



TRANSWESTERN

# DALLAS+FORT WORTH OFFICE MARKET Q4 2021



## Demand Rebounds As Inflation Arrives

The Dallas market finished 2021 in solid recovery territory. Office-using employment broke out from pre-pandemic levels by 70,000 jobs. Demand for office space is returning, net absorption is ramping up, and vacancy is declining. Inflation continues driving rent growth to above average rates seen in the last five years.

Looking ahead to 2022, Transwestern expects strong office performance given Dallas' economic outlook and solid fundamentals. Increased penetration of the already prevalent 'flight to quality' trend has intensified demand for quality space, while a dwindling pipeline of new projects may leave some submarkets undersupplied until space is delivered.

Taken together, well-positioned properties are likely to capture a greater share of market activity and outperform in 2022.

### TRENDLINES

	Q4 2021	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
<b>Payroll Employment</b>	+130,400	+112,400	↑	+16,600	↑
<b>Office-Using Jobs</b>	+40,700	+19,400	↑	+7,600	↑
<b>Direct Vacancy</b>	17.3%	16.4%	↓	15.0%	↓
<b>Net Absorption</b>	854 KSF	(334 KSF)	↑	401 KSF	↑
<b>Sublease Space</b>	9.65 MSF	9.08 MSF	↓	6.84 MSF	↓
<b>Class A Rents (Direct)</b>	\$35.88	+3.9%	↑	+3.8%	↑
<b>Class B Rents (Direct)</b>	\$23.11	+3.8%	↑	+3.2%	↑
<b>Under Construction</b>	6.0 MSF	6.2 MSF	↑	8.1 MSF	↑

Note: Vacancy only includes space immediately available.

Sources: Transwestern Research, Texas Workforce Commission, CoStar

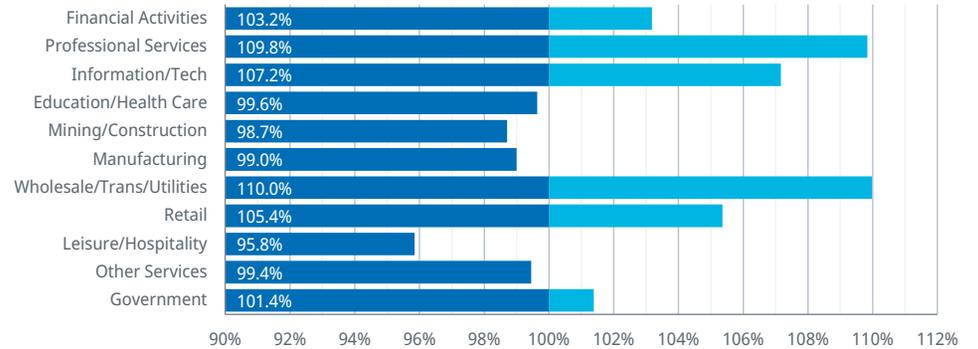


ECONOMY

### Job Growth Maintains Robust Pace

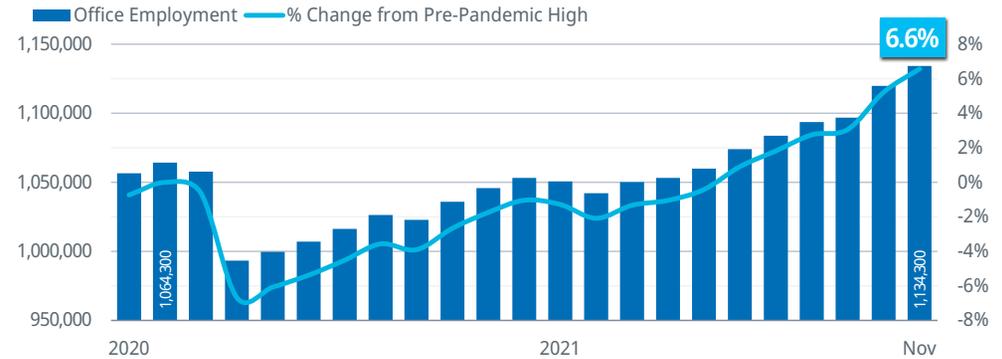
- ▶ Dallas unemployment declined to 3.9% in November, down 0.3% from the previous month and 2.3% from last year.
- ▶ Firms added 59,400 jobs in November, bringing growth over the last three months to 130,400 jobs or 3.2%.
- ▶ Office-using employment continues growing and **now exceeds pre-pandemic levels** by 6.6% or 70,000 jobs.
- ▶ Professional services and tech firms are creating jobs at a pace two or three times higher than average.
- ▶ Inflation in Dallas is 7.5%, slightly higher than the reported US average of 6.8%. Shelter costs have risen faster in Dallas due to in-migration and the region's economic growth.
- ▶ Overall, Dallas heads into 2022 with strong economic tailwinds for office demand and overall market performance.

