TRANSWESTERN

DALLAS+FORT WORTH INDUSTRIAL MARKET

Q4 2023

Vacancy Climbs With Deliveries

Industrial properties continued to perform in Dallas-Fort Worth at year-end 2023. Rent growth continues at +20% year-over-year. Net absorption reached positive 4.8 million SF for the quarter, but speculative deliveries continue to drive vacancy higher to 9.4%. That said, the construction pipeline—and with it, the risk of overbuilding—is rapidly shrinking as projects deliver and financing for additional building has become difficult to obtain.

Performance over the next 12-18 months will vary based on product type and location. Tight market conditions will likely continue in core submarkets with limited construction, although some larger blocks may come to market as tenants relocate to newer buildings. In periphery submarkets, deliveries have driven vacancy to double-digit levels, creating a glut of supply that will take time for tenants to absorb. That said, population and job growth in Dallas-Fort Worth will help absorb vacant stock and support future developments over the next cycle.

INDUSTRIAL TRENDLINES

	Q4 2023	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
12 Month Net Absorption	28.2 MSF	35.8 MSF	↓	29.9 MSF	↓
Quarterly Net Absorption	4.8 MSF	9.6 MSF	↓	7.5 MSF	→
Vacancy (Existing)	9.4%	5.8%	↑	6.4%	↑
Availability (Existing & U/C)	12.9%	12.8%	→	10.6%	→/↑
Industrial Rents (NNN)	$7.78	+20.2%	↑	+10.1%	↑
Total Construction	26.2 MSF	79.8 MSF	↓	46.5 MSF	↓
Speculative Construction	23.6 MSF	69.6 MSF	↓	38.2 MSF	↓

Note: Rents are averaged over the last 12 months for consistency.

