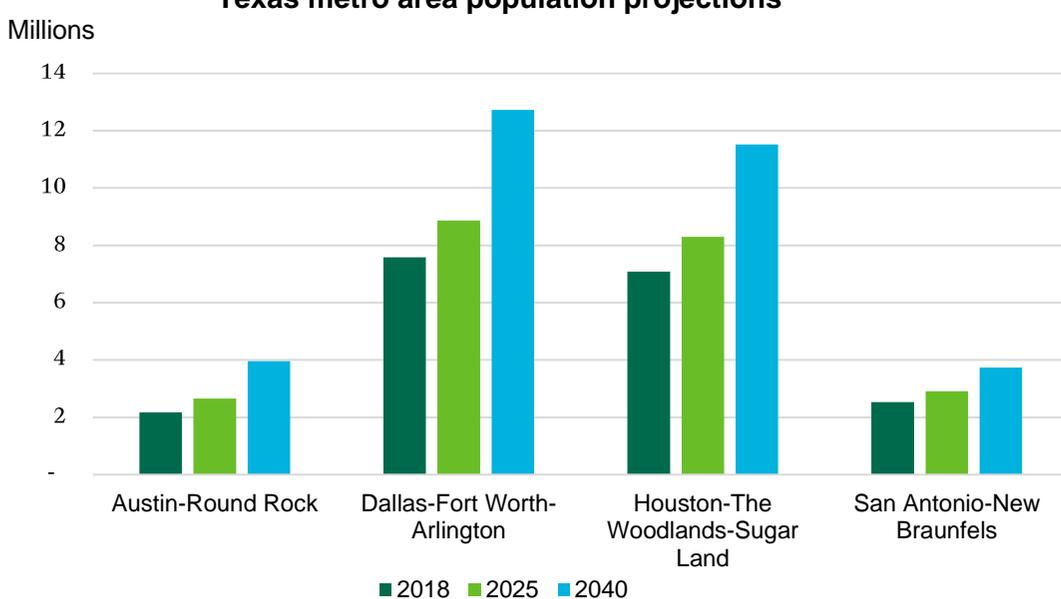


# Texas Triangle population growth driving industrial demand

- Texas continues to add more residents than any other state, growing by more than 379,000 new people last year, above Florida's 322,500 increase and California's 157,700 increase.
- Combined, the four large metros in Texas (Austin, DFW, Houston, and San Antonio), boast nearly 19.4 million residents, a number expected to grow by a whopping 65% and hit 32 million by 2040.
- The rise of e-commerce is fueling demand for warehouse and distribution centers, flex buildings, manufacturing properties, R&D facilities, and refrigeration/cold storage operations.
- Strong demographics will continue to drive industrial space demand in Texas.

Texas continues to add more residents than any other state- more than 379k during 2018- a trend that demographers say has been consistent since 2006. According to the most recent U.S. Census estimates, population in the Dallas-Fort Worth-Arlington MSA currently stands at 7.4 million, making it the largest metropolitan area in both Texas and the South, and the fourth-largest in the United States (closely behind Chicago). Combined, the four large metros in Texas (Austin, DFW, Houston, and San Antonio), have a population of 19.4 million residents, which is expected to grow by 65% by 2040.

