



Dallas-Fort Worth office market report

Q3 2023

**AVISON
YOUNG**

Dallas – Fort Worth office market trends

-1.6 msf

Absorption declines slowed dramatically in 2nd and 3rd quarters

Office employment has expanded significantly in DFW. In the last year, office jobs were up 46,000, or 3.8%, with gains of almost 220,000 since the end of the pandemic. Despite this exceedingly strong demand driver, absorption continues to run negative as the sector adapts to hybrid and remote work. Although quarterly negative absorption has dropped in Q2 and Q3 to under 150,000 sf, DFW has registered 6.3 msf of negative absorption since 2020.

This exceeds what was experienced in the acutely felt dot-com bust during 2000-2003. At the same time, office vacancy has now risen to 25.5%, compared to a peak of around 22% during that tech downturn.

72.1 msf

Space availability continues to rise for direct and sublet space

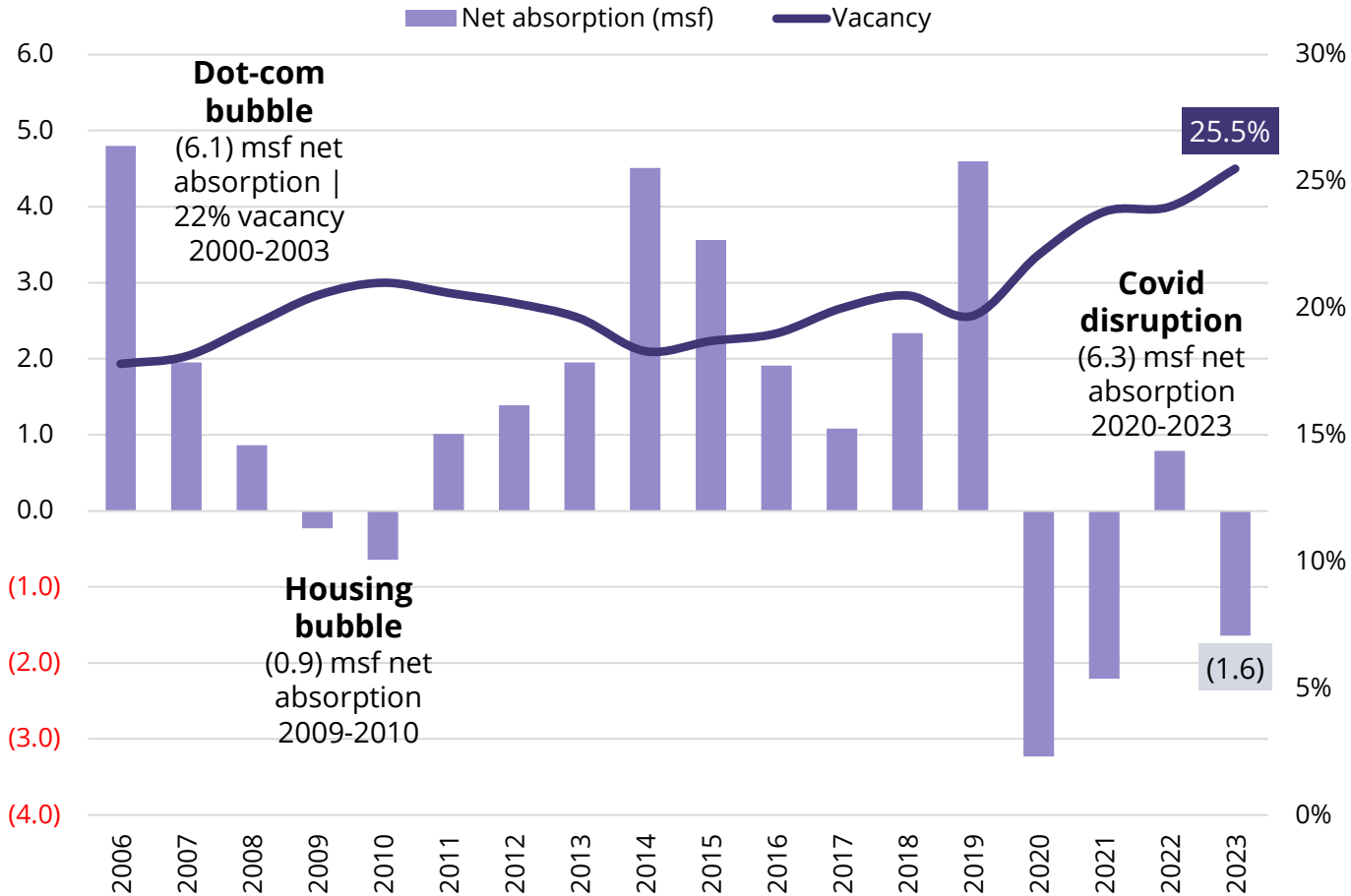
Even with strong office job gains, available direct and sublet space continues to rise as tenants look for the right combination to attract employees back to the office. For DFW, total availability is now 30.6% and 72 msf. This is almost 5 msf above year-end 2022 and 48% above the market's long-term average. It is also well ahead of the 51 msf recorded during the Great Recession in 2009. The lion's share of the availability is direct space, with sublet coming in at just over 10 msf.

