TRANSWESTERN

DALLAS+FORT WORTH OFFICE MARKET

Q3 2023

TRENDLINES

	Q3 2023	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Office-Using Job Growth	+20,800	+33,100	↑	+13,800	↑/→
Total Available	26.5%	25.5%	↑	23.9%	↑
Net Absorption[1]	(716,800)	950,400	↓	(50,200)	↓
Sublease Space	11,410,000	10,061,000	↑	8,420,000	↑
Vacancy	19.1%	17.4%	↑	16.7%	↑
Asking Rent - Dallas	$35.69	+5.0%	↑	+4.8%	↑/→
Asking Rent - Fort Worth	$27.49	-1.6%	↑	+2.1%	↑/→
Under Construction	4,320,000	6,699,000	↓	6,406,000	↓

[1] Net Leasing, see definition on page 7. [2] Same-store rent growth. See page 3. Sources: Transwestern Research, Texas Workforce Commission, CoStar

Net Leasing Falls But Bright Spots Persist

Tight credit conditions and right-sizing for remote/hybrid work continue to create headwinds for Dallas-Fort Worth office. Net absorption reversed to negative 716,800 SF, largely due to sublease space rebounding to a new high of 11.4 million SF. Vacancy inched up to 19.1% with turnover and deliveries. Rent growth remained unchanged at +4.6% year-over-year with lower leasing activity but continues defying historical trends by growing *despite* rising vacancy.

Even with headwinds, 'flight to quality' continues creating bright spots of well-positioned properties outperforming the market. Transwestern expects financial conditions and adjustments to remote/hybrid work to challenge the leasing environment over the short term. That said, Dallas-Fort Worth's nation-leading population and job growth will support a positive absorption trend in the next cycle, rewarding operators who position assets to attract tenant demand.

ECONOMY

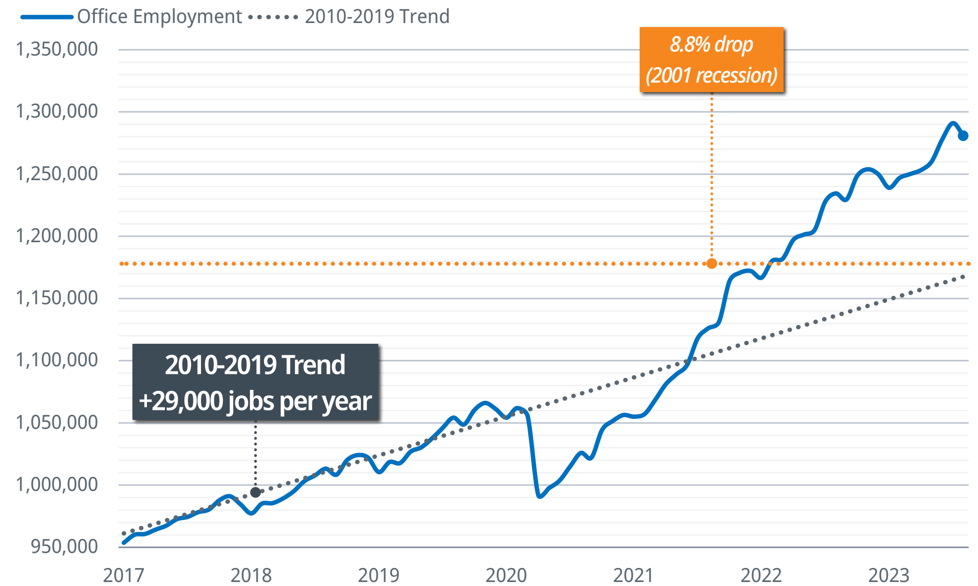
Office Job Growth Continues Above Pace

- DFW firms added 55,600 jobs over the last three months. Job growth over the last year totals 178,800 jobs or 4.4%.
- Hiring in key office-using industries continues at twice its pre-pandemic pace. Employment remains at all-time highs of 1,280,800 jobs, or **20.6%** above pre-pandemic levels.
- In the latest Dallas Fed survey, service sector firms noted mixed outlooks but expect employment and capital expenditures to continue growing over the next six months.

Trends To Watch:

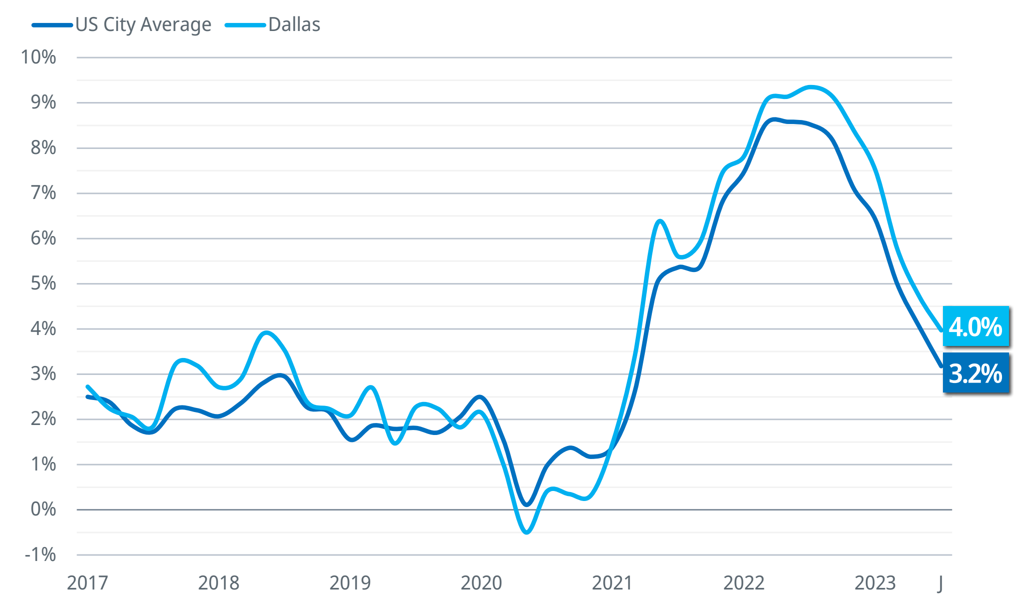
- **Robust job growth may cushion office:** In the 2001 recession, employment in key office industries contracted 8.8%. If the next downturn follows a similar path, office employment declines to 1,168,000—but this is 10.0% ***above*** pre-pandemic levels and *above* the growth trend following the Great Financial Crisis (GFC).
- **Office has already been in recession for three years:** Vacancy has been front-loaded this cycle as firms reduce footprints for remote/hybrid work, leading to negative office absorption despite job growth. This may blunt a recession's impact on office vacancy, as companies have less space to shed with smaller footprints and laying off ***remote*** employees does not reduce space requirements.
- **No risk of over-building:** Recessions typically follow over-building, leading to 'hyper-supply' where deliveries outpace demand and vacancy soars. DFW had 9 million SF under construction before the GFC. Just **4.3 million SF** is now underway, indicating that new supply will have limited impacts on vacancy.
- **Differentiated supply:** Intense 'flight to quality' continues favoring Core (Class AA/A) over Non-Core (Class A-/B) assets. Obsolete properties are non-competitive without substantial renovations that are likely unfeasible at the current cost of capital. Rent cuts may have little influence on better, well-leased properties.

OFFICE-USING EMPLOYMENT



Source: Transwestern Research, Texas Workforce Commission

CONSUMER PRICE INDEX - JULY 2023



Source: Transwestern Research, Bureau of Labor Statistics

RENTAL RATES

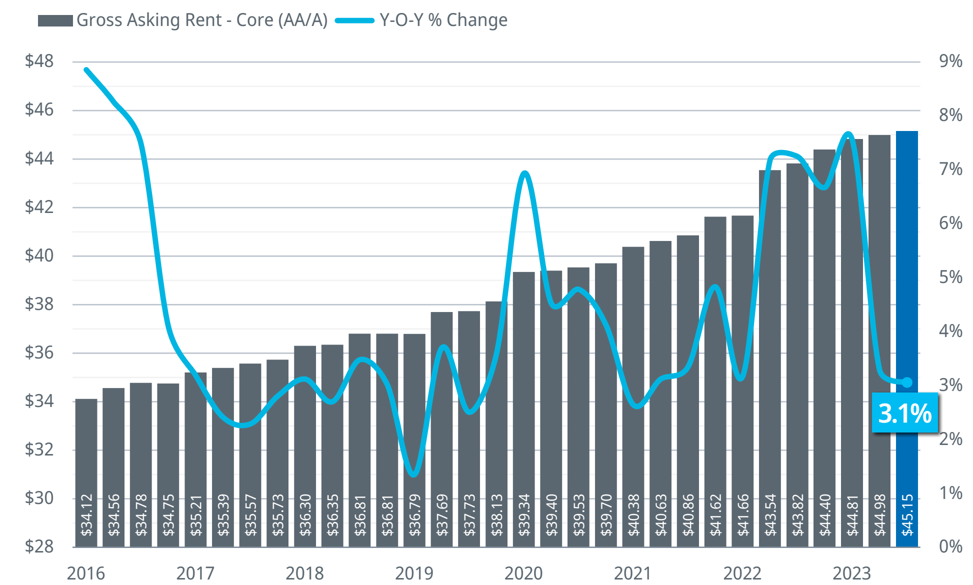
Rent Growth Remains Steady Despite Vacancy

- Rent growth has continued in all asset classes:
  - Asking rents in Core (Class AA/A) properties reached $45.15 per SF, up 3.1% from last year.
  - Rents in Non-Core (Class A-/B) properties reached $27.93 per SF, up 6.0% from last year.
  - Better properties in key submarkets are outperforming these averages.
- New construction in urban Dallas continues outpacing market rent growth. For the first time in market history, tenants are signing leases exceeding $100 PSF gross over term, a high watermark seen in global cities like New York and San Francisco.
- Lower leasing volumes are slowing price discovery, leading to slower rent growth overall. Nevertheless, most properties continue to implement annual escalations or hold firm.
- Average rent in Fort Worth is down -1.6% year-over-year, but this reflects a scarcity of higher-priced space compared to Dallas. At the building level, same-store rents are up +2.3% year-over-year.

