

Office Q4 2023

	YoY Chg	12-Mo. Forecast
21.2% Vacancy Rate	▲	▲
-1.9M Net Absorption, SF	▼	▲
\$29.48 Asking Rent*, PSF	▲	▬

*Overall, All Property Classes

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

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
4.3M Dallas/Fort Worth Employment	▲	▲
3.9% Dallas/Fort Worth Unemployment Rate	▲	▼
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMY

The Dallas-Fort Worth (DFW) economy demonstrated resilience and achieved notable milestones in 2023 despite the economic obstacles faced in all markets across the nation. Ongoing challenges include increased capital costs, loans approaching maturity, and inflationary pressures due to inefficiencies in the global supply chain. Employment in the metroplex soared to a record high of 4.3 million people employed, marking a year-over-year (YOY) increase of 3.2%. Additionally, the DFW population expanded by 1.7% (132,083 residents), reaching a total of 8.1 million residents as of December 2023. These positive trends underscore the region's economic vitality amid broader macro-economic headwinds.

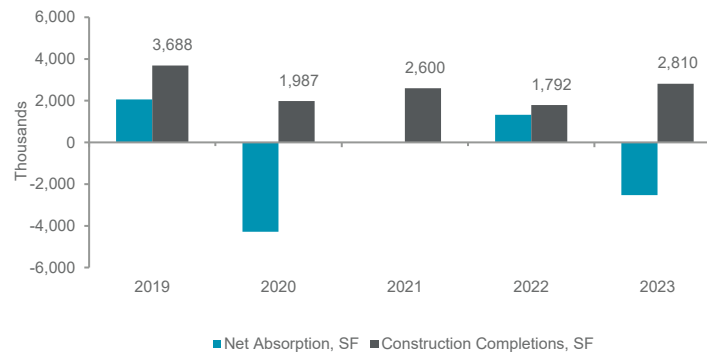
Office using jobs, which fall into the professional/business services, information/technology, and financial activities sectors, grew by a total of 50,887 positions, an increase of 4.1% when compared to Q4 2022. Professional/business services, a leading indicator of office demand, recorded a YOY increase of 4.0% (31,241 jobs), while financial activities grew by 4.5% (16,378 jobs) and information/technology grew by 3.5% (3,268 jobs). As of December 2023, DFW's office-using employment totaled 1.3 million jobs. Beyond its thriving job market, DFW stands out on the corporate landscape, serving as home to 55 of the nation's Fortune 500 companies, and witnessed a total of 284 headquarters relocations.

SUPPLY

Construction activity in DFW remains robust, although developers are proceeding cautiously in light of rising capital costs and timelines. In 2023, the market successfully delivered 2.8 million square feet (msf) of new office space with 6.2 msf expected to be completed in the next 24 months. The Uptown/Turtle Creek and Legacy/Frisco submarkets are currently leading the metro in terms of construction activity, with a total of 2.4 msf and 1.9 msf of new office space being developed, respectively. Uptown notably fosters many unique and high-profile projects, such as Harwood No.14 spanning 360,000 square feet (sf) and Maple Terrace covering 136,000 sf. Class A spaces constitute a substantial 60.7% of DFW's total inventory, whereas Class B accounts for a smaller share at 36.1%.

The overall vacancy rate in the DFW increased by 90 basis points (bps), reaching 21.2% in Q4 2023. All classes of office properties in the metroplex recorded rising vacancy levels, with Class A properties at 21.7%, Class B at 20.8%, and Class C at 15.5%. The lowest overall vacancy rates in Dallas submarkets during Q4 2023 were in Preston Center at 12.6%, Lewisville/Carrollton at 16.3%, and Richardson/Plano at 17.9%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DALLAS/FORT WORTH



Office Q4 2023

Available sublease space in DFW recorded a marginal uptick this quarter, reaching 12.5 msf. This represents a 0.4% increase, signaling a plateauing of available sublease space over the last four quarters. Levels continued to stay consistent throughout the fourth quarter, due to several large blocks of space rolling from sublease to direct in addition to newly added sublease availabilities. A prominent example of this is Uber's 258,720-sf space at Epic 1 in the East Dallas submarket.

DEMAND

DFW once again secured its position in the top 10 nationwide for total leasing activity, with a total of 11.8 msf of leases transacted in 2023. This solidified the metroplex's place as a business hub, surpassing activity levels in Atlanta by 29% and Denver by 44%. Owners are actively addressing concerns about outdated properties through investment in highly amenitized spaces. This can be demonstrated by the demand for Class A space, totaling 8.2 msf in leased space, constituting 69.1% of all leases executed in 2023. During the fourth quarter, the three submarkets which recorded the highest leasing activity were Las Colinas (2.3 msf), Legacy/Frisco (1.8 msf), and LBJ Freeway (1.4 msf). Collectively, these submarkets accounted for 5.4 msf of leasing activity, representing nearly 45.9% of all leases signed in the quarter.

