

2Q24

# Dallas-Fort Worth Office Market Overview



NEWMARK

# Market Observations

## Economy

- The market's unemployment rate ticked up by 10 basis points year over year to 3.8% but remained well below the five-year average of 4.6%.
- Job growth pace has slowed compared with recent highs to 1.9% year over year while employment growth continues to remain well below pre-pandemic levels, with May 2019 growth at 2.6%.
- Most sectors reported employment growth, except for business and professional and information industries, with other services leading job gains at 5.8% over the past 12 months.
- Office-using jobs in the market reached an all-time historical high at 1.2 million employees, reflecting a 17.4% growth since 2019.

## Major Transactions

- Santander Consumer USA inked the largest deal of the quarter and year. The full-service consumer finance company signed a 211,087-SF renewal to keep the company's headquarters at Santander Tower.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the quarter, with four of the top five largest deals signed in Class A assets.
- The top five 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.

## Leasing Market Fundamentals

- Annual full-service asking rental rates slightly declined from the historical high by 0.4% to \$29.95/SF, reflecting a minimal 0.4% increase year over year.
- Occupancy was slightly negative, pushing overall vacancy rates to remain relatively flat, increasing by 10 basis points quarter over quarter, to 24.8%.
- Under-construction pipeline continued to remain steady, with 4.3 MSF in progress.
- Total leasing activity closed the quarter at 3.0 MSF, reflecting slowing leasing activity contributed by fewer deals being done. Leases signed averaged 4,006 SF per deal, increasing in deal size by 3.8% quarter over quarter but decreasing in deal size by 9.3% year over year.

## Outlook

- The Dallas-Fort Worth office market growth will likely be slow and subdued in 2024 due to economic headwinds. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- In the near term, a winnowing construction pipeline will lead rent and occupancy increases in submarkets with premier office product, as flight to quality persists and supply of these assets become more constrained.
- 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. These factors will help the market surmount any near-term challenges and macroeconomic headwinds.

1. Economy
2. Leasing Market Fundamentals

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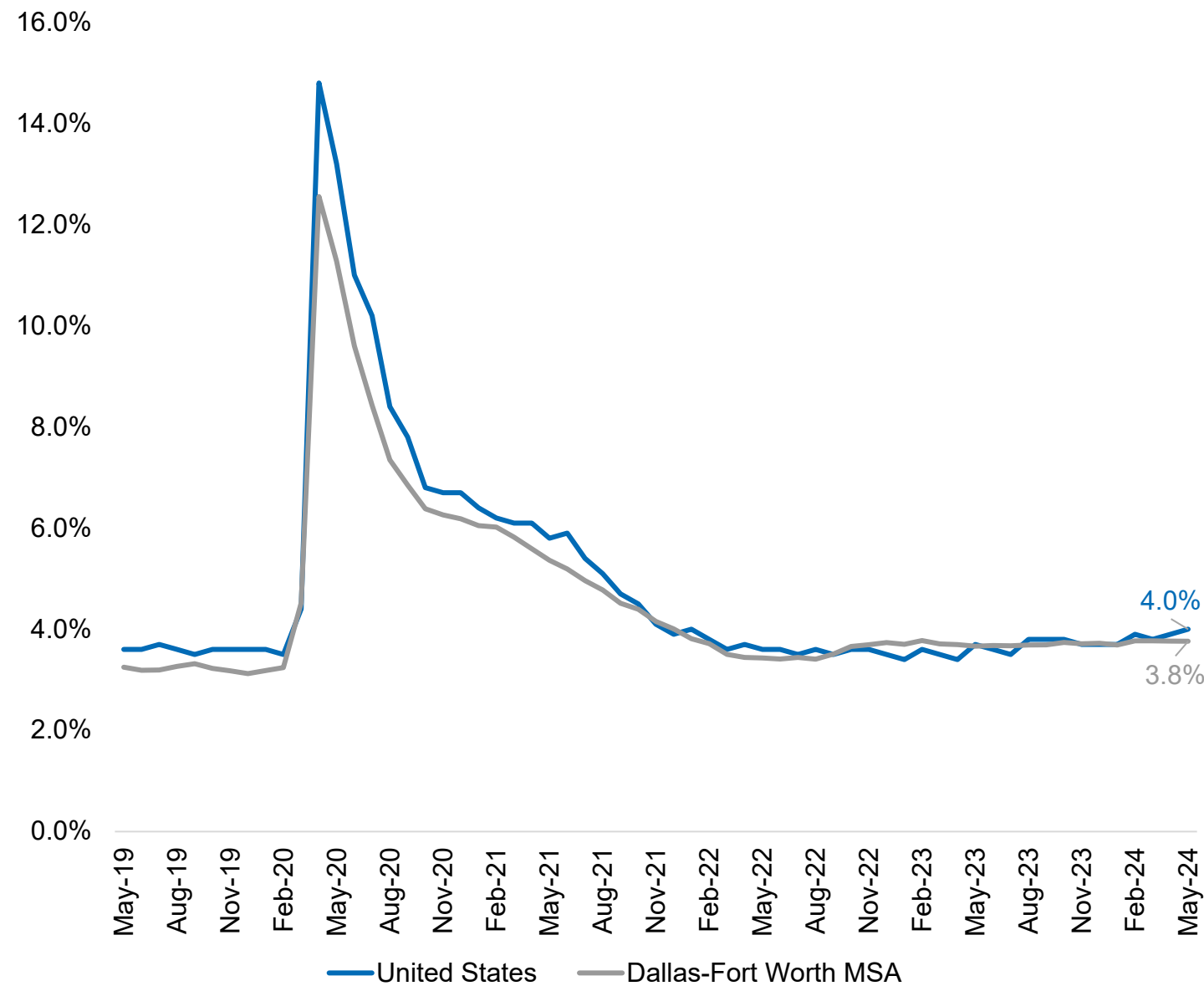
# Economy



