1Q25

Dallas-Fort Worth Office Market Overview

Market Observations

Economy

- The market's unemployment rate ticked up by 12 basis points year over year to 4.0% but remained well below the five-year average of 4.7%.
- Job growth pace has slowed compared with recent highs to 1.2% year over year while employment growth remains elevated over the 4.2 million employment mark since mid-year 2023.
- Most sectors reported employment growth, except for the business and professional and manufacturing sectors, with the mining and construction sector leading job gains at 2.4% over the past 12 months.
- Office-using jobs in the market have eased from the all-time high by 0.7%, settling at 1.2 million employees and reflecting an 18.3% growth since 2019.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased by 1.7% year over year to $31.20/SF, reaching a new historical high.
- Occupancy increased this quarter as new supply remain muted, resulting in overall vacancy rates ticking downwards for the first time since mid-2021 by 20 basis points quarter over quarter to 24.5%.
- Under-construction pipeline drops to 2.3 MSF in progress, reflecting the lowest quarterly construction activity since the first half of 2013.
- Total leasing activity closed the quarter at 4.0 MSF, reflecting flattening quarterly leasing activity bolstered by smaller deals signed. Leases signed averaged 4,735 SF per deal, with average deal size decreasing by 10.8% quarter over quarter.

Major Transactions

- Toyota Financial Services inked the largest deal of the quarter. The auto finance provider company signed a 241,452-SF lease to occupy all seven stories of the largest mass-timber building in Texas. The new lease will complement the company's nearby workspace at Toyota North America Headquarters and is expected bring an additional 1,000 employees to the area.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the quarter, with all five of the largest deals signed in Class A assets. Overall, Class A assets represent 71.5% of the leasing activity by square feet for the quarter.
- The top five largest deals were spread across four submarkets, with the Legacy/Frisco submarket chosen as the new home for two tenants.

Outlook

- Economic uncertainty due to tariff announcements may cause leasing activity to flatten and slow as companies might choose to delay decisions.
- In the near term, a winnowing construction pipeline will lead to rent and occupancy increases in submarkets with premier office product, as flight to quality persists and supply of these assets become more constrained. Additionally, as office conversions and demolitions continue to take place over the near term, the decrease in existing office inventory may help aid recovery in submarkets with many vacant office buildings and potentially bring greater stabilization to the Class B market.
- The long-term outlook remains positive and competitive given the market's strong economic fundamentals, such as a diversified labor pool and continued elevated office-using employment, especially in the financial activities sector. These factors will help the market surmount any near-term challenges and macroeconomic headwinds.

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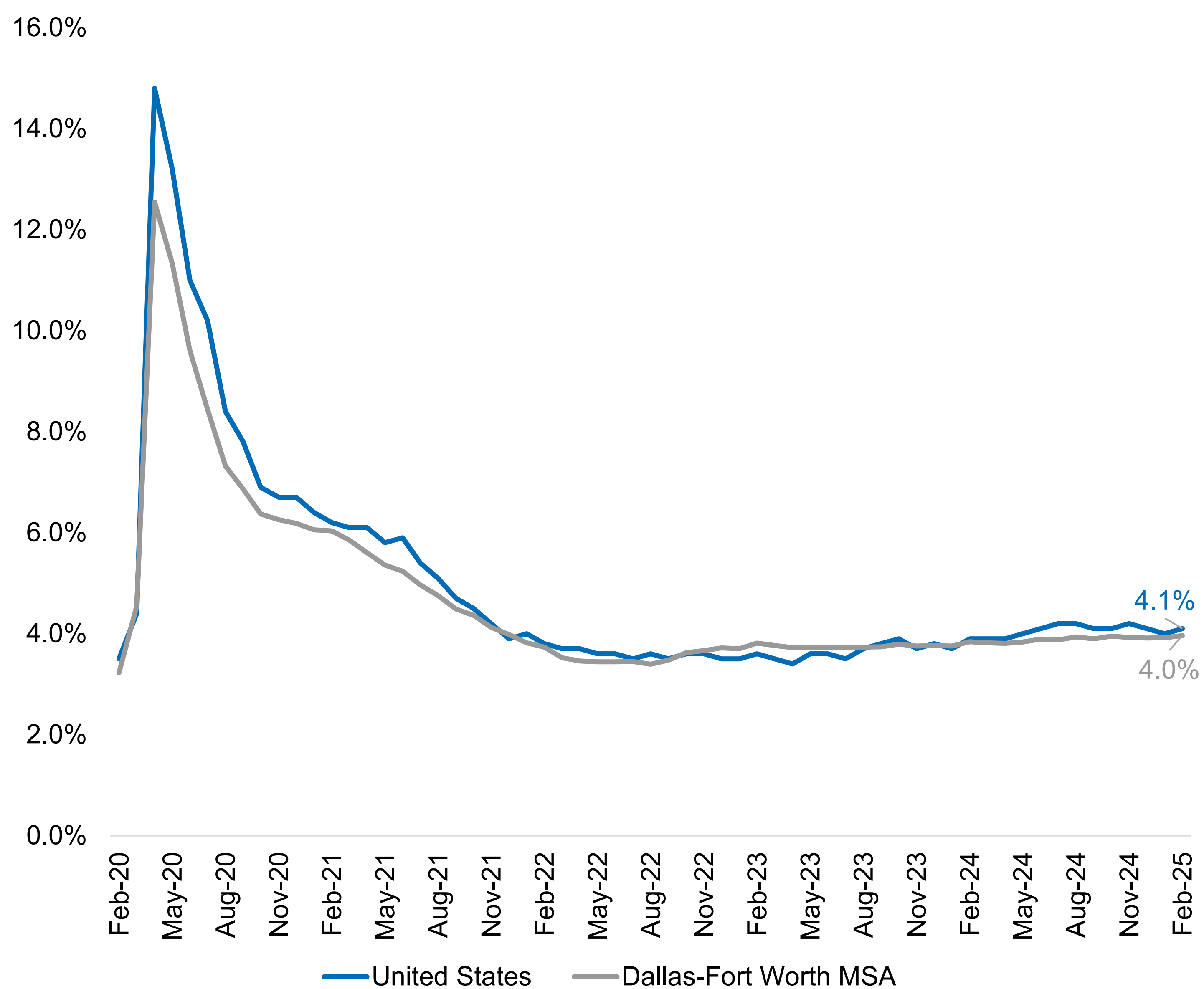
Economy

