

Office market activity slows at year-end, anchor tenanted projects fuel uptick in construction



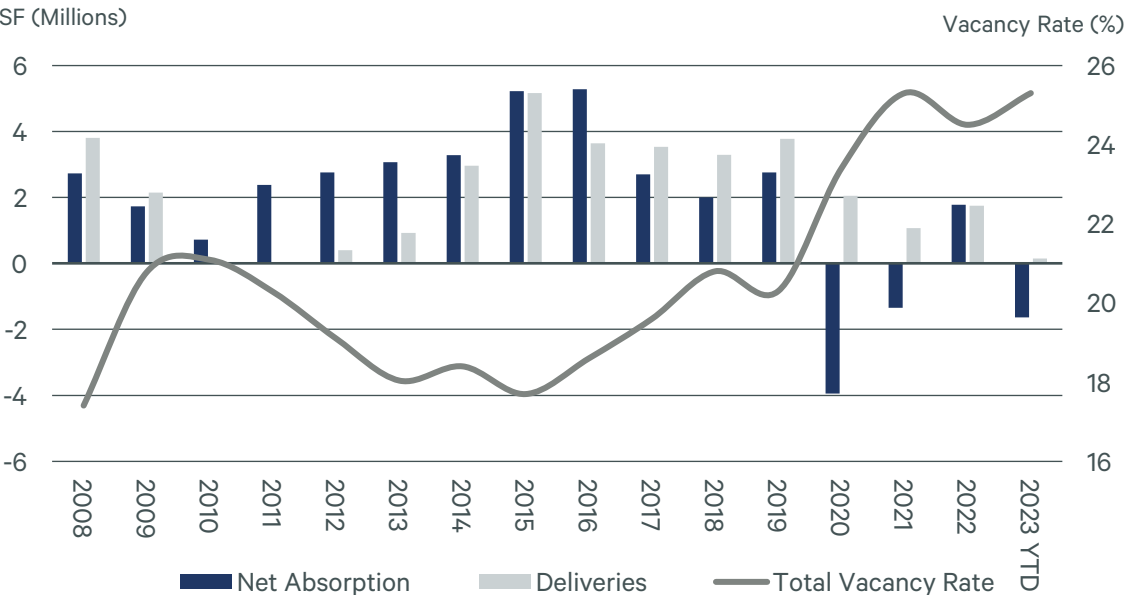
Note: Arrows indicate change from previous quarter.

Market Overview

- The office-using industry sectors collectively added 53,600 jobs throughout the last 12 months ending November 2023 and continued to surpass the total DFW job growth rate.
- Net absorption was in negative territory again this quarter, bumping vacancy up to 25.3%.
- Two-thirds of the total negative net absorption stemmed from Class B assets.
- Construction activity increased to 5.2 million sq. ft., or 2.3% of existing office inventory.
- Large tenant requirements continue to exceed levels from the previous year but are down slightly from last quarter and fall short of the 2018/2019 average by 32%.

Market-wide net absorption, a metric based on physical occupancy, logged more than -1.6 million sq. ft. for the quarter as move-outs exceeded new occupancy. As a result, total vacancy (direct plus sublease) increased from 25.1% to 25.3%, translating to about 58 million sq. ft. of vacant office space spread across DFW. Most of this activity occurred in Class B properties, a trend that has persisted in Dallas for several quarters. Moreover, areas that are highly amenitized and walkable, like Uptown/Turtle Creek, Preston Center, and Frisco/The Colony, saw positive net absorption for the year, as well as a relatively high amount of new construction.

Figure 1: Historical Net Absorption and Vacancy



Source: CBRE Research, Q4 2023.

State of the Sublease Market

Sublease availability experienced a slight reduction over the quarter, declining by about 2.0% from Q3 2023 and standing at 10.4 million sq. ft. at year-end throughout CBRE Research’s tracked dataset. More than three-fourths of that amount is attributed to Class A spaces on the market. As of Q4 2023, sublease availability represented 4.5% of total inventory and 15.5% of total availability, both higher than last quarter’s proportions. About 62% of current sublease listings are vacant and available for immediate occupancy, with many spaces offering a plug and play option including furniture, fixtures, and equipment.

