

Sublease inventory at three-year low, yet overall vacancy continues to rise

▲ 26.4%
Overall Vacancy Rate

▲ 29.1%
Total Availability Rate

▲ -860,282 SF
Net Absorption

▼ 281,947 SF
Deliveries

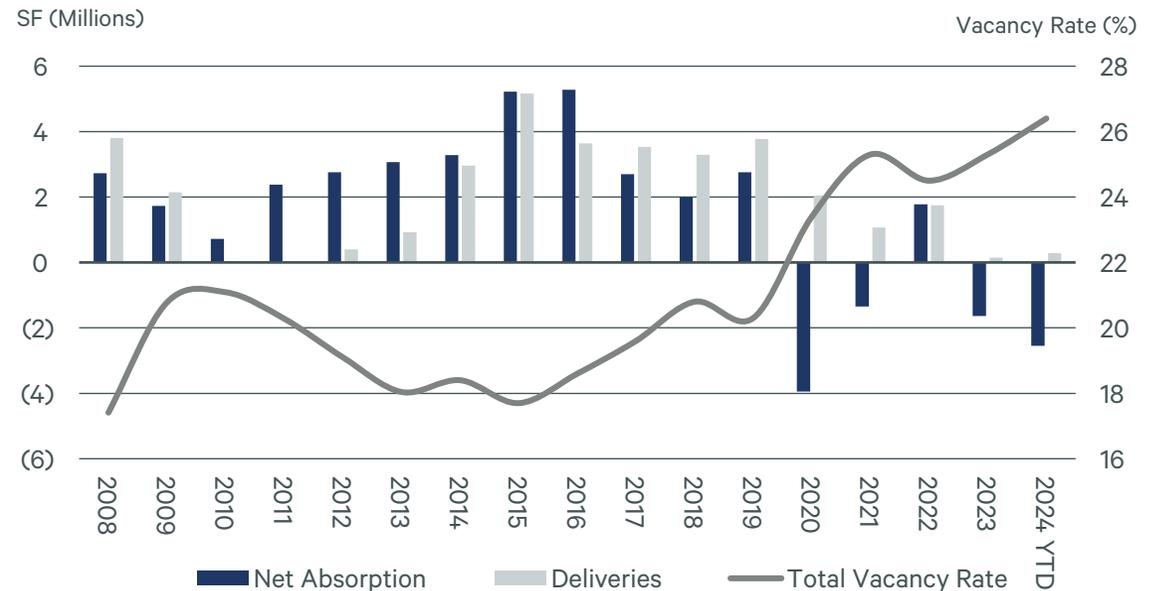
▶ 4.4 MSF
Under Construction

Note: Arrows indicate change from previous quarter.

Market Overview

- The Dallas/Fort Worth office leasing market showed mixed signals in Q3 as slower job growth paralleled lower leasing activity, while sublease inventory fell to a three-year low and new starts broke ground.
- DFW office-using job sectors continued to decelerate alongside overall trailing twelve-month job growth with the former adding only 400 of the 58,700 net new jobs throughout the last 12 months ending August 2024.
- Net absorption was negative again this quarter but to a lesser degree than Q2 2024, increasing vacancy from 25.9% to 26.4%.
- Construction activity was flat with 4.4 million sq. ft. underway following 280KSF in deliveries and a nearly equal number of new starts.
- Market-wide net absorption, a metric based on physical occupancy, logged 860,000 sq. ft. of negative activity for the quarter as total move-outs exceeded new occupancy. Although an improvement from mid-year, vacancy still increased to 26.4%, translating to over 59.6 million sq. ft. of unoccupied office space spread across DFW.

Figure 1: Historical Net Absorption and Vacancy



Source: CBRE Research, Q3 2024.

