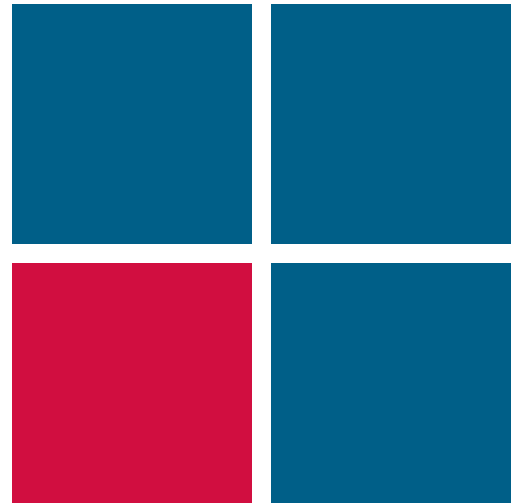




AUSTIN METROPOLITAN AREA  
Industrial Building Market Update

# The Source

Second Quarter 2011  
An NAI REOC Austin Publication

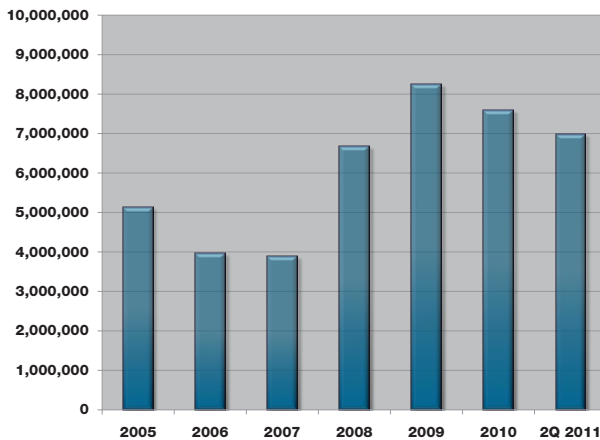


# INDUSTRIAL

## OVERVIEW

Austin's industrial leasing market, totaling nearly 37.3 million square feet, has seemingly turned a corner and is headed in the right direction. Following a rather slow first quarter, new leases and expansions commencing in the second quarter generated an impressive 532,993 square feet of positive net absorption which raised the year-to-date total to 584,526 square feet. For the first time in several years Flex properties outpaced the Warehouse/Distribution market but warehouse properties also posted positive net gains. After reaching a twenty-year high of nearly 24% at mid-year 2010, the citywide vacancy rate dropped 5% to close the second quarter at 18.7% - down from 20.2% last quarter.

### HISTORICAL VACANCY

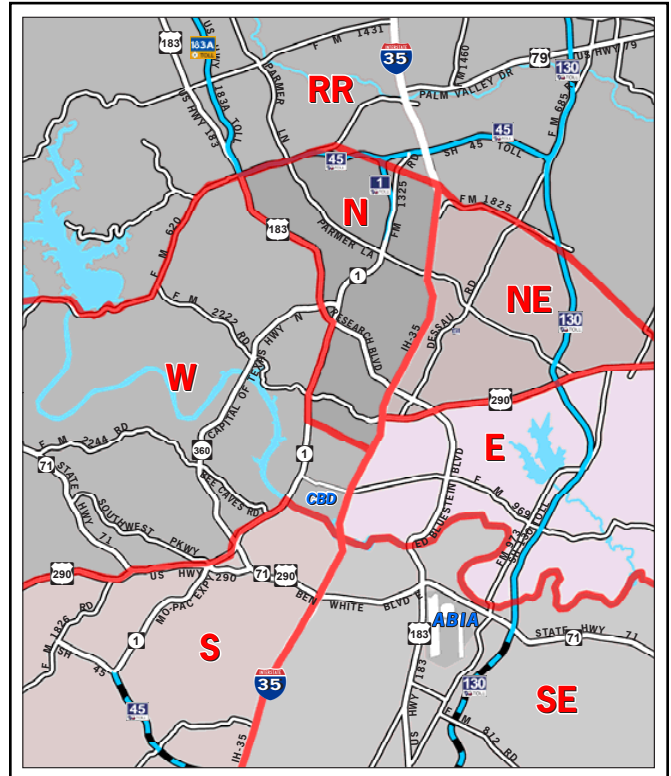


## WAREHOUSE/DISTRIBUTION

Leasing activity within the city's 24.3 million square feet of warehouse space yielded 100,148 square feet of positive net absorption in the second quarter led by gains in the North submarket including PODS (46,045 sf) at Northpointe Trade Center and CD3 (22,448 sf) at Lincoln Vista Park. The Southeast submarket, on the other hand, experienced negative absorption despite the lease by Serta (51,200 sf) at Burleson Business Park. Although the rate of absorption within the Warehouse market was slower than activity within the Flex market, the positive trend continues to promote a cautiously optimistic outlook for ongoing recovery. At the close of the second quarter, the citywide vacancy rate for warehouse facilities improved from 19.2% last quarter to 18.6% - down significantly compared to 24% recorded last year at this time.

