

## Office Q2 2023

|                                     | YoY Chg | 12-Mo. Forecast |
|-------------------------------------|---------|-----------------|
| <b>20.8%</b><br>Vacancy Rate        | ▲       | ▲               |
| <b>-268K</b><br>Net Absorption, SF  | ▼       | ▲               |
| <b>\$28.96</b><br>Asking Rent*, PSF | ▲       | ▬               |

\*Overall, All Property Classes

\*\*Rental rates reflect gross asking \$psf/year

### ECONOMY

The Dallas-Fort Worth (DFW) economy continued to undergo employment and population growth in the second quarter of 2023 despite ongoing macro-economic headwinds felt across the nation. Foreseen obstacles include the increasing cost of capital and soon approaching maturity dates on commercial loans, a cooling labor market, and current issues with the global supply chain. Nonetheless, employment levels in the metroplex hit an all-time high once again with 4.2 million people employed, a year-over-year (YOY) increase of 4.3%. DFW's population grew as well, increasing by 135,519 people, a YOY increase of 1.7%. As of June 2023, the population reached new highs of 8.1 million residents.

Per Moody's Analytics, office using jobs, positions which are in the business and professional services, information/technology, and financial activities sectors, grew by a total of 55,000 positions, an increase of 4.6% when compared to Q2 2022. Each subgroup within office using jobs category created jobs as well. Professional and business services, a leading indicator of office demand, recorded a YOY increase of 5.1% (4,606 jobs), while financial activities and information/technology grew by 4.8% (17,156 jobs) and 6.8% (5,998 jobs), respectively. DFW's office-using employment totaled 1.3 million jobs as of June 2023.

### SUPPLY

Dallas-Fort Worth's construction pipeline remains robust. In the second quarter, the market delivered more than 1.1 million square feet (msf) of new office product, while under construction (UC) projects due to deliver in the next 24 months totaled 5.2 msf. The Uptown/Turtle Creek and Legacy/Frisco submarkets lead the metro with construction activity totaling 2.4 msf and 2.1 msf, respectively, of new office space being developed. The largest UC projects in DFW include the Goldman Sachs project in Uptown at 980,000 sf, 23Springs, also in Uptown, at 626,215 sf, and the TIAA Tower at The Star in Legacy/Frisco at 525,500 sf.

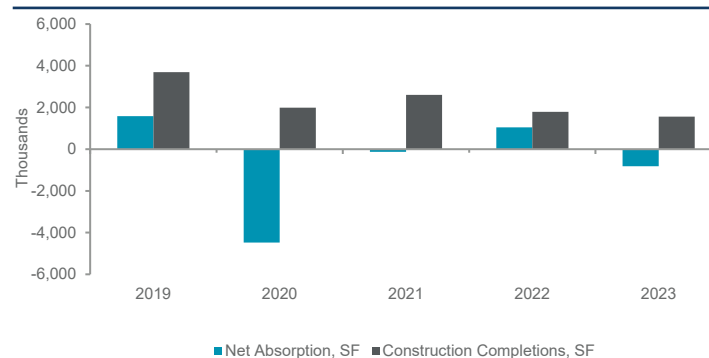
Available sublease space in DFW grew to 12.6 msf, an increase of 2.2% from the previous quarter. Of the 12.6 msf, only 14.8% is currently vacant compared to 88.9% available direct space. The rapid growth of sublease space in the second quarter was fueled by large blocks of space added by AmerisourceBergen Specialty Group (300,000 sf) in Legacy/Frisco, MCS (80,000sf) in Lewisville/Carrollton, and Salesforce (58,464 sf) in Uptown.

### ECONOMIC INDICATORS Q2 2023

|  | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| <b>4.2M</b><br>Dallas/Fort Worth Employment        | ▲       | ▲               |
| <b>3.8%</b><br>Dallas/Fort Worth Unemployment Rate | ▲       | ▼               |
| <b>3.6%</b><br>U.S. Unemployment Rate              | ▬       | ▲               |

Source: BLS

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY & ASKING RENT



# DALLAS/FORT WORTH



Office Q2 2023

## DEMAND

DFW recorded an overall occupancy decrease of 267,978 sf in the second quarter resulting from companies continuing to right-size their footprint within the market due to hybrid work options and cost cutting measures implemented to tighten budgets. Demand for Class A product continued to drive the market in Q2 2023 with 1.5 msf of leases transacted, or 60.7% of all leases signed in the quarter. The two leading submarkets with the highest overall leasing activity were LBJ Freeway and Las Colinas with 445,069 sf and 426,013 sf of leases signed, respectively.

