



TRANSWESTERN

# DALLAS+FORT WORTH OFFICE MARKET Q4 2023



## TRENDLINES

	Q4 2023	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Office-Using Job Growth	+23,000	+19,400	↑	+14,200	↑/→
Total Available	26.4%	25.9%	↑	24.1%	↑/→
Net Absorption <sup>1</sup>	1,610,000	(547,000)	↓	(32,000)	↓
Sublease Space	11,150,000	10,970,000	↑	8,710,000	→
Vacancy	19.3%	17.4%	↑	16.9%	↑
Asking Rent - Dallas	\$36.26	+4.4%	↑	+4.8%	↑/→
Asking Rent - Fort Worth	\$28.53	+2.0%	↑	+2.8%	↑/→
Under Construction	5,370,000	6,690,000	↓	6,350,000	↓

<sup>1</sup> Net Leasing, see definition on page 7.

Sources: Transwestern Research, Texas Workforce Commission, CoStar

## Office Market Finishes Year In Transition

Companies continue to right-size footprints for remote/hybrid work, creating headwinds for the Dallas-Fort Worth office market. Net absorption rebounded to positive 1.6 million SF due to leasing and space withdrawn for demolition or conversion. Sublease space remains at highs of 11.2 million SF. Vacancy increased further to 19.3% with turnover and deliveries. Rent growth continued at a healthy pace of +4.4% year-over-year but softened with lower leasing.

Office vacancy will climb in 2024, but DFW will outperform large metros. Job growth and 'flight to quality' are driving demand and bifurcating the market between Core (Class AA/A) and Non-Core (Class A-/B) assets. In addition, DFW's growth has attracted capital to convert or demolish obsolete inventory. Projects to date have removed **3.6 million SF** of space with at least 2 million SF more planned—the equivalent to 2% of inventory or 206 floors. These conversions, along with job growth, will allow occupancy to rebound in the next cycle.

## ECONOMY

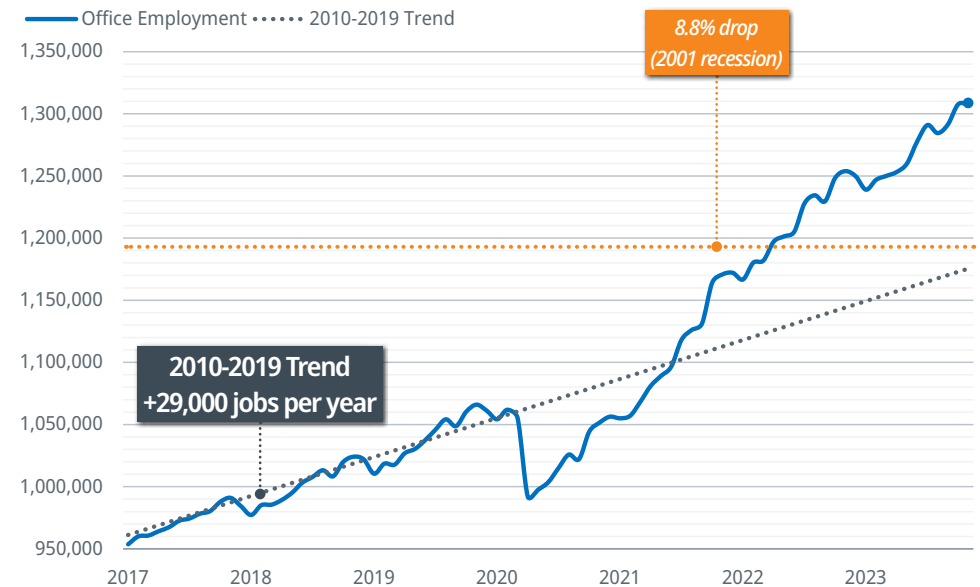
### Job Growth Continues Above Pace

- DFW firms added 77,400 jobs over the last three months. Job growth over the last year totals 139,700 jobs or 3.3%.
- Employment in office-using industries reached a new all-time high of 1,307,500 jobs, or **23.1%** above pre-pandemic levels. Hiring continues at nearly twice its pre-pandemic pace.

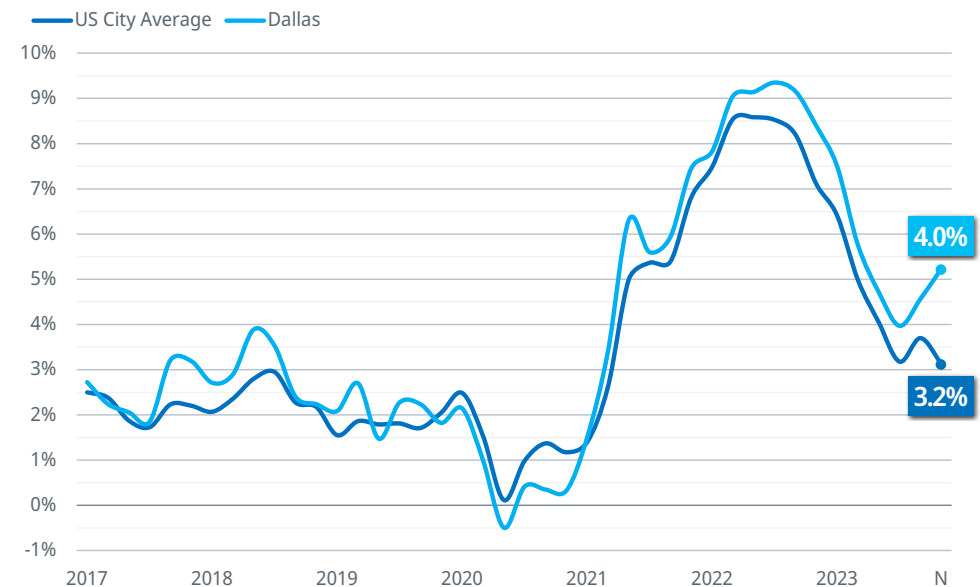
#### Trends To Watch:

