Q4 2020

DALLAS-FORT WORTH

OFFICE MARKET REPORT

A REFLECTION ON 2020

MOVING FORWARD

IN THE DFW OFFICE MARKET

YOUNGER PARTNERS

A MESSAGE FROM OUR FOUNDERS

"It is in the books! If you make your livelihood in the office market, "in the books" is a great place to leave 2020. Overall, the Dallas office market weathered the pandemic reasonably well. Absorption turned negative for the first time in years, but optimism returned during the fourth quarter.

Fortunately for Dallas and Texas, corporate relocations will return as the pandemic diminishes. Smaller, entrepreneurial businesses became active in the fourth quarter and we anticipate the office real estate requirements for those companies to increase during 2021. The pent-up demand for office space is developing. The big question is, "When will corporate America return to the office?" We don't have the answer to that question, but we know they will return.

While the snapshot of the Dallas office market in 2020 is not positive, it is interesting. With the exception of the CBD, most of the negative absorption was in submarkets that had performed the best over the past ten years. Those submarkets have the infrastructure, office design, and amenities that are required by corporate users. We anticipate that those submarkets will quickly rebound as users return.

Enhanced detail on individual submarkets can be found on our website. Let's make 2021 great again!"

MOODY YOUNGER **KATHY PERMENTER**

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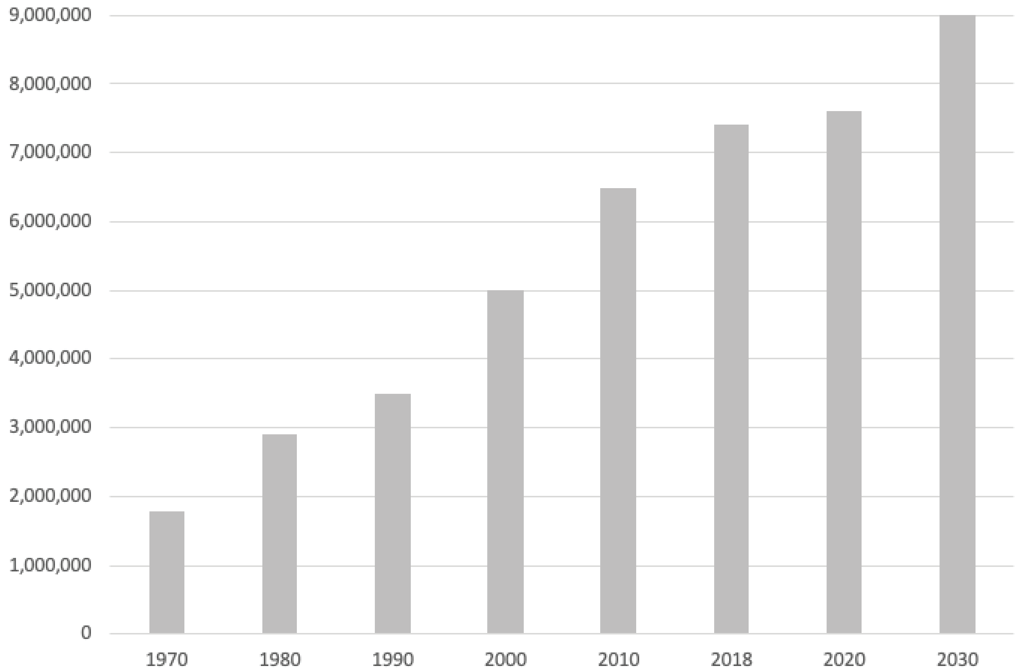
ECONOMIC CONDITIONS

POPULATION

After unprecedented declines in the labor market due to the pandemic and subquent lockdown, the local economy has made big strides in adding back many of the jobs lost during 2020. 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 6.1% as of November 2020) and job losses (96,100 year over year) as the COVID 19 lockdown in early 2020 brought most of the economy to a temporary standstill. Since May, however, DFW's payroll numbers have rebounded significantly, yet still stubbornly below levels seen in February, before COVID 19 measures took effect.

The unemployment rate fell to 6.1 percent in Dallas-Fort Worth for November 2020, lower than the state and national rates of 8.1 and 6.7 percent, respectively.

