

DFW Office

Q2 2024

Dallas-Fort Worth Office | Q2 2024

Quarterly Market Report

Class A Net Absorption Turns Positive, but Class B Continues to Drag the Market Down

Executive Summary

Q2 2024 in Review

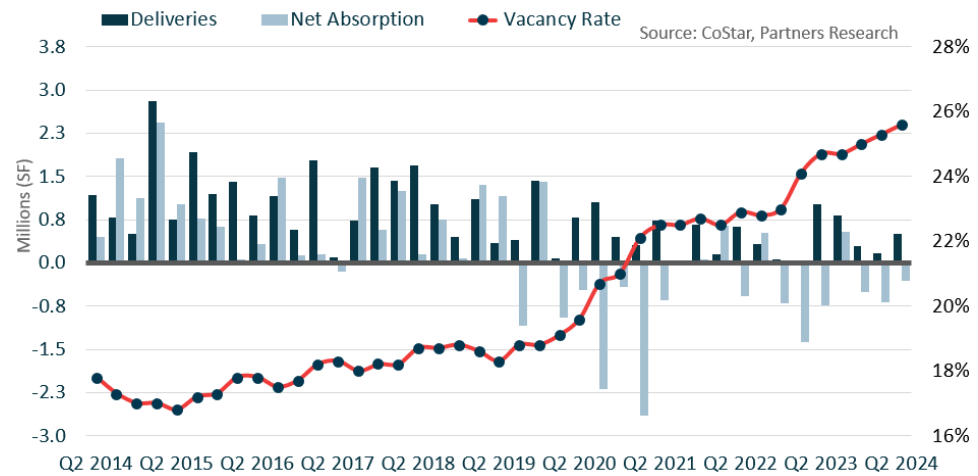
The Dallas-Fort Worth office market continues to face challenges with rising vacancy rate (25.6%) due to negative net absorption and new construction deliveries outpacing leasing demand. While the Dallas CBD struggles with high vacancy, the Fort Worth CBD remains resilient. Despite a decrease in construction deliveries, the under-construction pipeline remains substantial, primarily concentrated in Uptown and Far North Dallas. Leasing velocity declined, but notable large deals were signed. Net absorption remains negative, primarily affecting Class B properties, while Class A properties demonstrate positive performance. Investment sales volume is moderate, with a focus on repositioning office space. Rental rates are flat overall, with Class A rates increasing and Class B rates declining.

Dallas Economic Update

Employment in DFW rose 2.4% in May after climbing 4.8% in April. Job growth was mixed across the major sectors, with strong gains seen in construction, finance, and trade, transportation and utilities. Employment held largely steady in the education and health services and leisure and hospitality sectors but declined in information, professional and business services, and other services. The unemployment rate in DFW was unchanged at 3.8%.

The Dallas-Fort Worth economy expanded in May. Employment growth remained strong but moderated from April's brisk pace. Average hourly earnings held steady, above year-ago levels, and inflation ticked up in May. Home sales dipped in May, and home prices rose in the first quarter.

Supply & Demand



Key Market Indicators

	CURRENT Q2 2024	PRIOR QUARTER Q1 2024		PRIOR YEAR Q2 2023	
Vacant Total	25.6%	25.3%	▲	24.7%	▲
Vacant Direct	23.0%	22.6%	▲	22.4%	▲
Available Total	28.6%	28.7%	▲	28.3%	▲
Available Direct	25.1%	25.1%	▬	24.6%	▲
Net Absorption (SF)	-315,597	-686,548	▲	-733,962	▲
Leasing Activity (SF)	2,998,994	3,282,436	▼	3,340,192	▼
Construction (SF)	4,891,260	5,264,521	▼	4,426,507	▼
Deliveries (SF)	513,014	165,788	▲	1,021,477	▲
Avg Asking Rent (NNN)	\$30.10	\$30.18	▼	\$29.92	▲
Inventory (SF)	258,949,096	257,653,504	▲	256,374,883	▲

