TRANSWESTERN

DALLAS+FORT WORTH OFFICE MARKET

Q3 2022

Rent Growth Reaches A Blistering 7.7%

Dallas-Fort Worth continued its solid performance in the third quarter. Office-using employment continues growing and now exceeds pre-pandemic levels by over 14%. Space demand remains healthy, absorbing 3.3 million SF over the last 12 months amid tightening financial conditions and rising sublease space. Despite elevated vacancy rates, rent growth continues at searing levels typically seen during expansion cycles.

Dallas-Fort Worth remains favorably positioned for a potential recession. Employment may grow by 11% or more over the next 10 years, creating supportive conditions for office demand over the long term. At the same time, a preference for new 'experiential office' has become ubiquitous among tenants, driving demand toward higher quality assets. These megatrends will be key drivers of robust office performance in Dallas-Fort Worth regardless of any short-term headwinds from remote work or cyclical downturns.

TRENDLINES

	Q3 2022	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Office-Using Job Growth	+14,600	+33,400	↑	+12,000	↑
Total Available	25.6%	25.5%	→	23.0%	→
Net Absorption*	659,500	272,900	↑	274,300	↑
Sublease Space	10,058,000	10,603,000	↓	7,546,000	→/↑
Vacancy	17.5%	17.7%	↓	16.0%	→
Asking Rent - Dallas	$34.04	+8.0%	↑	+4.4%	↑
Asking Rent - Fort Worth	$28.20	+5.7%	↑	+3.0%	↑
Under Construction	6,757,000	5,238,000	↑	7,298,000	↑/→

**Net Absorption calculated as Net Leasing, or change in Available space.*

Sources: Transwestern Research, Texas Workforce Commission, CoStar

ECONOMY

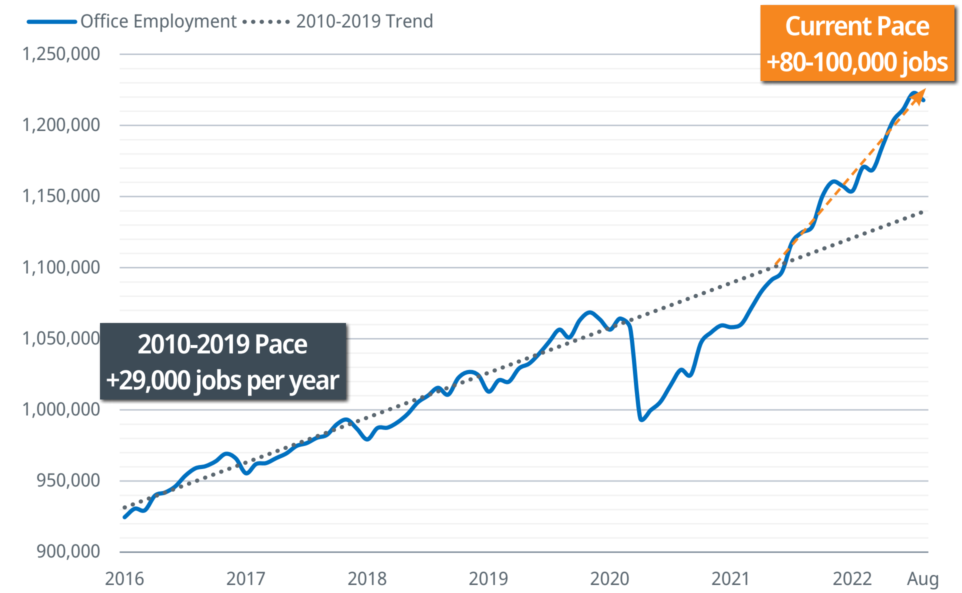
Office Jobs Continue Growing Above Pace

- Firms added 25,700 jobs over the last three months. Job growth over the last 12 months totals 294,700 jobs or 6.7%.
- Office-using employment remains at all-time highs at 1,217,800 jobs or **14.4%** above pre-pandemic levels.
- Our current Recession base case:
  - A technical recession may begin as early as this year.
  - Inflation remains elevated (>2%) longer than anticipated.
  - Financial conditions continue tightening through H1 2023 but may begin easing in late 2023 or early 2024.

Implications for the DFW Office Market:

