

# Dallas Office Market

## Mid-Year Decline for Dallas-Fort Worth Office Market

The Dallas-Fort Worth office market's recovery slowed in the second quarter of 2022, as vacancy increased, and demand weakened. At 23.9%, vacancy in the DFW market continues to be among the highest in the nation, but still trails Houston. In the second quarter of 2022, demand took a significant hit, as occupiers gave back over 820,000 square feet of space and leasing activity decreased. To keep pace with inflation, landlords are keeping rental rates elevated, but overall rents in the DFW market remain lower than in other Sunbelt markets. In the first half of 2022, announcements for corporate relocations to the Dallas-Fort Worth metroplex are on pace with 2021 numbers. Dallas-Fort Worth ranked #1 in overall CRE Investment in 2021 and the market is on track to witness similar levels of investment this year.

### Inflation Pushes Rents Higher

In the second quarter of 2022, rental rates experienced a sharp increase from \$28.12/SF to \$28.50/SF. While rents have maintained a steady climb in the past few years, in the past 12-months rental rates have grown by 4.5%, and 6.5% since the start of 2020. The Uptown/Turtle Creek and Preston Center submarkets remain the most expensive in the market, at \$41.57/SF and \$40.38/SF, respectively. The average price discount for sublease space is 10.3% market-wide and the Mid-Cities submarket has the greatest sublease discount at 35.5%.

### Current Conditions

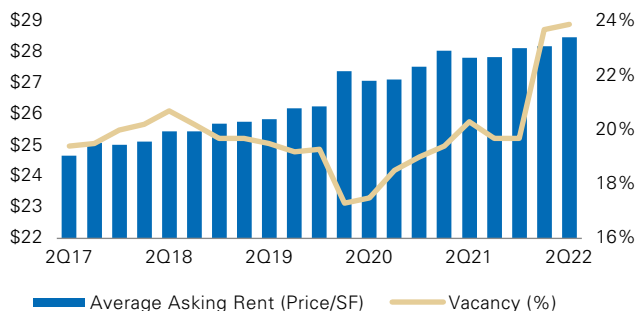
- Rental rates rose to \$28.50/SF, a 1.3% increase quarter-over-quarter.
- Dallas-Fort Worth continues to have one of the highest vacancy rates in the nation, at 23.9%.
- Absorption drastically fell to negative 821,716 square feet in the second quarter.
- Growth in the Dallas-Fort Worth office market will be driven in part by the metro's rising status as a tech hub.

### Market Summary

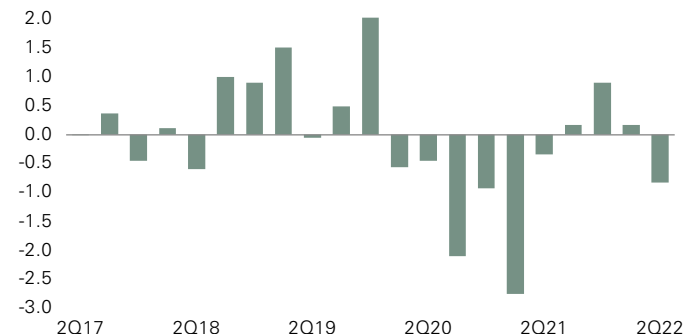
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	271.3 M	270.7 M	269.9 M	↑
Vacancy Rate	23.9%	23.4%	23.0%	↓
Quarterly Net Absorption (SF)	-821,716	-9,690	-748,132	↑
Average Asking Rent/SF	\$28.50	\$28.12	\$27.28	=
Under Construction (SF)	1.7 M	2.3 M	2.0 M	↑

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF, MILLIONS)



## RESEARCH Q2 2022

Rents are expected to remain elevated in the short term as landlords pass property tax increases and construction costs on to tenants. Property taxes have increased 5-15% in some areas, driven by nationwide inflation; and supply chain shortages have contributed to increased construction costs. Tenants can expect to see these costs rolled into higher rents or decreased tenant-improvement packages.

The Dallas-Fort Worth office market has one of the highest overall vacancy rates in the nation again in the second quarter of 2022. Total vacancy continues to climb, increasing 90 basis points year-over-year, and finished the quarter at 23.9%. The prolonged high vacancy rate in the DFW market is reminiscent of levels seen in the late 1980s at the end of that decade's oil-bust. Vacancy in the Dallas Central Business District surpassed 30.0% in the second quarter, the highest in the market, followed by the Far North Dallas submarket, at 28.3%. Market availability remains at 27.2% for the second consecutive quarter, but is trending upward, increasing 30 basis-points year-over-year.

