3Q24

Dallas-Fort Worth Office Market Overview

Market Observations

Economy

- The market's unemployment rate ticked up by 14 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 1.6% year over year while employment growth continues to remain well below pre-pandemic levels, with August 2019 growth at 2.8%.
- Most sectors reported employment growth, except for the business and professional sector, with other services and mining and construction sectors both leading job gains at 4.2% over the past 12 months.
- Office-using jobs in the market have eased from the all-time high by 0.1%, yet continue to remain over 1.2 million employees, reflecting a 17.5% growth since 2019.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased by 1.0% year over year to $30.60/SF, reflecting a minimal 0.1% decrease from the historical high while rents remain elevated.
- Occupancy increased this quarter as more new supply entered the market, resulting in overall vacancy rates staying relatively flat at 24.6%, remaining unchanged quarter over quarter.
- Under-construction pipeline drops to 3.5 MSF in progress, reflecting the lowest construction activity since year-end 2021.
- Total leasing activity closed the quarter at 3.8 MSF, reflecting slowing leasing activity contributed by fewer deals being done. Leases signed averaged 4,934 SF per deal, increasing in deal size by 22.4% quarter over quarter and 9.4% year over year.

Major Transactions

- Bank of America inked the largest deal of the quarter and year. The investment bank and financial services company signed a 553,799-SF renewal to stay at Hallmark Center I for another 10 years.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the quarter, with all three of the largest deals signed in Class A assets.
- The top three largest deals signed in the quarter were all renewals spread throughout the metroplex, a rarity compared to previous quarters where deals were more concentrated in particular submarkets.

Outlook

- The Dallas-Fort Worth office market growth will continue to remain slow and subdued through the remainder of the year due to economic headwinds. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt. However, the recent 50 basis point reduction in interest rates is starting to generate some activity, although it will take time before this directly translates into completed deals.
- 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.

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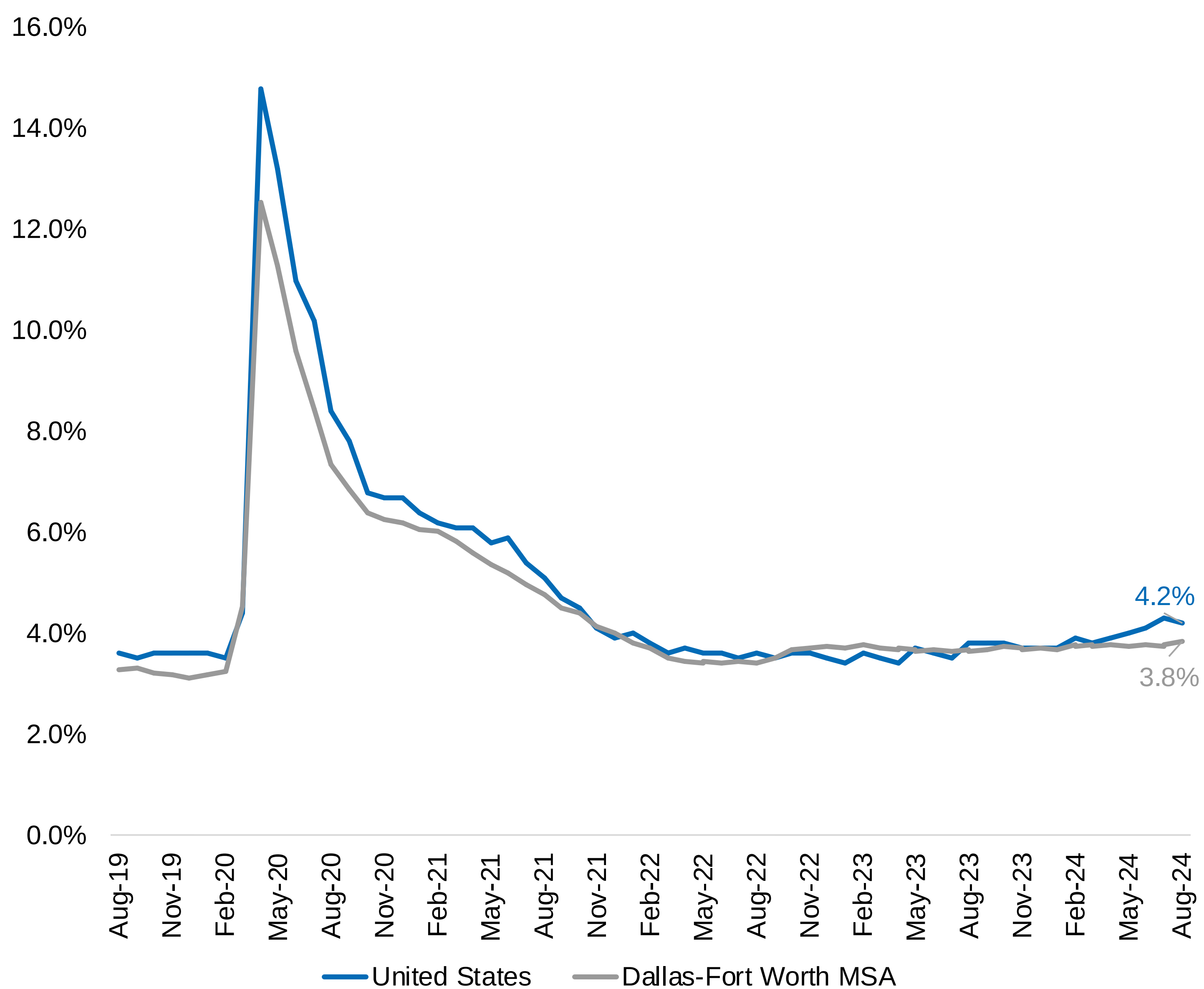
Economy

