1Q24

Dallas-Fort Worth Office Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 11 basis points year over year to 3.7% but remained well below the five-year average of 4.5%.
- Job growth pace has slowed compared with recent highs to 1.9% year over year while employment growth continues to remain well below pre-pandemic levels, with 2019 growth averaging 2.8%.
- Most sectors reported employment growth, except for business and professional and information industries, with other services leading job gains at 6.4% over the past 12 months.
- Office-using jobs in the market reached an all-time historical high at 1.2 million employees, reflecting a 17.5% growth since 2019.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to a historical high of $29.77/SF, a 1.4% increase year over year.
- Occupancy was slightly negative, pushing overall vacancy rates to remain relatively flat, increasing by 10 basis points quarter over quarter, to 24.7%.
- Under-construction pipeline continued to remain steady, with 3.3 MSF in progress.
- Total leasing activity closed the quarter at 3.0 MSF, reflecting slowing leasing activity contributed by smaller deals being done. Leases signed averaged 3,530 SF per deal, decreasing in deal size by 17.5% quarter over quarter and 15.3% year over year.

Major Transactions

- Law firm Sidley Austin inked the largest deal of the quarter, signing a 118,485-SF new lease at 23Springs, which is set to deliver in late 2025. The deal highlights a preference for high-quality space with the company moving from McKinney & Olive, where it was one of the original tenants in the building when it first opened in 2016.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the quarter, with all five of the top five largest deals all signed in Class A assets.
- The Uptown/Turtle Creek submarket was a top locational pick, with all four of the largest deals signed located in the submarket. Of the four, two of the largest deals done were in the under-construction 23Springs building, while none of the buildings were built before 2015.

Outlook

- The Dallas-Fort Worth office market growth will likely be slow and subdued in 2024 due to economic headwinds. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- In the near term, a winnowing construction pipeline will lead rent and occupancy increases in submarkets with premier office product, as flight to quality persists and supply of these assets become more constrained.
- The long-term outlook remains positive and competitive given the market's strong economic fundamentals, such as a diversified labor pool and continued elevated office-using employment. These factors will help the market surmount any near-term challenges and macroeconomic headwinds.

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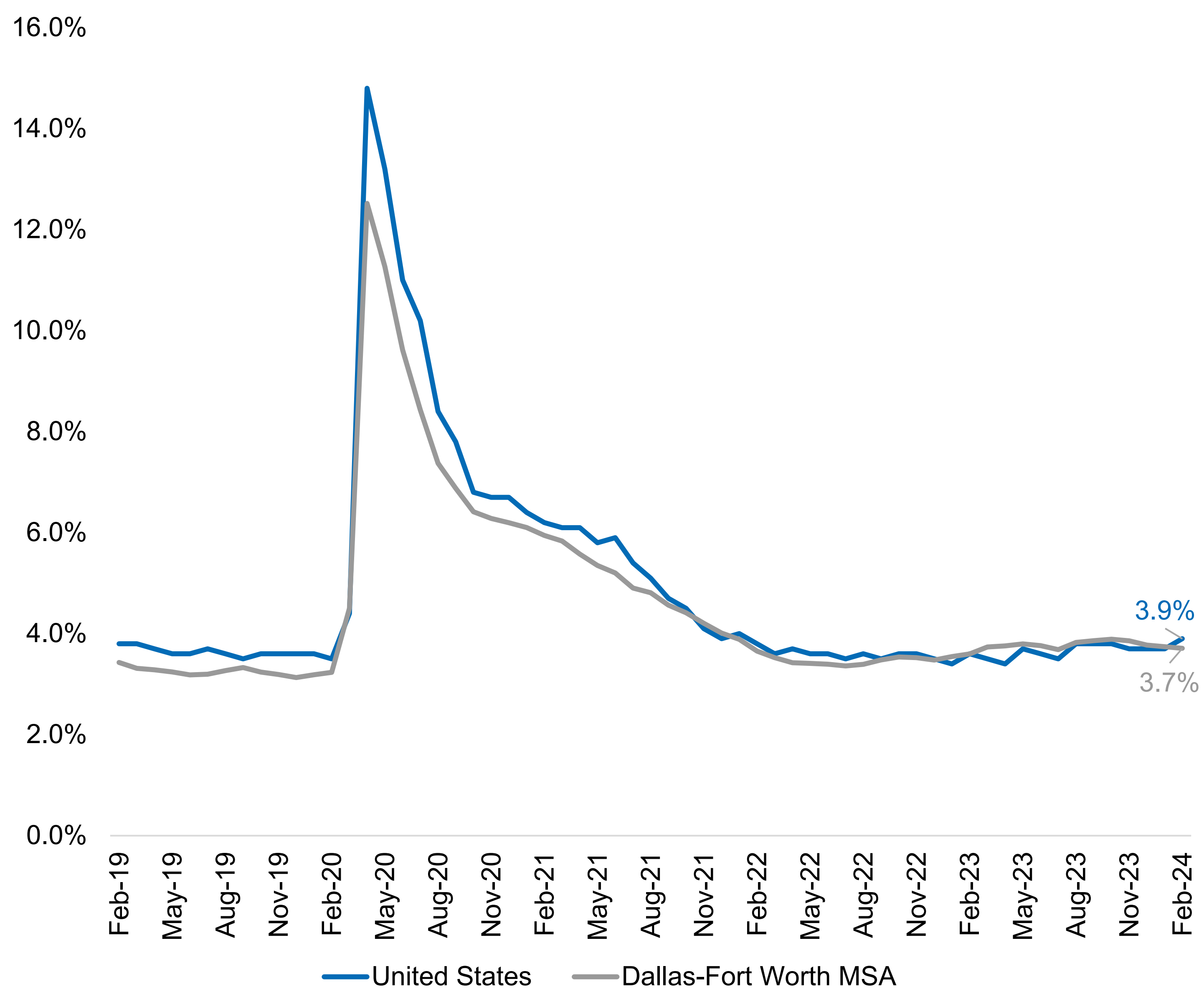
Economy

