YOUNGER PARTNERS

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MARKET Insights

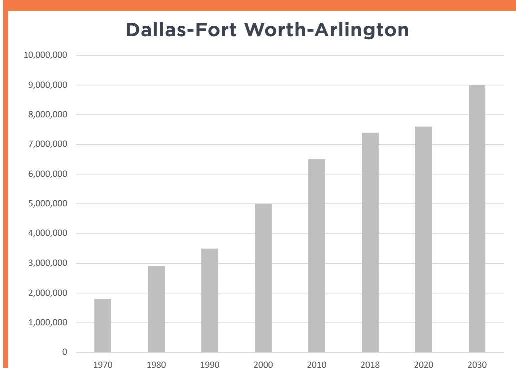
Population

Overall, economic conditions for Dallas-Fort Worth-Arlington have been very consistent over the past several years, with population and growth numbers staying within a tight range. 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. 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 130,000 people per year. That's a gain of 356 per day.

The Dallas-Fort Worth-Arlington metropolitan area's 146,000-resident increase over the past year 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 115,800 net new jobs in the 12 months ending August 2019 (the most recent figure available) according to the Bureau of Labor Statistics.

POPULATION GROWTH



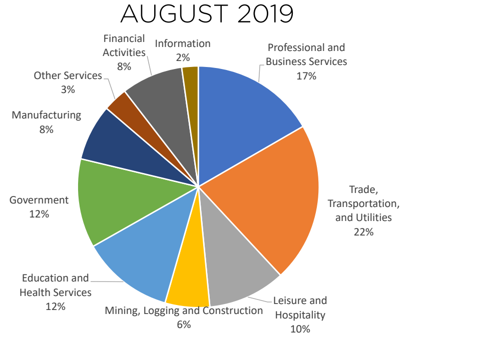
Source: North Texas Council of Governments; US Census

Employment

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

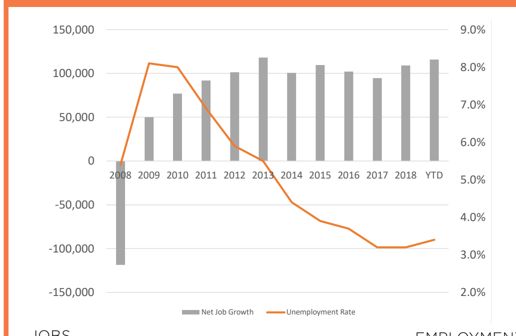
EMPLOYMENT BY INDUSTRY SECTOR

AUGUST 2019



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 3.9 million as of August 2019. Of this total, almost 27% or 1 million jobs were in the office-using sectors of Professional and Business Services, Financial Activities, and Information.

NET JOB GROWTH VS. UNEMPLOYMENT RATE



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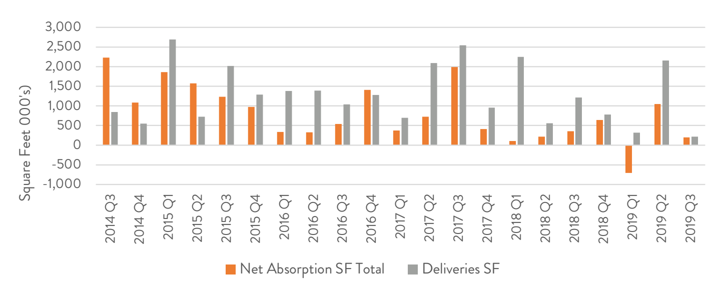
Demand and Supply

Construction deliveries and demand for space were limited in the third quarter of 2019, with about 200,000 square feet of space delivered and absorbed. For the year-to-date, a moderate 533,850 square feet of space has been absorbed while 2,635,385 square feet has been completed. Notable new construction for the year includes: Charles Schwab, Nokia, USAA, Brinker International and Independent Bank. Also, co-working companies continue to expand rapidly in DFW and other parts of the country. In 2018, co-working companies expanded by 400,000 square feet in DFW and have already committed to about 700,000 square feet of additional space so far this year. In the third quarter of 2019, about 90% of the net absorption for the quarter can directly be attributed to co-working companies (Common Desk, Hana, WeWork and Spaces) which all opened new locations.

