

Delivered construction drives absorption as existing availability remains scarce and demand remains elevated.

▲ 1.5%
Vacancy Rate

▼ 741,754
SF Net Absorption

▲ 5,694,037
SF Construction

▼ 796,221
SF Delivered Construction

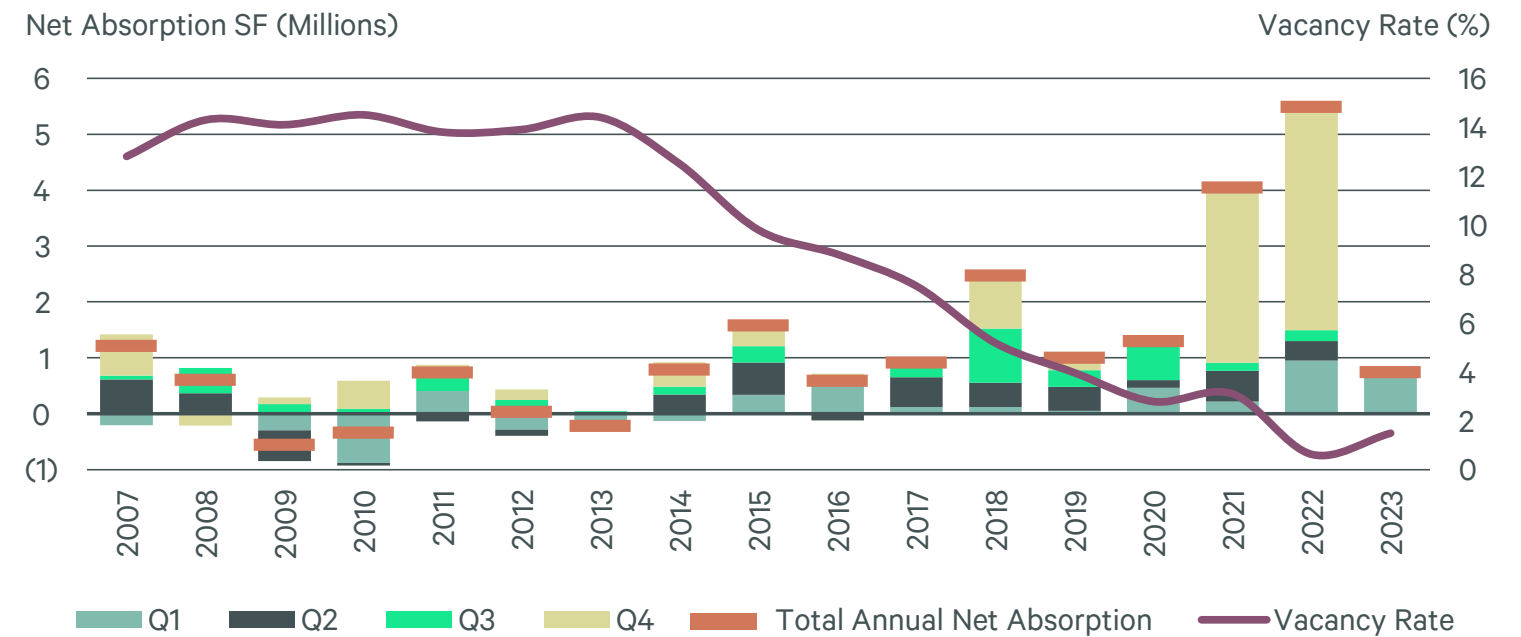
Note: Arrows indicate change from previous quarter.

MARKET OVERVIEW

- Q1 2023 recorded 741,754 sq. ft. of net absorption.
- Market-wide vacancy ticked up to 1.5%.
- Asking rents grew to new historical highs.
- Almost 5.7 million sq. ft. of industrial space, all of which was speculative, remained under construction at the end of Q1 2023.

Following a record setting year, the El Paso Industrial Market maintained momentum with strong absorption and steady leasing activity. Growth in asking rents picked up as lack of available space continues to put upward pressure on rents. Demand for industrial space remained far above the historical average as tenants seek to gain or expand on the advantages of the border market. As the market remains tight and leasing of existing space continues, tenants will have to look at the construction pipeline to find future space.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q1 2023.

Strong Absorption, Leasing Activity Push Vacancy to New Low

Q1 2023 closed with 741,754 sq. ft. of net absorption, the second largest first quarter net absorption recorded since CBRE began tracking the market. Two delivered build-to-suit projects submarket contributed just over 400,000 sq. ft. to the quarter’s net absorption. The delivery of pre-leased speculative space resulted in 230,000 sq. ft. of net absorption.

