

Dallas Office Market

Robust Investment Buoyancy Lagging Fundamentals

The Dallas-Fort Worth office market started 2022 with challenging fundamentals, left over from the height of the pandemic. Vacancy in the DFW market is among the highest in the nation, just behind Houston. In the first quarter of 2022, occupiers gave back nearly the same amount of space as they occupied, leading to only 168,965 square feet of positive absorption. To keep pace with inflation, landlords are keeping rental rates elevated, but overall rents in the DFW market remain lower than in other Sun Belt markets. Corporate relocations, which have been plentiful over the past several years, are expected to continue through 2022 but could come at a slower pace. Despite its high vacancy and diminished demand, the Dallas-Fort Worth market remains attractive to investors, as the market ranked #1 in overall CRE investment in 2021.

Leasing Demand Falls as Rental Rates Rise

Rental rates have maintained a steady climb in the DFW Metro overall, increasing 3.2% year-over-year in the first quarter of 2022 and rising 5.38% since the start of 2020. At the end of the first quarter of 2022, rental rates reached \$28.12/SF, up from \$27.33/SF this time last year. The Uptown/Turtle Creek and Preston Center submarkets remain the most expensive in the market, at \$40.67/SF and \$40.01/SF, respectively. Nationwide inflation and office property tax increases are helping to drive up

Current Conditions

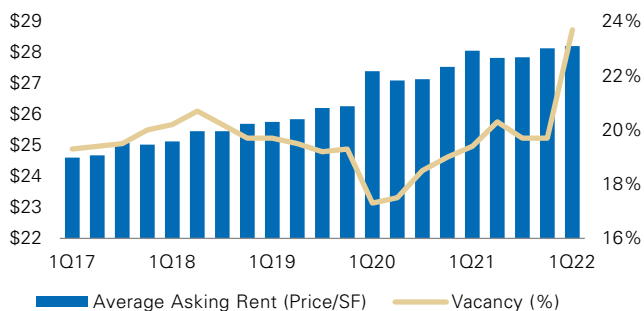
- Rental rates remain elevated at \$28.12/SF, an increase of 3.2% year-over-year.
- Dallas-Fort Worth has one of the highest vacancy rates in the nation at 23.7%.
- Absorption was positive to start the year but continues to be well below pre-pandemic levels.
- Corporate relocations are expected to continue throughout 2022 and in to 2023 but will likely be seen in reduced numbers compared to previous years.

Market Summary

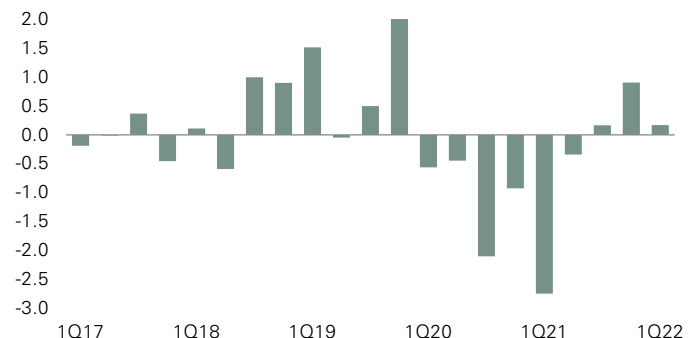
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	271.9M	271.9M	270.5M	↑
Vacancy Rate	23.7%	23.8%	22.8%	↓
Quarterly Net Absorption (SF)	168,965	-139,687	-2.9M	↑
Average Asking Rent/SF	\$28.21	\$27.71	\$27.33	↑
Under Construction (SF)	2.1M	1.7M	2.4M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q1 2022

rental rates, with property taxes increasing 5% to 15% in some areas. Rents are expected to remain elevated in the short term as landlords pass these costs on to tenants.

