AUSTIN METROPOLITAN AREA
Industrial Building Market Update

The Source

Year-End 2009
An NAI Austin Publication

NAI Austin
Commercial Real Estate Services, Worldwide.

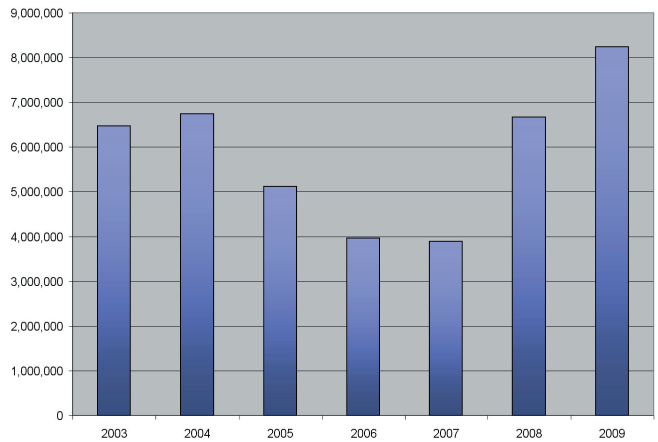
INDUSTRIAL

VACANCY

In 2009, Austin's industrial vacancy reached 22%, the highest recorded since the end of 1988 when vacancy was 24%. The vacancy rate in 2008 ended at 18%. The industrial–investment property tracked by NAI Austin's brokers was 37.8 million square feet. The year 2009 was a continuation and final completion of more than 3 million square feet of new product brought to market in the 18 month period from January 2008 to July of 2009.

The vacancy in bulk warehouse/manufacturing was 5.4 million square feet (22%) - up 3% over 2008. The flex/R&D vacancy was at 21% or 2.7 million square feet, up over 1% from 2008. Austin's industrial inventory was 65% warehouse/35% flex/R&D.

HISTORICAL VACANCY



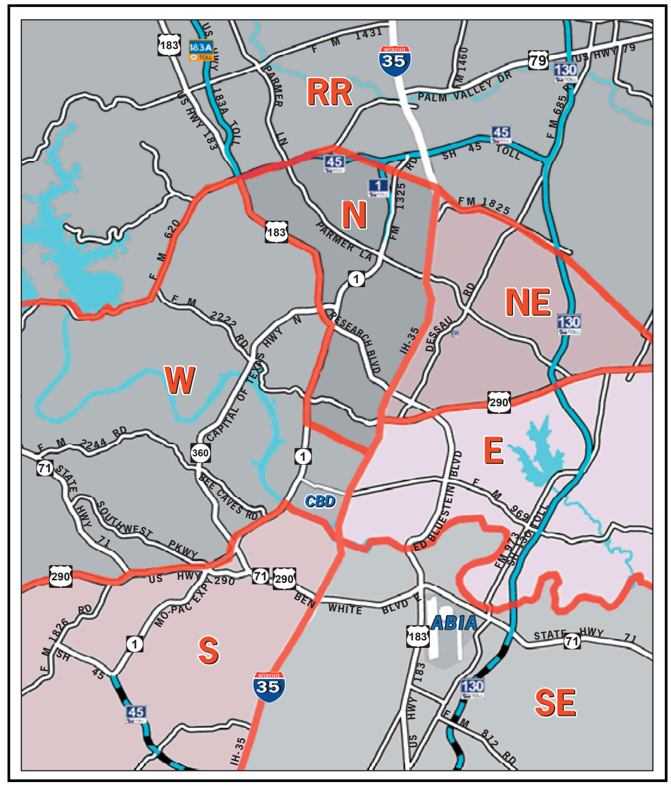
ABSORPTION

At end of year 2009, Austin's industrial market recorded a 597,206 square foot negative absorption. It was the second largest drop in a single year behind the 1.2 million square foot loss in 2002.

Despite the loss there was some good news. The greatest portions of the loss of absorption were recorded in the first six months of 2009, when the loss peaked at 670,099 square feet. In the second six months of 2009, the market actually recorded a small positive absorption of 72,893 square feet. This amount hardly registers on the absorbency "Richter Scale" but it may have indicated a slowing of the rate of absorption. However, NAI Austin's broker-to-broker interviews reflected caution in expecting a turn around at this point. There are vacancies to be announced in early 2010.

RENTAL RATES

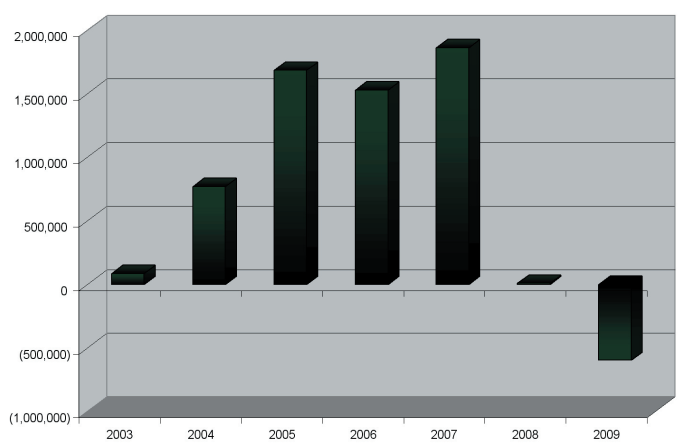
Average rental rates continued to be a broad variance, reflecting the instability in the market and the competition between older space and newer space built at higher cost. Tenants needing to extend their leases found that landlords offered modest or no increases for short term extensions. Incentives to new tenants included free rent, above average tenant improvement allowance, and no escalations for up to three years. Beyond three years, landlords anticipate escalations of three to five per cent.