In terms of big block sublease availability, there were 27 additions throughout Q4 2023, ranging from 20,000 sq. ft. to Reata Pharmaceutical’s 330,000-sq.-ft. listing in Plano. A significant number of these new listings were in suburban submarkets spanning an array of industries, but particularly Upper Tollway/West Plano and healthcare, respectively.

Office Leasing

Leasing activity for deals 10,000 sq. ft. and larger, a leading indicator of net absorption, ticked up from Q3 2023 by 12% in terms of total square footage leased, alongside an increase in share of renewals. Areas within DFW that saw the highest levels of overall/gross leasing activity relative to the rest of the market include Upper Tollway/West Plano, Central Expressway, Freeport, and Uptown/Turtle Creek. Large tenant requirements continue to exceed levels from the previous year but are down slightly from last quarter and fall short of the 2018/2019 average by 32%. This metric tracks occupiers who are actively in the market for new space, lease renewals, and expansions.

Development Pipeline

Ongoing development gained square footage as two notable lead tenant projects broke ground in Uptown, along with a significant mixed-used development along Knox Street. Goldman Sachs broke ground on its 800,000-sq. ft. campus in Uptown during October, which will be the company’s second-largest location and ultimately officing 5,000 employees. Additionally, Parkside Uptown is now underway, which will partially house Bank of America’s Dallas office upon completion in 2027. Collectively, multitenant projects combined with leased, single tenant build-to-suits were 41% pre-leased at year-end.

Figure 2: Sublease Availability



Figure 3: Significant Leases/Sales of the Quarter

Tenant/Buyer	Building Name	Submarket	Total Sq. Ft.
JBJ Companies	4000 International	Far North Dallas	159,830
General Radar	4101 International	Far North Dallas	113,628
3Edgewood	City Line Business Park	Richardson/Plano	2,262,902
Shelbourne Global Solutions	Plaza of the Americas	Dallas CBD	1,222,583

Source: CBRE Research, Q4 2023.

Local Economy

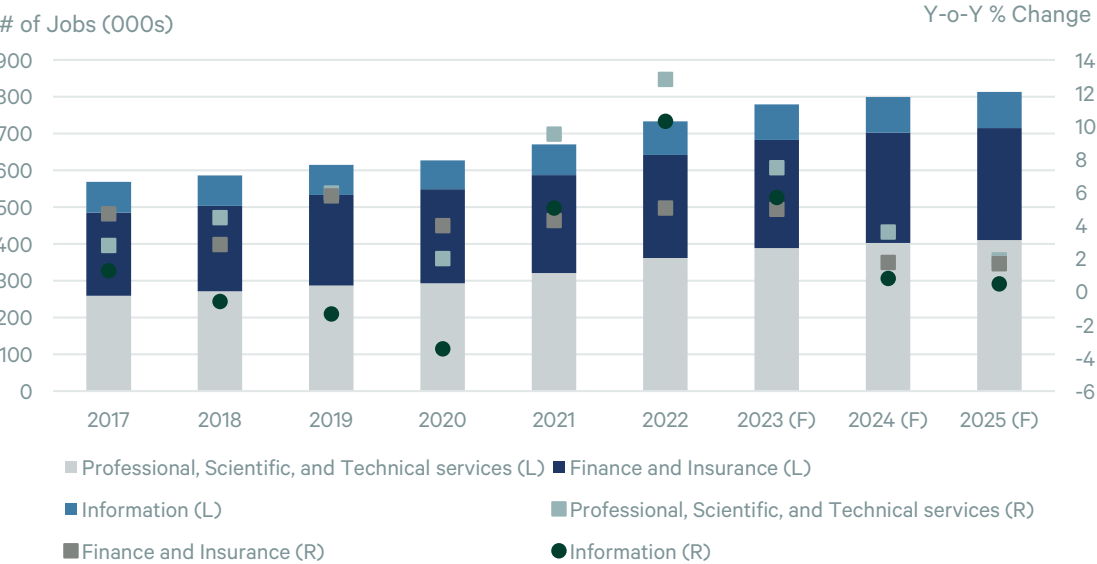
Dallas/Fort Worth continues to outperform the U.S. and other large metro areas in terms of population and employment growth, which have historically fueled office demand. The DFW metro area most recently added a strong 139,700 jobs over the 12 months ending November 2023, according to preliminary monthly data from the Bureau of Labor Statistics. This equates to a 3.3% annual growth rate, outpacing all other large metro areas in terms of both job growth rate and number of jobs added. The office-using sector—consisting of Professional & Business Services, Financial Activities, and Information sectors—collectively added 53,600 jobs within the same 12-month period, a year-over-year rate of 4.3% that surpasses an already solid overall market momentum.

