

Construction Boom Continues as Rates, Demand Continue to Grow

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The construction boom continued in Dallas-Fort Worth's industrial market in Q1 2016. Over 4 million square feet was delivered to the market and 20 million is still under construction. This level of construction surpassed even Inland Empire (California), which had 15 million square feet under construction at the end of Q1. Buildings under construction in DFW were 34% pre-leased at the end of the quarter, which is up from 20% at the end of Q4 2015.

Large distribution centers of over one million square feet are becoming more prevalent, fueling speculation that the market is being over built; however, 15 of the 18 distribution centers that are over 1 million square feet are leased. E-commerce has been fueling a large part of the demand for the large warehouses, as retailers respond to consumer's demand for more products faster. Walmart.com and Amazon are some of the recent tenants for these million square footers. Some retailers are also leasing smaller distribution centers closer to the population in order to provide faster local delivery.

Economic conditions in the Dallas-Fort Worth area remain strong, despite challenges in other parts of Texas tied to the downturn in the oil industry. The Dallas Federal Reserve noted an increase in the production index in March, rebounded from negative rates in the first two months of 2016. Additionally, due to increased credit availability, consumer spending has continued to rebounding from its post-recession lows, fueling more demand for ecommerce.

Overall market fundamentals continue to trend in positive directions – rental rates increased 5.3% from Q1 2015 and vacancy decreased 0.7% year-over-year. Net absorption exceeded Q1 2015's level by 559,590 square feet. If similar levels of absorption can be sustained throughout the year, the market will reach just over 21 million square feet of absorption.

Outlook

As the Dallas-Fort Worth industrial market continues to have strong demand, developers will break ground on new projects. Currently there are 14 proposed buildings of 1 million square feet or more, and while some will wait for anchor tenants, developers may break ground on some as speculative projects. With over 7 million square feet set to deliver in Q2 2016 and almost 10 million to be completed in Q3, expect vacancy to rise 0.5-0.8% in the next several quarters.

Although the large warehouses have been making headlines, vacancy for small warehouses between 25,000 and 100,000 SF stood at 4.7%, while larger warehouses 500,000 SF and up have been at 10.5%. With low vacancy of small product, developers are likely to see opportunity in this segment and focus on smaller distribution centers.



Market Indicators <small>Relative to prior period</small>	Annual Change	Quarterly Change	2nd Qtr. Forecast*
VACANCY	↓	↔	↓
NET ABSORPTION	↑	↓	↑
UNDER CONSTRUCTION	↑	↑	↔
RENTAL RATE	↑	↑	↑

*Projected

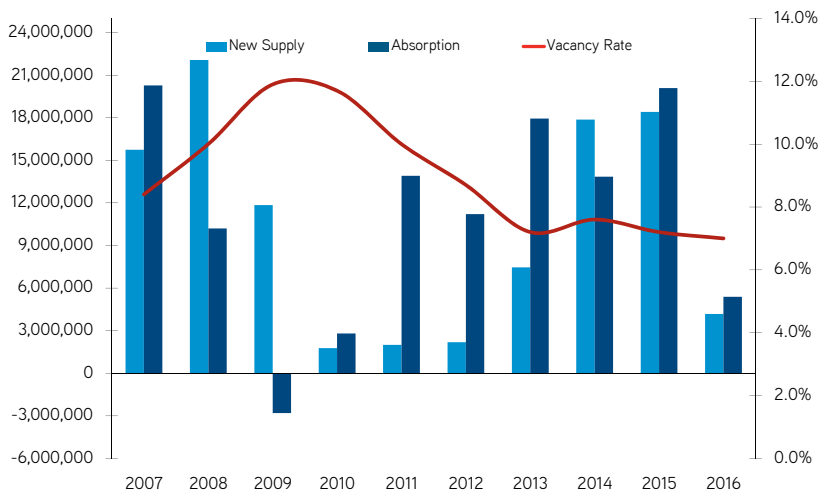
Summary Statistics <small>DFW Industrial Market</small>	DFW Market	DFW Warehouse	DFW Flex
Vacancy Rate	7.0%	6.7%	8.9%
Change from prior Quarter	-0.2%	-0.2%	-0.2%
Absorption <small>(Thousand Square Feet)</small>	5,389	5,132	257
New Supply <small>(Thousand Square Feet)</small>	4,182	4,100	82
Under Construction <small>(Thousand Square Feet)</small>	20,014	19,585	429

