

Dallas – Fort Worth office market report

Q1 2023

**AVISON
YOUNG**



Dallas – Fort Worth office market trends

16.9%

New office job peak

DFW's economic engine continues to be one of the most robust in the US due to its low cost of doing business, economic diversity, and pro-business attitude. While many markets, and the US overall, have only recently gotten back to their pre-pandemic job peaks, DFW's total job base has risen by 7.8% and hit a new job peak—with office jobs having risen by 16.9%, or 179,000 net new office jobs.

+6.2%

Negative absorption continues to rise, forcing vacancy higher

DFW's office job growth implies net absorption should have easily totaled 25+ msf over the last 3 years. The reality is that absorption continues to run negative — down a total of almost 8 msf since 2020. In comparison, from 2013–2019, DFW's annual average was close to +3 msf. This has forced vacancy up by 6.2 percentage points to 25.8%, the highest level since the late 1980's real estate recession.

Trophy assets, however, continue to outperform the market averages, seeing 250,000 sf of positive absorption in Q1.

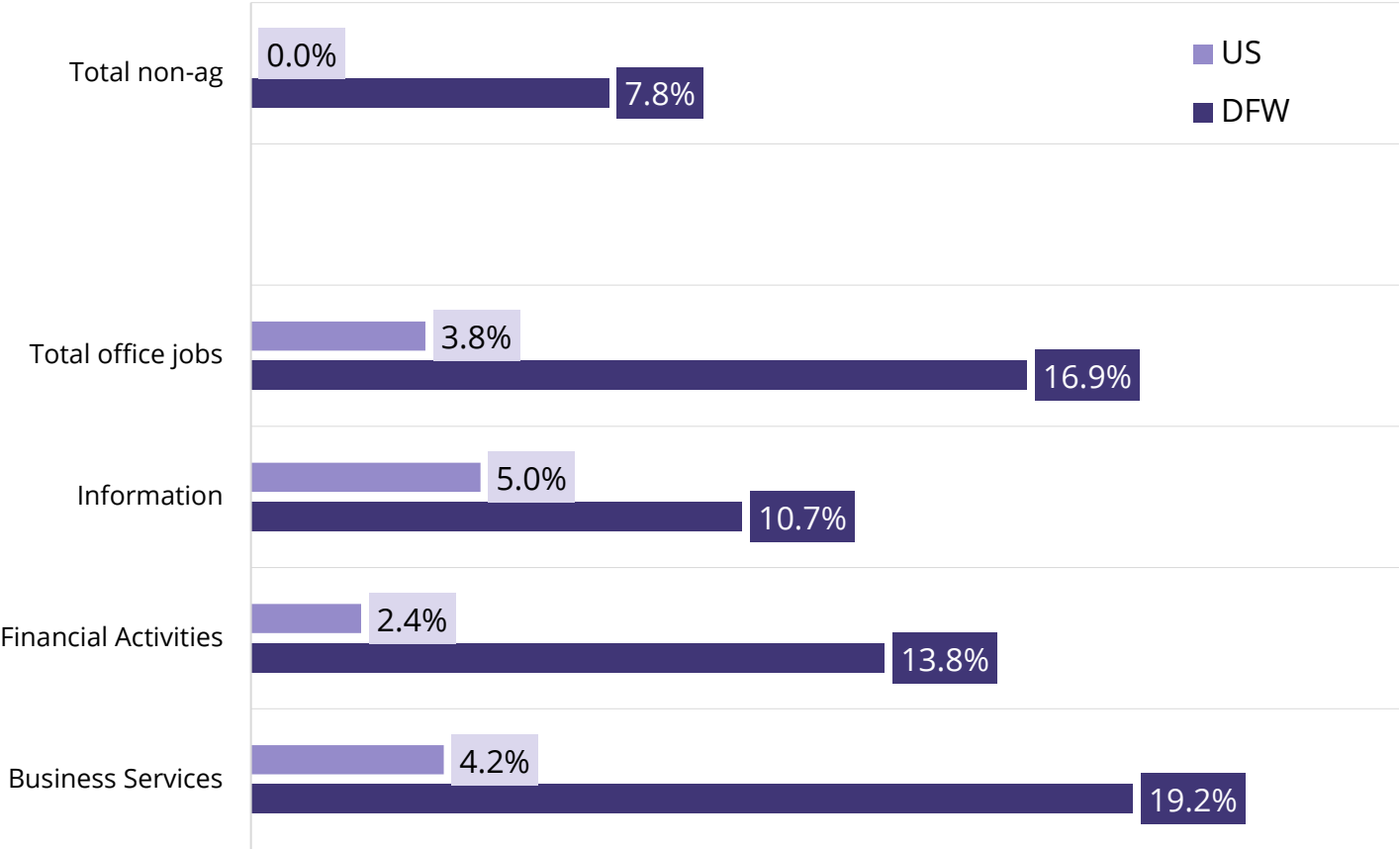
2.5 msf

Leasing activity anemic in Q1

Last year, overall office leasing kept a steady pace with some modest quarterly up & down shifts. On average, quarterly leasing came in at around 4 msf from 2006-2019. 2023 has started out very slow at 2.5 msf. While we expect activity to rebound during the coming quarters, the combination of slow leasing volume, extremely high availability of 69 msf, and significant negative absorption underscore that the market is still disrupted as tenants adjust their in-office versus hybrid strategies.

DFW – one of the strongest US markets for office job recovery

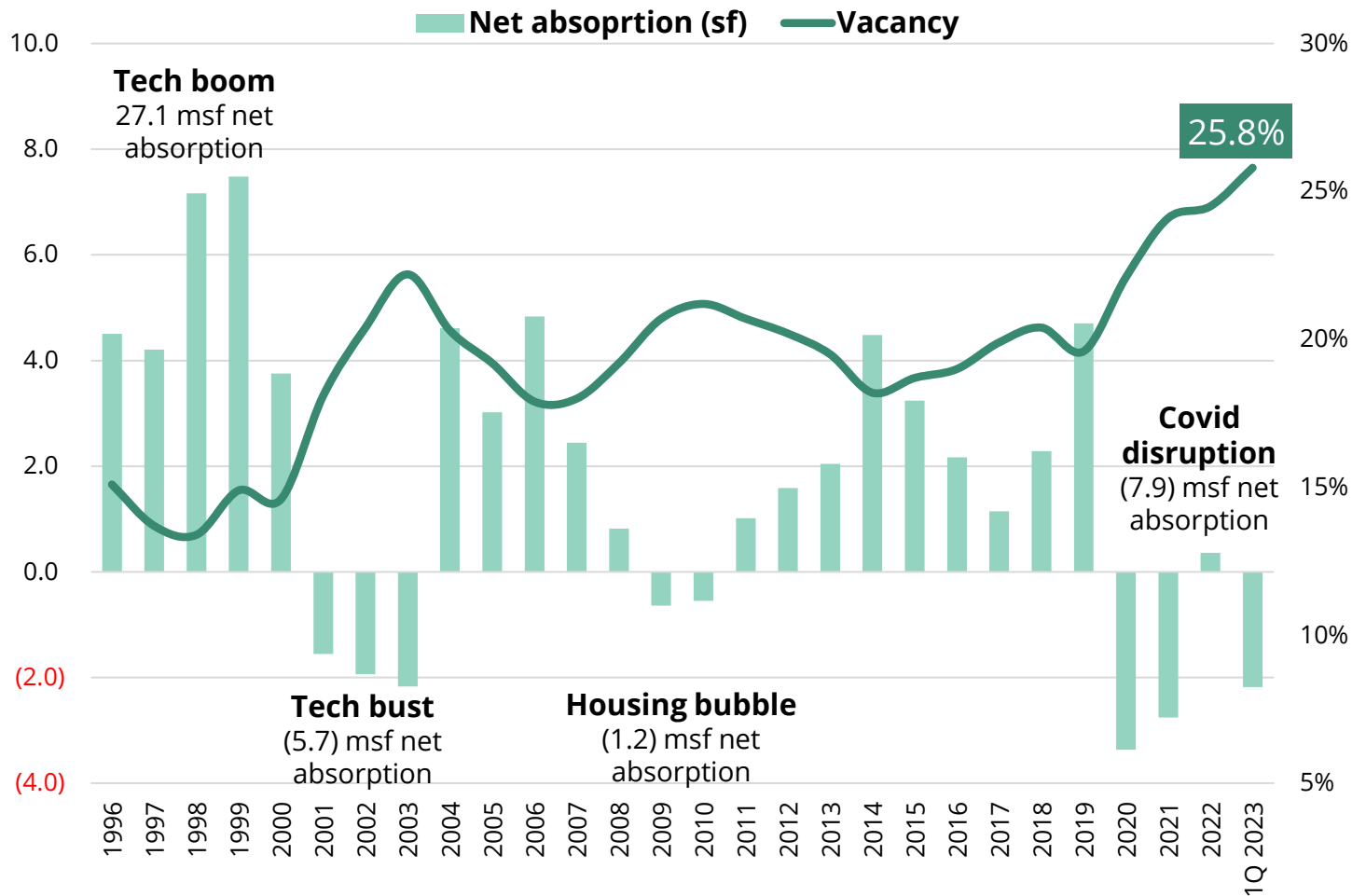
December 2019 to January 2023



DFW has strongly rebounded since the pandemic.

