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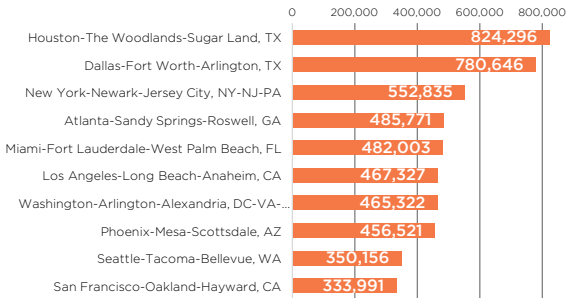
# MARKET *Insights*



## TOP 10 METRO AREAS

### ESTIMATES OF POPULATION CHANGE

July 1, 2010 - July 1, 2016

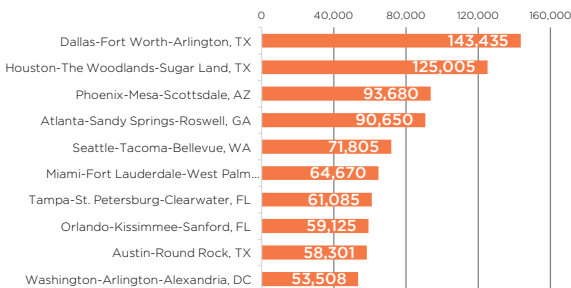


Sources: U. S. Census Bureau, Younger Partners

## TOP 10 METRO AREAS

### ESTIMATES OF POPULATION CHANGE

July 1, 2015 to July 1, 2016



Sources: U. S. Census Bureau, Younger Partners

## Population

One of the primary drivers of demand for real estate is population growth. A developer once used this analogy: "If you want to hunt ducks, go to where there's water." If an area is growing in population, there is a good chance demand for real estate will also be growing.

So how is the Dallas-Fort Worth area doing in terms of population growth? According to the U.S. Census Bureau, the Dallas-Fort Worth-Arlington Metropolitan Statistical Area ("MSA") in the United States, with an estimated population of 7.2 million as of July 1, 2016 (the most recent population estimates available). By comparison, the three largest MSAs in terms of population as of July 1, 2016 were New York, Los Angeles and Chicago with populations of 20.2 million, 13.3 million, and 9.5 million respectively. Since the last census in 2010, the Census Bureau estimates the population of the Dallas-Fort Worth MSA grew by 780,646 from July 1, 2010 to July 1, 2016, or an average of 130,108 per year. That's a gain of 356 per day. The compounded annual growth rate during this period was 1.92%. By comparison, New York, Los Angeles and Chicago had compounded

annual growth rates of 0.46%, 0.60% and 0.07% respectively.

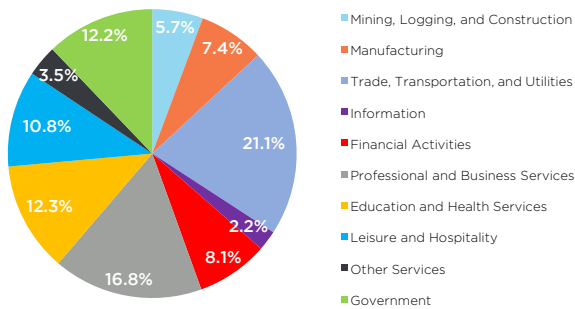
For the most recent annual Census Bureau period, Dallas-Fort Worth had the largest numerical gain in population of any MSA in nation with a gain of 143,435.

As for the future, two independent sources estimate the population of Dallas-Fort Worth will reach approximately 10.7 million by the year 2040. American City Business Journals estimates the Dallas-Fort Worth population will grow from 7.1 million to 10.9 million during the period 2015 to 2040, an increase of 3.8 million. This equates to an average annual increase of 152,020 and a compounded annual growth rate of 1.73%. The North Central Texas Council of Governments (NCTCOG) estimates the Dallas - Fort Worth population will grow from 6.4 million as of the 2010 Census to 10.7 million by the year 2040, an average annual increase of 144,578 and an annual compounded growth rate of 1.75%. It should be noted that the NCTCOG's prior estimate of the Dallas - Fort Worth population, an estimate of the 2010 population made in 1987, underestimated the actual population per the 2010 Census.

