YOUNGER PARTNERS

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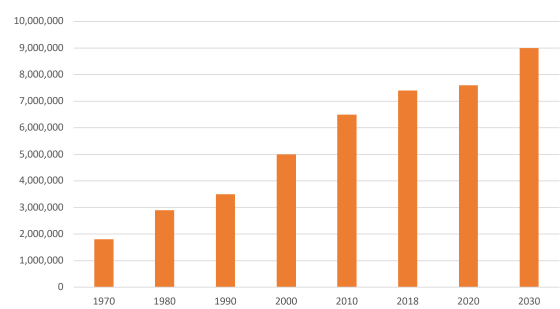
MARKET Insights

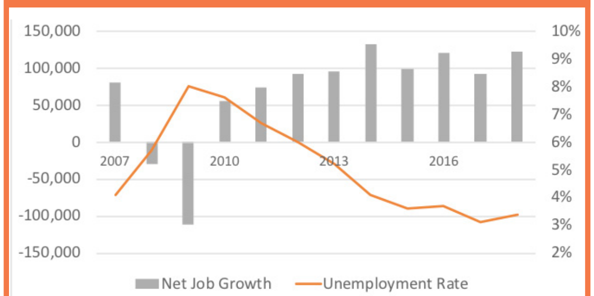
TOP 10 METRO AREAS

Dallas-Fort Worth-Arlington Population Growth



Source: North Texas Council of Governments; US Census

NET JOB GROWTH VS. UNEMPLOYMENT RATE



Population

The Dallas-Fort Worth-Arlington metropolitan statistical area has been one of the fastest growing metro areas of the country over the past thirty years. According to the U.S. Census Bureau, the Metroplex is the fourth largest metropolitan statistical area ("MSA") in the United States, with an estimated population of 7.4 million. By comparison, the three largest MSAs in terms of population were New York, Los Angeles and Chicago with populations of 20.3 million, 13.4 million, and 9.5 million respectively. Since the last census in 2010, the Census Bureau estimates the population of the Dallas-Fort Worth MSA grew by 900,000 or an average of 129,000 people per year. That's a gain of 353 per day.

The Dallas-Fort Worth-Arlington metropolitan area's 146,000-resident increase in 2017 was the most of any metro area in the United States.

The Dallas-Fort Worth-Arlington metropolitan area continued to produce new jobs, creating an estimated 122,000 net new jobs in the 12 months ending May 31st, 2018 (the most recent figure available) according to the Bureau of Labor Statistics. The majority of new jobs were created in the Professional and Business Services sector, which grew by 25,500 net new jobs.

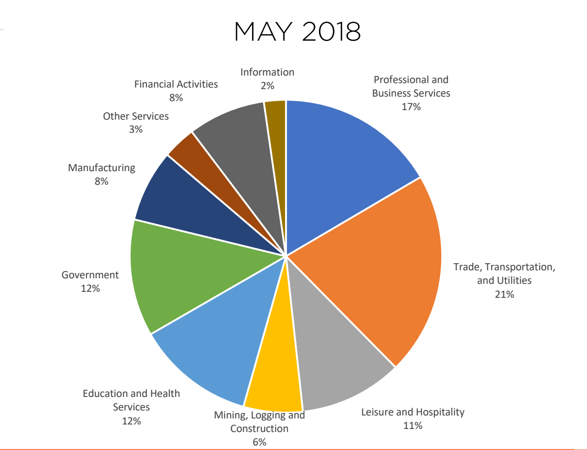
Net job gains occurred for almost all industry sectors (only computer manufacturing, department stores and employment services saw slight decreases). The following industry sectors experienced the largest net gains in the past 12 months: Professional and Business Services (+25,500 jobs); Trade, Transportation, and Utilities (+22,400 jobs); Leisure and Hospitality (+17,400 jobs); Mining, Logging and Construction (+14,300 jobs); and Education and Health Services (+12,900 jobs).

As far as breakdowns for the Metroplex, the Dallas/Plano/Irving Metro Division had job growth of 90,700 over the past year (May 2017 to May 2018), while Fort Worth/Arlington Metro Division had job growth of 31,300 over the same time period.

