MARKET AT A GLANCE

DALLAS/FT.WORTH OFFICE MARKET REPORT

THIRD QUARTER 2020

MadisonMarquette
A Capital Guidance Company

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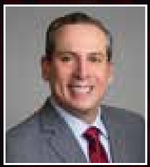


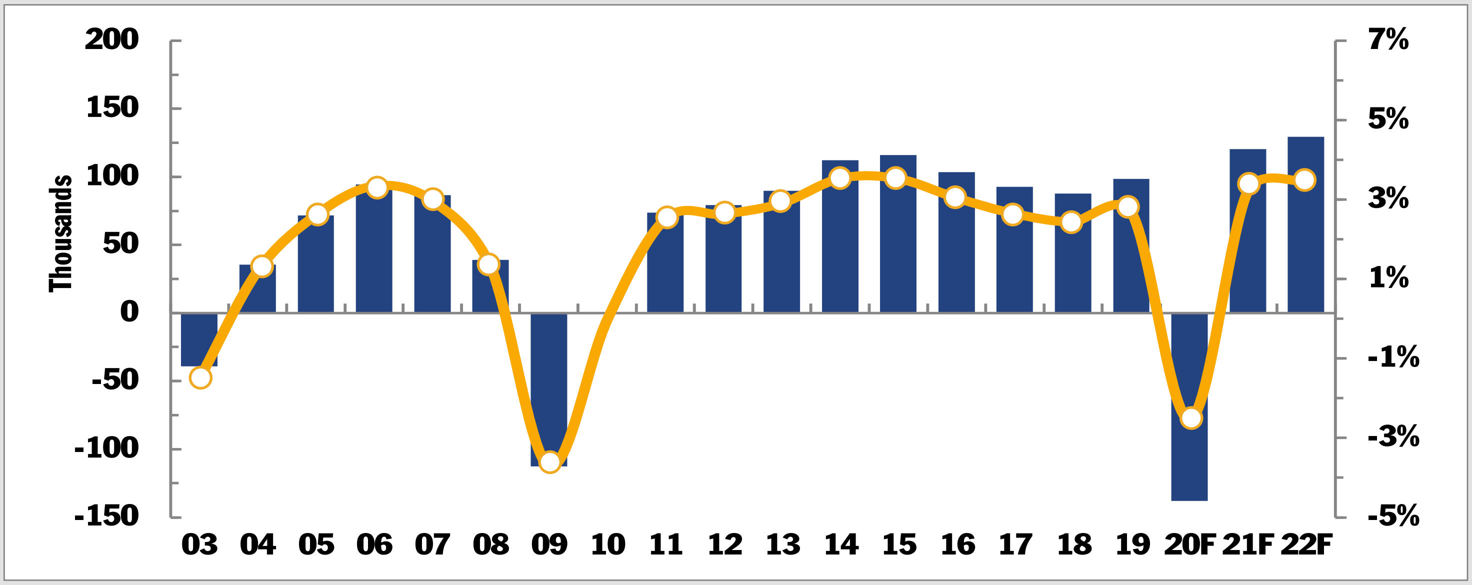
ECONOMIC OVERVIEW

Like the rest of the country, the Dallas/Ft. Worth economy continues to weather the effects of the ongoing COVID-19 pandemic. Fortunately, in the DFW area the midsummer surge in hospitalizations has steadily declined since the beginning of July and the positivity rate on tests has trended closer to the 5% threshold indicative of community control of the coronavirus. While caution is still warranted, it is encouraging that more retail, restaurant, and office businesses are poised to reopen as Texas Governor Abbott announced an easing of restrictions to allow these businesses to increase their capacity to 75%.

