

Dallas-Fort Worth Office

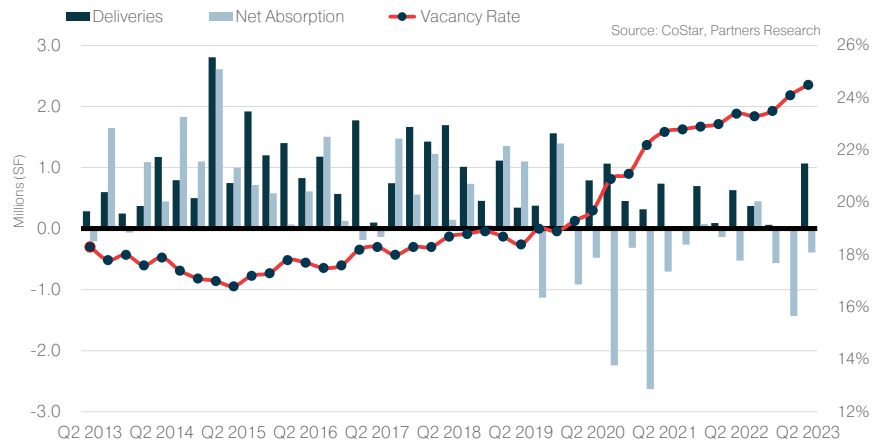
Q2 2023

Asking average rent reaches all-time high in Dallas Office market.

Q2 In Review

By the end of Q2 2023, the overall vacancy rate in the Dallas-Fort Worth (DFW) office market rose 40 basis points quarter-over-quarter, from 24.1% to 24.5%. The combination of new construction, downsizing, and tenants opting to sublease their existing space contributed to the increase in the vacancy rate. Net absorption improved quarter-over-quarter, up 72% from -1.4 million sq. ft. in Q1 2023 to -389,393 sq. ft. in Q2 2023. Deliveries surged quarter-over-quarter from 25,539 sq. ft. in Q1 2023 to 1.0 million sq. ft. in Q2 2023—with the Preston Center and the Far North Dallas submarket accounting for nearly 60% of the space delivered. Quarterly leasing velocity increased 6% from 3.1 million sq. ft. in Q1 2023 to 3.4 million sq. ft. in Q2 2023. The full-service average rate stands at \$29.45 per sq. ft. in Q2 2023, up slightly from \$29.22 per sq. ft. and expected stay within a \$29-\$30 range for the next three years.

Supply & Demand



Dallas-Fort Worth Economic Update

The DFW unemployment rate increased to 3.8% in May 2023, slightly up from 3.7% in April 2023. The metro's jobless rate beat the national rate (3.7%) but was lower than the state's rate (4.1%). As of May 2023, total employment in DFW was 4.2 million. The DFW private hourly earnings dipped to \$33.77 in May 2023 from \$34.40 in April 2023. However, the DFW three-month moving average for hourly earnings (\$33.99) was above the state average (\$31.21) and the national average (\$33.32).

Key Market Indicators

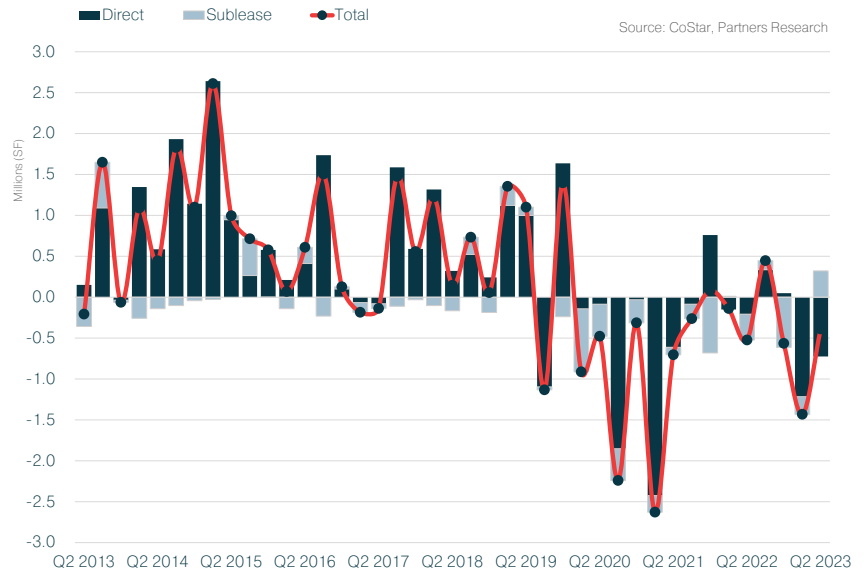
	CURRENT Q2 2023	PRIOR QUARTER Q1 2023		PRIOR YEAR Q2 2022	
Vacant Total	24.5%	24.1%	▲	23.4%	▲
Vacant Direct	22.2%	21.6%	▲	21.2%	▲
Available Total	28.0%	27.8%	▲	27.0%	▲
Available Direct	24.4%	24.1%	▲	23.8%	▲
Net Absorption (SF)	-389,393	-1,431,537	▲	-523,385	▲
Leasing Activity (SF)	3,315,070	3,112,452	▲	4,898,887	▼
Construction (SF)	2,810,800	3,469,627	▼	2,813,762	▼
Deliveries (SF)	1,066,392	25,539	▲	628,916	▲
Avg Asking Rent (Gross)	\$29.45	\$29.22	▲	\$28.83	▲
Inventory (SF)	271,575,573	270,509,181	▲	270,052,728	▲

