

# Dallas



## Market Facts

129,700

Jobs added in the last year, a 3.8% increase in employment.

4.3%

Unemployment in Dallas.

11.8

Million square feet currently under construction.

14.9%

The Dallas office vacancy rate remains near record-lows.

## Market Overview

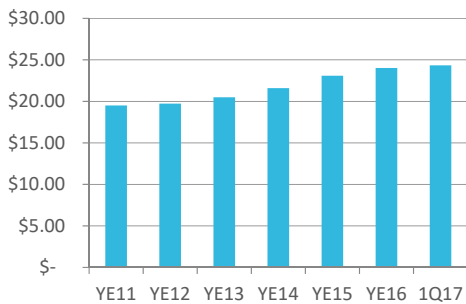
The booming Dallas-Fort Worth (DFW) market continues to thrive at the start of 2017. DFW has consistently posted strong employment gains dating back to 2010. In the last 12 months ending in March, the Dallas metro area added 129,700 jobs, a 3.8% increase in employment. Employment gains were broad-based with all economic sectors experiencing year-over-year job growth. The strong economy continues to draw people to the metro area. 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. with a weekly net gain of 2,474.6 people. Sustained high growth has attracted an increasing number of investors competing for Dallas real estate. The Urban Land Institute (ULI) consistently names Dallas as a top market to watch in the U.S. in its Emerging Trends in Real Estate report. Dallas was ranked No. 1 in 2016 and No. 2 in 2017. The report cites that the Dallas economy survived the global financial crisis better than most other U.S. markets, and real estate fundamentals continue to avoid the boom and bust behavior that has

plagued the market in the past. The DFW market is expected to progress even further throughout 2017 with the financial services, technology and healthcare sectors leading the way.

2016 was one of the best years on record in the Dallas office market in terms of leasing and construction activity. Remarkably, this high level of activity has continued into the first quarter of 2017. The majority of construction belongs to large corporate campuses, although speculative construction has picked up steam in the past year to address the growing demand. Asking rates, particularly in new construction and recently-renovated buildings, have increased substantially. Strong demand is expected to have a continued upward pressure on rents in 2017. Even though rates have increased significantly, they remain well-below other major markets. Affordable rates have given the Dallas office market a competitive edge when recruiting major corporations to the city.



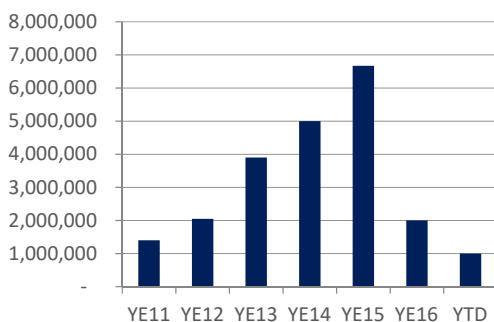
### Asking Rates



### Historical Vacancy Rate



### Historical Net Absorption



### Absorption & Demand

The Dallas office market recorded 1.0 msf of positive net absorption in the first quarter. One of the largest occupancies this quarter occurred in the Las Colinas submarket where Shelton School leased 317,000 sf at 17301 Preston Rd, which was formerly occupied by State Farm. 2016 was one of the best years on record in terms of leasing activity, indicating that 2017 will be a strong year for absorption gains as these tenants continue to occupy the leased space. An additional 5.0 msf of space was leased in the first quarter. Leasing activity was strong in both new and existing products. Office tenants in the Dallas market continue to make real estate decisions based on recruiting and retention, with an increased emphasis on improved amenities.

### Vacancy & Availability

Dallas' vacancy rate increased by 20 basis points from the previous quarter but remains near historically-low levels at 14.9%. Vacancy was 14.6% at this point last year. The increase in vacancy from the previous quarter was due to new construction deliveries slightly outpacing absorption gains. Even though a significant amount of development has delivered in the past year, demand is keeping pace with the new supply. Many large tenants are opting to expand into new space in an effort to attract and retain a talented workforce. The space left behind is quickly backfilled, causing vacancy to remain relatively stable even as new construction continues to deliver to the market. Market conditions are expected to remain tight in 2017. Many submarkets have dipped into single-digit vacancy, including Uptown/Turtle Creek, and Frisco/The Colony, and Preston Center. Vacancy in Downtown Dallas continues to

decrease and now registers 21.1%.

