

DALLAS-FORT WORTH OFFICE MARKET REPORT

FIRST QUARTER 2022

Hilltop Securities

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PARTNERS

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An aerial view of a city skyline at dusk. The sky is a deep blue, and the buildings are illuminated from within, with some windows glowing. A prominent building in the center has a large rainbow flag flying from its top. The text is overlaid on an orange rectangular background in the center of the image.

“
Quarterly Absorption
Tops 1M Square Feet
for the First Time
in Two Years

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Economic Conditions

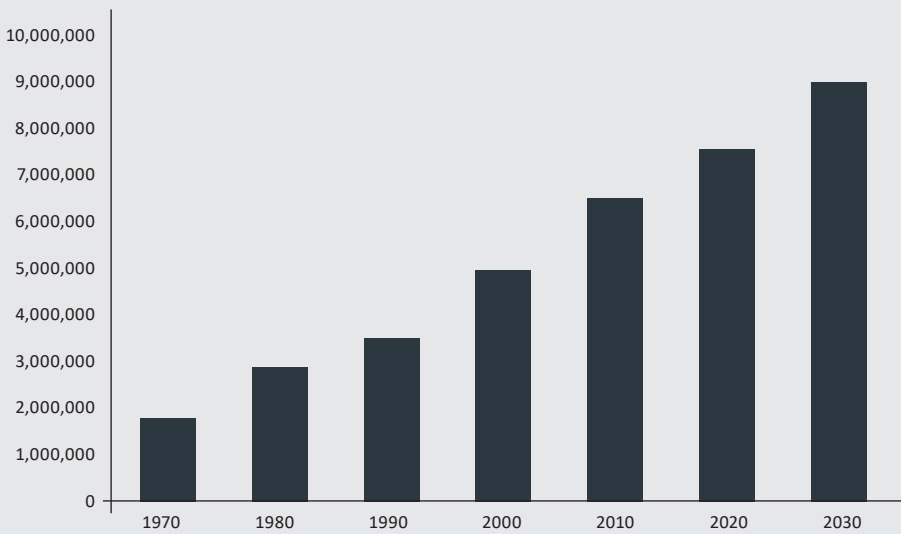
Population and Employment

The unemployment rate has been improving over recent months and as of January 2022, the Dallas-Fort Worth unemployment rate was 3.6 percent.

According to the Dallas Fed, DFW employment rose an annualized 1.5 percent (4,700 jobs) in December, slower than November's 9.9 percent (30,900 jobs) increase. Growth was mixed, with employment levels in the Dallas–Plano–Irving metro division slightly changed at an annualized 0.6 percent (1,500 jobs) but up a strong 3.6 percent (3,300 jobs) in Fort Worth–Arlington. At year-end 2021, DFW employment was 1.7 percent above its prepandemic level of February 2020. Employment in the Dallas–Plano–Irving metro division was 2.1 percent above prepandemic levels, and the Fort Worth–Arlington division's employment was 0.8 percent higher than prepandemic levels. Payrolls in Texas were just shy (-0.1 percent) of their prepandemic high.

Longer term as more workers return to their workplaces, DFW's more affordable home prices, lower costs of living and tax advantages are expected to play a key role in high net migration to Dallas/Fort Worth for the foreseeable future. Companies and individuals from higher priced coastal markets like San Francisco, Los Angeles and New York City have opted to exodus to other parts of the country. Texas and Dallas/Fort Worth, in particular, have been one of the primary beneficiaries of this trend. Companies like Catepillar, PGA, McKesson, Deloitte, Charles Schwab, JP Morgan Chase and Liberty Mutual have all either relocated or significantly expanded operations in DFW over the past few years.