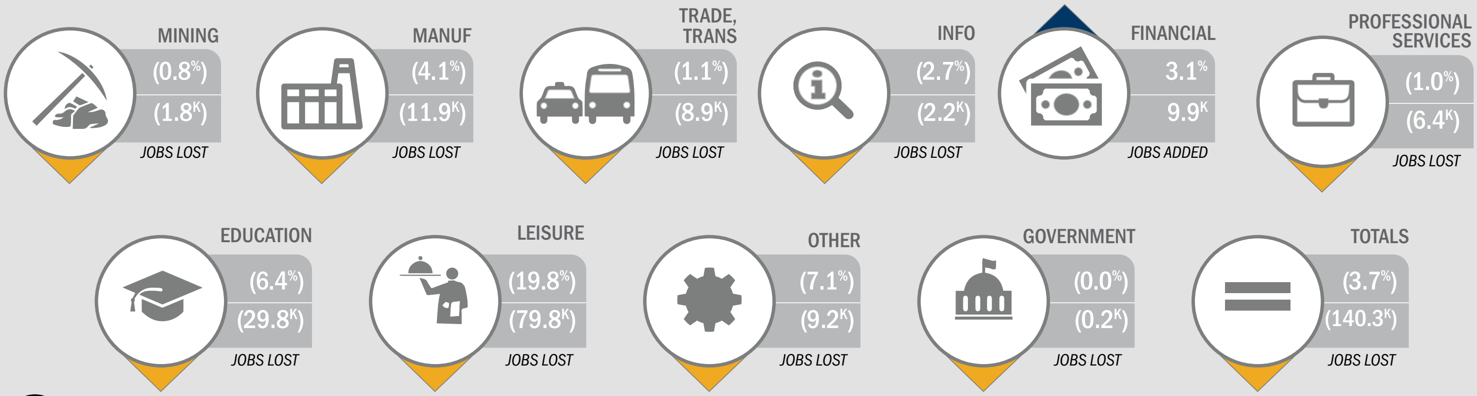
Looking at the most recent payroll numbers from the Bureau of Labor Statistics, DFW lost 381.7K jobs in March and April, quickly recovered 178.6K of those jobs in May and June, then stalled out in July and August as Texas responded to a resurgence in coronavirus cases. As of now, using seasonally adjusted payroll data, we have recovered 51.7% of jobs lost during the March/April lockdown. It is important to note that the recovery has been uneven with the recovery less robust in key industries like the oil dependent Mining and Logging and Manufacturing sectors. However, it is extremely encouraging that more office dependent industries are recovering at an impressive 91.9% pace through August. Looking ahead, economic forecasts from both Oxford Economics and Moody's Analytics project the metroplex will end 2020 down 131K to 235K jobs respectively but enjoy a period of above trend economic growth in the coming years. According to the base case projection from Moody's Analytics, this amounts to a robust 150K new jobs in 2021 and 163K jobs in 2022.

While a broad recovery has not yet arrived for the oil and gas sector, the overall outlook has improved. The quarterly energy survey produced by the Dallas Federal Reserve shows that the pace of contraction has significantly lessened now that prices have stabilized near $40 and are expected to end the year in the $40-45 range. While most respondents to the survey do not expect a substantial increase in the rig count to come until prices are at least above $50, more respondents report their primary goal is to either grow or maintain production levels than reducing costs. Fortunately, the recent string of corporate relocations to the Dallas area have helped diversify the economic base and allowed the region to withstand the challenges of the pandemic.

EMPLOYMENT TRENDS | JOBS ADDED/LOST | ANNUAL % CHANGE



EMPLOYMENT GROWTH BY SECTOR



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

DALLAS/FT. WORTH OFFICE MARKET

Q3 2020

MARKET AT A GLANCE

OFFICE MARKET ASSESSMENT

The effects of a significant decline in leasing activity due to COVID-19, have begun to appear in net absorption figures. Office buildings across Dallas-Fort Worth witnessed a net 1.7M SF of direct space becoming vacant during the third quarter of 2020, the largest negative absorption reading since the 2000s, bringing the year-to-date absorption count to 1.6M SF of occupancy losses. The occupancy losses, coupled with 2.6M SF of competitive construction completions in 2020 at only 39.8% leased, has caused direct vacancy rates to climb by 140 bps to 19.8% since year-end 2019, and only trail their Great Recession vacancy peak by 150 bps.

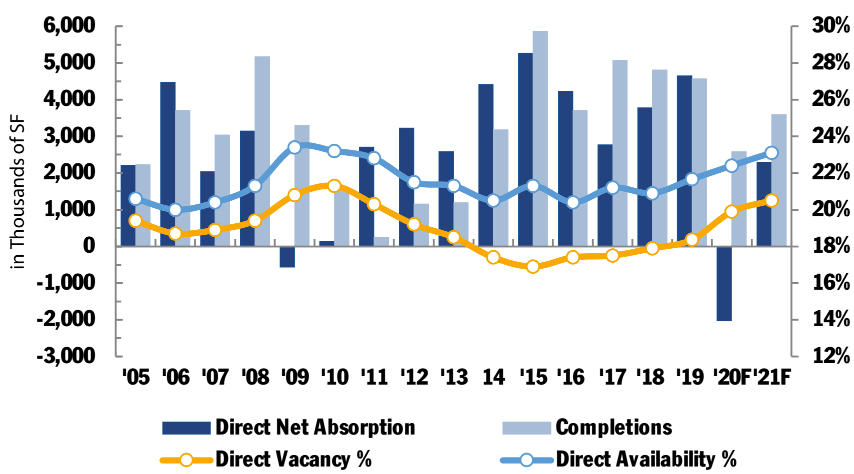
Office leasing activity continued at its lethargic pace, as many tenants in the market are postponing major leasing decisions and have sought to renegotiate rental agreements with short-term extensions. As a result, DFW saw its second consecutive quarter with fewer than 2.5M SF of direct leasing activity across all office product. It remains to be seen when significant demand will return to pre-Covid-19 levels following the development of a vaccine and an advancement of therapeutics, but pent-up economic activity is widely expected to promote a recovery market once some level of normalization occurs.

Looking ahead, COVID-19 has reshaped existing trends in the office sector, but none with bigger potential impact than how businesses will respond to the massive natural experiment of working remotely. This shift to working from home has placed a spotlight on workplace strategy and has many companies evaluating their need for physical space going forward. The balance of workplace culture, productivity, employee engagement, cost, and health and safety are all being weighed by landlords, tenants and developers. In the near-term, many companies are forced to focus on strategies to weather the current business environment. However some of the densification trends may see a reversal, as office layouts may need to place a higher value on more-spacious and socially distanced workspaces.

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.
- The office market will likely remain favorable to tenants due to excess space brought by the coronavirus pandemic.
- An increase in remote working will likely reduce office utilization rates, while landlords with exposure to short-term leases will be the most vulnerable.
- Speculative construction projects that have yet to kick off are likely to be sidelined in the near term as demand and leasing activity is expected to remain sluggish until pent-up activity returns beyond mid-year 2021.

OFFICE MARKET TRENDS



ECONOMIC INDICATORS

JOB GROWTH | T-12 MOS | THRU AUG 2020

(140K) ▼ 3.7% Y-O-Y

OFFICE JOB GROWTH

1.3K ▲ 0.1% Y-O-Y

MARKET TREND INDICATORS

	Current Quarter	Change from Previous Quarter	Change from Previous Year	12-month Forecast
Direct Vacancy	19.8%	▲	▲	▲
Direct Net Absorption (T-12 mos)	457K SF	▼	▼	►
Under Construction	4.6M SF	▼	▼	►
Direct Asking Rents	$27.20	►	▲	►