Class A occupancy increased by 146,746 sf in the second quarter, while Class B and C spaces recorded occupancy decreases totaling 414,724 sf. It is important to note that Class A space makes up 60.5% of the inventory in DFW, while Class B makes up just 36.3%. The largest move-ins recorded in the quarter were J.C. Penney taking possession of 318,067 sf in Legacy/Frisco, Goldman Sachs taking possession of 138,451 sf in the Dallas CBD, and Neiman Marcus taking possession of 87,373 sf in North Central Expressway.

The overall vacancy rate in DFW climbed to 20.8% in Q2 2023 as companies continued to recalibrate their space needs and sought higher quality spaces within the market. Class A recorded an overall vacancy rate of 21.4%, while Class B remained at 20.4% and Class C at 13.4%. Key Dallas submarkets with the lowest overall vacancy rates include Lewisville/Carrollton at 15.6%, Uptown/Turtle Creek at 17.7%, and Richardson/Plano at 17.9%.

## PRICING

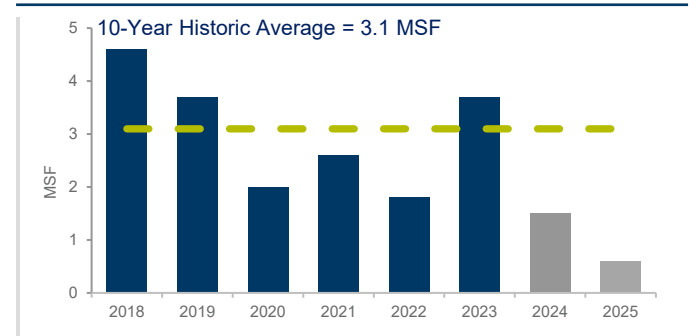
With rising energy costs due to geopolitical strife, operating expenses continued to grow in Q2 2023, pushing annual full-service asking rates in DFW to \$28.96 per square foot (psf), a YOY increase of 0.7%. Rents in Uptown/Turtle Creek and Preston Center recorded the highest rates in the market with \$50.67 and \$50.65 psf, respectively.

As expected, Class A registered the highest average asking rates at \$34.14 psf, while Class B and Class C reported rates of \$20.75 and \$17.64 psf, respectively.

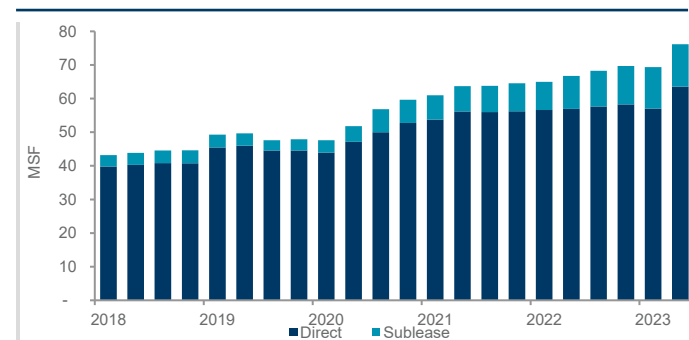
## OUTLOOK

- Despite macro-economic headwinds involving the increasing cost of capital and loans approaching maturity, as well as continued obstacles in the labor market and supply chain, the mid and long-term outlook for Dallas-Fort Worth remains positive compared to other large metro areas across the nation
- As companies look for ways to draw employees back into the office with amenity-rich spaces, Flight to Quality to new Class A office product will continue to drive a divergence in Class A and B rental rates
- Property owners will look for opportunities to renovate or repurpose older office inventory and increase amenities to compete with newer, high-quality space to help tenants attract and retain talent
- Sublease availabilities in the market will continue to tick upwards as companies recalibrate their space needs

