

A woman in a colorful floral shirt is standing and presenting to a group of people seated around a white table in a modern office. The office has large windows, indoor plants, and a whiteboard in the background. The scene is brightly lit with overhead lights.

Dallas – Fort Worth office market report

Q2 2024

**AVISON
YOUNG**

Dallas – Fort Worth office market trends

-456k sf

Demand struggling to hold positive

Last quarter, raw office space demand – net office absorption – looked to have stabilized and finally turned positive. Unfortunately, Q2 saw some Q1 re-benchmarking and significant negative absorption in the sublet sector. This pushed market net absorption negative again. This has also caused vacancy to inch up to 25.9%, the highest since the late 1980s and 6.4 percentage points above DFW’s modern-era (2000-2019) average. Office using job gains have also been mixed over this period. While the region added 173,000 net new office jobs since the end of 2019 (16.3% growth), jobs over the last year actually declined by 1,500. DFW needs to see strong and ongoing job gains to drive meaningful positive absorption to bring supply and demand back into balance.

29.4%

Availability has topped out, but no improvement

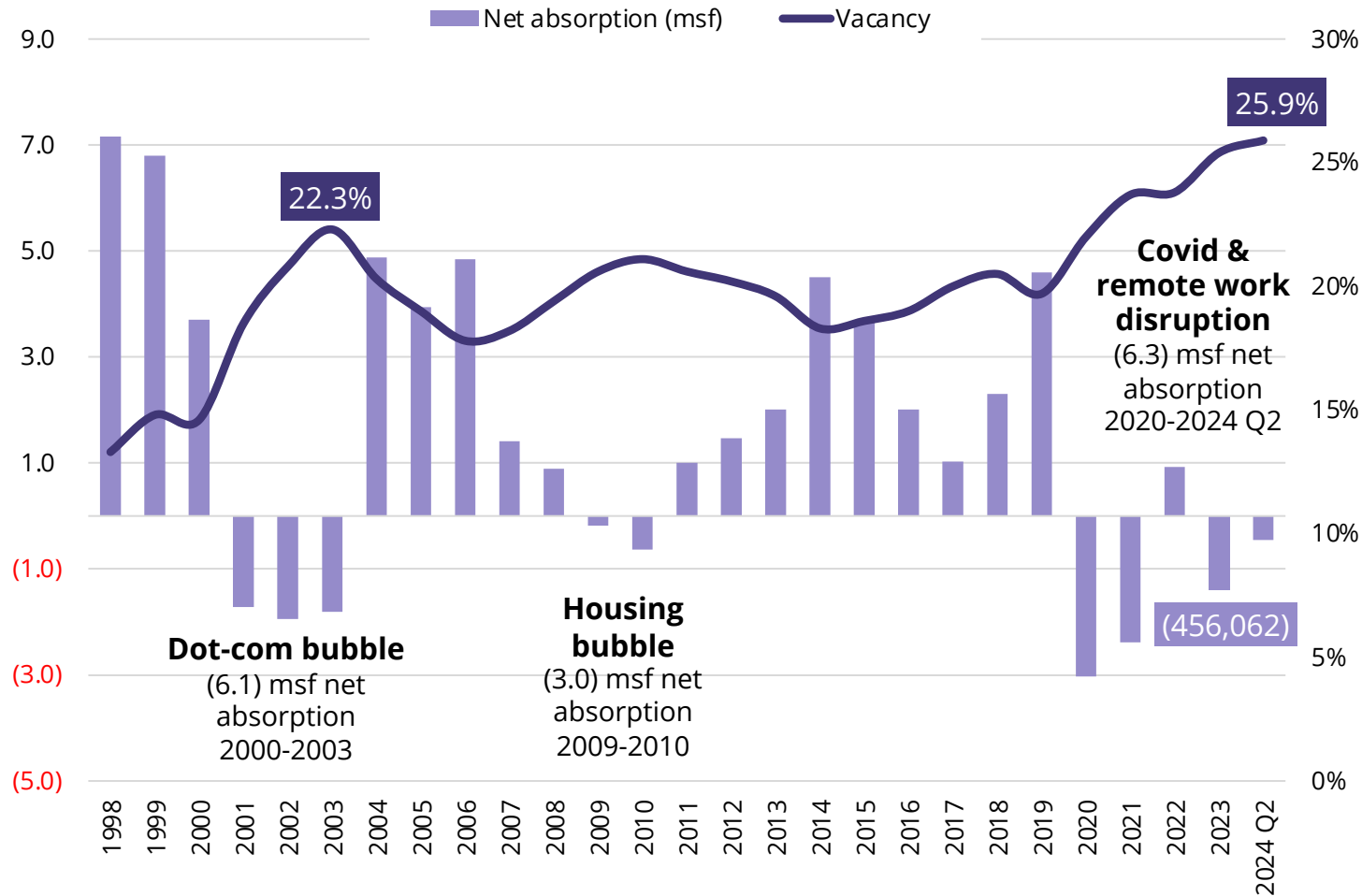
While we noted last quarter that office space availability looked to have topped out, Q2 saw availability remain unchanged and at an elevated 29.4%. Even though this is close to DFW’s all-time high, it is important that it has moved slightly lower in the last few quarters. In comparison, DFW averaged around 23% during good economic periods. As of Q2, both direct and sublet available space totals shifted slightly, but saw no material change since mid-2023, suggesting that tenants are still weighing their options and timing to make a definitive decision as to their space needs.