01

Negative Net Absorption in Q2 2023

In Q2 2023, net absorption—move-ins minus move-outs—improved quarter-over-quarter, up 72% from -1.4 million sq. ft. in Q1 2023 to -389,393 sq. ft. in Q2 2023. PepsiCo’s divisional office closure (251,478 sq. ft.) at 5600 Headquarters Drive was the largest move-out for the quarter. Goldman Sachs filling a 138,851-sq.-ft. office space at 717 North Harwood Drive in April 2023, and Dickies occupying a 83,687-sq.-ft. office space at 500 Taylor Street attributed to some of the largest move-ins for the quarter.

Net Absorption

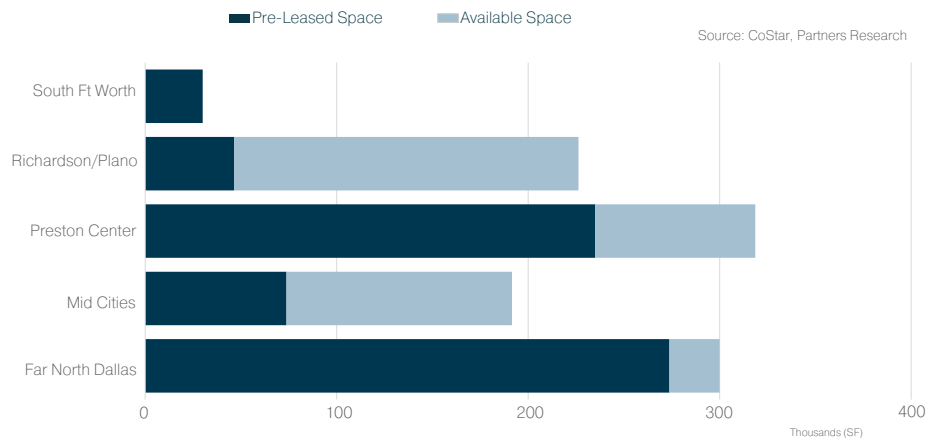


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Preston Center and Far North Dallas Dominate Deliveries

Deliveries in the DFW office market reached 1.0 million sq. ft. at the end of Q2 2023. Quarter-over-quarter, deliveries surged from 25,539 sq. ft. in Q1 2023, and year-over-year deliveries increased 70% from 628,916 sq. ft. in Q2 2022. The Preston Center (8111 Douglas Avenue) and Far North Dallas (17 Cowboys Way) submarkets contributed 618,602 sq. ft.—or nearly 60%—of the office space delivered in Q2 2023. In June 2023, a 318,682-sq.-ft. office space was delivered at 8111 Douglas Avenue. Key tenants such as Lincoln Property (approximately 65,000 sq. ft.), Sewell Automotive (27,557 sq. ft.) and Tolleson (26,496 sq. ft.) have already pre-leased space at 8111 Douglas. In addition, a 299,970-sq.-ft. office space was completed at 17 Cowboys Way in April 2023. On the quarter, there is 2.8 million sq. ft. in the construction pipeline as of Q2 2023. Over the prior three years, construction averaged around 3.0 million sq. ft. annually.

