



DALLAS 1Q15 OFFICE MARKET

THE BOOM CONTINUES

The Dallas-Fort Worth office market began 2015 with its strongest first quarter since the dot-com bubble of 2000, as net absorption totaled 1.8 million square feet. This indicator is a little misleading, however: State Farm accounted for more than 1.0 million square feet of absorption when it occupied part of its regional campus, which is being built at the CityLine development in Richardson. State Farm also has a fourth tower and a data center under construction at the site. The campus will be one of four multifunctional hubs for the company, including its headquarters in Bloomington, Illinois, and regional hubs in Phoenix and Atlanta. Also under construction at the 186-acre CityLine development are a three-building, a 489,000-square-foot headquarters campus for Raytheon, 532 apartments, a 150-room Aloft Hotel, a multiplex cinema and a Whole Foods market.

Far North Dallas and the Dallas central business district (CBD) each absorbed approximately 342,000 square feet, but this was partially offset by negative absorption of 259,000 square feet in Las Colinas, 192,000 square feet in Lewisville/Denton and 4,600 square feet in Uptown/Turtle Creek. Other submarkets posted small positive absorption numbers, which boosted the total to 1.8 million square feet.

Vacancy Falling Despite Robust Construction

Absorption in Dallas-Fort Worth outpaced completions of nearly 1.6 million square feet, which pushed the vacancy lower to end the quarter at 18.9%, down from 19.2% in fourth-quarter 2014 and from 19.8% in first-quarter 2014. In addition to the three State Farm buildings, which total more than 1.5 million square feet, Nationstar Mortgage occupied a 175,585-square-foot building at Cypress Waters Office Park in Irving, and three smaller buildings were delivered in Fort Worth, Plano and Waxahachie.

Two of the region's 17 office submarkets ended the quarter with single-digit vacancy: South Fort Worth at 8.8% and Preston Center at 9.4%. At the other end of the spectrum, Northeast Fort Worth finished with vacancy in excess of 40.0%, followed by the LBJ Freeway submarket with 25.7%. The latter submarket has been negatively affected by the LBJ Express Project, which is doubling the capacity of the congested interstate highway. The project is scheduled for completion by year-end, and the submarket is already seeing increased tenant interest.

The Odd Couple

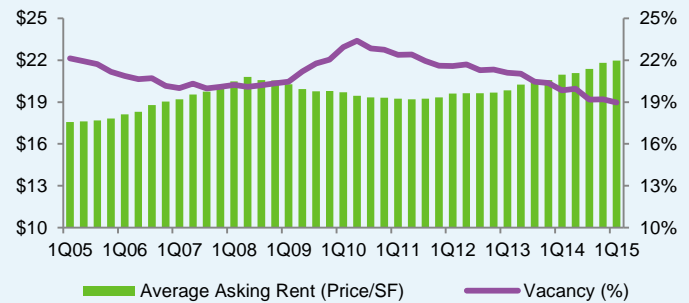
In the central part of Dallas, Klyde Warren Park, a 5.2-acre public space built atop the Woodall Rodgers Freeway, connects the Dallas CBD with the adjacent Uptown/Turtle Creek district, but the two submarkets remain far apart in terms of their market dynamics. Vacancy in the CBD remained elevated at 24.5% during the first quarter, while Uptown/Turtle Creek had the region's third-highest vacancy at 11.7%. The popular park has played a role in extending the cache of the Uptown area into the

Current Conditions

- 1.8 million square feet absorbed, the strongest first quarter since the dot-com bubble year of 2000.
- Absorption outpaced completions of nearly 1.6 million square feet.
- Asking rents at the end of the first quarter averaged \$21.99/SF full service, up by 0.8% during the quarter.