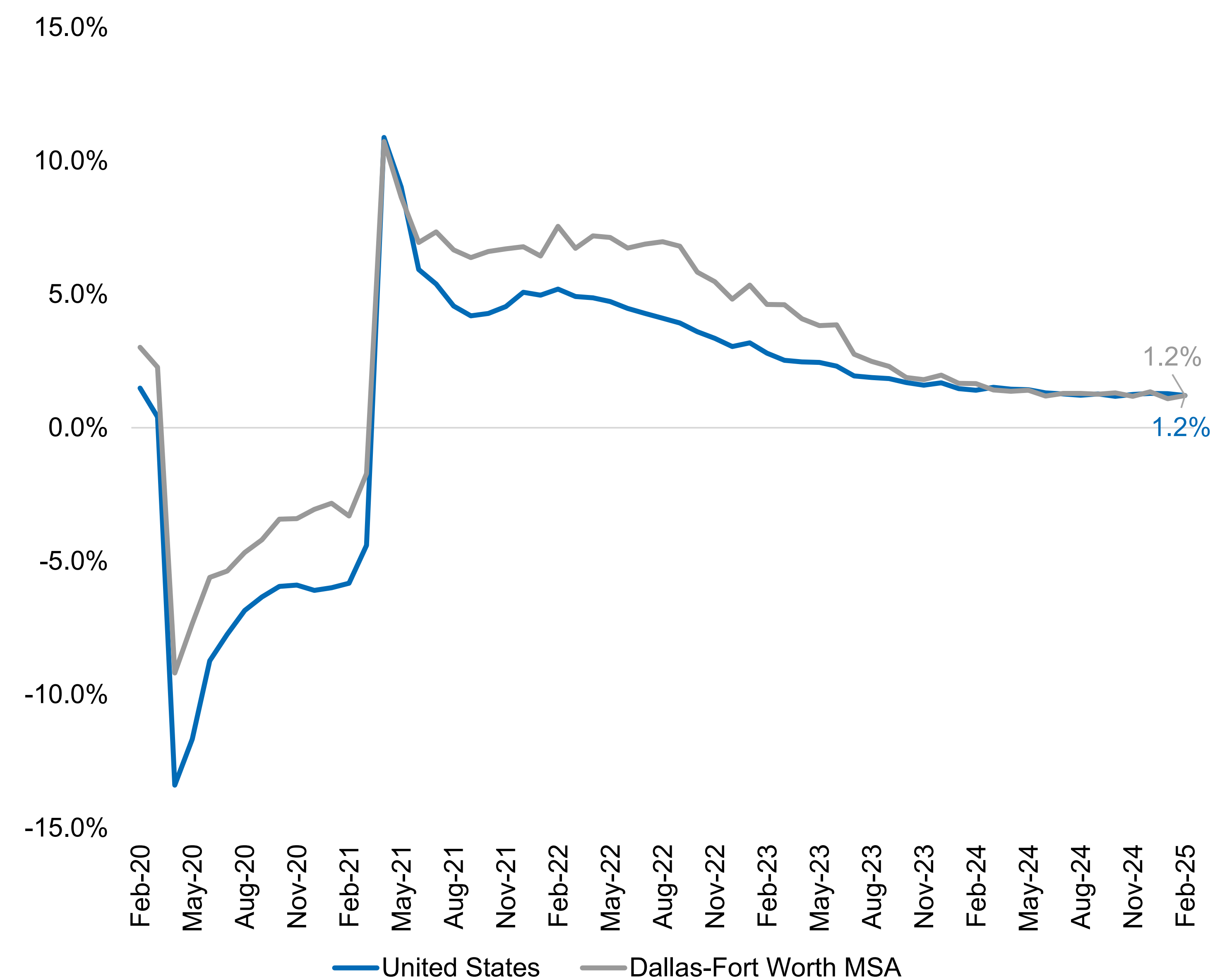
Metro Employment Trends Remain Relatively Flat

Since late 2021, recent national economic headwinds have caused fluctuations in the region's unemployment compared to the national rate. More recently, beginning in February 2024, the market's unemployment rate has consistently remained below the national level. As of February 2025, the market's unemployment rate stood at 4.0% and is 14 basis points lower than the national average. Historically, the market has generally been an outperformer in employment growth, but economic headwinds have slowed growth rates. In February 2025, the market's employment growth slowed by 45 basis points year over year, yet still reported positive growth of 1.2% year over year, matching the nation's employment growth pace.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

