

AUSTIN INDUSTRIAL MARKET

AUSTIN CLOSES 2018 WITH MIXED RESULTS

The Austin industrial market saw a drop in vacancy rate during the final ninety days of 2018. Market-wide, vacancy is 6.5%, and three-fourths of the submarkets continue to register vacancy below the market average. During the quarter, four new buildings totaling 900,533 square feet delivered. This means that nearly 1.9 million square feet across 19 buildings has come to market during the calendar year, and 24 buildings with nearly 2.0 million square feet remain under construction. While the majority of these developments are smaller in scale, pre-leasing overall is lagging significantly, with nearly 75.1% of the square footage set to arrive without a tenant in place. This metric remains a must watch in 2019 to ensure that supply continues to balance tenant demand in the market.

NET ABSORPTION

The most recent quarter of 2018 saw 562,365 square feet of positive absorption, further reversing 2017's negative trend. Overall, the market has seen more than 2.2 million square feet of positive absorption for the year, and overall six consecutive quarters of positive absorption. The majority of submarkets saw positive absorption during the quarter, and were able to offset negative amounts occurring in the Northwest and Southwest submarkets.

CONSTRUCTION

In addition to recent deliveries, 24 buildings representing nearly 1.9 million square feet are currently underway. This spike in construction has taken the quarterly average to nearly 1.7 million square feet of new space on the five year quarterly average. These projects continue to focus on the Austin industrial market's demand for research and development space as well as e-commerce solution spaces. The majority of the under construction buildings are expected to deliver within the next 12 to 18 months. Projects that expected to be greater than 100,000 square feet upon completion include Springbrook Corporate Center in the Round Rock submarket, Innovation Business Park in the Georgetown submarket and Heritage Crossing in the North submarket. These three building parks will add nearly 800,000 square feet of space to the Austin industrial market when they arrive. Additionally, the Park 35 complex in the Northeast submarket has just broken ground and will add another 305,000 square feet of space to the Austin industrial market.

CURRENT CONDITIONS

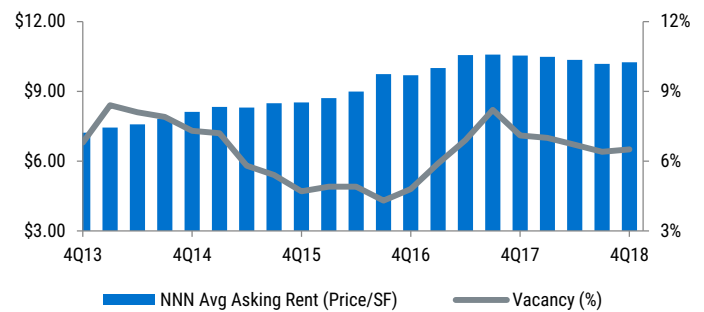
Citywide asking rents decreased by \$0.31/SF quarter-over-quarter; but six submarkets' rents higher than city average

Absorption gains in Q4 add 50% to 2018 yearly total

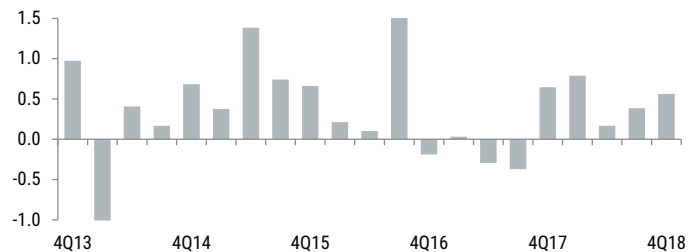
Vacancy rate remain below 7.0% for year, but slight increase quarter over quarter

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	88.8 MSF	88 MSF	86.7 MSF	↑
Vacancy Rate	6.5%	6.3%	6.8%	↑
Quarterly Net Absorption	562,365	588,981	613,587	↓
Average Asking Rent	\$10.25	\$9.94	\$10.22	↑
Under Construction	1.9 MSF	2.5 MSF	2.0 MSF	↓
Deliveries (SF)	800,533	291,017	114,500	↑

LEASING ACTIVITY

Tenants in the Austin market area showed continued demand within the industrial sector, with just over 100 transactions during the quarter for a total of just over 1.2 million feet of leasing taking place. Although mirroring the leasing seen in each of the quarters in 2018, these leasing numbers continue a downward trend that has seen the quarterly average fall to half of the prior five year average of 2.2 million square feet of leasing activity. Overall, the average leasing transaction for the quarter registered 11,448 square feet. This represents a nearly 10.3% increase quarter-over-quarter in terms of transaction size, but a 23.1% decrease year-over-year. Both owners and developers need to monitor a continued downsizing in terms of tenant space demands before they consider developing or acquiring any additional industrial properties in the market. In terms of large scale lease transactions, the Build-A-Sign lease in November for 96,000 square feet and an unknown tenant taking an additional 96,000 square feet at Met Center II in late December are the largest transactions taking place in the quarter.

