

# MARKETBEAT

## Dallas / Fort Worth

Office Q2 2018



### DALLAS OFFICE

#### Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
DFW Employment	3.58M	3.69M	▲
DFW Unemployment	3.8%	3.6%	▼
U.S. Unemployment	4.3%	3.8%	▼

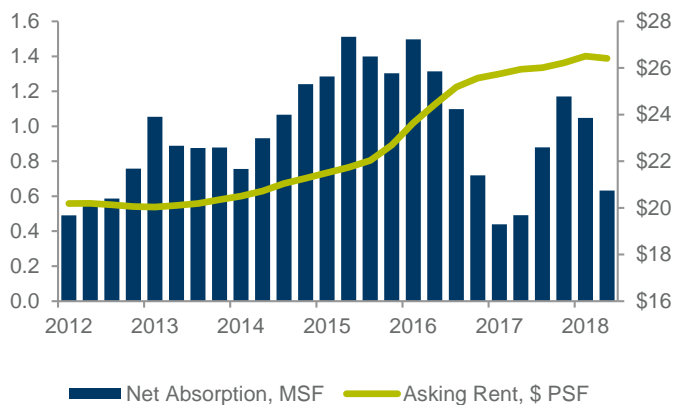
#### Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	16.0%	18.5%	▲
Net Absorption (sf)	1.2M	632k	▼
Under Construction (sf)	6.2M	4.4M	▼
Average Asking Rent*	\$26.19	\$26.43	▼

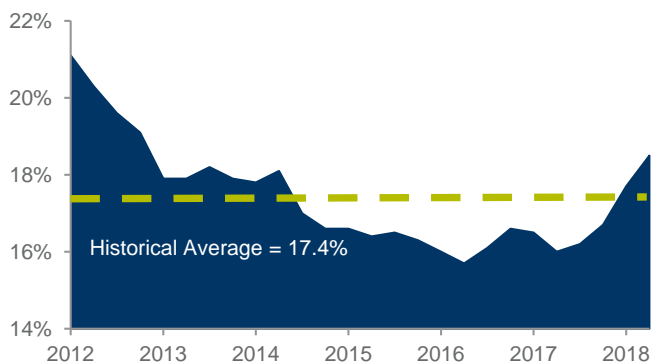
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

The Dallas-Fort Worth-Arlington economy continues to thrive as population and employment growth persist. According to Moody's Analytics, the region's population increased by 136,000 year-over-year, reaching 7.5 million people through the end of March. Equating to an average of 375 new residents each day. During the same time period, the Dallas-Fort Worth-Arlington employment base increased by 112,370, while the unemployment rate decreased by 20 basis points (bps) to 3.6% at the close of Q2 2018. Since Q2 2017, 31,200 office jobs have been added to the office sector, which includes business and professional services, information/technology, and financial activities. The business and professional services category accounts for 62% (614,000 jobs) of the entire office sector employment base (997,000 jobs) and is the leading indicator for office space demand.

### Market Overview

Heading into the second half of 2018, the office market continues to show growth. The quarter closed with 4.4 million square feet (msf) of new space under construction, down slightly from 5.8 msf at the end of Q2 2017. Of the 4.4 msf under construction, 1.2 msf (28%) is currently preleased. Completions for the quarter totaled more than 1.2 msf, with about 1.0 msf consisting of speculative product and the balance in built-to-suit. Looking ahead, Cushman & Wakefield is tracking more than 1.7 msf of office space slated for completion through the end of 2018, with projects spanning across the market.

Office vacancy in the Dallas-Fort Worth market increased in Q2 2018, climbing 120 bps to 18.5%, year-over-year. The market continues to see a flight to quality, as companies vacate large blocks of space for newer product. One prime example of this was Signet Jewelers (Zales), which vacated 343,000 sf Class B space in the Las Colinas Office Center during Q2 2018 and moved into its new building in Freeport. DFW is also seeing an uptick in sublease space. Q2 ended with a total of 2.5 msf of vacant sublease space, compared to 1.4 msf in Q2 2017.

Occupancy growth occurred in 13 of the 21 submarkets in Dallas-Fort Worth, with the Richardson/Plano and Legacy/Frisco submarkets recording the most absorption through the first half of 2018. Galatyn Commons in Richardson/Plano contributed

210,000 sf, when Steward Healthcare took 165,000 sf and Raytheon occupied 44,500 sf in June. Legacy/Frisco also saw big occupiers during Q2, with NTT Data taking almost 233,000 sf and Alkami Technologies moving into 53,000 sf. Cushman & Wakefield tracked 1.27 million square feet of total new move-ins greater than 10,000 sf during the second quarter. About 41%, or 517,000 sf, of those transactions were represented by Cushman & Wakefield.

