Q3 2024 Dallas-Fort Worth Construction Market Report

An in-depth look at Construction Activity within Commercial, Industrial, and Multifamily Sectors

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I am pleased to present our comprehensive Dallas-Fort Worth Construction Market Report for Q3 2024. This report offers a detailed analysis of the current state and future prospects of our region's dynamic commercial real estate landscape.

The Dallas-Fort Worth market continues to demonstrate its resilience and adaptability in the face of evolving economic conditions. Our industrial sector has seen unprecedented growth, with over 106 million square feet of new space delivered since early 2023. While this rapid expansion has led to an increase in vacancy rates, we're observing encouraging signs of absorption, particularly in key submarkets.

In the multifamily sector, we're witnessing a rebound in demand, with net absorption outpacing pre-pandemic levels. However, the market is navigating a delicate balance between robust construction activity and changing tenant preferences, particularly in our fast-growing suburban areas.

Our retail market stands out as a beacon of strength, leading all major U.S. markets in net absorption over the past year. This sector's resilience is a testament to our region's strong population growth and economic vitality, particularly evident in the burgeoning communities of Denton and Collin Counties.

The office market, while facing challenges common to many metropolitan areas, shows signs of adaptation. Despite elevated vacancy rates, we're seeing steady construction activity and selective demand for high-quality, amenity-rich spaces, particularly in prime locations.

Looking ahead, our forecast suggests a period of adjustment followed by renewed growth across all sectors. The projected increase in commercial construction activity through 2028 underscores the long-term confidence in our market's fundamentals.

I want to express my gratitude to our team for their diligent work in compiling this comprehensive report. Their insights continue to provide invaluable guidance to our clients and partners in navigating the complexities of the Dallas-Fort Worth commercial real estate market.

As we move forward, we remain committed to providing you with the most accurate and actionable market intelligence. We believe that the Dallas-Fort Worth region, with its diverse economy, strategic location, and continued population growth, is well-positioned for sustainable long-term growth.
Best Regards,

Ed McGuire
Chief Executive Officer
Bob Moore Construction

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Producer Price Index by Commodity	Pre-Covid Change*	12-Month Change*	3-Month Change*
Concrete	+39.7%	+4.3%	+0.0%
Asphalt	+15.8%	-2.3%	+1.0%
Steel Mill Products	+47.8%	-14.3%	-7.3%
Lumber & Plywood	+27.1%	-4.0%	-4.7%
Flat Glass	+30.6%	+2.9%	+1.5%
Copper Wire & Cable	+37.0%	+7.7%	-9.7%
Aluminum Mill Shapes	+23.3%	+2.7%	+0.6%
Gypsum Building Materials	+50.8%	+4.5%	+0.1%
HVAC Equipment	+44.9%	+3.4%	+1.1%
Paint & Coating	+37.8%	-0.4%	+0.3%
Switchgear, Switchboard, & Industrial Controls Equipment	+48.0%	+7.3%	+2.4%
*change as reported by the Federal Reserve and Bureau of Labor Statistics			

The Producer Price Index data for key construction commodities reveals a complex landscape of price fluctuations that could significantly impact commercial real estate development and brokerage. Comparing current prices to pre-Covid levels, all monitored commodities have seen substantial increases, ranging from 15.8% for asphalt to a staggering 50.8% for gypsum building materials. This overall upward trend underscores the ongoing challenges in construction costs since the pandemic's onset.

However, recent data presents a more nuanced picture. Over the past 12 months, most commodities have shown more moderate changes, with some even decreasing in price. Steel mill products, for instance, have seen a significant 14.3% decrease over the past year, potentially offering relief for projects heavy on steel usage. Lumber and plywood prices have also declined by 4%, which could benefit wood-frame construction projects.

On the other hand, some materials continue to see increases. Copper wire and cable have risen 7.7% in the past year, while switchgear and related equipment are up 7.3%. These increases could impact electrical and control system costs in new developments.

The 3-month data provides insight into very recent trends. Most commodities show relatively small changes, suggesting a potential stabilization in prices. However, copper wire and cable prices have decreased by 9.7% in just three months, indicating volatility in this sector.