This job growth trajectory emanates from strong population growth that has proliferated throughout Dallas/Fort Worth for decades. The DFW metro area led the U.S. in number of new residents added between 2021 and 2022, the most recent Census Bureau data. Dallas/Fort Worth grew by 2.2% during this time period, adding 170,396 new residents or 467 per day. The DFW metro has consistently surpassed most, if not all, large markets in number of new residents and is projected to surpass Chicago in total size within the next five years, which would make North Texas the third-largest metro area in the country.

National Outlook

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages is helping to maintain higher, albeit decelerating, core inflation. This backdrop will likely translate into the Fed only slowly lower its target rate in 2024; CBRE expects 75 – 100 basis points worth of rate cuts in 2024. This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

Figure 4: DFW Office-Using Employment Historicals and Forecast



Source: Oxford Economics, 2024.

Figure 5: CBRE House View

	2023	2024	2025	2026 - 2029
Fed Funds Rate (Q4)	5.25% to 5.50%	4.25 % to 4.50%	3.00% to 3.25%	2.25% to 2.50%
10-Year Treasury (Q4)	4.6%	3.6%	3.4%	3.3%
GDP (Annual Average)	2.4%	1.2%	1.5%	2.2%
Core PCE (Q4)	3.4%	2.0%	1.7%	1.8%

Source: CBRE Research, Q4 2023.

Figure 6: Dallas/Fort Worth Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q4 2023 Net Absorption	2023 YTD Net Absorption
Central Expressway	10,467,424	23.05	26.25	38.00	-	-	-184,552	-180,979
Class A	7,041,270	25.27	28.36	39.41	-	-	-73,189	-114,176
Class B	3,365,606	18.82	22.30	33.72	-	-	-111,363	-66,803
Dallas CBD	25,652,592	30.42	37.41	32.35	-	-	49,909	-274,933
Class A	20,954,724	30.24	39.69	33.73	-	-	120,753	-19,245
Class B	4,484,511	32.34	28.10	24.23	-	-	-70,844	-268,353
East Dallas	3,008,873	28.23	31.82	33.03	-	-	48,194	93,419
Class A	1,048,478	58.34	65.39	38.20	-	-	0	83,416
Class B	1,611,627	12.57	14.68	27.99	-	-	8,713	7,703
Far North Dallas	45,389,503	25.57	30.17	34.74	1,857,016	-	-580,513	-659,927
Class A	32,095,706	25.89	31.42	38.35	1,857,016	-	-365,869	-136,359
Class B	13,261,970	24.86	27.20	26.18	-	-	-214,644	-523,568

Source: CBRE Research, Q4 2023.

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Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q4 2023 Net Absorption	2023 YTD Net Absorption
Frisco/The Colony*	5,851,604	13.45	20.50	38	-	-	-113,916	166,601
Class A	5,065,709	13.11	20.03	38	-	-	-71,247	244,039
Class B	785,895	15.60	23.55	34	-	-	-42,669	-77,438
Quorum/Bent Tree*	19,236,702	24.28	27.90	29	-	-	-420,030	-596,656
Class A	11,539,166	24.52	31.63	33	-	-	-354,092	-359,321
Class B	7,665,709	24.03	22.42	23	-	-	-65,938	-237,335
Upper Tollway/West Plano*	20,301,197	30.28	35.10	37	-	-	-46,567	-229,872
Class A	15,490,831	31.08	35.00	40	-	-	59,470	-21,077
Class B	4,810,366	27.71	35.41	27	-	-	-106,037	-208,795
Las Colinas	34,115,892	28.32	33.74	30.71	-	-	-289,638	-663,466
Class A	21,780,624	27.08	35.45	31.73	-	-	-167,182	-444,972
Class B	11,737,359	29.99	31.53	29.13	-	-	-104,828	-200,589
LBJ Freeway	19,138,682	26.43	27.13	30.34	-	-	-259,042	-152,144
Class A	11,125,261	21.17	26.37	35.17	-	-	-38,875	153,345
Class B	7,843,859	34.28	28.59	22.88	-	-	-220,167	-316,210

*Micromarket of Far North Dallas submarket
Source: CBRE Research, Q4 2023.

