

FIGURES | MCALLEN INDUSTRIAL | Q4 2023

# Net absorption back in positive territory. 2023 closes with strong market fundamentals.

► 1.8%

Vacancy Rate

▲ 25,828

SF Net Absorption

▲ 1,045,600

SF Construction

▼ \$6.21

NNN / Lease Rate

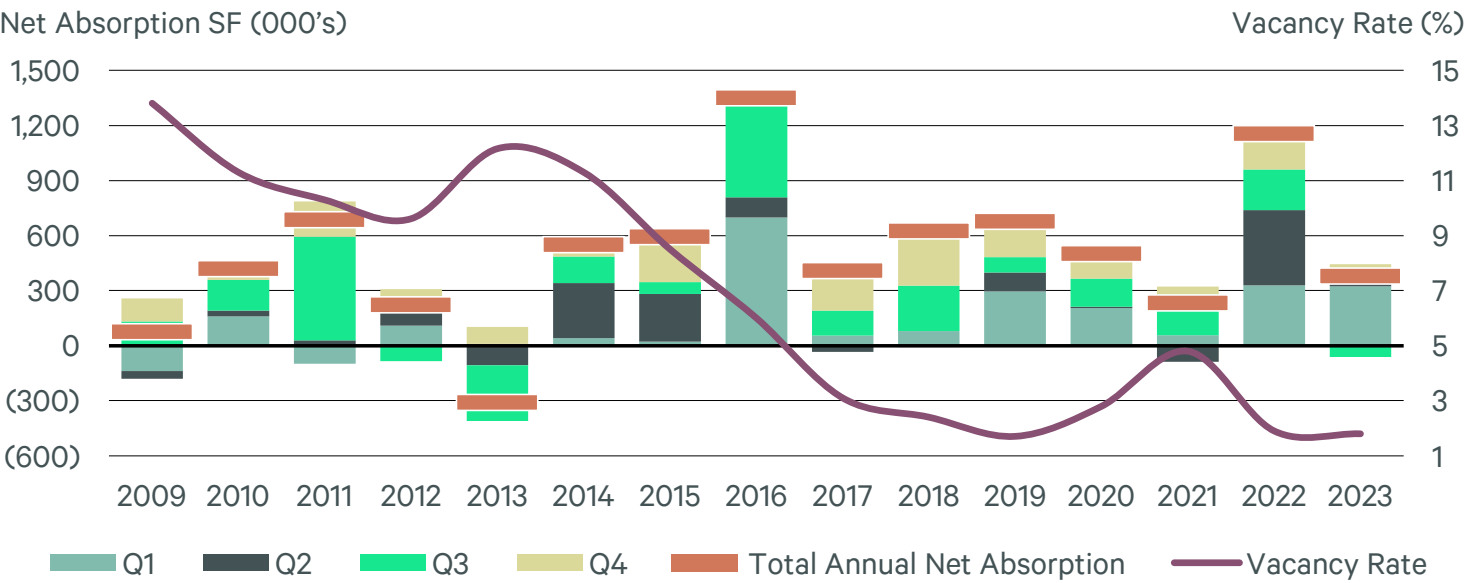
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q4 2023 closed with net absorption of 25,828 sq. ft. and 2023 total annual net absorption of 379,826 sq. ft.
- The market registered six new leases and three renewals totaling 428,400 sq. ft. of activity.
- The market-wide average asking rate saw a small decrease but remained high. The Class A asking rent had a quarter-over-quarter increase of \$0.11 per sq. ft.
- Demand for industrial space in the market remained elevated at 2.3 million sq. ft. and stood 465,600 sq. ft. above the 37-quarter trailing average.

Following a quarter of negative absorption, the McAllen Industrial Market bounced back and posted positive absorption for Q4 2023. 2023 closed with healthy market fundamentals, positive annual net absorption, and a vacancy rate that remained near the historical low. Demand for industrial space continued to outpace the existing supply, putting upward pressure on asking rents. A record setting amount of space under construction, 70% of which is speculative and is expected to start delivering in mid-2024, will help ease some of the supply constraints the market has seen in the past few quarters.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2023.

## Absorption and Activity

The McAllen Industrial Market closed Q4 2023 with net absorption of 24,428 sq. ft. and 2023 total annual net absorption of 379,826 sq. ft. The market registered six new leases and three renewals totaling 428,400 sq. ft. of activity. Leases ranged in size from 9,000 sq. ft. to 60,000 sq. ft. Three leases, two renewals, and the delivery of a build-to-suit project occurred in the McAllen submarket, about 304,000 sq. ft. of activity and 112,000 sq. ft. of gross absorption. The Pharr submarket saw two leases, a total of 110,000 sq. ft. of gross absorption.

