



RESEARCH Q3 2021

# Dallas Office Market

## Strong Leasing Activity Helps Stabilize Market

The Dallas-Fort Worth office market closed the third quarter of 2021 with stable metrics overall. With the vaccine becoming more widespread, the economy and office market in the metroplex have kept pace with the U.S. national recovery. According to data from Kastle Systems at quarter open, roughly 50% of office space in the market was currently occupied by workers. As the quarter progressed and the COVID-19 Delta variant surged, that number dropped to 42.0% by mid-September. Despite the return to office and strong leasing activity, sublease vacancy rates increased, while rental rates across the market flattened. The Dallas-Fort Worth office market is expected to strengthen through the end of 2021 and into 2022 due to job growth and company relocations and expansions. Rental Rates & Vacancy Remain Relatively Stable

### Rental Rates Flatline as Leasing Activity Soars

Rental rates in the DFW market were flat in the third quarter at \$27.85/SF. The Uptown/Turtle Creek and Preston Center submarkets again saw rates in the low \$40.00/SF range. For the most part, rental rates have remained stable in the DFW Metro overall, gaining 3.0% year-over-year in the third quarter. Total vacancy rose slightly to a record high of 19.7%, a year-over-year

### Current Conditions

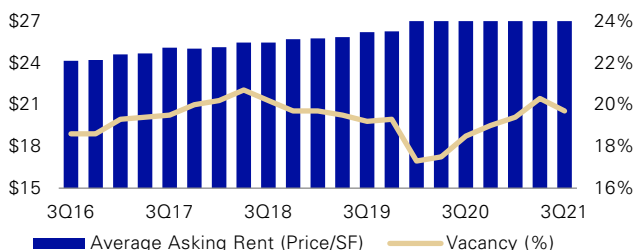
- Rental rates increased slightly but leasing activity is still down from last year.
- Sublease space availability has increased for the fourth straight quarter
- Texas was one of the first states to fully re-open but business and leasing still remains slow.

### Market Summary

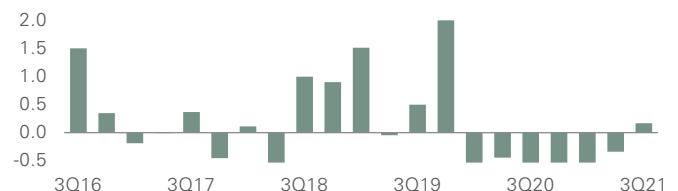
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	338M	317.9M	335.0 M	↑
Vacancy Rate	19.7%	20.3%	18.0%	↓
Quarterly Net Absorption (SF)	166,003	-340,206	-1.95 M	↑
Average Asking Rent/SF	\$27.85	\$27.83	\$27.03	↓
Under Construction (SF)	6.2M	6.4M	6.7M	↓

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF, MILLIONS)



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change of 9.4%. The total availability rate also keeps climbing, ending the quarter at 22.7%, a 5.5% increase from this time last year.

Net absorption remains low, but the third quarter continued the return to positive absorption after five consecutive quarters of negative absorption across the market. While significantly below pre-pandemic absorption levels, in the third quarter, 166,003 square feet of space was taken up across the market. Despite the return to positive absorption, sublease space continues to rise. Sublet inventory is now at 5.3 million square feet, an increase of 800,000 square feet from this time last year; an indication that occupiers are still focused on giving back space and decreasing footprints.

While occupiers may be concerned with the size of space for the foreseeable future, there is still a notable amount of activity occurring in the market. Leasing activity reached 5.1 million square feet in the third quarter, marking the return to pre-pandemic levels. Transactions totaled 1,051 for the quarter, with an average lease size of 4,883 square feet. Increased demand from reemployment, return to the office and continuing company relocations has helped to bolster activity and marks the beginnings of a stabilizing market.

