

Austin Industrial, Q4 2016

Consecutive year of robust demand spurs development

 **Vacancy Rate**
7.3%

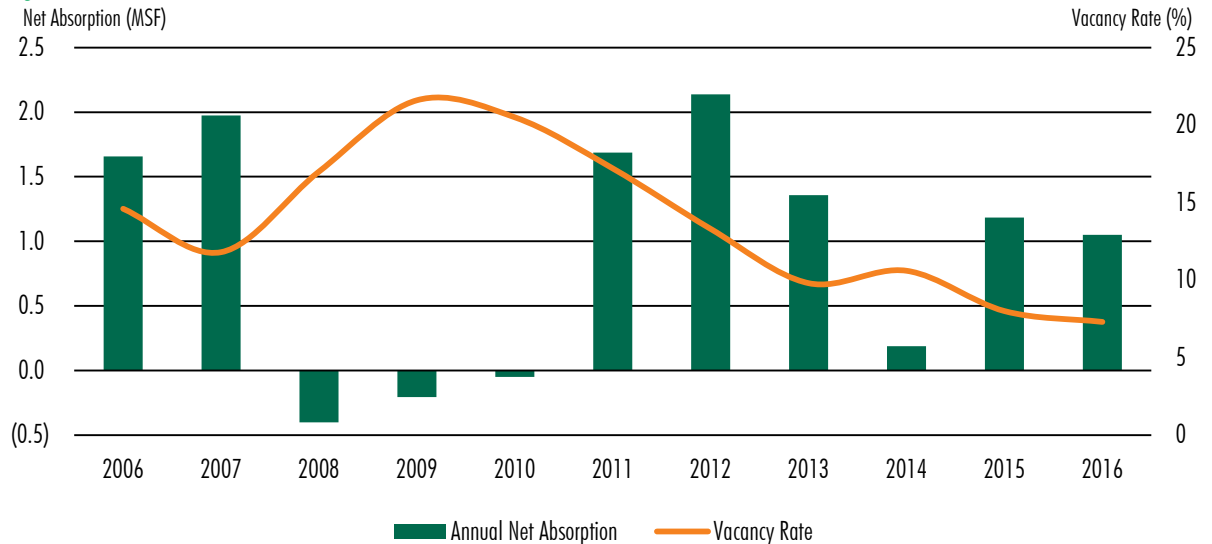
 **Avg. Asking Rate**
\$0.85 /SF

 **Net Absorption**
5,059 SF

 **Construction**
1,661,031 SF

*Arrows indicate change from previous quarter.

Figure 1: Austin Industrial Market



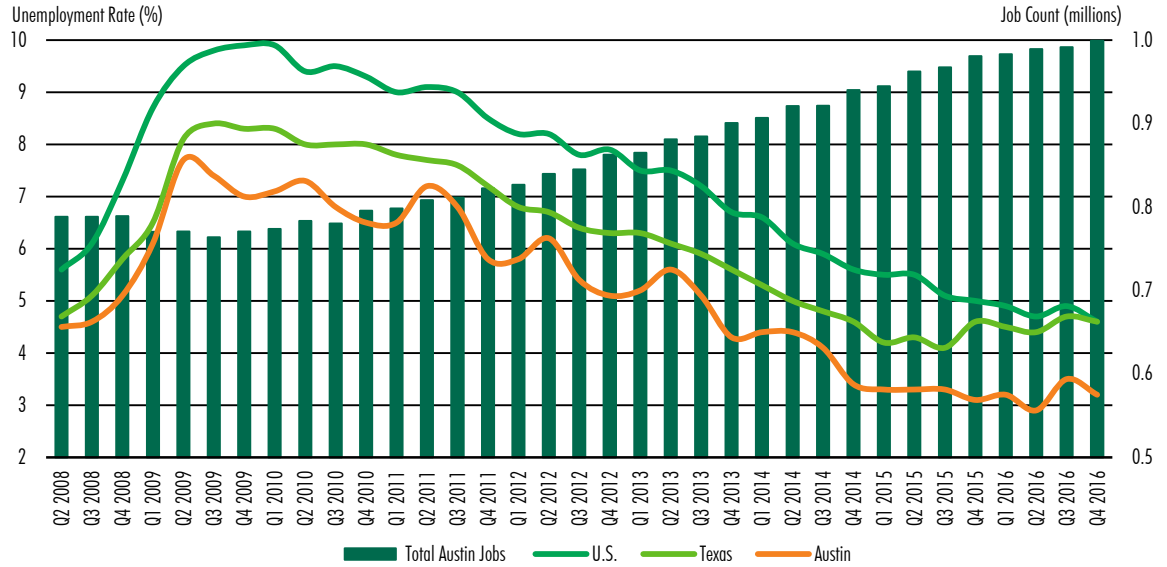
Source: CBRE Research, Q4 2016.

- Austin finished 2016 with citywide industrial vacancy reaching 7.3%, a low unseen since the late-1990s, with four submarkets having vacancy under 3.0% and citywide warehouse vacancy 6.0% with flex warehouse 9.4%.
- Triple-net asking rents increased \$0.05 per sq. ft. during the year finishing at \$0.85 per sq. ft. on an annual basis.
- Austin posted 1,049,539 sq. ft. of positive net absorption throughout 2016, with 436,261 sq. ft. of that total consisting of warehouse product, and 613,278 sq. ft. consisting of flex product.
- Austin's industrial market saw 23 new projects break ground during the year, totaling approximately 1.6 million sq. ft.
- Area unemployment registered at 3.2% at years end, well below the state and national average.

DEVELOPERS GETTING ACTIVE

The year was defined by the absorption and construction activity in the Austin MSA. The increased pressure on the industrial market has caused industrial developers to break ground on 23 warehouse and flex projects totaling approximately 1.6 million sq. ft. Year-end vacancies compressed 70 basis points from 2015 to 7.3%, an annual low for Austin. The new development will provide industrial occupiers better space options. However, only 50,759 sq. ft. is released. Still, strong demand in the market has pushed rents to new highs, with the citywide average asking rate increasing \$0.05 per sq. ft. to a new high of \$0.85 per sq. ft. and 2017 is expected to be just as active.

Figure 2: Unemployment and Jobs



Source: CBRE Research, Q4 2016.

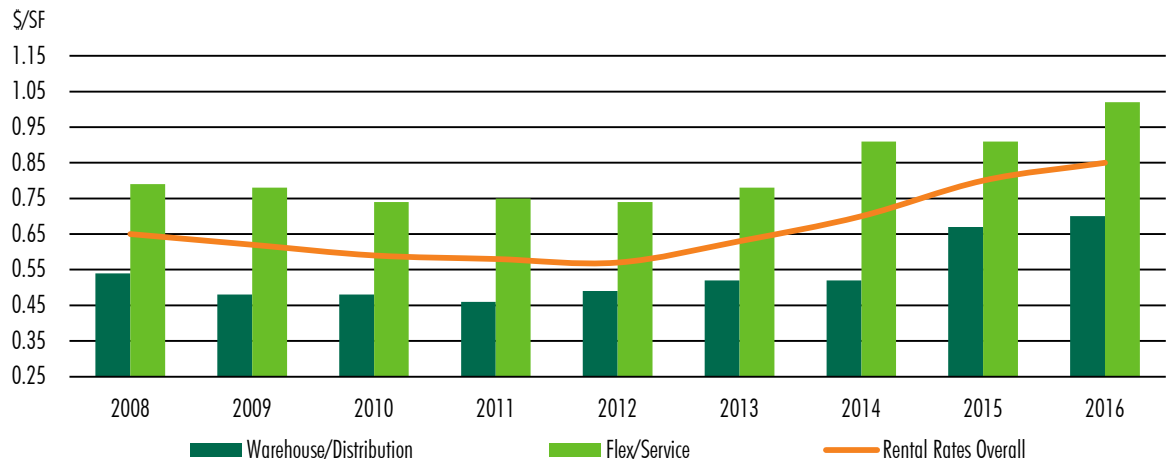
CONSTRUCTION ABUNDANT IN CENTRAL TEXAS

Manufacturing jobs in the Austin market continued to remain sluggish, with a year-over-year change of negative 6.4% from 2015. However, the Bureau of Labor Statistics reported a 6.6% increase in construction employment activity from 2015. This uptick in construction activity is due to the ever growing commercial and housing development pipeline. Total Austin unemployment registered 3.2%, below the state and U.S. level.

ASKING RENTS JUMP FROM 2015

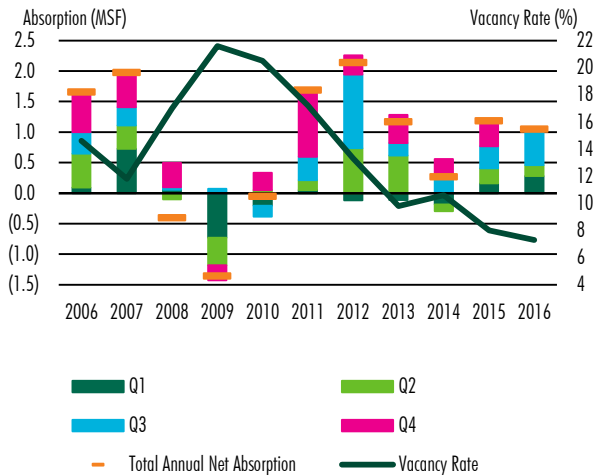
Citywide rents rose \$0.05 per sq. ft. from 2015, hitting a new high of \$0.85 per sq. ft. for 2016. The most significant increase in rental rates occurred for flex properties, jumping \$0.11 per sq. ft. from 2015. The limited flex product available in the South submarket pulled the highest asking rate at \$2.28 per sq. ft. The Hays County submarket had the lowest asking rate in the market, coming in at an average of \$0.50 per sq. ft.

Figure 3: Asking Rates, NNN Avg. Monthly



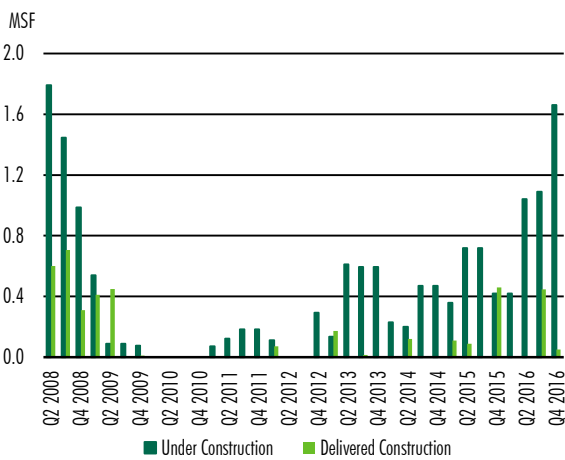
Source: CBRE Research, Q4 2016.

Figure 4: Net Absorption and Vacancy Rate



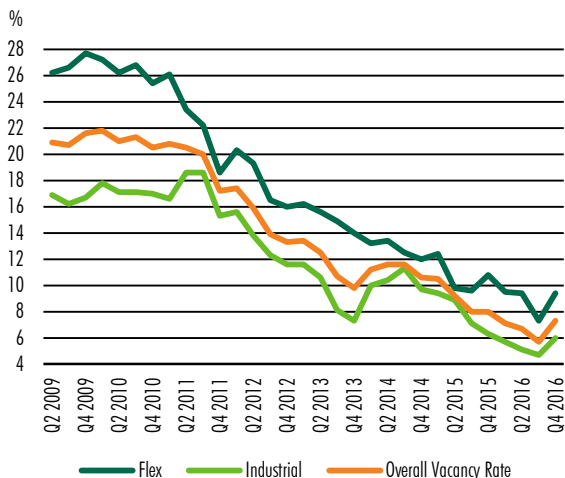
Source: CBRE Research, Q4 2016.

Figure 5: Construction



Source: CBRE Research, Q4 2016.

Figure 6: Vacancy



Source: CBRE Research, Q4 2016.

WAREHOUSE & FLEX SLUG IT OUT...AGAIN

2016 proved to be another strong year for the industrial market, again surpassing 1 million sq. ft. of total absorption. Flex properties claimed the title of victor this year as the most desirable product type, absorbing 613,278 sq. ft.; warehouse absorption accounted for 436,261 sq. ft. However, the lack of available space will continue to drive occupiers to take whatever space they can get.

Demand for industrial properties in Austin remained robust during 2016, pushing the market to continue its expansionary march. Citywide vacancy fell from 8.0% in 2015 to 7.3% in 2016; historical data suggests that demand will remain strong going into the future.

SOUTHEAST CONTINUES TO DOMINATE

Industrial construction and development picked up at the end of 2016, with more than 1.6 million sq. ft. of flex and warehouse product going up throughout the city. The Southeast Austin remains the most attractive submarket for developers, with 12 projects currently being constructed there. The Northwest submarket saw four projects break ground as well, with seven other projects being constructed throughout the city. While new development is certainly scattered throughout the city, the Southeast submarket continued to dominate the pipeline.

More than half of all of the new developments were classified as flex properties; there has been minimal preleasing activity, denoting that developers are building on spec.

THE DOWNSIDE TO LOW AVAILABILITY RATES

At the close of 2016, vacancy came in at 7.3%, a 70 basis point fall from 2015. This year-over-year low rate for Austin exemplifies the health and vitality of the industrial market in Central Texas. In 2010, Austin saw a high vacancy rate of 21.8%; the past six years have seen a plethora of activity and absorption, allowing Austin not only recover from the economic downturn, but to absolutely thrive. With the abundance of new construction projects underway, industrial developers are providing the catalyst for continued growth and expansion.

Figure 7: Market Summary

Market	Net Rentable Area (SF)	Available (SF)	Avail. Rate (%)	Direct Vacant (SF)	Direct Vacancy Rate (%)	Total Vacancy (SF)	Total Vacancy Rate (%)	Asking Rates Average Annual (\$/SF)		Q4 2016 Direct Net Absorption (SF)	2016 Total Net Absorption (SF)
								Warehouse	Flex		
CBD	26,776	0	0	0	0	0	0	N/A	N/A	0	0
Central	1,442,684	63,181	4.4	54,381	3.8	58,781	4.1	0.98	1.11	13,204	53,480
East	3,554,975	973,319	27.4	798,777	22.5	886,048	24.9	1.71	0.99	13,300	202,575
Far Northeast	2,638,806	279,087	10.6	274,587	10.4	276,837	10.5	0.54	0.90	122,558	121,445
Far Northwest	510,465	7,700	1.5	7,700	1.5	7,700	1.5	N/A	1.08	900	(5,300)
Georgetown	1,299,054	93,360	7.2	80,076	6.2	86,718	6.7	0.59	1.14	0	(17,242)
Hays County	756,133	57,185	7.6	57,185	7.6	57,185	7.6	0.50	N/A	0	51,585
North	13,975,451	1,061,259	7.6	822,952	5.9	930,493	6.7	0.60	1.03	(151,063)	(26,814)
Northeast	7,563,852	608,655	8.1	355,488	4.7	366,675	4.9	0.67	0.85	(34,142)	82,339
Northwest	2,600,971	93,270	3.6	49,452	1.9	71,406	2.8	0.54	1.32	117,202	108,260
Round Rock	3,256,810	299,838	9.2	199,867	6.1	217,467	6.7	0.71	1.01	(30,315)	134,762
South	1,761,700	58,942	3.4	32,742	1.9	36,692	2.1	0.89	2.28	317	1,583
Southeast	10,720,345	833,589	7.8	515,990	4.8	649,258	6.1	0.61	0.98	131,111	307,315
Southwest	415,046	42,262	10.2	12,262	3.0	27,262	6.6	N/A	1.25	0	35,551
Market Total	50,523,068	4,471,647	8.9	3,261,549	6.5	3,672,522	7.3	0.70	1.02	183,072	1,049,539

Source: CBRE Research, Q4 2016.

Figure 8: Select Local Sale Transactions

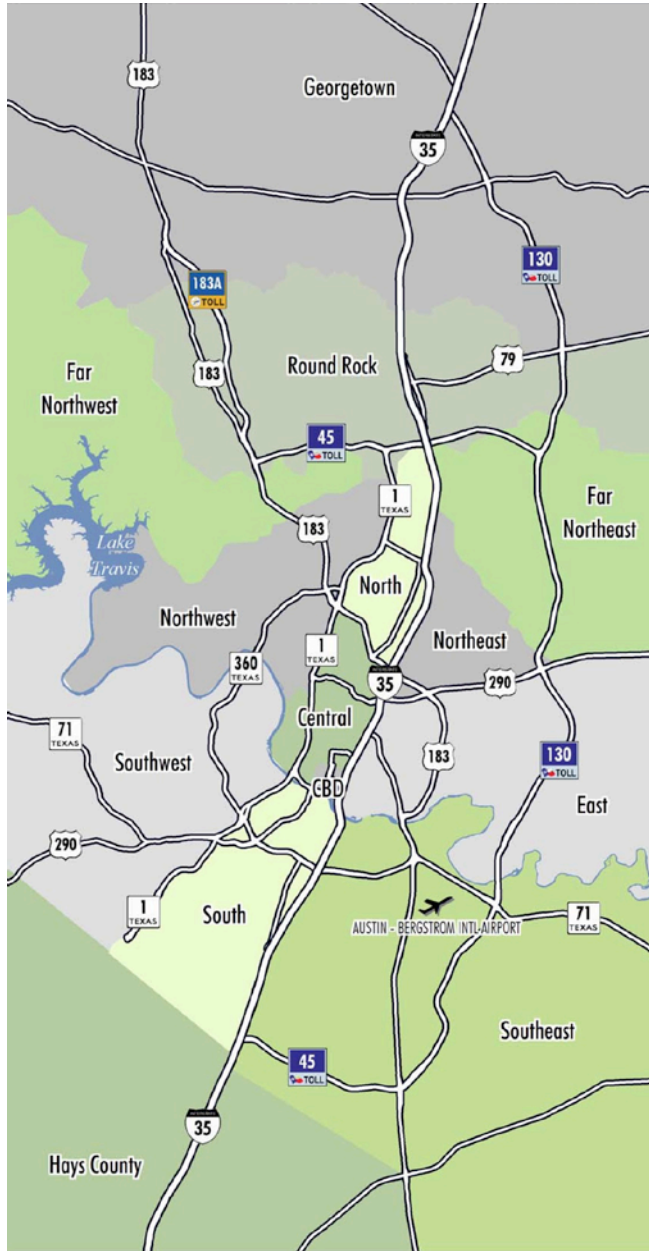
Building(s)	Submarket	SF
Tech Ridge (Portfolio)	Northeast	1,023,122
Offices at Braker (Portfolio)	North	592,143
Kramer (Portfolio)	North	296,781

Source: CBRE Research, Q4 2016.

Figure 9: Select Local Lease Transactions

Tenant	Building(s)	Submarket	SF
Triple Play Services, Inc.	Northeast Crossing	Northeast	179,200
Austin Lighthouse	Southpark Commerce Center	Southeast	145,814
Pitney Bowes Presort Services, Inc.	Southpark Commerce Center	Southeast	38,383

Source: CBRE Research, Q4 2016.



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Austin Industrial, Q3 2016

Vacancy continues to fall as new product hits the pipeline

 Vacancy Rate
5.7%

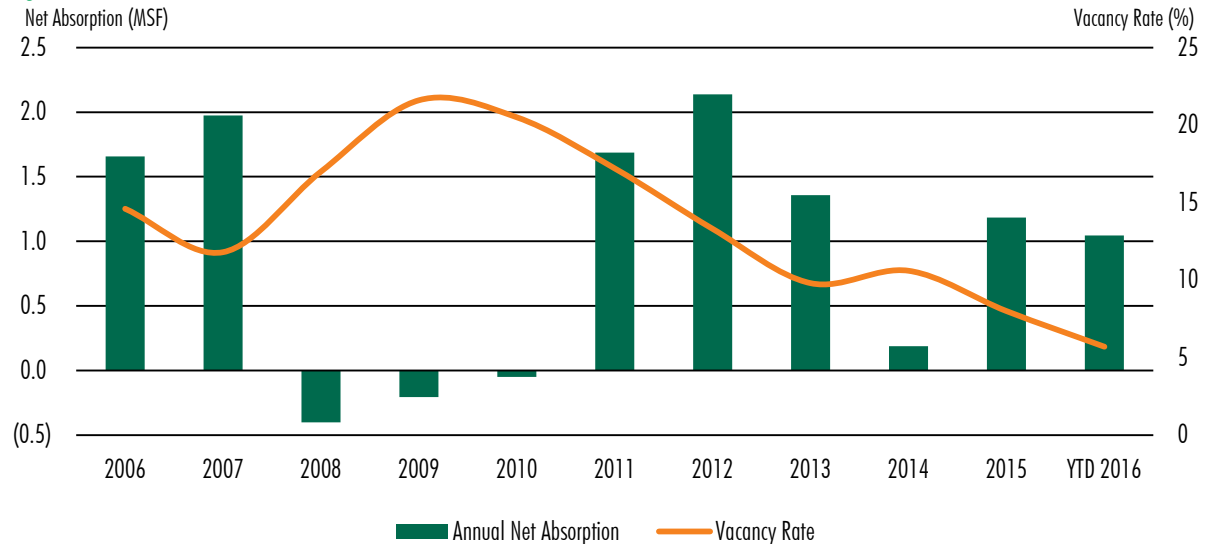
 Avg. Asking Rate
\$0.88 /SF

 Net Absorption
585,303 SF

 Construction
1,090,481 SF

*Arrows indicate change from previous quarter.

Figure 1: Austin Industrial Market

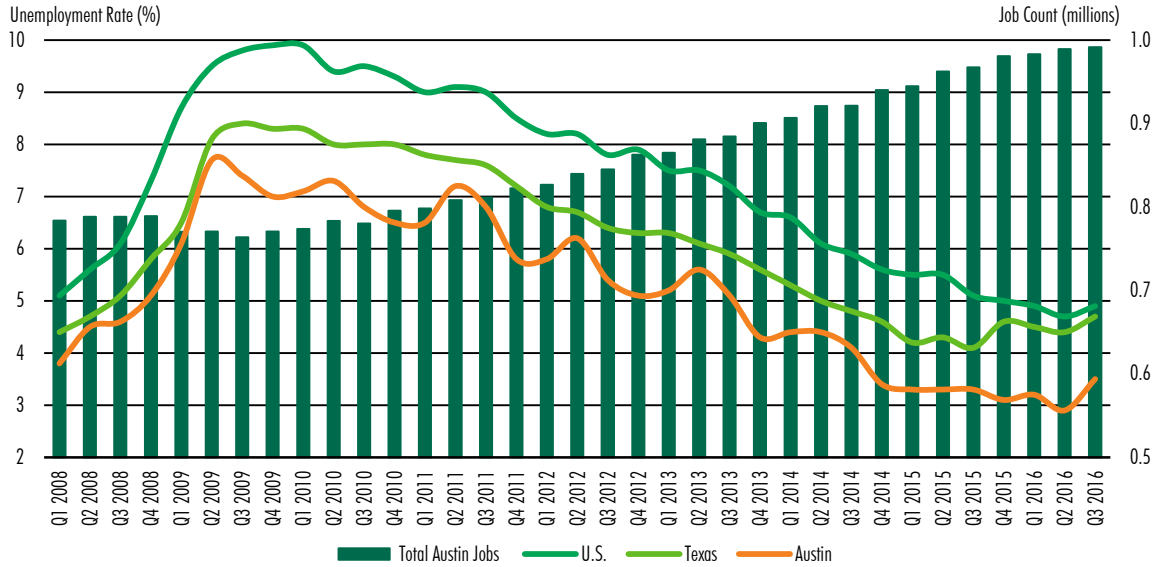


Source: CBRE Research, Q3 2016.

- Austin finished the third quarter of 2016 with citywide industrial vacancy reaching 5.7%. These are levels not seen since the late 1990's, with three submarkets having vacancy under 3% and citywide warehouse vacancy at 4.7%.
- NNN asking rates slowed down from the previous quarter with the citywide average finishing the quarter at \$0.88 per sq. ft. on an annual basis.
- Austin posted 585,303 sq. ft. of positive net absorption in the Q3 2016, with 190,266 sq. ft. of that total consisting of warehouse product.
- The Austin industrial market saw 17 new projects break ground during the third quarter of 2016, totaling almost 1.1 million sq. ft.
- Area unemployment registered at 3.5%, well below the state and national average

The recent survey period was defined by the absorption and construction activity that began in the Austin MSA. Addressing the market demand for industrial space, developers broke ground on 17 warehouse and flex projects totaling approximately 1.1 million sq. ft. With vacancies compressing to historic lows, new supply remains short of demand. The additional development will provide area industrial occupiers improved space options; however with only 50,759 sq. ft. preleased, the new developments appear to be spec construction. Meanwhile rents continue to climb, albeit measuring a muted gain this past quarter of \$0.01 per sq. ft. Still, as the new product comes online, expect asking rents to push higher as a result of the more expensive space.

Figure 2: Unemployment and Jobs



Source: CBRE Research, Q3 2016.

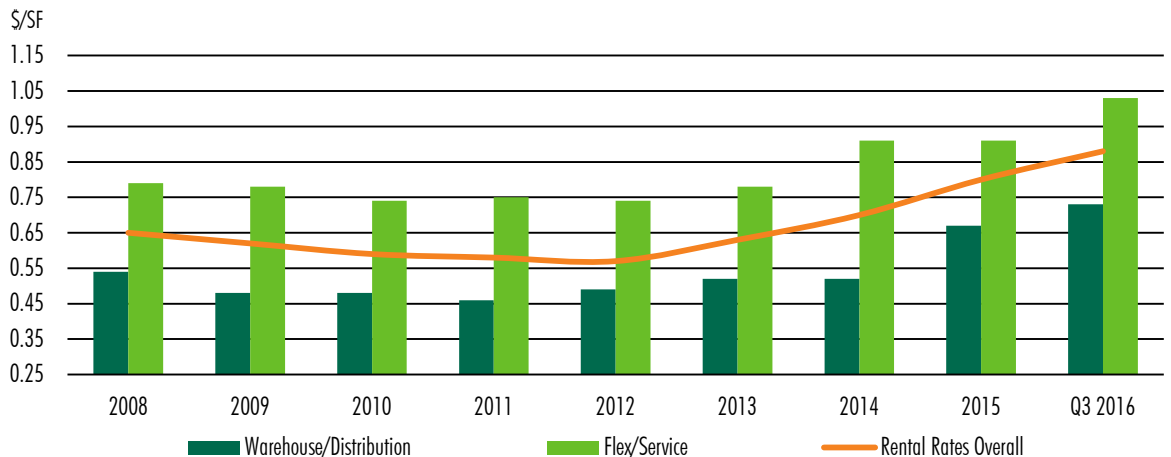
UPTICK IN AUSTIN REFLECTS STATEWIDE MANUFACTURING SLOWDOWN

Manufacturing continued to slide in Austin as sluggish oil prices act as a pull on the sector where jobless claims as reported by the Bureau of Labor Statistics show the industry as 5.3% in August. On the flip side, construction employment increased 12.3% for the same period as the metro appears to have an unabated new commercial and housing development pipeline. Meanwhile, total area unemployment registered 3.5%, below the state and U.S. level.

RENT GROWTH TAKES A BREATHER

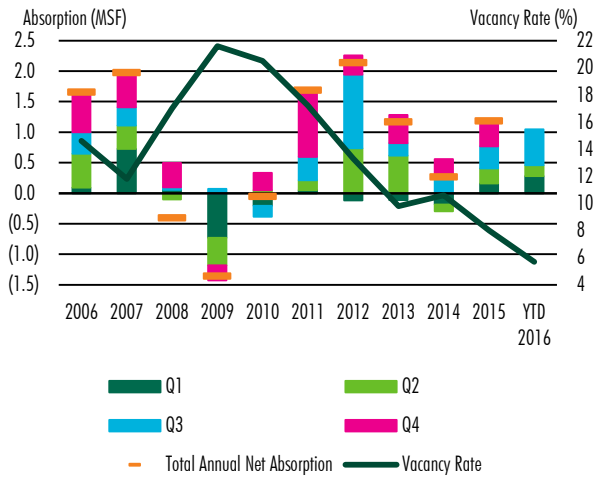
Citywide rents slowed their upward ascent in Q3 2016, only rising \$0.01 from the Q2 2016. The gains were felt the most in the East submarket, where asking rates rose from \$0.91 per sq. ft. to \$1.09 per sq. ft. Conversely, rents in the Central submarket contracted from \$1.00 per sq. ft. to \$0.89 per sq. ft. Warehouse product chalked up the largest increases, with rates climbing from \$0.66 per sq. ft. to \$0.73 per sq. ft.; flex held largely the same with only a \$0.01 decrease.