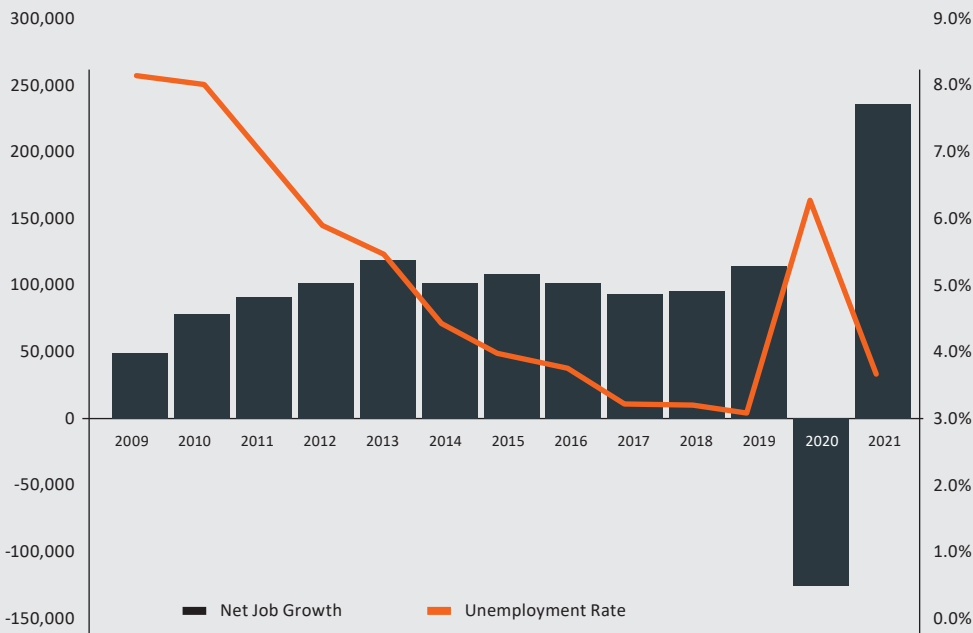
Dallas-Fort Worth Population Growth



According to the U.S. Census Bureau, the Metroplex is the fourth largest metropolitan statistical area (“MSA”) in the United States, with an estimated population of 7.6 million. Since the census in 2010, the Census Bureau estimates the population of the Dallas-Fort Worth MSA grew by 23.1%. This was the most of any metropolitan area in the country for the same time period.

Source: North Texas Council of Governments; US Census

Dallas-Fort Worth Net Job Growth and Unemployment Rate

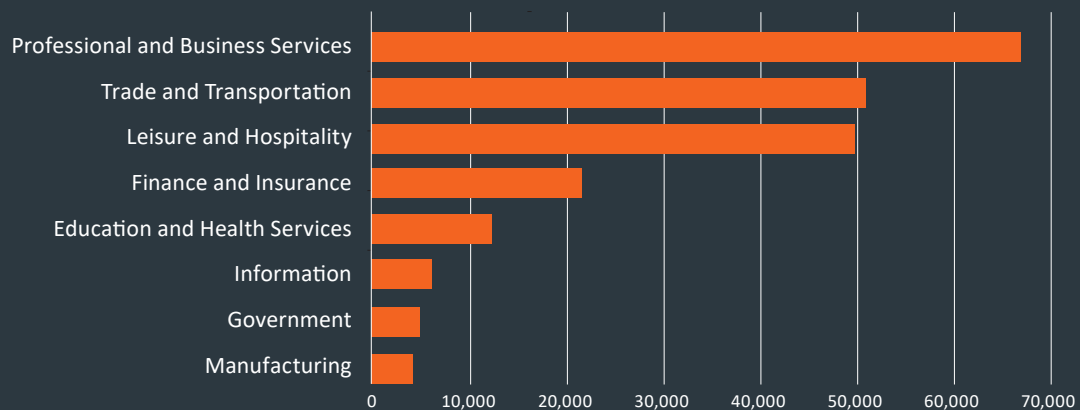


The unemployment rate in Dallas-Fort Worth as of January 2022, stands at 3.6% and job growth has been strongly positive over the past year (237,100 jobs added from January 2021 to January 2022).

Source: Bureau of Labor Statistics

Employment

Job Growth By Industry (Jan 2021 - Jan 2022)



Source: Bureau of Labor Statistics

For office space demand, employment – especially employment in the “office-using” industry sectors – is a key driver.

According to the Bureau of Labor Statistics, Dallas-Fort Worth was the fourth-largest employment market in the nation with total non-farm employment of over 3.9 million as of January 2022. Of this total, 30% or over 1 million jobs were in the office-using sectors of Professional and Business Services, Financial Activities, and Information.

Dallas-Fort Worth Accolades

#4
LARGEST
Metro Area

Dallas-Fort Worth is the nation's 4th-largest metro area. Its central location provides convenient access to all major markets in the U.S. and in the North American trade partnership. The region functions as a logistics and distribution hub, giving businesses an edge by putting key markets within easy reach of air, truck, and rail cargo shipping.



LIVING & DOING BUSINESS

Dallas-Fort Worth is one of the top regions in the nation for business thanks to low cost of living, a business-friendly environment, a strong base of well-educated and skilled employees, and robust access to both U.S. and international markets through its transportation network.

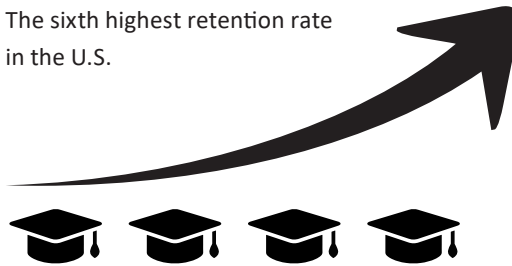
100K+
JOBS

are added annually. More jobs are being created in Dallas-Fort Worth than in any other metro in the U.S.

#1 **IN THE COUNTRY FOR**
3-Year job growth (185,600 jobs)
& job recovery to pre-pandemic high (3,951,900 jobs)

72%

of higher education students enrolled in the Dallas-Fort Worth Metroplex will stay and start careers in the area once they graduate. The sixth highest retention rate in the U.S.



22
FORTUNE 500
HEADQUARTERS

As of 2021 Dallas-Fort Worth has 22 Fortune 500 company headquarters and 45 headquarters among the Fortune 1000.