5.7 msf

Ongoing anemic leasing complicates DFW’s recovery

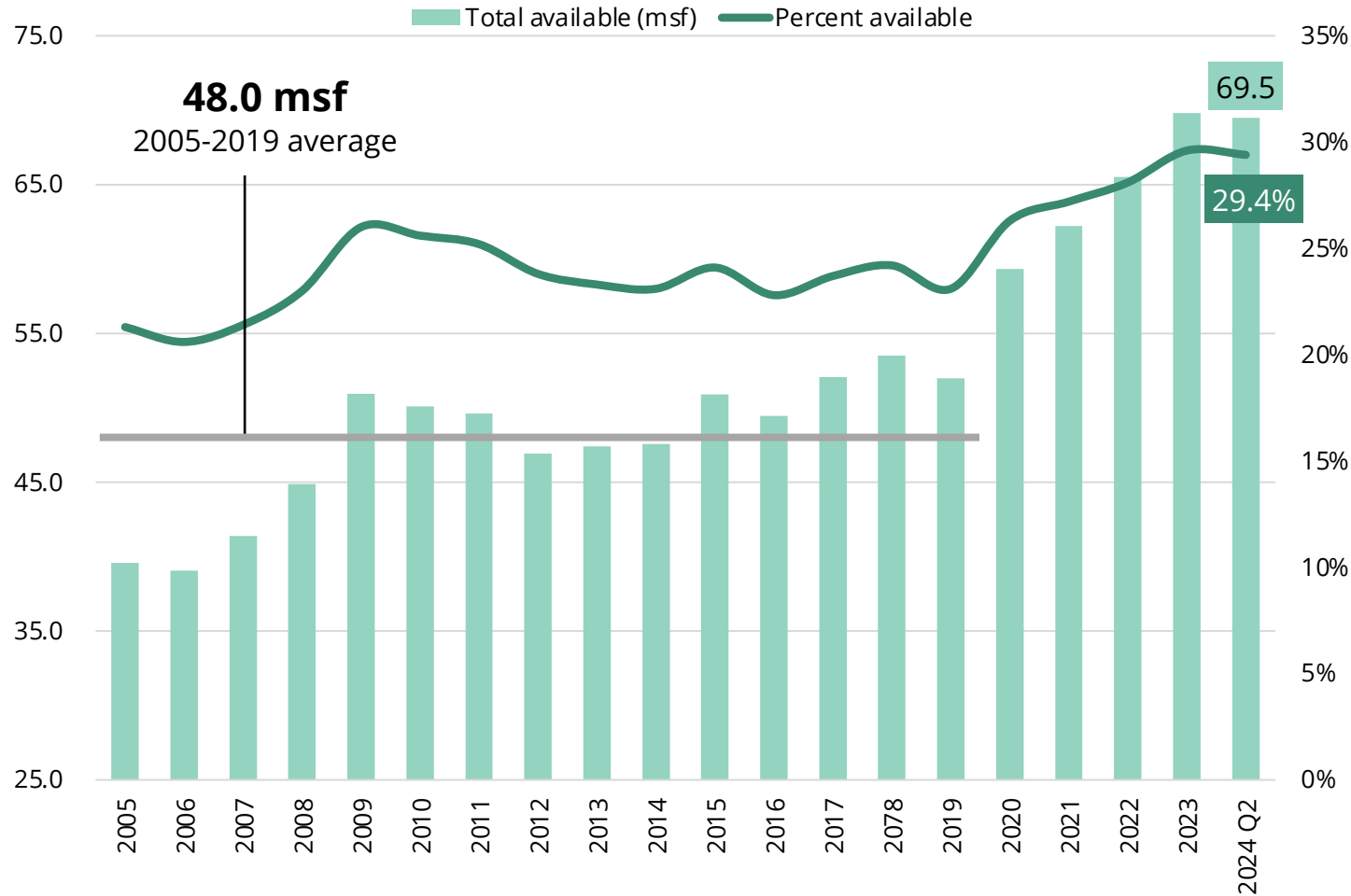
Leasing remains sluggish. As of mid-year, DFW saw 5.7 msf of leasing activity. This is 65% of DFW’s normal average pace. This shortfall also shows up clearly in leasing as a percent of inventory, where DFW normally runs 9.1% on average in good years where 11%-12% is common. Currently Q2 annualized leasing volumes are only 5.0%. This lack of activity is complicating any 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. Unless leasing returns to more normal levels, it will be impossible for DFW to bring down its historically high availability. This is especially challenging because most 2024 deals are relatively small space requirements under 10,000 sf.

