CBD STORY 2011

As of January 1, 2011

Background

- This survey is not meant to replace other, traditional market surveys. It does not replace broker, owner, or third-party reports and provides different results than those reports.
- This survey provides *insight* to *supplement* other surveys. It is meant to assist owners, leasing agents and potential investors analyze the current competitive leasing environment.

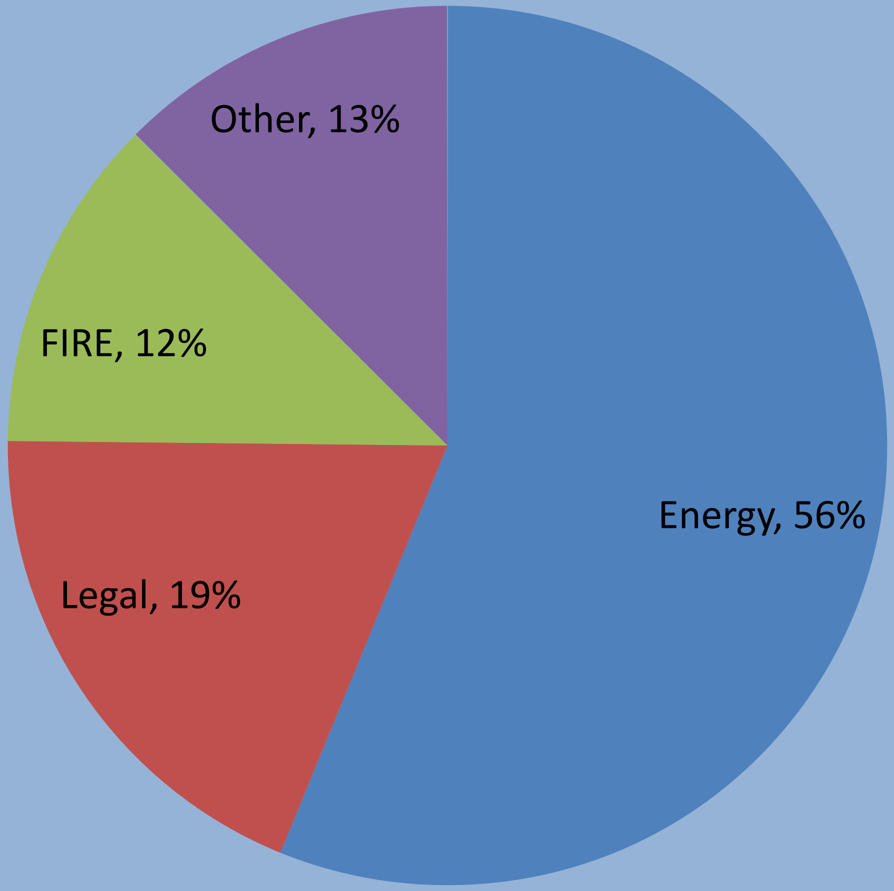
Buildings Surveyed

	Number	Rentable SF
Class A	24	24,771,609
Class B	20	9,290,633
Total	**44**	**34,062,242**

Buildings in the survey universe are those that have proven the ability to compete for tenants in the downtown Class A and B markets. The following owner-occupied buildings, therefore, are excluded: 800 Bell/Exxon, 1500 Louisiana/Chevron and El Paso Bldg.

Office Building Use by Industry

Including owner-occupied buildings



- "Energy" is very broadly defined and includes exploration and production, pipelines, utilities and chemical companies.
- Owner-occupied buildings are included in this slide – 800 Bell/Exxon, 1500 Louisiana/Chevron and El Paso
- FIRE = Finance, Insurance, Real Estate
- Other includes Waste Management, Continental Airlines, KBR and others.

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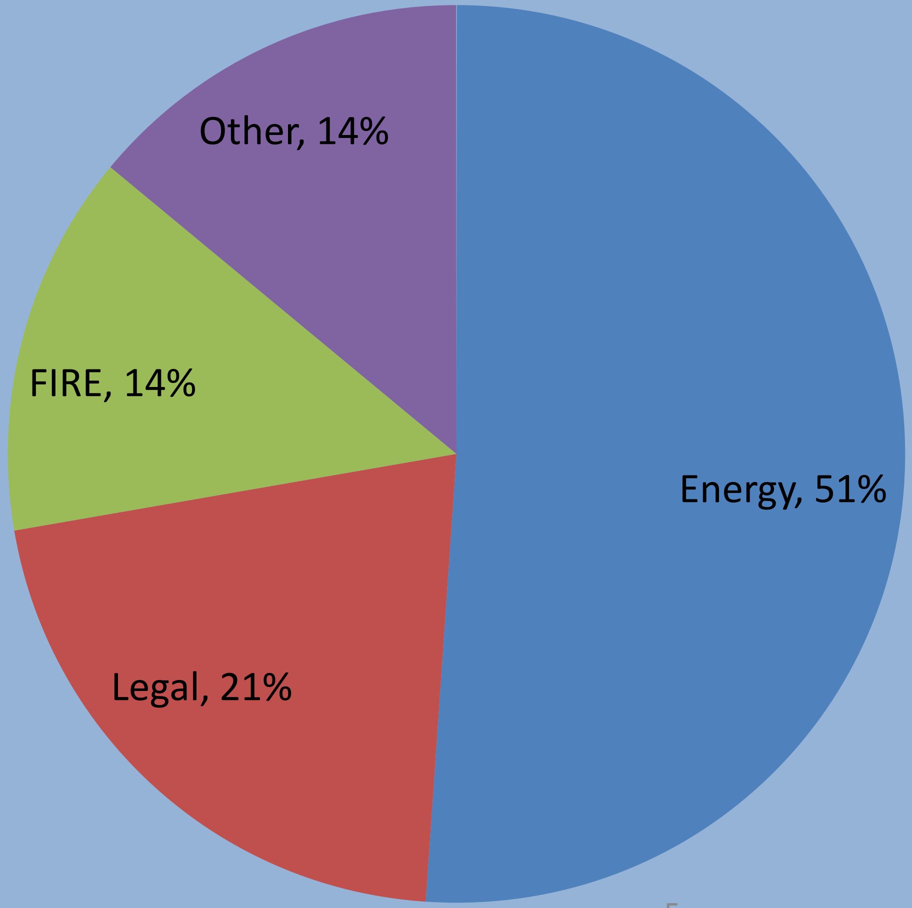

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Large Tenants in Bldg Universe

Tenants by number of floors	
One or more floors	204
Two or more floors	116
Four or more floors	53
Tenants by square footage	
20,000+ sf	204
100,000+ sf	48
200,000+ sf	26
500,000+ sf	8

