

DFW Office

Q4 2024

Dallas-Fort Worth Office | Q4 2024

Quarterly Market Report

DFW Office Market Faces Rising Vacancy and Diverging Class A & B Trends Amid Flight to Quality

Executive Summary

Q4 2024 in Review

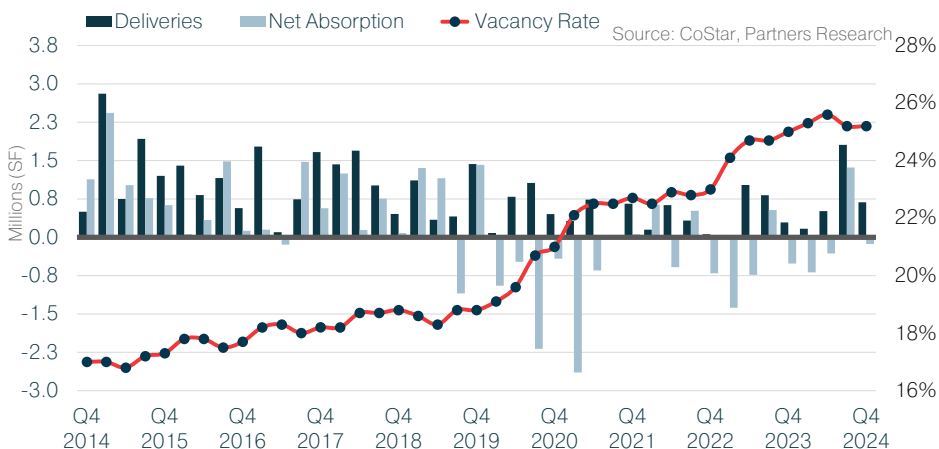
The Dallas-Fort Worth office market remained stable in Q4 2024, with the total vacancy rate unchanged at 25.2%, though up 20 basis points year over year. The flight to quality continues to shape market dynamics, as tenants favor newer, amenity-rich properties in Uptown and northern suburban submarkets over older buildings in areas like the Dallas CBD, Mid-Cities, and LBJ Freeway, which have some of the highest vacancy rates. Leasing activity held steady at 3.8 million sq. ft., with notable leases including Half's 84,000 sq. ft. lease at Galatyn Commons and GI Alliance's 52,265 sq. ft. lease at Cedar Ridge Office Park. However, net absorption turned negative for the quarter at -132,955 sq. ft., driven by ongoing weakness in Class B properties, which saw -842,152 sq. ft. of absorption for the year, in contrast to the 1.1 million sq. ft. of positive demand for Class A properties.

Construction deliveries for the quarter totaled 682,531 sq. ft., down significantly from the previous quarter, reflecting a broader decline in the development pipeline, which now stands at 2.9 million sq. ft., down 49% year over year. Rental rates remained essentially flat at \$30.85 per sq. ft., with Class A rates near record highs at \$33.79 per sq. ft., while Class B rates continued to decline, now averaging \$23.90 per sq. ft.

Dallas Economic Update

Employment in DFW dipped in November after holding steady in October. Job growth was sluggish (1.0% annualized growth, or 11,000 jobs) but broad based across the major sectors for the three months ending in November. The strongest gains were in financial activities and information, while employment slipped in manufacturing and professional and business services. The unemployment rate in DFW was unchanged at 4.0% in November. The Dallas-Fort Worth economy slowed in November. Employment fell slightly, and unemployment held steady at 4%.

Supply & Demand



Key Market Indicators

	CURRENT Q4 2024	PRIOR QUARTER Q3 2024		PRIOR YEAR Q4 2023	
Vacant Total	25.2%	25.2%	—	25.0%	↑
Vacant Direct	23.0%	22.8%	↑	22.2%	↑
Available Total	26.6%	27.0%	↓	27.6%	↓
Available Direct	23.5%	23.7%	↓	24.3%	↓
Net Absorption (SF)	-132,955	1,363,852	↓	-513,028	↑
Leasing Activity (SF)	3,771,051	3,776,948	—	3,836,619	↓
Construction (SF)	2,894,585	4,181,421	↓	5,630,972	↓
Deliveries (SF)	682,531	1,806,245	↓	288,833	↑
Avg Asking Rent (Gross)	\$30.85	\$30.73	↑	\$30.82	—
Inventory (SF)	277,485,043	273,654,915	↑	272,307,331	↑

