

DOWNTOWN DALLAS

State of the Market

Downtown Dallas
& Recovery



Downtown Stakeholders: A little over a year into a crisis that threatened to derail decades of progress, it's clear Downtown's recovery is well underway. Every day we see more evidence that our City Center is better positioned than any other market in the country to emerge even stronger.

Consider that not a single major Downtown project was derailed by the pandemic. That includes multifamily developments expected to bring almost 900 units online in the months ahead. It is one of many key signs that demand for Downtown Dallas living remains high. Commercial leasing activity is ticking back up and Downtown Dallas remains in play for corporate relocations. Unlike other major cities, there was no urban exodus here.

The Downtown workers who have been working remote for more than a year are returning in large numbers. A recent Downtown Dallas, Inc. survey found that nearly half of respondent organizations already have employees back, with most of the rest returning to the office in the coming months.

Downtown is also back as a travel destination. All Downtown hotels are welcoming guests, including the highly-anticipated new Thompson Dallas Hotel at The National, Hall Arts Hotel in the Arts District, and classic destinations like The Joule, The Statler, and The Adolphus.

And for those who have been away, some corners of our city may be almost unrecognizable. Among major projects to come online or near completion: the AT&T Discovery District, West End Square Park, The National luxury apartments, offices, retail, and hotel (the Thompson), The Galbraith workforce and market rate housing, and the Atelier luxury apartments.

There is no question that these past 14 months have brought historic challenges for businesses of all sizes and people of all backgrounds. Through it all, Downtown Dallas, Inc. (DDI) has continued to support the community that has stood by us for more than 60 years. We are excited to bring you this latest edition of our State of the Market report. **We look forward to seeing you in person again soon.**



Kourtny Garrett
President & CEO, Downtown Dallas, Inc.

Downtown's unprecedented growth continues to drive robust market sectors, including multifamily, commercial, office, hospitality, retail, and restaurants.

DDI's Economic Development & Planning team is constantly analyzing the freshest data to build a comprehensive picture of both the current state of Downtown, as well as opportunities to enhance and sustain our historic success.

As of the first quarter of 2021, over 12,000 people reside in 50 residential properties, including apartment towers, condominiums, and townhomes. We are monitoring activity at 139 commercial office buildings and 28 hotels, plus our many retail and restaurant establishments. There are currently more than 20 active construction and development projects in Downtown.

In the following pages, we give you our latest information and insights regarding: Multifamily, Commercial Office, Hospitality, Retail, Restaurant, and Construction.

12k+
Residents

50
Residential
Properties

139
Commercial
Office Buildings

28
Hotels

20+
Active Construction &
Development Projects

MULTIFAMILY

Our urban core lies at the center of a top-performing multifamily market, consistently setting the bar for multifamily starts nationally.

Downtown Dallas offers a variety of rental, condominium, and attached single-family products.

As of today, the Dallas-Fort Worth market reports over 30,000 multifamily units near delivery, including almost 900 under construction Downtown.

AMLI Fountain Place



Multifamily, as an industry, weathered the storm better than most other property sectors. Owners still lost revenue from deferred rents and waived fees, but their future looks bright in the near-term, thanks in part to the area economy and a temporary lag in construction in 2020.

The first quarter saw asking rents recovering to pre-pandemic levels averaging \$1.98 per square foot. The market average was bolstered by the recent delivery of higher-end luxury products in the submarket, including Atelier at 1801 N. Pearl St. and The National at 1401 Elm St.

Leasing at these new deliveries is progressing smoothly. The remodeled and re-branded Drakestone at 1309 Main St. has stabilized at a sub-market average 93.4% leased. The recently opened Atelier in the Arts District is already over 15% leased and seeing heavy interest in its luxury units and affordable artist lofts.

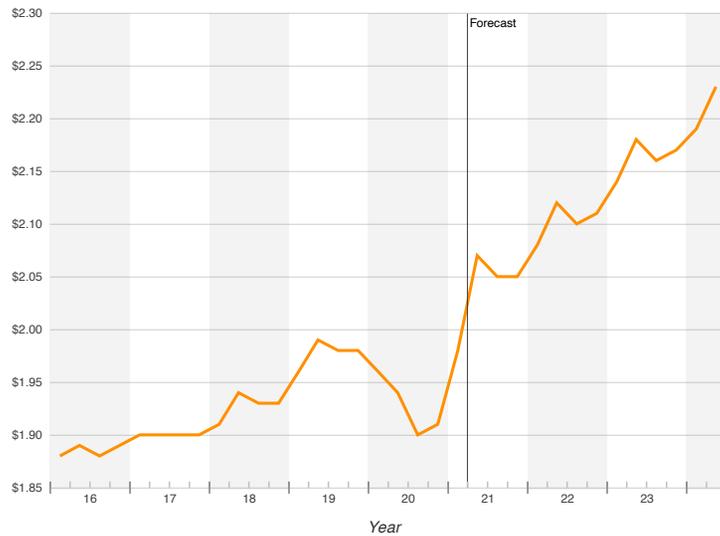
Along with new residents, each of these projects also bring new Downtown amenities. Notable additions include offerings at the Atelier in the Dallas Arts District. The 41-story structure consists of 364 luxury units, including one-, two-, and three-bedroom floorplans, 553 parking spaces for residents, and 157 public spaces in the below-grade structure. Amenities include a pool, a fitness center, a tenant lounge, and an on-site art gallery.

