

Dallas-Fort Worth Office Market

Occupancy Pulls Back in 4Q22

The Dallas-Fort Worth office market demand declined in the fourth quarter of 2022 as tenants remained cautious due to growing economic headwinds. Net absorption dropped to negative 920,927 square feet in the fourth quarter of 2022 but ended the year at negative 108,961 square feet, bolstered by strong activity earlier in the year. Due to occupancy declines, overall vacancy rates increased by 60 basis points both quarter-over-quarter and year-over-year. Deliveries remained healthy with 1.2 million square feet of new product added to the market in 2022. The construction pipeline remained like pandemic levels, indicating a muted future inventory as occupiers await further clarity on space needs. 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 on these assets become more constrained. Overall rental rates in the Dallas-Fort Worth market continue to trend upwards as landlords attempt to keep pace with inflation. Despite softening economic conditions, face rates are likely to remain elevated, coupled with aggressive concession packages, to help bring effective rents down for any new leases signed. Over the coming year, the market could see investment levels close to those in 2022, given high inflation and rising capital costs. Overall, the Dallas-Fort Worth office market's long-term outlook remains positive and competitive given the market's strong economic fundamentals, helping it surmount the near-term challenging macroeconomic landscape.

Current Conditions

- Annual full-service asking rental rates rose to \$29.12/SF, a 4.7% increase year-over-year.
- Large occupancy decline in fourth quarter at -920,927 square feet pushed overall yearly absorption negative to -108,961 square feet.
- Vacancy rates increased by 60 basis points year-over-year to 23.8% due to high vacancies in older office buildings as a flight to quality assets continued.
- Yearly total leasing activity increased in 2022 by 4.0% indicating a continued need for office space by tenants transacting in the market.

Market Summary

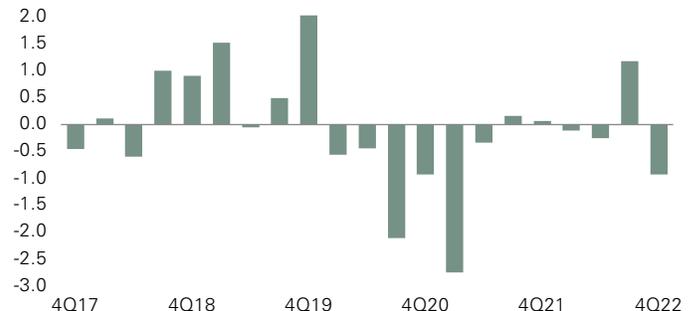
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	269.7 M	269.6 M	268.5 M	↑
Vacancy Rate	23.8%	23.2%	23.2%	↑
Quarterly Net Absorption (SF)	-920,927	1.2 M	-66,005	↔
Average Asking Rent/SF	\$29.12	\$28.78	\$27.80	↑
Under Construction (SF)	2.4 M	1.9 M	2.2 M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



RESEARCH Q4 2022

Flight to Quality Persists

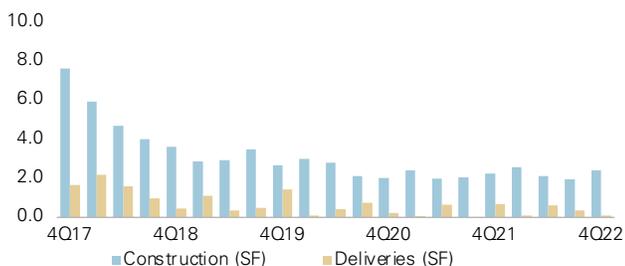
The Dallas-Fort Worth office market activity softened in the fourth quarter of 2022, with occupancy growth declining and yearly net absorption shaking out to negative 108,961 square feet. The result is mainly an impact of companies either pausing real estate decisions, given the new hybrid work model or cutting costs in the near-term due to growing economic headwinds. Much of the occupancy declines were in lower-quality spaces, with Class A net absorption remaining positive for the year at 256,340 square feet. The top three move-ins in the fourth quarter, all in Class A spaces, included: Trellix (75,251 square feet) at Legacy West in Far North Dallas; Retail Services WIS Corporation (70,996 square feet) at Crown Centre in Lewisville/Denton; and Apex Capital Corporation at Bank of America Tower – Sundance Square in Fort Worth Central Business District. Tenant preference for quality Class A assets will continue to lead the market as companies utilize these amenity-rich spaces to attract talent and current employees back to the office.