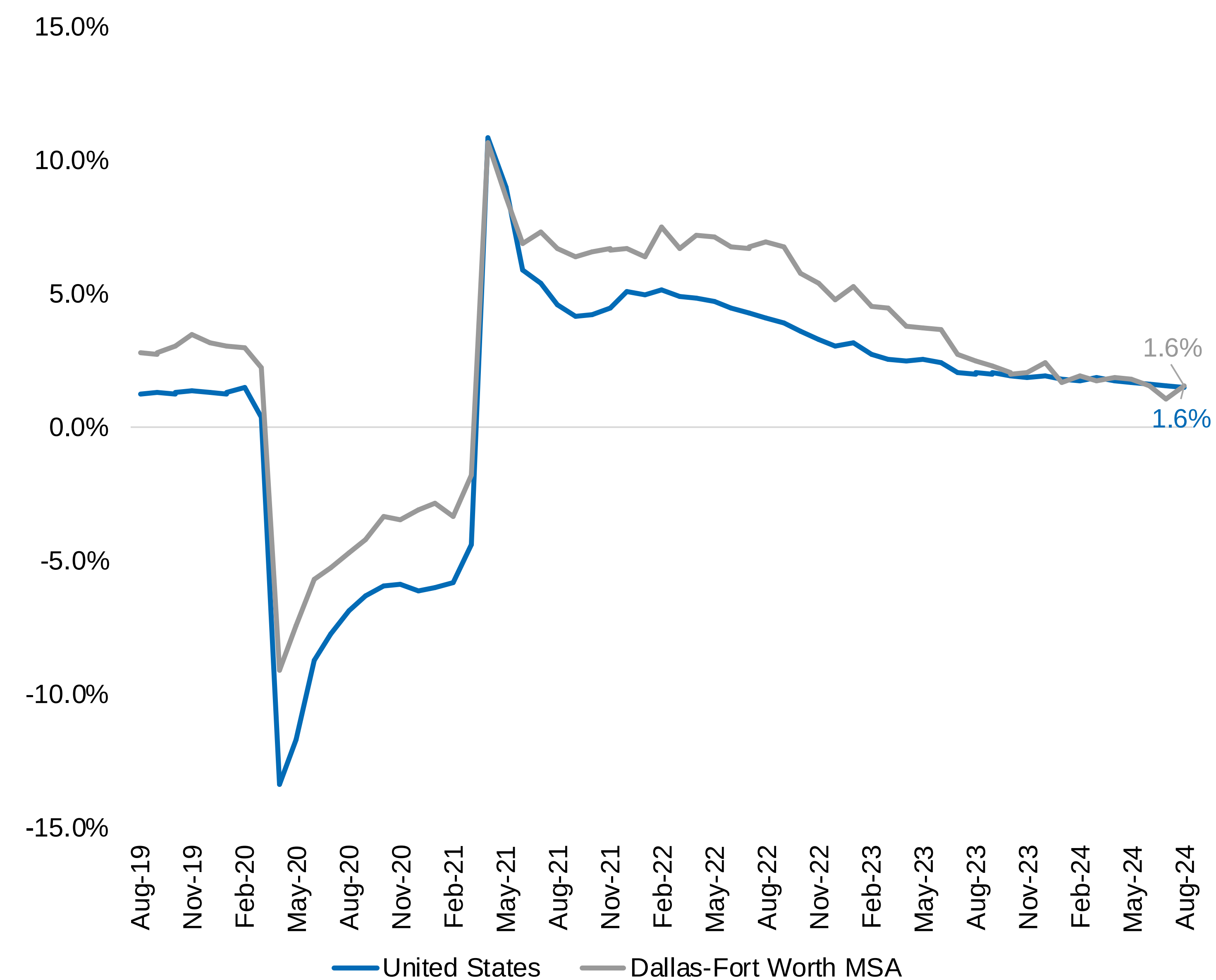
Metro Employment Trends Remain Flat

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 August 2024, the market's unemployment rate stood at 3.8% and is 37 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 August 2024, the market's employment growth slowed by 93 basis points year over year, yet still reported positive growth of1.6% year over year, aligning with the nation's employment growth pace.

