MARKET REPORT

RETAIL

Dallas-Fort Worth Metro Area

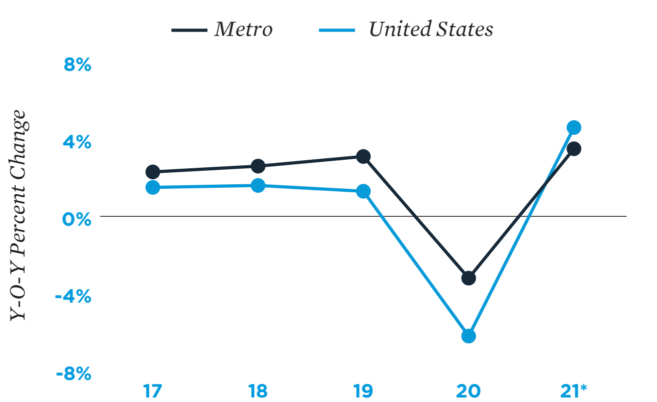
3Q/21

Driven by Single-Tenant Retail, Second Quarter Absorption Was the Largest in Two Years

Single-tenant fundamentals turn the corner. The retail landscape in Dallas-Fort Worth has somewhat settled after a turbulent 2020. Vacancy jumped more than 100 basis points to the upper-6 percent band last year, but the rate has held in place below 7 percent through the first six months of 2021. Single-tenant is rebounding faster than multi-tenant. From April through June single-tenant was responsible for almost 90 percent of total retail absorption, which came in at 1.2 million square feet, the highest posting since the fourth quarter of 2018. As a result of stronger demand, the average single-tenant asking rent climbed above the pre-pandemic level in the second quarter. Recovery hurdles remain, however, more so for the multi-tenant segment where average rental rates dropped roughly 3 percent in the first half.

Development is subdued outside North Dallas. Supply additions will grow market stock by less than 1 percent in 2021 for the third straight year. The slower pace of construction is favorable for the Metroplex's recovery and should help limit upward vacancy movement as demand realigns. Nevertheless, development is concentrated in the northern portion of Dallas, which could present obstacles, though strong household formation in the area will help generate demand for the new space. Both the Far North Dallas and North Central Dallas submarkets are expected to add more than 400,000 square feet over the last six months of 2021. North Central Dallas, in particular, could face additional headwinds after vacancy jumped 70 basis points in the first half.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2021 Outlook

130,500 JOBS
will be created

EMPLOYMENT:

The job total in Dallas-Fort Worth will be boosted by 3.5 percent in 2021 following a reduction of 3.2 percent last year. Entering August, the Metroplex had an unemployment rate of 5.5 percent, which is a shade higher than the national average.

3,200,000 SQ. FT.
will be completed

CONSTRUCTION:

Market supply will expand by a projected 0.9 percent in 2021, up slightly from last year but constrained relative to the preceding decade. In the trailing-10-year period ended in 2020 annual completions averaged 4.2 million square feet.

20 BASIS POINT
increase in vacancy

VACANCY:

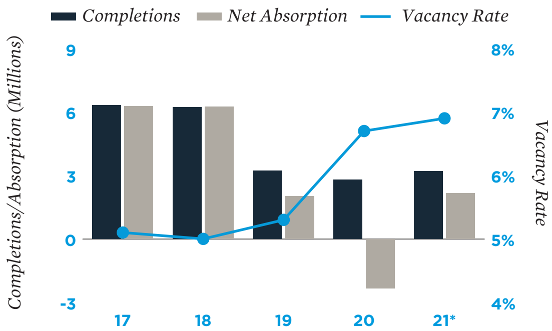
Vacancy is expected to rise for the third consecutive year, though stronger demand will slow the trajectory from last year's 140-basis-point jump. At the end of 2021 the rate of availability will be 6.9 percent, an eight-year high.

1.2% INCREASE
in asking rent

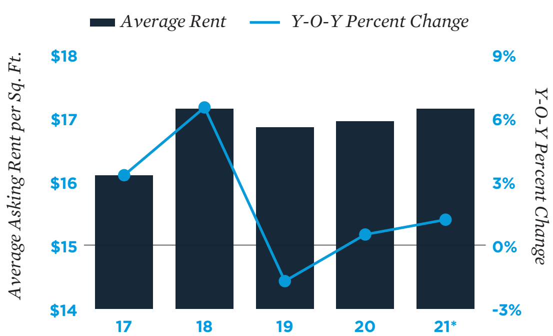
RENT:

After rates inched up by 0.5 percent in 2020 amid an exceptionally challenging period for the sector, the pace of rent growth will improve in 2021. By year-end the average per square foot asking rate will be $17.15.

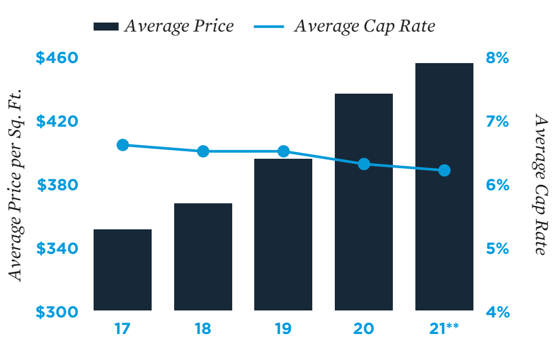
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q21 — 12-Month Period

CONSTRUCTION

2,445,000 square feet completed

- Approximately 1 million less square feet was added to Metroplex inventory over the yearlong recording ended in June compared with the previous period. Supply grew by less than 1 percent during the past 12 months.
- Nearly one-third of the total retail space finalized was single-tenant product in either North Central Dallas or the Mid-Cities.

VACANCY

70 basis point increase in vacancy Y-O-Y

- The market's vacancy rate has settled, rising just 10 basis points in the first six months of 2021 after a sharp 60-basis-point increase in the second half of 2020. As of June, availability stood at 6.8 percent.
- In the trailing-12-month span ended in the second quarter, vacancy went up twice as fast in Fort Worth relative to Dallas.

RENT

0.3% decrease in the average asking rent Y-O-Y

- Dallas-Fort Worth's average asking rent was down year over year in June. However, the rate climbed 1.3 percent in the second quarter to $17.10 per square foot, the first gain since the same quarter of 2020.
- April through June was a period of deviation, with single-tenant rates jumping 3.8 percent while the multi-tenant average fell 4.1 percent.

Investment Highlights

- Roughly the same number of single-tenant assets changed hands during the four-quarter period ended in June as in the previous yearlong span. Meanwhile, the average sale price increased by almost 7 percent annually to $540 per square foot, putting some downward pressure on the mean cap rate, which dipped 20 basis points to 5.9 percent.
- Both the Central and Suburban Fort Worth submarkets recorded sizable upticks in single-tenant transaction activity. Out-of-state buyers, particularly from California, were active in Fort Worth. Fast-food restaurants, convenience stores and drugstores were favored, with investors accepting minimum first-year returns in the 4 percent band for triple net leased properties.
- Multi-tenant deal flow retreated by about one-third relative to the previous year as some risk-averse investors remained on the sidelines. However, the average sale price advanced by 5 percent to $299 per square foot as buyers prioritized centers with established anchors and strong tenant mixes. Multi-tenant assets that traded during the past year ended in June had an average cap rate of 6.8 percent.

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Price: $250