



Office Q2 2020

18.8%

Vacancy Rate

YoY
Chg12-Mo.
Forecast**-1.8M**

Net Absorption*, SF

**\$26.44**

Asking Rent**, PSF



(Overall, All Property Classes)

*12-Mo Forecast arrow indicates net absorption will trend more positive than -1.8M

**Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS

Q2 2020

3.5MDallas/Fort Worth
EmploymentYoY
Chg12-Mo.
Forecast**12.8%**Dallas/Fort Worth
Unemployment Rate**13.0%**U.S.
Unemployment Rate

Source: BLS

ECONOMY

While population growth continued its positive trend, the Dallas-Fort Worth (DFW) economy weakened along with the rest of the country. The region's population increased by 126,080 people year-over-year, equating to an average of 345 new residents per day, while the job market lost 272,300 positions. As of June 2020, the population reached a new high of 7.8 million residents.

According to Moody's Analytics, office-using jobs accounted for 52,937 (19%) of the jobs lost. Office-using roles are described as positions that fall within the business and professional services, information/technology, and financial activities. The leading indicator of office demand is driven by business and professional services roles, which account for a majority of office-using employment at 60% (592,909 jobs). The region's office employment totaled 983,061 jobs as of the end of June. With huge increases in unemployment over the last few months, the unemployment rate rose from 3.2% in Q2 2019 to 12.8% in Q2 2020, but remained below the national unemployment rate.

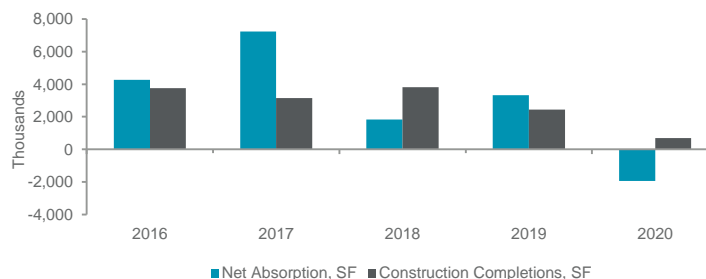
The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

SUPPLY

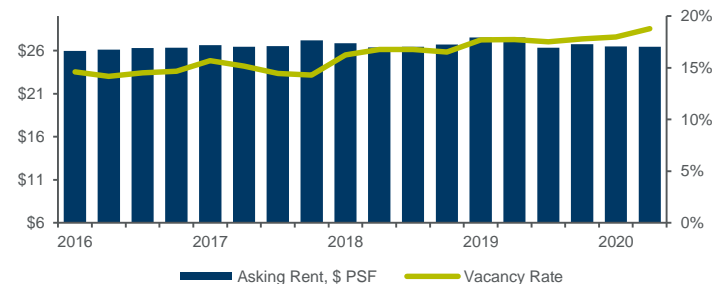
Despite the market conditions, the DFW market delivered 477,675 square feet (sf) of new product in Q2. The largest project delivered was the Sound at Cypress Waters at 3200 Olympus Blvd in the Las Colinas submarket. The delivery accounted for 52.3% of total square footage completed in the quarter.

Currently there are 4.7 million square feet (msf) in the pipeline to be completed over the next 24 months. With just over half of under construction inventory reported as vacant, projects continued to be delivered preleased as occupiers pursued a flight to quality. In turn, this will continue to offset tenant move-outs from third-generation spaces. The Legacy/Frisco submarket is the current leader in under construction activity at 1.9 msf. The largest under construction project is The Epic II at 470,000 sf in the East Dallas submarket.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





DEMAND

The DFW office market had its second consecutive quarter of negative occupancy growth and absorbed -1.8 msf in second quarter 2020. Much of this negative absorption was caused by the sale of American Airlines Corporate Headquarters, which was fully vacant at the time of sale (-1.4 msf). A total of 10 submarkets did show occupancy growth, led by Uptown/Turtle Creek (132,649 sf) and Las Colinas (37,665 sf).

A flight to quality persisted despite the recorded Class A absorption number of -1.2 msf. Extracting the impact of the American Airlines campus sale, Class A absorption remained positive at 159,480 sf, whereas Class B and Class C had negative absorption of -551,577 sf and -47,770 sf respectively. The largest move-ins this quarter were T-Mobile in Legacy/Frisco (199,800 sf), Sky Chefs, Inc. (100,661 sf) in Las Colinas, and Walgreens/Alliance RX (95,000 sf) in West Love Field. Legacy/Frisco remained a popular submarket for new tenants, and led all submarkets with 346,413 sf of leasing activity in Q2.

