

# Tight, Dynamic & Evolving: Texas industrial experts discuss record-setting market

BY BRANDI SMITH

“With more rooftops in Austin, the city needs more places to store toothbrushes, restaurant supplies, building materials, and other goods.”

Industrial CRE experts in Texas have seen just about everything over the course of their careers. Even so, where the market stands today is a first for many.

“With some of our older vintage/infill product, we are seeing rental rate increases of 40 to 60 percent on average,” shares Canon Shoults, managing principal at Holt Lunsford Commercial. “Whether renewals or new deals, lease rates have been on the move every 30 to 60 days.”

That’s just one example of the red-hot industrial sector, what JLL-Austin executive vice president Ace Schlameus describes as “tight, dynamic and evolving.”

“Like every market, the e-commerce explosion is driving demand, but in Austin we have the added increase with the population growth due to the masses of people moving to Central Texas,” Schlameus adds.

Davis Bass, industrial project partner at HPI in Austin, sees the same driver: “With more rooftops in Austin, the city needs more places to store toothbrushes, restaurant supplies, building materials, and other goods.”

Zane Cole, who is also an EVP with JLL-Austin, attributes some of the demand to a spike in automobile manufacturing and vendors looking to be a part of production that is starting as soon as the end of the year.

He’s no doubt referring to Tesla’s Gigafactory Texas, the first the company’s building from the ground up in the U.S. Early in September, it was reported that Samsung, one of Tesla’s key suppliers, is looking to build a \$17 billion chip plant in neighboring Taylor, expanding its footprint in Central Texas. The company already has a facility in Austin, but the Taylor plant would be more than four times as large.

JLL’s Q2 Industrial Outlook report documents historic leasing activity: 2.7 million square feet, double the three-year quarterly leasing average. While



Shoults Canon



Zane Cole



Ace Schlameus

vacancy drops, asking rent is up to \$8.71 per square foot.

Stats like that are why HPI ramped up development of its Hays Commerce Center in Kyle and its Crossroads Logistics Center in Manor.

“We have 380,000 square feet delivering in Kyle at the end of this year, and 483,800 SF delivering in Q2 of 2022 in Manor. We have an additional 1.1M SF in planned developments at Crossroads Logistics Center,” says Bass. “We’re doing our best to meet the growing demand in Austin.”

The report shows leasing is just as hot in Houston, where it totaled 11.8 million square feet in Q2, nearly twice the five-year quarterly average. JLL adds “72.3 percent of activity was either new to market or represented a tenant expanding its current footprint.” Vacancy in the Bayou City is dropping as rents increase and the report predicts a new record for absorption in Q3.

Up I-45 in Dallas, vacancy is holding around 7 percent, while asking rent increased. Shoults bills the industrial sector as strong and competitive across all fronts.

“Tenant demand is strong and we are on pace for a record-setting year for net-positive absorption,” he says, adding that mid-year absorption was about 19 million square feet, which equaled a good year of absorption historically in DFW.

“Capital demand on the ownership side is equally as strong as new investment groups are looking to place money in DFW industrial and the current players have substantial capital to deploy.”

Population growth and corporate relocations are helping set those records, according to Shoults.

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## Industrial

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“We continue to see strong activity from out of state companies looking to either move to Texas or establish a presence here,” he says. “The slow-down from COVID was short lived for the industrial market, and COVID only expedited the need for companies to have increased online sales and warehousing.”

In fact, he says tenants came out of the metaphorical COVID shutdown gates running, pursuing space with increased urgency.

“With the overall DFW vacancy rate around 6 percent and some submarkets as tight as 3.5 percent, tenants are having to make quick decisions to secure lease space and pay record setting rates,” says Shoults.

The only setback so far has been the impact shutdowns had on the construction side of deals. Shoults says price increases on all materials, especially steel, are affecting deal costs and rental rates.

“TI jobs are also taking much longer due to lead times on materials,” he adds.

In Austin, Cole notes the shutdown’s impact on retail provided a boost for industrial.

“We see retail taking smaller footprints and then adding a more industrial product to their portfolio to fill the e-commerce need that spiked throughout the U.S. during the pandemic,” he says.

It’s another layer of demand that, Cole believes, will sustain the Austin industrial boom.

“Compared to other large markets in Texas, the amount of industrial space in comparison to the population is grossly underserved,” he says.

Bass predicts the market will expand in terms of square footage and geography.

“Five years ago submarkets like Manor, Buda/Kyle and Georgetown were not on the radar, but those municipalities have seen major growth recently and will continue to grow as Austin’s population does,” Bass explains.

In Dallas, where a record of more than 32 million square feet of industrial space is under construction, Shoults believes the market will remain strong for the foreseeable future.

“We arguably have more room to grow as we play catchup to the other major industrial markets. We are quickly on our way to becoming a billion-square-foot industrial market to put us on par with the industrial markets on the

coasts,” he adds. “The population and job growth are real, and despite a very active development community, absorption is keeping pace with new construction for a relatively low vacancy rate.”

The Texas business climate will continue to lure businesses to relocate, driving up the population, as well as demand for industrial space in the Lone Star State.

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