

Office Q3 2023

	YoY Chg	12-Mo. Forecast
20.6% Vacancy Rate	▲	▲
-417K Net Absorption, SF	▼	▲
\$29.32 Asking Rent*, PSF	▲	▬

*Overall, All Property Classes

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

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
4.3M Dallas/Fort Worth Employment	▲	▲
3.8% Dallas/Fort Worth Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMY

The Dallas-Fort Worth (DFW) economy reached new peaks once again as employment and population levels continued to grow in 2023 despite macro-economic headwinds felt across most major markets. Foreseen obstacles include the high cost of capital and soon approaching loan maturities on commercial properties, inefficiencies in the global supply chain, and a tight labor market. Nonetheless, employment levels in the metroplex hit an all-time high with 4.3 million people employed, a year-over-year (YOY) increase of 3.9%. DFW's population grew as well, increasing by 1.7% or 135,564 people, YOY, bringing the number of residents in the metroplex to 8.1 million as of September 2023.

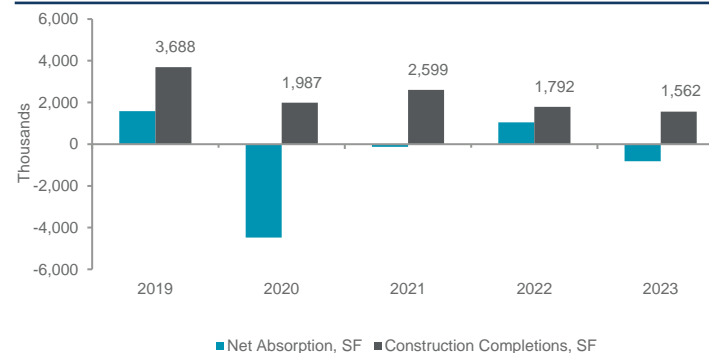
Per Moody's Analytics, office using jobs which fall into the business/professional services, information/technology, and financial activities sectors, grew by a total of 57,806 positions, an increase of 4.7% when compared to Q3 2022. Professional/business services, a leading indicator of office demand, recorded a YOY increase of 4.7% (36,294 jobs), while information/technology grew by 4.8% (17,453 jobs) and financial activities grew by 4.4% (4,058 jobs). As of September 2023, DFW's office-using employment totaled 1.3 million jobs.

SUPPLY

Dallas-Fort Worth's construction pipeline remains robust, but developers are moving forward cautiously due to uncertainty in the capital markets coupled with inflationary pressures impacting costs and timelines. Through the first three quarters of 2023, the market delivered nearly 2.3 million square feet (msf) of new office product, while projects under construction expected to deliver in the next 24 months total 6.2 msf. The Uptown/Turtle Creek and Legacy/Frisco submarkets lead the metro with construction activity totaling 2.4 msf and 1.9 msf, respectively, of new office space being built. The most unique and high-profile projects under construction in DFW are concentrated in the Uptown micro market and include 23Springs at 626,215 sf, The Quad at 345,425 square feet (sf), and Maple Terrace at 136,000 sf.

The overall vacancy rate in DFW increased by 40 basis points to 20.6% in the third quarter. All classes of office properties in the metroplex recorded increasing vacancy levels with Class A at 21.3%, Class B at 20.2%, Class C at 14.1%. Key Dallas submarkets with the lowest overall vacancy rates in Q3 2023 included Lewisville/Carrollton at 16.2%, Preston Center at 16.8%, and Uptown/Turtle Creek at 17.2%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DALLAS/FORT WORTH

Office Q3 2023

Available sublease space in DFW fell to 12.4 msf in the third quarter, a 0.9% decrease from the previous quarter, signaling a potential shift in trajectory in sublease availabilities. The plateauing of sublease space was fueled by large blocks of sublease space being leased by MCR Hotels in Las Colinas and HiOperator in the North Central Expressway submarket.

DEMAND

Despite leasing activity being subdued in 2023, DFW ranks in the top 10 nationwide for total leasing activity, surpassing other major metropolitan areas like Atlanta and Boston. Demand for Class A product continues to drive activity in the market with 5.8 msf of leases transacted year-to-date (YTD), or 67% of all leases signed this year. The three submarkets with the highest leasing activity in the third quarter were Las Colinas, Far North Dallas, and Uptown/Turtle Creek. Together, these submarkets accounted for a total of 1.2 msf of leasing activity, representing nearly 50% of all leases signed during the quarter. One trend of note is that the current economic environment is allowing tenants that are searching for space to take advantage of pressure on rental rates and are signing leases in smaller yet higher-quality spaces at discounted rates through sublease space.

Net occupancy levels in the metro decreased by 416,768 sf in the third quarter resulting from companies continuing to right-size their footprint as they recalibrate space needs with hybrid work options in place. Class A occupancy increased by 46,817 sf in the third quarter, while Class B and C spaces recorded an occupancy decrease totaling 463,585 sf. Interestingly, Class A space makes up 60.6% of the inventory in DFW, while Class B makes up just 36.2%. The largest move-ins recorded in the quarter were Korn Ferry International taking possession of 60,269 sf in LBJ Freeway and Alacrity Solutions Group and Insperity Services both taking possession of more than 45,000 sf in Las Colinas.

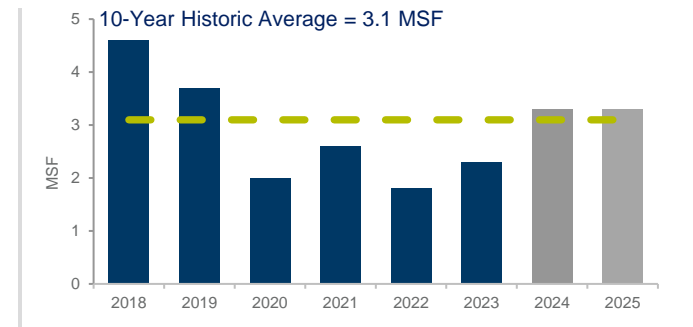
PRICING

With rising energy costs due to geopolitical strife, operating expenses continued to grow in Q3 2023, pushing annual full-service asking rates in DFW to \$29.32 per square foot (psf), a YOY increase of 1.5%. Rents in Uptown/Turtle Creek and Preston Center recorded the highest rates in the market at \$50.77 and \$50.38 psf, respectively. As expected, Class A registered the highest average asking rates at \$34.53 psf, while Class B and C reported rates of \$20.99 and \$17.41 psf, respectively.

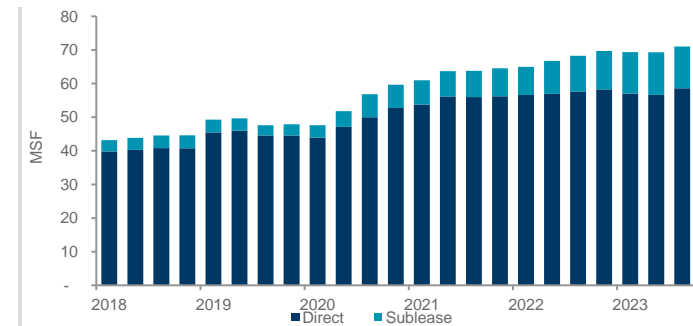
OUTLOOK

- Despite macro-economic headwinds involving the increased cost of capital and maturing loans coming due, 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
- Flight to quality and a continued bifurcation of asking rates will remain an ongoing trend in the Metroplex
- Investors will seek redevelopment and value-add opportunities through amenitization of properties nearing obsolescence or approaching financial hardship due to the high cost of capital

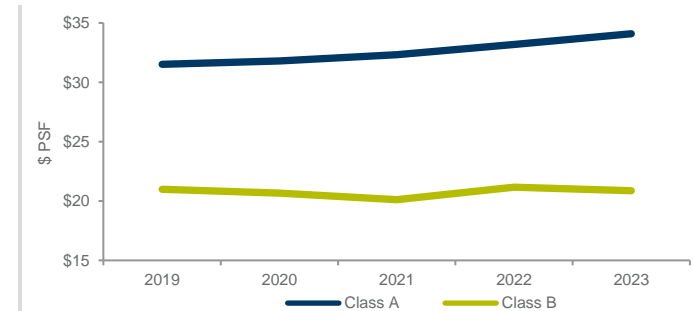
NEW SUPPLY (msf)



