afford increased from 53.1% in the second quarter to 54.5% in the third quarter. As of November, the median home price in Austin was \$308,153.

Supply & Demand



Market Indicators

	Current Q4 2018	Prior Quarter Q3 2018	Year Ago Q4 2017
Vacant Direct	6.4%	5.8% ▲	6.6% ▼
Vacant Total	6.8%	6.3% ▲	6.8% ▬
Available Direct	10.0%	10.2% ▼	8.7% ▲
Available Total	11.0%	11.1% ▼	9.3% ▲
Net Absorption (SF)	543,570	604,381 ▼	611,639 ▼
Leasing Activity (SF)	1,261,209	1,195,785 ▲	2,564,456 ▼
Construction (SF)	1,695,214	2,585,827 ▼	2,096,881 ▼
Deliveries (SF)	1,058,813	306,517 ▲	101,500 ▲
Avg Asking Rent (NNN)	\$0.86	\$0.83 ▲	\$0.85 ▲
Inventory (SF)	89,024,396	87,965,583 ▲	86,668,126 ▲

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MARKET OVERVIEW

Vacancy rate stable in 2018

Austin's industrial vacancy rate, measuring all space not currently occupied by a tenant, stood at 6.8%, up from 6.3% in Q3 2018. Among the major property types, Warehouse/Distribution ended 2018 at 7.7% vacancy, Manufacturing closed at only 0.4% of unoccupied space, and Flex space at 9.2% vacancy. Vacancy in the Austin industrial market has remained below 7% for the last five quarters, following all-time lows during 2016 ranging between 4.0% to 4.6%. These lows took place at the same time global ecommerce giant Amazon's new 855,000-sq.-ft. fulfillment center opened in San Marcos. Supply shortages continue in the industrial market for certain types of space, especially large Warehouse/Distribution properties between 50,000 sq. ft. and 100,000 sq. ft. The market is awaiting the completion of 1.1 million sq. ft. of Warehouse/Distribution space in several new projects that will help meet the demand. In addition, of the overall 1.7 million sq. ft. under construction, 85% is available for lease.

Net absorption remains positive

Net absorption has remained positive for a fifth consecutive quarter, totaling 543,570 sq. ft. for Q4 2018, bringing the year-to-date total in 2018 to 2.4 million sq. ft. Key tenant move-ins during Q4 2018 include Javelin moving into 135,738 sq. ft. in Tech Ridge Park in the Northeast submarket; Elliott Electric Supply taking occupancy of 96,075 sq. ft. in Manor in the Far Northeast submarket; and Build A Sign moving into 96,000 sq. ft. in Prologis Metric Center in the North submarket. Tenants moving out of space in the fourth quarter involved Western Industries Corp. leaving 69,896 sq. ft. at North Tech Business Center in the Northwest submarket; Wisenbaker Builder Services leaving 64,733 sq. ft. at 1000 Civic Center Loop in San Marcos; and Living Direct vacating 43,200 sq. ft. in Prologis Walnut Creek in the Northeast submarket.