Outlook:

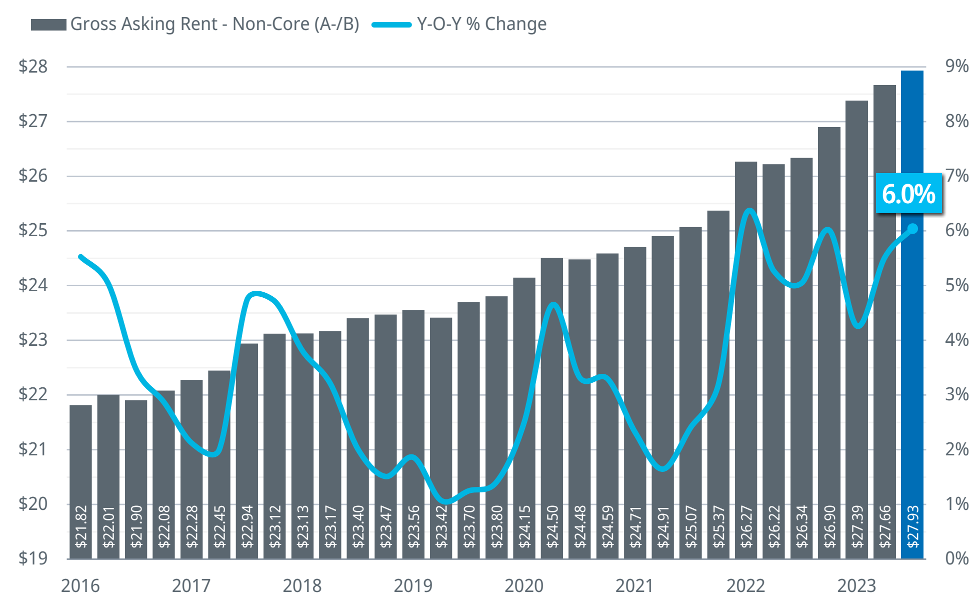
- In the last two recessions, same-store rents declined -13.9% between 2000–2003 and -4.3% between 2007–2010.
- Rents have increased 10.1% over the last three years, providing some cushion for property values. Same-store rents have increased 11.4% in Core (AA/A) assets and 9.7% in Non-Core (A-/B) assets.
- Over the next six months, Transwestern expects rent growth to remain compressed by reduced leasing activity.

ASKING RENTS - CORE (A/AA)



Source: Transwestern Research, CoStar

ASKING RENTS — NON-CORE (A-/B)



Source: Transwestern Research, CoStar

LEASING, VACANCY, & NET ABSORPTION

Net Absorption Returns To Negative Territory

- Net absorption reversed to negative 716,800 SF this quarter. 12-month net absorption also fell to negative 1.5 million SF.
- Total Availability remains at all-time highs of 26.5% or 76.8 million SF.
- Vacancy inched up in all asset classes, reaching 17.4% in Core (AA/A) assets and 20.2% in Non-Core (A-/B) assets.
- Vacancy improved or remained flat in 75% of buildings. Large vacant blocks continue weighing on the market: ***just 25 buildings*** account for 12.4 million SF (23%) of vacant space.
- After large listings came to market, sublease space rebounded to a new all-time high of 11.4 million SF.

<u>Where Are We In The Cycle?</u>

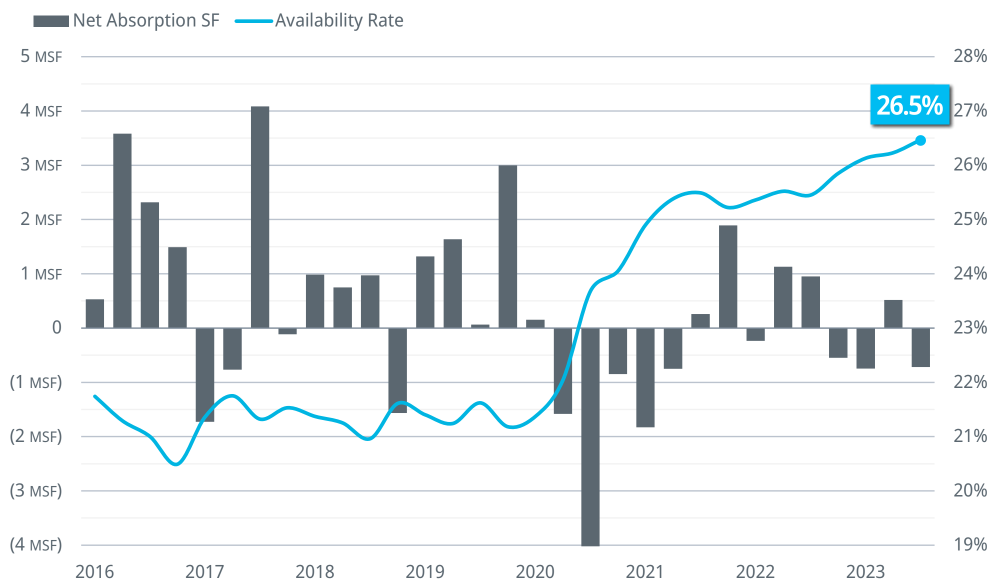
- The five-year average for Net Leasing is now *negative* 50,200 SF. This suggests the Dallas office market is entering the trough of a contraction cycle. In this stage, vacancy typically accelerates over the following 12-18 months and begins exerting pressure on rents.
- As discussed elsewhere, flight to quality and smaller footprints may limit vacancy increases for quality Class A office in a recession compared to past downturns (+8.8% in 2001 and +4.7% in 2009).

