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1Q24

# Dallas-Fort Worth Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The market's unemployment rate ticked up by 11 basis points year over year to 3.7% but remained well below the five-year average of 4.5%.
- Job growth pace has slowed compared with recent highs to 1.9% year over year, while employment growth is now below pre-pandemic levels, with 2019 growth averaging 2.8%.
- Most sectors reported employment growth, except for business and professional and information industries, with other services leading job gains at 6.4% over the past 12 months.
- Industrial-using jobs in the market continued to reflect yearly growth, ranging from 0.7% to 4.2% over the past 12 months.

## Major Transactions

- Four of the top five largest leases signed were new leases, indicating there is still a healthy appetite for space in the market.
- The four largest new deals signed are on the Dallas side of the metroplex, ranging from the north, east to the south of the market, with two of the new leases in the South Dallas submarket.
- As of the end of the first quarter of 2023, 35.6% of under-construction assets are preleased.

## Leasing Market Fundamentals

- The market realized 1.4 MSF of positive absorption in the first quarter of 2024, resulting in the second lowest first-quarter net absorption since 2013 and the lowest since 2019.
- Overall rental rates grew 13.5% year over year to \$9.66/SF, reaching a new historical high.
- Construction pipeline recorded the fifth consecutive double-digit delivery quarter at 15.6 MSF, while the under-construction pipeline dwindles for the fifth consecutive quarter to 28.4 MSF.
- Following quarterly supply outpacing occupancies for the fifth consecutive quarter, as of the end of the first quarter of 2024, vacancy increased by 320 basis points year over year to 9.6%.

## Outlook

- The Dallas-Fort Worth industrial market will continue to work through its construction pipeline, with 2.8% of the current market's inventory being under construction. The pipeline is expected to continue to dwindle as construction starts have remained slow due to more difficulty obtaining financing for new projects.
- Vacancy rates are expected to increase in the near term as supply is expected to outpace occupancies.
- Asking rents will likely continue to increase, due to elevated inflation and as quality new product commanding higher pricing is delivered.

1. Economy
2. Leasing Market Fundamentals



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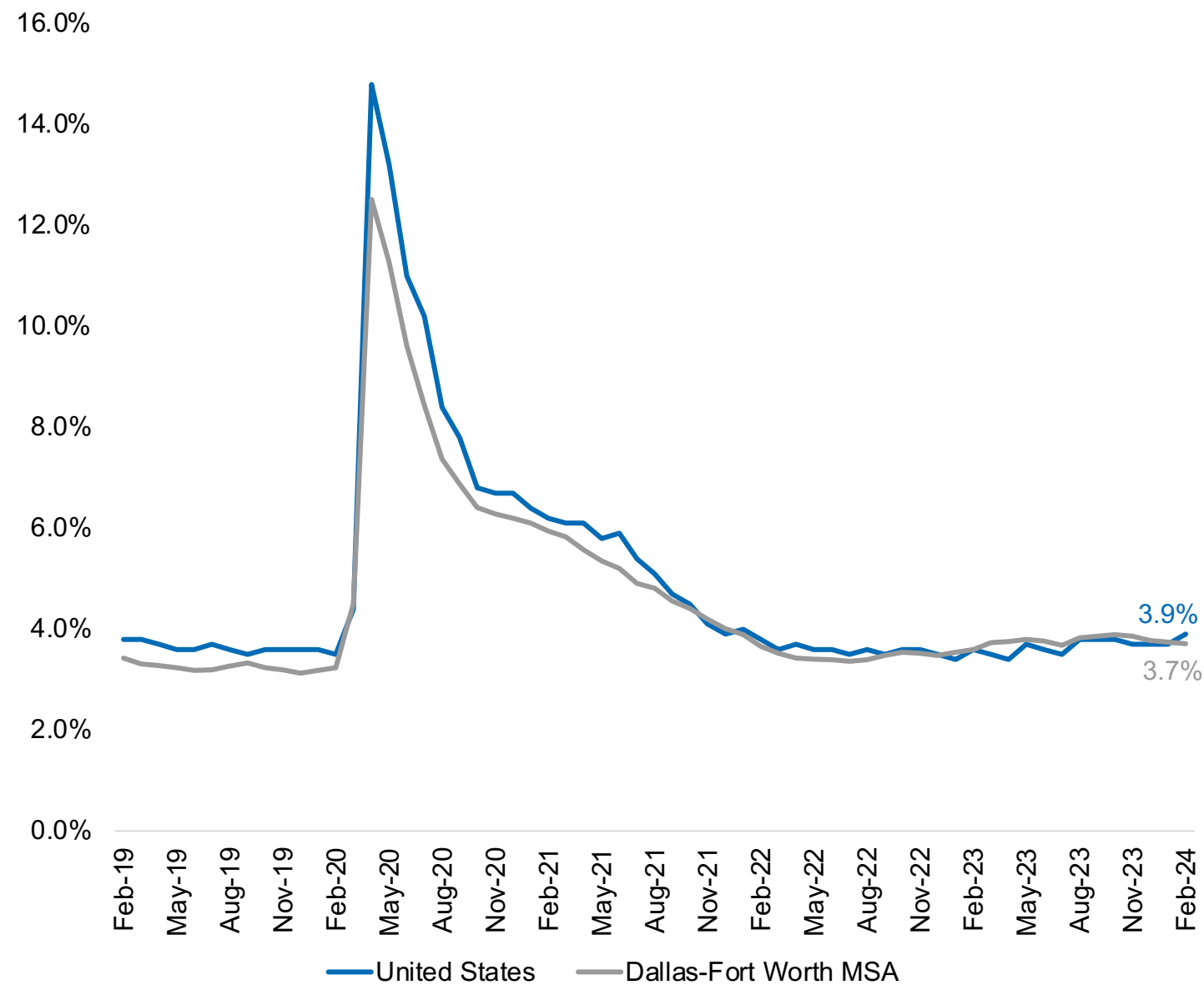
# Economy