10 tenants control 26% of the survey universe

20 tenants control 35% of the survey universe

55 tenants control 50% of the survey universe

Excludes Exxon's 800 Bell, Chevron's 1500 Louisiana, and El Paso

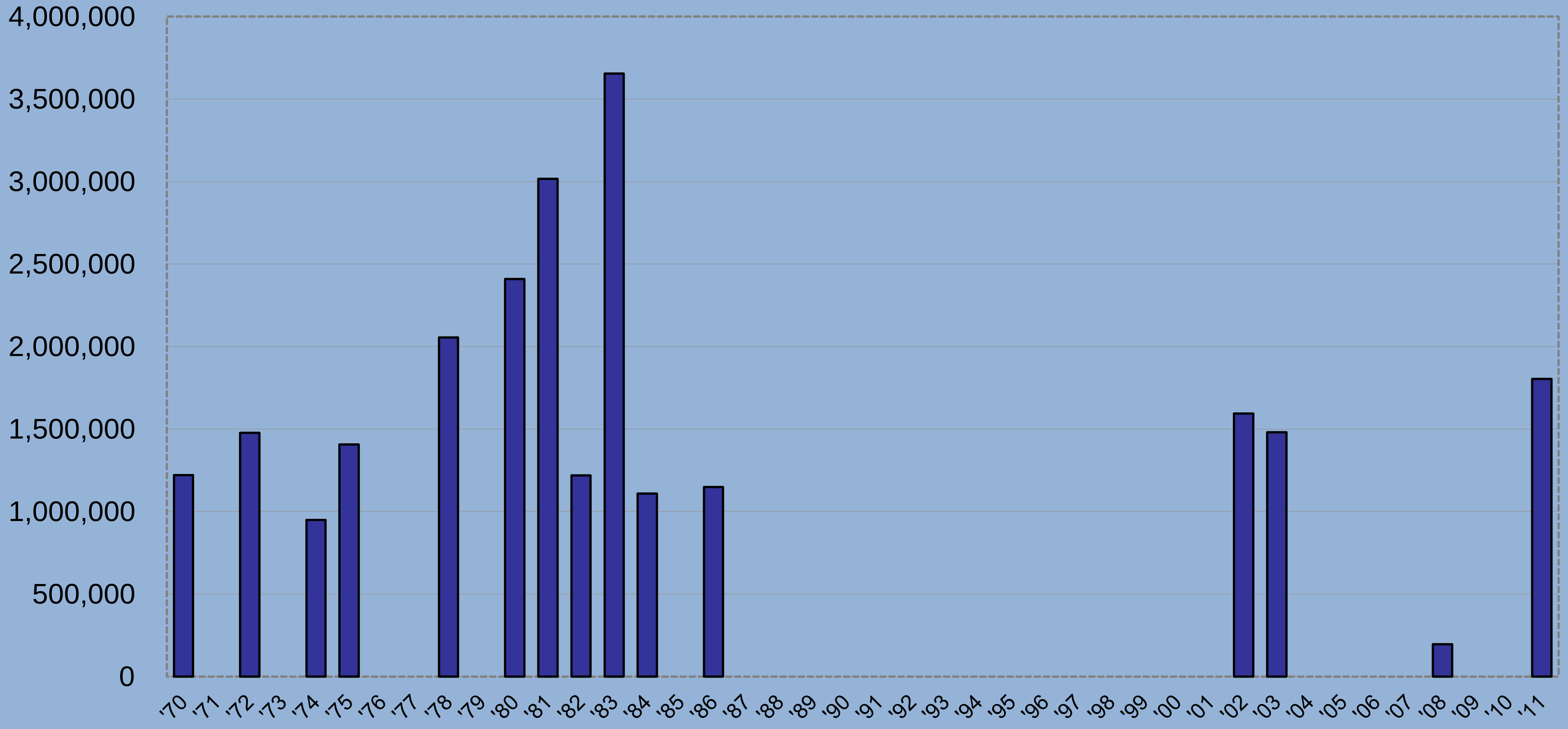
Summary Data

January 1, 2011

Space Being Marketed (Direct)	5,358,104
Percent Being Marketed (Direct)	15.7%
Space Being Marketed (Sublease)	1,002,601
2010 Absorption (Direct)	- 237,727
2010 Leases Signed (Direct)	5,064,912

Class A Buildings

Square Feet Built per Year

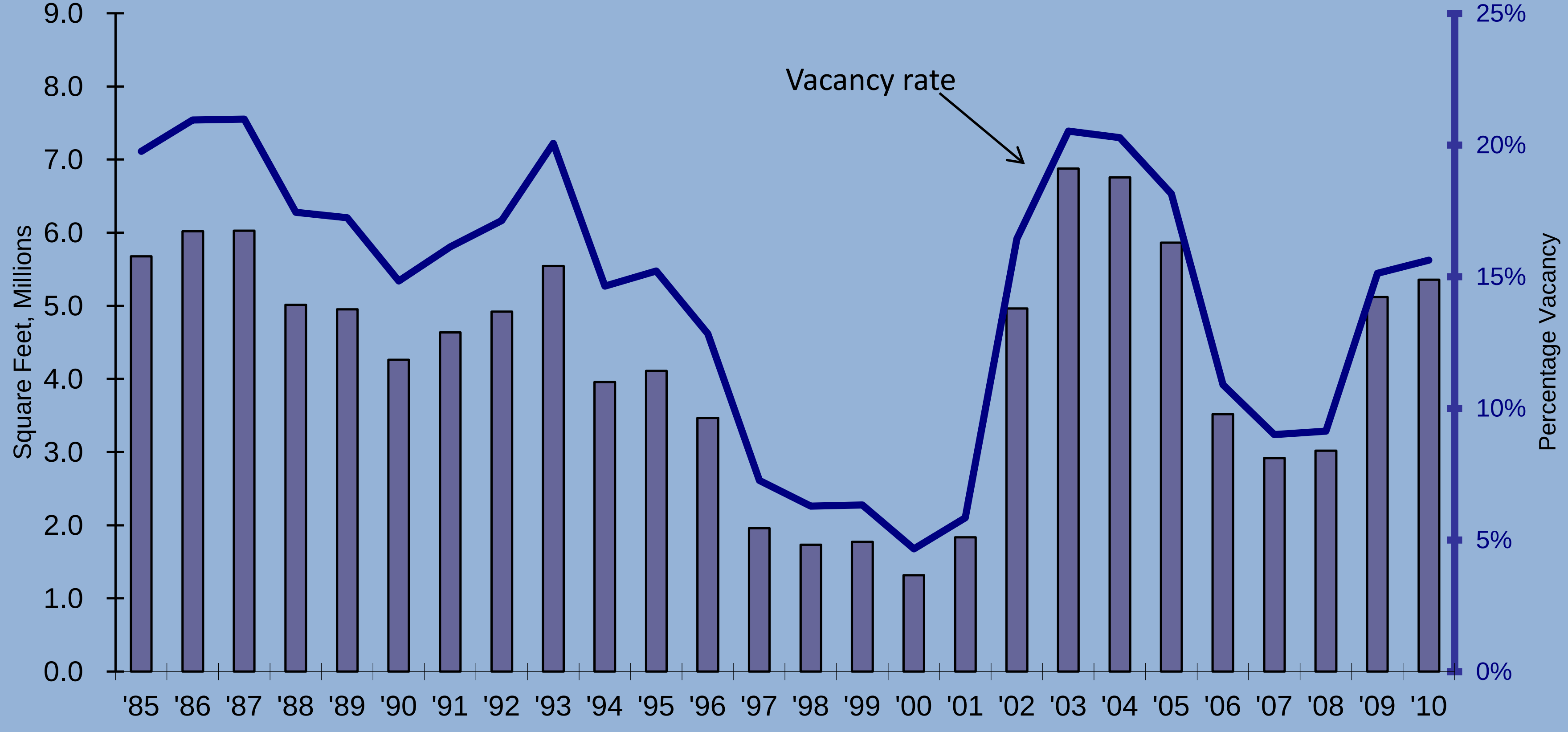


Definitions – Space Available and Vacancy Rate

- Available: Any office space being marketed, even if occupied and leased. If it is being marketed, it is competing against other space.
  - CoStar: Available space: Space that is currently being marketed as available for lease in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, avail. for sublease, or avail. at a future date.
- Rate: Direct office space being *marketed* divided by the total amount of office space in this survey universe.
  - CoStar: … the total amount of *physically* vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

