CUSHMAN & WAKEFIELD

CUSHMAN & WAKEFIELD RESEARCH

THE NOW NORMAL

Better never settles

TABLE OF CONTENTS

NOTE: Analysis in this report were conducted for the Dallas market alone and may not be applicable to other markets due to methodology and differing outlooks.

DALLAS IS OUTPERFORMING

According to Kastle Systems' Back to Work Barometer, Texas markets were the first to return to the office and have consistently outperformed other major U.S. markets.

WHY DALLAS IS OUTPERFORMING

1. Texas' business climate, policy choices during the pandemic, and cultural differences led to a quicker economic recovery and return to office.
2. Dallas employment and job growth recovered by mid-2021, well before large markets in other states. Today, office-using employment is 16.2% above pre-pandemic levels.
3. In September, Texas CEOs indicated 69.7% of their employees were in the office, nearly 9.0% higher than the national average.

STATE OF RECOVERY

According to Cushman & Wakefield Research:

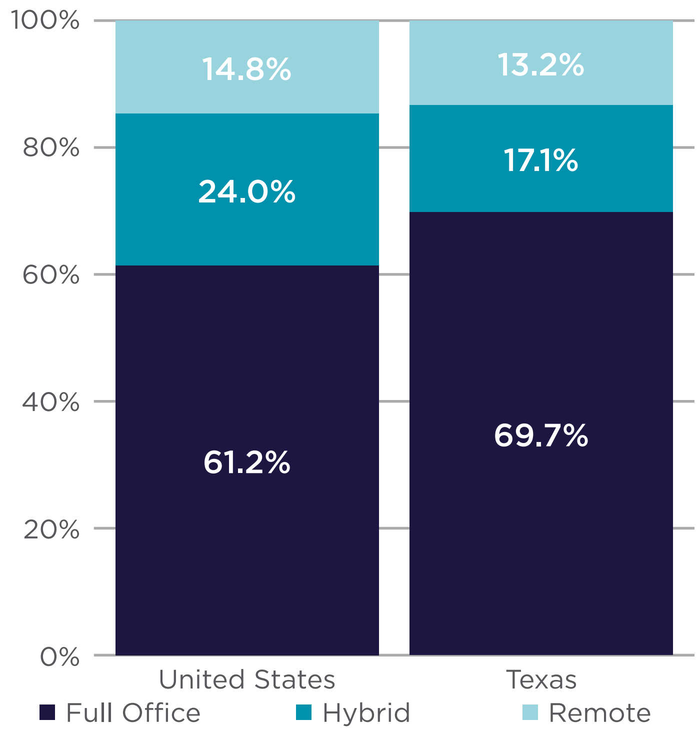
- Average daily foot traffic to Class A office buildings is currently at 67.8% of pre-pandemic levels.
- Office utilization, i.e. the number of daily visitors per occupied square foot of office space, is at 67.3% of pre-pandemic levels.

Methodology

Cushman & Wakefield Research has analyzed mobile phone foot traffic data from Placer.ai for Class A buildings in Dallas-Fort Worth to assess the progress of return to office (RTO) initiatives. Foot traffic has also been adjusted for office vacancy to provide a truer measure of office utilization relative to pre-pandemic norms.