Market Overview

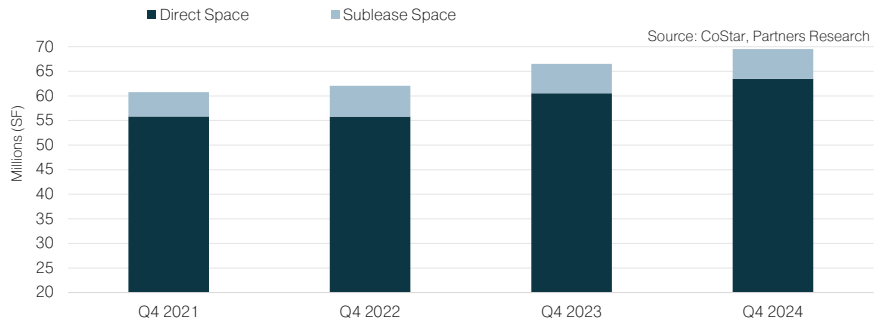
Due to muted deliveries and a pull back in demand for the total vacancy rate unchanged for the quarter at 25.2%, but has increased 20 basis points over the past year. Submarkets with generally older inventory like the Dallas CBD, Mid-Cities and LBJ Freeway have some of the highest vacancy rates (31.6%, 27.8% and 25.5%, respectively) as tenants have gravitated toward newer properties with more amenities, which are more highly concentrated in Uptown and other northern suburban submarkets.

Construction Deliveries were Elevated for the Quarter

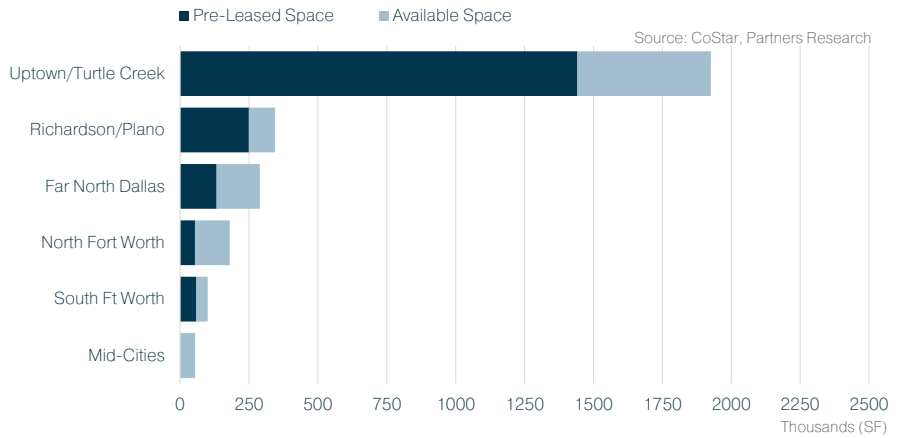
Construction deliveries for the quarter came in at 682,531 sq. ft., this is down 62% from the 1.8 million sq. ft. completed in Q3 2024. The under construction pipeline has been declining over the past few quarters and currently stands at 2.9 million sq. ft., this is down 49% over the past year. Most of the under construction pipeline is concentrated in Uptown (66%) and the most of the remainder is in the northern suburban submarkets (Far North Dallas and Richardson/Plano).

