



**DALLAS OFFICE
MARKET REPORT
THIRD QUARTER 2012**



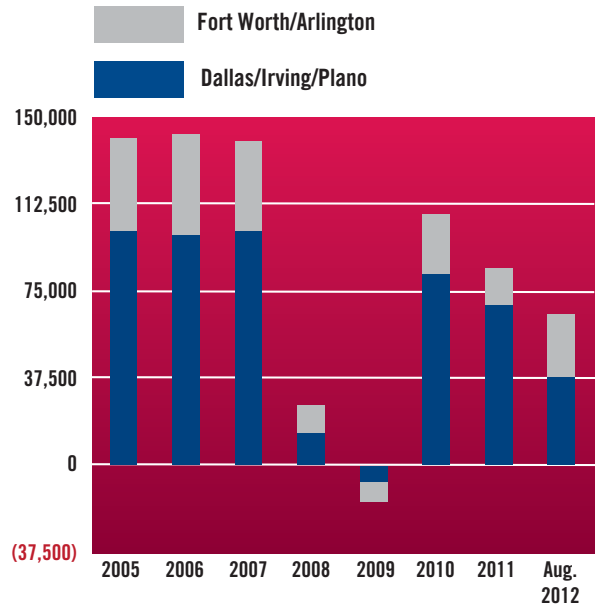
ECONOMY & JOB GROWTH

Dallas/Fort Worth employers added 59,400 new jobs for the 12-month period ending August 2012. According to the Bureau of Labor Statistics, 38,900 new jobs were created in the Dallas/Irving/Plano metropolitan area and 22,200 new jobs were created in the Fort Worth/Arlington area. Dallas/Fort Worth accounted for three percent of the 1.945 million new jobs that were created nationally during the same time period. The local unemployment rate edged down to 6.9 percent from 8.1 percent in the third quarter of 2011.

A diverse group of local and national firms within Dallas/Fort Worth announced plans to expand during the third quarter. Those companies included Dickey's Barbecue which will add 100 corporate employees within the next year. Aegis is hiring 600 customer service and 480 sales representatives this year at its facility in Irving. The Southwest Airlines merger with AirTran could bring an additional 1,000 jobs to its Dallas headquarters. Wingspan Portfolio Advisors could also add up to 1,000 new positions at its facility in Frisco, which was previously occupied by T-Mobile.

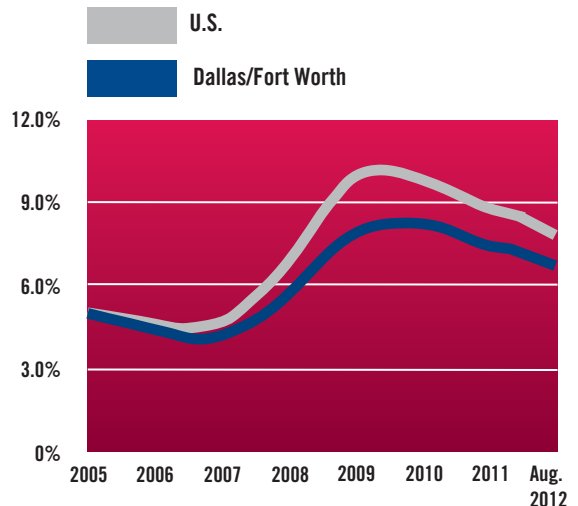
While many of the firms in our region expanded, others pursued efforts to improve efficiencies and reduce costs. RadioShack, which is headquartered in Fort Worth, laid off an undisclosed number of employees. Hewlett-Packard, which employs 29,000 worldwide, announced plans to downsize. It is still unknown how many of the 2,000 HP employees at the Plano campus will be effected. Alcatel-Lucent plans to downsize by 5,000 worldwide. Nearly 2,700 of the firms employees are housed at its Plano campus as well. Cisco Systems is laying off 1,300 or two percent of its total workforce. Cisco's second largest U.S. campus is located in Richardson. Lastly, and most notably, American Airlines notified 11,000 employees, 3,000 of which are located in North Texas, of pending layoffs. American anticipates that they will proceed with 40 percent of the layoff notifications and there is still much uncertainty about the future of the D/FW-based carrier.

D/FW JOB GROWTH



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

UNEMPLOYMENT



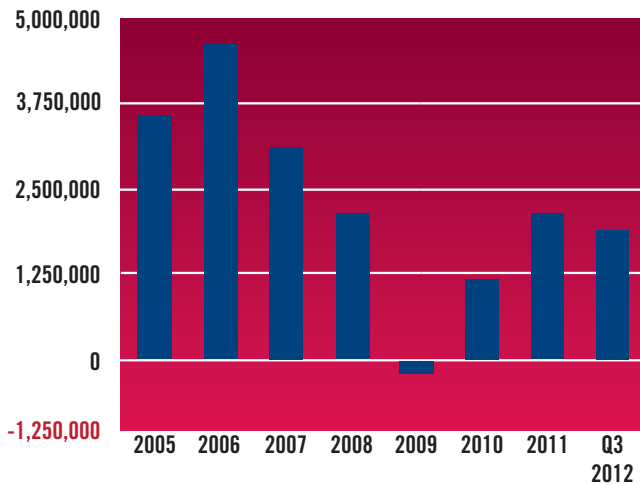
Source: www.bls.gov
Preliminary figures for June 2012, not seasonally adjusted

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OFFICE MARKET

The Dallas office market gained substantial momentum in the third quarter of 2012. Year-to-date absorption increased from 363,000 square feet at mid-year to 1.8 million square feet, and the total vacancy rate dropped to 17.8 percent from 18.3 percent during the same time period. Dallas' total vacancy rate has not been this low since year-end 2007. The average quoted rental rate, which held at \$19.33 per square foot at year-end 2010 and 2011, increased 1.3 percent to \$19.59 per square foot. Approximately 645,000 square feet of new space was delivered to the market through the third quarter. This was three times the amount of new space delivered in all of 2011. Additionally, the amount of new space under construction doubled to 926,000 square feet. Forty-four percent of the space under construction was pre-leased.

ABSORPTION - ALL CLASSES

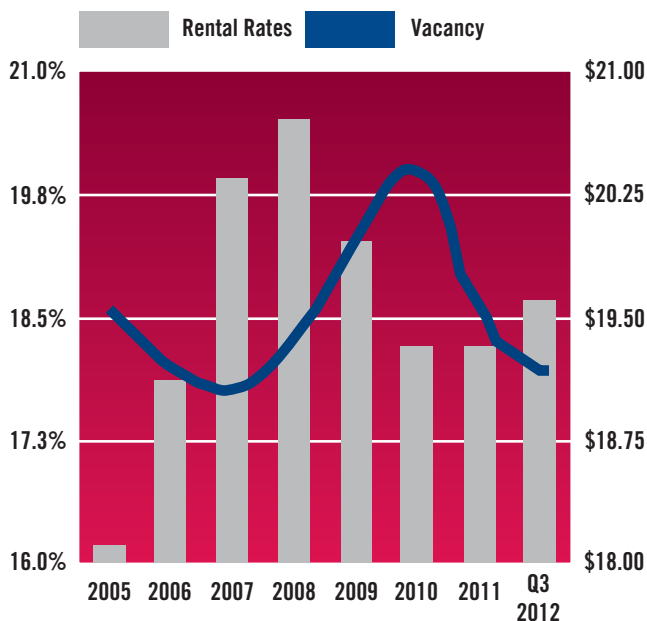


Source: CoStar Advisory Report, Third Quarter 2012

The most notable shift that occurred in the third quarter was tenants appetite for class A space. For the past year, nearly 70 percent of the office space absorbed has been class B, an indicator that tenants were looking for value. As of the third quarter of 2012, that appetite shifted to the class A market as 67 percent of year-to-date absorption was class A. We will continue to monitor this statistic to determine if this shift is an anomaly or a new trend in our market.

One trend that continued through the third quarter is the dominance of the Far North Dallas (FND), Richardson/Plano, and Uptown/Turtle Creek markets. Since year-end, over 1.2 million square feet of office space in FND has been absorbed, and the total vacancy rate dropped from 13.6 percent to 12.8 percent. Over 500,000 square feet of new space was delivered to the FND market and another 761,000 square feet remained under construction. The average quoted rental rate increased 2.4 percent to \$21.49 per square foot, which was well above the Dallas average.

VACANCY & RENTAL RATES - ALL CLASSES



Source: CoStar Advisory Report, Third Quarter 2012

Richardson/Plano had the second largest amount of year-to-date absorption with nearly 525,000 square feet. The total vacancy rate dropped from 17.2 percent at year-end to 16.4 percent. The average quoted rental rate increased 5.5 percent to \$18.99 per square foot. New construction was minimal as 117,000 square feet of new space was delivered and only 72,000 square feet remained under construction.