DALLAS/FORT WORTH POPULATION GROWTH

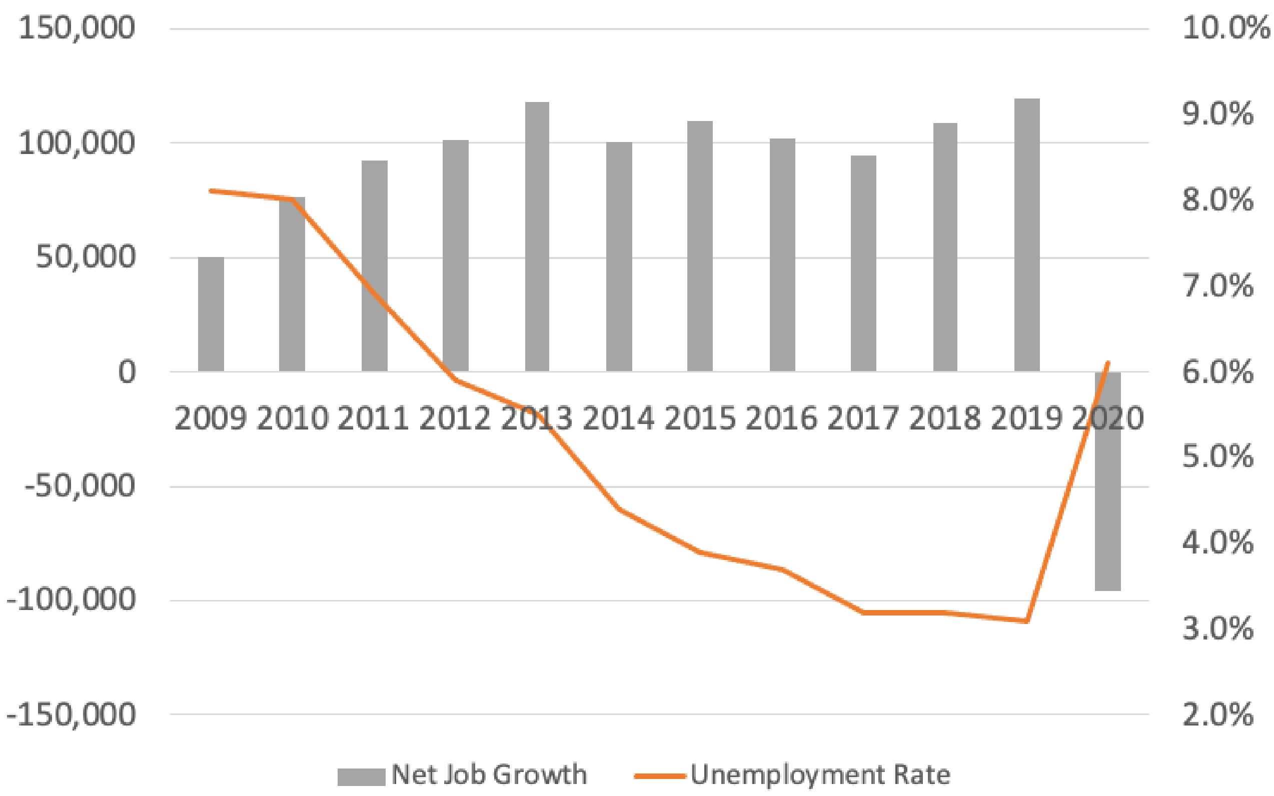


Source: North Texas Council of Governments; US Census

Longer term, DFW's more affordable home prices, lower costs of living and tax advantages are expected to play a key role in high net migration to Dallas-Fort Worth for the forseeable future. Companies and individuals from higher priced coastal markets like San Francisco, Los Angeles and New York City have opted to exodus 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, Deloitte, Charles Scwab, 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 7.6 million. Since the last census in 2010, the Census Bureau estimates the population of the Dallas-Fort Worth MSA grew by 23.1%. This was the most of any metropolitan area in the country for the same time period.

