



Dallas – Fort Worth office market report

Q1 2024

**AVISON
YOUNG**

Dallas – Fort Worth office market trends

284k sf

Absorption beginning to hold positive

After seeing repetitive quarters of negative absorption with any small positive gains taken back in succeeding quarters, DFW looks to have finally hit bottom. With three quarters of positive absorption, albeit very modest, the market looks to have stabilized. Office demand as measured by recent office-using employment growth has been mixed. While that number is 30% above the long-term average, BLS's revisions show year-on-year job gains over 2023–2024 were flat for the region. This could be merely a data consistency error in the revision, but DFW needs to see ongoing job gains to drive meaningful positive absorption to bring supply and demand back into balance.

29.5%

Availability finally tops out

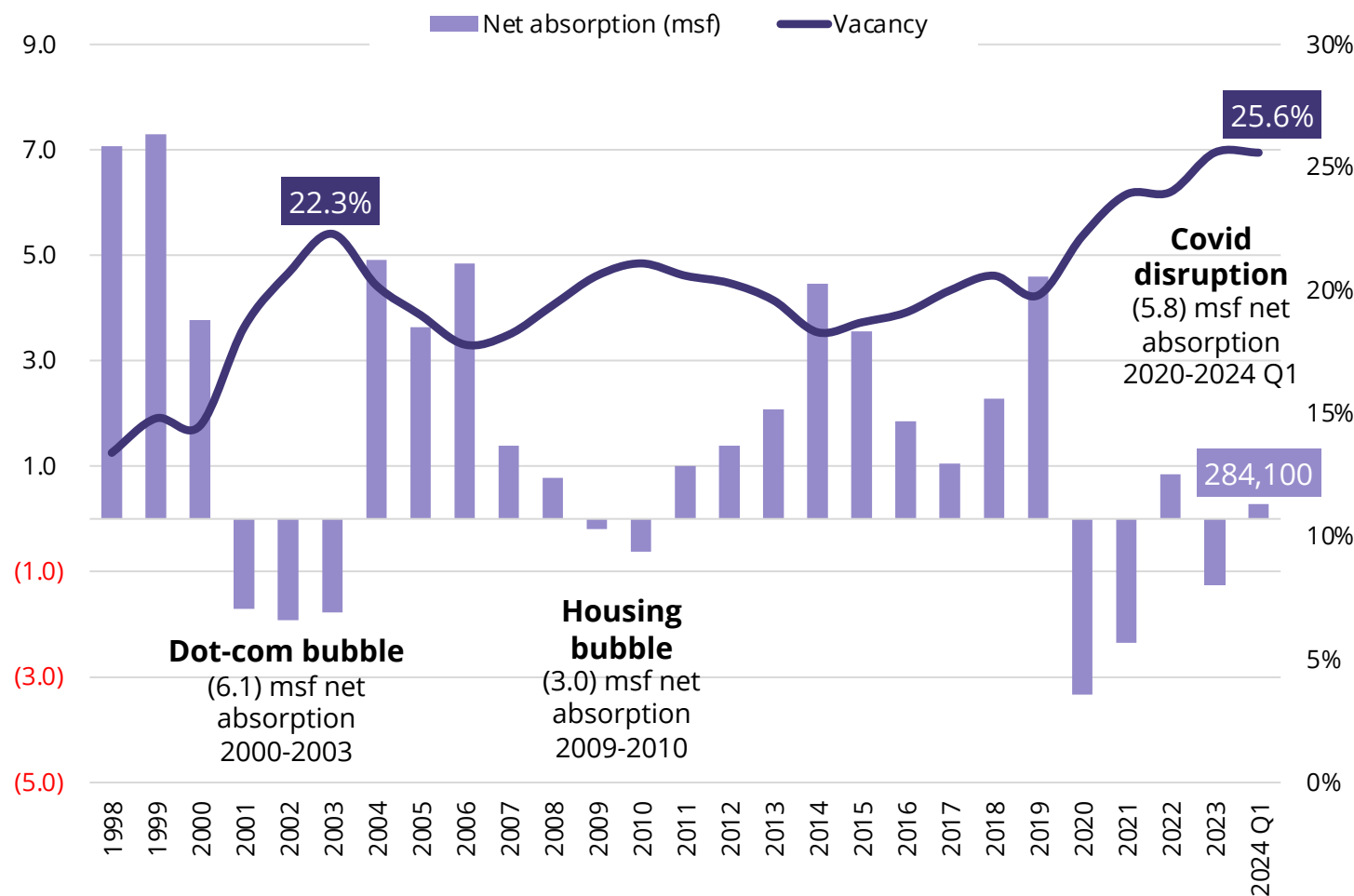
It looks like office space availability may have finally topped out in DFW. Even though 29.5% is close to DFW's all-time high, it is important that it has moved slightly lower in the last few quarters. In comparison, DFW averaged around 23% during good economic periods. In addition, direct available space came down by 1 msf in Q1. Although that is only a drop of 1.7%, it is the first positive shift in market conditions since the beginning of this down cycle. In contrast, sublet availability remains stuck at 9.5–10 msf as tenants weigh their options and timing to make a definitive decision as to their space needs.