Market Overview

Vacancy Rate Continues to Increase

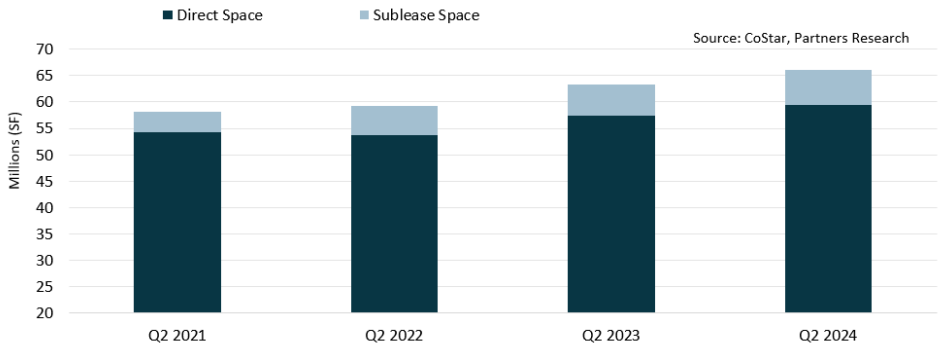
The Vacancy Rate continues to increase as overall net absorption remained negative and new construction deliveries topped half a million sq. ft., moving the vacancy rate up 30 basis points over the past quarter to 25.6%. On a submarket level, the Dallas CBD continues to struggle from a vacancy rate perspective, with the total vacancy rate being the highest in the metro area at 32.3%. The Fort Worth CBD in contrast has a vacancy rate of 16%, well below most of the suburban submarkets.

Construction Deliveries Decreased by 50% over the past year

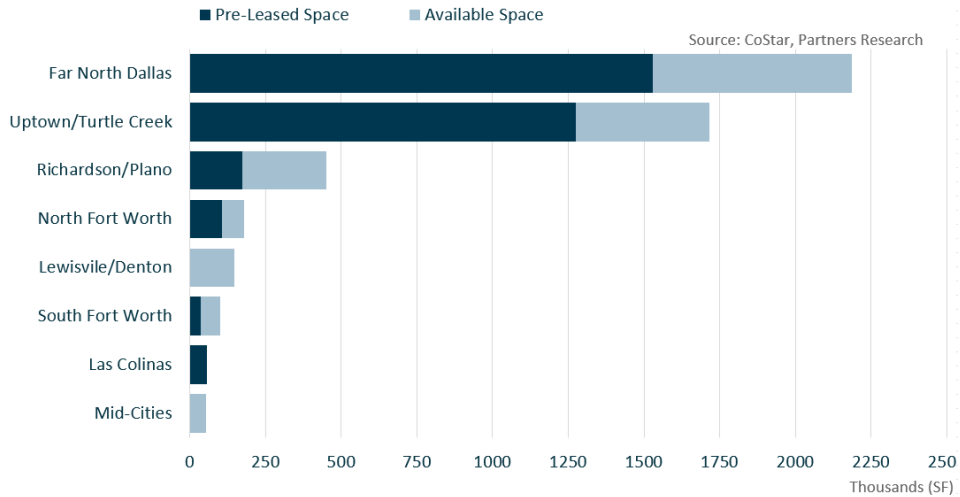
Construction deliveries for the quarter came in just over half a million sq. ft., this is down 50% from the 1 million sq. ft. completed in Q2 2023. The under-construction pipeline remains high at 4.9 million sq. ft., but most of that space (65%) has been pre-leased. Almost all that construction is concentrated in two submarkets (Uptown and Far North Dallas) at 1.7 million sq. ft. and 2.2 million sq. ft., respectively.

