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Industrial Building Market Update
 Austin Metropolitan Area
First Quarter 2017



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The Austin industrial market remained relatively stable in the first quarter despite the addition of 463,735 square feet of new supply. Local industrial properties closed the quarter with a citywide vacancy rate of 5.4%, up just slightly compared to 5.2% last quarter but improved compared to 7.3% recorded in the same quarter of the previous year. Newly completed projects featured Burleson Commerce Park 2-7 (239,500 sf), Tech Ridge 2.1 (84,395 sf) and Heritage Crossing 4 (80,340 sf). Pre-leasing activity within these newly delivered properties helped offset the impact of new supply with Burleson Commerce Park 7 coming online with leases in place to Chuy's and Office Furniture totaling 62,000 square feet and Arizona Title occupying 50,760 square feet at Heritage Crossing 4.

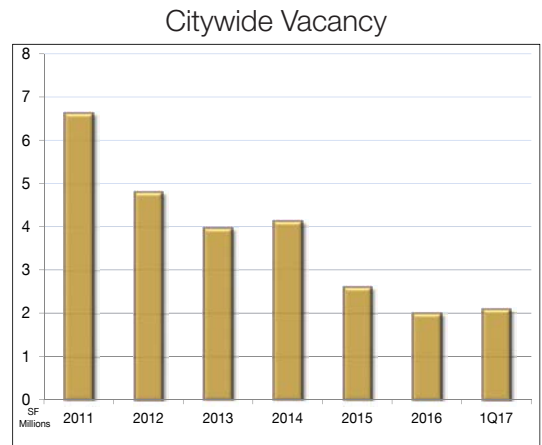
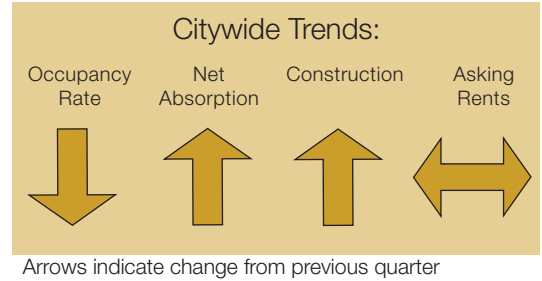
In all, new leases and expansions generated 414,435 square feet of positive net absorption in the first quarter marking a healthy start to the year. The Southeast submarket experienced the strongest activity with 200,872 square feet of the total citywide gain; meanwhile, the South and the East sectors both saw tenant moves that resulted in minor negative absorption. The North sector recorded the largest lease of the quarter that being XPO Logistics (57,500 sf) and Merchandise Solutions (34,500 sf) at Vista Business Park 7 and Vista Business Park 4 landed Central Transportation Systems (45,900 sf).

While Flex/Service Centers experienced a rather flat quarter resulting in 6,937 square feet of negative net absorption, Warehouse properties dominated with 421,372 square feet of positive net gain, again, led by activity in the growing Southeast sector. Activity in the Southeast sector is primarily due to three factors - improved infrastructure which provide easy accessibility to both San Antonio and Houston, proximity to Austin-Bergstrom International Airport and, perhaps most importantly, affordability.

The effects of the low supply and sustained demand continue to be the dominant factors impacting rental rates but average rental rates stayed stable in the first quarter. The cost of renting office warehouse space remained at mid-year rates, currently ranging 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 - \$0.70 and \$0.65 - \$0.90 for manufacturing space. Among Service Center/Flex properties, asking rental rates range between \$0.80 - \$1.25 per square foot per month. Given the current landlord's market conditions, tenants should not expect any relief in rental rates through the remainder of the year.

Demand for industrial space remains strong and the tight vacancy rate signals the go-ahead for developers to deliver more new space. More than a million square feet of industrial lease space is currently in planning or construction. Major projects nearing completion include Commerce Center South (328,570 sf), Freeport Tech South (280,000 sf), Tech Ridge Bldg. 3.1 (115,200 sf).

According to the Texas Workforce Commission, the Austin-Round Rock metro area added 32,700 new jobs over the past twelve months ending in March which equates to an annual growth rate of 3.3%. Essentially, Austin is operating at full employment with a reported unemployment rate of 3.6% which compares favorably to the Texas rate of 5.0% and the U.S. rate of 4.6%. The booming local economy continues to fuel demand for industrial space and many projects are expected to come online during the first half of the coming year.

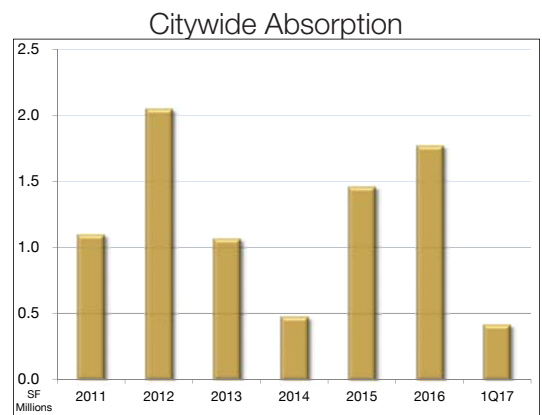


Average Rental Rates/SF (NNN)

	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

3/31/17	Flex/R&D	Office/Warehouse	Total
Round Rock	0	56,624	56,624
North	(19,265)	87,974	68,709
Northeast	(5,097)	112,753	107,656
East	0	(4,426)	(4,426)
Southeast	17,425	183,447	200,872
South	0	(15,000)	(15,000)
Total	(6,937)	421,372	414,435