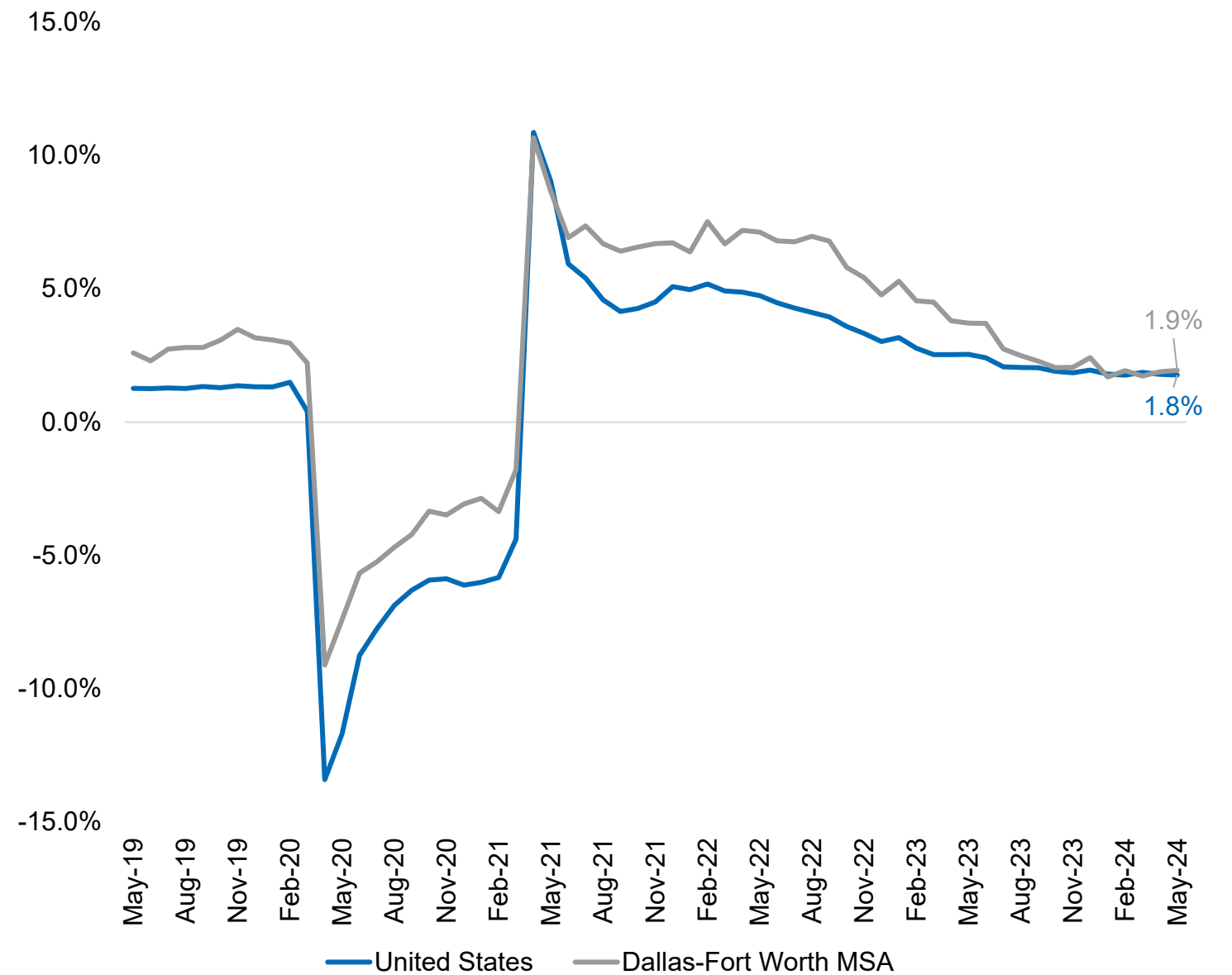
# Metro Employment Trends Continue to Flatten

The Dallas-Fort Worth market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Recent national economic headwinds have oscillated the region's unemployment compared to the national unemployment rate since late 2021. Since January 2024, the market's unemployment rate has consecutively remained lower than the national level with the market's May 2024 unemployment rate reporting at 3.8%, reflecting 24 basis points lower than the national average. Meanwhile, the market's employment growth slowed by 177 basis points year over year, but still reported positive growth at 1.9% year over year.

