



The Source

Better information, better decisions.

Industrial Building Market Update Austin Metropolitan Area

Second Quarter 2014



office 512 346 5180
fax 512 346 9742

reocaustin.com
reocaustinblog.com

9015 Mountain Ridge Dr, Suite 100
Austin, TX 78759

OVERVIEW

As is typical this time of year, activity in the Austin industrial market slowed in the second quarter. According to the survey of more than 38 million square feet of industrial lease space, the local industrial market closed the second quarter with a citywide vacancy rate of 12.1% which is up sharply compared to 10.6% last quarter.

Three main factors played into the increased vacancy: (1) historical trends show that activity typically slows in the summer months, (2) new inventory was delivered to the market, (3) the biggest impact came from the return of space at Techridge Park where Dell vacated more than 300,000 square feet at 13301 McCallen Pass this quarter following the emptying of nearly 300,000 square feet at 301 Howard last quarter. The added vacancy of these two buildings alone accounts for a 1.6 percentage point increase in the citywide vacancy rate.

The negative absorption generated from Dell's move out of the McCallen Pass building dragged the citywide market into the red with a total of 168,774 square feet of negative absorption for the quarter. Gains in the first quarter, however, reduced the overall setback bringing the year-to-date total loss to 86,367 square feet. Despite the summer slowdown, new supply and recent move-outs, the citywide vacancy rate remains nearly unchanged compared to 12.0% recorded in the same quarter one year ago.

New construction delivered Pecan 130 Business Park, Building 1 (120,000 sf) this quarter. The warehouse facility, which came online with 24,000 square feet occupied by El Lago, completed Phase I of the two-building project at One Thirty Commerce Center located at the southwest intersection of Pecan 130 and Toll Road 130 in Pflugerville. EIEIO (36,000 sf) and Bold Tiger Productions (12,000 sf) took down the remaining vacant space in Building 2 (120,000 sf) this quarter to move occupancy to 100%. Continuing the momentum, construction on Phase II is now underway and pre-leasing efforts have begun on the next two buildings which both span 120,000 square feet each. Future plans call for two more buildings in Phase III.

In addition to activity at Pecan 130, Corridor Park Corporate Center 6 - another Round Rock sector warehouse facility - landed Benchmark Electronics (44,680 sf). Warehouse properties in the Round Rock area outperformed all other areas in the second quarter with a total of 103,565 square feet of positive net absorption. Other sizeable transactions around the city included Spec's Liquors (43,624 sf) at Airport Commerce Park 2 in the Southeast sector, Next Technology (35,000 sf) at Northpointe Trade Center C in the North sector and M&M Manufacturing Co. (30,000 sf) at Springdale Business Center 2 in the East sector.

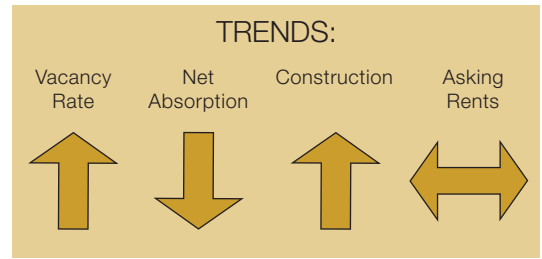
RENTAL RATES

Rental rates remained stable in the second quarter. 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 increased vacancy within the Flex market, asking rental rates for area Flex properties also remained unchanged this quarter and currently range between \$0.70 - \$1.00 per square foot per month.