9.1 msf

Office leasing activity is positive, but sluggish

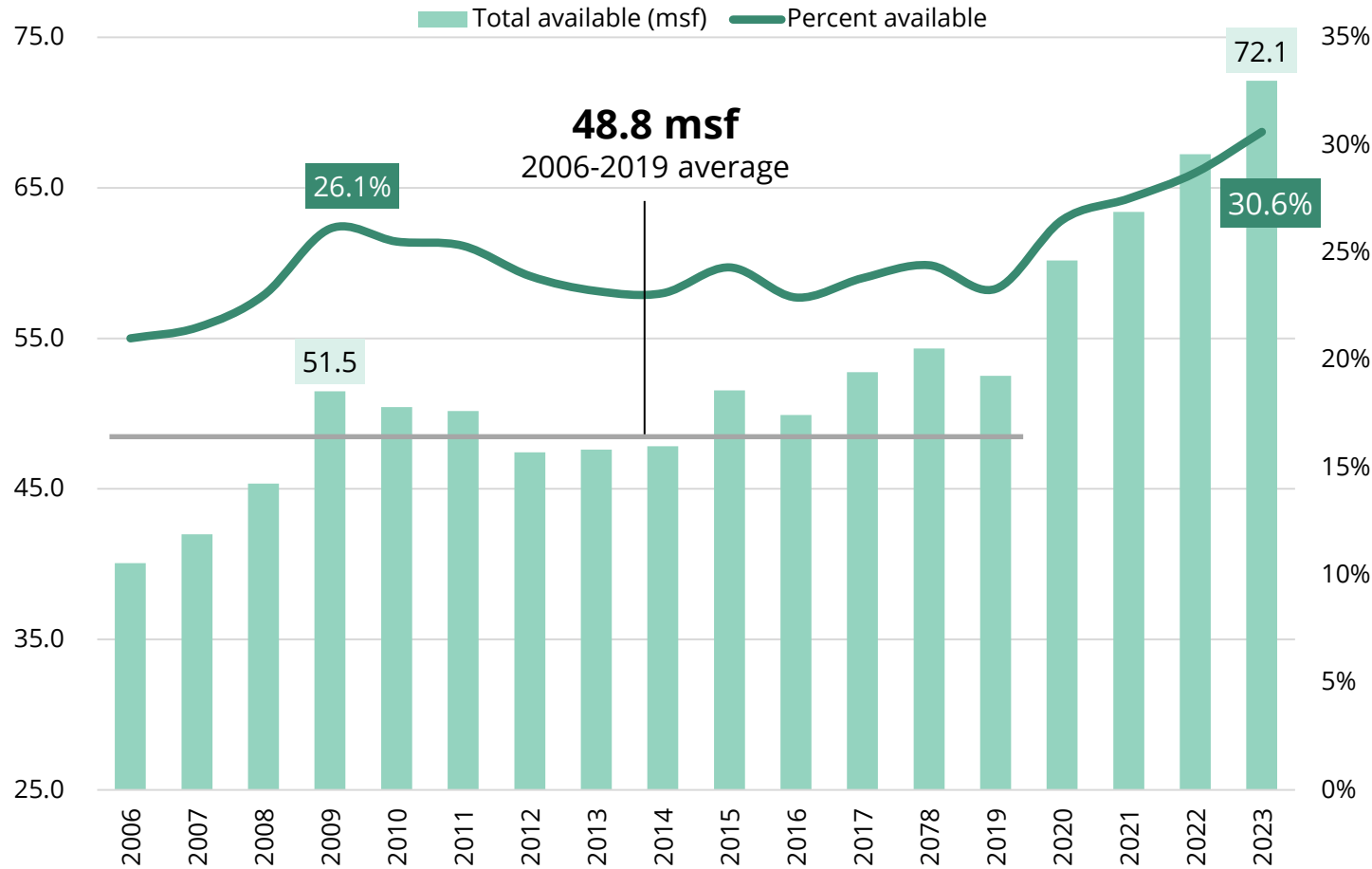
While many in CRE debate how slow markets are these days, DFW's office leasing activity is positive and is not at record lows. Through the 3rd quarter, total office leasing came in at 9.1 msf. While off our 4.4 msf quarterly average, this annualized pace should come in around 12 msf, which is not far off other slower periods in DFW, such as 2006-2010. The unique challenge at this point in the cycle is that our current leasing velocity has been unable to keep up with the record direct and sublease space additions continuing to hit the market.

