The Wayne B. Swearingen Report

Information Specific on Markets and Timing

Spring 2006 (Final Edition)

UP GO *SOME* RENTAL RATES, BUT MOST ARE FLAT

UP GO CONSTRUCTION COSTS, 11%

UP GO OPERATING COSTS, TAXES, ENERGY COSTS

DOWN GO YIELDS; TOO MUCH MONEY; TOO FEW DEALS

TENANTS SAY "WHAT HIT ME? SHOULD I MOVE?"

WHERE ARE THE NEW INVESTMENT OPPORTUNITIES?

This is the sixth in a series of reports dealing with changes occurring in our market. The report is the property of Wayne B. Swearingen and Barclay Commercial Group, Inc. There is no affiliation with any other business entity or market study. The observations and opinions are mine alone.

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METHODOLOGY AND OUTLINE OF REPORT

In my 43 active years of active duty in the Dallas commercial real estate field, I am beginning to learn a few things. Probably because of this longevity, I am continually asked the same questions. "Is the CBD coming back?" (It never left; but the tenants did.) "Are we overbuilding condos?" "Are office rents going up?"
Just conversation, but the same old questions. I decided in 2000 to start keeping notes and articles on subject matter which has a bearing on commercial real estate in Dallas. I then initiated a series of reports, starting in 2000, as a condensation of information and my analysis thereof. This is my first new report in three years, with the last report sent out in July, 2003. Now I can answer…"Just read my latest report."

All reports are sent to investor clients and other interested parties. As with the other reports, this will be posted on my web site. I hope it is useful and entertaining for the reader. It is not easy to condense a one inch file into a few paragraphs and opinions. You will note the absence of charts and graphs. No one reads graphs, so why put them in? One reader called my style "folksy". I'm not sure that was a compliment.

SUBJECT OUTLINE

National Outlook 2006
City of Dallas Politics
CBD and Uptown Magic
Love Field and the full story of the DFW Controversy
Local Economy
Jobs
The Fluor Story
Transportation
Leasing, Office Construction, Absorption, Demolitions, Rental Rates, Escalation of
    Operating Expenses and Taxes
Industrial and Flex
Investment Sales
Condos and Apartments
Medical
Churches
Trends, Projections, and Opportunities

As with my five previous reports, the goal is to interpret conditions and events as they affect the Dallas-Fort Worth real estate market, both from an investor viewpoint and from a tenant perspective. Barclay Commercial Group, Inc has clients in both groups. The last report in July, 2003, covered the investment economy at that time and the **JOBLESS RECOVERY**. We were in the last years of the **TENANT PARADISE**.

Since the 2003 report, we have been waging war in the Middle East, and have just sustained two great natural disasters. The damage caused by the hurricanes is going to have a tremendous demographic and economic affect on the entire southern part of our nation. Personally, I glad we are fighting the war in Iraq, instead of on Main Street, USA. Hurricane Katrina, on the other hand, has exposed and laid bare the corruption in the state of Louisiana and in the Crescent City of New Orleans. Federal money (yours and mine) that should have gone to improving the levee systems and pumps may have gone to the construction of casinos. A huge population on welfare has been exposed and disbursed to other nearby cities and all over Texas. Now, six months later, what will happen? Over fifty percent of the evacuees say they will stay and not return.

What will happen to New Orleans? I hear it will take 25 years to rebuild. Offshore oil and gas production, distribution, and refining will re-trench and flourish in that area. The grain that funnels down the Mississippi from our nation's bread basket will continue to feed the world. It must come through that port. **REAL ESTATE OPPORTUNITIES THERE WILL EQUAL OR SURPASS THOSE OF THE LATE 80'S AFTER THAT FINANCIAL BUST.**

Here is what the big boys are saying about our **NATIONAL OUTLOOK** for 2006:

- Demand and absorption of office and industrial space will be flat.
  We have a national vacancy of 14%, or a four year supply.

- Apartments and hospitality will ride the crest of the economic boom.

