4Q24

# Dallas-Fort Worth Office Market Overview

# Market Observations

## Economy

- The market's unemployment rate ticked up by 23 basis points year over year to 3.9% but remained well below the five-year average of 4.6%.
- Job growth pace has slowed compared with recent highs to 1.6% year over year while employment growth continues to remain well below pre-pandemic levels, with November 2019 growth at 3.5%.
- Most sectors reported employment growth, except for the business and professional sector, with the financial activities sector leading job gains at 4.1% over the past 12 months.
- Office-using jobs in the market have eased from the all-time high by 0.3%, reaching close to 1.3 million employees, reflecting a 18.3% growth since 2019.

## Leasing Market Fundamentals

- Annual full-service asking rental rates increased by 0.9% year over year to $30.87/SF, reaching a new historical high.
- Occupancy decreased this quarter as more new supply entered the market, resulting in overall vacancy rates ticking upwards by 20 basis points quarter over quarter to 24.6%.
- Under-construction pipeline drops to 2.4 MSF in progress, reflecting the lowest quarterly construction activity since second quarter 2013.
- Total leasing activity closed the quarter at 3.1 MSF, reflecting slowing leasing activity contributed by fewer deals being done. Yearly leasing activity closed at 17.1 MSF, the second highest in the post-pandemic era. Leases signed averaged 4,598 SF per deal, with average deal size remaining relatively unchanged year over year.

## Major Transactions

- Merit Energy inked the largest deal of the quarter. The energy company signed a 104,034-SF lease to occupy floors 10 through 12 at Two Lincoln Centre. In order for the deal to come to fruition, three current tenants had to renegotiate and move to free up the blocks of space for the new lease.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the quarter, with the largest deal signed in a Class A asset. Overall, Class A assets represent 68.6% of the leasing activity by square feet for the quarter.
- The top three largest deals signed in the quarter were spread throughout the metroplex, a rarity compared to previous quarters where deals were more concentrated in particular submarkets.

## Outlook

- Interest rate reductions in the latter half of 2024 are starting to generate some activity, although it will take time before this directly translates into completed deals. As a result, the Dallas-Fort Worth office market growth is expected to remain subdued in the near term due to the lag time before deals are finalized.
- 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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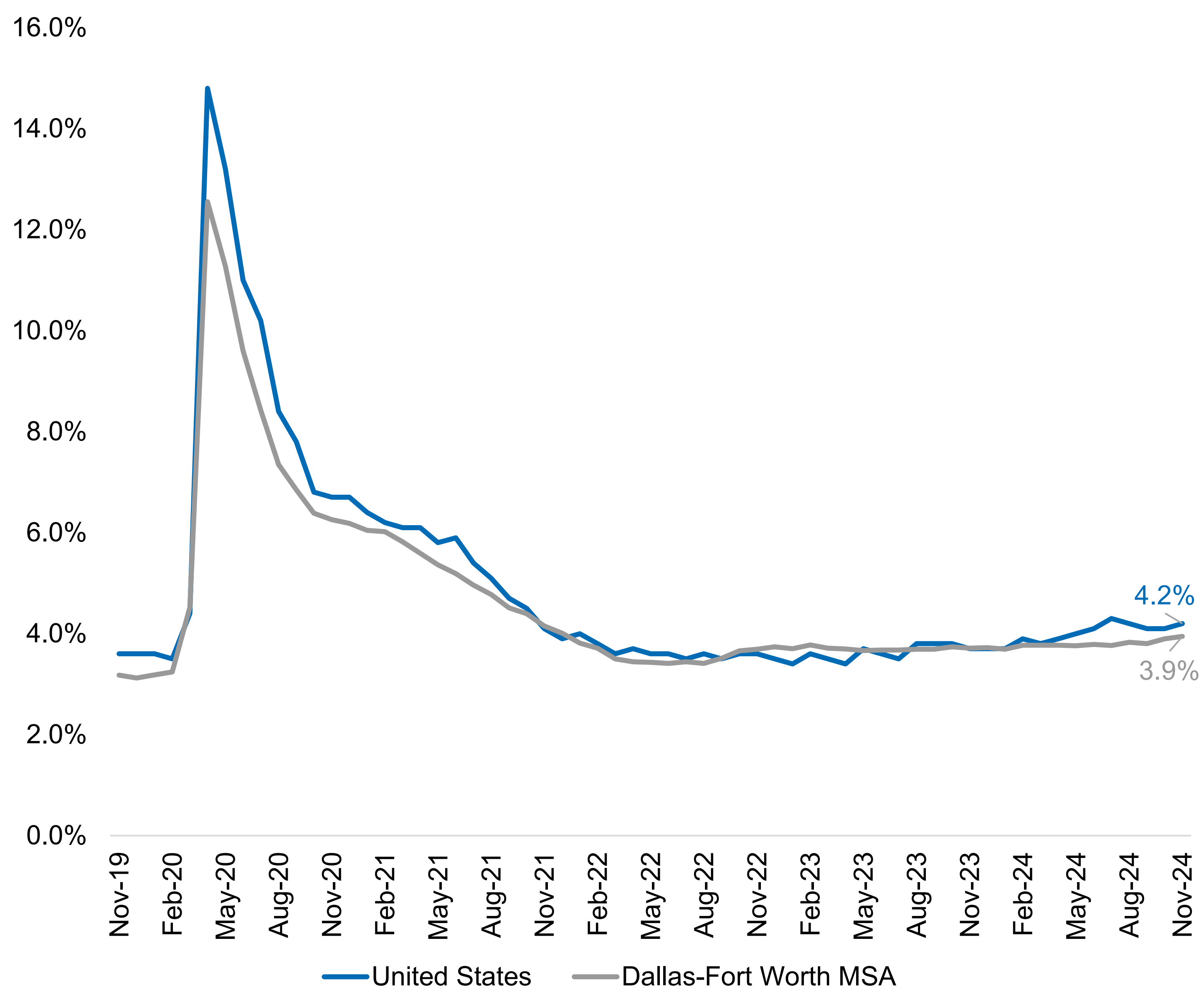
# Economy