The National, recently opened at 1401 Elm, includes 324 units and the Thompson Dallas Hotel. Residents have access to a ninth-floor pool and amenity deck, a state-of-the-art fitness facility, pet concierge, a game room that includes virtual golf and shuffle board, a lounge, and more. In addition to the hotel, the development includes four restaurant concepts, a spa, retail outlets, with additional amenities to come.



Atelier Flora

Market Asking Rent Per SF



Courtesy of CoStar, Downtown Core Geography



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5/11/2021

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

New deliveries will continue to be an important data point to track.

The DFW economy proved resilient in 2020 and employment growth is recovering faster than the rest of the nation, according to the Federal Reserve Bank of Dallas. People continue to migrate to the area and employers continue to follow the talent, putting housing in high demand.

There continues to be significant activity in residential development.

300 Pearl	Multifamily	336 Units
Attiva Farmers Market	Multifamily	220 Units
The Galbraith (2400 Bryan)	Multifamily	230 Units

As the region continues to recover, we are seeing less delinquency than predicted in the multifamily sector. New starts are expected to resume as the supply of materials resumes and costs return to normal.

Due to the recent delivery of significant class A units, the average asking rent for Downtown core apartments show a steady increase in rents over the next two years.

Construction continues in the lucrative urban apartment segment. Todd Interests has topped off the 336-unit 300 Pearl St. mixed-use development in the East Quarter. Matthews Southwest has made significant progress on the 230-unit Galbraith on Bryan St., and the 220-unit Attiva Farmers Market will be ready soon.

Downtown property managers and landlords report a strong 2021 thus far, with little residential turnover, stable occupancy, and a limited need for rent concessions to attract new tenants.

While construction continued throughout 2020, there was a notable slowing of new starts throughout the industry as the market evaluated overall impacts. Fortunately, the first quarter of 2021 began to see that trend shift, as we are now seeing a significant uptick in multifamily projects entering pre-development stages throughout Downtown and the adjoining Cedars, Deep Ellum and Design District neighborhoods.

COMMERCIAL OFFICE

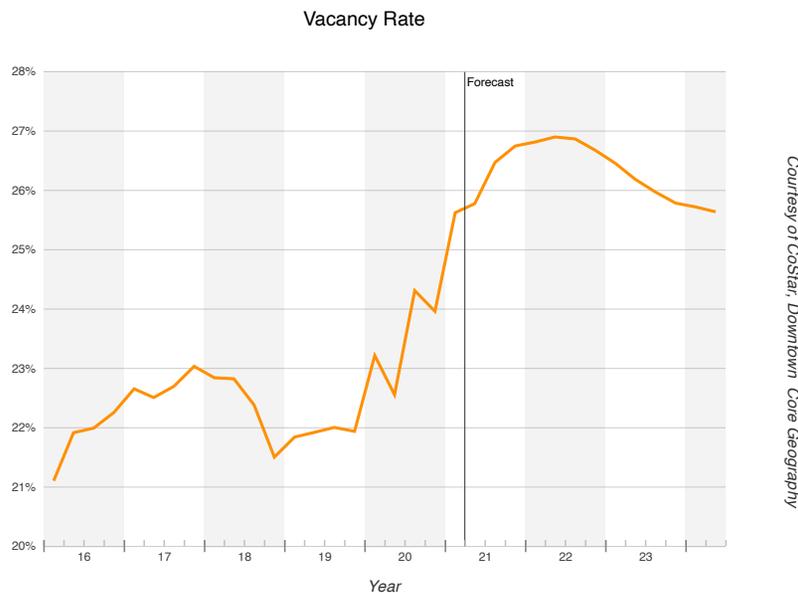
Downtown has one of the largest concentrations of office space in North Texas, with 33.6M+ square feet of space in a compact geography.

Recent reporting has shown incredible commercial office performance, compared to the limited space of surrounding markets.

Downtown is the historic commercial center of the region, with one of the largest densities of commercial space available anywhere. Our region followed suit with the rest of the country, showing negative absorption and increasing vacancy. Locally, we've seen sublets flatten as employers are deciding to return to the office in the coming months.

Active leasing throughout the Downtown core continues to be a positive signal for long-term recovery Downtown.

Leasing slowed significantly in 2020 and, as the return to the office progresses, many employers have been seeking value in long-vacant spaces. The majority of the region is still hemorrhaging office space with CBRE showing 1,155,229 sf of absorption for the metroplex. The Downtown core showed 451,654 sf, the bulk due to Baylor Scott & White's almost 300,000 sf move from Bryan Tower for their new built-to-suit headquarters in East Dallas.



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

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.

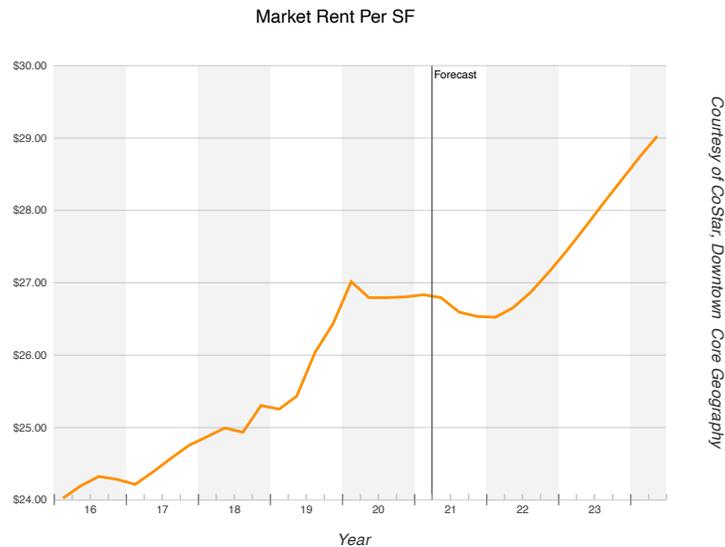
The first quarter brought 27 deals, reported to date, to the Downtown core, totaling over 100,000 sf. Average asking rent increased to \$24.80 in Q1. Asking rent increased \$6.47 per square foot from last quarter, thanks to leasing activity in Fountain Place, Bank of America Plaza, The Plaza of the Americas, and other Class A properties.

First quarter leases and renewals include:

- The Bradley Law Firm, 25,700 sf, Fountain Place
- Estrada Hinojosa, 8,986 sf, Plaza of the Americas
- Greysteel, 6,095 sf, Comerica Tower
- Downtown Dallas, Inc., 20,000 sf, The National
- Confidential Financial Services, 47,262 sf, 2100 Ross
- Seville Dodgen, 20,769 sf, Plaza of the Americas

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

Downtown core rents have stabilized around \$26.82. CoStar predicts that these rents should stay fairly stable throughout 2021 before growth continues in 2022.



2021 started with employers staying cautious when estimating their space needs in the short term. We now see companies looking to the future, eyeing new projects in Downtown delivering in 2021.

Among these projects is Todd Interests' 300 Pearl in the East Quarter, offering over 224K sf of class A office space in a mixed-use development perched on top of several ground floor retailers and restaurants. This location is a short walk from the Dallas Farmers Market and will soon overlook Harwood Park.

Sublease availability has stabilized in DFW at around 9 million square feet, representing 13.9% of total vacancy. The same can be said in the Downtown core, where sublet availability has settled at 1.3 million square feet, or 14.8% of vacancy.

Rents have stabilized as well. CoStar reports that market rent per square foot remains almost unchanged, closing at \$26.75 and asking rent per square foot has settled at \$25.95. Sublet rent has stabilized as well at \$17.53.

Moving further into 2021, we expect to continue to see a decrease in sublease activity as companies increase their in-person office presence and as general market certainty continues to improve.

In April 2021, DDI surveyed 73 different Downtown employers of varying industries and sizes about their return-to-office plans.

In recent weeks, national attention has been given to our regions' performance in returning to the office, outpacing the nation in employees moving away from remote work and returning to the office in-person.

Nearly half of respondents reported most or all employees are already back, with most of the rest returning in the coming months.

The majority of both large and small Downtown companies indicate they will move away from remote work, and back toward in-person office hours. Nearly 60% reported they plan on their full workforce returning in person. An additional 15% reported that at least 75% will return to in-person.

Still, there is little doubt that remote work will continue to be a part of the equation in the long term. Respondents reported a nearly 50/50 split between increased office schedule flexibility and more traditional hours.

While health and safety was cited as a primary barrier to bringing employees back (62 percent), just 30 percent of respondents said they are tracking employee vaccinations.

When do you plan to return to the office?