DFW JOB GROWTH & UNEMPLOYMENT RATE

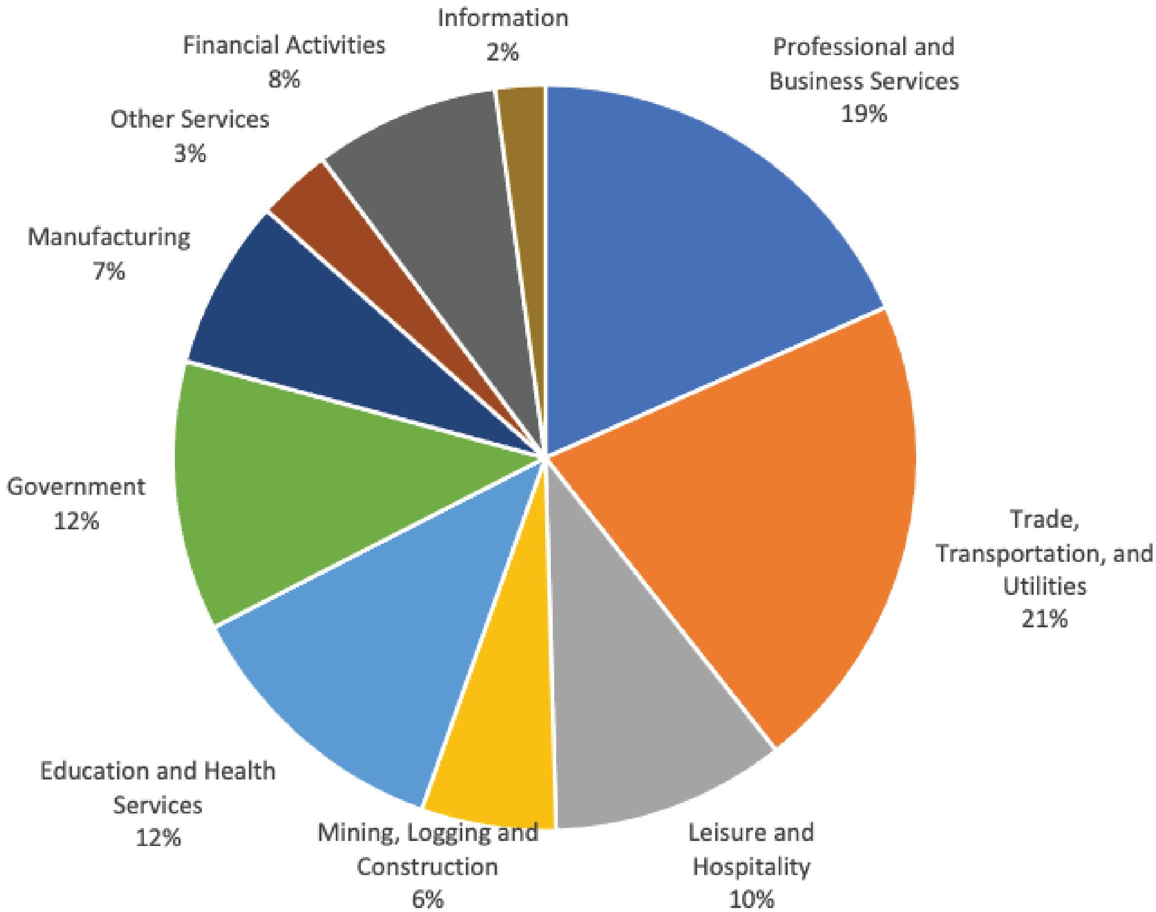


After several years of very strong job growth, the Dallas-Fort Worth-Arlington metropolitan area saw an unprecedented decline in jobs in 2020 (due to the COVID 19 pandemic and subsequent shutdown). Employment losses were widespread across industries, with only financial services seeing a slight year-over-year increase. All other industries had a combined loss of 96,100 jobs over the past year.

EMPLOYMENT

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

EMPLOYMENT BY INDUSTRY (NOVEMBER 2020)



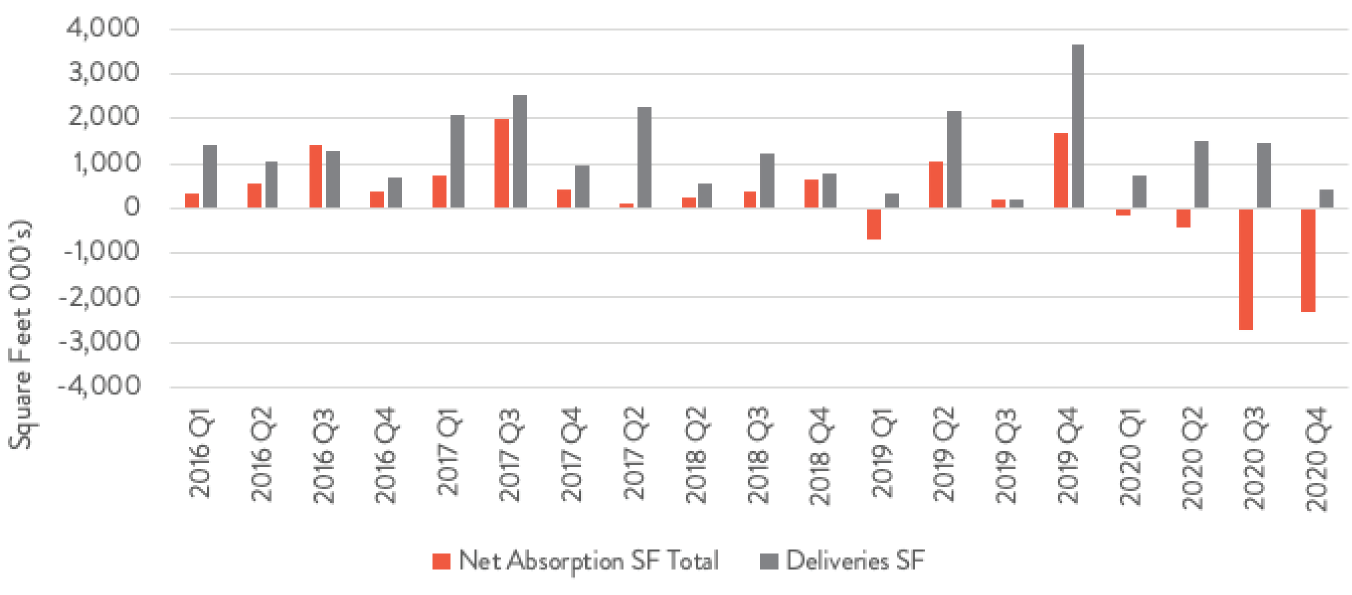
According to the Bureau of Labor Statistics, Dallas-Fort Worth was the fourth largest employment market in the nation with total non-farm employment of over 3.8 million as of November 2020. Of this total, 29% or more than 1 million jobs were in the office-using sectors of Professional and Business Services, Financial Activities, and Information.