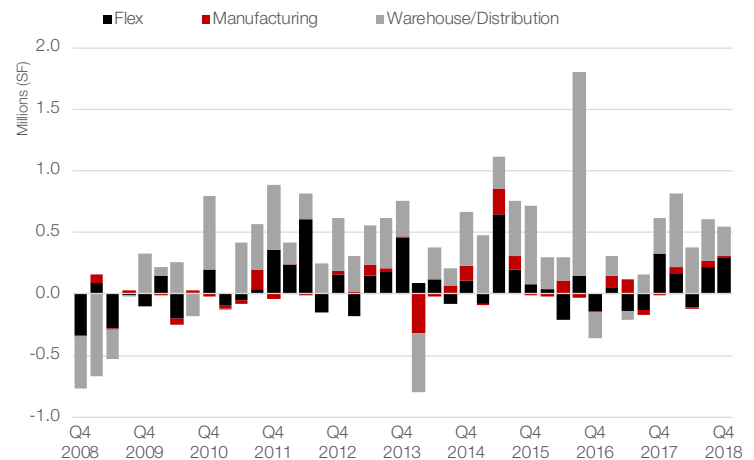
1.2 MSF quarterly average in 2018

Total leasing activity in the industrial Austin market during 2018 was close to 5 million sq. ft. Warehouse/Distribution space represented 2.9 million sq. ft. (59.6%), Flex space represented 1.7 million sq. ft. (35.5%), and the remaining 177,000 sq. ft. (3.6%) was Manufacturing. The largest lease signings occurring in the fourth quarter included 96,000 sq. ft. of Flex space taken at Met Center II in the Southeast submarket; 96,000 sq. ft. leased by Build A Sign and 96,000 sq. ft. of sublease space renewed, both in Prologis Metric Center in the North submarket; and 75,600 sq. ft. inked in Rutland Center at 10519 Boyer Blvd. in the North submarket. In addition, the five largest deals involved 426,000 sq. ft. leased in four buildings with

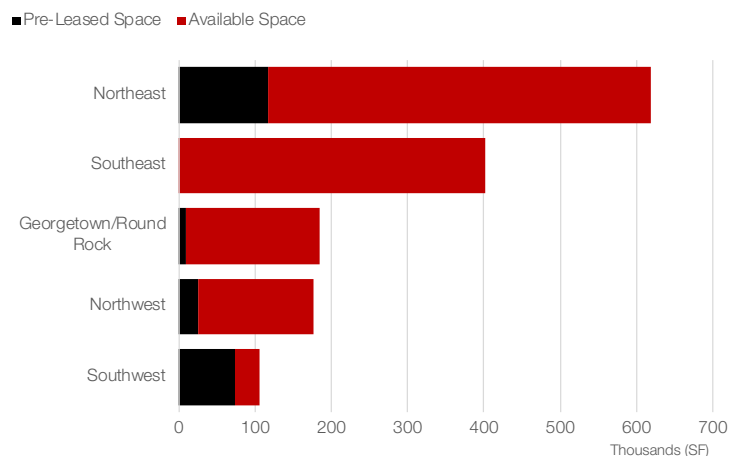
Vacancy & Availability



Net Absorption



Construction by Submarket



an average deal size of 85,000 sq. ft. The average time on the market for these five deals was 13.4 months.

Growing suburb is about to get even bigger

California-based Majestic Realty Co. is developing a 535,113-sq.-ft. business park in Kyle, within Hays County, with an estimated cost of \$39.7 million. Hays County and the city of Kyle contributed incentives to support the industrial spec development near Kohlers Crossing and I-35 in northern Kyle, just south of Austin. The two-building, 40-acre development is expected to attract new industrial, manufacturing, warehouse/distribution, and ecommerce tenants to this rapidly growing portion of the I-35 corridor between Austin and San Antonio. In addition, another industrial spec project under construction in Kyle is the 400,000-sq.-ft. Hays Logistics Center. It is slated to be the new address for the uniform and workwear services company, AlSCO.