Figure 3: Asking Rates, NNN Avg. Monthly



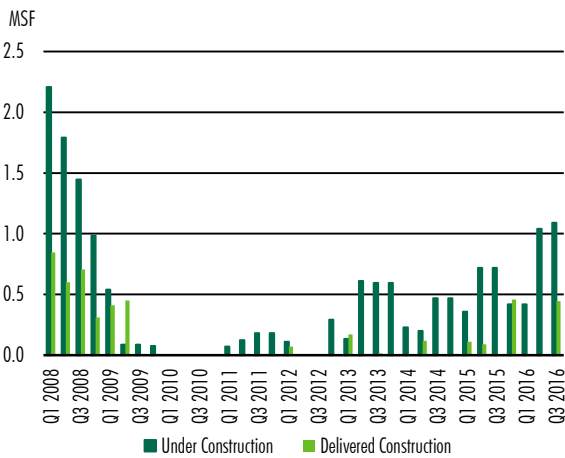
Source: CBRE Research, Q3 2016.

Figure 4: Net Absorption and Vacancy Rate



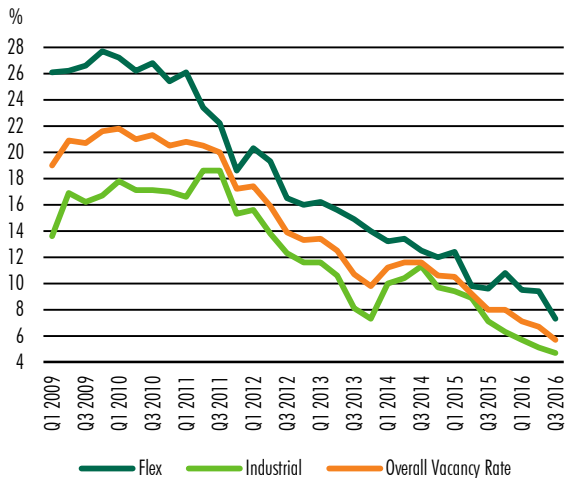
Source: CBRE Research, Q3 2016.

Figure 5: Construction



Source: CBRE Research, Q3 2016.

Figure 6: Vacancy



Source: CBRE Research, Q3 2016.

WAREHOUSE & FLEX SLUG IT OUT...AGAIN

The first two quarters of 2016 saw a matchup between warehouse and flex product absorption, with each product type claiming victory. The third quarter saw a return to flex dominance, with 395,037 sq. ft. of the product being absorbed, outpacing warehouse’s 190,266 sq. ft. of absorption.

Overall demand has remained strong throughout the city. The North, Southeast, and Hays County submarkets all experienced absorption of over 100,000 sq. ft. Demand has remained high for any available space in the market, and historical data suggests that this demand will remain strong into the future.

SOUTHEAST CONTINUES TO DOMINATE

The third quarter of 2016 saw construction nearly double from the previous quarter, hitting 1.1 million sq. ft., with 10 projects in the Southeast submarket alone. The Northeast submarket saw three projects break ground, the Far Northwest had two new starts, and the East submarket saw one project begin. While construction activity has certainly spread out, the Southeast continues to host the bulk of the pipeline. This is due to its proximity to Interstate 35, US 290, and SH. 71 as well as its strategic location between the airport and the urban core.

Of the 17 projects underway, 10 of the projects are classified as flex developments. Preleasing activity remains light, denoting most of the projects are spec developments.

THE DOWNSIDE TO LOW AVAILABILITY RATES

Vacancy continued its slide this quarter, coming in at 5.7%, the lowest level seen this century. Industrial developers have recognized the dearth of supply and have reacted with construction starts for new warehouse and flex projects to meet the demand. However, a question remains whether the tight market may cause some occupiers to consider options further afield. With pre-leasing activity remaining light, developers are gambling that the industrial market will remain healthy enough to absorb the new product.

Figure 7: Market Summary

Market	Net Rentable Area (SF)	Available (SF)	Avail. Rate (%)	Direct Vacancy (SF)	Direct Vacancy Rate (%)	Total Vacancy (SF)	Total Vacancy Rate (%)	Asking Rates Average Annual (\$/SF)		Q3 2016 Direct Net Absorption (SF)	YTD 2016 Total Net Absorption (SF)
								Warehouse	Flex		
CBD	26,776	0	0	0	0	0	0	N/A	N/A	0	0
Central	1,442,684	92,019	6.4	67,585	4.7	71,985	5.0	0.75	1.07	(20,998)	40,276
East	3,554,975	739,883	20.8	790,928	22.3	859,248	24.2	1.54	0.99	253,016	237,555
Far Northeast	2,476,336	200,334	8.1	120,784	4.9	153,034	6.2	0.71	0.96	(87,613)	(19,113)
Far Northwest	510,465	5,200	1	3,600	0.7	3,600	0.7	0.75	1.08	0	(6,200)
Georgetown	1,299,054	93,676	7.2	87,676	6.8	87,676	6.8	0.59	1.12	7,600	(10,600)
Hays County	756,133	200,684	26.5	73,110	9.7	200,684	26.5	0.50	N/A	15,925	51,585
North	13,939,458	1,190,388	8.5	749,853	5.4	787,744	5.7	0.63	1.01	115,635	196,233
Northeast	7,607,203	834,281	11	302,109	4	313,296	4.1	0.74	0.80	22,451	107,481
Northwest	2,600,971	107,191	4.1	60,957	2.3	72,041	2.8	0.54	1.37	16,313	(20,026)
Round Rock	3,256,810	296,595	9.1	174,729	5.4	192,329	5.9	0.67	1.01	11,172	165,077
South	1,761,700	101,580	5.8	25,807	1.5	25,807	1.5	0.79	2.50	(7,252)	1,716
Southeast	10,526,745	800,096	7.6	5,634,155	5.4	581,655	5.5	0.58	1.07	140,654	264,945
Southwest	415,046	40,216	9.7	15,128	7.9	40,216	9.7	N/A	1.25	20,454	35,551
Market Total	50,158,238	4,706,022	9.4	3,038,011	6.1	3,368,917	6.7	0.66	1.04	487,357	1,044,480

Source: CBRE Research, Q3 2016.

Figure 8: Select Local Sale Transactions

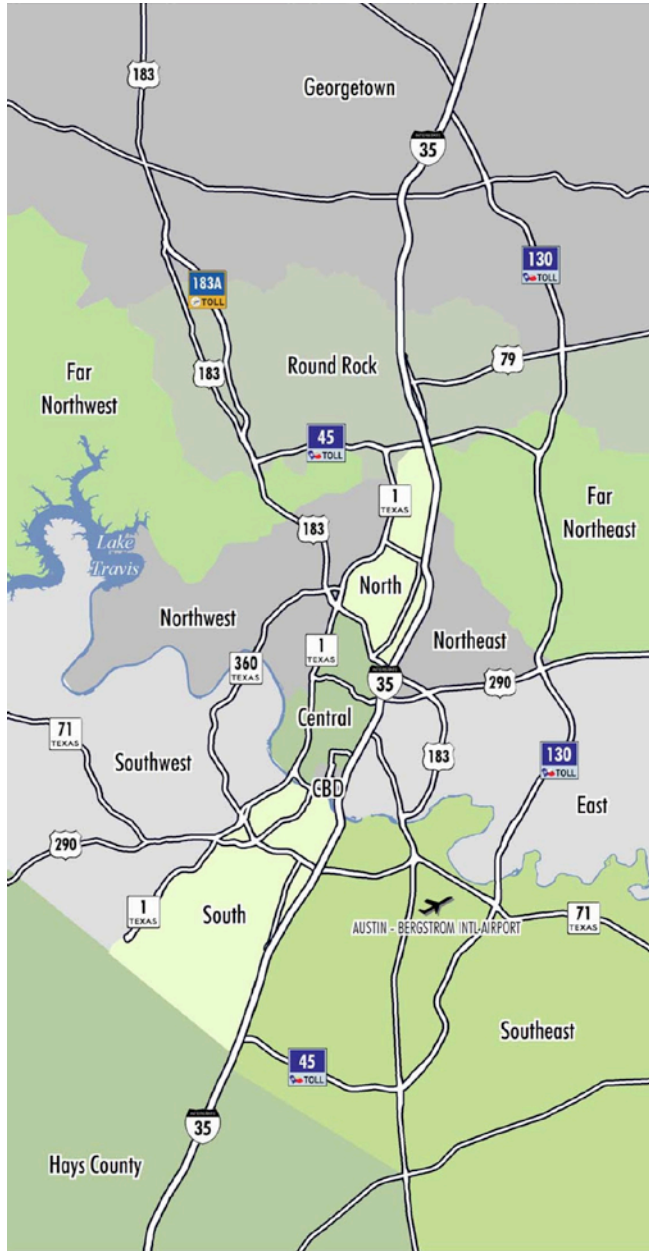
Building(s)	Submarket	SF
Tech Ridge 1, 2, & 3	Northeast	1,023,120
Global Business Park A, B, & C	Northeast	269,415
Braker Center 6, 7, & 11	North	218,000

Source: CBRE Research, Q3 2016.

Figure 9: Select Local Lease Transactions

Tenant	Building(s)	Submarket	SF
Intelligent Logistics	Harris Ridge 3	Far Northeast	81,000
CV Imports	Vista Park	North	78,400
Copernica, Inc.	Interchange East	East	60,000

Source: CBRE Research, Q3 2016.



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Austin Industrial, Q2 2016

The big squeeze: vacancy approaching two decade low

Vacancy Rate
6.7%

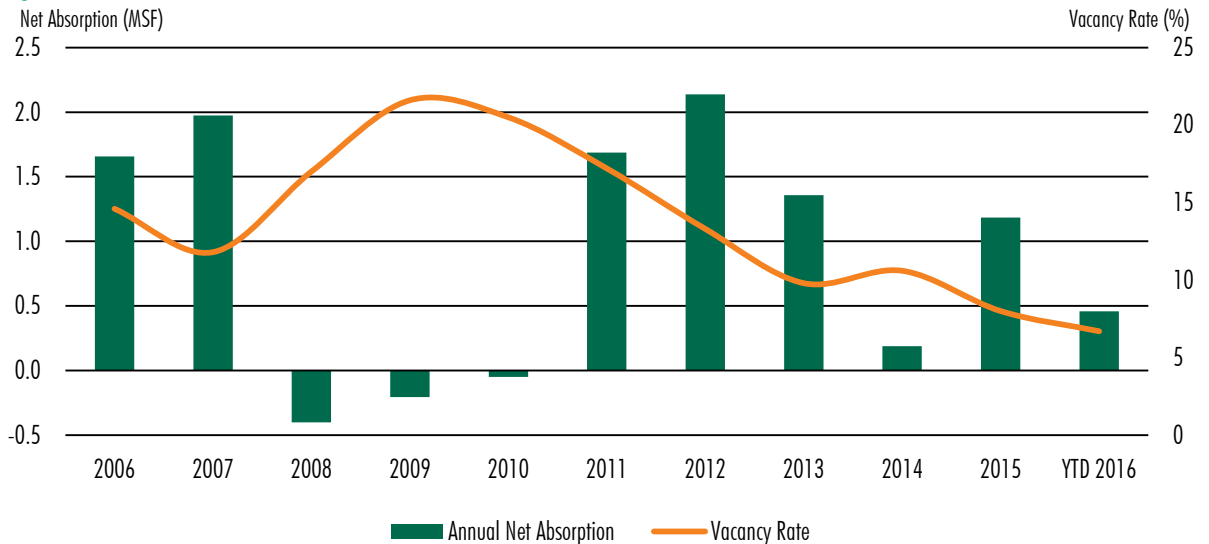
Avg. Asking Rate
\$0.87 /SF

Net Absorption
178,068 SF

Construction
1,041,271 SF

*Arrows indicate change from previous quarter.

Figure 1: Austin Industrial Market

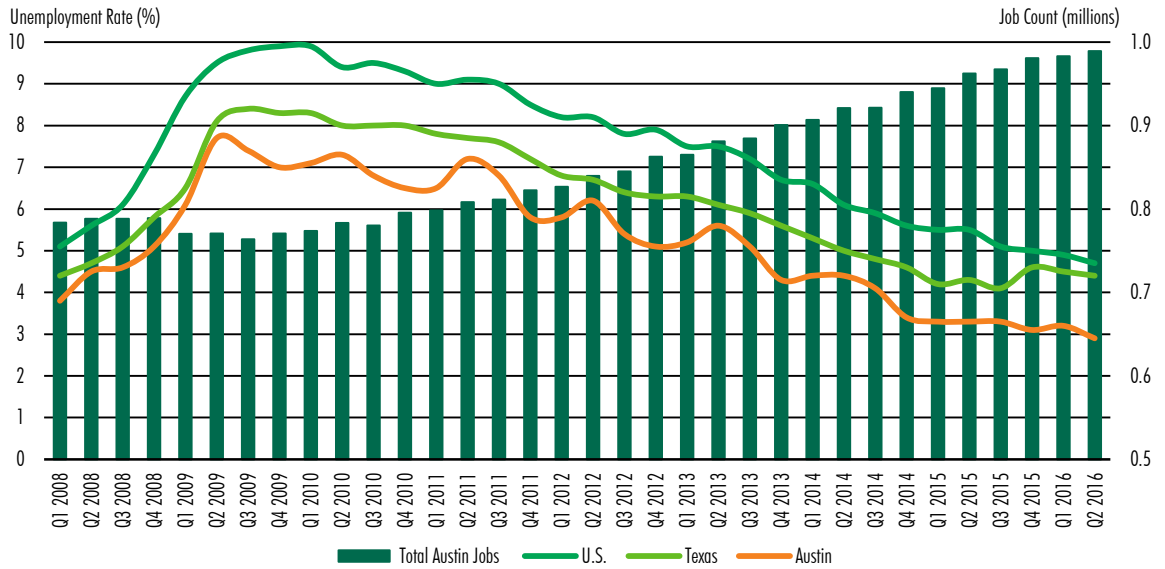


Source: CBRE Research, Q2 2016.

- Austin finished the second quarter of 2016 with citywide industrial vacancy reaching 6.7%. These are levels not seen since the late 1990's, with three submarkets having vacancy under 3% and citywide warehouse vacancy at 5.1%.
- NNN asking rates continue their meteoric rise with the citywide average finishing the quarter at \$0.87 per sq. ft. per yr. This marks a 24.5% and a 31.6% increase for warehouse and flex rates respectively since Q1 2014.
- Austin posted 178,068 sq. ft. of positive net absorption in the second quarter, 167,260 sq. ft. of that consisted of warehouse product.
- The Austin industrial market saw the beginning of four new projects in the Southeast for an additional 622,671 sq. ft. under construction. That brings the market wide total to 1,041,271 sq. ft.

As the larger Austin growth story continued, influences have been seen in the industrial market. What was once an overlooked market by many companies and industries, the city is now holding a more prominent position in the collective corporate attention-span. National credit companies are taking notice and seeing the opportunities that Austin offers, and are recognizing their need to have a presence. Companies such as Arizona Tile and BPI have recently solidified their presence here. Though many of the spaces taken are more modest in size (often under 30,000 sq. ft.), this trend is representing a confidence in the future of the Austin economy.

Figure 2: Unemployment and Jobs



Source: CBRE Research, Q2 2016.

UNEMPLOYMENT BELOW 3%

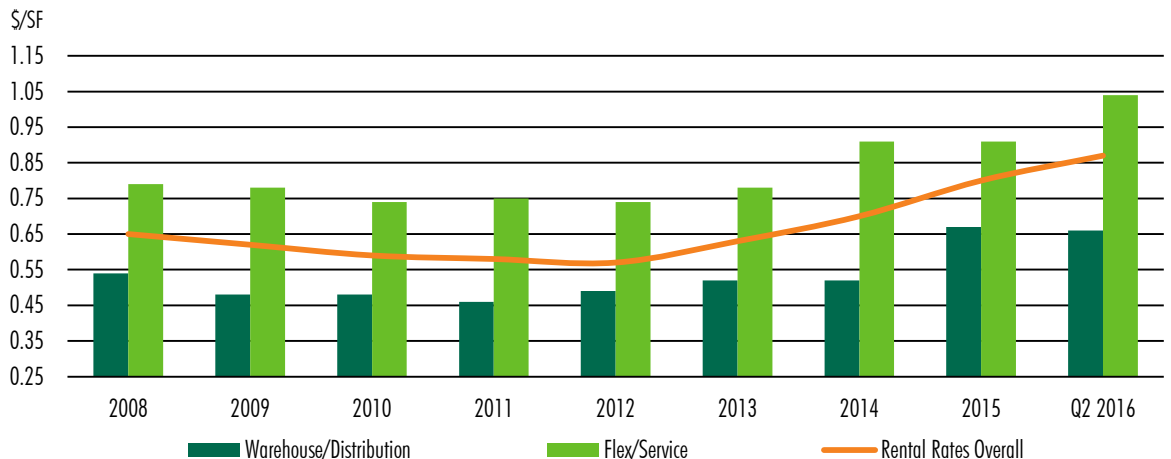
Seasonally adjusted unemployment in the Austin MSA finished the quarter at 2.9%. These are levels not witnessed since the dot com bubble two cycles ago. Austin continues to lead other major metros in the state by this metric creating a competitive environment for talent among businesses.

That being said, the BLS reported that manufacturing jobs in Austin continue to decrease at a 2.1% annualized rate. Manufacturing jobs have never fully rebounded to their pre-financial crisis level in the city.

FLEX OR VALUE OFFICE?

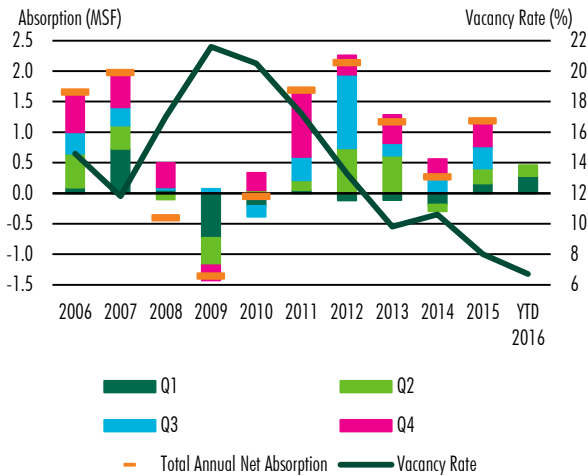
Citywide rents witnessed a \$0.04 quarter-over-quarter bump for to finish June. The gains were broadly distributed around the market, with diversity in product type and location. With vacancy as low as it is, and demand for space remaining strong, the recent upward trend in asking rates should continue. It is worth noting that flex rates are becoming competitive with value office rents in select areas of the city like near the Domain. Some landlords have gone as far to begin marketing flex space as office space.

Figure 3: Asking Rates, NNN Avg. Monthly



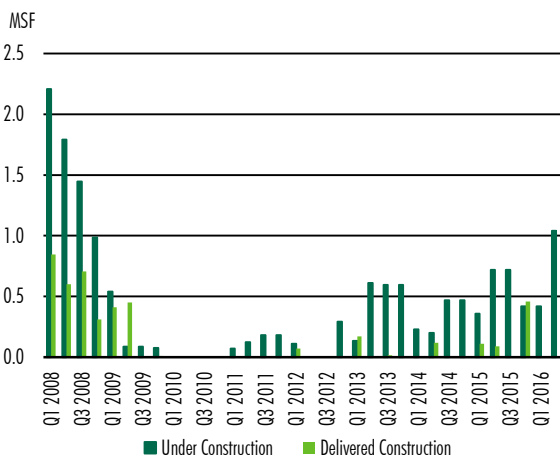
Source: CBRE Research, Q2 2016.

Figure 4: Net Absorption and Vacancy Rate



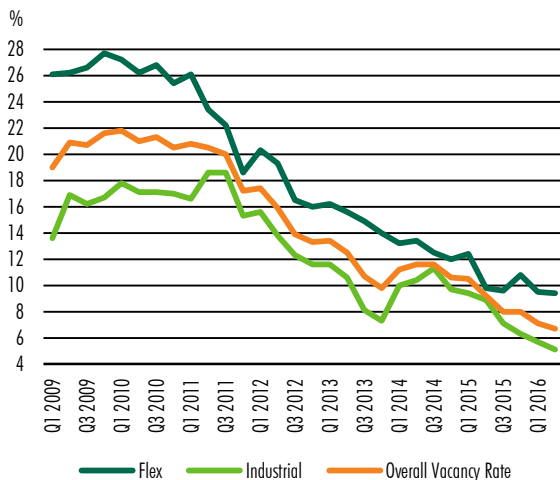
Source: CBRE Research, Q2 2016.

Figure 5: Construction



Source: CBRE Research, Q2 2016.

Figure 6: Vacancy



Source: CBRE Research, Q2 2016.

WAREHOUSE IS KING

After a first quarter that saw the majority of absorption come in flex product, the second quarter went the opposite way with the bulk of absorption in warehouse space at 167,260 sq. ft., and a meager 10,808 sq. ft. of flex absorption. Because space has been harder to find, it is not surprising that most of the absorption went into the East and Round Rock submarkets, both of which had more free space than the market average.

Overall demand seems to be healthy, it has been two years since Austin registered a quarter with a negative figure and is on pace to have its sixth consecutive year of positive industrial absorption. This should continue into the future too. CBRE has identified 1.1 million sq. ft. of requirements currently looking for space in the market.

SOUTHEAST SEES NEW CONSTRUCTION

After recent quarters void of any new construction starts, four new projects began construction in the second quarter totaling 622,671 sq. ft. This is more than double the volume of product under construction last quarter. All of these new projects were in the Southeast, as is the majority of product currently underway. While all new development will not go into the Southeast, it should see more than its fair share due to its proximity to Interstate 35, US 290. and SH. 71. In addition, much of the Southeast product is located in between the airport and the urban core.

Preleasing has been healthy on these projects with over 180,000 sq. ft. of the developments spoken for. This is all on construction that began prior to this quarter, so it would not be surprising to see that number climb as more tenants become aware of the new ones, and their availability dates approach.

IT'S A TIGHT FIT

Austin industrial vacancy continued to sink lower through the quarter and finished the quarter at 6.7%. It has been almost twenty years since vacancy has been this low. Both Hays and Williamson counties are seeing some of the fastest population growth in the country, with their relative abundance of vacant space, and an increased population of workers, expect to see their vacancies decline as this economic expansion continues. That being said, Austin runs the risk of losing tenant's business if supply can't keep up with demand and vacancy continues to creep lower in the more traditionally desirable submarkets,.

Figure 7: Market Summary

Market	Net Rentable Area (SF)	Available (SF)	Avail. Rate (%)	Direct Vacancy (SF)	Direct Vacancy Rate (%)	Total Vacancy (SF)	Total Vacancy Rate (%)	Asking Rates Average Annual (\$/SF)		Q2 2016 Direct Net Absorption (SF)	Q2 2016 Total Net Absorption (SF)
								Warehouse	Flex		
CBD	26,776	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	0	0
Central	1,426,566	85,598	6.0	46,587	3.3	46,587	3.3	0.88	1.08	7,063	7,063
East	3,554,975	739,883	20.8	790,928	22.3	859,248	24.2	0.76	0.98	64,132	73,313
Far Northeast	2,476,336	200,334	8.1	120,784	4.9	153,034	6.2	0.70	1.00	32,686	30,436
Far Northwest	510,465	5,200	1.0	3,600	0.7	3,600	0.7	0.75	1.04	(5,000)	(5,000)
Georgetown	1,299,054	93,676	7.2	87,676	6.8	87,676	6.8	0.59	1.11	7,050	7,050
Hays County	756,133	200,684	26.5	73,110	9.7	200,684	26.5	0.54	0.99	25,175	(102,399)
North	13,939,458	1,190,388	8.5	749,853	5.4	787,744	5.7	0.57	1.11	(2,788)	43,392
Northeast	7,607,203	834,281	11.0	302,109	4.0	313,296	4.1	0.69	0.76	58,782	58,782
Northwest	2,600,971	107,191	4.1	60,957	2.3	72,041	2.8	0.45	1.12	0	0
Round Rock	3,256,810	296,595	9.1	174,729	5.4	192,329	5.9	0.65	1.08	135,370	117,770
South	1,761,700	101,580	5.8	25,807	1.5	25,807	1.5	0.87	1.22	(21,107)	(21,107)
Southeast	10,526,745	800,096	7.6	563,155	5.4	581,655	5.5	0.59	0.98	(1,144)	(13,644)
Southwest	415,046	40,216	9.7	15,128	7.9	40,216	9.7	N/A	1.35	(17,588)	(17,588)
Market Total	50,158,238	4,706,022	9.4	3,038,011	6.1	3,368,917	6.7	0.66	1.04	282,631	178,068

Source: CBRE Research, Q2 2016.

Figure 8: Select Local Sale Transactions

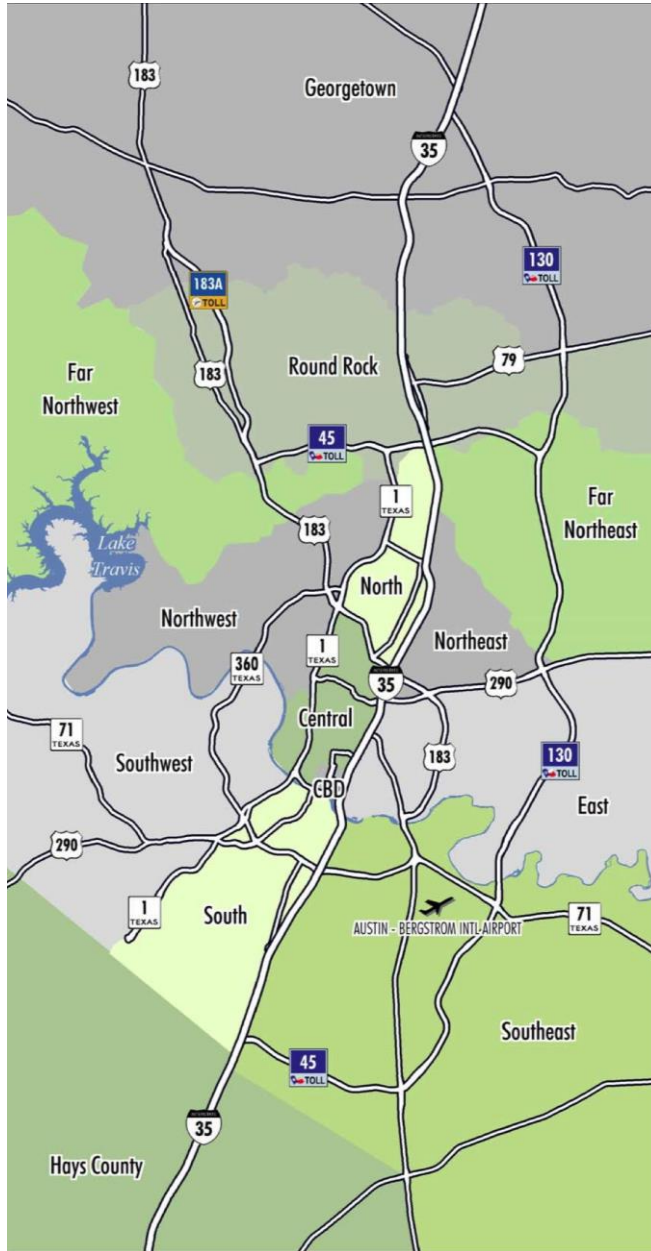
Building(s)	Submarket	SF
Met Center 15	Southeast	257,600
210 E. St. Elmo	South	102,194
2306 W. Howard Ln.	North	77,484

Source: CBRE Research, Q2 2016.

Figure 9: Select Local Lease Transactions

Tenant	Building(s)	Submarket	SF
Wonderwall Studio	Southpark Commerce Center 2	Southeast	32,317
Ketra	Expo 13	Southeast	32,000
Ingersoll-Rand	Southpark Commerce Center 4	Southeast	25,680

Source: CBRE Research, Q2 2016.