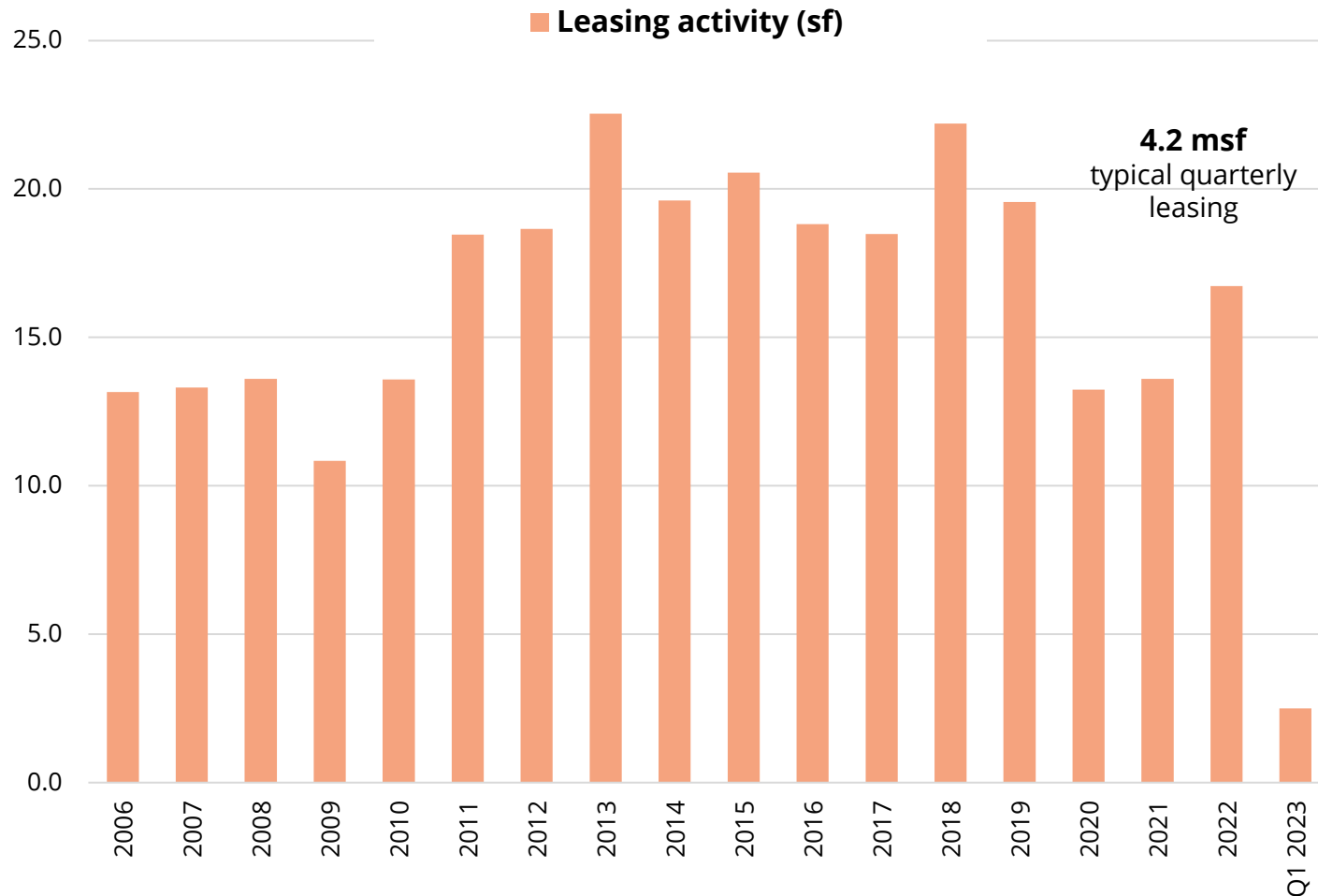
179,000 net new office jobs have been added, setting a new peak.