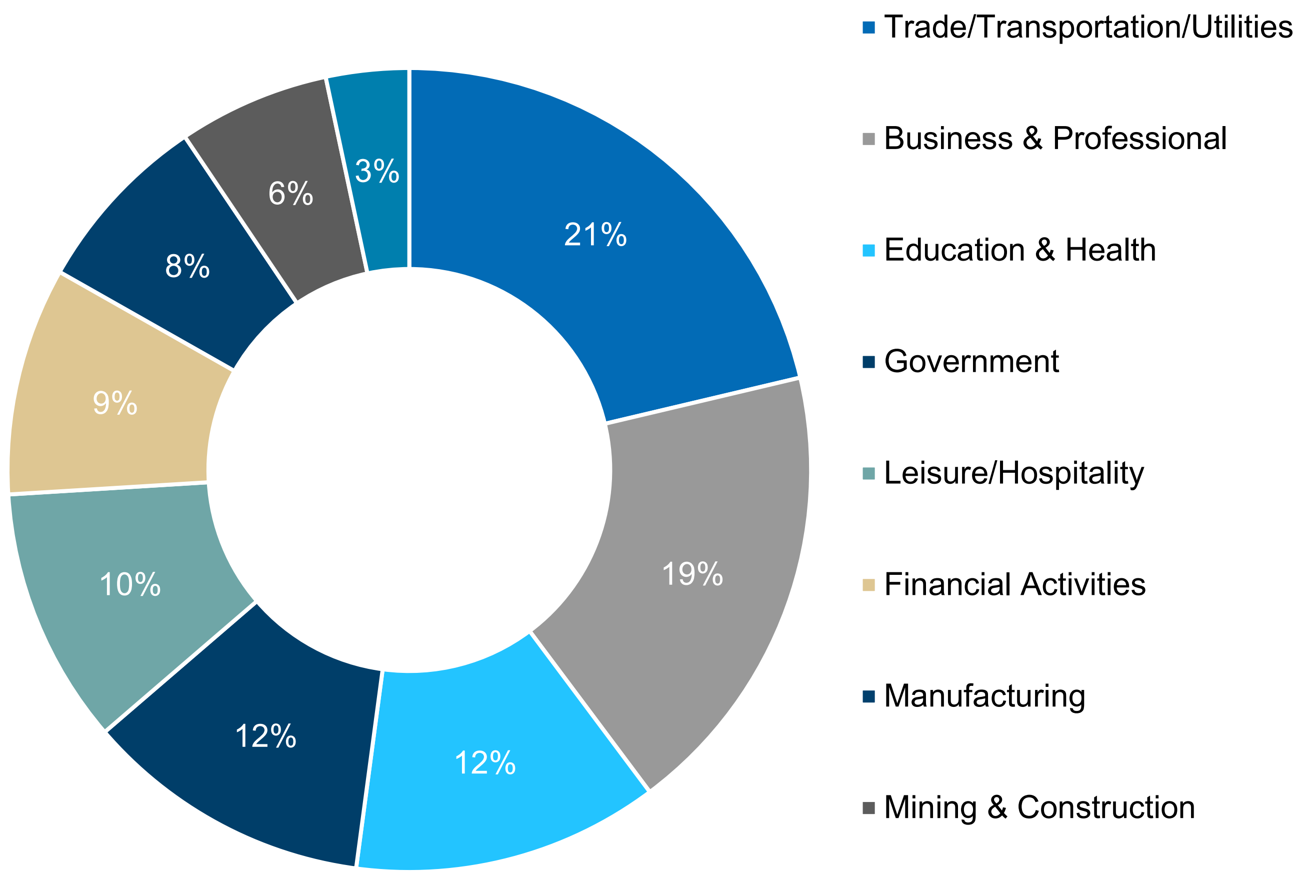


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

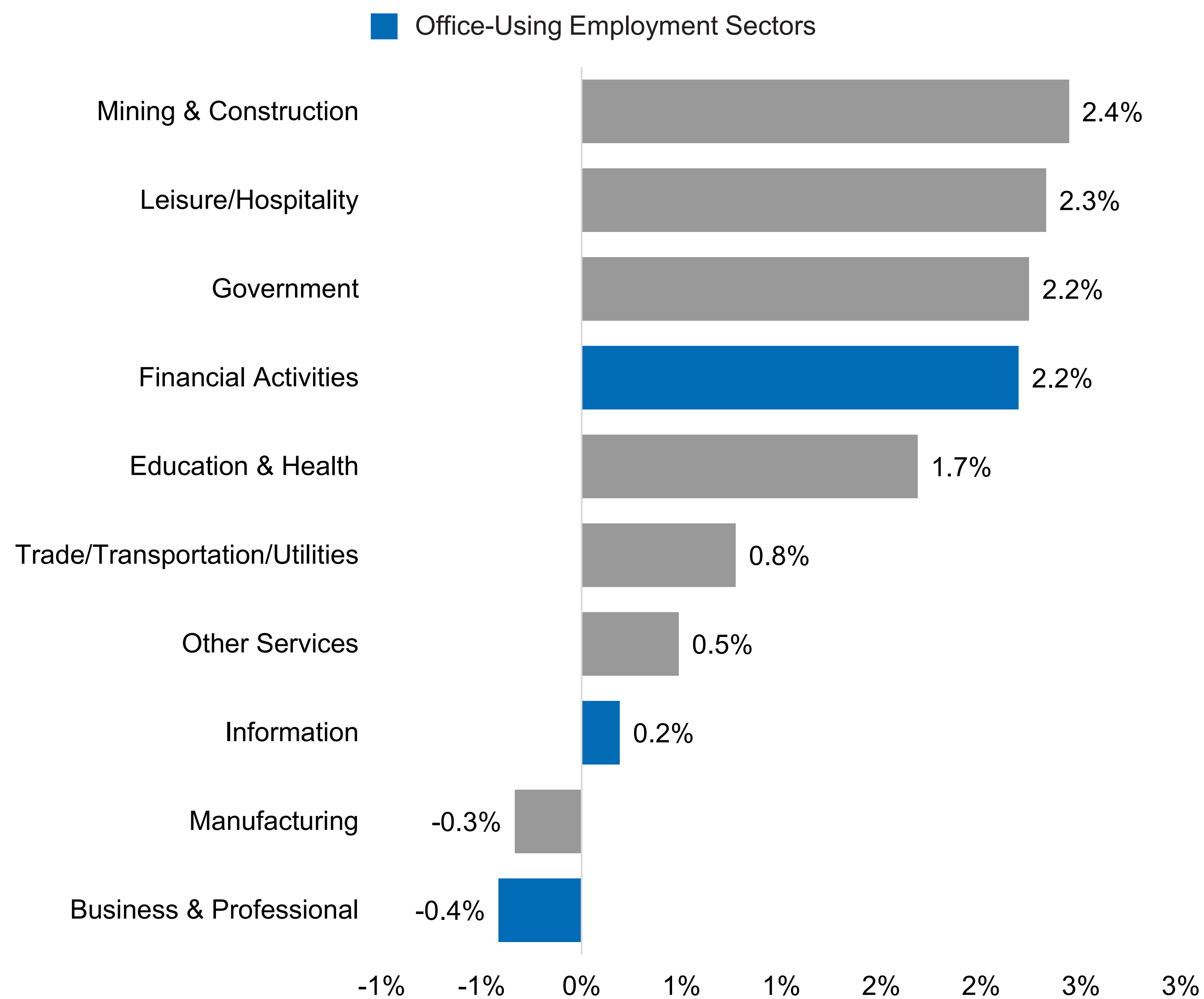
Employment Growth Continues for Most Office-Using Sectors

The Dallas-Fort Worth market has a high industry diversity with the top two industries accounting for only 38.9% of the market's industry employment share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 18.1%. Most industries in the metroplex reported growth, while one office-using industry, the business and professional sector contracted by 0.4% year over year. Comparatively, the information and financial activities sectors grew by 0.2% and 2.2% year over year, respectively.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