2.6 msf

Anemic leasing complicates the picture

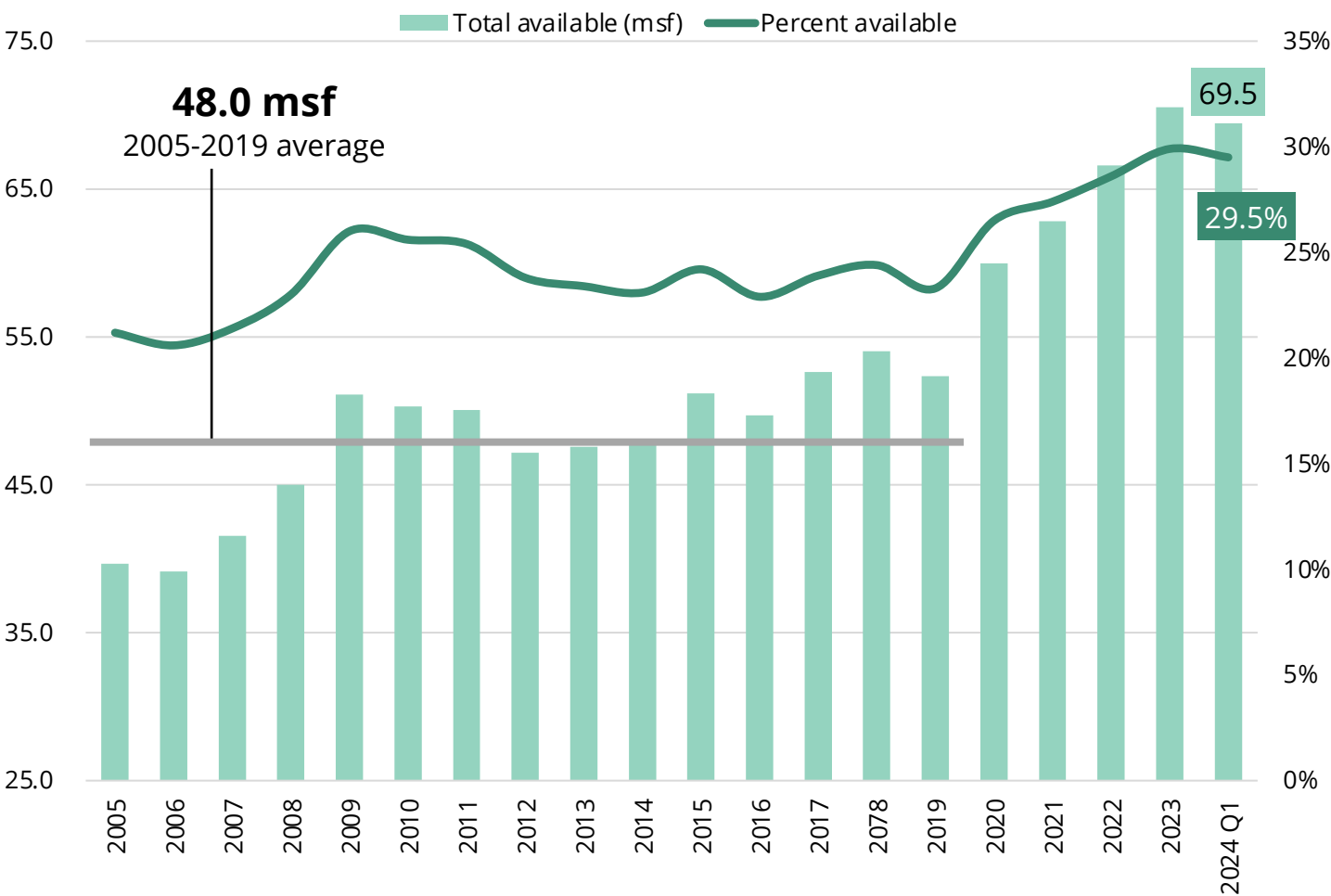
While DFW's office market works to regain balance, leasing remains sluggish. This lack of activity is complicating the market's recovery as tenants continue to take a wait-and-see attitude for their space needs by renewing for shorter terms or pushing out renewal decisions until greater clarity emerges for their businesses. Until leasing activity returns to more normal levels, it will be impossible for DFW to bring its historically high availability down meaningfully. This is especially challenging because most Q1 deals are relatively small, averaging 4,150 sf and time on the market of 10–12 months, making it difficult to make a dent in today's 20 msf of "excess" space.

