Dallas-Fort Worth Industrial

Q3 2023

QUARTERLY MARKET REPORT

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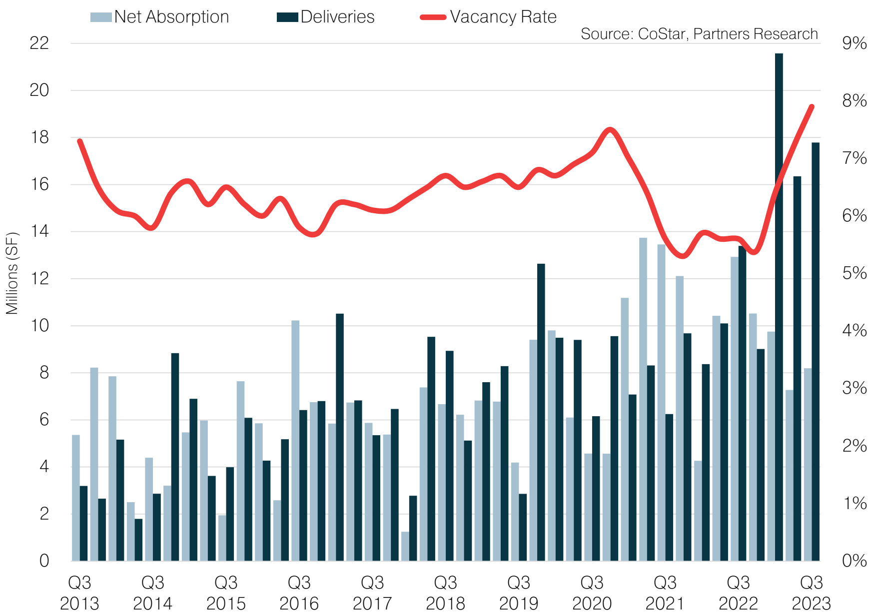
Executive Summary

Deliveries in DFW Industrial up 33% year-over-year.

Q3 2023 in Review

By the end of Q3 2023, the overall vacancy rate in the Dallas-Fort Worth (DFW) industrial market rose 70 basis points quarter-over-quarter, from 7.2% to 7.9%. A 7.9% vacancy rate defines DFW's industrial market as "landlord favorable", however forecasts indicate that the market may reflect "neutral conditions"—8% to 10% vacancy rate—heading into 2024. Net absorption increased 13% quarter-over-quarter to 8.1 million sq. ft. In August 2023, DHL Supply Chain and Pratt Industries occupied 1.2 million-sq.-ft. and 1 million-sq.-ft. distribution centers, respectively. Year-to-date, net absorption is at 25.2 million sq. ft. Deliveries increased 33% year-over-year to 17.7 million sq. ft. Year-to-date, deliveries are at 55.7 million sq. ft. Construction decreased 20% quarter-over-quarter to 52.7 million sq. ft., however historical averages indicate construction activity remains strong. Lastly, the average monthly rental rate increased 14% year-over-year, currently standing at $0.75 per sq. ft.

Supply & Demand



Dallas-Fort Worth Economic Update

The DFW unemployment rate increased to 3.9% in August 2023, slightly up from 3.8% in July 2023. The metro's jobless rate was higher than the nation's rate (3.8%), and lower than the state's rate (4.1%). As of August 2023, total employment in DFW was 4.2 million. DFW private hourly earnings dipped to $33.69 in August 2023 from $34.92 in July 2023.

Key Market Indicators

	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	7.9%	7.2%	⬆	5.6%	⬆
Vacant Direct	7.1%	6.4%	⬆	5.3%	⬆
Available Total	11.6%	11.2%	⬆	10.2%	⬆
Available Direct	10.5%	10.5%	▬	9.9%	⬆
Net Absorption (SF)	8,197,114	7,273,946	⬆	12,927,659	⬇
Leasing Activity (SF)	13,961,753	15,766,451	⬇	20,813,778	⬇
Construction (SF)	52,683,366	65,829,552	⬇	78,243,599	⬇
Deliveries (SF)	17,784,083	16,350,421	⬆	13,394,457	⬆
Avg Asking Rent (NNN/MO)	$0.75	$0.75	▬	$0.66	⬆
Inventory (SF)	1,077,697,549	1,059,793,938	⬆	1,012,856,600	⬆

