# DALLAS OFFICE MARKET REPORT
SECOND QUARTER 2012

## ECONOMY & JOB GROWTH

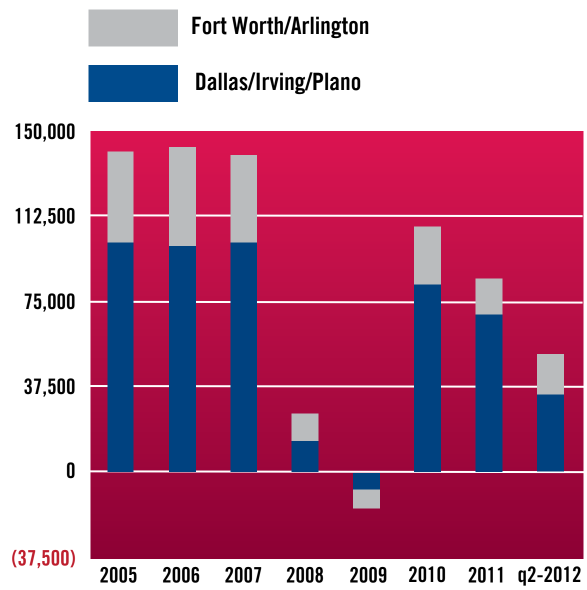
Dallas/Fort Worth posted solid job growth figures for the first six months of 2012. According to the Bureau of Labor Statistics, 51,600 new jobs were added in North Texas for the 12-month period ending June 2012. The local unemployment rate dropped to 6.8 percent, which was well below the U.S. average of 8.2 percent.

The firms announcing plans to expand their workforce included Inogen, which will hire 200 employees in Richardson within the next 18 months. Nationstar Mortgage Holdings' relocation from Lewisville to Irving brought 800 new jobs. The mortgage servicing firm has plans to increase it's employee base to 2,000 withing the next five years. Connextions, a subsidiary of UnitedHealth Group, is adding 1,500 new jobs in Texas, 800 of which are in Irving as well. Christus Health announced plans earlier this year to bring 1,200 new jobs to Irving. Looking ahead to 2013, the General Motors Assembly Plant in Arlington will add a third shift and 800 new jobs.

While many of the firms in our region continue to expand, planned layoffs held steady through the first six months of 2012 fluctuating between 2,900 and 2,300 from month-to-month according to Chicago-based Challenger Gray & Christmas. Nationally, planned layoffs fell to a 13-month low in June. Locally, JC Penney terminated 950 employees at its campus in Plano. TrailBlazer Health will cut 390 positions at its Dallas headquarters. Hewlett-Packard, which employs 5,000 people in Plano, will cut 9,000 jobs nationwide. The total number of local terminations is unclear because HP will offer early retirement and then fill some of those vacancies. Earlier in the 2012, Dean Foods announced they would eliminate a significant number of positions at its Dallas headquarters at CityPlace. Additionally, Saxon Mortgage laid off 680 employees in Fort Worth and Irving, and MetLife layed off 804 employees in Irving. T-Mobile consolidated it's call center operations and vacated a facility in Frisco. Lastly, BlockBuster closed a distribution facility in McKinney and laid off all staff.

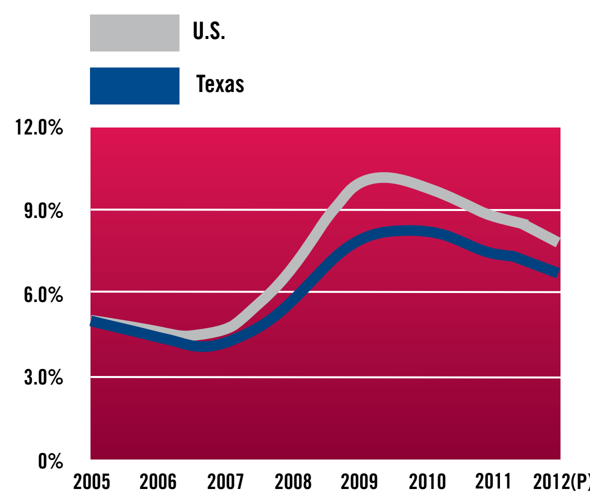
*(continued on next page)*

### D/FW JOB GROWTH




Source: www.bls.gov
Preliminary figures for the 12-month period ending June 2012 for total non-farm employment, not seasonally adjusted

