CBRE

Office-using job growth remains robust, yet sublease offerings hit new record high

▶ **24.3%**
Overall Vacancy Rate

▼ **$31.22**
Avg. Asking Rate

▼ **68,892**
SF Net Absorption

▲ **475,970**
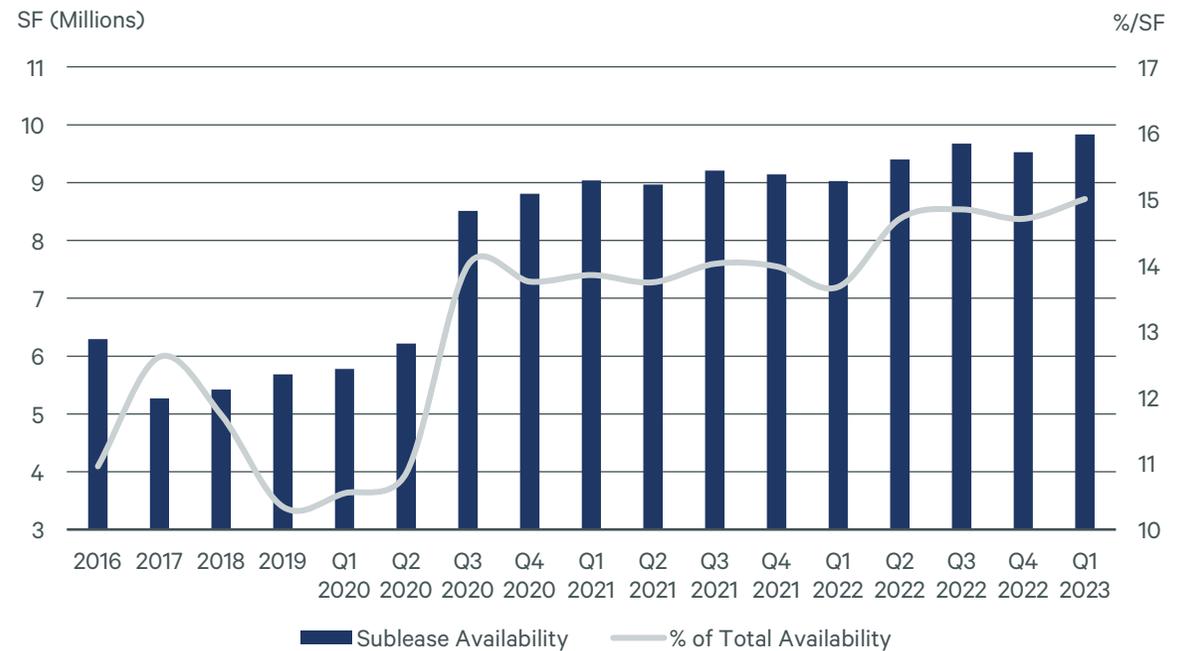Deliveries

▲ **5,021,350**
Under Construction

Note: Arrows indicate change from previous quarter.

Amid an economic uncertainty that continues to impact corporate decision-making, Dallas/Fort Worth appears to be largely unaffected. The metro area added a robust 211,600 jobs over the 12 months ending February 2023, according to preliminary monthly data from the Bureau of Labor Statistics. This equates to a 5.3% annual growth rate, outpacing Texas and the U.S. at 4.6% and 2.9%, respectively. The office-using sector—consisting of Professional & Business Services, Financial Activities, and Information sectors—collectively added 69,800 jobs within the same 12-month period, a year-over-year rate of 5.9% that surpasses an already solid overall market momentum.

Sublease availability ticked up by 3.2% from Q4 2022, standing at 9.8 million sq. ft. throughout CBRE Research's tracked dataset, with nearly 75% of that amount attributed to Class A spaces. This increase took place despite the withdrawal of two large existing subleases totaling 460,000 sq. ft. As of Q1 2023, sublease availability represented 4.3% of total inventory and 15.0% of total availability; about 66% of the sublease market is vacant and available for immediate occupancy.

Market-wide net absorption, a metric based on physical occupancy, slowed from the previous quarter as the market reacts to a higher proportion of renewals plus recently vacated sublease space. While total net absorption yielded 68,892 sq. ft., DFW office would have posted about 160,000 sq. ft. in negative absorption if move-in activity at two new deliveries was excluded. Total vacancy (direct plus sublease vacancy) decreased slightly due to a combination of occupancy in new construction as well as non-market vacancy adjustments in existing buildings. As of Q1 2023, there was more than 56 million sq. ft. of vacant office space spread across DFW, with the highest clusters in Class A assets throughout Far North Dallas, the Dallas CBD, and Las Colinas.

Figure 1: Sublease Availability

Source: CBRE Research, Q1 2023.

The construction pipeline remained flat following two deliveries and one groundbreaking in Q1 2023. CBRE Research is tracking just over 5 million sq. ft. in projects actively underway, with a preleased rate of 21.6%. One office project broke ground in Q1 2023, 121 Commerce Center in Plano, a 100,000-sq.-ft. development that will consist entirely of spec suites. The two completions of the quarter were The Star Phase IV in Frisco—at 300,000 sq. ft. and delivering more than 70% preleased—and At Home's new corporate headquarters at Cypress Waters in Coppell.