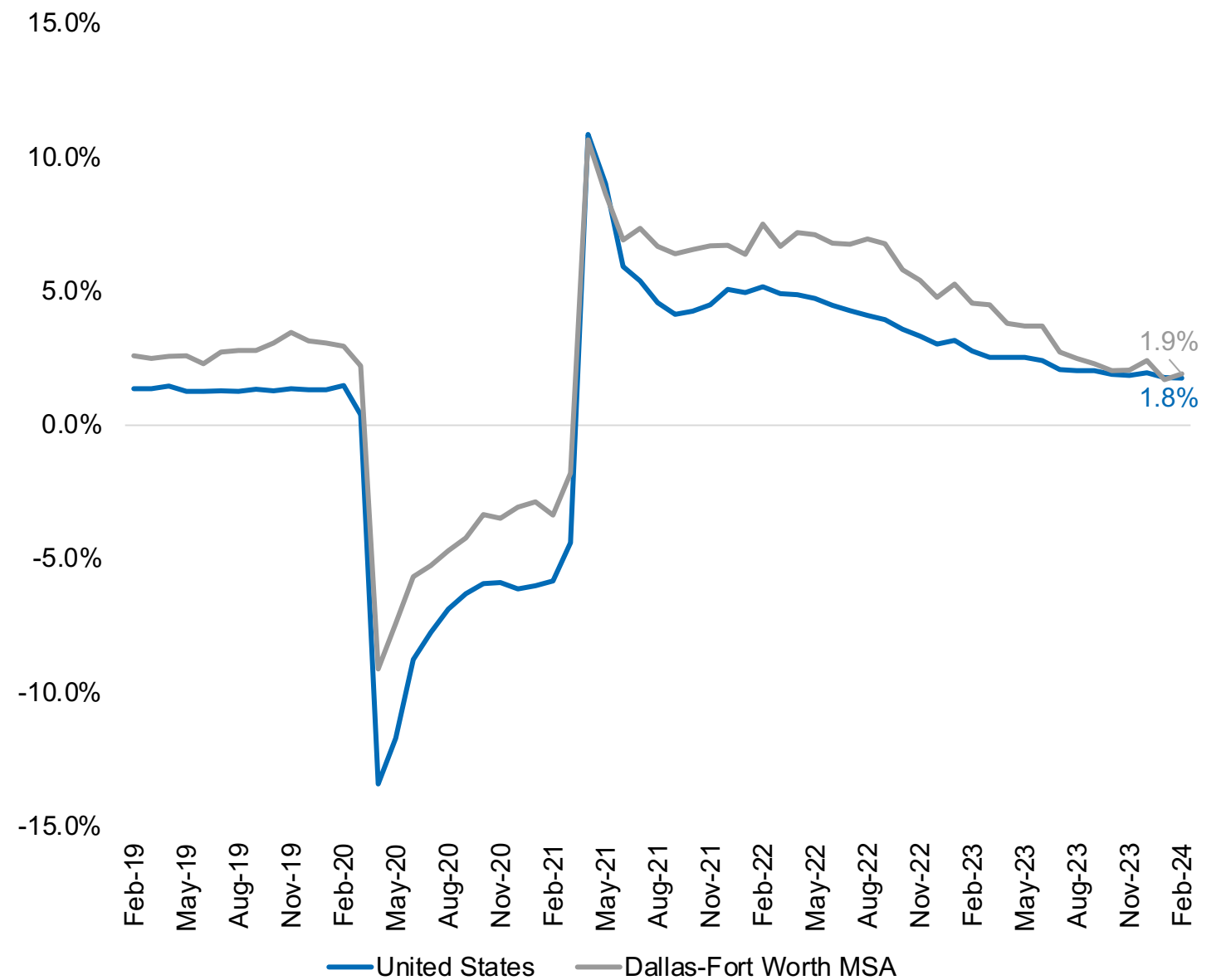
# Metro Employment Trends Continue Signaling a Slowing Economy

The Dallas-Fort Worth market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Recent national economic headwinds have pushed the region's unemployment higher than the national rate consecutively from March 2023 through January 2024. Since February 2024, the trend has reversed again, with the market's unemployment rate being 19 basis points lower than the national average and reflecting an 11-basis-point increase year over year. Meanwhile, the market's employment growth slowed by 263 basis points year over year, still reporting positive growth at 1.9% year over year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



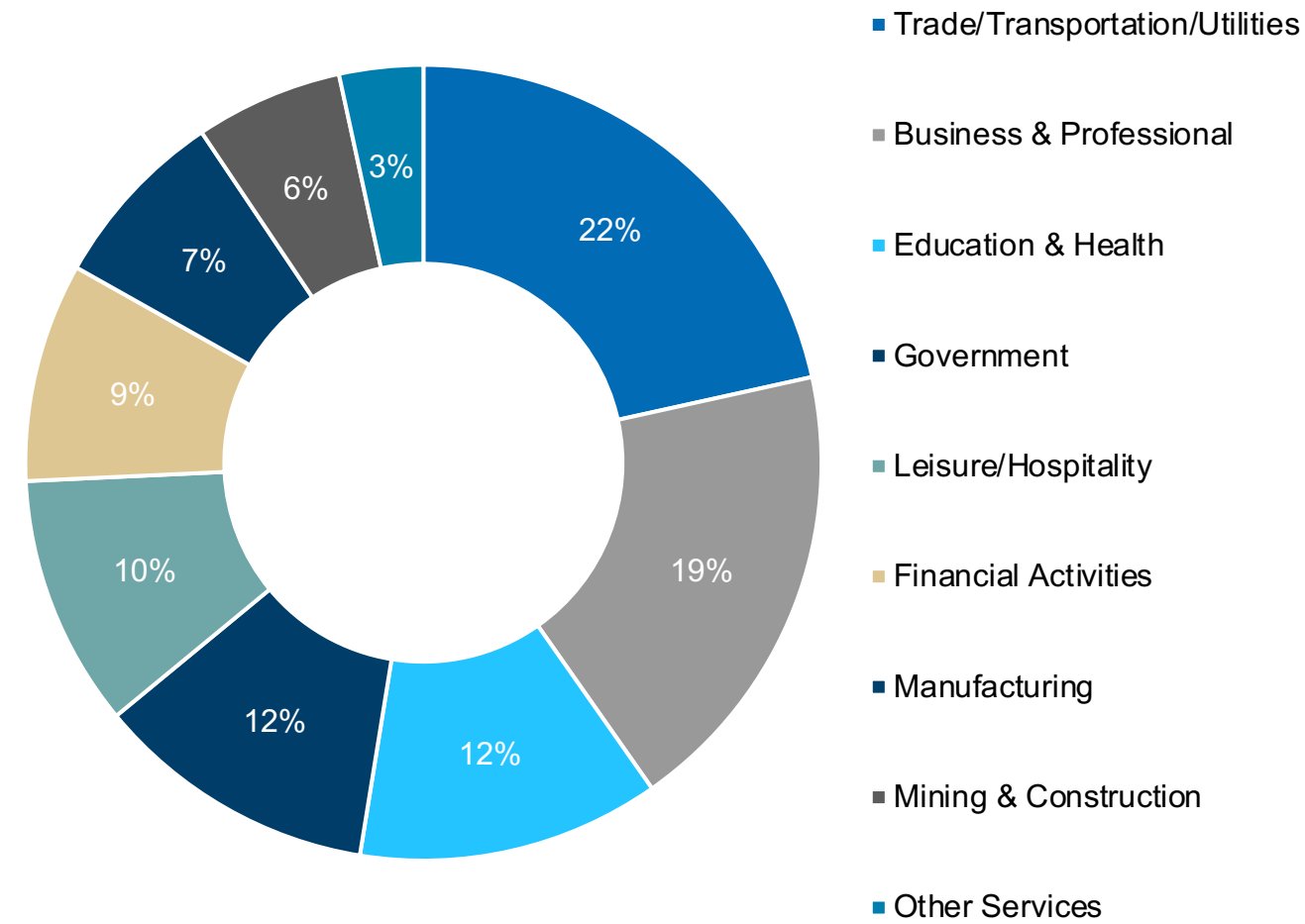
Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA



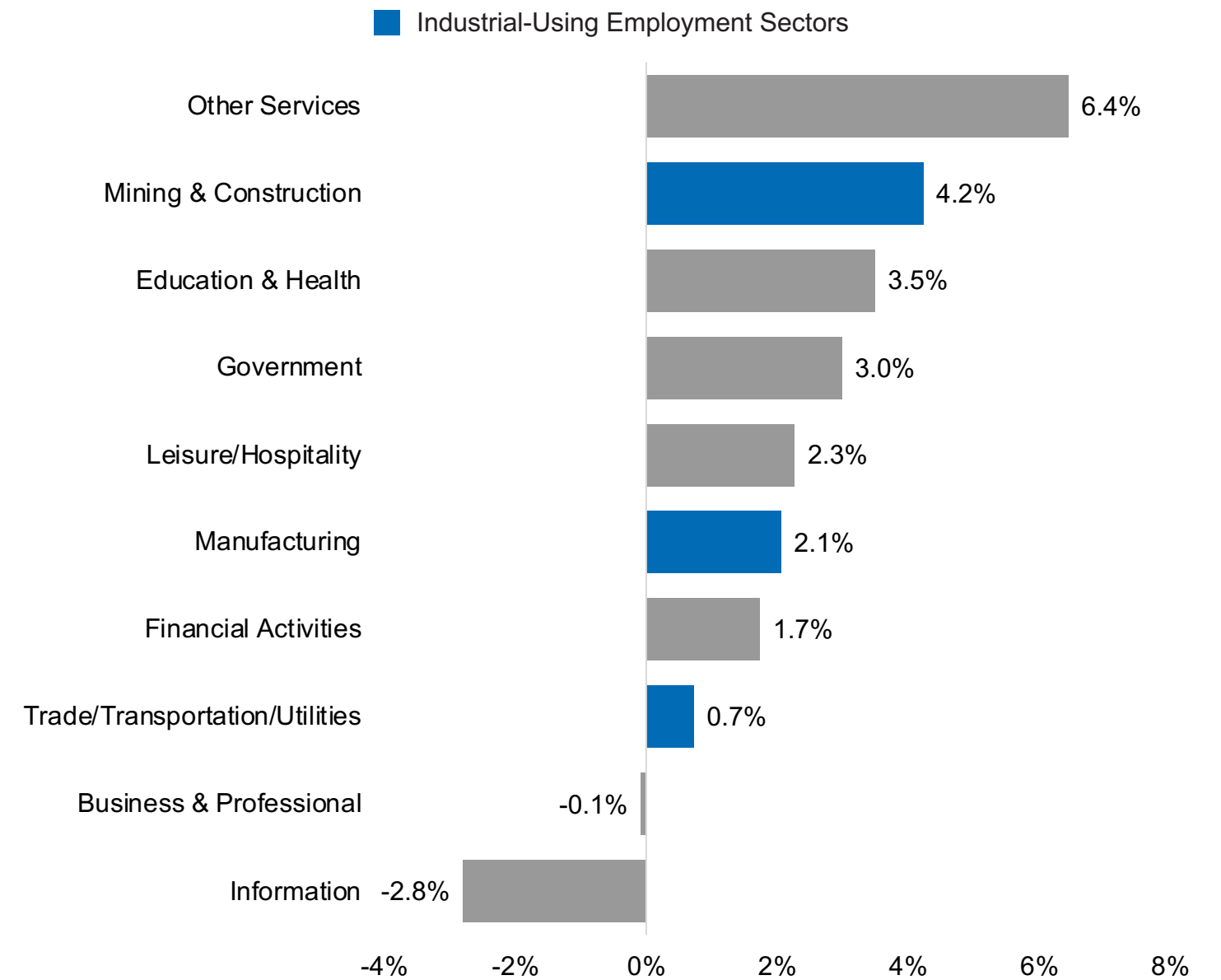
# Employment Growth Continues for Most Sectors

The Dallas-Fort Worth market has a high industry diversity with the top two industries, accounting for only 39.4% of the market's industry employment share. The industrial-using employment's trade/transportation/utilities sector is the largest industry sector in the metroplex at 21.1%. Most industries in the metroplex reported growth, except for business and professional and information sectors, with industrial-using industries reporting year-over-year growth ranging from 0.7% to 4.2%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

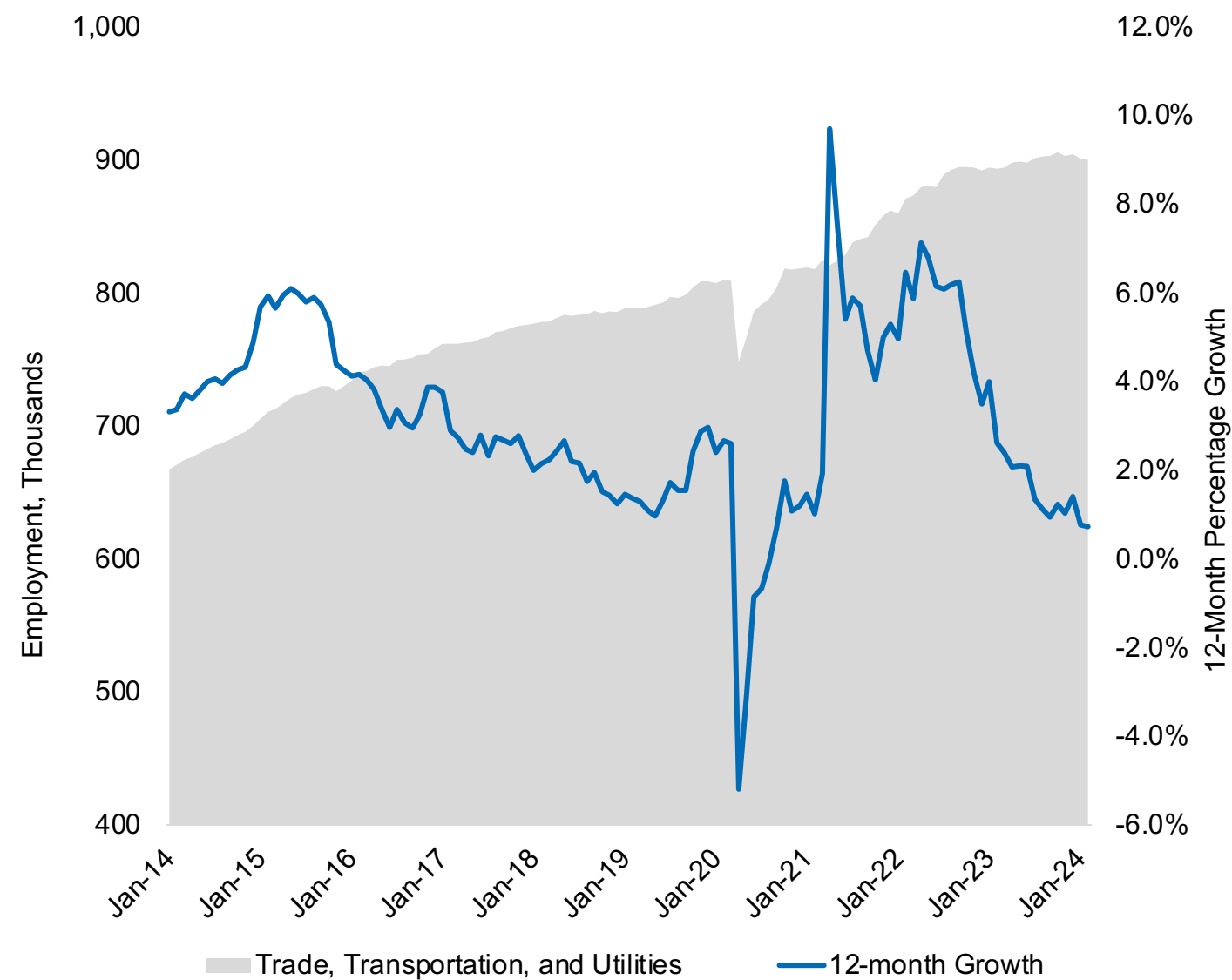


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

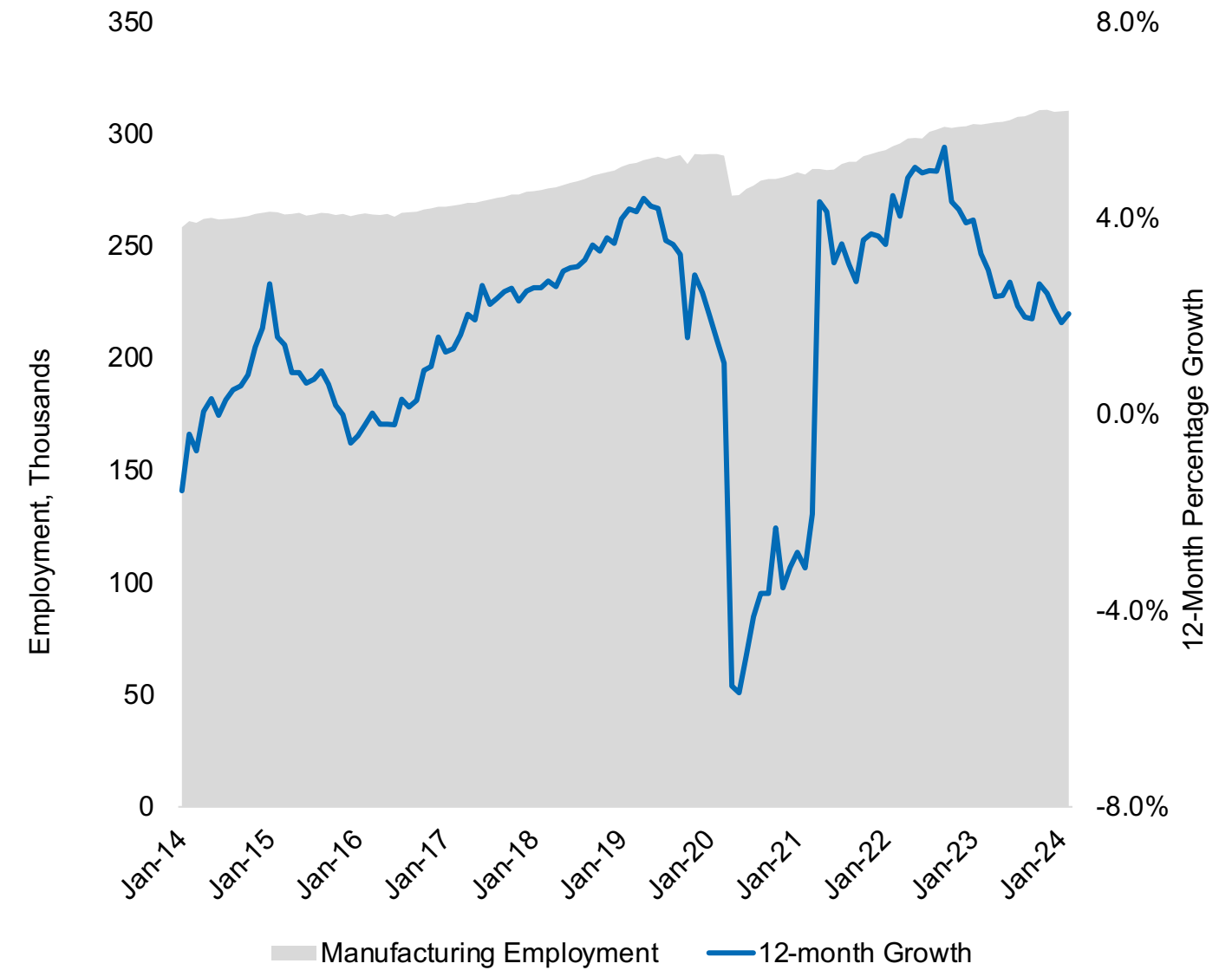
# Industrial Employment Growth Pace Slows

Trade/transportation/utilities employment declined since the peak in October 2023, falling below the 900,000-employee threshold that was maintained between July 2023 through January 2024, to 899,870 employees in February 2024. Manufacturing employment continued to remain above the 300,000-employee mark since mid-2022 and in February 2024 trends just 0.1% lower than the all-time historical high. Industrial-using employment continues to show yearly growth, albeit at a slower pace than before, reflecting a slowing economy.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA



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# Leasing Market Fundamentals

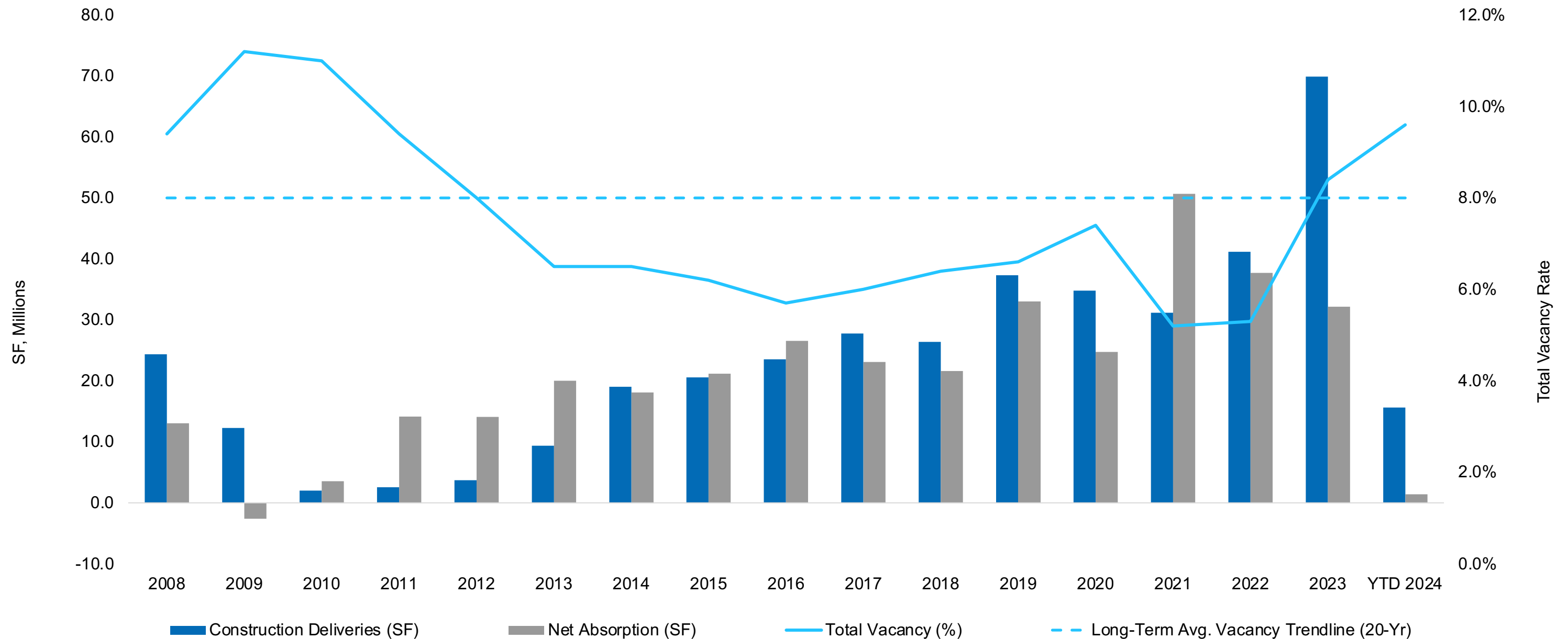




# Robust Deliveries Continue; Marks Second Highest Historical First Quarter

The Dallas-Fort Worth industrial vacancy rate increased by 320 basis points year over year to 9.6% in the first quarter of 2024, with supply continuing to outstrip demand since 2022. Deliveries continue to remain strong in the market, outpacing all first-quarter deliveries pace historically, except for the first quarter of 2023. Despite national economic headwinds, demand continues to remain positive for industrial space in the Dallas-Fort Worth market.

Historical Construction Deliveries, Net Absorption, and Vacancy

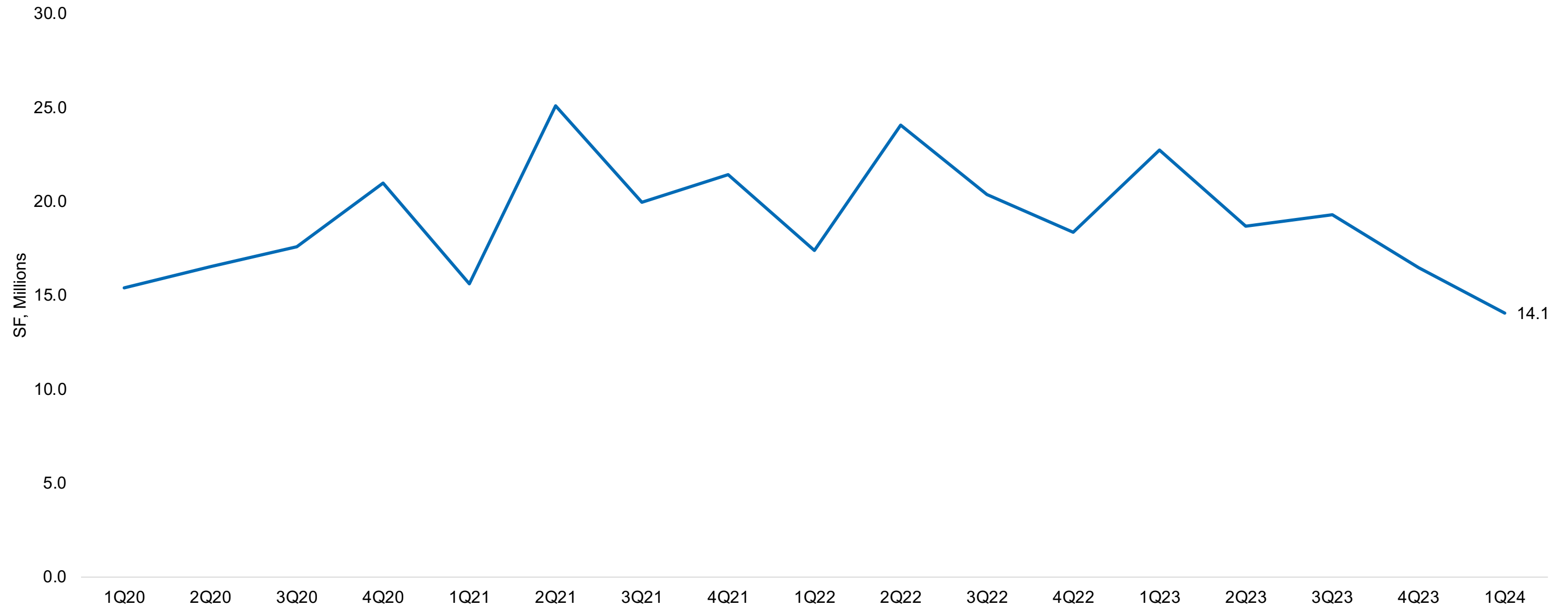


Source: Newmark Research, CoStar

# Industrial Leasing Activity Decelerates to Pre-Pandemic Levels

In the first quarter of 2024, leasing activity decelerated from historical highs reported post-pandemic, ending the quarter at 14.1 MSF. Despite slowing leasing activity, likely resulting from national economic headwinds, demand continues to remain positive in the market.

Total Leasing Activity (SF)



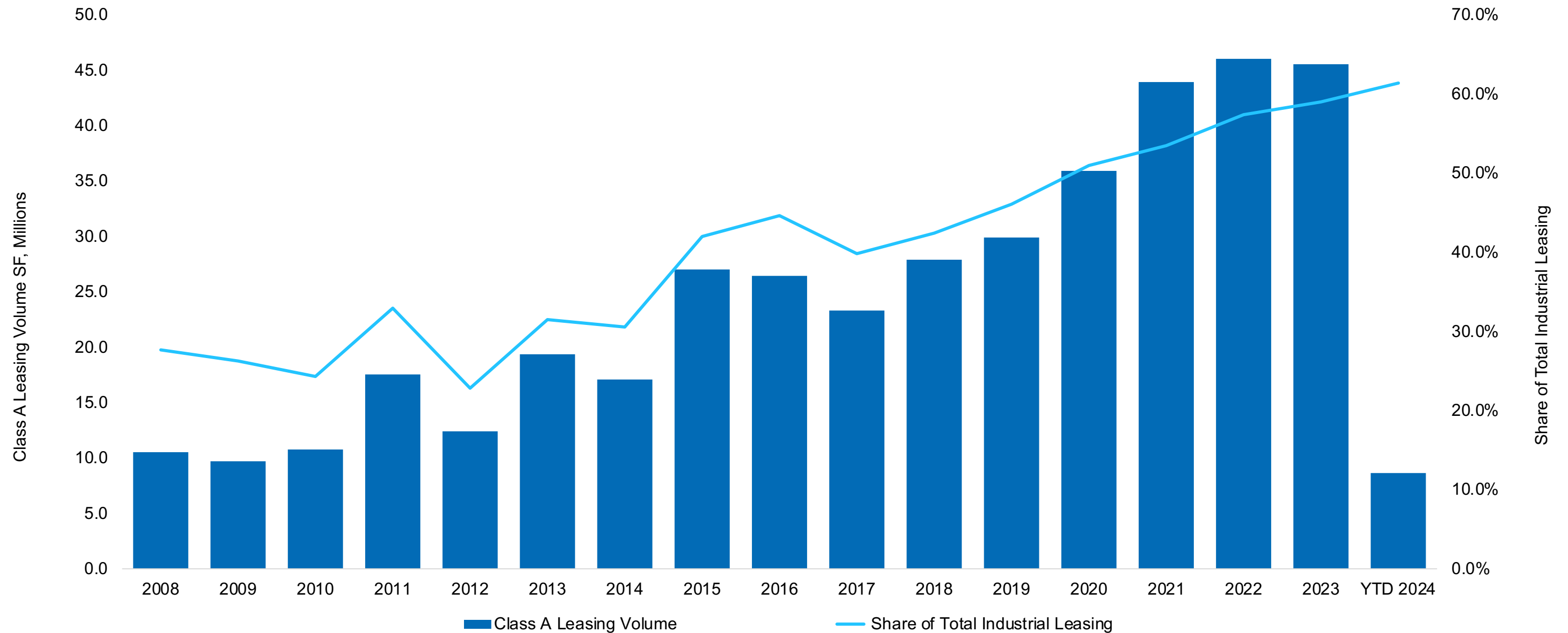
Source: Newmark Research, CoStar



# Class A Warehouse Leasing Accounts for Bulk of Total Market Leasing Activity

Class A warehouse space leasing activity, on a square-footage basis, decreased from historic highs following the pandemic. The influx of around 40 MSF of high-quality deliveries that hit the market post-pandemic allowed Class A leasing activity by square footage to increase substantially. Class A leasing activity closed the first quarter of 2024 at 8.6 MSF, representing 61.4% of overall activity in the quarter, up from 59.0% from the previous year and well above the pre-pandemic average at 34.3% from 2008 to 2019. The proportion of Class A leasing compared with total leasing indicates there is strong appetite for quality assets in the market as long as new supply is delivered to support the demand.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

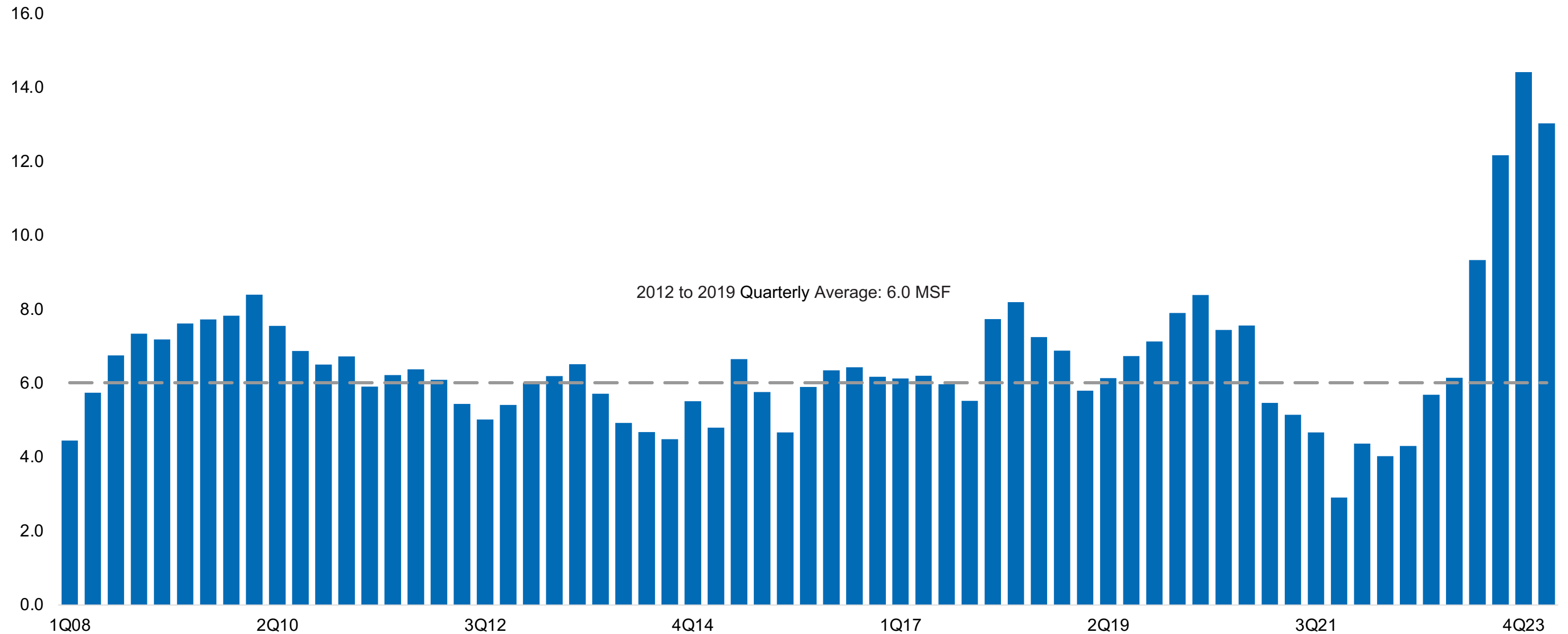


Source: Newmark Research, CoStar

# Industrial Sublease Availability Dips but Remains Elevated

Since the second quarter of 2022, sublease volume increased in the market, but dipped for the first time in the first quarter of 2024 to 13.0 MSF, dropping by 9.6% quarter over quarter. Sublease availability continues to remain elevated, continuing to hover above the 12.0 MSF mark since the third quarter of 2023. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)



