

FIGURES | MCALLEN INDUSTRIAL | Q1 2023

Rent growth continues as demand outpaces supply and absorption remains steady

▼ 1.3%

Vacancy Rate

▲ 322,066

SF Net Absorption

▼ 350,000

SF Construction

▲ \$6.09

NNN / Lease Rate

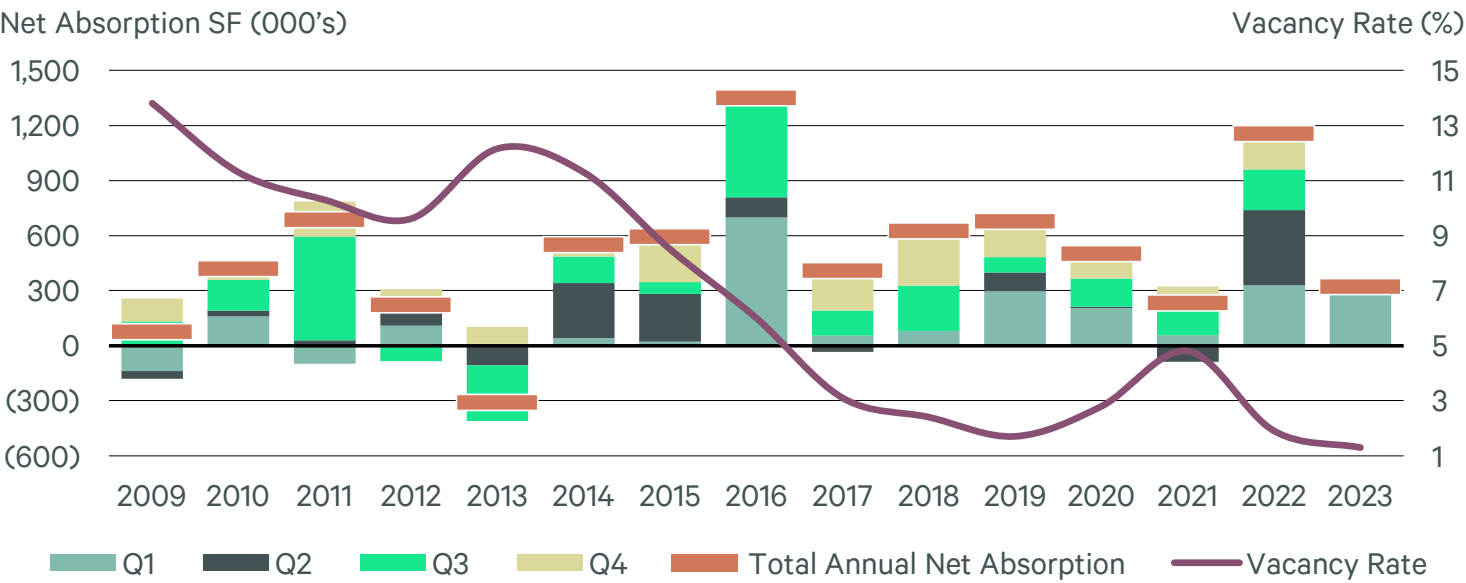
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q1 2023 closed with 322,066 sq. ft. of net absorption.
- The market registered fifteen new leases, two renewals, and a user sale for a total of 735,000 sq. ft. of activity.
- The market-wide average asking rate marked a new record high of \$6.09 per sq. ft. The Class B asking rent, which was at a record high in Q4 2022, saw a quarter-over-quarter increase of \$0.61 per sq. ft.
- Demand for industrial space in the market remained elevated at 2.6 million sq. ft. and stood 1.1 million sq. ft. above the 34-quarter trailing average.

The McAllen Industrial Market posted positive absorption for Q1 2023 through the delivery of completed construction and new leases. The vacancy rate hit a historical low and demand for industrial space continued to outpace supply. Average asking rents for warehouse and distribution space once again marked a new record high as existing available space quickly dries up and the market sees only a few new speculative construction projects.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q1 2023.

Absorption and Activity

The McAllen Industrial Market closed Q1 2023 with net absorption of 322,066 sq. ft. The market registered fifteen new leases, two renewals, and a user sale for a total of 735,000 sq. ft. of activity and gross absorption. New leases ranged in size from 6,400 sq. ft. to 165,000 sq. ft and had an average size of 28,000 sq. ft. Ten leases, two renewals, and a user sale 679,000 sq. ft. of activity, occurred in the McAllen submarket. The remaining activity occurred in the Pharr and Hidalgo submarkets. Except for three lease, a renewal, and a user sale, all the quarte’s activity was through Class A product. A large share of net absorption, 50% or 160,000 sq. ft., came from the delivery of completed build-to-suit projects.