## Vacancy

The market-wide vacancy rate was unchanged compared to Q3 2023. Year-over-year, the vacancy rate is down by 10 basis points (bps). At 1.8%, the vacancy rate was just 50 bps above the historic record low rate of 1.3% recorded Q1 2023 and Q3 2019. Class A vacancy rates fell 45 bps quarter-over-quarter and by 64 bps year-over-year. Excluding cold storage space, roughly 160,000 sq. ft. of Class A space spread through a handful of buildings, was available for lease at the end of the quarter. Around 250,000 sq. ft. of industrial space is expected to become available during the first quarter of 2024. This could potentially ease some of the strain on supply and the upward pressure on asking rents that the market has seen over the past few quarters.

## Warehouse / Distribution Asking Rents

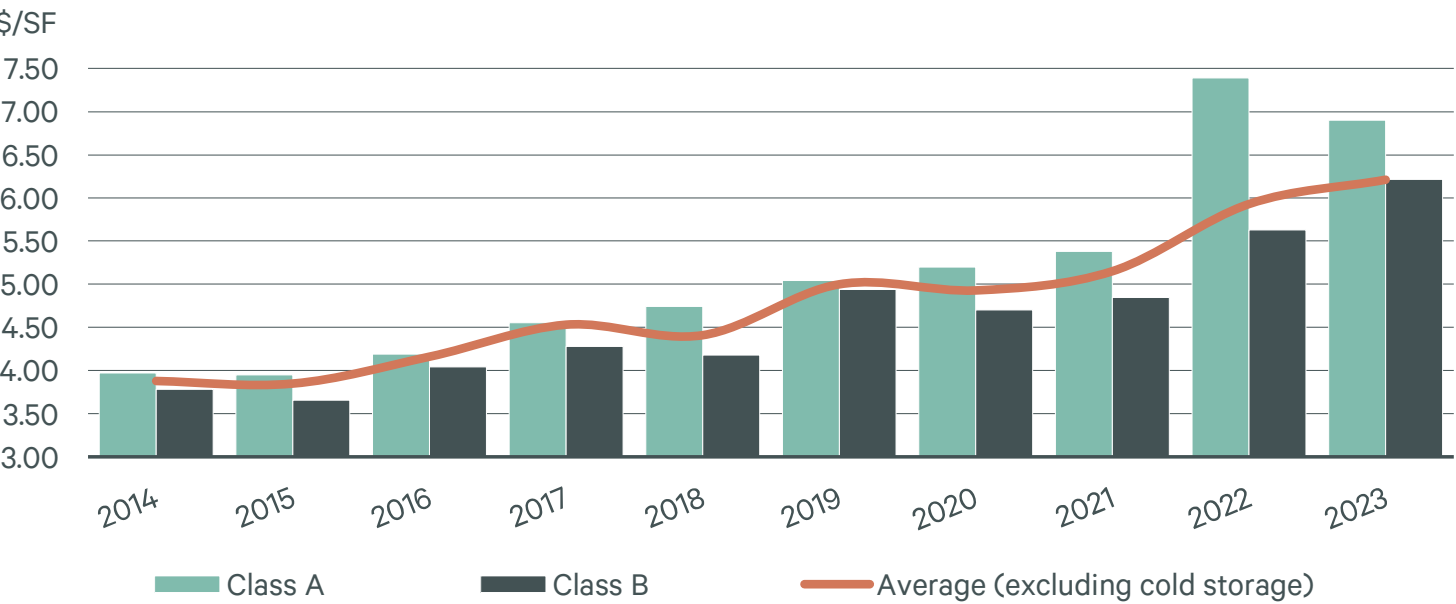
The warehouse / distribution market-wide average asking rent saw a small decreased of \$0.04 per sq. ft. quarter-over-quarter but an increase of \$0.28 per sq. ft. year-over-year. This decrease was caused by the lease up of a higher-priced Class A space. Class A asking rents had a quarter-over-quarter increase of \$0.11 per sq. ft. but fell by \$0.49 per sq. ft. compared to Q4 2022 when Class A rents were at a record high of \$7.39 per sq. ft. Class B asking rents grew by \$0.25 per sq. ft. quarter-over-quarter and by \$0.59 per sq. ft. year-over-year.

