

Dallas Fort-Worth Metroplex posts eleven straight years of positive net industrial absorption

BY AJ LATRACE



The industrial real estate boom happening across the country is nothing new in the Dallas-Fort Worth area. In fact, the industrial market has performed so well in the north Texas Metroplex that Q3 numbers in a new report from CBRE indicate that there have been 44 consecutive quarters — or eleven years straight — of positive net industrial absorption.



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And with the current crunch on the country's already stressed supply chain, that monumental momentum isn't likely to slow down anytime soon. The current vacancy rate in the Dallas industrial market? Just 4.6%.

Overall, 2021 has been a significant year for Dallas industrial. Year-to-date, by the end of Q3, the region has witnessed nearly 30 million square feet of absorption. In Q3 alone, there was 7.25 million square feet of absorption. Around 6.85 million square feet of industrial space was delivered in Q3 and another 31.3 million square feet of new industrial product was still under construction by the end of September.

And of the 31.3 million square feet of new space under construction by the end of the third quarter, nearly a third has already been pre-leased, the report details.

So what does this mean? Other major metros across the nation are also putting up big numbers and the level of investment across the east and west coasts, as well as the Midwest, are staying competitive. But with the Dallas area experiencing consistent growth, is it safe to assume that this is the busiest it's ever been?

"The short answer is yes," says Steve Trese, executive vice president with CBRE in Dallas. "The trailing four quarters of absorption for our market is over 37 and a half million square feet, which is just staggering to think about."

There's strong fundamentals behind this momentum, Trese adds, and that growth is only expected to continue as more private individuals and corporations relocate to Texas in the coming years. As other major metros saw big job losses and a sluggish recovery from the pandemic, northern Texas hasn't really missed a beat.

The report helps illustrate this momentum and correlation between absorption, new deliveries and total vacancy. For instance, the total deliveries in 2021 are more than 10 times the amount from the same period a decade ago and the overall vacancy rate has plummeted from a high of nearly 30% in 2011 to under 5% today. In 2011, net absorption was roughly 12 million square feet, while the number sits shy of 30 million square feet just in the first three quarters of 2021. Within the Dallas-Fort Worth region, the South Dallas and North Fort Worth submarkets had the greatest net absorption in the last quarter, with 1.87 million square feet and 1.79 million square feet respectively. But over the last 12 months, it's the North Fort Worth submarket, with a whopping 7.25 million square feet of net absorption that leads the Metroplex. The DFW Airport submarket witnessed 5.83 million square feet of absorption in the same period.

The reason for this boom in construction activity and absorption in South Dallas and North Fort Worth is that it's where there's still room to grow, says Trese.

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“The reason that you see most of the construction there is because that's where the opportunity is; all the other major sub markets are effectively built-out,” Trese explains. “You're seeing a lot of pioneering going on, and there's been a huge amount of success in North Fort Worth Alliance where [industrial space] is being chewed through much quicker than anyone anticipated.”

But with so much demand and competition for new sites and deals, is there enough room for everyone? And with so many of the submarkets already built-up, what does that mean for existing building stock?

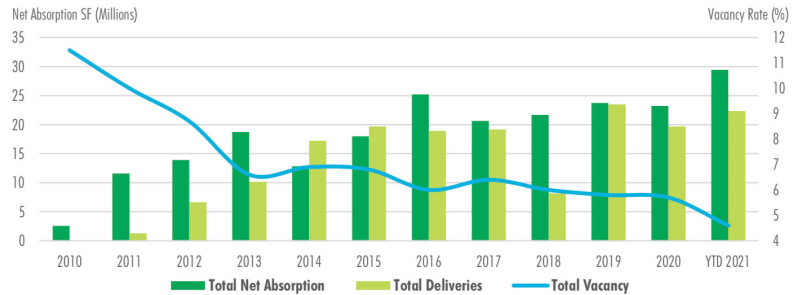
“Obviously [industrial] is the most desirable asset class to be in right now. You have office and retail developers switching hats and becoming industrial developers,” Trese says of the trend. “Unless you build a completely functionally obsolete structure, almost anywhere you put [a new building] is going to work right now just because of the demand.”

And can this type of growth be sustained for another few years — or perhaps, another 44 consecutive quarters?

The CBRE report highlights the Dallas market's location near major manufacturing across northern Texas and the proximity to the U.S. and Mexico border. However, it's third-party logistics, e-commerce, and consumer goods that are the primary drivers behind the current boom — both in north Texas and beyond.

▶ Vacancy Rate 4.6%
▼ Q3 2021 Deliveries 6,847,478
▲ Under Construction 31,303,831
▼ Q3 2021 Absorption 7,250,918
▲ YTD Absorption 29,455,097

Figure 1: DFW Industrial Market (Annual)



Source: CBRE Research, Q3 2021

Trese adds that at this point in the Metroplex's timeline, the sites that may have been considered too far away or less desirable just a few years ago are also getting scooped up and leased out. It's largely to do with how many people have jumped into the game in recent months.

“Five years ago, there were maybe 20 developers you could point to in North Texas, and now there's 100,” he says of the increased competition in the industrial market. “It's just now the industry is splintered. But the market is making relatively new folks to the business look really, really smart, just because the market is so strong and the fundamentals are so good.”

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