

Net absorption improves from previous quarter but still negative, led by Class A sublease vacancies



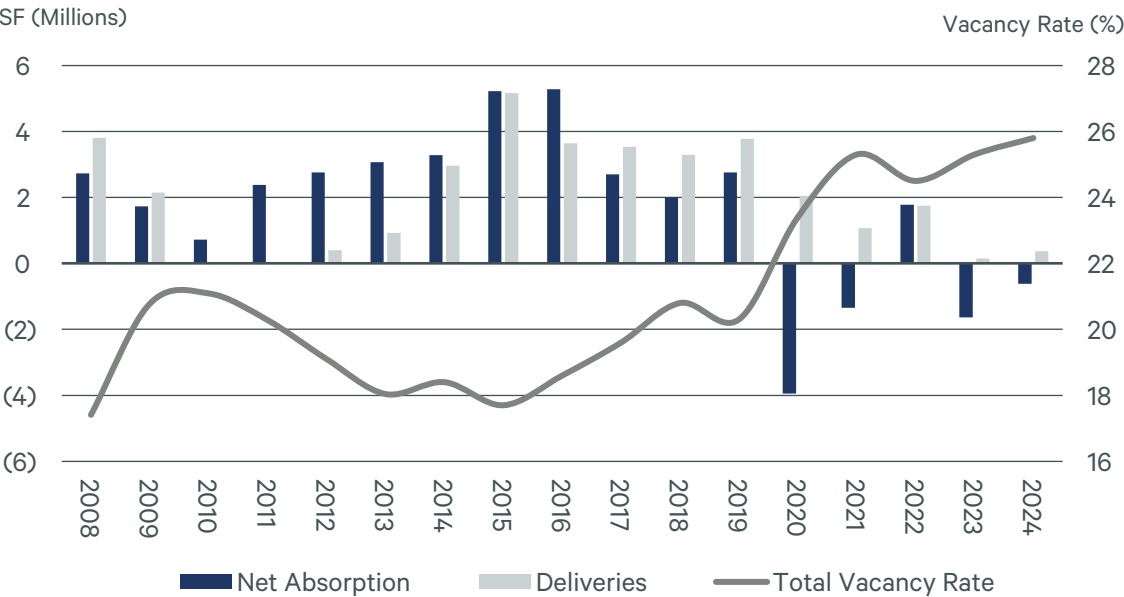
Note: Arrows indicate change from previous quarter.

Market Overview

- The office-using industry sectors decelerated significantly after collectively adding only 3,100 jobs throughout the last 12 months ending February 2024 and falling below the 1.8% overall market employment growth for the same time period, which also slowed.
- Net absorption was in negative territory again this quarter, bumping vacancy up to 25.8%.
- Unlike prior quarters, Class A properties fueled negative net absorption in Q1 2024.
- Construction activity fell below 5.0 million sq. ft. following three sizeable deliveries.
- Large tenant requirements continue to exceed levels from the previous year but are down slightly from last quarter and fall short of the 2018/2019 average by 11%.

Market-wide net absorption, a metric based on physical occupancy, logged more than 600,000 sq. ft. of negative activity for the quarter as move-outs exceeded new occupancy. As a result, total vacancy (direct plus sublease) increased from 25.3% to 25.8%, translating to over 59 million sq. ft. of vacant office space spread across DFW. Notable areas that posted positive net absorption to begin the year included Frisco/The Colony, Fort Worth CBD, LBJ Freeway and Richardson/Plano.

Figure 1: Historical Net Absorption and Vacancy



Source: CBRE Research, Q1 2024.

State of the Sublease Market

Sublease availability experienced another dip in square footage over the quarter, declining by almost 5.0% from Q4 2023 and standing just under 9.9 million sq. ft. at the end of Q1 2024 throughout CBRE Research’s tracked dataset. More than three-fourths of that amount is attributed to Class A spaces on the market. As of Q1 2024, sublease availability represented 4.3% of total inventory and 14.9% of total availability, both lower than last quarter’s proportions. About 70% of current sublease listings are vacant and available for immediate occupancy, with many spaces offering a plug and play option including furniture, fixtures, and equipment.

