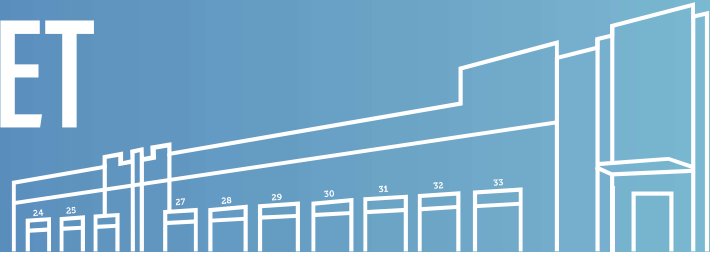


Q2 2021 | DALLAS+FORT WORTH

# INDUSTRIAL MARKET



## Industrial Demand Shatters Previous Records

Rent Growth and Leasing Velocities Accelerate; Vacancies Continue Decline

### EXECUTIVE SUMMARY

#### Major Market Highlights

- Industrial rent growth is at 6% and accelerating
- Flex rent growth is regaining momentum in submarkets where vacancy is tightening
- Quarterly net absorption was solid, leading vacancy to decline another 40 bps. Leasing velocity has accelerated with small and mid-size users entering the market
- Demand for new construction shattered all previous records with **over 9 million SF** leased in the second quarter alone
- Investor appetite for industrial properties in Dallas-Fort Worth remains very high, cap rate compression continues

### OUTLOOK

#### Demand to Remain Robust

Surveys of logistics managers signal that supply chain pressures will continue over the next 12 months:

- Warehouse utilization is expected to continue increasing for both upstream (distribution) and downstream (last mile) supply chains
- Increasing construction has created some optimism that warehouse capacity will increase over the next year, but not enough to ease pressures on warehouse pricing
- Texas manufacturers report soaring material costs, but with solid increases in production, order volumes, and a positive outlook overall for the next six months

Overall, these pressures will continue creating demand for new developments, particularly in projects that can increase space efficiencies with larger footprints and taller clear heights.

### TRENDLINES

5-YEAR TREND      CURRENT QUARTER

#### NET ABSORPTION



**7.4 MSF**

12 month net absorption is positive 24.3 MSF

#### DIRECT VACANCY



**6.2%**

Down another 40 bps from last quarter

#### INDUSTRIAL RENTAL RATE (NNN)



**\$5.13 PSF**

Rent growth accelerating in most submarkets

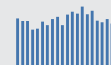
#### FLEX RENTAL RATE (NNN)



**\$10.25 PSF**

Beginning to recover in some submarkets

#### CONSTRUCTION (ALL TYPES)



**29.6 MSF**

Strong demand continues for spec & BTS development

#### SPECULATIVE CONSTRUCTION (INDUSTRIAL)



**26.3 MSF**

8.6 million SF in new starts this quarter

## RENTS

**Rent Growth Accelerates in Industrial & Flex**

Industrial properties continue to maintain rent growth averaging 3-6% across the market. Robust demand is causing rent growth to accelerate in both older properties and new construction.

Flex rent growth is also regaining momentum in submarkets where vacancy is tightening but remains flat or slightly negative in submarkets where vacancy is trending up.

## LEASING, NET ABSORPTION, AND VACANCY

**Robust Demand Improves Vacancy**

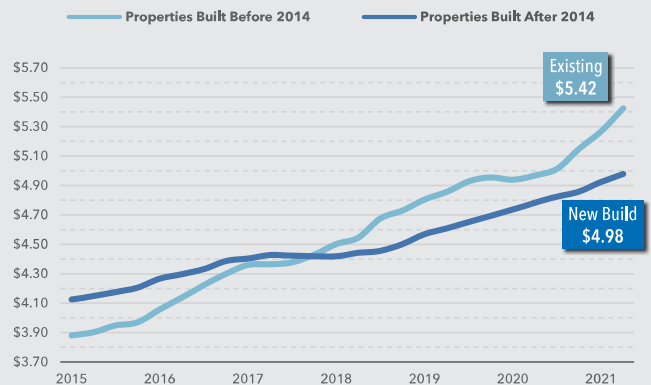
Net absorption reached positive 7.4 million SF, slightly lower than last quarter's record high level of 10.2 million SF. As a result, direct vacancy decreased by another 40 bps this quarter and 80 bps so far this year. Sublease availability also inched down this quarter by approximately 100 KSF.

