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MARKET AT A GLANCE

DALLAS/FT.WORTH
OFFICE MARKET REPORT
SECOND QUARTER 2020

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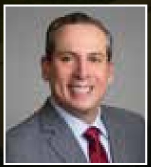
FOR MORE INFORMATION

KURT CHERRY
Executive Vice President
Central Division
972.421.3322
kurt.cherry@madisonmarquette.com

ARIEL GUERRERO
Senior Vice President, Research
713.209.5704
ariel.guerrero@madisonmarquette.com



ECONOMIC OVERVIEW

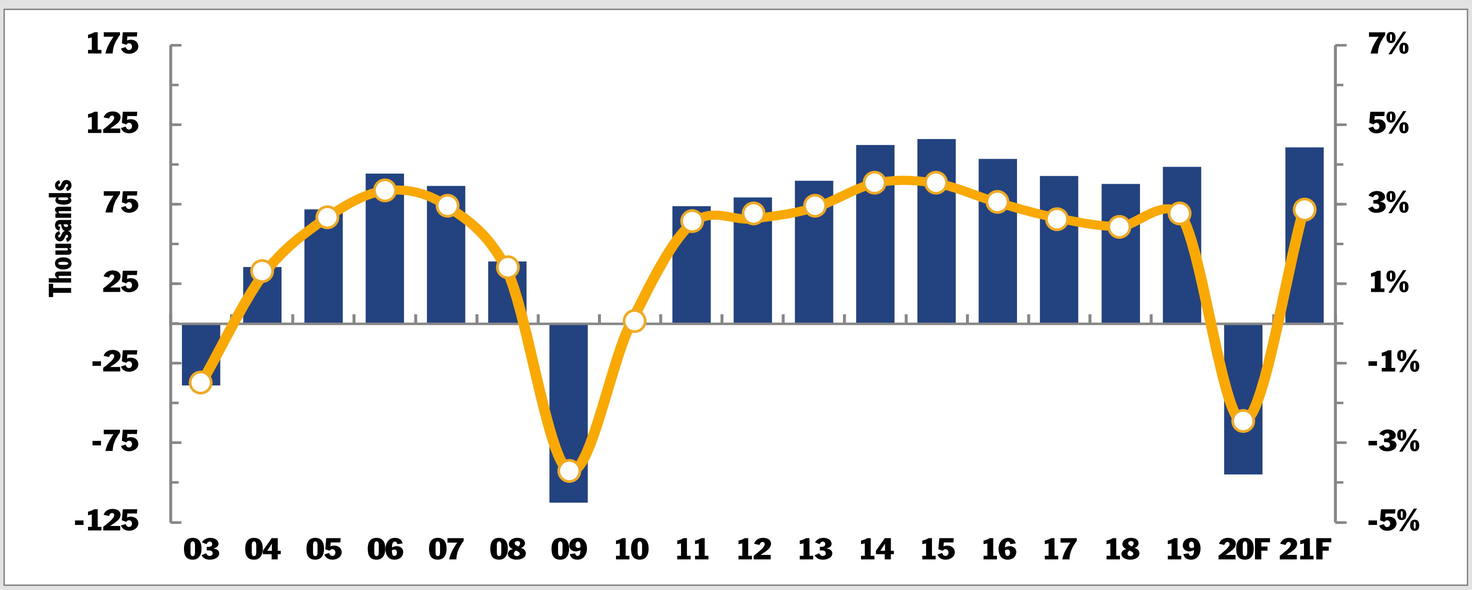
The COVID-19 pandemic has officially pushed our economy into recession. The record-breaking decade-long streak of 113 months of consecutive job growth in the United States came to an abrupt end in March and worsened in April with job losses in excess of 22 million resulting in an unemployment rate of 14.7%, far eclipsing the peak of 10.0% in the Great Recession.

Fiscal stimulus in the form of direct payments and supplemental jobless benefits along with swift and thorough monetary policy enacted by the Federal Reserve have helped millions of American families endure the economic fallout. These aggressive actions bought us time to better understand the underlying health crisis and begin charting a path to recovery.

