

# MARKETBEAT

## DALLAS OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q08

### ECONOMY

The Dallas economy showed slower growth during the first nine months of 2008, but still outperformed the nation. According to the Texas Workforce Commission, the Dallas-Plano-Irving Metropolitan Division reported 44,600 jobs created over the past 12 months. As of August 2008, industry groups that lease office space, such as information, financial activities and professional and business services, accounted for a loss of 600 jobs. Unemployment increased 0.9 percentage points in Dallas over the past year to a rate of (5.2%) slightly above Texas (5.1%) and bettering the U.S (6.1%). Given the current financial crisis, it is anticipated that the North Texas Region, with a vast amount of financial services employment, could see major reductions in employment into 2009 necessitated by the resulting consolidations.

### OVERVIEW

While the national economy continued to falter with the announcement of the Lehman Brothers bankruptcy, Merrill Lynch sale to Bank of America, the pending sale of Wachovia, and the government bail out of major household name companies like Fannie Mae and Freddie Mac, Dallas' office market fundamentals remained active. Dallas overall absorption, including sublease space, totaled 915,754 square feet (sf) year-to-date. Although this occupancy was lower compared to third quarter 2007, demand by service companies, law firms and oil and gas companies remained robust. Corporate relocation announcements by AT&T and Research in Motion continue to offset consolidations by other firms. Major occupiers of space included Capital One, Comerica Bank, Bank of America, JP Morgan Chase, Nexen Petroleum Capital Institutional Investors, HBK Investments, United Healthcare Group, Saxon Capital and Archon Group.

Demand by service companies led to vacancy rates continuing their downward trend. Overall and direct vacancy rates decreased 0.6 percentage points compared to the year ago period. Impacted by lower vacancy, full-service asking rental rates increased 4.7% for all classes and 4.2% for class A. Rental rates increased most in submarkets with new construction and strong demand such as the Turtle Creek Uptown, Las Colinas, Far North Stemmons and Far North Central Expressway.

Sales activity dropped 50.4% compared to third quarter 2007, recording 10.0 msf traded year-to-date. Given the tightening of the capital markets, cap rates have increased 150 basis points. Institutional investors will be the dominant buyers of large assets, with highly leveraged investors pushed out of the current sales arena. Sales volume will continue to drop until new price levels are achieved.

### FORECAST

Office space demand will slow and we should see a retraction of rent growth during the balance of 2008 and into 2009. The Dallas-Plano-Irving Metropolitan Division reports a total of 189,100 financial services positions. If this market reports a 5% drop in jobs in this industry due to Wall Street's crisis, approximately 1.9 msf of office absorption would be lost. The decrease in employment would impact either sublease space or come back to the market as direct space.

### BEAT ON THE STREET

"Credit markets and economic activity will continue to spiral down for the next few quarters. While investment sales activity in Dallas have surpassed most of the nation in the last quarter, owners will have to work extremely hard in the upcoming months to satisfy the fundamentals of asset capitalization. Keep rental rates up, vacancies low and present well managed properties to the market."


—Susan Gwin, Executive Director


### ECONOMIC INDICATORS


National	2006	2007	2008F
GDP Growth	2.8%	2.0%	1.9%
CPI Growth	3.2%	2.9%	4.4%
Regional			
Unemployment	4.8%	4.2%	5.2%
Employment Growth	3.8%	2.8%	1.3%

Source: Economy.Com

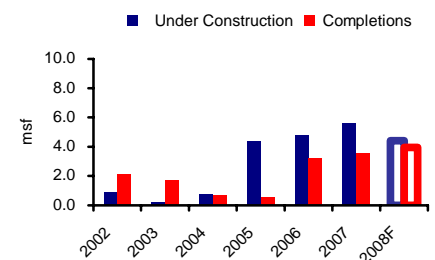
### MARKET FORECAST

**LEASING ACTIVITY** decreased 1.6% compared to year ago levels and is expected to remain stable during 2008. 

**OVERALL ABSORPTION** is expected to slow through the next quarter but remain positive for the year. 

**CONSTRUCTION** completions by year end will outpace 2007 totals by 12.1%. Another 1.9 msf is expected for delivery during 2009. 

