

THE CoSTAR INDUSTRIAL REPORT

FIRST QUARTER 2014

Austin Industrial Market

Presented By:



CoSTAR GROUP

AUSTIN'S VACANCY INCREASES TO 9.1% Net Absorption Negative (1,135,326) SF in the Quarter

The Austin Industrial market ended the first quarter 2014 with a vacancy rate of 9.1%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (1,135,326) square feet in the first quarter. Vacant sublease space increased in the quarter, ending the quarter at 202,674 square feet. Rental rates ended the first quarter at \$7.67, an increase over the previous quarter. A total of eight buildings delivered to the market in the quarter totaling 301,404 square feet, with 246,947 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Austin Industrial market was negative (1,135,326) square feet in the first quarter 2014. That compares to positive 346,307 square feet in the fourth quarter 2013, positive 457,572 square feet in the third quarter 2013, and positive 268,904 square feet in the second quarter 2013.

Tenants moving out of large blocks of space in 2014 include: Dell moving out of (214,807) square feet at 13301 McCallen Pass, Dell moving out of (190,850) square feet at 301 W. Howard Lane, and Flextronics moving out of (48,049) square feet at Verde Springbrook Corporate Center – Bldg. 7.

Tenants moving into large blocks of space in 2014 include: Whitley moving into 30,720 square feet at Global C/Global Business Park, Frontgate Holdings moving into 15,520 square feet at Commerce Center South 2, and Blind Supply LLC moving into 14,375 square feet at Forest Commons Business Park – Bldg. 3.

The Flex building market recorded net absorption of negative (618,818) square feet in the first quarter 2014, compared to

positive 33,047 square feet in the fourth quarter 2013, positive 210,778 in the third quarter 2013, and positive 6,660 in the second quarter 2013.

The Warehouse building market recorded net absorption of negative (516,508) square feet in the first quarter 2014 compared to positive 313,260 square feet in the fourth quarter 2013, positive 246,794 in the third quarter 2013, and positive 262,244 in the second quarter 2013.

Vacancy

The Industrial vacancy rate in the Austin market area increased to 9.1% at the end of the first quarter 2014. The vacancy rate was 7.6% at the end of the fourth quarter 2013, 7.9% at the end of the third quarter 2013, and 8.4% at the end of the second quarter 2013.

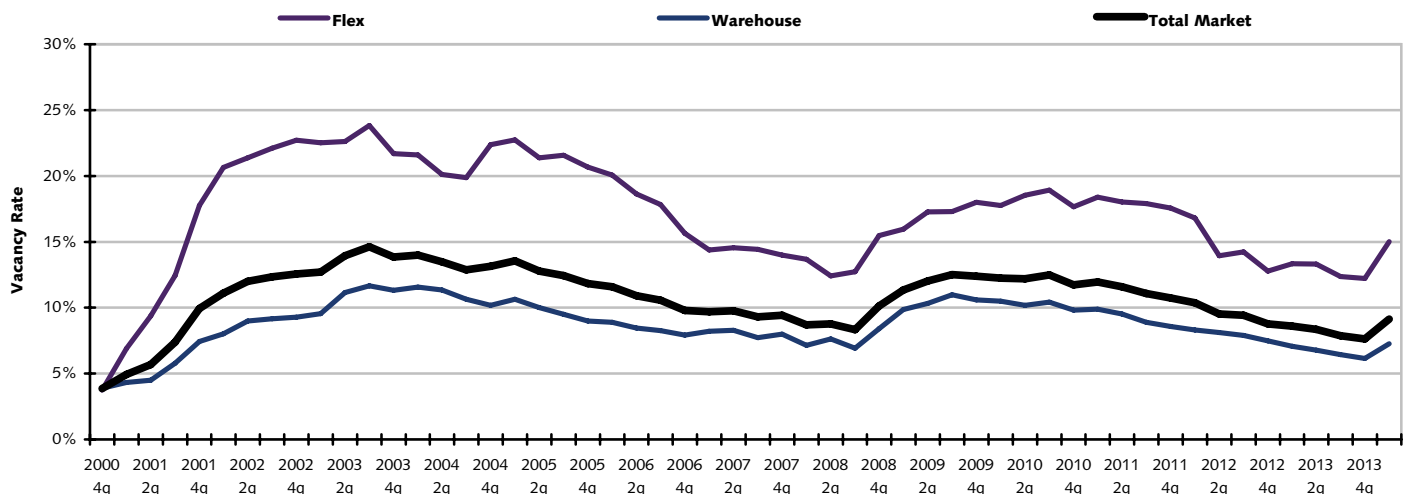
Flex projects reported a vacancy rate of 15.0% at the end of the first quarter 2014, 12.2% at the end of the fourth quarter 2013, 12.4% at the end of the third quarter 2013, and 13.3% at the end of the second quarter 2013.

