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Industrial Building Market Update
Austin Metropolitan Area
First Quarter 2015



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OVERVIEW

Following the solid performance in the final quarter of 2014, Austin-area industrial lease properties recorded another positive quarter to start the year.

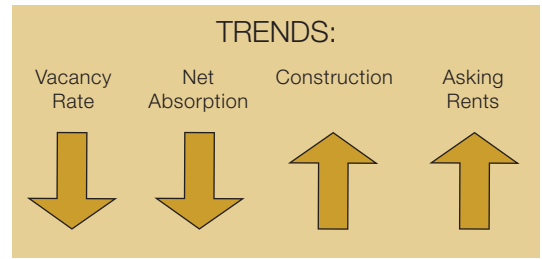
Topping market news in the first quarter, Global Logistic Properties purchased the IndCor Properties portfolio totaling roughly 117 million square feet across the United States. The Austin portion of the portfolio featured twenty-eight properties spanning approximately 2.4 million square feet. In addition, Schurr Investment purchased Davis Springs Corporate Center, Buildings 1-4 (261,582 sf) located at 9825 Spectrum Drive in the Round Rock sector, CyrusOne acquired the Met Center II, Building 4 (172,800 sf) in the Southeast sector and Epic Piping bought the former Butler Manufacturing Building (221,500 sf) in San Marcos. Strong investment activity speaks to investor confidence in Austin's economic strength and long-term positive outlook.

According to the survey of more than 38 million square feet of industrial lease space, new leases and expansions inked in the first three months of the year translated into 270,783 square feet of positive net absorption. Topping the list of new leases that contributed to the healthy first quarter gain was Mattress Firm which took occupancy of 99,200 square feet at Corridor Park 9 in the Round Rock sector. The Round Rock sector also recorded a lease by Global Environmental Services (GES) for 28,219 square feet at 224 Investment Loop. The North sector also experienced several sizeable warehouse leases including Packsys International (48,757 sf) at Northpointe Trade Center B, Computer Recycling (27,000 sf expansion) at McKalla 1, Amazon's Prime Now (27,000 sf) at Metric 2 and Goodwill (23,132 sf) Waterford I. As a result, the North and Round Rock sectors garnered the lion's share of absorption this quarter with 167,767 square feet and 136,029 square feet, respectively.

The Austin industrial market closed the first quarter with a citywide vacancy rate of 9.8% which is improved compared to 10.9% last quarter and 10.6% recorded in the same quarter a year ago. The market is in much better shape than it was just five years ago. By comparison, citywide vacancy stood at a very soft 23.6% in 2010.

Aware of the opportunity to provide new warehouse inventory to accommodate tenant expansion and attract new business to the area, developers are in the process of delivering new space to the market. Looking ahead, there are roughly one million square feet of projects in various stages moving through the development pipeline. Warehouse projects currently under construction include Expo 10 (109,203 sf) & 11 (130,002 sf) in the Southeast sector. Nearby, plans call for several new buildings at the Burleson Supplier Park at 7307 Burleson Road. In the Round Rock sector, construction continues to expand the Pecan 130 Business Park where buildings 3 & 4 at 120,000 square feet each are slated to come online later this year and buildings 5 & 6 are queued up and waiting for the green light. Zydeco Development will deliver two buildings to the Flex/R&D inventory later this year. Met Center II Building 3 (160,000 sf) is scheduled to come online in October and Building 12 (72,000 sf) in December.

Area job growth has been strong. For the twelve-month period ending in April, the Austin-Round Rock-San Marcos Metropolitan Statistical Area added 29,500 jobs for an annual growth rate of 3.2%, according to the Texas Workforce Commission. Meanwhile, the unemployment rate fell from 3.8% in April of 2014 to a very tight 3.0%. Austin's thriving tech sector and overall healthy job market will continue to drive demand for industrial space through the remainder of the year.



Arrows indicate change from previous quarter

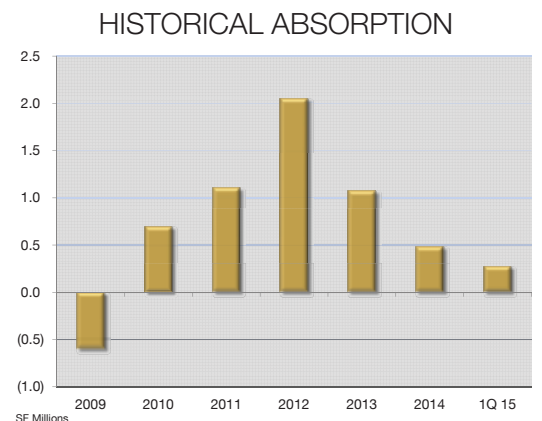


AVERAGE RENTAL RATES/SF (NNN)

	Annual	Monthly
Flex/R&D	\$9.60-\$13.20	\$0.80-\$1.10
Bulk Warehouse	\$5.40-\$7.20	\$0.45-\$0.60
Office Warehouse	\$6.00-\$7.80	\$0.50-\$0.65
Manuf/Warehouse	\$7.80-\$9.60	\$0.65-\$0.80

CURRENT QUARTER ABSORPTION

3/31/15	Flex/R&D	Office/Warehouse	Total
Round Rock	360	135,669	136,029
North	50,718	117,049	167,767
Northeast	35,044	(62,829)	(27,785)
East	N/A	(3,500)	(3,500)
Southeast	(8,665)	(6,763)	(15,428)
South	0	13,700	13,700
Total	77,457	193,326	270,783



