# MARKET REPORT

**OFFICE**

*Dallas-Fort Worth Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

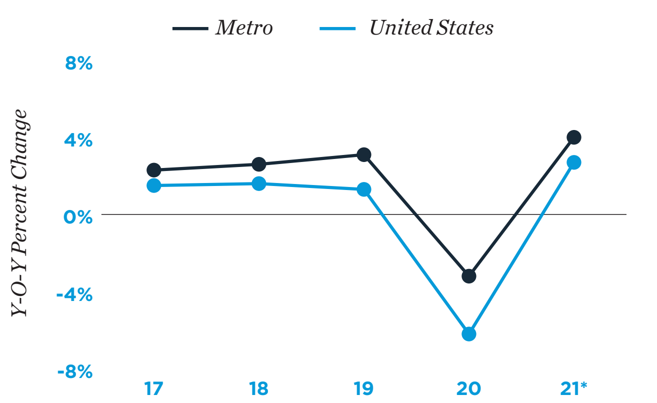
**2Q/21**

## Major Leases Signal Brighter Days on the Horizon; Elevated Vacancy Illustrates Near-Term Obstacles

**Leases by national corporations reiterate market's appeal.** The rapidly growing populace promotes labor availability, while the state's business-friendly environment also drives companies' desire to establish a footprint in the metroplex. Several large-scale move-ins occurring in 2021 highlight demand. Keurig Dr. Pepper occupied a 350,000-square-foot headquarters in Frisco in May, while Peloton established a 104,000-square-foot workplace in Plano in April. Additionally, Kohl's opened a pair of 86,000-square-foot offices in North Richland Hills and Cedar Hill earlier this year. This will continue in the future, as Verizon plans to occupy 2.3 million square feet in Las Colinas in 2023, while Uber takes up 469,000 square feet in urban Dallas in late summer next year. Big leases like these should bolster absorption, while the downtick in construction provides a platform for the market to find balance as ceased restrictions nurture plans to bring staff back into the office.

**Speculative development in Uptown a potential headwind.** Two of the largest projects slated to deliver in 2021 that had tenants committed to fewer than 10 percent of the space are within a few blocks of each other in Uptown Dallas. Victory Commons One and the Link will bring a combined 650,000 square feet of unleased space to a locale where availability increased 260 basis points last year to 20.5 percent. This could produce a slower recovery in the submarket relative to other metroplex areas that are adding less inventory or have leases inked for a larger share of arrivals.

### Employment Trends




* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2021 Outlook

**150,000 JOBS**
*will be created*

### EMPLOYMENT:

Following the loss of 121,600 positions in 2020 that resulted in an unemployment rate of 6.5 percent at year end, the metroplex's job total will expand by 4.0 percent in 2021. The headcount is expected to surpass the pre-health crisis tally.

**3,920,000 SQ. FT.**
*will be completed*

### CONSTRUCTION:

After deliveries shrank to about half of the 2019 volume last year amid stoppages, annual completions will remain below the 4 million-square-foot threshold for the second straight year. Marketwide stock will grow by 1.1 percent in 2021.

**10 BASIS POINT**
*increase in vacancy*

### VACANCY:

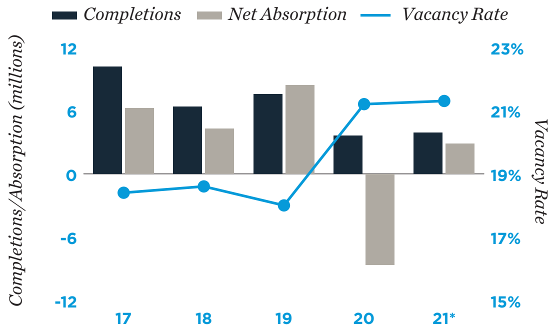
Net absorption should return to a positive level in 2021 but may still fall short of completions, resulting in a slight increase in vacancy to 21.3 percent. This will be approximately 500 basis points above the national rate at the end of this year.

**0.4% INCREASE**
*in asking rent*

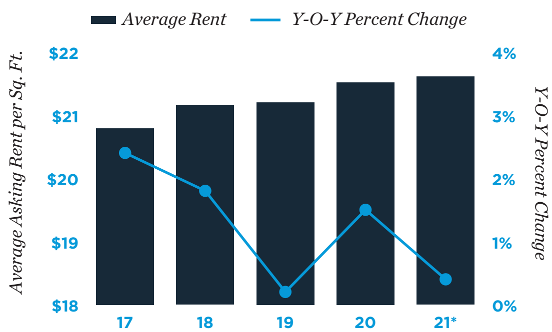
### RENT:

Strengthening demand for office space as well as new high-quality arrivals will bolster market rates, allowing the average asking rent to increase for an 11th consecutive year. By the end of 2021 the average rate will be $21.61 per square foot.

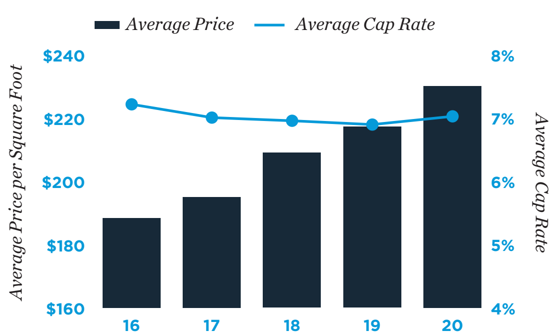
## Supply and Demand




## Rent Trends




## Sales Trends




* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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# 2020

## CONSTRUCTION

**3,630,000 square feet completed**

- A trend of annual completions exceeding 5 million square feet that spanned from 2015 through 2019 was broken last year when inventory grew by 1.0 percent, the smallest expansion in seven years.
- Among submarkets, Far North Dallas led all with 876,000 square feet. An additional 769,000 square feet was completed in Las Colinas.

## VACANCY

**320 basis point increase in vacancy Y-O-Y**

- Negative 7.7 million square feet was absorbed from April through September before slowing to negative 1.4 million square feet in the fourth quarter. The vacancy rate ended the year at 21.2 percent.
- Class A was particularly beleaguered last year with vacancy soaring 390 basis points to 24.8 percent. Class B/C availability rose 260 basis points.

## RENT

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

- Influenced by a 2.3 percent hike in both the Dallas and Fort Worth urban cores, marketwide average asking rent grew to $21.52 per square foot in 2020. Quality space returning to market fueled gains downtown.
- While the majority of submarkets posted rent gains, the Central Expressway and East Dallas areas had reductions of at least 1.0 percent.

## Investment Highlights

- Yearly transaction volume was up 9 percent in 2020, due in large part to a fourth quarter when trading activity eclipsed recent periods by a significant margin. Fueled by restrictions being lifted late last year, buyers rushed off the sidelines and scoured the metroplex, with limited inventory also helping to drive activity. A favorable long-term outlook is luring more out-of-state investors, who are particularly active in the Class A segment, where transactions were up 30 percent year over year.
- The rise in Class A deal flow contributed to the average sale price rising 6 percent last year to $230 per square foot. This gain ranked second among the four major markets in the state of Texas behind only San Antonio. Meanwhile, the average cap rate in Dallas/Fort Worth increased 10 basis points to 7.0 percent.
- Over the second half of 2020 and early this year, upper-tier assets have changed hands frequently in Far North Dallas, specifically between the President George Bush Turnpike and Interstate 635. Mid-tier offices trade here as well as in Mid-Cities locales like Grapevine and Arlington.