Current DFW office demand disruption now exceeds the protracted dot-com collapse



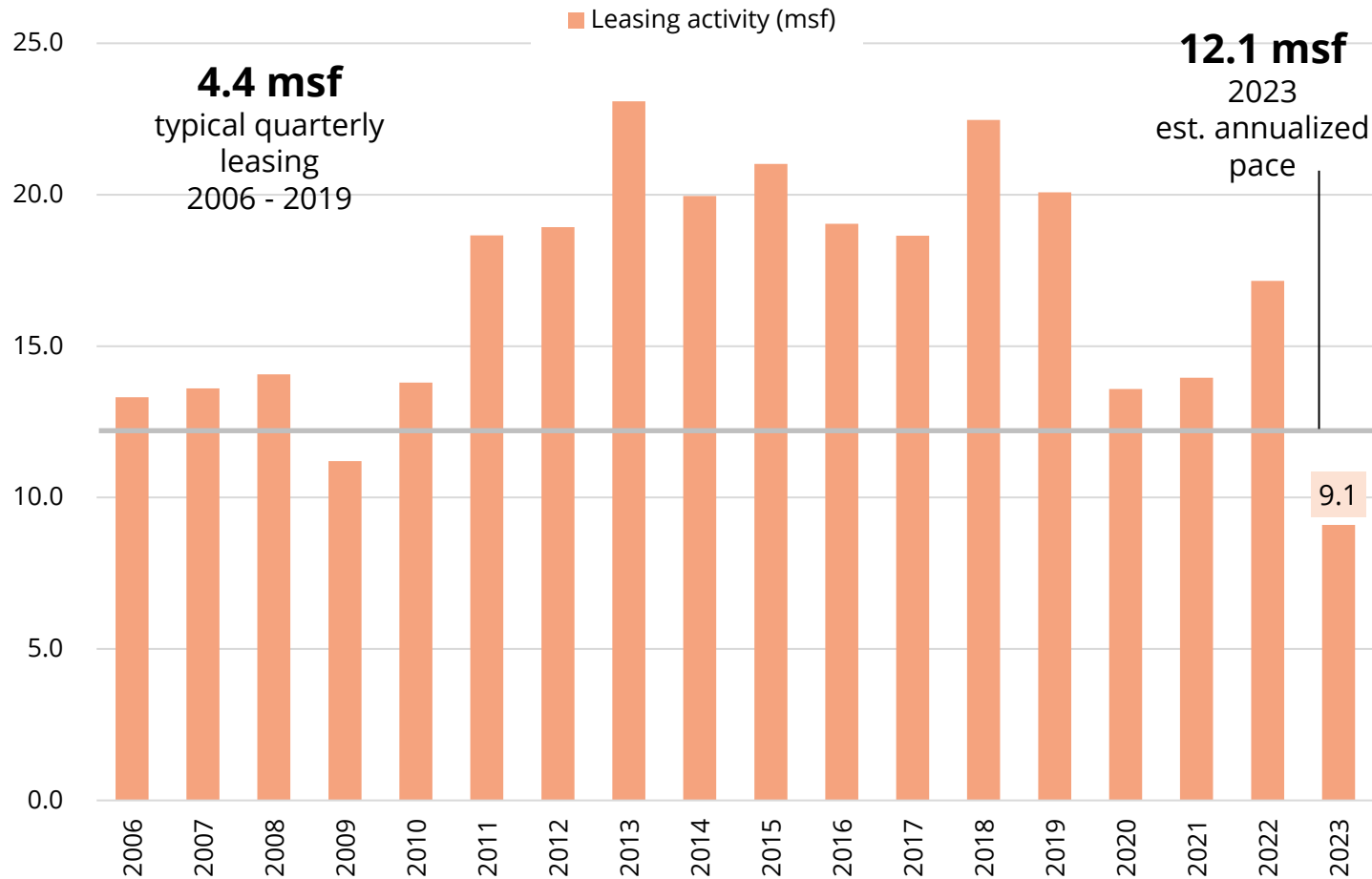
DFW office demand was predictable over the last economic cycles. The current disruption, however, now exceeds the acute dot-com downturn.

