4th QUARTER INSIGHT

Upper Tollway

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Deliveries Outweigh Net Absorption for 4th Straight Year

The Upper Tollway Sub-Market has consistently been one of the two main hubs of office real estate activity in Dallas. With relocations of large corporate campuses, such as Toyota, FedEx, and JP Morgan Chase, the area is becoming even more appealing as the influx of developers continue to attempt to capitalize on the enticing market. This recent construction has resulted in a surprisingly large vacancy rate for a market with such an "awe factor."

This West Plano/Frisco region has continued to rise in overall vacancy from 16.6% in Q4 of 2015, to 17.7% in Q4 of 2016. Although full-service rents are at all-time highs, prices have slowly began to mellow out and even slightly dip from $32.73 PSF in Q3 of 2016 to $32.55 PSF in Q4. Net absorption for 2016 remained fairly strong but slowed down noticeably in the final 2 quarters of the year after a hot start. This will be a key statistic to track in the upcoming year as deliveries continue to outweigh net absorption for the 4th straight year and vacancy rates remain at alarming highs. As tenants seek more cost-effective rental rates in struggling markets such as the Lower Tollway and Richardson, Landlords will likely be forced to offer up additional concessions.

TOTAL NET ABSORPTION (Previous 12 mos.)

2016	591,117 SF
2015	206,299 SF

TOTAL DELIVERED (Previous 12 mos.)

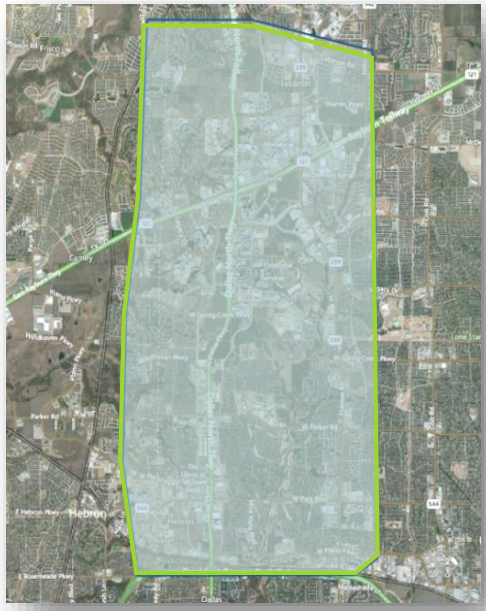
2016	835,532 SF
2015	801,820 SF

DIRECT FULL SERVICE RENTAL RATE (Q4)

2016	$32.55 PSF
2015	$32.26 PSF

VACANCY (Q4)

2016	17.7%
2015	16.6%



Upper Tollway Boundary

VACANCY BY CLASS (Q4)

Class A 14% **Class B** 28%

Total Office Sub-Market 4Q Statistics

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Central Expressway	273	15,119,683	1,438,220	1,481,093	9.8%	483,769	35,000	0	$26.48
Dallas CBD	141	33,650,671	7,418,569	7,710,158	22.9%	(599,100)	92,834	342,879	$25.71
East Dallas	1,108	13,742,789	1,380,247	1,402,153	10.2%	(260,203)	125,100	6,500	$19.38
Far North Dallas	1,049	56,499,052	6,942,636	7,436,072	13.2%	662,966	1,442,523	5,936,894	$27.19
Ft Worth CBD	117	11,805,824	1,207,532	1,240,888	10.5%	(165,324)	0	280,489	$25.23
Las Colinas	424	38,624,281	5,011,819	5,464,203	14.1%	583,061	745,219	1,646,578	$24.13
LBJ Freeway	265	22,593,815	4,811,141	4,972,635	22.0%	471,607	5,602	0	$21.16
Lewisville/Denton	885	12,929,092	784,253	870,034	6.7%	429,621	150,518	87,557	$21.93
Mid-Cities	2,531	39,982,217	4,554,787	4,748,061	11.9%	572,581	394,282	858,545	$21.37
North Fort Worth	547	6,242,952	371,767	402,844	6.5%	300,328	196,093	55,121	$22.87
Northeast Ft Worth	336	5,370,338	1,923,861	1,952,471	36.4%	(511,967)	0	0	$20.00
Preston Center	144	5,838,626	462,982	474,792	8.1%	(13,262)	0	171,583	$35.33
Richardson/Plano	1,310	40,333,046	5,862,865	5,977,471	14.8%	1,347,024	1,414,925	587,830	$23.80
South Ft Worth	1,583	20,074,060	1,900,924	1,967,499	9.8%	136,191	301,976	238,542	$22.31
Southwest Dallas	783	7,163,616	657,939	659,939	9.2%	114,549	23,195	14,113	$17.17
Stemmons Freeway	280	14,827,780	3,203,581	3,269,211	22.0%	(30,589)	0	72,630	$15.69
Uptown/Turtle Creek	294	14,423,213	1,428,621	1,510,206	10.5%	501,192	672,158	1,500,471	$37.80
Totals	12,070	359,221,055	49,361,744	51,539,730	14.3%	4,022,444	5,599,425	11,799,732	$24.20

Upper Tollway News

2016 Y-T-D SUB-MARKET HIGHLIGHTS

Top Leases (Through Q4 2016)	Tenant	Square Feet
One Legacy Circle	Alliance Data Systems	96,698
Dominion Legacy Office Center	CompuCom Systems, Inc	92,250
The Star	FM Global	79,428
The Star	Bank of America	63,325
Legacy Tennyson Center 2	Benchmark Mortgage Company	34,200

