Q2 2018 | DALLAS-FORT WORTH

OFFICE MARKET

DFW Office Market Continues to Show Solid Improvements

Office rental rates are at an all time high

OVERVIEW

Dallas-Fort Worth Labor Market Remains Tight

Texas' economy continues at an overall healthy pace, outperforming the nation once again. Dallas-Fort Worth's (DFW) large labor pool has continued to attract companies that want to expand and who are looking for reasonable office rents. The metro's population growth and labor market remain healthy at mid-year.

Dallas-Fort Worth added 122,000 jobs over the last year, a growth rate of 3.4% (334 jobs per day). The industries that recorded the largest gains were professional and business services, leisure and hospitality, and mining, logging and construction. May's unemployment rate for DFW was 3.4% compared to Texas (4.1%) and the U.S. (4.0%) (not seasonally adjusted).

Seven buildings have been delivered in the second quarter bringing 1.0 MSF of new office space to the region, slightly lower than the first quarter of nine buildings that delivered 2.4 MSF of space. Although new construction activity has slowed compared to the second quarter last year at 9.31 MSF, there is still 5.89 MSF of office space currently under construction.

DEMAND

Positive Absorption for the 20th Consecutive Quarter

Net absorption ended the second quarter at a positive 39,202 SF, a large decrease from the previous quarter of 1.2 MSF. The 12-month total net absorption recorded 3.7 MSF. Submarkets with the largest positive absorption include Stemmons Freeway (432,732 SF), Central Expressway (159,138 SF), Fort Worth CBD (156,260 SF), Upper Tollway/Legacy (119,810 SF), and Plano (69,116 SF).

TRENDLINES

5-YEAR TREND	CURRENT QUARTER
JOB GROWTH	**58,800 JOBS YTD** 3.4 % annual growth in May
ABSORPTION	**39,202 SF** Absorption remains positive with 12-month total of 3.7 MSF
VACANCY	**16.8%** Vacancy rates slowly continue to rise but remains stable
UNDER CONSTRUCTION	**8.59 MSF** 51 buildings are currently under construction in the metro
RENTAL RATE	**$25.62 PSF** Overall asking rates have increased 30% since 2010

TRANSWESTERN®

VACANCY

Rates Slowly Inch Up but Remain Relatively Stable

The overall office availability rate (all space marketed as available for lease, both direct and sublet) decreased 0.1% over the quarter, ending at 20.7%. Class A properties and Class B properties also decreased 0.1% from the beginning of the year to 22.7% and 19.7%, respectfully.

Direct vacancy rose again this quarter, up 0.2% year-over-year and closing at 15.6%. Overall vacancy rose 0.6% year-over-year and ended the quarter at 16.8%. Class A properties saw direct vacancy decrease by 0.1% over the quarter ending at 16.6%, while Class B properties were up 0.3% and ending at 15.4%. Overall vacancy for class A properties were unchanged at 18.1% while overall vacancy for class B properties increased to 16.6%.

SUPPLY AND DEVELOPMENT

Mid-Cities Recorded Largest Under Construction

The construction activity for DFW continues to show strong growth in the metro ending the quarter with 8.6 MSF of under construction projects. The submarkets seeing the largest space under construction are Mid-Cities, Uptown/Turtle Creek, and Las Colinas/Office Center. The amount of space underway has decreased slightly under 1.0 MSF from the same period last year. The job growth in the DFW metro has remained healthy enough to support new office product currently underway such as the American Airlines Corporate Campus and the Pioneer Natural Resources building, both of the projects are well over 1.0 MSF and are 100% leased.

RENTAL RATES

Asking Rates Continue to Increase

Overall asking rates for the DFW metro area increased by 1.1% over the quarter and 2.9% over the year, finishing the period at $25.62 PSF. Class A rates closed the quarter up 1.1% (+$0.31), ending at $28.94 PSF. Class B asking rates also increased by 0.6%, ending at $21.32 PSF. The submarkets with the highest asking gross rents are Preston Center ($39.86 PSF), Uptown/Turtle Creek ($38.95 PSF), Frisco/The Colony ($32.48 PSF), and Northeast Dallas ($31.70 PSF).

OVERALL VACANCY
Dallas-Fort Worth Metro Area

NOTE: Year-To-Date*
SOURCE: CoStar, Transwestern
*Through Q2 2018

Large Office Space Under Construction
Dallas-Fort Worth Metro | Q2 2018

SUBMARKET	# OF BUILDINGS	SF
Mid-Cities	3	1,840,000
Uptown/Turtle Creek	4	1,178,292
Las Colinas/Office Center	1	1,125,000
DFW Freeport	6	1,060,900
Westlake/Grapevine	7	663,000
Upper Tollway/Legacy	3	476,400
Denton/Lewisville	6	368,334
Alliance	3	320,000
Northeast Dallas	1	294,820
Lower Tollway	1	240,000

AVERAGE OFFICE RENTS
Dallas-Fort Worth Metro Area

NOTE: All classes of office space
SOURCE: CoStar, Transwestern
*Through Q2 2018

INVESTMENT SALES

Despite High Pricing, DFW Remains an Attractive Investment Option

Dallas-Fort Worth recorded sales volume of approximately $1.6 billion across 37 transactions in the second quarter of 2018. Pricing on a per-square-foot basis averaged approximately $213/SF, slightly below the $228/SF recorded in the prior 12 months. The average cap rate increased to 7.1%, ranging from a low of 6.5% to a high of 7.9%.

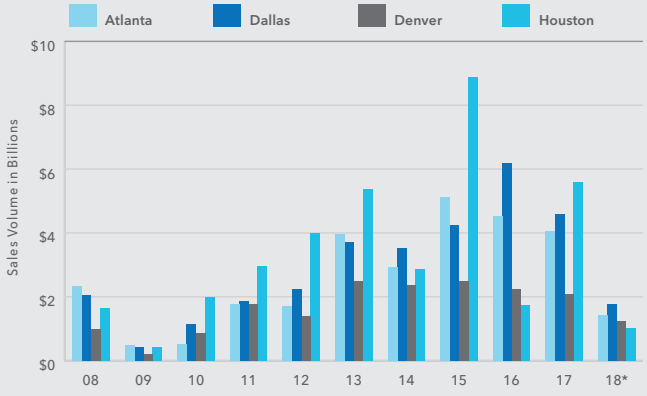
Notable sales for the second quarter include Infomart Dallas of 1.6 MSF to Equinix (REIT), International Plaza I and II together totaling 756,000 SF to Taconic Investment Partners, Millennium Tower of 353,461 SF to Grand Homes, and Chase Building of 209,000 SF to Silver Leaf Communities.

LEASING ACTIVITY

Year-to-Date Leasing Activity Totals 8.3 MSF

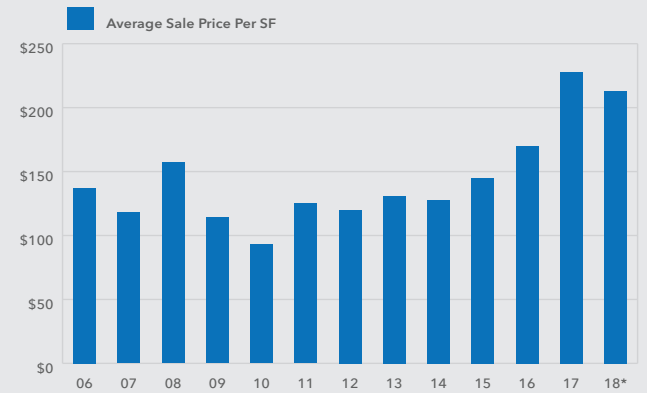
Leasing activity in the second quarter of 2018 recorded 3.9 MSF. Class A properties accounted for 2.3 MSF of leasing activity and Class B properties were close behind with 1.6 MSF. The submarkets with the highest leasing activity in the second quarter include Richardson (398,962 SF), Lower Tollway (396,527 SF), DFW Freeport (357,454 SF), and Upper Tollway/Legacy (334,298 SF). Despite the current dip in overall leasing, there are approximately 19.1 MSF of deals currently seeking office space in the DFW metro.

Comparative Office Investment Sales Volume
Select Metro Areas



SOURCE: Real Capital Analytics, Transwestern ,*Through Q2 2018

Average Office Sale Price
Dallas-Fort Worth Metro Area



SOURCE: Real Capital Analytics, Transwestern,*Through Q2 2018

Notable Q2 Lease Transactions

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Samsung	216,000	New	Legacy Central 4	Plano
Steward Health Care System	165,300	New	Galatyn Commons	Richardson
7-Eleven	115,036	New	Browning Place I	DFW Freeport
Darling Ingredients	95,321	New	MacArthur Center I	Las Colinas/Office Center
Genpact	95,052	New	3300 Renner Rd	Richardson

OUTLOOK

Despite Increased Vacancies, Job Growth Remains Healthy

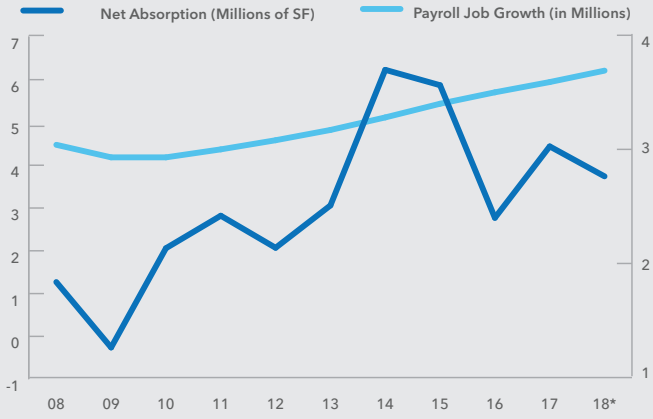
The Dallas-Fort Worth office market is seeing sustained, demand-driven growth with net absorption that rivals the top office markets in the country. This June marked the ninth year of economic recovery since the last recession, and experts are expecting a low probability of another recession in the next 12-18 months. The market's balanced economy is likely to delay any onset of a recession and will likely be much milder than the last market correction.

Office-using employment growth remains strong each quarter creating a positive outlook for the need of office space and room for expansion, but there are signs that economic growth is beginning to slow. A tightened labor market with historically low levels of unemployment is creating some challenges with employee attraction and retention, and employers are resorting to paying significant premiums for top talent.

Vacancy rates have slowly inched up over the past 24 months but remain relatively stable given the volume of new supply added to the market. DFW recorded fifty-one buildings in the construction pipeline at mid-year. With the slight down-shift in building activity after years of steady gains in North Texas, experts say this could be a sign that builders are beginning to pull back on starting new projects.

Strong fundamentals in the region's office market are expected to continue supporting growth. Rental rates are beginning to level off at this point in the cycle. There may be some minimal headroom left in certain submarkets, but an environment of high annual growth appears to be waning.

Office Absorption and Employment
Dallas-Fort Worth Metro Area



*12-month job growth July 2018, net absorption YTD through Q2 2018
SOURCE Texas Workforce Commission

WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS

We include owner occupied and single-tenant buildings in our inventory, vacancy and absorption statistics to capture more market activity than many of our competitors. This allows us to better correlate changes in the market with changes in employment. As single-tenant space does compete with multi-tenant space, we believe it is critical to understand all components of the market. The inclusion of single-tenant and owner-occupied space tends to yield lower vacancy rates and higher absorption totals than some of our competitors' results, but our coverage of the market is more comprehensive.

Dallas Office Market Indicators - All Space

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
Dallas CBD	32,354,874	6,937,194	7,597,529	21.4%	23.5%	163,025	235,923	30,991	65,437	$25.21
Uptown/Turtle Creek	12,660,860	1,264,785	1,537,791	10.0%	12.1%	1,178,292	128,767	8,249	102,136	$38.95
Northeast Dallas	3,961,696	383,010	388,214	9.7%	9.8%	294,820	37,304	(42,004)	(72,906)	$31.70
Central Expressway	13,383,264	1,664,045	1,785,788	12.4%	13.3%	38,848	91,428	159,138	(283,268)	$28.50
Preston Center	5,544,296	557,926	592,490	10.1%	10.7%	119,000	128,662	12,806	73,463	$39.86
Stemmons Freeway	14,383,173	3,169,656	3,213,691	22.0%	22.3%	-	140,507	432,732	405,984	$17.13
South Irving	1,975,253	227,007	227,007	11.5%	11.5%	56470	27,574	2,640	24,574	$16.93
Las Colinas/Urban Center	9,578,548	1,305,595	1,503,848	13.6%	15.7%	-	89,592	(112,686)	206,269	$29.34
Las Colinas/Office Center	16,146,445	2,608,710	2,835,723	16.2%	17.6%	1,125,000	204,618	(455,732)	(425,449)	$23.54
DFW Freeport	13,630,359	1,367,595	2,046,814	10.0%	15.0%	1,060,900	357,454	(311,709)	72,737	$22.71
West LBJ Freeway	4,648,249	823,628	853,862	17.7%	18.4%	-	77,604	57,910	106,396	$19.52
Denton/Lewisville	8,171,349	1,138,655	1,223,900	13.9%	15.0%	368,334	33,690	(37,618)	(474,806)	$23.32
Frisco/The Colony	5,599,190	894,223	944,172	16.0%	16.9%	166,126	211,873	(3,737)	31,859	$32.48
Allen/McKinney	5,973,074	640,863	660,463	10.7%	11.1%	165,000	52,283	69,056	266,228	$26.58
Upper Tollway/Legacy	30,796,114	3,065,959	3,621,910	10.0%	11.8%	476,400	334,298	119,810	3,072,647	$30.80
Plano	7,623,499	1,761,661	1,781,202	23.1%	23.4%	-	324,681	69,116	79,946	$26.04
Richardson	21,319,999	3,259,946	3,433,460	15.3%	16.1%	110,000	398,962	(5,803)	454,411	$23.23
Lower Tollway	22,218,754	4,579,605	4,951,096	20.6%	22.3%	240,000	396,527	(239,490)	(1,025,561)	$25.33
East LBJ Freeway	17,144,071	3,600,424	3,714,555	21.0%	21.7%	-	262,120	(60,632)	191,320	$22.88
Garland	1,592,572	294,222	294,222	18.5%	18.5%	-	3,044	(25,789)	(15,511)	$19.67
Southeast Dallas	619,346	37,322	40,845	6.0%	6.6%	65,890	2,544	(1,814)	11304	$15.03
Mesquite/Rockwall	1,756,490	175,240	177,691	10.0%	10.1%	-	15,391	2,441	(37,468)	$23.56
Southwest Dallas	3,116,487	252,631	252,631	8.1%	8.1%	-	9,481	12,343	131,068	$18.09
Grand Prairie	3,979,986	384,400	400,694	9.7%	10.1%	-	1,977	54,343	(89,770)	$19.59
TOTAL - DALLAS	258,177,948	40,394,302	44,079,598	15.6%	17.1%	5,628,105	3,566,304	(265,439)	2,871,040	$25.89

SOURCE: CoStar, Transwestern

NOTE: Includes buildings 20,000 SF RBA and greater.

Fort Worth Office Market Indicators - All Space

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
Fort Worth CBD	9,102,783	1,249,850	1,265,625	13.7%	13.9%	-	59,143	156,260	121,132	$28.67
Northwest Fort Worth	423,361	10,551	10,551	2.5%	2.5%	-	1,142	42,252	50,803	$20.09
Alliance	3,402,111	455,968	455,968	13.4%	13.4%	320,000	29,790	9,080	(129,472)	$19.60
Westlake/Grapevine	7,741,642	1,618,204	1,645,621	20.9%	21.3%	663,000	34,787	55,105	581,684	$27.99
Mid-Cities	5,046,724	876,410	876,410	17.4%	17.4%	1,840,000	58,397	21,020	(69,742)	$18.50
Northeast Fort Worth	3,871,943	1,498,421	1,498,421	38.7%	38.7%	-	70,762	68,474	173,426	$21.35
Arlington	8,433,208	878,868	909,842	10.4%	10.8%	50,500	48,471	(44,034)	75,586	$20.01
Southeast Fort Worth	1,267,475	110,659	110,659	8.7%	8.7%	40000	16,218	6,991	(32,867)	$16.19
Southwest Fort Worth	10,590,776	949,884	1,039,197	9.0%	9.8%	47,920	77,288	(10,507)	98,630	$24.99
TOTAL - FORT WORTH	49,880,023	7,648,815	7,812,294	15.3%	15.7%	2,961,420	395,998	304,641	869,180	$23.86

Dallas-Fort Worth Office Market Indicators - All Space

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
TOTAL - DFW	308,057,971	48,043,117	51,891,892	15.6%	16.8%	8,589,525	3,962,302	39,202	3,740,220	$25.62

SOURCE: CoStar, Transwestern

NOTE: Includes buildings 20,000 SF RBA and greater.

Dallas Office Market Indicators - Class A

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
Dallas CBD	23,407,620	5,803,731	6,351,338	24.8%	27.1%	163,025	167,464	60,000	76,595	$25.93
Uptown/Turtle Creek	10,077,760	960,690	1,112,913	9.5%	11.0%	1,178,292	100,712	(21,724)	105,335	$41.48
Northeast Dallas	388,177	73,729	73,729	19.0%	19.0%	294,820	-	(14,983)	(15,129)	$41.34
Central Expressway	7,039,636	1,097,700	1,195,308	15.6%	17.0%	-	59,142	80,846	(243,032)	$30.02
Preston Center	4,348,506	427,652	461,145	9.8%	10.6%	119,000	110,533	24,334	96,734	$42.06
Stemmons Freeway	4,975,976	867,377	877,501	17.4%	17.6%	-	93807	397,143	410,844	$18.45
South Irving	-	-	-	-	-	56,470	-	-	-	$26.00
Las Colinas/Urban Center	7,406,634	1,009,012	1,199,250	13.6%	16.2%	-	74,638	(96,417)	187,152	$31.00
Las Colinas/Office Center	7,793,594	985,070	1,075,774	12.6%	13.8%	1,125,000	54,554	(67,353)	78,005	$26.78
DFW Freeport	5,089,129	483,527	614,305	9.5%	12.1%	916,400	175,026	(84,971)	367,178	$24.22
West LBJ Freeway	1,706,909	315,793	343,092	18.5%	20.1%	-	17,847	25,729	55,750	$20.02
Denton/Lewisville	364,915	6,710	47,334	1.8%	13.0%	248,387	-	(40,624)	(3,661)	$35.48
Frisco/The Colony	3,642,743	756,389	792,028	20.8%	21.7%	140,000	168,997	(3,179)	11,608	$33.39
Allen/McKinney	1,359,279	275,513	289,193	20.3%	21.3%	165,000	13,313	39,238	133,034	$30.74
Upper Tollway/Legacy	22,964,949	2,019,235	2,469,695	8.8%	10.8%	476,400	245,108	281,527	3,234,880	$32.91
Plano	2,442,757	1,333,744	1,343,760	54.6%	55.0%	-	282,346	(18,226)	26,580	$28.99
Richardson	10,786,725	1,813,150	1,831,519	16.8%	17.0%	-	197,666	31,566	448,017	$26.83
Lower Tollway	11,818,768	2,337,079	2,541,170	19.8%	21.5%	240,000	203,116	(129,279)	(662,985)	$29.32
East LBJ Freeway	8,979,516	1,768,097	1,859,931	19.7%	20.7%	-	208,867	(12,290)	378,311	$26.08
Garland	-	-	-	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	65,890	-	-	-	-
Mesquite/Rockwall	276,880	37,270	39,721	13.5%	14.3%	-	7,279	8,803	2,428	$29.21
Southwest Dallas	280,592	31,041	31,041	11.1%	11.1%	-	-	-	(17,377)	$30.77
Grand Prairie	2,063,968	-	8539	-	0.4%	-	-	-	37401	-
TOTAL - DALLAS	137,215,033	22,402,509	24,558,286	16.3%	17.9%	5,188,684	2,180,415	460,140	4,707,668	$29.17

SOURCE: CoStar, Transwestern

NOTE: Includes buildings 20,000 SF RBA and greater.

Fort Worth Office Market Indicators - Class A

Submarket	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
Fort Worth CBD	5,185,699	940,886	940,886	18.1%	18.1%	-	47,599	129,095	186,389	$30.52
Northwest Fort Worth	40,000	-	-	-	-	-	-	40,000	40,000	$19.00
Alliance	819,651	180,450	180,450	22.0%	22.0%	200,000	10,290	10,055	10,046	$17.61
Westlake/Grapevine	4,574,553	1,179,928	1,179,928	25.8%	25.8%	550,000	29,720	42,265	653,398	$28.52
Mid-Cities	352,780	133,658	133,658	37.9%	37.9%	1,700,000	7,364	9,562	8,914	$18.79
Northeast Fort Worth	459,921	307,135	307,135	66.8%	66.8%	-	-	32,500	35,696	$21.39
Arlington	2,087,636	263,087	273,782	12.6%	13.1%	-	10,415	5,334	63,334	$22.16
Southeast Fort Worth	541,630	-	-	-	-	-	-	-	-	-
Southwest Fort Worth	3,396,053	301,436	344,357	8.9%	10.1%	-	25,856	78,916	260,617	$28.84
TOTAL - FORT WORTH	17,457,923	3,306,580	3,360,196	17.9%	18.2%	2,450,000	131,244	347,727	1,258,394	$27.04

SOURCE: CoStar, Transwestern

NOTE: Includes buildings 20,000 SF RBA and greater.

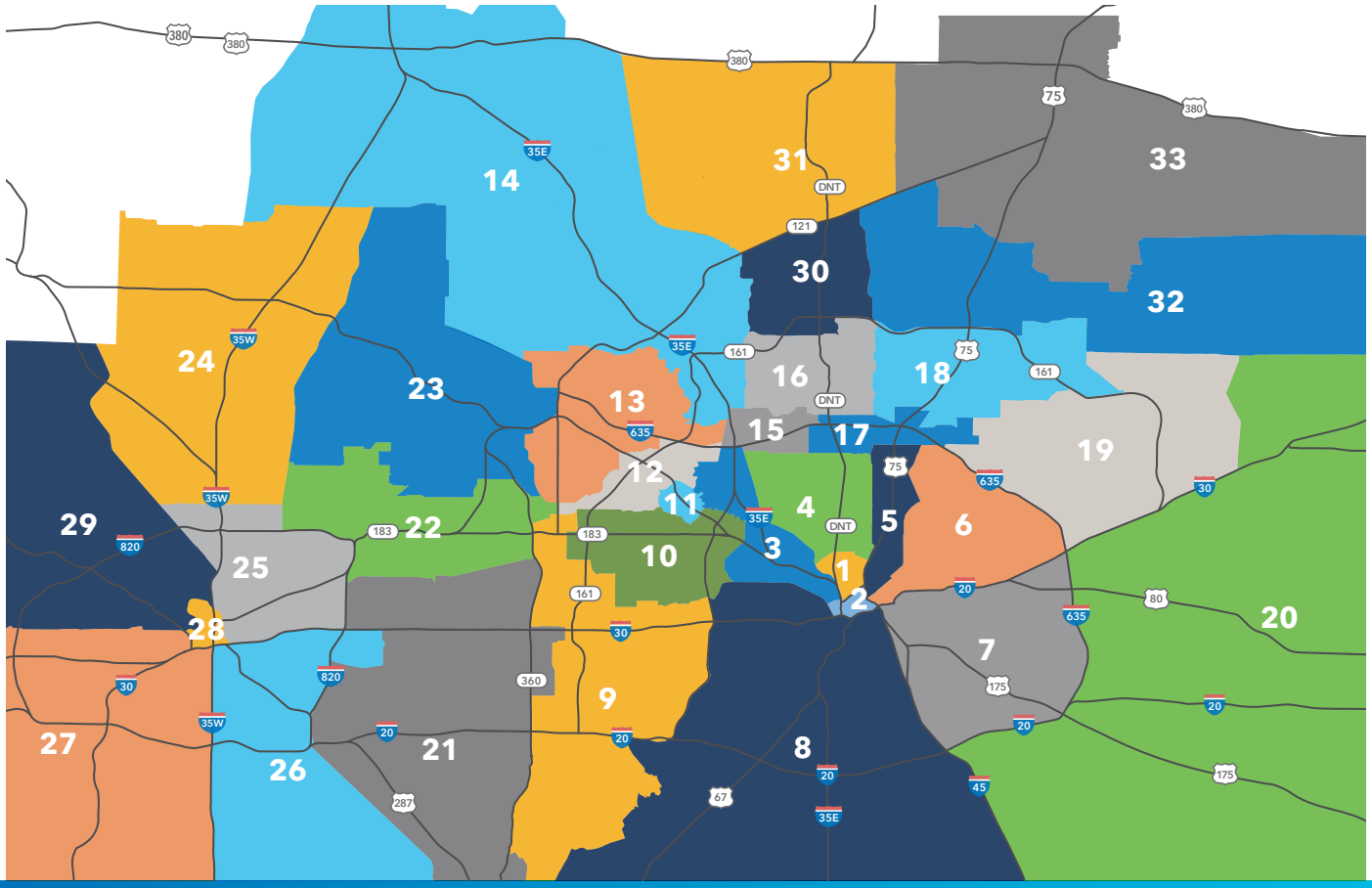
Dallas-Fort Worth Office Market Indicators - Class A

	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
TOTAL - DFW	154,672,956	25,709,089	27,918,482	16.6%	18.1%	7,638,684	2,311,659	807,867	5,966,062	$28.94

Dallas-Fort Worth Office Market Indicators

	Inventory	Vacant SF Direct	Vacant SF Overall	Direct Vacancy	Overall Vacancy	Under Construction	Leasing Activity	Quarter Net Absorption	12 Month Net Absorption	Average Rental Rates
ALL SPACE	308,057,971	48,043,117	51,891,892	15.6%	16.8%	8,589,525	3,962,302	39,202	3,740,220	$25.62
CLASS A	154,672,956	25,709,089	27,918,482	16.6%	18.1%	7,638,684	2,311,659	807,867	5,966,062	$28.94
CLASS B	135,986,345	20,996,504	22,632,259	15.4%	16.6%	922,285	1,562,862	(817,301)	(2,533,386)	$21.32

Dallas-Fort Worth Office Submarkets



Submarkets

1. Uptown/Turtle Creek
2. Dallas CBD
3. Stemmons Freeway
4. Preston Center
5. Central Expressway
6. Northeast Dallas
7. Southeast Dallas
8. Southwest Dallas
9. Grand Prairie
10. South Irving
11. Las Colinas/Urban Ctr
12. Las Colinas/Office Ctr
13. DFW/Freeport
14. Denton/Lewisville
15. West LBJ Freeway
16. Lower Tollway
17. East LBJ Freeway
18. Richardson
19. Garland
20. Mesquite/Rockwall
21. Arlington
22. Mid-Cities
23. Westlake/Grapevine
24. Alliance
25. Northeast Fort Worth
26. Southeast Fort Worth
27. Southwest Fort Worth
28. Fort Worth CBD
29. Northwest Fort Worth
30. Upper Tollway/Legacy
31. Frisco/The Colony
32. Plano
33. Allen/McKinney

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2018

EMPLOYMENT GROWTH OUTPACES U.S. AVERAGE

LABOR MARKET CONTINUES TO TIGHTEN

OVERVIEW

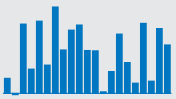
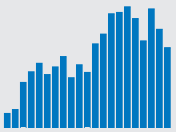
The total population for the Dallas-Fort Worth (DFW) metro is now 7.4 million, making it the 4th largest metro behind New York, Los Angeles, and Chicago. Dallas-Fort Worth led the nation in population growth from 2010-2017, adding 973,431 residents. Over half of that was due to migration, which contributed 555,586 (369,622 domestic / 185,964 international) to that total. Economists speculate that if the current trends continue, the area could catch up to Chicago sooner than previously expected and reach 10 million by 2030.

Dallas-Fort Worth added 101,200 jobs over the last year, a growth rate of 2.8% (277 jobs per day). Industries with the largest gains were professional and business services, leisure and hospitality, and education and health services. March's unemployment rate for DFW was 3.7% compared to Texas' 4.1% and the U.S.' 4.1% (not seasonally adjusted).

Vacancy rates remained stable, finishing the first quarter of the year at 16.7%. Nine buildings have been delivered thus far, bringing 2.4 MSF of office space to the region. New construction activity is beginning to slow, with approximately 8.3 MSF currently under construction, despite the relatively high demand.

Average rental rates for all classes of office space for the first quarter increased 2.6% to $25.31 per square foot (PSF), from $24.68 PSF in the first quarter of 2017, and a 28.5% increase from 2010. Net absorption for all office properties grew to 1.2 MSF, a significant increase from the same period last year of 276,032 SF. Leasing activity decreased in the first quarter of the year to 3.9 MSF, from 5.7 MSF during the same period last year.

TRENDLINES

5-YEAR TREND	CURRENT QUARTER
VACANCY	
	16.7% Deliveries have pushed vacancy rate up slightly, but remain stable
ABSORPTION	
	**1.2 MSF** Net absorption remains positive with a 12-month total of 5.3 MSF
LEASING ACTIVITY	
	3.9 MSF 10 yr quarterly average = 5.2 MSF
UNDER CONSTRUCTION	
	**8.3 MSF** Mid-Cities recorded the highest at 1.8 MSF currently underway
RENTAL RATES	
	$25.31 PSF Asking Rates have increased 28.5% since 2010

TRANSWESTERN®

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2018

VACANCY

Overall vacancy rates for the office market have continued to slowly inch upward in 2018, ending the first quarter with 16.7%. Direct vacancy rates have recorded an increase of 1.9%, from 15.3% in the first quarter of 2017 to 15.6% in the first quarter of 2018. Vacancy rates are now trending closer to the 10-year historic average of 16.8%.

Class A direct vacancy rates in the first quarter recorded 16.1% compared to 16.8% during the same quarter last year. Overall vacancy dropped 1.9% year-over-year to 17.6%, slightly above the 10-year average of 17.5%.

Class B direct vacancy recorded 15.9% in the first quarter, an increase from 14.6% the same period last year. Overall vacancy hit a high at 16.7%, an increase from 15.1% during the first quarter in 2017, but remains under the 10-year average of 17.1%.

RENTAL RATES

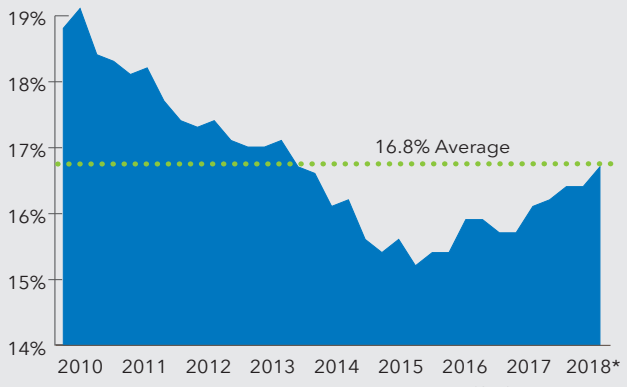
The average asking rental rate for all classes in the DFW office market was $25.31/SF for the first quarter of 2018. This is an increase of 2.6% from the same period last year. The average asking rate for Class A properties recorded $28.61/SF, an increase of 1.9% year-over-year. Class B average rental rates rose by 3.9% to $21.27/SF in Q1 2018 from $20.48/SF in the first quarter of 2017.

Rental rates continue to rise in the DFW metro, recording $25.31 in the first quarter for all office properties. Submarkets that recorded the highest rental rates were Preston Center at $40.25/SF, Uptown/Turtle Creek at $38.22/SF, and Frisco/The Colony at $32.85/SF.

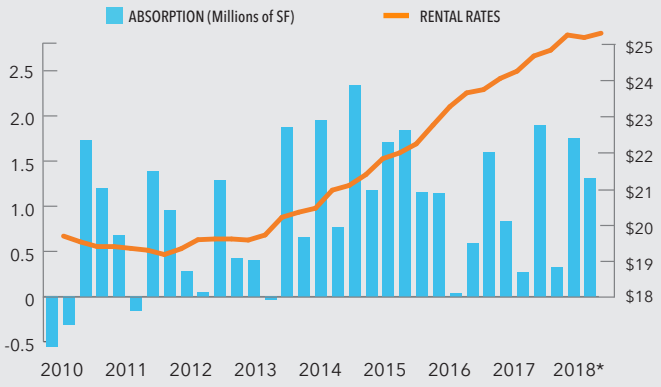
ABSORPTION

Overall net absorption in the first quarter was 1.2 MSF, a large year-over-year increase from the 276,032 SF in the first quarter of 2017. The 12-month total net absorption recorded 5.5 MSF. Submarkets that started the year off with the largest positive absorption include Upper Tollway/Legacy (1,216,561 SF), Dallas CBD (194,568 SF), and Las Colinas/Office Center (138,670 SF).

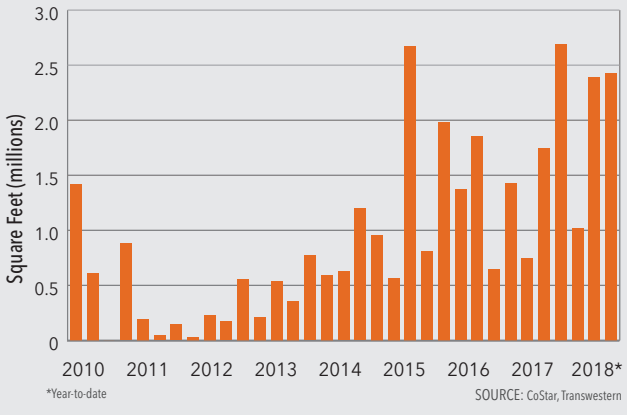
OVERALL VACANCY



NET ABSORPTION & RENTAL RATE TRENDS



CONSTRUCTION COMPLETIONS



CONSTRUCTION

The DFW metro currently has 8.3 MSF of office space under construction. Over 7.8 MSF was delivered throughout 2017, completing 51 buildings. The first quarter of 2018 has already delivered 2.4 MSF and will continue bring more completions throughout the year.

The largest projects currently under construction include the American Airlines Corporate Campus in Mid-Cities (1.7 MSF), Pioneer Natural Resources in Las Colinas/Office Center (1.1 MSF), and Charles Schwabb Corporate Campus in Westlake/Grapevine (500,000 SF). All three projects are scheduled to deliver in 2019.

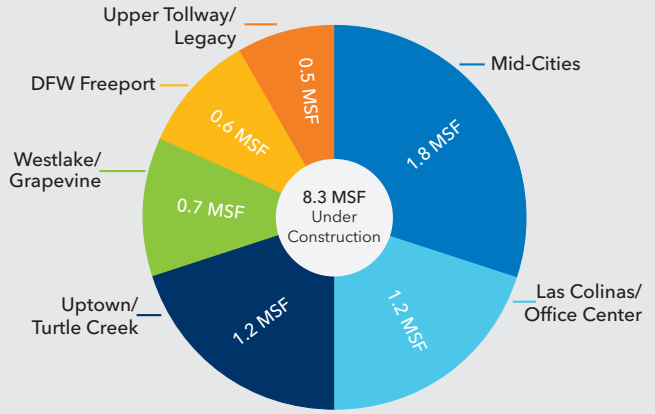
Two of the largest projects delivered this quarter were both in the Frisco/The Colony submarket. Liberty Mutual's five-star office campus with 1.1 MSF and Hall Park – T2's 300,000 SF both delivered in February.

CAPITAL MARKETS

Dallas-Fort Worth recorded sales volume of approximately $391.3 million across 34 transactions in the first quarter of 2018. Pricing on a per-square-foot basis averaged approximately $88/SF, significantly below the $188/SF recorded in the prior 12 months. The average cap rate declined to 7.2%, ranging from a low of 5.8% to a high of 8.0%.

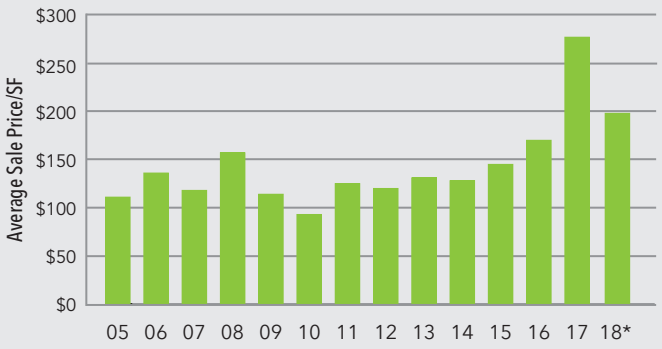
Despite record high pricing, DFW remains an attractive investment option when compared to the coastal markets, especially among institutional and foreign capital. Record-setting job growth, corporate relocations, the lack of a state income tax and an affordable cost of living are some of the most dominant economic drivers. But as the region's prosperity and growth has proliferated, value-add and opportunistic investment opportunities have diminished. Sought after submarkets including the Dallas CBD, Uptown, and Preston Center along with suburban markets such as Upper Tollway/Legacy and Richardson - where billions of dollars are being spent on mixed-use, walkable,

OFFICE SPACE UNDER CONSTRUCTION



Only submarkets with 475,000 SF or greater under construction or renovation shown and may not equal total construction square footage.

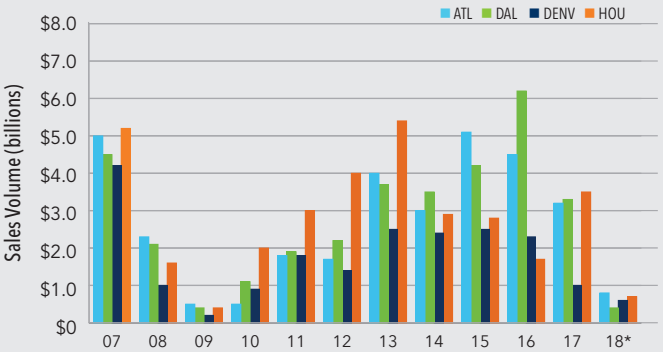
AVERAGE OFFICE SALE PRICE



* Year-to-date

SOURCE: Costar, Real Capital Analytics, Transwestern

COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



* Year-to-date

SOURCE: Real Capital Analytics, Transwestern

high density developments – continue to escalate in value. Investors will remain cautious going forward due to the increasing cost of debt and more conservative underwriting in the later stages of this cycle. The DFW office market is still expected to see strong investor demand throughout 2018 as it continues to benefit from solid economic fundamentals.