### Relocations and Expansions Continue

While Dallas-Fort Worth has been a highly sought-after destination for corporate relocations in recent years, some reports indicate it could be a mixed bag in attracting relocations in the coming years. In CNBC's annual ranking of best states for business, Texas dropped two spots from its 2019 ranking. Texas fell to fourth behind Virginia, North Carolina, and Utah. While Texas received top rankings in the workforce area, the state ranked 49th in life, health, and inclusion, which could be seen as off-putting to companies and highly-educated employees looking to relocate. Currently, however, the DFW Metroplex shows no signs of slowing down when it comes to corporate relocations, with 115 projects in the pipeline, according to the Dallas Regional Chamber Center.

### Asking Rent by Submarket

ASKING RENT	3Q2021	3Q2020	
Uptown/Turtle Creek	\$41.55/SF	\$40.68/SF	↓
Preston Center	\$42.02/SF	\$41.85/SF	↑
Ft. Worth CBD	\$28.01/SF	\$28.00/SF	↓
Central Expressway	\$31.09/SF	\$30.44/SF	↑
Far North Dallas	\$32.14/SF	\$30.89/SF	↑

Notable relocations announced during the third quarter include Regent Properties, a real estate investment management firm, opening a second corporate headquarters in Dallas. The company will occupy space at 2000 McKinney Avenue in the Uptown submarket starting in January 2022. Regent Properties follows other real estate firms that have relocated to Dallas in the past year, such as Lion Real Estate Group LLC and CBRE Group Inc.

Three Whiskey, a London digital marketing and strategy agency, recently made its Dallas office its U.S. headquarters. The company is located at 8750 North Central Expressway and plans to expand locally in the next year, adding 25 new positions.

Additionally, "Project Falcon," the rumored code name of Wells Fargo's build-to-suit project in Irving-Las Colinas, is still in the works. It is believed that Wells Fargo is looking for a site to accommodate a few hundred thousand square feet.

### Construction and Investment Remain Strong

The development pipeline in the Dallas-Fort Worth market remains robust, with at least 10 office properties proposed across the market in 2022 and 2023. The market currently has more than 6.2 million square feet of space under construction, with a majority of 1.0 million square feet underway in the Uptown/Turtle Creek submarket. Within Uptown/Turtle Creek, Victory Commons One is set to deliver 364,037 square feet of space in October with no pre-leasing. Nearby, Harwood No. 14 is expected to deliver in early 2023 and would add 359,900 square feet of space to the market. The building is 49.7% pre-leased, with Haynes and Boone LLP taking 125,000 square feet.

The investment cycle in the Metroplex continues to show signs of life. Notable sales in the third quarter include Stanton Road Capital selling Trinity Towers to Hammes Partners for \$94.5 million, or \$149/SF. The Offices Two at Frisco Station also traded hands, selling to MetLife for \$110.0 million.

### Vacancy By Submarket

VACANCY RATE %	3Q2021	3Q2020	
Northeast Fort Worth	8.3%	14.2%	↓
Stemmons Freeway	22.0%	22.8%	↓
Dallas CBD	25.8%	24.6%	↑
CBD Total	23.7%	22.4%	↑
Richardson/Plano	18.2%	17.2%	↑

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In August, Related Cos. Purchased International Plaza I in North Dallas for \$157.5 million. The property was previously owned by Taconic Investment Partners.  
Construction Pipeline

business friendly climate. Large-scale relocations, like CBRE's headquarters relocation to Uptown and Charles Schwab's move to Westlake, are seen as a continued indicator of DFW's economic strength long term.

### Dallas-Fort Worth Rebounding from COVID-19

In the third quarter, Texas saw a surge in the highly contagious COVID-19 Delta variant after its reopening with no restrictions and a summer of heightened travel. With companies left to decide how best to return to work, many DFW employers chose to delay the return to office until later in the fall or early 2022. Despite the best efforts by local, regional, national and international agencies, the pandemic continues to impact all aspects of life. As of August, only 44.0% of Texas residents have been fully vaccinated. The economic forecast for the Dallas-Fort Worth region is promising, as the metroplex is recovering faster than the national average, bolstered by a stable demand for professional services and remote work capabilities.