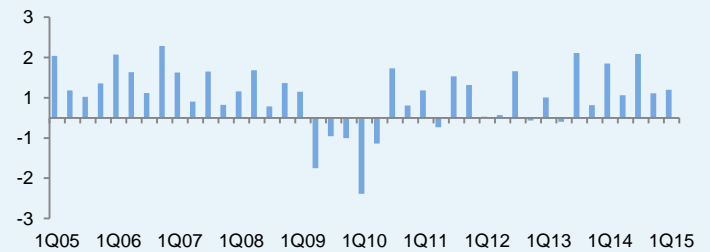
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	250MSF	229MSF	227MSF	↑
Vacancy Rate	19.0%	19.2%	19.8%	↓
Quarterly Net Absorption	693,689	611,054	1,350,204	↑
Average Asking Rent	\$21.98	\$21.82	\$20.97	↑
Under Construction	5,899,873	5,902,325	5,670,506	↓
Deliveries	1,558,384	836,857	259,273	↑



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CBD, notably the Arts District adjacent to the park in the CBD's northeast quadrant. But filling up the CBD's empty office space has been a slow process.

A number of older office buildings in the CBD have been converted to apartments and hotels. Most recently, the 32-story former LTV Tower at 1600 Pacific is being converted to residential and hotel space in a \$70.0 million rehab slated for completion later this year. Next up is the Mayflower Building, which has been vacant for the past decade. New owners are planning a \$54.0 million rehab that will include apartments, retail and parking. These conversions reduce office vacancy, while enhancing the popular live-work-play environment that appeals to employers, workers and residents alike.

Office construction projects still in the region's pipeline total 4.8 million square feet. Eleven of the 17 submarkets have at least some new space under way, led by Far North Dallas with nearly 1.5 million square feet, Uptown/Turtle Creek with 848,000 square feet and Richardson/Plano with 612,000 square feet, including the aforementioned Raytheon campus. Besides Raytheon, the largest projects underway in the region are 2021 McKinney Avenue in the Uptown/Turtle Creek submarket, with 530,000 square feet and an asking rent of \$37.82/SF; KPMG Plaza at 2323 Ross Avenue in the Arts District, with 450,000 square feet and an asking rent of \$45.00/SF; and Wade Park I in Frisco, with 400,000 square feet.

Asking rents averaged \$21.99/SF at the end of first-quarter 2015, up by 0.8% over the prior quarter and by 4.9% over the past four quarters. Rates were highest in Uptown/Turtle Creek at \$34.28/SF, followed closely by Preston Center at \$33.88, and lowest in Northeast Fort Worth, with its 40.7% vacancy rate, at \$14.92. The average rent in Dallas-Fort Worth was substantially below the U.S. average of \$27.40/SF in the first quarter, due to the market's higher-than-average vacancy of 18.9%, compared with 14.1% for the U.S. This above-average vacancy has not

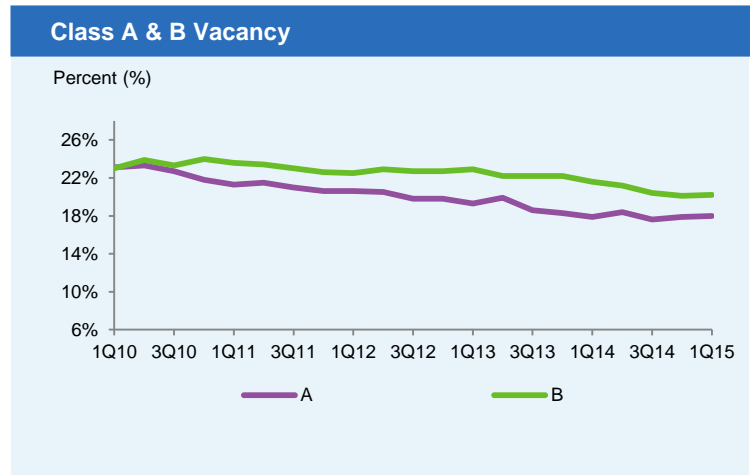
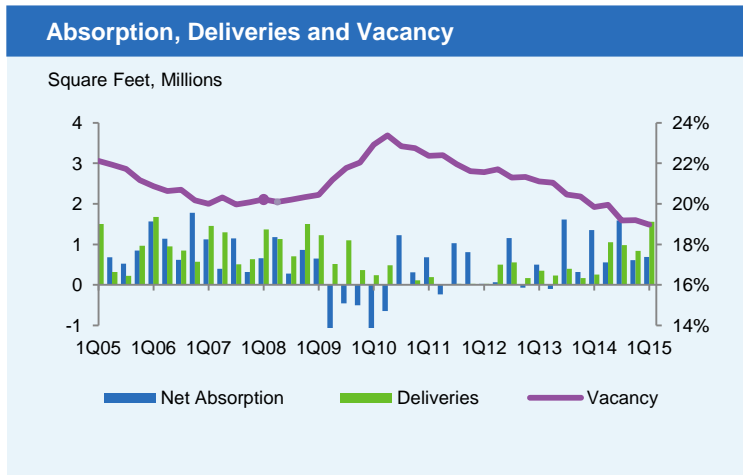
deterred developers, however. Dallas-Fort Worth has 4.8 million square feet in its construction pipeline, enough to place the market among the top five U.S. office markets. This results from a combination of factors, including the region's plentiful supply of land for development, extensive freeway network that opens access to vast swaths of developable land, developer-friendly regulatory climate and rapid growth, which call for a robust construction pipeline to accommodate growing demand.

