

**AVISON
YOUNG**

Dallas-Fort Worth Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG



Key takeaways



Office demand

- Q3 2021 saw its highest volume of leasing activity in a single quarter since Q4 2019 (5.7 msf) after reaching **5.1 msf**.
- Leasing activity for 2021 is on track to reach **15.6 msf**; though slightly below 2020 totals of **16.1 msf**, this is largely the result of a slow down in leasing activity during Q1 2021.



Recovery rate

- The overall post-COVID rate of recovery based on extrapolated cell phone data is **46.1 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

- Dallas-Fort Worth's unemployment rate has reached to its lowest level after improving to **4.7 percent** since March 2020 (**4.6 percent**) after steadily improving following the 462,000 job losses that occurred between March 2020 and April 2020.
- Professional & business services led the private sector in job gains after adding **28,900 jobs** between February 2020 and August 2021 as total employment now exceeds pre-pandemic levels.

Key takeaways



Office supply

- Vacancy remained relatively unchanged in Q3 2021, **19.8 percent** overall, when compared to Q2 2021, providing an indicator less new vacancy is being introduced to the market than 12 months ago.
- Sublease vacancy grew by just **333,000 sf** in Q3 2021, largely as a result of a 150,000+ sf subleases availability which was introduced into the market this quarter.



Pricing trends

- Pricing has risen to **\$28.30 psf**, a **1.6 percent increase** in rents since the onset of the pandemic.
- Demand continues to grow as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market.



Capital markets

- DFW has reached **\$2.1B** in total office sales 2021 YTD
- Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$211 psf in Q4 2020 to **\$144 psf** for Q3 2021. However, once sales volume returns to pre-pandemic levels, sales pricing can be expected to rise.

Employment and unemployment rate

4.7%

Dallas-Fort Worth unemployment rate as of August 2021

Dallas-Fort Worth's unemployment rate has reached its lowest level since March 2020 (4.6%), after steadily improving following the 462,000 job losses that occurred between March 2020 and April 2020.



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

Office-using job gains and losses

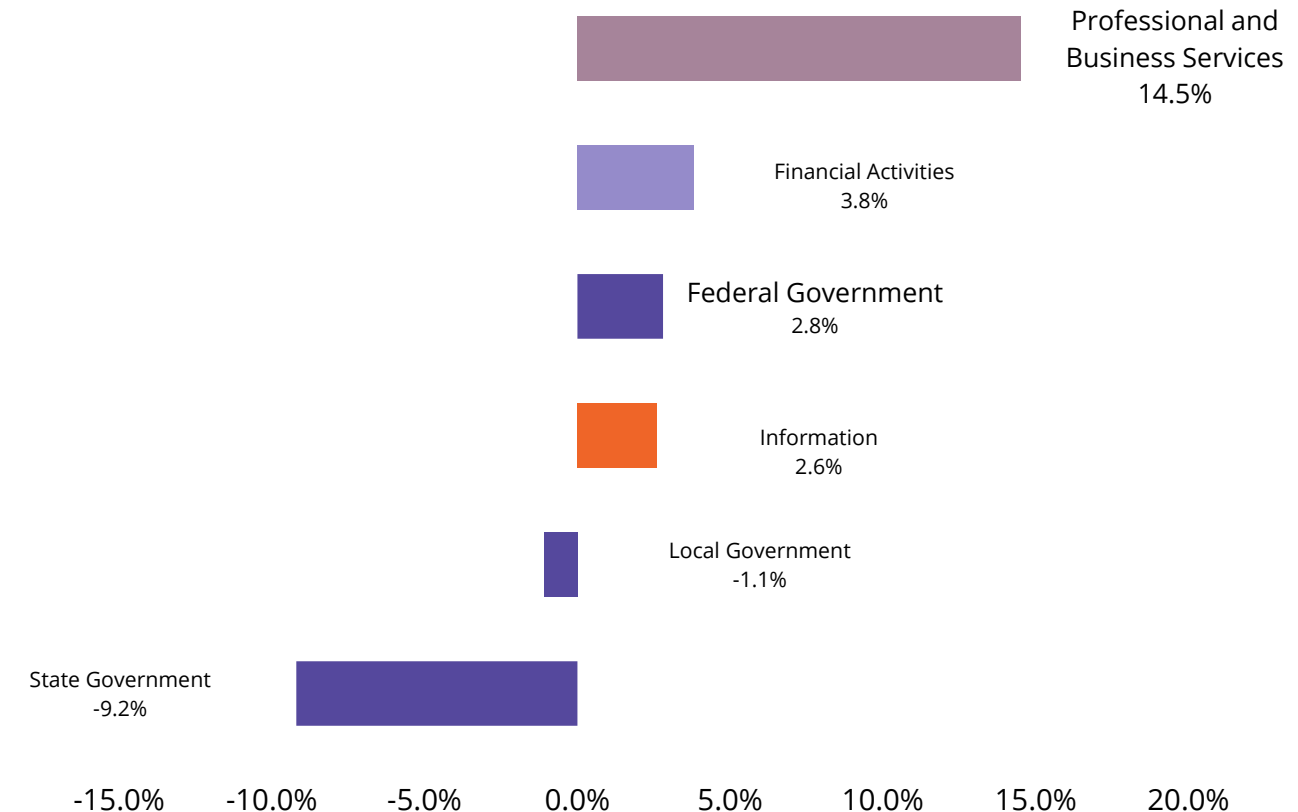
+0.5%

Change in office-using employment since February 2020

Dallas-Fort Worth MSA has added 91,700 jobs since April 2020 and now exceeds pre-pandemic levels as total employment now stands at 1,533,300 in August 2021, compared to 1,525,800 in February 2020. Professional & business services led the private sector in job gains after adding 28,900 jobs between February 2020 and August 2021 as total employment now exceeds pre-pandemic levels.