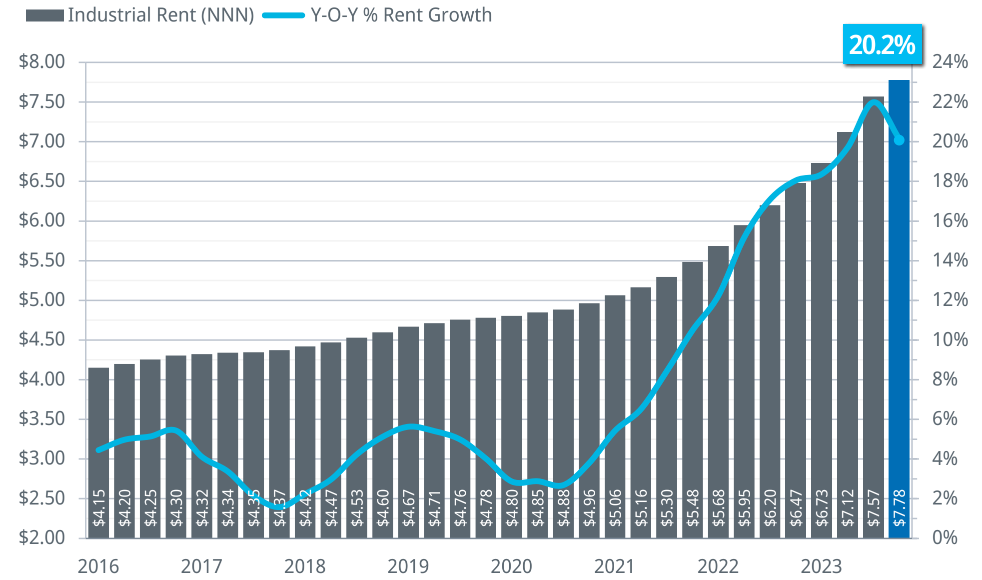
Sources: Transwestern Research, CoStar

RENTAL RATES

Double-Digit Rent Growth Continues

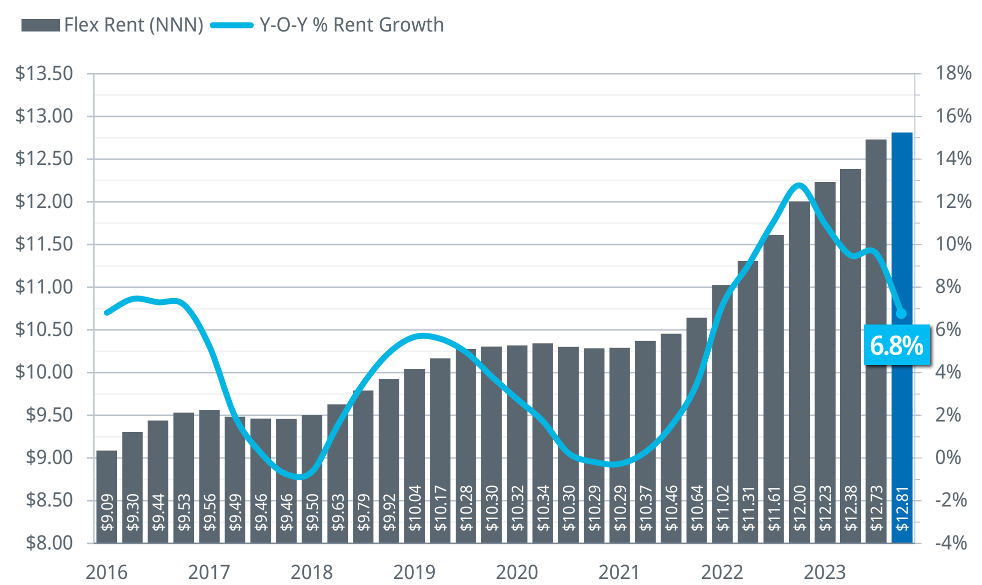
- Industrial rent growth continues at a robust pace of 20.2% year-over-year, bringing average rents to $7.78 NNN. Industrial rent growth is strong in both Dallas (+17%) and Fort Worth (+20%).
- Flex rent growth remained steady at 6.8% year-over-year, bringing average rents to $12.81 NNN this quarter.
- Annual rent escalations have risen to 3.5%-5.0% per year, well above the pre-pandemic norm of 2.0%-3.0% per year.
- Higher tenant improvement allowances are available due to rising finish-out costs, contributing to the historic growth in rental rates.
- Transwestern expects rent growth to continue:
  - Rents will continue to grow as vacancy remains below long-term average levels, though not at levels seen over the last 24 months.
  - In periphery submarkets, deliveries will drive vacancy to further highs. Rent growth will likely remain positive.

