

# Flight to experience continues but new construction slows



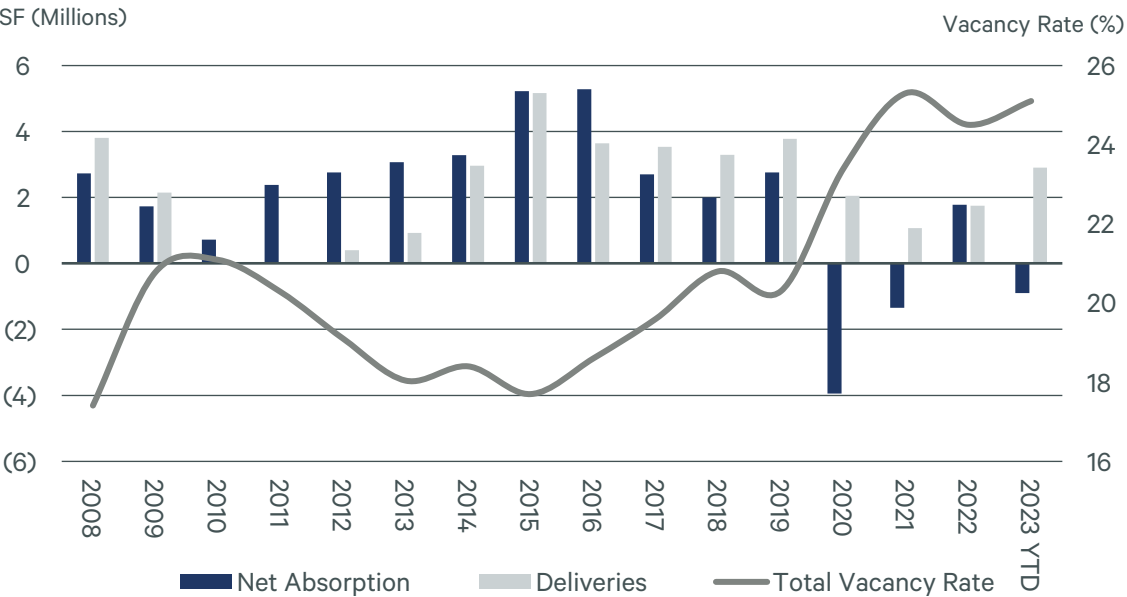
Note: Arrows indicate change from previous quarter.

## Market Overview

- The office-using industry sectors collectively added 61,900 jobs throughout the last 12 months ending September 2023 and continued to surpass the total DFW job growth rate.
- Net absorption was in negative territory again this quarter, bumping vacancy up to 25.1%.
- However, Class A net absorption was positive, stemming from JCPenney moving back into 320KSF at their Plano headquarters, along with multiple tenant move-ins at new deliveries.
- Ongoing development ticked down to 3.4 million sq. ft., or 1.5% of existing office inventory.
- Weekly office utilization rates averaged 53% throughout the quarter, consistently exceeding the national large metro average but still falling short of Houston and Austin.

Market-wide net absorption, a metric based on physical occupancy, improved from the previous quarter albeit still negative. Total net absorption yielded nearly -175,000 sq. ft., stemming from net move-outs from Class B properties. As a result, total vacancy (direct plus sublease) increased from 24.6% to 25.1%, equating to more than 58 million sq. ft. of vacant office space spread across DFW. Over one-fourth of North Texas's vacant space is from Class A assets within the Dallas CBD and Far North Dallas submarket, at 16.6 million square feet combined.

Figure 1: Historical Net Absorption and Vacancy



Source: CBRE Research, Q3 2023.

## State of the Sublease Market

Despite strong job growth, sublease availability continued to grow, ticking up by 6.0% from Q2 2023, surpassing 10.6 million sq. ft. throughout CBRE Research’s tracked dataset, with nearly 80% of that amount attributed to Class A spaces. As of Q3 2023, sublease availability represented 4.6% of total inventory and 15.4% of total availability, both higher than last quarter’s proportions. About 61% of the sublease market is 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 19 additions throughout Q3 2023, ranging from 20,000 sq. ft. to AmerisourceBergen’s 300,000-sq.-ft. listing in Carrollton. The vast majority of these new listings were in suburban submarkets spanning an array of industries, but particularly Upper Tollway/West Plano and Technology, respectively.