LEASING ACTIVITY

Leasing activity in the first quarter of 2018 recorded 3.9 MSF, a decrease from the same period last year with 5.6 MSF. Class A properties accounted for 2.0 MSF of leasing activity and class B properties were close behind with 1.8 MSF. Notable transactions in the first quarter included Dex Media's 225,000 SF renewal at 2200 W Airfield Dr, Guidestone Financial Resources' 112,825 SF office at Pinnacle Tower, New York Life Insurance's 107,267 SF renewal at Two Energy Square, Boston Consulting Group's 70,000 SF office at Saint Ann Court, and Steward Health Care Systems' 66,828 SF office at 1900 Pearl.

The submarkets with the highest leasing activity in the first quarter include Dallas CBD (557,681 SF), East LBJ Freeway (395,976 SF), DFW Freeport (360,229 SF), and Richardson (318,878 SF). Despite the current dip in overall leasing, there are approximately 17.0 MSF of deals currently seeking office space in the DFW metro.

Notable Q1 2018 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Dex Media	225,000	Renewal	2200 W Airfield Dr	Westlake/Grapevine
Guidestone Financial Resources	112,825	New	Pinnacle Tower	East LBJ Freeway
New York Life Insurance	107,267	Renewal	Two Energy Square	Central Expressway
Boston Consulting Group	70,000	New	Saint Ann Court	Uptown/Turtle Creek
Steward Health Care Systems LLC	66,828	New	1900 Pearl	Dallas CBD

Notable Q1 2018 Sales

BUILDING	SUBMARKET	SF	SELLER	BUYER
Infomart	Stemmons Freeway	1,583,309	ASB Capital Management, LLC	Equiniz
1925 W John Carpenter Fwy	Las Colinas/Office Center	406,160	Communities Foundation of Texas	JP Realty Partners
200 E Bethany Dr	Allen/McKinney	347,333	Bethany @ Greenville	Quiktrip Corporation
Wilcox Plaza at Green Oaks	Southwest Ft Worth	187,927	Cawley Management, LLC	Cook Children's Medical Center
Turtle Creek Tower	Uptown/Turtle Creek	142,974	Cardinal Capital Partners, Inc.	State Teachers Retirement System of Ohio

ECONOMIC OUTLOOK

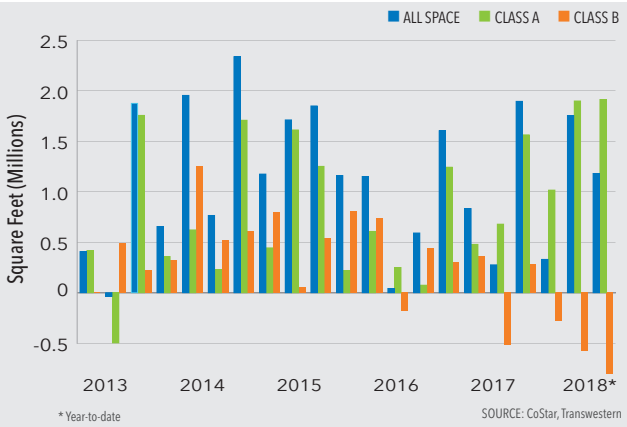
The U.S. Census recently released population estimates for 2017. Out of the top 10 largest gaining county populations from 2016 to 2017, DFW counties held four spots: Tarrant (No. 5), Dallas (No. 8), Denton (No. 9), and Collin (No. 10). DFW experienced stellar population growth from 2010-2017, adding nearly a million residents and ranking first among all metros.

From 2016 to 2017, the DFW region again ranked No. 1 in population growth by adding 146,000 residents. Net migration accounted for more growth than the natural increase (births minus deaths) but this time rose to 61% of the total increase. North Texas held its top rank among all other metros in total migration and domestic movement. Only coastal metros attracted more international migrants than DFW.

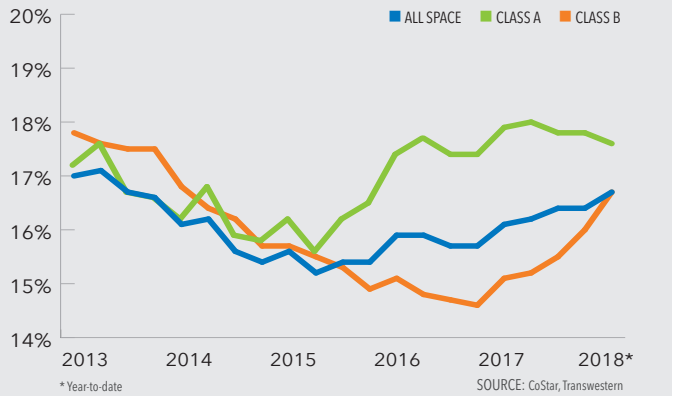
Dallas-Fort Worth's unemployment rate remains moderately low compared to other major metros as well as the U.S. national average, and the tightening labor market signals increased competition for labor. One challenge facing employers is the availability of skilled labor. However, as long as skilled migrants continue to move to North Texas and supplement the thousands of annual graduates from area universities and colleges, supply is expected to meet the increased demand.

This recovery, like many before it, has been unique. It has not been a typical V-shaped recovery but rather a "U" shape, illustrating the slow and steady process of pulling out of the Great Recession. The gradual pickup in foreign economic activity during the last few years has been a boon for DFW as it is increasingly intertwined with the global economy. The region's strong fundamentals have been showcased by the stellar growth in jobs and population over the last several years. There is no doubt a market correction will occur at some point but that's not being reflected in the data just yet.

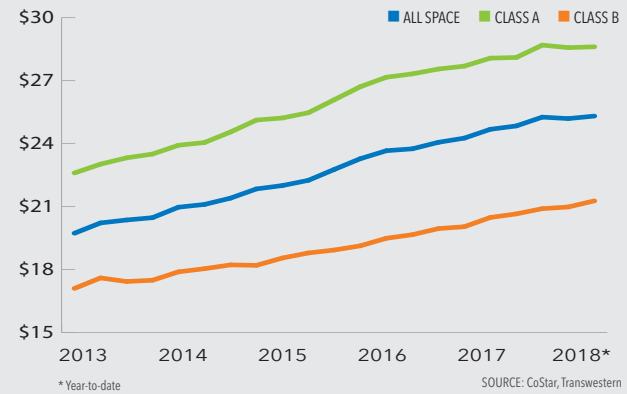
NET ABSORPTION



OVERALL VACANCY



RENTAL RATES



DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2018

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	32,621,717	7,005,810	7,677,724	21.5%	23.5%	163,025	557,681	194,568	103,291	$25.32
Uptown/Turtle Creek	12,859,510	1,299,815	1,546,040	10.1%	12.0%	1,175,014	130,237	105,205	83,821	$38.22
Northeast Dallas	3,933,920	303,254	314,487	7.7%	8.0%	294,820	32,354	10,035	2,563	$30.88
Central Expressway	13,236,141	1,662,819	1,918,825	12.6%	14.5%	-	178,938	(354,194)	(412,547)	$28.13
Preston Center	5,542,296	564,564	605,297	10.2%	10.9%	119,000	40,537	40,058	59,880	$40.25
Stemmons Freeway	13,490,189	3,183,278	3,208,923	23.6%	23.8%	-	179,099	(106,812)	47,418	$17.14
South Irving	1,975,253	230,997	230,997	11.7%	11.7%	-	35,333	(16,670)	15,773	$16.05
Las Colinas/Urban Center	9,568,548	1,179,827	1,392,278	12.3%	14.6%	-	88,527	120,992	246,873	$29.05
Las Colinas Office Center	15,998,497	2,099,637	2,287,437	13.1%	14.3%	1,221,000	77,606	138,670	(83,202)	$23.49
DFW Freeport	13,200,235	1,599,582	1,671,750	12.1%	12.7%	614,500	360,229	51,166	673,288	$22.03
West LBJ Freeway	4,689,761	914,024	948,077	19.5%	20.2%	-	111,513	54,808	42,938	$19.36
Denton/Lewisville	8,141,174	1,156,843	1,194,693	14.2%	14.7%	69,051	75,629	(72,845)	(490,512)	$22.06
Frisco/The Colony	5,599,190	898,979	924,669	16.1%	16.5%	140,000	78,078	19,667	39,312	$32.85
Allen/McKinney	6,040,965	635,381	656,376	10.5%	10.9%	295,000	81,831	97,550	224,535	$27.00
Upper Tollway/Legacy	30,773,814	3,170,864	3,743,958	10.3%	12.2%	476,400	312,588	1,216,561	4,945,743	$30.49
Plano	7,114,947	1,351,421	1,366,117	19.0%	19.2%	-	80,259	34,294	(47,718)	$24.39
Richardson	21,229,913	3,306,754	3,490,414	15.6%	16.4%	110,000	318,878	(158,720)	465,971	$23.43
Lower Tollway	22,216,128	4,416,919	4,719,479	19.9%	21.2%	240,000	276,546	(262,591)	(814,143)	$24.24
East LBJ Freeway	17,099,650	3,794,723	3,950,135	22.2%	23.1%	-	395,976	8,509	231,914	$23.23
Garland	1,523,645	238,433	238,433	15.6%	15.6%	30,000	5,284	(6,335)	(1,726)	$19.50
Southeast Dallas	650,188	36,946	39,031	5.7%	6.0%	-	845	(3,390)	7,769	$15.74
Mesquite/Rockwall	1,736,856	176,240	180,132	10.1%	10.4%	-	16,032	382	(38,482)	$22.83
Southwest Dallas	3,231,487	271,874	271,874	8.4%	8.4%	-	30,157	63,769	114,616	$18.34
Grand Prairie	3,988,035	581,743	598,037	14.6%	15.0%	-	4,968	(127,039)	(308,293)	$19.18
TOTAL – Dallas	**256,462,059**	**40,080,727**	**43,175,183**	**15.8%**	**17.0%**	**4,947,810**	**3,469,125**	**1,047,638**	**5,109,082**	**$25.38**

SOURCE: CoStar, Transwestern

Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	8,739,794	1,128,816	1,141,396	12.9%	13.1%	280,489	53,199	(25,177)	76,042	$26.56
Northwest Fort Worth	383,361	12,803	12,803	3.3%	3.3%	-	2,460	1,943	12,310	$19.93
Alliance	3,302,111	480,016	465,048	14.5%	14.1%	320,000	63,743	(29,901)	(291,527)	$20.77
Westlake/Grapevine	7,739,242	1,674,068	1,705,107	21.6%	22.0%	668,000	42,325	75,089	8,710	$27.24
Mid-Cities	5,028,098	934,289	934,289	18.6%	18.6%	1,840,000	44,947	(55,971)	(16,500)	$18.27
Northeast Fort Worth	3,846,180	1,618,770	1,658,407	42.1%	43.1%	-	62,182	85,095	54,599	$21.32
Arlington	8,384,181	805,999	846,385	9.6%	10.1%	90,500	88,004	97,935	487,933	$20.10
Southeast Fort Worth	650,188	36,946	39,031	5.7%	6.0%	-	845	(3,390)	7,769	$15.74
Southwest Fort Worth	10,342,731	814,037	917,721	7.9%	8.9%	146,417	119,703	(12,721)	91,143	$25.04
TOTAL – Fort Worth	**48,415,886**	**7,505,744**	**7,720,187**	**15.5%**	**15.9%**	**3,345,406**	**477,408**	**132,902**	**430,479**	**$23.32**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**304,877,945**	**47,586,471**	**50,895,370**	**15.6%**	**16.7%**	**8,293,216**	**3,946,533**	**1,180,540**	**5,539,561**	**$25.31**

SOURCE: CoStar, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2018

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	23,655,618	5,833,615	6,427,890	24.7%	27.2%	163,025	462,761	244,885	145,539	$26.11
Uptown/Turtle Creek	10,228,768	967,738	1,091,189	9.5%	10.7%	1,175,014	122,733	117,555	212,841	$40.54
Northeast Dallas	388,177	58,746	58,746	15.1%	15.1%	294,820	-	-	2,177	$43.56
Central Expressway	7,039,636	1,057,320	1,276,154	15.0%	18.1%	-	83,939	(309,549)	(356,886)	$29.56
Preston Center	4,346,506	444,887	485,480	10.2%	11.2%	119,000	35,853	42,633	25,758	$42.14
Stemmons Freeway	4,545,285	855,379	860,644	18.8%	18.9%	-	67825	(23,092)	115,579	$18.49
South Irving	-	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Center	7,406,634	899,513	1,103,949	12.1%	14.9%	-	79,815	126,095	166,925	$30.71
Las Colinas Office Center	7,454,485	781,535	841,888	10.5%	11.3%	1,221,000	37,696	111,645	(1,113)	$27.15
DFW Freeport	4,839,129	462,106	497,510	9.5%	10.3%	500,000	33,503	(1,900)	752,790	$24.15
West LBJ Freeway	1,706,909	335,112	368,821	19.6%	21.6%	-	34,228	(1,032)	7,340	$20.09
Denton/Lewisville	338,915	7,281	7,281	2.1%	2.1%	-	-	-	15,635	$26.07
Frisco/The Colony	3,642,743	753,692	773,083	20.7%	21.2%	140,000	63,158	(4,308)	18,618	$33.83
Allen/McKinney	1,379,405	184,751	199,826	13.4%	14.5%	295,000	48,049	24,690	118,612	$30.97
Upper Tollway/Legacy	22,783,149	2,197,166	2,684,894	9.6%	11.8%	476,400	169,025	1,244,844	4,850,179	$32.42
Plano	1,963,927	841,786	846,704	42.9%	43.1%	-	16,855	13,250	42,074	$27.53
Richardson	10,745,513	1,846,163	1,879,397	17.2%	17.5%	-	205,463	66,648	429,903	$27.05
Lower Tollway	11,818,520	2,222,229	2,404,278	18.8%	20.3%	240,000	109,600	(48,970)	(492,193)	$28.16
East LBJ Freeway	8,979,516	1,753,448	1,847,641	19.5%	20.6%	-	311,441	136,737	387,677	$26.54
Garland	-	-	-	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-	-	-	-	-
Mesquite/Rockwall	276,880	44,632	48,524	16.1%	17.5%	-	-	(6,375)	(9,808)	$29.39
Southwest Dallas	280,592	31,041	31,041	11.1%	11.1%	-	-	-	(15,541)	$30.77
Grand Prairie	2,063,968	-	8,539	-	0.4%	-	-	(8,539)	37,401	-
TOTAL – Dallas	**135,884,275**	**21,578,140**	**23,743,479**	**15.8%**	**17.5%**	**4,624,259**	**1,881,944**	**1,725,217**	**6,453,507**	**$28.89**

SOURCE: CoStar, Transwestern

Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	4,832,520	747,445	747,445	15.5%	15.5%	280,489	42,127	48,158	169,099	$29.08
Northwest Fort Worth	-	-	-	-	-	-	-	-	-	-
Alliance	795,711	180,215	180,215	22.6%	22.6%	200,000	2,543	-	(161,000)	$18.64
Westlake/Grapevine	4,574,553	1,222,193	1,222,193	26.7%	26.7%	555,000	6,765	61,420	114,998	$27.71
Mid-Cities	352,780	143,220	143,220	40.6%	40.6%	1,700,000	9,048	(3,709)	(47,299)	$18.80
Northeast Fort Worth	415,921	307,135	307,135	73.8%	73.8%	-	-	-	(52,841)	$21.39
Arlington	2,087,288	264,074	280,413	12.7%	13.4%	-	70,322	33,294	321,525	$22.08
Southeast Fort Worth	541,630	-	-	-	-	-	-	-	-	-
Southwest Fort Worth	3,297,556	293,076	335,844	8.9%	10.2%	98,497	13,942	48,189	55,137	$28.54
TOTAL – Fort Worth	**16,897,959**	**3,157,358**	**3,216,465**	**18.7%**	**19.0%**	**2,833,986**	**144,747**	**187,352**	**399,619**	**$26.07**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**152,782,234**	**24,735,498**	**26,959,944**	**16.1%**	**17.6%**	**7,458,245**	**2,026,691**	**1,912,569**	**6,853,126**	**$28.61**

Dallas-Fort Worth Office Market Indicators

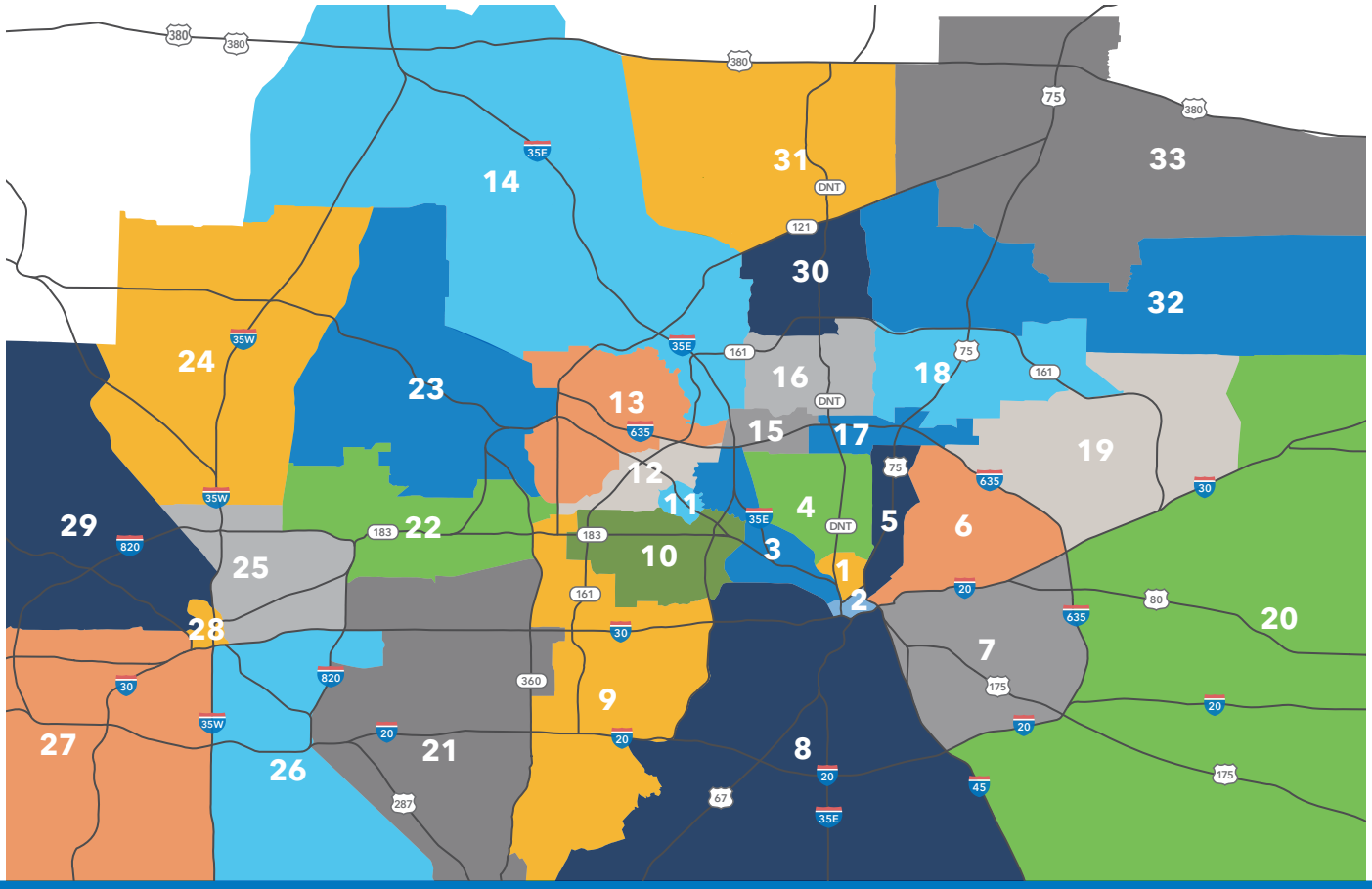
	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	QUARTER NET ABSORPTION	12 MONTH NET ABSORPTION	AVERAGE RENTAL RATES
ALL SPACE	**304,877,945**	**47,586,471**	**50,895,370**	**15.6%**	**16.7%**	**8,293,216**	**3,946,533**	**1,180,540**	**5,539,561**	**$25.31**
CLASS A	**152,782,234**	**24,735,498**	**26,959,944**	**16.1%**	**17.6%**	**7,458,245**	**2,026,691**	**1,912,569**	**6,853,126**	**$28.61**
CLASS B	**135,343,339**	**21,539,687**	**22,615,651**	**15.9%**	**16.7%**	**874,971**	**1,785,273**	**(803,175)**	**(1,452,319)**	**$21.27**

SOURCE: CoStar, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2018

Dallas-Fort Worth Office Submarkets



Submarkets

1. Uptown/Turtle Creek
2. Dallas CBD
3. Stemmons Freeway
4. Preston Center
5. Central Expressway
6. Northeast Dallas
7. Southeast Dallas
8. Southwest Dallas
9. Grand Prairie
10. South Irving
11. Las Colinas/Urban Ctr
12. Las Colinas/Office Ctr
13. DFW/Freeport
14. Denton/Lewisville
15. West LBJ Freeway
16. Lower Tollway
17. East LBJ Freeway
18. Richardson
19. Garland
20. Mesquite/Rockwall
21. Arlington
22. Mid-Cities
23. Westlake/Grapevine
24. Alliance
25. Northeast Fort Worth
26. Southeast Fort Worth
27. Southwest Fort Worth
28. Fort Worth CBD
29. Northwest Fort Worth
30. Upper Tollway/Legacy
31. Frisco/The Colony
32. Plano
33. Allen/McKinney

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2017

REGION LEADS U.S. IN JOB GROWTH

OFFICE-USING INDUSTRY SURGES ABOVE 5% ANNUAL GROWTH

OVERVIEW

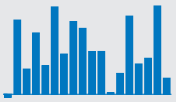
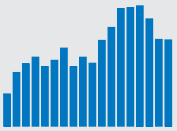
In the prior 12-month period, the Dallas-Fort Worth (DFW) economy added 100,400 non-farm jobs with a 2.8% annual change, according to the Texas Workforce Commission. The region added more jobs than any other metro in the U.S. during that time. Employment growth has been generally broad based. The industry recording the largest job gains was professional and business services, growing 5.2% and accounting for nearly a third of total employment growth for the year. Growth in that industry (three-month annualized change) surged past its fastest rate since 1999. The regional unemployment rate dropped to a near record low 3.2% (not seasonally adjusted) in November, remaining well below Texas' 3.7% and the U.S. rate of 4.1%.

The DFW economy expanded at a rapid clip in 2017, leaving labor markets tight. The Federal Reserve Bank of Dallas is forecasting 2.8% employment growth in 2018, and economists are predicting 349,900 jobs will be added in Texas throughout this year.

Vacancy rates remained stable, finishing the year at 15.9%. Fifty office properties were delivered in 2017, bringing the year-to-date total to 8.2 million square feet (MSF). Approximately 8.4 MSF of office space is currently under construction. Fewer projects have been announced and new construction activity is beginning to slow despite the relatively high demand.

Average rental rates for the fourth quarter grew to $25.23 per square foot (PSF), an increase of 3.7% from the same period last year and a 28.0% increase since 2010. Net absorption picked up in the fourth quarter, recording 1.5 MSF, bringing the year-to-date total to 5.3 MSF, a 64% increase over last year's annual total. Leasing activity slowed in the fourth quarter, with 3.7 MSF signed bringing the annual total to 16.6 MSF.

TRENDLINES

	5-YEAR TREND	CURRENT QUARTER
VACANCY		15.9% Vacancy rates are stabilizing
ABSORPTION		1.5 MSF Net absorption remains positive for the 18th straight quarter
LEASING ACTIVITY		3.7 MSF 10 yr quarterly average = 5.1 MSF
UNDER CONSTRUCTION		8.4 MSF 33 Class A buildings are currently under construction
RENTAL RATES		$25.23 PSF Rental Rates have increased 28% since 2010

TRANSWESTERN®

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2017

VACANCY

Direct vacancy rates in the office market inched upward to 14.9% in the fourth quarter of 2017 from 14.6% in the fourth quarter of 2016. Total overall vacancy, including sublease space, recorded an increase of 50 basis points from the fourth quarter of 2016 to 15.9% at the end of 2017. Vacancy rates have been hovering near historic lows for the past tree years.

Class A direct vacancy rates in the fourth quarter recorded 15.2% from 15.9% during the same period last year. Overall vacancy dropped 40 basis points year-over-year to 16.7%, just under the 10-year average of 17.3%.

Class B direct vacancy recorded 15.0% (15.8% overall) in the fourth quarter an increase from 14.0% (17.1% overall) during the same period last year. Overall vacancy dropped 40 basis points year-over-year to 16.7%, just under the 10-year average of 17.2%.

RENTAL RATES

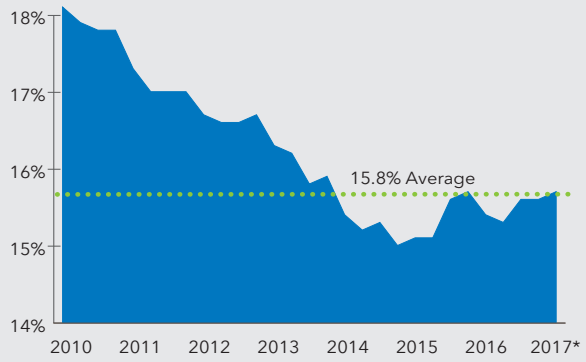
The average asking rental rate for all property classes was $25.23/SF in the fourth quarter, an increase of 3.7% from the same period last year. The average asking rate for Class A properties recorded $28.59/SF, an increase of 3.0% year-over-year. Class B asking rates jumped 4.6% to $21.01/SF in Q4 2017 from $20.08/SF in the fourth quarter in 2016.

Average asking rental rates in DFW have risen 15.5% in the past three years. Year-over-year growth rates, while continuing their upward trend, are beginning to slow. Since 2012, the region has experienced strong rental rate growth, due in part to the high demand for quality product. Rental rates in the coming year are forecast to continue rising 3-4%.

ABSORPTION

Overall net absorption in the fourth quarter was 1.5 MSF, bringing the year-to-date total to 5.3 MSF. Net absorption dipped in the third quarter but bounced back relatively strong at the end of the year. Submarkets with the largest positive year-to-date net absorption include Upper Tollway/Legacy

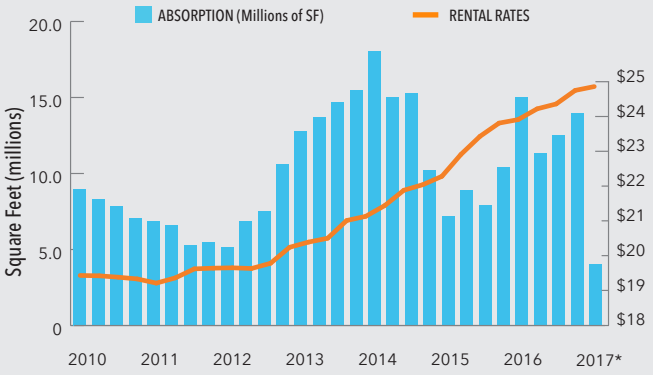
OVERALL VACANCY



* Year-to-date

SOURCE: CoStar, Transwestern

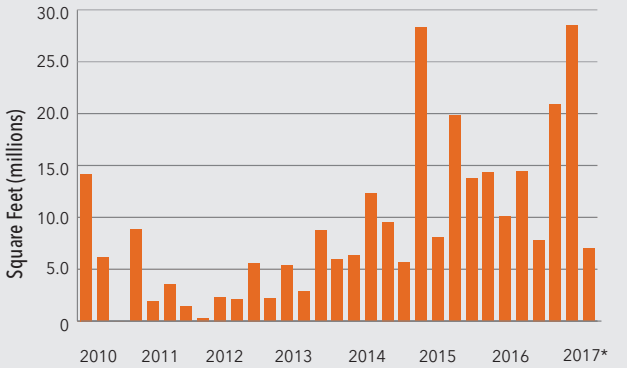
NET ABSORPTION & RENTAL RATE TRENDS



*Year-to-date; Absorption based on 4-quarter moving average

SOURCE: CoStar, Transwestern

CONSTRUCTION COMPLETIONS



*Year-to-date

SOURCE: CoStar, Transwestern

(4,320,408 SF), DFW Freeport (673,288 SF), and Richardson (476,801 SF).

CONSTRUCTION

There is currently 8.4 MSF of office space under construction. The largest projects currently underway include Pioneer Natural Resources (1.1 MSF) delivering in 2019 in Las Colinas, Liberty Mutual Campus (1.1 MSF) delivering in February 2018 in the Upper Tollway/ Legacy, Charles Schwabb Corporation (500,000 SF) delivering 2019 in Westlake/Grapevine, and PwC Tower (494,300 SF) delivering in February 2018 in Uptown/ Turtle Creek.

Fifty properties were delivered in 2017, bringing the annual total to 8.2 MSF. This roughly equates to adding another Plano submarket's worth of office product to the region, with just over half of that in the Upper Tollway/ Legacy submarket. The largest projects include the JPMorgan Chase Campus (1.0 MSF), the first building at Toyota Quality Center (879,080 SF), Legacy West (377,440 SF), TD Ameritrade (355,000 SF), CoreLogic HQ (327,183 SF), and Granite Park Seven (324,100 SF).

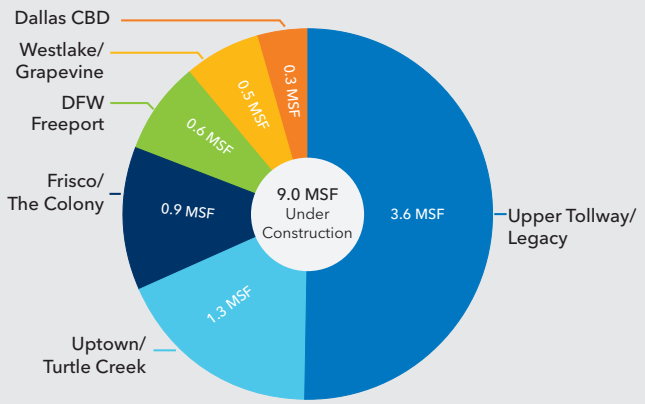
While the pipeline on in-progress and fully financed construction projects pending ground breaking has slowed in 2017, activity levels are expected to remain high for the next 18 months.

CAPITAL MARKETS

Dallas-Fort Worth recorded sales volume of approximately $2.1 billion across 57 transactions in 2017. Pricing on a per-square-foot basis averaged approximately $192/SF, slightly below the $199/ SF recorded at year end 2016. The average cap rate declined to 6.85%, ranging from a low of 5.1% to a high of 9.0%. This 2017 average was 10 basis points lower than the average reported for 2016. Class A deals had an average cap rate of 5.72% and Class B deals had an average cap rate of 7.51%.

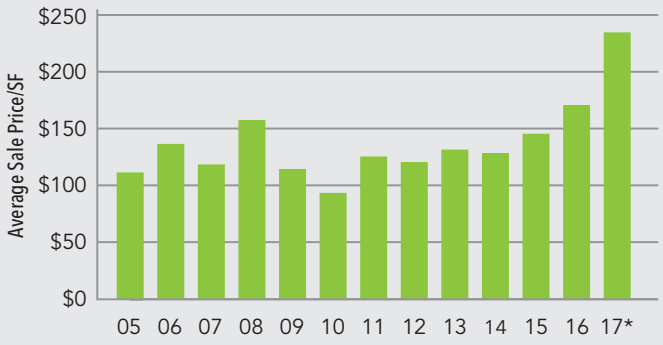
The fourth quarter saw a continuation of large transactions. The 8 largest sale transactions had a sale price average exceeding $46 million per sale. Despite record high pricing, DFW remains an extremely attractive investment option when compared to the

OFFICE SPACE UNDER CONSTRUCTION



Submarkets with 500,000 SF or greater under construction or renovation shown.

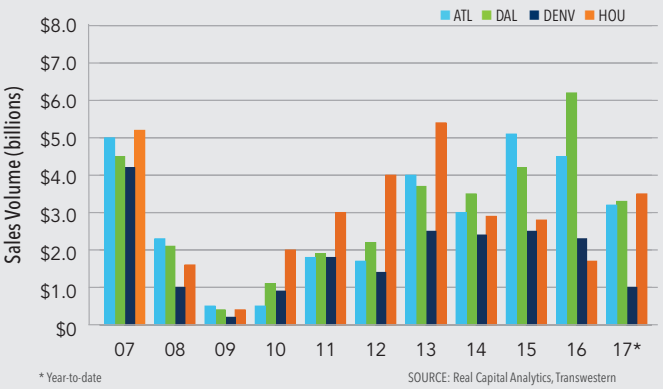
AVERAGE OFFICE SALE PRICE



* Year-to-date

SOURCE: Costar, Real Capital Analytics, Transwestern

COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



* Year-to-date

SOURCE: Real Capital Analytics, Transwestern

coastal markets, especially among institutional and foreign capital. Record setting job growth, corporate relocations, the lack of a state income tax and an affordable cost of living are some of the most dominant economic drivers. But as DFW prosperity and growth has proliferated, value-add and opportunistic investment opportunities have diminished. Sought after submarkets including the Dallas CBD, Uptown, and Preston Center along with suburban markets such as Upper Tollway/Legacy and Richardson - where billions of dollars are being spent on mixed-use, walkable, high density developments – are continuing to escalate in value and becoming more core and core plus in nature. Of the 17 assets that came to market in the fourth quarter, 10 were seeking core or core plus pricing after having completed value-add updates. A pricing gap emerged for many Class A properties in popular submarkets, as sellers' expectations have increased due to escalating rental rates and strong absorption. Investors will continue to be cautious going forward, due to the increasing cost of debt and more conservative underwriting in the later stages of this cycle. The DFW office market is expected to see strong investor demand in 2018 as it continues to benefit from solid socio-economic fundamentals and the benefits of the new administration's pro-growth and reduced taxation initiatives.

LEASING ACTIVITY

Leasing activity in the third quarter was 3.7 MSF, with Class A properties accounting for 2.1 MSF of total lease transactions. Total leasing activity at year-end was 16.6 MSF with a notable drop in the fourth quarter. Notable lease signings in the fourth quarter included Mercedes-Benz Financial Services' 200,000 SF office at Heritage Parkway, T-Moblies' 158,298 SF office renewal at 7668 Warren Parkway, Gartner, Inc.'s 152,086 SF office at 6011 Connection Dr, WorldVentures' 135,000 SF office at Legacy Tennyson Center I, and Pacific Union Financial's 132,000 SF renewal and expansion at Browning Place II in DFW Freeport.

Notable Q4 2017 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Mercedes-Benz Financial Services	200,000	New	Heritage Pky @ Legacy Crossing	Alliance
T-Moblie	158,298	Renewal	7668 Warren Pky	Frisco/The Colony
Gartner, Inc.	152,086	New	6011 Connection Dr	Las Colinas/Office Center
WorldVentures	135,000	New	Legacy Tennyson Center I	Upper Tollway/Legacy
Pacific Union Financial	132,000	Renewal & Expansion	Browning Place II	DFW Freeport

Notable Q4 2017 Sales

BUILDING	SUBMARKET	SALE PRICE / $PSF	SELLER	BUYER
One Twenty Five	Las Colinas/Urban Center	$83.4 M ($189/SF)	Brookwood Financial Partners	KBS Strategic Opportunity REIT
FedEx HQ	Upper Tollway/Legacy	$79.7 M ($301/SF)	KDC Real Estate Development	PRP Property Management
Trinity Towers	Stemmons Freeway	$69.0 M ($109/SF)	JP Realty Partners	Stanton Road Capital
Berkshire at Preston Center	Preston Center	$68.6 M ($363/SF)	Heitman, Hawaii Employees Retirement System	TA Realty
Veritex Bank Plaza	Preston Center	$41.5 M ($430/SF)	Cardinal Capital	Veritex Bank

Leasing activity in the fourth quarter was strongest in the highly desirable markets such as Lower Tollway (387,754 SF), Upper Tollway/Legacy (382,560 SF), DFW Freeport (360,229 SF), and Uptown/Turtle Creek (306,939 SF) submarkets. Activity has slowed this year with 3.7 MSF of transactions completed in the fourth quarter of 2017 compared to the fourth quarter of 2016 with 5.8 MSF of leasing activity. Despite the dip in leasing, there are approximately 18.4 MSF of deals currently seeking space in the DFW region.

ECONOMIC OUTLOOK

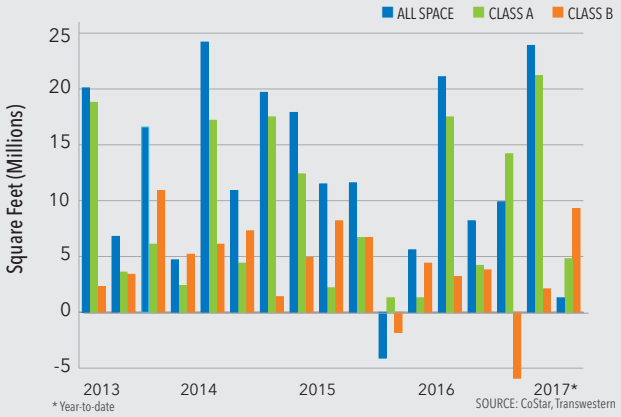
Dallas-Fort Worth's unemployment rate remains relatively low compared to other major metros as well as the U.S. national average. The region continues to add around 100,000 jobs annually to the employment base and the consensus among economists is that that trend will continue in 2018 and likely into the following year.

Vacancies remain stable at 15.9% while still relatively low from the high of 18.7% in 2010. Rental rates have continued to increase in submarkets like Uptown/Turtle Creek, Northeast Dallas, and Preston Center, but are beginning to level off in submarkets in the DFW area.

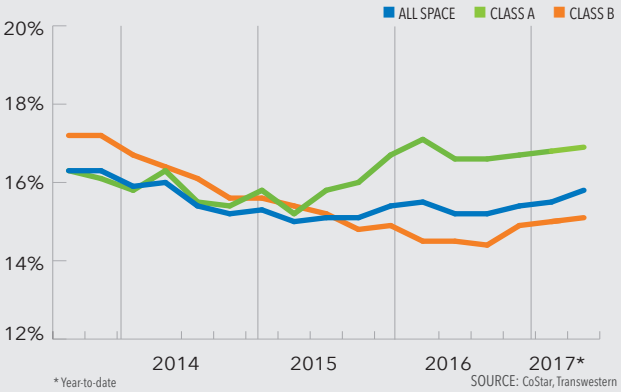
Real estate professionals have been looking for the end of an historically long cycle, but experts predict that the economic expansion still has one and a half to two more years left. The office market will continue to grow as long as the job market continues its upward trajectory and no official data suggests any short-term slowing.

The Federal Reserve has announced plans to continue quantitative tightening by raising interest rates up to three times next year, with the next one expected for March 2018. The recent tax reform bill will have wide-spread effects, most notable by lowering the corporate tax rate to 21%. While it is too soon to gauge the long-term effects of such legislation, preliminary estimates point toward a minor bump to GDP and an increase in business capital investment over the short-term horizon.

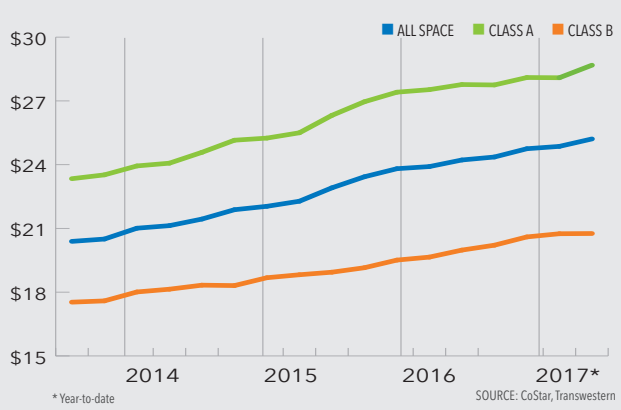
NET ABSORPTION



OVERALL VACANCY



AVERAGE ASKING RENTAL RATES



DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2017

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	33,275,027	6,839,520	7,476,692	20.6%	22.5%	424,425	158,445	(89,108)	$25.37
Uptown/Turtle Creek	13,360,202	1,247,986	1,505,958	9.3%	11.3%	1,305,014	306,939	149,998	$38.33
Northeast Dallas	4,194,718	289,301	300,534	6.9%	7.2%	294,820	15,371	(59,967)	$33.41
Central Expressway	13,891,672	1,525,374	1,586,325	11.0%	11.4%	-	105,033	(137,837)	$27.22
Preston Center	5,574,428	599,371	645,355	10.8%	11.6%	119,000	56,835	(12,334)	$39.61
Stemmons Freeway	14,059,456	3,193,769	3,221,126	22.7%	22.9%	-	66,793	164,431	$16.81
South Irving	2,011,620	215,339	215,339	10.7%	10.7%	-	6,170	4,631	$16.82
Las Colinas/Urban Center	9,537,423	1,334,206	1,505,608	14.0%	15.8%	100,000	175,757	96,262	$29.08
Las Colinas/Office Center	16,318,430	2,277,392	2,462,527	14.0%	15.1%	1,125,000	291,663	302,422	$23.21
DFW Freeport	13,200,235	1,599,582	1,671,750	12.1%	12.7%	614,500	360,229	673,288	$22.03
West LBJ Freeway	5,028,942	958,894	1,014,541	19.1%	20.2%	-	125,626	13,654	$19.23
Denton/Lewisville	8,174,615	1,060,659	1,176,922	13.0%	14.4%	20,000	63,006	(515,901)	$21.50
Frisco/The Colony	5,708,934	712,905	722,289	12.5%	12.7%	656,136	122,369	258,308	$33.63
Allen/McKinney	6,129,033	682,637	709,384	11.1%	11.6%	422,000	41,250	51,016	$26.22
Upper Tollway/Legacy	29,287,261	2,721,720	3,152,423	9.3%	10.8%	1,891,191	382,560	4,320,408	$30.55
Plano	7,136,907	1,598,390	1,873,389	22.4%	26.2%	-	67,712	(567,427)	$24.75
Richardson	21,132,950	3,271,875	3,312,999	15.5%	15.7%	95,000	279,926	476,801	$23.62
Lower Tollway	22,128,712	3,316,761	3,666,852	15.0%	16.6%	240,000	387,754	(355,922)	$24.24
East LBJ Freeway	16,966,800	3,756,272	3,952,571	22.1%	23.3%	-	202,548	181,047	$23.22
Garland	1,505,586	223,198	223,198	14.8%	14.8%	30,000	5,200	13,126	$19.19
Southeast Dallas	646,492	31,418	32,941	4.9%	5.1%	-	2,795	5,398	$16.63
Mesquite/Rockwall	1,569,964	154,692	158,584	9.9%	10.1%	–	6,094	(30,666)	$26.88
Southwest Dallas	3,060,861	330,109	334,043	10.8%	10.9%	-	29,526	55,956	$18.36
Grand Prairie	4,091,963	713,708	726,463	17.4%	17.8%	-	13,568	(286,147)	$19.18
TOTAL – Dallas	**257,992,231**	**38,655,078**	**41,647,813**	**15.0%**	**16.2%**	**7,337,086**	**3,273,169**	**4,711,437**	**$25.57**

SOURCE: CoStar, Transwestern

Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	11,389,865	1,037,590	1,077,324	9.1%	9.5%	280,489	72,878	162,761	$26.75
Northwest Fort Worth	431,995	16,219	16,219	3.8%	3.8%	-	2,092	14,775	$19.91
Alliance	3,323,132	322,760	380,115	9.7%	11.4%	32,000	7,883	(219,706)	$20.04
Westlake/Grapevine	7,893,902	1,753,975	1,780,196	22.2%	22.6%	585,000	86,722	(106,707)	$27.38
Mid-Cities	5,072,098	875,961	875,961	17.3%	17.3%	-	72,436	62,875	$18.22
Northeast Fort Worth	3,962,280	1,728,214	1,728,214	43.6%	43.6%	-	20,439	115,175	$20.65
Arlington	8,624,158	880,672	923,377	10.2%	10.7%	50,500	87,083	409,445	$19.75
Southeast Fort Worth	1,374,090	83,222	83,222	6.1%	6.1%	-	-	8,601	$15.86
Southwest Fort Worth	10,578,724	834,660	901,560	7.9%	8.5%	98,497	83,686	126,680	$24.76
TOTAL – Fort Worth	**52,650,244**	**7,533,273**	**7,766,188**	**14.3%**	**14.8%**	**1,046,486**	**433,219**	**573,899**	**$23.06**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**310,642,475**	**46,188,351**	**49,414,001**	**14.9%**	**16.0%**	**8,383,572**	**3,706,388**	**5,285,336**	**$25.23**

SOURCE: CoStar, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2017

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	23,375,243	5,676,210	6,277,175	24.3%	26.9%	424,425	126,265	9,249	$26.02
Uptown/Turtle Creek	10,867,149	962,644	1,078,744	8.9%	9.9%	1,305,014	294,821	264,727	$40.30
Northeast Dallas	388,177	58,746	58,746	15.1%	15.1%	294,820	-	(11,304)	$43.56
Central Expressway	7,572,759	941,269	972,593	12.4%	12.8%	-	47,564	(18,464)	$28.50
Preston Center	4,346,506	482,129	528,113	11.1%	12.2%	119,000	48,042	(39,950)	$41.00
Stemmons Freeway	4,545,285	830,287	837,552	18.3%	18.4%	-	479	149,991	$18.68
South Irving	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Center	7,406,791	1,056,880	1,228,282	14.3%	16.6%	100,000	157,787	34,722	$30.74
Las Colinas Office Center	7,704,485	927,845	985,533	12.0%	12.8%	1,125,000	217,752	417,081	$26.91
DFW Freeport	4,839,129	462,106	497,510	9.5%	10.3%	500,000	33,503	752,790	$24.15
West LBJ Freeway	1,706,909	336,109	370,195	19.7%	21.7%	-	59,919	54,178	$20.59
Denton/Lewisville	230,755	2,210	2,210	1.0%	1.0%	-	10,392	10,392	$28.39
Frisco/The Colony	3,790,562	559,368	568,752	14.8%	15.0%	656,136	93,635	275,577	$34.76
Allen/McKinney	1,468,676	203,741	213,516	13.9%	14.5%	325,000	28,358	51,456	$30.47
Upper Tollway/Legacy	21,280,381	1,763,870	2,127,893	8.3%	10.0%	1,891,191	249,462	4,132,733	$32.53
Plano	1,958,701	591,028	859,954	30.2%	43.9%	-	7,950	13,832	$27.78
Richardson	10,703,946	1,917,704	1,936,073	17.9%	18.1%	95,000	150,791	218,950	$27.00
Lower Tollway	11,524,893	1,362,408	1,569,725	11.8%	13.6%	240,000	248,113	(111,700)	$28.15
East LBJ Freeway	8,979,516	1,847,670	1,984,378	20.6%	22.1%	-	161,669	215,256	$26.69
Garland	-	-	-	-	-	-	-	-	$0.00
Southeast Dallas	-	-	-	-	-	-	-	-	$0.00
Mesquite/Rockwall	276,880	38,257	42,149	13.8%	15.2%	-	-	(3,595)	$29.35
Southwest Dallas	280,592	31,041	31,041	11.1%	11.1%	-	-	(15,541)	$30.77
Grand Prairie	1,851,880	-	-	-	-	-	-	-	-
TOTAL – Dallas	**135,099,215**	**20,049,034**	**22,167,646**	**14.8%**	**16.4%**	**7,075,586**	**1,936,502**	**3,938,508**	**$28.88**

SOURCE: CoStar, Transwestern

Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	5,829,520	766,307	795,603	13.1%	13.6%	280,489	56,034	121,737	$29.46
Northwest Fort Worth	-	-	-	-	-	-	-	-	$24.64
Alliance	889,475	180,215	180,215	20.3%	20.3%	-	-	(155,189)	$18.12
Westlake/Grapevine	4,574,553	1,283,613	1,283,613	28.1%	28.1%	555,000	72,243	52,574	$27.93
Mid-Cities	352,780	139,511	139,511	39.5%	39.5%	-	-	(51,102)	$21.02
Northeast Fort Worth	415,921	307,135	307,135	73.8%	73.8%	-	-	30,882	$21.39
Arlington	1,953,288	210,843	233,269	10.8%	11.9%	-	7,483	227,270	$21.33
Southeast Fort Worth	541,630	-	-	-	-	-	-	-	-
Southwest Fort Worth	3,264,665	351,206	386,974	10.8%	11.9%	98,497	29,043	33,505	$29.00
TOTAL – Fort Worth	**17,821,832**	**3,238,830**	**3,326,320**	**18.2%**	**18.7%**	**933,986**	**164,803**	**697,201**	**$26.08**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**152,921,047**	**23,287,864**	**25,493,966**	**15.2%**	**16.7%**	**8,009,572**	**2,101,305**	**4,635,709**	**$28.59**

Dallas-Fort Worth Office Market Indicators

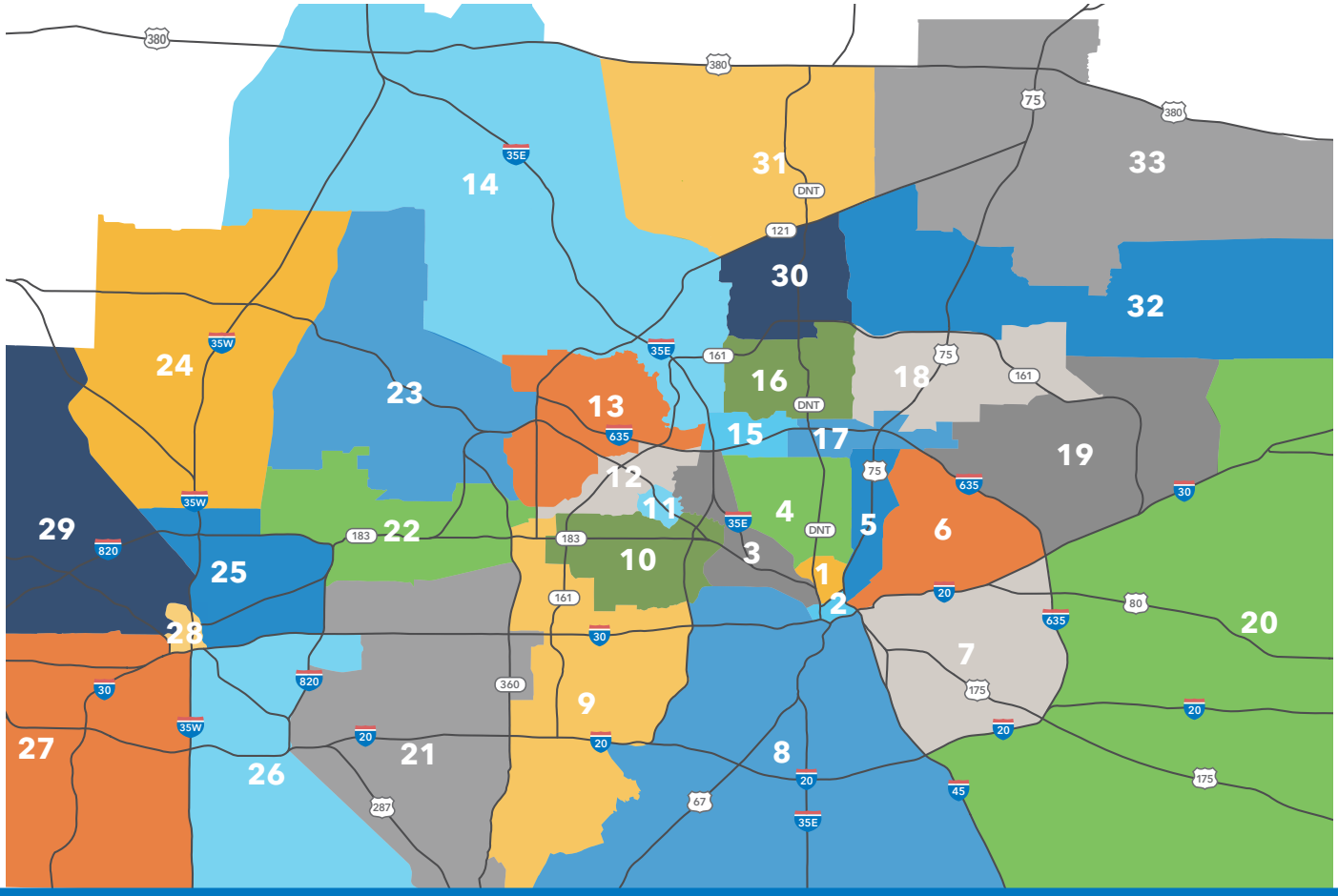
	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
ALL SPACE	**310,642,475**	**46,188,351**	**49,414,001**	**14.9%**	**16.0%**	**8,383,572**	**3,706,388**	**5,285,336**	**$25.23**
CLASS A	**152,921,047**	**23,287,864**	**25,493,966**	**15.2%**	**16.7%**	**8,009,572**	**2,101,305**	**4,635,709**	**$28.59**
CLASS B	**139,409,835**	**20,840,465**	**22,123,359**	**15.0%**	**15.8%**	**374,000**	**1,531,144**	**(1,112,528)**	**$21.01**

SOURCE: CoStar, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2017

Dallas-Fort Worth Office Submarkets



Submarkets

1. Uptown/Turtle Creek
2. Dallas CBD
3. Stemmons Freeway
4. Preston Center
5. Central Expressway
6. Northeast Dallas
7. Southeast Dallas
8. Southwest Dallas
9. Grand Prairie
10. South Irving
11. Las Colinas/Urban Ctr
12. Las Colinas/Office Ctr
13. DFW/Freeport
14. Denton/Lewisville
15. West LBJ Freeway
16. Lower Tollway
17. East LBJ Freeway
18. Richardson
19. Garland
20. Mesquite/Rockwall
21. Arlington
22. Mid-Cities
23. Westlake/Grapevine
24. Alliance
25. Northeast Fort Worth
26. Southeast Fort Worth
27. Southwest Fort Worth
28. Fort Worth CBD
29. Northwest Fort Worth
30. Upper Tollway/Legacy
31. Frisco/The Colony
32. Plano
33. Allen/McKinney

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2017

DEMAND IN HIGH GEAR

ABSORPTION EXPECTED TO DOUBLE 10-YEAR AVERAGE IN 2017

OVERVIEW

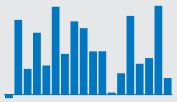
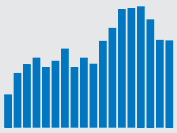
In the prior 12-month period, the Dallas-Fort Worth (DFW) economy added 96,700 non-farm jobs with a 2.8% annual change, according to the Texas Workforce Commission. During that time, the DFW metro region contributed just over a third of Texas' overall job growth, adding around 265 net new jobs per day over the year. The industry recording the largest job gains was professional and business services, adding over 25,000 jobs and contributing nearly 26% of total employment growth for the year.

The unemployment rate remains relatively low compared to other major metros as well as the U.S. national average. The regional unemployment rate dropped to 3.9% (not seasonally adjusted) in August, lower than Texas' 4.5% and the U.S. rate of 4.5%. The regional labor force grew to 3.8 million, a year-over-year increase of 2.0% compared to Texas' 0.8% and the U.S. rate of 0.7%.

Vacancy rates are stabilizing from their recent peak of 18.7% in 2010 and into the 15.0%-16.0% range. Thirty properties delivered in 2017 totaling 5.6 MSF. Class A construction projects account for 93% of the 9.0 MSF of office space currently under construction.

Weighted average rental rates for the third quarter rose to $25.21 per square foot (PSF), an increase of 4.0% from the same period last year. Rates are continuing to rise across the board, but there are signs that they are beginning to level out in some submarkets. Net absorption in the third quarter was comparatively low, however the market is on pace to more than double the ten-year annual average by the end of the year. Current leasing activity year-to-date is approximately 30% lower than this period last year and is projected to reach just over 16.0 MSF by year end.

TRENDLINES

	5-YEAR TREND	CURRENT QUARTER
VACANCY		15.8% Vacancy remains low and rates are stable
ABSORPTION		133,208 SF Net absorption remains positive for the 17th straight quarter
LEASING ACTIVITY		3.2 MSF 10 yr quarterly average = 5.1 MSF
UNDER CONSTRUCTION		9.0 MSF Construction down 3.6% from peak 12.6 MSF in 4Q 2016
RENTAL RATES		$25.21 PSF Asking rates continue to climb but are slowing in some markets

TRANSWESTERN®

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2017

VACANCY

Direct vacancy rates in the office market inched upward to 14.8% in the third quarter of 2017 from 14.7% in the third quarter of 2016. Overall vacancy that includes sublease space recorded a similar increase of 140 basis points during the same period to 15.8%. Vacancy is slowly moving upward but remains stable.

Class A direct vacancy increased to 15.7% (16.9% overall) in the third quarter from 15.2% (16.8% overall) in the second quarter. Submarkets with the tightest vacancies in overall Class A space included Denton/ Lewisville (2.7%), Southwest Dallas (4.9%), and Preston Center (9.4%).

Class B direct vacancy also recorded an increase in vacancy to 14.4% (15.1% overall) in the third quarter from 14.3% (15.0% overall) in the second quarter. Submarkets recording the lowest vacancy were Mesquite/Rockwall (4.7%), Southeast Dallas (4.8%), Northeast Dallas (5.7%), and Forth Worth CBD (6.1%).

RENTAL RATES

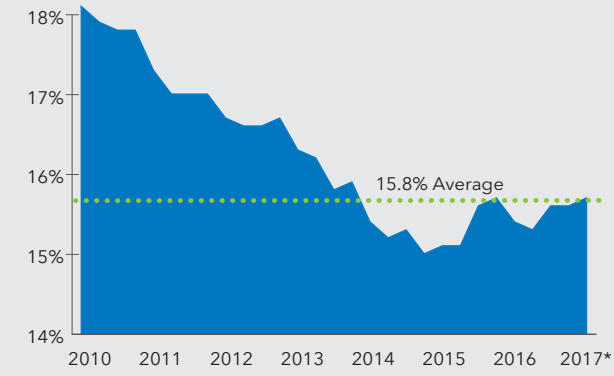
The average asking rental rate for all property classes was $25.21/SF in the third quarter, an increase of 4.0% from the same period last year. The average rate for Class A properties recorded $28.68/SF, an increase of 3.3% year-over-year. Class B rates increased to $20.76/ SF in Q3 2017 from $19.96/SF at the third quarter in 2016.

Rental rates are expected to continue to rise throughout the final quarter of 2017 as strong demand in markets such as Uptown/Turtle Creek, Preston Center, and Upper Tollway/Legacy continues to put upward pressure on rental rates.

ABSORPTION

Overall net absorption in the third quarter was comparatively low in the third quarter recording 133,208 SF, however the market is on pace to more than double the ten-year annual average by the end of the year. Submarkets with the largest positive

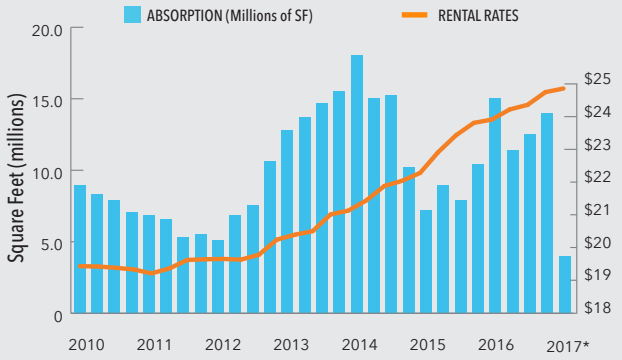
OVERALL VACANCY AVERAGE



* Year-to-date

SOURCE: CoStar, Transwestern

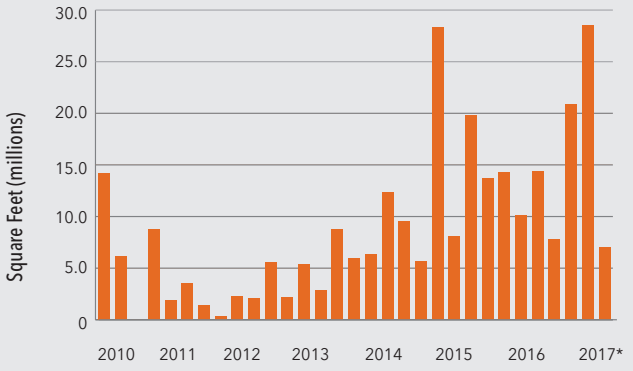
NET ABSORPTION & RENTAL RATE TRENDS



*Year-to-date; Absorption based on 4-quarter moving average

SOURCE: CoStar, Transwestern

CONSTRUCTION COMPLETIONS



*Year-to-date

SOURCE: CoStar, Transwestern

year-to-date net absorption include Upper Tollway/ Legacy (3,210,372 SF), DFW Freeport (699,950 SF), and Arlington (376,026 SF).

CONSTRUCTION

There is currently 9.0 MSF of office space under construction. Class A projects comprise the bulk of new activity with 8.4 MSF. Submarkets with the largest amount of construction projects include Upper Tollway/ Legacy (3.6 MSF) and Uptown/Turtle Creek (1.3 MSF).

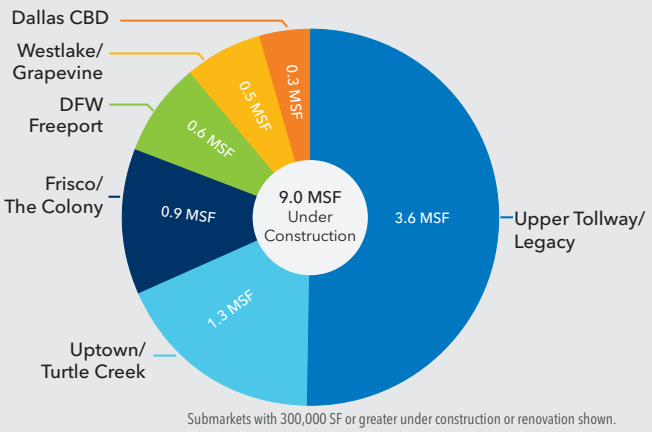
Thirty properties have been delivered in 2017 bringing the total of 5.6 MSF. The largest include the first building at Toyota's North American headquarters (400,000 SF), Legacy West (377,440 SF), CoreLogic's headquarters (327,180 SF), and One Legacy West (307,825 SF).

CAPITAL MARKETS

Dallas-Fort Worth recorded sales volume of approximately $1.1 billion across 36 transactions in 2017. Pricing on a per-square-foot basis fell to $178/SF from a peak of $199/SF in 2016. The average cap rate was 6.98%, ranging from a low of 4.90% to a high of 9.00%. Class A deals had an average cap rate of 5.61% and Class B deals had an average cap rate of 7.50%.

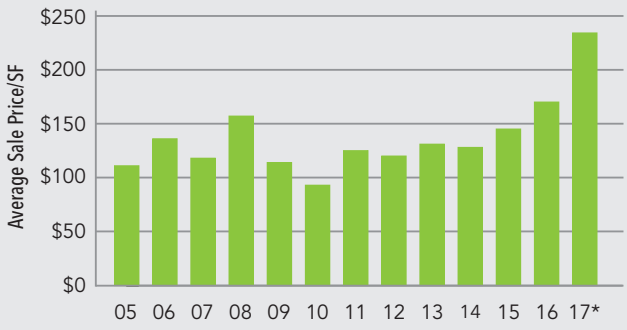
The third quarter saw the rise of major deals after a quiet start to the year; 8 deals had sale prices over $249 million. We expect larger deals to continue to drive the market as several corporate campuses are currently up for grabs. Despite record high pricing, DFW remains a relatively attractive investment option when compared to the coastal markets, especially among institutional and foreign capital. However appealing opportunities to invest are dwindling, specifically for value-add and opportunistic investors. Submarkets in the city's core such as the Dallas CBD, Uptown, and Preston Center along with suburban markets like Upper Tollway/Legacy and Richardson - where billions of dollars are being spent on mixed-use, high density developments - will continue to be among the most active investment markets going forward.

OFFICE SPACE UNDER CONSTRUCTION



Submarkets with 300,000 SF or greater under construction or renovation shown.

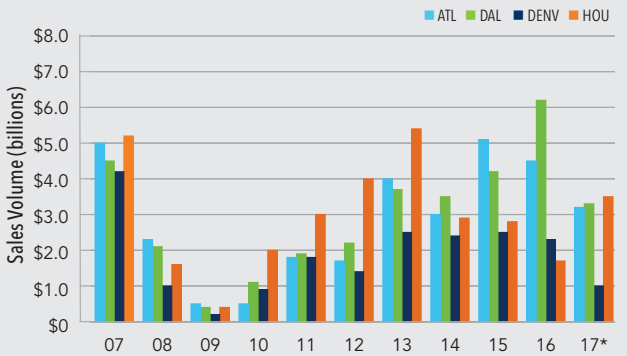
AVERAGE OFFICE SALE PRICE



* Year-to-date

SOURCE: Costar, Real Capital Analytics, Transwestern

COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



* Year-to-date

SOURCE: Real Capital Analytics, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2017

Of the 21 assets that have come to market in the third quarter, 14 of them are Class B properties, highlighting the desire for value-add or non-core properties by private investors. A pricing gap has emerged for the Class A properties in popular submarkets, as sellers' expectations have increased due to escalating rental rates and strong absorption. Investors will continue to be cautious going forward, due to higher finance costs and more conservative underwriting in the later stages of this cycle, however we expect the DFW market to continue to benefit from its socioeconomic fundamentals and remain a top investment market throughout 2017.

LEASING ACTIVITY

Leasing activity in the third quarter was 3.2 MSF, with Class A properties accounting for 43.7%, or 1.8 MSF, of total lease transactions. Notable lease signings in the third quarter of 2017 included NTT Data's 232,000 SF office at The Campus at Legacy West, Gartners' 150,000 SF office at 6011 Connection Drive, Frontier Communications' 83,662 SF renewal at Allen Office Center, Goldman Sachs' 68,657 SF office at Galatyn Commons Building D, and Bank of America's 68,000 SF renewal at Bank of America Tower in Fort Worth CBD.

Leasing activity in the third quarter was strongest in the Denton/Lewisville (570,123 SF), Allen/McKinney (301,017 SF), Upper Tollway/Legacy (263,693 SF), and Plano (215,540 SF) submarkets. Activity has slowed this year with just under 3.2 MSF of transactions completed in the third quarter of 2017 compared to the third quarter of 2016 with 5.7 MSF of leasing activity. Despite the drop in leasing, there are approximately 16.7 MSF of deals currently searching for space in the DFW market. Total leasing activity for 2017 is forecast to reach 16 MSF.

Notable Q3 2017 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
NTT Data	232,000	New	The Campus at Legacy West	Upper Tollway/Legacy
Gartner Inc.	150,000	New	6011 Connection Dr	Las Colinas/Office Center
Frontier Communications	83,662	Renewal	Allen Office Center	Allen/McKinney
Goldman Sachs	68,657	New	Galatyn Commons Bldg D	Richardson/Plano
Bank of America	68,000	Renewal	Bank of America Tower	Fort Worth CBD

Notable Q3 2017 Sales

BUILDING	SUBMARKET	SALE PRICE / $PSF	SELLER	BUYER
125 E John Carpenter	Las Colinas/Urban Center	$83.4 M ($189/SF)	Brookwood Financial Partners	KBS Realty
Two Turtle Creek	Uptown/Turtle Creek	$58.0 M ($259/SF)	Lincoln Property Co.	CIM Group
Preston Plaza	Lower Tollway	$39.0 M ($150/SF)	Caddo Holdings	Tanglewood Property Group
Gramercy Center North & South	Upper Tollway/West Plano	$35.4 M ($138/SF)	CapRidge Partners	ATCAP Partners
One Preston Centre	Preston Center	$18.0 M ($235/SF)	Lionstone	Pillar Commercial/Artemis Real Estate Partners

ECONOMIC OUTLOOK

Dallas-Fort Worth's unemployment rate remains relatively low compared to other major metros as well as the U.S. national average. The regional unemployment rate fell to 3.9% (not seasonally adjusted) in August, lower than Texas' 4.5% and the U.S. rate of 4.5%. The region continues to add around 100,000 jobs annually to the employment base with the professional and business services industry adding over 25,000 jobs and contributing nearly 26% of total employment growth for the year, a 4.3% annual change. The labor force for the region grew to 3.8 million, an annual increase of 2.0% compared to Texas' 0.8% and the U.S. rate of 0.7%.

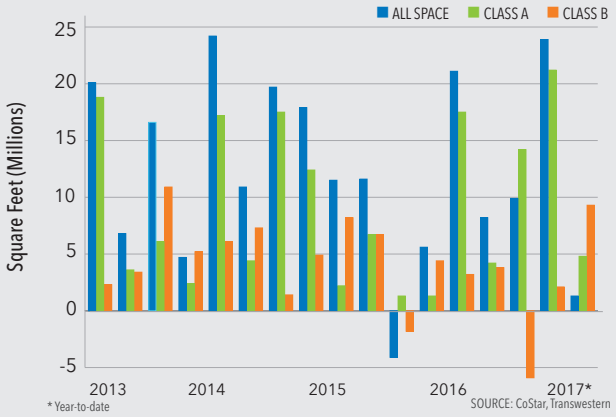
The national gross domestic product (GDP) for the second quarter was 3.1% annual compared to the first quarter's 1.2%. During the first quarter, most states averaged 1.0%-2.0% growth, however Texas led the pack in GDP growth by recording 3.9% in Q1 (Q2 estimates forthcoming). The DFW metro area ranked 4th in total GDP for 2016 reaching $511.6 B in 2016, an increase of 30.5% over the last five years with more output than forty state economies.

Vacancy appears to have hit a low point, and absorption, though relatively lower in the third quarter, is expected to nearly double the ten-year average by the end of the year. Rental rates have slowed mildly in some submarkets, but there is still room for growth as demand continues to push upward.

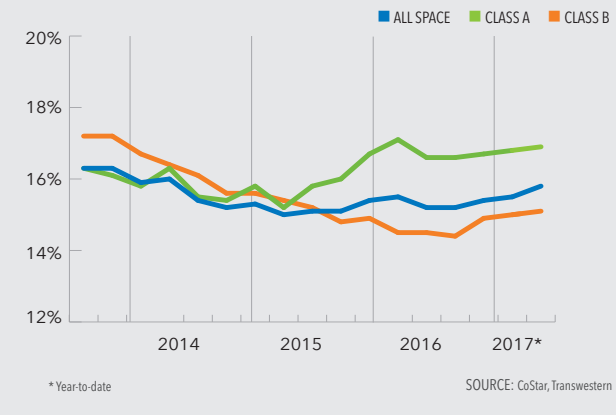
The hurricanes that hit the U.S. mainland in Q3 are forecast to pull GDP growth down slightly in Q3 but remain transitory. Activities from rebuilding (via the flow of labor and materials) will provide a small boost to the economy throughout 2018. While the damage estimates are reportedly high, the long-term effects remain to be seen.

The Dallas-Fort Worth metro ranked 4th in the nation in job growth adding 96,700 jobs over the last 12-month period. Relocations and large tenants expansions remain commonplace. The economy remains highly attractive and analysts predict another 2-3 years of developments with steady growth.