Warehouse projects reported a vacancy rate of 7.3% at the end of the first quarter 2014, 6.1% at the end of fourth quarter 2013, 6.4% at the end of the third quarter 2013, and 6.8% at the end of the second quarter 2013.

Largest Lease Signings

The largest lease signings occurring in 2014 included: the 15,520-square-foot lease signed by Frontgate Holdings at Commerce Center South 2 in the Southeast market; the 15,000-square-foot deal signed by Inflatable Nation Bounce House at North Austin Event Center in the North market; and the 11,595-

VACANCY RATES BY BUILDING TYPE 2000-2014



Source: CoStar Property®

square-foot lease signed by Crestview Doors Inc. at Braker 11 in the North market.

Sublease Vacancy

The amount of vacant sublease space in the Austin market increased to 202,674 square feet by the end of the first quarter 2014, from 194,393 square feet at the end of the fourth quarter 2013. There was 253,143 square feet vacant at the end of the third quarter 2013 and 210,832 square feet at the end of the second quarter 2013.

Austin's Flex projects reported vacant sublease space of 93,317 square feet at the end of first quarter 2014, up from the 86,373 square feet reported at the end of the fourth quarter 2013. There were 66,120 square feet of sublease space vacant at the end of the third quarter 2013, and 81,484 square feet at the end of the second quarter 2013.

Warehouse projects reported increased vacant sublease space from the fourth quarter 2013 to the first quarter 2014. Sublease vacancy went from 108,020 square feet to 109,357 square feet during that time. There was 187,023 square feet at the end of the third quarter 2013, and 129,348 square feet at the end of the second quarter 2013.

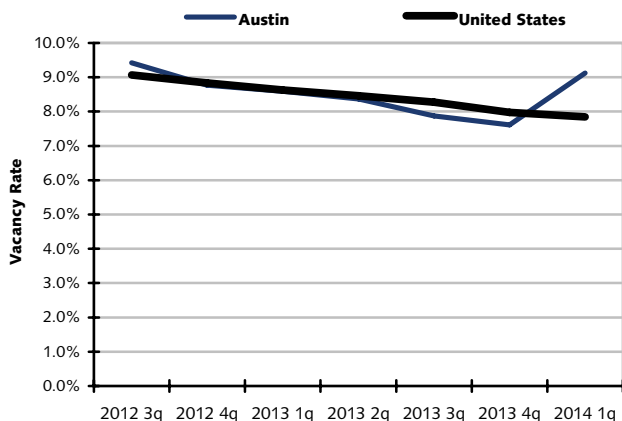
Rental Rates

The average quoted asking rental rate for available Industrial space was \$7.67 per square foot per year at the end of the first quarter 2014 in the Austin market area. This represented a 5.6% increase in quoted rental rates from the end of the fourth quarter 2013, when rents were reported at \$7.26 per square foot.

The average quoted rate within the Flex sector was \$10.98 per square foot at the end of the first quarter 2014, while Warehouse rates stood at \$6.28. At the end of the fourth quarter 2013, Flex rates were \$9.96 per square foot, and Warehouse rates were \$6.15.

U.S. VACANCY COMPARISON

Past 7 Quarters



Source: CoStar Property*

Deliveries and Construction

During the first quarter 2014, eight buildings totaling 301,404 square feet were completed in the Austin market area. This compares to two buildings totaling 119,655 square feet that were completed in the fourth quarter 2013, one building totaling 7,000 square feet completed in the third quarter 2013, and 67,625 square feet in four buildings completed in the second quarter 2013.

There were 246,947 square feet of Industrial space under construction at the end of the first quarter 2014.

Some of the notable 2014 deliveries include: Heritage Crossing – Bldg. 1, a 222,454-square-foot facility that delivered in first quarter 2014, and 9503 Brown Ln – Bldg. #2, a 19,875-square-foot building that delivered in first quarter 2014.

The largest projects underway at the end of first quarter 2014 were Heritage Crossing - Bldg 3, a 109,887-square-foot building, and 2232 I-35 Fwy. S, a 45,000-square-foot facility that is 100% pre-leased.

Inventory

Total Industrial inventory in the Austin market area amounted to 92,174,553 square feet in 3,730 buildings as of the end of the first quarter 2014. The Flex sector consisted of 22,226,041 square feet in 559 projects. The Warehouse sector consisted of 69,948,512 square feet in 3,171 buildings. Within the Industrial market there were 243 owner-occupied buildings accounting for 17,420,518 square feet of Industrial space.

