

# First half of 2023 closes with positive absorption, low vacancy, and record high asking rents

▲ 1.5%

Vacancy Rate

▼ 95,361

SF Net Absorption

▲ 415,000

SF Construction

▲ \$6.14

NNN / Lease Rate

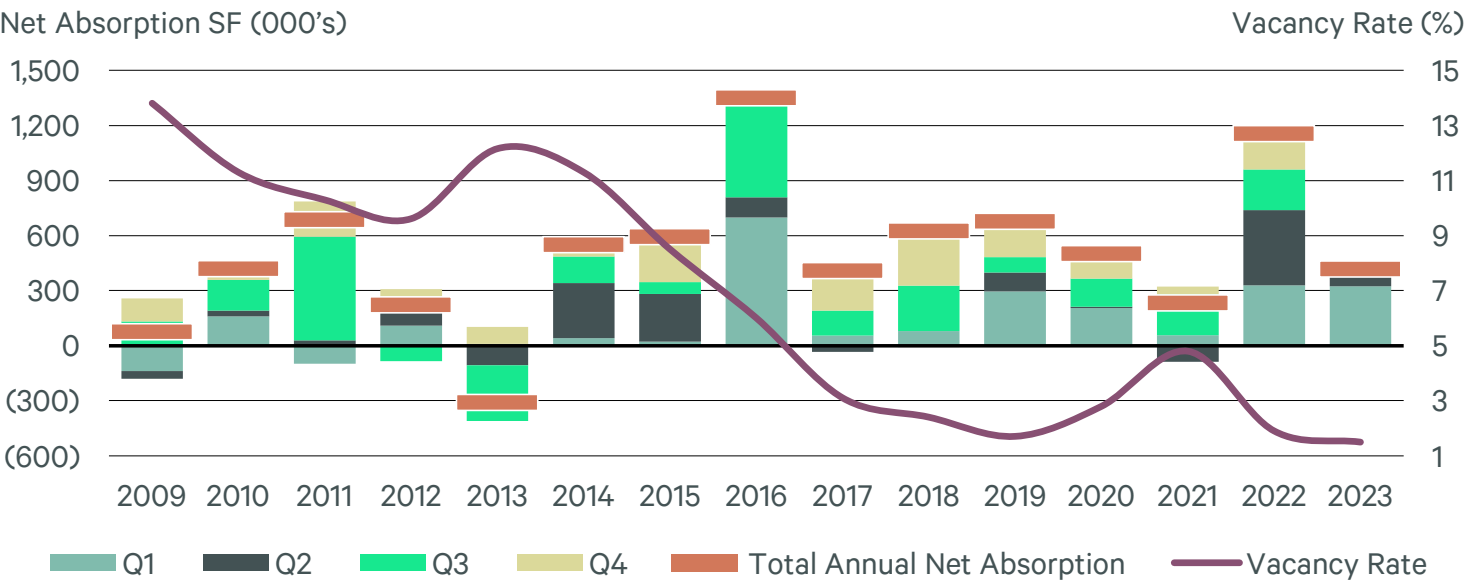
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q2 2023 closed with 95,361 sq. ft. of net absorption.
- The market registered five new leases and a renewal for a total of 315,000 sq. ft. of activity.
- The market-wide average asking rate marked a new record high of \$6.14 per sq. ft. The Class A asking rent had a quarter-over-quarter increase of \$0.22 per sq. ft.
- Demand for industrial space in the market remained elevated at 2.6 million sq. ft. and stood 1.0 million sq. ft. above the 35-quarter trailing average.

The McAllen Industrial Market posted positive absorption for Q2 2023 through the delivery of a completed speculative development and a handful of new leases. The vacancy rate remained near the historical low as the average asking rent for warehouse and distribution space once again marked a new record high. Demand for industrial space continued to outpace supply with existing available space, particularly Class A space, quickly drying up and the market seeing only a few new speculative construction projects.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q2 2023.

## Absorption and Activity

The McAllen Industrial Market closed Q2 2023 with net absorption of 95,361 sq. ft. and mid-year absorption of 417,163 sq. ft. The market registered five new leases and a renewal for a total of 315,000 sq. ft. of activity and 276,000 sq. ft. of gross absorption. New leases ranged in size from 10,00 sq. ft. to 110,000 sq. ft and had an average size of 52,000 sq. ft. Two leases and a renewal, 157,000 sq. ft. of activity, occurred in the Pharr submarket. The Mission submarket saw most of the remaining activity, two new leases totaling 146,000 sq. ft. Just over 60% of the quarter’s activity was through Class B product and the rest was through Class A product.