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



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

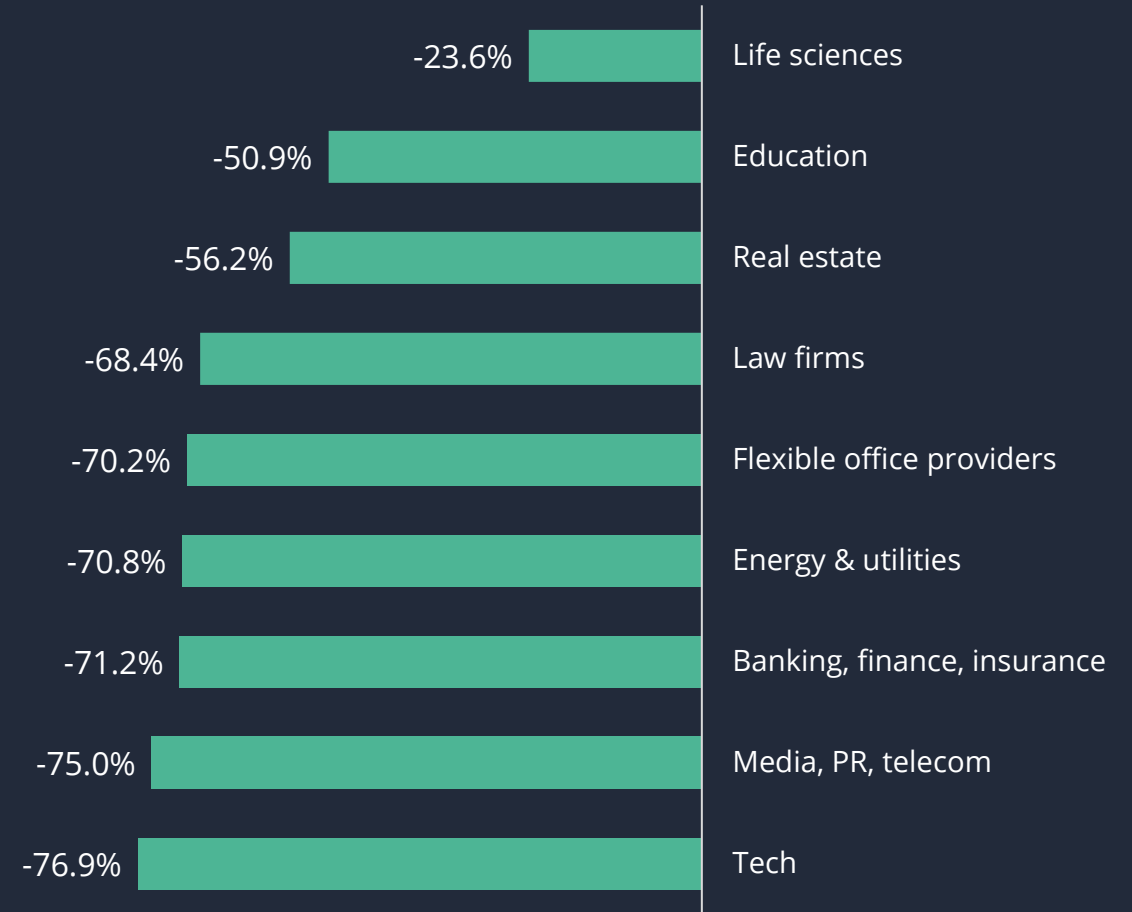
U.S. return-to-work rates since start of COVID

-76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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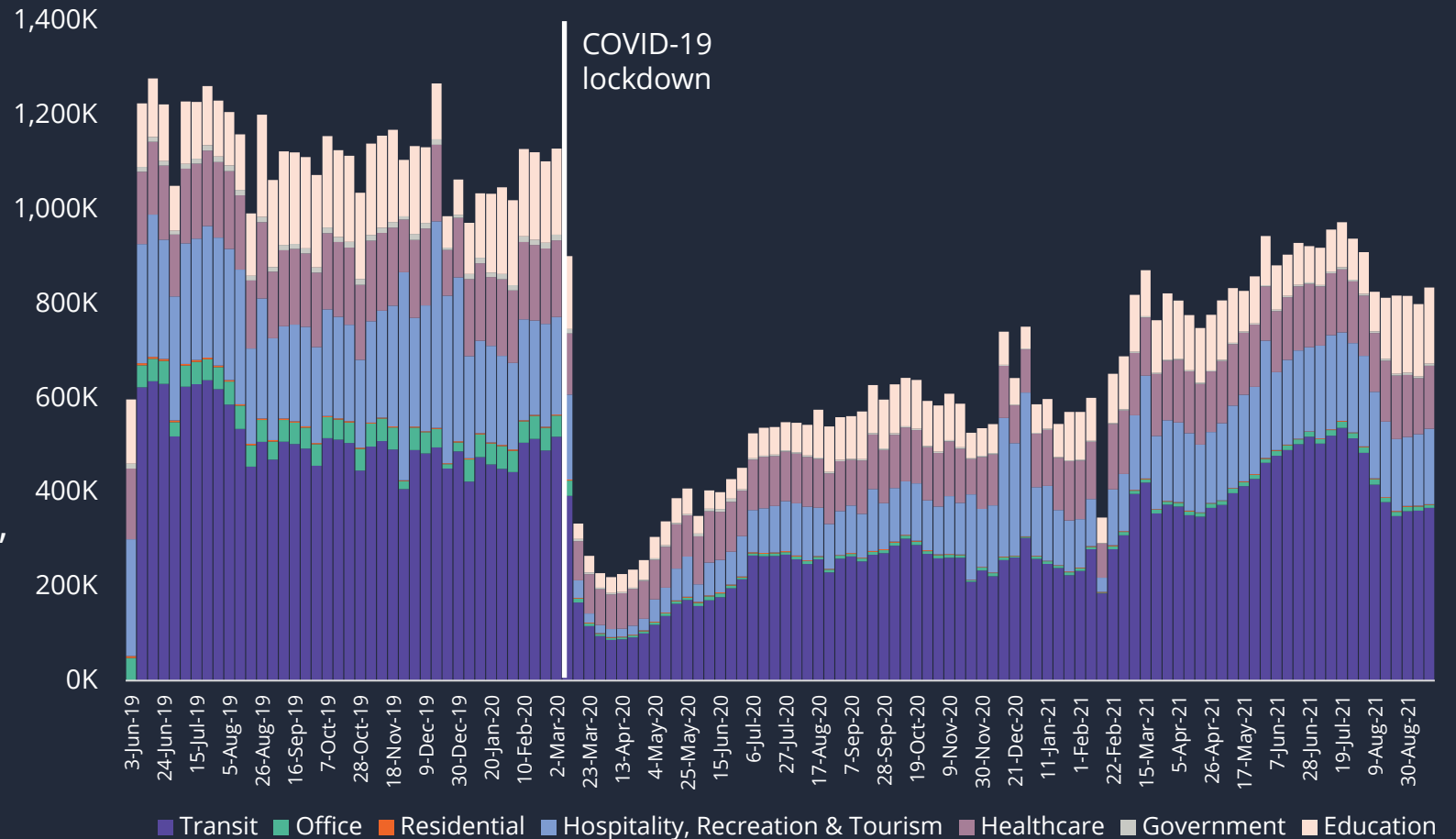
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