While Dallas-Fort Worth has performed well in terms of overall job losses relative to other major US markets, the COVID-19 impact remains a stressor for all aspects of the DFW market. Dallas, along with Houston and Phoenix, continues to see strong population growth, as well as demand from a variety of companies looking to relocate and take advantage of the market's

### Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Unknown	Stemmons Fwy	1440 Empire Central Dr	Direct-New	80,000
Octane Lending	DFW Freeport/Coppell	4851 Regent Blvd	Sublease-New	77,991
Unknown	Richardson/Plano	6555 Declaration Blvd	Direct-New	69,667
ShiftKey	Las Colinas	5221 N O'Connor Blvd	Direct-New	36,621
Deverick & Associates	Uptown/Turtle Creek	1717 McKinney Ave	Direct-New	26,874

### Select Sale Transactions

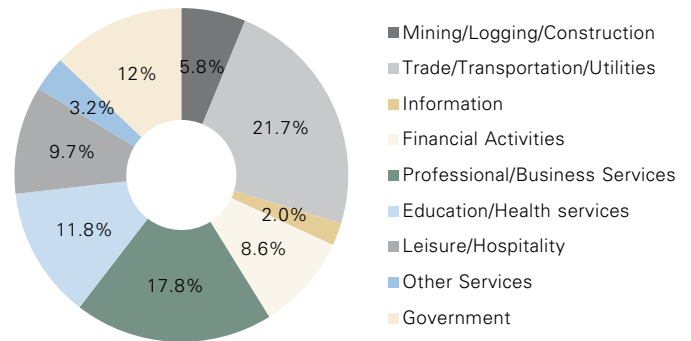
Buyer/Seller	Market	Building	Sale Price	\$/SF
Hammes Partners/ Stanton Road Capital	Stemmons Fwy	2777 N Stemmons Fwy	\$94,500,000	\$149
Convergent Capital Partners/ Pillar Income Asset Mgmt	Las Colinas	600 E Las Colinas Blvd	\$7.4,500,000	\$145.43
MetLife/Hillwood, Van Trust Real Estate	Far North Dallas	Offices Two at Frisco Station	\$110,000,000	\$524

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Dallas CBD	34,263,625	60,230	32.6%	19,188	-367,530	\$27.11	\$18.63	\$26.08
Ft. Worth CBD	10,636,629	0	17.6%	16,944	-78,008	\$28.01	-	\$28.01
CBD	44,900,254	60,230	29.0%	36,132	-445,538	\$27.23	\$18.63	\$26.32
Central Expressway	13,552,086	0	22.1%	-25,254	-329,909	\$32.32	\$21.69	\$31.09
East Dallas	9,454,603	540,272	21.3%	-20,104	232,195	\$28.76	-	\$28.76
Far North Dallas	64,156,922	969,153	25.2%	250,085	-1,048,430	\$32.93	\$27.33	\$32.14
Las Colinas	43,174,243	985,146	24.7%	212,825	-651,121	\$27.01	\$23.77	\$26.67
LBJ Freeway	22,216,205	0	27.3%	-208,426	-620,316	\$24.55	\$22.11	\$24.37
Lewisville/Denton	9,004,452	60,000	17.3%	-314,948	-284,852	\$25.84	\$20.04	\$24.68
Mid Cities	31,612,162	767,018	18.8%	170,680	1,182,613	\$24.99	\$20.45	\$24.64
North Ft. Worth	4,306,255	100,512	11.8%	-170,700	-166,342	\$26.47	\$26.06	\$26.42
Northeast Ft. Worth	3,636,548	0	9.7%	187,007	243,004	\$21.15	-	\$21.15
Preston Center	5,848,636	688,368	17.2%	1,617	-55,380	\$42.52	\$36.72	\$42.02
Richardson/Plano	38,370,562	964,644	21.2%	-195,825	-381,131	\$24.76	\$21.04	\$24.34
South Ft. Worth	13,697,523	82,000	12.0%	89,137	2,647	\$25.38	\$21.13	\$25.13
Southwest Dallas	4,675,346	0	14.2%	14,354	21,218	\$23.64	-	\$23.64
Stemmons Freeway	14,491,221	0	17.3%	77,672	86,128	\$20.41	\$16.27	\$20.35
Uptown Turtle Creek	15,158,942	1,015,992	23.9%	41,751	-148,317	\$41.66	\$40.54	\$41.55
Suburban	293,841,475	6,173,105	21.8%	129,871	-1,897,993	\$28.51	\$24.97	\$28.15
Market	338,741,729	6,233,335	22.7%	166,003	-2,343,531	\$28.30	\$23.89	\$27.85

