

Office Q3 2020

	YoY Chg	12-Mo. Forecast
20.5% Vacancy Rate	▲	▲
-2.1M Net Absorption, SF	▼	▼
\$26.43 Asking Rent*, PSF	▲	▼

(Overall, All Property Classes)
*Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
3.7M Dallas/Fort Worth Employment	▼	▲
6.8% Dallas/Fort Worth Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY

Still dealing with the effects of government restrictions on workplaces and business in general, the Dallas-Fort Worth (DFW) economy strengthened in Q3 2020. While the unemployment rate remains high relative to last year, the area added 105,520 jobs this quarter compared to Q2 2020. The region's population increased by 124,308 people year-over-year (YOY), and by 29,933 in Q3 alone. As of September 2020, the population reached a new high of 7.8 million residents.

According to Moody's Analytics, office-using jobs fell by 12,801 positions YOY in Q3. 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 59% (637,344 jobs). The region's office employment totaled 1,084,182 jobs as of the end of September.

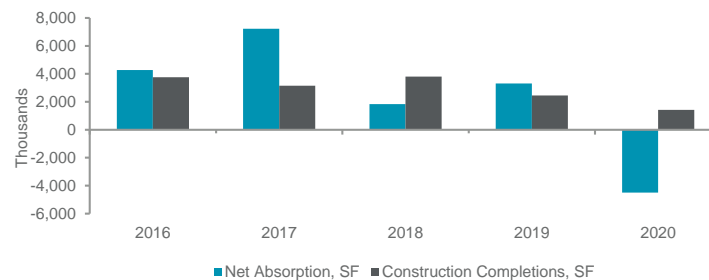
Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

SUPPLY

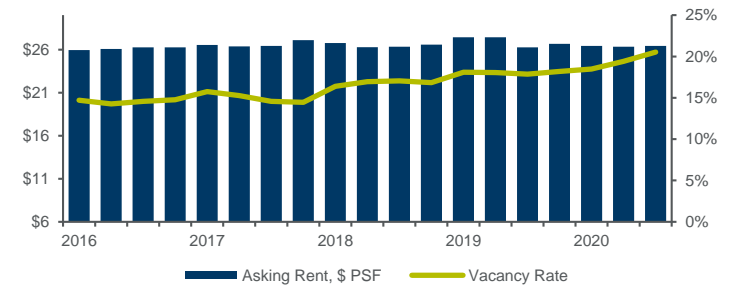
Deemed an essential business, construction continued mostly uninterrupted in DFW. In Q3 2020 the DFW market delivered 728,448 square feet (sf) of new product. The largest projects delivered were both in Cypress Waters Office Park: Building A and B, each 201,000 sf in the Las Colinas submarket. These two deliveries accounted for 55.2% of the total square footage completed in the quarter.

Currently there are 4.2 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. However, a drop in overall leasing activity has led to a drop in preleasing. The Legacy/Frisco submarket is the current leader in under construction activity at 2.1 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



DALLAS/FORT WORTH



Office Q3 2020

DEMAND

The DFW office market had its third consecutive quarter of negative occupancy growth and absorbed -2.1 msf in the third quarter of 2020. This number was largely driven by companies downsizing their real estate space by consolidating their employees into fewer locations, and/or putting part of their space up for sublease. Legacy/Frisco continued to be a bright spot for the DFW office market, as one of only two submarkets to show positive occupancy in the quarter at 100,117 sf. Preston Center also showed positive occupancy growth at 51,470 sf.

Unlike previous quarters, Class A assets were not insulated from falling occupancy in Q3. Class A and B absorption were comparable, at -917,869 sf and -1.1 msf respectively. It is important to note that Class A space makes up 59% of all inventory in DFW, while Class B makes up just 37%. The largest move-ins this quarter were USAA (124,366 sf) in Legacy/Frisco, Caris Life Sciences (114,500 sf) in Las Colinas, and Addus Healthcare (74,000 sf) in Legacy/Frisco. Las Colinas led all submarkets with 800,628 sf of leasing activity in Q3, led primarily by a 403,150 sf lease signed by Vistra Energy at 1925 W John Carpenter Fwy.