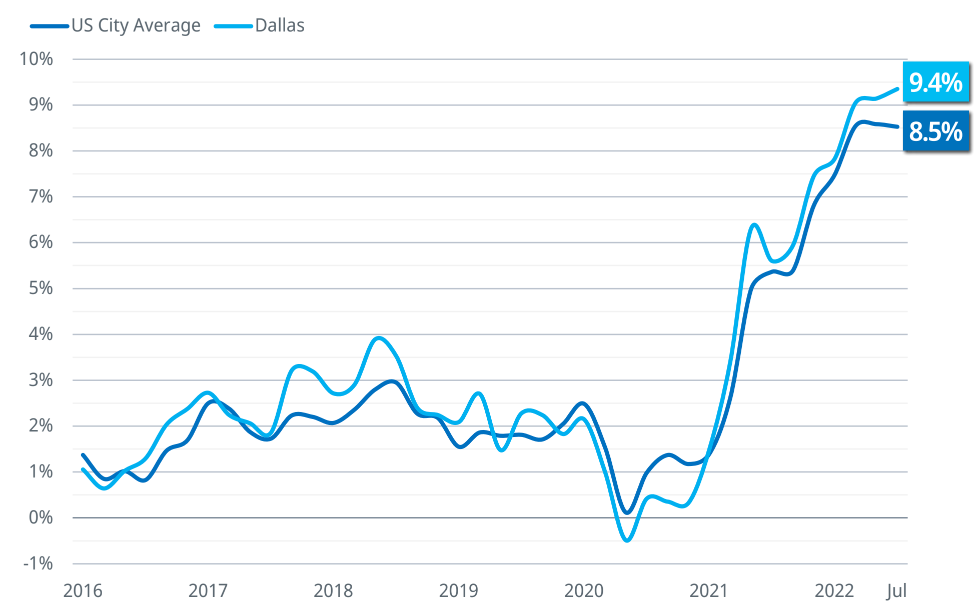
- **Tightening financial conditions will continue acting as a headwind for space demand** as corporate bond yields are at their highest levels since 2009/2010.
- **A recession may have limited impacts to vacancy:** DFW office employment contracted by 8.8% in 2001 and 7.7% in 2007. If the next recession follows a similar path, office employment declines to 1,110,000 jobs—but this would be 36,000 jobs or 4% ***above*** pre-pandemic levels. Office vacancy then was 15.0% versus 17.6% today.
- **Remote work may insulate vacancy in a recession:** Elevated vacancy rates *already* reflect reduced space demand due to remote work. This means layoffs of remote workers have zero additional impact to office vacancy.
- **Return to work may catalyze space demand** as companies seek productivity gains and slack returns to labor markets.
- **DFW may follow a path similar to 2009:** DFW's business climate and bright long-term growth prospects may again lead to a shallower downturn. Relocations from high-cost markets may increase to improve profitability amid inflation and tepid growth, leading the region to a faster recovery.

OFFICE-USING EMPLOYMENT



Source: Transwestern Research, CoStar

CONSUMER PRICE INDEX



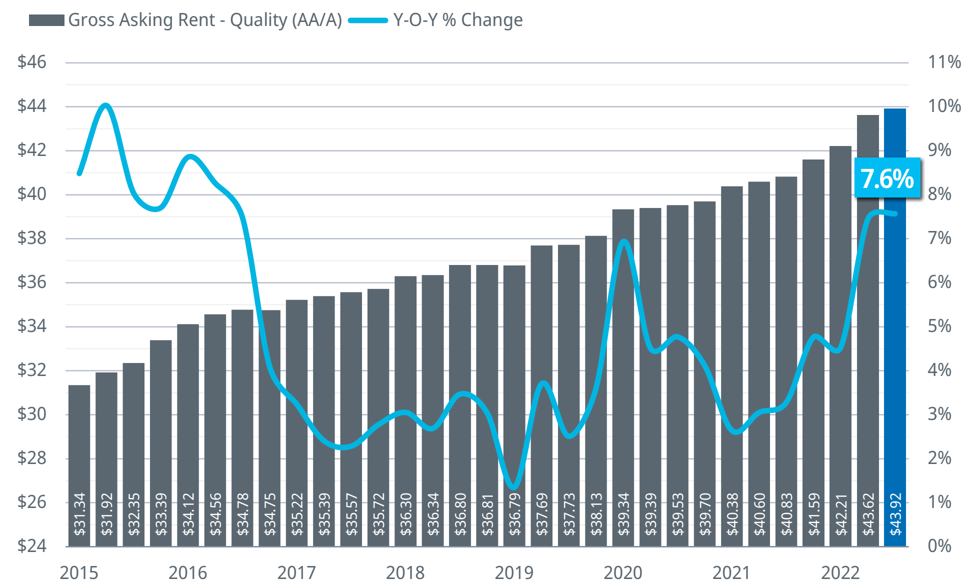
Source: Transwestern Research, Bureau of Labor Statistics