Asking Rents <small>Per Square Foot Per Year</small>	DFW Market	DFW Warehouse	DFW Flex
Average	\$5.40	\$4.42	\$9.45
Change from prior Quarter	1.3%	0.9%	2.6%
Year-Over-Year Change	5.0%	4.5%	11.9%

Vacancy Rate

- > Vacancy decreased slightly in Q1 2016 to 7.0% from 7.2% at the end of Q4 2015.
- > Year-over-year, vacancy is down 0.7% from Q1 2015, and only 0.2% above a trough of 6.8% in Q3 2015.
- > Over 52 million square feet was vacant at the end of Q1 2016, which is almost four million less than at the end of Q1 2015. Sublease vacancy has been almost negligible, hovering around 1 million square feet, 1.9% of all vacant space, for the last several years.

New Supply, Absorption & Vacancy Rate



Absorption & Demand

- > The areas of the DFW with the highest absorption rate this quarter were Alliance, Great Southwest, and North Fort Worth.
- > Net absorption for Q1 2016 in DFW totaled 5,389,157 square feet, 14.9% higher than net absorption in Q1 2015.
- > Major move-ins for Q1 2016 include Niagara Bottling occupying 630,000 SF at 12000 Grady Niblo Rd, and Walmart.com's lease of over 1 million SF in Alliance.

Rental Rates

- > The average rental rate for Q1 2016 was \$5.40, which is a slight \$0.07 increase from Q4 2015. The average flex rate was \$9.45, while warehouse averaged \$4.42.
- > South Dallas continued to have the lowest warehouse rate at \$3.54 per square foot, while the North US 75 Corridor had the highest rates of \$7.00.
- > Warehouse rental rates have experienced slower growth over the past two quarters, and should level off slightly in the coming quarters. Rates are falling in some markets that have seen a lot of construction such as Alliance, where rates fell 2.1%, and Far North I-35E Corridor where rates fell \$0.11 from Q1 2015.

Construction

- > At the end of Q1 2016, there were 73 buildings totaling over 20 million square feet under construction in the Dallas-Fort Worth market. Such levels of construction have not been seen since Q4 2007.
- > The average size of industrial and flex buildings under construction at the end of Q1 2016 was 274,176 SF, which is up about 215,000 SF from the trough in late 2009-2010, and up 80,000 from the average size in the last building boom in Q4 2007.

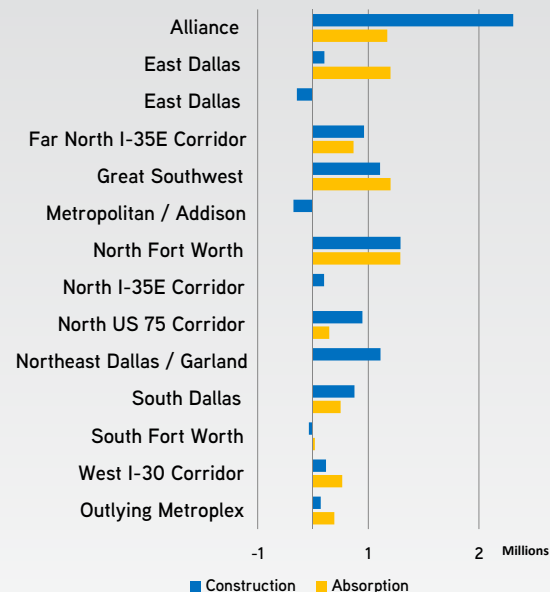
Job Growth & Unemployment

(not seasonally adjusted)

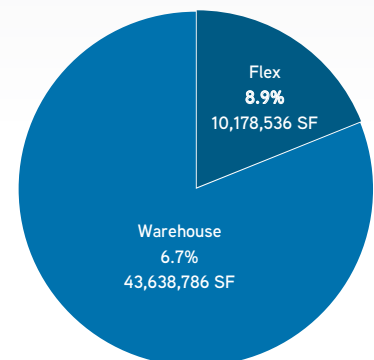
Unemployment	03/15	03/16
DFW	4.1%	3.7%
Texas	4.3%	4.5%
U.S.	5.7%	5.1%

Job Growth	Annual Change	# of Jobs Added
DFW	3.9%	129.9K
Texas	1.6%	185K
U.S.	1.9%	2,778K

Under Construction & Absorption (YTD)



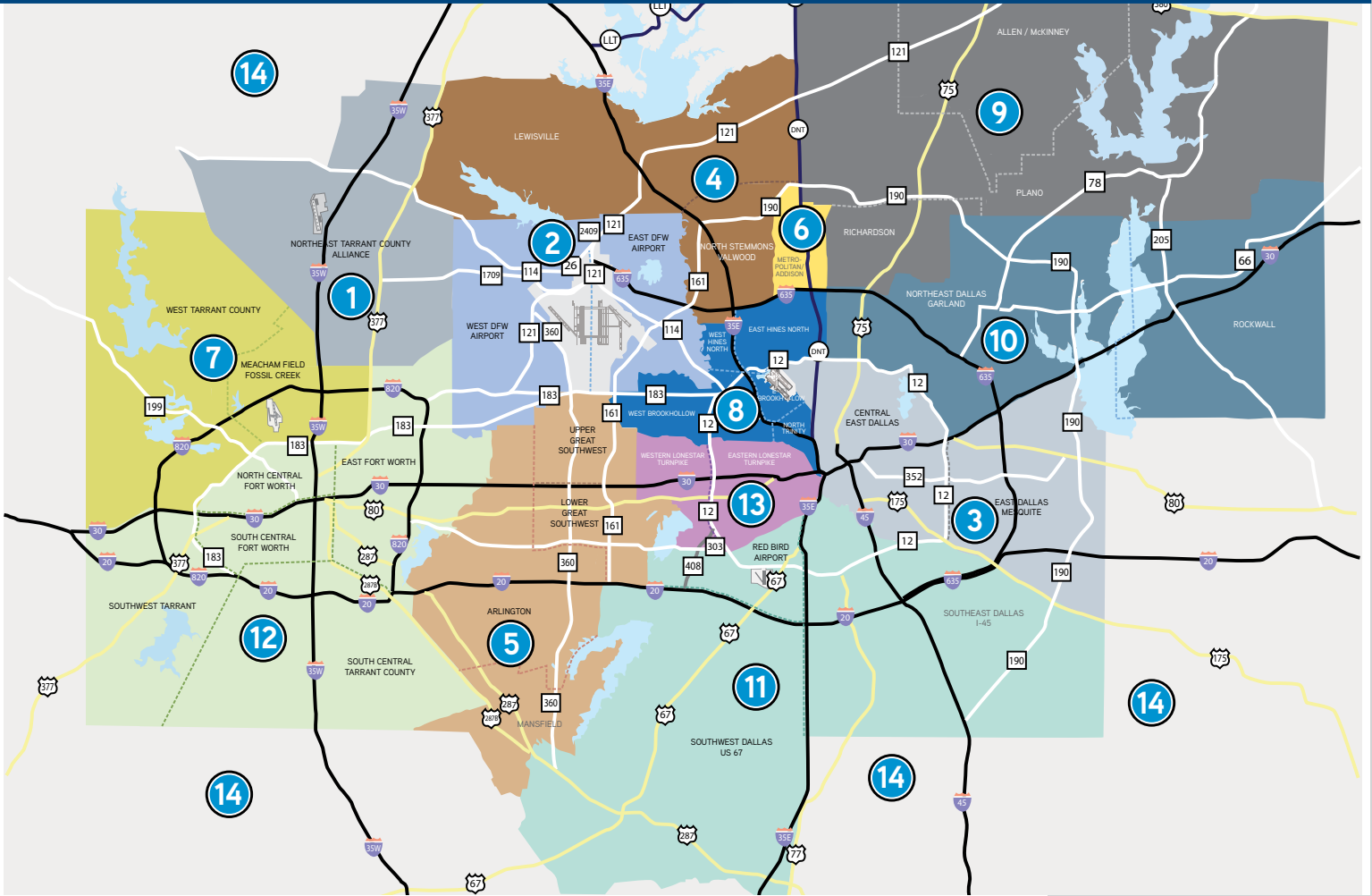
Flex/Warehouse Vacancy Breakdown



Dallas/Fort Worth Industrial Market Summary

EXISTING PROPERTIES			VACANCY					NET ABSORPTION		CONSTRUCTION		RENT
Submarket	Bldgs	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacant SF	Vacancy Rate Current	Vacancy Rate Prior Qtr	Net Abs Current Qtr SF	Net Abs YTD SF	New Supply YTD SF	Under Construction SF	Average Rate (NNN)
Flex Market												
Alliance	43	2,284,858	0.4%	0.0%	10,150	0.4%	0.4%	(1,500)	(1,500)	0	250,000	\$ 8.20
DFW Airport	226	9,020,117	14.0%	0.0%	1,265,416	14.0%	13.7%	(25,820)	(25,820)	0	0	\$ 9.58
East Dallas	214	6,017,033	16.3%	0.0%	982,263	16.3%	16.6%	37,385	37,385	25,755	0	\$ 6.95
Far North I-35E Corridor	273	9,473,197	12.2%	0.0%	1,154,692	12.2%	12.4%	19,229	19,229	0	0	\$ 9.68
Great Southwest	337	10,466,458	12.0%	0.2%	1,278,558	12.2%	12.5%	79,669	79,669	56,195	0	\$ 7.82
Metropolitan / Addison	243	8,584,068	12.5%	0.1%	1,075,000	12.5%	12.7%	12,400	12,400	0	0	\$ 11.18
North Fort Worth	64	2,463,765	9.3%	0.0%	230,120	9.3%	9.6%	6,325	6,325	0	0	\$ 8.46
North I-35E Corridor	751	21,387,298	5.9%	0.0%	1,251,911	5.9%	5.9%	621	621	0	0	\$ 10.60
North US 75 Corridor	458	17,847,410	9.5%	0.4%	1,762,395	9.9%	10.0%	13,569	13,569	0	179,335	\$ 10.14
Northeast Dallas / Garland	320	8,829,732	4.8%	0.0%	420,404	4.8%	5.2%	36,662	36,662	0	0	\$ 6.38
South Dallas	137	2,877,051	2.2%	1.1%	95,456	3.3%	3.4%	3,200	3,200	0	0	\$ 6.71
South Fort Worth	346	9,549,811	4.6%	0.1%	441,285	4.6%	5.5%	81,110	81,110	0	0	\$ 6.91
West I-30 Corridor	78	2,087,641	5.1%	0.0%	107,282	5.1%	5.5%	7,350	7,350	0	0	\$ 6.12
Outlying Metroplex	99	3,162,375	3.3%	0.0%	103,604	3.3%	2.9%	(13,375)	(13,375)	0	0	\$ 8.07