DFW's Global Center

4th **Busiest airport**
in the world

Dallas -Fort Worth International Airport is an economic engine for the region, generating \$37 billion in economic impact annually.

The DFW International Airport is the highest-capacity commercial airport in the world and one of the two international gateway airports in Texas. The airport has access to any major city in the continental United States in less than four hours.

 **171K**
Daily Passengers

 **6.1M**
Intl. Passengers

 **1M**
Total Cargo

Office Market Conditions

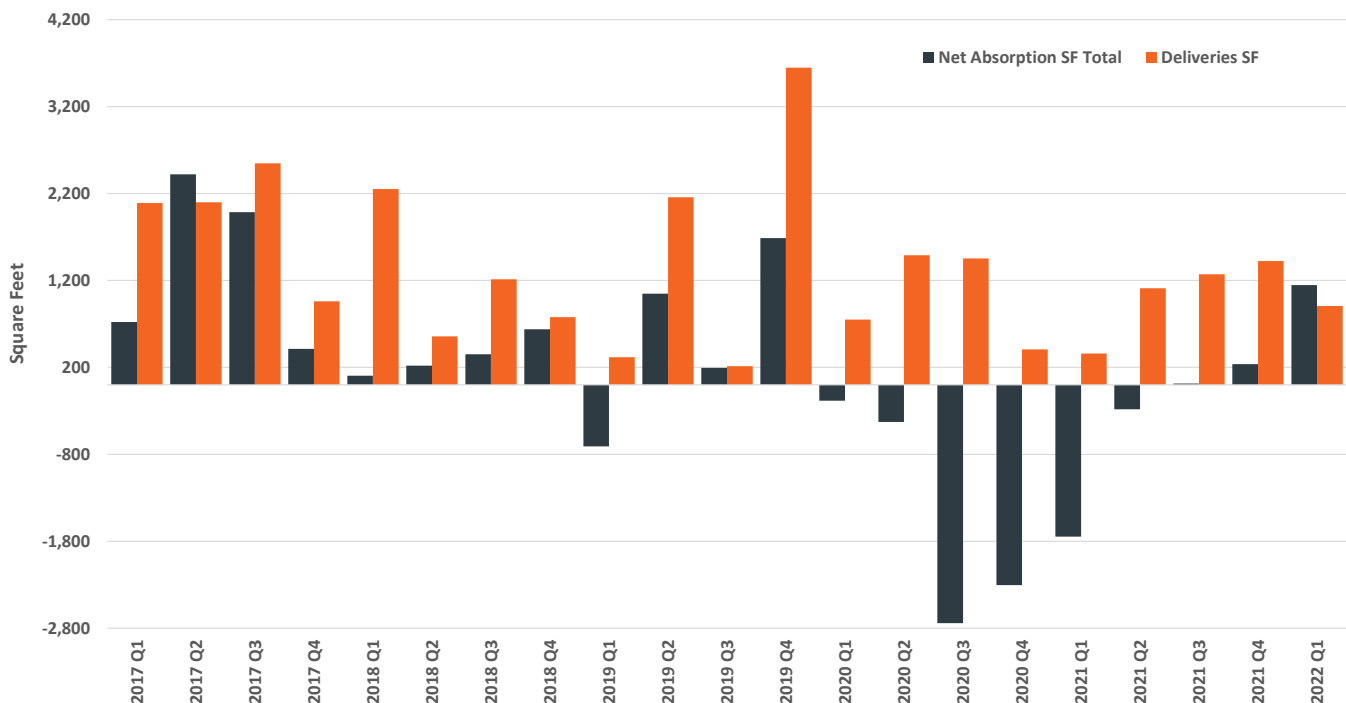
Supply and Demand

Demand for office space picked up in the first quarter of the year with 1.1 million square feet of positive net absorption. The positive net absorption was largely concentrated in newer Class A properties, absorption was moderately positive for Class B properties, while C properties continued to record negative absorption.