Unemployment Rate, Seasonally Adjusted



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

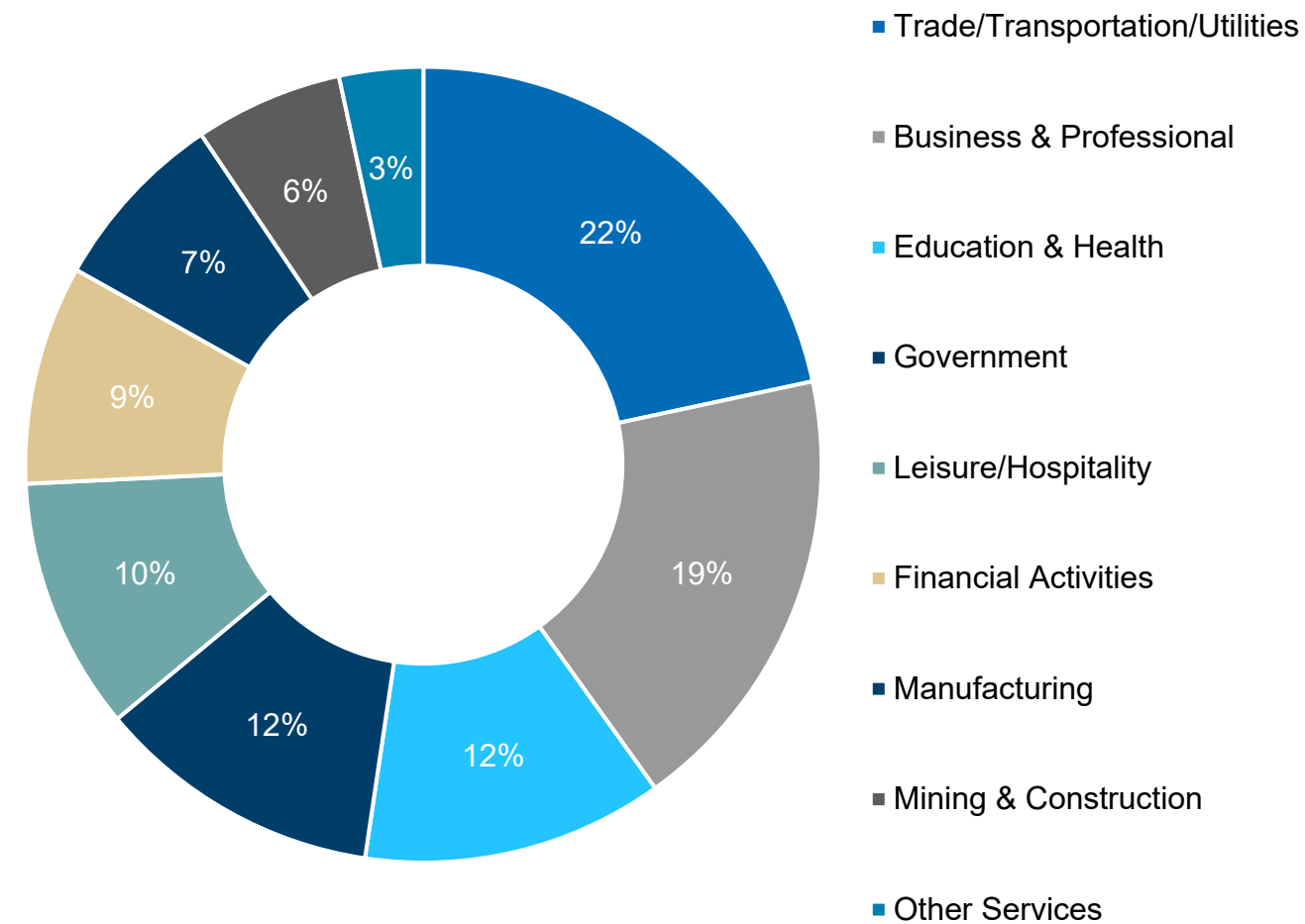


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

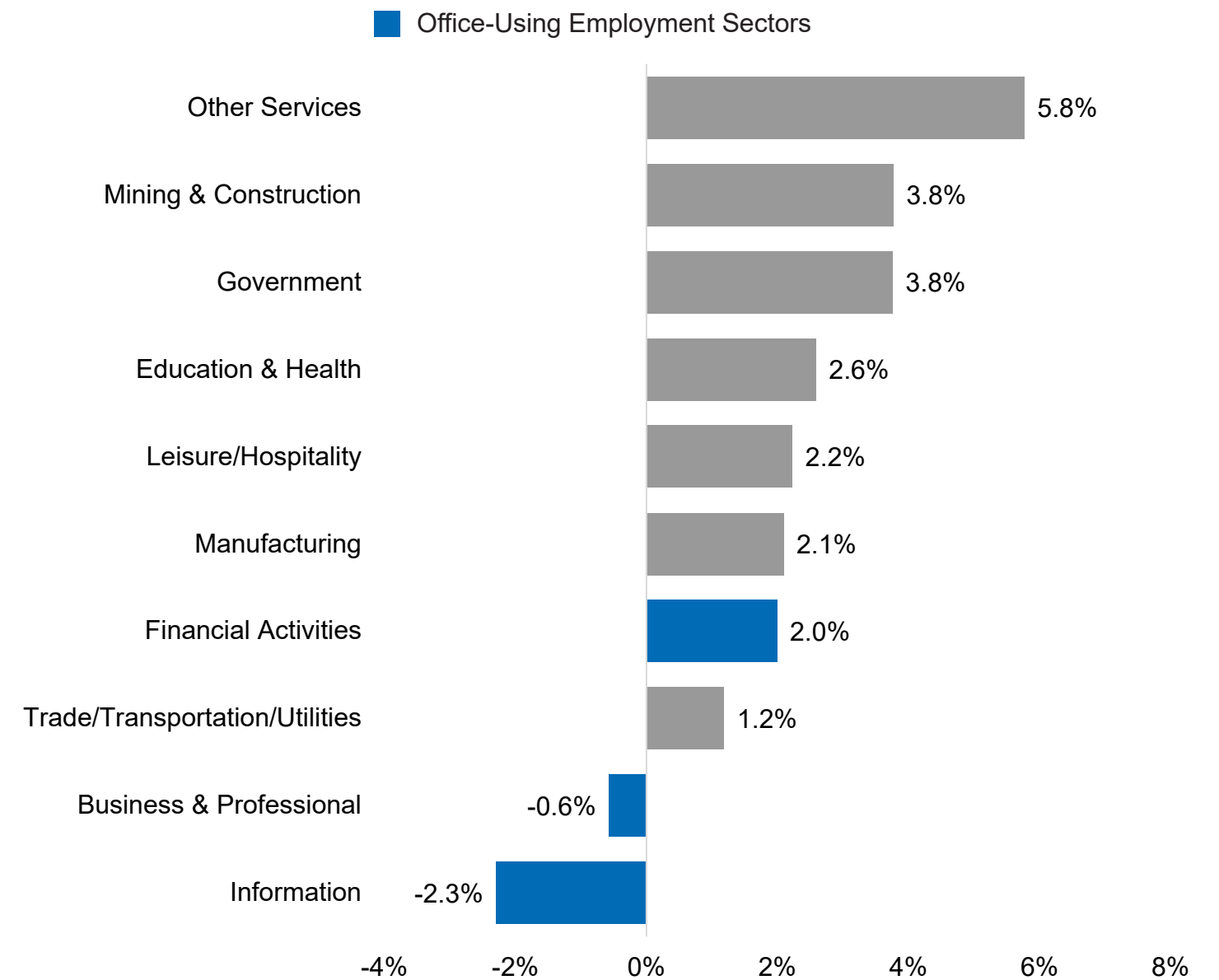
# Employment Growth Continues for Most Sectors, Slows for Two Office Sectors

The Dallas-Fort Worth market has a high industry diversity with the top two industries, accounting for only 39.2% 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 two office-using industries, business and professional services and information reported contraction by 0.6% and 2.3%, respectively. Comparatively, financial activities reported growth at 2.0%.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