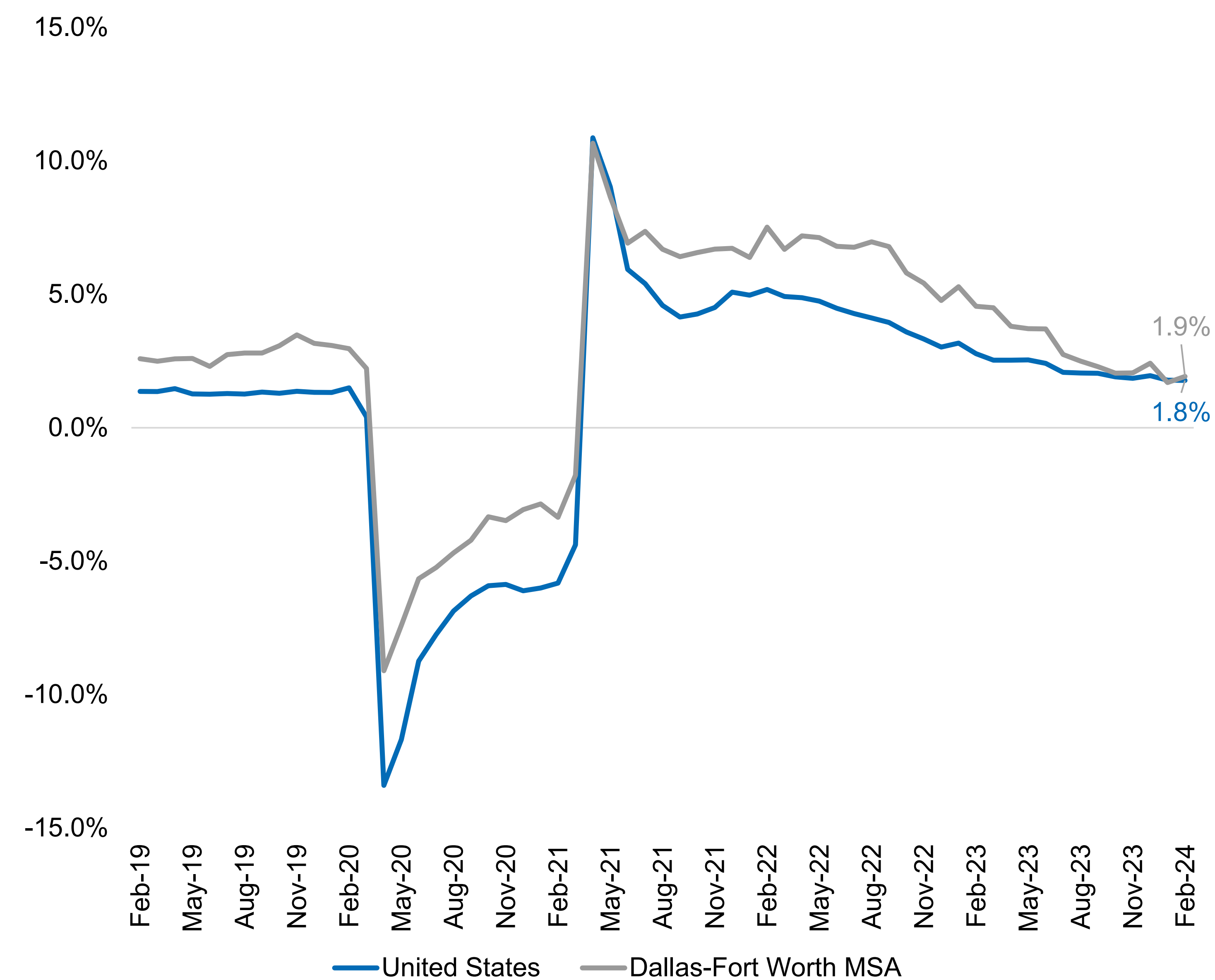
Metro Employment Trends Continue Signaling a Slowing Economy

The Dallas-Fort Worth market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Recent national economic headwinds have pushed the region's unemployment higher than the national rate consecutively from March 2023 through January 2024. Since February 2024, the trend has reversed again, with the market's unemployment rate being 19 basis points lower than the national average and reflecting an 11 basis-points increase year over year. Meanwhile, the market's employment growth slowed by 263 basis points year over year, still reporting positive growth at 1.9% year over year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

