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A Capital Guidance Company

MARKET AT A GLANCE

DALLAS/FT.WORTH OFFICE MARKET REPORT

FIRST QUARTER 2020

Q1 2020 DALLAS/FT. WORTH OFFICE MARKET
MARKET AT A GLANCE

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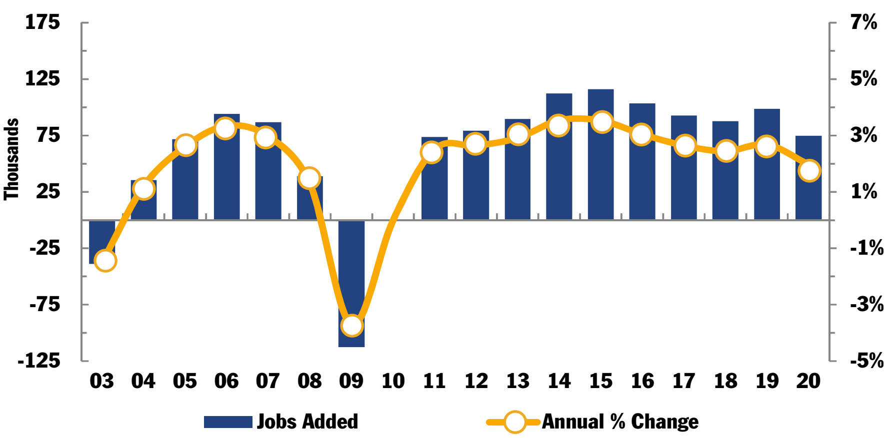
ECONOMIC OVERVIEW

The Dallas-Fort Worth economy started 2020 strong and on track for a year of continued economic growth after leading the nation in job growth with 115,200 new jobs added in 2019. At the beginning of the year, Moody's Analytics was forecasting job gains in line with historical averages at 72,200 new jobs. Since their forecast was made, the global economy has experienced two shocks that will pull us away from those baseline projections (1) the onset and spread of COVID-19, and (2) a nearly 70% drop in oil prices since the beginning of the year from $61.14 to $19.27 at the intraday low reached Monday March 30th. When adjusted for inflation, this price is below lows reached during the oil crash of the 1980s.

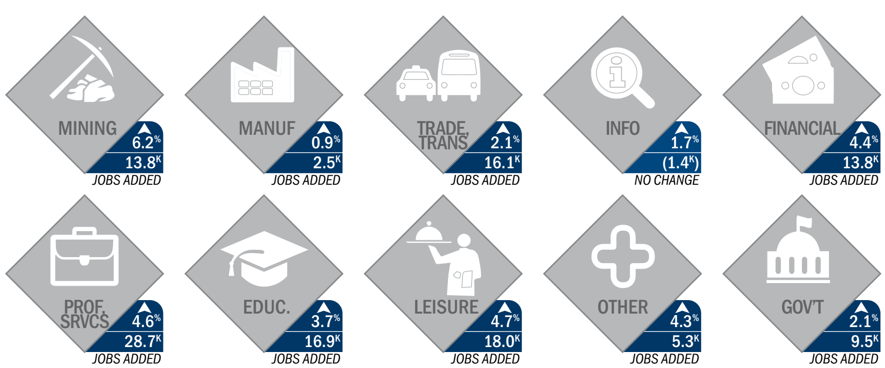
As this quarter closes, there is still great uncertainty about the ultimate scope and severity of the human and economic toll that the coronavirus pandemic will inflict. Difficult policy choices like stay-at-home orders and travel restrictions are beginning to curb the rate of infection in the jurisdictions that have implemented them. Unfortunately, social distancing measures leave many retail-oriented contact-intensive service jobs like food service workers, hairstylists, and salespersons at the highest-risk of disruption. Headlines of record unemployment claims are certainly jarring to see, but the best medicine for our national economy is to prioritize the health of our population.

With respect to office occupiers, all companies will likely experience stress in the coming months but small and midsize companies, who more often rent in Class B and C properties, may feel the impact more acutely. These firms often do not have substantial cash reserves or enjoy the same access to credit markets as larger companies. Landlords are already fielding numerous requests from existing tenants for rent forbearance and other concessions as companies try to keep afloat into the second quarter. The coworking market, with short-term leases and open environments not conducive to social distancing, is likely to face significant challenges in the short run. We will have to wait and see if this initial shock ultimately pushes tenants to seek more agile workspace in the future. The ability to work productively from a traditional office environment and shed excess capacity may become crucial to weathering the current crisis.

EMPLOYMENT TRENDS



EMPLOYMENT GROWTH BY SECTOR



Source: U.S. Bureau of Labor Statistics; Employment Data as of February 2020
All Employees, in Thousands

Note: The latest labor market data released by federal and state workforce agencies represent estimates through February. As such, no coronavirus pandemic impacts are reflected in this data.

DALLAS/FT. WORTH
OFFICE MARKET

MARKET AT A GLANCE

Q1 2020

OFFICE MARKET ASSESSMENT

The DFW office market wrapped up the first quarter of the new decade with modest absorption gains totaling 59,470 SF of direct space, bringing its trailing 12 month total to 3.6M SF. The Class A sector, which recorded a vigorous 4.6M SF of occupancy gains in 2019, saw only 132K SF of direct space gains in 1Q20. Despite the modest quarterly gains, vacancy rates in DFW ticked upwards by 20 basis points to 18.6%, as speculative construction deliveries outpaced occupancy gains. The largest quarterly gains took place in both newly delivered and existing office product, with recent move-ins by Tenet Healthcare (372K SF at International Plaza I), Uber (165K SF at The Epic), and Ribbon Communications (108K SF at Legacy Central I).

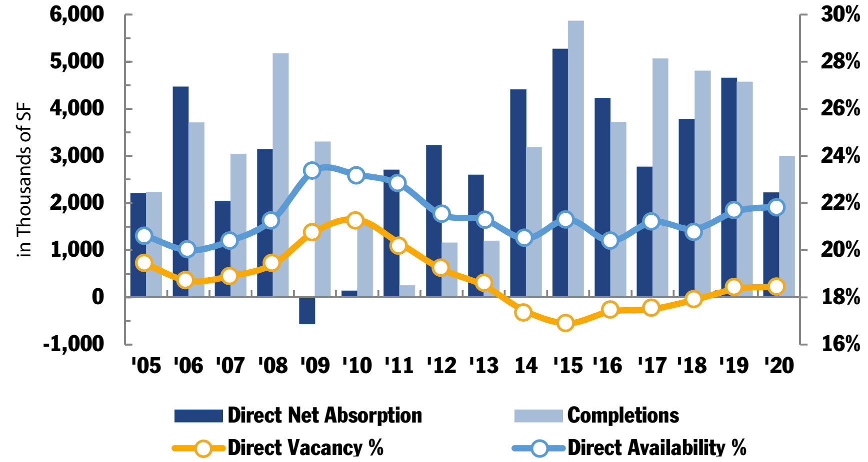
2020 kicked off at a swift pace, but the rapidly evolving COVID-19 pandemic and the actions taken to slow its spread has humbled business activity to an unprecedented halt. Leasing activity took a noticeable dip in March, causing quarterly leasing volume to decline 24.4% below its year ago level. The largest leases signed during the quarter belong to an electricity services company (206K SF at 777 Main), Trinity Industries (155K SF at International Plaza II), and USAA (124K SF at 5543 Legacy).

The COVID-19 pandemic will likely have less of an impact on the office market compared to other property types, as office-using industry sectors face an easier path to return to productivity than the more-vulnerable industry sectors. However, co-working providers will likely face a tougher path to normalcy than traditional office space, as shared spaces and social distancing generally are conflicting concepts. It is expected that many tenants in the market, especially those in the oil & gas industry being double-hit by an oil price war, will re-evaluate their workplace strategies and space needs over the long term. Also, developers may take a “wait and see” approach in order to reassess the strength of the market before breaking ground on new construction.

