

Dallas



Market Facts

115,300

Jobs added in the last year, a 3.3% increase in employment.

4.0%

Unemployment in Dallas.

20.9

Million square feet currently under construction.

6.3%

The Dallas industrial vacancy rate remains near record-lows.

Market Overview

2016 was one of the best years on record for the Dallas Fort Worth (DFW) industrial market in terms of absorption gains and construction activity. Remarkably, this high level of activity has continued into the first half of the year and 2017 is poised to surpass the previous year's record growth. Even with the historic amount of construction, demand is keeping pace with new supply. Throughout the remainder of 2017, vacancy in the market is projected to hold relatively steady as strong demand continues to balance the historic amount of construction activity.

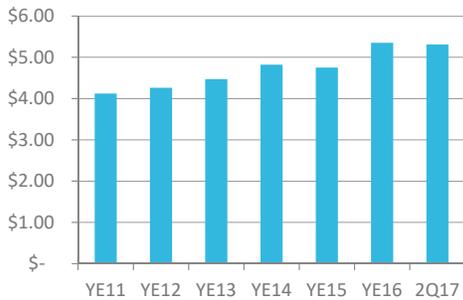
In the latest population estimates provided by the U.S. Census Bureau, the DFW area was ranked as the second fastest-growing metropolitan area in the U.S. with a weekly net gain of 2,474 people. The ongoing population boom is driving demand for industrial users, particularly from e-commerce suppliers as online shopping grows in popularity. To keep up with the growing demands of e-commerce consumers, distributors are expanding in DFW to improve connectivity and efficiency. The vibrant economy and centralized location

make Dallas an ideal hub for warehouse and distribution properties.

Employment in the DFW metropolitan area has increased by 3.3% in the past year. The booming Dallas-Fort Worth (DFW) market continues to enjoy impressive employment gains and shows no signs of slowing down. Employment gains were broad-based with most economic sectors experiencing year-over-year job growth. The Urban Land Institute (ULI) consistently names Dallas as a top market to watch in the U.S. in its Emerging Trends in Real Estate report. Dallas was ranked No. 1 in 2016 and No. 2 in 2017. The report cites that the Dallas economy survived the global financial crisis better than most other U.S. markets, and real estate fundamentals continue to avoid the boom and bust behavior that has plagued the market in the past. The DFW market is expected to progress even further in 2017 with the financial services, technology and healthcare sectors leading the way.



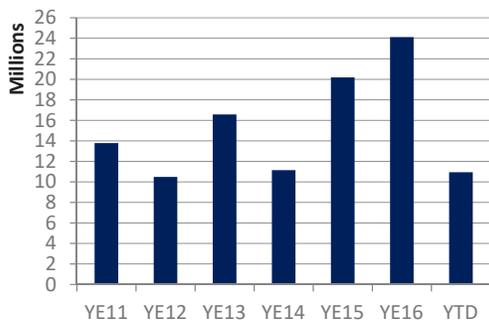
Asking Rates



Historical Vacancy Rate



Historical Net Absorption



Absorption & Demand

The Dallas industrial market recorded over 5.5 msf of absorption in the second quarter, totaling over 10.9 msf absorbed at the mid-year point. The majority of absorption this year has come from tenants taking occupancy of newly-delivered space. Demand for big box distribution and warehouse product has spiked in the past year due to expansion in the consumer goods sector. Two factors have contributed most to this increase in activity- strong population gains and the rise of e-commerce. Warehouse and distribution properties have accounted for 73% of absorption gains this year. Six out of nine Dallas submarkets have recorded over 1.0 msf in absorption this year. The North Fort Worth submarket is leading the way with over 2.7 msf absorbed YTD.

Vacancy & Availability

The Dallas industrial vacancy rate is up slightly from the previous year to 6.3%. Even though vacancy is up, it remains near historically-low levels. This is particularly significant because construction activity has remained incredibly high for the last two years. The market is digesting what is being built, leading to a relatively stable vacancy rate. The South Dallas submarket maintains the highest vacancy rate of 10.3%, however the majority of Dallas submarkets recorded a vacancy rate ranging from 4.0% to 6.0%. Manufacturing properties recorded a vacancy rate of 8.0%, followed by flex properties (6.3%) and warehouse and distribution properties (6.0%).