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Market Overview

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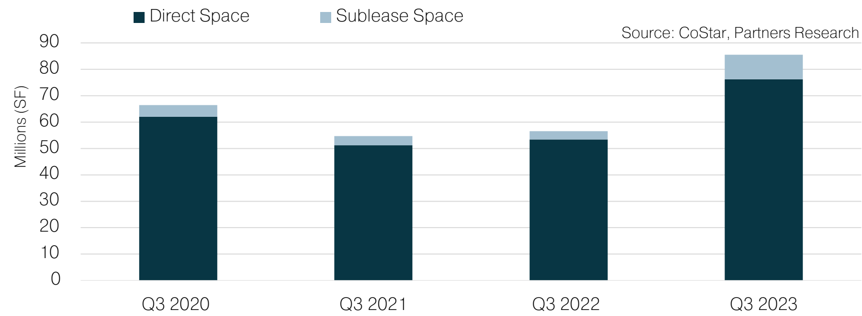
Vacancy Rate Increases to 7.9%

The overall vacancy rate in DFW's industrial market rose to 7.9%, increasing 70 basis points from 7.2% in Q2 2023. This increase is partially due to the recent lag in lease-ups for new industrial deliveries in DFW. Only 45% of industrial completions thus far in 2023 are fully leased. In comparison, 80% of industrial completions were fully leased by the end of 2022. In addition, Flex, Manufacturing, and Warehouse/Distribution space have vacancy rates of 5.1%, 4.0%, and 8.8%, respectively. DFW's industrial market is "landlord-favorable"—a vacancy rate below 8%. However, the market is projected to reflect "neutral conditions"—a vacancy rate ranging between 8% to 10%—heading into 2024.

Vacancy



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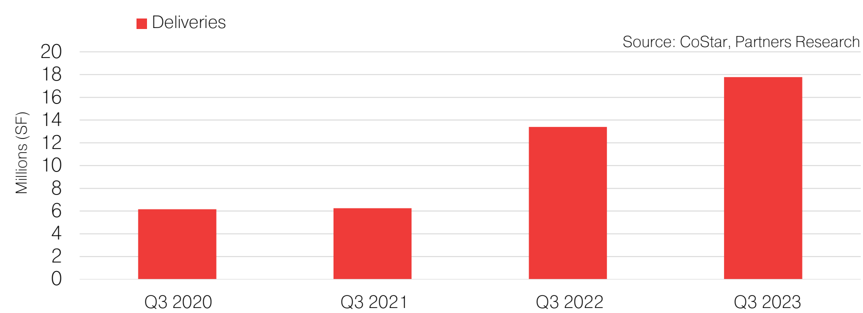
Deliveries Up 33% Year-Over-Year

Deliveries in the DFW industrial market increased to 17.7 million sq. ft., up 9% quarter-over-quarter from 16.3 million sq. ft., and up 33% year-over-year from 13.3 million sq. ft. Year-to-date, deliveries amounted to 55.7 million sq. ft. Examples of notable deliveries within the past year have been a 1 million-sq.-ft. distribution center at the intersection of Millers Ferry Road & Lavender Road in July 2022, a 1.2 million-sq.-ft. distribution center at 13750 North Freeway in December 2022, and a 1.5 million-sq.-ft. distribution center (Walmart) on 2300 East Beltline Road in September 2023. Construction is at 52.7 million sq. ft.—across 249 buildings—20% down from the prior quarter's 65.8 million sq. ft. Over the prior three years, construction has averaged 46 million sq. ft. annually—indicating that the DFW industrial construction activity remains strong.