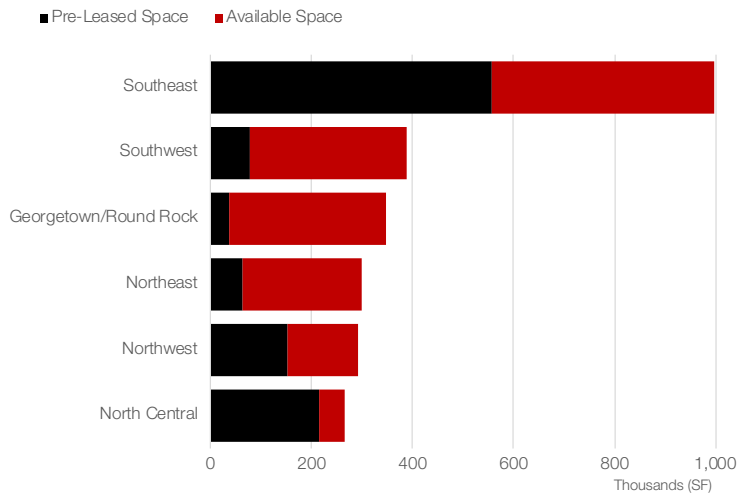
Investment sales volume up

Real Capital Analytics data reports year-to-date industrial sales volume for 2018 in the San Antonio area at \$579.6 million. The fourth quarter sales volume was \$79.4 million compared to fourth quarter 2017 at \$55.8 million, resulting in a year-over-year quarterly volume change of 42.2%. The primary capital composition for buyers in 2018 was made up of 51.8% private investors, and 28.0% cross-border. For sellers, the majority was 46.5% private investors, and 19.3% cross-border. Samsung has operated in Austin since 1997, investing more than \$17 billion in its Central Texas business. And now, that the city council has approved a resolution that would allow Samsung to get a refund on its state sales and use tax, the tech giant plans to invest \$291 million at its facility off E. Parmer Ln. Samsung's Austin upgrade will include \$183 million toward facility renovations and \$108 million in tools and equipment.

Average monthly NNN asking rates remain steady

The Austin industrial market saw overall NNN monthly average asking rates remain stable quarter-over-quarter finishing 2018 at \$0.86 per sq. ft. The price to rent Warehouse/Distribution space and Manufacturing space rose slightly, while Flex rent remained the same, bringing the overall monthly average rent up \$0.03 from \$0.83 per sq. ft. as of Q3 2018. Rates for industrial real estate throughout Austin show that the Northwest submarket has the highest asking prices for industrial space at \$1.00 per sq. ft. The average rate for Flex space is currently highest in the Southwest and Northeast submarkets, both at \$1.15 per sq. ft.; Manufacturing rates peak in the Georgetown/Round Rock submarket, at \$0.96; and Warehouse/Distribution space is at its highest in the Northwest at \$0.88.

