

FIGURES | MCALLEN INDUSTRIAL | Q4 2022

# 2022 closes with elevated demand, rent growth, and significant absorption

► 1.9%

Vacancy Rate

▼ 194,387

SF Net Absorption

▼ 510,000

SF Construction

▲ \$5.93

NNN / Lease Rate

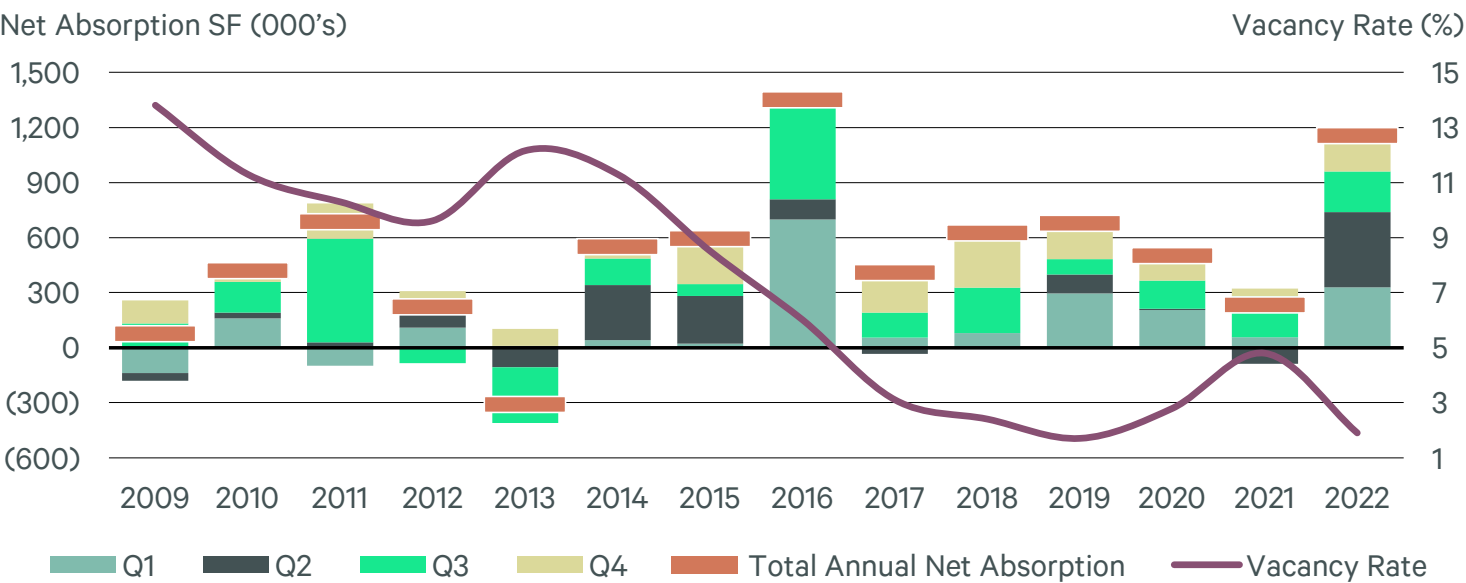
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q4 2022 closed with 194,387 sq. ft. of net absorption.
- The market-wide average asking rate marked a new record high of \$5.93 per sq. ft. The Class B asking rent, which was at a record high in Q3 2022, saw a quarter-over-quarter increase of \$0.14 per sq. ft.
- Demand for industrial space in the market reached a new high point of just under 3.0 million sq. ft. after a quarter-over-quarter increase of 570,000 sq. ft.

The McAllen Industrial Market posted positive absorption for Q4 2022 through the delivery of completed construction and a handful of new leases. The vacancy rate remained near historical lows and demand for industrial space grew to an all time high. Average asking rents once again marked new record highs as existing available space quickly dries up and the market sees only a few new speculative construction projects. Despite the scarcity of space, total 2022 net absorption was the second largest annual figure recorded for the market.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2022.