Office absorption, a key demand indicator, turning positive



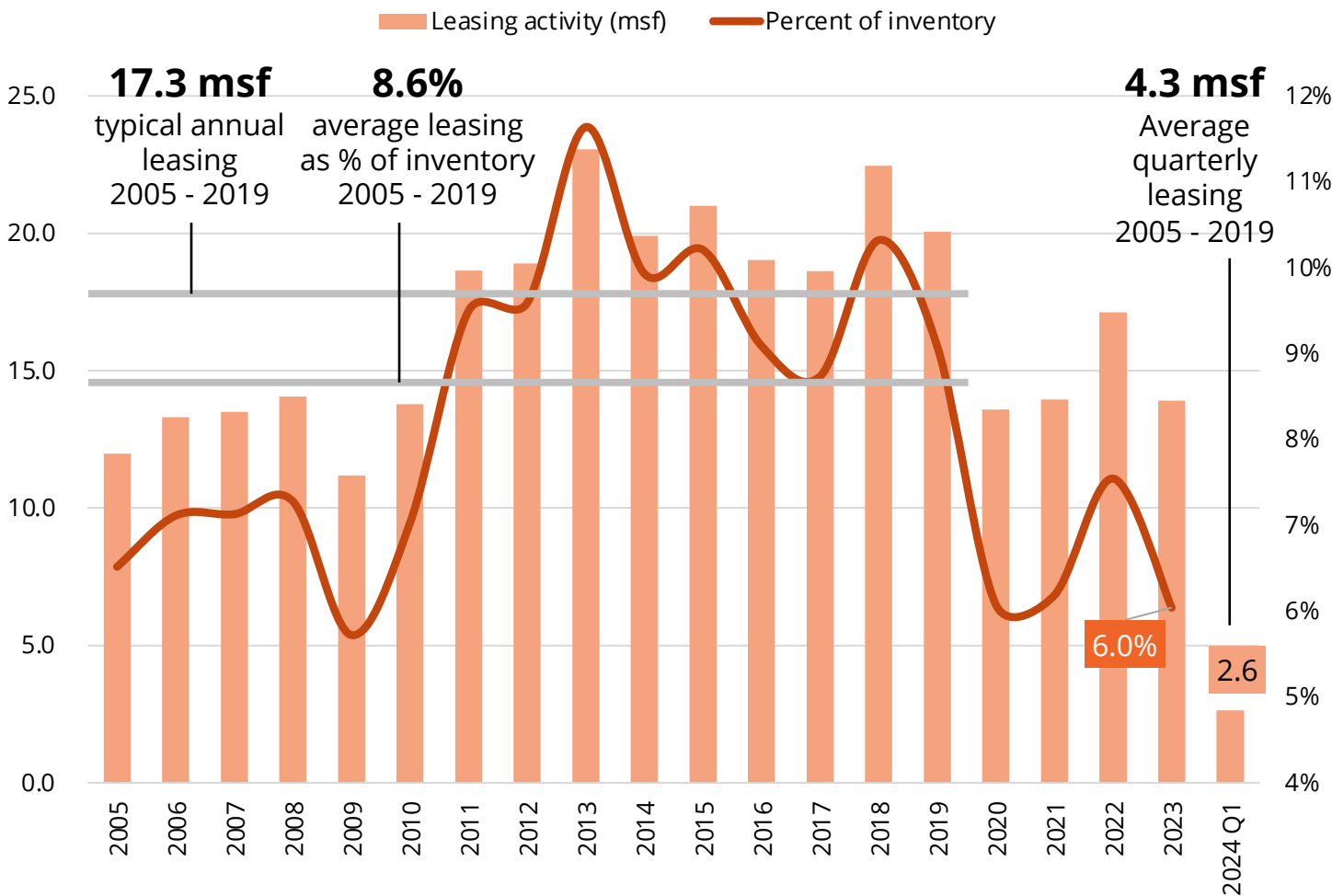
DFW office absorption has edged positive the last few quarters. This is a key trend given the significant “negatives” the market suffered through since 2020. If DFW holds positive, the Covid disruption would almost equal the locally severe Dot-com downturn. Vacancy, however, remains very elevated, which means improvement will be slow and require consistent positive demand.

Office space availability increases look to have finally peaked



Office space availability looks to have finally peaked in DFW. Availability has been holding steady at sub-30% the last few quarters, topping out at a little over 30% last year. While this is a meaningful positive shift in fundamentals, at near 70 msf, DFW continues to be +20 msf above its long-term average which will take a significant positive shift in demand to bring “balance” back to the local office sector.