Unemployment Rate, Seasonally Adjusted



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

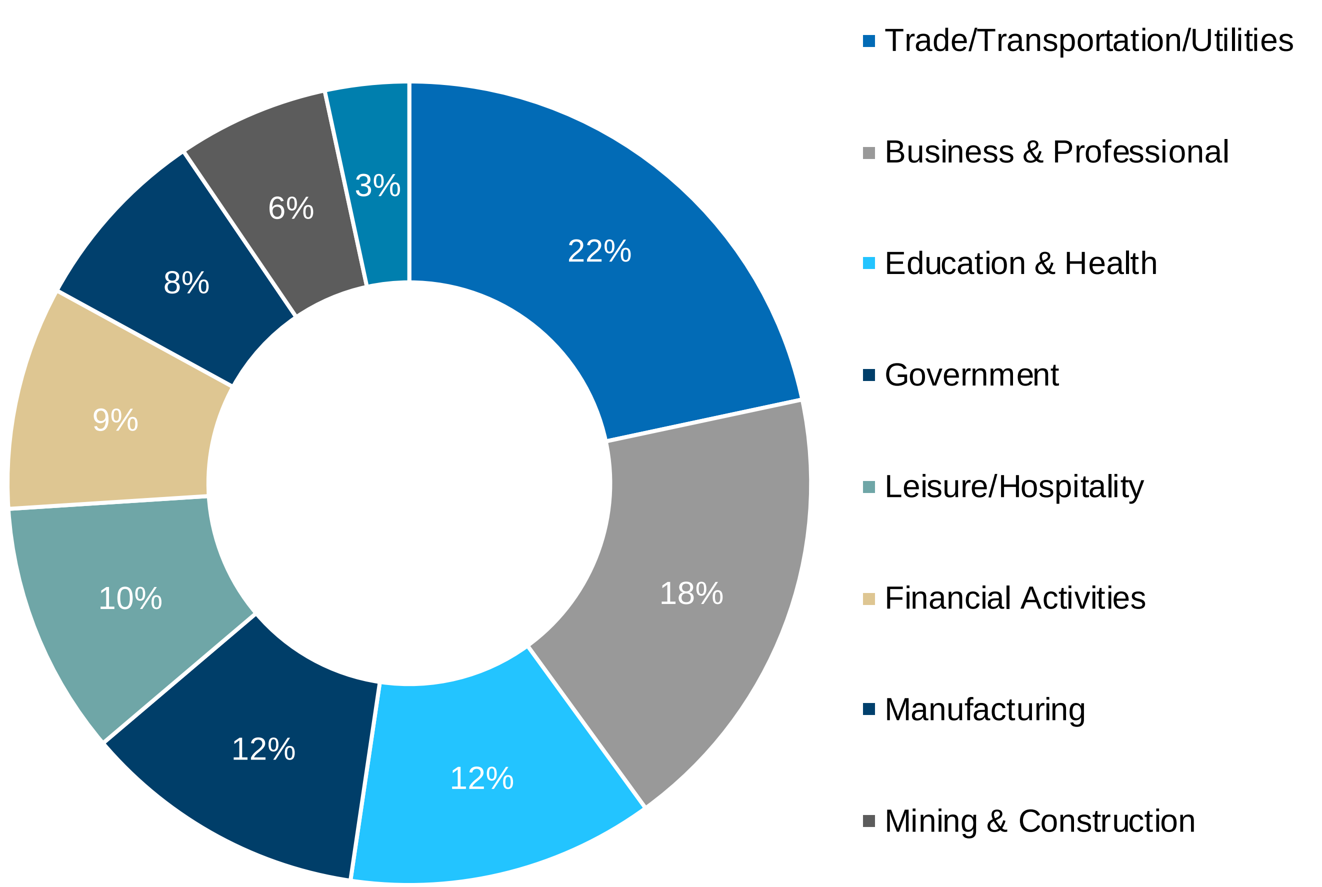


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

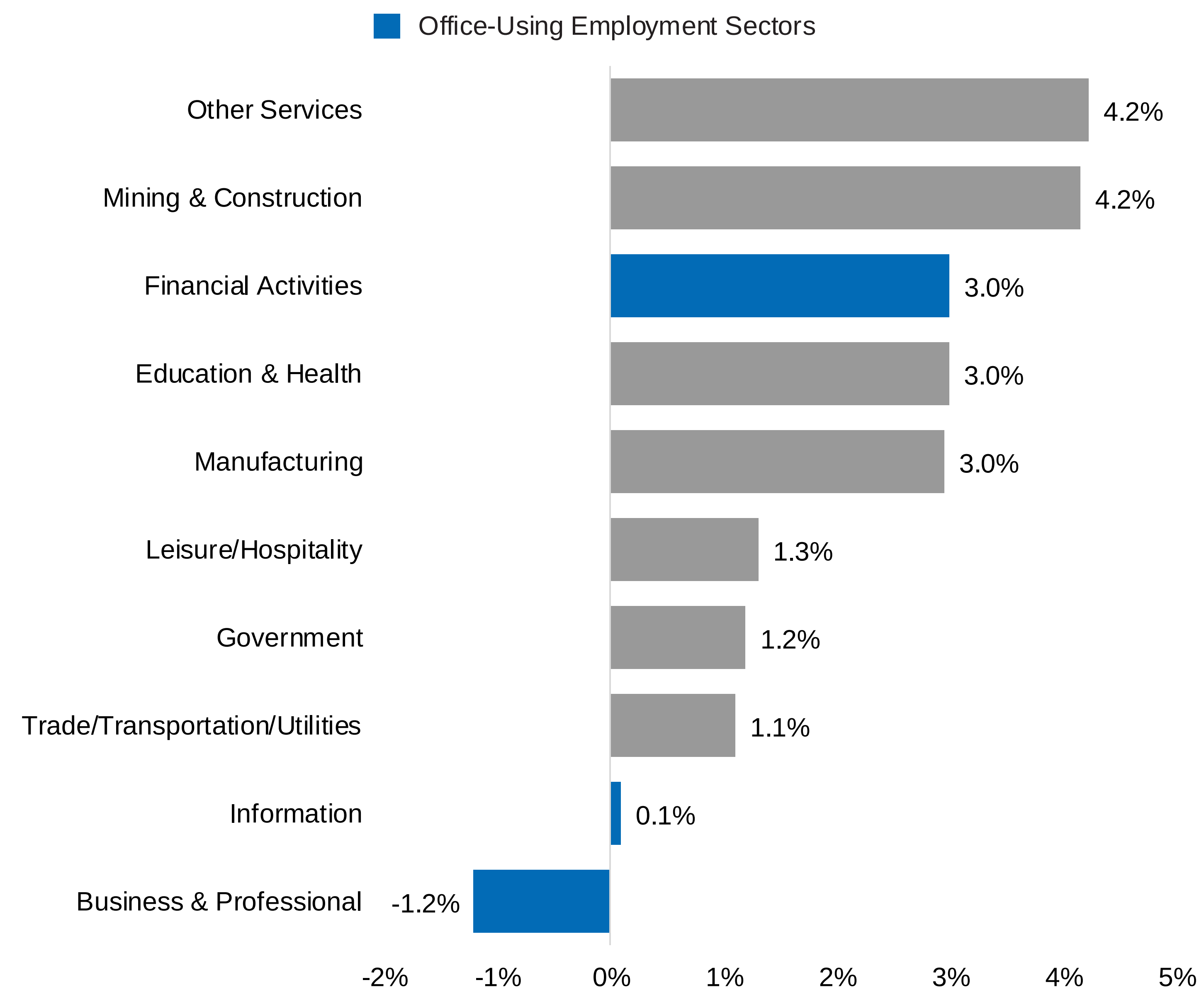
Employment Growth Continues for Most Sectors, Slows for One Office Sector

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 17.9%. Most industries in the metroplex reported growth, while one office-using industry, the business and professional sector contracted by 1.2% year over year. Comparatively, the information and financial activities sectors grew by 0.1% and 3.0% year over year, respectively.

