

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
24.7% Vacancy Rate	▲	▲
-4.9M YTD Net Absorption, SF	▼	▼
\$32.44 Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▲	▲

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
4.3M Dallas/Fort Worth Employment	▲	▲
3.8% Dallas/Fort Worth Unemployment Rate	▲	▼
4.1% Country Unemployment Rate	▲	▼

Source: BLS

ECONOMY

Employment continued growing in Dallas/Fort Worth (DFW) at a pace of 1.8% year-over-year (YOY). DFW unemployment reached 3.8% at quarter-end, increasing by 0.3% YOY. Unemployment remains below the national average of 4.1%.

Moody's Analytics reported mixed performance among key office-using industries in the third quarter. Total office-using employment experienced a slight quarter-over-quarter (QOQ) decline of 5,600 jobs due to a decrease in professional and business services, the largest office-using sector. Information and financial activities, on the other hand, posted slight gains. Population growth continued at a strong pace of 204,093 new residents added or 2.4% growth YOY.

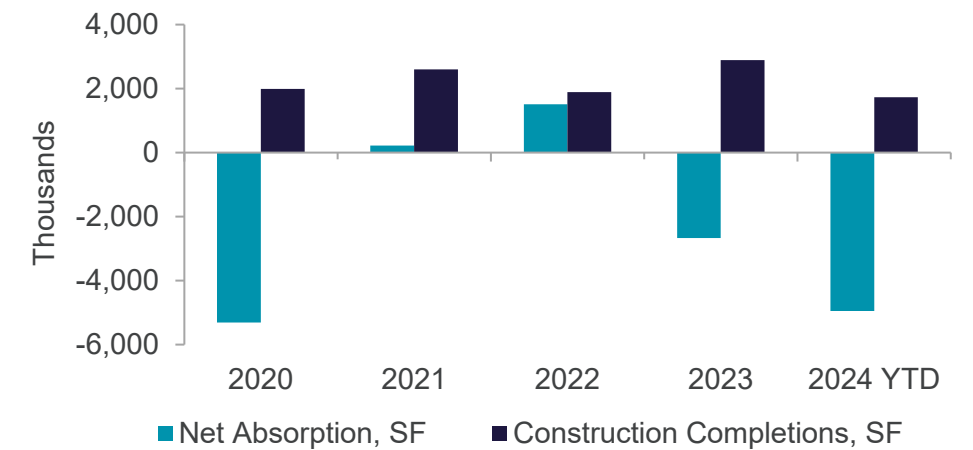
DEMAND

Net absorption remained negative in all property classes as companies continued to reduce office footprints in light of new work patterns and embrace denser floorplans in response to higher rents. Net absorption for the quarter reached negative 1.2 million square feet (msf) and year-to-date (YTD) net absorption was negative 4.9 msf. Only the West End and Southlake/Westlake submarkets sustained positive net absorption YTD.

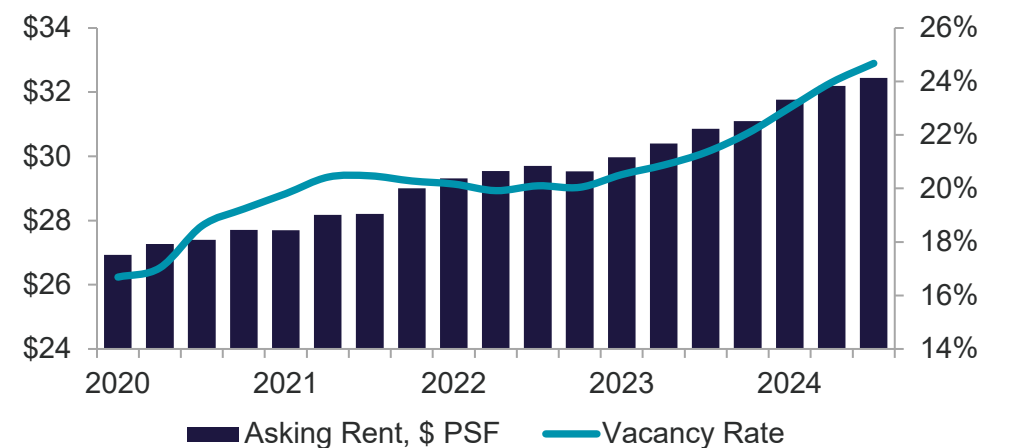
Higher interest rates and slowing job growth continue to weigh on space demand. YTD leasing activity, including renewals, reached 10.6 msf. New leasing activity, excluding renewals, reached 8.0 msf YTD and is on pace to match levels seen in 2020.

