Market Review & Outlook

Review: Minor Growth in Effective Rents

Despite robust economic expansion in the region, leasing activity lagged a bit in Downtown. Office-using employment rose by 4.2% during 2015, but Downtown's Class A leasing volume was weak, falling from 2.0 msf in 2014 to less than 1.0 msf in 2015. A few more businesses capitalized on the strong value-plays being offered in Downtown but other tenants signed leases for new product in Uptown. Landlords were able to push rents only slightly higher in this market and had to extend generous concessions.

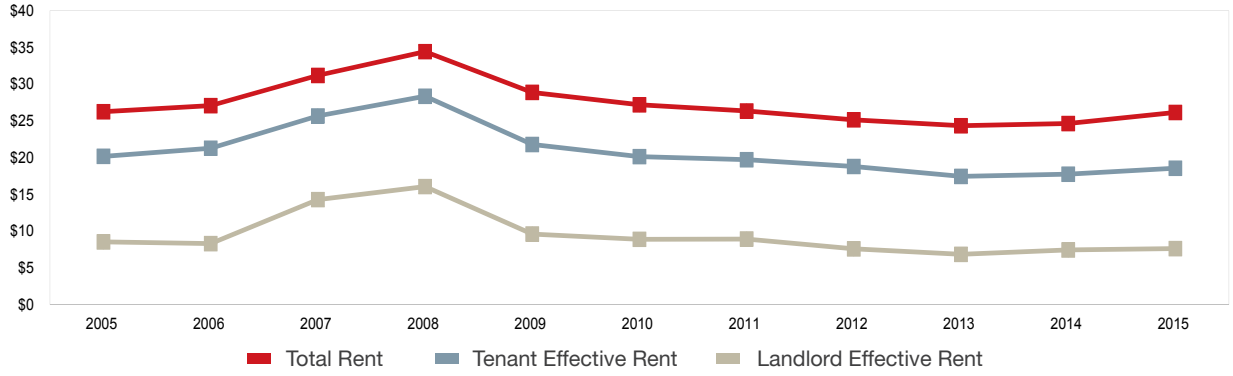
	2015	% Change
Net Rent	$14.85	10.0
Operating Expenses	7.50	1.4
Real Estate Taxes	1.80	2.9
Tenant Electricity	2.00	0.0
Total Rent	26.15	6.1
Amortized Concessions	-7.59	10.0
Tenant Effective Rent	**18.56**	**4.6**
Landlord Effective Rent	**7.63**	**7.9**

Outlook: Slow Growth Anticipated in 2016

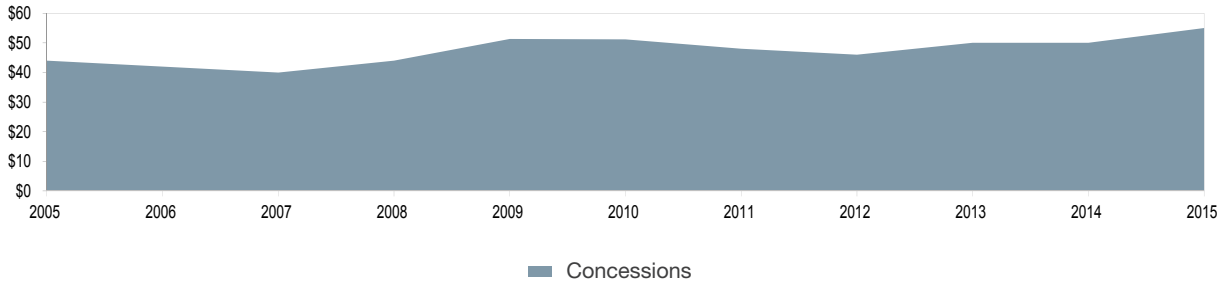
Downtown's costs are likely to continue on a course of moderate growth (approximately 5.0%) next year. Vacancy will remain very high as many tenants continue to pursue space options in other areas and Downtown's landlords reposition their properties.

