

Dallas



Market Facts

113,500

Jobs added in 2016, a 3.3% increase in employment.

3.7%

Unemployment in Dallas, which is significantly lower than the national unemployment rate of 4.8%.

16.6

Million square feet leased in 2016, one of the most active years in the past decade.

14.7%

The Dallas office vacancy rate remains near record-lows.

Market Overview

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 all economic sectors experiencing year-over-year job growth. 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 in 2017 with the financial services, technology and healthcare sectors leading the way.

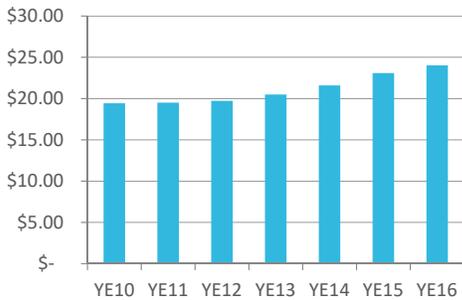
2016 was one of the best years on record in the Dallas office market in

terms of leasing and construction activity. 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. 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. However, the space left behind has backfilled quickly, leading to a tightening market with vacancy near record-low levels.

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.



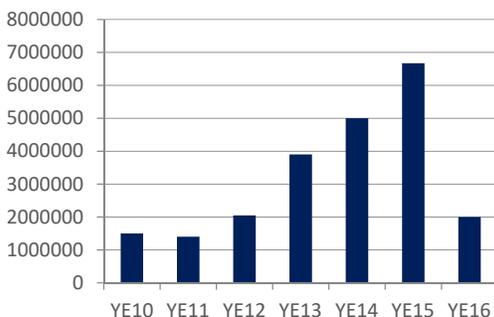
Asking Rates



Historical Vacancy Rate



Historical Net Absorption



Absorption & Demand

The Dallas office market recorded 510,425 sf of positive net absorption in the fourth quarter, totaling over 2.0 msf in 2016. This is the 13th consecutive year that Dallas has recorded a positive annual net absorption. Dallas recorded over 16.8 msf in leasing activity this year, making 2016 one of the most active years in the past decade. Leasing activity was strong in both new and existing products. One of the largest deals in the fourth quarter occurred in the Las Colinas submarket where Shelton School leased 317,000 sf at 17301 Preston Rd. Other notable deals in the fourth quarter include Qorvo (114,000 sf) at Campbell Commons in Richardson, and The Dallas Morning News (92,000 sf) at the Statler Library development in Downtown Dallas.

Vacancy & Availability

Dallas' vacancy rate decreased by 10 basis points from the previous quarter and remains near historically-low levels at 14.7%. Vacancy was 14.5% at this point last year. The decrease in vacancy from the previous quarter was due strong absorption gains and limited new construction deliveries. 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 Upper Tollway/West Plano, Uptown/Turtle Creek, and Frisco/The Colony. Vacancy in Downtown

Dallas continues to decrease and now registers 22.1%.

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 8.8% from the previous year to \$24.02 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.

Construction

The Dallas office market's building boom has over 10.9 msf under construction, the most development to occur in over 10 years. The space currently under development is 63% 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 4.1 msf has delivered in 2016. Construction activity will remain active in 2017 with many large-scale projects slated to break ground in the near future.

Notable 2016 Completions

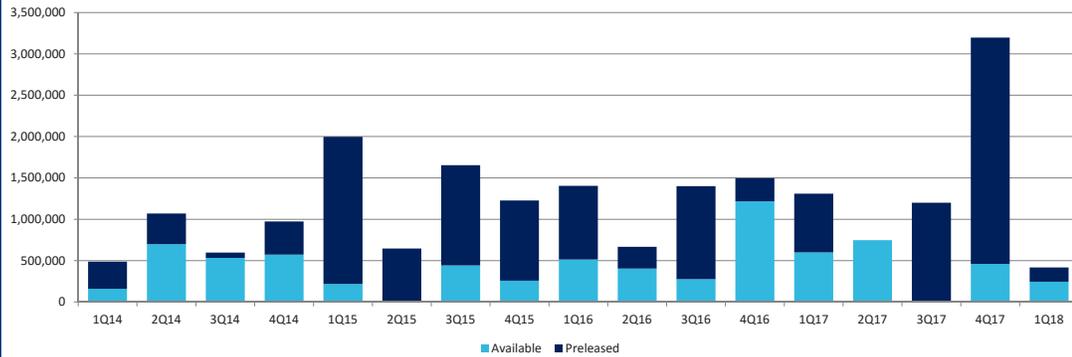
McKinney & Olive (530,000 sf).
Uptown/Turtle Creek

State Farm Bldg. D (500,000 sf).
Richardson

The Star (400,000 sf). *Frisco/The Colony*

CoreLogic HQ (327,000 sf). *Las Colinas*

Construction Timeline



4Q16 Activity

- Shelton School leased 317,000 sf at 17310 Preston Rd., located in the Las Colinas submarket. They will take occupancy of the space in the first quarter of 2017.
- The Dallas Morning News preleased the entire Statler Library in Downtown Dallas, which is set to deliver in mid-2017. The building totals 92,000 sf.
- Qorvo leased 114,000 sf at Campbell Commons in Richardson. The company took occupancy of the space in the fourth quarter.
- Jacobs Engineering announced

they will move their headquarters from Pasadena, CA to Dallas. The company will expand its footprint at the Harwood Center in the CBD to 97,000 sf.

- Caliber Home Loans took occupancy of 182,700 sf at Point West I in Las Colinas. The company occupies the entire building.

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 (4.4%), and Trade, Transportation & Utilities (4.0%) 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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