The Texas economy began reopening in a phased approach following the expiration of the state-wide stay-at-home order on April 30. Businesses and consumers are understandably eager to return to broader economic activity. Indeed, initial economic indicators show that a nascent recovery is underway – after shedding a total 1.4 million jobs in March and April, Texas added 238 thousand jobs in May. Given the overwhelming concentration of job losses in the service sector, it is encouraging to see data from the restaurant reservation service Open Table show a steady increase in traffic across the country now back up to 57% of demand year-over-year. The next challenge is to ensure the recovery is sustainable. Texas has already chosen to scale back reopening efforts as new cases manifest through community spread.

It is also encouraging to see demand for petroleum recover following a devastating April that briefly saw negative oil prices when storage capacity was strained by the collapse in U.S. petroleum consumption to the tune of 5.7 million fewer barrels a day, a 28% year-over-year decline. Oil prices have nearly doubled since the close of 2020 Q1, but at just under $40 a barrel, most oil companies are well below their break-even price to operate existing wells let alone consider drilling new ones especially with oil prices forecasted to remain flat into 2021.

EMPLOYMENT TRENDS | JOBS ADDED/LOST | ANNUAL % CHANGE



EMPLOYMENT GROWTH BY SECTOR

Sector	% Change	Jobs	
MINING	(0.6%)	(1.4K)	JOBS LOST
MANUF	(3.4%)	(9.7K)	JOBS LOST
TRADE, TRANS	(2.5%)	(19.5K)	JOBS LOST
INFO	(2.7%)	(2.2K)	JOBS LOST
FINANCIAL	2.8%	9.0K	JOBS ADDED
PROFESSIONAL SERVICES	(4.6%)	(28.9K)	JOBS LOST
EDUCATION	(6.9%)	(31.9K)	JOBS LOST
LEISURE	(29.3%)	(116.8K)	JOBS LOST
OTHER	(9.6%)	(12.4K)	JOBS LOST
GOVERNMENT	(2.9%)	(13.0K)	JOBS LOST

Source: U.S. Bureau of Labor Statistics; Employment Data as of May 2020
All Employees, in Thousands, Year-over-Year Change

OFFICE MARKET ASSESSMENT

The effects of the COVID-19 pandemic have yet to significantly impact Dallas-Fort Worth's direct net absorption figures. The metro area's office market recorded a modest 77K SF occupancy gain during the quarter, bringing its year-to-date total to 137K SF of net gains. Class A product, which was responsible for 4.6M SF of net occupancy gains in 2019, has posted a more modest 617K SF of occupancy gains thus far in 2020. Despite the moderate gains, Class A direct vacancy has risen 50 basis points to 19.2% since the end of 2019. Meanwhile, Class B product has witnessed 366K SF of direct move-outs during 2020, which has caused the sector's vacancy rate to climb a cyclical high mark of 19.2%.

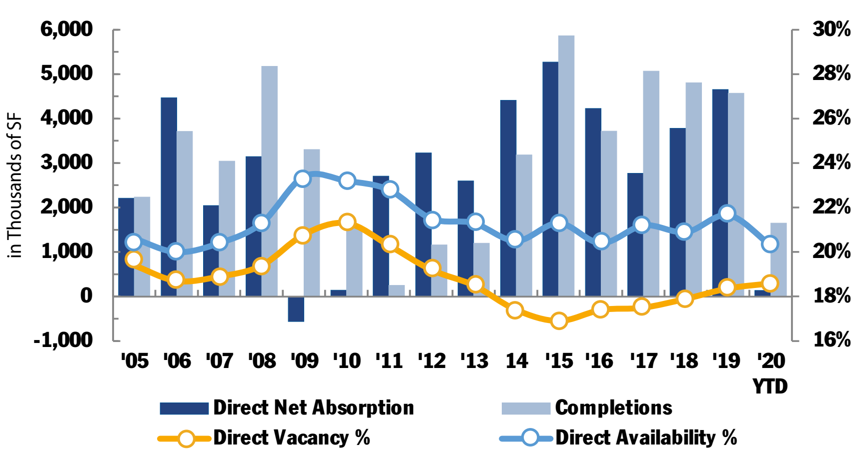
Despite the record-breaking performances DFW has enjoyed in recent history, the COVID-19 pandemic has slowed the DFW economy to an unforeseen and unprecedented halt during the second quarter, causing quarterly leasing activity to plummet by an astonishing 48% to 1.9M SF—its lowest level on record. Social distancing efforts and other measures taken to prevent spread of COVID-19 are directly responsible for the decrease in touring activity. Many tenants are opting for short-term renewals to buy more time to weigh their needs and options coming out of the pandemic. The frequent blockbuster deal was noticeably absent from the top deals list this quarter; however, Michaels Stores Procurement Company did commit to the entirety of Royal Ridge III (124K SF) in Las Colinas with a January 2021 commencement.