In terms of big block sublease availability, there were 27 additions throughout Q1 2024, ranging from 20,000 sq. ft. to nearly 120,000 sq. ft. Disclosed asking rates for these new sublease offerings range from \$11.50 to \$34.00 NNN, with the majority of new listings falling in the DFW Freeport/Coppell and Upper Tollway/West Plano micromarkets.

Office Leasing

Leasing activity for deals 10,000 sq. ft. and larger, a leading indicator of net absorption, ticked down from Q4 2023 by 33% in terms of total square footage leased, alongside a decrease in share of renewals. Areas within DFW that saw the highest levels of overall/gross leasing activity relative to the rest of the market include Uptown/Turtle Creek, Far North Dallas, and Mid-Cities. Large tenant requirements continue to exceed levels from the previous year and quarter but fall short of the 2018/2019 average by 11%. This metric tracks occupiers who are actively in the market for new space, lease renewals, and expansions.

Development Pipeline

After gaining square footage last quarter from two notable starts, ongoing development dipped in Q1 2024 to 4.9 million sq. ft. after three deliveries completed and exited the pipeline. River Edge and Thirteen Thirty Three, both in the Stemmons Freeway submarket, delivered more than 270,000 sq. ft. in combined Class A office space. Additionally, a 100,000-sq.-ft. spec suite project at 121 Commerce Center in Plano finished construction. Collectively, these projects were 4% preleased at time of completion. Active multitenant projects underway combined with leased, single tenant build-to-suits were 51% pre-leased at year-end.

Figure 2: Sublease Availability



Figure 3: Significant Leases/Sales of the Quarter

Transaction Type	Tenant/Buyer	Building Name	Submarket	Total Sq. Ft.
Lease	Sidley Austin	23Springs	Uptown/Turtle Creek	118,485
Lease	CheckSammy	The Madison	Far North Dallas	48,152
Sale	Goldenrod Cos.	Collins Crossing	Richardson/Plano	300,887
Sale	Triumph Financial	One Lincoln Park	Central Expressway	261,825

Source: CBRE Research, Q1 2024.

Local Economy

Dallas/Fort Worth continues to outperform the U.S. and other large metro areas in terms of employment growth, which have historically fueled office demand. The DFW metro area most recently added 75,100 jobs over the 12 months ending February 2024, according to preliminary data from the Bureau of Labor Statistics. Office-using employment only accounted for 3,100 of the 75,100 new jobs, a significant slowdown from previous months. DFW also fell behind New York and Houston for annual job gains, where 92,300 and 79,800 total jobs were added, respectively. Employment growth in DFW equated to a 1.8% annual growth rate, mirroring the national rate.

While job growth slowed, population growth has proliferated throughout Dallas/Fort Worth for decades. The DFW metro area led the U.S. in number of new residents added between July 2022 and July 2023, the most recent Census Bureau data. Dallas/Fort Worth grew by 1.9% during this time period, adding 152,598 new residents and now surpassing 8 million people.

