AVISON YOUNG

Dallas-Fort Worth
Market Overview

1Q 2019

Dallas/Fort Worth

Office Market Research Report 1Q 2019

Market Overview

The Dallas-Fort Worth metro continues its healthy evolution into the next stage of the economic cycle. Among the 12 largest metropolitan areas in the country, Dallas ranked second in the number of jobs added over the year and ranked third in the annual rate of job growth. Unemployment dropped from 3.5% to 3.2% year over year, still below the national average which which recently dropped to an impressive 3.5%. Net office absorption rose for the quarter with nearly 1 MSF absorbed across the metroplex, bringing the yearly total to 4.2 MSF, including single-tenant build-to-suits, and 2.3 MSF for multi-tenant only.

Overall, the market remains healthy and much more durable than it has been in previous cycles. Sustained job growth, reasonable construction, and single-tenant build-to-suit projects for large corporate users have kept vacancies at stable levels, still below the last cycle's low. Dallas is traditionally known for being over-built, but discretion has helped this period of growth set itself up to avoid many of the past cycle's pitfalls. Even as supply levels begin to crest, with a number of major spec projects delivering or set to deliver in the coming quarters, occupancies have barely taken a hit.

Looking ahead, Dallas's cost of doing business and strong talent pool will position it to remain one of the most in-demand office markets in the country.

Market Facts

102,500
Jobs added in the last year, a 3.2% increase in employment.

3.6%
Unemployment in Dallas.

2.2%
12 Mo. Rent Growth

$26.02
Average Gross Direct Rental rate

Dallas/Fort Worth Q1 '19 Summary

323,950,211
Square Feet

16.2%
VACANCY

3,594,548 SF
12 MONTH TOTAL ABSORPTION
(Single Tenant Owner Occupied Space Included)

1,884,888 SF
12 MONTH MULTI-TENANT ABSORPTION
(Single Tenant Owner Occupied Space Excluded)

Average Gross Asking Rents

$29.65
CLASS A

$21.73
CLASS B

7.7 MSF
UNDER CONSTRUCTION

4.6 MSF
12 MONTH DELIVERIES

Parameters: Office | 20,000 SF+ Buildings | Existing | Owner Occupied Included

Bragging Rights/**In The News**

"#1 Best city for jobs 2 years in a row"
- Forbes

"#1 Most business friendly city in America"
- Market Watch

"#1 City for investing"
- PwC Emerging Trends

"#1 City for starting a business"
- Kiplinger

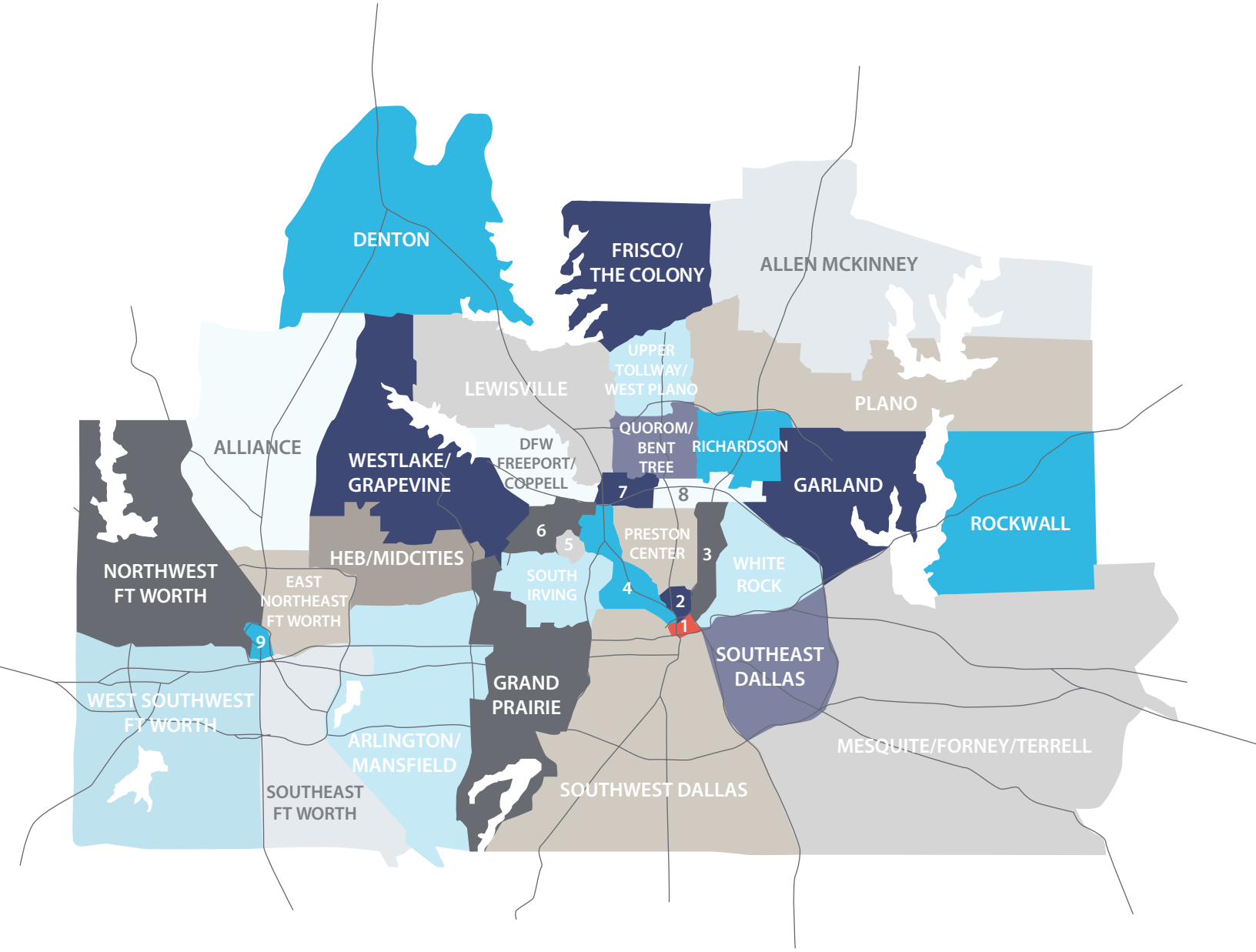
"#4 Metros with the most Fortune 1,000 companies
- Fortune

"#1 Most family-friendly metro in the US"
- Homes.com

"#2 Most Active Total Construction Markets
- Costar

"#2 Largest growing metro in US"
- Census Bureau

The Market: **Submarket Map**



1	DALLAS CBD
2	UPTOWN/TURTLE CREEK
3	CENTRAL EXPRESSWAY
4	STEMMONS FREEWAY
5	URBAN CENTER/WINGREN
6	OFFICE CTR/WEST LBJ EXT
7	WEST LBJ FREEWAY
8	EAST LBJ FREEWAY
9	FT WORTH CBD

Class A & B Market Statistics

1Q19

Market	Existing Inventory		Vacancy				12 Month Net Absorption	Quarterly Net Absorption	12 Month Net Absorption (Owner Occup. Excluded)	Quarterly Net Absorption (Owner Occup. Excluded)	YTD Deliveries	Under Const SF	Quoted Gross Rent Direct
	# Blds	Total RBA	Direct SF	Total SF	Total Vac %	Total Available %							
Class A	659	162,805,689	27,358,561	29,694,561	18.2%	21.8%	3,478,525	1,165,115	2,620,689	966,704	1,102,693	7,078,931	$29.65
Class B	1,871	142,970,562	20,465,360	21,660,430	15.2%	18.0%	143,886	320,137	-682016	(46,057)	136,698	594,105	$21.73
Totals	**2,530**	**305,776,251**	**47,823,921**	**51,354,991**	**16.7%**	**19.9%**	**3,622,411**	**1,485,252**	**1,938,673**	**920,647**	**1,239,391**	**7,673,036**	**$25.69**

Source: CoStar Property®

Total Office Market Statistics

1Q19

Market	Existing Inventory		Vacancy				12 Month Net Absorption	Quarterly Net Absorption	12 Month Absorption (Owner Occup. Excluded)	Quarterly Net Absorption (Owner Occup. Excluded)	YTD Deliveries	Under Const SF	Gross Rent Direct
	# Blds	Total RBA	Direct SF	Total SF	Total Vac %	Total Available %							
Totals	**2,931**	**323,950,211**	**48,913,286**	**52,449,239**	**16.2%**	**19.5%**	**3,594,548**	**1,275,178**	**1,884,888**	**910,745**	**1,239,391**	**7,673,036**	**$26.02**

Source: CoStar Property®

Office, 20k sf, Existing, Owner Occupied Included

The Market: **Stats**

Class A Core Submarket Statistics

	Existing Inventory		Vacancy					Absorption		Construction		Quoted Gross
Market	# Blds	Total RBA	Direct SF	Sublease SF	Total SF	Vacant Total %	Available Total %	12 Mo. Net	Quarterly Net	YTD Deliveries	Under Constr.	Direct Rates
Allen/McKinney	17	1,680,576	254,104	42,703	296,807	17.7	18.6	52,331	2,306	0	165,000	$30.68
Central Expy	25	7,424,742	987,884	74,175	1,062,059	14.3	18.8	232,051	134,288	0	0	$31.96
Dallas CBD	30	23,556,316	5,408,112	518,205	5,926,317	25.2	29.3	680,313	71,502	81,711	60,230	$27.23
Fort Worth CBD	20	6,225,612	991,918	0	991,918	15.9	17.5	74,894	11,646	0	0	$30.37
Frisco/The Colony	33	4,527,027	727,420	27,264	754,684	16.7	20.9	461,653	46,145	0	280,279	$33.78
Las Colinas	89	21,135,637	2,760,362	316,487	3,076,849	14.6	21.8	251,119	237,185	216,400	2,551,347	$30.87
LBJ	38	10,756,477	2,250,275	235,787	2,486,062	23.1	25.6	-227,690	-35,800	0	0	$26.71
Lewisville/Denton/Flower Mound	7	366,915	29,004	43,120	72,124	19.7	19.6	-44,801	1,330	25,000	20,000	$22.30
Mid Cities/HEB/Arlington	20	2,552,941	350,440	12,719	363,159	14.2	13.8	81,446	37,810	0	1,780,000	$21.62
Preston Center	23	4,341,712	351,787	35,557	387,344	8.9	12.8	98,609	-33,343	0	118,000	$39.79
Quorum/Bent Tree	50	12,155,504	2,463,115	196,867	2,659,982	21.9	25.5	43,289	-8,285	0	0	$30.26
Richardson/Plano	60	13,276,178	3,129,162	36,582	3,165,744	23.8	25.3	41,942	186,424	0	49,200	$27.46
Stemmons	14	4,975,976	858,204	0	858,204	17.2	19.9	421,536	11,348	0	0	$19.48
Upper Tollway/West Plano	101	24,080,702	3,180,958	519,999	3,700,957	15.4	19.3	559,100	645,904	450,000	573,387	$34.20
Uptown	53	12,147,919	1,428,110	166,378	1,594,488	13.1	15.7	645,310	196,390	34,762	231,098	$41.46
Westlake/Grapevine/Southlake	24	4,710,084	1,136,998	24,816	1,161,814	24.7	25.6	194,889	64,919	0	580,000	$28.46
West Southwest Fort Worth/Clearfork	26	3,422,385	151,380	61,789	213,169	6.2	9.1	93,169	-13,013	0	24,524	$28.87
Totals	**630**	**157,336,703**	**26,459,233**	**2,312,448**	**28,771,681**	**17.2**	**20.3**	**3,617,218**	**1,556,756**	**807,873**	**6,433,065**	**$29.74**

Class B Core Submarket Statistics

	Existing Inventory		Vacancy					Absorption		Construction		Quoted Gross
Market	# Blds	Total RBA	Direct SF	Sublease SF	Total SF	Vacant Total %	Available Total %	12 Mo. Net	Quarterly Net	YTD Deliveries	Under Constr.	Direct Rates
Allen/McKinney	55	4,621,341	369,705	38,778	408,483	8.8	9.6	-13,295	-14,051	0	47,200	$23.22
Central Expy	76	5,975,839	606,906	17,082	623,988	10.4	15.4	-6,151	47,360	38,848	0	$26.70
Dallas CBD	45	7,406,295	1,182,922	69,776	1,252,698	16.9	18.8	-185,558	-40,231	0	0	$20.61
Fort Worth CBD	33	5,027,665	438,136	32,916	471,052	9.4	8.3	-125,104	-86,474	0	0	$20.96
Frisco/The Colony	41	1,912,926	140,683	1,724	142,407	7.4	18.9	31,790	-21,629	0	55,228	$28.93
Las Colinas	205	18,268,808	2,778,970	406,722	3,185,692	17.4	21.5	-220,527	88,305	30,000	103,000	$22.75
LBJ	119	10,926,498	2,203,960	52,813	2,256,773	20.7	24.2	-61,513	237,190	0	0	$19.41
Lewisville/Denton/Flower Mound	102	7,224,064	893,525	14,245	907,770	12.6	16.2	-24,737	-233,651	0	116,128	$22.12
Mid Cities/HEB/Arlington	145	9,127,975	991,170	13,498	1,004,668	11	14.8	264,388	81,220	0	60,000	$19.43
Preston Center	15	890,020	85,052	1,017	86,069	9.7	14.3	12,322	-9,665	0	0	$31.01
Quorum/Bent Tree	138	10,100,177	1,956,261	80,044	2,036,305	20.2	25	-29,288	83,903	0	0	$20.49
Richardson/Plano	189	14,715,875	1,866,664	120,150	1,986,814	13.5	14.4	90,630	111,046	0	0	$20.77
Stemmons	86	8,330,980	2,008,608	10,704	2,019,312	24.2	25.4	27,639	183,731	0	0	$15.84
Upper Tollway/West Plano	108	7,883,713	976,897	164,921	1,141,818	14.5	17.8	-164,859	-112,097	0	47,300	$26.02
Uptown	41	2,389,281	279,656	117,464	397,120	16.6	21.4	25,670	22,625	0	0	$33.55
Westlake/Grapevine/Southlake	55	3,016,492	351,712	5,224	356,936	11.8	15.2	58,380	24,620	0	121,259	$26.24
West Southwest Fort Worth/Clearfork	108	6,415,306	633,422	33,808	667,230	10.4	12.7	56,118	-6,553	27,850	20,070	$24.46
Totals	**1,561**	**124,233,255**	**17,764,249**	**1,180,886**	**18,945,135**	**13.9**	**17.3**	**-378593**	**355,649**	**96,698**	**570,185**	**$23.68**

Total Core Submarket Statistics

	Existing Inventory		Vacancy					Absorption		Construction			Quoted Gross
Market	# Blds	Total RBA	Direct SF	Sublease SF	Total SF	Vacant Total %	Available Total %	12 Mo. Net	Quarterly Net	YTD Deliveries	Under Constr.	% Available	Direct Rates
Allen/McKinney	76	6,520,465	620,931	81,481	702,412	10.8	10.8	41,590	-9,867	0	212,200	35.5	$25.75
Central Expy	110	13,719,520	1,471,005	91,257	1,562,262	11.4	16.2	224,643	183,601	38,848	0	N/A	$29.49
Dallas CBD	95	33,155,211	6,580,218	587,981	7,168,199	21.6	25.1	445,702	31,271	81,711	60,230	100.0	$26.20
Fort Worth CBD	64	11,677,682	1,430,054	32,916	1,462,970	12.5	13.0	-53,586	-74,828	0	0	N/A	$28.38
Frisco/The Colony	75	6,484,093	874,129	31,211	905,340	14.0	20.3	492,753	24,516	0	335,507	97.7	$32.46
Las Colinas	310	40,531,633	5,709,807	723,209	6,433,016	15.9	21.3	52,702	262,962	246,400	2,654,347	29.5	$26.27
LBJ	169	22,184,399	4,473,784	288,600	4,762,384	21.5	24.6	-263,931	206,698	0	0	N/A	$23.10
Lewisville/Denton/Flower Mound	135	8,606,642	958,189	57,365	1,015,554	11.8	15.2	-82,912	-233,373	25,000	136,128	72.4	$21.99
Mid Cities/HEB/Arlington	214	13,796,280	1,520,442	27,717	1,548,159	11.2	14.8	190,172	121,189	0	1,840,000	0.0	$19.77
Preston Center	48	5,520,398	454,616	36,574	491,190	8.9	12.8	113,089	-53,347	0	118,000	19.3	$38.34
Quorum/Bent Tree	196	22,591,280	4,421,681	276,911	4,698,592	20.8	24.9	-23,558	79,654	0	0	N/A	$25.92
Richardson/Plano	279	29,429,626	5,021,333	157,892	5,179,225	17.6	20.3	179,671	298,164	0	49,200	95.6	$24.85
Stemmons	134	14,813,963	3,141,391	10,704	3,152,095	21.3	23.1	519,208	166,987	0	0	N/A	$17.08
Upper Tollway/West Plano	212	32,035,790	4,184,843	684,920	4,869,763	15.2	18.9	258,616	561,227	450,000	620,687	80.1	$31.23
Uptown	101	14,794,300	1,724,693	283,842	2,008,535	13.6	16.5	747,071	136,087	34,762	231,098	65.4	$39.63
Westlake/Grapevine/Southlake	83	7,948,263	1,520,440	30,040	1,550,480	19.5	21.4	282,399	89,544	0	701,259	13.7	$27.79
West Southwest Fort Worth/Clearfork	167	11,052,353	837,563	95,597	933,160	8.4	10.7	20,015	-17,832	27,850	44,594	75.2	$24.78
Totals	**2,468**	**294,861,898**	**44,945,119**	**3,498,217**	**48,443,336**	**15.1**	**18.5**	**3,143,644**	**1,772,653**	**904,571**	**7,003,250**	**57.0**	**$27.24**

Source: CoStar Property®

Office, 20k sf, Existing, Owner Occupied Included

The Market: **Core Submarket Highlights**

Allen/McKinney

6,520,465 Square Feet

$30.68 CLASS A	$23.22 CLASS B

41,590 SF 12 Mo. Net Absorption

10.8% Vacancy

Central Expy

13,719,520 Square Feet

$31.96 CLASS A	$26.70 CLASS B

224,643 SF 12 Mo. Net Absorption

11.4% Vacancy

Dallas CBD

33,155,211 Square Feet

$27.23 CLASS A	$20.61 CLASS B

445,702 SF 12 Mo. Net Absorption

21.6% Vacancy

Fort Worth CBD

11,677,682 Square Feet

$30.37 CLASS A	$20.96 CLASS B

-53,586 SF 12 Mo. Net Absorption

12.5% Vacancy

Frisco/The Colony

6,484,093 Square Feet

$33.78 CLASS A	$28.93 CLASS B

492,753 SF 12 Mo. Net Absorption

14.0% Vacancy

Las Colinas

40,531,633 Square Feet

$30.87 CLASS A	$22.75 CLASS B

52,702 SF 12 Mo. Net Absorption

15.9% Vacancy

Rent rates are presented as Gross Direct rates.

The Market: **Core Submarket Highlights**

LBJ Fwy

22,184,399 Square Feet

$26.71 CLASS A	$19.41 CLASS B

-263,931 SF 12 Mo. Net Absorption

21.5% Vacancy

Lewisville/Denton/Flower Mound

8,606,642 Square Feet

$22.30 CLASS A	$22.12 CLASS B

-82,912 SF 12 Mo. Net Absorption

11.8% Vacancy

Mid Cities/HEB/Arlington

13,796,280 Square Feet

$21.62 CLASS A	$19.43 CLASS B

190,172 SF 12 Mo. Net Absorption

11.2% Vacancy

Preston Center

5,520,398 Square Feet

$39.79 CLASS A	$31.01 CLASS B

113,089 SF 12 Mo. Net Absorption

8.9% Vacancy

Quorum/Bent Tree

22,591,280 Square Feet

$30.26 CLASS A	$20.49 CLASS B

-23,558 SF 12 Mo. Net Absorption

20.8% Vacancy

Richardson/Plano

29,429,626 Square Feet

$27.46 CLASS A	$20.77 CLASS B

179,671 SF 12 Mo. Net Absorption

17.6% Vacancy

Rent rates are presented as Gross Direct rates.