Deliveries



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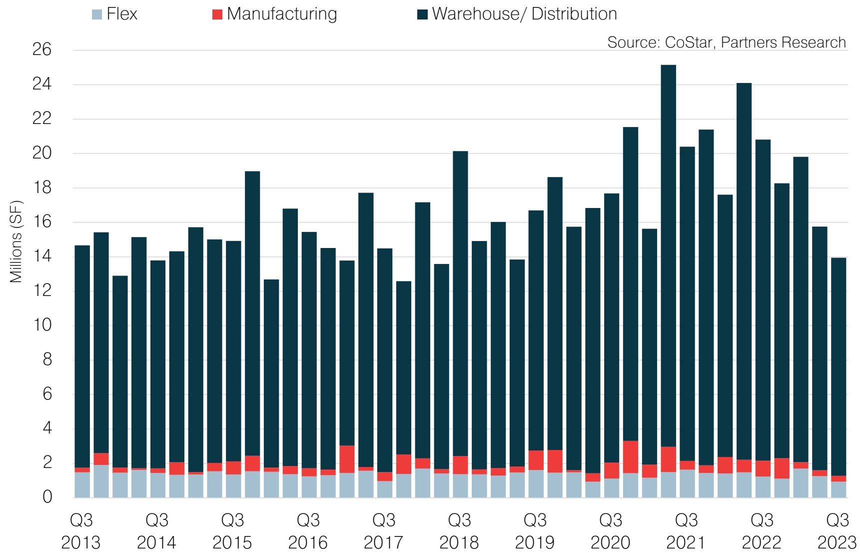
Leasing Down 11% From Previous Quarter

Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 13.9 million sq. ft. during the third quarter—down 11% from 15.7 million sq. ft. in Q2 2023. Year-to-date, leasing activity registered at 49.5 million sq. ft. Notable transactions within Q3 include Flexport subleasing 799,460 sq. ft. of distribution space at 2900 South Valley Parkway in August, and Atkore inking a deal for a 553,383-sq.-ft. warehouse at 8701 US Highway 287 in September.

Leasing Activity



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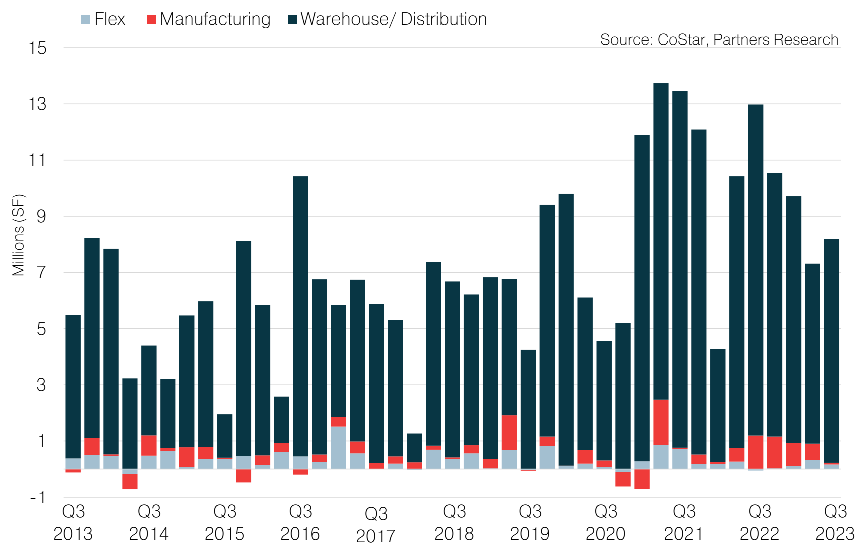
1 Million-Sq.-Ft. Move-Ins Boost Net Absorption

Net absorption—move-ins minus move-outs—is at 8.1 million sq. ft. up 13% from 7.2 million sq. ft. in Q2 2023. Warehouse/Distribution space accounted for 7.9 million sq. ft.—or 97%—of the third quarter's net absorption. Flex space and Manufacturing space recorded net absorption of 163,028 sq. ft. and 64,668 sq. ft., respectively. Year-to-date, net absorption has totaled 25.2 million sq. ft. Recent notable move-ins include DHL Supply Chain occupying a 1.2 million-sq.-ft. distribution center at FM 156 and Elizabeth Creek, and Pratt Industries filling a 1 million-sq.-ft. distribution center at 1700 South J. Elmer Highway in August 2023.

