



TRANSWESTERN

# DALLAS+FORT WORTH OFFICE MARKET Q2 2023



## TRENDLINES

|                          | Q2 2023    | ONE YEAR AGO | TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|--------------------------|------------|--------------|-------|-------------------|-------------------|
| Office-Using Job Growth  | +10,700    | +21,200      | ↑     | +13,200           | ↑/→               |
| Total Available          | 26.3%      | 25.6%        | ↑     | 23.6%             | ↑                 |
| Net Absorption*          | 535,000    | 1,129,000    | ↓     | 23,000            | ↓                 |
| Sublease Space           | 10,813,000 | 9,886,000    | ↑     | 8,169,000         | ↑                 |
| Vacancy                  | 18.8%      | 17.7%        | ↑     | 16.5%             | ↑                 |
| Asking Rent - Dallas     | \$35.27    | +4.6%        | ↑     | +4.7%             | ↑/→               |
| Asking Rent - Fort Worth | \$28.67    | +1.3%        | ↑     | +3.1%             | ↑/→               |
| Under Construction       | 5,295,000  | 7,081,000    | ↓     | 6,568,000         | ↓                 |

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

Sources: Transwestern Research, Texas Workforce Commission, CoStar

## Headwinds Continue For Office Market

Tightening financial conditions and slowing job growth continue to create headwinds for the DFW office market. Net absorption rebounded to positive 535,000 SF due to Wells Fargo breaking ground on its new campus in Las Colinas. Excluding this transaction, net absorption would have remained negative for the third consecutive quarter at (378,000 SF). Sublease space inched down to 10.8 million SF. Vacancy rose to 18.8%, surpassing highs of the Great Financial Crisis. Rent growth slowed to 4.4% year-over-year due to lower leasing activity.

Transwestern expects the leasing environment to remain challenged by tighter financial conditions. Hiring continues at a slower pace after nearly two years of record growth, leading to weaker demand for office space. Availability & Vacancy will continue inching up and rent growth will continue moderating with slower price discovery. That said, population and job growth in DFW will support office in the next cycle.



ECONOMY

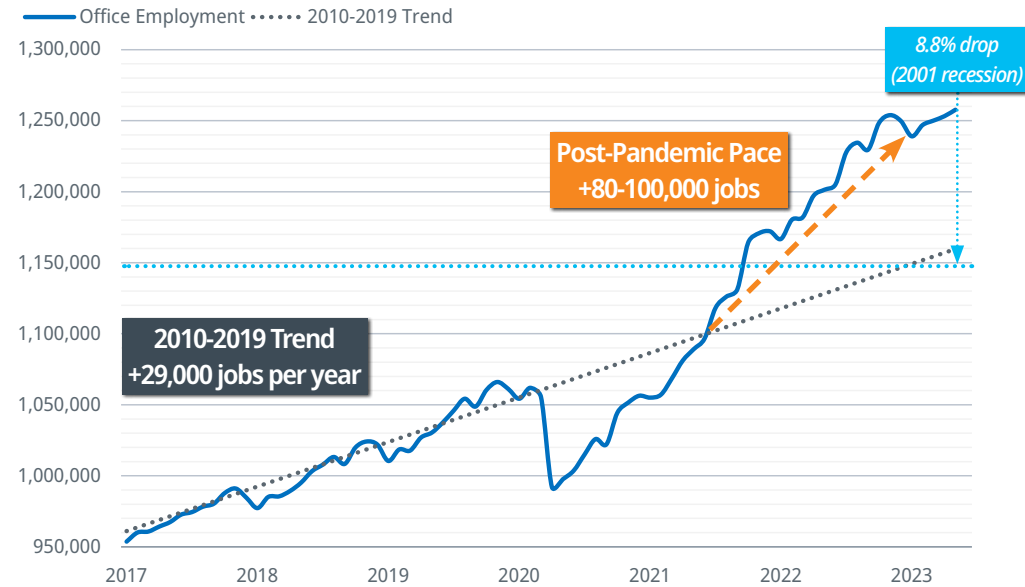
### Hiring Continues At Slower Pace

- DFW firms added 39,000 jobs over the last three months. Job growth over the last year totals 172,300 jobs or 4.2%.
- Hiring in key office-using industries continues at a slower pace. Employment remains at all-time highs of 1,258,000 jobs, or **18.4%** above pre-pandemic levels.
- In the latest Dallas Fed survey, service sector firms noted worsening outlooks but that growth should continue at a slower pace.