The Market: **Core Submarket Highlights**

Stemmons Fwy

14,813,963 Square Feet

$19.48 CLASS A	$15.84 CLASS B

519,208 SF 12 Mo. Net Absorption

21.3% Vacancy

Upper Tollway/West Legacy

32,035,790 Square Feet

$34.20 CLASS A	$26.02 CLASS B

258,616 SF 12 Mo. Net Absorption

15.2% Vacancy

Uptown/Turtle Creek

14,794,300 Square Feet

$41.46 CLASS A	$33.55 CLASS B

747,071 SF 12 Mo. Net Absorption

13.6% Vacancy

Westlake/Grapevine/Southlake

7,948,263 Square Feet

$28.46 CLASS A	$26.24 CLASS B

282,399 SF 12 Mo. Net Absorption

19.5% Vacancy

West Southwest Fort Worth/Clearfork

11,052,353 Square Feet

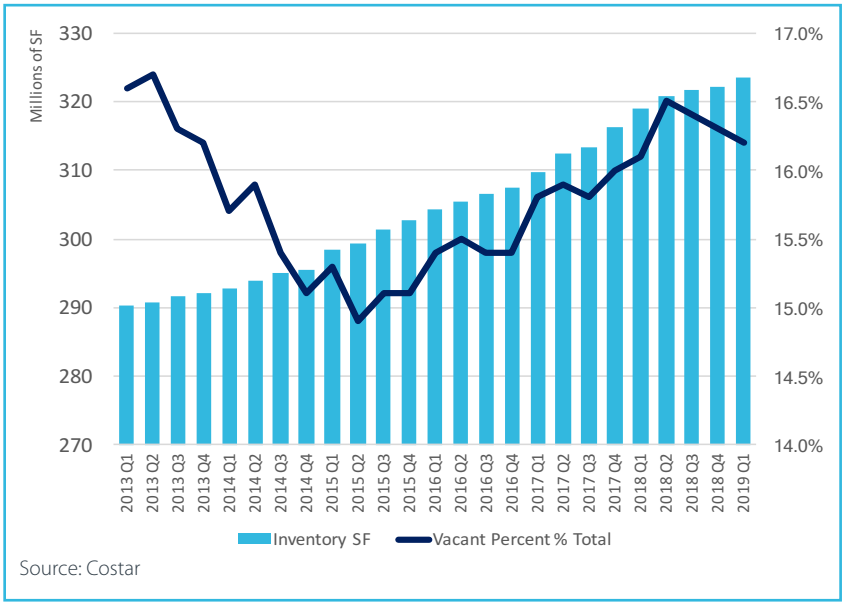
$28.87 CLASS A	$24.46 CLASS B

20,015 SF 12 Mo. Net Absorption

8.4% Vacancy

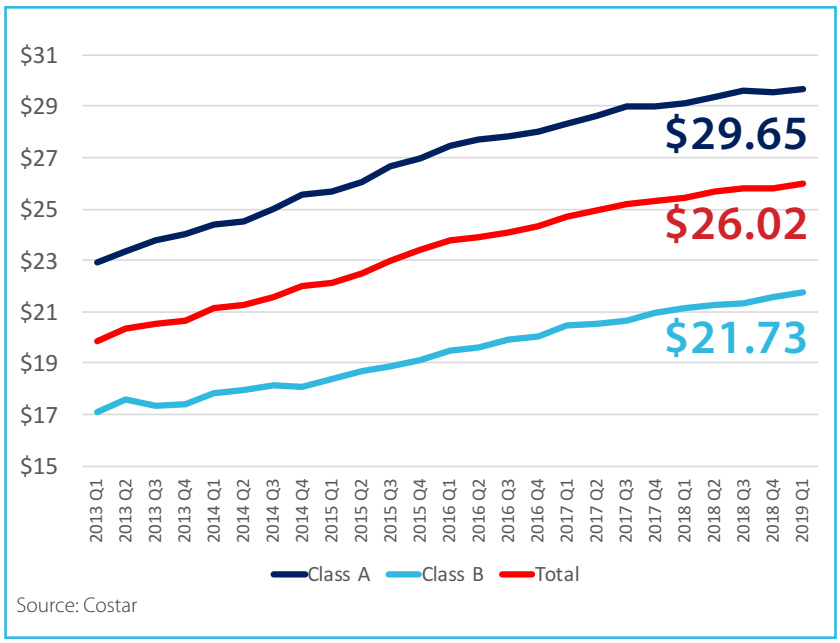
Rent rates are presented as Gross Direct rates.

Total Inventory vs. Vacancy Rate



Source: Costar

DFW Gross Direct Asking Rent Per SF



Source: Costar

Vacancy

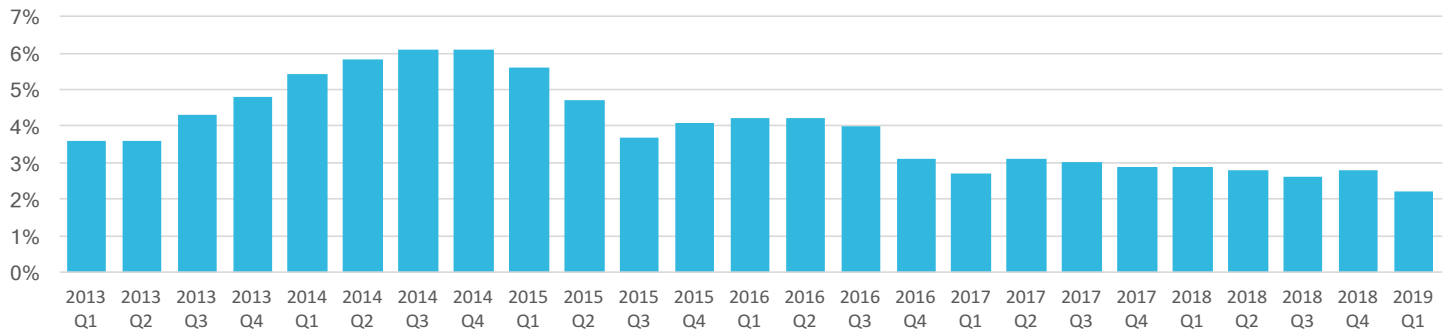
The Dallas-Fort Worth Office market ended the quarter with a vacancy rate of 16.2%. In all, there was 52 MSF vacant. The vacancy rate was down from the previous recent quarters, with 12-month net absorption totaling positive 3.59 MSF when single-tenant build-to-suits (BTS) are included. Excluding BTS from inventory and absorption, vacancy rates rise but remain consistent, finishing the quarter at 20.5%. This is a decrease from recent quarters, but the 10-year trending average is 20.6%.

Sublease availability rates are up to 1.9% from the 10-year average of 1.7%. The majority of this is space vacated by large users moving to newer and/or owned spaces, and the total inventory has dropped slightly after peaking at 2.0% last year.

Rental Rates

Annualized rent growth for Q4 was 2.2%, compared to the national average of 2.1%. Class A rates grew 2.9%, and Class B rates grew 1.3%. Rent growth is slowing, even declining in some submarkets, but rents remain about 15% higher than 2008 pre-recession peaks. Premier submarkets such as Uptown/Turtle Creek, Frisco/The Colony, and Upper Tollway/West Plano saw the strongest growth, with rents now 20% greater than pre-recession peaks.

Annualized Rent Growth



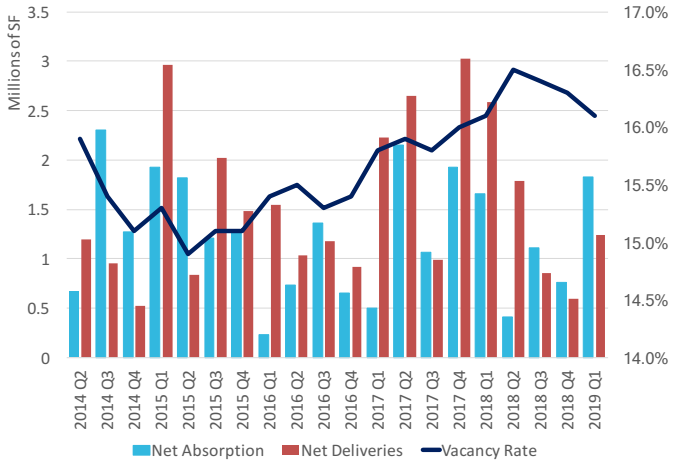
Absorption & Supply

12-Month net absorption finished the quarter at 4.2 MSF, which continued the momentum seen in recent quarters. Q1 itself saw almost 1 MSF absorped when single tenant owner-occupied space is included. When owner occupied space is excluded, quarterly absorption was still very strong at over 800,000 SF. As with 2018, the majority of absorption is continuing its flight-to-quality trend towards upgraded Class B and newer Class A product. When Class A and B product is separated, the numbers show Class B absorption is actually negative for 12-Month and quarterly rates.

Class A 12 Month Absorption (Owner Occup. Excluded)	Class B 12 Month Absorption (Owner Occup. Excluded)
2,620,689	-682,016

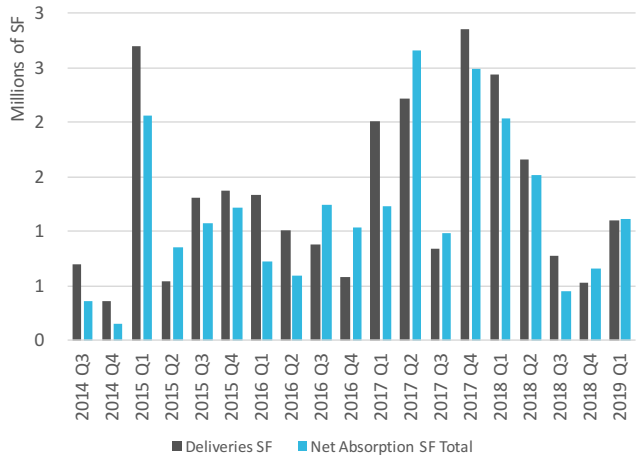
Newly built product is performing very well. Of the 18 MSF of non owner-occupied inventory built in the last 5 years, 77.7% has been leased. Of the 7.67 MSF currently under construction, including single tenant build-to-suits, the availability rate stands at 30.3%. However, when those owner-occupied build-to-suits are removed, this number rises to 74.3% availability for the roughly 2 MSF underway.

Net Absorption, Net Deliveries & Vacancy



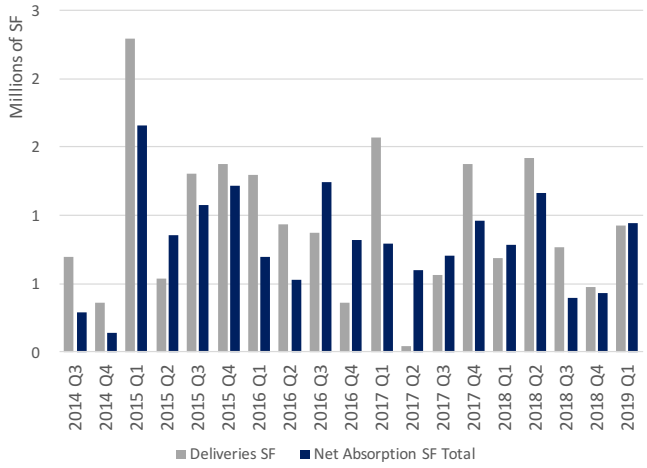
The market has seen some submarket absorption narratives shift. CBD net absorption has remained positive in recent quarters, thanks to Class A flagship properties and newer deliveries, and Upper Tollway/ West Legacy has seen its net absorption cool substantially as the deliveries of build-to-suits have tapered.

Absorption & Deliveries

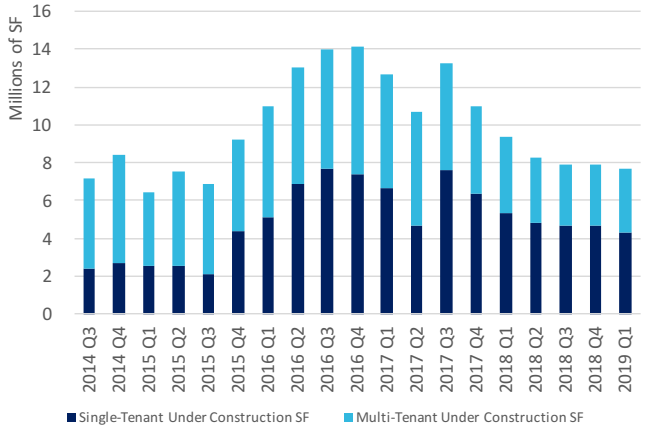


Owner occupied build-to-suits have helped keep absorption steady and vacancies in line with historical averages. To offset the 25.2 MSF delivered in the last 5 years, 22.4 MSF of that has been absorbed by the market.

In looking at only multi-tenant buildings built in the last 5 years, there has been 18.2 MSF delivered, and 13.8 MSF of absorption.

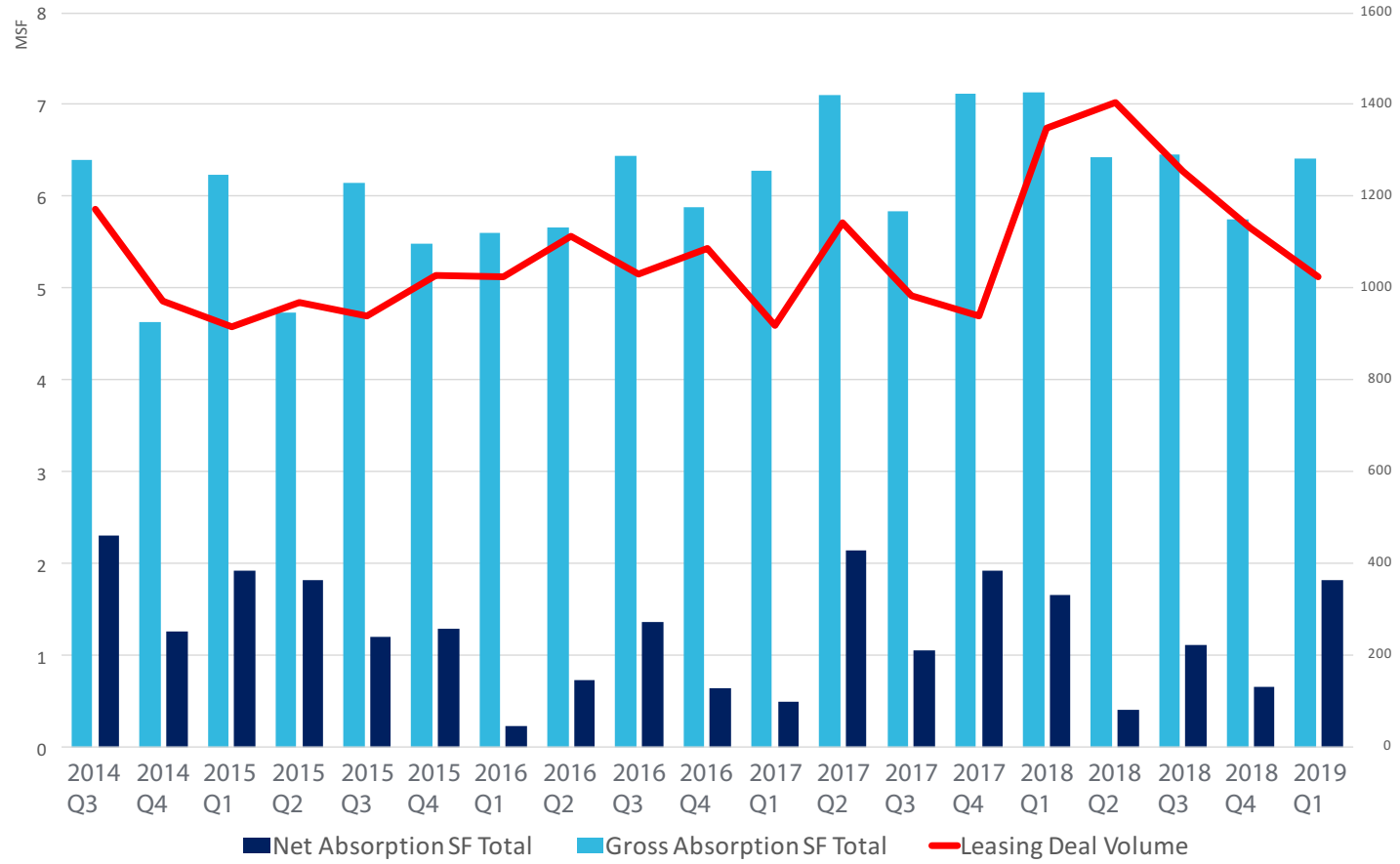


Under Construction



Leasing Activity

While Leasing activity and total net absorption have been trending downward overall, leasing activity deals have trended upwards over the last five years. This implies that deals are taking less square footage, which could be related to trends such as more companies try to reduce their footprints to save on costs, and flexible co-working deals being signed for small spaces.



Top Leases for Q1 '19

Address/Complex	Tenant	Size (SF)	Deal Type
The Star	DPS Holdings, Inc.	350,000 SF	New
Carpenter Corporate Center I	Exeter Financial	111,795 SF	New
Campus at CentrePort	Co-Op Financial Services	108,000 SF	New
3400 Cityline	DXC Technology	100,267 SF	New
Dominion Legacy Office Center	Cognizant	69,187 SF	New

Trends to Watch:

Workplace Strategies

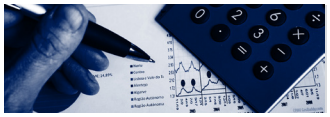
Smaller, more thoughtful spaces will reduce space requirements and deal sizes.

Coworking

Flexible alternatives such as coworking continue to grow in demand.

Supply Drop

Tariffs, rising borrowing costs, and concerns of a looming slowdown may cause the cycle's pipeline to pump breaks.



FASB Changes

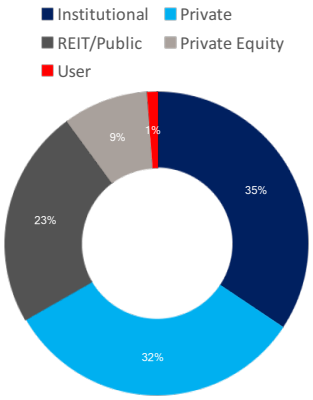
Lease accounting changes are forcing publicly traded companies to add $3 trillion of liabilities to their balance sheets.

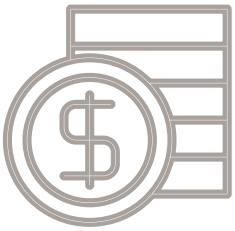
Investment Sales

The last 12 months saw nearly $4 Billion in office transactions. The sales covered the entire market, showing investors are taking interest in product across the board. The average price/SF dropped for Q1, most likely due to no major transactions

In terms of recent major suburban sales, Fannie Mae's new 324,100-SF campus at Granite Park sold in September 2018 for $163 million. That pricing, $503/SF, is a record for suburban deals in D-FW.