All or Most Already Back	49%
By July 4th	15%
By Labor Day	7%
By End of Year	13%
Undetermined	16%

Percent of workforce to return in-person?

100%	58%
At Least 75%	15%
Up to 50%	3%
Undetermined	24%

Introducing hybrid working policies?

Yes, Some Schedule Flexibility	55%
No, Regular Office Hours	45%

Types of flexibility?

3 to 4 Days in Office	55%
Additional Flexibility (See Below)	45%
Will Allow Employees Determine	35%
1 to 2 Days in Office Minimum	10%

Office leasing slowed during the lockdown but landlords are quick to point out that this was a health crisis, not an economic one.

As tenants kick tires around the market, they are not seeing the fire sale deals that they expected the pandemic would bring. Tenants are seeking a high value for their dollar, expecting more than they ever have before in terms of building infrastructure and amenities.

Leases are shorter, allowing companies to pivot and move with less consequence. Buildings and districts have responded by improving offerings, luring more experiential retail, and using spaces creatively to offer a true live/work/play experience.

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. Class A office rents, for example, average \$30.09 p/ft in the Downtown core while nearby competing markets average in the high 40s and class A in Dallas as a whole averages at \$33.55 p/ft.

Skyline at Night



HOSPITALITY

Leisure travel is recovering in 2021 thanks to regional tourism and conventions. Hotels are in a hiring frenzy trying to keep up with demand.

Downtown currently boasts 9K+ hotel rooms in 28 hotels. There are two hotels under construction that will bring an additional 266 rooms, and more hotels are in planning stages.

Hotels are seeing more bookings as national sentiment and consumer confidence improve thanks to robust vaccination delivery and unspent discretionary income. Local leisure travelers are taking full advantage of lower rates at nearby full-service hotels.

Hotels in Downtown Dallas are staffing up and welcoming guests as numbers grow across the board in the early months of 2021.

VisitDallas reports that local leisure travel to Dallas returned to pre-pandemic levels in March; and DFW is currently outpacing the rest of the nation in inbound trips. People are taking advantage of lower hotel rates, excess discretionary income, and time that the flexibility of virtual work and school environments provide.

According to a VisitDallas survey, 90% of respondents have travel plans in the near future, so travel trends should continue. Many hotels are continuing CDC-certified enhanced cleaning procedures and asking that travelers exercise social distancing and masking.

While hotel numbers are improving, leisure travel is only a part of the equation. A return to offices, along with continued vaccinations and improved national sentiment, will increase business travel. Locals are also currently being cautious, and less than 50% of local traffic has returned to the Downtown area. These consumers help to fuel the restaurants and bars within the hotels.

In March 2020, Downtown hotel occupancy was at 26.3%. In April 2020, it bottomed out at 8.4%. The chart below shows the beginning of the recovery. As convention traffic increases and travel returns, we will see these numbers continue to increase.

	Jan-21	Feb-21	Mar-21
Occupancy	24.6%	31.4%	44.3%
ADR	\$127.90	\$139.00	\$140.66
RevPAR	\$31.40	\$43.60	\$62.33
Revenue	\$9.8 M	\$12.6 M	\$19.8 M

Downtown area hotels fared well in the 2021 U.S. News and World Report's *Best Hotels* report. The Adolphus, HALL Arts Hotel, and The Joule ranked 6th, 7th, and 8th, respectively, for the DFW area.

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

Retailers continue to welcome customers back into their businesses. Many local restaurants have seen record crowds in the first quarter of the year.

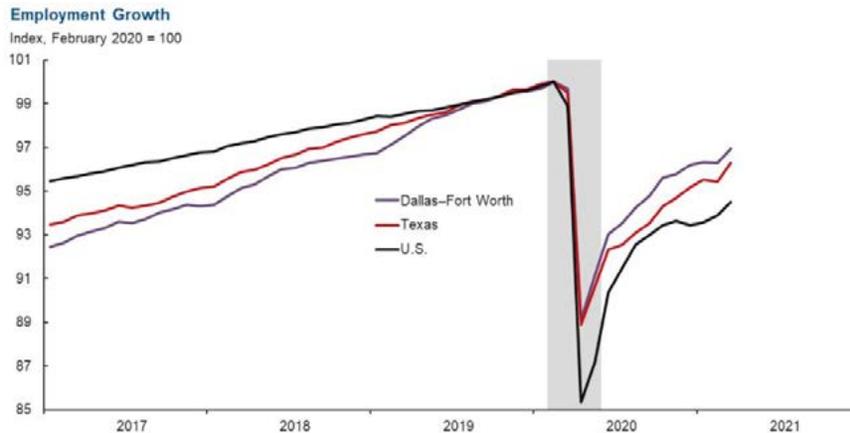
“Consumers’ confidence in the U.S. economy rose sharply in April, marking the fourth straight month of gains as more people received vaccinations, stimulus payments reached households, and businesses more fully reopened.”

The Wall Street Journal 4/27/2021

People have become more optimistic about their future, thanks to lower unemployment and an expanding job market.

The consumer confidence index reached 121.7 in early April, it's highest mark since it hit 132.6 in February of 2020. Employers created more than 900,000 new jobs in March nationwide.

In DFW, the Federal Reserve Bank of Dallas reports that the metroplex continues to outpace the rest of the state and the nation; employment grew an annualized 8.4% (25,100 jobs, non-annualized) in March and payroll expanded 8.7% in Dallas. Unemployment in Dallas fell to 6.2% as many hospitality workers began returning.



NOTE: Shaded bar indicates Texas recession.
SOURCE: Bureau of Labor Statistics, Texas Workforce Commission; seasonal and other adjustments: by the Dallas Fed.

Despite record closures in 2020, retail leasing has increased in Q1 as consumer confidence strengthens and retailers look for deals backfilling vacant space.

CBRE reports that of Downtown's 1,074,590 square feet of recorded retail space, 4.9% sits vacant. This vacancy rate has remained relatively unchanged for 11 straight quarters.

Through the pandemic and winter storm, Downtown has lost 12 restaurants, though 12 have opened or leased in the same period. This includes Dakota's Steakhouse, the iconic underground restaurant, that closed early in the pandemic but recently announced a planned re-opening under new ownership.

2021 will continue to bring new retailers into Downtown.

Hotels, restaurants, and shops will continue to take advantage of new convenience options for customers launched during the pandemic like curbside pickup, delivery, and to-go alcohol. With conventions returning and locals taking advantage of lower hotel rates, Downtown retailers are set to see a record year in 2021.

Downtown is happy to welcome the following new business openings in 2021.

Hard Shake	The Exchange at AT&T Discovery District
Hawthorn	AT&T Discovery District
Ichi Ni San	The Exchange at AT&T Discovery District
Kessaku	The National
Monarch	The National
Nusr-Et	1900 N Pearl Street
Ounce	The Exchange at AT&T Discovery District
Pink Toes Nail Bar	1511 Elm Street
Tondeo Hair Lounge	1401 Elm Street



Within Downtown, retail rental rates have steadily risen and stand at a current average of \$24.13.

Vacancy within new construction has remained low, with the majority of new projects incorporating various forms of retail and grocery, including The National and Atelier. We have also seen the continued filling of existing space with examples such as Accent Optical at Main and Akard and Two Stix, opening soon at 1512 Commerce. With new projects coming online, we can expect even more retail variety Downtown soon.

Downtown restaurants have weathered multiple torrents through 2020 and into 2021. We currently see tenants hustling to hire and train staff as conventions resume and employees begin returning to the office.

A strong year is expected for Downtown retail as many new openings and the official opening of the AT&T Discovery District will entice lunch and dinner crowds.

Pegasus City Brewery



RESTAURANT

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

As retailers have adapted to changing regulations and customer comfort, business is anything but usual. With pandemic protocols lifted and a return to office imminent, restaurateurs continue health-conscious practices. Expect to see more relaxed rules, along with continued precautions like hand sanitizer and handwashing stations.

Downtown is seeing a steady increase in foot traffic, especially in the evenings and weekends, as people seek opportunities to venture out.

The restaurant industry is always evolving – especially in urban markets – and even more so during a global pandemic.

Most restaurants that had pivoted to curbside pickup and delivery have now reopened their doors to the public, with many still featuring dining areas with spaced tables and physical barriers. Some have also leveraged the opportunity to expand outdoor areas through outdoor parklet and street cafe seating in extended patios or on-street parking spaces.

Personal services and soft goods retailers have reopened as well, with familiar health precautions still in place. **As shoppers and diners return to Downtown streets, they are finding many new options.**

The biggest change by far to the Downtown experience is the AT&T Discovery District. Now home to numerous food and beverage outlets, people are flocking to the area. Several more establishments will be added to The Exchange Food Hall soon, making this a signature destination for visitors and residents.

The district continues to blossom with new offerings opening.

