



TRANSWESTERN

DALLAS+FORT WORTH OFFICE MARKET Q1 2023



TRENDLINES

	Q1 2023	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Office-Using Job Growth	+19,400	+44,700	↑	+12,900	↑/→
Total Available	26.2%	25.5%	↑	23.4%	↑
Net Absorption*	(677,100)	(285,100)	↓	42,100	↓
Sublease Space	11,054,000	9,710,000	↑	7,936,000	↑
Vacancy	18.3%	17.8%	↑	16.3%	↑
Asking Rent - Dallas	\$34.94	+6.3%	↑	+4.5%	↑/→
Asking Rent - Fort Worth	\$28.28	+2.5%	↑	+3.0%	↑/→
Under Construction	6,079,000	5,680,000	↑	6,723,000	↑

*Net Absorption calculated as Net Leasing. See definition on page 7.

Sources: Transwestern Research, Texas Workforce Commission, CoStar

Office Market Continues To Soften

Tightening financial conditions continue to create headwinds for job growth and office demand. Net absorption registered at negative 677,100 SF, marking the second consecutive quarter of negative absorption since the pandemic. Sublease space increased to a new high of 11.1 million SF. Vacancy rose to 18.3%, exceeding levels seen after the Great Financial Crisis. Rent growth slowed to 5.8% year-over-year due to lower leasing activity.

Transwestern expects the leasing environment to continue softening as financial conditions tighten. Hiring is beginning to slow after nearly two years of record growth, which will likely lead to weaker demand for office space. Availability & Vacancy will continue to edge up and rent growth will likely remain modest as long as price discovery continues at a slower pace. That said, DFW's long-term growth trajectory will allow the market to overcome short term challenges.



ECONOMY

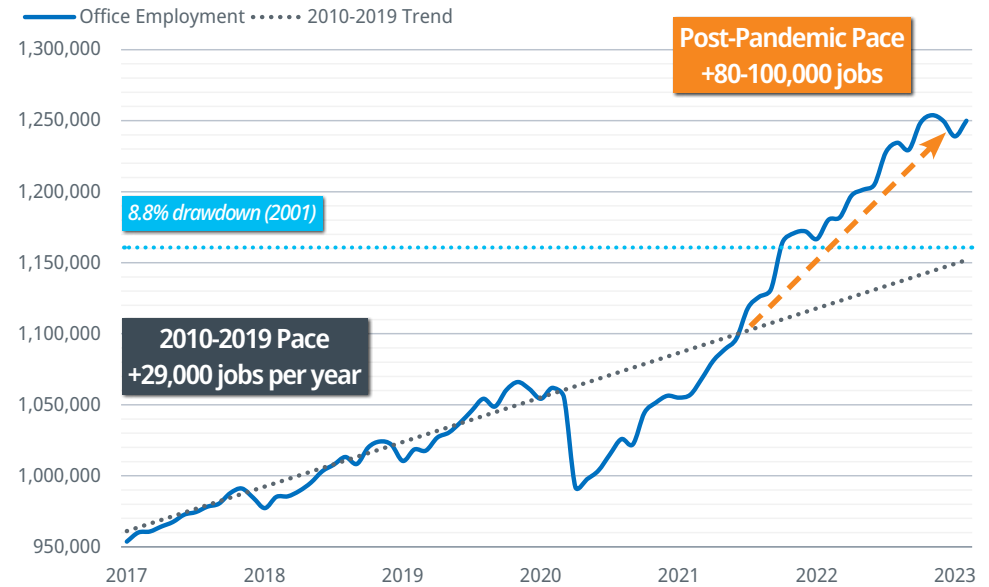
Hiring Begins To Cool

- Firms added 109,600 jobs over the last three months. Job growth over the last year totals 211,600 jobs or 5.3%.
- Hiring in key office-using industries is beginning to slow, but remains at all-time highs of 1,250,000 jobs as of February, or **17.7%** above pre-pandemic levels.
- In the latest Dallas Fed survey, service sector firms noted worsening outlooks but signal growth should continue at a slower pace.

Trends To Watch:

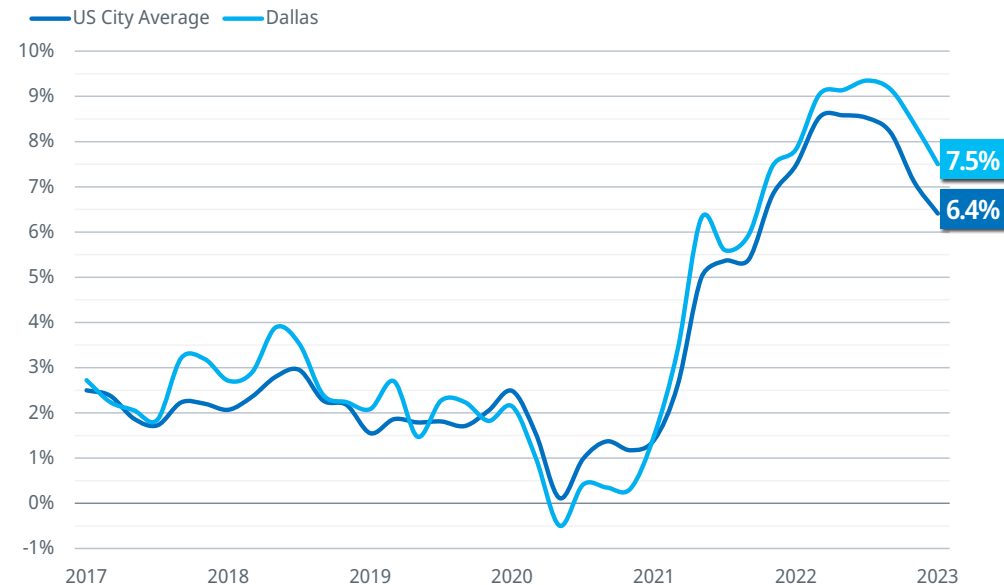
- **Robust job growth may cushion the office market:** In the 2001 recession, employment in key office industries contracted 8.8%. If the next downturn follows a similar path, office employment declines to 1,140,000 jobs—but this would be 8% **above** pre-pandemic levels, or essentially a return to the long-term growth trend following the Great Financial Crisis.
- **Remote work as an insulator:** With the rise of remote/hybrid work, office absorption no longer correlates with job growth. Conversely, layoffs of remote employees may have little impact to vacancy rates in a downturn.
- **No over-building:** Recessions come on the heels of over-building, leading to 'hyper-supply' where vacancy quickly climbs as deliveries outpace demand. Construction remains below average and pre-leasing remains healthy: DFW had **4.2 million SF** of unleased space under construction before the GFC, today there is **3.8 million SF**. New supply will have limited impacts to vacancy during a downturn.
- **Differentiated supply:** Flight to quality has widened rent and vacancy spreads between Core (Class A/A+) and Non-Core (Class A-/B) assets to multi-year highs. As a result, many obsolete properties are now non-competitive and rent cuts may have little impact on better, well-leased properties.

OFFICE-USING EMPLOYMENT



Source: Transwestern Research, Texas Workforce Commission

CONSUMER PRICE INDEX - JANUARY 2023



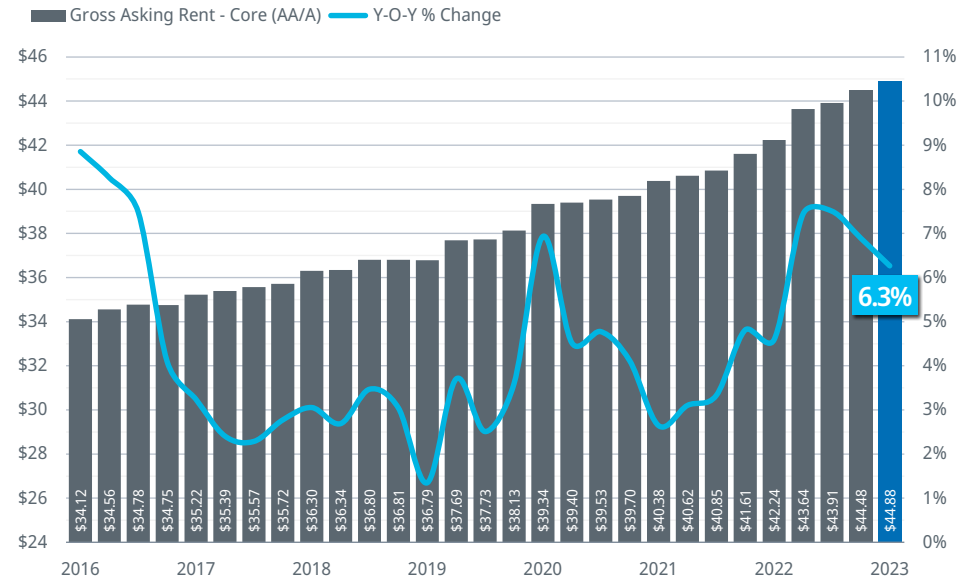
Source: Transwestern Research, Bureau of Labor Statistics