The Uptown/Turtle Creek market posted 298,000 square feet of positive absorption, 12.8 percent total vacancy and one of the highest average quoted rental rates in Dallas at \$28.12 per square foot. Rental rates increased 1.9 percent from year-end 2011 and are likely to continue increasing as no new product has broken ground or been delivered in 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	Ann. Rate Change
Dallas CBD	150	36,126,283	25.3%	26.1%	(31,940)	0	0	\$19.65	1.1%
Central Expressway	278	15,291,087	13.9%	14.1%	101,837	0	0	\$20.53	(0.7%)
Stemmons Freeway	285	19,265,885	16.9%	17.6%	102,679	0	0	\$14.91	2.9%
Uptown/Turtle Creek	313	13,009,611	12.4%	12.8%	297,894	0	0	\$28.12	1.89%
Preston Center	135	5,587,754	6.4%	6.9%	168,744	0	92,300	\$28.84	5.6%
LBJ Freeway	258	23,512,048	23.7%	24.4%	(242,050)	0	0	\$16.95	(1.3%)
*East LBJ Freeway	166	18,171,192	24.0%	24.5%	(205,056)	0	0	\$17.72	(1.3%)
*West LBJ Freeway	92	5,340,856	22.8%	23.8%	(36,994)	0	0	\$14.47	(1.0%)
Richardson/Plano	905	33,371,486	16.2%	16.4%	524,905	116,940	72,362	\$18.99	5.5%
*Allen/McKinney	308	6,520,437	8.7%	8.8%	391,614	116,940	23,660	\$21.31	1.1%
*Richardson	276	17,470,867	21.1%	21.2%	110,302	0	0	\$18.50	8.0%
*Plano	321	9,380,182	12.5%	12.8%	22,989	0	48,702	\$18.52	1.8%
Far North Dallas	885	50,649,769	12.3%	12.8%	1,235,800	527,127	761,290	\$21.49	2.4%
*Frisco/The Colony	174	4,908,450	8.4%	8.9%	179,247	60,000	4,600	\$23.76	2.0%
*Quorum/Bent Tree	362	23,053,161	18.4%	18.6%	614,589	138,000	80,000	\$19.23	1.0%
*Upper Tollway/W. Plano	349	22,688,158	7.0%	7.7%	441,964	329,127	676,690	\$25.07	2.7%
Las Colinas	390	36,332,865	17.5%	18.5%	(320,918)	0	0	\$19.94	1.4%
*DFW Freeport/Coppell	174	10,974,396	19.2%	20.4%	(527,110)	0	0	\$19.88	3.8%
*Office Center/W. LBJ	152	15,912,510	13.3%	14.5%	147,125	0	0	\$18.43	(.07%)
*Urban Center/Wingren	62	9,445,959	22.5%	23.0%	59,067	0	0	\$21.69	2.4%
Total Market	3,599	233,146,788	17.2%	17.8%	1,836,951	644,067	925,952	\$19.59	1.3%

Source: CoStar Advisory Report, Third Quarter 2012

OFFICE MARKET SUMMARY BY CLASS

Market	Total RBA	Total Vacancy	YTD Net Absorption	Deliveries	Under Construction	Avg. Quoted Rate	Ann. Rate Change
Class A	107,268,942	17.9%	1,272,615	631,700	322,800	\$22.57	1.6%
Class B	104,496,799	19.0%	401,179	12,367	603,152	\$17.89	1.4%
All Classes	233,146,788	17.8%	1,836,951	644,067	925,952	\$19.59	1.3%

Source: CoStar Advisory Report, Third Quarter 2012



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OUTLOOK

By all indications, the Dallas office market is poised for another year of solid job growth and absorption, decreasing vacancy, and rising rental rates. In addition to steady office and employment markets, the Dallas economy and housing markets have begun to grow. According to a report released in July by the Real Estate Center at Texas A&M University, single-family home building permits rose more than 24 percent in the Dallas area through April 2012. This means that construction employment will need to increase in order to meet demand. Additionally, new home sales were up five percent for the first three months of 2012. Another positive indicator for the local economy is that Dallas' sales tax revenue has grown for two consecutive years. Sales tax revenue for 2013 is projected to be \$231 million, surpassing the previous peak in 2008. Lastly, the city's property tax base, which peaked at \$90 billion in 2009, has rebounded after declining for three consecutive years. The property tax base projection for 2013 is \$84 billion. Obviously, our economic viability is crucial to properly maintaining and growing our city, along with attracting new residents and businesses to the Dallas area.

Although Dallas did not dip as deep as other parts of the country during the Great Recession, and seems to have recovered more quickly, we are not completely insulated from the what is going on in the global economy. Typically, new construction is in full boom when the vacancy rate approaches 15 percent, and in the last recovery, the highest amount that the average quoted rental rate reached was \$20.70 per square foot in 2008. The vacancy rate and rental rates are both trending toward these benchmarks. However, occurrences in the global economy such as the slowdowns in China, India and Brazil, and the never-ending European debt crisis, along with our own fiscal cliff, could hinder developers access to financing. Ultimately this could push rental rates even higher in markets that already boast low vacancy rates, and possibly force tenants into submarkets with higher vacancy and lower rental rates.

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