- **Robust job growth may cushion office:** In the 2001 recession, employment in office-using industries contracted 8.8%. If the next downturn follows a similar path, office employment would decline to 1,192,000—but this would be 12% **above** pre-pandemic levels.
- **Office has been in recession for nearly four years:** Footprint reductions have front-loaded vacancy this cycle, leading to negative office absorption despite job growth. Remove work may blunt vacancy's rise during a recession, as laying off **remote** employees does not reduce space requirements and companies have less space to shed with smaller footprints.
- **No risk of hyper-supply:** Recessions typically follow over-building where vacancy soars as deliveries outpace demand. Construction is well below average at **4.5 million SF**.
- **Flight to experience:** Tenants strongly favor differentiated properties over commoditized properties, to the point that Core (Class A/A+) properties are partially insulated on the downside. Some Non-Core (A-/B) properties have non-curable obsolescence, others with curable issues cannot compete without renovations that are unfeasible at the current cost of capital. As a result, rent cuts may have little influence on better, well-leased properties.
- **Debt maturities:** The number of distressed assets will rise with vacancy in 2024, particularly among Non-Core assets.
- **Conversions & demolitions:** Growth expectations in Dallas are leading market players to convert or demolish obsolete properties, which will allow vacancy to stabilize and eventually rebound.

## OFFICE-USING EMPLOYMENT



## CONSUMER PRICE INDEX - NOVEMBER 2023



## RENTAL RATES

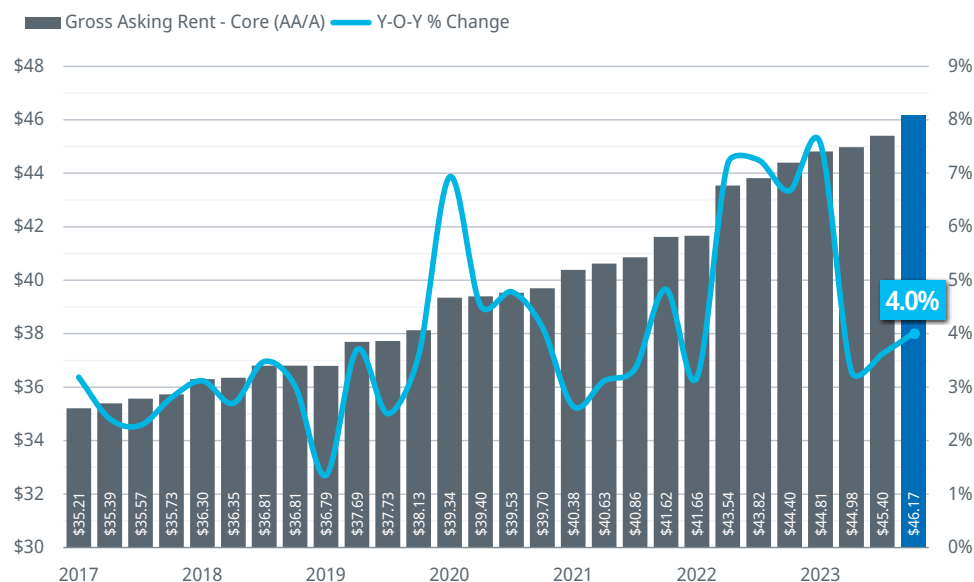
### Rent Growth Continues

- Rent growth continued but softened slightly due to lower leasing activity and rising vacancy.
- Asking rents in Core (Class AA/A) properties reached \$46.17 per SF, up 4.0% from last year.
- Rents in Non-Core (Class A-/B) properties reached \$28.22 per SF, up 4.9% from last year.
- Better properties in key submarkets are outperforming these averages.
- Lower leasing volumes are slowing price discovery, leading to slower rent growth overall. Nevertheless, most properties continue to implement annual escalations or hold firm.

### Outlook:

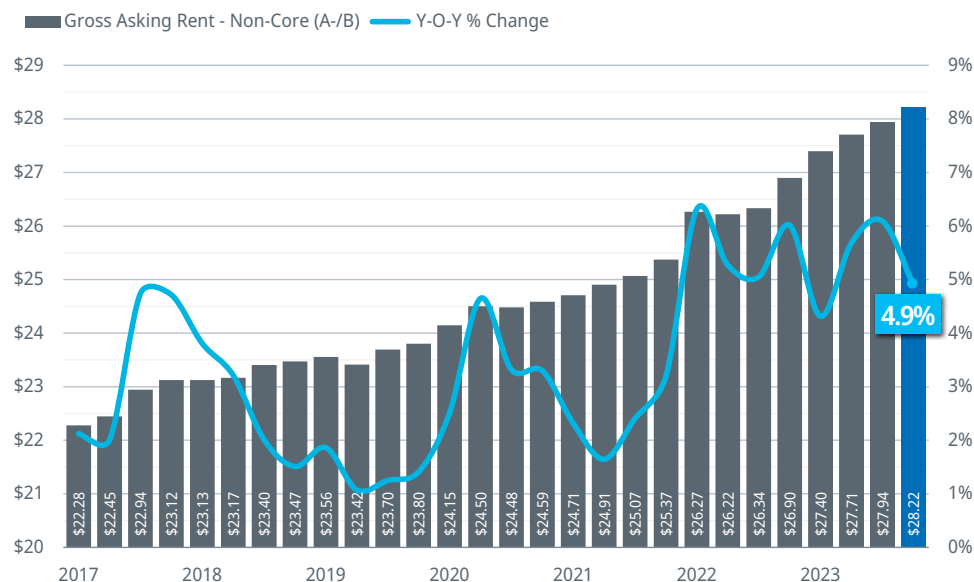
- In the last two recessions, same-store rents declined -13.9% between 2000–2003 and -4.3% between 2007–2010.
- Same-store rents have increased **12.1%** since 2020, providing some cushion for property values in a downturn.
- Over the next six months, Transwestern expects rent growth to remain compressed by reduced leasing activity.

### ASKING RENTS - CORE (A/AA)



Source: Transwestern Research, CoStar

### ASKING RENTS - NON-CORE (A-/B)



Source: Transwestern Research, CoStar



## LEASING, VACANCY, &amp; NET ABSORPTION

## Net Absorption Finishes In The Black

- Net absorption reached positive 1,610,000 SF this quarter. 12-month net absorption rebounded to positive 397,000 SF.
- Total Availability inched down to 26.4% or 77 million SF.
- Vacancy remained stable at 17.4% in Core (AA/A) assets. Vacancy continues rising to 20.5% in Non-Core (A-/B) assets.
- Large vacant blocks continue weighing on the market: 32 buildings account for 13.7 million SF (25%) of vacant space.
- Sublease space inched down slightly to 11.2 million SF.

## Where Are We In The Cycle?

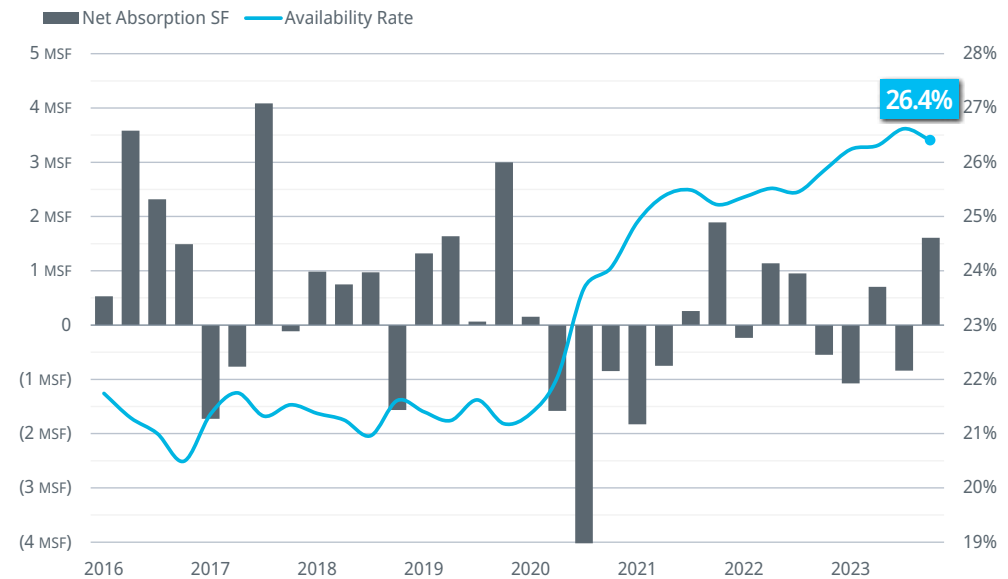
- The five-year average for Net Leasing reversed to *negative* 32,000 SF. This suggests the Dallas office market is entering the trough of a contraction cycle. In this stage, vacancy typically accelerates over the following 12-18 months and begins exerting pressure on rents.
- As discussed elsewhere, flight to quality and smaller footprints may limit vacancy increases for quality Class A office in a recession compared to past downturns (+8.8% in 2001 and +4.7% in 2009).