Office absorption - still struggling to gain positive traction



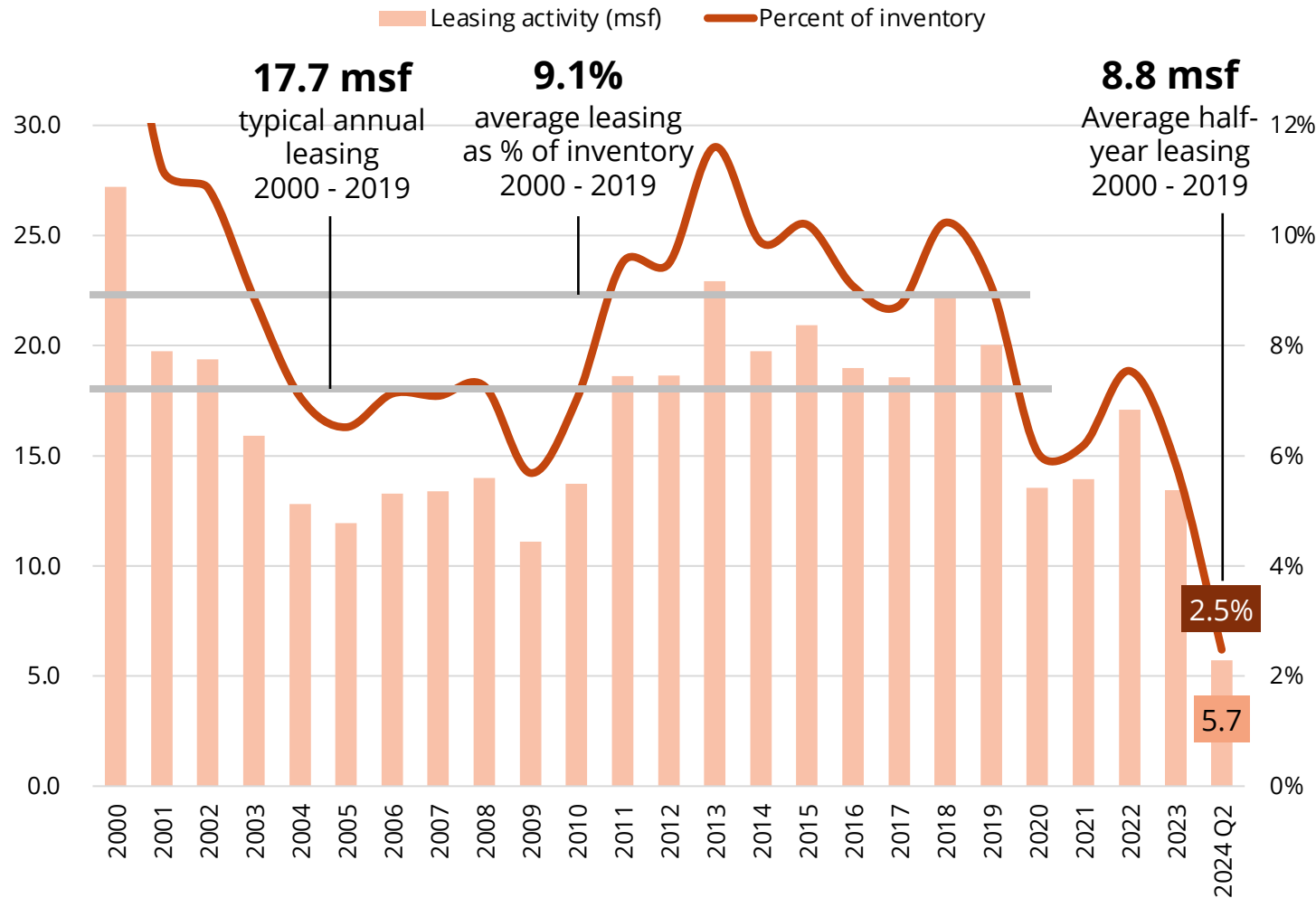
While DFW office absorption edged positive in 2022, it has since seen choppy performance. At negative-6.3 msf, the current slowdown now exceeds that of the 2000-2003 tech bust. Importantly, 2024’s “negative” is due to significant sublet space coming back on market. Direct absorption, in contrast, posted a slight positive uptick of 250,000 sf for the first half of 2024.

Office space availability increases have peaked, but serious imbalances remain



Office space availability looks to have peaked. Availability has been holding steady at sub-30% for the last several quarters, topping out at 29.8% 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 require a significant positive increase in demand to bring “balance” back to the local office sector.

