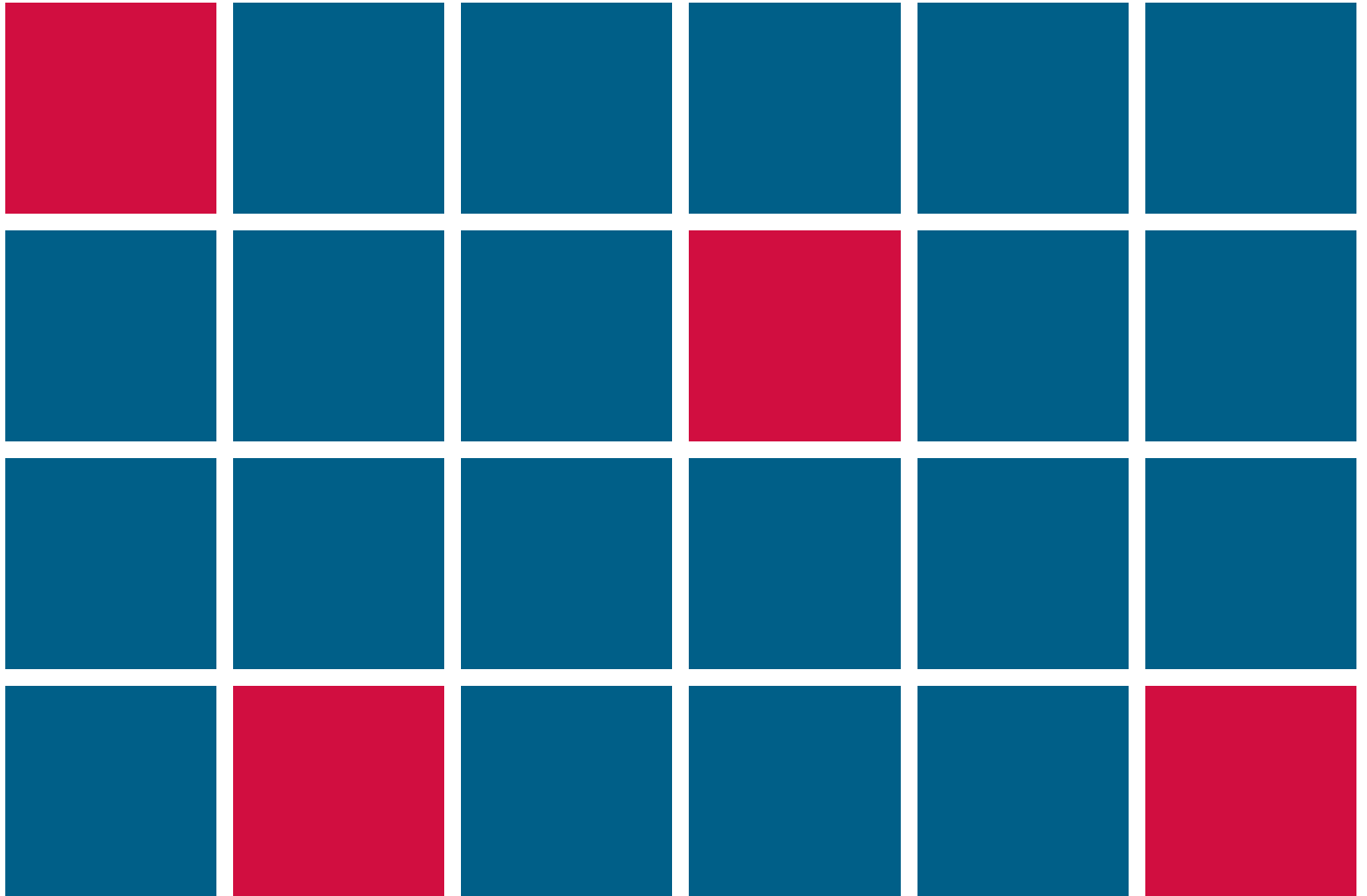
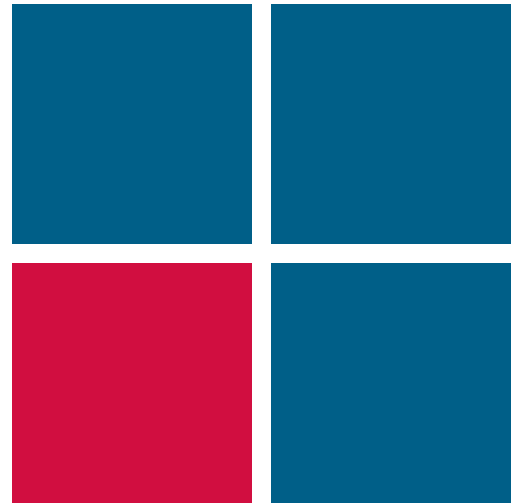




