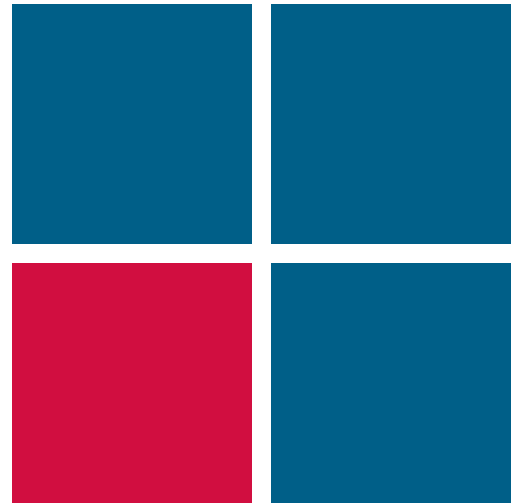




AUSTIN METROPOLITAN AREA
Industrial Building Market Update

The Source

Third Quarter 2011
An NAI REOC Austin Publication



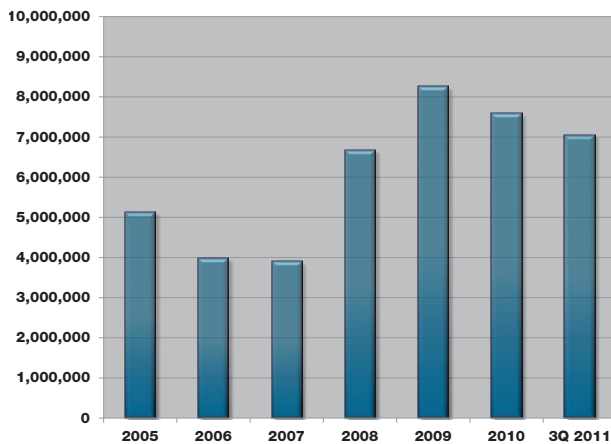
INDUSTRIAL

OVERVIEW

Activity within Austin's industrial leasing market supported a slowed but sustained recovery in the third quarter. Although the market is anxious to report big numbers, new industrial leases and expansions that commenced between the beginning of July and the end of September, generated 63,786 square feet of positive net absorption. The pace of absorption slowed compared to last quarter's impressive 532,993 square feet but the industrial market continues to move in the right direction evidenced by improvement in key market indicators.

A steady stream of tenant expansions coupled with a handful of new relocations in 2011 has generated 634,183 square feet of positive net absorption year-to-date – nearly as much as recorded for all of 2010 with a promising quarter yet to come. In addition to several recently inked leases that are expected to commence next quarter, there is also talk of a few larger deals floating in the marketplace that could land before the end of the year. Strong leasing activity has tightened the citywide vacancy rate from a high of 23.6% posted at mid-year 2010 to 19.0% currently.

HISTORICAL VACANCY

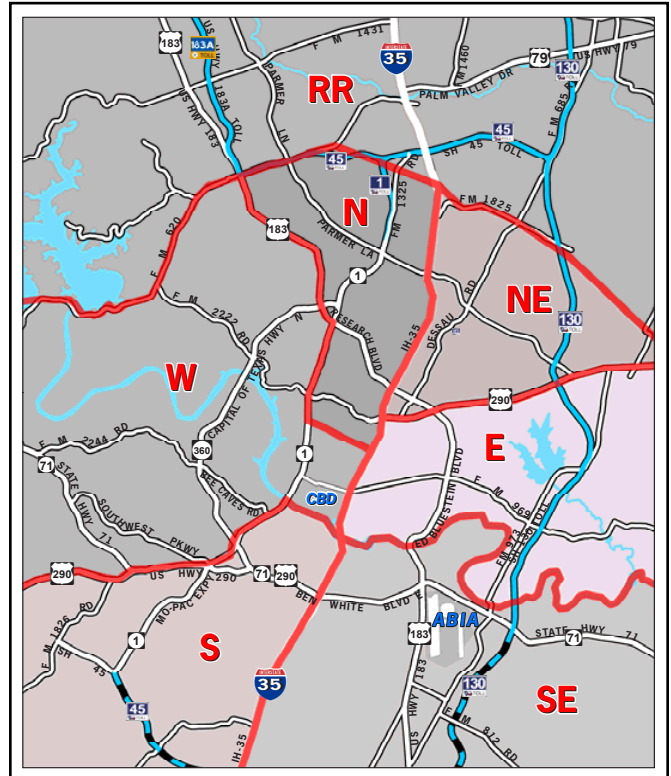


WAREHOUSE/DISTRIBUTION

Gross leasing activity within the city's 24.1 million square feet of Warehouse facilities was led by HD Plastics (106,000 sf) at 5330 Fleming Court in the Southeast submarket and included Global Environmental Services (54,766 sf) at Vista Park in the North submarket but horizontal moves and tenant move-outs offset gains to produce 236,801 square feet of negative net absorption for the quarter. Serta, which leased 51,200 square feet at Bureson Business Park II (reported last quarter), vacated 39,600 square feet at Expo Center 9 in the Southeast submarket. Also in the Southeast, Criteria Labs moved out of 33,180 square feet at Southpark Corporate Center 7. Twin Oaks, located in the South submarket, reported the 13,000 square-foot loss of Dynamic Systems which moved to Buda and Corridor Park Corporate Center 2 in the Round Rock area saw Technology Services Group vacate 10,367 square feet. At the close of the third quarter, the citywide vacancy rate for warehouse facilities softened slightly to 19.7% compared to 18.6% last quarter and 19.0% recorded six months ago.