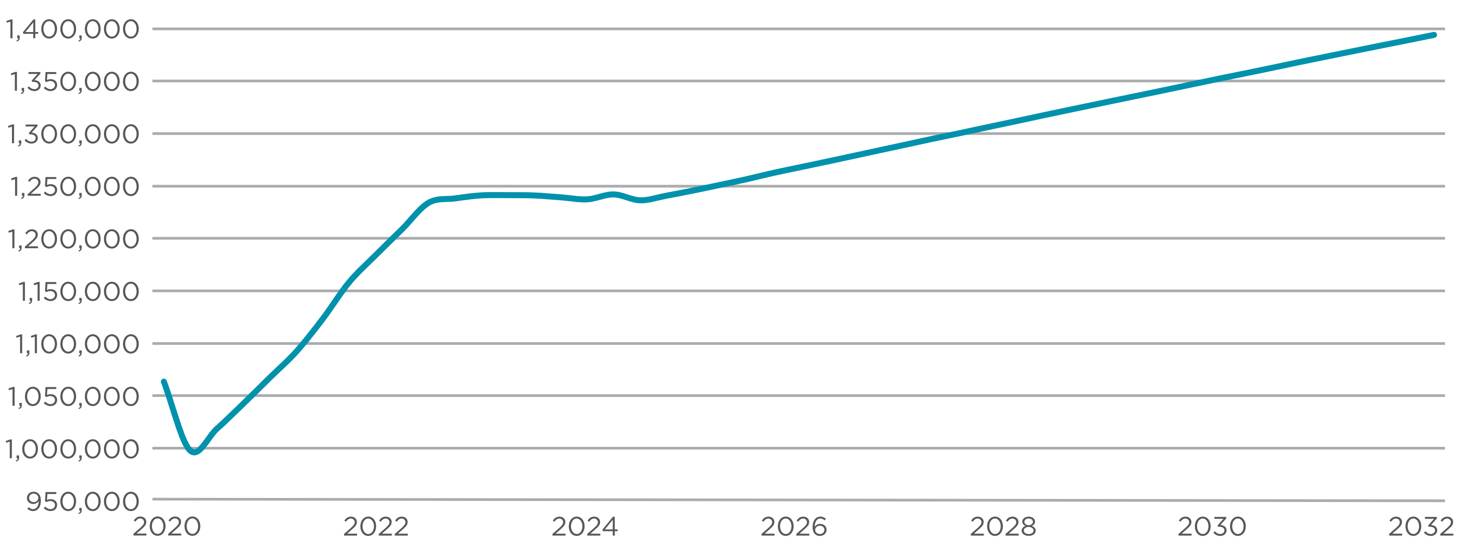
HYBRID/REMOTE WORK

Sources: Cushman & Wakefield Research, Federal Reserve Bank of Dallas, Barrero et al. (2021)



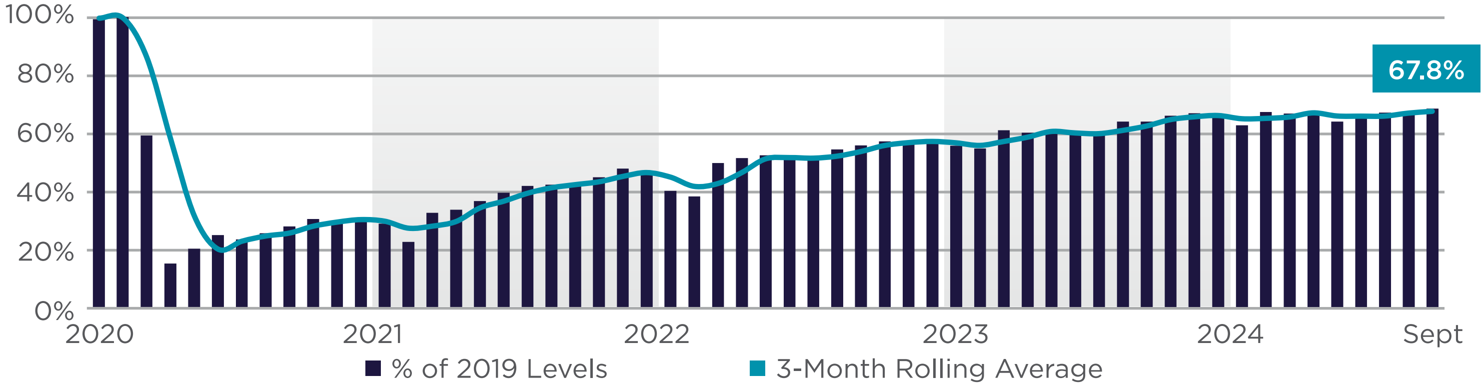
DALLAS OFFICE-USING EMPLOYMENT

Sources: Cushman & Wakefield Research, Moody's



AVERAGE DAILY FOOT TRAFFIC

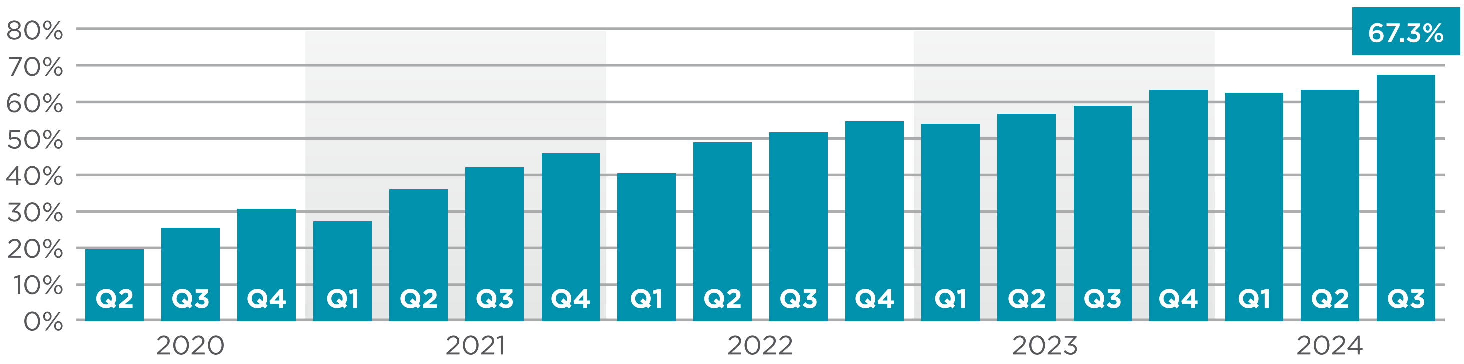
Sources: Cushman & Wakefield Research, Placer.ai



