

Dallas



Market Facts

93,600

Jobs added in the last year, a 2.7% increase in employment.

3.4%

Unemployment in Dallas.

8.7

Million square feet currently under construction.

14.9%

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. Both foreign and domestic investors are taking notice of the explosive growth that is occurring in the market. The positive fundamentals have solidified DFW as a strong, stable city with global recognition. The low cost of living and favorable business climate continues to attract large corporations to the metroplex, which has resulted in a substantial employment and population boom. DFW has added over half a million people to the labor force in the last five years, and the unemployment rate has fallen to 3.8%.

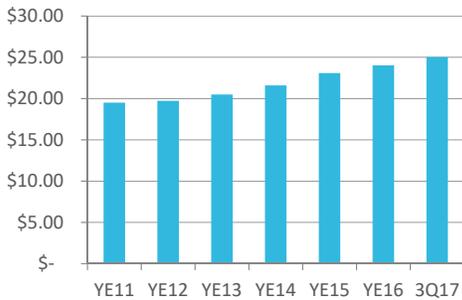
Investors are competing to own a piece of Dallas real estate, increasing the amount of capital flowing into the market and pushing prices higher. Record highs for office sales have occurred in 2017, particularly in Uptown and Far North

Dallas. The former Encana Oil and Gas building in Plano sold for \$123.3 million, or \$386 per square foot, making it one of the highest prices ever paid for a DFW suburban high rise.

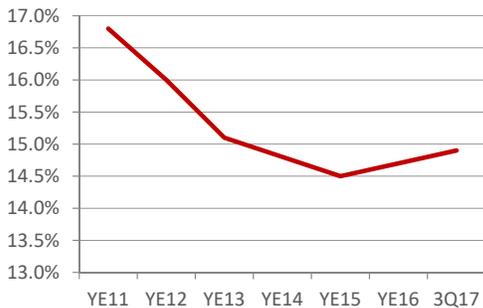
Employment in the DFW metropolitan area has increased by 2.7% in the past year. Employment gains were broad-based with most economic sectors experiencing year-over-year job growth. The Urban Land Institute (ULI) consistently names Dallas as a top market to watch in the U.S. in its Emerging Trends in 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.



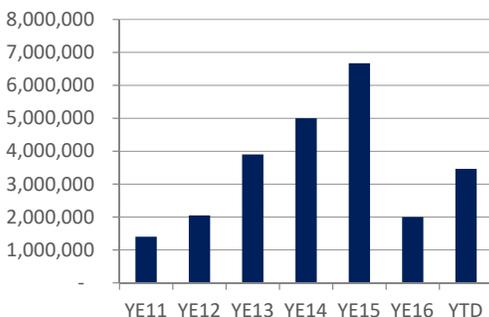
Asking Rates



Historical Vacancy Rate



Historical Net Absorption



Absorption & Demand

The Dallas office market wrapped up another strong quarter, absorbing over 1.3 msf. Year-to-date absorption now totals over 3.4 msf. Large corporate build-to-suits are driving the significant absorption gains, a trend that will continue through 2018. An additional 11.8 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 the market, many older buildings are either offering concessions or undergoing renovations.

Vacancy & Availability

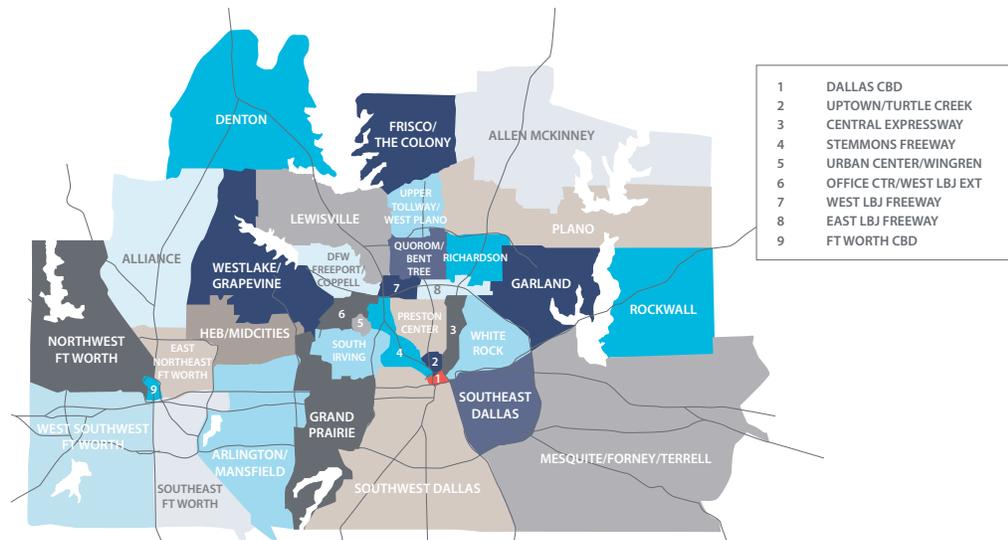
Dallas' vacancy rate increased by 30 basis points from the previous quarter to 14.9%. Despite a record amount of new product delivering to the market, vacancy has only increased by 40 basis points from this point last year. Many large tenants are opting to expand into new space in an effort to attract and retain a talented