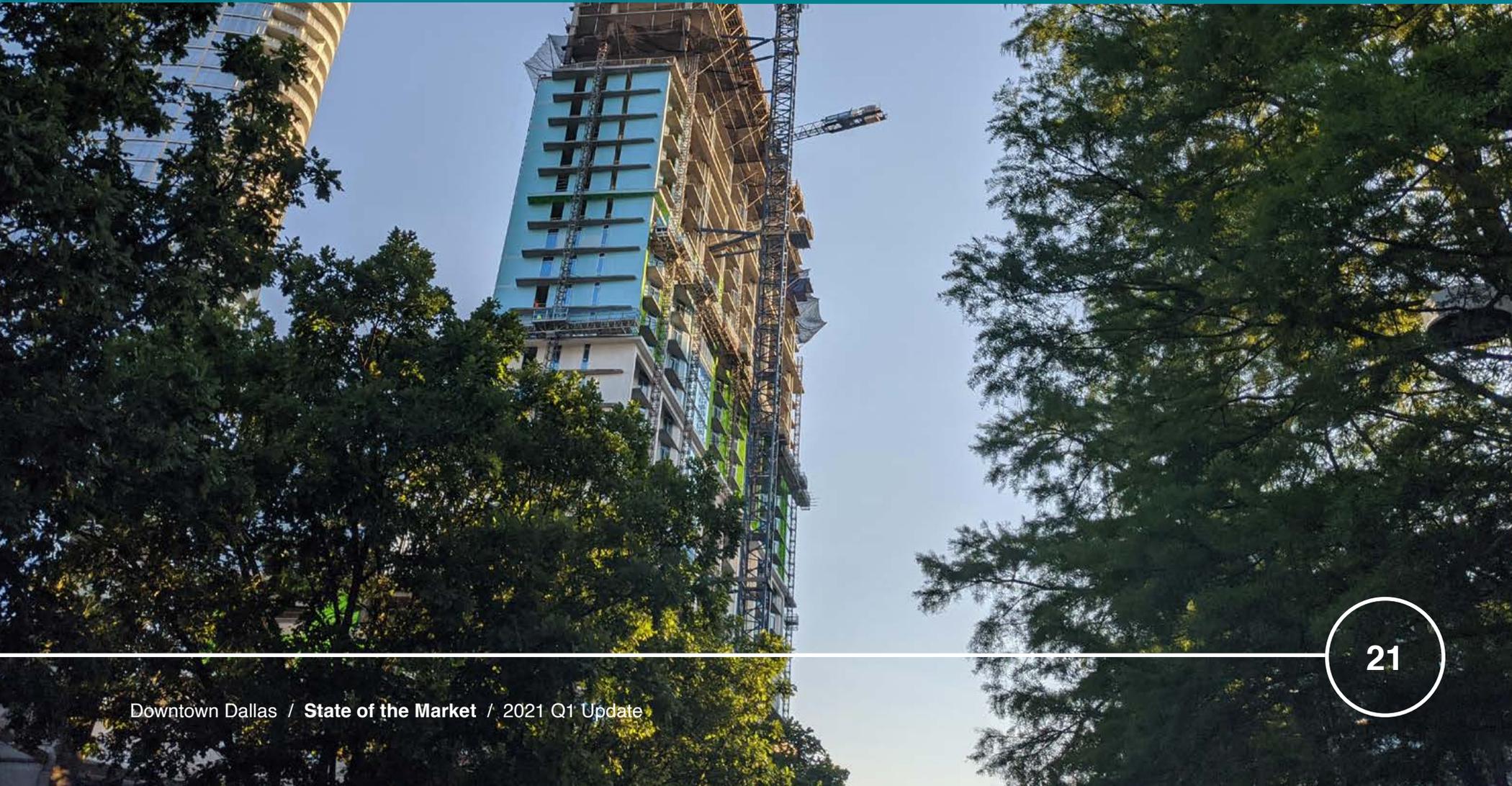
Amanda Freitag's Rise + Thyme is a bistro-style restaurant with unique offerings for breakfast and lunch. Richard Ellerman's Hawthorn, an upscale lunch and dinner destination, is now open. Ounce and Ichi Ni San have opened at The Exchange at AT&T Discovery District food hall, with more on the way.

Pegasus City Brewery has opened and is a fan favorite with a large patio, a beautiful tasting room, and plenty of games to keep you occupied while enjoying a cold beer. 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.

For a complete list of open retailers, please visit: downtowndallas.com/open-businesses.

CONSTRUCTION

Construction continues Downtown,
with 2021 primed to be a year full of
groundbreakings and grand openings.

