FULTS

DALLAS OFFICE
MARKET REPORT
YEAR-END 2011

ECONOMY & JOB GROWTH

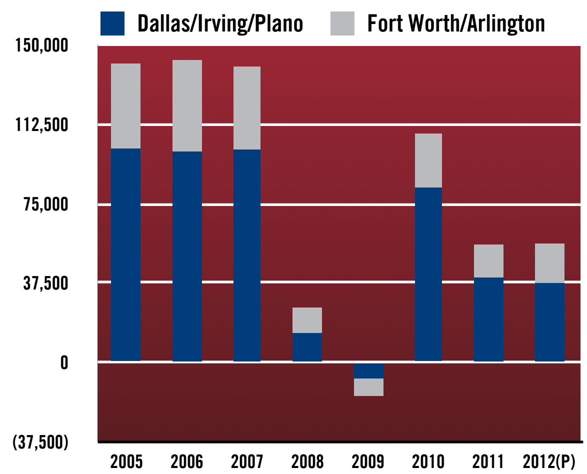
2011 was an exciting year for the Dallas/Fort Worth metropolitan area. We hosted a Super Bowl at the newly constructed Cowboys Stadium, went to the World Series for the second consecutive year, and our Dallas Mavericks won the NBA championship title. At the state level, Texas' business climate was rated number one in the U.S. by *Site Selection* magazine. Texas beat out North Carolina, which held the top spot for 10 years. Texas won because of its lack of red tape, financial assistance and government cooperation with businesses.

From an economic perspective, 2011 was also a good year for the Metroplex. Preliminary figures from the Bureau of Labor Statistics indicated that 55,700 new jobs were added in the Metroplex for the 12-month period ending November 2011. The local unemployment rate dropped from eight percent at year-end 2010 to 7.4 percent. The statewide unemployment rate was slightly higher at 7.5 percent.

Nationally, nearly 1.6 million jobs were added for the 12-month period ending November 2011. That was up sharply from 940,000 new jobs in 2010. Economists expect that approximately 1.9 million new jobs will be added to the U.S. economy in 2012.

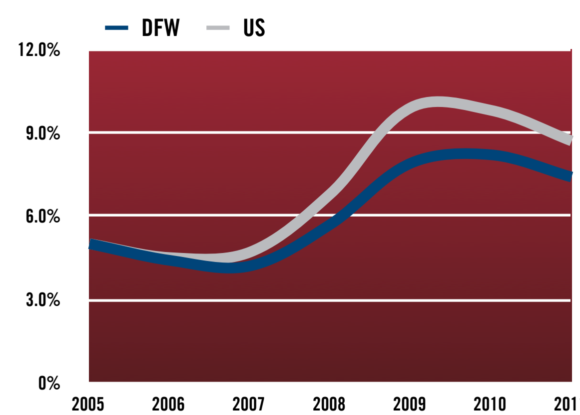
Preliminary forecasts indicate that 2012 will be another good year for the Metroplex in terms of job growth. A report released on January 18, 2012 by the U.S. Conference of Mayors forecast that the Dallas/Fort Worth area will add 56,100 jobs in 2012. Additionally, Dallas/Fort Worth was ranked thirty-sixth among 200 of the world's largest metropolitan areas by the Brookings Institute in Washington, D.C. Rankings were based on 2011 job growth and per capita growth in economic output. The only other U.S. city named in the report was Houston, Texas, which was ranked nineteenth.

D/FW JOB GROWTH



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

UNEMPLOYMENT RATE



Source: www.bls.gov

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OFFICE MARKET

CoStar ranked Dallas/Fort Worth fourth behind San Francisco, Houston, and Seattle for office absorption in 2011. Overall, Dallas office tenants absorbed 2.1 million square feet of office space, which was nearly double the absorption recorded in 2010. Sixty-one percent of all the space absorbed in 2011 was class B. The overall vacancy rate dropped from 20 percent at year-end 2010 to 18.5 percent at year-end 2011.