# DALLAS-FORT WORTH

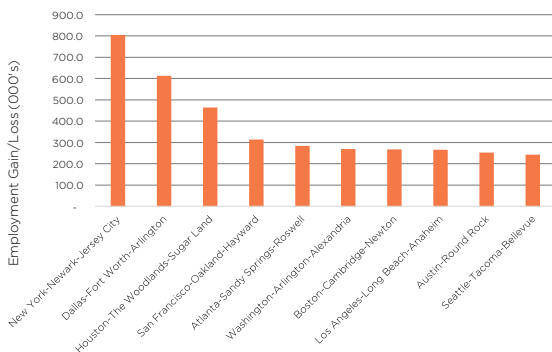
## EMPLOYMENT BY INDUSTRY SECTOR

### DALLAS-FORT WORTH - ARLINGTON AS OF MAY 31, 2017



## METROPOLITAN AREAS WITH LARGEST NUMERICAL EMPLOYMENT GROWTH<sup>1</sup>

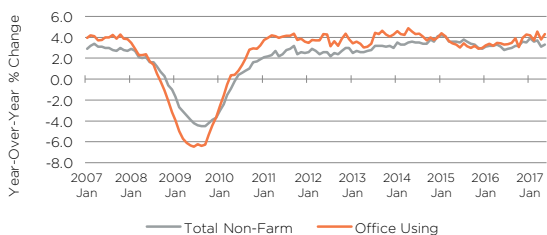
### MAY 2007 to May 2017



<sup>1</sup> Total non-farm employment in Metropolitan Statistical Areas  
Source: Bureau of Labor Statistics, Younger Partners

## ECONOMIC GROWTH<sup>1</sup>

### DALLAS-FORT WORTH-ARLINGTON MSA



<sup>1</sup> Not seasonally adjusted  
Source: Bureau of Labor Statistics, Younger Partners

## Employment

For office space demand, employment – especially employment in the “office-using” industry sectors – is a key driver.

According to the Bureau of Labor Statistics, Dallas-Fort Worth was the fourth largest employment market in the nation with total non-farm employment of 3.6 million as of May 2017. Of this total, 27.1% or 973,300 jobs were in the office-using sectors of Professional and Business Services, Financial Activities, and Information.

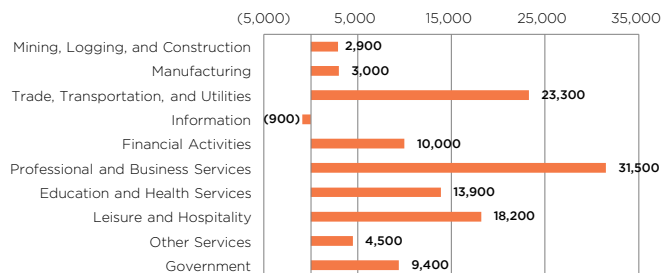
**OVER THE LAST TEN YEARS, DFW HAD THE 2ND LARGEST NUMERICAL INCREASE IN EMPLOYMENT IN THE NATION.**

Over the last ten years, Dallas-Fort Worth had the second largest numerical increase in employment in the nation, an increase 613,300. While it was second in numerical growth, in percentage terms it grew at a compounded annual growth rate of 1.9% during the period. By comparison, the three largest employment markets, New York, Los Angeles and Chicago, grew at compounded annual growth rates of 0.9%, 0.5% and 0.3% respectively over the same period.

Employment growth in Dallas-Fort Worth – both total non-farm and office using – has been fairly consistent since 2010. For the last fiscal year ending May 31, 2017 (the most recent information available from the Bureau of Labor Statistics), Dallas-Fort Worth’s total non-farm employment grew by 115,800 or 3.3%, which was the second largest numerical increase in the nation (the New York MSA led the nation with a gain of 151,500 jobs or 1.6%, 102,000 of which occurred in May of 2017). Dallas-Fort Worth’s most recent annual gain in total non-farm employment exceeded that of the prior fiscal year, which had a gain of 105,300 or 3.1%. Total office-using employment grew by 40,600 or 4.3% during the past fiscal year, up from the 31,100 or 3.4% gain achieved in the prior fiscal year. While the office-using sectors represented 27.1% of all non-farm employment as of May 31, 2017, it captured 35.1% of all non-farm employment growth in the last fiscal year.