### EMPLOYMENT RECOVERY BY INDUSTRY



Source: Transwestern Research, Texas Workforce Commission

### OFFICE-USING EMPLOYMENT



Source: Transwestern Research, Texas Workforce Commission

### CONSUMER PRICE INDEX INDEX



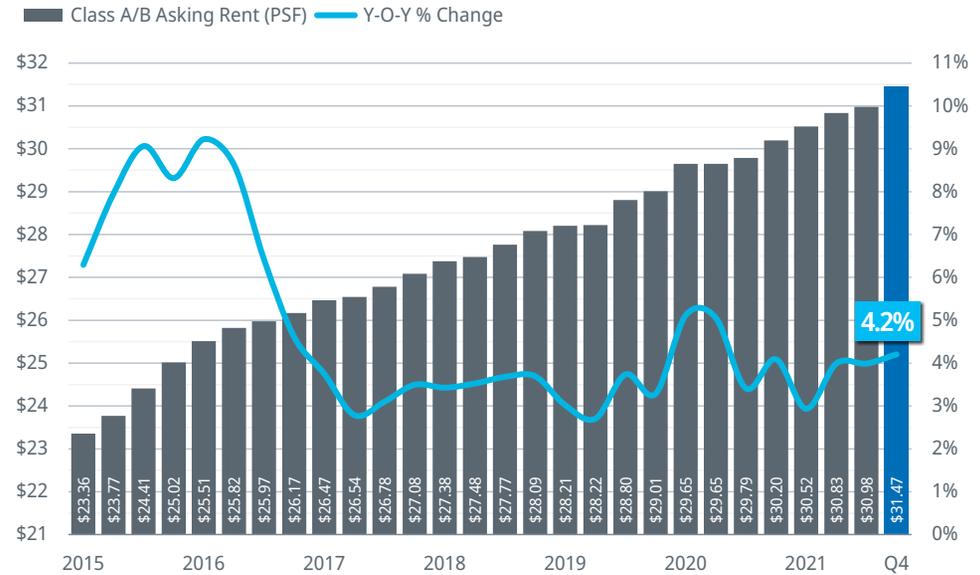
Source: Transwestern Research, Bureau of Labor Statistics