Net Absorption



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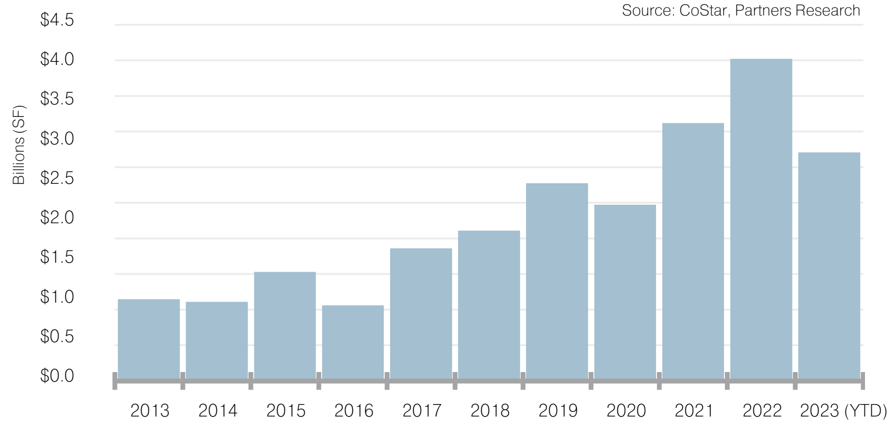
Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at $2.9 billion in the DFW industrial market. With 883 deals completed thus far in 2023, the average transaction price currently stands at $123 per sq. ft. with an average cap rate at 7.3%. A notable transaction in Q3 2023 included TA Realty closing on four industrial buildings (Turnpike Distribution Center) in August 2023. Located in the South Stemmons submarket, this acquisition totaled 1.4 million sq. ft.—Warehouse 1 (247,628 sq. ft.), Warehouse 2 (288,300 sq. ft.), Warehouse 3 (282,487 sq. ft.), and Warehouse 4 (594,000 sq. ft.) This acquisition features tenants such as Distribution International, NTL Brands Ltd., and Campbells Snacks, and was 100% leased at the time of sale.

Year-To-Date Investment Sales



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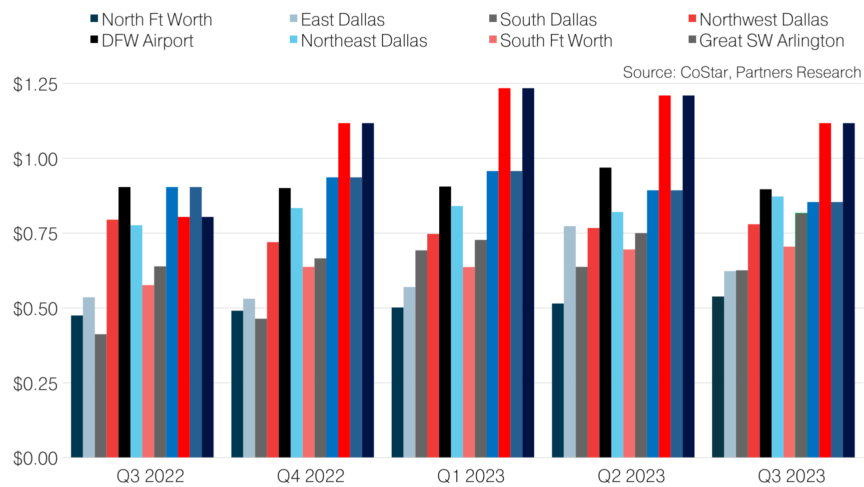
Rental Rates Increase 14% Year-Over-Year

The average monthly rental rate for the DFW industrial market was $0.75 per sq. ft., up 14% year-over-year from $0.66 per sq. ft. The average monthly rate for Flex space stood at $1.10 per sq. ft., while the rates for Manufacturing space and Warehouse/Distribution space were $0.63 per sq. ft. and $0.68 per sq. ft., respectively. The Northwest Dallas Outlying and DFW Airport submarkets currently have the highest overall average rates at $1.12 per sq. ft. and $0.90 per sq. ft., respectively.