For CRE developers and brokers, these trends offer several key insights:

- While overall construction costs remain significantly higher than pre-pandemic levels, the rate of increase appears to be slowing for many materials.
- The decrease in steel and lumber prices could present opportunities for projects that use these materials extensively.
- Electrical components and systems may continue to be a cost pressure point, given the increases in copper and switchgear prices.
- The volatility in some commodities (like copper) suggests that locking in prices early could be beneficial for certain materials.
- Concrete has stabilized in the short term but remains 39.7% higher than pre-Covid levels, emphasizing the need for careful budgeting.
- The varying trends across different materials highlight the importance of detailed cost estimation and the potential benefits of value engineering in project design.

As the market continues to evolve, staying informed about these commodity price trends will be crucial for accurate project costing, competitive bidding, and successful project execution in the commercial real estate sector.

Commercial

Sector Overview

In the retail sector, Dallas-Fort Worth demonstrates remarkable strength. The market has absorbed 4 million square feet in the last 12 months, leading all major U.S. markets in net absorption. This robust demand has kept vacancy rates low at 4.5%, despite significant new deliveries totaling 4.7 million square feet over the same period. The market's ability to absorb new inventory reflects the region's strong population growth and economic vitality.

Retail construction activity remains robust, with 4.1 million square feet currently underway, representing 0.9% of the market's total inventory. This new development is primarily concentrated in high-growth suburban areas, particularly in Denton and Collin Counties, which account for about 65% of the construction pipeline. Developers are following population growth, with major retailers like H-E-B and Costco expanding their presence in rapidly growing communities such as Prosper and Frisco.

The retail market's strength is further evidenced by sustained rent growth, with asking rents increasing by 5.3% over the past 12 months. This growth rate has remained above 4.5% for ten consecutive quarters, indicating strong demand for both new and existing retail spaces. In contrast, the office market faces more significant challenges. The vacancy rate has risen to 18.2%, approaching levels last seen during the Great Recession. This increase is driven by a combination of factors, including the structural resetting of office utilization patterns and major tenants shedding large blocks of space. The availability rate has climbed to 19.5%, with 84.5 million square feet available, significantly above pre-pandemic levels.

Despite these headwinds, office construction continues at a steady pace, with 6.5 million square feet currently underway. This level of construction has remained consistent over the past four years, reflecting ongoing confidence in the market's long-term prospects. However, with only 63% of this space pre-leased, there's potential for further pressure on vacancy rates in the near term.

Office rent growth, while positive at 1.3% year-over-year, has slowed considerably. The average market rent stands at $31 per square foot, positioning Dallas-Fort Worth as an attractive option for national or regional corporate users compared to more expensive coastal markets.

Looking ahead, the commercial construction forecast suggests a period of adjustment followed by renewed growth. After a significant dip in 2020 due to the pandemic, construction activity has rebounded and is projected to grow steadily from 2024 through 2028, reaching nearly 32 million square feet annually by the end of the forecast period. The Dallas-Fort Worth commercial market, while facing challenges in the office sector, remains underpinned by strong economic fundamentals. The region's continued population growth, diverse economy, and strategic importance as a logistics and business hub suggest a positive long-term outlook, particularly evident in the retail sector's resilience and the projected increase in overall commercial construction activity in the coming years.

Commercial Stats at a Glance

- 2,217 projects initiated in Q3
  - 1.1% Mixed Use
  - 41.6% Retail
  - 39.2% Office
  - 0.5% Data Center
  - 1.4% Hospitality
  - 0.2% Parking
  - 0.6% Research & Development
  - 29.2% Ground Up & Additions
  - 70.8% Interior/TI

Top Markets, by total reported valuation of initiated projects in Q3

- Dallas - $1.3 B
- Fort Worth - $1.1 B
- Irving - $1.0 B
- Plano - $466.9 M
- Terrell - $422.2 M

