



**AVISON  
YOUNG**

# Dallas-Fort Worth Office Insight Report

Q2 2021

**AVANT**  
by AVISON YOUNG

# Key takeaways



## Office demand

- Though **Net Absorption remained negative** for the quarter and the rolling 12-month period, DFW has seen an increase in demand as companies from outside of the state searching for a **business-friendly environment**.
- DFW has attracted over **50 companies** from outside of the state leading to **7,400 new jobs** since Q1 2020.
- The “flight to quality” trend persists, with the Class A and Trophy segment accounting for **88.3 percent** share of post-COVID leasing activity.



## Recovery rate

- The overall post-COVID rate of recovery based on extrapolated cell phone data is **56.6 percent**.
- Dallas-Fort Worth office occupiers have navigated their return-to-work strategies differently, with **banking and media firms** returning more quickly than tech and law firms.



## Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Dallas-Fort Worth unemployment rate to rebound from a high of 12.5 percent to **5.7 percent**.
- Office-using job losses have totaled **4.7 percent** compared with 11.8 percent for other industries’ job losses, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.

# Key takeaways



## Office supply

- Direct and sublease vacancy have reached nearly all-time highs, bringing the vacancy rate to **19.7 percent**.
- The sublease market continues to drag aggregate fundamentals, accounting for a record **5 msf** of vacant space, and **9.1 msf** of total available space. However, momentum in new sublease supply has stalled, with only 100,000 sf of total available space being added since the start of the year.



## Pricing trends

- **Rents still continued to rise** through the pandemic and resulting recession- a diverging result from previous recessions which saw periods of decline in rents.
- Demand is starting to increase as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market. Landlords seem ready to work with occupiers to get people back into buildings. **Net effective rents and concessions have recently trended downward and upward, respectively.**



## Capital markets

- The market has entered a risk-pricing crisis despite continued record levels of dry powder. As a result, just **\$2.8B** of Dallas-Fort Worth offices have been sold in the last 12 months, an annualized decrease of **46.6 percent** compared with the past five-year average.
- Cap rates have stabilized at **6.9 percent**.
- Asset pricing has declined by **32.2 percent** from 2020 to present, though has demonstrated signs of stabilizing.

# 01.

## Office occupier conditions

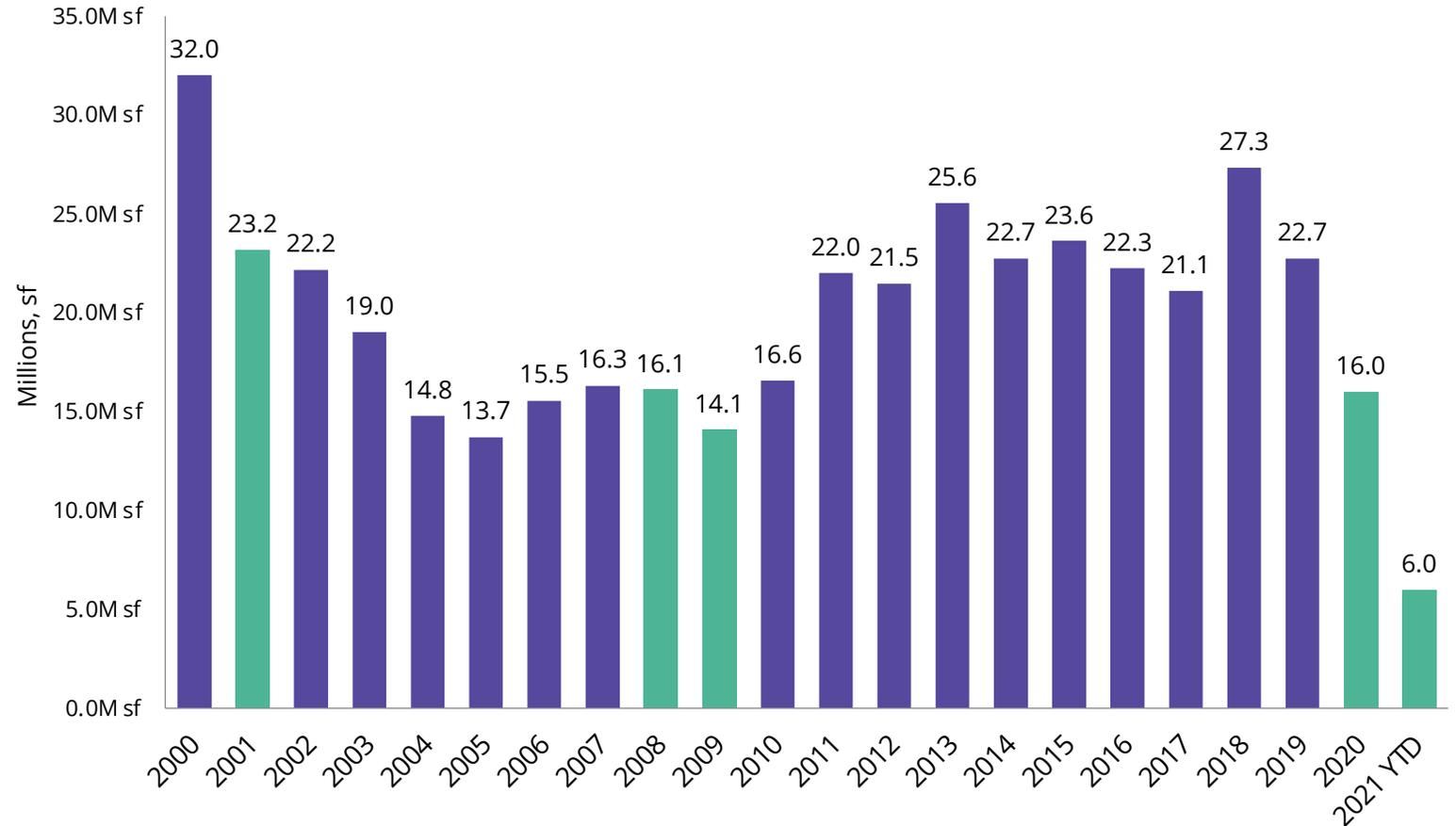
Demand temporarily paused, allowing supply to reach record levels. Tenants are navigating the market with more conviction, indicating a potential recovery in select market segments.

# Office leasing activity

# -46.7%

**2020 – 2021 YTD vs.  
prior 20-year annual  
average leasing activity**

There is no modern precedent for the post-COVID slowdown in leasing activity—not 2001 nor 2008—due to the sudden change in office occupiers’ future workplace strategies and the 2020 recession.