Local historical visitor volumes

+46.1%

Total visitor volume,
September 16, 2020 vs.
September 13, 2021

Hospitality, Recreation & Tourism (71.6%),
education (59.9%), and transit (45.0%),
have seen the most improvement over
the last year.



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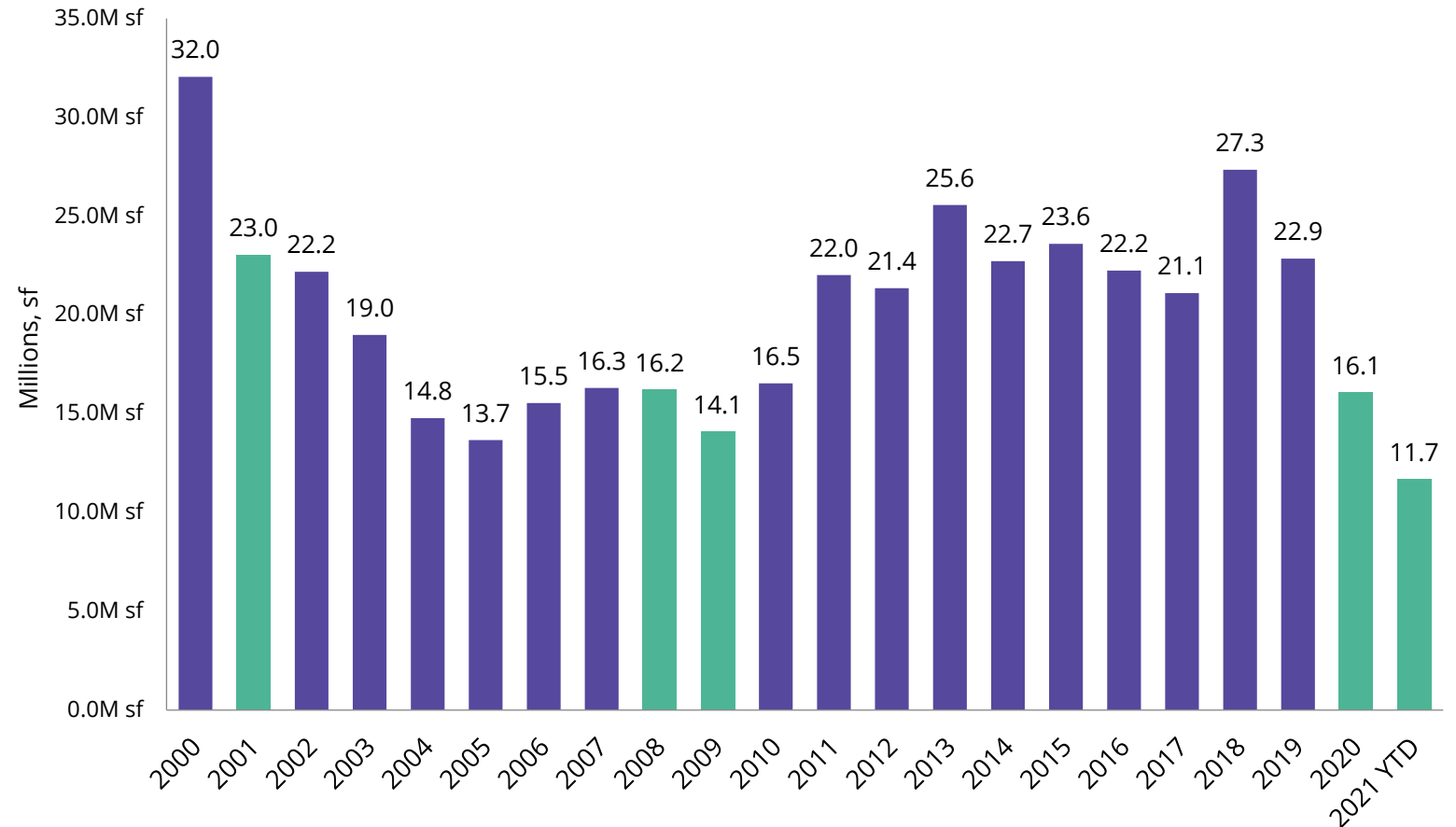
Note: Representative areas of interest. Weekdays only.
Weekly visitor volumes referenced above.
Source: Orbital Insight, AVANT by Avison Young

Office leasing activity

11.7 msf

2021 YTD leasing activity

The Dallas-Fort Worth market saw its highest volume of leasing activity in a single quarter since Q4 2019 (5.7 msf). Leasing activity for 2021 is on track to reach 15.6 msf; though slightly below 2020 totals of 16.1 msf, this is largely the result of a slow down in leasing activity during Q1 2021.