Bottom Markets, by total reported valuation of initiated projects in Q3

- Whitesboro - $1.2 M
- Rhome - $1.1 M
- Mabank - $1.1 M
- Watauga - $1.1 M
- Glen Rose - $1.0 M

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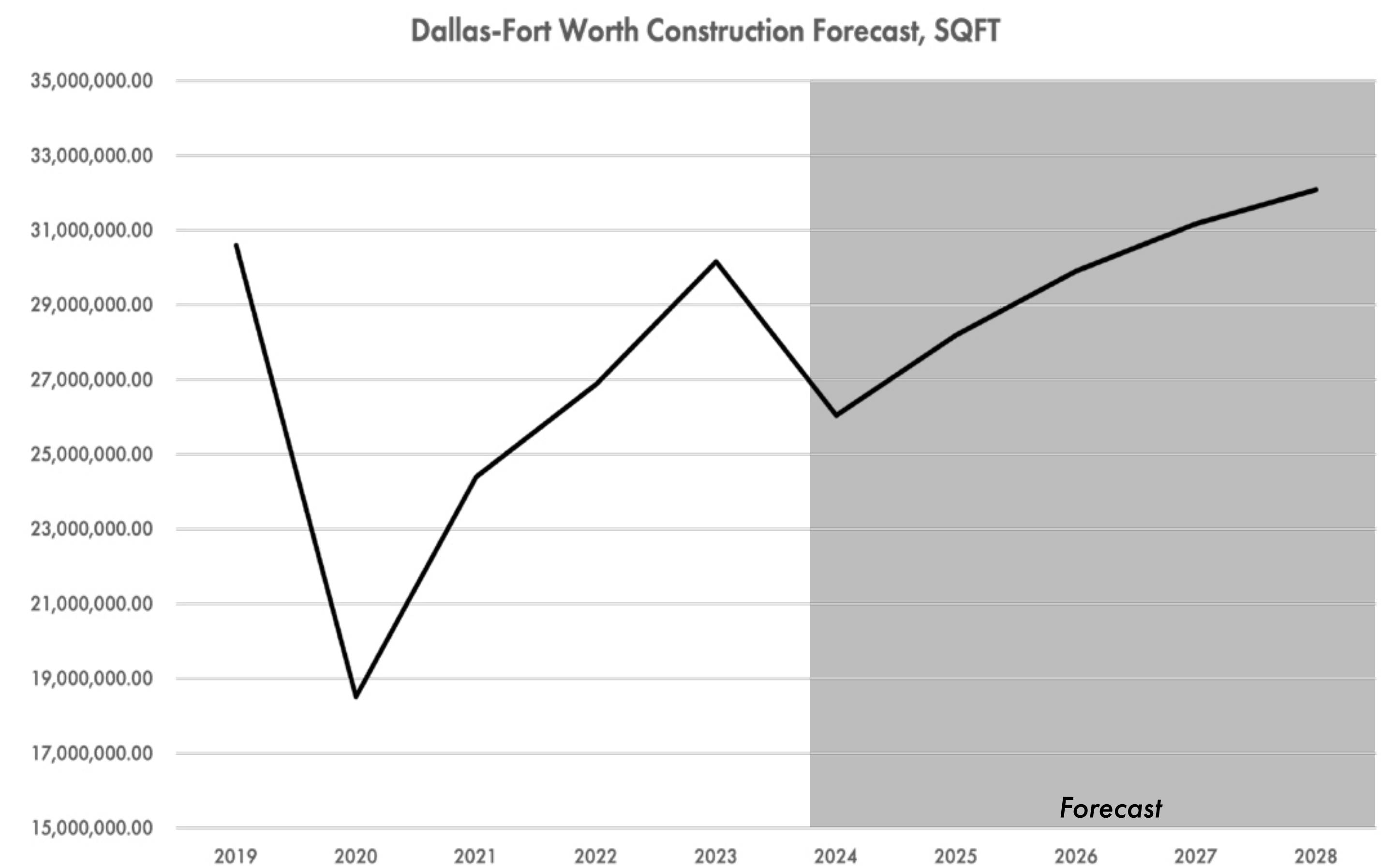
Commercial Forecast

Based on the forecast data provided by Dodge Data & Analytics, the commercial real estate market in Dallas-Fort Worth is expected to experience steady growth across various sectors from 2024 to 2028. The data, measured in square footage, indicates that the office sector will lead the way, with a projected 7,539,000 square feet in 2024, increasing to 10,056,000 square feet by 2028. This growth suggests a strong demand for office space as businesses continue to expand and relocate to the region, driven by the thriving economy and favorable business climate.