Space availability continues to mount driven by direct and sublet increases



While record office jobs have been created, available space has increased to +70 msf, 40% above the peak during the housing bubble. Sublet's share has increased to 10.1 msf.

Office leasing not sufficiently robust to keep up with increasing availability

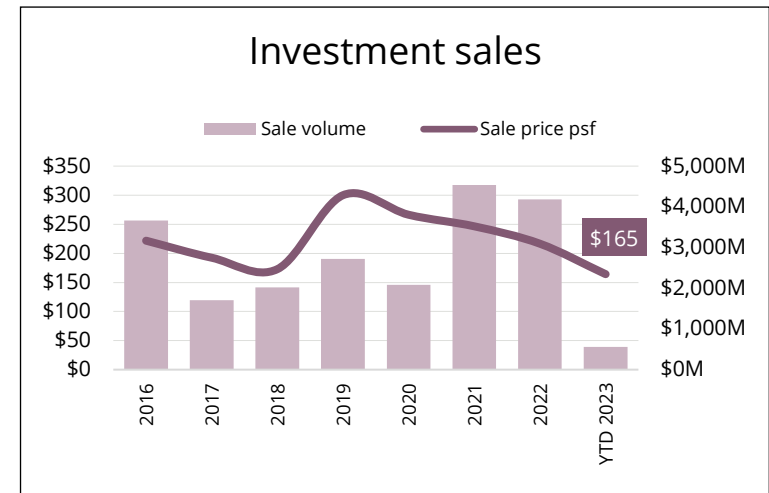
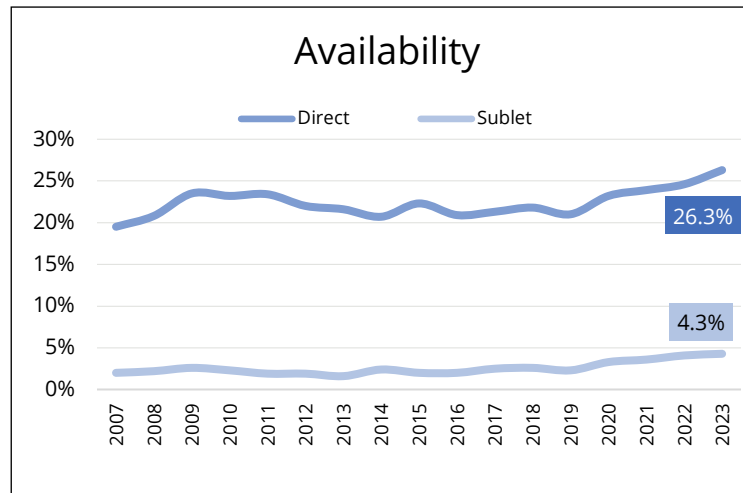
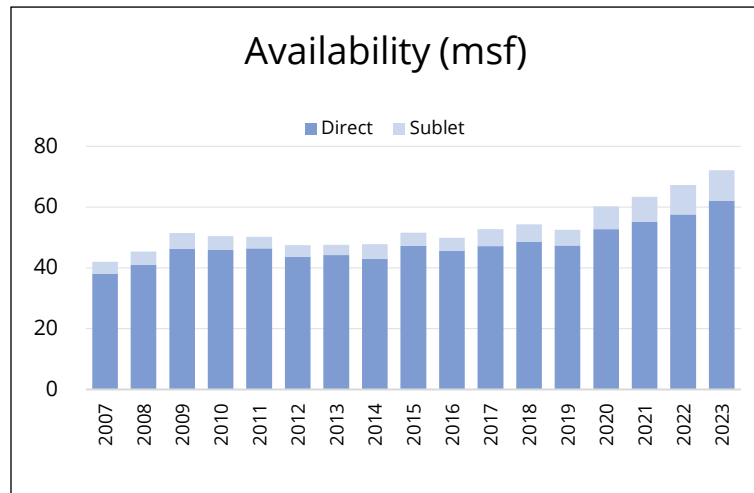
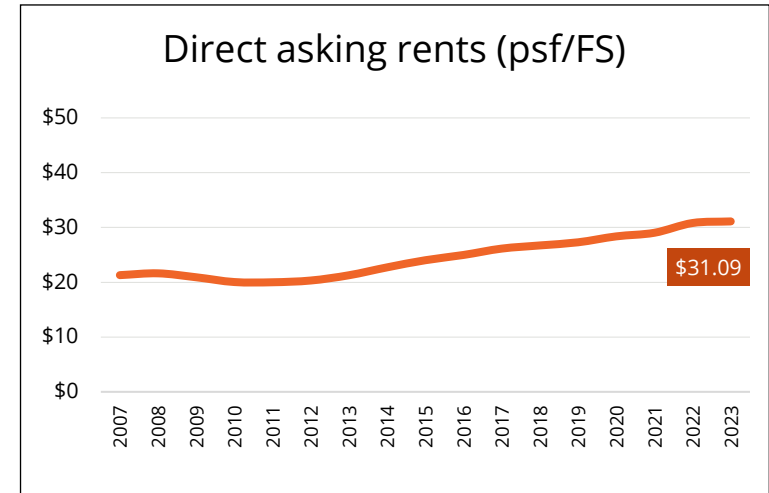
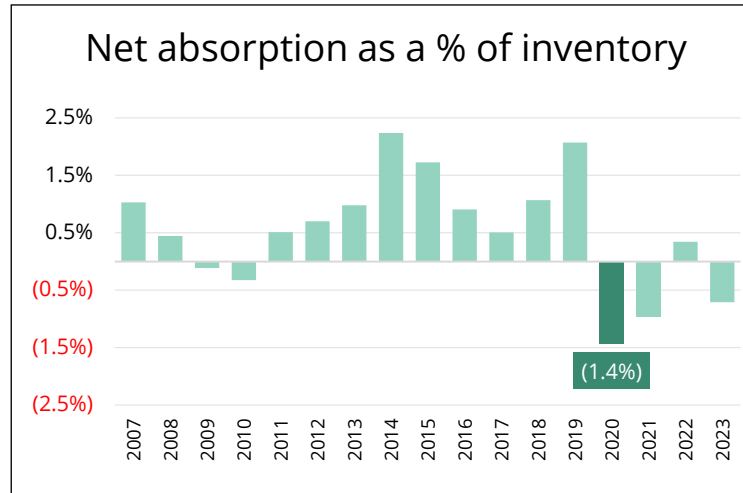
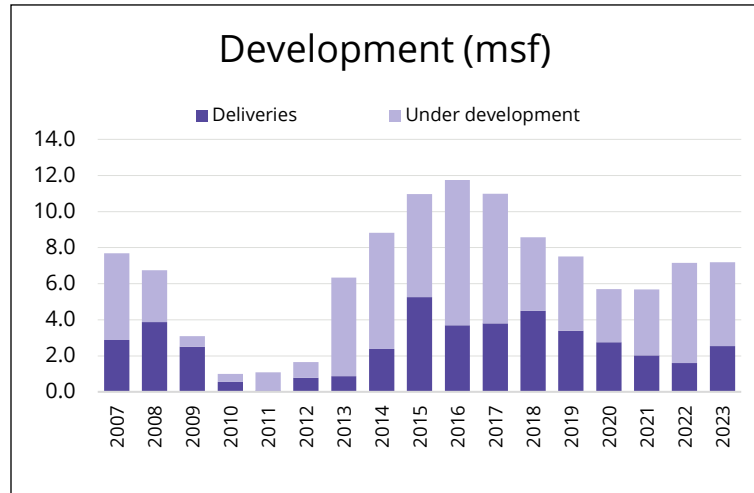