- Retail will soften, but Wal-Mart will continue to boom, opening 550 stores in 2006. They are the second largest employer in the nation and should soon surpass the U.S. government.

CITY OF DALLAS POLITICS

First, let's define Dallas, as opposed to the Greater Dallas Area, as opposed to the Metroplex.

Dallas is the original city, booming after WW II, with great leadership including strong mayors.

Greater Dallas is a term referring to Dallas and the thriving cities which immediately surround it, where tremendous growth has taken place. The major corporate relocations for the past 30 years have gone to Irving, Plano, Addison, Frisco, and now to McKinney and Lewisville.

The term Metroplex was coined by the advertising firm hired by the original North Texas Commission (NTC). It refers to the nine counties surrounding DFW.

Now, back to old Dallas. When the courts ordered re-districting and 14-1 several years back, we ended up with 14 small districts, each electing a council member, and each with micromanaging self interests. The mayor is the only one elected at large, and has little power. We had the opportunity to change this system in May, 2005, with the Blackwood amendment. The "Strong Mayor" effort was soundly defeated when the same 14 districts, and their elected little kings, successfully made it look like a Laura Miller power grab. Later in 2005, as promised, the City Council offered a watered down version of the "Stronger Mayor System" and it also failed. Now we are stuck with a system that doesn't work, for another two years. We are due for a change to strong leadership.

There is an "anti-re-zoning attitude" as you move away from the inner city. Developers just give up and go to the surrounding, business friendly cities. The Dallas tax base is negatively impacted and the aging infrastructure and city services suffer.

In spite of these problems, some things are coming together, with council support. Most positive activity is centered in and around the Central Business District (CBD) and Uptown. The Trinity River Project and the Calatrava Bridges are moving ahead. Construction is underway in the Arts District, including two corporate office buildings, with tax incentives, City Performance Hall, Wyly Theater, Winspear Opera House, and a planned Museum Tower. The Mercantile re-do is also underway, with costly incentives. Perhaps the park over Woodall Rodger Freeway will become a reality, joining the CBD and Uptown. Victory Park, including American Airlines Center, has high-rise condos, retail, and offices under construction. Think of what we could accomplish throughout the rest of Dallas with strong, dedicated leadership, such as in Fort Worth, San Antonio and Houston.

UPTOWN MAGIC

"Uptown Magic" is a term I coined two years ago while working on a relocation project. My wife and I have lived in a hi-rise in Uptown for 16 years, and we love it. Now Uptown is really getting crowded. Construction is underway all along McKinney Avenue. Barclay Commercial recently represented the seller of the Maple Terrace Apartments, which is undergoing transition to condos by a division of Trammell Crow Company, with a new tower planned just west of the old historic structure. (see Condos)

In the early 90's, Barclay Commercial was involved in the sale of the remaining CityPlace undeveloped land to an investor. Most of that land is now developed, and the new centerpiece is West Village. That high density development has signaled rising land values. Land prices have gone from $25.00 SF to over $100.00 SF, depending on zoning density. Barclay is very active representing tenants and investors in Uptown. Three years ago, we brokered the sale of Woodall Rodgers Tower to Charter Holdings for their headquarters.

The Wal-Mart Neighborhood Market on the east side of Uptown is a great success.

From the 13th floor of my home office, I can view downtown, Uptown, Turtle Creek, Katy Trail, and Reverchon Park. Young and old are finding that **Uptown** is simply alive and **MAGIC**.

LOVE FIELD

Shortly after completing my active service in the Air Force, I moved to Dallas in 1960. I had to learn small plane flying all over since most of my flight hours had been logged as a pilot in B-47 jet bombers during the cold war. I would *tool around* Dallas on weekends and land at various airports, most of which are now housing developments and shopping centers.