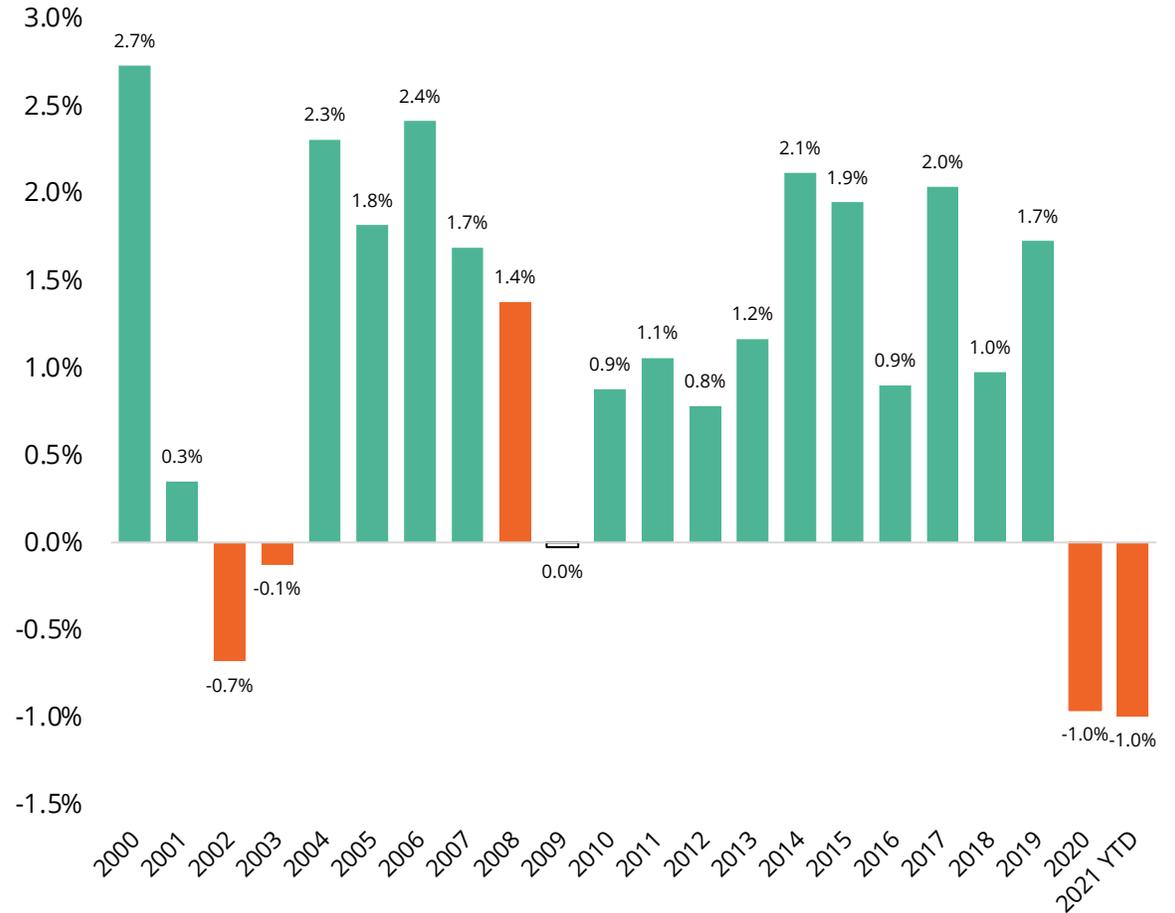


Source: AVANT by Avison Young

# -4.8%

**Net absorption as a percentage of inventory, 2020 through Q2 2021**

Negative absorption from 2020 to 2Q21 has totaled 6.6 million sf, totaling -2.0 % of the existing stock. This negative absorption significantly surpasses the lows of the early 2000's recession (-0.8%) and global financial crisis (0.0%).



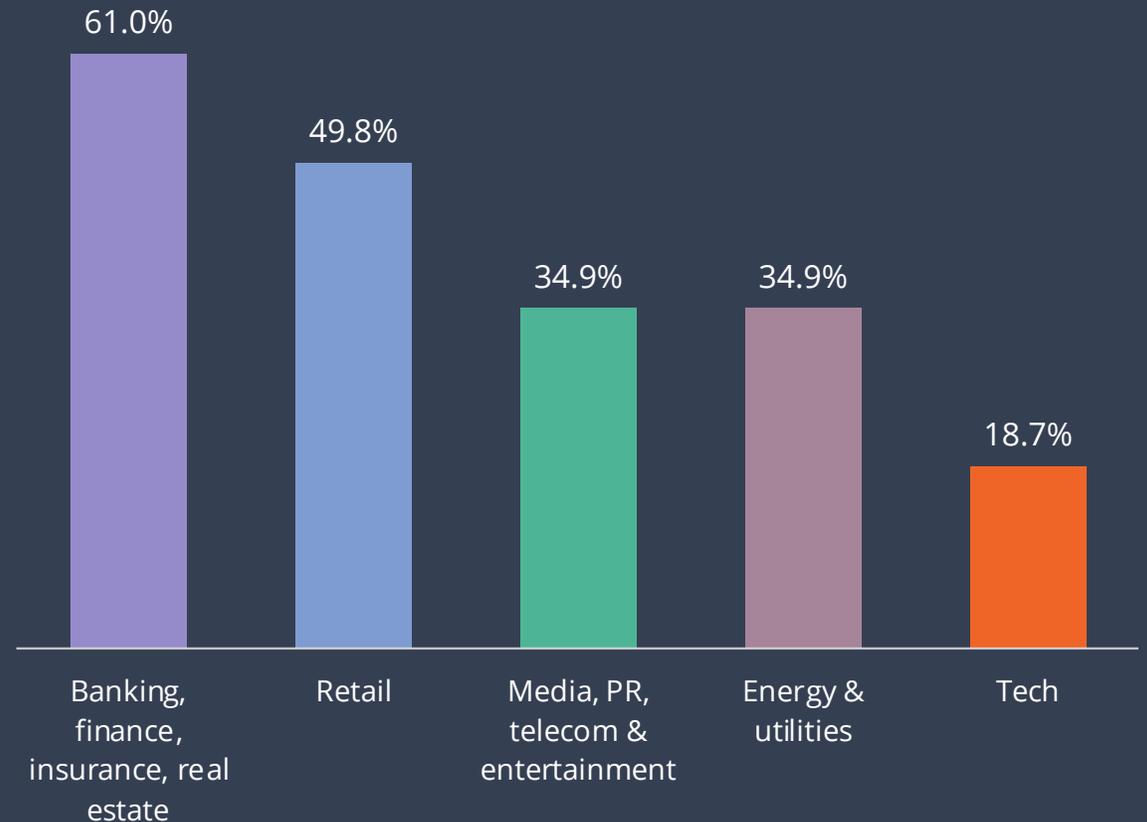
Source: AVANT by Avison Young

# Recovery index for select office occupiers

# 20.7%

**Post-COVID rate of recovery for representative Dallas-Fort Worth office occupiers through 5/30/2021**

Office employers have taken unique approaches in their return-to-work efforts, with financial services returning more quickly while legal services and tech firms have adopted remote working strategies.



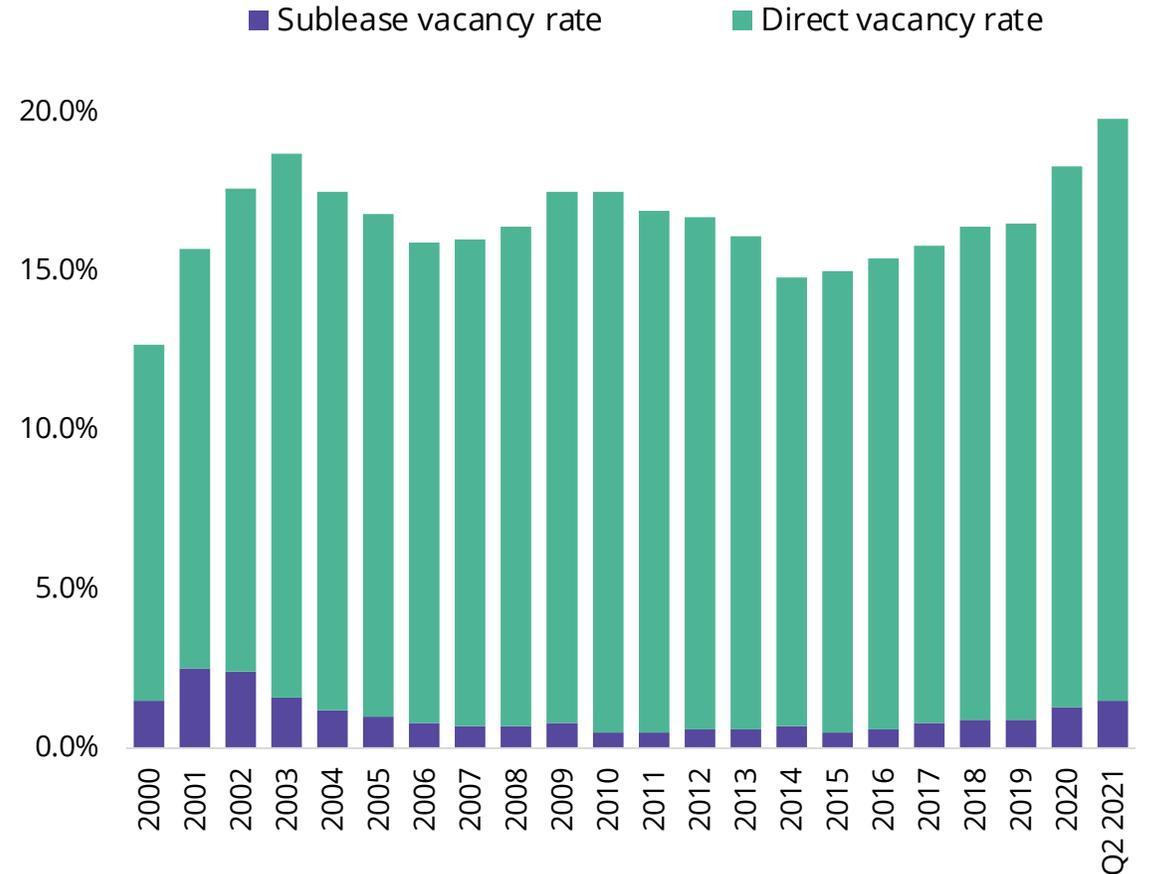
Note: Select, major occupiers only. Weekdays only.  
Pre-COVID period measured as 12/1/2019 to 3/8/2020.  
Source: Orbital Insights, AVANT by Avison Young

