MARKET REPORT

Retail

Dallas-Fort Worth Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

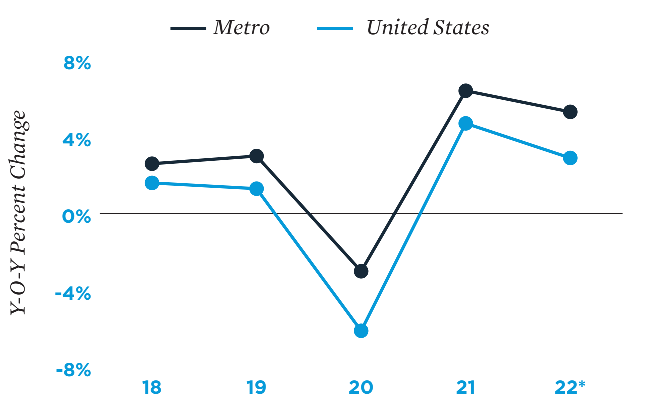
3Q/22

Nation-Leading Job Gains Fortify the Metroplex as a Point of Emphasis for Retailers and Investors

Aggressive labor market underpins consumer strength. Dallas-Fort Worth added no fewer than 60,000 workers in each of the past four quarters through midyear 2022. The total addition of 311,000 positions during that span ranks as the largest in the nation, edging out a rebounding New York City by a small margin, while outpacing markets like Chicago and Los Angeles by 80,000 to 100,000 personnel. This is noteworthy, as the other metros mentioned had greater disruptions at the onset of the pandemic, thus more jobs to recover. Dallas-Fort Worth's labor market is outperforming, despite eclipsing its pre-pandemic peak back in August 2021. The quick expansion has, in turn, compressed Metroplex unemployment to 3.5 percent in July 2022, encouraging local firms to bring in workers from outside of the market, boosting net in-migration. Robust job trends and population inflows are broadening the consumer base, bolstering demand for shopping and entertainment.

Vendors leasing up more retail space than developers finalize. Net absorption surpassed completions in five straight quarters through June 2022. During that 15-month span, the amount of occupied retail space grew by 8.8 million square feet, despite a supply expansion of only 3.4 million square feet. This is a very encouraging trend, showcasing retailers' willingness to occupy existing floorplans. Locations leading the charge include West, Southwest and Near North Dallas, where vacancy fell at least 150 basis points year-over-year and local supply enlarged by less than 0.5 percent.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

210,000 JOBS *will be created*

EMPLOYMENT:

The addition of nearly 170,000 jobs during the first seven months of 2022 ranks as the largest tally in the nation. Metroplex hiring will ease in the second half, however, amid economic headwinds and tight unemployment.

3,125,000 SQ. FT. *will be completed*

CONSTRUCTION:

This year's supply influx will exceed 2021's tally by roughly 150,000 square feet, yet remain mild by historic standards. From 2013-2019, developers delivered about 4.7 million square feet on average per year.

80 BASIS POINT *decrease in vacancy*

VACANCY:

Taking 2022's vacancy contraction and combining it with last year's 60-basis-point drop, the market will be nearly fully recovered from the 150-basis-point lift registered in 2020. The rate will end this year at 5.3 percent.

3.3% INCREASE *in asking rent*

RENT:

As the Metroplex vacancy rate realigns with the pre-pandemic level, it will provide a runway for rent to grow at its fastest pace in four years. The average asking rate climbs to $17.95 per square foot in 2022.

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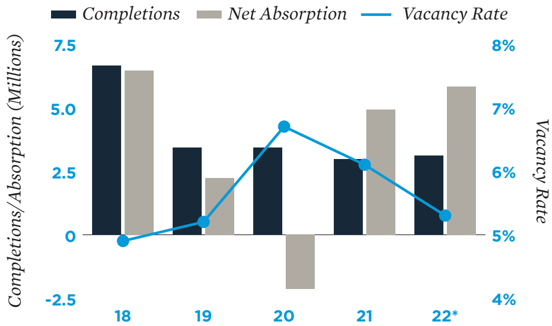
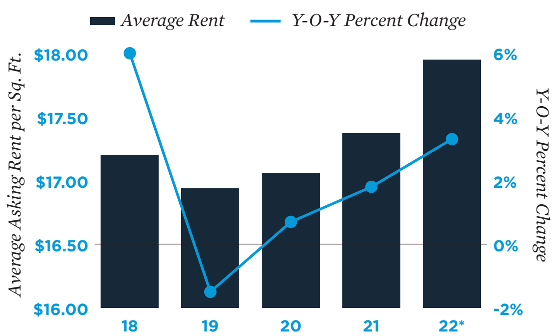
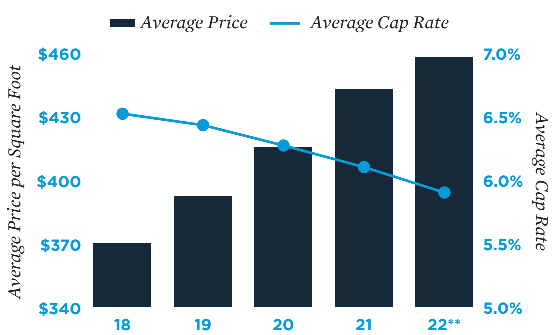
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

2,091,000 sq. ft. completed

- Completions fell below the 1 million-square-foot mark in the second half of 2021, the first time in a decade with a six-month total under that measure. Supply chain and labor hurdles contributed to the sluggish pace.
- The 1.2 million square feet that came online in the first six months of 2022 was the second-smallest log since 2011, behind only last year's latter half.

VACANCY

140 basis point decrease in vacancy Y-O-Y

- Year-over-year vacancy declines were recorded in 10 of the 11 retail submarkets in June. The lone exception was an unchanged rate of 3.9 percent in Southeast Dallas, holding firm as the second tightest in the Metroplex.
- Central Dallas, Central Fort Worth and West Dallas highlight the list of locations where availability shrunk the most relative to year-end 2019.

RENT

1.6% increase in the average asking rent Y-O-Y

- After a three-year decline in the average multi-tenant asking rent totaling a 5 percent drop from 2019-2021, positive signs have emerged. The segment's mean marketed rate climbed about 1 percent annually as of June.
- Single-tenant asking rents have resisted pandemic headwinds, rising 5 percent across 2020-2021, and 2 percent annually through midyear 2022.

Investment Highlights

- Multi-tenant trading velocity from July 2021 through June 2022 beat the previous yearlong register by upwards of 40 percent, and also paralleled 2018/2019 levels. Revived investor activity in the segment pushed the average sale price up 12 percent to $371 per square foot. The mean multi-tenant cap rate fell marginally, remaining in the mid-6 percent area.
- Rent resilience during the pandemic, coupled with expectations for amplified consumer demand in the coming years amid robust labor and population growth, solidify buyer enthusiasm for single-tenant assets in the Metroplex. Segment deal flow surpassed the prior period by over 10 percent during the 12-month span ended at midyear. Heightened competition lifted the average sale price 3 percent to $553 per square foot, while decreasing the mean cap rate 30 basis points to 5.4 percent.
- Many out-of-state investors are enamored by the single-tenant prospects that a growing Dallas-Fort Worth offers. Non-local buyers accounted for at least one-fourth of single-tenant acquisitions during the first half of 2022, compared to a 20 percent share during the same span last year. These investors favor Far North Dallas and Suburban Fort Worth, where household creation is stong and returns in the mid-5 percent band are common.