Direct spaces represented the bulk of the market vacancy at 17.6% (42.2 msf), while sublease space represented 1.3% (3.0 msf) of market vacancy. Due to the majority of new projects being delivered as Class A inventory and the American Airlines campus sale, Class A space held the highest overall vacancy at 20.0%, while Class B and C trailed at 17.5% and 12.4%, respectively. As with absorption, the American Airlines campus sale was a large driver in vacancy rates. Extracting the impact of the sale, the vacancy rate for DFW and Class A space falls to 18.3% and 19.0% respectively. Submarkets with the lowest overall vacancy rates included West Fort Worth (4.7%), South Fort Worth (5.2%), and Lewisville/Carrollton (11.2%).

PRICING

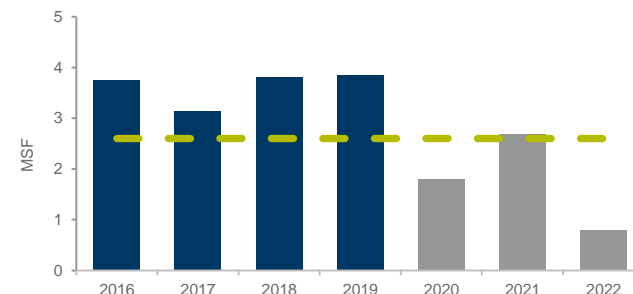
Overall rental rates decreased by 3.9% year-over-year to \$26.44 per square foot (psf) on an annual full-service basis. The Uptown/Turtle Creek submarket remained the leader with the highest overall average asking rates in DFW with rents at \$47.54. Preston Center followed at \$41.27 and Legacy/Frisco at \$33.37.

As expected, Class A registered the highest average asking rate at \$30.59 psf, while Class B and C reported more economical rates of \$20.43 and \$17.10, respectively. Demand for Class A space continued to remain strong with rental rates increasing by 2.56% compared to the previous year.

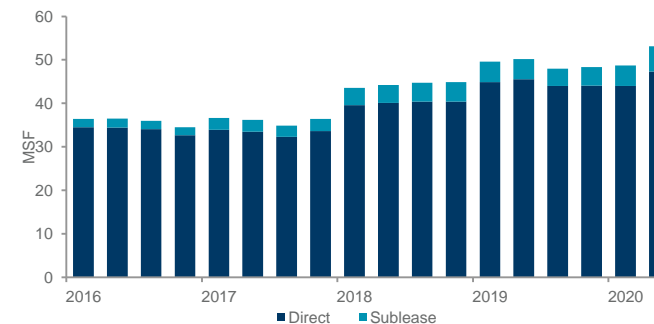
Outlook

- Class A office market fundamentals will continue to remain strong as tenants flock to quality assets and move out of older Class A, B and C buildings. As a result, bifurcation of Class A and B rental rates in opposing directions will continue.
- Sublease availability has begun to increase and is expected to continue rising in the coming quarters as companies deal with the effects of the shutdowns and shelter-in-place ordinances.