### Asking Rates

Overall asking rates have increased substantially in the last 12 months due to high demand and increased operating costs. Asking rates have increased by 7.4% from the previous year to \$24.34 per square foot (psf). Many tenants are experiencing sticker shock as their leases come up for renewal. Rental rate growth has primarily come from Far North Dallas, Uptown, and the Dallas CBD. Class A asking rates continue to be lower in Downtown Dallas than in the suburbs, although the gap is slowly closing as rates in the CBD are increasing at a faster pace.

Affordable rates have given the Dallas office market a competitive edge when recruiting major corporations to the city. Although rates remain low compared with other major metro areas, the sharp increase in rates experienced in the last two years may begin to lessen the metro's competitive edge. Asking rates are projected to continue increasing in 2017. However, asking rates will likely increase at a slower pace than what was previously experienced- a welcomed change for tenants in the market.

### Construction

The Dallas office market's building boom has over 11.8 msf under construction, the most development to occur in over 10 years. The space currently under development is 52% preleased. The largest projects currently underway include Toyota's 2.1-msf campus, and the Liberty Mutual Campus (1.1 msf). Both projects are located in the Upper Tollway/West Plano submarket. Over 2.1 msf delivered in the first quarter. Construction activity will remain active in 2017 with many large-scale projects still underway.

### Notable 1Q17 Completions

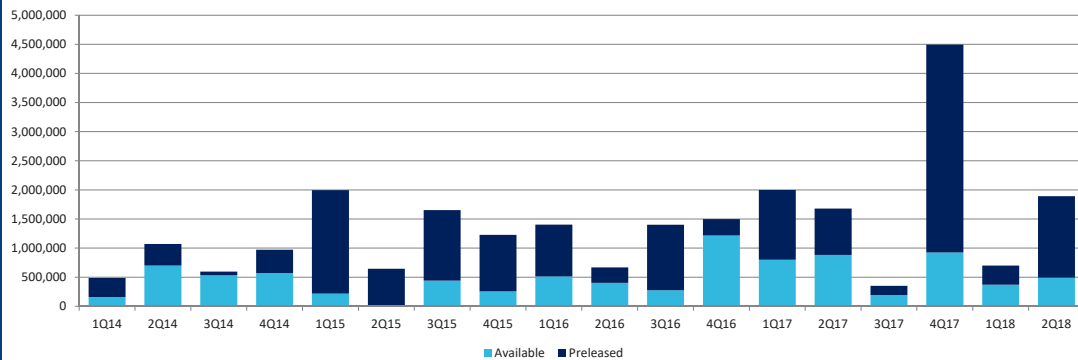
**Legacy West** (377,441 sf). *Upper Tollway/West Plano*

**One Legacy** (307,767 sf). *Upper Tollway/West Plano*

**Hillwood HQ** (200,000 sf). *Uptown/Turtle Creek*

**Capital One Bldg 7** (205,000 sf). *Upper Tollway/West Plano*

### Construction Timeline



### 1Q17 Activity

- Shelton School occupied 317,000 sf at 17310 Preston Rd., located in the Las Colinas submarket. The space was formerly occupied by State Farm.
- NTT Data signed a 127,000-sf lease at One Legacy West, located in the Upper Tollway/West Plano submarket.
- Crawley Partners broke ground on Fourteen555 in the Quorum/Bent Tree submarket. The development consists of a north and a south building each totaling 240,000 sf. Occidental Petroleum has preleased 120,000 sf in the north building.
- Dallas developer Craig Hall proposed plans for a mixed-use development known as Hall Park at Richardson, which

could transform a 30-acre tract of undeveloped land at Custer Pky & President George Bush Turnpike. The development plans include two office buildings totaling 300,000 sf, seven apartment buildings totaling 417 units, a parking garage, and retail space.

- Capital One occupied its newly-delivered building totaling 205,000 sf. The regional campus now totals 1.5 msf and has roughly 5,000 employees at the location. The tech-savvy new building increased collaboration space at the campus.
- The new Hillwood Headquarters building delivered in the first quarter. The building totals 200,000 sf and is located at 3000 Turtle Creek Blvd.

### Trends to Watch



Dallas has 21 Fortune 500 companies located in the metro, up from 18 in 2014.



All economic sectors reported growth in the last 12 months, with Financial Activities (4.6%), and Trade, Transportation & Utilities (3.8%) leading the way.



According to the National Association of Realtors, median home prices in DFW increased by 11.8% in 2016.



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For more information, please contact:

Jeannie Tobin  
 Research Director  
 512.913.4438  
 jeannie.tobin@avisonyoung.com



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For more information, please contact:

Jeannie Tobin  
Research Director  
512.913.4438  
[jeannie.tobin@avisonyoung.com](mailto:jeannie.tobin@avisonyoung.com)

