

DOWNTOWN DALLAS

State of the Market



Downtown Stakeholders: More than 17 months into a crisis that threatened to derail decades of progress, it is clear Downtown's recovery is well underway, our resilience on display for all to see. Every day we see more evidence that our City Center is better positioned than any other market in the country to emerge even stronger from the ongoing challenges of the pandemic.

Consider that not a single major Downtown project was derailed by the pandemic. That includes multifamily developments expected to bring more than 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 remote for more than a year are returning in large numbers. Ongoing Downtown Dallas, Inc. (DDI) surveys of our member organizations show that most respondents are at least partially back to the office.

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 we continue to see historic challenges for businesses of all sizes and people of all backgrounds. Through it all, 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 is home to two of the largest office leases this year, hundreds of new apartments, the region's hottest new hotel, and dozens of new 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 2nd quarter of 2021, over 13,000 people reside in 50 residential properties, including apartment towers, condominiums, and townhomes. We are monitoring activity at 139 commercial office buildings and 30 hotels, plus our many retail and restaurant establishments. There are more than 20 active construction and development projects Downtown.

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

13k+
Residents

50
Residential
Properties

139
Commercial
Office Buildings

30
Hotels

20+
Active Construction &
Development Projects

MULTIFAMILY

Our urban core lies at the center of a top-performing multifamily market, 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 almost 30,000 multifamily units under construction, with nearly 600 Downtown.

AMLI Fountain Place



North Texas continues to be one of the nation's top markets for new multifamily deliveries. While new supply continues to be produced at a record pace, an exceptionally low vacancy rate of 6.8% provides irrefutable evidence that the local multifamily sector will continue to remain strong for the foreseeable future.

This high demand for apartments is apparent among Downtown properties, where vacancy rates average 6.1% among stabilized properties. Recent deliveries continue to lease up nicely, offering fewer renter incentives than we've seen in prior years.

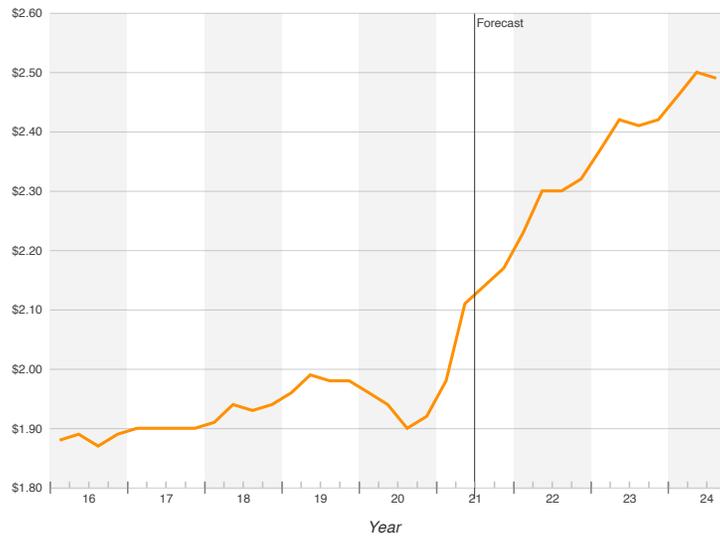
Leasing at recent deliveries has progressed well; AMLI, The National, and Atelier continue to increase their occupancies steadily, however overall occupancy for the submarket will continue to fluctuate as new deliveries open at The Galbraith, 300 Pearl, and Cortland Farmers Market.



High demand and recent Class A deliveries have brought increased asking rents in new Downtown properties. The Downtown residential market as a whole continues to provide a broad range of rents from below \$2 per square foot to over \$3 per square foot across a broad range of properties. This puts average rent per square foot in Downtown at \$2.11, up .13 cents from the first quarter. This translates to the market asking rent for a one bedroom at \$1,650. Double digit rent growth is expected to continue into 2022 as demand remains steady and new deliveries come online.

Atelier in the Arts District has been turning heads since its opening in the first quarter. Offering a public art gallery featuring rotating exhibits in the lobby; residents amenities include an 11th floor infinity pool, state-of-the-art gym, tenant lounge, pet spa, co-working space, and a resident market, all situated above ground-floor retail.

Market Asking Rent Per SF



Courtesy of CoStar, Downtown Core Geography



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7/23/2021



Atelier



Downtown Dallas is home to over 13,000 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.

Among major residential developments underway:

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

As the region continues to recover and adapt to pandemic challenges, we are seeing less delinquency than predicted in the multifamily sector. New starts are expected to resume as the supply of materials picks up and costs return to pre-pandemic levels.

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 Cortland Farmers Market (Harwood St.) 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, and 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.

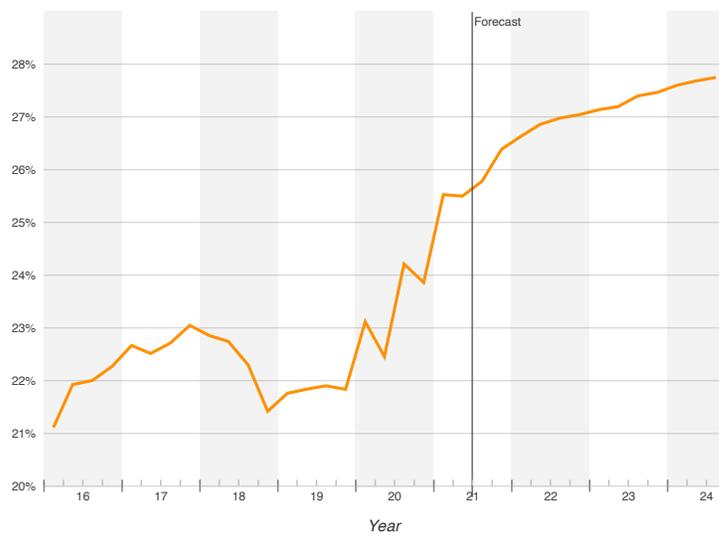
Downtown is the historic commercial center of the region, with one of the largest densities of commercial space available anywhere. Recent large leases and positive net absorption have signaled a return to the office and a renewed interest in our submarket.



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

Elevated leasing activity and recent new tenant announcements have increased confidence in the Downtown office market. Downtown's Class A office leasing helped buoy the region, showing positive net absorption of 137,748 square feet for the quarter, according to CBRE.

Vacancy Rate



Courtesy of CoStar, Downtown Core Geography



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7/23/2021

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.

CoStar reports 51 deals during the second quarter in Downtown totaling 473,736 square feet; nearly doubling first quarter activity. Average asking rent remained almost flat at \$24.78 per square foot for all deals across the board, while Class A leases commanded an average of \$33.20 per square foot, gaining just over \$4 per foot.

Second quarter leases and renewals include the FDIC, Mint Dentistry, and more.

Integrity Marketing Group	104,379 sf	Fountain Place
FDIC	163,005 sf	Plaza of the Americas
Thompson Coe	69,130 sf	Plaza of the Americas
Therabody	11,918 sf	East Quarter
Mint Dentistry	14,000 sf	Bank of America Plaza
Calvetti Ferguson	11,000 sf	Chase Tower
Virtus Investment Partners	10,240 sf	2100 Ross

Major employer trades office in Cypress Waters for a new HQ in downtown Dallas

Insurance firm Integrity Marketing Group will bring hundreds of workers to downtown's Fountain Place tower.



The Fountain Place tower, pictured to the right of the new Armi apartment tower, will be the new home for Integrity Marketing Group. (Goddard Investment Group)



Image courtesy: ImageSource

COMMERCIAL REAL ESTATE

Downtown Dallas Is Hot, Baby!

Integrity Marketing Group is moving up to 400 workers into Fountain Place.