RENTAL RATES

Rent Growth Continues Despite Vacancy

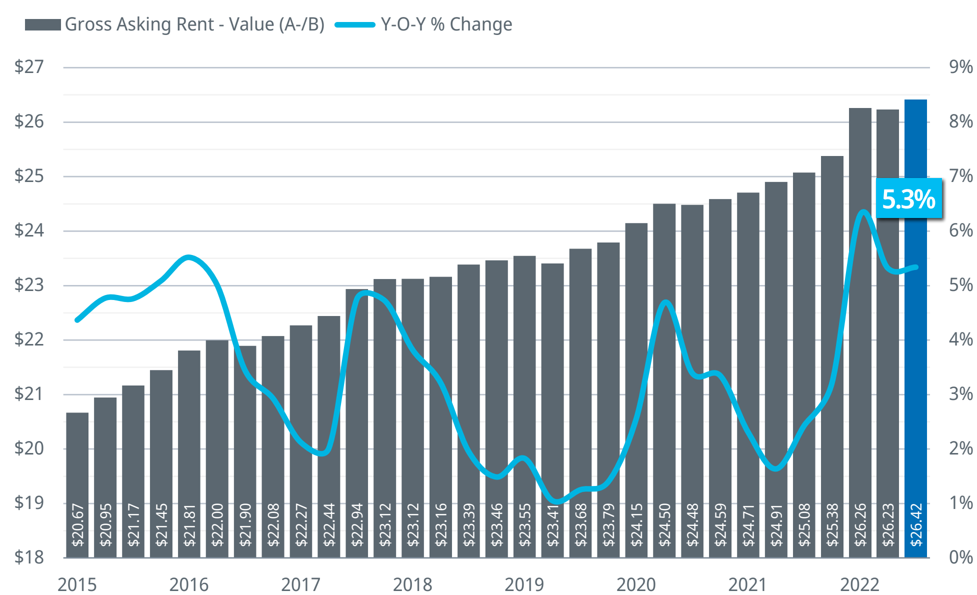
- Pervasive flight to quality continues driving Asking Rent growth higher in Quality (AA/A) properties. This quarter, full service rents reached $43.92 per SF, up **7.6%** from last year.
- Asking Rents in Value (A-/B) properties reached $26.42 per SF, up 5.3% from last year. Inflation and rising rates are pressing rents higher despite rising vacancy rates.
- In Dallas, strong demand for the best space is trickling down to other properties, diving rent growth to +8.0%.
- Rent growth in Fort Worth reached +5.7%, its highest level in over five years. Several new developments are achieving rates of $40 NNN, reaching parity with suburban Dallas.
- The spread between Quality and Value rents—i.e. the potential upside for Value-Add investments—is now 66%, the highest level in over 10 years.
- Companies continue to discount sublease offerings to attract demand. The average discount for sublease space further increased to 17.8%, its highest level since 2016.
- Rent growth is likely to continue in the near term due to:
  - Supply-side factors such as rising construction costs, rising operating expenses and debt service, and to ensure property returns catch up to inflation in real terms.
  - Tenant demand will continue drawing down vacancy in Quality assets and support higher rents. On the other hand, rising competition may create opportunities for tenants in properties with large vacant blocks, obsolescence issues, or periphery locations.

ASKING RENTS - QUALITY (A/AA)



Source: Transwestern Research, CoStar

ASKING RENTS - VALUE (A-/B)



Source: Transwestern Research, CoStar

LEASING, VACANCY, & NET ABSORPTION

Space Demand Remains Healthy Despite Headwinds

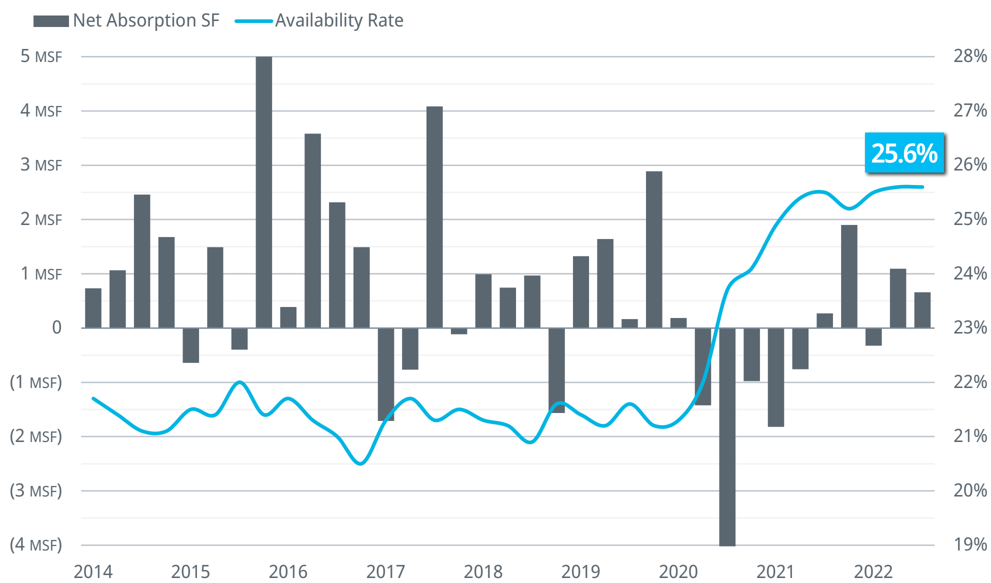
- Net absorption registered at positive 660,000 SF this quarter, bringing absorption over the last 12 months to positive 3,328,000 SF.
- 'Flight to Quality' continues driving a divergence in Vacancy rates:
  - Quality (AA/A) vacancy declined to 15.1%, 1.8% below 2021 highs.
  - Value (A-/B) vacancy remains near highs at 18.9%.
- Multifamily conversions are beginning to improve vacancy in the Dallas CBD. With over 3 million SF of conversions planned, vacancy rates will fall to 20% for the first time in decades.
- As predicted, sublease space inched up to 10.1 million SF as companies seek to reduce overhead with rising debt costs.
- 12-Month Outlook:
  - Amenitized properties will continue capturing a larger share of space demand.
  - Pent-up demand from delayed decisions will continue counteracting headwinds from tightening financial conditions.
  - More large companies will seek to reduce overhead. Vacancy & Availability may rise due to increased sublease space and large blocks of vacant space.