AVERAGE INDUSTRIAL RENTS



Source: Transwestern Research, CoStar

AVERAGE FLEX RENTS



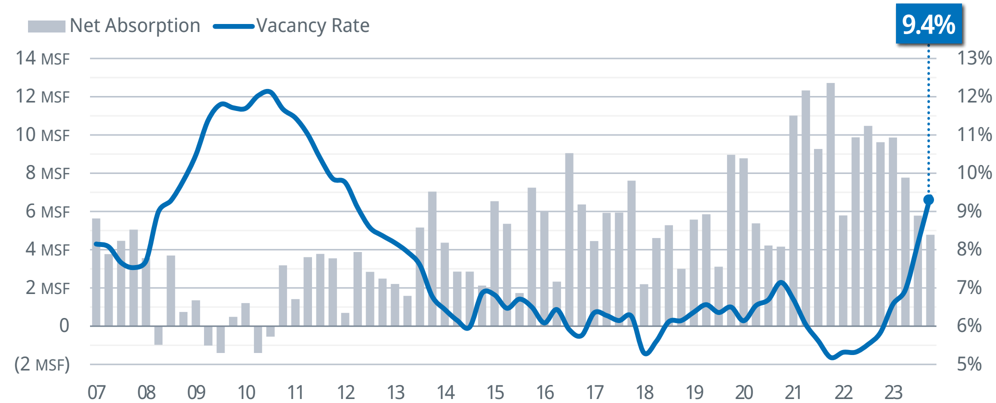
Source: Transwestern Research, CoStar

LEASING, NET ABSORPTION, & VACANCY

Vacancy Rises With Deliveries

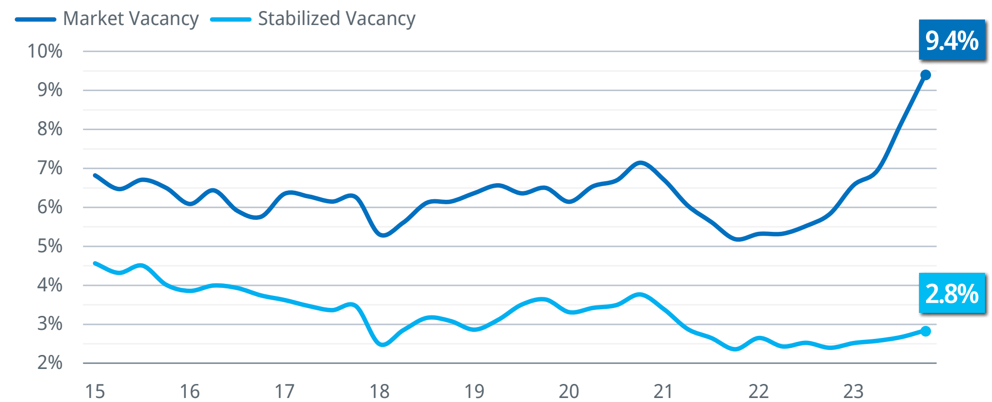
- Leasing activity for Industrial and Flex space exceeds 77 million SF over the last 12 months.
- Net absorption reached positive 4.8 million SF this quarter, or 29.0 million SF over the last 12 months.
- Industrial vacancy has increased from 5.8% to 9.4% over the last year.
  - Deliveries account for rising vacancy. While market vacancy has trended up, stabilized vacancy—i.e. vacancy in properties out of lease up—remains below pre-pandemic levels at 2.8%.
  - Shadow space has climbed to average levels, suggesting that stabilized vacancy may begin rising as well.
  - Large deliveries have driven vacancy to double-digits in periphery submarkets. 35% of vacant space is concentrated in new construction in the South Dallas and North Fort Worth submarkets.
  - Over 20% of vacancy is concentrated in buildings over 750,000 SF.
- Flex vacancy remains well below average at 5.1%.
- Sublease listings climbed to 13.7 million SF, or 1.5% of inventory. Sublease space is at its highest level on record.

INDUSTRIAL VACANCY



Source: Transwestern Research, CoStar

STABILIZED INDUSTRIAL VACANCY



Note: Stabilized vacancy excludes properties in lease-up. Source: Transwestern Research, CoStar

NOTABLE LEASES

TENANT	SF LEASED	LEASE TYPE	BUILDING	LANDLORD	SUBMARKET
DrinkPak	1,403,152	New	Carter Park East 3	Rob Riner Companies	South Fort Worth
Trina Solar	1,351,372	New	Tradepoint 45 West	Champion Partners	South Dallas
Kuka Furniture	504,500	New	Prologis Mountain Creek IV	Prologis	South Dallas
Fruit of the Earth	277,200	Renewal	3325 W Trinity Blvd	JLL Income Property Trust	Great Southwest
Big Ass Fans	221,444	New	Fort Worth Commerce Center - A	Creation Equity	North Fort Worth
Displayit	123,500	New	Airport Trade Center - B1	Greystar	Northeast Dallas
U.S. Auto Force	114,770	New	Chisolm 20 - 3	JacksonShaw	South Fort Worth