Total DFW Market	3,589	114,050,814	8.8%	0.1%	10,178,536	8.9%	9.1%	256,825	256,825	81,950	429,335	\$ 9.45
Warehouse Market												
Alliance	165	33,253,992	12.8%	0.0%	4,253,022	12.8%	16.5%	1,809,793	1,809,793	671,550	825,701	\$ 3.58
DFW Airport	459	60,298,787	8.6%	0.1%	5,225,049	8.7%	7.8%	103,301	103,301	700,521	747,359	\$ 4.75
East Dallas	521	30,165,471	5.1%	0.1%	1,551,236	5.1%	4.7%	(145,995)	(145,995)	0	0	\$ 3.59
Far North I-35E Corridor	616	62,566,497	7.1%	0.2%	4,534,952	7.2%	7.4%	461,439	461,439	366,580	1,781,631	\$ 4.19
Great Southwest	1,102	88,314,961	3.8%	0.2%	3,499,064	4.0%	3.9%	606,085	606,085	701,034	5,017,698	\$ 4.09
Metropolitan / Addison	220	12,637,488	3.9%	0.0%	495,728	3.9%	2.5%	(176,550)	(176,550)	0	0	\$ 5.27
North Fort Worth	398	32,328,967	6.2%	0.1%	2,032,553	6.3%	6.4%	791,118	791,118	789,670	2,569,599	\$ 3.85
North I-35E Corridor	1,716	66,552,718	3.2%	0.0%	2,168,970	3.3%	3.4%	100,513	100,513	0	0	\$ 5.08
North US 75 Corridor	404	26,814,255	3.5%	0.3%	1,012,937	3.8%	4.9%	447,070	447,070	146,910	261,166	\$ 7.00
Northeast Dallas / Garland	592	40,035,101	6.0%	1.0%	2,806,762	7.0%	8.5%	610,441	610,441	0	582,350	\$ 4.25
South Dallas	533	64,011,562	10.0%	0.0%	6,387,015	10.0%	10.2%	374,816	374,816	249,640	7,252,832	\$ 3.54
South Fort Worth	1,195	58,541,841	5.0%	0.0%	2,934,697	5.0%	4.9%	(37,398)	(37,398)	16,575	0	\$ 4.18
West I-30 Corridor	319	32,846,455	16.3%	0.0%	5,337,698	16.3%	15.9%	117,503	117,503	264,413	292,200	\$ 4.88
Outlying Metroplex	790	47,662,303	2.9%	0.0%	1,399,103	2.9%	2.7%	70,196	70,196	193,070	255,000	\$ 4.69
Total DFW Market	9,030	656,030,398	6.5%	0.1%	43,638,786	6.7%	6.9%	5,132,332	5,132,332	4,099,963	19,585,536	\$ 4.42
Industrial Market												
Alliance	208	35,538,850	12.0%	0.0%	4,263,172	12.0%	15.5%	1,808,293	1,808,293	671,550	1,075,701	\$ 3.63
DFW Airport	685	69,318,904	9.3%	0.1%	6,490,465	9.4%	8.6%	77,481	77,481	700,521	747,359	\$ 6.34
