

DOWNTOWN DALLAS

State of the Market

Downtown Dallas
& COVID-19



To our Downtown Stakeholders,

The livelihood and success of Downtown Dallas, as well as downtowns across the country, is critical for the economic health of our city and country. The top priority for Downtown Dallas, Inc. (DDI) is the health and well-being of Downtown's employees, residents, and visitors in light of the national outbreak of COVID-19, as well as doing our part to help stop the spread of the virus and end the pandemic. Since the beginning of the pandemic, we have been working closely with our local partners and following recommendations from the Centers for Disease Control and Prevention (CDC), Dallas County Health, and the City of Dallas.

Furthermore, supporting business continuity and positioning Downtown Dallas to be an international model for recovery is top of mind. **We MUST protect the last 25 years of investment in the heart of our city, support business continuity in this “new normal,” and position Downtown Dallas as an international model for recovery.**

As the economy continues to open through the Open Texas plan, DDI continues to work diligently to support the Downtown marketplace with tools and information to support rapid recovery. In that spirit, our Economic Development and Research teams have put together this updated State of the Market resource with valuable insights on the Downtown market pre-COVID, with additional information on current market impact, challenges, and signs of strength.



Kourtny Garrett
President & CEO
Downtown Dallas, Inc.

Downtown's unprecedented growth has led to robust market sectors spanning multifamily, commercial office, hospitality, retail, and restaurants.

Taken individually, the analysis of each sector builds an overall market snapshot to inform both the current state of the Downtown market, as well as opportunities to enhance and sustain Downtown's terrific success.

Currently, in Downtown Dallas, over 12,000 people are residing in 50 residential properties that include apartment towers, condominiums, and townhome developments. Additionally, we are watching the performance of 139 commercial office buildings and 26 hotels in Downtown, while monitoring the status of retail, restaurants, and over 100 active construction and development projects within the immediate area.

The analysis and insights within this State of the Market Report will break down each of these crucial market sectors to provide up-to-the-minute data to aid in continued realization of the great vision that is Downtown.

As of the publication date, the State of Texas is implementing a staged reopening. We will continue to monitor and update on how this phased approach is impacting our Downtown businesses.

12k+
Residents

50
Residential
Properties

139
Commercial
Office Buildings

27
Hotels

100+
Active Construction &
Development Projects

MULTIFAMILY

Over the past 20 years, Downtown has seen incredible growth in multifamily development, growing from just 200 residents to over 12,000.

Available products include a variety of rental, condominium, and attached single family products. Downtown has been fortunate to lie within the center of a top-performing multifamily market, consistently setting the bar for multifamily starts nationally.

As of today, the DFW market has over 30,000 units of multifamily on the cusp of being delivered and approximately 1,664 are under construction within Downtown, specifically defined as the geography located within the surrounding freeway loop.

The Drakestone





Historically, new multifamily deliveries in the City Center* have enjoyed a steady rise in market asking rent per square foot, from \$2.85 in 2015, and closing at \$3.15 for units delivered in 2019. Rents in the area had begun to flatten as almost 3,000 units were delivered in 2019.

Downtown and City Center new construction has traditionally produced a steady upward trend in cost per square foot asking rents. While that trend does continue, supply increases combined with national economic uncertainty have provided for a variety of programs and new lease concessions to entice new tenants into the City Center. Combined with the wide range of available property ages and types, these factors have increased the overall options for renters in and around Downtown.

While average asking rent per square foot for the newest, luxury class A offerings are still north of \$3 p/ft, the older class A stock hovers under \$2. Average asking rent for all City Center apartments has dropped 4.35% from the beginning of the year and sits at \$1.80 per square foot. CoStar expects this trend to bottom out at \$1.77 in 2021 before climbing back in 2022.



New deliveries on the horizon at The National, 300 Pearl, Atelier, The Galbraith, and Attiva will bring an additional 1,662 units to the submarket by 2022, bringing Downtown’s total to over 10,000. Competition between buildings should mean great deals and creative concessions for Downtown renters.

Headington Companies has recently completed the renovation of the Drakestone on Main Street where they are reporting almost 60% leased. Likewise, the AMLI Fountain Place continues to lease up as construction crews put the finishing touches on the building.



Courtesy of CoStar, Downtown Core Geography



© 2020 CoStar Realty Information Inc.

10/21/2020



Atelier Flora



AMLI Fountain Place



*Defined as The 360 Plan geography, or approximately 2.5 miles from the center of Downtown.

New deliveries will continue to be an important data point to track. Recent deliveries at the Amlí Fountain Place and the Drakestone will be important signals of overall multifamily demand within Downtown. As supply increases, our local demand will help to illuminate overall sector health. With relocations both large and small currently touring Dallas and new capital entering our market, these properties should stabilize in the near term.

Currently there continues to be significant activity in residential development with 1,664 units under construction in six buildings.