NOTABLE LEASES

TENANT	SF	TYPE	BUILDING	SUBMARKET
Bank of America	238,000	New	Parkside Uptown	Uptown/Turtle Creek
Alkami	84,000	Renewal	Granite Park Three	Upper Tollway/West Plano
M Financial	52,100	New	The Quad	Uptown/Turtle Creek
MCR	52,000	Sublease	Cypress Waters	Las Colinas/DFW Freeport
Tailwater Capital	32,000	New	Old Parkland East	Uptown/Turtle Creek
EMDS	24,400	Renewal	10010 E Arapaho	Richardson
Tower Street Insurance	23,900	Expansion	Providence Towers	Lower Tollway
Moroch	23,400	New	Manufacturing District	Design District/Stemmons

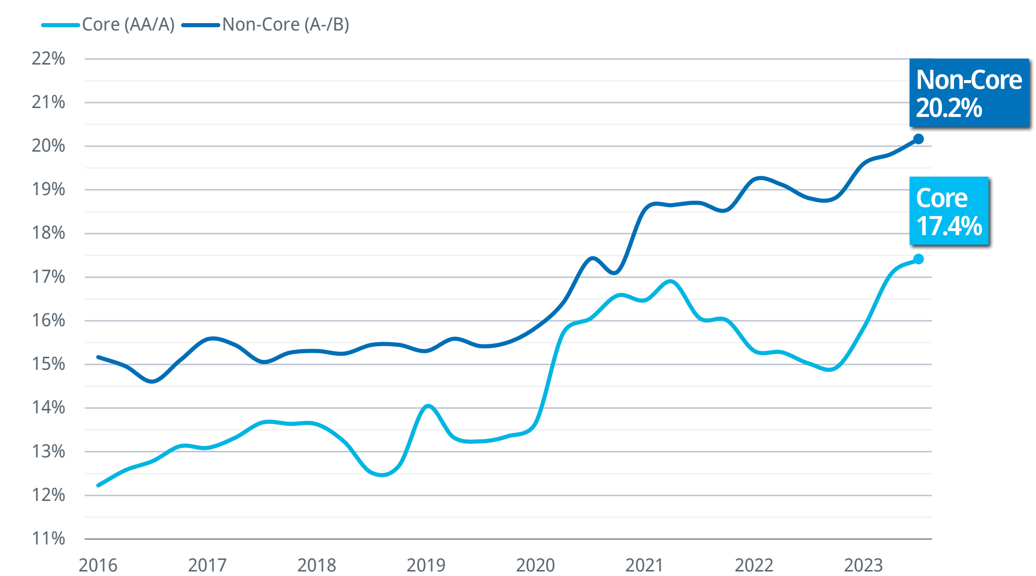
Source: Transwestern Research

NET ABSORPTION & AVAILABILITY



Source: Transwestern Research, CoStar

VACANCY



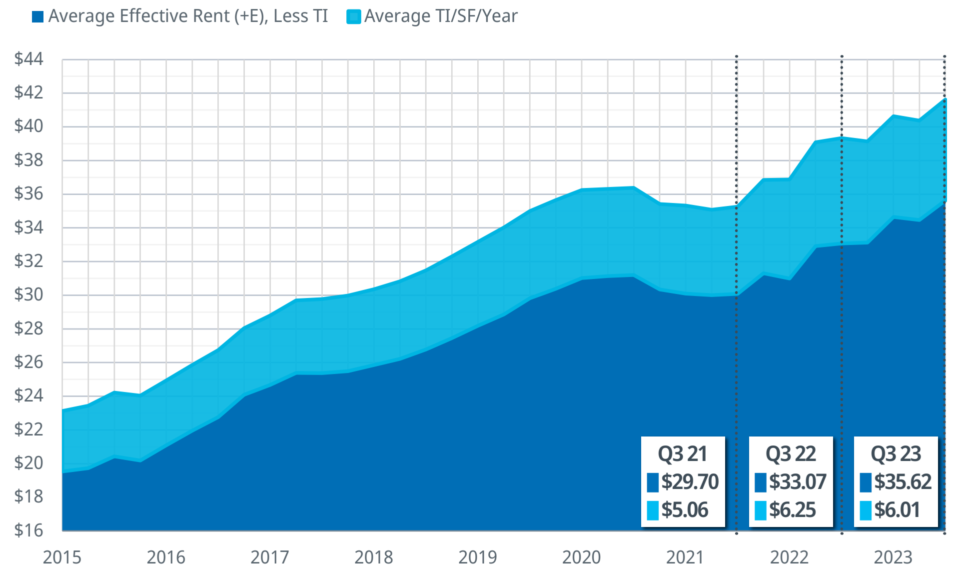
Source: Transwestern Research, CoStar

TERMS & CONCESSIONS

Effective Rents Grow Despite Concessions

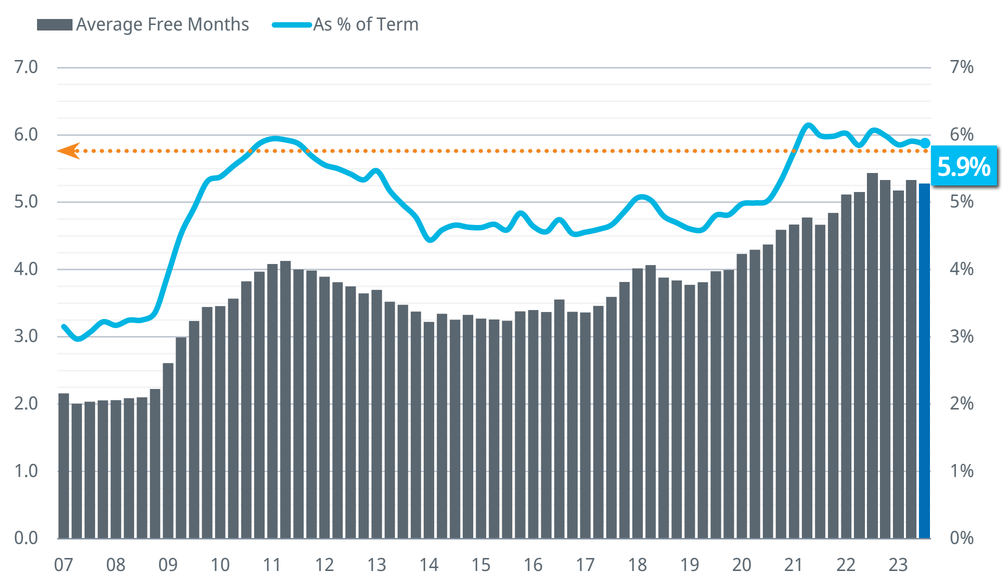
- With rising vacancy, landlords are offering concessions at levels typically seen in recessions. In most properties, asking rent growth is strong enough to overwhelm concessions and keep effective rents flat or growing.
- Average effective rent reached $41.25 +E, or 14.2% above pre-pandemic levels. Excluding tenant improvement (TI) allowances, average effective rents exceed $35.62 +E.
