FULTS

DALLAS OFFICE
MARKET REPORT
YEAR-END 2012

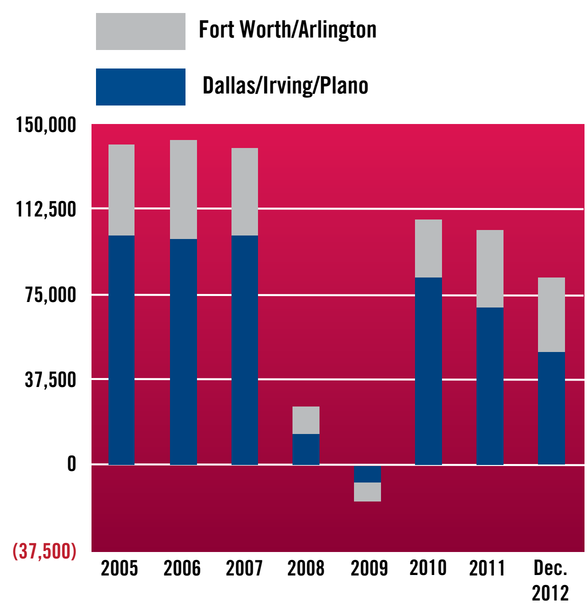
ECONOMY & JOB GROWTH

Dallas/Fort Worth employers added 79,200 new jobs for the 12-month period ending December 2012. According to the Bureau of Labor Statistics, 51,400 new jobs were created in the Dallas/Irving/Plano metropolitan area and 27,800 new jobs were created in the Fort Worth/Arlington area. Dallas/Fort Worth accounted for 4.3 percent of the 1.857 million new jobs that were created nationally during the same time period. The local unemployment rate dropped to 5.7 percent from 7.4 percent at year-end 2011.

A diverse group of local and national firms within Dallas/Fort Worth announced plans to expand during the fourth quarter. Those companies included American Airlines, which will add 1,500 new flight attendants and 2,500 new pilots over the next five years. USAA is adding 270 employees at its Addison office. AT&T is hiring 160 new technicians to install their cable package, Uverse. Lockheed Martin is moving 560 employees from Georgia to Fort Worth to work on the F-22 Raptor program, and Maryland-based TEKSystems is hiring 500 employees in Irving.

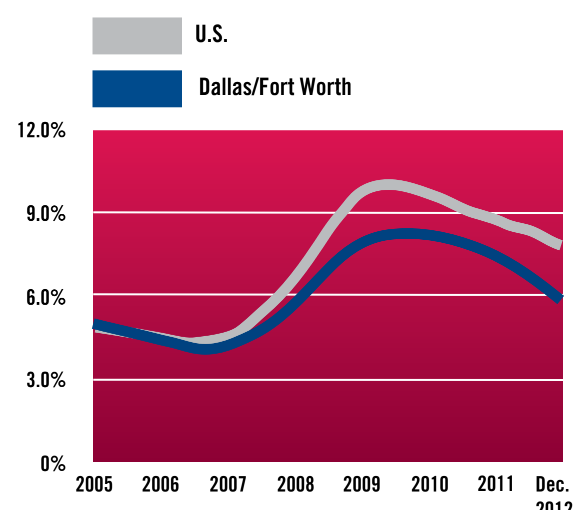
While many of the firms in our region expanded, others pursued efforts to improve efficiencies and reduce costs. Wingspan Portfolio Advisors is reducing its staff in Far North Dallas by 450 employees. Texas Instruments is reducing its global workforce by 1,700. Five hundred of these employees are in the Dallas area. The Hostess bankruptcy resulted in 15,000 layoffs. Navistar is laying off 600 employees at its truck assembly plant in Garland. Research In Motion is laying office 238 employees in Irving, and ATI is closing is Dallas-area schools and laying off 200 employees.

D/FW JOB GROWTH



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

UNEMPLOYMENT

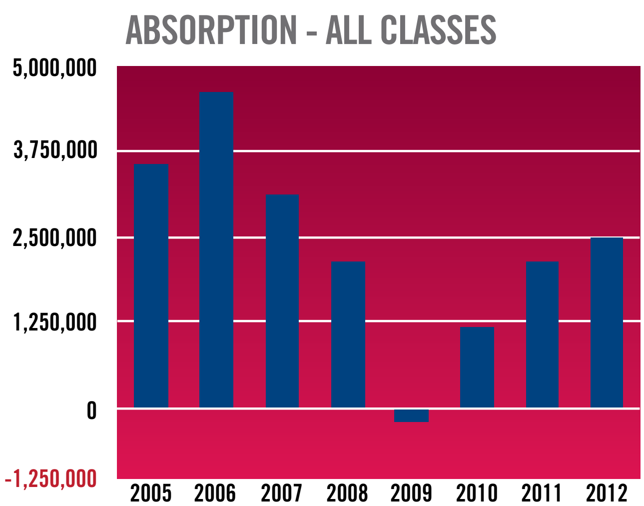


Source: www.bls.gov
Preliminary figures for December 2012, not seasonally adjusted

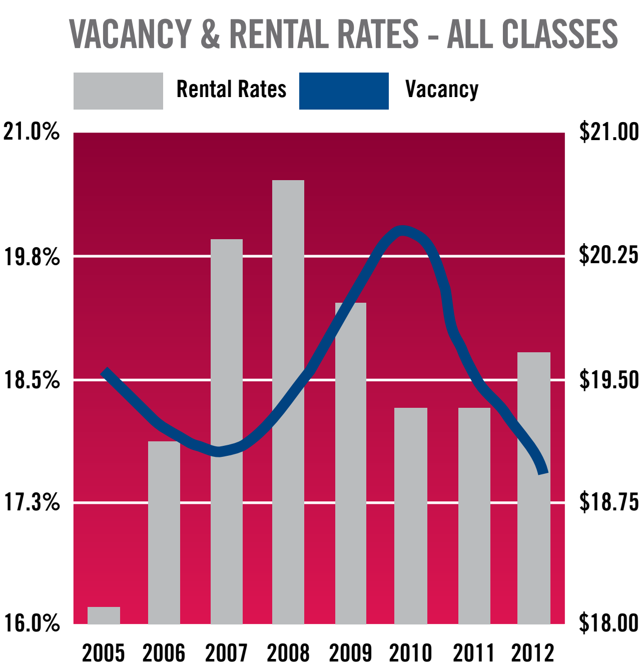
DALLAS OFFICE
MARKET REPORT
YEAR-END 2012

OFFICE MARKET

The Dallas office market maintained the momentum it gained in the third quarter with over 700,000 square feet of positive absorption in the fourth quarter. At year-end, the Dallas office market posted over 2.5 million square feet of positive absorption and the total vacancy rate dropped to 17.7 percent from 18.5 percent at year-end 2011. Sixty-five percent of the space absorbed was class A. The average quoted rental rate, which held at $19.33 per square foot at year-end 2010 and 2011, increased 1.9 percent to $19.70 per square foot. Just over 800,000 square feet of new space was delivered to the market through the fourth quarter. Additionally, the amount of new space under construction increased to 1.27 million square feet. Fifty percent of the office space under construction was class A, and sixty-six percent was pre-leased.



One trend that began in 2011 and continued through 2012 is the dominance of the Far North Dallas (FND), Richardson/Plano, and Uptown/Turtle Creek markets. In 2012, over 1.2 million square feet of office space in FND was been absorbed, and the total vacancy rate dropped from 14.3 percent to 13 percent. Over 632,000 square feet of new space was delivered to the FND market and another 766,000 square feet remained under construction, 68 percent of which was pre-leased. The average quoted rental rate increased 3.5 percent to $21.71 per square foot, which was well above the Dallas average.