### UNEMPLOYMENT

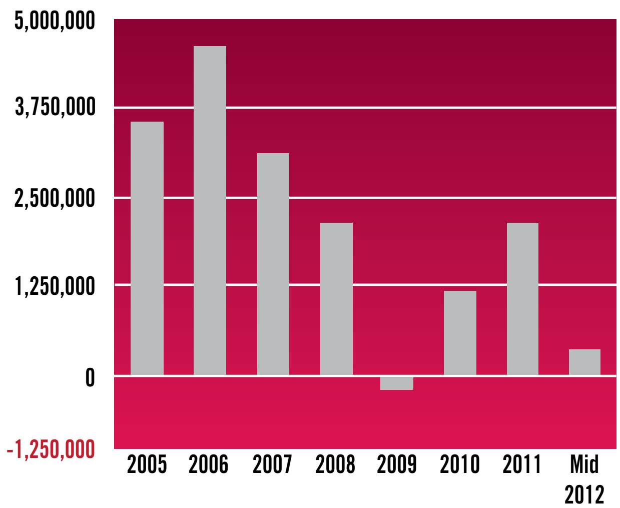



Source: www.bls.gov
Preliminary figures for June 2012, not seasonally adjusted

# DALLAS OFFICE MARKET REPORT SECOND QUARTER 2012

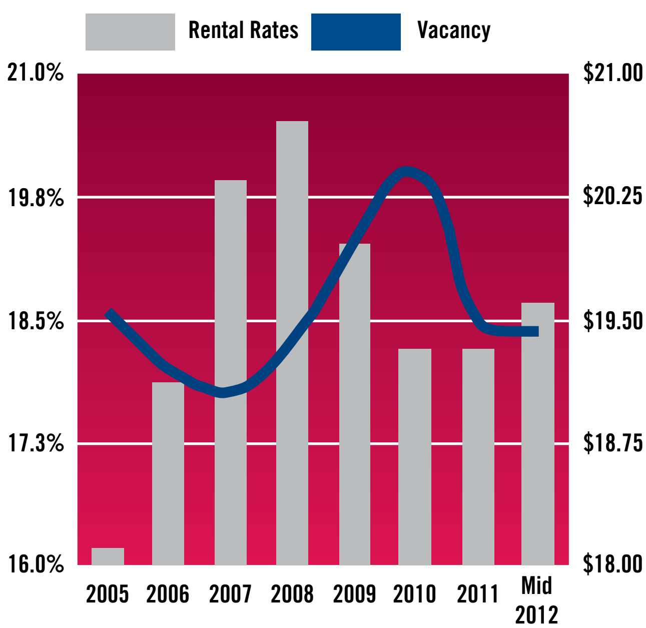
Despite the steady level of layoffs, the Dallas/Fort Worth employment market and economy remains among the strongest in Texas and the U.S. According to Robert Dye, Comerica Bank's chief economist, "The Texas economy continues to be a growth leader. Drilling activity remains strong and the rate of overall job creaction remains well above the national average. Manufacturing conditions are very strong, supporting gains in the services sector as well. Housing is gaining momentum, as new and existing home sales increase, prices firm up and new construction activity accelerates to meet growing demand."

## ABSORPTION - ALL CLASSES




Source: CoStar Advisory Report, Mid-Year 2012

## VACANCY & RENTAL RATES - ALL CLASSES




Source: CoStar Advisory Report, Mid-Year 2012

## OFFICE MARKET

The Dallas office market experienced a slight uptick in activity during the second quarter of 2012 as tenants absorbed 363,188 square feet of office space. This small amount of absorption was not enough to move the vacancy rate which hovered at 18.3 percent. The overall average quoted rental rate in Dallas held at $19.59 per square foot. In 2011 we identified that tenants had a strong appetite for class B space. That trend continued through the second quarter of this year as absorption in the class B market outpaced that of the class A market.

In terms of absorption, the same three office markets continued to dominate: Far North Dallas, Uptown/Turtle Creek, and Richardson/Plano. For the last year, these three markets have traded the top position from one quarter to the next. Since year-end 2011, the Far North Dallas office market has recorded over 700,000 square feet of absorption and the market's vacancy rate has dropped almost a full point to 13.4 percent. The average quoted rental rate increased two percent to $21.40 per square foot. Far North Dallas also had the highest amount of new deliveres and construction. The majority of the space under construction was pre-leased.

The Uptown/Turtle Creek market posted nearly 270,000 square feet of positive absorption and 13 percent vacancy at mid-year. Vacancy was down from 15.1 percent at year-end and rental rates increased 2.24 percent to $28.22 per square foot during the same time period. There was no new construction in this submarket, but developers continue to promote their projects in hopes of luring a large tenant to help secure new construction financing.

Richardson/Plano was the third best performing office market at mid-year with over 257,000 square feet of positive absorption. The vacancy rate in this market dropped from 17.5 percent to 16.9 percent. The average quoted increased 4.66 percent to $18.84 per square foot. At mid-year there was nearly 300,000 square feet of new construction in Richardson/Plano and 70 percent of that space was preleased.

DALLAS OFFICE
**MARKET REPORT**
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## OFFICE MARKET SUMMARY BY CLASS

| MARKET | TOTAL RBA | TOTAL VACANCY | YTD NET ABSORPTION | DELIVERIES | UNDER CONSTRUCTION | AVG. QUOTED RATE |
|---|---|---|---|---|---|---|
| Class A | 106,145,563 | 18.9% | (63,615) | 198,000 | 676,500 | $22.56 |
| Class B | 104,778,966 | 19.1% | 310,651 | 15,091 | 188,722 | $17.87 |
| All Classes | 232,668,209 | 18.3% | 363,188 | 213,091 | 865,222 | $19.59 |

Source: CoStar Advisory Report, Mid-Year 2012

## MARKET/SUBMARKET TABLE - ALL CLASSES

| Market/ Submarket | No. of Bldgs. | Total RBA | Direct Vacancy | Total Vacancy | YTD Net Absorption | YTD Deliveries | Under Construction | Avg. Rate |
|---|---|---|---|---|---|---|---|---|
| Dallas CBD | 150 | 36,067,830 | 25.8% | 26.6% | (195,853) | 0 | 0 | $19.68 |
| Central Expressway | 277 | 15,368,937 | 14.1% | 14.2% | 84,163 | 0 | 0 | $20.37 |
| Stemmons Freeway | 287 | 19,411,409 | 17.7% | 18.7% | (88,433) | 0 | 0 | $15.07 |
| Uptown/Turtle Creek | 314 | 13,029,212 | 12.5% | 13.0% | 267,994 | 0 | 0 | $28.22 |
| Preston Center | 134 | 5,571,349 | 9.0% | 9.2% | 38,691 | 0 | 85,000 | $28.46 |
| LBJ Freeway | 252 | 23,329,698 | 23.7% | 24.5% | (265,017) | 0 | 0 | $17.19 |
| *East LBJ Freeway | 163 | 18,077,584 | 23.7% | 24.5% | (288,092) | 0 | 0 | $17.90 |
| *West LBJ Freeway | 89 | 5,252,114 | 23.4% | 24.2% | (36,925) | 0 | 0 | $14.68 |
| Richardson/Plano | 898 | 33,122,561 | 16.7% | 16.9% | 257,243 | 3,240 | 293,822 | $18.84 |
| *Allen/McKinney | 306 | 6,616,787 | 8.7% | 9.0% | 286,120 | 3,240 | 220,160 | $21.19 |
| *Richardson | 273 | 16,644,606 | 22.9% | 23.1% | (176) | 0 | 0 | $18.31 |
| *Plano | 319 | 9,841,168 | 11.5% | 11.8% | (28,701) | 0 | 73,662 | $18.52 |
| Far North Dallas | 884 | 50,423,212 | 13.1% | 13.4% | 703,056 | 209,851 | 486,400 | $21.40 |
| *Frisco/The Colony | 175 | 4,916,081 | 10.5% | 11.6% | 81,085 | 65,769 | 8,600 | $23.43 |
| *Quorum/Bent Tree | 362 | 23,048,427 | 18.7% | 19.0% | 528,538 | 138,000 | 0 | $19.14 |
| *Upper Tollway/W. Plano | 347 | 22,458,704 | 7.9% | 8.1% | 93,433 | 6,082 | 477,800 | $24.92 |
| Las Colinas | 388 | 36,344,001 | 17.6% | 18.8% | (438,656) | 0 | 0 | $19.78 |
| *DFW Freeport/Coppell | 174 | 10,980,294 | 16.7% | 17.9% | (264,952) | 0 | 0 | $19.66 |
| "Office Center/W. LBJ | 152 | 15,918,785 | 14.7% | 16.2% | (121,892) | 0 | 0 | $18.85 |
| *Urban Center/Wingren | 62 | 9,444,922 | 23.5% | 24.2% | (51,812) | 0 | 0 | $21.90 |
| **Total Market** | **3,584** | **232,668,209** | **17.7%** | **18.3%** | **363,188** | **213,091** | **865,222** | **$19.59** |

Source: CoStar Advisory Report, Mid-Year 2012

## OUTLOOK

The national and global economies, along with the actions and inaction of political leaders, continue to give consumers and businesses reasons to pause. Whether it's the slowing economies of China, India and Brazil, lower corporate earnings, the fiscal cliff, the unknown costs of the Affordable Care Act, or the European debt crisis, we all have valid reasons to hold a conservative position when it comes to increasing our liabilities. These factors and uncertainty will continue to weigh on the American economy for the foreseeable future.

In terms of our outlook for the Metroplex economy and office market, continued job growth and limited speculative construction will equate to further decreases in the office vacancy rate through the second half of 2012. We anticipate further rental rate increases in the markets and submarkets where the vacancy rate is approaching or less than 10 percent. Tenants should continue to find good deals on space in areas where the vacancy rate is between 15 and 20 percent. Those deals will diminish as the year progresses, so tenants should consider locking in deal terms as soon as possible. Lastly, we continue to forecast some new speculative construction in markets with already-low vacancy and land that is available for development: Upper Tollway/West Plano, Frisco/The Colony, Plano, Allen/McKinney, and Uptown/Turtle Creek.

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