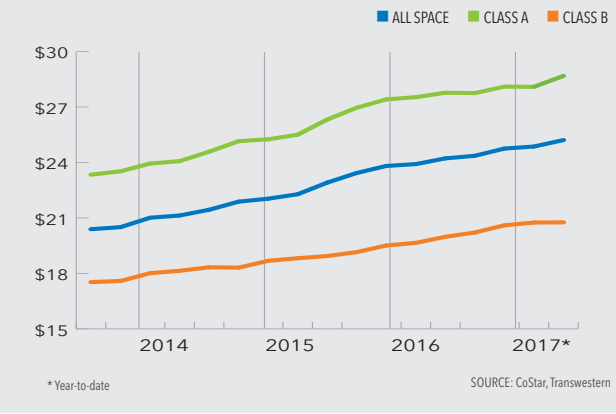
NET ABSORPTION



OVERALL VACANCY



AVERAGE ASKING RENTAL RATES



DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2017

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	33,290,376	7,045,773	7,491,692	21.2%	22.5%	322,110	65,603	(104,108)	$25.20
Uptown/Turtle Creek	13,676,513	1,231,848	1,448,724	9.0%	10.6%	1,305,014	72,414	207,232	$37.66
Northeast Dallas	4,224,355	285,897	297,130	6.8%	7.0%	294,820	62,224	(56,563)	$30.49
Central Expressway	13,901,750	1,454,415	1,479,792	10.5%	10.6%	-	17,356	(36,404)	$27.81
Preston Center	5,379,130	450,917	488,316	8.4%	9.1%	290,583	113,818	(26,878)	$39.23
Stemmons Freeway	14,160,234	3,208,933	3,278,728	22.7%	23.2%	-	99,176	70,749	$16.81
South Irving	2,011,620	212,553	220,150	10.6%	10.9%	-	140,476	7,417	$17.70
Las Colinas/Urban Center	9,403,416	1,332,685	1,474,693	14.2%	15.7%	100,000	57,084	127,177	$29.25
Las Colinas/Office Center	16,274,476	2,189,061	2,345,063	13.5%	14.4%	116,000	99,048	320,655	$23.88
DFW Freeport	13,118,596	1,569,874	1,772,569	12.0%	13.5%	589,500	87,283	699,950	$22.51
West LBJ Freeway	4,931,458	648,697	697,614	13.2%	14.1%	-	52,048	225,581	$19.25
Denton/Lewisville	8,297,157	661,147	779,410	8.0%	9.4%	-	570,123	(23,878)	$21.92
Frisco/The Colony	5,460,561	540,519	579,824	9.9%	10.6%	884,993	59,194	114,437	$33.53
Allen/McKinney	5,642,899	571,320	589,852	10.1%	10.5%	285,107	301,017	83,081	$26.30
Upper Tollway/Legacy	28,045,927	2,585,223	2,858,359	9.2%	10.2%	3,595,291	263,693	3,210,372	$31.75
Plano	7,151,100	1,602,246	1,894,535	22.4%	26.5%	-	215,540	(845,132)	$24.90
Richardson	21,168,320	3,637,280	3,683,815	17.2%	17.4%	-	2,906	155,785	$23.50
Lower Tollway	22,209,495	3,425,382	3,708,264	15.4%	16.7%	240,000	10,857	(405,134)	$24.18
East LBJ Freeway	16,978,021	3,942,686	4,171,264	23.2%	24.6%	-	11,458	2,985	$22.78
Garland	1,620,776	240,446	240,446	14.8%	14.8%	30,000	10,834	(40,185)	$18.86
Southeast Dallas	622,365	31,387	32,910	5.0%	5.3%	-	8,174	5,429	$16.22
Mesquite/Rockwall	1,569,964	112,658	116,550	7.2%	7.4%	-	10,990	11,368	$24.83
Southwest Dallas	3,060,861	326,443	326,443	10.7%	10.7%	-	19,791	63,556	$18.04
Grand Prairie	4,071,884	662,070	680,473	16.3%	16.7%	27,149	4,517	(267,306)	$19.17
TOTAL – Dallas	**256,271,254**	**37,969,460**	**40,656,616**	**14.8%**	**15.9%**	**8,080,567**	**2,702,273**	**3,496,917**	**$25.57**

Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	11,298,561	1,070,058	1,109,792	9.5%	9.8%	280,489	52,767	130,293	$26.27
Northwest Fort Worth	430,807	17,274	17,274	4.0%	4.0%	-	-	13,720	$19.90
Alliance	3,229,368	346,024	403,379	10.7%	12.5%	32,000	8,388	(242,970)	$21.53
Westlake/Grapevine	7,499,475	1,669,993	1,675,808	22.3%	22.3%	486,500	52,659	(419,933)	$27.42
Mid-Cities	5,091,809	907,900	907,900	17.8%	17.8%	-	35,137	35,249	$18.04
Northeast Fort Worth	3,951,078	1,755,766	1,755,766	44.4%	44.4%	-	5,000	82,623	$19.38
Arlington	8,636,229	921,489	956,796	10.7%	11.1%	50,500	136,385	376,026	$20.02
Southeast Fort Worth	1,357,026	84,457	84,457	6.2%	6.2%	-	17,918	5,466	$16.95
Southwest Fort Worth	10,461,527	899,454	972,131	8.6%	9.3%	98,497	165,969	33,223	$25.78
TOTAL – Fort Worth	**51,955,880**	**7,672,415**	**7,883,303**	**14.8%**	**15.2%**	**947,986**	**474,223**	**13,697**	**$22.97**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**308,227,134**	**45,641,875**	**48,539,919**	**14.8%**	**15.8%**	**9,028,553**	**3,176,496**	**3,494,464**	**$25.21**

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2017

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	23,375,243	5,902,357	6,318,789	25.3%	27.0%	322,110	119,748	(32,365)	$25.86
Uptown/Turtle Creek	10,919,635	983,044	1,064,146	9.0%	9.7%	1,273,530	146,181	279,325	$40.29
Northeast Dallas	388,177	58,746	58,746	15.1%	15.1%	294,820	-	(11,304)	$43.56
Central Expressway	7,636,460	923,039	928,718	12.1%	12.2%	-	20,089	25,411	$29.51
Preston Center	4,189,509	357,434	394,833	8.5%	9.4%	290,583	62,827	(78,253)	$40.58
Stemmons Freeway	4,797,669	880,928	890,383	18.4%	18.6%	-	30,686	97,160	$18.73
South Irving	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Center	7,300,918	1,064,933	1,206,941	14.6%	16.5%	100,000	96,653	56,063	$30.62
Las Colinas Office Center	7,607,757	929,180	1,014,093	12.2%	13.3%	96,000	55,636	292,521	$27.85
DFW Freeport	4,839,129	460,206	495,610	9.5%	10.2%	475,000	68,929	754,690	$24.68
West LBJ Freeway	1,706,909	355,549	382,848	20.8%	22.4%	-	11,294	41,525	$20.46
Denton/Lewisville	474,755	12,602	12,602	2.7%	2.7%	-	-	-	$26.66
Frisco/The Colony	3,502,368	389,235	423,138	11.1%	12.1%	884,993	66,586	153,455	$34.48
Allen/McKinney	1,270,109	176,352	177,412	13.9%	14.0%	173,441	18,194	39,119	$30.16
Upper Tollway/Legacy	20,105,408	1,677,443	1,936,170	8.3%	9.6%	3,465,291	481,383	3,000,356	$34.18
Plano	1,930,489	564,793	833,719	29.3%	43.2%	-	14,823	(239,492)	$27.65
Richardson	10,709,365	2,047,766	2,078,248	19.1%	19.4%	-	142,330	99,333	$27.04
Dallas North Tollway	11,765,152	1,530,697	1,713,896	13.0%	14.6%	240,000	136,019	(255,871)	$28.32
East LBJ Freeway	8,977,532	1,967,557	2,131,154	21.9%	23.7%	-	79,582	68,480	$26.31
Garland	-	-	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-	-	-	-
Mesquite/Rockwall	276,880	44,324	48,216	16.0%	17.4%	-	7,729	(9,662)	$29.10
Southwest Dallas	280,592	13,664	13,664	4.9%	4.9%	-	-	1,836	$25.34
Grand Prairie	1,851,880	-	-	0.0%	0.0%	-	-	-	-
TOTAL – Dallas	**133,905,936**	**20,339,849**	**22,123,326**	**15.2%**	**16.5%**	**7,615,768**	**1,558,689**	**4,282,327**	**$28.92**

Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	5,889,851	785,465	814,761	13.3%	13.8%	280,489	31,947	102,579	$29.18
Northwest Fort Worth	-	-	-	-	-	-	-	-	$24.64
Alliance	795,711	233,649	233,649	29.4%	29.4%	-	-	(208,623)	$20.01
Westlake/Grapevine	4,179,718	1,242,502	1,242,502	29.7%	29.7%	435,000	24,554	(306,184)	$28.02
Mid-Cities	352,780	149,625	149,625	42.4%	42.4%	-	10,114	(61,216)	$21.05
Northeast Fort Worth	414,859	307,135	307,135	74.0%	74.0%	-	-	30,882	$21.39
Arlington	1,953,288	239,753	252,597	12.3%	12.9%	-	44,177	207,942	$20.85
Southeast Fort Worth	541,630	-	-	-	-	-	-	-	-
Southwest Fort Worth	3,229,563	396,247	439,158	12.3%	13.6%	98,497	119,726	(18,679)	$30.20
TOTAL – Fort Worth	**17,357,400**	**3,354,376**	**3,439,427**	**19.3%**	**19.8%**	**813,986**	**230,518**	**(253,299)**	**$26.62**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**151,263,336**	**23,694,225**	**25,562,753**	**15.7%**	**16.9%**	**8,429,754**	**1,789,207**	**4,029,028**	**$28.68**

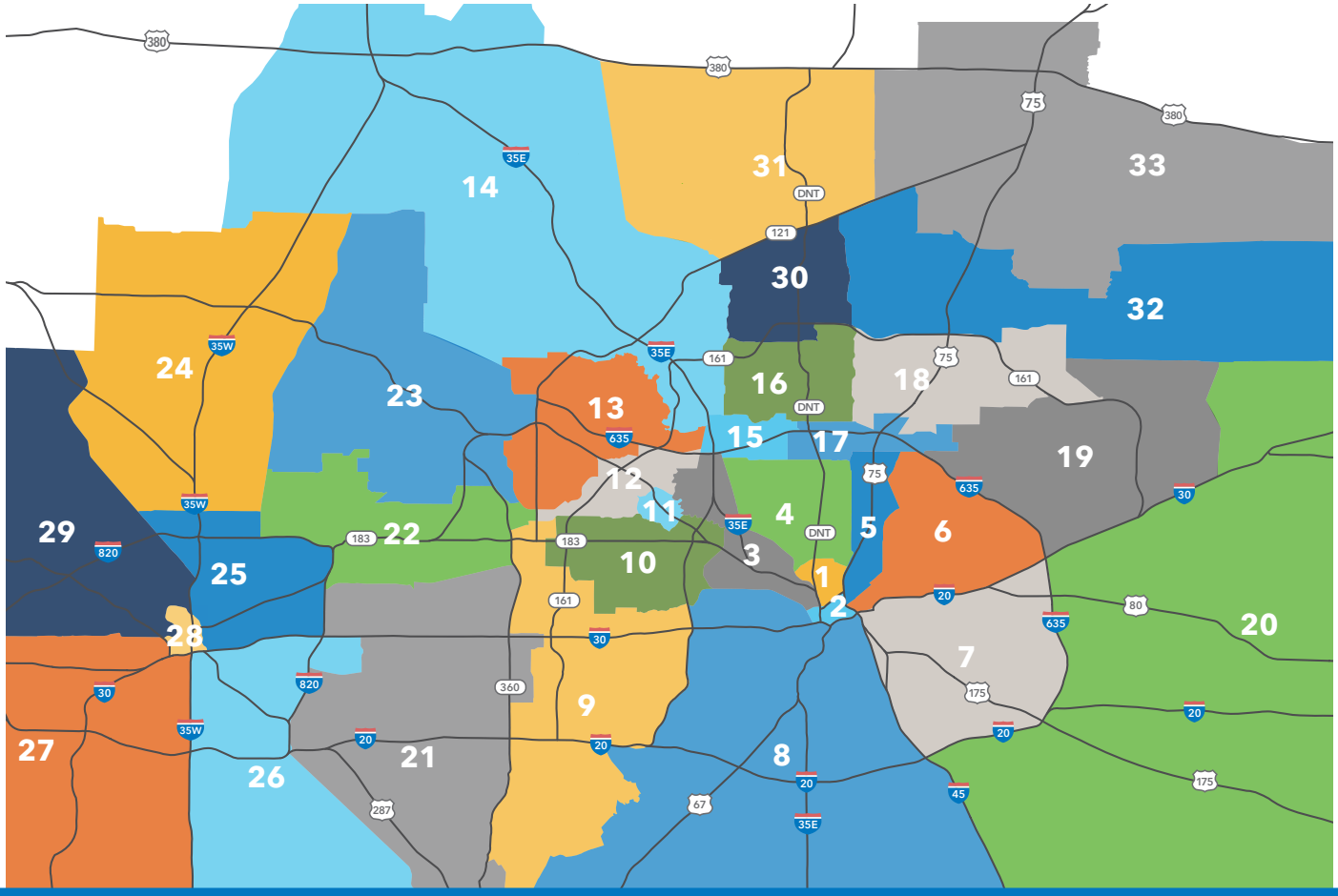
Dallas-Fort Worth Office Market Indicators

	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
ALL SPACE	**308,227,134**	**45,641,875**	**48,539,919**	**14.8%**	**15.8%**	**9,028,553**	**3,176,496**	**3,494,464**	**$25.21**
CLASS A	**151,263,336**	**23,694,225**	**25,562,753**	**15.7%**	**16.9%**	**8,429,754**	**1,789,207**	**4,029,028**	**$28.68**
CLASS B	**138,524,291**	**19,891,548**	**20,916,700**	**14.4%**	**15.1%**	**598,799**	**1,315,313**	**(283,225)**	**$20.76**

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2017

Dallas-Fort Worth Office Submarkets



Submarkets

1. Uptown/Turtle Creek
2. Dallas CBD
3. Stemmons Freeway
4. Preston Center
5. Central Expressway
6. Northeast Dallas
7. Southeast Dallas
8. Southwest Dallas
9. Grand Prairie
10. South Irving
11. Las Colinas/Urban Ctr
12. Las Colinas/Office Ctr
13. DFW/Freeport
14. Denton/Lewisville
15. West LBJ Freeway
16. Lower Tollway
17. East LBJ Freeway
18. Richardson
19. Garland
20. Mesquite/Rockwall
21. Arlington
22. Mid-Cities
23. Westlake/Grapevine
24. Alliance
25. Northeast Fort Worth
26. Southeast Fort Worth
27. Southwest Fort Worth
28. Fort Worth CBD
29. Northwest Fort Worth
30. Upper Tollway/Legacy
31. Frisco/The Colony
32. Plano
33. Allen/McKinney

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

SECOND QUARTER 2017

NORTH TEXAS IS FINDING EQUILIBRIUM

LAGGING SUPPLY FINALLY CATCHING UP TO DEMAND

OVERVIEW

The Dallas-Fort Worth (DFW) metropolitan area is continuing to ride the crest from last year's record performance.

Dallas-Fort Worth comprises a little more than 25% of the state's total population, and the region's total population growth since 2010 has been the second highest of all major metros in the U.S. Currently at 7.3 million residents, the metro region has grown 12.6% since the end of the Great Recession in 2009. This equates to adding approximately 350 people per day, on average.

The employment base is expanding both in size and diversity. In the preceding 12-month period, the DFW metro added 115,300 jobs, a 3.3% annual change, was second only to the New York City metro region, and was higher than 45 U.S. states. This figure accounts for more than one-third of all jobs added in the State of Texas over the last year. The majority of job growth was in the professional & business services industry, leisure & hospitality, education & health services, and financial activities. The mid-year unemployment rate for the DFW metro was 3.8% compared to the state's 4.6% and the national 4.4% rate.

Vacancies in the office market are beginning to stabilize from their downward trend into the 15.0% - 16.0% range. New construction deliveries and the recent high net absorption levels are bringing the market into equilibrium, however the 7.2 million square feet (MSF) of expected deliveries in 2017 are expected to push that rate into the 16.0% - 17.0% range. Leasing activity is off to a slow start at mid-2017 and is not projected to match the record levels recorded in the last couple of years. Average weighted asking rental rates rose 4.0% year-over-year to reach $24.86 per square foot (PSF) in the second quarter of 2017.

TRENDLINES

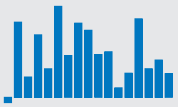
5-YEAR TREND	CURRENT QUARTER

VACANCY

15.5%

Vacancy remains low and is stabilizing

ABSORPTION



629,825 SF

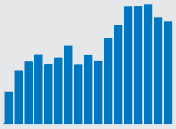
Net absorption remains positive for the 16th straight quarter

LEASING ACTIVITY

3.8 MSF

10 yr avg = 5.7 MSF

UNDER CONSTRUCTION



10.7 MSF

Construction down 14.3 from peak 12.5 MSF in 4Q 2016

RENTAL RATES

$24.86 PSF

Asking rates continue to climb but are slowing in some markets

TRANSWESTERN®

DALLAS-FORT WORTH OFFICE MARKET

SECOND QUARTER 2017

VACANCY

Direct vacancy rates in the office market inched upward to 14.8% in the second quarter from 14.7% in the first quarter of 2017. Overall vacancy that includes sublease space recorded a similar increase of 100 basis points over the same period to 15.5%.

Class A direct vacancy increased to 15.8% (16.8% overall) in the second quarter from 15.7% (16.7% overall) in the first quarter. Submarkets with the tightest vacancies in overall Class A space included Alliance (2.4%), Denton/Lewisville (2.7%), and Southwest Dallas (4.9%).

Class B direct vacancy also recorded an increase in vacancy from 14.4% (14.9% overall) in the first quarter to 14.5% (15.0% overall) mid-year.

After a peak vacancy rate of 18.7% mid-year 2010 and a low of 15.0% mid-year 2015, vacancies are beginning to level out, in part due to the amount of new construction deliveries hitting the market and the high demand for office space.

RENTAL RATES

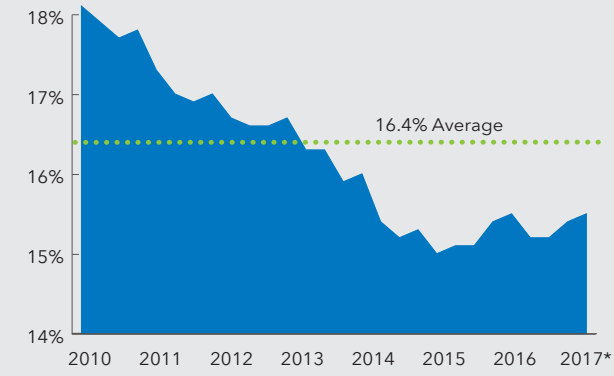
The average asking rental rate for all property classes was $24.86/SF in the second quarter, an increase of 4.0% from the same period last year. The average rate for Class A properties was $28.09/SF, an increase of 2.0% year-over-year. Class B rates recorded an increase of 5.6% over the year to $20.75/SF mid-year.

Rental rates continue to push upward as demand remains strong in markets such as Uptown/Turtle Creek, Preston Center, and Upper Tollway/Legacy.

ABSORPTION

Overall net absorption for the DFW office market recorded 629,825 SF in the second quarter, slightly lower than the ten-year quarterly average of 858,500 SF, and that figure brings the year-to-date total to 1.7 MSF. Class A space accounted for 78% of the second quarter's total net absorption.

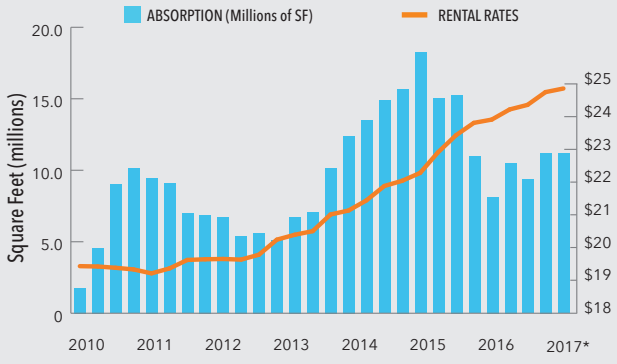
OVERALL VACANCY AVERAGE



* Year-to-date

SOURCE: CoStar, Transwestern

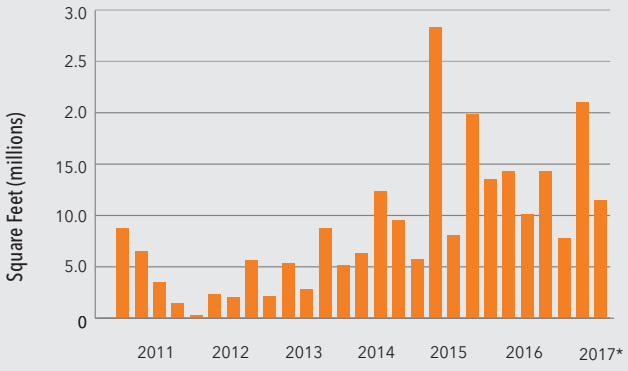
NET ABSORPTION & RENTAL RATE TRENDS



*Year-to-date; Absorption based on 4-quarter moving average

SOURCE: CoStar, Transwestern

CONSTRUCTION COMPLETIONS



*Year-to-date

SOURCE: Costar, Transwestern

The largest contributors of positive absorption include Capital One's Building 7 in Upper Tollway/Legacy and NTTA Data at One Legacy West.

CONSTRUCTION

There is currently 10.7 MSF of office space under construction. Class A projects comprise the bulk of new activity with 10.2 MSF underway. Submarkets with the largest amount of construction projects include Upper Tollway/Legacy (5.0 MSF) and Uptown/Turtle Creek (1.3 MSF).

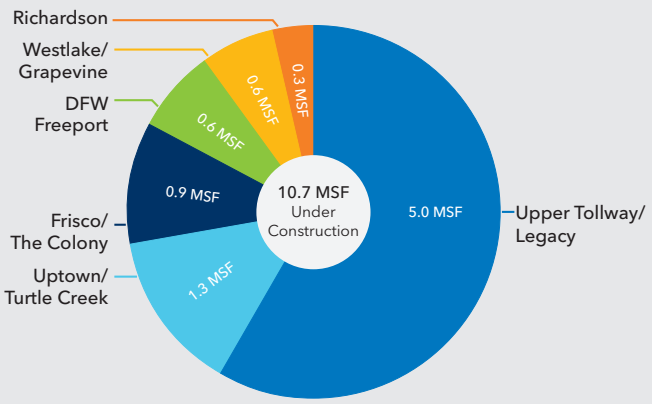
Twenty-four properties were delivered in the first half of 2017 for a total of 3.2 MSF. The largest include the first building at Toyota's North American headquarters (400,000 SF), Legacy West (377,440 SF), CoreLogic's headquarters (327,180 SF), and One Legacy West (307,825 SF).

CAPITAL MARKETS

Dallas-Fort Worth recorded sales volume of approximately $803 million across 22 transactions in the first half of 2017. While the number of transactions remained fairly static from last quarter, sales volume is down 13% year-over-year. Pricing on a per-square-foot basis maintained its elevated level from 2016, with an average sale price of $197/SF. The average cap rate was 6.96%, ranging from a low of 4.90% to a high of 9.00%. Class A deals had an average cap rate of 5.86% and Class B deals had an average cap rate of 7.35%.

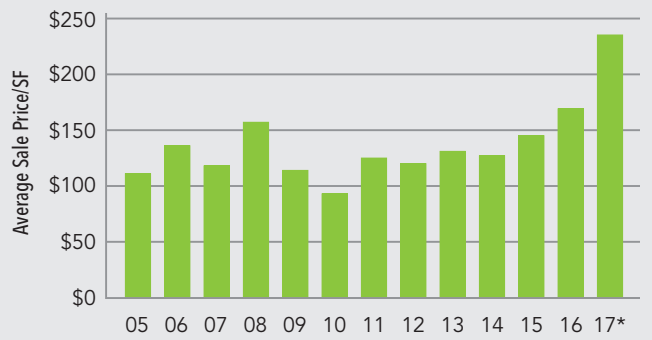
The second quarter saw the emergence of major deals after a quiet start to the year; 4 deals had sale prices over $50 million. We expect larger deals to continue to drive the market as several corporate campuses are currently up for grabs. Despite record high pricing, DFW remains a relatively attractive investment option when compared to the coastal markets (especially among institutional and foreign capital) but appealing opportunities to invest are dwindling, specifically for value-add and opportunistic investors. Submarkets in the city's core such as the Dallas CBD and Uptown, along with suburban markets like Upper Tollway/Legacy and Richardson - where billions of dollars are being

OFFICE SPACE UNDER CONSTRUCTION



Submarkets with 300,000 SF or greater under construction or renovation shown.

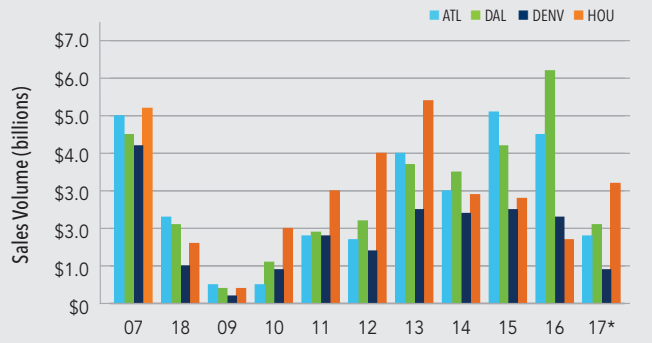
AVERAGE OFFICE SALE PRICE



* Year-to-date

SOURCE: Costar, Real Capital Analytics, Transwestern

COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



* Year-to-date

SOURCE: Real Capital Analytics, Transwestern

spent on mixed-use, high density developments - will continue to be among the most active investment markets going forward, just as they have the past three years, as buyers still prefer properties in urban settings.

There are signs of buyer optimism fading however; Class A assets such as Colonnade (1.0 MSF), Providence Towers (524,000 SF), and Citymark (218,000 SF) in the popular submarkets of North Dallas and Uptown failed to reach their pricing expectations. Investors will continue to be cautious going forward due to higher finance costs and more conservative underwriting in the later stages of this cycle, but we expect the DFW market to continue to benefit from its socioeconomic fundamentals and remain a top investment market throughout 2017.

LEASING ACTIVITY

Leasing activity in the second quarter was 3.8 MSF, with Class A properties accounting for 59.3%, or 2.2 MSF, of total lease transactions. Notable lease signings in the second quarter of 2017 included NetScout Systems' 145,000 SF office campus at One Bethany at Watters Creek, Ansira Partners' 88,100 SF move to Three Galleria Tower, and Baker Botts' 140,180 SF renewal at Mandalay Tower.

Leasing activity in the second quarter was strongest in the Dallas CBD, Upper Tollway/Legacy, and Dallas North Tollway submarkets. Activity has slowed this year with just under 4.1 MSF of transactions completed mid-year 2017. This equates to nearly 1.1 MSF below the mid-year average during the last ten years. Despite the drop in leasing, there are approximately 7.5 MSF of deals currently searching for space in the DFW market.

Notable Q2 2017 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
NetScout Systems	145,000	New	One Bethany at Watters Creek	Allen/McKinney
Ansira Partners	88,100	New	Three Galleria Tower	East LBJ Freeway
Baker Botts	140,180	Renewal	Mandalay Tower 1	Las Colinas/Urban Center
General Motors Financial Company	69,550	Renewal	Freeport Business Center I	DFW Freeport
Yardi Systems	54,650	New	Watters Creek East	Allen/McKinney

Notable Q2 2017 Sales

BUILDING	SUBMARKET	SALE PRICE / $PSF	SELLER	BUYER
8750 NCX	Central Expressway	$120.5 M ($237/SF)	Cornerstone	CBRE Investors
5851 Legacy Cir	Upper Tollway/Legacy	$123.3 M ($387/SF)	Vereit	TIER REIT
Plaza One61	Las Colinas/Office Center	$29.5 M ($151/SF)	Granite Properties	American Fidelity Assurance
Point West I	DFW Freeport	$42.4 M ($232/SF)	Gramercy Property Trust	CFT Developments
The Douglas	Preston Center	$51.0 M ($311/SF)	Transwestern Investment Group	Granite Properties

ECONOMIC OUTLOOK

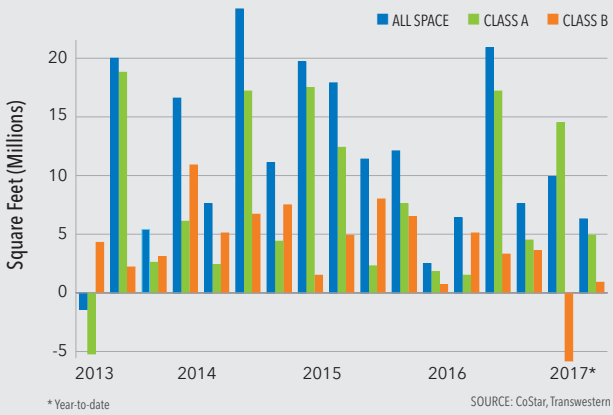
While it may not feel like it at times, the U.S. economy is continuing to chug along, albeit modestly. The initial Q2 gross domestic product (GDP) was a 2.6% annual rate compared to the first quarter's dismal 1.2%. Analysts expect to see a slight uptick in GDP during the second half of 2017 to a range of 2.3%-2.7%. During the first quarter, most states averaged 1.0%-2.0% growth, however Texas led the pack in GDP growth by recording 3.9% in the first quarter (Q2 estimates forthcoming). The Texas economy was buoyed by a boom in the mining sector (contributing 2.08 points) and by large increases in manufacturing.

The current economic expansion is now entering its ninth year and is already the third longest on record. National nonfarm employment growth has increased for 81 consecutive months and the unemployment rate has fallen to 4.4%. The DFW rate at 3.8% meets a widely-accepted definition of full employment, and some businesses are reporting increasing difficulty hiring and retaining skilled workers. Despite the current shortage, the region continues to add over 100,000 jobs annually to the employment base. Over the last year, DFW's contribution to the state's overall employment growth was over 36%. Economists predict that trend will continue for the foreseeable future.

The DFW office market is chugging along and leading the national economic recovery in many ways. Low taxes and business operating expenses have helped attract thousands of companies since 2010. The delivery of high-quality office product is pushing asking rental rates to new highs, especially in submarkets like Uptown/Turtle Creek and Upper Tollway/Legacy. Vacancy appears to have hit a low point, and absorption, though relatively depressed, remains positive.

The DFW economy is continuing to grow, and this cycle's "9th inning" belongs in another year. All data points suggest another 2-3 years of expansion with mild, but positive growth.

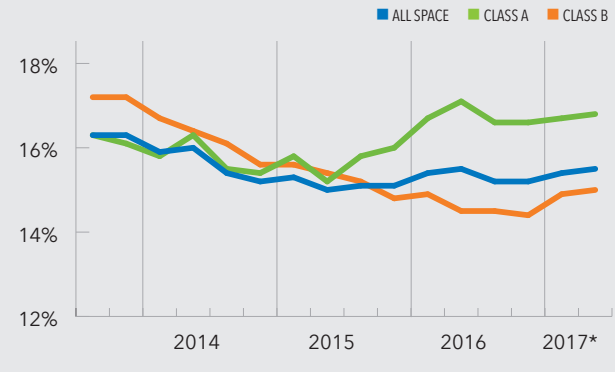
NET ABSORPTION



* Year-to-date

SOURCE: CoStar, Transwestern

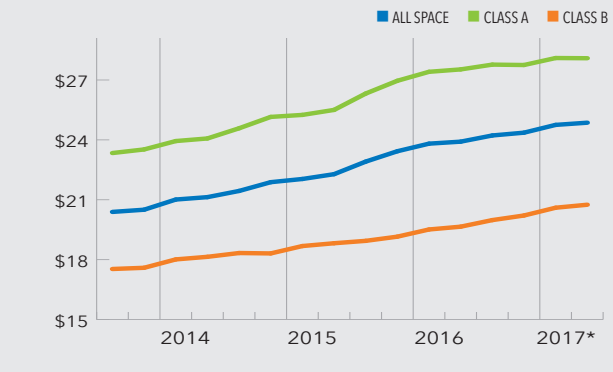
OVERALL VACANCY



* Year-to-date

SOURCE: CoStar, Transwestern

AVERAGE ASKING RENTAL RATES



* Year-to-date

SOURCE: CoStar, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

SECOND QUARTER 2017

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	33,238,233	7,243,636	7,452,823	21.8%	22.4%	261,400	484,123	4,761	$25.32
Uptown/Turtle Creek	13,634,417	1,261,812	1,494,640	9.3%	11.0%	1,305,014	184,908	161,316	$37.37
Northeast Dallas	4,682,751	318,303	321,617	6.8%	6.9%	294,820	43,692	(57,131)	$29.77
Central Expressway	13,916,569	1,453,006	1,486,779	10.4%	10.7%	-	210,446	(43,391)	$26.86
Preston Center	5,378,245	463,364	497,433	8.6%	9.2%	171,583	61,795	(35,995)	$36.83
Stemmons Freeway	14,183,546	3,177,918	3,247,448	22.4%	22.9%	-	164,423	111,611	$16.74
South Irving	2,011,351	250,654	259,178	12.5%	12.9%	-	15,481	(31,611)	$17.71
Las Colinas/Urban Center	9,403,416	1,444,190	1,681,317	15.4%	17.9%	100,000	209,298	(79,447)	$28.84
Las Colinas/Office Center	16,271,247	2,196,380	2,311,089	13.5%	14.2%	116,000	151,473	354,629	$23.78
DFW Freeport	12,998,412	1,591,265	1,684,519	12.2%	13.0%	616,219	115,525	466,728	$22.67
West LBJ Freeway	4,931,703	815,567	892,502	16.5%	18.1%	-	96,786	30,693	$19.07
Denton/Lewisville	8,187,648	643,703	767,348	7.9%	9.4%	56,000	49,935	(83,127)	$21.89
Frisco/The Colony	5,462,800	579,706	594,167	10.6%	10.9%	918,066	78,989	90,060	$33.87
Allen/McKinney	5,447,179	651,819	657,024	12.0%	12.1%	285,107	73,289	11,909	$26.52
Upper Tollway/Legacy	26,218,333	2,758,035	3,022,787	10.5%	11.5%	4,953,596	437,698	1,295,839	$30.44
Plano	7,268,508	1,146,680	1,173,461	15.8%	16.1%	-	67,746	(91,455)	$24.04
Richardson	20,688,618	3,382,068	3,425,172	16.3%	16.6%	300,000	220,134	(29,499)	$23.35
Lower Tollway	22,225,987	3,386,183	3,662,928	15.2%	16.5%	240,000	416,055	(359,798)	$23.74
East LBJ Freeway	16,973,937	3,844,975	4,010,225	22.7%	23.6%	-	312,452	(76,354)	$22.61
Garland	1,581,682	231,911	231,911	14.7%	14.7%	-	3,635	(43,150)	$17.33
Southeast Dallas	622,365	47,926	49,449	7.7%	7.9%	-	1,285	(11,110)	$16.19
Mesquite/Rockwall	1,589,638	110,792	116,623	7.0%	7.3%	–	10,990	11,295	$25.28
Southwest Dallas	3,009,940	327,099	327,099	10.9%	10.9%	55,000	19,791	7,900	$17.89
Grand Prairie	4,058,884	474,897	493,300	11.7%	12.2%	27,149	4,517	(80,133)	$18.98
TOTAL – Dallas	**253,985,409**	**37,801,889**	**39,860,839**	**14.9%**	**15.7%**	**9,699,954**	**3,434,466**	**1,524,540**	**$25.20**

Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	11,256,738	964,606	1,037,922	8.6%	9.2%	280,489	89,136	162,230	$26.16
Northwest Fort Worth	430,807	21,354	21,354	5.0%	5.0%	-	3,759	9,640	$18.29
Alliance	3,229,368	108,141	165,496	3.3%	5.1%	32,000	6,868	(5,087)	$20.77
Westlake/Grapevine	7,365,714	1,687,031	1,692,846	22.9%	23.0%	570,340	65,193	(542,232)	$27.58
Mid-Cities	5,090,807	849,940	849,940	16.7%	16.7%	-	42,267	93,209	$17.93
Northeast Fort Worth	3,951,078	1,803,784	1,818,769	45.7%	46.0%	-	4,378	19,620	$19.34
Arlington	8,572,406	947,734	983,911	11.1%	11.5%	50,500	56,836	346,611	$19.90
Southeast Fort Worth	1,352,493	59,603	59,603	4.4%	4.4%	-	5,531	30,320	$16.93
Southwest Fort Worth	10,384,168	956,652	1,012,230	9.2%	9.7%	98,497	85,270	(16,375)	$25.61
TOTAL – Fort Worth	**51,633,579**	**7,398,845**	**7,642,071**	**14.3%**	**14.8%**	**1,031,826**	**359,238**	**(123,536)**	**$22.87**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**305,618,988**	**45,200,734**	**47,502,910**	**14.8%**	**15.5%**	**10,731,780**	**3,793,704**	**1,622,476**	**$24.86**

DALLAS-FORT WORTH OFFICE MARKET

SECOND QUARTER 2017

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	23,159,803	5,757,787	5,932,981	24.9%	25.6%	261,400	414,641	138,634	$25.74
Uptown/Turtle Creek	10,902,985	986,007	1,088,248	9.0%	10.0%	1,273,530	137,418	255,223	$40.11
Northeast Dallas	846,573	82,519	82,519	9.7%	9.7%	294,820	-	(11,158)	$43.56
Central Expressway	7,636,460	944,974	952,276	12.4%	12.5%	-	150,930	1,853	$27.95
Preston Center	4,188,624	353,211	384,296	8.4%	9.2%	171,583	40,809	(67,716)	$37.96
Stemmons Freeway	4,797,669	865,155	874,345	18.0%	18.2%	-	76,857	113,198	$18.49
South Irving	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Center	7,300,918	1,127,175	1,364,302	15.4%	18.7%	100,000	185,724	(101,298)	$30.26
Las Colinas Office Center	7,607,757	908,453	1,001,750	11.9%	13.2%	96,000	58,145	304,864	$27.41
DFW Freeport	4,697,910	529,101	590,264	11.3%	12.6%	616,219	62,146	518,817	$24.69
West LBJ Freeway	1,706,909	347,614	398,842	20.4%	23.4%	-	54,526	25,531	$19.86
Denton/Lewisville	474,755	12,602	12,602	2.7%	2.7%	-	1,743	-	$25.49
Frisco/The Colony	3,502,368	420,762	430,791	12.0%	12.3%	914,993	65,385	135,768	$35.16
Allen/McKinney	1,270,109	203,700	204,760	16.0%	16.1%	173,441	51,740	11,771	$30.05
Upper Tollway/Legacy	18,395,738	1,793,035	2,051,505	9.7%	11.2%	5,073,596	294,172	1,152,616	$32.68
Plano	1,929,142	608,537	613,455	31.5%	31.8%	-	59,699	(19,228)	$26.33
Richardson	10,412,042	1,821,278	1,864,382	17.5%	17.9%	300,000	76,619	(61,801)	$26.93
Dallas North Tollway	11,716,477	1,432,811	1,602,053	12.2%	13.7%	240,000	251,043	(172,144)	$28.03
East LBJ Freeway	8,977,532	2,086,159	2,238,242	23.2%	24.9%	-	159,628	(38,608)	$25.73
Garland	-	-	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-	-	-	-
Mesquite/Rockwall	276,880	36,318	42,149	13.1%	15.2%	-	-	(3,595)	$30.40
Southwest Dallas	280,592	13,664	13,664	4.9%	4.9%	-	-	1,836	$25.34
Grand Prairie	1,851,880	-	-	-	-	-	-	-	-
TOTAL – Dallas	**131,933,123**	**20,330,862**	**21,743,426**	**15.4%**	**16.5%**	**9,285,582**	**2,141,225**	**2,184,563**	**$28.33**

Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	5,889,851	681,265	744,143	11.6%	12.6%	280,489	63,215	133,264	$28.93
Northwest Fort Worth	-	-	-	-	-	-	-	-	$24.64
Alliance	795,711	19,206	19,206	2.4%	2.4%	-	-	5,820	$18.49
Westlake/Grapevine	4,075,575	1,319,617	1,319,617	32.4%	32.4%	548,840	13,191	(487,442)	$28.28
Mid-Cities	352,780	142,572	142,572	40.4%	40.4%	-	-	(54,163)	$21.21
Northeast Fort Worth	414,859	309,931	309,931	74.7%	74.7%	-	2,796	28,086	$21.28
Arlington	1,953,288	242,253	255,967	12.4%	13.1%	-	11,734	204,572	$20.77
Southeast Fort Worth	-	-	-	-	-	-	-	-	-
Southwest Fort Worth	3,150,964	440,626	485,658	14.0%	15.4%	98,497	15,792	(74,678)	$30.10
TOTAL – Fort Worth	**16,663,028**	**3,155,470**	**3,277,094**	**18.4%**	**19.1%**	**927,826**	**106,728**	**(244,541)**	**$26.19**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**148,566,151**	**23,486,332**	**25,020,520**	**15.8%**	**16.8%**	**10,213,408**	**2,247,953**	**1,940,022**	**$28.09**