Leasing activity jumped to 19.3 million SF, just shy of last year's quarterly record of 19.5 million SF. Leasing velocity in new construction also accelerated to reach 9.0 million SF in Q2 alone, shattering the previous record of 6.0 million SF established before the pandemic. However, demand for new construction alone is not sufficient to explain the jump in leasing activity, which suggests that pent-up demand from small and mid-size users is creating additional tailwinds for the market.

Leasing velocity in Flex product increased 33% from the previous quarter, which should bode well for vacancy rates and rent growth in the coming quarters.

**AVERAGE INDUSTRIAL RENTS**

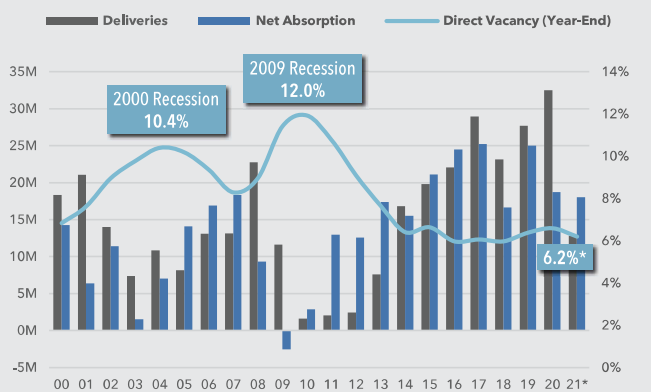
Existing Properties &amp; New Construction



SOURCE: Transwestern, CoStar

**DELIVERIES, ABSORPTION, AND VACANCY**

Yearly Totals



\* Year-to-date

SOURCE: Transwestern, CoStar

**Notable Lease Transactions**

TENANT	LANDLORD	SF	DEAL TYPE	BUILDING	SUBMARKET
Comptree	Crow Holdings	576,123	New	1113 W Oakdale	Great Southwest
GSM	Brookfield Properties	494,000	New	Passport Logistics Center - 200	DFW Airport
Mainfreight	Hillwood	460,248	New	Alliance Northport 2	North Fort Worth
Kenco Group	Clarion	458,588	New	Crossroads Trade Center 3	South Dallas
CTDI	LBA	427,908	New	Elizabeth Creek Gateway - E	North Fort Worth
Averitt Express	Modlo	401,557	New	Oakdale Logistics Center	Great Southwest
Rhino Health	Majestic Realty	400,857	New	Majestic Fort Worth South 3	South Fort Worth

SOURCE: Transwestern, CoStar

## SUPPLY AND DEVELOPMENT

### Pipeline Ramps Up Facing of Blistering Demand

5.0 million SF of speculative projects delivered this quarter at a lease rate of 33%. Large speculative completions include 1.0 MSF at SouthPort Logistics Park 3 (South Dallas) and multi-building projects such as 953 KSF at 820 Exchange (North Fort Worth) and 645 KSF at North Quarter 35 (South Fort Worth).

The development pipeline ramped up this quarter with 8.9 million SF in new starts to reach 26.3 million SF of speculative space under construction. Present leasing velocities are expected to remain strong enough to absorb new deliveries over the next 12 months.

In short, there is still room in the market for developers to break ground on new projects where feasible. Scarcity of land sites in historically strong submarkets and increased development costs remain a challenge.

