MARKETVIEW

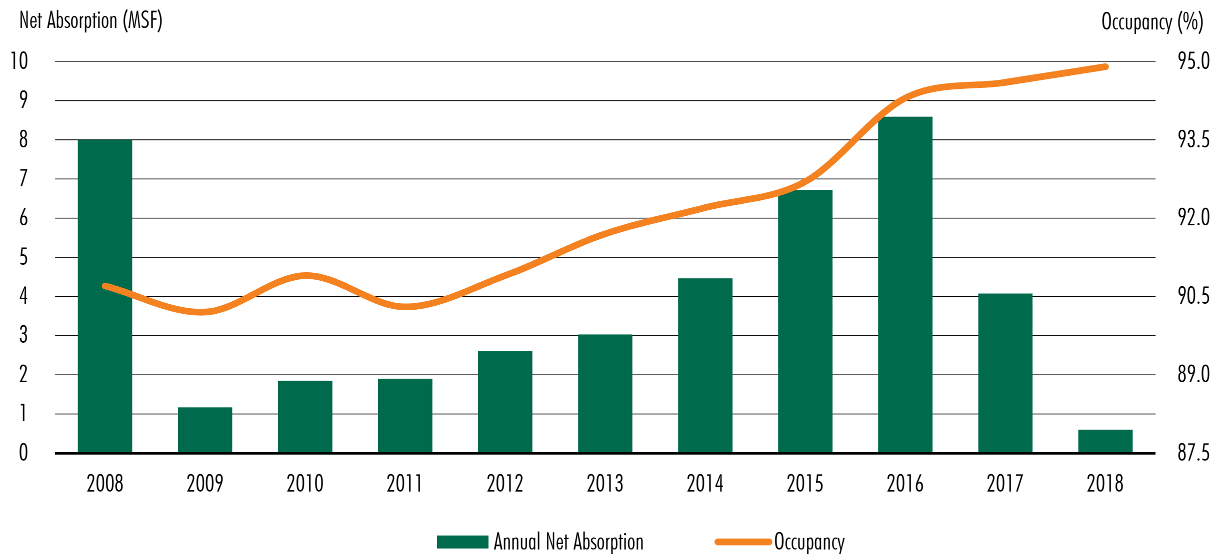
Dallas / Fort Worth Retail, Q1 2018

Occupancy, rents level off; new construction deliveries will lead new leasing activity in 2018

Occupancy	Under Construction	Completions	Net Absorption
▲ 94.9%	▼ 4,871,914 SF	▼ 180,000 SF	▼ 596,051 SF

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Market Occupancy



Source: CBRE Research, Q1 2018.

OCCUPANCY REMAINS AT ALL-TIME HIGHS; CLOSING IN ON 95%

Dallas/Fort Worth's tightening retail market, strong net absorption and heavily pre-leased deliveries caused occupancy to measure in at an all-time high. However, as construction starts slow and completions take longer to come online, occupancy and rental rates are expected to level off in the short-term before picking back up later in the year.

RETAIL GROWTH LIMITED BY LAG IN DEVELOPMENT

Multiple construction projects across North Texas have been sidelined as labor and borrowing costs remain elevated, specifically for those in the early stages. Delayed construction starts and slowing completions are a present concern for mid- and smaller-sized North Texas retailers.

CLASS A BIG BOX SUPPLY REMAINS ELEVATED AS MARKET STABILIZES

As forecasted, the pace of absorption in big box space slowed throughout 2017 and continues into this year. Similar to other major U.S. retail markets, Class A elevated supply, at 935,145-sq.-ft., is due to a smaller pool of big box retailers willing to take additional space.

TOYS R US ANNOUNCES SURPRISE LIQUIDATION OF ITS NATIONWIDE PORTFOLIO

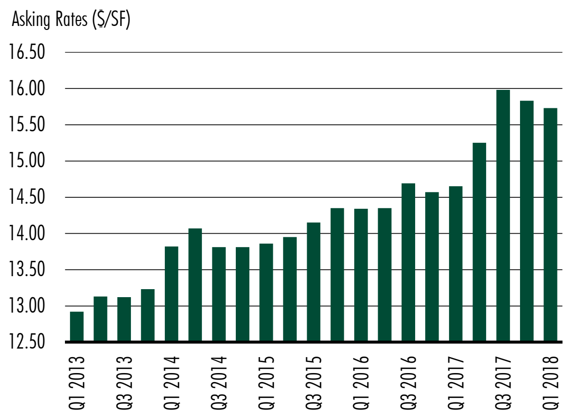
In March, Toys R Us filed a motion seeking bankruptcy court approval to begin liquidation of its 735 U.S and Puerto Rico stores. The closures are expected to occur within the first nine months of 2018. In North Texas alone, the retailer is responsible for 15 locations, accounting for over 600,000-sq.-ft. of space.