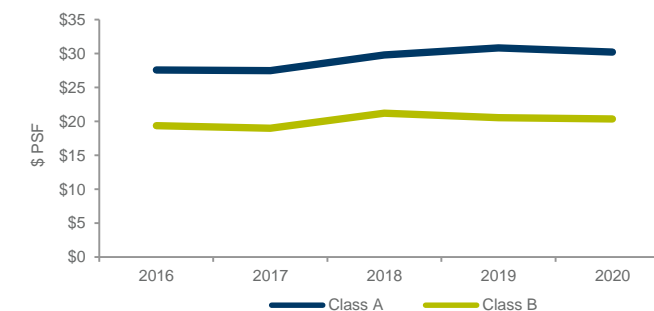
NEW SUPPLY



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON





Office Q2 2020

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CBD Core	20,058,735	506,223	4,857,817	26.7%	34,883	-124,645	194,074	259,230	\$20.90	\$21.45
Arts District	6,601,774	238,000	1,431,346	25.3%	3,399	-34,255	72,405	0	\$42.72	\$42.72
West End	1,728,027	4,213	460,457	26.9%	17,969	17,458	59,108	0	\$31.63	\$42.27
DALLAS CBD TOTAL	28,388,536	748,436	6,749,620	26.4%	56,251	-141,442	325,587	259,230	\$26.13	\$27.11
North Central Expressway	12,727,342	104,912	1,939,453	16.1%	-124,840	-183,429	211,796	30,000	\$30.64	\$32.78
Preston Center	3,982,635	48,836	442,220	12.3%	-19,435	-5,471	71,313	298,000	\$41.27	\$43.53
West Love Field	10,399,569	38,757	2,337,485	22.8%	33,857	45,830	45,347	0	\$17.27	\$20.01
LBJ Freeway	18,723,253	105,663	4,112,987	22.5%	-94,872	-7,908	488,040	0	\$21.22	\$25.58
Las Colinas	34,888,291	170,898	5,844,021	17.2%	37,665	74,152	529,629	505,000	\$25.78	\$30.05
Far North Dallas	19,895,983	431,062	3,701,144	20.8%	-123,896	-235,897	757,934	0	\$25.23	\$30.43
Richardson/Plano	26,716,677	236,858	4,643,621	18.3%	21,699	-41,034	821,486	200,000	\$24.12	\$26.81
Mid Cities	11,117,134	49,759	2,612,972	24.0%	-1,397,090	-1,450,084	284,561	0	\$22.00	\$26.66
Lewisville/Carrollton	5,131,510	441	576,796	11.2%	-21,182	-24,498	101,878	120,000	\$22.22	\$40.56
Southwest Dallas	1,849,820	0	328,112	17.7%	-3,285	-2,475	8,975	0	\$23.72	\$24.99
Legacy/Frisco	27,010,764	595,088	3,641,805	15.7%	-98,486	34,525	1,054,665	1,909,465	\$33.37	\$36.31
Southlake/Westlake	4,808,334	235,958	973,658	25.2%	-164,965	-86,160	197,410	81,259	\$26.27	\$26.76
East Dallas	2,776,689	0	364,672	13.1%	-19,311	76,946	15,707	670,000	\$15.40	N/A
Uptown/Turtle Creek	13,183,563	164,381	1,799,481	14.9%	132,649	76,912	474,403	644,244	\$47.54	\$48.97
DALLAS SUBURBS TOTAL	193,211,564	2,182,613	33,318,427	18.4%	-1,841,492	-1,728,591	5,063,144	4,457,968	\$26.65	\$31.35
DALLAS TOTAL	221,600,100	2,931,049	40,068,047	19.4%	-1,785,241	-1,870,033	5,388,731	4,717,198	\$26.55	\$30.29
Fort Worth CBD	10,995,951	78,014	1,322,504	12.7%	-50,853	-79,095	256,156	0	\$26.17	\$28.70
East Fort Worth	1,479,498	0	157,899	10.7%	8,391	3,552	11,273	0	\$15.50	N/A
North Fort Worth	2,184,957	0	487,497	22.3%	7,188	7,188	27,604	0	\$20.04	\$22.77
South Fort Worth	1,667,268	7,237	78,730	5.2%	4,074	29,903	18,774	0	\$22.17	\$34.43
West Fort Worth	2,325,308	9,885	98,546	4.7%	-12,145	-18,876	2,079	0	\$22.20	\$24.13
FW SUBURBS TOTAL	7,657,031	17,122	822,672	11.0%	7,508	21,767	59,730	0	\$19.49	\$25.07
FORT WORTH TOTAL	18,652,982	95,136	2,145,176	12.0%	-43,345	-57,328	315,886	0	\$24.12	\$28.50
DFW TOTAL	240,253,082	3,026,185	42,213,223	18.8%	-1,828,586	-1,927,361	5,704,617	4,717,198	\$26.44	\$30.22

*Rental rates reflect gross asking \$psf/year

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1500 Solana Blvd	Southlake / Westlake	Goosehead Insurance	124,661	Expansion/Renewal
4400 Sam Rayburn	Lewisville / Carrollton	Global Medical Response	60,742	New Lease
8150 N Central Expy	North Central Expressway	Istation	50,000	Renewal

