

Savills Studley Report

Dallas/Fort Worth office sector

Q1 2018



SUMMARY

Market Highlights

LEASING FALLS

Following a strong quarter of activity, with 3.7 million square feet (msf) leased – quarterly activity decreased to 3.1 msf. Tenants have leased 14 msf in the four most recent quarters, on track with the long-term market average.

AVAILABILITY RATES INCH HIGHER

The market's overall availability rate increased by 10 basis points from 24.4% to 24.5%. The Class A availability rate stayed constant at 24.9%.

RENT UP SLIGHTLY

The overall asking rent rose from \$24.04 to \$24.49, and remains unchanged year-on-year. Similarly, the Class A asking rent increased by 1.2% during the quarter to \$26.49, but was constant year-on-year.

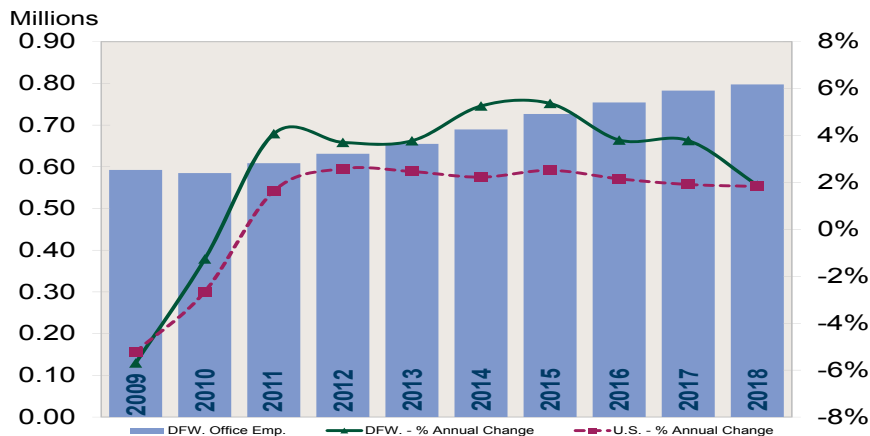
SALES DOWN

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.

"The rent gap between the most sought after locations – Uptown/Turtle Creek as well as West Plano/Frisco – and lagging locations – such as the Dallas CBD and LBJ Freeway – continues to widen. Taking rent in the very top-tier properties is exceeding \$50/sf. On the other hand, tenants can find mid-\$20/sf space in the Dallas CBD."

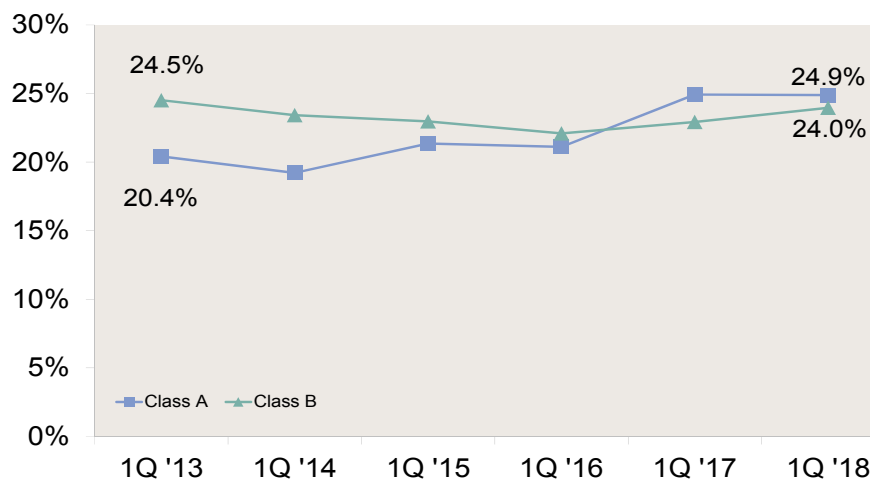
Frank McCafferty,
Executive Managing Director