Long-term DFW demand illustrates current disruption in office sector



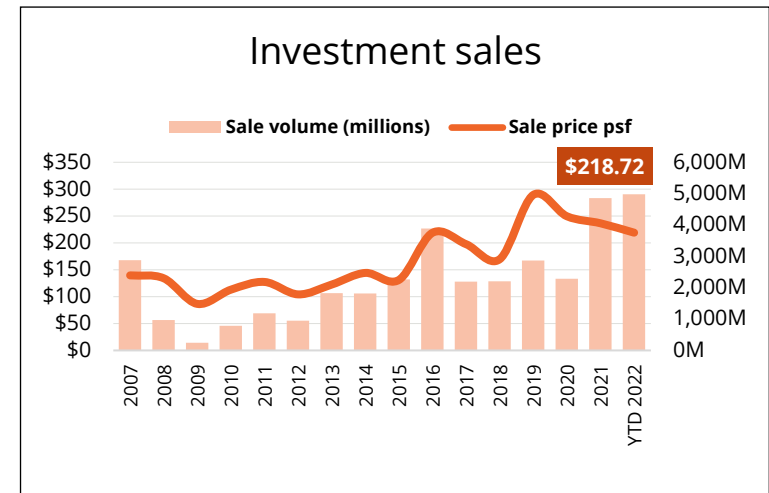
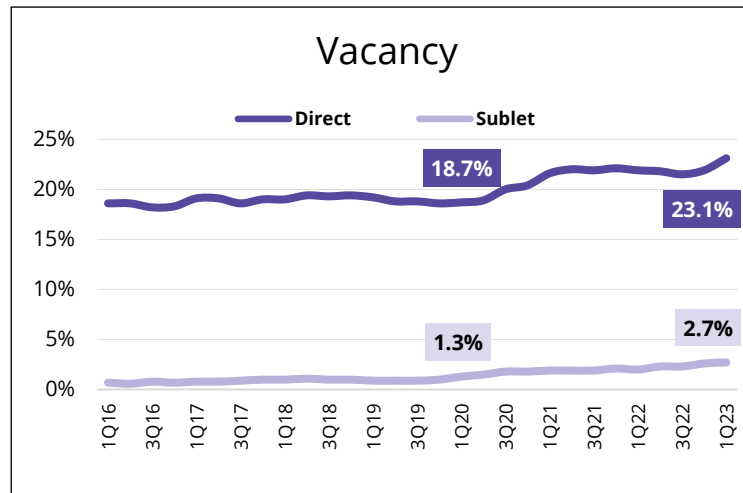
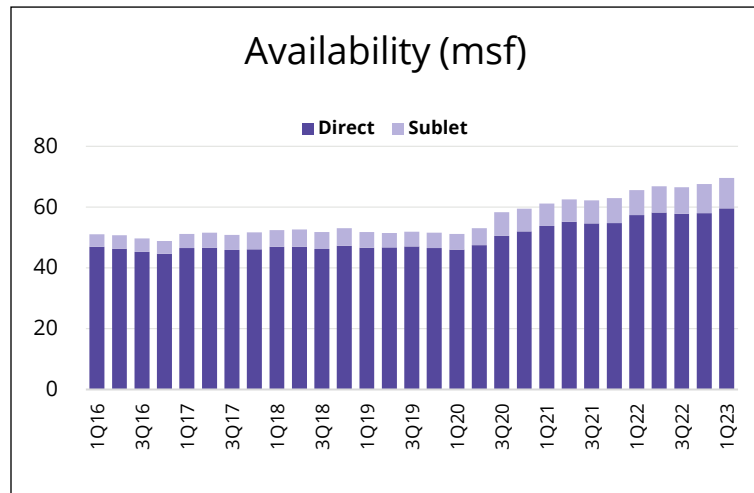
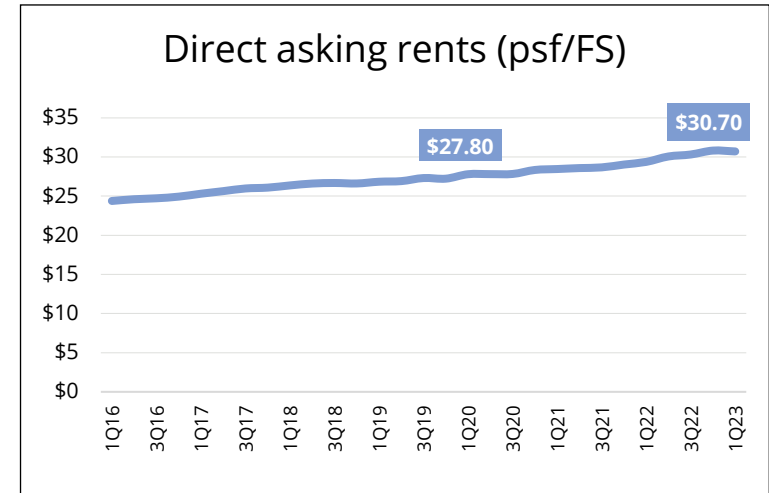
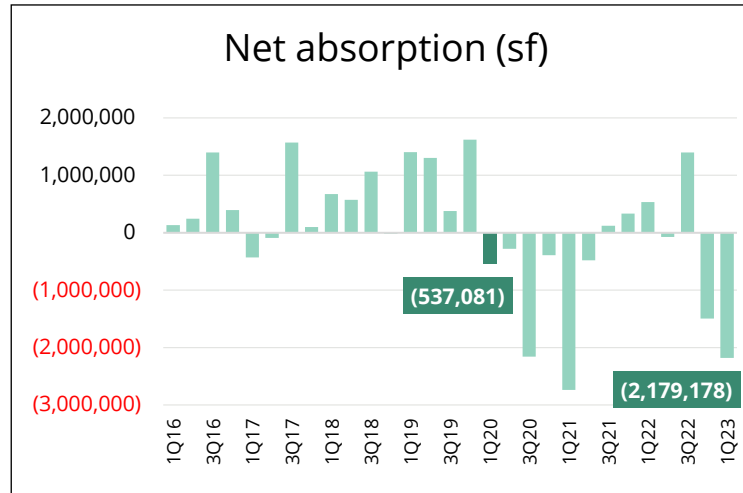
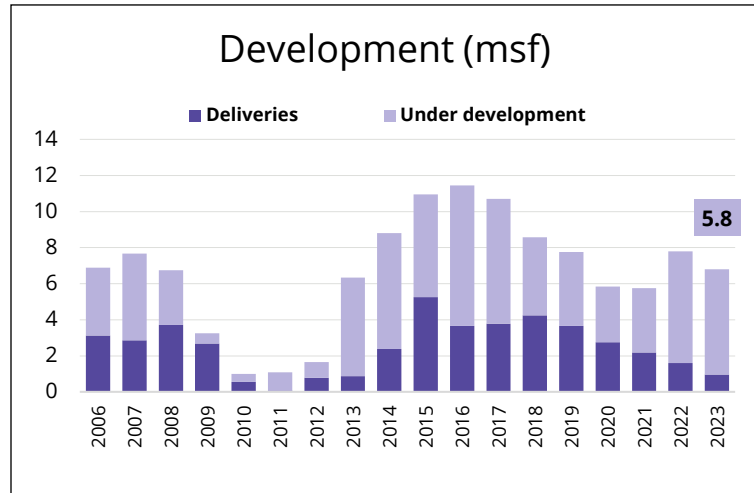
Despite DFW's strong job rebound, office demand continues to be disrupted, evidenced by ongoing negative absorption and rising vacancy

