

Strong absorption and leasing push vacancy down and rents up; Demand for industrial space is at a record high .

▼ 1.3%

Vacancy Rate

▲ 481,571

SF Net Absorption

▼ 605,200

SF Construction

▲ \$6.92

NNN / Lease Rate

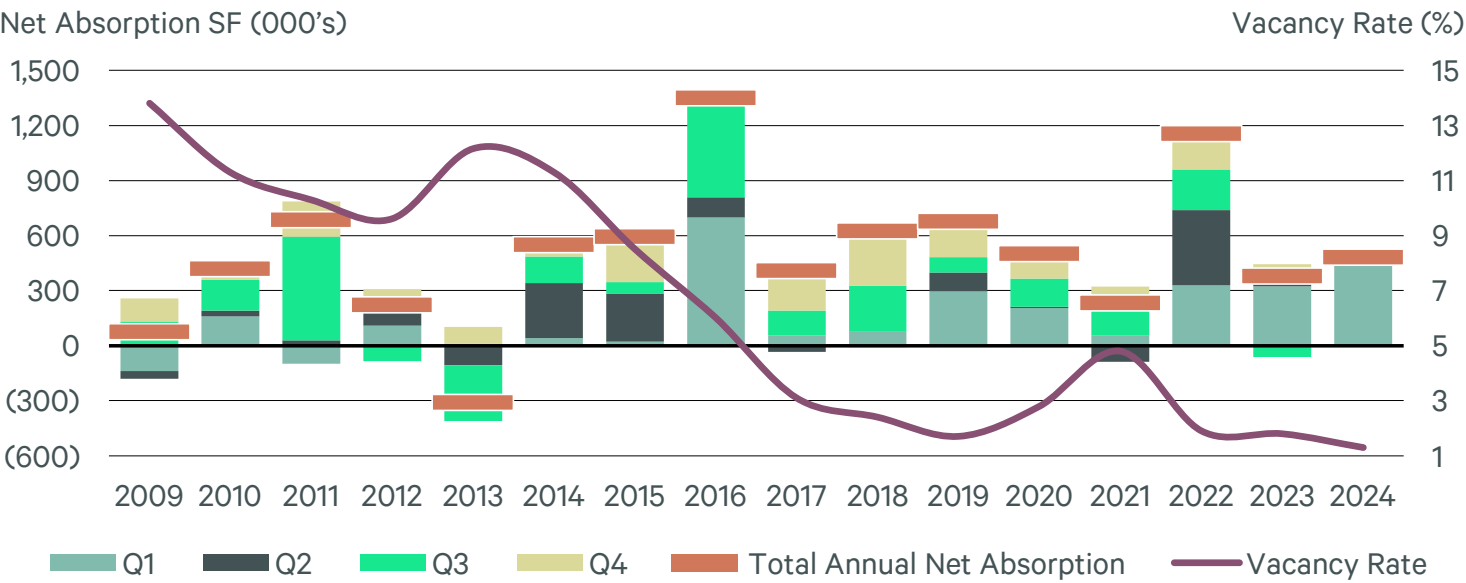
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q1 2024 closed with net absorption of 481,571 sq. ft., 100,000 sq. ft. more than the 2023 total annual net absorption.
- The market-wide and Class A vacancy rates fell to record lows.
- The market-wide average asking rate marked a new record high of \$6.92 per sq. ft. The Class A asking rent had a quarter-over-quarter increase of \$0.46 per sq. ft.
- Demand for industrial space in the market was at a record high of 3.3 million sq. ft. and stood 1.6 million sq. ft. above the 38-quarter trailing average.

The McAllen Industrial Market opened the year with strong net absorption and leasing activity. Vacancy rates declined in almost every submarket while the market-wide and Class A product vacancy rates fell to new record lows. Demand for industrial space surged as several large space requirements entered the market. With demand continuing to outpace the existing supply, asking rents were pushed to an all-time high. As the depletion of existing and available supply continues, tenants will have to look to the under construction and planned construction pipeline for future space.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q1 2024.

Absorption and Activity

The McAllen Industrial Market closed Q1 2024 with net absorption of 481,171 sq. ft., already surpassing the total annual 2023 net absorption. The market registered 9 new leases, a total of 213,000 sq. ft. of activity. Leasing activity included the pre-lease of a still underway speculative (spec) space. Leases ranged in size from 5,700 sq. ft. to 70,000 sq. ft. Seven leases, about 162,000 sq. ft. of activity, occurred in the McAllen submarket. The Off Park submarket recorded the largest share of net absorption through the delivery of a 253,000 sq. ft. build-to-suit (BTS) development and a 39,500 sq. ft. lease in the Weslaco area. The Pharr submarket saw the delivery of two BTS projects, a total of 72,400 sq. ft. of net absorption.