State Farm's occupancy of its campus in the Richard/Plano submarket was the largest move-in this quarter. Among other first-quarter 2015 deals, NEC Corporation of America occupied 119,611 square feet in Royal Ridge V at the Royal Ridge Business Park in Irving; CenseoHealth renewed its lease for 65,516 square feet at 4055 Valley View Lane in Farmers Branch; and Behringer Harvard renewed its lease for 64,076 square feet at 15601 Dallas Parkway in Addison.

Investors Like the Region's Rapid Growth

First-quarter 2015 sales transactions in the Dallas-Fort Worth office market totaled approximately \$187.0 million, on par with the total of \$183.0 million from one year ago. Two transactions were notable for their size:

- Parmenter Realty Partners, a privately held investment, management and development company based in Miami, is acquiring Galleria Office Towers, three buildings totaling 1.4 million square feet near the intersection of LBJ Freeway and Dallas North Tollway. These Class A properties feature direct access to the upscale Galleria Mall and a Westin Hotel. The seller is Cannon Commercial, a Los Angeles-based private developer that has owned the properties since 2008. The acquisition is pending, and no pricing information is available.





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- In January, Select Income REIT purchased an 87-property portfolio from Cole Capital Income Trust, a private, non-traded REIT. The acquisition included the Allstate Freeport Campus in Irving— three buildings totaling 458,000 square feet—and two smaller properties in Irving and Rockwall, Texas. The sales price for the entire 87-property portfolio was approximately \$3.0 billion. Real Capital Analytics estimated the value of the Dallas area properties at \$133.0 million.

Several high-profile sales transactions were completed in 2014. In December, Brookdale Group acquired the 955,000-square-foot Carter Burgess Plaza in downtown Fort Worth for \$167.0 million, or \$175/SF, from Cousins Properties. The iconic Fountain Place tower in downtown Dallas sold in June to Goddard Investments for a rumored \$200.0 million, or \$167/SF. The 1.2-million-square-foot property was sold by MetLife. In July, Olymbec purchased 1700 Pacific Tower, a downtown Dallas property with 1.3 million square feet, from Berkeley Investments. The sales price was \$103.0 million, or \$77/SF.

Preliminary data from CoStar show the average cap rate for first-quarter 2015 transactions in Dallas-Fort Worth was 6.4%, and the price paid for properties averaged \$177/SF. Average pricing in Dallas tends to be lower than in the U.S. Office cap rates last year averaged 7.2% in Dallas compared with 6.8% in the U.S., while the price was lower at \$135/SF compared with the U.S. average of \$237/SF. This is consistent with other metrics showing that Dallas has both higher vacancy and higher construction totals than many other U.S. markets, a legacy of the freeway-oriented growth pattern, plentiful land, rapid growth and development-friendly planning and zoning regulations.

