KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Austin

ECONOMY

- The economy continues to be supported by artificial intelligence (AI)-driven investment, though sustained growth will depend on whether new investment tax incentives in the One Big Beautiful Bill Act encourage broader business spending and hiring beyond AI. A wider expansion in capital investment could strengthen the economic outlook while creating additional opportunities for landlords and investors and increasing competition for logistics space.
- Additional factors that could influence the economic outlook and demand for logistics space include domestic manufacturing investment, real wage growth, retail sales, trade policy, financial market conditions, and geopolitical developments.
- National warehouse and storage employment continued its downward trend, decreasing by 33,000 positions compared with the same period last year.
- Austin's population has grown by 11.3% over the past five years, adding more than 298,160 residents. Over the past year, the population increased by 1.8%, marking the slowest annual growth rate of the past decade.
- AI related users continue to drive demand locally, with an increasing number of active requirements across the market, particularly in Hays County and Taylor, Texas. These tenants seek logistics space to support the storage, manufacturing, and distribution of components critical to data center operations, while leveraging Texas's central location, reliable power, fast time-to-market, and skilled labor force.
- This quarter, SpaceX announced plans for a major campus in Bastrop County that could reach up to 11.0 million square feet (M SF) across roughly 1,000 acres. The project is expected to support solar and AI-related manufacturing and storage. Alongside Tesla, both companies continue to drive a significant economic footprint in Austin, with ongoing expansion expected to further support industrial demand across Central Texas through job creation, capital investment, and continued strengthening of the region's manufacturing and energy sectors.

VACANCY

- Austin's overall vacancy rate fell to 22.5% in Q2 2026, a 60-basis point (bp) improvement from the previous quarter. Despite the quarterly decline, vacancy remains elevated at 330 bps above year-ago levels and 1,130 bps above the long-term average (LTA) of 11.2%.
- Warehouse/distribution vacancy declined 70 bps quarter-over-quarter(QOQ) to 23.4% in Q2 2026 but remained 300 bps above year-ago levels as soft leasing demand and speculative deliveries kept available space elevated.

Data in this report was provided by KBC Advisors, St. Louis Federal Reserve, and CoStar.

TRENDS: LOGISTICS & MANUFACTURING PROPERTIES

	Q2 2025	Q2 2026	Chg YOY
Vacancy	19.2%	22.5%	▲
Net Asking Rents	$12.64	$12.85	▲
Net Absorption, SF	815,446	1.3M	▲
Under Construction, SF	6.3M	5.5M	▼
New Deliveries, SF	1.4M	5.5M	▲

Statistics reflect logistics & manufacturing space, 20,000 sf+ and exclude owner occupied

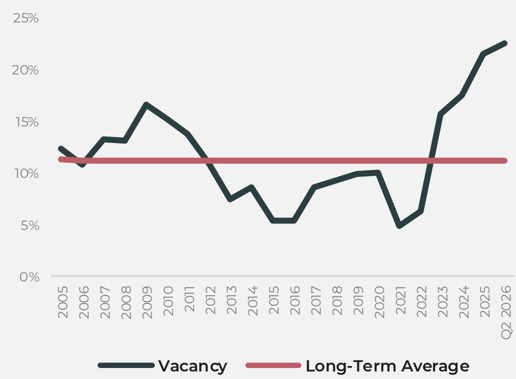
ECONOMIC INDICATORS

	May 25	May 26	Delta	
National Warehousing Employment (thousands)	1,875	1,842	-1.8%	▼

	Jun 21	Jun 26	Delta	
Austin Population	2.3M	2.6M	11.3%	▲

Increases / Decreases YOY

VACANCY VS. LONG-TERM AVERAGE



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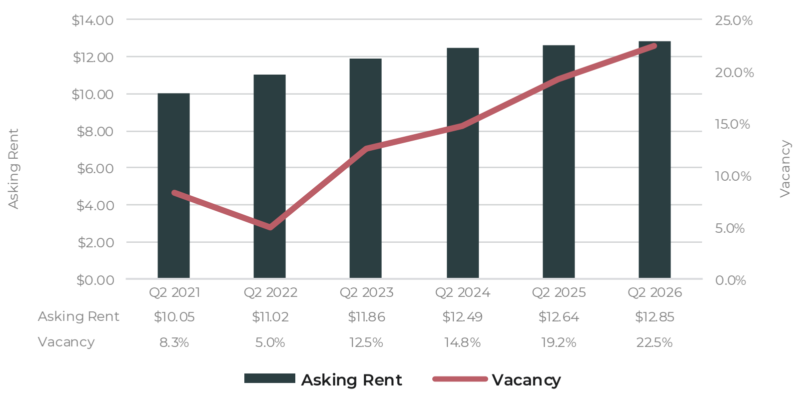
VACANCY CONT'D.

- Across submarkets with similar inventory levels, vacancy is largely driven by the pace of new deliveries relative to demand. In most 10–15M SF submarkets, vacancy is rising as recent supply additions continue to outpace demand.
- Given the slowdown in population growth and demand, combined with elevated supply delivered over the last five years, market conditions indicate that Austin's vacancy rate is likely to remain elevated in the near term.
- Austin's industrial market has undergone a significant transformation as modern, institutional-quality developments have expanded the inventory of high-functioning space. While leasing activity has begun to normalize, market fundamentals will likely improve gradually as existing vacant space is absorbed and new construction remains restrained.

RENT

- Annual asking rents have continued to remain flat, increasing only 0.7% QOQ, bringing the market asking rent per square foot (/SF) to $12.85/SF.
- Tenant-favorable leasing conditions remain in place as landlords continue to offer generous concession packages, including elevated tenant improvement allowances and free rent. Rising construction and build-out costs have kept incentives well above levels seen two years ago.
- Landlords remain focused on increasing occupancy, offering greater lease flexibility, including 12–36-month terms and teaser rates that reduce first-year rent. Annual rent escalations have generally held at 3.5%–3.75%, while spaces larger than 250,000 SF continue to lease under different market dynamics.

VACANCY & ASKING RENT



	Q2 2021	Q2 2022	Q2 2023	Q2 2024	Q2 2025	Q2 2026
Asking Rent	$10.05	$11.02	$11.86	$12.49	$12.64	$12.85
Vacancy	8.3%	5.0%	12.5%	14.8%	19.2%	22.5%

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DEMAND

- Demand remains below the LTA of 1.7M SF. While the quarter recorded positive absorption, demand in the first half of 2026 was roughly 1.5M SF lower than the first half of 2025, indicating a slowdown in activity year-over-year (YOY).
- The manufacturing sector recorded negative absorption from Q3 2025 through Q1 2026, with only 37,000 SF of positive demand in Q2 2026.
- Leasing activity remained steady from the previous quarter at 2.3M SF, more than 85% above the same period last year. Notable transactions this quarter included deals by Tesla, The American Housing Corporation, and Samsung.
- Growing demand from military-related users, including those involved in the space program, and active suppliers for Samsung, with some deals already signed and others still seeking space. The market has also seen demand from users requiring HVAC, driven by more tenants needing climate-controlled space.
- Future absorption will depend on macroeconomic conditions and the market's ability to remain attractive to incoming tenants. For now, conditions are favorable for occupiers, with available space and concessions supporting continued leasing activity.

CONSTRUCTION

- The overall construction pipeline declined 11% QOQ and 13.4% YOY, totaling 5.5M SF currently under construction (UC).
- The warehouse and distribution pipeline totaled 4.8M SF, down more than 15% QOQ and nearly 20% YOY.
- New deliveries continue to moderate, totaling 995,512 SF this quarter. On a year-to-date basis, 2.6M SF has been delivered, representing a decline of nearly 85% from the first half of 2025.
- Continued reductions in the construction pipeline may place downward pressure on vacancy over time, as existing supply is absorbed by tenants entering the market and fewer new deliveries come online.
- Austin's industrial inventory has grown nearly 45% since 2021, reflecting a sustained period of elevated development. As a result, tenants now benefit from a broader selection of available space across the market and greater flexibility in focusing on key submarkets.
- Land purchases for speculative product have declined significantly. Despite this, tenant demand remains active, with manufacturers showing interest in proposed sites.