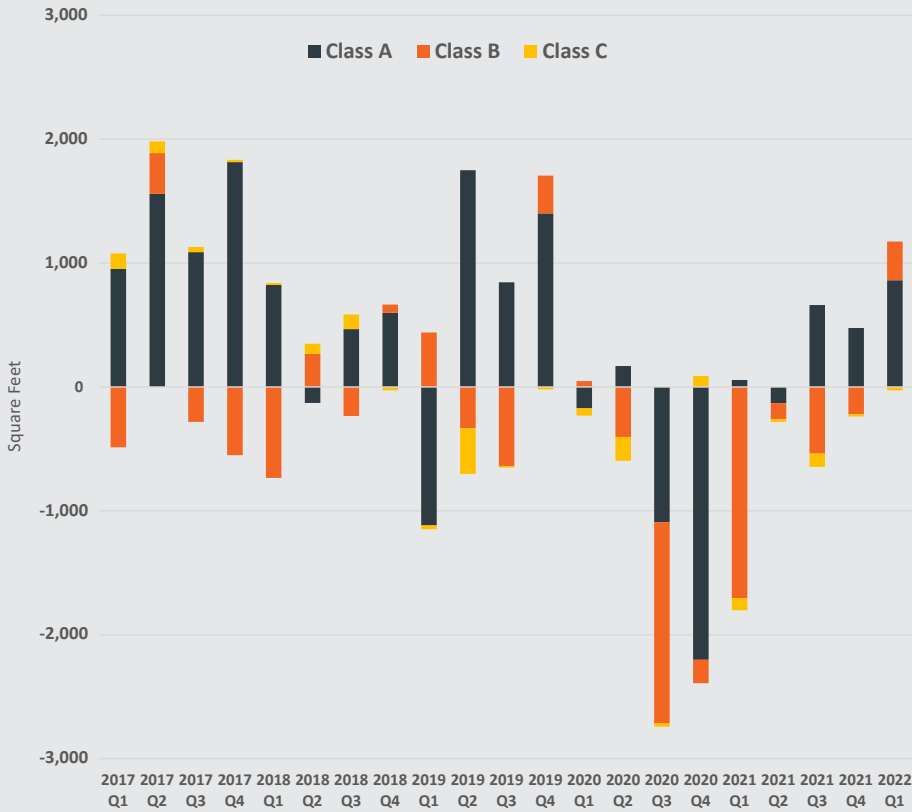
Demand outpaced new construction for the quarter and when combined with some older office properties being slated for re-development into mixed-use projects, the total vacancy rate decreased by 0.2% to 20.3%. With 6.3 million square feet currently underway (32% are accounted through built-to-suits and pre-leasing), the total vacancy rate is expected to remain above 20% over the next few quarters.



Net Absorption & Deliveries

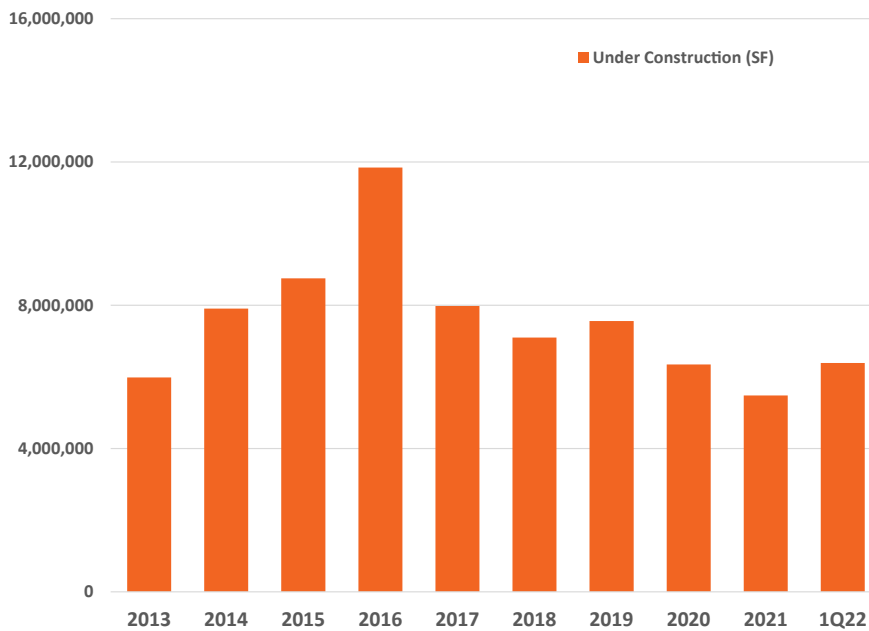


Class Net Absorption



In the first quarter, Class A was strongly positive, recording 861,033 square feet of total net absorption, while Class B was positive 312,842 square feet and Class C was -27,560 square feet.

