

Developers Remain Active as Corporations Continue to Capitalize on North Texas

Newfound interest in Fort Worth headlines rising demand for urban offices. An infusion of white-collar jobs and a business-friendly environment will support strong leasing activity this year despite more than 8 million square feet of new space coming to fruition. The metro's urban cores will drive the continued improvement of the Dallas/Fort Worth office market as availability in these areas is squeezed tighter. Downtown Fort Worth is attracting an increasing number of businesses as this area and its amenities become more compatible with young professionals, boosting the talent pool. In addition, Dallas' core remains a primary beneficiary of booming economic growth witnessed across North Texas over the past several years.

Corporate interest in the Metroplex continues to grow. The new corporate campuses of American Airlines and Pioneer Natural Resources make up more than a third of this year's deliveries. AmerisourceBergen and Charles Schwab will also establish new offices in the Metroplex, adding to the list of high-profile companies building a broad footprint in the Dallas/Fort Worth area. Quickly growing northern suburbs comprise much of the new square footage in 2019, with cities like Coppell, Plano and Westlake leading the way. Here, numerous office buildings in the 150,000- to 250,000-square-foot range will be completed this year, housing corporations as well as younger companies seeking an upgrade from their current locations.

Office 2019 Outlook



8.1 MILLION SQ. FT.
will be completed

CONSTRUCTION:

Development climbs more than 25 percent relative to a year ago as 8.1 million square feet is completed. This total still sits more than 2.3 million square feet below the cyclical high posted in 2017.



0 BASIS POINT
change in vacancy

VACANCY:

Strong net absorption will keep vacancy harnessed at 18.9 percent this year. During the previous two years, the rating inched up 20 and 70 basis points.

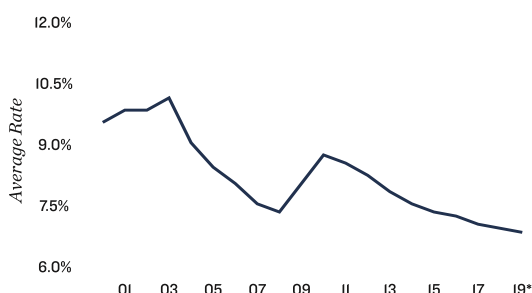


2.2% INCREASE
in asking rents

RENTS:

The average asking rent remains relatively affordable compared with the nation's other major metros as the figure rises to \$25.89 per square foot this year.

Local Office Yield Trends



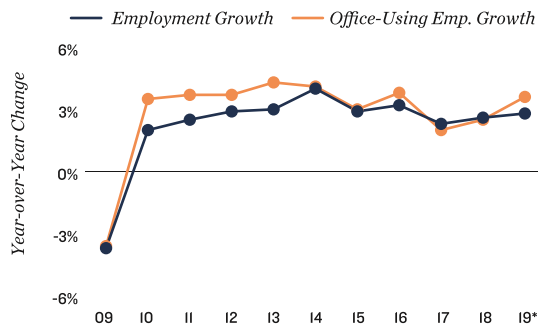
* Cap rates trailing 12 months through 1Q19

Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- Northern parts of the Metroplex remained highly targeted by private and institutional investors. Addison and Plano had no shortage of buyers for their diverse pool of listings, mostly ranging from 50,000 to 200,000 square feet. The majority of these properties were stabilized, netting initial yields in the upper-6 to lower-7 percent band, in line with the market average.
- Investors focused heavily on Las Colinas as the area's proximity to DFW International Airport and central location between the metro's primary cities make it a desired neighborhood for corporations and other high-profile businesses. Cap rates in the mid-7 percent band attracted a mixed bag of investors; however, institutional capital consumed a sizable portion of transaction velocity.
- Class C space in and around Downtown Fort Worth garnered interest from a variety of private buyers. Sales prices for a number of the trades in this area sat under \$1 million as assets were generally in the 15,000- to 20,000-square-foot realm.

Employment Trends



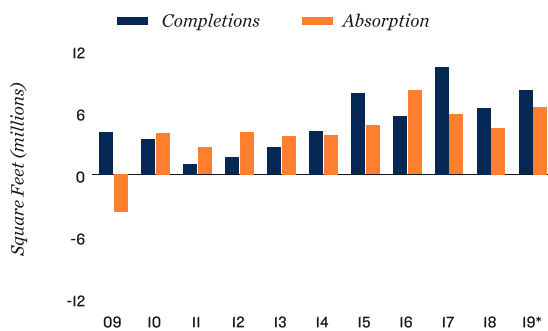
IQ19 – 12-Month Trend

EMPLOYMENT

2.9% increase in total employment Y-O-Y

- Roughly 106,000 workers were staffed over the past year, a third of which consisted of office-using professions. An influx of tech and management-related positions supported a gain of 25,900 employees to professional and business services — the most of any sector.
- Strong hiring activity pushed the market's unemployment rate down nearly 20 basis points to 3.4 percent.

Office Supply and Demand

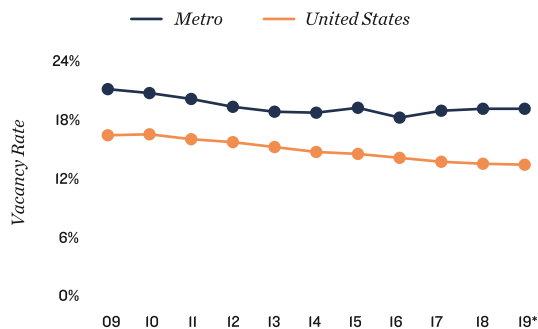


CONSTRUCTION

4.9 million square feet completed Y-O-Y

- Development significantly slowed down from the previous year when 10.6 million square feet was completed. Highly amenitized luxury space continues to drive construction.
- Inner-ring neighborhoods registered the most new construction since last March as the Far North Dallas and Uptown/Turtle Creek submarkets each added over 1.0 million square feet.

Vacancy Rate Trends

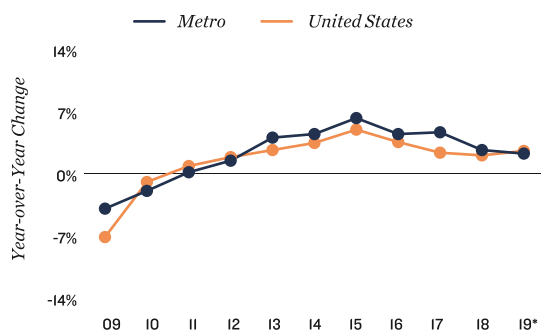


VACANCY

20 basis point decrease in vacancy Y-O-Y

- Market vacancy drifted down to 18.6 percent as nearly 5 million square feet of space was absorbed. One year earlier, the measure rose 20 basis points.
- The submarkets comprising the city of Fort Worth boast some of the lowest vacancy measures in the entire Metroplex, highlighted by North Fort Worth, which sits at 9.2 percent following a 530-basis-point decrease.

Asking Rent Trends



RENTS:

2.2% increase in the average asking rent Y-O-Y

- Rent growth in the Metroplex maintained its steady downward trend, rising 2.2 percent to an average of \$25.43 per square foot.
- Class B/C space continues to outpace Class A properties in rent growth. The two tiers witnessed the average asking rent rise by 2.9 and 1.2 percent, respectively, over the past 12 months.

* Forecast

Source: CoStar Group, Inc.

Demographic Highlights



2019 Forecast Job growth

Metro **2.8%**
U.S. Average 1.3%



2019 Office-Using Job growth

Metro **3.6%**
U.S. Average 1.7%



Population Age 20-34*

Metro **21.2%**
U.S. Average 20.6%



Population of Age 25+ Percent with Bachelor Degree+**

Metro **32.7%**
U.S. Average 29.9%



Sq. Ft. Per Office Worker*

Metro **299**
U.S. Average 215

Office Square footage*



12.0% Urban
U.S. Average 32.0%



88.0% Suburban
U.S. Average 68.0%

*1Q19
**2018

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19*

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Southwest Dallas	7.0%	-60	\$20.86	-1.9%
North Fort Worth	9.2%	-530	\$23.44	4.3%
South Fort Worth	10.2%	40	\$24.44	1.4%
Preston Center	12.5%	-140	\$37.70	-0.6%
Fort Worth CBD	12.9%	-30	\$25.80	3.9%
East Dallas	13.6%	310	\$22.76	18.1%
Grand Prairie-South Irving	14.4%	-80	\$18.63	6.0%
Lewisville-Denton	14.4%	260	\$21.97	3.2%
Mid-Cities	15.3%	-30	\$21.79	2.7%
Central Expressway	15.8%	0	\$29.17	4.7%
Overall Metro	18.6%	-20	\$25.43	2.2%