RENTAL RATES & SUBLEASE AVAILABILITY

### Inflation Pressure Continues

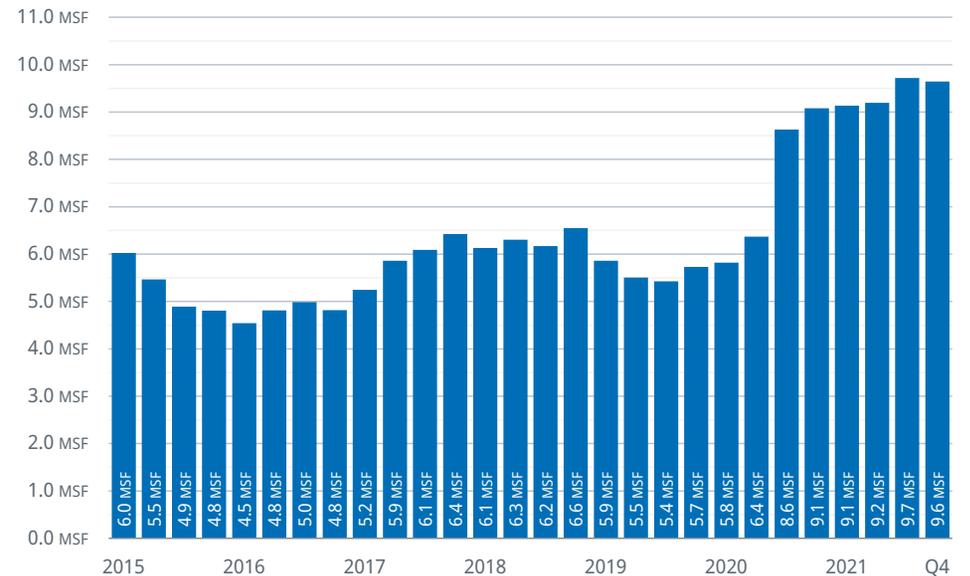
- ▶ Class A rents are up 3.9% from last year or 5.5% from pre-pandemic levels.
- ▶ Class B rents are also rebounding, up 3.8% from last year or 5.6% from pre-pandemic levels.
- ▶ Landlords are increasing base rents twice as much as normal, e.g., base rents are increasing by \$1-\$2 PSF this year instead of the \$0.50-\$1 PSF that was typical before the pandemic.
- ▶ Office rent growth will likely be stronger in 2022. Inflation will continue pressuring office rents with the new year's expense estimates and property tax increases. From there, declining vacancies will become the main driver of rent growth, particularly as the supply of quality space dwindles.
- ▶ Sublease availability declined to 9.6 million SF this quarter and would have decreased further but for Allstate's 236 kSF listing in DFW Freeport and Galderma's 199 kSF listing at Alliance.
- ▶ The average rent discount for sublease space is now just 13.9%, its lowest reading since Q4 2020.
- ▶ Supply chain disruptions are creating a premium for move-in ready space due to increased time and cost of finishing brand new space. As a result, many plug-n-play sublease listings are asking rents that are close to or higher than new space offered by a landlord in the same building.

### ASKING RENTS



Source: Transwestern Research, CoStar

### SUBLEASE AVAILABILITY



Source: Transwestern Research, CoStar



LEASING, VACANCY, & NET ABSORPTION

### Demand Rebounds And Vacancy Begins To Tighten

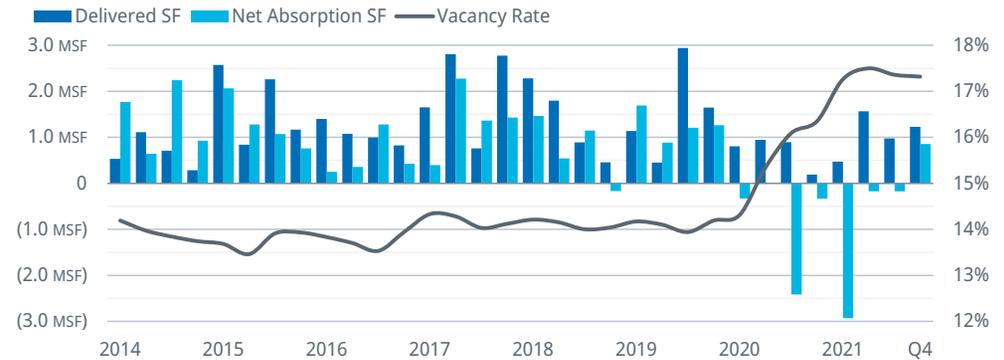
- ▶ Leasing activity continues to return to normal as large users over 100,000 SF rejoin small and mid-size businesses leasing space in the market.
- ▶ Net absorption reached positive 854 ksf this quarter, in-line with pre-pandemic levels.
- ▶ Class A vacancy remained flat from the previous quarter at 18.1%, mainly due to the delivery of The Link and Victory Commons which brought 641 ksf of vacant space to market.
- ▶ Class B vacancy is also recovering, decreasing from 16.7% to 16.6%.
- ▶ Trends to watch for 2022:
  - ▶ Net absorption and declining vacancy to rapidly intensify due to pent-up demand and external demand from relocations.
  - ▶ Remote and hybrid work's impact on space demand so far appears marginal, mainly due to DFW's strong job growth and companies allocating more office space for workers to decrease density.

