I-35 Logistics Crossing, 2801 N. Houston School Road in Lancaster, Texas.

Industrial investors remain bullish on DFW

BY MATT BAKER

Don't look now, but some sectors in some markets aren't just weathering COVID-19, they're settling in for years of growth.

Consider the DFW market where, during the first half of 2020, more than 8.2 million square feet of industrial space was absorbed. This data, which was culled from recent CBRE research, held close to the year-over-year absorption of 8.7 million square feet that the area experienced in 2019.

While the pandemic is causing disruptions in sectors and markets throughout the country, the DFW industrial market appears to be quite healthy. CBRE tracked 71 transactions of 100,000 square feet or larger that closed during the first two quarters. Half of these, comprising 12.6 million square feet, were new leases, with 5 million square feet of that going under contract during Q2 as the pandemic was well under way.

Steve Trese, senior vice president with CBRE in Dallas, believes that supply and demand are still fairly in balance across the metro. This holds true both for industrial product in general and for large logistical warehouses.

"Smaller, front-park, rear-load product is flying off the shelf in infill areas. Partly because of the lack of quality sites, developers are capitalizing on challenging small land, and getting higher rents than ever before," Trese said. "Big box is equally successful, but is venturing out farther than our more traditionally tracked submarkets, seeking quality labor, less congested infrastructure and slightly more affordable land basis."

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According to Trese, this migration is leading to cheaper rent via developer yield. That said, location is still key; the cost of real estate is less of a concern when compared to optimal distribution position and deployment.

As location is so paramount, where are developers, investors and users focusing their efforts? DFW Airport, Great Southwest/Arlington and most of Northwest Dallas are effectively built out and have little availability. Northeast Dallas is an established market and is very stable, but it's much more of a localized

submarket with smaller tenants. A lot of new activity is occurring in the area's southern submarkets.

"Fort Worth *was* the new frontier and is now very desirable. Alliance has always been a destination, thanks to developer Hillwood, but South Fort Worth has recently become a land grab area, and the best sites are now spoken for," said Trese. "We expect the growth to continue to trend south. South Dallas had a glut of big box spec vacancy, which concerned everyone in the know, but was quickly corrected with recent absorption."

Majestic Fort Worth South, located in Fort Worth, Texas.

FedEx was the source of one of those major South Dallas deals as the shipping giant took the entirety of Trammell Crow Company's first phase at Cedardale Distribution Center. The 776,630-square-foot cross-docked distribution center features 130 dock doors and 234 parking spots. Trammell Crow cited the property's location, directly south of I-20 between I-35 and I-45, as a strategic opportunity for growth over the next two decades due to relatively inexpensive land and easy access to transportation lines.

Nearby, an undisclosed tenant recently inked a deal for 610,806 square feet at I-35 Logistics Crossing, leasing all of the site's Building A. Located at 2801 N. Houston School Road in Lancaster and marketed by Cushman & Wakefield, this development of Crow Holdings includes 36-foot clear heights, 185-foot truck courts and trailer storage. The tenant plans to conduct a $12 million build-out before moving in by the end of this summer.

In South Fort Worth, packaging firm Ball Corp. agreed to occupy 678,000 square feet of space at Majestic Realty's Majestic Fort Worth South. The 320-

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acre master-planned business park, which will comprise 1.8 million square feet of rentable space when the first phase is completed, has direct access to I-35 with freeway frontage opportunities available.

There was a spate of spec development leading up to the pandemic and approximately 20 percent of industrial space now under construction in the DFW metro has been preleased. According to Trese, he sees little reason to worry about filling this new product.

"We have had more new spec development deal activity during the shutdown than the previous 24 months," Trese said. "Market fundamentals before the pandemic were pushing users to migrate to our region, and it has only accelerated with the conditional forces at hand."

The pandemic has given a boost to the already accelerating e-commerce and logistics sector as stay-at-home orders have turned online shopping late adopters into converts. Other benefactors are the possible onshoring of manufacturing jobs as businesses flee China and the stockpiling of health-related materials.

"Multiple big e-commerce deals have landed here versus other markets," said Trese, "but the organic growth of small industrial business gives me the most confidence that we are in the right asset class of real estate and in the right part of the country for this snapshot in time."

Industrial net absorption is very predictably tied to job growth. As DFW was the fastest-growing metro over the past decade, industrial absorption follows suit. Job creation has come to a halt, however, as COVID-19 causes companies to stall or cease operations. While the immediate reality may seem grim, Trese has confidence in the future.

"We have obviously lost a ton of jobs globally, nationally and locally, but we are forecasting some of the strongest industrial metrics over the next couple years that we've ever seen in North Texas," said Trese. "Because of the paradigm shift on consumer spending, onshoring and new American manufacturing—as well as the fact that the state of Texas has demonstrated a pro-business attitude—the mold has been shattered."