

Great ex(spec)tations. Development drives absorption and leasing in 2023, sets strong footing for 2024.

▲ 3.7%

Vacancy Rate

▼ 360,820

SF Net Absorption

▲ 4,947,856

SF Construction

▼ 643,490

SF Delivered Construction

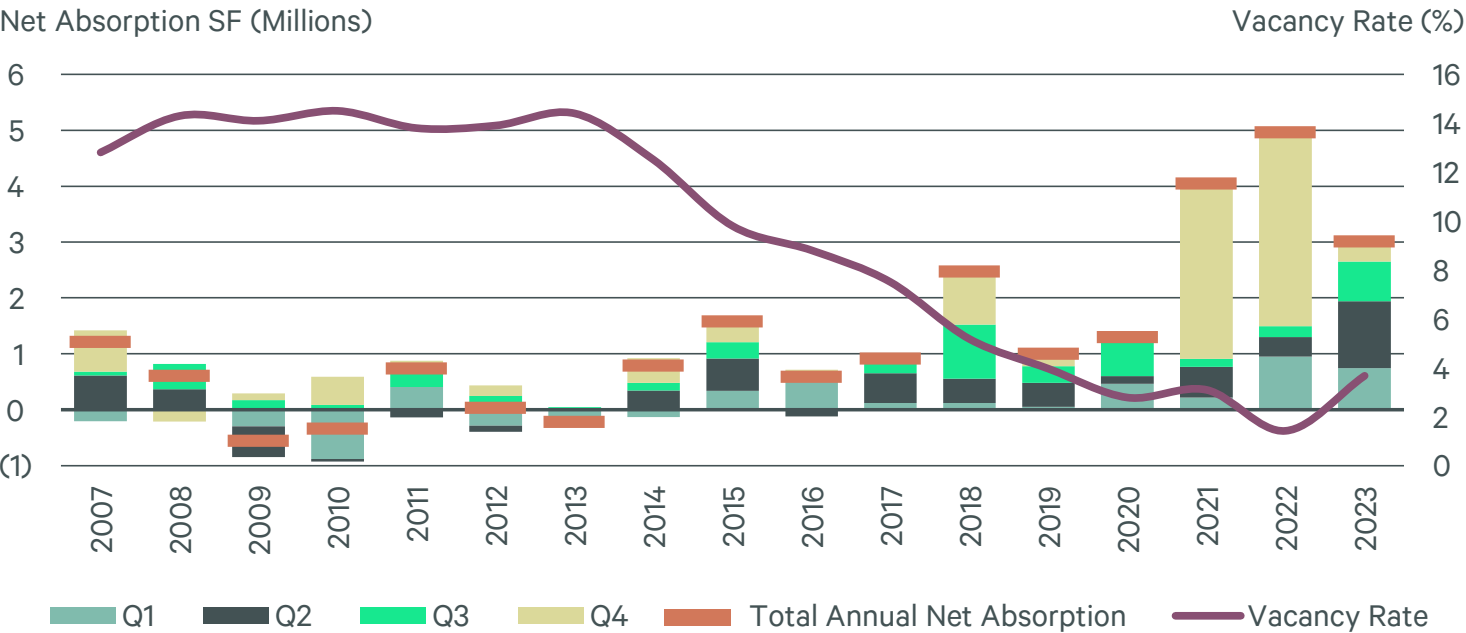
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q4 2023 recorded 360,820 sq. ft. of net absorption. Total annual net absorption was 3.0 million sq. ft.
- Market-wide vacancy increased by 40 bps to 3.7%.
- The market-wide asking rent reached a new record high while the Class A asking rent remained stable.
- Almost 5.0 million sq. ft. of industrial space, most of which was speculative, remained under construction at the end of Q4 2023.

The El Paso Industrial Market closed the quarter with positive net absorption and strong leasing activity. The completion of pre-leased speculative (spec) space was a significant contributor to net absorption during the quarter and throughout the year. The market-wide asking rent continued on an upward trend, marking a new high. Demand for industrial space remained far above the historical average as tenants seek to gain or expand on the location advantages of the market. With existing supply still tight, tenants will continue to look at the construction pipeline to find future space..

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2023.

Absorption and Leasing Activity Remain Strong

Q4 2023 closed with 360,820 sq. ft. of net absorption and total annual net absorption of 3,006,905 sq. ft., the third largest annual figure recorded since CBRE began tracking the market. The delivery of a pre-leased spec project to the East submarket accounted for almost all of the quarter’s net absorption.