RENTAL RATES

Rent Growth Slows With Space Demand

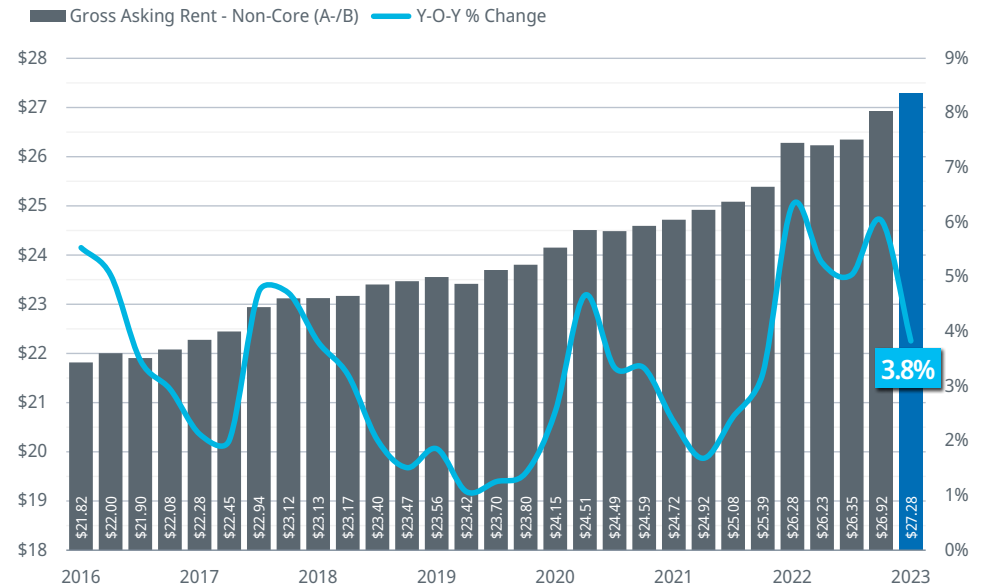
- Asking rents in Core (Class AA/A) properties reached \$44.88 per SF, up 6.3% from last year.
- Rents in Non-Core (Class A-/B) properties reached \$27.28 per SF, up 3.8% from last year.
- Better properties in better submarkets are out-performing these averages.
- As predicted, rent growth has slowed as lower leasing velocities hinder price discovery.
- The rent spread between Core and Non-Core assets—which determines the potential upside for value-add investments—is 65% and remains near its highest level in over 10 years.
- In the last two recessions, same-store rents declined approximately -13.9% between 2000–2003 and -4.3% between 2007–2010.
- Rent growth over the last three years provides some cushion for property values: rents have increased 10.7% in Core assets and 8.8% in Non-Core assets on a same-store basis.
- For the remainder of 2023, Transwestern expects rent growth to continue slowing with reduced leasing activity.

ASKING RENTS - CORE (A/AA)



Source: Transwestern Research, CoStar

ASKING RENTS — NON-CORE (A-/B)



Source: Transwestern Research, CoStar



LEASING, VACANCY, & NET ABSORPTION

Space Demand Continues To Slow

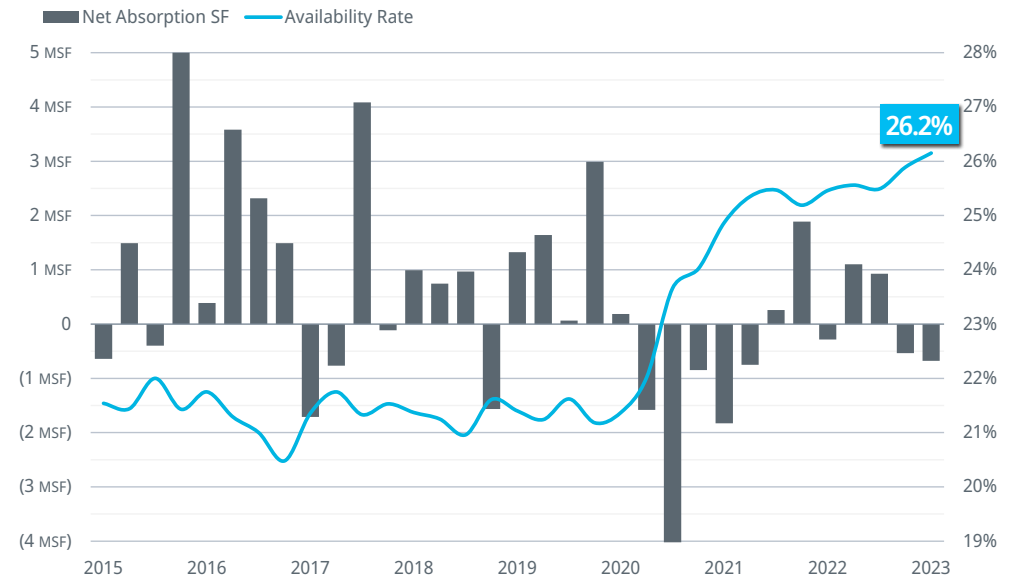
- Net absorption registered at negative 677,100 SF this quarter. This is the second consecutive quarter with negative net absorption.
- Total Availability increased to a new high of 26.2% or 76.7 million SF.
- Vacancy rates have begun to rise as leases expire:
 - Vacancy in Core (AA/A) assets climbed to 15.9%, rising 1.0% this quarter alone. Core vacancy remains below pandemic highs.
 - Vacancy in Non-Core (A-/B) assets climbed to new highs of 19.8%.
- Sublease space increased to 11.1 million SF, a new record. According to Transwestern's analysis of the market, rising sublease space reflects lower space demand. New listings—which would precede and coincide with a contraction—remain stable.
- Outlook For The Next 12 Months:
 - Space demand will remain below average as credit conditions tighten. Vacancy & Availability will rise with increased sublease offerings and move-outs in large blocks of space.
 - Net Absorption will likely return to positive territory in 2023 as Goldman Sachs and Wells Fargo break ground on campuses totaling 1.8 million SF.

