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Industrial Building Market Update
 Austin Metropolitan Area
First Quarter 2016



office 512 346 5180
 fax 512 346 9742

reocaustin.com
 reocaustinblog.com

9015 Mountain Ridge Dr, Suite 100
 Austin, TX 78759

AUSTIN INDUSTRIAL VACANCY RATE HITS 16-YEAR LOW

Following a strong performance in 2015, the Austin industrial market delivered solid first quarter start in 2016. According to the survey of more than 38 million square feet of industrial lease space, new leases and expansions translated into positive absorption with tenants taking down a net of 290,721 square feet in the first three months of the year.

With no new buildings added to the inventory so far this year, the citywide vacancy rate tightened to 6.4% marking a 16-year low. The current vacancy rate is down compared to 6.9% last quarter and substantially improved compared to 9.8% recorded twelve months ago. The improvement is even more significant considering that over the course of last year more than 552,000 square feet of new industrial lease space was added to the market.

Demand for Flex/R&D space generated 100,690 square feet of positive net absorption in the first three months of the year which improved the citywide vacancy rate to 9.1% compared to 9.4% last quarter and 14.3% recorded last year at this time. Notable Flex/R&D leases included CPS (27,866 sf) at Promontory Point F2 and Volusion (17,256 sf) at Kramer 6.

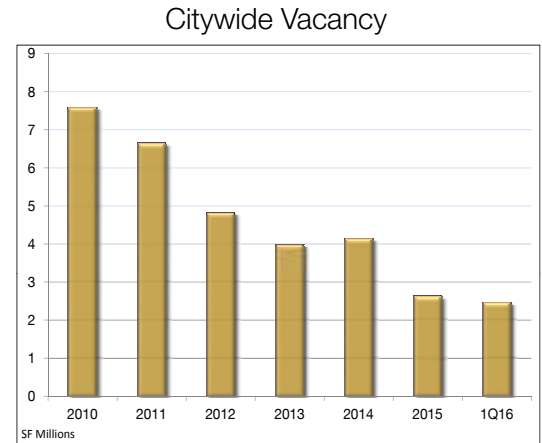
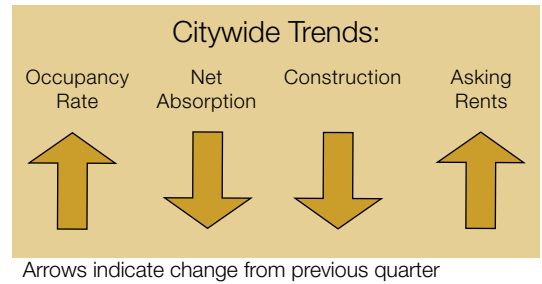
Outperforming the Flex/R&D market by nearly two to one, the Warehouse market experienced 190,031 square feet of positive net absorption in the first quarter led by the Northeast sector which recorded 132,830 square feet. Harris Ridge Business Center 5, which was delivered to the market late last year, landed Sherri Hill, Inc. (54,460 sf). At the close of the first quarter, the citywide warehouse vacancy rate dropped to an incredibly tight 5.1% which is down from 5.6% last quarter and 7.4% recorded a year ago. In addition, two newly inked leases are expected to add to the positive trend next quarter with LKQ Corporation (126,782 sf) and Goodwill Industries (95,672 sf) at Heritage Crossing.

Constrained supply and sustained demand continue to put upward pressure on rental rates. In response to the principles of supply and demand, asking rents bumped up in the first quarter. The cost of renting office warehouse space currently ranges between \$0.60 - \$0.85 per square foot per month on a triple net basis while the price for bulk warehouse ranges between \$0.45 - \$0.65. Asking rental rates for area Flex properties range between \$0.80 - \$1.25 per square foot per month. Given the market's strong fundamentals, tenants should expect rental rates to continue to climb.

Despite the strong fundamentals, developers are exercising discipline regarding speculative development. Only three industrial lease buildings totalling less than 266,000 square feet were under construction in the first quarter; all located in the Southeast sector. MetCenter II, Building 12, a 72,000-square-foot Flex/R&D building, is expected to come online next quarter. Buildings 12 & 13 at Expo Business Park will deliver a combined 193,600 square feet later this year.

Several more speculative projects are on the horizon including Tech Ridge 2.1 (76,400 sf) and Tech Ridge 3.1 (115,200 sf) but build-to-suit projects still account for the largest projects underway. Cortec Precision Sheetmetal, Inc., for example, recently broke ground on its new 120,000-square-foot facility at 130 Commerce Center. Capitol Wright Distributing is building a new 500,000-square-foot distribution center on 40 acres located at Hwy. 290 and SH 130. Meanwhile, the former Sysco Food facility (200,411 sf) in Round Rock is being converted into a food processing plant for Pro-Portion Food and construction continues on the Amazon Fulfillment Center (855,000 sf) in San Marcos.

New construction, rising rental rates and a vacancy rate not seen since 2000 demonstrate the strength of Austin's industrial market.

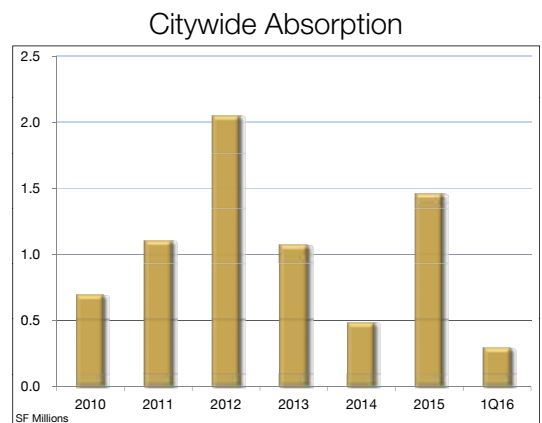


Average Rental Rates/SF (NNN)

	Annual	Monthly
Flex/R&D	\$9.60-\$15.00	\$0.80-\$1.25
Bulk Warehouse	\$5.40-\$7.80	\$0.45-\$0.65
Office Warehouse	\$7.20-\$10.20	\$0.60-\$0.85
Manuf/Warehouse	\$7.80-\$9.60	\$0.65-\$0.80

Current Quarter Absorption

	3/31/16	Flex/R&D	Office/Warehouse	Total
Round Rock		74	(14,421)	(14,347)
North		(2,327)	31,948	29,621
Northeast		114,430	132,830	247,260
East		N/A	(12,658)	(12,658)
Southeast		(11,487)	36,652	25,165
South		0	15,680	15,680
Total		100,690	190,031	290,721



Geographical Sector & Building Use

Office/Bulk/Manufacturing/Warehouse			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,498,932	6.3%	0
North	10,025,343	6.0%	0
Northeast	4,268,363	5.7%	0
East	1,283,071	4.8%	0
Southeast	5,142,599	4.2%	193,600
South	1,945,884	0.4%	0
Total	25,344,192	5.1 %	193,600

*Expected to deliver within 6 months

Flex/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	685,946	3.7%	0
North	5,035,849	7.5%	0
Northeast	2,730,934	11.5%	0
East	0	0.0%	0
Southeast	4,169,800	10.5%	72,000
South	131,848	0%	0
Total	12,754,377	9.1%	72,000

*Expected to deliver within 6 months

Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
Sherri Hill, Inc.	Harris Ridge Business Center 5	54,460	North East
Austin Eastciders	Southpark Corporate Center 7	33,180	South East
CPS	Promontory Point F2	27,866	North East
TS Distributors	Metric Center 6	20,822	North

Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
Bergstrom - 6800 Burleson Road	CCI-Burleson	278,195	South East
Stock Building Supply - 4501 Burleson	4501 Burleson, LLC	241,564	South East
Southpark Corporate Center 3 & 4	Eastgroup Properties LP	176,000	South East
Austin Industrial Park - 5214 Burleson	Rosamond Austin Partners LLC / Sabre Realty	93,663	South East
Wall Street Business Park - 8906 Wall St.	Rosamond Austin Partners LLC / Sabre Realty	79,000	North East

New Development

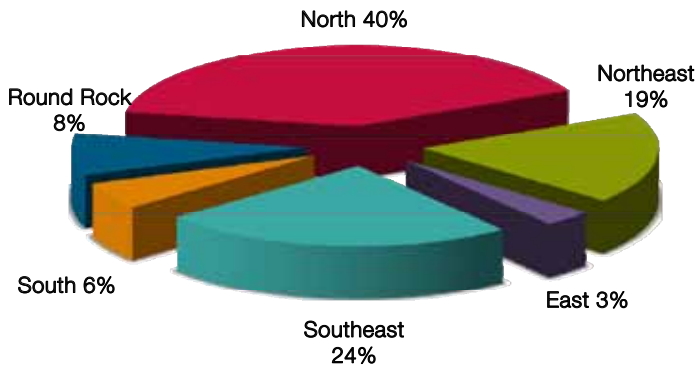
Building	Buyer	Size	Submarket
Amazon Fulfillment Center	Construction: Est Completion 4Q 2016 / 1,000 jobs	855,000	San Marcos
Capitol Wright Distribution Center	Construction: Hwy 290 E/SH 130 (Build-to-Suit)	500,000	North East
Expo Business Park 13-6301 E Stassney	Construction: Est Completion 3Q16 (WH)	136,000	South East
Met Center II, Bldg 12 - 7701 Metropolis	Construction: Est Completion 2Q16 (FLEX)	72,000	South East
Expo Business Park 12-6301 E Stassney	Construction: Est Completion 3Q16 (WH)	57,600	South East

WH = Warehouse / SC = Service Center/Flex

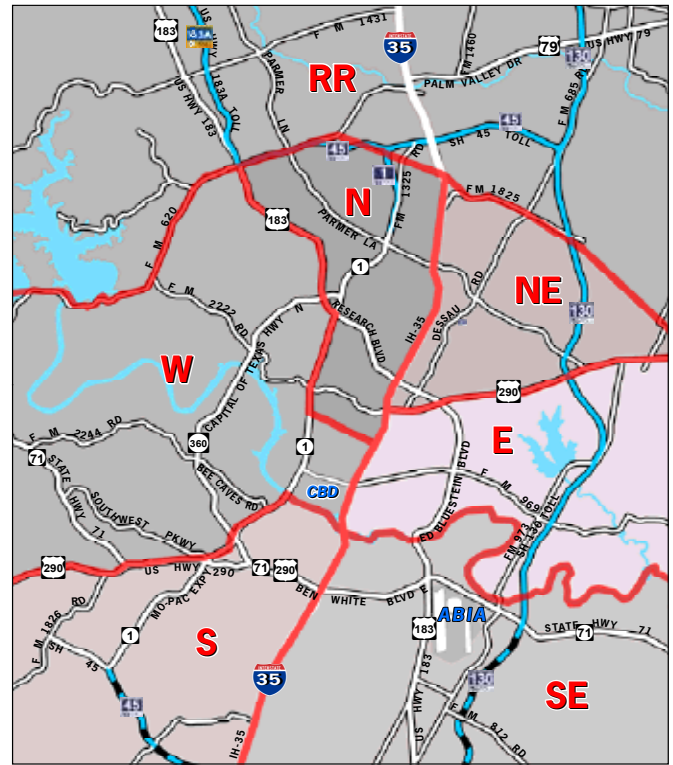
Building Use Definitions

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.