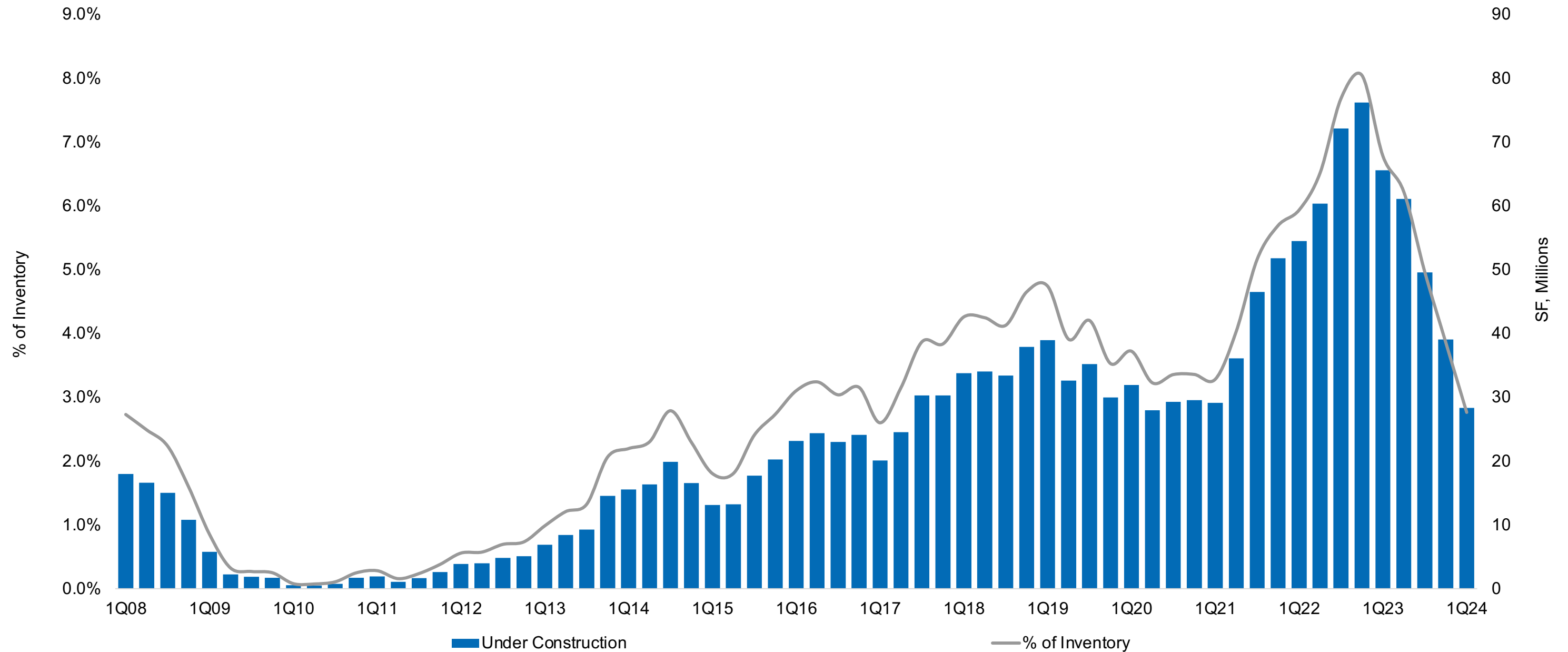
Source: Newmark Research, CoStar



# Industrial Supply Pipeline Continues Declining from Historic Highs

The construction pipeline trended downward for the fifth consecutive quarter after reaching a historic high of 76.2 MSF in the fourth quarter of 2022. Construction starts and new development continued to slow due to challenging financing environment for new construction. As a result, the under-construction pipeline continued to decelerate as deliveries hit the market, creating a possibility for potential supply constraints as economic conditions improve in the latter half of 2024 and 2025.