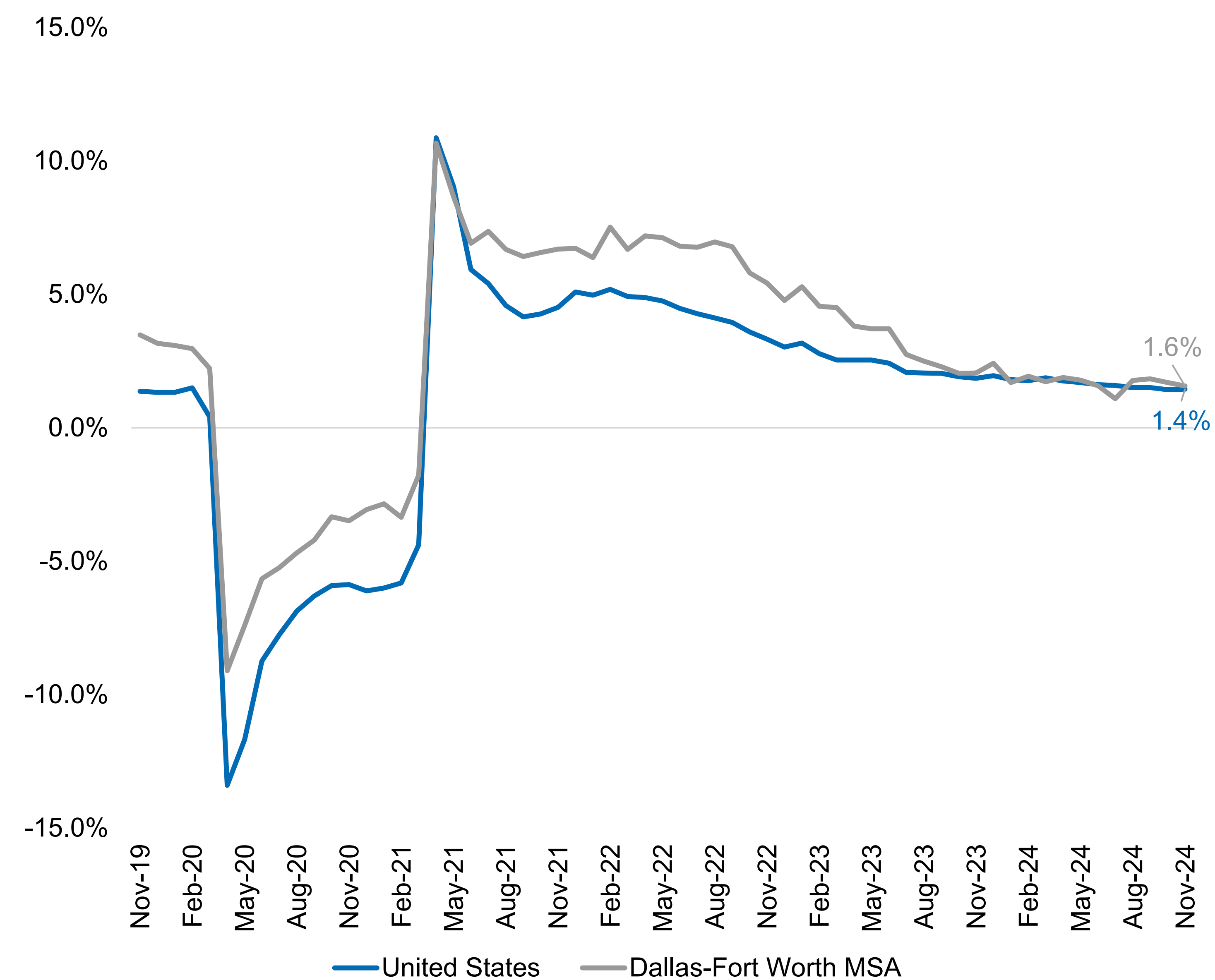
# Metro Employment Trends Remain Flat

Since late 2021, recent national economic headwinds have caused fluctuations in the region's unemployment compared to the national rate. More recently, beginning in 2024, the market's unemployment rate has consistently remained below the national level. As of November 2024, the market's unemployment rate stood at 3.9% and is 26 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 November 2024, the market's employment growth slowed by 49 basis points year over year, yet still reported positive growth of 1.6% year over year, outpacing the nation's employment growth pace by 20 basis points.

