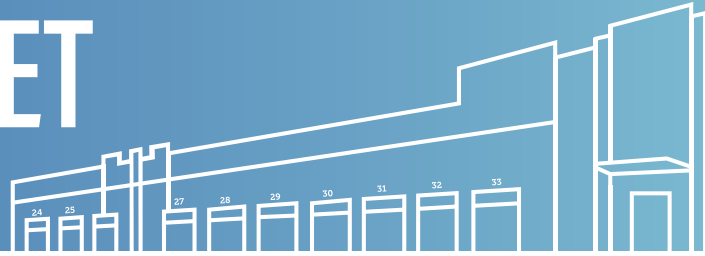


# INDUSTRIAL MARKET



## Rent Growth Accelerates As Vacancies Continue Steep Decline

New Construction Ramps Up To Meet Elevated Demand

### EXECUTIVE SUMMARY

#### Major Market Highlights

- Industrial rent growth is at +6% and accelerating
- Flex rent growth has stabilized as vacancy continues to tighten
- Quarterly net absorption was strong, leading vacancy to decline another 40 bps from the previous quarter
- Leasing velocity and demand for new construction remain above pre-pandemic levels after shattering all-time records last quarter
- Rent growth is driving asset prices higher as investor interest in DFW industrial properties remains strong

### OUTLOOK

#### Supply Chains To See Little Relief In The Near Term

Surveys from the Logistics Managers' Index® are indicating that supply chain pressures have seen little change since last quarter and are expected to continue over the next year:

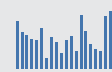
- Supply chain disruption is causing inventory levels and warehouse utilization rates to dip as inventory becomes more difficult to replenish
- Inventory levels are expected to increase over the next year, tightening warehousing utilization and overall capacity
- Warehousing and transportation costs are expected to continue growing over the next year, increasing incentives for space optimization and providing a tailwind for further leasing and rent growth
- Texas manufacturers' plans for capital expenditures over the next six months are returning to pre-pandemic levels, which could increase future space needs

Overall, the logistics and manufacturing sector are providing positive signals for space demand in the near future, helping absorb increased deliveries over the next 6-12 months.

### TRENDLINES

5-YEAR TREND      CURRENT QUARTER

#### NET ABSORPTION



**8.0 MSF**

12 month net absorption is positive 32.7 MSF

#### DIRECT VACANCY



**5.8%**

Down another 40 bps from last quarter

#### INDUSTRIAL RENTAL RATE (NNN)



**\$5.26 PSF**

Rent growth remains robust

#### FLEX RENTAL RATE (NNN)



**\$10.31 PSF**

Flex rents continue stabilizing

#### CONSTRUCTION (ALL TYPES)



**36.4 MSF**

Pipeline is ramping up to meet demand

#### SPECULATIVE CONSTRUCTION (INDUSTRIAL)



**33.7 MSF**

9.4 million SF in new starts this quarter

## RENTS

**Rent Growth Continues Accelerating**

Industrial rents continue growing at approximately 3-6% year-over-year across the market. Prime submarkets such as DFW Airport, South Stemmons, Northwest Dallas, and the Great Southwest are at or approaching growth rates of 8-10%. In fact, rent growth has remained elevated so long that the DFW market has broken out above the long-term trend line with an +8.5% above pre-pandemic levels.

Flex rent growth, on the other hand, remains modest due to the product type's higher base rate and competition with Industrial properties.

## LEASING, NET ABSORPTION, AND VACANCY

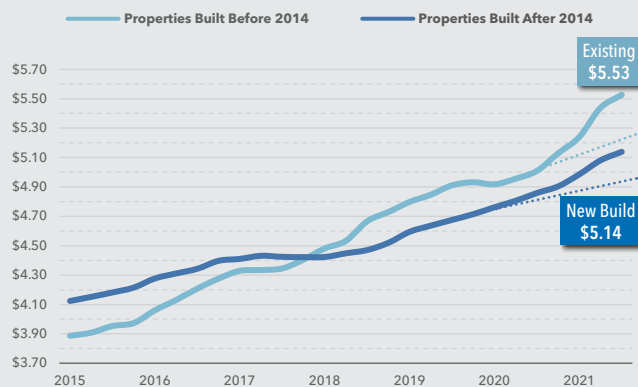
**Vacancy Declines Further With Strong Demand**

Net absorption reached positive 8.0 million SF, dipping from last quarter's record high of 11.2 million SF. As a result, direct vacancy decreased by another -0.4% to reach 5.8%, a level not seen since 2018. Vacancy rates remain elevated in Fort Worth submarkets due to a large volume of deliveries, but vacant availability (i.e. unleased space) is more modest at 9.0% in North Fort Worth and 6.5% in South Fort Worth.