Atelier / Flora Lofts	Multifamily	407 Units
Attiva Farmers Market	Multifamily	220 Units
The Galbraith (2400 Bryan)	Multifamily	230 Units
The National	Multifamily	335 Units
300 Pearl	Multifamily	336 Units

Downtown Dallas is home to over 12,000 residents living in the most diverse neighborhood in the city.

Due to the projected delivery of significant class A units, the average asking rent for Downtown Core apartments show a continued steady increase in per/ft asking rents over the next two years.

Significant projects contributing to this gain are AMLI Fountain Place with 350 units, Atelier in the Arts District with 419 units, 300 Pearl in the Dallas Farmers Market with 336 units, and The National at 1401 Elm with 324 units.

According to surveyed property managers and landlords, Downtown properties have enjoyed a strong year with little residential turnover, which continues to support strong market health. Owner and manager feedback indicates a strong trend to date of stable occupancy, and a lesser need for rent concessions to attract tenants.

With new buildings coming online this year at Attiva and The National, followed by Atelier, and more multifamily construction starts in the East Quarter, Farmers Market, and nearby West Dallas, we anticipate a standard supply related adjustment to rent growth in our current properties for the near term, beginning to rise as properties stabilize and demand for urban product continues to grow.

Though the economic impacts of COVID-19 have proven to be a source of uncertainty for both multifamily owners and tenants, the sector as a whole has already begun to see steady performance due to generally stable rent collections, steady rental housing demand, and effective tenant retention programs throughout this crisis.



AT&T Discovery District



AT&T Discovery District



Queeso Beso Patio

COMMERCIAL OFFICE

Downtown is one of the largest concentrations of office space in North Texas; with over 33.6 million square feet of space and another quarter of a million square feet under construction in a relatively compact 1.1 square mile geography.

Recent reporting periods have shown incredible commercial office performance Downtown, exhibiting the advantage of available square feet within the overall geography in comparison to the limited space in surrounding markets. 2018 and 2019 led the entire North Texas region with over 650K square feet of positive net absorption.

Taken in context, Downtown is the historic commercial center of the region. Due to this, Downtown has one of the largest densities of commercial office available anywhere.



As surrounding submarkets have matured over the last 30 years, Downtown has historically seen past periods of increased vacancy in step with overall national trends, particularly in the late 80s and early 90s.

This fact continues to be both a source of challenge and opportunity seen throughout similar national markets. Among our historic commercial office stock lies a significant amount of existing available space.

Within this current vacancy, though, lies a unique opportunity distinct from surrounding markets. Among those advantages is great opportunity for contiguous square footage in buildings that have recently gone through transformational redos, like Fountain Place.

Office activity increases as companies continue to adapt to the pandemic and the challenges it has created.

While many commercial tenants are allowing increased in-person office presence, overall occupancy remains elective to most employees. Employers across the board have implemented increased safety and sanitation practices.

Given the Downtown commercial market's continual persistence, Downtown remains a key relocation focus for national tenants in highly impacted markets.

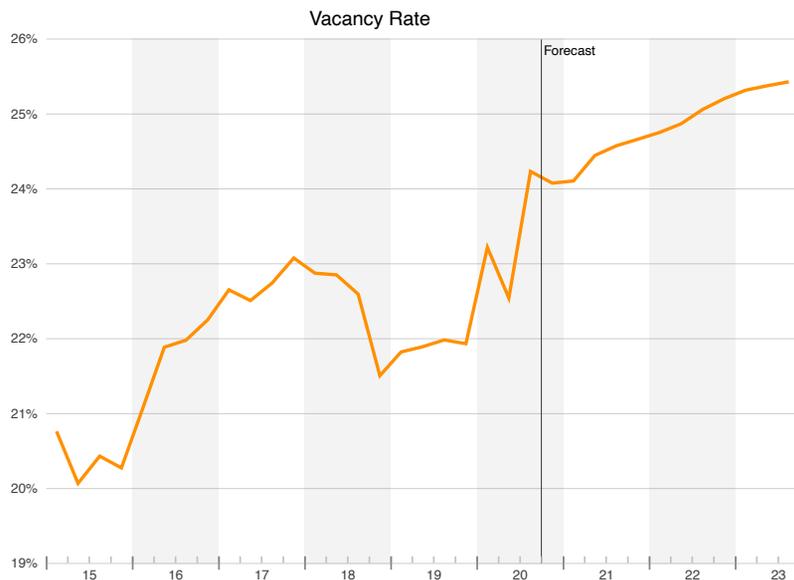
Leasing continues in the Downtown Dallas submarket as businesses search for larger spaces and greater value. Through the first three quarters of 2020, the City Center has seen 89 deals totaling 637,367 sf per CoStar. Rents for these deals ranged from \$10 per square foot to \$40, with the average settling at \$23.05 per square foot.