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,498,932	11.9%	240,000
North	10,205,343	9.3%	0
Northeast	4,115,363	6.8%	153,000
East	1,283,071	4.1%	0
Southeast	4,896,894	5.2%	404,805
South	1,945,884	1.0%	0
Total	24,945,487	7.4%	797,805

*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	663,446	3.5%	55,000
North	5,001,854	5.3%	0
Northeast	3,016,576	32.8%	0
East	0	0.0%	0
Southeast	4,259,656	14.0%	232,000
South	131,848	0%	0
Total	13,073,380	14.3%	287,000

*Expected to deliver within 6 months

BY PRODUCT TYPE

Looking at the market by product type, Distribution Warehouse properties closed the first quarter with a vacancy rate of 7.4% which is improved compared to 9.0% last quarter and 9.5% recorded in the same quarter a year ago. The Flex/R&D market closed the quarter with a vacancy rate of 14.3% which is slightly improved compared to 14.6% last quarter but up compared to 12.6% recorded a year ago. Still, Flex/R&D properties experienced 77,457 square feet of positive absorption in the first quarter for a positive start to the year.

RENTAL RATES

In direct correlation to decreasing vacancy, the citywide average asking rental rates increased in the first quarter after remaining flat last quarter. The cost of renting office warehouse space now ranges between \$0.50 - \$0.65 per square foot per month on a triple net basis while the price for bulk warehouse ranges between \$0.45 - \$0.60. Asking rental rates for area Flex properties are also on the rise and currently range between \$0.80 - \$1.10 per square foot per month. Landlords will continue to test higher prices while available space is on the decline and even with development on the rise, landlords are likely to maintain their advantage in lease negotiations.

CURRENT QUARTER LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
TV Studio	5330 Fleming Court (US Food Bldg)	104,000	Southeast
Packsys International	Northpointe Trade Center B	48,757	North
Global Environmental Services (GES)	224 Investment Loop	28,219	Round Rock
Amazon Prime	Metric 2	27,000	North
Computer Recycling (Expansion)	McKalla 1	27,000	North
Liquidation Channel	Corridor Park Pointe E	25,728	Round Rock

CURRENT QUARTER SALE TRANSACTIONS

Building	Buyer	Size	Submarket
IndCor Properties Portfolio	Global Logistic Properties	2.4 msf	North & Northeast
Davis Springs Corporate Park Bldgs 1 - 4	Schurr Investments	261,582	Round Rock
Butler Manufacturing	Epic Piping	221,500	San Marcos

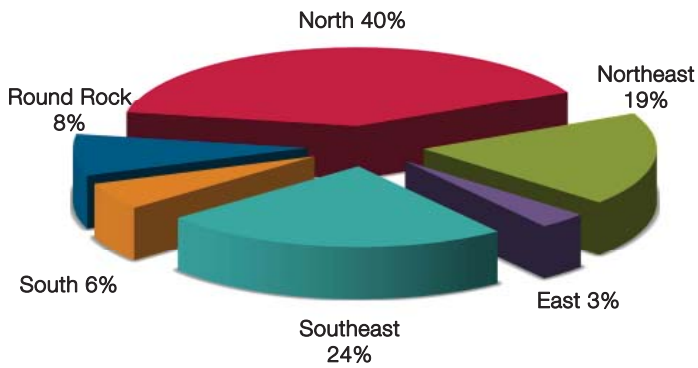
NEW DEVELOPMENT

Project	Location	Size	Submarket
Expo Center, Bldg 10 & 11	6301 Stassney (109,203 sf + 130,002 sf)	239,205	Southeast
Met Center II, Bldg 3	7100 Metropolis; Flex; October delivery	160,000	Southeast
Met Center II, Bldg 12	Flex; December delivery	72,000	Southeast

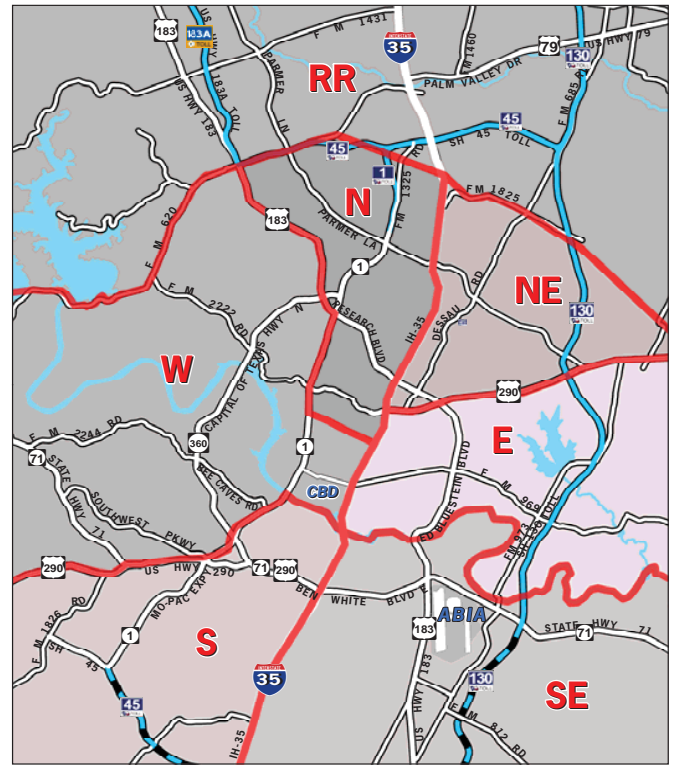
BUILDING USE DEFINITIONS

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 and Kim Gatley, Director of Research.