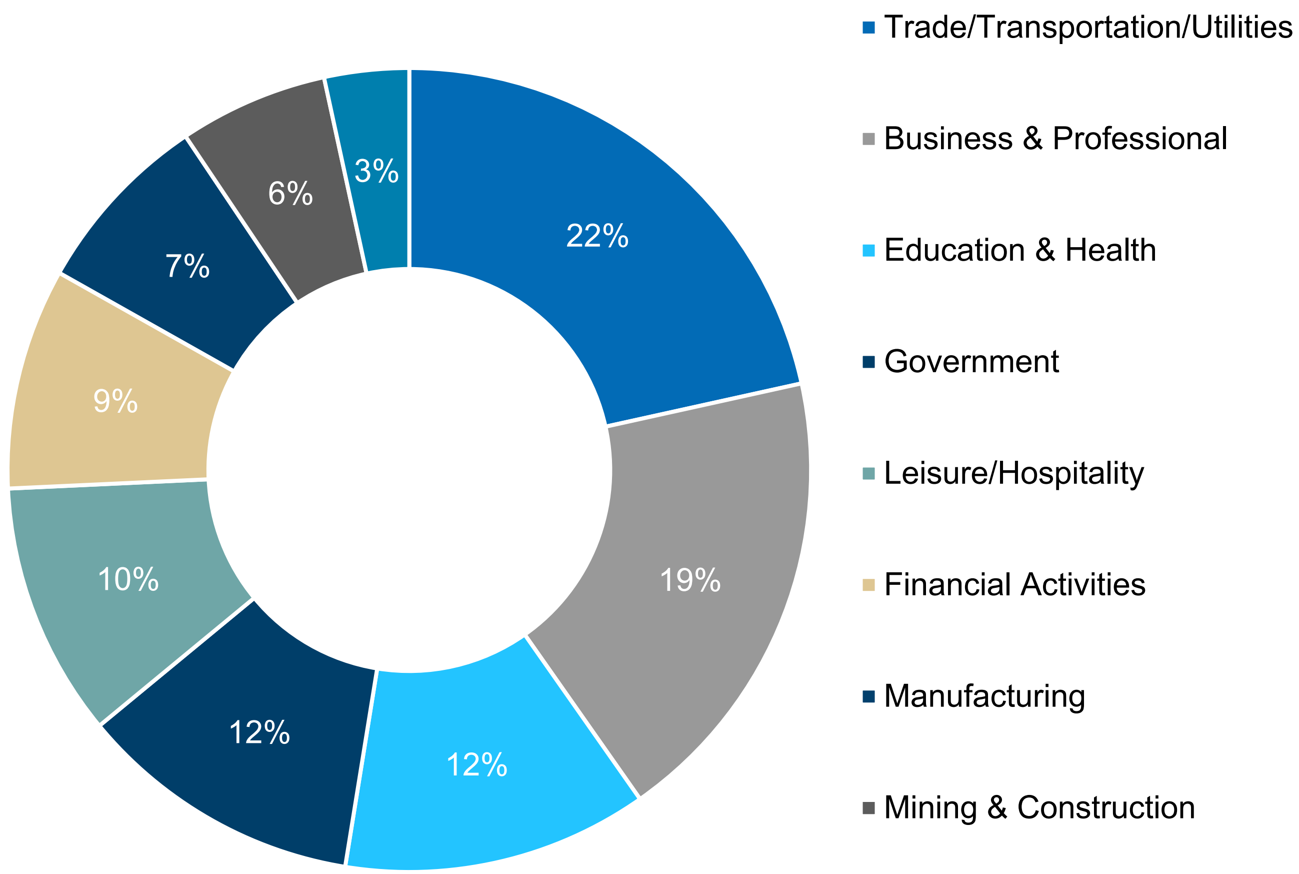


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

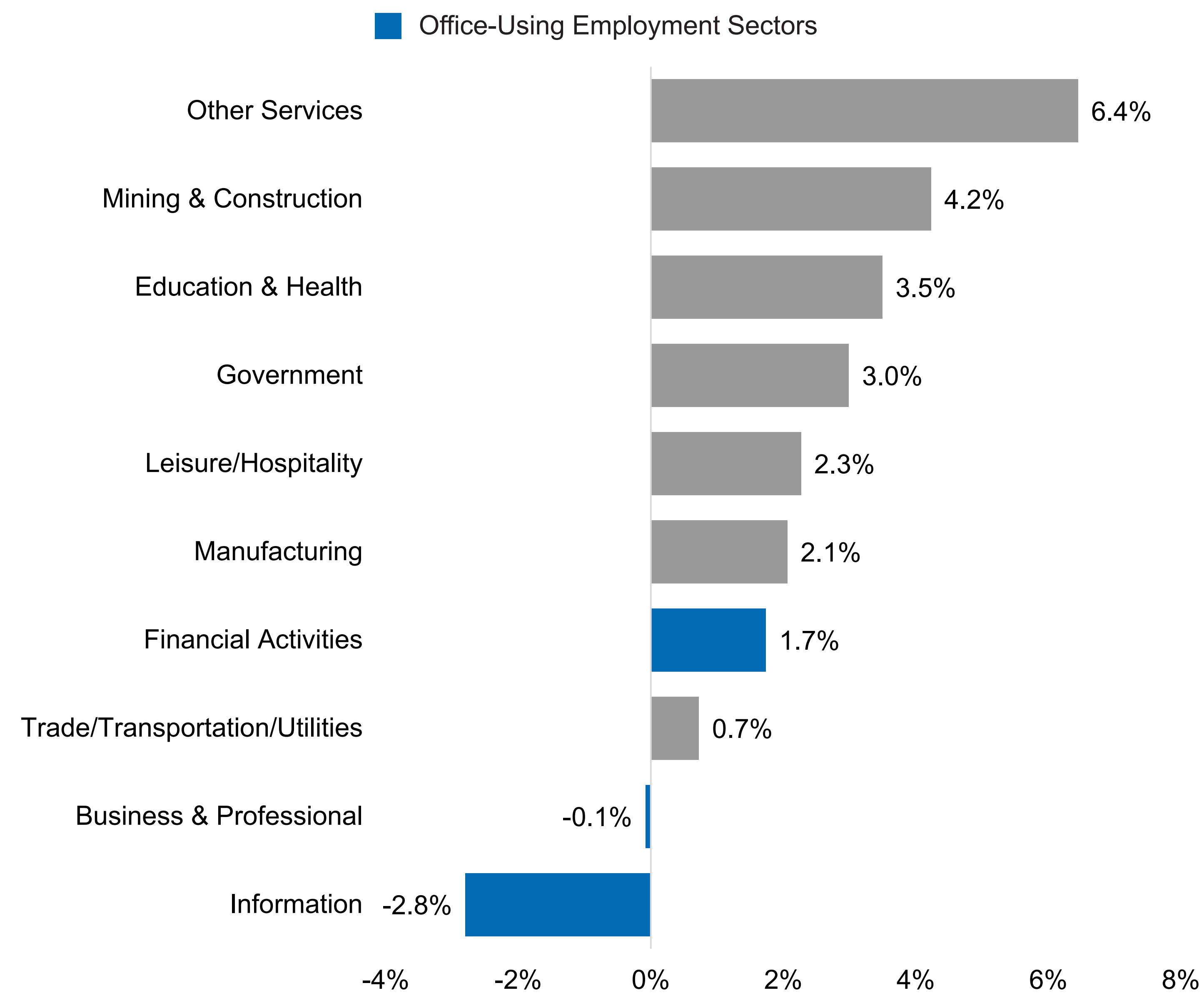
Employment Growth Continues for Most Sectors

The Dallas-Fort Worth market has a high industry diversity with the top two industries, accounting for only 39.4% of the market's industry employment share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 18.3%. Most industries in the metroplex reported growth, while two office-using industries, business and professional services and information reported contraction by 0.1% and 2.8%, respectively. Comparatively, financial activities reported growth at 1.7%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

