

INVESTMENT FORECAST

Industrial
Austin

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

One-Third of Austin's Inventory Opened in Less than a Decade, Creating Turbulence for Larger Properties

New construction amplifies existing overhang, smaller spaces more insulated. Including this year's scheduled completions, roughly 39 million of Austin's 115 million square feet of industrial inventory will have been built since 2017. In the two years following the onset of the pandemic, this rapid pace of construction was well-received, with vacancy falling to a two-decade low in 2021. Conditions changed quickly, however, as Austin's rate is set to reach double digits in 2024 for the first time in 13 years. The volume of metrowide vacant stock rose by more than 7.3 million square feet across 2022-2023, and this year's substantial delivery slate is expected to elevate that figure by an additional 3.3 million square feet. Upward vacancy pressure is more evident among 100,000-square-foot-plus spaces, however, as larger facilities have accounted for a significant share of new construction in recent periods. Smaller industrial properties meanwhile are performing better in Austin, as they are not facing the same level of supply-side competition. That dynamic should continue in 2024 with sub-100,000-square-foot projects comprising less than 15 percent of the space set to finalize this year.

Trio of north suburbs stand out amid trading slowdown. Higher debt costs and supply-side pressures contributed to deal flow falling by more than 25 percent year-over-year in 2023, yet activity remained on par with the trailing two-decade average. In the second half of last year, three suburbs — Cedar Park, Georgetown and Round Rock — recorded noticeable upticks in trading. Some distribution and manufacturing assets change hands here, but the majority of acquisitions are warehouses smaller than 30,000 square feet. These assets generate tenant demand due to their proximity to affluent, fast-growing suburbs, and access to major roadways that traverse Texas.

2024 MARKET FORECAST

+2.2%



EMPLOYMENT: Softer hiring results in the net gain of 29,000 jobs, the smallest increase since 2011, excluding 2020. Such a dynamic exemplifies how robust employment growth has been this decade.

7.7 million



sq. ft.

CONSTRUCTION: More than 6 million square feet finalizes for a fourth straight year, bringing the combined 2021-2024 volume to 33.4 million square feet. That exceeds the prior 20-year total.

+230 bps



VACANCY: The historic supply influx is creating substantial vacancy pressure. Coming off a 500-basis-point surge in 2023, the rate soars to 11.6 percent this year, its highest figure since 2010.

+1.7%



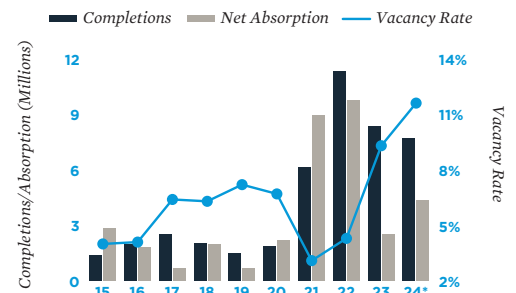
RENT: Double-digit vacancy for the first time in more than a decade creates some rent growth headwinds. Austin's average asking rate rises, but at a five-year low pace to \$14.80 per square foot.

INVESTMENT: Investors may concentrate on 10,000- to 50,000-square-foot properties as vacancy rates and supply-side competition are much lower. Leasing in that segment was strong in Southeast Austin to start 2024.

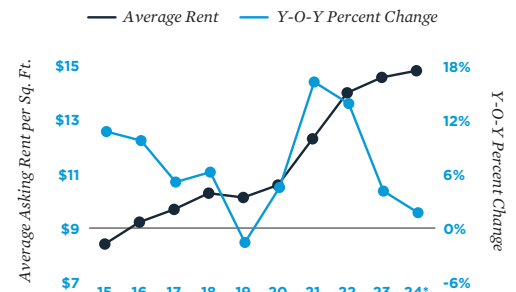
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.