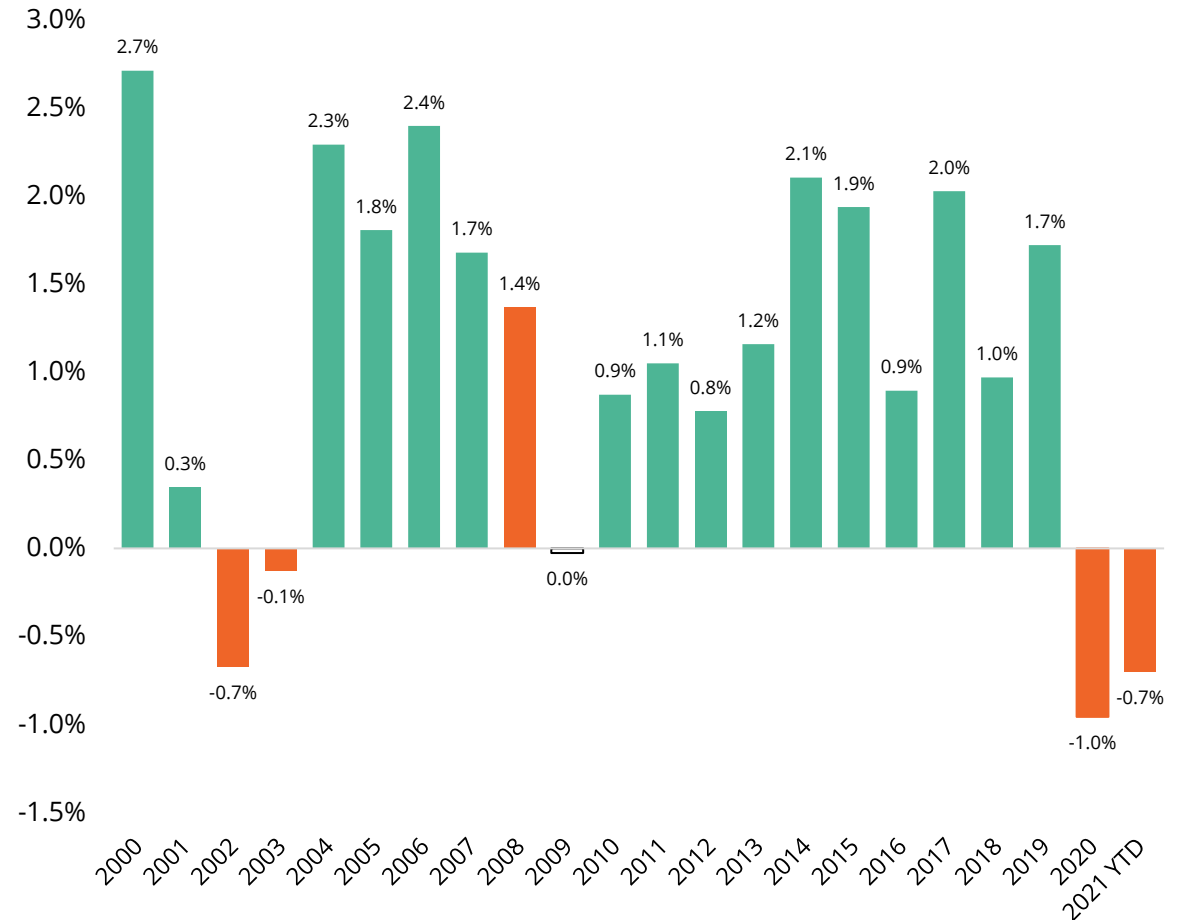


Source: AVANT by Avison Young

+ 256,338 sf

**Positive net absorption between
Q2 2021 to Q3 2021**

DFW has seen two consecutive quarters of positive net absorption as leasing activity continues to pick up; over the last two quarters, DFW has logged 603,000 sf of positive net (direct) absorption, an indication tenants are beginning to move forward with real estate decisions.