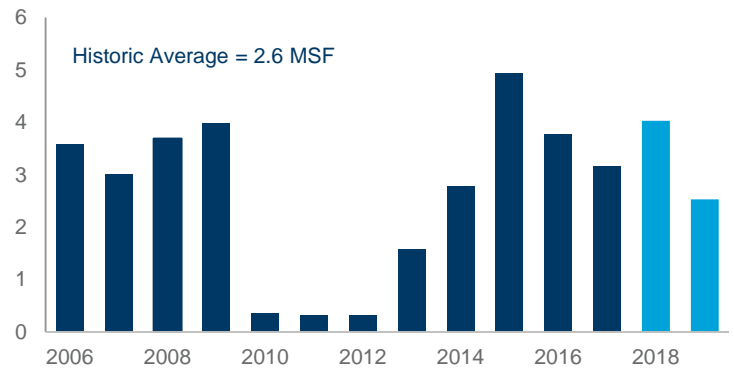
**Cushman & Wakefield tracked 1.27 million square feet of total new move-ins greater than 10,000 sf during the second quarter...**

Dallas-Fort Worth's overall average asking lease rates have begun to level out. The quarter closed at \$26.41 per square foot (psf) on an annual full-service basis, a drop from \$27.31 psf at the end of the first quarter. This still represents annual growth, when compared to the \$26.15 psf average in Q2 2017. During Q1 2018, Cushman & Wakefield began tracking Dallas' central business district in three micro-markets, due to the distinct characteristics of the Arts District, the West End, and CBD Core. Additionally, Uptown and Turtle Creek were split, in order to show competing markets more clearly. Boosted by the new Park District office tower adjacent to Klyde Warren Park, Uptown led the market with an average Class A rate of \$50.28 psf. Preston Center followed with \$44.67 psf, due to being a prime location with limited supply.

## Outlook

- Cushman & Wakefield is predicting deal activity to remain strong, due to more than 5.5 msf of active prospects in the market.
- A large number of office tenants will continue to renegotiate leases throughout 2018, as many 10-year leases were signed during the downturn in 2008 and 2009.
- Landlords will continue to update older buildings and add amenities to keep up with tenant demands and compete with newer product.
- The Dallas market is still seeing a good balance of corporate relocation activity and organic growth from existing company expansions.

**New Office Construction Pipeline**  
CURRENT ACTIVITY EXCEEDS HISTORICAL AVERAGE

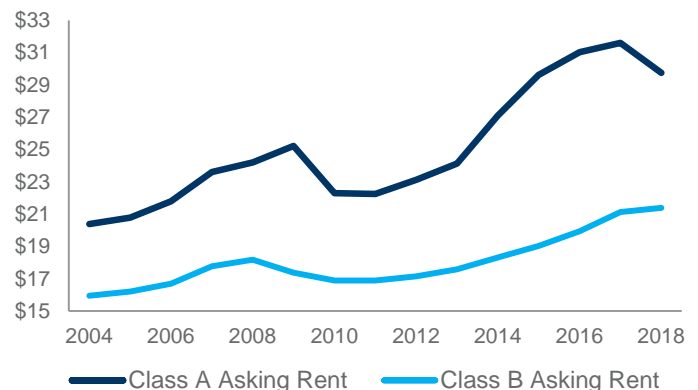


Volume of activity in 2018 and 2019 is projected based on current under construction or recently delivered

**Direct vs. Sublease Space Available Comparison**  
Q2 2018



**CLASS A & B Asking Rent Trend**



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Office Q2 2018



SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q2 NET ABSORPTION	2018 YTD NET ABSORPTION	UNDER CONSTRUCTION	COMPLETIONS	OVERALL RATE (ALL CLASSES)	OVERALL RATE (CLASS A)
CBD Core	37	18,556,270	539,911	4,902,007	29.3%	-56,722	-65,366	35,710	0	\$21.92	\$22.31
Arts District	9	6,094,382	11,519	1,172,066	19.4%	125,471	411,201	0	0	\$39.81	\$39.81
West End	19	3,595,947	43,344	874,041	25.5%	12,438	-28,008	102,315	0	\$27.18	\$27.76
<b>DALLAS CBD TOTAL</b>	<b>65</b>	<b>28,246,599</b>	<b>594,774</b>	<b>6,948,114</b>	<b>26.7%</b>	<b>81,187</b>	<b>317,827</b>	<b>138,025</b>	<b>0</b>	<b>\$25.50</b>	<b>\$26.25</b>
North Central Expressway	81	12,735,395	59,418	1,869,701	15.1%	23,435	11,667	0	0	\$28.23	\$29.58
Preston Center	34	3,925,769	33,493	498,651	13.6%	25,432	20,475	85,000	0	\$42.20	\$44.67
Uptown	47	8,517,777	246,225	1,235,296	17.4%	21,024	-14,143	654,375	631,157	\$46.00	\$50.28
Turtle Creek	39	4,047,979	26,053	543,278	14.1%	12,614	72,722	19,760	0	\$37.87	\$39.74
West Love Field	77	10,280,535	5,265	2,198,200	21.4%	17,563	13,955	0	0	\$16.14	\$17.86
LBJ Freeway	136	18,782,648	80,585	4,157,610	22.6%	35,312	43,516	0	0	\$22.27	\$26.55
Las Colinas	240	32,190,862	633,176	4,425,348	15.7%	-347,000	245,095	1,985,900	100,000	\$25.53	\$26.96
Far North Dallas	173	19,771,268	227,167	3,965,539	21.2%	-1,088	-852,093	240,000	0	\$24.61	\$28.05
Richardson/Plano	243	24,923,475	292,942	4,516,100	19.3%	316,906	520,294	240,000	170,500	\$25.21	\$28.37
Southlake/Westlake	77	5,277,089	18,976	1,441,810	27.7%	-616	1,973	30,000	18,400	\$28.13	\$28.49
Mid Cities	132	9,788,507	20,279	1,529,640	15.8%	10,749	18,883	0	0	\$18.08	\$21.11
Lewisville/Carrollton	84	4,863,548	0	616,459	12.7%	0	-32,363	20,000	0	\$21.73	\$27.50
Southwest Dallas	39	1,763,003	0	174,414	9.9%	-6,350	-6,350	0	0	\$17.30	\$24.93
East Dallas	73	2,668,909	0	307,866	11.5%	1,195	1,195	251,354	0	\$17.57	N/A
Legacy/Frisco	194	24,153,090	221,563	3,491,666	15.4%	287,196	352,653	390,000	15,600	\$36.44	\$39.04
<b>DALLAS SUBURBS TOTAL</b>	<b>1,669</b>	<b>183,689,854</b>	<b>1,865,142</b>	<b>30,971,578</b>	<b>17.9%</b>	<b>396,372</b>	<b>397,479</b>	<b>3,916,389</b>	<b>935,657</b>	<b>\$26.68</b>	<b>\$31.11</b>
<b>DALLAS TOTAL</b>	<b>1,734</b>	<b>211,936,453</b>	<b>2,459,916</b>	<b>37,919,692</b>	<b>19.1%</b>	<b>477,559</b>	<b>715,306</b>	<b>4,054,414</b>	<b>935,657</b>	<b>\$26.45</b>	<b>\$29.80</b>
Fort Worth CBD	77	11,229,742	4,532	1,113,819	10.0%	178,244	173,172	0	280,489	\$28.96	\$31.47
East Fort Worth	29	1,617,379	42,645	182,239	13.9%	0	51,902	0	0	\$16.87	N/A
North Fort Worth	21	2,068,910	0	783,601	37.9%	0	0	328,354	0	\$23.74	\$25.31
South Fort Worth	21	1,694,918	0	105,677	6.2%	-23,735	23,979	0	0	\$26.98	\$31.52
West Fort Worth	31	2,506,083	1,827	104,273	4.2%	0	-864	0	0	\$24.93	\$24.83
<b>FW SUBURBS TOTAL</b>	<b>102</b>	<b>7,887,290</b>	<b>44,472</b>	<b>1,175,790</b>	<b>15.5%</b>	<b>-23,735</b>	<b>75,017</b>	<b>328,354</b>	<b>0</b>	<b>\$23.08</b>	<b>\$25.67</b>
<b>FORT WORTH TOTAL</b>	<b>179</b>	<b>19,117,032</b>	<b>49,004</b>	<b>2,289,609</b>	<b>12.2%</b>	<b>154,509</b>	<b>248,189</b>	<b>328,354</b>	<b>280,489</b>	<b>\$25.69</b>	<b>\$28.89</b>
<b>DFW TOTAL</b>	<b>1,913</b>	<b>231,053,485</b>	<b>2,508,920</b>	<b>40,209,301</b>	<b>18.5%</b>	<b>632,068</b>	<b>963,495</b>	<b>4,382,768</b>	<b>1,216,146</b>	<b>\$26.43</b>	<b>\$29.75</b>

CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q2 NET ABSORPTION	2018 YTD NET ABSORPTION	UNDER CONSTRUCTION	COMPLETIONS	OVERALL RATE	DIRECT RATE
A	509	134,254,767	1,881,742	24,370,307	19.6%	1,002,177	1,271,984	3,969,914	1,141,646	\$29.74	\$30.28
B	1,210	87,773,007	624,814	14,620,473	17.4%	-370,109	-312,911	412,854	74,500	\$21.30	\$21.26
C	194	9,025,711	2,364	1,193,177	13.2%	0	4,422	0	0	\$15.88	\$15.88
<b>Total</b>	<b>1,913</b>	<b>231,053,485</b>	<b>2,508,920</b>	<b>40,143,065</b>	<b>18.5%</b>	<b>632,068</b>	<b>972,783</b>	<b>4,382,768</b>	<b>1,216,146</b>	<b>\$26.43</b>	<b>\$26.69</b>