Vacancy

The market-wide vacancy rate fell by 60 basis points (bps) quarter-over-quarter and by 260 bps year-over-year. At 1.3%, the vacancy rate hit the same historic low rate previously recorded in Q3 2019. The Class A vacancy rate marked a new record low of 0.8% and had the largest decline, falling by 150 bps quarter-over-quarter and 400 bps year-over-year. Including cold storage space, less than 120,000 sq. ft. of Class A space spread through a handful of buildings, was available for lease at the end of the quarter.

Warehouse and Distribution Asking Rents

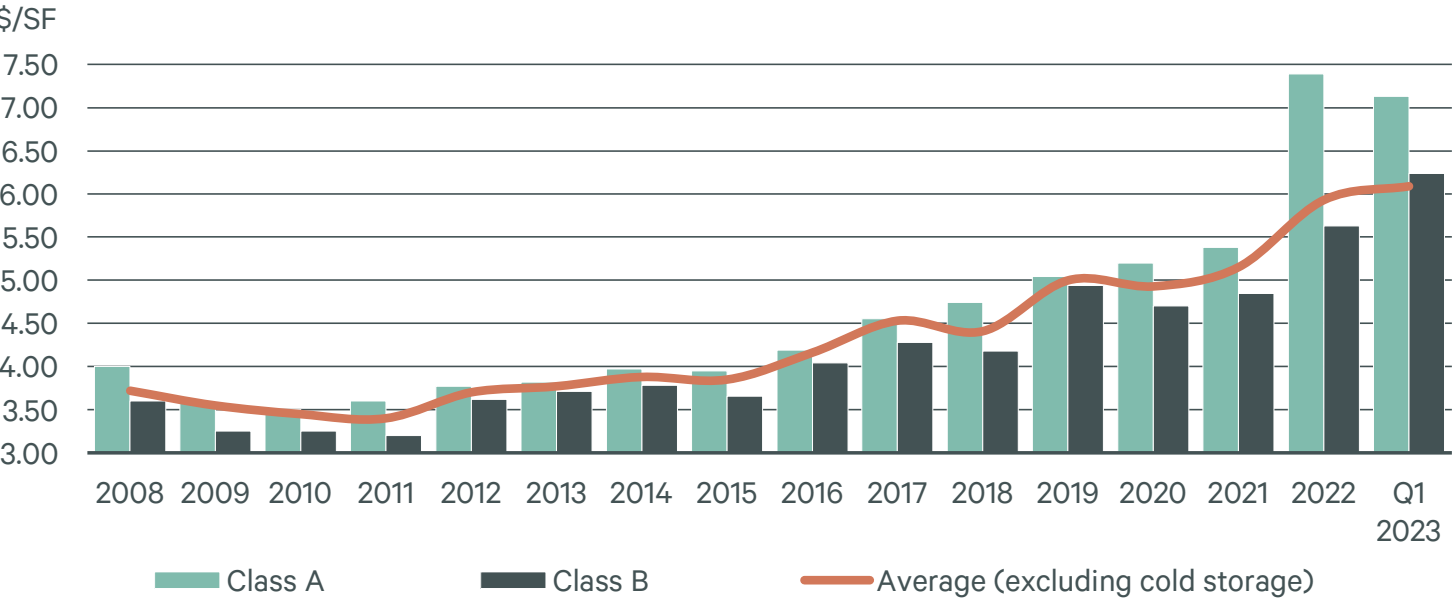
The warehouse and distribution market-wide average asking rent increased by \$0.16 per sq. ft. quarter-over-quarter and by \$0.95 per sq. ft. year-over-year, marking a new record high of \$6.09. Class B asking rents also reached a new high and had a quarter-over-quarter increase of \$0.61 per sq. ft. and a year-over-year increase of \$1.39 per sq. ft. The lack of, and continued depletion, of Class A space has put upward pressure on Class B rents and has started to close the asking rent gap between the two classes.