OFFICE UTILIZATION

Daily Visitors per Occupied SF - % of 2019 Levels

Sources: Cushman & Wakefield Research, Placer.ai



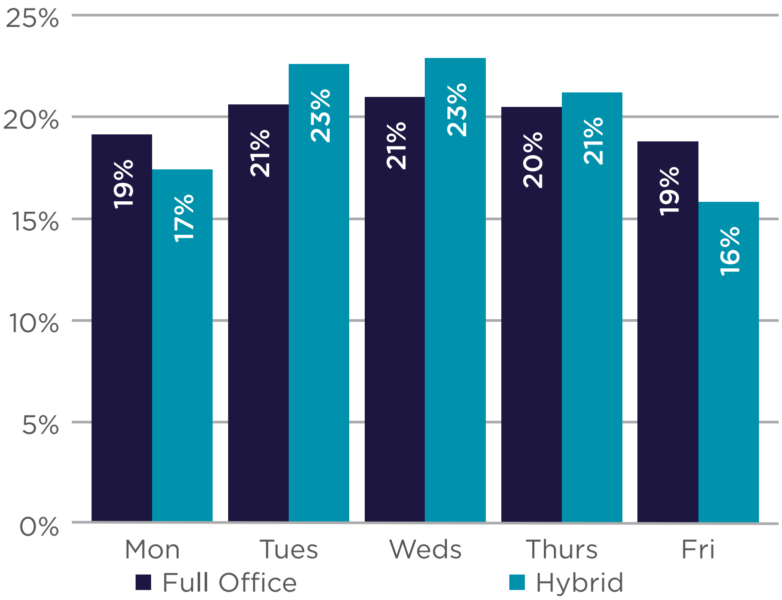
THE NEW WORK WEEK

Office attendance was highest during the middle of the week before the pandemic, and this trend has held up with the adoption of hybrid and remote work.

- Tuesday, Wednesday, and Thursday account for 67% of office attendance during the work week, up from 62% in 2019.
- Employee office attendance during these days has recovered the most at 70%-75% of pre-pandemic levels.