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

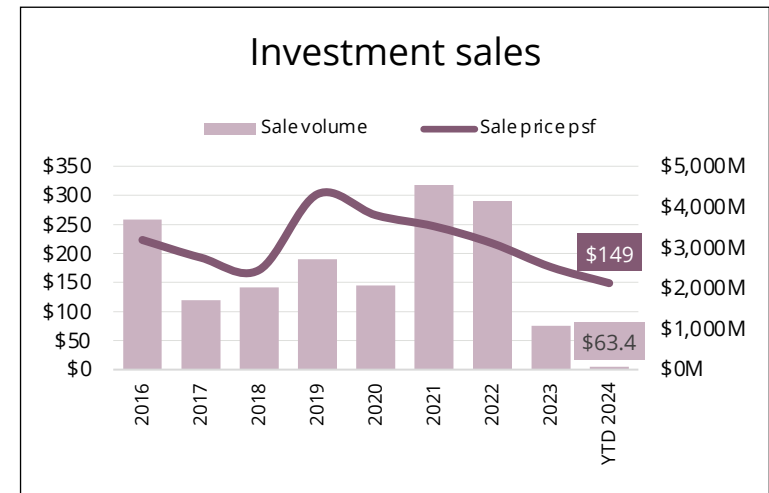
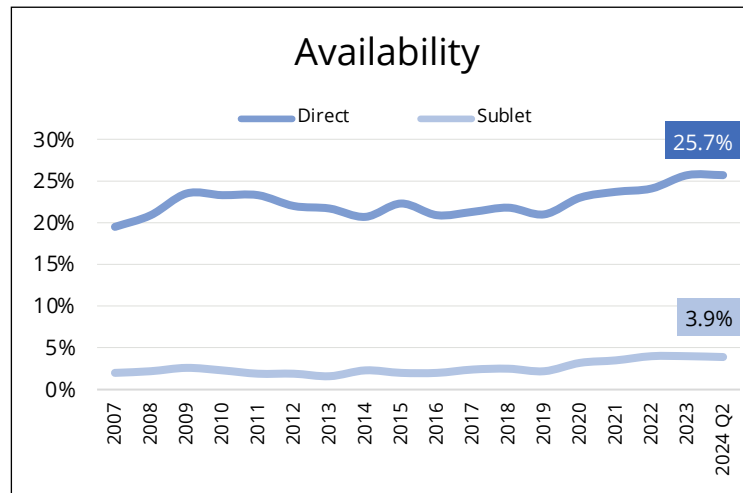
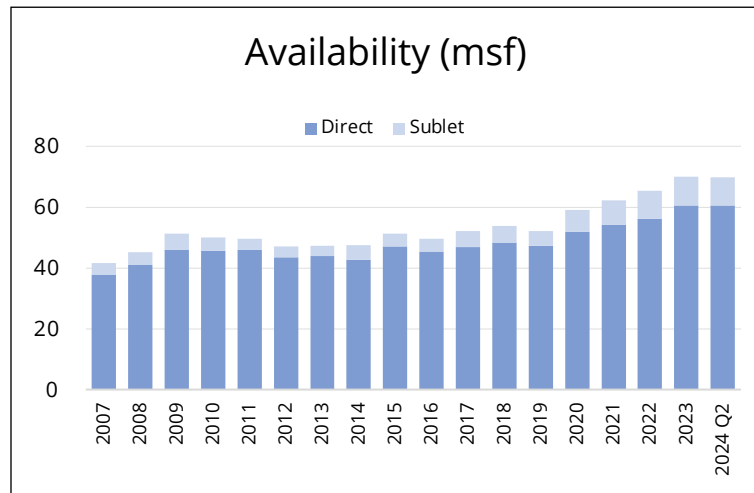
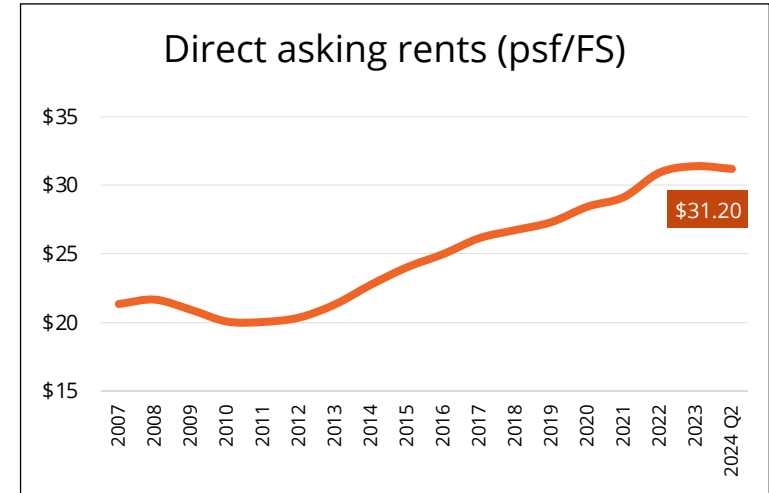
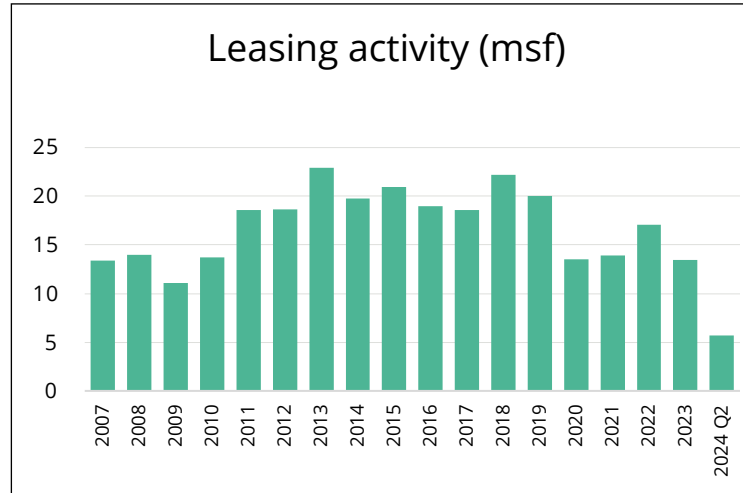
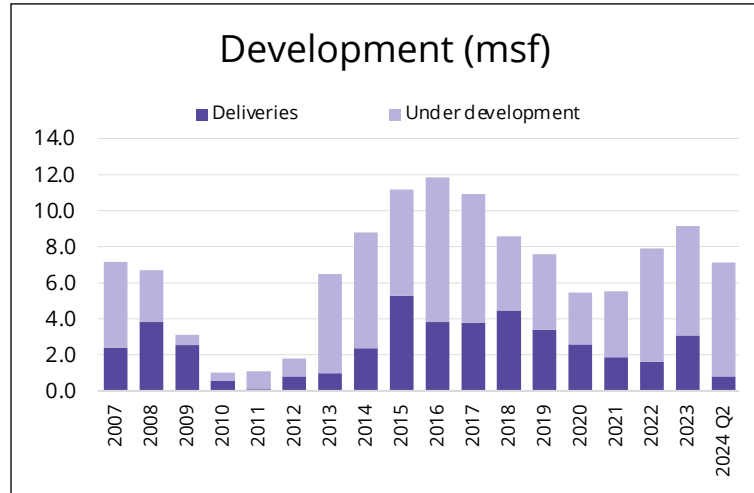