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Austin Industrial, Q1 2016

The high & low of it: rents and vacancy at record bookends

 Vacancy Rate
7.1%

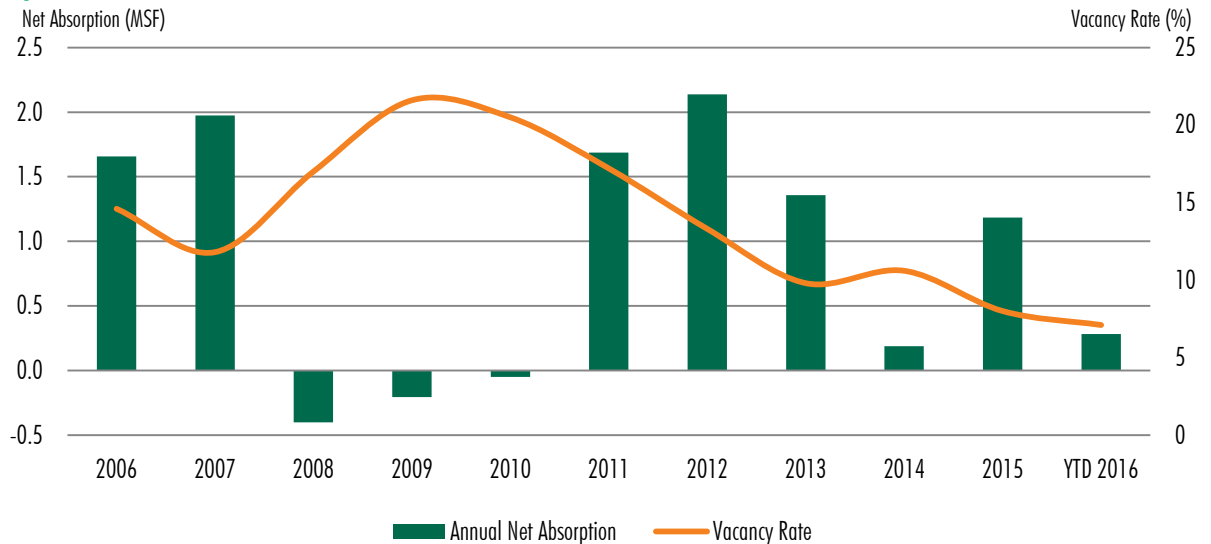
 Avg. Asking Rate
\$0.83 /SF

 Net Absorption
281,109 Sq. Ft.

 Construction
418,600 Sq. Ft.

*Arrows indicate change from previous quarter.

Figure 1: Austin Industrial Market



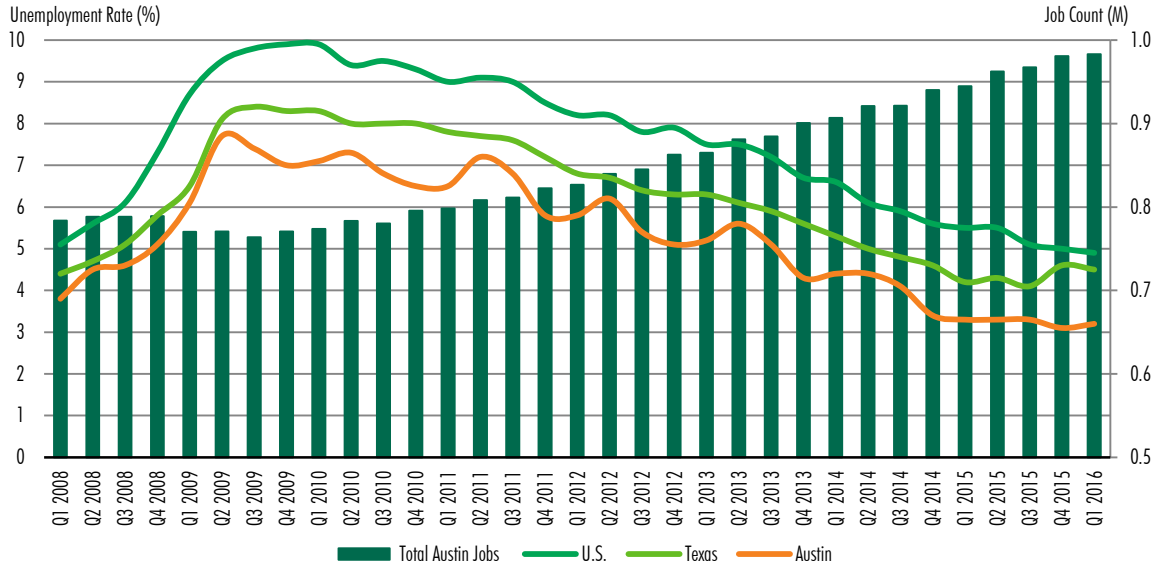
Source: CBRE Research, Q1 2016.

- Austin industrial citywide NNN asking rates reached new all time highs at \$0.83 per sq.ft.per month. In Q1 2016 the gains came from the rise in flex rates which finished the quarter at \$1.01 per sq. ft. per year while warehouse rates saw a modest decline.
- Vacancy continues to drop lower, hitting levels not seen since the late 90's. Q1 2016 finished at 7.1% for total vacancy, and direct vacancy at 6.7%. Warehouse total vacancy ended up at 5.7%
- Austin posted 281,107 sq. ft. of positive net absorption in Q1 2016, 234,915 sq. ft. of that consisted of flex product.
- The Austin industrial market saw no delivery of product to start the year. Furthermore, there are only 4 projects currently under construction, and once completed would add less than 1% to the NRA of the market.

After a strong year 2015, Austin's industrial market kept pace and posted a solid performance gains to begin Q1 2016. Citywide industrial asking rents jumped again, vacancy dipped lower, and absorption came in with a healthy number. And looking out into the near future the outlook for the market has remained strong.

Yet given the strong success of the market in recent quarters, the development side of the market has been subdued. There were no new deliveries to start the year and industrial projects under construction total less than 500,000 sq. ft. combined citywide. At some point there simply will not be big blocks to meet market demands.

Figure 2: Unemployment and Jobs



Source: CBRE Research, Q1 2016.

UNEMPLOYMENT ALSO AT LOW POINT

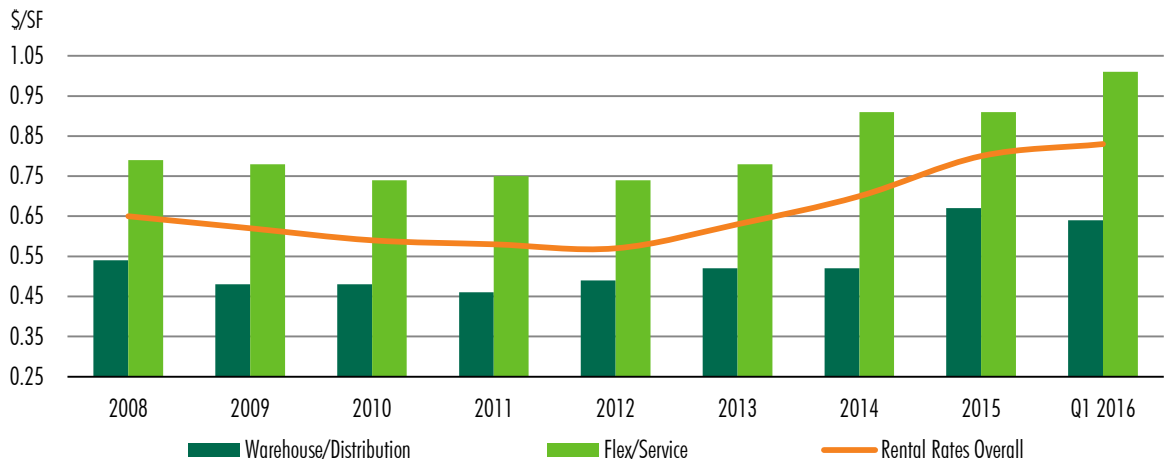
Seasonally adjusted unemployment in the Austin MSA finished the quarter at 3.2%. It has been range bound between 3.0-3.3% since March 2015. These are levels even lower than witnessed in 2007 near the peak of the last cycle. Austin continues to outpace other major metros in the state by this metric, and the only other MSA in the state with a lower unemployment rate was Amarillo.

That being said, the BLS reported that manufacturing jobs in Austin decreased for the second month in a row, at a 1.2% annualized rate.

LEASE RATES FORECAST TO EXPAND IN 2016

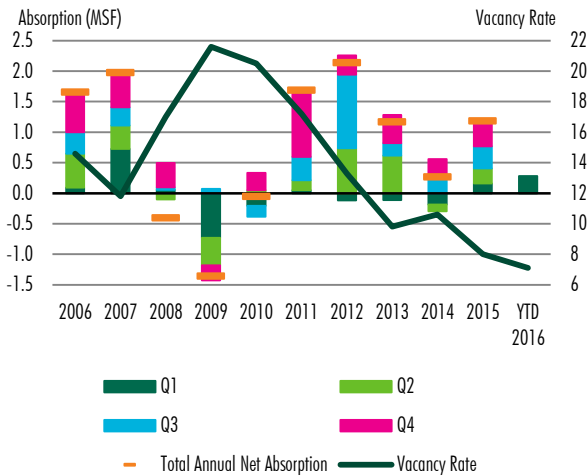
Citywide rents witnessed a \$0.03 bump to start 2016. This was largely influenced by increases in flex rates, as warehouse rates ticked down. Coming out of the crisis, landlords were hesitant to publicly disclose their asking rates. As the recovery has matured, this tendency has subsided, and some rent increases in the past that were not as visible are being expressed in more recent quarters. With vacancy as low as it is, and demand for space remaining strong, the recent upward trend in asking rates should continue.

Figure 4: Asking Rates, NNN Avg. Monthly



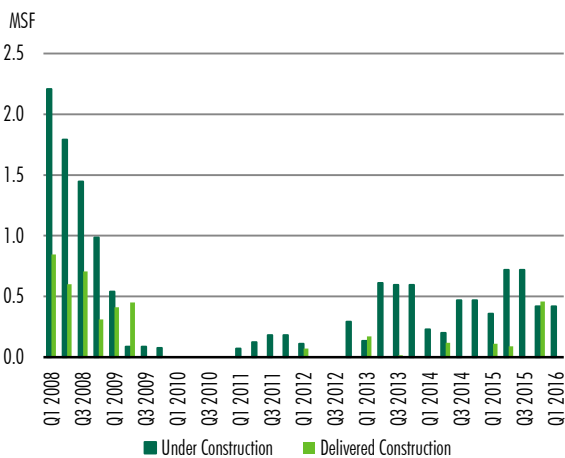
Source: CBRE Research, Q1 2016.

Figure 5: Net Absorption and Vacancy Rate



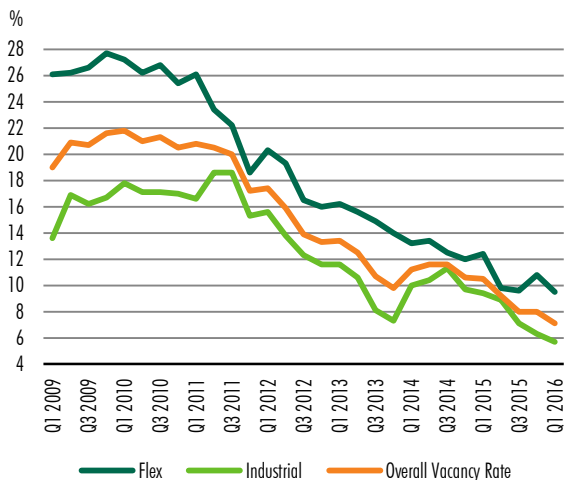
Source: CBRE Research, Q1 2016.

Figure 6: Construction



Source: CBRE Research, Q1 2016.

Figure 7: Vacancy



Source: CBRE Research, Q1 2016.

FLEX/R&D ‘BULK’ OF ABSORPTION

Austin’s economy as a whole has remained strong and that has translated into more demand and absorption in the industrial market. The Austin industrial market absorbed 281,109 sq. ft. in Q1 2016. The distribution of this absorption was not even however. Flex and R&D absorption was nearly five times that of warehouse space in the quarter.

It would make sense for this trend to continue. Given the relative abundance of vacant flex space, if there is the action will take place in the coming reporting periods.

WHAT NEW CONSTRUCTION?

As of the close of the first quarter, no new buildings delivered in the Austin industrial market. On top of that, only 418,600 sq. ft. of product is under construction. This has been despite post recession vacancy lows, record high asking rents, and an economy that has continued to throttle forward. Upon first glance, this dynamic has been perplexing. However, Austin industrial rents are among the most expensive in the state. That has been a liability for the market to attract manufacturers facing an uphill battle in the face of the crude oil pricing lethargy. Also when factoring in the needs of logistics companies, Austin is more of a destination than a central hub leaving smaller occupiers in the market, and developers have been hesitant to cater to their need.

And expanding on the subject of developers: it has been worth mentioning actions while considering alternatives. Area developers have been more inclined to take advantage of the market for office buildings rather than industrial facilities, having seen more upside potential there. Stay tuned as vacancies are delivered in new product in that sector.

MISS THE ‘90S? VACANCY DOESN’T.

Austin industrial vacancy continued to creep lower to start the year and finished Q1 2016 at 7.1%. These are levels not seen since the late 1990’s. Three submarkets currently have vacancies under 1.0%, being virtually fully occupied

If vacancy continues to drift lower without more new supply coming on line, at some point the sheer dearth of space will start to cost the market new occupiers and with them, industrial sector jobs.

Figure 8: Market Summary

Market	Net Rentable Area (SF)	Available (SF)	Avail. Rate (%)	Direct Vacancy (SF)	Direct Vacancy Rate (%)	Total Vacancy (SF)	Total Vacancy Rate (%)	Asking Rates Average Annual (\$/SF)		Q1 2016 Direct Net Absorption (SF)	Q1 2016 Total Net Absorption (SF)
								Warehouse	Flex		
CBD	26,776	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	0	0
Central	1,426,566	112,542	7.9	169,768	4.9	69,768	4.9	0.81	0.98	57,592	58,611
East	3,554,975	871,762	24.5	855,060	24.1	932,561	26.2	1.02	1.05	(83,882)	(118,103)
Far Northeast	2,476,336	233,020	9.4	153,470	6.2	183,470	7.4	0.56	1.00	43,064	26,064
Far Northwest	510,465	5,200	1.0	3,600	0.7	3,600	0.7	0.75	1.04	(1,200)	(1,200)
Georgetown	1,299,054	100,726	7.8	94,726	7.3	94,726	7.3	0.59	1.10	(25,250)	(25,250)
Hays County	756,133	225,859	29.9	98,285	13.0	98,285	13.0	0.52	0.99	10,485	10,485
North	13,939,458	1,351,843	9.7	747,065	5.4	831,136	6.0	0.59	1.08	86,943	34,872
Northeast	7,607,203	942,484	12.4	360,891	4.7	372,078	4.9	0.67	0.73	46,435	35,248
Northwest	2,600,971	249,818	9.6	60,957	2.3	72,041	2.7	0.49	1.03	(14,475)	(14,475)
Round Rock	3,256,810	696,442	21.4	310,099	9.5	310,099	9.5	0.52	1.02	(20,586)	36,135
South	1,761,700	24,638	1.4	4,700	0.3	4,700	0.3	1.04	0.83	33,575	33,575
Southeast	10,526,745	877,552	8.3	563,011	5.4	568,011	5.4	0.57	0.83	133,517	164,962
Southwest	415,046	22,628	5.5	15,128	3.6	22,628	5.5	N/A	1.38	47,685	40,185
Market Total	50,158,238	5,714,514	11.4	3,336,760	6.7	3,563,103	7.1	0.64	1.01	313,903	281,109

Source: CBRE Research, Q1 2016.

Figure 9: Select Local Sale Transactions

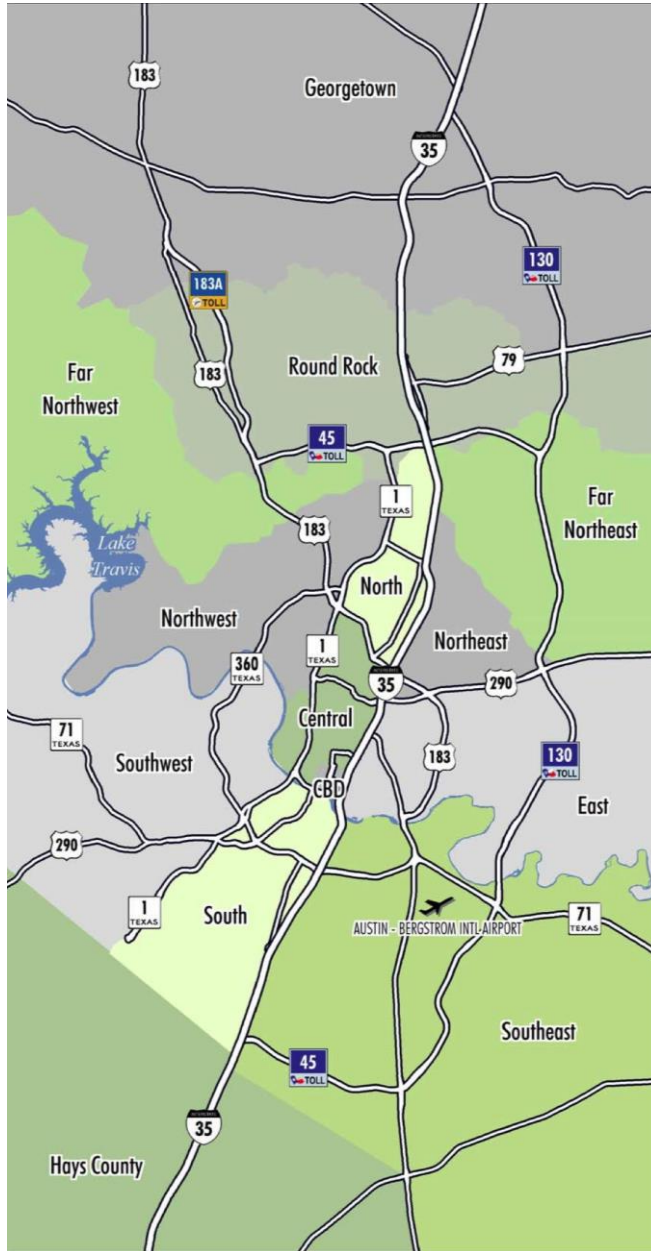
Building(s)	Submarket	SF
6800 Burlison	Southeast	278,195
Parmer Business Park	Northwest	256,737
Stock Building Supply	Southeast	241,564

Source: CBRE Research, Q1 2016.

Figure 10: Select Local Lease Transactions

Tenant	Building(s)	Submarket	SF
LKQ Corporation	Heritage Crossing	North	126,782
EAN Holdings	201 Howard Ln.	Northeast	35,000
Digital Realty	7500 Metro Center Dr.	Southeast	74,962

Source: CBRE Research, Q1 2016.



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Austin Industrial, Q4 2015

1.2 Million Sq. Ft. of Tenant Demand Brings Down YE Vacancy

 Vacancy Rate **8.0%**

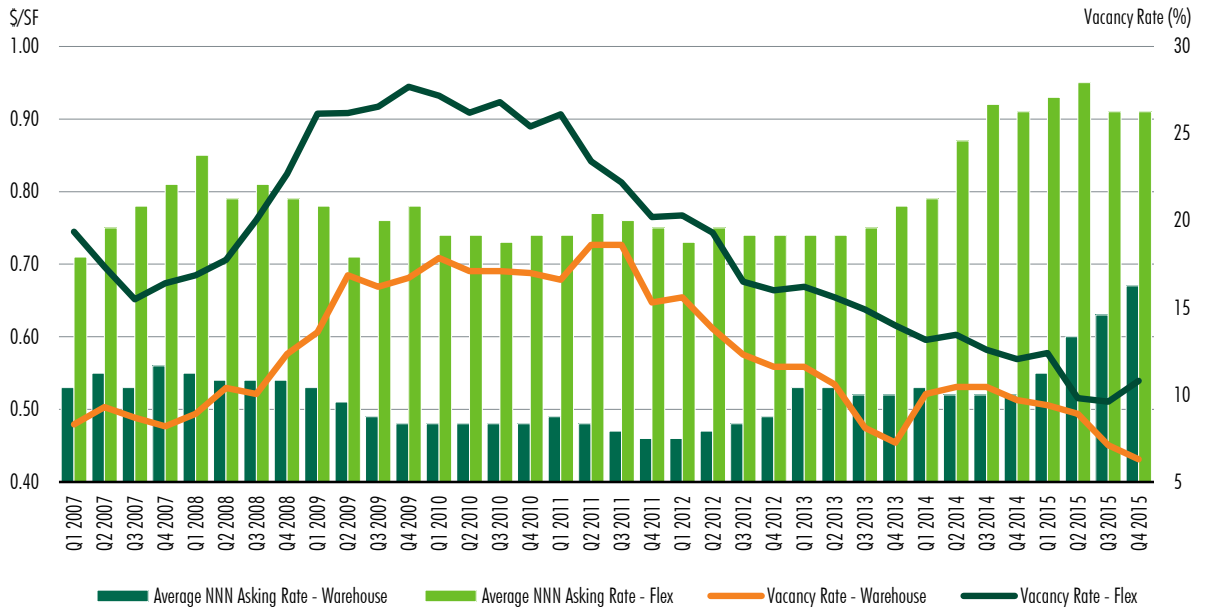
 Avg. Asking Rate **0.80 \$/SF**

 Net Absorption **414,337 SF**

 Completions **418,600 SF**

*Arrows indicate change from previous quarter.

Figure 1: Asking Rate, NNN Avg. Monthly and Vacancy Rates



Source: CBRE Research, Q4 2015.

- City-wide average asking rates climbed \$0.04 quarter over quarter finishing at \$0.80 per sq. ft. on a NNN basis. Warehouse rents saw an increase, while flex rates remained stable.
- Positive net absorption for the year continues strong growth, finishing the quarter at 414,337 sq. ft. Closing out 2015 with 1,182,965 sq. ft. of absorption.
- Construction delivered 5 new buildings totaling 459,700 sq. ft. between the Georgetown and Southeast Submarkets.

If Austin's Q3 2015 for growth across absorption, average asking rents and construction levels was stable, then Q4 2015 presented more expansion and growth for Austin industrial. Both citywide average rents and construction activity moved upwards quarter over quarter. There was continued growth in absorption, which closed Q4 2015 with 414,337 sq. ft. of positive absorption. This brings 2015's annual total to a formidable 1,182,965 sq. ft. of positive absorption.

Average asking rents across development types increased by \$0.04 per sq. ft. quarter over quarter, for a year-end total of \$0.80. This citywide average of \$0.80 per sq. ft. is a \$0.10 increase year over year, which marks the highest citywide average recorded for Austin’s industrial market. Warehouse space continued its current run of record asking rates by increasing \$0.04 quarter over quarter to \$0.67 per sq. ft., while flex rates held true at \$0.91 per sq. ft.

Q4 2015 continued the run of consecutive quarters of positive absorption marking six straight quarters of positive absorption. This current streak is the longest stretch of positive absorption since the first quarter of 2004 through 2008’s first quarter, a span of 17 straight quarters. Of the 414,337 sq. ft. of absorption for Q4 2015, 384,540 sq. ft. was again heavily represented by warehouse space. This was, however, contributed to by the delivery of new industrial warehouse space that was available to occupy in the Southeast.

With the total of positive absorption, and a better than recent years product delivery, Austin’s citywide vacancy held at 8.0% quarter over quarter. The last time vacancy was in this range, the net rentable area was more than 50% smaller than the market is currently.

Southeast Austin stole the show this quarter posting 319,953 sq. ft. of positive absorption, thanks in large part to new building deliveries. Educational Testing Services represented a large portion of this activity occupying just over 150,000 sq. ft. of space at Expo 10 & 11. Kendra Scott, an Austin jeweler, took 64,800 sq. ft. in Expo 11 for their warehousing operations. Hays County followed the large amount of absorption in the Southeast with a solid 72,800 sq. ft. of absorption, all of which was occupied by Maintenance Supply Co. The East submarket followed up a quarter of negative absorption, filling up 27,915 sq. ft. of industrial space, with Texconsin and Temperature Control combining for 15,444 sq. ft. of space.

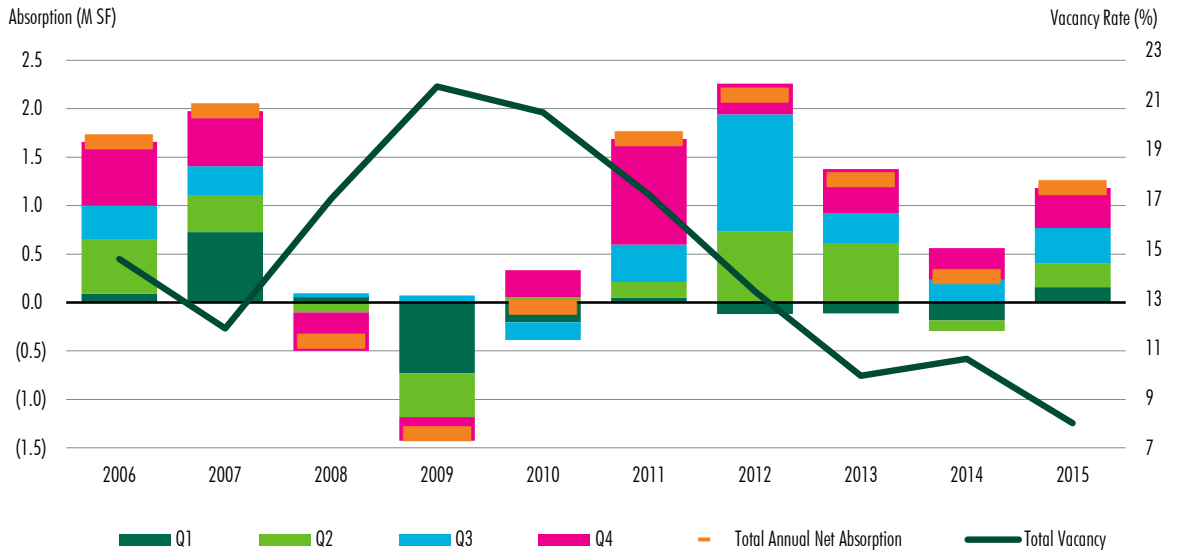
This quarter only three submarkets posted negative absorption numbers, with the Central submarket returning 30,815 sq. ft. of industrial space that was occupied by a tile and flooring company. The Northeast returned 19,611 sq. ft. of space to the market and the South submarket returned only 1,000 sq. ft. of space. Georgetown and Northwest submarkets each showed zero absorption respectively.

Figure 2: Market Statistics

Market	Rentable Area (SF)		Vacancy Rate (%)	Availability Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Asking Rates NNN Avg. Direct (\$/SF/Mth)	
	Area (SF)	Vacant (SF)							Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0	0	0	0	-	-	N/A	N/A
Central	1,426,566	128,379	9.0	150,343	10.5	(30,815)	-	-	0.98	0.97
East	3,554,975	814,458	22.9	815,712	23.0	27,915	-	-	0.98	1.00
Far Northeast	2,476,336	209,534	8.5	229,034	9.3	4,750	-	153,000	0.55	1.05
Far Northwest	510,465	2,400	0.5	9,200	9.2	3,200	-	-	0.67	0.92
Georgetown	1,299,054	69,476	5.4	69,476	5.4	0	60,500	-	0.70	N/A
Hays County	756,133	108,770	14.4	236,344	31.3	72,800	-	-	0.75	0.99
North	13,939,458	888,575	6.3	1,083,970	7.8	12,133	-	-	0.84	1.10
Northeast	7,607,203	407,326	5.4	799,008	10.5	(19,611)	-	-	0.65	0.63
Northwest	2,600,971	57,566	2.2	235,776	9.1	(11,084)	-	-	0.45	0.95
Round Rock	3,256,810	346,234	10.6	569,691	17.5	875	-	-	0.55	0.89
South	1,761,700	38,275	2.2	52,758	3.0	(1,000)	-	-	0.87	1.33
Southeast	10,526,745	864,799	8.2	1,186,891	11.3	341,090	399,200	265,600	0.56	0.77
Southwest	415,046	62,813	15.1	62,813	15.1	3,000	-	-	0.96	1.29
Totals	50,158,238	3,993,605	8.0	5,501,016	11.0	414,337	459,700	418,600	0.67	0.91

Source: CBRE Research, Q4 2015.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2015.