Under Construction

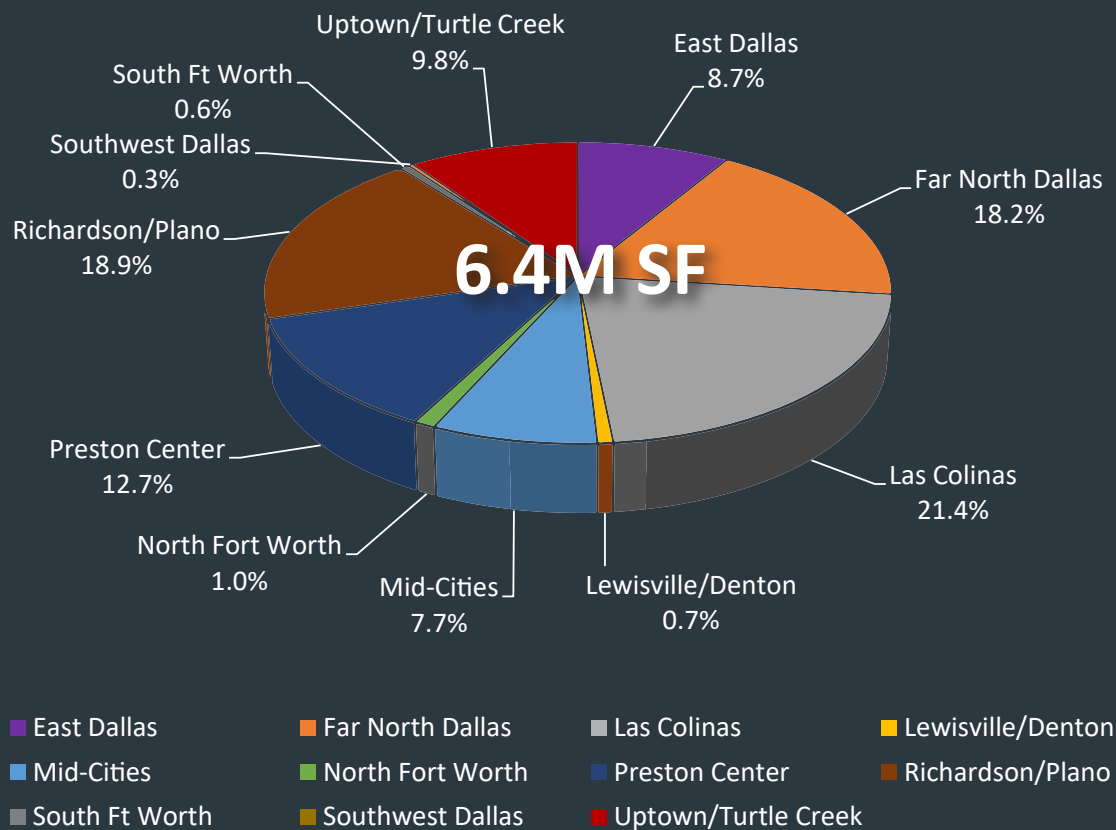


As of March 2022, there was a total of 6,386,881 rentable square feet of office space under construction in Dallas-Fort Worth. Three million square feet of construction currently underway are scheduled for delivery in 2022.

Of the 6.4 million square feet currently under construction, 32% percent has been accounted through a combination of built-to-suits and pre-leasing. This level of pre-leasing is down from recent years, which have averaged about 50% pre-leasing/built-to-suit.

DFW Under Construction by Submarket

The northern suburban submarkets dominate the construction pipeline (Las Colinas, Richardson/Plano, and Far North Dallas). Notable built-to-suit projects in the construction pipeline include Christus Health, PGA Headquarters, and Paycom.



Christus Health Global Headquarters | Las Colinas



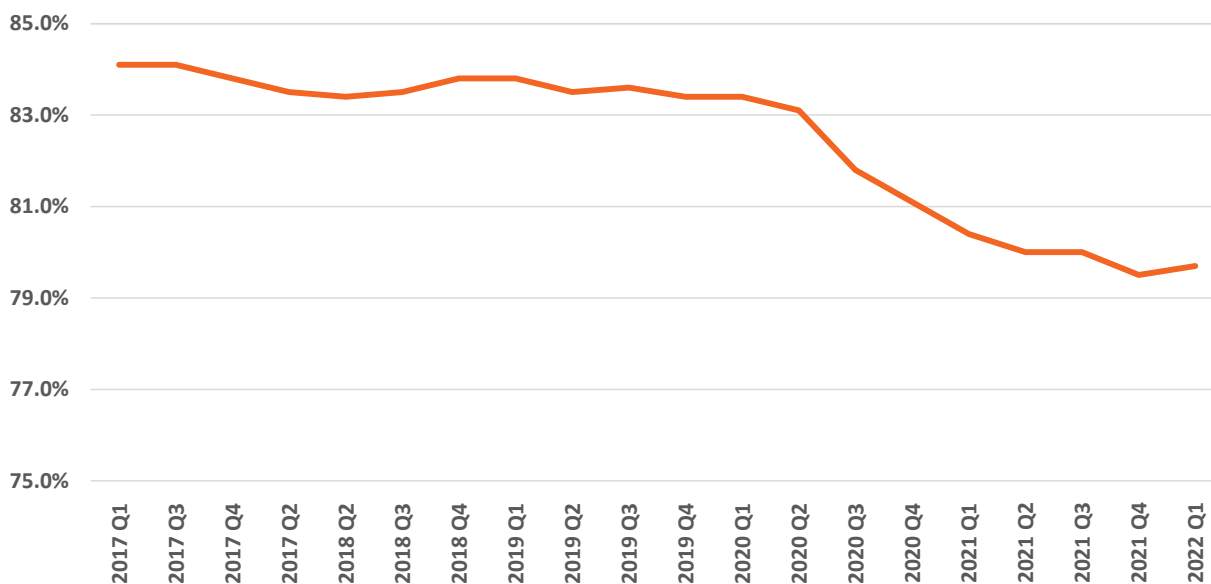


Occupancy Trends

While occupancy has been trending lower over the past couple of years, demand outpaced supply in the first quarter, increasing the total occupancy rate up 20 basis points to 79.7%.

