

DALLAS-FORT WORTH INDUSTRIAL MARKET

FIRST QUARTER 2017

OVERVIEW

The Dallas-Fort Worth (DFW) industrial market continued its impressive performance into the new year. Demand for space was strong in the first quarter with nearly 4.3 million square feet (MSF) of positive net absorption. Supply and demand are beginning to move toward equilibrium, with vacancy rates expected to hold steady throughout the next 12-18 months, as the 20.7 MSF of product currently under construction is delivered to market. Rental rates are forecasted to stay relatively stable during that time and rise slowly as the remaining spec space is absorbed.

NET ABSORPTION

Overall net absorption in the first quarter recorded a positive 4.3 MSF. This marks the 26th consecutive quarter of positive absorption in the North Texas region. Warehouse/distribution properties comprised the bulk of absorption with 3.0 MSF, and flex space hit a record high with just under 1.0 MSF. Demand for space was strong throughout the first quarter of 2017 and is projected to remain healthy throughout the remainder of the year, with preliminary estimates suggesting the market could potentially achieve 16+MSF by year-end.

VACANCY

The overall vacancy rate (including sublet) grew to 7.0% at the end of the first quarter, a increase of 680 basis points year-over-year, driven by the large number of deliveries in the quarter. Direct vacancy was 6.7% in the same time period compared to 6.6% in the first quarter of 2016. Total vacant square feet in the DFW industrial market recorded 52.1 MSF in the first quarter of 2017.

If the current absorption trend continues throughout the year, then vacancy rates should continue to stabilize, however the 4.6 MSF of vacant speculative space delivered in the first quarter and the additional speculative buildings scheduled for delivery throughout 2017 will place some upward pressure on vacancy rates.

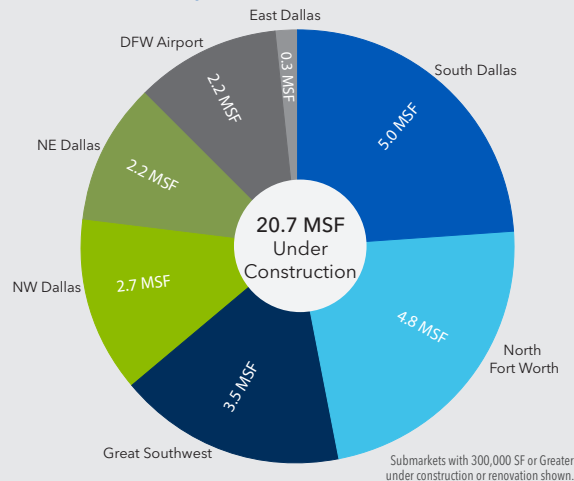
Net Absorption by Building Type

BUILDING TYPE	YTD 2017
Warehouse/Distribution	3,109,451 SF
Flex	981,690 SF
Manufacturing	177,852 SF
Total	4,268,993 SF

Vacancy by Building Type

BUILDING TYPE	DIRECT	OVERALL
Warehouse/Distribution	6.4%	6.6%
Flex	6.8%	7.2%
Manufacturing	8.8%	9.3%
Total	6.7%	7.0%

Industrial Space Under Construction



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DELIVERIES AND CONSTRUCTION

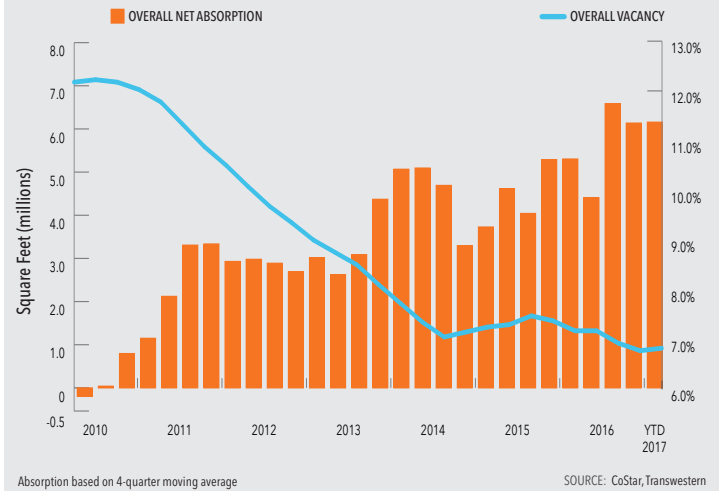
Construction completions totaled just over 8.5 MSF in the first quarter of 2017 with 40.7% of space pre-leased. Spec space deliveries accounted for 5.0 MSF of deliveries, with 4.2 MSF still vacant. The DFW market has not seen this volume since mid-year 2014. Some notable deliveries this quarter include DalParc - Bldg 1 (920,275 SF) located in South Dallas, Wildlife Commerce Park 5 (683,600 SF) located in Great Southwest, and Farmer Brothers Coffee's new headquarters (540,000 SF) located in North Fort Worth.