- TI allowances remain at historic highs of $44.07 per SF, or $5.75 per SF per year when considering lease term. TI allowances have grown by 24% over the last three years.
- Average rent abatement remains elevated at 5.9% of term, the highest level of free rent **since at least 1997**. Longer free rent periods continue in short-term and long-term leases.
- Outlook For Tenants:
  - With concessions at all-time highs, landlords have limited latitude to offer better concessions than today.
  - Tenants seeking space in well-leased properties or in submarkets with tight vacancy rates should make moves now, as these spaces may only experience modest rent decreases in a downturn due to flight to quality.
  - Tenants considering sublease space can begin to move as discounts are rising. Balance sheet pressures may lead companies to further discount their sublease offerings over the next 6-12 months.
  - Tenants exploring space in high vacancy, obsolete, or foreclosed properties should consider postponing decisions to take advantage of rent cuts. That said, tenants should be cautious to ensure future property income can maintain services and amenities through their lease term.

AVERAGE RENT & TENANT IMPROVEMENT ALLOWANCE



Source: Transwestern Research, 12-month rolling average.

AVERAGE RENT ABATEMENT



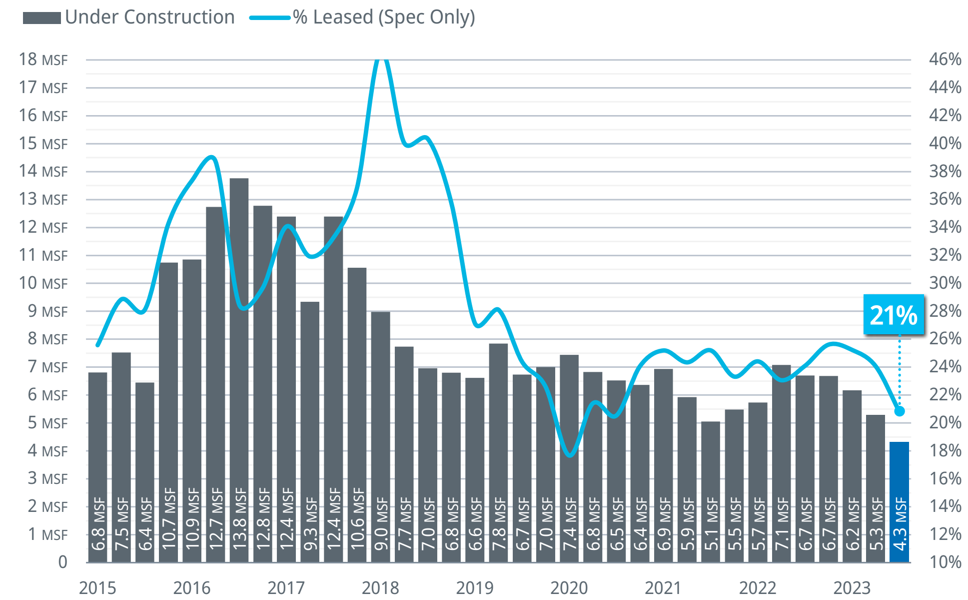
Source: Transwestern Research, 12-month rolling average.