Texas metro area population projections



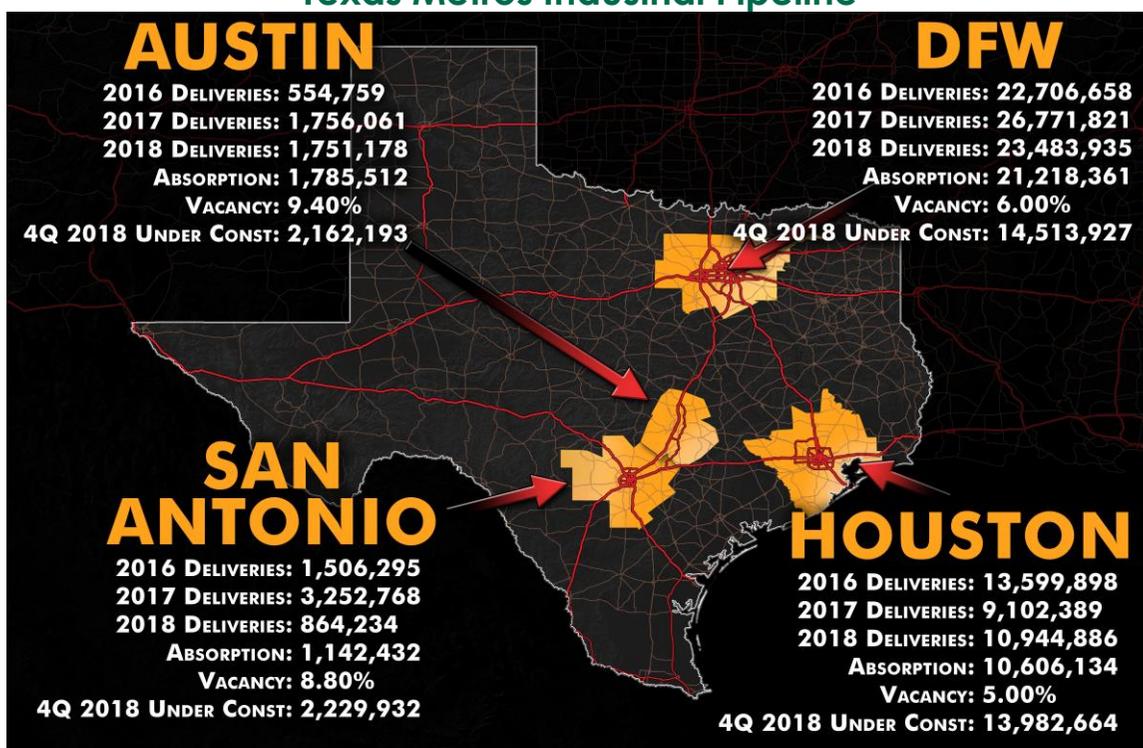
Sources: CBRE Research, Texas Demographic Center December 2018

## TEXAS: AN INTERNATIONAL POWERHOUSE

Texas leads the nation with 32 foreign trade zones, (geographical areas, in or next to a U.S. Port of Entry, where foreign and domestic commercial merchandise receives the same Customs treatment it would if it were outside the commerce of the U.S.) more than any other state, fueling demand for industrial space. Trade between Texas and Mexico surpassed \$187 billion in 2017, with some \$97.7 billion in exports and over \$89 billion in imports- goods that require warehouse and distribution space. Total Texas exports during 2017 amounted to a substantial \$264.5 billion, roughly 17% of the U.S. total.

Additionally, Texas offers a pro-business and favorable tax climate, making it a haven for companies that use all types of commercial real estate. Industrial occupiers take advantage of Freeport Exemptions in certain taxing jurisdictions, offering property tax relief on goods remaining in the state only 175 days. With few properties available to buy or lease, the industrial construction pipeline continues to grow, led by a notable rise in build-to-suit projects.

## Texas Metros Industrial Pipeline



Source: CBRE Research, Q4 2018

## SHORTER DELIVERY TIME EQUALS NEED FOR CLOSER FULFILLMENT CENTERS

The growing popularity of e-commerce is fueling demand for core market warehouse and distribution centers, flex buildings, manufacturing properties, R&D facilities, and even refrigeration/cold storage operations. When it comes to transporting and storing temperature-sensitive products, cold storage has become a crucial component of the supply chain. Proximity to population hubs, population growth, shifting consumer preferences and spending are the chief drivers for cold storage facilities. The frozen food industry is insulated from recessionary conditions, as the need for food and pharmaceutical products persists regardless of the economic cycle. Although economic conditions tend to dictate whether consumers eat out or cook their own food, it doesn't dramatically impact the demand for cold storage space either way, as the products still need go through the warehouses whether its destination is to a restaurant, grocery store or directly to the consumer.

Customer's increasing demands for rapid delivery is forcing e-commerce retailers to use fulfillment centers in proximity to consumers. In large cities, that means facilities must be in the heart of the urban core, often at older infill sites where land is scant and expensive. Those warehouses generate what is often referred to as "last-mile" or "last touch" deliveries. One of the greatest challenges online retailers grapple with is the higher barrier to supply of real estate options, innate to these urban core areas.

Despite the economic cycle's extended run, the market for industrial real estate shows few signs of decelerating, and land is acquired nearly as soon as it hits the market. Long term, the demand drivers for the industrial asset class are expected to remain favorable, with robust population growth and rising consumption driving e-commerce fulfillment.