## Absorption and Activity

The McAllen Industrial Market closed Q4 2022 with net absorption of 194,387 sq. ft. Total annual net absorption for 2022 was 1.1 million sq. ft., the second largest annual figure recorded for the market and just 200,000 sq. ft. short of the record setting 2016 figure. The market registered three new leases for a total of 121,000 sq. ft. of gross absorption. New leases ranged in size from 12,000 sq. ft. to 96,000 sq. ft. Two of the leases were through Class B product and all three leases occurred in the McAllen submarket. The Pharr submarket outpaced the McAllen submarket in terms of net absorption due to the delivery of a build-to-suit project.

## Vacancy

The market-wide vacancy rate saw no change quarter-over-quarter but was down 290 basis points (bps) year-over-year. The Class B vacancy rate had the largest quarter-over-quarter decline of 20 bps. More than half of all the available non-cold storage space in the market is Class B product. Excluding cold storage space, roughly 130,000 sq. ft. of Class A space spread through a handful of buildings, was available for lease at the end of the quarter. About 80% of that space is vacant and available for immediate occupancy.

## Warehouse / Distribution Asking Rents

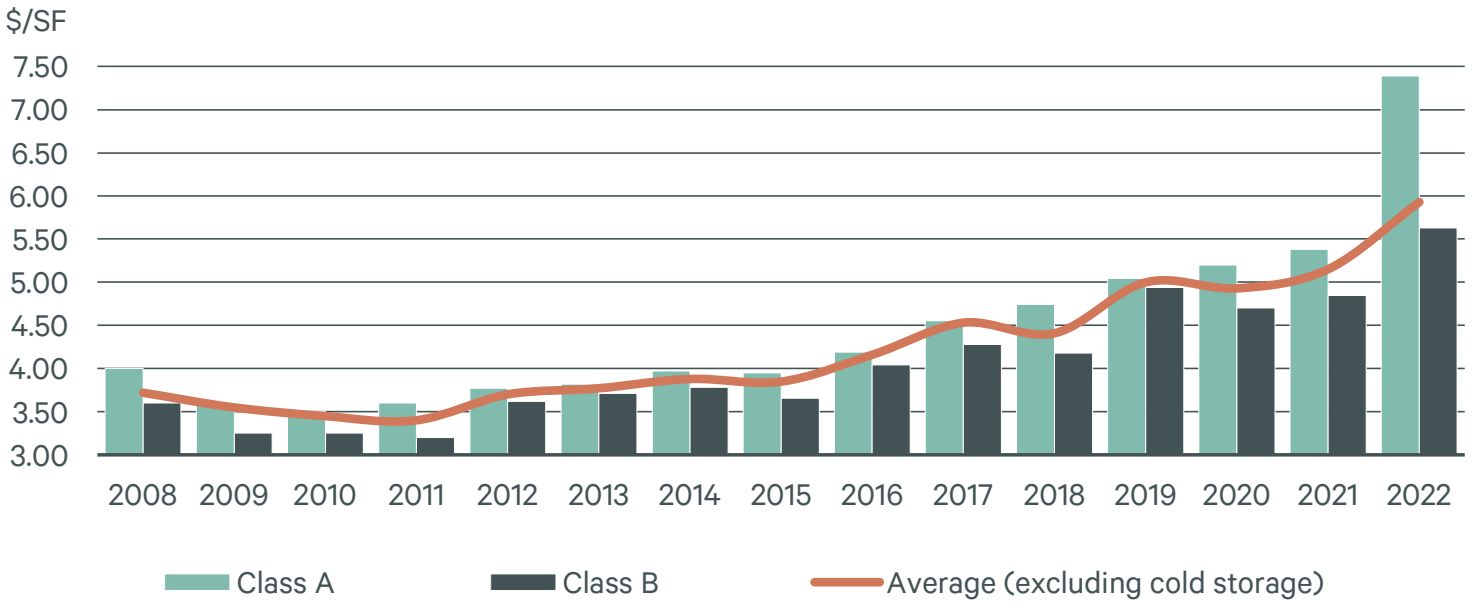
The warehouse / distribution market-wide average asking rent increased by \$0.13 per sq. ft. quarter-over-quarter and by \$0.42 per sq. ft. year-over-year, marking a new record high of \$5.93. Class B asking rents also reached a new high and had a quarter-over-quarter increase of \$0.14 per sq. ft. and a year-over-year increase of \$0.78 per sq. ft. Class B product, which also saw significant growth in Q3 2022 and now accounts for the largest share of availability, was the sole driver of market-wide asking rent growth during Q4 2022. Moreover, as the market continues to tighten, individual asking rents carry more weight and have a bigger impact on average rents.

