

# 2018 YEAR-END MARKET REPORT

## San Antonio | Austin, TX

### OVERVIEW

**SAN ANTONIO** San Antonio's regional economy has historically been one of the most stable in the US and continues to improve. Ranked 4th among Texas metropolitan areas and 38th in the US in GDP, San Antonio's economy is focused primarily within the military, health care, government-civil service, financial services, oil and gas, and tourism sectors. The region has also become a popular selection for American-based call centers and has added a sizable manufacturing sector centered around automobiles in the last decade.

**AUSTIN** Austin's regional economy has continued to show positive trends including an unemployment rate that remains one of the lowest in the county (2.8% compared to the national average of 4.1%). Greater Austin has a diverse economy heavily anchored by government activities and education. Hightech firms, particularly related to semiconductors and software, are also important economic pillars. The five-county MSA is the 32nd largest metropolitan economy in the U.S. per GDP and 3rd largest in the state of Texas. Both markets benefit from proximity to I-35 and I-10, connecting them with other major metropolitan transportation hubs including Houston and Dallas/Fort Worth.

### MARKET REVIEW

**SAN ANTONIO** The San Antonio Market contains over 126 million square feet of industrial space. Warehouse space makes up 112 million square feet, or roughly 89% of the market (with the remaining being flex space). Overall vacancy for warehouse space is currently 5.6% and has been steadily declining in the last 10 years as new industrial users enter the market.

### 2017 LARGEST DEALS

SAN ANTONIO	
COMPANY	SF
Dollar General	900,000
Victory Packing	240,000
Ace Mart Restaurant Supply	214,500
Southern Warehousing	147,800
Cornerstone Industrial Park Bldg 3	93,300
Eisenhower Point Bldg 4	85,000
Enterprise Industrial Park Bldg 2	80,200
AUSTIN	
COMPANY	SF
Amazon.com	855,000
Expo Business Park Bldg 13	136,000
Park 183 – Phase Bldg 1	130,200
FedEx Express	126,700
Image Microsystems	117,000
Tech Ridge Five	91,500
South Park Bldg 4	75,000

This market has long been the preference of industrial users, especially distributors, for its ease of access to all major interstates in Texas. Tenants in the market have shown a growing preference for Class A product with higher ceilings, larger truck courts, and more modern finishes. The historical lack of available Class A product has forced tenants to compete for available space and developable land. This demand has led to over 1 million square feet of new construction in 2017 with almost 1 million already scheduled to deliver in 2018. Despite the level of new construction, net absorption for 2017 was a positive 740,000 square feet, mainly due to high leasing volumes and demand for industrial space along the I-35 corridor.

As industrial users move into the market and demand Class A spaces and finishes, more Class B and C product is becoming available and the market absorbs this 2nd and 3rd generation product at a slower rate than other markets where Class A construction is continuous. As a result of the large amount of availability in Class B and C product, rates for this type of product have trended downward in the past few years. Conversely, Class A rental rates inch higher as new construction demands higher prices and is able to meet demand. Current rental rates in the market for all warehouse product averages \$5.85/sf NNN.

The San Antonio market will continue to see an increase in industrial Class A demand in the coming years. Consequently, rental rates will also see an increase as tenants continue to compete for industrial space along the I-35 corridor.

**AUSTIN** The Austin Market contains over 101 million square feet of industrial space as of the end of 2017. Warehouse space makes up 78 million square feet, or roughly 77% of market (with the remaining being flex space). Overall vacancy for warehouse space is currently 6.0% and has been steadily declining in the last 10 years as new industrial users enter the market. A slight uptick in vacancy was noted in calendar-year 2017 likely attributable to the timing of absorption of new deliveries. Vacancy rates began to stabilize during the 4th quarter as new leases were signed.

Approximately 1.5 million square feet of new industrial product was delivered to the market in 2017 and over 1.8 million square feet of new product was under construction at year-end. Net absorption for the overall Austin industrial market was positive 541,919 square feet in the 4th quarter of 2017. However, for the first time since 2014, annual net absorption did not crest 1 million square feet. With developers focusing more on large-block flex space in order to appeal to economically-minded office occupiers, Austin is seeing a handful of traditional industrial tenants squeezed out of the market.