One sunny day in 1961 I decided to fly over and land at the vacated Amon Carter Field in west Fort Worth. I had heard that the major airlines had moved back to Love Field with the advent of new jet passenger service for civilians. I called the tower and asked for landing and parking instructions. They replied "park anywhere you like". I soon got the picture. I parked in number one position, walked into the large, beautiful, empty terminal, and enjoyed a sandwich, all by myself. I was soon to learn that the people in Fort Worth blamed Dallas and Love Field for a series of mistakes and failed efforts to bring international travel to Fort Worth. Here is the story seldom told.

The City of Fort Worth established the Fort Worth Municipal Airport (now Meacham Field) on May 23, 1925. The first airmail flight from that airport was flown in 1926 by National Air Transport Company, now known as **American Airlines**.

As early as 1940, a regional airport for the Dallas – Fort Worth area was being considered. The CAA approached the City of Arlington, which had centrally located land. Arlington was to deed 1,000 acres to the project, and the CAA was to build the landing areas. Construction began in 1942, but a disagreement over **which way the terminal building should face** ended construction of this Midway Airport in 1943. In 1946, Fort Worth hired a firm to prepare an airport plan for the city of Fort Worth. Midway Airport again took life, and it was then named **Greater Fort Worth International Airport**. In 1948, the CAA National Airport Plan recommended that the Greater Fort Worth International Airport be expanded to become a major regional airport. Fort Worth annexed the site and continued to develop the airport **with the support of American Airlines**. In 1950, the Fort Worth City Council renamed the airport Amon Carter Field. **The Amon Carter terminal faced Fort Worth to the west.**

Amon Carter Field officially opened in April, 1953. The terminal was unbelievably beautiful. By 1958, the new airport was in full swing, but 90 percent of the riders were coming from Dallas, where Love Field was much more convenient. The City of Dallas continued to develop Love Field. Amon Carter changed names again, this time to **Greater Southwest International Airport, and it was purchased in 1960 by the City of Fort Worth.** It was too late. The Texas air traffic numbers show that GSIA declined from 6% of the ridership in the state to 1%, while Love Field increased from 40% to 49%.

The result…Greater Southwest International Airport was abandoned. Love field was now serving American, Braniff, Central, Delta, Eastern, and Trans Texas. This was about the time I flew over to GSIA and saw the empty airport.

Finally, in 1972, the GSW Airport was closed to make way for the REAL new airport, DFW. Dallas and Fort Worth finally got their act together and built our **PORT IN THE SKY**. In the process, the Wright Amendment, which was needed at that time, was enacted, limiting the direct flights from Love to the adjacent states. This allowed DFW to become the international airport we needed. Love Field is no longer a threat to DFW and I feel the restrictions should now be removed. I know of no similar restrictions on Meacham Field in Fort Worth.

Assuming the flight restrictions are phased out at Love Field, the real estate between Love and Uptown will really take off. With the auto industry centered along Lemmon and Inwood, the pressure from the growing medical center to the west, and the Dart NW corridor expansion, values are heading up. Speculation and new conversions from manufacturing and warehousing to retail and residential are underway. This is healthy for Dallas and a great real estate opportunity.

LOCAL ECONOMY

Texas has moved up to the number one spot in "state business climate" rankings. The future belongs to Texas. Our state is a bargain for businesses.

With office rental rates still relatively low, investors are frustrated, but low occupancy costs attract businesses.

JOBS

Job creation fuels office and flex space absorption, retail sales, and new residential and commercial construction. The North Texas area only had about 35,000 per year job growth from 2000 to 2005. Remember, this was a period of corporate merging and consolidation, which causes job elimination. The March, 2006 North Texas numbers have just been revised for 2005 to over 66,000 new jobs. We are expecting over 3.5% growth per year (125,000 jobs) from 2006 through 2010. Typical would be Hibernia Bank, which is quietly transferring 350 jobs from New Orleans to Dallas in 2006 because of lack of housing in southern Louisiana. In January of this year, Home Depot and Countrywide Financial Corp. announced 2,500 new jobs coming to North Texas.