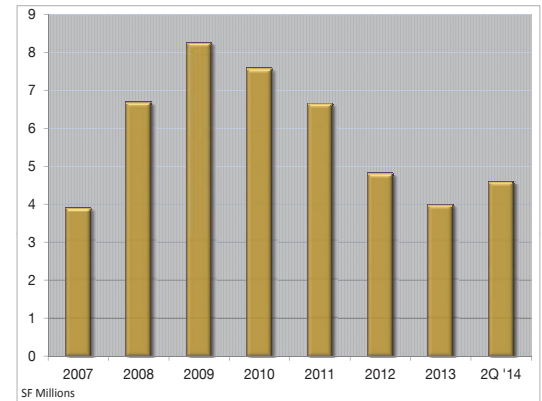
WAREHOUSE

The city's inventory of roughly 24.7 million square feet of warehouse space again led the market with a total of 181,254 square feet of positive net absorption recorded. The demand for warehouse space continues its positive trend which helped to offset the losses recorded in the Flex market. All sectors experienced positive net gains with the exception of the North which reported several tenant move-outs including Excel Directional Technologies (32,000 sf) out of Denton Center 1 and 3-Way Logistics (27,000 sf) out of McKalla 1.

The Warehouse market closed the second quarter with a citywide vacancy rate of 10.2%. The addition of new supply offset net gains which caused vacancy to increase slightly compared to 9.5% recorded last quarter but the vacancy rate for warehouse space is improved compared to 11.0% recorded in the same quarter last year.



HISTORICAL VACANCY



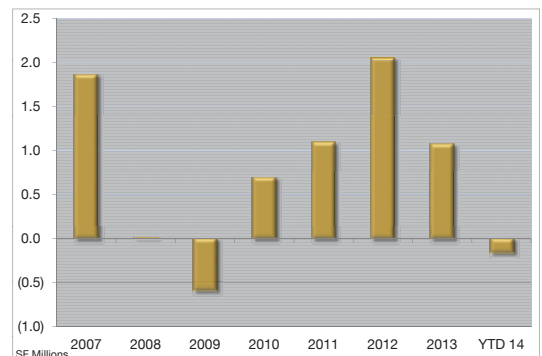
AVERAGE RENTAL RATES/SF (NNN)

	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

06/30/14	Flex/ R&D	Office/ Warehouse	Total
Round Rock	7,614	103,565	111,179
North	(45,620)	(122,592)	(168,212)
Northeast	(283,494)	77,235	(206,259)
East	0	94,010	94,010
Southeast	(31,228)	28,765	(2,463)
South	2,700	271	2,971
Total	(350,028)	181,254	(168,774)

HISTORICAL ABSORPTION



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,498,932	12.5%	240,000
North	10,067,522	11.3%	109,547
Northeast	4,025,032	7.6%	0
East	1,283,858	4.5%	0
Southeast	4,882,511	10.0%	0
South	1,945,884	10.8%	0
Total	24,703,739	10.2%	349,547

*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	633,446	4.0%	22,000
North	5,233,778	6.5%	0
Northeast	3,016,576	34.8%	0
East	0	0.0%	0
Southeast	4,259,656	15.5%	0
South	131,848	0%	0
Total	13,305,304	15.6%	22,000

*Expected to deliver within 6 months

FLEX/R&D

The city's inventory of roughly 13.3 million square feet of Flex/R&D space closed the second quarter with a citywide vacancy rate of 15.6% which is an abrupt increase compared to 12.6% last quarter and 13.9% recorded last year at this time due primarily to the return of Dell's space at Techridge Park but the Northeast sector was not the only one to experience negative absorption in the second quarter. In fact, only two sectors recorded positive absorption for the quarter – Round Rock and South but the two sectors combined for less than 11,000 square feet of net gain which was far short of enough to offset the significant losses of the other sectors. Altogether, the Flex market experienced 350,028 square feet of negative absorption. While there has been some softening, Dell's move accounted for roughly 300,000 square feet of this quarter's loss; otherwise, the Flex market is holding relatively steady.

FORECAST

Looking ahead, speculative development will continue to offer new space opportunities to tenants looking to upgrade or expand. Building 3 (109,887 sf) at Heritage Crossing, for example, is expected to come online next quarter at IH-35 and Scarbrough Drive in the North sector. Although challenged by Dell's consolidation out of Techridge Park, demand for space is expected to keep the Austin industrial market moving forward.

SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Benchmark Electronics	Corridor Park Corporate Center 6	44,680	Round Rock
Spec's Liquors	Airport Commerce Park 2	43,624	Southeast
Next Technology	Northpointe Trade Center C	35,000	North
M&M Manufacturing	Springdale Business Center 2	30,000	East
Airwaves Communication	Harris Ridge Business Center 3	24,565	Northeast

RECENT SALE TRANSACTIONS

Building	Buyer	Size	Submarket
Crystal Park (3 Bldgs)	Stoltz Cos.	275,499	Round Rock
Air Cargo at ABIA (3 Bldgs)	Origin Capital Partners/Lynxs Group	176,060	Southeast

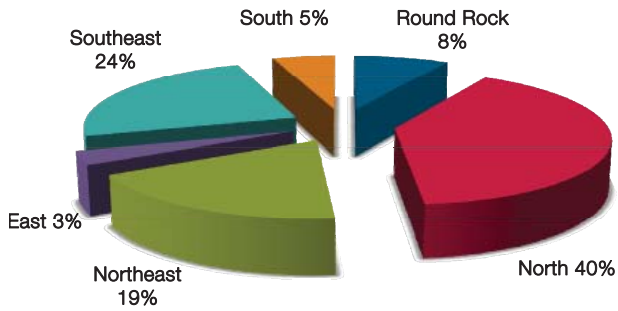
NEW DEVELOPMENT

Project	Location/Comments	Size	Submarket
RECENT COMPLETIONS			
Pecan 130 Business Park, Bldg 2	3818 Helios Way / SH 130 & Pecan, Pflugerville	120,000	Round Rock
Pecan 130 Business Park, Bldg 1	SH 130 & Pecan, Pflugerville	120,000	Round Rock
UNDER CONSTRUCTION			
Heritage Crossing 3	2519 Scarbrough Drive; Q3 Delivery	109,887	North
Scottsdale Crossing	5900 NW 183A; Build-to-Suit	22,000	Round Rock
Pecan 130 Business Park, Bldg 4	SH 130 & Pecan; Q4 Delivery	120,000	Round Rock
Pecan 130 Business Park, Bldg 3	SH 130 & Pecan; Groundwork started	120,000	Round Rock

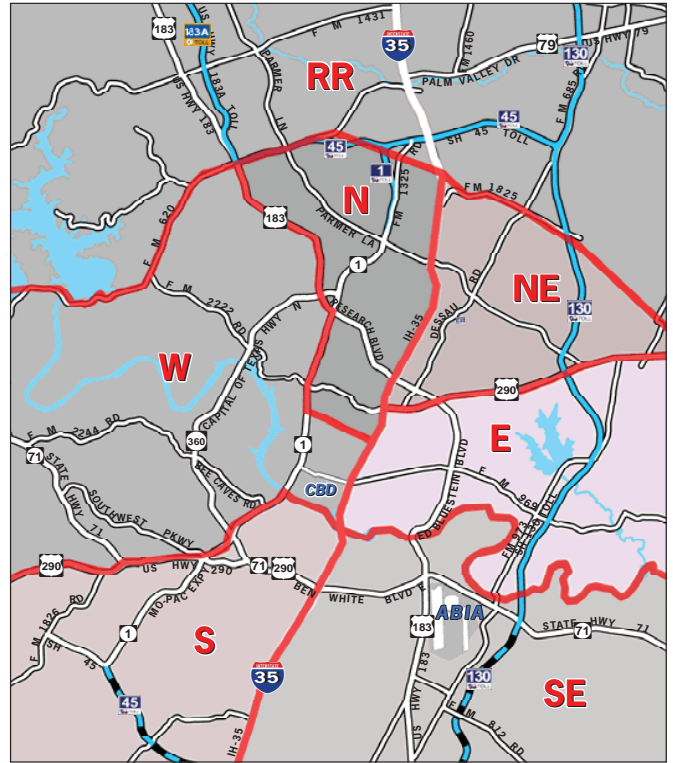
BUILDING USE DEFINITIONS

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.