## EMPLOYMENT GROWTH BY INDUSTRY SECTOR

### DALLAS-FORT WORTH - ARLINGTON FOR THE 12 MONTHS ENDING MAY 31, 2017

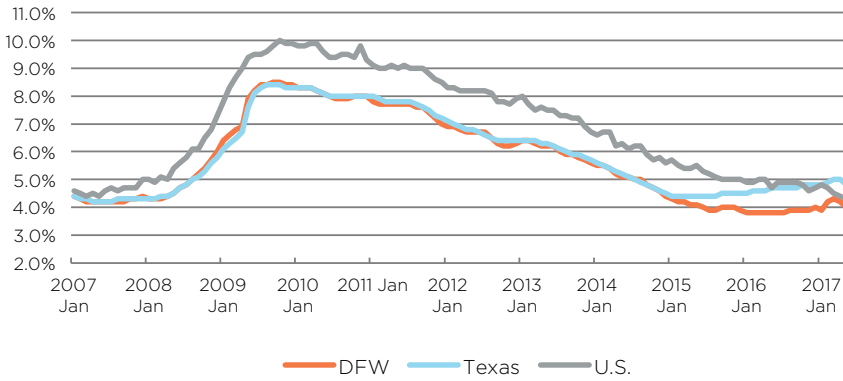


Sources: Bureau of Labor Statistics, Younger Partners

# DALLAS-FORT WORTH

## UNEMPLOYMENT RATES

SEASONALLY ADJUSTED



Sources: Bureau of Labor Statistics, Younger Partners

## Unemployment Trends

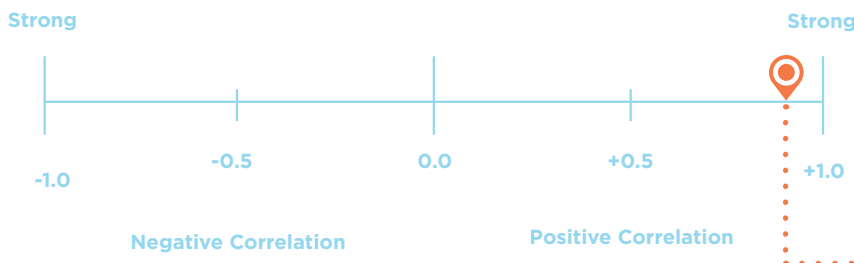
Unemployment rates for Dallas-Fort Worth, Texas, and the United States were 8.5%, 8.4%, and 10.0% respectively on October 31, 2009. Unemployment rates in Dallas-Fort Worth fell to a low of 3.8% in July of 2016 and started trending upwards thereafter, reaching 4.3% in March of 2017. However, rates fell in both April and May of this year to 4.2% and 4.0% respectively. Texas reached a low of 4.4% in August of 2015, rose to 5.0% in April of 2017, but fell 20 basis points to 4.8% in May of 2017. The unemployment rates for Dallas-Fort Worth, Texas, and the United States of 4.0%, 4.8%, and 4.3% respectively as of May 31, 2017 are considered near full-employment. Employer demand for labor is expected to continue at healthy rates, but the reduced labor pool will create some headwinds for future employment growth.

## Employment and GDP

Growth in employment and gross domestic product (GDP) is highly correlated. From 2003 through 2015 (the most recent GDP data for DFW from the Bureau of Economic Analysis), annual growth rates in real GDP and total non-farm employment in DFW had a correlation coefficient of 0.928. The coefficient for perfect positive correlation is 1.0; zero (0) has absolutely no correlation; and negative one (-1.0) has perfect negative correlation, where



one moves exactly opposite of the other. Nationally, real GDP grew 1.62% in 2016. According to the minutes of the most recent meeting of the Federal Open Market Committee, held June 13-14, 2017, the Federal Reserve projects real GDP will grow 2.2% in 2017 and 2.1% in 2018. If these projections prove to be accurate, and provided sufficient qualified labor is available, DFW employment growth in 2017 and 2018 should exceed that of 2016.



