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MARKET Insights

Population

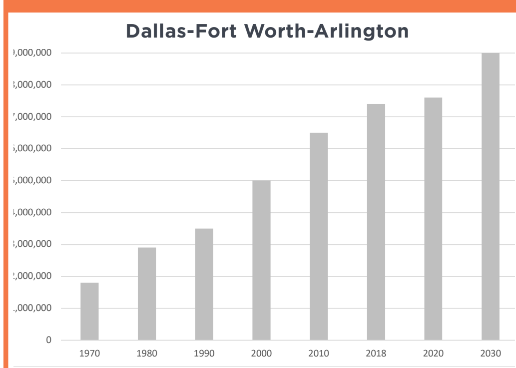
Like most of the country, the Dallas–Fort Worth economy saw a drastic spike in unemployment (from 3.1% at the end of 2019 to 12.3% as of May 2020) and job losses (226,800 year over year) as Covid-19 wreaked havoc with the economy. Since May, initial payroll numbers have rebounded some, but overall employment has stayed significantly below levels seen in February, before COVID-19 measures took effect.

Longer term, DFW's lower costs of living and tax advantages are expected to play a key role in extremely high net migration to Dallas-Fort Worth-Arlington for the foreseeable future. Companies and individuals from higher priced coastal markets like San Francisco, Los Angeles and New York City have seen a large exodus of people and jobs to other parts of the country. Texas and Dallas/ Fort Worth, in particular, have been one of the primary beneficiaries of this trend. Companies like State Farm, Toyota, McKesson, Charles Schwab, JP Morgan Chase and Liberty Mutual have all either relocated or significantly expanded operations in DFW over the past few 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. 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 130,000-resident increase over the past year was the most of any metro area in the United States.

POPULATION GROWTH



Source: North Texas Council of Governments; US Census

After several years of very strong job growth, the Dallas-Fort Worth-Arlington metropolitan area saw an unprecedented decline in jobs in the second quarter of 2020 (due to the Covid 19 pandemic and subsequent shutdown). Employment losses were widespread across industries, with only financial services seeing a slight year-over-year increase. All other industries had a combined loss of 226,800 jobs over the past year.

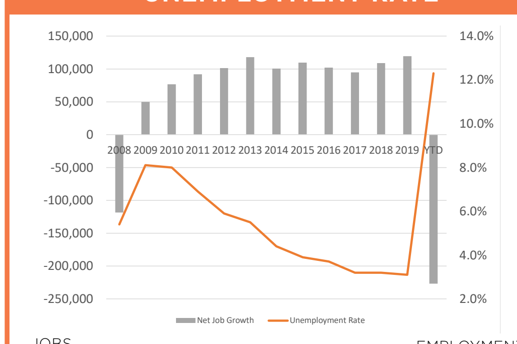
Employment

For office space demand, employment – especially 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 more than 3.5 million as of May 2020. Of this total, 27% or more than 1 million jobs were in the office-using sectors of Professional and Business Services, Financial Activities, and Information.