## Unemployment Rate, Seasonally Adjusted




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

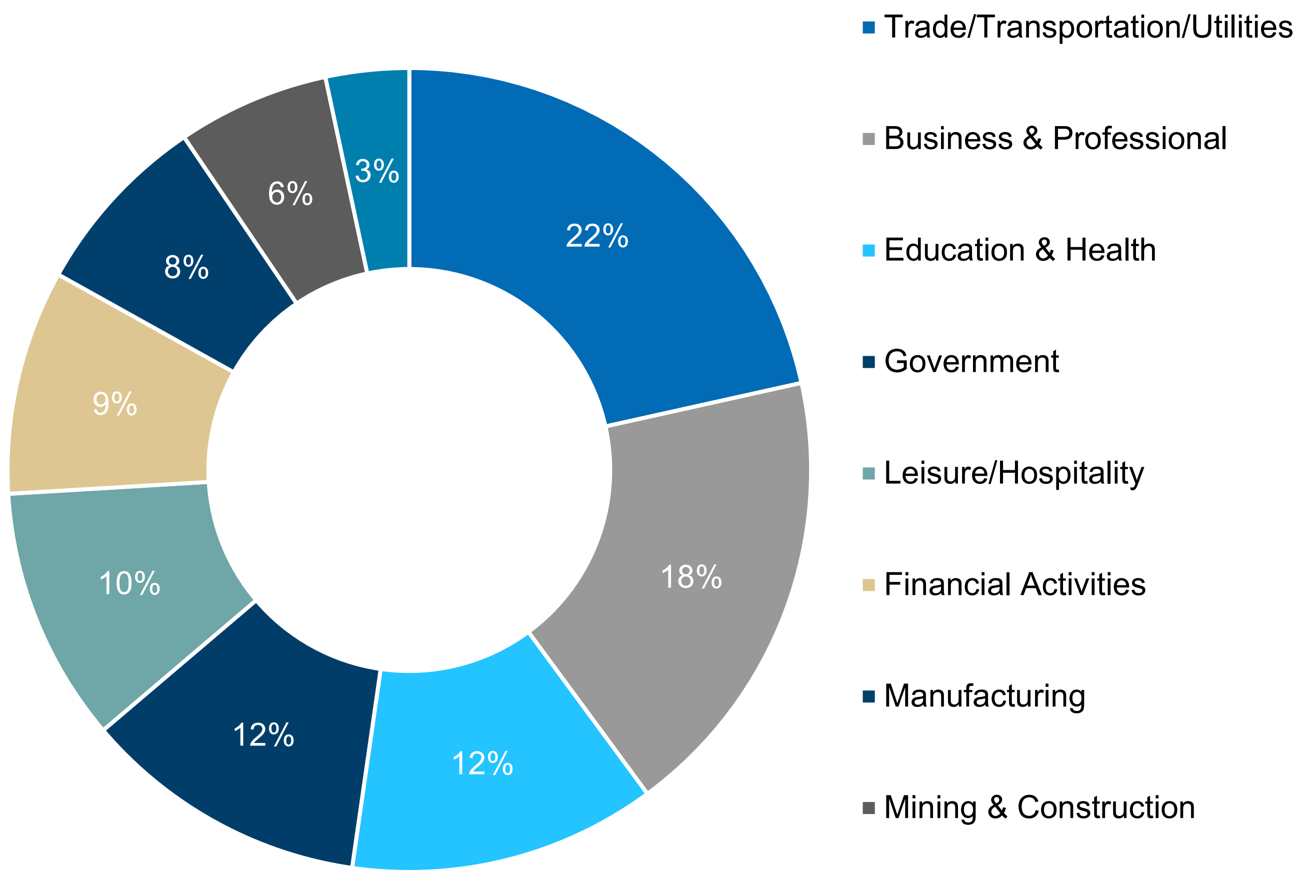



Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

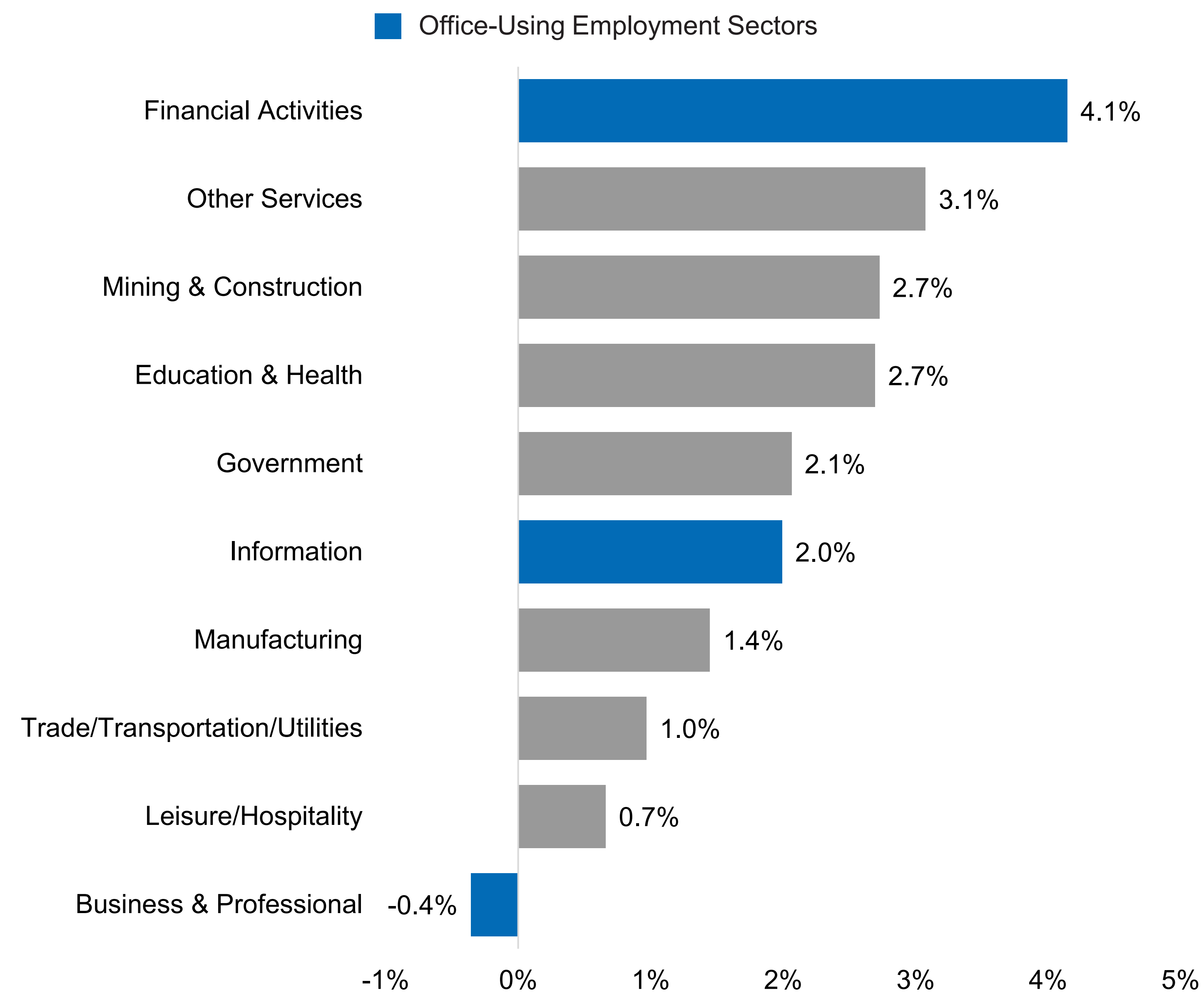
# Employment Growth Continues For All But Business and Professional Sector

The Dallas-Fort Worth market has a high industry diversity with the top two industries accounting for only 39.1% 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 18.0%. 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 2.0% and 4.1% year over year, respectively.

