Savills Studley Report
Dallas/Fort Worth office sector

Q3 2017

SUMMARY

Market Highlights

LEASING DECLINES
Following a strong quarter of activity, with 4.0 msf leased – quarterly activity dropped by 21.2% to 3.2 msf in the third quarter. Even with the quarterly decline, tenants have leased 13.9 msf in the four most recent quarters, on track with the long-term market average.

AVAILABILITY RATES DOWN SLIGHTLY
The Metroplex's overall availability rate dipped by 20 basis points from 23.8% to 23.6%. The Class A availability rate inched up by 40 basis points to 24.8%.

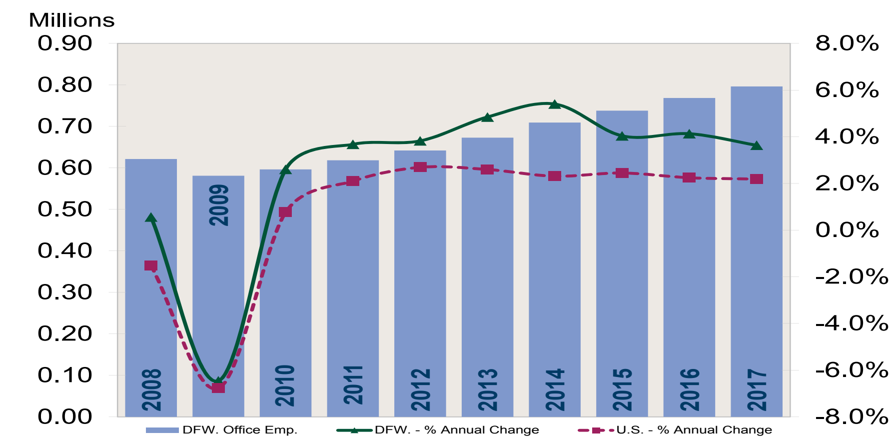
RENT FLAT
The overall asking rent ticked down from $24.32 to $24.31, but has edged up by 1.3% year-on-year. The Class A asking rent inched up by 0.2% during the quarter to $26.29, and has increased by 1.8% year-on-year.

SALES UP SLIGHTLY
Office property sales totaled $2.5 billion through July of 2017, a 6.8% increase from the same period during 2016.

"In prior cycles, construction activity has inevitably overtaken demand, spurring excess availability and forcing landlords across much of the market to put all options on the table. So far, robust payroll growth and investment in the workplace has kept up with development activity, but tenants could gain leverage from a growing array of options in the coming quarters."

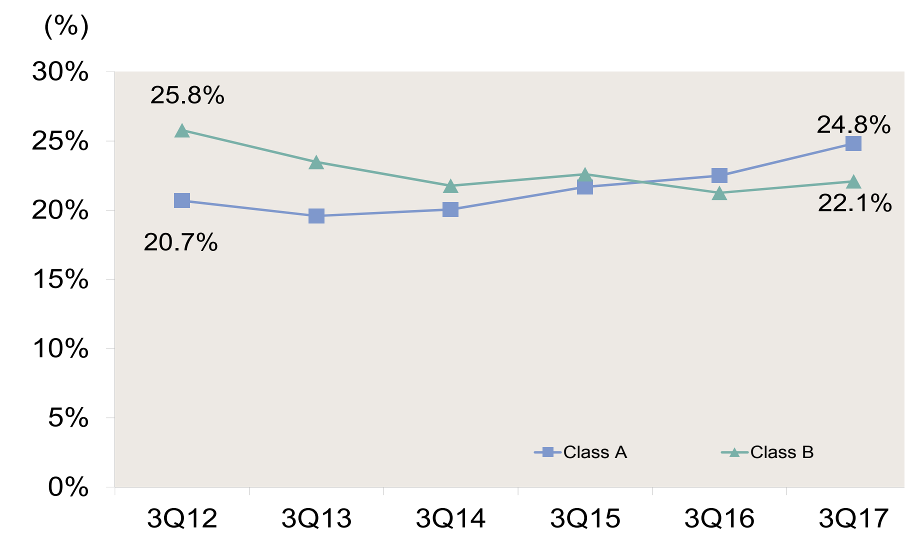
Frank McCafferty,
Executive Managing Director