## Vacancy

The market-wide vacancy rate saw a slight uptick of 20 basis points (bps) quarter-over-quarter following the delivery of a partially vacant speculative project and a Class B vacancy of about 77,000 sq. ft. Year-over-year, the vacancy rate is down by 100 bps. At 1.5%, the vacancy rate was just 20 bps above the historic record low rate of 1.3% recorded in the previous quarter and Q3 2019. 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.

## Warehouse / Distribution Asking Rents

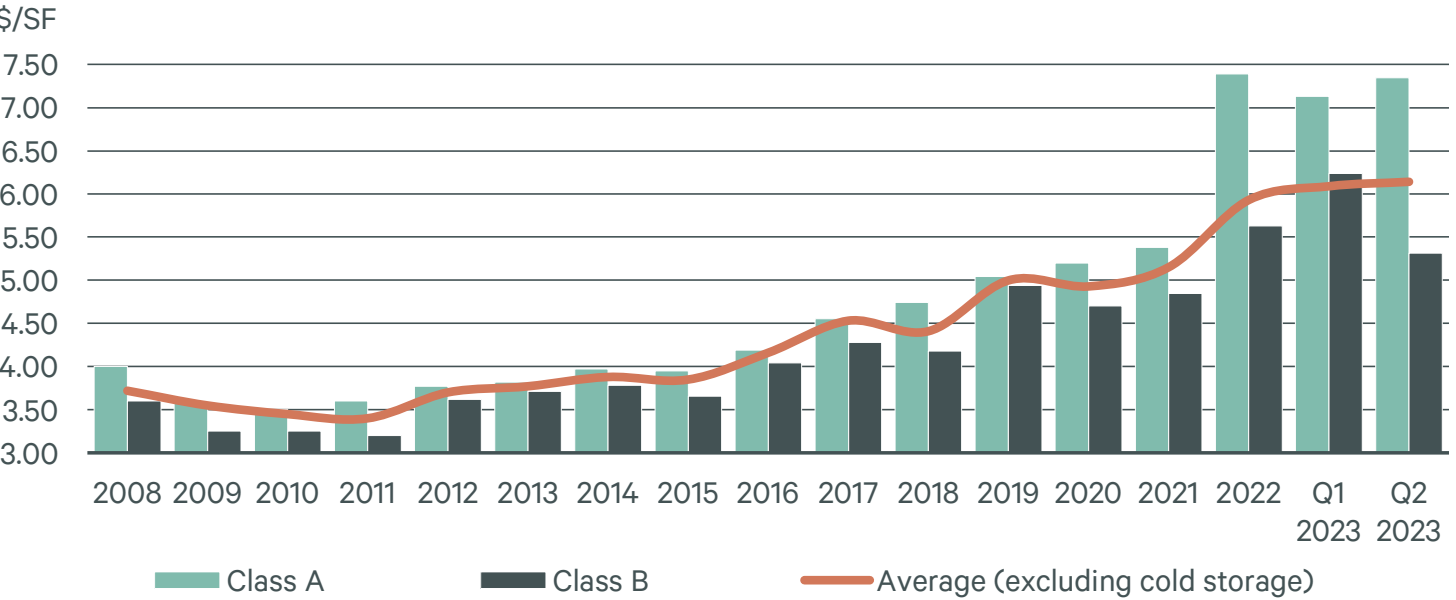
The warehouse / distribution market-wide average asking rent increased by \$0.005 per sq. ft. quarter-over-quarter and by \$0.57 per sq. ft. year-over-year, marking a new record high of \$6.14. Class A asking rents had a quarter-over-quarter increase of \$0.22 per sq. ft. and a year-over-year increase of \$0.17 per sq. ft. Class B asking rents declined compared to Q1 2023 after a higher priced Class B space was leased up during the quarter.