Occupancy declines in the Dallas-Fort Worth market led overall vacancy rates to increase by 60 basis points year-over-year to 23.8%. Submarkets with the highest vacancies include Dallas CBD at 31.0%, Far North Dallas at 28.3% and LBJ Freeway at 28.1%. Historically vacancy rates have remained elevated in the market due to older office buildings sitting vacant as occupiers continued a flight to quality. The preference for quality assets is largely due to older product lacking attractive amenities with Class A space accounting for 73.3% of leasing activity in the quarter. As tenants continue rightsizing footprints while preferring new Class A assets, landlords and investors are reevaluating the future of older office buildings. Dallas CBD, home to many 1980s-built buildings and the highest office vacancies, is beginning to see an increase in adaptive reuse projects in converting some office space into residential use. Buildings with planned conversions include Bryan Tower, Energy Plaza, Renaissance Tower, Santander Tower and 501 Elm Place. As these conversions happen, Dallas CBD and the Dallas-Fort Worth office market will begin seeing a decline in office vacancy rates as these spaces are removed from the market's inventory.

Although leasing activity slowed in the fourth quarter, overall

Construction and Deliveries

SQUARE FEET, MILLIONS



leasing activity for the year increased by 4.0% to 15.6 million square feet. Top leases signed in the fourth quarter of 2022 included Goldman Sachs's sublease at HilltopSecurities Tower in Dallas CBD, Americredit Financial Services's renewal at Mandalay Tower I in Las Colinas and Comerica's new lease at The Star – Phase IV in Far North Dallas. Two of the three largest leases signed in the quarter were all in premier Class A assets. Submarkets with the highest leasing activity in the fourth quarter of 2022 include Far North Dallas at 494,042 square feet, Las Colinas at 277,804 square feet, Dallas CBD at 275,886 square feet and Preston Center at 275,600 square feet. In 2022, overall leasing activity was highest in the Far North Dallas submarket at 3.5 million square feet, followed by Las Colinas and Uptown/Turtle Creek submarkets at 2.3 million square feet and 1.5 million square feet, respectively.

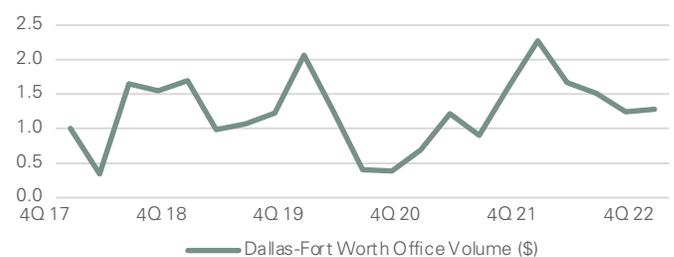
Despite 271 fewer deals signed on a year-over-year basis in the fourth quarter of 2022, the average deal size was essentially flat at 4,554 square feet. Submarkets with the largest average deals signed in fourth quarter include Dallas CBD at 12,540 square feet, Preston Center at 11,983 square feet and Uptown/Turtle Creek at 6,621 square feet. Overall leasing activity will likely remain slower in 2023 as the likelihood of a national recession increases. Lease footprints will continue to recalibrate as companies figure out the right balance between space needs, costs, hybrid work, social workplace and talent attraction.

