

INDUSTRIAL

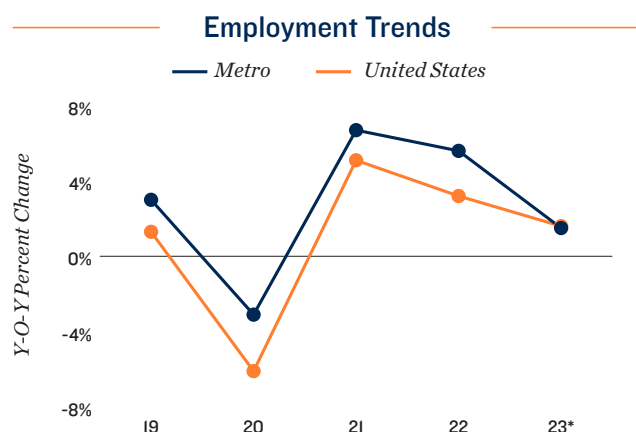
Dallas-Fort Worth Metro Area

MIDYEAR 2023

Five Straight Years as Nation's Supply Leader Reverses Some Recent Vacancy Progress

Metroplex pipeline leads country by historic gap. From 2019 through 2022, Dallas-Fort Worth recorded the greatest amount of industrial space added nationally in each year, topping the next-closest market by an annual average of about 2 million square feet. This year, the Metroplex once again leads the country in completions, but the margin expands to a historic width. Dallas-Fort Worth's projected 44 million square feet of supply additions during 2023 exceeds the second-place metro — Riverside-San Bernardino — by roughly 13 million square feet. The colossal nature of the local pipeline would pose challenges to vacancy in a normal year, but supply pressures will be particularly visible near-term amid a potential economic slowdown. As of mid-June, approximately 70 percent of 2023 deliveries were marked as available for lease. Unaccounted for new supply is the densest in South and East Dallas, as well as North Fort Worth: areas of desirable access to key logistics routes.

Major leases should trim available space over time. Dallas-Fort Worth's vacant stock total will grow by almost 20 million square feet during 2023. That block could take several years to be absorbed, but the Metroplex continues to generate headline commitments that support longer-term confidence. At least five different 1 million-square-foot-plus move-ins occurred during the first half of this year — including Walmart and Niagara Bottling in Lancaster, as well as DHL and Dollar General in Justin. In the second half, ITS Logistics, DSV and HomeGoods are planning move-ins of similar scale.



* Forecast
Sources: BLS; CoStar Group, Inc.

Industrial 2023 Outlook



62,500

JOBS

will be created

EMPLOYMENT:

Local manufacturing and wholesale trade segments combined to lose a net 1,300 jobs across the first five months of 2023, indicating softer industrial activity. Overall employment nevertheless grows 1.5 percent this year.



44,000,000

SQ. FT.

will be completed

CONSTRUCTION:

Dallas-Fort Worth's 2023 completion volume tops the previous annual record set in 2020 by 13 million square feet. Local inventory growth of 5.0 percent is the fourth-fastest pace among major U.S. markets in 2023.



180

BASIS POINT

increase in vacancy

VACANCY:

Coming off a two-year vacancy decline totaling 280 basis points across 2021-2022, a chunk of that is given back amid record construction in 2023. The rate will climb to 6.8 percent, still 110 basis points below the historic mean.



12.9%

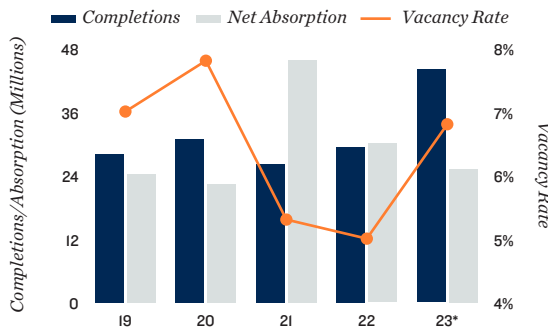
INCREASE

in asking rent

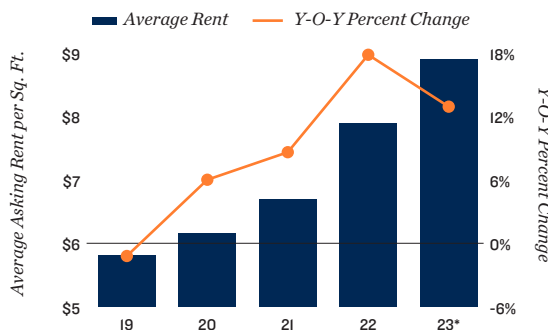
RENT:

While the gigantic pipeline pushes up vacancy, it also saturates the market with new high-quality space. This produces a second straight year of double-digit rent growth to an average asking rate of \$8.90 per square foot.

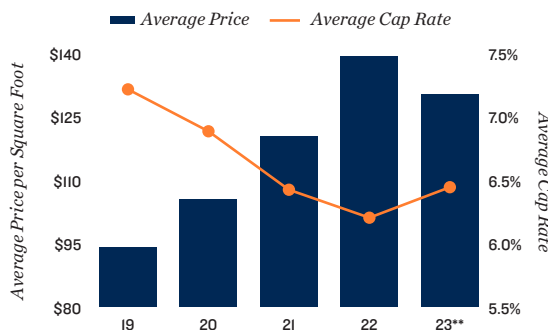
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q 2023 - 12-Month Period



CONSTRUCTION

34,707,000 sq. ft. completed

- South Dallas' 15.4 percent inventory growth over the past 12 months ending in March led all market areas by a sizable margin, a major factor behind this submarket having the largest vacancy lift at 550 basis points.
- The average project in the 2023 pipeline features 285,000 square feet, with roughly 15 different 1 million-square-foot-plus builds being delivered.



VACANCY

30 basis point increase in vacancy Y-O-Y

- Three of the Metroplex's eight largest submarkets by inventory had vacancy drops over the past year. North and South Fort Worth noted reductions of 300-plus basis points, while the rate also tightened in Northeast Dallas.
- Despite relatively mild supply growth at 2.1 percent over the 12-month span, vacancy in South Stemmons rose 200 basis points to 6.1 percent.



RENT

19.5% increase in the average asking rent Y-O-Y

- Serving as a paradigm for overall market dynamics, South Dallas led all submarkets in local supply expansion, vacancy increase and rent growth over the past year. New supply nearly doubled the mean asking rate here.
- A 23 percent surge in DFW Airport allowed it to join NW Dallas Outlying as the only locations with average asking rents above \$10 per square foot.

Investment Highlights

- Amid financing hurdles and brewing supply pressures, many investors are re-assessing capital deployment strategies after historically elevated trading in recent years. Dallas-Fort Worth's industrial dollar volume was second nationally behind only Los Angeles in 2022. The Dallas portion alone would have still ranked second despite having fewer trades than Chicago and Houston, reflecting robust institutional-level activity. In the first quarter of 2023, however, dollar volume in the Metroplex fell outside the top 10 major U.S. markets, as the same buyers previously pursuing high-value assets were among the most passive to start this year.
- Investors steering clear of supply competition may engage in the sub-100,000-square-foot segment. Much of this year's construction is geared toward larger-scale projects, while certain tenants are seeking smaller facilities. Year-to-date through May, South Fort Worth led the market in total trades, with the average asset here featuring 50,000 square feet.
- The second-most active area for transactions thus far in 2023 was South Stemmons, where traded properties trended even smaller. Through May, the average asset that changed hands here was about 25,000 square feet.