Occupancy in DFW declined by 1.9 msf in the fourth quarter of 2023. This reduction can be attributed to companies increasingly reassessing their space needs and leasing smaller spaces, due to the elevated cost of capital or decreasing real estate expenditures by bringing vacant space to market as sublet. Class A buildings recorded negative 841,415 sf of absorption in the fourth quarter, while Class B and C spaces also reported negative absorption totals of 1.4 msf and 214,294 sf, respectively. Notable relocations during the quarter included Children's Health System of Texas, which leased 296,433 sf in Legacy/Frisco, and Raytheon, leasing 251,347 sf in Richardson/Plano.

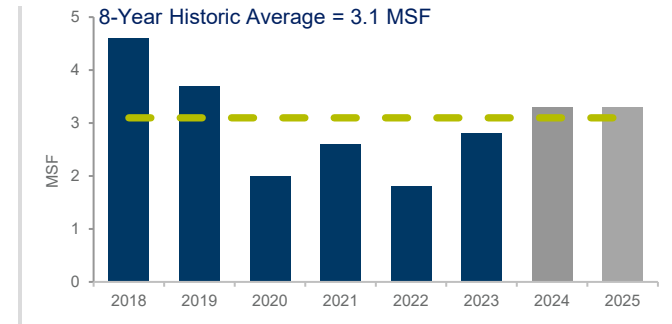
PRICING

Continued escalations in capital expenditure and global energy costs have resulted in annual full-service leasing rates rising to \$29.48 per square foot (psf), marking a YOY increase of 3.1%. The Dallas submarkets with the highest rental rates are Uptown/Turtle Creek at \$60.69 psf, and Preston Center at \$52.42 psf. Class A properties demonstrated the highest average asking rates at \$34.78 psf, while Class B and Class C properties reported rates of \$21.40 psf and \$17.50 psf, respectively.

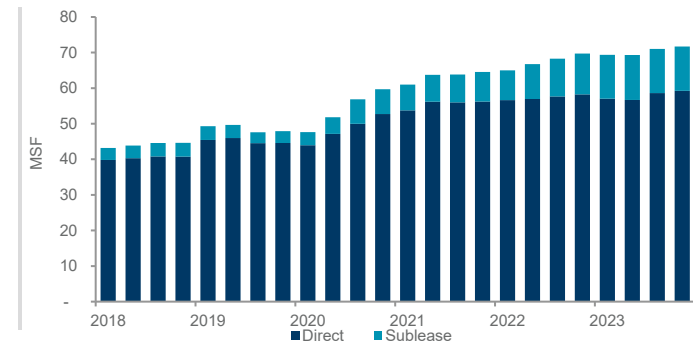
OUTLOOK

- Despite macro-economic headwinds faced in the nation, the mid- and long-term outlook for Dallas-Fort Worth remains positive compared to other large metro areas.
- Investors will seek opportunities to acquire properties at discounted rates due to an increasing number of assets approaching loan maturity, and requiring owners to either borrow at higher rates, or dispose of the asset.
- With a growing stock of obsolete inventory in the metroplex, developers will have increased opportunities to convert older properties to more valuable uses including multifamily units and data center spaces.
- As more vacant space is brought to the market, rental rates will encounter resistance due to an increase in hybrid work models and ongoing reassessment of space needs by corporations.

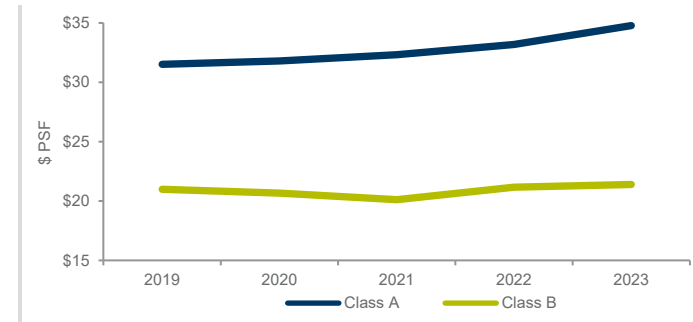
NEW SUPPLY (msf)