Sublease Inventory Still Receding

Sublease availability receded again from the previous quarter, marking a three-year low after declining by another 5.0% from Q2 2024 and standing just above 9.0 million sq. ft. throughout CBRE Research’s tracked dataset. About 73% of current sublease listings are already vacant and available for immediate occupancy. As of Q3 2024, sublease availability represented 4.0% of total inventory and 13.8% of total availability, both lower than last quarter’s proportions as well as year-end 2023. Nearly 40% of the market’s sublease inventory is concentrated within Class A buildings in Far North Dallas and Las Colinas submarket.

In terms of big block or full floor equivalent sublease availability, 13 spaces were newly listed during Q3 2024, an uptick from last quarter’s nine listings. The Q3 2024 big block sublease availabilities range from 20,021 sq. ft. to nearly 155,164 sq. ft. with disclosed asking rates for these new sublease offerings ranging from \$18.50 to \$33.00 NNN. One new listing was in the Dallas CBD with all others in Far North Dallas, Las Colinas, or Richardson/Plano.

Office Leasing Not as Strong as Mid-Year

After rebounding last quarter, gross leasing activity for deals 10,000 SF and larger dipped by 7.4% from Q2 2024 but edged higher than this time last year by 5.5%. Renewal activity was still on par with last quarter, accounting for just above 40% of leasing activity. Areas within DFW that saw the highest levels of overall/gross leasing activity relative to the rest of the market included Upper Tollway/West Plano, DFW Freeport/Coppell, and Uptown/Turtle Creek. Large tenant requirements also took a slight dip from last quarter’s total but, similar to leasing activity, is still higher than this time last year. This metric tracks occupiers who are actively in the market for new space, lease renewals, and expansions.

Development Pipeline Static

Ongoing non-owner-occupied office development remained flat over the quarter at 4.4 million sq. ft. amid a steady, yet muted, amount of starts and deliveries. There were 280,000 sq. ft. of new completions spanning three projects over the quarter, with Crown Centre II in Lewisville accounting for half of the total square footage. Combined preleasing for these three projects was 14.3% at time of completion. Two of the larger groundbreakings of Q3 included West Grove’s office component in McKinney, and The Offices at Firefly Park in Frisco, each totaling about 130,000 sq. ft. Active multitenant projects underway combined with leased, single tenant build-to-suits were 60% pre-leased at the close of Q3 2024.