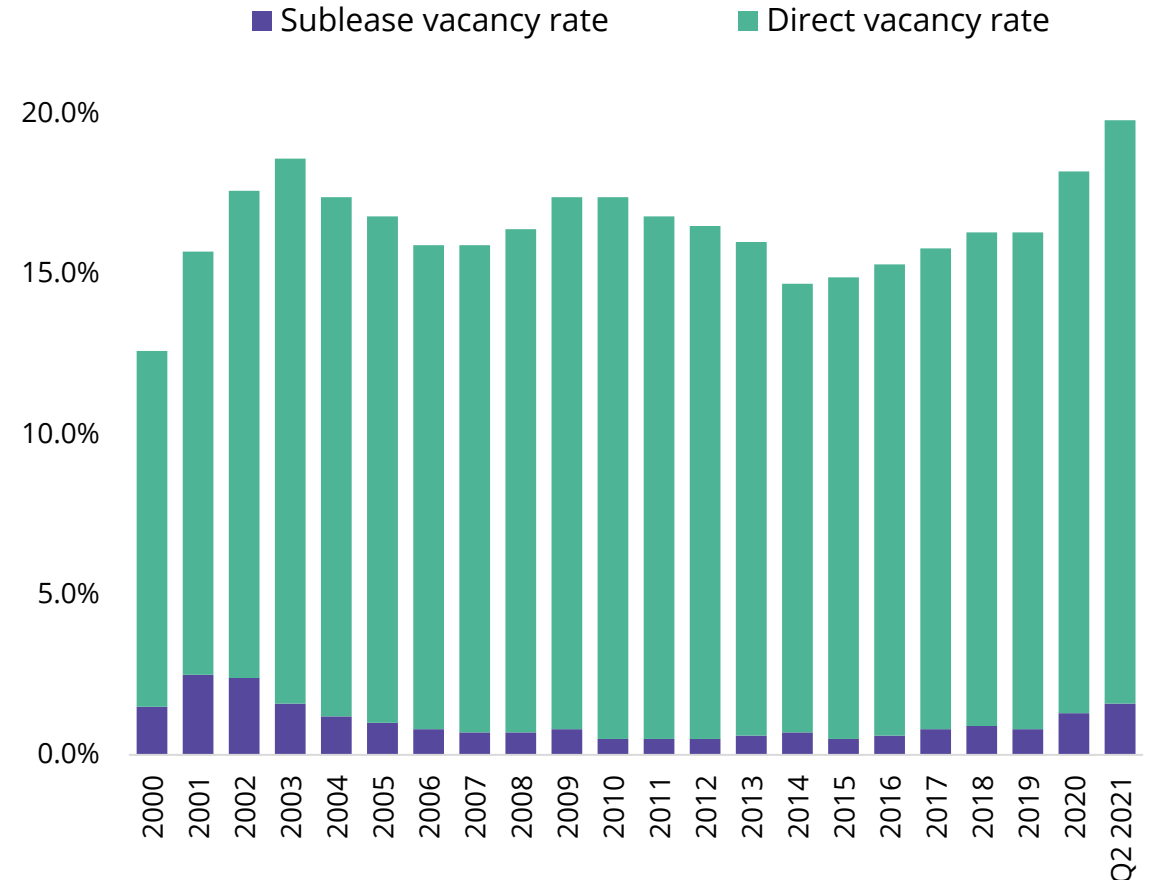
Source: AVANT by Avison Young

Vacancy rate

19.8%

Overall vacancy for Dallas-Fort Worth as of Q3 2021

Vacancy remained relatively unchanged in Q3 2021 when compared to Q2 2021, providing an indicator less new vacancy is being introduced to the market than 12 months ago.