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 | Q2 2023             | YTD 2023 |
| McAllen       | 1.3                  | 2.0 | 5.62                       | 18.21        | 6.92            | 20,000            | -         | (99,339)            | 36,941   |
| Pharr         | 1.3                  | 1.5 | 8.32                       | N/A          | 8.32            | 42,000            | 160,000   | 110,000             | 235,522  |
| Edinburg      | 1.8                  | 1.8 | N/A                        | N/A          | 7.80            | -                 | -         | -                   | -        |
| Hidalgo       | -                    | 3.0 | 6.60                       | N/A          | 6.60            | -                 | -         | -                   | 30,000   |
| Mission       | -                    | -   | N/A                        | N/A          | N/A             | 100,000           | -         | 84,700              | 84,700   |
| Off Park      | 4.2                  | 5.8 | 5.65                       | N/A          | 5.65            | 253,000           | -         | -                   | 30,000   |
| McAllen Total | 1.5                  | 2.2 | 6.14                       | 18.21        | 6.89            | 415,000           | 160,000   | 95,361              | 417,163  |
| Class A       | 1.4                  | 1.6 | 7.35                       | 18.21        | 8.85            | 415,000           | 160,000   | 88,000              | 402,302  |
| Class B       | 1.4                  | 2.6 | 5.31                       | N/A          | 5.84            | -                 | -         | 7,361               | 14,861   |

Source: CBRE Research, Q2 2023.

FIGURE 3: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q2 2023.

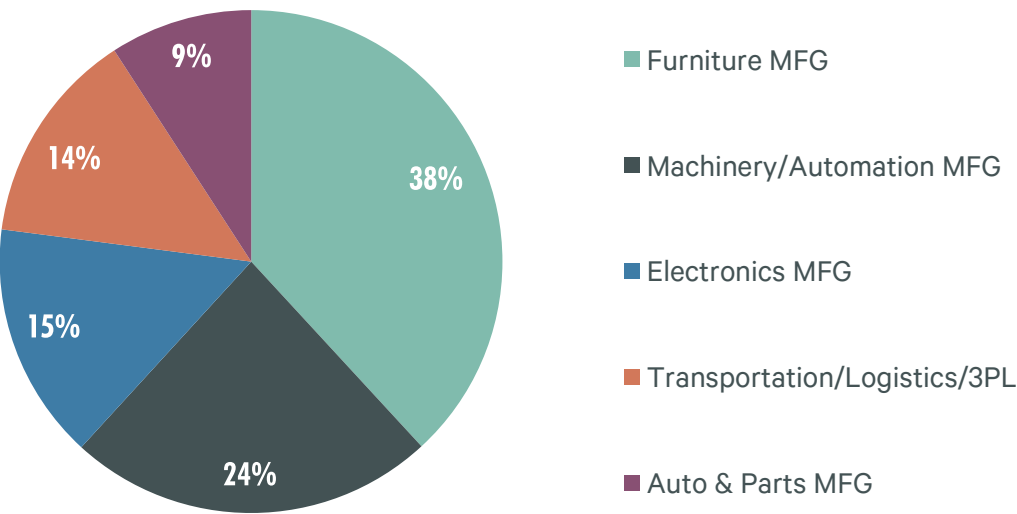
## Construction

Q2 2023 closed with six projects, two speculative projects and four build-to-suit projects totaling 515,400 sq. ft., still under construction. The largest development underway, a 253,000 sq. ft. build-to-suit, is located in the Weslaco Industrial Area. Two build-to-suit projects and a speculative project totaling 172,400 sq. ft., are in the Pharr submarket. A partially pre-leased speculative development of 160,000 sq ft. was delivered during the quarter.