Figure 2: Sublease Availability

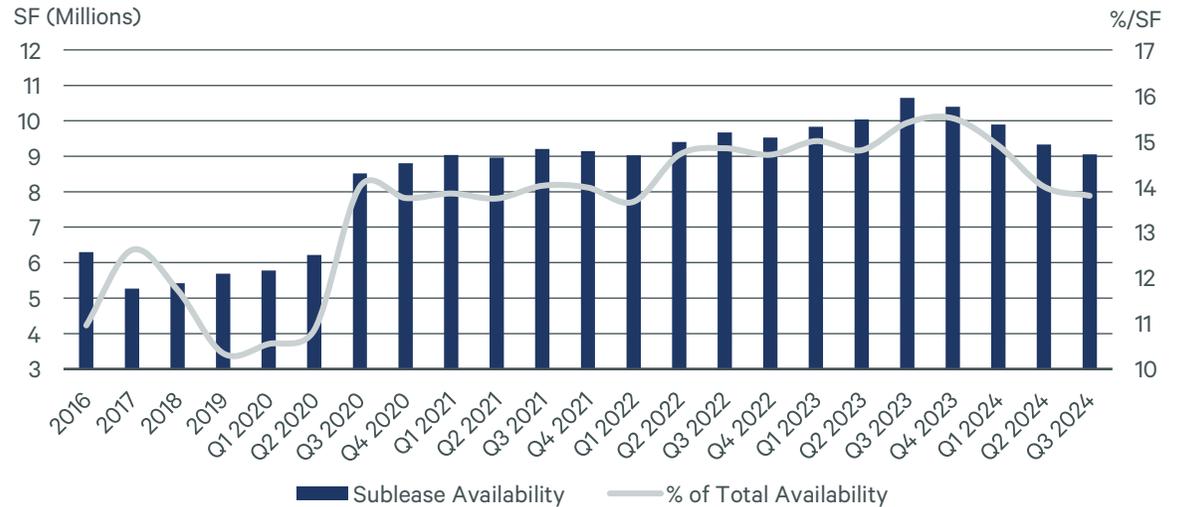


Figure 3: Significant Leases/Sales of the Quarter

Transaction Type	Tenant/Buyer	Building Name	Submarket	Total Sq. Ft.
Lease	Aimbridge Hospitality	HQ53	Upper Tollway/West Plano	248,662
Sale	Entrada Partners	Royal Tech Commons	Las Colinas	622,697
Sale	Raising Cane’s	5320 Legacy Drive	Upper Tollway/West Plano	394,405
Sale	Shorenstein Investment Advisors	International Plaza II	Quorum/Bent Tree	388,432

Source: CBRE Research, Q3 2024.

Local Economy

Dallas/Fort Worth continues to outperform the U.S. and most other large metro areas in terms of employment growth, which has historically fueled office demand. In Q3 2024, the DFW metro area added 58,700 jobs over the 12 months ending August 2024, according to preliminary data from the Bureau of Labor Statistics. Office-using employment gained a marginal number of new jobs during this timeframe, a continuation of a notable slowdown at the local level. While financial employment expanded, professional and business services shrunk payrolls and negated most of the overall office-focused growth. Nationally, Dallas/Fort Worth logged the sixth-highest number of jobs added within the last 12 months, behind New York, LA, Houston, Miami, and Philadelphia. Employment growth in DFW equated to a 1.4% annual growth rate compared to the 1.4% pace for the U.S. overall.

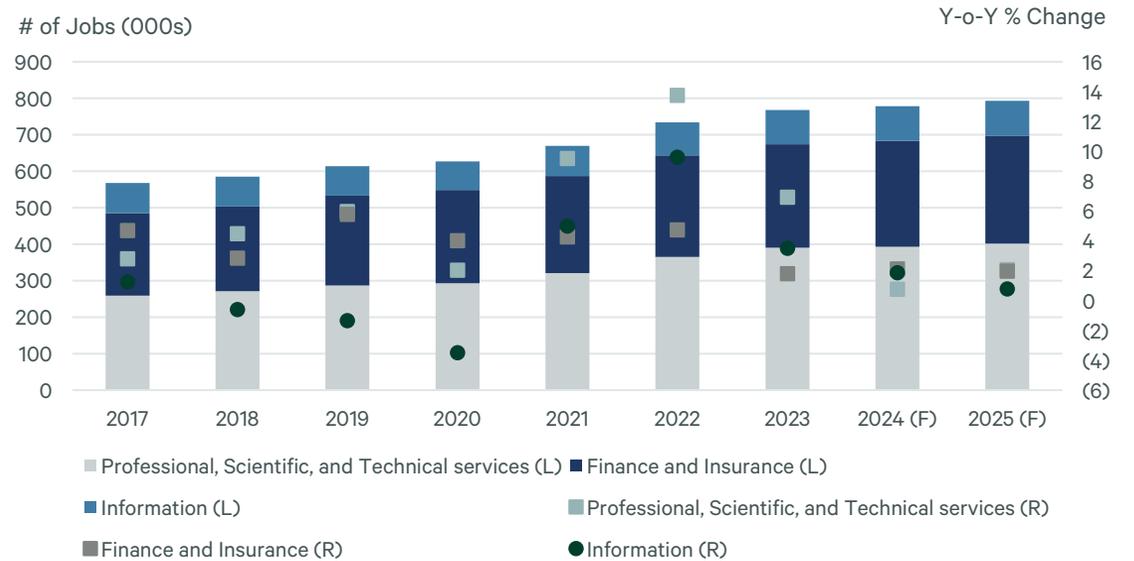
Corporate relocation and expansion activity continues to precipitate the DFW office landscape as five new significant announcements from office occupiers took place during Q3 2024. The most sizeable of these was Raising Cane’s expansion of its Dallas Restaurant Support Office in Plano, more than tripling its existing footprint that has been based in Plano since 2009. Other notable press in Q3 included a relocation from Oakland (Koya Medical), payroll expansion of 1,000 jobs for TIAA, a relocation from San Francisco to Coppell (Verily Life Sciences), and a relocation from Fort Wayne, IN to Irving (iRely). Year-to-date, DFW has logged 29 office-focused corporate announcements according to data from the Dallas Regional Chamber.

