

DALLAS OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
DFW Employment	3.67M	3.77M	▲
DFW Unemployment	3.5%	3.4%	▼
U.S. Unemployment	3.9%	3.6%	▼

*Q2 data based on latest available data on BLS, Moody's Analytics

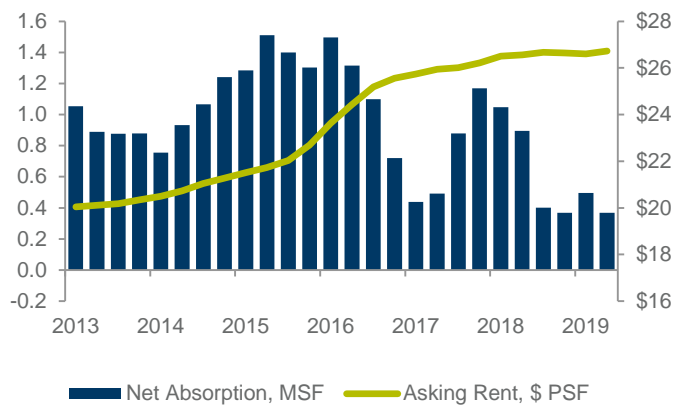
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	18.5%	19.0%	▼
Net Absorption (sf)	632k	126k	▲
Under Construction (sf)	4.4M	1.6M	▲
Average Asking Rent*	\$26.43	\$26.93	▲

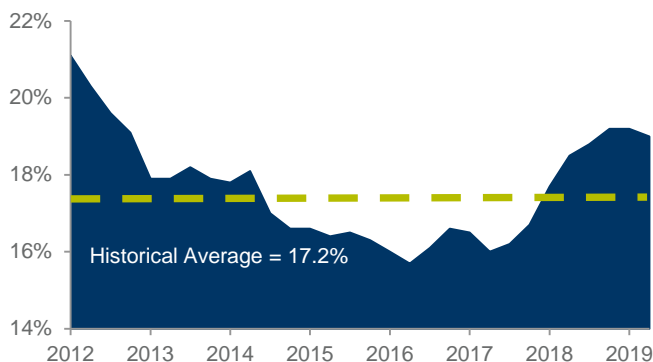
*Rental rates reflect gross asking \$psf/year
Stats are not reflective of U.S. Overview Tables

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Dallas-Fort Worth (DFW) economy continued to thrive with strong population and employment growth. The region's population increased by 128,500 people year-over-year, equating to an average of 350 new residents per day. As of June 2019, the population reached a new high of 7.6 million residents while the job market grew by 97,000 positions over the past year. According to Moody's Analytics, office-using jobs accounted for 28,800 jobs (30%) out of the new positions added. 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 accounted for a majority of office-using jobs employment at 59% (638,800 jobs). The region's office employment totaled 1,080,000 jobs as of mid-year 2019. With solid increases in employment over the past year, the unemployment rate declined by 10 basis points (bps) to 3.4% and continued to remain below the national unemployment rate.

Market Overview

The DFW office market maintained positive momentum through the first half of 2019 with signs of market activity leveling out in second quarter. The quarter closed with 652,600 square feet (sf) of new product delivered with another 1.6 million sf (msf) currently in the pipeline to be completed over the next 12 to 18 months. 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 Freeport submarket currently has the highest amount of space under construction and is projected to cumulatively deliver about 1.0 msf of inventory by the end of 2020.

Office vacancy in the DFW market had a 20-bps decrease to 19.0% compared to the prior quarter. The recent rise in vacancy by 50 bps compared to the previous year is driven predominantly by recent development activity and its corresponding impact on the market with tenants vacating third-generation spaces. Direct spaces represented the bulk of the market vacancy at 17.8% (42.1 msf of vacant space), while sublease space represented 1.1% (2.7 msf) of market vacancy. Class A space held the highest overall vacancy at 19.8%, while Class B and C trailed at 18.3% and 13.8%, respectively, due to the majority of new projects being delivered as Class A inventory. Submarkets with the lowest overall vacancy rates included Southwest Dallas County (6.4%), Lewisville/Carrollton (9.3%), and Preston Center/Near North Dallas (9.9%).

The DFW office market continued its trajectory of positive occupancy growth and absorbed 125,700 sf in second quarter 2019. A total of 10 out of the 20 submarkets in DFW reflected occupancy growth with the highest cumulative increase in CBD Core (262,600 sf) and Legacy/Frisco (256,800 sf). A strong flight to quality persisted with high Class A net absorption at 1.8 msf compared to significant move-outs in Class B and C spaces with a loss in absorption at -1.6 msf and -73,800 sf, respectively. The top move-ins for the quarter included Environmental Protection Agency (229,000 sf) and Mercedes-Benz Financial Services (200,000 sf). The largest leases signed this quarter were Lockheed Martin (431,800 sf), Tenet Healthcare (392,200 sf), and Blucora (149,600 sf). All large move-ins and top leases signed were in Class A assets, continuing the demand by tenants for quality space.