Near-Term Supply Remains Muted

The Dallas-Fort Worth office market had a total of 1.2 million square feet delivered in 2022, significantly lower than the yearly average 3.8-million-square-foot deliveries since 2015. Office pipeline closed the year at 2.4 million square feet of space under construction, well below pre-pandemic levels averaging 5.6 million square feet under construction from 2015 to 2019. The amount of space under construction is especially low for popular office demand pockets in Dallas-Fort Worth, such as the Uptown/Turtle Creek submarket and the Frisco/The Colony area in the Far North Dallas submarket. Projects currently under construction in those areas include Harwood No. 14 in Uptown/Turtle Creek, The Tower at Hall Park and Southstone Yards in the Frisco/The Colony area of Far North Dallas.

Office Investment Sales

SALES VOLUME (\$, BILLIONS)



RESEARCH Q4 2022

Over the past few years, the Uptown/Turtle Creek and Frisco/The Colony areas had garnered much interest from companies due to high-quality Class A spaces and accessibility to quality talent. The muted construction activity in the two areas recently indicate there will be a dearth in supply in the near-term (2023 to beginning of 2025), resulting in elevated demand and potential increases for any available space as supply becomes more constrained. Supply in Uptown/Turtle Creek and Frisco/The Colony would rebalance in the future as deliveries begin hitting the market again. In the near-term, occupiers may look towards options surrounding the two areas, due to proximity and space availability in the market. One major proposed project in the Uptown/Turtle Creek submarket is the Goldman Sachs building on North Field Street. The proposed office tower is projected to cost close to \$500 million to build, the most expensive building to be built in Central Dallas, surpassing the Crescent complex's building cost at around \$400 million. The near-term muted supply will help the Dallas-Fort Worth office market better balance and navigate softening demand in the near-term due to economic headwinds.

Pricing Continues Increasing

Although the economic landscape is faced with more headwinds, rental rates in the Dallas-Fort Worth office market continue to increase due to rising operating expenses and inflation. Overall asking rental rates increased by 4.7% year-over-year and 1.2% quarter-over-quarter to \$29.12/SF. Asking rates for direct and sublease space increased by 4.6% and 6.4% year-over-year, respectively. The most expensive submarkets are Preston Center at \$45.18/SF and Uptown/Turtle Creek at \$42.94/SF. Class A rates continue to command higher rates at \$32.53/SF, while

Class B rates ended the year at \$23.19/SF. Asking rents are likely to remain elevated, while concessions are expected to increase to help offset high asking rates as market demand softens.

Market Outlook

The Dallas-Fort Worth office market will likely see suppressed growth this year. Office investment activity will remain low in the near-term due to elevated inflation and a steeper cost of debt. Tenants will continue flocking to quality assets as companies look towards right-sizing their footprints to provide a collaborative workspace that will both attract employees and talent to their office, while reducing additional costs from underutilized space. Available sublease space in the market will remain elevated as companies continue to recalibrate space needs, while cutting costs and bracing for a potential recession.

Despite office market fundamentals softening nationally, the Dallas-Fort Worth office market is well-poised to remain positive in the long-term due to strong market fundamentals. Compared with other large metros nationally, the market remains an attractive option for companies due to long-term demand drivers, such as corporate relocations, strong demographic tail winds, continued job growth and above-average office utilization. The additional money in-hand will be vital to help drive consumer spending in the market for a quicker economic recovery, should a recession occur. The market's employment fundamentals generally have been one of the quickest to rebound, leading the nation's recovery in previous economic downturns. Overall, the Dallas-Fort Worth market is in a solid position to face and recover quickly from any economic headwinds that may come in the new year.

Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
Goldman Sachs	Dallas CBD	Hilltop Securities Tower	Sublease	138,451
Americredit Financial Services	Las Colinas	Mandalay Tower I	Renewal	91,887
Comerica	Far North Dallas	The Star – Phase IV	Direct	81,810
Dickey's	Fort Worth CBD	Tower Annex	Direct	68,136
Nissan Motor Company	Las Colinas	8900 Freeport	Renewal	60,736

