Mature & diverse: Predictions for the Dallas office market in 2022

BY BRANDI SMITH

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Josh White

The Dallas office market isn't just showing renewed signs of life in a post-COVID world, it's blossoming.

"Leasing activity is picking up from the lull in 2020 and is almost 90 percent of the way back to pre-COVID levels, and more than 40 leases larger than 50,000 square feet have been signed since March 2020," shares Kari Beets, Senior Research Manager at JLL. "Sublease space increased in Q3 2020, but has remained fairly stable since."

She says development is picking up as well, with several spec projects scheduled to break ground with little or no pre-leasing. Though vacancy for Dallas overall is 4.1 percent higher than in Q1 2020, vacancy in Class A product built after 2010 is only up 1.6 percent.

"The 'flight to quality' is a trend that has been ongoing for the past few years and continues to have a large impact on the Dallas office market," Beets says. "New Class AA space has seen significant activity and absorption, while older product stays stagnant."

Josh White, Executive Vice President with CBRE's Advisory and Transaction Services group in Dallas, adds that the companies that are confident in committing to an office lease are doing so because they believe that culture is the life force of their business and that a vibrant, amenity rich office solution is a key component to building and maintaining a strong culture.

"Our clients that believe they are better together in the office (which is most, by the way) know that they need to create an environment that gives their employees a reason to be in the office," he says. "There is definitely a good bit of head scratching around what the office will look like going forward from a workplace strategy perspective, but the majority of the companies that I interact with are well past any evaluation of a full work-from-home strategy."

She attributes the trend to the tight labor market. As companies seek to use real estate as a recruiting and retention tool, the quality of the space and its location are key.

"We keep hearing about 'The Great Resignation,' how workers are resigning from their jobs in search of a better work environment or more flexibility, or deciding not to work due to childcare issues or early retirement," Beets says. "If the labor force participation rate continues to stay low, this will continue to be challenging for employers to find people they need to grow and potentially re-shape the labor force."

This, she explains, will have implications on office demand, as companies may slow the growth of their real estate footprint in response. Beets says there are still a number of unanswered questions related to the trend: How long will it last? What will it take for employees to return to the workforce? How will employers accommodate increasing demands for the flexibility in work hours and location that employees experienced during the pandemic?

Another uncertainty is the new COVID variant Omicron and how could impact the market.

"Delta clearly caused a delay in the return to the office for those companies in the region that were not already back in the office," says White. "However, most companies that were already back decided to stay in the office and focus on increasing their safety protocols, and they seemed to weather the Delta storm very well."

He and Beets agree it's just too early to say what kind of significance Omicron will have.

"Some companies have been working from home for almost two years and are anxious to get back into the office and experience the collaboration that comes from being in the same space. Some may mandate vaccination or increase precautions rather than push re-entry back again," says Beets.

She suspects we'll see a response depending on what research says about the variant – if it's more transmissible than Delta or causes more serious complications.

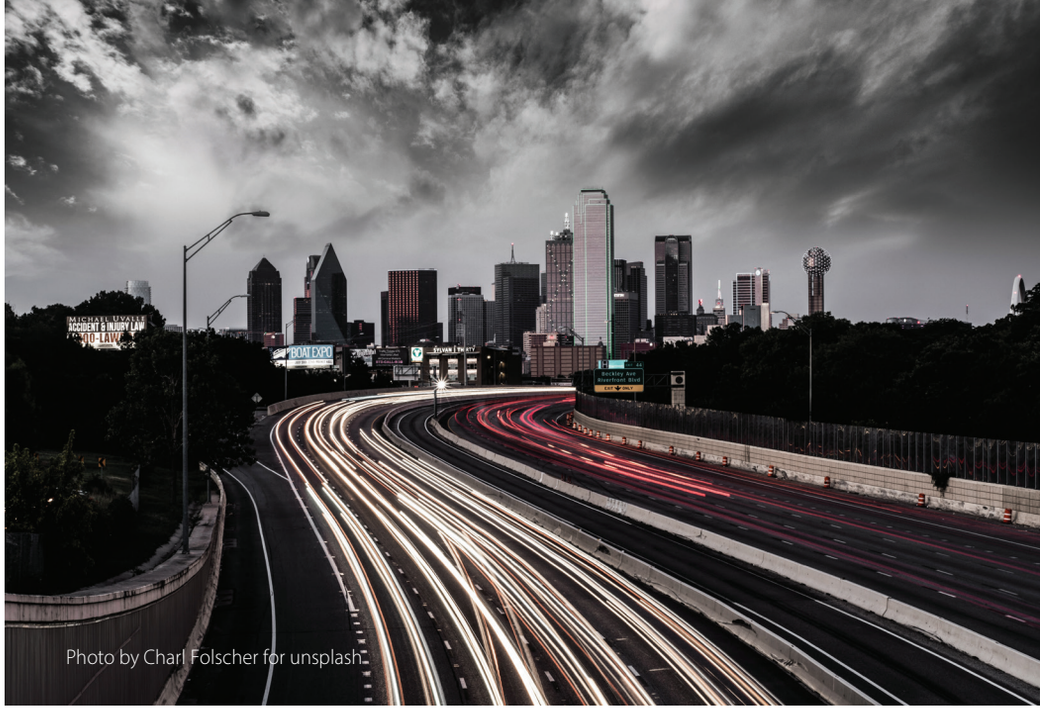
"If the latter, I think we will see timelines pushed back," Beets says. "National companies with more of a public presence and less risk tolerance have already pushed timelines back, but most smaller companies and companies with local

decision-makers are back in the office."

Of all Texas markets, Dallas may be the best positioned to weather the storm the pandemic generated. It's more mature and has a much larger inventory than Austin, for example. It's also more diverse in terms of industry, giving it stability in a downturn.

"Overall, the Dallas and Houston markets are tenant-favorable, whereas Austin is more competitive for tenants due to its rapid growth and smaller inventory," says Beets. "Like other Texas markets, there is high demand for Class AA space in urban areas, and all markets have seen speculative construction in these areas."

As the fourth-largest metropolitan area in the U.S., Beets adds that Dallas has a strong employment base and costs remain considerably lower than coastal markets, which continues to attract corporate headquarters relocations and new back-office hubs.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"We are keeping a close eye on the out-of-state relocation activity," says White. "Corporate relocations have played a role in our recovery to date, and we anticipate that trend will strengthen in 2022."

Vanguard, which announced a new hub in Plano, is one example of this trend, and several other finance firms are circling the market to either open new offices or expand in DFW.

"Continued attraction of out-of-market firms will contribute to new development and reduce vacancy in the Dallas office market," Beets predicts.

Adds White: "In my opinion, Dallas is far and away the strongest office market in the state of Texas, and it will only get stronger as more companies decide to capitalize on what the area has to offer for their employees."