## Employment by Industry, November 2024




## Employment Growth by Industry, 12-Month % Change, November 2024

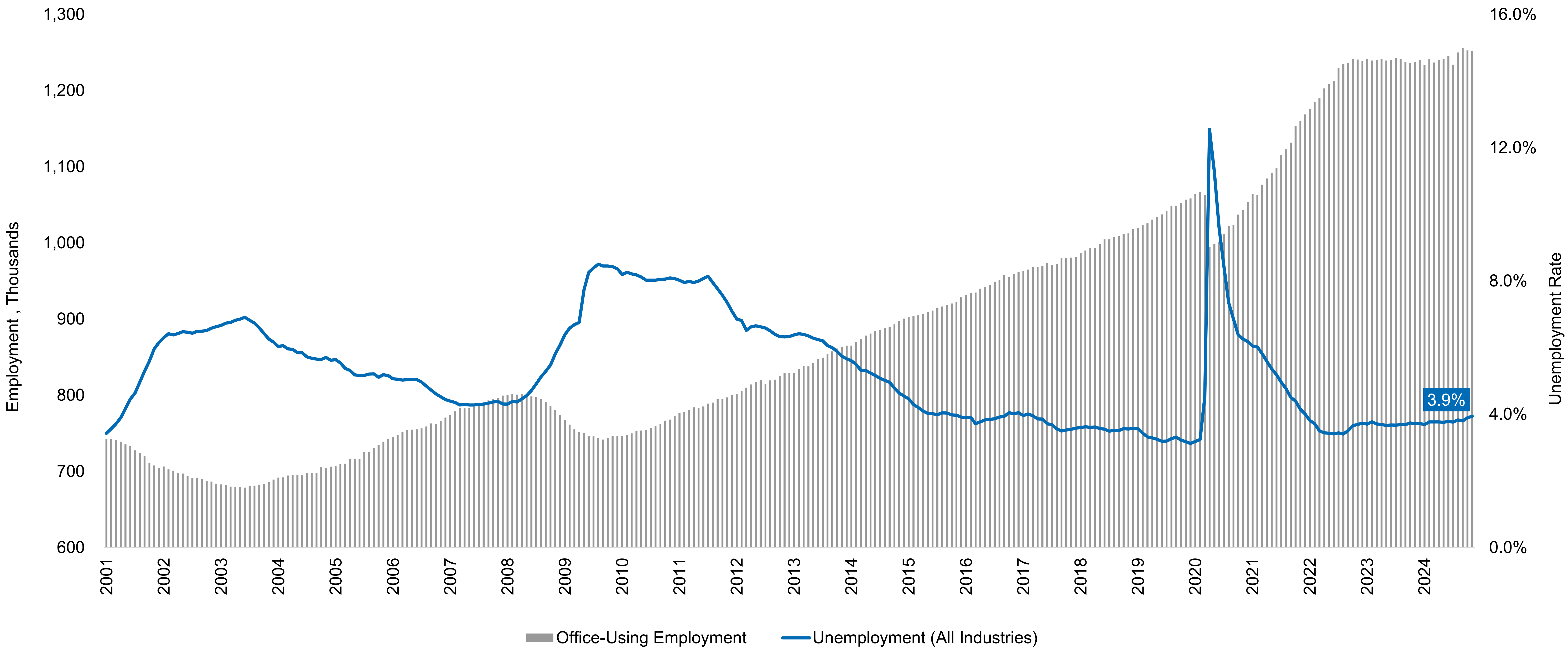



Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

# Overall Office-Using Employment Remains Near All-Time High

Office-using employment in Dallas-Fort Worth market increased slightly by 1.2% year over year in November 2024, remaining elevated at 1.3 million employees and just 0.3% shy of the all-time high in September 2024. Currently, the seasonally adjusted unemployment rate is at 3.9%, above the 3.3% average levels reported in 2019. Despite a contraction in the business and professional sector, growth in the other office-using employment sectors over the past 12 months contributed to the recent uptick in unemployment rate in the market by 120 basis points year over year.

**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.

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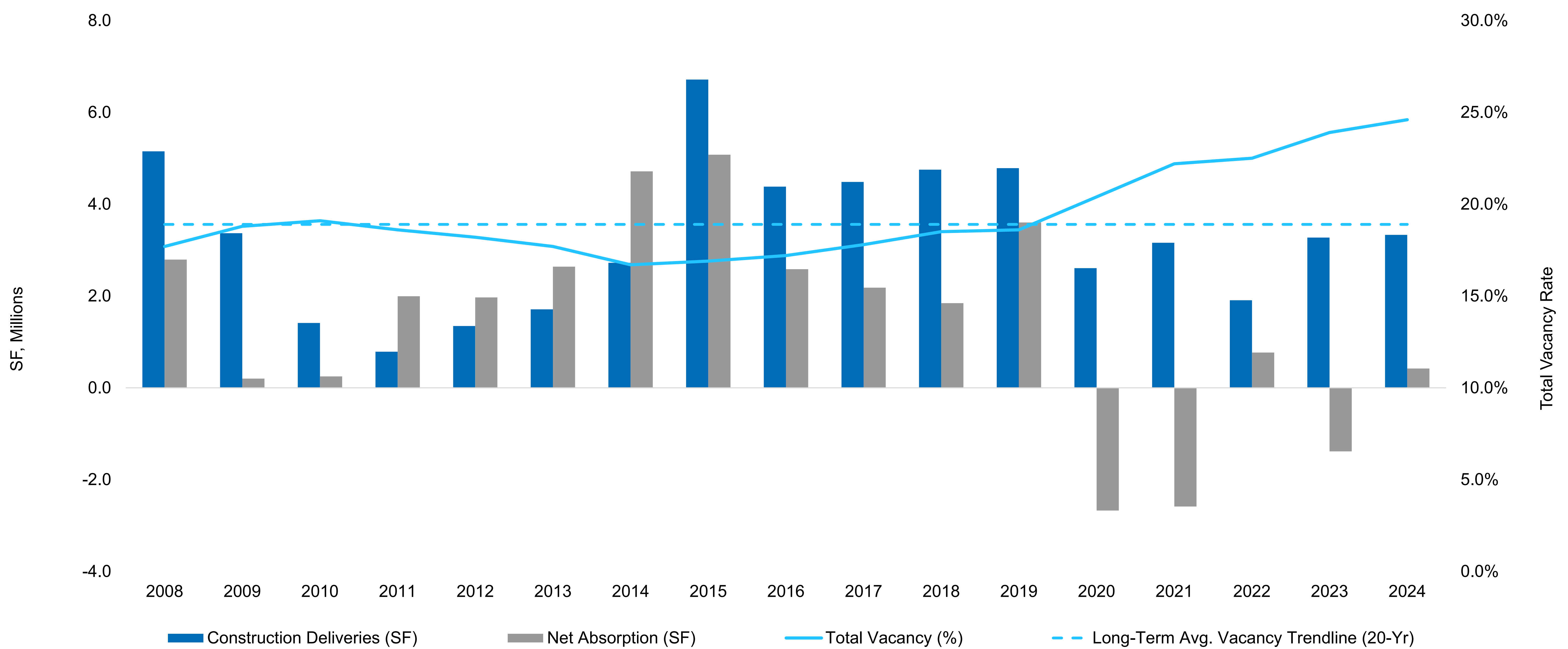
# Leasing Market Fundamentals

# Occupancies End Year on a Positive Note

Office occupancies in the market have slowed, with 2024 being only the second year to report positive yearly occupancies since 2019. The fourth quarter of 2024 reported negative occupancies following a strong quarter of occupancies in the third quarter of 2024, led by TIAA's occupancy of 525,4050 SF of build-to-suit space, that helped push net absorption positive for the year. As a result, vacancies ticked upwards by 20 basis points quarter over quarter to 24.6% but were able to hold relatively steady despite new supply entering 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

