

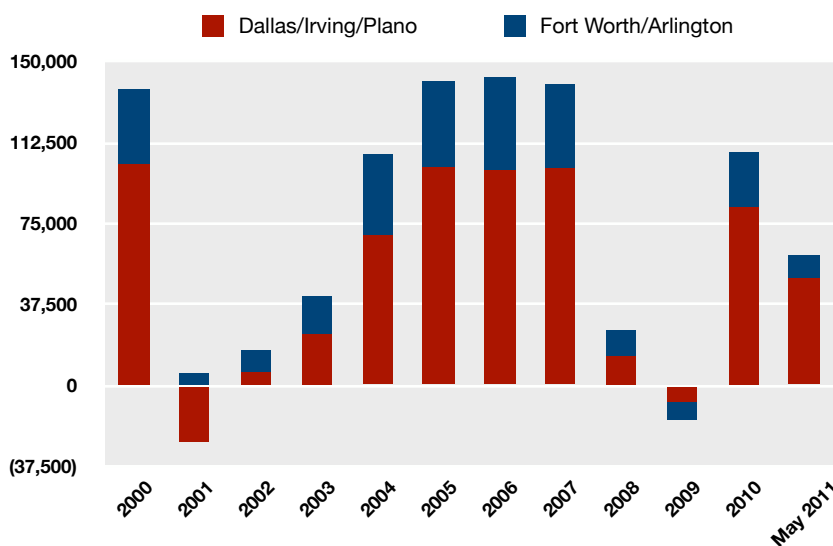
FULTS MARKET REPORT

Dallas Office Update | Mid-year 2011

Job Growth and Unemployment

Preliminary figures from the Bureau of Labor Statistics indicated that 60,400 new jobs were added in the Metroplex (Dallas, Fort Worth and surrounding areas) for the 12-month period ending May 2011. That number was down slightly from 65,000 new jobs reported for the 12-month period ending February 2011. Still, the Metroplex maintained one of the highest rates of employment growth in the U.S. at 2.05 percent.

Metroplex Job Growth



Source: www.bls.gov
Preliminary figures for the 12-month period ending May 2011 for total non-farm employment, not seasonally adjusted

Nationally, the U.S. added 902,000 new jobs for the 12-month period ending May 2011. Much like the Metroplex, that figure was down from 1.2 million new jobs reported for the 12-month period ending February 2011. Many economists attribute our economic dip to the earthquake in Japan and higher energy costs.

Since our last report, the U.S. unemployment rate has risen from 8.8 percent to 9.2 percent. The Metroplex unemployment rate continued to decline from 8.1 percent in February to 7.9 percent in May. During the same time-period, statewide unemployment dropped from 8.2 percent to 7.9 percent.

Dallas Office Market

At the conclusion of the second quarter, year-to-date absorption dropped to 538,520 square feet from 768,542 square feet at the conclusion of the first quarter. It also appeared as though tenants had an appetite for class B space. Since year-end, over 70 percent of the office inventory absorbed has been class B space. At year-end 2010, 45 percent of the office space absorbed was class A and 42 percent was class B. The overall office vacancy rate was 19 percent, down from 20 percent at year-end. Year-to-date new deliveries totaled 145,838 square feet and the average quoted rental rate was \$19.24 per square foot.

The Richardson/Plano and Far North Dallas office markets have been competing for the top office market position within Dallas since the office market recovery began. At mid-year, the Far North Dallas market achieved top honors with nearly 500,000 square feet of positive absorption, 15.4 percent vacancy and an average quoted rental rate of \$20.94 per square foot. The Upper Tollway/W. Plano submarket was the top-performing sector within the Far North Dallas office market. At mid-year, nearly 610,000 square feet of office space had been absorbed and the vacancy rate dropped to 8.5 percent in the Upper Tollway/W. Plano submarket. At \$23.59 per square foot, the average quoted rental rate was well above the Dallas market average.

With 363,772 square feet of positive absorption, the Richardson/Plano market was the second best performing office market in the Dallas area. All three of the submarkets within Richardson/Plano posted positive absorption but the Richardson sector had the highest amount with 237,770 square feet absorbed. It is likely that the Richardson submarket will continue to be an attractive option for tenants looking for a good deal on office space. With 23.3 percent vacancy, the submarket's average quoted rental rate is still well below the Dallas-area average at \$17.15 per square foot.

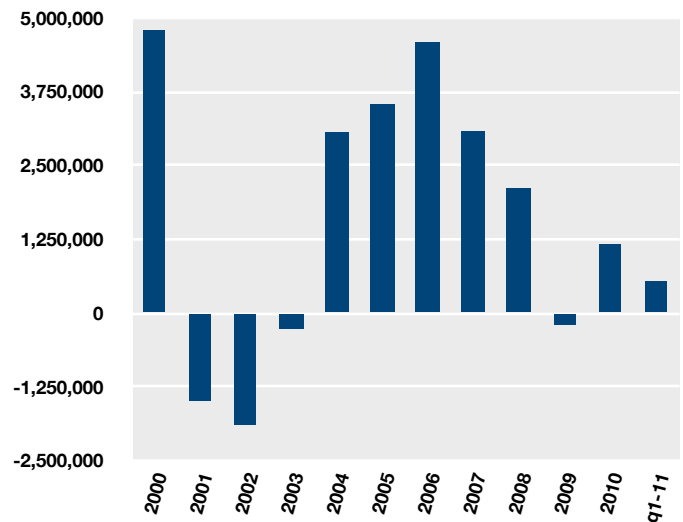
The Dallas CBD posted the highest amount of negative absorption at mid-year. Year-to-date, tenants vacated nearly 150,000 square feet of CBD office space. At 25.6 percent, the CBD's vacancy rate was well above the Dallas average. The average posted rental rate was \$18.71 per square foot. The CBD could experience growth in the near future as one of its largest tenants, Baylor Healthcare Systems, continues to expand.

Conclusion

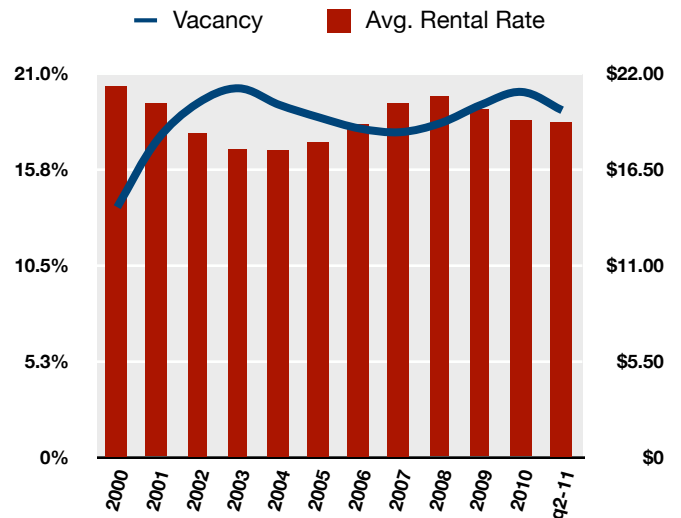
Because of our job growth and minimal housing bubble, Dallas is one of the U.S. office markets leading this recovery. Although activity among office tenants looking for space has increased, our experience is that there is still reservation in their decision-making. At this point it is unclear if they are capitalizing on favorable market conditions, or if pending lease expirations are forcing their decisions. In a recent survey of small businesses conducted by the U.S. Chamber of Commerce, only 19 percent of small businesses plan to add new employees over the next year. Economic uncertainty was cited as the biggest obstacle to hiring. Poor sales and political uncertainty followed closely behind.

We remain cautiously optimistic that the Dallas economy and office market will continue a slow and steady recovery throughout the remainder of 2011. Worker productivity remains very high, which means that employers continue to do more with fewer human resources. Additionally, Americans who have jobs are focused on rebuilding their savings accounts and paying down debt, while paying higher prices for necessities like food and energy. As job growth picks up in the Metroplex and other parts of the country, we should see increased demand for goods and services from consumers. As sales increase for small and large businesses, we should experience even more hiring and meaningful economic recovery, despite the political games being played in Washington.

Dallas Historic Absorption



Dallas Historic Vacancy & Rental Rates



Source: CoStar Advisory Report; Mid-year 2011

Mid-Year 2011 Dallas Market/Submarket Statistics

Market/ Submarket	No. of Bldgs	Total RBA	Direct Vacancy	Total Vacancy	YTD Class A Net Absorption	YTD Class B Net Absorption	YTD Net Absorption	Average Rate
Dallas CBD	161	36,895,335	24.8%	25.6%	(207,450)	37,144	(147,114)	\$18.71
Central Expressway	382	18,158,446	12.9%	13.1%	35,194	(88,827)	(58,835)	\$20.28
Stemmons Freeway	294	19,853,638	19.0%	19.6%	22,164	(144,505)	(96,866)	\$14.17
Uptown/Turtle Creek	326	13,222,084	17.1%	18.4%	107,465	(7,501)	91,102	\$27.94
Preston Center	137	5,499,872	10.0%	10.5%	62,318	18,453	79,846	\$27.54
LBJ Freeway	251	23,184,319	22.5%	23.1%	(176,688)	88,175	(95,890)	\$17.19
*East LBJ	165	17,957,263	22.8%	23.4%	(176,954)	86,400	(99,416)	\$18.00
*West LBJ	86	5,227,056	21.7%	22.2%	266	1,775	3,526	\$14.48
Richardson/Plano	872	33,141,957	18.8%	19.3%	198,828	166,623	363,772	\$18.18
*Allen/McKinney	295	6,628,958	15.4%	16.1%	28,946	15,716	43,334	\$20.49
*Richardson	270	16,606,231	23.0%	23.3%	54,797	190,447	237,770	\$17.15
*Plano	307	9,906,768	14.0%	14.7%	115,085	(39,540)	82,668	\$18.39
Far North Dallas	841	49,865,522	14.6%	15.4%	211,159	266,121	498,751	\$20.94
*Frisco/The Colony	169	4,806,547	13.3%	14.0%	19,139	35,074	56,030	\$22.88
*Quorum/Bent Tree	356	22,751,768	21.3%	22.4%	(329,931)	144,696	(166,188)	\$19.51
*Upper Tollway/W. Plano	316	22,307,207	8.0%	8.5%	521,951	86,351	608,909	\$23.59
Las Colinas	385	36,656,344	17.6%	18.7%	(134,675)	46,808	(96,246)	\$19.65
*DFW Freeport/Coppell	172	11,201,055	17.2%	17.7%	(2,324)	34,294	28,028	\$18.97
*Office Center/W. LBJ	151	16,012,893	13.8%	15.3%	(226,263)	11,427	(219,273)	\$18.94
*Urban Center/Wingren	62	9,442,396	24.7%	25.5%	93,912	1,087	94,999	\$21.02
Total Market	3,649	236,477,517	18.3%	19.0%	118,315	382,491	538,520	\$19.24

* denotes submarket within the office market listed above.

Source: CoStar Advisory Report: Mid-Year 2011



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