Q4 2023 registered seven new leases, a sublease, and five renewals totaling 1.8 million sq. ft. of activity. New leases made up 1.3 million sq. ft. of activity. Class A product accounted for four leases and two renewals, totaling 1.6 million sq. ft. of activity. Class A activity included the pre-lease of three spec projects that remained under construction at the end of Q4 2023. Three leases, a sublease, and three renewals came from Class B product.

The market-wide vacancy rate increased by 40 basis points quarter-over-quarter. This increase stemmed from the delivery of a single vacant spec space. Although vacancy rates have increased compared to the historic lows seen in 2022, half of all vacant space in the market is held in two buildings. Without these two spaces, a long-term Class A vacancy and a spec projects delivered in Q2 2023, the market-wide and Class A vacancy rates would fall to 1.8% and 3.5%, respectively.

FIGURE 2: El Paso Industrial Market Statistics

Submarket	Vacancy (%)	Availability (%)	Construction (SF)		Net Absorption (SF)	
			Active	Delivered	Q4 2023	2023
West	1.4	6.2	919,763	-	-	49,631
Northeast	0.9	1.2	75,000	-	25,600	185,138
Central	0.3	0.4	-	-	-	96,865
East	6.6	9.7	3,678,093	643,490	335,220	2,370,968
Lower Valley	6.5	9.2	275,000	-	-	304,303
El Paso Total	3.7	5.9	4,947,856	643,490	360,820	3,006,905
Class A	7.5	9.8	4,947,856	643,490	335,220	2,717,271
Class B	0.5	3.1	-	-	25,600	192,769

Source: CBRE Research, Q4 2023.

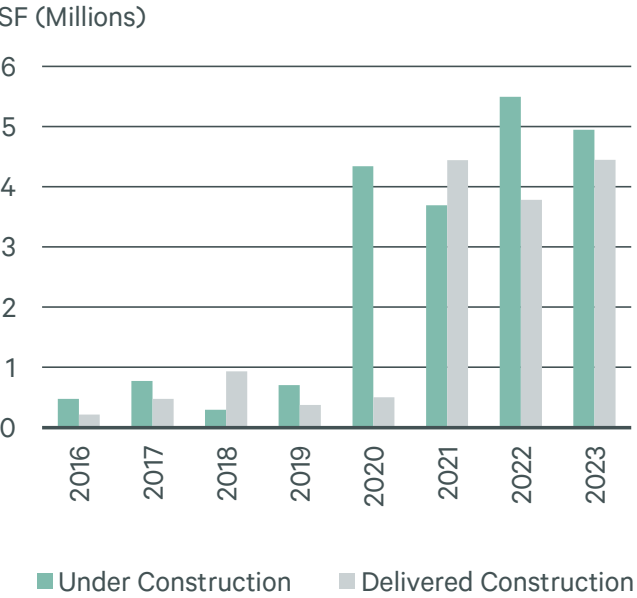
Construction

Q4 2023 ended with 23 projects and 4,947,856 sq. ft. of industrial space under construction. Most of the space under construction, 3.6 million sq. ft., is spec. Q4 2023 saw the delivery of two spec projects totaling 643,490 sq. ft. of which 52% was delivered occupied. Four BTS projects and two spec projects, a total of 1.6 million sq. ft., began moving dirt during Q4 2023.

Future Activity

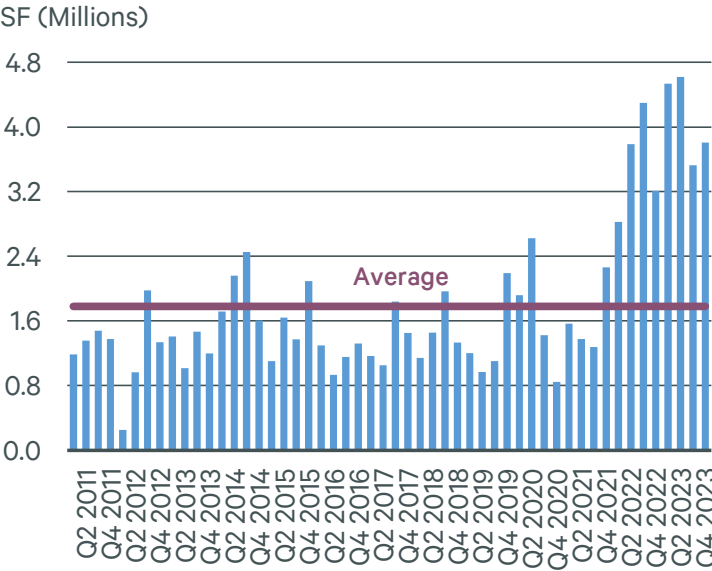
CBRE tracks user demand for space in the El Paso Industrial Market. Q4 2023 closed with users seeking 3.8 million sq. ft., 2.0 million sq. ft. above the 51-quarter trailing average. Quarter-over-quarter, demand grew by 280,000 sq. ft. and by 600,000 sq. ft. year-over-year. Users are seeking space ranging from 10,000 sq. ft. to 600,000 sq. ft. with an average size of 152,000 sq. ft. The auto and parts manufacturing sector accounted for the largest share of demand, about 30%.