The retail sector is also expected to see significant growth, with a forecasted 4,351,000 square feet in 2024, increasing to 5,487,000 square feet by 2028. This growth can be attributed to the region's expanding population and strong consumer spending, which will drive demand for new retail developments and the redevelopment of existing properties. Other sectors, such as education, healthcare, and hotels, are also projected to experience steady growth throughout the forecast period, reflecting the diverse nature of the DFW commercial real estate market.

However, some sectors may face challenges in the coming years. The parking garage and auto service sector, which saw significant growth in recent years, is expected to experience a slowdown, with a projected 6,930,000 square feet in 2024, down from 10,051,000 square feet in 2023. This decline may be due to changing transportation preferences and the increasing adoption of ride-sharing and public transit options. Similarly, the recreation building sector is expected to see a decrease in 2024, with a projected 1,065,000 square feet, down from 2,227,000 square feet in 2023, before gradually recovering in the following years. Despite these challenges, the overall outlook for the DFW commercial real estate market remains positive, with the commercial summary showing a steady increase from 33,201,000 square feet in 2024 to 42,366,000 square feet by 2028.



Industrial

Sector Overview

The Dallas-Fort Worth industrial market is navigating a pivotal phase in 2024, characterized by unprecedented growth and evolving dynamics. Over the past year, the market has witnessed an extraordinary expansion, with more than 106 million square feet of new space delivered since early 2023 – a volume equivalent to the entire industrial inventory of New Orleans. This rapid growth has pushed the vacancy rate to 9.6%, positioning DFW among the major U.S. markets with the highest vacancy rates.

The impact of this expansive delivery pipeline is evident in the market's absorption patterns. While the first quarter of 2024 saw minimal absorption, the second quarter rebounded strongly, driven by significant leases from tech giants like Google and logistics companies such as ITS Logistics. This momentum has continued into the latter half of 2024, with Google signing an additional 1.1 million square feet lease in the Majestic Silver Creek Business Park. Other major players like Post Consumer Brands and Best Buy have also contributed to leasing activity, albeit in a generally sluggish third quarter. Despite the high vacancy rates, the market has shown resilience in rental rates, with asking rents growing by 6.0% over the past 12 months. This growth is particularly notable in infill submarkets and among small bay properties, which face less competition from new supply.

The construction landscape is shifting in response to market conditions. The current pipeline of 22.7 million square feet under construction represents a significant decrease from recent years, aligning more closely with pre-pandemic averages. Southeast Dallas has been the focal point of recent development, accounting for 14% of deliveries in the last year. However, the nature of projects is evolving, with a trend towards smaller builds as construction costs stabilize, making them more competitive with the larger "big bomber" industrial projects that have dominated the landscape.

Looking ahead, the market is poised for a period of adjustment. The construction forecast indicates a stabilization of activity from 2025 onwards, with annual deliveries expected to hover around 35 million square feet through 2028. This slowdown in new supply, coupled with anticipated tenant demand, is expected to gradually balance the market.

For CRE professionals, this transitional phase presents both challenges and opportunities. Developers should focus on strategic locations and consider more flexible, smaller industrial spaces to meet evolving market demands. Brokers can leverage the current tenant-favorable market for negotiations, particularly focusing on submarkets with higher absorption rates and pre-leasing activity, such as North Fort Worth (Alliance).

End users find themselves in an advantageous position to secure favorable lease terms and consider facility expansions or upgrades while options are plentiful. The current market dynamics have shifted negotiating power to tenants, allowing for better terms and even concessions – a scenario almost unheard of just a year or two ago.

