



## DALLAS 4Q15 OFFICE MARKET

# OPTIMISM GROWS GOING INTO 2016

Despite the slowdown in the energy sector, the Dallas-Fort Worth region has continued to experience robust economic growth. In nominal terms, the local economy expanded by 9.3% in 2014; factors driving this trend included corporate relocations, rising income per capita and a growing population (360 people per day). Toyota offered further proof of the region's appeal, citing the availability of affordable housing as the main reason for its move from Torrance, California, to Plano, Texas. Based on employment growth, 2015 has been another solid year for the region. All told, the local economy added 101,200 new jobs in the year ending November 2015, according to preliminary data from the Bureau of Labor Statistics. That figure amounts to a 3.0% year-over-year growth rate, a slight slowdown from the 3.5% expansion of 2014, when oil prices were much higher.

### Vacancy Decline Hits the Pause Button

The overall vacancy rate has hovered around 18.5% for three consecutive quarters, as supply and demand reach equilibrium. However, a longer-term downward trend appears intact, as the metro enjoys a multiyear growth cycle. Despite a favorable outlook, elevated vacancies were recorded in Northeast Fort Worth, Dallas Central Business District, Mid-Cities and LBJ Freeway submarkets. On the other hand, only three submarkets recorded vacancy below 12%. These areas included: Uptown/Turtle Creek (11.6%), Preston Center (10.1%) and South Ft. Worth (9.1%). Moving forward, expect lower vacancies at the metro level and continued bifurcation at the submarket level.

### Positive Absorption Hits a 16-Year High

Positive net absorption totaled 1,041,963 square feet in the fourth quarter of 2015. This marked the 10th consecutive quarter of positive absorption. Year-to-date net absorption totaled more than 5.9 million square feet, the highest annual total since 1999. In response to healthy fundamentals, rental rates rose from \$22.91/SF in the third quarter to \$23.50/SF at year-end. This strong quarterly gain helped push asking rents up 7.2% year-over-year. This was well ahead of Houston's 2.0% hike, but fell short of Austin's 9.8% gain.

### Construction Activity Appears to be Peaking

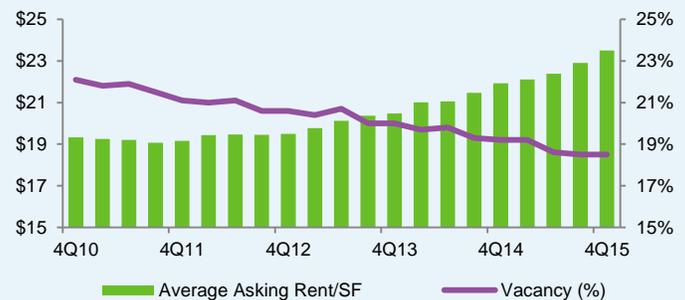
At this time last year, Dallas/Fort Worth had more than 6.5 million square feet underway. Today, that figure is slightly below 5.4 million. While the current figure is elevated relative to the 10-year historic norm of 3.1 million square feet, construction appears to be peaking. For starters, starts are rapidly turning into completions. The fourth quarter saw the delivery of six properties totaling roughly 1.4 million square feet, bringing the annual tally to 5.5 million square feet of new office space. Furthermore, rising land values and low occupancy in certain parts of the metro have investors looking towards value-added strategies, rather than ground-up development. In addition, slightly slower leasing velocity may curb speculative development.

### Current Conditions

- 2015's absorption of 5.9 million square feet was the largest annual tally since 1999.
- The year ended with 5.4 million square feet under construction.
- Despite an above-average vacancy rate of 18.5%, asking rents rose by 7.2% year-over-year.