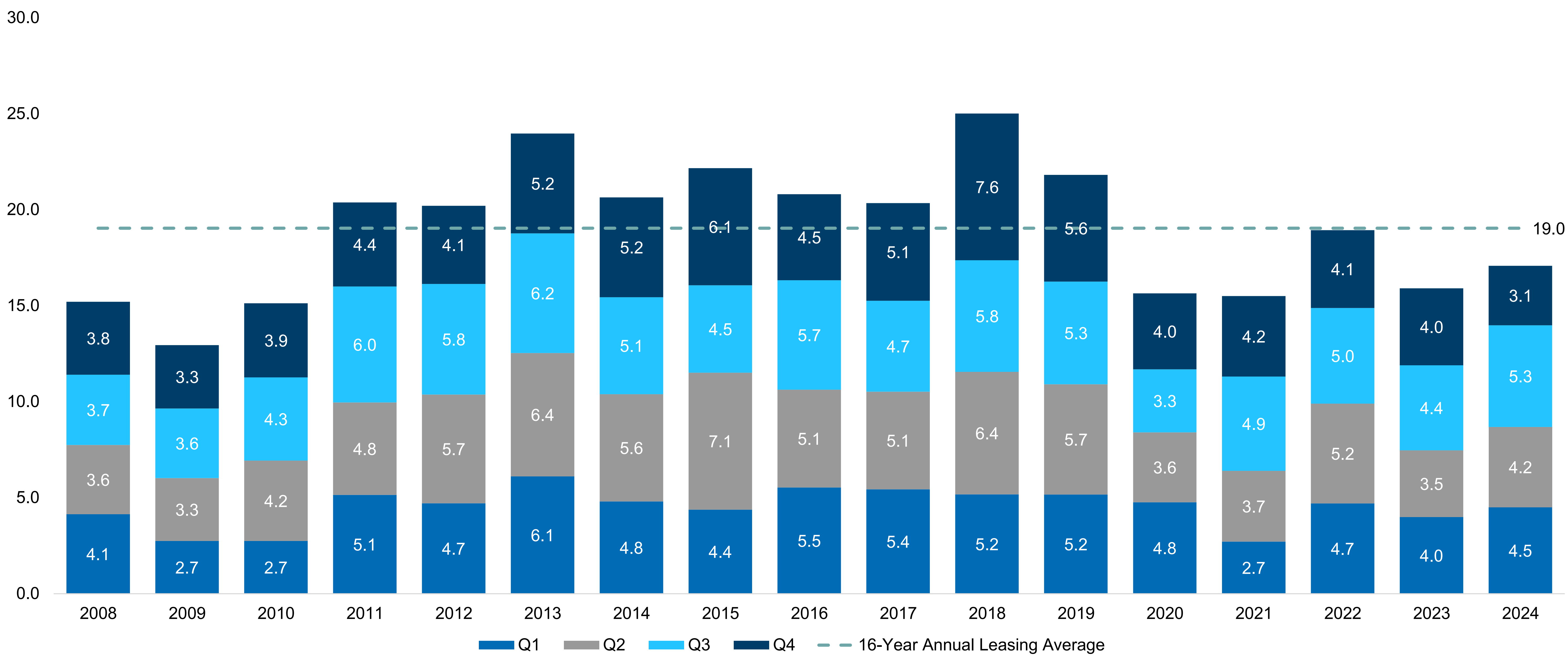



Source: Newmark Research, CoStar

# Yearly Leasing Activity Climbs to Second Highest Since Post-Pandemic Era

Leasing activity in the fourth quarter of 2024 closed at 3.1 MSF, comparatively lower than fourth quarterly activity reported over the past 16 years at 4.7 MSF. Deal size averaged 4,598 SF in the fourth quarter of 2024, with average deal size remaining relatively unchanged year over year. Yearly 2024 leasing activity reflected the second highest activity since the onset of the pandemic, reflecting positive shoots emerging in the market.

**Total Leasing Activity (msf)**

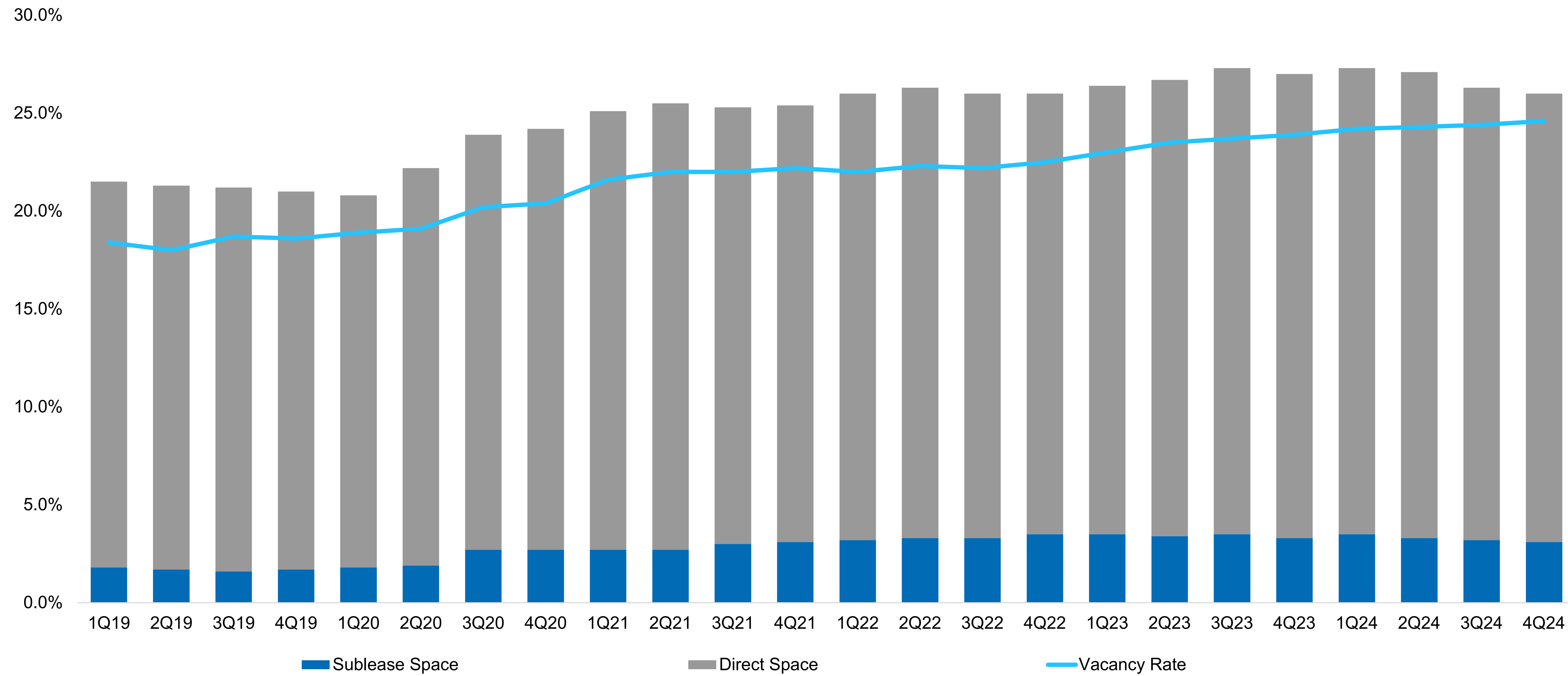



Source: Newmark Research, CoStar

# Availability Eases from Historical Highs, Vacancy Steadies

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 fourth quarter of 2024, sublease availability remains elevated at 3.1% but has declined by 40 basis points from the peak in the first quarter of 2024. Similarly, direct availability remains elevated at 22.9% but has declined by 90 basis points from its peak in the latter half of 2023. Meanwhile, vacancies remain high, increasing by 20 basis points quarter over quarter at 24.6%.