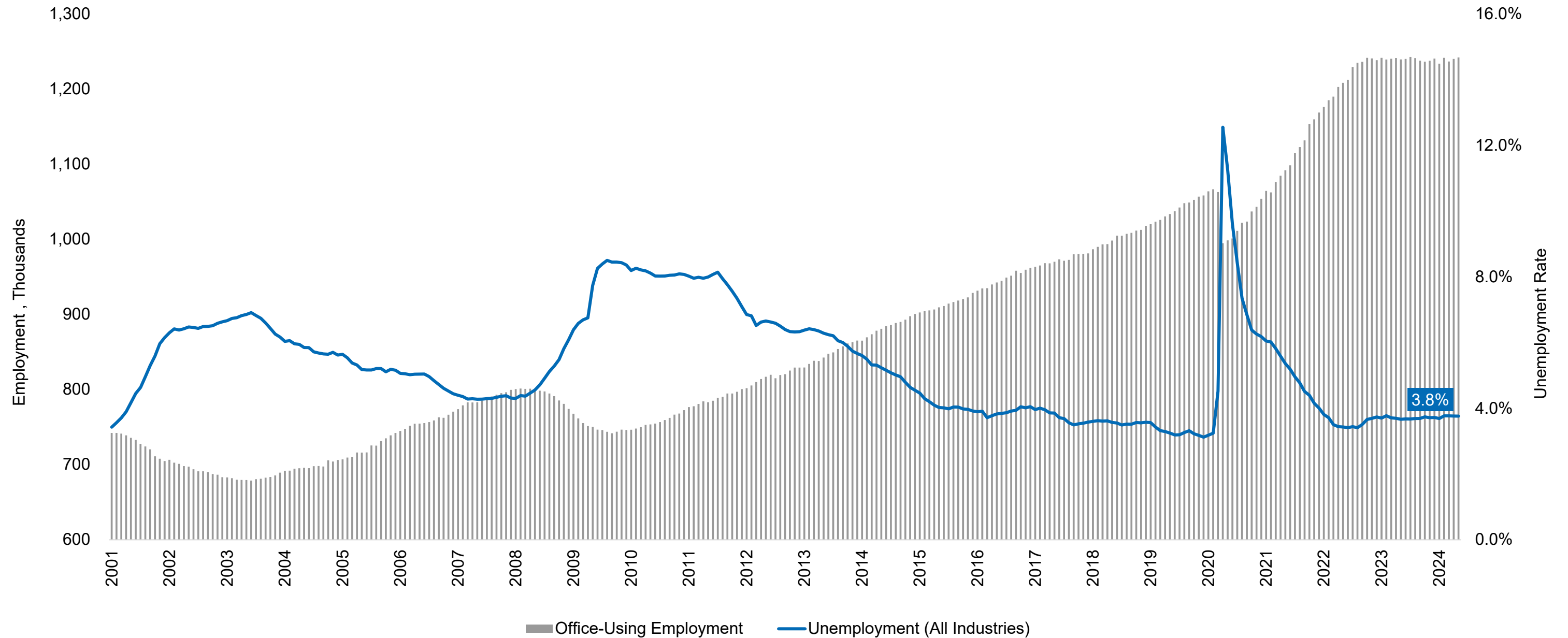


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

# Overall Office-Using Employment Reach New Historical High

Office-using employment in Dallas-Fort Worth market increased slightly by 0.2% year over year in May 2024, inching upwards to a new all-time historical high at 1.2 million employees. Currently, the seasonally adjusted unemployment rate is at 3.8%, above the 3.3% average levels reported in 2019, indicating that other industries outside of office-using jobs likely contribute to most of the unemployment rate.

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

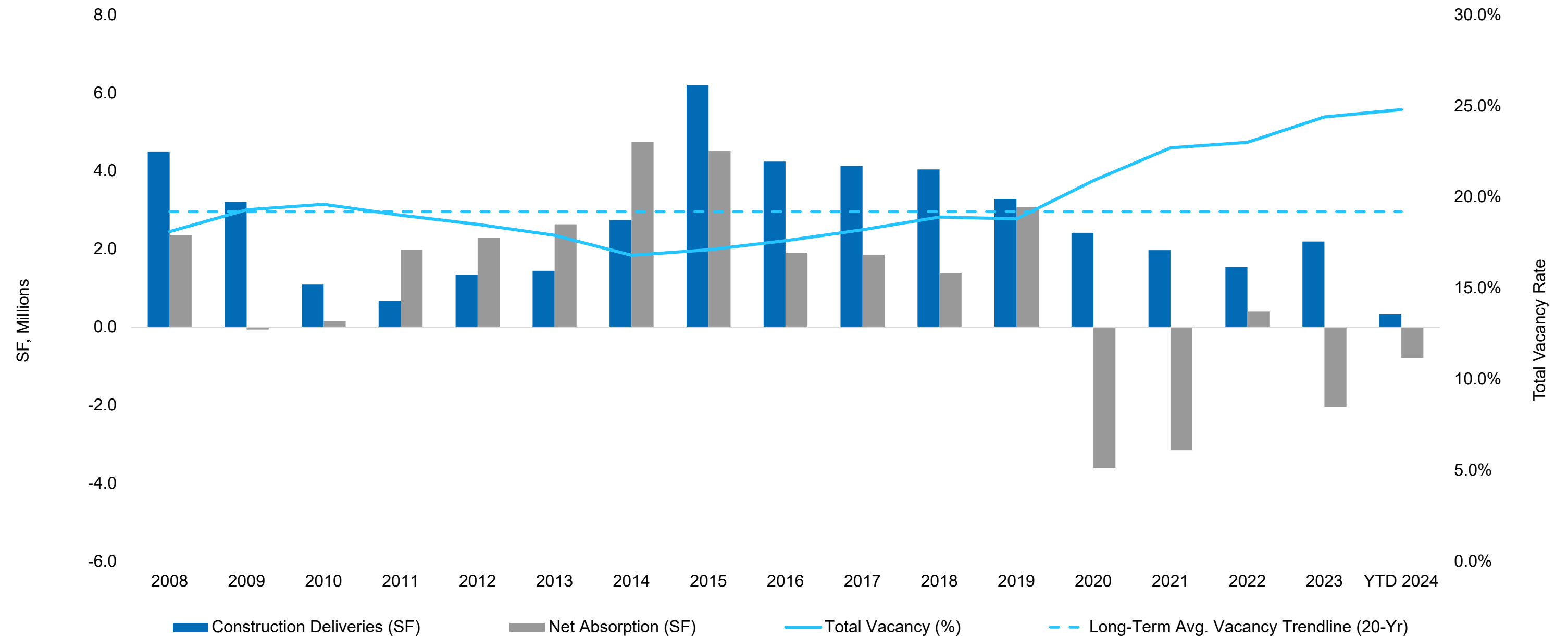




# Vacancy Flattens as Muted Construction Deliveries Outpace Net Absorption

The Dallas-Fort Worth office vacancy rate increased by 70 basis points year over year to 24.8% in the second quarter of 2024. Since the onset of the pandemic office occupancies have slowed in the market, with a continued decline in the delivery of new office supply since 2018. Deliveries remain muted so far in 2024, leading vacancy rates to remain relatively flat since year-end 2023. 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