The recent pace of negative absorption and rising vacancy accelerated as tenants returned more space to market and leased less space. Net absorption since 2020 totaled negative 11.2 msf but 58.2% of this negative absorption has occurred over the previous twelve months.

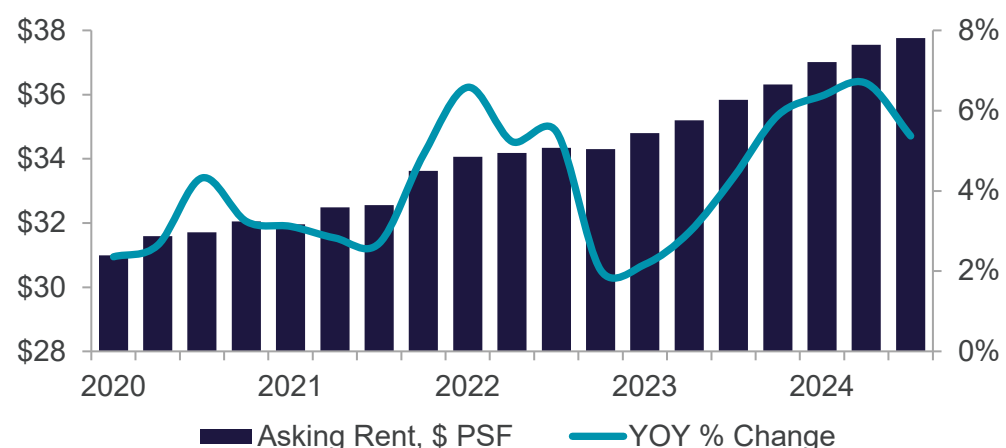
SPACE DEMAND / DELIVERIES



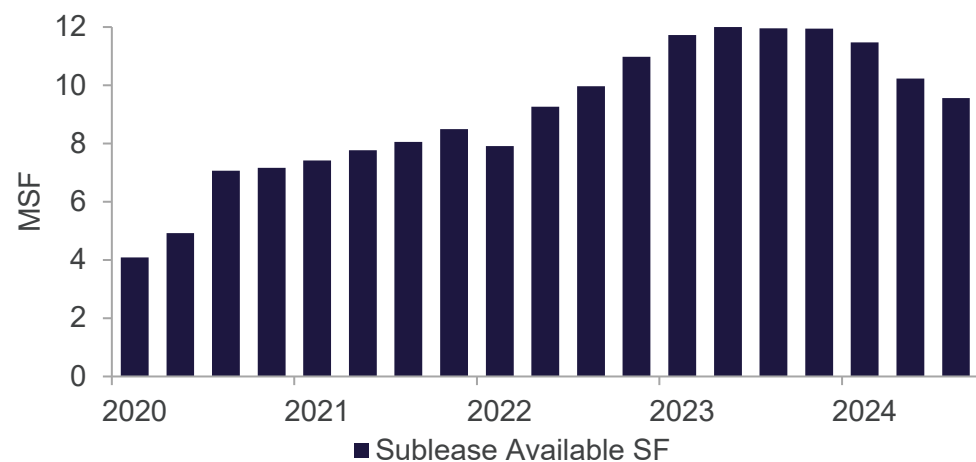
OVERALL VACANCY & ASKING RENT



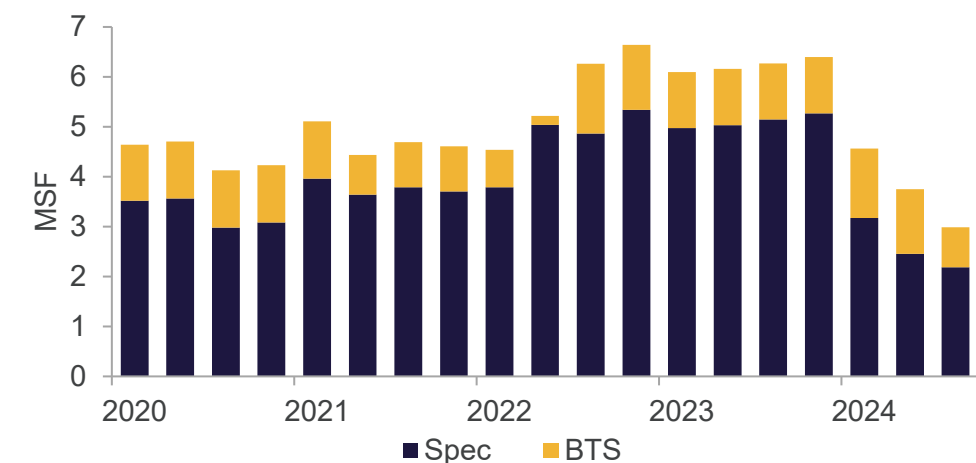
CLASS A OVERALL ASKING RENT



SUBLEASE OFFERINGS



CONSTRUCTION PIPELINE



SUPPLY

Negative absorption drove vacancy to 24.7% in the third quarter, the highest level since 2005. Vacancy rose 70 basis points (bps) QOQ and 330 bps YOY. Vacancy increased in all asset classes, reaching 26.5% in Class A properties and 22.6% in Class B properties.

Sublease availability declined 2.4 msf YOY but remained above the historical average at 9.1 msf or 4.0% of inventory.

Construction activity declined 52.4% YOY to 3.0 msf, the lowest level in over a decade. Trophy buildings in Uptown/Turtle Creek represented a large majority of new construction at 2.3 msf or 78.6% of all projects. Deliveries this quarter totaled 267,000 sf with The Parkwood II in Richardson/Plano and Crown Centre II in Lewisville/Carrollton.

Green shoots have appeared in the disposition of excess office inventory. Major dispositions announced in the third quarter include NexPoint’s life sciences conversion at 5400 Legacy (1.6 msf) and several user purchases including Raising Cane’s (5320 Legacy / 394,405 sf), Jewish Family Services of Greater Dallas (16301 Quorum / 97,995 sf), and Dallas MetroCare Services (9696 Skillman / 70,215 sf). As a result, office inventory shrank to 239.5 msf in the third quarter, its lowest level since 2021.

PRICING

Asking rental rates rose 5.1% YOY to reach a new record of \$32.44 per square foot (psf) despite elevated vacancy across the DFW market. Class A properties outperformed the market with a 5.4% YOY increase to \$37.76 psf, while Class B rents experienced a modest rise of 1.8% YOY to reach \$22.46 psf.