Third quarter leases include: Hilltop Securities taking 95k sf at 717 Harwood, Invitation Home renewed their 42k sf lease at Comerica Tower, Vincent Serafino took 26k sf at Comerica as well, and Revtech Ventures signed a 10k sf lease at 311 N. Market in the West End.

In the same period last year, CoStar reported 120 office leases totaling 1,111,973 sf and averaging 9,266 sf. Gross asking rents during this period ranged from \$12.92 to \$49.32 p/ft averaging \$31.97. Leasing during the first three quarters of 2019 was buoyed by 19 leases greater than 20k sf.

Active leasing throughout the Downtown Core continues to be a positive signal in the interest and long-term recovery for Downtown.

CoStar reports that vacancy has crept up 2.2% to 24.2%. The bulk of the increase came as the result of Baylor Scott & White vacating Bryan Tower and further consolidating in a built-to-suit structure on the Baylor Scott & White campus in Old East Dallas, just North of Deep Ellum. While exits such as this do produce a slight uptick in vacancy, they also continue to provide new opportunities for leases in larger contiguous square footages. We continue to see a trend of companies in strained markets looking to the City Center as an attractive relocation prospect.



© 2020 CoStar Realty Information Inc.

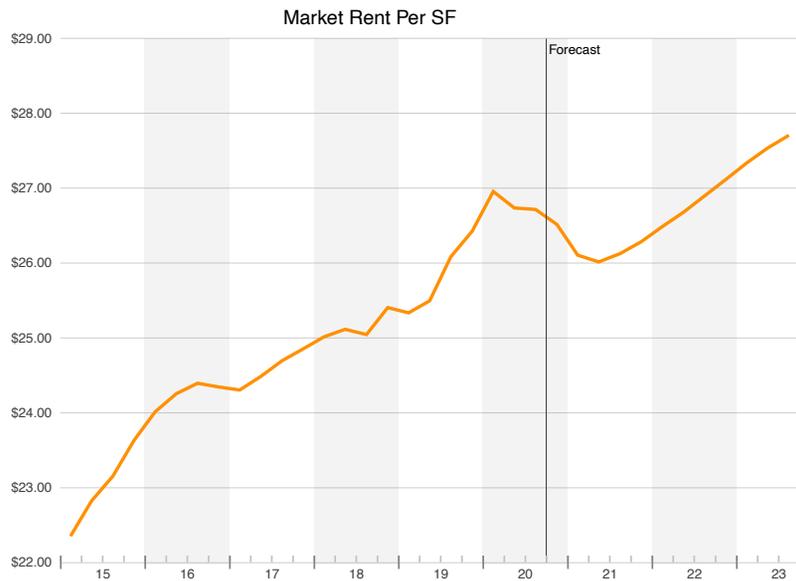
10/21/2020

These departures have resulted in unique opportunities to secure large contiguous space in trophy class Downtown structures.

These spaces, combined with Texas' much lauded business-friendly environment, DFW's central location and logistics hubs, and our city's low cost of living and experienced talent pool make Downtown an enticing destination for corporate relocations and large branch offices.

For more info on the City Center's business desirability, please visit: downtowndallasnow.com.

Gross asking rents throughout the submarket remain relatively flat through 2020, down only .21 cents a foot from their peak in March. We see this trend holding, leading to a slight dip in Q2 of 2021 then to a steady recovery after mid-year and through 2022 as new buildings are delivered.



© 2020 CoStar Realty Information Inc.

10/21/2020

Throughout North Texas, sublease activity has seen an increase. As suspected, companies opting to keep employees at home longer-term are looking to sublet their offices.

Encouragingly, Downtown has seen roughly 30% less sublease offerings advertised than the overall North Texas market. Overall listings show a reported increase of 27.15% from 12 months ago.

The rest of the market is seeing a more aggressive trend; the total market sublet space increased to 9.4 million, an increase of 57.89%. **Sublet rents are on the rise as well, averaging \$17.51 per foot, up from \$15.94 in Q3 of 2019.**

Overall, the greatest impact to commercial leasing garnered by existing economic conditions is on short-term leases which have less of an ability to adapt their overall lease structures to absorb current hardships.

Long-term leases, though, continue to prove to be resilient as they have the ability to provide short-term flexibility that can be reabsorbed over the term of the lease.

Office rents in Downtown still exhibit significant values among competing submarkets, while also being located in the highest density of employers, residential options, and industries in the region, averaging \$26.85 p/ft compared to the DFW market average of \$27.38.