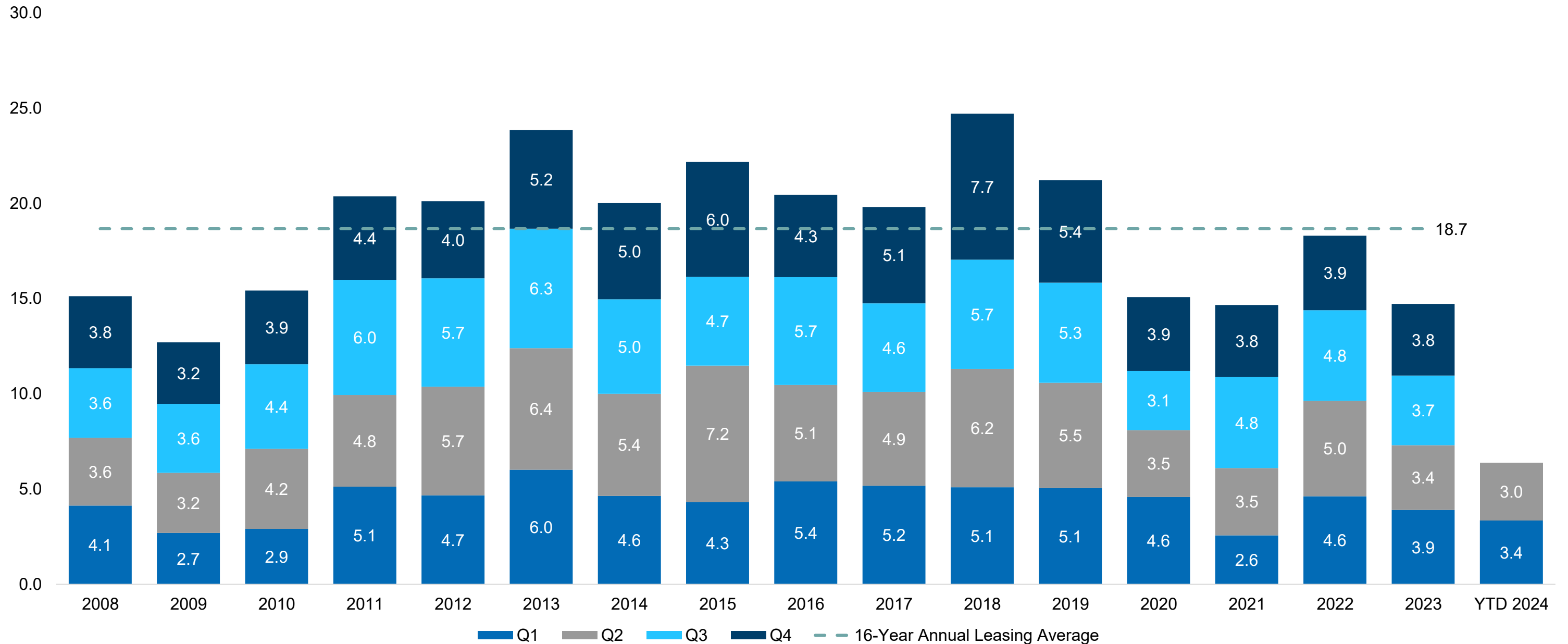


Source: Newmark Research, CoStar

# Leasing Activity Continues to Slow, Impacted by Fewer Deals Done

Leasing activity in the market remains slower, with leasing activity in the second quarter of 2024 closing at 3.0 MSF, comparatively lower than quarterly activity reported over the past 16 years. Deal size averaged 4,006 SF in the second quarter of 2024, an average of 147 SF more than the previous quarter but 410 SF less than the previous year. The slowing leasing activity pace is largely attributed to fewer deals being done, likely due to a more challenging debt liquidity environment impacting larger deals from occurring as easily.

Total Leasing Activity (msf)

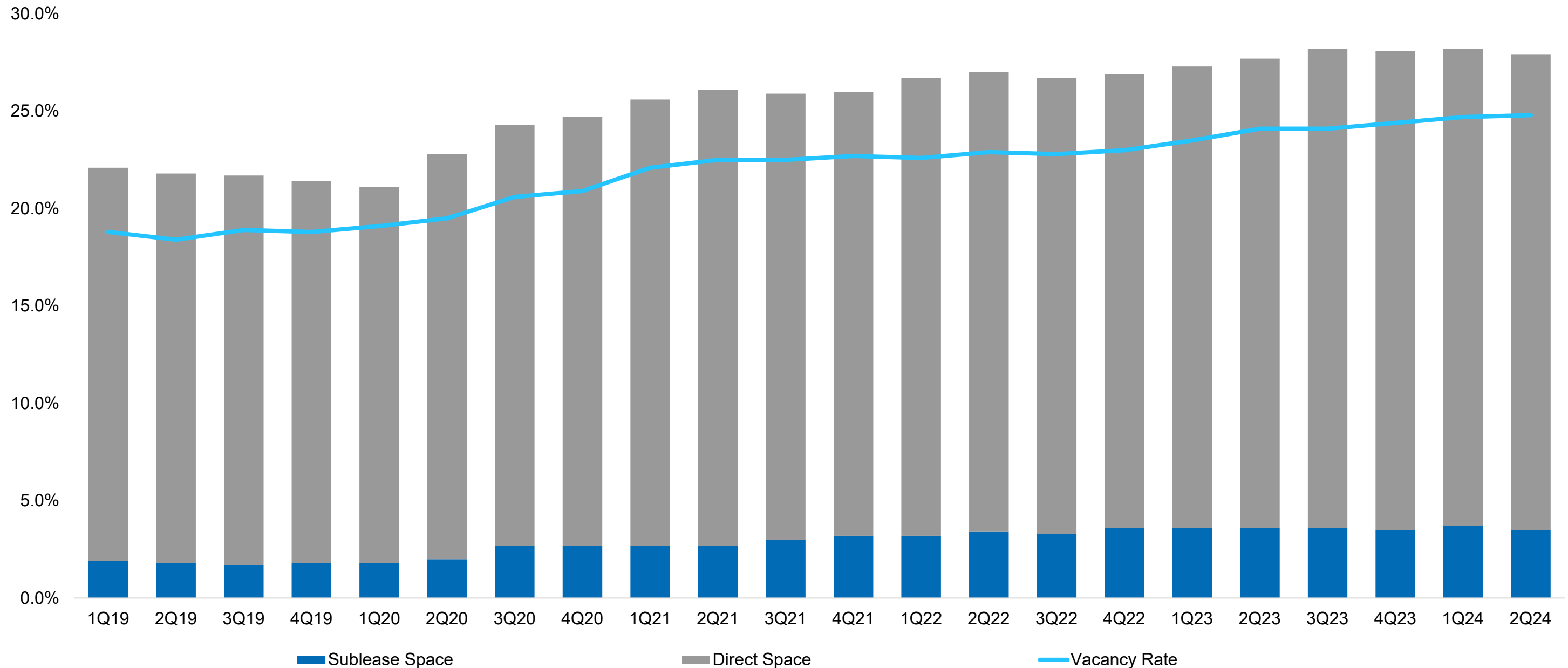


Source: Newmark Research, CoStar

# Availability Declines from Historical High, Vacancy Tops Recent High

Sublease availability in the Dallas-Fort Worth market has continually risen since the pandemic, reaching a peak in the first quarter of 2024. As of the second quarter of 2024, sublease availability continues to remain elevated at 3.5% but has declined by 20 basis points from the peak. Similarly, direct availability remains elevated at 24.4% but has declined by 20 basis points since the peak in the latter half of 2023. Meanwhile, vacancies have reached a recent high, increasing by 10 basis points quarter over quarter.

Available Space as Percent of Overall Market

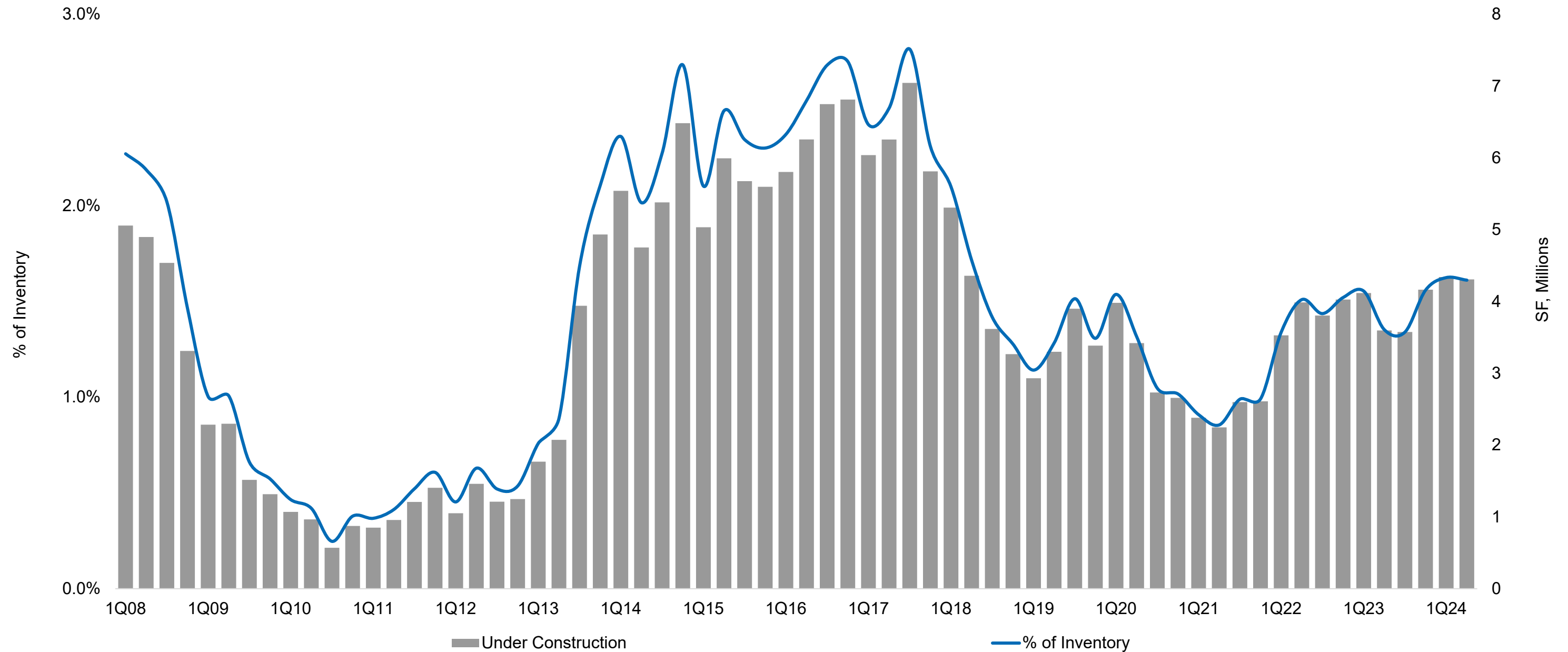


Source: Newmark Research, CoStar

# Construction Activity Remains Steady

As of the second quarter of 2024, the market had 4.3 MSF under construction. Despite under-construction activity continuing to increase from the recent lows mid-year 2023, only 1.6% of the market's inventory is currently under construction, indicating there is less risk of overbuilding. 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

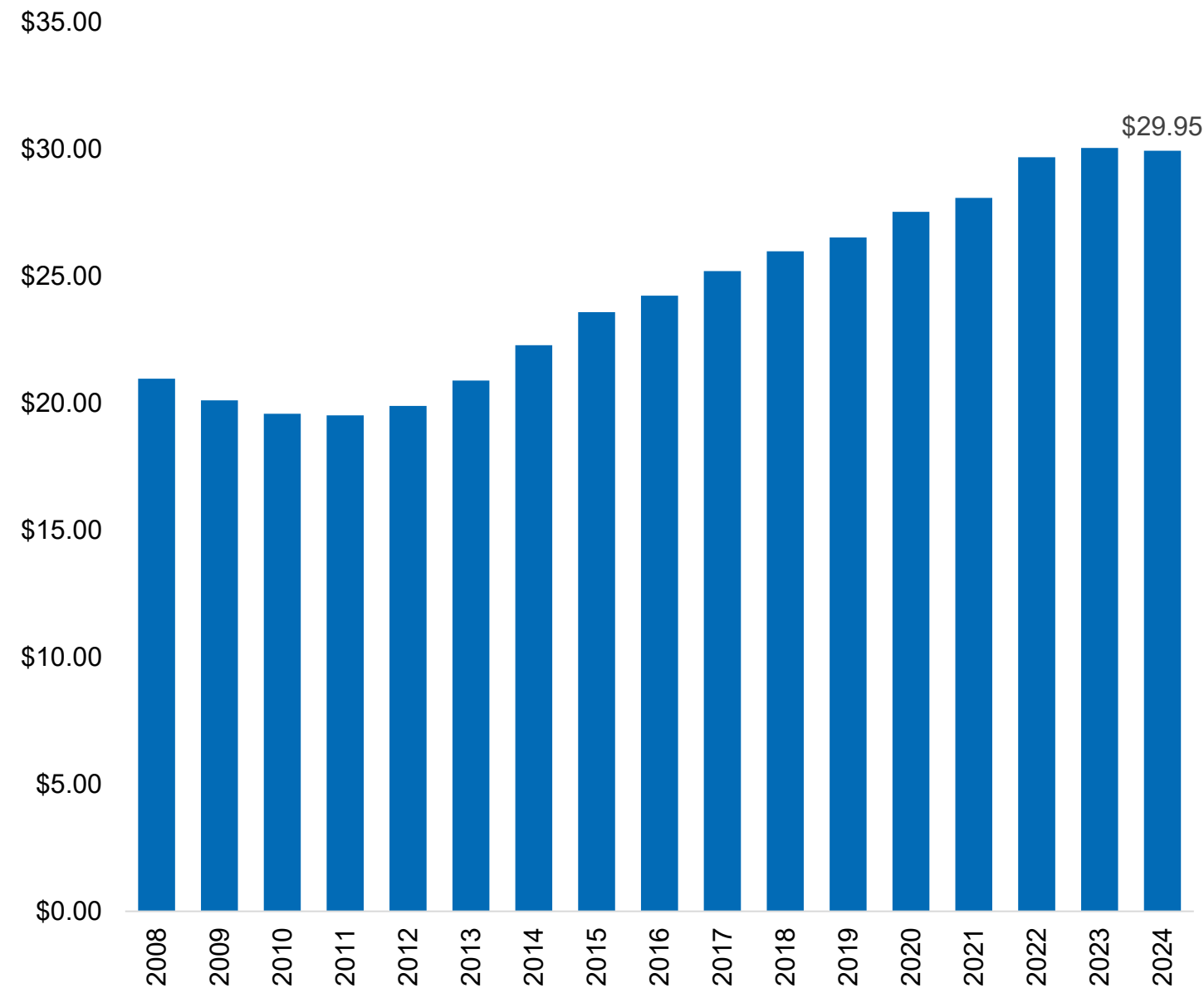


Source: Newmark Research, CoStar

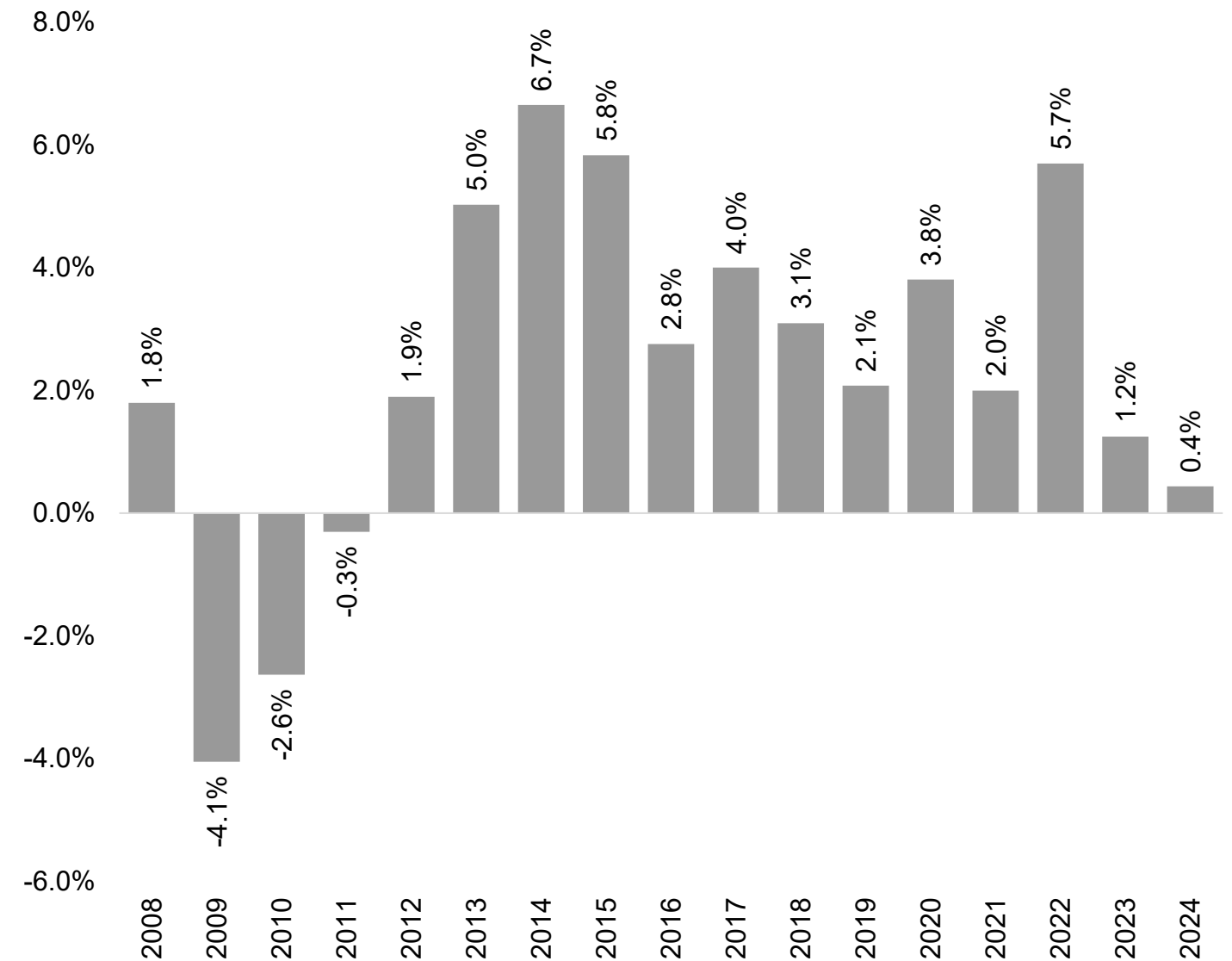
# Rents Ease Slightly from All-Time High

Rents slightly declined in the second quarter of 2024 after reaching an all-time historical high of \$30.06/SF at year-end 2023 and in the first quarter of 2024. Rental rates continue to remain elevated, edging upwards by 0.4% year over year. Landlords will likely uphold high rents but pair with attractive concessions on the backend to mitigate softer market demand.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

