



DALLAS OFFICE MARKET REPORT FIRST QUARTER 2012



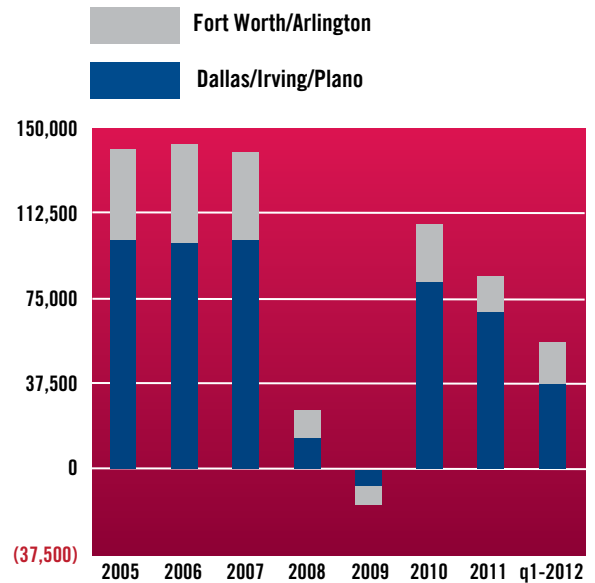
ECONOMY & JOB GROWTH

Dallas/Fort Worth posted solid job growth figures for the first two months of 2012. According to the Bureau of Labor Statistics, 79,000 new jobs were added in North Texas for the 12-month period ending February 2012. The local unemployment rate dropped to 7.1 percent from 7.4 percent at year-end. The unemployment rate for Texas was slightly higher, at 7.2 percent. March employment figures were not available at the time that this report was produced.

While we anticipate that Dallas/Fort Worth will continue to lead the country in job creation, we must note that we are starting to see more mass layoffs both nationally and statewide. According to a report released by Challenger, Gray & Christmas, Texas led the nation in the number of announced layoffs in the month of February. Nationwide, the pace of downsizing increased 18 percent in just two months. Last year the government sector bore the brunt of the layoffs. In 2012, layoffs in consumer products and transportation sectors are leading the way. Locally, we have seen layoffs that include 600 employees at the JC Penney campus in Frisco. Earlier in the 2012, Dean Foods announced they would eliminate a significant number of positions at its Dallas headquarters at CityPlace. Saxon Mortgage plans to layoff 680 employees in Fort Worth and Irving. MetLife laid off 804 employees in Irving, effective March 30, 2012. T-Mobile is consolidating its call centers and will vacate a facility in Frisco, and BlockBuster is closing a distribution facility in McKinney and laying off all staff.

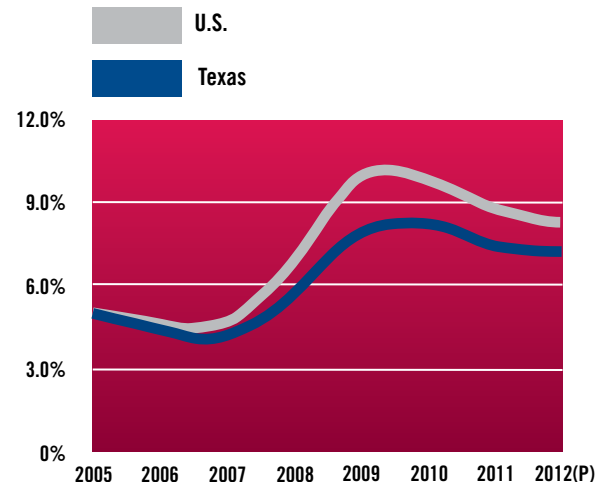
As expected, Dallas continues to pursue corporate relocations, particularly from California-based companies. William O'Neil & Co., Hyundai Capital America, Copart Inc., and MV Transportation have all recently announced their relocations to the Dallas/Fort Worth area. Relocations are likely to continue and possibly accelerate as businesses consider where they want to be as the economy to recovers.

D/FW JOB GROWTH



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

UNEMPLOYMENT



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

DALLAS OFFICE MARKET REPORT FIRST QUARTER 2012

OFFICE MARKET

The trend of class B office product outperforming class A product continued into the first quarter of 2012; which is an indicator that tenants continued to look for value. Overall market absorption was slightly negative with 6,354 square feet of negative absorption, 18.4 percent vacancy, and an average quoted rental rate of \$19.59 per square foot. First quarter deliveries were minimal and new construction increased to 771,480 square feet. Seventy percent of the new space under construction was pre-leased.

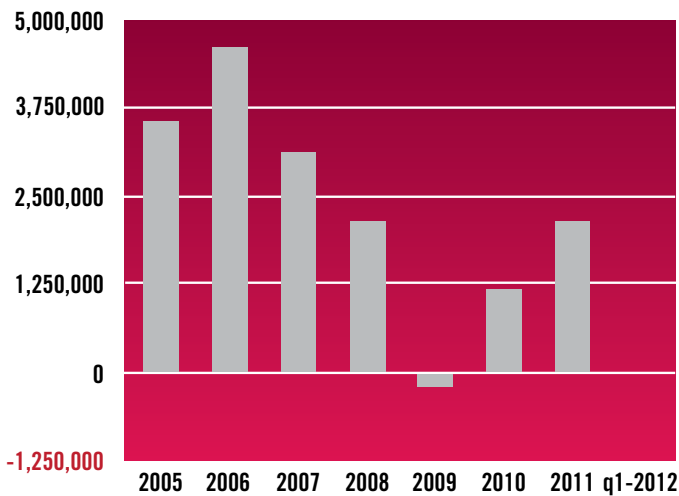
Tenants vacated nearly 500,000 square feet of class A office space and the class A vacancy rate increased slightly from 18.9 percent at year-end to 19.2 percent. The average quoted rate for class A space dropped slightly to \$22.21 per square foot. The class B market outperformed the class A market during the entirety of 2011 and that trend continued into 2012 as tenants absorbed over 400,000 square feet of office space and the vacancy rate dropped to 18.9 percent from 19.5 percent at year-end. The average quoted rental rate for class B space increased slightly to \$17.88 per square foot.

OFFICE MARKET SUMMARY BY CLASS

MARKET	TOTAL RBA	TOTAL VACANCY	YTD NET ABSORPTION	DELIVERIES	UNDER CONSTRUCTION	AVG. QUOTED RATE
Class A	105,696,343	19.2%	(483,470)	0	638,100	\$22.52
Class B	105,650,206	18.9%	413,264	4,008	133,380	\$17.88
All Classes	233,355,573	18.4%	(6,354)	4,008	771,480	\$19.59

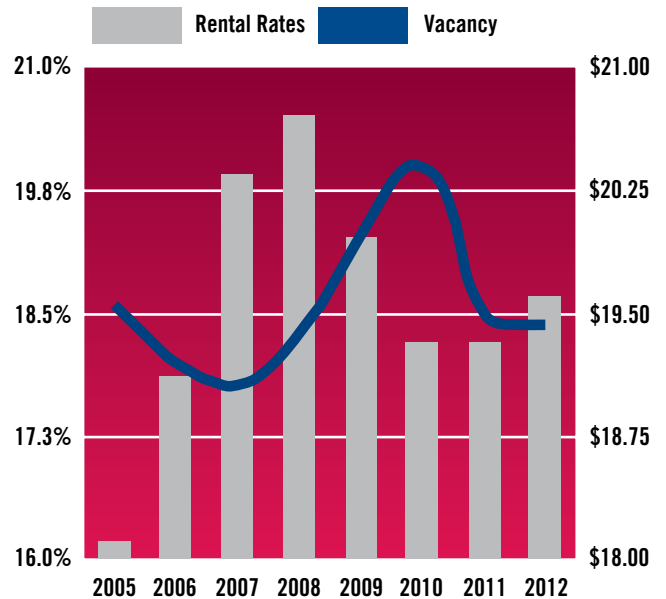
Source: CoStar Advisory Report, First Quarter 2012

ABSORPTION - ALL CLASSES



Source: CoStar Advisory Report, First Quarter 2012

VACANCY & RENTAL RATES - ALL CLASSES



Source: CoStar Advisory Report, First Quarter 2012

**DALLAS OFFICE
MARKET REPORT
FIRST QUARTER 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	154	36,456,266	25.8%	26.7%	(176,120)	0	0	\$19.67
Central Expressway	277	15,374,459	14.5%	14.7%	15,286	0	0	\$20.40
Stemmons Freeway	291	19,557,884	17.6%	18.3%	(21,813)	0	0	\$15.05
Uptown/Turtle Creek	318	13,080,453	13.7%	14.3%	92,086	0	0	\$28.05
Preston Center	134	5,571,349	8.5%	8.7%	55,488	0	85,000	\$28.36
LBJ Freeway	251	23,205,602	23.8%	24.8%	(262,569)	0	0	\$17.23
*East LBJ Freeway	162	17,953,488	23.9%	24.8%	(213,013)	0	0	\$17.97
*West LBJ Freeway	89	5,252,114	23.7%	25.0%	(49,556)	0	0	\$14.69
Richardson/Plano	997	33,288,558	16.3%	16.5%	307,431	0	223,400	\$18.76
*Allen/McKinney	304	6,645,502	9.3%	9.6%	234,032	0	223,400	\$21.15
*Richardson	273	16,742,485	22.0%	22.1%	62,177	0	0	\$18.23
*Plano	319	9,900,571	11.4%	11.6%	11,222	0	0	\$18.32
Far North Dallas	883	50,148,123	13.3%	13.9%	293,796	4,008	463,080	\$21.29
*Frisco/The Colony	172	4,829,147	9.3%	9.9%	91,854	0	21,606	\$23.60
*Quorum/Bent Tree	363	22,866,807	19.2%	20.2%	169,766	0	0	\$19.13
*Upper Tollway/W. Plano	348	22,452,169	8.1%	8.3%	32,176	4,008	441,474	\$24.87
Las Colinas	389	36,672,879	17.6%	18.4%	(309,939)	0	0	\$19.78
*DFW Freeport/Coppell	176	11,309,222	14.7%	14.9%	7,833	0	0	\$19.30
*Office Center/W. LBJ	151	15,928,295	16.2%	17.6%	(281,684)	0	0	\$18.74
*Urban Center/Wingren	62	9,453,362	23.5%	24.0%	(36,088)	0	0	\$21.64
Total Market	3,694	233,355,573	17.7%	18.4%	(6,354)	4,008	771,480	\$19.59

Source: CoStar Advisory Report, First Quarter 2012

DALLAS OFFICE
MARKET REPORT
 FIRST QUARTER 2012

TOP PERFORMING MARKETS

#1 - RICHARDSON/PLANO

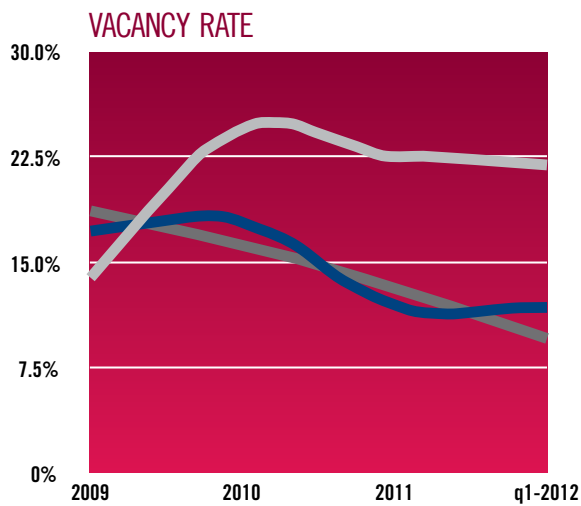
The Richardson/Plano office market, also known as the Telecom Corridor, is comprised of three submarkets: Allen/McKinney, Richardson and Plano. This market experienced substantial growth in 2011 and was the top performing office market in Dallas for the first quarter of 2012. Overall, tenants absorbed 307,431 square feet of office space, 90 percent of which was class B. The vacancy rate dropped one point to 16.5 percent, and the average quoted rental rates increased 4.2 percent to \$18.76 per square foot.

This quarter, **ALLEN/MCKINNEY** was the top-performing submarket within Richardson/Plano. Absorption in Allen/McKinney accounted for 76 percent of the overall absorption within Richardson/Plano, and 90 percent of the space absorbed within Allen/McKinney was class B. The vacancy rate dropped 3.5 percent to 9.6 percent during the quarter and rental rates were flat.

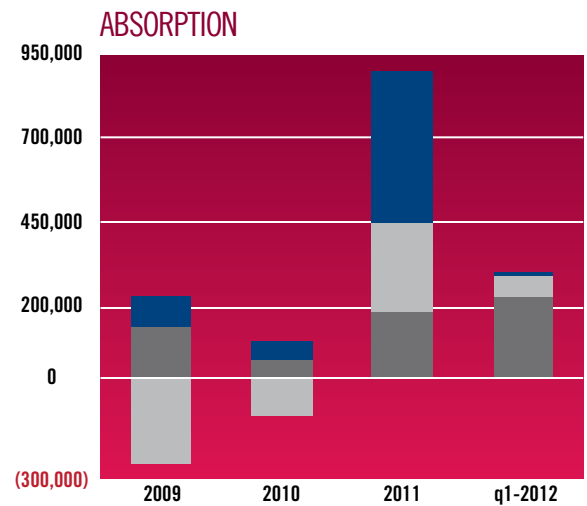
The **RICHARDSON** submarket recorded 62,177 square feet of positive absorption during the first quarter. Forty-four percent of the space absorbed was class A and 31 percent was class B. Richardson's vacancy rate was virtually unchanged during the quarter. In response to demand, landlords raised quoted rates nearly 6.5 percent to \$18.23 per square foot.

The **PLANO** submarket posted the least amount of absorption of these three submarkets in the first quarter. With 11.6 percent vacancy, there are not many options for tenants looking for space within Plano. Surprisingly, rental rates were virtually unchanged since year-end. In fact, the current rental rates in Plano are three percent lower than they were at year-end 2010, and that is after absorbing 450,000 square feet during 2011.

TRENDS by SUBMARKET Allen/McKinney Richardson Plano



Source: CoStar Advisory Report, First Quarter 2012



Source: CoStar Advisory Report, First Quarter 2012

DALLAS OFFICE
MARKET REPORT
 FIRST QUARTER 2012

#2 - FAR NORTH DALLAS

FND, which is comprised of three submarkets: Quorum/Bent Tree, Frisco/The Colony, and the Upper Tollway/West Plano. In terms of absorption, FND was the second best performing office market in Dallas in the first quarter of 2012. Together, these submarkets house over 50 million square feet of office space. At the conclusion of the first quarter this market posted 13.9 percent vacancy, nearly 300,000 square feet of positive absorption, 463,080 square feet of new construction, and an average quoted rental rate of \$21.29 per square foot. Absorption was split almost evenly between the class A and B markets within FND.

Tenant's appetite for class A space in the **QUORUM/BENT TREE** submarket was very strong in the first quarter. Overall, tenants absorbed nearly 250,000 square feet of class A space and vacated 71,000 square feet of class B space. Altogether, the submarket posted nearly 170,000 square feet of positive absorption and the vacancy rate hovered near 20 percent. Rental rates were flat, but we anticipate that they will increase modestly throughout 2012 if job growth remains steady. FND has always been one of the most sought-after office markets in Dallas, and the other submarkets within FND have much less availability and higher rates than the Quorum.

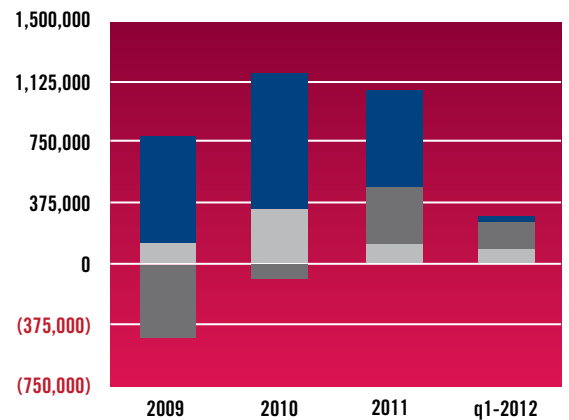
FRISCO/THE COLONY posted nearly 92,000 square feet of positive absorption and 9.9 percent vacancy. Nearly all of the space absorbed in this submarket was class B. Rental rates increased slightly during the first quarter to \$23.60 per square foot from \$23.30 per square foot at year-end. This submarket should remain tight through 2012 as new construction is minimal and demand is steady.

The **UPPER TOLLWAY/WEST PLANO** submarket has been the top performing submarket within FND for the past several years, as indicated by the absorption graph to the right. Absorption slowed in the first quarter as Upper Tollway/West Plano tenants vacated 331,000 square feet of class A space and absorbed 121,000 square feet of class B space bringing the absorption total to 32,000 square feet. The vacancy rate hovered near eight percent making it one of the tightest office markets in Dallas. At the conclusion of the first quarter, there was 441,000 square feet of new space under construction; however, only 158,000 square feet of that new space was speculative with no preleasing. Rental rates in the Upper Tollway/West Plano submarket have been on the rise since 2010 and we anticipate that trend will continue through 2012 into 2013 and 2014 as the economic recovery gains momentum and new supply of office product is constrained.

TRENDS by SUBMARKET

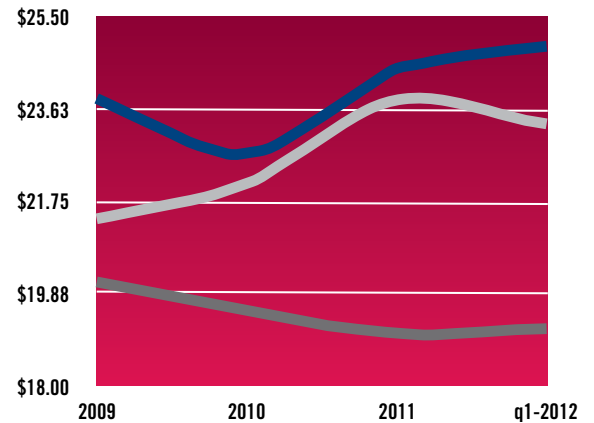
Quorum/Bent Tree
 Frisco/The Colony
 Upper Tollway/W. Plano

ABSORPTION



Source: CoStar Advisory Report, First Quarter 2012

RENTAL RATES



Source: CoStar Advisory Report, First Quarter 2012

OUTLOOK

At year-end 2011, the national economy had generated quite a bit of positive momentum, and it appeared as though that momentum carried into 2012 during the first two months of the new year. However, with job growth dropping off in March and April, new jobless claims fluctuating from week-to-week, and GDP growth slowing during the first quarter, an underlying tone of uncertainty has returned. Still, the Federal Reserve has yet to revise their forecast for 2.8 to 3.2 percent economic growth and 1.9 million new jobs in 2012. We are confident that Dallas/Fort Worth will continue to lead the labor market recovery as our local business and economic fundamentals remain strong.

In terms of our outlook for the Metroplex office market, continued job growth and limited speculative construction will equate to further decreases in the office vacancy rate in 2012. We anticipate further rental rate increases in the markets and submarkets where the vacancy rate is 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 rates as soon as possible. Lastly, we continue to forecast 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.

Fulfs Market Report is published quarterly by Fulfs Commercial Real Estate.
All information is from sources deemed reliable; however, no representation is made as to the accuracy thereof.