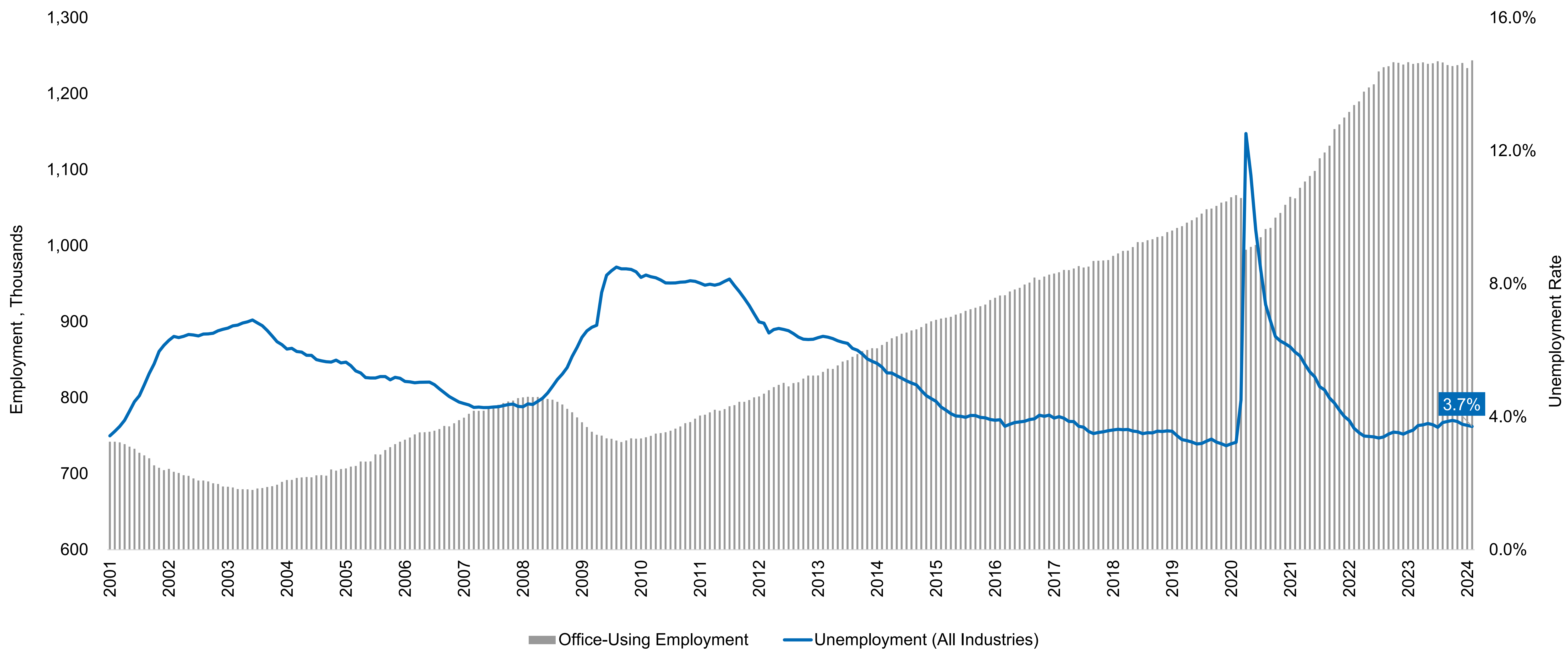


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

Overall Office-Using Employment Reach New Historical High

Office-using employment in Dallas-Fort Worth market increased slightly by 0.4% year over year in February 2024, inching upwards to a new all-time historical high at 1.2 million employees. Currently, the seasonally adjusted unemployment rate is at 3.7%, above the 3.3% average levels reported in 2019, indicating that other industries outside of office-using jobs likely contribute to most of the unemployment rate.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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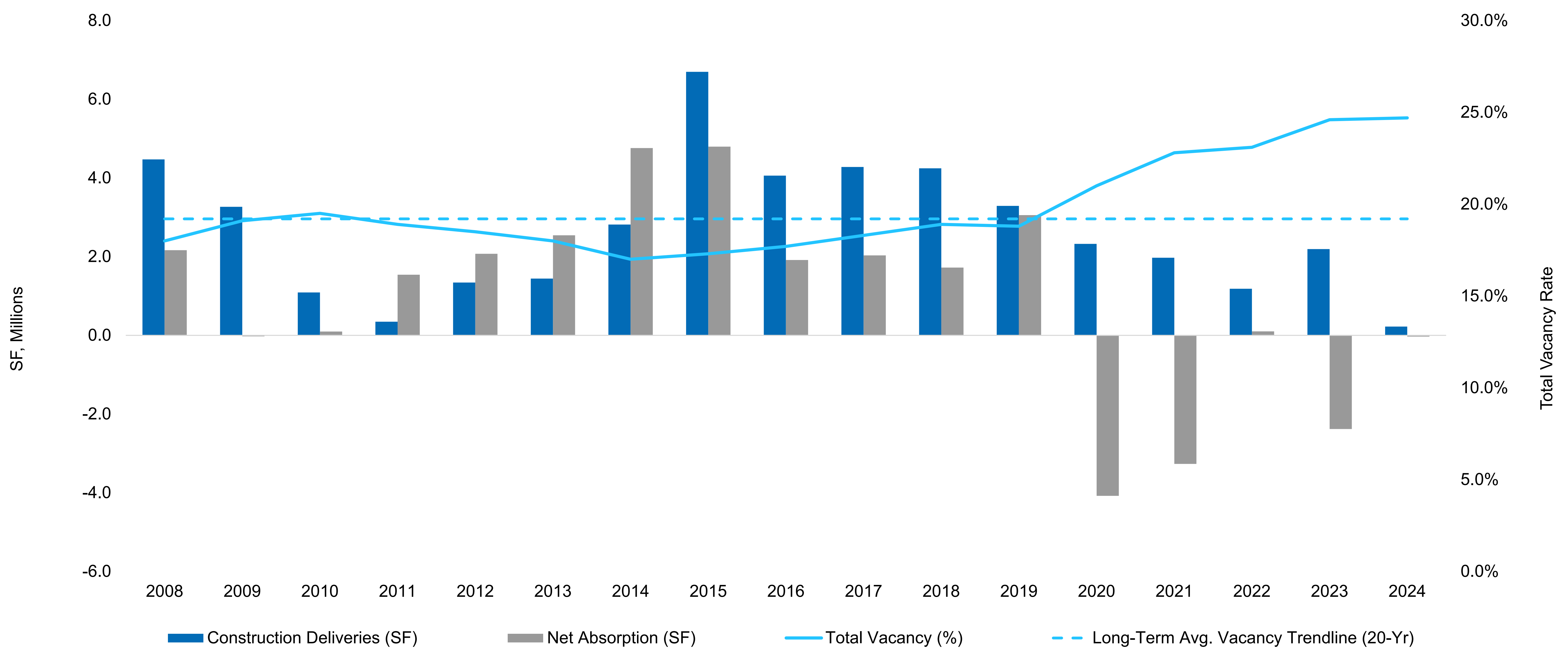
Leasing Market Fundamentals

Vacancy Flattens as Construction Deliveries Outpace Net Absorption

The Dallas-Fort Worth office vacancy rate increased by 100 basis points year over year to 24.7% in the first quarter of 2024. Since the pandemic, office occupancies have slowed in the market, with continued new office supply delivering, although at a declining pace since 2018. Deliveries remain muted so far in 2024, leading vacancy rates to remain relatively flat since year-end 2023. Vacancy rates have remained elevated in the market due to older office buildings sitting vacant as occupiers continue a flight to quality towards newer buildings.

Historical Construction Deliveries, Net Absorption, and Vacancy

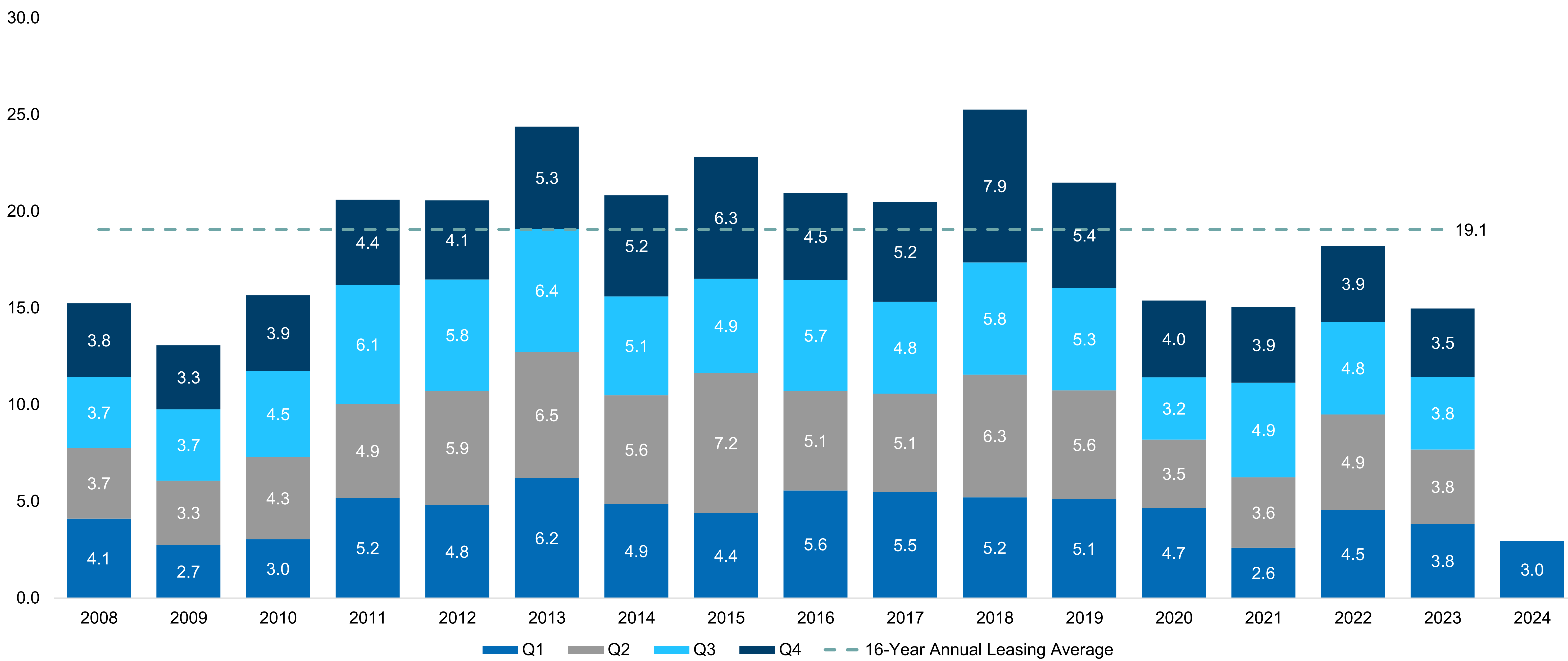


Source: Newmark Research, CoStar

Leasing Activity Continues to Slow, Impacted by Smaller Deals Done

Leasing activity in the market remains slower, with leasing activity in the first quarter of 2024 closing at 3.0 MSF, comparatively lower than quarterly activity reported over the past 16 years. Deal size averaged 3,530 SF in the first quarter of 2024, an average of 749 SF and 639 SF less than the previous quarter and year, respectively. The slowing leasing activity pace is largely attributed to smaller deals being done, likely due to a more challenging debt liquidity environment impacting larger deals from occurring as easily.

Total Leasing Activity (msf)

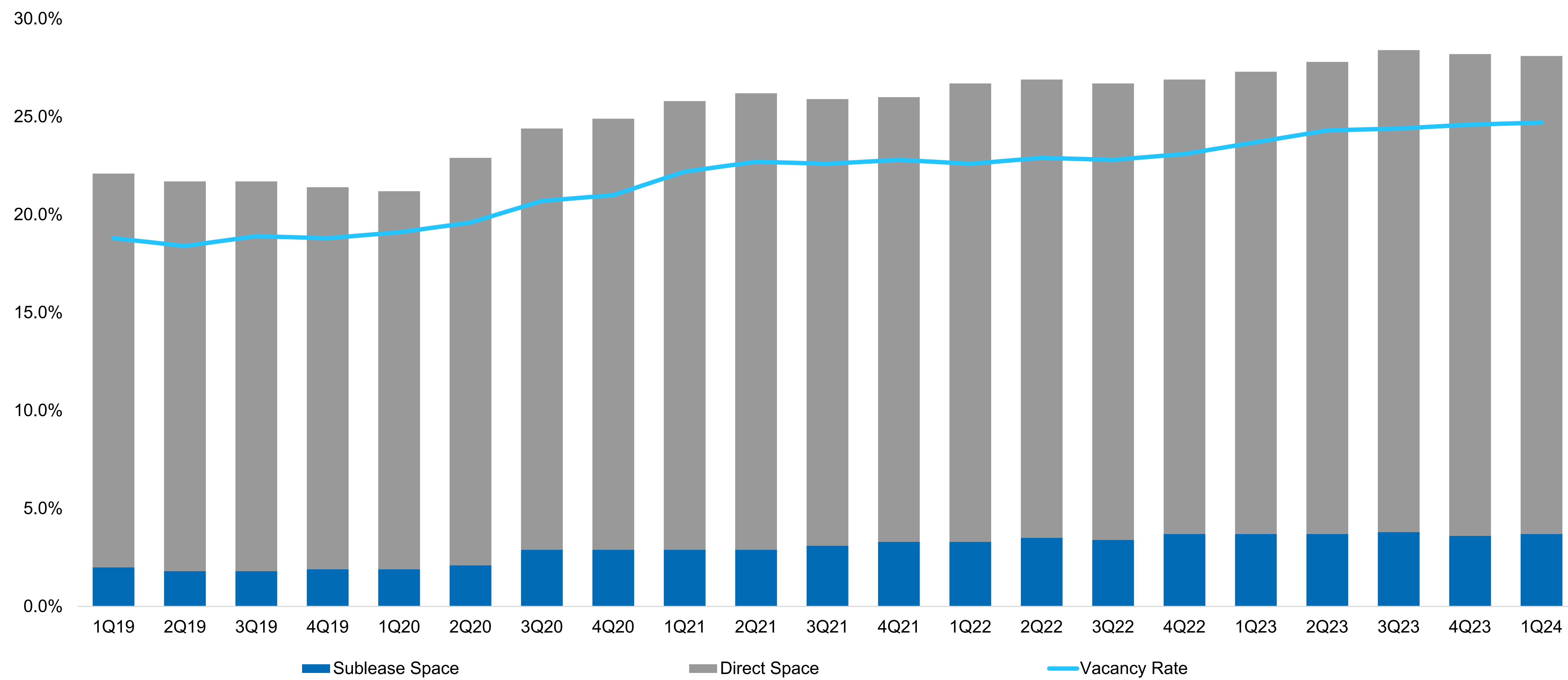


Source: Newmark Research, CoStar

Availability Declines from Historical High

Sublease availability in the Dallas-Fort Worth market has continually been on the rise since the pandemic, reaching a peak in the third quarter of 2023. As of the first quarter of 2024, sublease availability continues to remain elevated at 3.7% but has declined from the peak. Similarly, direct availability slightly decreased compared to year-end 2023, but remains elevated at 24.4%. In the meantime, vacancies remained high, increasing by 10 basis points quarter over quarter.

Available Space as Percent of Overall Market

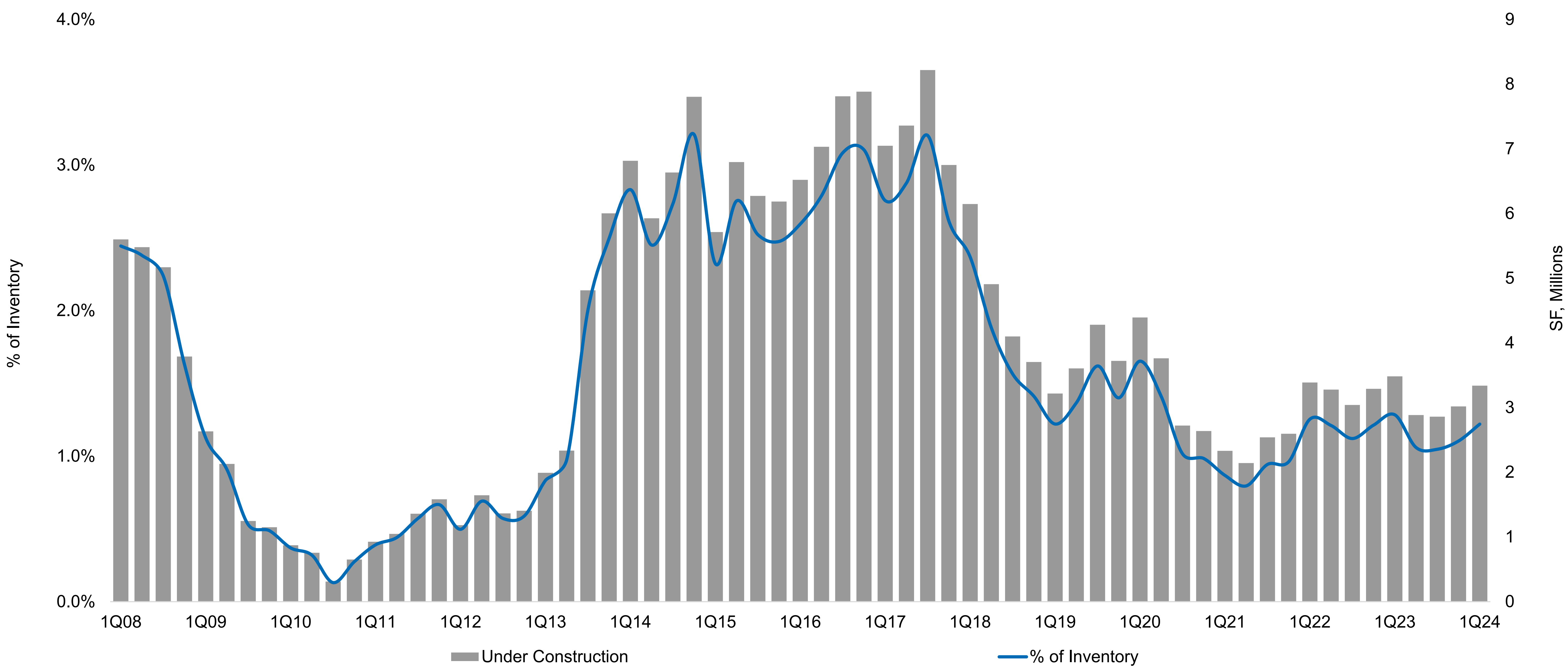


Source: Newmark Research, CoStar

Construction Activity Slightly Increases but Remains Slow

As of the first quarter of 2024, the market had 3.3 MSF under construction. Despite under-construction activity continuing to increase from the recent lows mid-year 2023, only 1.2% of the market's inventory is currently under construction, indicating there is less risk of overbuilding. New deliveries will continue to be supported by a flight-to-quality space in the market where new product is built, rather than renovating older, obsolete buildings.