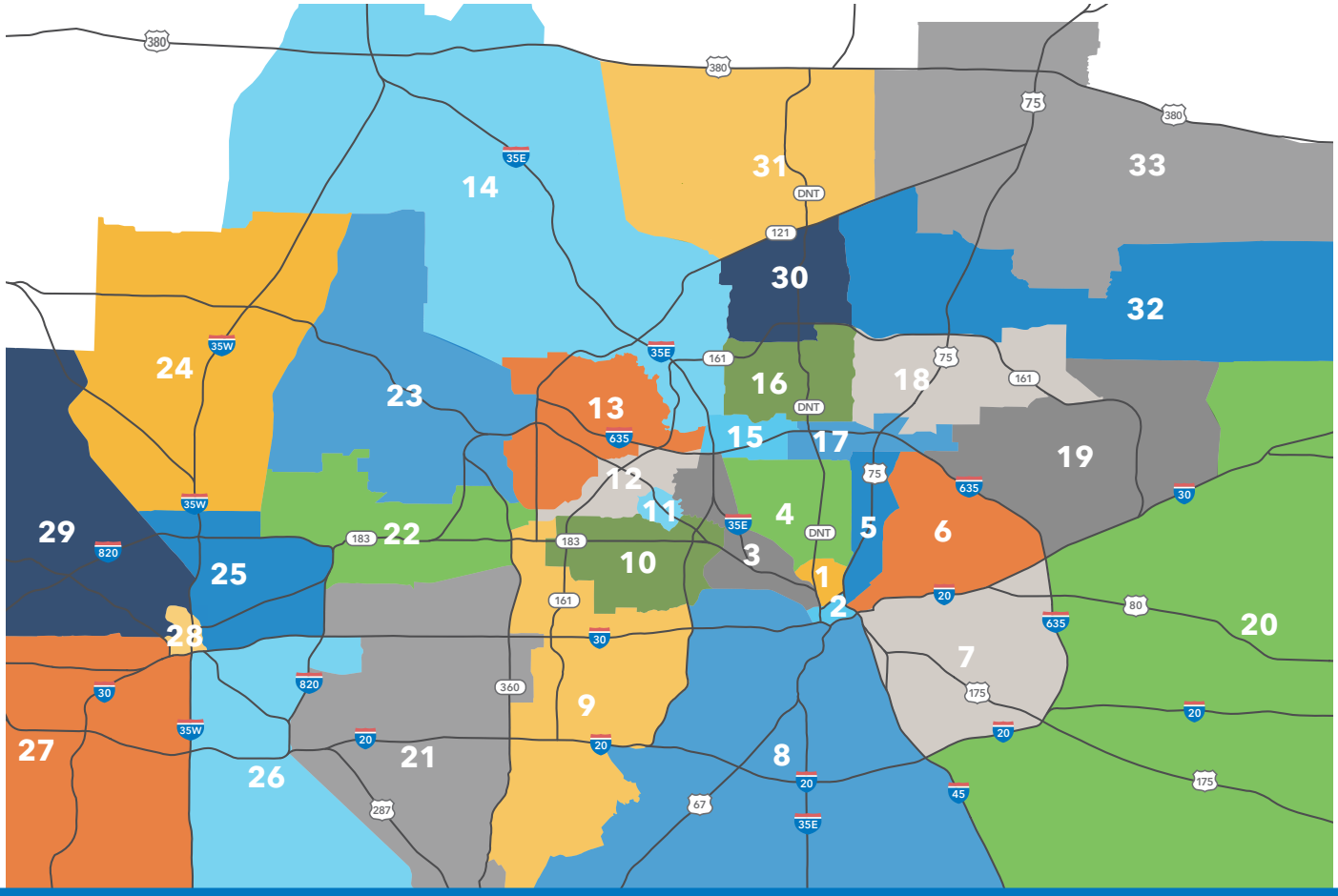
Dallas-Fort Worth Office Market Indicators

	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
ALL SPACE	**304,699,595**	**44,805,168**	**47,086,159**	**14.7%**	**15.5%**	**10,930,296**	**3,331,744**	**1,685,771**	**$24.85**
CLASS A	**147,984,188**	**23,134,839**	**24,650,152**	**15.6%**	**16.7%**	**10,443,408**	**1,911,416**	**1,528,271**	**$28.08**
CLASS B	**138,425,640**	**19,949,500**	**20,709,460**	**14.4%**	**15.0%**	**486,888**	**1,342,111**	**(3,475)**	**$20.76**

DALLAS-FORT WORTH OFFICE MARKET

SECOND QUARTER 2017

Dallas-Fort Worth Office Submarkets



Submarkets

1. Uptown/Turtle Creek
2. Dallas CBD
3. Stemmons Freeway
4. Preston Center
5. Central Expressway
6. Northeast Dallas
7. Southeast Dallas
8. Southwest Dallas
9. Grand Prairie
10. South Irving
11. Las Colinas/Urban Ctr
12. Las Colinas/Office Ctr
13. DFW/Freeport
14. Denton/Lewisville
15. West LBJ Freeway
16. Lower Tollway
17. East LBJ Freeway
18. Richardson
19. Garland
20. Mesquite/Rockwall
21. Arlington
22. Mid-Cities
23. Westlake/Grapevine
24. Alliance
25. Northeast Fort Worth
26. Southeast Fort Worth
27. Southwest Fort Worth
28. Fort Worth CBD
29. Northwest Fort Worth
30. Upper Tollway/Legacy
31. Frisco/The Colony
32. Plano
33. Allen/McKinney

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2017

DALLAS-FORT WORTH STAYS COURSE

OFFICE MARKET STARTS YEAR OFF STRONG

OVERVIEW

The Dallas-Fort Worth (DFW) Metro consistently ranks as one of the top metro areas for job growth due to a combination of growth from existing businesses and the formation of new businesses. Over the last few years, DFW has consistently added more than 100,000 jobs annually. Construction has ramped up to meet demand and as a result has pushed up rental rates throughout the region. Rental rates on average have increased 0.6% per quarter since 2007.

Non-farm employment in DFW grew 3.5% by adding 119,300 jobs during the 12 months ending in February, as the region contributed 54.0% of the total state's job growth. The North Texas regional economy has grown by more than 700,000 jobs in the latest economic expansion, and annual non-farm job growth has consistently averaged around 3.0% or higher each year since 2010.

The North Texas market recorded a 15.3% vacancy rate and positive net absorption of approximately 1.4 million square feet (MSF) during Q1 2017. Average asking rental rates for all classes of office space ended the first quarter at $24.58/SF, a 3.4% increase year-over-year. Year-to-date building deliveries for 2017 were just under 2.3 MSF with 11.0 MSF remaining under construction and 9.0 MSF expected to come online in 2017.

TRENDLINES

5-YEAR TREND	CURRENT QUARTER
VACANCY	15.3% Vacancy is low but is leveling out
ABSORPTION	1,409,000 SF Net absorption remains positive for the 15th straight quarter
LEASING ACTIVITY	3,130,160 SF 10 yr avg = 5.1 MSF
UNDER CONSTRUCTION	10,998,000 SF Nearly half of construction is occurring in the Upper Tollway/Legacy Submarket
RENTAL RATES	$24.58 PSF Tightening market is putting upward pressure on rents

TRANSWESTERN®

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2017

VACANCY

Direct vacancy rates in the office market rose slightly from 14.5% in the fourth quarter of 2016 to 14.6% in the first quarter of 2017. Overall vacancy, including subleases, recorded 15.3%.

Class A direct vacancy increased slightly from 15.3% (16.3% overall) in the fourth quarter of 2016 to 15.4% (16.4% overall) in the first quarter of 2017. Submarkets recording the lowest Class A vacancy were Alliance (2.4%), Denton/Lewisville (3.8%), and Southwest Dallas (5.5%).

Class B direct vacancy increased from 14.2% (14.6% overall) in the fourth quarter of 2016 to 14.4% (14.9% overall) in the first quarter of 2017. Submarkets recording the lowest Class B vacancy were Mesquite/ Rockwall (4.8%),Fort Worth CBD (6.2%), Northeast Dallas (6.4%), and Alliance (6.4%).

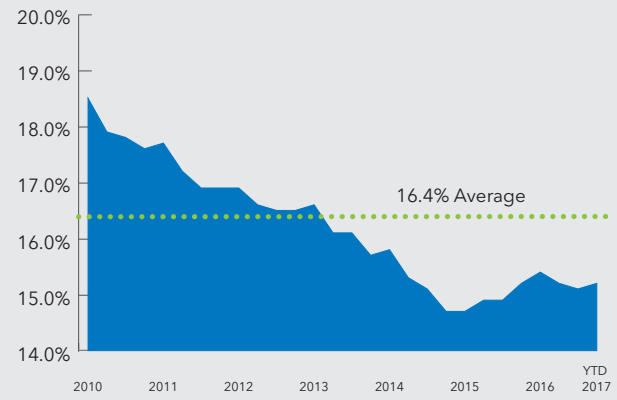
NET ABSORPTION

Overall net absorption for the DFW office market recorded 1.4 MSF in the first quarter of 2017. Class A space contributed 1.5 MSF of positive absorption and Class B recorded a negative 309,000 square feet (SF). Contributing to the first quarter's positive absorption include CoreLogic's headquarters (327,100 SF), WeWork at Thanksgiving Tower (83,800 SF) and FM Global at The Star (79,500 SF).

RENTAL RATES

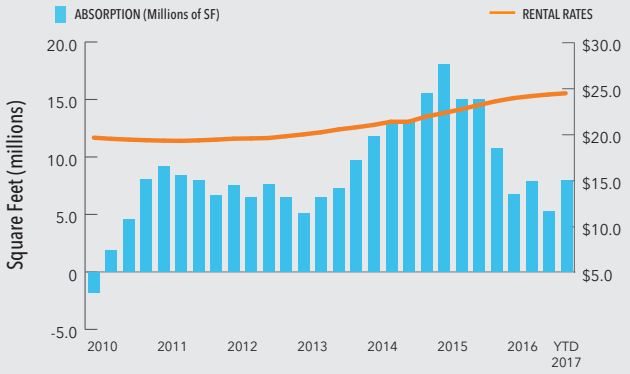
The average asking rental rate for all classes of space was $24.58/SF in the first quarter 2017, a 3.4% increase from last year. The average rate for Class A space was $27.95/SF, a 2.1% increase from the same period in 2016. Class B asking rates also increased from $19.48/SF at the first quarter of 2016 to $20.50/SF in Q1 2017. Average asking rental rates in Uptown/Turtle Creek, Preston Center, Upper Tollway, and Legacy are expected to continue to rise throughout the remainder of 2017.

OVERALL VACANCY AVERAGE



SOURCE: CoStar, Transwestern

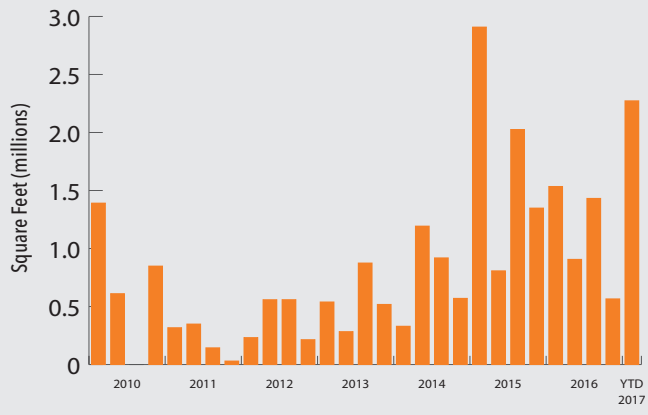
NET ABSORPTION & RENTAL RATE TRENDS



Absorption based on 4-quarter moving average

SOURCE: CoStar, Transwestern

CONSTRUCTION COMPLETIONS



SOURCE: Costar, Transwestern

CONSTRUCTION

There is currently 10.9 MSF of office space under construction with 54.0% of that space pre-leased. Class A projects accounted for 10.2 MSF with half of the construction concentrated in the Upper Tollway/Legacy submarket (5.4 MSF).

Notable deliveries in 2017 include Legacy West with 377,400 SF, CoreLogic headquarters with 327,100 SF, One Legacy West with 307,800 SF, and Hillwood's headquarters with 200,000 SF.

CAPITAL MARKETS

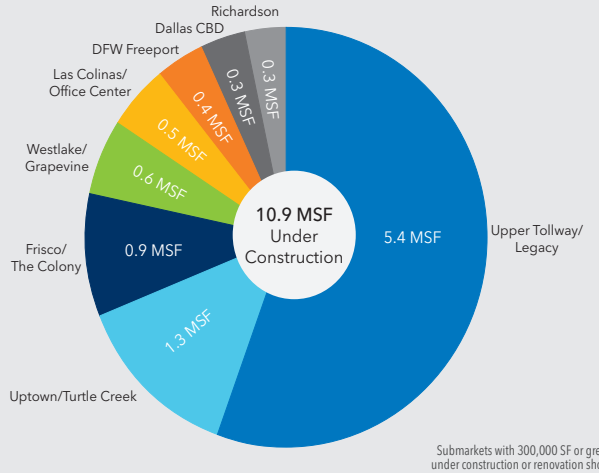
Dallas-Fort Worth once again led the market in the Southwest as it posted sales volume of just over $251.0 million across 7 transactions in the first quarter of 2017. Sales were down 13.0% from this time last year when 10 transactions were completed totalling $289.0 million, but up 78.0% in average price per square foot.

The largest transactions in DFW for the first quarter of 2017 were Parkside Tower, purchased by Lincoln Property for $112 million ($299/SF), Western Place I & II, purchased by TCRG Properties for $50.0 million ($117.76), and 2525 McKinnon, purchased by Second City Capital for $46.8 million ($420/SF).

The average sale price per square foot was $215, an all-time high, buoyed by some of the largest price-per-SF transactions that have ever been recorded in DFW. The average cap rate for DFW was 6.78%, ranging from a low 6.10% to a high of 7.90%. Despite record high pricing, DFW remains a relatively attractive investment option when compared to the coastal markets, but appealing opportunities to invest are dwindling, especially for value-add investors. We expect investors to be more cautious moving forward due to higher finance costs and more conservative underwriting, however the DFW market will continue to benefit from its socioeconomic fundamentals and remain a top investment market throughout 2017.

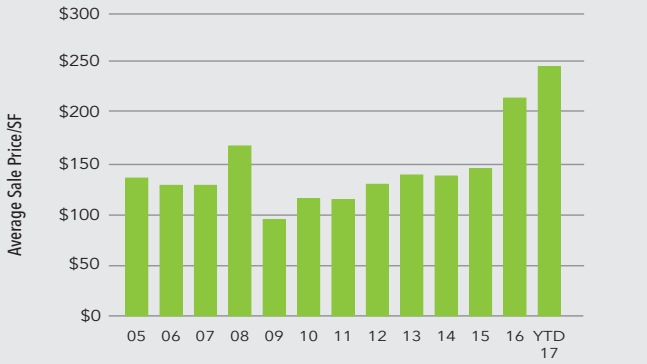
Office Space Under Construction

Dallas-Fort Worth Metro Area | Q1 2017



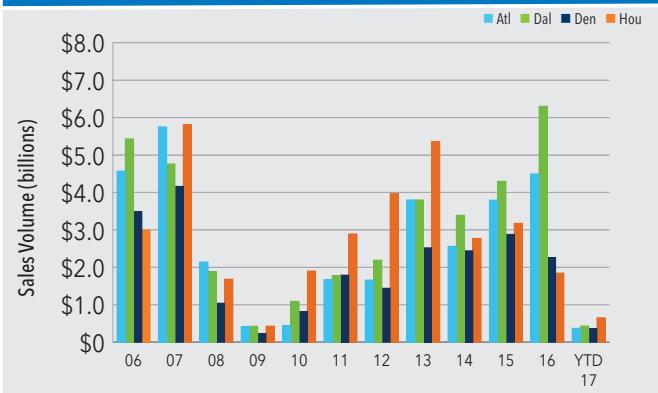
Submarkets with 300,000 SF or greater under construction or renovation shown.

AVERAGE OFFICE SALE PRICE



SOURCE: Costar, Real Capital Analytics, Transwestern

COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



SOURCE: Real Capital Analytics, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2017

LEASING

Leasing activity for the first quarter totaled 3.1 MSF with Class A accounting for 54.8%, or 1.7 MSF, of total transactions. Notable lease signings during the fourth quarter include 216,400 SF at 3000 Olympus Blvd leased by Brinker International, 126,700 SF at One Legacy West leased by NTT Data, 88,100 SF at Three Galleria Tower leased by Amazon, and 68,000 SF at The Union leased by Akin Gump Strauss Hauer & Feld.

Though leasing activity was suppressed in the first quarter, there is no lack of attraction for the market. Emerging trends suggest that tenants will likely continue seeking smaller spaces due to the increased desire for more efficient shared workspaces. Two markets seeing the most activity include Uptown/Turtle Creek and Upper Tollway/Legacy. We expect to see rental rates rise as those markets continue to attract companies looking for new modern space.

Notable Q1 2017 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Brinker International	216,400	Direct	3000 Olympus Blvd	DFW Freeport
NTT Data	126,700	Direct	One Legacy West	Plano
Amazon	88,100	Direct	Three Galleria Tower	Dallas North Tollway
Unknown	80,000	Direct	Granite Park Five	Plano
Akin Gump Strauss Hauer & Feld	68,000	Direct	The Union	Uptown/Turtle Creek

Notable Q1 2017 Sales

BUILDING	SUBMARKET	SALE PRICE / $PSF	SELLER	BUYER
Parkside Tower	Uptown/Turtle Creek	$112.0 M ($299/SF)	Champion Partners	Lincoln Property Company
2525 McKinnon	Uptown/Turtle Creek	$46.8 M ($420/SF)	Talon Private Capital	Second City Capital
Western Place I & II	Southwest Fort Worth	$50.0 M ($118/SF)	TLC Urban	TCRG Properties
500 Long Prairie	Denton/Lewisville	$18.8 M ($417/SF)	Flower Mound Associates	Physicians Realty Trust
5525 LBJ	East LBJ Freeway	$18.0 M ($162/SF)	Virtua Partners	Clear Vista Management

ECONOMIC OUTLOOK

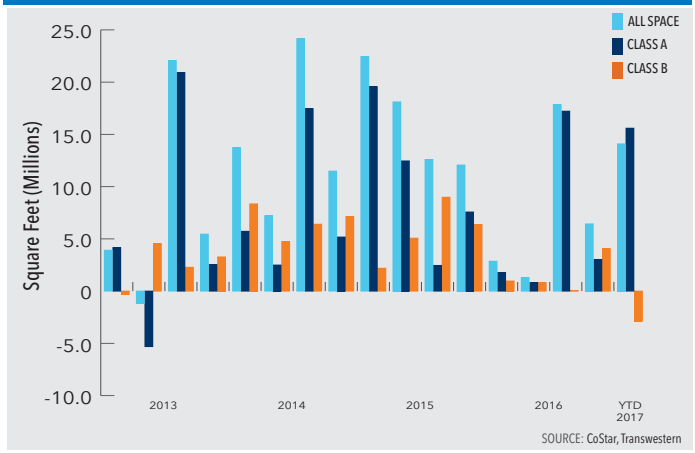
The U.S. outlook for 2017 looks relatively bright with growth forecasted to range from 1.2-1.6%. Data on the global economy suggests a trend in improving growth, and as the U.S. approaches its eighth year of economic expansion, there are plenty of reasons for optimism.

Population growth is driving demand for housing in North Texas with newly released annual population data showing Dallas growing over 2.0% to 7.23 million. Leading indicators suggest job growth will shift into a higher gear during 2017 to accommodate the growing population. Federal Reserve economists predict the state's employment growth to average between 1.5 - 2.5% this year, and the North Texas labor market is likely to trend higher.

Submarkets in the city's core, such as the Dallas CBD and Uptown/Turtle Creek, along with suburban markets like Upper Tollway/Legacy and Richardson, will continue to see growth throughout the year and into early 2018 as high-density, mixed-use developments are delivered within the next 12-18 months.

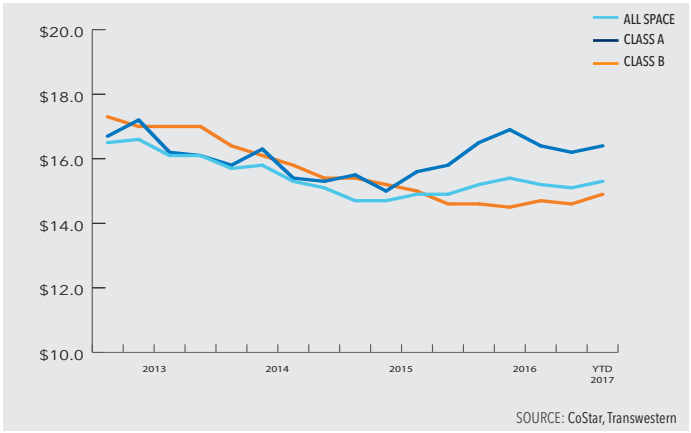
DFW has almost 9.0 MSF of space expected to come online in 2017. Vacancy will see direct impact as the new space is delivered to the market, however rental rates are expected to remain steady as new construction appears to have set the ceiling for DFW. This year will be exceptionally strong in absorption and rent growth, although some forecasts suggest slowdown is on the horizon for late 2018 into 2019. DFW remains a considerable target for large company relocations and consolidations due to its central location and relative affordability compared to other major markets.

NET ABSORPTION



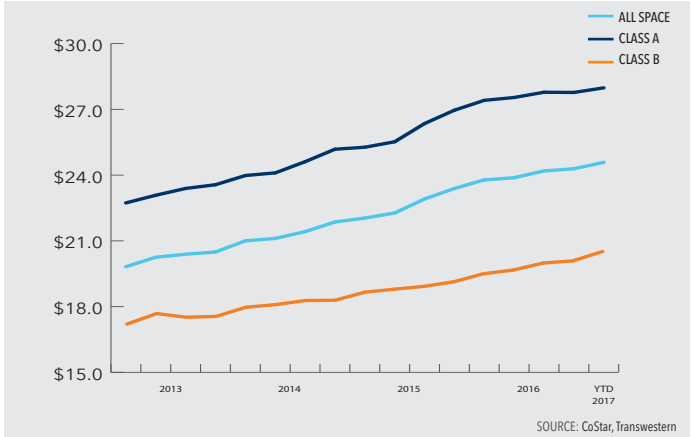
SOURCE: CoStar, Transwestern

OVERALL VACANCY



SOURCE: CoStar, Transwestern

AVERAGE ASKING RENTAL RATES



SOURCE: CoStar, Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2017

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	32,930,556	7,009,880	7,295,656	21.3%	22.2%	353,637	242,766	(133,206)	$25.48
Uptown/Turtle Creek	13,593,997	1,379,861	1,467,329	10.2%	10.8%	1,295,323	234,282	183,581	$37.75
Northeast Dallas	4,152,300	292,409	300,905	7.0%	7.2%	-	3,863	(60,338)	$17.64
Central Expressway	13,877,781	1,453,839	1,497,269	10.5%	10.8%	-	107,252	(73,881)	$26.92
Preston Center	5,378,248	481,892	508,808	9.0%	9.5%	171,583	55,915	(47,370)	$36.47
Stemmons Freeway	13,947,660	3,276,813	3,347,443	23.5%	24.0%	63,000	109,139	(39,445)	$15.78
South Irving	2,027,384	259,525	268,049	12.8%	13.2%	-	13,068	(34,149)	$17.62
Las Colinas/Urban Center	9,407,167	1,444,147	1,646,746	15.4%	17.5%	100,000	91,613	(44,609)	$25.95
Las Colinas/Office Center	15,910,546	1,809,889	1,845,215	11.4%	11.6%	514,359	110,732	464,882	$23.97
DFW Freeport	13,180,527	1,619,951	1,730,287	12.3%	13.1%	366,219	44,096	596,668	$22.87
West LBJ Freeway	4,922,226	816,854	886,015	16.6%	18.0%	-	40,284	37,180	$18.41
Denton/Lewisville	8,186,648	604,953	685,647	7.4%	8.4%	56,000	87,920	(32,045)	$21.79
Frisco/The Colony	5,418,660	656,381	666,672	12.1%	12.3%	914,136	84,321	37,282	$34.34
Allen/McKinney	5,800,024	672,264	684,233	11.6%	11.8%	280,557	119,234	(23,211)	$26.57
Upper Tollway/Legacy	25,829,323	2,955,250	3,247,371	11.4%	12.6%	5,435,604	563,494	681,255	$30.44
Plano	6,824,598	673,851	706,989	9.9%	10.4%	28,000	41,060	(31,919)	$21.90
Richardson	20,584,824	3,316,203	3,385,932	16.1%	16.4%	322,000	188,504	(16,931)	$23.52
Dallas North Tollway	21,974,823	3,280,552	3,543,020	14.9%	16.1%	-	239,066	83,390	$23.29
East LBJ Freeway	16,982,481	3,911,446	4,059,302	23.0%	23.9%	-	366,211	(277,089)	$23.03
Garland	2,035,382	665,767	665,767	32.7%	32.7%	-	15,302	(24,708)	$16.59
Southeast Dallas	622,365	43,077	44,600	6.9%	7.2%	-	5,583	(6,261)	$16.59
Mesquite/Rockwall	1,582,739	106,987	110,879	6.8%	7.0%	-	2,318	11,968	$23.59
Southwest Dallas	3,009,166	329,790	329,790	11.0%	11.0%	-	7,804	5,209	$16.23
Grand Prairie	4,050,884	452,984	472,120	11.2%	11.7%	25,000	1,642	(58,953)	$18.95
TOTAL – Dallas	**252,230,309**	**37,534,902**	**39,416,381**	**14.9%**	**15.6%**	**9,925,418**	**2,775,469**	**1,176,963**	**$24.94**

Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	11,299,975	1,130,544	1,163,900	10.0%	10.3%	280,489	69,125	31,565	$25.28
Northwest Fort Worth	430,807	25,113	25,113	5.8%	5.8%	-	5,074	5,881	$18.09
Alliance	3,226,939	114,533	173,521	3.5%	5.4%	-	9,224	(13,112)	$19.97
Westlake/Grapevine	7,933,395	1,075,784	1,177,141	13.6%	14.8%	570,340	31,277	(26,527)	$27.23
Mid-Cities	5,088,152	922,102	922,102	18.1%	18.1%	-	26,166	21,047	$18.15
Northeast Fort Worth	3,951,078	1,697,636	1,722,651	43.0%	43.6%	-	20,115	110,457	$19.25
Arlington	8,265,527	1,068,575	1,102,231	12.9%	13.3%	200,000	109,182	6,691	$19.26
Southeast Fort Worth	1,352,493	57,015	57,015	4.2%	4.2%	-	3,050	15,799	$16.73
Southwest Fort Worth	10,346,673	874,975	958,879	8.5%	9.3%	-	81,478	34,903	$24.99
TOTAL – Fort Worth	**51,895,039**	**6,966,277**	**7,302,553**	**13.4%**	**14.1%**	**1,050,829**	**354,691**	**186,704**	**$22.48**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**305,654,739**	**44,618,041**	**46,835,796**	**14.6%**	**15.3%**	**10,998,625**	**3,130,160**	**1,409,011**	**$24.58**

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	23,067,566	5,761,880	6,015,547	25.0%	26.1%	353,637	197,651	(24,257)	$26.29
Uptown/Turtle Creek	10,887,624	1,097,494	1,165,010	10.1%	10.7%	1,295,323	208,453	175,961	$39.63
Northeast Dallas	388,177	58,356	58,356	15.0%	15.0%	-	-	(10,914)	-
Central Expressway	7,620,161	909,636	919,268	11.9%	12.1%	-	71,010	34,861	$28.19
Preston Center	4,188,627	330,375	354,307	7.9%	8.5%	171,583	50,880	(37,727)	$37.69
Stemmons Freeway	4,573,059	971,950	982,240	21.3%	21.5%	63,000	46,542	(39,998)	$16.10
South Irving	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Center	7,304,157	1,082,970	1,285,569	14.8%	17.6%	100,000	16,098	(22,298)	$27.45
Las Colinas Office Center	7,608,222	830,365	840,775	10.9%	11.1%	155,000	11,000	465,839	$27.90
DFW Freeport	4,697,910	573,505	634,668	12.2%	13.5%	366,219	13,427	609,413	$25.40
West LBJ Freeway	1,704,168	351,448	376,161	20.6%	22.1%	-	2,176	48,212	$19.11
Denton/Lewisville	474,755	17,845	17,845	3.8%	3.8%	-	-	(5,243)	$25.43
Frisco/The Colony	3,502,368	509,153	513,830	14.5%	14.7%	914,136	62,529	74,394	$35.50
Allen/McKinney	1,622,954	215,236	223,060	13.3%	13.7%	169,417	19,289	(14,440)	$29.52
Upper Tollway/Legacy	17,997,786	1,973,567	2,265,688	11.0%	12.6%	5,355,604	409,247	538,433	$32.86
Plano	1,522,206	191,939	202,695	12.6%	13.3%	-	2,435	(15,404)	$21.78
Richardson	10,407,273	1,741,712	1,801,121	16.7%	17.3%	300,000	131,376	2,388	$27.05
Dallas North Tollway	11,571,073	1,427,274	1,579,294	12.3%	13.6%	-	143,238	(100,649)	$27.42
East LBJ Freeway	8,977,532	2,145,915	2,275,102	23.9%	25.3%	-	229,676	(227,126)	$26.06
Garland	-	-	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-	-	-	-
Mesquite/Rockwall	276,880	34,824	38,716	12.6%	14.0%	-	-	(162)	$30.35
Southwest Dallas	280,729	15,500	15,500	5.5%	5.5%	-	-	-	$21.34
Grand Prairie	1,851,880	-	-	0.0%	0.0%	-	-	-	-
TOTAL – Dallas	130,525,107	20,240,944	21,564,752	15.5%	16.5%	9,243,919	1,615,027	1,451,283	$28.24

Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	5,984,611	847,665	870,583	14.2%	14.5%	280,489	58,945	3,804	$28.45
Northwest Fort Worth	-	-	-	-	-	-	-	-	$24.64
Alliance	793,399	19,215	19,215	2.4%	2.4%	-	-	5,811	$18.28
Westlake/Grapevine	4,075,575	729,934	823,482	17.9%	20.2%	548,840	19,410	8,693	$27.66
Mid-Cities	352,780	95,921	95,921	27.2%	27.2%	-	-	(7,512)	$19.37
Northeast Fort Worth	414,859	254,294	254,294	61.3%	61.3%	-	-	83,723	$21.27
Arlington	1,753,288	273,868	284,411	15.6%	16.2%	200,000	7,429	(23,872)	$21.03
Southeast Fort Worth	-	-	-	-	-	-	-	-	-
Southwest Fort Worth	3,146,468	328,730	373,762	10.4%	11.9%	-	10,780	37,218	$29.98
TOTAL – Fort Worth	**17,062,610**	**2,549,627**	**2,721,668**	**14.9%**	**16.0%**	**1,029,329**	**96,564**	**107,865**	**$25.69**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**147,713,732**	**22,791,620**	**24,287,469**	**15.4%**	**16.4%**	**10,273,248**	**1,711,591**	**1,559,148**	**$27.95**

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2017

Dallas-Fort Worth Office Market Indicators

	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	LEASING ACTIVITY	YTD NET ABSORPTION	AVERAGE RENTAL RATES
ALL SPACE	305,654,739	44,618,041	46,835,796	14.6%	15.3%	10,998,625	3,130,160	1,409,011	$24.58
CLASS A	147,713,732	22,791,620	24,287,469	15.4%	16.4%	10,273,248	1,711,591	1,559,148	$27.95
CLASS B	139,283,248	20,034,854	20,750,342	14.4%	14.9%	725,377	1,338,260	(309,783)	$20.50

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2016

OVERVIEW

The Dallas-Fort Worth (DFW) Metro consistently ranks as one of the top metro areas for job growth due to a combination of growth from existing businesses and the formation of new businesses. The state's business-friendly environment and low cost of doing business continues to attract companies from around the globe. The area's high quality of life and relatively low cost of living help grow and attract a talented workforce.

Nonfarm employment in DFW grew 3.3% by adding 113,500 jobs during the 12 months ending in December as the region contributed 53.0% of the total state's job growth. Over the last year, the DFW region created over twice as many jobs than the San Antonio, Austin, and Houston metros combined.

The North Texas market recorded a 14.8% vacancy rate and positive net absorption of approximately 1.1 million square feet (MSF) during Q4 2016. Average asking rental rates for all classes of office space ended the fourth quarter at $22.34, a 3.7% increase year-over-year. Year-to-date building deliveries for 2016 were just under 6.0 MSF with 11.4 MSF remaining under construction.

NET ABSORPTION

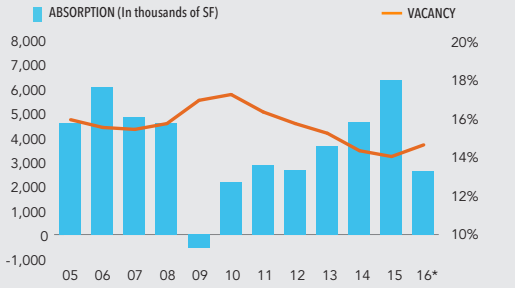
Overall net absorption for the DFW office market recorded 1.1 million square feet (MSF) in the fourth quarter, bringing the 2016 total to 2.6 MSF. Class A space contributed 1.1 MSF of positive absorption and Class B added a net positive 95,000 square feet (SF).

Notable leases during the fourth quarter include 300,000 SF at Plano Parkway at Preston Road leased by AmerisourceBergen Specialty Group and 83,765 SF in Thanksgiving Tower leased by WeWork.

Submarkets with the highest year-to-date net absorption:

SUBMARKET	2016
Richardson	645,317 SF
Office Center/LBJ Ext	640,396 SF
DFW Freeport/Coppell	489,239 SF
Uptown/Turtle Creek	419,426 SF

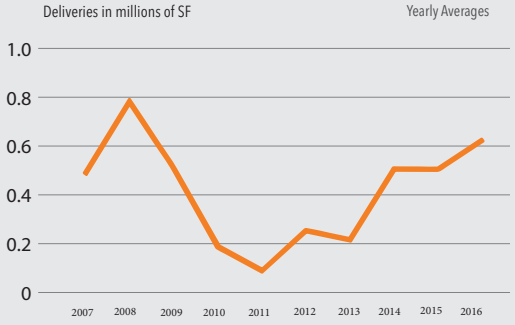
NET ABSORPTION & VACANCY RATE TRENDS



*Through November 2016

SOURCE: CoStar, Transwestern

HISTORICAL OFFICE DELIVERIES



SOURCE: Costar, Transwestern; December 2016

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DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2016

VACANCY

Direct vacancy rates in the office market dropped slightly from 15.0%% in the third quarter to 14.8% in the fourth quarter of 2016, and down 230 basis points from Q4 2015. Overall vacancy, including subleases, recorded 15.5%.

Class A direct vacancy decreased from 15.5% (17.9% overall) in the third quarter to 15.1% (16.2% overall) in the fourth quarter. Submarkets recording the lowest Class A vacancy were Denton/Lewisville (2.7%), Alliance (4.3%), and Southwest Dallas (5.5%).

Class B direct vacancy has gradually increased throughout the year from 14.7% (15.2% overall) in the first quarter to 15.1% (15.7% overall) at year-end. Submarkets recording the lowest Class B vacancy were Alliance (3.5%), White Rock (4.5%), Frisco/The Colony (4.9%), and Southeast Dallas (5.6%).

RENTAL RATES

The average asking rental rate for all classes of space was $22.34/SF in the fourth quarter 2016, a 3.7% increase from last year. The average rate for Class A space was $26.68/SF, a 3.1% increase from the same period in 2015. Class B asking rates also increased from $19.55/SF at year-end 2015 to $20.45/SF at the end of 2016. Average asking rental rates in Uptown/Turtle Creek, Preston Center, Upper Tollway, and Legacy are expected to continue growing throughout 2017 due to high demand driving the market, but that rate increase is expected to slow in some of the smaller markets.

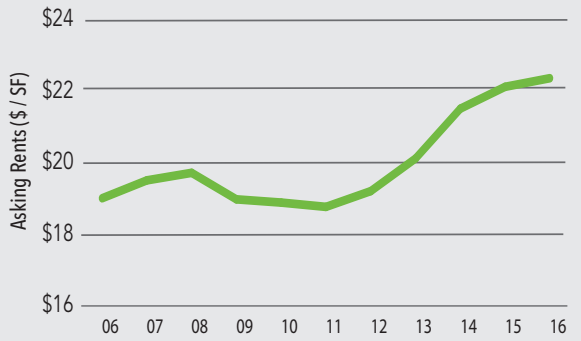
INVESTMENT MARKETS

Dallas-Fort Worth once again the led the market in the Southwest as it posted sales volume of just over $4.2 billion across 60 transactions in 2016. The largest transaction in DFW in 2016 was the four building, 2.1 MSF State Farm campus that was purchased by Mirae Asset Global Investments and Transwestern Investment Group for $825 million.