Leasing activity, a leading indicator of net absorption, continued to decelerate in the first three months of the year, yet large tenant requirements regained some momentum compared to year-end 2022. This metric tracks occupiers who are actively in the market for new space or lease renewals.

More broadly speaking, CBRE believes the national economy will face a moderate recession in H1 2023 with Dallas/Fort Worth expected to outperform relative to other metro areas, yet still face headwinds that may impact the office market. Downstream consequences of the Fed's tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows. This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

Source: CBRE Research, Q1 2023.

Figure 2: Significant Leases/Sales of the Quarter

Lease (Tenant)	Building Name	Submarket	Total Sq. Ft.
University of St. Augustine	901 W Walnut Hill	Las Colinas	55,050
Confidential	One Galleria Tower	LBJ Freeway	50,130

Sale (Buyer)	Building Name	Submarket	Total Sq. Ft.
3L Real Estate	115 W 7th Street	Fort Worth CBD	300,347
Charter Holdings, Inc.	Founders Square	Dallas CBD	274,010

Figure 3: Historical Net Absorption and Vacancy

Figure 4: Dallas/Fort Worth Office Market Statistics

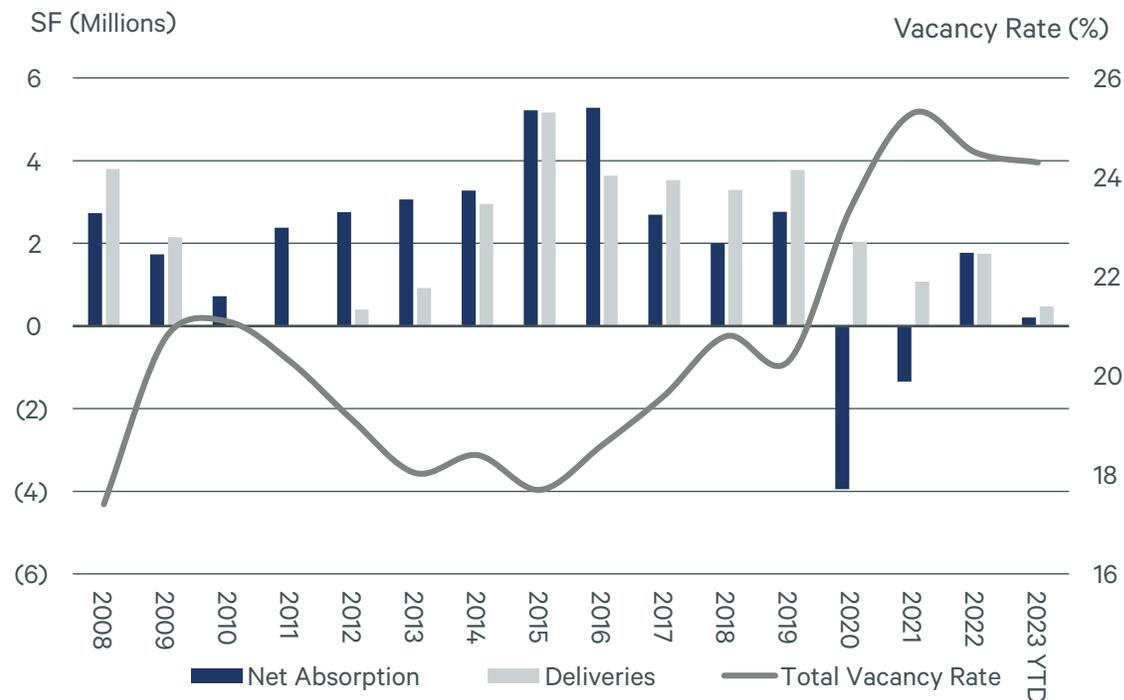| Submarket	Net Rentable Area	Total Vacancy	Total Availability (%)	Average Asking Rate FSG ($/SF/YR)	Under Construction (SF)	Deliveries (SF)	Q1 2023 Net Absorption	2023 YTD Net Absorption
Central Expressway	10,621,882	20.91	25.84	38.20	-	-	14,529	14,529
Class A	7,195,728	23.51	29.97	39.43	-	-	-22,628	-22,628
Class B	3,365,606	15.73	17.5	33.56	-	-	37,157	37,157
Dallas CBD	27,014,629	31..33	34.95	32.56	-	-	45,828	45,828
Class A	22,129,836	32.77	36.54	34.27	-	-	26,290	26,290
Class B	4,671,436	25.32	28.3	23.30	-	-	19,538	19,538
East Dallas	3,008,873	27.34	32.42	27.29	-	-	58,011	58,011
Class A	1,048,478	55.00	64.52	N/A	-	-	59,605	59,605
Class B	1,611,627	13.26	15.6	28.39	-	-	-7,013	-7,013
Far North Dallas	46,379,843	27.48	30.44	33.51	1,559,680	299,970	120,022	120,022
Class A	33,009,568	29.37	31.77	36.20	1,559,680	299,970	190,310	190,310
Class B	13,338,448	22.87	27.22	26.74	-	-	-70,288	-70,288
Las Colinas	34,684,899	26.09	33.93	31.26	300,000	176,000	-3,108	-3,108
Class A	21,982,286	22.61	33.93	32.86	300,000	176,000	73,482	73,482
Class B	12,104,704	31.82	35.31	28.85	-	-	-76,590	-76,590
LBJ Freeway	19,138,682	25.80	26.64	30.24	-	-	105,095	105,095
Class A	11,125,261	22.05	27.39	34.78	-	-	55,507	55,507
Class B	7,843,859	31.36	25.78	22.57	-	-	48,896	48,896

Source: CBRE Research, Q1 2023.