## Demand Remains Strong

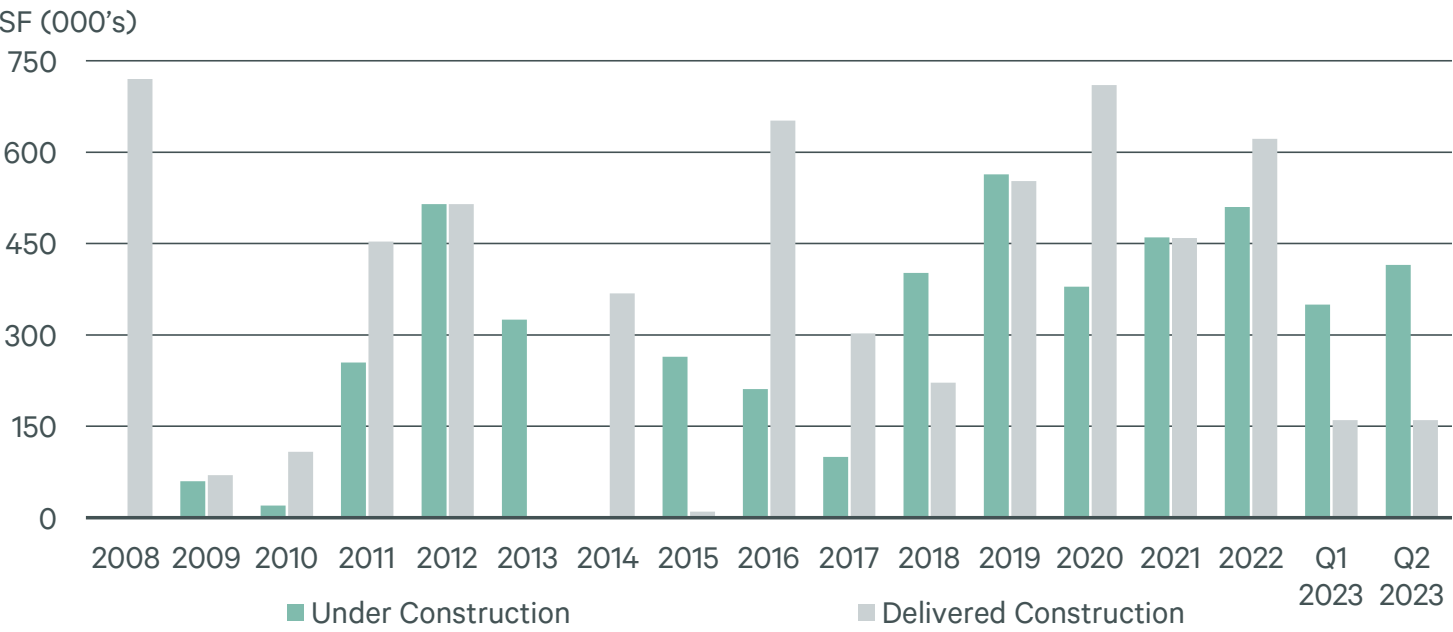
CBRE tracks user demand for space in the McAllen Industrial Market. Demand remained level quarter-over-quarter but saw a year-over-year increase of 220,000 sq. ft. and stood 1.0 million sq. ft. above the 35-quarter trailing average. Q2 2023 closed with users seeking 2.6 million sq. ft. of space. This is 2.2 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 furniture manufacturing industry accounted for the largest share of demand for space while the transportation/logistics/3PL industry had the most users.

FIGURE 4: Q2 2023 Active Users in the Market by Industry



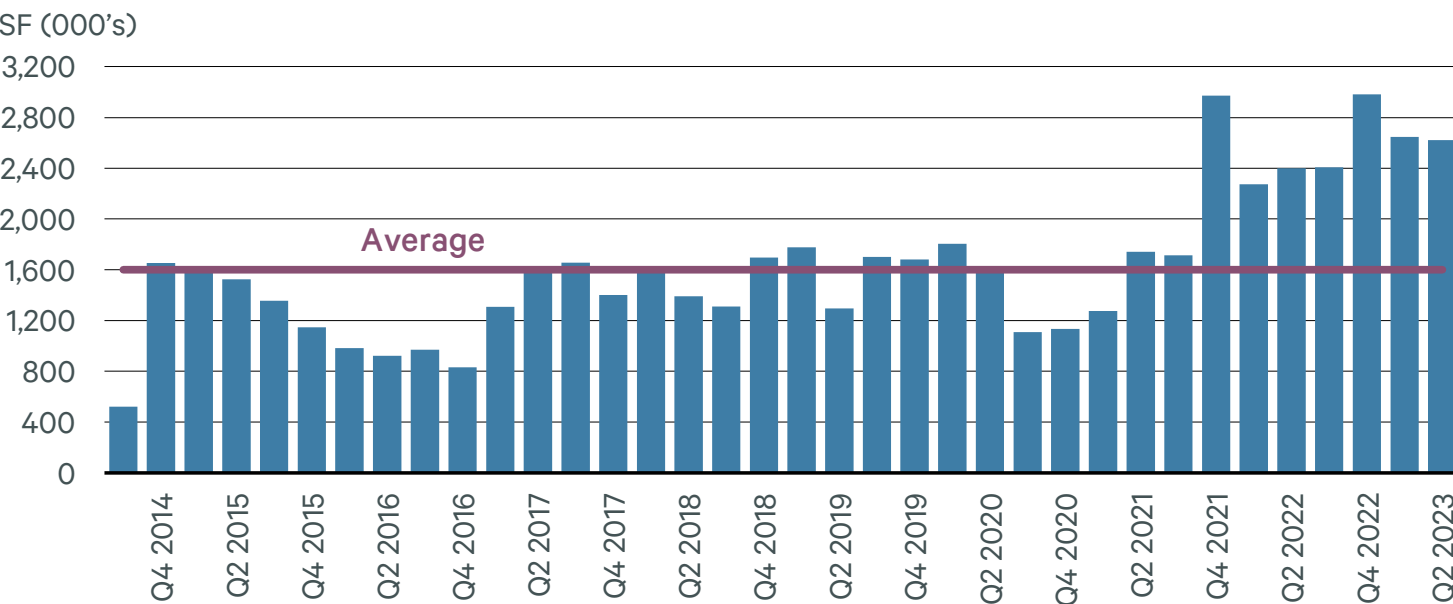
Source: CBRE Research, Q2 2023.

