

Savills Studley Report

Dallas/Fort Worth office sector

Q2 2018



SUMMARY

Market Highlights

LEASING INCREASES

Continued demand from larger tenants ranging from telecom to health care kept leasing on a steady track in the second quarter. Tenants have leased 14.2 msf in the four most recent quarters, on par with the long-term market average.

AVAILABILITY RATES DECREASES

The overall market availability rate decreased by 60 basis points to 25.7% for the second quarter. The region's Class A availability rate also decreased by 60 basis points to 25.5% in the quarter.

FLAT RENT

The overall asking rent inched down from \$23.95 to \$23.91, but has increased by 1.1% year-on-year. The average Class A asking rent increased by 0.4% during the quarter to \$26.27, and jumped by 2.5% year-on-year.

SALES DOWN

Office property sales during the last six months (through February 2018) totaled \$1.7 billion, a 34% decrease compared to the previous six-month total of \$2.7 billion.

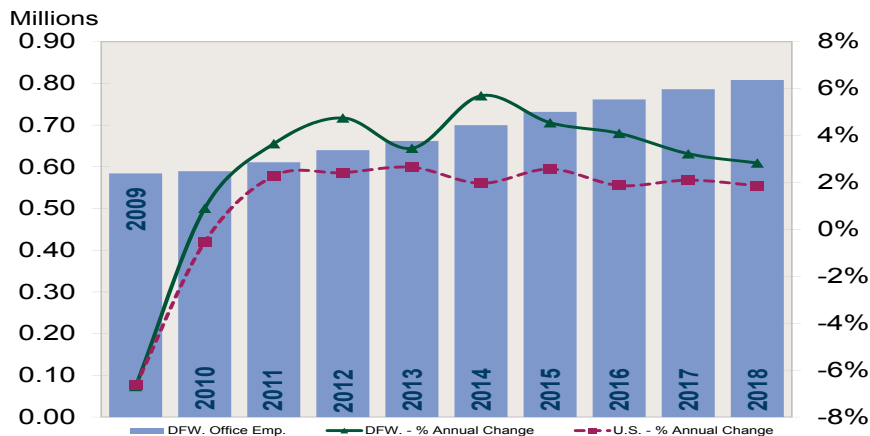
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"The region's potent construction sector is ramping up. Ambitious projects are no longer being pursued in just North Dallas and Uptown, but in Downtown's East Quarter and Tarrant County as well. This development puts pressure on owners in older buildings to make significant upgrades to their assets to stay relevant."

Frank McCafferty,
Executive Managing Director

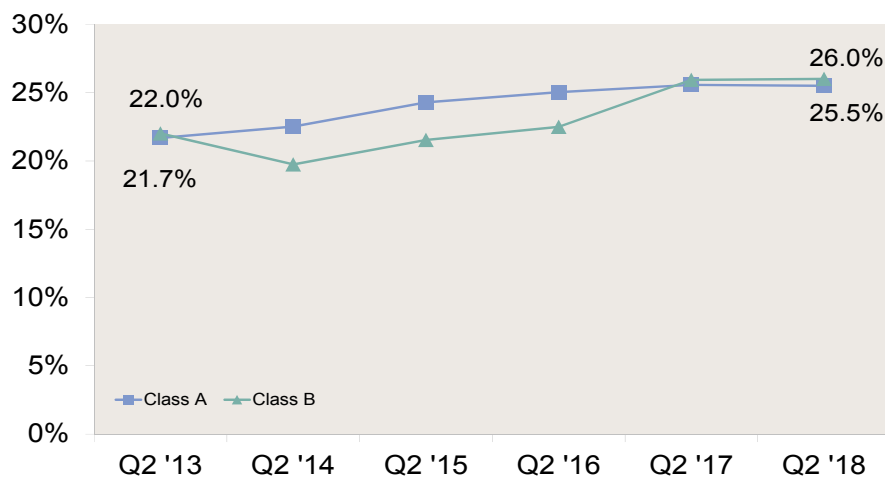
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Office-Using Employment Trends

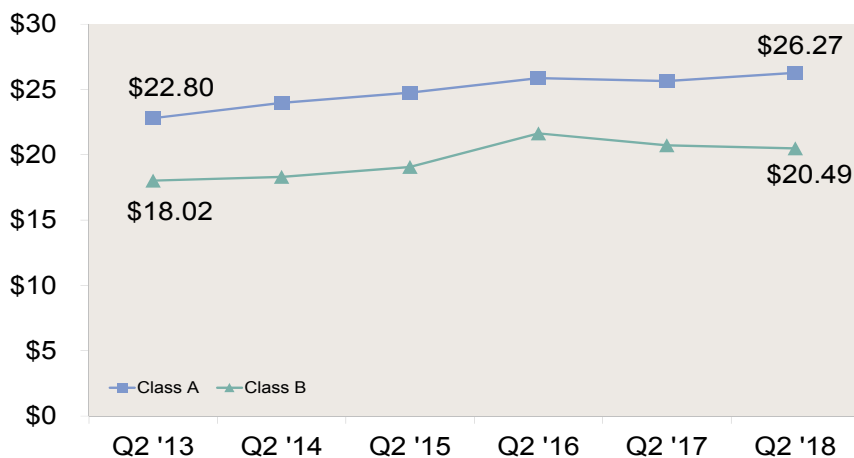


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Development Activity Heating Up