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Q3 2020

DALLAS/FT. WORTH
OFFICE MARKET
MARKET AT A GLANCE

"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

(922)K SF
YTD 2020

CLASS B DIRECT NET ABSORPTION

(825)K SF
YTD 2020

DIRECT VACANCY

CLASS A	CLASS B
20.4%	19.6%

DIRECT AVAILABLE

CLASS A	CLASS B
32.5M	22.7M
22.6%	22.4%

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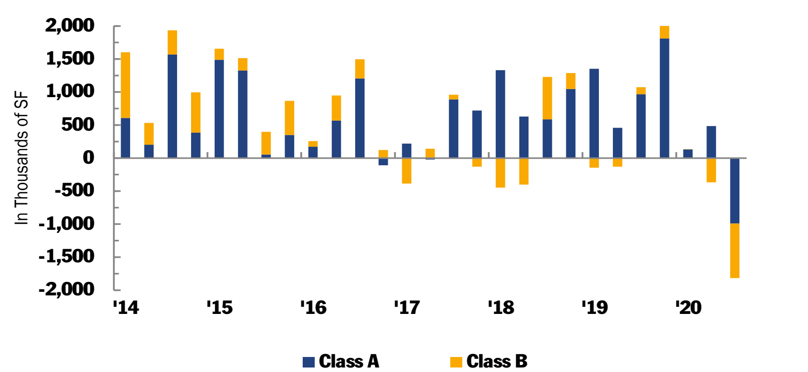
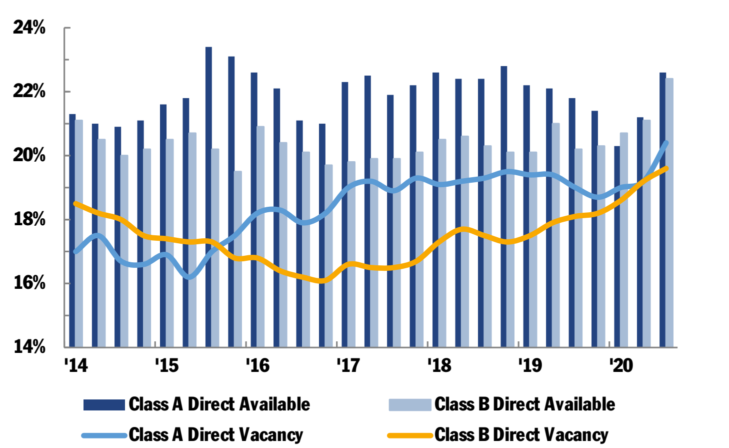
NET ABSORPTION & VACANCY

- The Class A property sector recorded a net 922k SF of direct occupancy losses during the third quarter, bringing year-to-date net losses to 376k SF. This marks the end of a 12-quarter streak of positive absorption totaling 10.4M SF, as a number of scheduled lease expirations occurred for tenants that have recently moved into new product.
- For example, Baylor Health (302k SF at Bryan Tower) moved into owner-occupied product, Heritage Auctions (99k SF at Parkside Tower) occupied a showroom/storage building, and Avantax (96k SF at Las Colinas Corporate Center) relocated into a brand new space at The Sound at Cypress Waters during the prior quarter.
- Class A direct vacancy rates increased by 120 bps during the quarter to 20.4%, their highest level since mid-2011, and have risen by 170 bps in 2020. As leasing volume lags scheduled expirations and construction deliveries, vacancy is expected to climb even higher.
- The Class A direct availability rate jumped by 140 bps during the quarter to 22.6% and trails its 2015 cyclical high mark by only 80 bps.
- The Class B sector recorded 825k SF of occupancy losses during the quarter, increasing their year-to-date total to 1.2M SF of red ink. The Mr. Cooper vacancy (100k SF at Horizon Way Business Park) highlighted Class B move-outs during the quarter.
- Class B direct vacancy rates increased by 40 bps during the quarter and have moved up 140 bps since 2019 to 19.6%. Meanwhile, direct availability rates increased by 130 bps during the quarter and has moved up by 210 bps during 2020 to 22.4%, their highest recording since mid-2012.