Total vacancy has increased 3.9% year-over-year and is currently flat at 23.7% market-wide. Vacancy has held at levels above 20% for seven consecutive quarters, something not seen in the DFW market since the late 1980s. The Dallas Central Business District maintains the highest vacancy rate at 29.6%, followed closely by the Far North Dallas submarket at 29.4%. At 27.5%, total availability in the market has grown 2.6% year-over-year.

The DFW office market posted positive absorption in the first quarter of 2022, after eight consecutive quarters in the red. While positive, at 168,965 square feet, net absorption is well below the levels of demand seen prior to the pandemic. Sublease space accounted for the lion's share of space absorbed during the quarter, as occupiers look to right-size footprints and others take advantage of short-term sublease opportunities. This positive traction was overshadowed by tenants giving back 463,132 square feet of direct space, negating much of the headway made this quarter. The Las Colinas and Stemmons Freeway submarkets remain the most attractive for tenants, with 283,814 square feet and 239,724 square feet of positive absorption, respectively. The Far North Dallas submarket fared the worst, with roughly 424,571 square feet of negative absorption due to the abundance of direct space that was put back into play within the submarket.

Leasing activity in the Metro continues to decelerate at a moderate pace. During the first quarter of 2022, leasing activity totaled 2.6 million square feet, a decrease of 33.0% quarter-over-quarter. Overall, leasing activity remains roughly 44% lower than pre-pandemic levels due to diminished demand; 636 transactions closed this quarter with an average lease size of 4,088 square feet.

In the first quarter of 2022, leasing was largely concentrated around tenants signing onto single floors, rather than large blocks of space. Notable leases included Bank OZK taking roughly 80,000 square feet across three floors at 2323 Cedar Springs Rd.

in the Uptown/Turtle Creek submarket. McCarthy Companies signed up for 42,965 square feet at 3400 N. Central Expy. in Richardson and Cash Call Inc. leased 39,849 square feet at 3660 Regent Blvd. in the DFW Freeport/Coppell submarket. The Stack in Deep Ellum is now fully leased after a 101,800-square-foot commitment from TRG, a local advertising firm. The company will move from its current space in Uptown in late 2023.

Tech Industry Spurs Investment and Relocations

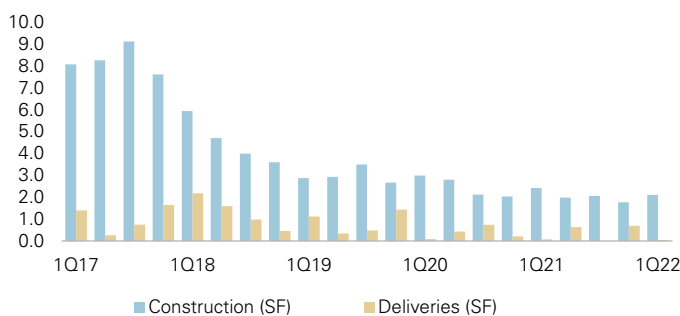
Entering 2022, Dallas-Fort Worth Metroplex, along with Atlanta, topped the list of US markets for CRE investment. Dallas-Fort Worth had a strong showing of new investor entrants, with 10% to 25% of the market's total deal volume allotted to the subtype. Roughly \$2.6 billion in office investment took place in the Metroplex in the first quarter of 2022, a 112% increase year-over-year. Dallas-Fort Worth is also rising in popularity among tech talent, as the seventh-largest tech workforce in the nation with 380,000 employees, according to CompTIA. Additionally, the Metroplex is the sixth-largest hub for data centers.

In 2021, 21 companies relocated their headquarters to the DFW Metroplex, but 2022 started off quietly. Only seven companies have relocated to Texas from out of state so far this year, a comparable rate of only 64 companies in all of 2021. According to the Dallas Regional Chamber, there are roughly 111 potential relocations in the works within the technology sector, expected to be the next wave of relocations for the region.

