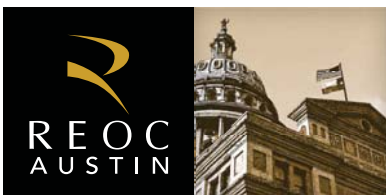
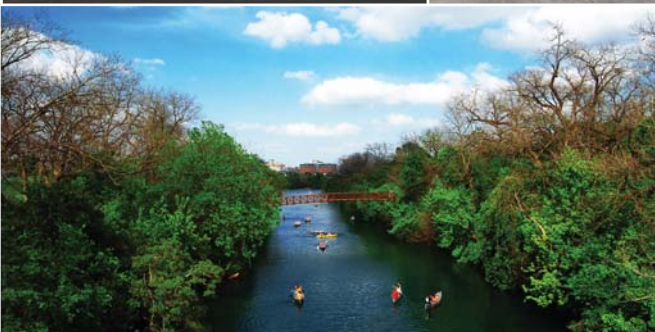




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**Industrial Building Market Update**  
 Austin Metropolitan Area  
**Fourth Quarter 2013**



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## OVERVIEW

The Austin industrial market closed out 2013 with a citywide vacancy rate of 10.6%, according to the fourth quarter survey of more than 37.4 million square feet of industrial lease space. With few new developments constructed over the past several years, an expanding economy and steady tenant demand for space has tightened vacancy to its lowest point in twelve years.

## ABSORPTION

Tenant move-ins recorded between the first of October and the end of December generated 340,541 square feet of positive net absorption within Austin-area industrial properties. The fourth quarter gain raised the year-end absorption total to nearly 1.1 million square feet. The 2013 performance marks the fourth-consecutive year of positive annual net absorption and the third-consecutive year topping the one-million mark.

Leasing activity in the fourth quarter was closely split between Warehouse and Flex properties, as evidenced by absorption figures. Warehouse properties experienced 195,445 square feet of positive net gain accounting for 57% of the citywide net absorption which slightly outpaced the Flex market which experienced 145,096 square feet. The performance ratio remained consistent for the year with warehouse properties garnering 605,645 square feet or 57% while Flex properties gained 463,503 square feet.

## RENTAL RATES

Rental rates are finally starting to respond to improved occupancies. Although asking rental rates for area Flex properties remained stable ranging between \$0.65 - \$0.95 per square foot per month, quoted rental rates for Warehouse product moved up slightly now ranging between \$0.40 - \$0.55. Improved occupancy has given landlords more confidence and leverage in lease negotiations. As a result, rental concessions are on the decline and landlords are starting to test higher rents.

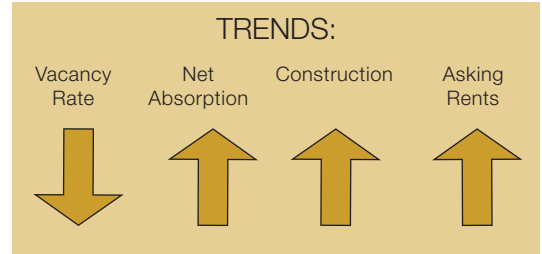
## WAREHOUSE

The city's inventory of roughly 24.4 million square feet of warehouse space recorded several sizeable leases in the final quarter of the year led by activity in the North submarket. Flextronics, for example, inked a lease for 49,716 square feet at McNeil 1, Austin Canoe & Kayak took down 42,560 square feet at Interchange Center and JB Hunt leased 32,000 square feet at Northpointe Trade Center C. Other notable leases in the fourth quarter included Fed Ex (51,940 sf) at Tech Ridge 4.1 in the Northeast submarket. TechRidge 201 (301,644 sf), another Northeast warehouse property located at 201 W. Howard, was recently purchased by Casa Marco Texas LLC, an entity of Marco Fine Arts Gallery, Inc. The 14-year-old facility was previously owned by Karlin Tech Ridge LLC.