Trends To Watch:

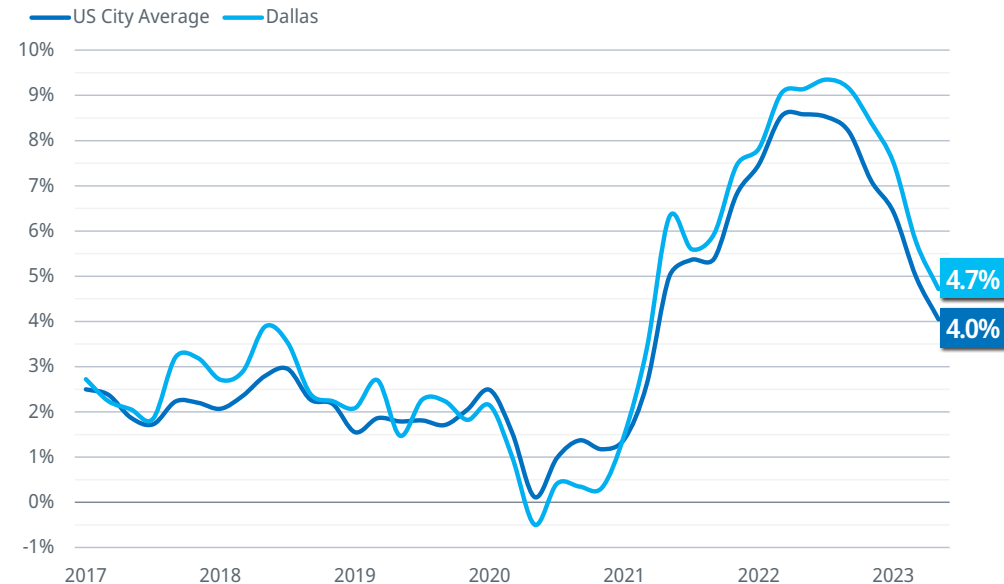
- **Robust job growth may cushion the office market:** In the 2001 recession, employment in key office industries contracted 8.8%. If the next downturn follows a similar path, office employment declines to 1,147,000 jobs—but this would be 8.4% **above** pre-pandemic levels, or essentially a return to the long-term growth trend following the Great Financial Crisis (GFC).
- **Some job cuts already baked in:** Firms reduced footprints with remote/hybrid work, leading to negative absorption for office despite job *growth*. Vacancy will certainly rise in a downturn, but the rise may be modest: layoffs of *remote* employees do not impact firms' need for space as much as layoffs of office workers.
- **No risk of over-building:** Recessions typically follow over-building, leading to 'hyper supply' where deliveries outpace demand and vacancy soars. Before the GFC, DFW had nearly 9.0 million SF under construction; today just 5.3 million SF is underway. New supply will likely have limited impacts on vacancy.
- **Differentiated supply:** Flight to quality widened rent and vacancy spreads between Core (Class AA/A) and Non-Core (Class A-/B) assets. 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 - MAY 2023



Source: Transwestern Research, Bureau of Labor Statistics



RENTAL RATES

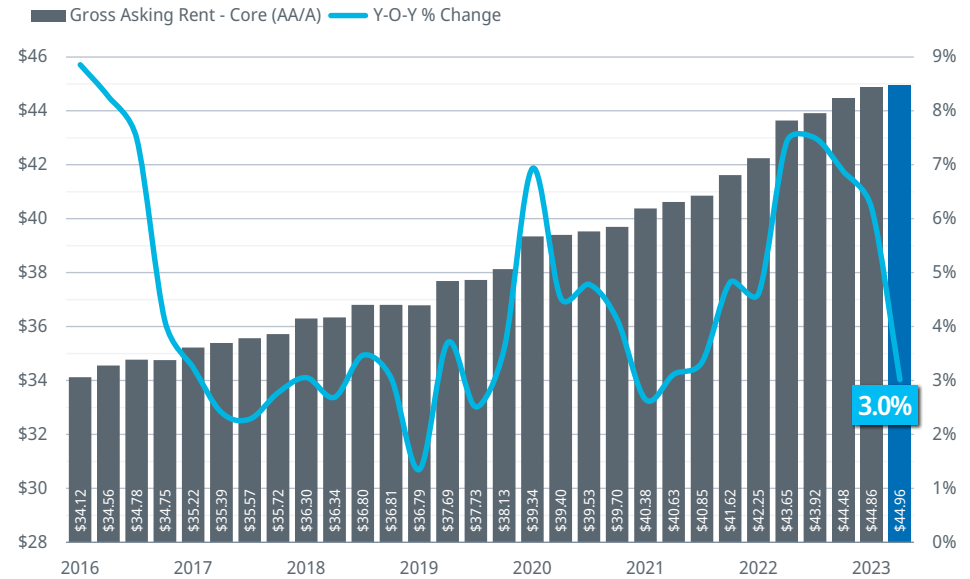
### Rent Growth Slows With Space Demand

- Asking rents in Core (Class AA/A) properties reached \$44.96 per SF, up 3.0% from last year.
- Rents in Non-Core (Class A-/B) properties reached \$27.68 per SF, up 5.6% from last year.
- Better properties in better submarkets are outperforming these averages.
- Lower leasing volumes have hindered price discovery, leading to slower rent growth overall. Most properties are continuing to implement annual escalations or hold firm.
- The rent spread between Core and Non-Core assets—which determines the potential upside for value-add investments—is 62% and remains near its highest level in over 10 years.