East Dallas	735	36,182,504	6.9%	0.1%	2,533,499	7.0%	6.6%	(108,610)	(108,610)	25,755	0	\$ 3.99
Far North I-35E Corridor	889	72,039,694	7.8%	0.1%	5,689,644	7.9%	8.1%	480,668	480,668	366,580	1,781,631	\$ 5.09
Great Southwest	1,439	98,781,419	4.7%	0.2%	4,777,622	4.8%	4.8%	685,754	685,754	757,229	5,017,698	\$ 4.61
Metropolitan / Addison	463	21,221,556	7.4%	0.0%	1,570,728	7.4%	6.6%	(164,150)	(164,150)	0	0	\$ 7.89
North Fort Worth	462	34,792,732	6.4%	0.1%	2,262,673	6.5%	6.7%	797,443	797,443	789,670	2,569,599	\$ 4.05
North I-35E Corridor	2,467	87,940,016	3.9%	0.0%	3,420,881	3.9%	4.0%	101,134	101,134	0	0	\$ 6.32
North US 75 Corridor	862	44,661,665	5.9%	0.3%	2,775,332	6.2%	6.9%	460,639	460,639	146,910	440,501	\$ 8.72
Northeast Dallas / Garland	912	48,864,833	5.8%	0.8%	3,227,166	6.6%	7.9%	647,103	647,103	0	582,350	\$ 4.78
South Dallas	670	66,888,613	9.6%	0.0%	6,482,471	9.7%	9.9%	378,016	378,016	249,640	7,252,832	\$ 3.62
South Fort Worth	1,541	68,091,652	4.9%	0.0%	3,375,982	5.0%	5.0%	43,712	43,712	16,575	0	\$ 4.43
West I-30 Corridor	397	34,934,096	15.6%	0.0%	5,444,980	15.6%	15.3%	124,853	124,853	264,413	292,200	\$ 4.91
Outlying Metroplex	889	50,824,678	2.9%	0.0%	1,502,707	3.0%	2.7%	56,821	56,821	193,070	255,000	\$ 4.92
Total DFW Market	12,619	770,081,212	6.9%	0.1%	53,817,322	7.0%	7.2%	5,389,157	5,389,157	4,181,913	20,014,871	\$ 5.40
ANNUAL COMPARISON OF TOTAL MARKET												
2016 Q1	12,619	770,081,212	6.9%	0.1%	53,817,322	7.0%	7.2%	5,389,157	5,389,157	4,181,913	20,014,871	\$ 5.40
2015 Q1	12,531	753,106,144	7.5%	0.1%	57,636,373	7.7%	7.6%	4,689,261	4,689,261	5,616,329	13,494,378	\$ 5.13
2014 Q1	12,458	734,744,264	7.1%	0.1%	53,261,940	7.2%	7.2%	4,551,848	4,551,848	5,129,168	14,685,435	\$ 4.88
2013 Q1	12,422	723,648,859	8.5%	0.2%	62,375,503	8.6%	8.7%	2,289,268	2,289,268	1,492,448	6,532,026	\$ 4.51
2012 Q1	12,392	720,255,515	9.8%	0.1%	71,585,217	9.9%	10.0%	896,776	896,776	286,527	2,694,792	\$ 4.32