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Lewisville / Denton	3,818,217	22.75	38.28	25.89	147,000	-	-14,129	-202,717
Class A	950,194	10.16	-	25.73	147,000	-	-12,303	26,286
Class B	2,802,271	27.55	38.37	25.94	-	-	-1,826	-229,003
Preston Center	4,722,996	12.49	14.56	47.60	151,000	-	31,143	202,826
Class A	4,032,515	11.78	14.15	50.55	151,000	-	50,395	227,912
Class B	622,803	18.45	18.84	34.98	-	-	-19,252	-25,086
Richardson / Plano	25,562,426	21.95	28.80	24.86	138,193	-	-88,670	-136,296
Class A	14,625,610	21.32	31.48	26.48	102,000	-	-73,374	90,313
Class B	10,720,217	23.10	25.57	23.23	36,193	-	-15,018	-88,186
Allen/McKinney*	2,388,345	27.40	33.13				3,042	3,042
Class A	1,274,213	24.11	26.09				25,925	25,925
Class B	1,082,918	32.07	42.38				-22,883	-22,883
SW Dallas	1,841,811	34.06	25.50	24.16	-	-	-4,202	-253,421
Class A	354,088	67.51	65.86	18.30	-	-	-5,849	-210,953
Class B	1,262,069	27.49	14.83	30.19	-	-	1,647	-18,843
Stemmons Freeway	8,076,290	24.88	21.12	21.15	271,311	-	31,982	37,291
Class A	4,063,710	20.14	16.30	22.81	271,311	-	-8,029	-25,875
Class B	3,613,901	31.70	28.85	19.15	-	-	39,643	50,653
Uptown/Turtle Creek	13,822,181	22.17	26.50	49.45	2,556,766	157,000	81,085	71,334
Class A	12,289,045	22.17	26.96	51.34	2,556,766	157,000	91,251	98,719
Class B	1,395,252	24.28	25.08	38.83	-	-	-10,166	-27,385

*Micromarket of Richardson/Plano submarket

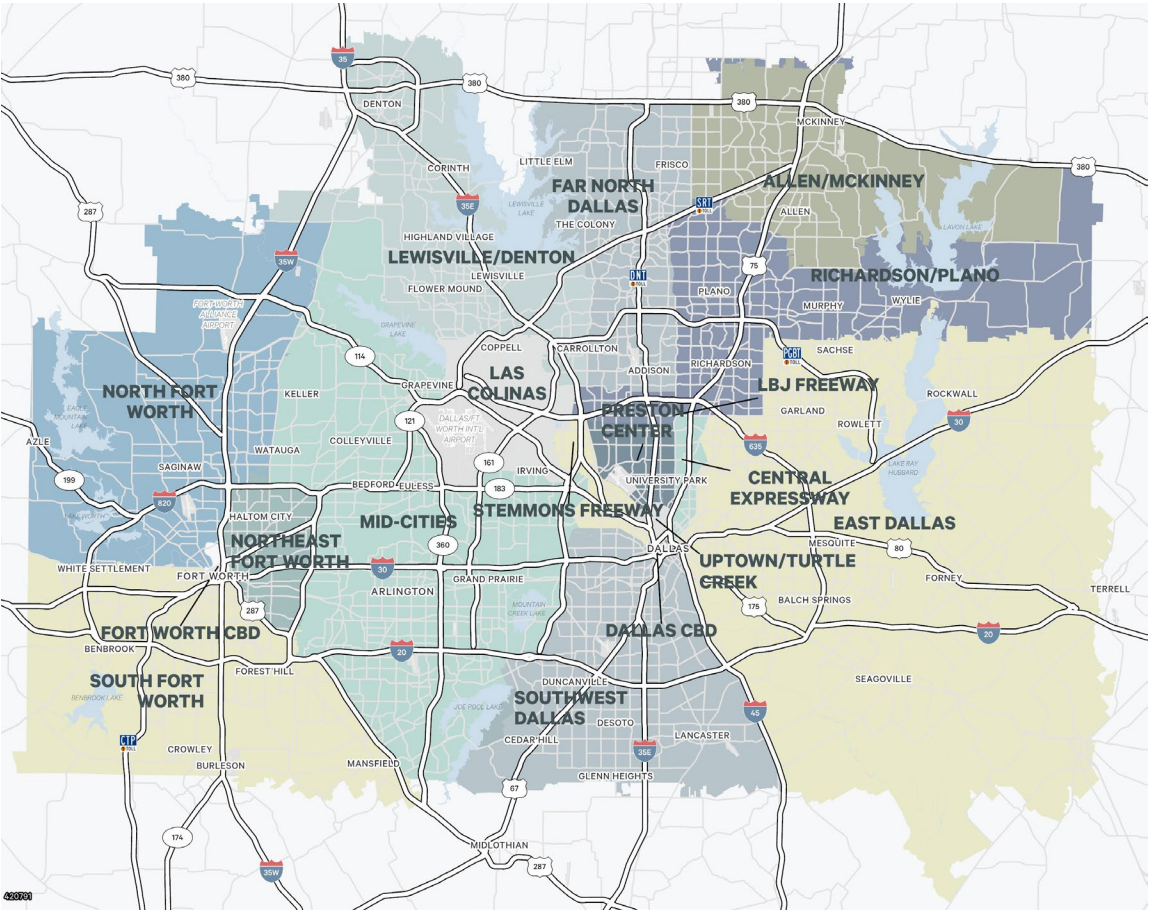
Source: CBRE Research, Q4 2023.