FIGURE 2: McAllen Industrial Market Statistics

Submarket	Total Vacancy (%)	Total Availability (%)	Net Avg. Asking Lease Rate (\$/SF/YR)			Under Construction (SF)	Deliveries (SF)	Q1 2023 Net Absorption
			Warehouse & Distribution	Cold Storage	Industrial Avg.			
McAllen	0.5	0.7	6.25	15.29	11.16	20,000	-	136,280
Pharr	0.5	0.6	8.16	N/A	8.16	260,000	100,000	55,786
Edinburg	1.8	1.8	N/A	N/A	7.80	-	-	-
Hidalgo	-	3.4	N/A	N/A	N/A	-	30,000	30,000
Mission	4.6	4.6	6.24	N/A	6.24	70,000	-	-
Off Park	4.2	5.8	5.51	N/A	5.51	-	0	100,000
McAllen Total	1.3	1.8	6.09	15.29	7.27	350,000	160,000	322,066
Class A	0.8	1.3	7.13	15.29	10.31	350,000	160,000	314,566
Class B	1.5	1.7	6.24	N/A	6.77	-	-	7,500

Source: CBRE Research, Q1 2023.

FIGURE 3: Asking Rates, NNN Avg. Annual



Source: CBRE Research, Q1 2023.

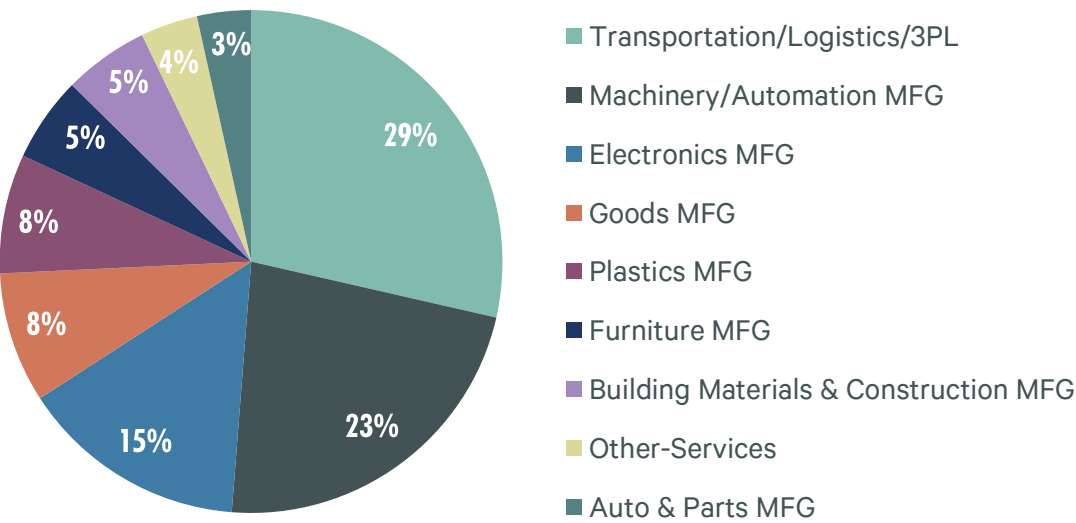
Construction

Q1 2023 closed with four projects, three speculative projects and a build-to-suit project totaling 350,000 sq. ft., still under construction. Two speculative projects totaling 260,000 sq. ft., are in the Pharr submarket. Three build-to-suit projects, a total of 160,000 sq ft., were delivered during the quarter.