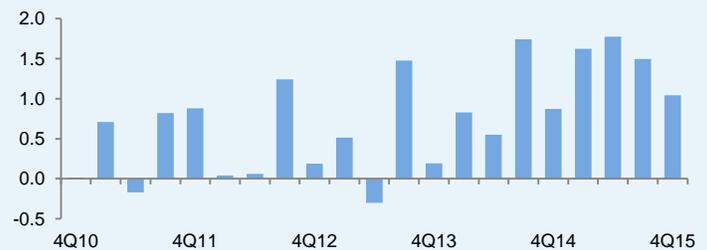
### Market Analysis

#### Asking Rent and Vacancy



#### Net Absorption

Square Feet, Millions



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Quarter	12 Month Forecast
Vacancy Rate	18.5%	18.5%	19.2%	↓
Net Absorption	1,041,963	1,496,983	873,203	↔
Average Asking Rent/SF	\$23.50	\$22.91	\$21.93	↑
Under Construction	5,391,571	6,094,191	6,516,914	↓
Deliveries	1,449,203	1,439,921	854,659	↔



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### Rents Sprint Higher in 2015

The average occupancy rate where asking rents increased in excess of 3.0% occurred when occupancy was at 80.4% or higher. During the past 10 years, when occupancy was above 80.4%, rent growth averaged 6.3%. Conversely, when occupancy was below this key threshold, rent growth averaged a mere 1.3%. Currently, with occupancy at 81.5% and healthy demand drivers boosting the overall market, asking rents increased a staggering 7.2% in 2015. For perspective, this figure was higher than the U.S. average and marked one of highest annually increases locally.

At the submarket level, nearly all areas saw some increase in rents, but a wide range of results existed. For larger submarkets, strong results were seen in the Mid-Cities (12.9%), Lewisville/Denton (11.4%), and Far North Dallas (9.3%). Asking rents contracted in the Fort Worth CBD, Stemmons Freeway and North Fort Worth submarkets, although all of the declines were modest.

### Investment Sales Activity Jumps Dramatically

Healthy real estate fundamentals and a positive outlook have helped drive investment sales in 2015. Through November, \$3.5 billion of office investment sales changed hands, a 19.3% increase from the same time period a year ago, according to data from Real Capital Analytics. In the fourth quarter, the Dallas CBD submarket remained in focus. Bandera Ventures, in a joint venture with HPI Real Estate and Second City Real Estate, purchased the 45-story Ross Tower for roughly \$121 million dollars, or \$110/SF. Additionally, TriGate Capital purchased a 90% stake in Comerica Bank Tower for \$150 million. This transaction valued the building at roughly \$167 million, or \$109/SF. Despite the recent flurry of deals in downtown Dallas, the largest transaction of the quarter occurred in the suburbs, where Apollo Global Real Estate and Vanderbilt Partners purchased The Towers at Williams Square for \$330 million. Overall, 2015's transactions changed hands for \$150/SF and a 7.6% cap rate on a weighted average basis, according to data from Real Capital Analytics.

### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
OneSource Virtual	Cypress Waters Offices	DFW Freeport/Coppell	New	215,000
Securus Technologies	4000 International Parkway	Far North Dallas	New	154,298
Charles Schwab	Rolling Hills Office Centre	Westlake/Grapevine	New	130,199
Vinson & Elkins	The Union	Uptown/Turtle Creek	New	84,720
Match.com	8750 NCX	Central Expressway	New	73,110

### Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Comerica Bank Tower <sup>1</sup>	Far North Dallas	\$150,000,000	\$98	1,530,957
Towers at Williams Square	Las Colinas	\$330,000,000	\$236	1,395,980
Ross Tower	Dallas CBD	\$121,000,000	\$109	1,113,575
Signature Exchange	Far North Dallas	\$72,000,000	\$157	458,482
Tollway Plaza	Far North Dallas	\$88,500,000	\$239	370,000