FIGURE 2: McAllen Industrial Market Statistics

Submarket	Vacancy	Availability	Asking Rent (NNN\$/SF/YR)			Construction (SF)		Net Absorption (SF)	
	(%)	(%)	Whs. & Dist.	Cold Storage	Industrial Avg.	Active	Delivered	Q4 2023	2023
McAllen	2.4	3.4	6.43	18.21	7.43	270,200	24,428	(22,352)	(65,262)
Pharr	0.2	0.7	N/A	N/A	8.40	422,400	-	39,000	300,388
Edinburg	1.8	1.8	N/A	N/A	7.80	-	-	-	-
Hidalgo	-	6.3	6.60	N/A	6.60	-	-	-	30,000
Mission	-	-	N/A	N/A	N/A	100,000	-	9,180	84,700
Off Park	4.2	5.8	5.65	N/A	5.65	253,000	-	-	30,000
McAllen Total	1.8	2.9	6.21	18.21	7.02	1,045,600	24,428	25,828	379,826
Class A	1.4	1.7	6.90	18.21	8.74	1,045,600	24,428	104,428	452,745
Class B	2.4	3.9	6.22	N/A	6.68	-	-	(78,600)	(72,919)

Source: CBRE Research, Q4 2023.

FIGURE 3: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q4 2023.

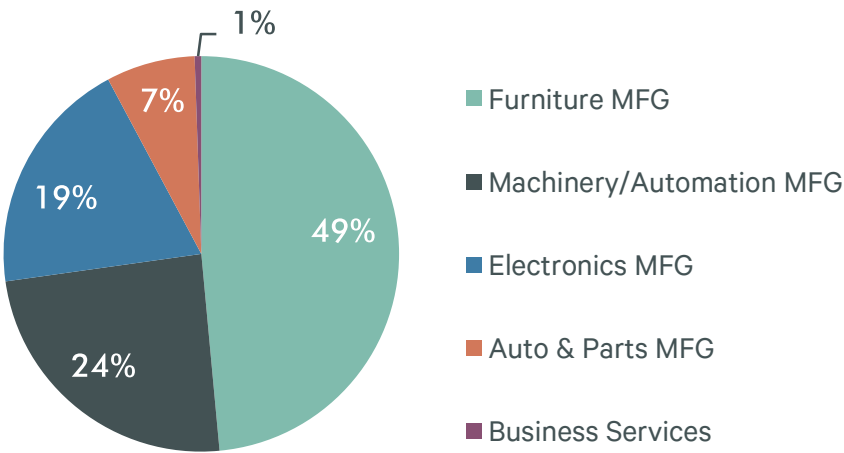
## Construction

Q4 2023 closed with eight projects, five speculative (spec) and three build-to-suit (BTS) projects totaling 1,045,600 sq. ft., under construction. This is the largest figure seen since CBRE began tracking the market. The largest development underway, a 253,000 sq. ft. BTS, is located in the Weslaco Industrial Area. Two BTS and two spec projects, a total of 422,400 sq. ft., are in the Pharr submarket. Two spec projects, both of which began construction during Q4 2023, are in the McAllen submarket. The final development, a 100,000 sq. ft. spec, remained underway in the Mission submarket.