CONSTRUCTION & CAPITAL MARKETS

Construction Continues Falling To Decade Lows

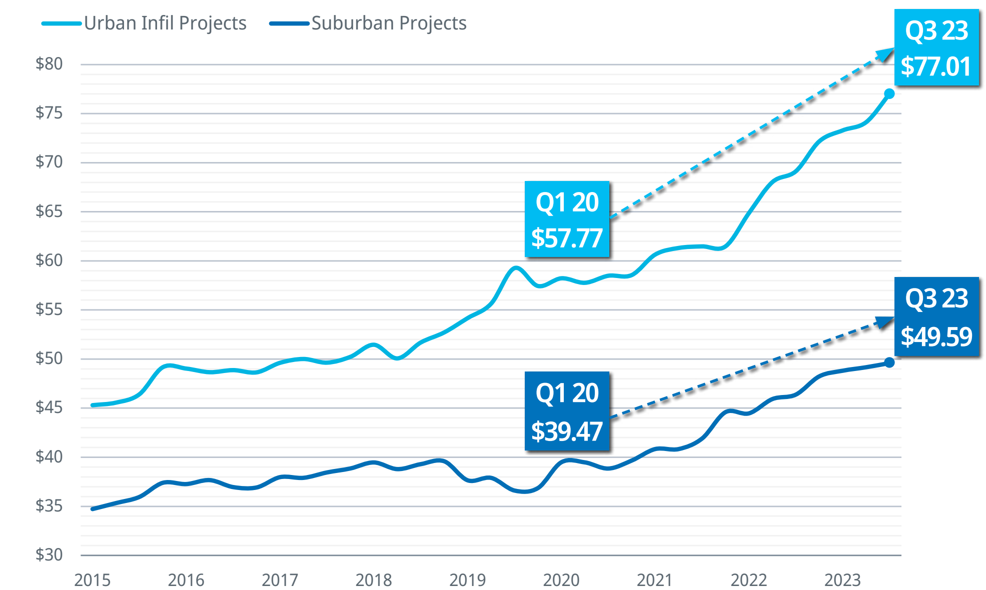
- Escalating costs and strong demand have increased rents in both urban and suburban projects.
- Pre-leasing in speculative projects inched down to 21% as the pipeline shrinks to just 2.9 million SF. Developers are placing projects on hold as financing is difficult to obtain.
- Harwood No. 14 and Maple Terrace delivered 497,000 SF to Uptown/Turtle Creek, and Granite Park Six delivered 440,000 SF to Upper Tollway/West Plano.
- KDC will break ground on Parkside Uptown, a 30-story trophy tower in Uptown, later this year with Bank of America as lead tenant. Site work continues for Goldman Sachs' planned buildings at North End.
- Construction fell to 4.3 million SF, its lowest levels in 10 years. **Transwestern reiterates that developers should continue new projects**: core submarkets are under-built for growth, flight to quality will continue, and demand may be on the rebound in 2025/2026 when projects deliver.
- Rising interest rates continue exerting downward pressure on asset prices. Deal volumes are further restricted by tighter lending standards. Some owners of quality assets are delaying disposition for a more favorable point in the interest rate cycle.
- Notable sales include:
  - The International (150 Turtle Creek), 155,000 SF in Design District/Stemmons, to Asana Partners.
  - Landmark Center (1801 N Lamar), a 134,000 SF historic building in the Dallas CBD's West End, to Owen Hannay.