## NOTABLE LEASES

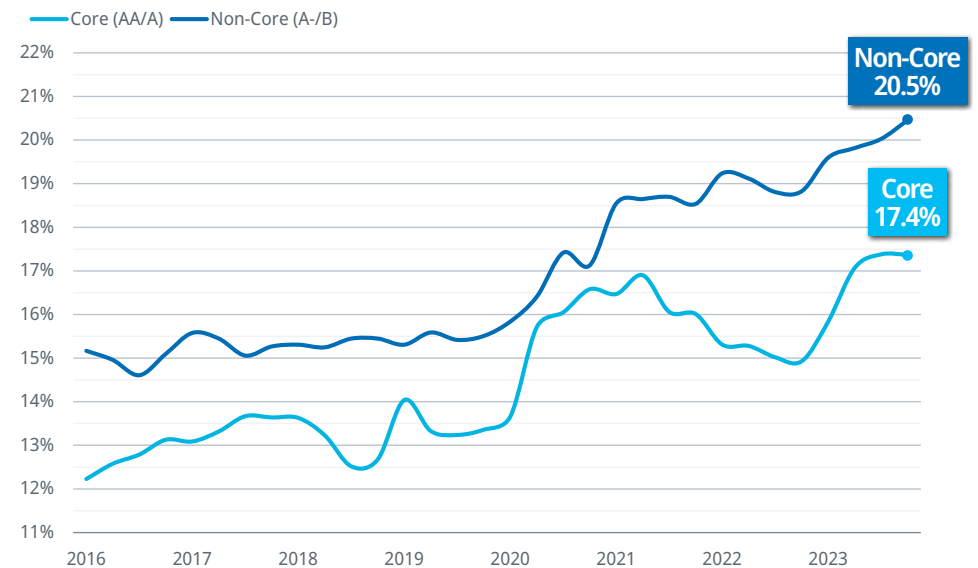
TENANT	SF	TYPE	BUILDING	SUBMARKET
Westwood Montessori	98,100	New	Midway Atriums III	Lower Tollway
Merit Energy	85,000	New	14545 Dallas Pky	Lower Tollway
Liquid Agents Healthcare	83,800	Sublease	Gateway at Legacy	Upper Tollway/West Plano
Learfield	75,000	New	Lincoln Centre	Lower Tollway
Salesforce	58,700	Ren/Down	The Union	Uptown/Turtle Creek
Thompson Reuters	56,700	Sublease	Frisco Station Offices One	Upper Tollway/Frisco
JPI	53,800	Sublease	9001 Cypress Waters	Las Colinas/DFW Freeport
Alcority	33,100	New	Victory Commons	Uptown/Turtle Creek