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 are contradictory. It is expected that many tenants in the market will re-evaluate their workplace strategies and space needs over the long term. Also, developers will take a "wait-and-see" approach to reassess the strength of the market before breaking ground on new speculative construction.

FORECAST

- Companies that were previously considering relocating or expanding office space have adopted a "wait-and-see" strategy in real estate decisions during this heightened period of uncertainty, which will cause leasing demand to remain slow in the near term.
- 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, while landlords with exposure to short-term leases will be 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



DALLAS/FT. WORTH
OFFICE MARKET
MARKET AT A GLANCE
Q2 2020

ECONOMIC INDICATORS

JOB GROWTH | T-12 MOS | THRU MAY 2020

(227K) ▼ 6.0% Y-O-Y

OFFICE JOB GROWTH

(22.1K) ▼ 9.7% OF TOTAL GROWTH

MARKET TREND INDICATORS

	Current Quarter	Change from Previous Quarter	Change from Previous Year	12-month Forecast
Direct Vacancy	19.0%	▲	▲	▲
Direct Net Absorption (T-12 mos)	3.2M SF	▼	▲	▼
Under Construction	5.3M SF	▼	▼	▼
Direct Asking Rents	$27.23	►	▲	►

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"The recent effects of COVID-19 have resulted in a significant slowdown in touring and leasing activity, as decision makers wait for more market and economic clarity before committing to office space. Although renewals and extensions are expected to account for a larger share of leasing activity in the near-term, those companies that are financially stable and in a position to secure a long-term lease will benefit from the current leasing environment."

KURT CHERRY
Executive Vice President | Central Division

ABSORPTION/VACANCY TRENDS

CLASS A DIRECT NET ABSORPTION

484SF
YTD 2020

CLASS B DIRECT NET ABSORPTION

(368)KSF
YTD 2020

DIRECT VACANCY

CLASS A	CLASS B
19.2%	19.2%

DIRECT AVAILABLE

CLASS A	CLASS B
30.3M	21.5M
21.2%	21.1%

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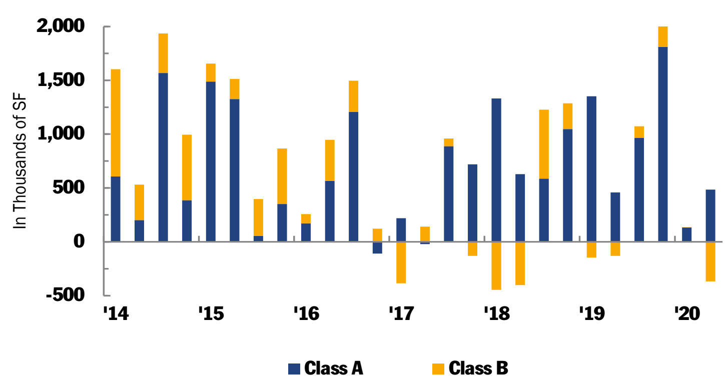
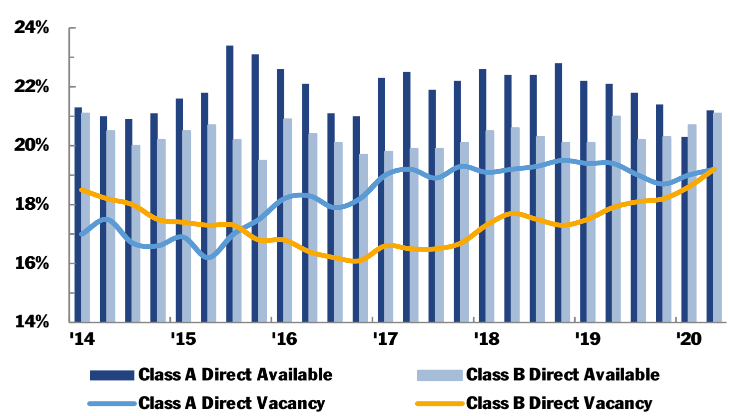
NET ABSORPTION & VACANCY