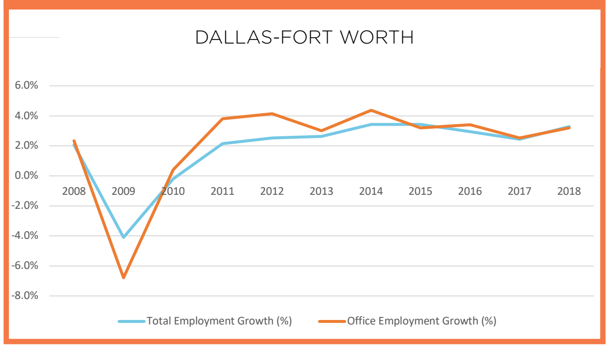
According to the most recent data from the Bureau of Labor Statistics, the seasonally unadjusted unemployment rate for the Dallas-Fort Worth-Arlington MSA was 3.4% as of May 2018. By comparison, the Texas and national unemployment rates were both 3.7% and 3.6%, respectively as of May 2018.

Population projects for Dallas-Fort Worth state the Metroplex will reach 9 million by 2030 and 10.7 million by the year 2040. The North Central Texas Council of Governments (NCTCOG) estimates the Dallas-Fort Worth population will grow from 6.5 million as of the 2010 Census to 10.7 million by the year 2040, an average annual increase of 144,578 and an annual compounded growth rate of 1.8%. It should be noted that the NCTCOG's prior estimate of the Dallas-Fort Worth population, an estimate of the 2010 population made in 1987, underestimated the actual population per the 2010 Census.

EMPLOYMENT BY INDUSTRY SECTOR



EMPLOYMENT GROWTH[1]



TOP INDUSTRY JOB GAINS (YEAR OVER YEAR)

Employment

For office space demand, employment – especially employment in the "office-using" industry sectors – is a key driver.

According to the Bureau of Labor Statistics, Dallas-Fort Worth was the fourth largest employment market in the nation with total non-farm employment of 3.7 million as of May 2018. Of this total, almost 27% or 1 million jobs were in the office-using sectors of Professional and Business Services, Financial Activities, and Information.

> Dallas/Fort Worth has the **4th largest** employment market **IN THE NATION.**

For the cycle so far, the total net job gains has been 786,400. This is second in the nation behind New York, which has a much larger base.

Employment growth in Dallas-Fort Worth – both total non-farm and office using – has been fairly consistent since 2010. For fiscal year ending May 2018, Dallas-Fort Worth's total non-farm employment grew by 122,000 (3.3%) and the office employment sector grew by 31,300 (3.2%).

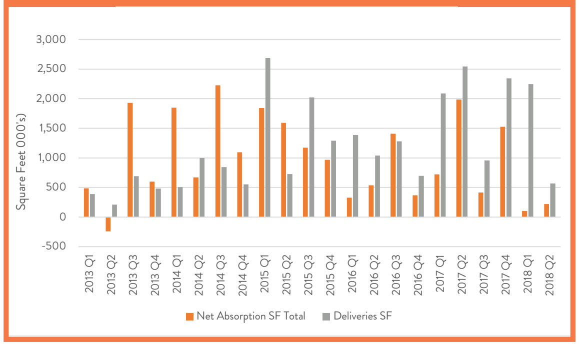
NET JOB GROWTH VS. UNEMPLOYMENT RATE

Unemployment Trends

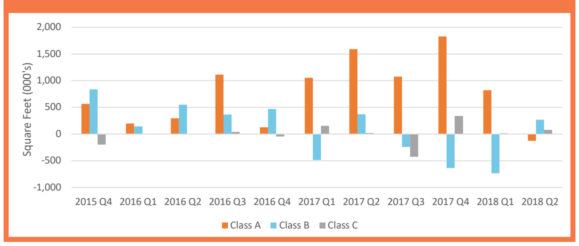
Unemployment rates for Dallas-Fort Worth, Texas, and the United States hit highs during the last recession of 8.5% in late 2009. Since then, the unemployment rates in Dallas-Fort Worth has fallen consistently, reaching a low of 3.1% in late 2017, but has since then begun to drift upward over the past few months. Keep in mind the 3.1% was a low not seen in two business cycles (approximately 17 years ago). Currently, the unemployment rates for Dallas-Fort Worth, Texas, and the United States of 3.4%, 3.7%, and 3.6% respectively (as of May 2018). Unemployment numbers this low are considered full-employment, which could create some headwinds for future employment growth.