RENTAL RATES

The average asking rental rate for available industrial space rose in the fourth quarter to \$10.27/SF, up substantially from the third quarter. Additionally, the rates are down \$0.02/SF from the same time in 2017. Six of the eight major submarkets tracked by NKF had total asking rents that exceeded the market average for the quarter. Of those six submarket, four had rates greater than \$1.00/SF higher the market average, led by the East submarket with \$12.65/SF. It remains true that the more a submarket has in terms of locational strength relative to transportation arteries and rooftops, the stronger the submarket will be in terms of both leasing and rental rates.

INVESTMENT ACTIVITY

Investors were active in the Austin market during the fourth quarter, as well as the second half of 2018 as a whole. Ivanhoe purchased a large portfolio, which included multiple Austin industrial sites, for \$3.9 billion dollars in late December from Brookfield. Additionally, the large Blackstone/Gramercy transaction in late October for \$7.6 billion dollars likewise included multiple Austin based industrial properties. Overall, market-wide, Austin's industrial properties traded hands at an average of \$141.16/SF for the fourth quarter.

AVERAGE ASKING RENT BY SUBMARKET

Average Asking Rent (\$/SF)

	Current Quarter	4Q17	12 Month Change
Northwest	\$12.02/SF	\$13.80/SF	↓
Central	\$11.74/SF	\$12.21/SF	↓
North	\$11.25/SF	\$10.72/SF	↑
East	\$11.15/SF	\$11.46/SF	↓
Southeast	\$10.81/SF	\$10.26/SF	↑

Vacancy BY SUBMARKET

Vacancy Rate (%)

	Current Quarter	4Q17	12 Month Change
Central	4.1%	3.7%	↑
Southwest	5.0%	3.9%	↑
Northwest	6.6%	5.0%	↑
East	4.3%	6.0%	↓
Georgetown	8.6%	5.6%	↑

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Lyft	2101 E Saint Elmo Rd	Southeast	New	20,555
Goodwill	1309 Rutherford Ln	Northeast	New	30,720
Freedom Solar	1340 Airport Commerce Dr	Southeast	New	29,082
TBD	7000 Metropolis Dr	Southeast	New	96,000
Chatsworth Products Inc	Settlers Crossing Bldg 2	Georgetown/ Cedar Park/ Round Rock	New	33,922
TBD	10519 Boyer Blvd	North	New	75,600

SELECT SALES TRANSACTIONS

Buyer/Seller	Submarket	Sale Price	Price/SF	Square Feet
Agellan Commercial REIT/ Sentinel Real Estate Corp.	North	\$8,350,000	\$148.84	56,100
Apple Inc./ TBD	Georgetown/ Cedar Park/ Round Rock	Undisclosed	TBD	6,300 AC

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)	Total Asking Rent (Price/SF)
Central	1,920,267	0	4.1%	-14,046	-7,363	\$11.74	-	\$11.74
East	6,169,342	0	4.3%	16,472	103,039	\$12.65	\$0.66	\$11.15
Georgetown/Round Rock	8,358,976	184,920	8.6%	219,314	76,809	\$8.01	\$13.62	\$8.09
North	16,717,832	0	6.5%	138,667	537,341	\$11.11	\$12.56	\$11.25
Northeast	19,091,153	876,688	5.3%	173,138	369,549	\$11.07	\$10.90	\$11.05
Northwest	7,421,032	151,640	6.6%	-76,775	148,689	\$11.94	\$20.00	\$12.02
Southeast	19,023,865	401,746	8.5%	219,426	972,011	\$11.30	\$7.64	\$10.81
Southwest Hays	10,132,326	328,500	5.0%	-113,831	23,540	\$8.72	\$15.50	\$8.91
Austin Market	88,834,793	1,943,494	6.5%	562,365	2,223,615	\$10.27	\$10.01	\$10.25