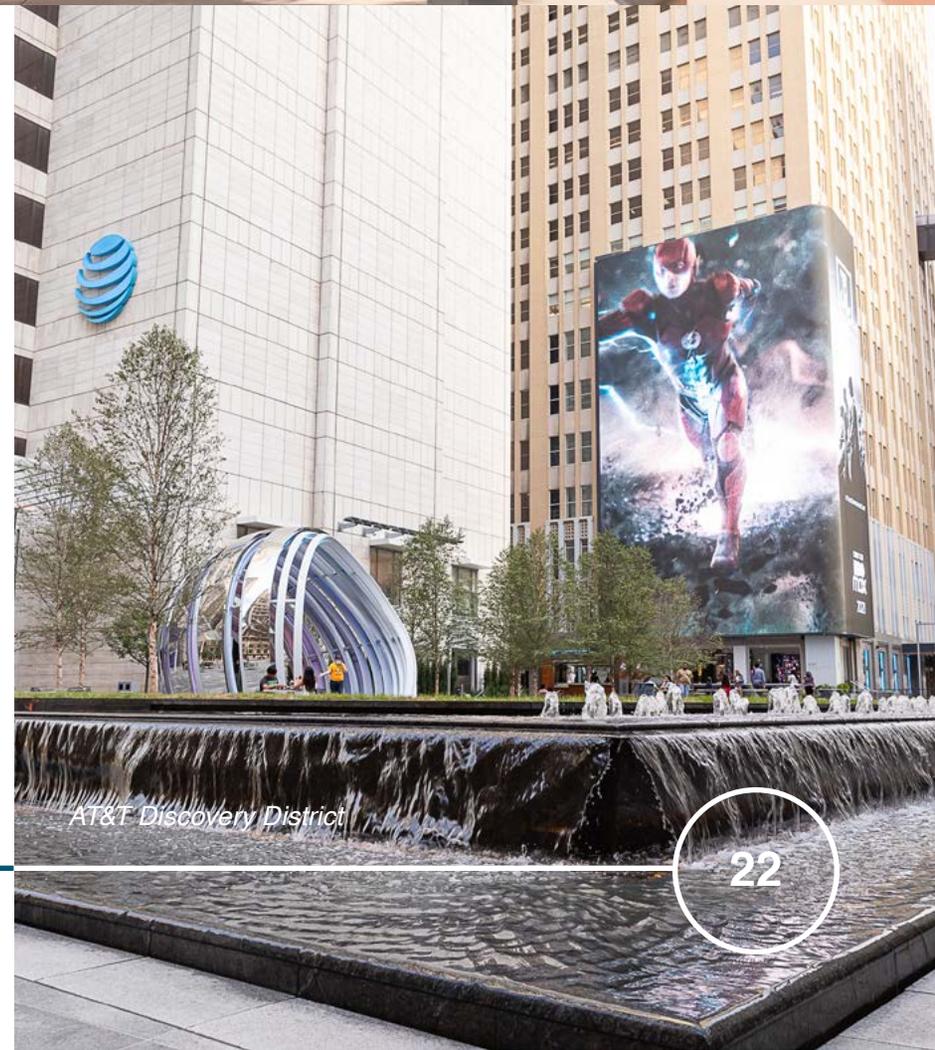




West End Square

Notable projects that continue to move forward include:

300 Pearl	Mixed Use	519,000 sf
AMLI Fountain Place (Now Open)	Multifamily	350,000 sf
Atelier (Now Open)	Multifamily	468,000 sf
AT&T Discovery District (Now Open)	Retail/Rest.	40,000 sf
Attiva Farmers Market	Multifamily	200,853 sf
The Galbraith (2400 Bryan)	Multifamily	448,500 sf
The National (Now Open)	Mixed Use	1,500,000 sf
2000 Ross / JW Marriott Hotel	Hotel	445,000 sf
Carpenter Park	Parks	5.6 acres
West End Square (Now Open)	Parks	0.78 acres



AT&T Discovery District

Downtown welcomed new developments in Q1.