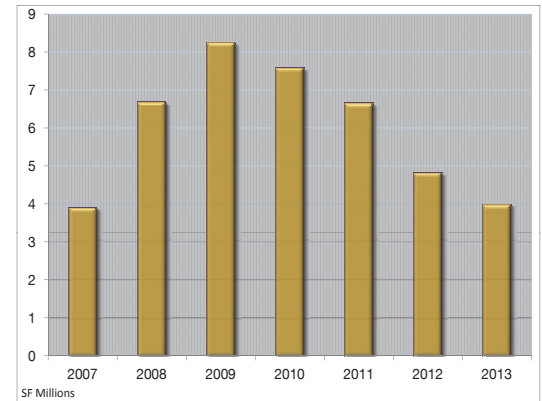
In all, the Warehouse market closed the fourth quarter with a citywide vacancy rate of 9.9% which is improved compared to 11% recorded in the same quarter a year ago but up slightly compared to 9.5% recorded last quarter due to the addition of new product. Heritage Crossing Buildings 1 & 2, totaling 338,109 square feet, were delivered to the North submarket. Neither building reported any leasing activity in the fourth quarter but both stand ready for tenant finish improvements. Meanwhile, Building 3 (109,887 sf) is still under construction and expected to be completed in the first quarter.

## FLEX

The city's inventory of roughly 13 million square feet of Flex/R&D space closed the fourth quarter with a citywide vacancy rate of 12.0% which is improved compared to 13.2% recorded last quarter and 16% recorded in the same quarter a year ago.



## HISTORICAL VACANCY



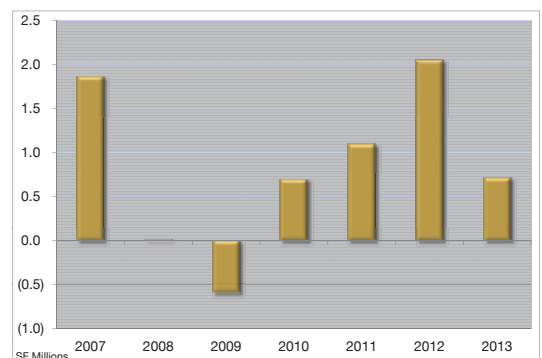
## AVERAGE RENTAL RATES/SF (NNN)

	Annual	Monthly
Flex/R&D	\$7.80-\$11.40	\$0.65-\$0.95
Bulk Warehouse	\$4.80-\$6.00	\$0.40-\$0.50
Office Warehouse	\$4.80-\$6.60	\$0.40-\$0.55
Manuf/Warehouse	\$6.00-\$8.40	\$0.50-\$0.70

## CURRENT QUARTER ABSORPTION

12/31/13	Flex/ R&D	Office/ Warehouse	Total
Round Rock	102,242	(94,170)	8,072
North	13,093	186,103	199,196
Northeast	12,976	175,725	188,701
East	0	(2,952)	(2,952)
Southeast	17,985	(118,061)	(100,076)
South	(1,200)	48,800	47,600
<b>Total</b>	<b>145,096</b>	<b>195,445</b>	<b>340,541</b>

## HISTORICAL ABSORPTION



## GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,261,492	11.4%	120,000
North	9,912,962	11.6%	109,887
Northeast	4,356,156	8.4%	0
East	1,278,858	11.6%	0
Southeast	4,882,367	9.5%	0
South	1,751,315	1.8%	0
<b>Total</b>	<b>24,443,150</b>	<b>9.9%</b>	<b>229,887</b>

\*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	852,282	4.7%	20,000
North	5,247,304	6.5%	0
Northeast	2,437,818	19.1%	0
East	0	0.0%	0
Southeast	4,295,900	16.5%	0
South	131,848	2.0%	0
<b>Total</b>	<b>12,965,152</b>	<b>12.0%</b>	<b>20,000</b>