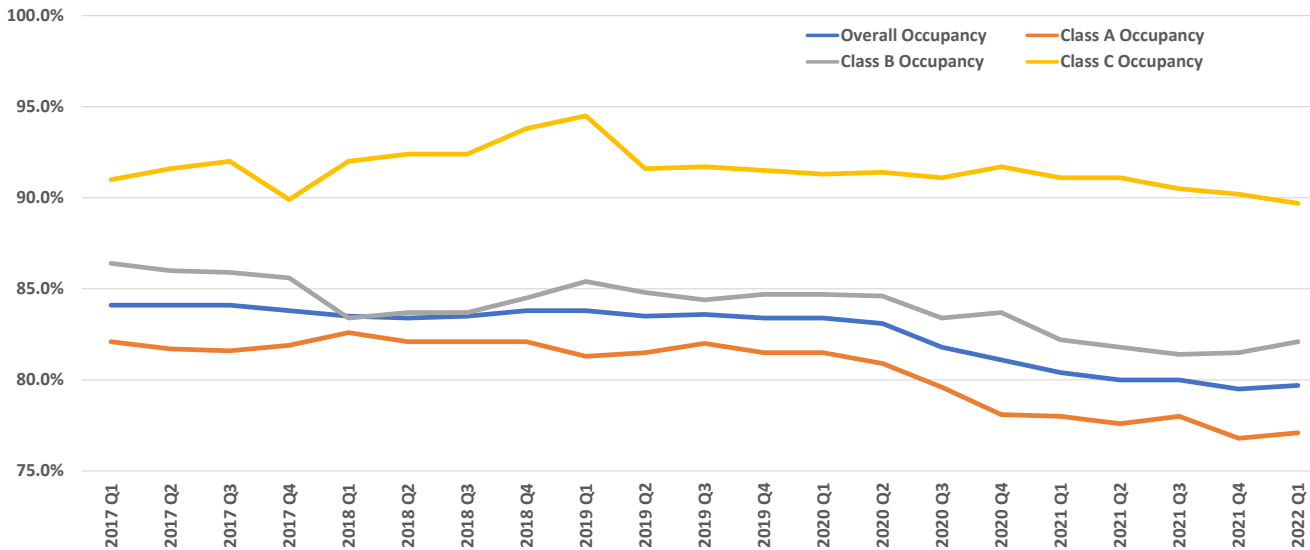
New construction has captured much of the demand for space, while older properties with large vacant blocks of space continue to struggle. There are high concentrations of large blocks of space particularly in the Legacy area of Far North Dallas, Las Colinas, Richardson/Plano and in the Dallas CBD.

Occupancy Trends



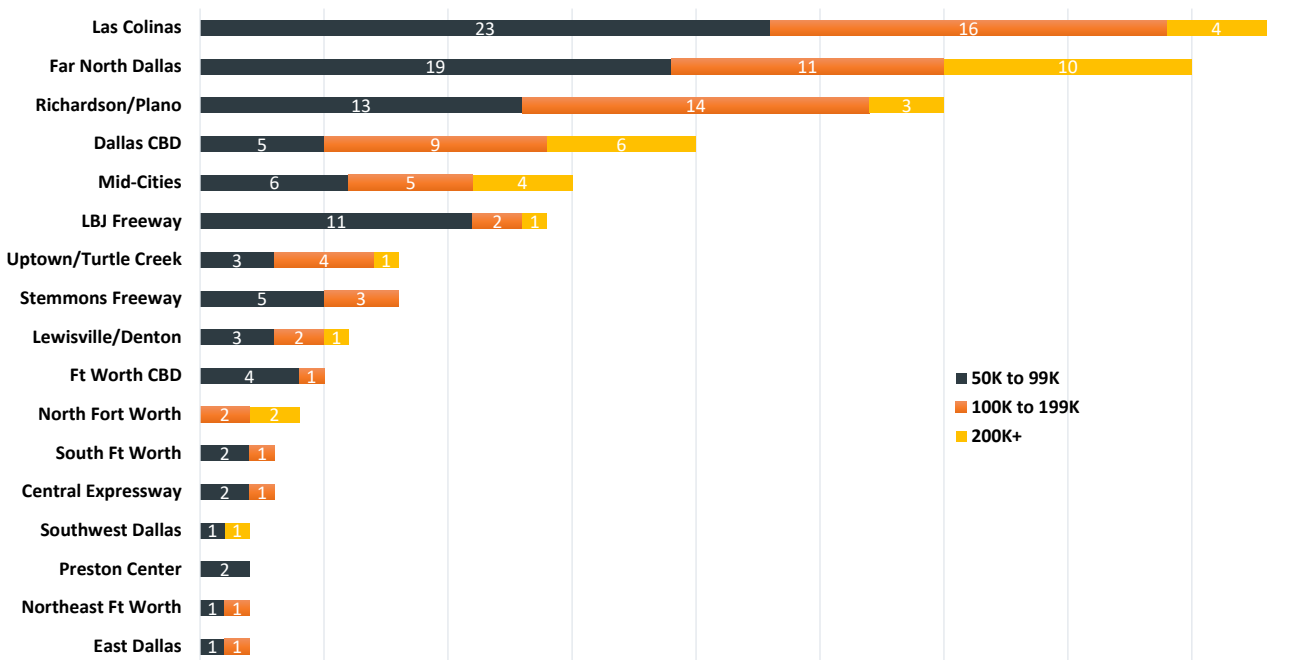
Over recent quarters, the construction pipeline has shifted less from large built-to-suits more toward mid-sized spec construction which will likely lead to an increase in availability later in the year.

