CITADEL PARTNERS

3rd QUARTER INSIGHT

Dallas - Fort Worth

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The third quarter ended with an overall office vacancy of 14.5%, which is up from 14.4% in the second quarter, and down from 14.6% in the first quarter; so, it is fair to say we have remained steady this year with vacancy.

Our lease rates increased for all product types to $25.04 per square foot. However, when you look at both Class A and Class B lease rates, the third quarter boasted the highest rates we have seen in over ten years. As you study our submarkets, you will note that lease rates for Class A product will range from $18.75 per square foot, to almost $41.00 per square foot. Due to this wide disparity in lease rates, we encourage clients to focus on specific submarkets and specific requirements, for lease rate trends, as opposed to considering overall Dallas/Fort Worth lease rate averages.

We realized positive absorption of space albeit, much less in the third quarter compared to the second quarter for all product types. However, with the positive absorption through 2017, over 4.2 million square feet year to date, it looks like we should end the year with another strong absorption year. Construction remains brisk at 9.7 million square feet, with Liberty Mutual and JP Morgan Chase accounting for over 2.5 million square feet, of which 100% is leased. This continues our trend of preleasing and strong equity participation in new developments, which accentuates the health and stability of our office market.

Our sales activity remains consistent with prior quarters this year, with interest outpacing availability of product, and consequently, we have seen cap rates trend below 7% for the institutional, highly sought-after properties. While activity has been significant, we have not seen prices exceed the $500 per square foot barrier in the third quarter like we selectively achieved in 2016.

While our market analytics appear strong, we do suggest caution as you evaluate your real estate investment and facility needs in 2018, paying particular attention to our continued job growth statistics.

ABSORPTION
(Previous 12 mos.)

	Class A & B	*All Classes*
Q3 2017	5,295,771 SF	4,896,269 SF
Q3 2016	3,862,020 SF	3,733,302 SF

DELIVERED
(Previous 12 mos.)

	Class A & B	*All Classes*
Q3 2017	7,598,402 SF	7,598,402 SF
Q3 2016	6,402,700 SF	6,402,700 SF

DIRECT RENTAL RATE

	Class A & B	*All Classes*
Q3 2017	$24.65 PSF	$25.04 PSF
Q3 2016	$24.32 PSF	$24.08 PSF

VACANCY

	Class A	*Class B*	*All Classes*
Q3 2017	17.2%	13.9%	14.5%
Q3 2016	16.5%	14.2%	14.3%

Total Office Sub-Market Q3 Statistics

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Central Expressway	275	15,199,157	1,534,181	1,561,870	10.3%	(54,890)	0	0	$29.22
Dallas CBD	142	33,713,487	7,070,879	7,555,238	22.4%	(116,065)	92,237	322,110	$25.19
East Dallas	1,059	13,131,324	1,017,609	1,045,262	8.0%	(143,720)	8,964	367,124	$24.31
Far North Dallas	1,090	60,313,177	6,855,643	7,477,989	12.4%	3,026,806	3,180,319	4,779,452	$28.11
Ft Worth CBD	117	11,789,841	1,128,172	1,167,906	9.9%	117,602	0	280,489	$26.04
Las Colinas	435	39,921,322	5,235,027	5,763,787	14.4%	967,814	1,029,461	826,913	$25.16
LBJ Freeway	265	22,602,316	4,627,566	4,895,097	21.7%	272,267	0	0	$22.08
Lewisville/Denton	926	13,232,562	1,004,615	1,126,728	8.5%	(15,491)	159,840	51,866	$22.39
Mid-Cities	2,600	40,609,241	5,487,127	5,572,927	13.7%	(177,186)	604,784	634,788	$21.79
North Fort Worth	587	6,699,466	554,649	616,114	9.2%	(145,002)	71,120	125,874	$22.04
Northeast Ft Worth	342	5,414,112	1,861,516	1,861,516	34.4%	89,911	0	0	$19.22
Preston Center	148	5,896,743	452,200	489,599	8.3%	973	4,506	298,617	$39.16
Richardson/Plano	1,409	41,514,259	6,735,003	7,104,767	17.1%	(68,142)	665,386	586,207	$24.54
South Ft Worth	1,646	20,012,872	1,612,402	1,692,910	8.5%	402	248,414	174,205	$23.66
Southwest Dallas	813	7,353,922	524,520	529,626	7.2%	168,090	92,828	15,544	$19.02
Stemmons Freeway	285	15,221,512	3,277,900	3,347,695	22.0%	145,831	72,630	0	$16.84
Uptown/Turtle Creek	302	14,758,418	1,359,940	1,584,755	10.7%	143,163	214,765	1,305,014	$37.75
Totals	**12,441**	**367,383,731**	**50,338,949**	**53,393,786**	**14.5%**	**4,212,363**	**6,445,254**	**9,768,203**	**$25.04**

DFW News

One Legacy West

2017 Y-T-D SUB-MARKET HIGHLIGHTS

The Star

Select 3rd Quarter Office Leases	Tenant	Square Feet
Brinker International	Brinker International	216,400
Trammell Crow Center	Baker Botts LLP	139,710
One Legacy West	NTT DATA	126,715
The Union	Akin Gump Strauss Mauer & Feld	82,250
Granite Park Seven	Fannie Mae	300,000