Total net absorption fell to negative 821,716 square feet in the second quarter of 2022, a marked turnaround from the positive headway made in the first quarter. Upon lease expiration, tenants are taking fewer square feet, as indicated by the negative 456,000 square feet of absorption for direct space in the second quarter. While tenants took advantage of available sublease space in the first quarter, the appeal of sublease space has since diminished. In the second quarter, roughly 250,000 square feet of sublease space was put on the market, contributing to negative 365,000 square feet of the total net absorption number. In the past 12 months, roughly 785,000 square feet of sublease space has hit the market, an 8.8% increase year-over-year. Demand in the Las Colinas submarket did a turnaround in the second quarter with 103,870 square feet of sublease space added to the market and negative 299,105 square feet of absorption. Leasing activity in the submarket totaled 362,445 square feet, significantly lower than activity in the first quarter. Strong leasing from 2021 should help push absorption into positive territory in the second half of the year, as tenants begin to occupy new spaces.

The DFW market has maintained leasing activity levels over the past 12 months but experienced a dip in activity in the second quarter of 2022. For the quarter, leasing activity totaled 3.1 million square feet, a decrease of 18.6% quarter-over-quarter. In the second quarter of 2022, 638 transactions closed with an average lease size of 4,901 square feet. At 6.9 million square feet, year-to-date leasing activity totals are higher than that of the first half of 2021.

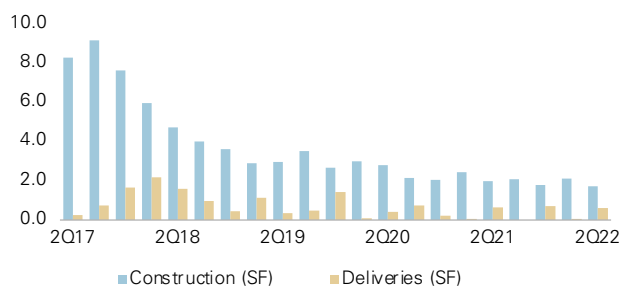
Law firms were active in the second quarter of 2022, with four firms taking space at Ross Tower alone. Steptoe & Johnson's 14,300 square foot space on the 32nd floor will be the firm's first office in Dallas, while Kessler Collins moved from 2100 McKinney and took 13,745 square feet of space. McGinnis Lochridge expanded within the building and Godwin Bowman will relocate to 24,000 square feet in Ross Tower in 2023. O'Melveny & Myers, which entered the Dallas market a year ago, is set to take 75,000 square feet at Harwood No. 14 once the building delivers in 2023. Haynes and Boone will also office at the tower, which is now around 70% pre-leased.

### Construction Eases as Costs Rise

The Dallas-Fort Worth construction pipeline is facing headwinds as development begins to lag. The market has 1.7 million square feet of space under construction, one of the lowest levels of the last decade. About 70% of the space under construction has not been pre-leased. In the second quarter 602,416 square feet of space delivered. In the first half of 2022, construction starts totaled 552,480 square feet; lower than the 699,608 square feet in construction starts that occurred in the first half of 2021. Increasing construction costs and lack of skilled construction workers, coupled with the uncertainty of hybrid work models, has led some developers to delay projects. Of the 11 properties under construction, five are slated for completion by year-end, which will add 416,098 square feet to the market's inventory. If construction picks up, 2023 will be a substantial year for completions as over 1.4 million square feet of proposed or under-construction space is expected to deliver.

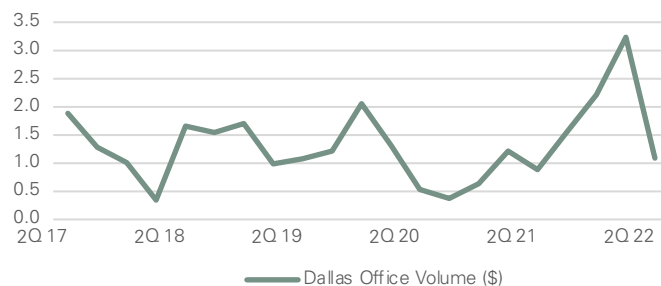
### Construction and Deliveries

#### SQUARE FEET, MILLIONS



### Office Investment Sales

#### SALES VOLUME (\$, BILLIONS)



Source: Real Capital Analytics

## Growing Tech Industry Drives Investment and Relocations

Entering 2022, the 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 10-25% of the market's total deal volume allotted to the subtype. Roughly \$1.1 billion in office investment took place in the metroplex in the second quarter of 2022, a 21.0% increase year-over-year.

In 2021, 62 companies relocated to Texas, with 21 settling in the DFW Metroplex. Year-to-date, 12 companies have announced relocations to the Dallas-Fort Worth area. According to the Dallas Regional Chamber, the next wave of relocations to the region will be concentrated in the tech sector, with roughly 111 potential relocations currently in the works. Dallas-Fort Worth ranks seventh in the nation for largest tech workforce, according to CompTIA, with 380,000 employees in the sector. The Metroplex is also the sixth-largest hub for data centers. In a recent report by Brookings, the Dallas-Fort Worth metro was named a "Rising Star" tech hub. The metro added tech jobs at an annual growth rate of over 3.0%, per the report. Over the next five years, employment in DFW's tech employment industry is expected to grow by over 11%.