## Office Leasing

Gross leasing activity, a leading indicator of net absorption, was relatively flat from mid-year 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, Lower Tollway, and Coppell. 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 18%. This metric tracks occupiers who are actively in the market for new space, lease renewals, and expansions.

## Development Pipeline

Ongoing development ticked down once again upon delivery of six Q3 2023 properties totaling nearly 1.7 million sq. ft. CBRE Research is tracking 3.4 million sq. ft. in leasing projects actively underway, with a preleased rate of 15%. FarmWorks One, part of The Farm in Allen mixed-use development, was the most significant project to break ground over the quarter, along with two smaller suburban projects in McKinney and Fort Worth. Not included in CBRE’s tracked dataset but noteworthy, Goldman Sachs broke ground on its 800,000-sq. ft. campus in Uptown during October, which will be the company’s second-largest location and ultimately officing 5,000 employees.

Figure 2: Sublease Availability



Figure 3: Significant Leases/Sales of the Quarter

Tenant/Buyer	Building Name	Submarket	Total Sq. Ft.
Bank of America	Parkside Uptown	Uptown/Turtle Creek	238,082
Liquid Agents Healthcare	Gateway at Legacy	Far North Dallas	110,762
DXC Technology Company	6901 Windcrest	Far North Dallas	461,983
Affinius Capital/USAA*	Signature Exchange	Far North Dallas	458,482

\*Lender takeover

Source: CBRE Research, Q3 2023.

## Local Economy

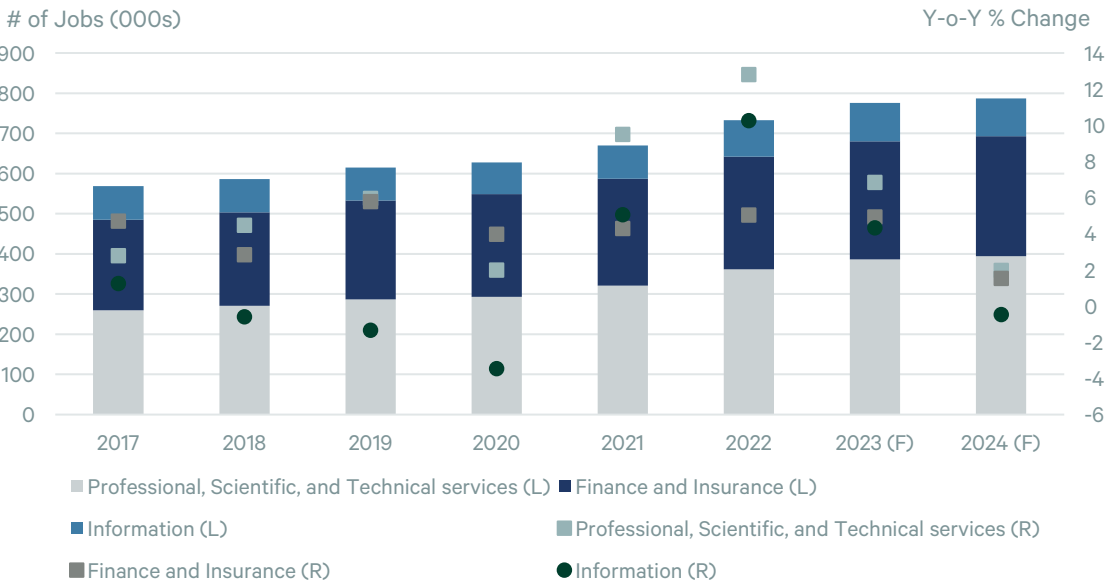
Dallas/Fort Worth continues to outperform the U.S. and other large metro areas in terms of population and employment growth, which have historically fueled office demand. The DFW metro area most recently added a robust 178,300 jobs over the 12 months ending September 2023, according to preliminary monthly data from the Bureau of Labor Statistics. This equates to a 4.3% annual growth rate, outpacing Texas and the U.S. at 3.2% and 2.1%, respectively. The office-using sector—consisting of Professional & Business Services, Financial Activities, and Information sectors—collectively added 61,900 jobs within the same 12-month period, a year-over-year rate of 5.0% that surpasses an already solid overall market momentum.