Q1 office leasing activity starting out at the lowest level since the late 2000s



While leasing can vary greatly by quarter, Q1 had the lowest activity in years, underscoring that tenants are still weighing in-office versus hybrid options

Dallas - Fort Worth office market indicators



Dallas – Fort Worth office market stats

Recent leasing activity

Tenant	Address	Sign date	Size (SF)	Transaction type	Lease type	Submarket
Guidestone Financial Resources	Lincoln Centre	Mar-23	113,600	Renewal	Direct	LBJ Freeway
Invitation Homes	Pinnacle Tower	Mar-23	51,000	New	Direct	LBJ Freeway
Kimley Horn	The Epic II	Mar-23	27,000	New	Sublease	Deep Ellum - Lakewood
Lerma Agency	The Luminary	Feb-23	28,000	Expansion	Direct	Upper Tollway - West Plano

Large contiguous space availabilities

Owner	Address	Date available	Block size	Floors	Asking rent	Landlord broker
NexPoint	5400 Legacy Dr	Vacant	1,587,000	1-8	\$29.00 NNN	JLL
Clarion Partners	One Victory Park	Oct-23	302,000	6-16	\$36.00 NNN	Cushman Wakefield
CenterSquare Investment	Lake Vista 7	Vacant	240,000	1-2	--	JLL
Morning Calm Management	Park Central 8	Vacant	241,000	3-8	\$19.00 NNN	Newmark
VanTrust	The Offices Three	Vacant	168,000	1 & 3-5	\$34.00 NNN	Cushman Wakefield Cresa