There are some submarkets, however, that command higher pricing, notably Uptown/Turtle Creek and Preston Center, where the price for office sales last year averaged \$202/SF and \$363/SF, respectively.

AVERAGE PRICING IN DALLAS TENDS TO BE LOWER THAN THE U.S.

Like other metro areas, Dallas-Fort Worth is seeing strong investor demand fueled by low interest rates, easy lending terms and rising rental rates. The area's full development pipeline and low barriers to entry may be off-putting to some investors, but others are attracted by the perpetually strong economic growth and the area's reputation as a magnet for corporate relocations. The main reason why Dallas' cap rates are higher and sales prices are lower than the U.S. average is because downtown Dallas has not yet become the dense, trendy magnet for millennials, the type of environment that attracts investors willing to pay \$300/SF, \$400/SF or \$500/SF. Suburban corporate campuses remain more in vogue here than in many other cities, as evidenced by the aforementioned State Farm campus in Richardson. However, developers are laying out these campuses much differently than they did 20 years ago: They are including a mix of uses, a walkable design and, where possible, access to rail transit. For example, Richardson's CityLine project, where the State Farm and Raytheon campuses are located, has easy access to DART, the region's light rail system. Consequently, some suburban locations in Dallas will command higher average pricing than downtown.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Teladoc	1945 Lakepointe Drive	Lewisville/Denton	New	57,210
Great Hearts of America	4250 N Belt Line Rd	LBJ Freeway	New	45,436
Avnet	3101 President George Bush Hwy	Richardson/Plano	New	36,562
TopGolf USA, Inc.	1717 McKinney Ave	Central Expressway	New	36,221
Life of Southwest	15455 Dallas Pky	Far North Dallas	New	27,004

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
2911 Turtle Creek Blvd	Uptown/Turtle Creek	\$46,600,000	\$263	177,169
3100 McKinnon Street	Uptown/Turtle Creek	\$38,900,000	\$178	218,943
3900 N Dallas Rd	Far North Dallas	\$26,200,000	\$218	120,019
250 E Arapaho Rd	Richardson/Plano	\$24,700,000	\$158	155,984
2740 Dallas Pky	Far North Dallas	\$20,750,000	\$177	117,050



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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	29,076,623	450,000	24.5%	331,164	331,164	\$22.59	\$17.16	\$22.37
Ft Worth CBD	8,506,672	0	16.3%	29,561	29,561	\$26.61	\$20.28	\$26.37
CBD Total	37,583,295	450,000	20.4%	360,725	360,725	\$24.60	\$18.72	\$24.37
Central Expressway	11,960,359	235,893	17.4%	28,810	28,810	\$24.04	\$17.08	\$23.68
East Dallas	6,058,771	20,773	12.8%	7	7	\$19.67	\$0.00	\$19.67
Far North Dallas	38,969,756	1,453,239	15.6%	329,601	329,601	\$24.38	\$22.27	\$24.05
Las Colinas	29,816,551	306,219	19.9%	-259,092	-259,092	\$22.88	\$18.11	\$22.52
LBJ Freeway	20,279,544	0	25.7%	121,254	121,254	\$19.40	\$17.79	\$19.35
Lewisville/Denton	6,288,294	253,464	17.0%	-196,638	-196,638	\$20.10	\$13.26	\$20.02
Mid-Cities	17,436,142	74,800	20.8%	66,204	66,204	\$20.03	\$16.20	\$19.19
North Fort Worth	1,663,018	357,214	18.4%	14,212	14,212	\$22.28	\$18.00	\$22.21
Northeast Ft Worth	2,696,065	0	40.7%	17,856	17,856	\$14.98	\$0.00	\$14.98
Preston Center	4,054,513	190,000	9.3%	-8,831	-8,831	\$34.19	\$30.42	\$33.88
Richardson/Plano	20,648,487	1,710,536	15.7%	57,688	57,688	\$19.98	\$19.29	\$19.91
South Ft Worth	8,424,980	0	8.8%	61,926	61,926	\$20.73	\$19.29	\$20.65
Southwest Dallas	2,422,994	0	15.7%	43,772	43,772	\$16.05	\$0.00	\$16.05
Stemmons Freeway	10,685,796	0	27.3%	53,406	53,406	\$14.70	\$15.16	\$14.72
Uptown/Turtle Creek	10,595,253	847,735	11.6%	2,789	2,789	\$35.27	\$28.72	\$34.24
Suburban Total	192,000,523	5,449,873	18.4%	332,964	332,964	\$21.91	\$15.71	\$21.67
Market	384,001,046	10,899,746	19.0%	332,964	332,964	\$22.17	\$19.91	\$21.98