Source: Transwestern Research

## NET ABSORPTION &amp; AVAILABILITY



## VACANCY



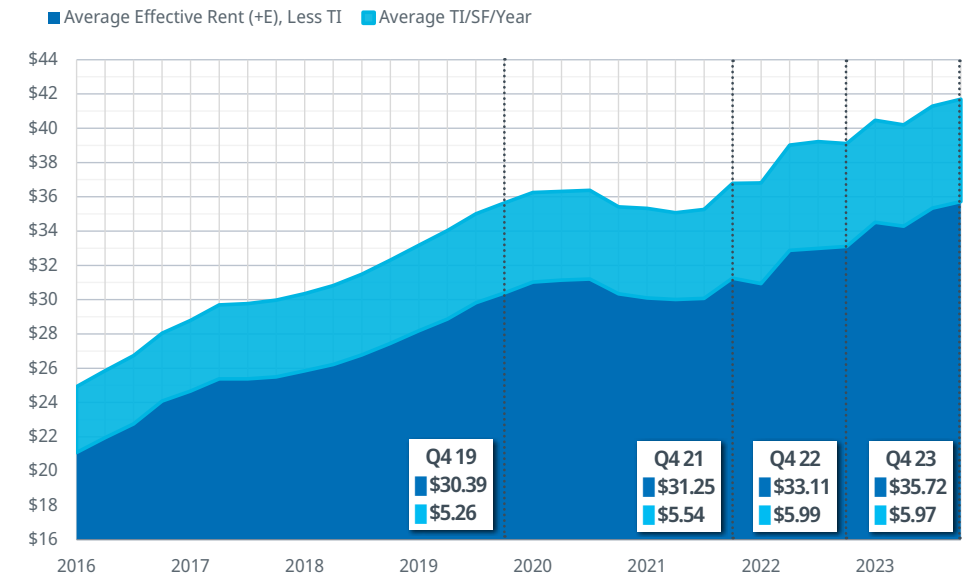
Source: Transwestern Research, CoStar

## TERMS & CONCESSIONS

### Rents Grow Despite Favorable Concessions

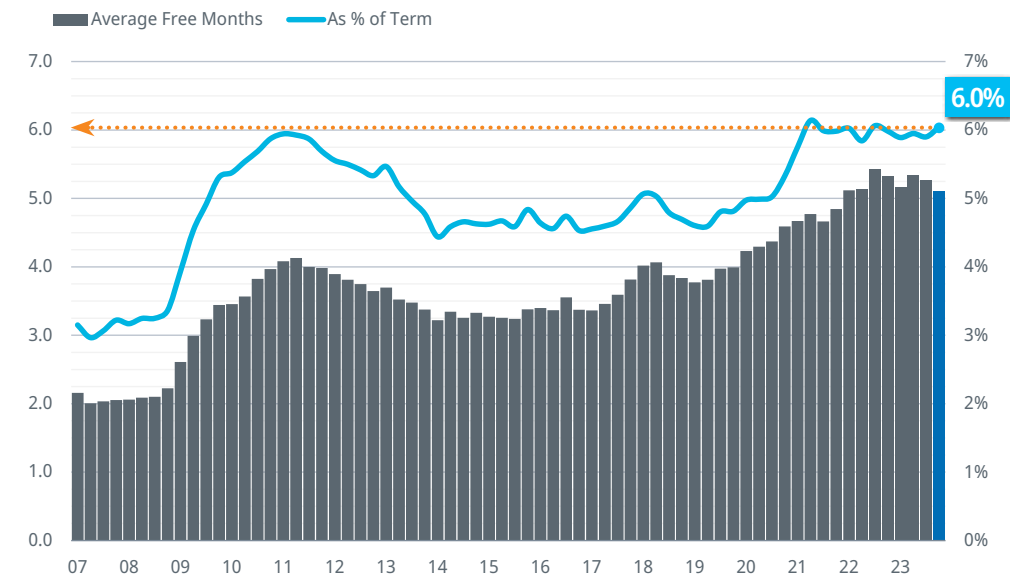
- With rising vacancy, landlords are offering concessions at levels typically seen in recessions. In most properties, asking rent growth is strong enough to overwhelm concessions and keep effective rents flat or growing from pre-pandemic levels.
- Average effective rent reached \$41.37 +E, or 14.8% above pre-pandemic levels. Excluding tenant improvement (TI) allowances, average effective rents exceed \$35.72 +E.
- TI allowances remain at historic highs of \$44.07 per SF, or \$5.97 per SF per year when considering lease term. TI allowances have grown by 18% over the last three years.
- Average rent abatement remains elevated at 6.0% of term, the highest level of free rent **since at least 1997**. Longer free rent periods continue in short-term and long-term leases.
- Outlook For Tenants:
  - With concessions at all-time highs, landlords have limited latitude to offer better concessions than today.
  - Tenants seeking space in well-leased properties or in submarkets with tight vacancy rates should make moves now, as these spaces may only experience modest rent decreases in a downturn due to flight to quality.
  - Tenants considering sublease space can begin to move as discounts are rising. Balance sheet pressures may lead companies to further discount their sublease offerings over the next 6-12 months.
  - Tenants exploring space in high vacancy, obsolete, or foreclosed properties should consider postponing decisions to take advantage of rent cuts. That said, tenants should be cautious to ensure future property income can maintain services and amenities through their lease term.

## AVERAGE RENT & TENANT IMPROVEMENT ALLOWANCE



Source: Transwestern Research, 12-month rolling average.

## AVERAGE RENT ABATEMENT



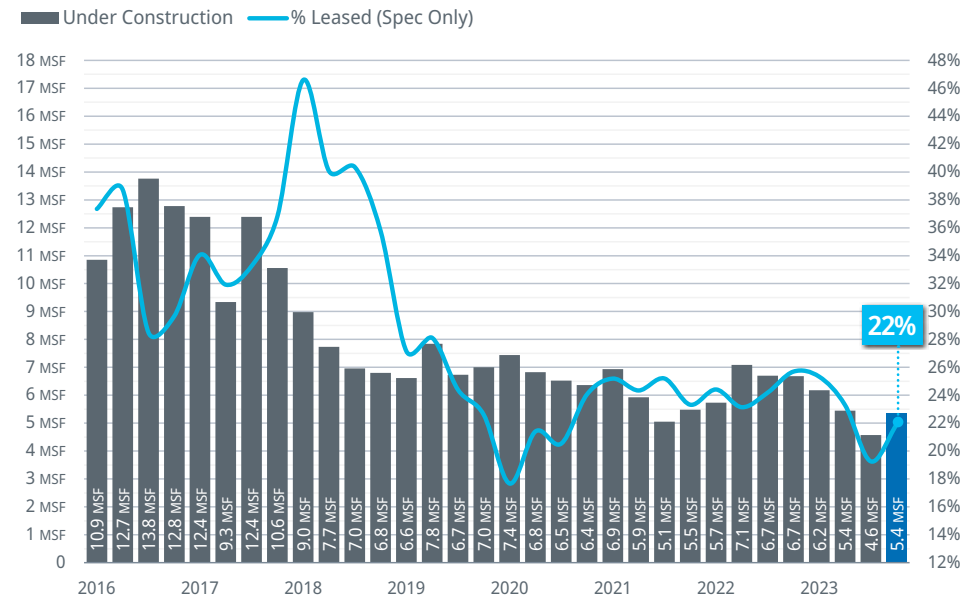
Source: Transwestern Research, 12-month rolling average.

