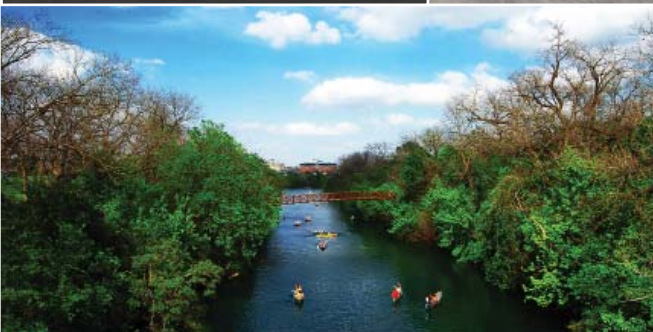




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**Industrial Building Market Update**  
 Austin Metropolitan Area  
**Third Quarter 2016**



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The Austin industrial market continued its strong performance through the summer months and ended the third quarter with a persistently tight citywide vacancy rate of 6.1%. Although somewhat softened compared to 4.8% last quarter, the citywide vacancy rate is down compared to 7.5% recorded in the same quarter a year ago.

The addition of new inventory caused the bump in the vacancy rate. An empty Harris Ridge Business Center 1 (51,200 sf), for example, was delivered to the market in the third quarter along with Scottsdale Crossing 2 (30,000 sf) and 955 CR 118 in Hutto (48,215 sf). Other new projects, however, came online with some pre-leasing in place. Expo Business Park, for example, added two new warehouse buildings including Expo 13 (136,000 sf) and Expo 12 (57,600 sf), which came online with Aspire Food Groups (25,600 sf) and Ruta Maya (12,800 sf).

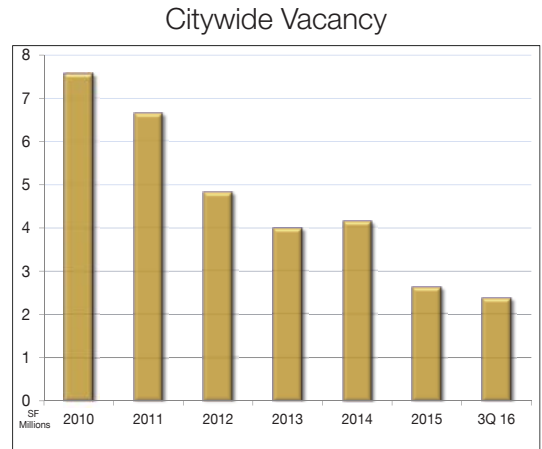
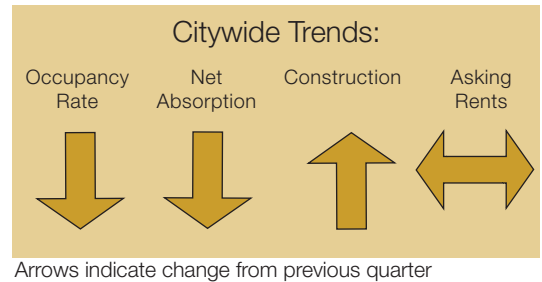
There is an estimated 1.2 million square feet of industrial lease space moving through the development pipeline in various stages of planning, permitting, funding and construction. Several new projects broke ground in the third quarter including TechRidge2.1 and 3.1 at W. Howard and McCallen Pass. Given the tightness of the market, timing of delivery and the fact that some of the space under construction is already pre-leased, the market is not expected to see a significant spike in vacancy when new product arrives. Assuming the economy remains strong, developers will be hard pressed to bridge the gap between supply and demand.

In the third quarter, demand clearly outpaced new supply. New leases and expansions generated 359,128 square feet of positive net absorption in the third quarter which pushed the year-to-date total above 1.5 million square feet – exceeding last year's total with still one more quarter remaining in the year. With 220,350 square feet, warehouse properties accounted for two-thirds of the overall net gain while Flex/R&D properties recorded 138,778 square feet.

New leases contributing to positive gains for the Warehouse market were led by Intelligent Logistics (81,910 sf) at Harris Ridge Business Center 5 in the Northeast sector. In the Flex market, On-X Technologies (35,000 sf) at Anderson Lane Business Park A in the Northeast sector. According to the Texas Workforce Commission, the Austin-Round Rock metro area added 28,600 new jobs over the past twelve months ending September which equates to an annual growth rate of 3.0%. Essentially, Austin is operating at full employment with a reported unemployment rate of 3.5% which compares favorably to the Texas rate of 4.9% and the U.S. rate of 4.8%. The booming local economy continues to fuel demand for industrial space although absorption may slow due to the lack of available space and scarcity of new supply coming online.

