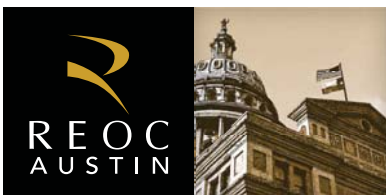
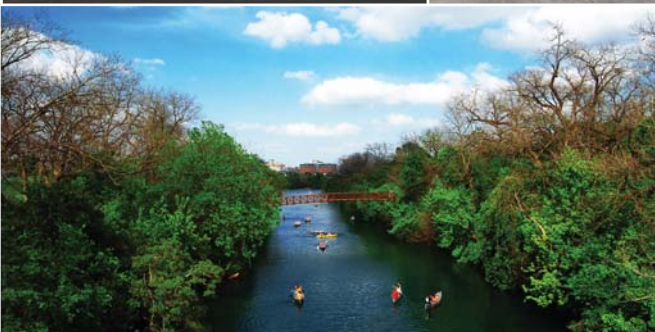




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Industrial Building Market Update
Austin Metropolitan Area
First Quarter 2014



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OVERVIEW

According to the survey of nearly 37.7 million square feet of industrial lease space, the local industrial market experienced a slow but positive first quarter. New leases and expansions were largely offset by tenant move-outs resulting in a rather quiet 82,407 square feet of positive net absorption for the first three months of the year. As a result, the Austin industrial market closed the first quarter with a citywide vacancy rate of 10.6% which is unchanged from last quarter but significantly improved compared to 13.2% recorded in the same quarter the previous year. By comparison, the industrial market started last year with negative absorption but still managed to record more than a million square feet of positive gain by the end of the year - so, a slow start doesn't necessarily mean a slow year. Citywide vacancy still sits at its lowest point in twelve years.

Tenant moves offset new activity led by Dell's consolidation which created a 292,816-square-foot vacancy at 301 Howard. Leading up to this, Karlin Real Estate purchased three of Dell's assembly and storage buildings in 2012 including 13301 McCallen Pass (312,607 sf), 201 Howard (301,644 sf) and 301 Howard (292,816 sf) in the Northeast sector. Dell leased back 301 Howard and 13301 McCallen Pass. Karlin sold the 201 Howard to Casa Marco Texas LLC in September of last year. Casa Marco now occupies the 201 Howard building and Dell has recently vacated 301 Howard. 13301 McCallen Pass is expected to be marketed as available starting next quarter. The emptying of these two buildings totaling roughly 600,000 square feet represents a 1.6% vacancy in the total institutional market surveyed by REOC Austin. Despite the setback, the overall market recorded positive net absorption and maintained a steady vacancy rate compared to last quarter.

RENTAL RATES

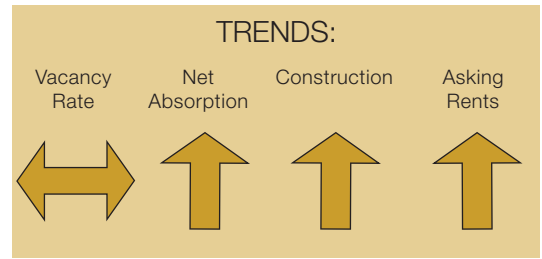
Rental rates continue to respond to improved occupancies with modest increases as landlords renew a more confident position in lease negotiations. Specifically, the bottom asking rate for office warehouse space has moved up. The cost of renting office warehouse space ranges between \$0.40 - \$0.60 while the price for bulk warehouse ranges between \$0.35 - \$0.50. Despite the slight increase in the Flex vacancy rate, asking rental rates for area Flex properties also bumped up a notch and now range between \$0.70 - \$1.00 per square foot per month.

WAREHOUSE

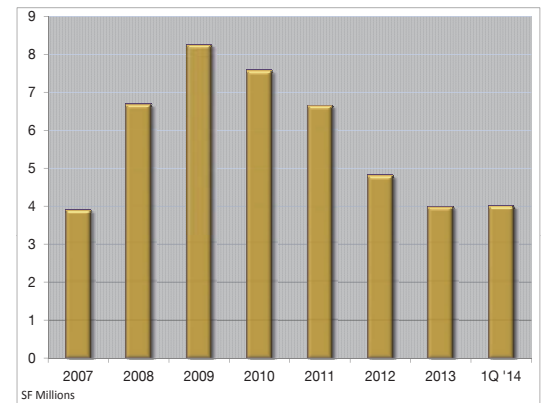
The city's inventory of roughly 24.3 million square feet of warehouse space dominated first quarter activity with a total of 284,088 square feet of positive net absorption recorded. Warehouse product in the North sector substantially outperformed every other sector with the majority of the deal activity. In fact, the North warehouse market recorded 209,616 square feet of positive net absorption and closed the quarter with a vacancy rate of 9.9%. The Round Rock sector saw the completion of Building B at Pecan 130 Business Park (120,000 sf) in Pflugerville which came online 100% pre-leased. EIEIO (36,000 sf) and Bold Tiger Productions (12,000 sf) are expected to take occupancy of their respective spaces in the second quarter to join Tracking Point (48,000 sf) and Dbat (24,000 sf). The Warehouse market closed the first quarter with a citywide vacancy rate of 9.5% compared to 9.9% last quarter and 12.1% recorded in the same quarter a year ago. Warehouse vacancy rates around the rest of the city stand as follows: Round Rock - 12.4%, Northeast - 9.2%, East - 10.3%, Southeast - 10.6% and South - 0.9%.