Demand Continues to Grow

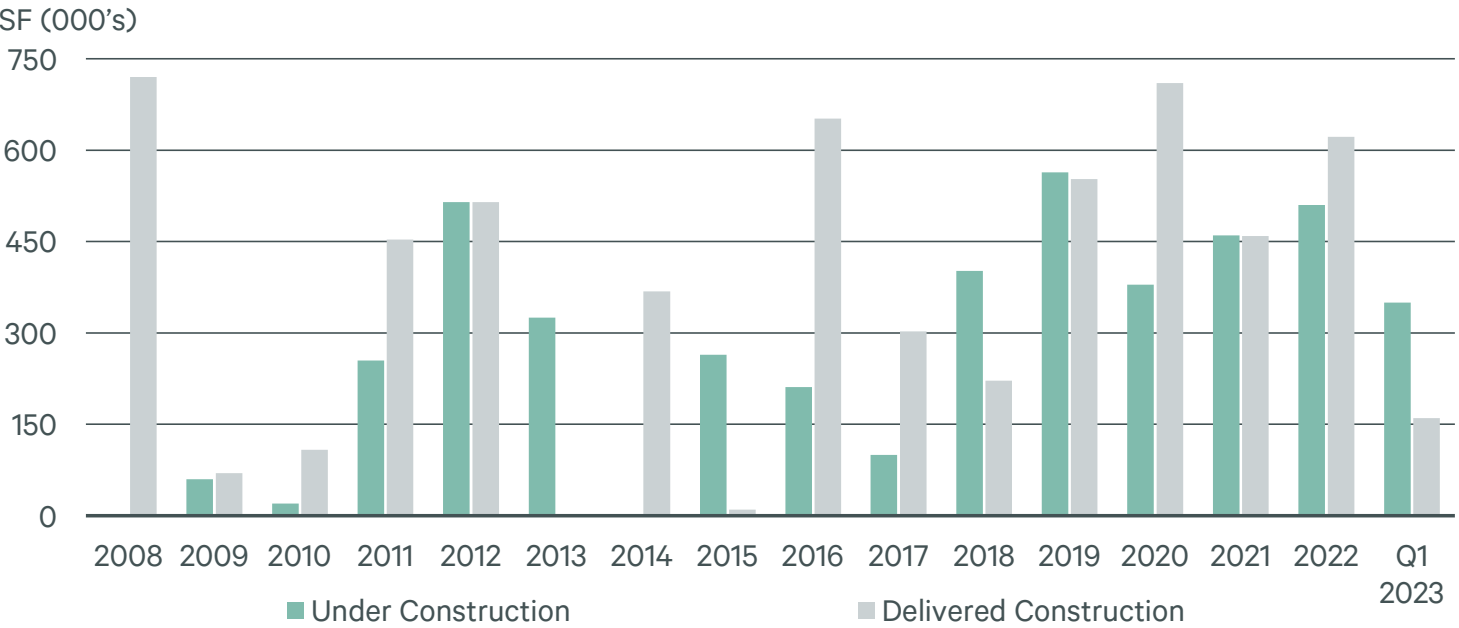
CBRE tracks user demand for space in the McAllen Industrial Market. Demand saw a quarter-over-quarter decrease but a year-over-year increase of 372,000 sq. ft. and stood 1.1 million sq. ft. above the 34-quarter trailing average. Q1 2023 closed with 24 users seeking 2.6 million sq. ft. of space. This 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 transportation/logistics/3PL industry had the largest number of users in the market and accounted for the largest share of demand for space.

FIGURE 4: Q1 2023 Active Users in the Market by Industry



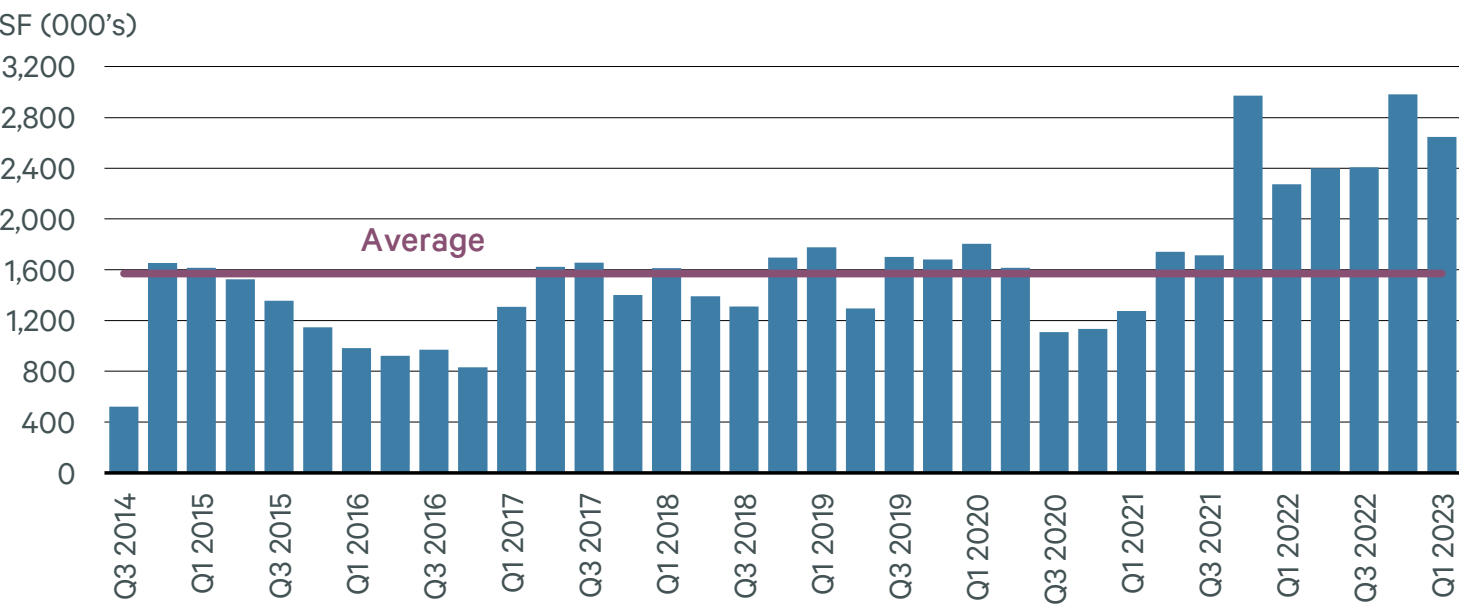
Source: CBRE Research, Q1 2023.