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Rent Trends



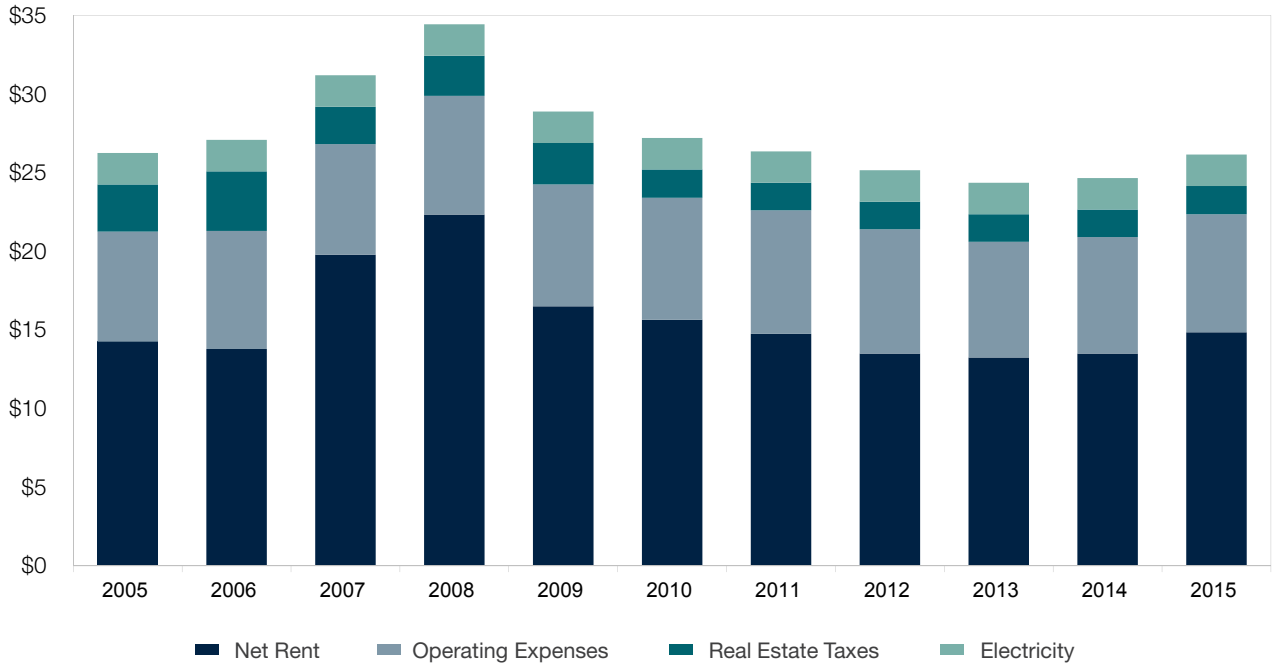
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$26.25	$27.08	$31.19	$34.43	$28.88	$27.20	$26.35	$25.15	$24.35	$24.65	$26.15	6.1%	-0.8%	0.0%
Tenant Effective Rent	$20.18	$21.28	$25.67	$28.36	$21.80	$20.14	$19.73	$18.80	$17.45	$17.75	$18.56	4.6%	-1.6%	-0.8%
Landlord Effective Rent	$8.54	$8.30	$14.29	$16.07	$9.60	$8.89	$8.48	$7.59	$6.84	$7.07	$7.63	7.9%	-3.0%	-1.1%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$44.00	$42.00	$40.00	$44.00	$51.34	$51.17	$48.00	$46.00	$50.00	$50.00	$55.00	10.0%	1.5%	1.3%
Concessions/Rent Ratio*	23.1%	21.4%	17.7%	17.6%	24.5%	26.0%	25.1%	25.2%	28.3%	28.0%	29.0%	1.0		

* Equals amortized concessions as a percentage of total rent.