Office Under Construction and % of Inventory

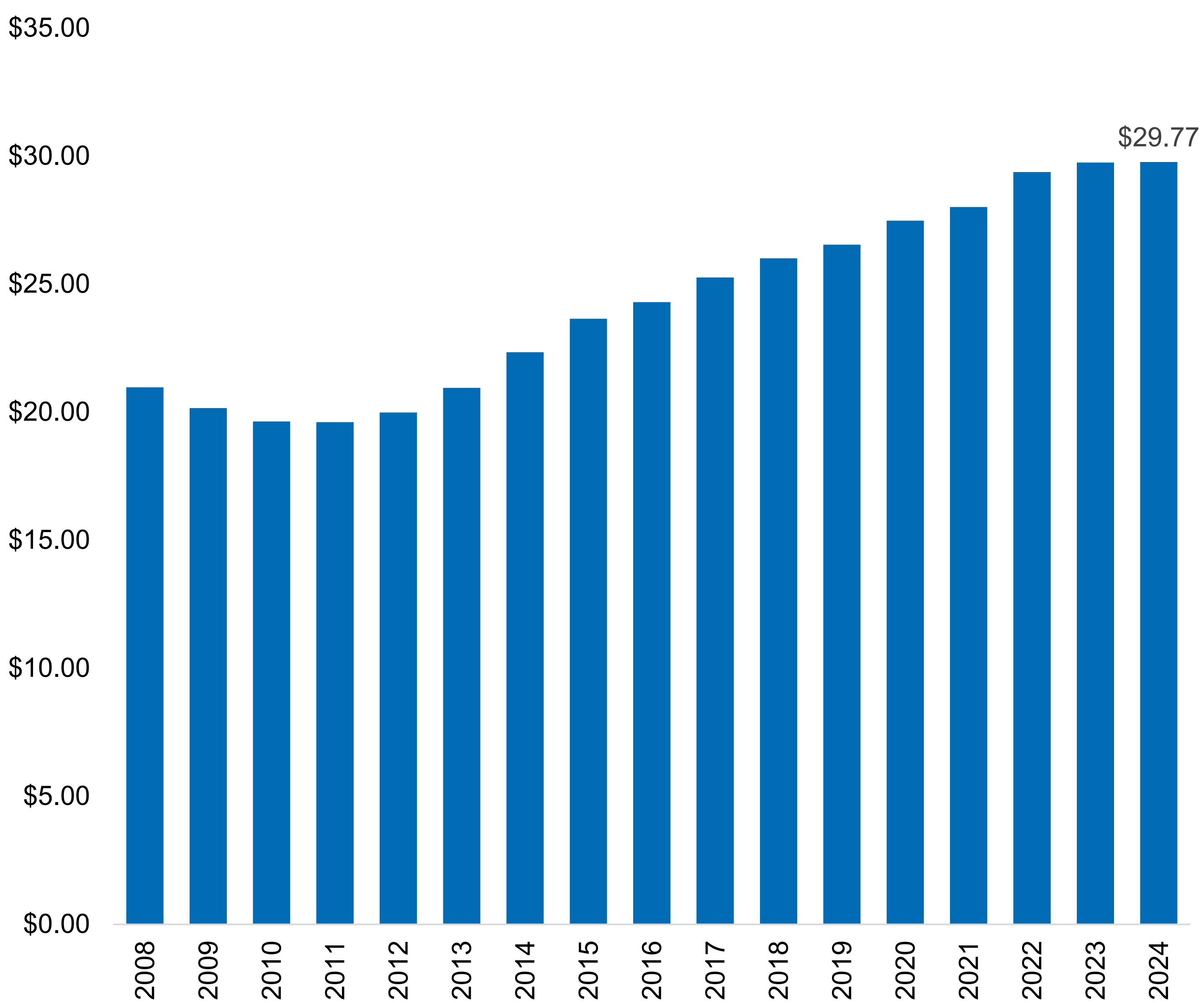


Source: Newmark Research, CoStar

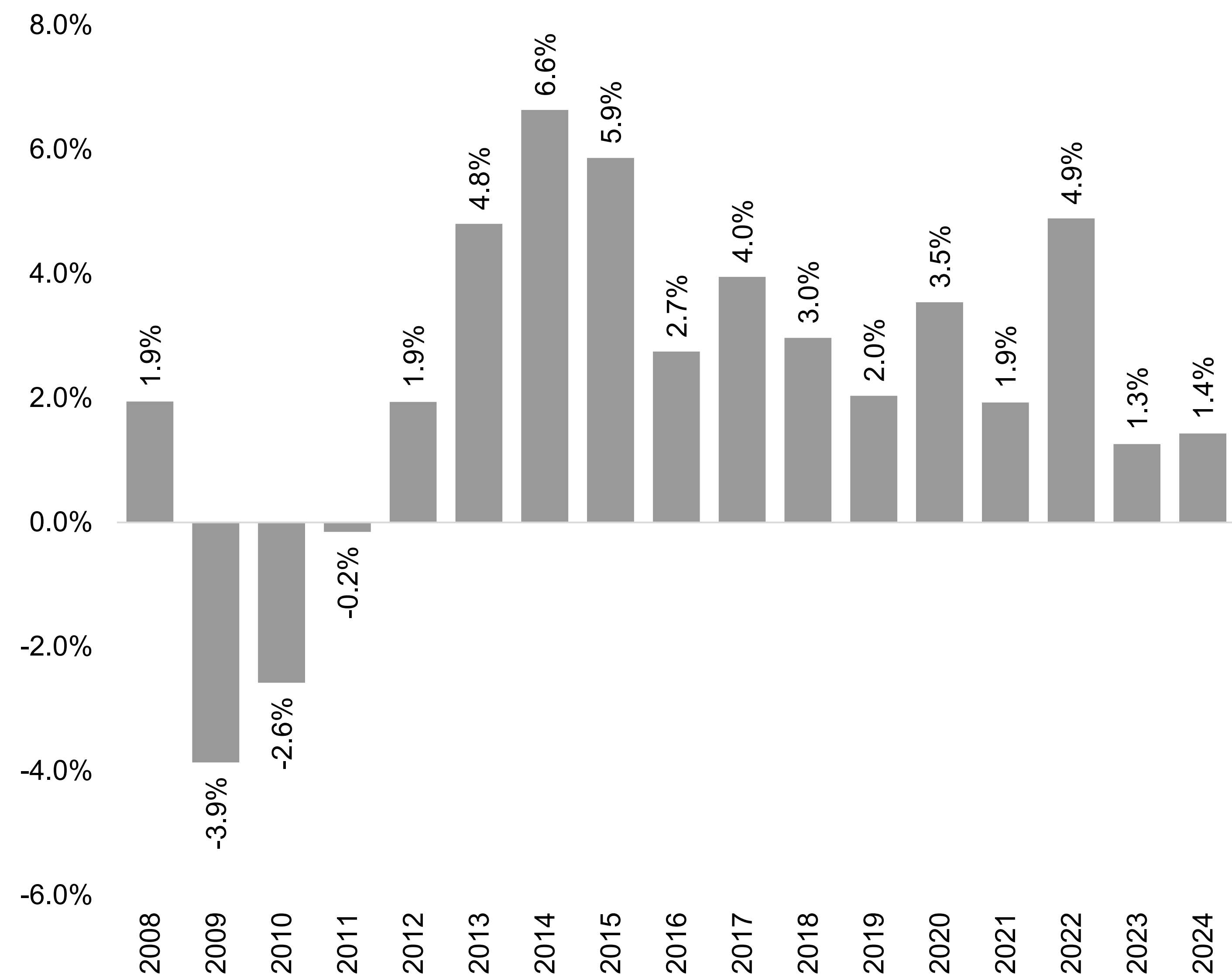
Rents Reach All-Time High

Rents continued increasing in the first quarter of 2024, reaching an all-time historical high of $29.77/SF. Rental rates continue trending upwards due to rising operating expenses and inflation. Asking rents are likely to remain elevated, while concessions are expected to increase to help offset high asking rates as market demand softens.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