FIGURE 5: Construction



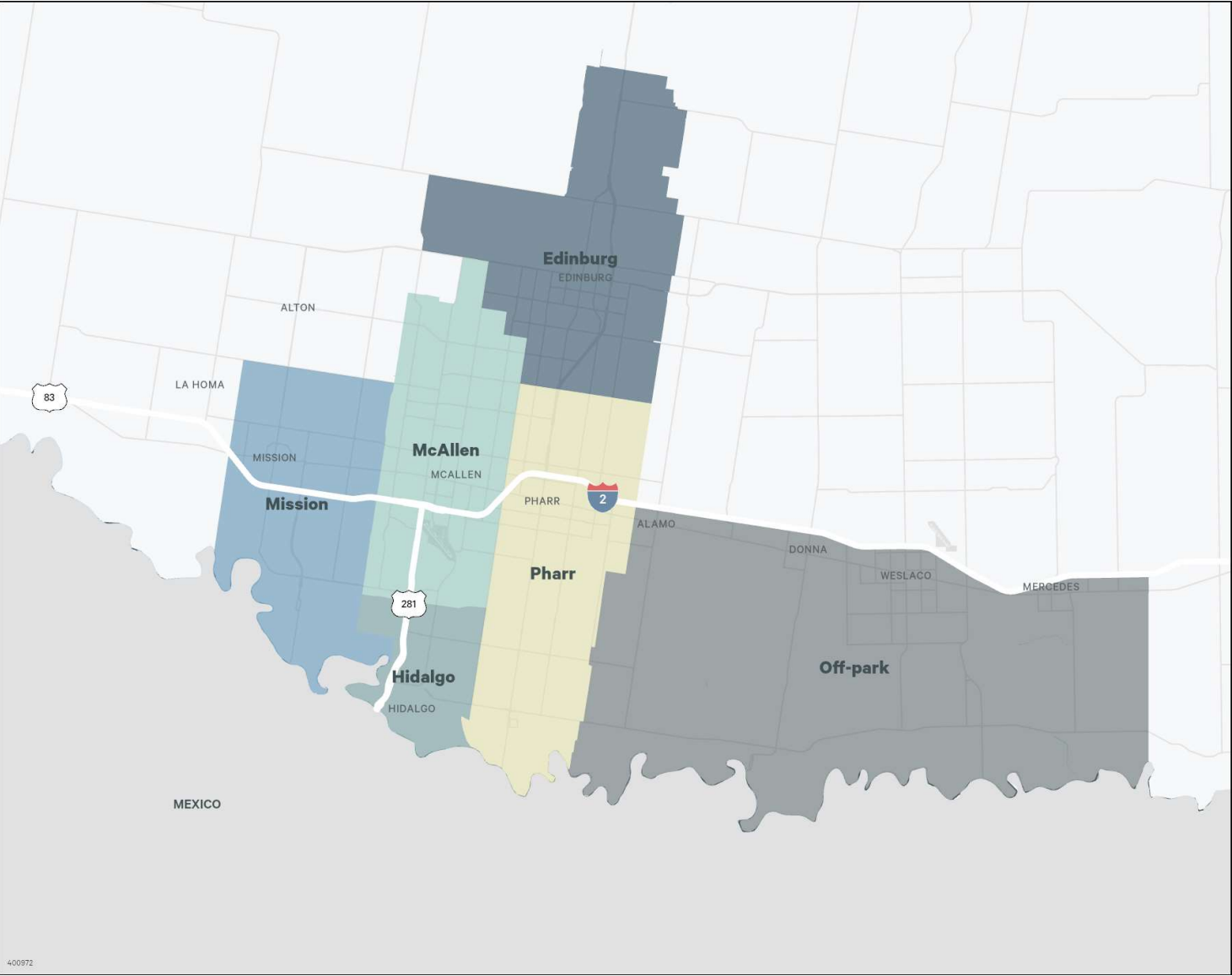
Source: CBRE Research, Q1 2023.

FIGURE 6: Active Users in the Market



Source: CBRE Research, Q1 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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