Deliveries YTD 2018 by Submarket

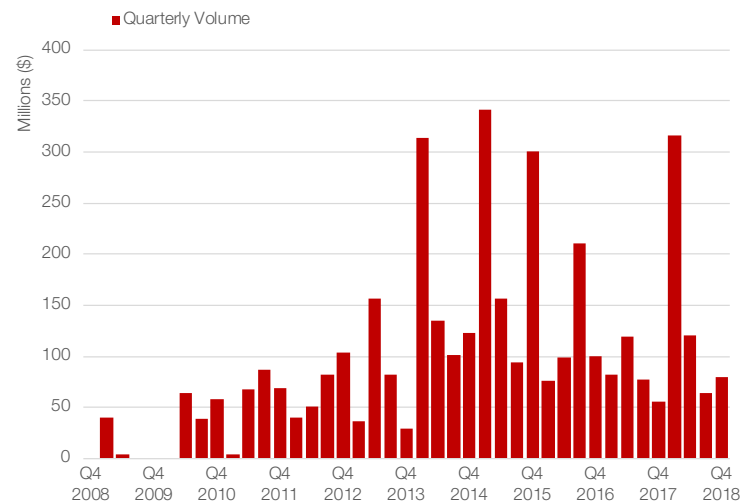


Historical Investment Trends - Sales Volume

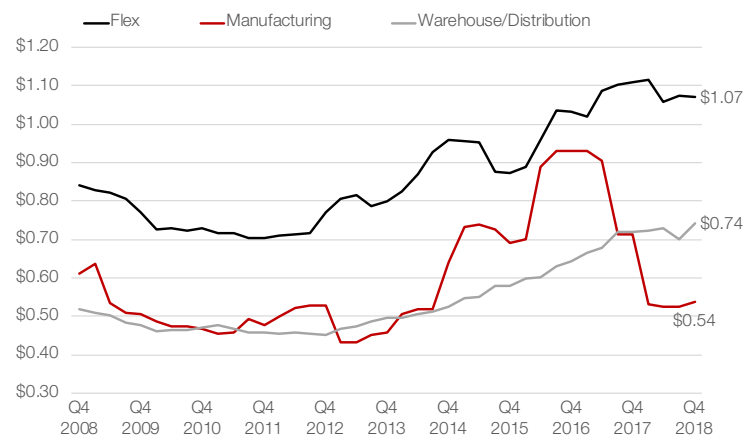
Quarterly Volume 12/31/18: \$79,400,769

Year-over-Year Change: 42.2%

Source: Real Capital Analytics



Average NNN Asking Rent



MARKET OVERVIEW

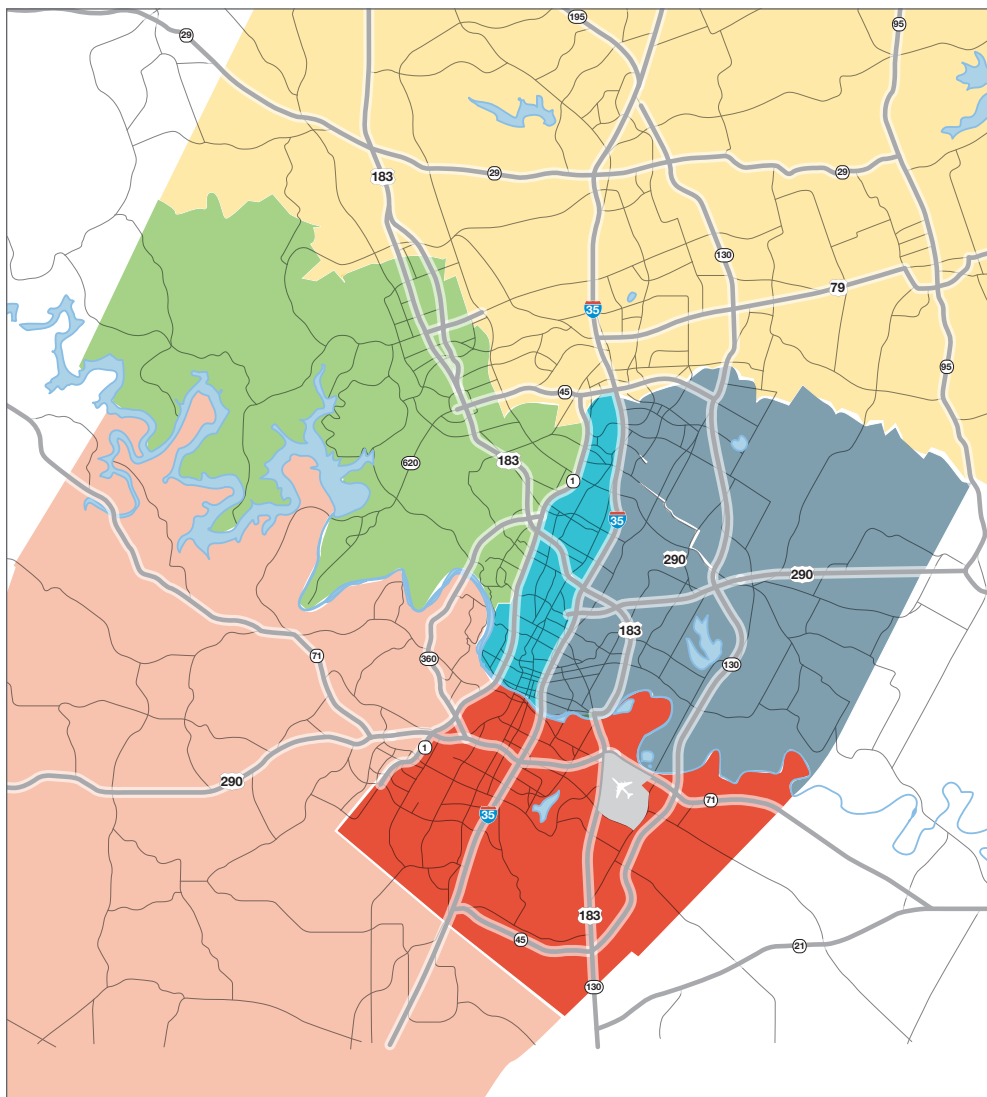
Submarket Stats

Submarket Statistics	Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q4 2018 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q4 2018 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent (\$/MO/PSF)
Austin Market Total	89,024,396	6.8	11.0	543,570	2,221,328	1,058,813	2,356,270	1,695,214	0.86
Flex	20,533,073	9.2	13.3	297,312	570,558	20,000	299,130	551,024	1.07
Manufacturing	15,660,440	0.4	3.8	11,940	107,678	0	0	0	0.54
Warehouse/Distribution	52,830,883	7.7	12.3	234,318	1,543,092	1,038,813	2,057,140	1,144,190	0.73

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Georgetown/Round Rock Total	8,356,950	8.6	15.6	219,314	64,809	336,544	347,702	194,920	0.67
Flex	1,083,774	5.9	13.3	33,552	-37,383	0	0	57,000	1.03
Manufacturing	1,942,707	0.9	7.6	24,368	5,968	0	0	0	0.96
Warehouse/Distribution	5,330,469	12.0	18.9	161,394	96,224	336,544	347,702	137,920	0.61
North Central Total	18,638,099	6.4	9.2	92,826	498,183	265,693	265,693	0	0.95
Flex	4,647,691	9.8	14.0	-14,359	102,660	0	0	0	1.02
Manufacturing	1,516,752	0.0	9.5	0	32,400	0	0	0	0.75
Warehouse/Distribution	12,473,656	6.0	7.3	107,185	363,123	265,693	265,693	0	0.83