Select Sale Transactions

Buyer/Seller	Submarket	Building	Sale Price	Price/SF
Highwoods Properties & Granite Properties / JP Morgan Asset Management	Uptown Turtle Creek	McKinney & Olive	\$394.7 M	\$709
Morning Calm Management / TPG Real Estate Finance	LBJ Freeway	Towers at Park Central VII, VIII, IX	\$88 M	\$104
BDP Holdings / Cawley Partners & Staubach Capital & PCCP LLC	Mid Cities	Sabre Corporate Campus	\$76.5 M	\$288
Larson Capital Management / MetLife	Far North Dallas	The Plaza at Legacy	\$58.5 M	\$271
Capital Commercial Investments / ExxonMobil Corporation	Las Colinas	ExxonMobil Corporate Headquarters	\$50.5	\$138

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	28,152,272	0	31.0%	-739,651	-459,232	\$29.25	\$24.12	\$28.79
Fort Worth CBD	8,171,461	0	20.4%	-75,459	-54,165	\$27.85	\$14.88	\$26.98
CBD	36,323,733	0	28.6%	-815,110	-513,397	\$29.07	\$23.25	\$28.57
Central Expressway	11,656,616	0	21.9%	992	-215,067	\$34.86	\$25.43	\$34.28
East Dallas	7,434,210	0	19.8%	80,181	406,324	\$32.43	\$43.09	\$36.18
Far North Dallas	51,632,085	668,389	28.3%	119,357	420,089	\$33.57	\$28.65	\$33.02
Las Colinas	35,187,712	356,269	24.9%	-362,029	-761,557	\$27.39	\$23.21	\$26.77
LBJ Freeway	20,686,571	0	28.1%	-287,939	-438,505	\$25.06	\$18.25	\$24.55
Lewisville/Denton	6,517,183	0	17.2%	-72,868	78,267	\$25.73	\$20.76	\$24.44
Mid Cities	20,205,395	248,000	26.6%	-148,894	-583,126	\$25.38	\$23.50	\$25.27
North Fort Worth	2,220,517	105,000	18.9%	32,900	32,030	\$25.84	\$21.59	\$23.51
Northeast Fort Worth	3,390,419	0	11.5%	-11,328	-31,267	\$20.88	\$15.81	\$20.83
Preston Center	4,886,977	318,632	11.0%	34,549	69,353	\$45.31	\$44.34	\$45.18
Richardson/Plano	30,340,409	46,500	19.6%	162,355	515,462	\$25.35	\$24.43	\$25.25
South Fort Worth	9,833,088	0	11.9%	53,244	145,853	\$25.59	\$20.94	\$25.50
Southwest Dallas	3,045,962	0	8.0%	39,646	49,756	\$24.43	\$20.88	\$23.83
Stemmons Freeway	12,211,219	125,788	23.5%	145,465	304,069	\$21.93	\$23.35	\$22.04
Uptown/Turtle Creek	14,159,685	540,931	17.4%	108,552	412,755	\$42.94	\$42.92	\$42.94
Suburban	233,408,048	2,409,509	23.0%	-105,817	404,436	\$29.55	\$26.60	\$29.23
Market	269,731,781	2,409,509	23.8%	-920,927	-108,961	\$29.46	\$26.11	\$29.12

RESEARCH Q4 2022

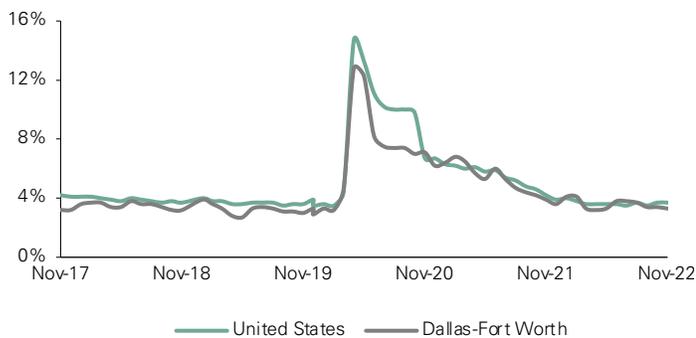
Economic Indicators

Although the Dallas-Fort Worth market's economic growth began to show signs of slowing in the second half of 2022, the labor market continued to grow in the fourth quarter of 2022. Payroll employment increased by 6.1% on a year-over-year basis and total employment in November 2022 ended at an all-time historical high. Given employment gains, the unemployment rate decreased by 60 basis points year-over-year with the rate at the second-lowest marker in 2022, matching pre-pandemic rates seen in early 2020. All industries in the market reflected positive employment growth over the past year. Office-occupier industries such as professional/business services and financial activities grew by 7.1% and 6.2%, respectively.