INDUSTRIAL SUBMARKET MAP



1	Alliance	208 Bldgs	35.5m SF	12% Vac	UC = 1.1m SF	\$ 3.63 PSF
2	DFW Airport	685 Bldgs	69.3m SF	9.4% Vac	UC = 0.7m SF	\$ 6.34 PSF
3	East Dallas	735 Bldgs	36.2m SF	7% Vac	UC = None	\$ 3.99 PSF
4	Far North I-35E Corridor	889 Bldgs	72m SF	7.9% Vac	UC = 1.8m SF	\$ 5.09 PSF
5	Great Southwest	1,439 Bldgs	98.8m SF	4.8% Vac	UC = 5m SF	\$ 4.61 PSF
6	Metropolitan / Addison	463 Bldgs	21.2m SF	7.4% Vac	UC = None	\$ 7.89 PSF
7	North Fort Worth	463 Bldgs	34.8m SF	6.5% Vac	UC = 2.6m SF	\$ 4.05 PSF
8	North I-35E Corridor	2,467 Bldgs	87.9m SF	3.9% Vac	UC = None	\$ 6.32 PSF

9	North US 75 Corridor	862 Bldgs	44.7m SF	6.2% Vac	UC = 0.4m SF	\$ 8.72 PSF
10	Northeast Dallas / Garland	912 Bldgs	48.9m SF	6.6% Vac	UC = 0.6m SF	\$ 4.78 PSF
11	South Dallas	670 Bldgs	60.8m SF	9.7% Vac	UC = 7.3m SF	\$ 3.62 PSF
12	South Fort Worth	1,541 Bldgs	68.1m SF	5% Vac	UC = None	\$ 4.43 PSF
13	West I-30 Corridor	397 Bldgs	34.9m SF	15.6% Vac	UC = 0.3m SF	\$ 4.91 PSF
14	Outlying	889 Bldgs	50.8m SF	3% Vac	UC = 0.3m SF	\$ 4.92 PSF
Total Industrial Market		12,619 Bldgs	770.1m SF	7% Vac	UC = 20m SF	\$ 5.40 PSF

UC = Under Construction

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