

OFFICE MARKET



DFW's Economic Expansion Hits 10-Year Mark

Solid Fundamentals and Leading Economic Growth

OVERVIEW

Economy Shifts Into High Gear

The second quarter marks the ten-year anniversary of the current economic expansion and the North Texas economy is in high gear. Dallas-Fort Worth's (DFW) economy added 120,000 jobs, or 3.2%, over the 12-month period ending in June, the largest annual increase in four years. Contributing over 38% of the total statewide gains, the DFW region added more jobs than forty-seven states and ranked second only to the New York metro which added 3,800 more.

The professional and business services industry sector accounted for most of the growth adding 31,400 new jobs. Leisure and hospitality and the education and health services sectors rounded out the top three largest industries. The only sector that experienced contraction was the information sector.

The region's labor force grew 88,162 over the year ending in June to 3.9 million. Following a brief dip to 2.7% in May, the area's unemployment rate recorded 3.3% (not seasonally adjusted) in June, a drop of 50 basis points over the year. The regional labor market mirrors low unemployment rates experienced at the state and national levels with Texas' 3.4% and the national rate of 3.7%, seasonally adjusted.

DEMAND

33rd Consecutive Quarter of Positive Absorption

Net absorption ended the second quarter at nearly 1.0 MSF. As of mid-year, the region's net absorption is 59.3% higher than the same period last year. The submarkets recording the highest positive absorption included Westlake/Grapevine and Northeast Fort Worth, primarily driven by Charles Schwab and Lockheed Martin, respectively. Other large tenants occupying space this quarter included Nokia Siemens Networks in DFW Freeport and Mercedes-Benz Financial Services in Alliance.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

JOB GROWTH



ABSORPTION



VACANCY



UNDER CONSTRUCTION



RENTAL RATE



VACANCY

Vacancy Rates Stable Despite Deliveries

New construction deliveries outpaced total net absorption during the second quarter by more than double, but with a large percentage of those spaces being built-to-suit and pre-leased, the vacancy rate has barely budged.

Overall vacancy during the period was unchanged from the first quarter recording 16.8% and 30 basis points (bps) lower than the second quarter of 2018.

The overall office availability rate (all space currently marketed for lease, both direct and sublet) increased 20 bps over the quarter, ending at 20.5%. Class A properties recorded a decrease of 10 bps from the previous quarter of 22.4% to 22.3% at the end of the second quarter. The total availability rate for class B properties was up 60 bps from the previous quarter and only down 10bps from the same period the previous year.

SUPPLY AND DEVELOPMENT

American Leading Construction Activity

American Airlines' 1.7 MSF corporate headquarters in the Mid-Cities submarket, and Pioneer Natural Resources' 1.125 MSF in Las Colinas are the two largest projects currently under construction with both expected to be delivered in Q4 2019. Other notable office product expected to deliver in 2019 include The Realm at Castle Hills (252,277 SF) in Upper Tollway/Legacy, Hardwood No. 10 (231,098 SF) and Frisco Station - The Offices Two (210,579 SF).

RENTAL RATES

Asking Rates Up 24% in Past Five Years

Overall asking rates for the DFW metro area increased by 0.6% over the quarter and 1.7% over the year, ending mid-year at \$26.01 PSF. Class A rates closed the quarter up 1.5% year-over-year to \$29.24 PSF. Class B asking rates grew 3.0% year-over-year, recording \$21.68 PSF in the second quarter. Rental rate growth of all three property types is beginning to show signs of leveling off. The submarkets with the highest asking gross rents were Uptown/Turtle Creek (\$39.29 PSF), Preston Center (\$38.36), Frisco/The Colony (\$32.86 PSF), and Northeast Dallas (\$31.19 PSF).

OVERALL VACANCY

Dallas-Fort Worth Metro Area



Large Office Space Under Construction
Dallas-Fort Worth Metro | Q2 2019

SUBMARKET	# OF BUILDINGS	SF
Mid-Cities	2	1,780,000
Las Colinas/Office Center	3	1,419,135
DFW Freeport	5	903,000
Upper Tollway/Legacy	5	800,362
Westlake/Grapevine	6	718,258
Allen/McKinney	3	322,200
Uptown/Turtle Creek	2	321,098
Southwest Dallas	1	315,000
Northeast Dallas	1	300,000
Frisco/The Colony	3	280,579

AVERAGE OFFICE RENTS

Dallas-Fort Worth Metro Area



INVESTMENT SALES

Investment Sales Reach \$1.1B in Q2

Dallas-Fort Worth recorded office sales volume of approximately \$1.1 B across 51 transactions and 5.4 MSF in the second quarter of 2019. Pricing on a per-square-foot basis averaged approximately \$235/SF with a median price of \$206/SF. The average cap rate was 7.0% with a median rate of 7.1%. Notable transactions occurring during the first quarter include Burnett Plaza, The Tower, the Terraces at Solana, and 1900 Pearl.