Figure 2: Historical Market Statistics

	2010	2011	2012	2013	2014	2015	2016	2017	YTD 2018
CENTRAL DALLAS									
Absorption (Net, SF)	46,266	84,491	48,982	66,710	161,648	245,906	416,648	(36,509)	(37,156)
Avg. Asking Rent (Annual, Net, $/SF)	17.99	16.52	17.22	15.70	20.21	29.75	25.26	22.07	24.36
Delivered Construction (SF)	-	25,000	123,235	47,325	21,000	148,821	208,549	-	-
Occupancy Rate (%)	94.9	95.1	96.2	94.9	94.9	95.7	97.3	97.4	97.1
EAST DALLAS OUTLYING									
Absorption (Net, SF)	69,034	19,550	15,646	48,929	(8,769)	97,990	(12,589)	93,844	(5,252)
Avg. Asking Rent (Annual, Net, $/SF)	15.79	19.55	21.31	18.26	19.95	22.30	20.25	20.56	20.55
Delivered Construction (SF)	-	80,798	-	-	-	62,000	-	87,406	-
Occupancy Rate (%)	96.6	95.8	96.5	97.0	95.9	97.7	98.3	97.6	97.5
FAR NORTH DALLAS									
Absorption (Net, SF)	662,729	364,821	614,372	475,411	780,537	942,926	2,081,683	628,513	208,588
Avg. Asking Rent (Annual, Net, $/SF)	14.15	14.21	14.53	14.61	14.99	15.25	14.51	15.88	16.05
Delivered Construction (SF)	-	258,600	105,017	375,818	392,357	192,434	1,653,138	1,003,888	122,000
Occupancy Rate (%)	88.9	88.1	88.9	89.8	90.1	91.4	93.4	93.4	94.4
NEAR NORTH DALLAS									
Absorption (Net, SF)	(71,718)	372,592	235,980	83,422	116,135	356,548	485,111	375,484	(5,057)
Avg. Asking Rent (Annual, Net, $/SF)	13.37	13.48	14.86	14.31	14.66	15.50	16.45	18.17	18.33
Delivered Construction (SF)	-	568,031	-	14,980	-	182,500	374,964	240,431	-
Occupancy Rate (%)	91.8	92.1	93.1	94.1	94.1	94.1	95.2	95.6	95.5
NORTH CENTRAL DALLAS									
Absorption (Net, SF)	344,807	436,697	277,837	573,749	316,706	1,716,562	919,412	991,268	123,606
Avg. Asking Rent (Annual, Net, $/SF)	15.52	15.15	15.27	15.23	15.43	16.25	17.24	20.80	21.17
Delivered Construction (SF)	-	32,436	23,304	468,407	40,406	1,164,188	621,341	779,802	-
Occupancy Rate (%)	90.6	89.9	91.1	92.2	93.0	93.4	94.6	94.9	95.2
SOUTHEAST DALLAS									
Absorption (Net, SF)	64,138	11,980	132,174	127,644	4,942	67,641	109,261	(5,864)	26,613
Avg. Asking Rent (Annual, Net, $/SF)	11.01	11.70	10.97	11.02	11.37	11.00	11.18	11.22	11.74
Delivered Construction (SF)	-	15,000	41,789	-	-	11,000	-	14,804	-
Occupancy Rate (%)	92.8	92.4	92.1	92.9	93.0	93.1	95.1	94.1	94.5
SOUTHWEST DALLAS									
Absorption (Net, SF)	207,679	(73,974)	207,398	70,540	503,218	92,066	812,083	154,101	142,320
Avg. Asking Rent (Annual, Net, $/SF)	11.60	12.25	10.09	10.06	11.57	10.25	10.64	12.03	11.95
Delivered Construction (SF)	-	-	200,086	10,467	435,982	-	76,663	-	-
Occupancy Rate (%)	90.5	90.9	89.3	90.2	90.4	90.1	92.0	92.2	93.0
WEST DALLAS									
Absorption (Net, SF)	224,655	136,195	385,998	172,210	514,750	502,973	891,544	913,843	184,377
Avg. Asking Rent (Annual, Net, $/SF)	13.13	14.23	13.12	14.47	13.78	12.75	13.24	13.53	12.80