Leasing Down Largely Unchanged for Both Quarter and Year Over Year

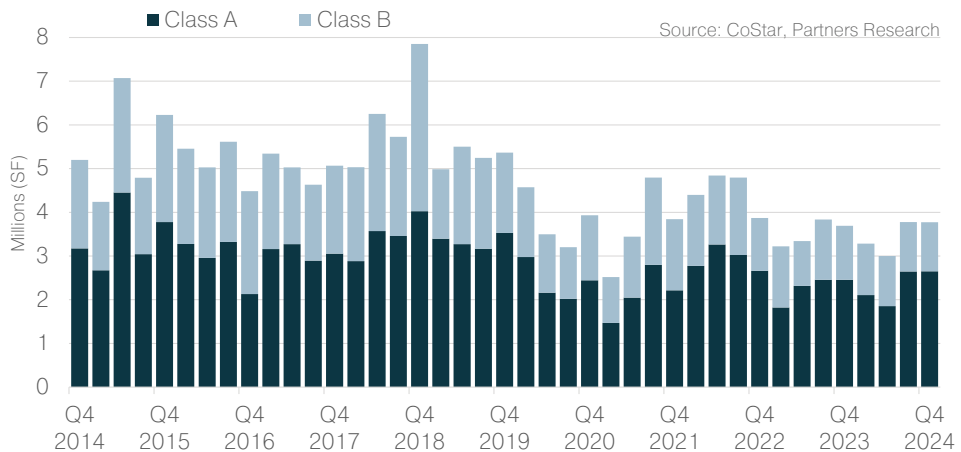
Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 3.8 million sq. ft. during Q4 2024—this was only marginally below (-0.2%) below last quarter and little changed from Q4 2023 (down 1.7%). Notable lease transactions in late 2024 include Halff signing a 84,000 sq. ft. lease at Galatyn Commons, GI Alliance signed a 52,265 sq. ft. lease at the Cedar Ridge Office Park, and Paul Hastings LLP signed a 37,000 sq. ft. lease at 3311 Knox St.



Construction



Leasing



Net Absorption Turned Negative for the Quarter, Flight to Quality Continues

Net absorption—move-ins minus move-outs—was a negative 132,955 sq. ft. in Q4 2024. For 2024 as a whole, net absorption totaled 228,752 sq. ft. Flight to quality was a continued trend through most of 2024, with Class A properties having over a million sq. ft. of positive absorption (1,070,904 sq. ft.), while Class B properties continued to see negative demand, posting a -842,152 sq. ft. Notable move-ins in late 2024 included Foot Locker taking 47,361 sq. ft. of sublease space at Cypress Waters Office Park and Dynamic SLR taking 33,388 sq. ft. at Campbell Creek Pavilion.

Investment Sales Trends

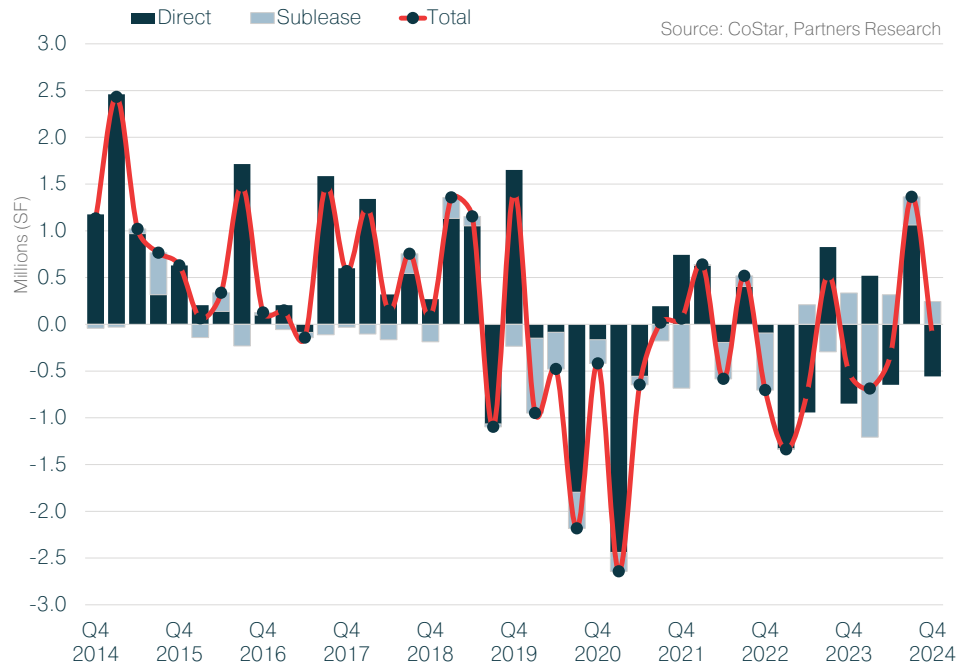
CoStar Capital Market Analytics reports the cumulative 12-month sales volume at \$277 million in the DFW office market. With 195 deals completed, the average transaction price currently stands at \$118 per sq. ft. with an average cap rate at 8.3%. Notable recent sale transactions in late 2024 include