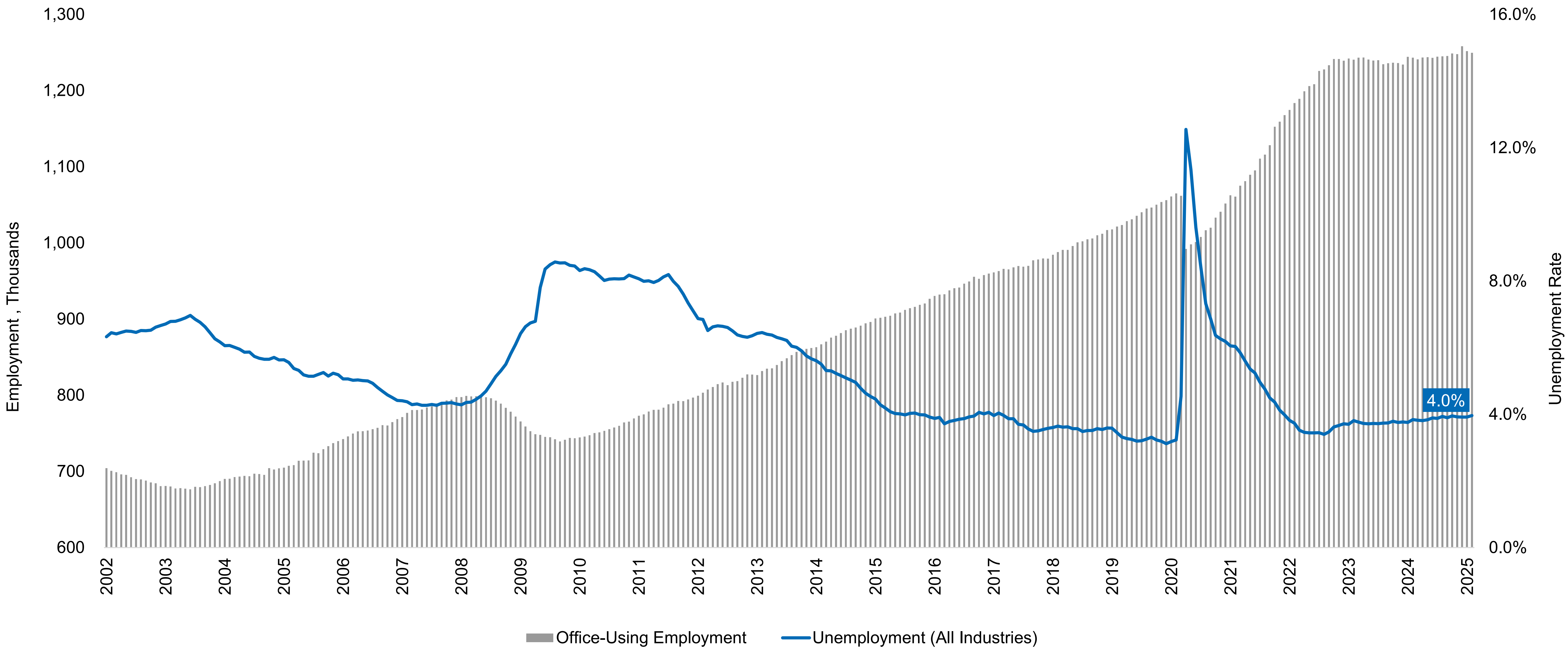


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

Overall Office-Using Employment Remains Near All-Time High

Office-using employment in Dallas-Fort Worth market increased slightly by 0.5% year over year in February 2025, remaining elevated at 1.2 million employees and just 0.7% shy of the all-time high in year-end 2024. Currently, the seasonally adjusted unemployment rate is at 4.0%, above the 3.3% average levels reported in 2019. Contraction in two sectors, including the office-using employment's business and professional sector, has contributed to a recent uptick in unemployment, resulting in a 12-basis-point increase year over year over the past 12 months.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

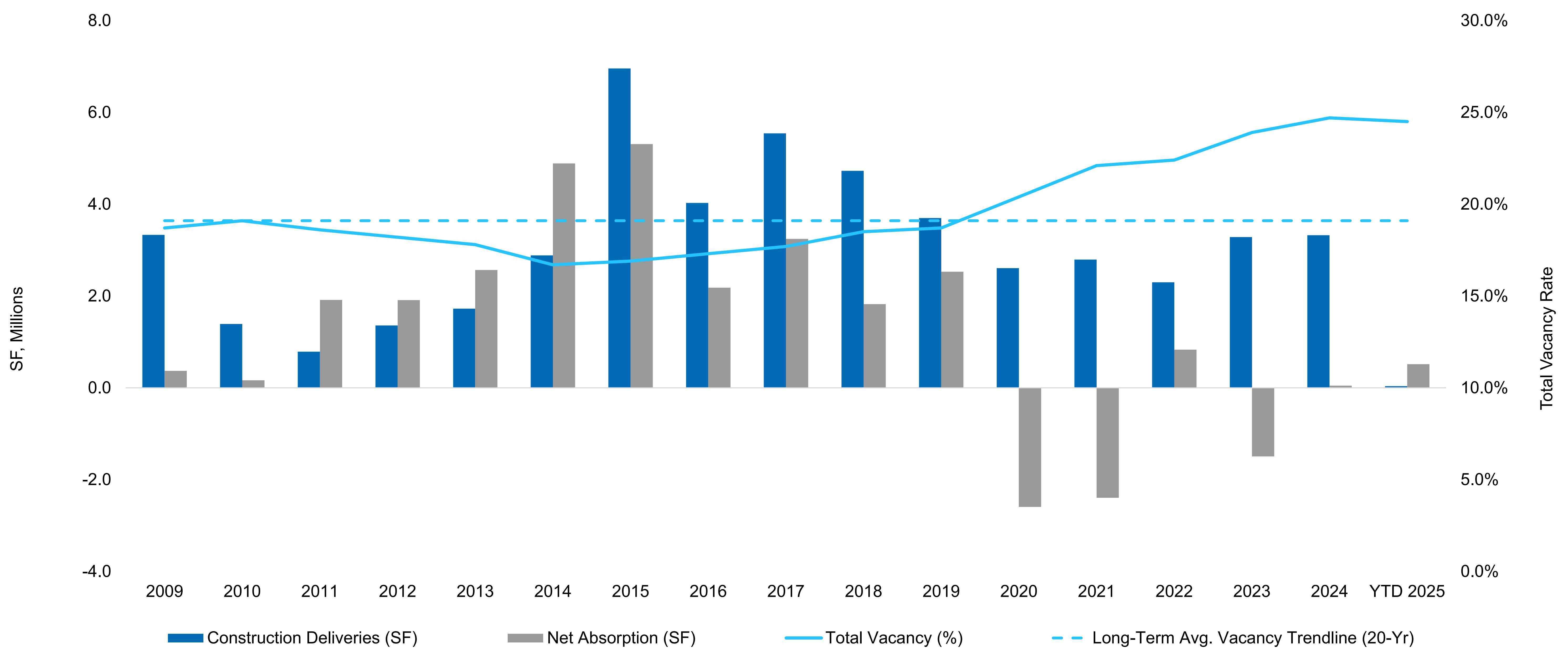
1Q25

Leasing Market Fundamentals

Occupancies Begin Year on a Strong Positive Note

The first quarter of 2025 reported positive occupancies at 516,036 SF, already surpassing yearly totals over the past two years. As a result, vacancies ticked downward by 40 basis points quarter over quarter to 24.5% with minimal new supply hitting the market. Vacancy rates have remained elevated in the market due to older office buildings sitting vacant as occupiers continue a flight to quality towards newer buildings.

