

# Suburban commercial real estate boom continues full steam ahead as Dallas office market struggles

BY AJ LATRACE

In June, a group of public and private stakeholders approved a new framework plan to build a \$130 million performing arts center at the Hall Park development in Frisco. The new venue would not only bring a large, world-class concert hall to the fast-growing Texas city, but it's reflective of the investment and interest in Frisco and would become yet another major cultural amenity in a city increasingly known for its recreational and amusement offerings.

The plan for the performing arts center is just a drop in the bucket when compared to the investment in Frisco over the last decade. For instance, The Fields mega-development, which will deliver an expansive office park, thousands of new residences, hotels and more on a 2,500-acre site is anticipated to cost upwards of \$10 billion. And the development already has a major tenant lined up as the future home of the PGA of America.

What's happening in Frisco is something that other municipalities could only dream of — the city's population has bloomed from 110,000 in 2010 to roughly 210,000 today. Frisco is frequently cited as the fastest growing city in the country and it's also home to the 91-acre Dallas Cowboys' headquarters dubbed The Star, the NCAA Division I football stadium Toyota Stadium, Comerica Center arena, Dr. Pepper Ballpark, the National Soccer Hall of Fame, the National Videogame Museum, and more.

All of this in a city of just over 200,000 residents. But there's more on the way.

According to Jason Ford, CEcD and President of the Frisco Economic Development Corporation, his organization is currently working on upwards of 50 prospects at the moment. Ford says that there's been a tremendous amount of interest in Frisco from corporate heads but the city is also doing the work to be as business-friendly as possible in order to win over as many of these prospects as possible.



"We are seeing developers step forward to rezone and develop new light industrial business park products to support the really hot growth for light industrial, warehousing and e-commerce that we're seeing up in this part of North Texas," Ford says of the city's current real estate boom. "On the office side, we have at least a million square feet of development that can go vertical in the next 12 to 18 months to support the really strong demand for office users here."

Ford says that roughly a third of the 50 economic development prospects that they're working on have short-listed Frisco for corporate headquarters relocations, which could represent up to 12,000 new jobs if all come to fruition. And while other major cities have been struggling with negative office absorption due to the pandemic, Ford says that Frisco has seen 181,000 square feet of positive net absorption in 2020 and there's plenty more office space in the pipeline.

So why is it that Frisco is seeing so much economic activity and new development while other cities are struggling to bounce back from the pandemic? Ford says that it's a combination of the city leaders' long-term

vision coming to fruition and also a snowball effect where development that happened a decade or more ago has led to more development and so forth. But there's also just generally more of interest in smaller to mid-sized markets as competition continues to increase, says Carl Pankratz, President and Managing Director at Blackacre Commercial.

"Preferred equity is everywhere," Pankratz says of the current investment climate. "And it's not just Dallas-Fort Worth, Houston, or Austin, it's tertiary markets: it's Abilene, it's Lubbock, it's Tyler."

While Dallas is still struggling with a steep office vacancy figure, the situation has been different further out in the suburbs and edge cities. According to a report from Newmark, Dallas's overall office vacancy stood at 20% and had -2,721,080 square feet of net absorption at the end of the first quarter of 2021.

"You're starting to see interest in Downtown and Uptown, but as far as new product, there's been such a boom in the suburbs," Pankratz says. "In this cycle, you've seen so much happen in Frisco and Plano and the major [suburban] corridors."

Not only have prices increased in the Dallas-Fort Worth area, but investment mentality and the main keys to success have also evolved, Pankratz adds.

"Specific to apartments, let's say you're back in 2010 and 2011 and buying at \$60,000, and don't get me wrong, it was still considered risk, but there was

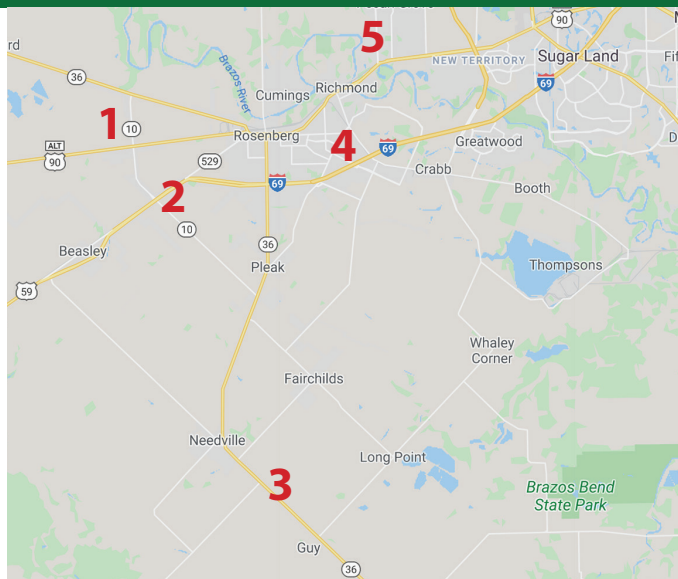
evidence that the market's been there before and it could go there again," Pankratz explains. "Today, we're in a new stratosphere. I mean, there's not been a lot of times in history where you're buying Class C properties in Class C locations for around \$125,000 a unit — we're in a place that Dallas has never been in."

But investors who are eager to jump into the boom need to be cautious while existing, longer term property owners might need to readjust their radar and expectations. It might not be realistic to expect the same gains that happened between 2010 and 2020, and instead, investors need to focus on being a good operator.

"If you've been involved in real estate for the last 15 years, and let's say you've bought and you've sold and you've been active in the market, well, your mindset has to be different than what made you successful in some ways because you're [now] buying at levels that, based on institutional experience, has to give you pause because we've never been here before," Pankratz says of the rapidly rising prices on commercial real estate in the Dallas area.

"But I would say that there's definitely room for new players that have a different outlook on what risk is because at the end of the day, you can look at a spreadsheet and look at your budget and you can see everything that points to this being a successful, but it's hard to pull the trigger, and even harder to pull the trigger for some people that have done a lot of business."

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