FIGURE 2: McAllen Industrial Market Statistics

Submarket	Total Vacancy (%)	Total Availability (%)	Net Avg. Asking Lease Rate (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q4 2022 Net Absorption	Total 2022 Net Absorption
			Warehouse & Distribution	Cold Storage	Industrial Avg.				
McAllen	1.6	4.7	5.62	14.23	8.76	20,000	33,000	129,087	749,288
Pharr	0.9	0.9	8.16	N/A	8.16	360,000	150,000	150,000	316,020
Edinburg	1.8	1.8	N/A	N/A	7.80	-	-	-	-
Hidalgo	-	4.2	N/A	N/A	N/A	30,000	-	-	22,320
Mission	4.6	4.6	6.24	N/A	6.24	70,000	-	(84,700)	(84,700)
Off Park	4.2	5.8	5.51	N/A	5.51	30,000	-	-	152,647
<b>McAllen Total</b>	<b>1.9</b>	<b>3.7</b>	<b>5.93</b>	<b>14.23</b>	<b>7.84</b>	<b>510,000</b>	<b>183,000</b>	<b>194,387</b>	<b>1,155,575</b>
<b>Class A</b>	<b>2.3</b>	<b>2.6</b>	<b>7.39</b>	<b>14.23</b>	<b>11.57</b>	<b>510,000</b>	<b>183,000</b>	<b>183,000</b>	<b>992,412</b>
<b>Class B</b>	<b>1.6</b>	<b>4.8</b>	<b>5.63</b>	<b>N/A</b>	<b>5.89</b>	<b>-</b>	<b>-</b>	<b>11,387</b>	<b>101,683</b>

Source: CBRE Research, Q4 2022.

FIGURE 3: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2022.