## CONSTRUCTION & CAPITAL MARKETS

### Construction Pipeline Remains Thin

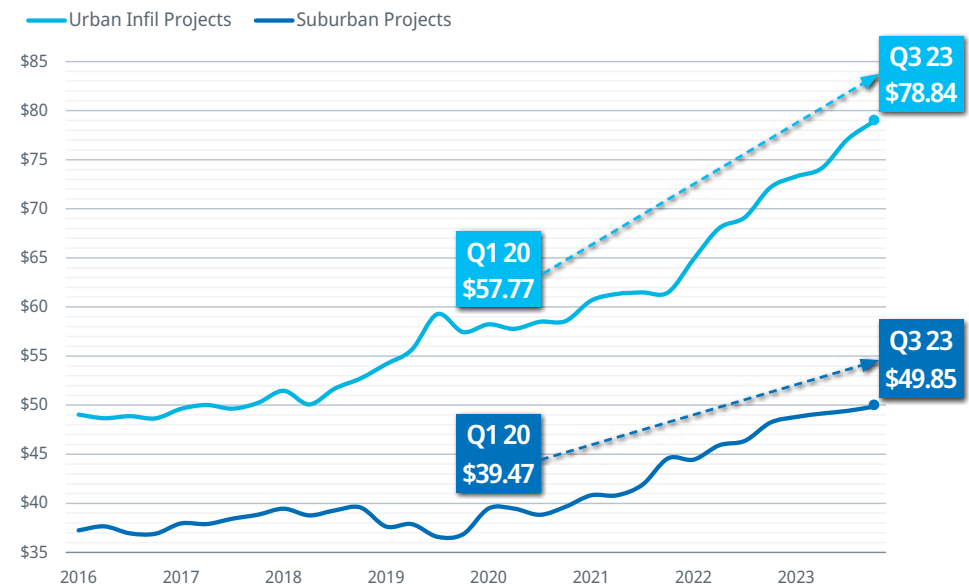
- Construction rebounded to 5.4 million SF but remains below average. Deliveries will drive the pipeline lower to 4.4 million SF over the next three months, at which point half of all construction will be build-to-suit projects for major financial services firms.
- KDC broke ground on Parkside Uptown, a 30-story trophy tower in Uptown, with Bank of America as lead tenant. Goldman Sachs officially broke ground on its 800,000 SF office building at North End.
- River Edge and 1333 Oak Lawn delivered 273,000 SF in Design District/Stemmons.
- Transwestern reiterates that developers should continue **new projects**: core submarkets are under-built for growth, flight to quality will continue, and demand may be on the rebound in 2025/2026 when projects deliver.
- Higher interest rates continue exerting downward pressure on asset prices. Deal volumes are further restricted by tighter lending standards. Some owners of quality assets are delaying disposition for a more favorable point in the interest rate cycle.
- Notable sales include:
  - Plaza of the Americas (600/700 N Pearl), 1.2 million SF in the Dallas CBD, to Shelbourne Global Solutions.
  - Stemmons Towers (2700 Stemmons), 285,000 SF in Design District/Stemmons, to Sava Holdings for conversion.
  - One Legacy Circle (7500 Dallas Pkwy), 214,000 SF in Upper Tollway/West Plano, to Gildenson Real Estate.

### CONSTRUCTION PIPELINE



Source: Transwestern Research, CoStar

### RENTS IN NEW CONSTRUCTION



Source: Transwestern Research, CoStar



## Market Indicators - Dallas

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE			VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (F\$)		
		TOTAL SF	TOTAL %	CORE (AA/A)		NON-CORE (A-/B)	THIS QUARTER		LAST 12 MONTHS	CORE (AA/A)	NON-CORE (A-/B)
Uptown/Turtle Creek	15,992,716	5,059,187	27.3%	26.7%	29.2%	18.2%	1,063,932	950,272	2,556,505	\$73.56	\$46.09
Dallas CBD	28,993,924	9,801,219	33.8%	32.3%	34.3%	25.8%	528,427	132,974	0	\$46.76	\$28.45
Design District/Stemmons	11,119,171	2,493,886	22.4%	32.8%	20.3%	19.3%	18,309	92,694	0	\$49.01	\$20.16
Preston Center	4,941,698	660,407	13.4%	13.1%	13.5%	9.7%	(219)	31,692	0	\$62.56	\$48.87
Central Expressway	15,386,461	4,342,612	28.2%	31.2%	27.3%	22.3%	25,325	(224,518)	0	\$40.98	\$32.56
Deep Ellum/East Dallas	2,032,648	853,222	42.0%	56.5%	18.5%	20.1%	(10,947)	(28,340)	0	\$54.45	\$20.38
West LBJ Freeway	3,957,745	1,254,804	31.7%	-	31.7%	22.2%	(46,009)	(43,915)	0	-	\$19.55
East LBJ Freeway	6,210,909	2,201,845	35.5%	0.0%	35.6%	31.5%	(20,088)	(102,402)	0	-	\$20.34
Lower Tollway	27,127,446	6,562,441	24.2%	25.4%	23.5%	18.2%	98,466	138,761	0	\$43.51	\$26.55
Upper Tollway/West Plano	33,345,166	10,662,808	31.5%	30.4%	33.0%	23.0%	4,712	(478,739)	527,945	\$44.99	\$36.24
Upper Tollway/Frisco	6,183,807	1,849,793	25.2%	22.6%	29.6%	10.9%	138,879	(151,828)	1,153,889	\$57.97	\$37.34
Richardson	20,056,711	5,563,993	27.7%	26.8%	28.4%	18.1%	(19,110)	(417,075)	0	\$31.37	\$24.83
Plano	6,010,681	1,111,680	18.5%	28.7%	13.8%	11.8%	665	(30,470)	0	\$28.56	\$22.87
Allen/McKinney	6,367,707	1,155,117	17.9%	22.4%	15.7%	13.0%	(2,829)	(21,179)	102,000	\$40.98	\$28.13
Las Colinas/Urban Center	9,505,596	2,717,385	26.2%	22.3%	30.4%	19.6%	59,665	772,997	858,024	\$40.46	\$29.72
Las Colinas/Office Center	15,949,233	4,346,604	27.3%	32.6%	22.7%	20.1%	(281,458)	(865,148)	0	\$33.58	\$23.66
Las Colinas/DFW Freeport	16,531,201	5,292,994	32.0%	20.9%	37.0%	20.0%	204,373	280,803	0	\$38.22	\$26.67

\*In DFW, Transwestern calculates Net Absorption as "Net Leasing", or change in Total Available space. Space returned to market registers as negative absorption; Space leased, reoccupied, or withdrawn registers as positive absorption. Transwestern's methodology provides a real-time indicator of supply and demand for space that eliminates time lags and incomplete information inherent to tracking physical move-ins & move-outs.





