INVESTMENT FORECAST

Office

Dallas-Fort Worth

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Out-of-State Investors Target North Dallas Suburbs as the CBD Endures a Brief Stretch of Amplified Vacancy

Suburbs in a better near-term position, but positives emerge in the Dallas CBD. The rebound is beginning to commence in Dallas' urban core, with several firms inking leases at downtown skyscrapers late last year after these types of buildings were circumvented amid virus transmission concerns early in the health crisis. Nevertheless, vacancy in the Dallas CBD exceeded 30 percent entering this year, but the rate should taper in 2022 as almost no new supply is expected to finalize. Builders instead are active in the suburbs, which have been comparatively resilient and drawn more pre-leases. The largest planned move-in this year is by Uber Technologies, which will occupy 350,000 square feet at The Epic-Building II just outside the core in East Dallas. This submarket as well as Richardson-Plano will each add more than 500,000 square feet of speculative space this year. These new properties should garner leases as both submarkets have vacancy rates below the Metroplex average. Positive momentum in the suburbs and minimal new supply in the Dallas core will curtail marketwide availability in 2022 and promote rent growth.

Investment activity jumps, piloted by swells in a few choice locations. Trading velocity accelerated last year, with the number of transactions notably surpassing the previous year's recording. Three submarkets — Far North Dallas, Mid-Cities and Richardson-Plano — led the improvement as they combined for roughly half of the deals completed in 2021, compared to a share of less than 40 percent in the previous annual period. Strong buyer demand in these locations stems from the Metroplex's ability to attract new companies, due to its business-friendly environment and lower costs. Many firms are leasing space in the north Dallas suburbs, where strong household formation presents these companies with a competitive advantage when searching for workers. Out-of-state buyers are operative in these areas, often acquiring Class A and B assets with entry costs and cap rates on par with the Metroplex averages of $234 per square foot and 6.9 percent.

2022 Market Forecast

Employment up 4.0% — Traditional office-using sectors contribute more than 40 percent of the 157,000 jobs added in Dallas-Fort Worth this year.

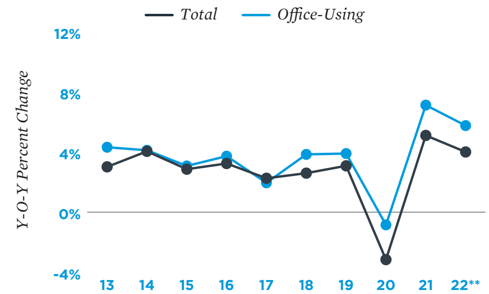
Construction 3,400,000 sq. ft. — Responding to elevated vacancy, labor shortages and building costs, developers add less new space in 2022 than in any year dating back to 2013.

Vacancy down 60 bps — Net absorption of 4.9 million square feet exceeds new supply, dropping vacancy to 20.9 percent. Relative to the pre-pandemic measure, availability remains 300 basis points higher.

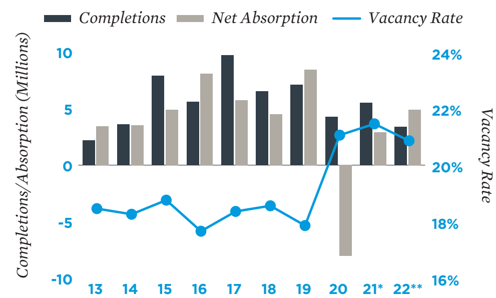
Rent up 0.7% — After the average asking rent in the Metroplex held firm in 2021, downward vacancy movement will support growth this year. The marketed rate increases to $21.75 per square foot.

Investment — Greater Fort Worth claims a vacancy rate that is 900 basis points below Greater Dallas. This could prompt increased investment activity in 2022, as buyers strive to minimize risk.

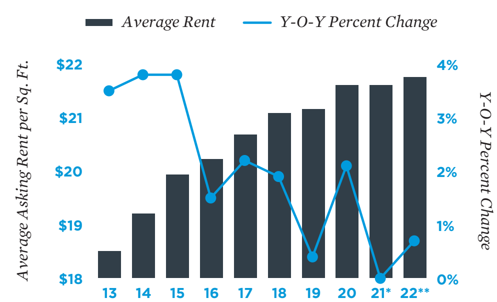
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius
Senior Vice President
Director IPA Office
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.