Employment by Industry, August 2024



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

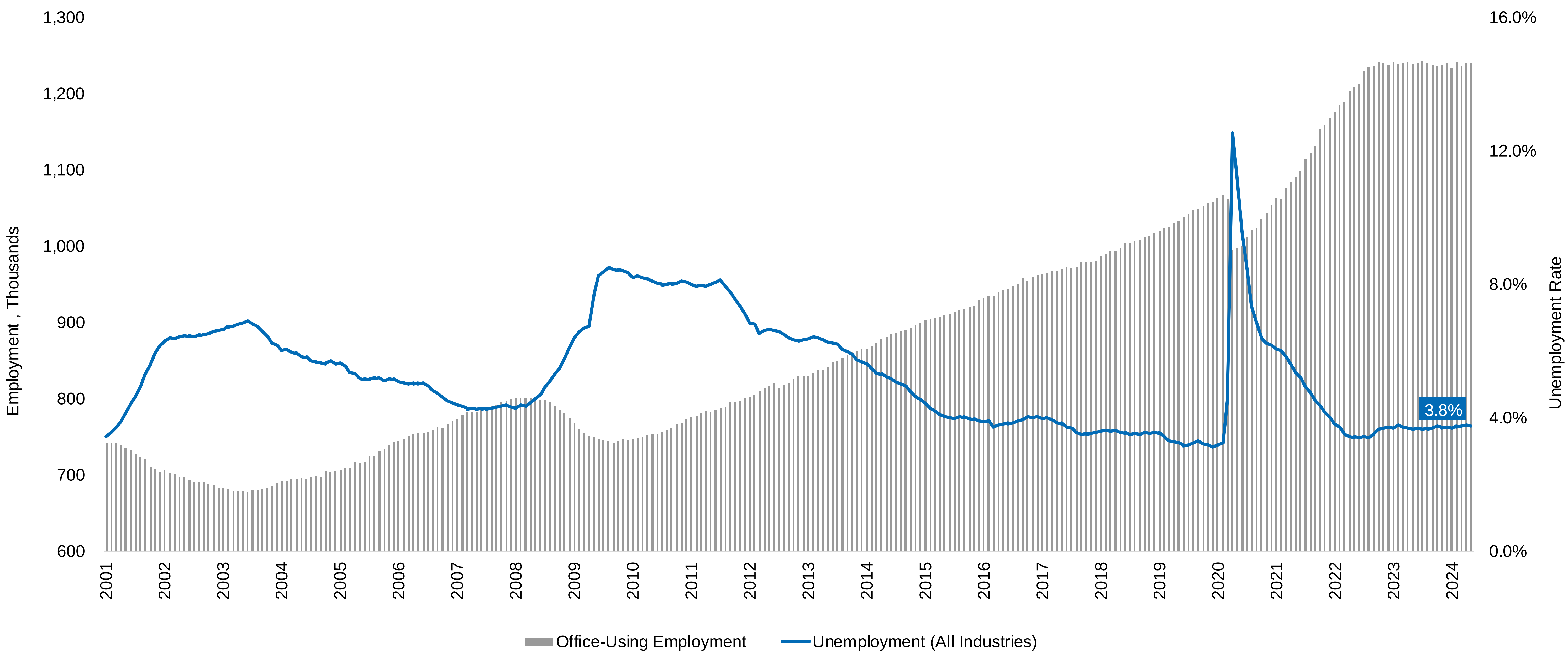


Source: U.S. Bureau of Labor Statistics, Dallas-Fort Worth MSA

Overall Office-Using Employment Remains Near All-Time High

Office-using employment in Dallas-Fort Worth market increased slightly by 0.2% year over year in August 2024, remaining elevated at over 1.2 million employees. Currently, the seasonally adjusted unemployment rate is at 3.8%, above the 3.3% average levels reported in 2019. The contraction in the business and professional sector employment over the past 12 months is the major contributing factor in the recent uptick in unemployment rate in the market by 14 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.

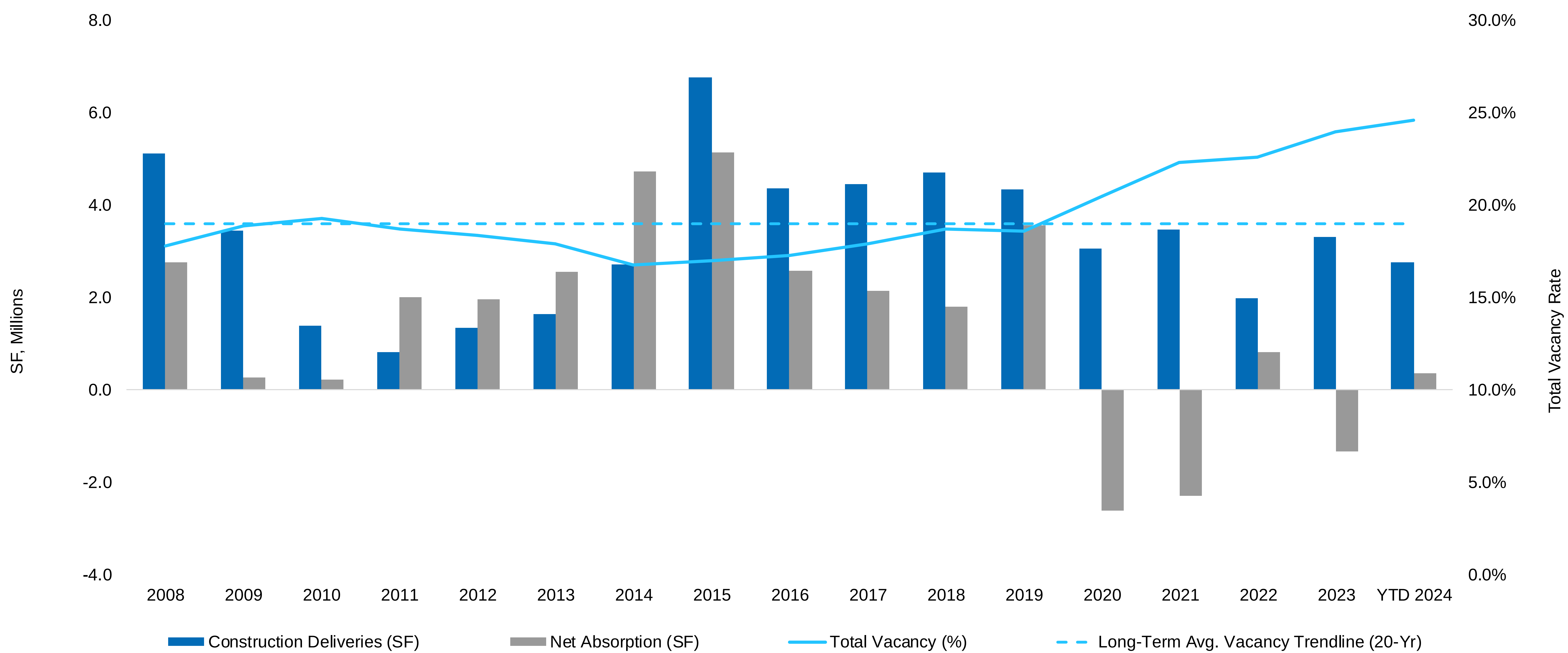
3Q24

Leasing Market Fundamentals

Vacancy Remains Flat as Occupancies Push Positive Amid Increasing New Supply

The Dallas-Fort Worth office vacancy rate increased by 80 basis points year over year to 24.6% in the third quarter of 2024. Since the onset of the pandemic, office occupancies have slowed in the market, with a continued decline in in the delivery of new office supply since 2018. Occupancies significantly increased into the positive in the third quarter of 2024, helping to hold vacancies steady as more new supply hits 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