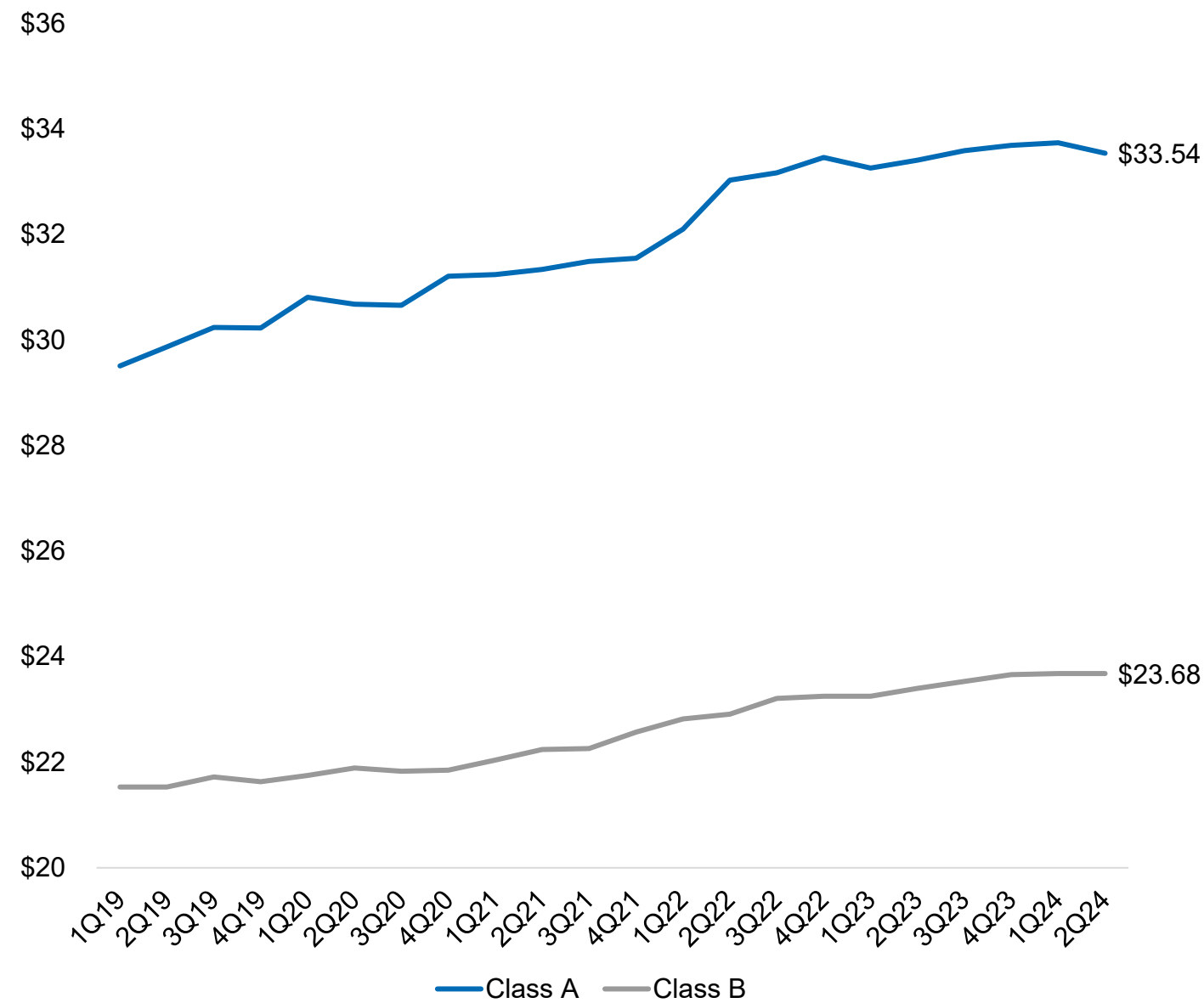


Source: Newmark Research, CoStar

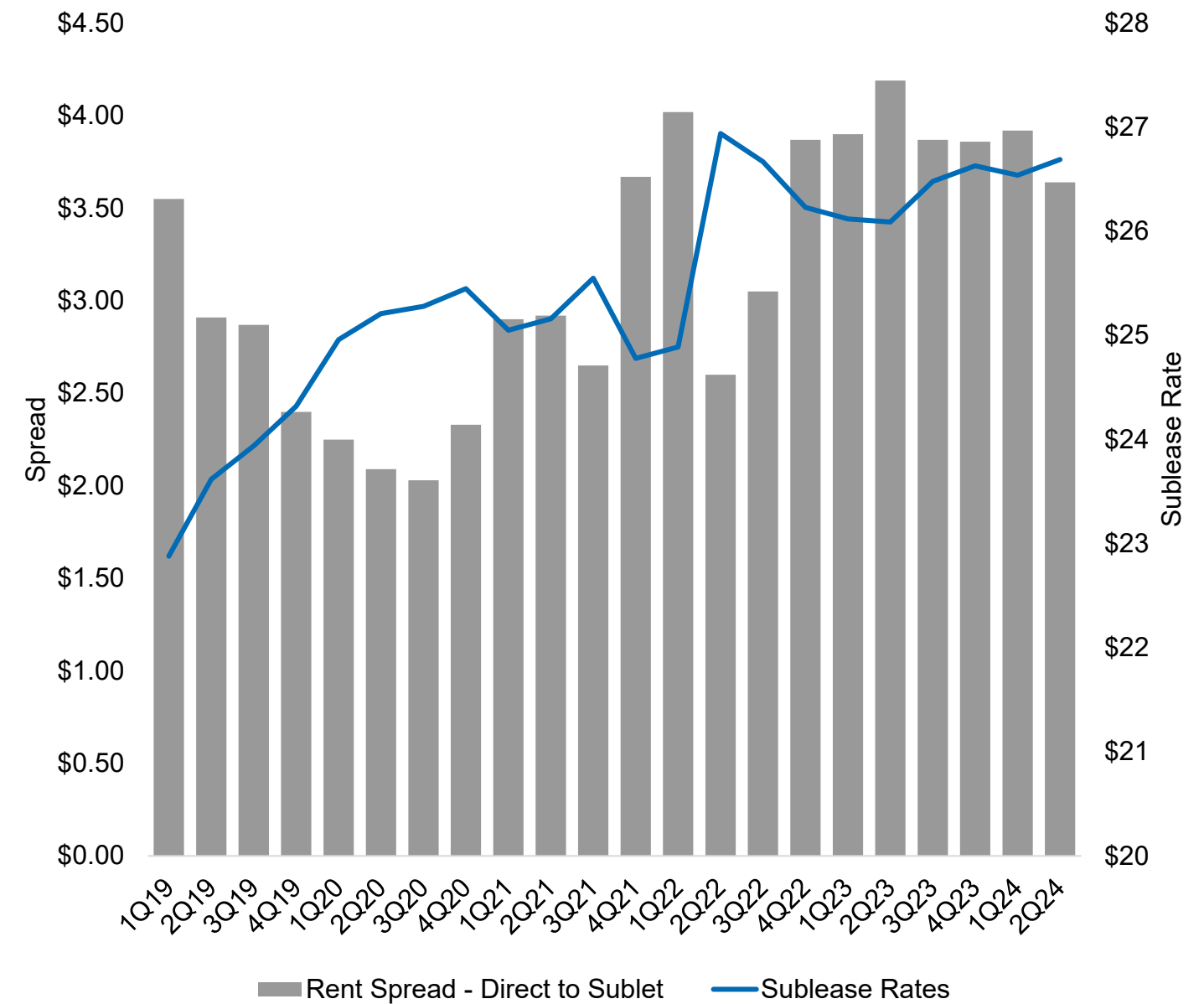
# Asking Rents Growth Reflect Flight to Quality

The bifurcation in 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 second quarter of 2024, Class A rents ended at \$33.54/SF, while Class B reported \$23.68/SF. Due to much higher demand of quality assets, rent difference between the two assets are at \$9.86/SF, a 14.7% spread increase since year-end 2019. Sublease rates have flattened in recent quarters, with asking sublease rents increasing by 0.6% quarter over quarter.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research, CoStar

# Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues to remain a trend in the Dallas-Fort Worth office market. As of the end of the second quarter of 2024, Class A space accounted for 60.7% of the market's leasing activity by SF, but only 43.7% of the market's deal volume. Average leases signed in Class A space were 5,567 SF and continued to remain larger than the average market deal size at 4,006 SF.

## Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Santander Consumer USA	Santander Tower	Dallas CBD	Renewal	211,087
<i>Full-service consumer finance company, Santander Consumer, signed the quarter's largest deal to renew and maintain the company headquarters at its current location, 1601 Elm Street.</i>				
Onsemi	505 Millennium	Allen/McKinney	Direct New	97,496
<i>After outgrowing their Richardson office, semiconductor manufacturer Onsemi is expanding with a second office lease in Allen. The company plans to invest \$28 million in tenant improvements.</i>				
Aethon Energy Operating	Lakeside Square	LBJ Freeway	Renewal	73,925
<i>One of the nation's largest private natural gas producers, Aethon Energy Operating, signed a lease renewal at Lakeside Square.</i>				
Workbox	Victory Plaza East	Uptown/Turtle Creek	Direct New	50,000
<i>Workbox, a workspace company, expands with its first Texas location at Victory Plaza East, marking the company's largest workspace outside of Chicago.</i>				
Foot Locker	Cypress Waters Office Park—CoreLogic HQ	Las Colinas (Freeport)	Sublease	43,000
<i>Foot Locker signed a 43,000-square-foot sublease at 3001 Hackberry Road.</i>				

Source: Newmark Research, CoStar



Please reach out to your  
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