Skyline at Night

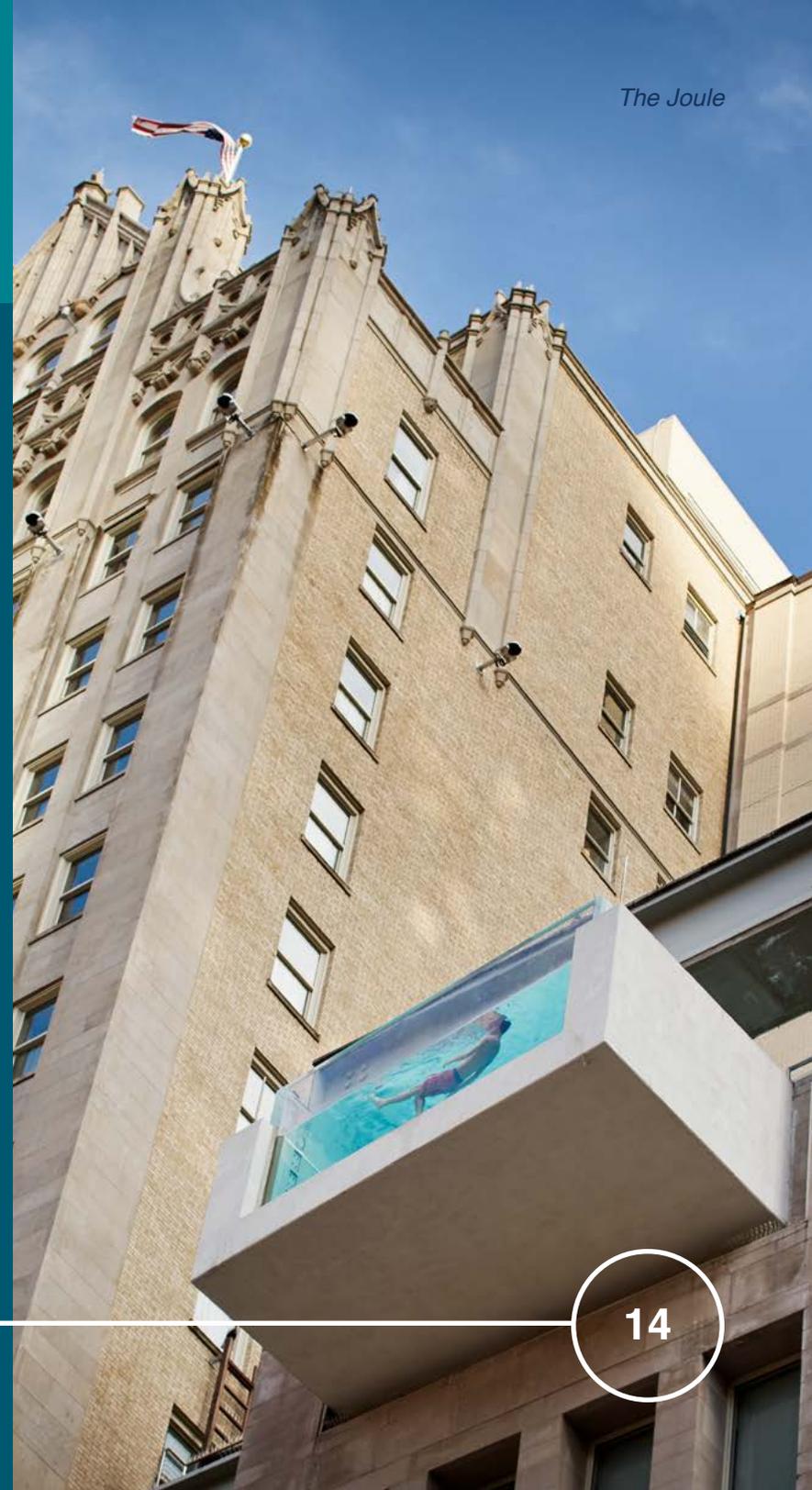


HOSPITALITY

Downtown has enjoyed strong hotel growth over the past five years, fueled by a strong economy, a high-performing convention center, and significant growth of business travel and tourism.

Due to these strong market factors, Downtown hosts some of the highest hotel room densities in the region with just under 9,000 rooms in 24 hotels currently within the Downtown Core. Furthermore, there are 445 additional hotel rooms under construction with a comparable amount planned or proposed in planned or announced developments.

The hospitality sector is linked strongly to the restaurant and retail sector performance within Downtown and has undoubtedly been one of the most significantly impacted industries in the COVID-19 crisis. While operators have seen significant impacts as very short-term, longer impacts to the industry at large will be influenced by the speed of the overall market rebound fueled by a rapid stabilization in public health.



All hotels in the Downtown Core are currently open and welcoming guests. Recent regional events have pushed occupancies up and many locals are taking advantage of lower rates and packages while seeking a weekend getaway from the home office.

In a recent interview with Downtown Dallas Inc., HRI's Larry Daniels stated that they are "targeting the regional traveler 200 to 300 miles away and packaging weekends and events with local restaurants, parks like Klyde Warren Park, and museums" as they begin to open. The hotel will continue to market to families who are working and attending school from home who may want to experience downtown from an educational standpoint as well.