Fort Worth was picked as the U.S. base for KeepIt, a cloud backup company based in Copenhagen. The company, which has offices worldwide, plans to double its headcount after a \$30.0-million investment last September. In January, it was announced that Alkegen would move its corporate headquarters to North Texas from Tonawanda, New York. The company manufactures specialty materials, including filtration and battery technologies, and has around 9,000 employees. Elite Advanced Polymers, another specialty materials manufacturer, also announced plans to move its corporate headquarters to the region. The company is currently located in Ripley, Mississippi, and plans to relocate to 5717 Legacy Dr. in Plano.

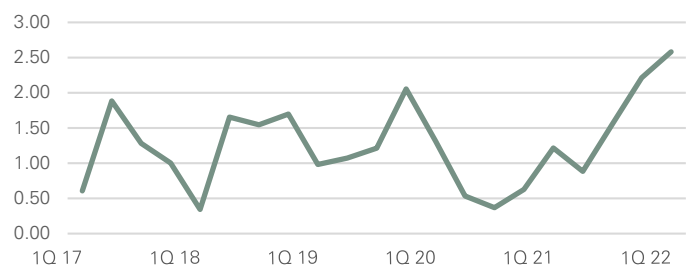
Construction and Deliveries

SQUARE FEET, MILLIONS



Office Investment Sales

SALES VOLUME (\$, BILLIONS)



Source: Real Capital Analytics

Suburbs Dominate Construction Pipeline

The development pipeline in the Dallas-Fort Worth market remains robust, with 2.1 million square feet of office space under construction across 12 buildings. Around 77% of this space has not yet been pre-leased. Six additional buildings are planned for groundbreaking by year-end, including the 2.0-million-square-foot CityLine building in Richardson. In the Far North Dallas submarket, 535,700 square feet is underway, while 472,470 square feet is under construction in East Dallas.

Only one building delivered in the first quarter of 2022, adding 42,161 square feet to market inventory. The property, a medical office building located at the southeast corner of Preston Road and Hickory Street in the Far North Dallas submarket, delivered with no pre-leasing.

Outlook

Industry professionals should take the current setbacks in the Dallas-Fort Worth office market in stride, as the Metro is poised for a strong recovery overall. The market's outlook is favorable in the near- to mid-term, due to robust office investment sales and strengthening leasing demand. Dallas-Fort Worth will remain an attractive option for corporate relocations amidst the popularity of Sunbelt markets, particularly due to its relatively low rental rates and plethora of suburban areas capable of accommodating shorter commute times for employees. Additionally, the region's appeal to tech talent should help secure additional relocations from the tech industry and ancillary companies.

Lease/User Transactions				
Tenant	Submarket	Building	Type	Square Feet
TRG	East Dallas	The Stack Deep Ellum	Direct-New	101,800
Bank OZK	Uptown/Turtle Creek	2323 Cedar Springs Rd	Direct-New	80,000
McCarthy Companies	Richardson	3400 N Central Expy	Direct-New	42,965
Cash Call Inc.	DFW Freeport/Coppell	3660 Regent Blvd	Direct-New	39,846
Alkegen	Las Colinas	5215 N O Connor Blvd	Direct-New	24,995
Shearman & Sterling	Uptown/Turtle Creek	2601 Olive St	Direct-New	22,838

Select Sale Transactions				
Buyer/Seller	Market	Building	Sale Price	Price/SF
Regent Properties Inc./ JP Morgan Asset Management	DFW – Dallas CBD	2001 Ross Ave	\$625 M	\$538
Caterpillar, Inc./ Weir SPM	DFW – South Ft Worth	601 Weir Way	\$61.9 M (Portfolio Sale)	\$999
ICON Lodging/ XTO Energy	DFW – Fort Worth CBD	The Baker Building	Undisclosed	Undisclosed
Point at Las Colinas Properties/ Fortis Property Group	DFW – Las Colinas	The Point at Las Colinas	Undisclosed	Undisclosed

