

D

Economy

January 2008

A MONTHLY BRIEFING

DALLAS AVIATION INDUSTRY CLUSTER

In this issue of *D Economy*, read about the AIG regional office's imminent return to downtown Dallas (page 2) and about the increase in Dallas' payroll employment (page 3). Also, view end-of-the-year commercial real estate statistics that show higher rents and lower vacancy in most commercial segments (page 4).

| Inside This Issue: | |
|------------------------------------|---|
| NEWS SHORTS | 2 |
| DALLAS EMPLOYMENT | 3 |
| 2007 COMMERCIAL REAL ESTATE UPDATE | 4 |

The aviation industry has traditionally been a favorite of communities because of its large capital investment, high wages and supplier spin-offs. The industry encompasses everything from commercial aviation and missile design to the manufacturing of aircraft parts, engines and navigation instruments. Texas and Dallas-Fort Worth are in an enviable position of already having an aviation cluster (Figure 1). A cluster is a collection of related businesses and services in an industry, who might be competitors or who could be in a customer-seller relationship. The key is that they are located in the same area and have similar work force needs.

Clusters become magnets for skilled labor and additional suppliers and competitors wanting to be close to workers and potential new customers. Clusters can keep costs lower due to competition and reduced shipping expenses.

According to the 2006 U.S. Census Bureau Annual Survey of Manufacturers, Texas is second only to California in the number of employees in aerospace parts and product manufacturing with 47,965 employees.

Clusters also include the educational and professional institutions needed to support the industry. The aviation industry, especially in manufacturing, requires highly skilled and educated workers. Universities in the Dallas-Fort Worth area offer bachelor through Ph.D. degrees in aerospace engineering, computer science, electrical engineering, computer engineering, industrial engineering and mechani-

cal engineering. There are 3,260 aerospace engineers, 5,790 electronics engineers and 5,280 electrical engineers in Dallas-Fort Worth.

Skilled workers are also needed to work on engine parts, diagnose electrical problems and keep aircraft in good operating condition. Dallas area community colleges and private aviation-related schools offer courses to train workers with these vital skills. Dallas has 7,800 aircraft mechanics and service techni-

cians and 1,530 avionics technicians. With median hourly wages of \$23.88 and \$24.06, respectively, these jobs are well above the median of \$15.22 for all occupations in Dallas-Fort Worth.

In recent years the City of Dallas has supported the growth of the aviation industry in Dallas. For example, the city has a public-private partnership agreement with Gulfstream Aerospace Services Corporation to expand its facility and employment at Dallas Love Field (Council District 14). The City has

also invested \$12 million since 2000 in the city-owned general aviation airport, Dallas Executive (Council District 8). The private sector has invested over \$20 million in the same time period.

With multiple airports, Dallas has the facilities needed to house aviation firms and all the necessary support businesses. With a qualified work force, educational resources and state and local commitment, Dallas is an attractive location for the aerospace and aviation industry.

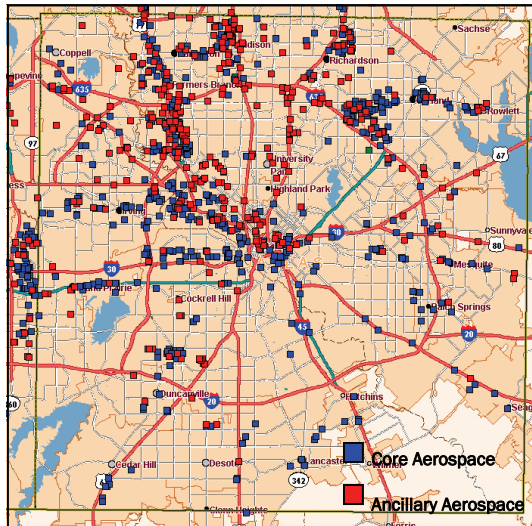


Figure 1. DALLAS COUNTY AVIATION AND AEROSPACE CLUSTER.
SOURCE: TEXASINDUSTRYPROFILES.COM.