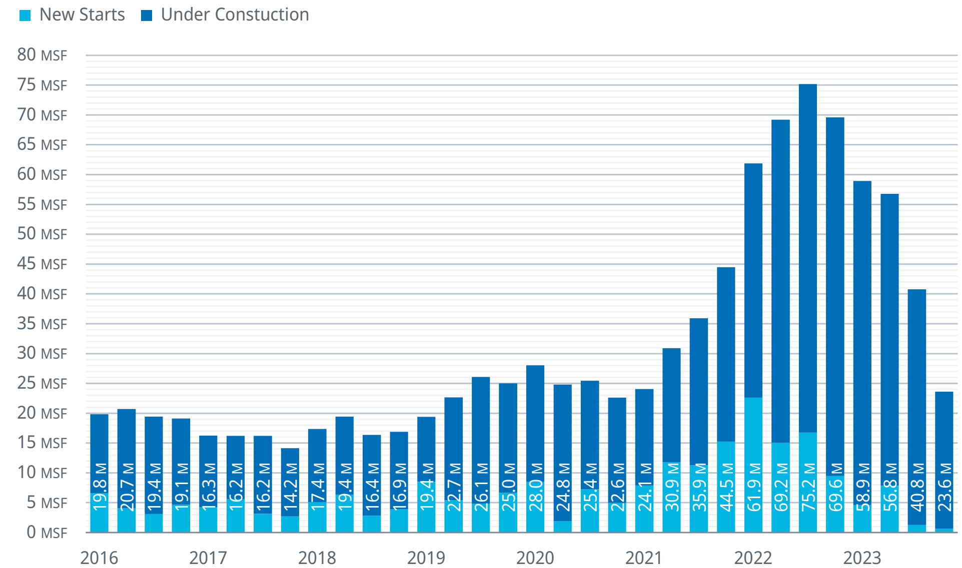
Source: Transwestern Research, CoStar

CONSTRUCTION & CAPITAL MARKETS

Pipeline Continues Shrinking

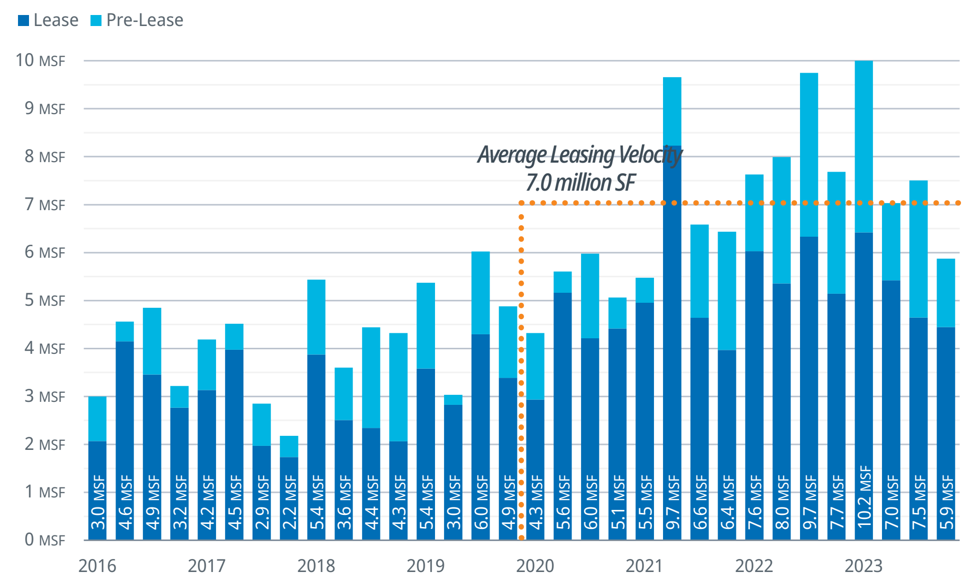
- 17.8 million SF of speculative projects delivered this quarter. As a result, total speculative construction underway fell to 23.6 million SF, its lowest level since late 2020.
- Developers broke ground on just 660,000 SF of new spec projects this quarter.
- Leasing velocity in new construction continues at above average levels at 5.9 million SF this quarter. Over the last 12 months, tenants have leased 30.6 million SF in new construction.
- Vacancy will likely remain elevated over the next 12 months:
  - New properties in lease-up account for 55 million SF of vacant space, and projects under construction will deliver 13 million SF of vacant space over the next 12 months.
  - Across the DFW market, tenants have been absorbing 25-30 million SF ever year.
  - While this implies tenants could absorb vacant space in new construction within two years, a large share of vacancy is concentrated in periphery submarkets.
  - Leasing velocities in periphery submarkets imply the market will need three years or more to absorb the recent glut of supply.
  - Core submarkets remain well-positioned for additional projects.
- Rising interest rates remain a headwind against asset prices and new project underwriting. Investor interest remains strong, although some investors are pausing acquisitions and new projects as they await price discovery.