FORECAST

- Companies that were previously considering relocating or expanding office space will likely adopt a “wait-and-see” strategy in real estate decisions during this heightened period of uncertainty, driving slower office leasing activity during the next 3 to 6 months.
- Workplace trends of the last 10 years are being examined, as community spaces and small, closely spaced workstation layouts may be re-evaluated.
- An increase in remote working will likely reduce office utilization rates, leaving property owners with exposure to short-term leases as the most vulnerable.
- Construction projects that have yet to kick off are likely to be sidelined in the near term as demand cools and a shortage in labor and materials is anticipated.

OFFICE MARKET TRENDS



ECONOMIC INDICATORS

126K

3.2% Y-O-Y

JOB GROWTH
T-12 MOS
THRU FEB 2020

4.09K

OFFICE JOB GROWTH

35.0%
OF TOTAL GROWTH

MARKET TREND INDICATORS

	Current Quarter	Change from Quarter	Previous Year	12-month Forecast
Direct Vacancy	18.6%	▲	▲	▲
Direct Net Absorption (T-12 mos)	3.5M SF	▼	▲	▼
Under Construction	5.8M SF	▲	▲	▼
Direct Asking Rents	$27.21	▲	▲	►

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Q1 2020

DALLAS/FT. WORTH
OFFICE MARKET
MARKET AT A GLANCE

"Organic job growth and corporate relocations have fueled an expansion market for more than nine years, but the COVID-19 pandemic will likely cause a slowdown in activity during the near term. At the end of the day, DFW will still be the number one relocation destination once society normalizes."

KURT CHERRY
Executive Vice President, Dallas Regional Office
Central Division

ABSORPTION/VACANCY TRENDS

CLASS A DIRECT NET ABSORPTION

132 K SF
YTD

CLASS B DIRECT NET ABSORPTION

2500 SF
YTD

DIRECT VACANCY

CLASS A	CLASS B
19.0%	18.6%

DIRECT AVAILABLE

CLASS A	CLASS B
29.1M	21.2M
20.3%	20.7%

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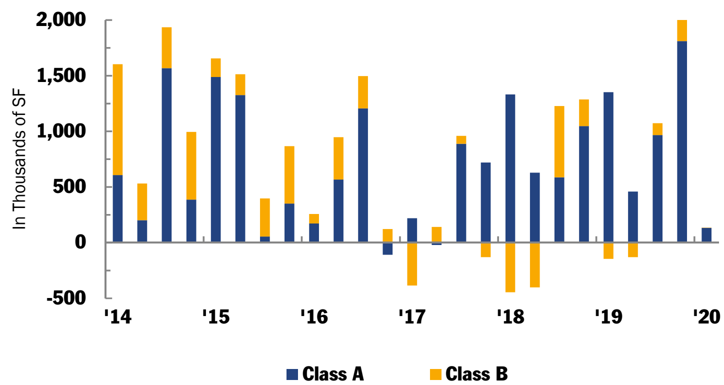
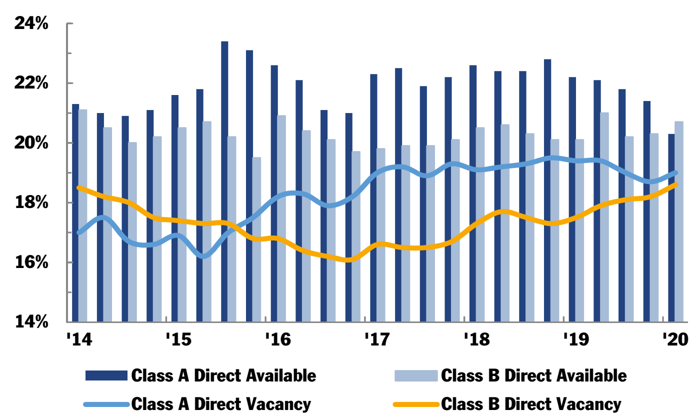
NET ABSORPTION & VACANCY