Real Estate News

- Slalom Consulting has opened a new office in Dallas at 15950 Dallas Parkway (Council District 11). The business and technology consulting firm plans to focus on its existing relationships with Dallas companies, add solution areas and expand its client base. SOURCE: MARKETWIRE, DECEMBER 17, 2007.
- Developer Zale|Corson Group plans to build a new apartment complex in east Dallas at Henderson and Belmont avenues (Council District 2). The company attributed the Henderson area's attractiveness to its new trendy restaurants and retail. Construction will begin in the fall. SOURCE: DALLAS MORNING NEWS, DECEMBER 18, 2007.
- A new mixed-use apartment development is planned to replace aging apartments just east of the Dallas North Tollway on Harvest Hill Road (Council District 11). Inland American Corporation plans apartments, retirement living, retail, office and single family homes. SOURCE: DALLAS MORNING NEWS, JANUARY 5, 2008.
- Construction of Forest Park Medical Center, a \$36.4 million hospital that is the first phase of a master planned medical complex located on Central Expressway and Forest Lane, is about to begin (Council District 10). Forest Park Medical Center will have 66,000 square feet and room for 26 beds and eight operating suites. The expected completion date is early 2009. Other possibilities for the complex are a medical office building and a senior assisted living facility. SOURCE: GLOBEST.COM, JANUARY 15, 2008.
- Great Gulf Group plans to build a new residential and hotel building at the corner of Fairmount Street and Turtle Creek Boulevard where a low-rise, 1959 office complex now stands. The company is currently going through the zoning process to seek approval for the change in use. SOURCE: DALLAS MORNING NEWS, JANUARY 17, 2008.
- Hensley Industries recently celebrated the completion of a new, 40,000-square-foot expansion to its foundry in northwest Dallas (Council District 6). Hensley will manufacture ground engaging tools for the mining market at the new foundry. Hensley has been in Dallas since 1969 and employs more than 500 workers. The company chose to build the new foundry in Dallas because of the city's highly qualified foundry workers, design engineers and sales representatives. The new foundry was designed to be environmentally friendly, with smoke created during the manufacturing process captured in overhead vent hoods, and it also has two dust collectors to clean fine particulates from its exhaust before returning it to the atmosphere. SOURCE: APPUBS.COM, JANUARY 21, 2008.

Center City News

- American International Group Inc. is moving its regional headquarters from suburban Dallas to downtown in the Plaza of the Americas building (Council District 14). The international insurance company left downtown in 1999, but decided to move back after months of considering other locations. Several hundred employees will be relocating. AIG's relocation is one of several recent moves of companies in the suburbs to downtown Dallas. DALLAS MORNING NEWS, JANUARY 17, 2008.
- JLB Partners plans to demolish aging commercial buildings at Ross Avenue and Hall Street for a new project, most likely one with new apartments and retail space (Council District 14). Other nearby parcels are seeing similar replacements of older buildings with new construction. SOURCE: DALLAS MORNING NEWS, JANUARY 28, 2008.

Southern Sector News

- Bennett Miller Co. is building 22 new townhomes, named Ninth Street Townhomes, in Oak Cliff near Adamson High School (Council District 1). The townhomes will start at 1,400 square feet and the starting price will be under \$168,000. The first homes will be completed in the spring. SOURCE: DALLAS MORNING NEWS, DECEMBER 28, 2007.
- Groundbreaking was held on January 11 for INCAP Fund's new development in north Oak Cliff close to W. Davis St. and N. Hampton Rd. (Council District 3). The ceremony featured the beginning demolition of the abandoned Chateau Crete Apartments. INCAP Fund plans to demolish several other nearby apartments and build more than 2,000 homes and attract retail in their place. The homes will be valued between \$200,000 to \$800,000. The new development is part of a tax increment financing district created by the Dallas City Council. SOURCE: PEGASUSNEWS.COM, JANUARY 18, 2008.

Business News

- Veroli Foods, a Dallas-based Italian food maker whose products are currently distributed in Texas Central Markets, is expanding to New Jersey and potentially California. Veroli began in 2004 and its \$60,000 in revenue last year is expected to increase to \$300,000 in 2008 (Council District 11). SOURCE: DALLAS BUSINESS JOURNAL, JANUARY 11, 2008.

Employment

The unemployment rate in Dallas rose one tenth of a percent in December to 4.5 percent. The metropolitan statistical area (MSA) and state rates rose 0.2 percent each to 4.2 and 4.3, respectively. The national rate rose 0.3 percent to 4.8 percent (Table 1.)

The number of unemployed persons in the city increased by 24.0 percent while the labor force increased by 0.8 percent during the month (Table 2.)

December continues the recent trend of the city either beating or matching the national unemployment rate; the city's rate was 0.3 percentage points better than the national average. For 11 of the last 12 months, the city either matched or beat the national rate. A positive gap means that the city's rate is lower than the nation's (Figure 2).

Figure 3 depicts the number of employed persons living in the city at 588,424 in the month of December, a slight decrease from November's 588,877. This number reflects employment by Dallas residents only.

Dallas payroll employment (jobs in Dallas that could also be held by non-residents) rose in December. The Office of Economic Development's revised estimates find payroll employment rising from November's 1.070 million to 1.074 million in December. Typical seasonal growth resulted in the Trade, Transportation, & Utilities sector having the largest employment gains, estimated at over 5,420 jobs.

- Earnest Lloyd

Table 1.
ANNUAL UNEMPLOYMENT RATES

| | 2007 Dec | 2007 Nov | Point Change |
|----------------------------|----------|----------|--------------|
| City of Dallas* | 4.5 | 4.4 | 0.1 |
| DFW MSA | 4.2 | 4.0 | 0.2 |
| Texas | 4.3 | 4.1 | 0.2 |
| U.S. | 4.8 | 4.5 | 0.3 |
| Largest U.S. Cities Avg.** | | 5.8 | |

Table 2.
CITY OF DALLAS LABOR FORCE (PERSONS)

| | Unemployed | Labor Force |
|----------|------------|-------------|
| 2007 Dec | 27,463 | 615,887 |
| 2007 Nov | 22,141 | 611,018 |
| Change | 5,322 | 4,869 |
| % Change | 24.0 | 0.8 |

SOURCE: TEXAS WORKFORCE COMMISSION, U.S. BUREAU OF LABOR STATISTICS, VALUES NOT SEASONALLY ADJUSTED.
* PREVIOUS MONTH'S VALUES REVISED
** LARGEST U.S. CITIES EXCLUDING DALLAS ARE: NEW YORK, LOS ANGELES, CHICAGO, HOUSTON, PHILADELPHIA, SAN ANTONIO, SAN DIEGO, SAN JOSE, AND DETROIT.

Figure 2.
CITY OF DALLAS—U.S. UNEMPLOYMENT GAP

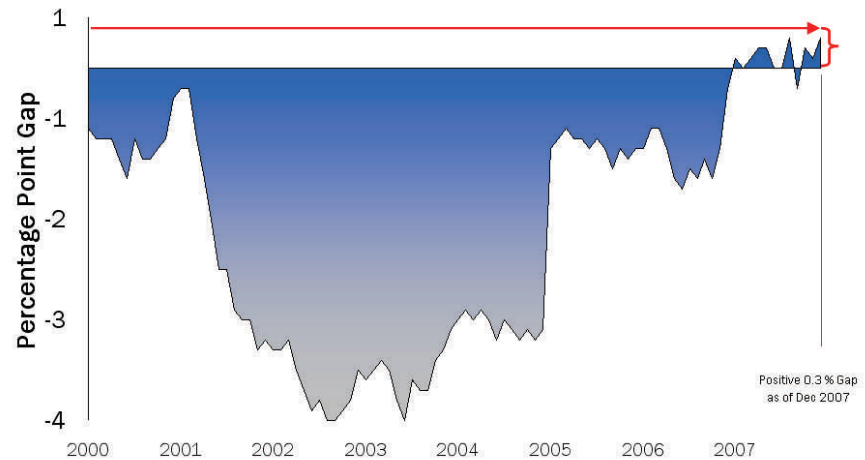
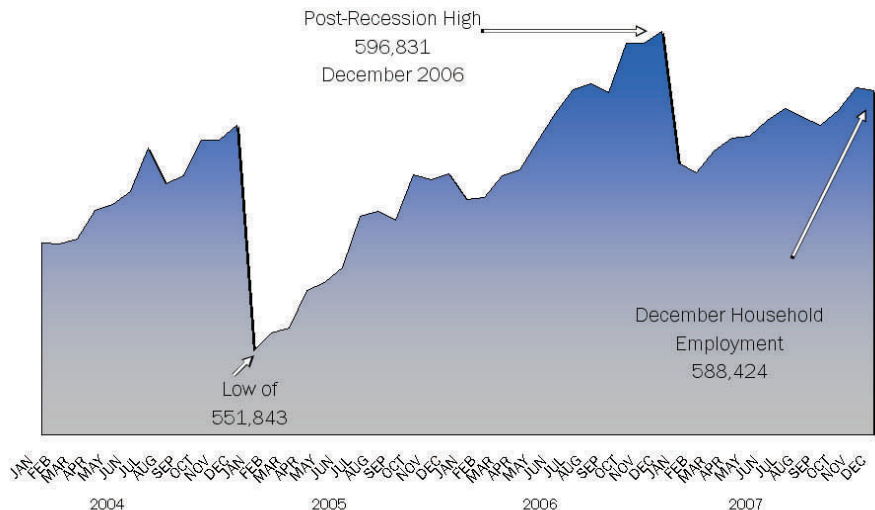