NOTABLE LEASES

TENANT	SF	TYPE	BUILDING	SUBMARKET
Goldman Sachs	1,000,000	New	North End I-III	Uptown/Turtle Creek
Comerica	100,000	New	The Star - Phase IV	Upper Tollway/Frisco
Munsch Hardt	78,525	Ren	Ross Tower	Dallas CBD
Advantis	40,000	Sub	Three Galleria Tower	Lower Tollway
ExteNet Systems	37,450	New	Frisco Station Offices Three	Upper Tollway/Frisco
Undisclosed	36,700	New	The Tennyson	Upper Tollway/West Plano
Undisclosed	36,500	New	The Tennyson	Upper Tollway/West Plano
Undisclosed	22,700	New	Plaza of the Americas	Dallas CBD

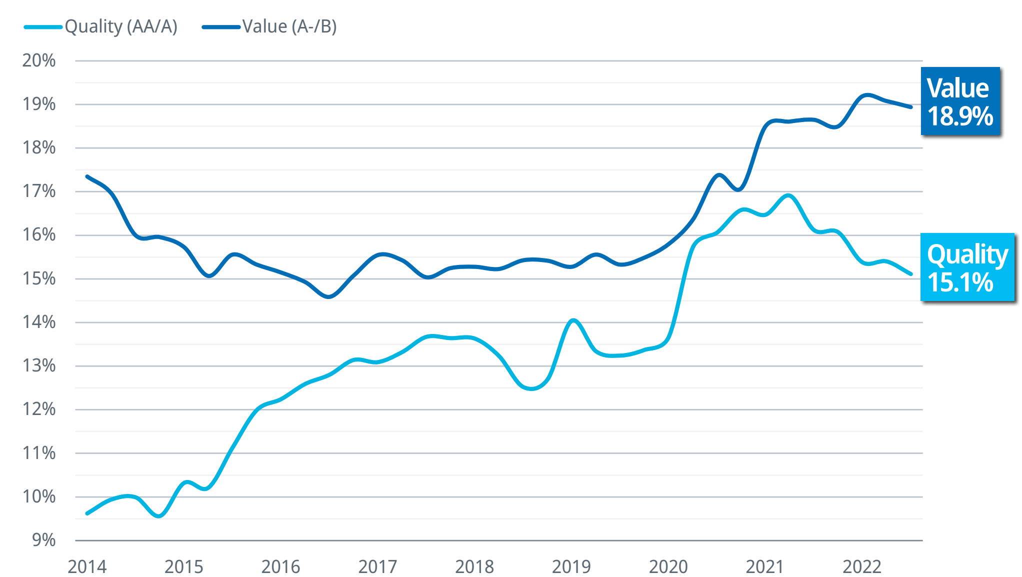
Source: Transwestern Research

NET ABSORPTION & AVAILABILITY



Source: Transwestern Research, CoStar

VACANCY - FLIGHT TO QUALITY



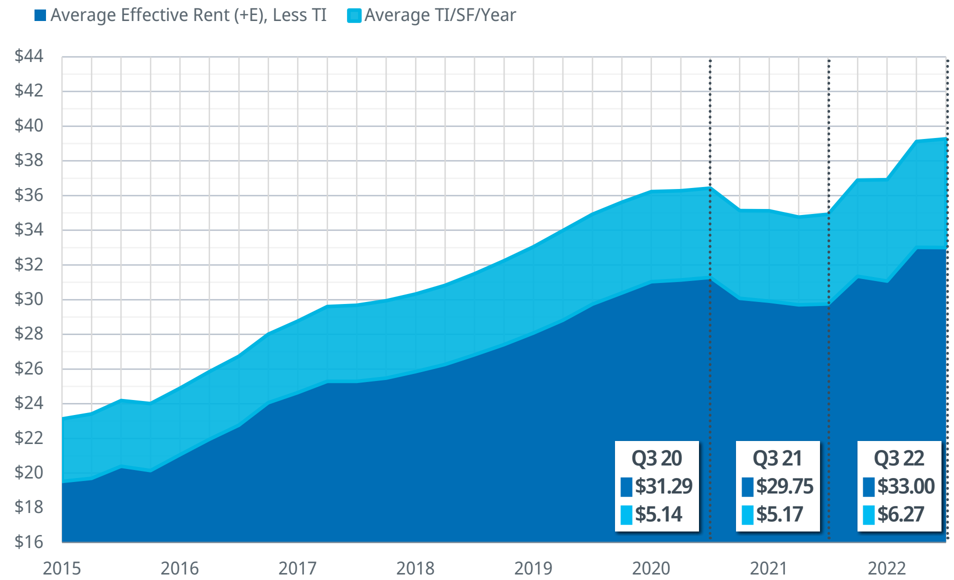
Source: Transwestern Research, CoStar

TERMS & CONCESSIONS

Concessions—And Rents—Remain At Highs

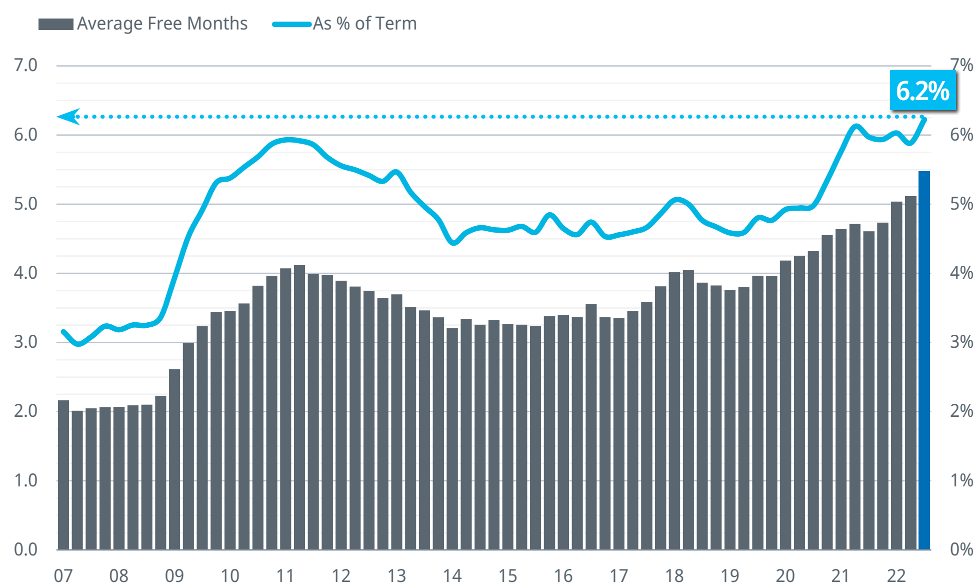
- Concession packages remain at recessionary levels but increases in face rents have been high enough to support effective rent growth in many cases.
- Average effective rent is approximately $40.82 +E, or 9.1% above pre-pandemic levels. Excluding tenant improvement allowances, average effective rents have reached $33.00 +E, or 6.3% above pre-pandemic levels.