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ECONOMIC CONDITIONS

The Dallas-Fort Worth labor market is booming. Payroll employment in the region is 10.3%, ahead of the prerecession peak that occurred in 2008 and the sixth-strongest performance among 60 large metropolitan areas analyzed by NGKF. Ranking ahead of Dallas-Fort Worth are Austin, Houston, San Antonio, San Jose and Nashville. The U.S. labor market, by comparison, is 2.0% ahead of its prior peak.

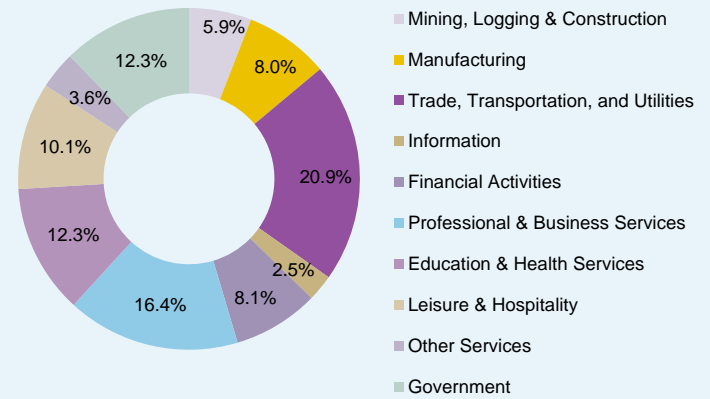
Dallas-Fort Worth ranks even higher in terms of recent job growth, up 4.4% through the 12 months ending in January. That's the third-fastest rate among the 60 top markets, behind only San Jose and Fresno.

Over the past 12 months, Dallas-Fort Worth employers have added 132,400 new jobs, led by the trade, transportation and utilities sector with 31,100, professional and business services with 27,200 and leisure and hospitality with 18,100. All sectors except information added jobs.

The unemployment rate in January for Dallas-Fort Worth was 4.4%, down from 5.6% 12 months ago.

Employment By Industry

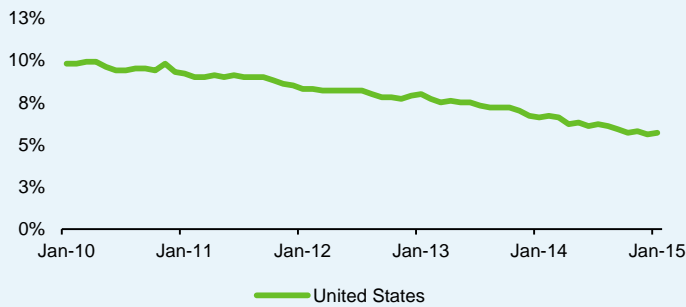
Dallas, January 2015



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

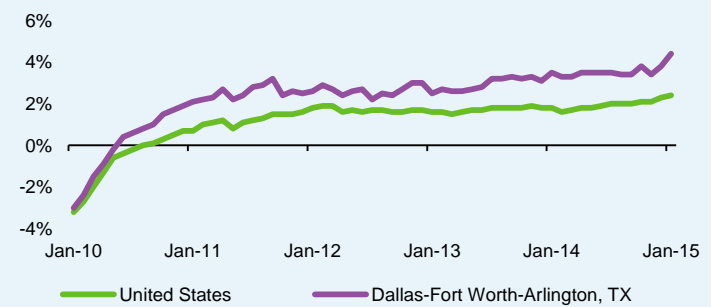
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Payroll Employment