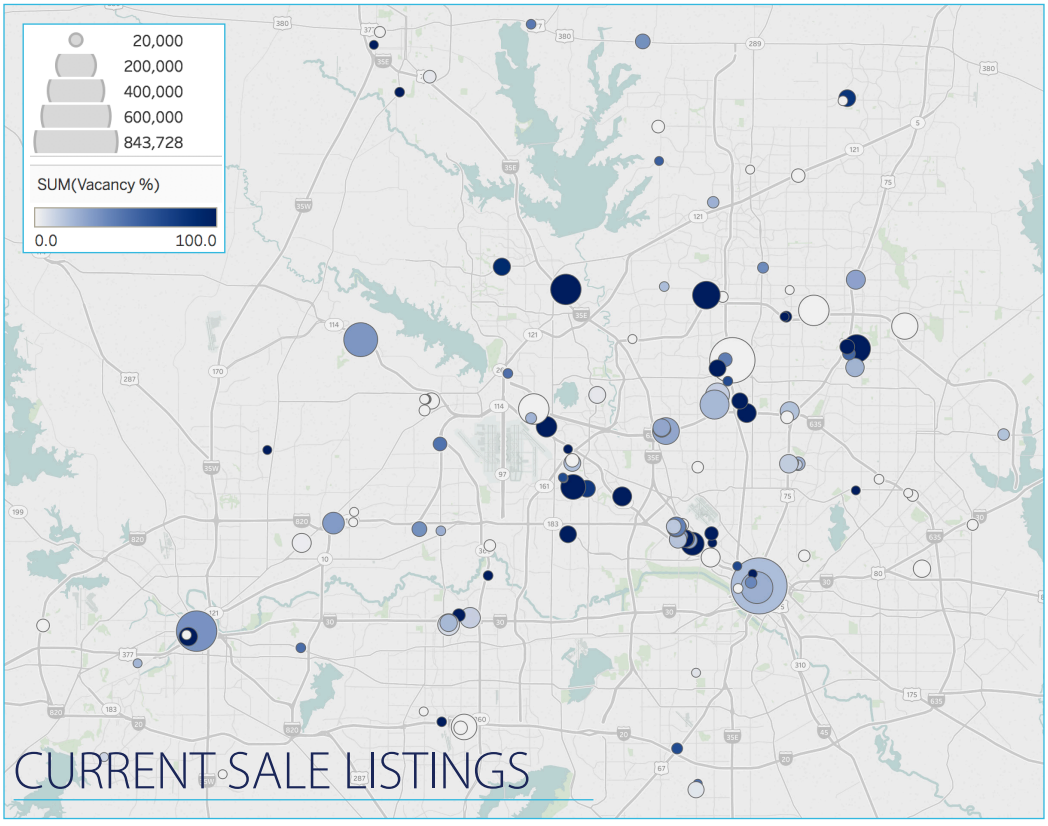
Infomart's sale in April is the major driver of 2Q, selling for $800,000,000 at 1,600,000 SF for an average price per SF of $500/SF.





6.8%
Market Cap Rate

Period	Office Sales Volume	Average Price/SF
2014 Q2	$887,731,052	$181.15
2014 Q3	$505,117,398	$184.51
2014 Q4	$703,528,564	$187.63
2015 Q1	$524,167,994	$191.56
2015 Q2	$544,963,267	$193.34
2015 Q3	$1,050,895,979	$194.80
2015 Q4	$1,294,545,072	$199.93
2016 Q1	$480,392,432	$200.89
2016 Q2	$422,895,085	$203.82
2016 Q3	$1,732,904,043	$207.90
2016 Q4	$1,843,238,658	$209.35
2017 Q1	$289,186,684	$211.05
2017 Q2	$695,254,974	$211.39
2017 Q3	$590,576,948	$211.62
2017 Q4	$574,289,297	$212.44
2018 Q1	$322,425,988	$213.77
2018 Q2	$1,602,418,833	$215.58
2018 Q3	$1,311,291,122	$216.35
2018 Q4	$583,670,124	$217.67
2019 Q1	$282,852,471	$197.14



~12 MSF
For Sale

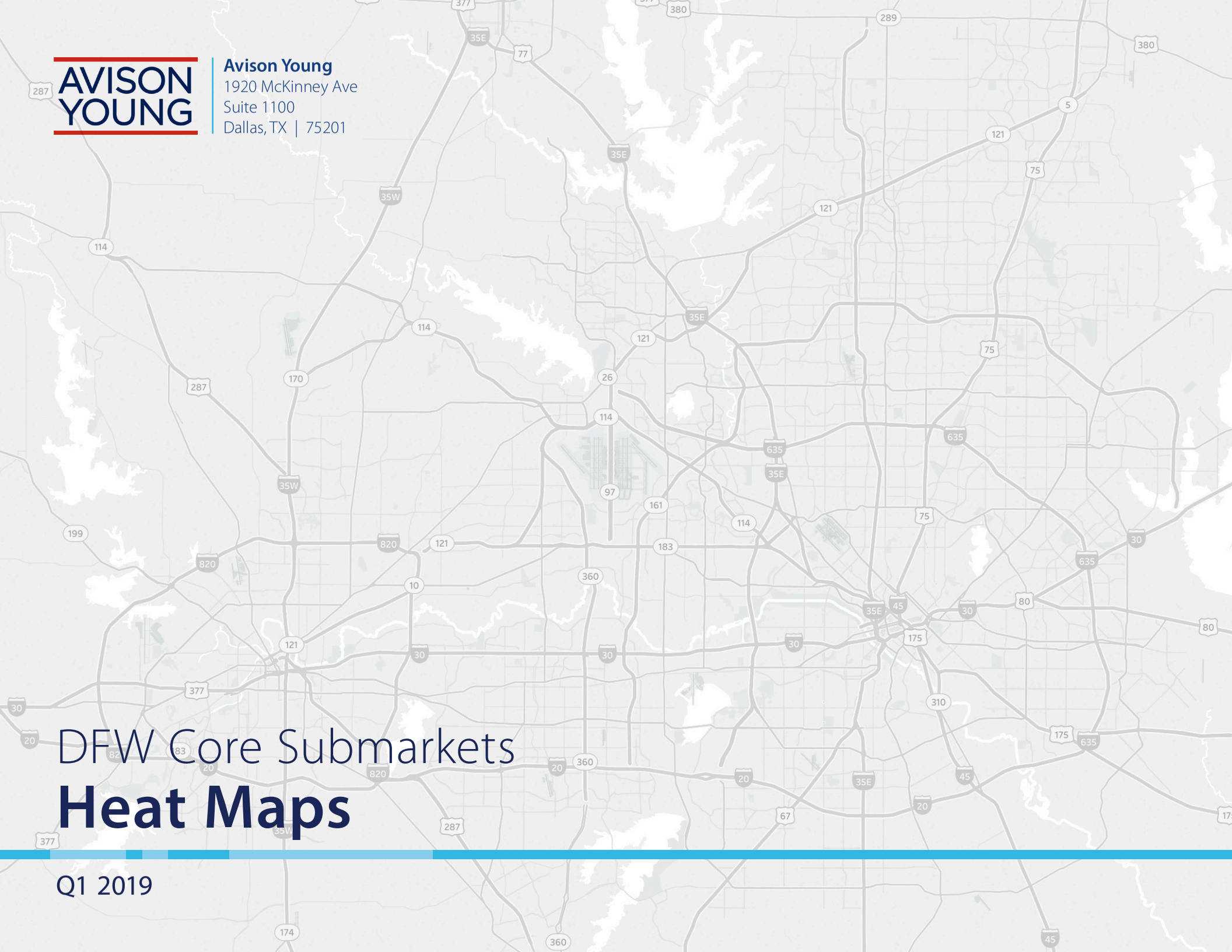
37.9% Vacancy
Among Properties for Sale

$22.72
Average Direct Gross Rate

6.9%
Cap Rate

-978,400 SF
12 Month Net Absorption

AVISON YOUNG
Avison Young
1920 McKinney Ave
Suite 1100
Dallas, TX | 75201



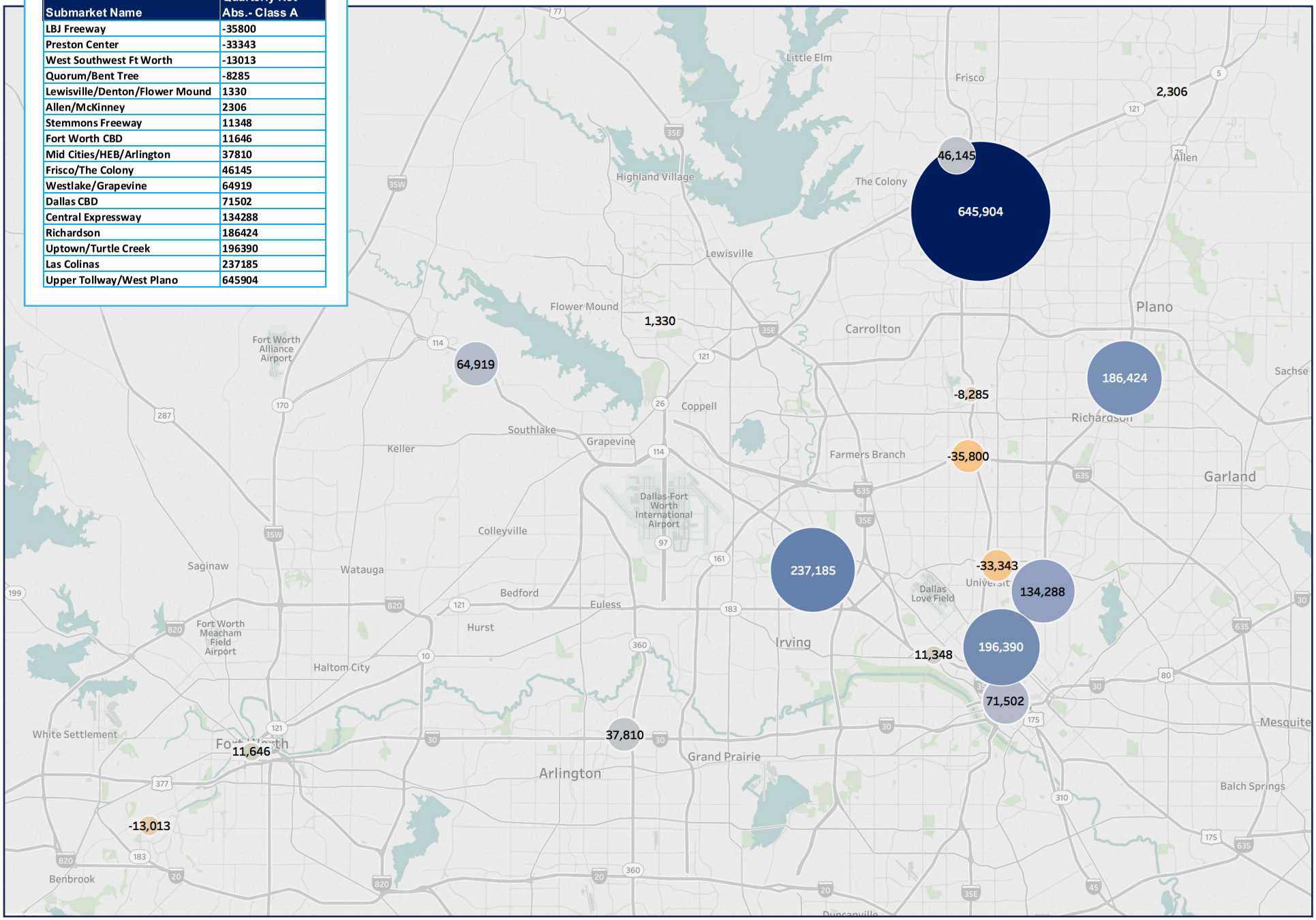
DFW Core Submarkets
Heat Maps

Q1 2019

Quarterly Net Absorption: **Class A**

Q1 2019

Submarket Name	Quarterly Net Abs.- Class A
LBJ Freeway	-35800
Preston Center	-33343
West Southwest Ft Worth	-13013
Quorum/Bent Tree	-8285
Lewisville/Denton/Flower Mound	1330
Allen/McKinney	2306
Stemmons Freeway	11348
Fort Worth CBD	11646
Mid Cities/HEB/Arlington	37810
Frisco/The Colony	46145
Westlake/Grapevine	64919
Dallas CBD	71502
Central Expressway	134288
Richardson	186424
Uptown/Turtle Creek	196390
Las Colinas	237185
Upper Tollway/West Plano	645904



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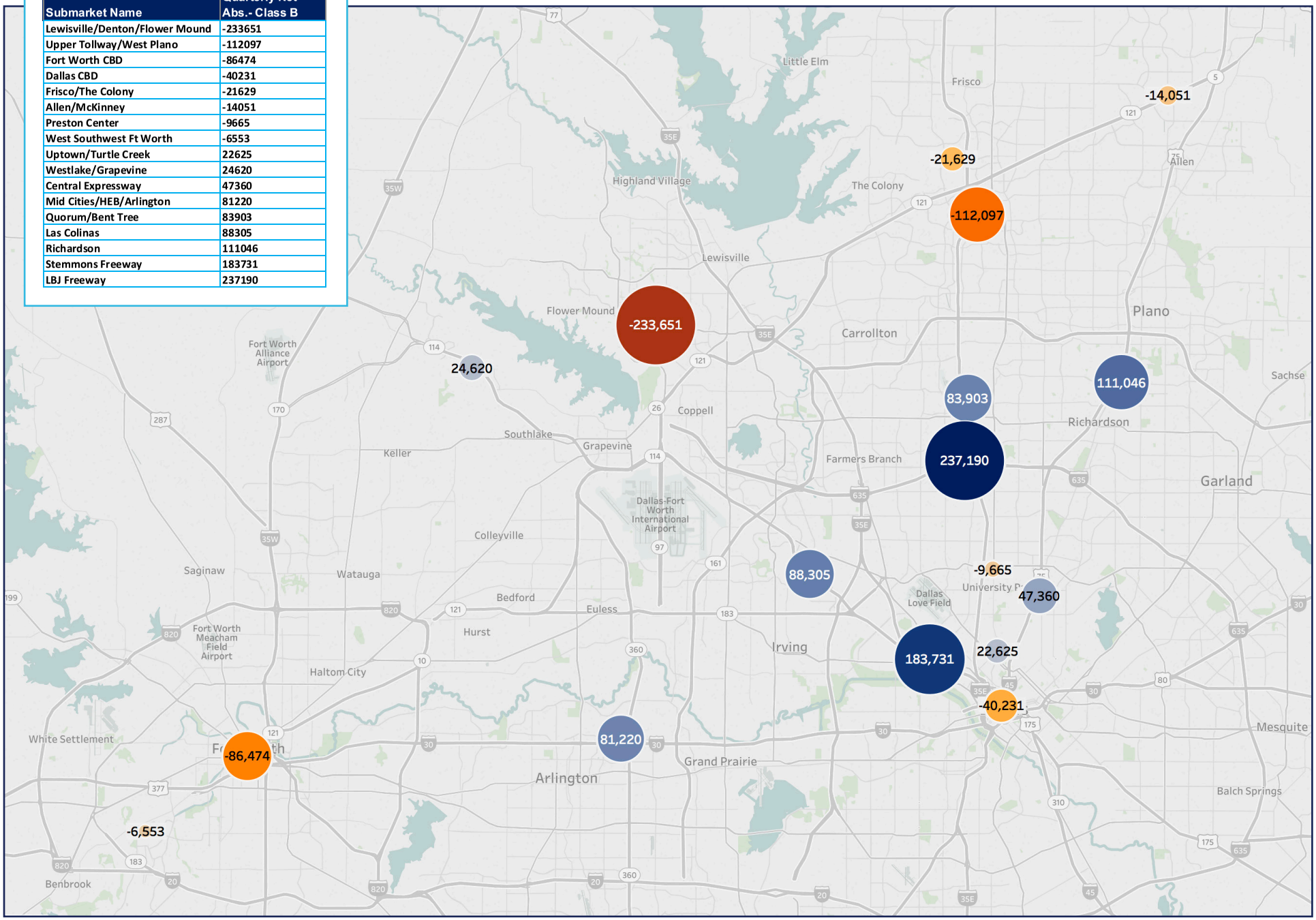
Quarterly Net Absorption: **Class B**

Q1 2019

Submarket Name	Quarterly Net Abs.- Class B
Lewisville/Denton/Flower Mound	-233651
Upper Tollway/West Plano	-112097
Fort Worth CBD	-86474
Dallas CBD	-40231
Frisco/The Colony	-21629
Allen/McKinney	-14051
Preston Center	-9665
West Southwest Ft Worth	-6553
Uptown/Turtle Creek	22625
Westlake/Grapevine	24620
Central Expressway	47360
Mid Cities/HEB/Arlington	81220
Quorum/Bent Tree	83903
Las Colinas	88305
Richardson	111046
Stemmons Freeway	183731
LBJ Freeway	237190



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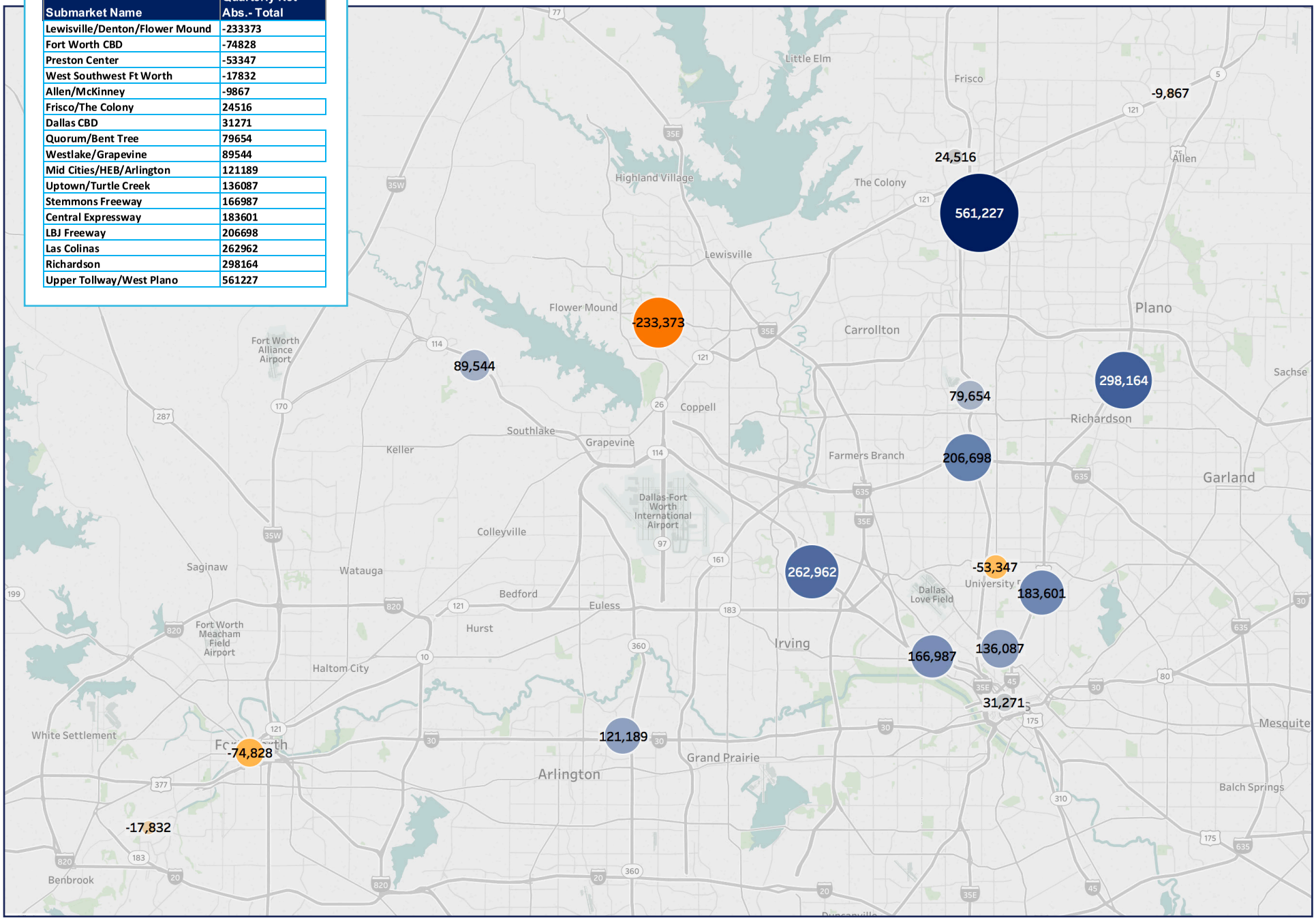
Quarterly Net Absorption: **Total**

Q1 2019

Submarket Name	Quarterly Net Abs.- Total
Lewisville/Denton/Flower Mound	-233373
Fort Worth CBD	-74828
Preston Center	-53347
West Southwest Ft Worth	-17832
Allen/McKinney	-9867
Frisco/The Colony	24516
Dallas CBD	31271
Quorum/Bent Tree	79654
Westlake/Grapevine	89544
Mid Cities/HEB/Arlington	121189
Uptown/Turtle Creek	136087
Stemmons Freeway	166987
Central Expressway	183601
LBJ Freeway	206698
Las Colinas	262962
Richardson	298164
Upper Tollway/West Plano	561227

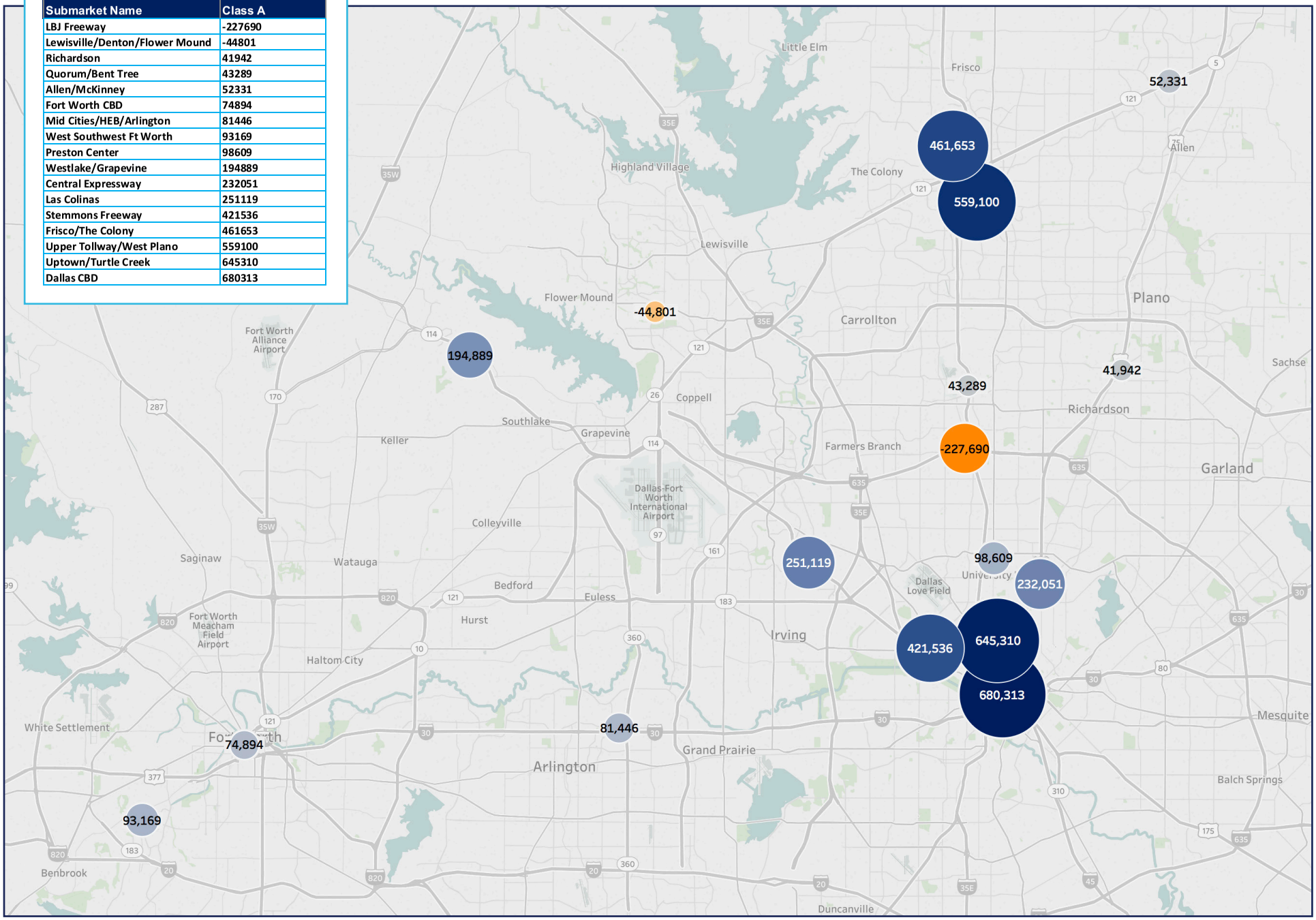


AVISON YOUNG

12 Month Net Absorption: **Class A**

Q1 2019

Submarket Name	12 Mo. Abs-Class A
LBJ Freeway	-227690
Lewisville/Denton/Flower Mound	-44801
Richardson	41942
Quorum/Bent Tree	43289
Allen/McKinney	52331
Fort Worth CBD	74894
Mid Cities/HEB/Arlington	81446
West Southwest Ft Worth	93169
Preston Center	98609
Westlake/Grapevine	194889
Central Expressway	232051
Las Colinas	251119
Stemmons Freeway	421536
Frisco/The Colony	461653
Upper Tollway/West Plano	559100
Uptown/Turtle Creek	645310
Dallas CBD	680313



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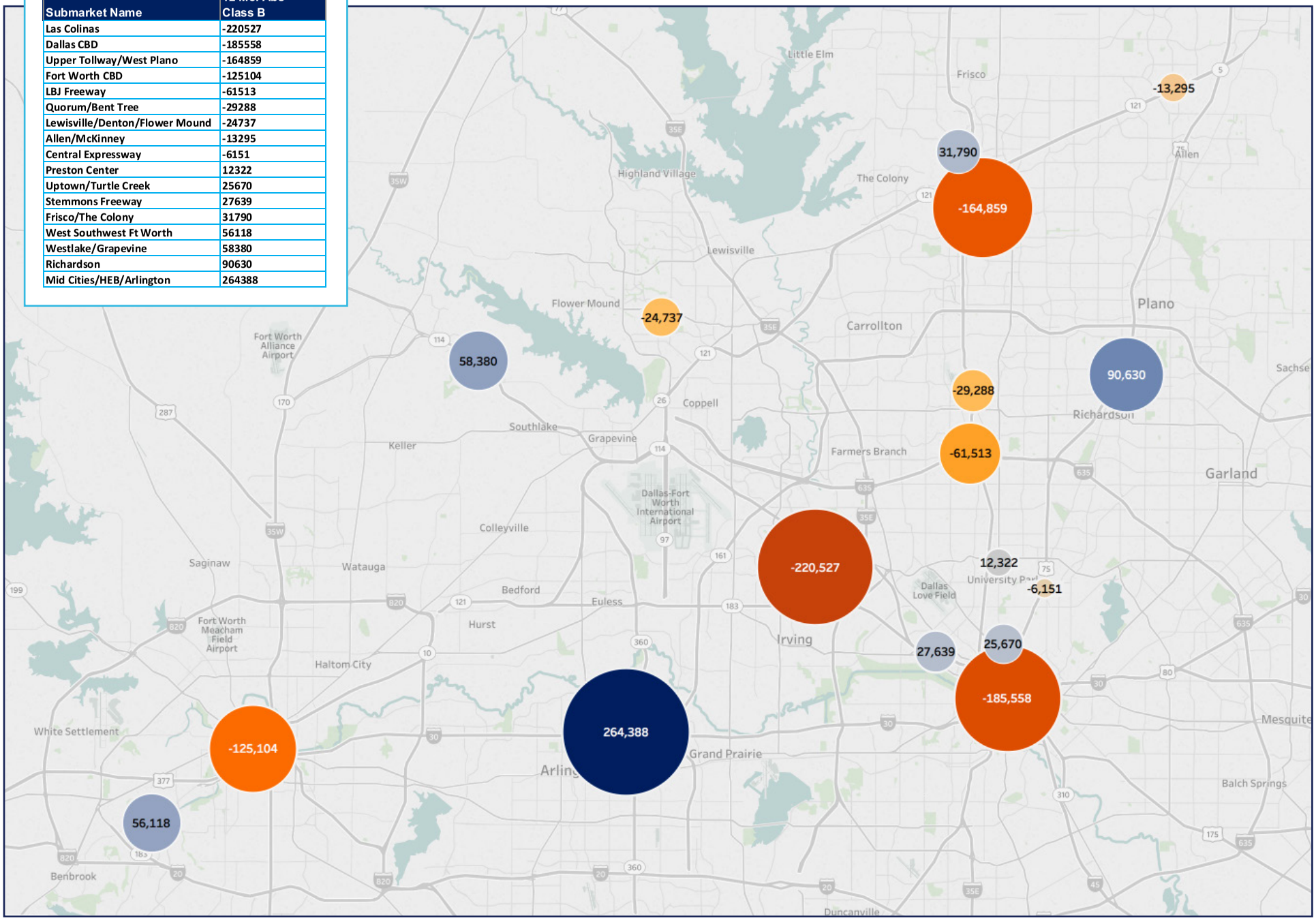
12 Month Net Absorption: **Class B**

Q1 2019

Submarket Name	12 Mo. Abs-Class B
Las Colinas	-220527
Dallas CBD	-185558
Upper Tollway/West Plano	-164859
Fort Worth CBD	-125104
LBJ Freeway	-61513
Quorum/Bent Tree	-29288
Lewisville/Denton/Flower Mound	-24737
Allen/McKinney	-13295
Central Expressway	-6151
Preston Center	12322
Uptown/Turtle Creek	25670
Stemmons Freeway	27639
Frisco/The Colony	31790
West Southwest Ft Worth	56118
Westlake/Grapevine	58380
Richardson	90630
Mid Cities/HEB/Arlington	264388

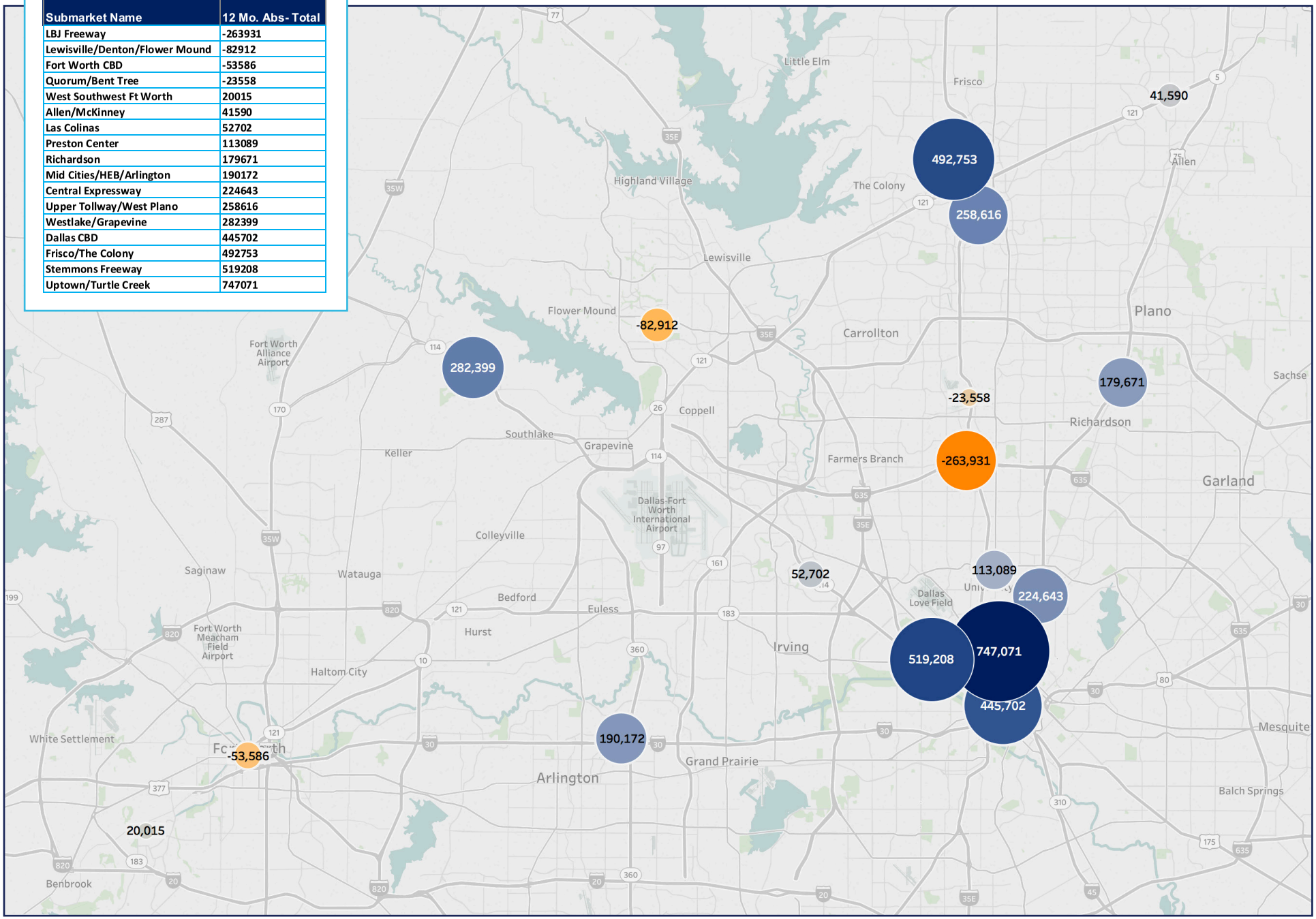


AVISON YOUNG

12 Month Net Absorption: **Total**

Q1 2019

Submarket Name	12 Mo. Abs- Total
LBJ Freeway	-263931
Lewisville/Denton/Flower Mound	-82912
Fort Worth CBD	-53586
Quorum/Bent Tree	-23558
West Southwest Ft Worth	20015
Allen/McKinney	41590
Las Colinas	52702
Preston Center	113089
Richardson	179671
Mid Cities/HEB/Arlington	190172
Central Expressway	224643
Upper Tollway/West Plano	258616
Westlake/Grapevine	282399
Dallas CBD	445702
Frisco/The Colony	492753
Stemmons Freeway	519208
Uptown/Turtle Creek	747071



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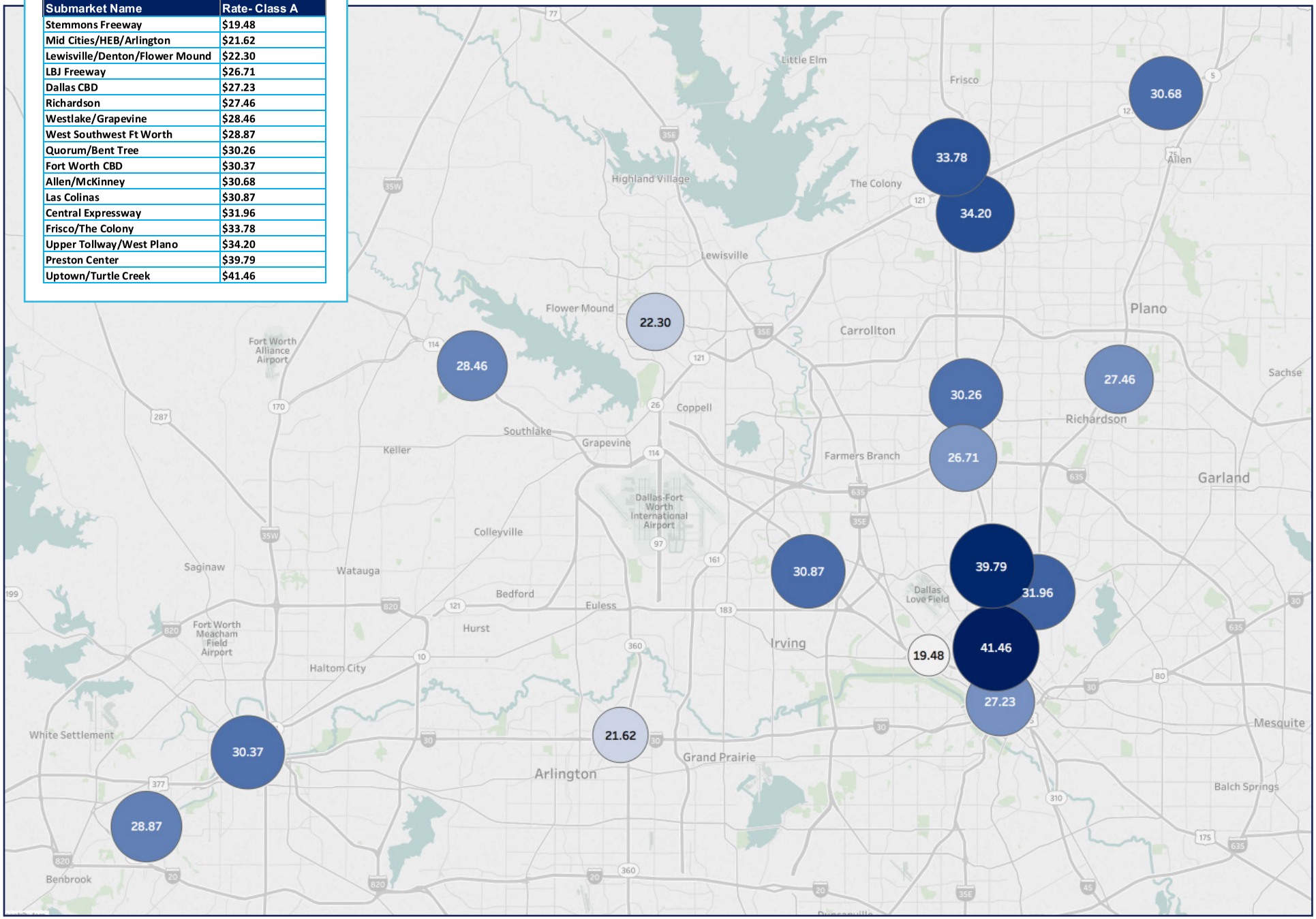
Average Gross Direct Rate: **Class A**

Q1 2019

Submarket Name	Ave. Gross Direct Rate- Class A
Stemmons Freeway	$19.48
Mid Cities/HEB/Arlington	$21.62
Lewisville/Denton/Flower Mound	$22.30
LBJ Freeway	$26.71
Dallas CBD	$27.23
Richardson	$27.46
Westlake/Grapevine	$28.46
West Southwest Ft Worth	$28.87
Quorum/Bent Tree	$30.26
Fort Worth CBD	$30.37
Allen/McKinney	$30.68
Las Colinas	$30.87
Central Expressway	$31.96
Frisco/The Colony	$33.78
Upper Tollway/West Plano	$34.20
Preston Center	$39.79
Uptown/Turtle Creek	$41.46

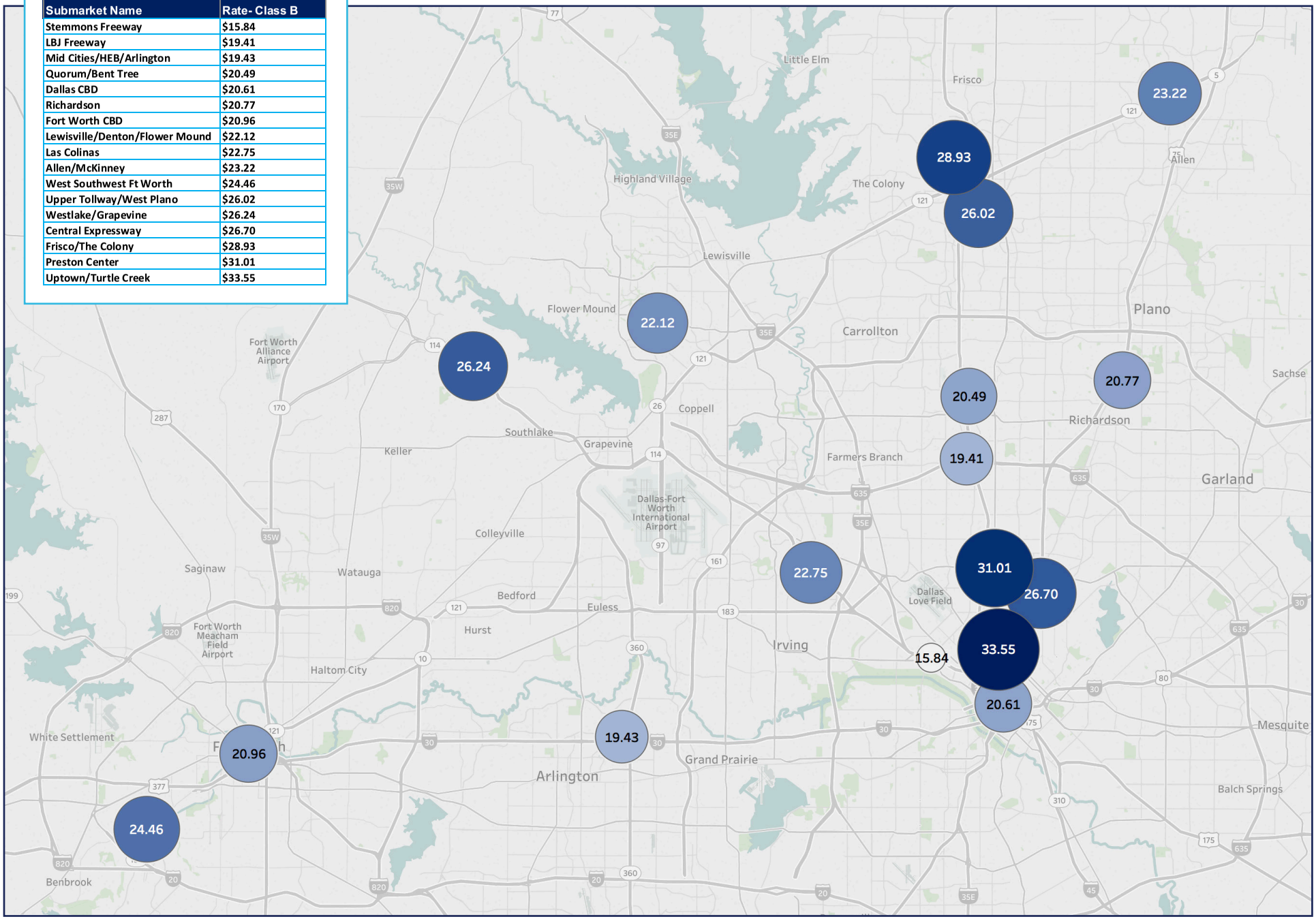


AVISON YOUNG

Average Gross Direct Rate: **Class B**

Q1 2019

Submarket Name	Ave. Gross Direct Rate- Class B
Stemmons Freeway	$15.84
LBJ Freeway	$19.41
Mid Cities/HEB/Arlington	$19.43
Quorum/Bent Tree	$20.49
Dallas CBD	$20.61
Richardson	$20.77
Fort Worth CBD	$20.96
Lewisville/Denton/Flower Mound	$22.12
Las Colinas	$22.75
Allen/McKinney	$23.22
West Southwest Ft Worth	$24.46
Upper Tollway/West Plano	$26.02
Westlake/Grapevine	$26.24
Central Expressway	$26.70
Frisco/The Colony	$28.93
Preston Center	$31.01
Uptown/Turtle Creek	$33.55

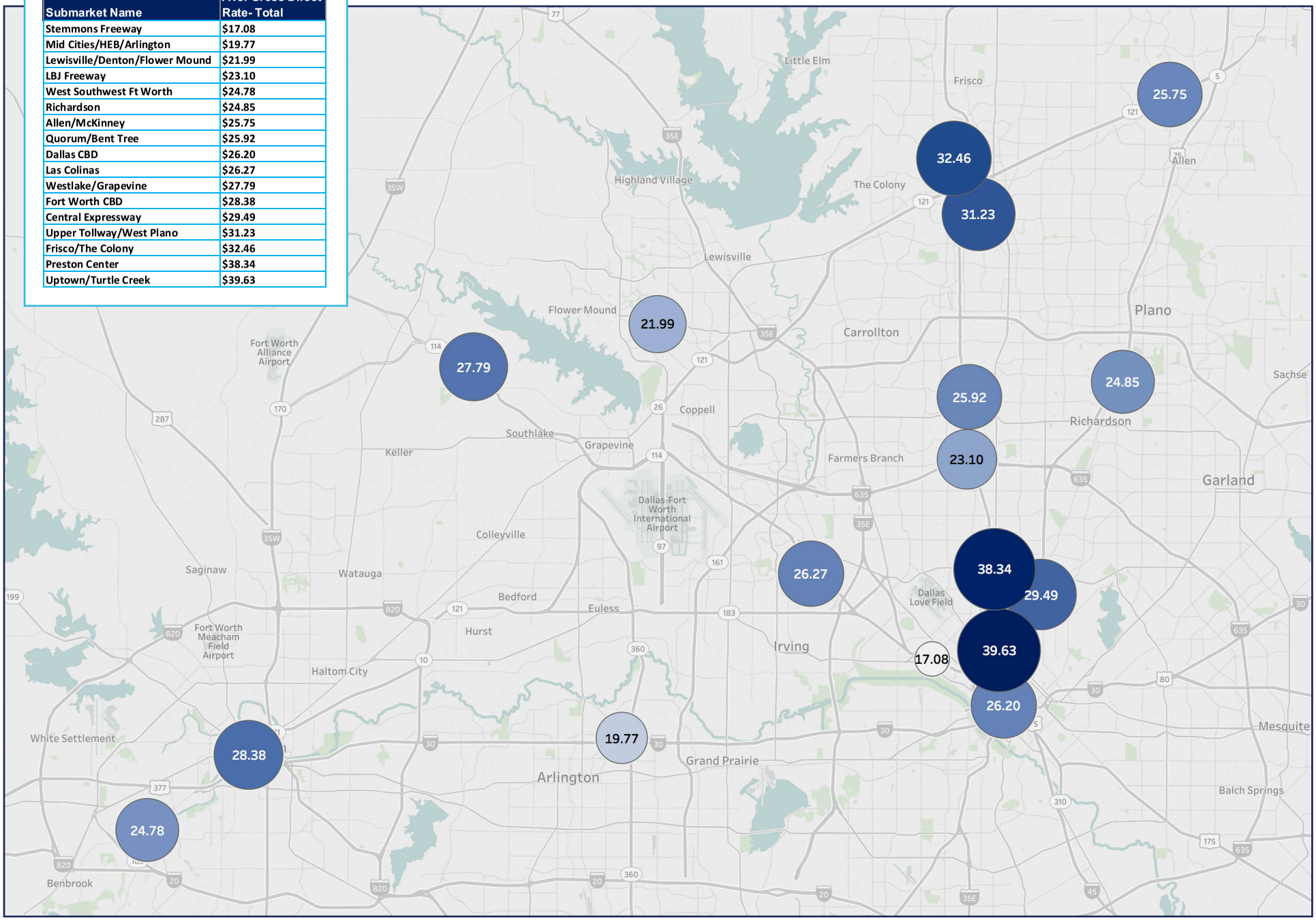


AVISON YOUNG

Average Gross Direct Rate: **Total**

Q1 2019

Submarket Name	Ave. Gross Direct Rate- Total
Stemmons Freeway	$17.08
Mid Cities/HEB/Arlington	$19.77
Lewisville/Denton/Flower Mound	$21.99
LBJ Freeway	$23.10
West Southwest Ft Worth	$24.78
Richardson	$24.85
Allen/McKinney	$25.75
Quorum/Bent Tree	$25.92
Dallas CBD	$26.20
Las Colinas	$26.27
Westlake/Grapevine	$27.79
Fort Worth CBD	$28.38
Central Expressway	$29.49
Upper Tollway/West Plano	$31.23
Frisco/The Colony	$32.46
Preston Center	$38.34
Uptown/Turtle Creek	$39.63

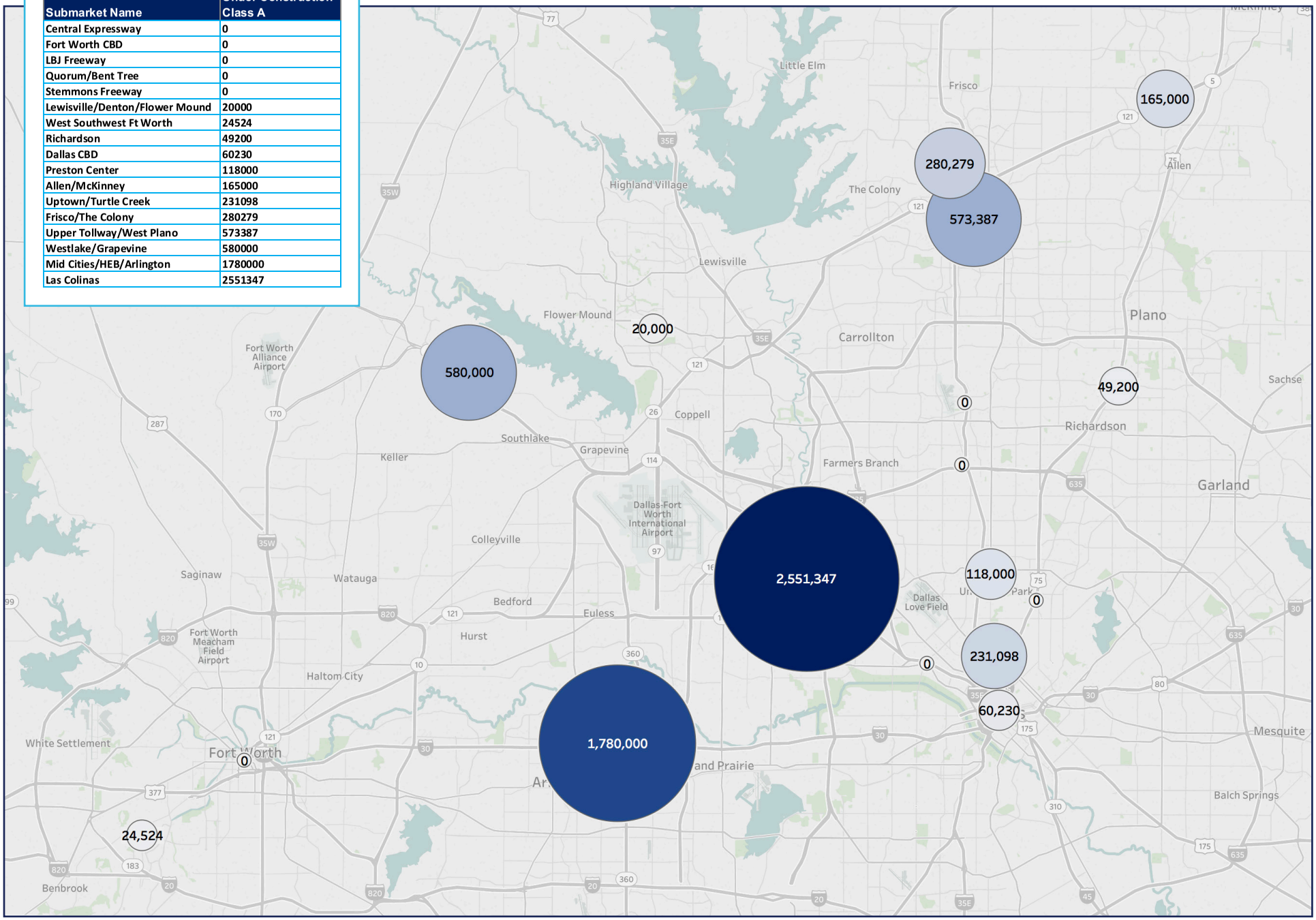


AVISON YOUNG

Under Construction: **Class A**

Q1 2019

Submarket Name	Under Construction-Class A
Central Expressway	0
Fort Worth CBD	0
LBJ Freeway	0
Quorum/Bent Tree	0
Stemmons Freeway	0
Lewisville/Denton/Flower Mound	20000
West Southwest Ft Worth	24524
Richardson	49200
Dallas CBD	60230
Preston Center	118000
Allen/McKinney	165000
Uptown/Turtle Creek	231098
Frisco/The Colony	280279
Upper Tollway/West Plano	573387
Westlake/Grapevine	580000
Mid Cities/HEB/Arlington	1780000
Las Colinas	2551347

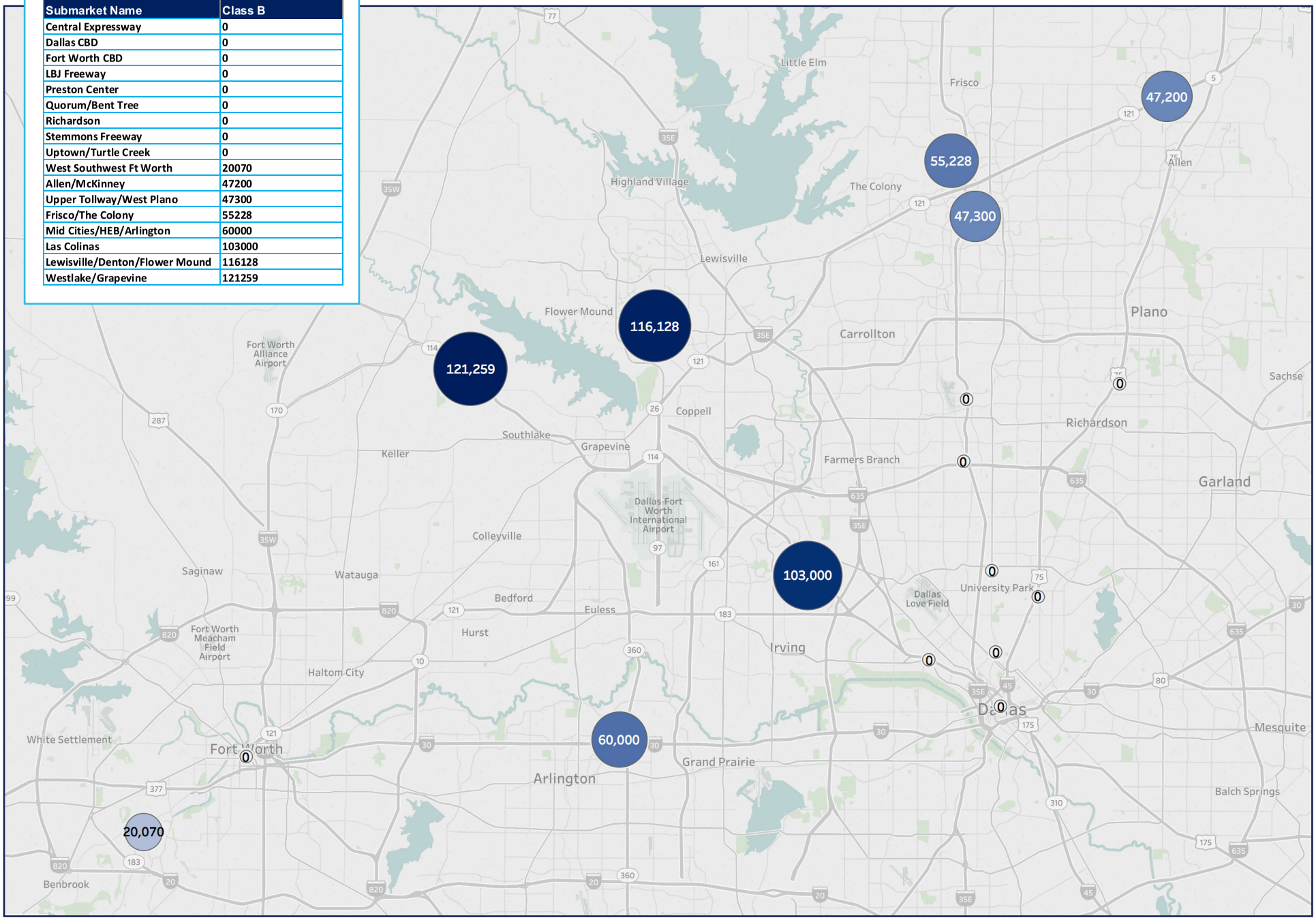


AVISON YOUNG

Under Construction: **Class B**

Q1 2019

Submarket Name	Under Construction-Class B
Central Expressway	0
Dallas CBD	0
Fort Worth CBD	0
LBJ Freeway	0
Preston Center	0
Quorum/Bent Tree	0
Richardson	0
Stemmons Freeway	0
Uptown/Turtle Creek	0
West Southwest Ft Worth	20070
Allen/McKinney	47200
Upper Tollway/West Plano	47300
Frisco/The Colony	55228
Mid Cities/HEB/Arlington	60000
Las Colinas	103000
Lewisville/Denton/Flower Mound	116128
Westlake/Grapevine	121259

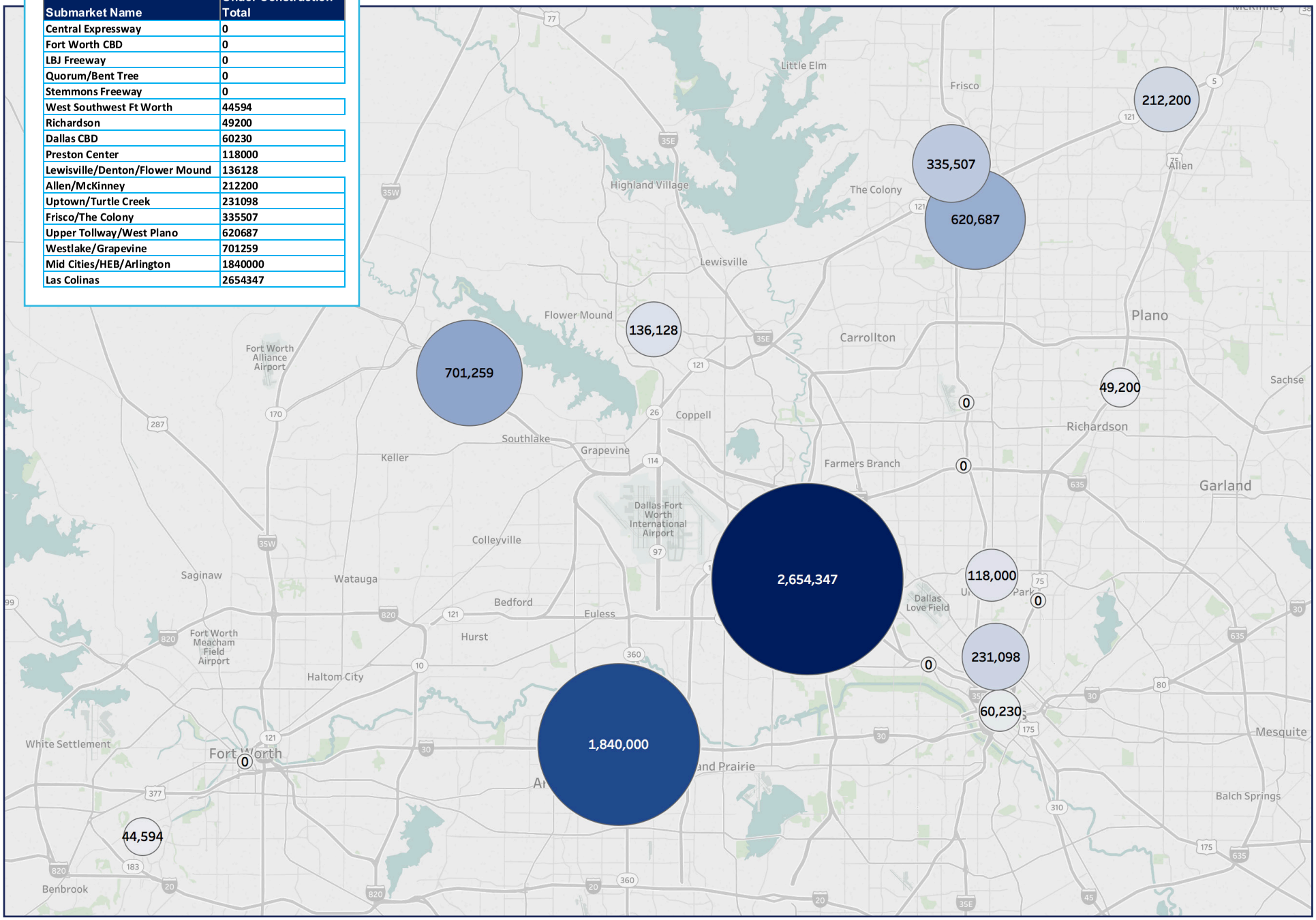


AVISON YOUNG

Under Construction: **Total**

Q1 2019

Submarket Name	Under Construction-Total
Central Expressway	0
Fort Worth CBD	0
LBJ Freeway	0
Quorum/Bent Tree	0
Stemmons Freeway	0
West Southwest Ft Worth	44594
Richardson	49200
Dallas CBD	60230
Preston Center	118000
Lewisville/Denton/Flower Mound	136128
Allen/McKinney	212200
Uptown/Turtle Creek	231098
Frisco/The Colony	335507
Upper Tollway/West Plano	620687
Westlake/Grapevine	701259
Mid Cities/HEB/Arlington	1840000
Las Colinas	2654347

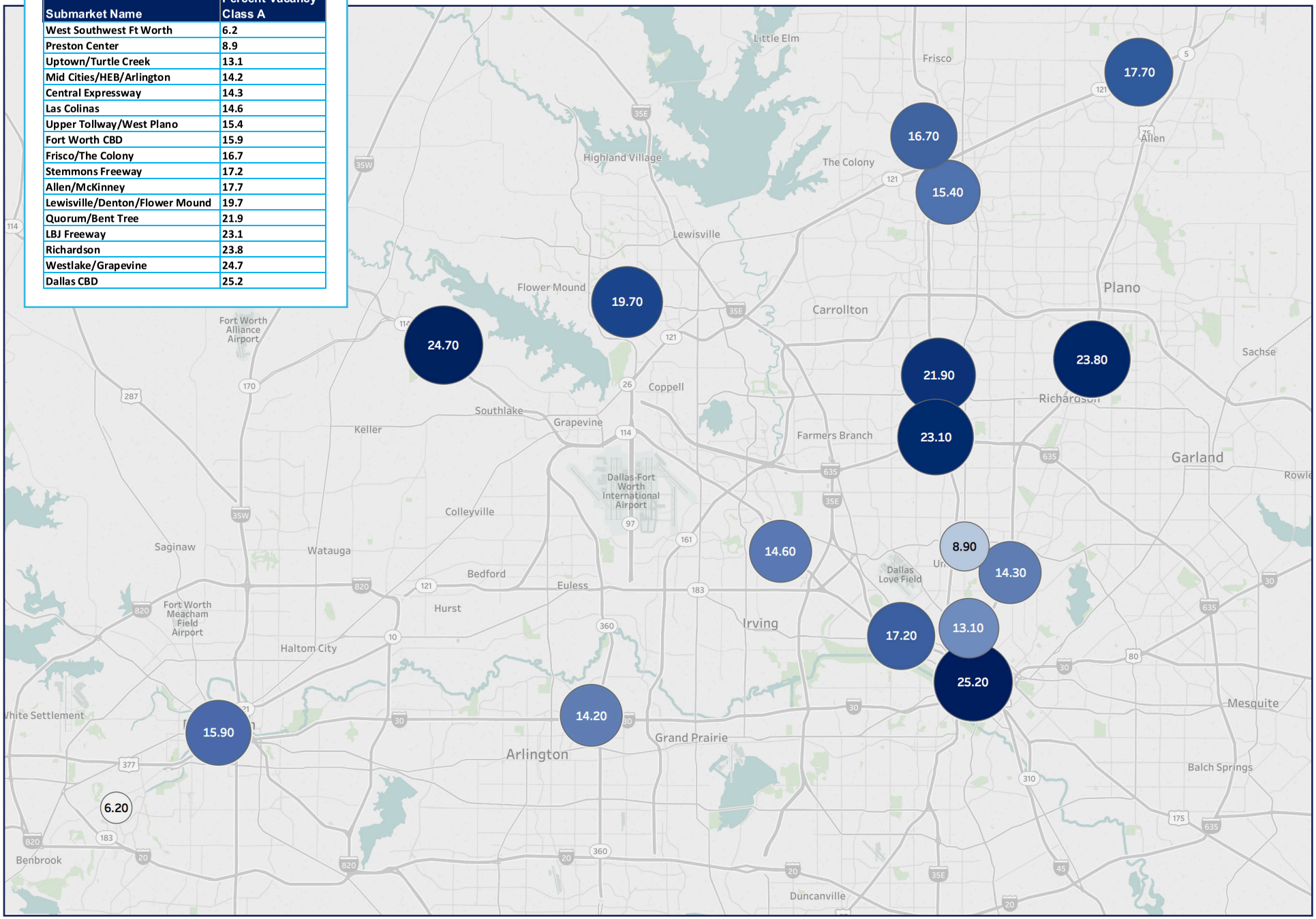


AVISON YOUNG

Percent Vacancy: **Class A**

Q1 2019

Submarket Name	Percent Vacancy Class A
West Southwest Ft Worth	6.2
Preston Center	8.9
Uptown/Turtle Creek	13.1
Mid Cities/HEB/Arlington	14.2
Central Expressway	14.3
Las Colinas	14.6
Upper Tollway/West Plano	15.4
Fort Worth CBD	15.9
Frisco/The Colony	16.7
Stemmons Freeway	17.2
Allen/McKinney	17.7
Lewisville/Denton/Flower Mound	19.7
Quorum/Bent Tree	21.9
LBJ Freeway	23.1
Richardson	23.8
Westlake/Grapevine	24.7
Dallas CBD	25.2

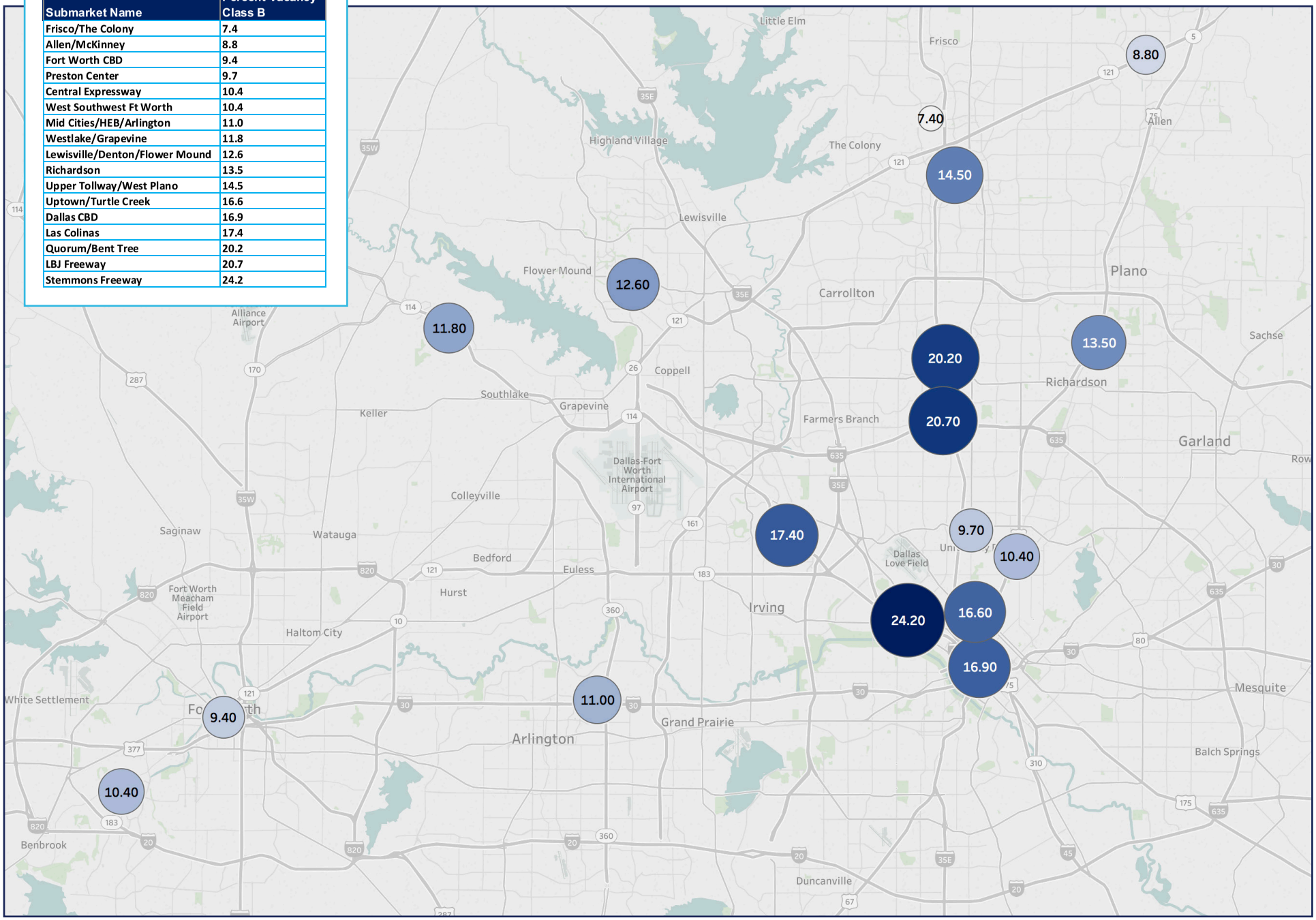


AVISON YOUNG

Percent Vacancy: **Class B**

Q1 2019

Submarket Name	Percent Vacancy Class B
Frisco/The Colony	7.4
Allen/McKinney	8.8
Fort Worth CBD	9.4
Preston Center	9.7
Central Expressway	10.4
West Southwest Ft Worth	10.4
Mid Cities/HEB/Arlington	11.0
Westlake/Grapevine	11.8
Lewisville/Denton/Flower Mound	12.6
Richardson	13.5
Upper Tollway/West Plano	14.5
Uptown/Turtle Creek	16.6
Dallas CBD	16.9
Las Colinas	17.4
Quorum/Bent Tree	20.2
LBJ Freeway	20.7
Stemmons Freeway	24.2

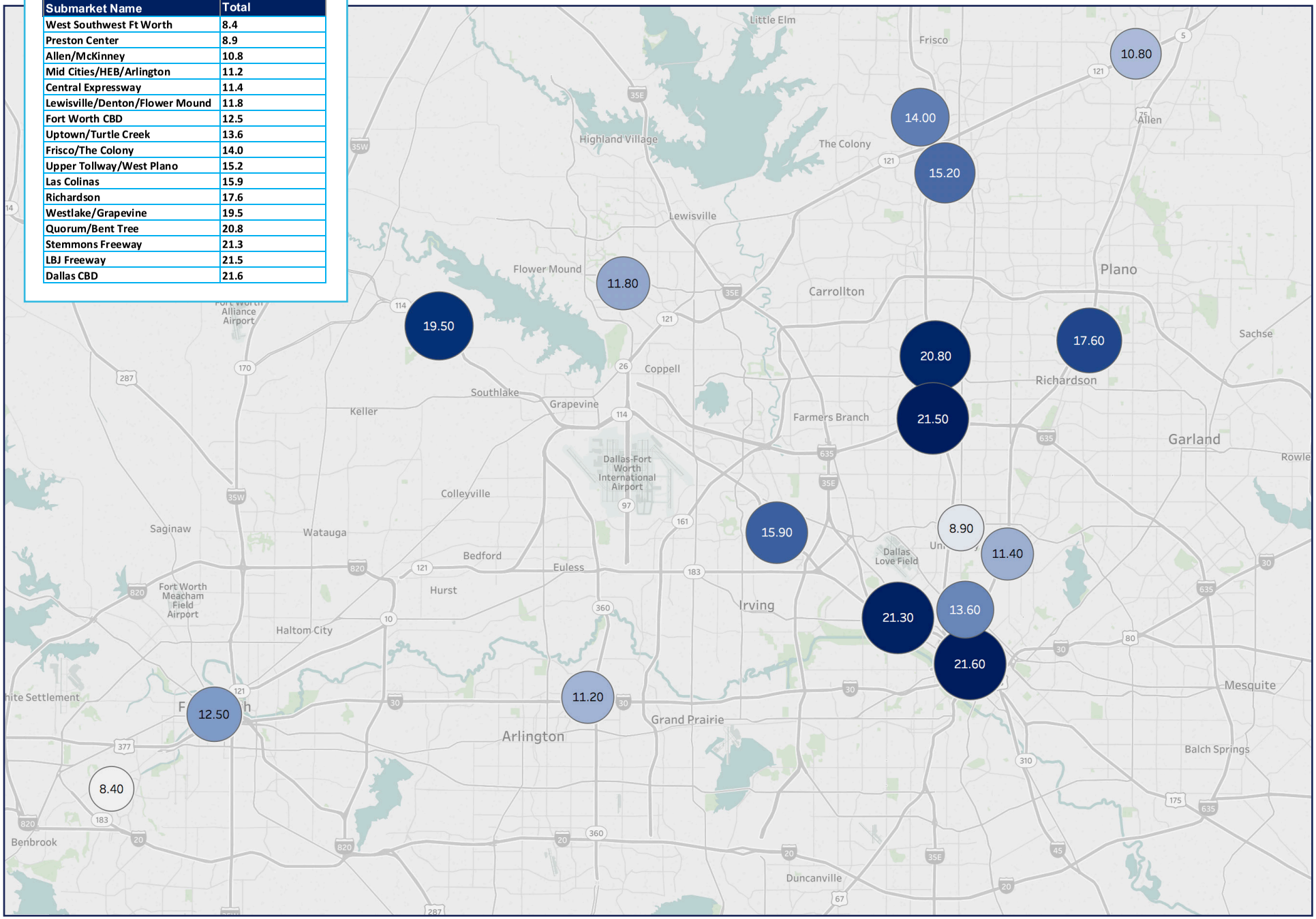


AVISON YOUNG

Percent Vacancy: **Total**

Q1 2019

Submarket Name	Percent Vacancy Total
West Southwest Ft Worth	8.4
Preston Center	8.9
Allen/McKinney	10.8
Mid Cities/HEB/Arlington	11.2
Central Expressway	11.4
Lewisville/Denton/Flower Mound	11.8
Fort Worth CBD	12.5
Uptown/Turtle Creek	13.6
Frisco/The Colony	14.0
Upper Tollway/West Plano	15.2
Las Colinas	15.9
Richardson	17.6
Westlake/Grapevine	19.5
Quorum/Bent Tree	20.8
Stemmons Freeway	21.3
LBJ Freeway	21.5
Dallas CBD	21.6

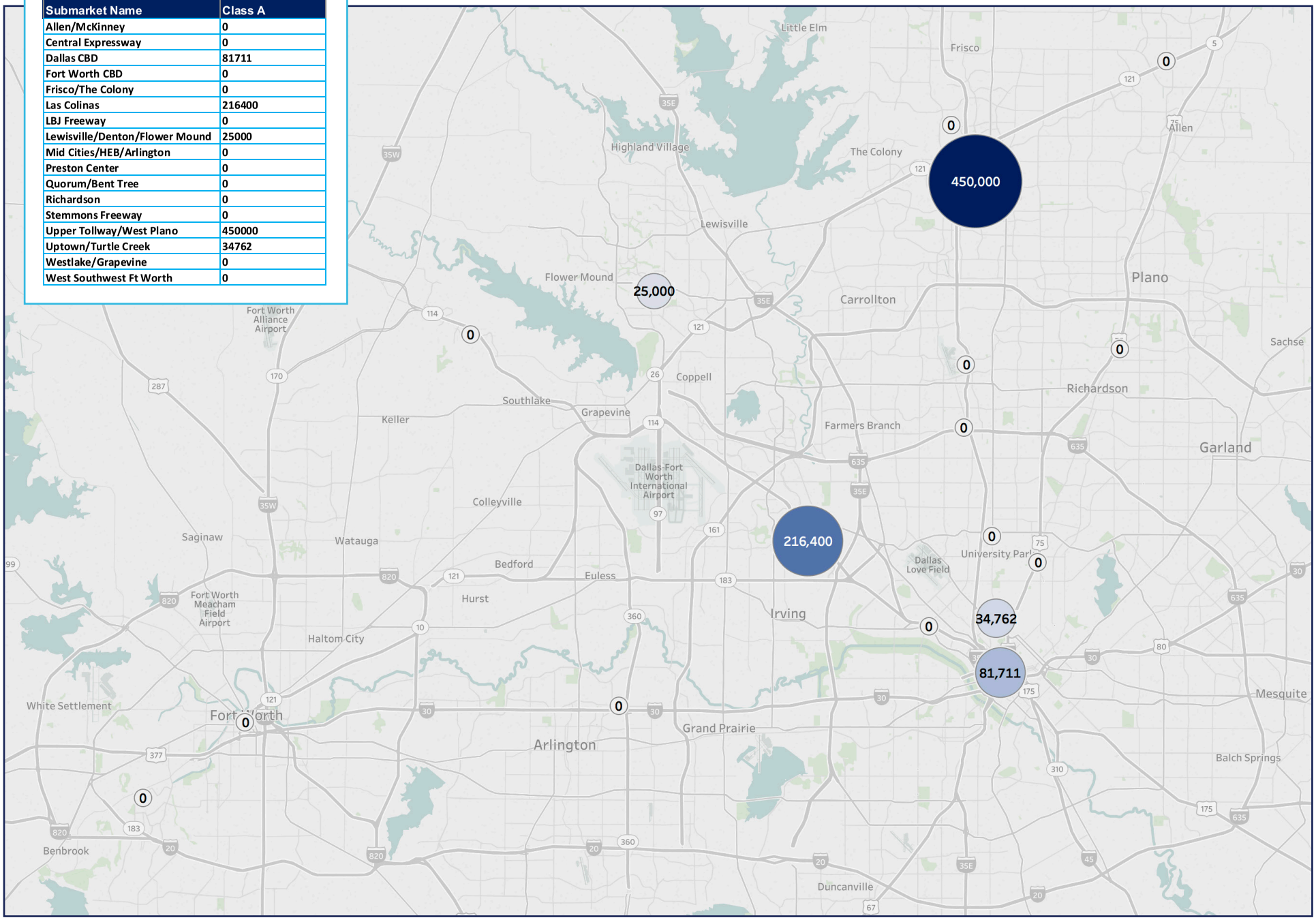


AVISON YOUNG

Year-to-Date Deliveries: **Class A**

Q1 2019

Submarket Name	YTD Deliveries-Class A
Allen/McKinney	0
Central Expressway	0
Dallas CBD	81711
Fort Worth CBD	0
Frisco/The Colony	0
Las Colinas	216400
LBJ Freeway	0
Lewisville/Denton/Flower Mound	25000
Mid Cities/HEB/Arlington	0
Preston Center	0
Quorum/Bent Tree	0
Richardson	0
Stemmons Freeway	0
Upper Tollway/West Plano	450000
Uptown/Turtle Creek	34762
Westlake/Grapevine	0
West Southwest Ft Worth	0

