

## Q1 Stats Prompt Overbuilding Concerns

By [Amy Wolff Sorter](#)



Dallas

DALLAS - Though the Dallas-Fort Worth Metroplex spent most of 2008 sheltered from the recession, Q4 2008 signaled the end of good times for the area as tenant demand in the office sector fell and vacancies began nudging upward. Q1 2009's office statistics didn't show much change in the trend.

On the positive side, vacancy rates continue holding steady. Cushman & Wakefield's office statistics for the Dallas/Fort Worth area during the first quarter showed an overall vacancy rate of a 197-million-square-foot inventory. This compares to a 21% vacancy rate from Q1 2008.

Statistics from CB Richard Ellis show an overall vacancy rate of 21.8%, out of a 196-million-square-foot inventory. This is also a very slight increase from around 21.3% from the same period last year.

### Market Statistics

Market (see map on back)	Net Rentable Area SF	Direct Vacancy SF	Direct Vacancy Rate	Total Vacancy Rate	Average Asking Lease Rate	Direct Net Absorption	Total Net Absorption
Central Expressway	12,203,080	2,117,175	17.4%	17.9%	\$20.79	(87,329)	(73,317)
Dallas CBD	27,515,715	6,920,673	25.2%	25.9%	\$18.56	208,829	222,621
East Dallas	5,560,333	647,307	11.6%	11.7%	\$15.33	8,293	23,293
Far North Dallas	32,655,464	6,850,415	21.0%	22.6%	\$22.25	247,702	318,070
Fort Worth CBD	7,871,640	946,310	12.0%	12.1%	\$28.32	250,107	259,828
Las Colinas	22,706,080	5,871,780	25.9%	26.6%	\$20.49	208,153	218,610
LBJ Freeway	20,412,380	4,229,160	20.7%	22.1%	\$17.18	125,164	164,347
Lewisville/Denton	5,346,394	1,405,538	26.3%	27.3%	\$17.86	(5,805)	(10,615)
Mid Cities	13,177,848	2,361,957	17.9%	18.4%	\$16.50	56,440	72,687
North Fort Worth	752,759	32,143	4.3%	4.5%	\$17.78	1,472	1,472
NE Fort Worth	1,758,640	210,201	12.0%	13.7%	\$16.40	7,098	7,098
Preston Center	3,764,679	307,126	8.2%	10.0%	\$28.29	(4,242)	1,617
Richardson/Plano	14,378,340	2,601,743	18.1%	18.8%	\$19.01	14,825	40,522
South Fort Worth	7,912,613	729,540	9.2%	10.0%	\$19.60	53,958	53,958
SW Dallas	1,726,221	198,084	11.5%	11.5%	\$15.83	54,045	54,045
Stemmons Freeway	9,548,203	2,984,124	31.3%	31.5%	\$14.09	223,573	223,573
Uptown/Turtle Creek	9,393,483	1,454,514	15.5%	18.0%	\$30.62	133,919	153,834
<b>TOTAL</b>	<b>196,683,872</b>	<b>39,867,790</b>	<b>20.3%</b>	<b>21.2%</b>	<b>\$19.18</b>	<b>1,496,202</b>	<b>1,731,643</b>

Conspicuously absent from the 2008 figures, however, is the space anticipated to come online. The C&W figures show close to 3 million square feet in the pipeline, while the CBRE stats show just under 2 million square feet under construction.

This is starting to stir concerns about the big "O," overbuilding, that is. The problem, experts tell GlobeSt.com, is that the lead time from when a building is planned, until its completion can take a while. Many of the buildings due to come online this year were getting started in 2006 and 2007, when the economy wasn't quite so sour.

"No one saw the waterfall coming. Developers were building product with the expectations that things would continue smoothly," says Mike Gosslee, senior director with Cushman & Wakefield of Texas Inc. "But once the building is launched and moving forward, it's tough to put the brakes on. The best they can hope for is to fill the building up."

"The good news is that we're not expecting any groundbreakings this year," says CB Richard Ellis' senior research coordinator Steven Troilet. "What's in the pipeline now will be coming online during the next year to two years. Then that's it."

Further good news, Gosslee says, is developers learned their lessons from the 1980s downturn, and were not as aggressive with construction. As many of the ones putting up buildings today were around in the 1980s, "we don't have the same level of new construction as we did back then," Gosslee comments.

The not so good news? "As new construction delivers, it'll push vacancy rates up," Troilet notes.

As in most situations of lowered demand and increased vacancies, concessions are on the rise. Troilet says the rates that the CBRE reports quotes are the rental rates, and those haven't changed much. However, "brokers tell us that the landlords are getting more aggressive on the concession end," Troilet says.

Gosslee says that property owners and managers continue to take a tough stance on rent reduction, at least in public. But behind the scenes, owners are coming in with all sorts of concessions such as free rent and some front-end free parking.

Gosslee explains that the reason why the owners and managers these days are likely to push concessions over rent decreases is because of loan covenants and income-producing requirements. "The covenants oftentimes state that lease rates can't fall below a certain level," he comments. Both Gosslee and Troilet were hesitant to discuss when things might turn around. And both agree that a lot depends on what happens to the national economy. "I'm hopeful we're at or near the bottom, the trough," Gosslee says. "The biggest concern is how long the trough is."