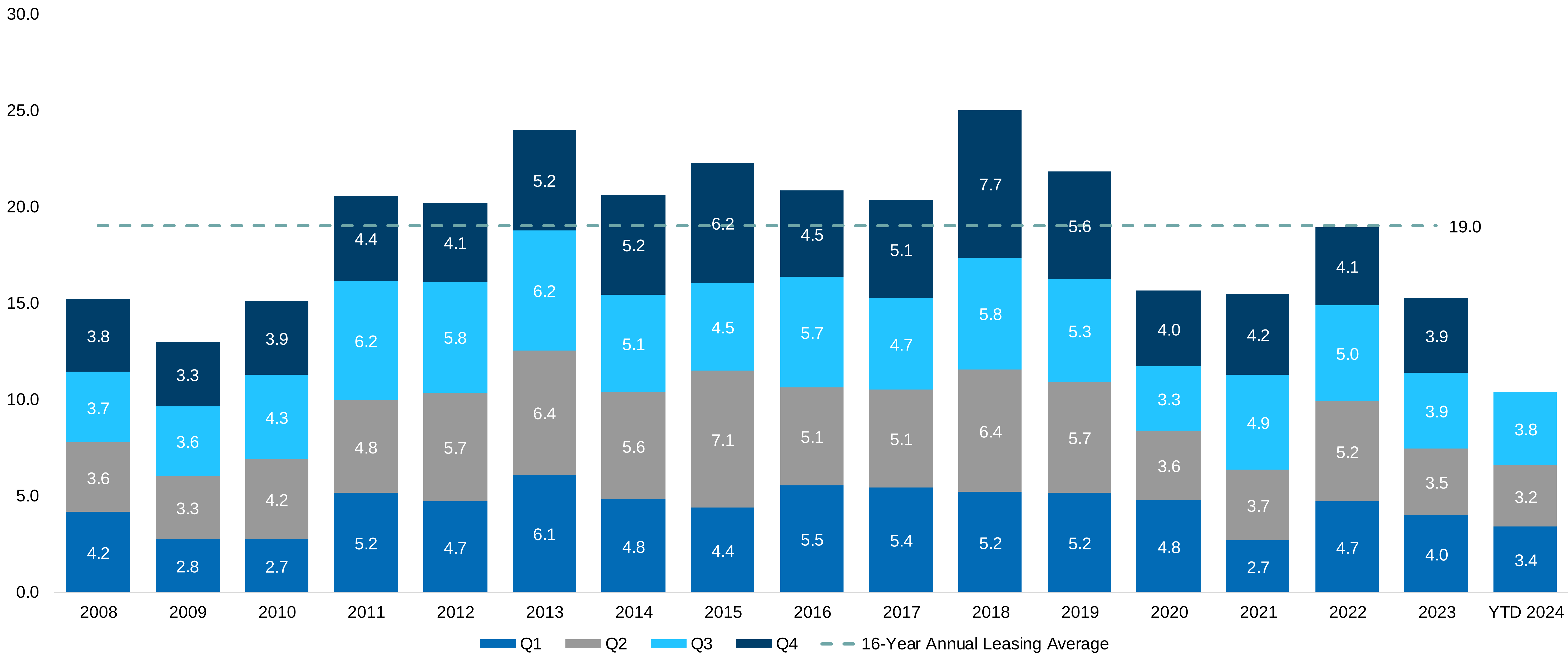


Source: Newmark Research, CoStar

Year-to-Date Leasing Activity Hits Lowest Point Since 2009

Leasing activity in the third quarter of 2024 closed at 3.8 MSF, comparatively lower than quarterly activity reported over the past 16 years at 4.9 MSF. Deal size averaged 4,934 SF in the third quarter of 2024, an average of 903 SF and 426 SF more than the previous quarter and year, respectively. Despite increases in deal sizes, year-to-date leasing activity is at its lowest level since 2009. The slowing leasing activity pace is largely attributed to fewer deals being done, likely as a result of a more challenging debt liquidity environment that makes larger deals harder to execute.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

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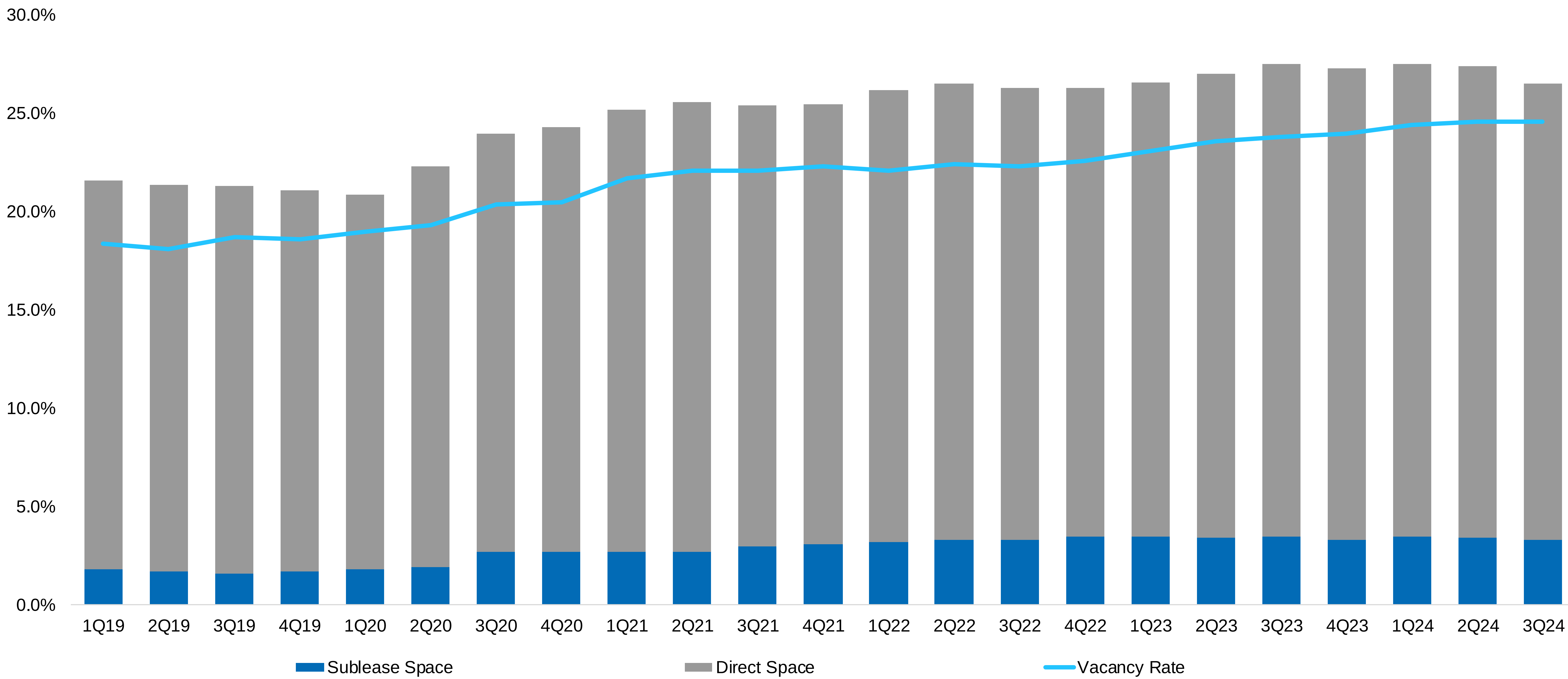
Availability Eases from Historical Highs, Vacancy Flattens

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 third quarter of 2024, sublease availability remains elevated at 3.3% but has declined by 20 basis points from the peak. Similarly, direct availability continues to be high at 23.2% but has declined by 80 basis points from its peak in the latter half of 2023. Meanwhile, vacancies remain high, holding steady quarter over quarter at 24.6%.