DIRECT NET ABSORPTION



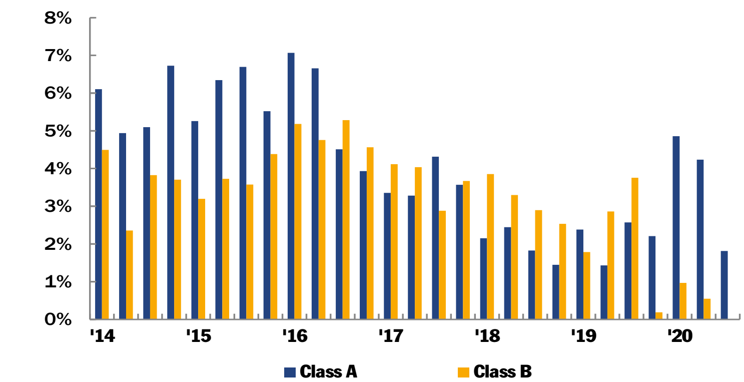
DIRECT VACANCY AND AVAILABILITY



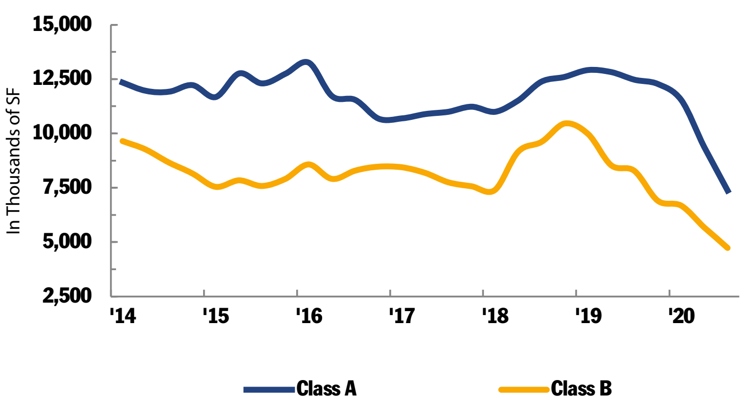
RENTAL RATES & LEASING ACTIVITY

- Class A full-service gross asking rents across DFW were moderately flat but declined during the quarter to $30.86 per square foot, yet they have still witnessed a 1.8% increase over their year ago level.
- Class B gross asking rents experienced a modest $0.07 per square foot quarterly increase to $22.11, matching their cyclical high recorded 12 months ago.
- Urban office submarkets, such as Uptown/Turtle Creek and Preston Center, continue to command the highest rental rates in DFW, however suburban submarkets have recently begun capturing a larger-than-usual share of quarterly leasing activity.
- 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. This leverage is sure to be challenged by tenants in the short-term due to ongoing economic uncertainty.
- DFW is witnessing a flood of space entering the sublease market, as tenants dumped a remarkable 2.2M SF of leased space during the quarter. Sublease availabilities are at an all-time high at 8.7M SF and account for 13.4% of total available space.
- The tenants offering the largest blocks of sublease space included The Michaels Companies (296k SF), Tenet Healthcare (215k SF), and Pier 1 Imports (173k SF). Additionally, Sabre (124k SF) and Uber (102k SF) recently added large blocks of space to the sublease market.
- Leasing activity has continued its downward trajectory since March, as the trailing 12-month volume of Class A activity fell to 7.4MSF, lagging its five-year average by 35.9%.
- 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

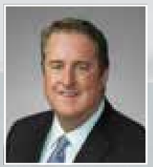


TOTAL LEASING ACTIVITY
Rolling 12-Months



DALLAS/FT. WORTH
OFFICE MARKET
MARKET AT A GLANCE

Q3 2020



"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)

2.0%

SUBLEASE AVAILABILITY

8.7M SF

28.5%
ABOVE PEAK
IN 4Q18

CLASS A DIRECT NET LEASING ACTIVITY

13.3 M SF
T-12 MOS

(37.0%)
BELOW 10-YR.
AVG.