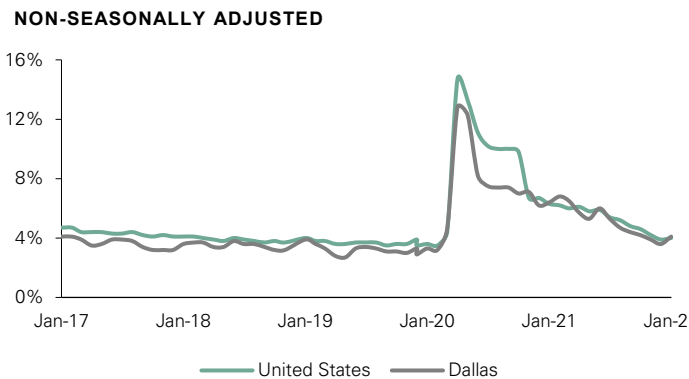
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Dallas CBD	29,472,488	0	29.6%	34,636	34,636	\$27.86	\$24.49	\$27.65
Ft. Worth CBD	8,059,903	0	18.7%	106,245	106,245	\$28.27	\$13.98	\$27.71
CBD	37,532,391	0	27.3%	140,881	140,881	\$27.91	\$23.75	\$27.65
Central Expressway	11,615,845	0	21.6%	-164,204	-164,204	\$34.52	\$23.08	\$33.47
East Dallas	6,880,205	472,496	20.3%	44,375	44,375	\$29.64	-	\$29.64
Far North Dallas	51,768,361	535,702	29.4%	-424,571	-424,571	\$33.28	\$27.25	\$32.54
Las Colinas	35,895,108	356,269	22.9%	283,814	283,814	\$26.74	\$22.56	\$26.20
LBJ Freeway	21,050,104	0	25.0%	192,791	192,791	\$25.45	\$19.18	\$24.85
Lewisville/Denton	6,395,512	0	21.1%	-17,271	-17,271	\$25.59	\$20.31	\$24.37
Mid Cities	21,265,068	0	23.0%	-123,809	-123,809	\$25.28	\$19.25	\$24.72
North Ft. Worth	2,130,746	46,500	20.9%	-17,193	-17,193	\$26.40	\$22.75	\$24.45
Northeast Ft. Worth	3,351,406	0	11.2%	-12,980	10,398	\$21.55	\$16.58	\$21.27
Preston Center	4,720,997	0	14.1%	-54,098	-54,098	\$40.30	\$37.70	\$40.01
Richardson/Plano	29,730,511	336,906	21.1%	28,354	28,354	\$24.52	\$22.35	\$24.31
South Ft. Worth	9,679,564	0	12.9%	-50,879	-50,879	\$24.71	\$20.84	\$24.46
Southwest Dallas	2,994,920	0	10.4%	16,078	16,078	\$20.90	\$21.77	\$21.13
Stemmons Freeway	12,325,634	0	25.0%	239,724	239,724	\$20.27	\$20.61	\$20.28
Uptown Turtle Creek	14,635,537	359,914	20.6%	87,953	87,953	\$40.70	\$40.35	\$40.67
Suburban	234,431,109	2,107,787	23.1%	77,141	77,141	\$28.81	\$24.19	\$28.31
Market	271,971,909	2,107,787	23.7%	168,965	168,965	\$28.66	\$24.15	\$28.21

Economic Indicators

Economic expansion strengthened in the Dallas-Fort Worth Metroplex to start the year. In January, unemployment fell to 3.9% in Dallas but rose to 4.1% in Fort Worth. The Metro added 20,100 jobs in January, again with Dallas seeing expansion and Fort Worth contracting. Overall, Dallas is faring better than Fort Worth as the business cycle indexes diverge. The Dallas index has increased for 20 consecutive months, with growth of 10.6% year-over-year in January. Fort Worth index fell for the first time in 10 months, down 1.5% year-over-year for the same period. According to Moody's Analytics, both Dallas and Fort Worth have regained pre-COVID employment levels and are in a state of mid-expansion.