### DIRECT VACANCY BY CLASS



Source: Transwestern Research, CoStar

### DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern Research, CoStar

### NOTABLE LEASES

TENANT	SF LEASED	LEASE TYPE	BUILDING	SUBMARKET
At Home	250,000	New	9000 Cypress Waters	DFW Freeport/Coppell
Frontier	96,903	New	1919 McKinney	Uptown/Turtle Creek
Vanguard	70,000	Sublease	Liberty Mutual Campus	Upper Tollway/West Plano
Freeman	65,000	New	International Plaza II	Lower Tollway
Apex Capital Corp	61,944	New	Bank of America Tower	Fort Worth CBD
Interstate Battery	60,000	New	International Plaza II	Lower Tollway
PNC Bank	55,000	Expansion	The Crescent	Uptown/Turtle Creek
Stonebriar Commercial Finance	40,000	New	Granite Park Six	Upper Tollway/West Plano

Source: Transwestern Research, CoStar

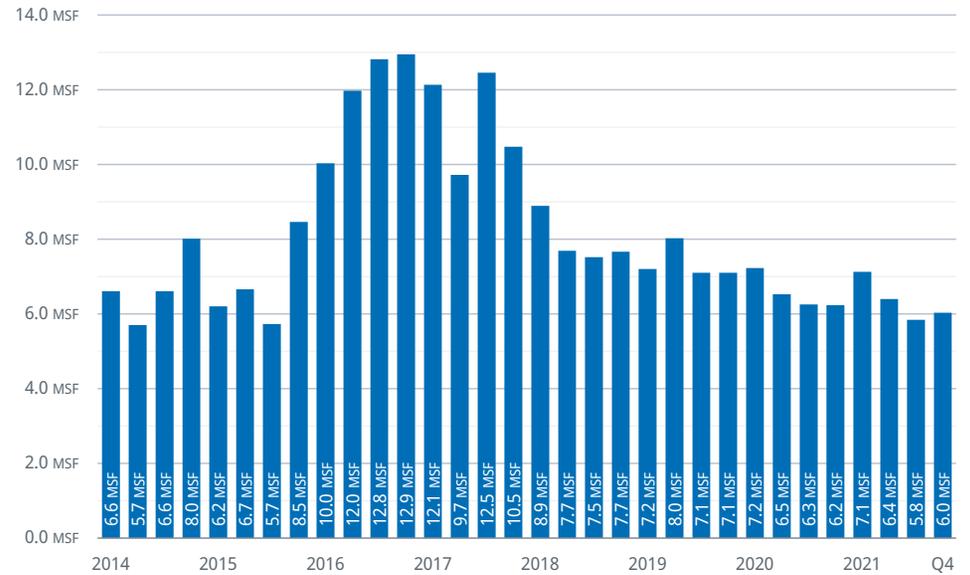


CONSTRUCTION & CAPITAL MARKETS

### New Office Space Likely Undersupplied

- ▶ After two years of a dwindling pipeline, developers are announcing and breaking ground on new projects.
- ▶ Developers broke ground on three new projects in the Upper Tollway: Granite Park Six (422 kSF), Tower at Hall Park (387 kSF), and International Business Park (252 kSF).
- ▶ With new space taking at least 12-20 months to deliver, there are less than 12 new buildings that can fulfill an immediate need of 50,000 SF or more.
- ▶ Pent-up demand will lease these properties faster and spill over into prime buildings of older vintage. Value-add opportunities may also benefit, particularly in well-located properties with strong inherent attributes.
- ▶ Office investor sentiment and a bullish outlook on Dallas is driving investment activity back to normal levels.
- ▶ Notable sales include:
  - ▶ The Terraces at Douglas Center, a 175 kSF building in Preston Center, to City Office REIT. This transaction tied the all-time price record of \$769 PSF at a 5.2% cap rate
  - ▶ Trinity Towers, a 634 kSF building on Stemmons Freeway, to Hammes Partners
  - ▶ International Plaza III, a 349 kSF building on the Lower Tollway, to M-M Properties
  - ▶ APEX 190, a 186 kSF building in Plano, to Admiral Capital Group
  - ▶ 5000 Headquarters, a 170 kSF building in Plano, to Capital Commercial