With the year-to-date positive absorption for Austin’s industrial market finishing at 1,182,965 sq. ft., three submarkets have been the primary contributors of this growth. With the Southeast submarket delivering 399,200sq. ft. of space, the Southeast was able to lead the way in positive absorption with 377,730sq. ft. Nipping at the Southeast’s heels is the North submarket, which experienced 340,211sq. ft. of positive absorption. The Northeast’s positive absorption totaled 298,062, with Round Rock posting the next highest total of 117,757sq. ft. of positive absorption. With a strong construction delivery year and total positive absorption, the industrial market’s vacancy will close out 2015 at a remarkable 8.0%.

With all the positive absorption experienced, the three largest net rentable submarkets; North, Southeast and Northeast, are all showing vacancies under 10%. The North, the largest of the three, comes in at 6.3% vacancy, 170 bps lower year over year. The Southeast, which has the second highest net rentable area, closes out 2015 with an 8.2% vacancy. Lastly, the Northeast’s vacancy reported in at 5.4%, an impressive 520 bps lower, year-over-year.

2015 will certainly not be much of a topic for total negative absorption, due to only five of the thirteen submarkets finishing the year with negative absorption. Austin’s Northwest submarket finished 2015 with a total negative absorption of 32,747 sq. ft., however their direct net absorption for 2015 was a positive 54,915 sq. ft. The Northwest, with just over 2.6 million rentable sq. ft., still firmly sports a low vacancy of 2.2%. The South submarket will finish 2015 posting a negative absorption total of 18,483sq. ft., followed by the East which finishes the year at negative 16,127sq. ft.

As mentioned earlier, 2015’s positive absorption concluded at 1,182,965sq. ft., an increase of 905,892sq. ft. year over year. Returning absorption levels to 2013’s total of 1.169 million sq. ft.

After Q3’s availability decreased to 5.2 million sq. ft., the fourth quarter’s availability increased 300,000sq. ft. While Q4 did experience an increase, this total of 5.5 million sq. ft. is an improvement of 1.4million sq. ft. year over year.

UNEMPLOYMENT

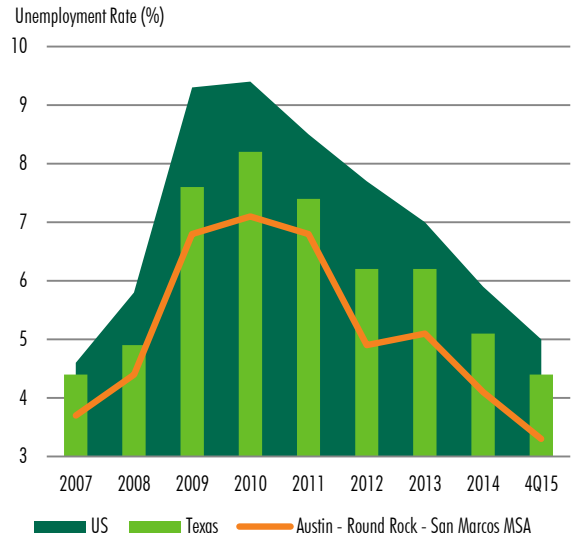
Texas unemployment finished October at 4.4%, 20 bps higher than September. Local unemployment continued its recent trend in the month of October, creeping up another 10 bps to close the quarter at 3.3% - still a very healthy number. National unemployment countered the trend seen locally and at a state level. The national unemployment rate dipped 10 bps in October to 5.0%. Despite the recent upticks in the state and local rates, all three unemployment rates have registered year-over-year improvements.

It was reported that the Austin metro recently surpassed the 2 million mark for population in the month of October, estimating that roughly 150 people per day are moving to the Austin area. For Austin to continue to stay ahead of the national and state unemployment rate is an additional indicator of Austin's strong and developing economy.

INDUSTRIAL PRODUCT

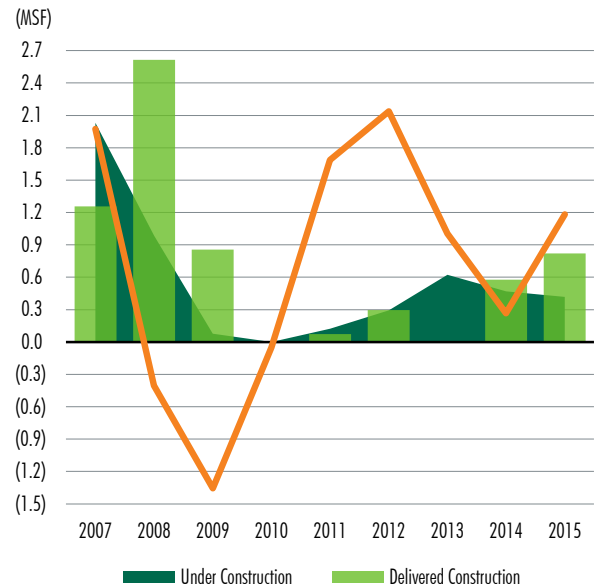
Austin's delivered industrial product closed out the year with a solid addition to the market in Q4 with five buildings delivering a total of 459,700 sq. ft. of new space. A majority of this space was added in the Southeast submarket, with 399,200 sq. ft. from three buildings. Georgetown added the other two buildings totaling 60,500 sq. ft. of flex space at the new Inner Visions Corporate Center. Austin's year to date total for delivered product finishes at 821,657 sq. ft., the highest total since 2009. It's also worth noting that when construction totals in 2009 were as high as they are in 2015, the vacancy in 2009 was 21.5% compared to the current 8.0% vacancy. 2016 will begin with a total of 418,600 sq. ft. of construction spread across 5 buildings, with the Southeast again leading the way with 265,600 sq. ft.

Figure 4: Unemployment Rate



Source: Bureau of Labor and Statistics, Q4 2015.

Figure 5: Construction and Net Absorption



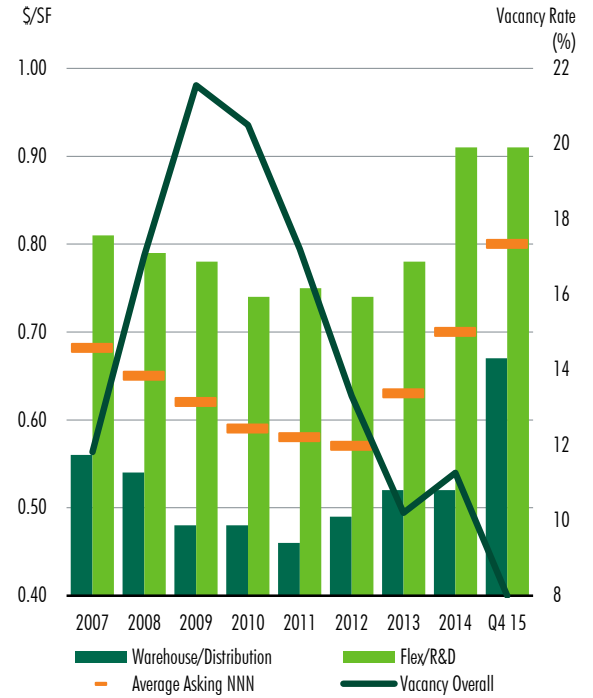
Source: CBRE Research, Q4 2015.

INDUSTRIAL RENTS

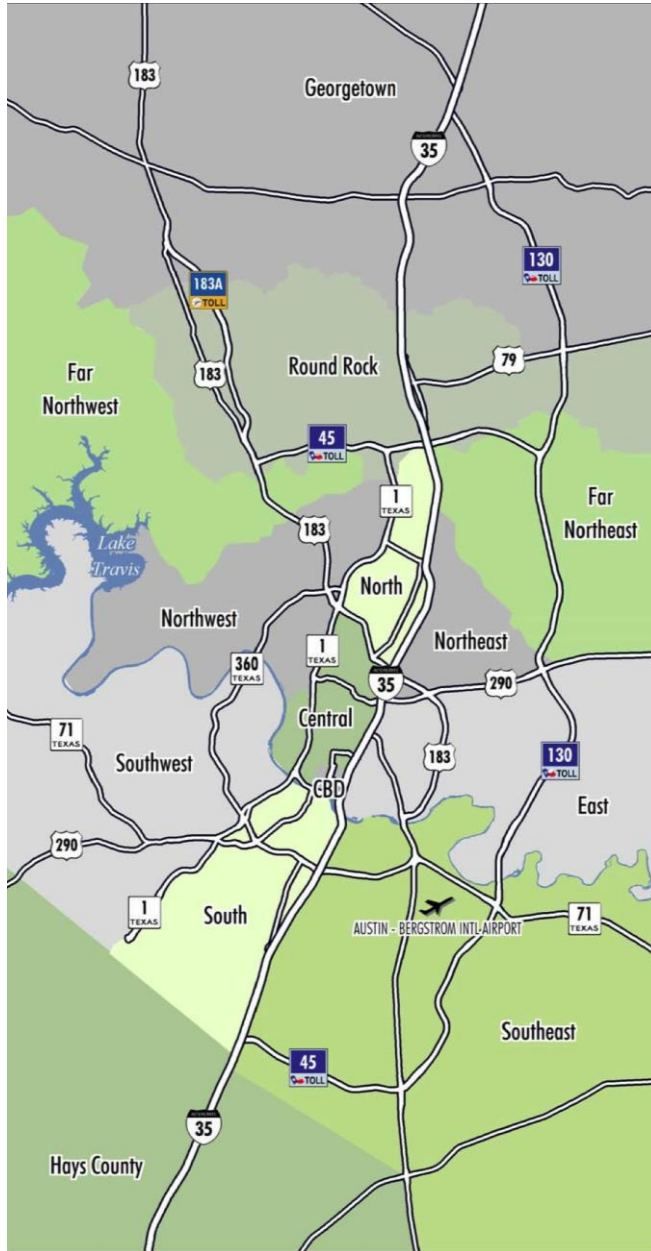
Q4 2015 citywide asking rates showed more vertical movement, a trend that happened in all but one quarter in 2015, to a healthy \$.80 per sq. ft. on a NNN basis. Year-over-year this is a \$.10 per sq. ft. increase for citywide asking rates, one of the highest all time for Austin industrial. As warehouse space continues to fill, warehouse contributed to the \$.04 quarter over quarter rate increase for the citywide average, jumping to \$.67 per sq. ft. Flex space, quarter-over-quarter, remained steady at \$.91 per sq. ft., as well as year-over-year.

It is important to note that several institutional landlords market using a negotiable rental rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not hold weight in the reported averages.

Figure 6: Asking Rates, NNN Avg. Monthly and Vacancy Rate



Source: CBRE Research, Q4 2015.



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Austin Industrial, Q3 2015

Growth Slows as Construction and Rents Mirror Previous Quarter

 **Vacancy Rate**
8.0%

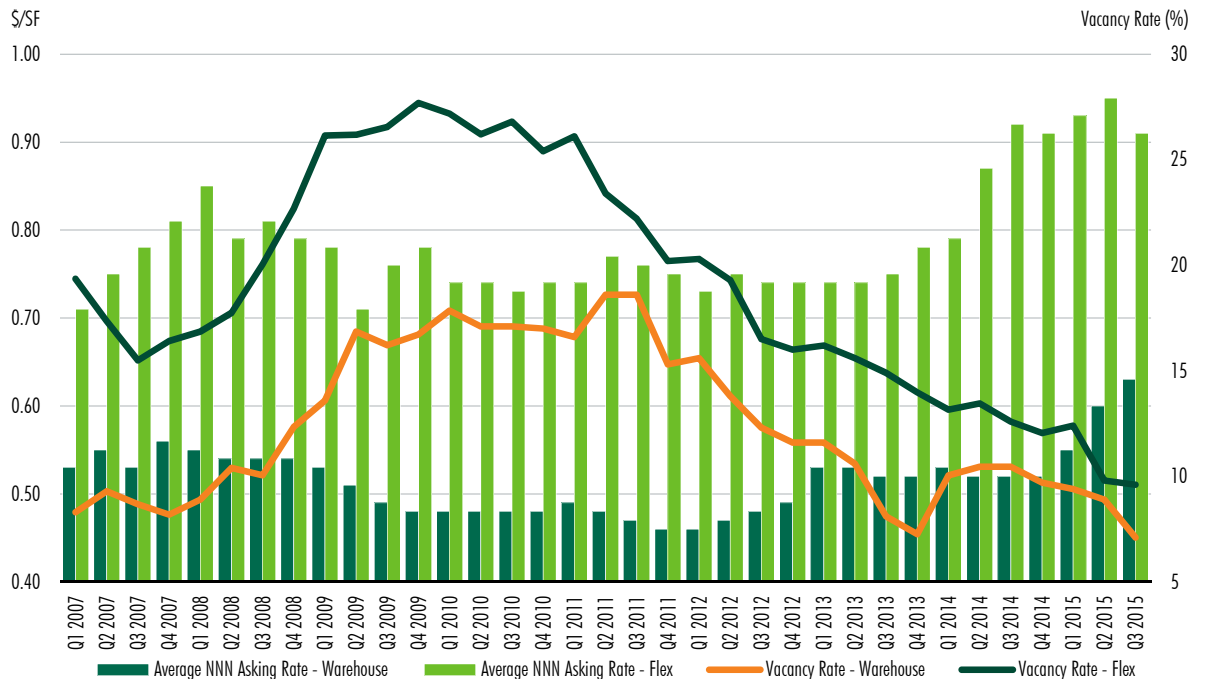
 **Avg. Asking Rate**
0.76 \$/SF

 **Net Absorption**
361,552 SF

 **Construction**
719,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Asking Rate, NNN Avg. Monthly and Vacancy Rates



Source: CBRE Research, Q3 2015.

- City-wide average asking rates remained stable quarter-over-quarter at \$0.76 per sq. ft. on a NNN basis. Warehouse rents saw an increase, while flex rates dropped to close the quarter.
- Positive net absorption for the quarter continues strong growth since the start of the year, finishing the quarter at 361,552 sq. ft., causing vacancy to continue its steady fall to 8.1%.
- While they experienced no change, construction levels remain high year-over-year at 719,000 sq. ft. over seven projects.

After a Q2 2015 that saw growth across absorption, average asking rents and construction levels, that growth seemed to have slowed down this quarter. Both citywide average rents and construction activity moved sideways with the previous quarter. There was continued growth in absorption, which closed Q3 2015 with 361,552 sq. ft. of positive net growth, almost 120,000 sq. ft. more than what was seen from the previous quarter.

While average asking rents across development types were unchanged, both warehouse and flex rents saw near opposite performance quarter-over-quarter. Warehouse space increased of \$0.03 per sq. ft., and closed the quarter at \$0.63 per sq. ft. This also marks a new record high for warehouse asking rates. Conversely, flex rates decreased \$0.04 per sq. ft. from the previous quarter, falling back down to \$0.91 per sq. ft. While still one of the highest levels ever, this also causes the year-over-year change for flex product to be a decrease of \$0.01 per sq. ft.

The industrial market saw continued growth in net absorption, closing the quarter with 361,552 sq. ft. of positive net absorption. This marks the fifth straight quarter of positive net absorption, and through this streak there have been four quarters of over 200,000 sq. ft. Positive absorption for the quarter was solely found in warehouse product, posting 302,3621 sq. ft. of positive net absorption, more than double the amount seen in Q2 2015. Meanwhile, the positive demand growth experienced by flex product was more modest, and finished the quarter by posting 59,190 sq. ft.

The North submarket led all others for the quarter posting 234,570 sq. ft. of positive net absorption. Major occupancies include Redco Distribution moved into 21,986 sq. ft. at Rutland 11 and Walkabout Transportation occupying 19,983 sq. ft. in 15877 Long Vista. The North was followed by the Northeast submarket, closing the quarter at 158,263 sq. ft., lead by an insulation distribution company occupying 22,400 sq. ft. at Walnut Creek 9, Capgemini taking 16,200 sq. ft. in Tech Ridge Three.4 and Dynamic Manufacturing Company moving into 12,000 sq. ft. at Tech Ridge Three.4.

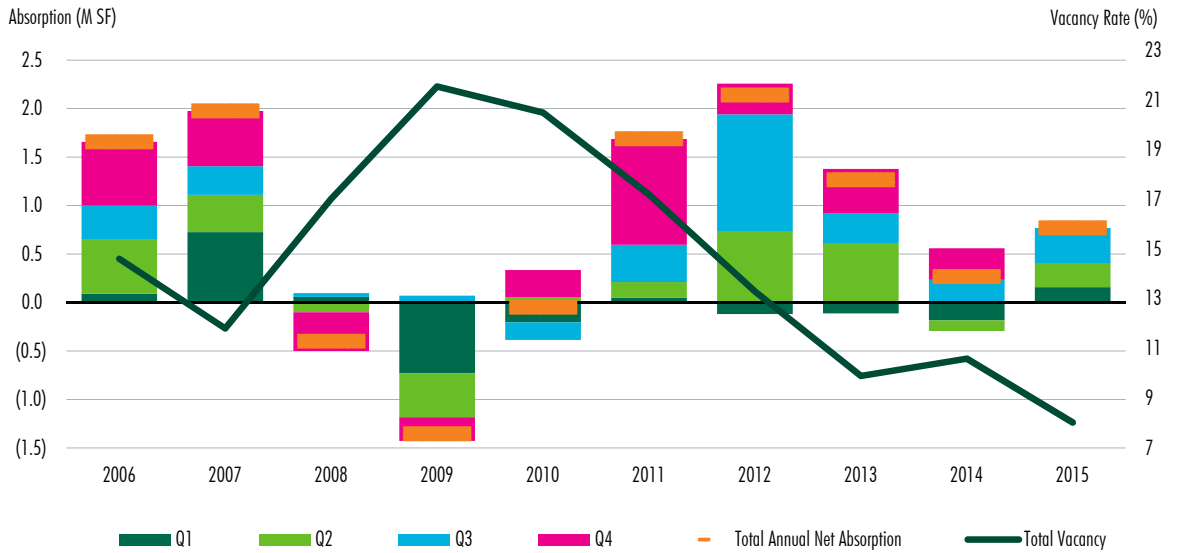
With six submarkets posting space losses for the quarter, the majority was posted in the East that returned 34,250 sq. ft. to the market. This was followed by the South submarket with 22,000 sq. ft. of negative net absorption. Other submarkets experiencing negative absorption for the quarter were the Southeast and Round Rock, which saw 15,156 sq. ft. and 9,158 sq. ft. respectively absorbed by the market. Construction activity saw no change by close of Q3 2015, and remained at 719,000 sq. ft. The majority of these projects are set to deliver sometime in the next year.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Availability Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Asking Rates NNN Avg. Direct (\$/SF/Mth)	
									Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0	0	0	0	-	-	N/A	N/A
Central	1,426,566	97,564	6.8	118,404	8.3	20,352	-	-	0.90	0.94
East	3,554,975	842,373	23.7	963,066	27.1	(34,250)	-	-	0.91	1.13
Far Northeast	2,476,336	214,284	8.7	227,784	9.2	8,909	-	153,000	0.57	0.82
Far Northwest	510,465	5,600	1.1	5,600	1.1	3,975	-	-	N/A	0.92
Georgetown	1,238,554	8,976	0.7	8,976	0.7	0	-	72,500	0.75	N/A
Hays County	593,663	146,674	24.7	146,674	24.7	0	-	-	0.75	N/A
North	13,939,458	941,025	6.8	1,096,686	7.9	234,570	-	-	0.71	1.01
Northeast	7,607,203	387,715	5.1	753,289	9.9	158,263	-	-	0.62	0.81
Northwest	2,600,971	57,566	2.2	235,861	9.1	14,397	-	-	N/A	0.82
Round Rock	3,274,070	364,369	11.1	591,326	18.1	(9,158)	-	94,500	0.54	0.92
South	1,761,700	37,275	2.1	66,275	3.8	(22,000)	-	-	1.03	1.33
Southeast	10,127,540	806,684	8.0	919,761	9.1	(15,156)	-	399,000	0.56	0.76
Southwest	415,046	65,813	15.7	76,975	18.5	1,650	-	-	0.96	1.36
Totals	49,553,323	3,975,918	8.0	5,210,677	10.5	361,552	-	719,000	0.63	0.91

Source: CBRE Research, Q3 2015.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2015.

As previously mentioned, Austin’s industrial market closed Q3 2015 with 361,552 sq. ft. of positive net absorption. This is almost 120,000 sq. ft. more than what the market saw just a year ago, and brings the year-to-date total for 2015 up to 768,62 sq. ft., nearly three times the level reached in the previous year with one quarter to go. The market was led by warehouse product, posting 262,159 sq. ft. of positive net absorption, while flex space saw a more modest 49,190 sq. ft.. This also caused vacancy to fall another 120 bps, and closed the quarter at 8.0%. The total drop from the beginning of the year now totals 260 bps, when the market finished 2015 at 10.6% vacant.

The North and Northeast submarkets led all others in positive net demand by posting 234,570 sq. ft. and 158,263 sq. ft., respectively. This also further distanced the submarkets from the rest in year-to-date absorption levels, with the North leading all submarkets with 328,078 sq. ft., followed immediately by the Northeast with 317,673 sq. ft. Both submarkets saw relatively close drops in their respective vacancies as well, with the Northeast falling 180 bps to 5.1%, and the North decreasing 120 bps to 6.8%.

Less than half of the submarkets in the industrial market closed Q3 2015 with negative net absorption, with the highest level registered by the East submarket, which returned 34,250 sq. ft. This further dropped the year-to-date net absorption for the market, which now stands at 44,042 sq. ft. This was followed by the South, which posted negative 22,000 sq. ft. for the quarter, the Southeast with 15,156 sq. ft., and Round Rock closing at 9,158 sq. ft.

Direct absorption saw a nearly 70,000 increase year-over-year, while also having a 108,000 sq. ft. increase quarter-over-quarter. Direct vacancy saw a 220 bps drop to 7.4% compared to the previous quarter. This brings the year-over-year change in direct vacancy up to 300 bps, when it was 10.4% back in Q3 2014.

Total product currently available decreased over 500,000 sq. ft. to 5.2 million sq. ft. quarter over quarter. This is over 1.4 million sq. ft. lower from where available product was a year ago, when over 6.6 million sq. ft. was available in the market. Citywide availability fell 80 bps quarter-over-quarter, closing at 10.5% and brought the year-over-year change now stands at a fall of nearly 180 bps from 13.3% in Q3 2014.

UNEMPLOYMENT

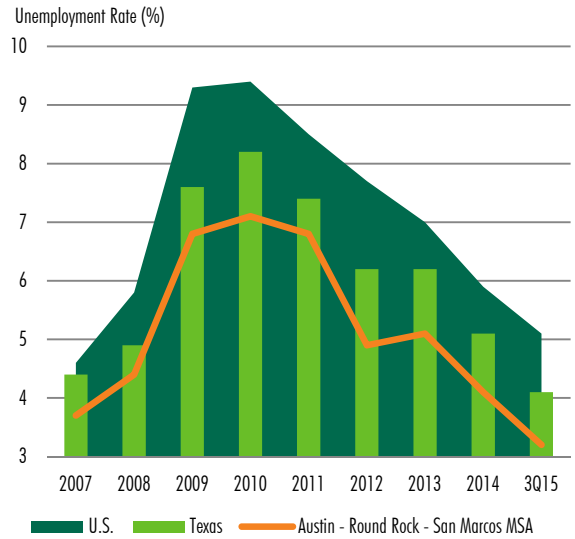
Local unemployment saw a slight rise in the month of August, creeping up with a 10 bps increase to close the quarter at 3.2% - a tight figure by an measure nonetheless. State and national unemployment saw yet another decrease, falling 20 and 40 bps respectively and closing the at 4.1% and 5.1%. Since closing 2014 at 4.1%, local unemployment has fallen a total of 90 bps, remaining ahead of the national level with 80 bps, but behind the state level by 100 bps. - still outpacing national and state levels.

Austin, and Texas for that matter, has garnered major attention from local and national media based on low unemployment numbers in the midst of a surging population boom. When comparing the socioeconomic strengths of over 500 communities, WalletHub listed Austin as the fastest-growing economy among large U.S. cities. In-state competitors Fort Worth and Houston landed in the third and tenth landed in the third spot, while Houston capped off the Top 10.

INDUSTRIAL PRODUCT

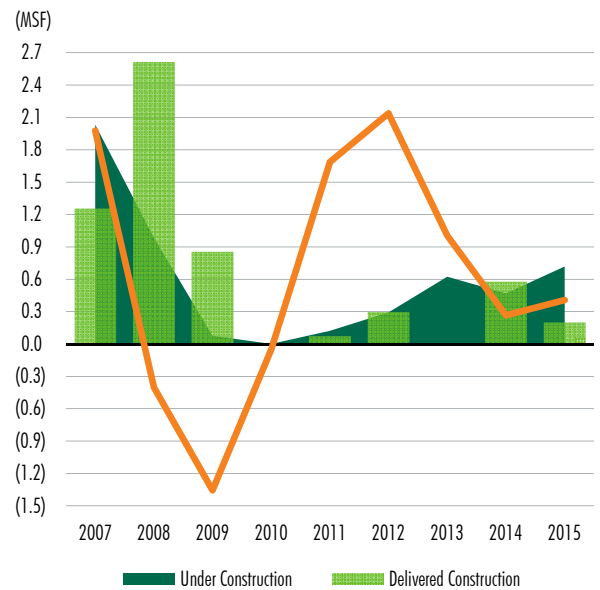
The year-to-date product delivered to the market remains at 199,487 sq. ft., as there were no new buildings delivered to the market by the close of Q3 2015. This is 378,622 sq. ft. below how much new product came onto the market in the previous year. The product currently in development also saw no change quarter-over-quarter, closing the quarter at 719,000 sq. ft. This is also nearly 250,000 sq. ft. above where construction levels were a year ago, when over 469,000 sq. ft. was in development. The majority of activity can be found in the Southeast where almost 400,000 sq. ft., broken up between three projects, will be added to the market.

Figure 4: Unemployment Rate



Source: Bureau of Labor and Statistics, Q3 2015.

Figure 5: Construction and Net Absorption



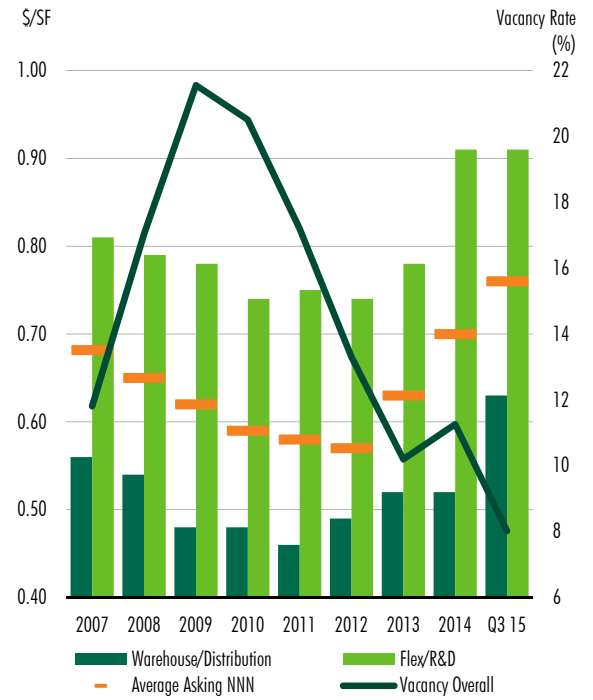
Source: CBRE Research, Q3 2015.

