

MARKET REPORT

INDUSTRIAL

Dallas-Fort Worth Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

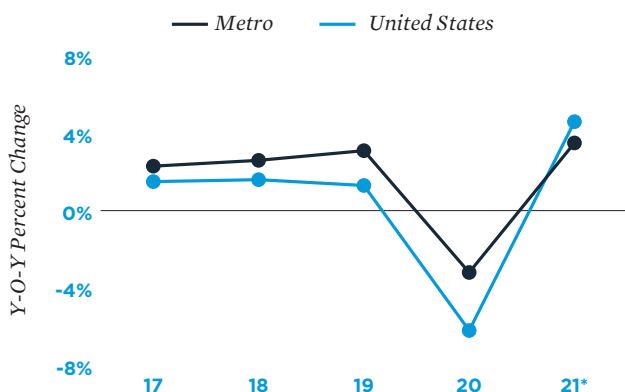
2Q/21

Oversupply in Dallas-Fort Worth Beginning to Dissolve as Demand Catches Up to Additions

Unquestioned demand tailwinds in place. More than 316,000 households are expected to form in Dallas-Fort Worth throughout the next five years, boosting demand for goods and services. Major retailers have been actively leasing industrial space in the Metroplex as they expand omnichannel operations after the online shopping boom and add distribution centers to support planned store additions. Walmart occupied 1 million square feet in North Fort Worth in May, while Lowe's absorbed 650,000 square feet in Denton this March. Logistics demand is also robust due to population growth and connectivity via thoroughfares to other major markets. Uline moved into 1.1 million square feet in Irving early this year and DSV International committed to 1 million square feet in Lancaster, planning to begin operations next January.

Supply influx masking market strength. Last year's vacancy hike was the fourth consecutive annual rise in availability, mostly attributed to an elevated delivery pace rather than softening demand. Expected additions in 2021 will again top 20 million square feet, as was the case in each of the previous five years. During that span inventory grew by 18.5 percent, more than double the national expansion rate. This supply-side pressure pushed vacancy to its highest level since 2013 last year, though the market seems to be taking steps in the right direction. In the first three months of 2021 net absorption totaled nearly 10.2 million square feet, producing the greatest quarterly vacancy contraction since late 2017.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2021 Outlook



**130,500
JOBS**

will be created

EMPLOYMENT:

Dallas-Fort Worth's anticipated employment expansion of 3.5 percent in 2021 will boost the headcount to the level recorded prior to the pandemic. Last year 121,600 roles were cut, bringing the unemployment rate above 6.0 percent.



**27,100,000
SQ. FT.**

will be completed

CONSTRUCTION:

Completions will taper from last year's 29.8 million square feet yet remain elevated as metro stock grows by 3.3 percent. Higher construction costs and limited land are hurdles for developers in the shallow bay space, contributing to a reduction in deliveries this year.



**30 BASIS
POINT**

decrease in vacancy

VACANCY:

Strong underlying tenant demand, pre-leases for larger projects and a slight contraction in delivery volume will permit a decrease in availability this year. The vacancy rate will fall to 7.2 percent, helping offset the 90-basis-point jump recorded in 2020.



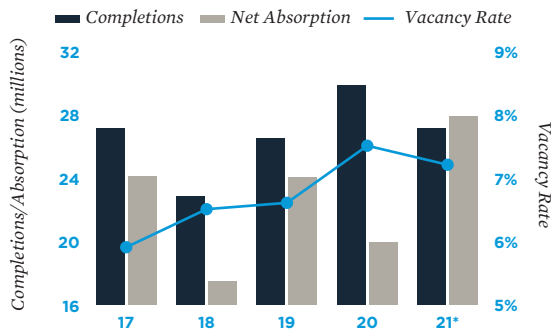
**5.1%
INCREASE**

in asking rent

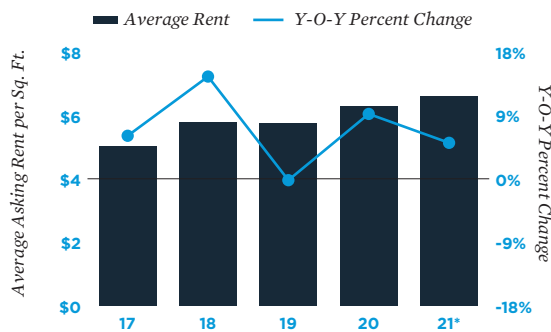
RENT:

Building off of the 9.2 percent spike posted last year, the average asking rent will move up to \$6.61 per square foot in 2021. Robust gains in the Metroplex have become commonplace, with rates up almost 40 percent since the end of 2015.

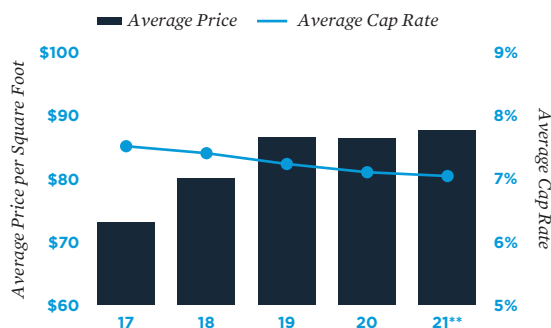
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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1Q21 - 12-Month Period



CONSTRUCTION

29,039,000 square feet completed

- Metroplex stock increased 3.7 percent during the past 12 months ended in March, up from the 3.6 percent addition in the prior period.
- North Fort Worth led all submarkets with 8.6 million square feet of deliveries, boosting local inventory by 9.3 percent. The DFW Airport area also posted a notable 8.3 percent stock expansion over the past year.



VACANCY

60 basis point increase in vacancy Y-O-Y

- Net absorption totaled 22.4 million square feet over the past four quarters, yet available stock jumped by 6.6 million square feet amid a sizable completion volume. The vacancy rate moved up to 7.1 percent in March.
- Among the submarkets with at least 80 million square feet of inventory, South Dallas and the DFW Airport area recorded vacancy declines.



RENT

7.3% increase in the average asking rent Y-O-Y

- Buoyed by high-quality arrivals and robust demand for Metroplex industrial space, the average asking rent soared to \$6.34 per square foot, which is the highest rate in over 20 years.
- Strong gains in the East, Northeast and South corridors allowed rates in Greater Dallas to climb 9.4 percent annually to \$6.74 per square foot.

Investment Highlights

- A slowdown in trading during the first quarter led to annual deal flow falling 19 percent. Uncertainty curtailed activity after vacancy notched a seven-year high, though occupancy has since improved. A stronger performance and favorable outlook should bolster investor sentiment.
- Assets traded for an average of \$87 per square foot over the past four quarters ended in March, which was up 1 percent from the previous year. The average first-year return fell 20 basis points to 7.0 percent. Compared with the other major Texas' markets, Dallas-Fort Worth had the highest mean cap rate, though all were within a 50-basis-point range.
- Buyers looking for Class B/C space are most active in Northwest Dallas, particularly in Carrollton and Farmers Branch. Lower-tier assets in mid-cities locales like Irving also attract investment.
- Class A deal flow is highest in premier North Fort Worth and South Dallas locations proximate to Interstates 35 and 45. North Tarrant County facilities near the Alliance Airport are generating interest as the BNSF Railway provides convenient access, underpinning tenant demand.

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. Note: 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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics