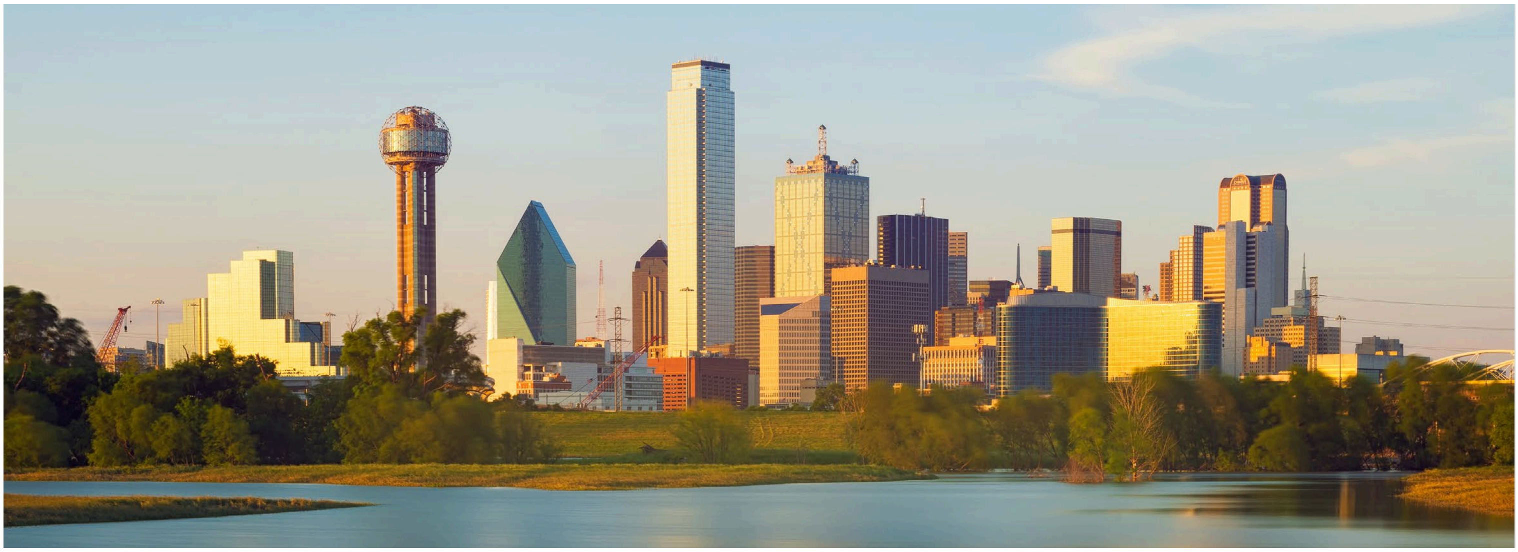
Second Quarter 2017 / Office Research Report

Dallas



Market Facts

115,300

Jobs added in the last year, a 3.3% increase in employment.

4.0%

Unemployment in Dallas.

11.0

Million square feet currently under construction.

14.6%

The Dallas office vacancy rate remains near record-lows.

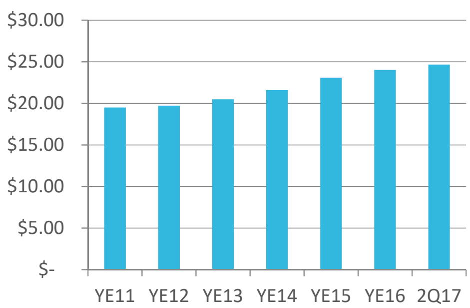
Market Overview

The Dallas-Fort Worth (DFW) office market has sustained an incredibly high level of activity for the past three years, resulting in falling vacancy, rising asking rates, and a booming construction pipeline. Dallas has a low cost of living and a favorable business climate, which continues to attract employers to the metro area.

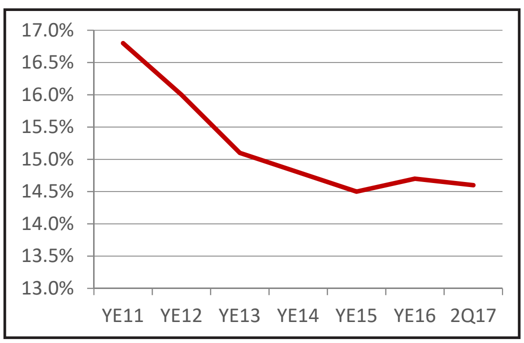
In the latest population estimates provided by the U.S. Census Bureau, the DFW area was ranked as the second fastest-growing metropolitan area in the U.S. with a weekly net gain of 2,474 people. The ongoing population boom is driving demand for industrial users, particularly from e-commerce suppliers as online shopping grows in popularity. To keep up with the growing demands of e-commerce consumers, distributors are expanding in DFW to improve connectivity and efficiency. The vibrant economy and centralized location make Dallas an ideal hub for warehouse and distribution properties.

Employment in the DFW metropolitan area has increased by 3.3% in the past year. The booming Dallas-Fort Worth (DFW) market continues to enjoy impressive employment gains and shows no signs of slowing down. Employment gains were broad-based with most economic sectors experiencing year-over-year job growth. 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 in 2017 with the financial services, technology and healthcare sectors leading the way.