As expected, the delivery of new buildings dropped off considerably in 2011. In 2010, over 1.5 million square feet of new space, two-thirds of which was build-to-suit product, came online. In 2011, just over 200,000 square feet of new office space was delivered to the market. Most of the buildings that came online in 2011 were small projects ranging from 10,000 to 30,000 square feet. At year-end, nearly 550,000 square feet was under construction, the majority of which was pre-leased.

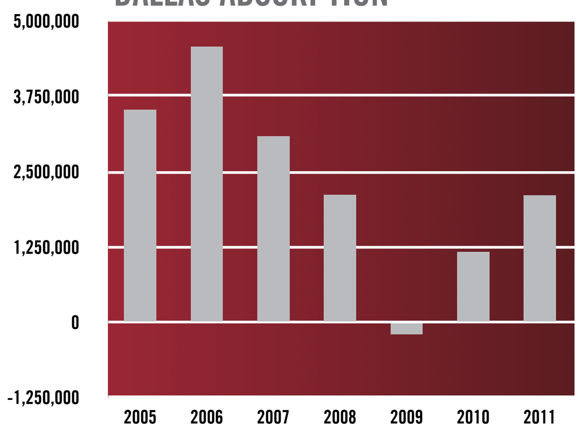
Rental rates must be evaluated at the submarket level to gain a true understanding of market dynamics. Generally speaking though, the average quoted rate for Dallas office space stabilized at $19.33 per square foot and concessions bottomed in 2011.

DALLAS OFFICE MARKET SUMMARY BY CLASS

MARKET	TOTAL RBA	TOTAL VACANCY	ABSORPTION	DELIVERIES	UNDER CONSTRUCTION	AVG. QUOTED RATE
Class A	105,629,288	18.9%	708,570	72,000	395,300	$22.21
Class B	105,788,336	19.5%	1,285,803	135,969	152,248	$17.64
All Classes	233,475,244	18.5%	2,106,854	207,969	547,548	$19.33

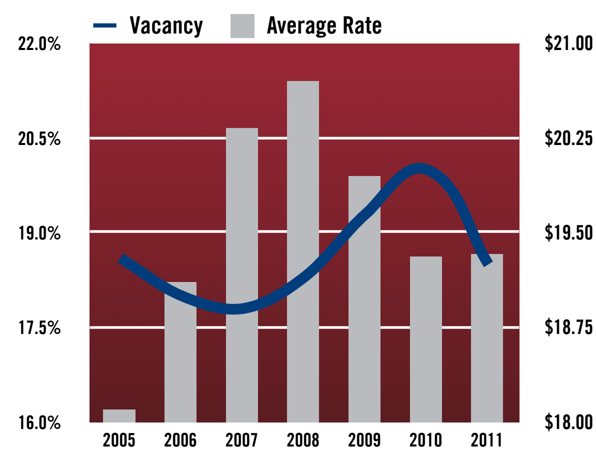
Source: CoStar Advisory Report Year-End 2011

DALLAS ABSORPTION



Source: CoStar Advisory Report Year-End 2011

DALLAS VACANCY & RENTAL RATES



Source: CoStar Advisory Report Year-End 2011

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MARKET/SUBMARKET TABLE - ALL CLASSES