### Economic Indicators

The Dallas-Fort Worth Business-Cycle Index remains in a recovery stage but is well-poised to move toward expansion in coming quarters due to population and employment growth. The DFW Metro has been able to recoup 4/5 of its pre-COVID employment levels at an above-average pace, compared with the national recovery rate. The professional and financial services industry has fully recovered, while the leisure and hospitality industry is still struggling to rebound to pre-COVID-19 levels, according to Moody's Analytics. Strong in-migration, a strong housing market and a large, highly-educated talent pool has helped drive the DFW economy as it recovers.

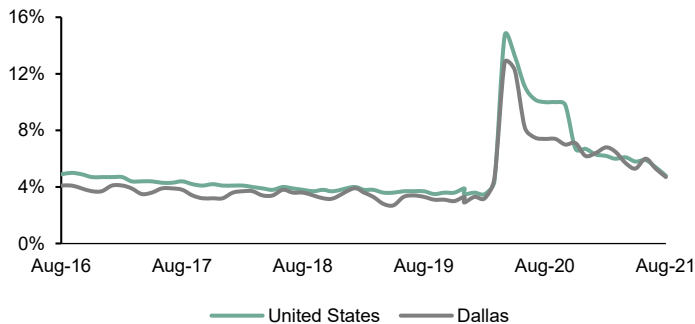
### Employment By Industry



Source: US Bureau of Labor Statistics, October 2021

### Unemployment Rate

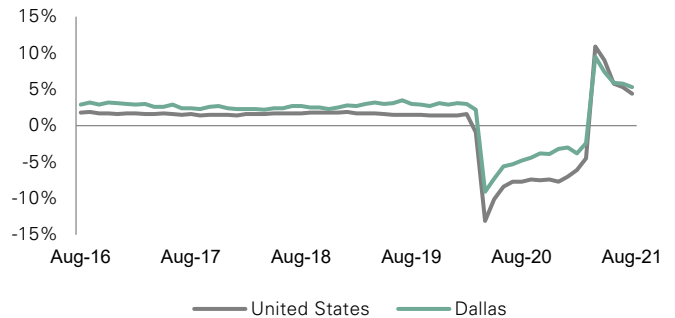
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, October 2021

### Payroll Unemployment

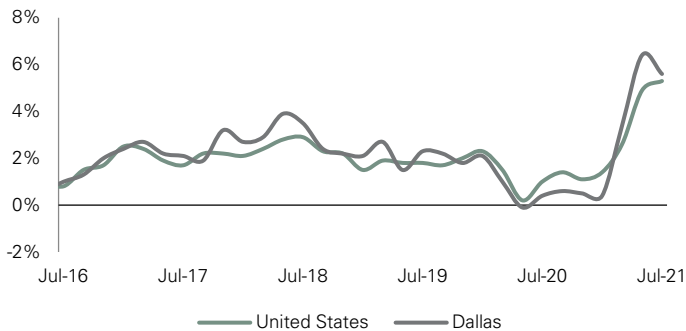
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: US Bureau of Labor Statistics, October 2021

### Customer Price Index (CPI)

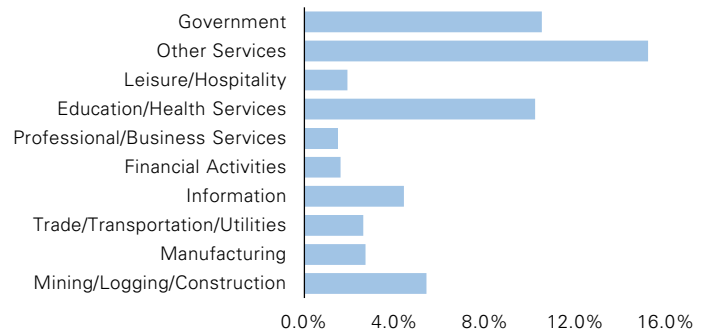
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, October 2021