- After a 4.6M SF showing in 2019, the Class A property sector recorded a modest 132K SF of direct net absorption during the quarter, but has witnessed 11 consecutive quarters of net absorption growth.
- The largest quarterly gains in the Class A sector took place as Tenet Healthcare moved into their 373K SF space at International Plaza I and Uber Technologies' 165K SF lease commenced at The Epic. Ribbon Communications also contributed 108K SF to the absorption total as they moved into space at Legacy Central I.
- The most sizeable Class A move-outs during the quarter occurred as Pioneer vacated 363K SF in Williams Square, AIG moved out of 127K SF at Plaza of the Americas, and American Airlines left behind 124K SF at Royal Ridge III.
- Class A direct vacancy rates climbed by 30 basis points to 19.0% during the quarter, but they have fallen by 50 basis points from their cyclical high at the end of 2018.
- Class A direct availability rates declined by 110 basis points during the quarter and have fallen by 190 basis points year-over-year to 20.3%. Class A leasing velocity was off to a swift start in 2020 before being halted by the global COVID-19 social distancing requirements.
- Despite remaining in positive territory, Class B product witnessed a 40 basis point increase in direct vacancy rates during the quarter and moved up 110 basis points year-over-year to 18.6%, as the flight-to-quality trend continues to dictate market fundamentals.
- Move-ins by the U.S. Dept. of HUD (78K SF at the Star-Telegram Building), MedPace (47K SF at Cottonwood Office Center), and Globe Life Insurance (40K SF at Tollway Office Center II) helped the Class B sector complete the quarter in positive absorption territory.