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Q3 2020 DALLAS/FT. WORTH

OFFICE MARKET

MARKET AT A GLANCE

CONSTRUCTION

OFFICE SPACE UNDER CONSTRUCTION

4.6 M SF

42.6% PRE-LEASED

NEW OFFICE BREAKING GROUND

3.2 M SF

T-12 MOS

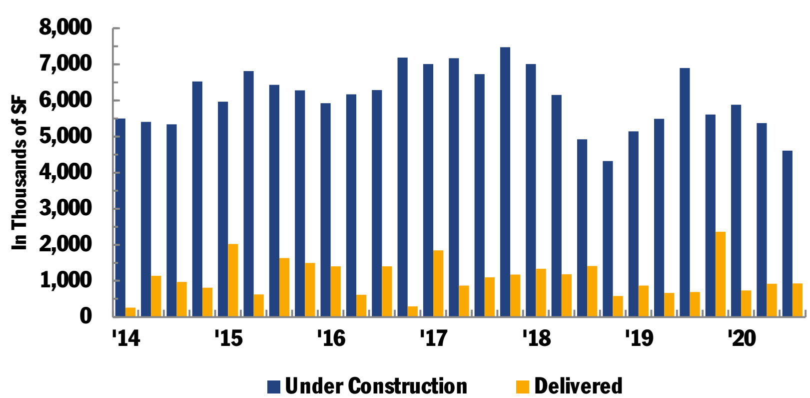
FORECASTED SUPPLY IN 2020

3.3 M SF

CONSTRUCTION

- DFW's office construction pipeline has contracted by 1M SF to 4.6M SF since year-end 2019 (excluding corporate-owned projects). Although speculative development remains strong in the urban core, much of the construction pipeline has shifted towards build-to-suit and corporate-owned projects, as developers have pumped brakes on speculative construction. Average prelease rates for competitive construction has risen to 42.6%.
- Development activity is relatively evenly scattered across the metroplex, but Frisco/The Colony holds the largest concentration of competitive product underway with 871k SF, highlighted by VanTrust Real Estate's 350k SF build-to-suit for Keurig Dr Pepper.
- In addition to the 4.6M SF of competitive product in the pipeline, developers are underway with an additional 1.4M 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.
- Developers have delivered 2.6M SF of new office space to the competitive market since the beginning of the year, which is currently 39.8% leased. Billingsley is responsible for 31.9% of the product delivered during 2020, highlighted by 650k SF across three Class A office buildings in the Cypress Waters development in Las Colinas.
- Approximately 3.7M SF of the competitive office product is scheduled to come online by the end of 2021, with an underwhelming prelease rate of 28.5%. Hillwood's Victory Commons, a 100% speculative Class A office tower underway in Uptown/Turtle Creek highlights the 2021 scheduled deliveries.
- There was only one competitive project to break ground during the quarter, which involves another 300k SF speculative office project being developed by Billingsley in Cypress Waters. Additionally, J Small Investments began the renovation of Pegasus Park, which had previously been owned and occupied by Exxon Mobil.

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
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
300 Pearl	224,370	Dallas CBD	N/A	11%	Todd Interests, Inc.	2021 2Q

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

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Submarkets	Total Inventory SF	TOTAL SPACE AVAILABLE Direct	Sublease	DIRECT AVAILABLE / VACANT Direct Availability	Direct Vacancy	DIRECT NET ABSORPTION Current Quarter	Year-to-Date	CONSTRUCTION Completions Current Qtr.	Under Construction	ASKING RENT Class A	Class B
Dallas CBD	27,730,930	9,019,783	1,177,816	32.5%	26.6%	(511,033)	(523,475)	-	284,600	$28.00	$20.71
Uptown / Turtle Creek	12,985,195	2,558,237	515,613	19.7%	16.7%	(173,460)	(312,162)	-	656,774	$43.65	$32.67
Preston Center	4,682,855	739,939	87,641	15.8%	12.2%	(13,993)	30,642	-	297,000	$42.83	$32.25
Central Expy	11,225,341	2,286,295	439,840	20.4%	16.6%	(202,614)	(372,686)	58,890	0	$33.10	$27.64
Quorum / Bent Tree	20,513,568	4,586,737	888,591	22.4%	20.3%	(186,367)	219,144	-	0	$30.91	$21.33
Upper Tollway / West Plano	23,713,360	4,324,735	1,157,827	18.2%	20.3%	(39,424)	32,849	164,191	680,455	$37.09	$27.41
West LBJ	4,296,040	977,057	156,769	22.7%	21.4%	(31,162)	(69,708)	-	0	$20.46	$16.61
East LBJ	16,420,416	3,975,922	423,253	24.2%	21.7%	(95,161)	104,289	-	107,000	$27.89	$20.16
Las Colinas	35,201,695	8,257,853	1,456,111	23.5%	18.8%	(198,951)	(719,511)	80,806	425,877	$30.97	$22.45
Stemmons	10,344,021	2,664,745	71,009	25.8%	22.1%	(39,275)	8,657	-	135,439	$20.60	$16.88
Richardson	17,780,567	3,742,082	657,228	21.0%	19.5%	(57,564)	(314,707)	-	0	$26.46	$20.90
Allen / McKinney	4,160,747	801,788	61,584	19.3%	19.0%	25,943	32,851	200,000	98,772	$31.27	$25.39
Plano	5,638,490	1,832,637	208,590	32.5%	31.7%	3,464	297,042	-	0	$29.27	$22.21
Frisco / The Colony	5,975,457	827,323	267,433	13.8%	11.4%	75,557	108,205	-	871,051	$35.77	$30.19
East / South Dallas	8,049,115	1,853,079	126,657	23.0%	21.9%	(154,714)	20,630	-	684,116	$26.85	$22.34
Arlington / Mansfield	6,487,443	898,992	67,561	13.9%	13.1%	(17,542)	(120,296)	90,000	0	$21.96	$21.03
Mid Cities	10,510,240	2,621,927	367,549	24.9%	23.7%	10,286	(6,191)	81,529	194,650	$30.63	$21.12
Ft. Worth CBD	8,243,709	1,706,804	172,008	20.7%	16.8%	(87,847)	35,641	-	0	$31.47	$21.63
North / Northeast Ft Worth	4,308,775	576,309	4,468	13.4%	12.5%	52,414	52,060	31,067	122,614	$24.19	$19.54
Lewisville / Denton	5,945,488	994,632	6,411	16.7%	16.8%	(15,909)	(56,270)	223,149	24,000	$30.06	$24.39
South Ft Worth	8,425,612	1,004,627	370,488	11.9%	10.7%	(81,540)	(49,258)	-	22,000	$27.90	$23.48
Totals	**252,639,064**	**56,251,503**	**8,684,447**	**22.3%**	**19.8%**	**-1,738,892**	**-1,602,254**	**929,632**	**4,604,348**	**$30.86**	**$22.11**