## Market Indicators - Dallas

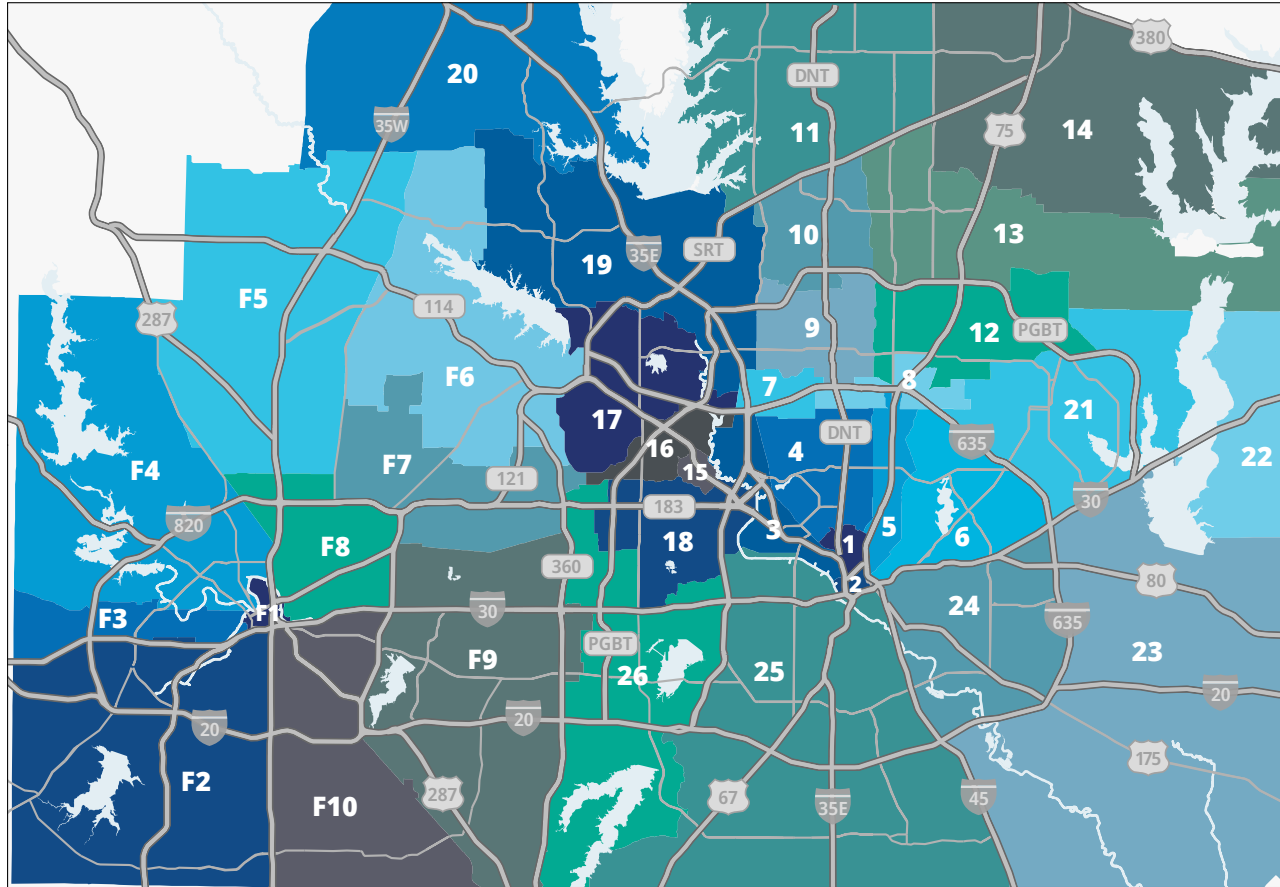
SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
South Irving	1,056,421	99,361	9.4%	-	9.4%	9.0%	2,259	(288)	0	-	\$18.07
Lewisville	4,314,014	1,450,908	32.4%	19.5%	33.4%	16.8%	(108,448)	(183,451)	171,000	\$35.85	\$25.86
Denton	1,268,936	42,266	3.3%	-	3.3%	2.9%	6,937	1,656	0	-	\$26.30
Garland	676,897	157,314	23.2%	-	23.2%	21.1%	(3,346)	12,736	0	-	\$13.69
Rockwall	367,314	17,158	4.7%	8.6%	0.3%	0.9%	395	(12,306)	0	-	-
Mesquite/Terrell/Forney	396,234	20,798	5.3%	8.5%	5.0%	5.0%	(500)	(10)	0	-	\$15.14
Southeast Dallas	599,231	19,312	3.2%	-	3.2%	3.6%	(471)	9,991	0	-	\$17.96
Oak Cliff/Southwest Dallas	2,040,905	417,612	20.5%	42.6%	11.3%	18.8%	(7,780)	(1,369)	0	\$28.43	\$22.96
Grand Prairie	3,578,743	1,617,676	45.2%	92.6%	14.4%	43.6%	7,695	(55,737)	0	\$28.35	\$19.13
<b>TOTAL - DALLAS</b>	<b>244,011,515</b>	<b>69,772,402</b>	<b>28.0%</b>	<b>28.8%</b>	<b>27.5%</b>	<b>20.3%</b>	<b>1,658,834</b>	<b>(192,199)</b>	<b>5,369,363</b>	<b>\$47.12</b>	<b>\$28.67</b>