Office-Using Employment Trends

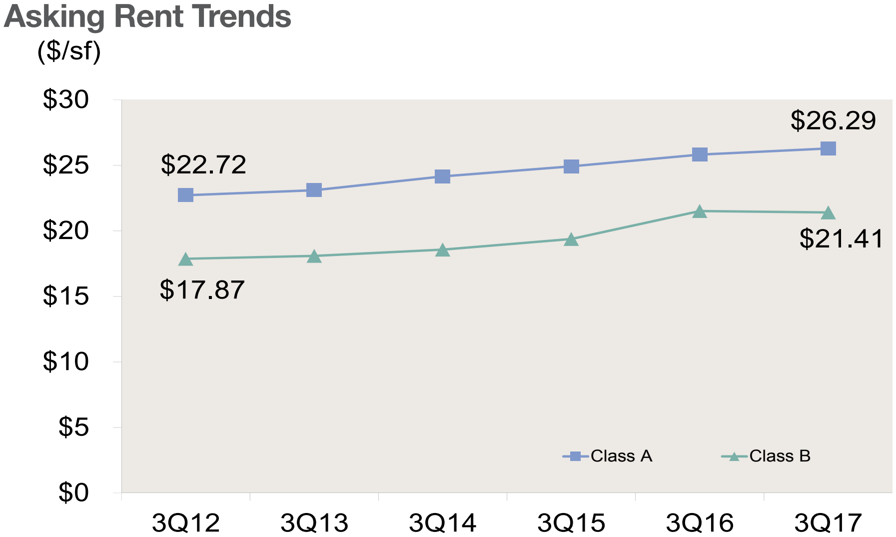


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Mobile Market

From quarter to quarter and one year to the next, as the recovery carries on, it is fair to ask how much longer demand in Dallas/Fort Worth can keep up with a growing supply of office product. So far, demand seems to be roughly on par with supply. The number of blockbuster corporate relocations has fallen a bit, but there are a lot of deals in the pipeline and of course the market is on Amazon HQ2 watch. Class A availability is up slightly, increasing by more than 200 basis points year-on-year. Most markets would be glad to see the level of leasing that is occurring in Dallas. Two sectors, in particular, stand out as driving much of the demand – FIRE (finance, insurance, and real estate) and tech. These industries have seen some recent layoffs, including Ditech (cutting 497 employees) and Sabre Corp (900 layoffs); however, in general, they are fueling net job growth.

Tech Sector Expanding

Every quarter brings examples of firms expanding in the tech sector. Fintech and software related companies are growing. Some of the growth is occurring among local firms such as bottle rocket, Briarly and optimal blue. The bulk of payroll expansion is coming from out-of-market firms. As the quarter was closing Alkami announced plans to double their presence at Granite Park. Over the course of the summer, SOLiD Inc, a supplier of wireless equipment to Toyota, leased 48,526 sf at 800 Klein Road in Plano. The South Korean company has already moved from the Bay Area in California. It has 56 employees and hopes to double headcount in the next 12 months. The President of their Americas division cited real estate prices, access to talent and central logistics as the top three reasons behind their decision to move.

Oculus Health recently moved from Portsmouth, New Hampshire to 27,300 sf at Las Colinas Corporate Center II. The firm selected Dallas (crossing Atlanta, Las Vegas, and Charlotte off their list) due to its depth of talent in tech and health care management. Founded in 2014, Oculus plans to double their workforce to 200 employees within the next year, primarily by adding personnel in the Dallas area

Building and Banking Boom

Dallas/Fort Worth's banking sector is benefiting from steady home sales and a booming construction sector. Regional lenders are expanding, and adding to the construction activity as some opt to build rather than lease. Independent Bank Group, for example, announced plans to construct a $52 million corporate campus at the McKinney Corporate Center in Craig Ranch. The 150,000-sf facility will accommodate 400 new employees. San Antonio-based USAA verified that it will add up to 680 new employees regionally, to be housed at a new 150,000-sf building next to its existing property in Plano's Legacy Business Park. The Dallas region remains a top choice for many Fortune 500 firms and national banks as well. Aditionally, KPMG recently added 11,000 sf at KPMG Plaza at Hall Arts. The addition pushes their space occupied in the building to just under 195,000 sf – nearly even with the amount of space they occupied at 717 N Harwood St two years ago before moving to KPMG Plaza. When it relocated, the Big Four auditor shed about 20% of its space by implementing a hoteling space design. In the last two years, it has grown by 200 employees, pushing its headcount to somewhere between 1,800 and 1,900 employees. They expect to hit 2,000 in the next 12 months.

Additionally, C-III Asset Management leased two floors at 5221 N. O'Connor Boulevard in Irving, expanding its presence at The Towers at Williams Square. The commercial real estate loan service provider's payroll ballooned to more than 200 employees, forcing them to find a larger facility. Extensive repositioning of major complexes such as the Towers at Williams Square also supports lending activity. The Towers will have a block of about 600,000 sf once Pioneer Natural Resources moves to Hidden Ridge. It remains to be seen how long the renovations will take and then how much rent the landlord will ask for renovated space. Typical Class A space in Williams Square is priced in the low $30.00/sf range – a substantial discount from Plano or Uptown.

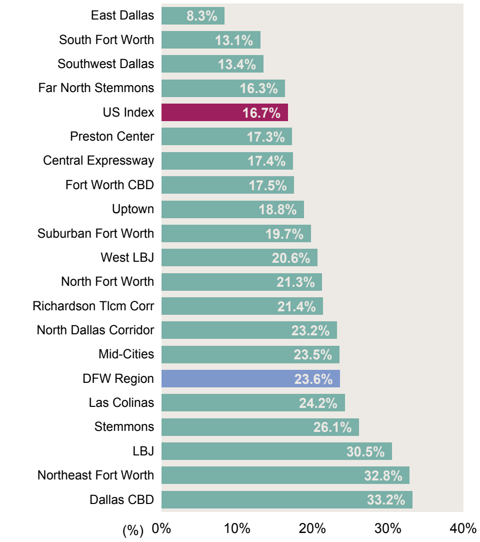
Ample Options for Tenants to Consider

The repositioning of properties - such as the Towers at Williams Square - is also a response to the growing supply of quality product and the big holes being left in older facilities as companies relocate. It is very similar to the shifts that occurred between Downtown Dallas and Uptown. So far, there seem to be ample tenants to fill in some of the vacancies being left behind. Plano-based NTT Data Services recently signed a 232,744-sf lease at The Campus at Legacy West, taking some of the former JC Penney space. They will move 1,000 employees from Plano Parkway, bringing employees spread across North Texas together at one facility. Landlords trying to secure credit-worthy tenants generally have to provide generous tenant improvement allowances and significantly enhance amenities. These facilities can be ideal for tenants dealing with multiple locations. The Town of Westlake, for example, recently took 20,850 sf of IBM's former executive space at the Solana Campus in Westlake – they had been split between multiple locations. The park still has a massive vacant block left behind by CoreLogic following their relocation to a $68 million build-to-suit in Cypress Waters. Equity Office, which bought Solana two years ago, is spending about $70 million on renovations.

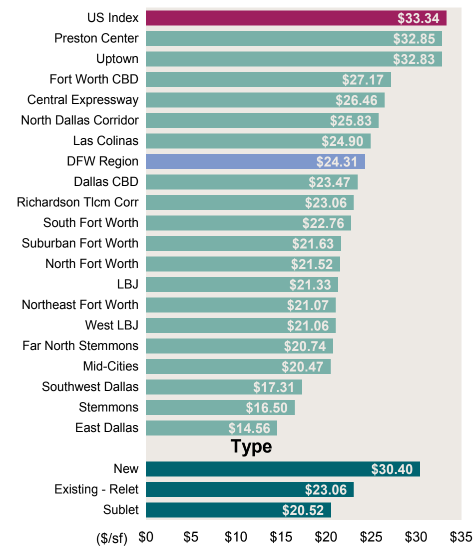
Looking Forward

These established office park are already competing with a lot of newly constructed properties. There are more major developments on the horizon. Compared to prior cycles, construction activity is under control. However, a new mixed-use proposal seems to be announced nearly every other day. McKinney Economic Development Corp and KDC unveiled plans for a major mixed-use development at the Sam Rayburn Tollway and US 75. The project – Southgate McKinney – will include office buildings, retail space, multi-family units and restaurants as well as a two-acre green space with water features and a performance stage. KDC is also involved in the aforementioned Hidden Ridge community. The project will have up to 1.5 msf more office space, a 200-room hotel, 1,200 dwelling units or 80,000 sf of restaurant and retail space. At Legacy Business Park, The Baccus Family and Provident Realty Advisors are teaming up on a high-rise mixed-use project in Legacy Business Park. Construction will start next year – plans include three office buildings totaling up to 2.0 msf, a 200-room boutique hotel and as much as 100,000 sf of retail space.

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
NTT Data	232,744	6501 Legacy Dr	North Dallas Corridor
Frontier Communications	83,662	805 S Central Expy	Richardson Telecom Corridor
GENPACT	63,603	3300 Renner Rd	Richardson Telecom Corridor
Yardi Systems	54,646	8616 Freeport Pky	West LBJ
WeWork	47,714	5049 Edwards Ranch Rd	South Fort Worth
The University of Texas at Dallas	45,642	3000-3030 Waterview Pky	Richardson Telecom Corridor
The Delta Companies	38,000	3100 Olympus Blvd	Las Colinas
Weaver	36,334	2821 W 7th St	North Fort Worth
Fisher Asset	33,653	6500 International Pky	North Dallas Corridor
Learfield Sports	33,264	2400 N Dallas Pky	North Dallas Corridor
Sum of Top 10 Leases	**669,262**	**Sum of 3rd Qtr Leasing Activity**	**3.2 MSF**