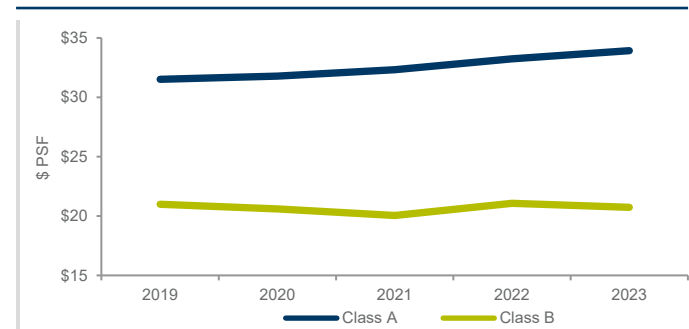
## NEW SUPPLY (msf)



## DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



## ASKING RENT COMPARISON



## Office Q2 2023

### MARKET STATISTICS

| SUBMARKET                   | INVENTORY          | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | Q2 NET ABSORPTION | YTD OVERALL ABSORPTION (SF) | YTD LEASING ACTIVITY (SF)** | UNDER CONSTRUCTION (SF) | OVERALL AVG ASKING RENT (ALL CLASSES)* | OVERALL AVG ASKING RENT (CLASS A) |
|-----------------------------|--------------------|--------------------|--------------------|----------------------|-------------------|-----------------------------|-----------------------------|-------------------------|--|-----------------------------------|
| CBD Core                    | 18,888,825         | 183,793            | 5,734,517          | 31.3%                | 100,534           | 75,735                      | 255,857                     | 0                       | \$25.64                                | \$26.59                           |
| Arts District               | 6,941,774          | 237,453            | 1,346,398          | 22.8%                | 2,387             | -26,005                     | 65,238                      | 0                       | \$43.55                                | \$43.55                           |
| West End                    | 1,677,991          | 0                  | 411,998            | 24.6%                | 27,430            | 57,021                      | 8,409                       | 0                       | \$27.18                                | \$41.93                           |
| <b>DALLAS CBD TOTAL</b>     | <b>27,508,590</b>  | <b>421,246</b>     | <b>7,492,913</b>   | <b>28.8%</b>         | <b>130,351</b>    | <b>106,751</b>              | <b>329,504</b>              | <b>0</b>                | <b>\$29.31</b>                         | <b>\$30.94</b>                    |
| North Central Expressway    | 10,833,267         | 57,558             | 2,289,977          | 21.7%                | 140,234           | 82,975                      | 356,278                     | 30,000                  | \$36.82                                | \$39.36                           |
| Preston Center              | 4,433,457          | 6,194              | 794,500            | 18.1%                | 20,663            | -85,603                     | 91,485                      | 0                       | \$50.65                                | \$53.77                           |
| West Love Field             | 10,377,549         | 24,783             | 1,795,462          | 17.5%                | -40,978           | 86,150                      | 111,791                     | 265,351                 | \$17.90                                | \$20.38                           |
| LBJ Freeway                 | 22,969,085         | 247,322            | 4,925,331          | 22.5%                | -117,461          | -264,433                    | 892,688                     | 0                       | \$23.56                                | \$30.12                           |
| Las Colinas                 | 36,443,373         | 214,209            | 7,725,056          | 21.8%                | -459,805          | -430,354                    | 1,025,532                   | 300,000                 | \$26.60                                | \$31.13                           |
| Far North Dallas            | 17,691,559         | 122,761            | 3,975,037          | 23.2%                | -74,104           | -258,088                    | 544,277                     | 0                       | \$27.02                                | \$32.74                           |
| Richardson/Plano            | 26,276,854         | 43,990             | 4,658,364          | 17.9%                | -154,858          | -140,326                    | 244,500                     | 0                       | \$23.20                                | \$26.75                           |
| Mid Cities                  | 11,855,592         | 41,351             | 3,136,414          | 26.8%                | -94,998           | -138,420                    | 135,516                     | 0                       | \$23.14                                | \$27.55                           |
| Lewisville/Carrollton       | 4,552,117          | 0                  | 709,906            | 15.6%                | -13,304           | -48,978                     | 22,160                      | 0                       | \$21.86                                | \$36.00                           |
