

INVESTMENT FORECAST

Office

Dallas-Fort Worth Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2024

Nation-Leading Growth in Traditional Office-Using Sectors Counteracted by Remote Work Prevalence

Strong economic conditions contrast eroded leasing. Dallas-Fort Worth's professional and business services, financial activities and information sectors — which together represent a large portion of traditionally office-using jobs — are growing at a robust pace. From the end of 2019 through the close of 2023, the Metroplex added 244,000 such positions, ranking first in the nation and beating the next-closest market, Austin, by over 130,000 roles. That trend is expected to continue in 2024 as Dallas-Fort Worth more than doubles any other metro in traditional office-using employment growth. Historically, this is a strong signal for office demand; however, in a post-pandemic era of remote work, that no longer seems to be the case. Net absorption has fallen shy of new supply in each of the past four years, and the same is expected in 2024 to an even greater degree. A wave of expiring pre-pandemic leases will drop net absorption this year to its softest measure since the 2020 shock. Nonetheless, the sharp rise in traditional office-using jobs showcases that the market is attractive to relocating firms amid an expanding skilled labor pool. Over time, corporate in-migration should help offset current space attrition.

Investors confine peripheries to pockets of sustained demand. While challenges in the office sector are apparent, soft conditions are not one-size-fits-all. In fact, Greater Fort Worth — led by its CBD and South submarket — has been performing relatively well, posting a vacancy drop and rent growth last year. Preston Center, Stemmons Freeway and Southwest Dallas also achieved this in 2023, making this collection of submarkets prime targets for investors seeking higher occupancy and greater rent stability in the near-term. Some risk-tolerant buyers remain active in certain areas with favorable economic trends, but mediocre office metrics, most notably Richardson-Plano and Far North Dallas.

2024 MARKET FORECAST

+3.0%



EMPLOYMENT: Dallas-Fort Worth leads the country in both overall job growth and traditional office-using employment expansion this year, gaining 130,000 and 40,000 personnel, respectively.

3,750,000
sq. ft.



CONSTRUCTION: Metroplex office stock increases by 1.0 percent this year, the second slowest annual pace this decade. The Far North Dallas submarket alone comprises nearly half of the delivery slate.

+130 bps



VACANCY: The softest net absorption level in four years results in the largest vacancy elevation since 2020. Dallas-Fort Worth's rate rises to 23.3 percent, exceeding the 2009 peak by 270 basis points.

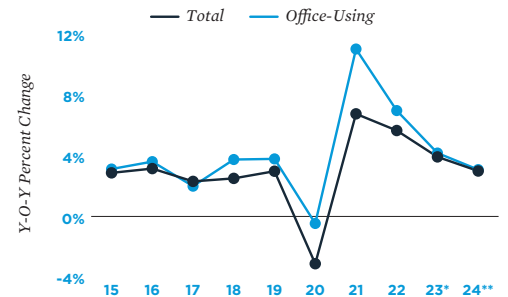
-2.1%



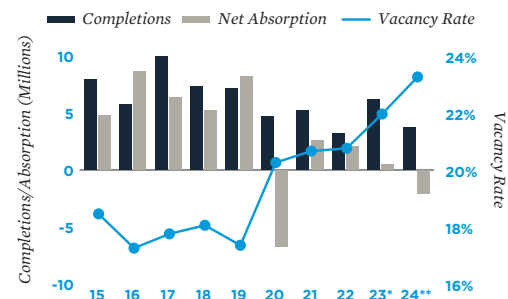
RENT: Record-high vacancy ends a 13-year streak of positive rent growth that dates back to the tail-end of the financial crisis. Dallas-Fort Worth's mean asking rate dips to \$22.57 per square foot.

INVESTMENT: Greater Fort Worth accounted for over 40 percent of Metroplex office trades last year, the highest share in more than two decades. Stronger performance trends will keep buyers active on this side of the market.

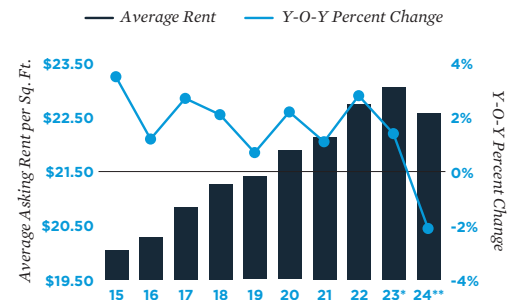
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.