Office Market Conditions*

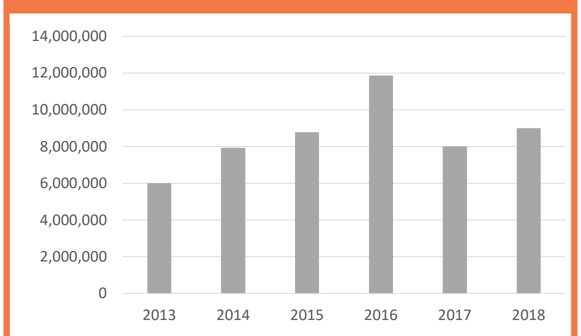
NET ABSORPTION & DELIVERIES



CLASS NET ABSORPTION



OFFICE UNDER CONSTRUCTION



Demand and Supply

Office space demand in Dallas-Fort Worth increased over the past quarter, but is down sharply from 2017 levels. In the second quarter, DFW recorded 219,854 square feet of positive net absorption, bringing the year-to-date number up to 324,266 square feet. The lower net absorption was largely a result of big blocks of space becoming available from recently completed built-to-suit projects (JPMorgan Chase, Liberty Mutual and Fannie Mae).

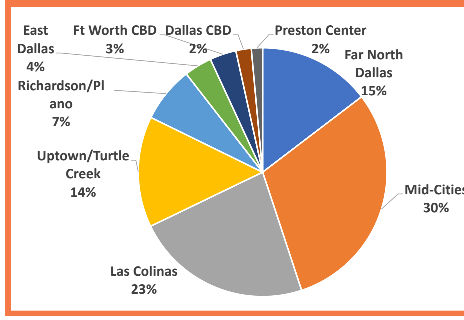
Of the total 219,854 square feet of net absorption recorded in the second quarter, Class A was a negative 128,404 square feet, while Class B was a positive 267,662 square feet and Class C was a positive 80,596 square feet.

On the supply side, Dallas-Fort Worth saw 566,589 square feet of new space delivered to the market in the second quarter of 2018, bringing the year-to-date total to 2.8 million square feet.

Since 2013, DFW has delivered more than 27 million square feet of new office construction to the market. In the previous boom period between 2006 and 2010, DFW completed less than 20 million square feet. So construction deliveries this cycle have already surpassed the previous cycle and there is still an additional 8 million square feet that is scheduled for completion by the end of 2019. Still, both of these numbers are far below the boom between 1997 and 2002 when more than 46 million square feet were built or the "crazy '80s" when, between 1981 and 1986, almost 100 million square feet of space was completed.

As of the of June 2018, there was a total of 7,997,765 rentable square feet of office space under construction in Dallas-Fort Worth. Of the almost 8 million square feet of construction currently underway, 34% of the current construction pipeline is scheduled for delivery in 2018 (2.7 million sf) with an additional 5.3 million sf slated for 2019. Of the 8 million square feet of space currently under construction, 72% percent has been accounted for through a combination of built-to-suits and pre-leasing.

LOCATION % OF CONSTRUCTION



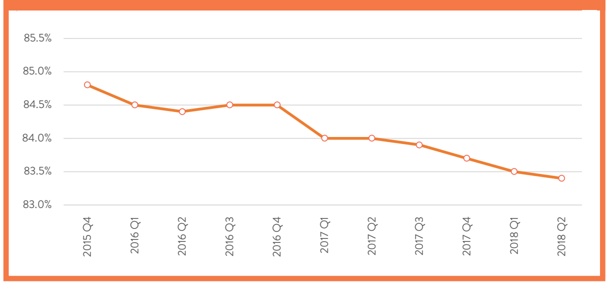
American Airlines' 1.7 million square foot corporate campus underway and Charles Schawb's 500,000 built-to-suit in Mid-Cities puts that submarket at 31% of the current construction pipeline. Las Colinas and the Uptown submarkets follow with 25% and 15%, respectively. Most of the construction in Las Colinas is the 1,125,000 million square foot built-to suit for Pioneer Natural Resources and two mid-sized speculative projects in the Cypress Waters business park (250,000 each). Uptown is more of a mix of medium sized speculative projects (PWC Park District Tower, The Union). In total across DFW, there are 41 different properties that make up the almost 8 million square feet currently underway. There have been several recently announced speculative projects that have not yet broken ground and are expected to begin construction later this year (most of these projects are concentrated in Legacy area of Far North Dallas).