#### Outlook:

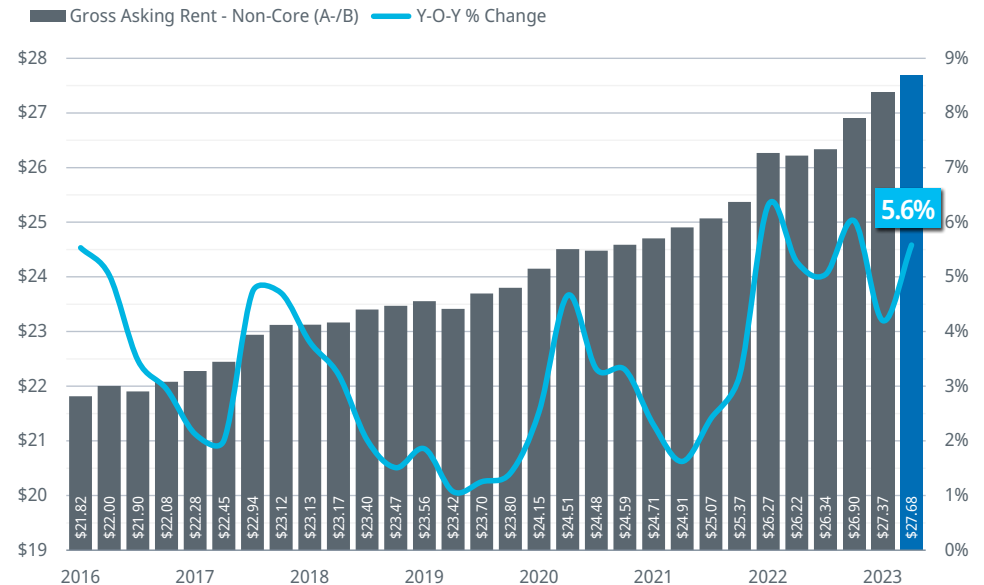
- In the last two recessions, same-store rents declined -13.9% between 2000–2003 and -4.3% between 2007–2010.
- Rents have increased 10.1% over the last three years, providing some cushion for property values. Same-store rents have increased 11.4% in Core (AA/A) assets and 9.7% in Non-Core (A-/B) assets.
- 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

### Absorption Rebounds With BTS Activity

- Net absorption rebounded to positive 534,790 SF this quarter. Nevertheless, 12-month net absorption weakened further to positive 387,900 SF.
- Total Availability remains at all-time highs of 26.3% or 76.3 million SF.
- Vacancy increased with deliveries:
  - Vacancy in Core (AA/A) assets climbed to 17.1%, as deliveries brought 908,000 SF of vacant space to market this quarter. These deliveries were confined to suburban and periphery submarkets.
  - Vacancy in Non-Core (A-/B) assets inched up to 19.8%.
- The amount of sublease space on market decreased to 10.8 million SF from its record level in the first quarter.

#### Outlook For The Next 12 Months:

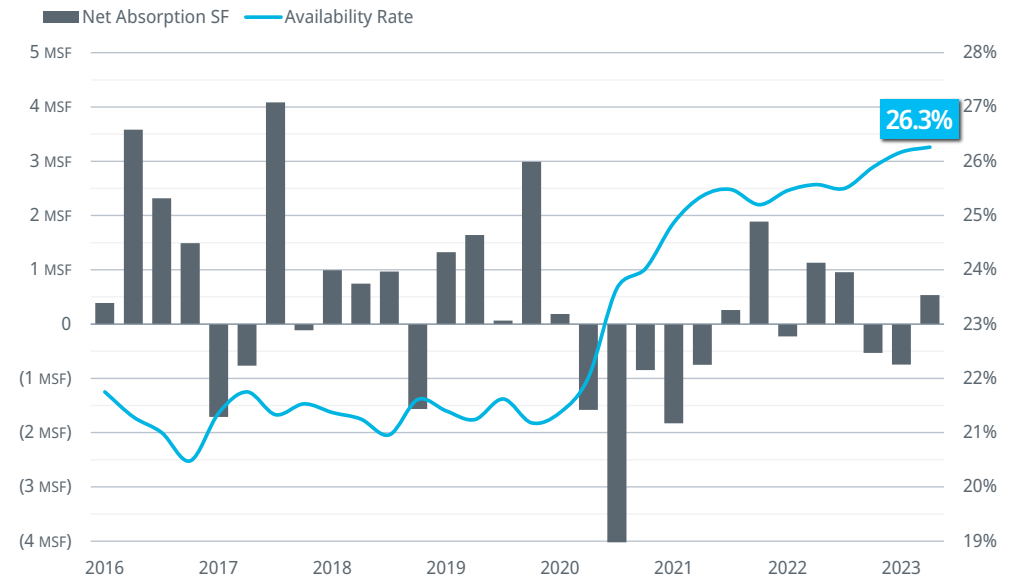
- Vacancy & Availability are likely to continue rising as space demand remains below average with tight credit conditions.
- Net Absorption will see at least one more positive quarter in 2023 as Goldman Sachs breaks ground on its 1 million SF campus in Uptown.
- Vacancy will climb in Uptown & Stemmons with deliveries of Maple Terrace, Harwood No. 14, River Edge, 1333 Oak Lawn, and The Quad.

#### NOTABLE LEASES

| TENANT                    | SF      | TYPE | BUILDING                     | SUBMARKET                 |
|---------------------------|---------|------|------------------------------|---------------------------|
| Fossil                    | 255,000 | Ren  | 901 S Central Expy           | Richardson                |
| Texas Air Systems         | 103,500 | New  | Royal Ridge II               | Las Colinas/DFW Freeport  |
| FlexPort                  | 71,100  | New  | One Galleria Tower           | Lower Tollway             |
| Javelin Energy Partners   | 70,100  | New  | Las Colinas Corporate Center | Las Colinas/Office Center |
| Clarion Partners          | 43,500  | New  | One Victory Park             | Uptown/Turtle Creek       |
| Simon Greenstone Panatier | 28,400  | New  | Bank of America Plaza        | Dallas CBD                |
| NY Life                   | 23,900  | New  | Pinnacle Tower               | Lower Tollway             |
| Perry Weather             | 22,300  | New  | The Centrum                  | Uptown/Turtle Creek       |

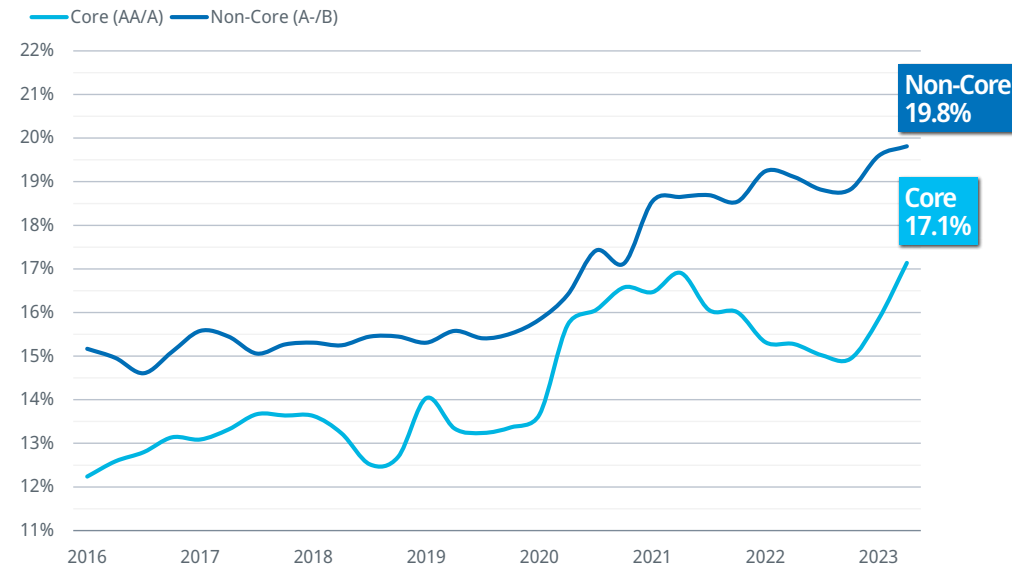
Source: Transwestern Research

#### NET ABSORPTION & AVAILABILITY



Source: Transwestern Research, CoStar

#### VACANCY



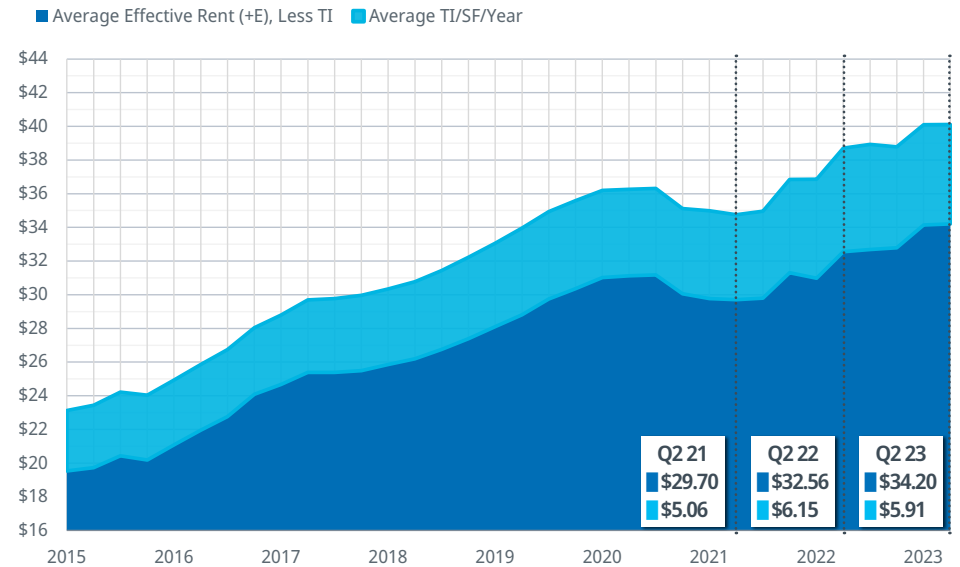
Source: Transwestern Research, CoStar

TERMS & CONCESSIONS

### Effective Rents Grow Despite Concessions

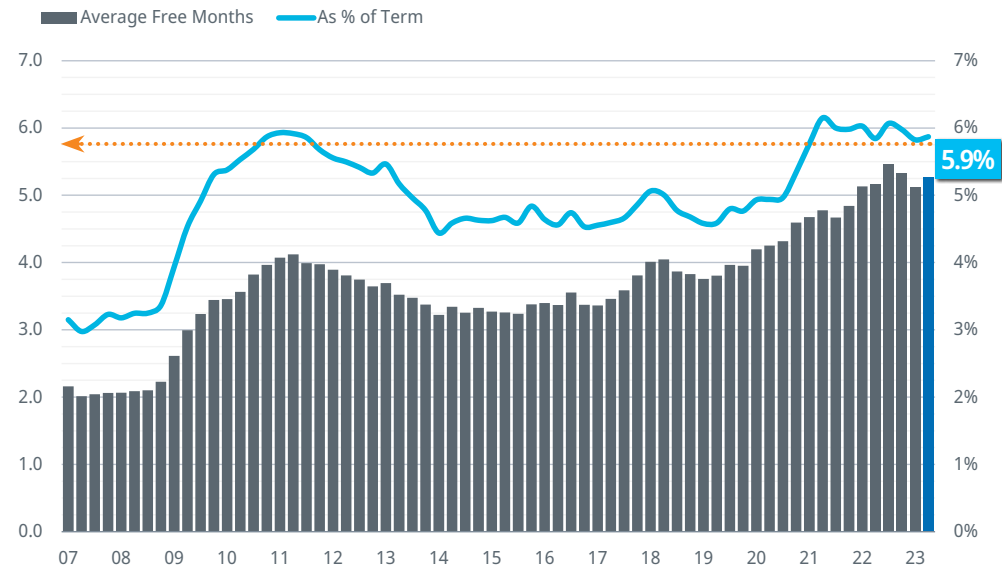
- With rising vacancy, landlords are offering concessions at levels typically seen in recessions. In most properties, asking rent growth is strong enough to overwhelm concessions and keep effective rents flat or growing.
- Average effective rent reached \$38.73 +E, or 10% above pre-pandemic levels. Excluding tenant improvement (TI) allowances, average effective rents exceed \$34.20 +E or 9.7% above pre-pandemic levels.
- TI allowances remain at historic highs of \$41.61 per SF, or \$5.91 per SF per year when considering lease term. TI allowances have grown by 20% over the last three years.
- Average rent abatement remains elevated at 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 properties or in submarkets with tight vacancy rates should make moves now, as these spaces may only experience modest rent decreases in a downturn due to flight to quality.
  - Tenants considering sublease space can begin to move as discounts are rising. Balance sheet pressures may lead companies to further discount their sublease offerings over the next 6-12 months.
  - Tenants exploring space in high vacancy, obsolete, or foreclosed properties should consider postponing decisions to take advantage of rent cuts. That said, tenants should be cautious and ensure future property income can maintain services and amenities through their lease term.

### AVERAGE RENT & TENANT IMPROVEMENT ALLOWANCE



Source: Transwestern Research, 12-month rolling average.

### AVERAGE RENT ABATEMENT



Source: Transwestern Research, 12-month rolling average.

