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**Industrial Building Market Update**  
 Austin Metropolitan Area  
**Second Quarter 2017**



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Activity in the Austin industrial market cooled off in the second quarter due to some large move-outs which brought in a mere 261 square feet of positive net absorption for the quarter. Year-to-date, the market has experienced 414,696 square feet. Demand struggled to keep up with several sizeable vacancies such as XPO Logistics (57,500 sf) at Vista Business Park 7 and Goodwill (51,182 sf) at Waterford Centre 1. At the same time, the Austin industrial market added 798,675 square feet of new lease space to the inventory including nearly 570,000 square feet of new distribution warehouse space. Newly completed projects featured Commerce Center South (328,570 sf), Free Port Tech South (280,000 sf), and Tech Ridge 3.1 (115,200 sf). With new supply outpacing demand, local industrial properties closed the quarter with a citywide vacancy rate of 7.6%, compared to 5.4% last quarter and 5.8% recorded in the same quarter of the previous year.

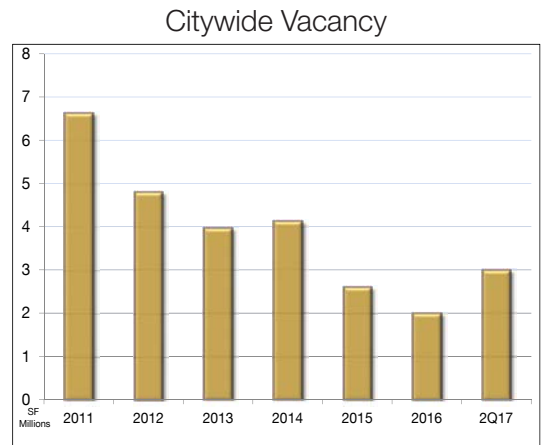
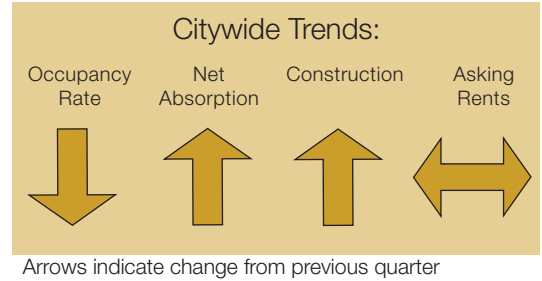
The South submarket experienced the strongest activity with 132,571 square feet of the total citywide gain; meanwhile, the North and the Northeast sectors both saw substantial negative absorption. The industrial market experienced some key leases to retain gains in the second quarter. For example, Kasita took 25,505 square feet at Techni Center 4 in the East while Monster Golf and Glasshouse Productions leased a total of 29,191 square feet in the Forest Commons Business Park in Round Rock.

Flex/Service Centers experienced a rough second quarter resulting in 65,270 square feet of negative net absorption, while Warehouse properties remained afloat with 65,531 square feet of positive net gain, led by activity in the growing Southeast sector. A strong first quarter kept the year-to-date absorption total at 414,696 positive square feet. Tenants and investors are finding more success in the Southeast sector primarily due to the improved infrastructure providing easy accessibility to both San Antonio and Houston, the close proximity to Austin-Bergstrom International Airport and, perhaps most importantly, affordability.

Average rental rates stayed stable in the second 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.

More than a million square feet of industrial lease space is currently under construction with even more in the planning stages. A few of the largest projects nearing completion include phase five of the Southpark Commerce Center (380,171 sf), Park 183 Bldgs. 1 and 2 (246,580 sf), and Brushy Creek Corporate Center Bldgs. 1 and 2 (231,030 sf).

According to the Texas Workforce Commission, the Austin-Round Rock metro area added 28,000 new jobs over the past twelve months ending in June which equates to an annual growth rate of 2.8%. Essentially, Austin is operating at full employment with a reported unemployment rate of 3.4% which compares favorably to the Texas rate of 4.7% and the U.S. rate of 4.5%. The demand for industrial space can be expected to increase heading into the second half of the year due to the booming local economy and superior business atmosphere.

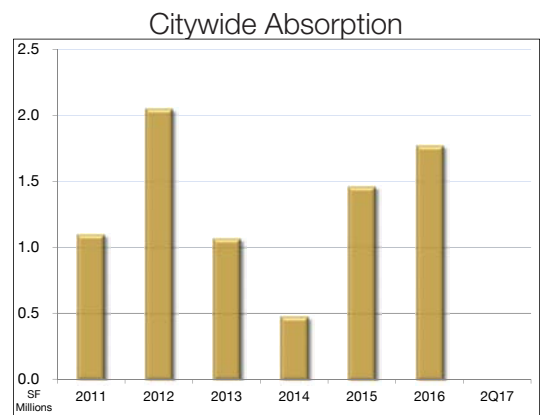


**Average Rental Rates/SF (NNN)**

	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**

6/30/17	Flex/R&D	Office/Warehouse	Total
Round Rock	(5,600)	8,836	3,236
North	38,478	(136,981)	(98,503)
Northeast	(78,941)	10,970	(67,971)
East	0	20,647	20,647
Southeast	(19,207)	29,488	10,281
South	0	132,571	132,571
<b>Total</b>	<b>(65,270)</b>	<b>65,531</b>	<b>261</b>



## Geographical Sector & Building Use

Office/Bulk/Manufacturing/Warehouse			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,547,147	1.5%	120,000
North	10,280,458	5.1%	0
Northeast	4,611,789	11.5%	0
East	1,283,071	1.0%	0
Southeast	5,876,799	9.4%	0
South	1,878,884	0.5%	0
<b>Total</b>	<b>26,478,148</b>	<b>6.3%</b>	<b>120,000</b>

\*Expected to deliver within 6 months

Flex/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	723,056	9.0%	351,030
North	5,035,849	4.5%	0
Northeast	2,730,934	11.2%	11,000
East	0	0.0%	0
Southeast	4,535,719	16.1%	723,031
South	131,848	0%	0
<b>Total</b>	<b>13,157,406</b>	<b>10.1%</b>	<b>1,085,061</b>

\*Expected to deliver within 6 months

## Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
Office Furniture Now	Burleson Commerce Park Bldg 7	62,500	Southeast
NA	Freeport Tech South 1	27,425	Southeast
Kasita	Techni Center 4	25,505	East
Monster Golf	Forest Commons Business Park Bldg 1	14,816	Round Rock
Glasshouse Products	Forest Commons Business Park Bldg 3	14,375	Round Rock
Harrington Plastics	Harris Ridge Business Center Bldg 1	13,000	Northeast

## Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
1220 Toro Grande Dr	NA	29,750	Round Rock
4304 Burch Dr.	Tuscon Sunrise LLC	19,800	Southeast

## New Development

Project	Buyer	Size	Submarket
Commerce Center South (4 Bldgs)	Completed 2Q: Flex/Service Center	328,570	Southeast
Free Port Tech South (3 Bldgs)	Completed 2Q: Warehouse	280,000	Northeast
Burleson Commerce Park Bldgs. 2-7	Completed 1Q 2017; Flex/Service Center	274,000	Southeast
Burleson Commerce Park Bldgs. 2-7	Completed 1Q 2017; Flex Space	239,500	Southeast
Techridge Bldg 3.1	Completed 2Q: Flex/Service Center	115,200	Northeast
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); 4Q 17	500,000	Northeast
Southpark Commerce Center Ph. V, (3 Bldgs.)	Construction: Est Completion 3Q 17 (SC)	380,171	Southeast
Park 183 Bldg. 1 & 2	Construction: Est Completion 4Q 17 (SC)	246,580	Southeast
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
Commerce Center South Bldg. 10	Construction: Est Completion 4Q 17 (SC)	96,280	Southeast

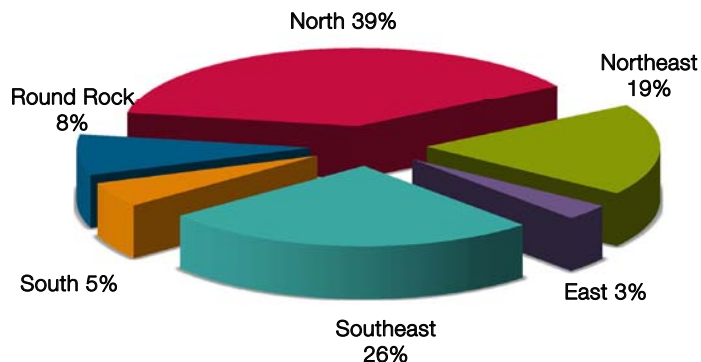
WH = Warehouse / SC = Service Center/Flex

## Building Use Definitions

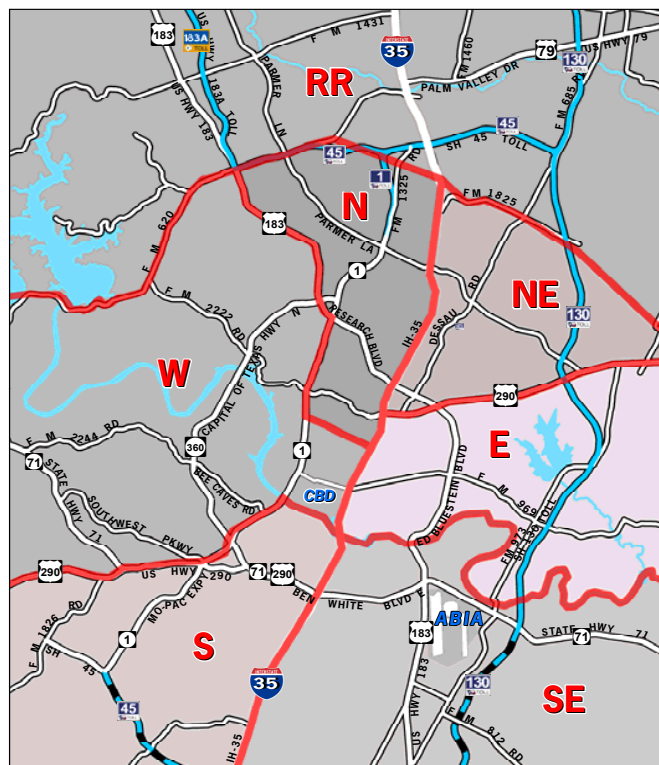
Flex/R&D:	<ul style="list-style-type: none"> <li>• 1,800 - 6,400± SF bays</li> <li>• 50%-100% finish-out</li> </ul>	<ul style="list-style-type: none"> <li>• 14' - 28' clear height</li> <li>• Dock-high &amp; grade-level loading</li> </ul>
Whse. - Bulk:	<ul style="list-style-type: none"> <li>• 4,500-18,000±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



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.