Office-Using Employment Trends

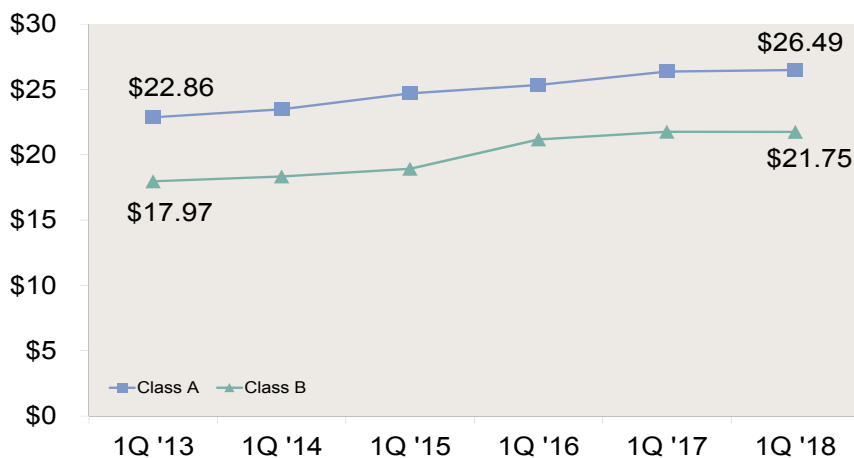


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Expansion Cycles Rolls On

The Metroplex's economy and office market continues to roll along in early 2018. Leasing activity has dipped slightly in the last few quarters, falling back to a level that is on par with the market's long-term historical average. Availability rates have started to increase in select spots. As companies move to newer buildings they are leaving behind big blocks of space in older properties. The Class A rate for the region was unchanged in the first quarter, remaining at 24.9%, but it jumped by 170 basis points in the Central Business District (CBD) to 35.9% and increased by 150 basis points to 18.9% Uptown.

Office-using employment growth has been slowing of late. During the last 12 months office-using employment increased by 1.9%, decreasing from the 3.7% growth in the prior 12 months. Growth in the Dallas/Fort Worth region still outstripped the 0.7% increase nationally. The moderation in hiring may be in part due to a shortage of qualified workers in several sectors, including high-tech manufacturing. Lockheed, has extensive contract orders to fill, but not enough qualified workers. The company has been forced to spend on training to bring skills up to required levels.

Influx of Businesses and Households

Firms from around the globe and U.S. continue to choose Dallas/Fort Worth. Wipro said it will open a 45,000 sf Texas Technology Center in Plano. The center will house the company's U.S. cybersecurity and advanced analytics operations. The India-based technology firm plans to hire 150 people initially to staff the location, but that number could grow to more than 450 over the next two years. Wipro also faces labor shortages. The speed with which the center adds people will depend largely on their success in hiring recent graduates from schools including UT Dallas, University of North Texas, University of Houston, UT-Austin and Rice. Wipro currently employs 1,400 people in Texas.

Many employers are attracted to the region's demographic upside. According to the latest census data, The Dallas/Fort Worth region added more people than any other metropolitan area in the U.S.—in the year ending July 2017, it gained nearly 400 new residents per day. This steady influx of households supports robust demand for houses, retail, office buildings, outpatient clinics, schools and a myriad of other structures. According to NAIOP, Texas topped the nation with \$24 billion in direct construction spending, leading the U.S. in

warehouse and retail development. The Lone Star State was second only to California in spending on office development. Contractors from other markets are expanding locally. The general contractor and construction management firm based in Minnesota was recently selected to develop the \$110 million resort hotel at Craig Ranch in McKinney.

A rapidly growing labor pool and reasonable business costs still make Dallas/Fort Worth a top choice for companies with rapid expansion plans. San Francisco-based Charles Schwab is expanding its regional operations in Fort Worth. The financial advisor leased 60,000 sf at Heritage commons II (13500 Heritage Parkway) in Alliance Texas. Schwab is awaiting the completion of its 500,000 sf campus in Westlake that will eventually house 2,600 employees. Additionally, Chicago-based Boeing added 35,000 sf at Legacy West, making room for 200 more employees.

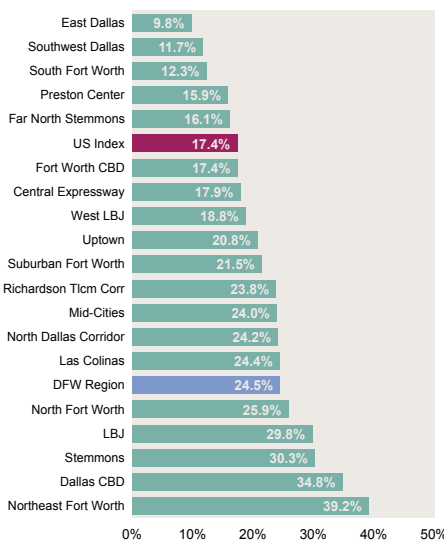
Live/Work/Play

Employers coming into the market from California, New York and Seattle (Toyota, JPMorganChase and Boeing) are importing a new set of workplace expectations. High-density developments that feature live/work/play settings have long been the norm in markets such as Washington, DC. It is becoming more prevalent in Dallas/Fort Worth as developers realize the preferences of these tenants. Some areas such as Victory Park and Turtle Creek already offer amenity-laden walkable environments. Victory Park is one of a handful of areas that can offer transit-oriented residential and commercial development. Hillwood Urban already constructed four new apartment towers with street-level retail and a movie theater at Victory Park. Now the investment and development company owned by the Perot Family is unveiling plans for a 15-story, 350,000-sf office building to be called 2601 Victory Avenue, adjacent to the Victory Park DART and across from the American Airlines Center.