### UNDER CONSTRUCTION



Source: Transwestern Research, CoStar

### SALES VOLUME



Source: Transwestern Research, RealCapitalAnalytics



## Market Indicators - Dallas

SUBMARKET	INVENTORY	DIRECT VACANT AVAILABLE			SUBLEASE AVAILABLE SF	QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	DIRECT GROSS RENT	
		TOTAL SF	CLASS A %	CLASS B %					CLASS A PSF	CLASS B PSF
<b>Uptown/Turtle Creek</b>	15,904,655	2,745,425	17.0%	20.0%	296,744	169,316	45,271	528,914	\$56.12	\$36.23
<b>Dallas CBD</b>	32,377,240	7,757,202	26.4%	17.6%	937,243	(79,424)	(446,954)	0	\$30.70	\$22.76
<b>Stemmons Freeway</b>	12,145,743	2,230,678	14.7%	23.6%	133,181	(60,582)	(97,023)	0	\$22.90	\$19.60
<b>Preston Center</b>	5,698,349	586,755	9.5%	15.2%	92,543	56,111	(5,468)	688,368	\$52.70	\$32.06
<b>Central Expressway</b>	15,994,791	2,828,554	18.3%	16.7%	538,347	301,713	(227,303)	0	\$33.88	\$27.38
<b>Deep Ellum/East Dallas</b>	2,101,464	365,395	35.5%	12.3%	588,451	9,619	47,756	472,496	\$55.45	\$24.70
<b>West LBJ Freeway</b>	4,262,611	877,687	20.9%	20.9%	179,456	71,749	(57,052)	0	\$20.72	\$18.34
<b>East LBJ Freeway</b>	7,083,252	2,101,446	24.3%	32.3%	93,898	(84,545)	(475,662)	0	\$19.74	\$20.59
<b>Lower Tollway</b>	28,111,192	5,161,507	18.0%	19.2%	997,423	(117,116)	(579,752)	0	\$35.04	\$22.85
<b>Upper Tollway/West Plano</b>	31,622,487	5,937,228	18.9%	18.5%	1,543,749	(53,918)	(1,221,921)	1,151,509	\$42.29	\$28.75
<b>Upper Tollway/Frisco</b>	5,854,291	650,320	10.9%	11.9%	309,863	46,126	455,479	813,538	\$47.76	\$29.84
<b>Richardson</b>	20,699,982	3,406,249	17.1%	16.0%	845,684	(111,494)	(568,840)	0	\$27.78	\$20.46
<b>Plano</b>	6,756,443	1,015,050	9.5%	8.7%	30,189	285,849	296,773	218,000	\$27.06	\$21.78
<b>Allen/McKinney</b>	5,862,794	561,884	11.6%	8.9%	109,871	34,736	111,738	426,124	\$36.34	\$25.41
<b>Las Colinas Urban Center</b>	9,588,001	2,102,750	20.9%	18.0%	327,464	15,760	(425,367)	512,269	\$35.06	\$21.83
<b>Las Colinas Office Center</b>	16,691,086	2,451,716	12.1%	18.7%	374,719	(69,317)	119,490	0	\$30.86	\$21.34
<b>DFW Freeport</b>	15,584,316	2,710,958	13.1%	21.4%	830,359	(14,774)	(472,081)	648,877	\$31.06	\$24.21

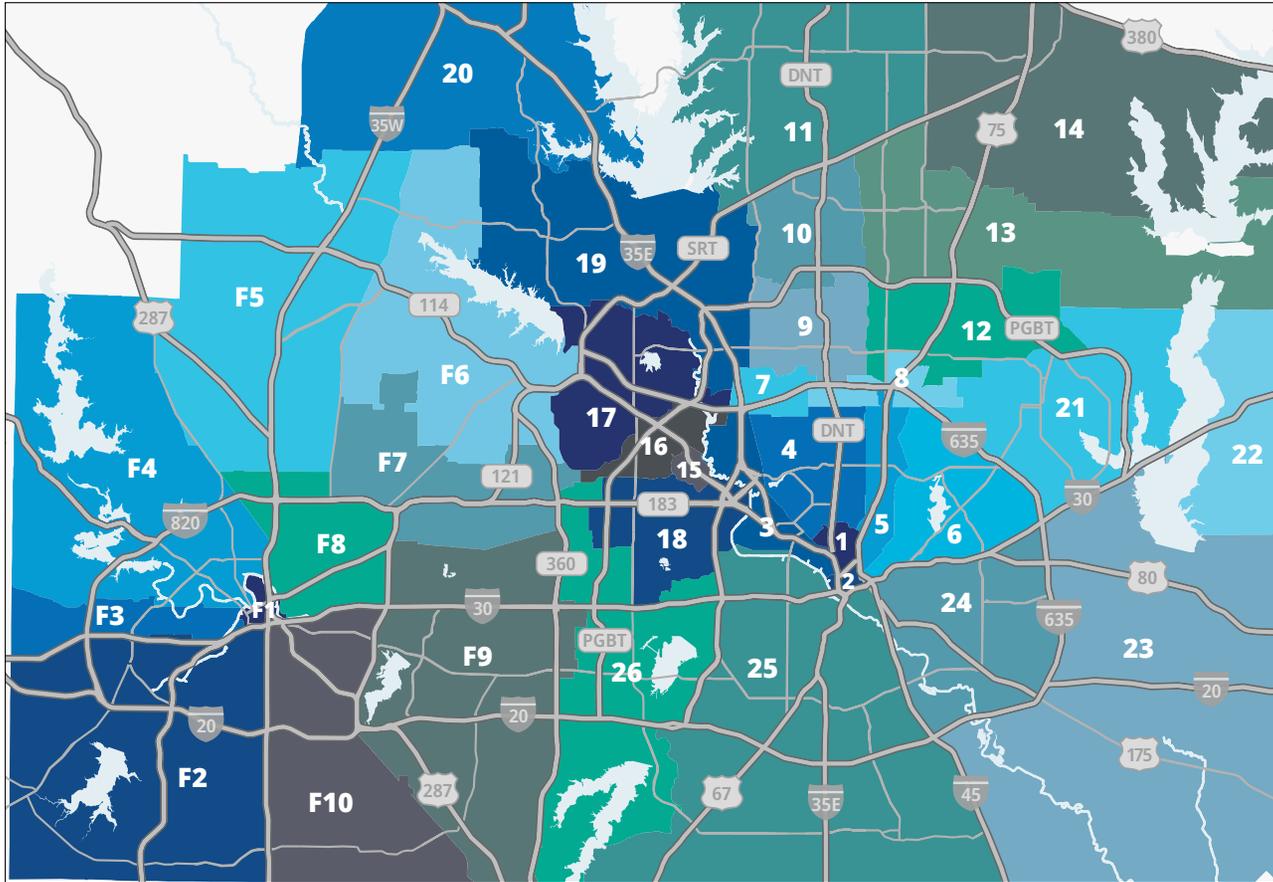


## Market Indicators - Dallas

SUBMARKET	INVENTORY	DIRECT VACANT AVAILABLE			SUBLEASE AVAILABLE SF	QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	DIRECT GROSS RENT	
		TOTAL SF	CLASS A %	CLASS B %					CLASS A PSF	CLASS B PSF
South Irving	1,371,920	263,849	0.0%	17.2%	0	19,442	24,890	42,019	-	\$18.44
Lewisville	4,601,768	808,230	37.2%	16.2%	196,356	3,965	(334,356)	24,000	\$31.51	\$25.39
Denton	1,835,289	73,954	0.0%	4.7%	0	21,944	8,712	0	-	\$25.70
Garland	994,325	216,412	0.0%	25.8%	0	(55,846)	(62,769)	0	-	\$15.72
Rockwall	600,932	45,810	15.7%	3.2%	4,099	(12,168)	44,510	0	\$35.55	\$24.26
Mesquite/Terrell/Forney	544,955	57,404	7.6%	5.6%	0	(19,365)	9,840	0	-	\$16.50
Southeast Dallas	636,545	31,988	0.0%	4.3%	0	6,618	8,944	0	-	\$20.25
Oak Cliff	2,667,401	465,654	6.1%	22.3%	0	30,925	31,288	0	-	\$24.71
Grand Prairie	3,892,732	1,506,061	84.9%	7.6%	60,037	10,981	127,464	0	\$27.59	\$20.94
<b>TOTAL - DALLAS</b>	<b>253,484,564</b>	<b>46,960,166</b>	<b>19.1%</b>	<b>18.0%</b>	<b>8,489,676</b>	<b>406,305</b>	<b>(3,642,393)</b>	<b>5,526,114</b>	<b>\$36.32</b>	<b>\$23.17</b>

## Market Indicators - Fort Worth

SUBMARKET	INVENTORY	DIRECT VACANT AVAILABLE			SUBLEASE AVAILABLE SF	QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	DIRECT GROSS RENT	
		TOTAL SF	CLASS A %	CLASS B %					CLASS A PSF	CLASS B PSF
Fort Worth CBD	8,999,701	1,327,554	13.3%	17.9%	113,667	232,230	188,022	0	\$32.64	\$24.19
Southwest Fort Worth	4,744,046	617,061	12.9%	12.4%	102,841	35	(183,919)	82,000	\$27.47	\$23.49
West Fort Worth	2,076,665	251,105	10.4%	14.2%	10,245	(23,784)	(3,640)	0	\$29.57	\$23.80
Northwest Fort Worth	484,003	89,484	29.7%	22.4%	0	0	(32,076)	0	\$16.84	\$23.80
Alliance	2,917,276	124,235	4.4%	4.3%	348,313	(87,785)	(263,968)	54,000	\$32.33	\$21.84
Westlake/Grapevine	8,113,188	935,123	11.8%	9.9%	448,705	348,242	1,279,809	312,428	\$32.38	\$27.79
HEB/Mid-Cities	5,774,472	353,525	2.4%	9.0%	55,600	8,627	79,141	0	\$20.27	\$19.78
Northeast Fort Worth	3,643,821	218,495	0.0%	7.1%	53,236	(35,893)	227,287	0	-	\$23.89
Arlington/Mansfield	6,789,828	695,230	15.1%	8.9%	15,367	(3,030)	(101,080)	61,500	\$23.51	\$19.49
Southeast Fort Worth	1,149,322	67,369	0.0%	14.4%	7,927	9,238	32,622	0	-	\$17.54
<b>TOTAL - FORT WORTH</b>	<b>44,692,322</b>	<b>4,679,181</b>	<b>10.8%</b>	<b>10.8%</b>	<b>1,155,901</b>	<b>447,880</b>	<b>1,222,198</b>	<b>509,928</b>	<b>\$29.84</b>	<b>\$22.74</b>



### OFFICE SUBMARKETS

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

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### RESEARCH METHODOLOGY

This report includes single tenant, multi-tenant, and owner-user properties 25,000 SF and larger, excluding medical office and government-owned buildings.

Unless otherwise specified, vacancy refers to direct vacancy with immediate availability, rents are quoted at a direct gross rate, and Dallas refers to the entire Dallas-Fort Worth region.

### ABOUT TRANSWESTERN

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