DIRECT NET ABSORPTION



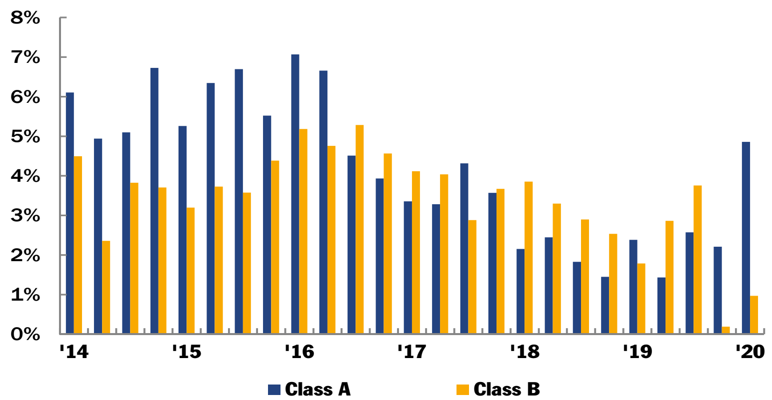
DIRECT VACANCY AND AVAILABILITY



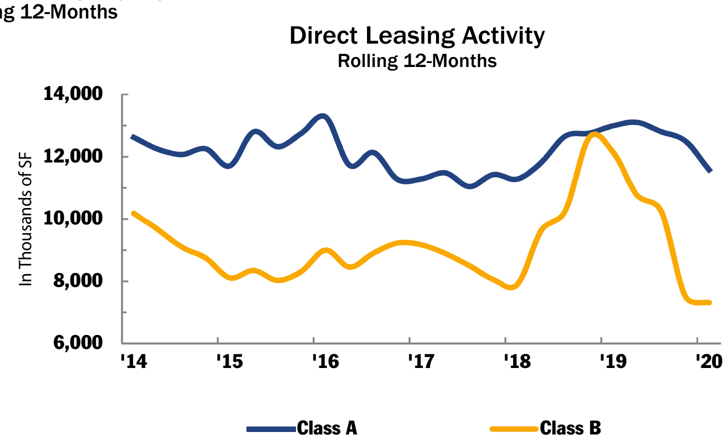
RENTAL RATES & LEASING ACTIVITY

- Average Class A full service gross asking rental rates experienced a quarterly increase of $1.00 to $31.09 per SF to reach a historic high point in 1Q20, and have climbed by 4.9% year-over-year. Just as Class A annual rent growth seemed to be tapering to the 2% range, a slew of speculative construction deliveries caused average rental rates to spike.
- Class B gross asking rents, which have also been consistently near record levels, appreciated by $0.40 during the quarter to $21.88 per SF and have climbed by 1.0% year-over-year.
- Annual asking rent growth occurred in a majority of DFW submarkets. However, some suburban submarkets saw an annual reduction in asking rents, as the higher quality space options were claimed by tenants seeking more-efficient facilities.
- Property owners with well-positioned assets in high-demand core submarkets have been able to retain negotiating power. Class A buildings in Uptown/Turtle Creek, Preston Center, Upper Tollway/West Plano, and Frisco/The Colony have been able to command some of the strongest rental rates in the market.
- The trailing-12 month volume of Class A leasing activity declined to approximately 11.6M SF during the quarter, in line with its 10-year average. Meanwhile, Class B annual leasing velocity of 7.3M SF trails its 10-year average by 20.2%.
- Since the end of 2014, the average premium on Class A asking rents over Class B rents have increased by 32.3% to $9.21 per SF, as developers have remained confident in the leasing prospects in new office developments.
- Since tenants want modern and efficient space in amenitized settings, the flight-to-quality trend will pressure building owners with inefficient product to offer concessions or invest capital into their assets, if they want to be competitive for existing space requirements.

RENTAL RATES
Y-O-Y % change, FS GRS



TOTAL LEASING ACTIVITY
Rolling 12-Months



"Although DFW has historically been a boom-or-bust market, the healthy fundamentals indicate we still have some runway left in this cycle. Historically, speculative development has been the proverbial emergency brake on growth, but recent spec buildings constructed in the premier submarkets have leased up quickly as tenants are willing to pay more for the best space configurations and amenity-rich locations."

KURT CHERRY
Executive Vice President, Dallas Regional Office
Central Division

RENTS/LEASING ACTIVITY

RENT GROWTH (Y-O-Y)

3.9%

SUBLEASE AVAILABILITY

5.9M SF
12.3% SINCE PEAK IN 4Q18

DIRECT LEASING ACTIVITY

19.3 M SF
T-12 MOS
0.6% ABOVE 10-YR. AVG.

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CONSTRUCTION

5.9 MSF
OFFICE SPACE UNDER CONSTRUCTION & RENOVATION
25.7% PRE-LEASED

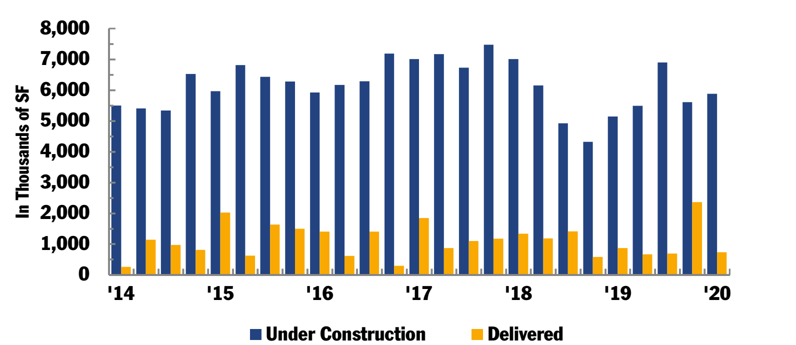
4.6 MSF
NEW OFFICE BREAKING GROUND
T-12 MOS

3.5 MSF
FORECASTED SUPPLY IN
2020

CONSTRUCTION

- Class A office properties that have delivered to the competitive market since 2010 are currently resting at a stable 88.1% occupancy rate, compared to 79.2% occupancy in Class A buildings completed prior to 2010.
- Newly delivered speculative Class A office product in desired submarkets tends to command more leasing activity than second-generation product, which has given developers the confidence in breaking ground on new product.
- The DFW office development pipeline has expanded by 14.4% to 5.9M SF (excluding owner-occupied projects) over its prior year level, but only 25.7% of this space has secured pre-lease commitments.
- The largest concentration of office construction activity is found in Upper Tollway/ West Plano (1.2M SF), Uptown/Turtle Creek (1.2M SF), Frisco/The Colony (1.1M SF), and Las Colinas (1.0M SF) which account for a combined 4.5M SF or 77% of DFW's competitive office development pipeline.
- Developers completed development on 732K SF of competitive office space during the quarter, highlighted by Billingsley's 250K SF Class A building in Cypress Waters and Heady Investments' 220K SF 100% speculative Class A Headquarters II in Upper Tollway/West Plano.
- The largest competitive office project to break ground during the quarter was Harwood International's No. XII, which will feature an amenity-rich 40-story Class A office tower. The 542K SF building will be the tallest office tower in the Harwood District and is scheduled for a late-2022 delivery.
- In addition to the 5.9M SF of competitive office development, there remains an additional 2.0M SF of corporate-owned office product underway, with scheduled deliveries scattered over the next two years. The most notable of these projects include the Charles Schwab Corporate Campus Phase 2 (617K SF) in Mid Cities and Chase Tower (540K SF) in Upper Tollway/West Plano.