NOTABLE LEASES

TENANT	SF	TYPE	BUILDING	SUBMARKET
ISN	100,000	New	Travis + Knox	Uptown
FleetPride	60,000	Ren	600 E Las Colinas	Las Colinas/Urban Center
Chubb Insurance Group	55,000	New	Lincoln Centre	Lower Tollway
Invitation Homes	52,000	New	Lincoln Centre	Lower Tollway
HCL	47,000	Ren	Hall Park - G1	Upper Tollway/Frisco
Insperty	45,050	New	3300 Olympus	Las Colinas/DFW Freeport
Lerma	28,000	Exp	The Luminary	Dallas CBD
Freese & Nichols	27,000	New	Park Central 8	Central Expressway

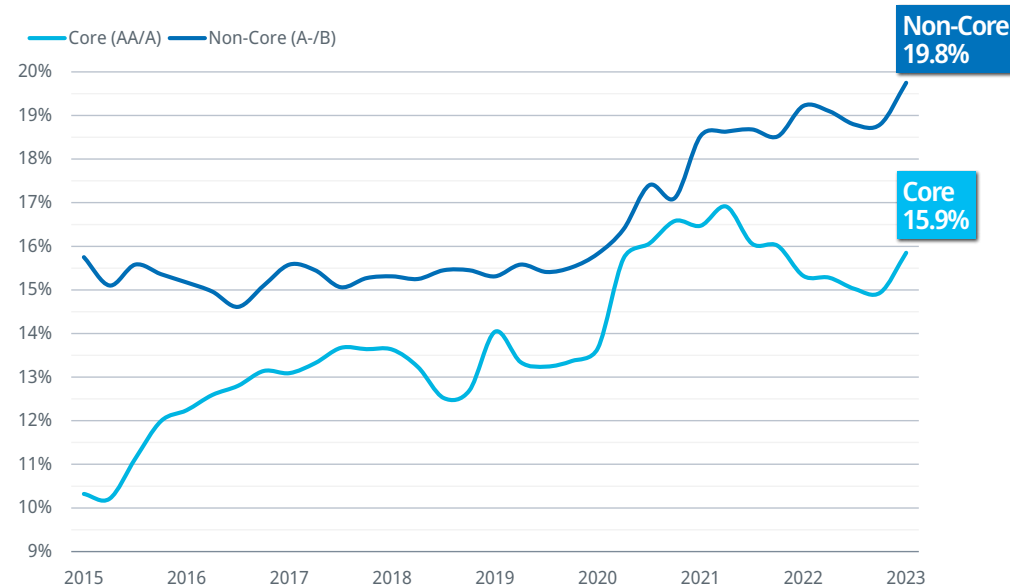
Source: Transwestern Research

NET ABSORPTION & AVAILABILITY



Source: Transwestern Research, CoStar

VACANCY



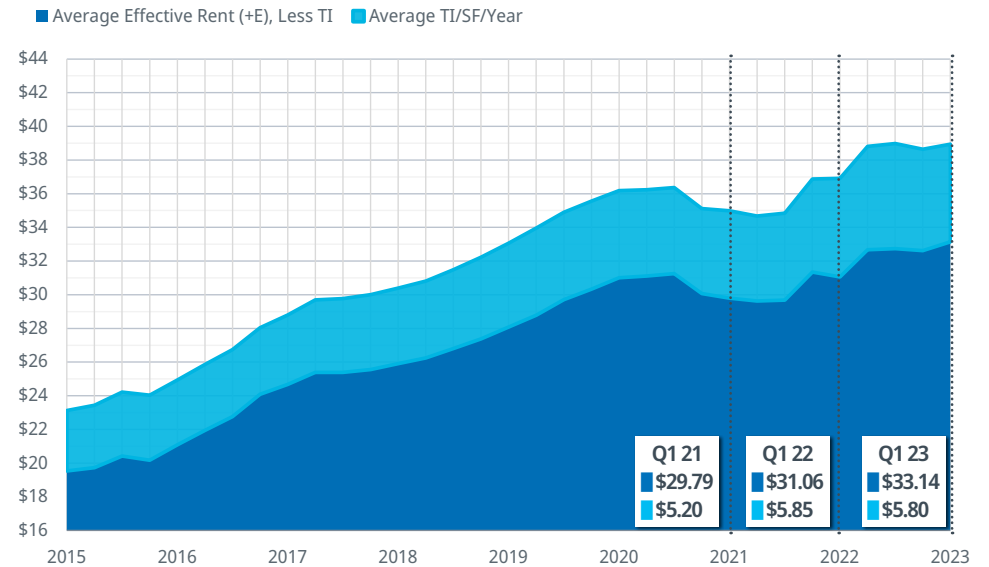
Source: Transwestern Research, CoStar

TERMS & CONCESSIONS

Effective Rent Increases Despite Concessions

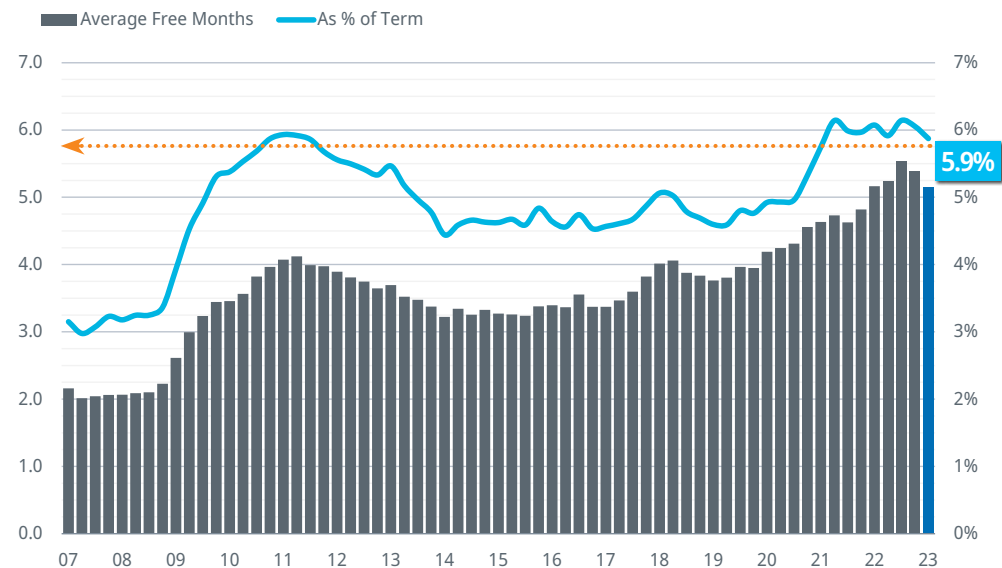
- With rising vacancy, landlords are offering concessions at levels typically seen in recessions. In most properties, asking rent growth is strong enough to overwhelm concessions and drive effective rents higher.
- Average effective rent reached \$38.94 +E, or 7% above pre-pandemic levels. Excluding tenant improvement (TI) allowances, average effective rents exceed \$33.14 +E or 6% above pre-pandemic levels.
- TI allowances remain at historic highs of \$41.05 per SF, or \$5.80 per SF per year when considering lease term. TI allowances have grown by 17% over the last three years.
- Average rent abatement is 5.9% of term, the highest level of free rent **since at least 1997**. Longer free rent periods feature in both short-term and long-term leases.
- Outlook For Tenants:
 - With concessions at all-time highs, landlords have limited latitude to offer better concessions than today.
 - Tenants seeking space in well-leased, quality properties or in submarkets with tight vacancy rates should make moves now, as these spaces may experience modest rent decreases in a downturn.
 - Tenants considering sublease space may want to delay decisions for 6-12 months as tightening credit and balance sheet pressures motivate companies to offer greater discounts on their space.
 - Tenants considering direct space in properties with high vacancy, obsolescence, or foreclosure issues should consider postponing decisions for 12 months to take advantage of upcoming rent cuts.

AVERAGE RENT & TENANT IMPROVEMENT ALLOWANCE



Source: Transwestern Research, 12-month rolling average.

AVERAGE RENT ABATEMENT



Source: Transwestern Research, 12-month rolling average.