FIGURE 5: Construction



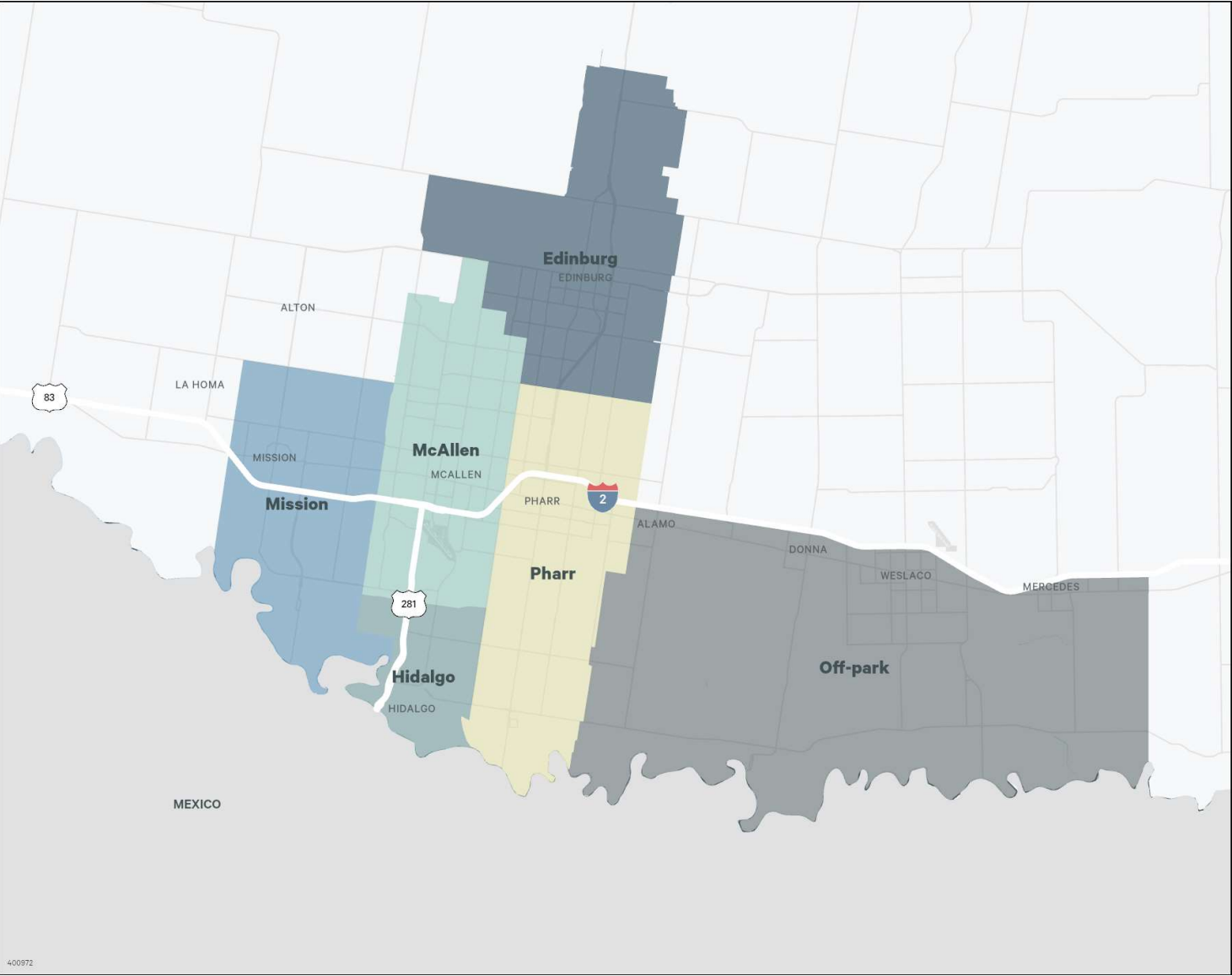
Source: CBRE Research, Q2 2023.

FIGURE 6: Active Users in the Market



Source: CBRE Research, Q2 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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