Leasing remains sluggish. In 2023, leasing totaled 13.3 msf, 75% of its long-term average. During Q1 and Q2 2024, leasing slowed even further, coming in at 5.7 msf. This pace is only 65% of DFW's normal market activity. In the last quarter, direct deals fell off to less than half of pre-Covid activity, although sublet saw a modest 18% spike, with small to mid-size tenants under 10,000 sf driving the activity.

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
Atlantic Aviation	Granite Park 6	Allen/McKinney	May-24	25,000	New	Direct
LTIMindtree	Tower at Hall Park	Frisco/The Colony	May-24	19,000	New	Direct
K&L Gates	Harwood IV	Uptown	Apr-24	22,900	New	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price (millions)	Sale price psf	Seller
Costco	North Central Plaza I	Apr-24	198,400	\$14.3	\$72	Silver Star Properties REIT Inc
Hillwood	Freeport Business Center I-III & 8222 N Belt Line	Apr-24	516,700	\$61.4	\$119	UBS Realty Investors
Triumph Financial	One Triumph Place (One Lincoln Park)	Mar-24	262,000	\$54.0	\$206	Piedmont REIT

Top projects under development

Property Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Goldman Sachs	Uptown/Turtle Creek	2027	702,000	100%	Hillwood Urban Hunt
Fields West	Frisco/The Colony	2026	352,000	100%	Hunt Realty Karahan
23Springs	Uptown/Turtle Creek	2025	626,000	53%	Granite Highwoods