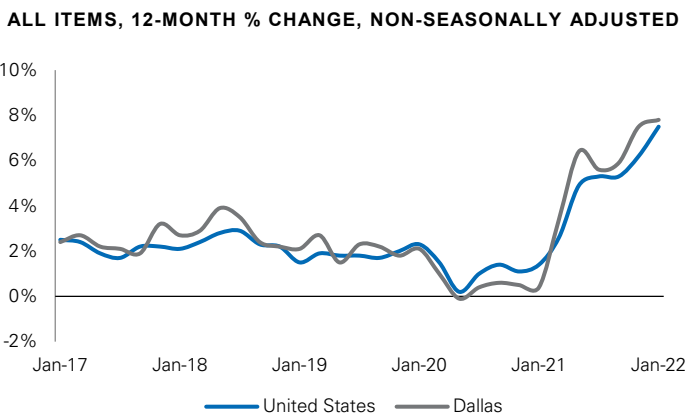
In the year period ending in February, consumer prices increased by 7.9% nationwide. Core inflation increased by 6.8% over the same period. In the Dallas-Fort Worth Metro, the Consumer Price Index was at 7.8% for January. All industries tracked by the BLS for the region showed 12-month gains in employment growth in January, with leisure and hospitality gaining the largest share at 15.2%. Professional and business services and financial activities had growth rates of 10.1% and 6.9% respectively.

Unemployment Rate



Source: US Bureau of Labor Statistics, March 2022

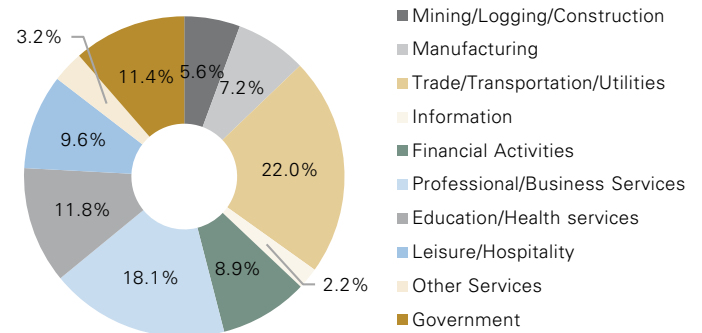
Customer Price Index (CPI)



Source: US Bureau of Labor Statistics, March 2022

Employment By Industry

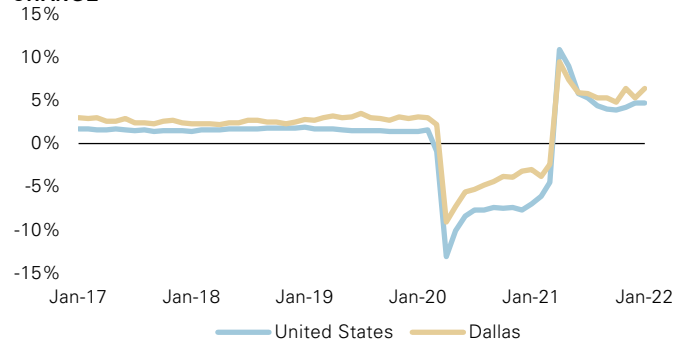
DALLAS, JANUARY 2022



Source: US Bureau of Labor Statistics, March 2022

Payroll Employment

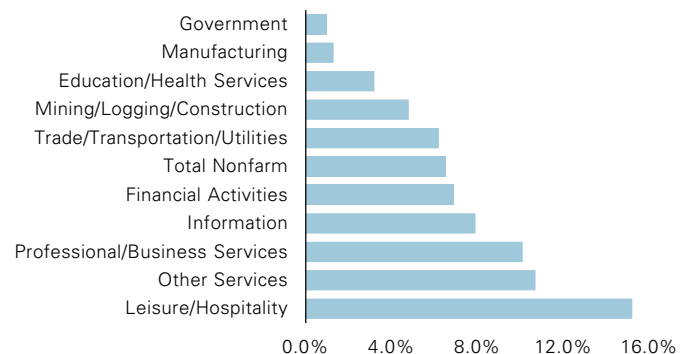
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: US Bureau of Labor Statistics, March 2022