Historical Construction Deliveries, Net Absorption, and Vacancy

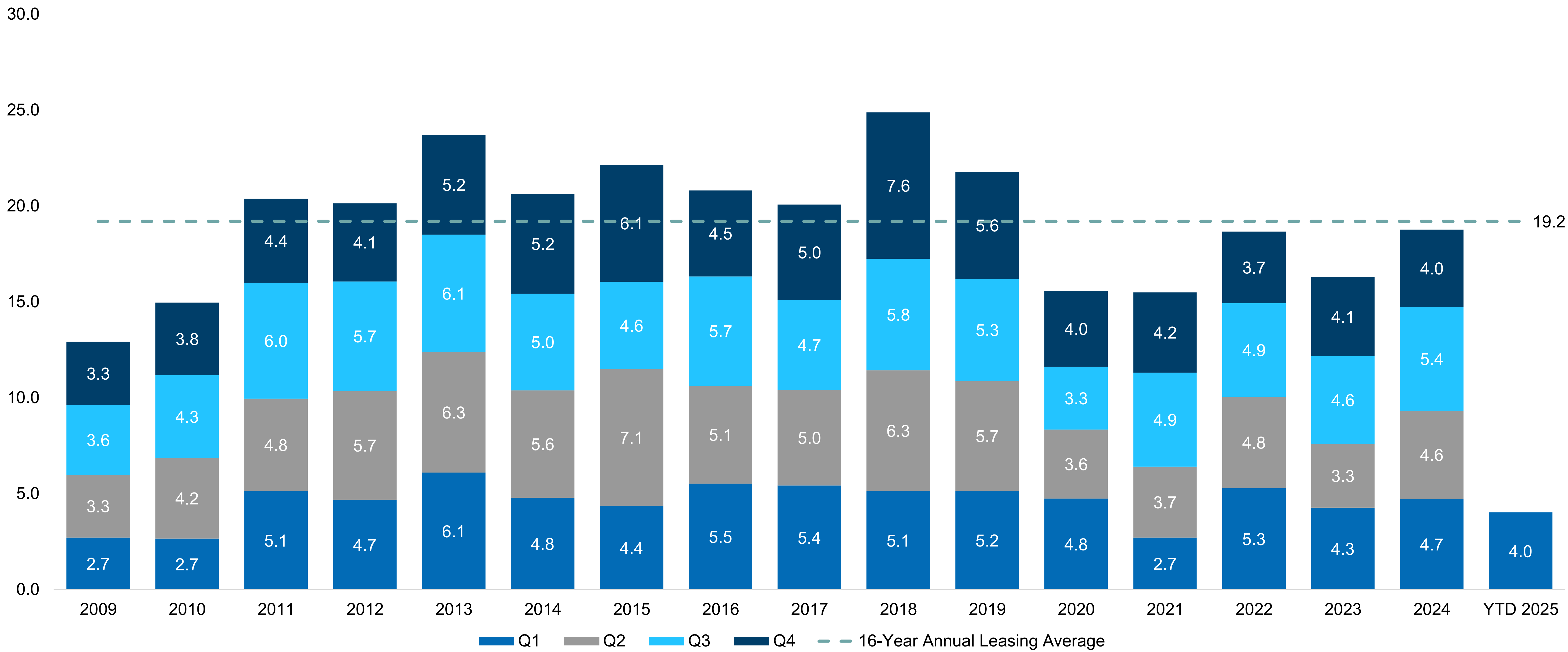


Source: Newmark Research, CoStar

Leasing Activity Flattens Quarterly, Bolstered by More Smaller Deals Done

Leasing activity in the first quarter of 2025 closed at 4.0 MSF, comparatively lower than first quarter activity reported over the past 16 years at 4.6 MSF. The average deal size was 4,735 SF in the first quarter of 2025, a decrease of 573 SF quarter over quarter but an increase of 47 SF year over year. While leasing activity by square footage was similar to last quarter's performance, the number of deals done increased by 12.1%, indicating that more smaller deals are being signed.

Total Leasing Activity (msf)

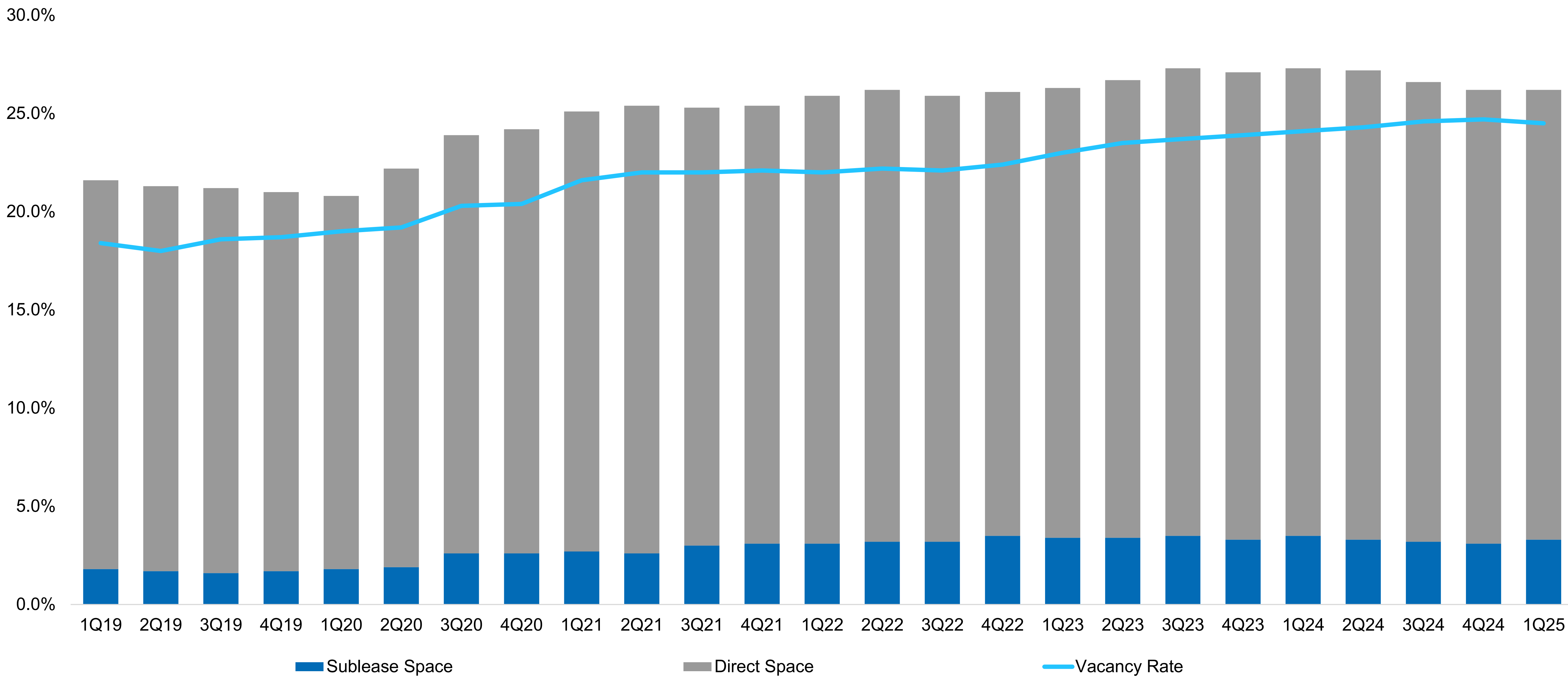


Source: Newmark Research, CoStar

Availability Continues Decreasing from Historical Highs, Vacancy Declines

Sublease availability in the Dallas-Fort Worth market has been on the rise since the pandemic, staying above the 3.0% mark since late 2021. As of the first quarter of 2025, sublease availability remains elevated at 3.3% but has declined by 20 basis points from the peak in the beginning of 2024. Similarly, direct availability remains elevated at 22.9% but has declined by 100 basis points from its peak in the second quarter of 2024. Meanwhile, vacancies remain high but declines for the first time since mid-2021 to 24.5%.