1900 Pearl sold to the State Teachers Retirement System of Ohio in April for a record-breaking \$700 per square foot (\$180 M).

LEASING ACTIVITY

Leasing Activity Sluggish in Q2

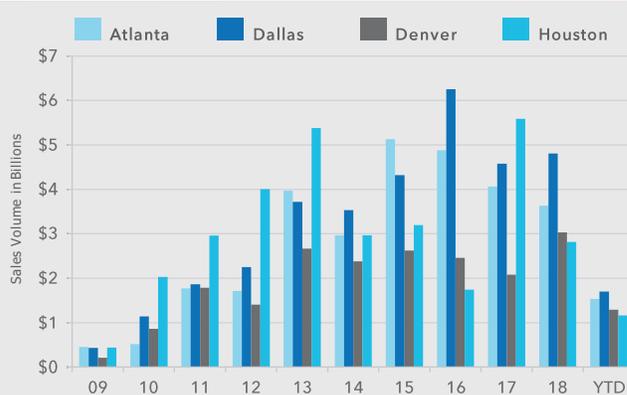
Leasing activity in the second quarter of 2019 recorded 4.5 MSF. Class A properties accounted for just over half of signings with 2.5 MSF, and Class B transactions accounted for 1.9 MSF of the total.

Submarkets with the most leasing activity in the second quarter included Lower Tollway (730,492 SF), Northeast Fort Worth (449,028 SF), Upper Tollway/Legacy (352,813 SF), and Uptown/Turtle Creek (335,039 SF).

Notable leases signed in the second quarter were Lockheed Martin, Tenet Healthcare, Blucora, and Aimbridge Hospitality.

Comparative Office Investment Sales Volume

Select Metro Areas



SOURCE: Real Capital Analytics, Transwestern

Average Office Sale Price

Dallas-Fort Worth Metro Area



SOURCE: Real Capital Analytics, Transwestern

Notable Q2 Lease Transactions

TENANT	SF	LEASETYPE	BUILDING	SUBMARKET
Lockheed Martin Corp.	431,580	New	5401 Beach St	East Northeast Fort Worth
Tenet Healthcare	372,930	New	International Plaza	Lower Tollway
Lockheed Martin Corp.	175,530	New	Arlington Center	Arlington/Mansfield
Blucora	150,000	New	The Sound at Cypress Waters	DFW Freeport/Coppell
Aimbridge Hospitality	75,000	New	HQ53	Upper Tollway/Legacy

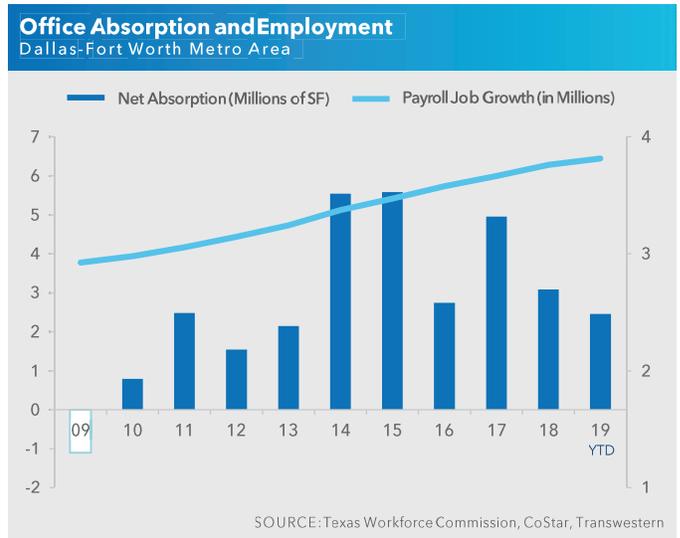
OUTLOOK

Few Signs of Threat to Economy

Dallas-Fort Worth’s economy remains one of the strongest in the nation. Population and employment growth has been positive, and unemployment remains at a 20-year low. Business-cycle indexes for Dallas and Fort Worth expanded even further mid-year. Economic growth has been sustained by numerous corporate relocations and expansions over the last decade. DFW’s economy remains attractive to skilled workers and companies alike and has kept Dallas near the top of the list in labor attraction.

Office demand has primarily been driven by a flight to quality space in class A properties. Overall demand was positive mid-year solely due to the 1.4 MSF in positive absorption for class A buildings as both class B and C buildings lost tenants. This follows the general trend of firms seeking newer and amenity-rich office space. The resulting effect is owners competing for tenants through renovation and upgrades to their buildings.

Nationally, inflation is under control and unemployment is near its lowest rate in decades. The Federal Reserve Bank has indicated in member statements it will end its trajectory of increasing the federal funds rate and possibly lower rates during its next meeting in July. The most likely outcome is a rate cut of 25 bps. With little room to cut rates, the Fed is expecting to get ahead of any potential threats to the current economic expansion, now in its 10th year.



WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS

We include owner occupied and single-tenant buildings in our inventory, vacancy and absorption statistics to capture more market activity than many of our competitors. This allows us to better correlate changes in the market with changes in employment. As single-tenant space does compete with multi-tenant space, we believe it is critical to understand all components of the market. The inclusion of single-tenant and owner-occupied space tends to yield lower vacancy rates and higher absorption totals than some of our competitors’ results, but our coverage of the market is more comprehensive.

Q2 2019 DALLAS - FORT WORTH OFFICE MARKET

Dallas Office Market Indicators - AllSpace

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
Dallas CBD	32,588,367	6,892,448	7,426,013	21.2%	22.8%	60,230	140,981	(65,454)	422,787	\$25.16
Uptown/Turtle Creek	13,598,772	1,795,387	2,062,138	13.2%	15.2%	321,098	335,039	123,471	452,616	\$39.29
Northeast Dallas	2,260,255	386,279	386,279	17.1%	17.1%	300,000	11,665	96,147	52,870	\$32.19
Central Expressway	12,250,494	1,401,346	1,434,525	11.4%	11.7%	-	208,723	(31,736)	33,946	\$29.90
Preston Center	5,375,242	445,506	483,096	8.3%	9.0%	118,000	137,819	(3,187)	110,937	\$38.36
Stemmons Freeway	12,652,107	2,917,747	2,917,747	23.1%	23.1%	-	80,818	16,437	141,904	\$17.40
South Irving	1,454,005	228,860	237,044	15.7%	16.3%	-	39,214	(13,468)	(29,088)	\$16.03
Las Colinas/Urban Center	9,536,389	1,505,410	1,689,970	15.8%	17.7%	-	145,976	(1,145)	(171,590)	\$29.77
Las Colinas/Office Center	15,496,039	2,776,896	2,903,923	17.9%	18.7%	1,419,135	119,603	(230,672)	(231,500)	\$25.08
DFW Freeport	14,518,101	1,633,567	1,811,275	11.3%	12.5%	903,000	301,385	125,243	805,622	\$23.45
West LBJ Freeway	4,332,847	1,032,394	1,088,378	23.8%	25.1%	-	54,156	(99,325)	(244,063)	\$18.79
Denton/Lewisville	6,352,753	680,889	691,134	10.7%	10.9%	184,000	51,243	(11,227)	52,008	\$22.57
Frisco/The Colony	5,540,618	754,884	767,898	13.6%	13.9%	280,579	114,272	(54,852)	265,171	\$32.86
Allen/McKinney	5,441,061	455,988	567,874	8.4%	10.4%	322,200	34,561	127,234	134,867	\$25.25
Upper Tollway/Legacy	29,843,503	3,838,494	4,550,863	12.9%	15.2%	800,362	352,813	(63,027)	192,105	\$31.79
Plano	6,777,387	1,578,446	1,602,022	23.3%	23.6%	-	135,035	20,822	54,145	\$26.07
Richardson	20,524,814	3,281,250	3,379,900	16.0%	16.5%	-	148,270	36,820	(82,453)	\$23.16
Lower Tollway	22,062,316	4,471,734	4,734,151	20.3%	21.5%	-	730,492	(211,912)	263,847	\$25.99
East LBJ Freeway	16,382,357	3,448,817	3,640,168	21.1%	22.2%	-	304,843	31,492	(123,595)	\$23.48
Garland	1,136,154	89,514	89,514	7.9%	7.9%	-	7,256	5,175	26,875	\$15.28
Southeast Dallas	603,793	27,034	29,464	4.5%	4.9%	-	640	7,840	13,637	\$17.66
Mesquite/Rockwall	1,023,935	49,625	49,625	4.8%	4.8%	25,000	3,846	1,769	67,265	\$20.51
Southwest Dallas	2,339,206	185,002	187,583	7.9%	8.0%	315,000	58,983	11,107	34,322	\$21.00
Grand Prairie	3,632,055	209,415	209,415	5.8%	5.8%	-	11,068	7,539	(21,016)	\$19.66
TOTAL - DALLAS	245,722,570	40,086,932	42,939,999	16.3%	17.5%	5,048,604	3,528,701	(174,909)	2,221,619	\$26.26

SOURCE: CoStar, Transwestern
 NOTE: Includes buildings 20,000 SF RBA and greater, excluding government-owned and medical properties.

Fort Worth Office Market Indicators - All Space

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
Fort Worth CBD	9,675,062	1,363,355	1,406,715	14.1%	14.5%	-	77,928	88,287	(149,821)	\$27.96
Northwest Fort Worth	545,864	22,743	22,743	4.2%	4.2%	-	0	(1,243)	(12,192)	\$19.15
Alliance	3,201,803	478,691	478,691	15.0%	15.0%	-	198,297	(25,251)	65,690	\$22.97
Westlake/Grapevine	7,367,566	1,229,918	1,266,486	16.7%	17.2%	718,258	125,291	570,319	736,179	\$27.66
Mid-Cities	4,013,407	548,737	577,778	13.7%	14.4%	1,780,000	40,929	19,282	211,823	\$18.40
Northeast Fort Worth	3,682,831	575,951	575,951	15.6%	15.6%	-	449,028	486,672	879,297	\$22.64
Arlington	7,479,783	659,878	676,365	8.8%	9.0%	25,000	31,979	11,864	41,141	\$20.43
Southeast Fort Worth	1,089,933	106,292	106,292	9.8%	9.8%	-	48,937	10,169	-17,270	\$16.53
Southwest Fort Worth	7,399,876	615,472	695,664	8.3%	9.4%	41,353	69,281	-1,153	24,480	\$24.59
TOTAL - FORT WORTH	44,456,125	5,601,037	5,806,685	12.6%	13.1%	2,564,611	1,041,670	1,158,946	1,779,327	\$24.21

Dallas-Fort Worth Office Market Indicators - All Space

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
TOTAL DFW	290,178,695	45,687,969	48,746,684	15.7%	16.8%	7,613,215	4,570,371	984,037	4,000,946	\$26.01

SOURCE: CoStar, Transwestern
 NOTE: Includes buildings 20,000 SF RBA and greater, excluding government-owned and medical properties.

Q2 2019 DALLAS - FORT WORTH OFFICE MARKET

Dallas Office Market Indicators - Class A

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
Dallas CBD	23,785,846	5,555,189	6,028,599	23.4%	25.3%	60,230	102,482	(7,574)	574,203	\$26.01
Uptown/Turtle Creek	10,725,084	1,511,752	1,648,612	14.1%	15.4%	321,098	290,969	74,450	391,441	\$41.63
Northeast Dallas	294,820	182,943	182,943	62.1%	62.1%	300,000	-	105,802	111,877	\$44.56
Central Expressway	7,151,540	892,213	910,136	12.5%	12.7%	-	72,329	6,024	130,491	\$31.75
Preston Center	4,172,751	339,480	373,591	8.1%	9.0%	118,000	129,117	(14,919)	77,856	\$39.85
Stemmons Freeway	4,913,848	809,015	809,015	16.5%	16.5%	-	34,838	53,453	73,839	\$19.13
South Irving	-	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Center	7,440,586	1,133,238	1,300,086	15.2%	17.5%	-	139,958	24,703	(80,414)	\$31.34
Las Colinas/Office Center	7,569,887	1,233,148	1,287,144	16.3%	17.0%	1,419,135	47,695	(308,885)	(246,945)	\$26.49
DFW Freeport	5,660,586	531,364	638,799	9.4%	11.3%	800,000	181,485	413,724	691,906	\$25.01
West LBJ Freeway	1,695,079	431,074	484,123	25.4%	28.6%	-	7,238	(11,205)	(128,119)	\$20.70
Denton/Lewisville	189,124	-	-	-	-	120,000	-	-	40,624	\$30.86
Frisco/The Colony	3,969,325	535,528	548,542	13.5%	13.8%	245,579	111,237	97,578	398,192	\$33.74
Allen/McKinney	1,490,928	129,163	202,271	8.7%	13.6%	300,000	12,120	219,997	263,937	\$32.12
Upper Tollway/Legacy	22,553,802	2,928,908	3,509,236	13.0%	15.6%	753,062	246,324	(73,165)	64,661	\$34.29
Plano	2,261,934	1,239,419	1,254,240	54.8%	55.4%	-	50,049	37,325	63,147	\$29.13
Richardson	10,733,650	1,817,481	1,848,248	16.9%	17.2%	-	23,760	4,477	7,524	\$25.76
Lower Tollway	11,433,544	2,299,700	2,474,908	20.1%	21.6%	-	543,076	33,652	199,192	\$29.77
East LBJ Freeway	8,819,492	1,705,464	1,858,582	19.3%	21.1%	-	153,594	62,707	(37,542)	\$26.92
Garland	-	-	-	-	-	-	-	-	-	\$0.00
Southeast Dallas	-	-	-	-	-	-	-	-	-	-
Mesquite/Rockwall	-	-	-	-	-	25,000	-	-	-	\$38.39
Southwest Dallas	280,592	23,330	23,330	8.3%	8.3%	-	-	-	7,711	\$20.84
Grand Prairie	1,465,880	-	-	-	-	-	-	-	-	-
TOTAL - DALLAS	136,608,298	23,298,409	25,382,405	17.1%	18.6%	4,462,104	2,146,271	718,144	2,603,581	\$29.50