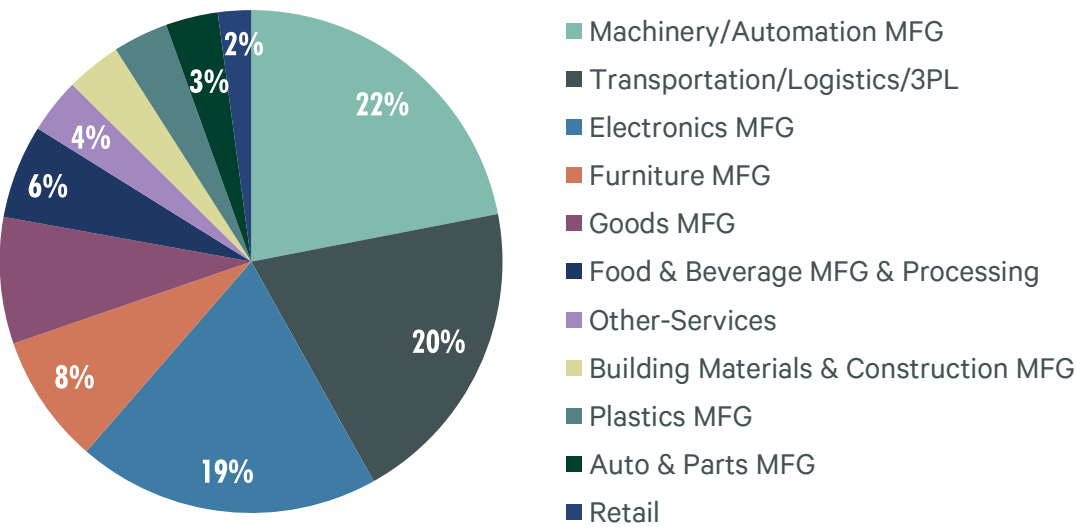
### Construction

Q4 2022 closed with seven projects, a total of 510,000 sq. ft., still under construction. Three of the developments, a 100,000 sq. ft. build-to-suit and two speculative projects totaling 260,000 sq. ft., are in the Pharr submarket. A 30,000 sq. ft. build-to-suit development in the Hidalgo submarket and a 20,000 sq. ft. build-to-suit in the McAllen submarket began moving dirt during the quarter.

### Demand Continues to Grow

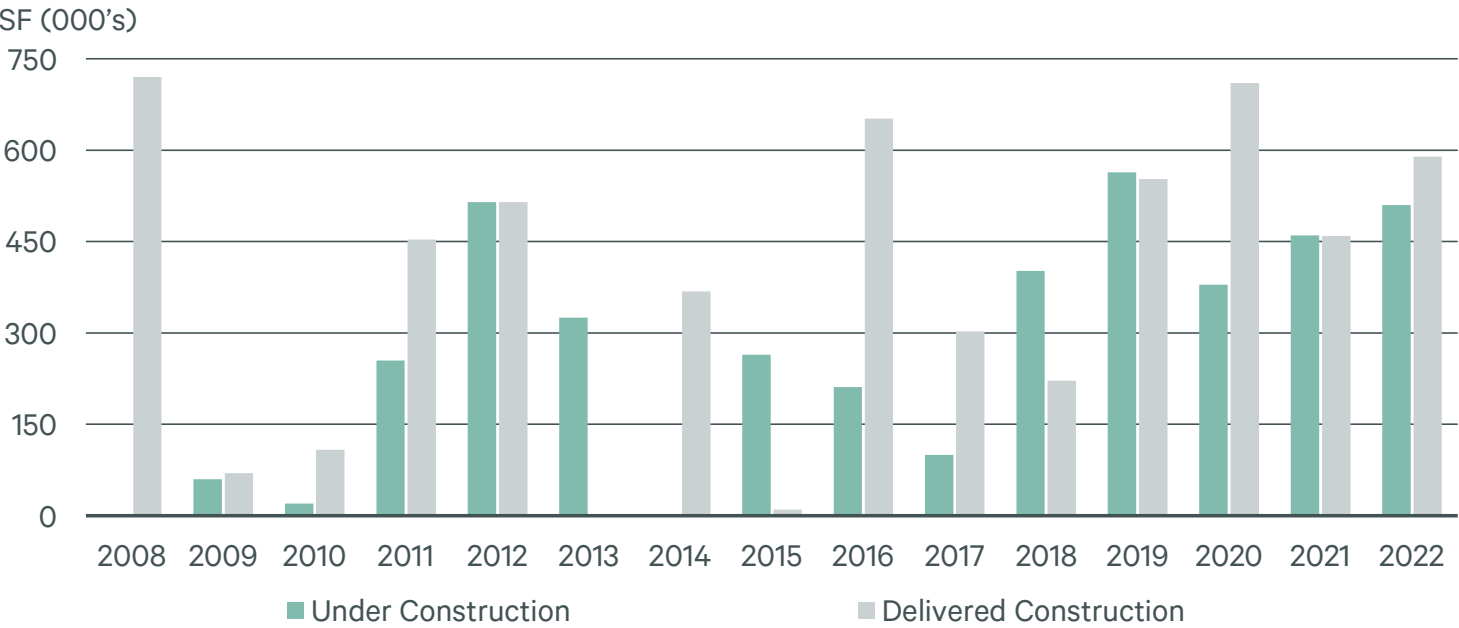
CBRE tracks user demand for space in the McAllen Industrial Market. Demand saw an increase of 570,000 sq. ft. quarter-over-quarter and stood 1.4 million sq. ft. above the 33-quarter trailing average. Q4 2022 closed with 26 users seeking a record high of just under 3.0 million sq. ft. of space. This is 2.5 million sq. ft. more than the total vacant space in the market and 2.0 million sq. ft. more than the total available space. The transportation/logistics/3PL industry had the largest number of users in the market and accounted for the second largest demand for space.