Available Space as Percent of Overall Market

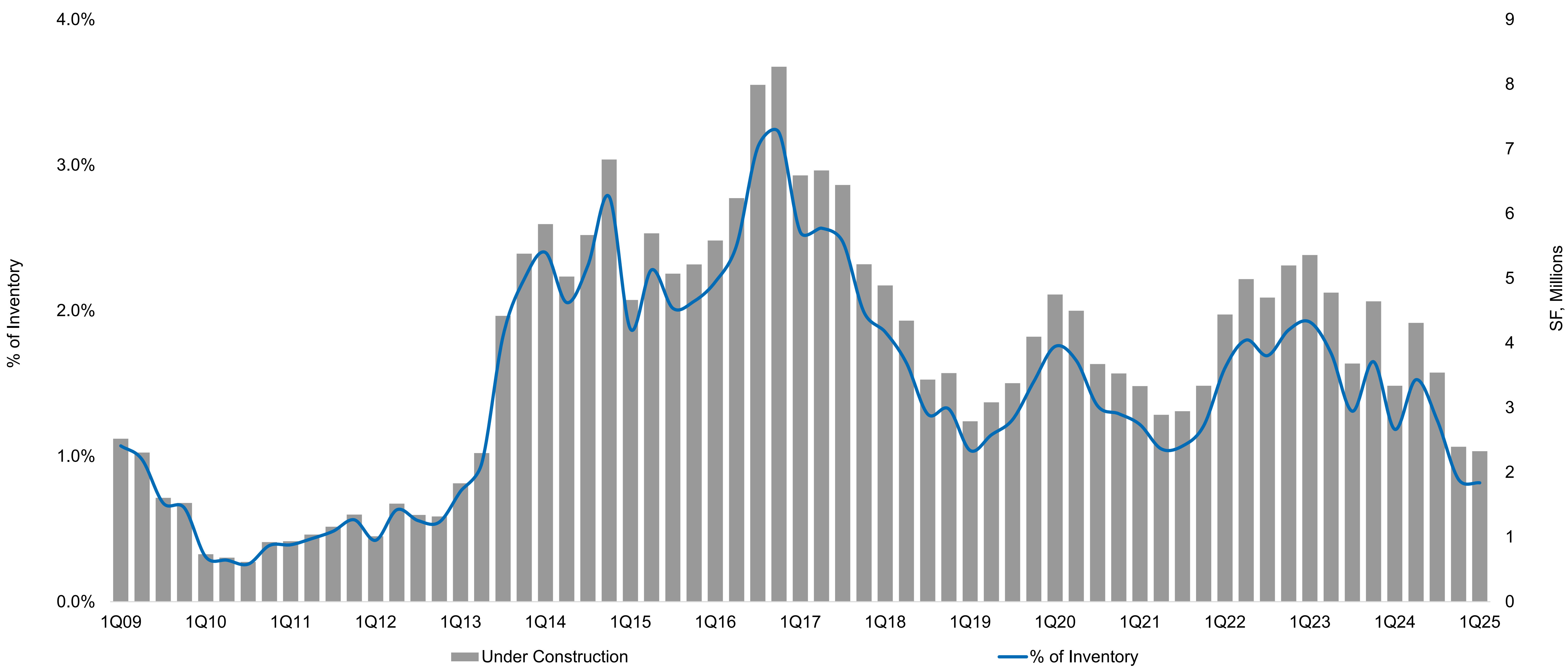


Source: Newmark Research, CoStar

Construction Activity Continues Decreasing

As of the first quarter of 2025, the market had 2.3 MSF under construction, the lowest quarterly value reported since the first half of 2013. Only 0.8% of the market's inventory is currently under construction, indicating there is less risk of overbuilding. New construction builds tend to largely be either build-to-suit projects or projects that have pre-leased to large anchor tenants. New deliveries will continue to be supported by the flight-to-quality space in a market where new product is built, rather than renovating older, obsolete buildings.