- The Class A property sector posted 484K SF of direct absorption gains during the second quarter, its 12th consecutive quarter of net gains, increasing their 2020 count to 617K SF. Recent construction deliveries are responsible for the bulk of the 2020 occupancy gains.
- Blucora and BSNF moved into a combined 200K SF at The Sound at Cypress Waters, while Paragon Health and Appen moved into a combined 108K SF at 3033 W President George Bush Hwy, highlighting Class A tenant move-ins.
- Despite the occupancy gains, Class A direct vacancy rates climbed by 20 basis points to 19.2% during the quarter. However, the Class A vacancy rate has declined 20 basis points year-over-year, as occupancy growth has outpaced construction deliveries.
- Class A direct availability rates climbed by 90 basis points during the quarter to 21.2%, yet they remain 90 basis points lower than their year ago level and 220 basis points under their cyclical peak recorded in late-2015.
- The Class B sector recorded 368K SF of direct occupancy losses during the quarter, but over the prior 12 months has managed to break even at 3K SF of absorption.
- Las Colinas witnessed the largest bulk of Class B move-outs, as Walgreens, Flagship Credit Acceptance Corporation, and UnitedHealthcare Services vacated a combined 139K SF of space during the quarter.
- Class B vacancy rates increased by 60 basis points during the quarter to 19.2% and have appreciated 130 basis points year-over-year. Availability rates on the other hand have remained flat at 21.1% compared to their year ago level.