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



Office Q3 2023

MARKET STATISTICS

SUBMARKET	INVENTORY	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	Q3 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	18,914,704	206,267	5,623,462	30.8%	-73,744	-1,252	329,503	0	\$25.20	\$26.29
Arts District	6,941,774	237,453	1,381,342	23.3%	-3,017	-29,022	117,513	425,000	\$43.85	\$43.85
West End	1,677,991	0	408,980	24.4%	-118	56,744	14,293	0	\$29.38	\$41.93
DALLAS CBD TOTAL	27,534,469	443,720	7,413,784	28.5%	-76,879	26,470	461,309	425,000	\$29.25	\$30.93
North Central Expressway	10,813,267	70,499	2,166,898	20.7%	34,147	204,007	631,050	221,050	\$36.14	\$39.70
Preston Center	4,433,457	9,847	736,703	16.8%	26,694	-43,207	173,667	0	\$50.38	\$53.72
West Love Field	10,478,727	20,259	1,861,280	18.0%	45,890	121,097	148,233	265,351	\$18.08	\$20.39
LBJ Freeway	22,939,901	220,827	4,950,423	22.5%	-54,567	-360,616	1,209,475	0	\$23.97	\$30.36
Las Colinas	36,781,735	218,284	7,564,117	21.2%	86,325	-1,712	1,767,648	0	\$27.18	\$32.14
Far North Dallas	17,691,559	130,201	3,911,660	22.8%	-13,767	-275,679	894,100	0	\$26.93	\$32.57
Richardson/Plano	25,954,624	47,138	4,608,671	17.9%	-79,291	-240,697	484,985	617,000	\$23.72	\$26.64
Mid Cities	11,855,592	39,734	3,079,735	26.3%	-81,282	-179,867	233,967	0	\$23.31	\$27.55
Lewisville/Carrollton	4,552,117	0	738,354	16.2%	-41,799	-88,073	82,255	291,161	\$21.34	\$36.00
Southwest Dallas	1,858,530	0	141,936	7.6%	1,658	-21,566	18,285	0	\$22.57	\$25.65
Legacy/Frisco	31,135,754	77,790	6,100,134	19.8%	-212,909	20,713	1,044,161	1,922,539	\$37.96	\$42.08
Southlake/Westlake	5,083,131	95,018	1,151,032	24.5%	-73,001	2,110	274,920	0	\$32.25	\$34.45
East Dallas	3,520,128	370,880	248,691	17.6%	2,043	101,282	86,953	0	\$22.51	\$56.96
Uptown/Turtle Creek	14,456,197	18,885	2,462,612	17.2%	35,570	-10,646	622,048	2,357,640	\$50.77	\$55.93
DALLAS SUBURBS TOTAL	201,554,719	1,319,362	39,722,246	20.4%	-324,289	-772,854	7,671,747	5,674,741	\$29.59	\$35.78
DALLAS TOTAL	229,089,188	1,763,082	47,136,030	21.3%	-401,168	-746,384	8,133,056	6,099,741	\$29.53	\$34.70
Fort Worth CBD	7,834,738	79,738	1,090,059	14.9%	56,066	127,093	193,876	0	\$26.53	\$29.39
East Fort Worth	2,366,884	2,339	170,427	7.3%	-42,882	6,247	54,197	0	\$14.98	N/A
North Fort Worth	2,226,574	0	256,483	11.5%	-15,637	15,000	79,743	0	\$24.17	\$21.68
South Fort Worth	2,779,933	0	228,218	8.2%	10,651	41,399	131,061	0	\$23.87	\$28.00
West Fort Worth	4,641,036	6,475	659,634	14.4%	-23,798	-135,255	143,540	129,400	\$25.44	\$28.80
FW SUBURBS TOTAL	12,014,427	8,814	1,314,762	11.0%	-71,666	-72,609	408,541	129,400	\$23.43	\$27.92
FORT WORTH TOTAL	19,849,165	88,552	2,404,821	12.6%	-15,600	54,484	602,417	129,400	\$24.95	\$28.94
DFW TOTAL	248,938,353	1,851,634	49,540,851	20.6%	-416,768	-691,900	8,735,473	6,229,141	\$29.32	\$34.53

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

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Mandalay Tower 2 – 225 E John Carpenter Fwy	Las Colinas	Trend Micro	102,862	Renewal
One Victory Park – 2323 Victory Ave	Uptown/Turtle Creek	HF Sinclair	90,609	New Lease
The Quad – 2699 Howell St	Uptown/Turtle Creek	M Financial Group	52,137	New Lease

