Retail Research
MARKET UPDATE

Marcus & Millichap

Dallas-Fort Worth Metro Area *Third Quarter 2011*

Local Indicators Favorable Despite National Slowdown

A lull in construction and one of the most robust economies in the nation is enabling retail operations to gain footing in the Metroplex. Economic expansion in North Texas is broad based, as both blue-collar and white-collar firms shore-up payrolls. Bell Helicopter and General Motors, for instance, have added hundreds of positions in Fort Worth and Arlington, helping boost retail sales in the area. J.P. Morgan Chase in Lewisville and Frontier Communications in Allen, meanwhile, will add approximately 1,000 white-collar jobs. Although growth persists across the market, owners' reactions to vacancy are divergent. In general, Fort Worth operators are buying occupancy through aggressive concessions, while Dallas-area owners have opted to hold rents firm. As the national economy teeters on the edge of a prolonged period of stagnation, a strategy favoring occupancy in lieu of future rents could pay off. Local economic indicators remain favorable, however, which should result in lower vacancy in the coming months without significant additional incentives.

Two groups of investors are active in the Metroplex, though demand for both buyer profiles is going unsatiated in the current environment. Risk-averse investors are targeting single-tenant and core properties, where the threat of a new round of construction is diminished. Average cap rates for these properties can dip below 6 percent in some cases, such as banks, which causes experienced Texas buyers to balk at deals. As a result, these investors are moving down the credit-rating scale, though corporate-backed leases still garner the most attention. Value-add buyers are also active, seeking properties with below-market rents and dark space. In some instances, newer properties report vacancy nearly twice the marketwide average, and new leases are being signed well below peak rent levels. Older properties, on the other hand, are difficult to re-tenant, creating a dearth of potential value-add plays. Nonetheless, over $800 million in retail properties are in some level of distress in the Metroplex, which will begin to move through the pipeline more frequently.

2011 Annual Retail Forecast

1.7% increase in total employment

Employment: Despite impressive gains late last year and early 2011, annual employment growth in the Metroplex will slow to 50,000 jobs this year, a gain of 1.7 percent. In 2010, 55,800 positions were created in the market.

1.9 million square feet will be completed

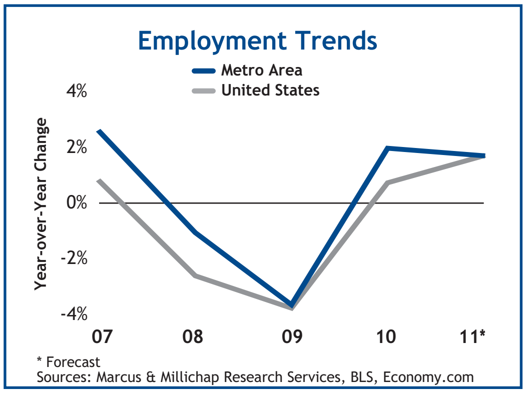
Construction: Building activity is accelerating in the Metroplex as 1.9 million square feet is scheduled to come online this year. In 2012, completions will increase further as some of the 27 million square feet of space planned for the market resumes development.

40 basis point decrease in vacancy

Vacancy: An influx of heavily leased development and improving tenant demand will push vacancy lower. By year end, vacancy will fall to 11.9 percent, an annual improvement of 40 basis points.

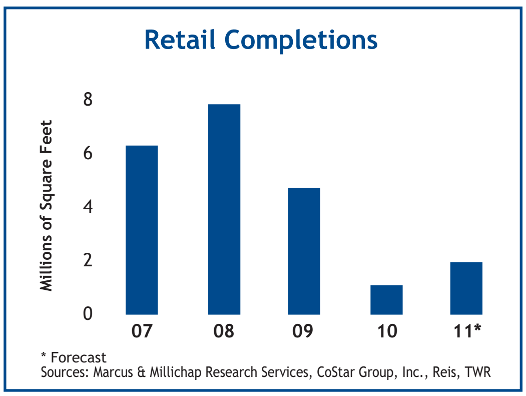
1.1% increase in asking rents

Rents: Asking rents will inch up 1.1 percent this year to $15.31 per square foot while effective rents increase 1.4 percent to $13.21 per square foot. Despite the modest gains, retail rents will still remain 3.3 percent and 6.5 percent below pre-recession peaks.