INDUSTRIAL RENTS

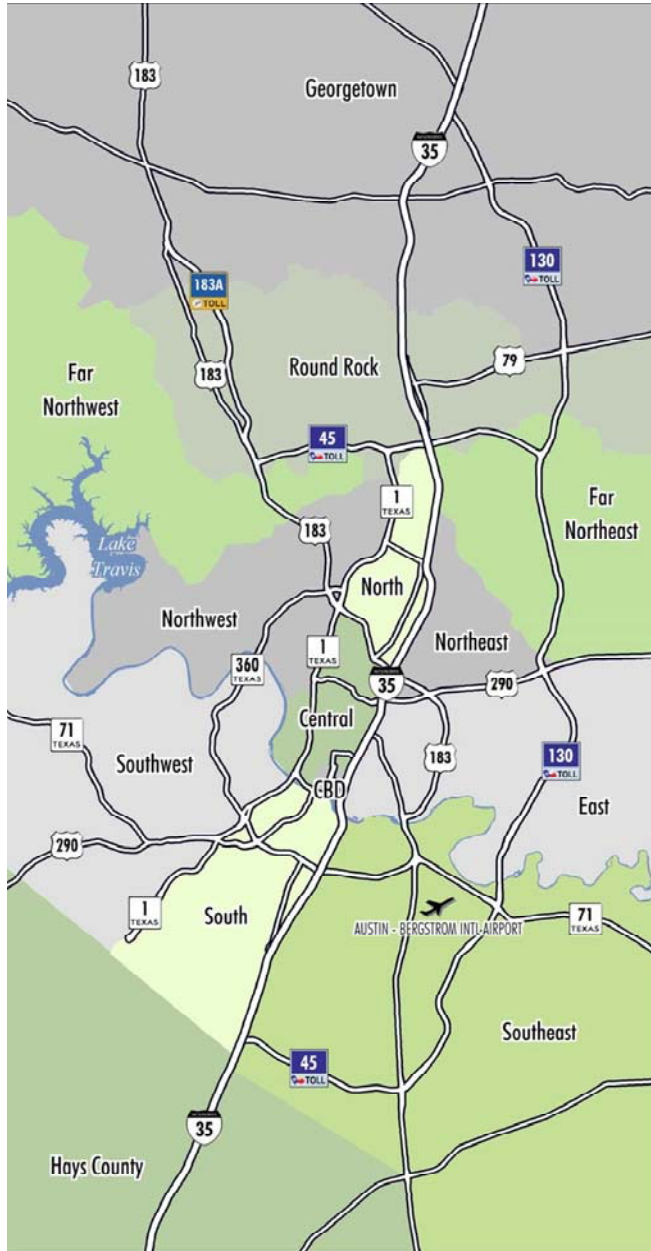
After back-to-back quarters of growth in the citywide average asking rates, Q3 2015 saw rents remain steady at \$0.76 per sq. ft. on a NNN basis. In the past year, rents have increased \$0.06 per sq. ft. Across development types, warehouse rents saw an increase of \$0.03 per sq. ft., and closed at \$0.63 per sq. ft. For the first time since Q3 2014, flex rates fell quarter-over-quarter by \$0.04 per sq. ft. and finished the quarter at \$0.91 per sq. ft. This is the first time since Q1 2013 that warehouse rates were the only product type to record a positive change in average asking rates

It is important to note that several institutional landlords are marketing space by using a negotiable rental rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not necessarily hold weight in the reported averages.

Figure 6: Asking Rates, NNN Avg. Monthly and Vacancy Rate



Source: CBRE Research, Q3 2015.



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Austin Industrial, Q2 2015

Triple net rents up more than 10% year-to-date

Vacancy Rate
9.2%

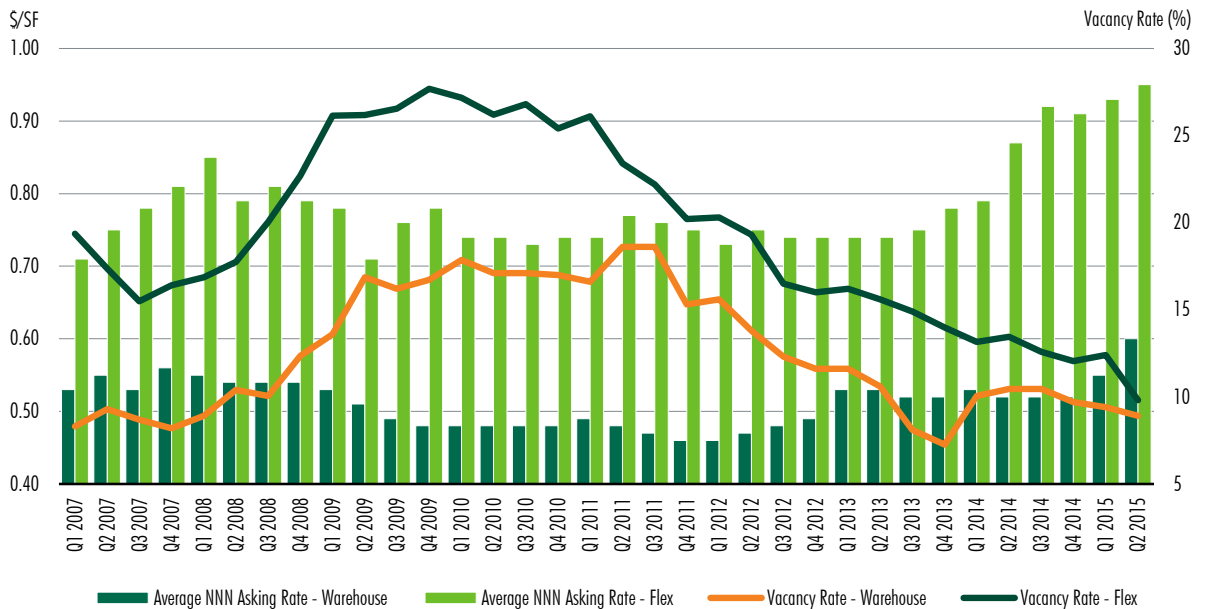
Avg. Asking Rate
0.76 \$/SF

Net Absorption
248,802 SF

Completions
89,600 SF

*Arrows indicate change from previous quarter.

Figure 1: Asking Rate, NNN Avg. Monthly and Vacancy Rates



Source: CBRE Research, Q2 2015.

- Triple net average monthly asking rates climbed to \$0.76 per sq. ft., a \$0.09 increase in the rate year-over-year.
- Net absorption presses higher for a third straight quarter and comes in at 248,802 sq. ft. and total vacancy tightened below the double-digits to 9.2%
- The construction project at 8024 Exchange Drive delivered 89,600 sq. ft. of new warehouse space to the market. Construction activity picked up and there are now 719,000 sq. ft. underway spread across 7 projects.

Asking rates once again appeared to be on the rise again this quarter, following gains made last quarter. This is a new pattern after rents had moved sideways for several years. Increases in the citywide average have been seen in recent quarters, but that was mostly due to increases in flex rates. It appears that warehouse space has begun to follow suit. The market wide average asking rate finished the quarter at \$0.76, a 4.1%.

quarter-over-quarter increase.

Triple net monthly direct average asking rates concluded Q1 2015 at \$0.60 for warehouse product. This represented a \$.05 quarter-over-quarter increase. This was another sizeable movement following the trend from last quarter. Movement like that hasn't occurred since Q1 2013. Flex space triple net monthly direct asking rates finished the quarter at \$0.95 which was a \$0.02 quarter-over-quarter increase.

Both the Southwest and Northwest flex submarkets maintained elevated asking rates. These have been high demand, low vacancy office submarkets, and it appears that some of the demand has spilled over into flex space, pushing rents up.

The Austin Industrial market posted a healthy 248,802 sq. ft. of positive net absorption for the quarter. This was a 90,528 sq. ft. quarter-over-quarter increase. This was split between relatively evenly between warehouse and flex product. Warehouse space saw a gain in net absorption of 114,304 sq. ft. and flex finished the quarter at 134,498.

Round Rock, the Northeast, and the far Northeast submarkets saw the most positive net absorption in Q2 2015. Round Rock posted a quarterly net absorption gain of 114,264 sq. ft. Most of this was seen in warehouse space. This was followed by the far Northeast with a gain of 76,045 sq. ft. of positive net absorption. Similarly, the majority of this absorption was warehouse space. Rounding out the top three was the Northeast which posted a net absorption gain of 65,593 sq. ft. However, this gain was mainly seen in flex product.

The Northwest submarket had the biggest loss in net absorption at 50,431 sq. ft. given back to the market. The East, North, Georgetown, and Hays County submarkets also suffered some negative net absorption. It is worth noting though, that none of these losses accounted for more than 10,000 sq. ft. in any particular submarket.

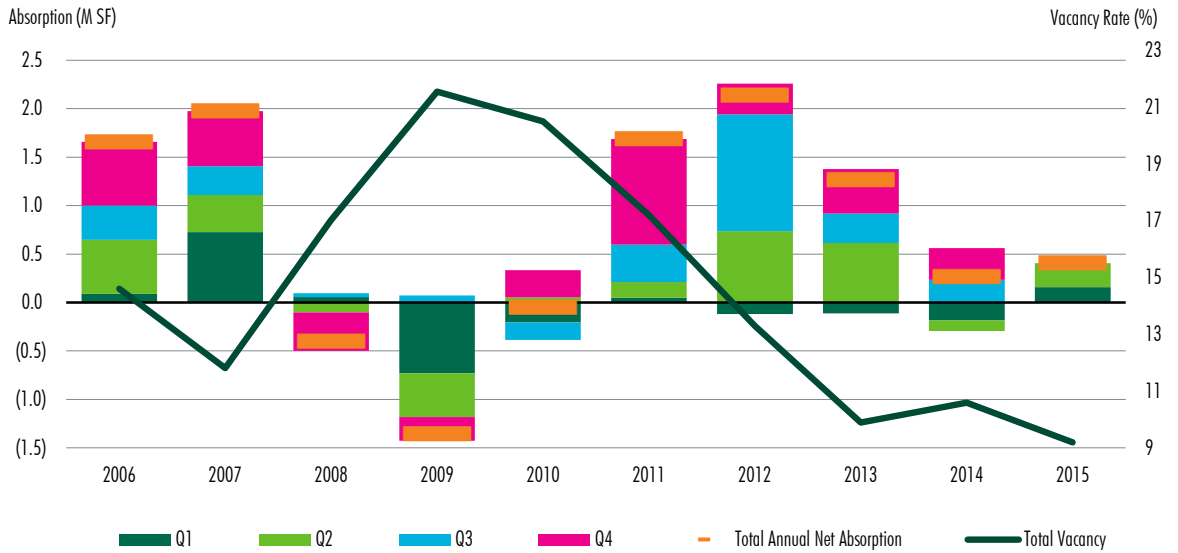
One warehouse building delivered in Q2 2015. Located in the Northeast submarket, the 89,600 sq. ft. building is at 8024 Exchange Dr. Industrial construction activity has picked up. At the end of Q2 2015 there were 7 projects underway for 719,000 sq. ft. of new industrial space.

Figure 2: Market Statistics

Market	Rentable Area (SF)		Vacancy Rate (%)	Availability Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Asking Rates NNN Avg. Direct (\$/SF/Mth)	
	Area (SF)	Vacant (SF)							Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0	0	0	0	-	-	1.83	N/A
Central	1,426,566	106,689	7.5	114,123	8.0	21,296	-	-	0.85	1.00
East	3,554,975	808,123	22.7	760,277	21.4	(9,792)	-	-	0.99	1.03
Far Northeast	2,476,336	218,715	8.8	251,215	10.1	76,045	-	153,000	0.50	0.89
Far Northwest	510,465	9,575	1.9	9,575	1.9	0	-	-	.80	0.92
Georgetown	1,238,554	8,976	0.7	8,976	0.7	(950)	-	72,500	0.70	N/A
Hays County	593,663	203,674	34.3	425,248	71.6	(9100)	-	-	0.75	0.99
North	13,939,458	1,112,858	8.0	1,461,718	10.5	(887)	-	-	0.51	0.94
Northeast	7,607,203	521,704	6.9	711,099	9.4	65,593	89,600	-	0.63	0.67
Northwest	2,600,971	323,495	12.4	331,292	12.7	(50,431)	-	-	0.43	1.11
Round Rock	3,274,070	355,711	10.9	449,031	13.7	114,264	-	94,500	0.48	0.99
South	1,761,700	25,333	1.4	44,147	2.5	2,000	-	-	1.02	2.02
Southeast	10,127,540	799,803	7.9	949,057	9.4	37,507	-	399,000	0.56	0.86
Southwest	415,046	67,463	16.3	79,093	19.1	3,257	-	-	0.96	1.34
Totals	49,553,323	4,562,119	9.2	5,594,851	11.3	248,802	89,600	719,000	0.60	0.95

Source: CBRE Research, Q2 2015.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2015.

The Austin industrial market finished the quarter with 248,804 sq. ft. of positive net absorption. This stands in contrast to the net absorption decrease of 109,469 sq. ft. in Q2 2014. Citywide warehouse space posted 114,304 sq. ft. of positive net absorption for the quarter. This is a year-over-year gain of 129,089 sq. ft. Flex registered an increase of 134,498 sq. ft. of positive net absorption for the quarter. This was a year-over-year increase of 229,182 sq. ft.

The Round Rock submarket saw the highest level of positive net absorption in Q2 2015 with 114,264 sq. ft. This represents a year over year gain of 58,3596 sq. ft. of net absorption. The submarket closed the quarter with a 10.9% vacancy rate. This is a 110 basis point decrease from Q2 2014.

The far Northeast followed Round Rock with 76,045 sq. ft. of positive net absorption for the quarter. Despite this healthy gain, this was a year-over-year decline of 30,116 sq. ft. of absorption. The far Northeast submarket had a total vacancy of 8.8% at the end of Q2 2015. This is a 480 basis points year-over-year decrease.

The Northwest submarket registered the largest decrease of net absorption for the quarter with a 50,431 sq. ft. loss. Even though the submarket suffered a loss in absorption, it was not as severe as Q2 2015, when the Northwest posted a loss of 65,021 sq. ft. of total net absorption. As of the close of Q2 2015, the Northwest had a total vacancy of 12.4%. This is a 490 basis points increase over the 7.5% vacancy rate the submarket put up in Q2 2014.

The Austin industrial market posted 186,802 sq. ft. of direct absorption in Q2 2015. This was a year-over-year increase of 74,745 sq. ft. As of quarter close, the citywide direct vacancy rate was 8.6%. This was a 230 basis points year-over-year decrease.

The citywide availability rate finished the quarter at 11.3% which represents 5,756,723 sq. ft. of industrial product. This marked a year-over-year decrease of 460 basis points (bps). The North, Northeast, and Southeast, had availabilities of 10.5%, 9.4%, and 9.4%, respectively. These three submarkets combine to form over 60% of the market measured by net rentable area.

UNEMPLOYMENT

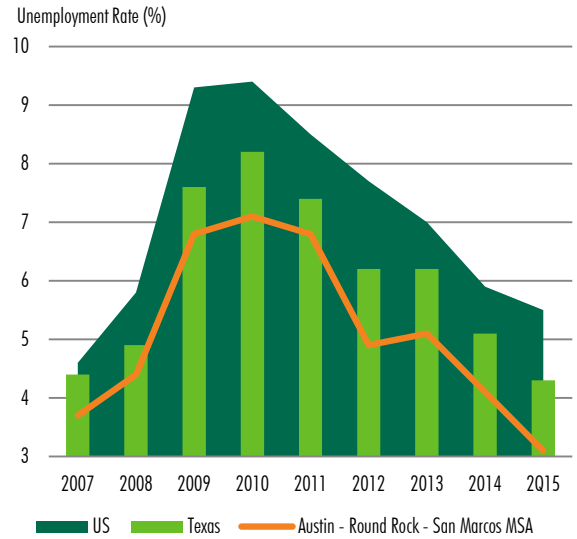
Seasonally-adjusted unemployment improved at the national and state level but remained constant on the local level. As of Q2 2015, U.S. unemployment saw a drop of 10 bps to settle in at 5.5%. Texas unemployment saw a decrease and came in at 4.3%. The Austin-Round Rock- San Marcos MSA did not change, as of the end of the quarter. Austin still comparatively leads national and state levels, registered in at a snug 3.1%.

Austin, and Texas for that matter, has garnered major attention from local and national media based on low unemployment numbers in the midst of a surging population boom. For example, Austin has been ranked as the second best city for future job growth by *Forbes*, and Dice reports that Texas is leading the nation in high-tech job creation, and second for the largest workforce of high-tech professionals.

INDUSTRIAL PRODUCT

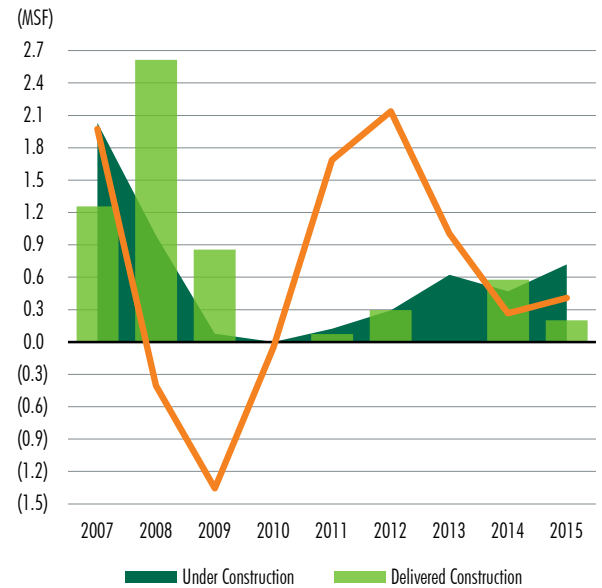
The Northeast submarket delivered 89,600 sq. ft. this quarter of warehouse space at 8024 Exchange Drive. This was the second building to deliver in 2015 and brought the year-to-date completions total to 199,487 sq. ft. The Southeast submarket saw the heaviest volume under construction with 399,000 sq. ft. underway. This was comprised of Expo Center Buildings 10 and 11, and Met Center phase 2 building 3. The Round Rock submarket had two projects underway for 94,500 sq. ft. Georgetown had a 3-building property underway for 72,000 sq. ft. And, in the far Northeast, there was a 153,000 sq. ft. warehouse project under construction. At the end of Q2 2015 there were 7 projects underway for 719,000 sq. ft. of new industrial space. This was a quarter-over-quarter increase of more than 359,464 sq. ft.

Figure 4: Unemployment Rate



Source: Bureau of Labor and Statistics, Q2 2015.

Figure 5: Construction and Net Absorption



Source: CBRE Research, Q2 2015.

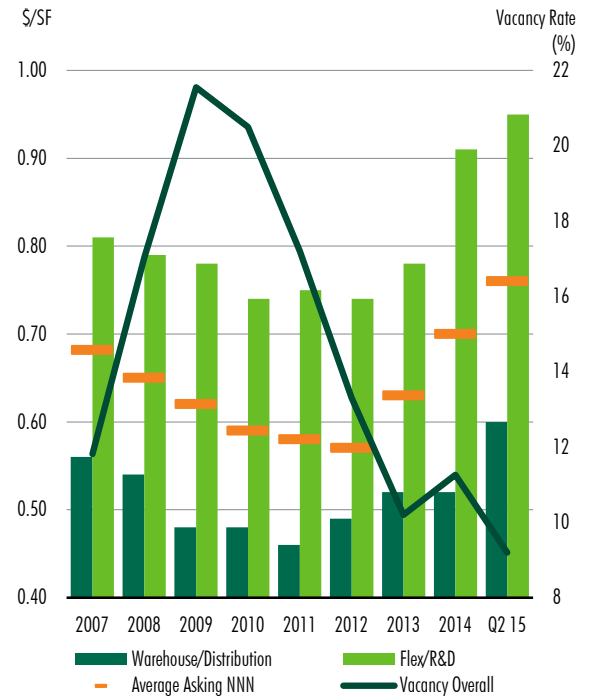
INDUSTRIAL RENTS

Asking monthly triple net rent changes across submarket and development type were varied, but equated to a sizeable increase for average asking rates in Q2 2015. Citywide average asking rents for both product types rose \$0.03 quarter-over-quarter to a monthly triple net rate of \$0.76. This increase also marked a \$0.09 gain from Q2 2014.

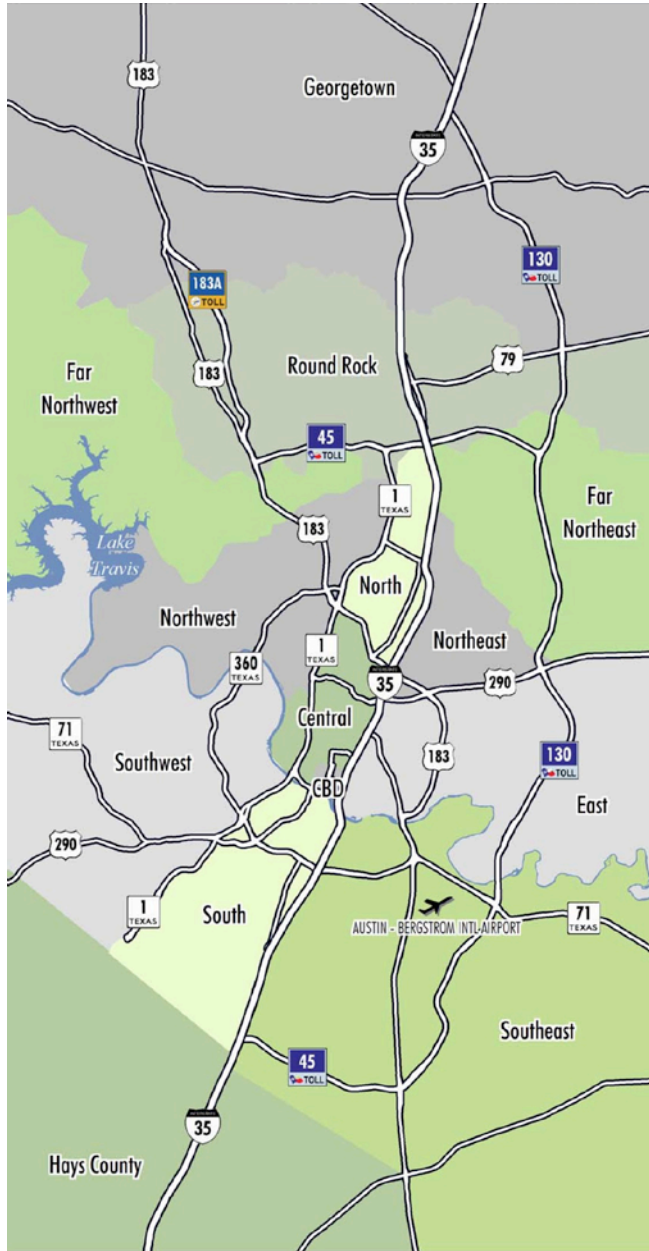
This continued the trend from last quarter and deviated from previous quarters where the gains in asking rents were only seen in flex space. Austin area warehouse average asking rates had a quarter-over-quarter increase of \$0.05 to settle in at \$0.60. Flex space rents were right behind with a \$0.02 increase over last quarter and ended up at \$0.95.

It is important to note that several institutional landlords market using a negotiable rental rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not hold weight in the reported averages.

Figure 6: Asking Rates, NNN Avg. Monthly and Vacancy Rate



Source: CBRE Research, Q2 2015.



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Austin Industrial, Q1 2015

Average asking triple net rates rise to start the year

Vacancy Rate **10.5%**

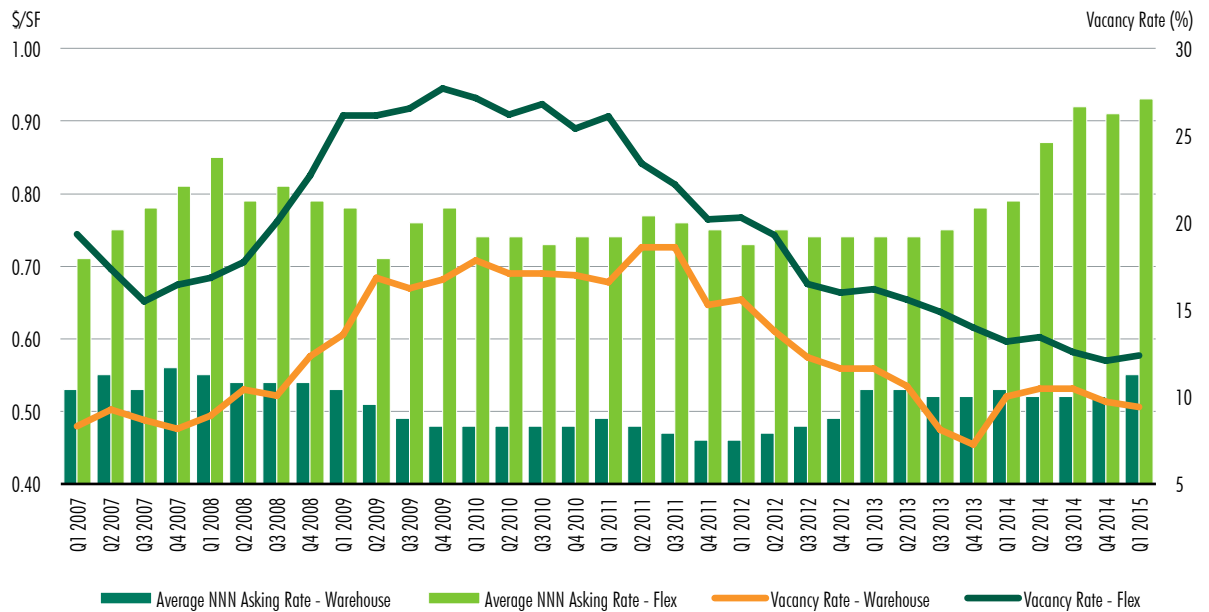
Avg. Asking Rate **0.73 \$/SF**

Net Absorption **158,274 SF**

Completions **109,887 SF**

*Arrows indicate change from previous quarter.

Figure 1: Asking Rate, NNN Avg. Monthly and Vacancy Rates



Source: CBRE Research, Q1 2015.

- Triple Net average monthly asking rates climb to \$.073 per sq. ft., a \$.10 increase in the rate year-over-year.
- Net absorption presses higher for a third straight quarter and comes in at 158,274 sq. ft. and total vacancy decreases to 10.5%
- The construction project at 2301 Scarborough Drive delivered 109,887 sq. ft. of new warehouse space to the market. Despite low vacancy and healthy demand, there has been relatively little movement in industrial construction.

After several years of stagnation, asking rates appear to be on the rise. Raises in the citywide average have been seen in recent quarters, but that was mostly due to increases in flex rates. It has appeared that warehouse space has begun to follow suit. The market wide average asking rate finished the quarter at \$0.73, a 4.3% quarter-over-quarter increase.

Triple net monthly direct average asking rates concluded Q1 2015 at \$0.55 for warehouse product. This represented a \$.03 quarter-over-quarter increase. This was the first sizeable movement in the rate since Q1 2013. Flex space triple net monthly direct asking rates finished the quarter at \$0.93 which was a \$0.02 quarter-over-quarter increase.

Both the Southwest and Northwest flex submarkets maintained elevated asking rates. These have been high demand, low vacancy office submarkets, and it appears that some of the demand has spilled over into flex space, pushing rents up.

The Austin Industrial market posted a healthy 158,274 sq. ft. of positive net absorption for the quarter. This was a 167, 346 sq. ft. decrease from the previous quarter. This was wholly represented in warehouse absorption as flex space had a negative net absorption number for the quarter.

The North and Northeast submarkets saw the most positive net absorption in Q1 2015 with a gain of 94,395 sq. ft. This was followed by the Northeast with a gain of 93,817 sq. ft. of positive net

absorption. The far Northeast had the biggest loss in net absorption at 37,651 sq. ft. given back to the market. It was followed by the Central submarket giving back 17,080 sq. ft.

The citywide availability rate finished the quarter at 11.6%. This marked a year-over-year decrease of 340 basis points (bps). The North, Northeast, and Southeast, had availabilities of 9.7%, 12.3%, and 12.7% respectively. These three submarkets combine to form over 60% of the market measured by net rentable area.

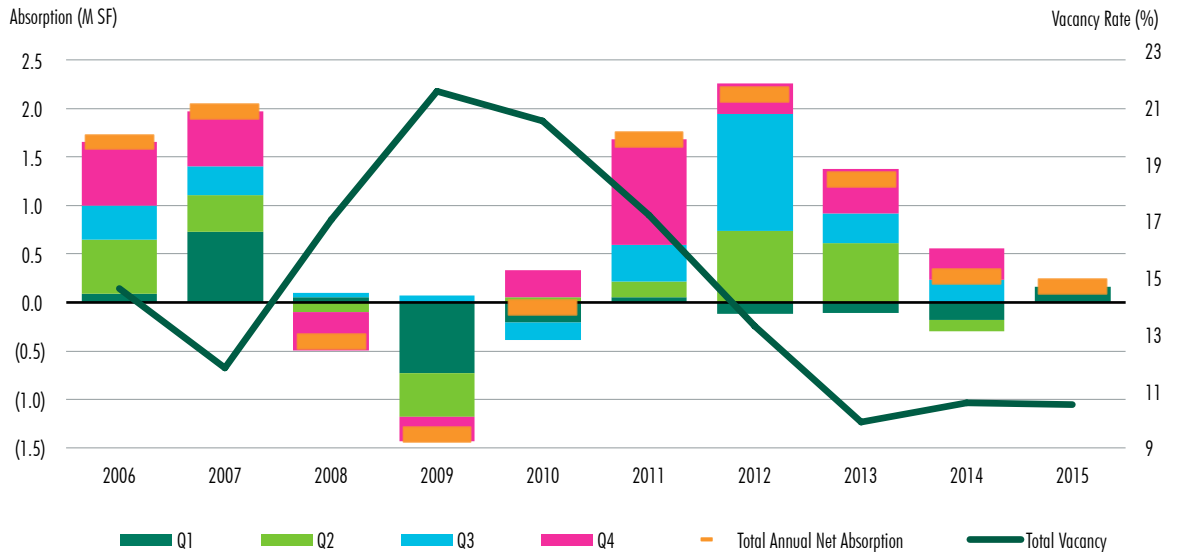
One warehouse building delivered in Q1 2015. Located in the North submarket, the 109,887 sq. ft. building at 2301 Scarborough Dr., was one of the few industrial projects under construction in the market. With its delivery, only three projects totaling 359,536 sq. ft. of product remain under construction. Since vacancy is low, it is interesting to note that more projects are not currently underway.

Figure 2: Market Statistics

Market	Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Asking Rates NNN Avg. Direct (\$/SF/Mth)	
									Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0	11,776	44.0	0	-	-	1.83	N/A
Central	1,426,566	127,985	9.0	131,622	9.2	(17,080)	-	-	0.88	0.94
East	3,554,975	798,331	22.5	655,361	18.4	0	-	-	0.54	1.03
Far Northeast	2,476,336	294,760	11.9	266,466	10.8	(37,561)	-	-	0.54	0.91
Far Northwest	510,465	9,575	1.9	9,575	1.9	334	-	-	.80	0.92
Georgetown	1,238,554	8,026	0.6	8,026	0.6	0	-	-	0.69	N/A
Hays County	593,663	194,574	32.8	204,574	34.5	0	-	-	0.75	N/A
North	13,939,458	1,111,971	8.0	1,355,460	9.7	94,395	109,887	-	0.57	0.93
Northeast	7,830,210	936,804	12.0	965,937	12.3	93,817	-	90,331	0.66	0.73
Northwest	2,600,971	276,351	10.6	350,119	13.5	3,287	-	-	0.43	1.11
Round Rock	3,274,070	469,975	14.4	494,598	15.1	11,776	-	30,000	0.48	0.96
South	1,761,700	27,333	1.6	27,333	1.6	2,517	-	-	1.02	1.80
Southeast	10,210,364	920,134	9.0	1,292,181	12.7	14,289	-	239,205	0.45	0.87
Southwest	415,046	70,720	17.0	82,350	19.8	(7,500)	-	-	0.96	1.34
Totals	49,859,154	5,243,252	10.5	5,756,723	11.6	158,274	109,887	359,536	0.55	0.93

Source: CBRE Research, Q1 2015.

Figure 3: Net Absorption and Vacancy Rate



Source: CBRE Research, Q1 2015.

The Austin industrial market finished the quarter with 158,274 sq. ft. of positive net absorption. This stands in contrast to the net absorption decrease of 184,344 sq. ft. in Q1 2014. Citywide warehouse space posted 192,279 sq. ft. of positive net absorption for the quarter. On the other hand, flex space suffered a decrease of 34,005 sq. ft. for the quarter.

The North submarket saw the highest level of positive net absorption in Q1 2015 with 94,395 sq. ft. Nearly all of this absorption was attributed to warehouse space. The submarket closed the quarter with a tight 8.0% vacancy rate.

The Northeast followed the North with 93,817 sq. ft. of positive net absorption for the quarter. The split of absorption by development type was a little more even here. Warehouse space accounted for 62,005 sq. ft. and flex space made up the remaining 31,812 sq. ft. The Northeast submarket currently has a total vacancy of 12.0%. This is a 160 basis (bps) points year-over-year decrease.

The far Northeast registered the largest decrease of net absorption for the quarter with a 37,561 sq. ft. loss. 27,877 sq. ft. of this was in warehouse space while the other 9,684 sq. ft. was flex product. The far Northeast currently has a total vacancy of

11.9%. The Central submarket followed the far Northeast with the second biggest loss of net absorption for the quarter with a 17,080 sq. ft. decrease. It currently has a 9.0% total vacancy rate.

By the close of Q1 2015, there was over 2.5 million sq. ft. of tenant demand tracked in the market. This accounts for over 43% of available inventory and has continued to help to maintain the markets high occupancy.

Notable Tenant Movements from Q1 2015:

- Mattress Firm occupied 99,200 sq. ft. at Corridor Park 9
- Undisclosed media production company moved into 5010 Burleson for 58,254 sq. ft.
- Health and Human Services vacated 56,995 sq. ft. at Braker 1
- Pharmaceutical Product Development vacated 56,875 sq. ft. at Met Center 1
- GreeneSense Design vacated their space at 1306 Leander Drive

UNEMPLOYMENT

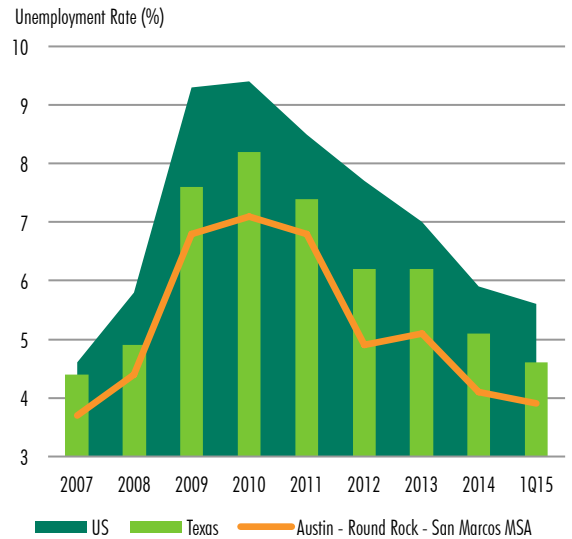
Seasonally adjusted unemployment improved at national, state, and local levels. As of Q1 2015, national unemployment experienced a drop of 30 bps to settle in at 5.6%. Texas unemployment saw a decrease and came in at 4.6%. Likewise, the Austin-Round Rock- San Marcos MSA experienced a decrease. Austin still comparatively leads national and state levels and registered in at 3.9%. Job growth remains strong in the area. According to Moody's Analytics, Austin registered seasonally adjusted year-over-year industrial job growth of 3.4%.

Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by Forbes, and Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.

INDUSTRIAL PRODUCT

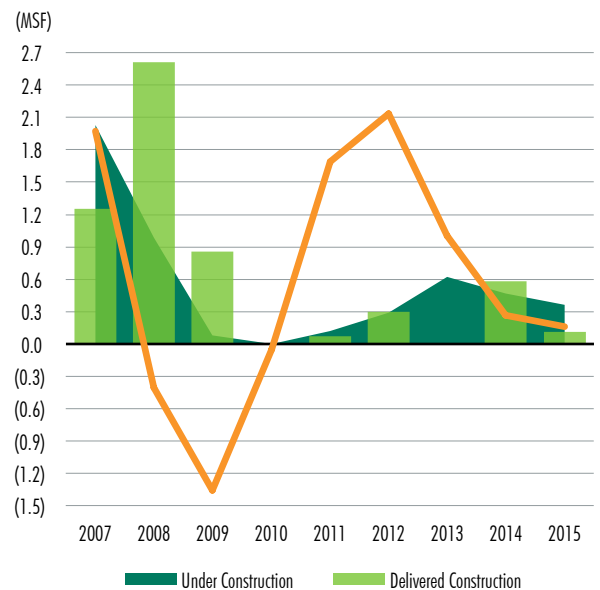
The North submarket delivered 109,887 sq. ft. this quarter of warehouse space at 2301 Scarborough Drive. This speculative building marks the first Industrial delivery since Q2 2014. The Southeast submarket saw the heaviest volume under construction with 239,205 sq. ft. underway on Expo Center Buildings 10 and 11. The Southeast submarket was followed by the Northeast in volume under construction. The Northeast ended the quarter at 90,331 sq. ft. under construction for the project at 8024 Exchange Drive. Bringing up the rear was 30,000 sq. ft. under construction in the South submarket at Scottsdale Crossing Commerce Park. That brings the cumulative total of industrial product under construction in the Austin market to 359,536 sq. ft.

Figure 4: Unemployment Rate



Source: Bureau of Labor and Statistics, Q1 2015.

Figure 5: Construction and Net Absorption



Source: CBRE Research, Q1 2015.

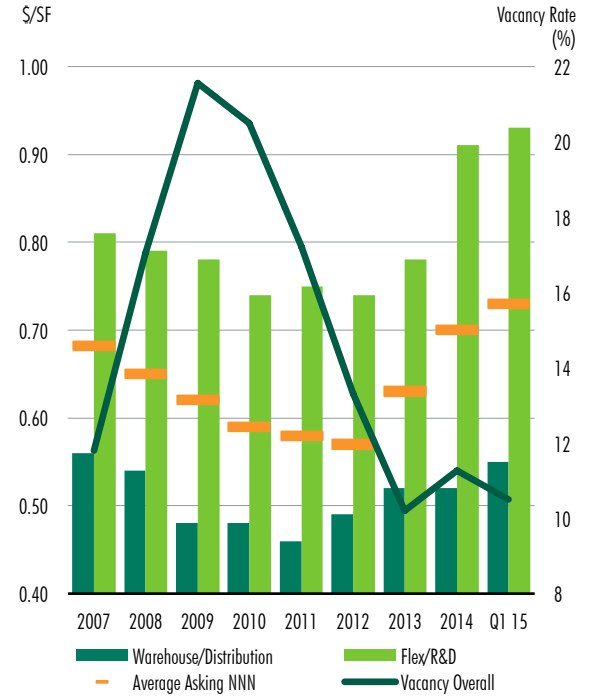
INDUSTRIAL RENTS

Asking monthly triple net rent changes across submarket and development type were sporadic, but equated to a sizeable increase for average asking rates in Q1 2015. Citywide average asking rents for both product types rose \$0.03 quarter-over-quarter to a monthly triple net rate of \$0.73. This increase also marked a \$0.10 gain from Q1 2014.

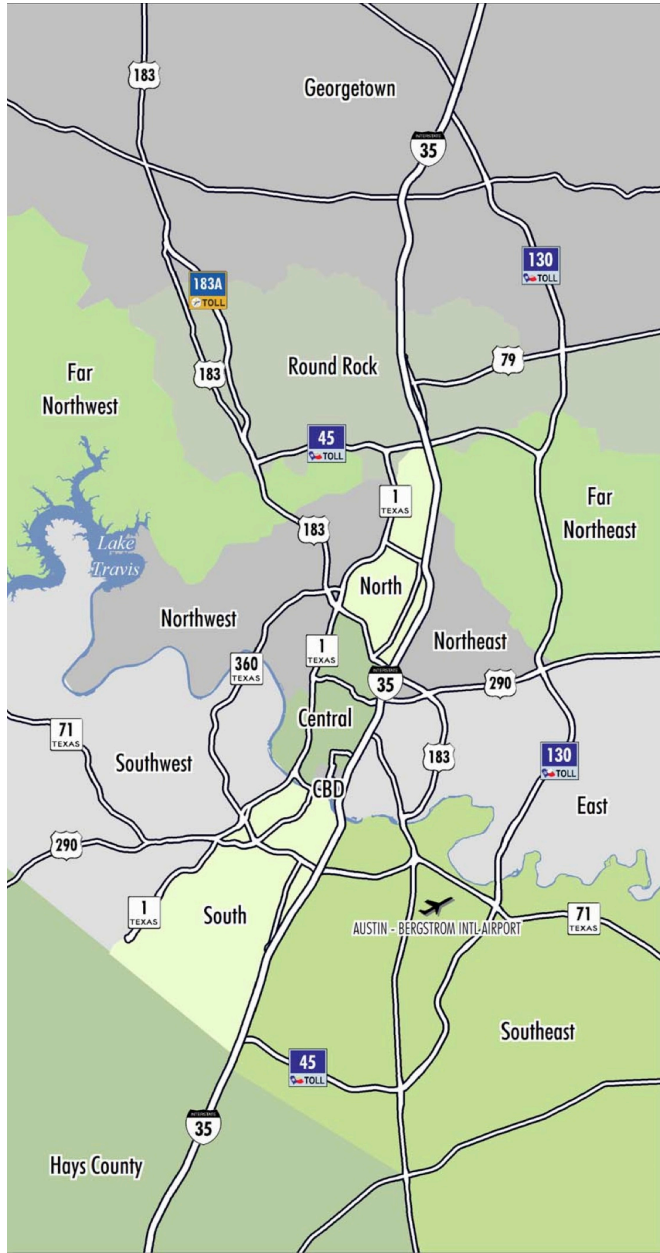
Unlike previous gains in the average asking rate where the increases were seen predominately in flex product, the gains this quarter were seen in warehouse space too. Austin area warehouse average asking rates had a quarter-over-quarter increase of \$0.03 to settle in at \$0.55. Flex space rents were right behind there with a \$0.02 increase over last quarter and ended up at \$0.93.

It is important to note that several institutional landlords market using a negotiable rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not hold weight in the reported averages.

Figure 6: Asking Rates, NNN Avg. Monthly and Vacancy Rate



Source: CBRE Research, Q1 2015.



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Austin Industrial, Q4 2014

Net absorption finishes positive for the quarter and the year

Vacancy Rate **10.6%**

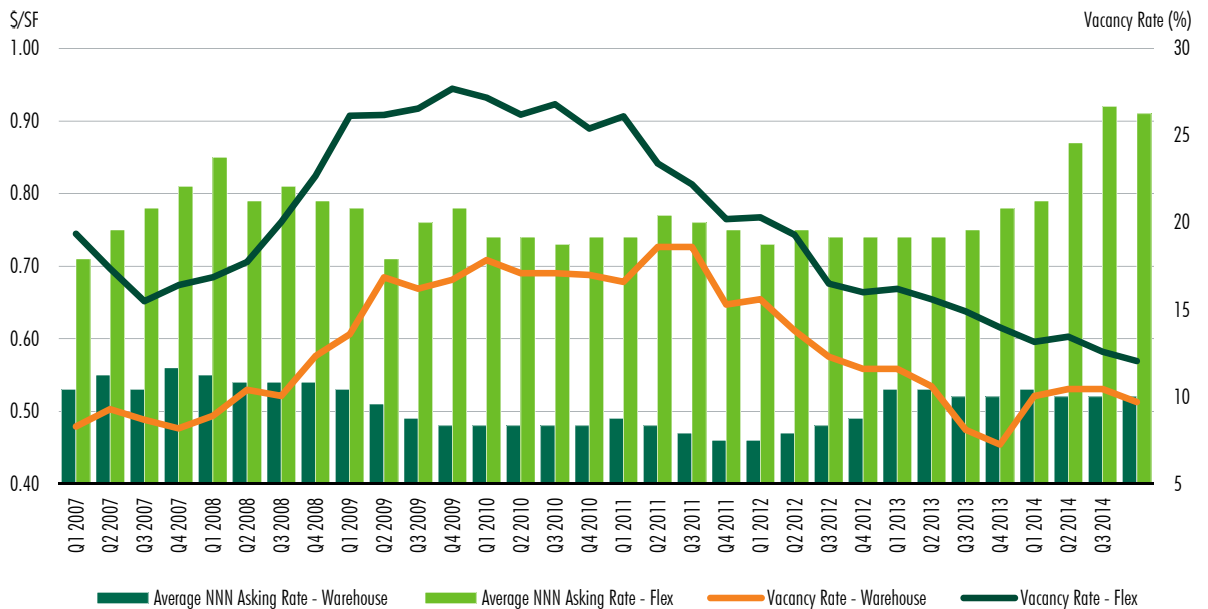
Avg. Asking Rate **0.70 \$/SF**

Net Absorption **325,620 SF**

Completions **0 SF**

*Arrows indicate change from previous quarter.

Figure 1: Asking Rate, NNN Avg. Monthly and Vacancy Rates



Source: CBRE Research, Q4 2014.

- Austin industrial rents remain largely flat. Combined citywide asking rates came in at \$0.70 per sq. ft. per month on a triple net basis. Warehouse rents stayed at \$0.52 NNN per sq. ft. per month, and flex rents ticked down to a penny \$0.91 NNN per sq. ft. per month.
- Vacancies continue to tighten across Austin. They are particularly tight in the two biggest submarkets, the North and the Southeast with vacancy rates of 9.7% and 8.6% respectively.
- Austin net absorption waits until Q4 2014 to go positive and finished up 265,989 sq. ft. for the year.

After the first quarter of positive net absorption this year in Q3 2014, the Austin industrial market continued the course and ended Q4 2014 with 325,620 sq. ft. of positive net absorption. This pushed vacancy down 70 basis points (bps) quarter-over-quarter to 10.6%. However, this is a 80 bps year-over-year increase.

The North and Northeast submarkets had the most positive net absorption in Q4 2014 with 157,781 sq. ft. and 93,029 sq. ft. respectively. The Southeast had the biggest loss for the quarter with 15,272 sq. ft. of negative net absorption.

The Austin warehouse and manufacturing space market remained taut as Q4 2014 ended. The citywide warehouse vacancy rate decreased 70 bps quarter-over-quarter to 9.7%, due to a 62,141 sq. ft. increase in warehouse citywide net absorption. Most of that figure was explained with Allergan occupying their 87,754 sq. ft. space at Parmer Sector 6 in the Northeast submarket.

The Southeast submarket had the most negative warehouse net absorption with 28,462 sq. ft. This was followed by the East submarket with the market giving back 12,330 sq. ft. of absorption. No other warehouse submarket had more than 10,000 sq. ft. of negative net absorption for Q4 2014.

The citywide Austin flex market saw an increase of 129,323 sq. ft. of net absorption. While this was down both quarter-over-quarter and year-over-year, the flex market has continued to expand. The citywide flex vacancy rate finished the year at 12.0%, a 200 bps decrease year-over-year.

The Northeast and North flex submarkets saw the highest levels of net absorption, coming in at 86,222 sq. ft. and 53,988 sq. ft. respectively. In the same period last year, these two accounted for 100,261 sq. ft. of flex space absorption. There were six submarkets that registered a decrease in flex space net absorption in Q4 2014. The Northwest lead the field with a 10,800 sq. ft. loss in net absorption, a relatively tame figure.

Both the Southwest and Northwest flex submarkets experienced an increase in asking rates. These have been high demand, low vacancy office submarkets, and it appears that some of the demand has spilled over into flex space, pushing rents up. Flex base rates in the Southwest submarket ended Q4 2014 at \$1.28 per sq. ft. per month, a \$0.23 increase year-over-year. Similarly, flex rates in the Northwest submarket ended Q4 2014 at \$1.12 per sq. ft. per month, a \$0.27 year-over-year increase.

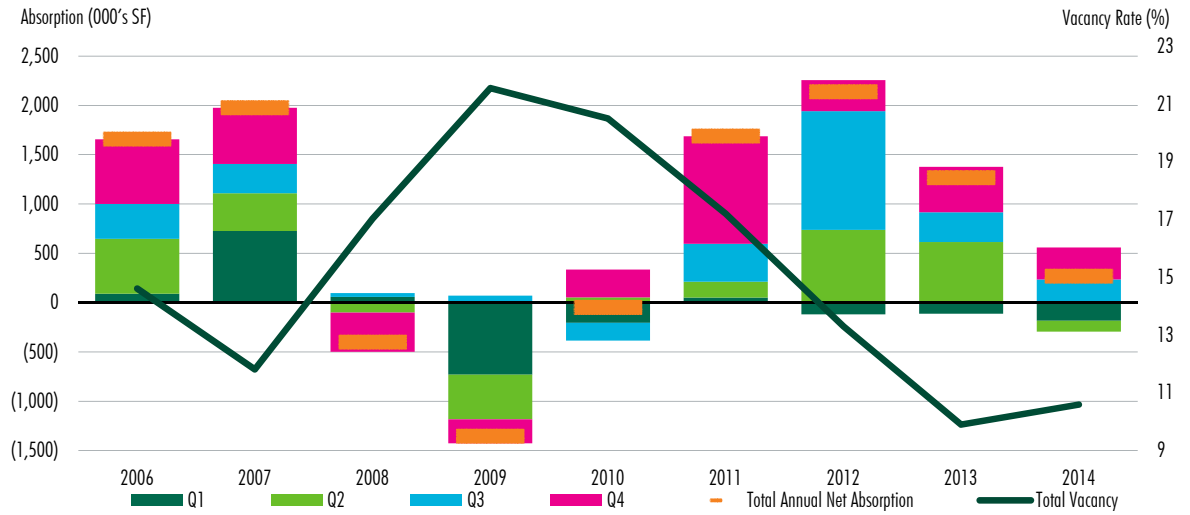
Construction remained unchanged in Q4 2014 with 469,423 sq. ft. in progress. 239,205 sq. ft. of that total was in the Southeast submarket, which made up over half of the construction in progress. For the year, developers have delivered 578,109 sq. ft. of new industrial space to the Austin market.

Figure 2: Market Statistics

Market	Rentable Area		Vacancy Rate (%)	Availability Available (SF)	Availability Rate (%)	Net Absorption (SF)	Delivered Construction (SF)	Under Construction (SF)	Asking Rates NNN Avg. Direct (\$/SF/Mth)	
	(SF)	Vacant (SF)							Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0	11,776	44.0	0	-	-	\$1.83	N/A
Central	1,426,566	110,905	7.8	114,531	8.0	(5,806)	-	-	\$0.72	\$0.93
East	3,554,975	798,331	22.5	804,869	22.6	(13,661)	-	-	\$0.46	\$1.03
Far Northeast	2,476,336	257,199	10.4	457,673	18.5	86,337	-	-	\$0.48	\$0.84
Far Northwest	510,465	9,909	1.9	9,909	1.9	3,641	-	-	N/A	\$0.92
Georgetown	1,238,554	8,026	0.6	19,586	1.6	3,150	-	-	\$0.45	N/A
Hays County	593,663	194,574	32.8	204,574	34.5	0	-	-	\$0.75	N/A
North	13,829,571	1,106,324	9.7	1,681,375	12.2	157,781	-	109,887	\$0.55	\$0.89
Northeast	7,830,210	1,030,621	14.4	1,394,194	17.8	93,029	-	90,331	\$0.65	\$0.72
Northwest	2,600,971	276,351	10.6	350,119	13.5	13,719	-	-	\$0.46	\$1.12
Round Rock	3,274,070	481,751	14.7	490,726	15.0	20,428	-	30,000	\$0.48	\$0.87
South	1,761,700	29,850	1.7	29,850	1.7	(2,717)	-	-	\$1.02	\$0.65
Southeast	10,210,364	902,106	8.6	1,271,368	12.5	(15,272)	-	239,205	\$0.41	\$0.91
Southwest	415,046	63,220	15.2	66,970	16.1	(15,009)	-	-	\$1.15	\$1.28
Totals	49,749,267	5,269,167	10.6	6,907,520	13.9	325,620	0	469,423	\$0.52	\$0.91

Source: CBRE Research, Q4 2014.

Figure 3: Net Absorption and Vacancy Rate



The Austin industrial market registered a 325,620 sq. ft. gain of net absorption for Q4 2014, and a 265,989 sq. ft. gain for the entire year. Citywide vacancy remains tight and finished Q4 2014 at 10.6%, a 80 basis point year-over-year increase. In both the Southeast and North submarkets, which comprised almost half of the rentable area in the Austin market, vacancy rates were under 10%.

The Southeast submarket ended 2014 with 357,421 sq. ft. of positive net absorption, the highest in the city. This was a 118,583 sq. ft. year-over-year increase. The Southeast was followed by the far Northeast and East in terms of yearly gains of net absorption with 327,857 sq. ft. and 135,794 sq. ft. respectively. The Northeast submarket had negative net absorption of 387,715 sq. ft. for the year, the worst performing submarket in the city.

Users in the market fell in Q4 2014, with just over 2.7 million sq. ft. of active tenants in the market. Comparing on a year-over-year basis, the Austin market saw a 37.3% decrease in sq. ft. needed by tenants. With an office market that is continuing to tighten, companies may look to flex office space for their needs, which could draw higher demand in the coming quarters.

Notable Tenant Movements from Q4 2014:

- Allergan occupied 87,754 sq. ft. at Parmer Sector 6
- Blackmon Mooring Occupied 49,500 sq. ft. at Northpointe Trade Center Bldg. C
- High tech Carpets occupied 35,168 sq. ft. at Waterford Center 1
- Mattress Firm vacated 32,000 sq. ft. at Walnut Creek Corp Park Bldg. 9
- Strategic Mobile Group vacated 31,094 sq. ft. at Mopac 4
- Aetna Vacated 14,400 sq. ft. at Monterey Tech Bldg. 1

UNEMPLOYMENT

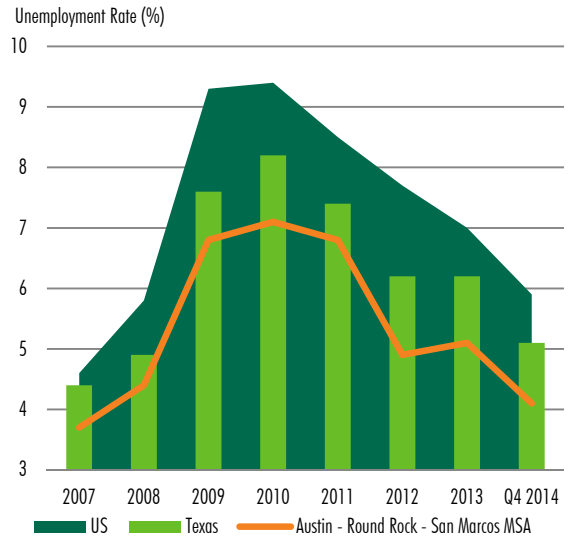
Unemployment changes were mixed across the national, state, and local levels. As of Q4 2014, national unemployment saw a drop of 30 bps to settle in at 5.9%. Texas unemployment remained flat and once again came in at 5.1%. Likewise, the Austin-Round Rock- San Marcos MSA unemployment rate did not change. Yet, Austin still comparatively leads national and state levels and registered in at 4.1% again. Job growth remains strong in the area. According to Moody's Analytics, Austin registered seasonally adjusted year-over-year office job growth of 3.7% as of October.

Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by Forbes, and Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.

INDUSTRIAL PRODUCT

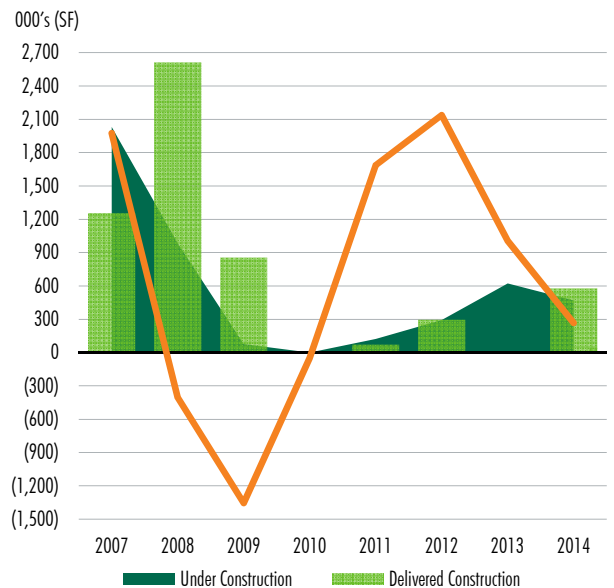
Product under construction remained flat this quarter compared to the previous quarter. The Southeast submarket saw the heaviest volume under construction with 239,205 sq. ft. underway on Expo Center Buildings 10 and 11. The North submarket saw the second highest volume of construction underway, it ended the quarter with 109,887 sq. ft. underway for the project at 2301 Scarbrough Drive. The North submarket was closely followed by the Northeast in volume under construction. The Northeast ended the quarter at 90,331 sq. ft. under construction for the project at 8024 Exchange Drive. Bringing up the rear was 30,000 sq. ft. under construction in the South submarket at Scottsdale Crossing Commerce Park.