## Demand Remains Strong

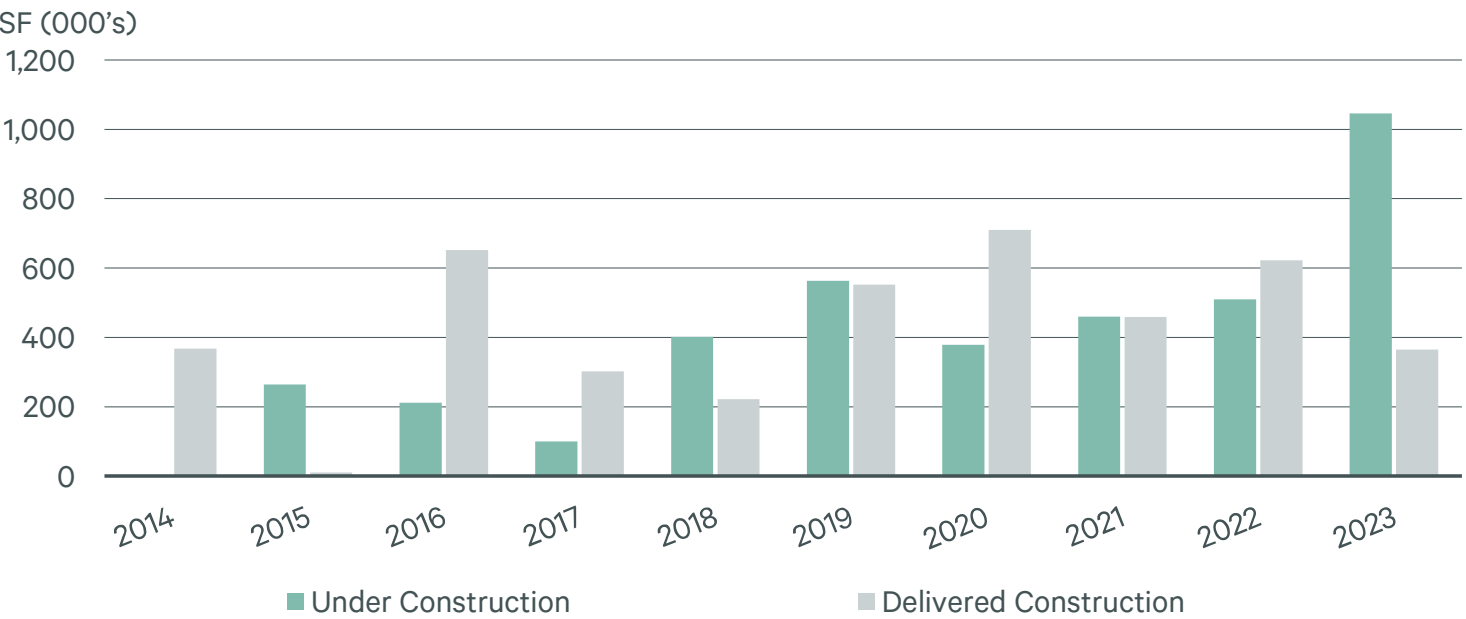
CBRE tracks user demand for space in the McAllen Industrial Market. Demand increased by 25,000 sq. ft. quarter-over-quarter. Compared to Q4 2022, when demand was at a record high of 3.0 million sq. ft., demand was down by 671,000 sq. ft. However, demand remained 665,600 sq. ft. above the 37-quarter trailing average. Q4 2023 closed with users seeking 2.3 million sq. ft. of space. This is 1.8 million sq. ft. more than the total vacant space in the market and 1.5 million sq. ft. more than the total available space.

FIGURE 4: Q4 2023 Active Users in the Market by Industry



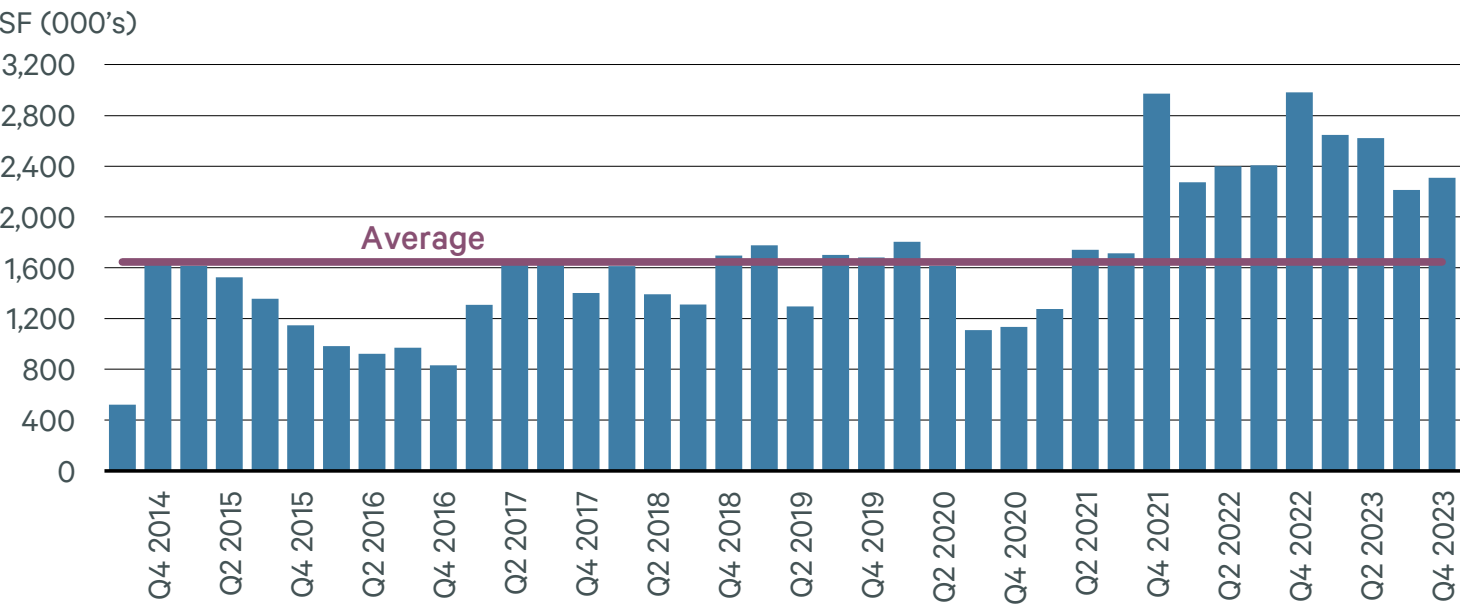
Source: CBRE Research, Q4 2023.