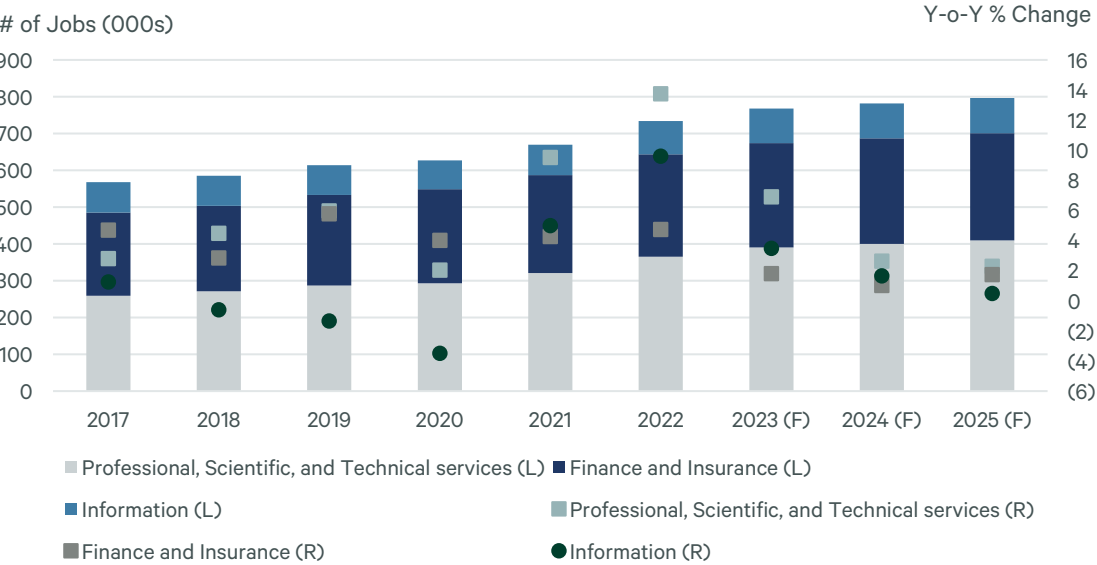
National Outlook

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors like education, healthcare, and government. A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines, the job openings rate declined to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

Figure 4: DFW Office-Using Employment Historicals and Forecast



Source: Oxford Economics, 2024.

Figure 5: CBRE House View

	2024	2025	2026-2028
Fed Funds Rate (Q4)	4.75 % to 5.00%	3.25% to 3.50%	2.25% to 2.50%
10-Year Treasury (Q4)	3.7%	3.5%	3.3%
GDP (Annual Average)	2.3%	1.5%	2.2%
Core PCE (Q4)	2.6%	1.9%	1.8%

Source: CBRE Research, Q1 2024.

Figure 6: Dallas/Fort Worth Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q1 2024 Net Absorption	2024 YTD Net Absorption
Central Expressway	10,205,598	23.95	26.93	38.11	-	-	(97,090)	(97,090)
Class A	6,779,444	25.81	29.61	39.43	-	-	(36,553)	(36,553)
Class B	3,365,606	20.62	22.02	34.15	-	-	(60,537)	(60,537)
Dallas CBD	26,102,592	31.93	35.04	32.54	-	-	(68,825)	(68,825)
Class A	21,404,724	31.86	35.07	34.55	-	-	(21,529)	(21,529)
Class B	4,484,511	33.39	36.20	24.31	-	-	(47,296)	(47,296)
East Dallas	3,008,873	27.90	31.13	32.12	-	-	10,012	10,012
Class A	1,048,478	56.03	63.08	38.20	-	-	24,221	24,221
Class B	1,611,627	13.33	14.54	26.24	-	-	(12,244)	(12,244)
Far North Dallas	45,815,721	26.37	31.03	34.62	1,849,184	100,000	(149,085)	(149,085)
Class A	32,195,706	26.78	31.40	38.67	1,757,016	100,000	(129,889)	(129,889)
Class B	13,588,188	25.45	30.22	26.07	92,168	-	(19,196)	(19,196)

Source: CBRE Research, Q1 2024.

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Frisco/The Colony*	5,851,604	10.92	18.65	41.28	1,163,389	-	59,940	59,940
Class A	5,065,709	11.07	17.86	42.34	1,128,389	-	53,612	53,612
Class B	785,895	9.95	23.70	33.94	35,000	-	6,328	6,328
Quorum/Bent Tree*	19,515,791	24.04	28.79	28.86	-	-	(21,320)	(21,320)
Class A	11,539,166	25.21	31.31	32.36	-	-	(79,817)	(79,817)
Class B	7,944,798	22.45	25.24	24.12	-	-	58,497	58,497
Upper Tollway/West Plano*	20,448,326	32.58	36.71	37.26	685,795	100,000	(187,705)	(187,705)
Class A	15,590,831	32.73	35.87	39.59	628,627	100,000	(103,684)	(103,684)
Class B	4,857,495	32.08	39.41	27.20	57,168	-	(84,021)	(84,021)
Las Colinas	33,953,236	28.19	33.89	30.44	-	-	(205,791)	(205,791)
Class A	21,780,624	26.96	35.81	31.08	-	-	(76,454)	(76,454)
Class B	11,574,703	29.84	31.24	29.40	-	-	(127,947)	(127,947)
LBJ Freeway	19,138,682	25.74	26.76	30.25	-	-	132,287	132,287
Class A	11,125,261	20.36	26.09	35.25	-	-	89,849	89,849
Class B	7,843,859	33.74	28.10	23.07	-	-	42,438	42,438

*Micromarket of Far North Dallas submarket

Source: CBRE Research, Q1 2024.