Submarkets with the largest year-over-year direct vacancy decrease:

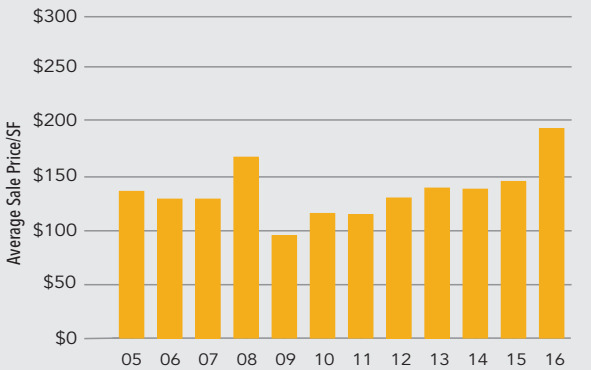
DALLAS	Q4 2016
West LBJ Freeway	-4.7%
Central Expressway	-3.7%
Denton/Lewisville	-3.6%
DFW Freeport/Coppell	-2.5%
FORT WORTH	**Q4 2016**
Northwest Fort Worth	-6.7%
Alliance	-2.8%
Westlake/Grapevine	-1.8%

AVERAGE OFFICE RENTAL RATES



SOURCE: CoStar, Transwestern; December 2016

AVERAGE OFFICE SALE PRICE



SOURCE: Transwestern; December 2016

The average sale price per square foot was $208, an all-time high, buoyed by some of the largest transactions in the nation. The average cap rate for DFW was 7.09%. Class A transactions had an average cap rate of 6.36% with a handful of deals trading below 6.00%. Throughout 2016 five transactions posted above $400/SF, which has never been achieved in DFW before. Two deals, 1717 McKinney and 2000 McKinney, both in Uptown, surpassed the $500/SF threshold. Despite record high pricing, DFW remains a relatively attractive investment option when compared to the coastal markets.

The most active investment submarkets in 2016, just as they were in 2015 and 2014, are Dallas CBD and Uptown in the city's core, along with suburban markets like Upper Tollway/West Plano and Richardson. This is due to billions of dollars being spent on mixed-use, high-density developments in those areas.

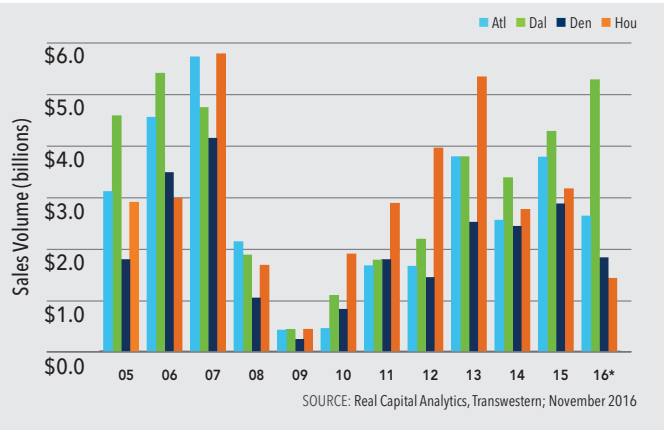
Investors will likely be more cautious in the near future due to higher finance costs and conservative underwriting. However, we expect the DFW market to continue to benefit from its socioeconomic fundamentals and remain a top investment market throughout 2017.

CONSTRUCTION

Throughout the DFW office market area there is currently 11.4 MSF of office space currently under construction with 44% of that space pre-leased. Class A projects accounted for 10.7 MSF with a majority of the construction concentrated in the Upper Tollway/West Plano submarket (4.9 MSF) and Uptown/Turtle Creek submarket (1.5 MSF).

Notable deliveries in 2016 include McKinney & Olive with 530,000 SF, State Farm Campus - Building D with 499,992 SF, The Star with 397,819 SF, and the new 7-Eleven headquarters with 325,000 SF. Leasing activity for the fourth quarter totaled 4.5 MSF with Class A accounting for 54% or 2.1 MSF of total leasing transactions.

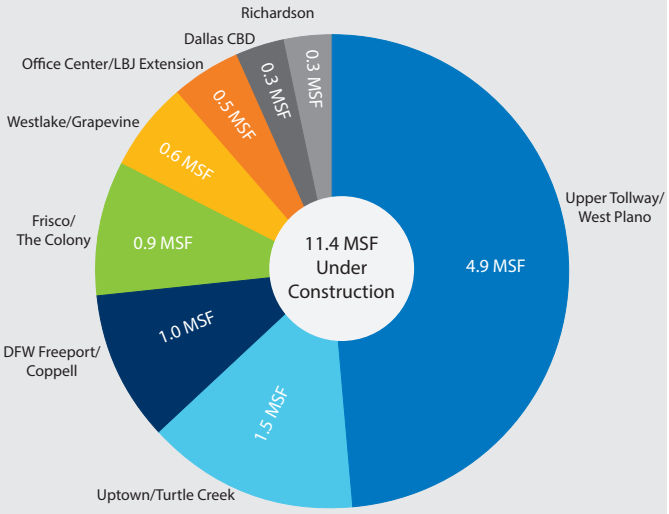
COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



SOURCE: Real Capital Analytics, Transwestern; November 2016

Office space under construction

Dallas-Fort Worth Metro Area | Q4 2016



Submarkets with 300,000 SF + shown in graph

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2016

ECONOMIC OUTLOOK

The Texas job market is robust and continues to expand. The North Texas regional economy has grown by more than 660,200 jobs since the end of the last recession, and annual nonfarm job growth has consistently averaged around 3.0% or higher each year since 2010. While the energy bust slowed the rate of growth in the state's economy, it had minimal effect on the region's diverse economy. Companies are continuing to hire, and that has helped keep the unemployment rate relatively steady. Labor markets are tightening, especially for skilled talent. However, the influx of domestic and international labor, as well as endogenous labor force growth via the dozens of universities and community colleges in the region, is expected to continue supplying a steady stream of qualified workers. At the local level, additional corporate relocations from both domestic and international sources are expected to continue throughout North Texas. Over 50% of the state's total job growth in 2016 was due to DFW's contribution. Annual job growth has averaged higher than 3.0% since the end of the latest recession, and we expect that trend to continue over the next 12-24 months.

Though leasing activity has begun to slow, there is no lack of attraction for the market. Emerging trends suggest that tenants will likely continue seeking smaller spaces due to the increased desire for more efficient shared workspaces. In some cases this allows a tenant to get into a building or submarket they normally would not be able to afford. Deliveries throughout 2017 will put pressure on vacancy and rental rates for almost all submarkets. New construction has set the ceiling for DFW but remains a considerable target for large company relocations due to central location and affordability compared to other major markets.

Notable Q4 2016 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Shelton School	317,270	New Lease	17301 Preston Rd	North Dallas Tollway
AmerisourceBergen Specialty Group	300,000	New Lease	Plano Pky @ Parker Rd	Upper Tollway/West Plano
Occidental Petroleum Corporation	120,000	New Lease	Fourteen555 - North	North Dallas Tollway
Stericycle	87,185	New Lease	8555 Airport Fwy	Hurst/Euless/Bedford
WeWork	83,765	New Lease	Thanksgiving Tower	Dallas CBD
BSN Sports	63,000	New Lease	4849 Alpha Rd	North Dallas Tollway

Notable Q4 2016 Sales

BUILDING	SUBMARKET	SALE PRICE / $PSF	SELLER	BUYER
State Farm Campus - CityLine	Richardson	$825,000,000 / $400.95	State Farm	Transwestern Investment Group/ Mirae Asset Global
Campus at Legacy West	Upper Tollway/West Plano	$353,000,000 / $182.99	JCPenney	Dreien Opportunity Partners
Legacy Tower	Upper Tollway/West Plano	$135,000,000 / $394.14	Trammell Crow Co. / Principal Financial	Intercontinental Real Estate Corp / Foundry Commercial
Eighty-Eighty Central	Central Expressway	$59,000,000 / $205.08	Gemini Rosemont	Intercontinental Real Estate Corp / Foundry Commercial
CVS Health Tower	Office Center/West LBJ	$51,000,000 / $160.38	Sterling Commerce	Piedmont Office Realty

Dallas Office Market Indicators – Overall Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION Q4 2016	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	32,907,000	7,140,819	7,436,982	21.7%	22.6%	342,879	(79,569)	(82,854)	$25.47
Uptown/Turtle Creek	13,351,736	1,348,525	1,428,636	10.1%	10.7%	1,500,471	214,091	419,426	$38.09
White Rock	4,194,798	302,025	314,610	7.2%	7.5%	-	76,099	78,444	$17.67
Central Expressway	13,823,195	1,354,673	1,396,143	9.8%	10.1%	-	69,537	112,549	$26.59
Preston Center	5,333,458	437,344	453,344	8.2%	8.5%	171,583	1,411	48,673	$35.68
Stemmons Freeway	13,884,455	3,151,771	3,221,194	22.7%	23.2%	63,000	216,030	204,695	$15.69
South Irving	2,027,169	220,961	233,124	10.9%	11.5%	-	44,120	12,306	$17.96
Las Colinas/Urban Center	9,420,422	1,422,484	1,648,574	15.1%	17.5%	100,000	(28,866)	(72,820)	$25.88
Office Center/LBJ Ext	15,626,959	1,406,426	1,547,069	9.0%	9.9%	494,359	546,287	640,396	$24.37
DFW Freeport/Coppell	12,507,456	1,550,925	1,625,969	12.4%	13.0%	1,045,402	357,544	489,239	$22.70
West LBJ Freeway	4,922,226	871,234	915,534	17.7%	18.6%	-	136,464	211,003	$17.34
Denton/Lewisville	8,220,503	534,333	616,538	6.5%	7.5%	26,000	40,701	125,843	$21.83
Frisco/The Colony	5,257,104	662,395	672,909	12.6%	12.8%	936,913	78,117	159,696	$34.27
Allen/McKinney	5,777,330	595,065	606,620	10.3%	10.5%	134,486	99,385	115,530	$25.37
Upper Toll/West Plano	24,666,054	2,441,939	2,737,932	9.9%	11.1%	4,925,869	91,899	(38,114)	$30.21
Plano	7,306,495	1,563,590	1,585,509	21.4%	21.7%	-	(154,899)	51,347	$25.17
Richardson	20,576,634	3,292,261	3,353,991	16.0%	16.3%	322,000	(239,589)	645,317	$22.92
North Dallas Tollway	22,075,201	3,465,807	3,664,483	15.7%	16.6%	-	(83,392)	(383,095)	$23.43
East LBJ Freeway	16,979,582	3,837,386	3,956,243	22.6%	23.3%	-	101,073	108,761	$22.40
Garland	2,007,706	646,481	646,481	32.2%	32.2%	-	4,304	7,028	$17.98
Southeast Dallas	622,365	42,321	43,566	6.8%	7.0%	-	(4,354)	7,124	$17.58
Mesquite/Rockwall	1,581,522	109,125	112,288	6.9%	7.1%	-	10,041	20,389	$24.32
Southwest Dallas	3,006,112	393,801	393,801	13.1%	13.1%	-	(4,523)	14,683	$15.94
Grand Prairie	3,876,846	395,438	407,069	10.2%	10.5%	25,000	(3,844)	(727)	$17.16
TOTAL – Dallas	**249,952,328**	**37,187,129**	**39,018,608**	**14.9%**	**15.6%**	**10,087,962**	**1,488,068**	**2,894,840**	**$23.58**

Fort Worth Office Market Indicators – Overall Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION Q4 2016	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	11,299,975	1,163,897	1,197,797	10.3%	10.6%	280,489	(14,675)	(49,640)	$25.47
Northwest Fort Worth	429,903	45,570	45,570	10.6%	10.6%	-	(12,076)	(12,097)	$17.12
Alliance Air/Fossil Creek	2,990,877	110,662	140,571	3.7%	4.7%	23,940	42,780	107,001	$23.91
Westlake/Grapevine	7,760,433	861,408	985,575	11.1%	12.7%	628,840	37,305	95,741	$26.87
Hurst/Euless/Bedford	5,057,284	981,113	986,170	19.4%	19.5%	-	10,373	(38,457)	$17.18
Northeast Fort Worth	3,925,029	1,817,288	1,844,764	46.3%	47.0%	-	(420,513)	(444,432)	$20.19
Arlington	8,317,951	1,064,698	1,089,652	12.8%	13.1%	150,000	14,126	33,556	$18.99
Southeast Fort Worth	1,352,493	73,035	73,035	5.4%	5.4%	-	7,876	9,597	$16.99
Southwest Fort Worth	10,771,682	1,292,602	1,357,232	12.0%	12.6%	181,182	(50,635)	20,921	$23.14
TOTAL – Fort Worth	**51,905,627**	**7,410,273**	**7,720,365**	**14.3%**	**14.9%**	**1,264,451**	**(385,438)**	**(277,809)**	**$21.10**

Dallas-Fort Worth Office Market Indicators – Overall Space

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION Q4 2016	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**301,857,955**	**44,597,403**	**46,738,974**	**14.8%**	**15.5%**	**11,352,413**	**1,102,629**	**2,617,030**	**$22.34**

DALLAS-FORT WORTH OFFICE MARKET

FOURTH QUARTER 2016

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION Q4 2016	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Dallas CBD	23,049,649	5,877,660	6,154,256	25.5%	26.7%	342,879	(95,225)	(161,440)	$26.25
Uptown/Turtle Creek	10,505,602	1,050,560	1,124,099	10.0%	10.7%	1,500,471	209,500	475,530	$39.93
White Rock	-	-	-	-	-	-	-	-	-
Central Expressway	7,618,454	937,070	952,307	12.3%	12.5%	-	77,049	92,917	$28.12
Preston Center	4,235,194	300,699	309,169	7.1%	7.3%	171,583	(19,005)	43,279	$37.03
Stemmons Freeway	4,473,059	863,300	867,773	19.3%	19.4%	63,000	8,297	2,100	$16.48
South Irving	-	-	-	-	-	-	-	-	-
Las Colinas/Urban Ctr	7,306,628	1,074,074	1,300,580	14.7%	17.8%	100,000	4,128	(6,769)	$27.22
Office Center/LBJ Ext	7,459,092	395,332	529,596	5.3%	7.1%	155,000	602,233	599,083	$28.16
DFW Freeport/Coppell	4,018,727	482,247	542,528	12.0%	13.5%	1,045,402	353,972	431,023	$25.53
West LBJ Freeway	1,704,168	371,509	395,367	21.8%	23.2%	-	(15,480)	(13,069)	$18.55
Denton/Lewisville	474,755	12,818	12,818	2.7%	2.7%	-	(216)	7,297	$25.39
Frisco/The Colony	3,502,368	574,388	581,393	16.4%	16.6%	914,136	60,676	127,590	$35.81
Allen/McKinney	1,622,954	196,377	209,361	12.1%	12.9%	48,441	91,741	114,711	$28.16
Upper Toll/West Plano	17,181,978	1,649,470	1,907,200	9.6%	11.1%	4,845,869	155,233	(30,842)	$32.12
Plano	1,522,206	172,009	185,709	11.3%	12.2%	-	56,692	406,654	$22.48
Richardson	10,247,005	1,557,545	1,619,027	15.2%	15.8%	300,000	(360,277)	545,167	$26.50
North Dallas Tollway	11,557,873	1,317,598	1,456,292	11.4%	12.6%	-	(57,743)	16,108	$28.15
East LBJ Freeway	8,977,532	2,154,608	2,244,383	24.0%	25.0%	-	(49,786)	(48,407)	$25.79
Garland	-	-	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-	-	-	-
Mesquite/Rockwall	276,880	34,610	38,486	12.5%	13.9%	-	11,604	11,604	$28.84
Southwest Dallas	280,729	15,440	15,440	5.5%	5.5%	-	60	60	$21.84
Grand Prairie	-	-	-	-	-	-	-	-	-
TOTAL – Dallas	**126,014,853**	**19,037,315**	**20,445,785**	**15.1%**	**16.2%**	**9,486,781**	**1,033,452**	**2,612,595**	**$27.49**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION Q4 2016	YTD NET ABSORPTION	AVERAGE RENTAL RATES
Fort Worth CBD	5,984,611	849,815	873,753	14.2%	14.6%	280,489	(4,244)	(15,291)	$28.56
Northwest Fort Worth	-	-	-	-	-	-	-	-	-
Alliance Air/Fossil Creek	581,277	24,995	24,995	4.3%	4.3%	-	55,265	103,548	$34.00
Westlake/Grapevine	3,907,653	570,517	664,301	14.6%	17.0%	628,840	(48)	32,275	$27.30
Hurst/Euless/Bedford	352,780	133,351	133,351	37.8%	37.8%	-	3,856	(12,971)	$19.43
Northeast Fort Worth	414,859	338,110	338,110	81.5%	81.5%	-	9,472	1,131	$21.29
Arlington	1,753,288	252,473	270,006	14.4%	15.4%	150,000	(579)	16,302	$20.37
Southeast Fort Worth	-	-	-	-	-	-	-	-	-
Southwest Fort Worth	2,980,475	241,418	256,321	8.1%	8.6%	160,182	(17,111)	35,979	$30.07
TOTAL – Fort Worth	**15,974,943**	**2,410,680**	**2,560,837**	**15.1%**	**16.0%**	**1,219,511**	**46,611**	**160,973**	**$25.86**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	VACANT SF DIRECT	VACANT SF OVERALL	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION Q4 2016	YTD NET ABSORPTION	AVERAGE RENTAL RATES
TOTAL – DFW	**141,989,796**	**21,447,995**	**23,006,622**	**15.1%**	**16.2%**	**10,706,292**	**1,080,063**	**2,773,568**	**$26.68**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

OVERVIEW

Economy continues to expand

The Dallas-Fort Worth Metro (DFW) consistently ranks as one of the top metro areas for job growth due to a combination of growth from existing businesses and the formation of new businesses.

Nonfarm employment in DFW grew by 3.6%, or 122,300 jobs, over the 12 months ending in September, ranking DFW with the highest percentage growth among major metro areas. DFW has added more than 120,500 jobs since January 2016. Growth in the wholesale trade, financial, and the professional and business services sectors helped boost the region's annual employment growth rate above Texas' 1.7% and the U.S. rate of 1.7%. The current expansion is forecasted to continue for the sixth consecutive year. Net absorption remains strong and the vacancy rate has remained fairly steady throughout 2016.

DFW recorded a 11.9% vacancy rate and positive net absorption of approximately 2.1 million square feet (MSF) during Q3 2016. The average of total office space (Class A, B, and C) ended the Q3 at $24.08, a 6.3% increase year over year. Building deliveries for Q3 totaled 1.3 MSF with 9.9 MSF still under construction.

NET ABSORPTION

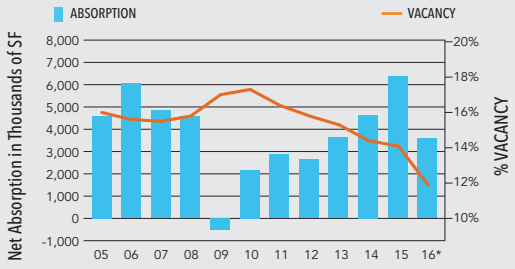
Positive absorption in all markets

Net absorption for the overall Dallas-Fort Worth office market recorded a positive 2.1 million square feet (MSF) in the third quarter 2016. Class A recorded 2.0 MSF of positive absorption and Class B recorded a positive 104,000 SF for the quarter. Throughout the Dallas-Fort Worth area there are 9.8 MSF of office space under construction with 54.0% pre-leased. Notable leases during the third quarter include a 576,138 SF sale-leaseback at Verizon's headquarters and 229,000 SF in the Renaissance Tower leased by Environmental Protection Agency Region 6.

Submarkets with the highest net absorption:

SUBMARKET	Q3 2016
Uptown/Turtle Creek	505,000 SF
Dallas CBD	233,000 SF
Plano	232,000 SF
Frisco/The Colony	184,000 SF

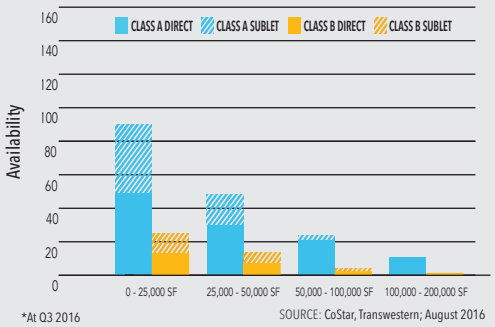
NET ABSORPTION & VACANCY RATE TRENDS



*Through Q3 2016

SOURCE: CoStar, Transwestern; September 2016

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



*At Q3 2016

SOURCE: CoStar, Transwestern; August 2016

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DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

VACANCY

Market tightens as tenants move in

Direct vacancy levels in the office market dropped slightly from 13.1% in the second quarter, to 11.5% in the third quarter of 2016 and down 2.6% from Q3 2015. Overall vacancy, including subleases, recorded 11.9%.

Class A vacancy decreased from 18.7% (19.3% overall) at mid-year to 15.9% (16.6% overall) in the third quarter. Submarkets with the lowest Class A vacancy are Alliance (4.3 %), Southwest Dallas (5.5%) and Preston Center (5.9%).

Class B vacancy has continued to decrease throughout the year from 14.8% (15.7% including sublet) in the first quarter and currently at 12.1% (12.5% including sublet). Submarkets with the lowest Class B vacancy are White Rock (5.0%), Alliance (5.2%), Southeast Dallas (5.2%) and Central Expressway (6.1%).

RENTAL RATES

Rental rates edge higher

The average asking rent for all classes of space was $24.08/SF, a 9.0% increase from Q3 2015. The average rate for Class A space was $27.87/SF for Q3, a 0.68% increase from Q2. Class B average price also increased from $20.46/SF in Q2 to $20.77/SF at the end of Q3. Asking rental rates are expected to continue to increase throughout the rest of the year in most of the region's submarkets.

INVESTMENT MARKETS

Investment demand remains highly active

Investor demand for Dallas-Fort Worth office assets remained highly active throughout Q3 as over 7.2 MSF of properties traded hands, totaling over $1.6 billion. This brings year-to-date investment sales volume in the metroplex to $2.6 billion across 44 transactions. These figures represent assets for which pricing information could be attained. Demand was equally divided between well-leased Class A assets and the value-add profile of Class B assets with 22 transactions recorded for each asset class. However, there is a noticeable desire for trophy assets in the premier submarkets, creating record-setting prices. In August, Germany's Union Investment Real Estate fund acquired the 448,000 SF 2000 McKinney office building for $225 million, or about $503/SF. It was the first building to eclipse the $500/SF barrier in the Dallas-Fort Worth region. The record was short-lived, however, as locally-based Gaedeke Group purchased the 362,000 SF 17Seventeen McKinney the following month for approximately $510/SF and a 5.10% cap rate. Both buildings are located in the Uptown/

Submarkets with the lowest direct vacancy:

DALLAS	Q3 2016
Southeast Dallas	4.6%
White Rock	5.8%
Preston Center	6.7%
Central Expressway	7.8%
FORT WORTH	**Q3 2016**
Northwest Fort Worth	4.3%
Alliance	4.5%
Southeast Ft. Worth	5.2%

Office space under construction or renovation:

Dallas-Fort Worth Metro Area | Q3 2016

SUBMARKET/AREA	SF	% PRE-LEASED
Upper Tollway/W Plano	4,870,208	72.0%
Uptown/Turtle Creek	1,264,225	70.0%
DFW Freeport/Coppell	1,035,402	70.8%
Dallas CBD	401,937	34.8%
Frisco/The Colony	356,136	28.8%
Office Center/LBJ Ext	339,359	0.0%
Richardson	300,000	0.0%
Fort Worth CBD	280,489	51.5%
Westlake/Grapevine	273,840	30.8%
Preston Center	186,257	0.0%
Southwest Fort Worth	160,182	0.0%
Las Colinas	100,000	100%
White Rock	99,500	97.47%
Allen/McKinney	76,000	60.5%
Stemmons Freeway	63,000	100%
Plano	58,901	51.44
Total	**9,865,436**	**53.6%**

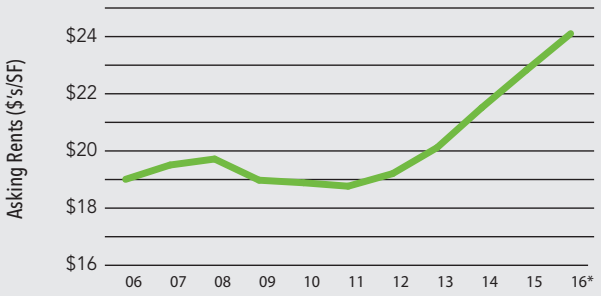
*Only Buildings 50,000 SF or Greater

Turtle Creek submarket which features some of the highest occupancy and rental rates in Dallas. By comparison, the 22 sale transactions for Class B assets averaged $92/SF and an 8.49% cap rate with most of the deals situated in the suburban Las Colinas and North Dallas Tollway submarkets.

Currently there are 69 deals in the market, under contract or potentially coming to market totaling just over 14.9 MSF. Nineteen of these deals were brought to market during Q3 of 2016 and consist primarily of Class A assets looking to take advantage of all-time high rental rates and investor demand for quality buildings. It is worth noting, however, that a number of deals have been floating in the market for close to a year. While urban submarkets remain a strength, there is some uncertainty for investors in the suburban submarkets, especially at the asking prices some sellers are targeting.

Robust leasing activity and rising rental rates combined with a diverse and growing local economy, an expanding population, and extraordinarily low interest rates will continue to put upward pressure on prices for office product, especially those in urban nodes. Accordingly, investment sales activity in Dallas-Fort Worth should remain strong throughout the end of the year even as sales volume begins to slow down.

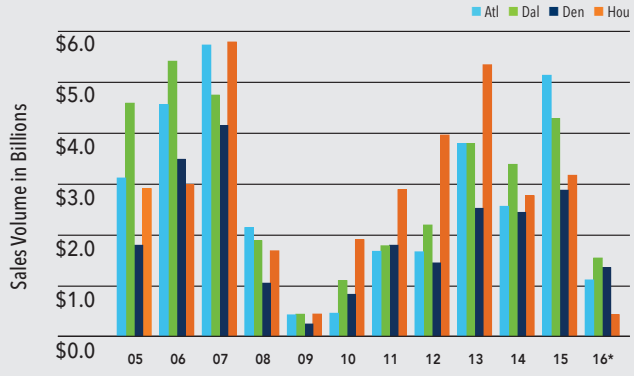
AVERAGE OFFICE RENTS – DALLAS-FORT WORTH – ALL CLASSES



*At Q3 2016

SOURCE: CoStar, Transwestern; September 2016

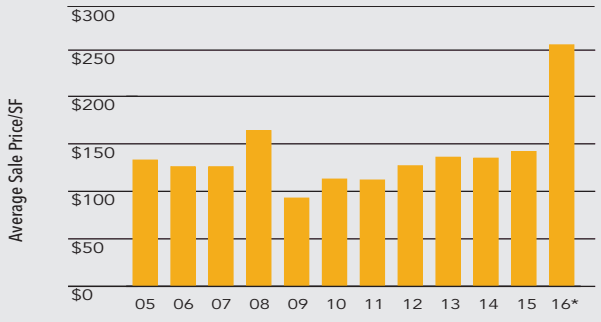
COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



*At Q3 2016

SOURCE: Real Capital Analytics, Transwestern; August 2016

AVERAGE OFFICE SALE PRICE – DALLAS-FORT WORTH



*At Q3 2016

SOURCE: Transwestern; September 2016

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

Economic Outlook

The Federal Reserve announced at its September meeting it would leave interest rates unchanged at 0.5% despite higher confidence in the economy. Strong economic data suggests a rate increase is highly likely in Q4. Labor markets are healthy and inflation remains below the Fed's 2% target. Many institutions and financial markets are prepared for a rate hike as it is only a matter of when, not if, the Fed decides to move.

The worst of Texas' oil crisis appears to have passed, largely due to the rising price of crude, coupled with the state's healthy job growth. The North Texas region is largely insulated from the short-term fluctuations in energy markets, due in part to its diversified economy. The oil and gas sector is already experiencing a rebound after initial job losses in the past 24 months.

The Dallas-Fort Worth metropolitan area and the State of Texas continue to act as magnets for corporate expansions and relocations. This trend is attracting labor from other markets, both domestic and international, which in turns draws additional firms seeking qualified labor. The DFW economy benefits greatly from this circular trend of corporate demand and labor attraction. While many economists predict the national economy is overdue for a recession, we believe that DFW's economy will not take a strong hit and is well positioned to weather any economic shocks.

Multi-tenant market vs Transwestern comprehensive market coverage

	MULTI-TENANT	ENTIRE MARKET
Inventory	214.7 MSF	343.5 MSF
Overall Vacancy	16.6%	11.9%
Q3 Net Absorption	1,358,496 SF	1,228,000 SF

Notable Q3 2016 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Verizon	576,138	Sale-Leaseback	Verizon Headquarters	Office Ctr/West LBJ Ext
Environmental Protection Agency	229,000	New	Renaissance Tower	CBD
FM Global	79,428	New	The Star	Frisco/The Colony
Bank Of America	63,325	New	The Star	Frisco/The Colony

Notable Q3 2016 Sales

BUILDING	SUBMARKET	SALE PRICE	SELLER	BUYER
Verizon Hidden Ridge Campus	Office Ctr/West LBJ Ext	$344 Million ($299.13/SF)	Verizon Communications Inc	Mesirow Financial
2000 McKinney Ave	Uptown/Turtle Creek	$255 Million ($502.69/SF)	Lincoln Property Company	Union Investment Real Estate GmbH
17Seventeen	Uptown/Turtle Creek	$184.6 Million ($510.00/SF)	MetLife Real Estate	Gaedeke Group LLC

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
Dallas CBD	33,269,468	6,620,624	18.1%	19.9%	20.7%	401,937	233,000	(261,138)
Uptown/Turtle Creek	14,374,252	1,221,811	9.7%	8.5%	9.1%	1,264,225	505,000	627,990
White Rock	5,498,238	318,898	6.8%	5.8%	6.0%	99,500	16,000	27,883
Central Expressway	15,121,648	1,179,489	13.6%	7.8%	8.0%	-	121,000	533,202
Preston Center	5,730,788	383,963	7.6%	6.7%	6.9%	186,257	6,000	(63,012)
Stemmons Freeway	14,682,206	3,200,721	21.9%	21.8%	22.2%	63,000	44,000	(63,508)
South Irving	2,834,641	252,283	6.6%	8.9%	9.3%	-	(31,000)	(14,296)
Las Colinas/Urban Center	9,575,071	1,254,334	16.9%	13.1%	15.2%	100,000	-	115,876
Office Center/LBJ Ext	16,008,866	1,312,727	9.8%	8.2%	9.1%	339,359	16,000	(468,889)
DFW Freeport/Coppell	12,895,182	1,444,260	15.5%	11.2%	11.7%	1,035,402	77,000	496,988
West LBJ Freeway	5,318,779	941,424	23.8%	17.7%	18.5%	-	(11,000)	(25,529)
Denton/Lewisville	9,057,403	1,014,429	12.6%	11.2%	12.8%	-	(344,000)	(129,467)
Frisco/The Colony	6,341,318	608,767	11.5%	9.6%	9.9%	356,136	184,000	575,389
Allen/McKinney	7,668,440	644,149	8.6%	8.4%	8.6%	76,000	23,000	189,724
Upper Toll/West Plano	26,736,366	2,138,909	10.1%	8.0%	8.9%	4,870,208	134,000	683,102
Plano	10,016,833	1,512,542	17.0%	15.1%	15.2%	58,901	232,000	343,617
Richardson	22,122,537	3,141,400	13.7%	14.2%	14.5%	300,000	909,284	915,780
North Dallas Tollway	23,448,816	3,329,732	12.9%	14.2%	14.8%	-	(249,000)	(358,904)
East LBJ Freeway	17,314,732	3,757,297	24.6%	21.7%	22.3%	-	35,000	197,509
Garland	3,755,717	773,678	11.3%	20.6%	20.6%	-	26,000	(402,114)
Southeast Dallas	1,244,375	57,241	10.8%	4.6%	4.6%	-	16,000	21,060
Mesquite/Rockwall	1,804,952	142,591	10.2%	7.9%	8.2%	-	38,000	42,731
Southwest Dallas	5,422,840	477,210	12.2%	8.8%	8.8%	-	54,000	74,952
Grand Prairie	4,335,002	394,485	8.7%	9.1%	9.4%	-	(87,000)	(80,626)
TOTAL – Dallas	**274,578,470**	**36,122,964**	**13.10%**	**11.79%**	**12.30%**	**9,150,925**	**1,947,284**	**2,978,320**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS:

We include owner occupied and single-tenant buildings in our inventory, vacancy and absorption statistics to capture more market activity than many of our competitors. This allows us to better correlate changes in the market with changes in employment. As single-tenant space does compete with multi-tenant space, we believe it is critical to understand all components of the market. The inclusion of single-tenant and owner-occupied space tends to yield lower vacancy rates and higher absorption totals than some of our competitors' results, but our coverage of the market is more comprehensive.