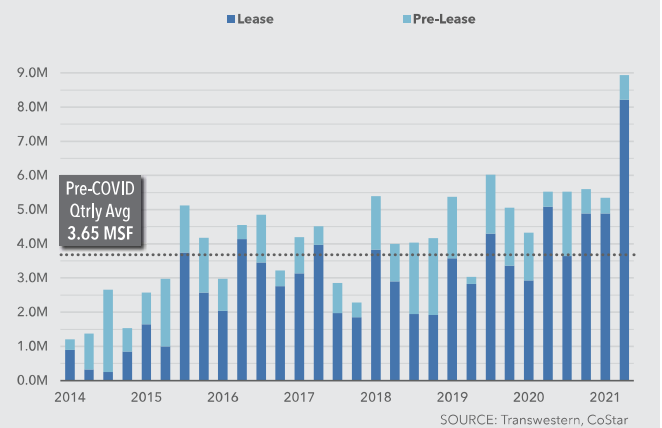
## INVESTMENT SALES

### Capital Continues Flowing to Industrial

Investor demand for industrial real estate continued at a strong pace with sales volume exceeding \$5.1 billion over the last twelve months. Average price reached \$88 PSF this quarter or \$85 PSF on a T-12 basis. Cap rates compressed further this quarter to 5.0% on a T-12 basis.

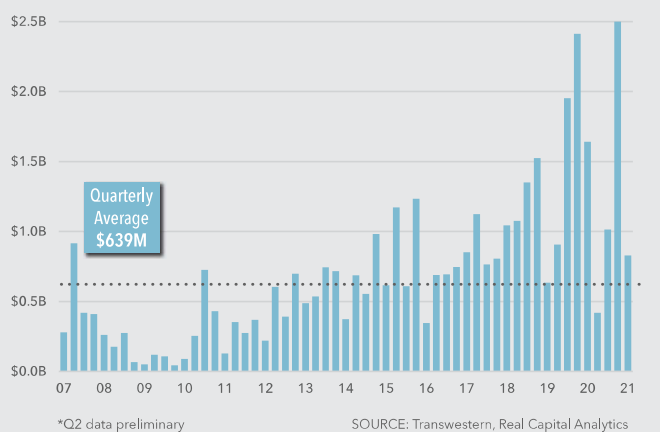
## LEASING VELOCITY OF NEW DEVELOPMENT

Spec Industrial Projects Only



## INVESTMENT VOLUME

Quarterly Totals



## Notable Sale Transactions - Q2 2021

PROPERTY	SF	BUYER	SELLER	SUBMARKET
1851 NE Loop 820	1,023,488	Realty Income Corporation	Hunt Southwest	North Fort Worth
Urban District 30	977,013	KKR	Urban Logistics Realty / Crow Holdings	East Dallas
300 Austin Blvd	852,500	Arlington Capital Partners	Triumph Group	South Dallas
DFW East Logistics Center	259,555	Meritex	Hines	DFW Airport

Note: Multi-market portfolio sales are excluded

SOURCE: Transwestern, CoStar

## Q2 2021 | DALLAS+FORT WORTH | INDUSTRIAL MARKET

### Industrial - Key Market Indicators

	Inventory	Direct Vacancy	%	Vacancy With Sublet	%	Under Construction	Q2 Leasing Activity	Q2 Net Absorption	12 Mo Net Absorption	NNN Rents	1 Year Ago
<b>D+FW Market Total</b>	<b>732,633,577</b>	<b>46,342,147</b>	<b>6.3%</b>	<b>49,708,570</b>	<b>6.8%</b>	<b>29,195,514</b>	<b>19,276,945</b>	<b>6,965,578</b>	<b>23,828,304</b>	<b>\$5.13</b>	<b>\$4.84</b>
DFW Airport	75,801,236	3,651,103	4.8%	4,566,980	6.0%	2,442,927	2,556,886	259,559	5,416,877	\$5.40	\$5.07
South Stemmons	89,271,042	4,461,092	5.0%	4,650,688	5.2%	1,377,522	1,471,687	586,677	703,389	\$5.51	\$4.96
Northwest Dallas	94,953,859	3,646,842	3.8%	4,226,115	4.5%	2,298,617	2,158,021	594,967	2,372,913	\$5.99	\$5.56
Northeast Dallas	78,819,439	4,255,183	5.4%	4,568,687	5.8%	961,032	1,329,764	1,904,835	4,015,286	\$5.88	\$6.03
East Dallas	41,740,954	4,338,763	10.4%	4,412,105	10.6%	3,426,438	361,154	(1,827,225)	(456,096)	\$4.83	\$4.09
South Dallas	89,529,328	5,485,443	6.1%	5,859,554	6.5%	8,940,585	2,787,118	1,477,568	4,166,006	\$3.92	\$3.78
Great Southwest	106,837,286	3,364,854	3.2%	3,522,979	3.3%	710,925	3,405,475	2,374,220	3,726,328	\$4.96	\$4.67
South Fort Worth	58,165,896	4,944,978	8.5%	5,037,494	8.7%	4,065,790	2,226,968	692,188	213,309	\$5.02	\$4.61
North Fort Worth	95,581,629	11,496,889	12.0%	12,166,968	12.7%	4,971,678	2,979,872	902,789	3,670,292	\$4.66	\$4.52