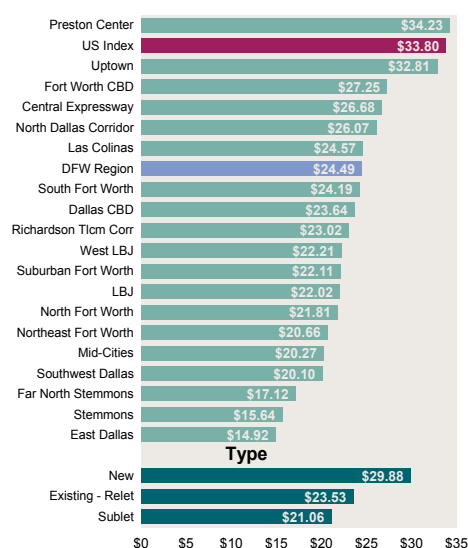
Gap in Submarkets Widens

Amenity-rich settings are also a key factor in the gap between rent in the prime locations – Uptown/Turtle Creek submarket as well as West Plano/Frisco – and submarkets such as Downtown or LBJ Freeway. Micro-districts where new or converted product is achieving stronger demand and higher rent are also popping up. This differentiation is apparent within Downtown. Smaller tech firms and entrepreneurs are attracted to the converted loft and warehouse product in the West End. These properties often have

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Thompson & Knight	154,022	1722 Routh St	Dallas CBD
GuideStone Financial Resources	117,720	5005 Lyndon B Johnson Fwy	LBJ
New York Life	107,267	4849 Greenville Ave	Central Expressway
Boston Consulting Group	69,624	2501 N Harwood St	Uptown
Steward Health Care System LLC	66,828	1900 N Pearl St	Dallas CBD
Charles Schwab	59,500	13601 Heritage Pky	North Fort Worth
AIS	54,000	18583 N Dallas Pky	North Dallas Corridor
Raytheon	44,526	1011 Galatyn Pky	Richardson Telecom Corridor
HBK Capital Management	43,482	2300 N Field St	Uptown
Blue Star Sports	41,225	5360 Legacy Dr	North Dallas Corridor
Sum of Top 10 Leases	758,194	Sum of 1st Qtr Leasing Activity	3.1 MSF

minimal building services and few shared amenities but rents are achieving high \$20/sf to mid-\$30/sf. They offer open space in an edgy neighborhood that young talent desire. Ross Avenue is increasingly becoming an extension of Uptown and achieving rent in the mid-\$30/sf to low-\$40/sf—still a 20% or more discount from Uptown/Turtle Creek. Meanwhile the older circa-1980s buildings in the heart of the CBD are struggling to maintain leasing activity. Landlords have a lot of work ahead of them to reposition major properties as well as the retail and amenities surrounding them.

Areas such as Ross Avenue Downtown and Irving/Las Colinas are capturing some tenants either as companies decide to capitalize on discounts, or companies grow tired of the congestion in the most sought after areas such as Uptown. Some long-term Uptown tenants are moving to nearby locations such as the Hall Arts Complex in the Arts District. Bell Nunnally & Martin leased the top two floors of the KPMG Plaza Tower on Ross Avenue. The law firm is relocating from One McKinney (3232 McKinney). Other companies are

selling their buildings in and around Uptown to cash in on the robust demand. Some are then leasing space further out in LBJ Freeway or Las Colinas to make their gains go further. Guide Stone Financial Resources, for example, recently sold its 200,000-sf building at 2401 Cedar Springs Road for an undisclosed amount to Goldman Sachs Asset and Crescent Real Estate. The financial services firm is moving to Pinnacle Tower in LBJ Freeway, where it has leased 117,720 sf.

Looking Forward

Leasing activity showed some signs of retreating to a more typical pace in the Metroplex during 2017, but there are no signs of a sharp pullback. The U.S. economy appears to be poised for at least one more year of payroll expansion. Corporate tax reform should give added support for investment in R&D, equipment and properties. The Dallas/Fort Worth region and the Dallas CBD stand to capture a fair share of this hiring and investment.