MARKET/ SUBMARKET	NO. OF BLDGS.	TOTAL RBA	DIRECT VACANCY	TOTAL VACANCY	YTD NET ABSORPTION	YTD DELIVERIES	UNDER CONSTRUCTION	AVERAGE RATE
Dallas CBD	156	36,365,490	25.3%	26.1%	(289,128)	0	0	$19.44
Central Expressway	280	15,381,047	14.9%	15.2%	(228,463)	0	0	$20.68
Stemmons Freeway	292	19,702,113	18.9%	19.6%	(128,988)	0	0	$14.49
Uptown/Turtle Creek	319	13,129,465	14.4%	15.1%	476,340	0	0	$27.60
Preston Center	134	5,571,349	9.6%	9.8%	104,877	0	0	$27.30
LBJ Freeway	253	23,242,239	22.3%	23.2%	(211,274)	72,000	0	$17.17
*East LBJ	162	17,951,230	22.6%	23.5%	(183,050)	72,000	0	$17.95
*West LBJ	91	5,291,009	21.5%	22.3%	(28,224)	0	0	$14.62
Richardson/Plano	997	33,413,816	17.2%	17.5%	895,119	55,833	231,134	$18.00
*Allen/McKinney	308	6,829,789	12.7%	13.1%	188,629	34,533	231,134	$21.07
*Richardson	275	16,749,590	22.4%	22.6%	261,977	0	0	$17.13
*Plano	318	9,834,437	11.5%	11.8%	444,513	21,300	0	$18.20
Far North Dallas	883	50,153,596	13.6%	14.3%	1,067,366	30,204	316,414	$20.98
*Frisco/The Colony	172	4,820,221	11.2%	11.8%	120,308	0	30,806	$23.30
*Quorum/Bent Tree	362	22,912,500	19.5%	20.4%	349,756	12,954	0	$19.04
*Upper Tollway/W. Plano	349	22,420,875	8.2%	8.5%	597,302	17,250	285,608	$24.41
Las Colinas	386	36,516,129	16.9%	17.8%	421,005	49,932	0	$19.67
*DFW Freeport/Coppell	173	11,152,860	15.1%	15.3%	339,688	36,261	0	$19.16
*Office Center/W. LBJ	151	15,922,015	14.6%	16.0%	(181,644)	13,671	0	$18.56
*Urban Center/Wingren	62	9,441,254	22.9%	23.9%	262,961	0	0	$21.18
TOTAL MARKET	3,700	233,475,244	17.8%	18.5%	2,106,854	207,969	547,548	$19.33

* denotes submarket within the office market listed above.
Source: CoStar Advisory Report Year-End 2011

5956 Sherry Lane, Suite 885 | Dallas, Texas 75225 | 972.503.5100 | www.fults.com

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TOP PERFORMING SUBMARKETS

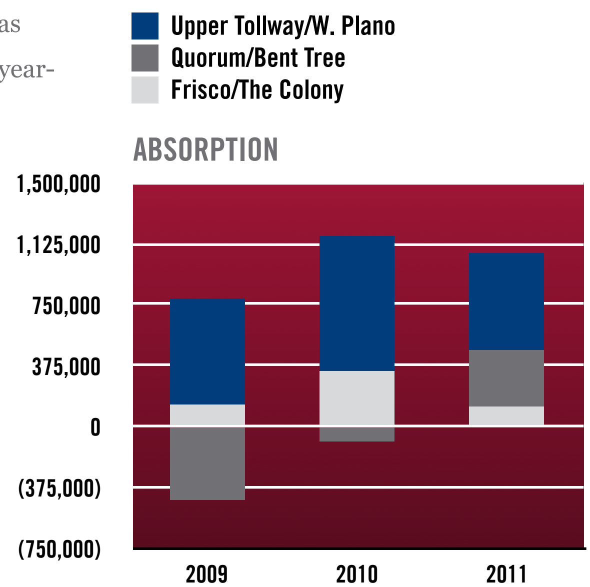
#1 - FAR NORTH DALLAS

Far North Dallas (FND) was the top performing office market in Dallas in 2011. Together, the three submarkets that comprise FND posted over one million square feet of positive absorption, 14.3 percent vacancy, and an average quoted rental rate of $20.98 per square foot.