Vacancy

The market-wide vacancy rate saw a quarter-over-quarter decrease of 50 basis points (bps), matching the previous low of 1.3% recorded in Q1 2023 and Q3 2019. Class A vacancy rates fell by 60 bps quarter-over-quarter, matching the previous low of 0.8% recorded in Q1 2023. Excluding cold storage space, roughly 100,000 sq. ft. of Class A space was available for lease at the end of the quarter.

Warehouse / Distribution Asking Rents

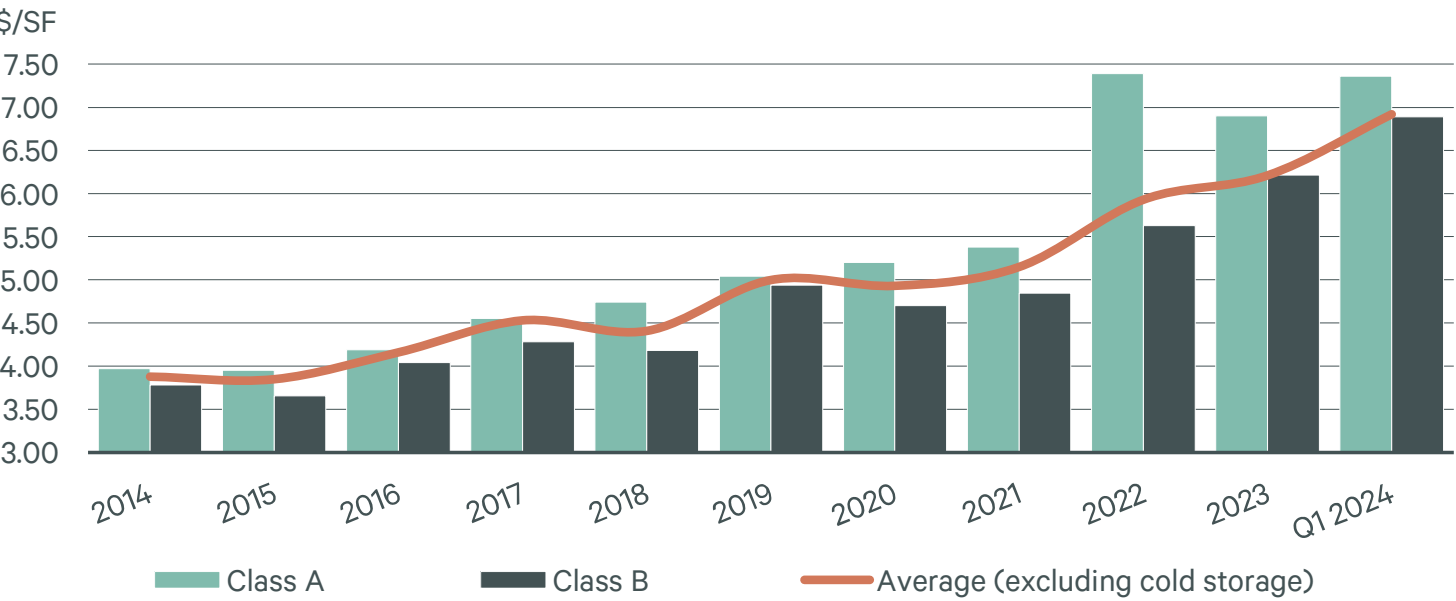
The warehouse / distribution market-wide average asking rent increased by \$0.71 per sq. ft. quarter-over-quarter and by \$0.83 per sq. ft. year-over-year, marking a new record high of \$6.92. Class A asking rents had a quarter-over-quarter increase of \$0.46 per sq. ft. and a year-over-year increase of \$0.23 per sq. ft., falling just \$0.03 short of the record \$7.39 per sq. ft. Class A high set in Q4 2022. Class B asking rents also saw significant growth, a quarter-over-quarter increase of \$0.68 per sq. ft. and a year-over-year increase of \$0.65 per sq. ft., setting a new high of \$6.89 per sq. ft.