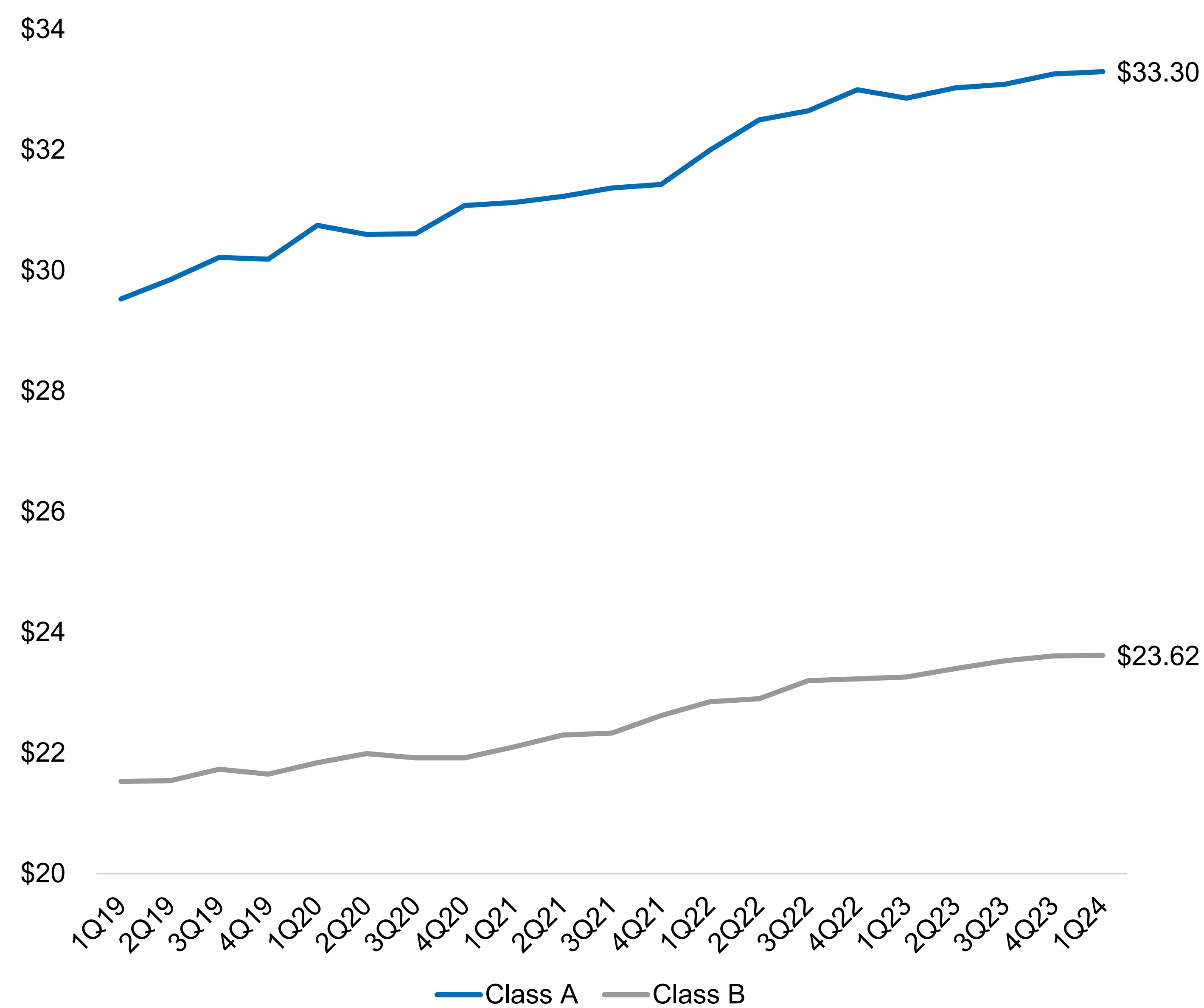


Source: Newmark Research, CoStar

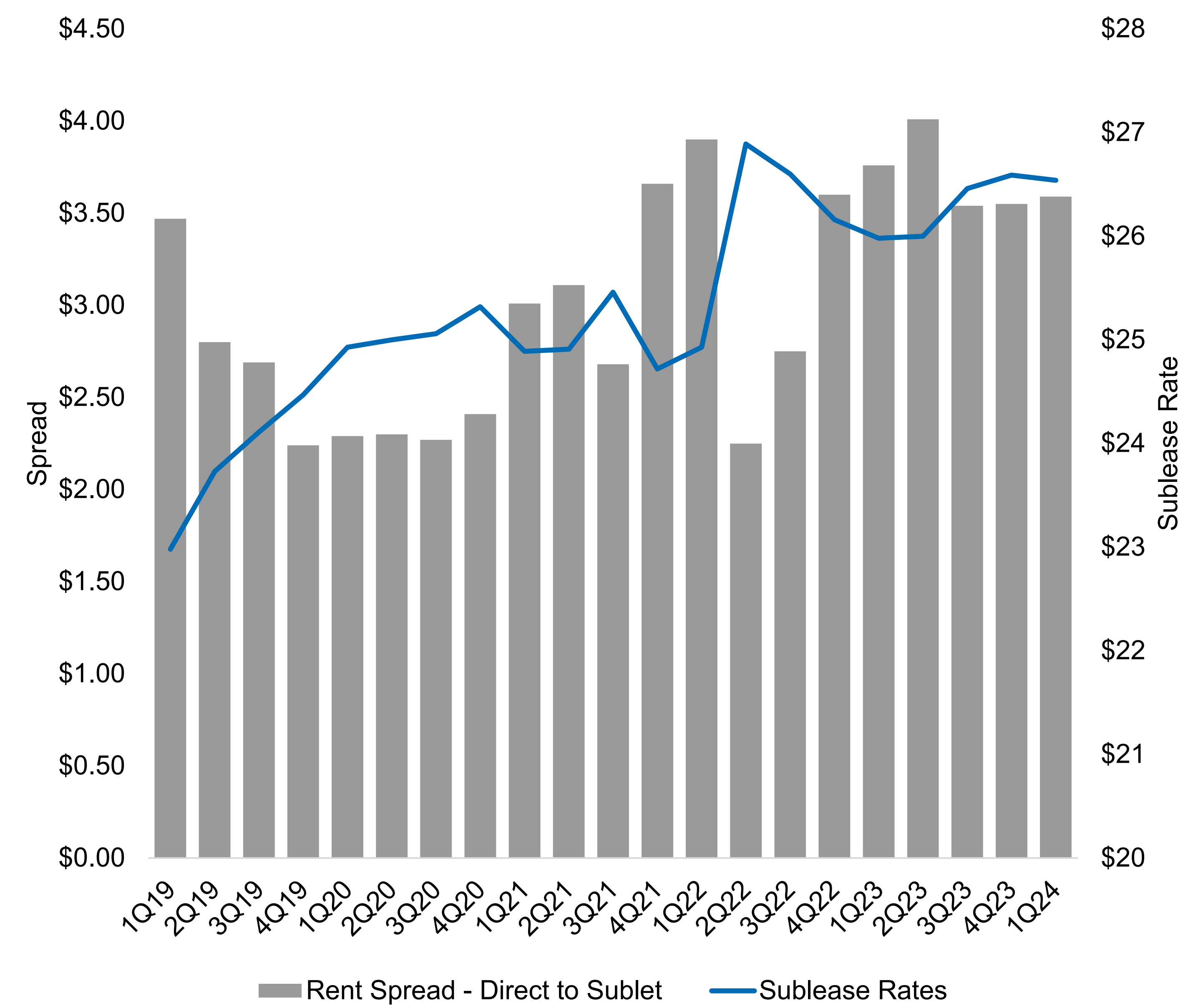
Asking Rents Growth Reflect Flight to Quality