**Available Space as Percent of Overall Market**

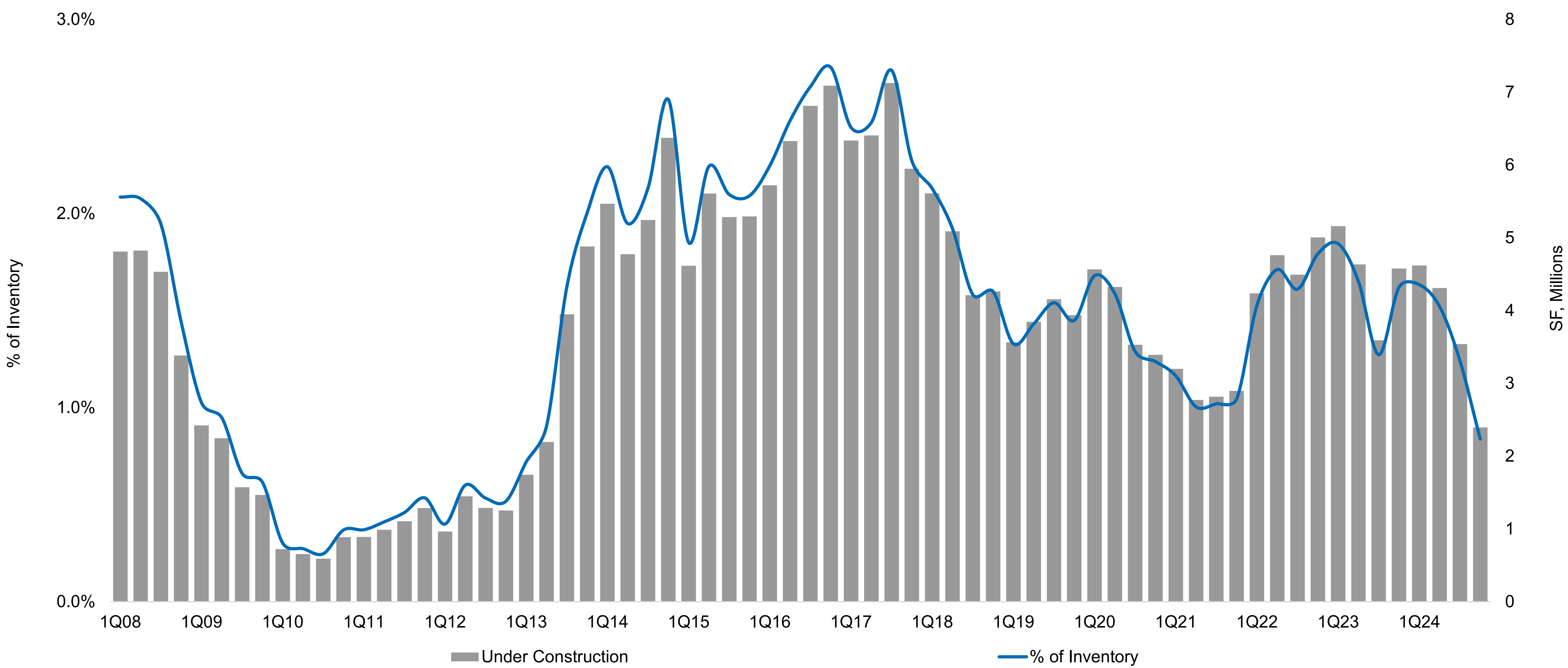



Source: Newmark Research, CoStar

# Construction Activity Dips

As of the fourth quarter of 2024, the market had 2.4 MSF under construction, dipping below the recent lows in the second half of 2021. 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**

