

## North Texas Office Interviews

**“Dallas is the place to be right now.”** - Sharon Friedberg



**Bill Archer**  
Vice President  
John Bowles Company  
Dallas



**Calvin Hull**  
Senior Vice President  
Jones Lang LaSalle  
Addison



**Curt Fuller**  
Principal  
Fuller Group Realty Advisors LLC  
Addison



**Buddy Tompkins**  
Senior Director  
GVA Cawley  
Dallas



**Ben Hautt**  
Associate  
Stream Realty Partners, LP  
Fort Worth



**Chris Barnett**  
Managing Director  
GVA Cawley  
Dallas



**Doug Harbison**  
Associate  
Transwestern Commercial  
Dallas



**Sharon Friedberg**  
Vice President  
Bradford Companies  
Dallas



**Byron McCoy**  
Principal  
Holt Lunsford Commercial  
Addison

North Texas

**REDNews:** Compare the 2007 office leasing market to 2008 in terms of the number of transactions, rental rates, etc. What, if anything, is different from this year from 2007? Are lease rates holding firm in your area or are they increasing/decreasing? Do you anticipate “free rent” or other rental incentives, more/less transactions? If there is a change, how long do you think it will last?

**Byron McCoy:** Tenants are a lot more cautious these days because of the economy. In my area, lease rates are holding firm and slightly increasing because owners have to hold still. I do not anticipate free rents or more rental incentives because what is already out there is incentive enough. If there is a change, it would probably last no more than six months.

**Calvin Hull:** Less people are looking for space because of the declining economy. It also has to do with the election year because corporations are waiting to see what's going to happen. There will always be free rent and rental incentives, but you have to look at specific situations. In Houston, there doesn't need to be any rental incentives because it's a booming city. It all depends on a market-to-market basis. But rental rates are increasing. For the past 12 months, lease rates have been holding firm in our area, and have not risen. The second quarter of 2008 is down from the first quarter of 2007. It is still good, but not as good. I'm not saying it's gloom and doom because every election year there is always an uncertainty. There has been an impact in office leasing for tenants. Office buildings are being sold but only because we are in a 5-year bull market. There has been a push for rental rates to increase.

**Curt Fuller:** Yes, there is more sublease space. In general, companies are consolidating space or in some worst case scenarios, they have pulled out. Different factors have caused reductions. I haven't seen lease rates going down much. They are holding steady. I haven't heard much about fire sales and I know the Central Expressway market increased one dollar. New owners are making some changes to capture lease rates. There is definitely a free rental component, probably 2 to 3 months free to get the tenants in. Free rent will get the tenants in, instead of lowering overall rent rates. From this standpoint, it will always be there. I think it is a very powerful component and I don't think it will go away anytime soon.

**Buddy Tompkins:** Yes, I think it's all about attitude. We are dealing with headline shock - people are reading the doom and gloom and are becoming uncertain. Clients who are locally based can make an easy transaction if it all stays in Texas, but if the deal has to go through New York, it falls through. The perception of the east and west coast affects the locals even if the sky is not falling here. Rates have increased over the last couple of years. Most of the reports are trailing indicators.

We are seeing the effects of transactions done last year. The concern of the tenants is the general economy. I hope things will get better, but to adjust to that we are going to see softness toward tenant improvements. To some extent, Dallas will stay stronger and Houston will too because of the oil. Dallas has fundamentals such as ports and our central location that make us attractive. We will take a hit, but not as bad as the rest of the country.

**Ben Hautt:** The number of transactions is roughly the same. The bigger deals are different and there is a lack of it. They are also taking more time. Our area is holding firm and that is probably a reflection of people holding onto their purchases. Rates have stayed high and that is probably more landlord-driven because they want to get the deal done. Those sorts of functions will increase in 2008 and they will have same rates on the backend.

**Chris Barnett:** The only difference we see is that companies are not expanding as much. Lease rates have held steady and there are more concessions. Effective rates have decreased because of the concessions. Some markets are different. The healthy markets are strong and the weaker ones have softened. Different submarkets are doing well such as Plano, Houston downtown and Houston Medical Center. I think incentives will increase. Different submarkets have different packages, but I have seen an increase.

**Doug Harbison:** Yes, we have seen a slowdown on the office end in terms of expansions. A lot of companies are not expanding as they were in 2007 and they are more hesitant than they were before. Lease rates are holding firm in our area which is in North Dallas along the Tollway. It just depends on some of the markets you are looking at. In my opinion, I do think free rents and rental incentives will increase as the economy continues on the downside. Landlords are making more aggressive transactions in order to get their buildings filled up.