As rents continue increasing, the bifurcation in rent spread between Class A and Class B assets continues to remain wide, above the $9.00/SF mark. As of the end of the first quarter of 2024, Class A rents ended at $33.30/SF, while Class B reported $23.62/SF. Due to much higher demand of quality assets, rent difference between the two assets are at $9.68/SF, a 13.3% spread increase since 2019. Sublease rates have flattened in recent quarters, with asking sublease rents decreasing by 0.2% quarter over quarter.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

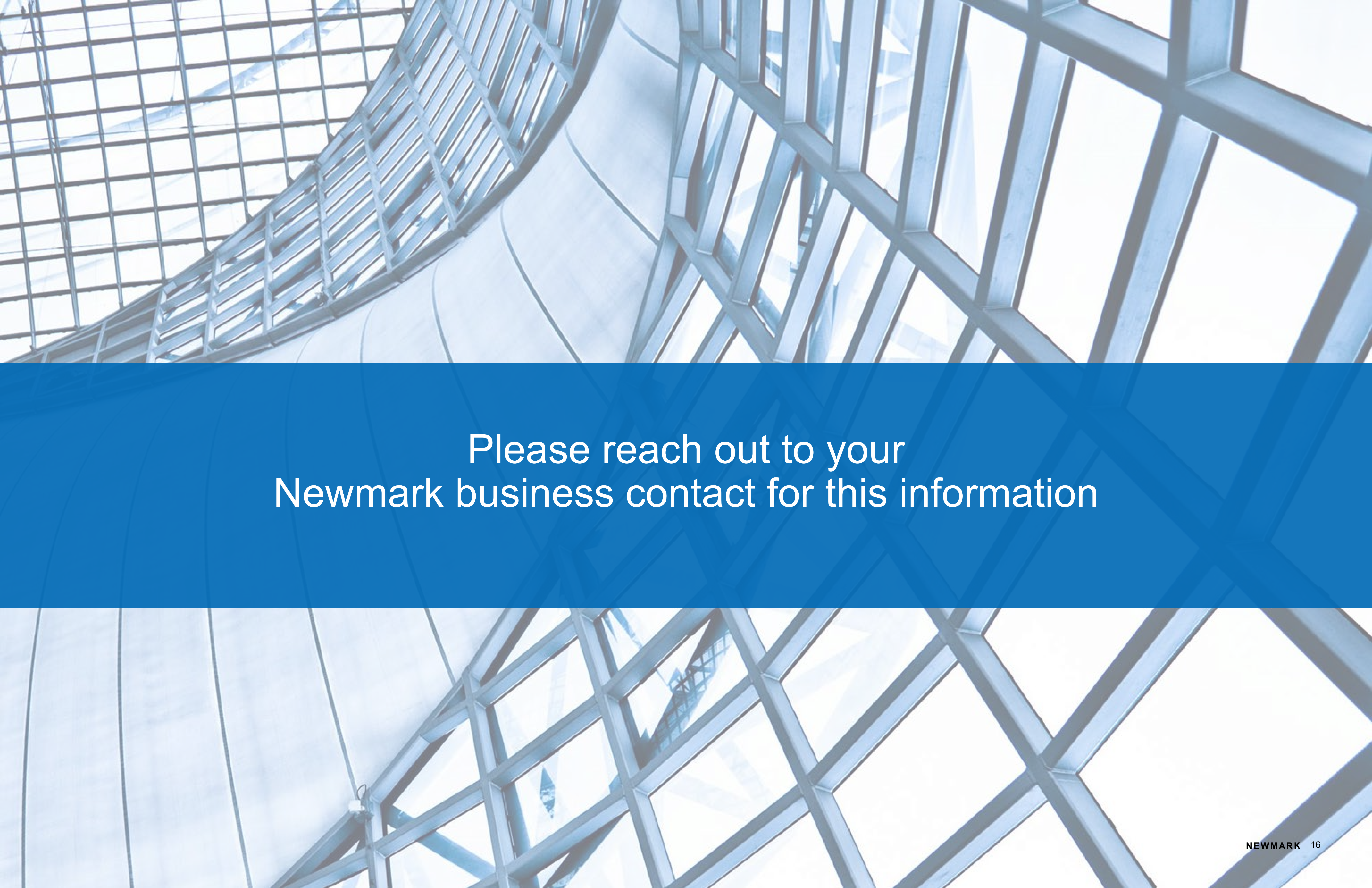
Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues to remain a trend in the Dallas-Fort Worth office market. As of the end of the first quarter of 2024, Class A space accounted for 60.3% of the market's leasing activity by SF, but only 38.4% of the market's deal volume. Average leases signed in Class A space were 5,545 SF and continued to remain larger than the average market deal size at 3,530 SF.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sidley Austin	23Springs	Uptown/Turtle Creek	Direct New	118,485
Law firm Sidley Austin signed a new lease for four and half floors in 23Springs. The company is moving from 80,000 SF at McKinney & Olive to the under-construction building that is set to deliver late 2025.				
Wingstop	One West Village	Uptown/Turtle Creek	Direct New	112,000
Wingstop is moving from its owned 78,000-SF corporate headquarters at 15505 Wright Brother Dr. in Addison to Dallas. The company signed a 13-year lease for its new headquarters to occupy floors 15 to 18.				
Deloitte	23Springs	Uptown/Turtle Creek	Direct New	104,532
Previously a major tenant at the former Chase Tower, now Dallas Arts Tower, Deloitte signed a new lease to move to the currently under-construction 23Springs that is expected to deliver in 2025.				
Invesco	The Union	Uptown/Turtle Creek	Direct New	58,464
Investment manager Invesco signed a new lease to occupy the 11th and 12th floors at The Union. The company will be moving from Trammell Crow Center in Dallas CBD.				
CheckSammy	The Madison	Far North Dallas	Renewal & Expansion	45,098
Waste management firm CheckSammy added 22,549 SF while extending its current lease The expansion will bring the company's headquarters to 45,098 SF with the ability to accommodate 250 employees.				

Source: Newmark Research, CoStar



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