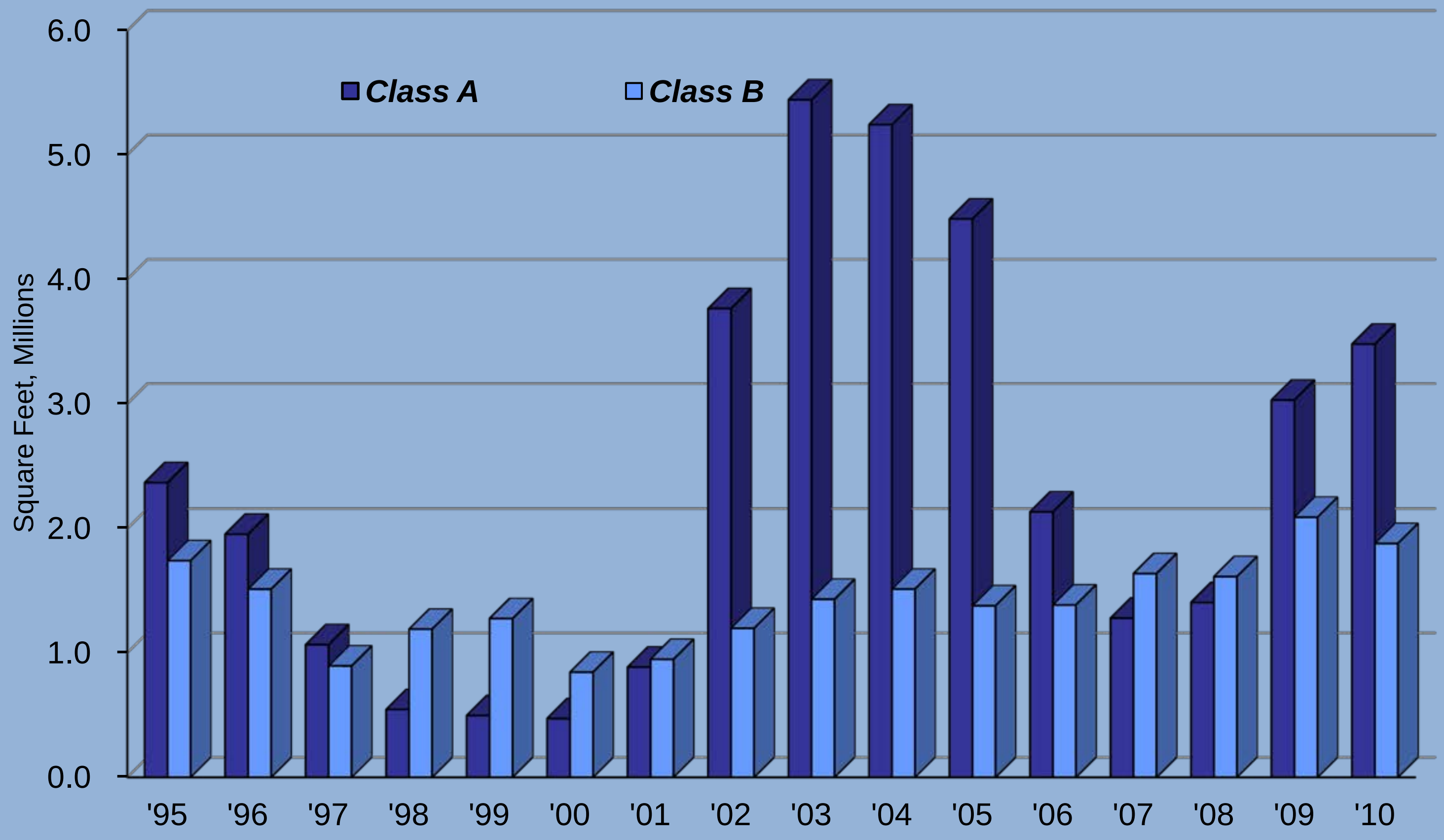
Historical Availability

Direct space being marketed



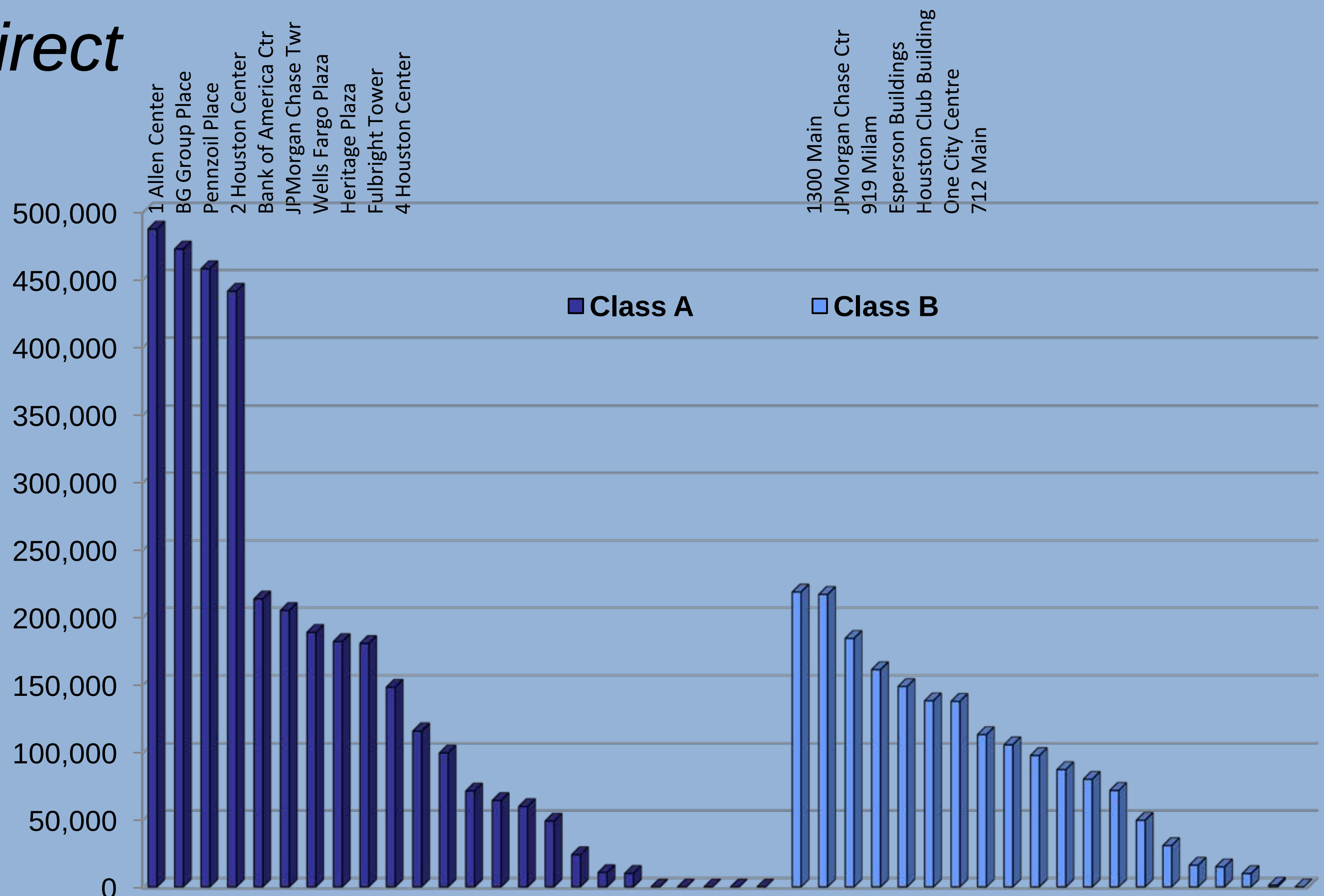
Historical Space Being Marketed

Direct



Space Being Marketed by Bldg 1/1/11

Direct



Effective Blocks of Space

June 16, 2011 *100,000 SF+*

Class	Building	Floors	Total SF	Comments
A	Pennzoil (North Tower)	12-30	396,346	Current lease exp 7/2013
A	BG Group Place	11-21	294,295	187ksf is unencumbered
A	2 Houston Center	4-10	280,181	Current lease exp 7/2013
A	2 Allen Center	17-20; 22-24	198,500	Sublease thru 1/2020
A	1 Allen Center	14-20	192,371	
B	JPMorgan Chase Center	14, 15 (most), 19	187,720	Potential to 400ksf
B	1300 Main	11, 13-18, 20	171,341	
B	919 Milam	11-16	130,000	Current lease exp 7/2013
A	JPMorgan Chase Tower	31-35	110,609	Floors 31-33 encumbered

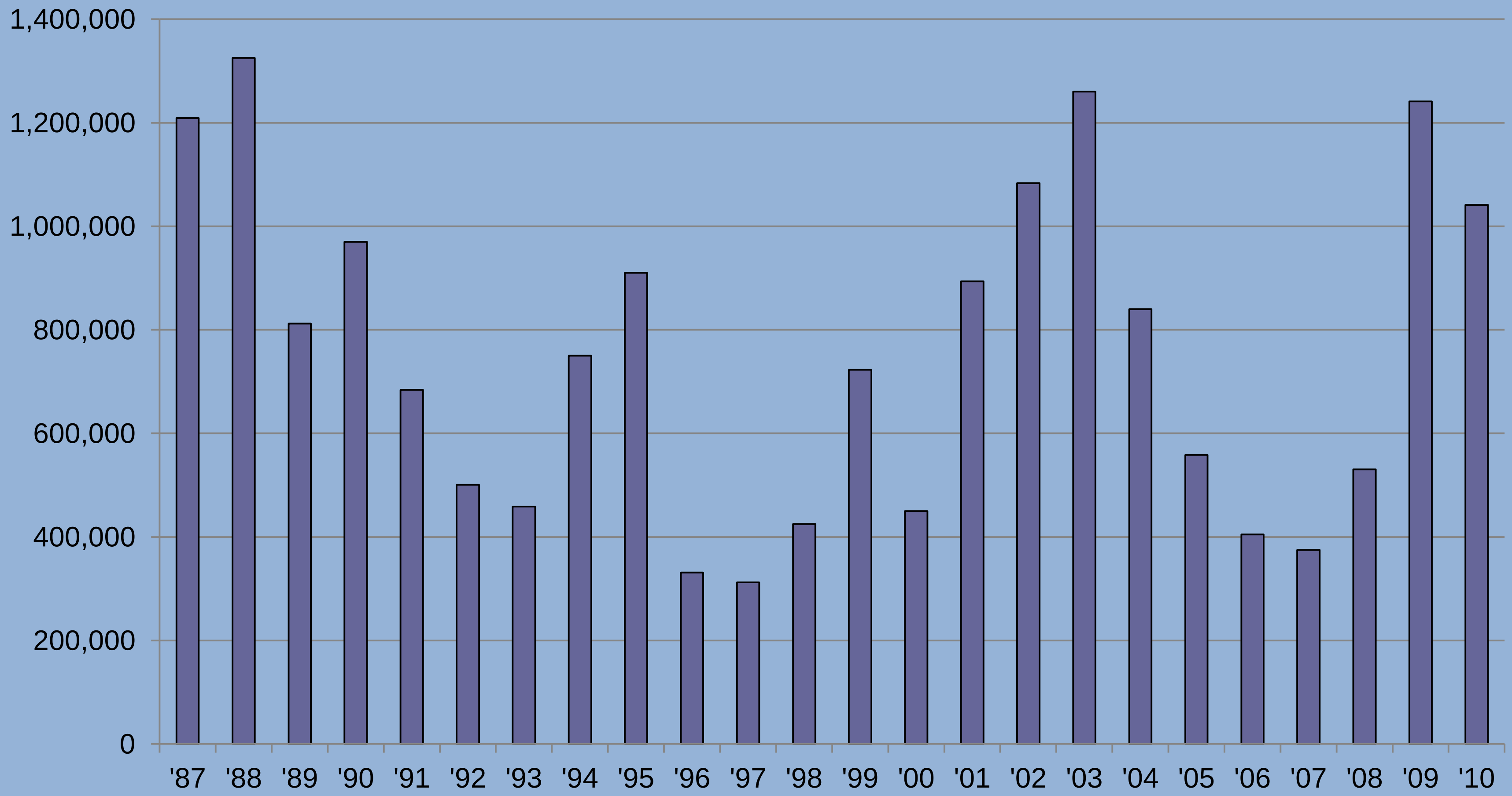
Red text indicates sublease space

Full-Floor Sublease Spaces

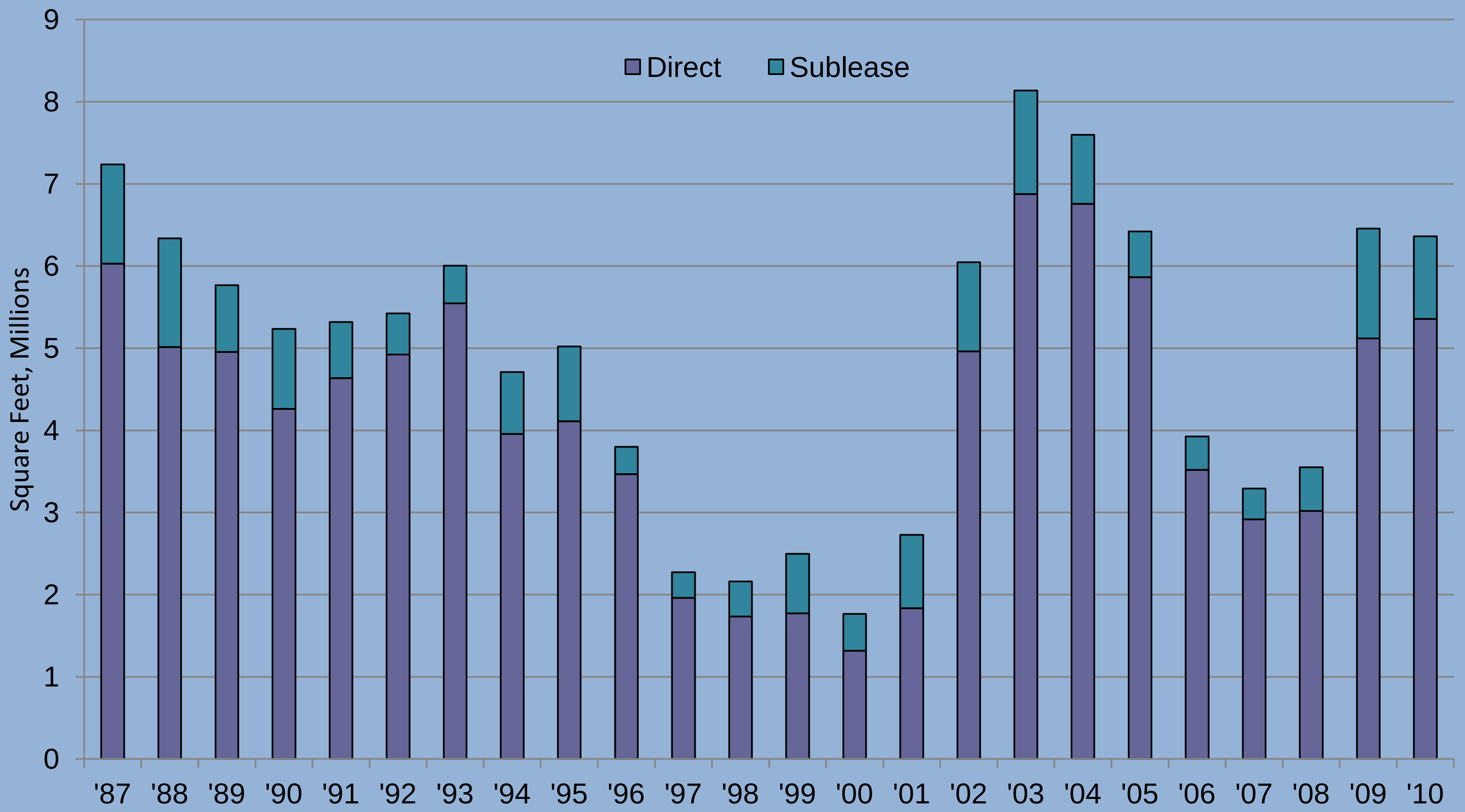
With term, not necessarily contiguous; as of 11/15/11

Class	Building	Description	Exp	SF
A	2 Allen Center	3-5, 17-20, 22-24 (10 floors) (Devon)	Jan 2020	281,755
A	3 Allen Center	5-6, 21-23 (Devon)	Jan 2020	118,593
A	Bank of America	3rd floor (BOA)	Sept 2019	38,945
A	Wells Fargo Plaza	65-67 (Dynegy)	Dec 2017	78,357
A	Wells Fargo Plaza	60-61 (Dynegy)	Dec 2017	49,917
A	Pennzoil-North	6-7 (AEI/Cheniere)	Sept 2017	40,866
A	Fulbright Tower	32, part of 33 (Coronado Energy)	Dec 2016	42,558
A	Wells Fargo Plaza	54 (Epstein Becker Green)	Mar 2014	25,680
A	Fulbright Tower	21 (Strong Pipkin)	Aug 2016	25,127
A	1600 Smith	48-49 (CRA International)	Aug 2015	22,544
B	1111 Fannin	8, 9, 11th floors (Chase)	Sept 2021	95,000
B	One City Centre	16 & 18th floors (EDS)	April 2015	42,532
B	Wedge	23 (Dominion)	Feb 2013	18,375

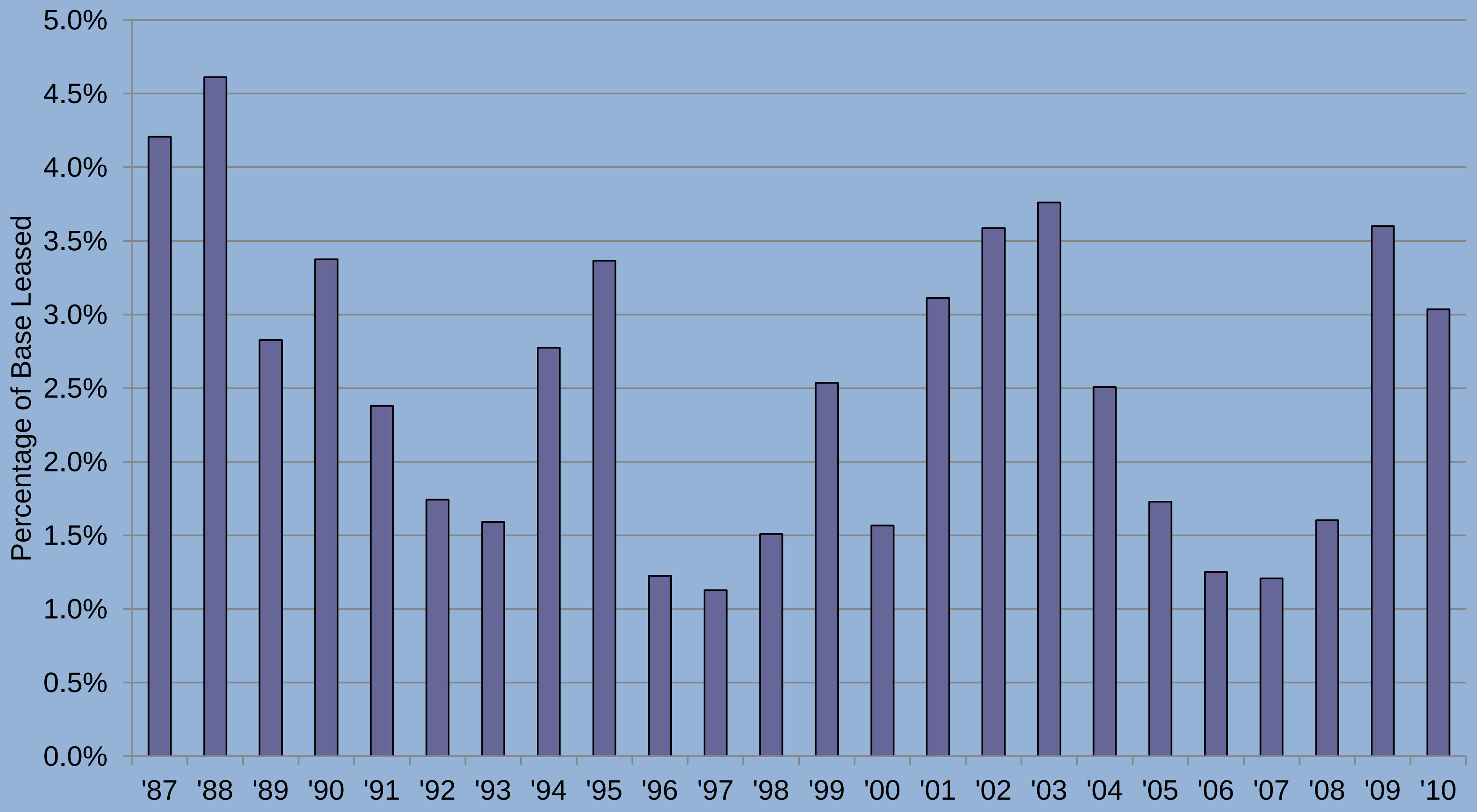
Historical Sublease Available



Historical Direct + Sublease Avail



Sublease SF vs. Survey Universe

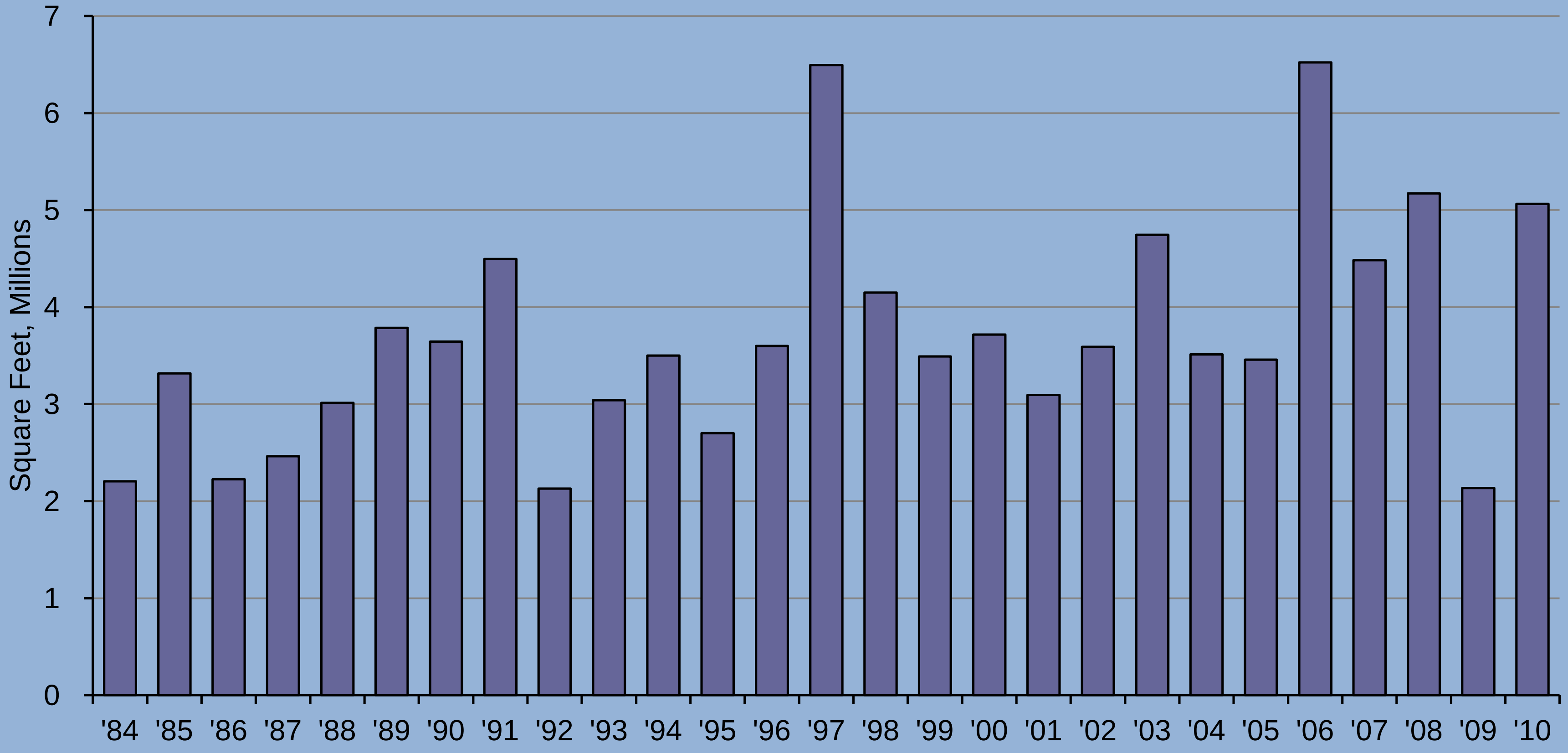


Definition – Leasing Activity

- Any lease signed during the year, no matter when occupancy is to take place.
  - CoStar: Leasing activity is the volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in planned, under construction, or under renovation buildings.