AUSTIN METROPOLITAN AREA
Industrial Building Market Update

The Source

Year-End 2010
An NAI REOC Austin Publication



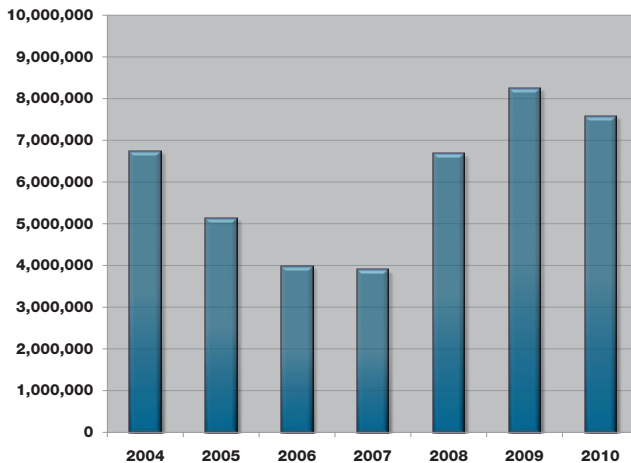
INDUSTRIAL

VACANCY

Austin's industrial leasing market, totalling more than 37.3 million square feet, showed signs of recovery in the second half of the year with a steady stream of leasing activity that tightened the city-wide vacancy rate to 20% compared to the record-high of 24% recorded at mid-year and 22% recorded a year ago. The lack of new construction coupled with an increase in leasing velocity worked together to lower vacancy rates. All sectors of the Austin MSA saw vacancy rates decline except for the East submarket.

Healthy activity within the city's 24.4 million square feet of warehouse space significantly improved the vacancy rate to 19% versus 24% at mid-year and 22% last year at this time. The Flex/R&D inventory of nearly 13 million square feet remained relatively stable with a citywide vacancy rate of 22% - improved slightly compared to 23% at mid-year but up slightly compared to 21% a year ago.

HISTORICAL VACANCY

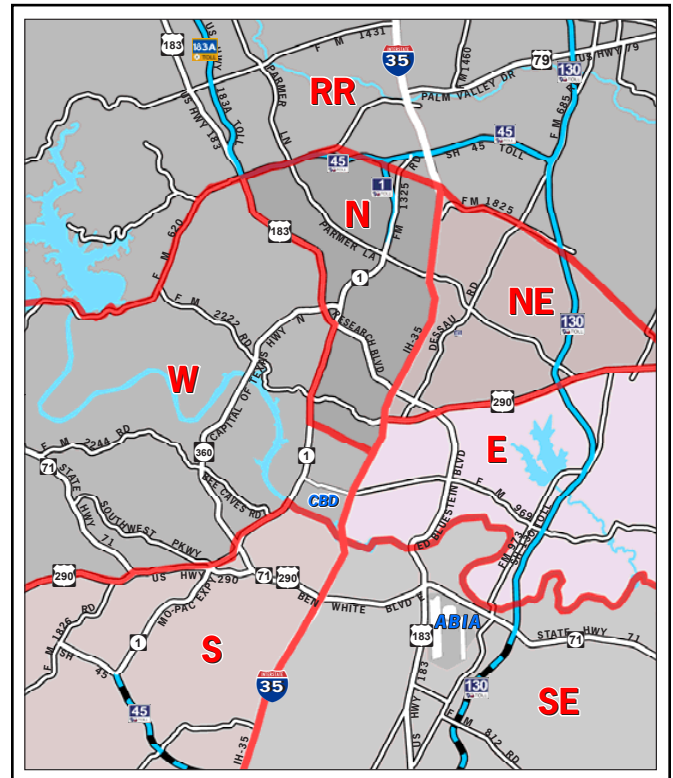


ABSORPTION

After suffering almost 600,000 square feet of negative absorption in the first half of 2010, Austin's industrial leasing market experienced a much stronger second half as has been the historical trend. Leasing activity in the fourth quarter alone generated 570,113 square feet of positive net absorption. Warehouse outperformed Flex/R&D properties with 557,261 square feet of net gain versus 12,852 square feet respectively. The fourth quarter gain marked the second consecutive quarter of positive net absorption which raised the year-end total to 693,354 square feet led by Goodwill Industries of Central Texas (124,000 sf), Owens-Minor (84,000 sf), Ultra Electronics Advanced Tactical Systems, Inc. (76,800 sf), U.S. Courier and Logistics (76,800 sf) and Power Freight Systems (72,000 sf). The substantial second-half gain resulted from a combination of new in-bound tenants and the expansion of tenants currently growing in the Austin market – some of which expanded to double their space requirement. Since Year-End 2008, nearly half (45.8%) of the 2.4 million square feet of newly constructed First Generation space has been absorbed.