There is still 20.8 MSF under construction throughout the region, with 18.1 MSF expected to deliver in 2017. The largest projects currently underway are Trammell Crow at 35-Eagle (1.1 MSF), Perot/Hillwood at Logistics Center II (1.0 MSF), and Exeter at Arlington Commerce Center - Bldg E (1.0 MSF).

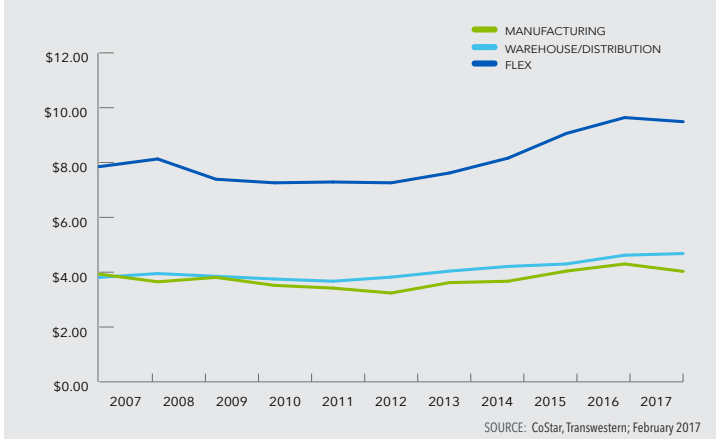
RENTAL RATES

The average quoted net rental rate for all industrial product was \$5.26/SF during the first quarter. This represents a 9.5% increase from the \$4.80/SF average during the same period last year. The average quoted rate within the warehouse/distribution sector was \$4.68/SF, flex rates recorded \$9.49/SF, and manufacturing rates were \$4.03/SF.

INDUSTRIAL ABSORPTION & VACANCY



HISTORICAL RENTAL RATES



Notable Q1 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
UPS	1,004,400	New	Arlington Commerce Center	Great Southwest
KidKraft	401,600	Renewal	DFW Trade Center II	DFW Airport
KGP Logistics	335,500	Renewal	Prologis Freeport Corporate Center	DFW Airport
Geodis Logistics	228,952	New	Liberty Park GSW North Bldg 2	Great Southwest
Mars Pet Care	211,948	New	3500 N Houston School Rd	South Dallas



LEASING ACTIVITY

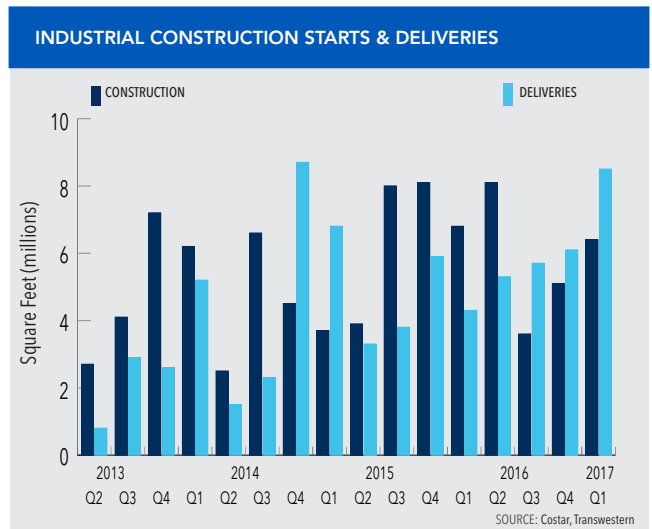
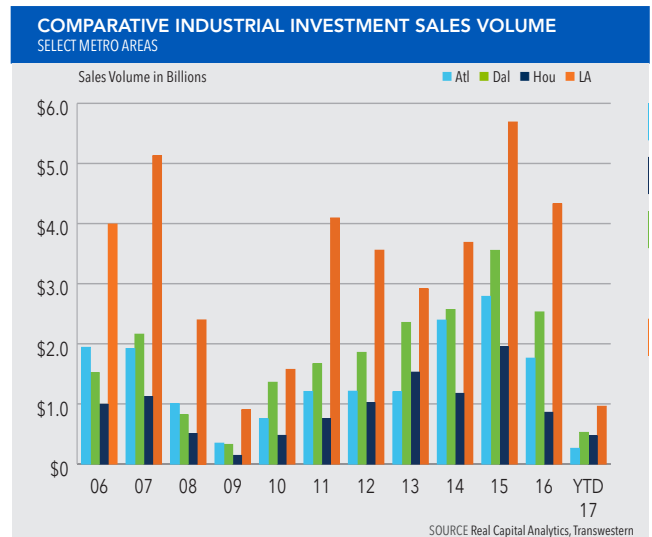
Leasing activity for DFW totaled 5.8 MSF in the first quarter of 2017 with the majority of activity taking place in the DFW Airport submarket. Notable leases in the first quarter included UPS (1.0 MSF), KidKraft (401,600 SF), and KGP Logistics (335,500 SF).