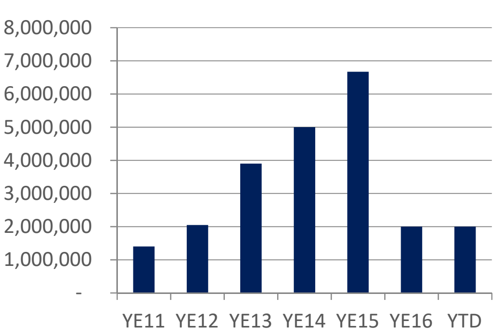
Asking Rates



Historical Vacancy Rate



Historical Net Absorption



Absorption & Demand

The Dallas office market recorded 415,977sf of positive net absorption in the second quarter, totaling over 2.0 msf at the mid-year point. 2016 was one of the best years on record in terms of leasing activity, indicating that the remainder of 2017 will be a strong year for absorption gains as these tenants continue to occupy the leased space. An additional 7.5 msf of space has been leased this year. 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. Many tenants are leaving existing buildings to expand into new construction. In an effort to compete with the substantial amount of new product delivering to themarket, many older buildings are either offering concessions or undergoing renovations.

Vacancy & Availability

Dallas' vacancy rate decreased by 30 basis points from the previous quarter and remains near historically-low levels. Vacancy reached 14.4% at mid-year 2016, the lowest vacancy rate to be recorded in a decade. Despite over 5.5 msf delivering to the market since that time, vacancy has only risen by 20 basis points to 14.6% at mid-year 2017. 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 throughout 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 21.0%.

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 2.2% from the previous year to $24.66 per square foot (psf). The new construction is in large part driving rental rate appreciation. In the past year, Class A rates have appreciated by 2.6% while Class B rates have remained relatively unchanged. Strong demand is expected to have a continued upward pressure on rents throughout the remainder of 2017.

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

An additional 11.0 msf is currently under construction with 68% preleasing. Large corporations continue to announce expansion plans in the Dallas market, keeping build-to-suit construction activity high. In the past year, speculative construction activity has increased to address the growing demand for new product. The current speculative construction pipeline is only 20% preleased, so this space will help to alleviate the tight market conditions upon delivery.

Notable 2Q17 Completions

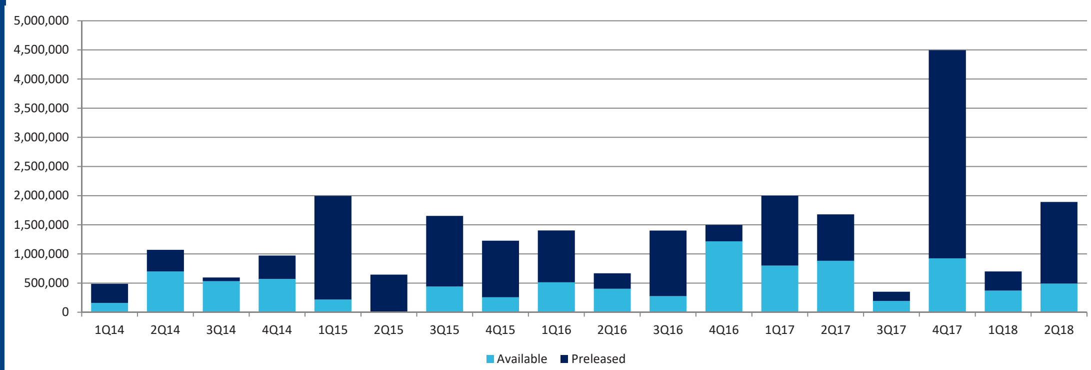
Toyota Phase I (400,000 sf). *Upper Tollway/West Plano*

1915 Hurd (339,359 sf). *Las Colinas*

D.R. Horton HQ (200,000 sf). *Arlington/Mansfield*

Connection Park II (141,219 sf). *Las Colinas*

Construction Timeline



2Q17 Activity

- The first phase of **Toyota's** new $300 million corporate campus delivered in the second quarter totaling 400,000 sf. The remaining 1.7 msf will deliver later this year. Toyota plans to house 4,000 employees at the North American headquarters by December.

- **Billingsley Co.** began construction on a new project in Cypress Waters called **The Sound.** The development will include office space, apartments, and retail. Construction began on the first spec office building at 3100 Olympus totaling 250,000 sf in the second quarter. **Brinker International** preleased the entire second office building totaling 216,400 sf, which will begin construction later this year. 500 employees will occupy the location when it is completed in late 2018.

- Cawley Partners broke ground on **Fourteen555** in the first quarter. 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. The south building is slated to break ground in the third quarter.

- **Stream Energy** took occupancy of its new corporate office at 14675 Dallas Pky. The company relocated from Stemmons Freeway to the new location totaling 55,226 sf. The move places the company along the "Platinum Corridor" along the Dallas North Tollway, which has recently attracted other major energy companies.

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 Leisure & Hospitality (5.9%), Professional & Business Services (5.4%), and Financial Activities (4.3%) 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.

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