Real Capital Solutions purchased the Tower at Park Lane, the property is a twenty-story 509,818-square foot office building that sold for \$129 per sq. ft. and was 54% leased at the time of the sale. Also, Provident Realty Advisors purchased the Lakeside Campus. This 807,354 sq. ft. portfolio was 69% leased at the time of the sale.

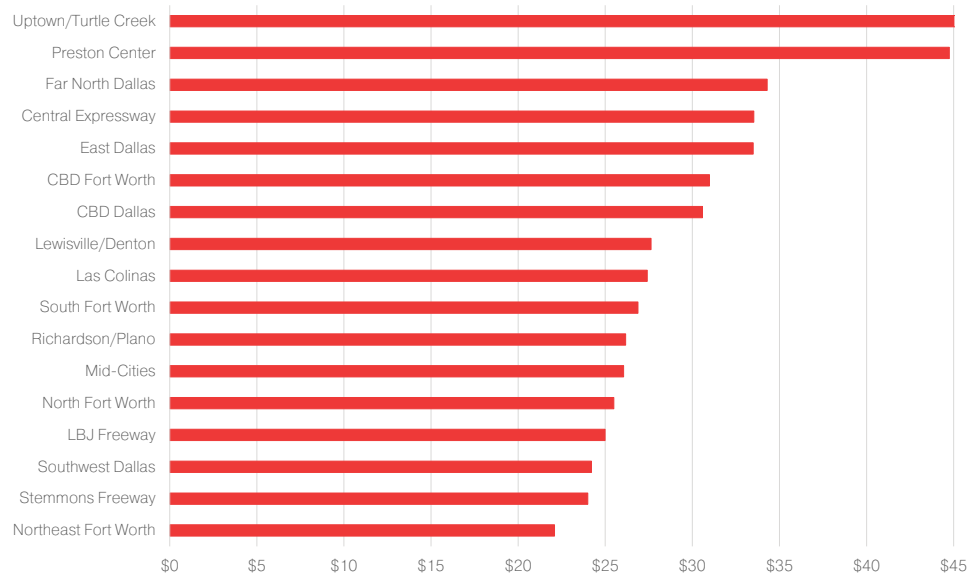
Overall Rental Rates Flat as Class A and Class B rates continue to move in separate directions