FIGURE 6: Construction



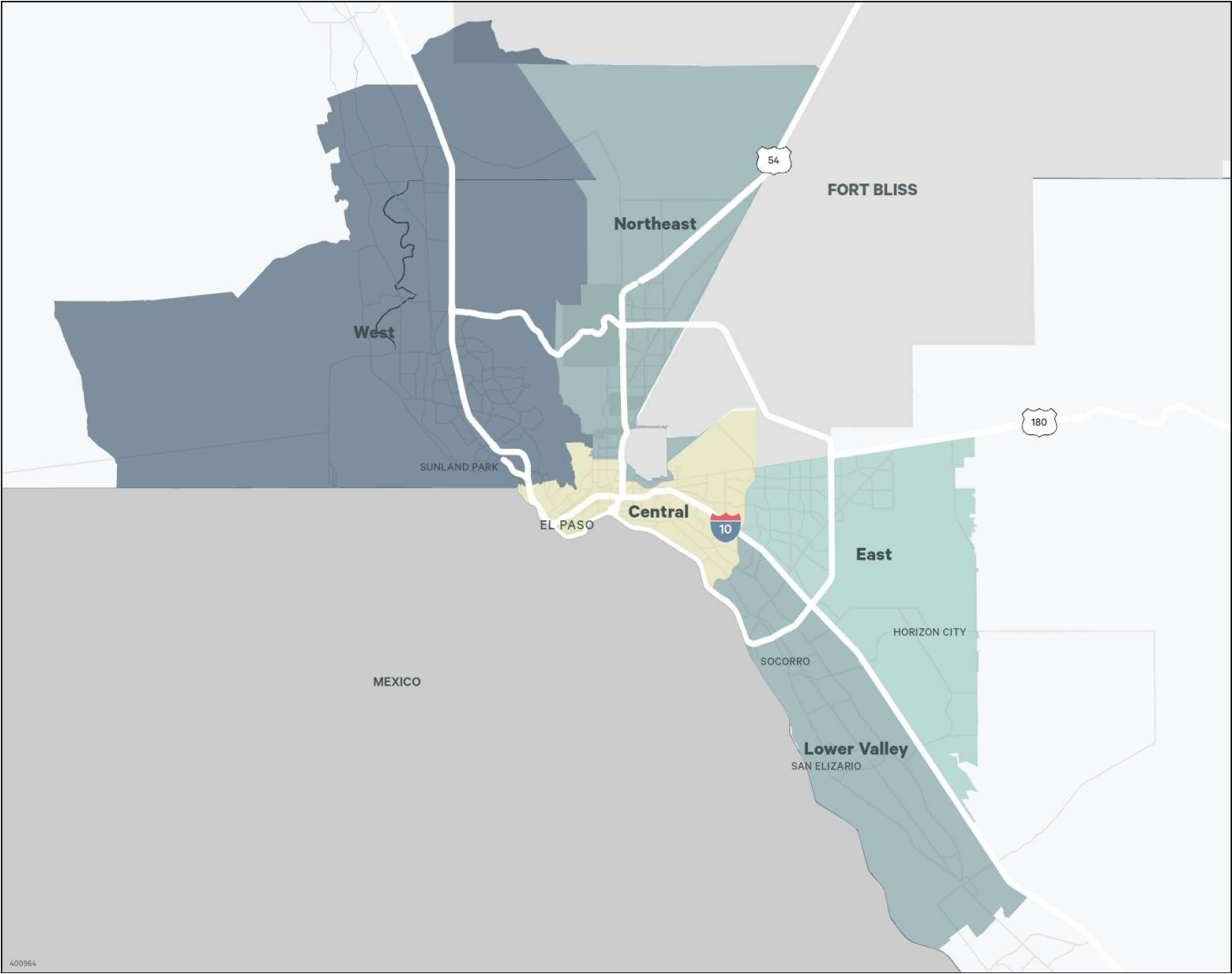
Source: CBRE Research, Q4 2023.

FIGURE 7: 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 El Paso, TX and Santa Teresa, NM. Buildings which have begun construction as evidenced by site excavation or foundation work.

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