Deliveries (Through Q4 2016)	Delivery Date	Square Feet
Frisco Bridges Place	2016 Q1	170,000
Platinum Park – Phase 1	2016 Q1	166,105
Parkside on Legacy	2016 Q1	101,608
The Star	2016 Q2	397,819

Multi-Tenant Construction	Delivery Date	Square Feet
Legacy West – Urban Village	2017 Q1	377,441
One Legacy West	2017 Q1	307,767
Wade Park – Phase 1	2017 Q1	400,000
Hall Park- Building T2	2017 Q4	300,000

The Star to kickstart more development, attract business to city

Not long after The Star was announced, the other $5 Billion Mile developments followed suit. Wade Park announced its 175-acre development in early 2014 at the southeast corner of Lebanon Road and the DNT. The Gate, a 43-acre development just south of the Shops at Starwood, was announced next. Finally, Frisco station announced its 242-acre development that would wrap around The Star.

With the first portion of its development now open, The Star has helped facilitate development across the city, especially within the $5 Billion Mile, Frisco's Development Services Director John Lettelleir said.
"It is a huge draw, and people are going to want to be adjacent to The Star," he said. "You're going to see developments saying, 'We're close to The Star or the Dallas Cowboys World Headquarters.'"

The Star's success so far is also attracting other developers to the city, Frisco Mayor Maher Maso said. With The Star's proximity to Stonebriar Centre's shopping district, Estis said the Cowboys wanted the development to be more of an entertainment district, which is why so many restaurants have leased space.

Because of the prestige of the Cowboys brand, The Star has contributed to increasing real estate costs, which may lead to some businesses being unable to afford moving to or staying in Frisco, Gandy said.

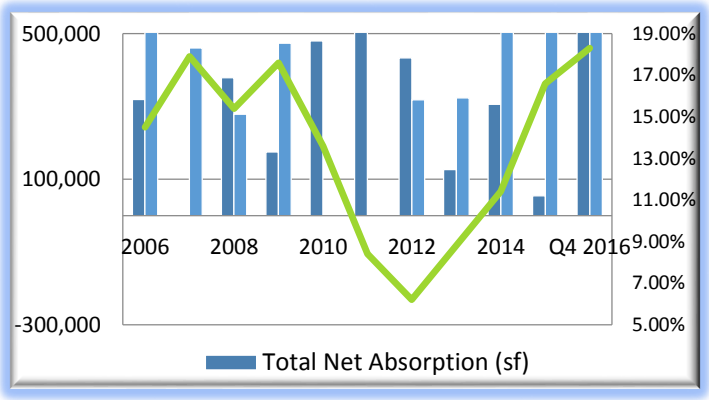
Community Impact Newspaper 1.12.17

Office Sub-Market Momentum & Forecast

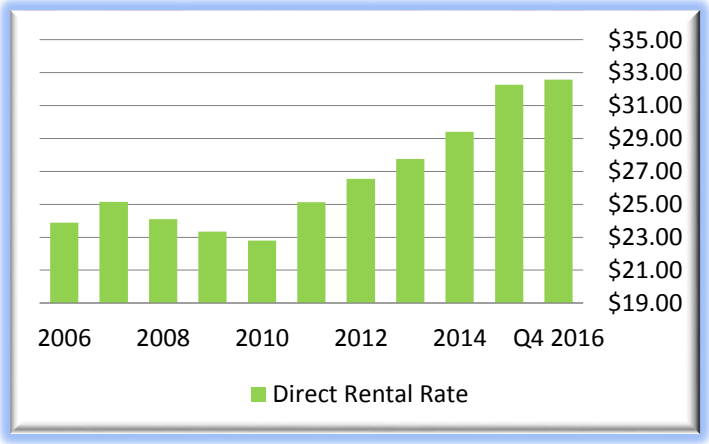
As 2016 concludes, the Upper Tollway continues to slowly cool off as predicted in our previous market reports. It is our belief that the large rental spikes continue to be a product of record high construction costs more so than true tenant demand. West Plano/Frisco continues to have a strong tenant interest in the 1,000-15,000 SF range, but it is lacking the leasable corporate relocations necessary to keep pace with new deliveries.

Owner/user properties continue to be highly sought after by large corporations putting more and more stress on these new speculative developments throughout the region. The large relocations will continue to bring ancillary businesses/jobs to the area but with an abundance of new developments, it may not be enough to backfill the large amount of space currently on the market or arriving to the market in the next 12-24 months. As mentioned in our Q3 report, we believe more and more opportunities for tenants will continue to arise over the next couple years.

ABSORPTION / DELIVERIES / VACANCY
(ALL CLASSES)



LEASE RATES – FULL SERVICE



Advisory Experience

ADAPTIVE REUSE

The Domain, Austin, TX – *70 Acres*

Maxim – *700,000 SF*

OFFICE LEASE

Weaver – *58,000 SF*

Knoll Trail Plaza – *120,000 SF Build-to-Suit*

DISPOSITION

Invensys – *45,000 SF Sublease*

Texas Instruments – *70.537 Acres with a 441,362 SF Semiconductor*

TECHNOLOGY LEASE

Flextronics – *1,500,000 SF*

ESI – *70,000 SF*

MULTIPLE TRANSACTIONS

Texas Instruments – *1,200,000 SF*

Weaver – *171,000 SF Multi-market*

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