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	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
Uptown/Turtle Creek	15,992,716	4,849,857	28.1%	28.0%	28.6%	15.2%	96,621	2,422	1,254,049	$71.45	$46.00
Dallas CBD	28,993,924	10,338,595	35.7%	31.9%	36.9%	27.5%	(101,265)	(300,182)	0	$46.86	$27.62
Design District/Stemmons	10,846,351	2,369,595	21.3%	33.8%	18.7%	16.9%	202,661	275,679	266,535	$49.34	$20.07
Preston Center	4,706,098	668,386	13.5%	13.8%	13.3%	10.1%	(10,062)	52,714	235,600	$62.61	$49.65
Central Expressway	15,386,461	4,388,142	28.5%	31.9%	27.4%	21.4%	(29,318)	(448,335)	0	$41.19	$33.17
Deep Ellum/East Dallas	2,032,648	842,275	41.4%	55.7%	18.5%	20.5%	9,951	(6,707)	0	$54.07	$20.38
West LBJ Freeway	3,957,745	1,208,795	30.5%	-	30.5%	22.1%	(38,393)	9,867	0	-	$19.53
East LBJ Freeway	6,210,909	2,089,063	33.6%	0.0%	33.7%	31.0%	70,322	20,499	0	-	$21.38
Lower Tollway	27,127,446	6,660,907	24.6%	25.3%	24.1%	18.6%	(11,448)	135,493	0	$43.12	$26.28
Upper Tollway/West Plano	33,345,166	10,312,786	30.5%	29.1%	32.2%	22.7%	(545,243)	(368,594)	527,945	$44.88	$37.61
Upper Tollway/Frisco	6,183,807	1,988,672	27.1%	24.3%	31.8%	10.7%	(205,621)	(217,521)	1,153,889	$57.30	$37.11
Richardson	20,056,711	5,447,348	27.2%	27.3%	27.1%	17.2%	28,539	(660,704)	0	$31.47	$24.37
Plano	6,010,681	1,112,345	18.5%	28.4%	14.0%	11.7%	13,961	(123,726)	0	$29.96	$22.72
Allen/McKinney	6,367,707	1,052,907	16.5%	18.3%	15.7%	13.1%	(81,387)	134,239	0	$39.70	$28.35
Las Colinas/Urban Center	9,505,596	2,777,050	26.8%	23.7%	30.1%	19.6%	(45,736)	645,109	858,024	$40.22	$29.34
Las Colinas/Office Center	15,949,233	4,119,828	25.8%	30.6%	21.8%	18.7%	(322,203)	(815,286)	0	$33.46	$22.92
Las Colinas/DFW Freeport	16,531,201	5,503,245	33.3%	22.5%	38.1%	20.4%	219,715	(218,751)	0	$38.17	$26.18

**In DFW, Transwestern calculates Net Absorption as "Net Leasing", or change in Total Available space. Space returned to market registers as negative absorption; Space leased or reoccupied registers as positive absorption. Transwestern's methodology provides a real-time indicator of supply and demand in the space market that eliminates time lags and incomplete information inherent to tracking physical move-ins & move-outs.*