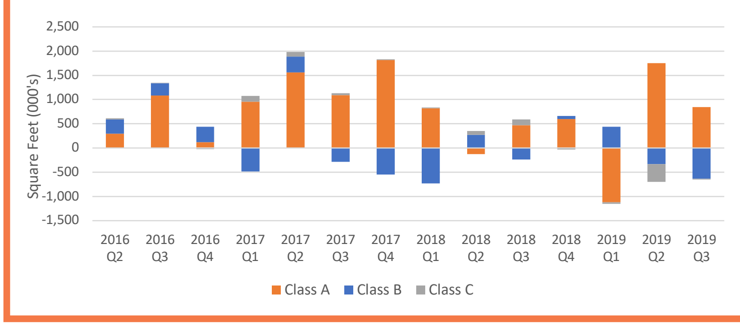
NET ABSORPTION & DELIVERIES



Among the property classes, Class A properties absorbed a very strong 845,639 square feet in the third quarter, while Class B and Class C properties both had negative absorption of 638,567 square feet and 11,690 square feet, respectively.

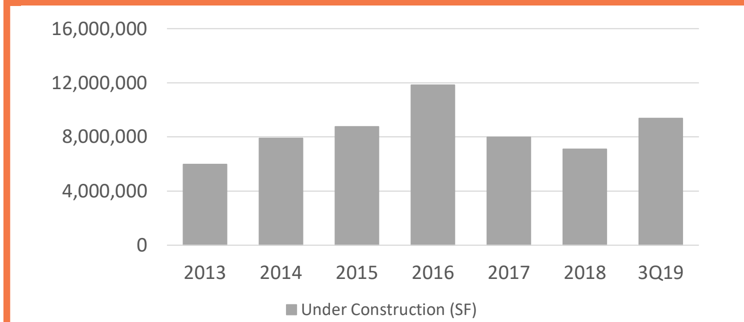
Construction deliveries for the quarter were muted with only smaller office projects being completed (213,400 square feet). While the most recent quarter was slow from a construction standpoint, DFW has delivered over 31 million square feet of new office space since 2013. In the previous boom period 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 9.4 million square feet scheduled for completion within the next two years. Still, both of these numbers are 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.

CLASS NET ABSORPTION



As of September 2019, there was a total of 9,363,976 rentable square feet of office space under construction in Dallas-Fort Worth. Of the 7.1 million square feet of construction currently underway, 4.7 million square feet will deliver before the end of 2019. Of the 9.4 million square feet of space currently under construction, 56% percent has been leased through a combination of built-to-suits and pre-leasing.

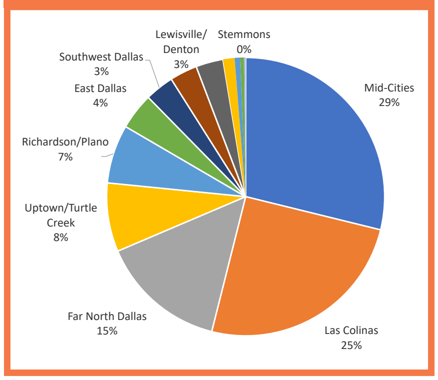
SF CURRENTLY UNDER CONSTRUCTION



American Airlines and Charles Schwab (phase 2) make the Mid-Cities the most active submarket from an office construction pipeline perspective. Between multiple Cypress Water projects and Pioneer Natural Resources' 1.1 million-square-foot campus, Las Colinas has the second highest concentration of new construction underway and accounts for 25% of the construction pipeline. Far North Dallas is third at 15% with more of a mix of medium-sized second phase spec projects (Headquarters II, Frisco Station, Legacy Town Center).In total across DFW, there are about 60 different properties that make up the 9.4 million square feet currently underway.

There have been several recently announced spec 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).

