

MARKET REPORT

Retail

Dallas-Fort Worth Metro Area

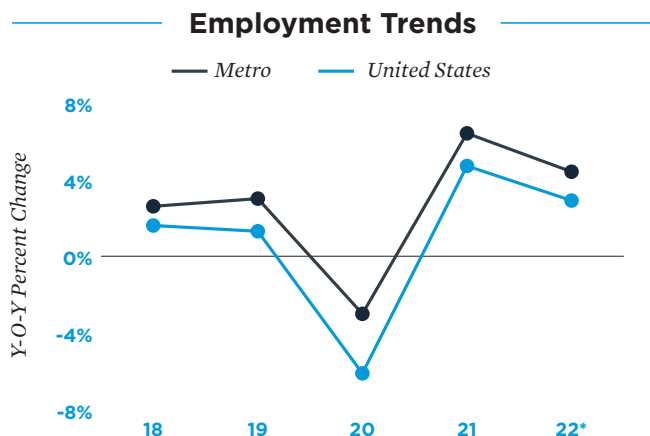
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2Q/22

Furniture, Fitness Headline Absorption as Household Gains Jolt Demand

The influx of new residents cues need for home furnishings. Net in-migration to the Metroplex has averaged 73,500 new residents per year since 2012, encouraging suburban sprawl as core areas become increasingly densified. To satisfy heightened demand for outlying residences, builders are developing large subdivisions, especially in the north suburbs. Permits for private housing units in Dallas-Fort Worth reached a pandemic-era high of 6,800 in February 2022, up nearly 50 percent relative to the same month in 2020. As people purchase and move into homes, they often need to fill them with furnishings. This is stimulating leasing demand by furniture chains. The largest commitments during the past two quarters came from At Home, taking up a pair of 100,000-plus-square-foot plates in North Dallas and Garland, as well as Campos Furniture, occupying 95,000 square feet near the Galleria in Farmer's Branch.

Diverse expansion of fitness tenants showcases tailwinds. A growing populace means more people are looking for facilities that accommodate physical activity, especially after being couped up at home during the pandemic. This prompted a wave of lease signings by gyms throughout the Metroplex. Planet Fitness and Crunch Fitness occupied 34,000-square-foot spots in Irving and Arlington, respectively. Meanwhile, Gold's Gym moved into a pair of 23,000-square-foot spaces in Little Elm and Northeast Dallas in late 2021. Expanding retailers enabled a 60-basis-point vacancy ease last year, and the 2022 decline is expected to be of a greater magnitude.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**174,000
JOBS**
will be created

EMPLOYMENT:

Augmenting last year's 237,000 job addition, the Metroplex will record its second-largest annual employment gain on record in 2022. Hiring activity remained robust in the opening quarter of this year, with the workforce count rising by 62,000 personnel.



**3,300,000
SQ. FT.**
will be completed

CONSTRUCTION:

After a lull in construction last year, which had the smallest completion total since 2012, builders pick up the pace slightly in 2022. Still, the expected delivery volume will subceed the trailing 10-year annual average by 1.1 million square feet.



**70
BASIS POINT**
decrease in vacancy

VACANCY:

A modest 2022 construction pipeline that is 70 percent pre-leased, paired with economic tailwinds, point to a strong year for net absorption. Demand will outpace supply arrivals, tightening vacancy to 5.4 percent by the end of this year.

