

Tops in Texas: What to watch for in the state's industrial markets

BY BRANDI SMITH



Even to those who've worked in the industrial real estate market for decades, the figures generated over the past year are staggering.

"It's as red-hot and active as I've seen it in my career," says Reid Goetz, Senior Vice President at Hillwood. "That's both on the demand side and the construction and capital market side."

Goetz is responsible for the industrial development and leasing within AllianceTexas, a 27,000-acre, master-planned and mixed-use development in North Texas that produced 53 million square feet of commercial development to date.

"We have land holdings that will allow us to develop another 36 million square feet of industrial," Goetz shares.

Since AllianceTexas got its start more than 30 years ago, it had a leg up on some of the new developments hoping to capitalize on the industrial boom, many of which are now running into supply chain issues with materials, including steel.

"Steel delivery timetables that were 12-14 weeks prior to the pandemic are now over 40 weeks in certain markets," says Goetz. "We got ahead of that for Alliance Center East 1, our new 1.2 million square foot spec building, which is also the largest spec building in AllianceTexas' history."

"... strong leasing demand ..."

That lag could help the overall market, according to Zachary Taylor, Senior Vice President at Colliers, who specializes in the sale and leasing of industrial real estate with a particular focus in southeast Houston and other markets along the Gulf Coast.

“Q2 2021 is expected to be a record quarter with nearly 11MSF of leasing activity being tracked. This would be the highest number ever recorded for the Houston market.”

“Current construction has helped curb new projects, which will allow leasing activity to catch up to recent deliveries,” he explains. “Leasing activity has been strong throughout the state with Dallas leading the way.”

For Dalfen Industrial, which specializes in the acquisition, development, and operation of industrial properties throughout the U.S., Dallas and Austin are neck-and-neck when it comes to square feet closed and under contract. Dallas boasts 2.6 million compared to 2.5 million in Austin.

“East Dallas Logistics Center (Mesquite), Mark IV (Fort Worth), and Austin Tuscany have all seen strong leasing demand recently with proposals and leases being negotiated in a wide variety of suite sizes,” says Sean Dalfen, President and Chief Investment Officer of Dalfen Industrial. “These projects each speak towards the demand of infill spaces that are close to strong consumer demographics. And even more impactful, the locations and quality of the developments have given leverage to push rents across the board versus competitive spaces in the market.”

Houston is worth mentioning as well, per Dalfen.

“Q2 2021 is expected to be a record quarter with nearly 11MSF of leasing activity being tracked,” he says. “This would be the highest number ever recorded for the Houston market. Although Houston’s development pipeline seems robust at nearly 15.5 million square feet, more than 40 percent has already been spoken for and pre-leased.”

Dalfen cites Houston as a beneficiary of significant big-box activity. The market’s seen nine leases larger than 300,000 square feet signed since the beginning of March.

“... it has to level out at some point ...”

While big-box development is not necessarily a new trend for industrial, the exponential growth in demand created by the pandemic is.



“We’ve seen a rebuilding of the global supply chains and the industrial distribution space infrastructure, largely driven by e-commerce and consumers who want two-day, next-day, same-day delivery,” says Goetz. “In order to compete and maintain those delivery standards, most Fortune 500

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companies had to prioritize their logistics operations like never before.”

He says, while that change was anticipated, trend timelines for the next four to five years have been accelerated to the next 12 to 18 months due to the pandemic.

“It has to level out at some point, but in the short-term, we feel that it's hard to

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see this slowing down,” Goetz says.

At least for a while, Dalfen agrees.

“E-commerce-related tenants are still in the beginning stages of building out their logistics and distribution networks. As a larger percentage of GDP shifts towards e-commerce-related spending, players will have to continue expanding their logistics needs,” he says. “Additionally, COVID-19 disrupted the supply chain in material ways for many, which has drastically increased onshoring within US corporations.”

But if there's one thing that's constant about commercial real estate, it's change. For that reason, Taylor says a downturn is inevitable at some point, explaining “there are too many economic factors affecting real estate.”

“[It] has always been cyclical,” he says.

“... significant announcements ...”

In the meantime, those in the game are seizing the opportunities that come their way.

“I am working on a cold storage project with I3 Interests called 3Degree Red Bluff. We are marketing the space to a variety of different cold/frozen tenants from food processing to bulk distribution,” he says, adding that cold storage has emerged as a growing asset class. “Feedback from the market has been very positive.”

The project consists of a 96,000 square-foot cold-storage warehouse that will be subdivided with a 56,960 square-foot turn-key freezer and refrigeration facility. The remaining 39,040 square feet of insulated warehouse space will be for lease. The site also holds a 2.4-acre pad site for a future dry-storage user building.

“We hope to have more to announce in the next few months,” says Taylor.

Big news is coming out of the North Texas market as well, according to Goetz.

“I think that we're going to have some really significant announcements, not only in AllianceTexas, but throughout the DFW market, in the next 30 days or so.”

The industrial development is already leading the way in innovation with the AllianceTexas Mobility Innovation Zone (MIZ).

“We believe, based on our access to more than 500 companies within Alliance and what we see happening throughout the world, autonomous vehicles will be that next step in the evolution of transportation and delivery,” Goetz says. “That's the program that we're working on within the MIZ.”

The MIZ is a unique platform to test, scale and commercialize integrated



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mobility solutions, both on the ground and in the air, due to its direct access to Fort Worth Alliance Airport, BNSF Railway's Alliance Intermodal Facility, FedEx Southwest Regional Sort Hub, Amazon Air's newest regional air hub, and more than 500 global and regional brands. Let's not forget FedEx Ground Sort Hub, two UPS Sort Hubs, major corporate anchors including Fidelity Investments and Charles Schwab, and more than 162 miles of major arterial, state and federal highway systems.

“AllianceTexas the largest and the most significant opportunity to advance autonomous freight and vehicle delivery in the country,” adds Goetz.

It's simply another example of how North Texas, and Texas as a whole, is leading the way as the U.S. industrial market continues to generate those staggering figures.



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