National Outlook

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand, companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November’s election the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some 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)	4.25% to 4.50%	3.00% to 3.25%	2.25% to 2.50%
10-Year Treasury (Q4)	3.8%	3.5%	3.3%
GDP (Annual Average)	2.6%	1.6%	2.0%
Core PCE (Q4)	2.6%	1.8%	1.8%

Source: CBRE Research, Q3 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)	Q3 2024 Net Absorption	2024 YTD Net Absorption
Central Expressway	10,205,598	25.10	27.83	38.16	-	-	-76,483	-215,290
Class A	6,779,444	26.82	29.87	39.70	-	-	-18,500	-105,068
Class B	3,365,606	22.09	24.22	33.99	-	-	-57,983	-110,222
Dallas CBD	26,579,699	31.97	36.57	32.68	-	-	-131,773	-503,369
Class A	21,881,831	31.23	36.80	34.59	-	-	-90,066	-307,270
Class B	4,484,511	36.71	36.82	24.23	-	-	-41,707	-196,099
East Dallas	3,008,873	30.30	32.69	31.78	-	-	32,675	-106,664
Class A	1,048,478	54.40	59.34	38.20	-	-	30,385	-3,071
Class B	1,611,627	15.43	16.74	31.05	-	-	11,219	-46,087
Far North Dallas	45,814,088	26.80	31.36	34.98	1,681,631	104,947	-141,636	-432,332
Class A	32,051,174	26.45	31.73	38.83	1,589,463	104,947	-144,055	-158,712
Class B	13,762,914	27.60	30.49	26.92	92,168	-	2,419	-273,620

Source: CBRE Research, Q3 2024.

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Frisco/The Colony*	6,093,047	15.93	22.36	37.85	1,054,946	-	24,565	57,963
Class A	5,307,152	16.32	22.23	38.39	1,019,946	-	12,801	39,814
Class B	785,895	13.29	23.26	32.93	35,000	-	11,764	18,149
Quorum/Bent Tree*	19,433,925	25.65	28.60	32.28	40,890	-	-102,494	-404,522
Class A	11,441,171	25.89	30.13	35.94	40,890	-	-105,216	-242,839
Class B	7,992,754	25.30	26.40	26.12	-	-	2,722	-161,683
Upper Tollway/West Plano*	20,287,116	31.16	36.71	36.87	585,795	104,947	-63,707	-85,773
Class A	15,302,851	30.38	36.22	41.40	528,627	104,947	-51,640	44,313
Class B	4,984,265	33.53	38.20	27.38	57,168	-	-12,067	-130,086
Las Colinas	33,515,816	30.51	34.12	29.78	-	-	-434,973	-1,316,391
Class A	21,780,624	30.52	35.25	30.65	-	-	-224,777	-764,092
Class B	11,327,059	31.08	32.37	28.33	-	-	-210,196	-550,909
LBJ Freeway	18,468,976	24.62	27.64	29.74	-	-	-181,953	112,294
Class A	11,125,261	22.27	26.51	34.30	-	-	-209,392	-144,836
Class B	7,174,153	28.63	29.83	22.72	-	-	27,439	257,130

*Micromarket of Far North Dallas submarket

Source: CBRE Research, Q3 2024.

