

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

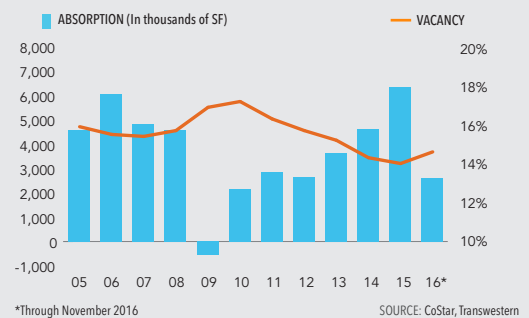
Overall net absorption for the DFW office market recorded 1.1 million square feet (MSF) in the fourth quarter, bringing the 2016 total to 2.6 MSF. Class A space contributed 1.1 MSF of positive absorption and Class B added a net positive 95,000 square feet (SF).

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.

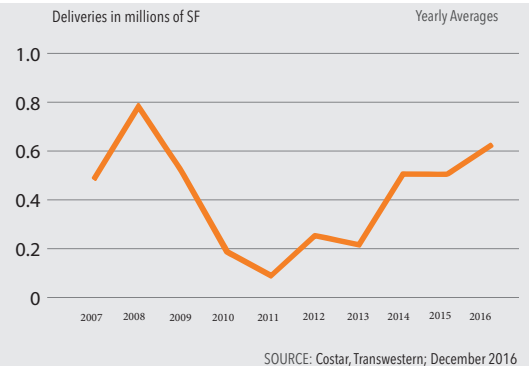
Submarkets with the highest year-to-date net absorption:

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



HISTORICAL OFFICE DELIVERIES



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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.

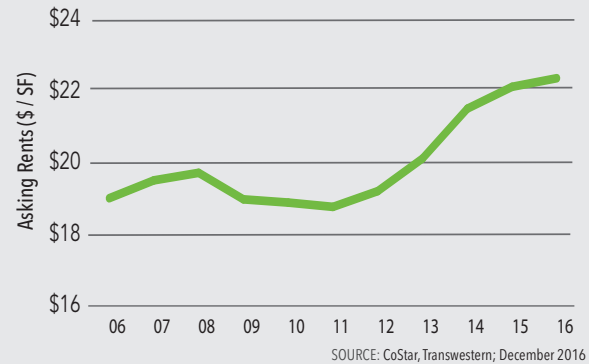
INVESTMENT MARKETS

Dallas-Fort Worth once again 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.

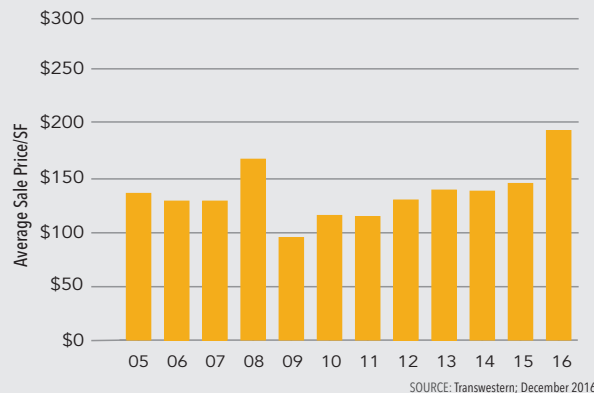
Submarkets with the largest year-over-year direct vacancy decrease:

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



AVERAGE OFFICE SALE PRICE





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.

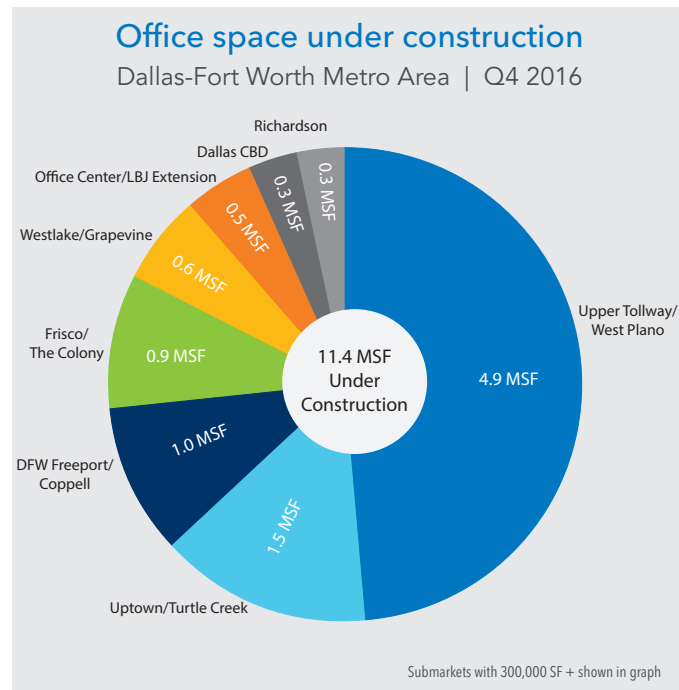
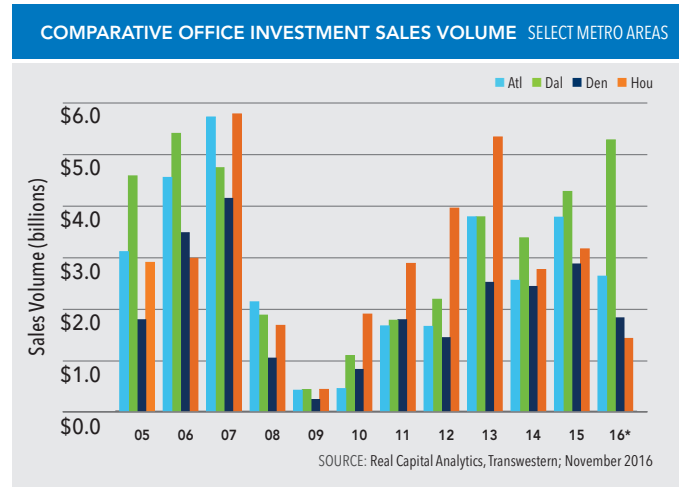
The most active investment submarkets in 2016, just as they were in 2015 and 2014, are Dallas CBD and Uptown in the city's core, along with suburban markets like Upper Tollway/West Plano and Richardson. This is due to billions of dollars being spent on mixed-use, high-density developments in those areas.

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.



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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/Eules/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

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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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