

Dallas-Fort Worth Office

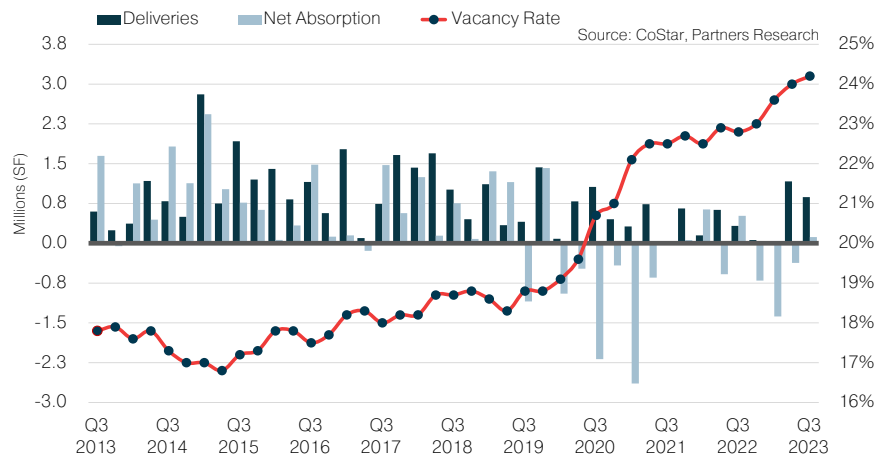
Q3 2023

The Far North Dallas Submarket Leads Leasing Activity and Construction in Q3

Q3 In Review

By the end of Q3 2023, the overall vacancy rate in the Dallas-Fort Worth (DFW) office market rose 20 basis points, from 24.0% to 24.2%. Net absorption increased to 116,102 sq. ft., rebounding from -369,660 sq. ft. the previous quarter. Tolleson and Sewell Automotive move-ins contributed to the third quarter's positive absorption. Year-to-date, net absorption is at -1.6 million sq. ft. Tepid demand continues in DFW's office market as firms evaluate their need for office space. Leasing activity is at 3.0 million sq. ft., 13% down from 3.5 million sq. ft. the prior quarter. Meanwhile, construction rose 19% quarter-over-quarter to 2.9 million sq. ft. The Far North Dallas submarket accounted for 60% of Q3 construction starts, which included a 5-story, 500,000-sq.-ft. office building (TIAA Frisco Corporate Center) along Dallas Parkway in August. In addition, deliveries increased to 869,914 sq. ft.—nearly tripling from the prior year's 328,145 sq. ft. Year-to-date, deliveries are at 2.0 million sq. ft. Lastly, the average asking rent stood at \$29.48 per sq. ft.—a record-high for DFW's office market.

Supply & Demand



Dallas-Fort Worth Economic Update

The DFW unemployment rate increased to 3.9% in August 2023, slightly up from 3.8% in July 2023. The metro's jobless rate was higher than the nation's rate (3.8%), and lower than the state's rate (4.1%). As of August 2023, total employment in DFW was 4.2 million. DFW private hourly earnings dipped to \$33.69 in August 2023 from \$34.92 in July 2023.

Key Market Indicators

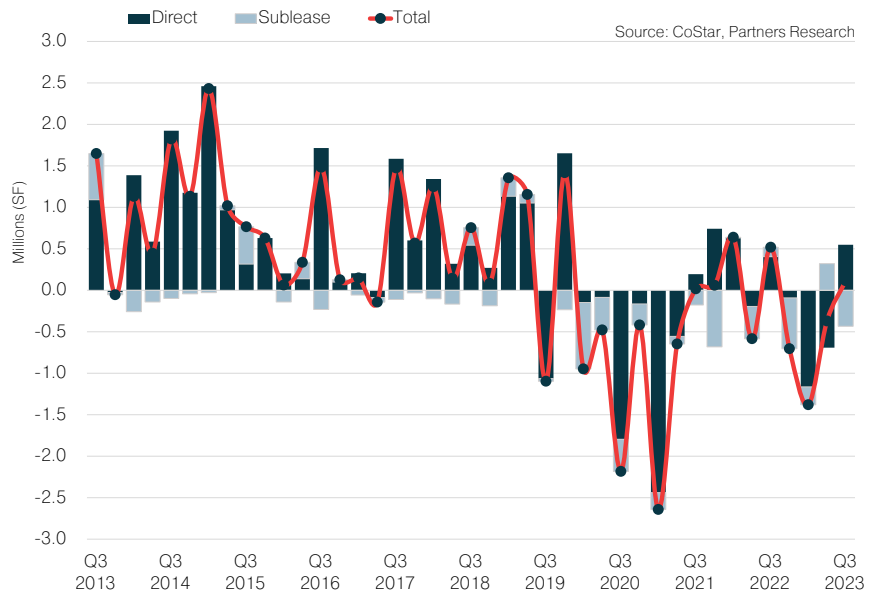
	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	24.2%	24.0%	▲	22.8%	▲
Vacant Direct	21.7%	21.7%	▬	20.6%	▲
Available Total	28.2%	27.6%	▲	26.4%	▲
Available Direct	24.6%	24.0%	▲	23.2%	▲
Net Absorption (SF)	116,102	-369,660	▲	518,657	▼
Leasing Activity (SF)	3,081,273	3,550,973	▼	4,859,256	▼
Construction (SF)	2,982,275	2,508,549	▲	2,842,463	▲
Deliveries (SF)	869,914	1,165,608	▼	328,145	▲
Avg Asking Rent (Gross)	\$29.48	\$29.44	▲	\$28.89	▲
Inventory (SF)	273,604,865	272,734,951	▲	271,483,227	▲

