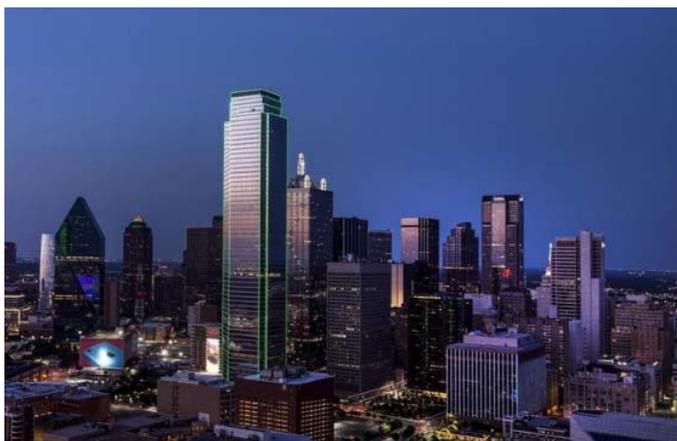


Commentary from Cohen Asset Management

The industrial market in Dallas-Ft. Worth remains red hot, with high demand for space outpacing supply growth. Less available land, higher construction costs and higher interest rates have checked the growth of new supply, while continuing demand has pushed rents up over 40% in the past few years.

It Would Take Something Drastic To Derail DFW Industrial

By Dees Stribling | February 19, 2019



Dallas Skyline

DALLAS, TX—Now is an exceptional time in the Metroplex industrial market, according to the speakers at Bisnow's DFW Industrial & Logistics Outlook event. There is high demand for space, but supply isn't keeping up, so there are low vacancies, rising rents and a race to find new sites.

Even a strong market means some headaches for DFW industrial owners, developers and brokers, the speakers — Scannell Properties Managing Director Kris Arviso, Billingsley Co. partner George Billingsley, Nuveen Head of Industrial Graydon Bouchillon, Hillwood Properties Senior Vice President Tony Creme and CBRE Global Industrial & Logistics Vice Chairman Jack Fraker — pointed out. Sites for new projects can be hard to find. Construction costs are through the roof. And while landlords can capture higher rents than ever before, they aren't always enough to prevent yields from compressing.

Another question hanging over such a strong market is, how much longer can it last? None of the speakers ventured a firm prediction on that score, but they did say that local industrial fundamentals are so strong in the Metroplex that it would take a black swan event on the order of the last recession to derail the market — and no one expects that any time soon. For one thing, the national economic environment is the strongest it has been in recent memory, and while some kind of slowdown this year is possible, it probably won't be enough to dampen demand for industrial space.

Demand has been kicked into high gear by a sea change in the way consumer goods are bought and distributed — e-commerce, that is — and that has driven industrial vacancies nationwide below 5%, despite delivery of around 1B SF of new construction over the last three years. The dynamics of the Metroplex industrial market

mirror the national metrics: Over the last six years, about 120M SF of industrial has been absorbed, while 118M SF has been built, according to the speakers. In previous cycles, DFW industrial supply tended to be ahead of demand, but not this time around. Significant demand is only part of the reason. Suitable land can be hard to find and entitlements take longer than they used to, checking supply growth. Construction costs are up 30% over last 24 months and interest rates are up. So it is unlikely that there will be an overhang of industrial space in the Metroplex, even if the U.S. or Texas economy slows down in the near future, the speakers said.

DFW industrial leasing rates are the highest some of the speakers have ever seen. They have risen to as much as \$5/SF, up from roughly \$3.50/SF a few years ago. Tenants seem to accept this, and they are willing to pay higher prices when they find space they need.

Industrial space users also have changing expectations, especially in terms of site selection, the speakers said. As recently as five years ago, users made their decisions mainly on price, or perhaps logistics and supply change considerations.

Now the main consideration is labor. If there isn't enough labor in an area, companies don't want to locate there, regardless of how strong a site is otherwise. When Amazon opened its 2.4M SF facility near the airport recently, the retail giant found that it needed to raise its minimum wage to attract workers. That has inspired other industrial space users to raise pay as well, which will have an impact on where the projects can be developed going forward. End users will pay premiums for sites with access to a strong labor pool, the speakers said.

The good news is that Dallas-Fort Worth has a strong and growing labor base. But on the other hand, companies keep coming here, eating up that labor force. About 1,000 workers a day are coming into Texas, many of those to the Metroplex, yet the labor force isn't keeping up with the number of jobs, according to the panelists.

Industrial space users also want more sophisticated space than ever before, the speakers noted. Twenty years ago, industrial space had 20-foot ceilings, halogen lights and a choice of three colors of carpet. That was as complicated as it got. Now users are demanding facilities that can accommodate increasingly sophisticated technology — the kind necessary to do e-commerce fulfillment. Tenants are sometimes spending more on tech tenant improvements than for the lease itself.

Where are the new frontiers for local industrial development? Tarrant County has had a larger share of development over the last five or six years because of the availability of land, and Denton County is an up-and-coming submarket, with major developers active as far north as Denton, the speakers said. Dallas County isn't out of the game, however, and eventually it might be a hub for industrial infill development and redevelopment, as sites become harder to find elsewhere. So far, infill and redevelopment have been part of the recent action, but not a major part just yet.

Source: [Bisnow Commercial Real Estate News](#)

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