2016

Real Estate Trends

What to Expect in the Houston & Dallas Markets

HARTMAN
the POWER *of*
PROVEN RESULTS

INTRODUCTION

With nearly $42 billion in direct commercial real estate expenditures, Texas took the top slot in the country's commercial real estate market in 2014. Activity in the Dallas-Fort Worth area contributes greatly to the state's status, and the metro area remained a vibrant market throughout 2015. The 2016 Emerging Trends in Real Estate Survey put Dallas in the No. 1 spot for cities to watch for the coming year.

Dallas real estate is poised to continue its sizzle – and Houston's may be heading to a new definition of prime opportunity. These are just two of the trends expected for 2016 in the two regions, with others outlined in the upcoming pages.

As a leader in commercial leasing throughout Dallas, Houston and San Antonio, it is imperative for us here at Hartman to stay on top of industry movements and trends. We've created this e-book so you can do the same.

Dallas Real Estate Boom Continues

From office high-rises to expansive warehouses, nearly every property sector in the North Texas area is booming. The Dallas-Fort Worth area is especially hot, fueled by a rapidly increasing population and formidable job gains across the region. And the activity isn't showing signs of slowing down any time soon.

Unlike recovery periods from other recessions, real estate emerged from the latest economic downturn at a much slower pace. Growth began at a barely perceptible tempo, yet ultimately reached full throttle.

Dallas rents have followed suit with record highs. Uptown rentals topped the charts with new buildings quoting annual rates of up to $52 per square foot. Rents across the city jumped 6 to 9 percent higher than they were the previous year. Analysts predict the market will remain strong and even accelerate over the next several years, with no signs of decline through at least 2018.

Houston Loaded with Opportunities

Houston has seen a slowdown in activity due to the oil price plummet, but that slowdown has created brilliant opportunities in the commercial leasing market. As developers flocked to Houston during the energy sector's upturn, the city became home to one-sixth of all offices under construction in the entire country.

A nosedive in oil prices led to company cutbacks – and prime office space that was no longer needed by A total of 5.2 million square feet of space was on the market in early 2015, up from 1 million square feet six months prior. Supply is high and demand is low, a perfect mix for savvy companies to secure offices in high-end buildings at a fraction of the cost they would find elsewhere.

From office high-rises to expansive warehouses, nearly every property sector in the North Texas area is booming. The Dallas-Fort Worth area is especially hot, fueled by a rapidly increasing population and formidable job gains across the region. And the activity isn't showing signs of slowing down any time soon.

Green Leasing Continues to Grow

Green building is the law in Dallas, which makes it no surprise the trend has now become a way of life for new commercial and residential buildings. Resolution 08-1070 was unanimously passed in 2008, and the final phase of the law was fully implemented by the end of 2013.

New projects are required to either meet the minimum standards set by the Dallas Green Construction Code or be certifiable under LEED or equivalent green building standards. The end result is new buildings that reduce water use by at least 20 percent and feature other accommodations designed to save energy and reduce waste.

Existing buildings in Dallas and Houston have also been embracing the green leasing concept, with tenants and landlords typically sharing the cost of implementing energy-saving features.

As of 2015, the Dallas and Houston areas ranked seventh and eighth, respectively, as the US cities with the greatest amount of green buildings added over the past year. Dallas added 248, totaling 62.1 million square feet of green space. Houston added 235, with 86.5 million square feet of green space. The green leasing movement on both new and existing buildings is predicted to keep flourishing throughout the coming year.

More Efficient Office Space in Demand

The demand for more efficient office space has been the trend over the past several years, and the tendency is expected to continue. Dallas and Houston-based companies are aiming to reduce their "footprint" by moving to less expansive locations that accommodate the same amount of workers in a smaller yet more efficient layout. Those locations are typically located in newer buildings with higher rents.

Although rental rates are higher per square foot in the modern complexes, companies are offsetting the cost by opting for fewer square feet of space.

Current activity shows companies are focusing on reducing their footprint by about 20 percent, which lets them break even with total occupancy costs when paying 20 to 25 percent more per gross square foot in a more efficient environment.

Millennial Mindset Taking Hold

A major shift in office leasing is underway, with the movement expected to pick up steam in Dallas and Houston as more millennials become core members of the workforce. The shift suits the millennial mindset of working in an open, shared environment, not unlike a large hotel lobby with comfortable seating, copy machines, Wi-Fi and other amenities required to simply sit down and work.

Instead of traditional office space with long-term contracts, entrepreneurs and small startups are interested in leasing ready-made spaces on a month-to-month basis. New York-based WeWork Companies has been going strong over the past several years, leasing out large blocks of space over multiple floors which they parcel out to individuals and small companies.

Other Trends

E-Filing Laws Impact Location

New e-filing laws are in the midst of allowing Texas lawyers to set up offices far from downtown courthouses. Dallas attorneys must now file paperwork electronically instead of in-person at the courthouse, opening the opportunity to work from anywhere throughout the metropolitan area. The law is going into effect in a graduated schedule across the state through the end of 2016, with Houston slated for January 2016.

The law is likely to change attorneys' views on real estate, as they no longer have to target a downtown office location as a top priority.

Location will still be a factor, but they can now focus on a location that is most convenient for themselves and their clients. They can also shift their focus to building amenities as well as the layout of offices, reception areas and lobbies, items that may have received less attention in the past when a downtown location was a primary concern.

CONCLUSION

Even with Dallas commercial real estate at an all-time high, rental rates are still much lower than companies would find in other major cities like New York. The dip in rates and high availability of rentals in Houston likewise makes the city prime territory to secure a solid deal. New laws, green leasing, efficient office spaces, and an awareness of the millennial mindset make the areas even more conducive to doing business through 2016 and beyond.

Learn more about the exception leasing opportunities in Dallas and Houston, and how you can take advantage of them, by contacting Hartman today.

HARTMAN UNDERSTANDS

The questions and concerns that arise during an office space transition.

For more insight:
Contact Us at: 800.880.2212

HARTMAN
the POWER of
PROVEN RESULTS