Figure 4: 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)	Q1 2023 Net Absorption	2023 YTD Net Absorption
Lewisville / Denton	3,818,217	22.00	26.94	23.49	-	-	-174,354	-174,354
Class A	950,194	13.57	10.52	23.86	-	-	-6,130	-6,130
Class B	2,802,271	25.37	33.15	23.35	-	-	-168,224	-168,224
Preston Center	4,518,864	10.12	15.42	48.33	318,632	-	-28,351	-28,351
Class A	3,713,883	9.39	15.72	51.10	318,632	-	-9,738	-9,738
Class B	737,303	14.71	15.37	33.76	-	-	-18,613	-18,613
Richardson / Plano	25,081,153	19.40	25.61	25.07	478,266	-	11,581	42,969
Class A	14,288,607	17.97	26.96	26.08	431,766	-	60,181	91,569
Class B	10,575,947	21.57	24.15	23.65	46,500	-	-47,875	-47,875
SW Dallas	1,841,811	21.99	22.69	21.71	-	-	-31,018	-31,018
Class A	354,088	7.93	66.11	19.54	-	-	0	0
Class B	1,262,069	28.07	12.77	27.67	-	-	-26,122	-26,122
Stemmons Freeway	8,588,874	27.91	23.56	19.28	271,311	-	19,910	19,910
Class A	4,063,710	19.48	17.11	19.22	271,311	-	2,897	2,897
Class B	4,126,485	37.55	31.93	19.38	-	-	14,868	14,868
Uptown/Turtle Creek	13,177,942	17.74	23.45	47.62	1,753,437	-	-51,015	-51,015
Class A	11,532,131	17.86	23.85	49.07	1,753,437	-	-44,428	-44,428
Class B	1,507,927	18.48	22.53	38.79	-	-	-6,587	-6,587

Source: CBRE Research, Q1 2023.

Figure 4: 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)	Q1 2023 Net Absorption	2023 YTD Net Absorption
Fort Worth CBD	8,159,730	14.42	14.43	34.98	-	-	42,141	42,141
Class A	6,242,460	12.47	13.32	37.13	-	-	20,668	20,668
Class B	1,847,959	21.53	18.71	30.33	-	-	21,473	21,473
Mid Cities	14,697,790	25.85	32.08	23.41	205,024	-	-110,518	-110,518
Class A	6,595,659	31.11	34.45	24.69	205,024	-	7,204	7,204
Class B	7,531,125	22.61	31.73	21.77	-	-	-125,169	-125,169
North Fort Worth	2,782,126	15.33	14.57	22.48	135,000	-	-37,509	-37,509
Class A	1,198,559	25.98	24.20	22.84	135,000	-	-26,349	-26,349
Class B	1,455,543	7.42	7.42	22.71	-	-	-17,083	-17,083
NE Fort Worth	1,653,284	8.46	9.87	18.87	-	-	34,845	34,845
Class A	415,921	1.20	1.20	N/A	-	-	53,236	53,236
Class B	1,068,148	11.05	12.09	18.89	-	-	-18,391	-18,391
South Fort Worth	5,497,229	17.47	18.74	31.60	-	-	52,803	52,803
Class A	2,423,032	20.42	13.52	38.48	-	-	23,849	23,849
Class B	2,847,265	15.03	23.30	30.07	-	-	15,091	15,091
Dallas Total	**197,955,595**	**25.04**	**29.23**	**31.83**	**4,681,326**	**475,970**	**87,130**	**87,130**
Class A	131,473,696	24.78	30.54	34.97	4,634,826	475,970	385,348	385,348
Class B	63,947,682	25.91	27.37	25.63	-	-	-300,853	-300,853
Fort Worth Total	**32,790,159**	**19.83**	**22.85**	**26.70**	**340,024**	**-**	**-18,238**	**-18,238**
Class A	16,875,631	21.58	22.08	29.22	**340,024**	-	78,608	78,608
Class B	14,750,040	18.67	24.65	24.41	-	-	-124,079	-124,079
DFW Total	**230,665,828**	**24.30**	**28.32**	**31.22**	**5,021,350**	**475,970**	**68,892**	**68,892**
Class A	148,269,401	24.42	29.58	34.36	4,974,850	475,970	463,956	463,956
Class B	78,697,722	24.56	26.86	25.45	-	-	-424,932	-424,932

Source: CBRE Research, Q1 2023.

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

Market Area Overview

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