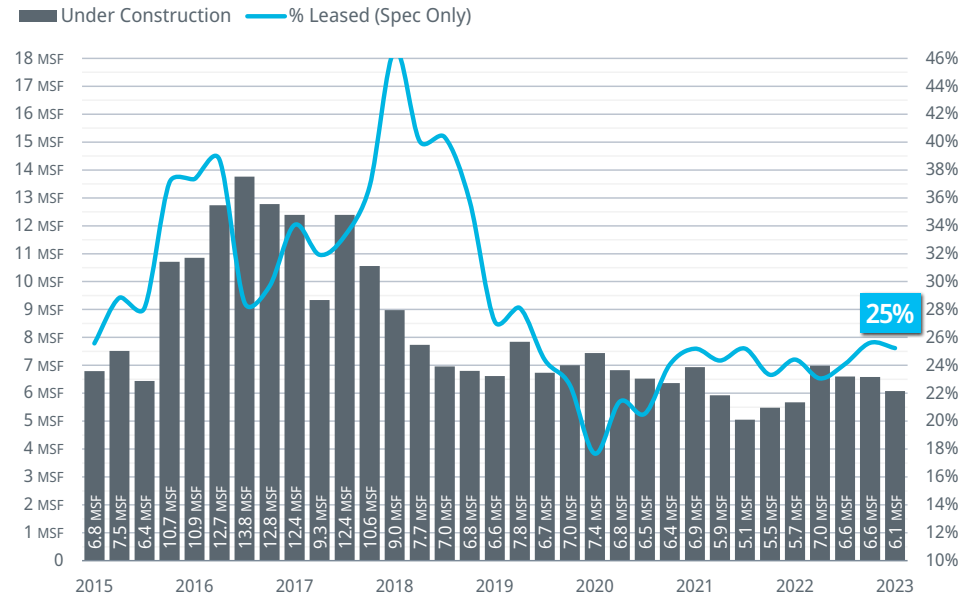


CONSTRUCTION & CAPITAL MARKETS

Projects & Sales Slowed by Capital Markets

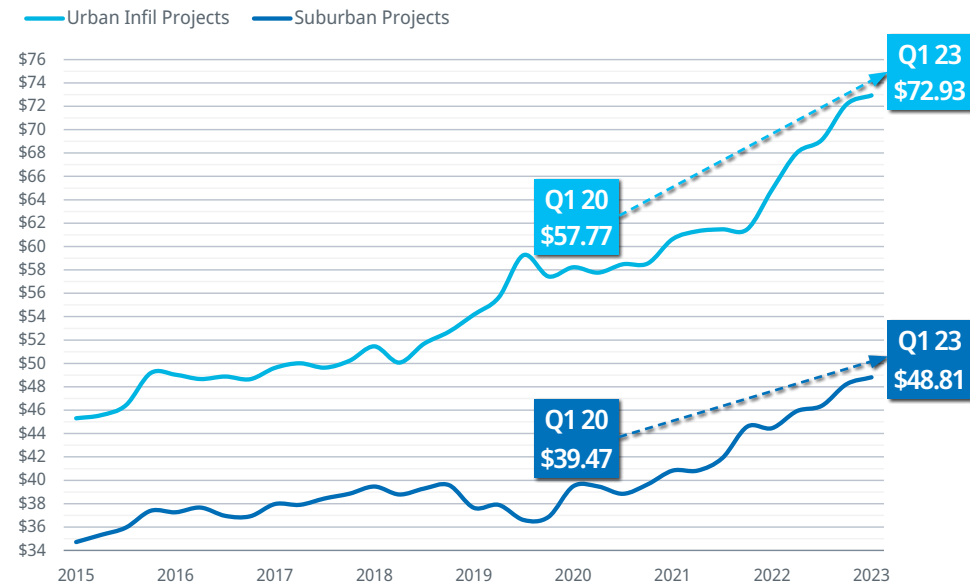
- Escalating costs and strong demand have increased rents in both urban and suburban projects. Pre-leasing in speculative projects remains stable at 25%.
- Projects are being placed on hold due to capital market conditions. Transwestern reiterates that developers should continue new projects: core submarkets are under-built, flight to quality will continue, and demand may be on the rebound in 2024/2025 when projects deliver.
- Construction will begin soon on Goldman Sachs' 1 million-SF campus in Uptown and Wells Fargo's 800,000-SF campus in Las Colinas/Urban Center
- Rising interest rates continue exerting downward pressure on asset prices.
- Capital markets have entered a feedback loop where lower transaction volumes generate fewer comps, which in turn hampers price discovery and further lowers transaction volumes. This effect is compounded by recent events in the banking sector, where tightening lending standards have made underwriting and debt placements more difficult.
- Notable sales include:
 - Fort Worth Tower (115 w 7th), 300,000 SF in the Fort Worth CBD, to 3L Real Estate for multifamily conversion
 - Founders Square (900 Jackson), 274,000 SF in the Dallas CBD, to Charter Holdings
 - Crestview Tower (105 Decker), 263,000 SF in Las Colinas/Urban Center, to Reserve Capital Partners

CONSTRUCTION PIPELINE



Source: Transwestern Research, CoStar

RENTS IN NEW CONSTRUCTION



Source: Transwestern Research, CoStar



Market Indicators - Dallas

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
Uptown/Turtle Creek	15,499,872	5,029,765	29.0%	28.9%	29.2%	16.8%	(240,762)	460,677	1,750,932	\$67.66	\$44.63
Dallas CBD	28,993,924	10,096,670	34.8%	31.6%	35.9%	27.0%	(162,477)	417,414	0	\$45.97	\$27.14
Stemmons Freeway	10,846,351	2,483,076	22.0%	32.4%	19.7%	18.3%	103,504	321,913	266,535	\$48.23	\$19.80
Preston Center	4,706,098	584,687	11.8%	12.7%	11.3%	8.4%	107,412	219,024	235,600	\$60.70	\$48.09
Central Expressway	15,378,449	4,256,848	27.7%	31.7%	26.4%	20.8%	(138,754)	(134,843)	0	\$40.82	\$32.57
Deep Ellum/East Dallas	2,032,648	821,616	40.4%	56.7%	14.2%	17.0%	3,266	85,622	0	\$47.54	\$18.07
West LBJ Freeway	3,983,509	1,237,463	31.1%	-	31.1%	20.8%	(26,574)	(230,371)	0	-	\$19.51
East LBJ Freeway	6,210,909	2,132,926	34.3%	0.0%	34.5%	29.3%	(28,433)	(179,840)	0	-	\$20.72
Lower Tollway	27,089,180	6,755,111	24.9%	25.0%	24.9%	18.9%	(61,081)	327,754	0	\$43.10	\$26.03
Upper Tollway/West Plano	32,848,132	9,532,276	28.3%	25.5%	32.0%	20.2%	532,348	1,164,211	848,366	\$44.62	\$35.80
Upper Tollway/Frisco	5,883,837	1,787,231	24.4%	24.0%	24.9%	10.8%	(89,266)	640,133	1,453,859	\$57.80	\$36.41
Richardson	20,089,766	5,169,158	25.7%	25.0%	26.2%	15.4%	(22,240)	(398,957)	0	\$31.17	\$24.25
Plano	5,873,897	1,107,343	18.4%	27.2%	14.4%	10.1%	(26,133)	(270,448)	136,784	\$28.14	\$22.90
Allen/McKinney	6,321,207	1,043,850	16.4%	23.7%	13.1%	11.3%	(11,912)	71,798	46,500	\$38.59	\$28.91
Las Colinas/Urban Center	9,002,346	2,766,680	29.1%	26.0%	31.9%	19.6%	(134,322)	(268,539)	503,250	\$39.41	\$29.01
Las Colinas/Office Center	15,949,233	3,858,828	24.2%	30.1%	19.2%	14.5%	(377,372)	(516,662)	0	\$33.33	\$22.79
Las Colinas/DFW Freeport	16,196,002	5,735,688	34.8%	24.9%	39.1%	21.1%	(161,891)	(853,673)	300,000	\$37.90	\$25.48