Average Asking Monthly NNN Rent



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Submarket Stats

Submarket Statistics (Total reflects Flex/Manf/WD)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent ($/PSF)
Dallas-Ft Worth Market Total	**1,077,697,549**	**7.90**	**11.60**	**8,197,114**	**25,219,222**	**17,784,083**	**52,683,366**	**0.75**
Flex	116,122,996	5.10	6.10	163,028	596,088	43,500	568,829	1.10
Manufacturing	105,703,874	4.00	4.70	64,668	1,477,481	304,238	1,472,946	0.63
Warehouse/Distribution	855,870,679	8.80	13.10	7,969,418	23,145,653	17,436,345	50,641,591	0.68
South Dallas Total	**151,505,828**	**13.10**	**17.70**	**5,432,551**	**10,962,333**	**7,861,883**	**7,847,017**	**0.63**
Flex	3,429,154	5.60	6.30	-44,051	-34,360	21,000	0	0.73
Manufacturing	17,949,236	1.10	2.90	13,959	278,480	0	0	0.35
Warehouse/Distribution	130,127,438	14.90	19.90	5,462,643	10,718,213	7,840,883	7,847,017	0.63
North Ft Worth Total	**141,000,320**	**10.10**	**13.30**	**2,346,920**	**6,494,608**	**5,095,111**	**12,196,453**	**0.53**
Flex	7,509,836	4.00	7.90	-33,168	-45,692	0	73,342	1.00
Manufacturing	9,463,861	6.10	5.70	-67,228	186,725	284,238	0	0.45
Warehouse/Distribution	124,026,623	10.80	14.10	2,447,316	6,353,575	4,810,873	12,123,111	0.52
East Dallas Total	**62,232,338**	**11.70**	**18.10**	**2,064,782**	**3,161,123**	**1,069,947**	**9,152,997**	**0.62**
Flex	4,747,781	4.30	5.10	25,209	33,611	0	0	0.99
Manufacturing	6,963,836	3.90	3.90	102,206	112,406	0	0	2.00
Warehouse/Dsitribution	50,520,721	13.60	20.80	1,937,367	3,015,106	1,069,947	9,152,997	0.54
Northwest Dallas Total	**126,850,236**	**7.20**	**0.10**	**-1,150,452**	**-48,026**	**870,721**	**4,673,645**	**0.78**
Flex	20,607,703	6.50	7.30	109,626	116,803	22,500	123,709	1.11
Manufacturing	7,555,581	1.60	1.90	22,979	118,570	0	0	0.69
Warehouse/Distribution	98,686,952	7.70	10.90	-1,283,057	-283,399	848,221	4,549,936	0.66
DFW Airport Total	**96,758,860**	**6.60**	**11.40**	**-9,359**	**1,211,267**	**727,289**	**3,583,907**	**0.90**
Flex	7,706,084	5.80	8.40	121,494	221,411	0	0	1.07
Manufacturing	3,953,676	21.10	21.10	-81,727	-81,727	0	0	0.00
Warehouse/Distribution	85,099,100	5.90	11.20	-49,126	1,071,583	727,289	3,583,907	0.79
South Ft Worth Total	**107,732,126**	**6.70**	**10.20**	**407,832**	**3,506,940**	**1,553,539**	**4,944,882**	**0.71**
Flex	10,453,838	3.00	3.90	-12,637	-10,747	0	41,390	0.99
Manufacturing	15,520,343	0.30	0.60	-21,818	881,078	0	600,000	0.49
Warehouse/Distribution	81,757,945	8.40	12.70	442,287	2,636,609	1,553,539	4,303,492	0.68
Northeast Dallas Total	**132,773,348**	**5.00**	**8.40**	**-64,900**	**1,203,469**	**505,672**	**4,600,494**	**0.87**
Flex	31,435,066	5.10	6.00	-27,015	234,302	0	304,387	1.08
Manufacturing	22,734,681	6.80	6.90	-22,558	-66,588	0	478,469	0.53
Warehouse/Distribution	78,603,601	4.40	9.80	-15,327	1,035,755	505,672	3,817,638	0.87
Great SW Arlington Total	**126,375,189**	**5.00**	**7.90**	**-355,526**	**-685,655**	**67,921**	**2,881,100**	**0.82**
Flex	8,394,125	4.30	4.90	94,943	235,950	0	0	0.96
Manufacturing	12,696,338	3.40	3.30	157,930	91,921	0	394,477	0.73
Warehouse/Distribution	105,284,726	5.30	8.60	-608,399	-1,013,526	67,921	2,486,623	0.79
South Stemmons Total	**128,849,651**	**6.20**	**8.00**	**-533,911**	**-722,040**	**20,000**	**2,135,614**	**0.85**
Flex	21,774,694	5.10	5.40	-86,373	-170,190	0	0	1.24
Manufacturing	8,686,839	2.70	6.40	-39,075	-43,384	20,000	0	0.64
Warehouse/Distribution	98,388,118	6.80	8.80	-408,463	-508,466	0	2,135,614	0.75
NW Dallas Outlying Total	**3,619,653**	**10.40**	**21.40**	**59,177**	**135,203**	**12,000**	**667,257**	**1.12**
Flex	64,715	0.00	26.00	15,000	15,000	0	26,001	0.00
Manufacturing	179,483	0.00	0.00	0	0	0	0	0.00
Warehouse/Distribution	3,375,455	11.10	22.20	44,177	120,203	12,000	641,256	1.12