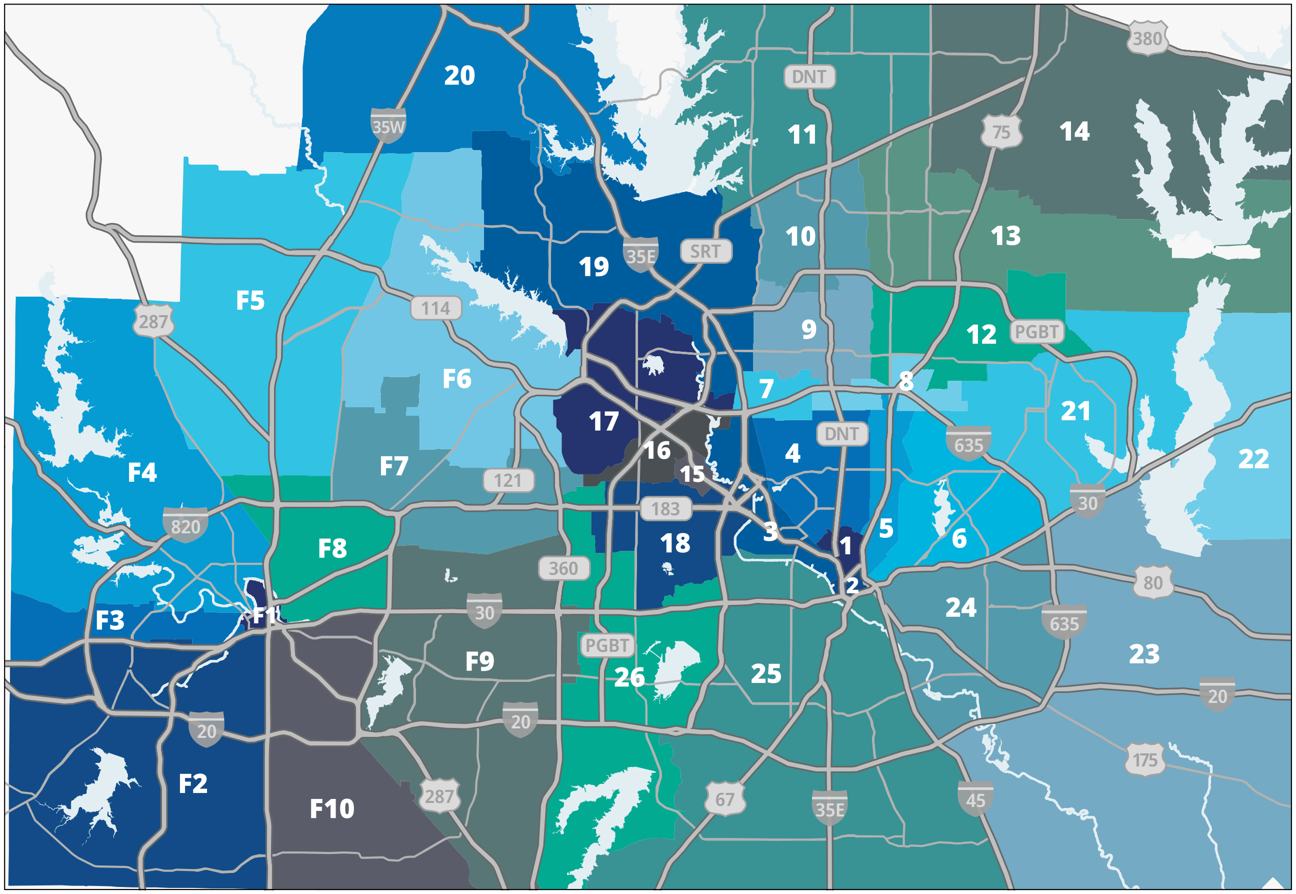
Market Indicators - Dallas

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
South Irving	1,056,421	101,620	9.6%	-	9.6%	9.1%	2,250	(3,258)	0	-	$18.05
Lewisville	4,314,014	1,195,460	27.6%	22.4%	28.0%	15.1%	20,732	(222,418)	24,000	$34.80	$25.72
Denton	1,268,936	49,203	3.9%	-	3.9%	8.2%	289	(206)	0	-	$26.09
Garland	676,897	153,968	22.8%	-	22.8%	20.8%	(10,185)	(6,821)	0	-	$14.98
Rockwall	367,314	17,553	4.8%	8.6%	0.5%	0.9%	2,235	(10,661)	0	-	-
Mesquite/Terrell/Forney	396,234	20,298	5.1%	6.5%	5.0%	5.0%	(1,019)	490	0	-	$15.14
Southeast Dallas	599,231	97,783	16.3%	-	16.3%	17.0%	(69,977)	(61,916)	0	-	$16.55
Oak Cliff/Southwest Dallas	2,040,905	409,832	20.1%	42.5%	10.9%	18.0%	(18,927)	225,985	0	$28.44	$23.78
Grand Prairie	3,578,743	1,625,371	45.4%	92.6%	14.8%	43.5%	(53,496)	(47,724)	0	$28.35	$18.76
TOTAL - DALLAS	**243,063,229**	**69,400,884**	**28.0%**	**28.8%**	**27.5%**	**20.0%**	**(877,004)**	**(2,010,313)**	**4,320,042**	**$46.26**	**$28.43**

Market Indicators - Fort Worth

SUBMARKET	INVENTORY SF	TOTAL AVAILABLE				VACANCY %	NET ABSORPTION*		UNDER CONSTRUCTION	ASKING RENT (FS)	
		TOTAL SF	TOTAL %	CORE (AA/A)	NON-CORE (A-/B)		THIS QUARTER	LAST 12 MONTHS		CORE (AA/A)	NON-CORE (A-/B)
Fort Worth CBD	8,533,046	1,141,192	13.4%	13.2%	13.5%	12.5%	(6,635)	427,458	0	$36.54	$27.86
Southwest Fort Worth	4,512,377	754,693	16.7%	10.2%	19.1%	14.1%	26,310	74,443	0	$30.54	$25.10
West Fort Worth	2,290,051	403,438	17.6%	18.9%	16.1%	16.3%	3,729	75,047	0	$43.08	$24.07
Northwest Fort Worth	282,621	27,421	9.7%	10.5%	8.7%	9.7%	3,361	20,207	0	-	$27.71
Alliance	3,129,102	682,496	21.8%	18.1%	29.2%	10.2%	47,718	77,053	0	$33.91	$30.00
Westlake/Grapevine	8,086,915	1,786,492	22.1%	19.0%	34.0%	16.1%	834	(3,567)	0	$33.25	$27.58
HEB/Mid-Cities	5,497,976	847,335	15.4%	3.5%	24.0%	11.4%	(5,887)	(75,682)	0	$23.82	$19.38
Northeast Fort Worth	3,059,558	292,853	9.6%	0.0%	11.1%	12.1%	3,171	67,459	0	-	$19.15
Arlington/Mansfield	5,801,072	1,335,504	23.0%	22.4%	23.1%	18.1%	43,492	(188,313)	0	$23.75	$22.63
Southeast Fort Worth	952,525	83,008	8.7%	-	8.7%	8.4%	44,093	44,891	0	-	$16.55
TOTAL - FORT WORTH	**42,145,243**	**7,354,432**	**17.5%**	**14.7%**	**19.6%**	**13.9%**	**160,186**	**518,996**	**0**	**$34.10**	**$23.42**

**See page 7 for definition of Net Absorption.*



OFFICE SUBMARKETS

1	Uptown/Turtle Creek
2	Dallas CBD
3	Design District/Stemmons
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

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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.

Core Assets: Core and Core Plus (Class AA/A) assets, beneficiaries of the "flight to quality" trend. Covers 458 properties, 114 million SF.
Non-Core Assets: All other Class A-/B office. Covers 1,650 properties, 176 million SF.
Net Absorption: Calculated as "net leasing" or change in committed (Total Available) space. See complete definition on page 7.
Vacancy: Direct vacant space with immediate availability
Asking Rent: Weighted average of direct gross rents

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from **33 U.S. offices**, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at **transwestern.com**.