Available Space as Percent of Overall Market

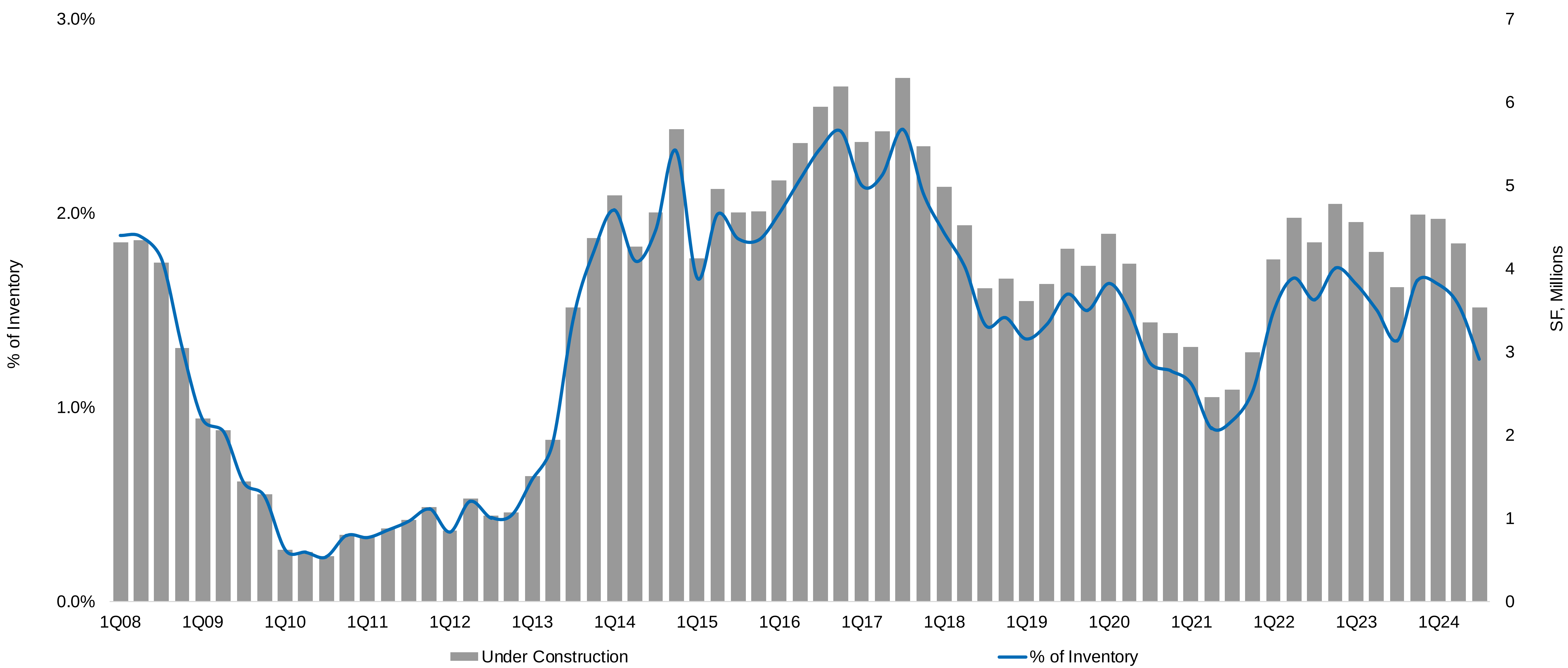


Source: Newmark Research, CoStar

Construction Activity Dips

As of the third quarter of 2024, the market had 3.5 MSF under construction, dipping to the lowest level since year-end 2021. However, the pipeline has remained relatively stable within the 3.5 to 4.8 MSF range since 2022. Only 1.2% 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