The Dallas-Fort Worth Consumer Price Index closed at 8.4% at the end of November 2022 and is beginning to see slowing growth. In 2023, the Dallas-Fort Worth Consumer Price Index is likely to continue declining as U.S. inflation is expected to experience a substantial reduction. Despite recent inflationary and pricing pressures nationally, the Dallas-Fort Worth's strong labor market fundamentals will continue to help buffer impacts from slowing economic activity and help the market recover quickly should a recession occur.

Unemployment Rate

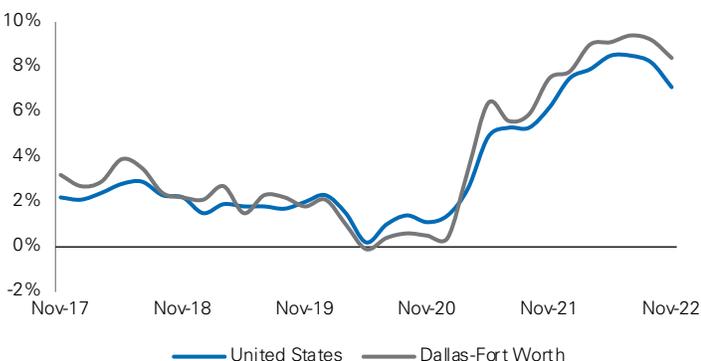
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, December 2022

Consumer Price Index (CPI)

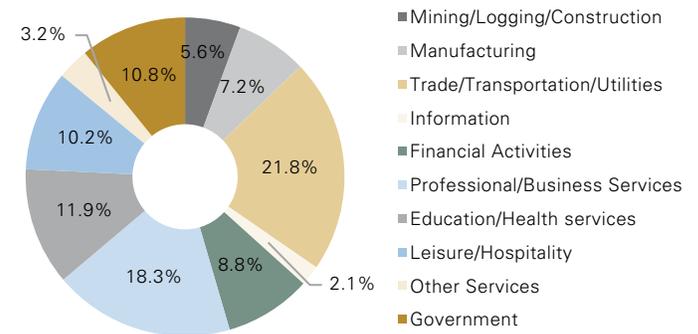
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, December 2022

Employment By Industry

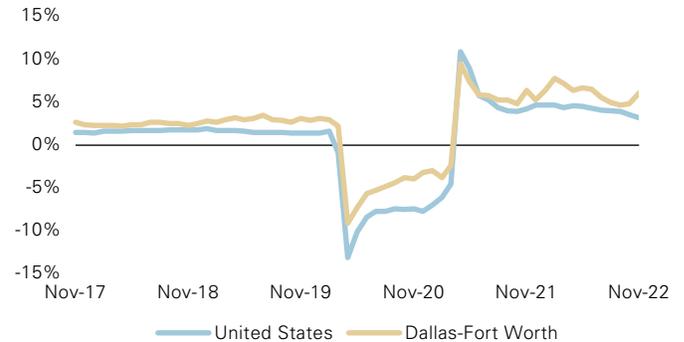
DALLAS, NOVEMBER 2022



Source: US Bureau of Labor Statistics, December 2022

Payroll Employment

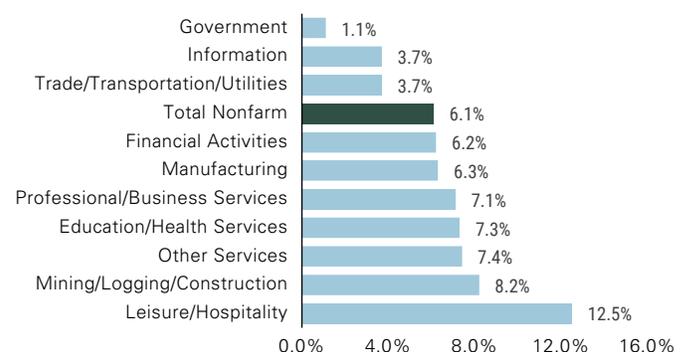
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: US Bureau of Labor Statistics, December 2022