While the DFW industrial market faces short-term challenges due to oversupply, its strong economic fundamentals and strategic importance in the national logistics network suggest a positive long-term outlook. As the market works through the newly delivered inventory, opportunities will emerge for well-positioned assets and strategic investments.

In conclusion, the DFW industrial market is at a crossroads. The unprecedented growth of recent years has led to a period of adjustment, but the market's inherent strengths and the anticipated balance between supply and demand point towards a resilient future. CRE professionals who remain adaptable and forward-thinking will be best positioned to capitalize on the opportunities that arise as this dynamic market evolves.

Stats at a Glance

- 1,159 projects initiated in Q3
  - 76.9% Warehousing & Distribution
  - 18.7% Manufacturing
  - 4.5% Food & beverage / Cold-Storage
  - 49.3% Ground Up & Additions
  - 50.7% Interior/TI

Top Markets, by total reported valuation of initiated projects in Q3

- Wilmer - $465.1 M
- Fort Worth - $351.1 M
- Dallas - $184.9 M
- Mansfield - $121.0 M
- Mesquite - $114.1 M

Bottom Markets, by total reported valuation of initiated projects in Q3

- Richardson - $2.3 M
- Southlake - $1.7 M
- Royse City - $1.6 M
- Frisco - $1.0 M
- Princeton - $1.0 M

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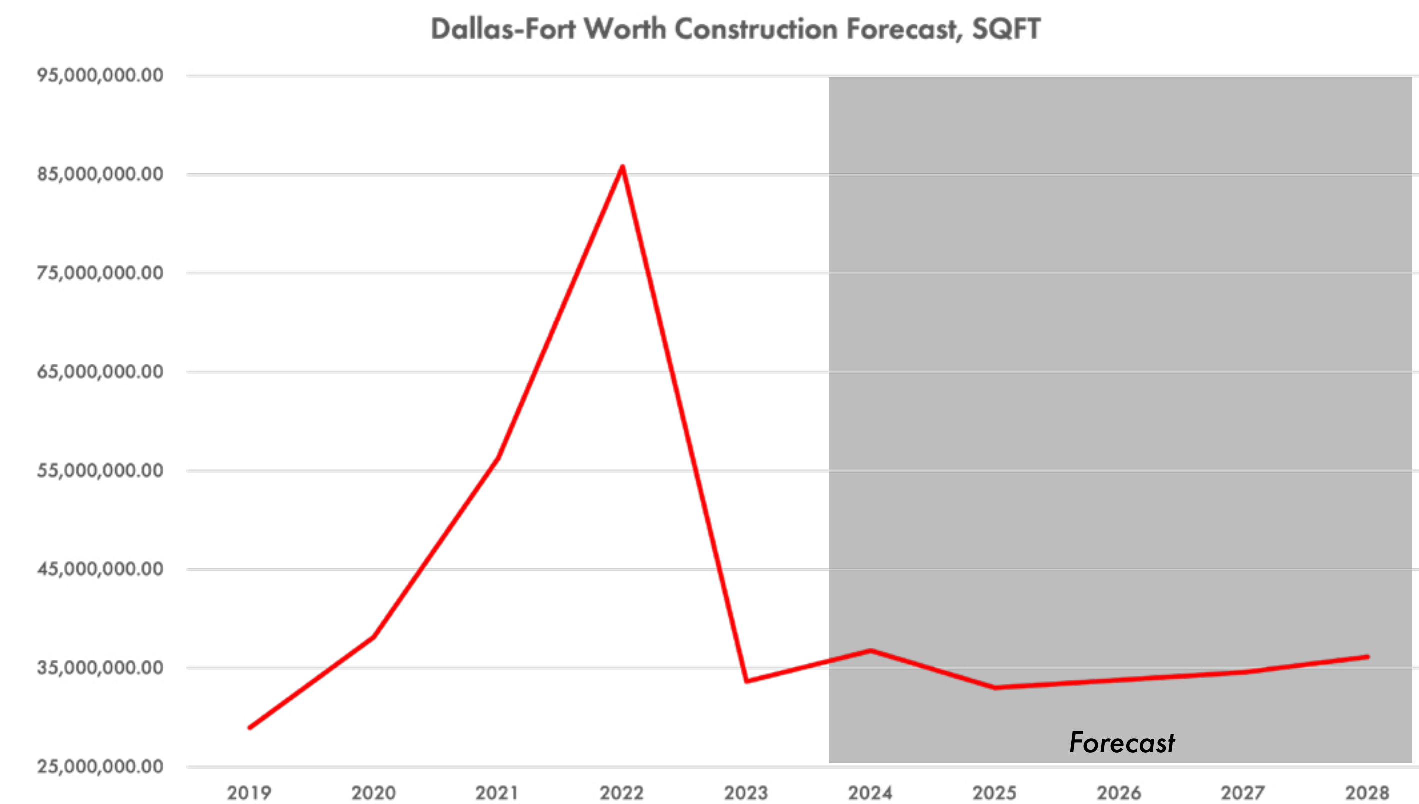
Industrial Forecast