Leasing off its historic pace and insufficient to improve available space totals

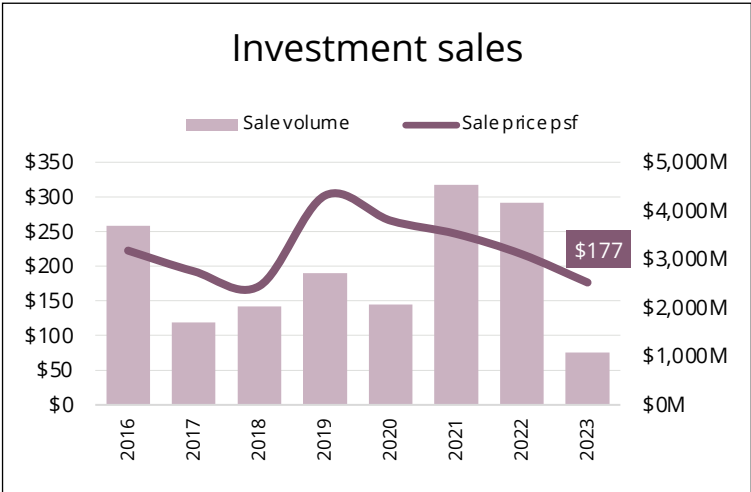
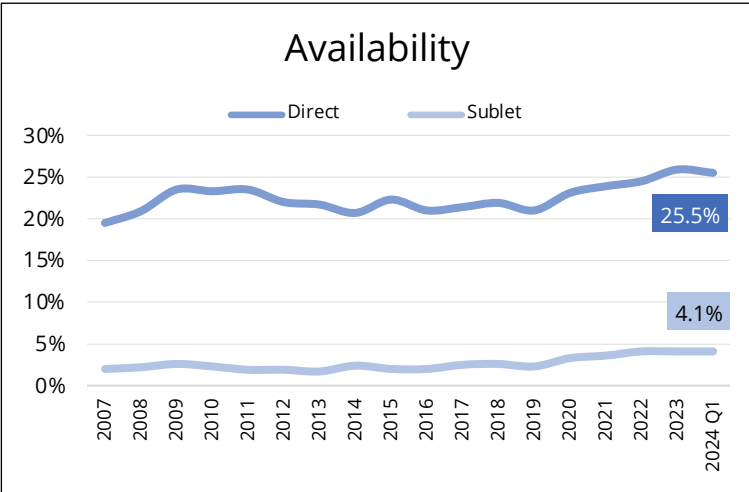
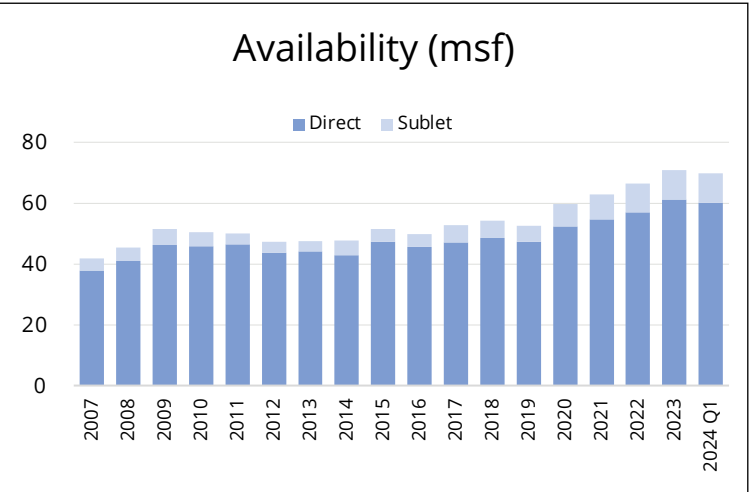
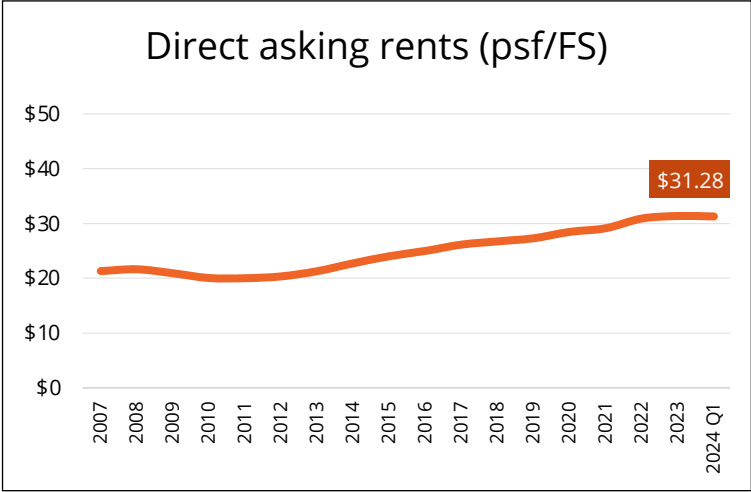
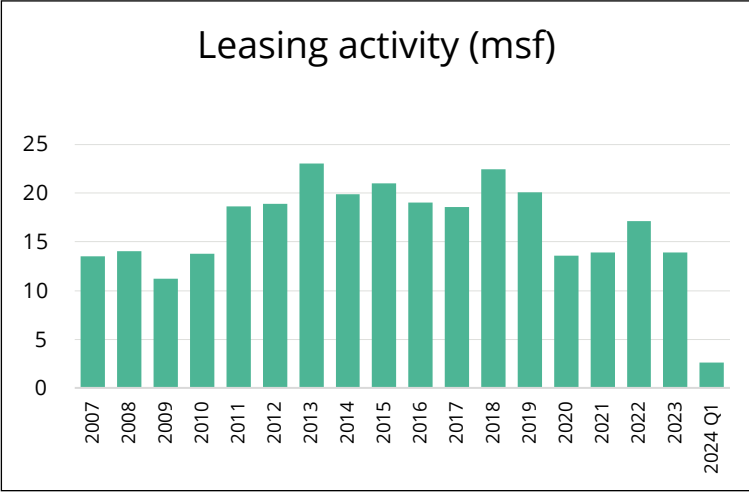
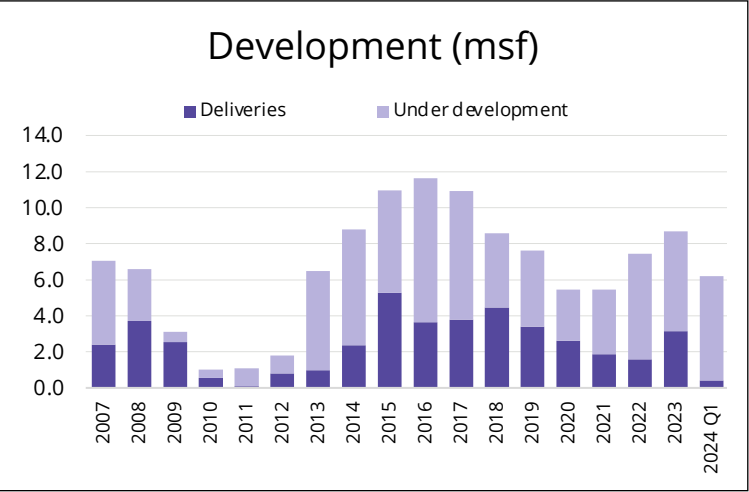