Sales Activity

Tallying industrial building sales of 15,000 square feet or larger, Austin industrial sales figures rose during the fourth quarter 2013 in terms of dollar volume compared to the third quarter of 2013.

In the fourth quarter, five industrial transactions closed with a total volume of \$29,822,000. The five buildings totaled 522,731 square feet and the average price per square foot equated to \$57.05 per square foot. That compares to one transaction totaling \$1,060,000 in the third quarter. The total square footage was 16,650 for an average price per square foot of \$63.66.

Total year-to-date industrial building sales activity in 2013 is up compared to the previous year. In the twelve months of 2013, the market saw 14 industrial sales transactions with a total volume of \$137,684,000. The price per square foot has averaged \$82.18 this year. In the twelve months of 2012, the market posted 11 transactions with a total volume of \$125,075,000. The price per square foot averaged \$102.85.

AUSTIN INDUSTRIAL MARKET

CoSTAR GROUP

OVERVIEW

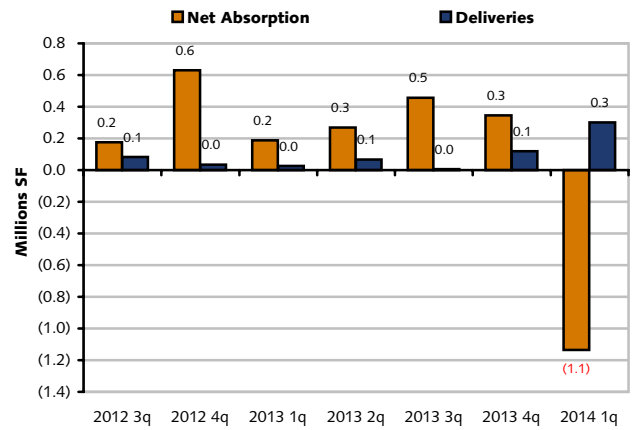
Cap rates have been higher in 2013, averaging 9.43%, compared to the twelve months of last year when they averaged 7.52%.

One of the largest transactions that occurred within the last four quarters in the Austin market is the sale of Austin Data Center II in Austin. This 70,000-square-foot industrial building sold for \$25,000,000, or \$357.14 per square foot. The property sold on 6/18/2013, at a 7.28% cap rate.

Reports compiled by: Jim Filler, CoStar Research Manager

ABSORPTION & DELIVERIES

Past 7 Quarters



Source: CoStar Property*

AUSTIN INDUSTRIAL MARKET

CoSTAR GROUP

FIGURES AT A GLANCE

FLEX MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bastrop County Ind	4	246,525	25,440	25,440	10.3%	0	0	0	\$10.43
Caldwell County Ind	1	30,000	0	0	0.0%	0	0	0	\$0.00
CBD Ind	2	13,688	0	0	0.0%	0	0	0	\$12.50
Cedar Park Ind	32	1,189,897	42,277	42,277	3.6%	1,326	0	0	\$11.29
Central Ind	32	625,729	47,959	47,959	7.7%	13,838	0	0	\$10.84
East Ind	25	920,408	614,283	614,283	66.7%	4,858	0	0	\$13.88
Far Northeast Ind	19	270,671	12,250	12,250	4.5%	0	0	0	\$10.43
Far Northwest Ind	7	190,453	22,881	22,881	12.0%	3,000	0	0	\$10.32
Georgetown Ind	39	452,299	38,290	41,290	9.1%	(2,850)	0	0	\$8.51
Hays County Ind	38	493,638	30,648	64,648	13.1%	16,375	0	0	\$13.06
North Ind	92	4,231,169	424,953	433,453	10.2%	18,814	0	0	\$9.66
Northeast Ind	77	4,562,805	1,320,211	1,320,211	28.9%	(688,623)	0	0	\$9.97
Northwest Ind	17	2,710,147	14,431	54,748	2.0%	(25,346)	0	0	\$11.55
Round Rock Ind	35	660,036	84,271	84,271	12.8%	6,253	0	0	\$8.52
South Ind	31	554,402	10,140	10,140	1.8%	(277)	0	0	\$14.33
Southeast Ind	81	4,670,450	494,207	494,207	10.6%	56,812	0	0	\$8.63
Southwest Ind	25	390,419	58,723	66,223	17.0%	(22,998)	0	0	\$12.94
West Central Ind	2	13,305	0	0	0.0%	0	0	0	\$0.00
Totals	559	22,226,041	3,240,964	3,334,281	15.0%	(618,818)	0	0	\$10.98