"We're really running things tight," Daniels continued, regarding operations at the Hilton Garden Inn. The hotel has more than doubled the housekeeping time per room, assuring that all touchpoints are disinfected and then rooms are sealed with a sticker to assure guests that they have been sanitized. Once vacated, Daniels said, "the rooms will be cleaned and sit for 24 to 48 hours before being turned." This process will help ensure rooms are completely sanitized for the next guest.

Hotels in the area have enjoyed peak occupancies and high revenues over the past two years resulting in a building boom throughout the metroplex. Downtown celebrated the opening of the Virgin Hotel in the Design District, the Hall Arts Hotel in the Arts District, and the Pittman in Deep Ellum. **Opening soon:** The Thompson at 1401 Elm (The National), and The Guild Hotel at Santander Tower. The JW Marriott (2000 Ross) is set to break ground soon.

VisitDallas tells us that average occupancy is on the rise for City Center hotels; from 17.1% in July to 27.6% in September. Average daily rates are beginning to recover as well; from 125.91 in July, to 132.02 in August, and up to 135.58 in September. Though these numbers still trail 2019, it does show that people are beginning to travel again and the precautions that hotels are taking are working well.

Overall, announced projects continue to move forward, while existing properties are utilizing methods to maintain solvency as the public sector considers additional methods and programs to aid in a strong rebound.

All of these indications are encouraging signals that, given the right tools, the hospitality market sees a strong opportunity for recovery as the market stabilizes.

RETAIL

Retail, food, and beverage has adapted more than any other industry. From pivoting to take out and home delivery to re-opening at partial capacity, and even remaining closed for the public good; retailers are showing an uncommon resolve and flexibility toward weathering the pandemic.

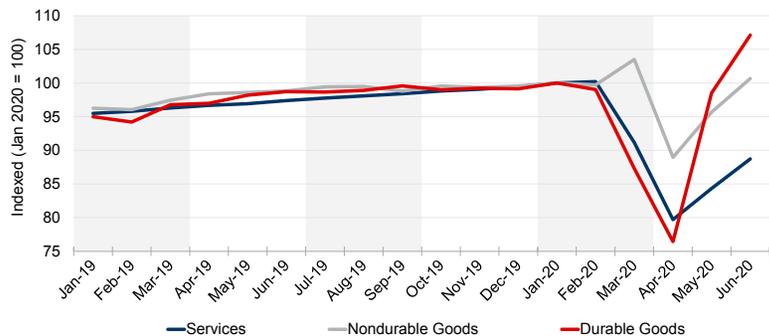


Though the overall impacts have been a great challenge, we continue to see businesses work to adapt and respond, and we are also notably seeing new additions to the Downtown retail landscape.

According to a recent mid-year review from CoStar, citing data from the Bureau of Economic Analysis, personal consumption expenditures for durable and nondurable goods have, in many cases, recovered or even exceeded pre-pandemic levels.

Services though, continue to be impacted, with expenditures still lagging well below typical levels. While consumers have started spending money on food, books, clothing, and more, they have been less eager or unable to make hair and nail appointments, visit their doctor and dentists, or pay for housekeeping.

Personal Consumption Expenditures by Type



Source: Bureau of Economic Analysis



Courtesy of CoStar, Downtown Core Geography

Retail has seen significant impacts to operations, though have shown some advantages given programs and strategies already underway to adapt to natural evolution in the marketplace.

Prior to the COVID crisis, brick and mortar retailers were already beginning to reimagine their concepts to compete with e-commerce and adapt to changing consumer demands and expectations. This diversification has both proved to be advantageous and applicable to the current restrictions and mandates imposed on in-person retail activity. The COVID crisis has intensified the need to rethink everyday business, and to-date, there is not a strong projection of what the future holds. In Downtown, our retail anchors such as Forty Five Ten and Neiman Marcus have been forced to furlough in-store sales representatives, but are working to adapt to the market by moving to online sales and virtual personal shopping.

This is a trend that we see intensifying, and as continued programs to support the retail economy are implemented by the public sector such as online ordering and curbside pick up, we will continue to see retailers leverage preexisting platforms to maintain operations under current conditions.

Spectrum's Brian Bergersen said; **“On a positive note, customer counts and sales have increased every month from April's lows, all tenants have re-opened, approximately 35,000 square feet of new retail leases have been signed, and retail inquiries have increased substantially.”**

One particular highlight of the second quarter in Downtown has been five new ground floor retail leases, totaling just under 12,000 square feet.

We also saw many restaurants re-open to limited capacity and increased take out offerings. The AT&T Experience store reopened its doors and the Pegasus City Brewery continues to prepare their space on Commerce Street for a fourth quarter opening.

Downtown's most recent announcement: a restaurant called Hurdy Gurdy will open in the Farmers Market in the fourth quarter of this year.