SPECULATIVE DEVELOPMENT PIPELINE



Source: Transwestern Research, CoStar

LEASING VELOCITY IN SPECULATIVE DEVELOPMENT



Source: Transwestern Research, CoStar

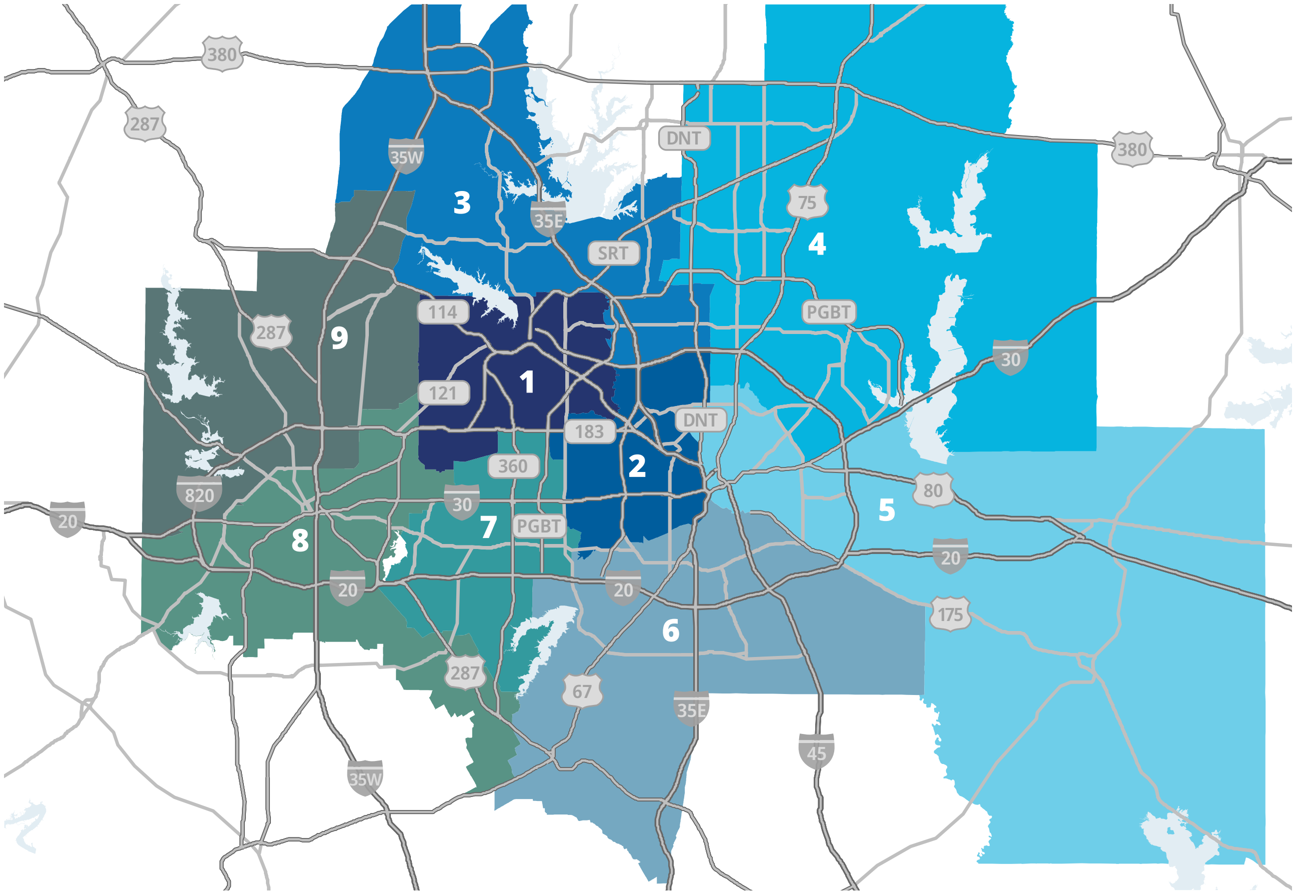
Market Indicators - Industrial

SUBMARKET	INVENTORY	VACANT SF	VACANCY %	AVAILABLE[1] SF	AVAILABLE[1] %	QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	NNN RENT THIS QUARTER	NNN RENT ONE YEAR AGO
DFW Airport	85,371,098	6,321,971	7.4%	12,308,208	13.9%	(1,052,826)	(191,307)	3,000,563	$9.10	$7.99
South Stemmons	93,290,878	5,692,529	6.1%	8,487,858	9.0%	(663,310)	(581,971)	1,279,263	$9.07	$7.97
Northwest Dallas	104,880,178	8,183,658	7.8%	10,564,070	9.9%	988,507	1,159,424	1,572,147	$9.07	$7.63
Northeast Dallas	84,377,382	3,752,916	4.4%	6,915,604	8.0%	(397,622)	865,783	2,327,636	$10.13	$8.21
East Dallas	55,110,127	9,799,050	17.8%	12,764,956	22.1%	760,589	2,683,642	2,742,374	$6.94	$6.57
South Dallas	131,883,323	20,649,326	15.7%	25,182,394	18.3%	1,366,521	10,892,714	5,824,231	$5.80	$5.47
Great Southwest	113,886,332	5,973,210	5.2%	10,340,811	8.9%	463,306	10,202	2,605,251	$7.96	$6.41
South Fort Worth	71,550,361	6,090,318	8.5%	10,047,524	13.6%	1,357,590	5,298,087	2,406,305	$7.67	$6.02
North Fort Worth	127,320,980	14,969,204	11.8%	18,293,756	13.9%	1,967,445	9,217,193	4,447,706	$6.18	$5.24
INDUSTRIAL TOTAL	**867,670,659**	**81,432,182**	**9.4%**	**114,905,181**	**12.9%**	**4,790,200**	**29,353,767**	**26,205,476**	**$7.78**	**$6.47**
Dallas Total	668,799,318	60,372,660	9.0%	86,563,901	12.6%	1,465,165	14,838,487	19,351,465	$8.20	$7.02
Fort Worth Total[2]	198,871,341	21,059,522	10.6%	28,341,280	13.8%	3,325,035	14,515,280	6,854,011	$6.60	$5.49

Market Indicators - Flex

SUBMARKET	INVENTORY	VACANT SF	VACANCY %	AVAILABLE[1] SF	AVAILABLE[1] %	QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	NNN RENT THIS QUARTER	NNN RENT ONE YEAR AGO
DFW Airport	6,902,917	457,125	6.6%	585,509	8.5%	(50,434)	164,743	0	$12.27	$11.70
South Stemmons	18,445,925	1,030,900	5.6%	1,256,383	6.8%	(40,569)	(157,230)	0	$15.73	$15.85
