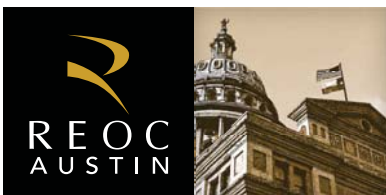




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Industrial Building Market Update
 Austin Metropolitan Area
Third Quarter 2014



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OVERVIEW

Despite some notable leases, led by US Farathane's 72,000-square-foot expansion at Tech Ridge, the Austin industrial market remained relatively quiet in the third quarter. According to the survey of more than 37 million square feet of industrial lease space, the local industrial market experienced only 14,704 square feet of positive net absorption after accounting for tenant move-outs and consolidations countered by new leases commenced between the beginning of July and the end of September.

The lackluster third quarter gain was not nearly enough to make up for the 168,774 square feet of negative absorption recorded last quarter and did little to boost the cumulative absorption which now stands in the red at 71,663 square feet of negative net absorption year-to-date.

Although the numbers don't reflect it, the overall perception of the market continues to be that of a slowly tightening one, especially considering that the overall market has not recorded annual negative absorption since 2009. Citywide vacancy figures support this perception. The local industrial market closed the third quarter with a vacancy rate of 10.8% which is improved compared to 12.1% last quarter and stable compared to 10.7% recorded last year at this time.

WAREHOUSE

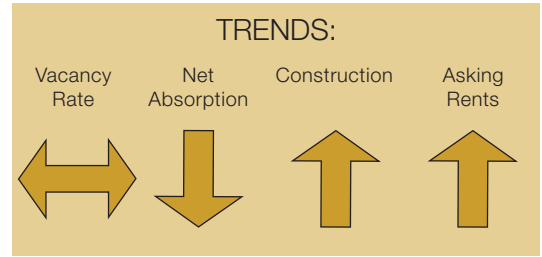
The warehouse product type remains strong and in high demand, particularly in the Southeast and Northeast sectors. The city's inventory of roughly 24.1 million square feet of warehouse space experienced 118,087 square feet of positive net absorption which outperformed the Flex market which recorded negative absorption. In fact, the warehouse market has accumulated more than 583,000 square feet of positive net absorption year-to-date compared to the 655,000 square feet of negative absorption experienced in the Flex market.

In addition to the US Farathane expansion, newly commenced leases which contributed to the overall net gain in the third quarter included Superconductor Technologies (52,295 sf) at Walnut Creek Corporate Center Building 13 in the Northeast sector and Consentino America (51,200 sf) at Bureson Business Park Building II and in the Southeast sector. Offsetting this positive activity were several sizeable move-outs including CEVA Freight which emptied Building 9 at Corridor Park Corporate Center (137,600 sf) as well as 57,600 square feet in Building 7 and Tiger Turf which vacated Building 6 at Northtech Business Center (111,300 sf).

The Warehouse market closed the third quarter with a citywide vacancy rate of 8.0% which is improved compared to 10.2% last quarter and 9.4% recorded in the same quarter last year. Warehouse vacancy rates around the city stand as follows: Round Rock – 9.6%, North – 8.5%, Northeast – 7.6%, East – 4.5%, Southeast – 6.5% and South – 10.8%.

FLEX/R&D

The city's inventory of roughly 13.1 million square feet of Flex/R&D space experienced 103,383 square feet of negative net absorption in the third quarter. Newly commenced leases like J.E. Dunn Construction (43,200 sf) at 4207 Smith School Road, were offset by tenant moves including Tango's move out of 21,600 square feet at Metric 10 West and AT&T's move out of 14,390 sf at 9300 United Drive. As a result, the Flex market closed the quarter with a citywide vacancy rate of 15.9% which is up slightly compared to 15.5% last quarter. Flex properties have struggled over the year with vacancy now noticeably softer than 13.2% recorded in the same quarter of last year. By sector, the Flex vacancy rates around the city stand as follows: Round Rock – 4.0%, North – 6.8%, Northeast – 34.8%, Southeast – 15.5% and South - 0%.

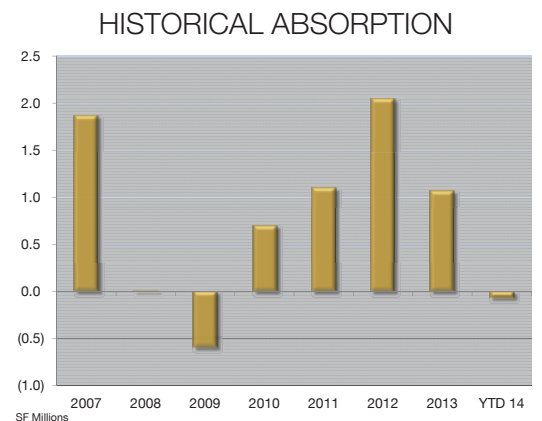


AVERAGE RENTAL RATES/SF (NNN)

| | Annual | Monthly |
|------------------|----------------|---------------|
| Flex/R&D | \$9.00-\$12.60 | \$0.75-\$1.05 |
| Bulk Warehouse | \$4.80-\$6.60 | \$0.40-\$0.55 |
| Office Warehouse | \$5.40-\$7.20 | \$0.45-\$0.60 |
| Manuf/Warehouse | \$7.20-\$9.00 | \$0.60-\$0.75 |

CURRENT QUARTER ABSORPTION

| 09/30/14 | Flex/ R&D | Office/ Warehouse | Total |
|--------------|------------------|----------------------|---------------|
| Round Rock | (787) | (177,450) | (178,237) |
| North | (33,125) | (29,848) | (62,973) |
| Northeast | (83,008) | 147,154 | 64,146 |
| East | N/A | 15,865 | 15,865 |
| Southeast | 18,427 | 172,366 | 190,793 |
| South | (4,890) | (10,000) | (14,890) |
| Total | (103,383) | 118,087 | 14,704 |



GEOGRAPHICAL SECTOR & BUILDING USE

| OFFICE/BULK/MANUFACTURING/WAREHOUSE | | | |
|-------------------------------------|-------------------|-----------------|---------------------|
| | Existing SF | Current Vacancy | Under Construction* |
| Round Rock | 2,258,932 | 9.6% | 240,000 |
| North | 9,729,413 | 8.5% | 109,547 |
| Northeast | 4,025,032 | 7.6% | 90,331 |
| East | 1,283,071 | 4.5% | 0 |
| Southeast | 4,882,511 | 6.5% | 239,000 |
| South | 1,945,884 | 10.8% | 0 |
| Total | 24,124,843 | 8.0% | 678,878 |

*Expected to deliver within 6 months

| FLEX/R&D | | | |
|--------------|-------------------|-----------------|---------------------|
| | Existing SF | Current Vacancy | Under Construction* |
| Round Rock | 663,446 | 4.0% | 22,000 |
| North | 5,002,017 | 6.8% | 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 | 13,073,543 | 15.9% | 22,000 |

*Expected to deliver within 6 months

RENTAL RATES

Industrial rental rates have gained momentum and continue to creep upward across all product types. The cost of renting office warehouse space ranges between \$0.45 - \$0.60 while the price for bulk warehouse ranges between \$0.40 - \$0.55 per square foot per month. Despite the increased vacancy within the Flex market, asking rental rates for area Flex properties are also on the rise and currently range between \$0.75 - \$1.05 per square foot per month.

FORECAST

Although the consensus is that the market is doing well, a major boost of activity is needed in the next few months in order to end the year in the black. Not only is the industrial market considerably off the performance of the past three years, which recorded nearly 1.1, 2.1 and 1.1 million square feet respectively, but developers are ramping up to deliver several major developments which will add new inventory to be filled. 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 and construction is now underway at Harris Ridge Building 5 (153,000 sf), Expo 10 (109,203 sf), Expo 11 (130,002 sf) and Tuscany 9 (90,331 sf). In addition, ground is expected to break on the Burleson Supply Park where plans call for three buildings totaling 108,000 square feet. Expect vacancy rates to take a hit as these new buildings roll out over the next several quarters, as much of the development is speculative with little pre-leasing.

SIGNIFICANT LEASE TRANSACTIONS

| Tenant | Building | Size | Submarket |
|-----------------------------------|--|--------|-----------|
| US Farathane Corporation | Tech Ridge 4.3 | 72,000 | Northeast |
| Superconductor Technologies, Inc. | Walnut Creek Corporate Center, Bldg 13 | 52,295 | Northeast |
| Consentino America | Burleson Business Park, Bldg II | 51,200 | Southeast |
| J.E. Dunn Construction Co. | 4207 Smith School Rd. | 43,200 | Southeast |
| Illumitex | Expo Center, Bldg 6 | 25,609 | Southeast |

RECENT SALE TRANSACTIONS

| Building | Buyer | Size | Submarket |
|-----------------------------------|------------------|---------|------------|
| Davis Spring Corporate Center 1-3 | Scher Investment | 170,145 | Round Rock |
| Metric Place | KREFT LLC | 45,572 | North |

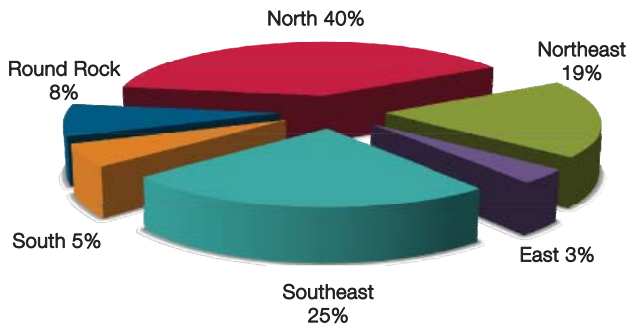
NEW DEVELOPMENT

| Project | Location/Comments | Size | Submarket |
|--------------------------------------|---|---------|------------|
| Heritage Crossing 3 | 2519 Scarbrough Drive; Q4 Delivery | 109,547 | North |
| 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 |
| Expo Center, Bldg 10 & 11 | 6301 Stassney (109,203 sf + 130,002 sf) | 239,205 | Southeast |
| Harris Ridge Business Center, Bldg 5 | 1100 Howard Ln | 153,000 | Northeast |
| Tuscany Center, Bldg 9 | Exchange Dr. | 90,331 | Northeast |

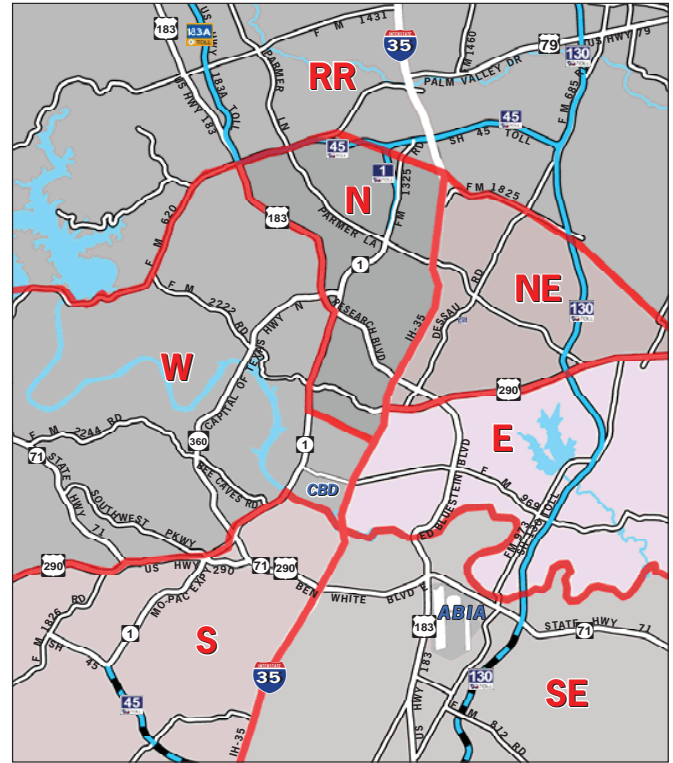
BUILDING USE DEFINITIONS

| | | |
|-----------------|--|---|
| 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.