FLEX/R&D

The city's inventory of roughly 13.3 million square feet of Flex/R&D space closed the first quarter with a citywide vacancy rate of 12.6% which is up slightly compared to 12.0% recorded last quarter largely due to the return of Dell's space at 301 Howard. Still, the Flex/R&D vacancy rate stands improved compared to 15.2% recorded in the same quarter a year ago. All of the city's sectors either maintained or improved vacancy rates except for the Northeast sector where the vacancy rate increased from 19.1% last quarter to 24.1% this quarter reflecting the newly created vacancy at 301 Howard. By sector, the Flex vacancy rates around the rest of the city stand as follows: North - 5.6%, Round Rock - 2.6%, Southeast - 14.8% and South - 2.0%.



HISTORICAL VACANCY



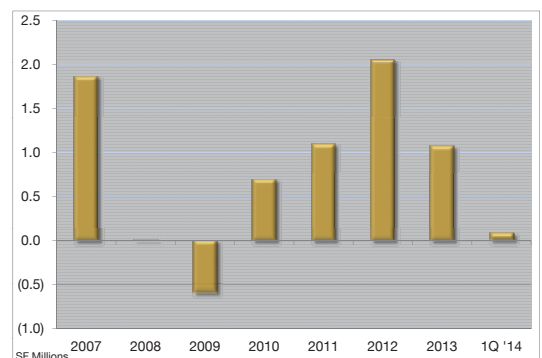
AVERAGE RENTAL RATES/SF (NNN)

	Annual	Monthly
Flex/R&D	\$8.40-\$12.00	\$0.70-\$1.00
Bulk Warehouse	\$4.20-\$6.00	\$0.35-\$0.50
Office Warehouse	\$4.80-\$7.20	\$0.40-\$0.60
Manuf/Warehouse	\$6.60-\$8.40	\$0.55-\$0.70

CURRENT QUARTER ABSORPTION

03/31/14	Flex/ R&D	Office/ Warehouse	Total
Round Rock	3,826	82,600	86,426
North	33,428	209,616	243,044
Northeast	(282,694)	(5,285)	(287,979)
East	0	16,800	16,800
Southeast	43,759	(35,302)	8,457
South	0	15,659	15,659
Total	(201,681)	284,088	82,407

HISTORICAL ABSORPTION



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,381,492	12.4%	120,000
North	10,024,962	9.9%	109,547
Northeast	4,025,032	9.2%	0
East	1,275,258	10.3%	0
Southeast	4,882,511	10.6%	0
South	1,751,310	0.9%	0
Total	24,340,565	9.5%	229,547

*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	645,946	2.6%	27,500
North	5,233,778	5.6%	0
Northeast	3,071,829	24.1%	0
East	0	0.0%	0
Southeast	4,259,865	14.8%	0
South	131,848	2.0%	0
Total	13,343,266	12.6%	27,500

*Expected to deliver within 6 months

FORECAST

Increased rents and improved vacancy continues to support new construction but development has been mainly limited to two project pockets. As mentioned earlier, 120,000 square feet of warehouse space was delivered at Pecan 130 Business Park, Building B in Pflugerville. On its heels, Building A (120,000 sf) is now under construction and expected to come online in the second quarter. Later this year, Building 3 (109,887 sf) at Heritage Crossing is expected to join Buildings 1 & 2 (totaling 338,109 sf) which were delivered to the North sector last quarter.

Looking ahead, tenants will continue to be challenged with higher lease costs as the market tightens but the addition of new projects will create some new options for expansion and tenant relocation.

SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
International Liquidation	Northpointe Trade Center C	65,066	North
Standard Supply	3206 Longhorn Blvd	42,560	North
Stan's Heating & Air Conditioning, Inc.	6016 Dillard Circle	30,340	North
Whole Foods	845 Interchange Blvd	28,800	East

RECENT SALE TRANSACTIONS

Building	Buyer	Size	Submarket
GE Capital Industrial Portfolio	IndCor Properties / Blackstone Group	2.96 MSF	North & Northeast
Braker Center (13 buildings)	Westmount Realty Capital LLC	546,984	North