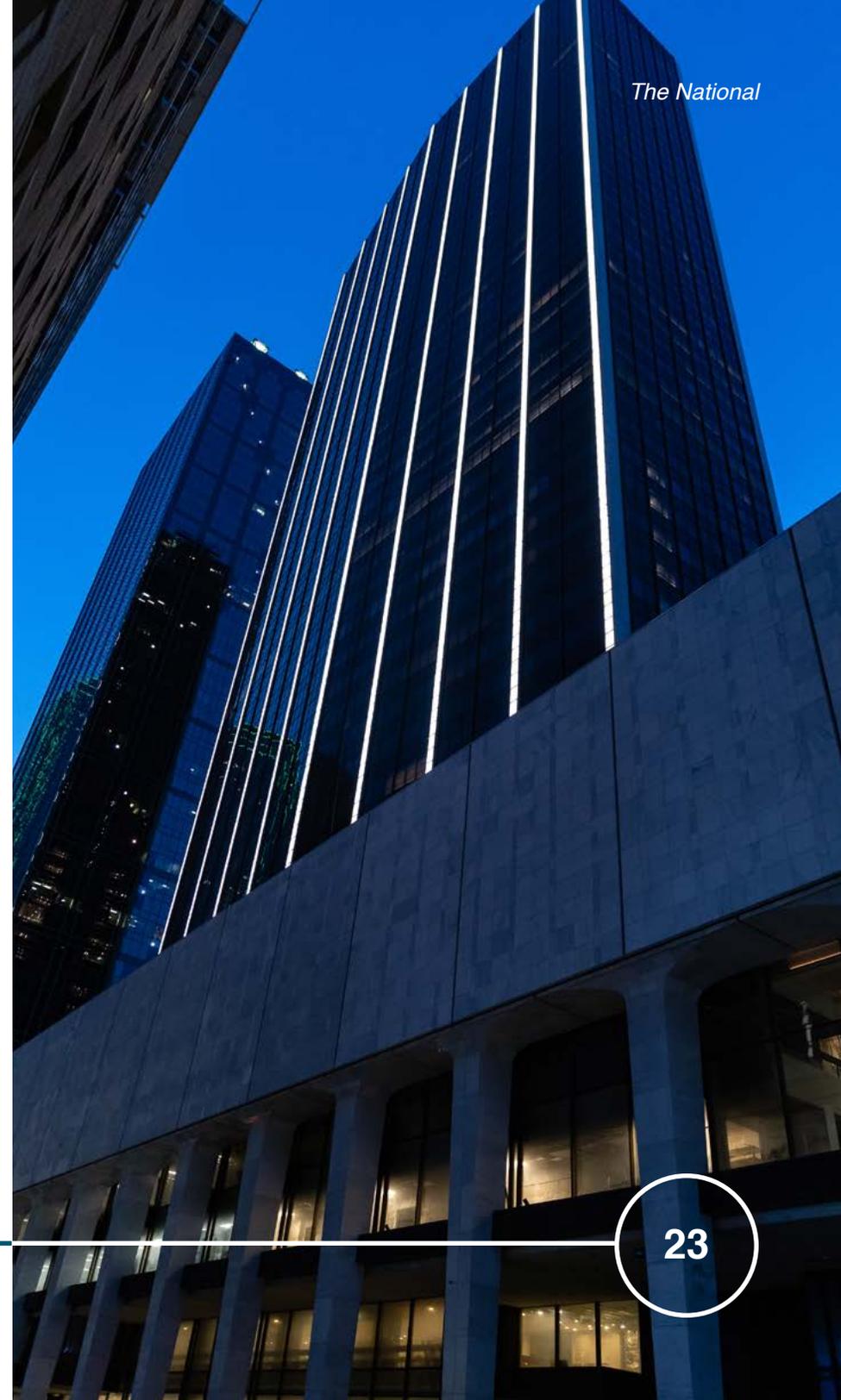
The AT&T Discovery District, which has been partially open for several months, is now welcoming all to experience the district in its entirety. Visitors can treat themselves to interactive exhibits, public art, the next generation of personal technology, previews of the latest Warner Bros. films, and, of course, food and beverage.

A short walk up Akard and you will find yourself at The National, where the repurposed 1.2 million-square-foot office tower has found new life with 324 apartment units, a 218-key Thompson Hotel, ground floor retail, and the new home for all DDI operations and staff.

The 40-story Atelier opened on Flora street – 417 luxury apartments – in the heart of the Dallas Arts District. Another 12,000 square feet of ground-floor retail space is currently being leased.

New projects like 300 Pearl and East Quarter, Attiva Farmers Market, and the Galbraith continue. Other projects in the planning stages include: 508 Young, Woods/Kaizen's Field Street District, and Hoque Global's NewPark. To watch video features on these exciting projects, visit our YouTube channel at youtube.com/downtowndallas.

The National



In a period unlike any other, Downtown Dallas continues to show why we are better positioned than any other market in the country to emerge stronger.

We have an invested community, including more than 12,000 residents who call Downtown home. We have small business owners who believe in the center of our city. We have a diverse and resilient economy and major corporations that are committed to Dallas.

With the delivery of almost 900 residential units under construction, and recent deliveries asking record high rents per square foot, the residential outlook Downtown remains extremely strong.

Commercial office tenants are indeed coming back to physical offices Downtown. While companies are beginning to allow greater flexibility or hybrid work environments, the notion of abandoning the office permanently has not been seen locally. As corporations continue to evaluate their office holdings and consider expanding or relocating, Dallas is a top contender. The true authentic urban environment that so many regional corporations and employees crave can only be found in Downtown Dallas.

Through all of the turmoil and uncertainty the last 14 months, Downtown Dallas continues to be an area that is poised for exponential growth and success across multiple market segments.

Visit DowntownDallas.com to learn more about Downtown Dallas, Inc., and visit DowntownDallasNow.com to explore the premier Downtown Dallas economic development campaign.

DOWNTOWN DALLAS .COM