The annual rental rate for the DFW office market is \$30.85 per sq. ft., up 0.4% over the past quarter and essentially flat year over from \$30.82 per sq. ft. from Q4 2023. 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 \$33.79 and Class rates at \$23.90 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 (%)	Q4 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Q4 2024 Deliveries (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Dallas Total	26,305,944	31.6	36.2	47,392	3,844	0	0	30.58
Class A	23,025,352	33.0	38.4	38,593	-9,075	0	0	30.93
Class B	3,280,592	21.8	21.8	8,799	12,919	0	0	25.46
Central Expressway Total	11,562,532	24.4	26.1	-10,768	-189,428	0	0	33.53
Class A	7,266,037	29.2	31.0	-1,829	-122,835	0	0	35.13
Class B	4,296,495	16.2	17.9	-8,939	-66,593	0	0	27.99
East Dallas Total	7,444,361	23.9	23.9	-24,649	142,457	0	0	33.49
Class A	2,565,882	40.1	40.1	-13,906	149,774	0	0	42.54
Class B	4,878,479	15.4	15.9	-10,743	(7,317)	0	0	20.78
Far North Dallas Total	57,077,621	29.4	29.4	-435,427	19,943	120,728	289,188	34.29
Class A	41,906,762	31.5	31.5	-505,459	478,140	120,728	221,188	36.67
Class B	15,170,859	23.4	27.5	70,032	-458,197	0	68,000	26.93
Las Colinas Total	37,473,235	27.7	31.9	-41,268	-738,129	0	0	27.41
Class A	24,234,203	29.8	33.9	90,510	-477,417	0	0	29.66
Class B	13,239,032	23.8	28.3	-131,778	-260,712	0	0	22.22
LBJ Freeway Total	20,676,701	25.5	25.6	197,067	212,398	0	0	24.99
Class A	11,819,428	19.9	22.5	146,199	63,410	0	0	29.27
Class B	8,857,273	32.8	32.8	50,868	148,988	0	0	20.32
Lewisville/Denton Total	6,293,326	24.8	24.8	-60,166	-35,762	30,247	0	27.63
Class A	983,637	49.0	50.2	13,750	-1,300	0	0	35.62
Class B	5,309,689	20.3	20.3	-73,916	-34,462	30,247	0	24.79
Preston Center Total	5,769,566	9.1	9.8	167,957	200,070	0	0	44.75
Class A	3,665,319	9.7	9.7	104,364	109,904	0	0	49.45
Class B	2,104,247	8.0	10.0	63,593	90,166	0	0	37.04
Richardson/Plano Total	31,327,677	20.7	23.1	-349,335	-215,703	116,768	344,193	26.17
Class A	14,824,184	24.1	27.8	-325,715	-97,202	116,768	344,193	28.82
Class B	16,503,493	17.6	18.8	-23,620	-118,501	0	0	22.95
Southwest Dallas Total	3,051,702	18.4	18.5	101,118	-31,063	0	0	24.21
Class A	981,517	31.5	31.5	-5,531	-33,208	0	0	24.44
Class B	2,070,185	12.3	14.2	106,649	2,145	0	0	24.01
Stemmons Freeway Total	10,859,702	23.9	23.9	22,192	2,706	0	0	24.00
Class A	5,720,024	22.9	22.9	-1,569	6,079	125,788	0	26.52
Class B	5,139,678	25.1	25.1	23,761	-3,373	0	0	20.95
Uptown/Turtle Creek Total	15,461,882	23.2	26.1	17,120	615,031	289,000	1,926,341	52.37
Class A	13,630,571	23.7	27.0	13,556	615,806	289,000	1,926,341	54.09
Class B	1,831,311	19.6	19.7	3,564	-775	0	0	36.51
CBD Fort Worth Total	8,093,718	14.3	14.4	67,304	38,510	0	0	30.98
Class A	5,310,461	13.3	13.5	1,730	53,128	0	0	34.30
Class B	2,783,257	15.9	15.9	65,574	-14,618	0	0	23.33
Mid-Cities Total	19,576,259	27.80	28.60	18,698	125,396	0	54,609	26.05
Class A	7,944,361	39.9	39.9	17,503	307,077	0	0	28.04
Class B	11,631,898	19.5	21.7	1,195	-181,681	0	54,609	22.26
North Fort Worth Total	3,091,600	24.3	28.3	32,675	50,568	0	180,254	25.49
Class A	1,471,997	27.6	29.3	-1,006	21,322	0	180,254	28.14
Class B	1,619,603	21.2	27.3	33,681	29,246	0	0	24.04
NE Fort Worth Total	3,122,549	13.8	15.2	-5,443	57,590	0	0	22.09
Class A	415,921	0.0	0.0	0	53,236	0	0	-
Class B	2,706,628	15.9	17.6	-5,443	4,354	0	0	22.09
South Fort Worth Total	10,296,668	13.9	14.4	122,578	-29,676	0	100,000	26.88
Class A	3,717,750	10.9	10.9	75,062	-45,935	0	100,000	32.13
Class B	6,578,918	15.5	16.4	47,516	16,259	0	0	24.83
Dallas-Fort Worth Market Total	277,485,043	25.2	26.6	-132,955	228,752	682,531	2,894,585	30.85
Class A	169,483,406	28.0	29.6	-353,748	1,070,904	652,284	2,771,976	33.79
Class B	108,001,637	20.7	21.8	220,793	-842,152	30,247	122,609	23.90

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