Top projects under development

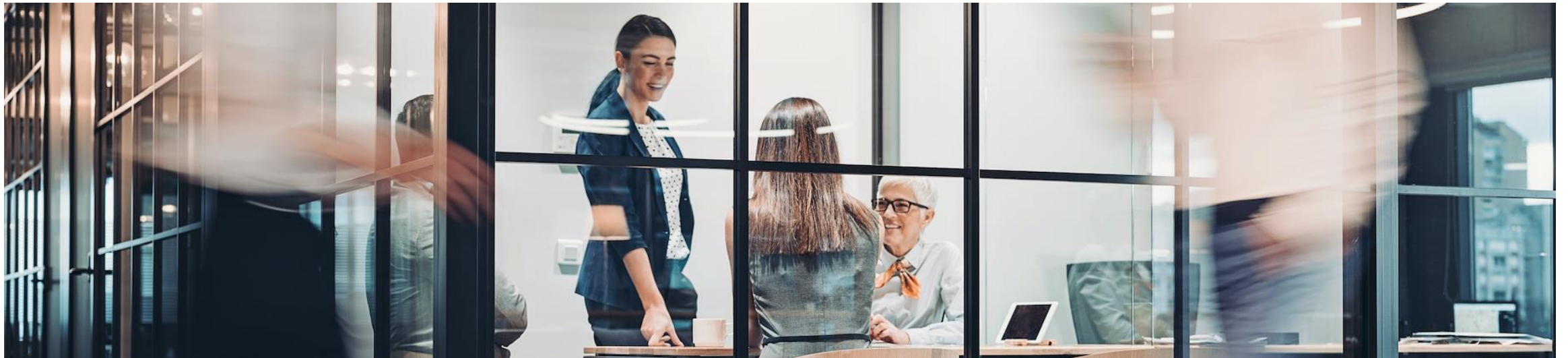
Property	Address	Delivery date	Building size (SF)	% leased	Developer	Submarket
23Springs	2323 Cedar Springs	2025	626,000	15%	Highwoods	Uptown
Granite Park Six	5525 Granite Pky	2023	422,000	12%	Granite	Upper Tollway - West Plano
The Tower at Hall Park	6605 Warren Pky	2023	387,000	0%	Hall Group	Frisco - The Colony
8111 Douglas	8111 Douglas Ave	2023	319,000	82%	Lincoln Property	Preston Center