Since 2013, DFW has delivered more than 27 million square feet of new office construction to the market.

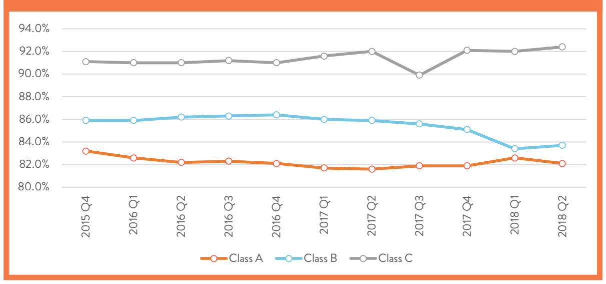
Occupancy Trends

The overall occupancy level in Dallas-Fort Worth was 83.4% at the end of the second quarter, and a decrease of 10 basis points from the end of the prior quarter, and a reflection of the 350,000 square feet of excess supply delivered over the past quarter. Despite the excess supply of space delivered since 2014, occupancy rates have fallen only modestly given the large amount of total space inventory in the Dallas-Fort Worth market, which stood at 291.4 million square feet at the end of the second quarter.

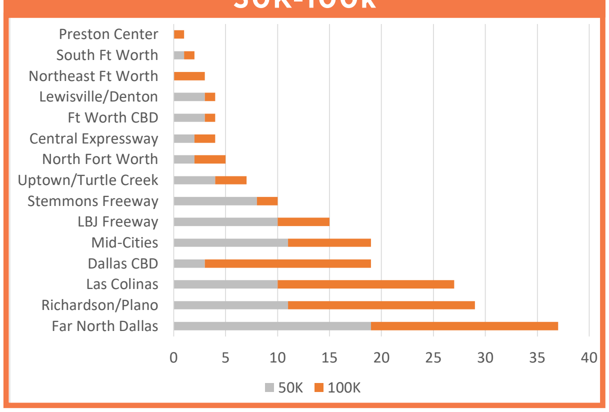
OCCUPANCY TRENDS



CLASS OCCUPANCY



BIG BLOCKS 50K-100k



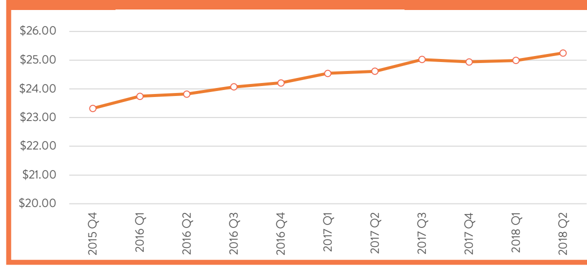
Rental Rate Trends

After rates plateaued over the past three quarters, new speculative construction has pushed Class A rates up for the quarter. Class B rates decreased slightly and Class C were essentially unchanged moving up just one cent. Overall, the total weighted average asking rate is $25.25 (FSG).

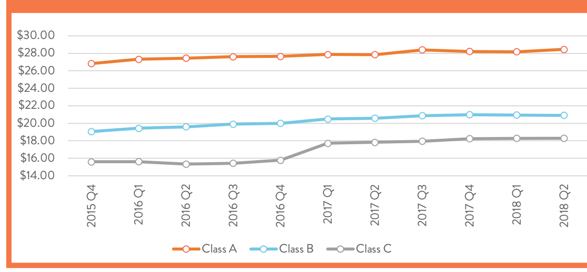
Over the past quarter, class A annual rental rates increased $0.28 to $28.46 (FSG), while class B rates decreased $0.03 to $20.91 and class C rates increased $0.01 to $18.29.