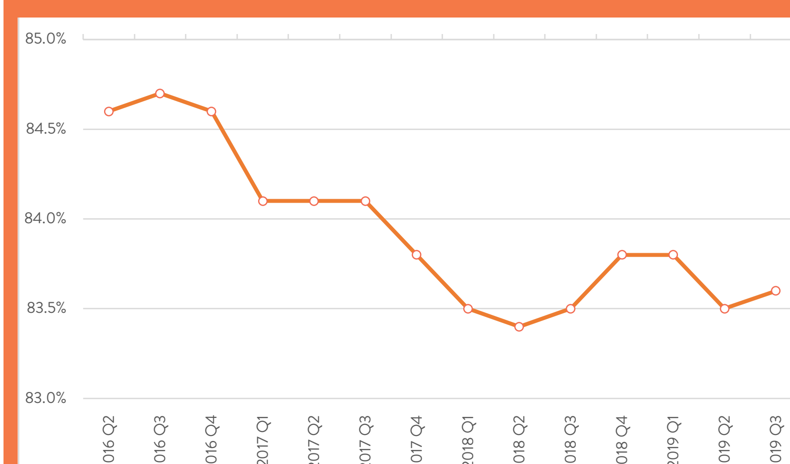
SUBMARKET CONSTRUCTION



Occupancy Trends

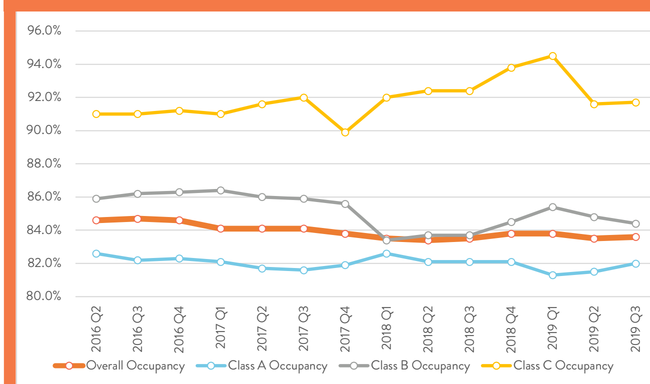
Construction deliveries and net absorption were in balance for the quarter, but occupancy increased slightly, mainly due to a reduction of office inventory (CityPlace, for example, is converting a portion of the property into a hotel). Longer term, construction deliveries have outpaced net absorption for roughly five years as construction levels have been elevated and several large tenants have reduced their real estate footprints by moving more employees into less and less office space. While several years ago, this trend was largely driven by law firms, in more recent quarters, technology-based companies like AT&T, Nokia, Samsung, HPE, DXC and others have been moving from an average of 300 square feet per employee to about 150 square feet per employee.

OCCUPANCY TRENDS



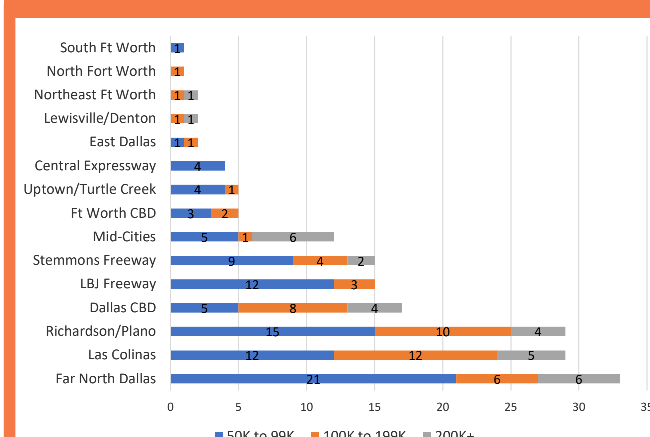
Limited construction deliveries for the quarter and moderate net absorption increased the overall occupancy rate for the quarter to 83.6%. Still, the longer term trend has been a slight decrease in occupancy most quarters as new construction has been outpacing absorption for most of the past three years. With the construction pipeline near 9.4 million square feet, this trend is expected to continue for at least the next two years.

CLASS OCCUPANCY



Despite the elevated levels of new construction over the past five 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).