While 2023 leasing has been sluggish, it is not far off the pace of other DFW down cycles. The issue now is that availability continues to increase dramatically.

Appendix



Dallas - Fort Worth office market indicators



Dallas – Fort Worth office market activity

Recent leasing activity

Tenant	Address	Sign date	Size (SF)	Transaction type	Lease type	Submarket
Bank of America	Parkside Uptown	Sep-23	238,000	New	Direct	Uptown
Nucor	Lake Vista Two	Aug-23	61,700	New	Direct	Lewisville-Denton
Chubb	One Lincoln Center	Aug-23	55,000	New	Direct	LBJ Freeway

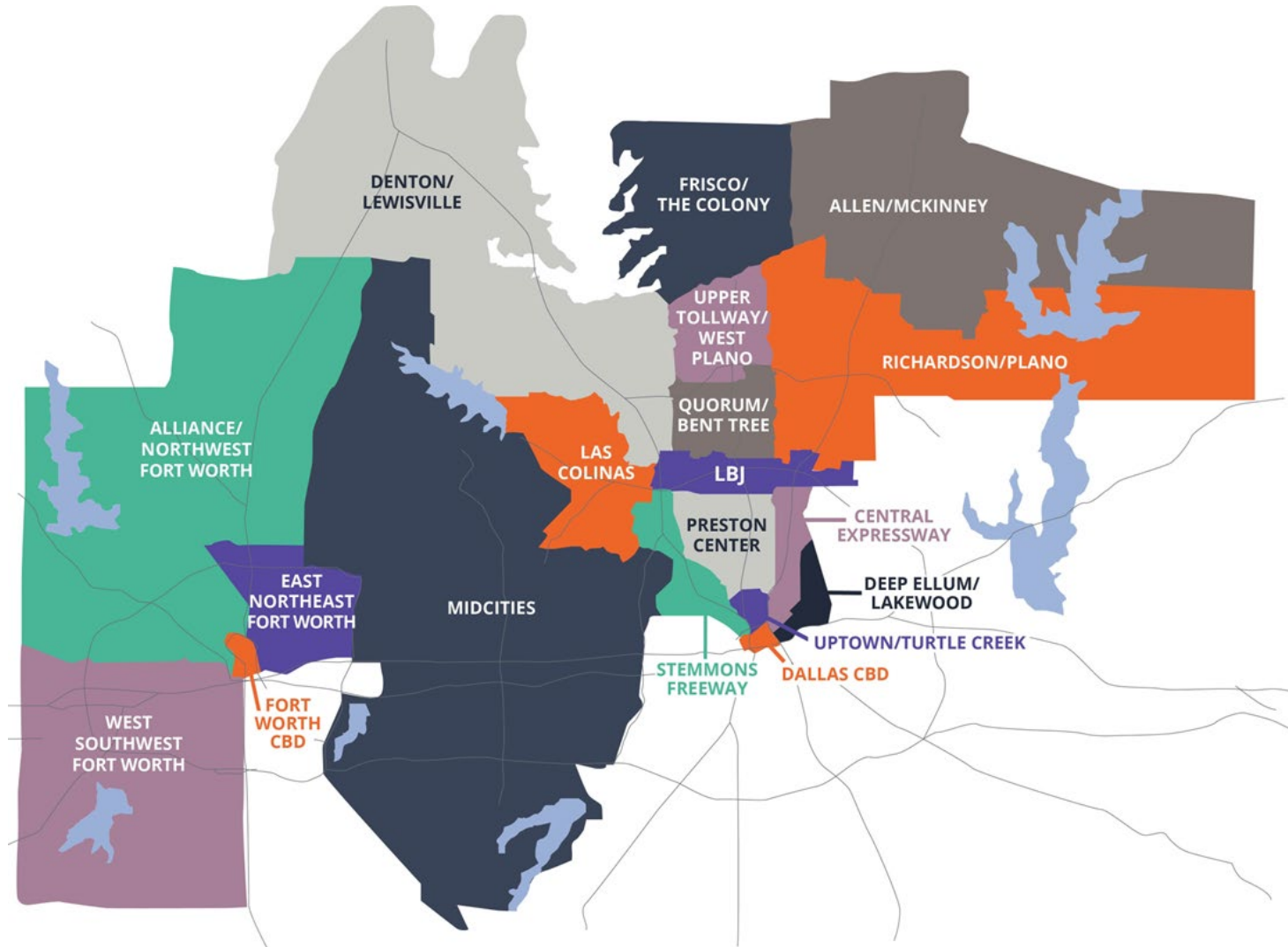
Recent sales activity

Buyer	Property Address	Sale date	Building size (SF)	Sale price (millions)	Sale price psf	Seller
Slingshot	Landmark Center	Aug-23	134,000	\$8.4	\$63	Spear Street Capital
Winhall Management Company	Gramercy Center - North South	Sep-23	256,000	--	--	ATCAP Partners
Wolfspeed	Lone Star Building	Jun-23	136,000	\$19.3	\$142	Qorvo

Top projects under development

Property	Address	Delivery date	Building size (SF)	% leased	Developer	Submarket
23Springs	2323 Cedar Springs	2025	626,000	12%	Highwoods	Uptown
Auspire at the Gate II	NWC John Hickman Pky	2025	200,000	--	Ryan Companies	Frisco - The Colony
Harwood 12	2601 Field St	2025	542,000	0%	Harwood International	Uptown