*In DFW, Transwestern calculates Net Absorption as "Net Leasing", or change in Total Available space. Space returned to market registers as negative absorption; Space leased or reoccupied registers as positive absorption. Transwestern's methodology provides a real-time indicator of supply and demand in the space market that eliminates time lags and incomplete information inherent to tracking physical move-ins & move-outs.



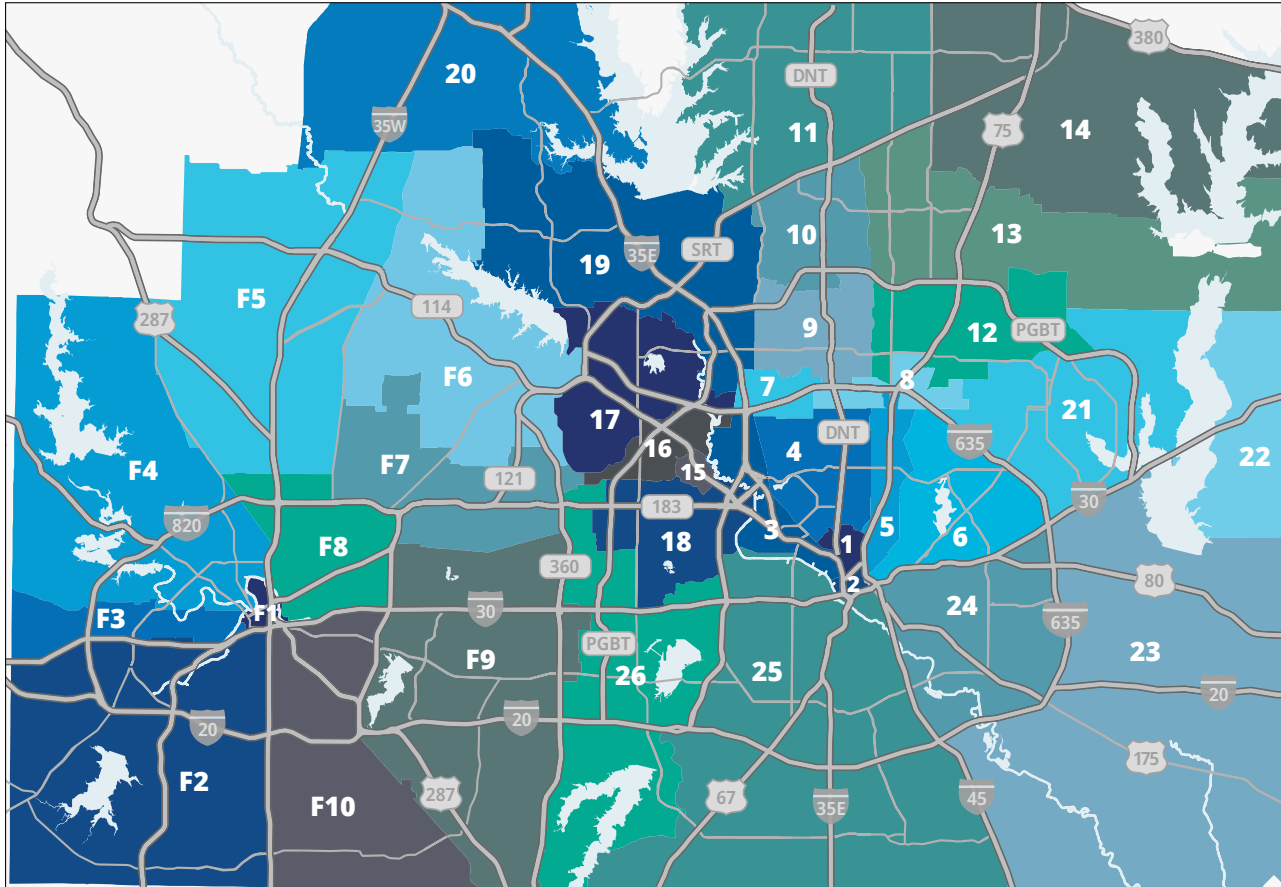
Market Indicators - Dallas

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
South Irving	1,056,421	104,818	9.6%	-	9.9%	9.6%	(5,745)	53,651	0	-	\$18.02
Lewisville	4,314,014	1,236,193	17.7%	15.9%	29.1%	17.7%	15,425	(26,374)	24,000	\$33.62	\$23.69
Denton	1,268,936	41,648	4.7%	-	3.3%	4.7%	2,274	36,153	0	-	\$25.93
Garland	676,897	177,460	24.0%	-	26.2%	24.0%	(7,410)	(7,913)	0	-	\$15.11
Rockwall	367,314	23,950	0.1%	11.8%	0.5%	0.1%	(19,098)	(9,272)	0	-	-
Mesquite/Terrell/Forney	396,234	19,279	4.9%	0.0%	5.2%	4.9%	1,509	685	0	-	\$15.45
Southeast Dallas	599,231	27,653	4.6%	-	4.6%	4.6%	1,650	(513)	0	-	\$18.99
Oak Cliff/Southwest Dallas	2,040,905	389,883	19.0%	42.2%	9.6%	19.0%	26,360	33,373	0	\$26.82	\$24.95
Grand Prairie	3,578,743	1,605,900	41.5%	92.6%	13.9%	41.5%	(43,961)	(56,454)	0	\$28.25	\$19.58
TOTAL - DALLAS	241,204,055	68,026,000	27.5%	28.2%	27.1%	19.2%	(763,683)	878,549	5,565,826	\$45.64	\$27.73

Market Indicators - Fort Worth

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
Fort Worth CBD	8,833,393	1,289,838	14.6%	14.7%	14.6%	12.9%	152,546	325,029	0	\$36.08	\$26.10
Southwest Fort Worth	4,512,377	765,945	16.9%	11.0%	19.1%	14.4%	29,194	123,859	0	\$32.98	\$24.85
West Fort Worth	2,116,769	457,222	20.0%	22.9%	16.4%	13.3%	(1,842)	103,317	173,282	\$44.60	\$22.48
Northwest Fort Worth	282,621	30,645	10.8%	10.5%	11.3%	16.2%	3,700	43,491	0	-	\$26.81
Alliance	2,994,102	769,978	24.6%	18.4%	36.8%	8.7%	(52,277)	(3,636)	135,000	\$33.85	\$32.12
Westlake/Grapevine	7,943,416	1,783,847	22.1%	18.6%	35.6%	14.2%	92,078	(67,858)	143,499	\$38.04	\$27.05
HEB/Mid-Cities	5,497,976	798,952	14.5%	3.2%	22.7%	10.6%	(74,763)	(198,557)	0	\$23.32	\$19.24
Northeast Fort Worth	3,059,558	341,459	11.2%	0.0%	12.9%	10.3%	31,570	(4,634)	0	-	\$21.75