Developers are responding to the tightening market conditions with newly announced projects such as Park 183 – situated at Burleson and 183 and slated to deliver roughly 964,000 square feet in multiple phases starting with 247,000 square feet in 2017. Meanwhile, the lack of existing available space has stimulated build-to-suit construction for all sizes of companies in need of industrial space looking to service the local area as well as the greater IH-35 Corridor. On the large end, the new Amazon distribution center (890,000 sf) was recently completed in San Marcos. On the smaller side, but also indicative of market activity, XBiotech, Inc. announced the grand opening of their 40,000-square-foot facility in Southeast Austin. Other developments include a 650,000-square-foot distribution center for Living Spaces furniture in Pflugerville and a 500,000-square-foot UPS distribution center in Round Rock, just to name a few.

Constrained supply and sustained demand continue to put upward pressure on rental rates but the rate of increase slowed in the third 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 but significant increases are not expected in the fourth quarter.

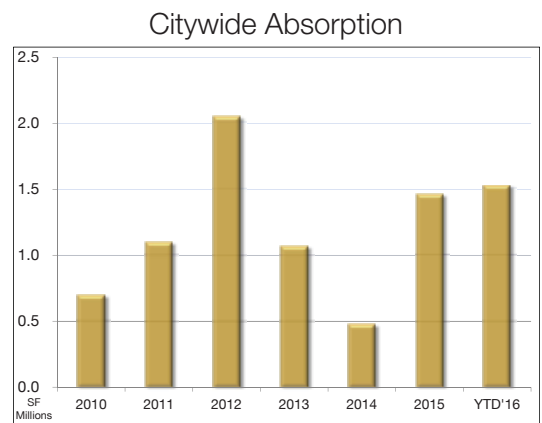


### Average Rental Rates/SF (NNN)

	Annual	Monthly
Flex/R&D	\$9.60-\$15.00	\$0.80-\$1.25
Bulk Warehouse	\$5.40-\$8.40	\$0.45-\$0.70
Office Warehouse	\$7.20-\$10.20	\$0.60-\$0.85
Manuf/Warehouse	\$7.80-\$10.80	\$0.65-\$0.90

### Current Quarter Absorption

9/30/16	Flex/R&D	Office/Warehouse	Total
Round Rock	0	30,480	30,480
North	1,960	25,036	26,996
Northeast	38,237	13,260	51,497
East	N/A	8,658	8,658
Southeast	98,581	142,666	241,247
South	0	250	250
<b>Total</b>	<b>138,778</b>	<b>220,350</b>	<b>359,128</b>



## Geographical Sector & Building Use

Office/Bulk/Manufacturing/Warehouse			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,547,147	5.3%	0
North	10,199,877	4.3%	80,400
Northeast	4,371,183	9.7%	115,200
East	1,283,071	2.6%	0
Southeast	5,533,849	6.8%	469,000
South	1,945,884	0%	0
<b>Total</b>	<b>25,881,011</b>	<b>5.4%</b>	<b>664,600</b>

\*Expected to deliver within 6 months

Flex/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	715,946	4.6%	0
North	5,035,849	4.9%	0
Northeast	2,730,934	8.0%	84,395
East	0	0.0%	0
Southeast	4,237,455	11.0%	433,770
South	131,848	0.0%	0
<b>Total</b>	<b>12,852,032</b>	<b>7.5%</b>	<b>518,165</b>

\*Expected to deliver within 6 months

### Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
Intelligent Logistics	Harris Ridge Business Center Bldg 5	81,900	Northeast
On-X Technologies	Anderson Lane Business Park Bldg A	35,000	Northeast
Wonderwall Studio	South Park Commerce Center Bldg 2	32,317	Southeast
Walmart	224 Investment Loop	28,219	Round Rock
Capital Vending	Capital Business Park	12,658	Southeast

### Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
Tech Ridge Portfolio	TLF Logistics II Tech Ridge Portfolio LLC	1,023,122	Northeast
Global Business Park Bldgs A,B,C	ATCAP Partners	269,415	East
Braker Center Bldgs 6,7,11	MIG Real Estate	218,000	North
Tuscany Distribution Center 1 and 2	ATCAP Partners	142,270	Northeast
Mopac Industrial Park	Jeffrey Glenn Ezell et al	69,322	Southeast
Capitol Business Park	James C Daywood	52,707	Southeast