# Vacancy rate

# 19.7%

**Record high Dallas-Fort Worth overall vacancy as of Q2 2021**

The Q2 2021 vacancy rate is a record high in terms of total percentages. While sublease volume is at record levels, its percentage value of total market inventory is only 1.5%- decently lower than record levels of 2.5% in the early 2000's recession.



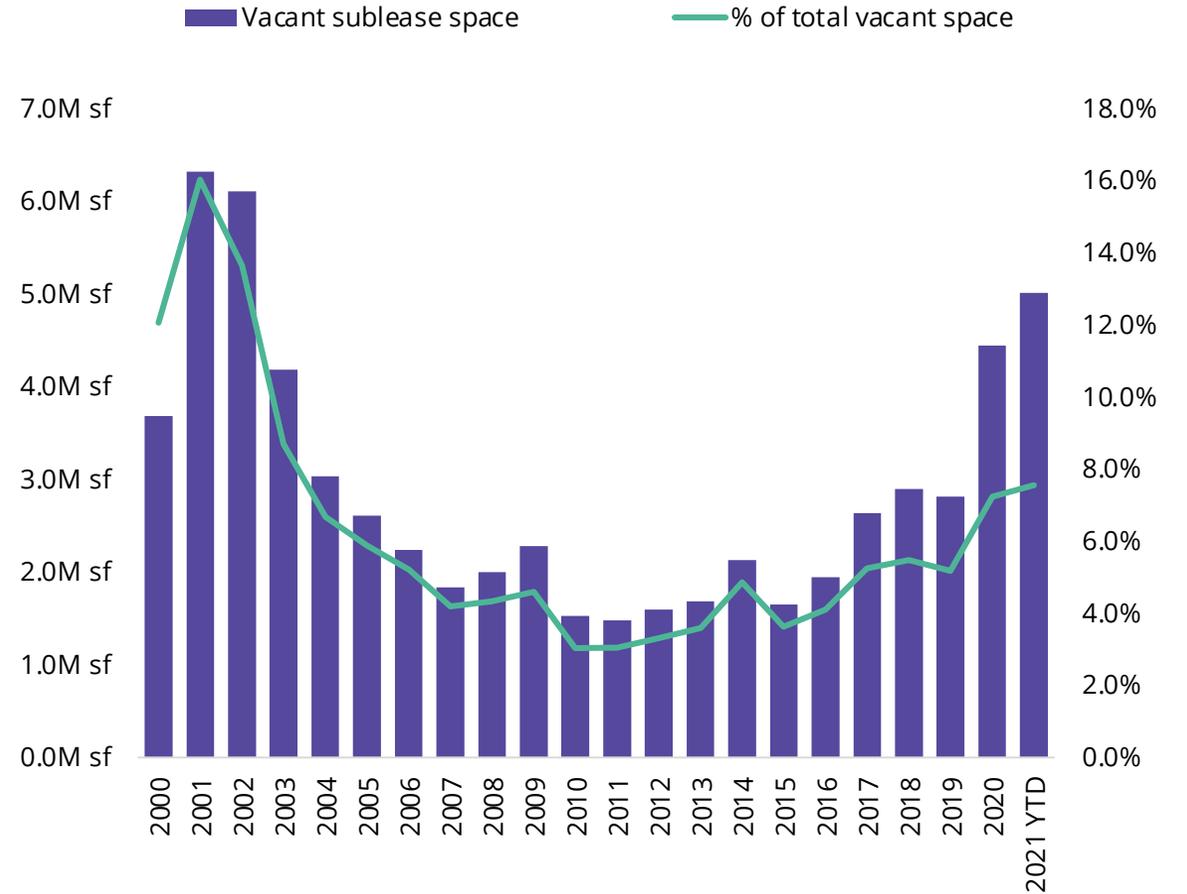
Source: AVANT by Avison Young

# Vacant sublease space

# 5.0 msf

## Record levels of sublease vacant space

The share of sublease-to-total vacant space of 7.6% has yet to surpass the peak of 16.0% from the early 2000's 9/11 and the Dot-com Recession. The share has surpassed the Great Recession rates of 2008-2009 which peaked at 4.6%.