Dallas/Fort Worth has long had two advantages – a growing supply of new residents and ample land for them to spread out on. The state is adding 1,000 people per day, 300 to 400 of those are going to Dallas/Fort Worth. Low costs of living and a thriving labor market are among the top reasons that households keep coming. The tax advantages of Texas (as well as other Sunbelt states) are rising as the reduction in the state and local tax deduction makes it even more expensive to live in New York, New Jersey and California. Tax rates are 50% lower than in New York and 40% lower than in California. As new housing and commercial product pops up across the region, some of the vacant parcels once considered on the periphery of the metro region are no longer so remote.

Rapid population growth and the absence of mass transit has increased the appeal of suburban town center product to both homeowners and businesses selecting office space. Consequently, new product in Frisco continues to lease up rapidly. The Offices One, a new 230,000-sf property in Frisco Station recently leased roughly 60,000 sf to three different clients. Data center giant Equinix took the entire third floor totaling 37,000 sf. VanTrust Real Estate, the developer for Frisco Station and partner in the \$1.8 billion development with Hillwood, leased 5,000 sf. Finally, local executive suite and co-working operator Executive Workspace committed to 17,000 sf on the first floor. The building is just the first to be constructed at the 242-acre development that wraps around The Star – the home for the Dallas Cowboys headquarters. Upon buildout the project will have 5.5 million sf of office space, 650 hotel rooms, 2,400 apartments, nearly 30 acres of parks and trails and 300,000 sf of retail, restaurant and event space.

Suburban Park Upgrades

The broader acceptance of livable and walkable settings is forcing some developers to revamp older projects started decades ago. As new residential and commercial development has pushed further out into the suburbs some of the older office parks are no longer on the outer fringes. This includes Solana in Tarrant County, which started development more than three decades ago. Blackstone and Equity picked up the asset for a song in 2014 that brought it out of foreclosure. They embarked on a massive \$70 million capital improvement project

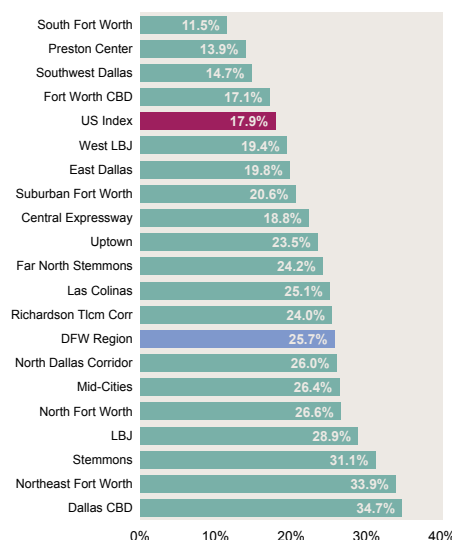
creating a cutting-edge campus experience. The 1.9-msf complex still has 1.0 million sf available space, though, suggesting there are limits to how far tenants will go even with substantial amenity upgrades. Meanwhile, about 3 miles Northwest of Solana, Hillwood's Circle T Ranch is seeing radical transformation as Charles Schwab constructs a \$100 million regional hub. Even before Schwab has opened the campus the financial services company has increased its estimate of people it will hire locally to 2,600. The Southlake/Westlake Corridor has the advantage of being right between DFWA and Alliance airports. Another 130-acre joint project by Hillwood and the Howard Hughes Corp at junction of SHWY 114 and 170 will have more than 2.0 million sf of space, complementing the 500,000 sf Schwab campus.