FLEX/R&D

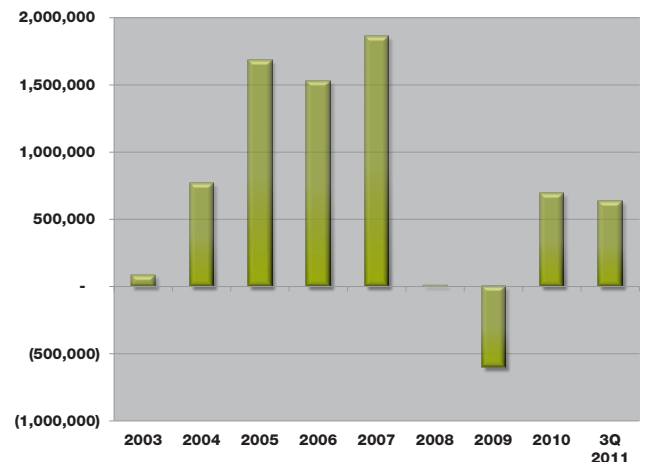
Flex/R&D properties, which account for nearly 13 million square feet of the city's 37 million square feet of tracked industrial space, outperformed the larger inventory of warehouse properties again this quarter. Contributing to the 300,587 square feet of positive net absorption recorded this period, Meridian Charter School (90,000 sf) took occupancy at AmorRon Park A in the Round Rock submarket. In addition,



CURRENT QUARTER ABSORPTION

09/30/11	Flex/R&D	Office/ Warehouse	Total
Round Rock	108,119	(142,196)	(34,077)
North	7,195	(62,293)	(55,098)
Northeast	(20,360)	(126,929)	(147,289)
East	0	50,485	50,485
Southeast	199,876	72,239	272,115
South	5,757	(28,107)	(22,350)
Total	300,587	(236,801)	63,786

HISTORICAL ABSORPTION



Freeman & National Circuit leased 38,838 square feet at Southpark Commerce Center, Phase III, Building 1 in the Southeast submarket. Also in the Southeast, new construction at Met Center 2 delivered Building 5 (150,000 sf) on Metropolis Drive which came online fully occupied by the Veterans Administration. Although the semi-conductor business is still off from normal levels, Flex properties closed the third quarter with a vacancy rate of 17.8% which is improved compared to 18.9% last quarter and 22.0% recorded at the end of 2010. Momentum appears to be shifting in favor of the Flex product and many are waiting for the return of the semi-conductor business hoping for the demand it is likely to bring.

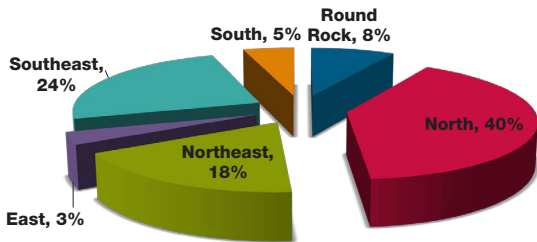
RENTAL RATES

Despite the improved vacancy rates, quoted rental rates have remained relatively flat. Tenants are still able to take advantage of current market conditions for cost-saving benefits but as the market continues to improve the availability of concessions has begun to decline and landlords persist in pressuring rates to rise.

NEW CONSTRUCTION

Build-to-suit projects have provided new construction opportunities but the pipeline of speculative industrial development remains empty due to the high vacancy that remains to be absorbed. Some develop-

MARKET SIZE



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,221,459	15.1%	0
North	9,606,007	18.1%	0
Northeast	4,356,156	29.5%	0
East	1,278,858	13.6%	0
Southeast	4,932,683	21.6%	0
South	1,751,315	8.9%	0
Total	24,146,478	19.7%	0

*Expected to deliver within 6 months

AVERAGE RENTAL RATES PER SF (NNN)

	Annual	Monthly
Flex/R&D	\$7.80-\$11.40	\$0.65-\$0.95
Bulk Warehouse	\$3.96-\$5.76	\$0.33-\$0.48
Office Warehouse	\$4.56-\$6.60	\$0.38-\$0.55
Manuf/Warehouse	\$4.80-\$7.20	\$0.40-\$0.60

ers, however, are looking ahead and preparing plans now in order to be ready to deliver projects as absorption warrants. Existing parks such as Met Center in the Southeast are ready to move forward with additional buildings. Other proposed projects include Highland Park in Round Rock where up to 425,700 square feet is planned in five buildings and Scarborough Business Park in the North submarket has 450,000 square feet planned.

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

NAI 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 NAI REOC Austin's Industrial Group: Mark Milstead, Jerry Heare SIOR, Royce Lacey SIOR BCCR, Rob Eaves, Perry Horton and Kim Gatley, Director of Research.

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	875,007	21.8%	0
North	5,362,576	17.3%	0
Northeast	2,437,698	19.3%	0
East	0	0.0%	0
Southeast	4,124,127	17.1%	0
South	131,848	0.0%	0
Total	12,931,256	17.8%	0

*Expected to deliver within 6 months

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



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