BIG BLOCKS OF SPACE

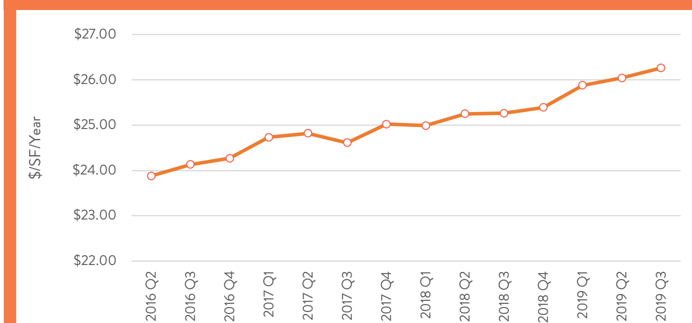


Rental Rates

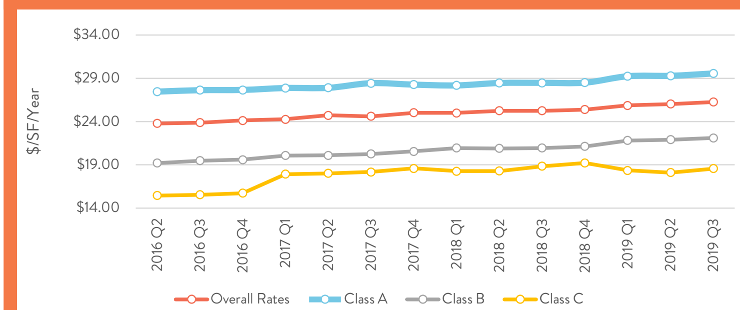
After rates plateaued over the past few quarters, new speculative construction has pushed Class A rates up over the past year ($1.08). Class B rates increased ($1.17) while Class C have decreased slightly ($0.26). Overall, the total weighted average asking rate is $26.26 (FSG), which is up one dollar year over year.

Over the past quarter, Class A annual rental rates increased $0.27 to $29.56 (FSG), while Class B rates increased $0.21 to $22.11 while class C rates increased $0.46 to $18.12.

RENTAL RATE TREND



CLASS RENTAL RATES



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 and B rates. Historically, the two move in pretty close tandem, with the typical spread between Class A and 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 and is currently $7.45. 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, 87% of the new construction completed has been Class A product (27 million square feet) as opposed to only 13% for Class B (4 million square feet). 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.

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SUBMARKETS

SELECT SUBMARKETS	INVENTORY # of Bldgs.	INVENTORY Total SF	VACANCY Total SF	VACANCY Rate	NET ABSORPTION Current Quarter	NET ABSORPTION YTD	COMPLETIONS Current Quarter	COMPLETIONS YTD	UNDER CONSTRUCTION At End of Current Quarter	ASKING RENT Wtd. Avg. (FS/G)
Central Expressway	99	12,461,533	1,605,532	12.9%	-133,264	-207,135	0	0	0	$29.82
Dallas CBD	94	32,140,340	7,173,996	22.3%	119,110	-209,747	0	0	60,230	$26.03
East Dallas	141	5,772,420	639,495	11.1%	-50,086	62,537	0	0	397,582	$25.68
Far North Dallas	439	57,513,376	10,317,683	17.9%	154,346	-992,845	15,400	465,400	1,373,764	$28.30
Fort Worth CBD	70	11,593,386	1,429,696	12.3%	8,460	21,749	0	0	0	$27.93
Las Colinas	300	40,083,153	6,469,734	16.1%	180,981	371,667	0	746,400	2,349,610	$26.36
LBJ Freeway	149	20,457,429	4,523,684	22.1%	91,954	-166,286	0	0	300,066	$22.59
Lewisville/Denton	129	6,190,078	616,272	10.0%	-21,606	-258,451	20,000	36,875	2,700,348	$23.04
Mid-Cities	373	25,715,834	3,218,964	12.5%	-181,452	572,480	60,000	640,000	40,720	$23.49
North Fort Worth	51	3,833,516	129,186	3.4%	129,853	179,955	0	200,000	16,800	$24.75
Northeast Fort Worth	52	3,958,909	577,529	14.6%	6,374	729,903	0	0	0	$23.11
Preston Center	52	5,669,200	482,140	8.5%	117,149	79,441	118,000	118000	297,000	$38.32
Richardson/Plano	325	32,710,365	5,851,313	17.9%	-261,002	-164,979	0	165,000	638,207	$24.09
South Fort Worth	178	10,092,384	967,819	9.6%	-64,787	-39,369	0	48,850	125,965	$24.12
Southwest Dallas	75	3,435,808	242,295	7.1%	-22,302	44,137	0	0	315,000	$20.66
Stemmons Freeway	117	11,356,922	2,622,435	23.1%	549	63,434	0	0	17946	$17.81
Uptown/Turtle Creek	103	15,057,459	1,932,277	12.8%	121,105	447,359	0	265,860	747,538	$40.33
TOTAL	2,747	298,042,112	48,800,050	16.4%	195,382	533,850	213,400	2,686,385	9,380,776	$26.26
CLASS A	575	153,842,107	27,623,877	18.0%	845,639	1,477,111	138,000	2,515,260	8,281,875	$29.56
CLASS B	1,684	126,442,859	19,699,629	15.6%	-638,567	-533,540	75,400	171,125	1,082,101	$22.11
CLASS C	488	17,757,146	1,476,544	8.3%	-11,690	-409,721	0	0	0	$18.58
TOTAL DFW	2.747	298.042.112	48.800.050	16.4%	195.382	533.850	213.400	2.686.385	9.363.976	$26.26

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.