## FLEX/R&D

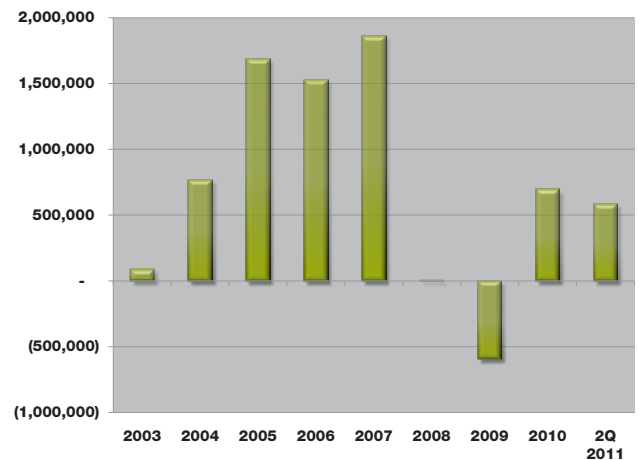
The citywide Flex/R&D inventory of nearly 13 million square feet experienced the vast majority of activity with 432,845 square feet of positive net absorption in the second quarter which outpaced the warehouse market by more than 400%. The Southeast submarket led with activity that included Red Bird Flight Simulator (26,774 sf) at Southpark Commerce Center Phase 4. Aside from the South submarket, which remained flat, the other submarkets also experienced healthy activity including AT&T (72,572 sf) at Davis Spring Corporate Center and VirTex Assembly Services (62,719 sf) at Plaza 35. At mid-year, the citywide vacancy rate for Flex/R&D properties dropped from 22% last quarter to 18.9% - improved compared to 23% recorded a year ago. More improvement is expected based on deals that were inked in the second quarter with future commencement dates including Meridian Charter School (90,000 sf) at AmorRon Park.



### CURRENT QUARTER ABSORPTION

	Flex/R&D	Office/ Warehouse	Total
<b>06/30/11</b>			
<b>Round Rock</b>	103,874	19,962	123,836
<b>North</b>	92,582	110,462	203,044
<b>Northeast</b>	99,356	2,656	102,012
<b>East</b>	0	37,347	37,347
<b>Southeast</b>	138,683	(68,293)	70,390
<b>South</b>	(1,650)	(1,986)	(3,636)
<b>Total</b>	<b>432,845</b>	<b>100,148</b>	<b>532,993</b>

### HISTORICAL ABSORPTION



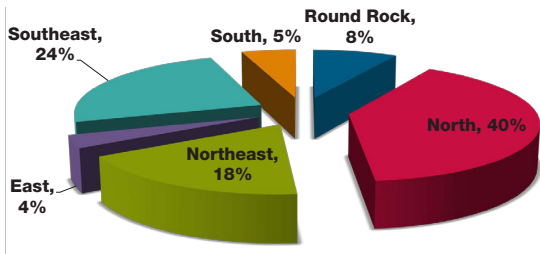
## RENTAL RATES

Citywide, rental rates remain below peak levels but appear to be reaching stabilization. Asking rental rates for warehouse space remained relatively flat in the second quarter and given the amount of warehouse vacancy yet to be filled significant rental rate growth is not expected in the near term. Meanwhile, rates for some Flex space increased this quarter in response to broad-based market activity and pockets of improved occupancy but it is important to remember that quoted rental rates can vary wildly depending on the property owner's motivation as well as the property's vacancy status. The market's ability to sustain the current positive absorption trend will likely result in the gradual reduction of discounts and concessions leading to market-wide rent stabilization.

## MARKET ACTIVITY

Forbes recently ranked Austin as "America's #1 boom town." Growth from expanding Austin tenants and companies looking to relocate to the area is expected to keep leasing velocity moving forward through the second half of 2011. Optimistic about the market's future, investors pursuing quality assets are joining in sales activity which has been largely dominated by users over the past two years. California-based Karlin Real Estate LLC, for example, recently purchased TechRidge

## MARKET SIZE



## GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,261,480	7.9%	0
North	9,606,007	17.4%	0
Northeast	4,356,156	26.5%	0
East	1,308,558	17.1%	0
Southeast	4,950,021	23.0%	0
South	1,828,815	7.9%	0
<b>Total</b>	<b>24,311,037</b>	<b>18.6%</b>	<b>0</b>

\*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	871,964	33.9%	0
North	5,357,042	17.4%	0
Northeast	2,432,123	18.5%	0
East	0	0.0%	0
Southeast	4,123,929	18.6%	0
South	185,077	4.0%	0
<b>Total</b>	<b>12,970,135</b>	<b>18.9%</b>	<b>0</b>

\*Expected to deliver within 6 months

## BUILDING USE DEFINITIONS:

<b>FLEX/R&amp;D:</b>	<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>
<b>WHSE. - BULK:</b>	<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>
<b>WHSE. - OFFICE:</b>	<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>
<b>WHSE. - MFG.</b>	<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>

## AVERAGE RENTAL RATES PER SF (NNN)

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

201 (301,644 sf) from Dell with hopes of finding a corporate user or possibly reconfiguring as a multi-tenant project. Build-to-suit projects continue to dominate new construction while the lack of new speculative projects keeps the focus of leasing activity on filling existing facilities. If the market can sustain the current level of industrial activity over the next several quarters, overall fundamentals could improve to the point that developers would be able to initiate plans for future growth.

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



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