

## INDUSTRIAL

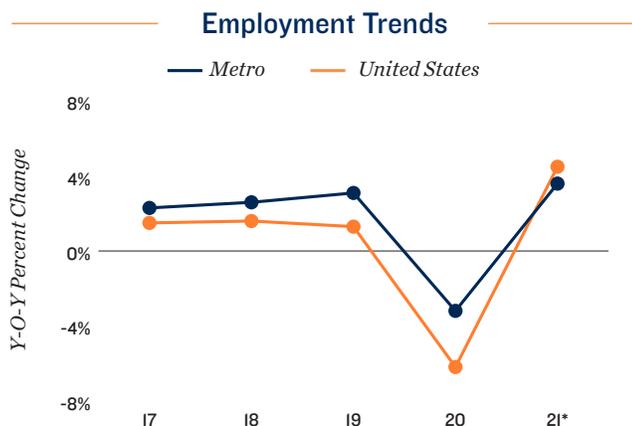
Dallas-Fort Worth Metro Area

# 4Q/21

### Long-Term Advantages of Dallas-Fort Worth Encourage Tenants and Investors to Place Stake

**Demographic outlook and centrality are key drivers.** Robust population growth underscores the need for logistics and warehousing. Locations that can service e-commerce fulfillment in fast-growing north Dallas suburbs are particularly attractive. At the same time, small properties in the urban core with last-mile capabilities are more desirable amid the rise in online shopping. The expanding employment base also encourages manufacturing and other space users to establish a footprint, considering available workers may be easier to find relative to other metros. A strong outlook and the metro's standing as a regional hub within 300 miles of several other high-growth markets has persuaded firms to commit to long-term leases. Commitments of 10-plus years for 100,000-square-foot-plus spaces were signed this year in South Fort Worth, Plano, Grapevine, Carrollton and Irving.

**Momentous first half could lose some steam.** The landscape shifted in the first part of 2021 as demand began to catch up after being outpaced by new supply for much of the past four years due to the aggressive construction pace. Net absorption across the first six months of 2021 totaled 18.4 million square feet compared with 11.5 million square feet finalized. As a result, the vacancy rate declined in consecutive quarters, which had not happened since 2017. Short-term headwinds will surface in the second half though, with an estimated 8.9 million square feet of speculative space scheduled to cross the finish line. South and North Fort Worth combine for almost 50 percent of that total.



\* Forecast  
Sources: BLS; CoStar Group, Inc.

### Industrial 2021 Outlook



135,000

JOBS

will be created

#### EMPLOYMENT:

Dallas-Fort Worth registered an employment level in August that was within 2 percent of the pre-recession peak. Gains in the final four months of 2021 should reduce the gap to less than 1 percent by year-end and put a full recovery within reach in 2022.



26,000,000

SQ. FT.

will be completed

#### CONSTRUCTION:

Completions will taper relative to last year's 30.2-million-square-foot addition. Nonetheless, deliveries in 2021 expand market inventory by more than 3 percent for the sixth consecutive year, with supply growing more than 22 percent over that span.



60

BASIS POINT

decrease in vacancy

#### VACANCY:

The streak of annual vacancy increases that dates back to 2017, largely a result of the aggressive pace of new supply, will end in 2021. Net absorption is expected to surpass 29 million square feet this year, producing a vacancy rate of 6.9 percent.



6.5%

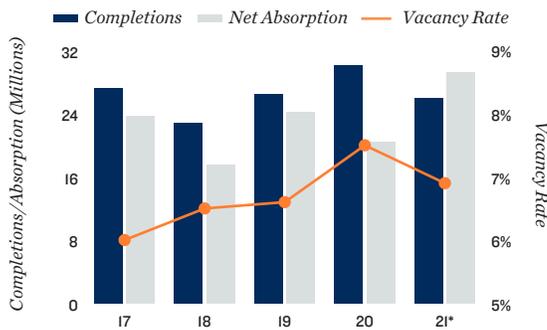
INCREASE

in asking rent

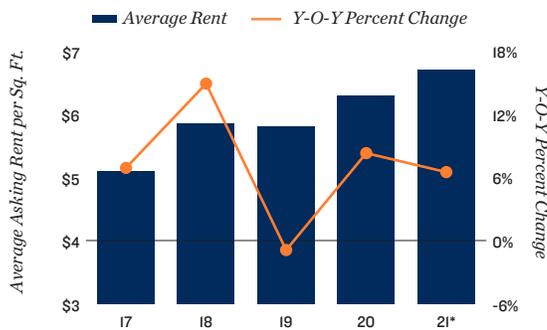
#### RENT:

For the fourth time in the past five years, annual rent growth exceeds 6 percent. New builds and robust demand grew the marketwide average by more than 30 percent from 2016 through 2020. This year's gain pushes the mean to \$6.70 per square foot.

### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q21 – 12-Month Period

### CONSTRUCTION

24,513,000 sq. ft. completed

- During the past year ended in June, inventory grew by 3.0 percent compared to a 4.0 percent expansion in the prior four-quarter period.
- Completions have been scarce in the metro’s largest submarket, Great SW-Arlington, as developers focused their efforts elsewhere. The pipeline here in July contained less than 600,000 square feet underway.

### VACANCY

40 basis point decrease in vacancy Y-O-Y

- Vacancy fell by 90 basis points over the first half of 2021, bringing the rate to 6.6 percent in June. Upward pressure may emerge in the second half with fewer than 40 percent of scheduled deliveries pre-leased.
- Greater Fort Worth had a higher vacancy rate than Greater Dallas entering the third quarter, at 7.5 percent and 6.1 percent, respectively.

### RENT

7.7% increase in the average asking rent Y-O-Y

- Building off the nearly 5 percent gain posted during the preceding 12-month period, the average asking rent increased by more than 7 percent over the past year to \$6.47 per square foot in June.
- All but one of the 10 submarkets recorded annual rent improvements. Double-digit vacancy in North Fort Worth is hampering rates there.

### Investment Highlights

- Strong buyer interest in Dallas-Fort Worth creates a competitive bidding market, putting upward pressure on sale prices. Properties that traded during the 12-month period ended in June changed hands with a mean price of \$99 per square foot, up 9 percent from the prior yearlong period. This is a faster trajectory than the already quick pace witnessed over the past few years. From 2015 through 2020, the average sale price climbed between 6 percent and 8 percent in every year.
- The average cap rate for industrial assets that transacted over the past 12 months ended in June was 6.7 percent, a record low.
- More investors turned their attention to lower entry-cost submarkets such as South Fort Worth and the South Stemmons area. The average sale price recorded in these corridors is about \$80 per square foot, while cap rates fall in the upper-5 percent to mid-7 percent range.
- Buyers are willing to pay a premium for airport-adjacent facilities, as the rise in e-commerce necessitates air freight logistics, bolstering tenant demand. Assets in the DFW Airport submarket transact with an average sale price of roughly \$140 per square foot.