Leasing Down 9% From Previous Quarter

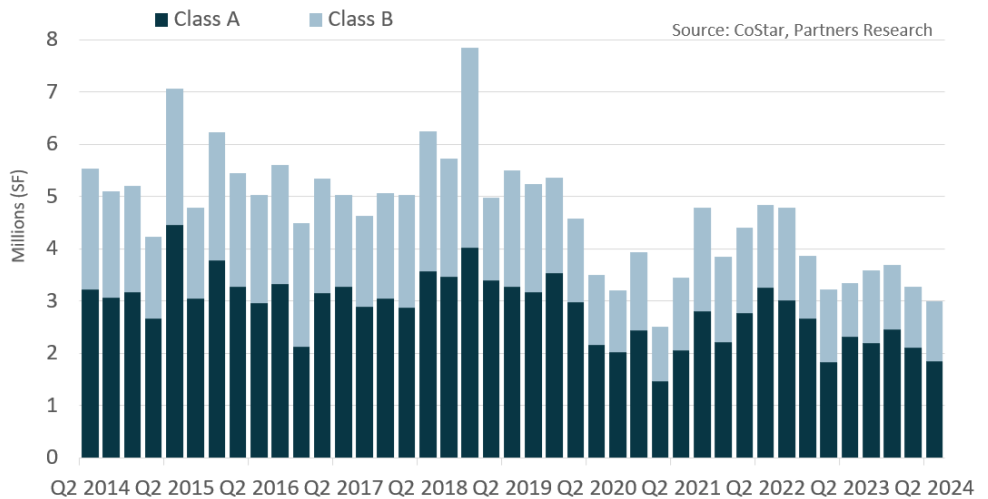
Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 3 million sq. ft. during Q2 2024—down 9% from 3.3 million sq. ft. in Q1 2024. Year-to-date, leasing activity registered at 6.3 million sq. ft. Notable recent transactions include Wingstop signing a 112,000 sq. ft. new lease for their new headquarters at One West Village, Onsemi signing a 97,496 sq. ft. lease at 505 Millennium Drive and Polsinelli PC signing a 41,000 sq. ft. lease at the redevelopment of Old Parkland in Uptown.



Construction



Leasing



Overall, Net Absorption Remains in Negative Territory

Net absorption—move-ins minus move-outs—recorded a negative 315,597 sq. ft. for Q2 2024. Through the first half of 2024 net absorption has been a negative 1 million sq. ft. Almost all of the negative absorption in 2024 has been concentrated in Class B properties (1,050,511 sq. ft.) while Class A has recorded a positive 48,366 sq. ft. Recent notable move-ins include Inform Diagnostics taking 96,500 sq. ft. at 1111 Freeport, ScaleAI moving into 41,268 sq. ft. at Varispace Southlake and JPMorgan Chase expanding by 36,000 sq. ft. at Hunt Consolidated Tower.

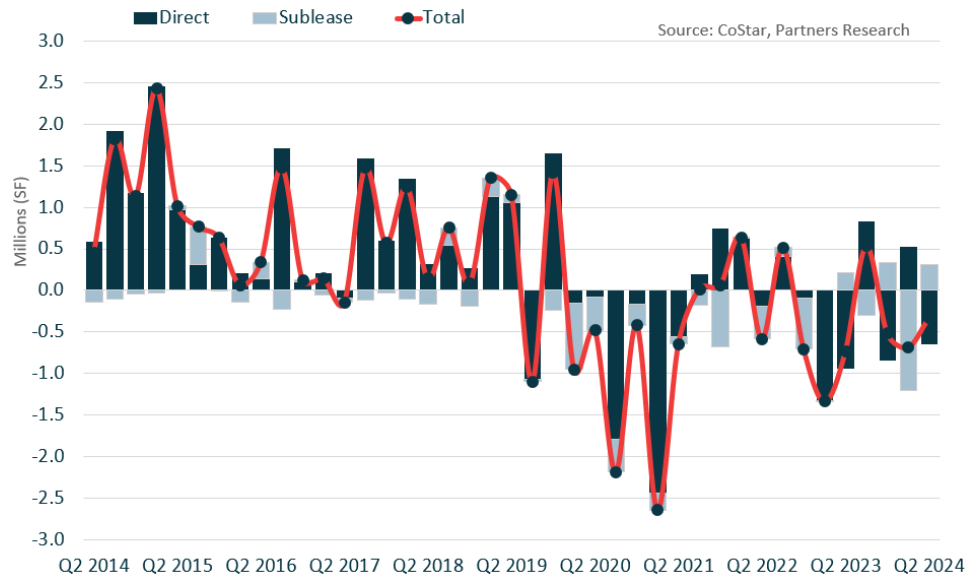
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume at \$94.4 million in the DFW office market. With 134 deals completed, the average transaction price currently stands at \$115 per sq. ft. with an average cap rate of 8.3%. Notable recent sale transactions include Slate Asset Management purchasing Comerica Bank Tower from a joint between Pacific Elm and Trigate Capital. The purchase of the 1.7 million sq. ft. office property is part of a broader plan to convert millions of sq. ft. of office space in the Dallas CBD into about 1,100 residential units. Also, Brookfield sold Churchill Tower to TXRE Properties. The 277,187 sq. ft. office was 77% occupied at the time of the sale.