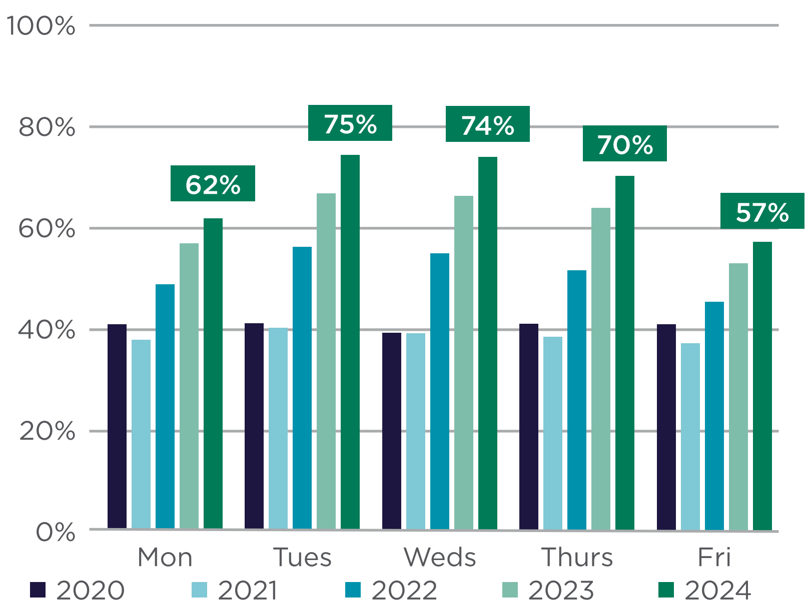
SHARE OF FOOT TRAFFIC BY WEEKDAY

Sources: Cushman & Wakefield Research, Placer.ai



FOOT TRAFFIC RECOVERY BY WORK DAY

Sources: Cushman & Wakefield Research, Placer.ai

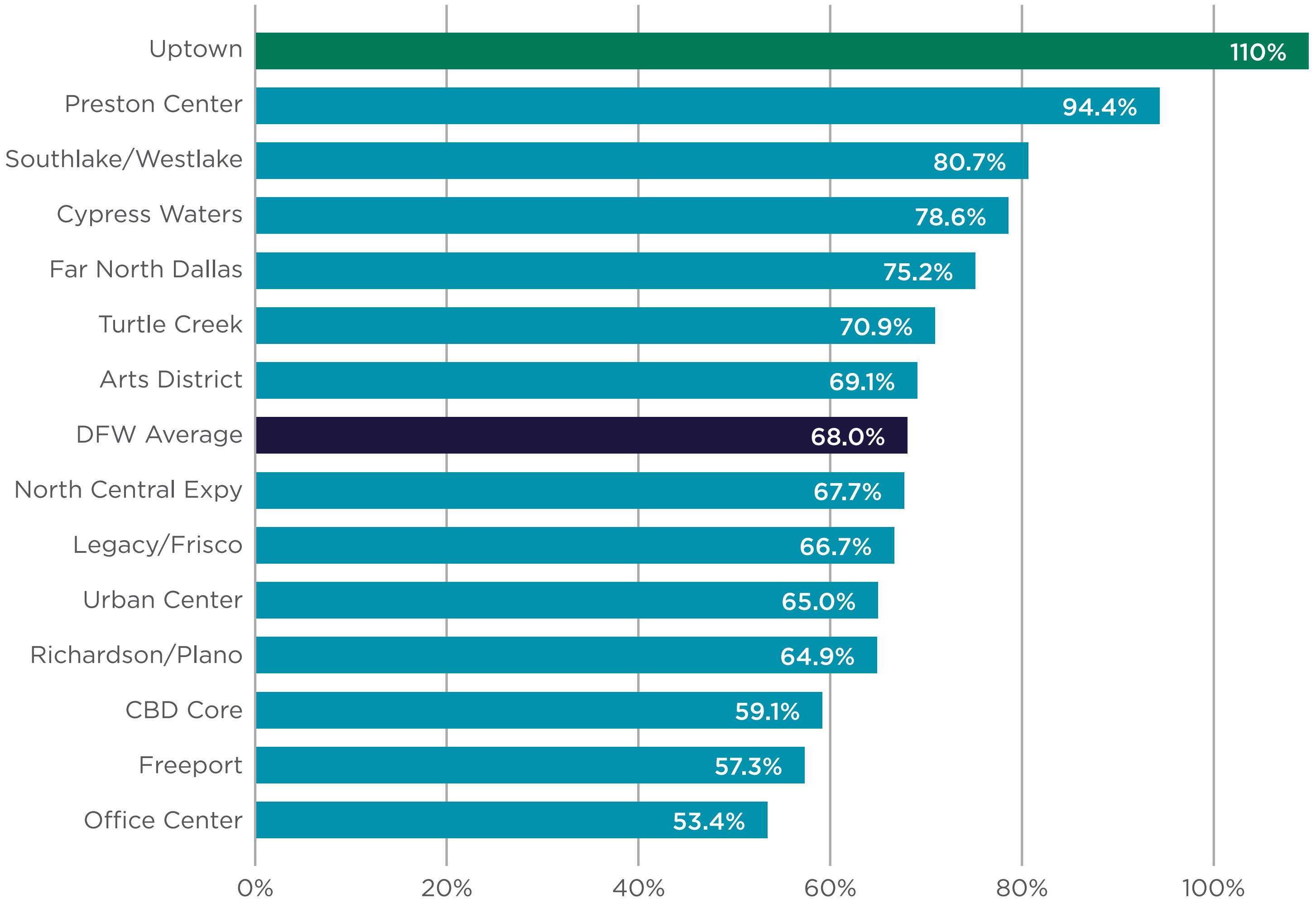


SOME SUBMARKETS ARE SUPERSTARS

- Submarkets with a larger share of new construction are outperforming the market in return to the office highlighting the recent trend of flight to quality.
- Outstanding walkability and completion of new trophy buildings have propelled Uptown to 110% of pre-pandemic levels. Over the last four years, occupied square footage has increased 911,440 sf with strong demand and new construction.