Then there is the negative factor…mergers. SBC, now AT&T again, is acquiring Bell South, which will eliminate 10,000 jobs nationwide. A major bank merger is throwing a large block of office space back on the market in the CBD. This is like **TAKING THREE STEPS FORWARD AND TWO STEPS BACK**. However, the net effect of all of this will soon send rental rates climbing, and investors are counting on it.

The efficiency factor also has a negative effect on space usage. Employees are using much less space per person, and as efficiency increases, the need for people decreases. Telecommuting is still boosting productivity and trimming costs. **SMALL TO MID-SIZED COMPANIES ARE THE CORE OF AMERICAN COMMERCE AND INDUSTRY AND ARE THE LARGEST PRODUCERS OF NEW JOBS.** Buildings should be designed to accommodate these job creators.

THE FLUOR STORY

On July 5, 2005, Fluor Corporation announced that it had selected Las Colinas in Irving, Texas as the location for its new international headquarters. Koll Development Company (KDC) was selected to develop the 26 acre property for Fluor, just north of Royal Lane and the massive Citigroup complex, also developed by KDC. Proximity to DFW Airport was again at the top of the list for the decision to move here.

The story actually begins in the early 70's when we had the largest airport in the world under construction, DFW, and nobody knew it. This was to be our **PORT IN THE**

SKY, for these two land-locked cities. The Airport Authority and both Chambers of Commerce had not a dime for telling the DFW story.

My friend, King Laughlin and I met with Gar Laux, who then headed the Dallas Chamber of Commerce, and we began to develop a strategy. We called on the local major employers, developers, and banks to raise funds to advertise five things to offer companies:

1. Best business climate in the U.S.
2. Central time zone for communication and travel efficiency
3. Bargain office space and housing (We had overbuilt the market. Does that sound familiar?)
4. Largest airport in the world, about to open
5. Least downtime for air traffic due to weather

We orchestrated several key meetings, including the historic one at the Six Flags Inn in Arlington. **Dallas and Fort Worth again came together**. Stanley Marcus stood and challenged us with "If Atlanta can raise $3,000,000 for the Forward Atlanta Program, Dallas-Forth Worth can raise $9,000,000 for a nine year program to promote our area and this airport." We did.

I served on the steering committee which formed the North Texas Commission (NTC) to promote the area and the new DFW Airport. We funded the program. We hired Tracy Locke to develop the ad campaign. They came up with the tag "Metroplex" for the nine county area surrounding DFW. They designed a series of ads to run in the northeast and west coast Wall Street Journal editions. The full page ad showed Manhattan, with the DFW Airport superimposed upon it. The caption was **"AN AIRPORT BIGGER THAN MANHATTAN"**. Wow, did that get attention. We business leaders made field trips to the main office centers and to Washington, D.C. to call on companies and our legislators. It worked.

A short time into the program, a gentleman named Grant Chandler clipped a coupon from the ad and sent it in. He asked to hear more. His little known company from South Bend, Indiana, was Associates Corporation of North America. We met with him and sold him on Las Colinas. Then the Exxons, Kimberly Clarkes, and J. C. Penneys came. The rest is history. Now comes Fluor Corporation. Welcome Alan Boeckmann, CEO. And there are more coming soon. In the past 30 years, large national companies have become multi-nationals, and they can operate more effectively from here.

TRANSPORTATION

A big factor in the continued thriving Metroplex is the efficient movement of people, cars, and trucks. Fluor officials stated that one of the main factors in their decision to move from Southern California was the "clogged freeways". In their new headquarters in

Las Colinas, they are just minutes from residential, DFW Airport, and Love Field, where they keep their jet fleet.

In September, 2005, the last segment of the northern half of the Bush Turnpike was completed, linking ten fast growing cities with DFW Airport. This should take some of the pressure off LBJ Freeway, which will soon be under construction again from Hillcrest to Midway.

