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News Release

Mind the Gap: Dallas' Trophy Office Rental Rates Hit Historic Highs

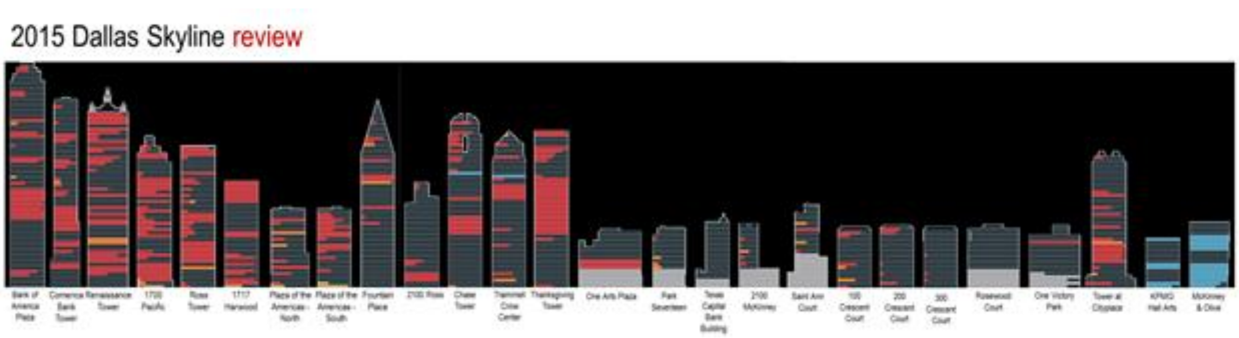
Demand for Trophy buildings remains high but tightening fundamentals could draw attention to other asset classes, according to JLL's 2015 Skyline Review

DALLAS, June 3, 2015 – There's no space like Trophy space. The premiere office towers that make up Dallas' skyline boast—by far—the most expensive office space to rent according to JLL's 2015 Skyline Review. Average Trophy rates in the Dallas CBD and Uptown in the first quarter of 2015 were $29.94 per square foot compared to $21.68 per square foot in non-Trophy buildings. Comparatively across the U.S., average rents have reached a record high of $42.30 per square foot, which is up 20.1 percent since bottoming in 2010.

"The DFW economy is booming and it's creating a vibrant urban core that now stretches between the CBD and Uptown submarkets, and we are predicting the area will go through a recalibrating phase where capital improvements at vintage buildings can bridge the gap between Class A and Trophy assets," said Walter Bialas, JLL research director in Dallas.

The favorable conditions at Skyline buildings has triggered new construction projects that will deliver in late 2015 and 2016, but tenants can expect little relief in rates once that happens. Preleasing is positive and major tenants are paying as much as a 30 percent premium in Dallas. Nearly three-quarters (75 percent) of the new development is concentrated in only nine cities, which means most tenants will have little negotiating leverage in their office agreements for the time being.

In addition, the chasm in vacancy rates is also considerable: at smaller Skyline buildings the vacancy rate has dropped from 18 percent to 12 percent over the past two years in Dallas.



JLL's proprietary 2015 Skyline Review identifies and tracks micro-segments of 47 city centers across North America. The Skyline features Trophy and Class A buildings where tenants and investors alike focus demand for office space in a flight to quality and efficiency.

A diminishing "home-team" advantage

If office rental rates are fierce, the price tag to buy an office building is even more so. Economic growth, business expansion and improving market fundamentals have resulted in a second consecutive year of pricing gains.

The sheer volume of foreign capital chasing Skyline office deals is having a major impact on pricing. Of the $35.3 billion transacted over the past five quarters across the U.S., 34.6 percent was driven by international buyers. In Houston and Seattle, every office deal transacted during this time period had a foreign buyer, while in Washington, D.C., Boston and New York, offshore capital led more than 50 percent of office purchases. Just last year Canadian-based Olymbec purchased 1700 Pacific here in Dallas.

"High occupancy rates in the urban core are driving a long-term ownership perspective and we're seeing institutional investors considering buildings that would benefit from property and amenity enhancements, such as parking – which has been a struggle we've faced for a long time," said Evan Stone, managing director with JLL's Capital Markets.

A redefined Skyline

As investors begin to diversify beyond the Trophies for investment opportunities, a growing segment of larger tenants are exploring alternative opportunities in addition to the traditional trophy assets. Examples of this include Santander relocating to Thanksgiving Tower and Omnitracs leasing space at the former KPMG building.

"It wasn't long ago that Uptown and the CBD were viewed as two different submarkets, but with the completion of the Dallas Arts District and Klyde Warren Park it's now seen as a seamless submarket that provides a highly desirable urban environment that meets the area's multi-generational needs," said Jeff Eckert, managing director with JLL's Agency Leasing and Property Management in Dallas.

Eckert continues, "Companies are paying rent premiums for a location that provides the kind of urban environment employee's desire, where the choice of walkable amenities is endless."

Among the notable transactions fitting this trend are Tenent Healthcare's 214,000-square-foot lease at Fountain Place, EnLink Midstream's 159,996-square-foot headquarters relocation to One Arts Plaza, and Gardere Wynne Sewell's 107,000-square-foot lease at McKinney & Olive.

About the Skyline Review

For the first time, investors and tenants alike can now access JLL's Skyline Review via a digital platform. The fully interactive website will feature JLL's proprietary national data insights regarding office supply, demand, rents, leverage and investment into 47 markets across the United States and Canada, with the ability to compare and contrast individual markets or multiples of markets. In addition, the site will offer videos and infographics. All data will also be available via mobile access. Users can also directly access information about the Dallas Skyline.

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