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Industrial Building Market Update
 Austin Metropolitan Area
Fourth Quarter 2014



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OVERVIEW

Demand for industrial space led to increased leasing velocity in the final three months of the year resulting in a solid fourth quarter performance for the Austin industrial market. New leases and expansions generated a robust 548,474 square feet of positive net absorption for the period between the first of October and the end of December – which measured more than the first three quarters combined. Leasing activity remained rather docile through much of the year but rebounded in the last quarter. Gains in the fourth quarter offset earlier losses to yield a total of 476,811 square feet of positive net gain for the year marking a fifth consecutive year of positive annual net absorption.

According to the survey of nearly 38 million square feet of industrial lease space, the local industrial market closed the year with a citywide vacancy rate of 10.9% which is improved compared to 11.9% last quarter and relatively stable compared to 10.6% recorded in the same quarter of the previous year. Over the course of the year, nearly 350,000 square feet of new supply was delivered to the market which offset positive absorption and kept vacancy flat.

Heritage Crossing 3 (109,547 sf), located at 2301 Scarbrough in the North sector, came online in the fourth quarter with roughly 25,400 square feet pre-leased to Magnetic Clay. In the Northeast, Tuscany Center Building 9 (90,331 sf) came online at 8024 Exchange Drive with no pre-leasing reported. In addition, more than 767,000 square feet of speculative industrial space is in various stages of planning or construction and working its way through the development pipeline.

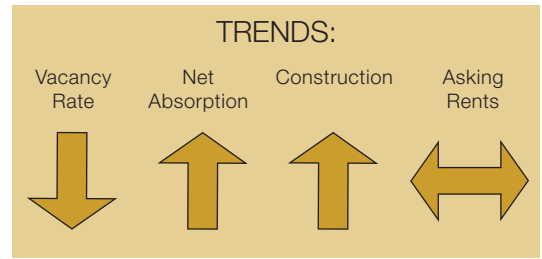
WAREHOUSE

Looking at the market by product type and submarket better defines exactly where activity has been the strongest. In terms of demand, the city's 24.9 million square feet of warehouse facilities outperformed the Flex/R&D market in the fourth quarter nearly three to one. Warehouse properties experienced 364,623 square feet of positive net absorption in the fourth quarter. Led by Blackmon Mooring (50,000 sf) at Northpointe Trade Center C, the North sector saw the greatest amount of net gain with 229,296 square feet. For the twelve months ending in December, Austin-area warehouse properties experienced a grand total of 948,052 square feet of positive net absorption. Again, the North sector led with 286,472 square feet of the year-end total but the Northeast and Southeast sectors followed closely with 252,843 square feet and 235,527 square feet, respectively.

The Warehouse market closed the fourth quarter with a citywide vacancy rate of 9.0% which is improved compared to 9.7% last quarter and 9.9% recorded in the same quarter of 2013. Vacancy rates are particularly tight in the Northeast and Southeast sectors. Warehouse vacancy rates around the city stand as follows: Round Rock – 17.8%, North – 10.3%, Northeast – 5.2%, East – 3.8%, Southeast – 5.0% and South – 11.7%.

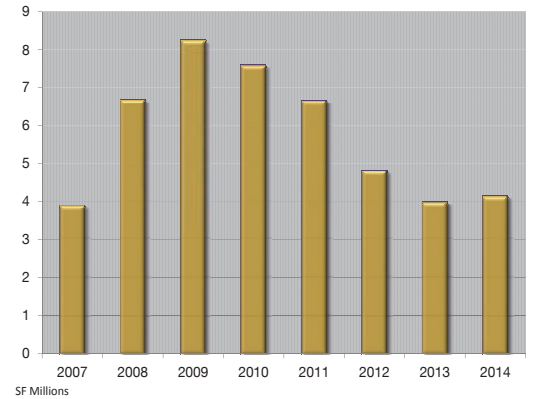
FLEX/R&D

The city's inventory of roughly 13.1 million square feet of Flex/R&D space experienced 183,851 square feet of positive net absorption in the fourth quarter but it was not enough to offset earlier losses. Despite the Allergan (87,754 sf) lease at Parmer Sector 6 at 301 Howard, the Flex/R&D market closed the year in the red with 471,241 square feet of negative net absorption. As a result, the Flex market closed the year with a citywide vacancy rate of 14.6% which is improved compared to 16.0% last quarter but noticeably softer compared to 12.0% recorded in the same quarter of the previous year. By sector, the Flex vacancy rates around the city stand as follows: Round Rock – 3.5%, North – 6.4%, Northeast – 32.5%, Southeast – 13.8% and South – 0%.



Arrows indicate change from previous quarter

HISTORICAL VACANCY



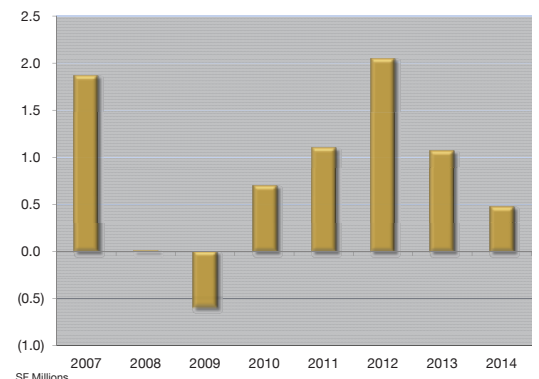
AVERAGE RENTAL RATES/SF (NNN)

	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

12/31/14	Flex/R&D	Office/Warehouse	Total
Round Rock	4,058	46,189	50,247
North	55,374	229,296	284,670
Northeast	154,819	33,739	188,558
East	N/A	(7,049)	(7,049)
Southeast	(35,290)	69,698	231,195
South	4,890	(7,250)	(2,360)
Total	183,851	364,623	548,474

HISTORICAL ABSORPTION



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,498,932	17.8%	240,000
North	10,177,069	10.3%	0
Northeast	4,115,363	5.2%	153,000
East	1,283,071	3.8%	0
Southeast	4,882,511	5.0%	351,805
South	1,945,884	11.7%	0
Total	24,902,830	9.0%	744,805

*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	663,446	3.5%	22,000
North	5,002,017	6.4%	0
Northeast	3,016,576	32.5%	0
East	0	0.0%	0
Southeast	4,259,656	13.8%	0
South	131,848	0%	0
Total	13,073,543	14.6%	22,000

*Expected to deliver within 6 months

RENTAL RATES

Citywide average quoted rental rates remained flat in the fourth quarter. The cost of renting office warehouse space ranges between \$0.45 - \$0.60 per square foot per month while the price for bulk warehouse ranges between \$0.40 - \$0.55. 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

Looking ahead, steady demand for space is expected to continue to tighten vacancy although the delivery of new supply may cause some fluctuations. "Anticipated job growth resulting from company expansions and relocations will likely translate into continued demand for industrial space," says Heare. For the twelve-month period ending in December, the Austin-Round Rock-San Marcos Metropolitan Statistical Area added 25,500 jobs for an annual growth rate of 2.9%, according to the Texas Workforce Commission. Meanwhile, the unemployment rate fell from 4.5% in December of 2013 to 3.4% at the close of 2014.

SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
Mattress Firm	Corridor Park Corporate Center 9	99,200	Round Rock
Allergan	301 Howard	87,754	Northeast
Movie Production Company	Armstrong McCall Building	58,254	Southeast
Blackmon Mooring	Northpointe Trade Center C	49,500	Northeast
Insight Global (Expansion)	Brockton Business Park 3	37,700	North
BMC West	Denton Center 1	32,500	North

RECENT SALE TRANSACTIONS

Building	Buyer	Size	Submarket
McNeil 1	PS Business Parks	246,390	North
Techni Center I, II & IIB	IC Berkeley Partners III	206,920	East
Stonelake 1-5	Legacy Partners	123,761	North

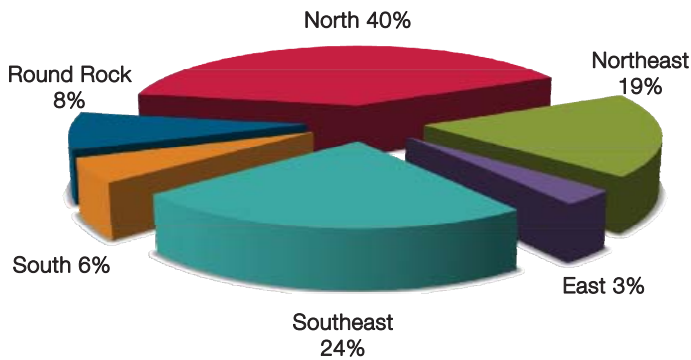
NEW DEVELOPMENT

Project	Location/Comments	Size	Submarket
Heritage Crossing 3	Delivered 4Q; Magnetic Clay pre-leased 25,400 sf	109,547	North
Tuscany Center, Bldg 9	Delivered 4Q; Exchange Dr.	90,331	Northeast
Pecan 130 Business Park, Bldg 4	SH 130 & Pecan; Q2 15 Delivery	120,000	Round Rock
Pecan 130 Business Park, Bldg 3	SH 130 & Pecan; Q4 15 Delivery	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

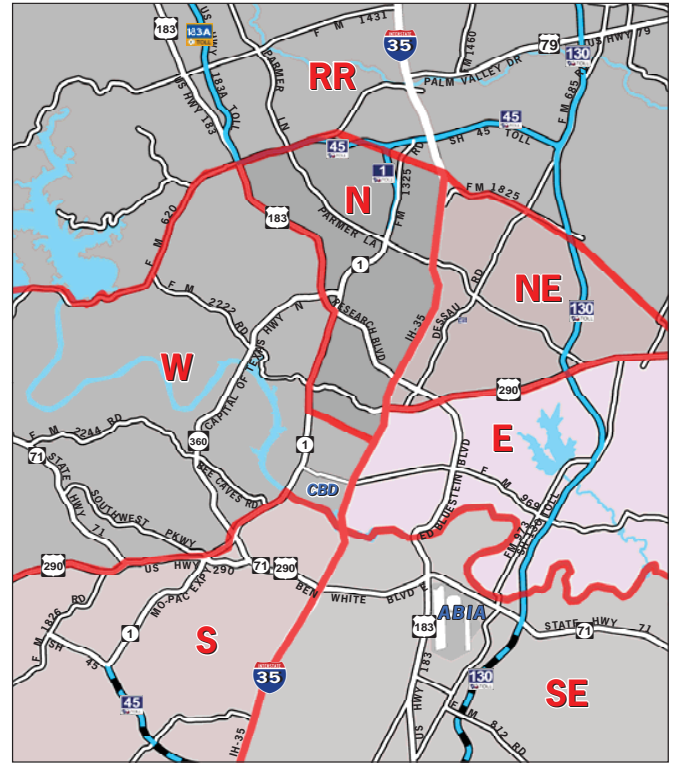
BUILDING USE DEFINITIONS

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.