Search for Value Plays

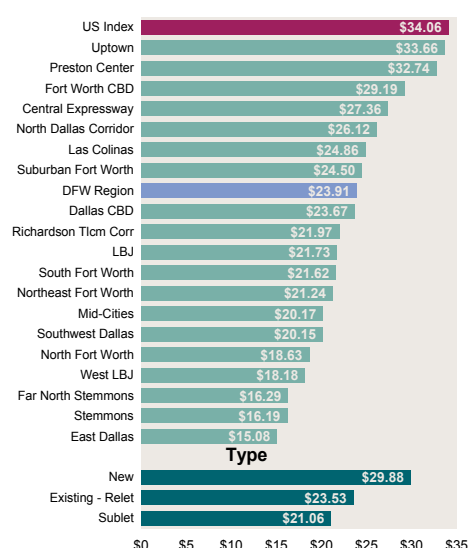
With much of Plano and Frisco's new buildings delivering in the short term spoken for, and rent approaching \$50/sf in some Uptown/Turtle Creek properties, tenants looking for value plays are turning to areas with ample space options and much more affordable pricing. Irving/Las Colinas and Downtown Dallas have seen some recent uptick in activity. Las Colinas is capturing some tech innovators, including fintech firms. Elevate credit signed a 26,000-sf lease at Spectrum Center in Addison, doubling from the 26,000 sf they currently occupy at the adjacent building in the two-building complex. The company will be able to create a "super-floor" connecting the floors between the two properties. The fintech company currently has 130 employees working at Spectrum Center, the new space will accommodate as many as 294 people eventually. The company provides non-prime consumers with loans. A company spokesperson noted that the location has recruiting advantages as well, enabling them to attract high-tech employees from talent living in numerous communities in North Dallas such as Plano and Frisco.

Food, feed and fuel ingredients innovator Darling Ingredients signed a 95,322 sf lease in MacArthur Center I (5601 North MacArthur Boulevard) in Las Colinas. This is a big jump from the 59,000 sf it currently occupies at The Overlook at 250 O'Connor Ridge Boulevard. The company has been at the building for 30 years, but with its recent acquisition of Kruger Commodities they were in the market for more space. Recently renovated, the building also has prime access to SHW 114. Darling will be the sole tenant. Brookwood Financial Partners,

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
DexYP	449,040	2200 W Airfield Dr	Mid-Cities
Samsung Telecommunications of America, LLC	216,000	6625 Declaration Blvd	Richardson Telecom Corridor
Steward Health Care System	165,300	2375 N Glenville Dr	Richardson Telecom Corridor
7-Eleven	115,036	1601 Lyndon B Johnson Fwy	West LBJ
Hewlett Packard	106,325	6080 Tennyson Pky	North Dallas Corridor
Darling Ingredients	95,321	5601 N MacArthur Blvd	Las Colinas
Genpact	95,000	3300 Renner Rd	Richardson Telecom Corridor
Elevate Credit	52,000	5080 Spectrum Dr	North Dallas Corridor
Balfour Beatty Construction	44,000	3100 McKinnon St	Uptown
Bell Nunnally & Martin, LLP	42,000	2323 Ross Ave	Dallas CBD
Sum of Top 10 Leases	1,380,022	Sum of 2nd Qtr Leasing Activity	4.2 MSF

which bought the building in the fall of 2016, undertook a multi-million dollar renovation of the property.

Ample Options in the CBD

Downtown still offers the steepest discounts, particularly buildings in the core CBD. As of mid-year the Class A rate exceeded 35.0% and average asking rent was well under \$25.00. Extensive new product planned in Downtown Dallas should help the submarket compete for major tenants. Todd Interests unveiled plans in early May to create a new district, to be called the East Quarter in Downtown Dallas. The 20-acre project at the intersection of Commerce Street and Cesar Chavez Boulevard will have 200,000 sf of office, restaurant and retail space in 18 buildings. Todd Interests has been assembling parcels and properties over the last two years. Located about five blocks southwest of the ARTS District, the project will include a mix of new buildings and some property conversions. The East Quarter is part of Downtown Dallas Inc.'s 360 plan to

create an identity for each area.