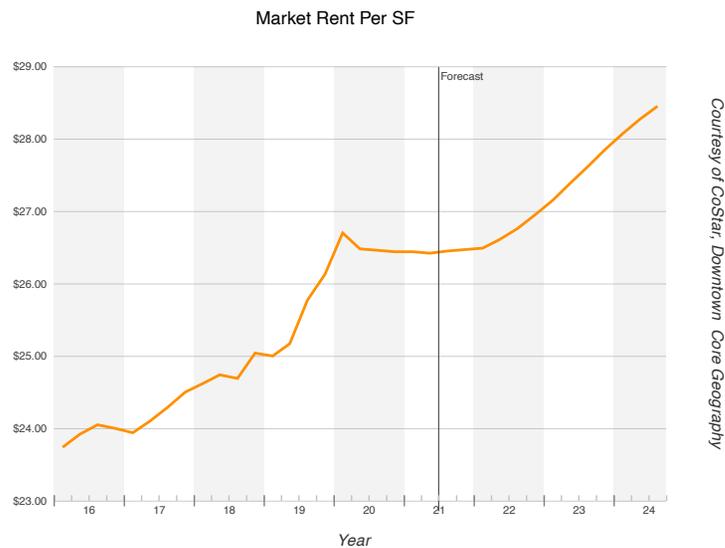


COMMERCIAL REAL ESTATE

Theragun Maker Picks Dallas For Second U.S. Headquarters

The Los Angeles tech-wellness company, Therabody, will occupy the top floors of 2200 Main in Todd Interests' East Quarter.

Downtown core rents have stabilized around \$26.50. CoStar predicts that these rents should stay fairly stable throughout 2021 before growth continues in 2022.



This year started with more cautious employers. Now, we see companies looking to the future, eyeing new Downtown projects – as well as the large, contiguous opportunities currently available in Class A structures.

Among these projects is Todd Interests' 300 Pearl in the East Quarter, offering over 224,000 square feet 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 overlook the future Harwood Park.

Sublease availability has stabilized in DFW at around 9 million square feet, representing 12.7% of total vacancy. Sublet is elevated a bit in the core where we are showing 1.4 million square feet of sublet on the market, or 16% of our total vacancy. Rents have stabilized as well. CoStar reports that market rent per square foot remains almost unchanged, closing at \$26.42. Asking rent per square foot is slightly up at \$26.01. Sublet rent has stabilized at \$17.57.

Large leases and growing companies turn heads in the Downtown submarket.

Downtown office leases dominated the headlines in Q2. One of the largest was the Integrity Marketing Group's relocation from Cypress Waters to Fountain Place. In an interview with *The Dallas Morning News*, Integrity's CEO Bryan Adams cited Downtown's vibrant energy, along with space for his company to continue to grow within an iconic building, as key reasons for the move.

The FDIC signed a long-term deal at Plaza of the Americas. The *Dallas Business Journal* interviewed Transwestern Principal Kim Brooks, who had this to say: "This commitment is fantastic news for Downtown Dallas and is indicative of the district's overall attractiveness." The 165,000-square-foot deal is the largest office lease in the Dallas region to date in 2021.

In June, the tech-wellness firm Therabody announced that they will occupy the top two floors of 2200 Main, joining the other high tech companies that already call the East Quarter home. The company behind the popular Theragun deep-muscle massage device bring with them a slew of professional athlete endorsements and more than 50 new jobs for this talent rich market.

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 boasts 9,000-plus 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. Local leisure travelers are taking full advantage of lower rates at nearby full-service hotels.

Hotel performance continues to improve, welcoming tourists, staycationers, conventioners, and a trickling of business travelers.

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 provides.

The Kay Bailey Hutchison Convention Center recently hosted its biggest convention since the pandemic began. More than 6,000 members of the Asian American Hotel Owners Association took to the convention floor, attended events and presentations, and filled hotel rooms Downtown.

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.

In April of 2020, Downtown hotel occupancy bottomed out at 8.4%. By June of last year, occupancy had only increased to 15.7%. The chart below illustrates the industry's continued recovery through the second quarter.

	Apr-21	May-21	Jun-21
Occupancy	44.8%	47.5%	43.6%
ADR	\$163.00	\$171.30	\$171.60
RevPAR	\$73.10	\$81.30	\$74.90
Revenue	\$22.5M	\$25.9M	\$22.9M

Downtown area hotels fared well in the 2021 *U.S. News and World Report* "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, and 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 half of the year.

“The DFW retail market has finally recorded its first quarter of positive net absorption since the start of the pandemic. Both an increase in leasing velocity and a decrease in store closures helped the market rebound at mid-year.”

*CBRE Marketview Dallas/Fort Worth
Retail, Q2 2021*

Consumers continue to have mixed opinions regarding the economy, however, most are ready to get out and shop again.