\*Expected to deliver within 6 months

## FORECAST

Looking ahead, tenants may be challenged with higher lease costs as the market continues its steady march forward but the addition of new projects will create more options for expansion and tenant relocation. The North and Northwest submarkets are poised for more speculative development and Cedar Park is expected to see significant growth but there is potential activity slated in several areas throughout the city. Look for expansion within existing parks such as Airport Commerce Park and MetCenter in the Southeast sector and Harris Ridge Business Center and TechRidge in the Northeast sector; and, in the Round Rock sector, new building starts are likely at Scottsdale Crossing and Davis Springs Corporate Center along with possible activity at the proposed Brushy Creek Corporate Center.

## SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
FedEx	TechRidge 4.1	51,940	Northeast
Flextronics	McNeil 1	49,716	North
Austin Canoe & Kayak	Interchange Center	42,560	North
JB Hunt	Northpointe Trade Center C	32,066	North

## RECENT SALE TRANSACTIONS

Building	Buyer	Size	Submarket
TechRidge 201	Casa Marco Texas LLC	301,644	Northeast

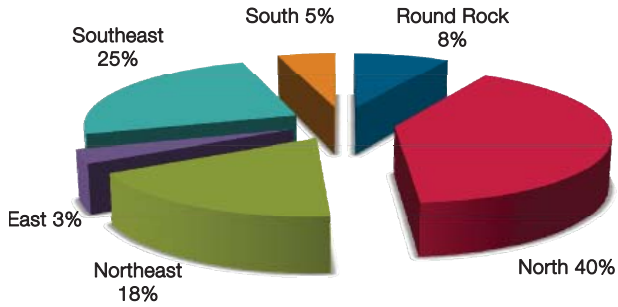
## RECENT COMPLETIONS

Project	Location	Size	Submarket
Heritage Crossing 1	2500 Scarbrough Drive	222,454	North
Heritage Crossing 2	2519 Scarbrough Drive	115,655	North
130 Commerce Center	SH 130 & Pecan	120,000	Round Rock

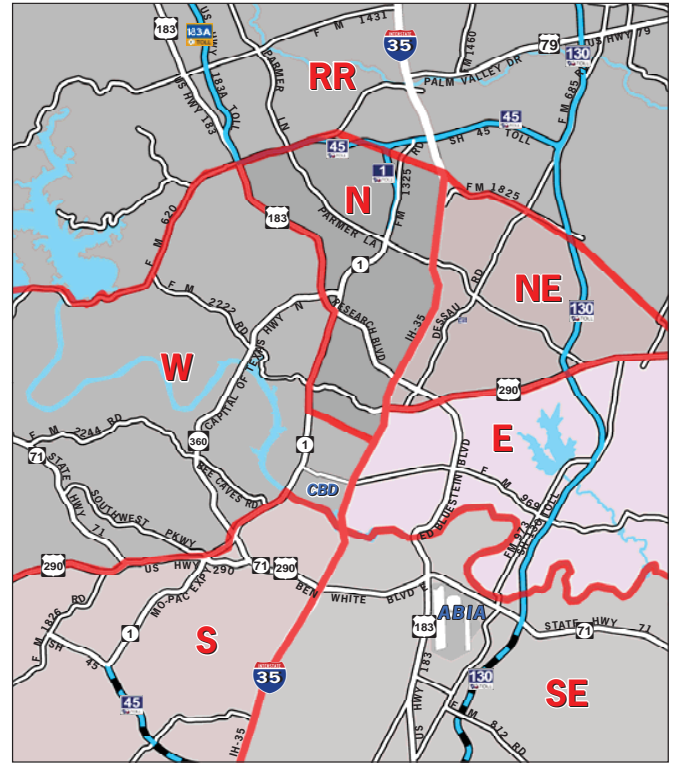
## BUILDING USE DEFINITIONS

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, Rob Eaves, Perry Horton and Kim Gatley, Director of Research.