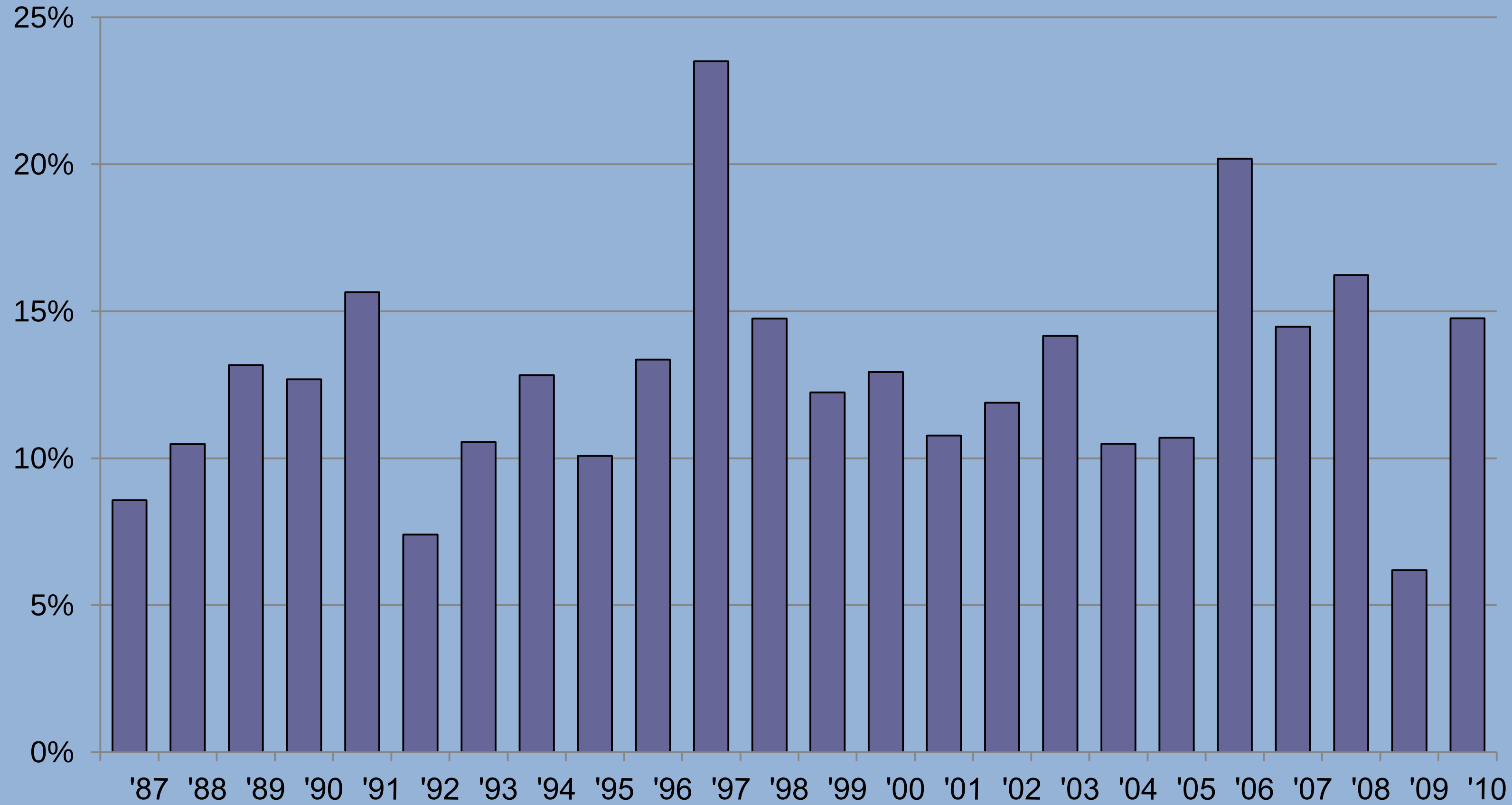
Historical Leasing Activity

Direct, All Lease Types



Historical Leasing Activity Compared to Base

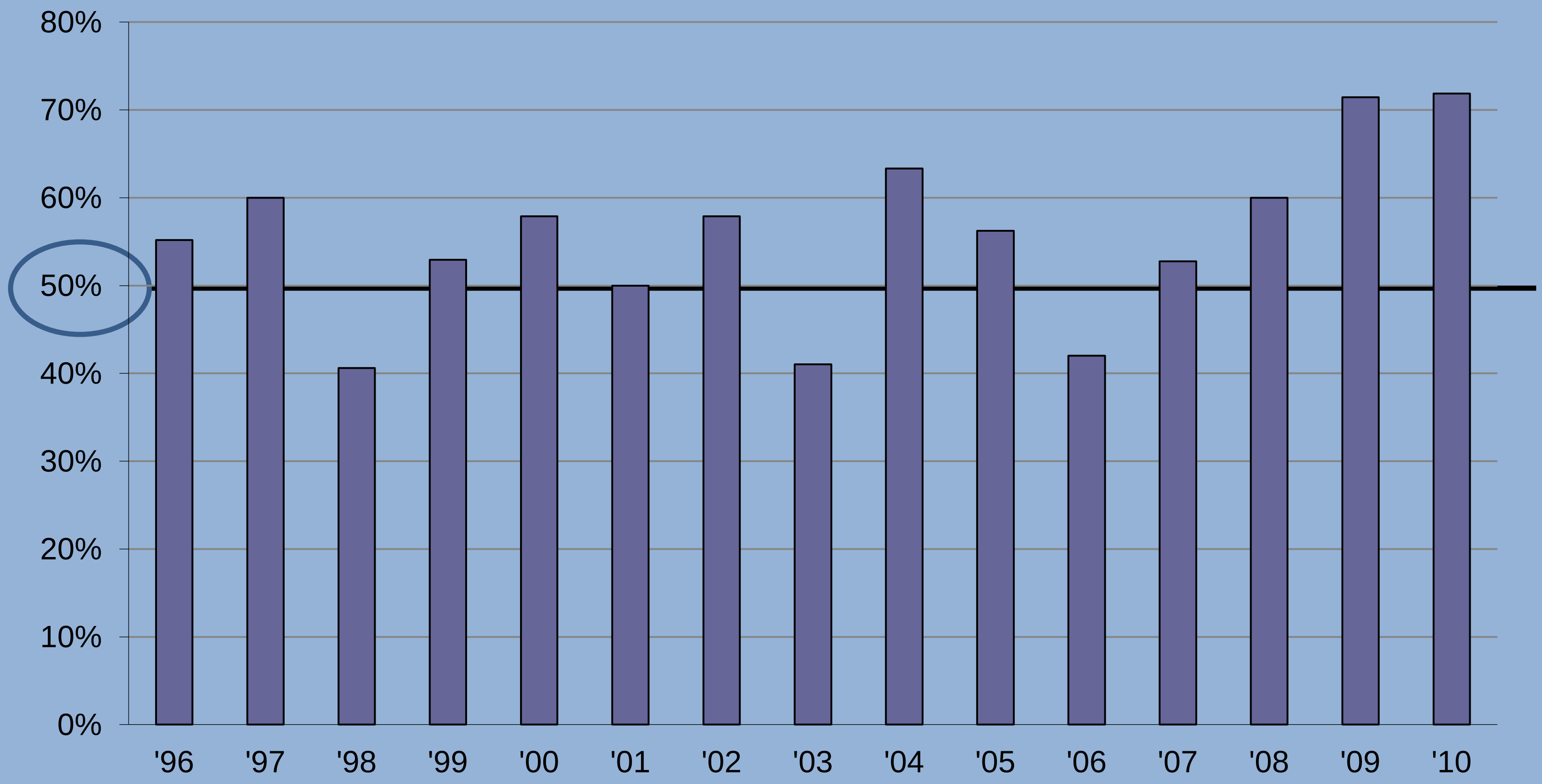