A strong flight to quality persisted with high Class A net absorption at 1.8 msf...

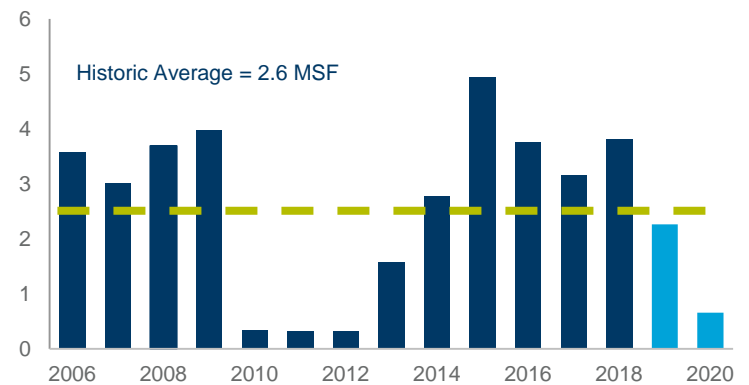
Overall rental rates increased by 1.9% year-over-year to \$26.93 per square foot (psf) on an annual full-service basis. As expected, Class A registered the highest average asking rate at \$30.82 psf, while Class B and C reported more economical rates of \$21.43 and \$16.23, respectively. Demand for Class A space continued to remain strong with rental rates increasing by 2.7% compared to the previous year. The Uptown/Turtle Creek submarket remained the leader with the highest overall average asking rates in DFW with rents at \$45.64.

Outlook

- Class A office market fundamentals will continue to remain strong as tenants flock to quality assets and move out of older Class B and C buildings.
- Asking rates for new developments will continue to reach premium prices as construction and land prices soar.
- Landlords will continue to improve amenities and renovate their buildings to keep up with tenant demands and compete with newer product.
- Overall vacancy will remain relatively stable with slight decreases as strong population and job growth will bolster the absorption of new construction in the market.

New Office Construction Pipeline

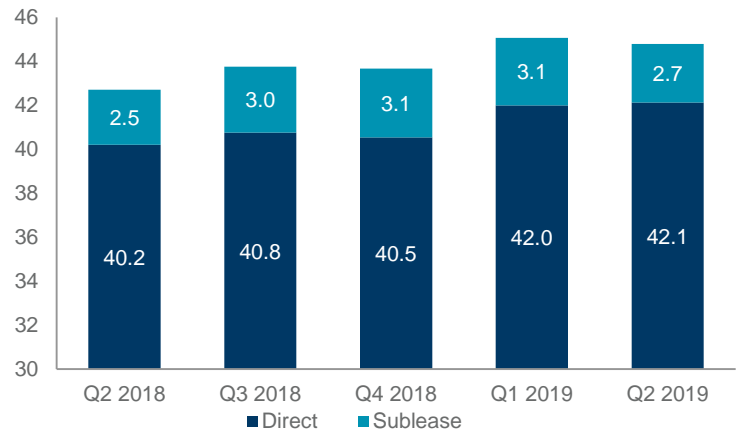
CURRENT ACTIVITY ON PACE TO EXCEED HISTORICAL AVERAGE



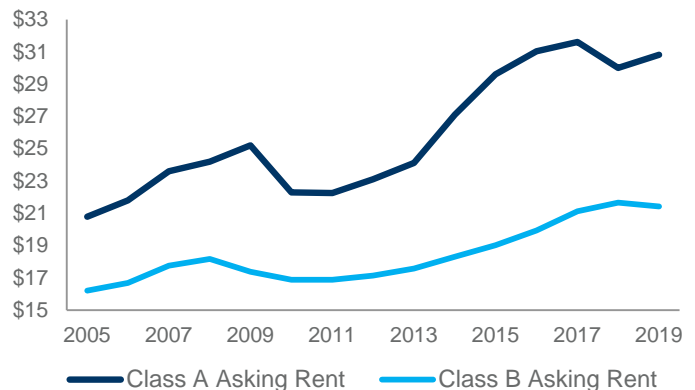
Volume of activity in 2019 and 2020 is projected based on current under construction or recently delivered