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	Q1 2024
McAllen	1.5	3.2	6.94	20.40	7.31	71,000	-	115,671
Pharr	-	0.5	N/A	N/A	N/A	434,200	72,400	83,400
Edinburg	-	-	N/A	N/A	N/A	-	-	-
Hidalgo	5.2	7.7	7.85	18.00	12.06	-	-	(10,000)
Mission	-	-	N/A	N/A	N/A	100,000	-	-
Off Park	2.6	7.6	6.53	N/A	6.53	-	0	292,500
McAllen Total	1.3	2.9	6.92	18.39	7.94	605,200	325,400	481,571
Class A	0.8	1.7	7.36	18.39	11.54	605,200	325,400	441,071
Class B	2.1	5.1	6.89	N/A	6.89	-	-	11,000

Source: CBRE Research, Q1 2024.

FIGURE 3: Warehouse and Distribution Asking Rents, NNN Avg. Annual



Source: CBRE Research, Q1 2024.

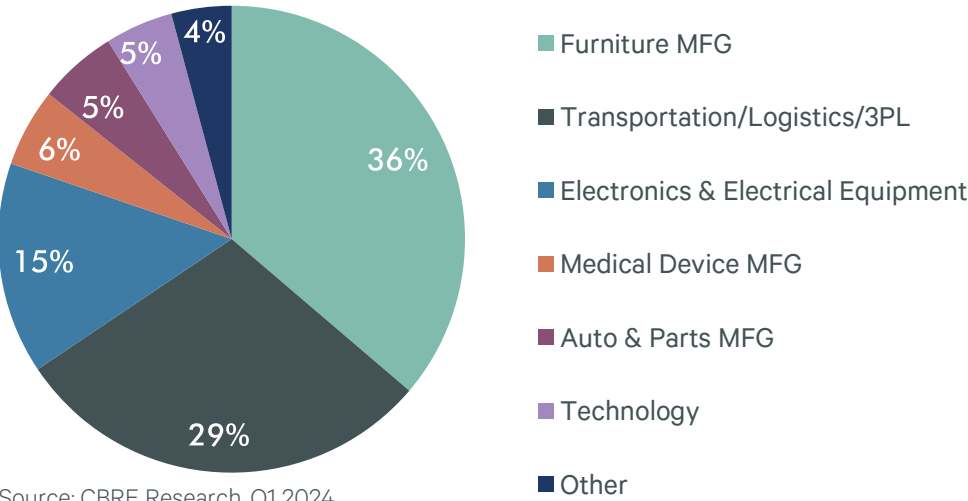
Construction

Q1 2024 closed with five projects, all spec, totaling 605,200 sq. ft., under construction. Two spec projects, including the largest development underway, a nearly 200,000 sq. ft. development, are in the McAllen submarket. Two other spec projects, one of which began construction during the quarter, and totaling 235,400 sq. ft., are in the Pharr submarket. The final development, a 100,000 sq. ft. spec, remained underway in the Mission submarket.