FIGURE 5: Construction



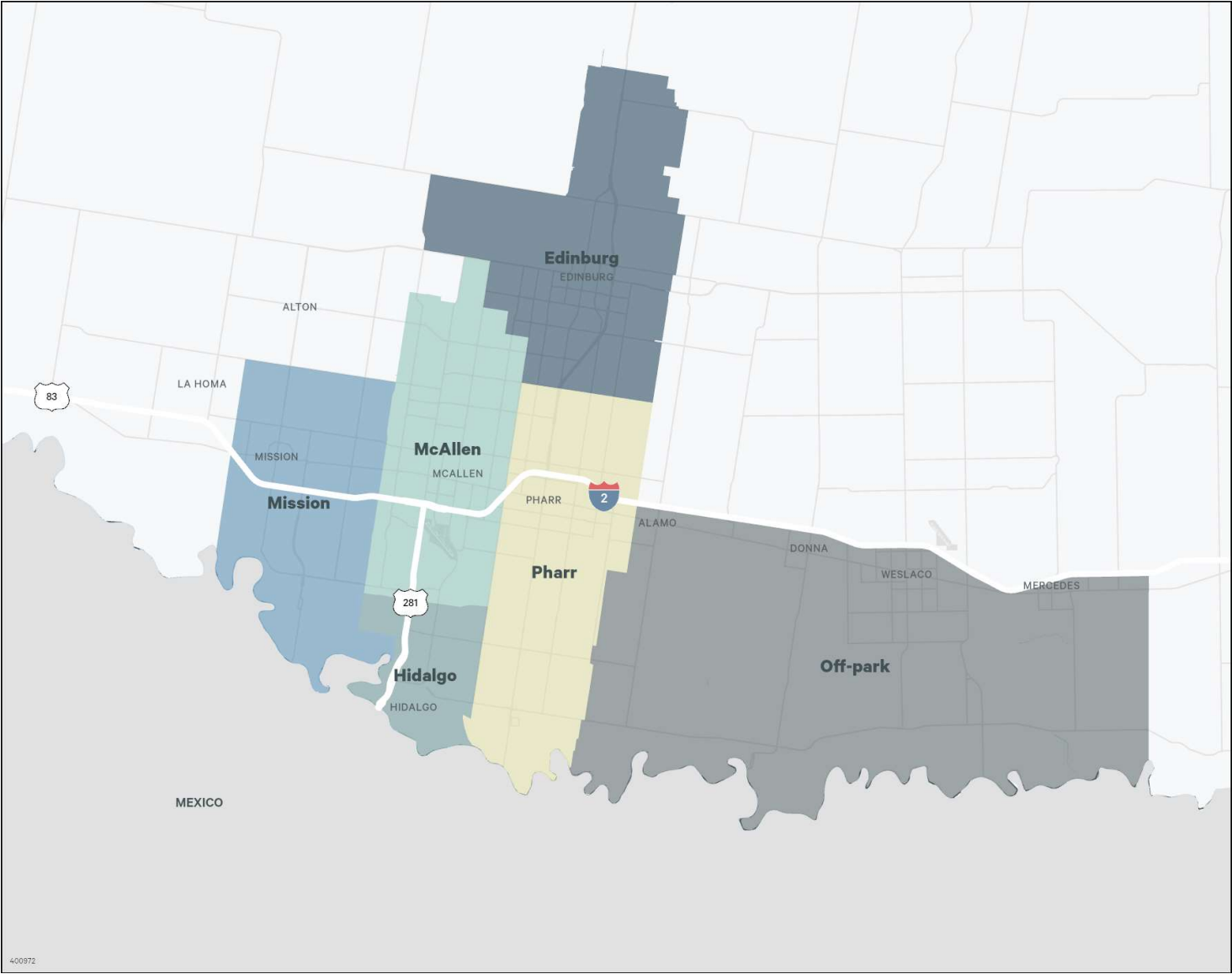
Source: CBRE Research, Q4 2023.

FIGURE 6: Active Users in the Market



Source: CBRE Research, Q4 2023.

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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