Direct vs. Sublease Space Available Comparison

Q2 2019



CLASS A & B Asking Rent Trend



MARKETBEAT

Dallas / Fort Worth

Office Q2 2019



SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q2 NET ABSORPTION	2019 YTD NET ABSORPTION	UNDER CONSTRUCTION	COMPLETIONS	OVERALL RATE (ALL CLASSES)	OVERALL RATE (CLASS A)
CBD Core	36	18,026,034	537,385	4,445,560	27.6%	262,557	220,517	35,710	0	\$23.89	\$24.93
Arts District	12	6,742,972	10,163	1,496,667	22.3%	-212,773	-52,615	0	0	\$42.27	\$42.27
West End	21	3,733,528	61,042	824,897	23.7%	37,311	146,720	0	0	\$26.58	\$26.59
DALLAS CBD TOTAL	69	28,502,534	608,590	6,767,124	25.9%	87,095	314,622	35,710	0	\$28.08	\$29.61
North Central Expressway	81	12,709,300	66,925	2,103,779	17.1%	-64,582	27,642	0	0	\$28.58	\$30.55
Preston Center	34	3,925,872	24,934	365,434	9.9%	13,662	-8,972	85,000	0	\$39.30	\$41.67
West Love Field	76	10,130,263	0	2,539,276	25.1%	-61,642	-1,830	0	0	\$17.39	\$20.47
LBJ Freeway	136	18,848,981	218,114	4,656,923	25.9%	15,062	3,044	0	0	\$22.52	\$26.18
Las Colinas	245	33,153,928	446,484	5,206,252	17.0%	-103,257	-38,525	1,045,712	216,400	\$25.27	\$27.76
Far North Dallas	174	20,018,295	233,612	4,442,633	23.4%	-66,540	-108,267	0	0	\$26.84	\$31.79
Richardson/Plano	248	25,274,979	309,754	4,234,803	18.0%	-36,838	258,750	0	0	\$24.73	\$28.39
Mid Cities	132	9,788,507	13,908	1,370,680	14.1%	-81,957	-90,019	0	0	\$17.86	\$21.06
Lewisville/Carrollton	87	5,054,762	9,645	458,653	9.3%	17,616	33,007	0	0	\$21.81	N/A
Southwest Dallas	39	1,763,003	0	113,291	6.4%	-5,141	8,108	0	0	\$18.90	\$24.93
Legacy/Frisco	196	26,105,066	407,080	2,938,491	12.8%	256,799	849,114	430,579	0	\$33.21	\$37.15
Southlake/Westlake	77	5,277,089	2,135	1,384,960	26.3%	36,484	36,743	0	0	\$27.81	\$28.15
East Dallas	75	2,930,300	0	527,642	18.0%	-38,034	-1,455	0	0	\$27.31	44.03
Uptown/Turtle Creek	89	13,237,704	307,507	2,153,310	18.6%	88,783	-18,047	0	236,243	\$45.64	\$48.78
DALLAS SUBURBS TOTAL	1689	188,218,049	2,040,098	32,496,127	18.3%	-29,585	949,293	1,561,291	452,643	\$26.76	\$31.54
DALLAS TOTAL	1,758	216,720,583	2,648,688	39,263,251	19.3%	57,510	1,263,915	1,597,001	452,643	\$27.01	\$31.05
Fort Worth CBD	76	11,189,476	0	1,570,322	14.0%	14,259	46,913	0	0	\$28.90	\$30.30
East Fort Worth	29	1,617,379	0	352,787	21.8%	-172,403	-172,403	0	0	\$18.55	20.67
North Fort Worth	22	2,268,910	0	716,538	31.6%	200,000	255,708	0	200,000	\$23.28	\$25.09
South Fort Worth	21	1,694,918	0	139,861	8.3%	26,378	47,125	0	0	\$25.05	\$33.01
West Fort Worth	31	2,506,083	21,811	82,096	4.1%	0	6,409	0	0	\$25.58	\$24.73
FW SUBURBS TOTAL	103	8,087,290	21,811	1,291,282	16.2%	53,975	136,839	0	200,000	\$22.38	\$24.34
FORT WORTH TOTAL	179	19,276,766	21,811	2,861,604	15.0%	68,234	183,752	0	200,000	\$25.81	\$28.11
DFW TOTAL	1,937	235,997,349	2,670,499	42,124,855	19.0%	125,744	1,447,667	1,597,001	652,643	\$26.93	\$30.82

CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q2 NET ABSORPTION	2019 YTD NET ABSORPTION	UNDER CONSTRUCTION	COMPLETIONS	OVERALL RATE	DIRECT RATE
A	523	138,804,850	2,205,459	25,229,881	19.8%	1,779,889	3,179,795	1,494,001	652,643	\$30.82	\$31.36
B	1,221	88,540,250	465,040	15,700,185	18.3%	-1,580,350	-1,585,748	103,000	0	\$21.43	\$21.41
C	193	8,652,249	0	1,194,789	13.8%	-73,795	-146,380	0	0	\$16.23	\$16.23
Total	1,937	235,997,349	2,670,499	42,124,855	19.0%	125,744	1,447,667	1,597,001	652,643	\$26.93	\$30.82