Q3 2024 FOOT TRAFFIC VS. Q3 2019

Sources: Cushman & Wakefield Research, Placer.ai



CASE STUDY
LINCOLN CENTRE

Lincoln Centre is a Class AA multi-building complex with superior accessibility to white collar labor at the corner of the Dallas North Tollway and I-635. The property features a campus-like design with structured parking and an on-site 500-room Hilton Hotel with 55,000 sf of meeting and event space.

Nuveen, which has owned the property since 2006, recently completed an extensive interior and exterior renovation to elevate the property's offerings. In an era where a company's office must compete with all the comforts and conveniences of the employee's home office, Nuveen's strategy has combined thoughtful design and luxury appointments to align tenant experience with employee satisfaction.

Results

In Q3 2024, employee foot traffic at Lincoln Centre exceeded pre-pandemic levels with more than 2,200 employees on-site daily.

Office utilization also exceeds 104% of pre-pandemic levels—well above the market average of 67%—confirming Nuveen's strategy has assisted companies in enticing employees back to the office.

Key improvements and amenities include:

- Renovated building lobbies and elevator interiors
- Three conference centers with on-site catering available
- Food hall with standard breakfast & lunch fare and chef specials
- 15,000 sf fitness center with two studio exercise rooms, free group classes, and rock-climbing wall
- Multiple tenant lounges
- Cafe with Ascension Coffee
- Wine lounge with grab and go market
- One acre park with outdoor seating, water features, and community garden
- Speakeasy
- Outdoor gaming area
- Outdoor patio with grilling station and fire pit
- Wi-Fi and mobile charging stations
- Mother's room


LoLo's Bar

Ascension Coffee


Conference Center

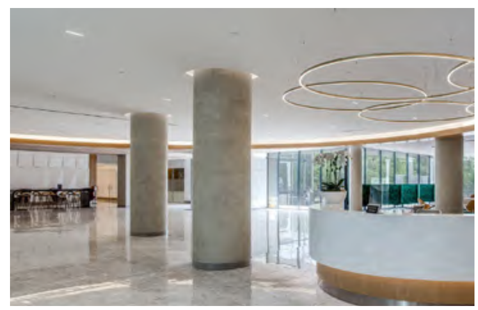

Conference Center


Dining Hall

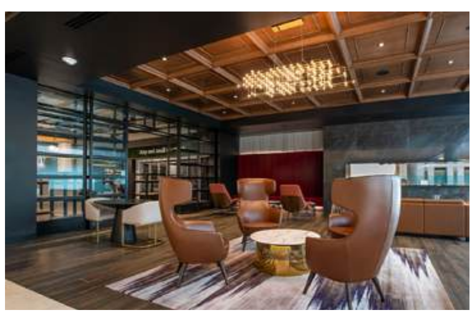
Dining Hall


Fitness Center


Lobby


Lobby

Market


Market Lounge


Park

Park


Park

DECODING OFFICE UTILIZATION

Many return to office studies index current employee visits to pre-pandemic levels. This methodology, however, is fundamentally flawed for two reasons:

1. Office utilization changed with widespread adoption of hybrid and remote work. In other words, it is unrealistic to assume foot traffic would return to pre-pandemic levels in the new paradigm of work.
2. Business leaders lease space based on five– to 10-year plans. Space demand conforms to future expectations more so than a temporary measure of office utilization.

In addition, operators and investors of real estate generate returns on leased space regardless of how intensely occupiers utilize space.