Northeast Total	25,400,624	6.0	9.3	196,210	479,248	300,416	300,416	618,408	0.92
Flex	5,996,614	8.9	14.1	275,548	208,787	20,000	20,000	354,734	1.15
Manufacturing	5,343,276	0.5	2.3	-12,428	95,137	0	0	0	0.66
Warehouse/Distribution	14,060,734	6.8	9.9	-66,910	175,324	280,416	280,416	263,674	0.84
Northwest Total	7,445,032	6.5	9.1	-72,275	167,837	100,000	278,930	151,640	1.00
Flex	3,300,932	7.8	12.2	8,554	132,765	0	143,930	139,290	1.03
Manufacturing	1,274,150	0.0	1.2	0	0	0	0	0	0.75
Warehouse/Distribution	2,869,950	7.9	8.9	-80,829	35,072	100,000	135,000	12,350	0.88
East/Southeast Total	19,023,865	8.5	14.7	219,426	972,011	15,960	996,829	401,746	0.90
Flex	4,648,054	9.0	10.5	75,507	211,237	0	115,200	0	1.12
Manufacturing	1,668,814	1.5	3.6	0	-25,827	0	0	0	0.70
Warehouse/Distribution	12,706,997	9.2	17.6	143,919	786,601	15,960	881,629	401,746	0.81
Southwest Total	10,159,826	5.0	9.5	-111,931	39,240	40,200	166,700	328,500	0.74
Flex	856,008	18.9	22.5	-81,490	-47,508	0	20,000	0	1.15
Manufacturing	3,914,741	0.0	2.6	0	0	0	0	0	0.50
Warehouse/Distribution	5,389,077	6.5	12.3	-30,441	86,748	40,200	146,700	328,500	0.67

MARKET OVERVIEW

Austin Industrial Submarkets



- 1. Georgetown/
Round Rock
- 2. North Central
- 3. Northeast
- 4. Northwest
- 5. Southeast
- 6. Southwest

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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NAI Partners Austin Office

701 Brazos Street, Suite 320
Austin, Texas 78701

tel 512 580 6208

www.naipartners.com/austin

Leta Wauson
Director of Research

leta.wauson@naipartners.com
tel 713 275 9618