DIRECT NET ABSORPTION



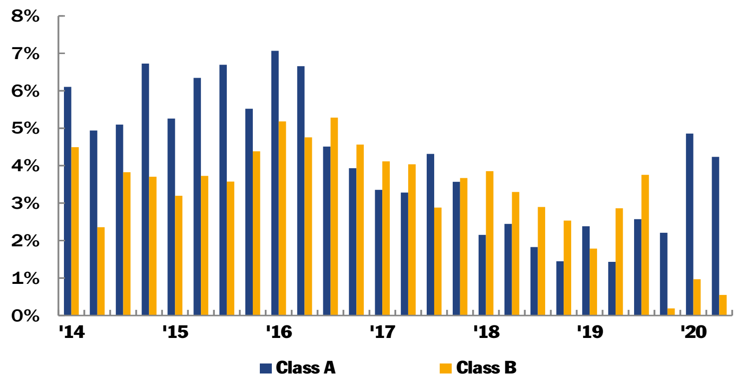
DIRECT VACANCY AND AVAILABILITY



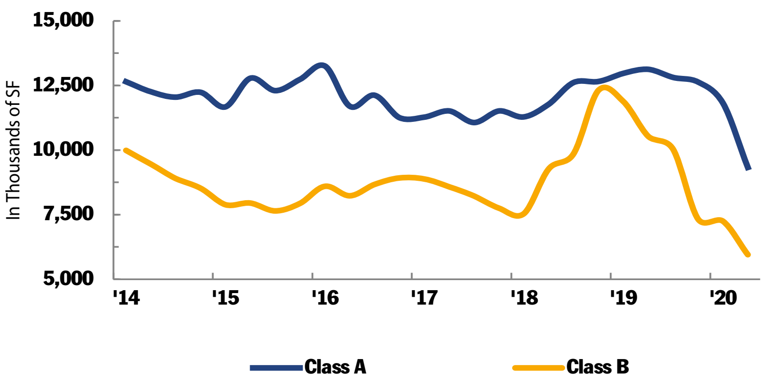
RENTAL RATES & LEASING ACTIVITY

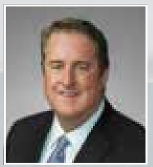
- Class A asking rents across DFW were moderately flat during the quarter, sliding by $0.09 to $31.01 per SF (gross) but have climbed by 4.2% or $1.26 over the prior 12 months and have been hovering around record levels.
- Class B asking rents climbed by $0.16 during the quarter to $22.04 per SF (gross), but have remained relatively flat year-over-year rising by only 0.5%.
- Uptown/Turtle Creek and Preston Center continue to command the highest asking rents in the metro with average gross rates of $40.83 and $38.75 per SF, respectively, but some of the largest annual rent growth rates have occurred in suburban submarkets like Mid Cities (9.8%) and Upper Tollway/West Plano (8.7%).
- Prior to the pandemic, landlords were benefiting from the longest expansion period in decades, which provided them the flexibility to push asking rents to an all-time high. However, this leverage will likely be mitigated and begin to shift toward the tenant in the short-term due to the economic uncertainty.
- Leasing activity has plummeted since March. The trailing 12-month volume of Class A activity declined to approximately 9.3M SF, which trails its 10-year average by 19.4%. Meanwhile, Class B annual leasing velocity of 6.0M SF trails its 10-year average by 32.9%.
- Sublease inventory has increased by 12.4% since the end of 2019 to about 6.5M SF of space—only 4.0% below its cyclical peak recorded at the end of 2018. As businesses reevaluate workforce needs, sublease availability is likely to rise further while placing downward pressure on overall asking rents in the months ahead.
- Looking ahead, landlord concessions are likely to become more generous, particularly for tenants with strong balance sheets, and short-term renewals may become increasingly open to owners to ensure they retain and attract office users.

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



TOTAL LEASING ACTIVITY
Rolling 12-Months





"Organic job growth and corporate relocations fueled an expansion market for more than seven years, but the ongoing COVID-19 pandemic will 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 | Central Division

RENTS/LEASING ACTIVITY

RENT GROWTH (Y-O-Y)

3.7%

SUBLEASE AVAILABILITY

6.5M SF

4.0% SINCE PEAK IN 4Q18

CLASS A DIRECT NET LEASING ACTIVITY

15.6 M SF

T-12 MOS

(25.4%) BELOW 10-YR. AVG.

Q2 2020 DALLAS/FT. WORTH OFFICE MARKET
MARKET AT A GLANCE

CONSTRUCTION

OFFICE SPACE UNDER CONSTRUCTION

5.4 M SF

41.5% PRE-LEASED

NEW OFFICE BREAKING GROUND

4.3 M SF

T-12 MOS

FORECASTED SUPPLY IN 2020

3.2 M SF

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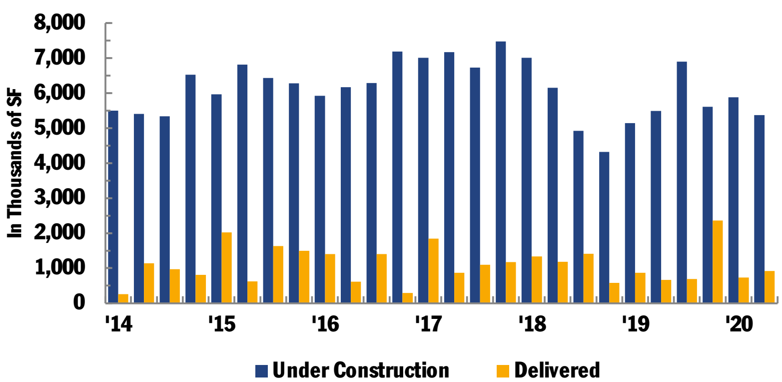
CONSTRUCTION