SELECT TEXAS MARKETS- LARGEST SUBMARKETS

Dallas, Dec 2018

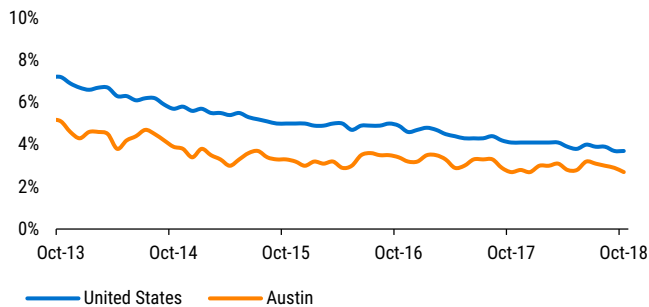
Top 10 Submarkets by Rentable Square Feet

Rank	Submarket	RSF
1	Northwest Houston	164 M
2	DFW South Stemmons	119.5 M
3	Northeast Dallas	113 M
4	DFW Great SW- Arlington	111 M
5	Northwest Dallas	111 M
6	South Dallas	103 M
7	North Houston	100 M
8	Southeast Houston	97 M
9	North Ft. Worth	94 M
10	South Ft. Worth	84 M

Source: Newmark Knight Frank

UNEMPLOYMENT RATE

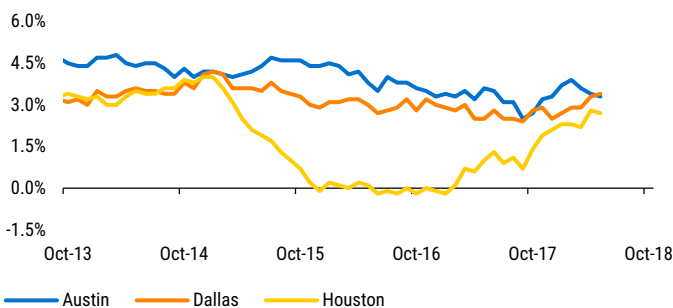
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT- SELECT TEXAS MARKETS

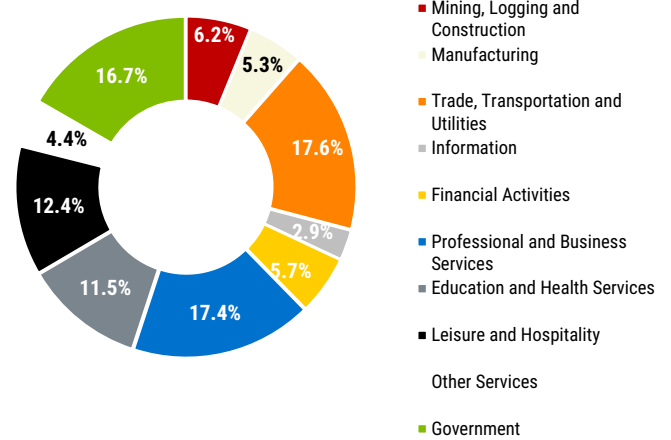
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

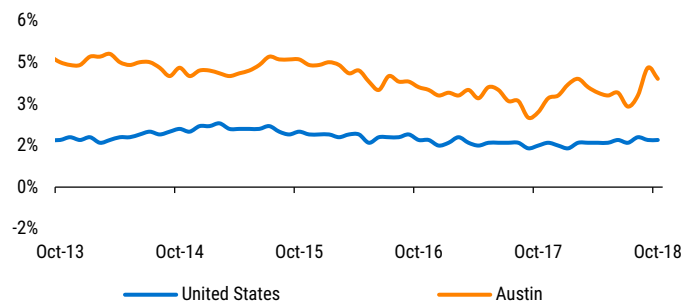
Austin, October 2018



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

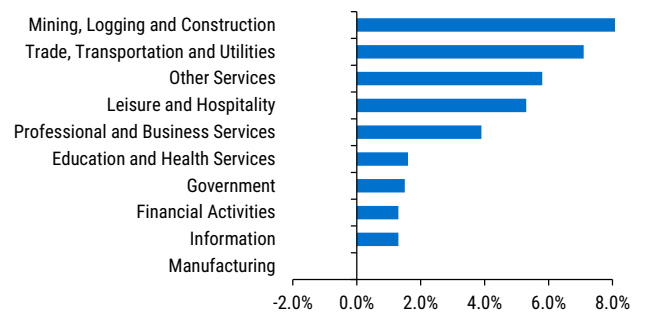
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