Doosan Robotics Inc. will join Venture X and NTT Data at 7950 Legacy Dr. in Plano. The location will serve as the South Korean tech firm's first U.S. headquarters. 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 approximately 9,000 employees.

## 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 improving 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
J.C. Penney Corporation	Richardson/Plano	6501 Legacy Dr	Direct-New	280,457
AMN Healthcare	Las Colinas	2999 Olympus Blvd	Direct-New	90,000
O'Melveny & Myers LLP	Uptown/Turtle Creek	2801 N Harwood Dr	Direct-New	75,069
Vanguard	Far North Dallas	7900 Windrose	Direct-New	69,565

### Select Sale Transactions

Buyer/Seller	Submarket	Building	Sale Price	Price/SF
GrayStreet Partners / Square Mile Capital	Dallas CBD	Renaissance Tower	\$98.0 M	\$56.35
Larson Capital Mgmt / Cawley Management LLC	Richardson/Plano	Legacy Center	\$58.0 M	\$331
Ally / City Office REIT, Inc.	Lewisville	2911 Lake Vista Dr	\$43.8 M	\$268
Bhakta Bharat / Big Brothers Big Sisters Lone Star	Las Colinas	450 E John Carpenter Fwy	\$5.7 M	\$98.67

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	29,283,631	0	30.8%	-260,719	-302,750	\$27.81	\$23.34	\$27.49
Ft. Worth CBD	8,059,903	0	19.1%	-38,891	74,752	\$28.52	\$18.69	\$27.67
CBD	37,343,534	0	28.3%	-299,610	-227,998	\$27.89	\$22.70	\$27.51
Central Expressway	11,632,614	0	21.4%	23,178	-145,780	\$34.93	\$25.26	\$34.37
East Dallas	7,436,402	0	22.5%	161,201	207,450	\$32.60	\$45.94	\$38.02
Far North Dallas	51,484,736	496,336	28.3%	162,990	-11,568	\$33.42	\$29.20	\$32.93
Las Colinas	35,171,889	356,269	23.2%	-299,105	-264,860	\$27.08	\$22.47	\$26.42
LBJ Freeway	20,672,208	0	26.9%	-207,821	-202,011	\$25.38	\$19.64	\$24.87
Lewisville/Denton	6,400,713	0	18.5%	47,849	151,831	\$25.98	\$21.45	\$25.22
Mid Cities	21,198,350	42,192	24.1%	-259,715	-295,764	\$25.32	\$16.32	\$24.36
North Ft. Worth	2,168,448	83,500	21.9%	-47,579	-17,193	\$26.70	\$22.75	\$24.57
Northeast Ft. Worth	3,390,419	0	11.1%	-221	-7,201	\$22.02	\$16.58	\$21.51
Preston Center	4,886,923	0	13.0%	50,901	-20,845	\$40.70	\$37.99	\$40.38
Richardson/Plano	29,994,515	374,906	21.6%	-211,733	-140,785	\$24.51	\$23.66	\$24.42
South Ft. Worth	9,705,866	0	13.0%	2,434	-84,626	\$25.36	\$20.44	\$25.21
Southwest Dallas	2,993,938	0	10.7%	-9,063	5,607	\$23.96	\$21.77	\$23.65
Stemmons Freeway	12,322,492	0	25.7%	-81,477	82,344	\$18.52	\$20.68	\$18.64
Uptown Turtle Creek	14,554,685	359,914	18.8%	116,307	167,366	\$41.87	\$37.94	\$41.57
Suburban	234,014,198	1,713,117	23.2%	-503,159	-584,461	\$29.02	\$26.24	\$28.70
Market	271,357,732	1,713,117	23.9%	-821,716	-831,406	\$28.82	\$25.83	\$28.50

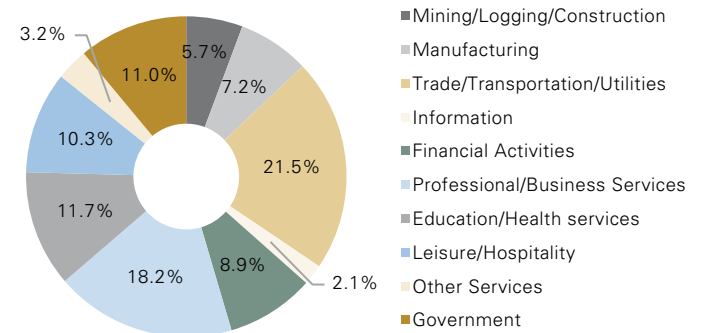
## Economic Indicators

Job growth continued to drive economic expansion in the Dallas-Fort Worth metroplex in April. In Dallas, employment grew 8.9%, while unemployment fell to 3.7%. Employment increased by 6.1% in Fort Worth, as unemployment dropped to 3.8% in April. Overall payrolls increased by 9.5% in April in the DFW metro. The Dallas Business Cycle Index has now expanded for 23 consecutive months, with growth of 14.3% year-over-year in April. The Fort Worth Index also expanded but at a slower pace of 0.9% for the same period.