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Positive Net Absorption in Q3 2023

Net absorption—move-ins minus move-outs—emerged from negative territory at 116,102 sq. ft. in Q3 2023, up from -369,660 sq. ft. the prior quarter. Class A office space noted 415,354 sq. ft. of positive absorption, whereas Class B office space recorded -240,068 sq. ft. of negative absorption. Third quarter move-ins contributing to this increase include Tolleson occupying 26,496 sq. ft. of office space, and Sewell Automotive filling 27,557 sq. ft. of office space at 8111 Douglas Avenue. On the other hand, Haynes & Boone, LLP vacated 49,117 sq. ft. of office space at 2323 Victory Avenue, and Petroleum Club vacated 29,788 sq. ft. of office space at 777 Main Street (Fort-Worth) by the end of Q3. Year-to-date, net absorption is at -1.6 million sq. ft.

Net Absorption

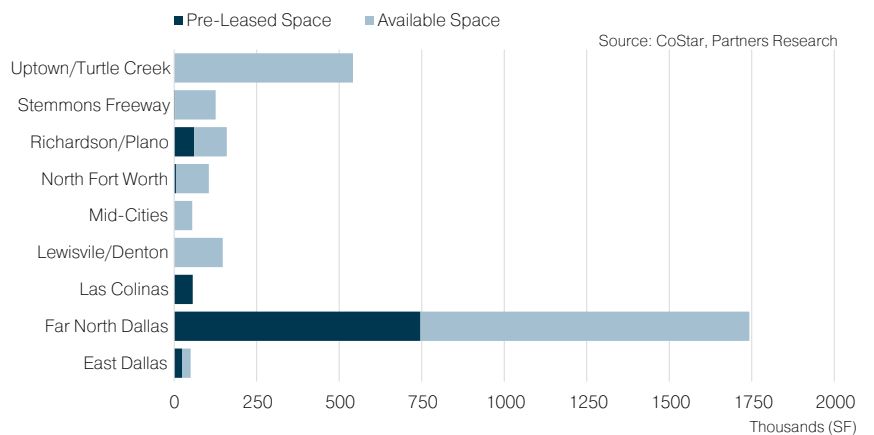


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Far North Dallas Dominates Construction

Office construction in DFW reached 2.9 million sq. ft., at the end of Q3 2023. Quarter-over-quarter, construction increased 19% from 2.5 million sq. ft., and increased 5% year-over-year from 2.8 million sq. ft. The Far North Dallas submarket contributed 1.7 million sq. ft.—or nearly 60%—of construction starts in Q3 2023. A notable project underway in the Far North Dallas submarket is a 5-story, 500,000-sq.-ft. Class A office building (TIAA Frisco Corporate Center) at 3951 North Dallas Parkway, which started in September. In addition, construction of an 8-story, 200,000-sq.-ft. Class A office building (Auspire at The Gate-Phase 2) along Dallas Parkway started in August. Located in Frisco, these two properties have a projected completion date of September 2026 and June 2025, respectively. Although down 25% quarter-over-quarter (1.1 million sq. ft. in Q2 2023), deliveries nearly tripled from 328,145 sq. ft. in Q2 2023 to 869,914 sq. ft. in Q3 2023. Year-to-date, deliveries registered at 2.0 million sq. ft.

Construction

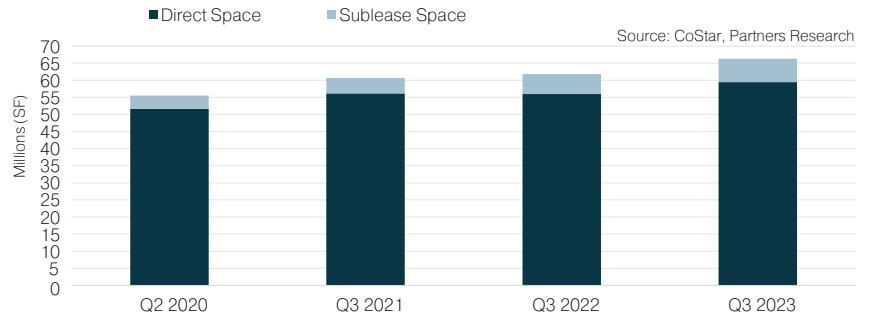


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Vacancy Rate Increases To 24.2%

The overall vacancy rate in DFW's office market rose to 24.2%, increasing 20 basis points from the prior quarter (24.0%). Only 30% of year-to-date deliveries have been fully leased, contributing to the increase in the overall vacancy rate. Class A and Class B properties have vacancy rates of 26.8% and 22.0%, respectively. Class A submarkets with the greatest quarter-over-quarter increases include: Las Colinas (26.4% to 28.8%), Lewisville/Denton: (38.7% to 40.6%), and East Dallas (52.8% to 53.8%). Class B submarkets with the greatest quarter-over-quarter increases include: CBD Dallas (24.5% to 26.9%), Central Expressway (15.4% to 17.2%), and Lewisville/Denton (19.5% to 20.5%).

Vacancy

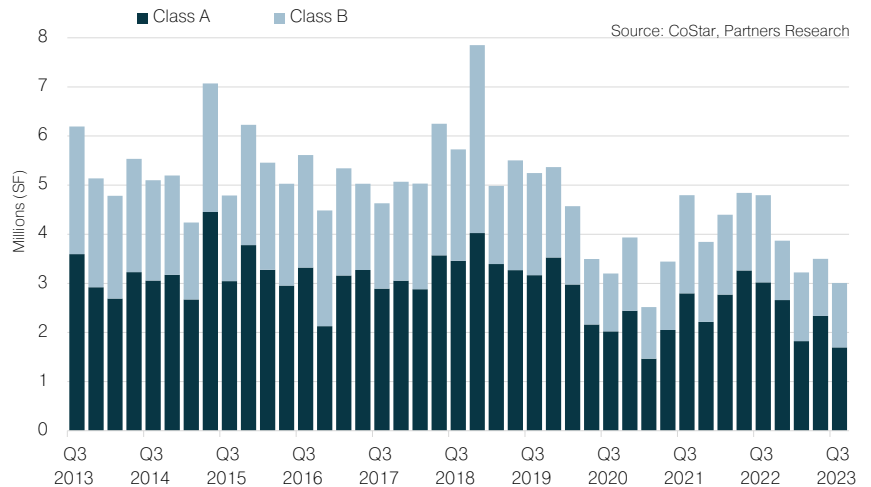


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Leasing Down 13% From Prior Quarter

Quarterly leasing velocity—which is comprised of new leases and renewals—stood at 3.0 million sq. ft. —down 13% from 3.5 million sq. ft. in Q2 2023. Year-to-date, leasing activity totaled 9.9 million sq. ft. The Far North Dallas submarket accounted for 21% of leasing activity in Q3—which included The Haskell Company inking a deal for 25,845 sq. ft. of office space at 2591 North Dallas Parkway (Frisco) in July, and Alkami Technology, Inc. extending their lease for 83,939 sq. ft. of office space at 5601 Granite Parkway (Upper Tollway/West Plano) in September.

Leasing Activity

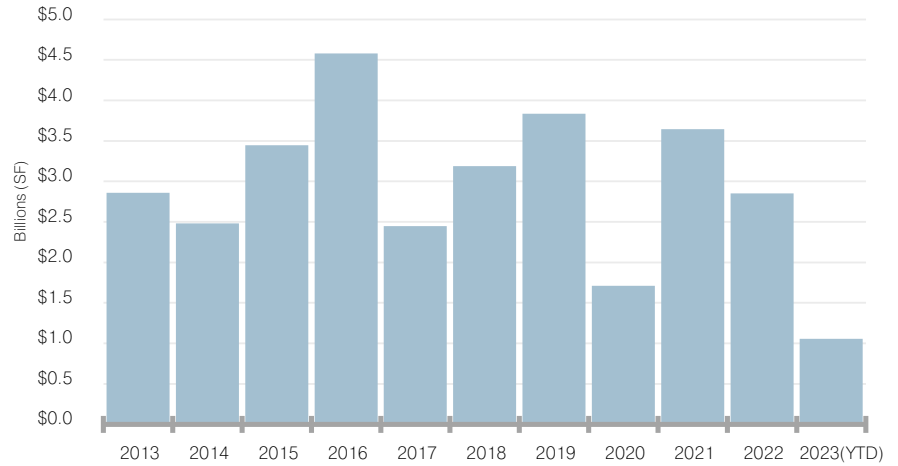


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Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at \$1.1 billion in DFW's office market. With 610 deals completed thus far in 2023, the average transaction price currently stands at \$218 per sq. ft. with an average cap rate of 6.9%. A recent acquisition in Q3 2023 included ATCAP Partners selling Gramercy Center—two office buildings totaling 256,155 sq. ft.—to Winhall Management Company in September. Gramercy Center South (134,400 sq. ft.) and Gramercy Center North (121,755 sq. ft.) are located at 18451 North Dallas Parkway and 18583 North Dallas Parkway, respectively. In addition, America's Capital Partners sold Signature Exchange—two office buildings totaling 458,482 sq. ft.—to USAA Real Estate at 14755-14785 Preston Road also in September.

Cumulative Sales Volume

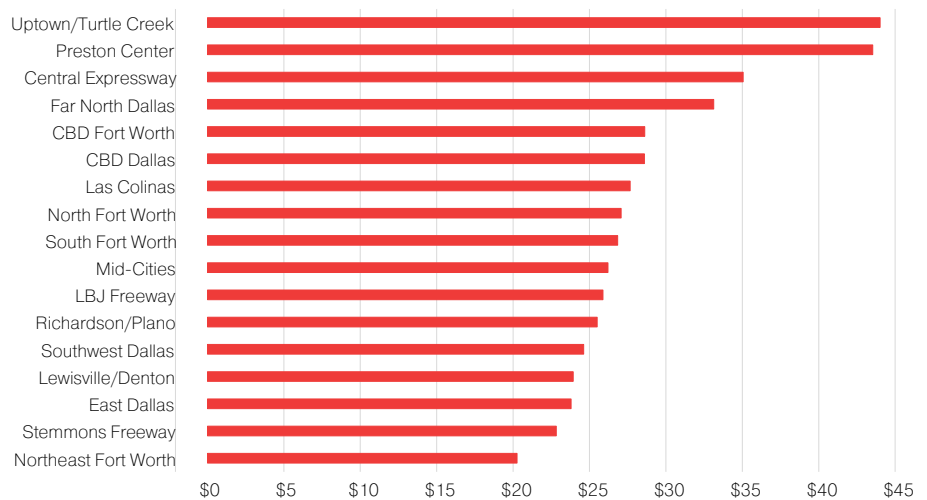


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Record-High Asking Rents

DFW's full-service average rate currently stands at \$29.48 per sq. ft.—a record-high for the metro's office sector—increasing slightly from \$29.44 per sq. ft. the previous quarter. Asking rates for overall Class A and Class B space are at \$32.91 per sq. ft. and \$23.52 per sq. ft., respectively. On the quarter, submarkets with the highest asking rates include: Uptown/Turtle Creek at \$44.01 per sq. ft., followed by Preston Center at \$43.53 per sq. ft.

Overall Gross Asking Rent (\$/PSF)