The current DFW office asking rates are the highest the market has ever seen, surpassing even the previous peaks from prior business cycles. Beneath this trend, there is an interesting dynamic happening between Class A & B rates. Historically, the two moved in pretty close tandem, with the typical spread between Class A & B rates being a little over $5 per SF ($5.24). The delta, however, between the two classes has been widening over the past five years. One of the reasons for this expanding delta has been the preponderance of new Class A construction over Class B product. In this construction cycle, since 2013, 85% of the new construction completed has been Class A product (23.1 million sf) as opposed to only 15% for Class B (4 million sf). This is one of the primary reasons why Class A rates have increased much more dramatically than Class B rates, helping to fuel the gap.

RENTAL RATE TRENDS



CLASS RENTAL RATES



Class A occupancy rates decreased 40 basis points to 82.1% over the past quarter, while class B increased 30 basis points to 83.7%, and class C increased 40 basis points to 92.4%. Compared to a year ago, the class A occupancy rate decreased 50 basis points, class B decreased 220 basis points, and class C increased 40 basis points. Overall occupancy rates are expected to decline over the next few quarters as 3.1 million square feet of new construction is expected to be delivered before the end of the year.

Despite the elevated levels of new construction over the past three years, one of the highest risks in the market is amount of large blocks of second-generation spaces that will need to be backfilled (many of which were recently vacated for the large built-to-suit projects). Among the submarkets, Far North Dallas, Richardson/Plano and Las Colinas have the highest concentrations of large blocks of space, as several tenants have opted for new construction over older second generation space.

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MARKET Insights

SUBMARKETS

	INVENTORY		VACANCY		NET ABSORPTION		COMPLETIONS		UNDER CONSTRUCTION	ASKING RENT
SELECT SUBMARKETS	# of Bldgs.	Total SF	Total SF	Rate	Current Quarter	YTD	Current Quarter	YTD	At End of Current Quarter	Wtd. Avg. (FS/G)
Central Expressway	100	12,348,795	1,583,125	12.8%	18,618	-306,799	0	0	0	$28.53
Dallas CBD	94	32,289,102	7,570,407	23.4%	30,579	217,891	0	261,400	0	$25.06
Far North Dallas	448	55,910,183	9,077,813	16.2%	-83,862	-349,582	15,600	1,508,799	806,400	$28.05
Las Colinas	300	38,600,410	6,028,577	15.6%	-691,790	-229,771	100,000	350,000	1,985,900	$25.13
LBJ Freeway	162	20,862,747	4,439,467	21.3%	155,101	225,002	0	0	0	$22.03
Preston Center	53	5,599,753	568,558	10.2%	29,395	71,321	0	0	119,000	$37.97
Richardson/Plano	329	32,570,413	5,204,658	16.0%	127,949	91,086	170,500	286,514	405,000	$24.17
Stemmons Freeway	119	10,751,385	2,599,147	24.2%	6,568	-75,953	0	0	0	$16.28
Uptown/Turtle Creek	103	13,851,554	1,684,326	12.2%	-103,721	1,484	0	130,000	1,178,292	$38.15
TOTAL	2,794	291,445,604	48,250,169	16.6%	219,854	324,266	566,589	2,817,202	7,997,765	$25.25
CLASS A	564	148,726,754	26,685,351	17.9%	-128,404	694,934	510,489	2,645,088	7,203,299	$28.46
CLASS B	1,719	123,789,678	20,127,370	16.3%	267,662	-466,796	56,100	172,114	794,466	$20.91
CLASS C	511	18,929,172	1,437,448	7.6%	80,596	96,128	0	0	0	$18.29
TOTAL DFW	2,794	291,445,604	48,250,169	16.6%	219,854	324,266	566,589	2,817,202	7,997,765	$25.25

For additional information on any of the submarkets shown above, please refer to our Market Snapshot reports.

* Younger Partners research is based on the CoStar office building database. Inventory includes office buildings containing at least 15,000 rentable square feet; single tenant, multi tenant and owner occupied; class A, B and C; existing, under construction or under renovation; excludes medical office buildings and data centers.