- Average TI allowances continue setting a new high of $6.27 per SF per year, or $43.16 per SF. The average TI allowance is up 24% from pre-pandemic levels.
- Rent abatement (i.e. free rent) now exceeds levels seen after the Great Financial Crisis at 5.5 months or 6.2% of lease term. Both short-term and long-term leases are receiving longer free rent periods.
- Outlook For Tenants:
  - At present, elevated vacancy is leading landlords to offer concessions at levels typically seen during a recession.
  - Job growth in DFW, flight to quality, inflation, and rising interest rates are exerting strong pressure on asking rents, overwhelming concessions and driving effective rents higher.
  - Rent abatements are offered at the highest levels **since at least 1997.**
  - Taken together, there may be limited upside for greater concessions beyond what is offered today. Effective rents may continue growing during a recession rather than falling, except in properties with high vacancy, a high degree of tenant rollover, or obsolescence issues.

AVERAGE RENT & TENANT IMPROVEMENT ALLOWANCE



Source: Transwestern Research, 12-month rolling average.

AVERAGE RENT ABATEMENT



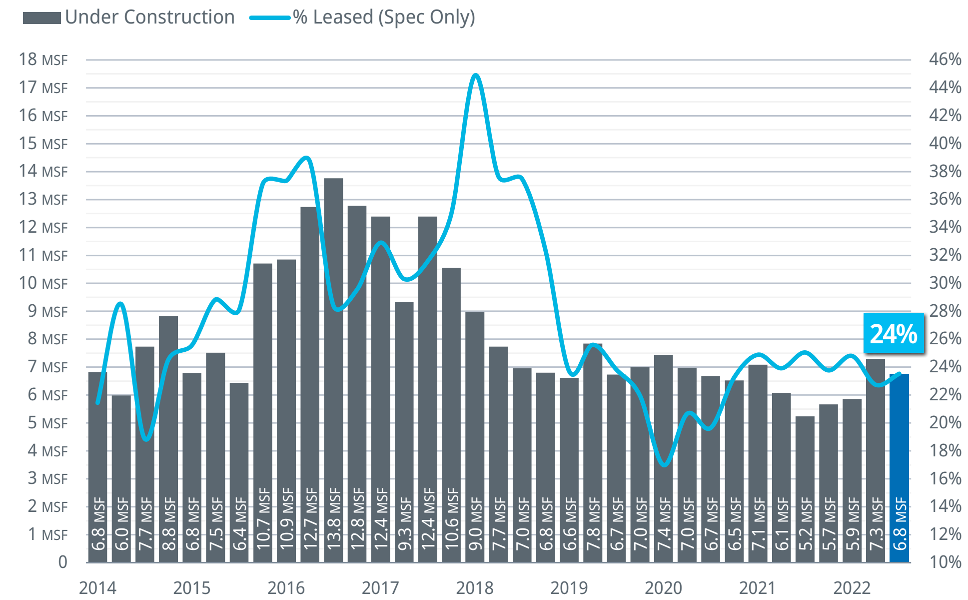
Source: Transwestern Research, 12-month rolling average.