Employment Growth By Industry

DALLAS-FORT WORTH, JANUARY 2022, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, March 2022

For more information:

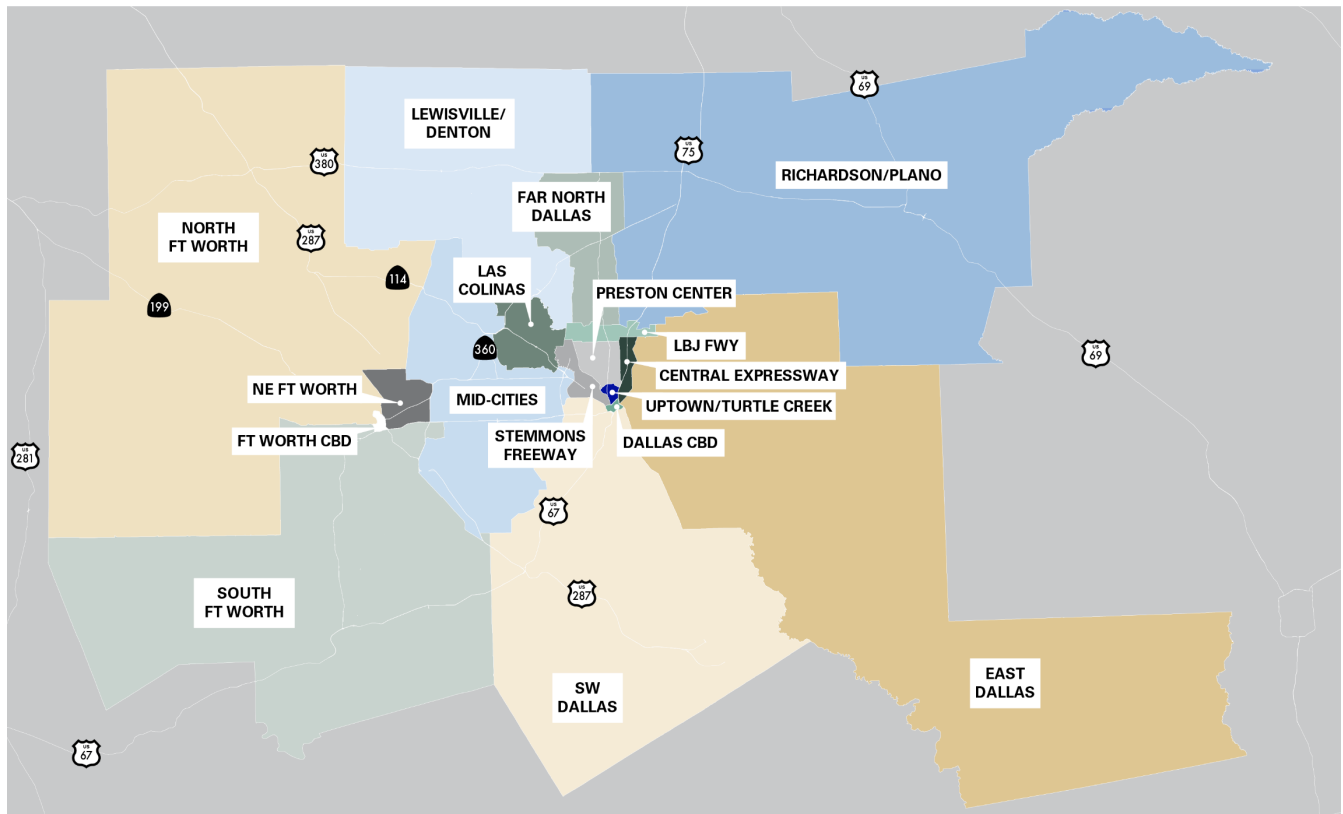
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