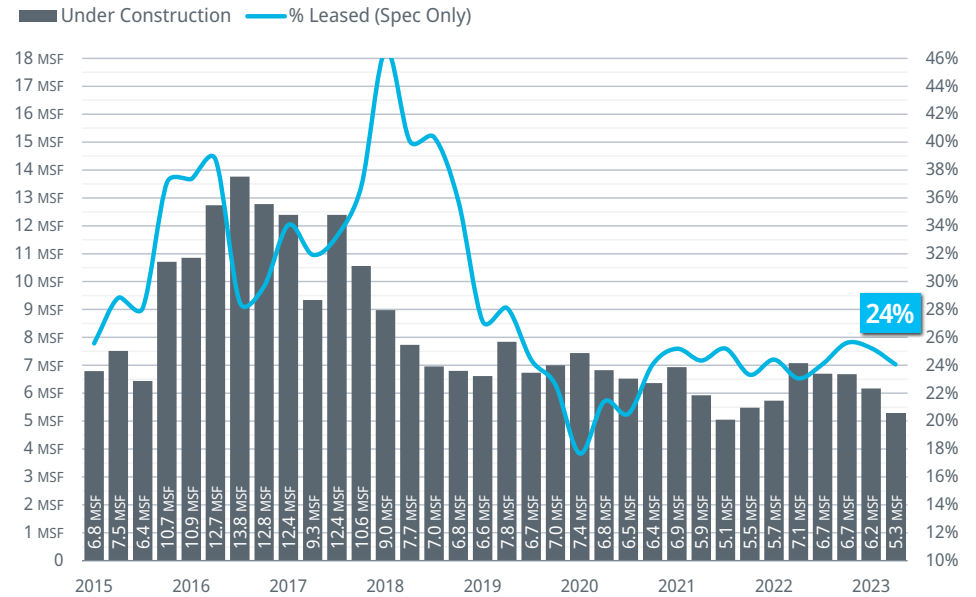


CONSTRUCTION & CAPITAL MARKETS

### Construction Falls To Decade Lows

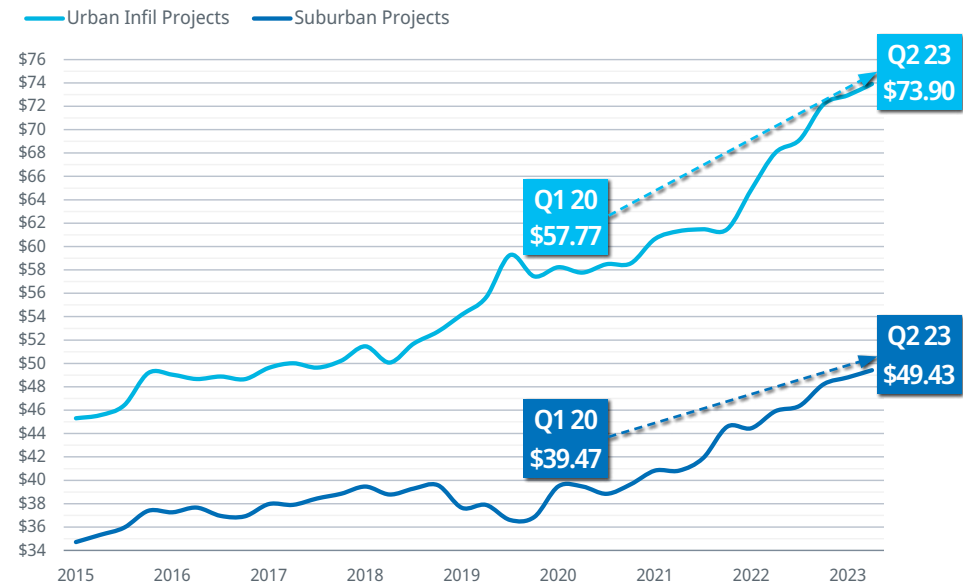
- Escalating costs and strong demand have increased rents in both urban and suburban projects. Pre-leasing in speculative projects remains stable at 24%.
- Developers are placing speculative projects on hold as financing has become difficult to obtain.
- Deliveries totaled 1.9 million SF this quarter, concentrated in suburban and periphery submarkets.
- KDC broke ground on Wells Fargo's North Shore campus (860,000 SF in Las Colinas/Urban Center) and Cawley Partners broke ground on The Parkwood II (120,000 SF in Upper Tollway/West Plano).
- Construction fell to 5.3 million SF, its lowest levels in 10 years. Transwestern reiterates that developers should continue new projects: core submarkets are under-built for growth, flight to quality will continue, and demand may be on the rebound in 2024/2025 when projects deliver.
- Rising interest rates continue exerting downward pressure on asset prices. Deal volumes are further restricted by tighter lending standards and lower transaction volumes that make underwriting difficult.
- Notable sales include:
  - Alto 211 (211 N Ervay), 185,000 SF in the Dallas CBD, to Wolfe Investments for multifamily conversion
  - 1010 W Mockingbird Ln, 67,000 SF in Stemmons Freeway, to Dallas County

### 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) |
| <b>Uptown/Turtle Creek</b>       | 15,499,872   | 4,940,245       | 28.5%   | 28.0%       | 30.0%           | 16.7%     | 89,520          | 352,575        | 1,750,932          | \$68.37          | \$45.51         |
| <b>Dallas CBD</b>                | 28,993,924   | 10,237,330      | 35.3%   | 31.7%       | 36.5%           | 26.8%     | (291,240)       | (454,398)      | 0                  | \$46.84          | \$27.38         |
| <b>Stemmons Freeway</b>          | 10,846,351   | 2,551,256       | 22.6%   | 31.7%       | 20.6%           | 17.5%     | 67,820          | 111,300        | 266,535            | \$49.33          | \$20.22         |
| <b>Preston Center</b>            | 4,706,098    | 658,324         | 13.3%   | 13.3%       | 13.4%           | 9.4%      | (73,637)        | 116,603        | 235,600            | \$62.51          | \$49.03         |
| <b>Central Expressway</b>        | 15,378,449   | 4,358,824       | 28.3%   | 32.6%       | 27.0%           | 21.1%     | (101,976)       | (374,444)      | 0                  | \$41.11          | \$32.78         |