*Rental rates reflect gross asking \$psf/year
Stats are not reflective of U.S. Overview Tables

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5401 N Beach St	431,579	Lockheed Martin	New Lease	North Fort Worth
International Plaza I	392,201	Tenet Healthcare	New Lease	Far North Dallas
3200 Olympus Blvd/Cypress Waters	149,637	Blucora	New Lease	Freeport
Legacy Tower	84,081	Hilti	Renewal	Legacy/Frisco
Lake Vista One	77,648	Nationstar Mortgage	Renewal/Expansion	Lewisville/Carrollton

MARKETBEAT

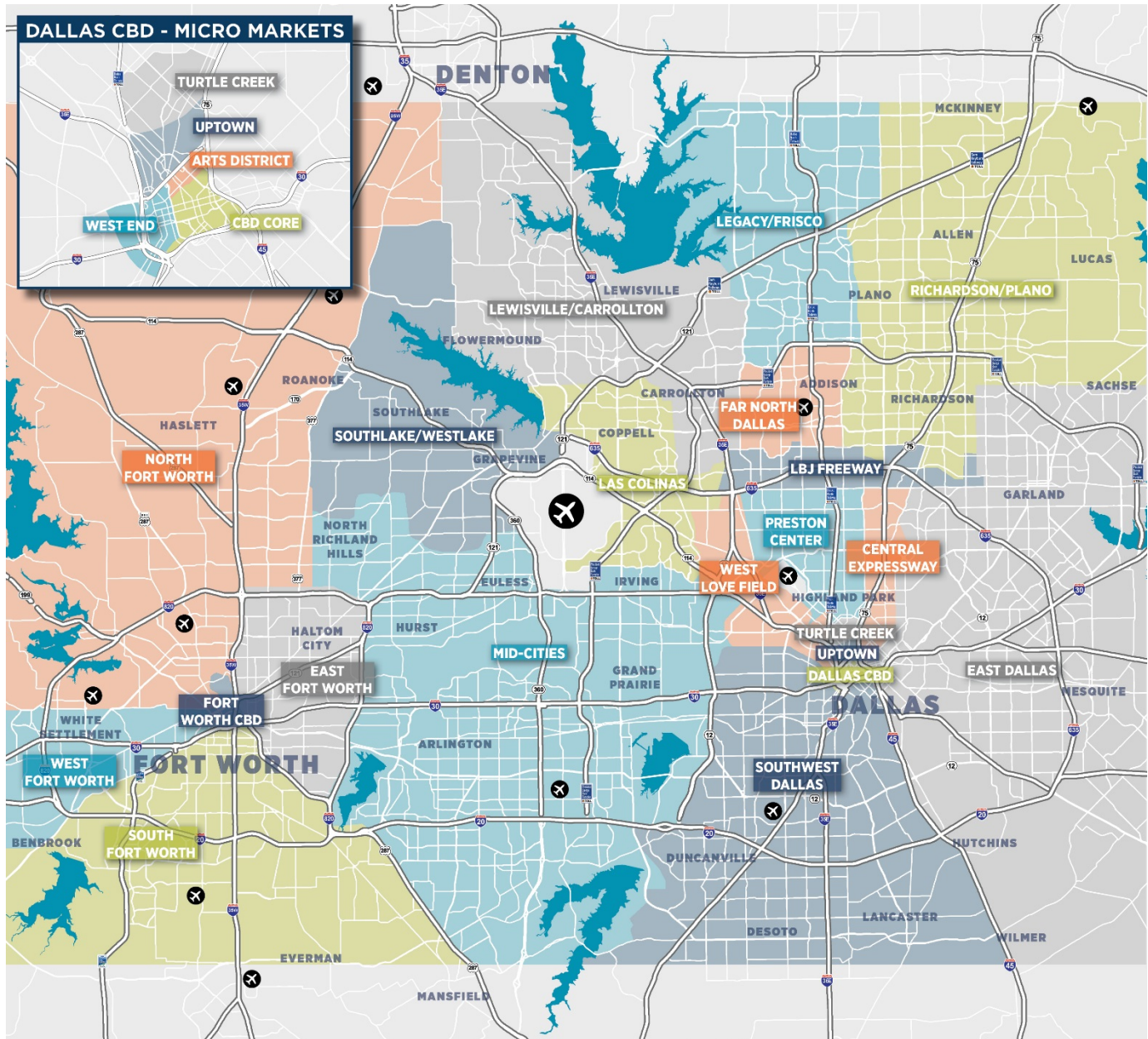
Dallas / Fort Worth

Office Q2 2019



OFFICE SUBMARKETS

DALLAS-FORT WORTH



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