Marcus & Millichap

Industrial Research Market Report

Midyear 2017

Dallas/Fort Worth Metro Area

Investors Nationwide Covet Dallas/Fort Worth's Ever-Expanding Industrial Market

Nation's second strongest industrial market based on net absorption and construction deliveries. Job creation is supporting median income increases that encourage household formations and boost retail spending. E-commerce, wholesale trade and third-party logistics firms' response to escalated consumer spending will be expansion, with companies bolstering payrolls and occupying more space. Industrial growth continues to fuel development, with five submarkets each slated to welcome more than 1 million square feet of new space this year. The Southeast Dallas and Upper Great Southwest regions will witness the largest influx of new space; both are home to five sizable projects. Metrowide, half the properties brought online will represent buildouts of existing industrial hubs, with speculative construction prevalent. Overall, robust tenant demand will outpace completions, compressing vacancy to a cycle low and spurring double-digit rent growth in certain locales.

Out-of-state investors flood the market. Robust leasing activity and yields higher than coastal markets continue to lure buyers to the centralized Metroplex. An influx of California and Massachusetts-based firms will expand the buyer pool beyond the number of available listings, driving pricing and competition for warehouses and distribution centers. In the city of Dallas, properties near the airport and Stemmons Freeway, industrial-heavy areas, will garner the most attention. Recent vacancy compression in Fort Worth should alert more buyers to warehouses and manufacturing opportunities, as the market appears prime for future rent escalation. Proximity to major transportation routes should up demand for distribution and manufacturing centers in Arlington, Carrollton and Farmer's Branch. Overall, warehouses will trade at high-6 percent to 9 percent cap rates, with distribution and manufacturing facilities netting 7 percent initial yields.

2017 Market Forecast

Employment up 1.3% — Metroplex employers create 45,000 positions this year after expanding payrolls by 3.8 percent last year with the addition of 131,200 workers.

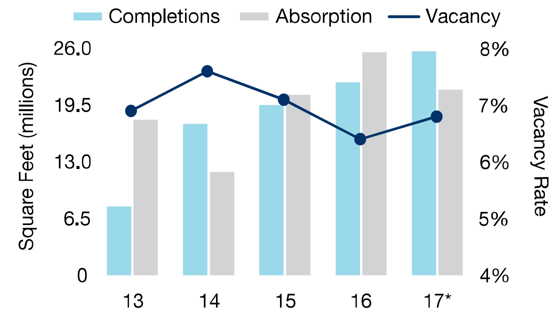
Construction 25.6 million sq. ft. — Developers expand inventory in 2017, with deliveries spread throughout the metro. During the previous two years, 22 million and 19.4 million square feet came online.

Vacancy up 30 bps — Vacancy rises to 6.8 percent following two years of compression on net absorption of more than 21 million square feet. During 2016, the vacancy rate declined by 70 basis points.

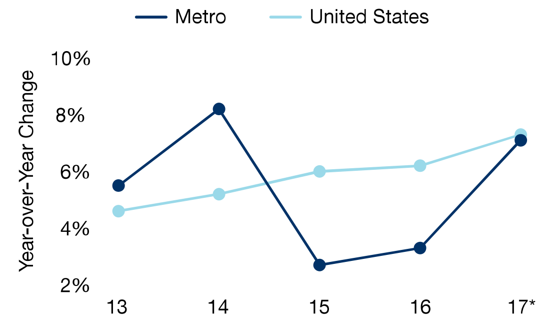
Rent up 7.1% — Unwavering tenant demand and a pipeline of deliveries accelerate the average asking rent to $4.97 per square foot. The average rate rose 3.3 percent last year.

Investment — Properties priced under $10 million remain highly coveted by local investors throughout the metro, specifically repositionable assets built in the late 1970s and 1980s

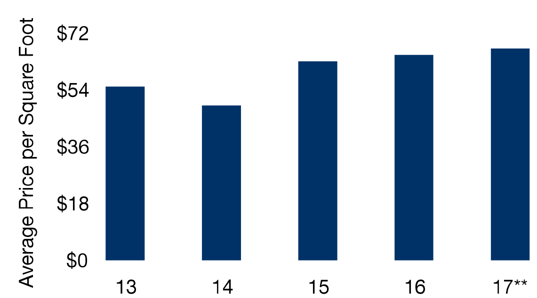
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



* Forecast ** Trailing 12 months as of March 2017
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Moody's Analytics

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