

Office Q1 2021

YoY Chg 12-Mo. Forecast

21.4%

Vacancy Rate



-2.0M

Net Absorption, SF



\$26.18

Asking Rent*, PSF



(Overall, All Property Classes)

*Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q1 2021

YoY Chg 12-Mo. Forecast

3.7M

Dallas/Fort Worth Employment



6.1%

Dallas/Fort Worth Unemployment Rate



6.0%

U.S. Unemployment Rate



Source: BLS

ECONOMY

The Dallas-Fort Worth (DFW) economy continued its recovery in Q1 2021, while still dealing with the effects of COVID-19 and resulting government restrictions on workplaces and business in general. The unemployment rate remains high relative to last year, but with nearly 3.7 million people employed, the region is approaching its pre-pandemic levels. DFW's population increased by 106,758 people year-over-year (YOY), and by 27,507 in Q1 alone, continuing a long trend of population growth. As of March 2021, the population reached a new high of over 7.8 million residents.

According to Moody's Analytics, office-using jobs grew by 28,347 positions when compared to Q4 2020. Office-using roles are described as positions that fall within 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 61% (656,118 jobs) of office-using employment. The region's office employment totaled 1.1 million jobs as of March 2021.

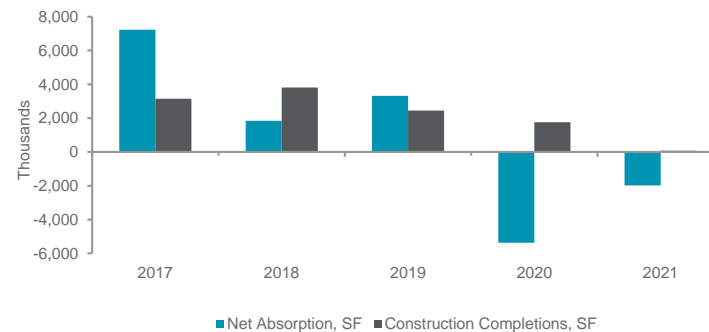
SUPPLY

Deemed an essential business, construction has continued mostly uninterrupted in DFW. In Q1 2021, the market delivered just 68,614 square feet (sf) of new product; the Continental Gin Building in Deep Ellum, a mixed-use project with both spec suites and coworking space.

Currently there are 5.1 million square feet (msf) in the pipeline to be completed over the next 24 months. With just under half of under construction inventory reported as vacant, projects continued to be delivered preleased as occupiers pursued a flight to quality. The two leading submarkets in construction activity are Legacy/Frisco and Uptown/Turtle Creek at 2.0 msf and 1.0 msf, respectively. The largest under construction project remains The Epic II in Deep Ellum at 470,000 sf in the East Dallas submarket, followed by Victory Commons in Uptown/Turtle Creek at 364,773 sf.

Large blocks of vacant space remain common in DFW. A few notable spaces on the market currently are 5400 Legacy Dr with 1.6 msf of second-generation, vacant space and two of American Airlines' former campus buildings, 4333 Amon Carter and 4255 Amon Carter, combining to make up 1.3 msf of vacant space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DALLAS/FORT WORTH



Office Q1 2021

DEMAND

The DFW office market saw its fifth consecutive quarter of negative occupancy growth and absorbed -2.0 msf in the first quarter of 2021. This number is 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. Last year's 48% decline in leasing activity when compared to 2019 also contributed to this number. The quantity of tenants moving into their space is less than previous years and is well outpaced by the number of spaces coming available due to expiring leases. In addition to the pandemic-created economic conditions, an historic winter storm contributed to a YOY drop in leasing activity of 58% in Q1.

Reversing the trend of the previous two quarters, Class A assets were slightly more insulated from falling occupancy in Q1. Class A absorption was -668,499 sf, while Class B nearly doubled that number at -1.3 msf. 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-outs recorded this quarter were NTT Data (180,805 sf) in Legacy/Frisco, Hilltop Securities (153,330 sf) in the Dallas CBD, and Fossil (108,805 sf) in Richardson/Plano.