Class Occupancy



One of the highest risks in the market is amount of large blocks of second-generation spaces that will need to be backfilled (many of which were recently vacated for the large built-to-suit projects). As of March 2022, there were 207 big blocks of space over 50,000 SF (these include both direct and sublease space but not under construction properties).

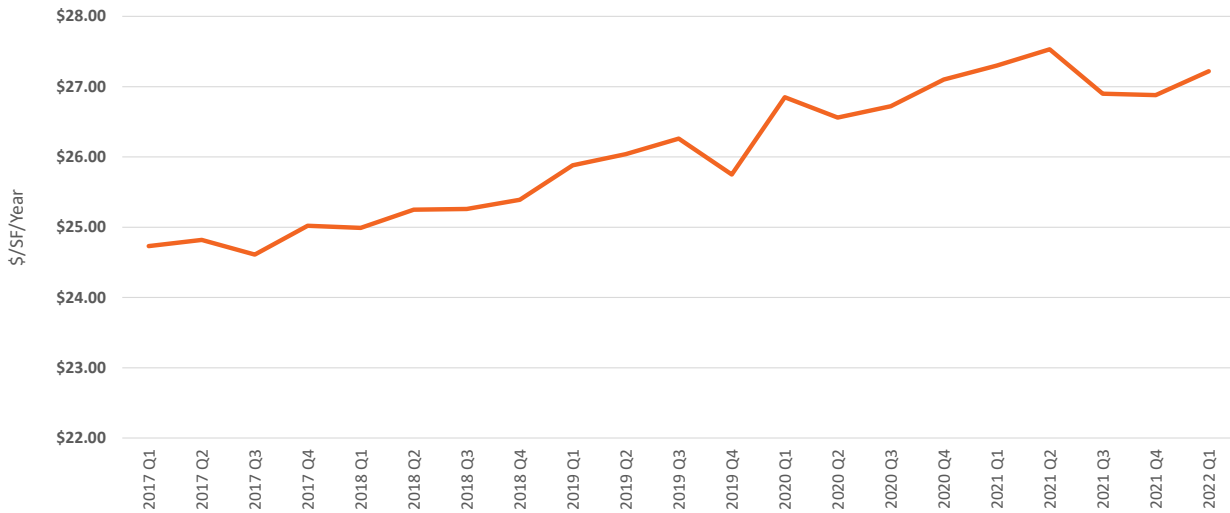
Big Blocks of Space



Rental Rate Trends

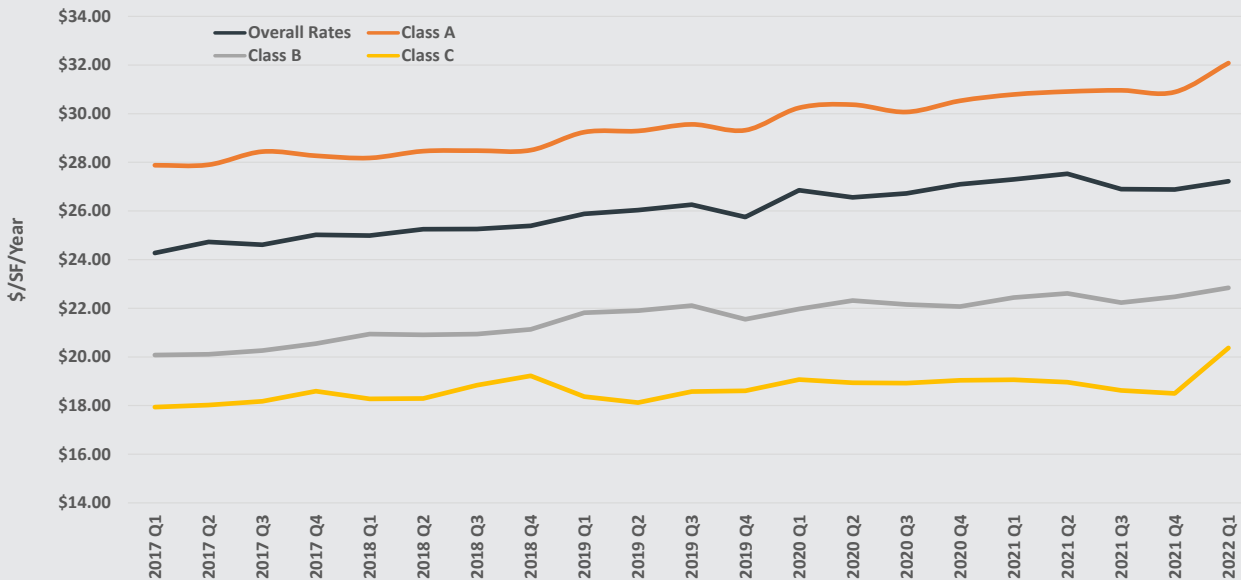
After two quarters of decline, rates have begun to increase again due to a combination of inflation and new construction deliveries. The overall current asking rate is \$27.22 (FSG).