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Market Overview

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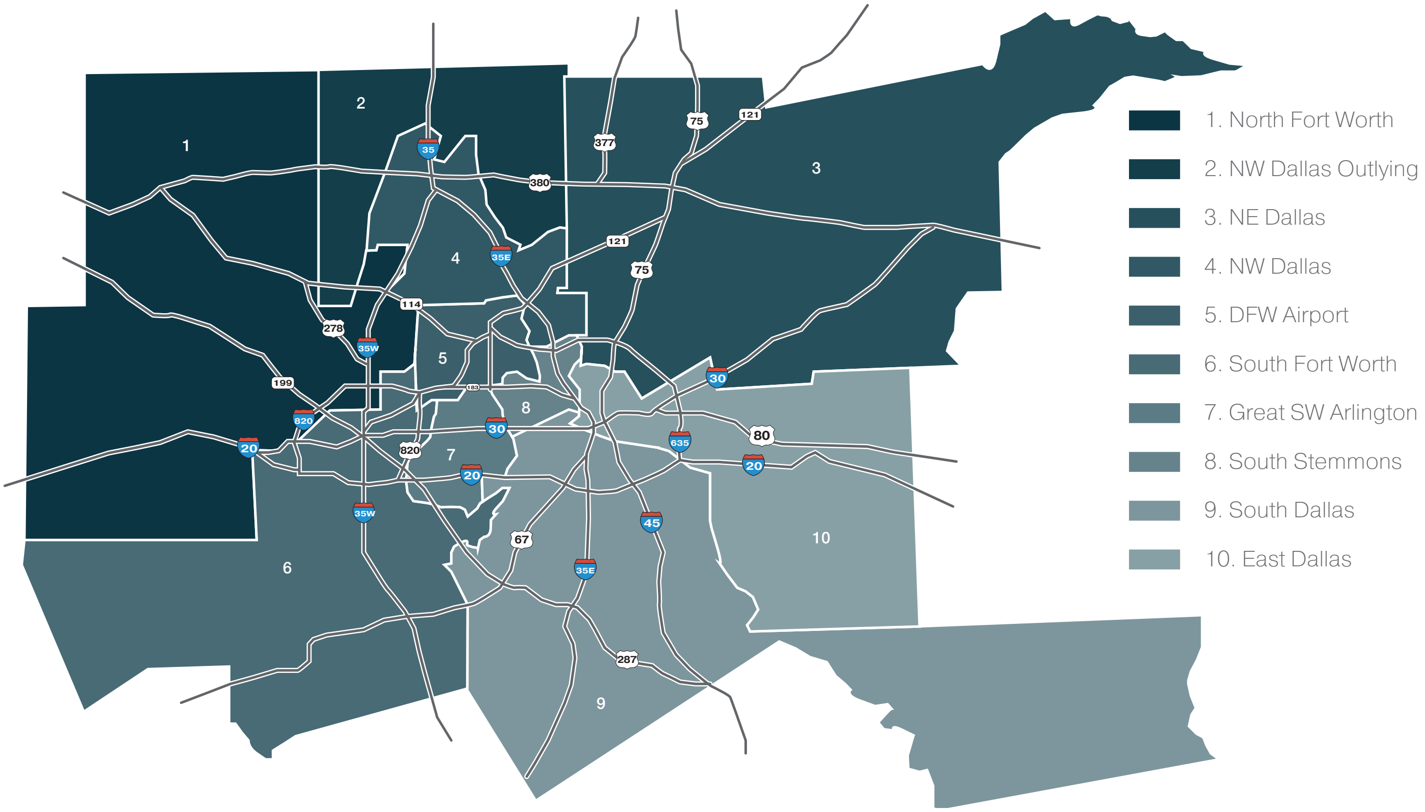
Dallas-Fort Worth Industrial Submarkets



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