Downtown has also welcomed four new restaurants to the fold which exhibits continued progress within our food and beverage sector, as well as an indicator of local market confidence.

La Tarte Tropézienne	1604 Main
Primo's	1914 Commerce
True Kitchen & Cocktails	1933 Elm
Sfereco	1914 Commerce

La Tarte Tropézienne



Within Downtown specifically, retail rental rates have steadily risen to and stand at a current average of \$24.06. Vacancy within new construction has remained low, with the majority of new projects incorporating various forms of retail and grocery such as the Dallas Farmers Market and Royal Blue in Trammell Crow Center.

We have also seen the continued filling of existing space with examples such as Royal Blue Grocery at The Mercantile. With new projects coming online, we expect to see continued supply throughout the Downtown market.

While Downtown has proven strong performance in food and beverage in particular, the overall impacts of COVID-19 have been undeniable, resulting in limited operations and both temporary and permanent closures. While we have witnessed significant impacts to retail and restaurant activity in the short-term, comparable to the larger regional market projections, demand for services driven by residential and employment density point to a stronger recovery than many competing markets.



Commerce at Adolphus Hotel



RESTAURANT

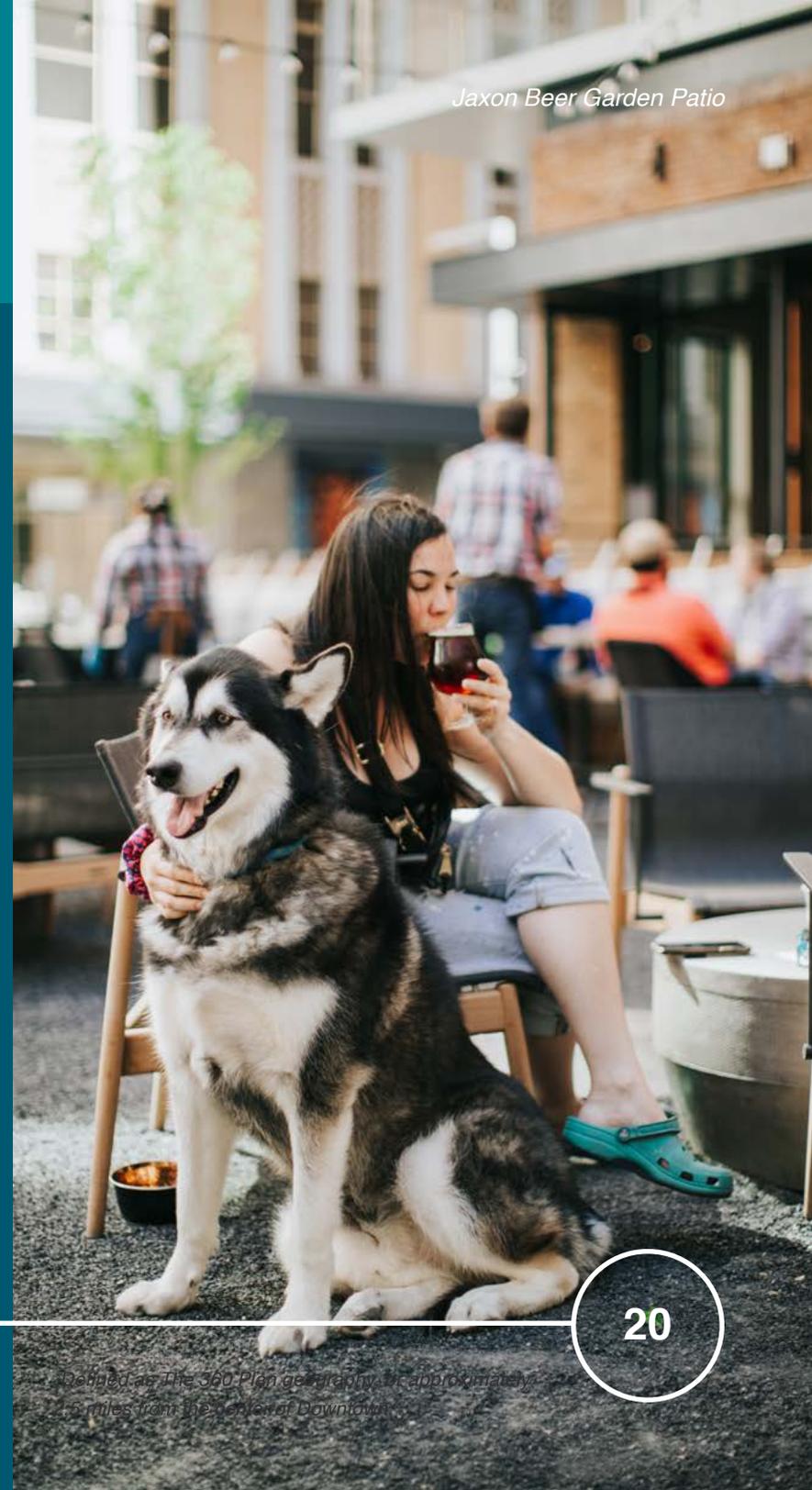
The City Center* at large has nearly 500 restaurants and bars which have shown great resilience adapting to challenging conditions.