OFFICE MARKET CONDITIONS

DEMAND & SUPPLY

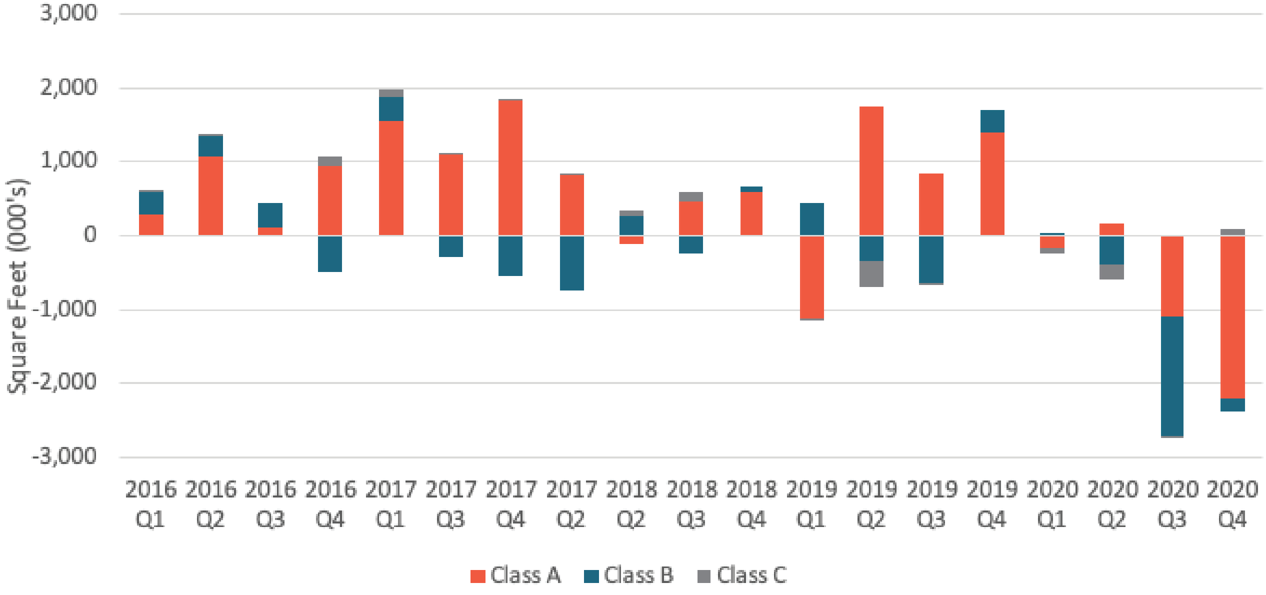
Though not as negative as the third quarter, office demand remained very low in the fourth quarter with 2.3 million square feet of negative absorption for the fourth quarter of 2020. For the year as a whole, 5.7 million square feet of negative absorption was recorded, with roughly half of that due to vacant sublease space. While all property classes have been negative for the year, the most negative absorption so far has been Class A with 3.3 million square feet. This negative net absorption combined with 4.1 million square feet of new deliveries has pushed overall occupancy rate down to 81.1%.

NET ABSORPTION & DELIVERIES



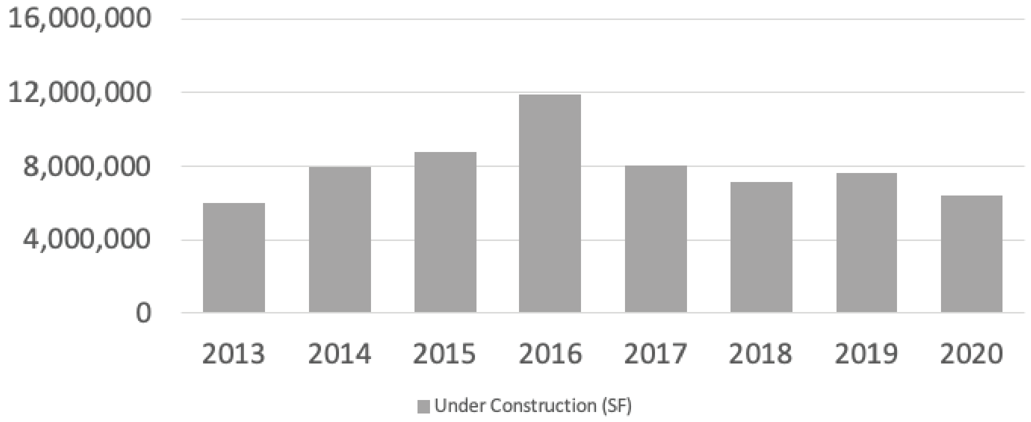
Among the property classes, Class A properties recorded a negative 2,203,074 square feet in the fouth quarter, while Class B was a negative 188,729 square feet and Class C properties had a positive 88,375 square feet.