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Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q4 2023 Net Absorption	2023 YTD Net Absorption
Fort Worth CBD	8,159,730	13.17	12.63	35.85	-	-	-35,329	144,241
Class A	6,242,460	12.15	12.24	37.64	-	-	-23,562	40,462
Class B	1,847,959	17.08	14.43	30.80	-	-	-11,767	103,779
Mid Cities	14,986,769	31.65	33.39	23.42	61,500	-	-286,547	-442,622
Class A	6,739,183	37.34	37.42	24.06	61,500	-	-91,021	-93,577
Class B	7,676,580	28.47	31.79	22.50	-	-	-188,703	-359,795
North Fort Worth	2,917,126	18.21	18.21	22.44	30,000	-	5,640	-7,184
Class A	1,333,559	31.90	31.90	23.04	-	-	1,917	-5,342
Class B	1,455,543	6.54	6.54	22.36	30,000	-	7,591	-4,339
NE Fort Worth	1,653,284	10.87	11.16	17.80	-	-	-4,694	-5,000
Class A	415,921	1.20	1.20	0.00	-	-	0	53,236
Class B	1,068,148	16.35	16.80	17.80	-	-	-6,959	-75,066
South Fort Worth	5,665,229	22.74	19.05	31.94	-	-	-142,476	-110,981
Class A	2,591,032	22.83	14.43	37.95	-	-	10,396	95,315
Class B	2,847,265	23.19	23.48	29.59	-	-	-147,012	-220,559
Dallas Total	195,616,887	25.64	30.18	33.06	5,121,286	157,000	-1,178,433	-2,119,013
Class A	130,361,225	25.13	31.85	35.74	5,085,093	157,000	-482,271	-271,589
Class B	62,721,445	27.08	27.60	26.07	36,193	-	-718,105	-1,705,670
Fort Worth Total	33,382,138	23.42	23.45	26.08	91,500	-	-463,406	-421,546
Class A	17,322,155	24.80	23.61	27.74	61,500	-	-102,270	90,094
Class B	14,895,495	23.03	24.51	24.28	30,000	-	-346,850	-555,980
DFW Total	228,999,025	25.32	29.20	32.05	5,212,786	157,000	-1,641,839	-2,540,559
Class A	147,683,380	25.09	30.88	34.97	5,146,593	157,000	-584,541	-181,495
Class B	77,616,940	26.31	27.01	25.76	66,193	-	-1,064,955	-2,261,650

Source: CBRE Research, Q4 2023.
*Although Class C is not shown, totals are inclusive of all classes of data.

Market Area Overview



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