In the year period ending in May, consumer prices increased by 8.6% nationwide. Core inflation increased by 6.0% over the same period. In the Dallas-Fort Worth metro, the Consumer Price Index was at 9.1% for May. All industries tracked by the BLS for the region showed 12-month gains in employment growth in May, with leisure and hospitality gaining the largest share at 17.0%. Professional and business services and financial activities had growth rates of 11.0% and 8.3% respectively.

## Employment By Industry

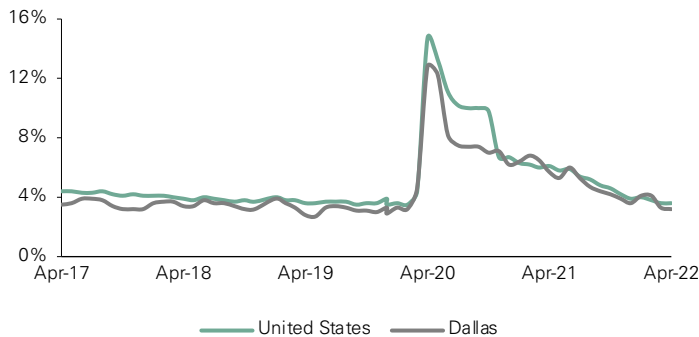
DALLAS, MAY 2022



Source: US Bureau of Labor Statistics, May 2022

## Unemployment Rate

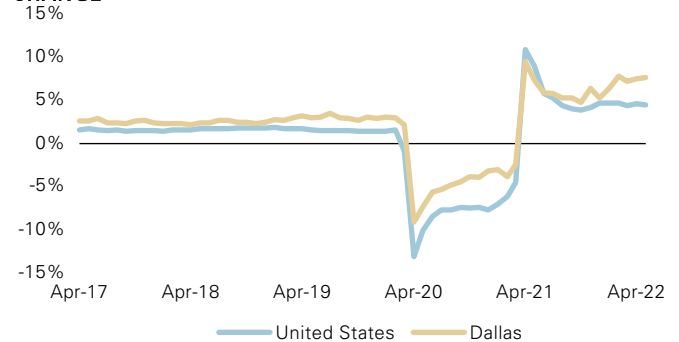
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, April 2022

## Payroll Employment

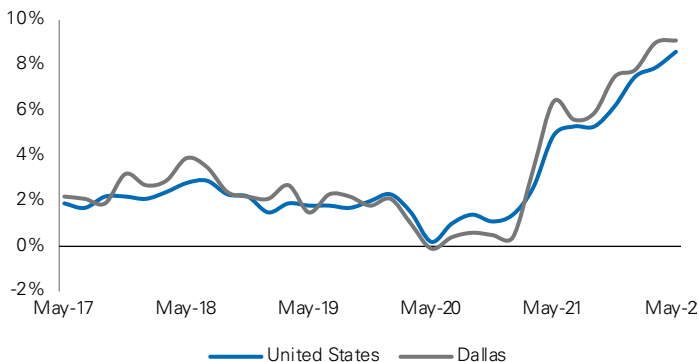
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: US Bureau of Labor Statistics, April 2022

## Customer Price Index (CPI)

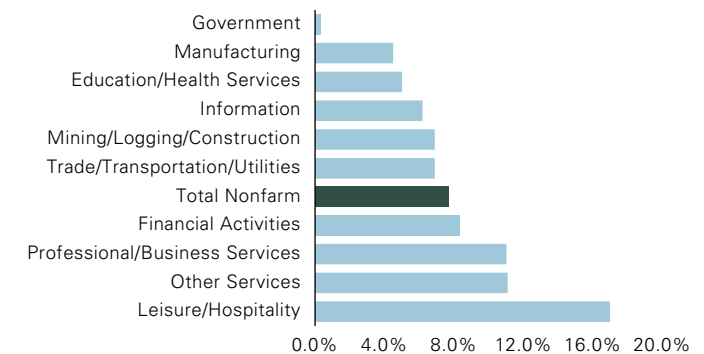
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, May 2022

## Employment Growth By Industry

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



Source: US Bureau of Labor Statistics, May 2022