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Lewisville / Denton	3,965,217	29.63	35.73	24.74	-	147,000	62,277	-84,400
Class A	1,097,194	48.24	50.70	27.30	-	147,000	11,000	-210,795
Class B	2,802,271	23.04	30.70	24.07	-	-	51,277	126,395
Preston Center	4,722,996	12.21	11.77	47.37	151,000	-	-18,630	13,415
Class A	4,032,515	11.71	11.23	50.47	151,000	-	-25,510	2,723
Class B	622,803	16.74	16.50	35.87	-	-	6,880	10,692
Richardson / Plano	25,551,608	22.70	25.88	25.24	268,193	-	-31,797	-181,766
Class A	14,374,278	23.80	27.94	26.52	232,000	-	-27,112	-383,429
Class B	10,960,731	21.55	23.49	23.74	36,193	-	-2,408	205,262
Allen/McKinney*	2,388,345	27.25	28.30	29.13	268,193	-	-36,252	79,144
Class A	1,274,213	22.08	27.20	28.68	232,000	-	-42,063	25,801
Class B	1,082,918	34.10	30.41	29.20	36,193	-	5,811	53,343
SW Dallas	1,841,811	41.64	17.41	25.91	-	-	-26,516	-74,239
Class A	354,088	68.04	10.59	20.21	-	-	4,208	-1,875
Class B	1,262,069	38.46	19.22	28.95	-	-	-30,724	-73,203
Stemmons Freeway	8,386,384	25.06	23.46	27.34	-	-	60,966	57,398
Class A	4,373,804	21.62	20.04	32.54	-	-	57,370	22,790
Class B	3,613,901	31.73	29.90	20.68	-	-	2,116	-962
Uptown/Turtle Creek	14,253,911	23.95	27.07	49.42	2,211,341	-	-28,825	-44,595
Class A	12,761,612	24.32	27.63	51.15	2,211,341	-	-22,549	-59,286
Class B	1,354,415	22.90	24.62	37.80	-	-	-6,276	14,691

*Micromarket of Richardson/Plano submarket

Source: CBRE Research, Q3 2024.