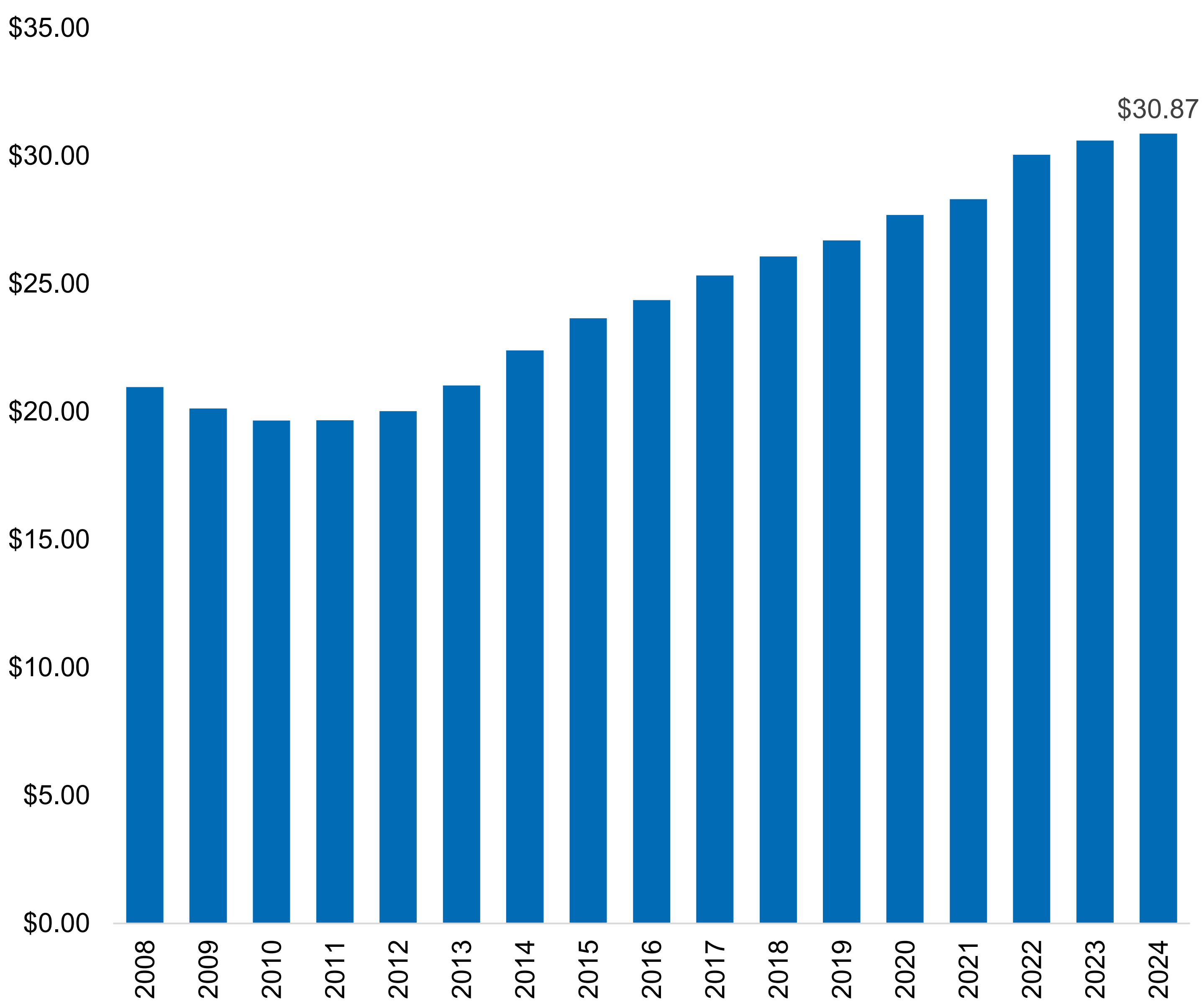



Source: Newmark Research, CoStar

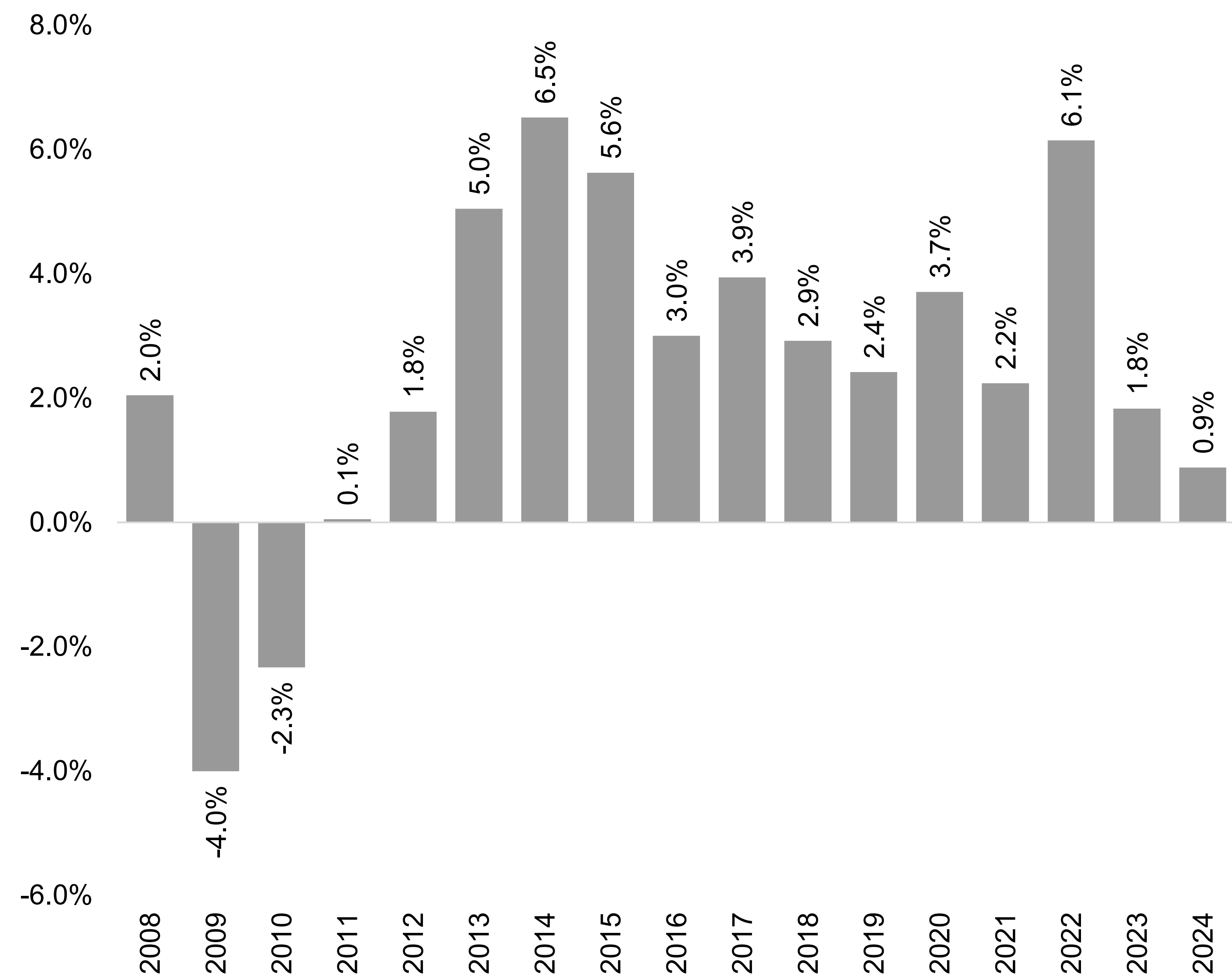
# Rents Set All-Time Record High

Rents increased by 0.9% year over year in the fourth quarter of 2024 to $30.87, 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 slowing since 2014, reaching a recent low yearly growth at 0.9%.