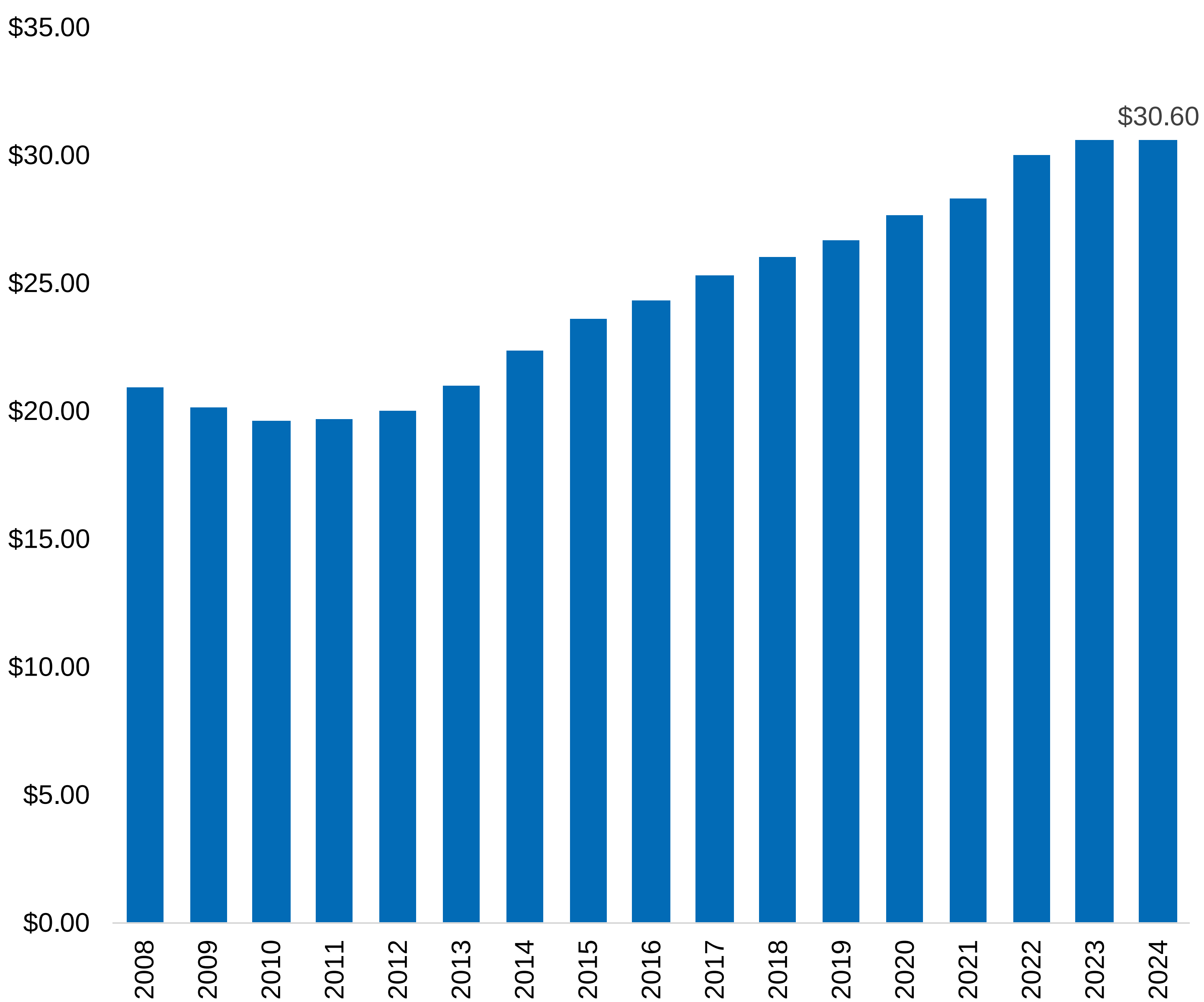


Source: Newmark Research, CoStar

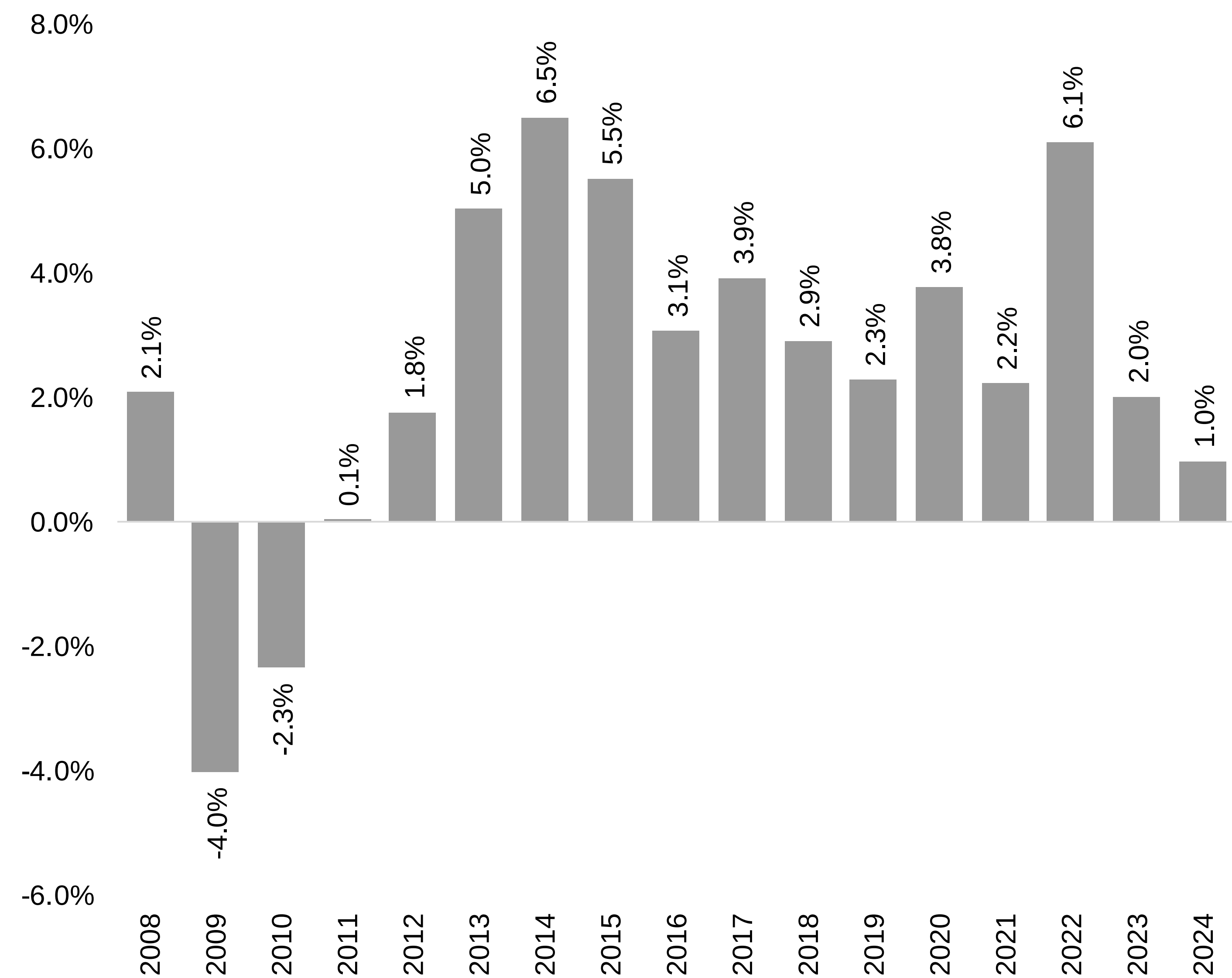
Rents Remain Elevated, Slightly Easing from All-Time High

Rents increased by 1.0% year over year in the third quarter of 2024 to $30.60 but eased slightly with a 0.1% drop from the historical high at the end of 2023. Rental rates remain elevated with landlords expected to maintain high rents while offering attractive concessions to counteract softer market demand.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