### SF UNDER CONSTRUCTION VS. COMPLETIONS



### MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. CLASS A GROSS RENTAL RATE*
CBD	28,997,589	66	26.5%	25.7%	2,688,631	0	0	392,299	\$24.45
<b>CBD Total</b>	<b>28,997,589</b>	<b>66</b>	<b>26.5%</b>	<b>25.7%</b>	<b>2,688,631</b>	<b>0</b>	<b>0</b>	<b>392,299</b>	<b>\$24.45</b>
North Central Expressway	12,104,613	73	18.9%	18.5%	786,812	93,127	0	244,656	\$24.03
Preston Center/Near N Dallas	2,959,101	29	9.8%	7.3%	135,114	187,668	0	(46,644)	\$32.27
Turtle Creek/Uptown	8,792,471	65	13.6%	10.5%	706,735	1,517,547	400,000	(16,911)	\$35.17
Stemmons Freeway	9,997,063	72	31.2%	31.1%	413,750	0	0	176,033	\$20.08
Oak Cliff	556,534	9	18.9%	18.9%	21,162	0	0	(9,330)	N/A
LBJ Freeway	18,559,464	111	23.2%	21.3%	1,127,922	0	0	154,999	\$25.34
Northeast Dallas County	3,066,651	40	23.9%	23.0%	239,725	0	0	(27,355)	\$17.55
Las Colinas/DFW Freeport	26,764,231	172	23.5%	22.6%	1,634,515	0	367,000	(213,565)	\$24.87
Far North Dallas	16,613,377	132	19.6%	18.8%	1,326,299	198,000	0	(472,718)	\$27.29
Far North Central Expwy.	14,019,041	145	20.3%	19.2%	816,986	1,010,000	153,000	282,659	\$24.66
Mid Cities	6,385,600	87	17.2%	16.6%	235,128	600,000	0	115,083	\$24.65
Arlington	5,815,991	76	15.4%	15.3%	207,433	0	0	(50,094)	\$20.94
Far North Stemmons	3,731,556	49	35.6%	33.0%	349,707	0	240,000	(27,607)	\$22.40
Southwest Dallas County	423,719	13	12.5%	12.5%	44,792	0	0	(616)	N/A
East I-30 Corridor	1,073,551	18	6.3%	6.3%	12,622	0	0	(11,781)	N/A
Legacy/Frisco	13,346,701	106	24.7%	20.4%	990,256	808,250	642,110	426,646	\$27.67
<b>NON-CBD Total</b>	<b>144,209,664</b>	<b>1,197</b>	<b>21.6%</b>	<b>20.2%</b>	<b>9,048,958</b>	<b>4,414,592</b>	<b>1,802,110</b>	<b>523,455</b>	<b>\$25.51</b>
<b>Dallas Total</b>	<b>173,207,253</b>	<b>1,263</b>	<b>22.4%</b>	<b>21.1%</b>	<b>11,737,589</b>	<b>4,414,592</b>	<b>1,802,110</b>	<b>915,754</b>	<b>\$25.28</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Cigna Health Network BTS	Legacy/Frisco	Cigna Health Network	210,000	A
Plaza of the Americas	CBD	Tenet Health Care	159,605	B
Opus Corporate Center I, II	Las Colinas/DFW Freeport	LifeSynch	146,800	B

#### SIGNIFICANT 3Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Colonnade I, II, III	Far North Dallas	CBRE Investors	1,029,000	\$172,000,000
AT&T Plaza	CBD	Icahn Enterprises	1,011,005	Undisclosed
Pyramids at Park Lane A, B	North Central Expressway	Healthcare Realty Trust	290,000	\$59,200,000

#### SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Rosewood Court	Turtle Creek/Uptown	HBK Investments	400,000	7/08
Vista Ridge 7	Far North Stemmons	N/A	240,000	8/08
Opus Corporate Center II	Las Colinas/DFW Freeport	LifeSynch	112,000	7/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Blue Cross Build-to-Suit	Far North Central	Blue Cross Blue Shield	1,010,000	10/09
1 Destin Way	Mid Cities	Fidelity Investments	600,000	12/08
2000 McKinney	Turtle Creek/Uptown	Patton & Boggs LLP	446,500	10/08

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\*Market terms & definitions based on BOMA and NAIOP standards.

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