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

Fort Worth Market Indicators – All Space

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
Fort Worth CBD	11,786,749	1,096,168	9.1%	9.3%	9.7%	280,489	71,000	(47,727)
Northwest Fort Worth	1,233,285	53,031	9.9%	4.3%	4.3%	-	5,000	48,037
Alliance Air/Fossil Creek	3,617,021	162,766	7.1%	4.5%	5.2%	-	11,000	72,029
Westlake/Grapevine	11,589,843	1,101,035	14.2%	9.5%	10.5%	273,840	23,000	213,075
Hurst/Euless/Bedford	7,319,694	1,215,069	16.1%	16.6%	16.7%	-	(66,000)	(63,037)
Northeast Fort Worth	5,406,167	1,373,166	30.5%	25.4%	25.9%	-	54,000	72,256
Arlington	11,342,287	1,213,625	13.5%	10.7%	11.0%	-	23,000	178,115
Southeast Fort Worth	2,169,483	112,813	6.9%	5.2%	5.2%	-	9,000	33,509
Southwest Fort Worth	15,991,563	1,535,190	9.4%	9.6%	9.8%	160,182	60,000	122,164
TOTAL – Fort Worth	**70,456,092**	**7,862,863**	**12.97%**	**10.57%**	**10.92%**	**714,511**	**190,000**	**628,421**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
TOTAL – DFW	**345,034,562**	**43,985,828**	**13.07%**	**11.46%**	**11.93%**	**9,865,436**	**2,137,284**	**3,606,741**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
Dallas CBD	22,964,115	5,304,711	23.1%	24.2%	401,937	161,000	126,260
Uptown/Turtle Creek	10,840,348	921,430	8.5%	9.0%	1,264,225	554,000	638,504
White Rock	388,177	54,733	14.1%	14.1%	-	(8,000)	(4,581)
Central Expressway	7,617,574	776,993	10.2%	10.3%	-	99,000	363,833
Preston Center	4,177,591	238,123	5.7%	5.9%	186,257	8,000	(36,531)
Stemmons Freeway	3,684,761	762,746	20.7%	20.8%	63,000	(48,000)	(15,376)
South Irving	-	-	-	-	-	-	-
Las Colinas/Urban Ctr	7,340,269	917,534	12.5%	15.3%	100,000	44,000	120,528
Office Center/LBJ Ext	7,505,557	397,795	5.3%	7.2%	-	-	21,820
DFW Freeport/Coppell	3,803,619	365,147	9.6%	11.2%	1,035,402	118,000	457,853
West LBJ Freeway	1,706,909	358,451	21.0%	21.0%	-	(7,000)	(2,498)
Denton/Lewisville	404,964	254,317	62.8%	62.8%	-	2,000	85,268
Frisco/The Colony	3,502,368	399,270	11.4%	11.7%	356,136	207,000	466,174
Allen/McKinney	1,546,954	139,226	9.0%	9.8%	76,000	59,000	59,702
Upper Toll/West Plano	17,083,600	1,400,855	8.2%	9.6%	4,870,208	137,000	632,941
Plano	1,622,206	189,798	11.7%	11.9%	-	342,000	351,226
Richardson	9,897,498	1,138,212	11.5%	12.1%	300,000	30,000	(203,046)
North Dallas Tollway	11,061,428	1,050,836	9.5%	10.7%	-	168,000	135,608
East LBJ Freeway	8,971,169	2,063,369	23.0%	23.8%	-	(9,000)	199,742
Garland	-	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-	-
Mesquite/Rockwall	246,420	31,049	12.6%	14.3%	-	2,000	(13,903)
Southwest Dallas	280,729	15,440	5.5%	5.5%	-	-	-
Grand Prairie	1,851,880	-	0.0%	0.0%	-	-	-
TOTAL – Dallas	**126,498,136**	**16,780,033**	**14.09%**	**14.82%**	**8,251,228**	**1,859,000**	**3,383,524**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

Fort Worth Market Indicators – Class A

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
Fort Worth CBD	5,914,246	715,624	12.1%	12.6%	280,489	83,000	(6,524)
Northwest Fort Worth	-	-	-	-	-	-	-
Alliance Air/Fossil Creek	581,227	24,993	4.3%	4.3%	-	3,000	17,282
Westlake/Grapevine	3,869,653	564,969	14.6%	17.0%	273,840	(12,000)	115,110
Hurst/Euless/Bedford	352,780	133,351	37.8%	38.9%	-	(13,000)	(32,871)
Northeast Fort Worth	403,938	299,318	74.1%	74.1%	-	31,000	22,369
Arlington	1,752,193	259,325	14.8%	15.2%	-	7,000	(35,935)
Southeast Fort Worth	541,630	-	0.0%	0.0%	-	-	-
Southwest Fort Worth	2,980,475	208,633	7.0%	7.4%	160,182	66,000	128,297
TOTAL – Fort Worth	**16,396,142**	**2,206,213**	**20.59%**	**21.19%**	**714,511**	**165,000**	**207,728**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
TOTAL – DFW	**142,894,278**	**18,986,245**	**15.88%**	**16.58%**	**8,965,739**	**2,024,000**	**3,591,252**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Dallas Office Market Indicators – Class B

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
Dallas CBD	7,020,973	1,025,062	14.6%	14.6%	-	63,000	62,567
Uptown/Turtle Creek	2,747,674	266,524	9.7%	10.3%	-	(47,000)	(15,888)
White Rock	3,250,155	149,507	4.6%	5.0%	99,500	10,000	2,811
Central Expressway	6,080,751	352,684	5.8%	6.1%	-	49,000	176,574
Preston Center	969,769	84,370	8.7%	9.0%	-	(2,000)	27,352
Stemmons Freeway	8,585,116	1,785,704	20.8%	21.4%	-	300,000	312,032
South Irving	1,721,443	166,980	9.7%	10.4%	-	(28,000)	(1,560)
Las Colinas/Urban Ctr	1,984,027	281,732	14.2%	14.2%	-	(26,000)	17,128
Office Center/LBJ Ext	7,927,656	840,332	10.6%	10.7%	339,359	8,000	(26,061)
DFW Freeport/Coppell	8,751,999	1,067,744	12.2%	12.3%	-	(36,000)	65,723
West LBJ Freeway	3,132,577	454,224	14.5%	15.8%	-	(9,000)	(29,257)
Denton/Lewisville	9,057,403	552,502	6.1%	6.5%	-	118,000	280,879
Frisco/The Colony	2,640,307	211,225	8.0%	8.3%	-	(26,000)	104,908
Allen/McKinney	5,480,057	498,685	9.1%	9.1%	-	(49,000)	111,185
Upper Toll/West Plano	8,967,143	681,503	7.6%	7.7%	-	(9,000)	42,199
Plano	7,259,515	1,234,118	17.0%	17.8%	58,901	(80,000)	(6,437)
Richardson	9,304,057	1,590,994	17.1%	17.3%	-	(28,000)	209,715
North Dallas Tollway	11,487,857	2,297,571	20.0%	20.2%	-	(437,000)	(513,698)
East LBJ Freeway	7,964,852	1,688,549	21.2%	21.4%	-	32,000	42,973
Garland	2,525,097	593,398	23.5%	23.8%	-	131,000	(300,805)
Southeast Dallas	624,617	32,480	5.2%	5.2%	-	11,000	4,808
Mesquite/Rockwall	1,749,634	124,224	7.1%	7.8%	-	79,000	93,303
Southwest Dallas	2,984,986	319,394	10.7%	10.7%	-	21,000	37,903
Grand Prairie	1,695,100	138,998	8.2%	9.6%	-	27,000	27,772
TOTAL – Dallas	**123,912,765**	**16,438,501**	**11.9%**	**12.3%**	**497,760**	**72,000**	**726,126**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

Fort Worth Market Indicators – Class B

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
Fort Worth CBD	4,998,666	344,908	6.9%	7.1%	-	(15,000)	(56,794)
Northwest Fort Worth	520,552	34,877	6.7%	6.7%	-	4,000	46,073
Alliance Air/Fossil Creek	2,866,134	126,110	4.4%	5.2%	-	-	64,590
Westlake/Grapevine	6,699,541	468,968	7.0%	7.5%	-	33,000	83,545
Hurst/Euless/Bedford	5,052,499	798,295	15.8%	15.9%	-	(51,000)	(34,566)
Northeast Fort Worth	3,329,477	968,878	29.1%	29.9%	-	67,000	84,848
Arlington	7,156,902	887,456	12.4%	12.8%	-	14,000	147,609
Southeast Fort Worth	605,818	71,487	11.8%	11.8%	-	12,000	14,588
Southwest Fort Worth	15,806,989	1,975,874	12.5%	12.7%	-	(32,000)	(12,357)
TOTAL – Fort Worth	**47,036,578**	**5,676,851**	**11.8%**	**12.2%**	**-**	**32,000**	**337,536**

Dallas-Fort Worth Office Market Indicators – Class B

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2016	VACANCY WITH SUBLET Q3 2016	UNDER CONSTRUCTION	NET ABSORPTION Q3 2016	YTD NET ABSORPTION
TOTAL – DFW	**170,949,343**	**22,115,353**	**11.9%**	**12.3%**	**497,760**	**104,000**	**1,063,662**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Dallas Office Market Indicators – Asking Rental Rates

	CLASS A				CLASS B				% CHANGE 2013 - 2016	
SUBMARKET	2013	2014	2015	Q3 2016	2013	2014	2015	Q3 2016	CLASS A	CLASS B
Dallas CBD	$24.95	$26.63	$26.90	$26.37	$17.66	$19.09	$20.45	$20.05	5.7%	13.5%
Uptown/Turtle Creek	$26.49	$27.34	$29.66	$40.07	$22.76	$24.09	$25.21	$32.78	51.3%	44%
White Rock	$33.65	$33.37	$33.36	N/A	$16.27	$15.38	$16.59	$18.64	N/A	14.6%
Central Expressway	$21.99	$22.77	$24.85	$28.09	$17.11	$17.99	$18.60	$22.71	27.7%	32.7%
Preston Center	$33.50	$35.65	$35.88	$36.48	$20.77	$26.38	$26.62	$29.18	8.9%	40.5%
Stemmons Freeway	$17.71	$17.91	$18.12	$16.69	$13.51	$13.60	$14.47	$15.94	-5.8%	18%
South Irving	N/A	N/A	N/A	N/A	$17.06	$17.83	$19.84	$20.37	N/A	19.4%
Las Colinas/Urban Center	$25.35	$28.27	$28.97	$26.95	$18.59	$19.90	$21.25	$21.95	6.3%	18.1%
Office Center/LBJ Ext	$22.10	$22.51	$25.60	$27.28	$19.83	$20.99	$22.35	$22.74	23.4%	14.7%
DFW Freeport/Coppell	$21.25	$23.23	$24.83	$25.10	$19.89	$19.83	$20.70	$20.97	18.1%	5.4%
West LBJ Freeway	$19.49	$20.02	$21.86	$18.31	$17.66	$19.73	$19.84	$17.27	-6.1%	-2.2%
Denton/Lewisville	$30.09	$20.69	$24.11	$26.11	$19.77	$20.13	$21.34	$21.91	-13.2%	10.8%
Frisco/The Colony	$29.41	$29.17	$35.48	$38.88	$24.50	$24.62	$24.42	$28.79	32.2%	17.5%
Allen/McKinney	$25.15	$25.80	$26.58	$27.84	$21.89	$23.86	$22.59	$24.39	10.7%	11.4%
Upper Toll/West Plano	$28.85	$29.62	$31.91	$31.43	$22.16	$22.59	$22.96	$25.27	8.9%	14%
Plano	$21.37	$22.34	$20.81	$21.98	$17.55	$18.03	$23.02	$25.05	2.9%	42.7%
Richardson	$21.99	$22.48	$24.01	$26.19	$17.06	$17.99	$18.35	$19.71	19.15	15.5%
North Dallas Tollway	$23.41	$25.39	$26.73	$28.18	$18.97	$19.59	$20.81	$20.45	20.4%	7.8%
East LBJ Freeway	$20.49	$23.27	$25.05	$25.45	$17.33	$18.39	$19.03	$19.22	24.25	10.9%
Garland	N/A	N/A	N/A	N/A	$19.46	$17.28	$18.41	$18.57	N/A	-4.6%
Southeast Dallas	N/A	N/A	N/A	N/A	$15.89	$14.82	$15.55	$17.62	N/A	10.9%
Mesquite/Rockwall	$29.28	$29.78	$29.66	$31.88	$22.78	$24.20	$25.95	$26.38	8.9%	15.8%
Southwest Dallas	$21.84	$21.84	$21.84	$21.84	$14.71	$15.16	$16.27	$16.07	0.0%	9.2%
Grand Prairie	N/A	N/A	N/A	N/A	$18.69	$19.56	$19.89	$17.03	N/A	-8.9%
AVERAGE – Dallas	**$24.92**	**$25.40**	**$26.81**	**$27.64**	**$18.68**	**$19.46**	**$20.56**	**$21.79**	**12.8%**	**16.9%**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

DALLAS-FORT WORTH OFFICE MARKET

THIRD QUARTER 2016

Fort Worth Office Market Indicators – Asking Rental Rates

	CLASS A				CLASS B				% CHANGE 2013 - 2016	
SUBMARKET	2013	2014	2015	Q3 2016	2013	2014	2015	Q3 2016	CLASS A	CLASS B
Fort Worth CBD	$29.23	$28.74	$28.67	$28.48	$20.58	$20.76	$19.20	$19.63	-2.6%	-4.6%
Northwest Fort Worth	N/A	N/A	N/A	N/A	$21.03	$21.10	$21.24	$21.25	N/A	1%
Alliance Air/Fossil Creek	N/A	N/A	N/A	N/A	$18.63	$18.96	$16.56	$17.23	N/A	-7.5%
Westlake/Grapevine	$21.91	$21.15	$21.69	$27.27	$22.59	$25.26	$26.06	$26.58	24.5%	17.7%
Hurst/Euless/Bedford	$16.09	$16.87	$17.52	$19.29	$15.24	$15.23	$16.71	$17.38	19.9%	14%
Northeast Fort Worth	$16.92	$17.30	$15.50	$21.30	$14.61	$14.09	$17.32	$18.42	25.9%	26.1%
Arlington	$20.49	$19.65	$21.17	$20.40	$18.59	$18.33	$18.54	$19.15	-0.4%	3%
Southeast Fort Worth	N/A	N/A	N/A	N/A	$13.51	$12.19	$12.43	$16.93	N/A	25.3%
Southwest Fort Worth	$19.45	$19.85	$20.59	$24.12	$15.95	$15.87	$15.40	$21.41	24%	34.2%
AVERAGE – Fort Worth	**$20.63**	**$20.54**	**$20.81**	**$23.48**	**$17.77**	**$17.89**	**$18.07**	**$19.78**	**15.3%**	**12.6%**

Dallas-Fort Worth Office Market Indicators – Asking Rental Rates

	CLASS A				CLASS B				% CHANGE 2013 - 2016	
SUBMARKET	2013	2014	2015	Q3 2016	2013	2014	2015	Q3 2016	CLASS A	CLASS B
AVERAGE – DFW	**$22.77**	**$22.97**	**$23.81**	**$25.56**	**$18.22**	**$18.67**	**$19.31**	**$20.79**	**14.1%**	**14.7%**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

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METHODOLOGY

The information in this report is the result of a compilation of information on office and industrial properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016

OVERVIEW

Economy continues to surge

The economy continues to surge despite global and national headwinds adversely affecting other cities and regions. A third consecutive quarter of falling U.S. productivity has tempered enthusiasm for the national economy and threatens to force the Fed to keep interest rates low for an indefinite period of time. Despite these economic difficulties, DFW is setting new record highs in office rents, absorption, employment gains, corporate relocations and housing prices.

The Metro ended the second quarter with a 12.7% vacancy rate and positive net absorption of approximately 1.5 million square feet. The booming market is associated with large corporate relocations to the area and construction trying to keep up with the demand. The average All Space Rental Rates ended the second quarter at $23.76, an increase over the previous quarter. Building deliveries for the second quarter totaled 630,024 SF, with 10,302,852 SF still under construction. DFW consistently ranks as one of the top metro areas for job growth due to a combination of growth from existing businesses and the formation of new businesses.

NET ABSORPTION

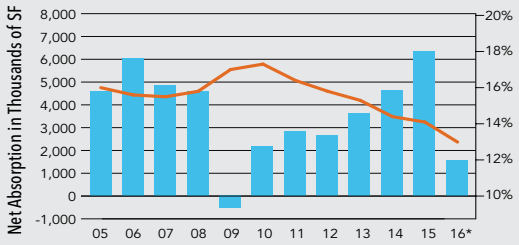
Positive absorption in all markets

Throughout the first half of the year, there has been just over 1.5 million SF of net absorption. Class A recorded 1,294,640 SF of positive absorption for the quarter and Class B recorded a positive 572,603 SF for the quarter. In the second quarter, there has been positive absorption in most markets. Although over 10 million SF of office space is under construction, 30% is preleased, and with the forecasted job growth, we expect to continue positive absorption to keep pure with deliveries.

Submarkets with the highest net absorption:

SUBMARKET	Q2 2016
Upper Tollway/West Plano	640,967
Westlake/Grapevine	225,714
North Dallas Tollway	162,290
Frisco/The Colony	156,999

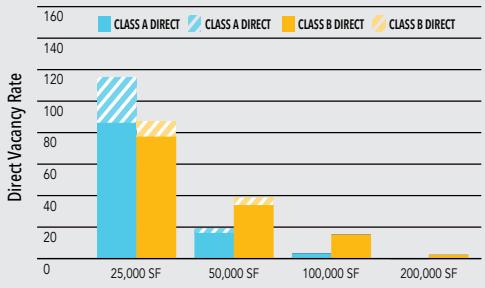
NET ABSORPTION & VACANCY RATE TRENDS
DALLAS-FORT WORTH



*At Q2 2016

SOURCE: CoStar, Transwestern; June 2016

CONTIGUOUS BLOCKS OF AVAILABLE SPACE
DALLAS-FORT WORTH



*At Q2 2016

SOURCE: CoStar, Transwestern; June 2016

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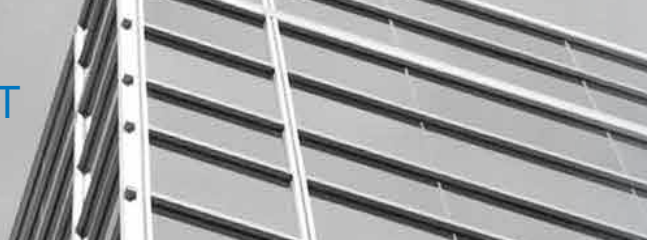
DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016



VACANCY

Low vacancy as market holds steady

Direct vacancy levels in the office market dropped over 2%, from 14.4% in the first quarter, to 12.3% in the second quarter of 2016. Including subleases, overall total vacancy for the region is at 12.7%.

Class A vacancy has increased from 14.3% (15.1% including sublet) in the first quarter to 18.7% (19.3% including sublet) at mid-year. The increase in vacancy is largely due to all of the new construction in the area. Submarkets with the lowest Class A vacancy are Grand Prairie and Southeast Fort Worth (0.0%), Denton/Lewisville (4.4 %), Southwest Dallas (5.5%) and Preston Center (7.0%).

Class B vacancy has decreased slightly from 14.8% (15.7% including sublet) in the first quarter and currently at 12.9% (13.1% including sublet). Submarkets with the lowest Class B vacancy are Alliance (3.9%), White Rock (5.2%), Fort Worth CBD (6.4%) and Frisco/The Colony (7.1%).

RENTAL RATES

Rental rates continue to rise

The average asking rent for all classes of space was $23.76/SF, a 0.3% increase from the first quarter. The average rate for Class A space was $27.68/SF for the second quarter, which is up 0.25% from the first quarter. Likewise Class B average price was also up from $20.31/SF in the first quarter to $20.46/SF at the end of the second quarter. We expect asking rental rates to continue to increase throughout the rest of the year in most of the region's submarkets.

INVESTMENT MARKETS

Investment sales remain strong as volume begins to slow

Dallas/Fort Worth recorded $942 million of office investment sales volume across 23 transactions through the first half of 2016. These figures represent assets for which pricing information could be attained. While the number of transactions remained fairly static from previous years, sales volume is up 25% year-over-year. Demand continued to be somewhat equally divided between well-leased Class A assets and the value-add profile of Class B assets. Pricing for the nine Class A transactions consummated as of mid-year averaged $215/SF and a 7.67% cap rate. Included in these transactions is the sale of KPMG Plaza to a syndicate that includes Hanwha Life out of Korea and locally-based Champion Partners. The partnership paid $225 million, or $490/SF, for the recently constructed office building located within the Arts District of the Dallas CBD. The per-foot price

Submarkets with the lowest direct vacancy:

DALLAS	Q2 2016
South Irving	6.6%
White Rock	6.8%
Preston Center	7.6%
Allen/McKinney	8.6%
FORT WORTH	**Q2 2016**
Southeast Ft. Worth	6.9%
Alliance	7.1%

Office space under construction or renovation:

Dallas-Fort Worth Metro Area | Q2 2016

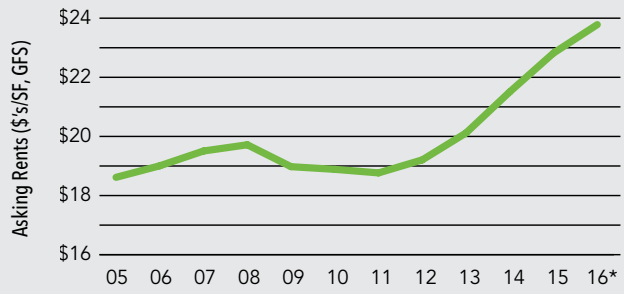
SUBMARKET/AREA	SF	% PRE-LEASED
Upper Tollway/W Plano	4,870,208	70.44%
Uptown/Turtle Creek	1,794,225	72.85%
DFW Freeport/Coppell	876,402	90.9%
Frisco/The Colony	400,000	0.0%
Dallas CBD	342,879	0.0%
Southwest Fort Worth	331,164	11.0%
Plano	308,901	75.72%
Richardson	300,000	0.0%
Fort Worth CBD	280,489	51.47%
Westlake/Grapevine	273,840	30.38%
North Dallas Tollway	197,740	58.50%
Preston Center	186,257	7.88%
Las Colinas	100,000	100%
White Rock	99,500	97.47%
Allen/McKinney	76,000	60.53%
Stemmons Freeway	63,000	100%
Total	**10,500,605**	**29.96%**

*Only Buildings 50,000 SF or Greater

for KPMG Plaza well-exceeds any previous office trades within the CBD. The fourteen sale transactions for Class B assets averaged $88/SF and an 8.87% cap rate, with most of the deals situated in the Las Colinas and North Dallas Tollway submarkets. However, the largest transaction for Class B assets also involved a CBD tower, when Drever Capital acquired the 1.2-million-square-foot 1401 Elm out of bankruptcy court for $65 million. Drever Capital plans to continue to redevelop the property into a mixed-use destination featuring a hotel, apartments, retail and office space.

Currently, there are 69 deals in the market, under contract or potentially coming to market, totalling just over 16.6 million SF. Nineteen of these deals were brought to market during the second quarter of 2016 and consist of a balanced mix of Class A and Class B assets. The three submarkets that make up Las Colinas have seen a spike in listings recently, accounting for 29 deals in the market. It is worth noting, however, that a handful of these deals – as with other listings in submarkets across the Metroplex – have been floating in the market for close to a year. While urban submarkets remain a strength, there remains some uncertainty for investors in the suburban submarkets.

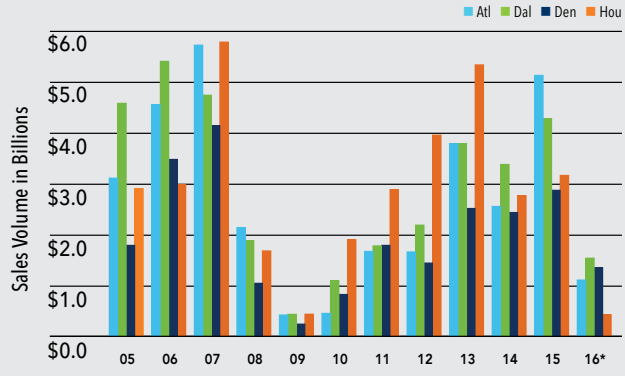
AVERAGE OFFICE RENTS – DALLAS-FORT WORTH – ALL CLASSES



*At Q2 2016

SOURCE: CoStar, Transwestern; June 2016

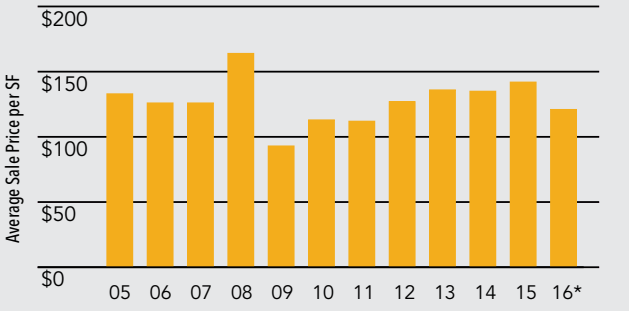
COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



*At Q2 2016

SOURCE: Real Capital Analytics, Transwestern; June 2016

AVERAGE OFFICE SALE PRICE – DALLAS-FORT WORTH

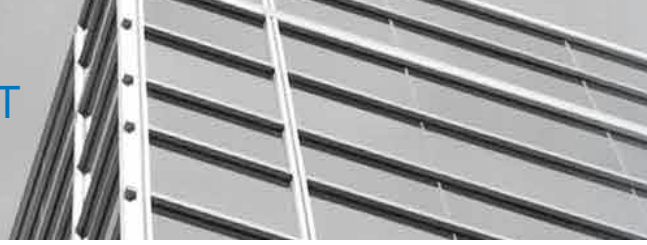


*At Q2 2016

SOURCE: Transwestern; June 2016

DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016



Office Market Outlook

Dallas-Fort Worth consistently ranks as one of the top metro areas for job growth due to a combination of growth from existing businesses and the formation of new businesses. According to the Robert Half Professional Employment Forecast, 87 percent of businesses in the DFW region plan to make hires in the next six months, signaling that employment growth will likely continue throughout 2016. As a result, we expect demand for office space to remain strong for the remainder of the year, especially for Class A space. Looking ahead, as current construction begins to deliver, vacancy is expected to increase as tenants existing locations will need to be backfilled. Rental rate growth will also likely dip but with the influx of new businesses moving to the Dallas-Fort Worth area, it is unlikely that the market will see much of a change.

Multi-tenant market vs Transwestern comprehensive market coverage

	MULTI-TENANT	ENTIRE MARKET
Inventory	189.9 MSF	342.2 MSF
Overall Vacancy	20.3%	12.7%
Q2 Net Absorption	241,726 SF	640,560 SF

Notable Q2 2016 Leases

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
ATOS	100,000	Prelease	Connection Park I	DFW Freeport/Coppell
First American Title	75,000	Prelease	Connection Park II	DFW Freeport/Coppell
CompuCom	92,000	New	Dominion Legacy	Upper Tollway/West Plano
Compass Health	50,000	New	Bank of America Plaza	CBD
Cushman & Wakefield	40,000	Prelease	McKinney and Olive	Uptown/Turtle Creek

Notable Q2 2016 Sales

BUILDING	SUBMARKET	SALE PRICE	SELLER	BUYER
KPMG Plaza	CBD	$225 Million ($490/SF)	Hall Financial	Hanwha Life/Champion Partners
1401 Elm	CBD	$65 Million ($54/SF)	Olympic Property Partners	Drever Capital
Tollway Towers	North Dallas Tollway	$41 Million ($120/SF)	Granite Properties	Champion Partners/Cross Harbor Capital

Dallas Office Market Indicators – All Space

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
Dallas CBD	33,269,468	638,496	18.1%	20.3%	21.0%	342,879	(108,912)
Uptown/Turtle Creek	13,702,094	162,244	9.7%	8.5%	8.8%	1,936,383	(25,677)
White Rock	5,498,238	354,328	6.8%	6.1%	6.4%	99,500	29,617
Central Expressway	15,121,648	1,592,688	13.6%	11.5%	11.8%	-	78,659
Preston Center	5,730,788	492,799	7.6%	8.8%	9.2%	186,257	(11,332)
Stemmons Freeway	14,682,206	3,325,095	21.9%	22.3%	22.7%	63,000	(97,759)
South Irving	2,834,641	221,236	6.6%	8.3%	8.8%	35,000	20,773
Las Colinas/Urban Center	9,575,071	1,373,578	16.9%	14.3%	16.5%	100,000	32,570
Office Center/LBJ Extension	16,008,866	2,079,991	9.8%	13.0%	13.8%	-	(492,926)
DFW Freeport/Coppell	12,837,182	1,900,005	15.5%	14.8%	15.5%	876,402	48,176
West LBJ Freeway	5,318,779	1,209,067	23.8%	22.7%	23.5%	-	1,595
Denton/Lewisville	9,057,403	85,930	10.7%	7.4%	8.3%	-	39,899
Frisco/The Colony	6,341,318	888,480	11.5%	14.0%	14.3%	588,831	156,999
Allen/McKinney	7,668,440	683,546	8.6%	8.9%	9.5%	188,149	87,929
Upper Tollway/West Plano	26,736,366	2,696,755	10.1%	10.1%	12.3%	4,751,408	640,967
Plano	9,766,833	1,460,765	17.0%	15.0%	15.1%	366,568	27,566
Richardson	20,652,399	3,938,260	13.7%	19.3%	19.5%	337,157	49,217
North Dallas Tollway	23,251,076	3,082,361	12.9%	13.3%	13.9%	197,740	162,290
East LBJ Freeway	17,314,732	3,984,503	24.6%	23.1%	23.6%	-	74,335
Garland	3,755,717	802,000	11.3%	21.4%	21.4%	-	(417,554)
Southeast Dallas	1,244,375	128,974	10.8%	10.4%	10.4%	-	12,233
Mesquite/Rockwall	1,804,952	161,467	10.2%	8.7%	8.9%	-	(9,825)
Southwest Dallas	5,422,840	549,300	12.2%	10.1%	10.1%	23,195	34,179
Grand Prairie	4,335,002	317,388	8.7%	7.3%	7.4%	-	(909)
TOTAL – Dallas	**271,930,434**	**32,129,256**	**13.0%**	**13.3%**	**13.9%**	**10,092,469**	**332,110**

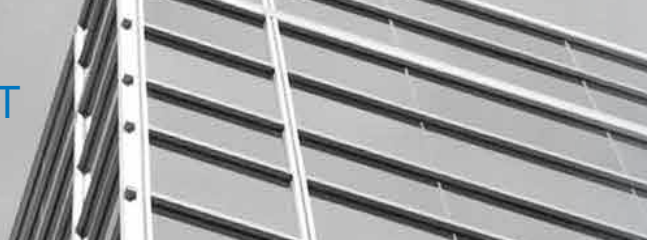
SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS:

We include owner occupied and single-tenant buildings in our inventory, vacancy and absorption statistics to capture more market activity than many of our competitors. This allows us to better correlate changes in the market with changes in employment. As single-tenant space does compete with multi-tenant space, we believe it is critical to understand all components of the market. The inclusion of single-tenant and owner-occupied space tends to yield lower vacancy rates and higher absorption totals than some of our competitors' results, but our coverage of the market is more comprehensive.

DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016



Fort Worth Market Indicators – All Space

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
Fort Worth CBD	11,786,749	1,221,335	9.1%	10.1%	10.4%	280,489	(55,998)
Northwest Fort Worth	1,233,285	63,015	9.9%	5.1%	5.1%	7,000	32,303
Alliance Air/Fossil Creek	3,617,021	270,802	7.1%	6.8%	7.5%	90,695	30,138
Westlake/Grapevine	11,589,843	1,247,160	14.2%	10.5%	10.8%	299,490	225,714
Hurst/Euless/Bedford	7,319,694	1,166,072	16.1%	15.9%	16.2%	14,914	32,762
Northeast Fort Worth	5,406,167	1,431,116	30.5%	26.5%	26.8%	-	34,322
Arlington	11,342,287	1,190,902	13.5%	10.5%	10.8%	3,000	66,939
Southeast Fort Worth	2,169,483	132,608	6.9%	6.2%	6.2%	-	3,713
Southwest Fort Worth	15,820,581	1,485,936	9.4%	9.4%	9.6%	173,084	133,314
TOTAL – Fort Worth	**70,285,110**	**8,208,946**	**13%**	**11.2%**	**11.5%**	**868,672**	**503,207**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
TOTAL – DFW	**342,215,544**	**40,338,202**	**13%**	**12.3%**	**12.7%**	**10,961,141**	**835,317**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

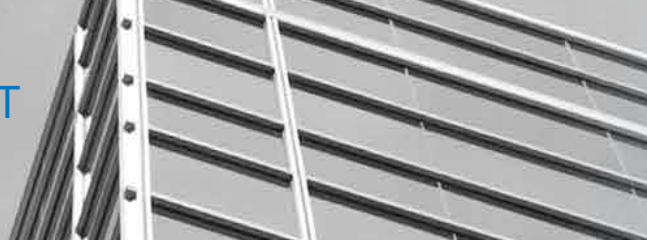
Dallas Office Market Indicators – Class A

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
Dallas CBD	22,964,115	5,641,889	22.2%	22.9%	342,879	(76,372)
Uptown/Turtle Creek	10,168,190	893,032	8.4%	8.8%	1,936,383	(9,066)
White Rock	388,177	46,754	12.0%	12.0%	-	-
Central Expressway	7,617,574	1,038,630	13.9%	14.1%	-	(29,070)
Preston Center	4,177,591	352,448	7.9%	8.4%	186,257	(23,681)
Stemmons Freeway	3,684,761	616,100	16.7%	16.7%	63,000	37,849
South Irving	-	-	-	-	-	-
Las Colinas/Urban Center	7,340,269	1,060,108	14.4%	17.3%	100,000	(3,829)
Office Center/LBJ Extension	7,505,557	989,635	13.2%	15.0%	-	544,179
DFW Freeport/Coppell	3,803,619	758,551	18.1%	19.9%	818,402	6,555
West LBJ Freeway	1,706,909	382,298	22.3%	22.4%	-	(7,030)
Denton/Lewisville	404,964	17,905	4.4%	4.4%	-	2,314
Frisco/The Colony	3,502,368	12,310	19.9%	20.2%	400,000	93,298
Allen/McKinney	1,548,298	251,302	13.9%	16.2%	30,000	25,459
Upper Tollway/West Plano	17,154,216	1,842,884	10.4%	10.7%	4,570,208	402,596
Plano	1,372,206	316,349	22.8%	23.1%	250,000	(21,423)
Richardson	9,897,498	2,164,194	21.7%	21.9%	300,000	(13,317)
North Dallas Tollway	10,863,688	1,078,729	9.9%	11.1%	197,740	61,635
East LBJ Freeway	8,971,169	2,178,119	23.5%	24.3%	-	101,172
Garland	-	-	-	-	-	-
Southeast Dallas	-	-	-	-	-	-
Mesquite/Rockwall	246,420	35,915	12.6%	14.6%	-	(9,897)
Southwest Dallas	280,729	15,500	5.5%	5.5%	-	-
Grand Prairie	1,851,880	-	0.0%	0.0%	-	-
TOTAL – Dallas	**125,450,198**	**19,692,652**	**14.0%**	**14.7%**	**9,194,869**	**1,081,372**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016



Fort Worth Market Indicators – Class A

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
Fort Worth CBD	5,914,246	858,462	14.0%	14.5%	136,110	(48,249)
Northwest Fort Worth	-	-	-	-	-	-
Alliance Air/Fossil Creek	581,227	122,543	21.1%	21.1%	-	14,282
Westlake/Grapevine	3,869,653	658,576	14.6%	17.0%	198,000	200,989
Hurst/Euless/Bedford	352,780	120,380	34.1%	34.1%	-	9,511
Northeast Fort Worth	403,938	339,241	84.0%	84.0%	-	(8,631)
Arlington	1,752,193	273,556	15.3%	16.3%	-	(29,070)
Southeast Fort Worth	541,630	-	0.0%	0.0%	-	-
Southwest Fort Worth	2,809,493	115,811	4.1%	4.3%	160,182	74,436
TOTAL – Fort Worth	**16,225,160**	**2,488,569**	**23.4%**	**23.9%**	**494,292**	**213,268**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
TOTAL – DFW	**141,675,358**	**22,181,221**	**18.7%**	**19.3%**	**9,689,161**	**1,294,640**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

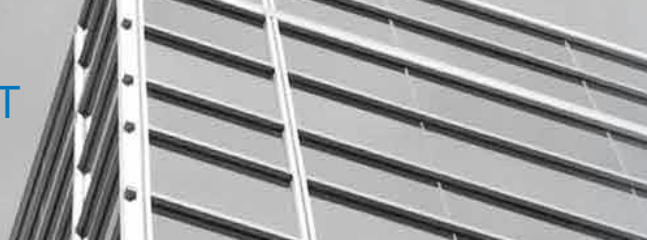
Dallas Office Market Indicators – Class B

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
Dallas CBD	7,020,973	175,889	16.0%	16.1%	-	(12,102)
Uptown/Turtle Creek	2,747,674	236,340	8.5%	8.6%	-	(23,055)
White Rock	3,250,155	167,617	5.2%	5.7%	99,500	16,532
Central Expressway	6,080,751	510,858	8.1%	8.4%	-	85,704
Preston Center	969,769	82,980	8.6%	8.6%	-	24,009
Stemmons Freeway	8,585,116	2,322,381	26.3%	27.1%	-	4,470
South Irving	1,721,443	151,651	8.1%	8.8%	35,000	17,158
Las Colinas/Urban Center	1,984,027	273,946	13.8%	13.8%	-	36,399
Office Center/LBJ Extension	7,927,656	1,016,840	12.8%	12.8%	-	33,341
DFW Freeport/Coppell	8,693,999	1,221,611	13.9%	14.1%	58,000	36,621
West LBJ Freeway	3,132,577	733,616	22.1%	23.4%	-	(550)
Denton/Lewisville	9,057,403	665,788	7.4%	8.3%	-	55,821
Frisco/The Colony	2,640,307	195,362	7.1%	7.4%	169,831	62,619
Allen/McKinney	5,480,057	459,836	8.3%	8.4%	112,149	68,990
Upper Tollway/West Plano	8,967,143	895,559	9.9%	10.0%	181,200	238,371
Plano	7,259,515	1,079,300	14.8%	14.9%	116,568	11,350
Richardson	9,304,057	28,677	17.6%	17.9%	59,157	63,310
North Dallas Tollway	11,487,857	1,967,929	17.1%	17.4%	-	108,881
East LBJ Freeway	7,964,852	1,867,719	23.2%	23.4%	-	(21,088)
Garland	2,525,097	688,196	27.3%	27.3%	-	(437,205)
Southeast Dallas	624,617	81,996	13.1%	13.1%	-	6,233
Mesquite/Rockwall	1,749,634	132,112	7.6%	7.6%	11,500	11,786
Southwest Dallas	2,984,986	362,585	12.1%	12.1%	23,195	12,827
Grand Prairie	1,695,100	180,089	10.3%	10.6%	-	(2,970)
TOTAL – Dallas	**123,854,765**	**15,498,877**	**13.3%**	**13.6%**	**866,100**	**397,452**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016



Fort Worth Market Indicators – Class B

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
Fort Worth CBD	4,998,666	339,763	6.4%	6.4%	-	(14,662)
Northwest Fort Worth	520,552	38,571	7.4%	7.4%	7,000	32,743
Alliance Air/Fossil Creek	2,866,134	135,616	3.9%	4.7%	90,695	30,499
Westlake/Grapevine	6,699,541	542,149	7.7%	8.1%	101,490	15,496
Hurst/Euless/Bedford	5,052,499	766,029	15.2%	15.5%	14,914	19,170
Northeast Fort Worth	3,329,477	1,003,080	30.1%	30.1%	-	32,434
Arlington	7,156,902	947,924	13.0%	13.2%	18,000	39,892
Southeast Fort Worth	605,818	95,794	15.8%	15.8%	-	243
Southwest Fort Worth	15,806,989	1,485,936	9.4%	9.6%	12,902	19,336
TOTAL – Fort Worth	**47,036,578**	**5,354,862**	**12.1%**	**12.3%**	**245,001**	**175,151**

Dallas-Fort Worth Office Market Indicators – Class B

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q2 2016	VACANCY WITH SUBLET Q2 2016	UNDER CONSTRUCTION	NET ABSORPTION Q2 2016
TOTAL – DFW	**170,891,343**	**20,853,739**	**12.7%**	**12.9%**	**1,111,101**	**572,603**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Dallas Office Market Indicators – Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	Q2 2016 CLASS A	Q2 2016 CLASS B	% CHANGE 12/15-6/16 CLASS A	% CHANGE 12/15-6/16 CLASS B
Dallas CBD	$24.95	$17.66	$26.63	$19.09	$26.90	$20.45	28.67	21.18	6.6%	3.6%
Uptown/Turtle Creek	$26.49	$22.76	$27.34	$24.09	$29.66	$25.21	38.81	33.25	30.8%	31.9%
White Rock	$33.65	$16.27	$33.37	$15.38	$33.36	$16.59	N/A	18.52	N/A	11.6%
Central Expressway	$21.99	$17.11	$22.77	$17.99	$24.85	$18.60	28.35	22.64	14.1%	21.7%
Preston Center	$33.50	$20.77	$35.65	$26.38	$35.88	$26.62	36.19	28.26	0.9%	6.2%
Stemmons Freeway	$22.75	$14.68	$23.12	$14.79	$22.42	$15.28	22.65	15.36	1.0%	0.5%
South Irving	N/A	$13.39	N/A	$13.85	N/A	$18.74	N/A	20.51	N/A	9.4%
Las Colinas/Urban Center	$25.35	$18.59	$28.27	$19.90	$28.97	$21.25	29.53	21.44	1.9%	0.9%
Office Center/LBJ Extension	$22.10	$19.83	$22.51	$20.99	$25.60	$22.35	26.78	22.59	4.6%	1.1%
DFW Freeport/Coppell	$21.25	$19.89	$23.23	$19.83	$24.83	$20.70	25.30	21.25	1.9%	2.7%
West LBJ Freeway	$19.49	$17.66	$20.02	$19.73	$21.86	$19.84	22.33	19.94	2.2%	0.5%
Denton/Lewisville	$30.27	$17.62	$30.27	$18.10	$24.56	$19.38	26.24	22.13	6.8%	14.2%
Frisco/The Colony	$25.36	$24.50	$30.30	$24.62	$31.21	$24.42	37.02	28.26	18.6%	15.7%
Allen/McKinney	$22.64	$18.55	$22.87	$20.33	$23.90	$18.60	26.72	23.86	11.8%	28.3%
Upper Tollway/West Plano	$25.15	$22.16	$25.49	$22.59	$26.48	$22.96	31.41	25.12	18.6%	9.4%
Plano	$21.37	$17.55	$22.34	$18.03	$20.81	$23.02	21.35	25.16	2.6%	9.3%
Richardson	$21.99	$17.06	$22.48	$17.99	$24.01	$18.35	25.92	18.57	8.0%	1.2%
North Dallas Tollway	$23.41	$18.97	$25.39	$19.59	$26.73	$20.81	27.92	21.89	4.5%	5.2%
East LBJ Freeway	$20.49	$17.33	$23.27	$18.39	$25.05	$19.03	25.13	19.09	0.3%	0.3%
Garland	N/A	$13.81	N/A	$14.02	N/A	$15.09	N/A	20.75	N/A	37.5%
Southeast Dallas	N/A	$11.47	N/A	$10.61	N/A	$10.99	N/A	16.99	N/A	54.6%
Mesquite/Rockwall	$29.28	$12.31	$29.78	$12.41	$29.66	$14.32	31.23	28.35	5.3%	98.0%
Southwest Dallas	$21.84	$11.72	$21.84	$12.13	$21.84	$13.07	21.98	16.13	0.6%	23.4%
Grand Prairie	N/A	$17.88	N/A	$18.72	N/A	$18.67	N/A	19.19	N/A	2.8%
AVERAGE – Dallas	**$23.22**	**$17.48**	**$24.21**	**$18.32**	**$25.22**	**$18.83**	**28.08**	**22.10**	**11.3%**	**17.4%**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

DALLAS-FORT WORTH OFFICE MARKET

MID-YEAR 2016

Fort Worth Market Indicators – Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	Q2 2016 CLASS A	Q2 2016 CLASS B	% CHANGE 12/15-6/16 CLASS A	% CHANGE 12/15-6/16 CLASS B
Fort Worth CBD	$27.05	$17.97	$26.59	$18.12	$26.53	$16.66	$28.80	$19.63	8.56%	17.83%
Northwest Fort Worth	N/A	$21.03	N/A	$21.10	N/A	$21.24	N/A	$21.25	N/A	0.05%
Alliance Air/Fossil Creek	N/A	$18.63	N/A	$18.96	N/A	$16.56	N/A	$17.23	N/A	4.05%
Westlake/Grapevine	$21.91	$17.55	$21.15	$19.78	$21.69	$19.86	$27.27	$26.58	25.73%	33.84%
Hurst/Euless/Bedford	$16.09	$15.24	$16.87	$15.23	$17.52	$16.71	$19.29	$17.38	10.10%	4.01%
Northeast Fort Worth	$16.92	$14.61	$17.30	$14.09	$15.50	$17.32	$21.30	$18.42	37.42%	6.35%
Arlington	$20.49	$18.59	$19.65	$18.33	$21.17	$18.54	$20.40	$19.15	-3.64%	3.29%
Southeast Fort Worth	N/A	$13.51	N/A	$12.19	N/A	$12.43	N/A	$16.93	N/A	36.20%
Southwest Fort Worth	$19.45	$15.95	$19.85	$15.87	$20.59	$15.40	$24.12	$21.41	17%	39.03%
AVERAGE – Fort Worth	**$20.32**	**$17.01**	**$20.24**	**$17.08**	**$20.50**	**$17.19**	**$23.53**	**$19.78**	**15.89%**	**16.07%**

Dallas-Fort Worth Office Market Indicators – Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	Q2 2016 CLASS A	Q2 2016 CLASS B	% CHANGE 12/15-6/16 CLASS A	% CHANGE 12/15-6/16 CLASS B
AVERAGE – DFW	**$21.77**	**$17.25**	**$22.23**	**$17.70**	**$22.86**	**$18.01**	**$25.81**	**$20.94**	**13.61%**	**16.72%**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

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METHODOLOGY

The information in this report is the result of a compilation of information on office and industrial properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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REAL ESTATE OUTLOOK

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2016

DEMAND

Class A demand remains strong

Net absorption totaled 884,000 SF in the first quarter of 2016, which is down slightly from 1.2 million SF in the first quarter of 2015 and well below the 2015 quarterly average of 1.6 million SF. In contrast to the fourth quarter of 2015, the majority of this quarter's absorption came from the Class A market, which totaled 1.3 million SF for the quarter. Overall net absorption was blunted by negative absorption of 365,000 SF in the Class B market and 79,000 SF in the Class C market.