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Nationally, real GDP grew 1.62% in 2016

⋮

↗

Federal Reserve projects real GDP will grow 2.2% in 2017 and 2.1% in 2018

⋮

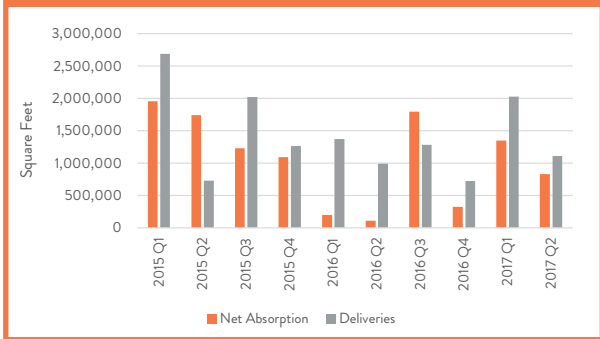
GDP Growth = Job Growth  
DFW Correlation Coefficient 0.928

# DALLAS-FORT WORTH

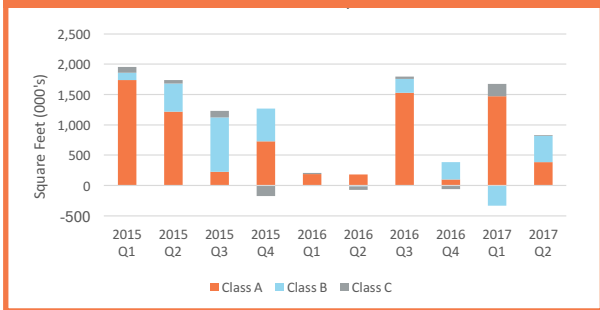
## Office Market Conditions

## Demand and Supply

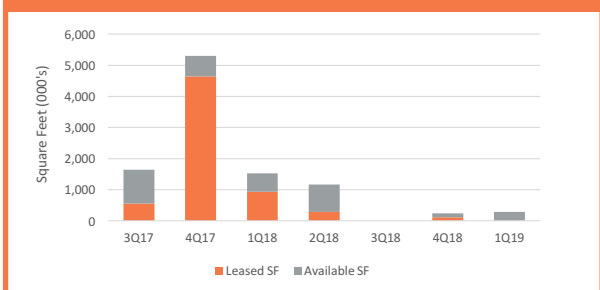
### NET ABSORPTION & DELIVERIES



### CLASS NET ABSORPTION



### DELIVERY SCHEDULE



Office space demand in Dallas-Fort Worth continued at a healthy clip with 832,191 square feet of net absorption recorded in the second quarter of 2017, 80% of which occurred in the Far North Dallas submarket, the largest submarket in Dallas-Fort Worth. While net absorption this quarter was down from the 1,345,919 square feet achieved in the prior quarter, net absorption for the twelve months ending June 30, 2017 was 4,301,755, significantly greater than the 2,629,657 square feet achieved in the prior fiscal year.

Of the total 832,191 square feet of net absorption recorded in the second quarter, 383,328 square feet or 46% occurred in class A space, 435,405 square feet or 52% was in class B space, and 13,458 square feet or 2% was in class C space. Of the total 10.6 million square feet of net absorption recorded since 2014, 73% has been in class A space, 25% in class B space and 2.1% in class C space.

Several large corporate occupancies are set to take place in the fourth quarter, including 1.7 million square feet by Toyota Motor North America at its new headquarters, 1.4 million square feet by JP Morgan Chase, and 1.1 million by Liberty Mutual, all of which are located in the Far North Dallas submarket.

On the supply side, Dallas-Fort Worth saw 1,107,228 square feet of new space delivered to the market in the second quarter of 2017, down from the 2,024,870 square feet delivered in the prior quarter. Toyota Motor North America took 400,000 square feet at its new headquarters in the Far North Dallas submarket and D. R. Horton took 200,000 square feet in a building located in the Mid-Cities submarket. The remaining 507,228 square feet delivered this quarter was 34.5% leased. For the fiscal year ending June 30, 2017, a total of 5,140,323 square feet was delivered to the market, down from 5,649,034 square feet delivered in the prior fiscal year. Since 2014,