*Includes submarkets with more than 100,000 square feet of inventory

SALES TRENDS

Deal Flow, Asset Appreciation Edge Higher; Value-Add Properties in Limited Supply

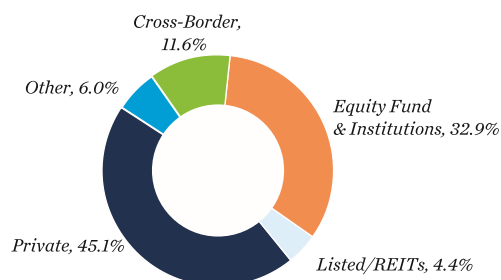
- With an abundance of stabilized properties on the market, transaction volume increased 22 percent year over year as investors were eager to establish themselves in the Metroplex. Strong buyer demand supported a 20-basis-point drop the average cap rate to 6.8 percent.
- Asset appreciation was strong since last March, posting a 10 percent gain and putting the average price per square foot at \$219.

Outlook: While value-add properties will remain sparse, adequate levels of fully leased stabilized assets will keep Dallas/Fort Worth an active investment market.

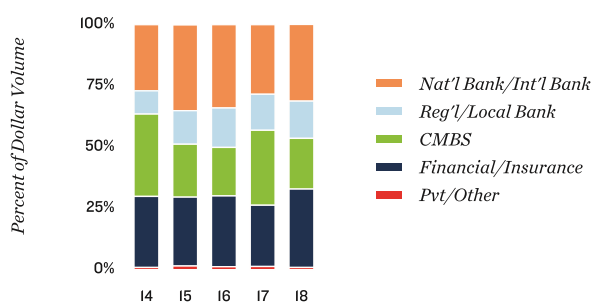


** Trailing 12 months through 1Q19 over previous time period
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

IQ19* Office Acquisitions By Buyer Type



Office Mortgage Originations By Lender



* Trailing 12 months through 1Q19
Include sales \$2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

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CAPITAL MARKETS

By DAVID G. SHILLINGTON, President,
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- **Ongoing trade concerns weigh on growth outlook; Fed plots next steps.** Amid rising trade tensions between the U.S. and China and slowing global growth, the outlook has turned more cautious. Market volatility, along with a flight to safety trade, has flattened the yield curve dramatically, with the 10-Year Treasury trading below 2.2 percent. This has pushed the broader yield curve into inversion, a closely watched precursor to a potential recession. Meanwhile, many measures of the domestic economy remain buoyant, including continued job and wage growth, historically low unemployment and muted inflationary pressure. These conditions have prompted a dichotomy, with Federal Reserve officials signaling more accommodative policies. The impending end of quantitative tightening in September, coupled with potential cuts to the Fed funds rate in the second half of the year, highlight the shift in Fed policy. As a result, long-term interest rates are likely to remain subdued, with Fed policy leaning toward accommodation.

- **Conservative underwriting balances abundant marketplace liquidity.** While debt availability for office assets remains widely available from a wide range of sources including local, regional and national banks and insurance companies, sentiment surrounding the health of the economy has fallen somewhat in recent months. Lenders remain broadly cautious in underwriting, with loan-to-value (LTV) ratios typically in the 55 to 70 percent range, depending on the borrower, asset and location. The conservative approach has filtered into a focus on proven property results, with much less willingness to lend against pro forma rents. This has prompted investors to turn toward short-term mezzanine debt and bridge loans to cover capital improvements, while seeking long-term solutions once returns have been solidified. Construction origination remains muted, with lenders focusing on core locations with proven demand.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau