

DFW's Spec Industrial Leading Top 5 Markets

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DALLAS-Of the Top 5 industrial markets in the US, Dallas/Fort Worth is far ahead of the pack for spec construction. The 17.8 million sf of under-construction space is raising concerns about overbuilding, particularly if the US economy tilts some more.

According to Grubb & Ellis Co.'s third-quarter stats, Dallas/Fort Worth's developers are building 5.4 million sf more than its closest Top 5 competitor, Chicago. The largest market, Greater Los Angeles, has just three million sf under way while East Coast competitors New Jersey and Philadelphia have 6.2 million sf and five million sf coming out of the ground, respectively.

Dallas/Fort Worth's level of spec construction does have the industry talking at lunch tables and networking events. But, the region's ability to land on its feet in good times and bad is keeping the threat of overbuilding at bay for now.

"I think we're still seeing strong absorption," says Gary Lindsey, senior vice president in Dallas for Grubb & Ellis. "We're gobbling up these buildings as quickly as they're getting built. But, we're subject to going flat line as a result of all kinds of economic conditions."

There's no doubt that deals aren't being made locally despite the slipping US economy. Nonetheless, there are widespread concerns that a directional change could result in industrial overbuilding.

"There are a lot of economic concerns in our market and around the country," says Chris Jackson, managing director of locally based Stream Realty Partners LP. "Any time you have economic concerns, you have concerns about what is coming on line. It will get leased, but the caveat is if the economy turns then we can expect to have an oversupply, perhaps excessive, in several markets."

Kevin J. Santaularia, president and CEO of Dallas-based Bradford Cos., points out optimism continues to be strong because the basics behind the region's dynamics, which created the industrial stronghold, are unchanged. "There is a possibility the national economy will dampen demand. However, we've been fortunate that Texas and the Dallas/Fort Worth economy are leading the nation in job growth," he stresses. "I think everyone is cautious and hoping demand keeps up with supply."

The experts recognize there is a downside to the amount of construction, the most to go up since 1999. During that building boom, it took nearly two years to fill the new supply. The impact was felt in rates and concessions, say the trio, none of who expect to see rent appreciation in the year ahead.

Earlier this year, dealmakers pegged 2007 as the year for rent gain. "Rates have tweaked up a little bit. They may not go down, but incentives will go up and rents will be flat," Jackson



Kevin J. Santaularia
President/CEO

predicts. "But if the market stays as it is, we'll all be in good shape."

Lindsey points out developers routinely pencil one year for lease up. "They may not get the rates they're hoping for, but I don't foresee a problem in that the buildings won't lease in a normal time period."

In the past five years, Dallas/Fort Worth's industrial market has taken on more construction characteristics like the larger buildings that are found in Greater Los Angeles and the Inland Empire, where vacancy is 1.6% in a 1.01-billion-sf inventory. Chicago's 984 million sf is 8.5% empty while Dallas/Fort Worth's 638.7 million sf is 8.4% vacant. The New Jersey market's 635.7 million sf is 8.8% vacant and Philadelphia's 577.7 million sf is 9.1%.

The trio concurs that region's pipeline doesn't suggest reckless building although developers have started to slow up on project starts. "The developers were smart enough to create product. Now, demand needs to step up," Santaularia says.

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