Figure 4: Unemployment Rate



Source: Bureau of Labor and Statistics, Q4 2014.

Figure 5: Construction and Net Absorption



Source: CBRE Research, Q4 2014.

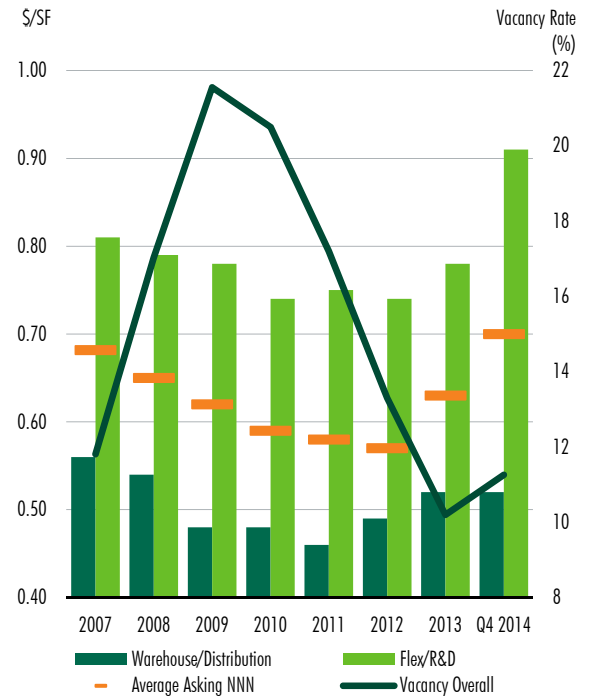
INDUSTRIAL RENTS

Citywide average asking rates remained flat this quarter coming in again at \$0.70 per sq. ft. per month. Citywide warehouse space followed this trend and registered in again at \$0.52 per sq. ft. for the second consecutive quarter. Citywide flex space followed this trend and registered in again at \$0.52 per sq. ft. for the second consecutive quarter. Citywide flex space dropped \$0.02 per sq. ft. from the previous quarter ending this quarter at \$0.90. Despite this drop in flex rates, there was upward pressure in some specific submarkets. Specifically, it was interesting to note that both the Southwest and Northwest submarkets saw an increase in asking rates. These have been in demand and low vacancy office submarkets, and it appears that some of the demand has spilled over into the flex market.

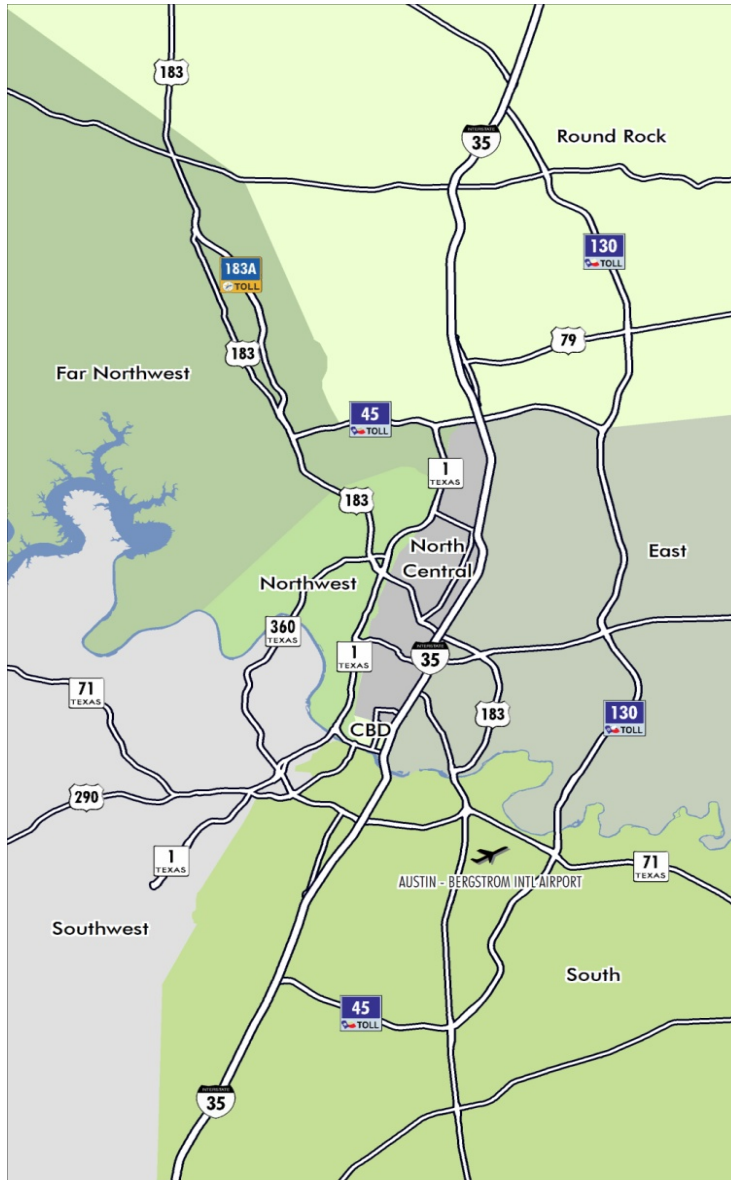
Landlord and tenant expectations are coming more in line with one another. However, landlords still need to show tenants tangible evidence that the market has changed since 2009, which may explain the lack of growth in average rates. Many tenants are electing to renew and extend their leases long before their expirations in order to lock up space before it goes to market.

It is important to note that several institutional landlords market using a negotiable rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not hold weight in the reported averages.

Figure 6: Asking Rates, NNN Avg. Monthly and Vacancy Rate



Source: CBRE Research, Q4 2014.



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Austin Industrial MarketView 3Q 2014

Q3 2014

CBRE Global Research and Consulting

VACANCY RATE
11.3%

NET ABSORPTION
234,182 sq. ft.

ASKING RATE
\$0.70 per sq. ft.

UNEMPLOYMENT
4.1% Y-o-Y

*Arrows indicate change from previous quarter.

INDUSTRIAL PRODUCT UNDER CONSTRUCTION DOUBLES. MARKET POSTS FIRST POSITIVE QUARTER OF THE YEAR.

Figure 1: Quick Stats

	Q3 2014	Q-o-Q	Y-o-Y
Vacancy	11.3% per SF	↓	↑
Asking Rates, NNN	\$0.70 SF	↑	↑
Net Absorption	234,182 SF	↑	↑
Under Construction	469,423 SF	↑	↓
Delivered Construction	0	↓	↔

Source: CBRE Research, Q3 2014.

Hot Topics

Market sees first positive quarter of 2014. Flex rates continue to raise citywide average rates. Construction levels double from previous quarter.

- Forbes ranked Austin as the second-best city in the nation for future job growth.
- The National Association of Realtors lists Austin as a top buying market for aspiring millennial homebuyers.
- Inc. Magazine ranks Austin as the fourth-best city for fast-growing companies.
- Financial website NerdWallet ranked Austin as the second-best city for women in the workforce.
- Austin ranked fourth most creative city by Forbes.
- Forbes lists Austin as the third-coolest city.
- Austin lands at the eighth spot on Forbes list of best cities for young professionals.

After two consecutive quarters of

negative net absorption, the industrial market finished Q3 2014 with positive net absorption. Posting a positive net absorption of 234,182 sq. ft., this significantly cut into the YTD negative net absorption for 2014 by almost 80%, as it rose to negative 59,631 sq. ft. Citywide vacancy fell a total of 30 basis points (bps) quarter-over-quarter to 11.3%.

With office vacancy continuing to tighten, tenants have been finding their office space in flex product. This explains how, for the second time in three quarters, flex product outperformed warehouse product in Q3 2014. Flex saw the most positive net absorption for the quarter, at 172,041 sq. ft., while warehouse space posted 62,141 sq. ft. Flex continues to close that gap in vacancy rate, falling 80 bps quarter-over-quarter to 12.6%, while warehouse saw no change and remained at 10.4%.

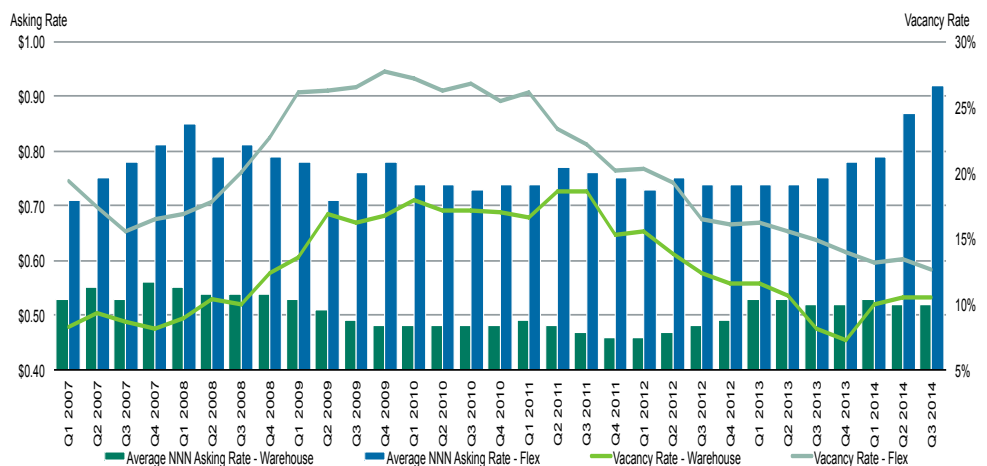
The market was led by the Southeast submarket posting the highest level of positive net absorption, ending the quarter with just under 300,000 sq. ft. This was followed by the Northeast submarket at 184,808 sq. ft., which is still trying to recover from the previous two quarters that left the YTD total for the submarket at over negative 600,000 sq. ft. Major occupancies include U.S. Farathane taking 72,000 sq. ft. at Tech Ridge 4.3, and Cosentino North American occupying 51,200 sq. ft. at 4101 Smith School - Bldg 2.

The highest levels of negative net absorption were experienced by the North and Northwest submarkets, with 172,286 sq. ft. and 106,137 sq. ft. of negative net absorption, respectively. The sole move out responsible for the Northwest was Tiger Turf leaving the entire 111,000 sq. ft. building at NorthTech 6. For the North, Ceva Freight vacated over 195,000 sq. ft. at Corridor Park 7 & 9. The submarket is set to return half of that total space, as Mattress Firm has leased over 90,000 sq. ft. at Corridor Park 9, and looks to occupy Q4 2014.

Citywide average asking rates again saw an increase, the first time since 2009 that there were two consecutive quarters of increased rates \$0.02 per sq. ft. or greater. Rates finished the quarter at \$0.70 per sq. ft., an increase of \$0.03 per sq. ft., which was less than 75% the growth experienced last quarter. Once again, flex product saw the only change in asking rates quarter-over-quarter, rising another \$0.05 up to \$0.92 per sq. ft. Warehouse product remained stagnant at \$0.52 per sq. ft., and has not seen a growth greater than \$0.01 per sq. ft. since 2009.

Construction also picked up in the market, doubling the amount of product under construction in Q2 2014. The Southeast Submarket broke ground on the first two buildings of the next phase for Expo Center, with buildings 10 and 11 set to add 109,203 and 130,002 sq. ft. of warehouse space respectively.

Figure 2: NNN Asking Rate, Monthly per Sq. Ft. and Vacancy Rate



Source: CBRE Research, Q3 2014.

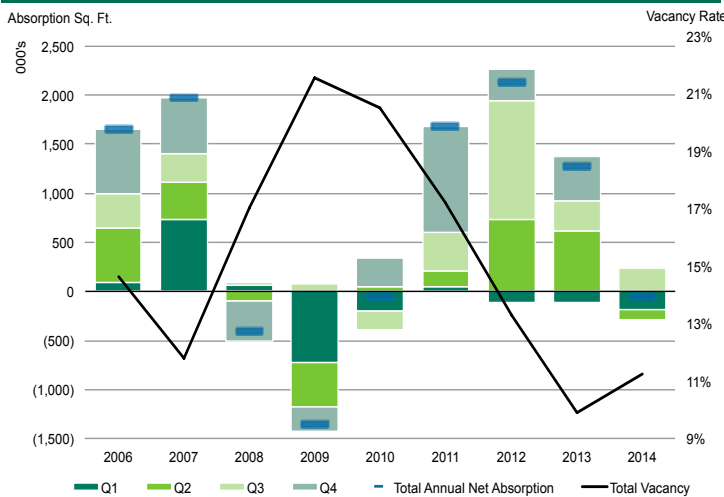
INDUSTRIAL THIRD QUARTER MARKETVIEW

Figure 3: Market Statistics

Market	Rentable Area	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Direct Avg. Asking Lease Rates (\$/Sq. Ft./Mo)	
									Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0%	11,776	44.0%	0			N/A	N/A
Central	1,426,566	105,099	7.4%	108,725	7.6%	23,745			\$0.72	\$0.96
East	3,554,975	784,670	22.1%	860,658	24.2%	80,886			\$0.44	\$1.02
Far Northeast	2,476,336	343,536	13.9%	517,158	20.9%	(7,272)			\$0.48	\$0.79
Far Northwest	510,465	13,550	2.7%	13,550	2.7%	294			\$0.40	\$0.92
Georgetown	1,238,554	11,176	0.9%	22,736	1.8%	(6,126)			\$0.45	\$0.79
Hays County	593,663	194,574	32.8%	204,574	34.5%	0			\$0.75	N/A
North	13,812,271	1,250,755	9.1%	1,625,355	11.8%	(172,286)		109,887	\$0.57	\$0.91
Northeast	7,830,210	1,155,650	14.8%	1,310,125	16.7%	184,808		90,331	\$0.65	\$0.74
Northwest	2,600,971	290,070	11.2%	297,867	11.5%	(106,137)			\$0.43	\$1.06
Round Rock	3,274,070	502,179	15.3%	512,494	15.7%	(48,221)		30,000	\$0.48	\$0.91
South	1,751,200	27,133	1.5%	31,783	1.8%	(2,520)			\$0.77	\$0.65
Southeast	10,210,364	873,486	8.6%	1,050,517	10.3%	297,261		239,205	\$0.43	\$0.89
Southwest	415,046	48,211	11.6%	55,711	13.4%	(10,250)			\$1.15	\$1.13
Totals	49,721,467	5,600,089	11.3%	6,623,029	13.3%	234,182	0	469,423	\$0.52	\$0.92

Source: CBRE Research, Q3 2014.

Figure 4: Net Absorption and Vacancy Rate



Source: CBRE Research, Q3 2014.

MARKET DEMAND

The Industrial market saw its first positive quarter of 2014, with net absorption totaling 234,182 sq. ft. The majority of positive net absorption came from the Southeast submarket, followed by the Northeast, which posted 297,261 sq. ft. and 184,808 sq. ft., respectively. Significant tenants who occupied space include J.E. Dunn Construction Co. occupying 43,200 sq. ft. at 4207 Smith School Rd. Significant negative net absorption was seen in both the North and Northwest submarkets, which both had over 100,000 sq. ft. returned to the market. Tiger Turf leaving the market was solely responsible for the Northwest's negative absorption, while Ceva Freight vacating two buildings explains the North's.

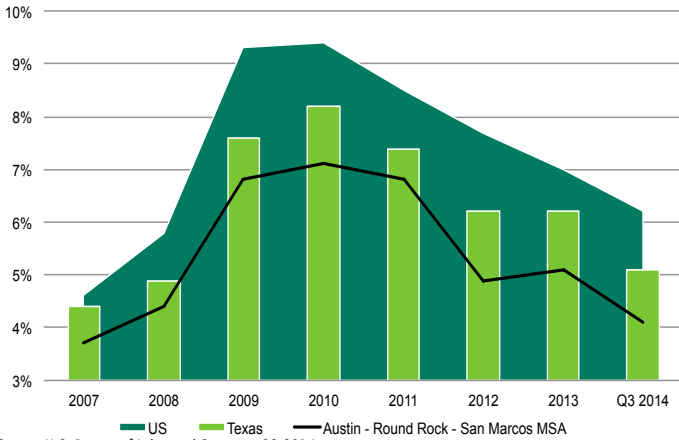
Users in the market fell in Q3 2014, with just over 3.7 million sq. ft. of active tenants in the market. While demand fell, it is still significantly higher than it was just a year ago, when demand was at 2.3 million sq. ft. Vacant space in the market also fell, and thus total demand equates to 66% of total vacant space. With an office market that is continuing to tighten in vacancy, companies will look to flex office space for their needs, which could draw higher demand in the coming quarters.

Notable deals from Q3 2014 include:

- Ceva Freight vacated 195,200 sq. ft. at Corridor Park 7 and 9.
- J.E. Dunn Construction occupied 43,200 sq. ft. at 4207 Smith School Rd.
- Super Conductor Technologies Inc. expanded their space at Walnut Creek 13 by 52,295 sq. ft.
- Tiger Turf left 111,300 sq. ft. at NorthTech 6.
- Hamilton Scientific (Thermo Fisher) vacated their 56,721 sq. ft. sublease space at Crystal Park - C.
- Tomlinson Feed & Pets and Graphic Solution Group Inc. took a combined 24,800 sq. ft. at 845 Interchange.

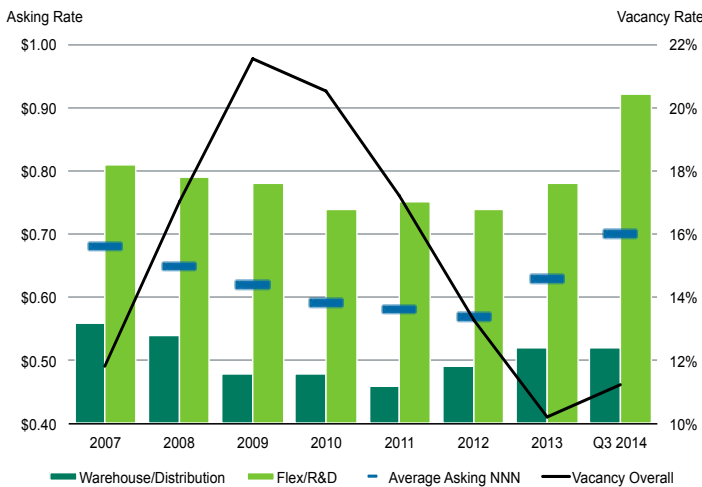
INDUSTRIAL THIRD QUARTER MARKETVIEW

Figure 5: Unemployment Rate



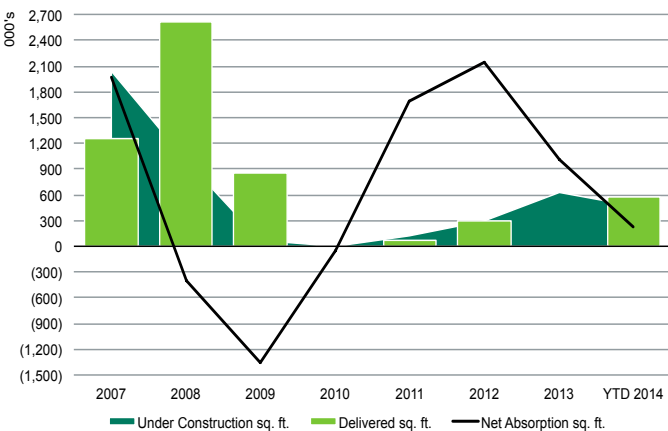
Source: U.S. Bureau of Labor and Statistics, Q3 2014.

Figure 6: NNN Monthly Asking Rates per Sq. Ft. and Vacancy Rate



Source: CBRE Research, Q3 2014.

Figure 7: Construction and Net Absorption



Source: CBRE Research, Q3 2014.

UNEMPLOYMENT

Unemployment continued its downward trend at the national, state and local levels, with all seeing the same 10 bps drop in their respective rates. The Austin-Round Rock-San Marcos MSA continues to lead the pack toward full employment, settling in at 4.1% in the month of July. Q3 2014 saw national and state unemployment fall to 6.2% and 5.1% respectively. Austin unemployment has now seen a total decrease of 100 bps since the end of last year. According to Moody's Analytics, Austin has seen a growth of over 2% in its industrial employment since December 2012, and has added over 20,000 jobs in that timeframe.

Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Austin has been ranked as the second best city for future job growth by Forbes, and Dice reports that Texas is leading the nation in tech job creation, and second for the largest workforce of tech professionals.

INDUSTRIAL RENTS

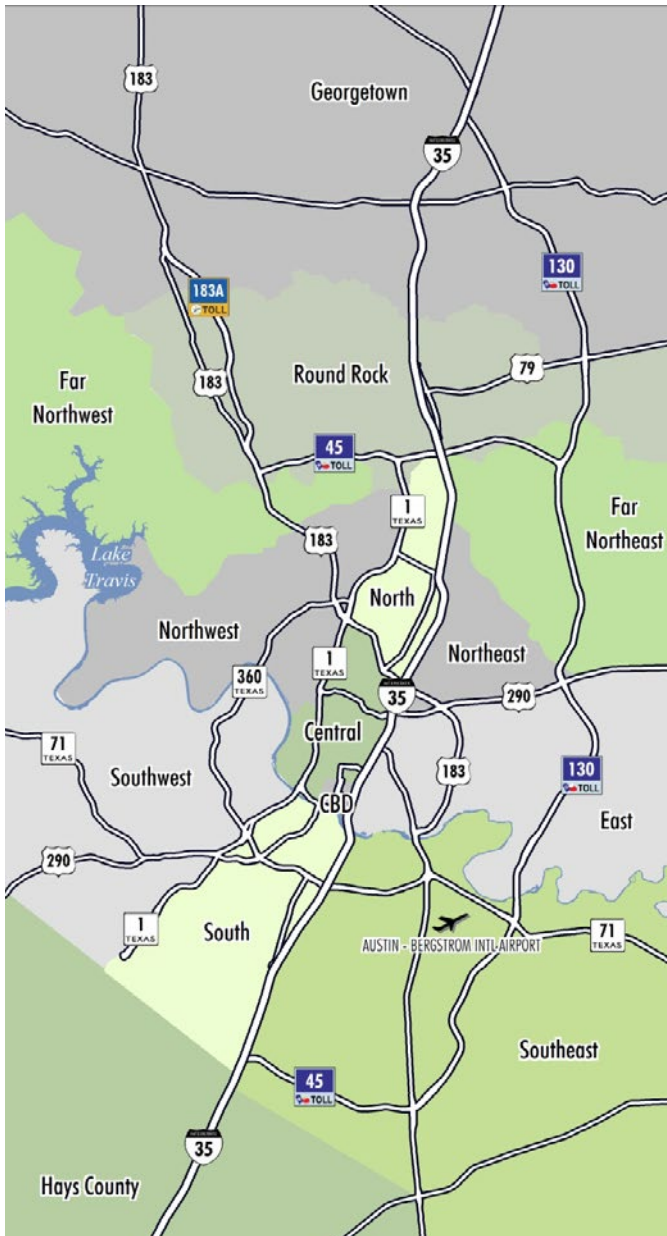
Once again led by the growth in flex rates, citywide average asking rates saw another significant increase, ending the quarter at \$0.70 per sq. ft. per month. The \$0.03 per sq. ft. bump was largely influenced by the \$0.05 per sq. ft. increase experienced by flex product, which ended the quarter at \$0.92 per sq. ft. per month. This can be attributed to tenants who are having difficulty finding enough space for their needs in a tight office market, and settling for flex office space. Warehouse rates remained stagnant at \$0.52 per sq. ft.

Landlord and tenant expectations are coming more in line with one another. However, landlords still need to show tenants tangible evidence that the market has changed since 2009, which may explain the lack of growth in average rates. Many tenants are electing to renew and extend their leases long before their expirations in order to lock up space before it goes to market.

It is important to note that several institutional landlords market using a negotiable rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not hold weight in the reported averages.

INDUSTRIAL PRODUCT

Product under construction more than doubled from the previous quarter, with the Southeast submarket breaking ground on two buildings in the Expo Center. Buildings 10 & 11 will add 109,203 sq. ft. and 130,002 sq. ft. of warehouse space respectively to the market, bringing the total industrial product under construction up to 469,423 sq. ft. There are also future plans for two more warehouse/distribution buildings to be added to the business park, with buildings 12 & 13 adding another 185,599 sq. ft. Construction also began on a 30,000 sq. ft. flex project at the Scottsdale Crossing Commerce Park. As with The Expo Center buildings, this project had no preleasing prior to beginning construction.



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Austin Industrial MarketView 2Q 2014

Q2 2014

CBRE Global Research and Consulting

VACANCY RATE
11.6%

NET ABSORPTION
(109,469) Sq. Ft.

ASKING RATE
\$0.67 per Sq. Ft.

UNEMPLOYMENT
4.2%

*Arrows indicate change from previous quarter.

INDUSTRIAL POSTS SECOND STRAIGHT NEGATIVE QUARTER, WHILE RATES MAKE BIG JUMP.

Figure 1: Quick Stats

	Q2 2014	Q-o-Q	Y-o-Y
Vacancy Rate	11.6%	↑	↓
Asking Rates, NNN	\$0.64 per sq. ft.	↑	↑
Net Absorption	(109,469) sq. ft.	↑	↓
Under Construction	200,218 sq. ft.	↓	↓
Delivered Construction	120,000 sq. ft.	↓	↑

Hot Topics

Industrial product saw the highest level of year-to-date (YTD) negative net absorption since 2009. Yet, citywide average rates saw their largest increase since 2011. YTD deliveries totaled over 570,000 sq. ft.

- Forbes ranks Austin as the fastest-growing city in the nation for the fourth straight year.
- A study by The Business Journals ranked Austin as the top metro area for small businesses.
- According to a study by the Brookings Institute, Austin has been the nation's top performer through both the recession and recovery.
- Niche Link ranked Austin as the second-best city for millennials.
- Austin ranked third on Livability.com's April list of the Top Ten Cities for New College Graduates.
- Highspeedinternet.com lists Austin as the third-best city to start an online business.
- A survey by MyFitnessPal ranked Austin as the Top City for Group Fitness.

For the second consecutive quarter,

the Austin industrial market saw negative net absorption, the first time the year has started with the first two quarters posting negative absorption since 2009. Posting a negative net absorption of 109,469 sq. ft., this brings the YTD net absorption to negative 293,813 sq. ft. Thus, citywide vacancy continued to rise, increasing 40 basis points (bps) quarter-over-quarter to 11.6%.

Both flex and warehouse product saw negative absorption at the end of Q2 2014, and after outperforming warehouse product in Q1 2014, flex product saw the higher level of negative net absorption. While warehouse space returned to the market was modest, 14,785 sq. ft., compared to the previous quarter, flex product saw one of its highest level of negative net absorption, posting 94,684 sq. ft. of negative absorption. The gap in vacancy between the two development types tightened slightly, with warehouse seeing a larger increase of 40 bps, compared to the 20 bps bump by flex. Q2 2014 finished with flex and warehouse vacancy rates of 13.4% and 10.4% respectively.

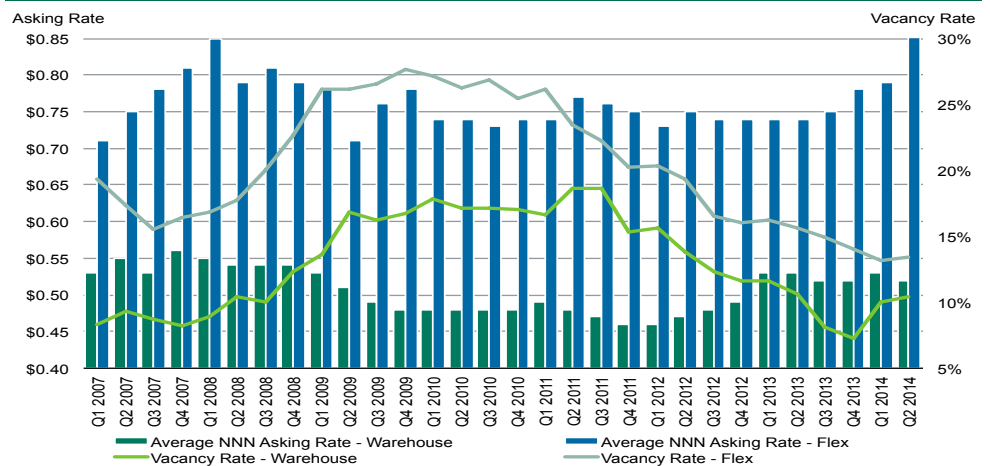
With just over 100,000 sq. ft. of positive net absorption, the Far Northeast submarket saw the majority of positive absorption for the quarter. Warehouse product in the submarket saw the entirety of the positive net absorption. A major occupancy includes Next Technology occupying the entire 30,000 sq. ft. of Northpointe Trade Center - C.

Hays County and the Northeast submarket accounted for significant negative net absorption for the quarter, returning 194,185 sq. ft. and 309,704 sq. ft., to the market respectively. Following suit from the previous quarter, Dell vacated another of its buildings, this time the Sector 6 building at 13301 Mccallen, leaving another 300,000 sq. ft. vacant. In Hays County, 150 Precision in Buda was vacated by Tharco, and was responsible for all negative absorption that took place in the submarket.

In Q2 2014, industrial citywide average asking rates saw an increase of \$0.04 per sq. ft. quarter-over-quarter, the largest increase for citywide asking rates since tracking began. Flex rates saw the most significant growth, reaching \$0.87 per sq. ft. per month, up from \$0.79. This brings rates to their highest levels recorded, the next highest being \$0.85 per sq. ft. in 2008. Warehouse saw a modest decrease of \$0.01, falling back to \$0.52 per sq. ft. per month.

The year saw yet another building delivered to the market in 130 Pecan Building A, adding 120,000 sq. ft. to the market. This brought the YTD total delivered construction to more than 570,000 sq. ft.

Figure 2: Asking Rate and Vacancy Rate



Source: CBRE Research, Q2 2014.

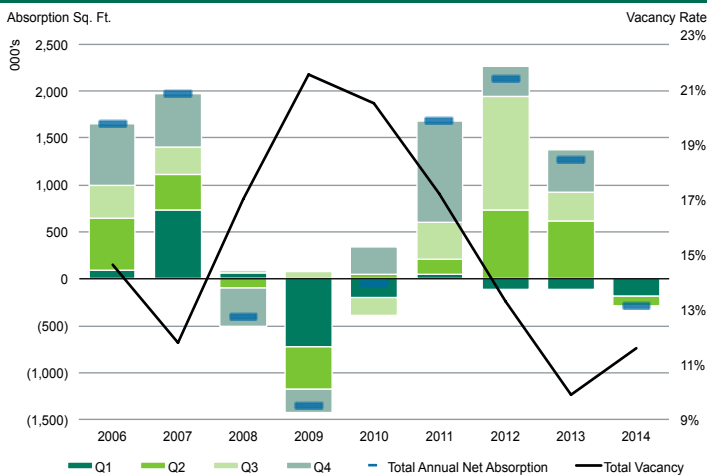
INDUSTRIAL SECOND QUARTER MARKETVIEW

Figure 3: Market Statistics

Market	Rentable Area	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Direct Avg. Asking Lease Rates (\$/Sq. Ft./Mth)	
									Warehouse Distribution	Flex R&D
CBD	26,776	0	0.0%	11,776	44.0%	3,700			N/A	N/A
Central	1,426,566	115,404	8.1%	124,397	8.7%	5,239			\$0.76	\$0.94
East	3,554,975	858,706	24.2%	941,544	26.5%	35,533			\$0.43	\$1.02
Far Northeast	2,476,336	336,264	13.6%	499,886	20.2%	106,161	120,000		\$0.46	\$0.84
Far Northwest	510,465	13,844	2.7%	13,844	2.7%	5,000			\$0.40	\$0.92
Georgetown	1,238,554	8,200	0.7%	22,736	1.8%	16,927			\$0.49	\$0.79
Hays County	593,663	194,574	32.8%	204,574	34.5%	(185,474)			\$0.75	N/A
North	13,812,271	1,078,469	7.8%	1,611,948	11.7%	158,582		109,887	\$0.53	\$0.88
Northeast	7,830,210	1,346,767	17.2%	1,607,425	20.5%	(309,704)		90,331	\$0.64	\$0.68
Northwest	2,600,971	194,970	7.5%	194,970	7.5%	(65,021)			\$0.43	\$1.04
Round Rock	3,274,070	394,233	12.0%	485,986	14.8%	55,905			\$0.50	\$0.91
South	1,751,200	24,613	1.4%	29,263	1.7%	3,470			\$0.75	\$0.65
Southeast	10,210,364	1,157,688	11.3%	2,058,817	20.2%	52,463			\$0.43	\$0.84
Southwest	415,046	37,961	9.1%	79,379	19.1%	7,750			\$0.97	\$1.09
Totals	49,721,467	5,761,693	11.6%	7,886,545	15.9%	(109,469)	120,000	200,218	\$0.52	\$0.87

Source: CBRE Research, Q2 2014.

Figure 4: Net Absorption and Vacancy Rate



Source: CBRE Research, Q2 2014.

MARKET DEMAND

For the first time since 2009, the industrial market saw the first two quarters of the year post negative net absorption, totaling negative 109,469 sq. ft. The market saw significant negative net absorption in both the Hays County and Northeast submarkets, where over 495,000 sq. ft. was returned to the market. Significant moves by companies include Dell vacating over 300,000 sq. ft. at Sector 6, and Tharco moving out of over 190,000 sq. ft. at the 150 Precision.

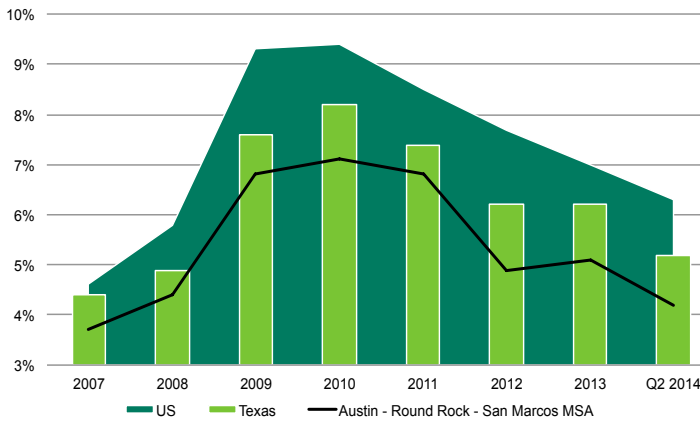
Although vacancy is up YTD, there is strong demand for space in the market, with 3.9 million sq. ft. of active tenants at the end of Q2 2014. This demand equates to just under 70% of total available space. So while the market has experienced two straight quarters of negative absorption, there is still a strong demand in the market for the new space that has become vacant, and can be expected to be filled by those users in the market.

Notable deals from Q2 2014 include:

- Dell continued vacating their former campus by moving out of 312,607 sq. ft. at Sector 6.
- Tharco vacated 194,974 sq. ft. at 150 Precision in Buda.
- Ilios Lighting occupied 18,400 sq. ft. at Southpark 6.
- Next Technology moved into 30,000 sq. ft. at Northpointe Trade Center - C.
- SPEC's commenced on the entire 43,624 sq. ft. building of Airport Commerce 2.
- Flextronics downsized its space at McNeil 1 by 24,000 sq. ft.

INDUSTRIAL SECOND QUARTER MARKETVIEW

Figure 5: Unemployment



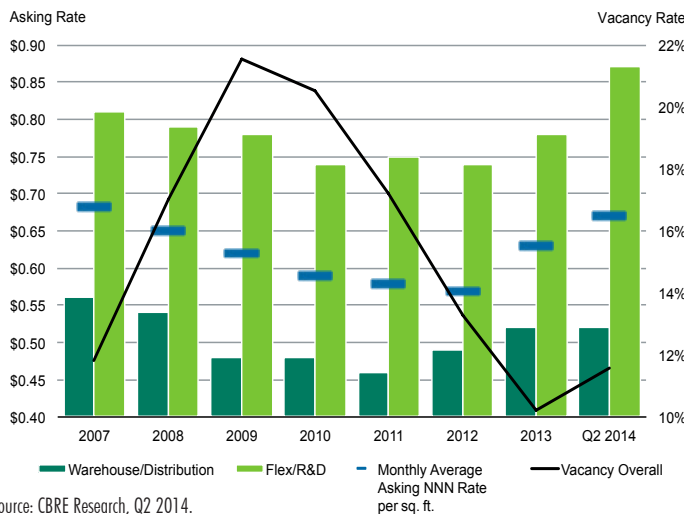
Source: U.S. Bureau of Labor and Statistics, Q2 2014.

UNEMPLOYMENT

While both The United States and Texas continue to show improvement in unemployment, the Austin-Round Rock-San Marcos MSA continues to outpace both, as Q2 2014 saw unemployment fall to just above 4% to 4.2% in the month of April. Since the end of 2013, Austin has seen unemployment fall a total of 90 bps. National and state rates both recorded as 6.3% to 5.2% respectively. According to the U.S. Bureau of Labor Statistics, the state has added over 348,000 jobs since the beginning of the year, with 64,100 of those jobs coming in the month of April.

Austin, and most of Texas, has garnered major attention from local and national media outlets for their ability to maintain low unemployment numbers in the midst of a surging population boom. Forbes lists Austin as the third best major city for jobs, with another Texas city, Houston, taking the fifth spot. As projected by demographer Ryan Robertson, the Austin metro area expected surpass the 2 million population mark by next summer, and CNN released a report listing Austin as the fastest growing city in the nation.

Figure 6: NNN Monthly Asking Rates per Sq. Ft. and Vacancy



Source: CBRE Research, Q2 2014.

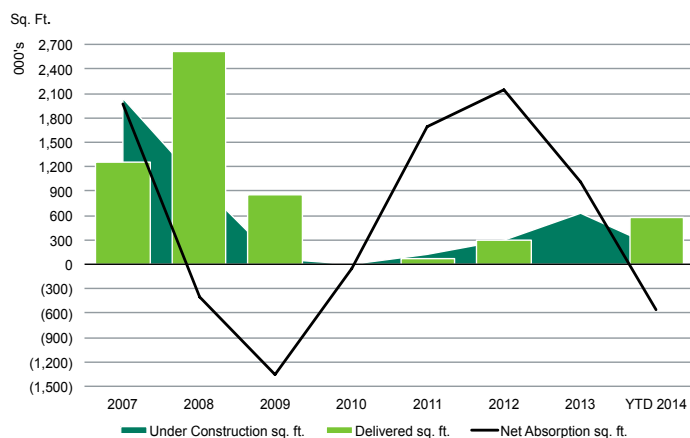
INDUSTRIAL RENTS

While recent quarters have shown minimal change in average asking rates, Q2 2014 saw the largest increase since 2009. The \$0.04 per sq. ft. bump brought asking rates up to \$0.67 per sq. ft. per month, the highest levels yet recorded. Flex rates saw a significant increase as well, ending the quarter at \$0.87 per sq. ft., which is also a record high for average asking rates. Warehouse rates saw a return to what they were two quarters prior, falling back \$0.01 to \$0.52 per sq. ft.

Landlord and tenant expectations are coming more in line with one another. However, landlords still need to show tenants tangible evidence that the market has changed since 2009, which may explain the lack of growth in average rates. Many tenants are electing to renew and extend their leases long before their expirations in order to lock up space before it goes to market.

It is important to note that several institutional landlords market using a negotiable rate for projects with high vacancy because the rate ranges drastically depending on the size and term of the prospective tenant. These negotiable rates do not hold weight in the reported averages.

Figure 7: Construction and Net Absorption

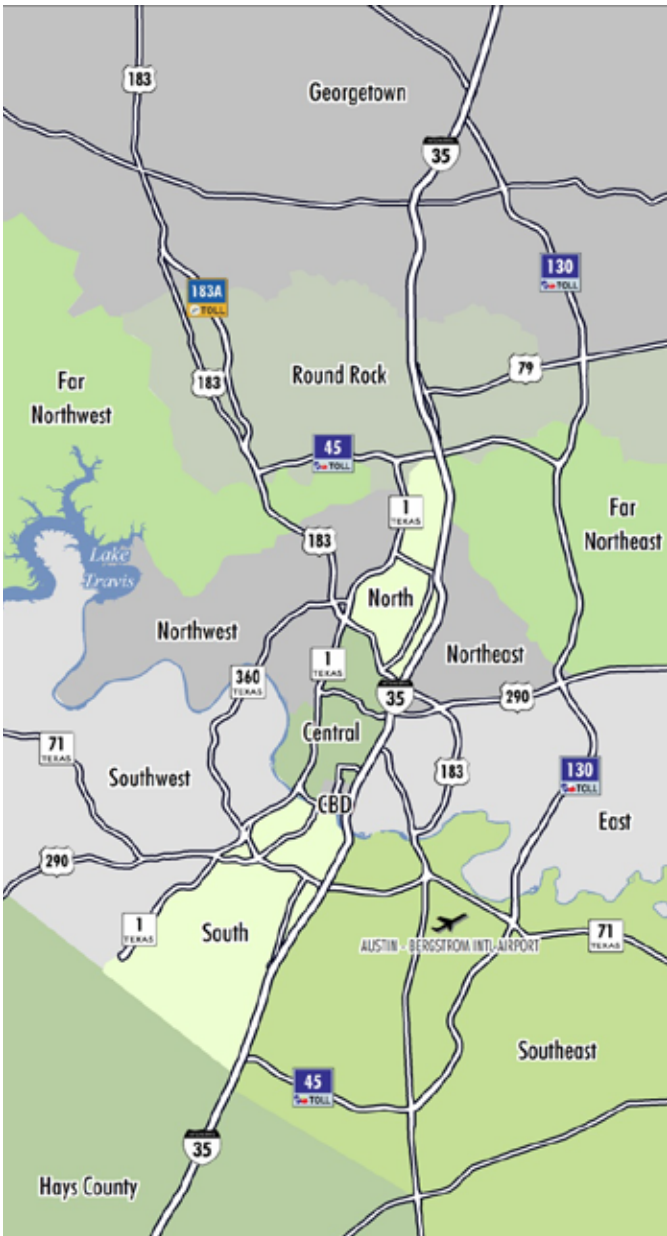


Source: CBRE Research, Q2 2014.

INDUSTRIAL PRODUCT

The 130 Pecan building was completed this quarter, adding 120,000 sq. ft. to the Far Northeast submarket. This completion coincides with the ground breaking of Tuscany 9, a 90,000 sq. ft. building that is expected to be delivered in Q2 2015. With construction levels still remaining at low levels, Tuscany 9 is a welcome addition to the growth of the market.

It should be noted that at least two new projects are planned to break ground within the next six months. Parmer 3.2 is set to kick off early next month, with Parmer 3.1 ready to follow six months after that. These are set to bring roughly 300,000 sq. ft. of flex product under construction.



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Austin Industrial 4Q 2013

MarketView

Q4 2013

CBRE Global Research and Consulting

VACANCY
9.8%

ABSORPTION
460,714 Sq. Ft.

ASKING RATE
\$0.63 per Sq. Ft.

UNEMPLOYMENT
5.1%

Directional arrows based on change from the previous quarter. Data reflects market totals.

CITYWIDE RATES CONTINUE STEADY CLIMB, OCCUPANCY EXCEEDS 90.0%.

Quick Stats

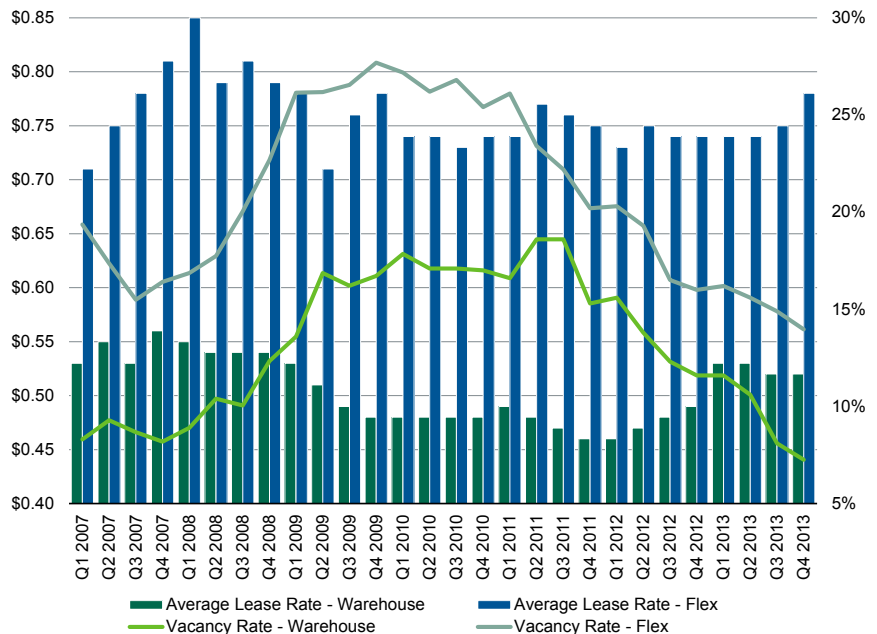
	Q4 2013	QoQ	YoY
Vacancy	9.8%	↓	↓
Asking Rates, NNN	\$0.63	↑	↑
Net Absorption	460,714	↑	↑
Under Construction	622,883	↔	↑
Delivered Construction	0	↔	↔

Hot Topics

Citywide vacancy fell to 10.0%, the lowest level since 2001. Flex outpaces warehouse product in net absorption, while also posting a rise in average asking rates.

- Austin retains ranking as the top economy in the U.S., according to The Business Journals' On Numbers report.
- Austin topped the list among 200 large cities in the Milken Economic Index.
- According to a November report by the U.S. Conference of Mayors, Austin is expected to have the largest GMP growth in 2014
- USAA ranks Austin as the fifth Best Places for Veterans in their 2013 rankings.
- Austin was rated as the top city for "20somethings" by CreditDonkey.com.
- Urban Land Institute ranks Austin among its Top 10 Real Estate markets.
- The Center for Digital Government lists Austin as the sixth "digital city" in nation.

Total Vacancy and Direct Asking Rate



Source: CBRE Research, Q4 2013.

Citywide vacancy finished 2013 by dropping 90 basis points (bps), quarter-over-quarter (QoQ), to 9.8%. This completes the third consecutive year of positive total annual net absorption. This marks the citywide vacancy reaching over half of what it was just three years ago, when it was 20.5% in 2010.

Leasing activity saw an improvement from Q3, with the quarter posting 460,714 sq. ft. of positive net absorption. For the third straight quarter, warehouse product outpaced flex by claiming just over 60% of the citywide net absorption. However, it should be noted that flex space more than doubled its year-to-date (YTD) net absorption by posting 173,377 sq. ft. of positive absorption for the quarter. In fact, flex space also saw a greater drop in in total vacancy, 90 bps, compared to that of warehouse space, 80 bps.

The Round Rock Submarket far outpaces all other submarkets, posting 182,902 sq. ft. of positive net absorption. This is reflected in The Travis Association for the Blind, also known as

Austin Lighthouse, moving into the Intercraft Manufacturing Facility for over 150,000 sq. ft.

The Southeast Submarket also saw significant positive absorption, benefitting from major leases signed in the previous quarter and the tenants taking occupancy during Q4. One such lease includes Genesis Today moving into 108,327 sq. ft. at the Bergstrom Tech Center. The Northeast also saw positive absorption of over 60,000 sq. ft., thanks in large part to Wesco's 39,600 sq. ft. expansion in Promontory Point-C. Although the East saw only slight positive absorption, it is expected that the submarket should see a stronger quarter in Q1 with Whole Foods expanding their space at 845 Interchange by 24,000 sq. ft.

Both citywide and flex monthly rates saw increases from the previous quarter, up to \$0.63 per sq. ft. and \$0.78 per sq. ft. respectively. Warehouse remained stagnant, keeping with the recent trend of little to no change in rates.

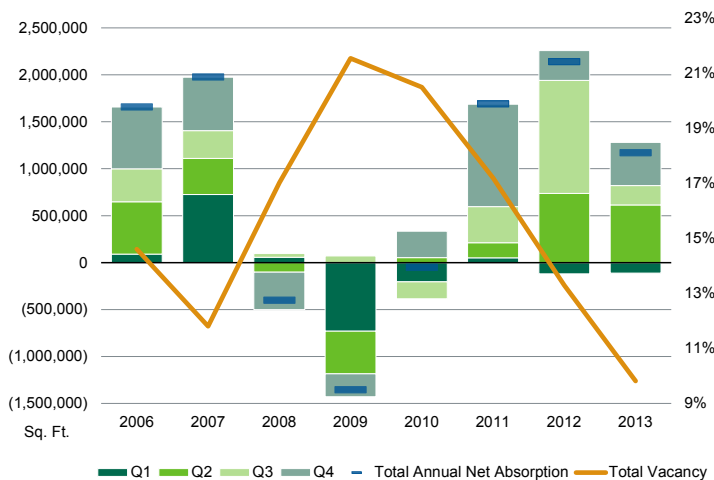
INDUSTRIAL FOURTH QUARTER MARKETVIEW

Market Statistics

Market	Rentable Area	Vacant Sq. Ft.	Vacancy Rate	Available Sq. Ft.	Availability Rate	Net Absorption Sq. Ft.	Delivered Construction Sq. Ft.	Under Construction Sq. Ft.	Direct Avg. Asking Lease Rates (\$/Sq. Ft./MTH)	
									Warehouse Distribution	Flex R&D
CBD	26,776	3,700	13.8%	15,476	57.8%	0	0	0	N/A	N/A
Central	1,426,566	147,799	10.4%	164,871	11.6%	(3,008)	0	0	\$0.83	\$0.88
East	3,554,975	883,995	24.9%	903,975	25.4%	5,273	0	0	\$0.46	N/A
Far Northeast	2,236,336	345,056	15.4%	407,164	18.2%	32,594	0	120,000	\$0.47	\$0.84
Far Northwest	510,465	18,344	3.6%	18,344	3.6%	(2,200)	0	0	\$0.79	\$0.92
Georgetown	1,238,554	32,452	2.6%	57,062	4.6%	(7,325)	0	0	\$0.51	\$0.60
Hays County	399,089	9,100	2.3%	19,100	4.8%	9,100	0	0	\$0.44	N/A
North	13,497,922	873,907	6.5%	1,460,172	10.8%	93,805	0	475,383	\$0.52	\$0.78
Northeast	7,517,603	678,415	9.0%	1,334,655	17.8%	65,097	0	0	\$0.56	\$0.67
Northwest	2,600,971	71,851	2.8%	177,866	6.8%	30,520	0	0	\$0.43	\$0.85
Round Rock	3,274,070	416,135	12.7%	548,966	16.8%	182,902	0	0	\$0.48	\$0.86
South	1,751,200	29,883	1.7%	42,496	2.4%	0	0	0	\$0.75	\$0.70
Southeast	10,210,364	1,233,120	12.1%	1,535,308	15.0%	63,022	0	0	\$0.49	\$0.79
Southwest	415,046	36,972	8.9%	68,928	16.6%	(9,066)	0	0	\$1.00	\$1.05
Totals	48,659,937	4,780,729	9.8%	6,754,383	13.9%	460,714	0	595,383	\$0.52	\$0.78

Source: CBRE Research, Q4 2013.

ABSORPTION AND VACANCY RATE



Source: CBRE Research, Q4 2013.

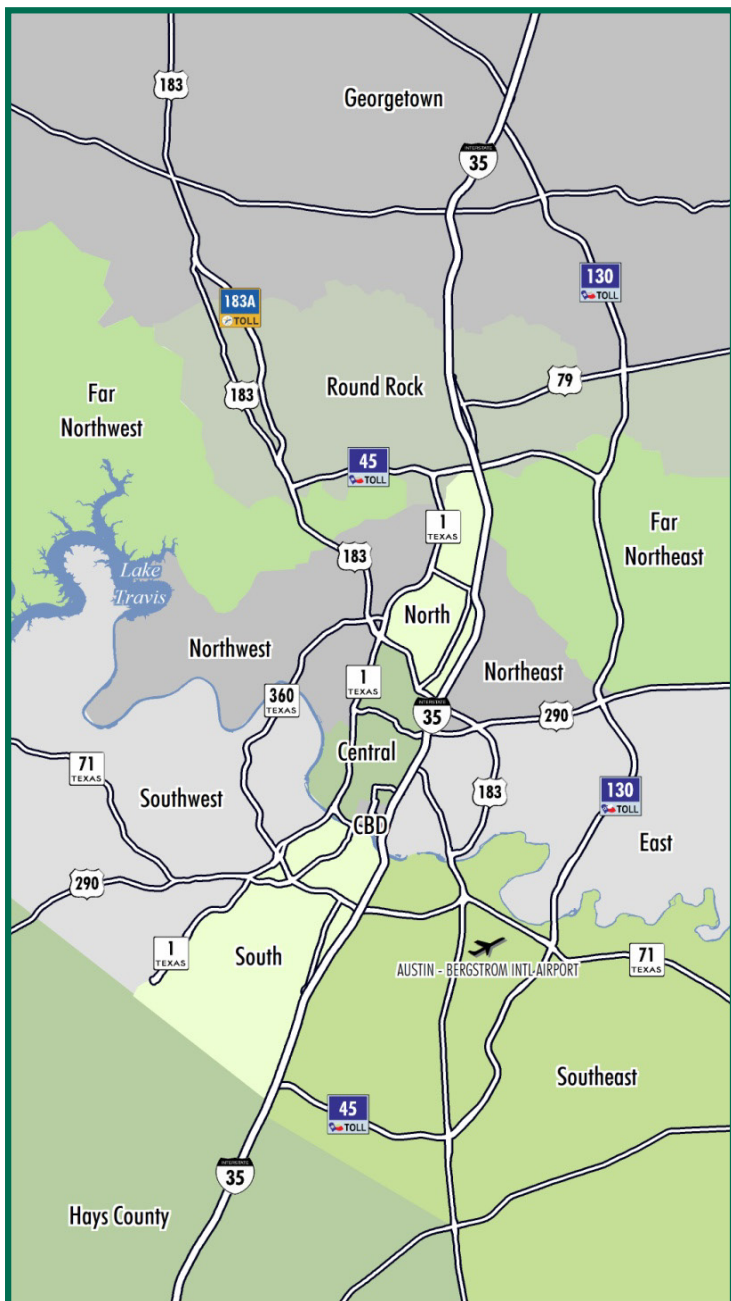
MARKET DEMAND

Austin once again closed out the year with positive citywide annual net absorption, totaling almost 1.2 million sq. ft. This is the third consecutive year the market has seen total positive net absorption for the year. Citywide net absorption for Q4 closed with 460,714 sq. ft. of positive net absorption. Round Rock saw the largest amount of activity, outpacing all other submarkets with 182,902 sq. ft. of net absorption. This accounted for an astounding 40% of citywide net absorption.

By the close of Q4, there was over 4.2 million sq. ft. of potential demand in the market, which accounts for over 80% of available inventory. With the continued success of F1 Racing in Austin, this number could continue to rise as the market further attracts foreign investment with interest in F1's potential.

Notable deals from Q4 include:

- The Travis Association for the Blind occupied 150,000 sq. ft. at the InterCraft Manufacturing Facility.
- Genesis Today moved into 108,327 sq. ft. at Bergstrom Tech Center.
- Flextronics expanded into another 25,000 sq. ft. at McNeil 1.
- Genesis Today moved into 22,500 sq. ft. at 21 Cypress in Round Rock.
- Hostgator commenced on 46,893 sq. ft. at Promontory Point C.
- J.B. Hunt vacated Walnut Creek 9 and relocated to Northpointe Center - C.



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