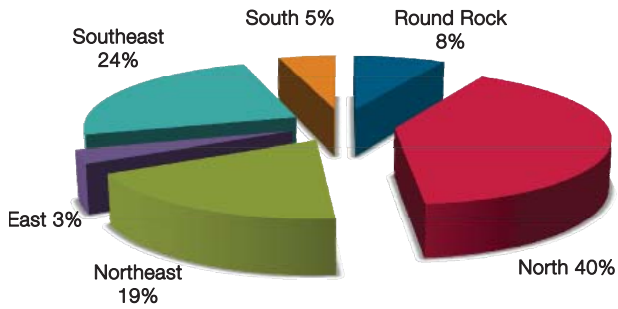
NEW DEVELOPMENT

Project	Location	Size	Submarket
RECENT COMPLETIONS			
Pecan 130 Business Park, Bldg B	3818 Helios Way / SH 130 & Pecan	120,000	Round Rock
UNDER CONSTRUCTION			
Pecan 130 Business Park, Bldg A	SH 130 & Pecan	120,000	Round Rock
Heritage Crossing 3	2519 Scarbrough Drive	109,887	North
Scottsdale Crossing	5900 NW 183A	27,500	Round Rock

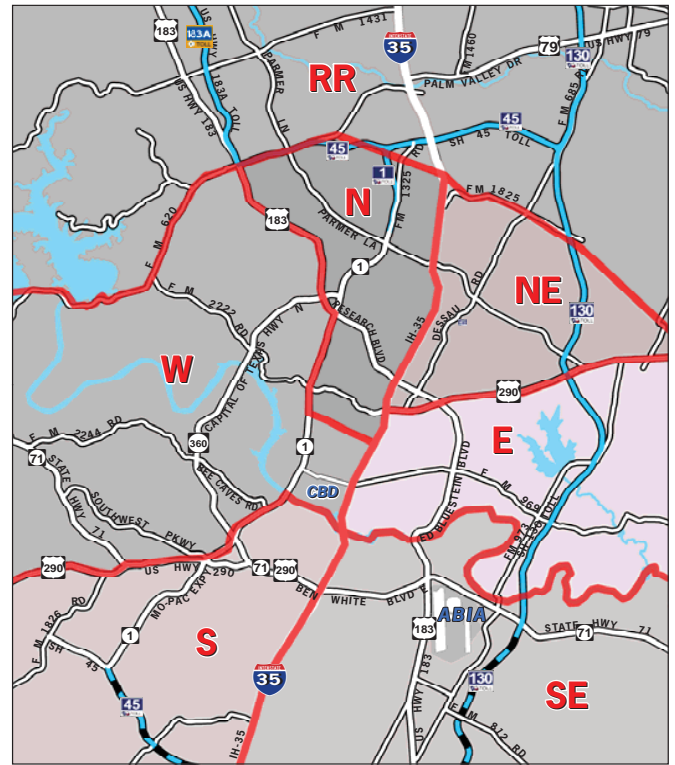
BUILDING USE DEFINITIONS

FLEX/R&D:	<ul style="list-style-type: none"> • 1,800 - 6,400± SF bays • 50%-100% finish-out 	<ul style="list-style-type: none"> • 14' - 28' clear height • Dock-high & grade-level loading
WHSE. - BULK:	<ul style="list-style-type: none"> • 4,500-18,000± SF bays • 5% - 10% finish-out 	<ul style="list-style-type: none"> • 20' - 32' + clear height • Dock-high loading
WHSE. - OFFICE:	<ul style="list-style-type: none"> • 1,200 - 4,000 ± SF bays • 5% - 20% finish-out 	<ul style="list-style-type: none"> • 16' - 18' clear height • Dock-high & grade-level loading
WHSE. - MFG.	<ul style="list-style-type: none"> • 5,400 - 8,000 ± SF bays • 80%-100% climate-ctrl'd 	<ul style="list-style-type: none"> • 18' - 32' clear height • Dock-high loading

MARKET SIZE



SUBMARKET MAP



DEFINITIONS

Absorption (Net)

The change in occupied space in a given time period

Available Square Footage

Net rentable area considered available for lease; includes sublease space

Average Asking Rental Rate

Rental rate as quoted from each center's owner/leasing/management company. Industrial rental rates quoted on a triple net basis.

Direct Vacancy

Space currently available for lease directly with the landlord or building owner; excludes sublease space.

SF/PSF

Square foot/per square foot, used as a unit of measurement

Sublease

Arrangement in which a tenant leases rental property to another and the tenant becomes the landlord to the subtenant.

Sublease Space

Total square footage being marketed for lease by a tenant; sublease space is not considered in the overall occupancy or absorption numbers – only direct leases are included.

Sublease Vacancy

Space currently available in the market for sublease through the tenant to a third party for the remainder of the tenant's lease term

CRITERIA

This study includes industrial buildings in all major industrial parks and developments, as well as other Austin area industrial buildings 20,000 square feet or larger. These figures do not include owner-occupied buildings.

INDUSTRIAL TEAM

REOC Austin is actively involved in all aspects of industrial real estate brokerage, landlord representation, site location, tenant and buyer representation and consulting. This report was prepared by REOC Austin's Industrial Group: Mark Milstead, Jerry Heare SIOR, Rob Eaves, Perry Horton and Kim Gatley, Director of Research.