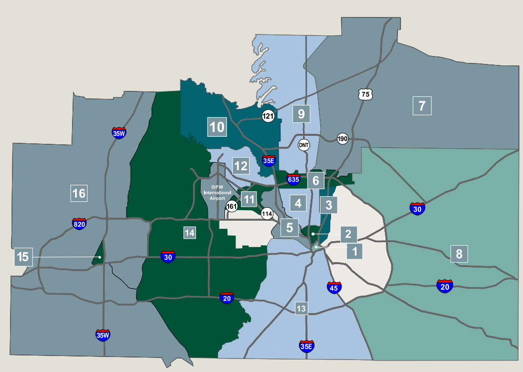
Map	Submarket	Total SF (1000's)	Leasing Activity Last 12 Months	Available SF – This Quarter	Available SF – % Change from Last Qtr.	Available SF – Year Ago	Availability Rate – This Quarter	Availability Rate – pp Change from Last Qtr. (1)	Availability Rate – Year Ago	Asking Rents Per SF – This Quarter	Asking Rents Per SF – % Change from Last Qtr.	Asking Rents Per SF – Year Ago
1	**Dallas CBD**	25,129	2,096	8,345	-0.6%	8,296	33.2%	-0.2%	34.5%	$23.47	-0.4%	$24.41
	Dallas CBD - Class A	20,797	1,907	7,263	0.0%	7,564	34.9%	0.0%	37.0%	$23.62	-0.4%	$24.72
2	**Uptown**	13,074	908	2,464	21.3%	1,905	18.8%	3.3%	16.0%	$32.83	2.7%	$32.23
	Uptown - Class A	10,556	751	1,887	31.6%	1,310	17.9%	4.3%	14.0%	$34.39	5.4%	$33.39
3	**Central Expressway**	10,261	407	1,785	3.8%	1,553	17.4%	0.0%	15.7%	$26.46	0.7%	$27.74
	Central Expressway - Class A	6,540	197	1,186	10.7%	1,039	18.1%	1.8%	16.8%	$27.51	1.2%	$29.16
4	**Preston Center**	3,727	197	644	-9.3%	555	17.3%	-2.3%	14.9%	$32.85	-0.6%	$31.18
	Preston Center - Class A	2,716	108	506	-2.7%	335	18.6%	-0.5%	12.3%	$33.21	0.6%	$29.89
5	**Stemmons**	9,968	390	2,604	-3.3%	2,629	26.1%	-1.2%	26.9%	$16.50	-0.5%	$15.40
	Stemmons - Class A	3,484	141	678	-7.0%	656	19.4%	-1.5%	18.8%	$19.74	1.4%	$16.61
6	**LBJ**	20,236	1,864	6,170	4.6%	5,609	30.5%	0.4%	28.4%	$21.33	1.3%	$20.70
	LBJ - Class A	8,980	710	2,607	3.2%	2,688	29.0%	0.9%	29.9%	$23.90	0.9%	$23.15
7	**Richardson Telecom Corridor**	26,265	1,270	5,612	-1.5%	4,446	21.4%	-1.2%	17.8%	$23.06	0.0%	$22.33
	Richardson Telecom Corridor - Class A	11,805	478	3,107	2.9%	1,551	26.3%	0.7%	14.6%	$25.37	-0.3%	$23.23
8	**East Dallas**	1,547	45	129	-8.6%	85	8.3%	-1.7%	8.8%	$14.56	-6.9%	$17.21
	East Dallas - Class A	148	N/A	4	0.0%	13	3.0%	0.0%	9.1%	$24.25	0.0%	$30.77
9	**North Dallas Corridor**	42,971	3,334	9,971	3.4%	7,524	23.2%	0.6%	19.4%	$25.83	-0.3%	$25.33
	North Dallas Corridor - Class A	28,863	2,557	6,190	6.1%	4,559	21.4%	1.2%	18.0%	$28.51	-0.5%	$27.86
10	**Far North Stemmons**	3,939	0	644	-15.2%	575	16.3%	-3.3%	15.3%	$20.74	-10.0%	$23.03
	Far North Stemmons - Class A	308	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
11	**Las Colinas**	19,962	1,029	4,838	-1.3%	4,256	24.2%	-0.5%	21.4%	$24.90	-0.8%	$24.57
	Las Colinas - Class A	12,650	669	3,327	-6.1%	3,238	26.3%	-1.7%	25.6%	$26.69	0.8%	$26.02
12	**West LBJ**	13,251	612	2,735	4.2%	1,897	20.6%	0.0%	14.8%	$21.06	0.7%	$19.96
	West LBJ - Class A	2,946	3	307	-16.8%	33	10.4%	-2.1%	1.2%	$22.22	-1.9%	$21.74
13	**Southwest Dallas**	1,324	73	178	0.4%	138	13.4%	N/A	N/A	$17.31	-0.2%	$15.99
	Southwest Dallas - Class A	281	N/A	14	0.0%	16	4.9%	N/A	N/A	$25.75	0.0%	$22.25
14	**Mid-Cities**	13,270	708	3,120	-0.8%	3,208	23.5%	-1.0%	25.4%	$20.47	0.3%	$19.97
	Mid-Cities - Class A	4,724	260	1,788	-2.0%	1,895	37.8%	-1.1%	41.7%	$22.50	-0.6%	$21.44
15	**Fort Worth CBD**	9,153	373	1,605	-4.5%	1,439	17.5%	-0.9%	16.0%	$27.17	0.8%	$25.60
	Fort Worth CBD - Class A	5,984	260	1,081	-2.7%	860	18.1%	-0.5%	15.5%	$29.99	0.9%	$29.22
16	**Suburban Fort Worth***	8,332	493	1,644	-11.7%	1,936	19.7%	-2.3%	23.2%	$21.63	1.9%	$22.10
	Suburban Fort Worth - Class A	2,593	291	677	-29.7%	265	26.1%	-3.8%	10.2%	$21.99	5.7%	$27.03
1-16	**Dallas/Fort Worth Region Total**	**222,409**	**13,912**	**52,487**	**0.8%**	**46,053**	**23.6%**	**-0.2%**	**21.9%**	**$24.31**	**0.0%**	**$24.01**
	Dallas/Fort Worth Region Total - Class A	**123,373**	**8,363**	**30,619**	**1.3%**	**26,022**	**24.8%**	**0.4%**	**22.5%**	**$26.29**	**0.2%**	**$25.82**

Please contact us for further information

Savills Studley
15303 Dallas Parkway
Suite 1200
Addison, TX 75001
(972) 739-2200

Co-Branch Managers
Frank McCafferty, Executive Managing Director
FMcCafferty@savills-studley.com

Kelly Winn, Executive Vice President
KWinn@savills-studley.com



(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.