

INVESTMENT FORECAST

Retail
Dallas-Fort Worth

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Suburbs Capture Outsized Share of Population Boom; New Consumers Intrigue Tenants and Investors

Retailers are keen on the growth trajectory of northern suburbs. The metro's population is projected to rise by more than 550,000 people over the next five years, an expansion trajectory three times as fast as the national pace. The suburbs, particularly those in the northern portion of the metro, are poised to sustain growth as many homeowners and renters seek out neighborhoods that are less congested than the urban core and closer to their preferred school districts. The Far North Dallas submarket, which encompasses suburbs outside of Interstate 635 like McKinney, Garland and Richardson, has been the top-performing retail area in recent periods. Many tenants are eager to lease space in these fast-growing areas as the demand for goods and services will increase in conjunction with the local resident count. Grocery chain H-E-B will advance its expansion into Dallas by moving into a 75,000-square-foot space in McKinney in 2023. Experiential retailers are committing to the submarket as well, highlighted by Life Time Fitness' plans to occupy a 190,000-square-foot floorplan south of Addison this year.

Risk-averse buyers pivot to single-tenant, but centers in select suburbs draw offers. Variations in multi-tenant property performance between submarkets are influencing investment decisions. More than one-fourth of multi-tenant trades last year were assets located in Far North Dallas, as buyers are following household creation trends and retail metrics. Here, investors favor strip centers and grocery-anchored community centers, which often have entry costs above the Metroplex average of \$321 per square foot and cap rates below the market mean of 6.7 percent. Meanwhile, single-tenant had an overall resilient showing during the pandemic. These typically low-risk assets receive an outsized share of attention during periods of uncertainty. Far North Dallas is the most coveted, but many buyers look elsewhere amid stiff competition. Tenant credit and property specifics like drive-thrus are highly regarded by investors throughout the market.

2022 Market Forecast

Employment
up 4.0%



The employment total increases by 157,000 positions in 2022, a growth rate that exceeds the trailing 10-year average.

Construction
2,900,000 sq. ft.



Builders finalize roughly the same amount of space as in each of the past three years. North Central Dallas, Far North Dallas and Suburban Fort Worth combine for over half of the new supply.

Vacancy
down 50 bps



Net absorption surpasses 2021's lofty measure by 500,000 square feet, bringing the two-year count to 8.6 million square feet absorbed. This drops retail vacancy to 5.8 percent.

Rent
up 2.3%



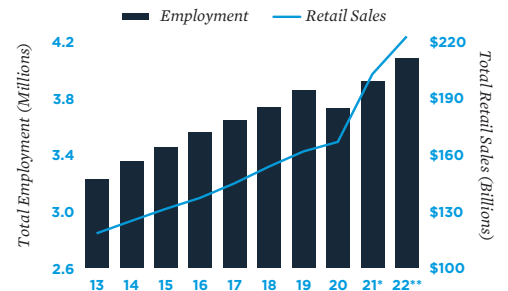
Stronger tenant demand and a declining vacancy rate underpin rent growth in 2022. Available space on the market will command an average asking rate of \$17.60 per square foot.

Investment

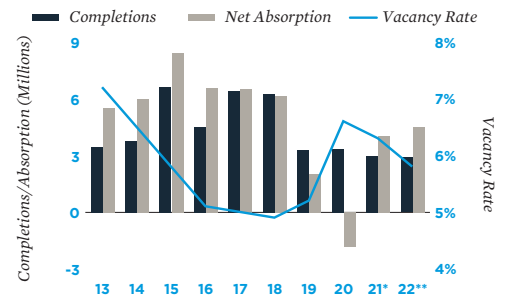


Vacancy in Central Dallas is still the tightest in the market, despite lower foot traffic, as some office personnel work remote. More buyers could target the core amid suburban competition.

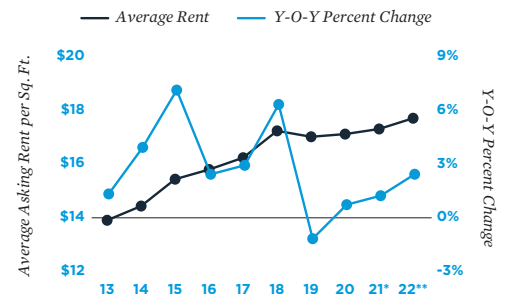
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.