workforce. The space left behind is quickly backfilled. Market conditions are expected to remain tight into 2018. Many submarkets have dipped into single-digit vacancy, including Uptown/Turtle Creek, Frisco/The Colony, and Upper Tollway/West Plano.

An additional 8.7 msf is currently under construction with 58% 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 will help to alleviate the tight market conditions upon delivery.

Asking Rates

Overall asking rates have increased substantially due to high demand and increased operating costs. From the previous quarter, rates increased by 1.5% to \$25.03 per square foot (psf). The new construction is in large part driving rental rate appreciation. Strong demand is expected to have a continued upward pressure on asking rates through 2018.



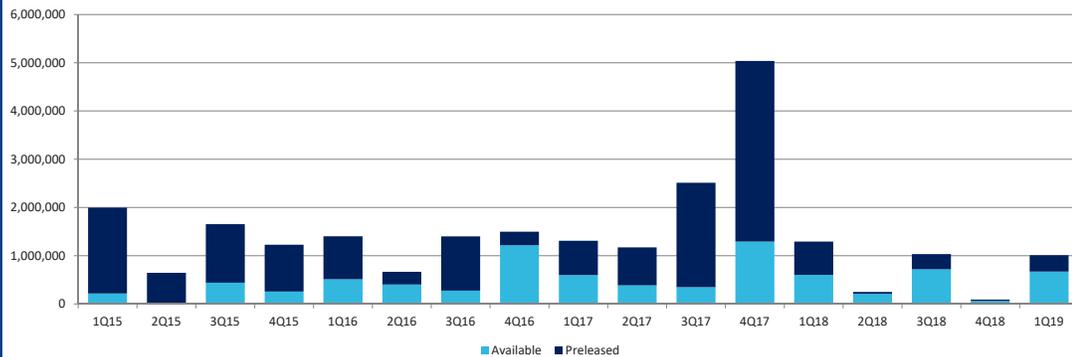
Notable 3Q17 Completions

Toyota Campus (2,100,000 sf).
Upper Tollway/West Plano

3400 CityLine (300,000 sf).
Richardson

Kimball Park (113,840 sf).
Westlake/Grapevine

Construction Timeline



3Q17 Activity

- **Toyota** wrapped up development on its \$300 million corporate campus at Legacy West in the third quarter totaling 2.1 msf, which will house 4,000 employees. The new campus received the highest level of LEED certification.
- **Jacobs Engineering** is relocating its headquarters to the Dallas CBD and will increase the company's footprint at the **Harwood Center** office tower to 97,000 sf. The move will be completed by this December.
- The **Dallas Midtown** development has begun demolition of Valley View Mall where a new mixed-use project will be located. When all is complete, this \$4 billion dollar project will include 430 acres of retail, office space, entertainment, residential units, and parks. The city is pitching the development as a potential site for Amazon's second

headquarters, which could total up to 8.0 msf.

- **NTT Data** leased 232,000 sf at the former J.C. Penney headquarters building in Plano's Legacy Park. The international telecom company will relocate hundreds of employees to the location in 2018.
- **3400 CityLine** delivered in the third quarter. The 300,000-sf speculative office building is located in the booming CityLine development. The CityLine development is located on approximately 186 acres and is projected to have over 30,000 employees and residents when it is completely built out.
- **Park Plaza** broke ground in the third quarter in the Preston Center submarket. The 119,000-sf, Class A building is 33% preleased and is scheduled for delivery in early 2019.

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 Professional & Business Services (5.0%), and Financial Activities (4.1%) 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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