SOURCE: Transwestern, CoStar

### Flex - Key Market Indicators

	Inventory	Direct Vacancy	%	Vacancy With Sublet	%	Under Construction	Q1 Leasing Activity	Q1 Net Absorption	12 Mo Net Absorption	NNN Rents	1 Year Ago
<b>D+FW Market Total</b>	<b>98,753,150</b>	<b>5,955,156</b>	<b>6.0%</b>	<b>6,231,176</b>	<b>6.3%</b>	<b>376,399</b>	<b>1,264,415</b>	<b>435,816</b>	<b>508,443</b>	<b>\$10.25</b>	<b>\$10.28</b>
DFW Airport	6,618,488	616,050	9.3%	638,846	9.7%	0	103,697	38,083	164,651	\$10.86	\$10.61
South Stemmons	19,279,307	904,131	4.7%	950,881	4.9%	0	161,515	(33,919)	(141,758)	\$12.49	\$11.52
Northwest Dallas	18,482,401	1,275,021	6.9%	1,382,734	7.5%	57,500	273,511	100,248	145,086	\$10.69	\$10.41
Northeast Dallas	26,101,785	1,630,396	6.3%	1,696,208	6.5%	244,431	425,213	240,084	420,381	\$9.71	\$9.93
East Dallas <sup>2</sup>	3,502,878	117,115	3.3%	117,115	3.3%	0	2,098	66	(45,824)	\$15.72	\$16.58
South Dallas <sup>2</sup>	2,343,311	24,150	1.0%	24,150	1.0%	0	12,013	12,966	64,406	\$10.81	\$13.75
Great Southwest	7,452,811	642,260	8.6%	675,209	9.1%	54,268	163,929	(115,790)	(132,361)	\$8.10	\$9.73
South Fort Worth	8,615,415	503,146	5.8%	503,146	5.8%	0	87,455	105,185	(31,933)	\$6.99	\$7.42
North Fort Worth	6,356,744	244,887	3.9%	244,887	3.9%	20,200	31,584	86,893	63,795	\$11.50	\$10.90

