

Office Q4 2020

	YoY Chg	12-Mo. Forecast
20.8% Vacancy Rate	▲	▲
-1.1M Net Absorption, SF	▼	▼
\$26.56 Asking Rent*, PSF	▲	▼

(Overall, All Property Classes)

*Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
3.7M Dallas/Fort Worth Employment	▼	▲
6.8% Dallas/Fort Worth Unemployment Rate	▲	▼
6.7% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY

As it deals with the effects of COVID-19 and resulting government restrictions on workplaces and business in general, the Dallas-Fort Worth (DFW) economy continued its recovery in Q4 2020. While the unemployment rate remains high relative to last year, the area added 47,949 jobs this quarter compared to Q3 2020, bringing the region close to its pre-pandemic levels. DFW's population increased by 121,603 people year-over-year (YOY), and by 29,070 in Q4 alone. As of December 2020, the population reached a new high of over 7.8 million residents.

According to Moody's Analytics, office-using jobs grew by 11,184 positions YOY in Q4. 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 a majority of office-using employment at 59% (648,972 jobs). The region's office employment totaled 1.1 million jobs as of the end of December.

SUPPLY

Deemed an essential business, construction has continued mostly uninterrupted in DFW. In Q4 2020 the market delivered 336,252 square feet (sf) of new product. The largest project delivered was Lakeside Corporate Office Center; a 122,000-sf building in the Lewisville/Carrollton submarket.

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, this year's 48% decrease in leasing activity when compared to 2019 has also led to a drop in preleasing in DFW relative to last year.

The Legacy/Frisco submarket is the current leader in under construction activity at 1.8 msf. The largest under construction project remains The Epic II in Deep Ellum at 470,000 sf in the East Dallas submarket.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



DALLAS/FORT WORTH

Office Q4 2020

DEMAND

The DFW office market had its fourth consecutive quarter of negative occupancy growth and absorbed -1.1 msf in the fourth quarter of 2020, and -5.4 msf YTD. 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. We saw many examples of this in Q4 with companies like Denbury who downsized their office footprint, and Atos, who put up a large portion of their space for sublease.

As was the case in Q3, Class A assets were not insulated from falling occupancy in Q4. Class A and B absorption were comparable, at -549,557 sf and -538,455 sf 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 Caliber Home Loans (159,320 sf) in Las Colinas, Orix USA (103,922 sf) in the Dallas CBD, and GSA (80,015 sf) in Las Colinas. For the second consecutive quarter, Las Colinas led all submarkets with 401,559 sf of leasing activity in Q4, followed by Richardson/Plano and Legacy/Frisco, with 327,217 sf and 274,162 sf, respectively.

Despite elevated levels of sublease space, direct spaces represented the bulk of the market vacancy at 19.1% (46.0 msf), while sublease space represented 1.7% (4.1 msf) of market vacancy. Because most new projects are delivered as Class A inventory, Class A space held the highest overall vacancy at 21.4%, while Class B and C trailed at 20.4% and 15.9%, respectively. The Dallas submarkets with the lowest overall vacancy rates included Preston Center (11.2%), Lewisville/Carrollton (15.2%) and Legacy/Frisco (16.5%).

PRICING

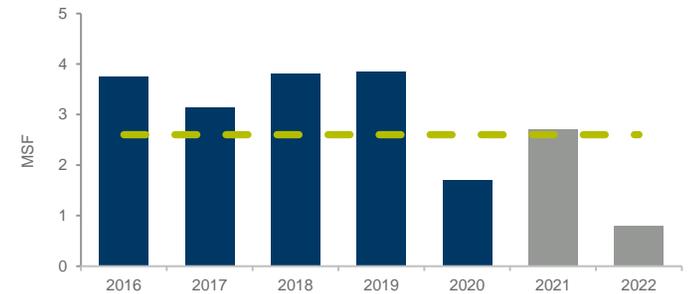
Overall rental rates remained nearly flat, decreasing by just 0.4% YOY to \$26.56 per square foot (psf) on an annual full-service basis. Rental rates were also flat when compared to Q3 2020, though they did rise marginally this quarter due to the increase in vacant Class A space. The Uptown/Turtle Creek submarket remained the leader with the highest overall average asking rates in DFW with rents at \$46.80. Preston Center followed at \$42.56 and Legacy/Frisco at \$33.67. 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 \$31.03 psf, while Class B and C reported more economical rates of \$20.31 and \$17.39, respectively.