- DFW's office construction pipeline contracted by 2.2% to 5.4M SF (excluding owner-occupied projects) compared to its year ago level, as developers have pumped the breaks on speculative construction. Prelease rates rest at 41.5%.
- Development activity is relatively evenly scattered across the metroplex, but Frisco/The Colony holds the largest concentration of competitive product underway with 864K SF, highlighted by VanTrust Real Estate's 350K SF build-to-suit for Keurig Dr Pepper.
- In addition to the 5.4M SF of competitive product underway, developers are working on 1.8M SF of owner-user product. Charles Schwab is responsible for 617K SF of office space with their campus in the Mid Cities submarket, and JPMorgan Chase is building a 540K SF tower in Legacy West.
- During the first half of 2020, developers completed 1.7M SF of competitive product, which is currently 33.5% leased in speculative buildings. Billingsley is responsible for 830K SF of the 2020 deliveries with projects delivered in Cypress Waters and in International Business Park.
- An additional 1.2M SF of competitive product is scheduled to deliver to the market by the end of 2020 with a paltry prelease rate of 20.0%. The largest of which is One Bethany at Watters Creek, Kaizen Development Partners' 200K SF office building in the Allen/McKinney submarket.
- Projects breaking ground during the quarter totaled 818K SF of competitive space, highlighted by Westdale's 469K SF build-to-suit for Uber Technologies in the East/South Dallas submarket. Recent groundbreakings tout a prelease rate of 82.4%, as developers display signs of reluctance to develop on a speculative basis during the current coronavirus-era.
- There were significant developments that were put on hold during the quarter, including Harwood International's XII (542K SF) in Uptown/Turtle Creek and Phase IV of The Star in Frisco (300K SF). Additional construction projects that were scheduled to break ground in the upcoming months are also at risk of being delayed.

CONSTRUCTION PIPELINE



SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% PRE-LEASED	DEVELOPER	TARGET DELIVERY
Chase Tower at Legacy *	540,000	Upper Tollway/ W Plano	JP Morgan Chase	100%	KDC	2021 3Q
The Epic Phase II †	469,000	East/South Dallas	Uber Technologies	100%	Westdale	2022 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
Reata Pharmaceuticals	327,400	Upper Tollway/ W Plano	Reata Pharmaceuticals	100%	Trammell Crow Co	2022 1Q
Baylor Scott & White *	300,000	East/South Dallas	Baylor Health	100%	KDC	2020 3Q
Weir's Plaza	297,000	Preston Center	Weir's Furniture	65%	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*

		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	27,723,086	7,909,054	1,057,970	28.5%	24.7%	228,223	132,979	290,677	259,230	$28.48	$20.43
Uptown / Turtle Creek	12,946,826	2,325,711	410,965	18.0%	15.2%	(16,503)	150,564	-	656,774	$42.87	$32.82
Preston Center	4,672,656	670,171	105,130	14.3%	11.9%	(60,864)	73,374	-	297,000	$40.90	$32.49
Central Expy	11,241,129	2,119,488	396,869	18.9%	14.3%	(92,322)	(176,532)	-	58,890	$33.31	$27.87
Quorum / Bent Tree	20,495,670	4,301,397	712,182	21.0%	19.6%	(15,261)	204,816	48,000	0	$32.24	$20.91
Upper Tollway / West Plano	23,499,196	3,908,316	871,281	16.6%	18.6%	(79,242)	343,388	179,675	844,646	$36.72	$27.50
West LBJ	4,296,040	886,130	50,649	20.6%	20.6%	(81,103)	89,873	-	0	$20.08	$16.92
East LBJ	16,410,272	4,042,914	450,120	24.6%	21.2%	(34,285)	195,710	-	94,160	$28.00	$20.21
Las Colinas	35,107,378	7,742,536	674,150	22.1%	18.2%	211,612	1,357,776	400,000	611,753	$30.43	$22.61
Stemmons	11,018,491	3,293,208	54,513	29.9%	25.7%	57,871	(46,234)	-	65,000	$20.76	$16.86
Richardson	17,791,900	3,678,139	336,618	20.7%	19.2%	(254,675)	85,941	-	0	$26.55	$21.03
Allen / McKinney	3,860,747	708,948	25,237	18.4%	13.9%	51,362	28,297	-	270,000	$31.27	$25.43
Plano	5,638,490	1,919,072	132,250	34.0%	31.8%	200,547	256,046	-	0	$29.29	$21.94
Frisco / The Colony	5,975,724	782,058	269,572	13.1%	12.6%	45,150	52,561	-	864,429	$35.85	$29.92
East / South Dallas	8,049,116	1,665,049	11,948	20.7%	19.3%	9,542	108,725	-	684,116	$40.82	$22.70
Arlington / Mansfield	6,397,443	866,624	68,197	13.5%	11.6%	(42,186)	(123,377)	-	90,000	$22.04	$20.90
Mid Cities	10,426,926	2,396,007	361,334	23.0%	23.4%	(60,815)	151,831	-	181,259	$30.87	$20.78
Ft. Worth CBD	8,310,933	1,348,162	174,472	16.2%	16.7%	(25,212)	209,050	-	0	$31.88	$20.92
North / Northeast Ft Worth	4,277,708	590,911	7,732	13.8%	13.7%	20,615	241,124	-	122,614	$24.16	$19.41
Lewisville / Denton	5,815,963	890,693	7,554	15.3%	14.8%	(39,216)	(76,662)	-	244,000	$25.25	$24.28
South Ft Worth	8,442,893	953,735	310,186	11.3%	9.8%	53,930	16,458	-	22,000	$28.13	$23.73
Totals	**252,398,587**	**52,998,323**	**6,488,929**	**21.0%**	**19.0%**	**77,168**	**3,275,708**	**918,352**	**5,365,871**	**$31.01**	**$22.04**