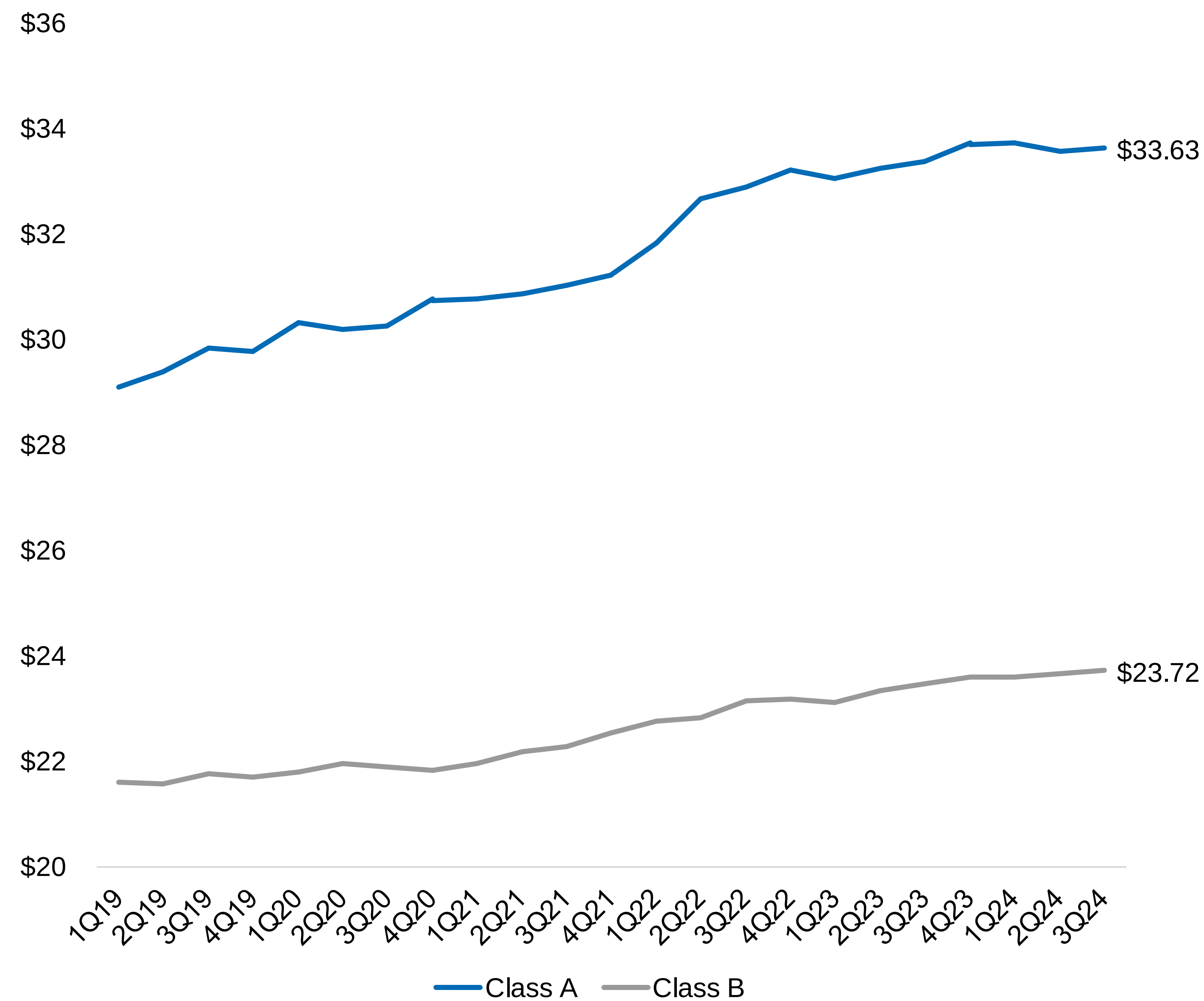


Source: Newmark Research, CoStar

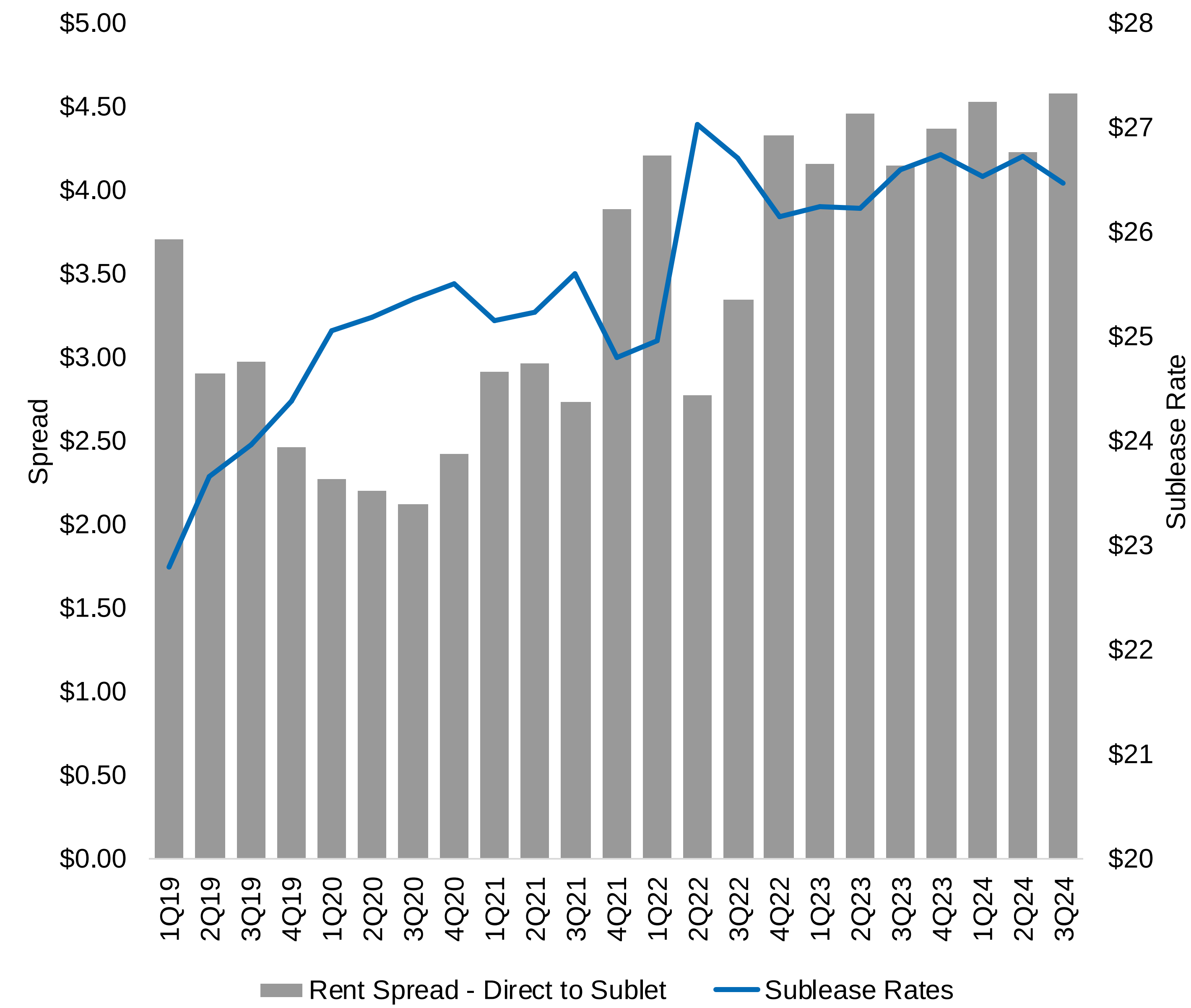
Asking Rents Spread Continue to Reflect Flight to Quality

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 third quarter of 2024, Class A rents ended at $33.63/SF, while Class B reported $23.72/SF. Due to much higher demand of quality assets, rent difference between the two assets are at $9.91/SF, a 22.5% spread increase since year-end 2019. Sublease rates declined in the third quarter of 2024 by 1.0% quarter over quarter and 0.5% year over year to $26.47/SF.

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 third quarter of 2024, Class A space accounted for 68.8% of the market's leasing activity by SF, but only 47.3% of the market's deal volume. Average leases signed in Class A space were 7,174 SF and continued to remain larger than the average market deal size at 4,934 SF.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Bank of America	Hallmark Center I	Far North Dallas	Renewal	553,799
Financial institution, Bank of America, signed a 10-year lease renewal to remain at Hallmark Center I.				
Aimbridge Hospitality	HQ53	Legacy/Frisco	Renewal	248,662
Hotel management and operator company, Aimbridge Hospitality, renewed its lease at HQ53 for another five years.				
Amazon	Two Galleria Tower	LBJ Freeway	Renewal	241,618
The e-commerce giant signed a five-year renewal at Two Galleria Tower. Amazon first began leasing in the building more than 10 years ago.				
WRA Architects	Legacy West	Legacy/Frisco	Sublease	75,251
Architecture firm, WRA Architects, subleased all of Trellix's space at Legacy West. The deal, led by Scott Hobbs and Kim Lyon of Newmark, allowed Trellix to fully recover rent through the sublease minus deal costs. Trellix was newly created from the McAfee Enterprise and FireEye Security Holdings merger back in 2022.				
Systemware	The Colonnade	Quorum/Bent Tree	Renewal	53,858
Systemware, represented by John Shaunfield and Kyle Jett of Newmark, has been a long-term tenant at The Colonnade. After considering relocation options, the software company decided to renew their lease on the 10th, 11th and 12th floors.				
Greenberg Traurig	McKinney & Olive	Uptown/Turtle Creek	Direct New	49,402
Law firm, Greenberg Traurig, represented by Mike Shuler, John Shaunfield and Kyle Jett of Newmark, signed a new lease to occupy space at McKinney & Olive and will be moving from Dallas Arts Tower.				

Source: Newmark Research, CoStar

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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