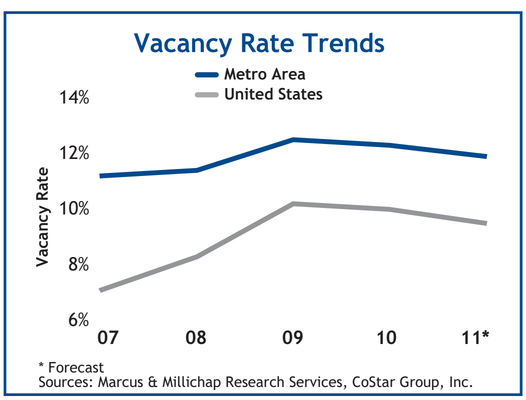
Economy

- Dallas/Fort Worth employers added 65,300 jobs over the last year, the largest absolute gain in the country. Only 15,500 positions were created in the second quarter of this year as hiring activity weakened alongside the cooling national economy.
- High-paying sectors created the most new positions in the past year. The professional and business services and education and health services segments expanded payrolls by 26,900 workers and 15,200 spots, respectively. Additions in these categories will result in ancillary positions and boost retail sales near office districts, medical centers and affluent neighborhoods.
- AllianceTexas reported a 2,400 worker increase in employment during the past year, bringing the total number of workers in the development to over 30,000. Deloitte University, a training center for the accounting firm, recently hired 500 staffers.
- **Outlook:** Despite impressive gains late last year and early 2011, annual employment growth in the Metroplex will slow to 50,000 jobs this year, a gain of 1.7 percent. In 2010, 55,800 positions were created in the market.



Construction

- The current slowdown in the building cycle likely reached a trough in the past year as just 480,000 square feet was completed. In the previous 12-month period, 1.9 million square feet came online.
- Neighborhood/community center development has slowed to a trickle since the onset of the recession. No projects have come online in four of the last five quarters, and only 20,000 square feet has been added to inventory since the beginning of 2010.
- The 485,000-sqaure-foot Timber Creek Crossing is coming online in stages during the second half of the year, with final delivery of pad sites bleeding into late December or early 2012. Located in the Highlands submarket, the center should draw foot traffic from several nearby neighborhoods.
- **Outlook:** Building activity is accelerating in the Metroplex as 1.9 million square feet is scheduled to come online this year. In 2012, completions will increase further as some of the 27 million square feet of space planned for the market resumes development.



Vacancy

- The marketwide vacancy rate dipped 10 basis points in the second quarter and has retreated 30 basis points year over year to 12.3 percent. The year-ago rate of 12.6 percent was the cyclical peak.
- In Dallas, vacancy at neighborhood/community centers inched up 30 basis points in the past year to 15 percent; the rate was flat in the second quarter.
- Fort Worth owners have supported occupancy through more aggressive leasing incentives, which facilitated a 30-basis-point improvement in neighborhood/community center vacancy over the past year to 14.1 percent.
- **Outlook:** An influx of heavily leased development and improving tenant demand will push vacancy lower. By year end, vacancy will fall to 11.9 percent, an annual improvement of 40 basis points.

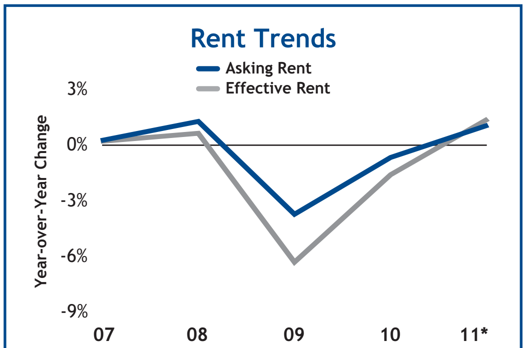
Rents

- The choppy nature of the vacancy recovery is translating to stagnant rental rates. Asking rents of $15.15 per square foot and effective rents of $13.04 per square foot are unchanged from the same period one year ago.

- Retailer demand for top-end space has given some owners limited pricing power. In the four most expensive submarkets, effective rents climbed an average of 0.6 percent in the past year. An identical number of low-cost submarkets reported an average effective rent decrease of 0.7 percent.

- Driven entirely on the improvement in vacancy, average revenue ticked up 0.3 percent in the past 12 months. As rents begin to contribute to gains, average revenue growth will be 1.8 percent in 2011.

- **Outlook:** Asking rents will inch up 1.1 percent this year to $15.31 per square foot while effective rents increase 1.4 percent to $13.21 per square foot. Despite the modest gains, retail rents will still remain 3.3 percent and 6.5 percent below pre-recession peaks.



* Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Reis

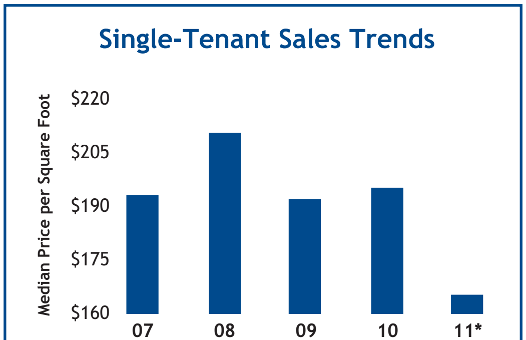
Single-Tenant Sales Trends**

- Single-tenant sales velocity jumped 30 percent during the most recent 12-month period on improvement across nearly all sectors. Deal flow in the popular fast-food and casual dining segments increased 30 percent and 18 percent, respectively.

- Overall sales prices remained relatively stable, as the median price in the past year was $165 per square foot, down a modest 2 percent from the previous year-long period. Fast food restaurants traded at a median price 14 percent lower than the previous year as buyers' concerns about re-tenanting diminished and more vacant buildings changed hands.

- Average cap rates dipped 50 basis points in the past year to the high-8-percent range, though first-year returns vary significantly by product type. Among sought-after investments, drugstores trade in the low-7-percent area, while fast-food assets clear the market in the mid-7-percent range.

- **Outlook:** Buyer interest in single-tenant offerings will remain strong, particularly in light of recent weak national economic news. As cap rates compress, however, yield-seeking investors will move down the credit-rating scale to include more franchisee or secondary retailers.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

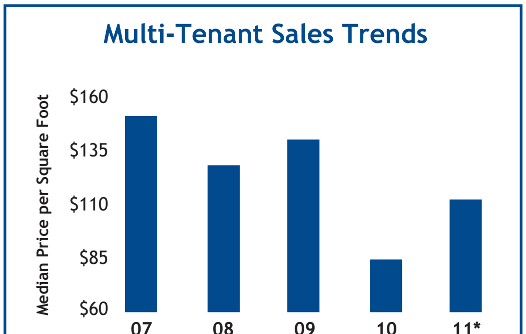
Multi-Tenant Sales Trends**

- In the last year, multi-tenant sales velocity jumped 85 percent as buyers reacted to improving employment conditions. Slowing job gains, however, could quickly halt multi-tenant deal flow.

- The median price for multi-tenant assets climbed 20 percent in the last 12-month period as an influx of new buyers bid up the few available listings and properties with strong tenancies dominated activity.

- Average cap rates retreated over 100 basis points into the high-8-percent range over the past year.