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

### Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
6625 Declaration Blvd	216,000	Samsung Electronics America	Lease	Richardson/Plano
1601 LBJ Fwy	115,000	7-Eleven	Lease	Freeport
3300 E Renner Rd	95,000	Genpact	Expansion	Richardson/Plano
5601 N MacArthur Blvd	95,000	Darling Ingredients	Lease	Office Center
1950 N Stemmons Fwy	51,934	Chewy.com	Lease	West Love Field

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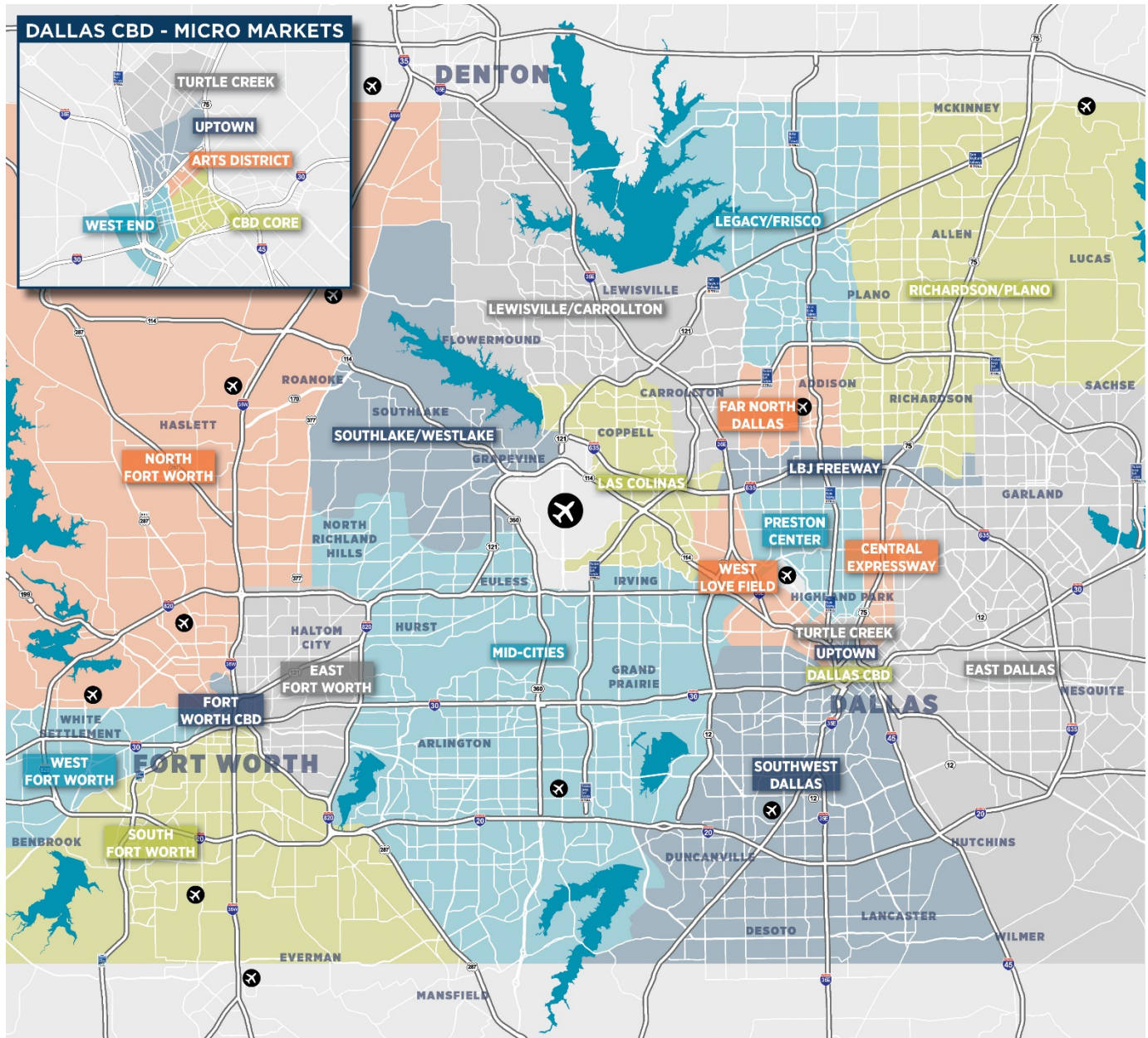
# Dallas / Fort Worth

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## OFFICE SUBMARKETS

DALLAS-FORT WORTH



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