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



Office Q4 2023

MARKET STATISTICS

SUBMARKET	INVENTORY	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	Q4 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	187,301	5,308,104	29.1%	-68,782	-63,632	382,080	0	\$26.66	\$27.92
Arts District	6,985,424	236,564	1,331,650	22.4%	53,217	45,322	193,495	425,000	\$44.40	\$44.40
West End	1,677,991	0	400,421	23.9%	-4,188	54,871	16,728	0	\$29.38	\$41.93
DALLAS CBD TOTAL	27,578,119	423,865	7,040,175	27.1%	-19,753	36,561	592,303	425,000	\$30.51	\$32.41
North Central Expressway	10,843,267	100,936	2,368,701	22.8%	-190,834	-50,734	767,311	191,050	\$36.54	\$39.61
Preston Center	4,433,457	15,914	544,394	12.6%	22,016	152,051	218,985	0	\$48.10	\$52.42
West Love Field	10,478,727	24,163	1,901,203	18.4%	-49,450	70,151	172,911	265,351	\$18.32	\$20.39
LBJ Freeway	22,939,901	238,616	4,989,537	22.8%	-86,907	-423,033	1,416,376	0	\$24.19	\$30.65
Las Colinas	36,781,735	432,555	7,952,028	22.8%	-671,790	-677,786	2,258,098	0	\$27.38	\$32.51
Far North Dallas	17,691,559	270,957	3,823,852	23.1%	-196,248	-426,332	1,168,122	0	\$26.85	\$32.01
Richardson/Plano	25,954,624	172,719	4,465,137	17.9%	-48,538	-270,567	735,459	617,000	\$23.12	\$25.27
Mid Cities	11,855,592	61,050	3,162,403	27.2%	-85,009	-287,620	289,036	0	\$23.20	\$27.38
Lewisville/Carrollton	4,552,117	8,830	734,666	16.3%	-23,690	-101,128	93,672	291,161	\$20.99	\$28.77
Southwest Dallas	1,858,530	0	138,531	7.5%	2,619	-25,005	30,693	0	\$22.55	\$25.74
Legacy/Frisco	31,135,754	264,704	6,303,469	21.1%	-326,068	-394,898	1,750,867	1,922,539	\$37.10	\$41.27
Southlake/Westlake	5,083,131	48,087	1,173,408	24.0%	-18,568	-40,645	378,929	0	\$32.64	\$35.28
East Dallas	3,520,128	447,521	352,387	22.7%	-147,561	-46,691	125,426	0	\$31.83	\$51.49
Uptown/Turtle Creek	14,882,197	40,520	2,926,083	19.9%	25,773	-14,213	1,093,208	2,355,825	\$52.02	\$56.56
DALLAS SUBURBS TOTAL	202,010,719	2,126,572	40,835,799	21.3%	-1,794,255	-2,536,450	10,499,093	5,642,926	\$29.56	\$35.63
DALLAS TOTAL	229,588,838	2,550,437	47,875,974	22.0%	-1,814,008	-2,499,889	11,091,396	6,067,926	\$29.71	\$34.95
Fort Worth CBD	7,834,738	0	1,071,473	13.7%	62,777	186,989	212,905	0	\$26.86	\$29.68
East Fort Worth	2,366,884	2,339	159,212	6.8%	4,929	13,962	66,643	0	\$14.54	N/A
North Fort Worth	2,226,574	3,436	262,563	11.9%	-12,392	2,270	79,743	0	\$24.20	\$22.56
South Fort Worth	2,779,933	36,962	204,126	8.7%	-46,965	21,035	158,548	0	\$22.80	\$35.00
West Fort Worth	4,641,036	12,016	762,083	16.7%	-126,952	-248,593	206,192	129,400	\$25.25	\$29.03
FW SUBURBS TOTAL	12,014,427	54,753	1,387,984	12.0%	-181,380	-211,326	511,126	129,400	\$23.30	\$28.09
FORT WORTH TOTAL	19,849,165	54,753	2,459,457	12.7%	-118,603	-24,337	724,031	129,400	\$24.96	\$29.22
DFW TOTAL	249,438,003	2,605,190	50,335,431	21.2%	-1,932,611	-2,524,226	11,815,427	6,197,326	\$29.48	\$34.78

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

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Parkside Uptown – SWC N Harwood St & Woodall Rodgers Fwy	Uptown/Turtle Creek	Bank of America	238,000	New Lease
4000 International Pky - Bldg V	Legacy/Frisco	JBB Advanced Technology	158,844	Sublease
Mandalay Tower 1 – 220 E Las Colinas Blvd	Las Colinas	Americredit Financial Services	115,644	Expansion, Renewal