Average asking rental rates rose from \$8.44/SF to \$9.10/SF in the warehouse sector from Q3 2017 to Q4. Rates have steadily increased over the last 5+ years, as average asking rates were below \$7.00/SF only three years ago at year-end 2014.

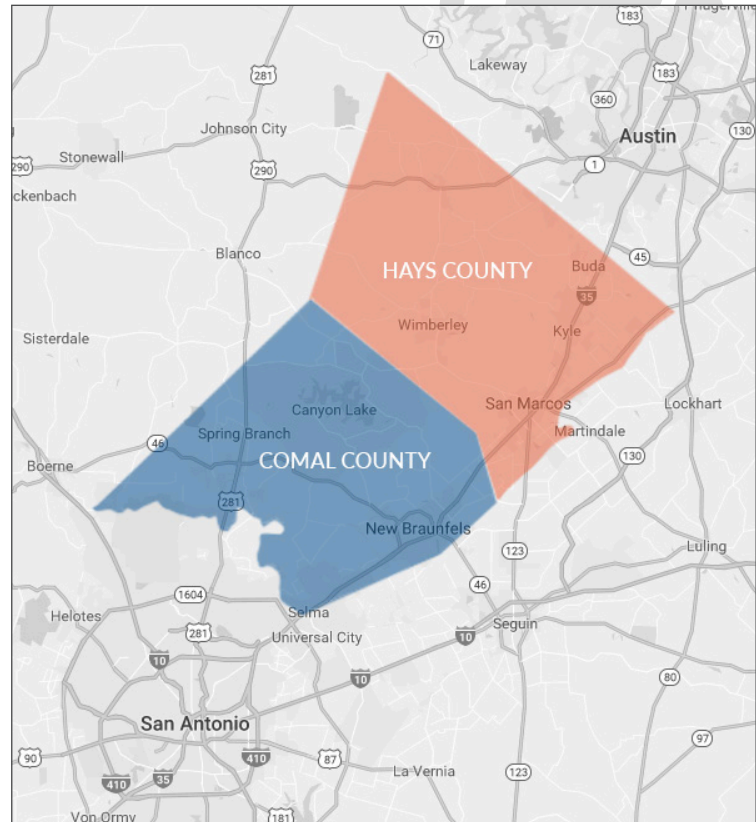
Austin should have enough excess space to fill demand for the near future. Demand is high enough that even the increase in new inventory leaves the outlook for the market trending upward. Overall leasing activity and rental rates continue to rise with the seemingly endless demand for space. Initial worries that rebuilding efforts along nearby coastal markets would pull commercial construction workers from Austin and delay/increase construction costs have faded with time; however, construction costs remain high comparative to other national markets.

## SUBMARKET REVIEW

### I-35 CORRIDOR OVERVIEW

The I-35 Corridor refers to the stretch of I-35 that connects San Antonio and Austin. The two principal counties that are represented are Comal County (San Antonio Market) and Hays County (Austin Market). The corridor includes the notable micromarkets of New Braunfels, San Marcos, Kyle and Buda.

There were deliveries of 1.2M square feet of industrial space in 2017, 466,000 of which were in Q4. Positive net absorption was 200,000 square feet in 2017, likely due to significant deliveries of 2.1 million in 2016 and 1.8 million 2017 that continue to be absorbed. Current absorption in 2018 is strong with 126,000 square feet already absorbed in Q1.



### SUBMARKET | COMAL COUNTY

The Comal County submarket is located to the northeast of San Antonio and is comprised of 8 cities. There are 3 major highways that run through Comal County: Interstate 35, U.S. Highway 281, and State Highway 46. Interstate 35 connects Comal County to Austin. Comal County contains over 12.8 million square feet of industrial space. Of this space, 12.5 million square feet is warehouse space within 293 buildings. 2017 deliveries included 7 buildings, totaling over 700,000 SF of space, 419,000 of which was delivered in Q4. Warehouse net absorption in 2017 was 175,846 square feet. Delivery of this newer product has led to higher vacancy in Class B and C product as tenant’s preferences shift to newer buildings with enhanced features. Consequently, rental rates for B and C buildings have decreased with the increasing vacancy. Rental rates for Class A space is trending upward as Class A product absorbs quickly.

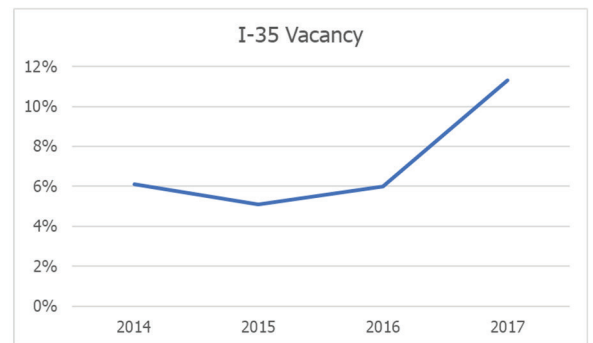
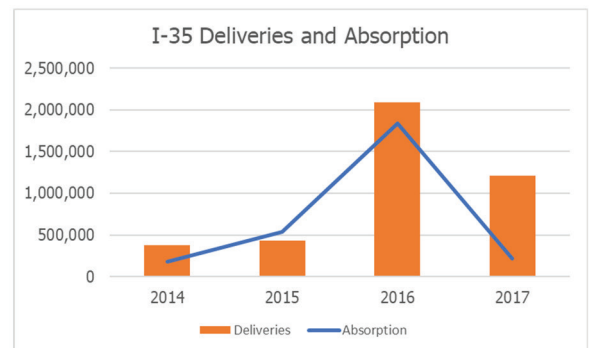
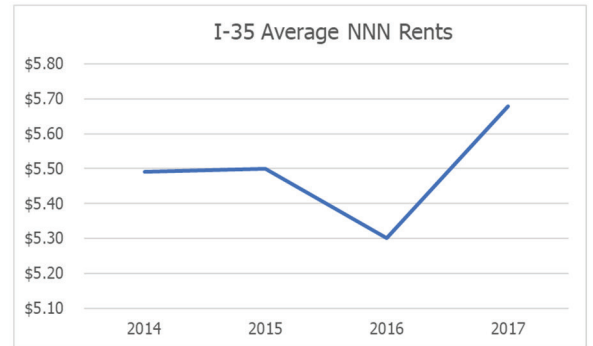
There were 10+ lease signings in the Comal County Submarket in 2017, the largest of which included a 215,000 square foot lease signed by Ace Mart Restaurant Supply and a 80,000 square foot lease in Enterprise Industrial Park by an undisclosed tenant. Notably, there were 5 leases in excess of 20,000 square feet signed at Tri-County.

## SUBMARKET | Hays County

The Hays County submarket is located to the southwest of Austin’s CBD and is comprised of 9 cities. I-35 runs through the submarket and connects Austin to San Antonio. Hays County contains over 7.8 million square feet of industrial space, 94% of which is warehouse space. 370,000 square feet of warehouse space was delivered in 2017 and another 98,000 is currently under construction. Vacancy has been increasing as new product is added, but the submarket is quickly absorbing this product. Rental rates in this submarket are increasing year over year and expected to continue to do so as demand for space along 1-35 increases. Kyle, Buda and San Marcos can accommodate requirements for newer warehouse product for larger users.

## INDUSTRIAL LAND

Developable land is available along the I-35 corridor between San Antonio and Austin and is being absorbed quickly due to its access along the interstate. San Antonio is heavy on development while Austin is not as keen on new construction. In fact, the permitting process in Austin and the surrounding submarkets is much more complex and stringent compared to San Antonio. Developers typically sell land conditioned upon earning development fees. Pricing varies, depending largely on location along the interstate, access, and improvements. A buyer can expect to see land prices between \$2.50-\$5.00/sf closer to San Antonio, and upwards of \$7.00/sf for land in Austin and the Tri- County area outside of San Antonio.



## CONTACT

### DAMON TASEFF, SIOR

dtaseff@allegrorealty.com  
216.965.0630

### NATE WALCZUK

nwalczuk@allegrorealty.com  
216.331.7178