INVESTMENT SALES

Investment sales activity through the first quarter of 2017 totaled \$0.656 M, a 12.0% decrease compared to the first quarter of 2016. One of the largest portfolio transactions that occurred was the sale of Lasko Products, a six-building multi-market portfolio sold to AGNL Blade LP for \$100.0 M.

OUTLOOK

The DFW industrial market experienced another solid quarter of positive absorption. Deliveries for the first quarter were a record high with 9.1 MSF, most of which was concentrated in the Great Southwest submarket. Leasing activity is down from the fourth quarter of 2016 but is consistent with slow starts at the beginning of each year. Construction activity continues at a healthy clip with approximately half being pre-leased over recent quarters. Forecast models expect vacancy rates to remain stable, with minor upticks in some submarkets until that space is absorbed. Rental rates will continue to flatten out as the new supply is absorbed before potentially rising in response to the expected continuing demand. That process is predicted to take place over the next 12-18 months.



Notable Q1 Sales

PROPERTY	SUBMARKET	SALE PRICE / \$PSF	SELLER	BUYER
Lasko Products (Multi-Market Portfolio)	North Fort Worth	\$100.0 M (\$44.95/SF)	Lasko Products	AGNL Blade LP
Logistics Crossing I	Great Southwest	\$55.0 M (\$77.89/SF)	WR Logistics Crossing	BIT Investment Eight-Five
1000 Terminal Rd	North Fort Worth	\$25.0 M (\$40.36/SF)	Unknown	Gramercy Property Trust
10390-10490 Shady Trail	South Stemmons	\$16.4 M (\$61.48/SF)	SCF Texas Lombardy	Cohen Asset Management

