

## Dallas/Fort Worth Office | MarketView

Excerpts from First Quarter 2009 Dallas/Fort Worth Office MarketView by CB Richard Ellis



NORTH TEXAS

While the Dallas/Fort Worth office market was expected to have a positive first quarter due to anticipated move-ins, the market outperformed expectations with a total net absorption of 1.7 million square feet (sq. ft.). As the national economy continues to weaken, Dallas/Fort Worth job growth which had been positive for much of 2008, turned negative at the end of 2008. Still the Metroplex remains more favorable than most parts of the country and is forecasted to outperform the nation in 2009.

Office sales activity reported approximately \$1.7 billion in closings over the past 12 months, according to Real Capital Analytics. The average local sales price has slightly increased from \$154/sq. ft. in 2008 to \$159/sq. ft. as of March 2009. Local sales prices stayed relatively the same as quoted rates in the fourth quarter, and still remain significantly lower than the national average sales price, which is quoted at \$237/sq. ft. Investors remain opportunistic in markets such as Dallas/Fort Worth, where competitive office product is anticipated to outperform the national average.

The Dallas/Fort Worth office market experienced a mix in core fundamentals during the first quarter. Net absorption was positive for first quarter and the total vacancy rate decreased. Rental rates decreased for the second consecutive quarter, while construction activity is down from last quarter.

The potential concern for office market vacancy continues to be the high volume of speculative office space under construction. This is particularly relevant in the Far North Dallas submarket, where less than 3% of the nearly 500,000 sq. ft. under construction has been pre-leased. The current 1.8 million sq. ft. in the construction pipeline is now at one of the lower points in the last three years. In recent quarters, the completion of vacant new office space has reduced or negated the benefits of positive net absorption. Some large Metroplex office tenants such as Citigroup, Hunt Oil, 7-Eleven have recently streamlined their space needs, vacating large blocks of former space in favor of newer, more impressive, or more efficient layouts. Other local companies such as Ernst & Young are expected to undergo similar moves.

After another quarter of strong absorption, overall Dallas/Fort Worth office total vacancy fell 50 basis points from last quarter. This in part is a result of first quarter occupancy of vacant space that recently delivered to the market through new construction during previous quarters. There are many, however, additional building scheduled for delivery during the next few quarters, which is expected to increase vacancy rates throughout 2009.

The Central Expressway submarket experienced the most significant increase in vacancy due to AIG vacating a large block of space. The Uptown/Turtle Creek submarket experienced the biggest recovery in the vacancy rate due to the occupancy of space that delivered during the fourth quarter. Although the buildings delivered nearly 90% preleased, the larger tenant move-ins were not scheduled until the

### Quick Stats

		Change from last	
		Yr.	Qtr.
Total Vacancy	21.2%	↓	↓
Lease Rates	\$19.18	↑	↓
Net Absorption	1.7 m	↑	↑
Construction	1.8 msf	↓	↓

The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

### Hot Topics

- The amount of available sublease space increased during the first quarter, with Las Colinas and LBJ Freeway submarkets being the major contributors.
- Office rental rates declined for the second consecutive quarter, down \$0.21 from last quarter.
- Far North Dallas and Uptown continue to be prime growth areas. The two submarkets account for over half of all Metroplex office construction.
- The construction pipeline is at its lowest point in three years and new additions to the construction pipeline in 2009 are expected to be minimal.

first quarter of 2009, which in turn caused the vacancy rate for the fourth quarter to rise.

Total net absorption for the first quarter was a very healthy 1.7 million sq. ft. Class A outperformed Classes B and C with a positive net absorption of more than 1.3 million sq. ft. More than 350,000 sq. ft. of Class A absorption was due to the occupancy of new construction.

The submarkets that had the highest amount of absorption during the first quarter were Far North Dallas, Fort Worth CBD, Stemmons Freeway, and Las Colinas. The Central Expressway submarket experienced the largest amount of negative net absorption due to AIG relocating to the Dallas CBD submarket.

Office rental rates declined during the first quarter, with an average Metroplex asking rate of \$19.18. This rate is \$0.21 below fourth quarter's asking rate of \$19.39. Although the rates previously had been increasing on a quarterly basis, the amount of the increase had significantly declined. This is the second consecutive quarter of falling rates, and the trend line is expected to flatten over the next year.

Class A asking rates fell by \$0.35 per sq. ft. during the quarter to average \$23.13 per sq. ft. Class B rates remained relatively flat with last quarter, quoting an average rate \$17.23 per sq. ft., while Class C asking rates also experienced a decrease during the first quarter.

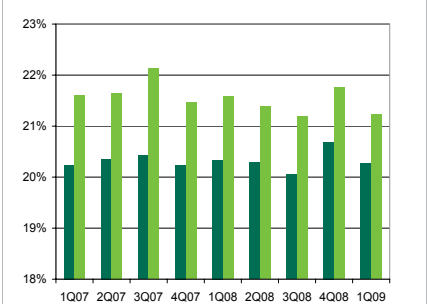
The Uptown and Preston Center submarkets continue to lead the market in Class A asking rates, quoting \$32.48 and \$29.63 per sq. ft., respectively. Evidence continues to show that areas in proximity to the Dallas and Fort Worth city centers are experiencing

the most consistently high asking rates.

During the first quarter, the metroplex saw a total of 11 multi-tenant construction completions, totaling more than 1.2 million sq. ft. The Far North Dallas submarket delivered Parkway Centre V with 203,000 sq. ft. and 6100 W Plano with over 173,000 sq. ft. The Fort Worth CBD submarket also delivered a large amount of space with one building totaling 280,000 sq. ft. Though there were many deliveries during the first quarter, there are still many scheduled deliveries planned through 2009.

Currently, there is nearly 1.8 million sq. ft. of multi-tenant office space under construction. The development pipeline is now at one of the lower points in the past three years. The amount of construction being added to the pipeline is minimal and is expected to stay that way for the next year or more. Current projects are focused in Far North Dallas and Uptown, which combine to over half of Metro office construction. Uptown boasts two prominent Class A projects of nearly 700,000 sq. ft., while Far North Dallas contains four projects totaling nearly 500,000 sq. ft., the majority of which are Class B. Across the Metroplex, 23% of all impending office space has been pre-leased.

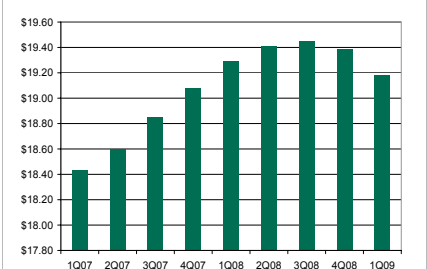
### Direct & Total Vacancy Rates



### Net Absorption



### Lease Rates



### Under Construction