Dallas – Fort Worth office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (2Q24)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Dallas CBD	26,782,740	0	0	32.3%	3.8%	36.1%	(267,150)	(302,581)	\$30.45
Allen - McKinney	4,043,999	0	810,574	29.8%	1.5%	31.3%	46,009	17,787	\$32.27
Central Expressway	9,859,570	0	0	25.0%	2.3%	27.3%	(110,002)	(19,185)	\$34.58
Deep Ellum - Lakewood	1,352,612	0	0	29.9%	28.7%	58.6%	(13,398)	(28,639)	\$37.39
Frisco - The Colony	5,570,468	0	1,817,200	25.0%	5.0%	30.0%	57,771	101,629	\$41.86
Las Colinas	35,177,066	0	56,269	26.6%	5.7%	32.3%	(396,286)	(600,219)	\$28.56
LBJ Freeway	19,244,420	0	0	22.9%	3.4%	26.3%	79,551	212,501	\$26.13
Preston Center	5,312,473	0	0	11.3%	3.3%	14.6%	38,349	18,586	\$45.36
Quorum - Bent Tree	20,612,277	0	0	23.6%	2.9%	26.5%	6,175	(121,537)	\$28.88
Richardson - Plano	21,227,529	0	0	22.9%	4.8%	27.7%	172,987	155,057	\$23.86
Stemmons Freeway	6,098,324	0	150,000	24.7%	1.0%	25.7%	2,251	(6,615)	\$28.77
Upper Tollway - West Plano	22,236,848	0	823,897	37.5%	5.8%	43.3%	189,497	(236,906)	\$37.00
Uptown	14,994,891	345,425	2,215,341	25.2%	1.4%	26.6%	432,803	605,342	\$48.37
Fort Worth CBD	8,026,184	0	0	14.8%	0.6%	15.4%	(104,435)	(95,594)	\$31.70
Alliance - NW Fort Worth	1,455,500	0	162,254	19.2%	7.7%	26.9%	28,451	46,071	\$27.02
East NE Fort Worth	3,016,573	0	0	10.7%	0.1%	10.8%	16,032	19,864	\$19.58
Lewisville - Denton	3,820,414	0	225,000	27.9%	4.8%	32.7%	45,941	(28,201)	\$27.07
MidCities	14,262,145	0	71,419	23.9%	4.0%	27.9%	(153,649)	(120,026)	\$25.41
West SW Fort Worth	7,465,968	0	0	13.8%	1.0%	14.8%	(85,622)	(73,396)	\$28.32
Market total	230,560,001	345,425	6,331,954	25.7%	3.9%	29.6%	(14,725)	(456,062)	\$31.20

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 (2Q24)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Trophy	13,494,012	0	1,926,341	22.4%	3.7%	26.1%	152,855	259,827	\$46.67
Class A	132,522,261	345,425	3,767,833	27.8%	4.9%	32.7%	308,592	(303,597)	\$33.56
Class B	84,543,728	0	637,780	22.8%	3.0%	25.8%	(476,758)	(476,758)	\$23.97
Market total	230,560,001	345,425	6,331,954	25.7%	3.9%	29.6%	(14,725)	(456,062)	\$31.20