Leasing remains sluggish. In 2023, leasing was at 80% of its historical average of 17.3 msf. Leasing continued to be anemic in Q1, totaling 2.6 msf – 40% lower than the quarterly average. Small to mid-sized tenants under 10,000 sf drove the activity in Q1, with 49% of the space leased and representing 91% of deals.

Appendix



Dallas – Fort Worth office market indicators



Dallas – Fort Worth office market activity

Recent leasing activity

Tenant	Property Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Tanium	Spectrum Center	Quorum - Bent Tree	Mar-24	24,500	Expansion	Direct
Munck Wilson	2000 McKinney	Uptown	Feb-24	48,000	New	Direct
Littler Mendelson	Trammell Crow Center	Dallas CBD	Feb-24	26,400	Renewal	Direct

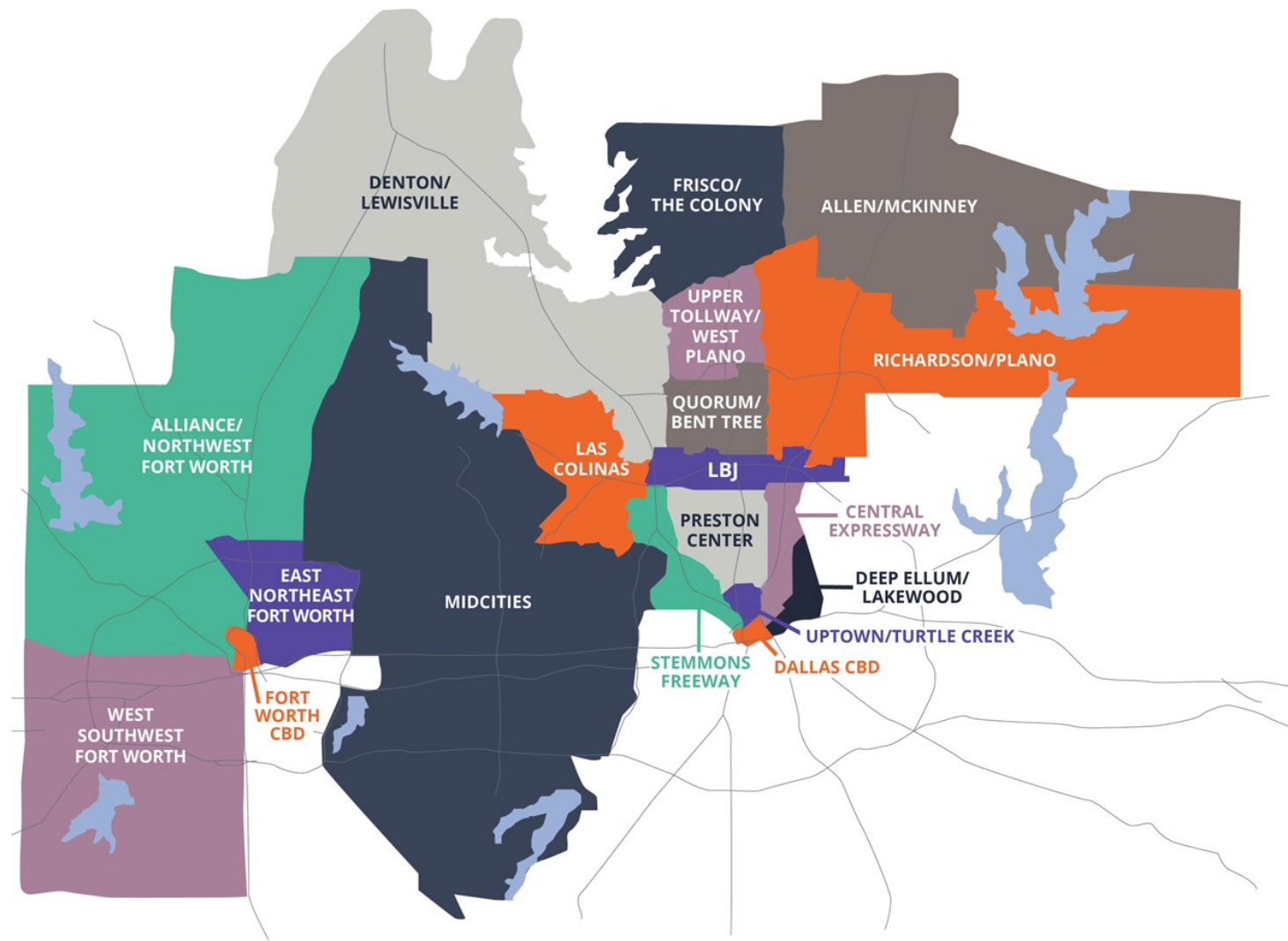
Recent sales activity

Buyer	Property Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Costco	North Central Plaza	December 2024	198,400	\$14.3 million	\$72	Hartman
Goldenrod Reserve Capital Partners	Collins Crossing	January 2024	312,500	N/A	N/A	Franklin Street Props
Capital Commercial Investments	4200 Regent Boulevard	February 2024	170,000	\$9.3 million	\$57	Property Income Advisors

Top projects under development

Property Address	Submarket	Delivery date	Building size sf	% Leased	Developer
Goldman Sachs	Uptown/Turtle Creek	2027	702,000	100%	Hillwood Urban Hunt
Southstone Yards A	Frisco/The Colony	2024	241,000	0%	Crow Holdings
23Springs	Uptown/Turtle Creek	2025	626,000	52%	Granite Highwoods