Select 3rd Quarter Deliveries by SF	Quoted Rate PSF	Square Feet	% Occupied	Delivery Date
Legacy West – Upper Tollway	$36.87	377,441	74%	2Q 2017
One Legacy West – Upper Tollway	$40.06	307,824	56%	3Q 2017

Select Year to Date Under Construction	Quoted Rate PSF	Square Feet	% Preleased	Delivery
JP Morgan – Upper Tollway	N/A	1,400,000	100%	4Q 2017
The Union – Uptown / Turtle Creek	$38.00	418,132	60%	3Q 2018

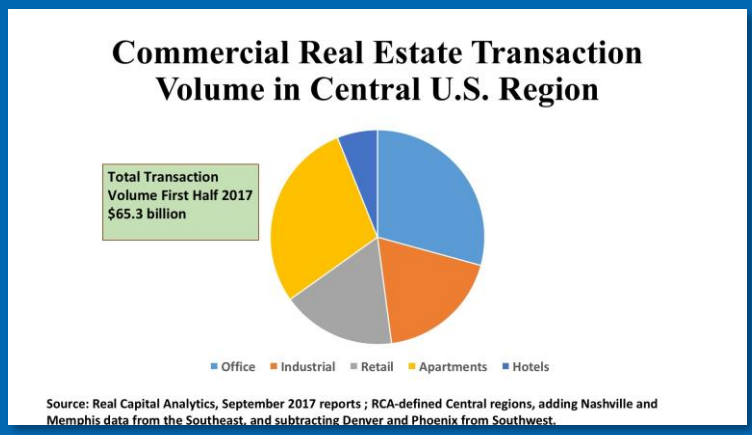
The Union

Commercial Property Investment Trends

With total real estate transaction volume of $65.3 billion, or 29.7 percent of the US total during the First Half of 2017, the Central region ranked second to the Atlantic Seaboard, edging out the Western Region for the period. The Central states were particularly strong in the multifamily sector with $25.9 billion in investment, or a 36.2 percent share for this property type. But the area also punched above its weight in the industrial sector, where $10.4 billion in purchases were 33.6 percent of the national total. Interestingly, the economy of the upper Midwest – both the industrial states and the breadbaskets states – are providing the more solid base in gross state product per capita, with Texas' very large population and diverse industry mix helping support its property markets.

Office. Houston and Dallas topped the Central states in office investment during the first six months of 2017, with Houston exceeding $2 billion in transactions and Dallas approaching $2.5 billion. At least in part, capital was attracted by above-average cap rates of nearly 7 percent, well above the yields available in the large cities of the East and West coasts. Chicago also saw more than $1.2 billion in office deals, with an average cap rate of 7.4 percent – a yield that was typical of other large Midwest cities. International investors are becoming more active in secondary markets such as Columbus and Cincinnati, while domestic institutions and private investors are devoting attention to Texas and the smaller metros of the South Central area.

Industrial. The Central states are naturally well-positioned for distribution facilities, and both Chicago and Dallas constitute major hubs of warehousing activity. Dallas was the location of 152 industrial property sales transactions in the First Half of 2017, with volume totaling more than $1.6 billion. Chicago, meanwhile, generated 155 transactions worth $1.5 billion. Cap rates averaged 7.3 percent in both metros, giving investors high initial yields and the prospect of steady returns. Institutional investors played a prominent role in both markets. Houston presents a similar profile, albeit at a lesser volume ($863 million during the First Half) – and the repair and recovery period following Hurricane Harvey is likely to keep volume in southeast Texas limited for a while.



Elsewhere, smaller private investors are the majority of buyers, both in the secondary metro markets and in the third-tier locations which, in total, show more than 900 individual sales amounting to another two billion dollars of acquisitions.

Retail. This region tallied $9.5 billion in shopping property sales, 27.5 percent of total U.S. retail sales volume. The relatively low level of GDP per capita suggests why consumer spending is less than robust across much of the region. Of all the major cities, only Chicago saw retail property transactions rise above $1 billion, with 130 deals generating $1.5 billion. Dallas came in second, with 107 purchases amounting to $930 million in aggregate price. Retail cap rates average between the mid-six percent level for Chicago, Dallas, and Austin, to around seven percent for Minneapolis, San Antonio, and Houston, and rise to eight percent for the Ohio cities such as Cleveland and Columbus. Private investors are far and away the most common buyer type, contrasted with the concentration of REIT buyers in the Eastern region.

TCN WORLDWIDE REAL ESTATE SERVICES

Source: TCN State of the Market Central Edition Report Q3 2017

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*

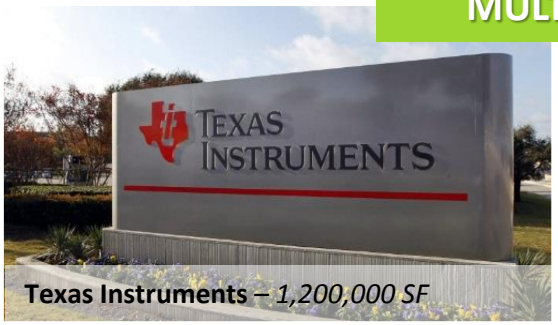
Texas Instruments – *70.537 Acres with a* 441,362 *SF Semiconductor*

TECHNOLOGY LEASE

Flextronics – *1,500,000 SF*

ESI – *70,000 SF*

MULTIPLE LOCATIONS



Texas Instruments – *1,200,000 SF*

Weaver – *245,442 SF Multi-market*

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