This job growth trajectory emanates from strong population growth that has proliferated throughout Dallas/Fort Worth for decades. The DFW metro area led the U.S. in number of new residents added between 2021 and 2022, the most recent Census Bureau data. Dallas/Fort Worth grew by 2.2% during this time period, adding 170,396 new residents or 467 per day. The DFW metro has consistently surpassed most, if not all, large markets in number of new residents and is projected to surpass Chicago in total size within the next five years, which would make North Texas the third-largest metro area in the country.

## National Outlook

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience is due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed and the FDIC have provided prompt and effective support for the banks, and; 3) consumers are in good shape from a balance sheet and income perspective. Nevertheless, headwinds are intensifying: higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate, it is likely that valuations will stabilize during 1H 2024.

Figure 4: DFW Office-Using Employment Historicals and Forecast



Source: Oxford Economics, 2023.

Figure 5: CBRE House View

	2023	2024	2025 - 2028
Fed Funds Rate (Q4)	5.25% to 5.50%	4.75 % to 5.00%	2.75% to 3.00%
10-Year Treasury (Q4)	4.6%	4.0%	3.5%
GDP (Q4-on-Q4)	1.6%	1.1%	2.3%

Source: CBRE Research, Q3 2023.

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)	Q3 2023 Net Absorption	2023 YTD Net Absorption
Central Expressway	10,621,882	21.42	26.28	38.50	-	-	(28,653)	3,573
Class A	7,195,728	24.37	29.31	39.67	-	-	(48,104)	(40,987)
Class B	3,365,606	15.51	20.26	34.56	-	-	19,451	44,560
Dallas CBD	26,564,629	30.68	37.46	32.78	-	-	(188,792)	(324,842)
Class A	21,679,836	31.06	38.58	34.79	-	-	(67,321)	(139,998)
Class B	4,671,436	29.96	33.60	23.32	-	-	(121,471)	(197,509)
East Dallas	3,008,873	27.25	33.46	34.31	-	-	(18,816)	45,225
Class A	1,048,478	50.93	65.39	38.20	-	-	0	83,416
Class B	1,611,627	13.11	15.30	29.97	-	-	23,784	(1,010)
Far North Dallas	46,701,424	27.94	33.28	34.07	1,357,016	422,109	322,233	(79,414)
Class A	33,431,677	29.40	35.23	36.90	1,357,016	422,109	460,650	229,510
Class B	13,237,920	24.32	28.41	26.54	-	-	(138,417)	(308,924)

Source: CBRE Research, Q3 2023.

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Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q3 2023 Net Absorption	2023 YTD Net Absorption
Frisco/The Colony*	5,851,604	11.50	20.55	34.59	-	-	213,854	280,517
Class A	5,065,709	11.71	20.29	35.10	-	-	248,846	315,286
Class B	785,895	10.17	22.23	32.57	-	-	(34,992)	(34,769)
Quorum/Bent Tree*	19,372,786	22.64	27.98	29.30	-	-	(43,375)	(176,626)
Class A	11,539,166	21.45	29.57	36.07	-	-	6,378	(5,229)
Class B	7,801,793	24.51	25.75	39.56	-	-	(49,753)	(171,397)
Upper Tollway/West Plano*	21,477,034	37.19	41.52	34.34	-	-	151,754	(183,305)
Class A	16,826,802	40.17	43.62	39.56	-	-	205,426	(80,547)
Class B	4,650,232	26.39	33.91	28.61	-	-	(53,672)	(102,758)
Las Colinas	34,325,959	27.30	34.01	30.63	-	300,000	(276,546)	(373,828)
Class A	21,508,846	25.38	35.11	31.92	-	300,000	(217,311)	(277,790)
Class B	12,219,204	30.15	33.00	28.94	-	-	(58,958)	(95,761)
LBJ Freeway	19,138,682	25.64	26.96	30.62	-	-	23,498	106,898
Class A	11,125,261	20.82	27.21	35.51	-	-	58,330	192,220
Class B	7,843,859	32.82	26.99	23.35	-	-	(44,861)	(96,043)

\*Micromarket of Far North Dallas submarket  
Source: CBRE Research, Q3 2023.