Delivered Construction (SF)	-	44,000	530,604	10,049	143,808	256,713	40,000	557,039	58,000
Occupancy Rate (%)	90.2	89.8	89.6	90.9	92.0	91.6	93.3	95.5	96.0
CENTRAL FORT WORTH									
Absorption (Net, SF)	176,915	116,059	37,724	322,668	368,008	471,480	755,927	455,273	36,907
Avg. Asking Rent (Annual, Net, $/SF)	8.67	10.90	9.62	8.71	10.41	12.50	12.29	12.40	13.02
Delivered Construction (SF)	-	16,414	41,235	364,789	182,000	138,012	482,101	498,000	-
Occupancy Rate (%)	92.3	90.1	89.9	90.1	90.8	92.3	94.1	94.3	94.5
MID-CITIES									
Absorption (Net, SF)	69,534	311,886	366,690	664,421	1,103,732	1,131,435	1,146,109	158,308	(131,035)
Avg. Asking Rent (Annual, Net, $/SF)	13.06	13.11	13.48	14.09	13.53	13.50	13.61	16.12	14.51
Delivered Construction (SF)	-	159,833	65,066	223,409	409,658	850,807	519,954	-	-
Occupancy Rate (%)	91.1	90.8	91.7	92.6	93.4	94.1	94.6	95.0	94.7
SUBURBAN FORT WORTH									
Absorption (Net, SF)	51,002	105,926	274,631	422,578	734,656	1,092,643	983,456	345,056	52,140
Avg. Asking Rent (Annual, Net, $/SF)	12.13	12.13	12.59	12.13	11.86	12.00	13.00	13.43	13.44
Delivered Construction (SF)	-	108,397	395,798	249,859	497,947	926,095	466,458	507,725	-
Occupancy Rate (%)	90.2	89.8	91.0	92.0	93.1	93.6	95.1	94.6	95.0
DALLAS TOTAL									
Absorption (Net, SF)	**1,547,590**	**1,352,352**	**1,918,387**	**1,618,615**	**2,224,018**	**4,022,621**	**5,700,158**	**3,114,680**	**638,039**
Avg. Asking Rent (Annual, Net, $/SF)	**-**	**14.27**	**14.64**	**14.07**	**14.58**	**15.10**	**15.31**	**16.51**	**16.71**
Delivered Construction (SF)	**-**	**1,023,865**	**1,024,035**	**927,046**	**1,033,553**	**2,046,668**	**2,414,103**	**2,683,370**	**180,000**
Occupancy Rate (%)	**-**	**90.3**	**90.8**	**91.6**	**92.0**	**93.6**	**94.2**	**94.6**	**95.1**
FORT WORTH TOTAL									
Absorption (Net, SF)	**297,451**	**533,871**	**679,045**	**1,409,667**	**2,129,421**	**2,694,848**	**2,885,492**	**958,637**	**(41,988)**
Avg. Asking Rent (Annual, Net, $/SF)	**-**	**12.68**	**11.90**	**12.30**	**12.38**	**12.97**	**13.14**	**14.57**	**13.89**
Delivered Construction (SF)	**-**	**384,644**	**502,099**	**838,057**	**1,089,605**	**1,914,914**	**1,205,062**	**1,074,725**	**-**
Occupancy Rate (%)	**-**	**90.3**	**91.1**	**91.8**	**92.7**	**93.4**	**94.6**	**94.8**	**94.7**
DFW MARKET TOTAL									
Absorption (Net, SF)	**1,845,041**	**1,896,223**	**2,597,432**	**3,028,282**	**4,458,588**	**6,717,469**	**8,585,650**	**4,073,317**	**596,051**
Avg. Asking Rent (Annual, Net, $/SF)	**13.14**	**13.69**	**13.08**	**13.23**	**13.81**	**14.17**	**14.57**	**15.83**	**15.73**
Delivered Construction (SF)	**-**	**1,308,509**	**1,526,134**	**1,765,103**	**2,123,158**	**4,043,582**	**3,619,165**	**3,758,095**	**180,000**
Occupancy Rate (%)	**90.9**	**90.3**	**90.9**	**91.7**	**92.2**	**92.7**	**94.3**	**94.6**	**94.9**