Market Overview

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Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Dallas-Fort Worth Market Total	273,604,865	24.2	28.2	116,102	-1,632,758	869,914	2,982,275	29.48
Class A	153,469,150	26.8	32.4	415,354	-831,837	869,914	2,784,651	32.91
Class B	110,678,936	22.0	23.9	-240,068	-707,015	0	197,624	23.52
CBD Dallas Total	26,733,885	30.8	36.9	-242,557	-447,806	0	0	28.59
Class A	21,009,601	32.3	39.6	-111,459	-182,631	0	0	29.50
Class B	5,395,359	26.9	28.2	-131,098	-280,690	0	0	23.12
Central Expressway Total	11,772,695	25.7	29.1	-18,350	-109,910	0	0	35.05
Class A	7,389,087	25.7	29.1	55,683	-54,737	0	0	36.99
Class B	4,086,328	17.2	17.9	-74,033	-55,173	0	0	28.70
East Dallas Total	7,773,021	23.1	23.4	-128,660	-217,554	0	49,822	23.79
Class A	1,884,548	53.8	46.3	-17,233	-151,072	0	0	39.62
Class B	4,776,274	13.2	15.7	-1,683	29,967	0	49,822	23.79
Far North Dallas Total	52,143,898	28.1	33.5	-377,784	-737,383	0	1,742,834	33.13
Class A	35,552,961	30.2	37.0	-251,666	-513,734	0	1,742,834	35.97
Class B	16,116,959	24.1	26.4	-125,521	-228,329	0	0	24.67
Las Colinas Total	35,863,572	27.7	34.2	-189,635	-561,105	300,000	56,269	27.66
Class A	21,597,122	28.8	35.5	-297,727	-797,425	300,000	56,269	30.77
Class B	13,689,150	26.7	32.7	109,074	236,597	0	0	23.17
LBJ Freeway Total	21,246,758	25.9	27.1	-44,476	33,281	0	0	25.88
Class A	11,192,619	20.8	24.9	-17,380	122,327	0	0	30.04
Class B	9,609,119	31.9	29.7	-25,842	-99,232	0	0	21.91
Lewisville/Denton Total	6,722,721	22.2	24.7	-68,558	-249,675	0	147,000	23.93
Class A	890,527	40.6	48.2	-16,774	-24,778	0	147,000	28.18
Class B	5,401,152	20.5	21.8	-54,707	-223,665	0	0	23.67
Preston Center Total	5,622,933	13.4	14.9	137,246	105,555	0	0	43.53
Class A	4,361,134	13.0	14.1	113,714	94,210	0	0	47.16
Class B	1,184,750	15.9	18.5	23,532	11,345	0	0	32.90
Richardson/Plano Total	30,790,436	19.2	24.7	152,422	15,196	0	159,313	25.50
Class A	14,447,149	20.3	29.1	229,227	32,178	0	123,120	27.85
Class B	15,407,763	19.2	21.9	-83,476	-96,328	0	36,193	23.28
Southwest Dallas Total	3,069,743	9.4	10.9	201,234	146,529	0	0	24.62
Class A	350,537	22.3	22.3	206,000	204,617	0	0	26.50
Class B	1,981,047	8.3	10.6	1,258	-20,041	0	0	23.84
Stemmons Freeway Total	12,276,665	21.1	20.1	158,146	138,575	0	125,788	22.82
Class A	5,320,329	17.4	17.8	137,008	77,538	0	125,788	28.70
Class B	6,063,331	25.7	24.6	-29,992	48,394	0	0	19.99
Uptown/Turtle Creek Total	14,841,860	21.0	27.9	188,007	66,665	359,914	541,640	44.01
Class A	12,881,652	21.6	29.3	204,624	97,762	359,914	541,640	45.71
Class B	1,727,436	18.7	20.1	-14,837	-17,755	0	0	33.69

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Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Fort Worth Total	8,233,263	15.3	15.0	62,233	426,129	0	0	28.61
Class A	5,205,046	15.5	16.0	46,849	90,188	0	0	31.19
Class B	2,867,499	15.4	13.8	15,384	335,941	0	0	25.19
Mid-Cities Total	20,439,272	28.0	29.7	-105,817	-278,963	0	54,609	26.21
Class A	7,049,994	44.7	44.6	-50,205	7,635	0	0	29.73
Class B	11,901,850	20.7	23.8	-53,773	-251,371	0	54,609	21.98
North Fort Worth Total	2,530,061	26.6	31.5	-8,116	-99,519	0	105,000	27.07
Class A	1,263,426	23.2	25.7	-10,818	-43,537	0	48,000	30.92
Class B	1,099,503	34.5	42.5	2,702	-56,767	0	57,000	24.64
Northeast Fort Worth Total	3,421,373	13.3	13.3	-2,152	-52,001	0	0	20.26
Class A	415,921	0.0	0.0	0	53,236	0	0	0.00
Class B	2,681,715	16.5	16.6	-3,914	-103,865	0	0	20.32
South Fort Worth Total	10,122,709	12.4	13.2	402,919	189,228	210,000	0	26.84
Class A	2,657,497	11.0	12.9	195,511	156,386	210,000	0	30.25
Class B	6,689,701	13.3	14.0	206,858	63,957	0	0	25.83

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