Total rent rose for the second year in a row, increasing by 6.1% to $26.15. Net rent posted a 10.0% year-on-year increase from $13.50 to $14.85. Operating expenses (+1.4%) and real estate taxes (+2.9%) both increased but tenant electric was unchanged. Concession packages posted a notable jump from $50.00 to $55.00, offsetting some of the rental rate growth. Tenant effective rent rose for the second consecutive year, jumping by 4.6% to $18.56, but was still 34.5% below its 2008 peak of $28.36. Landlord effective rent increased by 7.9%, from $7.07 to $7.63.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$14.25	$13.79	$19.78	$22.33	$16.50	$15.65	$14.75	$13.50	$13.25	$13.50	$14.85	10.0%	-1.0%	0.4%
Operating Expenses	$7.00	$7.50	$7.03	$7.55	$7.75	$7.75	$7.85	$7.90	$7.35	$7.40	$7.50	1.4%	-0.7%	0.7%
Real Estate Taxes	$3.00	$3.79	$2.38	$2.55	$2.63	$1.80	$1.75	$1.75	$1.75	$1.75	$1.80	2.9%	0.0%	-5.0%
Electricity	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	$2.00	0.0%	0.0%	0.0%
Total Rent	**$26.25**	**$27.08**	**$31.19**	**$34.43**	**$28.88**	**$27.20**	**$26.35**	**$25.15**	**$24.35**	**$24.65**	**$26.15**	**6.1%**	**-0.8%**	**0.0%**

Lease Terms/Concessions

Review: Concessions Are Still High

Facing the additional loss of law firms and banks to surrounding submarkets, owners in Downtown Dallas were forced to keep lease terms favorable. Downtown still has a lot of excess space, including some in buildings that will require major capital improvements and investment. New ownership may ultimately clear the way for aggressive renovations and leasing campaigns. Tenants willing to commit to long-term leases can expect generous concessions.

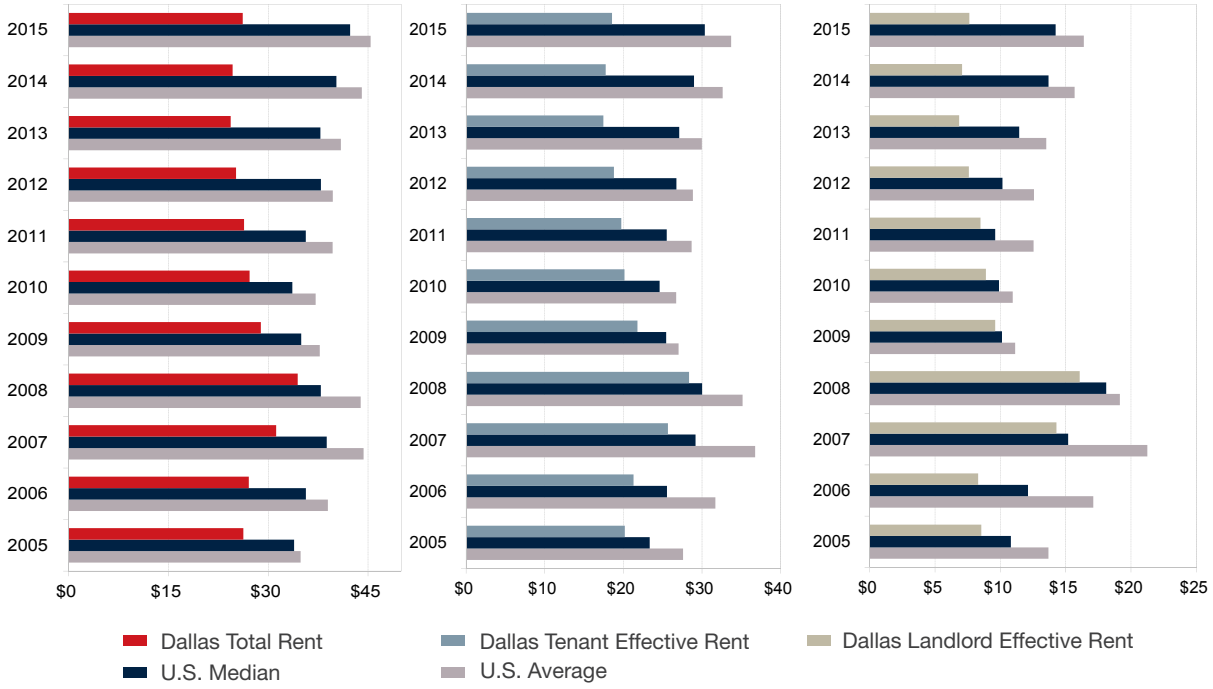
Leases Under 50,000 sf	
Average Term:	5 years
Free Rent:	4 months
Tenant Improvements:	$25.00/sf
Moving/Architect Fee:	$2.00/sf