CONSTRUCTION & CAPITAL MARKETS

Strong Demand For New Construction

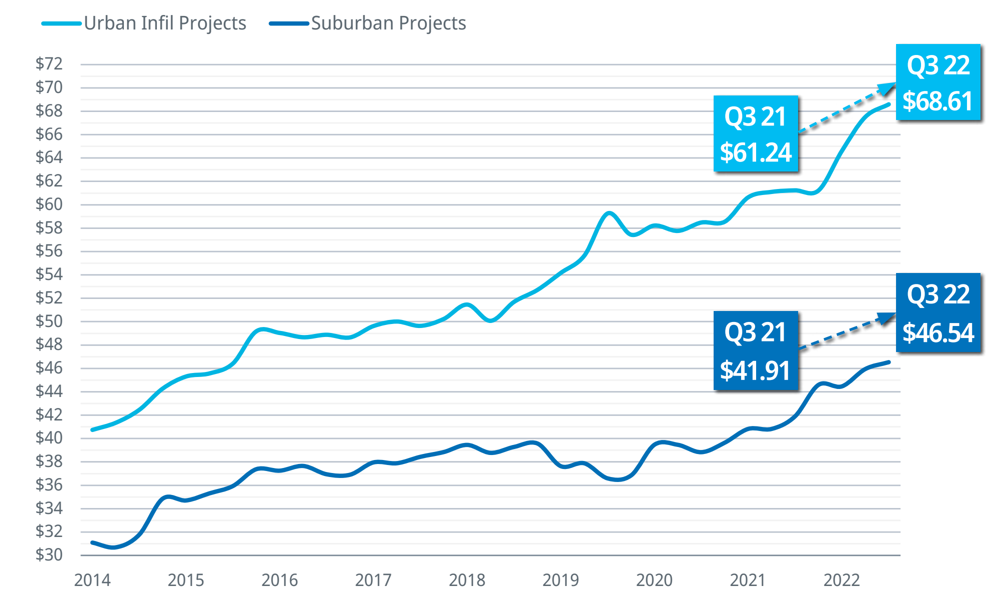
- Escalating construction costs and demand for new space have increased rents 12% in urban infill projects and 11% year-over-year in suburban projects.
- Developers continue with plans for new development as competing projects lease-up. Leasing velocities in Urban Dallas and Legacy/Frisco support new projects breaking ground despite high levels of construction.
- Multiple build-to-suit projects are in progress:
  - Demolition is beginning for Goldman Sachs' new 1,000,000+ SF campus in Uptown/Turtle Creek.
  - Construction has begun on TIAA's 525,500 SF building at The Star in Upper Tollway/Frisco.
  - Construction is expected to begin soon for Wells Fargo's 800,000 SF campus in Las Colinas/Urban Center.
- Rising interest rates continue exerting downward pressure on asset prices. Deals are being renegotiated and closing as interest rates rise, although some properties have been taken off market as owners wait for conditions to improve.
- Notable sales include:
  - McKinney & Olive, a 536,000 SF trophy building in Uptown/Turtle Creek, to a public REIT
  - 3400 CityLine, 312,000 SF in Richardson, to Zeller
  - Workspace Property Trust acquired a 53-building portfolio from Griffin Realty Trust with several DFW properties:
    - Duke Bridges I & II, 284,000 SF in Upper Tollway/Frisco
    - One MacArthur Ridge, 250,000 SF in Las Colinas/Office Center
    - Heritage Commons IV, 164,000 SF in Alliance
    - 4300 Centreway, 140,000 SF in Arlington/Mansfield

CONSTRUCTION PIPELINE



Source: Transwestern Research, CoStar

RENTS IN NEW CONSTRUCTION



Source: Transwestern Research, CoStar

Market Indicators - Dallas

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE			VACANCY %	NET ABSORPTION		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	QUALITY (AA/A)	VALUE (A-/B)		THIS QUARTER	LAST 12 MONTHS		QUALITY (AA/A)	VALUE (A-/B)
Uptown/Turtle Creek	15,584,429	4,639,098	28.0%	24.3%	15.1%	197,622	490,771	1,457,789	$64.92	$42.34
Dallas CBD	30,079,878	10,292,489	32.7%	34.7%	24.8%	392,587	1,408,938	0	$47.00	$25.56
Stemmons Freeway	11,004,351	2,645,274	30.2%	21.9%	18.2%	142,433	30,289	266,535	$50.21	$18.94
Preston Center	4,706,098	721,100	19.4%	11.4%	8.3%	28,784	61,715	235,600	$60.91	$45.40
Central Expressway	15,439,422	4,021,671	30.6%	24.6%	19.4%	137,625	161,996	0	$39.99	$31.48
Deep Ellum/East Dallas	2,053,984	835,568	58.0%	13.5%	10.9%	67,343	183,695	0	$53.07	$19.71
West LBJ Freeway	4,006,865	1,225,401	-	30.6%	21.3%	(168,076)	(171,840)	0	-	$19.96
East LBJ Freeway	6,210,909	2,109,562	0.0%	34.1%	30.1%	(51,462)	(360,576)	0	-	$20.57
Lower Tollway	27,089,180	6,787,050	25.1%	25.0%	18.6%	134,304	763,322	0	$41.48	$25.22
Upper Tollway/West Plano	32,608,132	9,769,907	28.0%	30.4%	19.7%	(60,928)	5,597	1,088,366	$44.36	$36.25
Upper Tollway/Frisco	5,883,837	1,540,071	21.3%	22.3%	10.9%	675,844	745,787	1,212,416	$56.18	$36.75
Richardson	20,138,780	4,754,655	20.1%	25.9%	14.9%	(130,283)	(311,465)	0	$30.66	$22.89
Plano	5,835,897	988,619	24.3%	12.9%	9.3%	(36,854)	119,314	174,784	$29.61	$22.39
Allen/McKinney	5,990,083	1,187,146	25.3%	15.6%	8.8%	(50,856)	94,174	372,624	$38.05	$26.23
Las Colinas/Urban Center	9,002,346	2,583,421	26.4%	27.9%	20.3%	188	221,712	503,250	$39.16	$27.91
Las Colinas/Office Center	15,949,233	3,372,760	21.4%	20.9%	14.0%	(207,870)	332,753	0	$32.89	$23.13
Las Colinas/DFW Freeport	15,771,002	5,284,494	27.4%	34.1%	19.3%	(313,676)	(216,241)	725,000	$37.22	$25.79