Dart light rail ridership continues to increase. The new key is the Northwest Corridor line, starting in Pleasant Grove, and connecting Fair Park, Downtown Dallas, the Dallas Market Center, the Medical Center, Love Field, Farmers Branch, and Carrolton. This portion will be completed by 2010. Soon thereafter, that Dart line will have a branch to DFW Airport. This mass transit line is having a big impact on land values around the main stations, just as it did with the Dart Richardson line north and the Dart Garland line to the northeast.

Examples of mass transit driven development and speculation are:

1. Groundbreaking is scheduled for this year on the Farmers Branch City Centre mixed use development with city and private funding.
2. A similar project will be underway soon in Carrolton.
3. Construction has begun on Cityville at the Southwestern Medical District. This is a 16 acre mixed use complex adjacent to the Dart Parkland Station, along Motor Street, which is to be widened. (This is just west of Elliott's Hardware on Maple Ave.)

OFFICE LEASING, CONSTRUCTION, ABSORPTION, DEMOLITIONS, RENTAL RATES, AND OPERATING EXPENSES (INCLUDING TAXES)

New office construction is fairly in check, mainly because of rising construction costs and flat rents. The north half of the Dallas North Parkway, Legacy, and build-to suits in Las Colinas, CBD, and McKinney account for most new office construction. To the north, new value buildings seem to be leasing best, and some pre-leasing generally rules. Lincoln, Granite, Koll (KDC), Hall, Duke, and Cousins are leading the new construction charge.

In the CBD, new projects by Hunt Consolidated and One Arts Plaza by Billingsley are underway with their respective corporate tenants. Tax incentives, not office demand, is the driving force now, but the quality space will lease.

In 2005, Greater Dallas had 15,000,000 SF of leasing activity, but only 2,300.000 SF of net absorption. Headlines can be deceiving. When you read "Office Leasing Heats Up", it usually means that tenants are moving or relocating from one building or sector to another. Many tenants are upgrading, before rents start rising.

There have been two large office demolitions in the past three months; one at North Park, and one in downtown Fort Worth. Note: **DEMOLITIONS DO NOT REGISTER AS ABSORPTION OF SPACE, BUT THEY DO REMOVE VACANCY.**

Free rent in the early months and generous tenant improvement (TI) allowances still distort true rent rates. There is now about $8.00 in differential between A and AA Class office space. Value B space seems to be doing best for investors.
Here is a quick picture of Class A vacancy and rates:

SUB-MARKET	CLASS A VACANCY	CLASS A RATES
Downtown (CBD	**27%**	**$16+E - $23+E**
Central Expressway (to LBJ)	**24%**	**$15 FS - $18 FS**
Preston Center and N. Dallas	**11%**	**$21+E - $27+E**
Turtle Creek/Uptown	**10%**	**$18+E - $32+E**
Stemmons Freeway	**32%**	**$14 FS - $18 FS**
LBJ Freeway	**31%**	**$15 FS - $22+E**
Las Colinas	**24%**	**$16+E - $19+E**
Far North Dallas	**20%**	**$18+E - $24+E**
Far North Central	**25%**	**$17 FS - $19 FS**
Legacy/Frisco	**16%**	**$18+E - $21+E**

Note: The sub-sectors mirror the first surveys which we started in 1970. Cushman & Wakefield seems to have the most accurate research and I have used some of their numbers. Rental rates are on annual basis. The **+E** means plus electricity, averaging about $1.90 SF today. **FS** is for full service, meaning electricity and other utilities are included in the rental rate.

Modern office leases contain escalation clauses whereby landlords pass increases in operating and real estate taxes along to the tenants as **ADDITIONAL RENT**. Today, tenants are experiencing shock with these increases. In some cases, the rent bumps and escalations have pushed rents for existing tenants higher than the quoted rents for new tenants in the same buildings. Energy cost increases are a main contributor. This will continue to rise. When the buildings sell for high prices, the sales are recorded and the tax increases are passed along to tenants. Landlords will be increasingly challenged to keep tenants happy while the pass along these costs. Professional tenant representation is needed today more than ever.

