



Broker Outlook 2008 - Dallas / Fort Worth

According to Bernard Deaton, executive vice president and managing partner with Bradford Companies/CORFAC International, the Dallas Metroplex has seen a continued positive trend in absorption through the second quarter and all indications are that it will continue through the third quarter and beyond.

Currently, tenants are seeking quality product and are willing to pay a premium for efficiency and amenities — many tenants are even looking at their office location as a way to assist them in employee retention and recruiting, says Kathy Permenter, senior vice president with CB



Bernard Deaton
Executive Vice President
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Richard Ellis. “Going green also is becoming a major consideration, much more than 12 months ago,” she says.

Intellicenter-Dallas

For example, LEED-certified buildings are garnering more interest than in the past, with several notable projects leading the way. Intellicenter-Dallas (see Intellicenter-Dallas and One Victory Park Raise the Bar for Green Office Design in Texas), which is a development of Koll Development Company, and McKinney Green Building, developed by HDR, are two facilities that have been delivered with much success in the Dallas/Fort Worth market during the

past year. Another green project, One Victory Park (also see sidebar), is generating buzz and is expected to bring a new level of office product to the Uptown/Downtown areas of Dallas when it is completed by Hillwood.

Driving this office activity in Dallas/Fort Worth is a solid job market, which attracts new companies to the area as well as supports local business growth. According to Permenter, Dallas/Fort Worth has a lower unemployment rate than Texas and the rest of the nation. “The U.S. Bureau of Labor Statistics recently announced North Texas has added 91,000 jobs in the 12-month period ending in July,” Permenter says.

Another driving factor in the strong office activity is that the Metroplex boasts a housing market that has not seen the same value loss as other cities. “The financial activities sector, which has struggled with the housing turndown in other major metro areas, is expected to expand by more than 5 percent by year-end,” says Tim Speck, first vice president/regional manager of the Dallas office of Marcus & Millichap Real Estate Investment Services.

According to Deaton, the core businesses for the Dallas area are in finance, communications and technology, which are the firms that Dallas/Fort Worth has seen expand into more space. Following those businesses are the companies that support those firms, such as CPAs, lawyers and the credit industry. Within Dallas/Fort Worth, the core

companies and their derivatives are seeking office product in good locations, with access to an employee base and flexible type. “What has changed is the vacancy in Class A is limited, so companies are having to change their space requirements to Class B and/or Class A- space. Rate and availability are driving those changes,” he says.

While Class A vacancy is limited, vacancy in Dallas’ central business district (CBD) is open; however, there are positive trends in the downtown market. “Most of the financial companies are staying in the CBD, and word on the street is that some of the law firms are looking at putting satellite offices in outer areas while keeping their headquarters in the Dallas CBD,” Deaton says. “A major insurance company that is currently located in the suburbs has chosen to relocate downtown.”

Dallas/Fort Worth’s suburban submarkets continue to perform well, as most of the technology and service firms still prefer these areas due to factors such as location, workforce and rental rates, according to Deaton.

The Frisco/North Plano submarket is an example of a suburban area that is seeing substantial activity and is therefore driving other markets. “Recently, a 100,000-square-foot deal was announced, and competing for that same space were two other companies looking for 50,000 square feet each,” Deaton says. “Both of those deals were picked up in competing buildings. As soon as the original 100,000-square-foot deal was signed, the competing buildings increased their rates by \$4. Due to this, Frisco/North Plano changed overnight.”

Similar deals are starting to happen in other markets, and concessions are slowly being tweaked downward, Deaton says. “All of the economic indicators are positive and our leasing office market is improving quarter by quarter,” he says. “2008 should be a banner year for Dallas office.”

On the investment side, activity within Dallas/Fort Worth remains strong even though there is more diligent underwriting taking place, Permenter says. “Trades are definitely continuing, but they are shifting more from the entrepreneurial investor to mainly institutional,” Permenter says. “Investors are looking for prime locations and prime properties that are weathering the storm. Buyers are not paying for vacancy as they had been 6 to 12 months ago.”

In Dallas — where construction is up to \$290 per square foot — existing office buildings are attractive to investors as they can be acquired for much cheaper at \$175 to \$200 per square foot, according to Foster. “Current high construction costs are raising the allowable ceiling for acquisition costs by investors,” he says.

Out-of-state investors and pension funds have been very active in the market, supporting a 5.7 percent increase in the Metroplex’s transaction velocity, Speck says, who predicts that investors from around the country will continue to target assets here. Local buyers, which haven’t played as large of a role in recent years, according to Speck, are starting to accelerate their activity, focusing on well-located Class B assets for value-add plays. “As conditions tighten, demand for these properties will increase, as local employers are looking to maintain costs and stay in centralized locations.”

— *Lindsey Walker*

— *Bernard Deaton is executive vice president and managing partner for Bradford Companies / CORFAC International in Dallas.*