SOURCE: CoStar, Transwestern
 NOTE: Includes buildings 20,000 SF FBA and greater, excluding government-owned and medical properties.

Fort Worth Office Market Indicators - Class A

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
Fort Worth CBD	5,768,387	966,320	982,723	16.8%	17.0%	-	67,859	41,227	(39,396)	\$30.36
Northwest Fort Worth	150,000	5,120	5,120	3.4%	3.4%	-	-	(1,243)	(1,657)	\$18.57
Alliance	1,275,246	460,314	460,314	36.1%	36.1%	-	196,441	(23,551)	(82,306)	\$23.36
Westlake/Grapevine	4,954,059	1,003,607	1,030,551	20.3%	20.8%	616,999	105,583	579,772	697,983	\$28.02
Mid-Cities	354,720	106,633	106,633	30.1%	30.1%	1,780,000	10,221	(8,806)	23,178	\$19.02
Northeast Fort Worth	415,921	236,558	236,558	56.9%	56.9%	-	1,432	51564	70,577	\$21.40
Arlington	2,011,771	213,653	226,372	10.6%	11.3%	25,000	13,419	3,951	26,370	\$21.98
Southeast Fort Worth	541,630	-	-	-	-	-	-	-	-	-
Southwest Fort Worth	2,462,510	93,442	142,053	3.8%	5.8%	-	9,469	5,482	40,399	\$26.96
TOTAL - FORT WORTH	17,934,244	3,085,647	3,190,324	17.2%	17.8%	2,421,999	404,424	648,396	735,148	\$26.87