Direct



Renewals as % of Leases

Direct

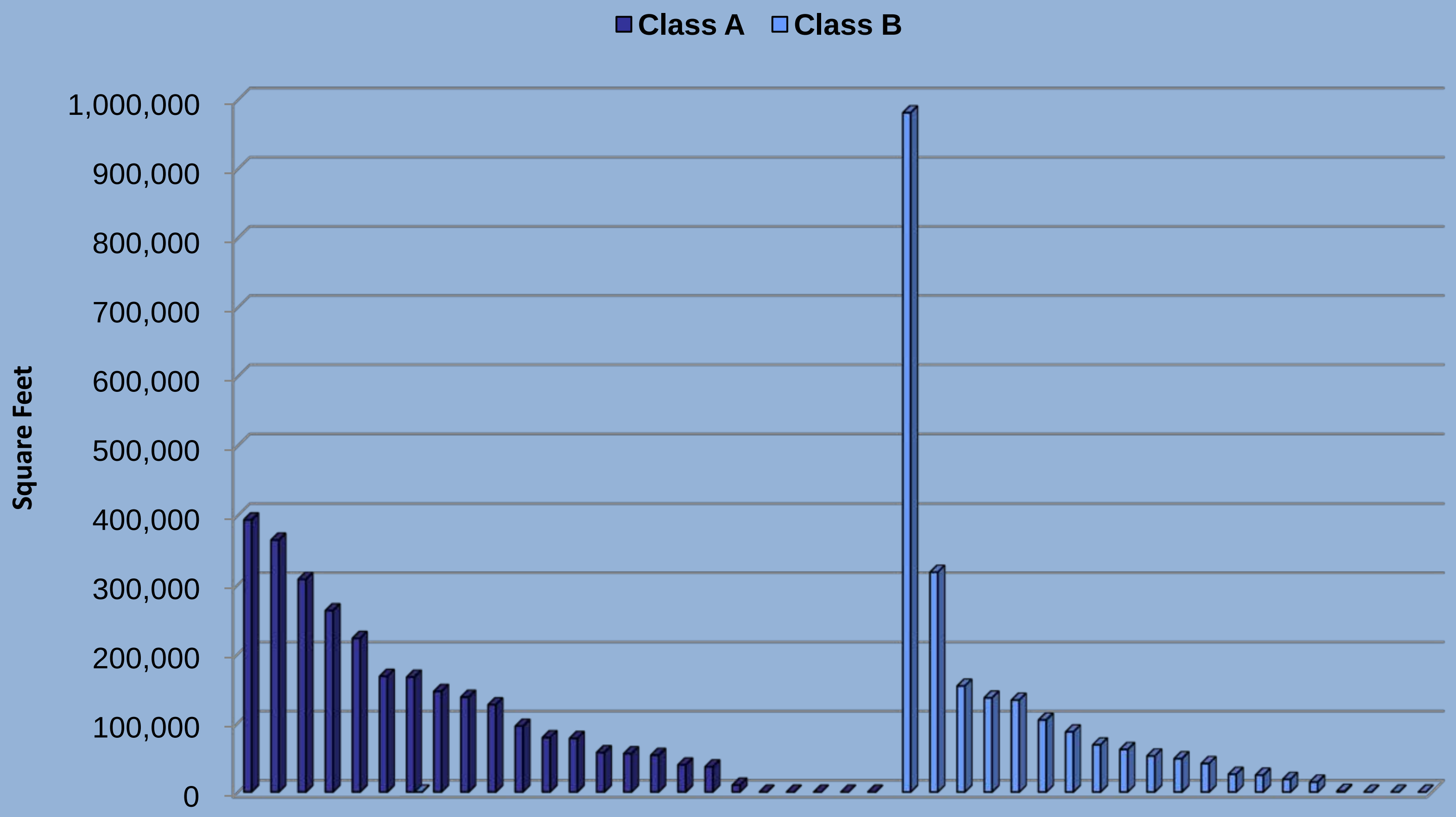
Renewals
Renewals + #New



Tenants tend to renew rather than move

