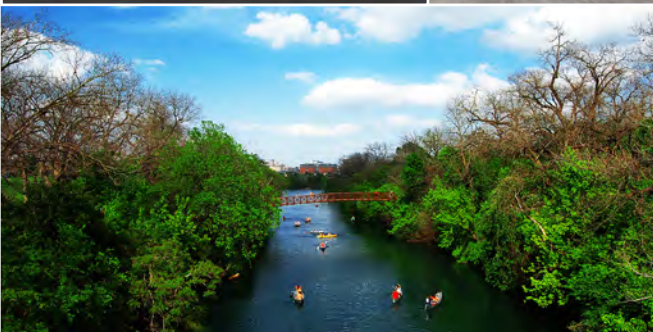




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**Industrial Building Market Update**  
 Austin Metropolitan Area  
**Third Quarter 2017**



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Activity in the Austin industrial market increased during the third quarter after the previous quarter's sluggish performance. New leases and expansions generated 29,485 square feet of positive net absorption moving the year-to-date net gain to 444,181 square feet. While tenant move-outs mitigated the potential gain, several sizeable leases prevailed to keep absorption in the black for the quarter.

Commerce Center South Building 10 was the only project delivered in the third quarter, adding 96,280 square feet to the service center inventory in the Southeast sector.

With new supply outpacing demand, local industrial properties closed the quarter with a citywide vacancy rate of 8.3%, which is up compared to 7.8% last quarter and 6.1% recorded in the same quarter of the previous year.

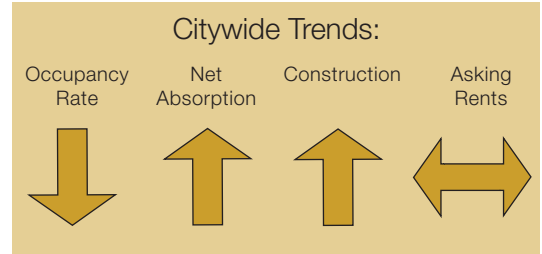
The Round Rock submarket experienced the strongest activity with 112,050 square feet of the total citywide gain; meanwhile, the North and the East sectors both saw substantial negative absorption. The industrial market experienced some key leases to create positive absorption during the third quarter, including Opcity Inc. (49,293 sf) at Bergstrom Tech Center, Singulex (35,681 sf) at Crystal Park Bldg. 12, and Seton (28,800 sf) at Met Center II Bldg. 12.

Flex/Service Centers experienced a rebound during the third quarter resulting in 133,319 square feet of positive net absorption. On the other hand, the Warehouse market experienced 103,834 square feet of negative net absorption. The East submarket was hit the hardest with the loss of 105,942 square feet.

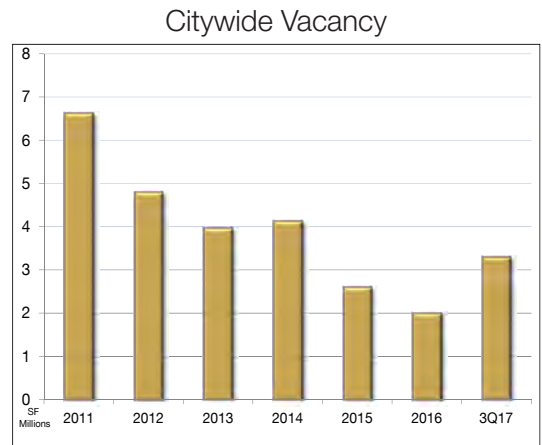
The cost of renting office warehouse space remained at mid-year rates during the third quarter, currently ranging between \$0.60 - \$0.85 per square foot per month on a triple net basis while the price for bulk warehouse ranges between \$0.45 - \$0.70 and \$0.65 - \$0.90 for manufacturing space. Among Service Center/Flex properties, asking rental rates range between \$0.80 - \$1.25 per square foot per month. Given the current market conditions, tenants may begin to see lower rates if vacancies remain on the higher end of the spectrum for consecutive quarters.