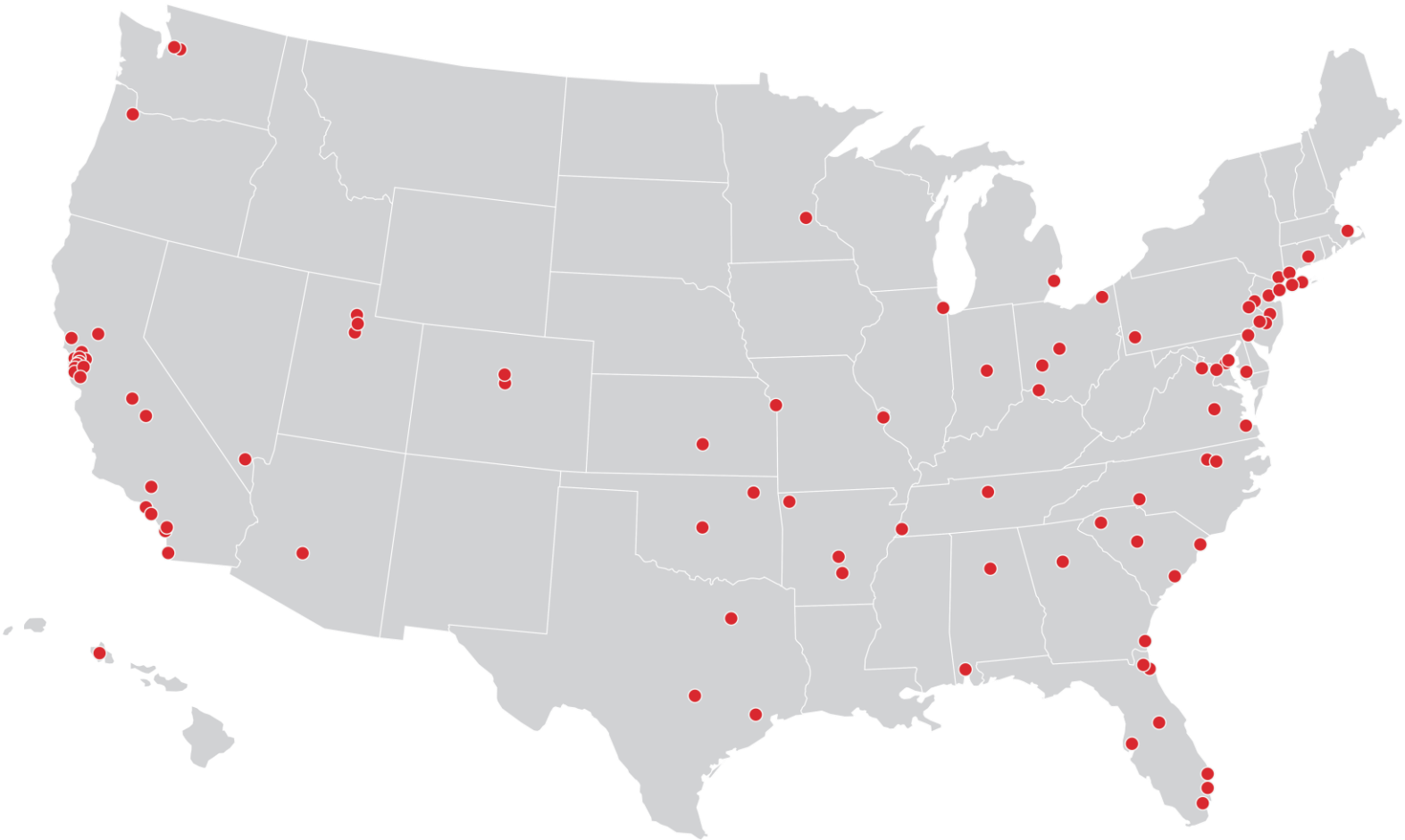
EMPLOYMENT GROWTH BY INDUSTRY

Austin, October 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

NEWMARK KNIGHT FRANK UNITED STATES OFFICE LOCATIONS



Austin

515 Congress Ave.
Suite 1620
Austin, TX 78701
512.329.2782

Graham Hildebrand

Director – Texas Research
713.599.5151
graham.hildebrand@ngkf.com

CJ Mgbearu

Analyst – Texas Research
713.599.5123
cj.mgbearu@ngkf.com

Kirsten Kempf

Research Coordinator
713.599.5104
kkempf@ngkf.com

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