Dallas - Fort Worth submarket map

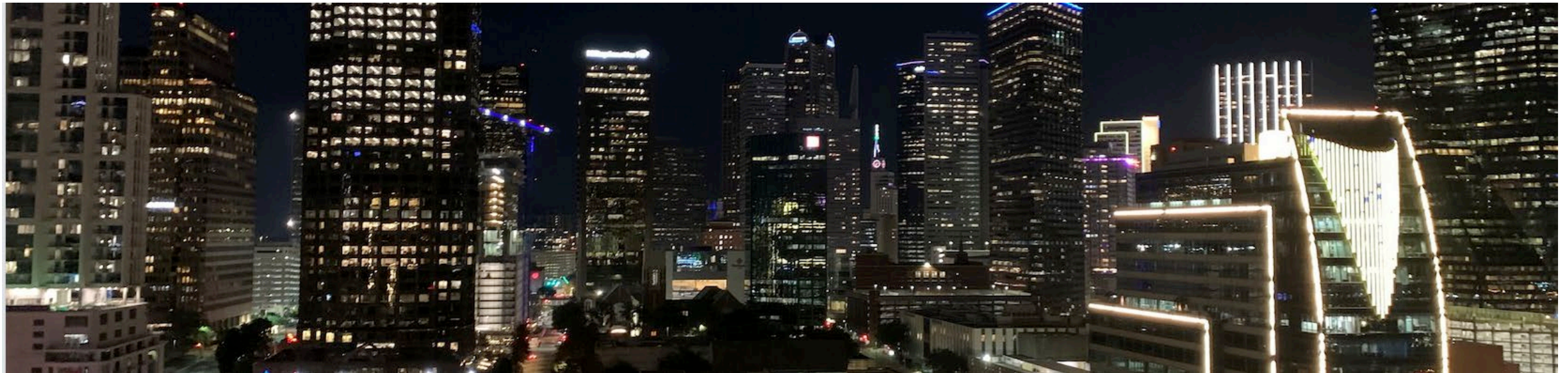


Dallas – Fort Worth office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Total availability change (YoY)	Net absorption % of inventory (3Q23)	Net absorption % of inventory (YTD)	Direct asking rent psf FS
Dallas CBD	27,264,898	0	0	33.7%	4.4%	38.1%	1.1%	(0.9%)	(2.8%)	\$29.86
Allen - McKinney	3,917,512	46,500	159,313	26.0%	3.0%	29.0%	0.7%	(2.5%)	(3.1%)	\$31.76
Central Expressway	9,935,839	0	0	25.4%	1.5%	26.9%	1.9%	0.2%	(1.1%)	\$35.99
Deep Ellum - Lakewood	1,517,377	0	0	30.0%	23.1%	53.1%	10.5%	0.9%	(7.7%)	\$35.57
Frisco - The Colony	5,547,784	299,970	972,839	23.6%	7.1%	30.7%	2.8%	(1.0%)	2.2%	\$40.99
Las Colinas	36,017,092	506,000	56,269	26.9%	5.8%	32.7%	1.5%	(0.4%)	(0.4%)	\$28.51
LBJ Freeway	19,362,395	0	0	23.7%	3.6%	27.3%	1.4%	(0.4%)	0.1%	\$26.69
Preston Center	5,468,580	318,632	0	12.7%	2.3%	15.0%	(2.8%)	2.5%	1.9%	\$44.27
Quorum - Bent Tree	20,461,818	0	40,000	24.0%	3.2%	27.2%	2.7%	(0.2%)	(1.5%)	\$28.61
Richardson - Plano	21,075,908	179,766	0	24.1%	5.1%	29.2%	2.4%	1.1%	(0.3%)	\$23.81
Stemmons Freeway	6,100,767	20,000	272,743	24.1%	1.3%	25.4%	(2.1%)	2.1%	2.6%	\$27.57
Upper Tollway - West Plano	22,171,703	664,109	763,573	36.0%	6.6%	42.6%	7.8%	(0.7%)	(1.4%)	\$37.33
Uptown	14,632,799	359,914	1,939,163	30.5%	2.4%	32.9%	4.6%	1.3%	0.5%	\$49.98
Fort Worth CBD	8,030,011	0	0	14.1%	1.2%	15.3%	(5.3%)	0.8%	5.3%	\$29.25
Alliance - NW Fort Worth	1,337,933	0	165,000	20.2%	9.9%	30.1%	(2.3%)	3.4%	(1.7%)	\$26.99
East NE Fort Worth	3,016,960	0	0	11.7%	0.0%	11.7%	0.1%	(0.1%)	(0.6%)	\$19.27
Lewisville - Denton	4,039,965	0	147,000	25.3%	9.1%	34.4%	6.0%	(1.3%)	(4.8%)	\$25.46
MidCities	14,316,148	143,524	132,919	24.6%	3.5%	28.1%	0.9%	(0.5%)	(2.4%)	\$26.09
West SW Fort Worth	6,736,078	0	0	14.8%	0.5%	15.3%	(1.1%)	0.4%	(0.7%)	\$27.53
Market total	230,951,567	2,538,415	4,648,819	26.3%	4.3%	30.6%	2.1%	(0.1%)	(0.7%)	\$31.09