Deliveries

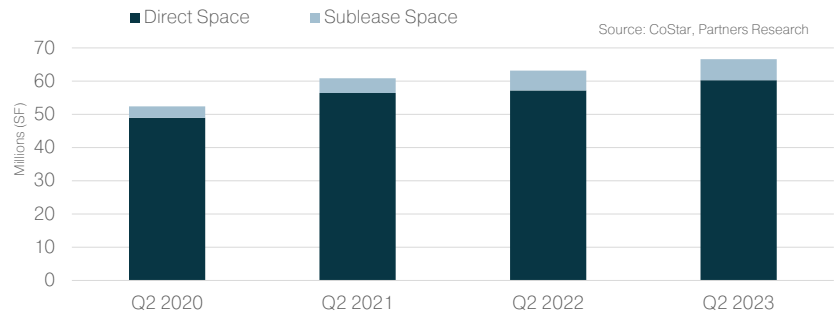


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Vacancy Rate Increases To 24.5%

The overall vacancy rate in the DFW office market is 24.5% in Q2 2023, up 40 basis points from 24.1% in Q1 2023. Class A and Class B properties have vacancy rates of 27.2% and 22.1%, respectively. Class A submarkets with the greatest quarter-over-quarter increases include: East Dallas (46.1% to 52.8%), Preston Center (9.4% to 15.3%), and Richardson/Plano (21.5% to 23.7%). Class B submarkets with the greatest quarter-over-quarter increases include: South Fort Worth (13.6% to 16.4%), Northeast Fort Worth (14.3% to 16.4%), and Lewisville/Denton (18.1% to 19.6%).

Vacancy

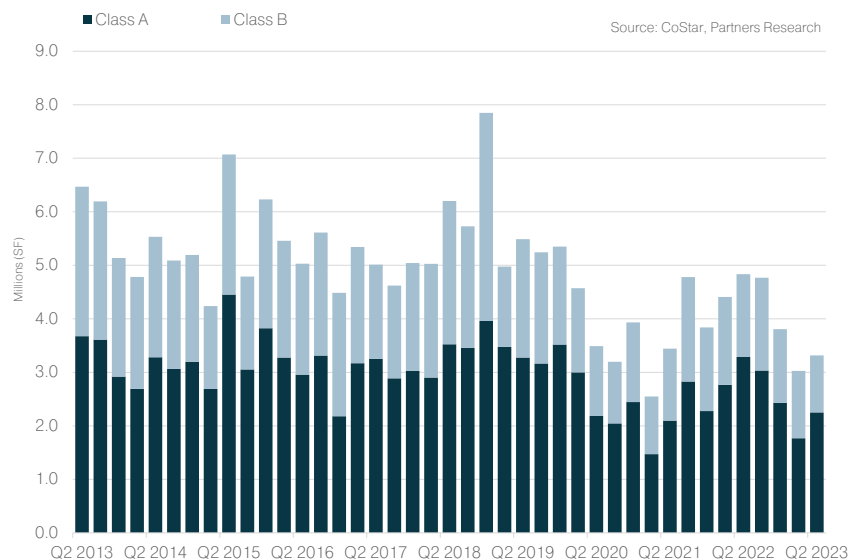


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Leasing Up 6% Quarter-Over-Quarter

The volume of signed lease transactions during the second quarter—comprised of new leases and renewals—was 3.3 million sq. ft., up 6% from the previous quarter’s 3.1 million sq. ft. Some of the largest leases executed in Q2 2023 include: Atos SE signing a 141,000-sq. ft. office lease in Irving in June 2023, and Texas Air Systems inking a deal for a 103,546-sq. ft. office space in Irving in May 2023.