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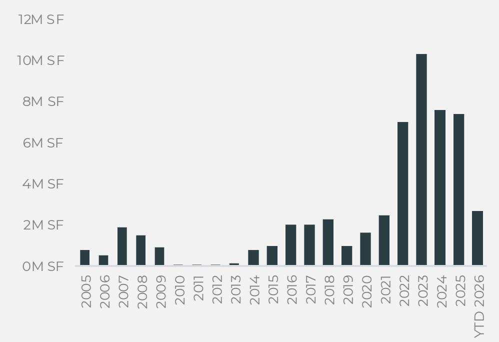
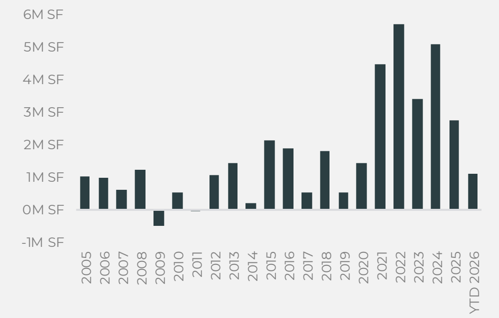
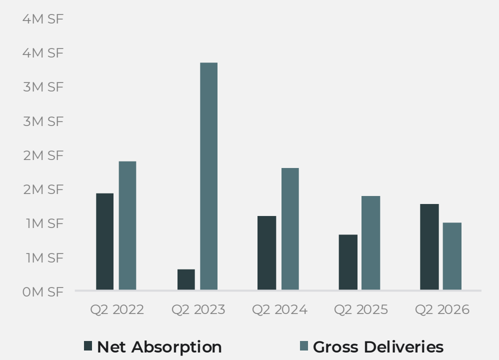
NEW DELIVERIES



NET ABSORPTION



SUPPLY & DEMAND



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MARKET SUMMARY Q2 2026

Submarket	Total Inventory	Vacancy Rate	Q2 2026 Overall Net Absorption	YTD 2026 Overall Net Absorption	YTD 2026 Leasing Activity	Under Construction	YTD 2026 Construction Completions	Overall Asking Net Rent
East+	6,093,862	38.3%	15,115	49,650	793,108	859,364	66,167	$12.37
Far North	5,875,565	18.9%	555,256	562,090	202,119	352,480	0	$13.62
Georgetown	12,550,032	31.0%	541,763	480,818	1,730,955	746,734	439,702	$11.69
Hays County/Lockhart	15,238,963	22.7%	184,043	144,619	521,316	402,300	1,288,048	$12.02
North Central	10,273,770	14.1%	(120,421)	(280,150)	316,767	0	0	$18.80
Northeast+	15,265,245	16.5%	190,598	97,737	226,704	815,081	0	$12.61
Northwest	2,456,537	15.2%	208,247	128,161	149,908	314,264	34,635	$15.55
Southeast	14,877,517	26.7%	(566,233)	(335,096)	922,015	1,657,931	801,214	$12.86
Southwest	1,551,389	4.3%	265,739	243,946	35,384	303,112	0	$17.38
Austin Total	**84,182,880**	**22.2%**	**1,274,107**	**1,091,775**	**4,898,276**	**5,451,266**	**2,629,766**	**$12.85**

Statistics reflect logistics & manufacturing space, 20,000 sf+ and exclude owner occupied

SIGNIFICANT LEASE TRANSACTIONS Q2 2026

Property Address	Submarket	Tenant	Square Feet	Lease Type
Austin Hills Commerce Center Phase II Building 6	East+	Tesla	681,259	New Lease
Southeast Crossing Building 1	Southeast	The American Housing Corporation	157,251	New Lease
Park79 Commerce Center Building 3	Georgetown	Samsung	139,889	New Lease

LARGEST BUILDINGS UNDER CONSTRUCTION Q2 2026

Property Address	Submarket	Developer	Square Feet	Completion Date
Austin Hills Commerce Center Building 6	East+	Sansone	681,259	Q1 2027
Crosspoint Industrial Park Phase II Building 7	Georgetown	Jackson Shaw	606,060	Q2 2027
San Marcos Business Park Building C	Hays County/Lockhart	St Clair Commercial Real Estate	377,300	Q3 2026

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Data in this report was provided by KBC Advisors, St. Louis Federal Reserve, and CoStar including owner occupied buildings.