### Office Average Asking Rent, $/SF, FS




### Year-over-Year Asking Rent Growth Rate

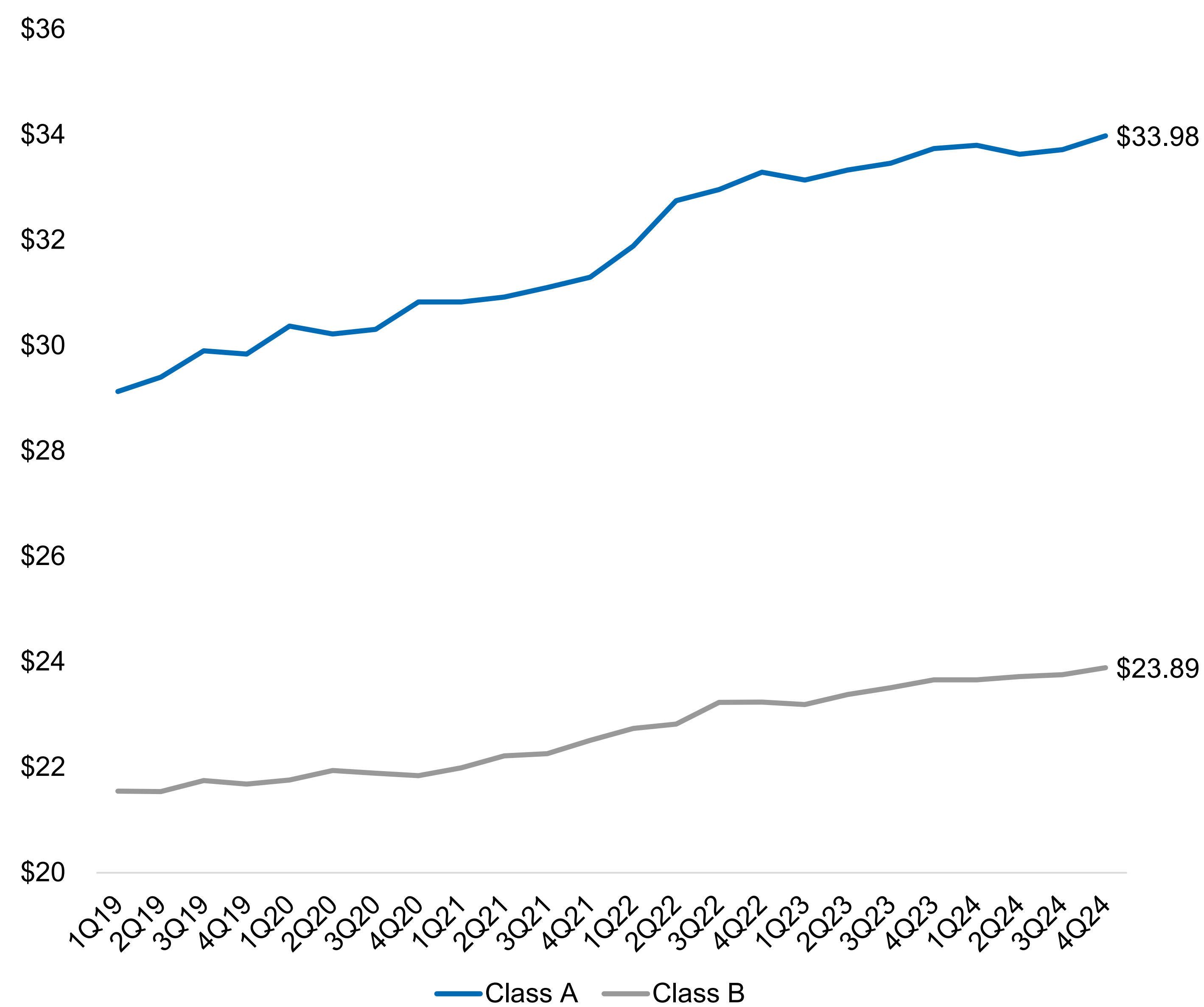



Source: Newmark Research, CoStar

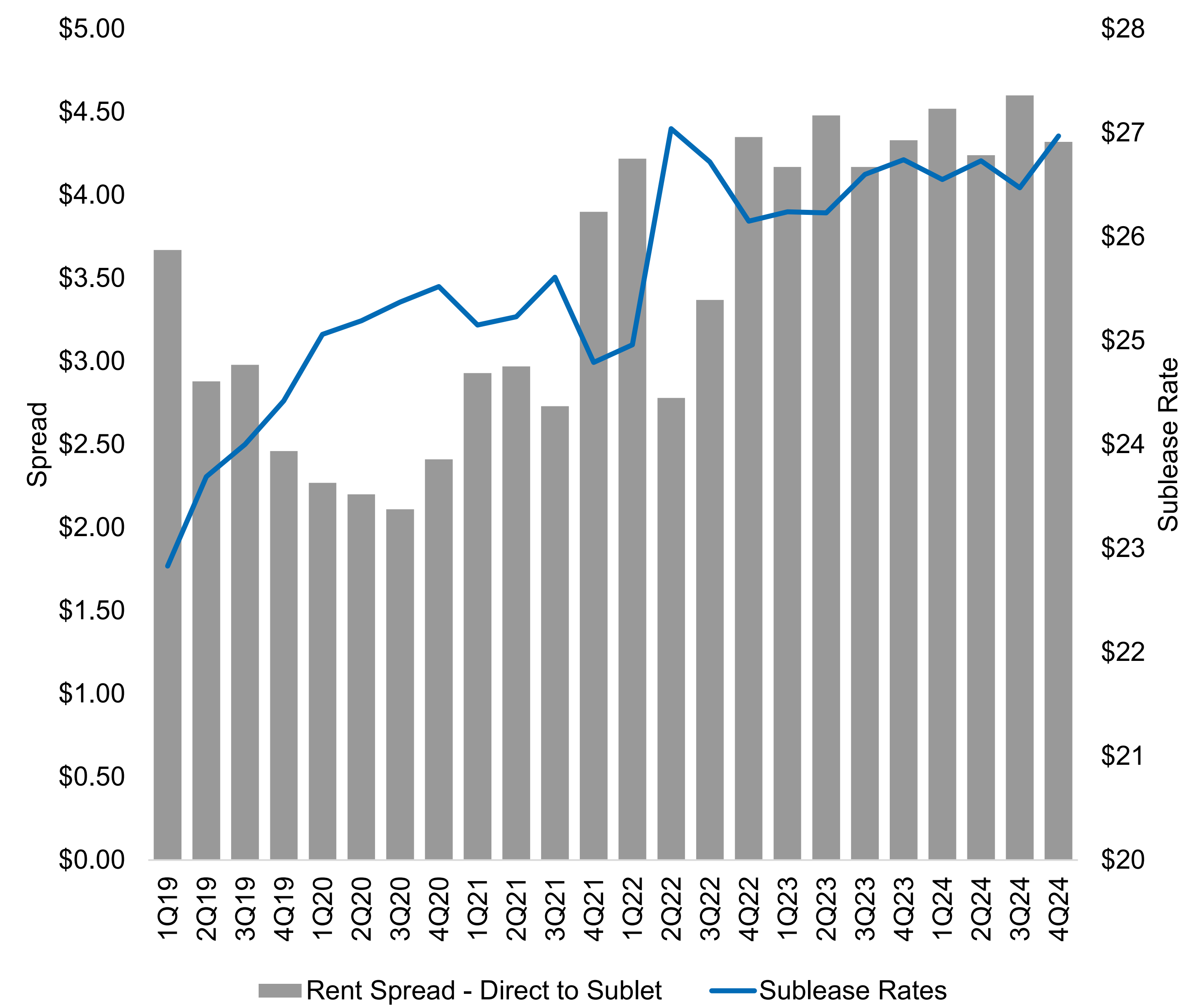
# Asking Rent Spread Continues to Reflect Flight to Quality

The bifurcation in the rent spread between Class A and Class B assets continues to remain wide, above the $9.00/SF mark. As of the end of the fourth quarter of 2024, Class A rents ended at $33.98/SF, while Class B reported $23.89/SF. Due to much higher demand of quality assets, rent difference between the two assets are at $10.09/SF, reflecting a 23.7% spread increase since year-end 2019. Sublease rates increased in the fourth quarter of 2024 by 1.9% quarter over quarter and 0.9% year over year to $26.97/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 fourth quarter of 2024, Class A space accounted for 68.6% of the market's leasing activity by SF, but only 48.9% of the market's deal volume. Average leases signed in Class A space were 6,455 SF and continued to remain larger than the average market deal size at 4,598 SF.

## Notable 4Q24 Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|---|---|---|---|---|
| Merit Energy | Two Lincoln Centre | LBJ Freeway | Direct New | 104,034 |
| *Three current tenants had to renegotiate and move within Two Lincoln Centre to free up blocks of space for the energy firm to occupy floors 10 through 12. Merit Energy will be moving from Galleria North Tower II where it currently occupies a 126,952 SF lease.* | | | | |
| Darling Ingredients | MacArthur Center One | Office Center (Las Colinas) | Renewal | 95,322 |
| *Darling Ingredients signed an extension to keep their headquarters space and expanded by an additional 38,000 SF in MacArthur Center II.* | | | | |
| Halff Associates | Galatyn Commons C | Richardson/Plano | Direct New | 80,000 |
| *The full-service infrastructure consulting firm will receive $10.8 million in the first year to support tenant improvement and furniture, fixtures and equipment costs from the city of Richardson. The company will remain at its current location at 1201 N Bowser Rd, where it occupies the full building, until the end of 2025 once the new space build out at Galatyn Commons is slated to complete.* | | | | |
| Allstate | Cypress Waters | Freeport (Las Colinas) | Direct New | 53,000 |
| *The insurance firm signed a new lease at 3300 Olympus Blvd that will commence June 2025.* | | | | |
| Gray Reed & McGraw LLP | 1845 Woodall Rodgers | Uptown/Turtle Creek | Direct New | 50,000 |
| *The law firm will be moving into 1845 Woodall Rodgers in early 2026 from Santander Tower. The firm signed a lease to occupy more than two floors.* | | | | |

Source: Newmark Research, CoStar

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