

Dallas Office Insight

Excerpts from 3rd Quarter 2009 Dallas Office Insight by Jones Lang LaSalle



Economy

The Dallas Fed reported that economic activity had firmed slightly during the latter half of the third quarter, with several industries showing a slight pickup in demand. Employment levels remained steady overall as many companies had reduced their staff levels earlier in the year. High-tech and paper companies had temporary hiring edge up. In contrast, consolidation in the airline, residential construction, and energy industries led to further reductions in head counts. Wages remain unchanged with no signs of upward pressure as companies continued to institute wage and hiring freezes. While there was an increase in residential mortgage demand, largely due to refinancing activity, commercial real estate loans continued to be mostly nonexistent and credit quality continued to deteriorate.

Market Conditions

Dallas' net absorption continued to decline, though at a lesser rate than expected, with only moderate negative absorption reported in the third quarter. While sublease space rose considerably in the second quarter, increasing to the highest level in over three years, the third quarter had minimal sublease activity. Quoted rental rates have continued to decline as market activity remains subdued due to risk aversion and the financial strain experienced by tenants and owners alike. Capital market activity remained at significantly reduced levels, with limited activity mainly restricted to smaller properties. Leasing and sales activity is projected to remain at reduced levels through the end of 2009 and into early 2010.

Outlook

Dallas continues to earn accolades due to its economic resilience during the recession as well as its potential for a quick recovery. Forbes Magazine named Dallas the number one city in which to earn a living in the United States, and one of only three cities in North America to be listed as a "burgeoning power center" in the future of world economics due to the number of corporate

relocations that have occurred and that are projected to occur in the future. A slow-to-moderate-paced recovery is projected to occur late in 2009 or early 2010. A modest construction pipeline of 1.9 million square feet (1.1 percent of total current inventory which was 69.0 percent preleased at the end of the third quarter) set to deliver in late 2009 and in early 2010 should help to keep overall absorption positive relative to other major U.S. markets.

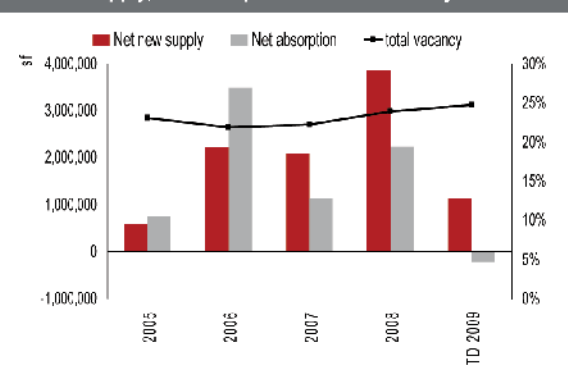
Tenant perspective

Although some consider the recession over, the economy is still headed downward in Dallas with tenants continuing to take advantage of the current market by restructuring/recasting future lease obligations or simply moving operations to more efficient, lower cost facilities. Most tenants are focused on reducing monthly occupancy costs by restructuring existing lease rates and/or space requirements in exchange for additional term obtainable goals in the current tenant centric market. Taking into account projected job losses in fourth quarter of 2009 and into 2010, the continued decrease in demand for office space and ongoing capital limitations, downward pressure on rents is expected to continue for the next 12 to 18 months with a 10.0 to 15.0 percent lowering of effective rental rates over this period. However, Dallas has limited speculative space being delivered and will continue to attract corporate relocation or consolidations due to the pro business climate, low cost of living, central time zone, and DFW airport offsetting the dramatic downward pressure that other regions of the country have encountered.

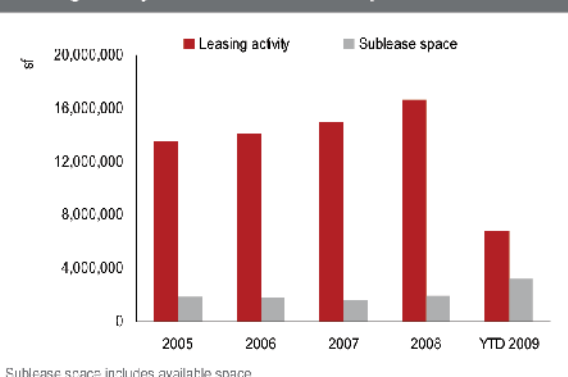
Landlord perspective

During the past year the economic crisis has affected the Dallas leasing market substantially in many ways. A major component of this is a decrease in activity with larger tenants. While we estimate there is close to 8.0 million square feet of deals over 20,000 square feet in the market, most of these larger tenants are delaying major decisions either by looking at short-term renewals or simply delaying decisions until closer to lease expiration. Another interesting factor is the downturn's effect on smaller tenants' viewpoint. Many smaller tenants are "acting" like larger tenants in terms of what they expect in rates and concessions, which has led to a disconnect between the small tenants' views of what they should receive as compared to what most owners are willing to offer. That being said, ultimately deals are getting done. As rental rates continue to drop to meet demand, a bottom will likely occur in late 2009/early 2010, which will lead to slight increases in rental rates in the latter part of 2010.

Net new supply, net absorption and total vacancy



Leasing activity vs. sublease available space



Key market indicators		12-month forecast
Supply	Supply	160,213,542 sf ▲
	Direct vacancy rate	22.8% ▲
	Total vacancy rate	24.8% ▲
	Under construction (% preleased)	1.9 msf (70%) ▼
Demand	Leasing activity 12 mo. % change	-43% ▲
	YTD net absorption	-216,410 sf ▼
Pricing	12-month overall rent % change	-5% ▼
	Class A overall asking rent	\$23.40 psf ▼
	Class B overall asking rent	\$18.38 psf ▼

NORTH TEXAS