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Lewisville / Denton	3,818,217	22.38	1.87	26.97	147,000	-	23,584	(188,588)
Class A	950,194	8.86	-	29.83	147,000	-	44,805	38,589
Class B	2,802,271	27.49	2.55	26.39	-	-	(21,221)	(227,177)
Preston Center	4,722,996	13.15	15.75	46.54	-	318,632	201,320	171,683
Class A	4,032,515	13.03	15.82	49.39	-	318,632	205,613	177,517
Class B	622,803	15.36	17.03	34.54	-	-	(4,293)	(5,834)
Richardson / Plano	25,754,639	21.29	28.39	25.03	138,193	97,450	(44,883)	(47,626)
Class A	14,817,823	20.29	31.11	26.49	102,000	97,450	114	163,687
Class B	10,720,217	22.96	25.06	23.19	36,193	-	(45,882)	(73,168)
SW Dallas	1,841,811	33.84	25.43	25.85	-	-	(186,929)	(249,219)
Class A	354,088	65.86	65.86	29.64	-	-	(203,721)	(205,104)
Class B	1,262,069	27.63	15.36	30.12	-	-	3,492	(20,490)
Stemmons Freeway	8,511,874	27.51	22.85	19.05	271,311	-	(65,191)	5,309
Class A	4,063,710	19.94	17.07	19.19	271,311	-	(46,245)	(17,846)
Class B	4,049,485	36.70	30.89	18.94	-	-	(18,946)	11,010
Uptown/Turtle Creek	13,582,181	19.64	24.57	49.38	1,413,640	359,914	29,086	(9,751)
Class A	12,049,045	19.74	24.74	51.41	1,413,640	359,914	31,663	7,468
Class B	1,395,252	20.74	25.59	38.64	-	-	(2,577)	(17,219)

Source: CBRE Research, Q3 2023.

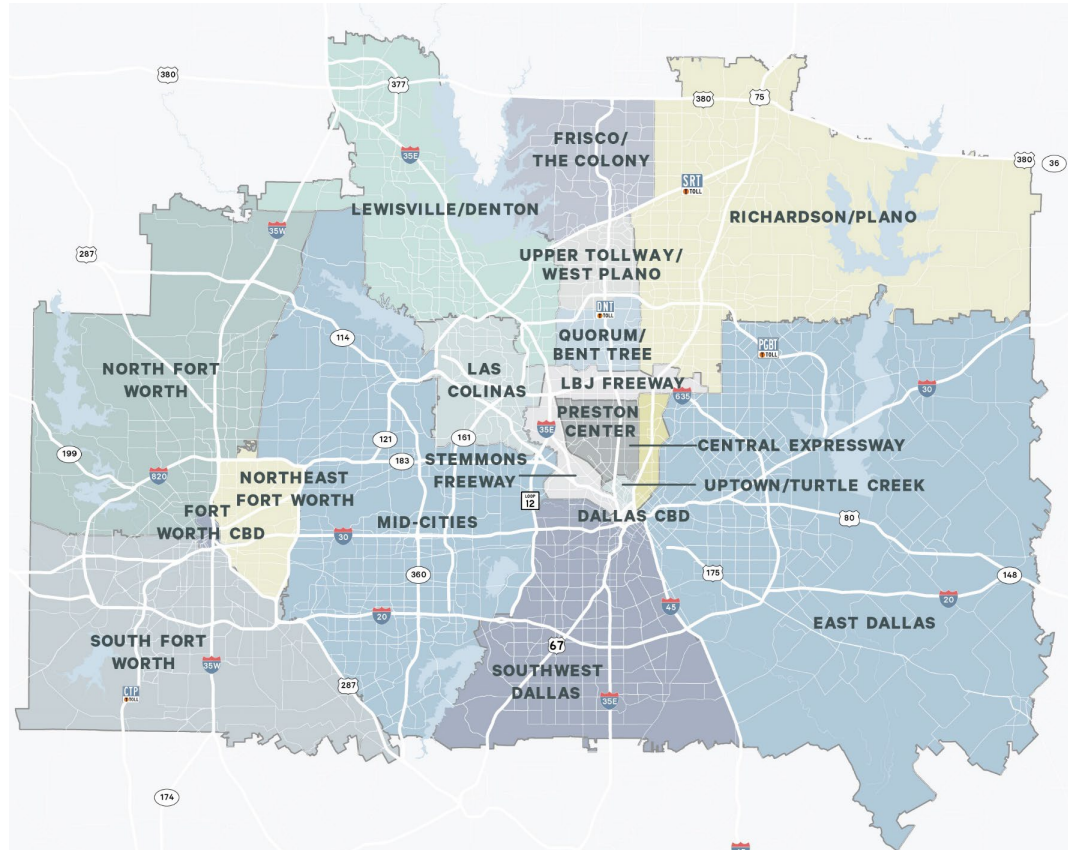
Figure 6: Dallas/Fort Worth Office Market Statistics

Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG (\$/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q3 2023 Net Absorption	2023 YTD Net Absorption
Fort Worth CBD	8,159,730	12.73	14.14	35.35	-	-	264	179,570
Class A	6,242,460	11.78	13.21	37.00	-	-	18,586	64,024
Class B	1,847,959	16.44	17.81	30.28	-	-	(18,322)	115,546
Mid Cities	14,841,314	27.91	31.87	23.35	61,500	-	(22,544)	(156,075)
Class A	6,739,183	34.14	37.80	24.19	61,500	-	1,600	(2,556)
Class B	7,531,125	24.01	28.45	22.42	-	-	(30,614)	(171,092)
North Fort Worth	2,917,126	18.41	18.41	22.35	30,000	-	15,636	(12,824)
Class A	1,333,559	32.04	32.04	22.89	-	-	11,876	(7,259)
Class B	1,455,543	7.06	7.06	22.36	30,000	-	1,998	(11,930)
NE Fort Worth	1,653,284	10.58	11.63	17.85	-	-	16,089	(306)
Class A	415,921	1.20	1.20	0.00	-	-	0	53,236
Class B	1,068,148	15.70	17.21	17.83	-	-	4,845	(68,107)
South Fort Worth	5,665,229	20.23	18.93	33.39	-	168,000	27,442	31,495
Class A	2,591,032	23.23	18.73	38.22	-	168,000	52,517	84,919
Class B	2,847,265	18.02	19.54	31.33	-	-	(28,934)	(73,547)
Dallas Total	198,593,167	25.76	30.83	32.49	3,327,160	1,498,105	(210,089)	(940,580)
Class A	132,257,201	25.45	32.56	35.61	3,290,967	1,498,105	218,473	210,682
Class B	63,801,749	26.74	28.07	26.06	36,193	-	(409,899)	(987,565)
Fort Worth Total	33,236,683	21.18	23.12	26.41	91,500	168,000	36,887	41,860
Class A	17,322,155	23.49	24.76	28.13	61,500	168,000	84,579	192,364
Class B	14,750,040	19.63	22.47	24.57	30,000	-	(71,027)	(209,130)
DFW Total	231,829,850	25.10	29.72	31.77	3,418,660	1,666,105	(173,202)	(898,720)
Class A	149,579,356	25.23	31.65	34.88	3,352,467	1,666,105	303,052	403,046
Class B	78,551,789	25.41	27.02	25.82	66,193	-	(480,926)	(1,196,695)

Source: CBRE Research, Q3 2023.  
\*Although Class C is not shown, totals are inclusive of all classes of data.



## Market Area Overview



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