Suburban Dallas led the way in terms of absorption during the first quarter, with 1.6 million SF of positive net absorption. During the quarter both the Dallas CBD (-344,000 SF) and the Fort Worth market (-349,000 SF) suffered negative net absorption.

Notable first quarter leases

PricewaterhouseCoopers – 196,000 SF at Park District Tower in the Uptown/Turtle Creek submarket

Mortgage Contracting Services – 120,000 SF at The Ridge at 121 in the Denton/Lewisville submarket

Vinson & Elkins LLP – 80,604 SF at The Union in the Uptown/Turtle Creek submarket

Crestron Electronics – 90,000 SF at Legacy Tower in the Upper Tollway/West Plano submarket

Arrow Electronics – 80,000 SF at 1501 Nolan Ryan Expressway in the Arlington submarket

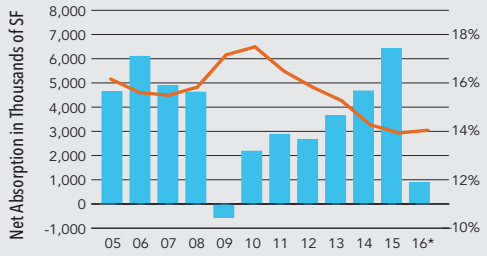
Pilot Logistics – 35,400 SF at 201 Rupert in the West/Southwest Fort Worth submarket

The T – 15,000 SF at Burnett Plaza in the Fort Worth Central Business District

Submarkets with the highest net absorption:

SUBMARKET	Q1 2016
North Dallas Tollway	1,148,000
DFW/Freeport/Coppell	535,000
Central Expressway	296,000
Frisco/The Colony	226,000

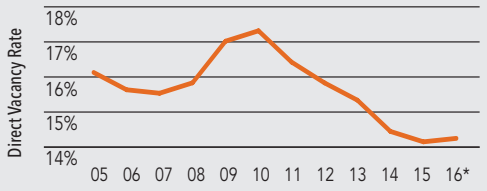
NET ABSORPTION & VACANCY RATE TRENDS DALLAS-FORT WORTH



*At Q1 2016

SOURCE: CoStar, Transwestern; March 2016

OFFICE VACANCY RATE – DALLAS-FORT WORTH ALL CLASSES OF OFFICE SPACE



*At Q1 2016

SOURCE: CoStar, Transwestern; March 2016

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DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2016

Notable first quarter relocations

7-Eleven – into 325,000 SF at Cypress Waters/3200 Hackberry Road in the DFW Freeport/Copell submarket

Geico – into 232,710 SF at Campbell Creek Business Park/2280 N. Greenville Avenue in the Richardson submarket

State Farm – into CityLine – from 199,171 SF at The Tower Lakeside Campus/2221 Lakeside Blvd. in the Richardson submarket

Notable first quarter move-outs

TD Auto Finance moved out of 77,906 SF at Rolling Hills Office Center/2050 Roanoke Rd. in the Westlake/Grapevine submarket

VACANCY

Q1 vacancy steady

Direct vacancy levels in the Dallas-Fort Worth office market ticked up very slightly, from 14.1% at year-end 2015 to 14.2% for the first quarter of 2016. Including subleases, overall total vacancy for the region is at 15.0%.

Dallas-Fort Worth Class A vacancy has remained the same as the fourth quarter of 2015, at 14.3% (15.1% including subleases). Submarkets with the lowest Class A vacancy are Southwest Fort Worth (2.4%), Denton/Lewisville (5.0%), Southwest Dallas (5.5%), and Office Center/LBJ Extension (5.9%).

Dallas-Fort Worth Class B vacancy has increased slightly from the fourth quarter of 2015 and is now at 14.8% (15.7% including subleases). Submarkets with the lowest Class B vacancy are Alliance Air/Fossil Creek (3.3%), Fort Worth CBD (5.6%), and White Rock (6.0%), and Frisco/The Colony (8.5%).

Dallas-Fort Worth Class C vacancy is now 9.4% (9.5% including subleases). Class C vacancy is below 5.0% in several major submarkets, including the Dallas CBD, Uptown/Turtle Creek, Upper Tollway/West Plan, Central Expressway, North Dallas Tollway, and Southeast Fort Worth.

SUPPLY AND DEVELOPMENT

Supply and development remain robust

Dallas-Fort Worth continues to be one of the fastest growing office construction markets. During the first quarter of 2016, the total amount of office space under construction or renovation totaled

Submarkets with the lowest direct vacancy:

DALLAS	Q1 2016
Allen/McKinney	8.5%
North Dallas Tollway	7.8%
White Rock	7.6%
Grand Prairie	6.1%
FORT WORTH	**Q1 2016**
Alliance Air/Fossil Creek	7.3%
Southeast Ft. Worth	6.1%

Office space under construction or renovation:

Dallas-Fort Worth Metro Area | Q1 2016

SUBMARKET/AREA	SF	% PRE-LEASED
Upper Tollway/W Plano	4,314,859	81.0%
Uptown/Turtle Creek	1,717,423	65.1%
Frisco/The Colony	958,769	9.0%
DFW Freeport/Coppell	600,183	100.0%
Dallas CBD	342,879	0.0%
Richardson	330,160	9.1%
Plano	323,901	100.0%
Allen/McKinney	261,907	52.6%
North Dallas Tollway	197,740	58.5%
Preston Center	186,257	0.0%
Total	**10,772,234**	**63.2%**

10.8 million SF. As of April 2016, 63.2% of the space under construction has been pre-leased.

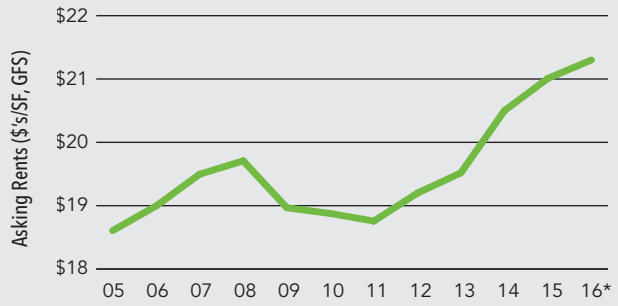
More than half of all space under construction is concentrated in the Upper Tollway/West Plano (4,314,859 SF) and Uptown/Turtle Creek (1,717,423 SF) submarkets. Dallas submarkets make up 89% of the total supply of office buildings under construction, and Upper Tollway/West Plano and Uptown/Turtle Creek combined account for 65% of the supply of office buildings under construction in Dallas.

Out of the 10.8 million SF of total office space under construction or renovation, Class A makes up 9.5 million SF, while Class B totals only 1.3 million SF. The largest Class A office buildings under construction include Toyota Headquarters (2,100,000 SF), Liberty Mutual (1,100,000 SF), McKinney & Olive (530,000 SF), Park District Tower (516,093 SF), and Wade Park-Phase I (400,000 SF).

The largest Class B office buildings under construction include Trammell Crow Building (200,000 SF), North Richland Hills' City Hall (182,000 SF), and The Music Factory (100,000 SF).

During the first quarter of 2016, office delivery headliners included State Farm- Campus D (500,000 SF), 7-Eleven HQ (325,000 SF), Frisco Bridges Place (170,000 SF), and Platinum Park-Phase I (166,000 SF). The total new office product delivered in the Dallas-Fort Worth metro during the first quarter 2016 equaled 1.6 million SF.

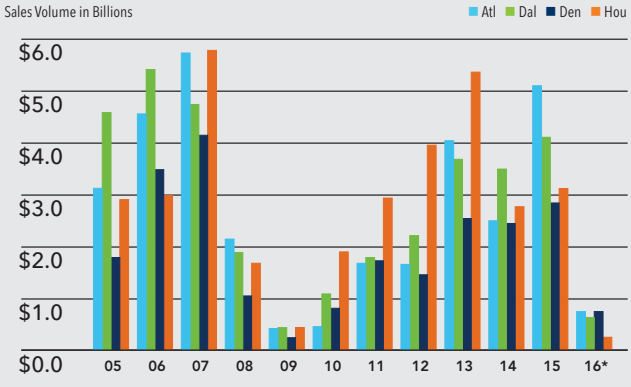
AVERAGE OFFICE RENTS – DALLAS-FORT WORTH – ALL CLASSES



*At Q1 2016

SOURCE: CoStar, Transwestern; March 2016

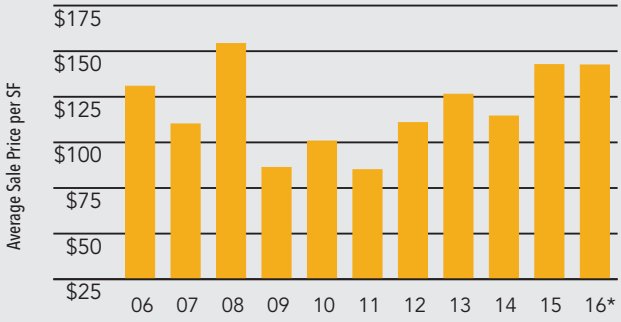
COMPARATIVE OFFICE INVESTMENT SALES VOLUME SELECT METRO AREAS



*At Q1 2016

SOURCE: Real Capital Analytics, Transwestern; March 2016

AVERAGE OFFICE SALE PRICE – DALLAS-FORT WORTH



*At Q1 2016

SOURCE: Transwestern; March 2016

RENTAL RATES

Modest rent growth, strong in selected submarkets

For the first quarter of 2016, the average asking rent for all classes of space in the Dallas-Fort Worth area was $21.29/SF (gross), a 1.4% increase from the fourth quarter of 2015.

The average price/SF for Class A space was $25.16/SF, a 0.2% decrease from the fourth quarter 2015. The Northeast Fort Worth and Dallas CBD submarkets showed the Class A rent appreciation during the quarter at 4.4% and 4.1%, respectively.

At the end of the first quarter 2016, the average price/

SF for Class B space in Dallas-Fort Worth was $18.76/SF, a 1.6% increase from fourth quarter 2015. Class B rents increased the most in the Central Expressway submarket, which posted a 9.5% increase during the quarter. We expect asking rental rates to continue to increase in the second quarter of 2016 in most of the region's submarkets, particularly in those with lower vacancy rates.

INVESTMENT MARKET

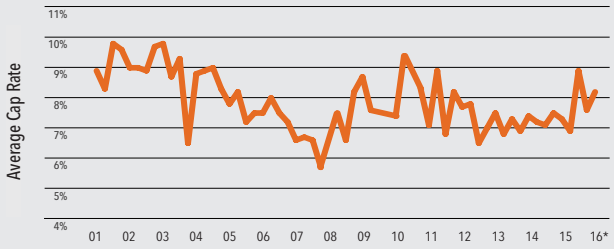
Outlook remains strong despite a sluggish quarter

After posting a very strong 2015 with more than $3 billion in sales across 72 major transactions, office investment activity slowed during the first quarter of 2016. A total of 10 transactions (for deals 40k sf+) equaling nearly $290 million in value were recorded during the first three months of 2016. Three major deals accounted for the majority of the sales volume and all three were Class A assets but in different submarkets and with varying occupancy rates.

The largest deal of the quarter was the sale of Occidental Tower for $90 million to Encore Enterprises. The building was sold by Occidental Petroleum, who is a major tenant in the asset but was consolidating locations, and was 68% occupied. The Downtown Dallas submarket remained active with the trade of Saint Paul Place for $54 million. The Arts District adjacent property was 80% leased when it was acquired by local investor Quadrant Investment Properties. Finally, sovereign investor Aztec Fund purchased the 100% leased Intellicenter in Las Colinas for $40 million.

While these deals were successful, there have been a num-

CAP RATES – CORE OFFICE ASSETS – DALLAS-FORT WORTH



*At Q1 2016

SOURCE: Real Capital Analytics, Transwestern; March 2016

Notable Q1 2016 Transactions:

PROPERTY	SUBMARKET	SALE PRICE	SELLER	BUYER
Occidental Tower	East LBJ	$90,000,000 ($166.51/SF)	Occidental Petroleum Corp	Encore Enterprises
Saint Paul Place	Dallas CBD	$54,000,000 ($197.65/SF)	Trimarchi Mgmt/Goddard Investment Group	Quadrant Investment Properties
Intellicenter	DFW Freeport/Coppell	$40,000,000 ($199.92/SF)	KDC/Prudential	Aztec Fund
Meadow Park Tower	Central Expressway	$25,175,500 ($100.00/SF)	Elan Energy	Cawley Partners/Stockbridge
1177 Belt Line	DFW Freeport/Coppell	$23,535,000 ($156.90/SF)	Brandywine Realty Trust	Texas Capitalization Resource Group
One Glen Lakes	Central Expressway	$17,000,000 ($100.00/SF)	Elan Energy	Cawley Partners/Stockbridge

ber of transactions in the market that have been delayed or eventually pulled due to the hesitance of buyers to step up the pricing expectations of sellers. Despite some challenges to transaction activity, pricing is basically holding firm as the average price per square foot of $142 is unchanged from year-end 2015.

Currently there are 71 deals in the market, under contract or potentially coming to market that total 18.6 million square feet. Approximately half of these deals were brought to market during the first quarter of 2016 and consist of an equal amount of Class A and Class B assets. The major deals of note in the market include two corporate campuses that will drive investment volume for the year if they close. State Farm is listing its newly constructed 2 million square foot campus called CityLine and plans to execute a sale-leaseback. We believe pricing could reach between $750 and $800 million. JCPenney is looking to execute a similar strategy on its 1.9 million headquarter campus in the red hot Legacy Business Park in Plano. The company will only do a partial leaseback on its space, however, giving back approximately 650,000 square feet. Targeted pricing for that deal is $360 million.

Dallas/Fort Worth's diverse economy, low unemployment rate, and impressive corporate and population growth driven by a favorable, pro-business environment continue to draw the attention of investors to one of the nation's most attractive investment sales markets. While pricing levels seemed to have stalled, capital in search of higher yields will eventually leave the coastal markets. Economic and geopolitical volatility abroad could also serve to make U.S. markets even more appealing for the record amount of capital flowing into the real estate sector today. Therefore, we expect the Dallas/Fort Worth market to continue to benefit from its socioeconomic fundamentals and remain a top investment market throughout 2016.

Office Market Outlook

Dallas-Fort Worth's diverse economy has helped to sustain office demand in the face of low oil prices – in past cycles, low oil prices would have had a much stronger negative effect on the region. Dallas-Fort Worth consistently ranks as one of the top metro areas for job growth due to a combination of growth from existing businesses and the formation of new businesses. According to the Robert Half Professional Employment Forecast, 87 percent of businesses in the DFW region plan to make hires in the next six months, signaling that employment growth will likely continue throughout 2016. As a result, we expect demand for office space to remain strong for the remainder of the year, especially for Class A space. Of note, while the market remains robust, some builders have become more cautious of speculative projects. With rising construction costs, builders are seeking to pre-lease space before breaking ground. In the current market, pre-leasing a percentage of a speculative building has not been an issue, but when the market does eventually cool down, this will help keep supply in check.

Office markets likely to outperform in the months ahead, with declining vacancy and rising rents, include:

Upper Tollway/West Plano
Uptown/Turtle Creek
Frisco/The Colony
Central Expressway
DFW/Freeport/Coppell

WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS:

We include owner occupied and single-tenant buildings in our inventory, vacancy and absorption statistics to capture more market activity than many of our competitors. This allows us to better correlate changes in the market with changes in employment. As single-tenant space does compete with multi-tenant space, we believe it is critical to understand all components of the market. The inclusion of single-tenant and owner-occupied space tends to yield lower vacancy rates and higher absorption totals than some of our competitors' results, but our coverage of the market is more comprehensive.

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2016

Dallas Office Market Indicators – All Space

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION Q1 2016
Dallas CBD	95	33,277,618	6,382,496	18.9%	19.2%	19.8%	342,879	(399,000)
Uptown/Turtle Creek	90	12,082,178	1,040,172	9.4%	8.6%	8.7%	1,717,423	144,000
White Rock	73	4,253,556	324,468	7.1%	7.6%	8.1%	99,500	(45,000)
Central Expressway	125	13,916,712	1,603,639	14.9%	11.5%	11.8%	35,000	296,000
Preston Center	51	5,401,463	477,125	6.7%	8.8%	9.2%	186,257	(66,000)
Stemmons Freeway	144	14,049,567	3,142,762	20.3%	22.4%	22.9%	63,000	(67,000)
South Irving	37	2,056,134	223,972	7.2%	10.9%	11.0%	35,000	(90,000)
Las Colinas/Urban Center	56	9,363,866	1,406,578	18.4%	15.0%	16.3%	100,000	110,000
Office Center/LBJ Extension	129	16,201,139	1,613,407	8.6%	10.0%	10.9%	-	(29,000)
DFW Freeport/Coppell	104	12,581,486	1,785,819	17.5%	14.2%	14.9%	600,183	535,000
West LBJ Freeway	44	4,966,837	1,168,706	24.8%	23.5%	24.3%	-	(12,000)
Denton/Lewisville	172	9,227,556	821,565	14.2%	8.9%	9.9%	-	132,000
Frisco/The Colony	61	5,036,072	567,254	10.7%	11.3%	11.6%	958,769	226,000
Allen/McKinney	73	5,920,828	505,920	9.0%	8.5%	9.2%	261,907	(18,000)
Upper Tollway/West Plano	186	24,827,490	2,752,249	10.1%	11.1%	12.6%	4,314,859	(61,000)
Plano	110	8,495,831	1,416,822	15.3%	16.7%	16.7%	323,901	28,000
Richardson	164	19,073,731	3,800,532	11.4%	19.9%	20.1%	330,160	(774,000)
North Dallas Tollway	211	22,017,383	1,708,772	12.9%	7.8%	8.5%	197,740	1,148,000
East LBJ Freeway	126	17,142,901	4,123,624	24.0%	24.1%	24.6%	-	76,000
Garland	59	2,647,814	301,532	11.3%	11.4%	11.4%	-	(6,000)
Southeast Dallas	23	760,425	96,840	11.2%	12.7%	12.7%	-	(15,000)
Mesquite/Rockwall	43	1,563,914	138,797	10.1%	8.9%	9.1%	-	18,000
Southwest Dallas	71	3,097,567	426,614	12.4%	13.8%	13.8%	23,195	14,000
Grand Prairie	38	3,834,523	233,059	8.9%	6.1%	6.2%	-	96,000
TOTAL – Dallas	**2,285**	**251,796,591**	**36,062,725**	**14.4%**	**14.3%**	**15.0%**	**9,589,773**	**1,241,000**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Fort Worth Market Indicators – All Space

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION Q1 2016
Fort Worth CBD	74	11,599,022	1,095,742	9.1%	9.4%	9.8%	280,489	(62,000)
Northwest Fort Worth	19	498,703	51,761	9.9%	10.4%	10.4%	-	1,000
Alliance Air/Fossil Creek	23	3,078,635	225,663	7.1%	7.3%	8.2%	75,540	34,000
Westlake/Grapevine	104	8,013,077	1,199,865	14.2%	15.0%	16.3%	235,200	(46,000)
Hurst/Euless/Bedford	77	5,829,859	962,505	16.1%	16.5%	26.4%	-	(29,000)
Northeast Fort Worth	56	4,056,401	1,306,505	30.5%	32.2%	32.6%	182,000	(73,000)
Arlington	164	8,962,972	1,177,322	13.5%	13.1%	13.5%	-	50,000
Southeast Fort Worth	21	1,427,750	87,169	6.9%	6.1%	6.1%	-	12,000
Southwest Fort Worth	183	11,121,354	1,322,225	9.8%	11.9%	12.0%	409,232	(244,000)
TOTAL – Fort Worth	**721**	**54,587,773**	**7,428,758**	**12.9%**	**13.6%**	**15.1%**	**1,182,461**	**(357,000)**

Dallas-Fort Worth Office Market Indicators – All Space

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION Q1 2016
TOTAL – DFW	**3,006**	**306,384,364**	**43,491,482**	**14.4%**	**14.2%**	**15.0%**	**10,772,234**	**884,000**

SOURCE: Inventory and vacancy from analysis of CoStar data; net absorption computed by Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2016

Dallas Office Market Indicators – Class A

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION Q1 2016
Dallas CBD	22	22,918,476	5,133,739	22.4%	23.2%	342,879	(23,000)
Uptown/Turtle Creek	35	9,155,989	805,727	8.8%	8.9%	1,517,423	37,000
White Rock	2	388,177	46,581	12.0%	12.0%	-	3,000
Central Expressway	24	7,542,073	1,025,722	13.6%	13.9%	-	272,000
Preston Center	19	4,175,842	313,188	7.5%	8.0%	186,257	(21,000)
Stemmons Freeway	9	3,684,656	637,445	17.3%	17.3%	63,000	-
South Irving	0	-	-	-	-	-	-
Las Colinas/Urban Center	26	7,311,160	1,096,674	15.0%	16.6%	-	80,000
Office Center/LBJ Extension	32	7,984,529	471,087	5.9%	7.7%	-	16,000
DFW Freeport/Coppell	14	4,121,538	750,120	18.2%	20.1%	542,183	453,000
West LBJ Freeway	6	1,667,892	358,597	21.5%	22.0%	-	12,000
Denton/Lewisville	3	404,964	20,248	5.0%	5.0%	-	81,000
Frisco/The Colony	23	3,270,549	418,630	12.8%	13.0%	913,769	188,000
Allen/McKinney	9	1,404,807	108,170	7.7%	10.3%	168,357	(28,000)
Upper Tollway/West Plano	66	16,704,861	1,887,649	11.3%	12.6%	4,144,605	86,000
Plano	8	1,372,206	292,280	21.3%	21.5%	250,000	30,000
Richardson	34	10,027,401	2,015,508	20.1%	20.3%	300,000	(783,000)
North Dallas Tollway	40	10,625,944	-	-	-	197,740	1,063,000
East LBJ Freeway	27	8,592,111	2,130,844	24.8%	25.5%		34,000
Garland	0	-	-	-	-	-	-
Southeast Dallas	0	-	-	-	-	-	-
Mesquite/Rockwall	2	246,420	23,656	9.6%	10.6%	-	(6,000)
Southwest Dallas	2	281,655	15,491	5.5%	5.5%	-	-
Grand Prairie	5	1,851,880	-	0.0%	0.0%	-	-
TOTAL – Dallas	**408**	**123,733,130**	**17,551,357**	**14.2%**	**14.9%**	**8,626,213**	**1,494,000**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Fort Worth Market Indicators – Class A

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION Q1 2016
Fort Worth CBD	17	5,931,868	777,075	13.1%	13.7%	280,489	(42,000)
Northwest Fort Worth	0	-	-	-	-	-	-
Alliance Air/Fossil Creek	1	581,277	136,600	23.5%	23.5%	-	-
Westlake/Grapevine	17	3,691,167	738,233	20.0%	22.4%	198,000	(55,000)
Hurst/Euless/Bedford	2	326,832	120,274	36.8%	36.8%	-	(27,000)
Northeast Fort Worth	2	395,307	330,477	83.6%	83.6%	-	-
Arlington	13	1,662,445	217,780	13.1%	13.6%	-	(15,000)
Southeast Fort Worth	1	541,630	-	0.0%	0.0%	-	-
Southwest Fort Worth	14	2,692,856	64,629	2.4%	2.6%	409,232	(27,000)
TOTAL – Fort Worth	**67**	**15,823,382**	**2,385,068**	**15.1%**	**15.9%**	**887,721**	**(166,000)**

Dallas-Fort Worth Office Market Indicators – Class A

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION 2016
TOTAL – DFW	**475**	**139,556,512**	**19,936,424**	**14.3%**	**15.1%**	**9,513,934**	**1,328,000**

SOURCE: Inventory and vacancy from analysis of CoStar data; net absorption computed by Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2016

Dallas Office Market Indicators – Class B

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION 2016
Dallas CBD	39	7,335,032	1,188,275	16.2%	16.3%	-	(367,000)
Uptown/Turtle Creek	41	2,543,809	218,768	8.6%	8.8%	200,000	104,000
White Rock	48	3,072,900	184,374	6.0%	6.6%	99,500	(28,000)
Central Expressway	80	5,755,574	552,535	9.6%	9.9%	35,000	12,000
Preston Center	17	838,217	93,042	11.1%	11.1%	-	(3,000)
Stemmons Freeway	92	8,658,287	2,242,496	25.9%	26.7%	-	(69,000)
South Irving	23	1,554,345	164,761	10.6%	10.8%	35,000	(87,000)
Las Colinas/Urban Center	27	1,802,911	270,437	15.0%	15.0%	100,000	34,000
Office Center/LBJ Extension	87	7,707,476	1,094,462	14.2%	14.3%	-	(46,000)
DFW Freeport/Coppell	89	8,219,837	1,035,699	12.6%	12.8%	58,000	82,000
West LBJ Freeway	30	3,071,254	697,175	22.7%	23.6%	-	(21,000)
Denton/Lewisville	129	7,288,119	721,524	9.9%	11.1%	-	53,000
Frisco/The Colony	37	1,748,517	148,624	8.5%	9.1%	45,000	38,000
Allen/McKinney	60	4,386,290	394,766	9.0%	9.0%	93,550	13,000
Upper Tollway/West Plano	118	7,719,636	864,599	11.2%	13.3%	170,254	(147,000)
Plano	84	6,616,494	1,052,023	15.9%	15.9%	73,901	7,000
Richardson	107	8,380,569	1,684,494	20.1%	20.3%	30,160	17,000
North Dallas Tollway	151	10,976,105	1,701,296	15.5%	17.0%	-	66,000
East LBJ Freeway	92	8,335,356	1,967,144	23.6%	23.9%	-	42,000
Garland	40	2,083,917	220,895	10.6%	10.6%	-	(6,000)
Southeast Dallas	13	521,822	77,751	14.9%	14.9%	-	(12,000)
Mesquite/Rockwall	31	1,017,359	95,632	9.4%	9.5%	-	20,000
Southwest Dallas	49	2,130,722	311,085	14.6%	14.6%	23,195	11,000
Grand Prairie	23	1,685,225	203,912	12.1%	12.4%	-	96,000
TOTAL – Dallas	**1,507**	**113,449,773**	**17,185,770**	**15.1%**	**15.7%**	**963,560**	**(191,000)**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Fort Worth Market Indicators – Class B

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION 2016
Fort Worth CBD	37	5,013,718	280,768	5.6%	5.6%	-	(20,000)
Northwest Fort Worth	6	230,011	45,312	19.7%	19.7%	-	1,000
Alliance Air/Fossil Creek	21	2,456,558	81,066	3.3%	4.4%	75,540	37,000
Westlake/Grapevine	81	4,154,194	423,728	10.2%	10.6%	37,200	10,000
Hurst/Euless/Bedford	49	4,736,950	682,121	14.4%	26.6%	-	-
Northeast Fort Worth	35	2,857,234	928,601	32.5%	33.1%	182,000	(69,000)
Arlington	107	5,649,945	819,242	14.5%	14.9%	-	70,000
Southeast Fort Worth	14	477,914	82,679	17.3%	17.3%	-	1,000
Southwest Fort Worth	110	6,812,790	1,049,170	15.4%	15.5%	-	(204,000)
TOTAL – Fort Worth	**460**	**32,389,314**	**4,392,687**	**13.6%**	**15.6%**	**294,740**	**(174,000)**

Dallas-Fort Worth Office Market Indicators – Class B

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q1 2016	VACANCY WITH SUBLET Q1 2016	UNDER CONSTRUCTION	NET ABSORPTION 2016
TOTAL – DFW	**1,967**	**145,839,087**	**21,578,457**	**14.8%**	**15.7%**	**1,258,300**	**(365,000)**

SOURCE: Inventory and vacancy from analysis of CoStar data; net absorption computed by Transwestern

DALLAS-FORT WORTH OFFICE MARKET

FIRST QUARTER 2016

Dallas Office Market Indicators – Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	Q1 2016 CLASS A	Q1 2016 CLASS B	% CHANGE 12/15-3/16 CLASS A	% CHANGE 12/15-3/16 CLASS B
Dallas CBD	$24.95	$17.66	$26.63	$19.09	$26.90	$20.45	$28.01	$21.16	4.1%	3.5%
Uptown/Turtle Creek	$26.49	$22.76	$27.34	$24.09	$29.66	$25.21	$30.05	$26.24	1.3%	4.1%
White Rock	$33.65	$16.27	$33.37	$15.38	$33.36	$16.59	N/A	$15.34	N/A	-7.5%
Central Expressway	$21.99	$17.11	$22.77	$17.99	$24.85	$18.60	$25.76	$20.36	3.7%	9.5%
Preston Center	$33.50	$20.77	$35.65	$26.38	$35.88	$26.62	$34.92	$27.42	-2.7%	3.0%
Stemmons Freeway	$22.75	$14.68	$23.12	$14.79	$22.89	$15.58	$23.68	$15.91	3.4%	2.1%
South Irving	N/A	$13.39	N/A	$13.85	N/A	$15.36	N/A	$16.30	N/A	6.1%
Las Colinas/Urban Center	$25.35	$18.59	$28.27	$19.90	$28.97	$21.44	$29.53	$21.14	1.9%	-1.4%
Office Center/LBJ Extension	$22.10	$19.83	$22.51	$20.99	$25.60	$22.35	$25.97	$22.59	1.5%	1.1%
DFW Freeport/Coppell	$21.25	$19.89	$23.23	$19.83	$24.83	$20.70	$25.27	$21.15	1.8%	2.2%
West LBJ Freeway	$19.49	$17.66	$20.02	$19.73	$21.86	$19.84	$22.33	$19.60	2.1%	-1.2%
Denton/Lewisville	$30.27	$17.62	$30.27	$18.10	$35.64	$19.38	$35.64	$19.70	0.0%	1.6%
Frisco/The Colony	$25.36	$24.50	$30.30	$24.62	$31.21	$24.42	$32.01	$24.75	2.6%	1.3%
Allen/McKinney	$22.64	$18.55	$22.87	$20.33	$23.90	$18.60	$24.00	$19.18	0.4%	3.1%
Upper Tollway/West Plano	$25.15	$22.16	$25.49	$22.59	$26.48	$22.96	$26.16	$23.37	-1.2%	1.8%
Plano	$21.37	$17.55	$22.34	$18.03	$20.81	$23.02	$20.65	$23.01	-0.8%	0.0%
Richardson	$21.99	$17.06	$22.48	$17.99	$24.01	$20.12	$24.64	$20.20	2.6%	0.4%
North Dallas Tollway	$23.41	$18.97	$25.39	$19.59	$26.73	$20.81	$27.46	$21.60	2.8%	3.8%
East LBJ Freeway	$20.49	$17.33	$23.27	$18.39	$26.18	$19.03	$26.49	$19.55	1.2%	2.7%
Garland	N/A	$13.81	N/A	$14.02	N/A	$15.09	N/A	$15.37	N/A	1.9%
Southeast Dallas	N/A	$11.47	N/A	$10.61	N/A	$10.99	N/A	$10.69	N/A	-2.7%
Mesquite/Rockwall	$29.28	$12.31	$29.78	$12.41	$29.66	$14.32	$30.26	$13.97	2.0%	-2.4%
Southwest Dallas	$21.84	$11.72	$21.84	$12.13	$21.84	$13.07	$21.84	$13.23	0.0%	1.2%
Grand Prairie	N/A	$17.88	N/A	$18.72	N/A	$18.67	N/A	$22.52	N/A	20.6%
AVERAGE – Dallas	**$23.22**	**$17.48**	**$24.21**	**$18.32**	**$25.22**	**$18.83**	**$25.16**	**$19.23**	**-0.2%**	**2.1%**

SOURCE: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Transwestern.

Fort Worth Market Indicators – Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	Q1 2016 CLASS A	Q1 2016 CLASS B	% CHANGE 12/15-3/16 CLASS A	% CHANGE 12/15-3/16 CLASS B
Fort Worth CBD	$27.05	$17.97	$26.59	$18.12	$26.53	$16.66	$26.83	$16.76	1.1%	0.6%
Northwest Fort Worth	N/A	$21.03	N/A	$21.10	N/A	$21.24	N/A	$20.57	N/A	-3.1%
Alliance Air/Fossil Creek	N/A	$18.63	N/A	$18.96	N/A	$16.56	N/A	$16.46	N/A	-0.6%
Westlake/Grapevine	$21.91	$17.55	$21.15	$19.78	$21.69	$19.86	$21.90	$20.06	1.0%	1.0%
Hurst/Euless/Bedford	$16.09	$15.24	$16.87	$15.23	$17.52	$16.71	$17.92	$16.81	2.3%	0.6%
Northeast Fort Worth	$16.92	$14.61	$17.30	$14.09	$15.50	$17.32	$16.18	$16.76	4.4%	-3.2%
Arlington	$20.49	$18.59	$19.65	$18.33	$21.17	$18.54	$21.18	$18.99	0.0%	2.4%
Southeast Fort Worth	N/A	$13.51	N/A	$12.19	N/A	$12.43	N/A	$12.29	N/A	-1.1%
Southwest Fort Worth	$19.45	$15.95	$19.85	$15.87	$20.59	$15.40	$21.06	$15.38	2.3%	-0.1%
AVERAGE – Fort Worth	**$20.32**	**$17.01**	**$20.24**	**$17.08**	**$20.50**	**$17.19**	**$20.85**	**$17.12**	**1.7%**	**-0.4%**

Dallas-Fort Worth Office Market Indicators – Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	Q1 2016 CLASS A	Q1 2016 CLASS B	% CHANGE 12/15-3/16 CLASS A	% CHANGE 12/15-3/16 CLASS B
AVERAGE – DFW	**$21.77**	**$17.25**	**$22.23**	**$17.70**	**$22.86**	**$18.01**	**$24.67**	**$18.76**	**-0.1%**	**1.6%**

SOURCE: Inventory and vacancy from analysis of CoStar data; net absorption computed by Transwestern

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METHODOLOGY

The information in this report is the result of a compilation of information on office and industrial properties located in the Dallas-Fort Worth metropolitan area. This report includes single-tenant, multi-tenant and owner-user office properties, excluding properties owned and occupied by a government agency.

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