As retailers throughout the city re-open, business is anything but usual. Sanitization and physical distancing has been stressed and emphasized on a national and statewide level. Patrons will notice more sanitizer stations, QR codes to pull up an electronic menu, spaced-out tables, and even sometimes physical barriers between tables. Many retailers have adopted technology to allow for contactless payment processing and some have even gone cashless.

The Dallas Farmers Market features multiple hand-washing stations and vendors ask guests not to handle merchandise. Employees continually wipe down tables, door handles, and other common surfaces. Appointments are the norm for most services, where you will find employees wearing PPE as they stand at their meticulously sanitized stations.

These changes will take some getting used to, but they are simply requests being made to improve public health and strengthen the economy as more consumers begin to venture out in the final quarter of 2020.

Jaxon Beer Garden Patio



Retail is always evolving, especially in urban markets, and especially in 2020. Restaurants that had pivoted to curbside pick up and delivery are now re-opening their doors to the public featuring dining areas with appropriately spaced tables and physical barriers. Personal services and soft goods retailers are reopening, limiting the number of customers and requiring PPE. As shoppers and diners return to Downtown streets, they are finding a few new options.

The biggest change by far to the Downtown Dallas experience is the AT&T Discovery District. The massive entertainment and business district is a gift to the city from AT&T that currently offers two restaurants, the AT&T Experience Store, a Cowboys Fit fitness center, outdoor sculptures, and a massive 104 feet tall, 6K media wall that showcases video art and previews of the latest Warner Bros. releases.

People are already flocking to the district. In a recent DDI State of Downtown webinar interview, Michelle Brockwell, Assistant Vice President over the Discovery District, stated that Jaxon is serving over ten thousand guests per week. She went on to describe the district as an “Open place; open to all; free to all.”

When asked about the phased opening during the pandemic, Brockwell replied “We have opened elements that we thought were safe and responsible and we could do it in a way that people knew they were cared for.” She went on to discuss the measures they were taking at Jaxon and the Experience Store to deliver a physically distant, almost touch-free experience.

The district continues to blossom with new offerings opening. Amanda Freitag’s “Rise + Thyme” is a bistro-style restaurant with unique offerings for breakfast and lunch. Opening soon on Commerce, Richard Ellerman’s “Hawthorn”, an upscale lunch and dinner destination, and the remaining bays at the food hall will be tenanted when appropriate.

Next door on Commerce Street, the Pegasus City Brewery has started operations. From this small format brewery and tap room, Pegasus City is offering their full selection of brews and merchandise with a brew master available to quench your need for knowledge regarding their beers. The brewery has over 5,000 square feet of indoor seating and an addition 5,000 square feet of patio space for you to imbibe their libations at a safe distance. Over on Elm Street, True Kitchen + Kocktails continues to entertain large crowds as it racks up great reviews. The Dallas Farmers Market continues to host area farmers and makers on the weekends, and they also welcomed a new neighborhood pub to the district. Hurdy Gurdy has opened, offering chef driven shareables, a selection of sandwiches, and a drink menu replete with craft beers and artisanal cocktails.

For a complete list of open retailers, select the List of Open Businesses dropdown from the COVID-19 tab on our website, [downtowndallas.com](https://www.downtowndallas.com).

CONSTRUCTION

Dallas County declared construction activity in commercial and multifamily sectors as essential activities, thus allowing construction and construction-related activities within Downtown to continue.

Downtown continues to see nearly 4 million square feet of active projects advance construction in all categories.