NOTE: Traditional Class A/B statistics are available upon request.

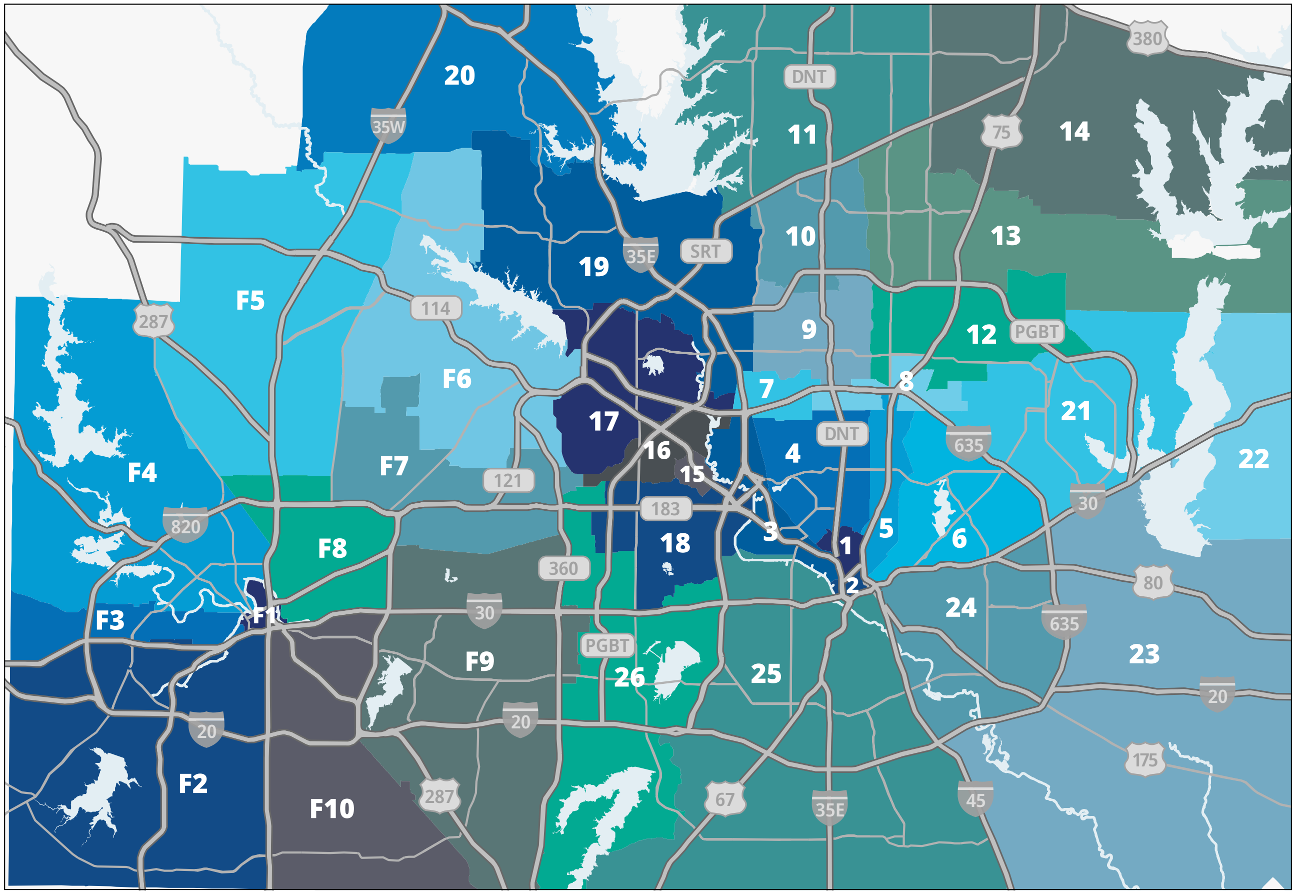
Market Indicators - Dallas

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE			VACANCY %	NET ABSORPTION		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	QUALITY (AA/A)	VALUE (A-/B)		THIS QUARTER	LAST 12 MONTHS		QUALITY (AA/A)	VALUE (A-/B)
South Irving	1,034,671	98,362	-	9.3%	9.0%	22,874	74,956	21,750	-	$17.89
Lewisville	4,176,115	1,104,203	47.8%	22.8%	17.2%	(59,471)	108,881	155,161	$34.44	$24.75
Denton	1,268,936	48,997	-	3.9%	3.5%	(4,275)	53,252	0	-	$25.70
Garland	676,897	147,147	-	21.7%	20.1%	(8,639)	13,699	0	-	$14.92
Rockwall	367,314	6,892	2.1%	1.6%	0.5%	5,577	42,806	0	-	-
Mesquite/Terrell/Forney	396,234	20,788	0.0%	5.6%	5.3%	(2,114)	1,693	0	-	$16.14
Southeast Dallas	599,231	35,867	-	6.0%	6.0%	0	1,445	0	-	$18.02
Oak Cliff/Southwest Dallas	2,040,905	635,817	80.5%	10.8%	19.7%	4,130	(181,442)	0	$27.22	$21.68
Grand Prairie	3,578,743	1,577,647	92.6%	12.6%	41.7%	(34,739)	(34,156)	0	$27.59	$20.73
TOTAL - DALLAS	**241,493,472**	**66,434,006**	**28.0%**	**26.1%**	**18.4%**	**680,068**	**3,641,075**	**6,213,275**	**$44.68**	**$26.77**

Market Indicators - Fort Worth

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE			VACANCY %	NET ABSORPTION		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	QUALITY (AA/A)	VALUE (A-/B)		THIS QUARTER	LAST 12 MONTHS		QUALITY (AA/A)	VALUE (A-/B)
Fort Worth CBD	8,833,393	1,568,651	15.8%	19.4%	15.3%	109,114	303,970	0	$35.32	$26.12
Southwest Fort Worth	4,512,377	849,086	12.1%	21.2%	12.8%	3,056	(22,219)	30,000	$31.79	$24.43
West Fort Worth	2,160,232	478,485	22.6%	18.0%	12.6%	44,780	87,240	173,282	$44.33	$23.68
Northwest Fort Worth	282,621	64,394	25.8%	18.8%	22.8%	(12,687)	(1,014)	0	$26.06	$21.40
Alliance	2,994,102	759,549	18.4%	35.8%	6.8%	(14,110)	(192,130)	135,000	$34.89	$31.60
Westlake/Grapevine	8,403,876	1,946,247	18.7%	35.0%	14.1%	11,057	(82,407)	143,499	$37.67	$27.68
HEB/Mid-Cities	5,497,976	771,653	3.2%	21.8%	9.2%	(55,826)	(210,805)	0	$23.32	$18.21
Northeast Fort Worth	3,027,764	351,229	12.8%	11.4%	8.6%	(2,107)	(67,956)	0	-	$22.44
Arlington/Mansfield	5,798,608	1,147,191	18.6%	19.7%	15.2%	(68,142)	(100,875)	61,500	$24.17	$21.76
Southeast Fort Worth	952,525	127,899	0.0%	13.4%	10.4%	(35,655)	(27,115)	0	-	$17.75
TOTAL - FORT WORTH	**42,463,474**	**8,064,384**	**15.8%**	**20.9%**	**12.7%**	**(20,520)**	**(313,311)**	**543,281**	**$36.41**	**$23.45**

NOTE: Traditional Class A/B statistics are available upon request.



OFFICE SUBMARKETS

- **1** Uptown/Turtle Creek
- **2** Dallas CBD
- **3** Stemmons Freeway
- **4** Preston Center
- **5** Central Expressway
- **6** Deep Ellum/East Dallas
- **7** West LBJ
- **8** East LBJ
- **9** Lower Tollway
- **10** Upper Tollway/West Plano
- **11** Upper Tollway/Frisco
- **12** Richardson
- **13** Plano
- **14** Allen/McKinney
- **15** Las Colinas Urban Center
- **16** Las Colinas Office Center
- **17** DFW Freeport/Coppell
- **18** South Irving
- **19** Lewisville
- **20** Denton
- **21** Garland
- **22** Rockwall
- **23** Mesquite/Forney/Terrell
- **24** Southeast Dallas
- **25** Oak Cliff/Southwest Dallas
- **26** Grand Prairie
- **F1** Fort Worth CBD
- **F2** Southwest Fort Worth
- **F3** West Fort Worth
- **F4** Northwest Fort Worth
- **F5** Alliance
- **F6** Westlake/Grapevine
- **F7** HEB/Mid-Cities
- **F8** Northeast Fort Worth
- **F9** Arlington/Mansfield
- **F10** Southeast Fort Worth

FOR MORE INFORMATION

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RESEARCH METHODOLOGY

Includes Class A & B office properties 20,000 SF and larger. Owner-occupied properties are included, while medical office and government-owned buildings are excluded.

Definitions
Quality: Class AA/A offices that command higher rents, beneficiaries of the "flight to quality" trend; Covers 453 properties, 113 million SF
Value: All other Class A/B office; 1,659 properties, 178 million SF
Net Absorption: Calculated as "net leasing" or the net change in committed space (total available)
Vacancy: Direct vacant space with immediate availability
Asking Rent: Weighted average of direct gross rents

ABOUT TRANSWESTERN

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