Leasing remained robust this quarter at 17.4 million SF, softer than last quarter's 19.3 million SF but well above average. This difference is entirely due to leasing in spec projects coming down from last quarter's all-time record of 9.5 million SF. Nevertheless, leasing in both new and older/existing properties is meeting or exceeding pre-pandemic levels.

**AVERAGE INDUSTRIAL RENTS**

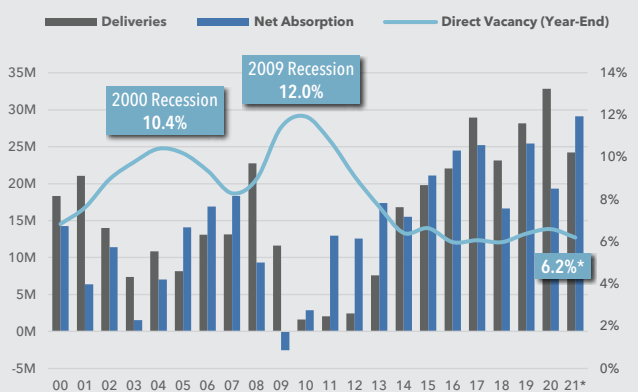
Existing Properties &amp; New Construction



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
Saddlecreek Logistics	Ascendant	858,420	New	I35 Logistics Centre 1	South Fort Worth
Woods Distribution Solutions	TCRG	707,000	New	Synergy Crossing - 400	North Fort Worth
Volkswagen	Weber-Greune/Crow	370,000	New	Intermodal Commerce Park 2	North Fort Worth
Prairie International	Weber-Greune/Crow	335,517	New	Intermodal Commerce Park 1	North Fort Worth
Total Office Solutions 	CT Realty	329,358	New	Stadium Logistics Center	South Stemmons
SunOpta Foods	Spirit Realty	285,000	New	4126 Power Way	South Dallas
Shorr Packaging	Crow Holdings	231,335	New	975 W Oakdale	Great Southwest



=Landlord and/or tenant represented by Transwestern

SOURCE: Transwestern, CoStar

## SUPPLY AND DEVELOPMENT

### Pipeline Ramps Up To Meet Demand

6.5 million SF of speculative projects delivered this quarter, leased at rate of 38%. Large speculative completions include 603 KSF at Oakmont 35 (South Dallas) and multi-building projects such as 1.4 MSF at Intermodal Commerce Park 1-3 (North Fort Worth), 955 KSF at Everman Crossroads 1&2 (South Fort Worth), and 355 KSF at McKinney Airport Center 1&2 (Northeast Dallas).

New starts totaling 9.4 million SF broke ground this quarter, increasing the construction pipeline to a new all-time high of 33.7 million SF.

Risk of oversupply remains low as recent leasing velocity can absorb everything in the construction pipeline within 15 months, or 19-24 months if leasing velocities retreated to more modest pre-COVID levels. Although this represents more slack compared to the last five years, these market conditions would be similar to 2014-15 when spec construction first ramped up and implied lease-up times were similarly high.

## INVESTMENT SALES

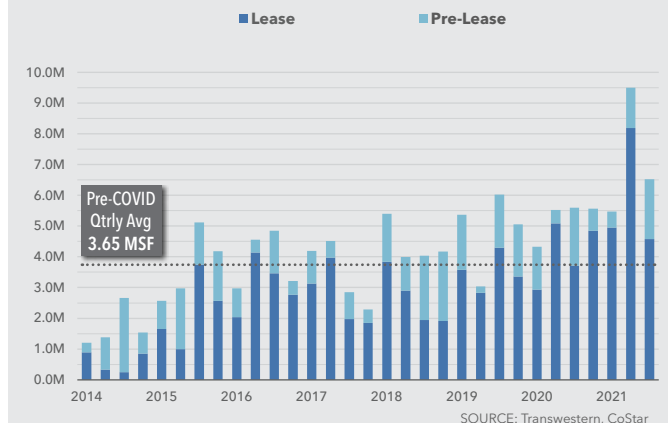
### Capital Market Activity Continues

DFW's economic resilience and outstanding industrial market performance is sustaining investor interest in deploying capital to the region. Sales volume has reached approximately \$5.8 billion over the last twelve months.

Cap rates remain around 5.0% on a T-12 basis, allowing increased rents/NOI to push asset prices higher to approximately \$103 PSF.