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Lewisville / Denton	3,818,217	30.38	35.83	25.24	147,000	-	(216,483)	(216,483)
Class A	950,194	43.03	-	24.74	147,000	-	(237,338)	(237,338)
Class B	2,802,271	26.81	34.59	25.32	-	-	20,855	20,855
Preston Center	4,722,996	12.61	15.58	47.55	151,000	-	(5,418)	(5,418)
Class A	4,032,515	12.14	15.26	50.85	151,000	-	(14,650)	(14,650)
Class B	622,803	16.97	19.38	34.80	-	-	9,232	9,232
Richardson / Plano	25,571,010	22.00	27.62	25.10	138,193	-	2,814	2,814
Class A	14,625,610	22.67	29.40	26.57	102,000	-	(197,449)	(197,449)
Class B	10,728,801	21.40	25.60	23.52	36,193	-	200,263	200,263
Allen/McKinney*	2,388,345	25.85	33.55	32.13	138,193		37,133	37,133
Class A	1,274,213	20.32	24.82	37.46	102,000		48,222	48,222
Class B	1,082,918	33.10	44.79	27.47	36,193		(11,089)	(11,089)
SW Dallas	1,841,811	35.93	26.15	26.06	-	-	(34,349)	(34,349)
Class A	354,088	69.23	65.86	18.31	-	-	(6,083)	(6,083)
Class B	1,262,069	29.80	15.09	33.69	-	-	(29,105)	(29,105)
Stemmons Freeway	8,347,601	27.50	24.01	22.08	-	271,311	(15,067)	(15,067)
Class A	4,335,021	24.94	21.63	23.17	-	271,311	8,375	8,375
Class B	3,613,901	32.31	29.47	20.88	-	-	(21,962)	(21,962)
Uptown/Turtle Creek	13,822,181	22.62	26.59	49.86	2,556,766	-	(62,821)	(62,821)
Class A	12,289,045	22.82	27.41	51.51	2,556,766	-	(79,822)	(79,822)
Class B	1,395,252	23.07	22.00	38.25	-	-	17,001	17,001