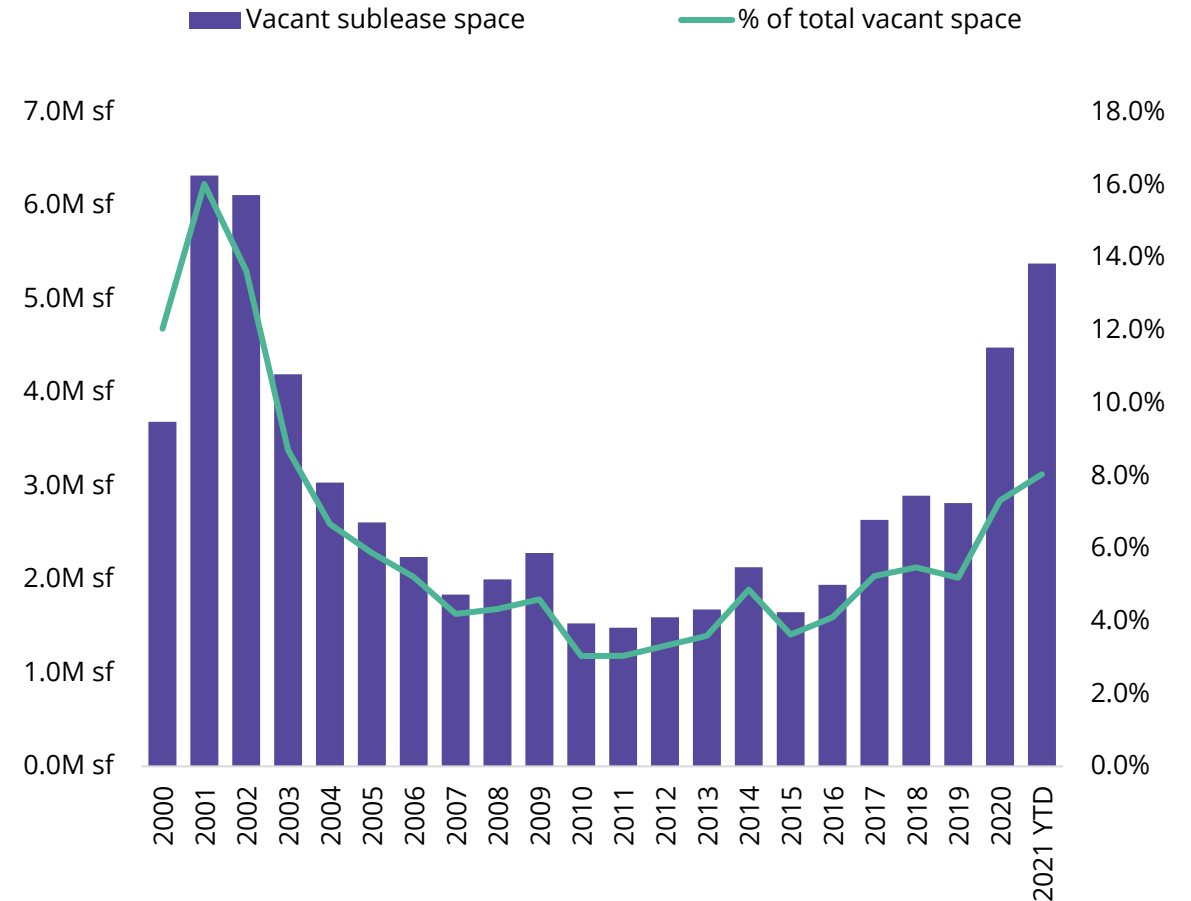
Source: AVANT by Avison Young

Vacant sublease space

5.4 msf

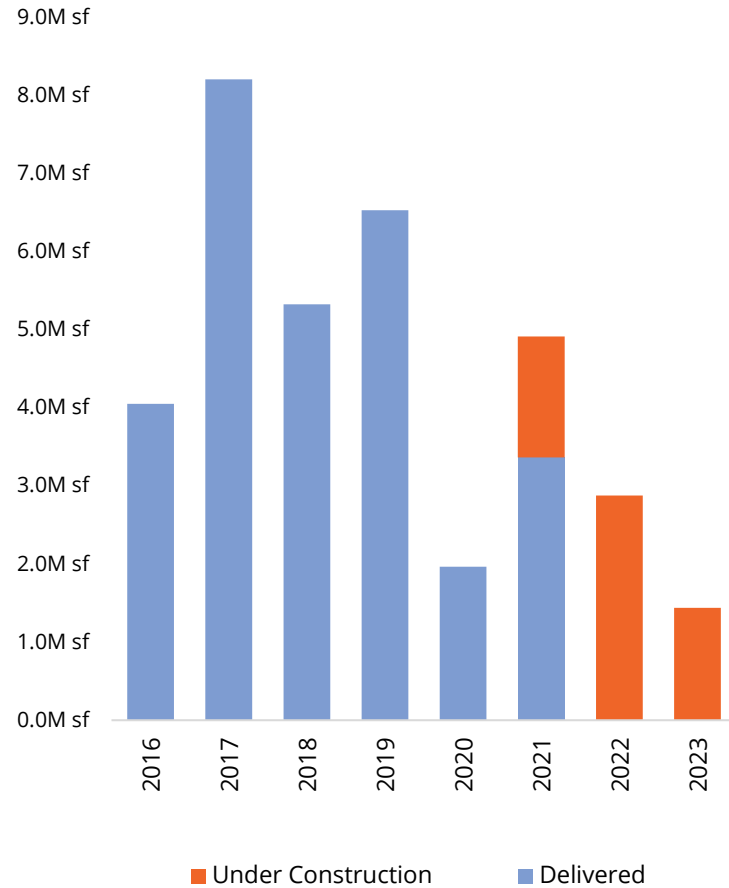
Of sublease vacant space

Sublease vacancy grew by 333,000 sf in Q3 2021, largely as a result of a 150,000+ sf subleases availability which was introduced into the market this quarter.

