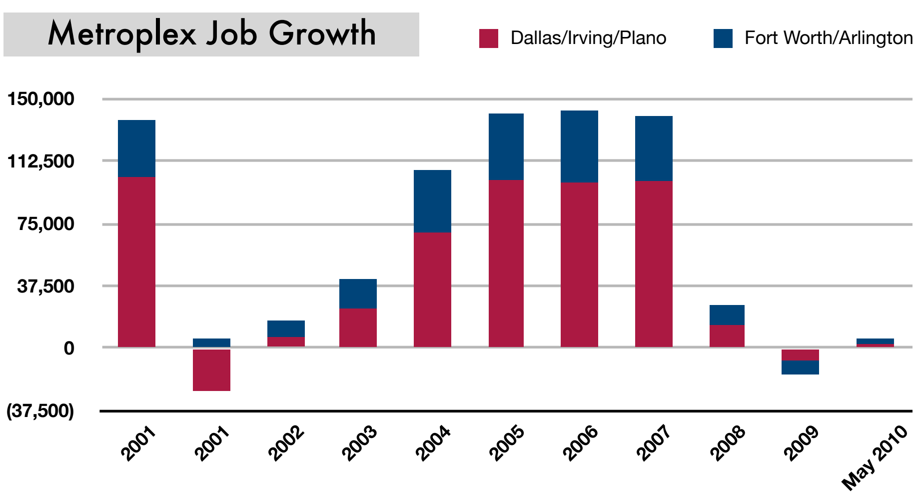
# FULTS MARKET REPORT

## Dallas Office Update | Q2- 2010

### Uncertainty Lingers

As we move into the second half of 2010, it seems as though the one thing of which we can be certain is that there is a lot of uncertainty out there. Preliminary figures from the Bureau of Labor Statistics indicated that the Dallas/Fort Worth area recorded four consecutive months of employment gains and added 5,700 jobs for the 5-month period ending May 2010. The local unemployment rate was down slightly to 8.1 percent, which was still below the national level of 9.7 percent. Additionally, the nation as a whole also experienced job growth. During the first five months of 2010, over one million jobs were added in the U. S.

While the labor market appears to be slowly improving, uncertainty lingers. Government stimulus programs and the seasonal hiring of census workers caused fluctuations in job growth data and other economic indicators. In addition to these fluctuations, consumer confidence has remained weak due to the oil spill in the Gulf, the continued weakness in the housing market and tight credit conditions. Lastly, the Federal Open Market Committee has forecast high unemployment; however, their most recent report stated that the national unemployment rate could drop to 8.5 percent by the end of 2011 and to 7.0 percent by the end of 2012.




Source: www.bls.gov
Preliminary figures for the 2-month period ending February 2010 for total non-farm employment, not seasonally adjusted

In many ways, the Dallas office market is mirroring the national economy in that we have some positive results, but we are not yet out of the woods. Despite four consecutive months of job growth in the Metroplex, the Dallas office market continued to decline in the second quarter. However, the rate at which tenants vacated space slowed. At the close of the second quarter, the vacancy rate increased to 20.8 percent from 19.3 percent at year-end. Tenants vacated nearly 250,000 square feet of office space in the second quarter bringing mid-year absorption to (748,327) square feet, and a dip in the average quoted rental rate to $19.54 per square foot.

## Dallas Office Market

This quarter, eight of the 16 submarkets tracked in this report reported positive absorption. That is an improvement over first quarter results as 11 submarkets posted negative absorption during that time period. Quarterly gains and losses varied from submarket-to-submarket, which is typical for an office market that is trying to bounce back.

In the second quarter, the Stemmons Freeway submarket recorded 307,987 square feet of positive absorption, bringing year-to-date absorption out-of-the-red up to 157,447 square feet. Vacancy dropped slightly to 23.4 percent with quoted rental rates dropping as well to $14.64 per square foot.

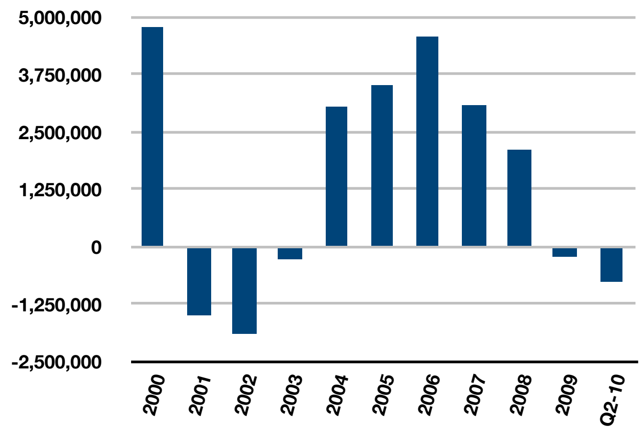
Plano also had a good quarter with 179,843 square feet of positive absorption. Vacancy decreased from 16.1 percent at year-end to 15.8 percent. Quoted rental rates dropped slightly to $19.41 per square foot.

West LBJ Freeway has posted two consecutive quarters of positive absorption. Year-to-date, nearly 200,000 square feet of office space has been absorbed in this submarket. At 17.5 percent, the vacancy rate is below the Dallas market average, thus rental rates increased slightly to $14.25 per square foot.

Richardson had a strong first quarter showing with 435,309 square feet of positive absorption. In the second quarter, tenants vacated 349,216 square feet and year-to-date absorption dropped to 86,093 square feet. Since year-end the vacancy rate has increased from 13.8 percent to 23.5 percent. This substantial increase is due to the delivery and partial occupancy of the one million square foot build-to-suit for Blue Cross Blue Shield and the second quarter absorption figure. Quoted rental rates were unaffected by the increase in vacancy.

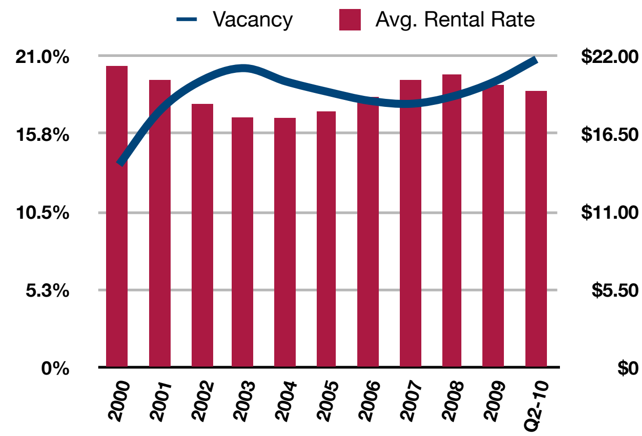
The Quorum/Bent Tree submarket posted (550,457) square feet of negative absorption in the second quarter which brought the mid-year figure to nearly (700,000) square feet. The vacancy rate rose three points to 24.2 percent. Since year-end, rental rates have dropped 3.58 percent to $19.35 per square foot.

### Dallas Historic Absorption




Source: CoStar Advisory Report; Second Quarter 2010

### Dallas Historic Vacancy & Rental Rates




Source: CoStar Advisory Report: Second Quarter 2010

## Outlook

While there is too much uncertainty to declare that our market has bottomed and is on the road to full recovery, we are encouraged by local employment gains and slowing losses in the office market. We anticipate that both the Dallas employment and office markets will continue to show modest improvements throughout the year as the uncertainty about economic recovery subsides. Additionally, our long-term outlook remains extremely positive as the factors that propelled our growth in the past remain in place, setting the stage for Dallas and surrounding communities reap the benefits of full recovery sooner than other parts of the country.

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## Q2-10 Dallas Market/Submarket Statistics

| Market/ Submarket | No. of Bldgs | Total RBA | Total Vacancy | Q1 Net Absorption | Q2 Net Absorption | YTD Net Absorption | Average Rate |
|---|---|---|---|---|---|---|---|
| Dallas CBD | 166 | 37,141,997 | 26.3% | (292,254) | 51,726 | (240,528) | $18.87 |
| Central Expressway | 301 | 15,543,303 | 12.9% | 104,518 | (55,756) | 48,762 | $21.33 |
| Stemmons Freeway | 250 | 16,258,244 | 23.4% | (150,540) | 307,987 | 157,447 | $14.64 |
| Uptown/Turtle Creek | 329 | 13,259,119 | 20.2% | (200,601) | (132) | (200,733) | $28.44 |
| Preston Center | 135 | 5,061,385 | 11.6% | (84,904) | (2,581) | (87,485) | $26.57 |
| LBJ Freeway | 250 | 24,183,958 | 21.8% | 11,886 | 88,199 | 100,085 | $17.08 |
| *East LBJ | 165 | 18,219,362 | 23.2% | (89,603) | (8,065) | (97,668) | $17.78 |
| *West LBJ | 85 | 5,964,596 | 17.5% | 101,489 | 96,264 | 197,753 | $14.25 |
| Richardson/Plano | 838 | 32,567,508 | 20.3% | 169,280 | (67,063) | 102,217 | $19.17 |
| *Allen/McKinney | 286 | 6,615,936 | 18.9% | (234,205) | 102,310 | (131,895) | $20.76 |
| *Richardson | 262 | 16,307,461 | 23.5% | 435,309 | (349,216) | 86,093 | $17.65 |
| *Plano | 290 | 9,644,111 | 15.8% | (31,824) | 179,843 | 148,019 | $19.41 |
| Far North Dallas | 822 | 49,047,797 | 20.0% | (31,033) | (598,885) | (629,918) | $20.65 |
| *Frisco/The Colony | 167 | 4,724,458 | 19.9% | 140,247 | 3,408 | 143,655 | $21.29 |
| *Quorum/Bent Tree | 357 | 23,003,256 | 24.2% | (140,188) | (550,457) | (690,645) | $19.35 |
| *Upper Tollway/W. Plano | 298 | 21,320,083 | 15.4% | (31,092) | (51,836) | (82,928) | $22.98 |
| Las Colinas | 370 | 36,141,519 | 20.0% | (25,204) | 27,030 | 1,826 | $19.55 |
| *DFW Freeport/Coppell | 168 | 11,076,635 | 19.2% | 92,551 | 22,153 | 114,704 | $18.61 |
| *Office Center/W. LBJ | 141 | 15,650,336 | 16.6% | (62,991) | (29,408) | (92,399) | $19.09 |
| *Urban Center/Wingren | 61 | 9,414,548 | 26.7% | (54,764) | 34,285 | (20,479) | $20.86 |
| **Total Market** | **3,461** | **229,204,830** | **20.8%** | **(498,852)** | **(249,475)** | **(748,327)** | **$19.54** |

* denotes submarket within the office market listed above.

Source: CoStar Advisory Report: Second Quarter 2010

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