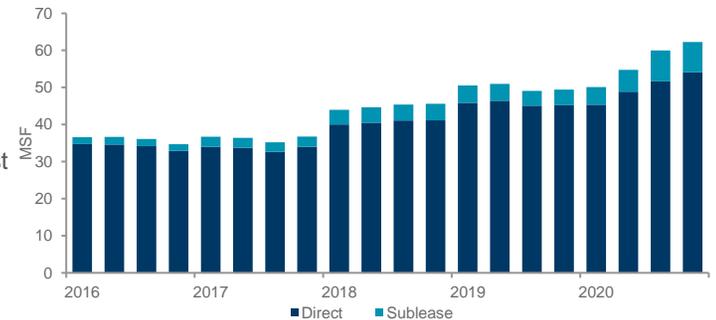
Outlook

- Though absorption remained negative, leasing activity continues to increase as companies and people ease back to work. A continuation of this trend into 2021 bodes well for the state of the market.
- Sublease availability leveled off in Q4, holding steady at 8.1 msf of available space. Though still an elevated number compared to recent years, the fact that space is no longer coming to market at a rapid pace is a welcome sign for the DFW office market.
- Despite falling occupancy in Class A space, rental rates for Class A and B space continue to bifurcate.
- While the economy weakened in 2020, Q4 saw a continuation of DFW's recovery. 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 Q4 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	541,013	5,358,788	30.0%	-45,756	-644,775	545,750	259,230	\$21.64	\$22.28
Arts District	6,601,774	274,631	1,290,608	23.7%	103,922	57,625	114,771	0	\$42.59	\$42.59
West End	1,728,027	9,482	548,514	32.3%	-36,205	-52,462	70,317	0	\$31.25	\$42.20
DALLAS CBD TOTAL	28,017,803	825,126	7,197,910	28.6%	21,961	-639,612	730,838	259,230	\$26.38	\$27.41
North Central Expressway	12,727,342	122,459	2,255,123	18.7%	-93,687	-418,001	467,710	30,000	\$30.77	\$33.21
Preston Center	3,982,635	38,886	407,013	11.2%	-12,127	34,618	183,372	298,000	\$42.56	\$44.75
West Love Field	10,399,569	43,767	2,367,984	23.2%	27,594	-42,416	523,421	0	\$17.93	\$19.93
LBJ Freeway	18,624,022	156,787	3,978,475	22.2%	-85,855	-233,158	984,831	0	\$21.42	\$25.69
Las Colinas	35,290,491	663,430	6,909,135	21.5%	-176,661	-763,812	1,823,206	103,000	\$25.26	\$30.58
Far North Dallas	19,825,922	576,809	3,847,127	22.3%	-128,706	-578,275	1,291,206	0	\$25.10	\$30.78
Richardson/Plano	26,826,677	549,354	4,920,509	20.4%	-83,033	-263,106	1,498,982	0	\$22.70	\$26.63
Mid Cities	11,117,134	118,857	2,781,736	26.1%	-38,186	-1,526,072	608,585	0	\$21.10	\$26.31
Lewisville/Carrollton	5,253,990	4,786	793,128	15.2%	-31,498	-50,111	340,767	0	\$23.04	\$39.34
Southwest Dallas	1,830,500	1535	426,023	23.4%	-15,313	-63,887	16,488	0	\$21.90	\$24.99
Legacy/Frisco	27,353,408	389,172	4,133,816	16.5%	-269,900	-140,883	1,791,127	1,878,443	\$33.67	\$37.91
Southlake/Westlake	4,889,593	242,716	1,111,577	27.7%	-25,616	-133,032	314,685	0	\$29.66	\$30.07
East Dallas	2,776,689	0	347,935	12.5%	-3,752	118,326	24,180	670,000	\$16.69	N/A
Uptown/Turtle Creek	13,138,413	233,893	2,167,124	18.3%	-105,537	-288,752	920,248	1,004,244	\$46.80	\$49.04
DALLAS SUBURBS TOTAL	194,036,385	3,142,451	36,446,705	20.4%	-1,042,277	-4,348,561	10,788,808	3,983,687	\$26.75	\$32.37
DALLAS TOTAL	222,054,188	3,967,577	43,644,615	21.4%	-1,020,316	-4,988,173	11,519,646	4,242,917	\$26.68	\$31.12
Fort Worth CBD	10,995,951	97,894	1,540,065	14.9%	-66,483	-284,604	333,360	0	\$26.44	\$29.33
East Fort Worth	1,479,498	1,900	235,335	16.0%	-330	-23,983	24,337	0	\$16.89	\$18.42
North Fort Worth	2,184,957	0	278,311	12.7%	0	5,564	80,840	0	\$19.97	\$22.77
South Fort Worth	1,667,268	19,953	118,020	8.3%	-1,213	771	21,798	0	\$22.42	\$33.05
West Fort Worth	2,325,308	10,287	198,716	9.0%	-17,079	-75,078	91,964	0	\$21.66	\$24.16
FW SUBURBS TOTAL	7,657,031	32,140	830,382	11.3%	-18,622	-92,726	218,939	0	\$19.80	\$24.07
FORT WORTH TOTAL	18,652,982	130,034	2,370,447	13.4%	-85,105	-377,330	552,299	0	\$24.25	\$28.91
DFW TOTAL	240,707,170	4,097,611	46,015,062	20.8%	-1,105,421	-5,365,503	12,071,945	4,242,917	\$26.56	\$31.03