Northwest Dallas	19,107,095	1,269,733	6.6%	1,607,507	8.3%	(70,470)	63,544	148,909	$12.91	$11.59
Northeast Dallas	28,396,130	1,250,911	4.4%	1,736,345	6.1%	45,009	276,153	265,489	$12.23	$12.07
East Dallas[3]	3,373,556	190,001	5.6%	216,188	6.4%	(9,124)	5,488	0	$12.83	$13.23
South Dallas[3]	2,353,489	64,009	2.7%	88,987	3.8%	65,526	41,629	0	$9.15	$9.77
Great Southwest	7,293,791	369,799	5.1%	419,690	5.8%	37,119	226,536	0	$11.13	$9.83
South Fort Worth	8,418,878	285,537	3.4%	355,476	4.2%	2,616	195,191	18,000	$11.38	$9.67
North Fort Worth[3]	6,414,111	265,981	4.1%	266,795	4.1%	(19,647)	(55,056)	21,342	$12.24	$10.81
FLEX TOTAL	**100,705,892**	**5,183,996**	**5.1%**	**6,532,880**	**6.5%**	**(39,974)**	**760,998**	**453,740**	**$12.81**	**$12.00**
Dallas Total	85,872,903	4,632,478	5.4%	5,910,609	6.8%	(22,943)	620,863	414,398	$12.95	$12.22
Fort Worth Total[2]	14,832,989	551,518	3.7%	622,271	4.2%	(17,031)	140,135	39,342	$11.69	$10.15

Notes: *1 Availability includes space under construction. 2 Fort Worth includes North Fort Worth and South Fort Worth. 3 Rents in these submarkets are calculated from a small sample size and may display unusual growth or decline.*



INDUSTRIAL SUBMARKETS

- 1 DFW Airport
- 2 South Stemmons
- 3 Northwest Dallas
- 4 Northeast Dallas
- 5 East Dallas
- 6 South Dallas
- 7 Great Southwest
- 8 South Fort Worth
- 9 North Fort Worth

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RESEARCH METHODOLOGY

This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding government-owned buildings. Industrial properties are limited to Warehouse, Distribution, and Manufacturing.

Unless otherwise specified, "Vacancy" refers to Direct Vacancy. Transwestern reports Triple Net Rents as a rolling 12-month average, combining space listings with proprietary transactional data. While our rents may appear slightly lower than competitors', we provide more accurate figures and growth rates by sampling over 129 million SF.

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