Source: CoStar Property®

WAREHOUSE MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bastrop County Ind	56	624,845	109,490	109,490	17.5%	2,500	0	0	\$4.90
Caldwell County Ind	29	389,137	34,191	34,191	8.8%	(20,399)	0	0	\$5.82
CBD Ind	11	115,116	0	0	0.0%	3,700	0	0	\$0.00
Cedar Park Ind	74	1,115,562	13,193	13,193	1.2%	48,031	0	0	\$11.10
Central Ind	113	1,559,438	112,972	112,972	7.2%	(13,654)	0	0	\$8.39
East Ind	361	6,689,821	339,012	344,012	5.1%	(613)	0	0	\$5.74
Far Northeast Ind	210	3,731,346	493,924	493,924	13.2%	(169,012)	0	0	\$6.99
Far Northwest Ind	75	1,178,507	92,249	94,249	8.0%	(26,250)	0	0	\$7.54
Georgetown Ind	308	4,377,419	522,520	522,520	11.9%	(18,876)	5,000	0	\$6.01
Hays County Ind	265	4,464,759	337,218	337,218	7.6%	44,817	23,700	85,190	\$6.49
North Ind	597	13,728,798	1,266,757	1,266,757	9.2%	(319,292)	222,454	109,887	\$5.92
Northeast Ind	216	9,621,190	423,875	514,795	5.4%	(37,604)	50,250	20,500	\$6.90
Northwest Ind	40	2,179,428	139,518	139,518	6.4%	0	0	0	\$5.05
Round Rock Ind	211	3,870,496	475,879	475,879	12.3%	(87,539)	0	10,870	\$6.98
South Ind	260	3,895,420	37,367	48,804	1.3%	1,480	0	16,500	\$7.53
Southeast Ind	237	8,926,358	545,339	545,339	6.1%	71,411	0	4,000	\$5.82
Southwest Ind	93	3,348,850	24,268	24,268	0.7%	4,792	0	0	\$9.52
West Central Ind	15	132,022	0	0	0.0%	0	0	0	\$14.49
Totals	3,171	69,948,512	4,967,772	5,077,129	7.3%	(516,508)	301,404	246,947	\$6.28

Source: CoStar Property®

TOTAL INDUSTRIAL MARKET STATISTICS

First Quarter 2014

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Bastrop County Ind	60	871,370	134,930	134,930	15.5%	2,500	0	0	\$5.88
Caldwell County Ind	30	419,137	34,191	34,191	8.2%	(20,399)	0	0	\$5.82
CBD Ind	13	128,804	0	0	0.0%	3,700	0	0	\$12.50
Cedar Park Ind	106	2,305,459	55,470	55,470	2.4%	49,357	0	0	\$11.20
Central Ind	145	2,185,167	160,931	160,931	7.4%	184	0	0	\$9.45
East Ind	386	7,610,229	953,295	958,295	12.6%	4,245	0	0	\$10.66
Far Northeast Ind	229	4,002,017	506,174	506,174	12.6%	(169,012)	0	0	\$7.11
Far Northwest Ind	82	1,368,960	115,130	117,130	8.6%	(23,250)	0	0	\$8.22
Georgetown Ind	347	4,829,718	560,810	563,810	11.7%	(21,726)	5,000	0	\$6.10
Hays County Ind	303	4,958,397	367,866	401,866	8.1%	61,192	23,700	85,190	\$7.38
North Ind	689	17,959,967	1,691,710	1,700,210	9.5%	(300,478)	222,454	109,887	\$6.76
Northeast Ind	293	14,183,995	1,744,086	1,835,006	12.9%	(726,227)	50,250	20,500	\$8.38
Northwest Ind	57	4,889,575	153,949	194,266	4.0%	(25,346)	0	0	\$5.75
Round Rock Ind	246	4,530,532	560,150	560,150	12.4%	(81,286)	0	10,870	\$7.50
South Ind	291	4,449,822	47,507	58,944	1.3%	1,203	0	16,500	\$9.46
Southeast Ind	318	13,596,808	1,039,546	1,039,546	7.6%	128,223	0	4,000	\$6.66
Southwest Ind	118	3,739,269	82,991	90,491	2.4%	(18,206)	0	0	\$11.89
West Central Ind	17	145,327	0	0	0.0%	0	0	0	\$14.49
Totals	3,730	92,174,553	8,208,736	8,411,410	9.1%	(1,135,326)	301,404	246,947	\$7.67

Source: CoStar Property®