Office Under Construction and % of Inventory

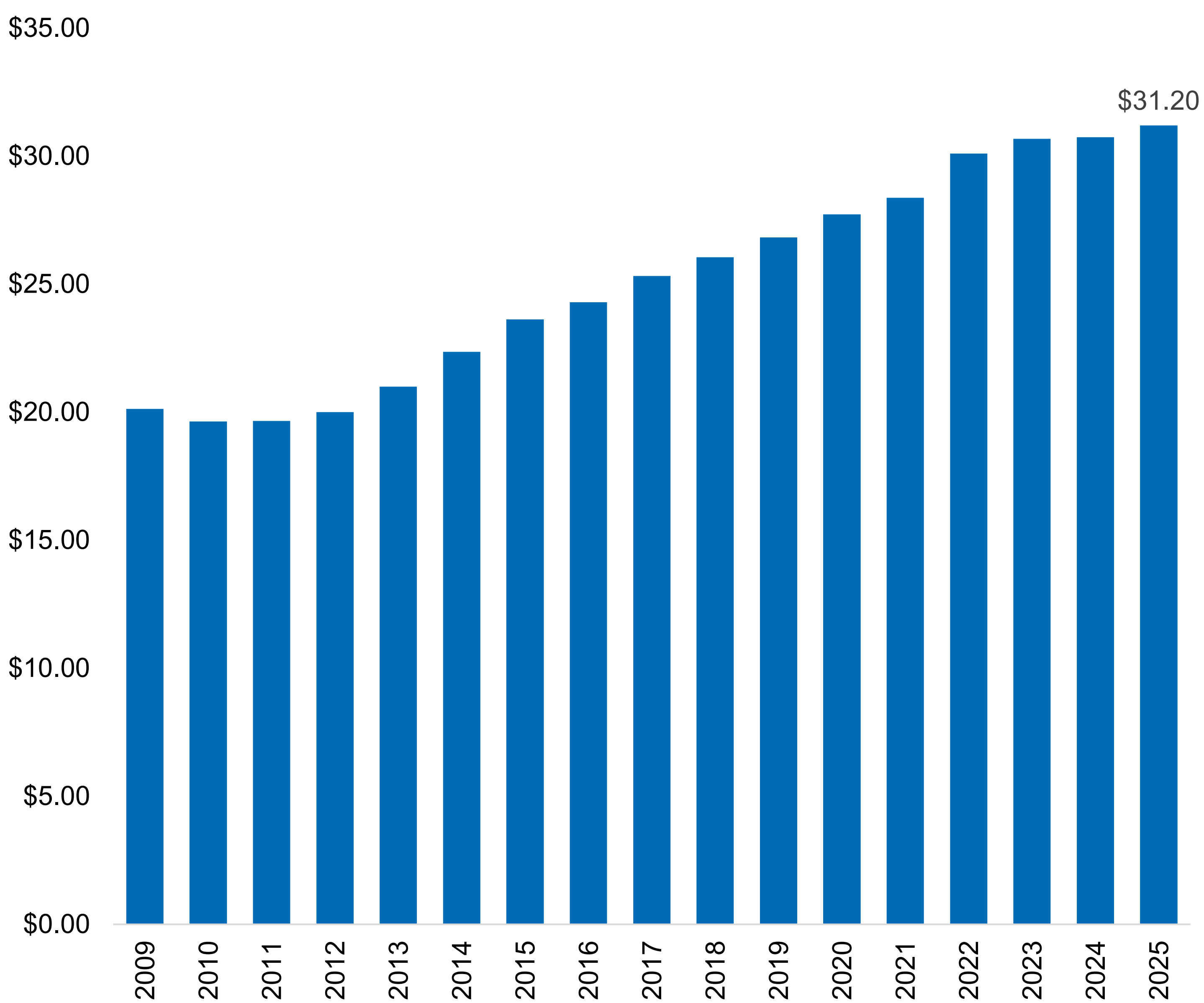


Source: Newmark Research, CoStar

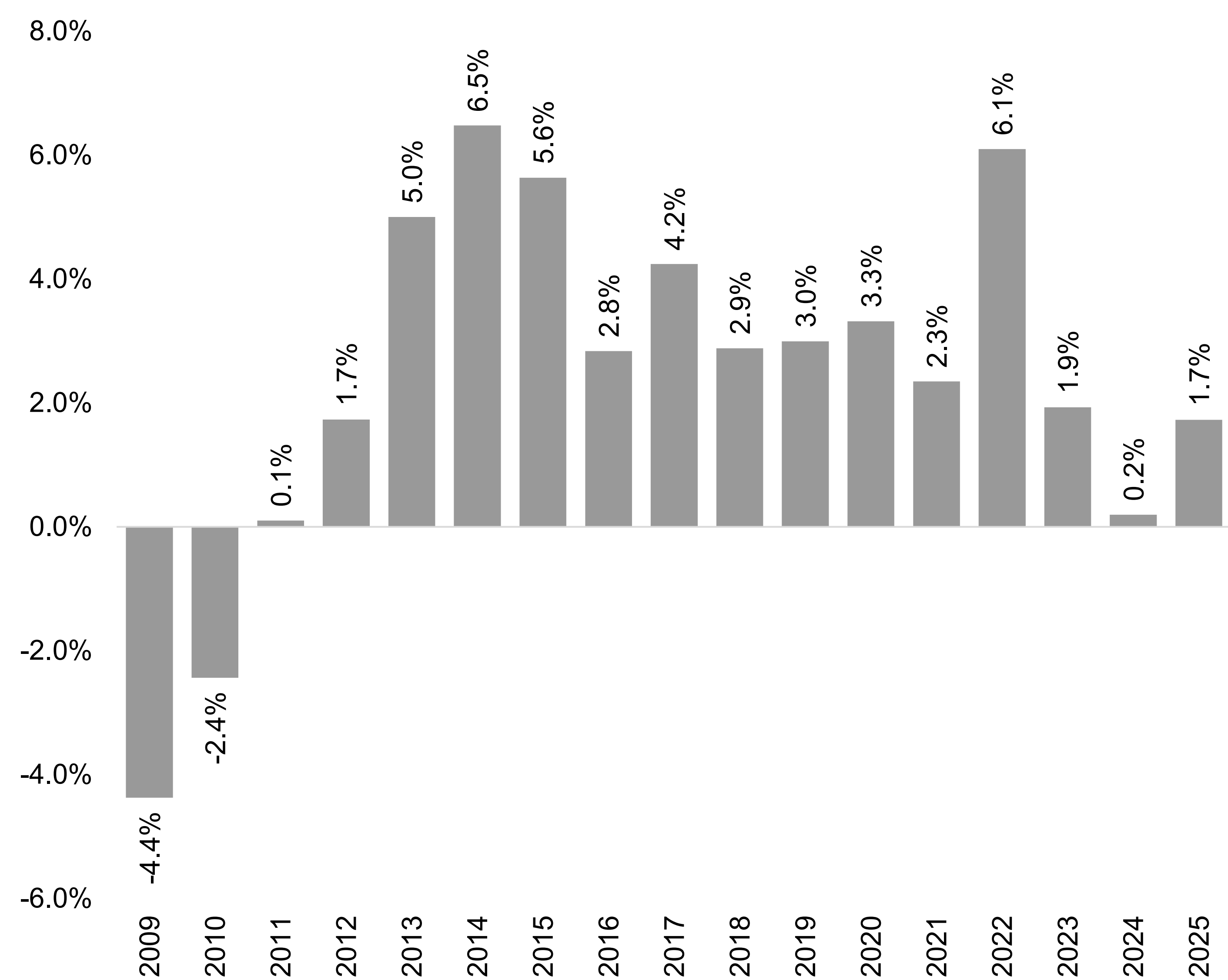
Asking Rents Set All-Time Record High

Rents increased by 1.7% year over year in the first quarter of 2025 to $31.20, reaching a new historical high. Rental rates remain elevated, with landlords likely to maintain high rents while offering attractive concessions to offset softer market demand. Rent growth has been decelerating since 2014, hitting a recent low at 0.2% in 2024 before rebounding in 2025, although it continues to remain slow.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