OUTLOOK

- Despite short-term challenges, population and job growth in DFW will generate demand for office space over the long-term.
- Right-sizing will contribute to negative absorption and higher vacancy over the next 12 months.
- Sublease availability is likely to continue tapering as leases end and become direct vacancy.
- As direct vacancy rises, the number of acutely distressed properties will likely increase.
- Flight to quality will continue bifurcating performance between amenitized buildings and commoditized spaces.
- Disposition of surplus office inventory through conversion, user purchase or redevelopment will continue but require time to improve market fundamentals.
- Current rent spreads support opportunities to reposition viable buildings at a favorable cost basis.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG GROSS RENT	CLASS A WEIGHTED AVG GROSS RENT
CBD Core	18,494,685	6,680,362	36.1%	-218,146	-721,122	551,408	0	0	\$28.89	\$30.38
Arts District	6,676,713	1,726,344	25.9%	-136,767	-228,543	235,041	0	0	\$46.50	\$47.72
West End	1,347,347	340,012	25.2%	0	25,414	16,141	0	0	\$30.50	\$31.62
DALLAS CBD TOTAL	26,518,745	8,746,718	33.0%	-354,913	-924,251	802,590	0	0	\$32.55	\$34.30
Uptown/Turtle Creek	15,741,911	3,433,902	21.8%	-17,164	-100,824	1,394,279	2,346,626	345,425	\$59.40	\$63.20
North Central Expressway**	14,240,605	3,929,293	27.6%	-238,978	-314,149	562,963	0	0	\$34.40	\$37.12
Preston Center	4,385,414	626,155	14.3%	23,842	-47,159	246,004	0	0	\$49.89	\$55.28
Deep Ellum/East Dallas	3,519,229	781,076	22.2%	-50,682	-43,385	103,075	0	0	\$38.60	\$51.31
West Love Field	8,909,908	2,085,058	23.4%	13,103	-82,182	176,657	0	272,743	\$25.33	\$43.61
LBJ Freeway**	11,349,303	3,075,250	27.1%	-67,673	-202,182	248,674	0	0	\$18.82	\$21.32
Far North Dallas**	23,164,680	5,407,258	23.3%	-137,982	-424,705	1,945,366	0	0	\$31.51	\$35.93
Legacy/Frisco	30,541,773	8,510,507	27.9%	40,650	-485,456	1,047,215	408,500	969,070	\$41.42	\$44.48
Richardson/Plano	23,623,754	4,885,951	20.7%	-81,263	-374,385	910,410	99,381	0	\$26.52	\$29.37
Las Colinas	35,882,138	9,445,161	26.3%	-298,983	-1,442,768	1,821,378	0	0	\$28.40	\$32.09
Southlake/Westlake	4,482,379	1,229,532	27.4%	27,735	75,326	290,922	0	0	\$34.04	\$36.04
Lewisville/Carrollton	5,186,910	1,037,228	20.0%	7,414	-143,472	122,466	0	147,000	\$24.86	\$31.76
Southwest Dallas	1,858,530	214,601	11.5%	-7,960	-95,299	31,747	0	0	\$24.89	\$25.64
Mid Cities	11,423,216	3,185,969	27.9%	28,445	-97,199	344,736	0	0	\$23.58	\$27.38
DALLAS NON-CBD TOTAL	194,309,750	47,846,941	24.6%	-759,496	-3,777,839	9,245,892	2,854,507	1,734,238	\$32.75	\$38.85
DALLAS TOTAL	220,828,495	56,593,659	25.6%	-1,114,409	-4,702,090	10,048,482	2,854,507	1,734,238	\$32.72	\$37.93
Fort Worth CBD	7,534,391	938,280	12.5%	-41,688	-150,101	150,663	0	0	\$28.37	\$32.91
West Fort Worth	4,195,630	852,079	20.3%	-5,280	-3,161	247,234	132,222	0	\$26.92	\$31.43
South Fort Worth	2,703,053	293,679	10.9%	4,652	-59,104	97,420	0	0	\$22.69	\$35.00
North Fort Worth	1,925,671	253,191	13.1%	13,455	-3,634	67,740	0	0	\$30.60	\$30.92
East Fort Worth	2,343,561	179,489	7.7%	-18,328	-28,431	18,252	0	0	\$15.37	-
FORT WORTH TOTAL	18,702,306	2,516,718	13.5%	-47,189	-244,431	581,309	132,222	0	\$26.43	\$32.19
DALLAS/FORT WORTH TOTALS	239,530,801	59,110,377	24.7%	-1,161,598	-4,946,521	10,629,791	2,986,729	1,734,238	\$32.44	\$37.76

*Rental rates reflect full service asking rate **Submarket boundaries have been revised