| <b>Deep Ellum/East Dallas</b>    | 2,032,648    | 852,226         | 41.9%   | 56.9%       | 17.8%           | 21.5%     | (30,610)        | (12,331)       | 0                  | \$49.30          | \$20.16         |
| <b>West LBJ Freeway</b>          | 4,006,865    | 1,200,134       | 30.0%   | -           | 30.0%           | 21.9%     | 67,061          | 4,766          | 0                  | -                | \$19.45         |
| <b>East LBJ Freeway</b>          | 6,210,909    | 2,159,385       | 34.8%   | 0.0%        | 34.9%           | 29.7%     | (31,509)        | (154,837)      | 0                  | -                | \$21.15         |
| <b>Lower Tollway</b>             | 27,089,180   | 6,653,651       | 24.5%   | 25.4%       | 24.0%           | 18.5%     | 95,701          | 333,176        | 38,266             | \$43.15          | \$26.19         |
| <b>Upper Tollway/West Plano</b>  | 32,905,300   | 9,842,497       | 29.1%   | 26.4%       | 32.6%           | 21.4%     | (190,776)       | 1,088,807      | 967,811            | \$44.78          | \$35.94         |
| <b>Upper Tollway/Frisco</b>      | 6,183,807    | 1,783,051       | 24.3%   | 24.2%       | 24.4%           | 10.4%     | 4,180           | (31,531)       | 1,153,889          | \$57.50          | \$36.85         |
| <b>Richardson</b>                | 20,089,766   | 5,477,892       | 27.3%   | 27.0%       | 27.5%           | 17.2%     | (304,134)       | (545,419)      | 0                  | \$31.57          | \$24.38         |
| <b>Plano</b>                     | 6,010,681    | 1,126,306       | 18.7%   | 28.9%       | 14.1%           | 13.0%     | (18,963)        | (252,557)      | 0                  | \$30.43          | \$23.67         |
| <b>Allen/McKinney</b>            | 6,367,707    | 971,520         | 15.3%   | 19.6%       | 13.3%           | 12.0%     | 72,330          | 189,984        | 0                  | \$39.57          | \$29.53         |
| <b>Las Colinas/Urban Center</b>  | 9,505,596    | 2,682,106       | 25.9%   | 23.7%       | 28.2%           | 19.7%     | 942,598         | 619,736        | 858,024            | \$39.94          | \$29.39         |
| <b>Las Colinas/Office Center</b> | 15,949,233   | 3,797,625       | 23.8%   | 29.3%       | 19.2%           | 16.0%     | 61,203          | (247,589)      | 0                  | \$33.45          | \$22.60         |
| <b>Las Colinas/DFW Freeport</b>  | 16,496,002   | 5,722,960       | 34.7%   | 23.9%       | 39.4%           | 20.6%     | 91,182          | (527,269)      | 0                  | \$37.91          | \$26.21         |