CONSTRUCTION PIPELINE



SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% PRE-LEASED	DEVELOPER	TARGET DELIVERY
Harwood XII	541,640	Uptown / Turtle Creek	N/A	0%	Harwood International	2022 3Q
Chase Tower at Legacy *	540,000	Upper Tollway/ W Plano	JP Morgan Chase	100%	KDC	2021 3Q
Victory Commons	364,733	Uptown / Turtle Creek	N/A	0%	Hillwood Urban	2021 3Q
Charles Schwab 1 *	352,571	Mid Cities	Charles Schwab	100%	Hillwood Properties	2021 1Q
Keurig Dr Pepper †	350,000	Frisco/The Colony	Keurig Dr Pepper	100%	Blue Star Land	2021 2Q
Baylor Scott & White *	300,000	East/South Dallas	Baylor Health	100%	KDC	2020 3Q
The Star - Phase IV	300,000	Frisco/The Colony	N/A	0%	Blue Star Land	2022 1Q
Weir's Plaza	297,000	Preston Center	Weir's Furniture	61%	Four Rivers Capital	2021 4Q
The Link	292,041	Uptown / Turtle Creek	N/A	4%	Kaizen Development	2021 4Q
Charles Schwab 2 *	264,428	Mid Cities	Charles Schwab	100%	Hillwood Properties	2021 1Q
5301 Headquarters Dr	248,662	Upper Tollway/ W Plano	Aimbridge Hospitality	64%	Cawley Management	2021 1Q