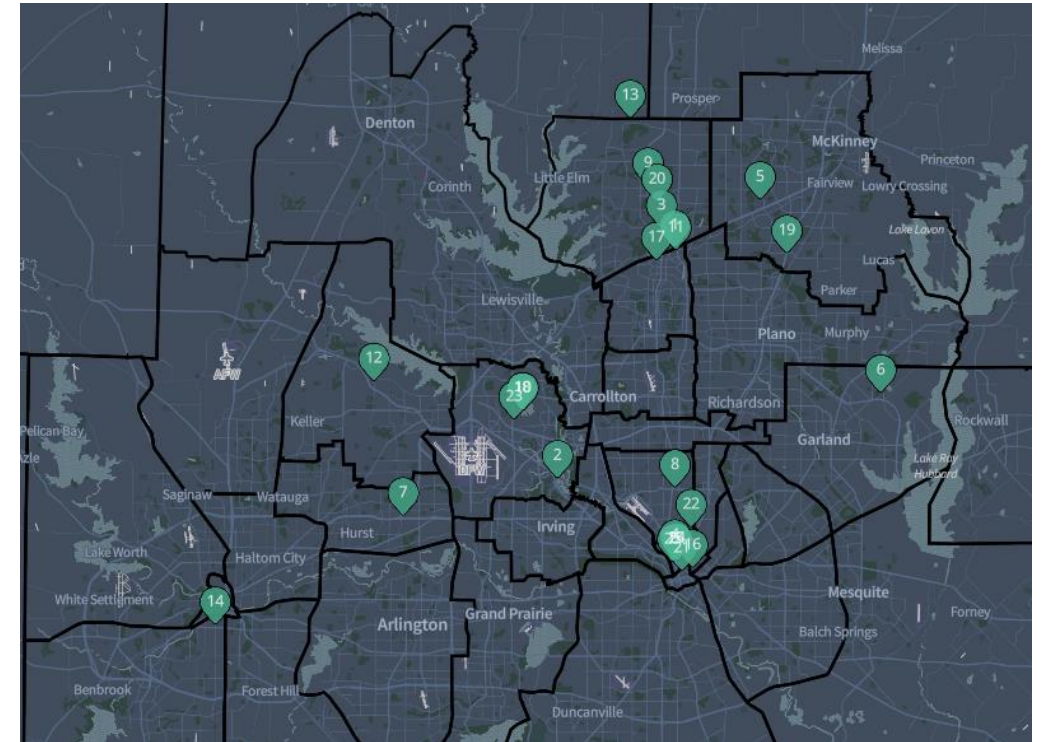


Source: AVANT by Avison Young

Dallas-Fort Worth's upcoming inventory



5.9 msf
under construction



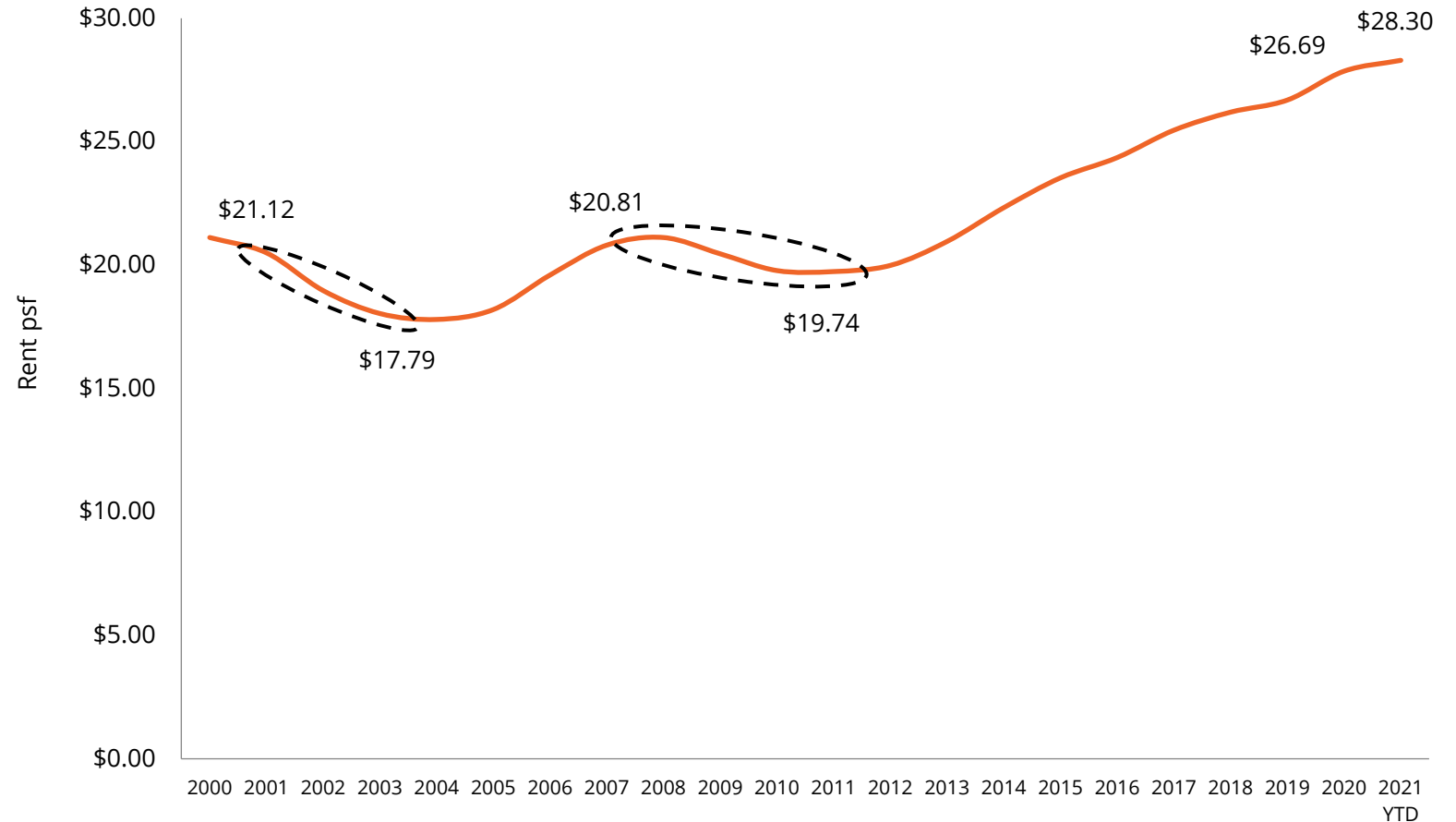
Recent & upcoming new inventory
Source: AVANT by Avison Young

Office gross rents

1.6%

Increase in rents since the onset of the pandemic

Rents have incrementally grown despite the pandemic, contrary to the steep drops witnessed in the early 2000s (-15.8%) and the Great Recession (-5.1%).