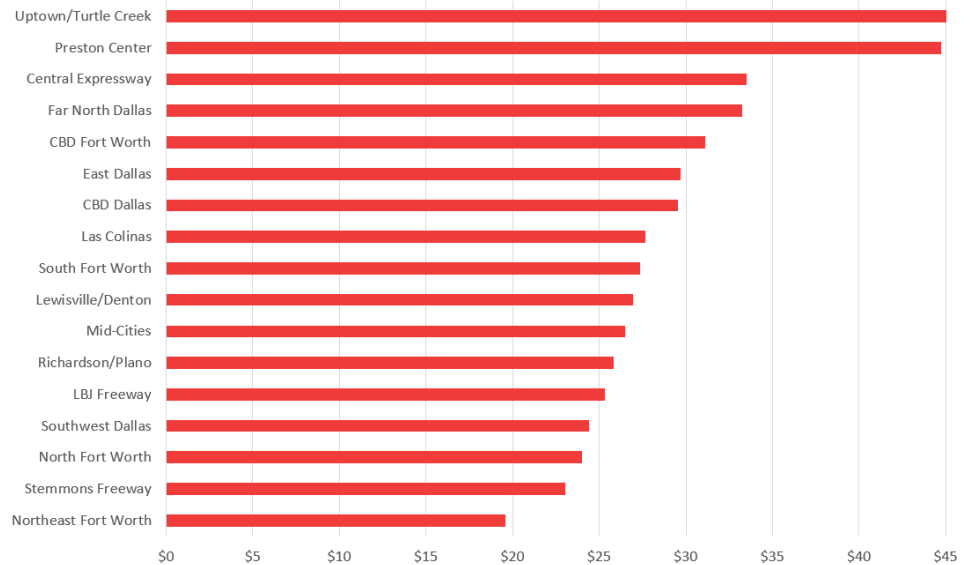
Rental Rates Flat as Class A Rises and Class B Falls

The annual rental rate for the DFW office market is \$30.10 per sq. ft., up 0.6% year-over-year from \$29.92 per sq. ft. Class A and Class B rates have been moving in opposite directions for quite some time now, with newer Class A at or near record highs, while commodity type Class B properties continue to see moderate rate declines. The delta between the two is expected to widen over the coming quarters with Class A rates currently at \$33.53 and Class B rates at \$23.72 per sq. ft.

Net Absorption



Overall Gross Avg Asking Rent (\$PSF)



Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q2 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Dallas Total	24,640,357	32.3	36.7	-332,090	-367,521	0	0	29.52
Class A	19,365,472	32.9	32.9	-292,386	-294,445	0	0	30.57
Class B	5,274,885	30.3	30.6	-39,704	-73,076	0	0	24.15
Central Expressway Total	11,296,007	24.2	26.2	-94,309	-139,057	0	0	33.50
Class A	7,265,496	28.1	30.3	-102,497	-111,173	0	0	35.32
Class B	4,030,511	17.2	18.9	8,188	-27,884	0	0	27.60
East Dallas Total	7,118,662	25.3	25.4	-108,803	-79,406	27,642	0	29.67
Class A	2,250,349	45.6	45.6	-31,366	-10,515	0	0	39.00
Class B	4,868,313	16.0	17.0	-77,437	(68,891)	27,642	0	20.32
Far North Dallas Total	51,381,638	29.4	34.0	87,957	-380,443	139,947	2,187,339	33.21
Class A	34,748,032	32.0	37.0	435,542	47,361	139,947	1,990,171	36.41
Class B	16,633,606	23.9	27.5	-347,585	-427,804	0	197,168	25.38
Las Colinas Total	35,142,236	29.2	33.7	-392,696	-657,681	0	56,269	27.64
Class A	21,619,555	31.8	35.7	-425,471	-503,847	0	56,269	30.64
Class B	13,522,681	25.0	30.5	32,775	-153,834	0	0	22.56
LBJ Freeway Total	19,682,681	26.7	27.2	3,570	127,049	0	0	25.28
Class A	10,379,169	21.4	26.3	19,464	28,999	0	0	28.92
Class B	9,303,512	32.6	32.8	-15,894	98,050	0	0	21.31
Lewisville/Denton Total	5,987,083	21.6	26.7	31,986	-45,370	0	147,000	26.92
Class A	895,854	42.0	53.0	17,200	-15,815	0	147,000	31.70
Class B	5,091,229	18.0	21.4	14,786	-29,555	0	0	26.21
Preston Center Total	5,236,790	13.8	15.2	11,306	-12,582	0	0	44.71
Class A	3,833,575	13.2	14.7	4,668	-13,008	0	0	49.38
Class B	1,403,215	15.5	16.5	6,638	426	0	0	32.80
Richardson/Plano Total	29,733,821	20.2	24.4	189,716	14,500	0	450,574	25.80
Class A	14,100,054	20.5	26.7	365,711	143,223	0	119,381	28.08
Class B	15,633,767	19.9	22.5	-175,995	-128,723	0	331,193	23.46
Southwest Dallas Total	2,369,942	11.5	13.6	4,859	-17,304	0	0	24.40
Class A	350,537	21.5	23.1	3,601	1,479	0	0	26.56
Class B	2,019,405	9.7	11.9	1,258	-18,783	0	0	26.01
Stemmons Freeway Total	10,625,200	23.4	23.4	21,365	-26,352	0	0	23.01
Class A	5,032,117	20.9	20.9	8,082	-25,617	0	0	28.23
Class B	5,593,083	25.6	25.6	13,283	-735	0	0	18.85
Uptown/Turtle Creek Total	14,978,113	22.0	26.6	448,158	620,697	345,425	1,715,215	47.87
Class A	13,149,442	22.0	26.9	447,840	617,934	345,425	1,715,215	50.05
Class B	1,828,671	21.6	23.5	318	2,763	0	0	33.35
CBD Fort Worth Total	7,246,593	16.0	16.0	-51,858	-45,257	0	0	31.10
Class A	4,468,650	13.9	14.5	62,286	54,379	0	0	32.96
Class B	2,777,943	19.4	19.4	-114,144	-99,636	0	0	25.87

Market Overview

Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q2 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Mid-Cities Total	18,731,413	29.70	30.50	-117,151	-36,748	0	54,609	26.49
Class A	7,129,186	44.0	44.0	115,857	124,485	0	0	28.69
Class B	11,602,227	20.9	22.4	-233,008	-161,233	0	54,609	22.76
North Fort Worth Total	2,350,714	26.9	30.0	37,805	50,766	0	180,254	23.98
Class A	1,288,819	28.2	29.8	1,925	20,411	0	180,254	26.84
Class B	1,061,895	25.4	30.3	35,880	30,355	0	0	22.56
NE Fort Worth Total	2,956,899	11.5	12.7	19,280	76,348	0	0	19.58
Class A	415,921	0.0	0.0	0	53,236	0	0	-
Class B	2,540,978	13.4	14.8	19,280	23,112	0	0	19.58
South Fort Worth Total	9,470,947	12.4	13.2	-74,692	-83,784	0	100,000	27.33
Class A	3,113,327	11.5	12.1	-39,931	-68,721	0	0	31.05
Class B	6,357,620	14.9	17.0	-34,761	-15,063	0	100,000	25.88
Dallas-Fort Worth Market Total	258,949,096	25.6	28.6	-315,597	-1,002,145	513,014	4,891,260	30.10
Class A	149,405,555	28.0	32.0	590,525	48,366	485,372	4,208,290	33.53
Class B	109,543,541	22.3	23.9	-906,122	-1,050,511	27,642	682,970	23.72

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