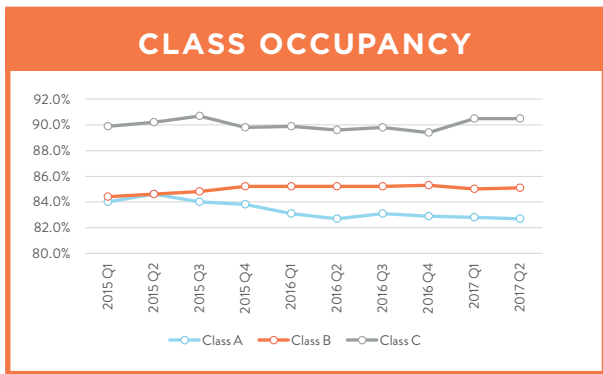
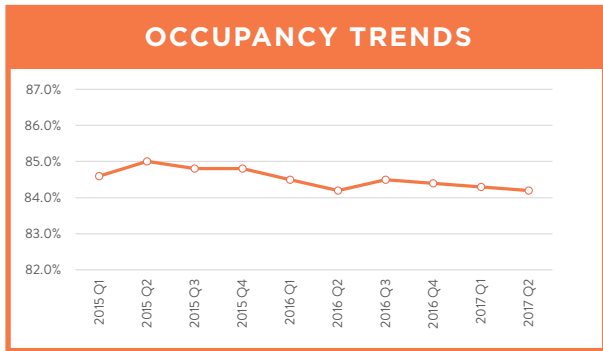
**80%**  
of net absorption  
occurred in  
Far North Dallas

deliveries have outpaced net absorption by 3,582,189 square feet, which has led to falling overall occupancies. As of June 30, 2017, there was 10,289,380 square feet of office space under construction in Dallas-Fort Worth, which was 65% leased. Of this total, 5.87 million square feet was in the Far North Dallas submarket; however, 4.2 million of that was pre-leased by Toyota, JP Morgan and Liberty Mutual. Excluding the Toyota, JP Morgan and Liberty Mutual space, the remaining 6,089,380 square feet under construction in DFW was 39% leased leaving 3.7 million square feet of unleased space.

**Since 2014, deliveries have outpaced net absorption by 3,582,189 square feet, which has led to falling overall occupancies.**



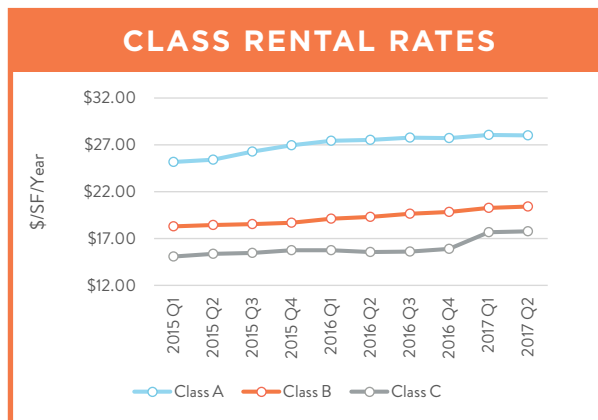
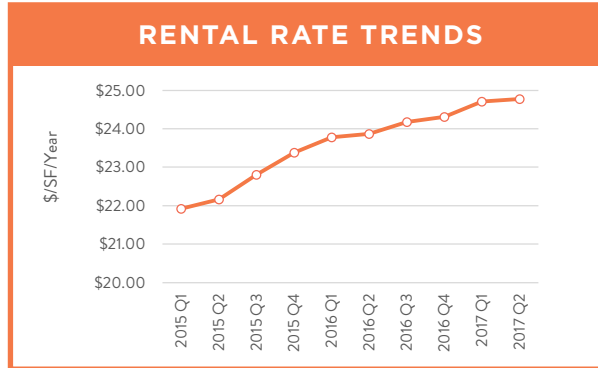
## Occupancy Trends



The overall occupancy level in Dallas-Fort Worth declined 10 basis points to 84.2% during the second quarter. The current quarter's occupancy rate is the same as it was a year ago. Despite the excess supply of space delivered since 2014, occupancy rates have only fallen modestly given the large amount of total space inventory in the Dallas-Fort Worth market, which stood at 292 million at the end of the second quarter. Class A occupancy rates dropped 10 basis points to 82.7% during the quarter; class B rose 10 basis points to 85.1% and class C remained unchanged at 90.5%. Compared to a year ago, class A occupancy was unchanged, class B fell 10 basis points and class C rose 90 basis points from 89.6% to 90.5%. Overall occupancy rates are expected to continue declining modestly during the next several quarters given the amount of new space scheduled to be delivered.