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	24,593	1,575	8,562	4.4%	8,497	34.8%	2.2%	33.8%	\$23.64	0.6%	\$24.22
	Dallas CBD - Class A	20,566	1,418	7,391	3.6%	7,414	35.9%	1.7%	35.6%	\$23.86	1.3%	\$24.50
2	Uptown	12,826	897	2,670	10.6%	1,982	20.8%	2.1%	15.4%	\$32.81	1.5%	\$31.98
	Uptown - Class A	10,388	799	1,961	7.4%	1,433	18.9%	1.5%	13.7%	\$34.94	2.9%	\$32.40
3	Central Expressway	10,187	532	1,826	0.3%	1,714	17.9%	-0.4%	17.3%	\$26.68	0.8%	\$27.79
	Central Expressway - Class A	6,809	309	1,200	-2.7%	1,119	17.6%	-1.1%	17.0%	\$27.35	-1.5%	\$29.00
4	Preston Center	3,589	228	570	-9.0%	698	15.9%	-1.5%	19.3%	\$34.23	3.1%	\$33.10
	Preston Center - Class A	2,691	139	455	-9.9%	491	16.9%	-1.8%	18.2%	\$34.97	4.2%	\$33.32
5	Stemmons	8,360	369	2,530	-3.3%	2,726	30.3%	-1.2%	32.8%	\$15.64	-5.4%	\$14.92
	Stemmons - Class A	1,899	193	519	-25.1%	763	27.4%	-9.1%	40.2%	\$16.16	-17.6%	\$15.85
6	LBJ	19,983	1,635	5,954	-0.9%	5,649	29.8%	-0.2%	28.2%	\$22.02	2.4%	\$21.23
	LBJ - Class A	8,984	820	2,549	-0.5%	2,460	28.4%	-0.1%	27.4%	\$24.98	3.1%	\$23.98
7	Richardson Telecom Corridor	26,084	1,495	6,213	5.8%	5,876	23.8%	0.3%	23.5%	\$23.02	0.4%	\$22.99
	Richardson Telecom Corridor - Class A	12,559	484	3,386	1.9%	2,492	27.0%	-1.9%	21.6%	\$25.12	-0.2%	\$23.85
8	East Dallas	1,201	38	117	-14.9%	112	9.8%	0.0%	8.0%	\$14.92	0.6%	\$16.00
	East Dallas - Class A	182	N/A	4	0.0%	4	2.4%	-0.6%	3.0%	\$24.25	0.0%	\$24.25
9	North Dallas Corridor	41,974	3,472	10,139	1.2%	9,773	24.2%	0.1%	23.5%	\$26.07	2.3%	\$25.98
	North Dallas Corridor - Class A	27,992	2,327	6,060	4.9%	6,346	21.6%	0.9%	22.8%	\$29.15	1.0%	\$28.69
10	Far North Stemmons	3,862	0	624	-13.8%	757	16.1%	-2.6%	19.6%	\$17.12	13.2%	\$22.81
	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	19,473	1,300	4,757	2.5%	4,732	24.4%	1.2%	23.7%	\$24.57	1.4%	\$24.70
	Las Colinas - Class A	12,700	1,040	2,914	-0.4%	3,339	22.9%	0.0%	26.2%	\$26.35	0.5%	\$26.17
12	West LBJ	12,871	824	2,422	-10.7%	2,198	18.8%	-2.4%	17.2%	\$22.21	7.4%	\$20.44
	West LBJ - Class A	2,975	5	404	29.1%	305	13.6%	3.0%	10.3%	\$21.81	0.8%	\$22.93
13	Southwest Dallas	1,227	75	144	-25.6%	169	11.7%	N/A	N/A	\$20.10	11.2%	\$16.71
	Southwest Dallas - Class A	282	N/A	31	0.0%	16	11.0%	N/A	N/A	\$25.94	5.9%	\$21.75
14	Mid-Cities	12,625	672	3,026	0.6%	3,291	24.0%	0.5%	25.7%	\$20.27	-0.5%	\$20.73
	Mid-Cities - Class A	4,549	279	1,767	-1.0%	1,974	38.8%	0.6%	42.3%	\$22.16	-0.8%	\$22.69
15	Fort Worth CBD	9,007	377	1,571	1.2%	1,492	17.4%	0.1%	16.7%	\$27.25	1.1%	\$25.89
	Fort Worth CBD - Class A	5,918	225	1,086	6.5%	909	18.4%	0.9%	15.6%	\$29.74	-0.6%	\$28.67
16	Suburban Fort Worth*	7,976	482	1,714	-4.8%	1,965	21.5%	-3.4%	27.1%	\$22.11	3.6%	\$21.39
	Suburban Fort Worth - Class A	3,188	278	632	-19.2%	936	19.8%	-10.3%	36.1%	\$22.90	6.0%	\$20.85
1-16	Dallas/Fort Worth Region Total	215,838	14,021	52,840	0.9%	51,629	24.5%	0.1%	24.0%	\$24.49	1.9%	\$24.46
	Dallas/Fort Worth Region Total - Class A	122,004	8,353	30,358	1.5%	30,001	24.9%	0.0%	24.9%	\$26.49	1.2%	\$26.36

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.

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