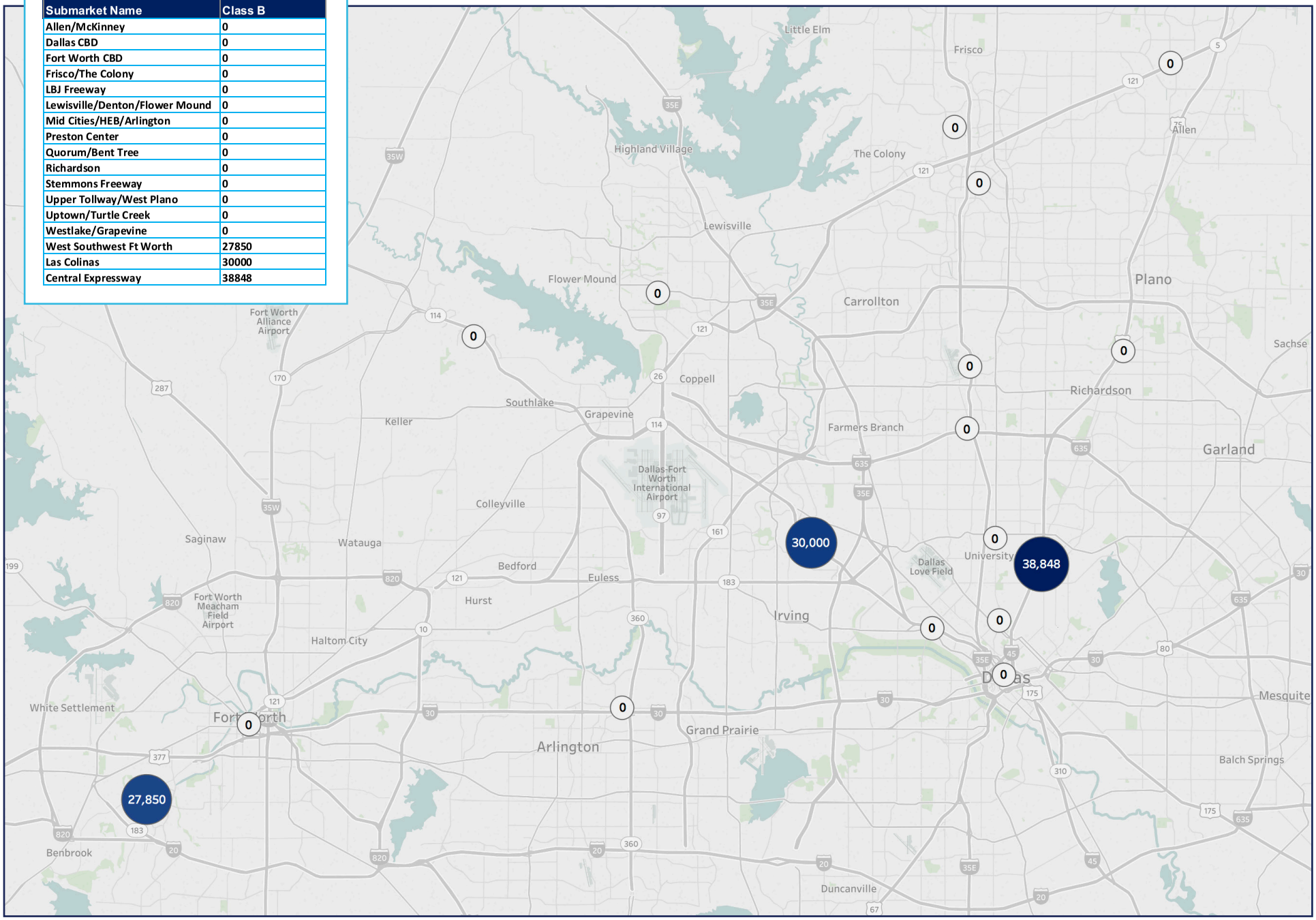


AVISON YOUNG

Year-to-Date Deliveries: **Class B**

Q1 2019

Submarket Name	YTD Deliveries-Class B
Allen/McKinney	0
Dallas CBD	0
Fort Worth CBD	0
Frisco/The Colony	0
LBJ Freeway	0
Lewisville/Denton/Flower Mound	0
Mid Cities/HEB/Arlington	0
Preston Center	0
Quorum/Bent Tree	0
Richardson	0
Stemmons Freeway	0
Upper Tollway/West Plano	0
Uptown/Turtle Creek	0
Westlake/Grapevine	0
West Southwest Ft Worth	27850
Las Colinas	30000
Central Expressway	38848

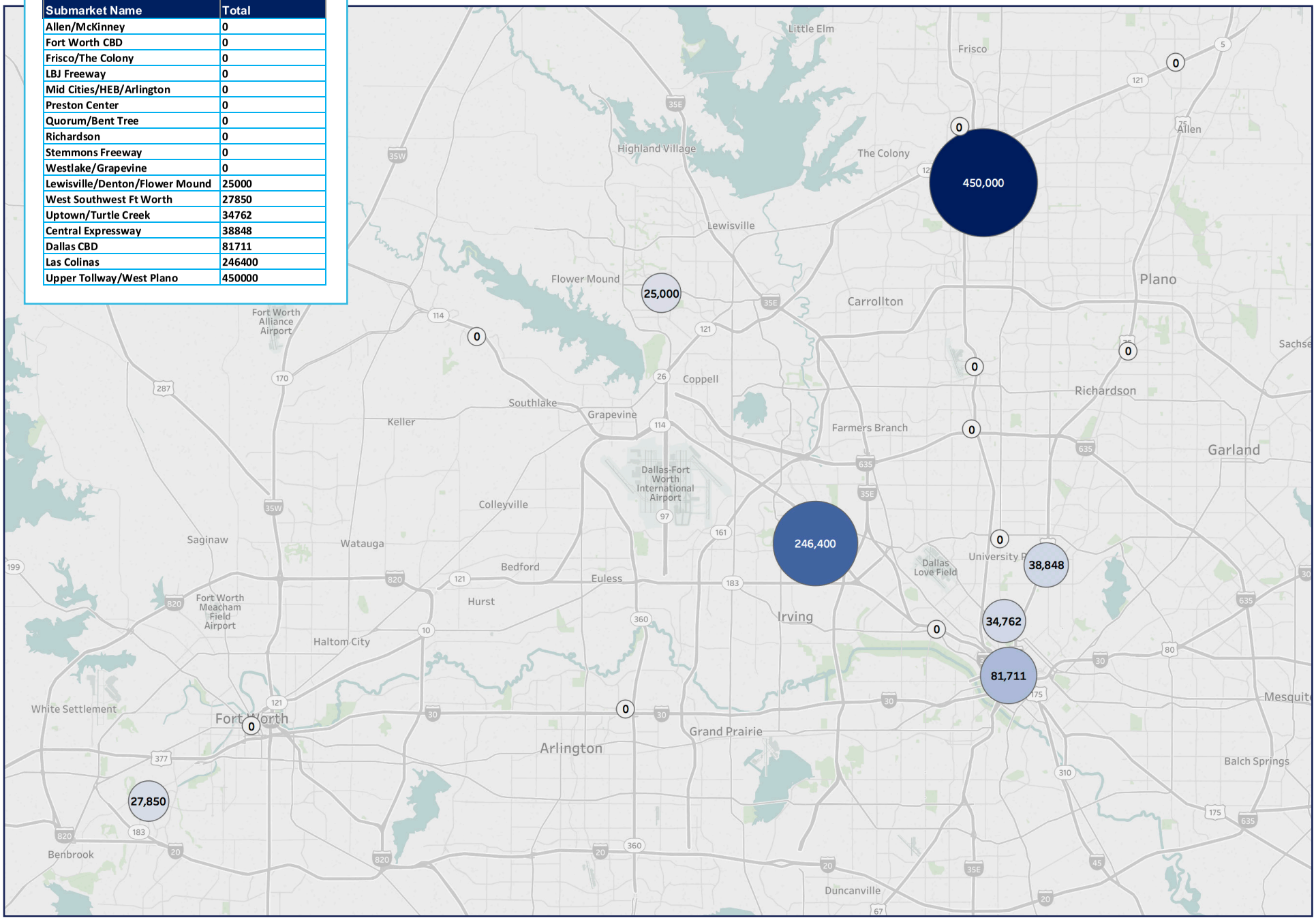


AVISON YOUNG

Year-to-Date Deliveries: **Total**

Q1 2019

Submarket Name	YTD Deliveries-Total
Allen/McKinney	0
Fort Worth CBD	0
Frisco/The Colony	0
LBJ Freeway	0
Mid Cities/HEB/Arlington	0
Preston Center	0
Quorum/Bent Tree	0
Richardson	0
Stemmons Freeway	0
Westlake/Grapevine	0
Lewisville/Denton/Flower Mound	25000
West Southwest Ft Worth	27850
Uptown/Turtle Creek	34762
Central Expressway	38848
Dallas CBD	81711
Las Colinas	246400
Upper Tollway/West Plano	450000



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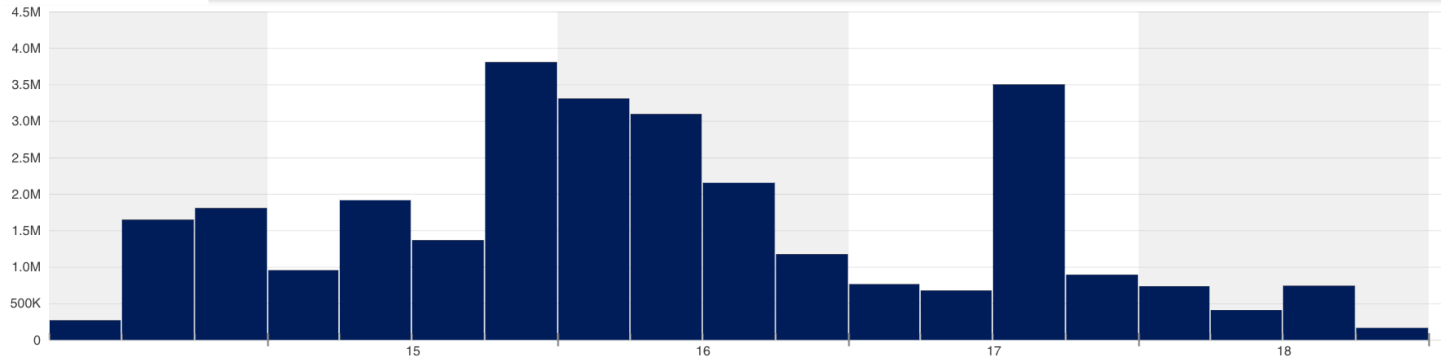
Construction Pipeline

Construction activity is tapering down from its cycle highs. 2018 saw a substantial drop in construction starts. The 5-year average of 12 month ranges for starts has been 5.7 MSF, and the current 12 month range is only at 1.2 MSF. This decline is mostly due to the drop in corporate campus construction, such as Toyota and Liberty Mutual, which each equated millions of SF.

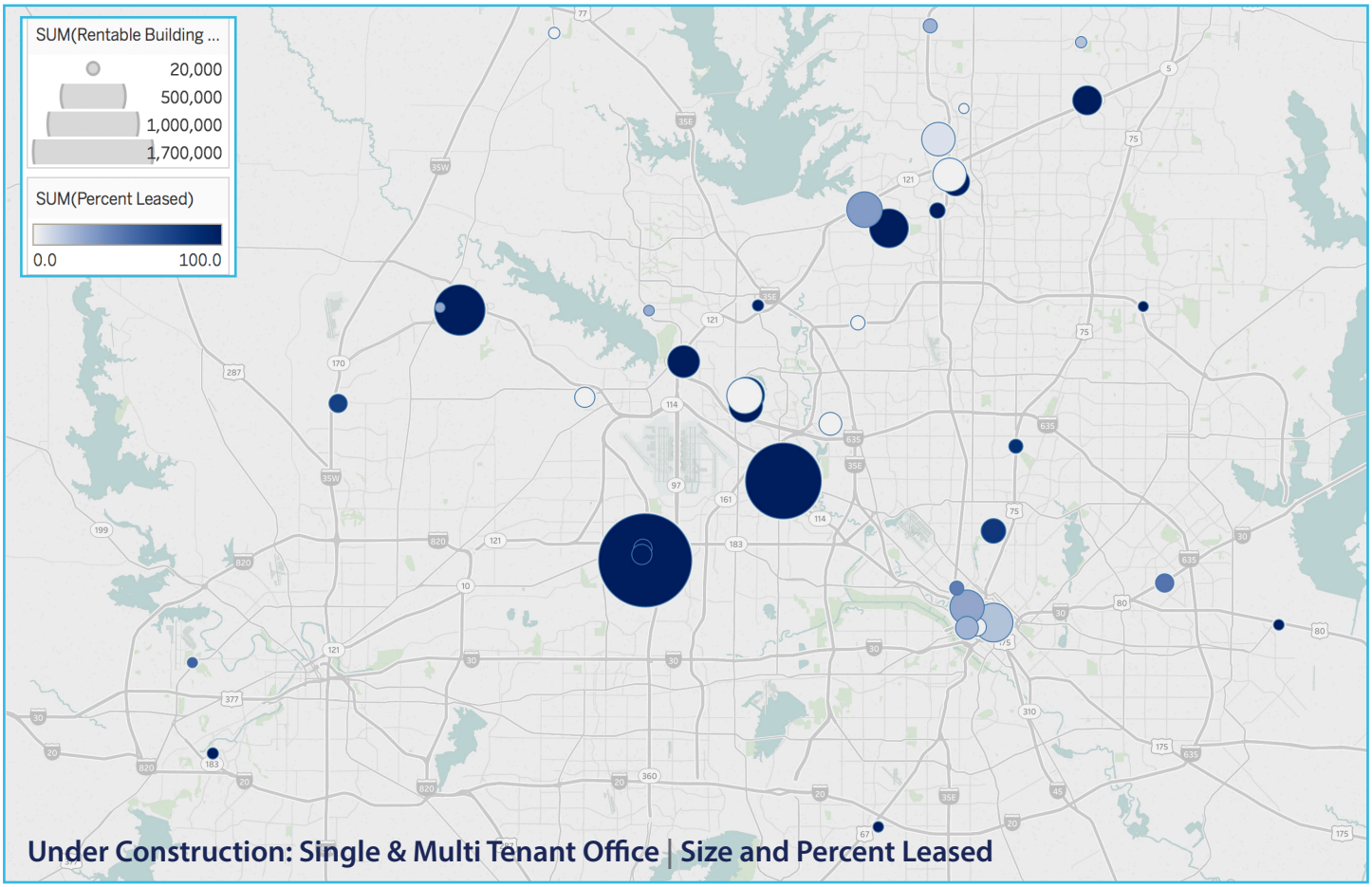
Rolling projects that started before 2018 have also dropped in volume or delivered. Total "under construction" volume is back in line with its 2013-2014 range, no longer at the intensity of its late 2015, 2016 and 2017 pace.

The largest projects currently underway are American Airlines Corporate HQ (1.7 MSF), Pioneer Natural Resources HQ (1.1 MSF) and Charles Schwabb Corporate HQ (500,000 SF), all of which are fully leased build-to-suits.

Construction Starts



Currently Under Construction



Under Construction: Single & Multi Tenant Office | Size and Percent Leased

Noteworthy Projects

American Airlines Corporate Campus
1,700,000 SF
Single Tenant
Delivers Dec. 2019

Hidden Ridge: Pioneer Natural Resources
1,125,000 SF
Single Tenant
Delivers July 2019

Charles Schwabb Corporate Campus
500,000 SF
Single Tenant
Delivers May 2019

AmerisourceBergen Specialty Group
300,000 SF
Single Tenant
Delivers March 2019

The Epic Deep Ellum
294,820 SF
Multi Tenant
Delivers March 2019
% Leased: 15.9%

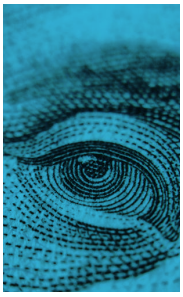
3201 Olympus Blvd
250,000 SF
Single Tenant
Delivers March 2019

3200 Olympus Blvd
250,000 SF
Multi Tenant
Delivers Oct. 2019
% Leased: 0.0%

The Realm at Castle Hills
248,387 SF
Multi Tenant
Delivers Aug. 2019
% Leased: 30.7%

Harwood No.10
231,098 SF
Multi Tenant
Delivers Dec. 2018%
Leased: 26.1%

coworking



Economic Outlook

PwC and Urban Land Institute recently named DFW as their top real estate market for 2019 for both residential and commercial. The report echoes sentiments seen across the board. Industry insiders are touting DFW's long-term growth prospects as a safe haven for future activity.

The area will continue to be a business friendly haven with general affordability, strong universities and community colleges, diverse economic strength, great public schools, ample developable land, myriad amenities, a well-educated young population that continues to grow, and momentum that seems to be rolling along.

Even if 2019 is not as strong as 2018, just maintaining the average annual employment growth rate for 2010 to present would put growth at 2.9%, or roughly 90,000-100,000 new jobs next year. If absorption, leasing activity, and construction trends continue, 2019 will most likely see a slight drop from recent highs and will reach a more stable, "steady as she goes" pace.

Threats are uncertainty in the political climate, the continued trade war, rising interest rates and borrowing costs, inflation, a tightening of business spending, near-full employment, declining immigration growth, an overheating of the market, rising unaffordability for homeownership and renters, and competition for other metros.

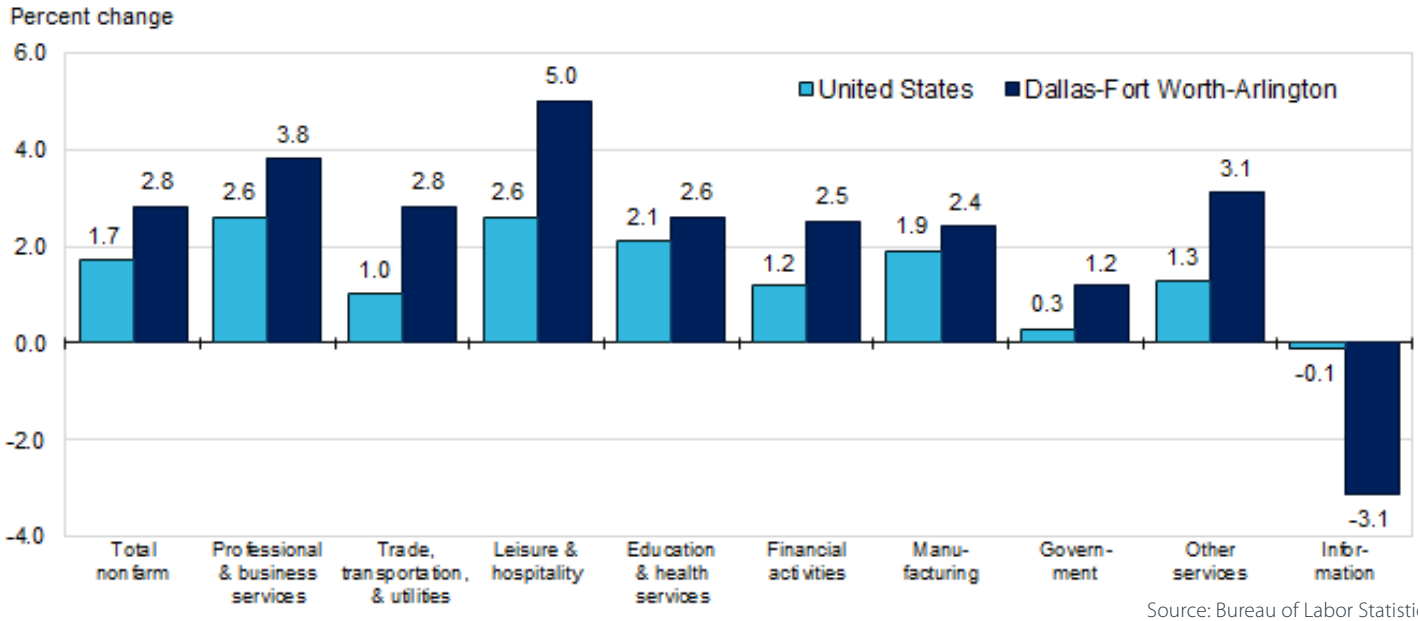
DFW has **42 Fortune 1,000 companies** located in the metro.

9 of 10 economic sectors reported growth in the last 12 months, with **Trade/ Transport./Utilities (21,400)**, and **Leisure and hospitality (18,800)** leading the way.

In the latest population estimates provided by the U.S. Census Bureau, the DFW area was ranked as the **second fastest-growing** metropolitan area in the U.S.

Total nonfarm employment in the Dallas-Fort Worth-Arlington Metropolitan Statistical Area stood at **3,730,600** in Feb. 2018, up **102,500** over the year.

Employment Growth by Sector



Source: Bureau of Labor Statistics

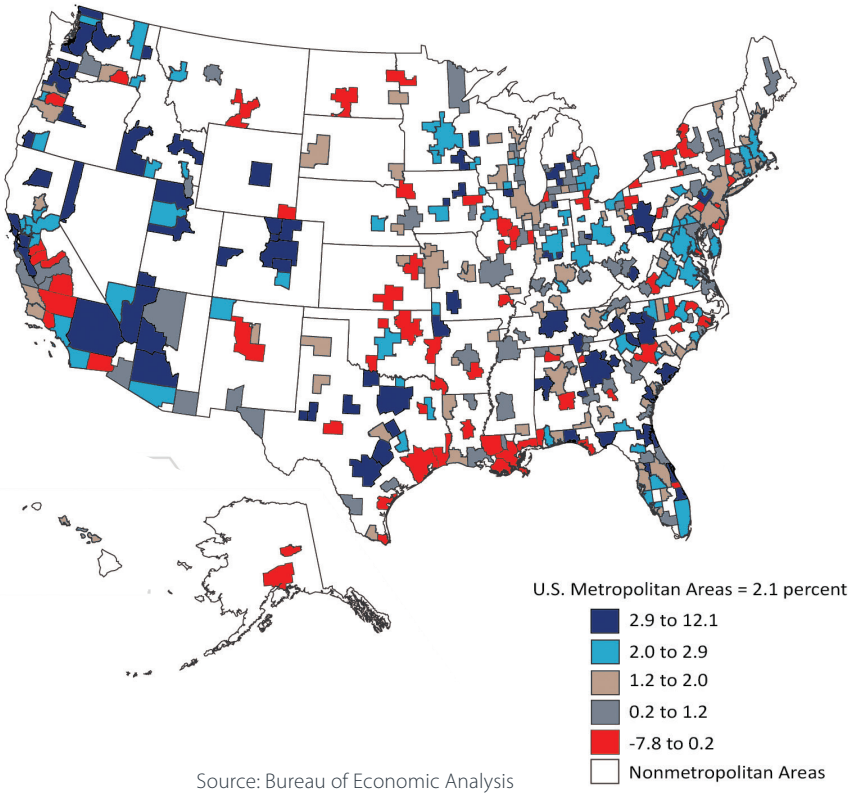
Economic Overview

While still awaiting official numbers, DFW currently has the 4th largest metro GDP in the country, according to the Bureau of Economic Analysis. Within Texas, the Dallas business cycle index had fastest YOY growth among major Texas metros.