Despite the increase in vacant sublease space, direct spaces represented the bulk of the market vacancy at 18.8% (45.2 msf), while sublease space represented 1.7% (4.1 msf) of market vacancy. Due to the majority of new projects being delivered as Class A inventory, Class A space held the highest overall vacancy at 21.3%, while Class B and C trailed at 19.8% and 15.6%, respectively. The Dallas submarkets with the lowest overall vacancy rates included Preston Center (11.6%), Lewisville/Carrollton (12.6%) and Uptown (14.7%).

PRICING

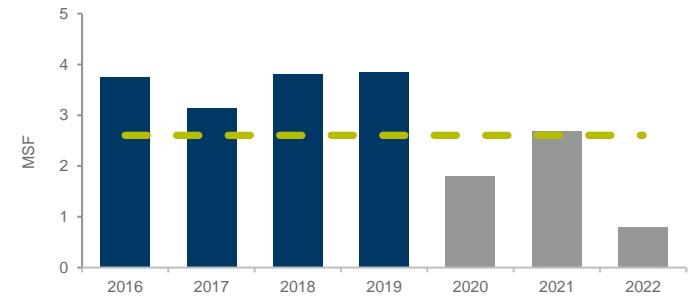
Overall rental rates remained nearly flat, increasing by just 0.6% YOY to \$26.43 per square foot (psf) on an annual full-service basis. Rental rates were also flat when compared to Q2 2020. The Uptown/Turtle Creek submarket remained the leader with the highest overall average asking rates in DFW with rents at \$47.14. Preston Center followed at \$41.57 and Legacy/Frisco at \$33.66. Rather than lowering asking rates, landlords will offer competitive concession packages which includes free rent, additional tenant improvement dollars and abated parking fees.

As expected, Class A registered the highest average asking rate at \$30.48 psf, while Class B and C reported more economical rates of \$20.44 and \$17.36, respectively.

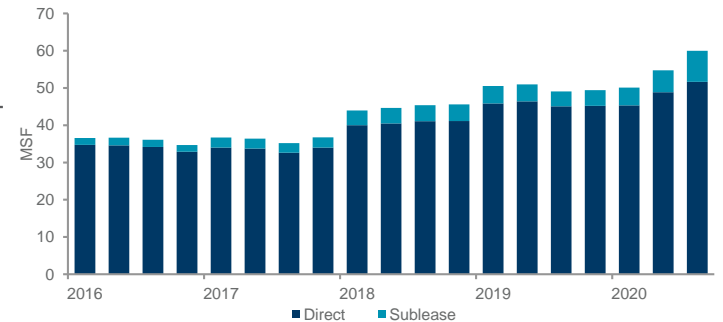
Outlook

- Though absorption remained negative, leasing activity was up 46% compared to Q2 as companies and people eased back to work. A continuation of this trend into Q4 and 2021 bodes well for the state of the DFW market.
- Sublease availability rose rapidly in Q3, increasing 40% from Q2 to 8.3 msf of available space. The pace of available space coming to market slowed to end Q3. Q4 will be revealing as to whether DFW is approaching a peak in sublease space in the market, or if the upward trend will continue into 2021.
- While the overall economy improved in Q3 2020, the DFW office market remains in a precarious state, and its immediate future remains uncertain. The long term outlook for the region remains positive, especially compared to other large, US metro areas.