*Micromarket of Richardson/Plano submarket

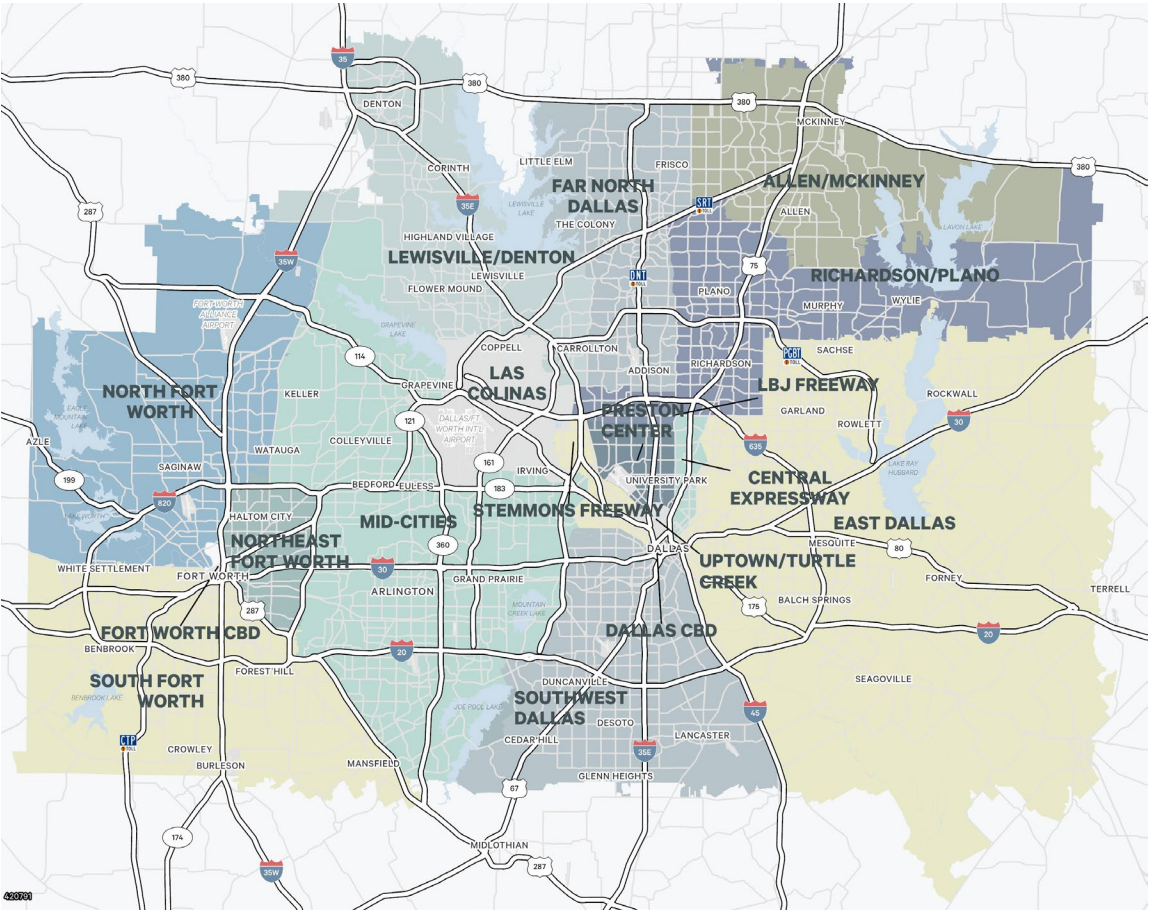
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Fort Worth CBD	8,159,730	12.44	12.17	35.69	-	-	12,493	12,493
Class A	6,242,460	11.17	11.69	38.16	-	-	14,189	14,189
Class B	1,847,959	17.17	14.24	29.62	-	-	(1,696)	(1,696)
Mid Cities	14,986,769	30.48	31.68	24.05	-	-	92,434	92,434
Class A	6,739,183	35.68	34.89	25.00	-	-	28,673	28,673
Class B	7,676,580	27.74	30.79	22.52	-	-	55,665	55,665
North Fort Worth	2,917,126	18.24	18.24	22.49	80,000	-	(703)	(703)
Class A	1,333,559	31.90	31.90	23.04	-	-	0	0
Class B	1,455,543	6.59	6.59	22.46	80,000	-	(695)	(695)
NE Fort Worth	1,653,284	11.31	13.08	17.81	-	-	(7,246)	(7,246)
Class A	415,921	1.20	1.20	0.00	-	-	0	0
Class B	1,068,148	17.03	17.66	17.71	-	-	(7,246)	(7,246)
South Fort Worth	5,665,229	22.87	19.30	32.27	-	-	(7,023)	(7,023)
Class A	2,591,032	24.19	14.83	37.58	-	-	(35,401)	(35,401)
Class B	2,847,265	22.20	23.62	30.18	-	-	28,154	28,154
Dallas Total	196,348,518	26.31	30.05	32.65	4,842,143	371,311	(709,816)	(709,816)
Class A	130,920,710	26.17	31.21	35.83	4,713,782	371,311	(677,322)	(677,322)
Class B	62,893,591	27.00	28.50	26.17	128,361	-	(28,498)	(28,498)
Fort Worth Total	33,382,138	22.76	22.72	26.58	80,000	-	89,955	89,955
Class A	17,322,155	24.01	22.49	28.68	-	-	7,461	7,461
Class B	14,895,495	22.54	24.06	24.28	80,000	-	74,182	74,182
DFW Total	229,730,656	25.80	28.98	31.94	4,922,143	371,311	(619,861)	(619,861)
Class A	148,242,865	25.92	30.19	35.17	4,713,782	371,311	(669,861)	(669,861)
Class B	77,789,086	26.15	27.65	25.86	208,361	-	45,684	45,684

Source: CBRE Research, Q1 2024.
*Although Class C is not shown, totals are inclusive of all classes of data.

Market Area Overview



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