According to the latest industrial forecast data from Dodge Data & Analytics, the Dallas-Fort Worth industrial real estate market is expected to experience mixed trends over the next few years. The data, measured in square footage, indicates that the warehouse (non-manufacturing) sector will continue to dominate the market, with a projected 35,440,000 square feet in 2024. However, this represents a slight decrease from the 2023 figure of 31,357,000 square feet, suggesting a potential slowdown in the sector. The forecast further shows a significant decline in 2025, with the warehouse sector expected to reach 26,986,000 square feet, before gradually recovering to 29,402,000 square feet by 2028.

The manufacturing sector, on the other hand, is expected to see modest growth in the coming years. The forecast data suggests that the manufacturing sector will reach 2,128,000 square feet in 2024, up from 1,891,000 square feet in 2023. However, the sector is projected to experience a slight decline in 2025, with 1,931,000 square feet, before recovering to 2,097,000 square feet in 2026. The long-term outlook for the manufacturing sector remains stable, with a projected 1,940,000 square feet by 2028.

Overall, the industrial summary forecast indicates a mixed outlook for the DFW industrial real estate market. The total industrial square footage is expected to increase from 33,248,000 square feet in 2023 to 37,568,000 square feet in 2024. However, the forecast shows a significant decline in 2025, with the total industrial square footage expected to reach 28,917,000 square feet, before gradually recovering to 31,342,000 square feet by 2028. This forecast suggests that while the DFW industrial market remains strong, it may face challenges in the coming years, particularly in the warehouse sector. Market participants will need to closely monitor these trends and adapt their strategies accordingly to navigate the evolving landscape of the industrial sector.



Multifamily

Sector Overview

Demand for multifamily housing in DFW is showing signs of improvement, with net absorption reaching approximately 15,200 units in the first half of 2024, surpassing pre-pandemic levels. This uptick reflects growing confidence among households to sign new leases. However, the market continues to grapple with a supply-demand imbalance, as developers added 21,900 units during the same period, pushing the vacancy rate to 10.9% - a 110 basis point increase year-over-year and hovering near a 20-year high.

The surge in supply has exerted downward pressure on rents, with the market experiencing a 1.3% decline in asking rents over the past 12 months. This trend is particularly pronounced in supply-heavy submarkets, where property managers are increasingly offering concessions to attract tenants. The share of properties offering concessions has risen to 40%, the highest since 2020, with the most generous specials found in outlying communities in Collin County and north Fort Worth.

Geographically, the demand story is nuanced. Fast-growing suburban submarkets like Frisco/Prosper, Allen/McKinney, and North Fort Worth are leading the charge, accounting for a third of market demand in the past year. This trend aligns with the continued population surge in Collin and Denton Counties, which have grown by an impressive 50% since 2010. The construction forecast graph corroborates this trend, showing a significant uptick in multifamily construction from 2025 onwards, reaching nearly 45 million square feet by 2028.