INDUSTRIAL AND FLEX MARKET

In December, 2004, my partner, Jack Griffin, and I completed a 40,000 SF lease for Creation Technologies in Plano Technology Park, Plano. The Canadian based company completed their move-in January, 2005. We found the industrial and flex market here to be much healthier than office. Vacancy is about 12%, the best in six years. Absorption was over 8,000,000 SF on 2005. This is expected to continue in 2006.

There are pockets of investment and re-development opportunity in areas such as just south of Love Field where warehouse and manufacturing is up-grading to residential and retail. SwearingenGriffin Partners is active in this area. We have several investor clients taking advantage of the convergence of medical and multi-family demand, the booming auto industry, the new NW Dart line, and Love Field as a business generator.

INVESTMENT SALES

The two main thrusts of Barclay Commercial Group, Inc. are tenant representation and office and industrial investment sales. We usually represent purchasers, not sellers. Our investors are always looking to buy "off the radar". They avoid the auctions and hate terms such as "best and final". Who wants to bid against himself?
Nevertheless, sales of all types of improved commercial properties hit an all time high in 2004 and were right up there again in 2005. Some buildings sold twice. Some are selling again now. There is just too much money chasing too few deals. TIC fund investors are paying the highest prices, driving yields down and prices up. Some of the disappointment in lagging rental rates has been mitigated by low interest rates. With interest slowly rising, profit margins will be further squeezed, and pressure will be on to raise rents.

Investors are overpaying for Class A and AA product, in anticipation of rising rents. Class B product, in good locations, has the earliest chance of a fair return. Office building sales, and turnover in ownership and management, are causing tenant instability. Inexperience in asset management = instability in management and leasing = unhappy tenants = turnover = higher than projected re-leasing costs = lower yields.

Class C buildings are selling in the $30.00 SF range.
Class B buildings are selling in the $50.00 - $80.00 SF range.
Class A buildings are selling in the $80.00 - $180.00 SF range. ($15.00 premium)
Class AA buildings are selling in the $190.00 - $300.00 range. ($25.00 - $40.00 premium)

Why will the last two get hurt? Do the math:

Say, a typical suburban Class A office building sells for $180.00 SF
Rents in that building vary from $20.00+E to $24.00+E say they average $22.00+E
Taxes go up due to the sale. Operating and energy costs are moving up. Say $9.50 SF
Tenant improvement costs are moving up from $20.00 SF to $30.00 SF; which would be $6.00 SF per year on a five year lease.
New leases are made with some free rent in the first few months, so, vacancy downtime is extended.

Here is the math:

Current Rent	$22.00 SF
20% vacancy	-4.40
Operating and taxes	-9.50
Tenant improvement on half the tenants	-3.00
Net Operating Income	$5.10

Cap that at 9% = $56.67 Value The investor paid $180.00 SF.

Now, how much market correction is needed to have a good investment?

Basic rent rate goes up to $30.00	Increase of $8.00
Vacancy goes to 10%	Increase of $2.20
Tenant improvement costs drop	Increase of $2.00
Total improvement of NOI	**Increase of $12.20**

Now, the NOI becomes $17.30 and when capped at 9%, the value is $192.22 SF

Reproduction costs may be $180.00, so now the office building is a good investment. But, how long did this take?

My advice to investors is…**HAVE DEEP POCKETS IF YOU BUY OFFICE BUILDINGS. BUY INDUSTRIAL AND FLEX BUILDINGS. LOOK FOR THE OPPORTUNITIES WITH EXTRA LAND FOR FUTURE DEVELOPMENT.**

CONDOS AND APARTMENTS (MULTI-FAMILY)

In 2005, we represented the seller of Maple Terrace Apartments in Uptown to a division of Trammell Crow Company. The plan is to convert the 81 year old historic structure on Maple Avenue to 68 condos, and construct a 16 story tower with 170 additional condos and townhouses. When I am asked about the overbuilding in the condo market, I usually respond with "Of course we are". Dallas will always overbuild if money is available.