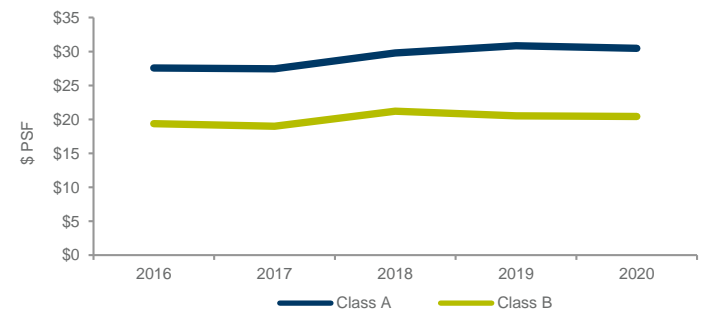
NEW SUPPLY



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



Office Q3 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	19,688,002	538,437	5,346,367	29.9%	-481,257	-594,069	443,690	259,230	\$21.04	\$21.61
Arts District	6,601,774	274,631	1,405,296	25.4%	-12,042	-46,297	91,594	0	\$42.55	\$42.55
West End	1,728,027	9,482	512,274	30.2%	-38,066	-16,257	66,087	0	\$31.06	\$42.39
DALLAS CBD TOTAL	28,017,803	822,550	7,263,937	28.9%	-531,365	-656,623	601,371	259,230	\$25.94	\$26.91
North Central Expressway	12,727,342	149,125	2,153,552	18.1%	-119,332	-355,345	322,401	30,000	\$31.01	\$33.16
Preston Center	3,982,635	37,371	423,288	11.6%	51,470	41,456	141,581	298,000	\$41.57	\$43.87
West Love Field	10,399,569	56,272	2,413,364	23.7%	-69,682	-77,103	290,250	0	\$17.04	\$19.68
LBJ Freeway	18,673,641	160,952	4,123,871	22.9%	-101,703	-138,797	634,732	0	\$21.15	\$25.44
Las Colinas	35,290,291	551,467	6,834,554	20.9%	-471,438	-556,519	1,383,770	103,000	\$25.56	\$30.39
Far North Dallas	19,825,922	541,850	3,809,539	21.9%	-232,081	-459,126	963,025	0	\$25.51	\$30.82
Richardson/Plano	26,826,677	499,245	5,008,736	20.5%	-179,893	-296,944	1,007,701	0	\$24.04	\$26.82
Mid Cities	11,117,134	68,043	2,799,234	25.8%	-9,055	-1,504,594	456,097	0	\$21.20	\$26.37
Lewisville/Carrollton	5,133,990	441	645,301	12.6%	1,269	-30,829	154,033	120,000	\$21.10	\$40.56
Southwest Dallas	1,830,500	0	431,924	23.6%	-40,671	-64,241	15,128	0	\$22.36	\$24.99
Legacy/Frisco	27,238,645	547,761	3,712,627	15.6%	100,117	144,039	1,396,302	2,037,517	\$33.66	\$37.48
Southlake/Westlake	4,808,334	274,196	993,660	26.4%	-40,948	-127,108	289,690	81,259	\$26.51	\$26.88
East Dallas	2,776,689	25547	402,002	15.4%	-35,320	30,119	21,458	670,000	\$16.90	N/A
Uptown/Turtle Creek	13,138,413	223,115	1,970,951	16.7%	-256,345	-181,988	750,985	644,244	\$47.14	\$48.84
DALLAS SUBURBS TOTAL	193,769,782	3,135,385	35,722,603	20.1%	-1,403,612	-3,576,980	7,827,153	3,984,020	\$26.67	\$31.73
DALLAS TOTAL	221,787,585	3,957,935	42,986,540	21.2%	-1,934,977	-4,233,603	8,428,524	4,243,250	\$26.54	\$30.52
Fort Worth CBD	10,995,951	109,693	1,460,967	14.3%	-111,879	-204,491	300,898	0	\$26.82	\$29.82
East Fort Worth	1,479,498	1,900	235,244	16.0%	-7,880	-23,892	24,337	0	\$17.37	23.1161
North Fort Worth	2,184,957	0	278,307	12.7%	10,820	5,564	27,604	0	\$19.63	\$22.77
South Fort Worth	1,667,268	19,953	106,653	7.6%	-15,725	12,138	20,344	0	\$22.39	\$33.05
West Fort Worth	2,325,308	1,440	177,818	7.7%	-18,805	-49,932	76,158	0	\$21.54	\$24.19
FW SUBURBS TOTAL	7,657,031	23,293	798,022	10.7%	-31,590	-56,122	148,443	0	\$19.75	\$25.18
FORT WORTH TOTAL	18,652,982	132,986	2,258,989	12.8%	-143,469	-260,613	449,341	0	\$24.49	\$29.46
DFW TOTAL	240,440,567	4,090,921	45,245,529	20.5%	-2,078,446	-4,494,216	8,877,865	4,243,250	\$26.43	\$30.48

*Rental rates reflect gross asking \$psf/year

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1925 W John Carpenter Fwy	Office Center	Vistra Energy	403,150	New Lease
3000 Pegasus Park Dr	West Love Field	UT Southwestern	181,424	New Lease
3401 Olympus	Freeport	Caliber Home Loans	159,320	New Lease