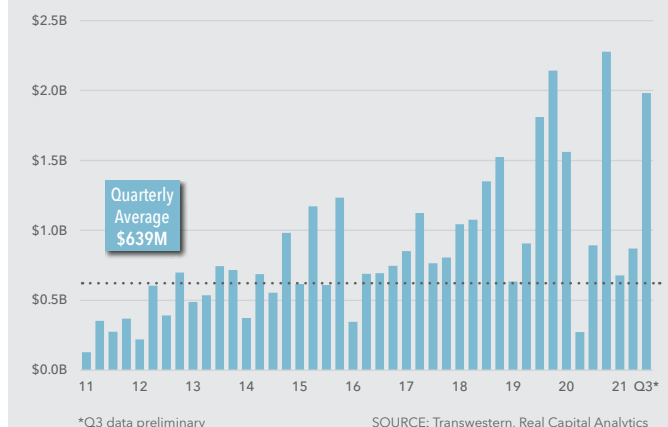
## LEASING VELOCITY OF NEW DEVELOPMENT

Spec Industrial Projects Only



## INVESTMENT VOLUME

Quarterly Totals



## Notable Sale Transactions - Q3 2021

PROPERTY	SF	BUYER	SELLER	SUBMARKET
Port America (15 Buildings)	712,231	PS Business Parks	Stockbridge Capital Group	DFW Airport
Denton Crossing 3 & 4	525,332	James Campbell Company	Scannell	Northwest Dallas
Logistics Center at McKinney 1 & 2	431,710	Thor Equities	Core5 Industrial Partners	Northeast Dallas
Majestic Fort Worth South 1	287,261	ASB Capital Management	Majestic Realty Co	South Fort Worth

Note: Multi-market portfolio sales are excluded

SOURCE: Transwestern, CoStar, Real Capital Analytics

## Industrial - Key Market Indicators

	Inventory	Direct Vacancy	%	Vacancy With Sublet	%	Under Construction	Q3 Leasing Activity	Q3 Net Absorption	12 Mo Net Absorption	NNN Rents	1 Year Ago
<b>D+FW Market Total</b>	<b>740,113,216</b>	<b>42,889,777</b>	<b>5.8%</b>	<b>46,207,002</b>	<b>6.2%</b>	<b>36,085,144</b>	<b>16,252,123</b>	<b>7,594,025</b>	<b>31,885,900</b>	<b>\$5.26</b>	<b>\$4.91</b>
DFW Airport	76,289,688	3,219,035	4.2%	3,645,536	4.8%	1,449,211	945,966	934,357	4,481,558	\$5.50	\$5.14
South Stemmons	89,181,689	4,339,986	4.9%	4,551,710	5.1%	828,524	2,690,793	648,748	1,864,215	\$6.36	\$5.06
Northwest Dallas	94,760,594	3,028,085	3.2%	3,423,806	3.6%	1,244,473	1,564,670	589,424	2,626,469	\$6.19	\$5.62
Northeast Dallas	79,573,622	3,418,857	4.3%	3,662,962	4.6%	641,869	1,233,811	1,334,597	3,970,548	\$6.17	\$6.09
East Dallas	40,661,923	2,356,371	5.8%	2,380,321	5.9%	6,224,469	610,447	(60,641)	2,490,530	\$5.57	\$4.04
South Dallas	90,338,969	4,415,888	4.9%	4,789,999	5.3%	15,259,126	2,166,810	1,075,555	5,771,855	\$4.02	\$3.80
Great Southwest	107,864,661	2,940,260	2.7%	3,367,894	3.1%	1,119,488	2,321,621	584,788	3,747,414	\$5.06	\$4.68
South Fort Worth	59,670,667	5,934,049	9.9%	6,118,649	10.3%	5,411,456	2,113,489	72,081	381,576	\$5.13	\$4.67
North Fort Worth	101,771,403	13,237,246	13.0%	14,266,125	14.0%	3,906,528	2,604,516	2,415,116	6,551,735	\$4.70	\$4.56