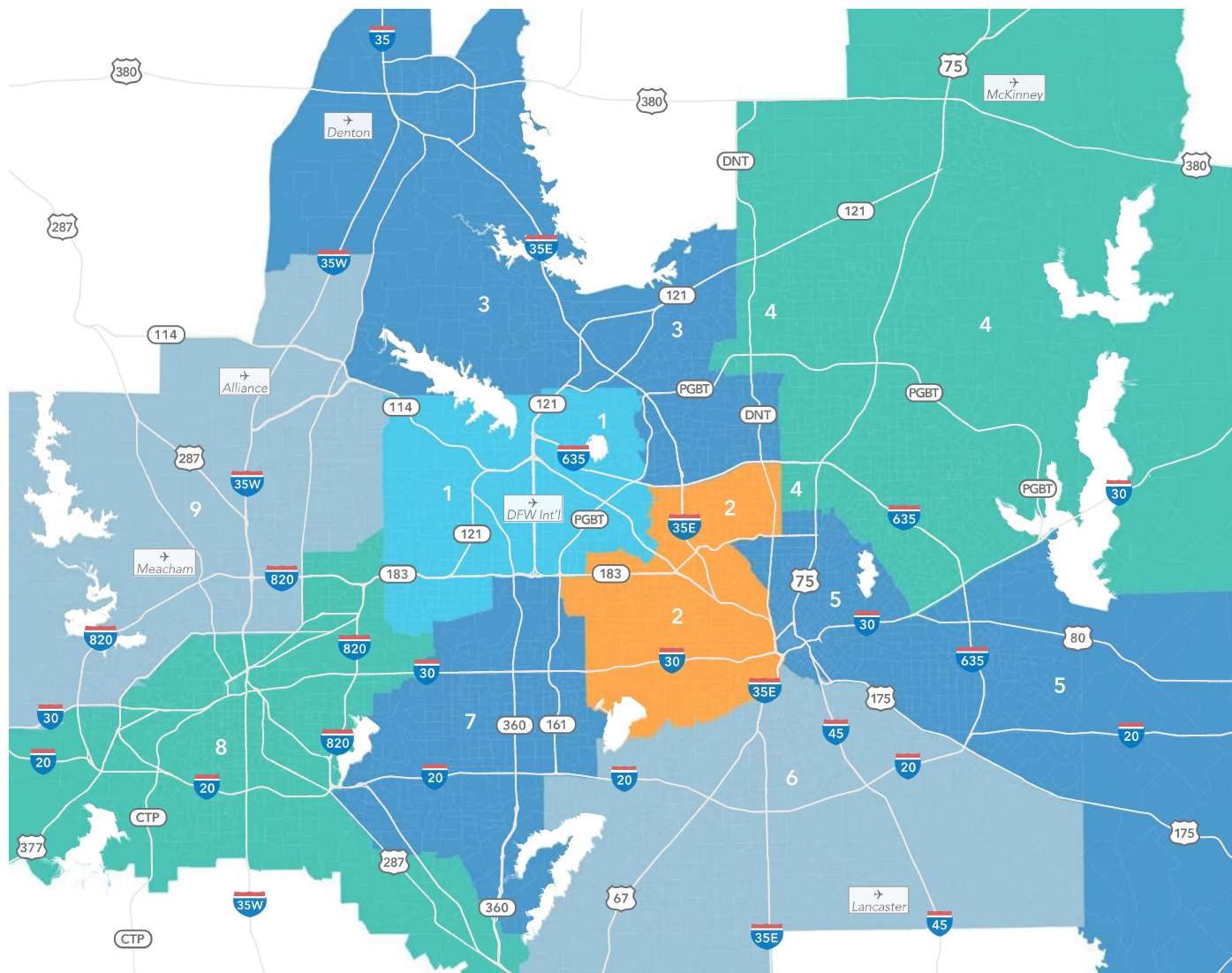
<sup>2</sup> Rents in these submarkets are calculated with a small sample size

SOURCE: Transwestern, CoStar

### WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS

- **Inventory:** We include multi-tenant, single-tenant, and owner-occupied buildings greater than 15,000 SF to capture more market activity and provide historic comparisons without requiring special adjustments to inventory.
- **Product Types:** The Industrial category includes Warehouse, Distribution, and Manufacturing properties. The Flex category include all Flex property types.
- **Vacancy With Sublet:** Defined as Direct Vacancy + All Sublet Available (i.e. vacant and occupied).
- **Rents:** We report direct NNN rents on a trailing 12 month basis, enhancing listing data with Transwestern's proprietary research on new development and transactions. While our rents may be slightly lower compared to competitors, we provide better insight and consistent results by sampling over 159 million SF.

## Q2 2021 | DALLAS+FORT WORTH | INDUSTRIAL MARKET



### SUBMARKETS

1	DFW Airport	4	Northeast Dallas	7	Great Southwest
2	South Stemmons	5	East Dallas	8	South Fort Worth
3	Northwest Dallas	6	South Dallas	9	North Fort Worth

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