- **Outlook:** The recent proliferation of poor economic news could slow activity in the multi-tenant sector as investors remain concerned about retailers' expansion plans. Healthy local conditions, however, should support conditions for a few months even if the national economy flounders.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

*** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.*

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The yield on the 10-year Treasury hovered near 2 percent despite the S&P's downgrading of U.S. debt, as investors flocked to safety amid extreme stock market volatility. In response, lenders have pushed out loan spreads by an average of 30 basis points to 50 basis points, with CMBS lenders pushing significantly wider. Nonetheless, borrowing costs remain low.

- In the first half of 2011, mortgage originations were up 60 percent when compared to the same period last year, driven by higher activity among national banks and CMBS lenders. The CMBS sector may lose momentum, however, as elevated credit spreads translate into less competitive rates.

- Funding for single-tenant assets with credit tenants will remain plentiful this year. All-in lending rates for drugstore assets currently fall in the high-4-percent to mid-5-percent range, while loans for fast food and restaurant properties typically price 125 basis points to 175 basis points higher. In the multi-tenant sector, lenders will maintain their focus on high-quality centers in primary markets, though funding will remain available for Class B grocery- or drug-anchored centers with proven revenue streams.

- Deals under $10 million will again be dominated by local and regional banks, which typically offer three- to seven-year, fixed-rate recourse loans. In the $10 million to $20 million range, CMBS lenders and finance companies step into the picture, while deals over $20 million typically have access to a full spectrum of sources. On average, debt yields will hover in the 9 percent to 11 percent range, translating into LTVs of 60 percent to 75 percent.

Submarket Overview

- Builders have announced plans to break ground on a 600,000-square-foot regional shopping center in Terrell early next year. When completed in early 2013, the Eighty Twenty center could siphon demand away from the Southeast Dallas submarket.

- Presidio Junction in the Northwest Fort Worth submarket announced the addition of more tenants at the 300-acre development. Several major retailers have committed to space, including Cinemark and Lowe's.

- Vacancy in the Highlands submarket dropped 220 basis points in the past year, the largest decrease in the market. Owners reduced concessions to 14.9 percent of asking rents in that time, boosting revenue 4 percent, the largest gain across all submarkets.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents (psf)	Y-O-Y % Change
1	Northwest Fort Worth	7.9%	-40	$12.61	0.1%
2	Irving	8.4%	-50	$11.49	1.7%
3	Arlington	9.3%	-120	$11.60	-0.8%
4	Oaklawn	9.5%	190	$21.37	0.3%
5	Southeast Dallas	9.5%	-180	$9.57	0.5%
6	Allen/Frisco/McKinney	10.3%	140	$18.05	0.3%
7	South/SW Tarrant/N. Johnson Cty.	12.0%	40	$10.96	-2.5%
8	Plano	12.1%	40	$14.63	0.1%
9	Highlands	12.9%	-220	$13.66	1.3%
10	Farmers Branch	13.5%	-190	$12.48	1.3%

Marcus & Millichap
NATIONAL RETAIL GROUP

Visit www.NationalRetailGroup.com or call:
Bill Rose
National Director
National Retail Group
Tel: (858) 373-3100
bill.rose@marcusmillichap.com

Marcus & Millichap
Real Estate Investment Services

Prepared and edited by
Stephen Hovland
National Publications Manager
Research Services

For information on national retail trends, contact
John Chang
Vice President, Research Services
Tel: (602) 687-6700 ext. 6803
john.chang@marcusmillichap.com

Dallas Office:
Tim Speck
Regional Manager
tspeck@marcusmillichap.com
14185 N. Dallas Parkway, Suite 650
Dallas, Texas 40222
Tel: (972) 755-5200 | Fax: (972) 755-5210

Fort Worth Office:
David Luther
Regional Manager
dluther@marcusmillichap.com
500 Throckmorton Street, Suite 325
Fort Worth, Texas 76102
Tel: (682) 478-1200 | Fax: (682) 478-1210

Price: $150