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REDNews
reprint from July 2009 Issue of REDNews Magazine

NORTH TEXAS

Dallas/Fort Worth Industrial | MarketView

CBRE CB RICHARD ELLIS

Excerpts from First Quarter 2009 Dallas/Fort Worth Industrial MarketView by CB Richard Ellis

The Dallas/Fort Worth Market finally began to really see the impact of the national recession at the very end of 2008. Job growth which had been positive throughout the year, turned negative, but the severity of the downturn locally is much weaker than in most parts of the country and the Metroplex continues to lead the nation in population growth. The Dallas/Fort Worth industrial market has shown some recent signs of weakness with a rising vacancy rate, and subdued positive net absorption (which has been decreasing for four consecutive quarters). The positive changes in the market fundamentals are that the new construction deliveries (which have been pushing the vacancy rate up for several quarters) have decreased to the historical norm for the market. Rental rates have remained stable (down slightly from last quarter, but up year over year).

With construction activity decreasing, the vacancy rate throughout the remainder of 2009 is expected to only increase moderately. Average asking rental rates are forecasted to remain flat. The big variable for the next few quarters is net absorption. The number of tenants actively looking for space remains healthy (several large deals were signed in early 2009, but there were also an unusually large number of move-outs for the same time period). As a result, net absorption is anticipated to stay positive, but to be lower than in recent quarters. Relocations and consolidations remain a positive catalyst for the market, which should help insure the market continues to outperform most parts of the country in the short and long term.

Nationally, the capital markets are continuing to feel the effects of the meltdown in the residential subprime mortgage market and the aftershocks in the commercial lending standards. Despite the uncertainty in the market, the Dallas/Fort Worth industrial market continues to be an attractive market for investments. According to Real Capital Analytics, there were $0.8 billion of reported transactions over the past 12 months. This is down significantly from the volume recorded last year. The weighted average cap rate for the Dallas market was 7.38% (versus the national weighted avg. of 7.41%). The average price per sq. ft. averages $46.9 per sq. ft., below the national average of $67.9 per sq. ft.

The direct and total vacancy rates increased over the past quarter to 9.7% and 10.7%, respectively for the first quarter of 2009. This increase took place despite the positive 1.1 million sq. ft. of positive net absorption because of the 3.7 million sq. ft. of space that was delivered for the quarter (69% of which was vacant).

The amount of sublease space available increased moderately during the quarter to 7.7 million sq. ft., while the actual amount that is vacant decreased by half a million sq. ft.

Quick Stats

	Current	Change from last Yr.	Change from last Qtr.
Total Vacancy	10.7%	↑	↑
Lease Rates	$3.87	↔	↔
Net Absorption	1.1 msf	↓	↓
Construction	6.1 msf	↓	↓

The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Construction deliveries have decreased to 3.7 million sq. ft. for the first quarter; they are expected to continue to wind down throughout the remainder of the year.
- Net absorption recorded was a positive 1.1 million sq. ft.; this is down, however, from last quarter and last year when 1.3 million was recorded for both time periods.
- Job growth turned negative at year end 2008, and is expected to be weak for the remainder of 2009.

The warehouse sector has a total vacancy rate of 10.5% versus the flex sector's 11.4%. Among the submarkets, the direct vacancy rate is lowest in South Stemmons and South Fort Worth. Both of those submarkets have direct vacancy rates below 7%. In contrast, South Dallas, Northwest Dallas, DFW Airport and Great Southwest/Arlington all have direct vacancy rates of 12% or higher. For all four of those submarkets a large portion of the increase in vacancy can be attributed to elevated construction activity for these submarkets over recent quarters.

Net absorption has remained positive for over four years now and that trend continued with 1.1 million sq. ft. of positive net absorption in the first quarter of 2009. Net absorption, however, has been trending downward for four consecutive quarters.

On the submarket level, outside of DFW Airport, the northern submarkets did not perform well in the first quarter, while the southern submarkets continued to record healthy net absorption. South Stemmons was the best performer with a positive 1.6 million sq. ft. of net absorption.

Typically, the warehouse sector accounts for the majority of positive net absorption. For the first quarter the positive net absorption was fairly evenly split between the general industrial and flex sectors.

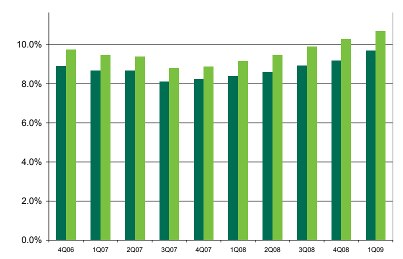
Average asking rates were flat in the first quarter for industrial properties at $3.87 per sq. ft. This is down two cents from last quarter but up three cents for the same time period last year. Flex rates, which are typically more volatile, increased for the quarter to $7.75 per sq. ft. Rental rates are expected to remain stable despite the increase in vacancy rates.

The industrial rates are highest in East Dallas ($4.29), Northeast Dallas ($4.26), and Northwest Dallas ($4.26). Flex rates continue to be highest in Northwest Dallas ($8.20), South Stemmons ($8.19), and Northeast Dallas ($7.71).

Construction activity has been trending downward for five consecutive quarters, and is now back in the line with the historical average for the Metroplex. The current pipeline of construction underway decreased to 6.1 million sq. ft. Year over year, the pipeline has decreased by over 10 million sq. ft.

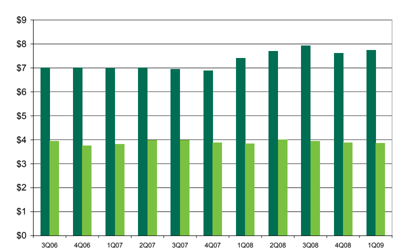
New deliveries were down from last quarter with 3.7 million sq. ft. delivered in the first quarter of 2009 compared to the 5.5 million sq. ft. in the fourth quarter of 2008. Of that newly delivered space, roughly 69% was vacant at the time of completion. In 2008, 20.3 million sq. ft. was delivered to the market, which was twice the 20-year historical average for the market. Total deliveries for 2009 are expected to only be roughly half of 2008 levels.

Direct & Total Vacancy Rates



Net Absorption

Lease Rates



Under Construction