The market is also witnessing a stratification in performance across different property classes. High-end 4 & 5 Star properties are experiencing a 1.4% rent decline, reflecting greater sensitivity to pricing power among new competition. Meanwhile, mid-tier 3-Star properties are seeing a 1.3% rent decrease, the first negative growth since the Great Financial Crisis.
On the supply side, while DFW ranks among the top markets for construction, the pipeline is decelerating. Currently, there are 41,000 units underway, down from the peak of 64,600 units in 2023. This represents 4.7% of inventory, above the U.S. average of 3.5% but below other Sun Belt markets like Phoenix. The tapering of construction starts, driven by weaker property performances and elevated financing costs, may help balance the market in the coming years.

Looking ahead, the DFW multifamily market shows promise for stabilization and recovery. The vacancy rate is expected to hold steady before tightening closer to 10% in the next year. Rent growth is anticipated to recover, potentially ending 2024 flat before accelerating to 3% in 2025 and beyond. This outlook is supported by the market's strong economic fundamentals, including robust job growth and continued in-migration. For CRE professionals, this evolving landscape presents several strategic considerations. Developers may find opportunities in suburban areas benefiting from population growth, particularly in Collin and Denton Counties. Investors should closely monitor the performance gap between property classes and locations, as the market recovery may be uneven. Property managers will need to remain competitive with concessions while preparing for a potential upturn in rent growth.

In conclusion, while the DFW multifamily market faces near-term challenges from oversupply and rent pressures, its strong underlying demographics and economic drivers position it for a potentially quicker recovery compared to some other Sun Belt markets. As the supply-demand balance gradually improves, stakeholders who can navigate the current headwinds may find themselves well-positioned to capitalize on the market's long-term growth trajectory.

Stats at a Glance

- 1,351 projects initiated in Q3
  - 48.3% Garden-Style
  - 30.2% Mid & High-Rise
  - 4.7% Senior Living
  - 12.1% Student Housing

Top Submarkets, by total reported valuation of initiated projects in Q3

- Dallas - $942.7 M
- Fort Worth - $484.5 M
- Wilmer - $344.5 M
- Frisco - $292.6 M
- Allen - $271.0 M