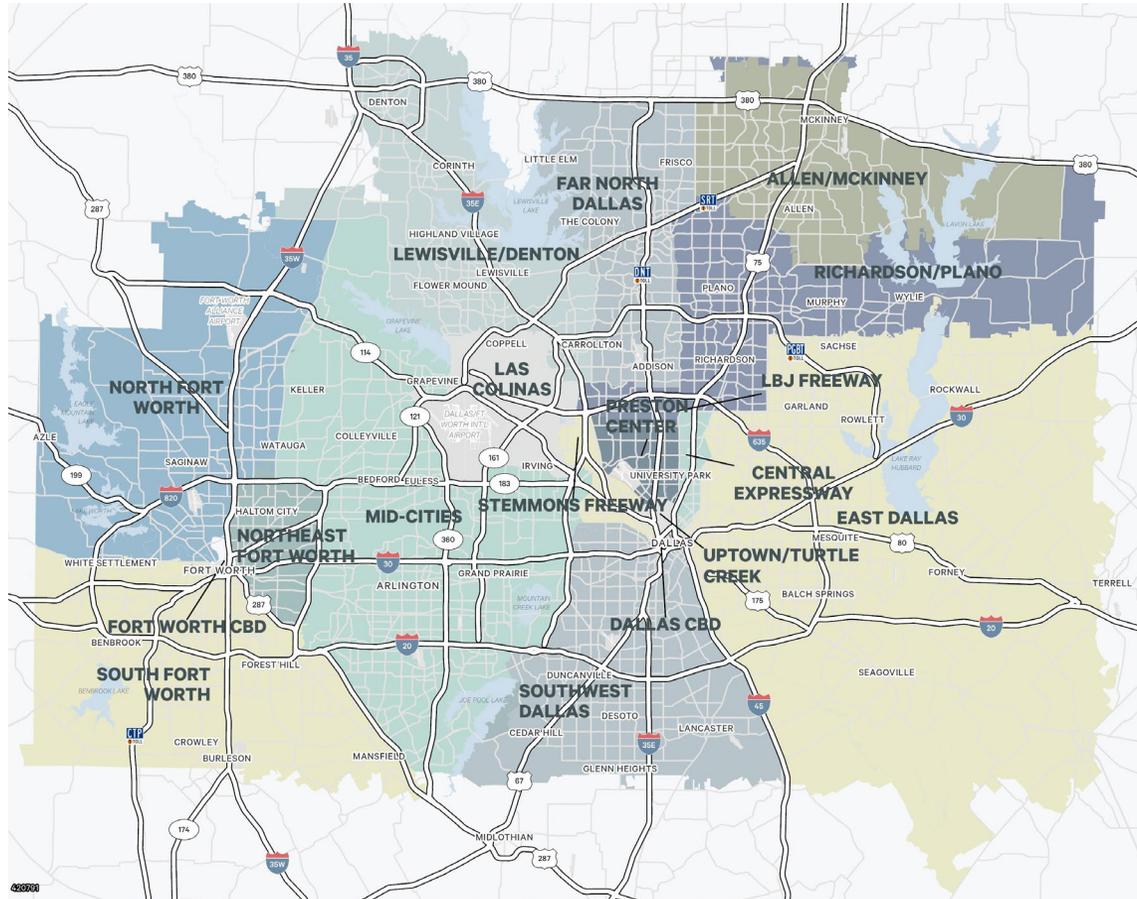
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Fort Worth CBD	6,891,432	14.77	14.28	34.49	-	-	-20,472	56,357
Class A	5,064,162	12.54	13.03	40.11	-	-	-21,781	76,709
Class B	1,757,959	21.80	18.44	21.99	-	-	1,309	-20,352
Mid Cities	14,986,769	29.38	30.47	23.41	-	-	75,911	235,712
Class A	6,739,183	32.84	33.59	24.82	-	-	138,570	220,364
Class B	7,676,580	28.05	29.49	21.93	-	-	-72,773	10,430
North Fort Worth	2,893,126	16.72	16.80	22.75	50,000	30,000	27,785	33,557
Class A	1,279,559	29.81	29.81	21.61	50,000	-	1,917	0
Class B	1,485,543	6.60	6.40	23.19	-	30,000	17,855	27,194
NE Fort Worth	1,653,284	13.00	13.30	32.67	-	-	-9,169	-35,237
Class A	415,921	1.20	1.20	0.00	-	-	0	0
Class B	1,068,148	16.26	16.73	35.61	-	-	2,075	956
South Fort Worth	5,800,522	22.90	17.70	31.69	-	-	-17,669	-47,626
Class A	2,591,032	23.31	11.60	35.64	-	-	-21,292	-20,033
Class B	2,982,558	22.20	21.85	31.28	-	-	-4,639	-1,893
Dallas Total	196,314,977	26.92	30.15	32.83	4,312,165	251,947	-916,668	-2,775,939
Class A	131,660,303	26.99	31.11	36.07	4,183,804	251,947	-658,998	-2,112,921
Class B	62,342,060	27.37	28.77	26.22	-	-	-247,944	-636,932
Fort Worth Total	32,225,133	23.11	22.60	26.57	50,000	30,000	56,386	242,763
Class A	16,089,857	23.86	22.44	28.56	50,000	-	97,414	277,040
Class B	14,970,788	23.18	23.47	24.59	-	30,000	-56,173	16,335
DFW Total	228,540,110	26.39	29.08	32.12	4,362,165	281,947	-860,282	-2,533,176
Class A	147,750,160	26.65	30.17	35.41	4,233,804	251,947	-561,584	-1,835,881
Class B	77,312,848	26.56	27.74	25.96	-	30,000	-304,117	-620,597

Source: CBRE Research, Q3 2024.

*Although Class C is not shown, totals are inclusive of all classes of data.

Market Area Overview



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