Figure 3.
CITY OF DALLAS EMPLOYMENT



CITY OF DALLAS 2007 YEAR-END COMMERCIAL REAL ESTATE UPDATE

| Product Type | Total Inventory (Sq. Ft) | Vacancy Rate (%) | Total Net Absorption (Sq. Ft) | Rental Rate (\$/SF/YR) | Under Construction (Sq. Ft) |
|---|--------------------------|------------------|-------------------------------|------------------------|-----------------------------|
| ■ Total Office Citywide | | | | | |
| Q4 2007 | 125.3 M | 19.1 | 949,570 | \$19.10 | 2.2 M |
| Q4 2006 | 124.2 M | 19.5 | 681,548 | \$18.37 | 1.9 M |
| Change | +1.1 | -0.4 points | +268,022 | +\$0.73 | +253,888 |
| ■ Office Class A Citywide | | | | | |
| Q4 2007 | 58.6 M | 18.1 | 447,010 | \$21.73 | 2.2 M |
| Q4 2006 | 57.8 M | 18.1 | 781,825 | \$20.67 | 1.7 M |
| Change | +818,000 | 0 | -334,815 | +\$1.06 | +495,218 |
| ■ Office Class B Citywide | | | | | |
| Q4 2007 | 52.8 M | 22.2 | 431,171 | \$16.56 | 4,440 |
| Q4 2006 | 52.5 M | 22.6 | -37,895 | \$16.23 | 245,770 |
| Change | +245,770 | -0.4 points | +469,066 | +\$0.33 | -241,330 |
| ■ Office Class C Citywide | | | | | |
| Q4 2007 | 13.9 M | 11.6 | 71,389 | \$15.59 | 0 |
| Q4 2006 | 13.9 M | 13.4 | -62,382 | \$15.85 | 0 |
| Change | 0 | -1.8 points | +133,771 | -\$0.26 | 0 |
| ■ Total Central Business District Office | | | | | |
| Q4 2007 | 34.2 M | 21.9 | 124,647 | \$19.28 | 0 |
| Q4 2006 | 33.3 M | 20.7 | -43,161 | \$19.03 | 878,000 |
| Change | +878,000 | +1.2 points | +167,808 | +\$0.25 | -878,000 |
| ■ Industrial/Flex Citywide | | | | | |
| Q4 2007 | 202.5 M | 7.4 | 327,555 | \$4.45 | 3.5 M |
| Q4 2006 | 201.4 M | 8.0 | 924,899 | \$4.36 | 1.0 M |
| Change | +1.0 M | -0.6 points | -597,344 | +\$0.09 | +2.5 M |
| ■ Retail Citywide | | | | | |
| Q4 2007 | 57.3 M | 9.2 | 20,520 | \$14.66 | 1.5 M |
| Q4 2006 | 56.9 M | 8.1 | -41,650 | \$15.07 | 1.1 M |
| Change | +368,120 | +1.1 points | +62,170 | -\$0.41 | +354,166 |

Source: Costar, January 2008