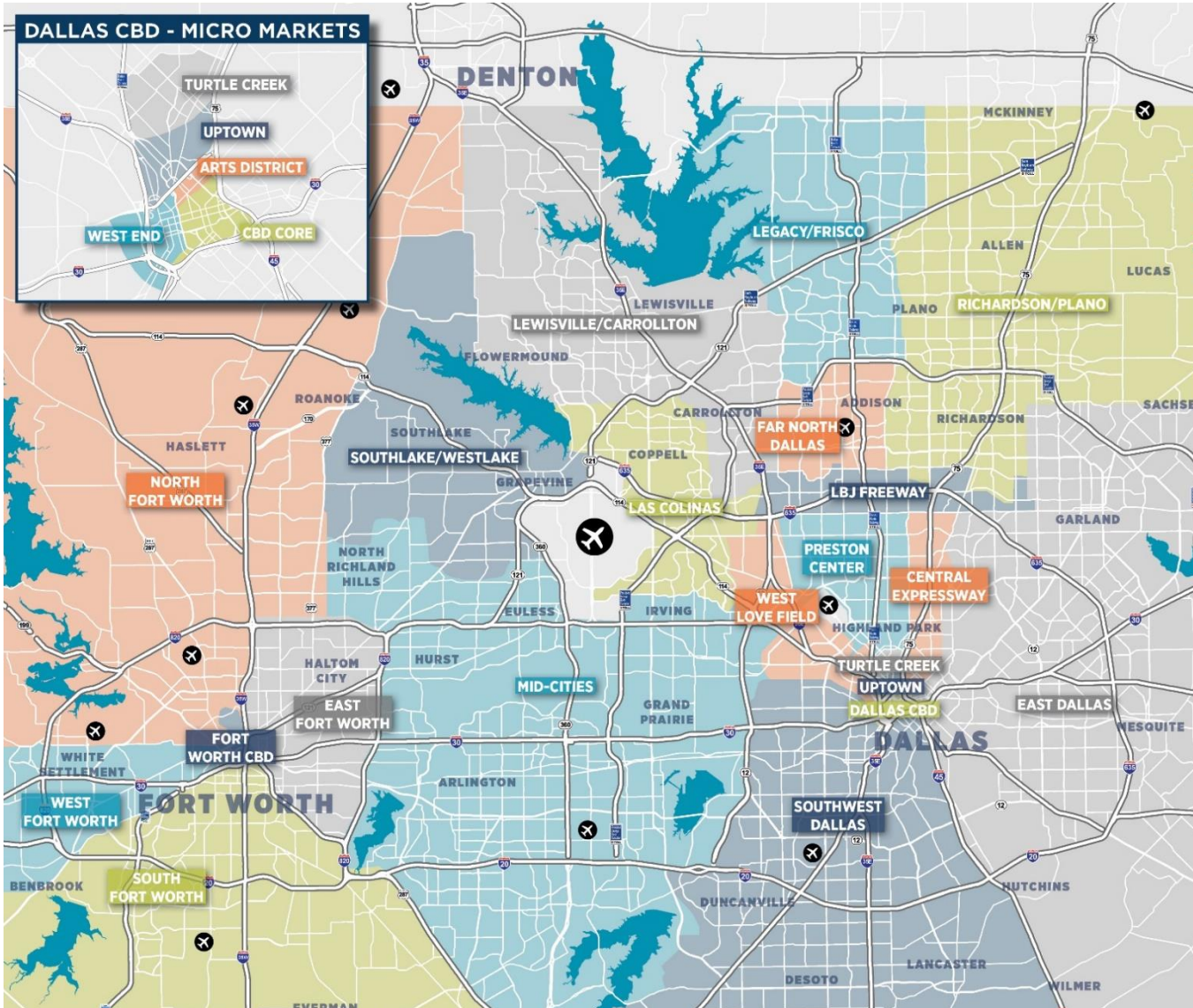
KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF
Signature Exchange – 14755-14785 Preston Rd	Far North Dallas	America's Capital Partners/USAA Real Estate	482,168
Gramercy Center – 18451-18583 N Dallas Pkwy	Far North Dallas	Winhall Management/ATCAP Partners	256,155
Landmark Center – 1801 N Lamar St	Dallas CBD	Spear Street Capital/Slingshot LLC	133,909

DALLAS/FORT WORTH

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OFFICE SUBMARKETS



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