| Southwest Dallas            | 1,858,530          | 0                  | 166,898            | 9.0%                 | -14,746           | -24,542                     | 9,664                       | 0                       | \$21.57                                | \$25.65                           |
| Legacy/Frisco               | 30,713,645         | 157,568            | 5,508,824          | 18.4%                | 329,834           | 253,821                     | 666,727                     | 2,078,998               | \$36.56                                | \$40.68                           |
| Southlake/Westlake          | 5,083,131          | 129,206            | 1,115,023          | 24.5%                | 21,518            | 999                         | 169,971                     | 0                       | \$32.17                                | \$34.68                           |
| East Dallas                 | 3,520,128          | 370,323            | 276,159            | 18.4%                | -7,312            | 91,711                      | 69,686                      | 0                       | \$21.88                                | \$56.96                           |
| Uptown/Turtle Creek         | 14,456,197         | 6,895              | 2,557,228          | 17.7%                | 51,502            | -39,353                     | 309,446                     | 2,357,640               | \$50.67                                | \$55.23                           |
| <b>DALLAS SUBURBS TOTAL</b> | <b>201,064,484</b> | <b>1,422,160</b>   | <b>39,634,179</b>  | <b>20.4%</b>         | <b>-413,815</b>   | <b>-914,441</b>             | <b>4,649,721</b>            | <b>5,031,989</b>        | <b>\$29.14</b>                         | <b>\$35.35</b>                    |
| <b>DALLAS TOTAL</b>         | <b>228,573,074</b> | <b>1,843,406</b>   | <b>47,127,092</b>  | <b>21.4%</b>         | <b>-283,464</b>   | <b>-807,690</b>             | <b>4,979,225</b>            | <b>5,031,989</b>        | <b>\$29.17</b>                         | <b>\$34.34</b>                    |
| Fort Worth CBD              | 7,834,738          | 79,738             | 1,177,933          | 16.1%                | 17,735            | 38,789                      | 116,990                     | 0                       | \$25.61                                | \$27.87                           |
| East Fort Worth             | 2,366,884          | 5,660              | 129,445            | 5.7%                 | 60,786            | 44,819                      | 35,855                      | 0                       | \$14.73                                | N/A                               |
| North Fort Worth            | 2,226,574          | 0                  | 245,536            | 11.0%                | 20,330            | 28,915                      | 63,425                      | 0                       | \$24.55                                | \$23.21                           |
| South Fort Worth            | 2,779,933          | 0                  | 260,061            | 9.4%                 | -4,837            | 21,168                      | 65,870                      | 0                       | \$23.57                                | \$28.00                           |
| West Fort Worth             | 4,641,036          | 6,475              | 672,778            | 14.6%                | -78,528           | -145,528                    | 65,987                      | 129,400                 | \$25.88                                | \$30.08                           |
| <b>FW SUBURBS TOTAL</b>     | <b>12,014,427</b>  | <b>12,135</b>      | <b>1,307,820</b>   | <b>11.0%</b>         | <b>-2,249</b>     | <b>-50,626</b>              | <b>231,137</b>              | <b>129,400</b>          | <b>\$23.97</b>                         | <b>\$29.48</b>                    |
| <b>FORT WORTH TOTAL</b>     | <b>19,849,165</b>  | <b>91,873</b>      | <b>2,485,753</b>   | <b>13.0%</b>         | <b>15,486</b>     | <b>-11,837</b>              | <b>348,127</b>              | <b>129,400</b>          | <b>\$24.82</b>                         | <b>\$28.32</b>                    |
| <b>DFW TOTAL</b>            | <b>248,422,239</b> | <b>1,935,279</b>   | <b>49,612,845</b>  | <b>20.8%</b>         | <b>-267,978</b>   | <b>-819,527</b>             | <b>5,327,352</b>            | <b>5,161,389</b>        | <b>\$28.96</b>                         | <b>\$34.14</b>                    |