Arlington/Mansfield	5,762,691	1,292,119	22.2%	18.0%	22.5%	16.8%	(36,821)	(285,483)	61,500	\$24.26	\$22.56
Southeast Fort Worth	952,525	136,518	14.3%	0.0%	14.3%	11.0%	(11,759)	(56,879)	0	-	\$16.91
TOTAL - FORT WORTH	41,955,428	7,666,523	18.0%	15.0%	20.3%	13.0%	131,626	(21,351)	513,281	\$36.97	\$23.36

*See page 7 for definition of Net Absorption.



OFFICE SUBMARKETS

- 1** Uptown/Turtle Creek
- 2** Dallas CBD
- 3** Stemmons Freeway
- 4** Preston Center
- 5** Central Expressway
- 6** Deep Ellum/East Dallas
- 7** West LBJ
- 8** East LBJ
- 9** Lower Tollway
- 10** Upper Tollway/West Plano
- 11** Upper Tollway/Frisco
- 12** Richardson
- 13** Plano
- 14** Allen/McKinney
- 15** Las Colinas Urban Center
- 16** Las Colinas Office Center
- 17** DFW Freeport/Coppell
- 18** South Irving
- 19** Lewisville
- 20** Denton
- 21** Garland
- 22** Rockwall
- 23** Mesquite/Forney/Terrell
- 24** Southeast Dallas
- 25** Oak Cliff/Southwest Dallas
- 26** Grand Prairie
- F1** Fort Worth CBD
- F2** Southwest Fort Worth
- F3** West Fort Worth
- F4** Northwest Fort Worth
- F5** Alliance
- F6** Westlake/Grapevine
- F7** HEB/Mid-Cities
- F8** Northeast Fort Worth
- F9** Arlington/Mansfield
- F10** Southeast Fort Worth

FOR MORE INFORMATION

Andrew Matheny
 Research Manager
Andrew.Matheny@transwestern.com
 972.774.2529

Seth Kassaroff
 Analyst
Seth.Kassaroff@transwestern.com
 214.292.6446

RESEARCH METHODOLOGY

Includes Class A & B office properties 20,000 SF and larger. Owner-occupied properties are included, while medical office and government-owned buildings are excluded.

Core Assets: Core and Core Plus (Class AA/A) assets, beneficiaries of the "flight to quality" trend. Covers 455 properties, 113 million SF.

Non-Core Assets: All other Class A-/B office. Covers 1,653 properties, 176 million SF.

Net Absorption: Calculated as "net leasing" or change in committed (Total Available) space. See complete definition on page 7.

Vacancy: Direct vacant space with immediate availability

Asking Rent: Weighted average of direct gross rents

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from **33 U.S. offices**, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.