Dallas - Fort Worth office market stats

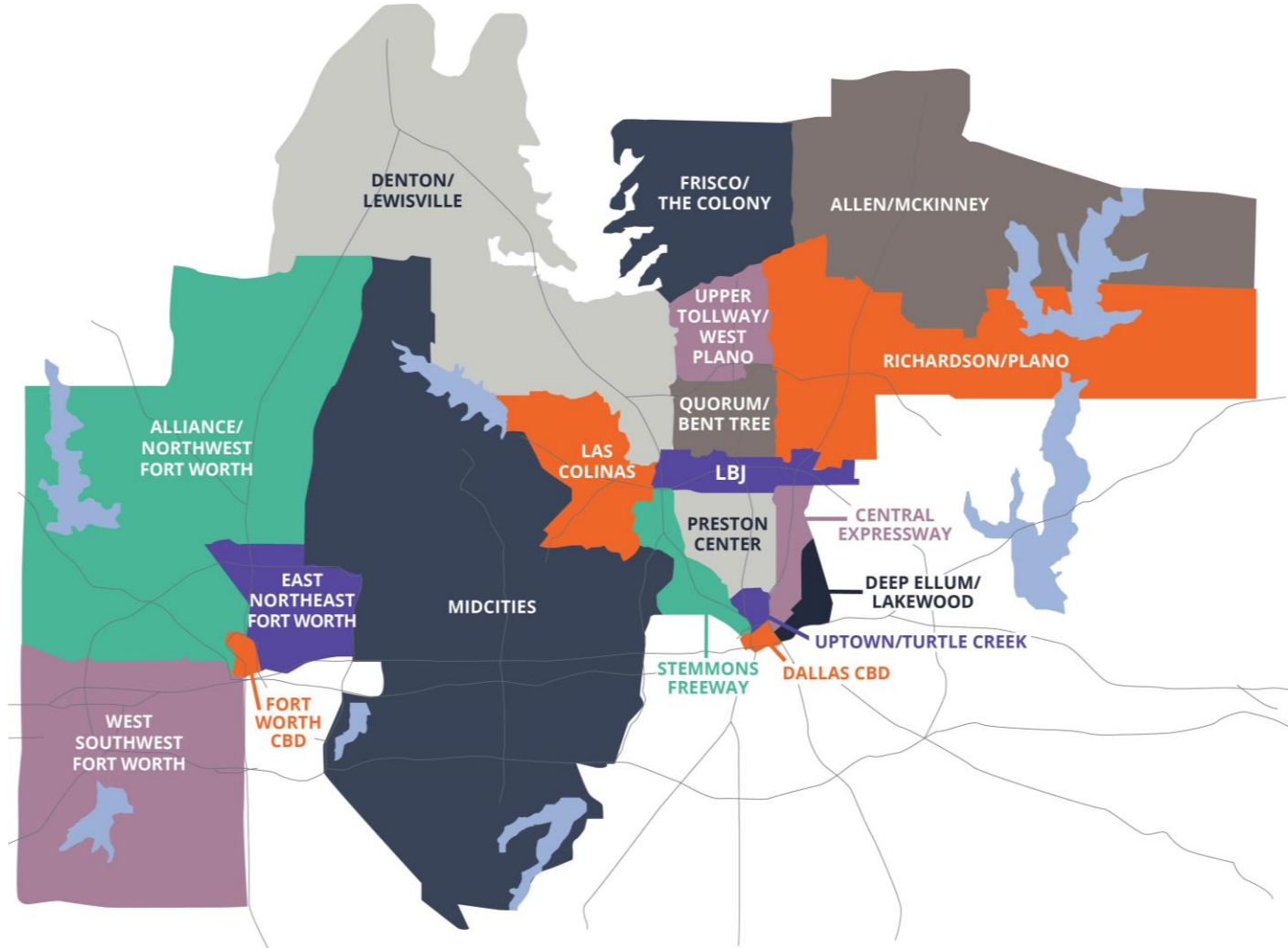
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (YTD)	Direct asking FS
Dallas CBD	27,100,598	0	0	30.7%	3.0%	33.7%	(446,470)	(446,470)	\$29.67
Allen - McKinney	3,818,209	0	71,060	17.7%	2.1%	19.8%	(61,074)	(61,074)	\$31.19
Central Expressway	8,354,225	0	0	19.9%	0.8%	20.7%	(56,852)	(56,852)	\$35.19
Deep Ellum - Lakewood	1,448,550	0	0	29.0%	27.4%	56.5%	(105,872)	(105,872)	\$38.06
Frisco - The Colony	5,538,226	299,970	736,839	18.2%	1.6%	19.8%	(132,662)	(132,662)	\$41.68
Las Colinas	34,846,566	206,000	300,000	21.9%	4.5%	26.4%	(181,730)	(181,730)	\$28.51
LBJ Freeway	19,046,496	0	0	24.8%	1.8%	26.6%	47,701	47,701	\$25.58
Preston Center	5,402,426	0	318,632	10.3%	1.0%	11.3%	(77,103)	(77,103)	\$44.21
Quorum - Bent Tree	20,460,305	0	38,266	21.8%	1.9%	23.7%	(403,687)	(403,687)	\$28.50
Richardson - Plano	20,247,717	179,766	0	20.8%	2.5%	23.2%	(143,642)	(143,642)	\$23.86
Stemmons Freeway	6,242,172	20,000	1,179,311	26.9%	1.2%	28.1%	(15,480)	(15,480)	\$27.16
Upper Tollway - West Plano	21,348,644	252,000	831,291	34.6%	3.4%	38.0%	(129,841)	(129,841)	\$36.86
Uptown	14,224,396	0	1,753,437	18.8%	1.4%	20.2%	(320,656)	(320,656)	\$47.84
Fort Worth CBD	8,200,114	0	0	16.2%	1.5%	17.7%	212,177	212,177	\$28.12
Alliance - NW Fort Worth	1,337,934	0	135,000	14.7%	3.8%	18.5%	(48,917)	(48,917)	\$29.27
East NE Fort Worth	2,970,168	0	0	9.9%	1.9%	11.8%	(18,155)	(18,155)	\$19.69
Lewisville - Denton	3,912,764	0	278,064	19.5%	5.6%	25.1%	(94,541)	(94,541)	\$25.36
MidCities	13,967,904	0	205,024	20.2%	2.7%	22.9%	(174,376)	(174,376)	\$25.81
West SW Fort Worth	6,743,444	0	0	17.3%	0.3%	17.6%	(27,998)	(27,998)	\$26.99
Market total	225,210,858	957,736	5,846,924	23.1%	2.7%	25.8%	(2,179,178)	(2,179,178)	\$30.70