** Corporate-owned † Build-to-suit Note: Corporate-owned office buildings excluded from competitive statistics*

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		TOTAL SPACE AVAILABLE		DIRECT AVAILABLE / VACANT		DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
Submarkets	Total Inventory SF	Direct	Sublease	Direct Availability	Direct Vacancy	Current Quarter	Trailing 12 Months	Completions Current Qtr.	Under Construction	Class A	Class B
Dallas CBD	27,571,390	7,749,161	1,046,655	28.1%	25.0%	(240,665)	(187,149)	-	549,907	$28.61	$19.88
Uptown / Turtle Creek	12,945,556	2,265,937	363,455	17.5%	15.1%	(122,199)	290,899	200,000	1,198,414	$43.23	$33.21
Preston Center	4,672,656	562,348	83,394	12.0%	10.6%	105,499	128,713	-	297,000	$40.55	$31.14
Central Expy	11,240,499	1,955,222	351,361	17.4%	13.6%	(77,750)	(172,084)	-	0	$33.28	$27.69
Quorum / Bent Tree	20,435,484	4,568,517	730,587	22.4%	19.5%	420,772	68,144	-	48,000	$32.00	Class B
Upper Tollway / West Plano	23,446,573	3,658,344	869,423	15.6%	17.5%	151,515	384,717	220,000	696,921	$37.02	$27.40
West LBJ	4,296,040	1,079,314	45,692	25.1%	18.4%	42,557	90,813	-	0	$20.27	$16.82
East LBJ	16,397,374	3,965,527	285,494	24.2%	21.0%	233,735	299,062	-	0	$28.47	$19.98
Las Colinas	34,699,980	7,046,345	487,662	20.3%	16.9%	(732,172)	1,328,879	250,000	843,753	$30.30	$22.19
Stemmons	11,004,665	3,254,356	60,843	29.6%	26.2%	(9,939)	(98,254)	-	0	$20.24	$16.61
Richardson	17,874,883	3,413,489	378,085	19.1%	18.0%	(2,468)	327,846	-	0	$26.54	$20.80
Allen / McKinney	3,821,437	709,496	34,391	18.6%	16.3%	(44,454)	47,056	-	200,000	$31.03	$25.30
Plano	5,648,819	1,787,833	89,971	31.6%	35.3%	93,031	79,770	-	0	$29.15	$21.65
Frisco / The Colony	6,239,926	915,429	221,586	14.7%	18.0%	(12,502)	(54,123)	35,000	1,044,429	$36.52	$29.72
East / South Dallas	8,051,037	1,601,005	24,033	19.9%	19.1%	165,802	199,937	-	213,311	$41.42	$22.65
Arlington / Mansfield	6,424,809	870,653	85,151	13.6%	11.3%	(60,568)	(68,493)	-	90,000	$22.12	$20.79
Mid Cities	10,442,797	2,379,736	274,491	22.8%	22.3%	44,338	157,129	-	303,909	$30.84	$20.35
Ft. Worth CBD	9,068,543	1,278,330	145,894	14.1%	15.0%	148,700	336,418	-	0	$31.55	$20.89
North / Northeast Ft Worth	4,260,853	581,647	7,732	13.7%	13.6%	(20,969)	495,421	-	126,582	$24.49	$23.78
Lewisville / Denton	5,696,486	821,033	14,295	14.4%	11.9%	(1,145)	(43,929)	-	244,000	$26.60	$24.25
South Ft Worth	8,501,302	962,000	326,493	11.3%	10.1%	(21,648)	(57,614)	27,312	22,000	$27.91	$23.80
Totals	**252,741,109**	**51,425,722**	**5,926,688**	**20.3%**	**18.6%**	**59,470**	**3,553,158**	**732,312**	**5,878,226**	**$31.09**	**$21.88**

		TOTAL SPACE AVAILABLE		DIRECT AVAILABLE / VACANT		DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
Property Types	Total Inventory SF	Direct	Sublease	Direct Availability	Direct Vacancy	Current Quarter	Trailing 12 Months	Completions Current Qtr.	Under Construction	Asking Rent	Y-O-Y Change
Class A	143,203,245	29,137,455	4,571,993	20.3%	19.0%	132,285	3,367,037	732,312	5,300,902	$31.09	4.9%
Class B	102,081,507	21,177,914	1,346,856	20.7%	18.6%	2,448	240,519	-	577,324	$21.88	1.0%
Class C	7,456,357	1,110,353	7,839	14.9%	10.1%	(75,263)	(54,398)	-	-	$18.34	3.3%
Totals	**252,741,109**	**51,425,722**	**5,926,688**	**20.3%**	**18.6%**	**59,470**	**3,553,158**	**732,312**	**5,878,226**	**$27.21**	**3.9%**

SIGNIFICANT LEASE TRANSACTIONS | Q1 2020

Tenant	SF	Type	Building	Class	Submarket
Electricity Delivery Svcs Company	206,000	New	777 Main St	A	Ft Worth CBD
Trinity Industries	155,000	New	14221 N Dallas Pky	A	Quorum/Bent Tree
USAA	124,000	Sublease	5543 Legacy Dr	A	Upper Tollway/West Plano
Copart, Inc.	79,000	Renewal	14185 Dallas Pky	A	Quorum/Bent Tree
Addus HomeCare, Inc.	75,000	New	6303 Cowboys Way	A	Frisco/The Colony
Accenture	55,000	New	5205 N O'Connor Blvd	A	Las Colinas
Sheppard Mullin Richter & Hampton	52,000	New	2200 Ross Ave	A	Dallas CBD
Appen, Inc.	50,000	New	3033 W President George Bush Hwy	B	Plano
Six Flags Entertainment	41,000	New	1000 Ballpark Way	A	Arlington/Mansfield
USI	33,116	New	14241 Dallas Pkwy	A	Quorum/Bent Tree

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HOUSTON OFFICE MARKET
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ABOUT MADISON MARQUETTE

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