Leasing Activity

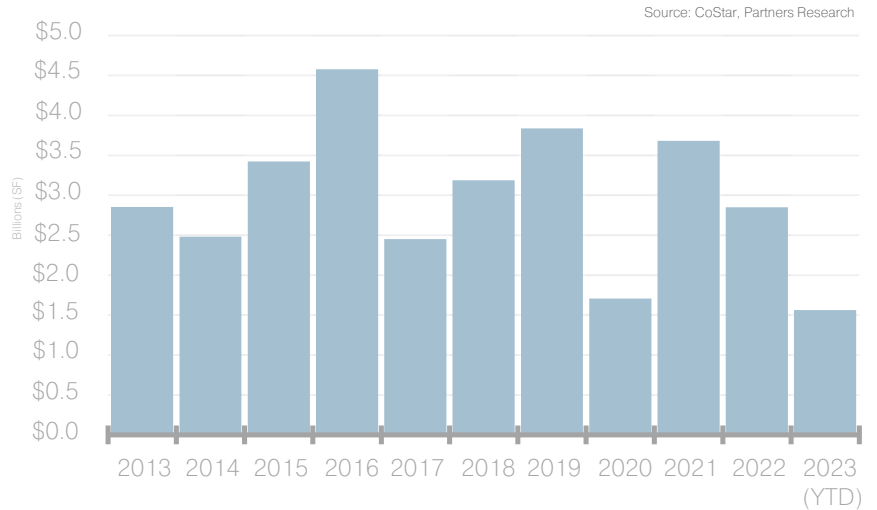


05

Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at \$1.6 billion in the Dallas office market. With 395 deals completed thus far in 2023, the average transaction price currently stands at \$163 per sq. ft. with an average transaction cap rate at 6.9%. By year-end of 2022, the cumulative 12-month sales volume was \$2.8 billion, and 1,262 deals were completed with an average transaction price of \$248 per sq. ft. and an average cap rate of 6.4%. A notable acquisition within Q2 2023 included Pacific Elm Properties closing on a 22-story, 273,217-sq.-ft. office tower at 750 N Saint Paul Street financed with a \$66.7 million loan in April 2023. Sales activity in Dallas-Fort Worth has slowed as rising interest rates have pushed the cost of debt higher.

Cumulative Sales Volume

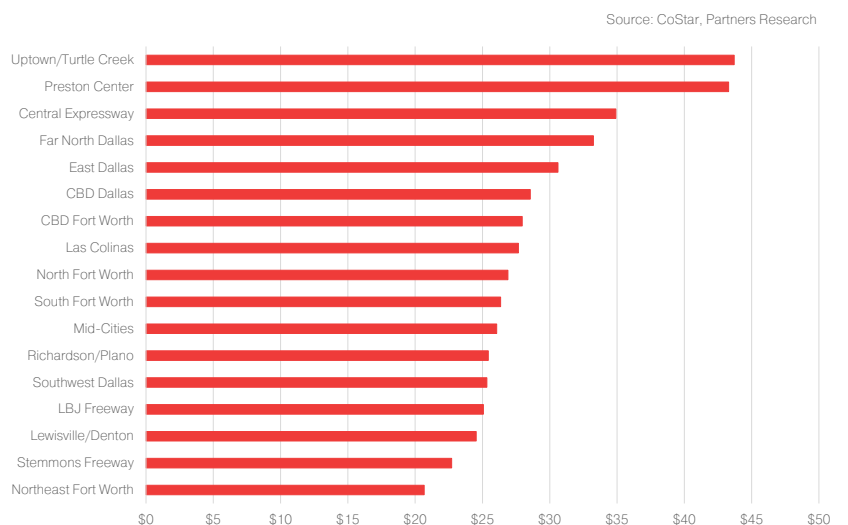


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Rent Growth Trends Upward

At the end of Q2 2023, the full-service average rate for the DFW office market reached an all-time high at \$29.45 per sq. ft., up slightly from the previous quarter's \$29.22 per sq. ft., and the previous year's \$28.83 per sq. ft. Overall asking rates for Class A and Class B space are \$32.82 per sq. ft. and \$23.25 per sq. ft., respectively. During the quarter, submarkets with the highest asking rates include Uptown at \$43.70 per sq. ft., followed by Preston Center at \$43.29 per sq. ft. For the next three years, rent growth in the Dallas office market is expected to stabilize, averaging around \$29.70 per sq. ft. annually.

Overall Gross Asking Rent (\$/PSF)



Market Overview

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Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Dallas-Fort Worth Market Total	262,413,156	24.5	28.0	-389,393	-1,809,311	3,315,070	2,810,800	29.45
Class A	152,543,007	27.2	32.0	-238,439	-1,235,026	2,250,645	2,699,191	32.83
Class B	109,870,149	22.1	23.9	-150,954	-574,285	1,064,425	111,609	23.25
CBD Dallas Total	26,423,825	30.1	36.4	-82,715	-220,764	208,833	0	28.55
Class A	21,031,055	31.9	39.0	56,874	-71,172	200,281	0	29.55
Class B	5,392,770	24.5	28.3	-139,589	-149,592	8,552	0	22.61
Central Expressway Total	11,475,415	22.2	24.9	-146,819	-91,560	248,801	0	34.91
Class A	7,389,087	26.5	29.9	-117,418	-110,420	214,405	0	36.56
Class B	4,086,328	15.4	17.0	-29,401	18,860	34,396	0	29.01
East Dallas Total	6,717,791	21.6	22.5	-108,412	-102,189	92,547	0	30.61
Class A	1,884,548	52.8	46.8	-127,331	-133,839	52,641	0	38.81
Class B	4,833,243	12.9	15.4	18,919	31,650	39,906	0	21.98
Far North Dallas Total	51,356,912	29.1	32.8	2,945	-388,144	607,553	1,041,100	33.24
Class A	35,163,178	31.9	36.5	-51,063	-285,336	491,550	1,041,100	36.03
Class B	16,193,734	23.4	25.3	54,008	-102,808	116,003	0	24.54
Las Colinas Total	35,290,836	25.3	34.0	79,058	-372,175	558,624	356,269	27.67
Class A	21,108,426	22.9	33.5	-128,885	-509,833	215,899	356,269	30.78
Class B	14,182,410	29.7	35.6	207,943	137,658	342,725	0	23.19
LBJ Freeway Total	19,836,810	27.5	27.4	-4,296	60,922	265,263	0	25.07
Class A	11,099,634	23.4	27.3	94,486	173,396	220,011	0	29.21
Class B	8,737,176	32.6	27.6	-98,782	-112,474	45,252	0	20.57
Lewisville/Denton Total	6,304,137	21.9	24.7	-52,013	-161,144	94,425	147,000	18.46
Class A	925,985	42.6	46.4	28,171	7,814	7,557	147,000	29.25
Class B	5,378,152	19.6	21.9	-80,184	-168,958	86,868	0	24.25
Preston Center Total	5,566,191	15.8	15.0	31,879	-31,691	72,062	0	43.29
Class A	4,307,023	15.3	13.8	33,452	-17,226	59,081	0	46.54
Class B	1,259,168	18.3	19.7	-1,573	-14,465	12,981	0	33.60
Richardson/Plano Total	30,226,711	20.7	24.8	-110,275	-285,796	468,278	21,120	25.43
Class A	14,962,553	23.7	29.6	-151,985	-220,032	345,338	21,120	27.59
Class B	15,264,158	18.8	21.2	41,710	-65,764	122,940	0	22.20
Southwest Dallas Total	2,354,924	16.1	16.7	2,187	-18,269	13,811	0	25.33
Class A	350,537	81.1	81.7	-1,383	-1,383	0	0	26.50
Class B	2,004,387	8.6	9.3	3,570	-16,886	13,811	0	19.55
Stemmons Freeway Total	11,383,686	23.5	20.0	-537	-53,457	54,589	725,788	22.71
Class A	5,320,329	21.0	16.3	4,376	-59,470	46,940	725,788	28.62
Class B	6,063,357	26.8	24.9	-4,913	6,013	7,649	0	19.85
Uptown/Turtle Creek Total	14,081,258	20.6	26.0	-43,347	-109,780	154,717	359,914	43.70
Class A	12,669,518	21.3	27.1	-28,248	-106,862	145,400	359,914	44.73
Class B	1,411,740	16.8	18.8	-15,099	-2,918	9,317	0	33.32

Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
CBD Fort Worth Total	8,074,679	15.9	15.1	151,719	363,896	104,993	0	27.95
Class A	5,205,046	16.2	16.9	22,307	43,339	73,993	0	30.10
Class B	2,869,633	15.9	12.5	129,412	320,557	31,000	0	23.51
Mid-Cities Total	18,851,567	27.6	29.4	13,809	-139,758	161,305	54,609	20.01
Class A	7,026,794	44.1	43.8	49,259	57,840	78,484	0	29.21
Class B	11,824,773	20.4	23.7	-35,450	-197,598	82,821	54,609	22.19
North Fort Worth Total	2,301,402	24.6	30.1	23,819	-30,661	76,374	105,000	26.89
Class A	1,320,513	22.6	12.0	12,508	-15,953	64,136	48,000	31.08
Class B	980,889	30.9	40.6	11,311	-14,708	12,238	57,000	23.77
Northeast Fort Worth Total	3,097,636	13.2	13.6	-1,592	-46,715	3,395	0	20.67
Class A	415,921	0.0	0.0	53,236	53,236	0	0	0.00
Class B	2,681,715	16.4	16.9	-54,828	-99,951	3,395	0	20.76
South Fort Worth Total	9,069,376	14.7	15.4	-144,803	-182,026	129,500	0	26.35
Class A	2,362,860	11.7	14.7	13,205	-39,125	34,929	0	30.39
Class B	6,706,516	26.4	16.6	-158,008	-142,901	94,571	0	25.20