Dallas-Fort Worth Office Market Indicators - Class A

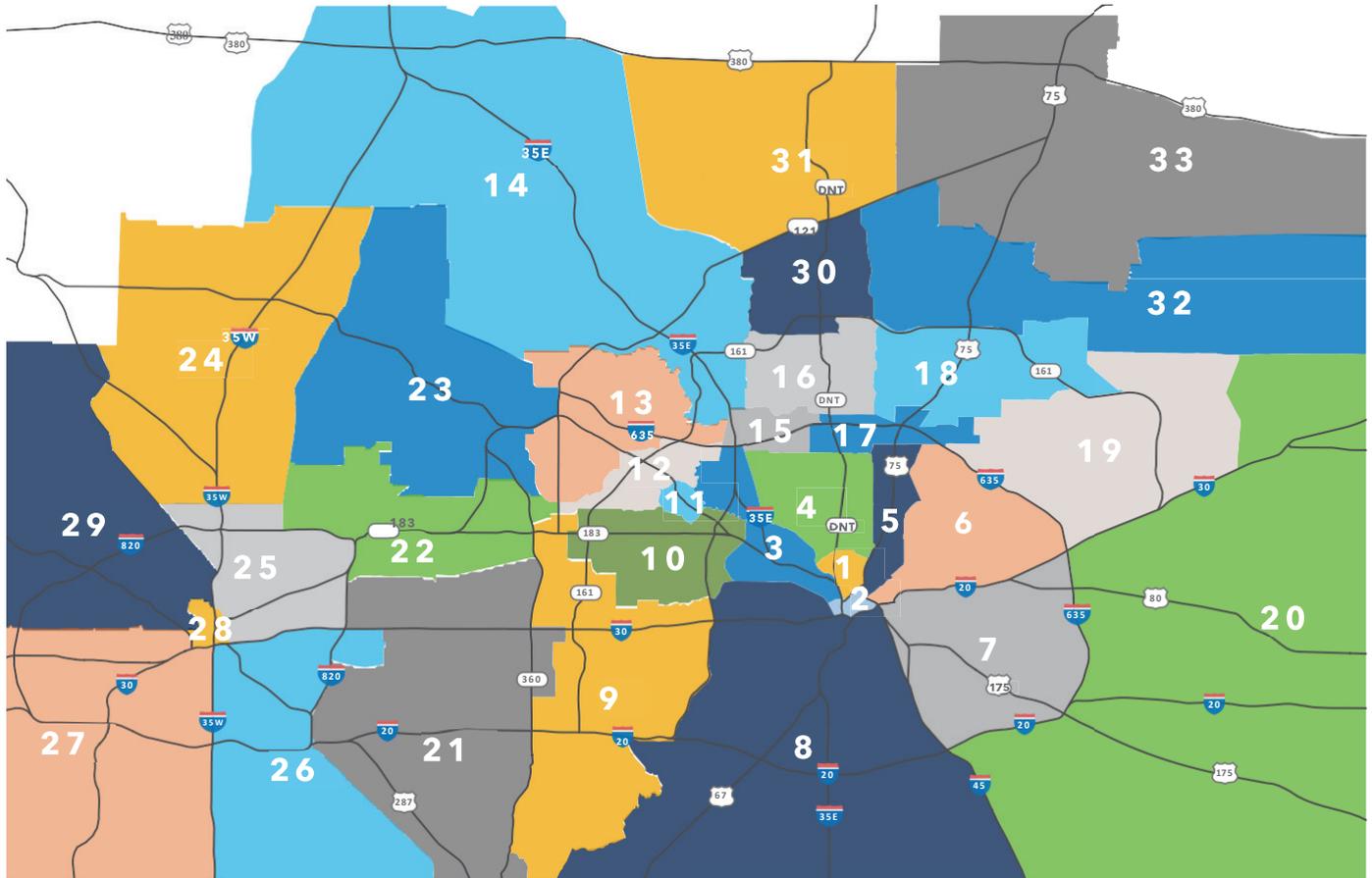
Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
TOTAL DFW	154,542,542	26,384,056	28,572,729	17.1%	18.5%	6,884,103	2,550,695	1,366,540	3,338,729	\$29.24

Dallas-Fort Worth Office Market Indicators

	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rate
ALL SPACE	290,178,695	45,687,969	48,746,684	15.7%	16.8%	7,613,215	4,570,371	984,037	4,000,946	\$26.01
CLASS A	154,542,542	26,384,056	28,572,729	17.1%	18.5%	6,884,103	2,550,695	1,366,540	3,338,729	\$29.24
CLASS B	121,993,469	18,489,071	19,357,953	15.2%	15.9%	729,112	1,887,597	(349,086)	693,263	\$21.68

SOURCE: CoStar, Transwestern
 NOTE: Includes buildings 20,000 SF FBA and greater, excluding government-owned and medical properties.

Dallas-Fort Worth Office Submarkets



Submarkets

- | | | | | |
|------------------------|----------------------------|-----------------------|--------------------------|--------------------------|
| 1. Uptown/Turtle Creek | 8. Southwest Dallas | 15. West LBJ Freeway | 22. Mid-Cities | 29. Northwest Fort Worth |
| 2. Dallas CBD | 9. Grand Prairie | 16. Lower Tollway | 23. Westlake/Grapevine | 30. Upper Tollway/Legacy |
| 3. Stemmons Freeway | 10. South Irving | 17. East LBJ Freeway | 24. Alliance | 31. Frisco/The Colony |
| 4. Preston Center | 11. Las Colinas/Urban Ctr | 18. Richardson | 25. Northeast Fort Worth | 32. Plano |
| 5. Central Expressway | 12. Las Colinas/Office Ctr | 19. Garland | 26. Southeast Fort Worth | 33. Allen/McKinney |
| 6. Northeast Dallas | 13. DFW/Freeport | 20. Mesquite/Rockwall | 27. Southwest Fort Worth | |
| 7. Southeast Dallas | 14. Denton/Lewisville | 21. Arlington | 28. Fort Worth CBD | |

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned by a government agency and medical buildings.

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