Despite elevated levels of sublease space, direct spaces represented the bulk of the market's vacancy at 19.7% (47.7 msf), while sublease space represented 1.7% (4.1 msf) of market vacancy. With the huge negative absorption number from Q1, Class B space now holds the highest overall vacancy at 21.6%, while Class A and Class C trailed at 21.4% and 16.9%, respectively. The Dallas submarkets with the lowest overall vacancy rates included Preston Center (12.8%), East Dallas (12.9%) and Lewisville/Carrollton (14.4%).

PRICING

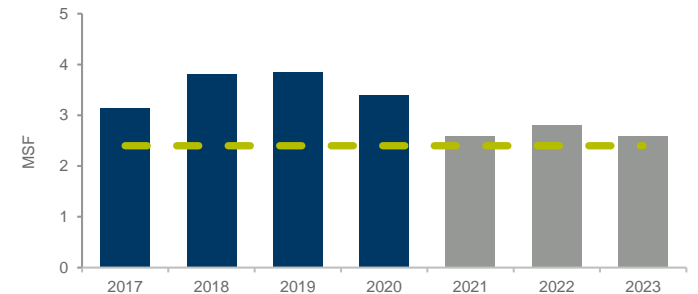
Overall rental rates remained nearly flat, decreasing by just 1.2% YOY to \$26.18 per square foot (psf) on an annual full-service basis. The increased vacancy in Class B space was the main catalyst of this drop, as landlords have yet to drop asking rates. Rather than lowering rates, landlords have offered competitive concession packages which include free rent, additional tenant improvement dollars and abated parking fees. The Uptown/Turtle Creek submarket remained the leader with the highest overall average asking rates in DFW with rents at \$44.32. Preston Center followed at \$42.66 and Legacy/Frisco at \$33.47.

As expected, Class A registered the highest average asking rate at \$30.87 psf, while Class B and Class C reported more economical rates of \$19.61 and \$17.32, respectively.

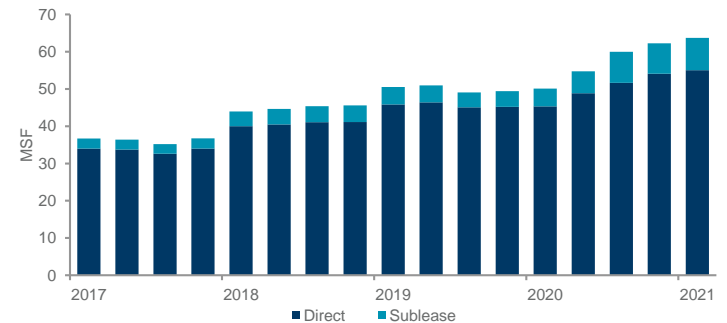
Outlook

- After leveling off in Q3 and Q4, available sublease space rose slightly to 8.6 msf of available space in Q1 2021. Despite the increase, the slower pace at which sublease space has been added (when compared to Q1 and Q2 of 2020) to the market is a positive sign for DFW.
- Absorption is likely to remain negative in the near term in DFW, as leasing activity has yet to approach pre-pandemic levels.
- Despite the market conditions and falling occupancy in Class A space, rental rates for Class A and B space continue to bifurcate as tenants continue to pursue newer, Class A assets.
- Q1 2021 saw a continuation of DFW's recovery. The long-term outlook for the region remains positive, especially compared to other large, U.S. metro areas.