FIGURE 4: Q4 2022 Active Users in the Market by Industry



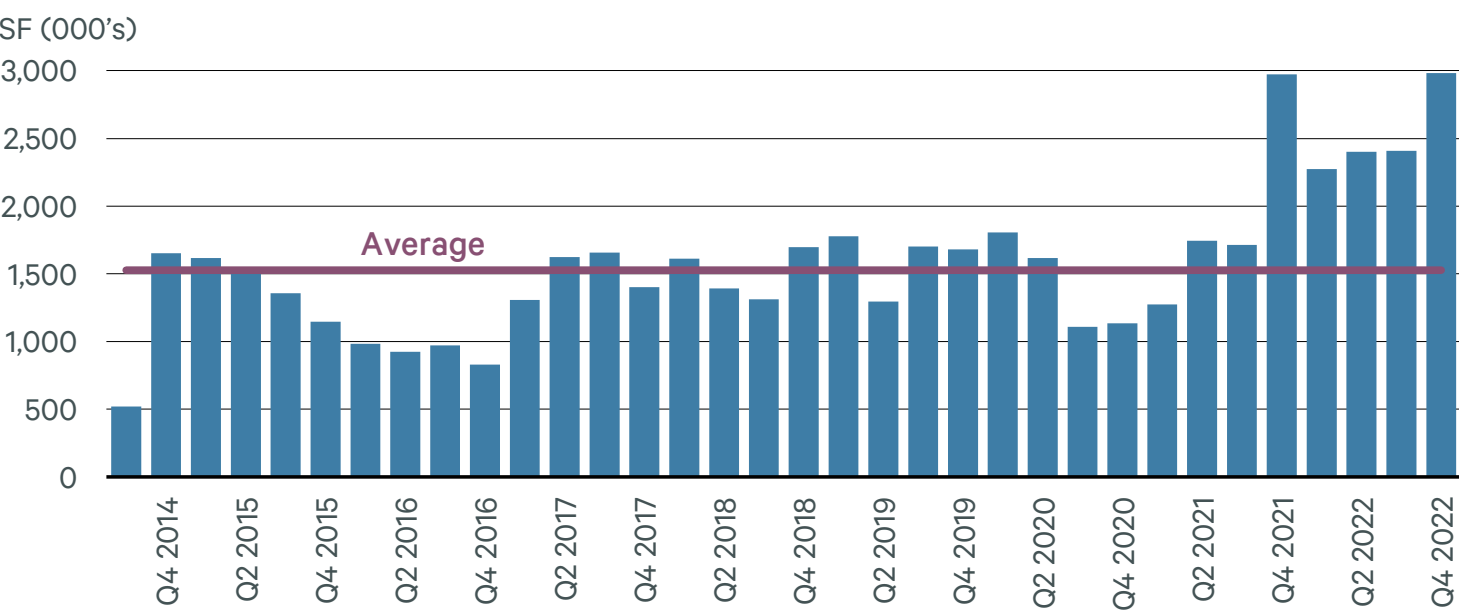
Source: CBRE Research, Q4 2022.