Rental Rate Trends



The overall asking rates blended rates for all property classes increased over the past quarter by 34 cents, but this average is still down year over year by 8 cents. Class A rates increased \$1.19, Class B rates increased \$0.37 cents and Class C rates increased \$1.87 over the past quarter, respectively.

Class Rental Rates



Submarkets

SUBMARKET	INVENTORY		VACANCY		NET ABSORPTION SF		COMPLETIONS		UNDER CONSTRUCTION	ASKING RENT
	# OF BLDGS	TOTAL SF	TOTAL SF	RATE	CURRENT QTR	YTD	CUR-RENT QTR	YTD	AT END OF CURRENT QTR	WTD. AVG. (FS/G)
CENTRAL EXPRESSWAY	99	11,824,132	2,320,039	19.6%	-82,542	-82,542	0	0	0	\$33.57
DALLAS CBD	94	33,768,133	8,963,670	26.5%	-209,816	-209,816	0	0	0	\$27.43
EAST DALLAS	141	5,927,468	897,996	15.1%	2,739	2,739	0	0	472,496	\$28.99
FAR NORTH DALLAS	439	60,330,489	15,039,288	24.9%	-218,759	-218,759	344,990	344,990	1,520,115	\$31.89
FORT WORTH CBD	70	10,140,552	1,567,986	15.5%	-38,741	-38,741	0	0	0	\$28.20
LAS COLINAS	300	41,557,044	8,173,938	19.7%	412,910	412,910	0	0	1,891,146	\$26.02
LBJ FREEWAY	149	19,825,496	4,513,742	22.8%	313,411	313,411	0	0	0	\$24.54
LEWISVILLE/DENTON	129	6,446,014	1,078,504	16.7%	49,673	49,673	0	0	174,412	\$23.83
MID-CITIES	373	27,913,834	4,244,790	15.2%	231,087	231,087	264,428	264,428	473,577	\$24.71
NORTH FORT WORTH	51	3,938,819	392,460	10.0%	-2,457	-2,457	0	0	189,000	\$23.57
NORTHEAST FORT WORTH	52	3,778,861	293,073	7.8%	22,591	22,591	0	0	0	\$20.76
PRESTON CENTER	52	6,380,305	789,345	12.4%	254,117	254,117	297,000	297,000	391,368	\$40.01
RICHARDSON/PLANO	325	32,145,503	5,927,727	18.4%	-16,592	-16,592	0	0	716,222	\$23.72
SOUTH FORT WORTH	178	9,934,281	1,486,115	15.0%	-22,841	-22,841	0	0	30,000	\$24.55
SOUTHWEST DALLAS	75	3,530,244	549,793	15.6%	-1,278	-1,278	0	0	15,000	\$19.66
STEMMONS FREEWAY	117	10,229,962	2,665,459	26.1%	206,086	206,086	0	0	0	\$20.54
UPTOWN /TURTLE CREEK	103	16,365,974	2,939,204	18.0%	246,727	246,727	0	0	513,545	\$40.79
TOTAL	2,747	304,037,111	61,843,129	20.3%	1,146,315	1,146,315	906,418	906,418	6,386,881	\$27.22
CLASS A	575	169,036,209	38,759,161	22.9%	861,033	861,033	888,428	888,428	5,760,686	\$32.08
CLASS B	1,684	120,047,013	21,540,927	17.9%	312,842	312,842	17,990	17,990	626,195	\$22.84
CLASS C	488	14,953,889	1,543,041	10.3%	-27,560	-27,560	0	0	0	\$20.37
TOTAL DFW	2,747	304,037,111	61,843,129	20.3%	1,146,315	1,146,315	906,418	906,418	6,386,881	\$27.22

For additional information on any of the submarkets shown above, please refer to our Market Snapshot reports.

* Younger Partners' research is based on the CoStar office building database. Inventory includes office buildings containing at least 15,000 rentable square feet; single-tenant, multi-tenant, and owner-occupied; class A, B, and C; existing, under construction, or under renovation; excludes medical office buildings and data centers.



When it comes to analytics, we focus not only on the data, but also the insight behind the data. Information and technology are continuing to progress to a level where data is readily available to everyone. However, conscious interpretation of this data is rare. We specialize in providing an astute understanding into market trends that are often overlooked.”

— Steve Triolet, *Director of Research*



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