10-year GDP growth for DFW was an impressive 22%, and 1-year GDP growth was 3.9%, the highest rate among major metros. This is compoundingly impressive when it it is considered that DFW is already the 4th largest metro in population and GDP, so to maintain this amount of growth shows that DFW is positioned to continue a healthy rate of expansion.

This GDP and job growth bodes well for office usage, as office-using sectors such as Financial activities & Professional/Business Services are performing well. Much of this is from corporate relocations, but their growth should help keep absorption high and vacancies even, especially if they are moving to BTS space.

Gross Domestic Product by Metropolitan Area, as of 2018



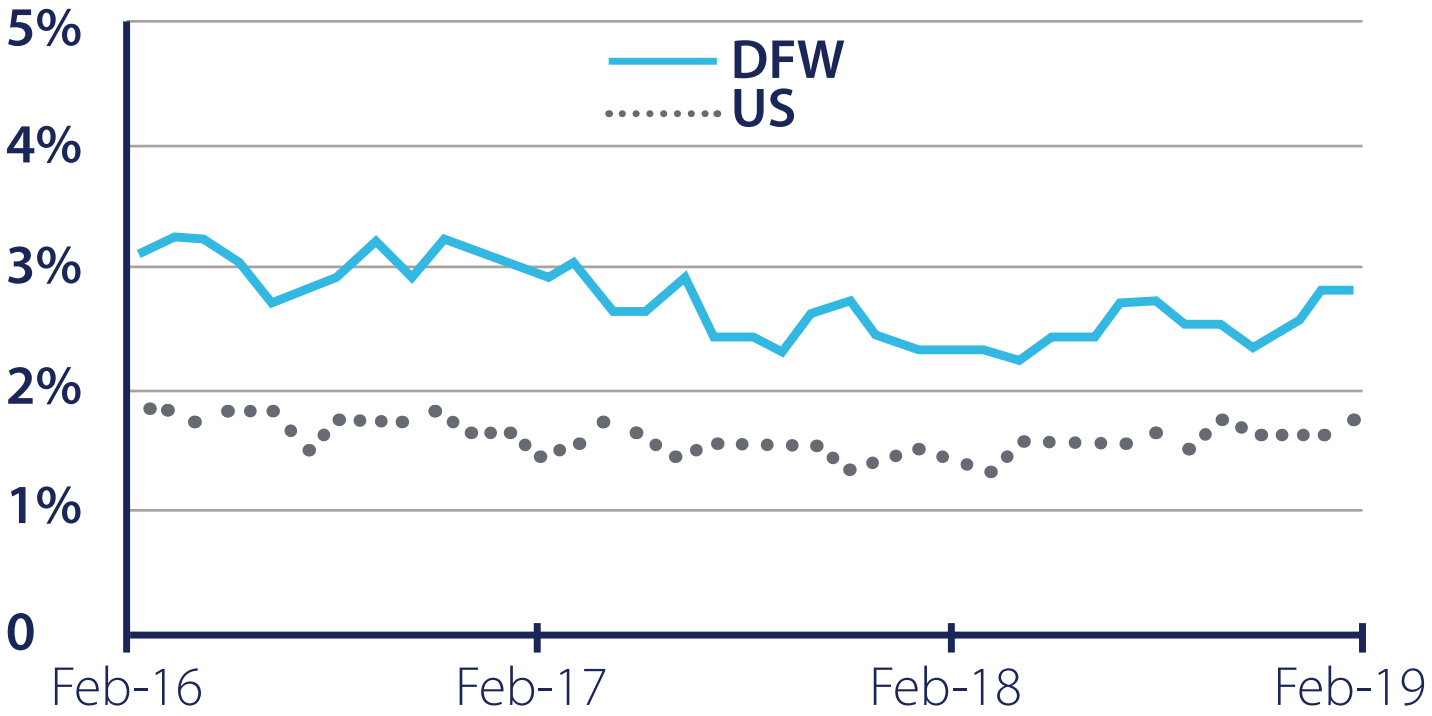
Source: Bureau of Economic Analysis

Metro	2016 GDP (Billions of Dollars)	2017 GDP (Billions of Dollars)	% Change
New York-Newark-Jersey City, NY-NJ-PA	1,662,671	1,717,712	1.3%
Los Angeles-Long Beach-Anaheim, CA	996,432	1,043,735	2.8%
Chicago-Naperville-Elgin, IL-IN-WI	657,589	679,699	1.5%
Dallas-Fort Worth-Arlington, TX	**503,667**	**535,499**	**3.9%**
Washington-Arlington-Alexandria, DC-VA-MD-WV	509,599	529,990	2.1%
San Francisco-Oakland-Hayward, CA	475,417	500,710	3.4%
Houston-The Woodlands-Sugar Land, TX	472,331	490,074	3.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	431,384	444,975	1.4%
Boston-Cambridge-Newton, MA-NH	419,783	438,684	2.8%

Contributions to Percent Change in Real Gross Domestic Product (GDP) for DFW (2017)

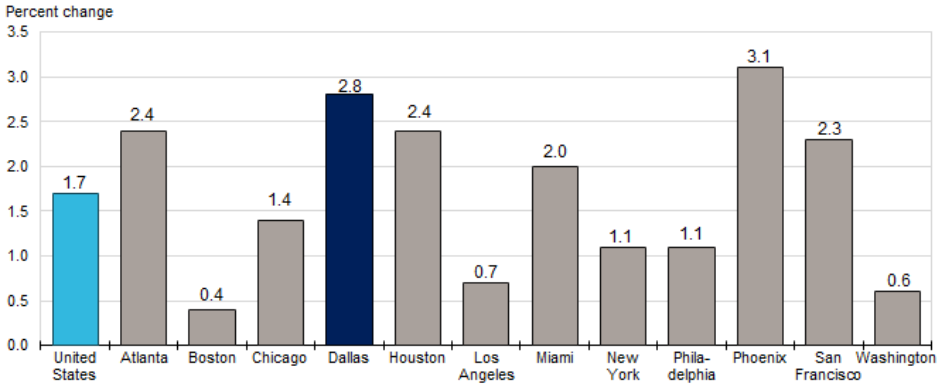
Percent change in real GDP by metropolitan area	Percentage points												
	Natural resources and mining	Construction	Durable-goods manufacturing	Nondurable-goods manufacturing	Trade	Transportation and utilities	Information	Finance, insurance, real estate, rental, and leasing	Professional and business services	Educational services, health care, and social assistance	Arts, entertainment, recreation, accommodation, and food services	Other services, except government	Government
3.9	**0.81**	**0.18**	**0.45**	**-0.12**	**0.16**	**0.30**	**0.13**	**1.06**	**0.52**	**0.26**	**0.08**	**0.03**	**0.04**

12-Month Percent Employment Growth



Source: US Bureau of Labor Statistics

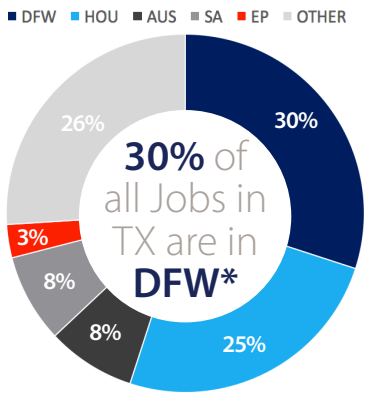
Total Year-Over-Year Employment Change: Major US Metros



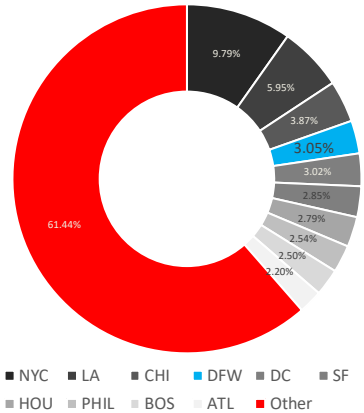
Source: U.S. Bureau of Labor Statistics.

3,730,600

DFW has as many jobs as Seattle-Tacoma-Bellevue metro has people



% National GDP by Metro



DFW accounts for over **3%** of national GDP

Texas Metro Comparisons

Unemployment & 12-Month Job Growth* (Based off most recent BLS data)

3.0%	3.6%	4.2%	3.4%
Austin	Dallas	Houston	San Antonio
+23,800	+102,500	+72,600	+22,900

Texas

3.8% Unemployment	+ 268,200 12-Month Job Growth

Nonfarm Employment and 12-Month Change by Industry Supersector (Numbers in thousands)

Metro	Total nonfarm	Mining, logging, and construction	Manufacturing	Trade, transportation, and utilities	Information	Financial activities	Professional and business services	Education and health services	Leisure and hospitality	Other services	Government
Dallas	**102.5**	**7.1**	**6.6**	**21.4**	**-2.6**	**7.6**	**22.8**	**11.7**	**18.8**	**3.7**	**5.4**
Houston	72.6	8.0	17.1	4.2	-0.8	2.4	17.0	11.8	0.0	6.6	6.3
Austin	23.8	-0.2	2.7	5.7	1.6	2.9	6.2	2.0	1.4	0.9	0.6
San Antonio	22.9	3.2	0.6	0.9	0.0	0.4	4.9	4.5	7.6	0.3	0.5

Dallas-Fort Worth area employment (numbers in thousands)	Feb. 2019	Change from Feb. 2018 to Feb. 2019	
		Number	Percent
Total nonfarm	3,730.6	102.5	2.8
Mining, logging, and construction	221.0	7.1	3.3
Manufacturing	281.1	6.6	2.4
Trade, transportation, and utilities	790.6	21.4	2.8
Information	81.3	-2.6	-3.1
Financial activities	307.1	7.6	2.5
Professional and business services	626.8	22.8	3.8
Education and health services	459.2	11.7	2.6
Leisure and hospitality	392.3	18.8	5.0
Other services	123.7	3.7	3.1
Government	447.5	5.4	1.2

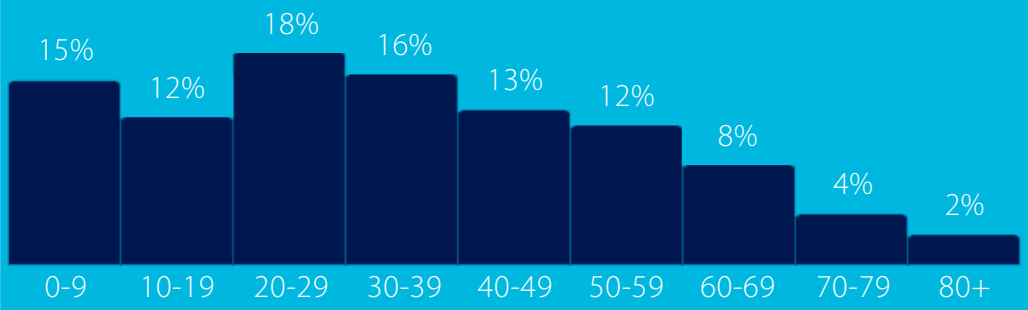
Austin area employment (numbers in thousands)	Feb. 2019	Change from Feb. 2018 to Feb. 2019	
		Number	Percent
Total nonfarm	1,078.1	23.8	2.3
Mining, logging, and construction	62.9	-0.2	-0.3
Manufacturing	61.8	2.7	4.6
Trade, transportation, and utilities	182.0	5.7	3.2
Information	33.5	1.6	5.0
Financial activities	64.6	2.9	4.7
Professional and business services	188.6	6.2	3.4
Education and health services	126.4	2.0	1.6
Leisure and hospitality	127.9	1.4	1.1
Other services	45.6	0.9	2.0
Government	184.8	0.6	0.3

Houston area employment (numbers in thousands)	Feb. 2019	Change from Feb. 2018 to Feb. 2019	
		Number	Percent
Total nonfarm	3,120.3	72.6	2.4
Mining and logging	81.7	3.8	4.9
Construction	220.8	4.2	1.9
Manufacturing	240.8	17.1	7.6
Trade, transportation, and utilities	621.6	4.2	0.7
Information	30.9	-0.8	-2.5
Financial activities	165.1	2.4	1.5
Professional and business services	504.0	17.0	3.5
Education and health services	401.3	11.8	3.0
Leisure and hospitality	316.1	0.0	0.0
Other services	115.9	6.6	6.0
Government	422.1	6.3	1.5

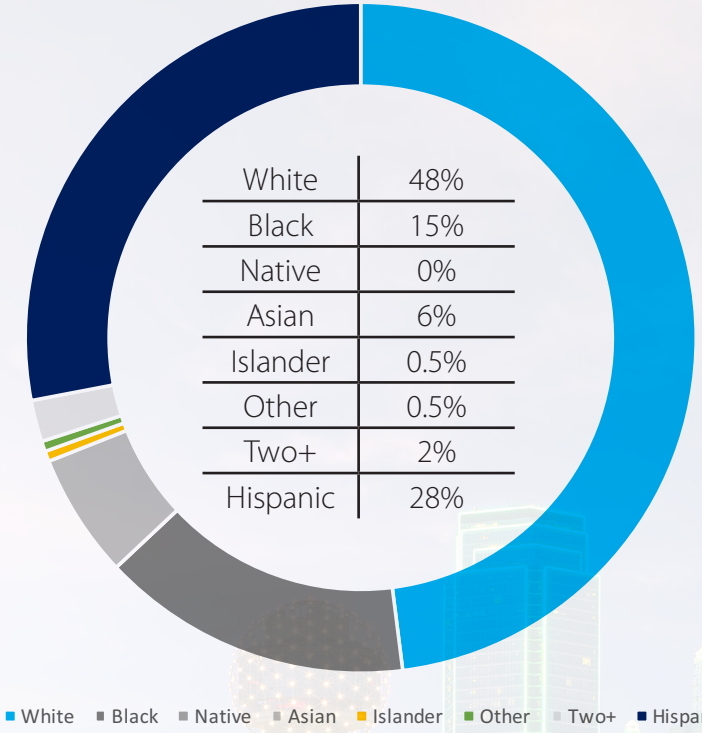
San Antonio area employment (numbers in thousands)	Feb. 2019	Change from Feb. 2018 to Feb. 2019	
		Number	Percent
Total nonfarm	1,066.1	22.9	2.2
Mining and logging	10.4	1.3	14.3
Construction	54.5	1.9	3.6
Manufacturing	50.4	0.6	1.2
Trade, transportation, and utilities	180.1	0.9	0.5
Information	20.8	0.0	0.0
Financial activities	91.6	0.4	0.4
Professional and business services	142.4	4.9	3.6
Education and health services	167.0	4.5	2.8
Leisure and hospitality	137.5	7.6	5.9
Other services	38.1	0.3	0.8
Government	173.3	0.5	0.3

Metro Area Demographics

34.7
Median Age

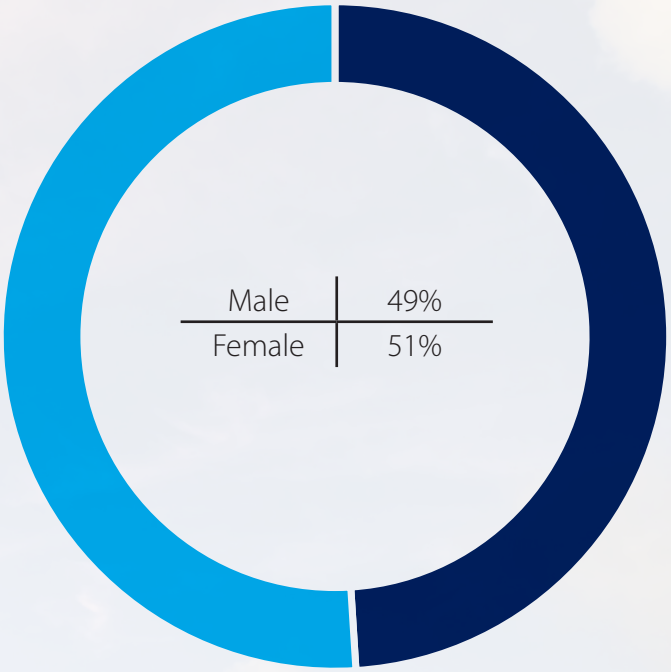


Source: Census.gov



White	48%
Black	15%
Native	0%
Asian	6%
Islander	0.5%
Other	0.5%
Two+	2%
Hispanic	28%

White Black Native Asian Islander Other Two+ Hispanic



Male	49%
Female	51%

Male Female

$63,812
Median household income

28.5
Mean travel time to work in minutes

2,878,771
# of Households

2019 Predictions

Avison Young is tracking over 15 MSF of leases expiring in the next 2 years. This, coupled with build-to-suits, co-working, and corporate relocations seeking greener pastures, means 2019 should maintain a healthy, though slightly softened market.

Of those set to sign new leases, many will be facing the new "sticker shock", as average gross rents in the metro have gone up over $5/SF in the last 7 years. This could lead to a slight reshuffling of tenant structures per submarket, as some tenants are forced to leave current locations for more practical and affordable options.

15,584,241 SF Due to Expire

Looking ahead, rising intereste rates, fears and uncertainty surrounding the economy, political turmoil, tariffs and trade, employee shortages, and potential economic downturns will likely slow the momentum that carried the last five years, but

Trends to Watch: (In no specific order)

Experience-Driven Spaces
Amenities Arms Race
Co-coworking Cohabitation- Rise of the shared-work ecosystems: sharing space, resources, and talent
Workspace Strategies will continue to scale down lease footprints
NNN or bust as more landlords embrace the lease structure over + E
More green space and green certifications
Uncertainty
Opportunity Zones
Rental Rate growth softening- Rents probably won't rise $1/yr, but closer to $0.40
At least 2 Fed interest rate hikes
Peak employment will see businesses offering more incentives to attract and retain talent
Investor demand for safer U.S. assets will keep transaction volume strong
More "Proptech" integration as it becomes an industry buzz word (Property technology for real estate markets)
Downtown Dallas will continue its urban revival as more people move to the city core
Investors will focus more on Industrial and Mult-family, and less on Office
Secondary and tertiary markets will gain more momentum as investors seek out better yield
The yield curve recession curse- The yield spread on the 10 yr-2 yr Treasuries could invert in early 2019
Flexible leasing will become more popular as companies embrace the lack of long term lease obligations
Construction industry will continue grappling with labor shortages and high costs
Companies will try to use HQ2's influence to gain as much financial support from cities as possible
Dallas will see the flight to quality continue as older and class B product continue to lose tenants
Records will be set on price per/SF for office building sales

All this and more! For more information, please reach out to Avison Young's research team and keep an eye out for the 2019 Forecast, coming soon.

Looking **Ahead**

Dallas arguably came out of the post-recession cycle stronger than any other metro in the country. Job and population growth fueled record demand in all CRE industries. Responsible construction practices and major build-to-suits helped keep vacancies consistent with historic trends, and looking ahead, Dallas is positioned to be stronger than ever.

Avison Young projects 2018 to finish as strong as it started. While momentum has slowed from cycle highs, the market remains one of the healthiest in the country. As 2019 approaches, we look forward to continuing our partnership with you.

Best,

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