		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	143,019,962	30,275,520	4,970,771	21.2%	19.2%	484,458	3,393,320	721,278	4,819,722	$31.01	4.2%
Class B	101,914,330	21,544,678	1,431,176	21.1%	19.2%	(368,082)	3,035	197,065	546,149	$22.04	0.5%
Class C	7,464,295	1,178,125	86,982	15.8%	10.6%	(39,208)	(120,647)	-	-	$18.31	1.7%
Totals	**252,398,587**	**52,998,323**	**6,488,929**	**21.0%**	**19.0%**	**77,168**	**3,275,708**	**918,343**	**5,365,871**	**$27.23**	**3.7%**

SIGNIFICANT LEASE TRANSACTIONS | Q2 2020

Tenant	SF	Type	Building	Class	Submarket
Michaels Stores Procurement Co.	123,740	New	Royal Ridge III	A	Las Colinas
Global Medical Response	61,000	New	The Realm	A	Upper Tollway/West Plano
Istation	41,000	Renewal	Campbell Centre South Tower	A	Central Expressway
Technology Company	37,000	New	One Bethany West	A	Allen/McKinney
SBA	33,000	New	14951 Kingsport Rd	B	Mid Cities
Aperia	31,000	Renewal	14881 Quorum Dr	B	Quorum/Bent Tree
DebtBlue	30,000	New	1125 E Campbell Rd	A	Richardson
IntelliCentrics, Inc	30,000	New	Lakeside Corporate Office Center	A	Lewisville/Denton
Workforce Solutions	27,000	New	5800 N Interstate 35	B	Lewisville/Denton
Cirro Energy	26,000	Renewal	Parkway Centre III	A	Upper Tollway/West Plano
Arrow Electronics	25,000	New	Ballpark Circle	B	Arlington/Mansfield

KURT CHERRY
Executive
Vice President
kurt.cherry@madisonmarquette.com

MICHAEL CARMICHAEL
Vice President,
Leasing
michael.carmichael@madisonmarquette.com

PAMELA PERKINS
Vice President,
Director
pamela.perkins@madisonmarquette.com

WADE BOWLIN
President, Property Services
Central Division
wade.bowlin@madisonmarquette.com

KELSEY OLDHAM
Marketing
Manager
kelsey.oldham@madisonmarquette.com

ARIEL GUERRERO
Senior Vice President,
Director of Research
ariel.guerrero@madisonmarquette.com

JAMES DECMAN
Research
Manager
james.decman@madisonmarquette.com

JON CARRASCO
Associate Director,
Research & Data Analytics
jon.carrasco@madisonmarquette.com

DOUG BERRY
Vice President,
Creative Director
doug.berry@madisonmarquette.com

ABOUT MADISON MARQUETTE

Madison Marquette is a leading private real estate investment manager, service provider, developer and operator headquartered in Washington, D.C. As a full-service real estate provider, the company delivers integrated leasing and management services to a diverse portfolio of 330 assets in 24 states and manages an investment portfolio valued at over $6 billion. The company partners with global, institutional and private investors to provide industry-leading investment and advisory services across asset classes -- including mixed-use, retail, office, medical, industrial, senior housing and multi-family. Founded in 1992, the company built its reputation on the successful development, repositioning and redevelopment of landmark mixed-use assets, and now leverages that performance legacy to provide clients with exceptional asset services and investment advice. Madison Marquette has over 620 professionals providing nationwide service from 13 regional markets and is a member of the Capital Guidance group of companies.