### New Development

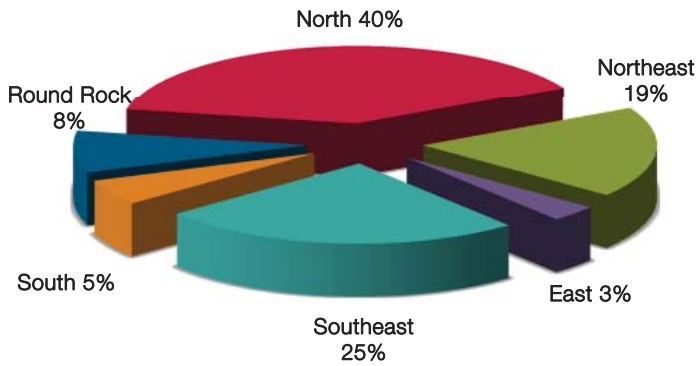
Project	Buyer	Size	Submarket
Amazon Fulfillment Center	Complete 3Q 16: 1,000 jobs	855,000	San Marcos
Expo Business Park 13	Complete 3Q 16 (WH)	80,000	Southeast
Met Center II, Bldg 12 - 7701 Metropolis	Complete 2Q 16 (SC) 87% Leased	72,000	Southeast
Met Center II, Bldg 13	Complete 3Q 16 (Flex)	57,600	Southeast
Harris Ridge Bldg 1-1100 E Howard	Complete 3Q 16 (SC)	51,200	Northeast
955 CR 118 - Hutto	Complete 3Q 16 (WH)	48,215	Round Rock
Scottsdale Crossing Bldg 2	Complete 3Q 16 (SC)	30,000	Round Rock
Expo Business Park 12	Complete 3Q 16 (WH)	25,600	Southeast
Capitol Wright Distribution Center	Construction: Hwy 290 E/SH 130 (Build-to-Suit); 4Q	500,000	Northeast
Commerce Center South (4 Bldgs)	Construction: Est Completion 1Q 17 (SC)	328,570	Southeast
Free Port Tech South (3 Bldgs)	Construction: Est Completion 2Q 17 (WH)	280,000	Northeast
Data Foundry Texas 2	Construction: Est Completion 3Q 17 (SC)	235,000	Southeast
Burleson Commerce Park - 6 Bldgs	Construction; Est Completion 4Q 16 (WH)	189,000	Southeast
Met Center II, Bldg 10	Construction: Est Completion 4Q 16 (SC)	129,600	Southeast
Techridge Bldg 3.1	Construction: Est Completion 1Q 17 (WH)	115,200	Northeast
Techridge Bldg 2.2	Construction: Est Completion 2Q 17 (SC)	84,395	Northeast
Heritage Crossing Bldg 4	Construction: Est Completion 4Q 16 (WH)	80,400	North
Met Center II, Bldg 14 & 15	Construction: Est Completion 4Q 16 (SC)	57,600	Southeast
Scottsdale Crossing Bldg 1	Construction: Est Completion 1Q 17 (SC)	50,000	Round Rock
Free Port Tech South	Construction: Est Completion 2Q 17 (SC)	47,600	Southeast
Met Center II, Bldg 16	Construction: Est Completion 4Q 16 (SC)	40,800	Southeast

WH = Warehouse / SC = Service Center/Flex

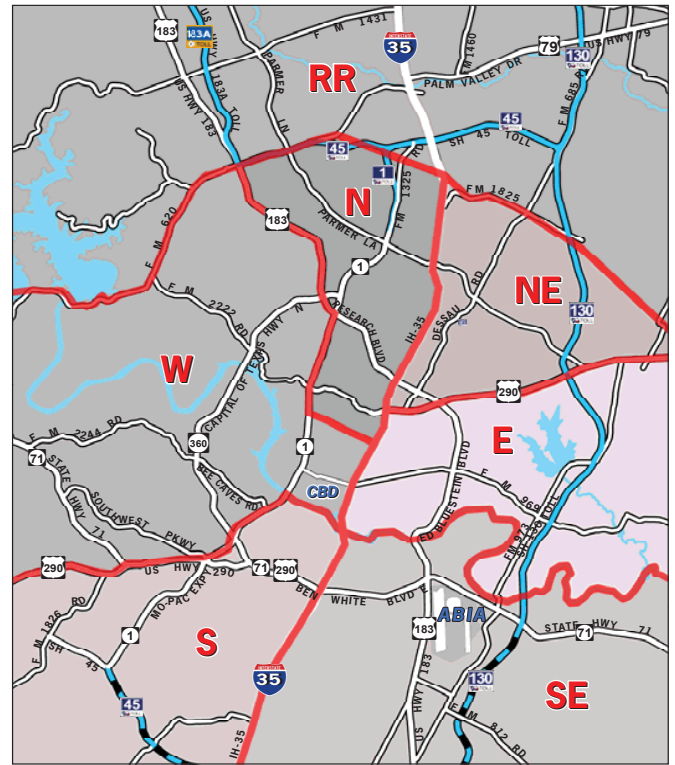
### Building Use Definitions

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, Bob Springer, CCIM and Kim Gatley, Director of Research.