### Employment Growth By Industry

DALLAS-FORT WORTH, SEPTEMBER 2021, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, October 2021

*For more information:*

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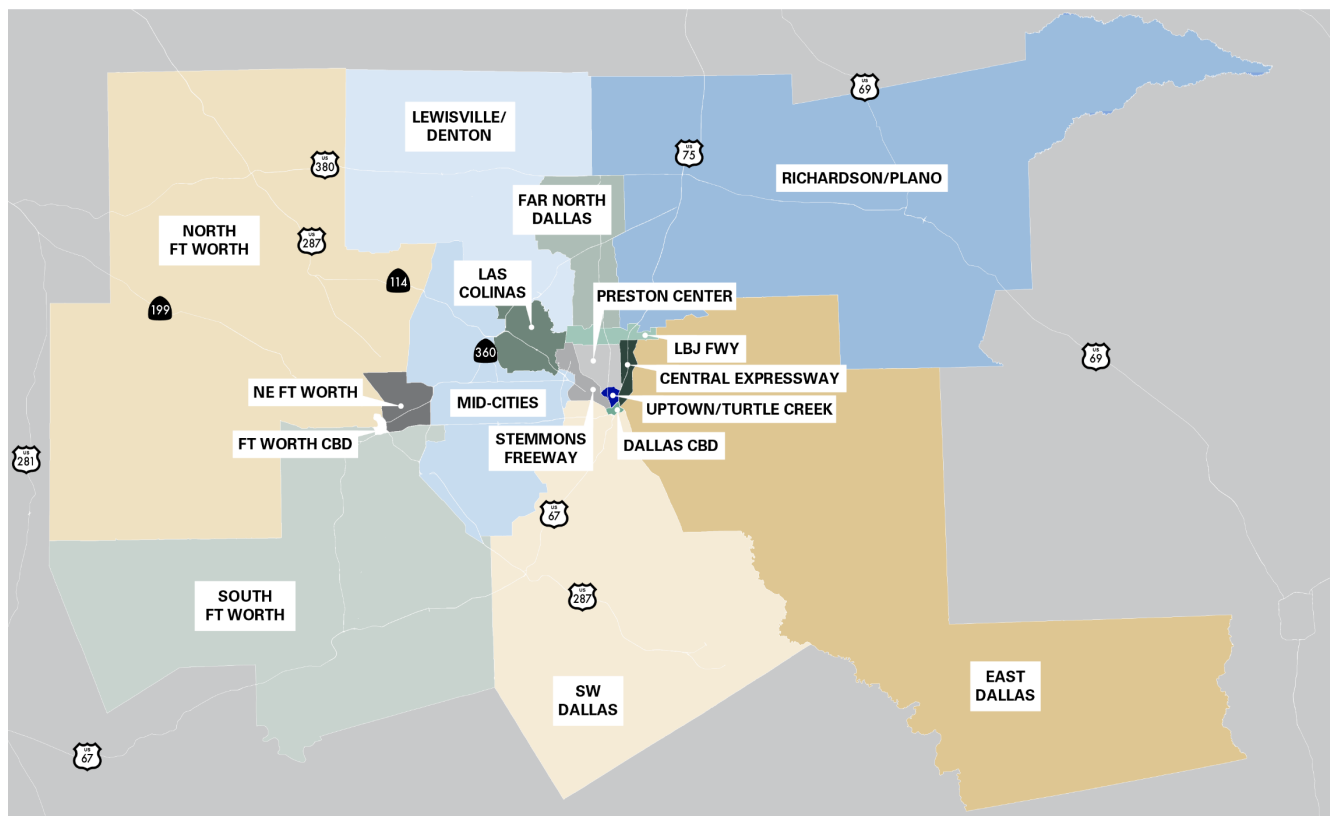
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