The Consumer Confidence Survey shows that the index was relatively unchanged in July, capping off the month at 129.1, up from 128.9 in June. While current gains are modest, these numbers are a vast improvement from the 88.9 reported in January.

An ongoing survey of 1,000 respondents conducted by ICSC shows that 29% of respondents believe that the economy is improving, while 27% feel it has remained the same. A large improvement from April of last year, when only 13% felt the economy was improving and 17% said it was the same.

The ICSC survey goes on to report that 78% of respondents feel that businesses should be open. 75% are already dining at restaurants, 68% are shopping at brick and mortar retail stores for non-essential items, and 41% are visiting personal service establishments.

Despite record closures in 2020, retail leasing increased in Q1 and Q2 as consumer confidence strengthened and retailers looked for deals backfilling vacant space.

CBRE reports that of Downtown's 1,074,590 square feet of recorded retail space, 4.2% sits vacant. This vacancy rate has remained relatively unchanged for 12 straight quarters.

Through the pandemic and winter storm, Downtown lost 12 restaurants, though 40 opened or leased in the same period. The return of the Rodeo Bar was recently announced. The Rustic Cowboy bar nestled at the corner of Akard and Commerce at the base of the historic Adolphus Hotel will also soon re-open its doors, offering cheeseburgers and cold beer.

This year will continue to bring new retailers to Downtown.

Hotels, restaurants, and shops are taking advantage of new convenience options for customers launched during the pandemic, including curbside pickup and to-go alcohol, which is now permanently legal under state law.

Within Downtown, retail rental rates have steadily risen and stand at an average of \$24.80 – an increase of \$4 from the previous quarter.

Vacancy within new construction has remained low, with the majority of new projects incorporating various forms of retail and grocery, including **Atelier** and **300 Pearl**. Leasing of existing space continues with new additions like **Tejas Tacos** in the West End and **Zero Gradi** in the Arts District. The foot traffic generated by returning conventions and the **AT&T Discovery District** has sparked renewed interest for Downtown Retail.

Returning employees are being greeted by old friends and new faces at lunchtime as restaurants welcome people back throughout the submarket.

The **AT&T Discovery District** reports that they are averaging almost 7,000 people per day. More than 600,000 people visited the district during the second quarter.

A strong second half of the year is expected for Downtown retail with new attractions and events in every district. To keep up with events and openings, check out downtowndallas.com.

Pegasus City Brewery



RESTAURANT

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

Retailers have reopened to full capacity and are continuing to adapt to changing pandemic conditions.

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 in a hiring mode now as many eateries are scrambling to hire and train staff.

Most restaurants that had pivoted to curbside pickup and delivery have now reopened their doors to the public. Many have begun to take advantage of the city's new street seats program to expand their service areas onto parklet patios. **As shoppers and diners return to Downtown streets, they are finding new options.**

Attalie	The Exchange at AT&T Discovery District
Baboushi	The Exchange at AT&T Discovery District
Birdguesa	1408 Main
La Duni	The Exchange at AT&T Discovery District
Monkey King Noodle	The Exchange at AT&T Discovery District
Press Waffle Co.	The Exchange at AT&T Discovery District
Revolver Taco	The Exchange at AT&T Discovery District
Tejas Taco Factory	1001 Ross
The Dock	The Exchange at AT&T Discovery District
Val's Cheesecake	The Exchange at AT&T Discovery District
Zalat Pizza	The Exchange at AT&T Discovery District
Zero Gradi	2000 Ross

The district continues to blossom with new offerings opening.

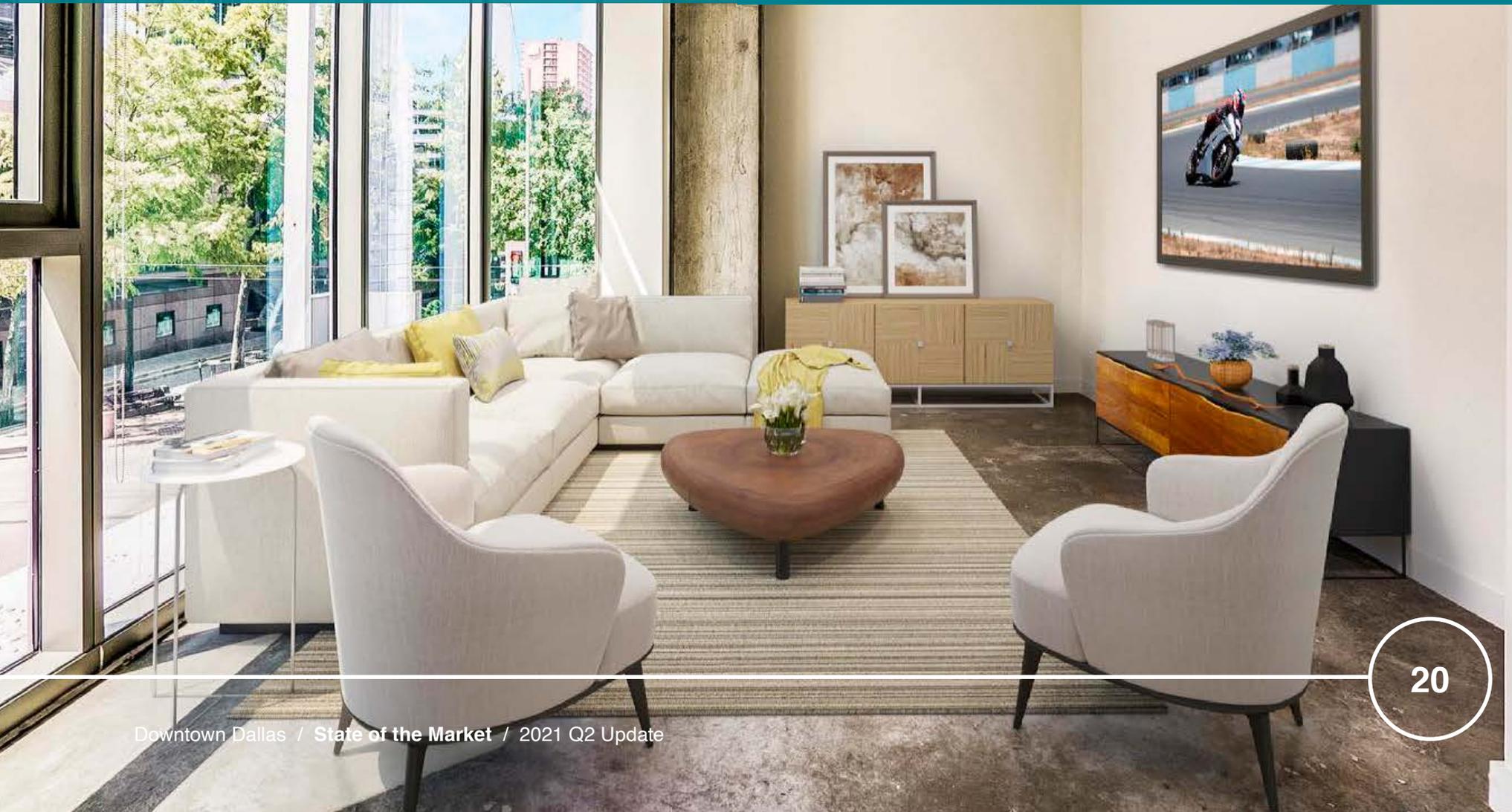
There's something for everyone at The Exchange food hall. Come back every day and try something new; burgers at Bobbers then noodles at Monkey King, a gyro at Baboushi, or tacos at Revolver. Remember to also check out Attalie, which features revolving chefs and a changing menu.

You can find other appetizing new restaurants throughout Downtown. Chimalma Taco Bar has recently opened on Market Street at Commerce, Empanada Cookhouse is new at 1001 Ross. Zero Gradi is serving up espresso and desserts at 2000 Ross and Birdguesa is offering spicy chicken and tots on Main Street.

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

CONSTRUCTION

Construction continues Downtown,
with 2021 already a year full of
groundbreakings and grand openings.

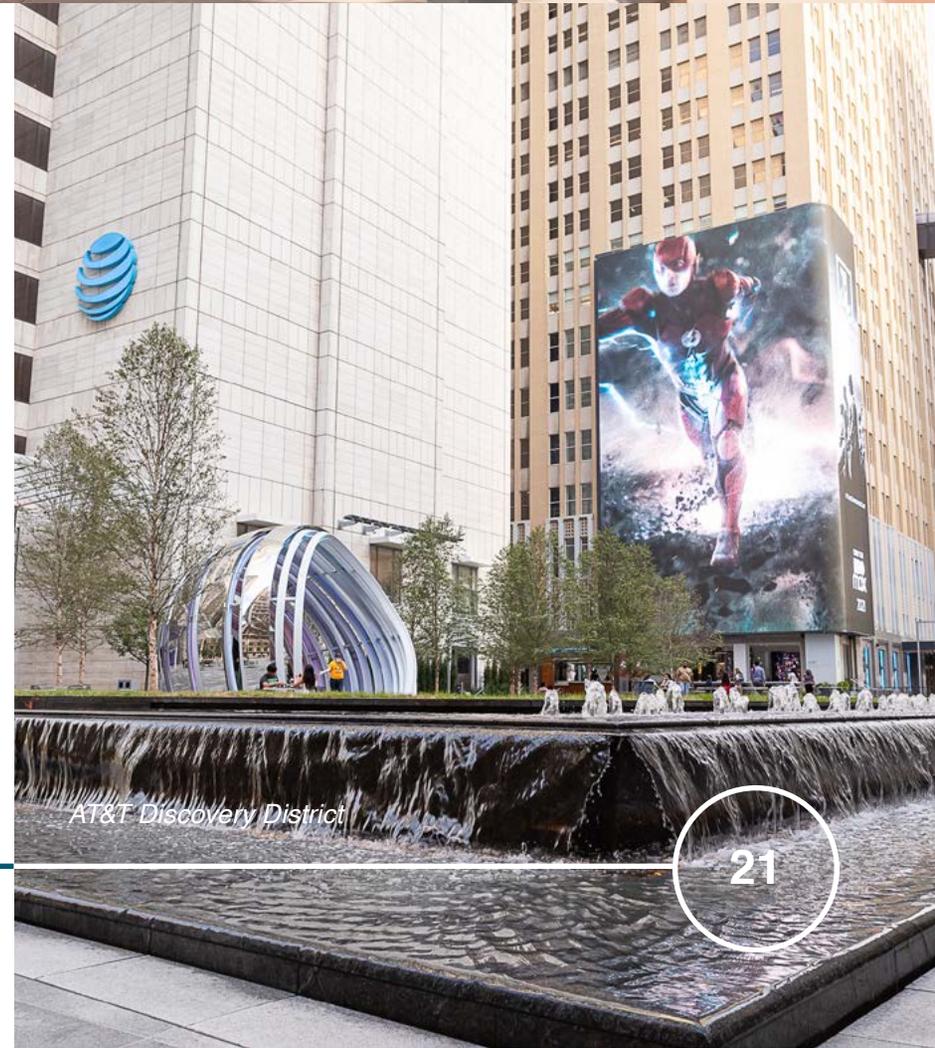




West End Square

Notable projects that continue to move forward include:

300 Pearl	Mixed Use	519,000 sf
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
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