Employment Growth By Industry

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



Source: US Bureau of Labor Statistics, December 2022

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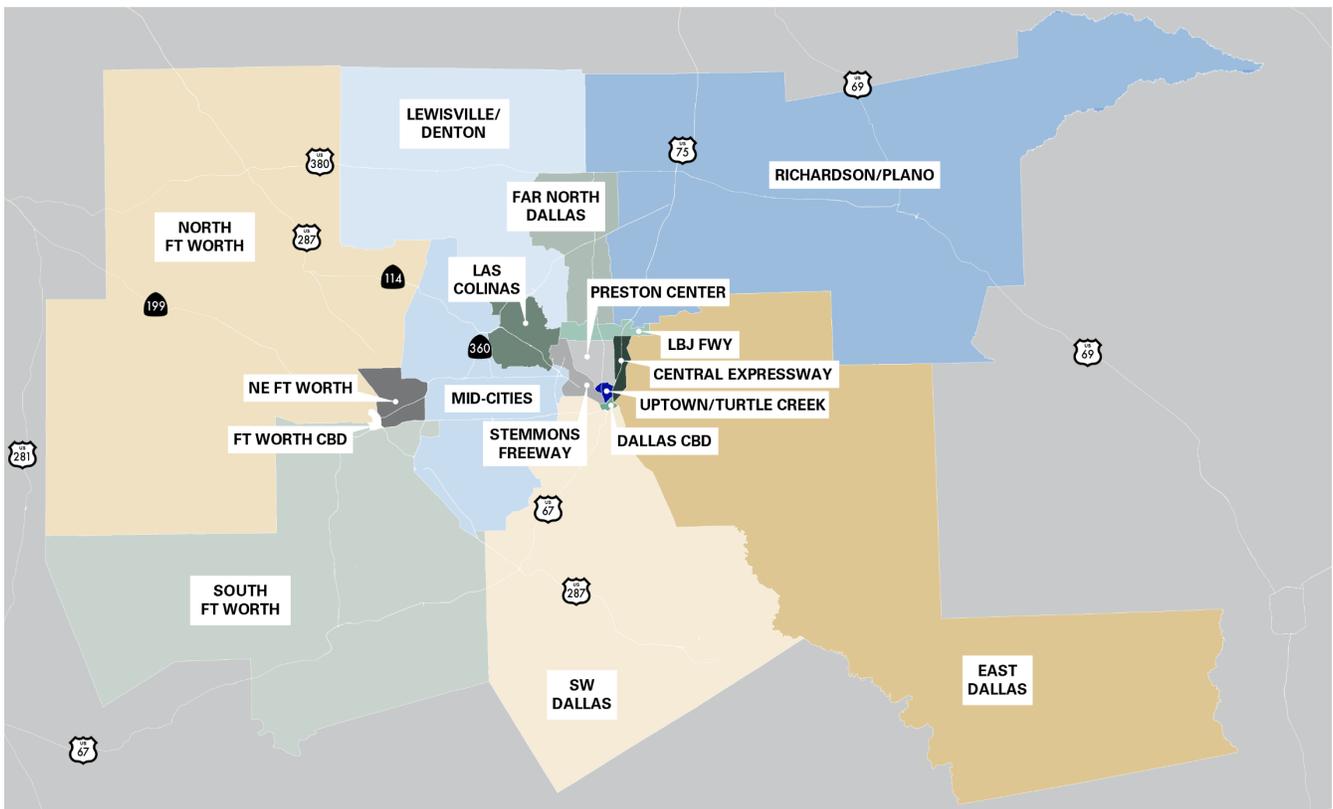
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