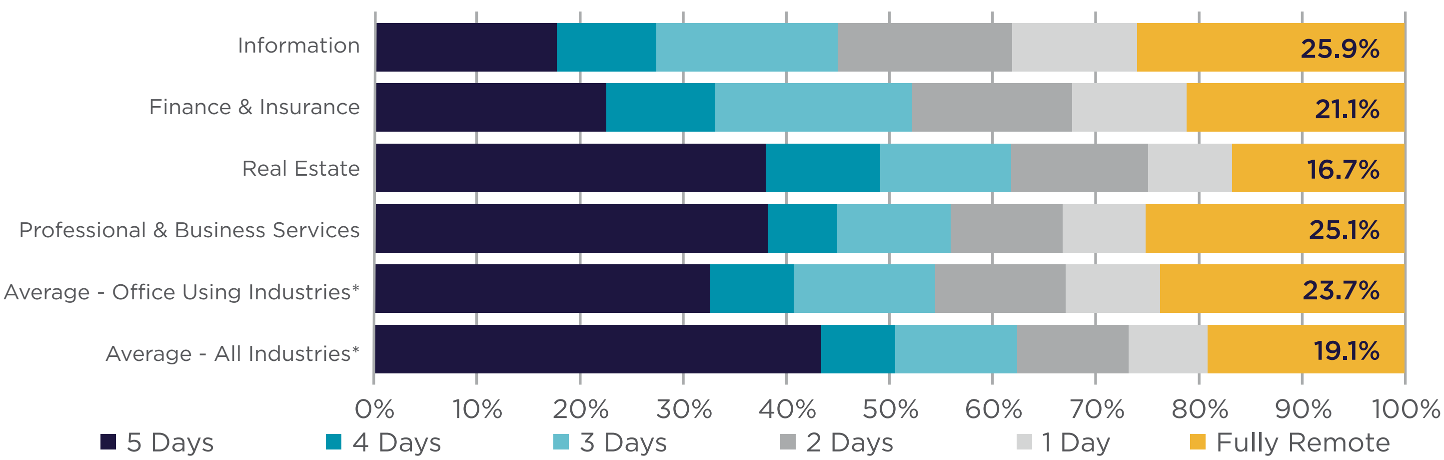
UTILIZATION: 62 IS (CURRENTLY) THE NEW 100

Applying employer plans from national surveys to the industry/employment mix of Dallas, one would expect foot traffic in office buildings to eventually stabilize at **62.1%** of pre-pandemic levels.

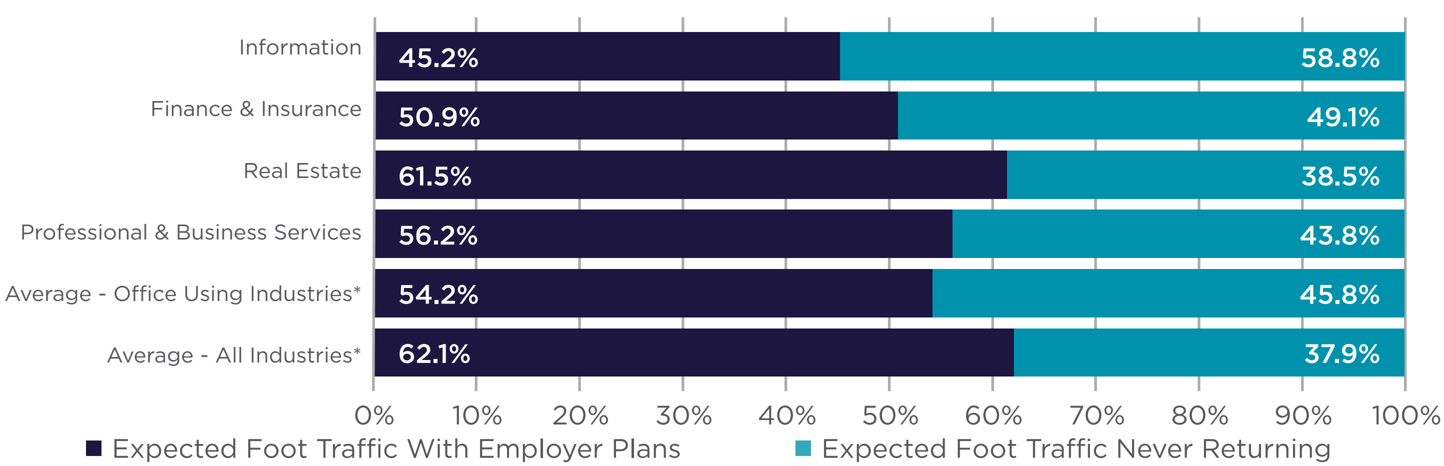
Indexing Dallas foot traffic (67.8%) to this new national benchmark indicates Dallas occupiers have outperformed national plans since mid-2023.

In essence, Dallas work patterns are more closely aligned to company's expectations for office attendance after full implementation of their plans for work. There is opportunity for further improvement if business leaders alter plans and recall more fully remote workers to the office on a hybrid or full-time basis.