If you are buying a condo for an investment, you will probably lose. If you are buying for a home, pick the location, setting, grounds, design, and developer, then plan to live there for a while. *Compressed living* is here to stay. Maple Terrace is unique because of the spacious green areas and the history behind the old building. Nothing is unique about most office to condo conversions in the CBD.

Apartments seem to be doing well. My prediction is that many planned condo projects will end up leasing as apartments.

MEDICAL

Medical office buildings and satellite hospitals are popping up all over. The Baylor Hospital system seems to be the most aggressive and innovative. Many doctors are opting to own clinics, and locate close to the main hospitals where they practice surgery.

CHURCHES

Churches are absorbing some of the excess office and retail space. Fellowship Bible Church sold their building at Central Expressway and Meadow to an investor who is converting it to a 60 bed acute care medical facility. It was originally pure office space. That church then bought an underperforming movie theater near Park Lane for conversion to the new church facility. **This activity is what I refer to as STRATEGIC ALTERNATIVE REDEVELOPMENT, OR (SAR).**

Other examples of **SAR:** Park Place Motorcars on Oak Lawn has relocated to the Lemmon-Love Field area, making room for new retail and church expansion on Oak Lawn. The auto dealership then displaced the offices of Haggar Corp. on Lemmon. Haggar then bought a vacant and fully furnished 182,000 SF office building on Luna Road in Farmers Branch, once occupied by I2. Also on Lemmon, the Coca Cola facilities relocated to offices north on Spring Valley, and the Lemmon properties will soon house a new Lowes store near Inwood Road and an additional auto dealership at Mockingbird Lane. Churches have bought office buildings in Park Central and at Preston and Harvest Hill for future expansion.

What have we learned from all of the above? The best exit strategy when you buy a property is to locate near a church, hospital, or auto dealership. They are all expanding.

TRENDS, PROJECTIONS, AND OPPORTUNITIES

The buying frenzy is now meeting up with reality. Investors, realizing they have overpaid for office buildings in many cases, are re-grouping and aggressively trying to hang on to their existing tenants. **Lease extensions make sense for some tenants who want to take advantage of the current market.** Barclay Commercial is involved in several of these.

Development land, especially in the innermost parts of the city, is in short supply. Prices for zoned land in Uptown have risen from $25.00 SF to over $100.00 SF. The last time we saw this was when the Canadian developers came to Dallas in the 70s and saw $100.00 land in the CBD as a bargain.

In 1993, there was a great article in Site Selection magazine addressing the "virtual office and telecommuting". Those projections came true over time. Here is an excerpt from the Executive Summary of that article:
"Virtual offices will steadily reduce overall corporate office space needs, and private offices will become much more rare. The use of space will also change , with the emphasis shifting from individual to team work areas.
Fully integrated office/residential communes will emerge, turning many people's commute into an elevator ride or a walk across the hall.
The implications of the virtual office will unalterably change how, where, and when we work."

Just go and visit your local Starbucks. Look around. See how people are working. This isn't about coffee.

A Gallop pole shows that corporate employees require much less space to perform effectively. 7% have workers spending up to 50% of their time in unassigned office space. By 2010, 21 % of the companies will have employees working remotely up to half the time. The ability to check e-mail and voice mail from multiple locations has become more important than individual office space.

So, if corporations are using less and less space, who will lease all our office vacancy? **New businesses are the largest generator of office space absorption**. A year ago, I represented a newly formed business initially occupying 2,500 SF of space. I just completed a lease for that same company with 9,000 SF and a long term lease.

In summary, I view significant pressures to be:

- Rising interest rates
- Rising operating expenses and taxes
- Attracting new tenants
- Retaining current tenants
- Tenants and user/owners finding the best values
- Users holding occupancy costs down

Barclay Commercial Group has had extensive experience in advising both investors and tenants. Jack Griffin and I keep a compact operation and we are available to our clients 24-7.

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