NEW SUPPLY



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



Office Q1 2021

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	573,467	5,499,149	30.8%	-251,122	-251,122	40,748	284,600	\$21.86	\$22.55
Arts District	6,601,774	292,268	1,254,452	23.4%	-5,803	-5,803	0	0	\$42.66	\$42.66
West End	1,728,027	9,482	572,060	33.7%	-20,898	-20,898	1,868	0	\$28.53	\$42.54
DALLAS CBD TOTAL	28,017,803	875,217	7,325,661	29.3%	-277,823	-277,823	42,616	284,600	\$26.26	\$27.46
North Central Expressway	12,746,677	134,153	2,338,216	19.4%	-115,829	-115,829	112,775	30,000	\$30.50	\$32.99
Preston Center	3,982,635	37,496	472,378	12.8%	-59,749	-59,749	61,854	298,000	\$42.66	\$45.03
West Love Field	10,399,569	43,767	2,408,250	23.6%	-36,357	-36,357	42,725	0	\$17.87	\$20.33
LBJ Freeway	18,624,022	156,297	4,192,800	23.4%	-201,758	-201,758	102,611	0	\$21.76	\$26.66
Las Colinas	35,386,993	648,190	7,183,183	22.1%	-355,553	-355,553	266,125	419,469	\$24.86	\$30.16
Far North Dallas	19,825,922	478,592	3,935,999	22.3%	-173,920	-173,920	211,177	0	\$24.85	\$30.27
Richardson/Plano	26,826,677	684,797	4,915,890	20.9%	-174,782	-174,782	58,796	218,772	\$22.90	\$27.29
Mid Cities	11,108,778	108,925	2,836,866	26.5%	-21,288	-21,288	78,573	0	\$22.02	\$26.66
Lewisville/Carrollton	5,255,990	4,786	752,566	14.4%	48,096	48,096	0	0	\$21.83	\$39.42
Southwest Dallas	1,830,500	1535	430,678	23.6%	-25,817	-25,817	5,425	0	\$22.25	\$25.53
Legacy/Frisco	27,364,044	275,593	4,484,775	17.4%	-373,505	-373,505	176,786	2,035,944	\$33.47	\$38.38
Southlake/Westlake	4,889,593	225,582	1,141,250	28.0%	-30,058	-30,058	29,322	103,086	\$29.35	\$30.37
East Dallas	2,845,303	0	365,993	12.9%	43,544	43,544	0	685,116	\$16.41	N/A
Uptown/Turtle Creek	13,138,413	229,438	2,225,215	18.7%	-111,160	-111,160	230,024	1,016,814	\$44.32	\$48.03
DALLAS SUBURBS TOTAL	194,225,116	3,029,151	37,684,059	21.0%	-1,588,136	-1,588,136	1,376,193	4,807,201	\$26.36	\$32.12
DALLAS TOTAL	222,242,919	3,904,368	45,009,720	22.0%	-1,865,959	-1,865,959	1,418,809	5,091,801	\$26.34	\$30.95
Fort Worth CBD	10,937,567	45,230	1,703,387	16.0%	-58,984	-58,984	64,359	48594	\$25.59	\$29.25
East Fort Worth	1,860,235	12,126	265,498	14.9%	-10,508	-10,508	4,000	0	\$15.35	17.8814
North Fort Worth	2,267,263	2,521	234,153	10.4%	36,593	36,593	0	0	\$19.92	\$19.77
South Fort Worth	2,230,065	68,019	230,487	13.4%	-79,242	-79,242	7,985	0	\$21.76	\$33.36
West Fort Worth	2,843,474	44,489	229,285	9.6%	-6,620	-6,620	24,991	0	\$21.37	\$24.69
FW SUBURBS TOTAL	9,201,037	127,155	959,423	11.8%	-59,777	-59,777	36,976	0	\$19.59	\$24.37
FORT WORTH TOTAL	20,138,604	172,385	2,662,810	14.1%	-118,761	-118,761	101,335	48,594	\$23.44	\$28.80
DFW TOTAL	242,381,523	4,076,753	47,672,530	21.4%	-1,984,720	-1,984,720	1,520,144	5,140,395	\$26.18	\$30.87

*Rental rates reflect gross asking \$psf/year

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2401 Cedar Springs	Uptown	JLL	95,983	New Lease
Addison Circle One	Far North Dallas	CarOffer	61,826	Sublease
3100 Olympus	Freeport	Sourcepoint Mortgage	49,992	Sublease

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER/BUYER	SF
The Crescent	Uptown	JP Morgan / Goff Capital Partners	1,440,870
Sherry Lane Place	Preston Center	CarrAmerica / CBRE Global Investors	303,967
Preston I	Far North Dallas	Highland Homes / Undisclosed	217,198