**Bill Archer:** I have not really done office rentals this year, but according to the Dallas Morning News, office rentals are down 50 percent. In my area, lease rates are holding firm and they are probably going to soften up. There is definitely going to be more rental incentives to compete for tenants. If you don't compete, you won't get anyone. It will probably last a year and a half to two years.

**Sharon Friedberg:** I am experiencing a bit of a decrease in rental rates, but more of an increase in incentive such as free rent, free parking and larger tenant improvement packages. I see some markets that are almost totally quiet while others remain robust. Central Expressway and Preston Center continue to see strong activity. The B product in Las Colinas is sluggish at best.

**REDNews:** Due to fuel escalations, do you anticipate business owners going toward a 4-day work week or allowing employees to work from home? And, if so, what effect will that have on the office market in your area?

**Byron McCoy:** I don't see that happening. People are talking about it and I read and hear about it, but I haven't seen any companies actually doing it.

**Calvin Hull:** Not for corporate America clients. There has been no outsourcing or hotelling (working from home), but that was before \$4 gas.

**Curt Fuller:** Yes, I already know one company doing a 4-day work week, 9-hours per day. It allows telecommuting and employees will still be getting good productivity plus driving. Some companies are now hesitant to do any big buys. If there is a way of hotelling, we are going to see it until the economy upswings.

**Buddy Tompkins:** That has been a discussion. It has been a conversation in the market place for a long time. It is not a new trend. There will be some effect on the office leasing because it will allow the user to have less space.

**Ben Hautt:** Maybe in some areas. I have not heard of any talks in Dallas. Everyone here likes to have their own vehicle and drive. But the next focus in Dallas is the

light rail and people will focus more on mass transit for workers instead of altering the work week.

**Chris Barnett:** I don't see a 4-day work week, but I do see employers outsourcing and allowing employees to work from home. It will be affected but not significantly.

**Doug Harbison:** I foresee that in some industries, but I don't think so in the real estate industry. Texas as a whole has not seen the shock of the economy as the rest of the country has. Dallas is going pretty smoothly.

**Sharon Friedberg:** I have not seen the four day week in Dallas, but do anticipate that they will allow employees to work from home more often.

**REDNews:** Has the national economy had an impact on the direction of the Texas office development market? Have developers changed their plans to accommodate? If so, how?

**Byron McCoy:** I think it has slowed it down because people are more cautious and some projects have been put on hold.

**Calvin Hull:** The national economy is not as good as the Texas market. Houston is the leader in this market and Dallas is top 5. I don't think it has been bad in Texas. Capital markets are handcuffed with what developers can do because of the higher construction costs. They are more cautious due to higher equity participation.

**Curt Fuller:** Yes, there have been many consolidations in Dallas and Detroit. There are a couple of cranes I see in downtown that haven't disappeared. There has been a lot of residential development, but office developers are not pulling back. If the developers are not funded now, the playing field is over because lender requirements are more stringent these days.

**Buddy Tompkins:** I think we are affected but substantially less. If you think about California and New York, they are doing badly. Houston and Dallas are feeling those effects, but much less.

**Ben Hautt:** I think Houston and Dallas are drastically different. Houston is doing well because of the energy companies. But Dallas does not have many energy companies like Houston because they are mainly in the Fort Worth area and so, in general, I think Dallas has slowed down. It is tough to get the spec markets. Dallas is not a pre-leasing market. We build first and then get tenants to lease. So developers are focusing on micro markets where the supply and demand is steady. All the buildings are relatively pre-leased. People who understand that dynamic are building.

**Chris Barnett:** We have been affected a little and have seen a slowdown, but not significantly. There is not a lot of spec development because the capital markets have been in disarray. There are more credit users because those projects can be financed easier.

**Doug Harbison:** I do in terms of financing because a lot of developments are getting harder to finance. Financing is getting tougher and tougher and that is because of the status of California and New York's market. It definitely affects development here in Texas.

**Bill Archer:** Yes, probably toward the developers. It is harder to get loans from banks and I think it has more to do with the bank situation because when the banks stop, developers stop.

**Sharon Friedberg:** Dallas is the place to be right now as we are outperforming the rest of the nation. The impact here seems to be that decision makers are taking longer to make decisions. There is not a sense of urgency, but more of a wait and see approach.