CURRENT SIX MONTH ABSORPTION

12/31/09	Flex/R&D	Office/ Warehouse	Total
Round Rock	7,315	(81,330)	(74,015)
North	(43,835)	132,308	88,473
Northeast	(33,668)	156,358	122,690
East	0	(111,376)	(111,376)
Southeast	(102,350)	74,426	(27,924)
South	(1,300)	76,345	75,045
Total	**(173,838)**	**246,731**	**72,893**

HISTORICAL ABSORPTION



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Lease rates quoted are "Triple Net" leases (NNN), meaning the rate quoted is exclusive of taxes, insurance, and maintenance which are passed directly through to the tenant.

MARKET ACTIVITY

There were no circumstances in the Austin market that created an urgency for leasing space. Tenants with long-term leases were sitting tight. Very little sublease industrial space was available. As leases terminated, tenants negotiated new deals with their landlord for two to three year extensions with little or no increase in rates.

Small businesses leasing less than 10,000 square feet accounted for sixty five projects reported leasing new space. Thirty three projects reported absorption between 10,000 and 40,000 square feet, while only three projects were between 40,000 and 60,000 square feet. There were no projects reported over 60,000 square feet for the reporting period.

Austin has been named among the cities in the U.S. that should recover more quickly when the national economy turns around. As a result there has been an increase in businesses looking at the possibility of opening an Austin branch or moving the company to Austin. The Austin Chamber's economic development staff reports that 2009 had more personal prospect visits to Austin for purposes of establishing or relocating their business than any year in the past six years. Opportunities range from back office facilities to manufacturing/assembly operations.

AVERAGE RENTAL RATES PER SF

	Annual	Monthly
Flex/R&D	$6.00-$10.20	$0.50-$0.85
Bulk Warehouse	$3.00-$5.40	$0.25-$0.45
Office Warehouse	$4.80-$7.20	$0.40-$0.60
Manuf/Warehouse	$4.20-$7.20	$0.35-$0.60

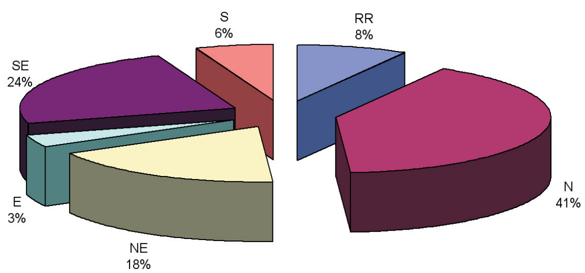
CRITERIA

This study includes industrial buildings in all major industrial parks and developments, as well as other Austin area industrial buildings 20,000 square feet or larger. These figures do not include owner-occupied buildings.

INDUSTRIAL TEAM

NAI Austin is actively involved in all aspects of industrial real estate brokerage, landlord representation, site location, tenant and buyer representation and consulting. This report was prepared by NAI Austin's Industrial Group: Mark Milstead, Philip Bible, Jerry Heare SIOR, Royce Lacey SIOR BCCR, David Barber, Rob Eaves and Frank Niendorff SIOR.

MARKET SIZE



GEOGRAPHICAL SECTOR & BUILDING USE

OFFICE/BULK/MANUFACTURING/WAREHOUSE

	Existing SF	Current Vacancy	Under Construction*
Round Rock	2,236,528	17%	0
North	9,620,250	23%	0
Northeast	4,431,730	24%	0
East	1,308,719	17%	0
Southeast	4,916,324	28%	0
South	1,981,015	12%	0
Total	**24,494,576**	**22%**	**0**

***Expected to deliver within 6 months**

FLEX/R&D

	Existing SF	Current Vacancy	Under Construction*
Round Rock	916,964	47%	0
North	5,708,817	15%	0
Northeast	2,418,277	22%	0
East	0	0%	0
Southeast	4,100,594	22%	0
South	185,077	18%	0
Total	**13,329,729**	**21%**	**0**

***Expected to deliver within 6 months**

BUILDING USE DEFINITIONS:

FLEX/R&D:	• 1,800 - 6,400± SF bays • 50%-100% finish-out	• 14' - 28' clear height • Dock-high & grade-level ldg.
WHSE. - BULK:	• 4,500-18,000± SF bays • 5% - 10% finish-out	• 20' - 32' + clear height • Dock-high loading
WHSE. - OFFICE:	• 1,200 - 4,000 ± SF bays • 5% - 20% finish-out	• 16' - 18' clear height • Dock-high & grade-level ldg.
WHSE. - MFG.	• 5,400 - 8,000 ± SF bays • 80%-100% climate-ctrld	• 18' - 32' clear height • Dock-high loading

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