\*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.



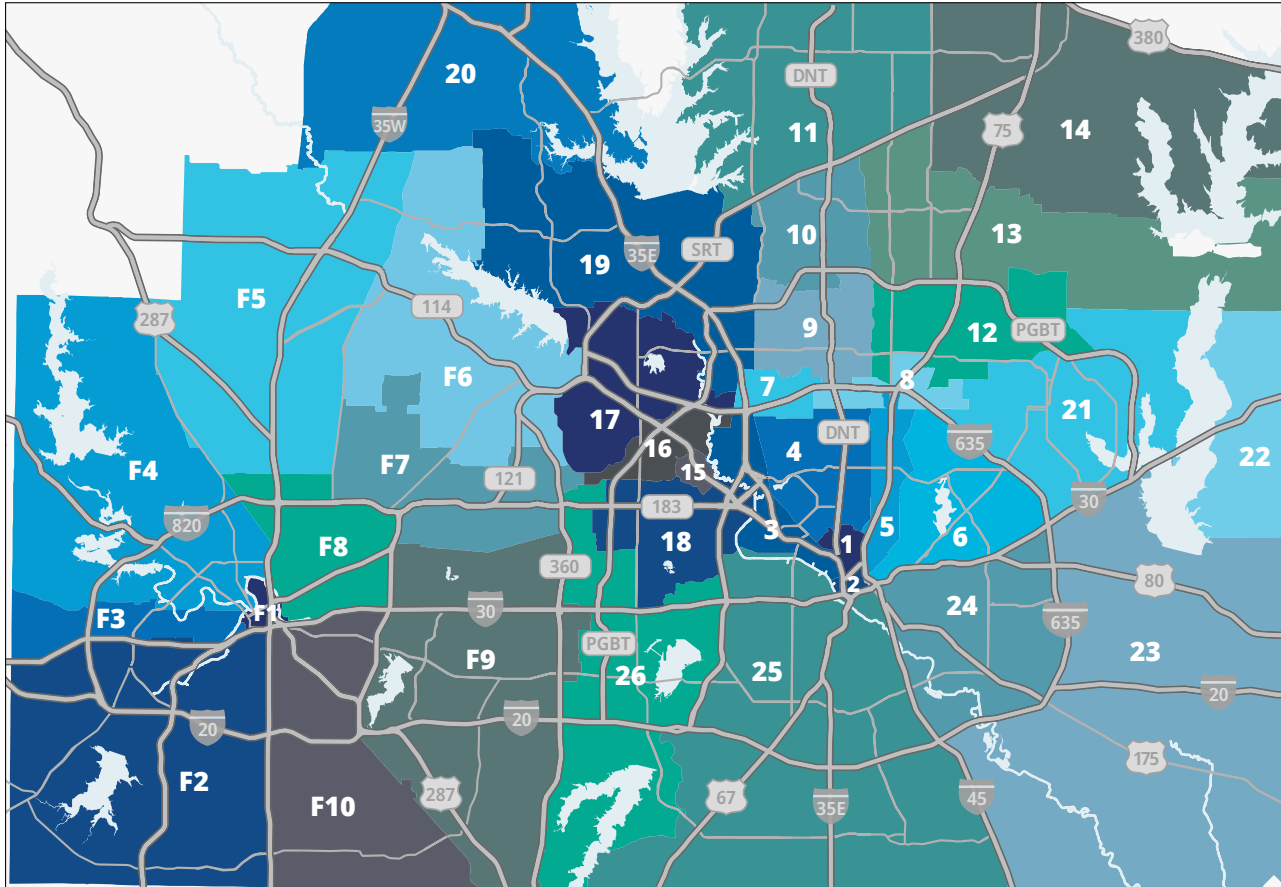
## Market Indicators - Dallas

| 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          | 103,870           | 9.8%         | -            | 9.8%            | 9.6%         | 948             | 31,725         | 0                  | -                | \$18.02         |
| Lewisville                 | 4,314,014          | 1,347,353         | 30.2%        | 44.1%        | 28.5%           | 15.9%        | (52,619)        | (73,063)       | 24,000             | \$34.80          | \$25.30         |
| Denton                     | 1,268,936          | 49,492            | 3.9%         | -            | 3.9%            | 3.7%         | (7,844)         | 32,584         | 0                  | -                | \$25.94         |
| Garland                    | 676,897            | 143,783           | 21.2%        | -            | 21.2%           | 18.4%        | 33,677          | 34,403         | 0                  | -                | \$15.38         |
| Rockwall                   | 367,314            | 19,788            | 5.4%         | 9.7%         | 0.5%            | 1.9%         | 4,162           | (10,687)       | 0                  | -                | -               |
| Mesquite/Terrell/Forney    | 396,234            | 19,279            | 4.9%         | 0.0%         | 5.2%            | 4.9%         | 0               | 2,799          | 0                  | -                | \$15.45         |
| Southeast Dallas           | 599,231            | 27,806            | 4.6%         | -            | 4.6%            | 4.6%         | (153)           | (666)          | 0                  | -                | \$19.10         |
| Oak Cliff/Southwest Dallas | 2,040,905          | 390,905           | 19.2%        | 42.5%        | 9.5%            | 18.9%        | (1,022)         | 28,221         | 0                  | \$26.52          | \$23.34         |
| Grand Prairie              | 3,578,743          | 1,571,875         | 43.9%        | 92.6%        | 12.3%           | 41.1%        | 34,025          | 12,310         | 0                  | \$28.35          | \$19.58         |
| <b>TOTAL - DALLAS</b>      | <b>242,571,083</b> | <b>68,689,483</b> | <b>27.7%</b> | <b>28.3%</b> | <b>27.3%</b>    | <b>19.6%</b> | <b>459,924</b>  | <b>274,198</b> | <b>5,295,057</b>   | <b>\$45.78</b>   | <b>\$28.14</b>  |