KEY SALES TRANSACTIONS Q2 2020

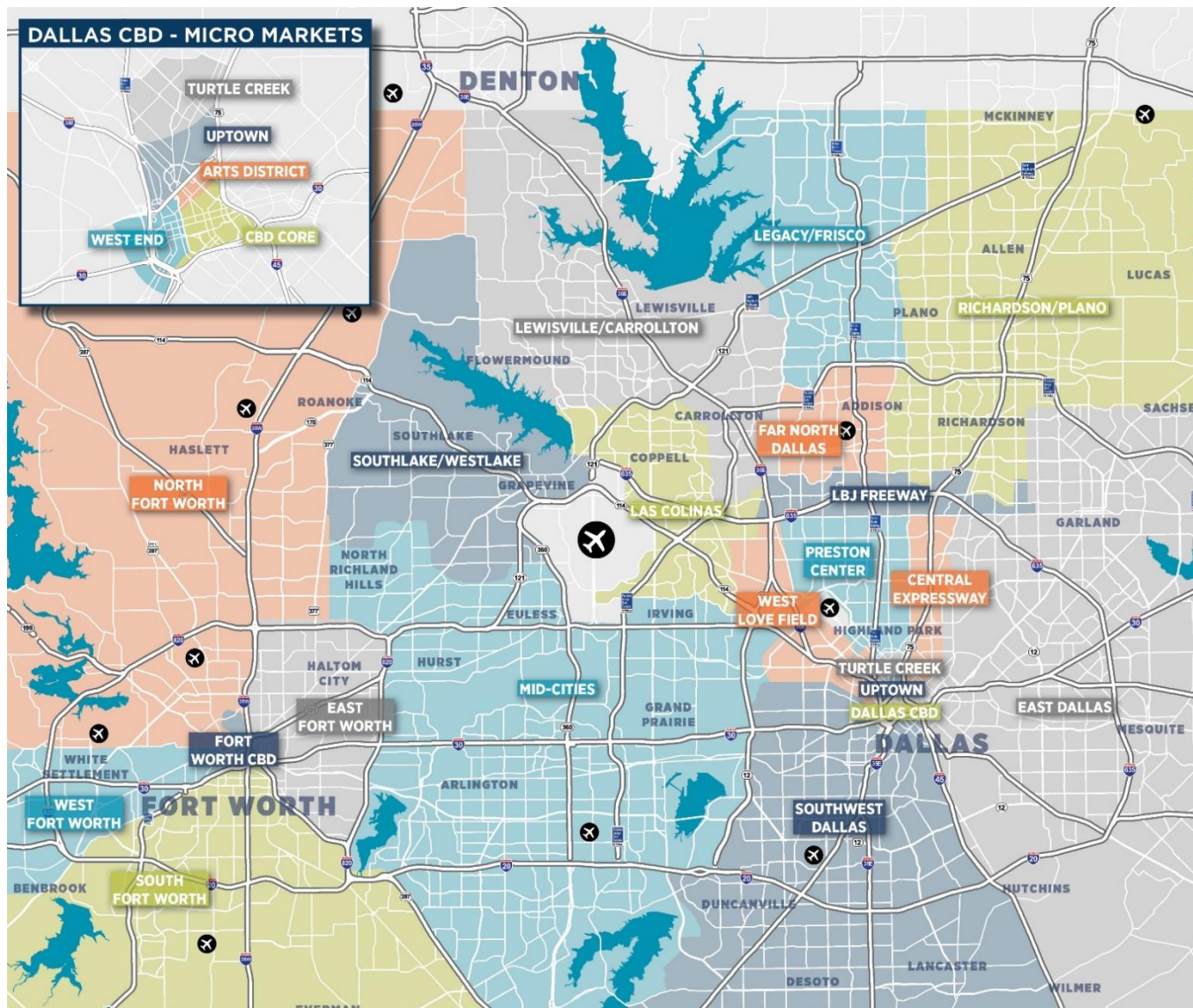
PROPERTY	SUBMARKET	SELLER/BUYER	SF
American Airlines Headquarters	Mid Cities	Capital Commercial Investments / American Airlines Group	1,388,729
Mockingbird Towers	West Love Field	Caddo Holdings / Albany Road Real Estate Partners	462,924
8333 Douglas at Douglas Center	Preston Center / Near N Dallas	Lionstone Partners / Bandera Ventures	275,943

DALLAS/FORT WORTH

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**CUSHMAN &
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OFFICE SUBMARKETS

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