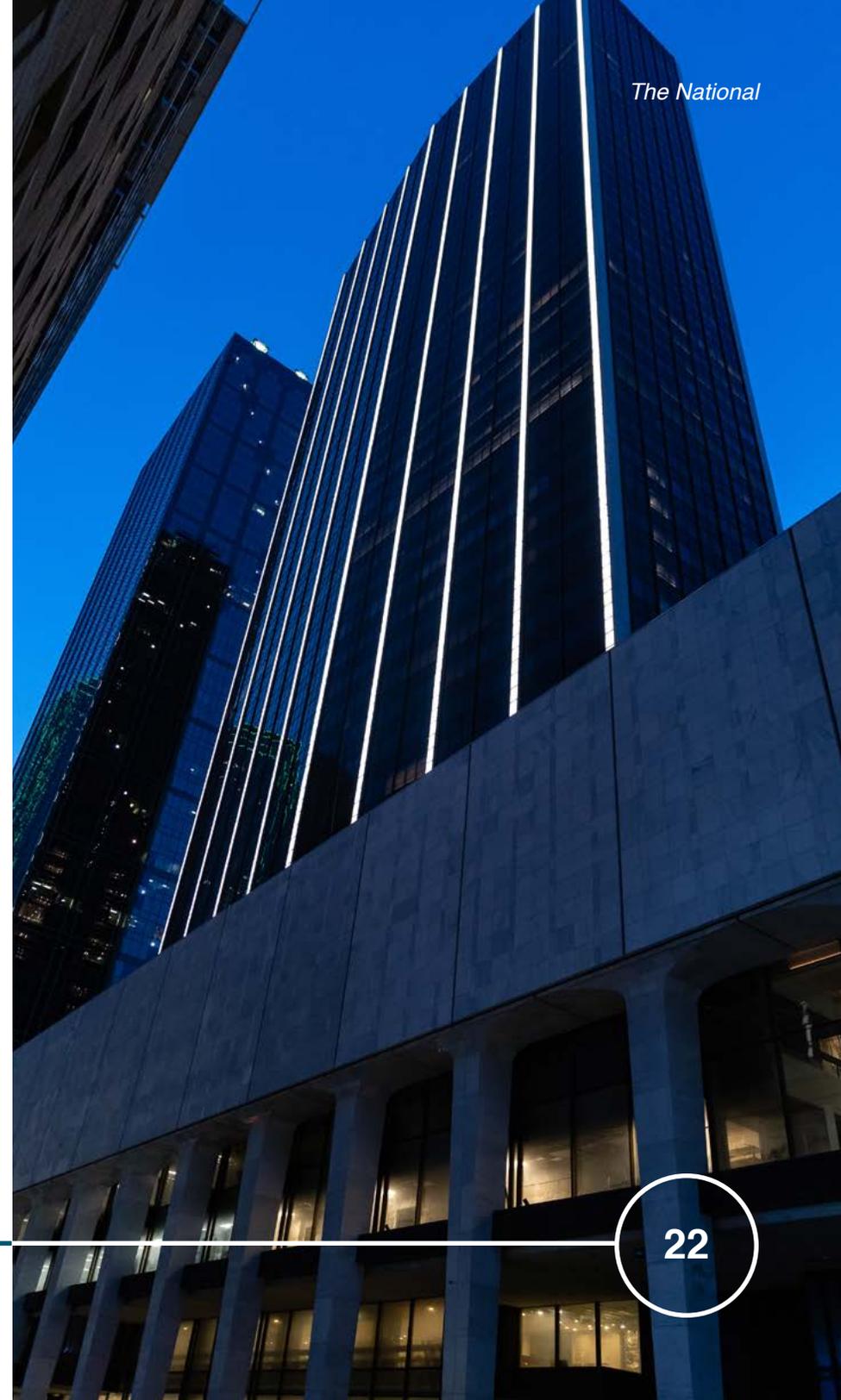
Planned projects press on into Q2.

Developers, the City, and other entities continue planning development projects throughout Downtown. Recent successes and project completions, and the resilience of the Downtown market, has continued to prompt planning on new ground up proposals and future phases of recently completed projects.

DART is working diligently on the second light rail alignment through downtown. D2, as it is called, will be a subway that will run two of the existing rail lines underground, through downtown, from Victory to Baylor. DART estimates that service will begin in 2028.

Woods Capital, Kaizen Development, and Dundon Capital Partners continue planning of almost six acres of land at Field and McKinney known as the Field Street District, a mixed use development offering apartments, office, and retail.

Hoque Global continues planning NewPark, just south of City Hall. The multi-phase mixed-use development will offer a hotel, multifamily, retail, office, and educational facilities. Recently, the district, was awarded a contract from DISD to house a new school campus. To learn about these projects and more, please visit our YouTube channel at [youtube.com/downtowndallas](https://www.youtube.com/downtowndallas) or visit the New + Noteworthy page under the business tab on [downtowndallas.com](https://www.downtowndallas.com).



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 13,000 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 17 months, Downtown Dallas continues to be an area that is poised for growth and success across multiple market segments.

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

DOWNTOWN DALLAS .COM