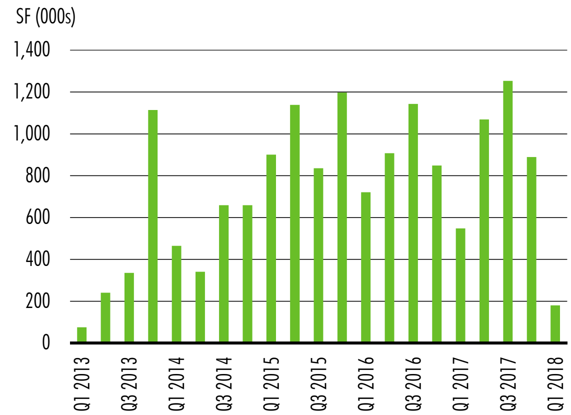
Source: CBRE Research, Q1 2018.

Figure 3: Asking Annual Rents, NNN Avg.



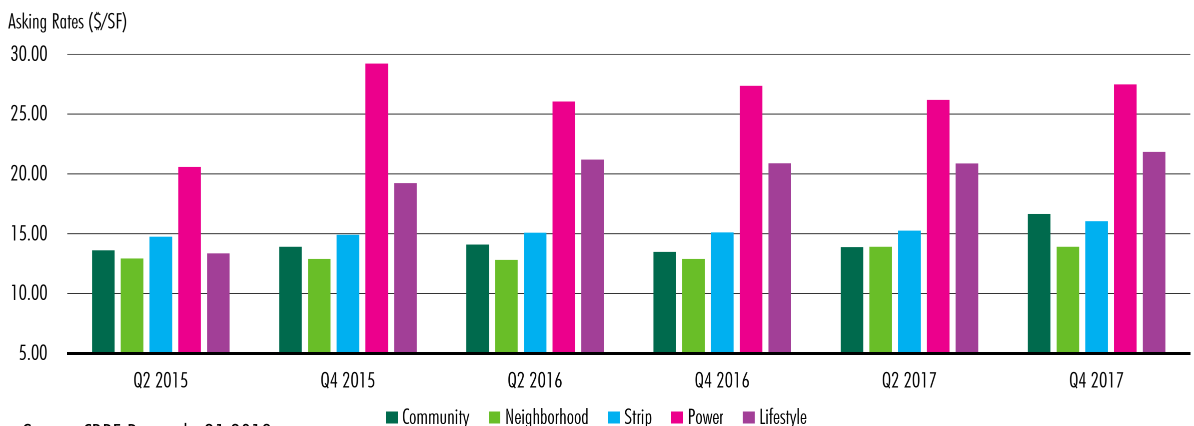
Source: CBRE Research, Q1 2018.

Figure 4: Deliveries



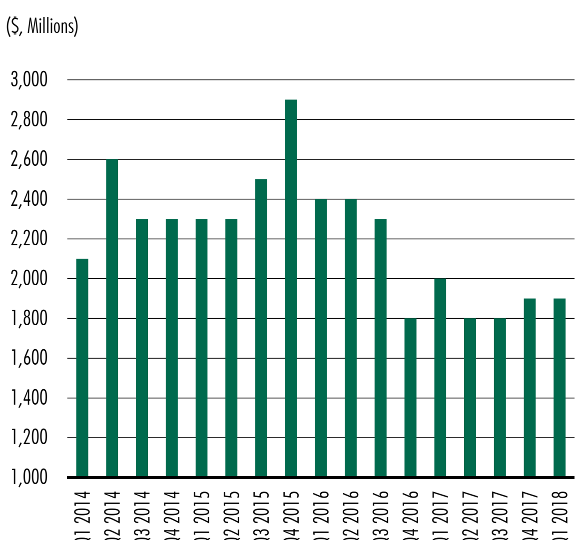
Source: CBRE Research, Q1 2018.