Dallas – Fort Worth office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (YTD)	Direct asking FS
Trophy	12,372,051	299,970	986,129	19.9%	3.3%	23.2%	254,304	254,304	\$46.29
Class A	128,667,275	607,766	4,443,235	24.4%	3.3%	27.7%	(1,750,051)	(1,750,051)	\$34.37
Class B	84,171,532	50,000	417,560	21.5%	1.7%	23.3%	(683,431)	(683,431)	\$23.35
Market total	225,210,858	957,736	5,846,924	23.1%	2.7%	25.8%	(2,179,178)	(2,179,178)	\$30.70



Dallas - Fort Worth submarket map



Office development pipeline

26 properties

under construction

5.8 msf

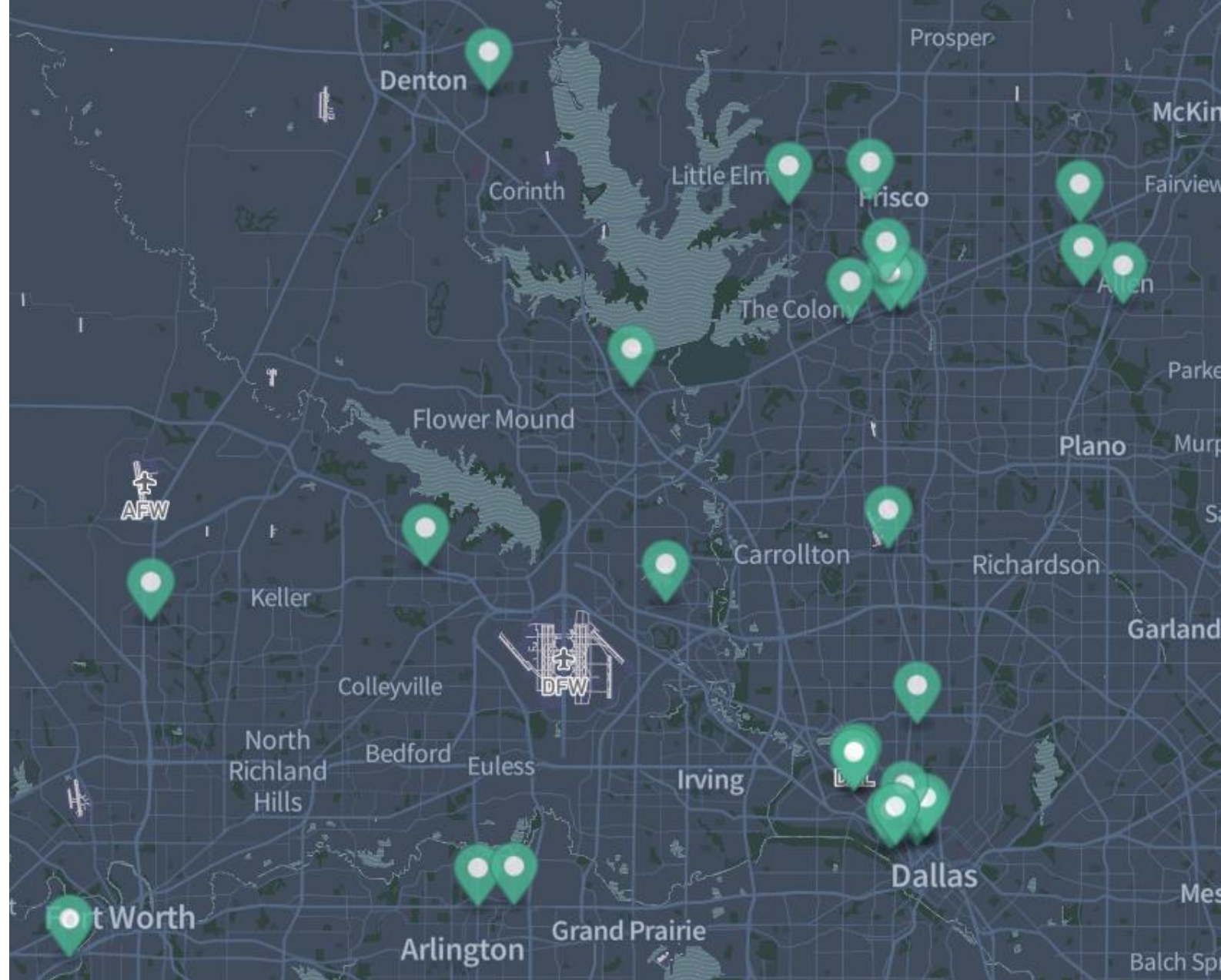
under construction

2.6%

share of office inventory

4.2 msf | 28%

share leased



Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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