Source: CoStar Advisory Report, Year-End 2012

Richardson/Plano had the second largest amount of annual absorption with over 705,000 square feet. The total vacancy rate dropped from 17.5 percent at year-end 2011 to 15.9 percent. The average quoted rental rate increased 4.1 percent to $18.74 percent. New construction was minimal as 125,000 square feet of new space was delivered and 165,000 square feet remained under construction.

The Uptown/Turtle Creek market posted 545,000 square feet of positive absorption, 10.9 percent total vacancy and one of the highest average quoted rental rates in Dallas at $28.55 per square foot. Rental rates increased 3.4 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	148	36,036,014	25.8%	26.7%	(139,692)	0	0	$20.09	3.3%
Central Expressway	280	15,336,159	13.9%	14.1%	213,361	41,980	0	$20.50	(0.9%)
Stemmons Freeway	284	19,234,813	17.7%	18.5%	4,231	0	0	$15.27	5.4%
Uptown/Turtle Creek	310	12,973,806	10.8%	10.9%	545,038	0	0	$28.55	3.4%
Preston Center	136	5,597,716	6.4%	6.5%	190,685	0	92,300	$28.46	4.2%
LBJ Freeway	258	23,250,294	24.4%	24.9%	(277,677)	0	251,389	$17.45	1.6%
*East LBJ Freeway	166	17,902,910	24.1%	24.4%	(93,908)	0	251,389	$18.30	1.9%
*West LBJ Freeway	92	5,347,384	25.5%	26.6%	(183,769)	0	0	$14.61	(0.1%)
Richardson/Plano	913	33,382,424	15.8%	15.9%	705,882	125,740	165,708	$18.74	4.1%
*Allen/McKinney	311	6,524,722	9.0%	9.1%	376,307	116,940	111,799	$21.53	2.2%
*Richardson	278	17,503,443	19.8%	19.9%	346,174	0	0	$18.52	8.1%
*Plano	324	9,354,259	13.1%	13.2%	(16,599)	8,800	53,909	$17.58	(3.4%)
Far North Dallas	892	50,762,910	12.4%	13.0%	1,266,028	632,706	766,394	$21.71	3.5%
*Frisco/The Colony	178	4,928,700	7.7%	8.1%	223,383	64,750	0	$26.91	15.5%
*Quorum/Bent Tree	363	23,035,838	18.2%	18.6%	630,609	138,000	80,000	$19.45	2.2%
*Upper Tollway/W. Plano	351	22,798,372	7.6%	8.5%	412,036	429,956	686,394	$24.53	0.5%
Las Colinas	382	36,232,841	16.7%	17.7%	4,298	0	0	$19.73	0.3%
*DFW Freeport/Coppell	167	10,905,238	17.5%	18.7%	(343,078)	0	0	$20.01	4.4%
"Office Center/W. LBJ	153	15,881,010	13.1%	14.3%	214,526	0	0	$18.35	(1.1%)
*Urban Center/Wingren	62	9,446,593	21.7%	22.2%	132,850	0	0	$21.01	(0.8%)
Total Market	**3,603**	**232,806,977**	**17.1%**	**17.7%**	**2,512,154**	**800,426**	**1,275,791**	**$19.70**	**1.9%**

Source: CoStar Advisory Report, Year-End 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	107,319,039	17.6%	1,616,546	630,300	634,789	$22.74	2.4%
Class B	104,450,660	19.1%	775,861	170,126	641,002	$17.88	1.4%
All Classes	232,806,977	17.7%	2,512,154	800,426	1,275,791	$19.70	1.9%

Source: CoStar Advisory Report, Year-End 2012

FULTS

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 continue to grow. Single-family home permits increased more than 25 percent in 2012, and new home sales, along with the sale of existing homes are on the rise. This means that construction employment will need to increase in order to meet demand. 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, rebounded after declining for three consecutive years. The property tax base projection for 2013 is $84 billion.

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 and sequestration, 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.

Fults Market Report is published quarterly by Fults Commercial Real Estate.