The majority of the absorption in FND was concentrated in the Upper Tollway/West Plano submarket. In 2011, nearly 600,000 square feet of office space was absorbed in this submarket and the vacancy rate dropped from 11 percent at year-end 2010 to 8.5 percent. In response, the average quoted rental rate increased seven percent to $24.41 per square foot. At year-end, one build-to-suit project, 100 percent leased to Encana Oil & Gas, was under construction. Since year-end, one speculative project has broken ground, a 157,800 square foot office building with no pre-leasing. The quoted rate for the new speculative project is $27.50 to $29.50 per square foot. The Upper Tollway/West Plano submarket has plenty of land for new development. According to CoStar, there is 1.7 million square feet of proposed office projects in the submarket. Despite an abundance of land, we will likely see rates in this market continue to rise in 2012 as demand is strong and the supply of move-in ready space is severely limited.

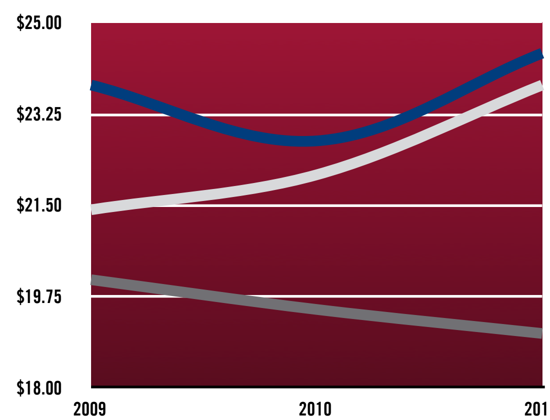
TRENDS by SUBMARKET

ABSORPTION



Frisco/The Colony is another hot office market within FND. In 2011, this submarket's vacancy rate decreased from 15.5 percent to 11.8 percent, and just over 120,000 square feet of office space was absorbed. The average quoted rental rate in this submarket increased 5.5 percent to $23.30 per square foot. No new product was delivered to the submarket in 2011 and only 30,000 square feet of new space was under construction as of year-end. Developers have 2.4 million square feet of proposed office projects listed within Frisco/The Colony, but we anticipate further rental rate increases given the limited amount of supply and high demand for space in this area.

RENTAL RATES



Source: Costar Advisory Report Year-End 2011

The third submarket in FND, Quorum/Bent Tree, posted almost 350,000 square feet of positive absorption in 2011; however, the vacancy rate in this submarket was slightly higher than the Dallas average at 20.4 percent. The Quorum/Bent Tree submarket took quite a beating in 2009 and is still recovering in terms of occupancy and rental rates. This submarket will likely experience more tightening in 2012, as supply constraints in the northern submarkets drive tenants further south along the Tollway into the Quorum/Bent Tree area.

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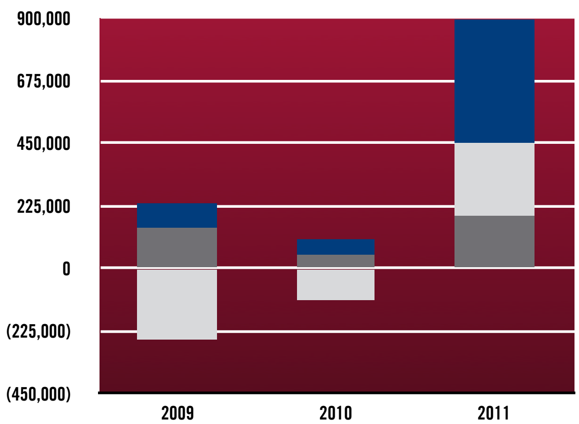
#2 - RICHARDSON/PLANO

The Richardson/Plano office market, also known as the Telecom Corridor, is comprised of three submarkets: Allen/McKinney, Richardson and Plano. This market also experienced substantial growth in 2011. Overall, tenants absorbed nearly 900,000 square feet of office space and vacancy dropped from 20.9 percent to 17.5 percent. Despite strong absorption and decreasing vacancy, the average quoted rental rate in Richardson/Plano dropped six percent throughout the year to $18.00 per square foot. At year-end, two new projects were under construction in Richardson/ Plano. Both were located in the Allen/McKinney submarket and both were 100 percent pre-leased.

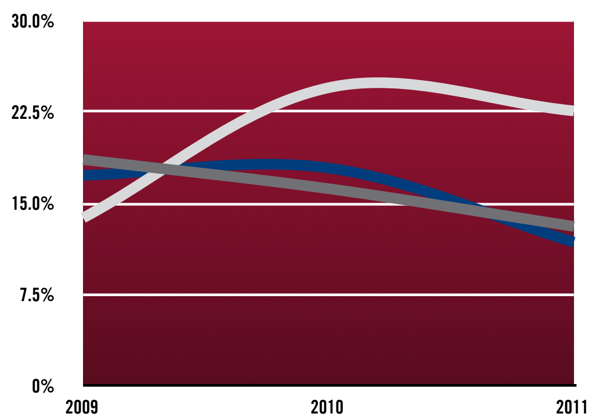
TRENDS by SUBMARKET

Plano
Richardson
Allen/McKinney

ABSORPTION



VACANCY



Source: Costar Advisory Report Year-End 2011

Within Richardson/Plano, the top performing submarket was Plano with 444,000 square feet of positive absorption and a six percent drop in the vacancy rate to 11.8 percent. Despite a low vacancy rate, rental rates within the Plano submarket were flat, perhaps because tenants could find more affordable alternatives in Richardson, which posted 22.6 percent vacancy at year-end.

Looking to 2012, we will likely see rental rate increases in Plano and Allen/McKinney, given their low vacancy rates. It's also likely that developers are preparing to start new projects in either of these two submarkets. There is nearly one million square feet of proposed office projects in Allen and just under 500,000 square feet of new space proposed in Plano.

#3 - Uptown/Turtle Creek

The Uptown/Turtle Creek market, home to many national and international financial firms, was another highly sought-after area. In 2011, tenant absorbed nearly 500,000 square feet of office space in Uptown. The vacancy rate dropped 4.2 percent to end at 15.1 percent. Rental rates remained flat at $27.60 per square foot and there were no new projects under construction as of year-end. Much like the Far North Dallas office market, developers are anxious to start work on new projects in Uptown, however none had broken ground as of year-end.

Outlook

Solid fundamentals of steady job growth, economic growth, decreasing unemployment, two consecutive years of positive absorption, declining vacancy, and a business-friendly environment lead us to believe that the Dallas office market is poised for steady growth through 2012, and possibly through 2016. The energy and technology sectors, along with a stable housing market, insulated Dallas/Fort Worth and Texas from the economic woes experienced by the rest of the country. A stronger outlook for national growth also adds to our enthusiasm for continued growth locally as Dallas/Fort Worth leads the nation in terms of job growth, but our decline in unemployment is tracking that of the national average (see Unemployment graph on pg 1).

In 2011, the U.S. economy expanded by 1.7 percent (2.8 percent in the fourth quarter alone), and added 1.6 million new jobs. Momentum from the fourth quarter seems to be carrying into the first quarter of 2012. The Federal Reserve is predicting between 2.2 and 2.7 percent economic growth, and 1.9 million new jobs in 2012. In 2013, the Fed is predicting 2.8 to 3.2 percent economic growth. Economists estimate that the national unemployment rate should drop below eight percent by the end of 2013 and to six percent by the end of 2016. This is the most positive news that we have had to report for some time. The one item we should not overlook is the European debt crisis. Economists estimate that uncertainty in Europe could drag on U.S. growth for the first six months of 2012. However, Texas' concentration of energy and technology jobs should sustain our growth despite those uncertainties.

Locally, continued job growth and limited speculative construction will equate to further decreases in the office vacancy rate in 2012. Additionally, we will continue to see rental rate increases in 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 anticipate 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, Uptown/Turtle Creek and possibly the Central Business District.

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