Q1 2023 registered eight leases and nine renewals totaling over 1.2 million sq. ft. of activity. Class A product accounted for six transactions totaling 593,000 sq. ft. of activity. Class A activity included the pre-lease of two speculative projects that remained under construction at the end of Q1 2023. Nine transactions, 440,000 sq. ft. of activity, came from Class B product.

The market-wide vacancy rate saw a noticeable increase of 90 basis points (bps) compared to the historically low rate of 0.6% recorded in Q4 2022. The bulk of this increase, approximately 70 bps, was due to a data adjustment. In Q4 2022, the reported lease-up of a big-box vacancy led to a significant vacancy rate decline. However, the deal ultimately did not happen, and the space was reverted to vacant.

FIGURE 2: El Paso Industrial Market Statistics

Submarket	Vacancy (%)	Availability (%)	Construction (SF)		Net Absorption (SF) Q1 2023
			Active	Delivered	
West	1.8	1.8	585,395	177,000	18,145
Northeast	0.7	1.4	-	-	104,388
Central	-	0.2	-	-	-
East	0.9	2.3	4,804,339	619,221	619,221
Lower Valley	7.3	10.0	304,303	-	-
El Paso Total	1.5	2.4	5,694,037	796,221	741,754
Class A	3.1	3.3	5,694,037	796,221	637,366
Class B	0.4	2.7	-	-	104,388

Source: CBRE Research, Q1 2023.

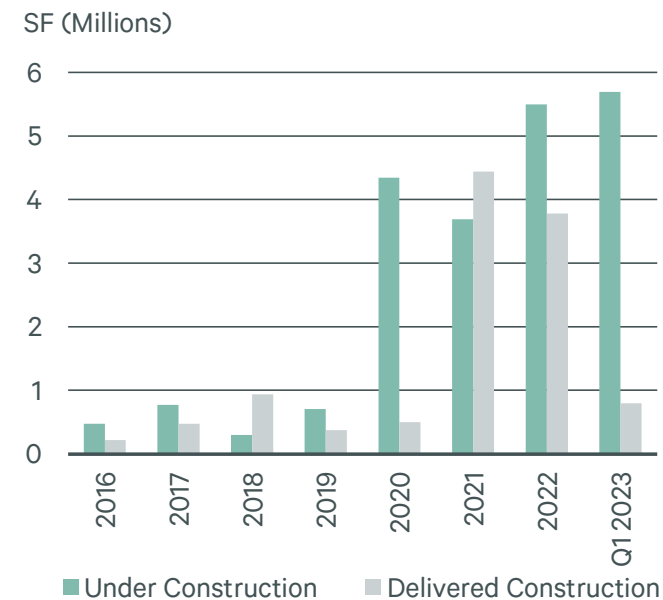
Asking Rents

The combinations of increased Class B rents, delivery of higher-priced vacant spec space, and a big-box vacancy returning to the market, pushed market-wide asking rents and rents across product classes to new record highs. Because average asking rents exclude under construction spec space, all of which is Class A, the market-wide asking rate will continue to disproportionately reflect Class B rents. Meanwhile, Class A supply, most of which is still under construction, will continue to close at higher than reported asking rents.

Future Activity

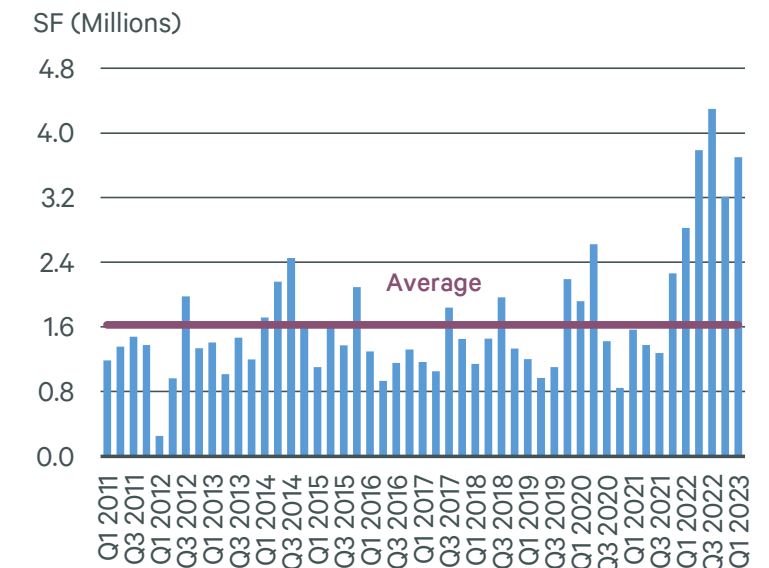
CBRE tracks user demand for space in the El Paso Industrial Market. Q1 2023 closed with users seeking 3.7 million sq. ft., more than double the 48-quarter trailing average.. Users are seeking space ranging from 10,000 sq. ft. to 450,000 sq. ft. with an average size of 154,000 sq. ft. Almost 85% of demand for space is through users in the Logistics/3PL, Electronics, and auto, medical manufacturing sectors.