EMPLOYER PLANS FOR WORK BY SECTOR



EXPECTED OFFICE UTILIZATION FROM EMPLOYER PLANS FOR WORK

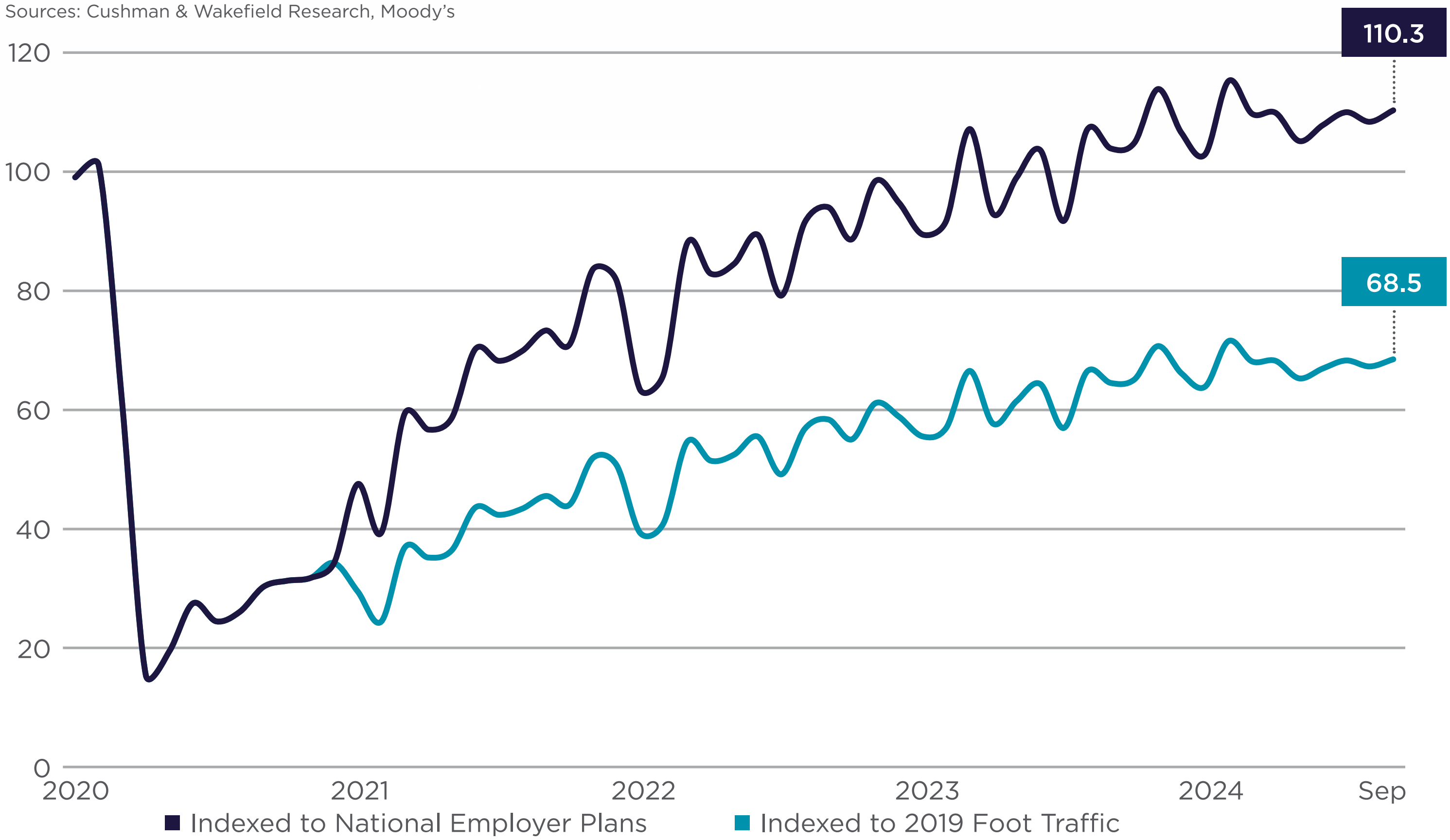


*Weighted by industry employment in key office occupations

Sources: Cushman & Wakefield Research, Lightcast, Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731

CLASS A OFFICE FOOT TRAFFIC BY MONTH

Sources: Cushman & Wakefield Research, Moody's



THINKING THROUGH OFFICE DEMAND

Although office utilization should decline approximately 38% with national employer plans, demand for office space would be less affected. Office utilization is not the only factor in a company's demand for space.

Companies must provide office space for the number of employees they expect to work in the office on a full-time or hybrid basis, regardless of present utilization overall.

Applying national employer plans to Dallas employment indicates companies would still need office space for **80.9%** of their employees.

Assuming occupiers allocate the same amount of space per employee, occupied square footage would decline **19.1%**.