*Rental rates reflect gross asking \$psf/year

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2911 Lake Vista Dr	Lewisville / Carrollton	Ally Financial	163,336	Renewal
2375 N Glenville Dr	Richardson / Plano	CBRE	131,846	Renewal/Expansion
1601 Lyndon B Johnson Fwy	Freeport	Southwestern Health Resources	120,460	New Lease

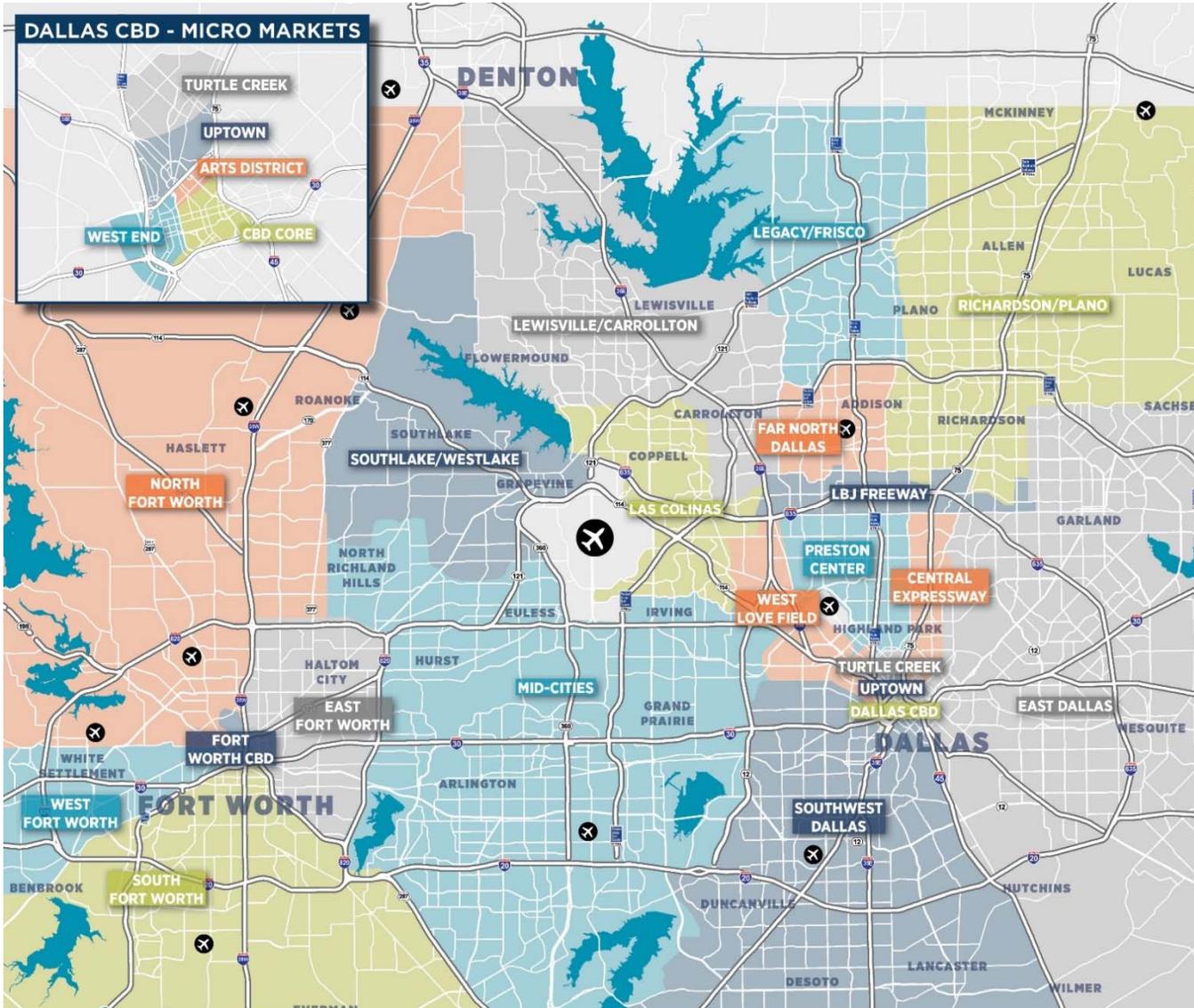
KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER/BUYER	SF
6501 Legacy Dr	Legacy / Frisco	Dreien Opportunity Partners / Beal Bank	1,897,984
Tollway Towers	Far North Dallas	Champion Partners / Larson Capital Management	328,191
Creekview Corporate Center I & II	Richardson / Plano	Beltway Commercial / Exeter	252,073

DALLAS/FORT WORTH

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OFFICE SUBMARKETS



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