

OFFICE

Dallas-Fort Worth Metro Area

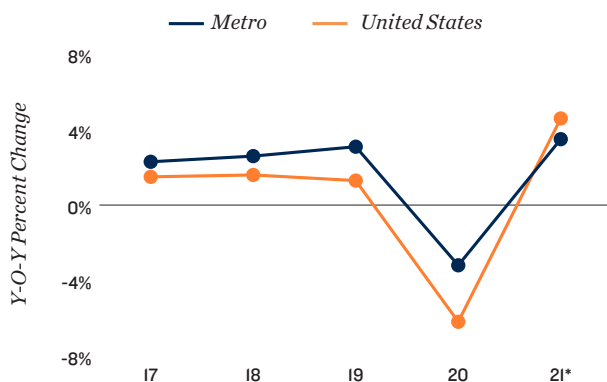
4Q/21

Stemmons Freeway Submarket a Unicorn Amid Broader Office Sector Disruption

Diamond in the rough emerges. Masked by the overall office sector interruption, one submarket in Dallas-Fort Worth has quietly had an impressive showing. The Stemmons Freeway corridor, spanning Interstate 35 northwest of the Dallas core, has excelled. Vacancy here plummeted 510 basis points over the past 12 months ended in June. No other submarket recorded a vacancy decline greater than 150 basis points during that span. Stemmons Freeway benefits from its proximity to UT Southwestern Medical Center, which generates space demand from healthcare firms. Net absorption of more than 830,000 square feet over the past year helped boost the local average asking rent by 9.6 percent during that frame. Only four other submarkets had rent hikes of at least 3 percent and none of those exceeded 5 percent.

Largest submarkets the most hindered. The Dallas CBD, Las Colinas and Far North Dallas submarkets, which contain nearly 40 percent of Metroplex supply, each had year-over-year vacancy rises of at least 400 basis points. In Far North Dallas, the increase was largely due to supply, with local inventory growing 2.3 percent over the past year ended in June. The Dallas CBD and Las Colinas had expansions of 0.5 percent or less, though, indicating headwinds in these areas stem from sluggish demand. Plans to recall workers to offices and expand in denser corridors like these should materialize in the coming quarters, however. This will help demand realign as moderate construction in these submarkets buffers vacancy from rising too extensively.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



130,500

JOBS

will be created

EMPLOYMENT:

The Metroplex has added more than 91,000 jobs through August, putting a full recovery of the 121,600 roles lost in 2020 within sight. Employment is expected to rise by 3.5 percent in 2021 including a 4.2 percent surge in traditional office-using roles.



5,600,000

SQ. FT.

will be completed

CONSTRUCTION:

Annual delivery volume will exceed 5 million square feet for the sixth time in the last seven years, with the 2021 addition growing market inventory by 1.6 percent. The elevated pace of arrivals could pose some headwinds for the near-term recovery.



90

BASIS POINT

increase in vacancy

VACANCY:

Net absorption will return to a positive level as demand strengthens, a major improvement from the negative 8.1 million square feet recorded in 2020. Nonetheless, deliveries outpace demand and keep vacancy moving upward, reaching 22.2 percent in 2021.



1.1%

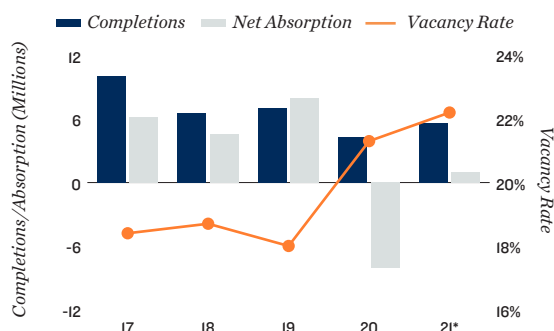
INCREASE

in asking rent

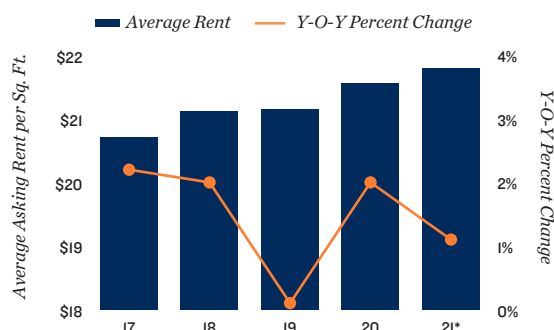
RENT:

It will be difficult to replicate the 2.0 percent year-over-year rent growth registered in 2020 as higher vacancy leads some operators to use concessions amid competition for tenants. Still, the average asking rent will climb to \$21.80 per square foot.

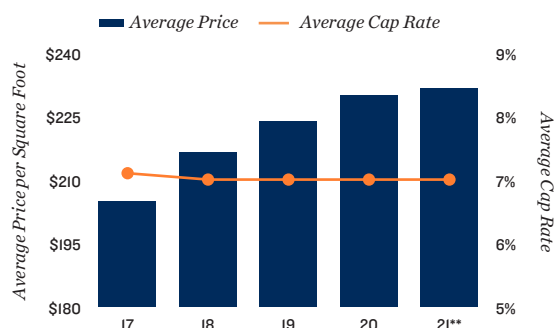
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q21 — 12-Month Period



CONSTRUCTION

4,599,000 sq. ft. completed

- Completions over the past four quarters ended in June came in below the 7.1 million square feet added in the previous year. Material and labor shortages alongside pandemic uncertainty stalled some projects.
- Partially attributed to delayed developments, the forward-looking pipeline is sizable. About 6.7 million square feet was underway in July.



VACANCY

280 basis point increase in vacancy Y-O-Y

- The disruption was extensive, with both the Class A and B/C segments noting annual vacancy jumps of at least 250 basis points. Overall, the vacancy rate in Dallas-Fort Worth climbed to 21.9 percent in June.
- Greater Fort Worth witnessed a 170-basis-point vacancy increase compared with a 300-basis-point lift in Greater Dallas.



RENT

1.1% increase in the average asking rent Y-O-Y

- Quarterly elevations in five of the last six periods spanning back to the beginning of 2019 brought the average asking rent to \$21.65 per square foot in June 2021. The rate is up 2.4 percent over the past 18 months.
- Las Colinas posted the steepest rent decline among submarkets. Here, the asking rate fell 2.0 percent annually to \$20.90 per square foot.

Investment Highlights

- Transaction activity in the Metroplex dropped by 25 percent during the trailing-12-month period ended in June. At a closer scope, deal flow fell 30 percent in Greater Dallas and less than 5 percent in Greater Fort Worth. Despite the declines in both of these markets, the overall Dallas-Fort Worth average office sale price climbed 2 percent to \$232 per square foot, while the mean cap rate held firm at 7.0 percent.
- Submarkets that recorded notable upticks in office asset trading include the Mid-Cities, Southwest Dallas and North Fort Worth. The Mid-Cities capture a larger share of Class A/B trades, while lower-tier offices in the latter two submarkets attract private investors from Texas as well as out-of-state, creating some bidding competition.
- Slightly fewer medical office assets traded in Dallas-Fort Worth over the past four quarters relative to the previous year, but they remain an appealing property type in the fast-growing Metroplex. Medical offices trade with an average sale price of roughly \$260 per square foot with cap rates in the low-5 percent to mid-8 percent range. Buyers have mostly concentrated on the Far North Dallas and Mid-Cities locales.