Geographical Sector & Building Use

Office/Bulk/Manufacturing/Warehouse			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,547,147	1.8%	0
North	10,280,458	3.7%	0
Northeast	4,495,578	7.6%	115,200
East	1,283,071	2.6%	0
Southeast	5,554,199	4.7%	295,175
South	1,751,310	0.9%	0
Total	25,911,763	4.2%	410,375

*Expected to deliver within 6 months

Flex/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	723,056	3.3%	0
North	5,035,849	5.3%	0
Northeast	2,730,934	8.4%	0
East	0	0.0%	0
Southeast	4,303,429	11.1%	328,570
South	131,848	0%	0
Total	12,925,116	7.7%	328,570

*Expected to deliver within 6 months

Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
XPO Logistics, Merchandise Solutions	Vista Business Park 7	57,500	North
Arizona Tile	Heritage Crossing Bldg 4	50,760	North
Central Transportation Systems	Vista Business Park 4	45,900	North
Austin Warehouse and Distribution	2325 E Ben White Blvd	40,957	Southeast
AllClear ID	Met Center II Bldg 12	38,400	Southeast
Merchandise Solutions	Vista Business Park 7	34,500	North

Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
11000 Middle Fiskville Rd	BH Properties	337,196	North
4801 Freidrich Lane	Colfin 2017-1 Industrial Owner LLC	194,233	Southeast
9210 Cameron Road	VIII Austin Flex Cameron LP	50,021	Northeast

New Development

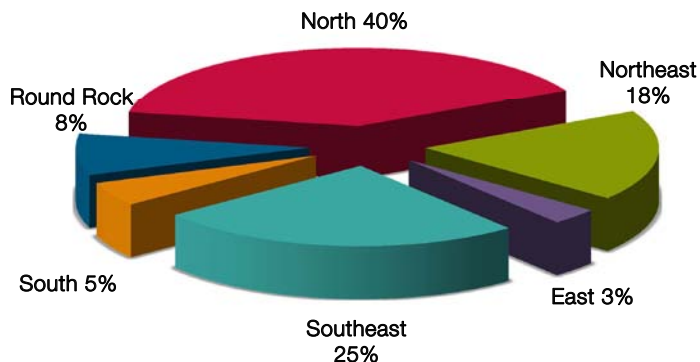
Project	Location/Comments	Size	Submarket
Burleson Commerce Park Bldgs. 2-7	Completed 1Q 2017; Flex/Service Center	274,000	Southeast
Tech Ridge Bldg 2.1	Completed 1Q 2017; Warehouse	84,395	Northeast
Heritage Crossing Bldg 4	Completed 1Q 2017; Warehouse	80,340	North
Scottsdale Crossing Bldg 2	Completed 1Q 2017; Flex Space	25,000	Round Rock
Capitol Wright Distribution Center	Construction: Hwy 290 E/SH 130 (Build-to-Suit); 2Q 17	500,000	Northeast
Commerce Center South (4 Bldgs)	Construction: Est Completion 2Q 17 (SC)	328,570	Southeast
Free Port Tech South (3 Bldgs)	Construction: Est Completion 2Q 17 (WH)	280,000	Northeast
Brushy Creek Corporate Center (2 Bldgs)	Construction: Est Completion 3Q 17 (SC)	231,030	Northwest
One Thirty Commerce Center Bldg D	Construction: Est Completion 3Q 17 (SC)	120,000	Northeast
Cortec Precision Sheetmetal	Construction: Est Completion 3Q 17 (WH)	120,000	Northeast
Techridge Bldg 3.1	Construction: Est Completion 2Q 17 (SC)	115,200	Northeast

WH = Warehouse / SC = Service Center/Flex

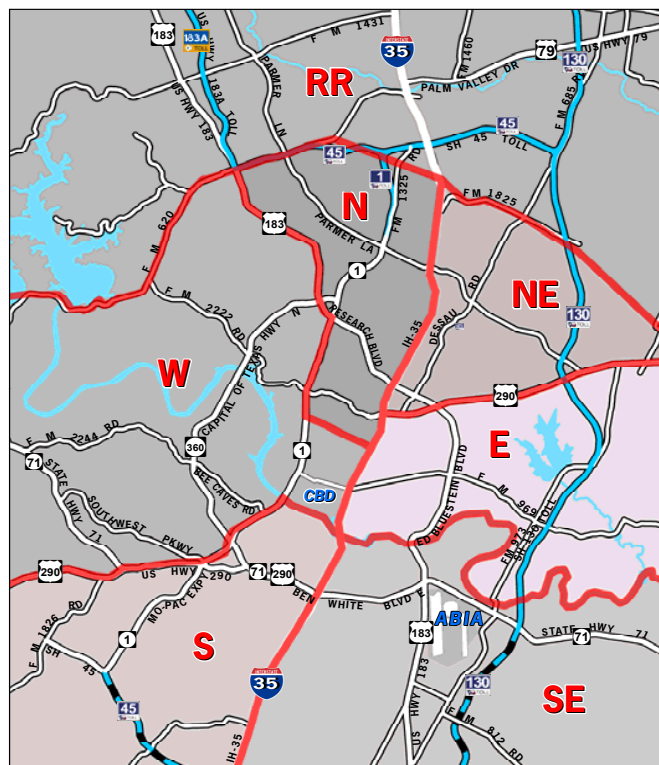
Building Use Definitions

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.