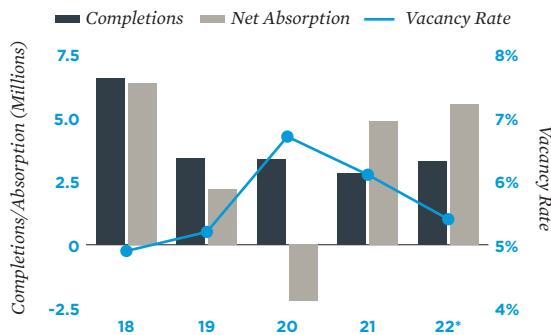


**4.2%
INCREASE**
in asking rent

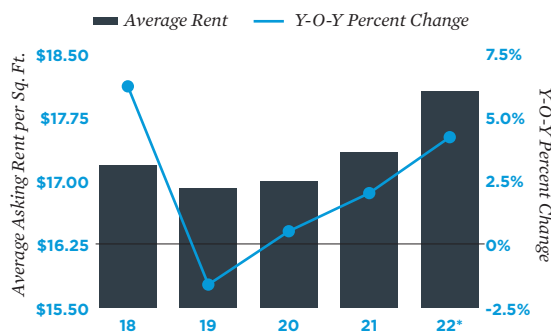
RENT:

Dallas-Fort Worth is poised to register the fastest annual rent gain among the major Texas markets this year, facilitated by the steepest vacancy contraction of the four metros. By year-end, the average asking rate will reach \$18.05 per square foot.

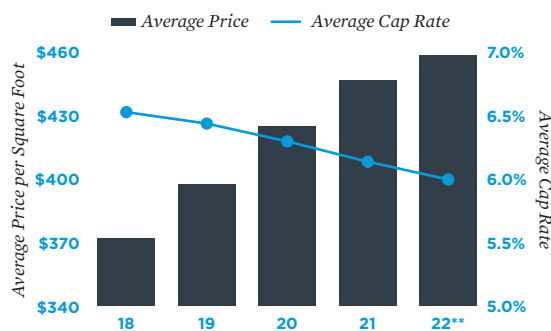
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

2,786,000 sq. ft. completed

- More than 1.7 million square feet of single-tenant space finalized during the 12-month period ended in March. Suburban Fort Worth, the Mid-Cities and North Central Dallas combined for three-fourths of that total.
- North Central Dallas may endure some near-term supply headwinds, with 500,000 square feet of uncommitted space set to deliver here in 2022.



VACANCY

120 basis point decrease in vacancy Y-O-Y

- At 5.2 percent in the first quarter, single-tenant vacancy is nearing the 2019 measure of 4.8 percent. Multi-tenant vacancy has more ground to make up, still 90 basis points above the pre-pandemic rate of 6.0 percent.
- Despite foot traffic being hamstrung by the shift to remote work, vacancy in the Dallas CBD held as the lowest in the Metroplex at 3.4 percent.



RENT

3.8% increase in the average asking rent Y-O-Y

- After a difficult stretch, when the average rent fell 1.1 percent across 2019 and 2020, rates are back on a steady upward trajectory. Four straight quarterly rises pushed the mean asking rent to \$17.60 per square foot in March.
- The average single-tenant rate surged 6.6 percent, with gains in this segment the most impressive in Suburban Fort Worth and Southeast Dallas.

Investment Highlights

- The mean multi-tenant sale price improved by 13 percent during the four-quarter period ended in March to \$360 per square foot. Higher prices translated to lower first-year yields, with the average multi-tenant cap rate dropping 30 basis points over that span to 6.4 percent.
- Central Dallas, North Central Dallas and Suburban Fort Worth are top targets for buyers seeking sub-20,000-square-foot strip centers with cap rates in the mid-5 percent to mid-6 percent area. Larger neighborhood and community centers trade in Far North Dallas and the Mid-Cities, typically transacting with first-year returns in the low-6 to mid-7 percent band.
- Single-tenant assets traded with an average sale price of \$565 per square foot during the past year, up 3 percent from the prior period. The mean cap rate fell to 5.5 percent — the second lowest in Texas. Nonetheless, average yields in Houston and San Antonio are less than 30 basis points higher.
- During the past year ended in March, fast food and restaurants commanded the highest prices among single-tenant assets, followed by auto repair and drug stores. The two dining segments had an average sale price above \$700 per square foot, with mean cap rates in the low-5 percent area.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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