## 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            | 8,533,046         | 1,134,557        | 13.3%        | 13.8%        | 12.8%           | 11.8%        | 155,281         | 371,196        | 0                  | \$36.24          | \$27.08         |
| Southwest Fort Worth      | 4,512,377         | 796,735          | 17.5%        | 10.8%        | 20.1%           | 14.7%        | (30,790)        | 85,795         | 0                  | \$31.92          | \$25.25         |
| West Fort Worth           | 2,290,051         | 427,953          | 18.7%        | 21.8%        | 15.0%           | 17.6%        | 29,269          | 100,646        | 0                  | \$45.24          | \$29.01         |
| Northwest Fort Worth      | 282,621           | 71,103           | 25.2%        | 36.9%        | 9.9%            | 24.3%        | (40,458)        | (1,046)        | 0                  | -                | \$26.72         |
| Alliance                  | 3,129,102         | 730,214          | 23.3%        | 17.5%        | 34.8%           | 11.7%        | 39,764          | 40,238         | 0                  | \$34.02          | \$33.39         |
| Westlake/Grapevine        | 8,086,915         | 1,787,326        | 22.1%        | 18.8%        | 35.0%           | 16.4%        | (3,679)         | (33,882)       | 0                  | \$38.16          | \$26.89         |
| HEB/Mid-Cities            | 5,497,976         | 841,448          | 15.3%        | 3.2%         | 24.0%           | 11.8%        | (42,496)        | (185,227)      | 0                  | \$23.82          | \$19.12         |
| Northeast Fort Worth      | 3,059,558         | 296,024          | 9.7%         | 0.0%         | 11.2%           | 12.0%        | 45,435          | 51,991         | 0                  | -                | \$20.01         |
| Arlington/Mansfield       | 5,824,191         | 1,378,996        | 23.7%        | 22.4%        | 23.8%           | 17.6%        | (86,877)        | (304,218)      | 0                  | \$23.75          | \$22.50         |
| Southeast Fort Worth      | 952,525           | 127,101          | 13.3%        | 0.0%         | 13.3%           | 10.7%        | 9,417           | (11,807)       | 0                  | -                | \$16.22         |
| <b>TOTAL - FORT WORTH</b> | <b>42,168,362</b> | <b>7,591,457</b> | <b>18.0%</b> | <b>15.1%</b> | <b>20.2%</b>    | <b>14.2%</b> | <b>74,866</b>   | <b>113,686</b> | <b>0</b>           | <b>\$36.80</b>   | <b>\$23.46</b>  |

\*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

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### 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 461 properties, 114 million SF.

**Non-Core Assets:** All other Class A-/B office. Covers 1,652 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](http://transwestern.com).