

## MARKETBEAT

### AUSTIN INDUSTRIAL REPORT

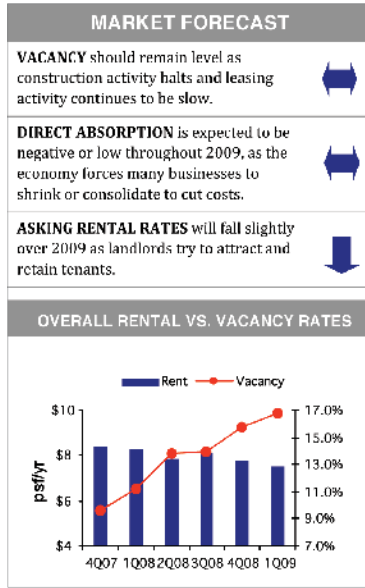


Excerpts from The First Quarter 2009 Austin Industrial Report by Cushman Wakefield

#### Overview

The Austin industrial real estate market stumbled at the end of 2008, finishing the year with almost 300,000 square feet of negative absorption during the fourth quarter. That trend continued into the first quarter of 2009, as the industrial market experienced negative 368,477 sf of direct absorption. The North Central and the Northeast submarket experienced the bulk of the negative absorption, ending the quarter with a combined total of negative 277,091 sf of direct absorption. The negative absorption over the past two quarters can be attributed to shrinking businesses giving back space to the market in order to cut costs in response to the declining national economy.

The overall vacancy rate for industrial product spiked up to 17.8% at the end of the first quarter. This is a sizeable increase from the overall vacancy rate of 11.8% Austin experienced a year ago. The significant rise in the overall vacancy rate can be attributed to the 1.8 million square feet (msf) of industrial product completed in the last year as well as corporate downsizing. Across all product types, the Southeast submarket saw the largest rise in overall vacancy rate from last quarter, increasing 3.2 percentage points to 29.1%. Completion of four vacant buildings at Centerpoint @ Colorado Crossing contributed to a significant part of that increase. Overall, the warehouse/distribution product vacancy



rate stands at 24.9%, while the R&D/flex product vacancy rate stands at 15.1%.

With leasing activity continuing to slow, landlords have been forced to lower their rental rates in order to lure new tenants and retain their current ones. For the second straight quarter the overall average triple net "asking" rental rate for R&D/flex product decreased, falling \$0.24 per square foot (psf) to \$9.00 psf. Rent abatement and increased tenant improvement dollars remain prevalent. R&D/flex product in the Southeast submarket experienced a significant "asking" rate decrease, dropping \$0.48 psf to \$9.24 psf.

#### Forecast

In 2008, 2.4 msf of new industrial product were delivered to the Austin market. In contrast, there are only 714,852 sf of industrial product slated to be delivered to the Austin market in 2009. As a result of negative absorption and contracting demand, new development has ceased. However, Austin remains well positioned to recover quickly as the national economy improves and continues to be a strong long term investment. Newgeography.com recently ranked Austin first among big cities for potential job growth.

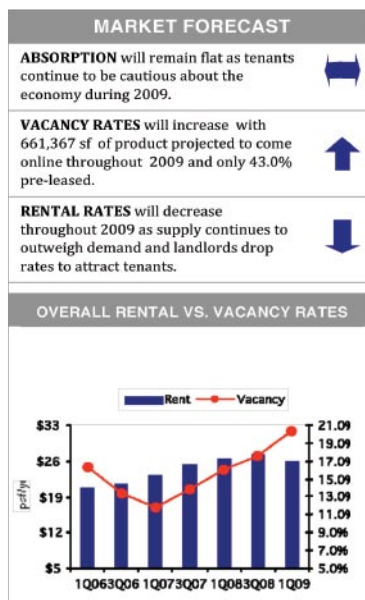
## AUSTIN OFFICE REPORT

Excerpts from The First Quarter 2009 Austin Office Report by Cushman Wakefield

#### Overview

Direct vacancy for office space in Austin continued its upward trend and increased slightly to 17.6% for the first quarter. This remains relatively unchanged from the 17.4% posted during fourth quarter 2008. However, this is 3.5 & 7.3 percentage points higher than when direct vacancy stood at 14.1% one year ago and 10.3% two years ago. The overall vacancy rate increased nearly one percentage point from last quarter to 20.34%. This is a reflection of companies adding more than 350,000 square feet (sf) of sublease space to the market over the quarter. Unlike in 2008 when multiple vacant buildings were completing every month and adding to this uptick in vacancy, this quarter only saw one notable project completion. Pecan Park opened at 100% vacant and added 136,000 sf of class A product to the Far Northwest submarket. The office market currently has around 661,000 sf of class A product currently under construction with 2009 estimated deliveries.

The overall average quoted rental rate for the market followed the previous quarter's decline and dropped \$0.55 per square foot (psf) to \$26.04 psf. While the Southwest & Far Northwest rental rates dropped during the quarter, the Central Business District (CBD) experienced an average rental rate increase. Due mostly to the increase in operating expenses like real estate taxes, the



overall CBD rate rose \$0.46 psf to \$31.88 psf for the quarter. Rates for class A product in the CBD rose \$0.80 psf to \$38.22 psf. With healthy demand in the CBD and the absence of surplus supply, it is not surprising to see CBD rental prices going in the opposite direction from the other major office submarkets (Southwest & Far Northwest) that have seen millions of new office square footage delivered over the past year and a half. Rental rates for class A product in the Austin market dropped \$0.60 psf to \$28.68 psf. Compared to one year ago, class A product for the overall market and CBD stood at \$29.90 psf and \$36.02 psf respectively.

#### Forecast

After producing 341,022 sf of direct positive absorption during the fourth quarter of 2008, the Austin market saw that direct absorption number drop significantly this quarter to 48,890 sf. We can expect absorption to remain relatively flat for 2009 as the economy strives to resolve the credit crisis that has many businesses conservatively approaching their real estate decisions. With nearly 3 million square feet (msf) of new office product delivered over the past year coupled with the lack of current demand for it, we should continue to see rental rates decline as landlords compete for business.