**Overall occupancy rates are expected to continue declining for the next several quarters**

## Rental Rate Trends



**Year-over-year increases in rental rates reached a peak in the first quarter of 2016.**

The overall annual asking rental rate in Dallas-Fort Worth, on a full-service or gross basis, rose \$0.07 or 0.3% during the second quarter to \$24.78 per square foot. This was the smallest quarterly increase since the fourth quarter of 2012. During the past year it rose from \$23.87 per square foot, an increase of \$0.91 per square foot or 3.8%. In the prior fiscal year ending June 30, 2016, the rental rate increased from \$22.16 per square foot to \$23.87, an increase of \$1.71 or 7.7%. Year-over-year increases in rental rates reached a peak in the first quarter of 2016 when it posted an increase of \$1.86 per square foot or 8.5%. Since that time,

year-over-year increases have fallen each quarter to the current rate of 3.8%. The Dallas-Fort Worth market has now had nineteen (19) consecutive quarterly increases in the overall asking rental rate. Since a low of \$18.99 per square foot in the third quarter of 2011, overall asking rental rates have increased at an annual compounded growth rate of 4.66%. Don't be surprised if the overall asking rental rate falls in the next quarter or two.

Over the past quarter, class A annual rental rates fell \$0.04 or 0.1% to \$28.02 per square foot, class B rates rose \$0.11 or 0.5% to \$20.39, and class C rates rose \$0.12 or 0.7% to \$17.77. Over

the past twelve months, class A asking rates increased \$0.50 or 1.8%, class B increased \$1.11 or 5.8%, and class C increased \$2.20 or 14.1%. From a low in the third quarter of 2011 through the end of the second quarter of 2017, class A asking rental rates increased at an annual compounded rate of 4.3%, class B rates increased 3.82%, and class C increased 5.35%. Since the third quarter of 2011, year-over-year increases in class A rates peaked in the first quarter of 2016 when they increased \$2.22 or 8.8% and have fallen each quarter since. Class B rates reached a high last quarter with an annual increase of \$1.15 or 6.0%, and class C rates reached the highest year-over-year change of \$2.20 or 14.1% this quarter.

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# MARKET *Insights*



## SUBMARKETS

SELECT SUBMARKETS	INVENTORY		VACANCY		NET ABSORPTION		CONSTRUCTION		ASKING RENT
	# of Bldgs.	Total SF	Total SF	Rate	Current Quarter	YTD	Completions	Under Construction	Wtd Avg (FS/G)
Central Expressway	98	12,479,588	1,394,119	11.2%	26,045	-4,141	0	0	\$26.79
Dallas CBD	97	33,325,637	7,426,808	22.3%	-63,555	37,576	92,237	261,400	\$25.31
Far North Dallas	437	51,627,134	6,966,309	13.5%	665,303	991,573	400,000	5,876,865	\$27.41
Las Colinas	297	38,244,160	5,682,754	14.9%	-143,748	770,438	339,359	736,219	\$25.07
LBJ Freeway	163	21,271,355	4,794,890	22.5%	10,852	-9,386	0	0	\$21.56
Preston Center	51	5,368,987	474,302	8.8%	-5,485	-20,078	0	171,583	\$36.65
Richardson/Plano	319	32,163,624	5,417,032	16.8%	144,290	-108,034	75,632	576,867	\$24.03
Stemmons Freeway	128	13,085,990	3,067,249	23.4%	40,805	72,512	0	0	\$16.82
Uptown/Turtle Creek	101	13,790,319	1,486,391	10.8%	-11,182	160,200	0	1,305,013	\$37.41
CLASS A	541	145,147,237	25,149,012	17.3%	383,328	1,854,703	692,237	9,688,514	\$28.02
CLASS B	1,717	127,393,596	19,026,698	14.9%	435,405	105,459	414,991	600,866	\$20.39
CLASS C	521	19,308,885	1,825,228	9.5%	13,458	214,516	0	0	\$17.77
<b>TOTAL DFW</b>	<b>2,778</b>	<b>291,828,275</b>	<b>45,994,960</b>	<b>15.8%</b>	<b>832,191</b>	<b>2,178,110</b>	<b>1,107,228</b>	<b>10,289,380</b>	<b>\$24.78</b>

For additional information on any of the submarkets shown above, please refer to our Market Snapshot reports.

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