Property Types	Total Inventory SF	TOTAL SPACE AVAILABLE Direct	Sublease	DIRECT AVAILABLE / VACANT Direct Availability	Direct Vacancy	DIRECT NET ABSORPTION Current Quarter	Year-to-Date	CONSTRUCTION Completions Current Qtr.	Under Construction	ASKING RENT Asking Rent	Y-O-Y Change
Class A	143,774,102	32,477,996	6,126,858	22.6%	20.4%	(922,371)	(305,628)	668,146	4,189,137	$30.86	1.8%
Class B	101,447,518	22,693,008	2,434,805	22.4%	19.6%	(825,379)	(1,191,013)	261,216	415,211	$22.11	0.0%
Class C	7,417,444	1,080,499	122,784	14.6%	10.8%	8,858	(105,613)	-	-	$19.18	6.1%
Totals	**252,639,064**	**56,251,503**	**8,684,447**	**22.3%**	**19.8%**	**-1,738,892**	**-1,602,254**	**929,362**	**4,604,348**	**$27.20**	**2.0%**

SIGNIFICANT LEASE TRANSACTIONS | Q3 2020

Tenant	SF	Type	Building	Class	Submarket
Caliber Home Loans	159,000	New	3401 Olympus Blvd	A	DFW Freeport/Coppell
Hilltop Securities	95,000	New	717 Harwood	A	Dallas CBD
Aimbridge Hospitality	82,000	New	5301 Headquarters Dr	A	Upper Tollway/West Plano
Wesco Aircraft	53,000	New	Gourley Plaza	A	Northwest Ft Worth
Invitation Homes Inc.	42,000	Renewal	Comerica Bank Tower	A	Dallas CBD
Dermpath Diagnostics	32,000	Renewal	One Cockerell Plaza	B	Stemmons Freeway
Haynes and Boone, LLP	29,000	New	6000 Headquarters Dr	A	Upper Tollway/West Plano
Vincent Serafino	27,000	New	Comerica Bank Tower	A	Dallas CBD
Reddy Ice	26,000	New	5710 Lyndon B Johnson Fwy	B	East LBJ Freeway
Sigmetrix	24,000	New	5900 S Lake Forest Dr	A	Allen/McKinney

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ABOUT MADISON MARQUETTE

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