\*Rental rates reflect gross asking \$psf/year; \*\*YTD Leasing Activity Includes Renewals

### KEY LEASE TRANSACTIONS Q2 2023

| PROPERTY                                    | SUBMARKET   | TENANT           | SF      | TYPE                  |
|---|-------------|------------------|---------|-----------------------|
| Fossil HQ – 901 S Central Expy              | LBJ Freeway | Fossil Group     | 254,972 | Renewal - Downsize    |
| Freeport 9 Office Center – 4609 Regent Blvd | Las Colinas | Paycom           | 103,706 | Sublease              |
| Royal Ridge 2 – 8081 Royal Ridge Pky        | Las Colinas | Texas AirSystems | 103,521 | New Lease - Expansion |

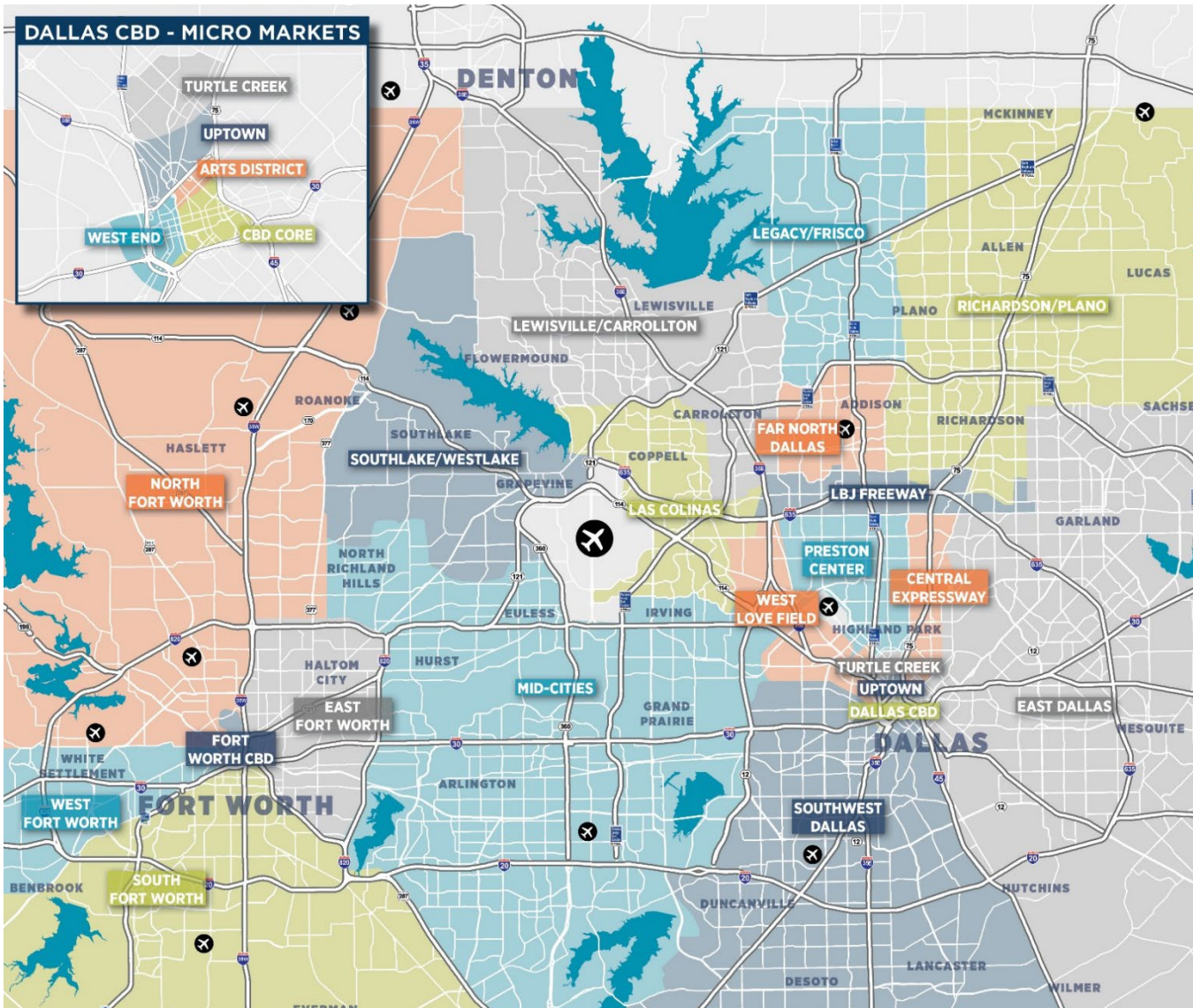
### KEY SALES TRANSACTIONS Q2 2023

| PROPERTY  | SUBMARKET        | SELLER/BUYER                          | SF      |
|---|------------------|---------------------------------------|---------|
| Star-Telegram Building                                | Fort Worth CBD   | Read Properties/Wolfe Investments     | 283,618 |
| Tollway Towers Portfolio (15950 & 16000 N Dallas Pky) | Far North Dallas | Buchanan Street Partners/Tabani Group | 370,073 |
| Alto 211  | Dallas CBD       | Alterra Worldwide/Wolfe Investments   | 196,925 |

# DALLAS/FORT WORTH

Office Q2 2023

## OFFICE SUBMARKETS



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