Figure 5: Asking Annual Rents by Center Type, NNN Avg.



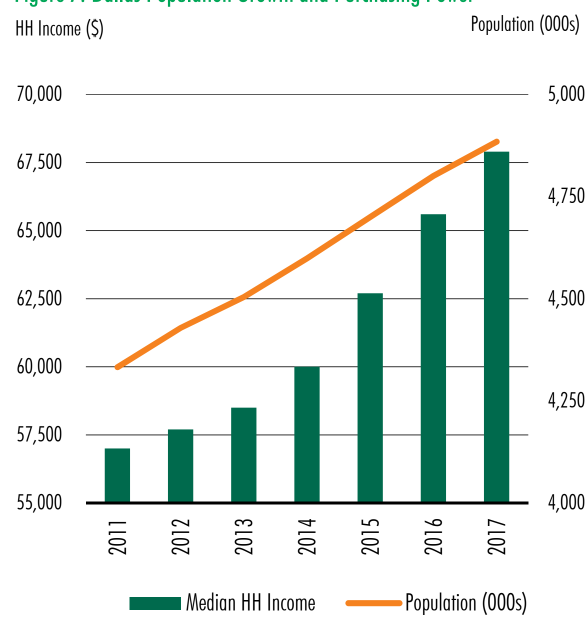
Source: CBRE Research, Q1 2018.

Figure 6: Dallas Retail Investment Sales Volume

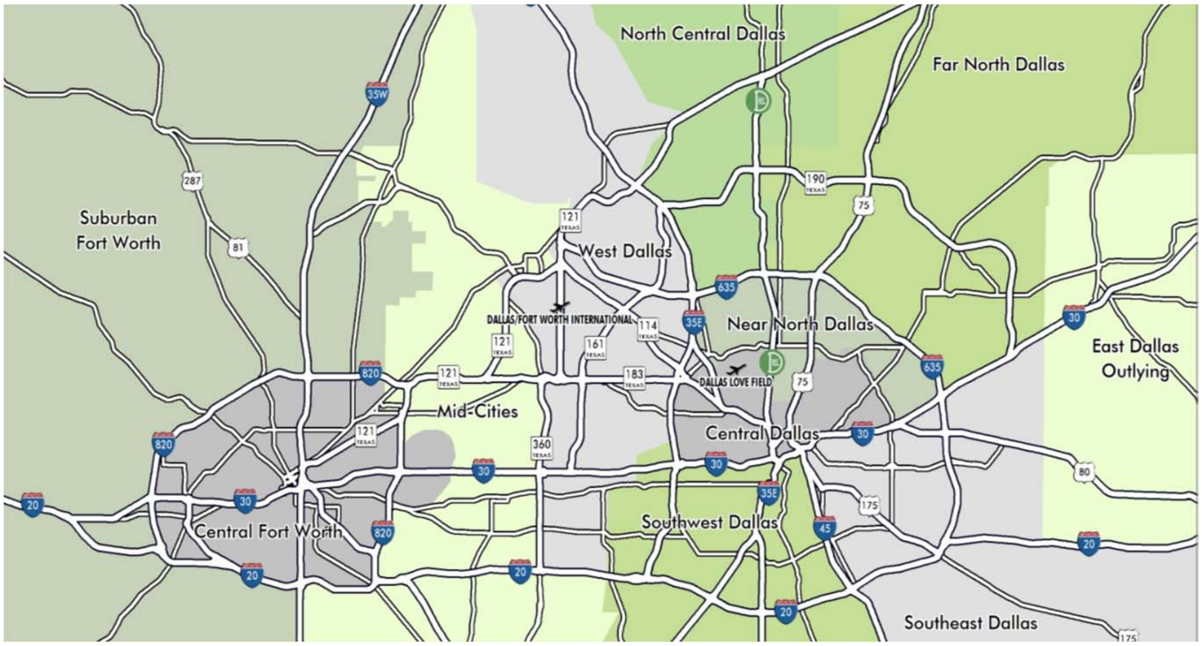


Source: Real Capital Analytics, Q1 2018.

Figure 7: Dallas Population Growth and Purchasing Power



Source Moody's Analytics, Q1 2018.



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