DENSIFICATION

Many occupiers are also adopting denser floorplans or workplace strategies such as hotdesking that further reduce space allocated per employee by 10%-30%. Combined with reductions due to remote work, one would expect firms to downsize footprints by approximately **27%-50%** depending on the sector. According to Cushman & Wakefield Research, consolidations following the adoption of remote and hybrid work have largely followed these contours, but have been less extreme where business leaders have planned ahead for future headcount growth and/or RTO mandates.

WHEN WILL THE MARKET RETURN TO "NORMAL"?

Densification and right-sizing footprints to the new paradigm of work are chief reasons why net absorption remains negative even as Dallas firms continue hiring. For the office market, this means vacancy will continue rising until a large majority of occupiers have completed adjustments and optimized their portfolios.

Approximately 10%-12% of office space in Dallas turns over every year with lease expirations. This implies that approximately **40%-48%** of space has rolled over since the onset of the COVID-19 pandemic four years ago.

With continued rollover, a large majority of space (70%-84%) should be adapted by year-end 2027. At this point, more users will be focused on expansion than consolidation, creating strong tailwinds for absorption and reducing vacancy.

OFFICE-USING EMPLOYEES BASED ON EMPLOYER PLANS FOR WORK

Sources: Cushman & Wakefield Research, Lightcast, Barrero et al (2021)

DALLAS TO REMAIN A BRIGHT SPOT

Continued job growth will generate demand for office space even with current work patterns.

Dallas has been one of the best-performing markets for job growth since the pandemic, particularly in major office-using industries. Moody's forecasts growth of another 105,500 jobs or 8.5% over the next five years.

If hiring continues at the current share of in-office positions (81%), 105,000 new jobs would translate to 85,050 new in-office jobs. In-office employment could return to pre-pandemic levels as soon as 2028.

Assuming companies allocate 200-250 square feet per employee, job growth generates 17.0-21.3 million square feet of demand over the next five years.

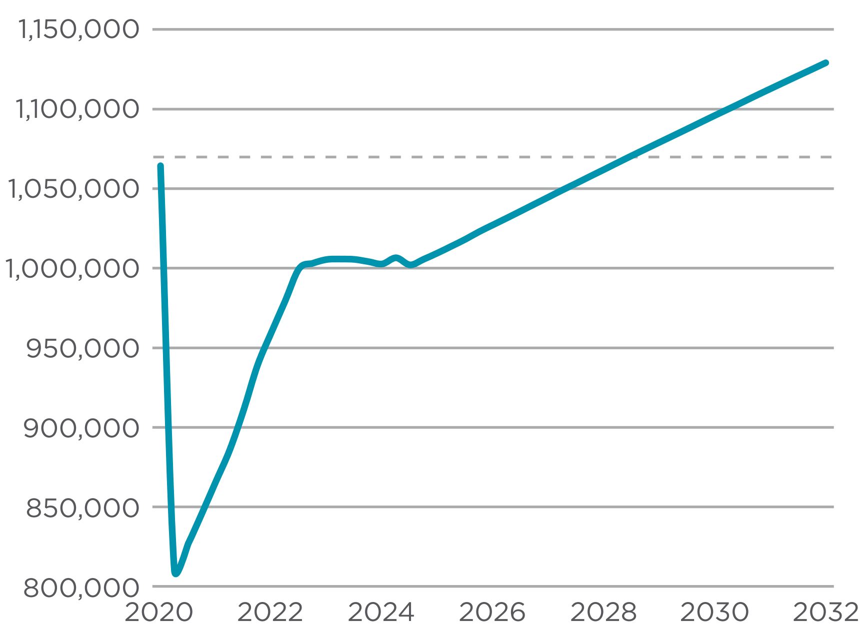
If companies implement stricter RTO mandates and recall remote workers to reach 85% in-office/hybrid arrangements, in-office employment would recover **in 2026** and generate an additional **10.5-13.1 million square feet** of demand.

Growth in Dallas is strong enough that office sector recovery is a question of 'when' not 'if'.

This demand materializes as right-sizing diminishes with rollover through 2027. As a result, absorption may rebound quickly in the next cycle, particularly for new development and amenitized Class A buildings. That stated, office market vacancy may take several additional years to recover depending on how quickly obsolete space can be repositioned to attract demand, converted to other uses, or demolished altogether.

JOB GROWTH WILL ALLOW OFFICE DEMAND TO RECOVER

Sources: Cushman & Wakefield Research, Moody's



CUSHMAN & WAKEFIELD

ANDREW MATHENY
Senior Research Manager
+1 972 763 8282
andrew.matheny@cushwake.com

ANU UPPAL
Research Analyst
+1 972 763 4188
anu.uppal@cushwake.com

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

cushmanwakefield.com