Dallas – Fort Worth office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Total availability change (YoY)	Net absorption % of inventory (3Q23)	Net absorption % of inventory (YTD)	Direct asking rent psf FS
Trophy	12,736,895	659,885	626,215	25.8%	4.4%	30.2%	0.8%	0.3%	3.0%	\$46.99
Class A	133,347,961	1,828,530	3,951,185	28.3%	5.1%	33.4%	2.8%	0.1%	(0.6%)	\$33.86
Class B	84,866,711	50,000	71,419	23.2%	3.0%	26.2%	0.7%	(0.3%)	(0.9%)	\$23.65
Market total	230,951,567	2,538,415	4,648,819	26.3%	4.3%	30.6%	2.1%	(0.1%)	(0.7%)	\$31.09



Office development pipeline

30 properties

under construction

4.6 msf

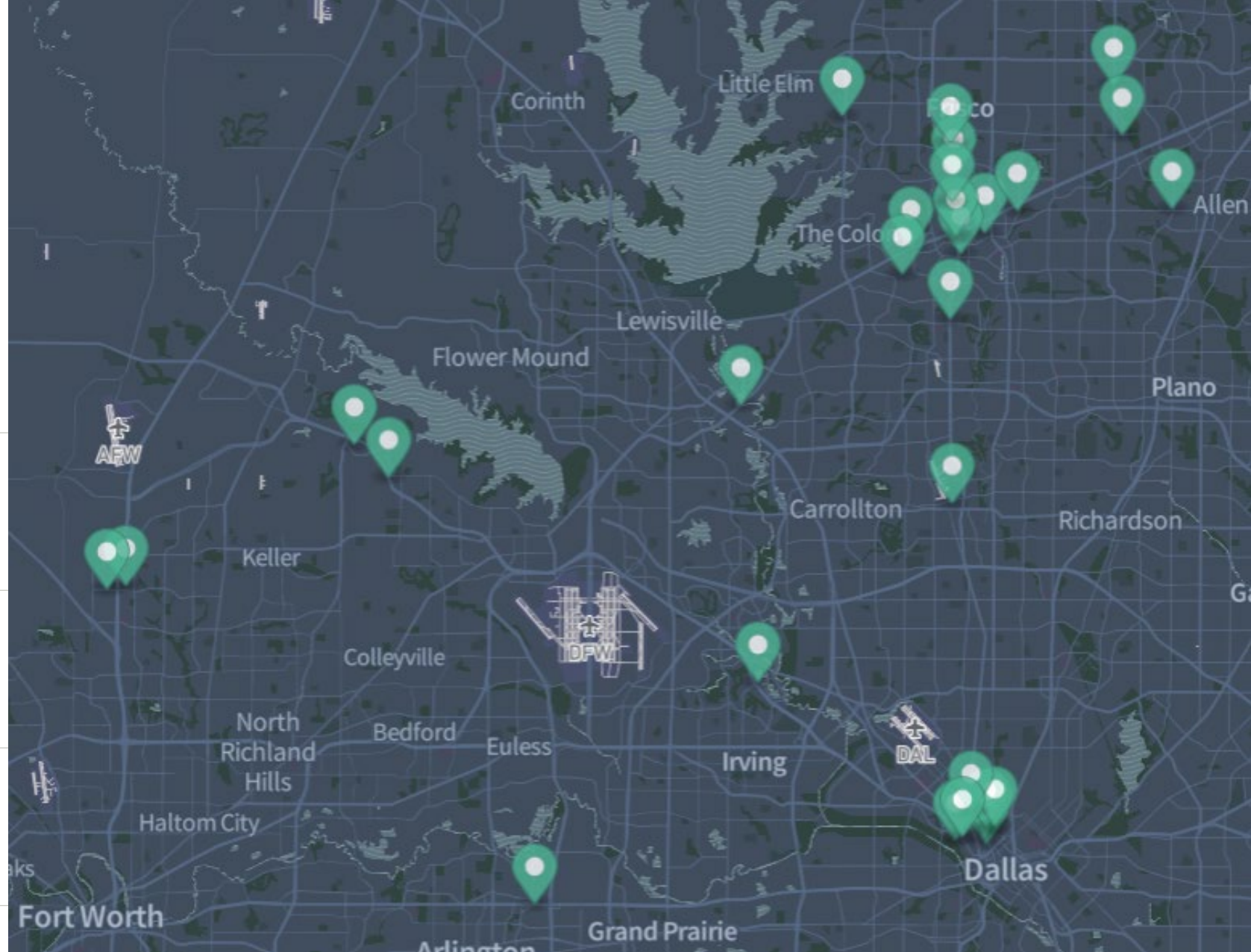
under construction

2.0%

share of office inventory

954,000 sf | 20.5%

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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