<sup>1</sup> Represents 90% ownership stake



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## Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Dallas CBD	28,310,671	261,400	22.1%	36,251	404,550	\$24.23	\$16.10	\$23.90
Ft Worth CBD	8,449,746	0	12.5%	20,875	257,245	\$26.30	\$23.25	\$26.09
<b>CBD Total</b>	<b>36,760,417</b>	<b>261,400</b>	<b>19.9%</b>	<b>57,126</b>	<b>661,795</b>	<b>\$24.71</b>	<b>\$17.74</b>	<b>\$24.40</b>
Central Expressway	10,951,794	0	16.7%	141,561	371,957	\$25.64	\$19.97	\$25.26
East Dallas	2,942,943	0	14.4%	-19,347	35,675	\$16.86	-	\$16.86
Far North Dallas	37,669,325	1,726,220	15.6%	622,606	1,615,156	\$26.58	\$24.55	\$26.32
Las Colinas	29,949,871	867,183	17.3%	346,779	592,835	\$23.69	\$20.54	\$23.48
LBJ Freeway	19,615,535	0	26.4%	-65,054	42,117	\$20.76	\$17.05	\$20.56
Lewisville/Denton	5,119,948	0	13.7%	67,233	72,405	\$21.15	\$9.97	\$21.04
Mid-Cities	16,168,737	196,000	23.6%	-20,716	-30,014	\$21.04	\$17.92	\$20.90
North Fort Worth	1,803,983	0	19.0%	-80,172	264,094	\$17.74	\$21.03	\$18.39
Northeast Ft Worth	2,552,547	0	48.3%	-318,118	-224,298	\$15.82	\$14.61	\$15.68
Preston Center	4,208,839	186,257	10.1%	-40,600	136,290	\$36.12	\$31.90	\$35.79
Richardson/Plano	20,165,220	873,949	15.5%	316,511	1,892,238	\$21.00	\$17.00	\$20.85
South Ft Worth	6,717,624	409,232	9.1%	28,297	154,935	\$23.52	\$19.83	\$23.27
Southwest Dallas	1,869,484	0	15.9%	-789	-31,654	\$16.71	-	\$16.71
Stemmons Freeway	9,062,141	0	27.4%	58,660	233,941	\$15.05	\$10.24	\$14.93
Uptown/Turtle Creek	10,790,189	871,330	11.6%	-52,014	142,743	\$37.17	\$28.02	\$36.36
<b>Suburban Total</b>	<b>179,588,180</b>	<b>5,130,171</b>	<b>18.3%</b>	<b>984,837</b>	<b>5,268,420</b>	<b>\$23.78</b>	<b>\$19.57</b>	<b>\$23.55</b>
<b>Market</b>	<b>216,348,597</b>	<b>5,391,571</b>	<b>18.5%</b>	<b>1,041,963</b>	<b>5,930,215</b>	<b>\$23.65</b>	<b>\$21.26</b>	<b>\$23.50</b>



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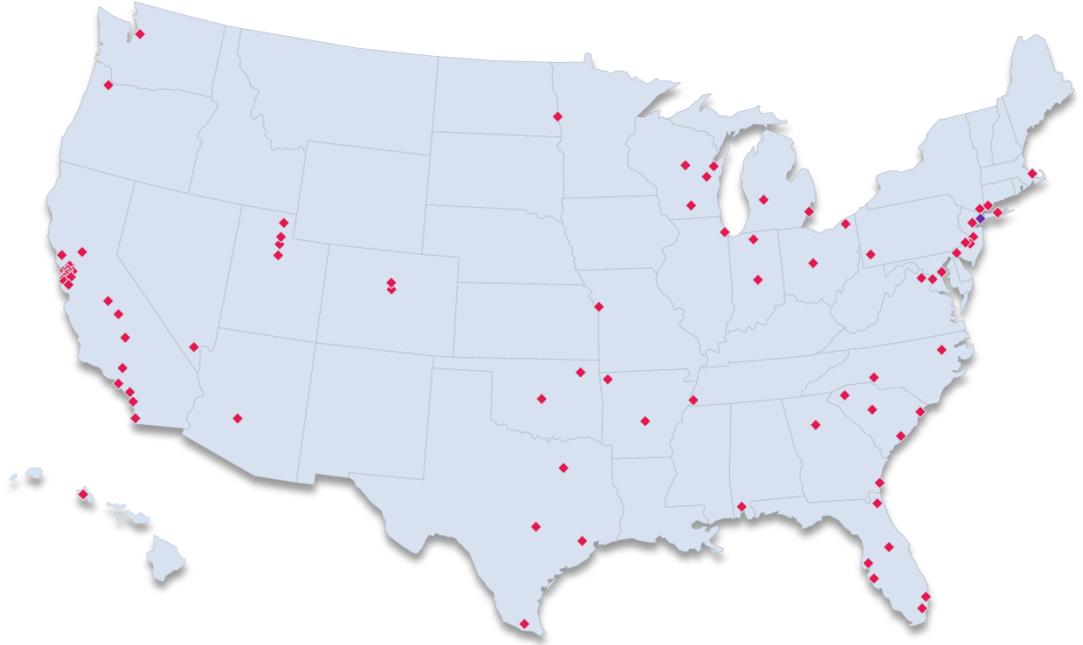
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