SOURCE: Transwestern, CoStar

## Flex - Key Market Indicators

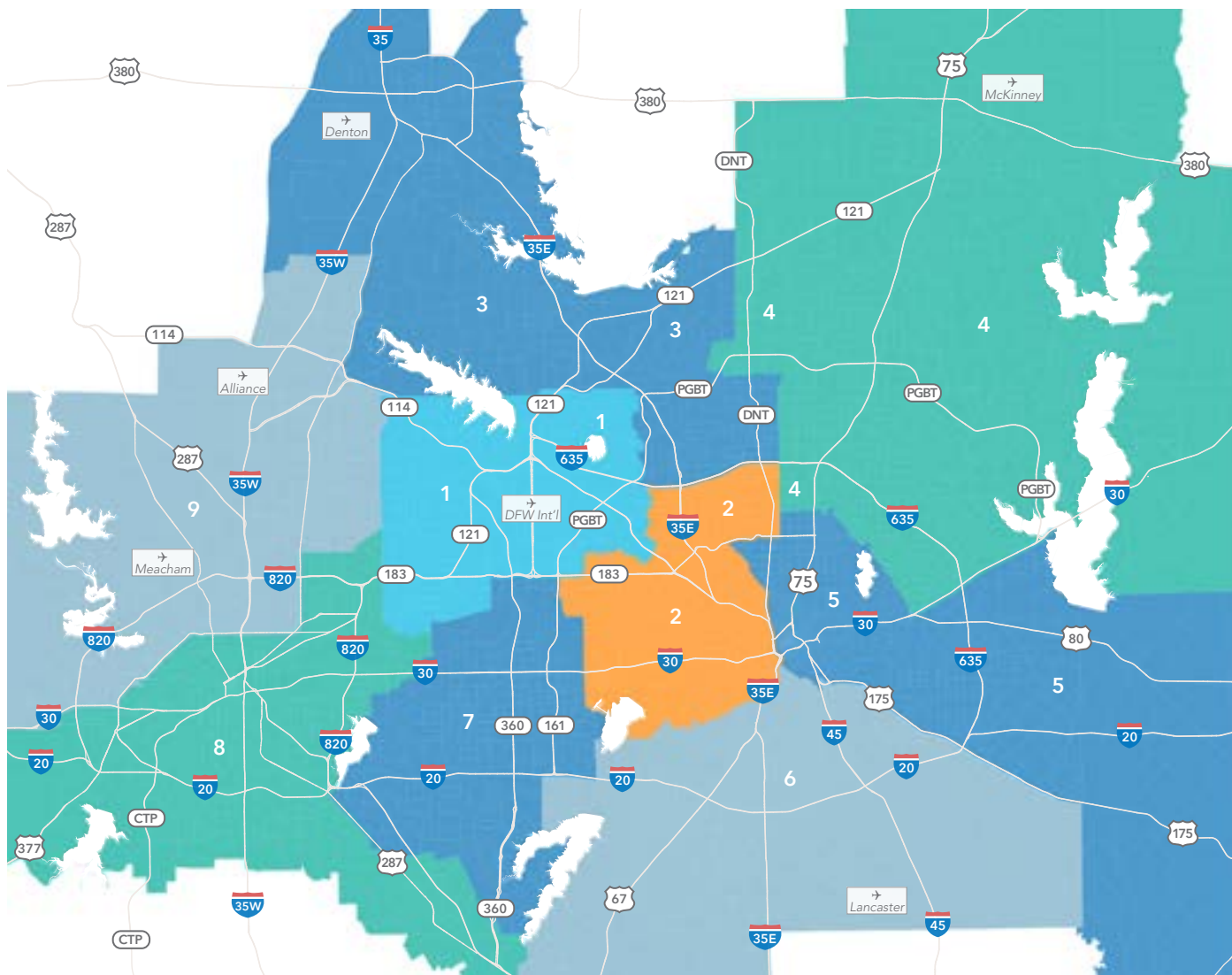
	Inventory	Direct Vacancy	%	Vacancy With Sublet	%	Under Construction	Q3 Leasing Activity	Q3 Net Absorption	12 Mo Net Absorption	NNN Rents	1 Year Ago
<b>D+FW Market Total</b>	<b>98,908,429</b>	<b>5,500,500</b>	<b>5.6%</b>	<b>5,831,065</b>	<b>5.9%</b>	<b>351,899</b>	<b>1,111,196</b>	<b>446,115</b>	<b>839,901</b>	<b>\$10.31</b>	<b>\$10.23</b>
DFW Airport	6,580,476	628,819	9.6%	655,180	10.0%	-	56,425	(28,019)	104,432	\$10.89	\$10.74
South Stemmons	19,232,209	962,626	5.0%	1,008,356	5.2%	-	171,189	(57,475)	(161,467)	\$12.78	\$11.76
Northwest Dallas	18,656,379	1,260,824	6.8%	1,365,563	7.3%	33,000	276,691	125,736	116,138	\$10.65	\$10.47
Northeast Dallas	26,197,742	1,456,645	5.6%	1,499,102	5.7%	244,431	359,306	197,106	574,729	\$9.76	\$9.80
East Dallas <sup>2</sup>	3,527,008	135,453	3.8%	135,453	3.8%	-	1,450	(18,338)	(51,287)	\$16.46	\$15.47
South Dallas <sup>2</sup>	2,293,441	11,524	0.5%	11,524	0.5%	-	4,915	6,626	70,335	\$7.00	\$12.01
Great Southwest	7,575,391	398,653	5.3%	509,931	6.7%	54,268	83,104	165,278	55,274	\$7.95	\$9.04
South Fort Worth	8,477,432	279,154	3.3%	279,154	3.3%	-	139,917	130,705	158,711	\$6.95	\$7.30
North Fort Worth	6,368,351	366,802	5.8%	366,802	5.8%	20,200	18,199	(75,504)	(26,964)	\$11.52	\$11.19

<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 163 million SF.



## 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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