Office development pipeline

28 properties

under construction

6.3 msf

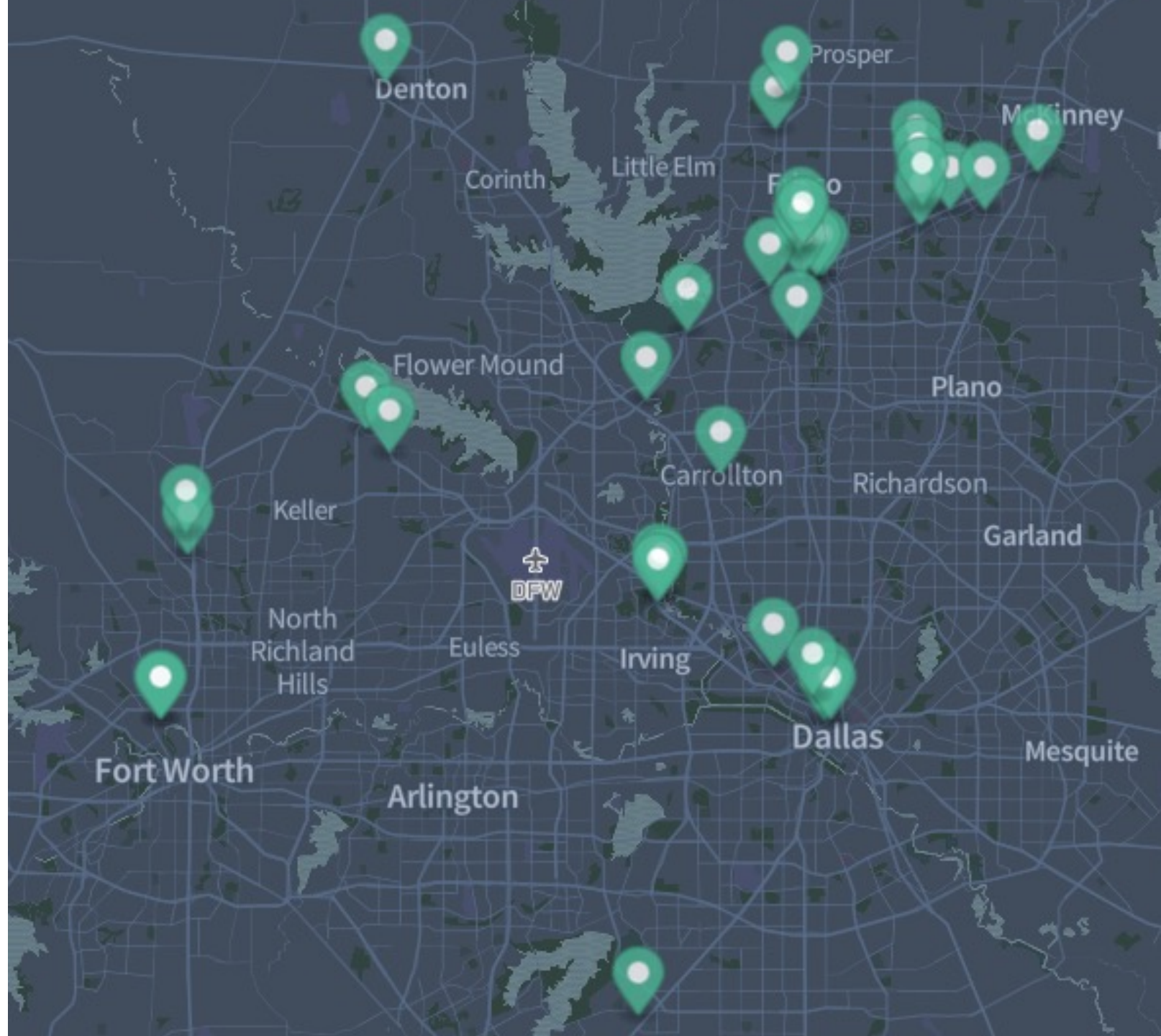
under construction

2.7%

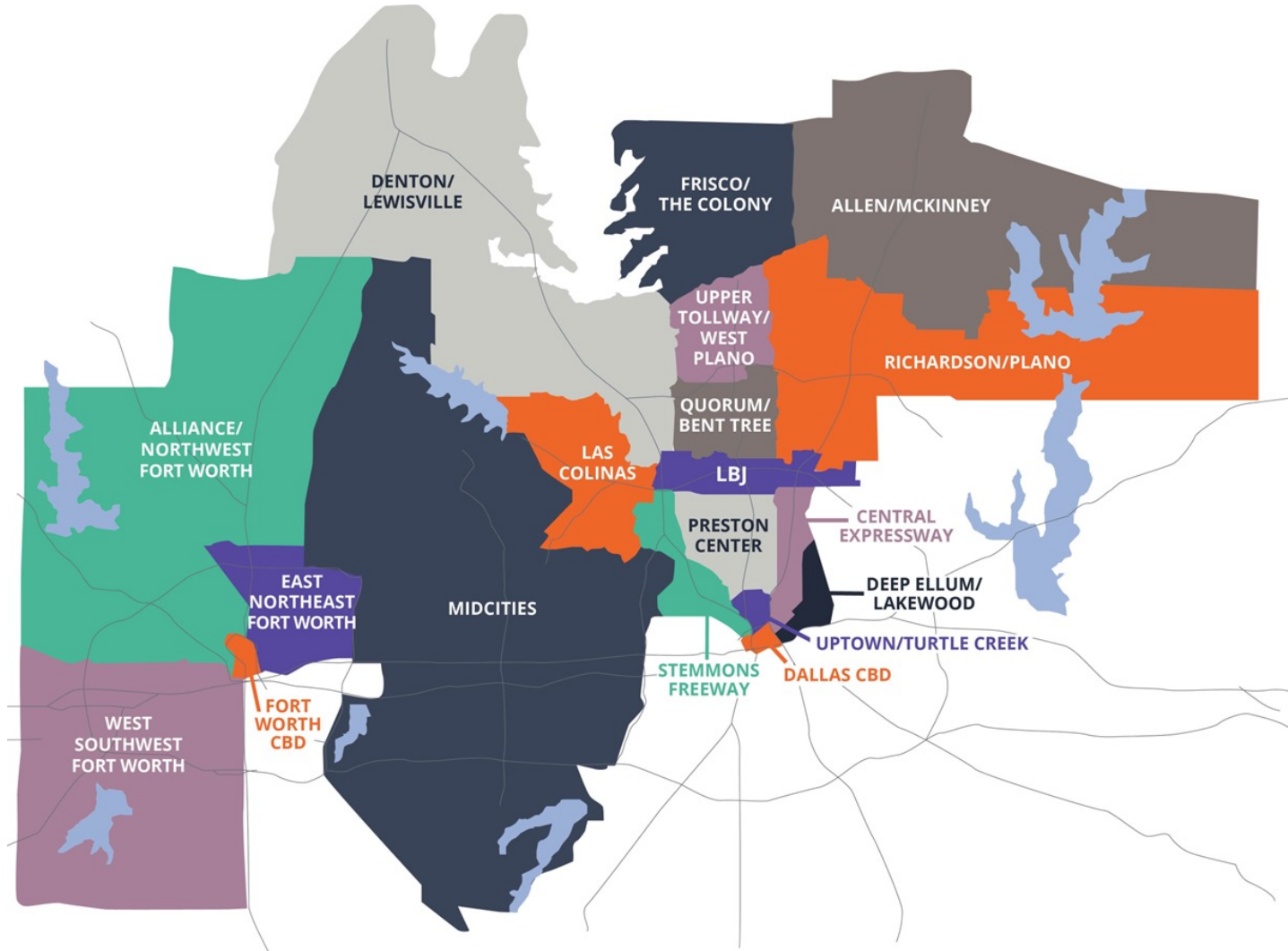
share of office inventory

3.5 msf | 55%

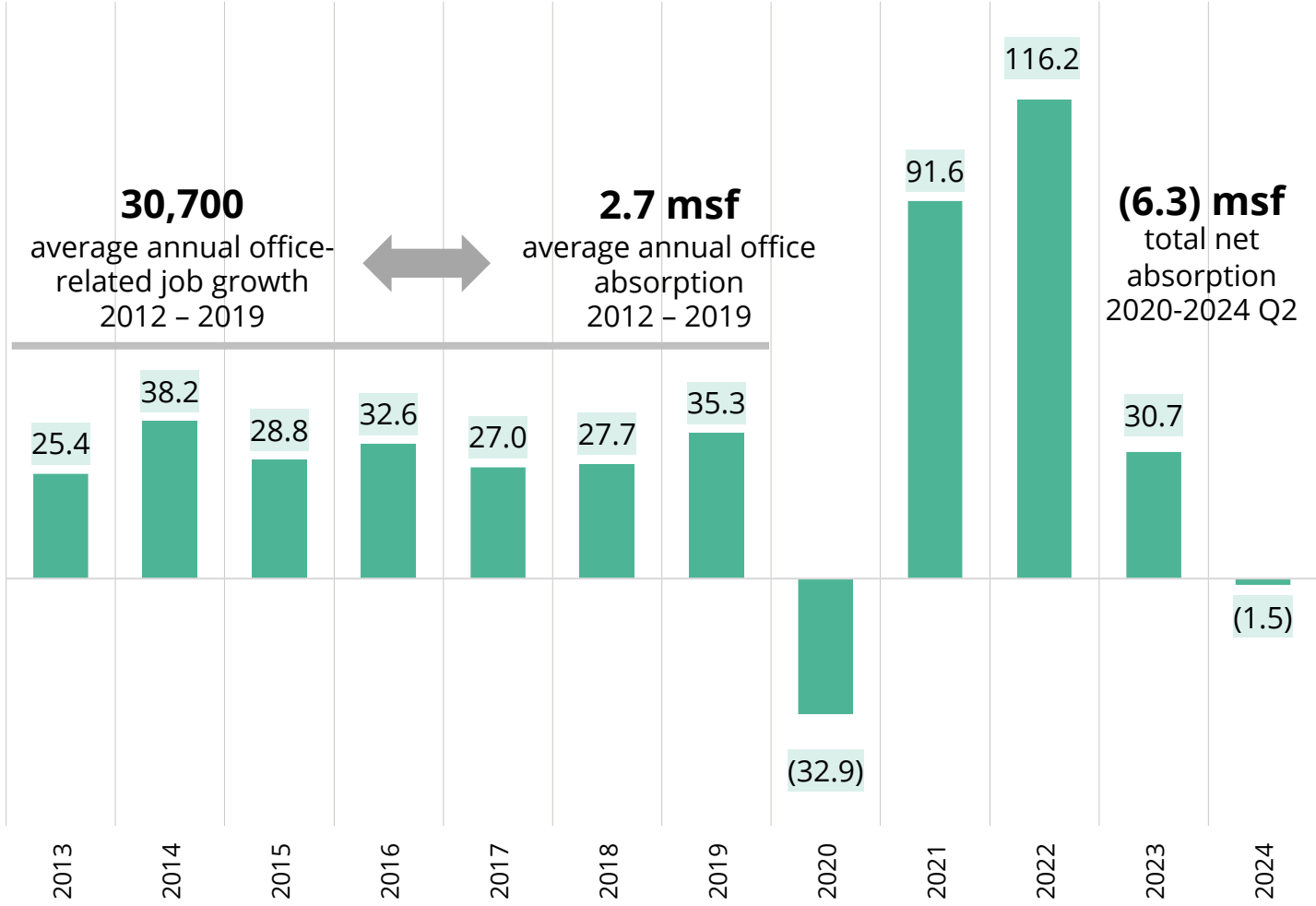
share leased



Dallas - Fort Worth submarket map



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



Historically, DFW's office job growth showed a consistent pattern tied closely to office demand. BLS's recent revisions has resulted in office-related job growth that look disconnected from commercial real estate fundamentals. Presently, office job growth exceeds the longer-term average by 30%, yet the region has seen 6.3 msf of negative absorption since 2020.

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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