MARKET REPORT

Industrial

Dallas-Fort Worth Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

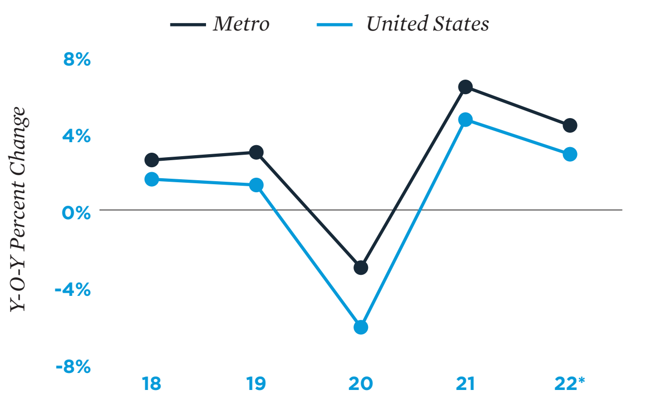
Midyear 2022

Historic 2021 Performance Spurs Speculative Builds, Triggering Slight Vacancy Lift

Availability still very tight, but a bottom was set. Following an excellent 12-month stretch when vacancy fell at least 30 basis points in every quarter of last year, the rate inched up marginally in the opening frame of 2022. Still, the measure of 5.3 percent in March was a lower vacancy rate than in any period spanning 2001-2020. Availability is expected to remain on a mild upward trajectory as the year progresses, but it is not a fault of weak demand. In fact, net absorption is projected to exceed the market's long-term average by more than 70 percent in 2022, boosted by large-scale commitments. In the first six months of this year, at least 20 new leases were signed for spaces larger than 200,000 square feet. About half of these were located in Greater Fort Worth, where industrial construction and demand are booming as firms seek out lower costs.

Lackluster pre-leasing will bump up vacancy. Dallas-Fort Worth added more industrial space since the start of 2015 than any other market in the nation, and developers continue to step on the gas. Supply additions in 2022 will set a new record volume, with a significant share being built on a speculative basis. About three-fourths of the space set to finalize in the second half was unaccounted for as of June, likely inducing near-term supply overhangs in a few areas. South Dallas is potentially at risk, with a pipeline three times larger than any other submarket. Less than 20 percent of underway space here is pre-leased, which may push up vacancy, but also lift the local mean asking rent as a slew of high-quality space enters lease-up.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Industrial 2022 Outlook

174,000 JOBS
will be created

EMPLOYMENT:

From the end of 2019 through May of this year, the wholesale trade sector, correlated with industrial activity, grew by about 21,000 positions. Further gains in this segment and a broader labor market expansion produce a 4.4 percent rise in total jobs.

33,500,000 SQ. FT.
will be completed

CONSTRUCTION:

More space finalizes than in any year since at least 1996, with an annual volume that eclipses the trailing decade-average by over 13 million square feet. Inventory is increasing at a pace roughly 1.5 times as fast as the mean across all major U.S. metros.

50 BASIS POINT
increase in vacancy

VACANCY:

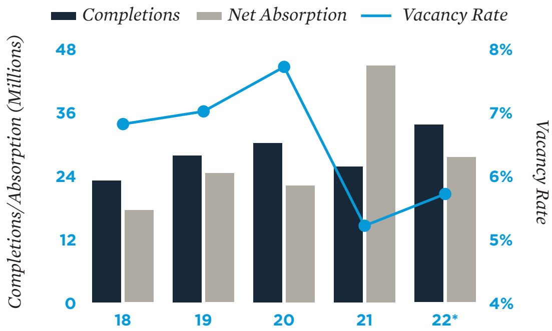
Vacancy is expected to creep up to 5.7 percent after last year's impressive 250-basis-point tightening. Higher availability is largely a result of new construction, rather than feeble demand, as net absorption is projected to be the second highest in 25 years.

10.7% INCREASE
in asking rent

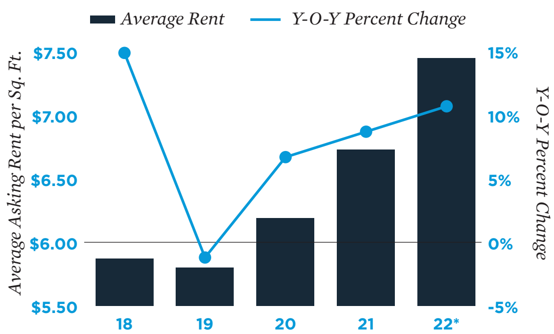
RENT:

For just the second time in two decades, the average asking rent elevates by double digits. A sizable flock of speculative builds entering the market, coupled with robust demand tailwinds, push the mean up to $7.45 per square foot.

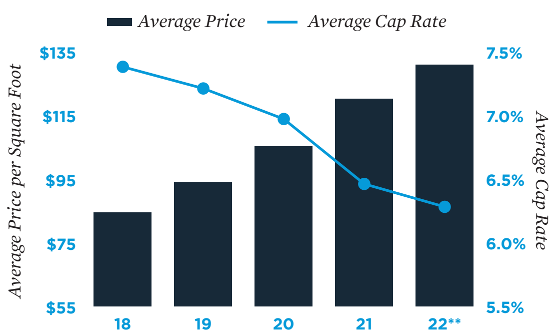
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

21,356,000 sq. ft. completed

- Completions during the 12-month period ended in March measured below the prior interval, but local stock grew by 5-plus percent in South and North Fort Worth, combining for 10.6 million square feet of new space.
- South Dallas is slated to have the largest share of second half 2022 deliveries, including over 10 million square feet without a commitment as of June.

VACANCY

190 basis point decrease in vacancy Y-O-Y

- Every submarket with a local inventory greater than 100 million square feet recorded vacancy compression year-over-year in the first quarter, led by a 380-basis-point plunge in North Fort Worth.
- Sub-4 percent availability in the DFW Airport, Great SW-Arlington and Northwest Dallas submarkets is supporting sizable rent growth here.

RENT

13.4% increase in the average asking rent Y-O-Y

- Several of the largest submarkets, including Great SW-Arlington, South Stemmons, Northwest Dallas and DFW Airport, had annual rent gains of at least 15 percent, providing momentum for the marketwide average.
- North Fort Worth was the only location where marketed rents fell, but vacancy here plummeted, indicating quality space was taken off the market.

Investment Highlights

- Transaction velocity during the yearlong span ended in March shattered previous records. More industrial deals were completed during that period than in any year over the past two decades, with a dollar volume that surpassed the prior high by more than 20 percent. Institutions are especially active, evidenced by a swell in Class A trades and assets priced above $15 million changing hands. Robust buyer competition drove the average sale price up 20 percent during the most recent period to $131 per square foot.
- Cap rate compression escalated over the past four quarters as an aggressive bidding environment led to a surge in pricing. The average first-year return was 6.3 percent during the past year ended in March, down 50 basis points from the prior interval and 200 basis points below the recording in 2012. In areas with the heaviest trading like Northeast Dallas and South Stemmons, cap rates can reach a minimum in the 3 percent zone.
- Among industrial subtypes, warehouses, light distribution and R&D are experiencing the most notable upticks in deal flow. The average entry cost for a warehouse facility in the Metroplex was about $155 per square foot during the past year, while the other two segments had prices closer to $125 per square foot. Each of these figures rose 20-plus percent annually.