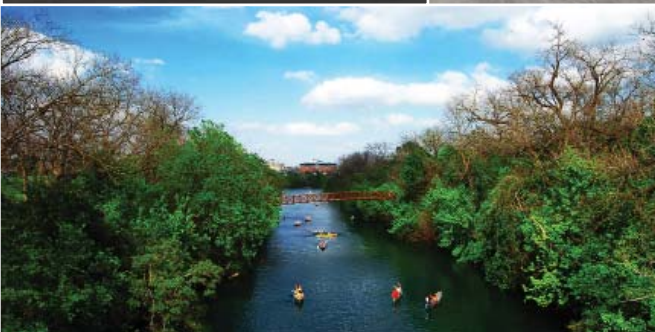




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Industrial Building Market Update
 Austin Metropolitan Area
Third Quarter 2015



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Overview

Demand for industrial space led to a strong third quarter performance among Austin industrial properties. Leasing activity generated 532,064 square feet of positive net absorption pushing the net change in occupied space for the first three quarters of the year combined to 1,126,000 square feet, according to the survey of more than 37.9 million square feet of industrial lease space. The net gain through the end of the third quarter is already double of what the market experienced last year and exceeds the gain recorded in 2013. As a result, the Austin industrial market closed the third quarter with a tight citywide vacancy rate of 7.5% - down from 8.9% last quarter and 11.0% recorded in the same quarter a year ago.

Three new warehouse projects were delivered in the third quarter totalling more than 392,000 square feet including Expo 10 (109,203 sf) & 11 (130,002 sf) in the Southeast sector and Harris Ridge 5 (153,000 sf) in the Northeast. Both Expo buildings came online having achieved significant pre-leasing including Educational Testing Services (152,805 sf), Kendra Scott Design (64,800 sf) and Dependable Express (21,600 sf). The tightening trend continues to give developers reason to move forward with additional speculative development. There are currently three major buildings under construction totalling 362,000 square feet including two Service Center/Flex buildings at Met Center 2 - Building 3 (160,000 sf) and Building 12 (72,000 sf) along with another warehouse building at Expo 12 (130,000 sf) – all in the Southeast sector.

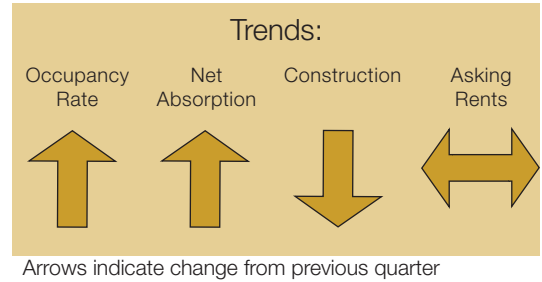
Warehouse properties led the market with 479,002 square feet of the total positive net gain for the quarter. The North sector saw the greatest gain with more than 352,000 square feet of absorption supported by Wisenbaker and BPI combining to occupy 91,648 square feet at Heritage Crossing 2. The Round Rock submarket followed with more than 124,000 square feet of net gain including Capitol Beverage (57,600 sf) and Atlas Relocations (38,400 sf) at Prologis Corridor Park. Overall, warehouse properties closed the third quarter with a citywide vacancy rate of 7.1% - improved from 7.3% last quarter and 8.2% recorded last year at this time.

Flex/R&D properties, particularly in the Northeast and Southeast submarkets, experienced positive net absorption totalling 53,062 square feet in the third quarter. Area Flex/R&D properties closed the quarter with a vacancy rate of 8.4% - down from 12.1% last quarter and 16.0% recorded a year ago.