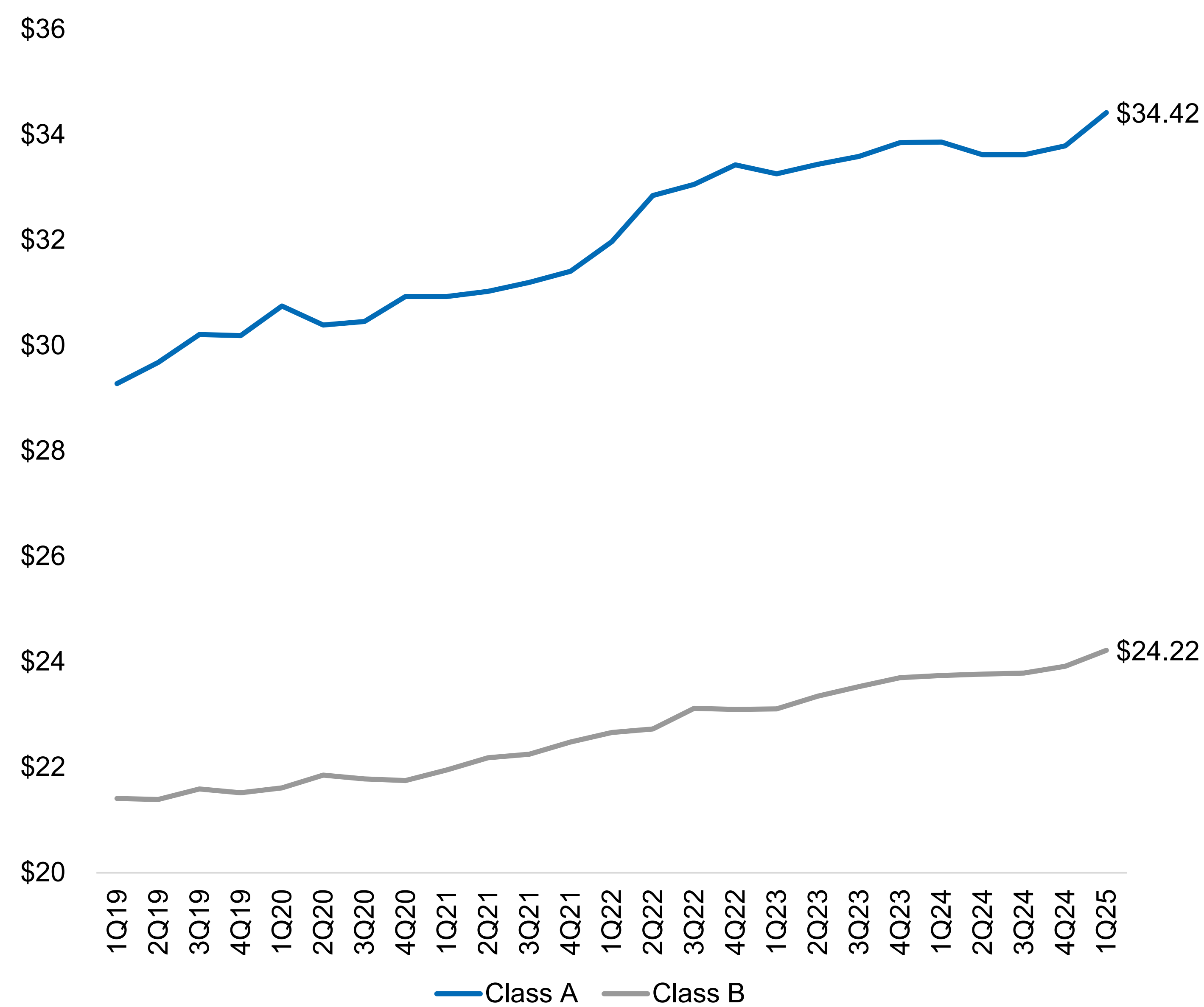


Source: Newmark Research, CoStar

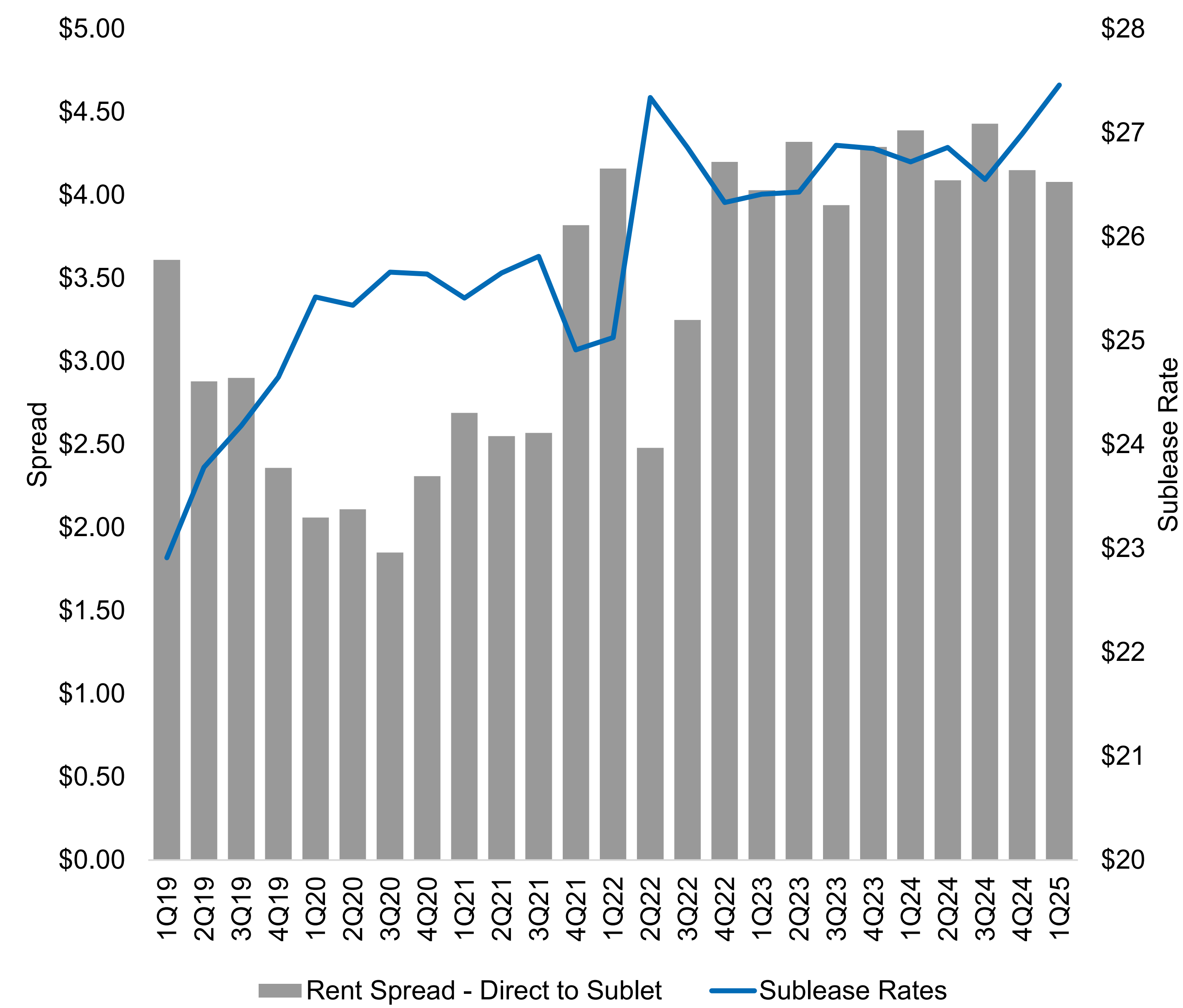
Asking Rent Spread Continues to Reflect Flight to Quality

The bifurcation in the rent spread between Class A and Class B assets continues to remain wide, above the $9.00/SF mark. In the first quarter of 2025, both Class A and Class B rents hit record highs at $34.42/SF and $24.22/SF, respectively. Due to much higher demand of quality assets, rent difference between the two assets are at $10.20/SF, reflecting a 17.6% spread increase since year-end 2019. Meanwhile, sublease rates in the first quarter of 2025 increased by 1.7% quarter over quarter and 2.8% year over year to $27.46/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Flight to quality continues to remain a trend in the Dallas-Fort Worth office market. As of the end of the first quarter of 2025, Class A space accounted for 71.5% of the market's leasing activity by SF, but only 45.7% of the market's deal volume. Average leases signed in Class A space were 7,403 SF and continued to remain larger than the average market deal size at 4,735 SF.

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Toyota Financial Services	Southstone Yards	Legacy/Frisco	Direct New	241,452
The auto finance provider leased all seven stories of the largest mass-timber building in Texas to complement their nearby workspace at Toyota North America Headquarters. The company is expected to bring 1,000 employees as a result of the lease.				
GEICO	Galatyn Commons B	Richardson/Plano	Direct New	165,107
The auto insurance company is expanding its operations via a new lease in a second office building in Richardson and is expected to add more than 1,500 jobs as a result. The company plans on moving into Galatyn Commons B in the fall pushing the company's office occupancy to nearly 400,000 SF in the submarket.				
WeWork (Amazon)	The Apex at Las Colinas Crossing – Building A	Office Center (Las Colinas)	Direct New	154,546
WeWork has leased office space in the McKesson-owned building exclusively to house Amazon's expanding office needs. The arrangement with WeWork enables Amazon to quickly address real estate needs in a nimble and flexible manner.				
Sally Beauty	Liberty Mutual Campus	Legacy/Frisco	Direct New	139,068
The beauty product retailer signed a new lease to move its corporate headquarters from 3001 Colorado Boulevard in Denton where it had occupied for more than 40 years. The new lease will relocate approximately 600 employees to Plano.				
Lockton Companies	Victory Commons One	Uptown/Turtle Creek	Direct New	99,801
The insurance brokerage company, which currently has offices at 2100 Ros Avenue, signed a lease for three floors of Victory Commons One. The company plans to move into its new space by early 2026. This is the first of two deals Lockton Companies have signed in the metroplex. The second new lease was signed at Granite Park 6 for 52,961 SF with the company planning to occupy in the first half of 2026 upon moving from Legacy Town Center II.				

Source: Newmark Research, CoStar

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