CLASS NET ABSORPTION



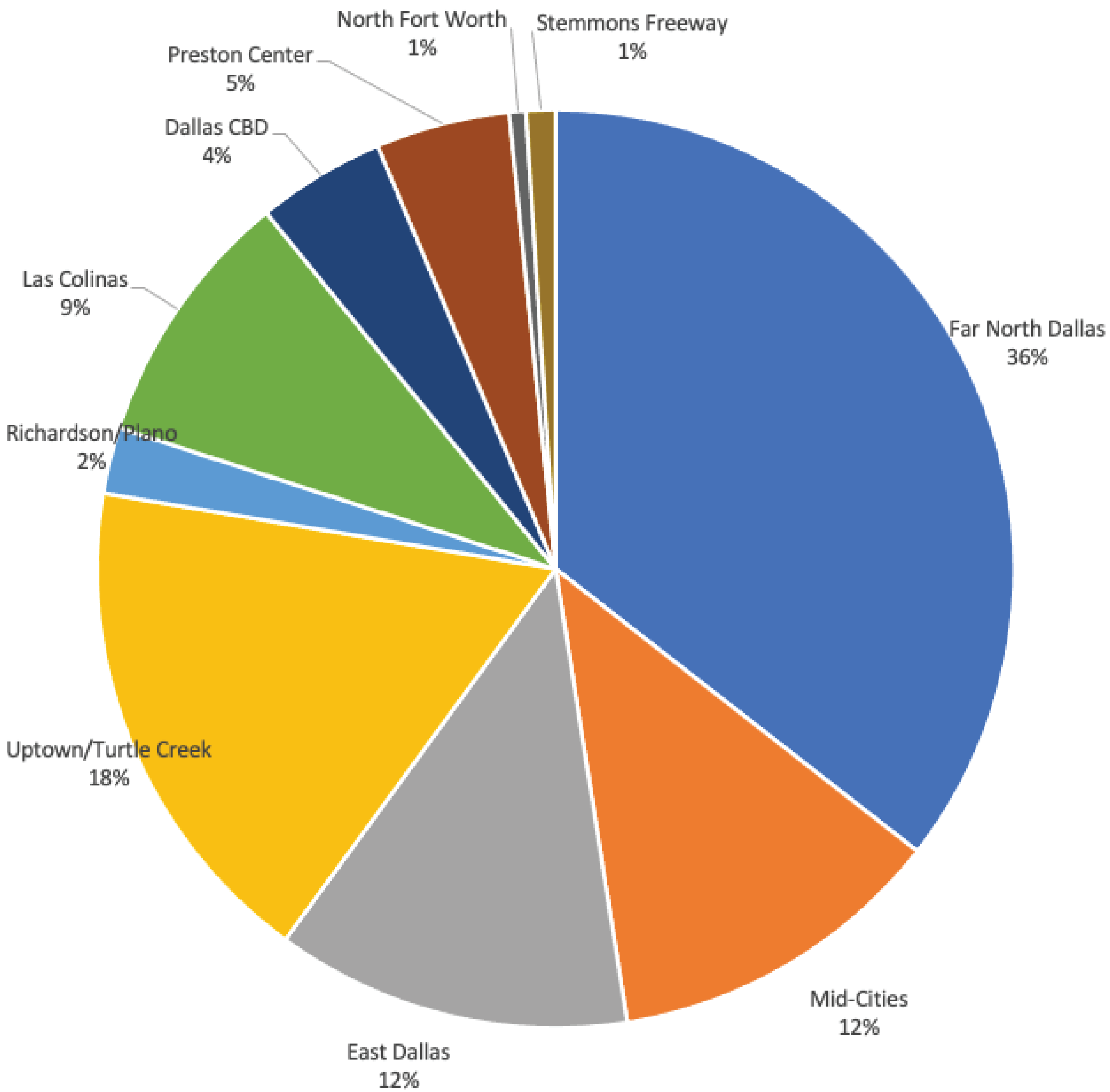
As of the of December 2020, there was a total of 6,346,168 rentable square feet of office space under construction in Dallas-Fort Worth. Of the 6.3 million square feet of construction currently underway, 4.8 million square feet is scheduled for delivery in 2021.

DFW NEW CONSTRUCTION



Of the 6.3 million square feet of space currently under construction, a little more than half (59% percent) has been accounted for through a combination of built-to-suits and pre-leasing.

DFW UNDER CONSTRUCTION (6.3 MILLION SQUARE FEET)

