MARKET REPORT

Office

Dallas-Fort Worth Metro Area

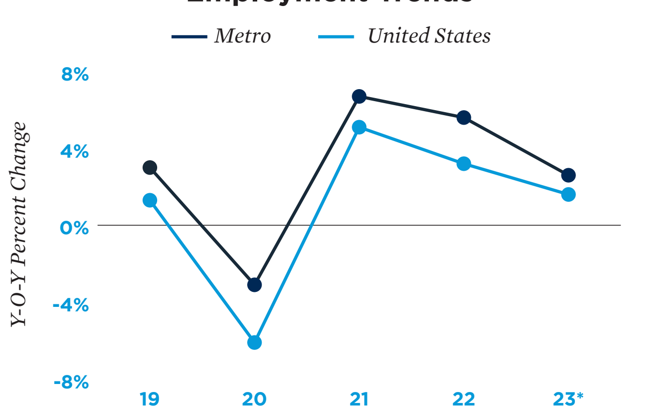
4Q/23

Metroplex Vacancy Has Held Sturdy After the Initial Pandemic Shock, but Additional Hurdles Ahead

Two areas with opposing cost dynamics among top performers. Office absorption has been positive in four of the last five quarters through June 2023. The market remains varied, however, with 10 of Dallas-Fort Worth's 18 submarkets recording annual vacancy reductions, while four areas had hikes of at least 100 basis points as of midyear. Two standout locations of late include Preston Center and Southwest Dallas, which feature contrasting characteristics. Vacancy in the Southwest submarket fell 500 basis points year-over-year, as it is one of just three Metroplex areas with an average asking rent below $18 per square foot. On the other hand, the only submarket with a mean marketed rate above $35 per square foot — Preston Center — also noted a 260-basis-point vacancy drop. The Class A segment here is outperforming the market, warranting its standing as one of the fastest-growing spots for office supply in the Metroplex.

Largest construction slate since 2019 presents challenges. Vacancy has remained unchanged since the mid-point of last year; nevertheless, upward pressure is expected during the second half of 2023. Roughly 3.8 million square feet is scheduled to finalize from July through December — more space than the entirety of 2022 — putting the annual total at a four-year high. At the same time, development is clustered. Stemmons Freeway, Far North Dallas, Uptown-Turtle Creek and North Fort Worth combine for two-thirds of the second half pipeline, limiting supply headwinds elsewhere.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook

110,000 JOBS
will be created

EMPLOYMENT:

Traditional office-using industries added 29,000 jobs during the first eight months. No other market in the U.S. added more than 12,000 such positions. This helps drive an overall 2.6 percent employment gain this year.

6,550,000 SQ. FT.
will be completed

CONSTRUCTION:

New supply will more than double last year's volume and substantially exceed the long-term average of 5.1 million square feet annually. As of September, roughly 50 percent of the pipeline was occupied or pre-leased.

110 BASIS POINT
increase in vacancy

VACANCY:

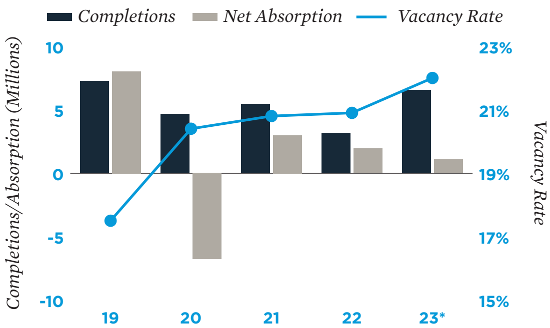
A notable share of 2023's new supply is delivering without a tenant commitment, propping up vacancy. Dallas-Fort Worth's rate will reach 22.0 percent at year-end, after rising by just 50 basis points across 2021-2022.

1.0% INCREASE
in asking rent

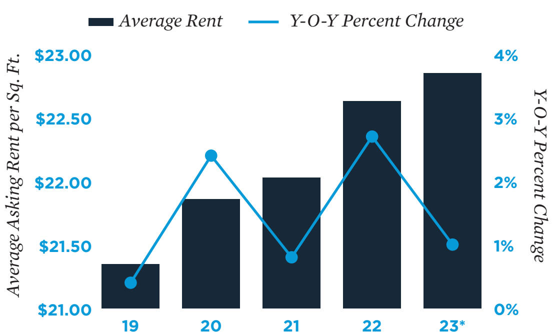
RENT:

While aggressive construction is poised to elevate Metroplex vacancy, the new high-quality office space will also lift the average asking rent. Dallas-Fort Worth's mean marketed rate climbs to $22.85 per square foot.

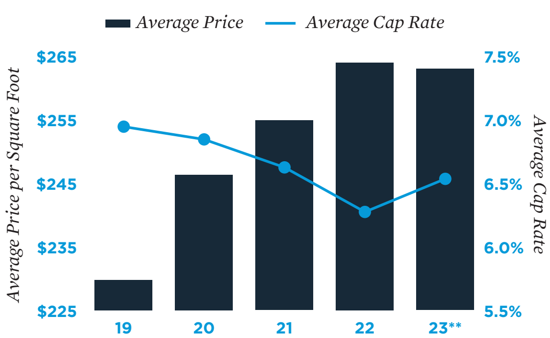
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION
4,347,000 sq. ft. completed

- New supply during the year ending in June slightly trailed the prior period's 4.5 million square feet, but Dallas-Fort Worth's delivery volume still ranked fourth nationally behind only New York City, Boston and Austin.
- Preston Center led all submarkets with a 4.6 percent bump in local inventory. Las Colinas and Richardson-Plano also had 2.5-plus percent growth.

VACANCY
0 basis point change in vacancy Y-O-Y

- Greater Fort Worth registered a 20-basis-point vacancy reduction, bringing the rate to 13.5 percent in June. Conversely, Greater Dallas recorded a 10-basis-point increase that ticked vacancy up to 23.1 percent.
- Downtown Fort Worth turbocharged performance on that side of the Metroplex. Vacancy here plunged by 380 basis points to 11.7 percent.

RENT
1.5% increase in the average asking rent Y-O-Y

- The Class B/C office segment posted 2.3 percent year-over-year rent growth, compared to a 0.7 percent Class A increase. Among submarkets, Class B/C rents rose the fastest in Preston Center and Stemmons Freeway.
- Class A rent improvement was mild on a market level, but double-digit annual surges were recorded in North Fort Worth and Preston Center.

Investment Highlights

- While office vacancy held relatively steady in recent quarters as marketed office rents ticked up, higher interest rates and conservative underwriting remain a downward force on trading activity. Deal flow in Dallas-Fort Worth during the first half of 2023 was down more than 70 percent compared to the same six months of last year. The Dallas portion of the Metroplex registered a 75 percent reduction, while Fort Worth's decline was closer to 65 percent. Vacancy in Greater Fort Worth is nearly 1,000 basis points below Greater Dallas, potentially maintaining this dynamic.
- Preliminary July and August 2023 data reflects that subdued trading activity persisted, although the potential for greater interest rate stability going forward could help aid the investment market. In recent months, buyers have been the most engaged in Richardson-Plano and Mid-Cities. Transactions in both areas often feature Class B/C assets with cap rates in the 7 percent zone. Larger-scale deals are more common in Mid-Cities.
- Medical offices changed hands in 12 different submarkets year-to-date through August, with appetite evident among out-of-state buyers. Richardson-Plano and Far North Dallas had the highest volume for these assets.