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	Net absorption sf (1Q24)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Dallas CBD	26,579,582	0	0	32.2%	4.2%	36.4%	506,451	506,451	\$30.59
Allen - McKinney	4,137,949	0	156,694	25.6%	2.9%	28.5%	9,699	9,699	\$32.02
Central Expressway	9,910,893	0	0	25.1%	1.9%	27.1%	79,549	79,549	\$34.49
Deep Ellum - Lakewood	1,421,439	0	0	28.9%	27.3%	56.2%	(15,241)	(15,241)	\$37.05
Frisco - The Colony	5,568,414	0	1,680,112	23.9%	5.3%	29.2%	92,531	92,531	\$41.42
Las Colinas	35,420,635	0	56,269	25.9%	6.2%	32.0%	(194,005)	(194,005)	\$28.33
LBJ Freeway	19,337,197	0	0	22.6%	3.7%	26.2%	125,068	125,068	\$26.32
Preston Center	5,696,925	0	0	11.7%	2.8%	14.5%	(5,989)	(5,989)	\$44.77
Quorum - Bent Tree	20,391,040	40,000	0	24.3%	3.1%	27.3%	(141,680)	(141,680)	\$28.76
Richardson - Plano	21,067,633	0	0	23.8%	4.7%	28.4%	(6,302)	(6,302)	\$23.80
Stemmons Freeway	6,330,881	272,743	150,000	23.9%	1.0%	24.9%	(9,017)	(9,017)	\$28.70
Upper Tollway - West Plano	22,116,248	104,946	797,977	37.7%	5.8%	43.5%	(381,403)	(381,403)	\$36.98
Uptown	14,778,534	0	2,462,766	25.4%	1.5%	26.9%	185,765	185,765	\$50.95
Fort Worth CBD	8,027,877	0	0	13.5%	1.1%	14.6%	8,841	8,841	\$30.25
Alliance - NW Fort Worth	1,455,500	0	155,000	19.2%	9.3%	28.4%	17,620	17,620	\$27.00
East NE Fort Worth	3,016,960	0	0	11.0%	0.0%	11.0%	3,832	3,832	\$19.56
Lewisville - Denton	3,920,845	0	225,000	28.0%	6.0%	29.7%	(12,261)	(12,261)	\$26.08
MidCities	14,357,902	8,424	71,419	23.5%	3.9%	27.0%	(14,245)	(14,245)	\$26.03
West SW Fort Worth	7,017,390	0	0	13.8%	1.3%	15.1%	29,398	29,398	\$27.59
Market total	230,553,844	426,113	5,755,237	25.5%	4.1%	29.5%	278,611	278,611	\$31.28