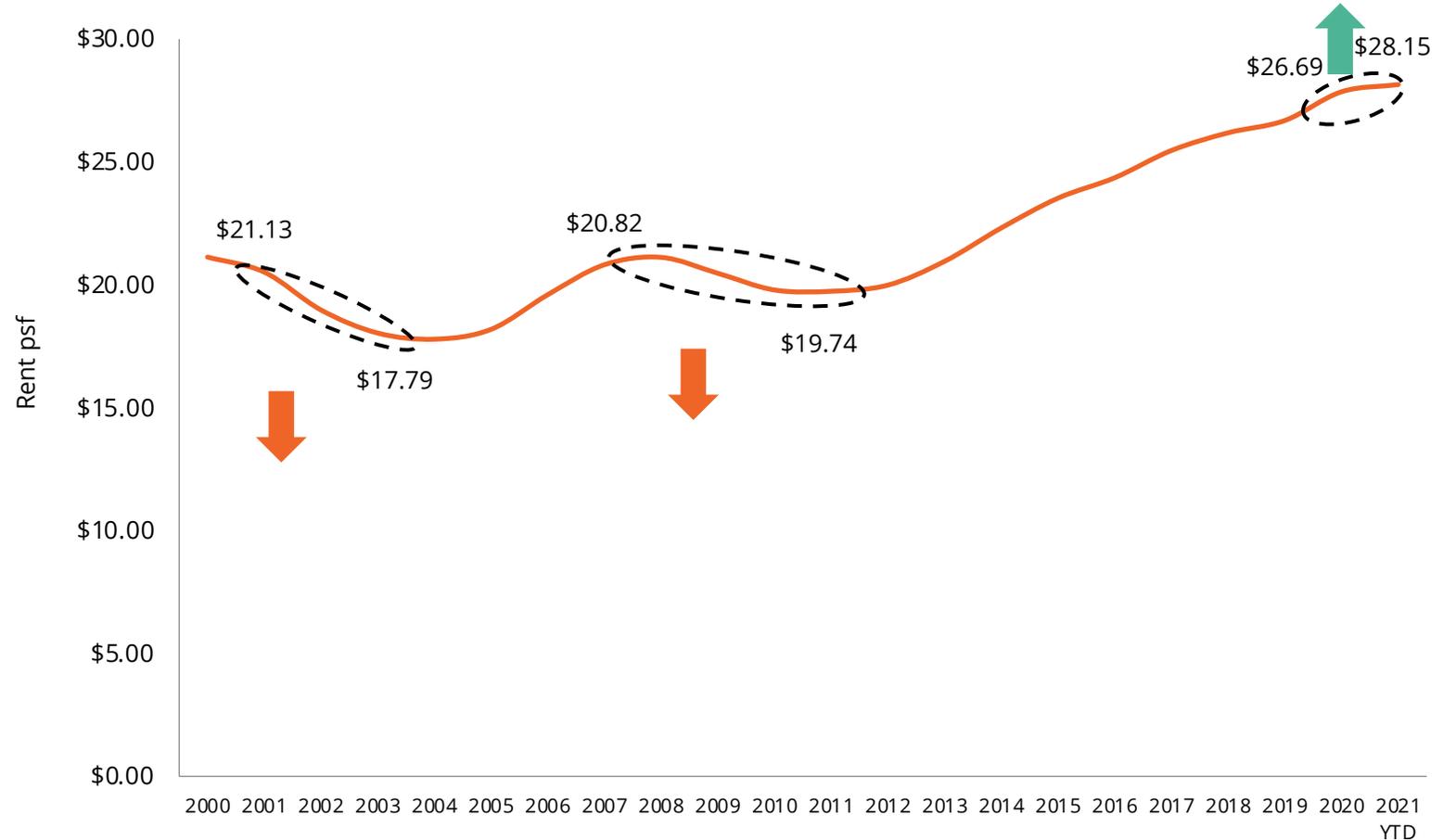
Source: AVANT by Avison Young

# Base rents

# 1.0%

## Increase in rents since the onset of the pandemic

Base rents have incrementally risen following despite the pandemic, contrary to the steep drops witnessed in the early 2000s (-14.6%) and the Great Recession (-4.9%).



