



MARKET REPORT

Third Quarter 2011 - Dallas Office Update

Job Growth and Unemployment

Preliminary figures from the Bureau of Labor Statistics indicate that the Dallas/Fort Worth labor market has been slowly shedding jobs since May 2011. In our first quarter 2011 update, we reported that the D/FW economy had added 65,000 jobs for the 12-month period ending February 2011. In our second quarter report, job growth slipped to 60,400 for the 12-month period ending May 2011. Now, at the conclusion of the third quarter, job growth has slipped again to 50,200 new jobs for the 12-month period ending August 2011.

Local and state unemployment rates increased modestly in the third quarter as well. Locally, the unemployment rate increased to 8.4 percent from 7.9 percent at mid-year. Statewide unemployment also increased to 8.5 percent from 7.9 percent during the same time period.

Nationally, the U.S. added 1.46 million new jobs for the 12-month period ending September 2011. The U.S. unemployment rate held steady at 9.1 percent.

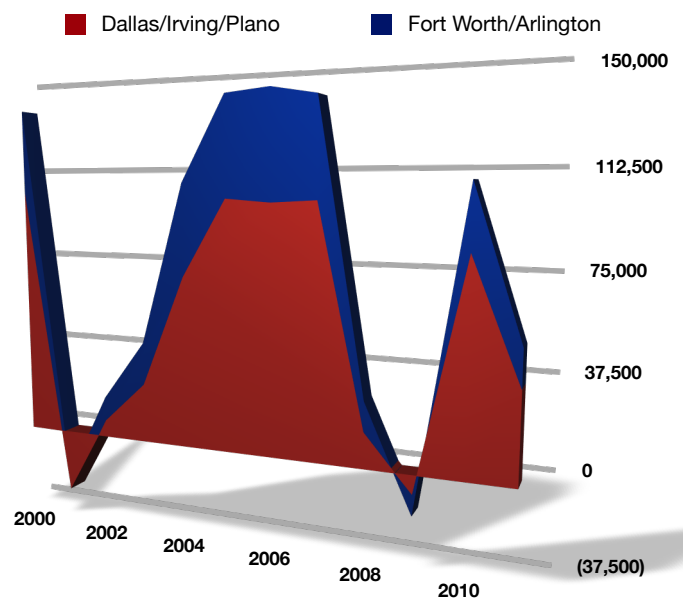
Dallas Office Market

After taking a break in the second quarter, tenants resumed absorbing office space in the third quarter. Overall, 1.65 million square feet of office space has been absorbed in 2011, with tenants' appetite for class B space leading the way. At the conclusion of the third quarter, 75 percent of the office space absorbed was class B space. The overall vacancy rate dropped to 18.5 percent from 20 percent at year-end 2010. Year-to-date new deliveries totaled 216,409 square feet and the average quoted rental rate was \$19.22 per square foot.

Five of the 16 markets tracked in this report posted positive absorption in the third quarter. Far North Dallas held its position as the top performing market in Dallas with over 900,000 square feet of positive absorption. All three submarkets within Far North Dallas posted positive absorption with the bulk of the space being absorbed in the Upper Tollway/West Plano area, our northernmost submarket. Since year-end, over 750,000 square feet of office space has been absorbed in this submarket. The Upper Tollway/West Plano submarket also boasts the lowest vacancy rate in the city at 7.7 percent, and one of the highest average quoted rental rates at \$23.53 per square foot.

Las Colinas may have finally begun to turn around with over one-half million square feet of positive absorption in the third quarter. The gain was split almost evenly between the DFW Freeport/Coppell and Urban Center/Wingren submarkets. Despite the sizable gain in absorption, the Urban Center/Wingren vacancy rate, 23.5 percent, remained well above the Las Colinas and Dallas averages. The overall vacancy rate in Las Colinas dropped from 18.7 percent at mid-year to 17.1 percent.

Metroplex Job Growth





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Richardson/Plano had another strong quarter. Since year-end 2010, over 300,000 square feet of office space has been absorbed in this market. All three submarkets within Richardson/Plano posted absorption gains and the vacancy rates within these submarkets range from 14.6 percent up to 23 percent.

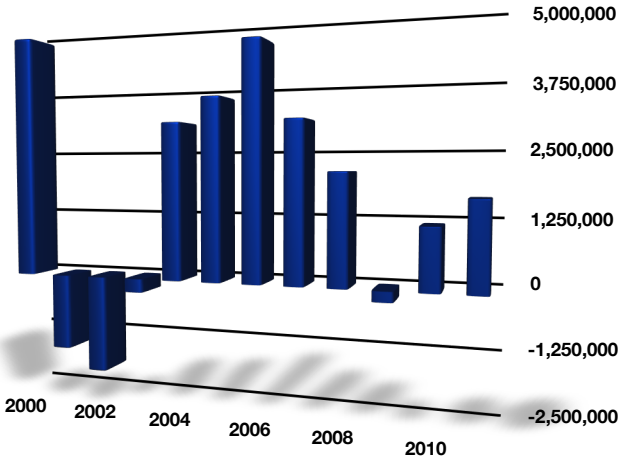
Of the five markets within Dallas to post negative absorption, the Dallas CBD posted the highest amount of negative absorption at mid-year and again at the conclusion of the third quarter. Year-to-date, tenants vacated nearly 190,000 square feet of CBD office space. At 25.7 percent, the CBD's vacancy rate was well above the Dallas average by 6.2 percent. The average quoted rental rate was \$19.42 per square foot.

Conclusion

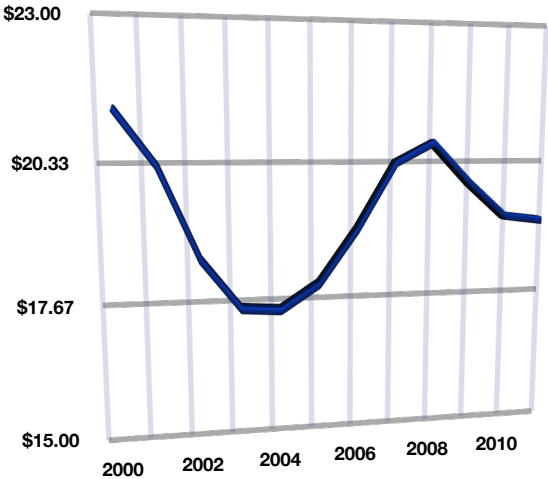
Dallas continues to be somewhat insulated from the woes of the national economy and labor market. However, with local job growth steadily declining since February, the rate at which we recover is likely slowing as well. Despite our minimal housing bubble and positive job growth, we are not completely protected against the ups and downs of the national economy, which continues to send mixed messages with each and every economic report. Nationally, job growth and jobless claims seem to fluctuate from month-to-month. In September, retail sales posted their highest gains in seven months, and third quarter sales were higher than analysts expectations, an indicator that consumers were feeling positive about the economy. However, consumer sentiment declined in October. Consumer sentiment measures how consumers view their personal finances as well as business and buying conditions.

With neither the private nor public sectors creating enough jobs to drive down the unemployment rate, our economic growth is almost completely dependent upon consumer spending. A report recently released by the *Wall Street Journal* found that U.S. median income fell seven percent from 2000 to 2010, reflecting the worst 10-year period on record. The report went on to forecast that wages will only increase five percent from 2011 to 2021, and that the national employment rate will only drop to 8.2 percent between now and 2013. That is less than a one percent reduction from our current rate of unemployment. Given these forecasts, it is clear that meaningful recovery in the labor and office markets are still a few years out. The Dallas office market will likely hold its spot as one of the top performing office markets in the U.S., but the rate at which we stabilize and grow is likely slowing given the fact that our job growth has slowed through our last two reporting periods.

YTD Absorption



Average Quoted Rental Rates





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q3-11 Dallas Market/Submarket Statistics

Market/ Submarket	No. of Bldgs	Total RBA	Total Vacancy	YTD Class A Net Absorption	YTD Class B Net Absorption	YTD Net Absorption	YTD Deliveries	Average Rate
Dallas CBD	159	36,627,937	25.7%	(260,143)	43,525	(189,915)	0	\$19.42
Central Expressway	380	18,084,635	13.5%	8,437	(112,342)	(106,942)	28,682	\$20.72
Stemmons Freeway	294	19,736,477	19.4%	(49,211)	(87,489)	(84,532)	0	\$14.23
Uptown/Turtle Creek	322	13,112,314	16.7%	320,824	(4,254)	297,891	0	\$27.52
Preston Center	134	5,566,885	10.9%	40,489	34,919	43,774	0	\$27.67
LBJ Freeway	255	23,436,829	22.6%	(110,661)	90,249	(27,581)	72,000	\$17.12
*East LBJ	164	18,170,736	22.9%	(129,737)	86,969	(55,096)	72,000	\$17.89
*West LBJ	91	5,266,093	21.6%	19,076	3,280	27,515	0	\$14.50
Richardson/Plano	889	33,081,399	19.2%	(198,392)	515,100	305,205	49,769	\$18.08
*Allen/McKinney	306	6,766,303	15.0%	25,405	54,152	65,026	32,469	\$21.10
*Richardson	269	16,625,732	23.7%	(338,882)	432,132	81,878	0	\$17.19
*Plano	314	9,689,364	14.6%	115,085	28,816	158,301	17,300	\$18.20
Far North Dallas	880	50,087,631	14.6%	463,892	425,331	912,356	16,026	\$20.67
*Frisco/The Colony	171	4,818,410	13.5%	3,930	39,051	46,798	0	\$22.83
*Quorum/Bent Tree	361	22,915,440	21.5%	(193,652)	288,360	112,384	16,026	\$19.24
*Upper Tollway/W. Plano	348	22,353,781	7.7%	653,614	97,920	753,174	0	\$23.53
Las Colinas	386	36,737,040	17.1%	166,807	341,447	505,220	49,932	\$19.67
*DFW Freeport/Coppell	175	11,292,438	16.2%	(2,324)	255,636	249,370	36,261	\$19.06
*Office Center/W. LBJ	150	16,001,200	13.9%	(66,269)	50,278	(15,083)	13,671	\$19.20
*Urban Center/Wingren	61	9,443,402	23.5%	235,400	35,533	270,933	0	\$20.94
Total Market	3,699	236,471,147	18.5%	382,042	1,246,486	1,655,476	216,409	\$19.22

*denotes submarket within the office market listing above in white.
Source: CoStar Advisory Report: Third Quarter 2011



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