Looking Forward

Mass transit is far from Metroplex's strong suit, but a plan for a futuristic sky port could be a launching pad for innovation that radically changes how people commute. Local architect Humphrey & Partners unveiled a futuristic sky port that would serve as the landing and liftoff spot for Uber-branded flying taxis. Dallas is expected to be the testing ground for Uber's airplane/helicopter taxi that they hope to roll out in the next several years. Uber is narrowing down test sites, candidates include Hillwood's Frisco Station in Frisco and the DFW international airport. Victory Park, another Hillwood development is also considered a candidate. Uber hopes to begin test flights by 2020 and then launch Uber Elevate by 2023.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Dallas CBD	23,837	1,060	8,271	-3.1%	8,394	34.7%	-1.1%	35.2%	\$23.67	0.1%	\$23.51
	Dallas CBD - Class A	20,089	897	7,089	-3.5%	7,262	35.3%	-1.3%	36.1%	\$23.93	0.3%	\$23.64
2	Uptown	12,679	926	2,981	1.8%	2,523	23.5%	0.4%	19.9%	\$33.66	2.8%	\$31.93
	Uptown - Class A	10,388	844	2,321	2.8%	1,953	22.3%	0.6%	18.8%	\$35.71	2.1%	\$32.75
3	Central Expressway	10,364	504	2,317	17.0%	1,848	22.4%	3.3%	17.8%	\$27.36	2.6%	\$26.27
	Central Expressway - Class A	6,809	292	1,546	28.9%	1,071	22.7%	5.1%	15.7%	\$28.16	3.0%	\$27.19
4	Preston Center	3,685	261	514	-13.8%	734	13.9%	-2.2%	19.9%	\$32.74	-4.4%	\$33.04
	Preston Center - Class A	2,691	189	360	-20.7%	520	13.4%	-3.5%	19.3%	\$33.45	-4.3%	\$33.01
5	Stemmons	7,330	291	2,283	0.9%	2,202	31.1%	0.3%	30.0%	\$16.19	4.7%	\$14.92
	Stemmons - Class A	1,941	117	588	13.2%	467	30.3%	3.5%	24.1%	\$16.28	0.7%	\$15.68
6	LBJ	19,246	1,410	5,556	-2.9%	5,784	28.9%	-0.9%	30.1%	\$21.73	-1.3%	\$21.04
	LBJ - Class A	8,984	713	2,492	-2.2%	2,526	27.7%	-0.6%	28.1%	\$23.86	-4.5%	\$23.69
7	Richardson Telecom Corridor	22,031	1,763	5,600	-6.5%	5,835	25.4%	-1.8%	26.5%	\$21.97	-3.9%	\$22.92
	Richardson Telecom Corridor - Class A	11,278	763	3,040	-7.5%	3,073	27.0%	-2.2%	27.2%	\$23.65	-4.9%	\$25.23
8	East Dallas	916	39	181	2.5%	200	19.8%	0.5%	21.8%	\$15.08	1.1%	\$15.63
	East Dallas - Class A	72	N/A	4	0.0%	4	6.2%	0.0%	6.2%	\$22.50	-7.2%	\$24.25
9	North Dallas Corridor	40,883	3,595	10,631	0.1%	9,531	26.0%	0.0%	23.3%	\$26.12	0.1%	\$25.91
	North Dallas Corridor - Class A	27,160	2,425	6,271	-3.1%	5,743	23.1%	-0.8%	21.1%	\$28.75	-1.3%	\$28.64
10	Far North Stemmons	3,013	0	729	1.7%	636	24.2%	0.4%	21.1%	\$16.29	1.3%	\$23.23
	Far North Stemmons - Class A	323	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
11	Las Colinas	18,042	1,282	4,535	-3.9%	4,802	25.1%	-1.0%	26.6%	\$24.86	1.2%	\$25.09
	Las Colinas - Class A	11,793	1,059	2,729	-4.9%	3,404	23.1%	-1.2%	28.9%	\$26.90	2.0%	\$26.49
12	West LBJ	10,738	1,032	2,086	-13.8%	2,621	19.4%	-3.1%	24.4%	\$18.18	-18.4%	\$20.96
	West LBJ - Class A	2,859	128	257	-36.5%	387	9.0%	-5.2%	13.5%	\$21.67	-0.6%	\$22.92
13	Southwest Dallas	1,335	71	197	0.4%	247	14.7%	N/A	N/A	\$20.15	0.2%	\$17.34
	Southwest Dallas - Class A	282	N/A	31	0.0%	14	11.0%	N/A	N/A	\$24.95	-3.8%	\$25.75
14	Mid-Cities	11,587	1,074	3,057	3.4%	3,077	26.4%	0.9%	26.6%	\$20.17	-0.5%	\$20.45
	Mid-Cities - Class A	4,196	295	1,665	2.5%	1,671	39.7%	1.0%	39.8%	\$22.47	0.7%	\$22.84
15	Fort Worth CBD	9,078	365	1,557	-4.1%	1,750	17.1%	-0.7%	19.3%	\$29.19	7.1%	\$26.96
	Fort Worth CBD - Class A	6,019	227	1,058	-5.7%	1,142	17.6%	-1.1%	19.0%	\$32.03	7.7%	\$29.72
16	Suburban Fort Worth*	7,724	529	1,588	-9.7%	1,915	20.6%	-2.2%	24.8%	\$24.50	0.0%	\$24.50
	Suburban Fort Worth - Class A	3,188	278	631	-0.2%	962	19.8%	0.0%	30.2%	\$0.00	#DIV/0!	\$0.00
1-16	Dallas/Fort Worth Region Total	202,488	14,247	52,082	-2.1%	52,098	25.7%	-0.6%	25.7%	\$23.91	-0.1%	\$23.65
	Dallas/Fort Worth Region Total - Class A	118,072	8,265	30,123	-2.1%	30,201	25.5%	-0.6%	25.6%	\$26.27	0.4%	\$25.64

Please contact us for further information

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(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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