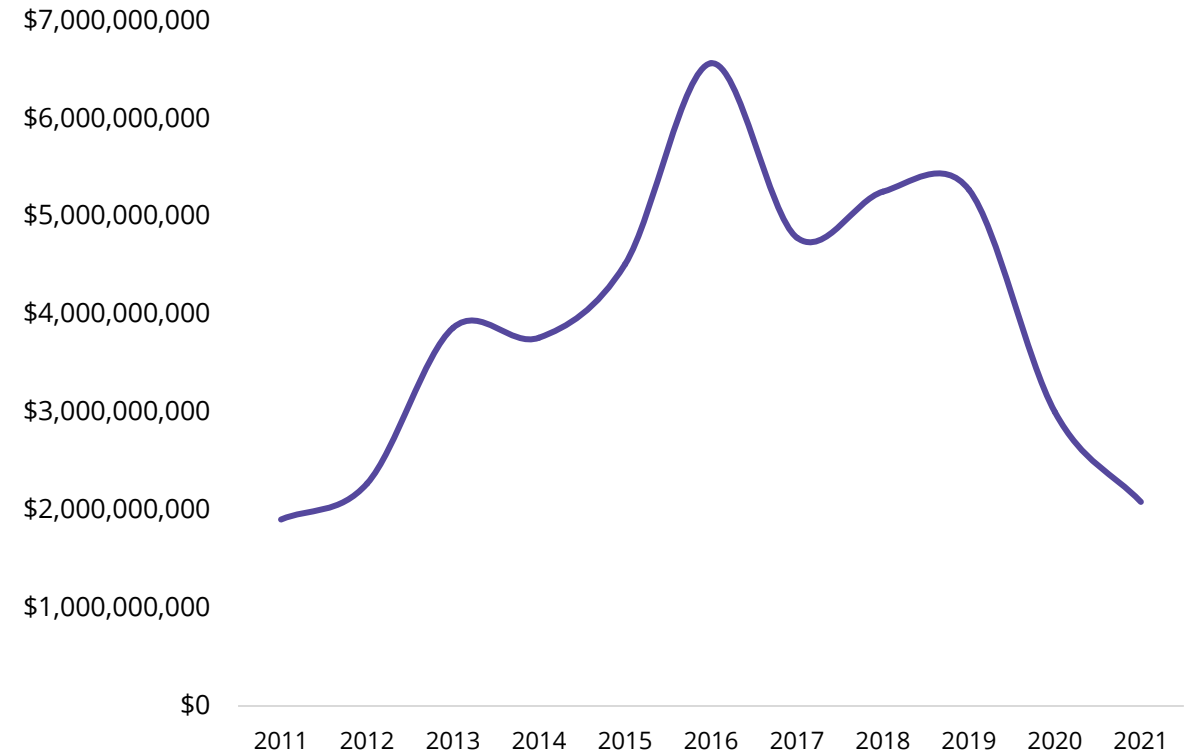
Source: AVANT by Avison Young

Office investment dollar volume

\$2.1B

DFW office sales 2021 YTD

Sales activity has flattened, but sales activity could grow as leasing activity and demand continue to improve.



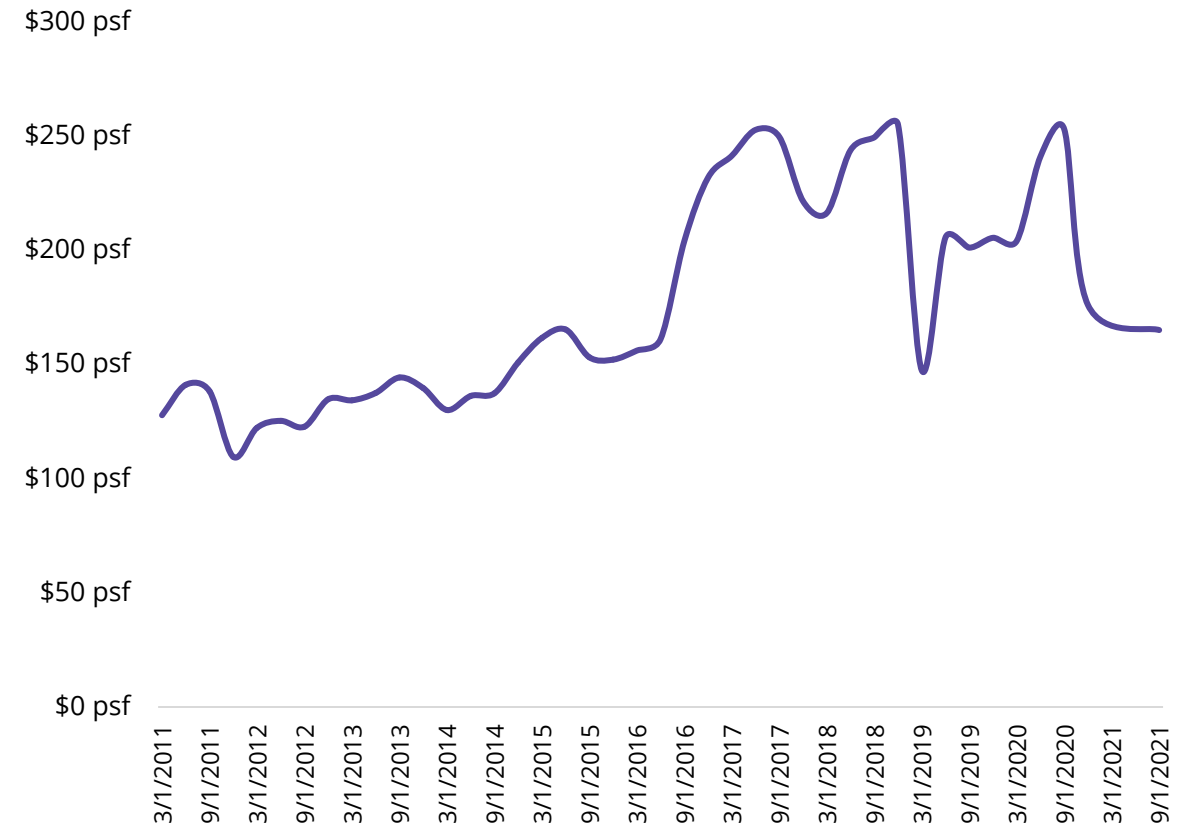
Source: AVANT by Avison Young

Office asset pricing

\$165 psf

Average sales price psf in Dallas-Fort Worth 2021 YTD

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$211 psf in Q4 2020 to \$165 psf for 2021 YTD; meanwhile, Class B/C product has accounted for over 60% of office sales this year. 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

- **Increased leasing activity is expected to continue** as companies begin to move forward with long-term real estate decisions.
- **Relocations from outside of the state** will continue to spur net new demand and place downward pressure on vacancy rates.
- **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



Greg Langston

Principal, Managing Director
Consulting & Advisory, Tenant Representation, Occupier Solutions
+1 214.269.3115
Greg.Langston@avisonyoung.com



Juliet Potter

South Regional Manager, Insights
+1 404.865.3674
Juliet.potter@avisonyoung.com



Grant Hayes

Senior Insight Analyst, Texas
+1 512.717.3072
Grant.hayes@avisonyoung.com



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Let's talk

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