Demand Bolstered by Large Requirements

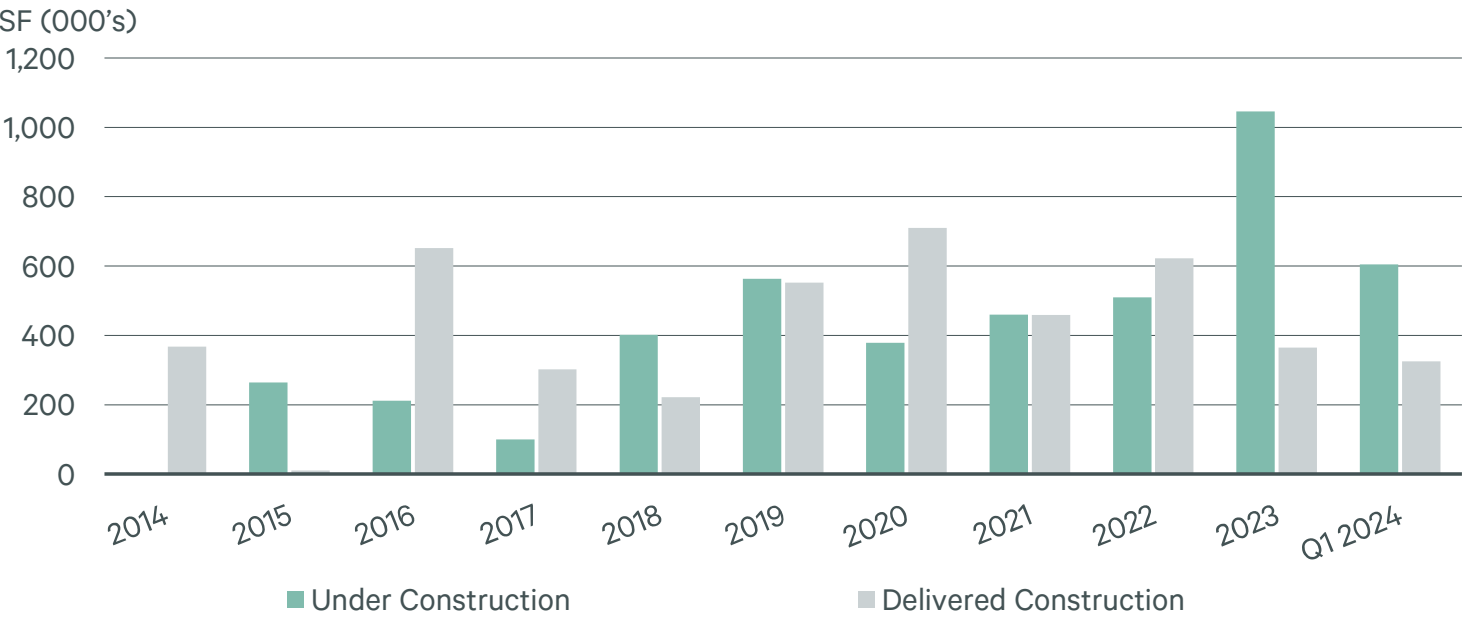
CBRE tracks user demand for space in the McAllen Industrial Market. Demand saw a significant quarter-over-quarter increase of 970,000 sq. ft. and a year-over-year increase of 633,000 sq. ft. Q1 2024 demand marked a new high of 3.3 million sq. ft., nearly double the 38-quarter trailing average. This is 3.0 million sq. ft. more than the total vacant space in the market and 2.6 million sq. ft. more than the total available space. The majority of demand for space, 2.5 million sq. ft. or 75%, comes from just four users, each seeking between 350,000 sq. ft. and 1.0 million sq. ft. of industrial space.

FIGURE 4: Q1 2024 Active Users in the Market by Industry



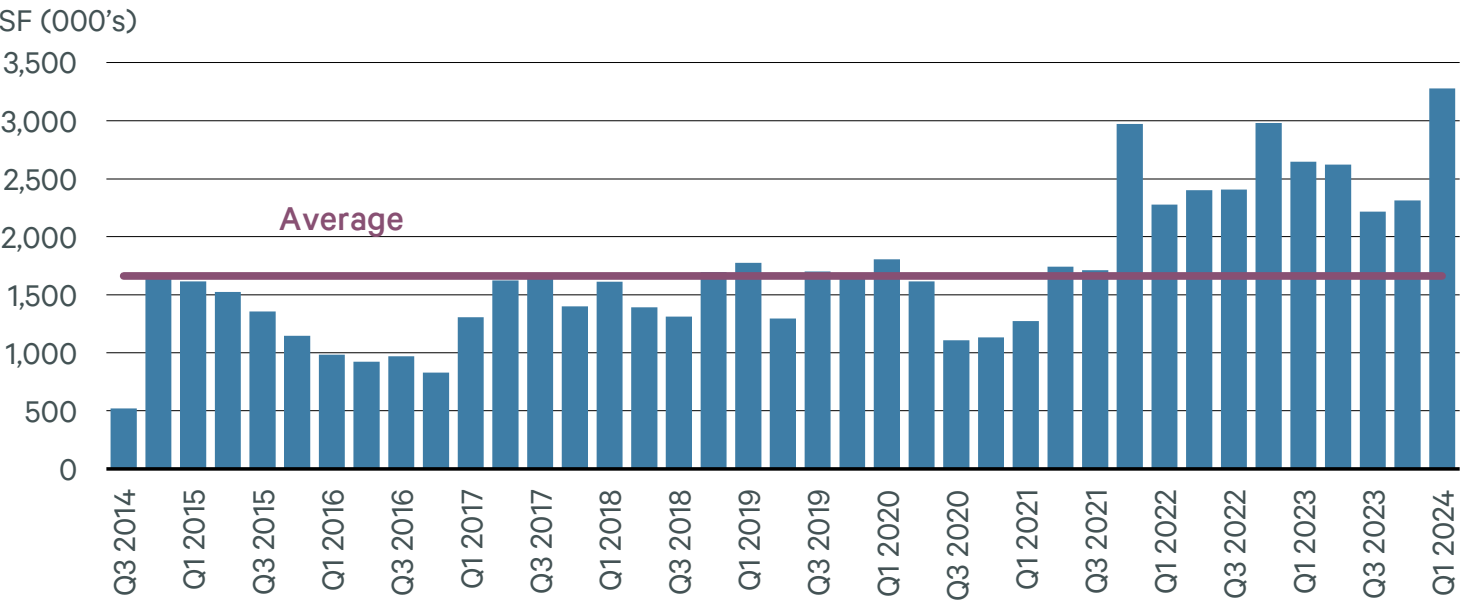
Source: CBRE Research, Q1 2024.