FIGURE 5: Construction



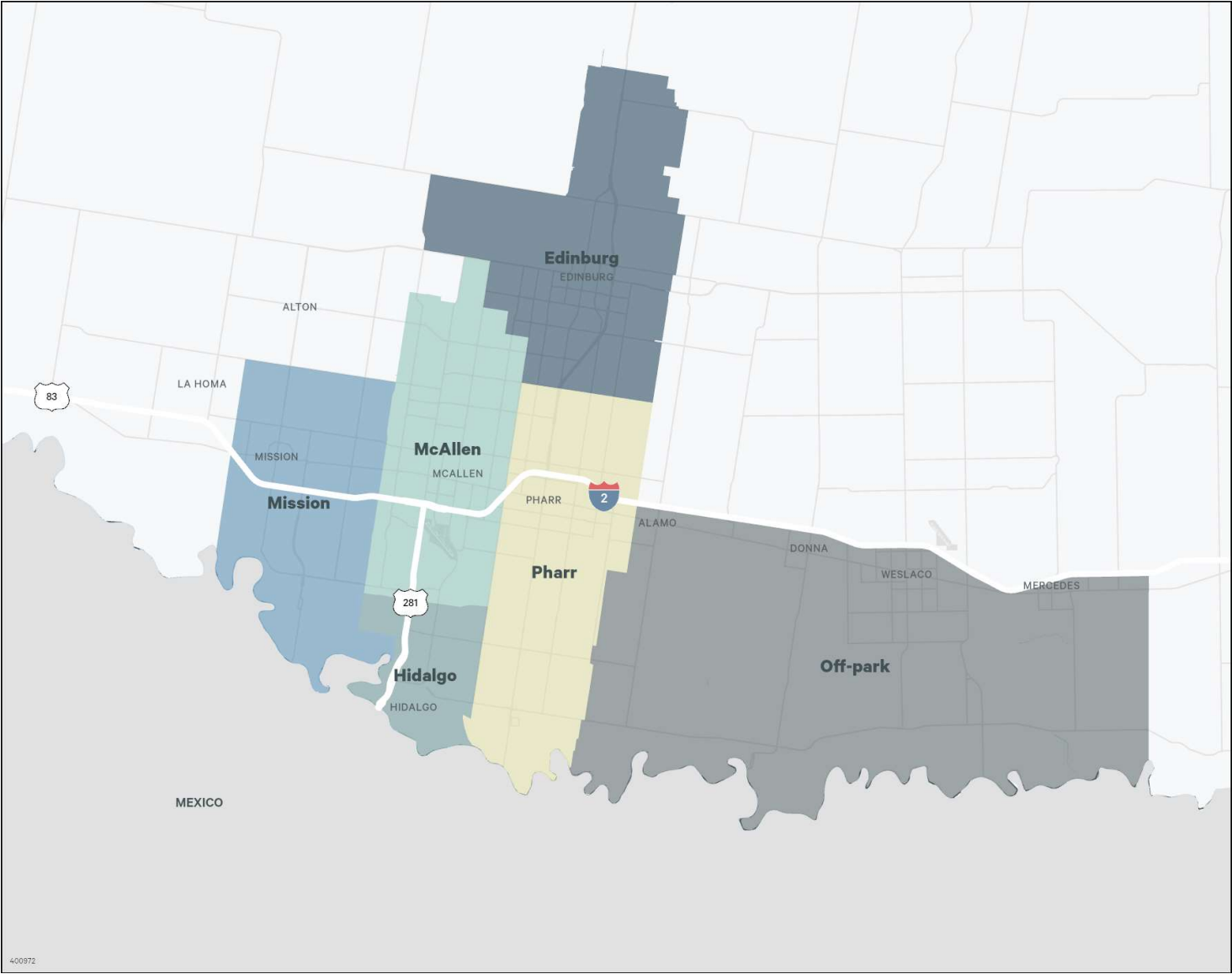
Source: CBRE Research, Q4 2022.

FIGURE 6: Active Users in the Market



Source: CBRE Research, Q4 2022.

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Triple Net Lease Rate: Rent excludes the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied immediately.

Survey Criteria

Includes all industrial buildings 30,000 sq. ft. and greater in size in greater metropolitan area of McAllen, TX. Buildings which have begun construction as evidenced by site excavation or foundation work.

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