Industrial Under Construction and % of Inventory

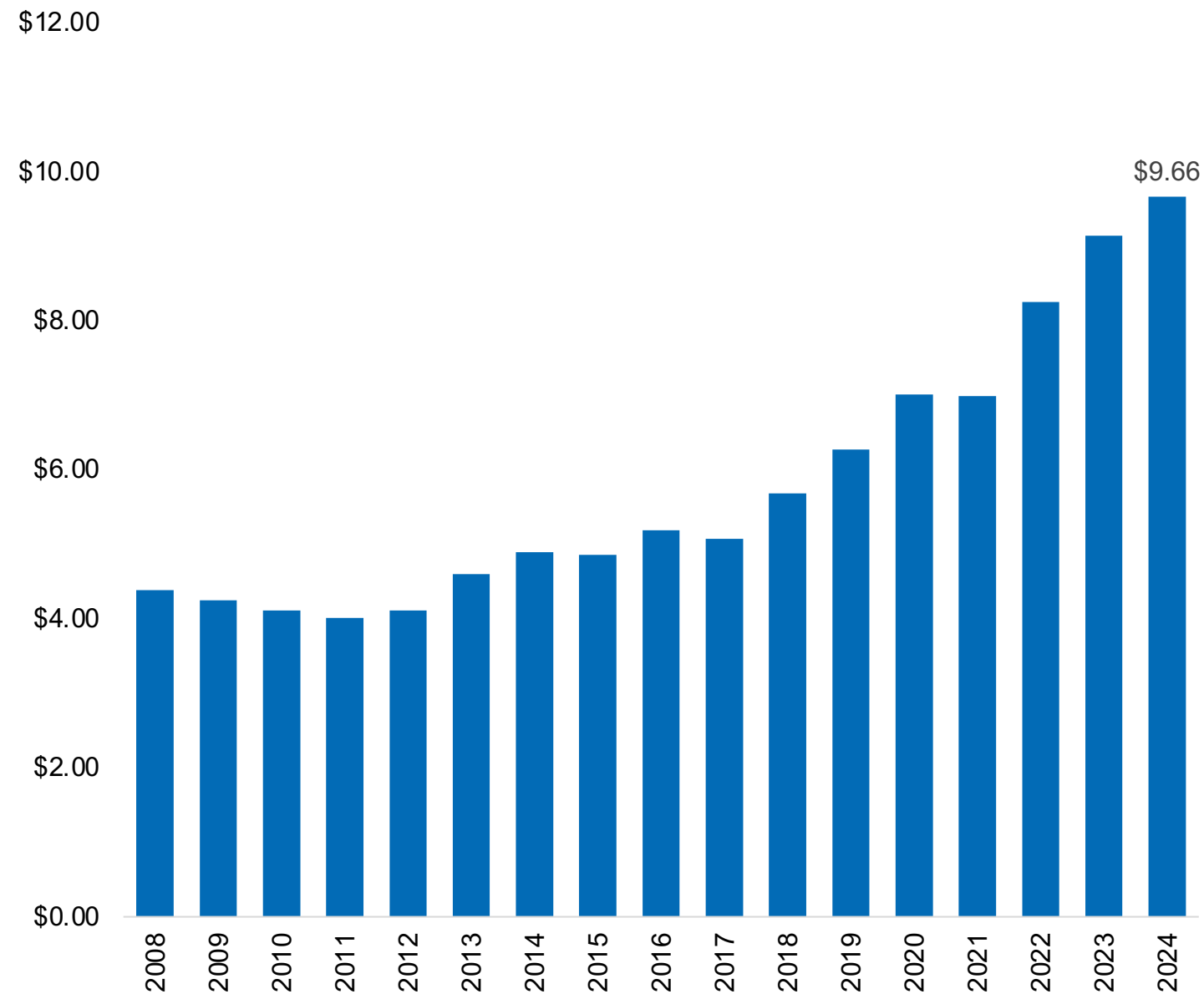


Source: Newmark Research, CoStar

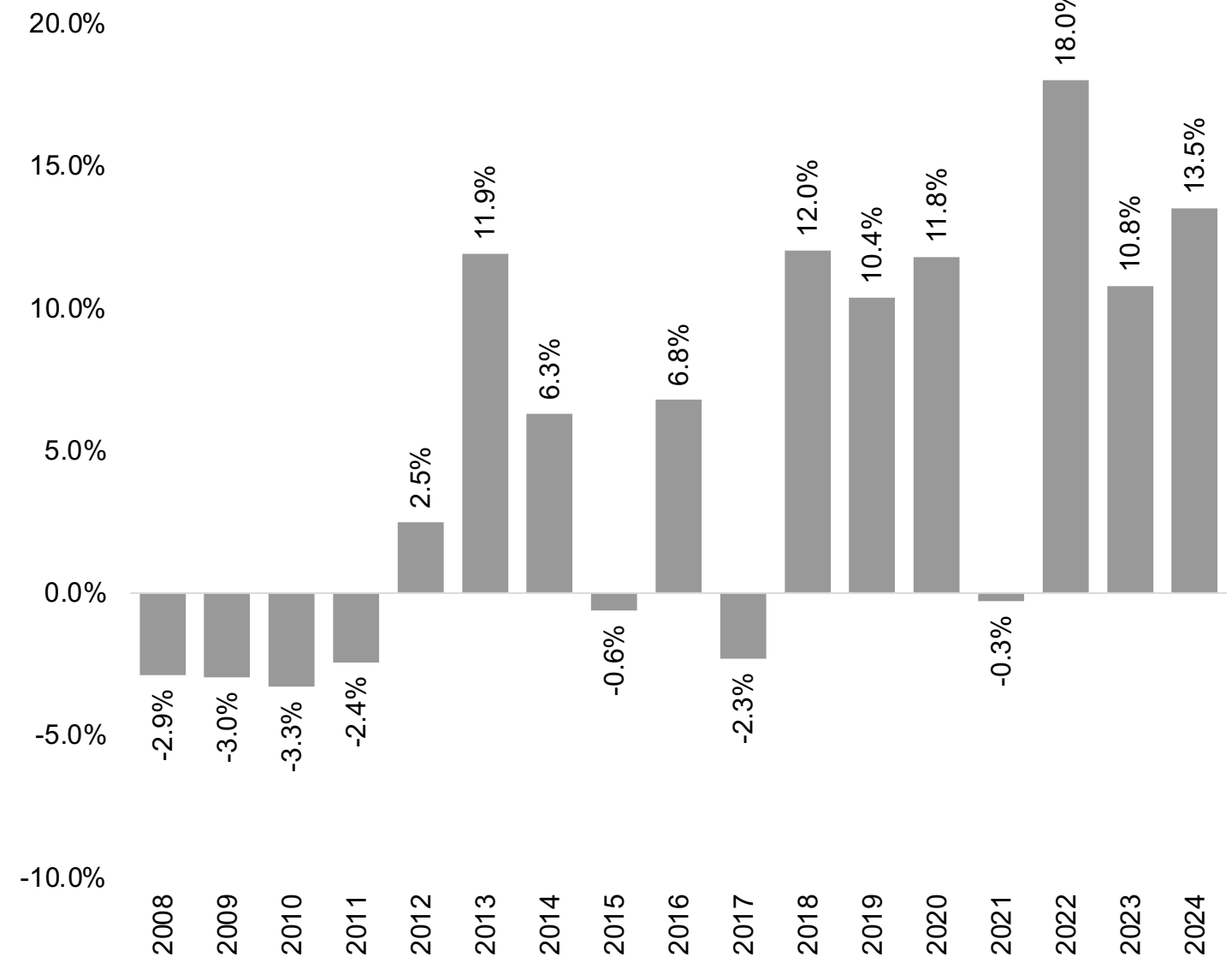
# Asking Rents Reach New Historical High

Industrial average asking rents reached a new high at \$9.66/SF as of the end of the first quarter of 2024, increasing by 13.5% year over year. Rent growth is expected to continue increasing as new, higher-quality assets continue delivering.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



# Notable 1Q24 Lease Transactions

Leasing activity slowed in the first quarter of 2024, with quarterly leasing activity at 14.1 MSF, below first-quarter quarterly averages reported from 2011 to 2023 at 15.3 MSF and below raw first-quarter activity recorded from 2018 through 2023. Currently, projects under construction are 35.6% preleased.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
The Container Store <i>Retailer The Container Store renewed its 1.1-MSF lease at Freeport Corporate Center 23.</i>	Freeport Corporate Center 23	DFW Airport	Renewal	1,101,500
Post Consumer Brands <i>Cereal manufacturer Post Consumer Brands signed a new lease to open a distribution center in Wilmer late 2024.</i>	Logistix Hub – Building 1	South Dallas	Direct New	1,095,360
Orbis <i>Orbis, a packaging manufacturer, signed a new lease-to-own agreement at the former Fritz Industries building. The company plans on hiring an additional 190 employees at its new Greenville location.</i>	7121 Shelby Ave	Northeast Dallas	Direct New	659,049
Barrett Distribution Centers <i>Barrett Distribution Centers, a 3PL company, expanded its operations in Dallas with a second location.</i>	Exeter Logistics East	East Dallas	Direct New	529,047
Frito Lay <i>Snack manufacturer Frito Lay signed a new lease at Prologis Mountain Creek, expanding the company's operations in the metroplex.</i>	Prologis Mountain Creek – Building 3	South Dallas	Direct New	515,792





Please reach out to your  
Newmark business contact for this information



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*For more information:*

**Ching-Ting Wang**

*Head of Southeast Research*

ChingTing.Wang@nmrk.com

**John Tagg**

*Senior Research Analyst*

John.Tagg@nmrk.com

**Dallas**

2601 Olive Street, Suite 1600

Dallas, TX 75201

t 469-467-2000

**New York Headquarters**

125 Park Ave.

New York, NY 10017

t 212-372-2000

**[nmrk.com](http://nmrk.com)**

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