FIGURE 5: Construction



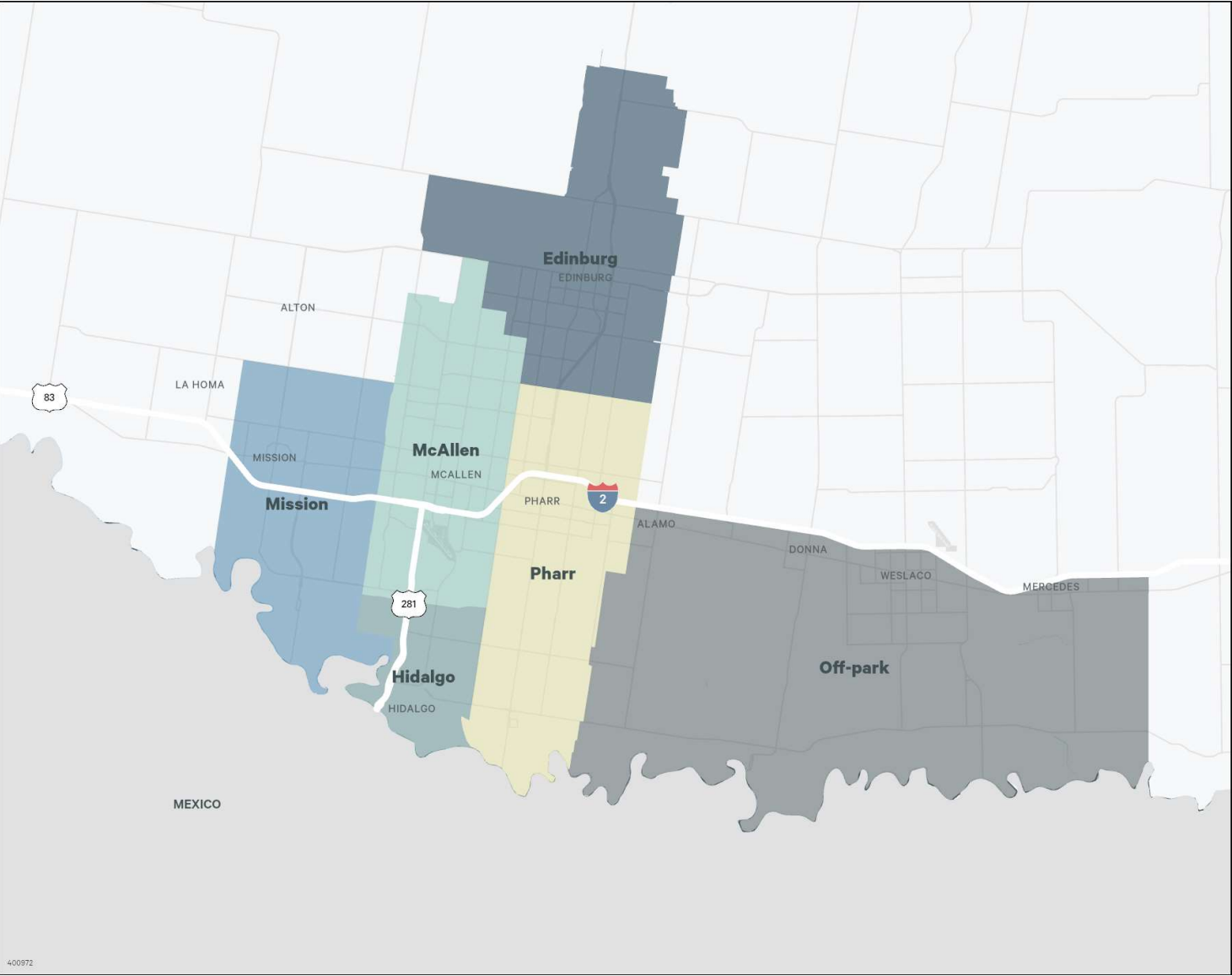
Source: CBRE Research, Q1 2024.

FIGURE 6: Active Users in the Market



Source: CBRE Research, Q1 2024.

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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