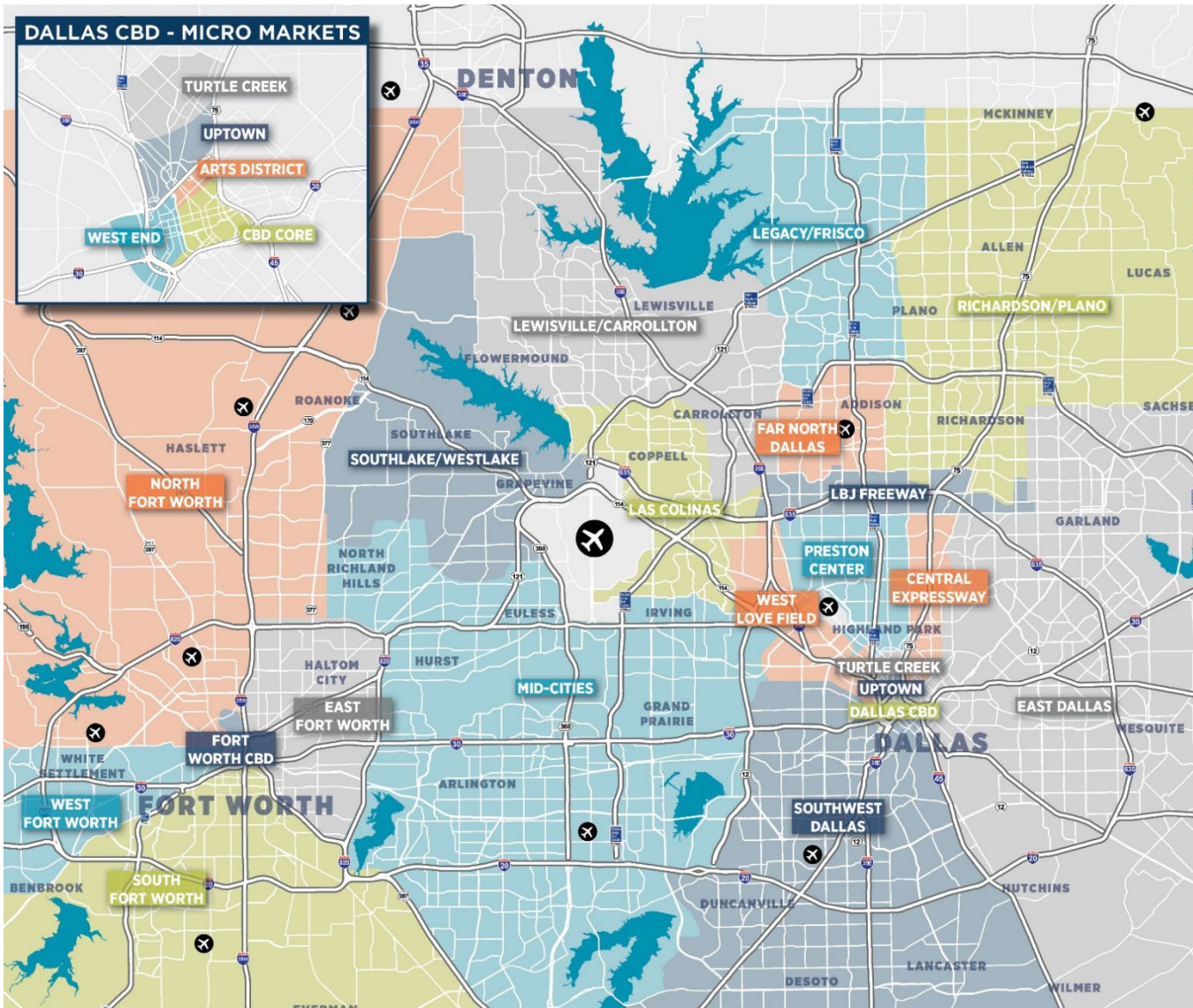
KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER/BUYER	SF
Plaza of The Americas, 600 & 700 N Pearl St (Portfolio Sale)	CBD Core	Shelbourne Global Solutions, LLC/M-M Properties	583,344
One Legacy Circle – 7500 Dallas Pky	Legacy/Frisco	Gildenson Real Estate/Franklin Street Partners	214,110
Westway One – 1707 Market Place Blvd	Las Colinas	Silver Star Properties REIT, Inc/Good Signature Management, L.L.C.	158,936

DALLAS/FORT WORTH

Office Q4 2023

OFFICE SUBMARKETS



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