MARKET REPORT

Office

Dallas-Fort Worth Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

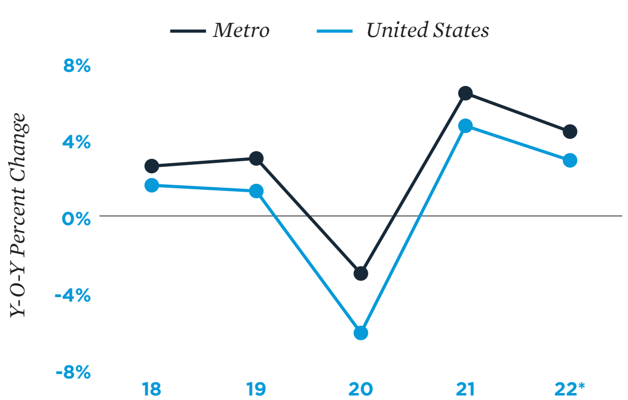
2Q/22

Traditional Office-Using Job Growth and a Wave of New Leases are Promising Trends

Newer builds act as a magnet for firms. Leasing in the Metroplex improved during the opening stage of 2022, and the nature of commitments could indicate a flight-to-quality enkindled by the pandemic. Companies are frequently seeking out higher-end offices, especially those with flexible spaces, in locales with concentrations of young professional-friendly living options. This may be a strategy to procure a workplace that is desirable for in-person operations, presenting attractive amenities and easy commutes. In the Uptown Dallas and Victory Park areas, a bevy of firms inked leases earlier this year at offices built during the pandemic or still in the development phase. The Link at Uptown, which opened last year, secured a move-in from PMG planned for August, and Houlihan Lokey will occupy space here early next year. A few blocks north, Bank OZK inked a 15-year lease for four floors at a tower anticipated to open in 2025.

Employment metrics hint at a road to recovery. The financial activities, information, and professional and business services sectors, which traditionally utilize physical offices, are growing quickly. These job segments added over 20,000 roles in the opening quarter of 2022, bringing the aggregate count 115,000 roles higher than the year-end 2019 equivalent. The first quarter gain ranked as the third largest in the nation, trailing only Atlanta and Chicago. The larger headcount may not serve as a comprehensive barometer of current office needs, given the prevalence of remote and hybrid work, but it is a promising indication that a demand enhancement is looming.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

174,000 JOBS *will be created*

EMPLOYMENT:

Traditional office-using segments will contribute about 40 percent of the 174,000 jobs added this year. Gains in the professional and business services segment are especially robust, with a personnel tally exceeding 2019 by 85,000 roles entering May 2022.

4,200,000 SQ. FT. *will be completed*

CONSTRUCTION:

Development cools off this year with a completion total 2.6 million square feet below the trailing five-year average. The smaller supply addition should help relieve vacancy pressure, but less than 50 percent of the pipeline was pre-leased as of May.

10 BASIS POINT *increase in vacancy*

VACANCY:

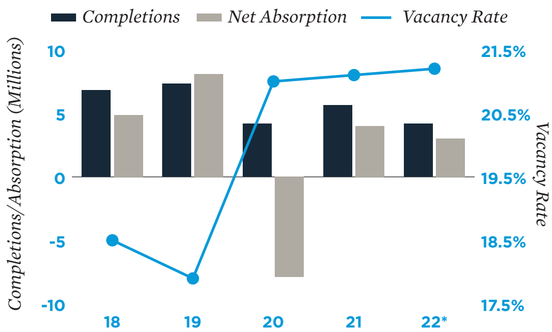
Office availability in the Metroplex ticks up 10 basis points for the second straight year to 21.2 percent. This vacancy rate is among the highest in the country. However, the 330-basis-point rise since 2019 is less extreme than at least 15 other major markets.

2.4% INCREASE *in asking rent*

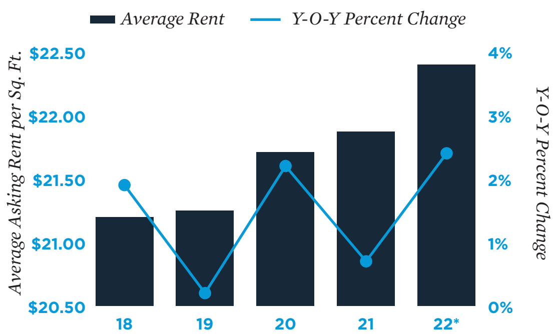
RENT:

Aided by the delivery of 2 million-plus square feet of ready-to-lease high-end space, the average asking rent climbs to $22.40 per square foot. Rates will be the second highest in Texas, but 25 percent cheaper than Austin, which could lure cost-conscious companies.

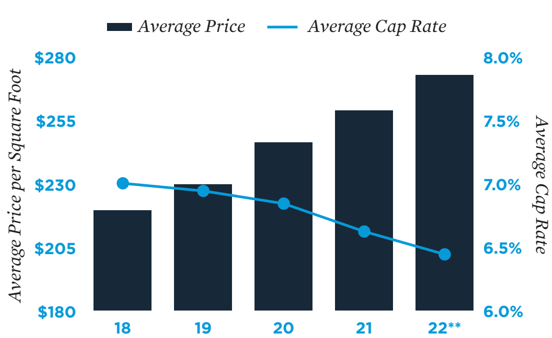
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q 2022 - 12-Month Period

CONSTRUCTION

5,471,000 sq. ft. completed

- During the past year ended in March, the Arlington-HEB-Grapevine and Far North Dallas submarkets each added more than 1 million square feet of inventory. The new space was absorbed faster in the Mid-Cities locales.
- The Las Colinas area and Allen-McKinney suburbs have the largest share of remaining 2022 completions, at 600,000-plus square feet apiece.

VACANCY

0 basis point change in vacancy Y-O-Y

- Vacancy disparity between Greater Dallas and Greater Fort Worth widened over the past year. The rate in Fort Worth declined 100 basis points to 13.5 percent, while Dallas witnessed a 30-basis-point rise to 23.3 percent.
- Class B/C availability fell 50 basis points to 17.4 percent in March, buoyed by strong absorption in Richardson-Plano and the Fort Worth CBD.

RENT

1.6% increase in the average asking rent Y-O-Y

- Greater Dallas' average asking rent advanced 2.0 percent year-over-year to $22.43 per square foot in the first quarter, as some higher-end space returned to the market and newer builds with premium rates opened up.
- Aided by pandemic trends and new supply, Far North Dallas jumped ahead of Central Expressway for the third-highest average rent in the market.

Investment Highlights

- Deal flow retreated in the opening months of 2022, but the second half of last year was very strong for trading. Nearly the same amount of office assets changed hands in the final six months of 2021 as in the entirety of both 2019 and 2020. This surge in activity helped push the average sale price up 9 percent to $273 per square foot during the 12-month period ended in March. The mean cap rate eased to 6.4 percent during that time frame.
- Far North Dallas and Richardson-Plano had the largest number of office trades over the last 12 months, as buyers sought out high-growth suburbs. Here, investors mostly pursued Class A and B assets built within the past 40 years, with first-year returns in the mid-5 to upper-6 percent zone common. Deal flow also rebounded in historically-favored areas like Las Colinas and the Mid-Cities. Both submarkets captivated out-of-state investors wanting to place capital in prime office districts of Dallas-Fort Worth.
- Medical office transaction velocity improved by about 25 percent during the yearlong stretch ended in March relative to the prior interval. Suburbs ranging from Garland northwest to Denton are popular targets for buyers of medical office space, which have an average sale price and cap rate of roughly $350 per square foot and 7 percent, respectively, in the Metroplex.

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Price: $250