Dallas – Fort Worth office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (1Q24)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Trophy	12,729,925	0	1,828,341	23.6%	4.2%	27.8%	311,418	311,418	\$48.83
Class A	132,197,453	417,689	3,661,284	27.4%	4.7%	32.1%	(232,160)	(232,160)	\$33.83
Class B	85,626,466	8,424	265,612	22.7%	3.1%	25.8%	199,353	199,353	\$23.81
Market total	230,553,844	426,113	5,755,237	25.5%	4.1%	29.5%	278,611	278,611	\$31.28



Office development pipeline

27 properties

under construction

5.8 msf

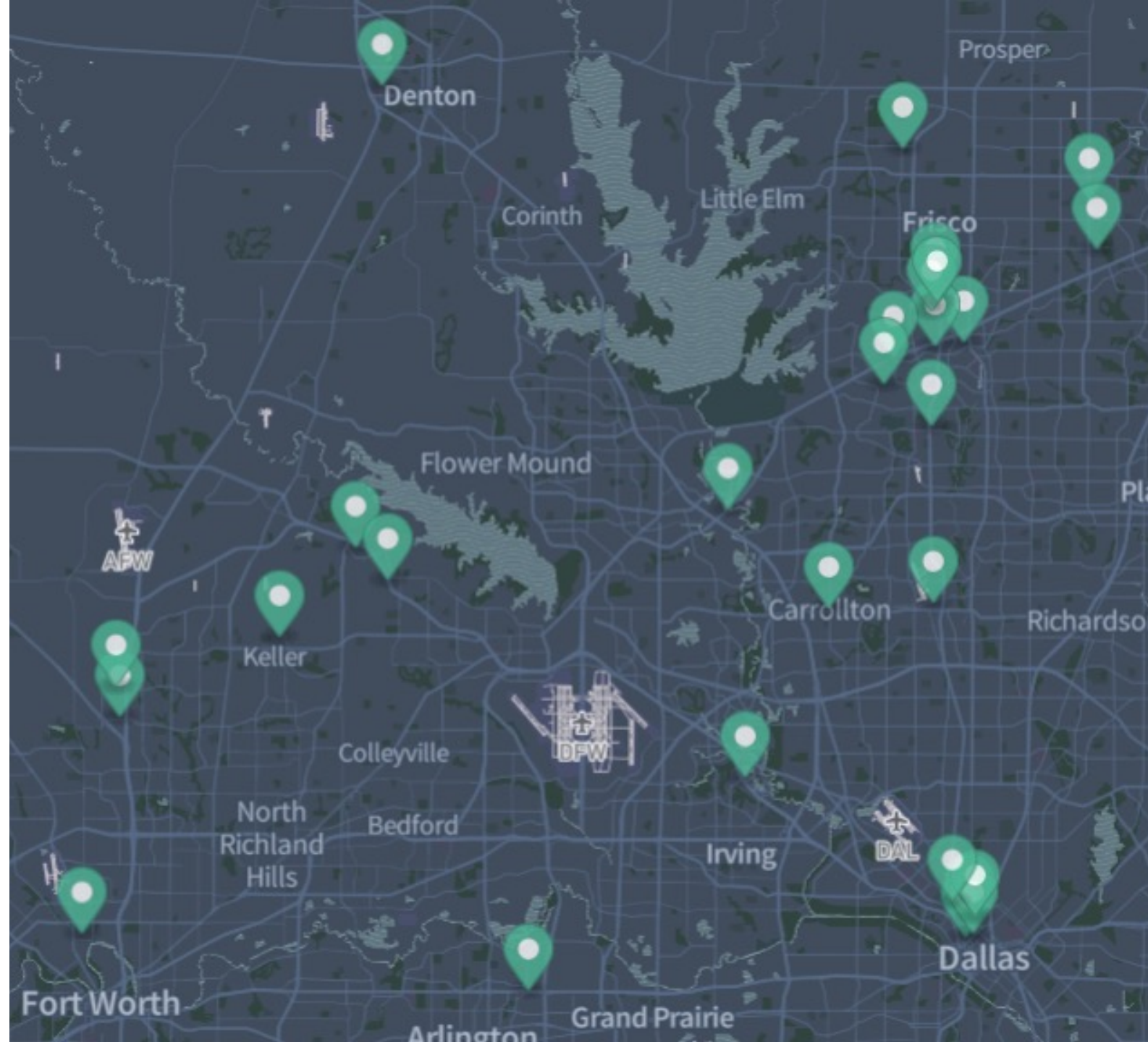
under construction

2.5%

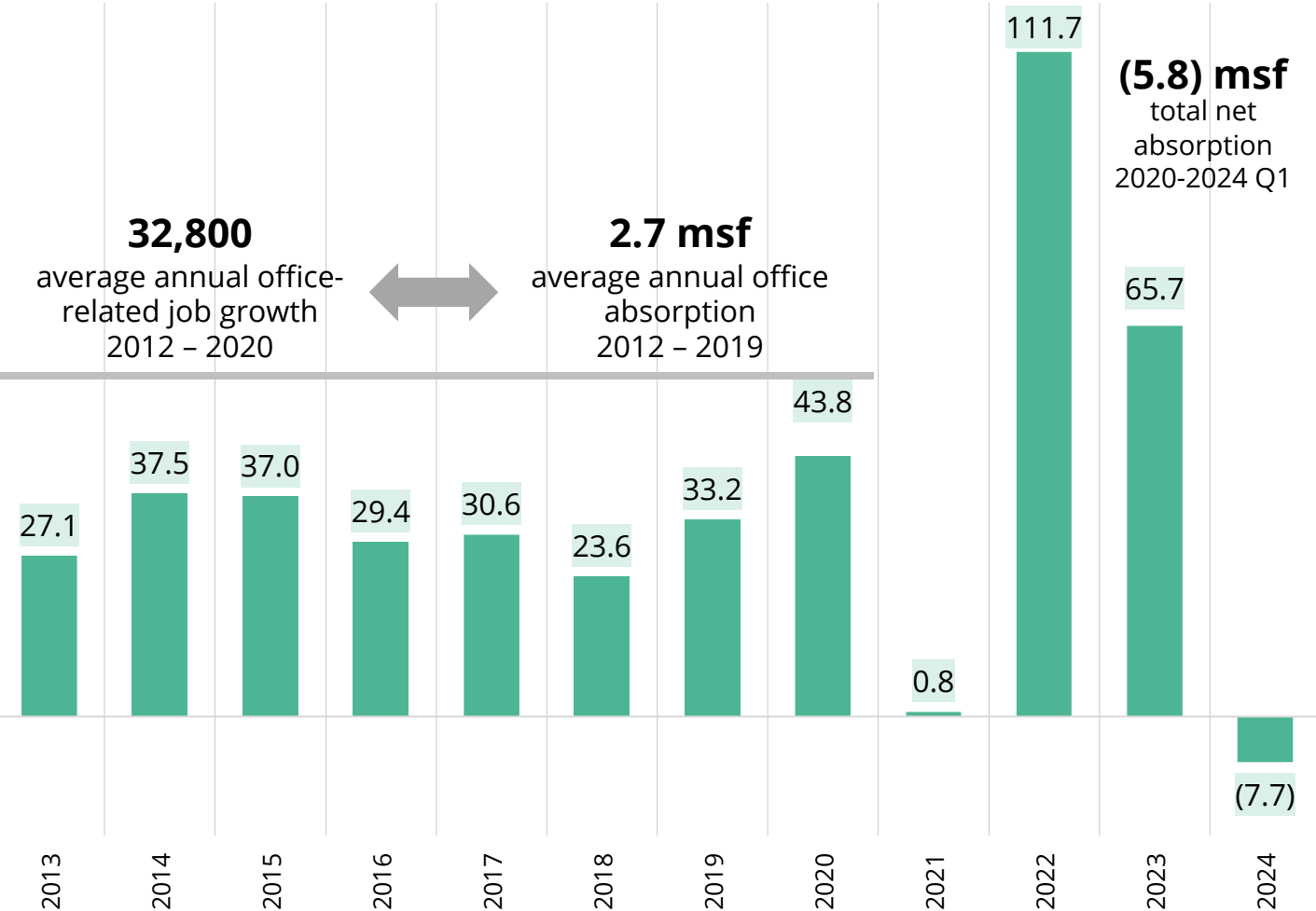
share of office inventory

2.3 msf | 40%

share leased



Economic shift – office-using job growth no longer reliable “predictor” of office demand



Historically, DFW’s office job growth showed a consistent pattern tied closely to office demand. While BLS’s recent revisions erased what had looked to be significant “phantom” job gains the last few years, office-related growth now seems disconnected from the economy. Presently, office job growth exceeds the longer-term average by 30%, yet the region has seen 5.8 msf of negative absorption.

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

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