DALLAS-FORT WORTH INDUSTRIAL MARKET

FIRST QUARTER 2017

Dallas-Fort Worth Industrial Market Indicators

SUBMARKET	INVENTORY	VACANT SF OVERALL	OCCUPIED SF	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	2017 YTD NET ABSORPTION	RENTAL RATES
DFW Airport									
Flex/High-Tech	8,135,165	791,661	7,343,504	9.6%	9.7%	-	145,506	(19,170)	\$9.36
Manufacturing	2,387,170	-	2,387,170	0.0%	0.0%	31,000	-	-	\$7.50
Warehouse/Distribution	60,367,782	3,075,542	57,292,240	4.8%	5.1%	2,172,746	1,594,196	1,262,529	\$4.54
Total – DFW Airport	70,890,117	3,867,203	67,022,914	5.2%	5.5%	2,203,746	1,739,702	1,243,359	\$5.19
East Dallas									
Flex/High-Tech	5,319,250	793,809	4,525,441	14.9%	14.9%	-	9,831	1,094	\$7.23
Manufacturing	5,522,375	4,158	5,518,217	0.1%	0.1%	-	-	(4,158)	\$2.89
Warehouse/Distribution	32,881,315	1,580,726	31,300,589	4.8%	4.8%	344,000	1,250	79,158	\$3.75
Total – East Dallas	43,722,940	2,378,693	41,344,247	5.4%	5.4%	344,000	11,081	76,094	\$4.06
Great Southwest									
Flex/High-Tech	9,051,376	778,611	8,272,765	8.5%	8.6%	-	41,969	64,447	\$8.01
Manufacturing	9,222,523	337,918	8,884,605	3.7%	3.7%	-	166,075	30,298	\$4.85
Warehouse/Distribution	86,769,663	7,663,223	79,106,440	8.5%	8.8%	3,491,032	562,950	161,806	\$3.99
Total – Great Southwest	105,043,562	8,779,752	96,263,810	8.1%	8.4%	3,491,032	770,994	256,551	\$4.41
North Fort Worth									
Flex/High-Tech	5,138,394	401,844	4,736,550	3.8%	7.8%	300,000	215,916	90,486	\$11.66
Manufacturing	6,100,044	176,803	5,923,241	2.1%	2.9%	-	-	458,645	\$4.54
Warehouse/Distribution	77,771,206	5,307,777	72,463,429	6.8%	6.8%	4,456,739	491,453	1,067,081	\$3.87
Total – North Fort Worth	89,009,644	5,886,424	83,123,220	6.3%	6.6%	4,756,739	707,369	1,616,212	\$4.37
Northeast Dallas									
Flex/High-Tech	24,714,007	1,840,667	22,873,340	7.3%	7.4%	1,140,000	297,936	515,416	\$9.37
Manufacturing	13,947,214	1,009,798	12,937,416	4.8%	7.2%	45,120	55,500	(1,500)	\$3.52
Warehouse/Distribution	54,152,587	3,526,538	50,626,049	6.0%	6.5%	1,039,766	433,090	(547,263)	\$4.24
Northeast Dallas	92,813,808	6,377,003	86,436,805	6.2%	6.9%	2,224,886	786,526	(33,347)	\$5.50
Northwest Dallas									
Flex/High-Tech	18,366,446	1,488,263	16,878,183	8.0%	8.1%	470,000	161,034	96,274	\$10.04
Manufacturing	6,885,896	396,108	6,489,788	5.8%	5.8%	-	155,898	(29,603)	\$4.44
Warehouse/Distribution	77,394,436	4,303,519	73,090,917	5.3%	5.6%	2,190,773	667,829	35,994	\$4.82
Total – Northwest Dallas	102,646,778	6,187,890	96,458,888	5.8%	6.0%	2,660,773	984,761	102,665	\$5.73
South Dallas									
Flex/High-Tech	3,770,990	103,107	3,667,883	2.7%	2.7%	15,000	-	11,200	\$6.58
Manufacturing	18,707,271	4,983,753	13,723,518	26.6%	26.6%	47,500	54,096	(169,096)	\$3.68
Warehouse/Distribution	86,282,154	9,233,691	77,048,463	10.6%	10.7%	4,978,321	148,799	1,179,403	\$3.76
Total – South Dallas	108,760,415	14,320,551	94,439,864	13.1%	13.2%	5,040,821	202,895	1,021,507	\$3.84

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SUBMARKET	INVENTORY	VACANT SF OVERALL	OCCUPIED SF	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	2017 YTD NET ABSORPTION	RENTAL RATES
South Stemmons									
Flex/High-Tech	18,322,460	654,291	17,668,169	3.5%	3.6%	15,000	100,050	263,348	\$10.57
Manufacturing	6,915,667	63,706	6,851,961	0.9%	0.9%	-	-	(23,710)	\$5.01
Warehouse/Distribution	54,954,968	1,231,931	53,723,037	2.2%	2.2%	-	333,177	124,172	\$5.22
Total – South Stemmons	80,193,095	1,949,928	78,243,167	2.4%	2.4%	15,000	433,227	363,810	\$6.42
South Fort Worth									
Flex/High-Tech	7,213,024	321,850	6,891,174	3.8%	4.5%	-	93,020	(41,405)	\$7.99
Manufacturing	8,722,490	337,374	8,385,116	3.8%	3.9%	19,000	-	(83,024)	\$4.91
Warehouse/Distribution	37,929,718	1,756,668	36,173,050	4.6%	4.6%	-	90,651	(253,429)	\$4.71
Total – South Fort Worth	53,865,232	2,415,892	51,449,340	4.4%	4.5%	19,000	183,671	(377,858)	\$5.18

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DFW Metroplex									
Flex/High-Tech	100,031,112	7,174,103	92,857,009	6.8%	7.2%	1,940,000	1,065,262	981,690	\$9.49
Manufacturing	78,414,650	7,313,618	71,101,032	8.8%	9.3%	142,620	431,569	177,852	\$4.03
Warehouse/Distribution	568,584,562	37,701,615	530,882,947	6.4%	6.6%	18,673,377	4,323,395	3,109,451	\$4.68
Total – DFW Metroplex	747,030,324	52,189,336	694,840,988	6.7%	7.0%	20,755,997	5,820,226	4,268,993	\$5.26

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

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METHODOLOGY

The information in this report is the result of a compilation of information on industrial properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency.