Atelier Flora

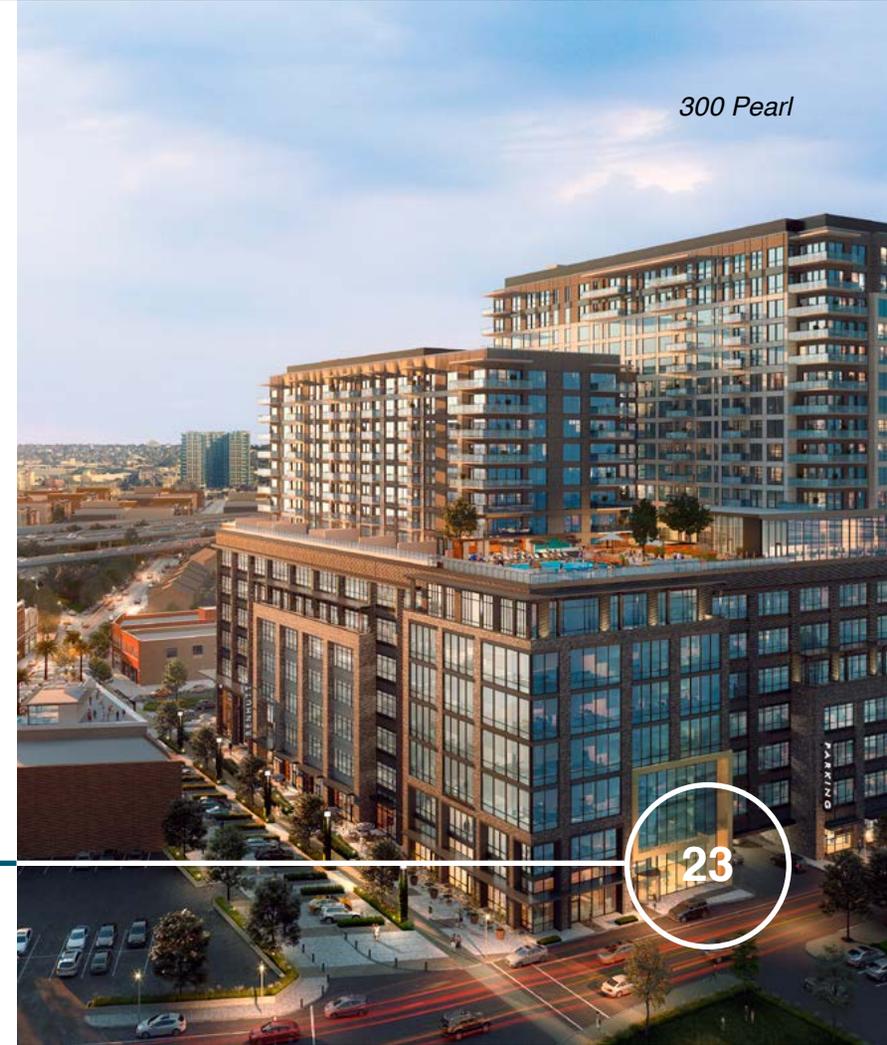




AT&T Discovery District

Notable projects that continue to move forward include:

The Galbraith (2400 Bryan)	Multifamily	448,500 sf
300 Pearl	Mixed Use	519,000 sf
The National	Mixed Use	1,500,000 sf
AMLI at Fountain Place (Now Open)	Multifamily	350,000 sf
Atelier / Flora Lofts	Multifamily	468,000 sf
Hall Arts Residences (Now Open)	Multifamily	261,475 sf
2000 Ross / JW Marriott Hotel	Hotel	445,000 sf
AT&T Discovery District (Now Open)	Retail/Rest.	40,000 sf
Attiva Farmers Market	Multifamily	200,853 sf
Carpenter Park	Parks	
West End Square	Parks	



300 Pearl

Downtown's final vacant building, the National at 1401 Elm, is scheduled to open in November.

The repurposed 1.2 million square foot office tower will find new life with 324 apartment units, a 218 key Thompson Hotel, ground floor retail, and serve as the new home for all DDI operations and staff. In a recent webinar with DDI, Shawn Todd of Todd Interests discussed the difficulties that the pandemic has brought to development. Todd discussed how his employees have worked with contractors and architects to, **“solve challenges that we never thought we would have to in our business life, on a daily basis.** From distribution channels being interrupted to workforces going from 550 to 100 people per day, to establishing over and above what OSHA would require in regard to healthiness on a job site,” Todd went on to explain how his firm and their partners have had to adapt to working from home, or with minimal face-to-face contact, and the new dynamic that it creates.

Shawn mentioned the importance of listening to and encouraging those that you work with and assured that while they are facing new challenges, the National will open as scheduled.

Considering the challenges that Shawn Todd mentioned, we still see cranes moving daily on the Downtown skyline for new projects like the National, 300 Pearl and East Quarter, Atelier/Flora Lofts, Attiva Farmers Market, and the Galbraith. Other projects continue in the planning stages and include: 508 Young, Woods/Kaizen's Field Street District, and Hoque Global's New Park.

The National

In conclusion, the overall Downtown market has seen extraordinary progress with many notable successes within this economic cycle.

There has been exponential growth in residential development, incredible achievements in commercial office leasing, and the long sought-after achievement of the completion of the last full renovation of the 40+ major existing office towers – an effort underway since the early 2000s. Notably, all of these great accomplishments were achieved while simultaneously navigating a variety of challenges, economic crises, and regional and national pressures.

As we continue to leverage our incredible partners, stakeholders, and neighbors to realize the great vision laid out in the 360 Plan and seen on the very streets we walk each day, we continue forward in the confidence that we will not only weather the current hardships being experienced locally, nationally, and globally, but will once again exhibit the uncommon resilience that has historically insulated Downtown during these times, and will ensure once again a swift recovery and national competitiveness unique to Downtown Dallas and the people committed to its success.

DOWNTOWN DALLAS .COM