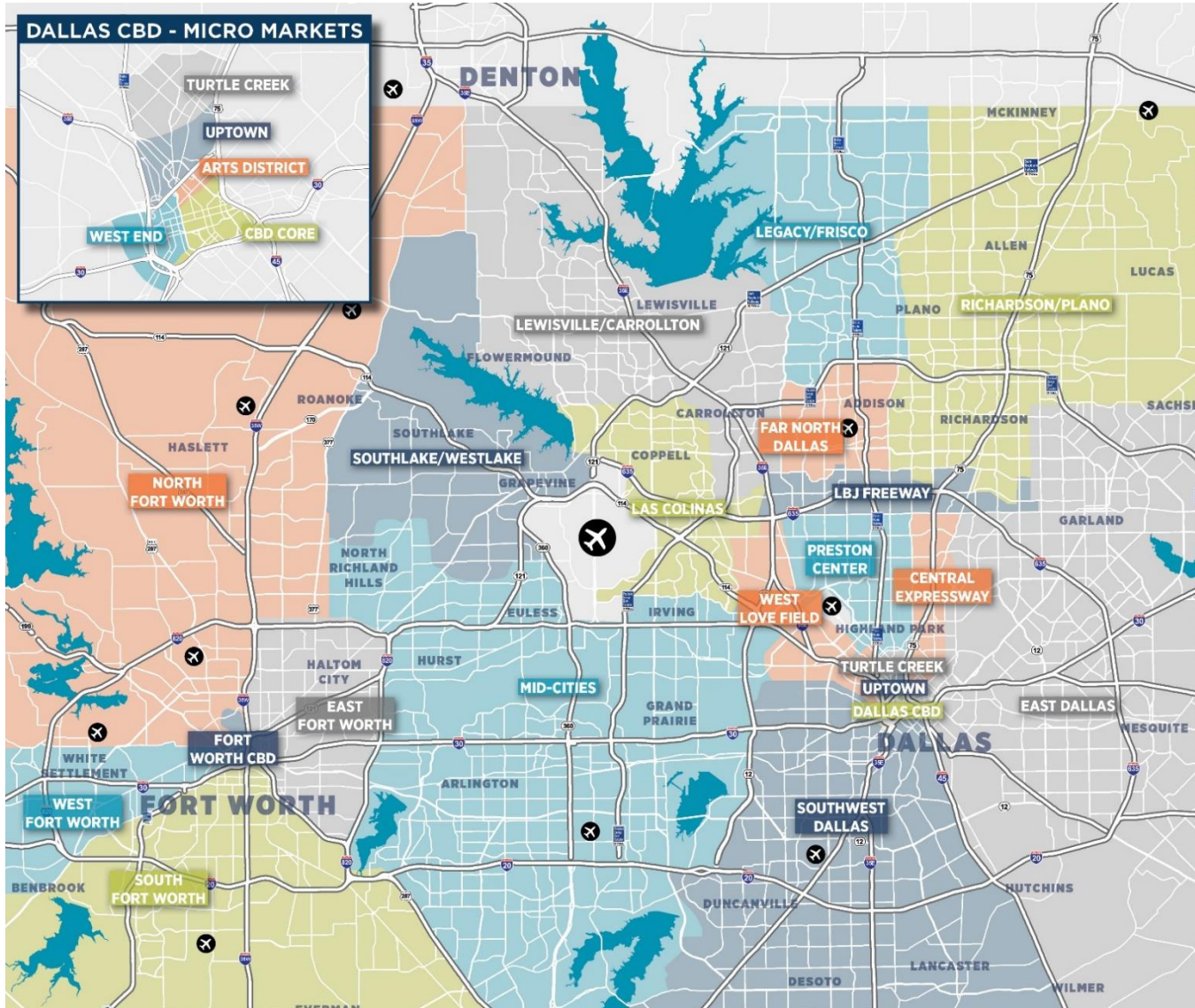
KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER/BUYER	SF
5543 Legacy Dr	Legacy/Frisco	VEREIT / US Realty Advisors	230,621
Tower at Frisco Square	Legacy/Frisco	Encore Enterprises / Maxus Realty Trust	166,305
Atrium at Campus Circle	Las Colinas	Mobile Park Investment / Noel Yi	82,942

DALLAS/FORT WORTH

Office Q3 2020

OFFICE SUBMARKETS



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