



Ⓞ LBJ Freeway construction takes toll on Dallas-area office tenants

By STEVE BROWN

Real Estate Editor

stevebrown@dallasnews.com

Published: 12 July 2012 03:59 PM

Motorists' nerves and commuters' schedules aren't the only things getting jangled by the massive LBJ Freeway rebuilding job.

The five-year reconstruction project on one of Dallas' busiest freeways is also creating headaches for the hundreds of businesses that have offices along Interstate 635.

A number of tenants have decided to trade their LBJ Freeway locations — some switching to newer buildings farther north.

"We shouldn't be surprised at this," said veteran Dallas commercial property broker John Amend. "We are representing several office tenants up there" that are considering moving.

"It's going to get worse before it gets better."

The \$2.7 billion revamping of LBJ Freeway between Interstate 35E and North Central Expressway won't be done until 2016.

By the time it's finished, some of the businesses that fill office buildings lining the 43-year-old thoroughfare will be long gone.

Over the last 3 1/2 years, net office occupancy in the area along LBJ Freeway has dropped by almost 2 million square feet, according to estimates from commercial property firm Cushman & Wakefield of Texas. That's about the same amount of office space as two downtown skyscrapers.

So far in 2012, net office leasing along LBJ Freeway has fallen by about 260,000 square feet.

"We have continued to see some businesses flee that corridor — especially to further out north" to West Plano and Frisco, said Jack Eimer, regional president of property firm Transwestern's Dallas office. "Now that people are seeing the real impact of the construction, it's obviously having a negative impact."

The increasing age of some office space along LBJ Freeway is also a factor as businesses opt for a new generation of buildings, Eimer said.

Location, location

Still, the location in the middle of Dallas' northern suburbs and proximity to popular housing neighborhoods will keep the LBJ market afloat, he predicts.

"I'm not ready to raise the white flag on this area just yet," Eimer said.

And some businesses aren't put off by the rumble of construction equipment and traffic detours in the area.

Late last year, Pegasus Solutions Inc. — a hotel and travel technology firm — rented 45,000 square feet in the Lincoln Centre complex at LBJ and the Dallas North Tollway. Pegasus moved its offices from near NorthPark Center mall to the silver glass buildings.

Because of their move to Lincoln Centre, Pegasus was able to drive a hard bargain for its new office deal, said Art Green, a principal with property firm Cresa Partners who represented the tenant.

"They signed an 11-year lease," Green said. "Pegasus was willing to put up with a little dust for a few years.

"Their people find a way to get where they are going," he said. "You can make some great deals if you are willing to put up with the inconveniences of the

traffic.”

EmCare Inc., a medical service firm, in March leased 80,000 square feet just north of LBJ Freeway in the Galleria North office complex on Noel Road. The lease runs through 2024, long after the highway construction is finished.

And “it didn’t even come up” when EmCare was considering the Galleria North building, said Brooke Armstrong, a senior vice president with Jones Lang LaSalle who worked on the deal.

Other businesses aren’t as sanguine about the highway construction project.

‘Worried to death’

Amend said he’s working with one large tenant in the Galleria complex — Ryan LLC — “and they are worried to death about this construction.”

Office vacancy rates in the LBJ Freeway market have increased significantly in the last year, while overall North Texas average building vacancy has fallen.

Almost 29 percent of office space in the LBJ district was vacant at midyear, according to Cushman & Wakefield.

Amend said the best way to judge the impact of the roadwork is to look at what it’s done to the cost of renting office space in the area.

“In the last 12 to 18 months, we’ve seen in some cases over a 30 percent reduction in quoted rental rates,” he said.

Follow Steve Brown on Twitter at @SteveBrownDMN.