## Market Indicators - Fort Worth

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
Fort Worth CBD	8,533,046	1,077,084	12.6%	12.5%	12.8%	12.0%	64,108	365,300	0	\$36.63	\$28.56
Southwest Fort Worth	4,649,094	754,786	16.2%	10.5%	18.3%	13.1%	(93)	24,621	0	\$30.83	\$25.33
West Fort Worth	2,153,334	314,968	14.6%	12.1%	18.1%	12.7%	88,470	140,412	0	\$33.91	\$24.81
Northwest Fort Worth	282,621	27,683	9.8%	10.5%	8.9%	9.5%	(262)	6,662	0	-	\$27.65
Alliance	3,129,102	682,496	21.8%	18.1%	29.2%	10.2%	0	35,205	0	\$33.91	\$30.00
Westlake/Grapevine	8,086,915	1,471,606	18.2%	18.4%	17.6%	15.6%	42,628	403,819	0	\$39.17	\$28.60
HEB/Mid-Cities	5,497,976	1,028,036	18.7%	3.7%	29.5%	11.8%	(221,050)	(303,847)	0	\$23.82	\$19.69
Northeast Fort Worth	3,059,558	360,526	11.8%	0.0%	13.6%	11.6%	18,215	12,503	0	-	\$20.90
Arlington/Mansfield	5,801,072	1,370,045	23.6%	23.9%	23.6%	18.5%	(34,541)	(114,747)	0	\$24.37	\$23.90
Southeast Fort Worth	952,525	105,707	11.1%	-	11.1%	11.1%	(8,227)	19,052	0	-	\$18.37
<b>TOTAL - FORT WORTH</b>	<b>42,145,243</b>	<b>7,192,937</b>	<b>17.1%</b>	<b>13.9%</b>	<b>19.5%</b>	<b>13.5%</b>	<b>(50,752)</b>	<b>588,980</b>	<b>0</b>	<b>\$36.03</b>	<b>\$24.04</b>

\*See page 7 for definition of Net Absorption.





## OFFICE SUBMARKETS

<b>1</b> Uptown/Turtle Creek	<b>24</b> Southeast Dallas
<b>2</b> Dallas CBD	<b>25</b> Oak Cliff/Southwest Dallas
<b>3</b> Design District/Stemmons	<b>26</b> Grand Prairie
<b>4</b> Preston Center	<b>F1</b> Fort Worth CBD
<b>5</b> Central Expressway	<b>F2</b> Southwest Fort Worth
<b>6</b> Deep Ellum/East Dallas	<b>F3</b> West Fort Worth
<b>7</b> West LBJ	<b>F4</b> Northwest Fort Worth
<b>8</b> East LBJ	<b>F5</b> Alliance
<b>9</b> Lower Tollway	<b>F6</b> Westlake/Grapevine
<b>10</b> Upper Tollway/West Plano	<b>F7</b> HEB/Mid-Cities
<b>11</b> Upper Tollway/Frisco	<b>F8</b> Northeast Fort Worth
<b>12</b> Richardson	<b>F9</b> Arlington/Mansfield
<b>13</b> Plano	<b>F10</b> Southeast Fort Worth
<b>14</b> Allen/McKinney	
<b>15</b> Las Colinas Urban Center	
<b>16</b> Las Colinas Office Center	
<b>17</b> DFW Freeport/Coppell	
<b>18</b> South Irving	
<b>19</b> Lewisville	
<b>20</b> Denton	
<b>21</b> Garland	
<b>22</b> Rockwall	
<b>23</b> Mesquite/Forney/Terrell	

## FOR MORE INFORMATION

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## RESEARCH METHODOLOGY

Includes Class A & B office properties 20,000 SF and larger. Owner-occupied properties are included, while medical office and government-owned buildings are excluded.

**Core Assets:** Core and Core Plus (Class AA/A) assets, beneficiaries of the "flight to quality" trend. Covers 461 properties, 115 million SF.

**Non-Core Assets:** All other Class A-/B office. Covers 1,651 properties, 176 million SF.

**Net Absorption:** Calculated as "net leasing" or change in committed (Total Available) space. See complete definition on page 7.

**Vacancy:** Direct vacant space with immediate availability

**Asking Rent:** Weighted average of direct gross rents

## ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from **33 U.S. offices**, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](https://transwestern.com).