Source: AVANT by Avison Young

# Dallas-Fort Worth's upcoming inventory

**211 properties**

proposed or under construction

**62.6 msf**

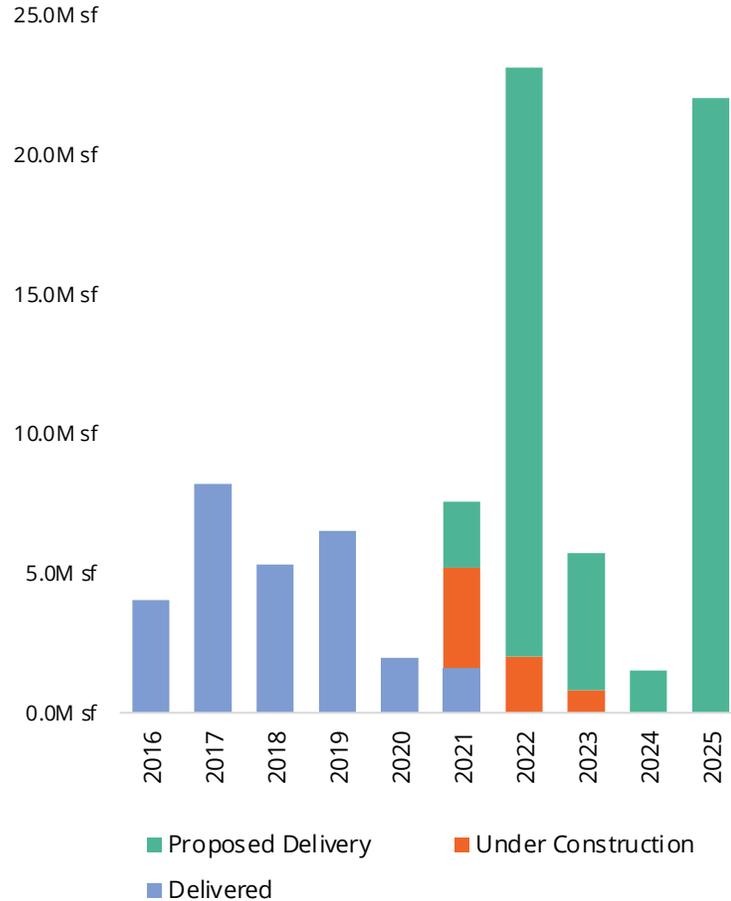
proposed or under construction

**21.8%**

share of office inventory

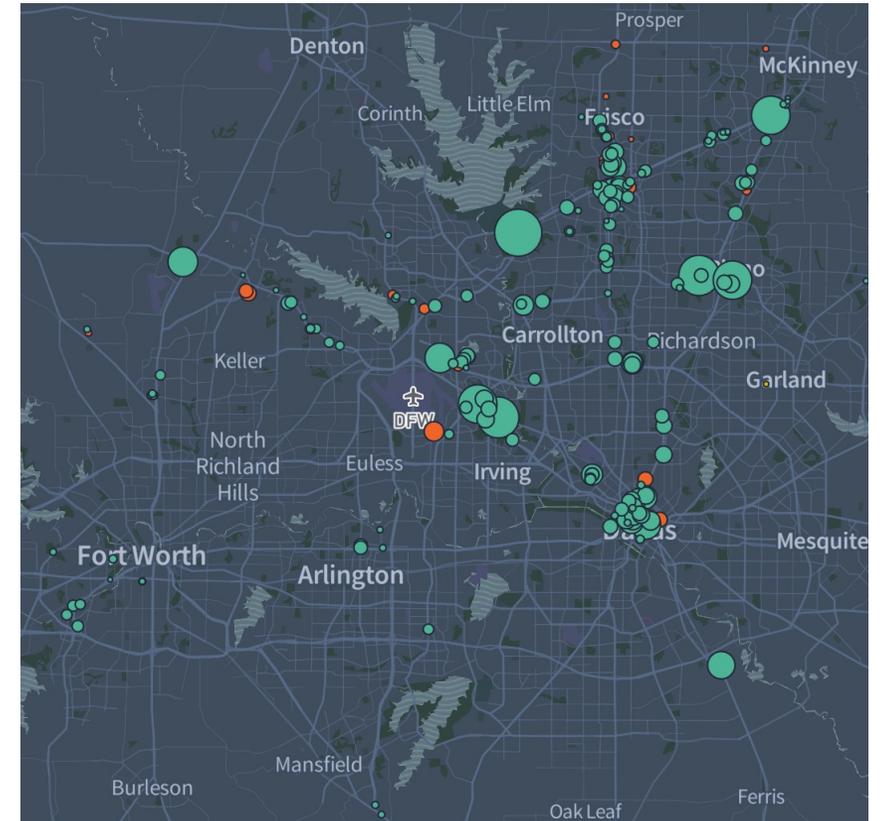
**1987**

average delivery date of existing Dallas-Fort Worth offices



Recent & upcoming new inventory

Source: AVANT by Avison Young

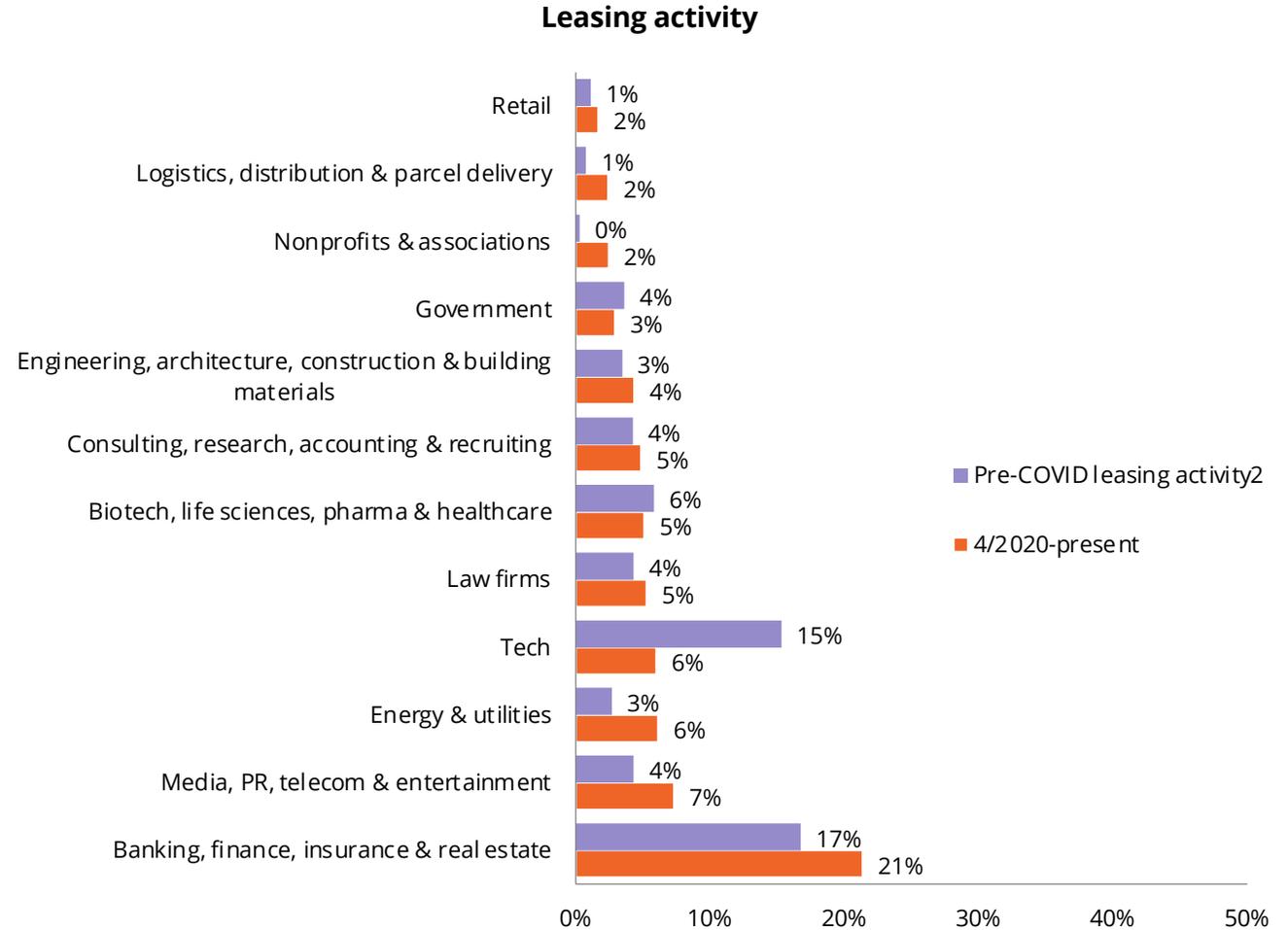


# Leasing activity

# 21.2%

**Of post-Covid leasing activity has been from banking, finance, insurance & real estate tenants.**

Flexible space operators that anchored demand for commodity properties ceased their expansions, exacerbating weakening market fundamentals in the Class B and Class C market segments.



Source: AVANT by Avison Young

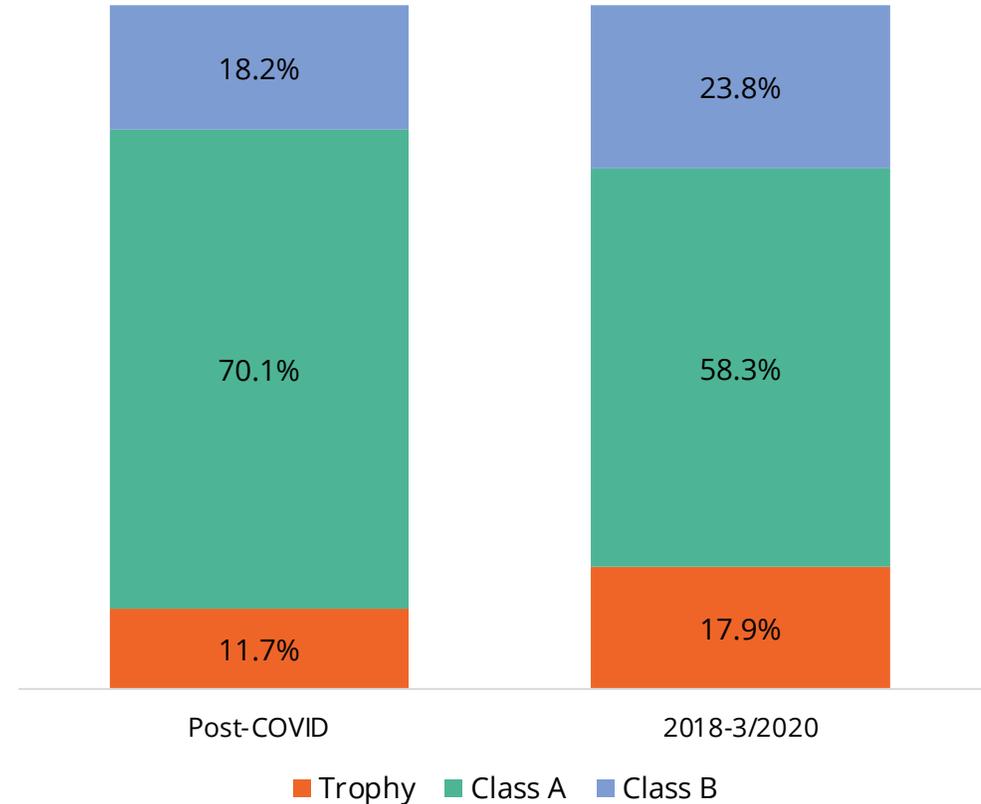
# Flight to quality continues

**88.3%**

## Trophy + Class A office leasing activity post-COVID

The “flight to quality” trend has risen in the months since the pandemic declaration. According to leases tracked by Avison Young, less than 12% of leases signed since April 2020 were Class B.

% of Leases Signed



Source: AVANT by Avison Young

# Market by the numbers

	Existing Inventory		Vacancy		Absorption		Supply		Gross Rates
Market	Bldgs	Total RBA	Sublease sf	Vacancy	12 Mo. Net	Quarterly Net	12 Mo. Deliveries	Under Construction	Direct Rate
Class A	712	173,572,098	3,272,861	21.2%	-3,302,316	-448,475	2,914,953	5,947,546	\$31.80
Class B	1,934	144,440,282	1,669,006	18.0%	-2,513,117	-117,107	888,557	564,850	\$22.77
Class A & B Totals	2,646	318,012,380	4,941,867	19.9%	-5,815,433	-565,582	3,803,511	6,512,396	\$28.33
<b>DFW Market Totals</b>	<b>3,039</b>	<b>336,091,578</b>	<b>5,012,951</b>	<b>19.7%</b>	<b>-5,880,216</b>	<b>-641,067</b>	<b>3,805,181</b>	<b>6,512,396</b>	<b>\$28.39</b>

# Core submarkets totals

	Allen/ McKinney	Central Expy	Dallas CBD	Fort Worth CBD	Frisco/The Colony	Las Colinas	LBJ Fwy
<b>Total RBA</b>	8,019,397	13,411,292	33,687,002	10,604,445	7,342,707	42,895,490	22,039,232
<b>Sublease sf</b>	46,206	134,160	1,015,717	81,984	77,526	858,223	256,399
<b>Vacancy %</b>	10.3%	17.7%	24.7%	16.9%	15.4%	25.8%	21.6%
<b>12-Month Net Absorption</b>	154,360	-509,475	-129,422	-344,589	487,300	-1,386,754	-654,660
<b>Q2 2021 Net Absorption</b>	46,814	-121,598	-74,833	63,441	373,140	-363,784	-250,995
<b>12-Mo. Deliveries</b>	400,847	129,422	0	0	753,361	231,376	0
<b>Under Construction</b>	256,718	0	284,600	0	340,783	906,000	107,000
<b>Gross Direct Rate</b>	\$28.42	\$32.09	\$27.05	\$27.69	\$36.27	\$27.14	\$24.02

# Core submarkets totals (Contd.)

	Preston Center	Quorum/Bent Tree	Richardson/Plano	Upper Tollway/West Plano	Uptown/Turtle Creek	W SW Fort Worth/ Clearfork	Westlake/Grapevine
<b>Total RBA</b>	5,846,273	22,691,313	29,736,985	33,535,580	15,023,102	11,198,301	8,978,244
<b>Sublease sf</b>	93,026	770,448	987,566	1,305,358	398,403	92,333	112,542
<b>Vacancy %</b>	12.0%	22.6%	21.9%	25.5%	18.8%	14.0%	17.3%
<b>12-Month Net Absorption</b>	-40,929	-427,138	-414,751	-2,210,702	-636,688	-147,212	720,085
<b>Q2 2021 Net Absorption</b>	1,730	50,865	118,440	-469,021	-156,026	-119,695	106,191
<b>12-Mo. Deliveries</b>	0	0	0	732,250	0	54,754	139,753
<b>Under Construction</b>	688,368	0	48,000	1,099,400	1,016,688	48,594	720,085
<b>Gross Direct Rate</b>	\$43.25	\$27.24	\$23.64	\$35.41	\$41.89	\$25.54	\$31.01

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## Economic and demographic trends

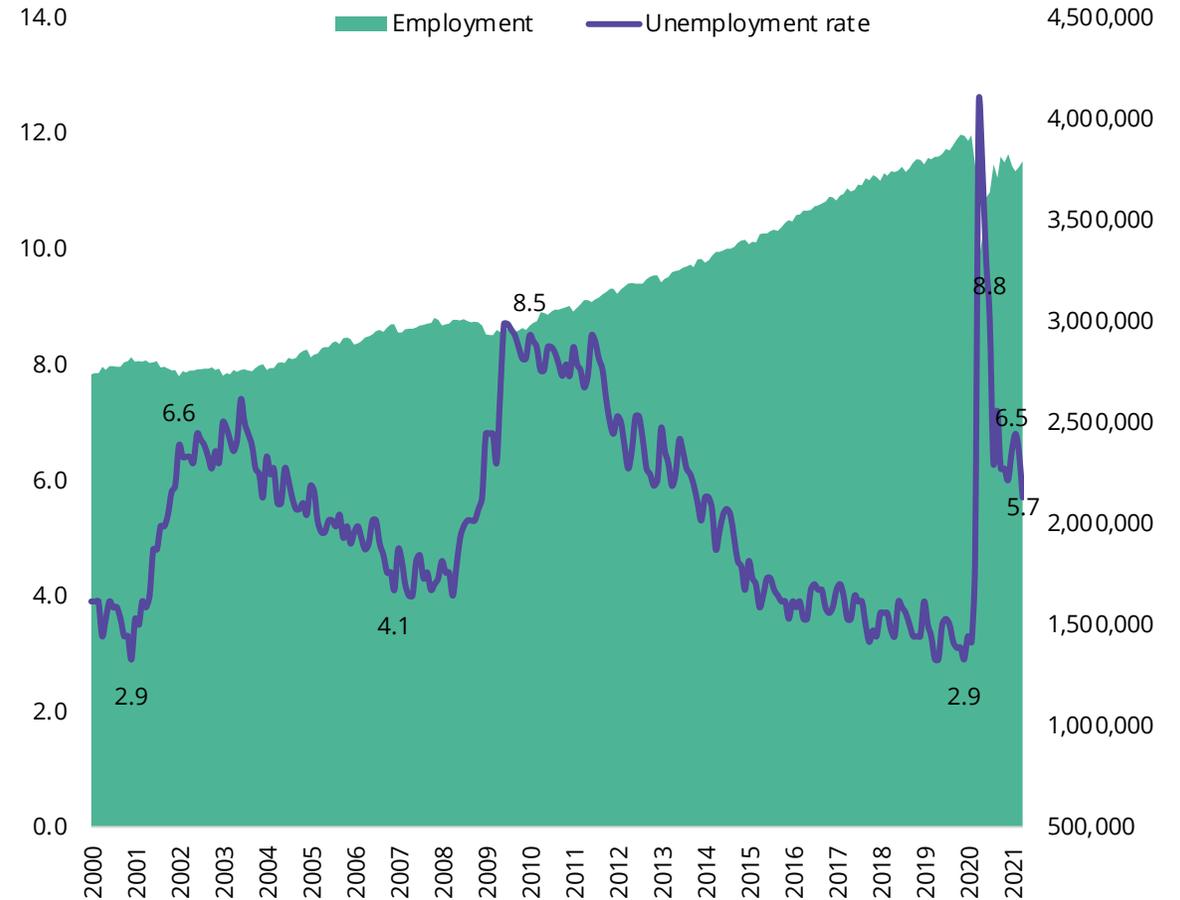
The pandemic immediately shocked the Dallas-Fort Worth economy, though there have been strong signs of a recovery as the city reopened.

# Employment and unemployment rate

# 5.7%

**Dallas-Fort Worth unemployment rate as of April 2021, dipping below the height of the financial crisis**

Historically tightened labor market conditions were halted by the pandemic with nearly **513,464 jobs lost** between February and May 2020. However, reopening efforts enabled the economy to **add back 11.3% jobs since May 2020** and recover all but 128,070 of the jobs that were lost since February 2020.



Note: Not seasonally adjusted data.  
Source: Bureau of Labor Statistics

# Office-using job gains and losses

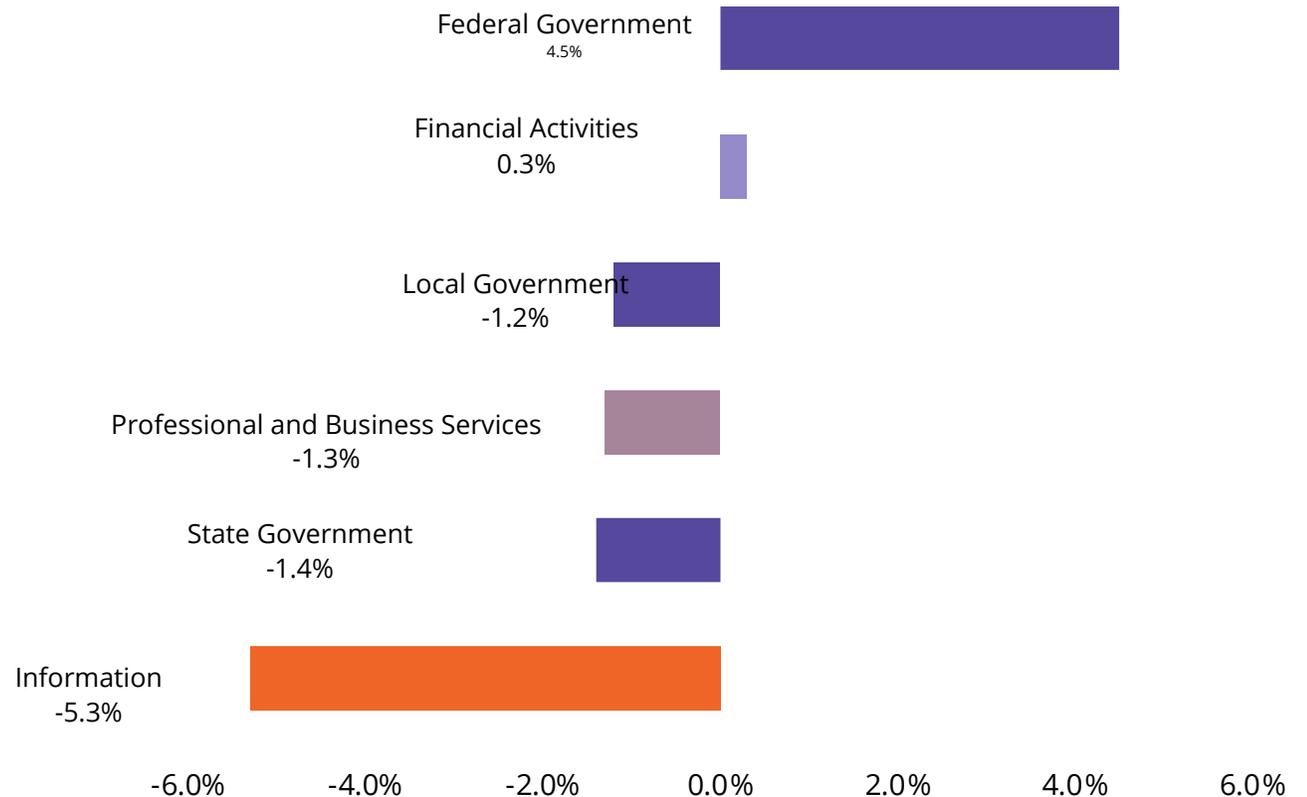
# -1.0%

## Change in office-using employment during the pandemic

Dallas-Fort Worth MSA overall job losses have declined by 2.6% since the start of the pandemic in February 2020, though office-using jobs contracted by just 1.0%. Office-using employment rising 4.8% in the last 12 months, and total employment rising 9.6% in that same period.

[VIEW DASHBOARD](#)

**Total change in Dallas-Fort Worth MSA\* job gains/(losses)**  
February 2020 to April 2021



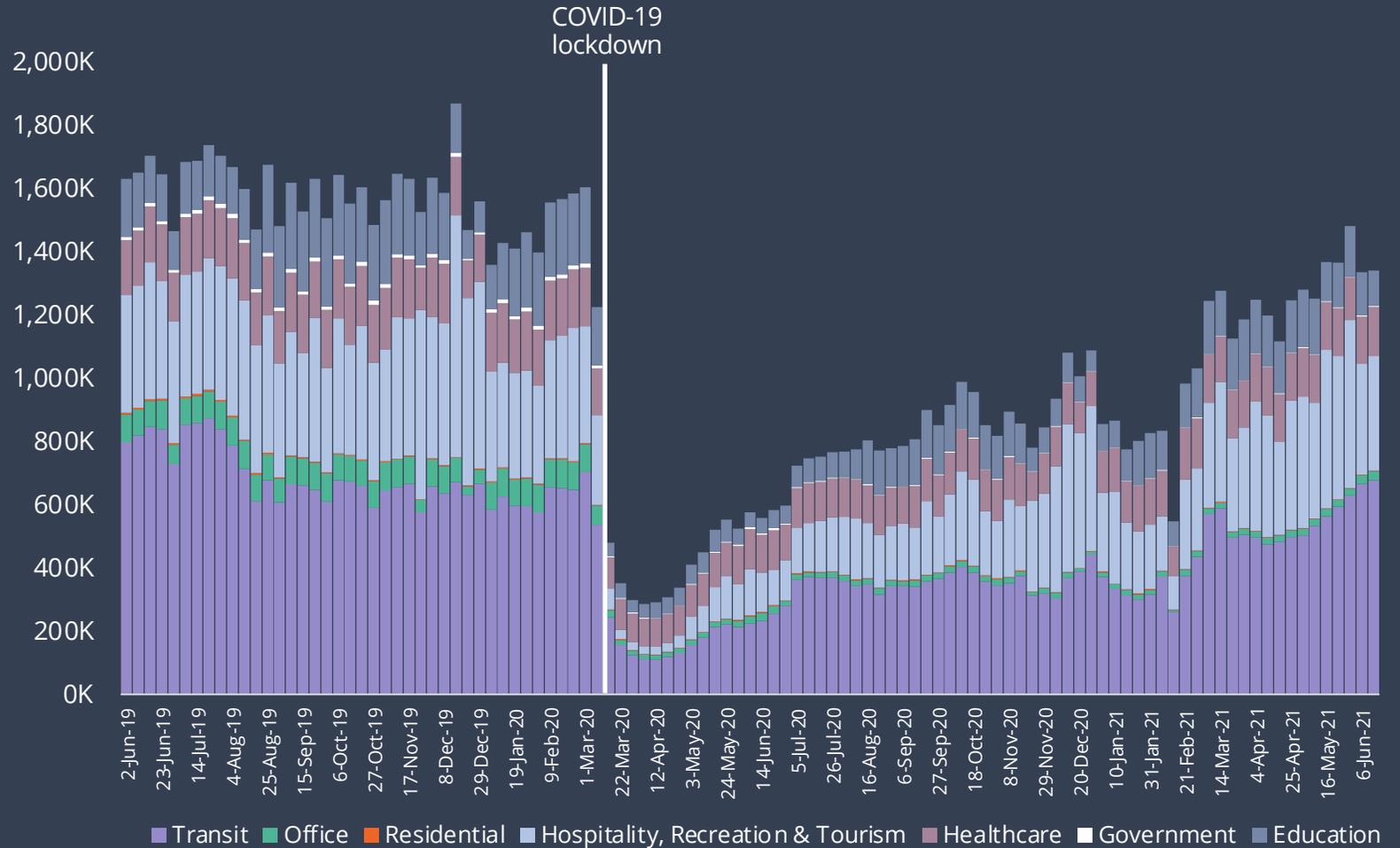
Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

# Dallas-Fort Worth recovery index

# 56.6%

Post-COVID rate of recovery based on representative locations through 5/30/2021

The Hospitality, Recreation & Tourism year-over-year rate of recovery has increased considerably, measuring 94.7%, as vaccination rates rise and tourism spots regain traction.



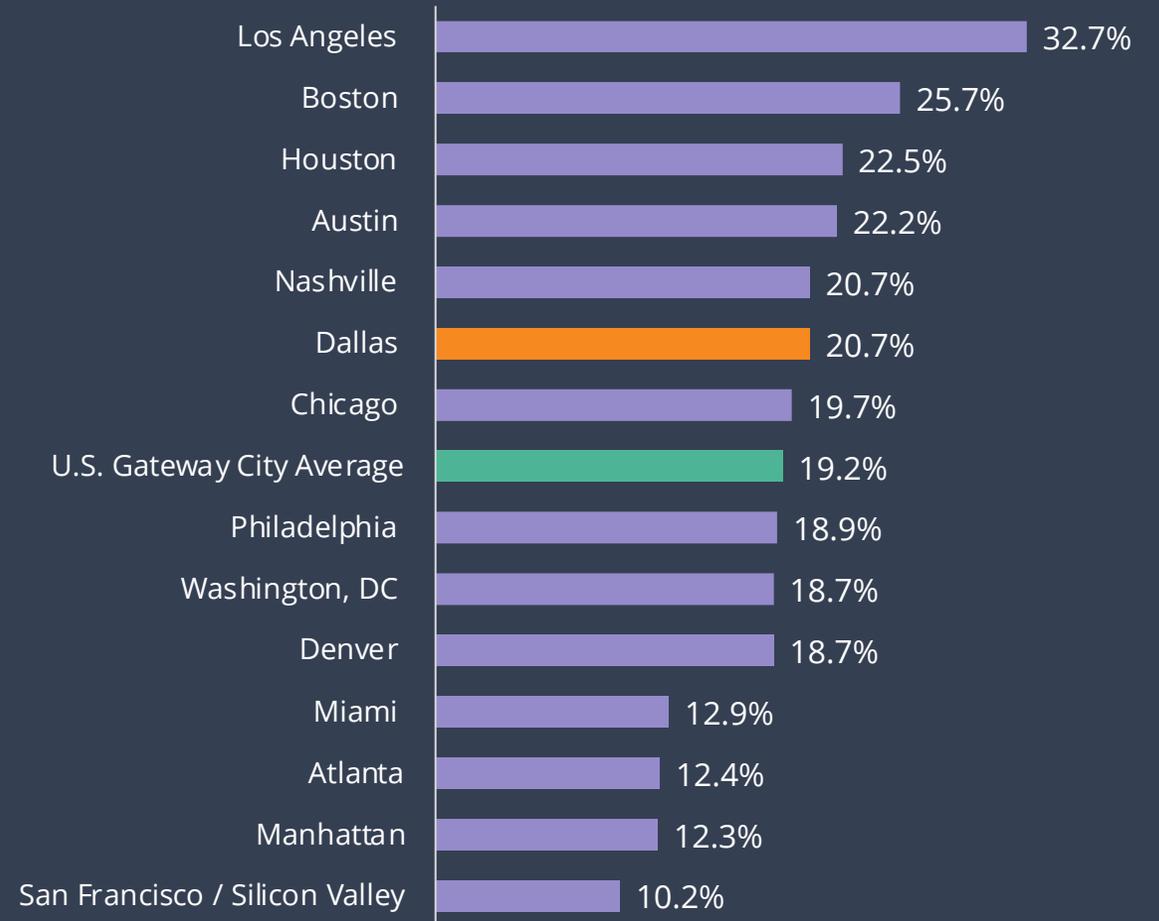
Note: Representative areas of interest. Weekdays only.  
Pre-COVID period measured as 12/1/2019 to 3/8/2020.  
Source: Orbital Insights, AVANT by Avison Young

# Office recoveries across U.S. gateway cities

# 19.2%

## Average post-COVID rate of recovery for representative office employers across U.S. gateway cities

Dallas-Fort Worth office employers have been comparatively willing to return to the office, as measured by the sixth-highest recovery rate of 20.7% among U.S. gateway cities. This has been aided by our quickness to reopen the economy and remove mandates across the state and metro.



Note: Select, representative occupiers only. Weekdays only.  
Pre-COVID period measured as 6/1/2019 to 3/14/2020.  
Post-COVID period measured as 3/15/2020 to 6/20/2021.  
Source: Orbital Insights, AVANT by Avison Young

# 03.

## Capital market conditions

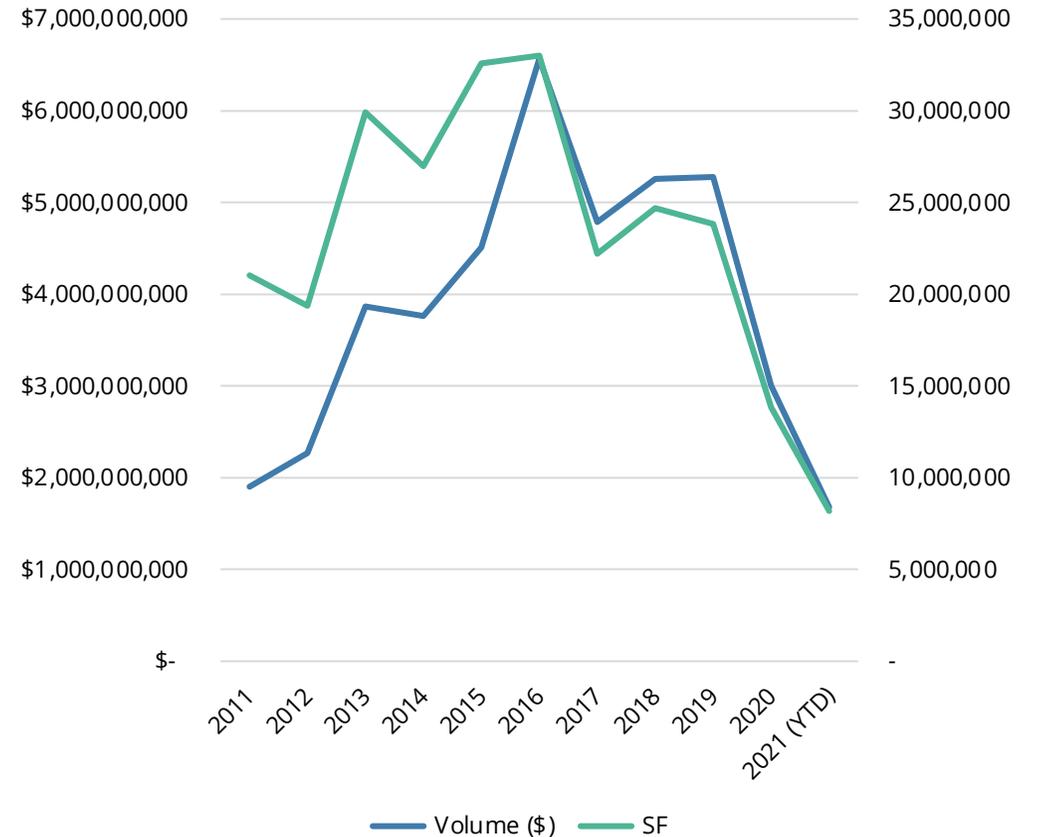
Dallas-Forth Worth office product remains an attractive as the market has proved to be resilient following the pandemic.

# Office investment dollar volume

**\$4.7B**

## Dallas-Fort Worth office dollar volume 2020 to present

Office sales activity has temporarily paused during the risk-pricing crisis, decreasing by an annualized rate of 78.6% compared with the prior five-year average dollar volume.



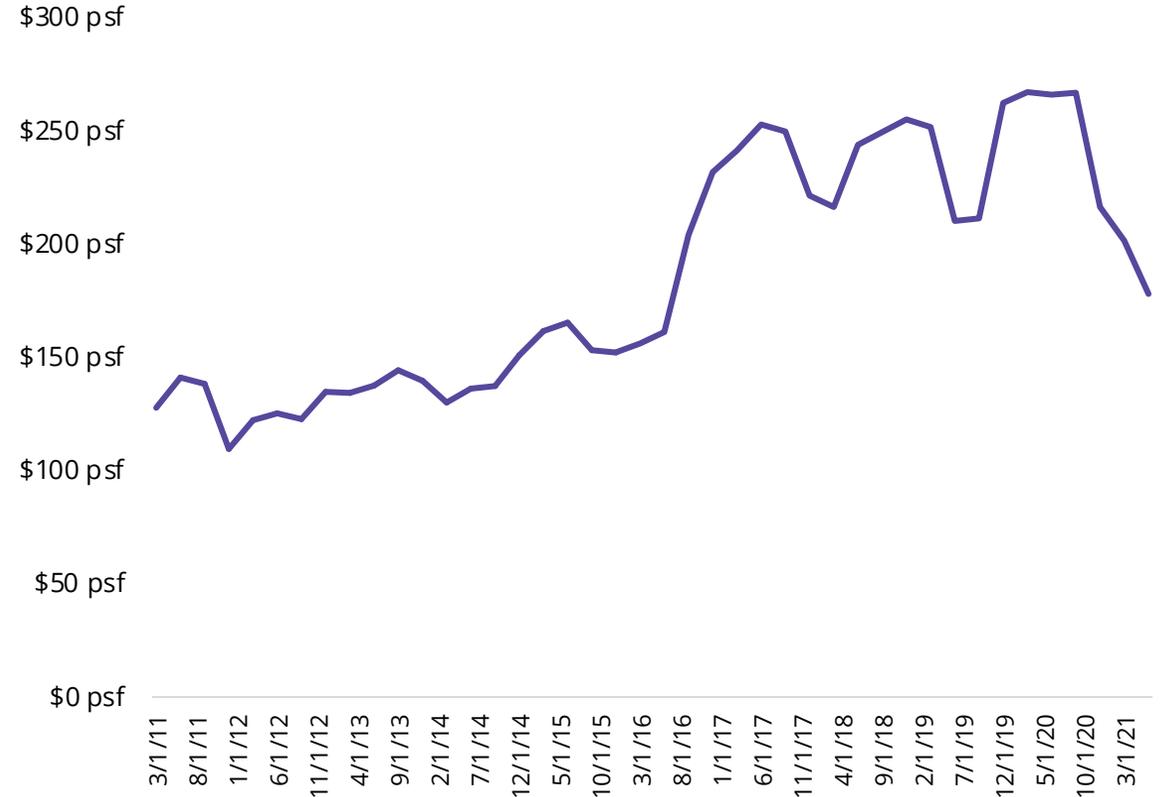
Source: AVANT by Avison Young, RCA

# Office asset pricing

# -32.2%

## Dallas-Fort Worth office pricing from January 2020 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$266 psf in Q2 2020 to \$178 psf for Q2 2021. However, once sales volume returns to pre-pandemic levels, expect averages in pricing to rise.



Source: AVANT by Avison Young, RCA

# Looking forward



## Here's what we can expect

- Bellwether **companies are beginning to return to the office**, a leading indicator for rejuvenated office demand.
- **Relocations from outside of the state** will help spur net new demand and place downward pressure on vacancy rates.
- **Office leasing demand is incrementally rising** as indicated by increasing term lengths, though continued downward momentum is anticipated on net effective rents at commodity properties.
- **Cap rates and asset pricing are poised to remain steady** based on the sizable gap between cap rates and benchmark yields, positive occupier and economic momentum and investors' renewed focus on core transaction profiles.



# Get in touch



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# Let's talk

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