Currently, more than 1.2 million square feet of industrial space is currently under construction. The active Southeast submarket can expect to see more than 626,000 square feet of new industrial space come online by the end of the year led by Southpark Commerce Center V and two buildings at Park 183. Another project soon to reach completion is The Collective at South Congress, which will feature 83,775 square feet of industrial space.

According to the Texas Workforce Commission, the Austin-Round Rock metro area added 23,500 new jobs over the past twelve months ending in September which equates to an annual growth rate of 2.3%. Essentially, Austin is operating at full employment with a reported unemployment rate of 2.9% which compares favorably to the Texas rate of 4.0% and the U.S. rate of 4.1%. While the Austin industrial market has experienced a relatively sluggish performance, the recent pick up in leasing activity during the third quarter could be a good sign as we head into the fourth quarter and with new lease space soon to come online.



Arrows indicate change from previous quarter

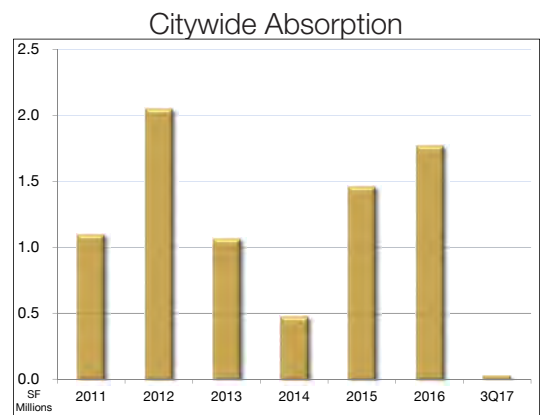


### Average Rental Rates/SF (NNN)

	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

9/30/17	Flex/R&D	Office/Warehouse	Total
Round Rock	26,700	85,350	112,050
North	(7,928)	(73,413)	(81,341)
Northeast	40,758	(9,466)	31,292
East	0	(105,942)	(105,942)
Southeast	74,989	(7,863)	67,126
South	(1,200)	7,500	6,300
<b>Total</b>	<b>133,319</b>	<b>(103,834)</b>	<b>29,485</b>





## Geographical Sector & Building Use

Office/Bulk/Manufacturing/Warehouse			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,667,147	2.7%	0
North	10,280,458	6.5%	0
Northeast	4,611,789	11.7%	0
East	1,283,071	9.2%	0
Southeast	5,876,799	10.1%	0
South	1,878,884	0.1%	0
<b>Total</b>	<b>26,598,148</b>	<b>7.5%</b>	<b>0</b>

\*Expected to deliver within 6 months

Flex/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	723,056	5.3%	395,980
North	5,035,849	4.7%	0
Northeast	2,741,934	10.1%	
East	0	0.0%	0
Southeast	4,631,999	16.2%	741,951
South	131,848	0.9%	83,775
<b>Total</b>	<b>13,264,686</b>	<b>9.8%</b>	<b>1,221,706</b>

\*Expected to deliver within 6 months

## Current Quarter Lease Transactions

Tenant	Building	Size	Submarket
Opcity Inc.	Bergstrom Tech Center	49,293	Southeast
Singulex	Crystal Park Bldg. D	35,681	Round Rock
Seton	Met Center 2, Bldg. 12	28,800	Southeast
Square Grove LLC	McNeil 1	24,207	North
Winding Road Media LLC	McKalla 2	21,600	North
Hinkle Insulation	Rutland 13	20,148	North

## Current Quarter Sale Transactions

Building	Buyer	Size	Submarket
3813 Helios Way	Cortec Precision Sheetmetal	120,000	North
2128 W Braker Ln.	Retford Investments	126,750	North
1505 Volta Drive	Titan Developers	25,000	Round Rock