FIGURE 6: Construction



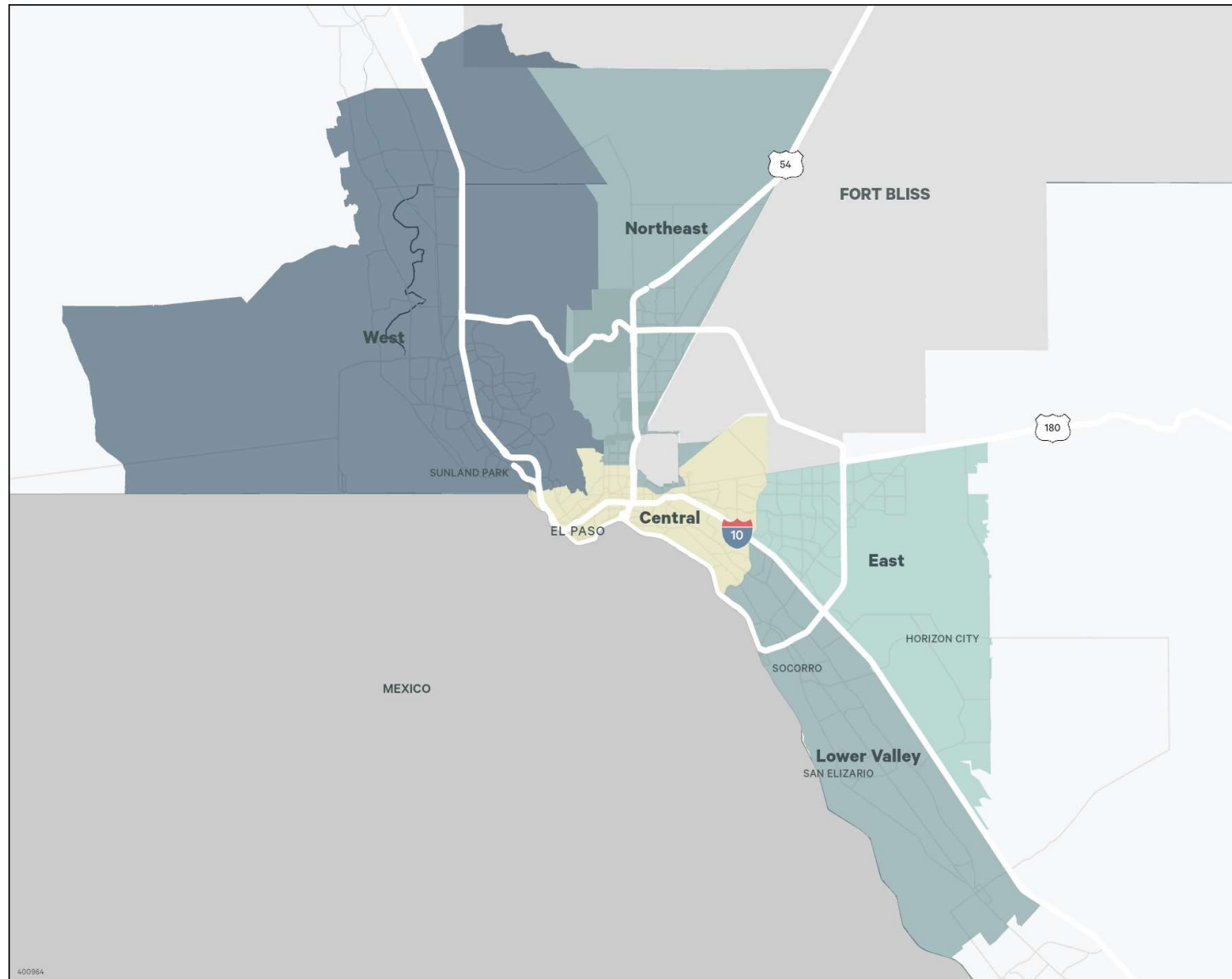
Source: CBRE Research, Q1 2023.

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

Contacts

Elisabeth Downs

Senior Field Research Analyst
elisabeth.downs@cbre.com

E. Michelle Miller

Research Director – South Region
michelle.miller@cbre.com

CBRE EL PASO OFFICE

221 N. Kansas, Suite 2100
El Paso, TX 79936

© Copyright 2023. All rights reserved. This report has been prepared in good faith, based on CBRE’s current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE’s control. In addition, many of CBRE’s views are opinion and/or projections based on CBRE’s subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE’s current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE’s securities or of the performance of any other company’s securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE’s affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