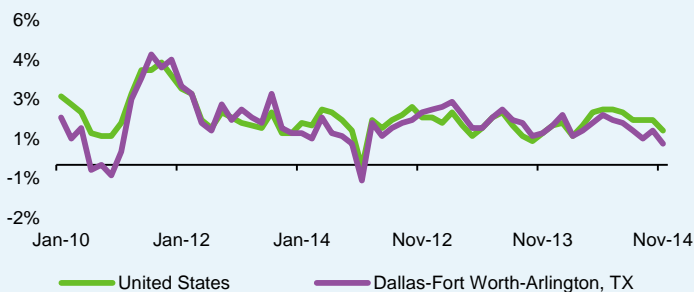
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics,

Consumer Price Index (CPI)

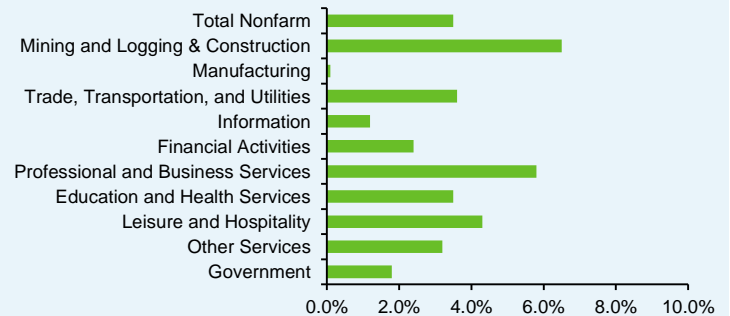
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

Dallas, January 2015, 12-Month % Change, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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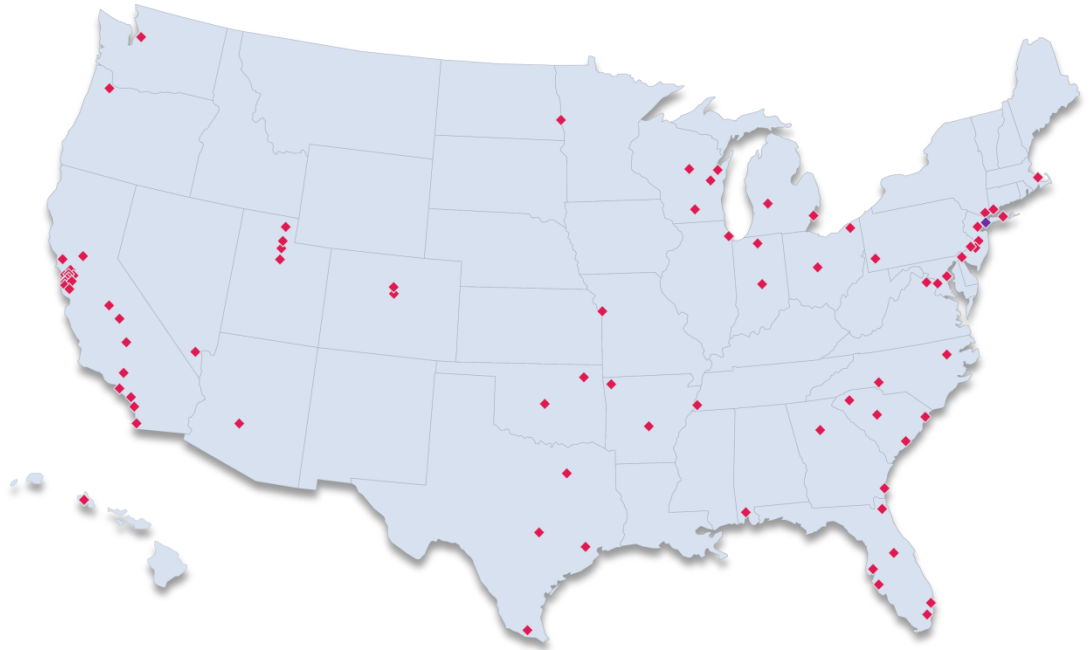
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