Bottom Submarkets, by total reported valuation of initiated projects in Q3

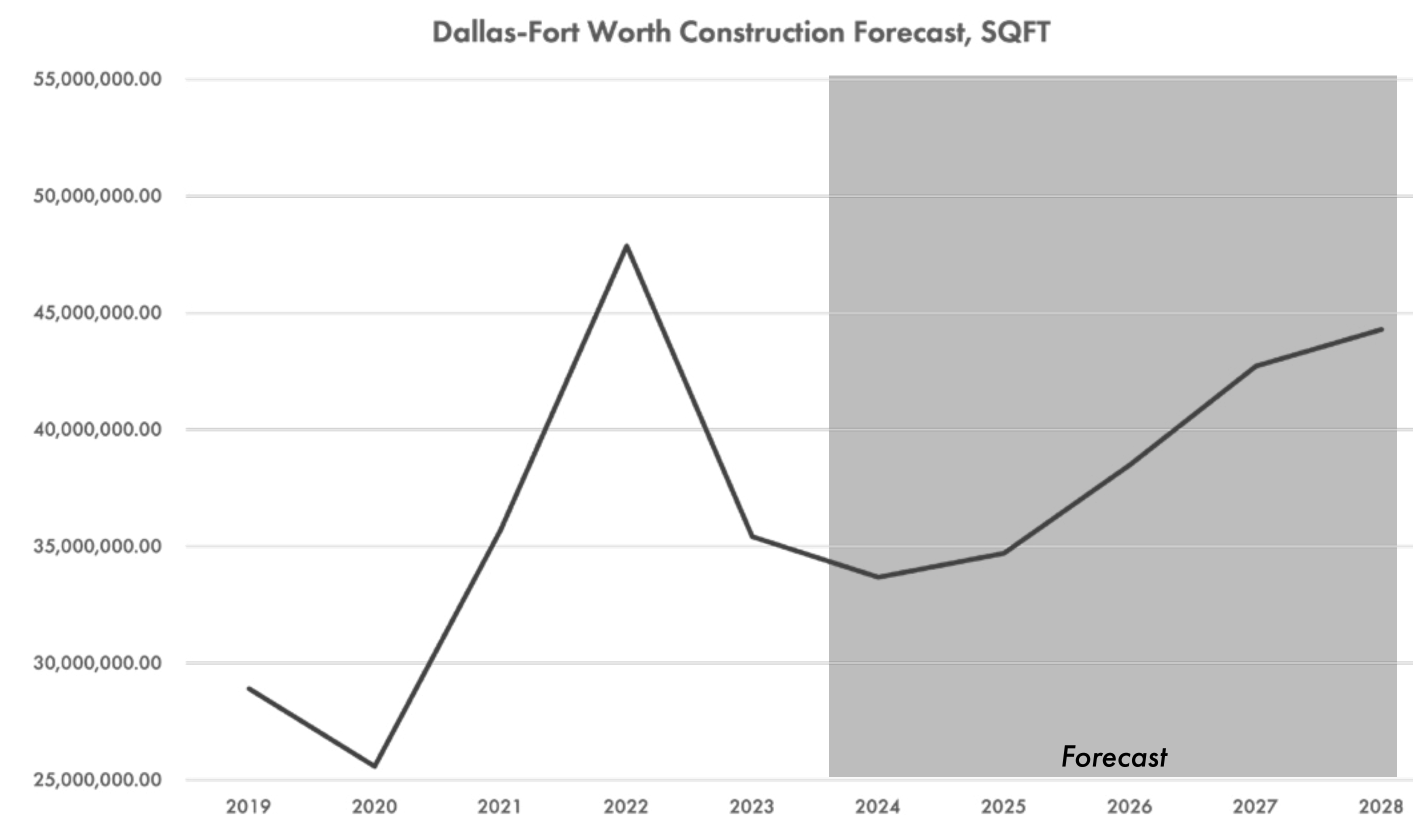
- Garland - $11.9 M
- Balch Springs - $11.7 M
- Carrollton - $10.0 M
- Fairview - $2.9 M
- Cleburne - $1.0 M

Multifamily Forecast

According to the multifamily forecast data provided, the Dallas-Fort Worth (DFW) multifamily real estate market is expected to experience a mix of challenges and opportunities over the next few years. The data, measured in square footage, indicates that the multifamily housing sector will continue to dominate the market, with a projected 34,321,000 square feet in 2024. This represents a slight decrease from the 2023 figure of 35,645,000 square feet, suggesting a potential slowdown in the sector. However, the forecast shows a steady recovery in the following years, with the multifamily housing sector expected to reach 37,758,000 square feet in 2025 and 42,127,000 square feet in 2026, before further growing to 46,398,000 square feet by 2028.

The dormitories sector, which represents a smaller portion of the multifamily market, is expected to experience a decline in 2024, with a projected 112,000 square feet, down from 161,000 square feet in 2023. The sector is forecast to see a modest recovery in the following years, reaching 121,000 square feet in 2025 and 124,000 square feet in 2026, before stabilizing at around 125,000 square feet by 2028. This forecast suggests that while the dormitories sector may face challenges in the short term, it is expected to maintain a relatively stable presence in the DFW multifamily market over the long term.

Overall, the multifamily summary forecast indicates a cautiously optimistic outlook for the DFW multifamily real estate market. The total multifamily square footage is expected to decrease slightly from 35,806,000 square feet in 2023 to 34,433,000 square feet in 2024. However, the forecast shows a steady recovery in the following years, with the total multifamily square footage expected to reach 37,879,000 square feet in 2025 and 42,251,000 square feet in 2026, before further growing to 46,523,000 square feet by 2028. This forecast suggests that while the DFW multifamily market may face some challenges in the short term, it is expected to maintain its strong position and continue to grow over the long term, driven by the region's robust population growth, diverse economy, and high quality of life.



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If you would like to receive a copy of this index each month, please contact Chandler Tucker at 817.640.1200 or ctucker@generalcontractor.com.

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