KEY LEASE TRANSACTIONS Q3 2024

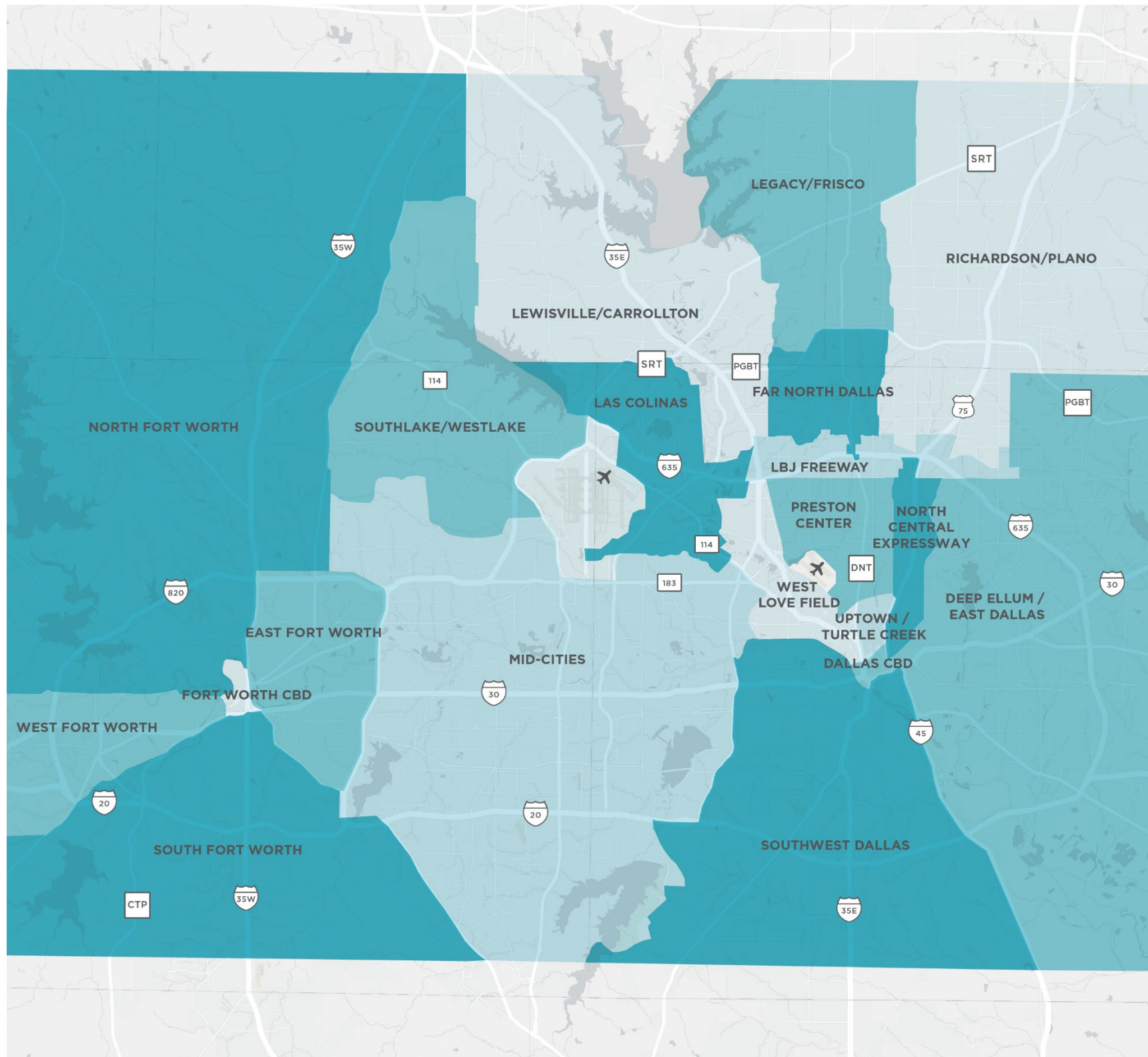
PROPERTY	SUBMARKET	TENANT	SF	TYPE
Hallmark Center I / 16001 N Dallas Pky	Far North Dallas	Bank of America	553,799	Renewal*
Two Galleria Tower / 13455 Noel Rd	Far North Dallas	Amazon	250,000	Renewal*
Founders Square / 900 Jackson St	CBD Core	Cooper & Scully	47,900	Renewal*

*Renewals included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
International Plaza II / 14221 Dallas Pky	Far North Dallas	Taconic Capital / Shorestein Properties	388,432	- / -
750 WJC / 750 W John Carpenter Fwy	Las Colinas	Piedmont / Capital Commercial	314,714	- / -

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