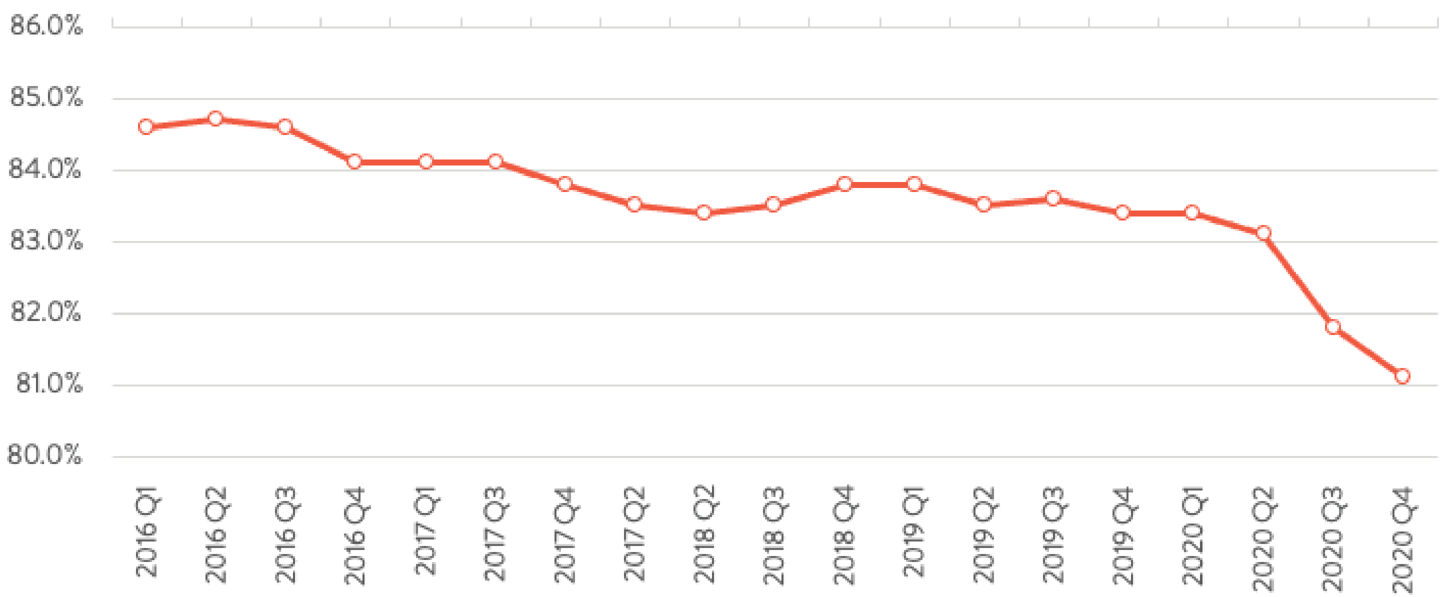


JP Morgan Chase (phase 2), Keurig Dr Pepper new buil-to-suit and several spec office construction projects (Headquarters II, Frisco Station, Legacy Town Center) make Far North Dallas currently the most active submarket, with 36% of the current under construction pipeline. East Dallas, a traditionally very small and inactive submarket, currently has a large build-to-suit project for Uber (Epic Phase 2 that gives the submarket a 12% of the construction pipeline.)

OCCUPANCY TRENDS

Overall occupancy continued is steady decline with a combination of soft demand and new vacant sublease space creating an extreme dip in occupancy over the two quarters. Outside of the surge in sublease space, during the past five years, 6.6 million square feet has been absorbed while new office construction for that same time period has been almost 28 million square feet. This dynamic has been in place for a couple of reasons, but one of the primary reasons is that developers have little 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.

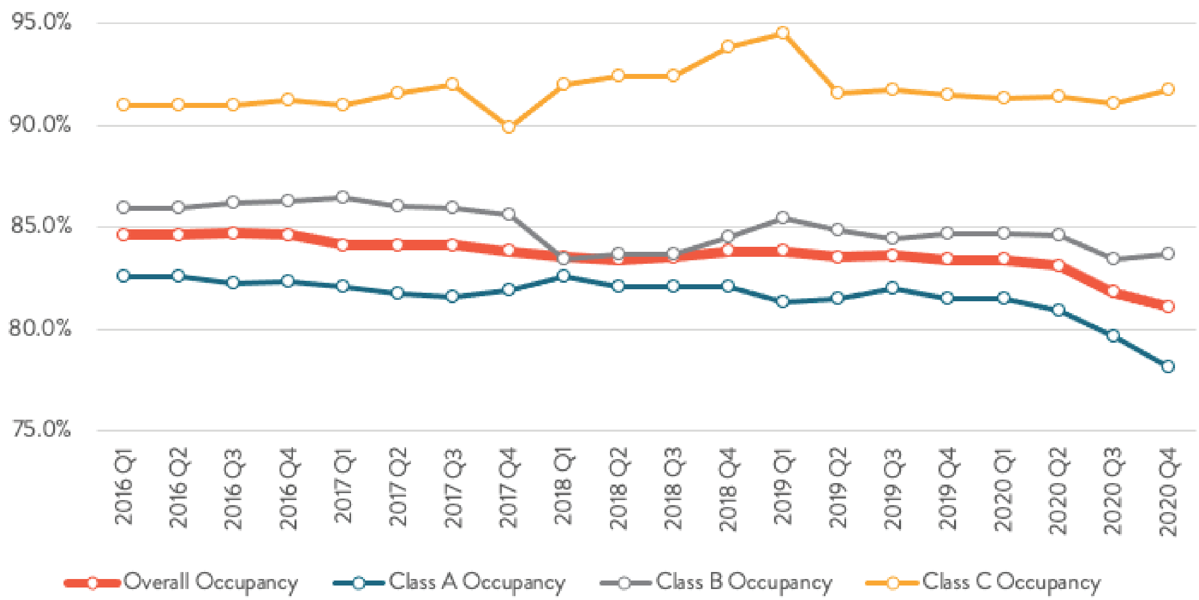
OCCUPANCY TRENDS



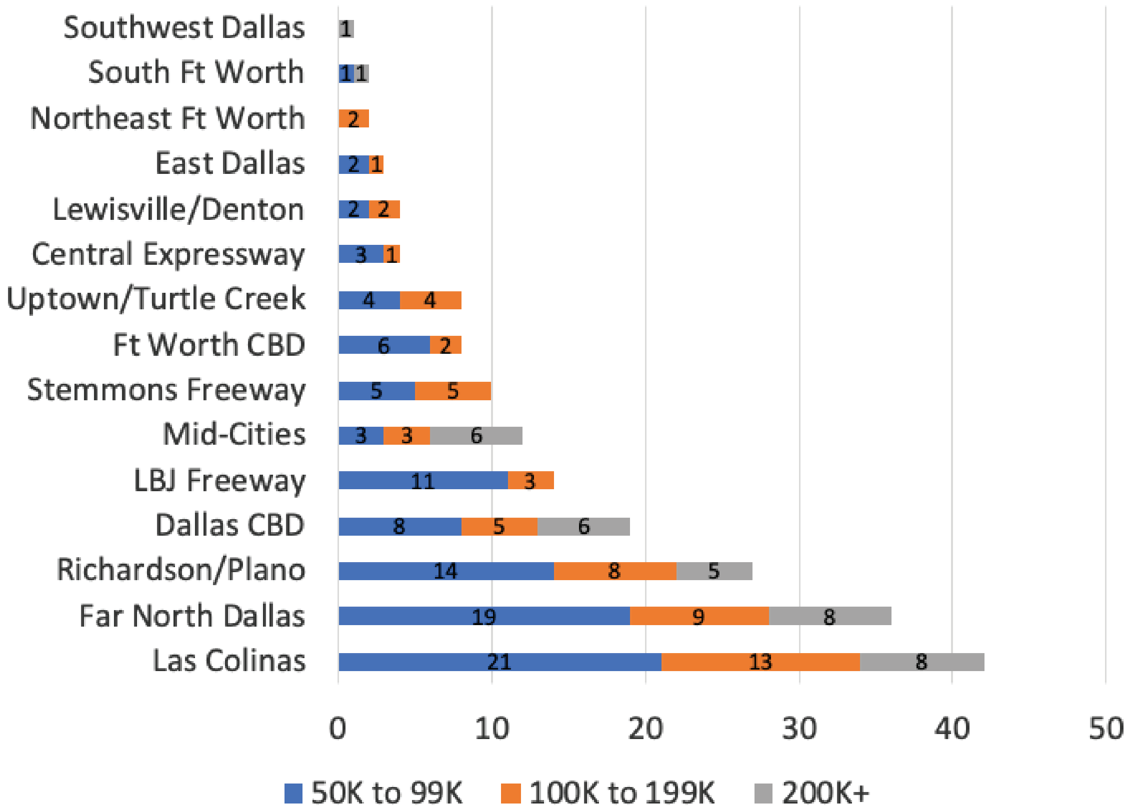
There are several older large office projects that are currently vacant or have very large blocks of space, including the 1.6 million-square-foot former HP headquarters at 5400 Legacy, American Airlines' recently vacated 1.3 million-square-foot former headquarters campus in Fort Worth and JCPenney's 1 million square feet at their former headquarters at the Campus at Legacy West for a much smaller sublease space at Fossil's building in Richardson.

With demand for space currently in negative territory and a little over 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 moderately well, there will be older properties that lose tenants and will likely have a hard time backfilling older second generation space. This, combined with record high sublease space, will put downward pressure on occupancy over the next few quarters.

CLASS OCCUPANCY



BIG BLOCKS OF SPACE

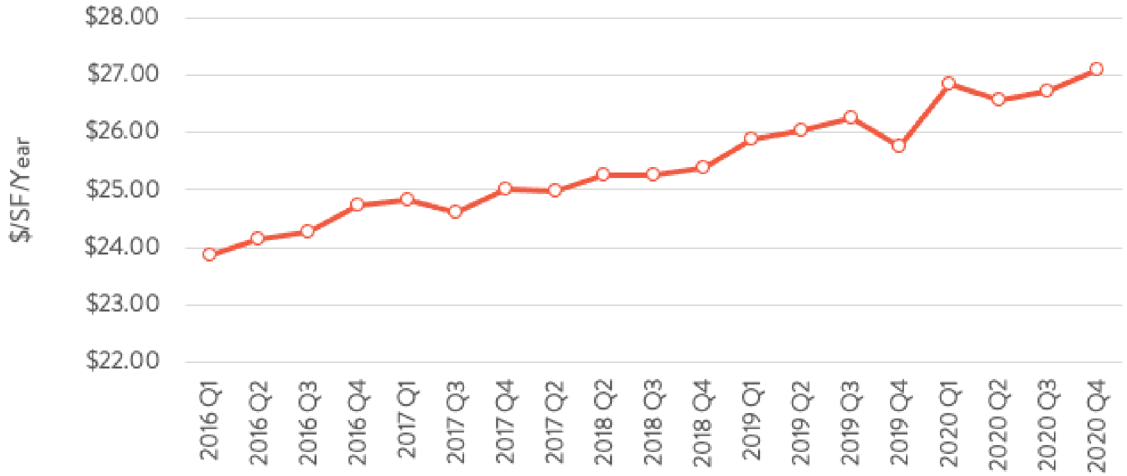


Despite the elevated levels of new construction over the past five years, one of the highest risks in the market is the amount of large blocks of second-generation spaces that will need to be backfilled (many of which were recently vacated for the large build-to-suit projects).

RENTAL RATE TRENDS

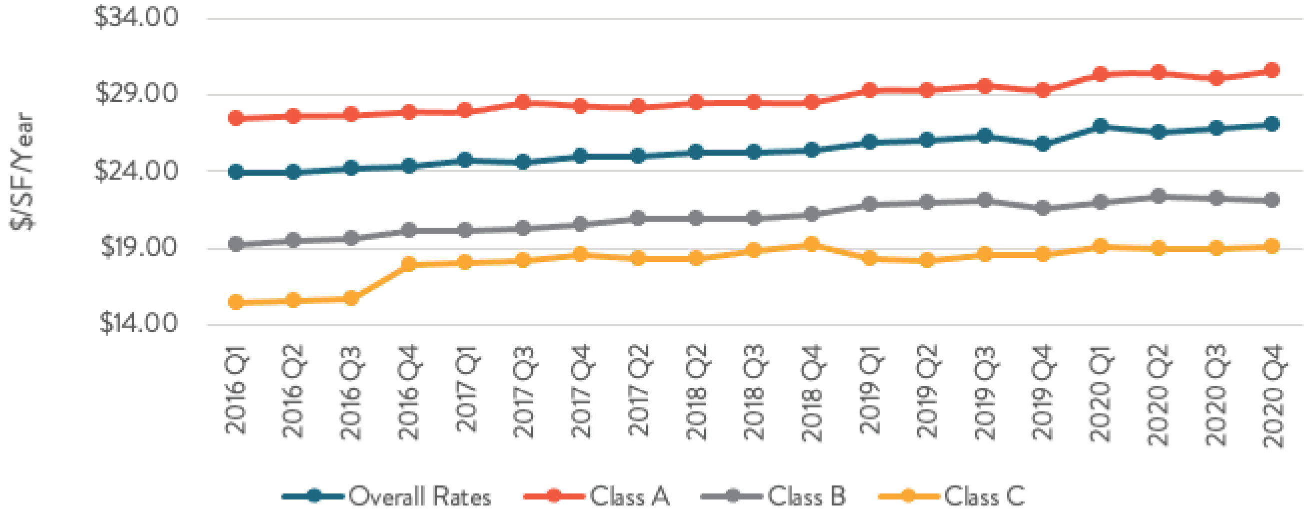
Despite the negative absorption and lower overall occupancy in 2020, average asking rates have flattened but not fallen significantly over the past few quarters. Overall, the total weighted average asking rate is $27.10 (FSG), which is up $0.25 from the beginning of the year.

RENTAL RATE TRENDS



Over the past quarter, Class A annual rental rates increased $0.46 to $30.53 (FSG), Class B rates decreased $0.09 to $22.07, while Class C rates increased $0.12 to $19.04.

CLASS RENTAL RATES



SUBMARKETS

SELECT SUBMARKETS	INVENTORY # OF BLDGS	INVENTORY TOTAL SF	TOTAL VACANCY TOTAL SF	TOTAL 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	11,824,329	2,129,113	18.0%	-302,890	-358,351	40,532	99,422	30,000	$31.14
Dallas CBD	94	32,118,818	7,846,848	24.4%	51,673	-976,687	0	0	284,600	$25.99
East Dallas	141	5,808,414	612,825	10.6%	-102,243	182,132	0	300,000	788,116	$27.52
Far North Dallas	439	57,703,297	12,790,397	22.2%	-2,245,659	-1,881,954	0	1,164,176	2,234,772	$31.28
Fort Worth CBD	70	10,525,587	1,529,720	14.5%	79,901	-13,389	0	0	0	$27.05
Las Colinas	300	41,723,457	7,918,479	19.0%	-224,759	-1,044,247	0	980,806	575,877	$26.03
LBJ Freeway	149	20,351,718	4,381,191	21.5%	40,462	-198,087	0	0	0	$23.22
Lewisville/Denton	129	5,913,637	711,099	12.0%	-8,185	-46,997	162,358	314,061	0	$24.70
Mid-Cities	373	27,083,198	4,492,611	16.6%	166,163	-437,869	81,259	383,127	752,143	$24.48
North Fort Worth	51	3,726,979	103,429	2.8%	95,632	41,994	0	47,000	36,800	$24.50
Northeast Fort Worth	52	3,809,734	524,398	13.8%	-9,343	-140,144	0	0	0	$20.88
Preston Center	52	5,843,647	626,943	10.7%	19,628	27,517	0	0	297,000	$38.37
Richardson/Plano	325	32,467,643	6,057,560	18.7%	309,921	175,038	100,000	404,182	146,772	$23.81
South Fort Worth	178	10,183,050	1,412,482	13.9%	-6,526	-252,147	23,031	106,038	0	$24.22
Southwest Dallas	75	3,733,666	554,671	14.9%	35,174	-22,355	0	73,314	28,314	$23.09
Stemmons Freeway	117	10,383,990	2,331,798	22.5%	-126,174	-419,735	0	50,091	65,000	$18.52
Uptown/Turtle Creek	103	15,019,011	2,247,946	15.0%	-76,203	-290,601	0	180,000	1,106,774	$41.18
TOTAL	**2,747**	**298,220,175**	**56,271,510**	**18.9%**	**-2,303,428**	**-5,655,882**	**407,180**	**4,102,217**	**6,346,168**	**$27.10**
CLASS A	575	161,454,908	35,302,066	21.9%	-2,203,074	-3,299,353	245,031	3,092,417	5,815,624	$30.53
CLASS B	1,684	120,330,640	19,609,018	16.3%	-188,729	-2,165,802	162,149	1,009,800	530,544	$22.07
CLASS C	488	16,434,627	1,360,426	8.3%	88,375	-190,727	0	0	0	$19.04
TOTAL DFW	**2,747**	**298,220,175**	**56,271,510**	**18.9%**	**-2,303,428**	**-5,655,882**	**407,180**	**4,102,217**	**6,346,168**	**$27.10**

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

OUR APPROACH

YOUNGER PARTNERS

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.

Younger Partners is not your ordinary commercial real estate company. The same can be said for the properties we represent. Our marketing is tailored to promote each property's strengths. We brand and showcase the different qualities accordingly, to stand out in the real estate community. Because of our customized approach, our marketing is recognized for being the most unique and creative in the DFW metroplex.

When it comes to analytics, we focus not only on the data, but also the insight behind the data. Information and technology are continuing to progress to a level where data is readily available to everyone. However, conscious interpretation of this data is rare. We specialize in providing an astute understanding into market trends that are often overlooked.

STEVE TRIOLET, DIRECTOR OF RESEARCH

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