Leases Over 50,000 sf	
Average Term:	8 years
Free Rent:	6-8 months
Tenant Improvements:	$35.00-$45.00/sf
Moving/Architect Fee:	$3.00/sf

Outlook: Downtown to Remain Strong Value

Tenants leasing space Downtown will remain in a strong position to dictate terms next year as many properties struggle with elevated vacancy. Local and state tax credits for major employers remain an added incentive.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dallas	$26.25	$27.08	$31.19	$34.43	$28.88	$27.20	$26.35	$25.15	$24.35	$24.65	$26.15
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

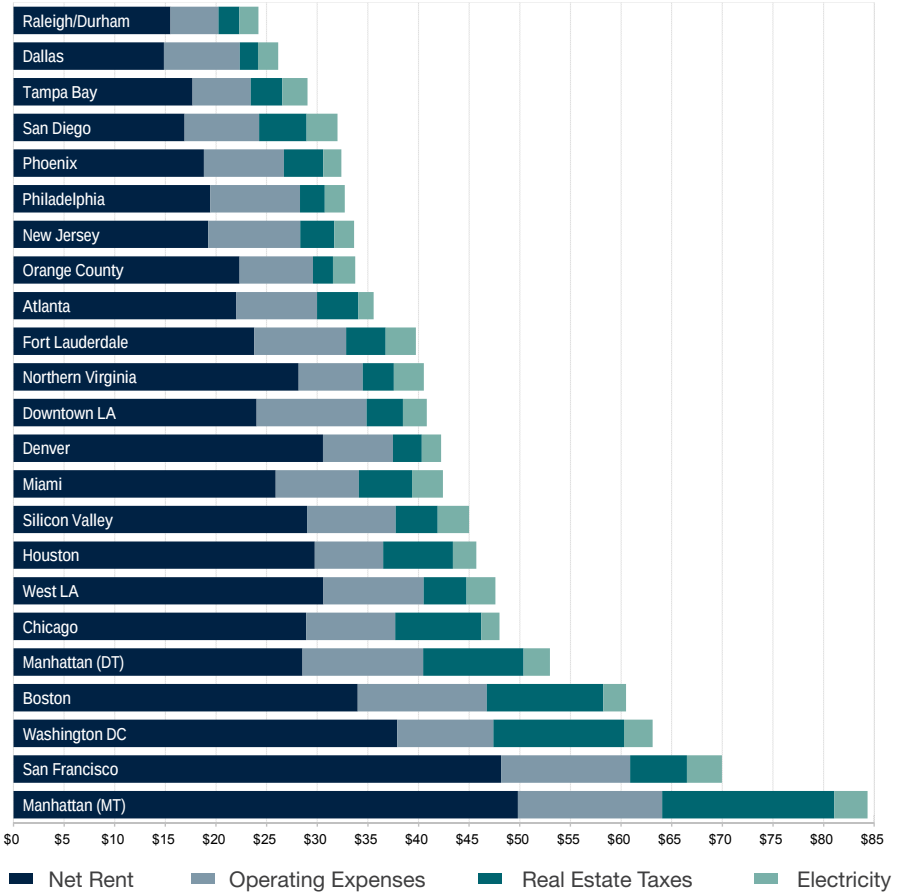
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dallas	$20.18	$21.28	$25.67	$28.36	$21.80	$20.14	$19.73	$18.80	$17.45	$17.75	$18.56
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Dallas	$8.54	$8.30	$14.29	$16.07	$9.60	$8.89	$8.48	$7.59	$6.84	$7.07	$7.63
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in Downtown Dallas during 2015.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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