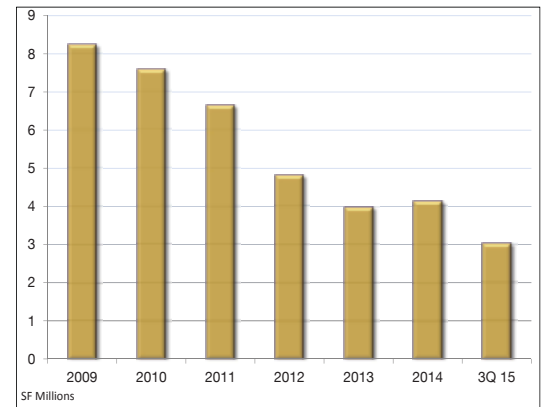
There was no significant change in quoted rents compared to last quarter but, as vacancy rates continue to tighten, pressure on rates will mount. The cost of renting office warehouse space currently ranges between \$0.50 - \$0.65 per square foot per month on a triple net basis while the price for bulk warehouse ranges between \$0.45 - \$0.60. Asking rental rates for area Flex properties range between \$0.80 - \$1.10 per square foot per month.

Investors remain bullish on Austin-area industrial assets. The largest transaction in the third quarter was IDM's acquisition of the former Freescale Semiconductor campus on Ed Bluestein spanning nine buildings totaling more than 935,000 square feet. IDM plans to convert the facility to a data center and value office and rename the project MOS 8 with the first phase to be delivered in 2017.

Looking ahead, demand for space will continue to drive industrial development in Central Texas. In San Marcos, a new 855,000-square-foot Amazon Fulfillment Center is in the works and, in Taylor, the Taylor Economic Development Corporation (TEDC) recently broke ground on a 50,000-square-foot spec building to kick off the Mustang Creek Industrial Park.



Citywide Vacancy



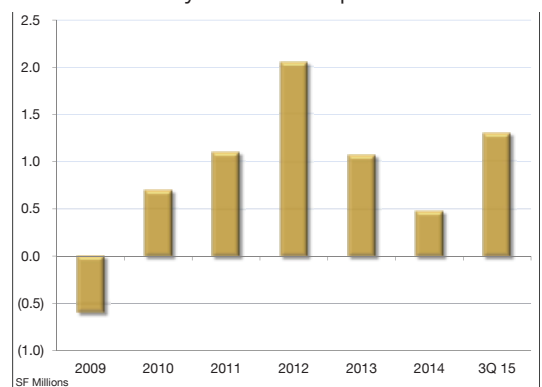
Average Rental Rates/SF (NNN)

	Annual	Monthly
Flex/R&D	\$9.60-\$13.20	\$0.80-\$1.10
Bulk Warehouse	\$5.40-\$7.20	\$0.45-\$0.60
Office Warehouse	\$6.00-\$7.80	\$0.50-\$0.65
Manuf/Warehouse	\$7.80-\$9.60	\$0.65-\$0.80

Current Quarter Absorption

	9/30/15	Flex/ R&D	Office/ Warehouse	Total
Round Rock		0	124,005	124,005
North		(15,757)	352,342	336,585
Northeast		39,386	76,669	116,055
East		N/A	3,300	3,300
Southeast		29,433	(57,451)	(28,018)
South		0	(19,863)	(19,863)
Total		53,062	479,002	532,064

Citywide Absorption



Geographical Sector & Building Use

Office/Bulk/Manufacturing/Warehouse			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,498,932	7.6%	0
North	10,025,343	5.5%	0
Northeast	4,268,363	9.3%	0
East	1,283,071	3.8%	0
Southeast	5,142,599	10.8%	130,000
South	1,945,884	2.6%	0
Total	25,344,192	7.1 %	130,000

*Expected to deliver within 6 months

Flex/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	663,446	2.7%	0
North	5,001,854	5.5%	0
Northeast	2,713,972	16.7%	0
East	0	0.0%	0
Southeast	4,077,061	7.6%	232,000
South	131,848	0%	0
Total	13,063,585	8.4%	232,000

*Expected to deliver within 6 months

Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
Education Testing Services	Expo Center Bldg 10	152,805	South East
Novitex Enterprises	Expo Center Bldg 8	128,900	South East
Wisnaker and BPI	Heritage Crossing Bldg 2	91,648	North East
Capitol Beverage	Prologis Corridor Park 401-C	57,600	North
Atlas Relocations	Prologis Corridor Park 401-B	38,400	North East

Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
3501 Ed Bluestein Blvd. (fka Freescale)	IDM Capital (9 bldgs)	935,255	South East
Met Center Bldg 15	NNN Met Center 15 21 LLC	244,286	South East
Tuscany Center at Walnut Creek 6 - 8	Industrial Property Trust	243,600	North East
Forrest Commons Business Park	LongView Equity Partners	160,830	Round Rock

New Development

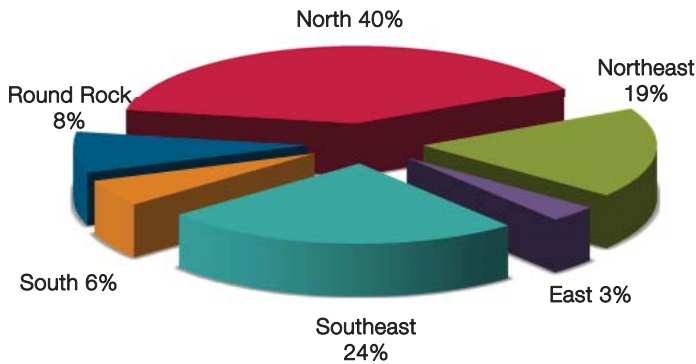
Project	Location/Comments	Size	Submarket
Harris Ridge Business Center Bldg 5	1100 E Howard / Completed 3Q (WH)	153,000	North East
Expo Business Park 11	6231 E Stassney / Completed 3Q (WH)	130,002	South East
Expo Business Park 10	6231 E Stassney / Completed 3Q (WH)	109,203	South East
Amazon Fulfillment Center	Est Completion 4Q 2017 / 1,000 jobs	855,000	San Marcos
Met Center II, Bldg 3	7000 Metropolis Dr/ Est Completion 4Q (SC)	160,000	South East
Expo Business Park 12	6301 E Stassney / Est Completion 3Q 16 (WH)	130,000	South East
Met Center II, Bldg 12	7701 Metropolis Dr/ Est Completion 1Q 16 (SC)	72,000	South East

WH = Warehouse / SC = Service Center/Flex

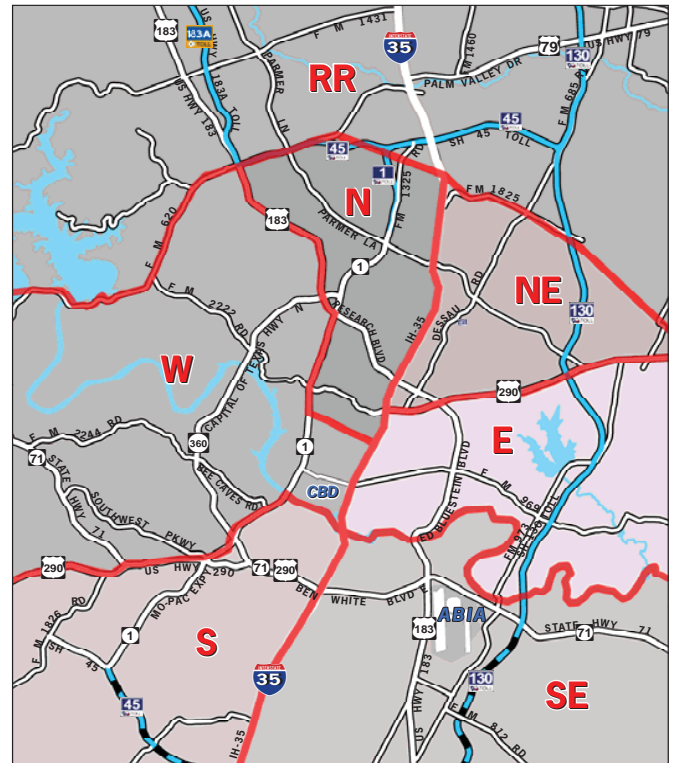
Building Use Definitions

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.