RENTAL RATES

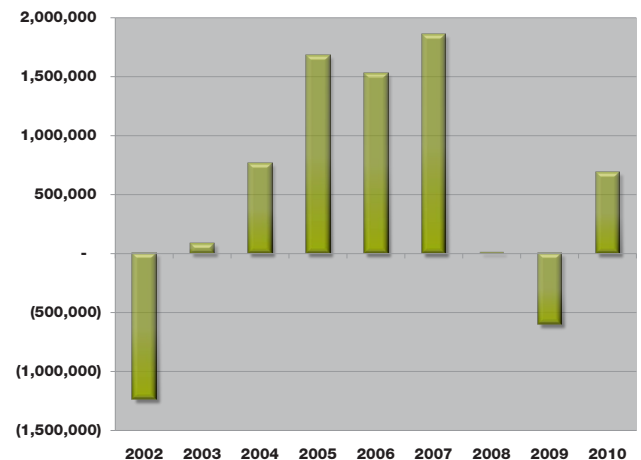
After seeing effective lease rates decline 30-35% from the benchmark high reached in late 2007 - early 2008, landlords ended the year with greater confidence to support current asking rental rates



CURRENT SIX MONTH ABSORPTION

	Flex/R&D	Office/Warehouse	Total
12/31/10			
Round Rock	(37,147)	47,407	10,260
North	32,464	602,556	635,020
Northeast	14,224	246,676	260,900
East	0	(15,859)	(15,859)
Southeast	21,674	285,471	307,145
South	28,638	60,333	88,971
Total	59,853	1,226,584	1,286,437

HISTORICAL ABSORPTION



INDUSTRIAL

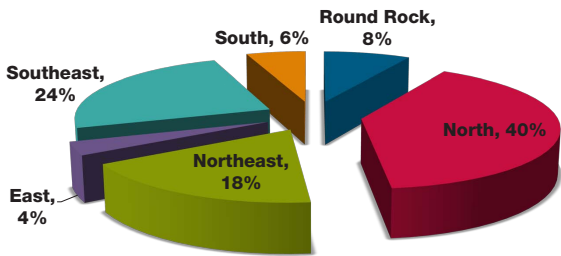
based on improved vacancy and positive absorption. This has created cautious expectation of upward pressure on rents for 2011; however, with 20% vacancy many landlords are expected to continue aggressive efforts to attract long term qualified tenants. Even as the economy continues to improve, tenants will remain in the driver's seat heading into 2011. Strong credit tenants should be able to take advantage of the current leasing environment by locking in favorable rates and concessions in order to better position themselves for future growth.

MARKET ACTIVITY

Contributing to the impressive absorption in the second half of the year was the notable activity in the Southeast sector which included several of the larger, high-profile leases including Ultra and U.S. Courier at Burleson Business Park and Goodwill at Kelly Trade Center II. In addition, the Southeast sector is seeing build-to-suit activity including an 85,000 square-foot distribution center for Ben E. Keith and Data Foundry's 250,000 square-foot data center.

Overall, many are cautiously optimistic that the industrial market will see greater recovery in 2011 as long as speculative construc-

MARKET SIZE



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,214,680	14%	0
North	9,606,007	19%	0
Northeast	4,356,156	25%	0
East	1,308,719	19%	0
Southeast	4,950,021	22%	0
South	1,932,415	7%	0
Total	24,367,998	19%	0

*Expected to deliver within 6 months

FLEX/R&D			
	Existing SF	Current Vacancy	Under Construction*
Round Rock	871,964	46%	0
North	5,360,932	19%	0
Northeast	2,426,623	23%	0
East	0	0%	0
Southeast	4,123,929	22%	0
South	185,077	3%	0
Total	12,968,525	22%	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

AVERAGE RENTAL RATES PER SF

	Annual	Monthly
Flex/R&D	\$6.00-\$10.20	\$0.50-\$0.85
Bulk Warehouse	\$3.60-\$5.40	\$0.30-\$0.45
Office Warehouse	\$4.56-\$6.60	\$0.38-\$0.55
Manuf/Warehouse	\$4.80-\$7.20	\$0.40-\$0.60

tion remains in check, local tenants continue to expand operations and new companies continue to move into the area. According to the Global MetroMonitor report published by Brookings Institute, Austin was the highest-ranked city in the nation and number 26 in the world in terms of jobs and income growth during the current economic recovery.

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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