EMPLOYMENT BY INDUSTRY SECTOR

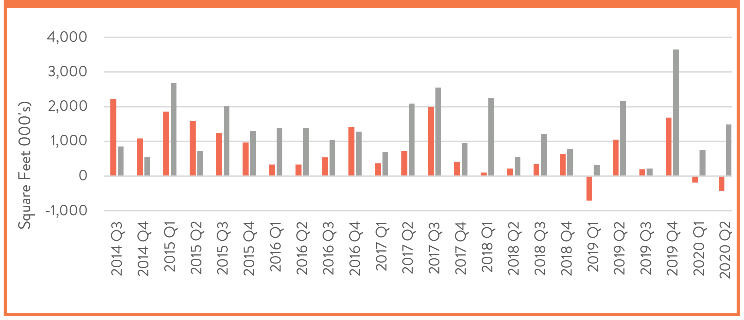
NET JOB GROWTH VS. UNEMPLOYMENT RATE



Demand and Supply

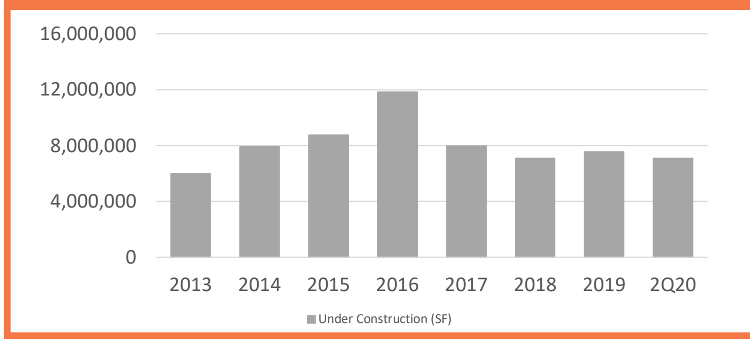
With the US economy entering a recession, it was not a surprise that total net absorption turned more negative, recording a negative 427,764 in the second quarter of 2020. Year-to-date, a negative 610,117 square feet was recorded, almost all of which was in B and C properties. Class A total net absorption has been flat for the year so far, with a negative 4,007 square feet. This negative net absorption combined with 2.2 million square feet of new deliveries has pushed overall occupancy rate down to 83.1%.

NET ABSORPTION & DELIVERIES



CLASS NET ABSORPTION

SF CURRENTLY UNDER CONSTRUCTION



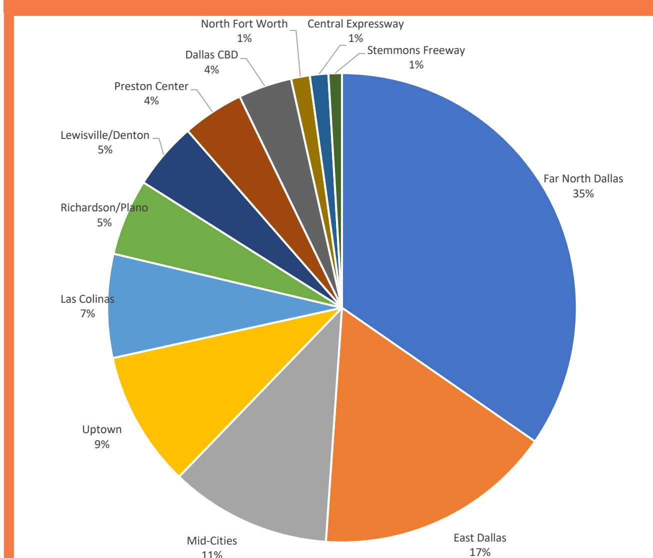
Among the property classes, Class A properties recorded positive 168,936 square feet in the second quarter, while Class B was a negative 404,289 square feet and Class C properties had a negative 192,413 square feet.

As of the of June 2020, there was a total of 7,074,449 rentable square feet of office space under construction in Dallas-Fort Worth. Of the 7.1 million square feet of construction currently underway, 2.1 million square feet is scheduled for delivery in the second half of 2020.

Of the 7.1 million square feet of space currently under construction, a little more than half (54% percent) has been accounted for through a combination of built-to-suits and pre-leasing.

JP Morgan Chase (phase 2), Keurig Dr Pepper new build-to-suits and several spec office construction projects (Headquarters II, Frisco Station, Legacy Town Center) make Far North Dallas currently the most active submarket, with 35% of the current under construction pipeline. East Dallas, a traditionally very small and inactive submarket, currently has two large build-to-suit projects for Uber (Epic Phase 2) and Baylor Scott and White Health that give the submarket a 17% of the construction pipeline.

SUBMARKET NEW CONSTRUCTION

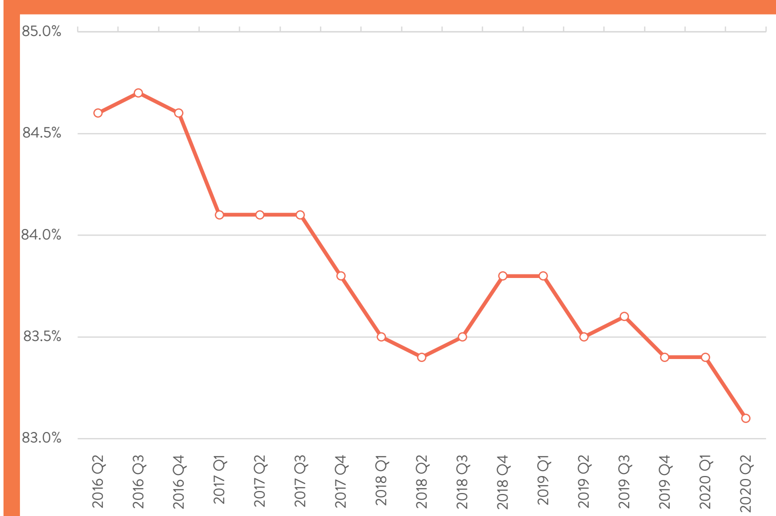


DALLAS-FORT WORTH

Occupancy Trends

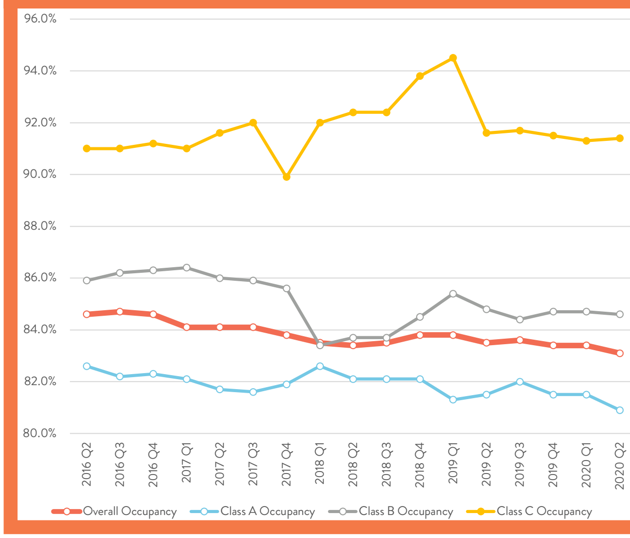
Overall occupancy continued its steady decline with a combination of soft demand and new supply, making the dip larger than average over the past quarter. Over the past five years, 12.8 million square feet has been absorbed while new office construction for that same time period has been more than double that amount at 29 million square feet. This dynamic has been in place for a couple of reasons, but one of the primary reasons is developers have not had too much difficulty leasing up new construction projects. Tenants have a strong preference for newer space, so new construction has been leasing well, with the lower occupancy being felt most acutely in older Class A and Class B properties. There are several older large office projects that are currently vacant, including the 1.6 million-square-foot former HP headquarters at 5400 Legacy, American Airlines' recently vacated 1.3 million-square-foot former headquarters campus and Pegasus Place (a 518,656-square-foot property formerly owned and occupied by Exxon Mobile that has been completely vacant since late 2006).

OCCUPANCY TRENDS



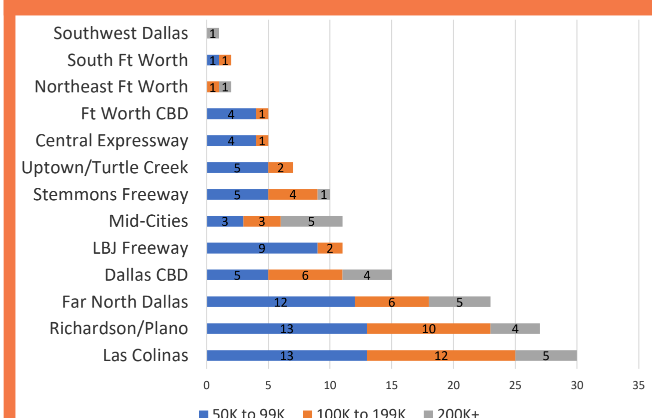
With demand for space down and roughly half of the construction pipeline accounted for, a moderate decrease in the overall occupancy rate is expected to continue for the forseeable future. While newer construction should perform well, there will be older properties that lose tenants and will likely have a hard time backfilling older second generation space.

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



*Includes Sublease Space

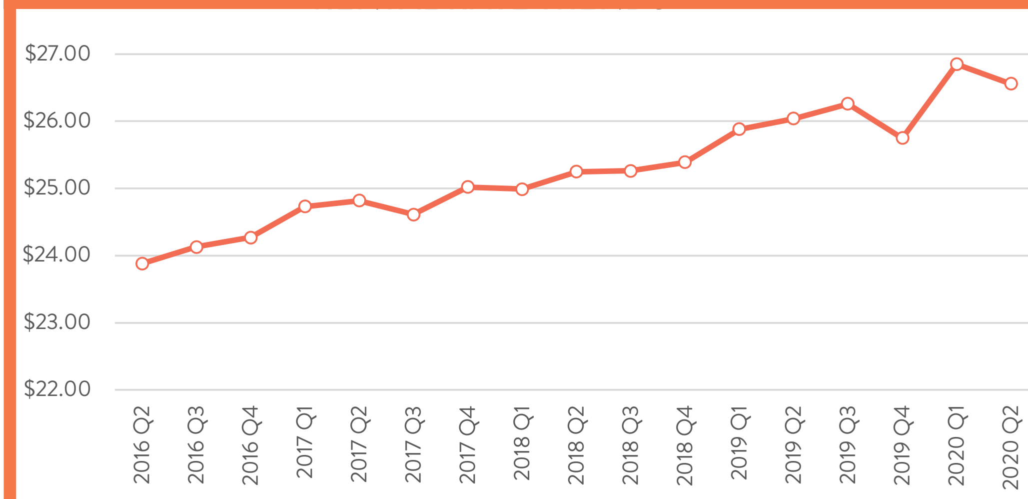
DALLAS-FORT WORTH

Rental Rates

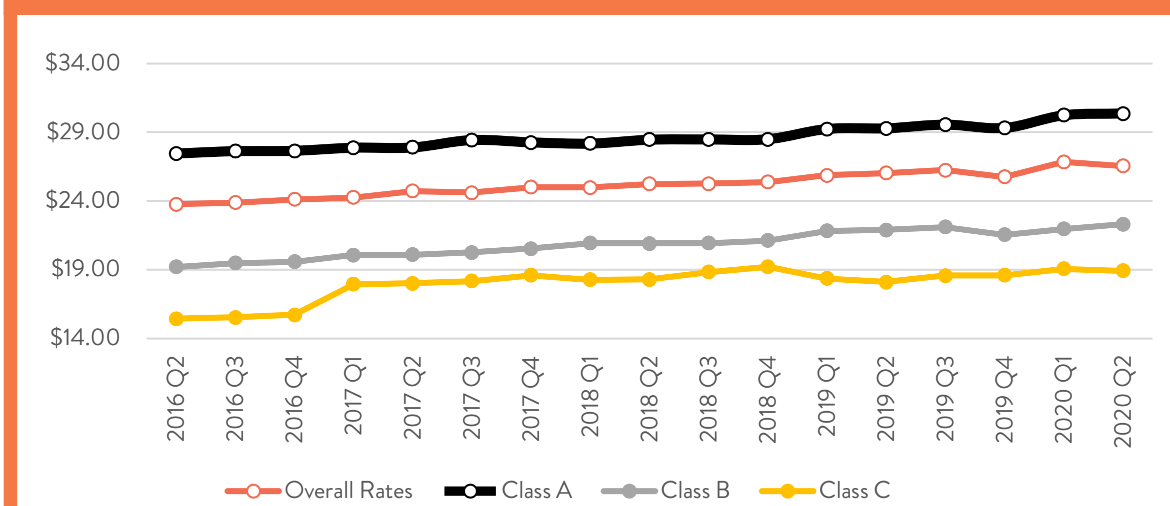
Despite, the negative absorption and lower overall occupancy in 2020 through the first half of the year, average asking rates have only seen a minimal decrease overall. Overall, the total weighted average asking rate is $26.56 (FSG), which while down slightly over the past quarter is still up 52 cents year over year.

Over the past quarter, Class A annual rental rates increased $0.13 to $30.37 (FSG), Class B rates increased $0.35 to $21.97, while Class C rates decreased $0.13 to $18.94.

RENTAL RATE TRENDS



CLASS RENTAL RATES



YOUNGER PARTNERS

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MARKET Insights

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	11,795,494	1,691,931	14.3%	53,582	-20,591	0	0	88,890	$30.44
Dallas CBD	94	32,110,978	7,310,312	22.8%	-51,224	-440,151	0	0	259,230	$26.20
East Dallas	141	5,630,509	471,091	8.4%	-95,937	31,823	0	0	1,154,925	$27.38
Far North Dallas	439	57,769,577	10,146,649	17.6%	237,632	537,305	526,104	786,533	2,433,481	$30.11
Fort Worth CBD	70	10,682,321	1,499,900	14.0%	-21,972	13,404	0	0	0	$28.19
Las Colinas	300	41,806,490	7,025,914	16.8%	-90,724	-232,488	650,000	900,000	501806	$26.37
LBJ Freeway	149	20,488,276	4,083,365	19.9%	68,467	99,739	0	0	0	$23.17
Lewisville/Denton	129	5,807,957	365,800	6.3%	28,984	44,079	35,637	35,637	324,882	$23.89
Mid-Cities	373	27,397,539	4,617,393	16.9%	-332,059	-304,071	85,000	155,000	780,316	$24.43
North Fort Worth	51	3,766,891	132,156	3.5%	16,067	-17,733	16,000	16,000	90,800	$24.05
Northeast Fort Worth	52	3,923,375	564,811	14.4%	-105,617	-123,625	0	0	0	$20.12
Preston Center	52	5,835,109	622,265	10.7%	40,636	35,573	0	0	297,000	$37.09
Richardson/Plano	325	33,277,190	5,921,245	17.8%	38,825	149,174	52,091	104,182	370,000	$24.12
South Fort Worth	178	10,155,629	1,233,657	12.1%	-57,535	-123,933	35,495	35,495	23,031	$24.46
Southwest Dallas	75	3,771,608	541,979	14.4%	-17,056	-41,517	0	28,314	28,314	$23.05
Stemmons Freeway	117	11,185,446	2,722,124	24.3%	-102,856	-249,591	0	0	65,000	$18.24
Uptown/Turtle Creek	103	15,004,368	1,924,859	12.8%	-36,977	32,486	90,000	180,000	656,774	$40.33
TOTAL	2,747	300,408,757	50,875,451	16.9%	-427,764	-610,117	1,490,327	2,241,161	7,074,449	$26.56
CLASS A	575	159,608,663	30,457,140	19.1%	168,938	-4,007	1,170,429	1,755,858	6,325,246	$30.37
CLASS B	1,684	123,074,648	18,902,533	15.4%	-404,289	-356,740	319,898	485,303	749,203	$22.32
CLASS C	488	17,725,446	1,515,778	8.6%	-192,413	-249,370	0	0	0	$18.94
TOTAL DFW	2,747	300,408,757	50,875,451	16.9%	(427,764)	(610,117)	1,490,327	2,241,161	7,074,449	$26.56

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, multitenant and owner occupied; Class A, B and C; existing, under construction or under renovation; excludes medical office buildings and data centers.