## New Development

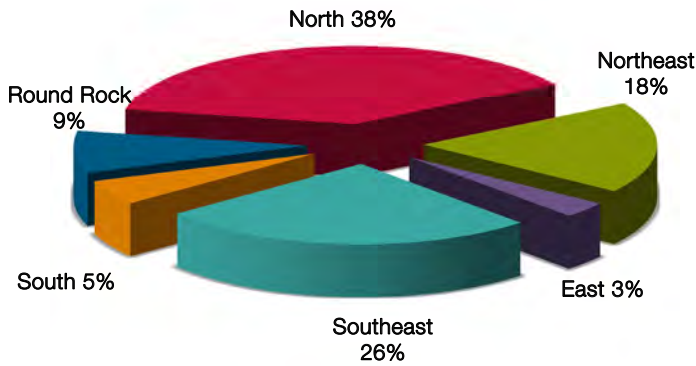
Project	Buyer	Size	Submarket
Commerce Center South (4 Bldgs)	Completed 2Q: Flex/Service Center	328,570	Southeast
Free Port Tech South (3 Bldgs)	Completed 2Q: Warehouse	280,000	Northeast
Burleson Commerce Park Bldgs. 2-7	Completed 1Q: Flex/Service Center	274,000	Southeast
Burleson Commerce Park Bldgs. 2-7	Completed 1Q: Flex Space	239,500	Southeast
Techridge Bldg 3.1	Completed 2Q: Flex/Service Center	115,200	Northeast
Cortec Precision Sheetmetal	Completed 3Q: WH; Sold to User	120,000	Northeast
Commerce Center South Bldg. 10	Completed 3Q: Flex/Service Center	96,280	Southeast
Tech Ridge Bldg 2.1	Completed 1Q: Warehouse	84,395	Northeast
Heritage Crossing Bldg 4	Completed 1Q: Warehouse	80,340	North
Scottsdale Crossing Bldg 2	Completed 1Q: Flex/Service Center	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 V (3 Bldgs.)	Construction: Est Completion 4Q 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 4Q 17 (SC)	231,030	Northwest
One Thirty Commerce Center Bldg D	Construction: Est Completion 1Q 18 (SC)	120,000	Northeast
Met Center II Bldg. 14 & 15	Construction: Est Completion 1Q 18 (SC)	115,200	Southeast
The Collective at South Congress	Construction: Est Completion 4Q 17 (SC)	83,775	South
La Jaita Business Park III Bldg. 7 & 8	Construction: Est Completion 1Q 18 (SC)	44,950	Round Rock

WH = Warehouse / SC = Service Center/Flex

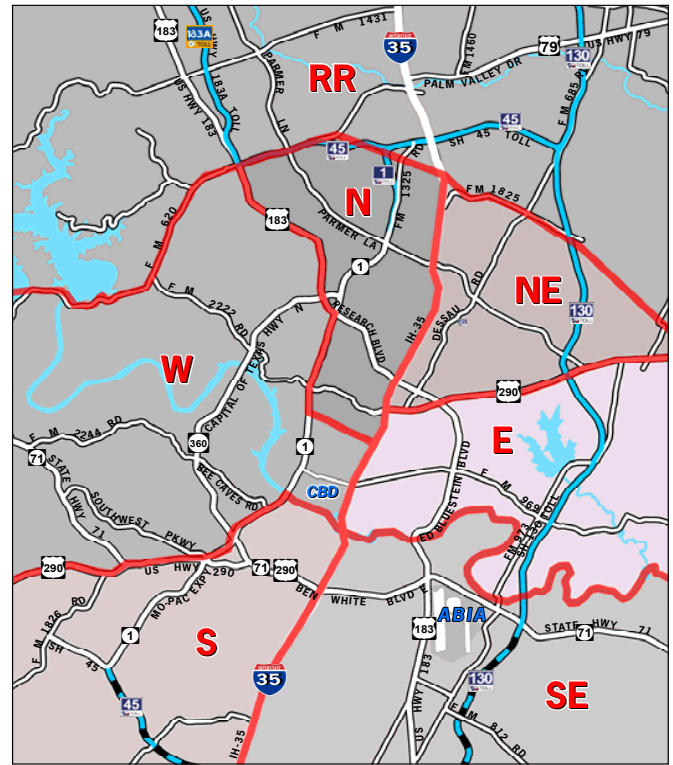
## Building Use Definitions

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.