Asking Rates

Average asking rates have increased substantially in recent years due to the booming economy and continued demand. The strong appreciation in asking rates led to tenants expressing

sticker shock as their leases come up for renewal. Triple net asking rates dropped slightly from year-end 2016 but remain on an upward trajectory. From the previous quarter, asking rates increased by \$0.12 per square foot (psf) to \$5.31 psf NNN. Warehouse and distribution properties have driven the rental rate growth. Year-over-year, warehouse and distribution asking rates increased by 6.3% to \$4.38 psf, flex rates increased by 1.1% to \$9.60 psf, and manufacturing rates fell by 5.5% to \$4.51 psf.

Construction

Fundamentals across the market remain incredibly optimistic in 2017. An additional 20.9 msf is currently under construction with 36% preleased. Construction is particularly active in South Dallas along I-20 where major businesses have signed large leases in recent years, and in North Fort Worth which is home to Alliance Fort Worth Airport.

The market has already delivered over 14.7 msf of new product in the first six months of 2017. This year is on track to be one of the best years in terms of new deliveries. Construction activity is projected to remain high as supply continues to balance out the strong demand in the Dallas industrial market.



Notable 2Q17 Completions

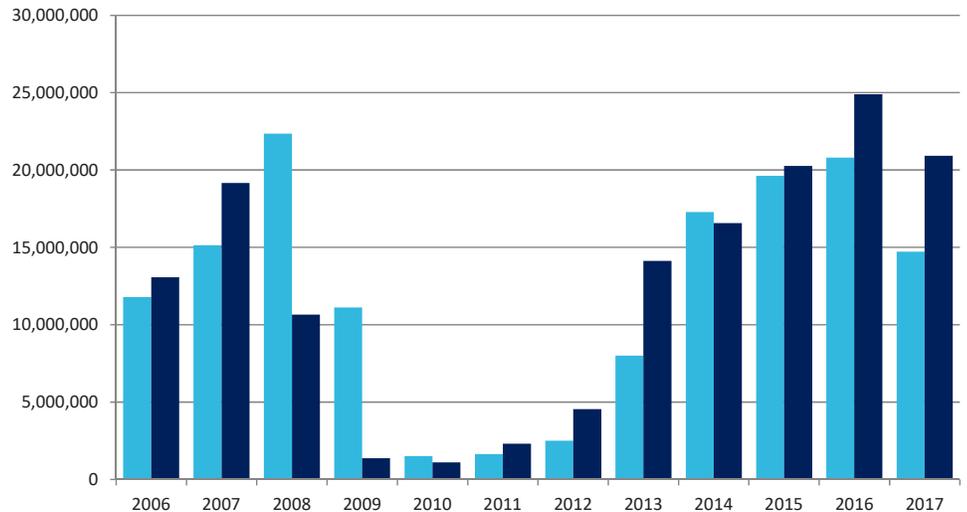
2008 Lookout Dr. (1,000,000 sf).
Flex.

I-20 Commerce Center (900,043 sf).
Distribution.

Park Twenty (468,300 sf).
Distribution.

CentrePort 2 (430,759 sf).
Warehouse.

Construction Timeline



2Q17 Activity

- To keep up with e-commerce demand, UPS leased over 1.0 msf at Arlington Commerce Center in the Great SW/Arlington submarket. The building delivers in October, and UPS will take occupancy of the space in the fourth quarter. UPS plans to add more than 1,000 jobs at the new location.
- S&S Activewear leased 492,322 sf at the new Mercantile Center Industrial Park located in the North Fort Worth submarket. The company will take occupancy of the space when it is completed in August.
- DW Distribution Inc. renewed its 476,341-sf lease at Eagle Business Park in the South Dallas submarket.
- PepsiCo took occupancy of 518,241 sf at Trammell Crow at Chalk Hill Road Building 1.
- Construction began on SouthLink Building I, a distribution building in the South Dallas submarket totaling over 1.0 msf. The speculative building is part of a 125-acre master planned Class A industrial park. Delivery is slated for the first quarter of 2018.

Trends to Watch



Dallas has 21 Fortune 500 companies located in the metro, up from 18 in 2014.



All economic sectors reported growth in the last 12 months, with Leisure & Hospitality (5.9%), Professional & Business Services (5.4%), and Financial Activities (4.3%) leading the way.



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