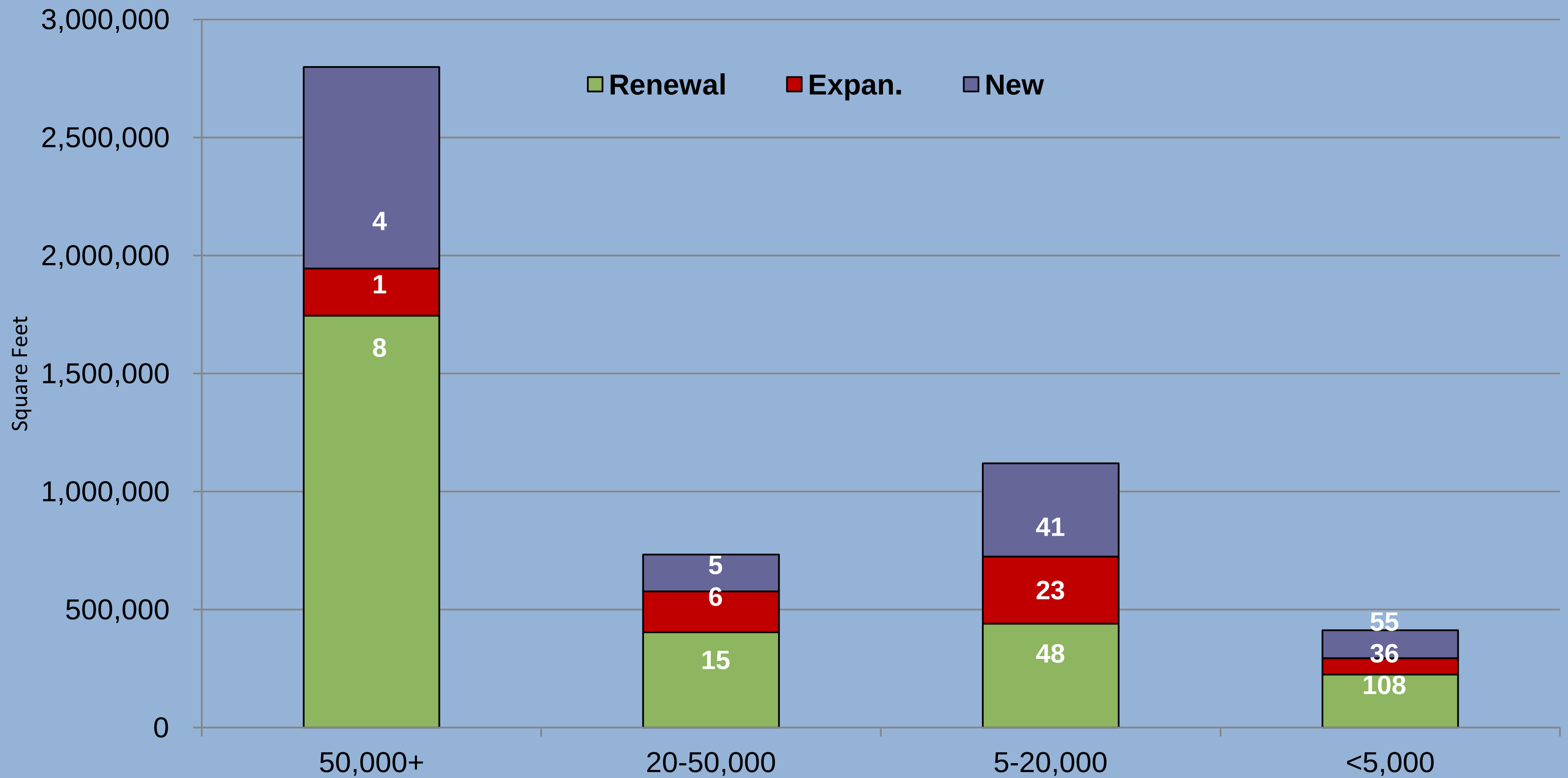
Leases Signed by Building

Direct



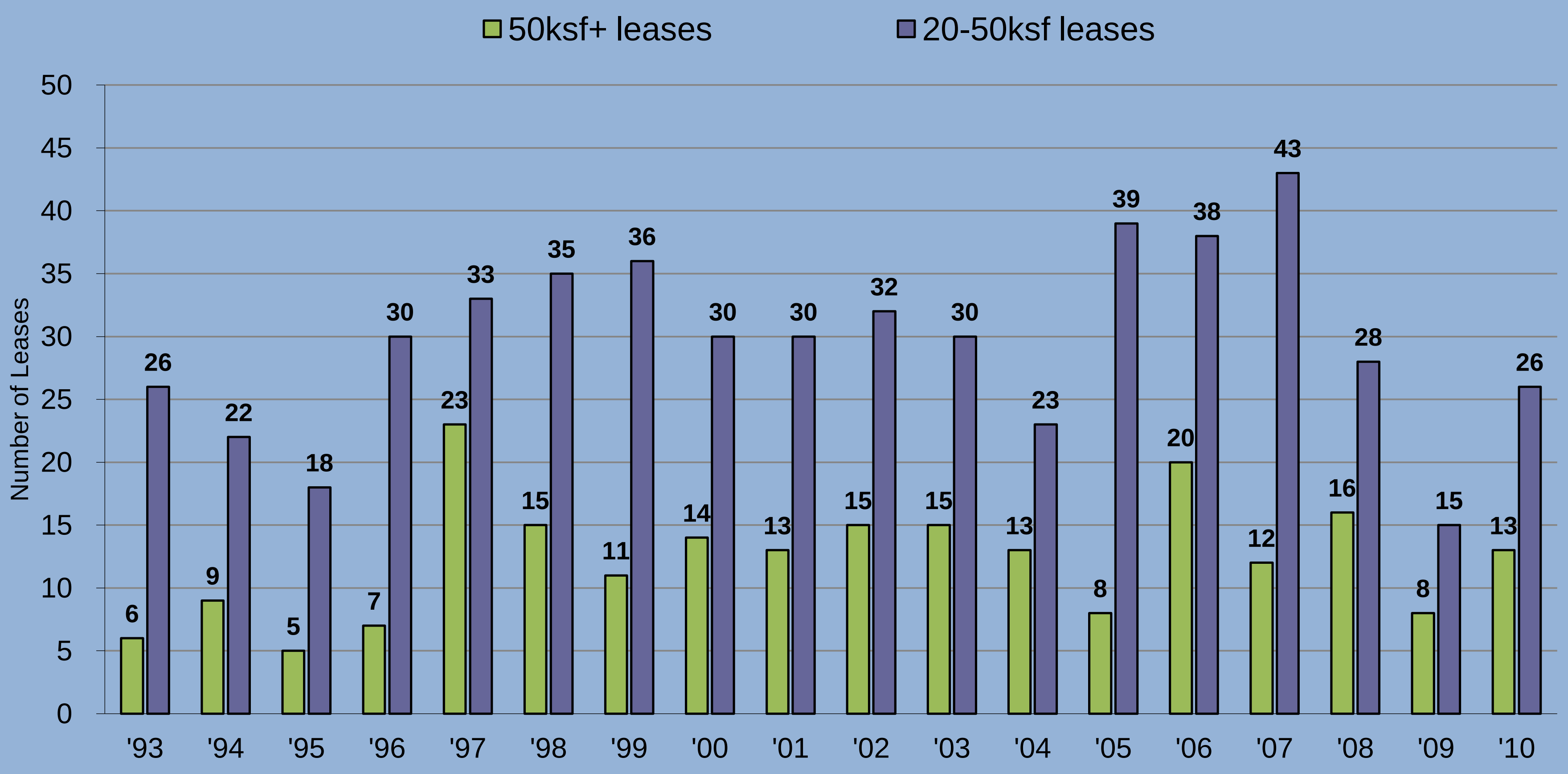
Lease Transactions

Direct



Number of Large Transactions

Direct

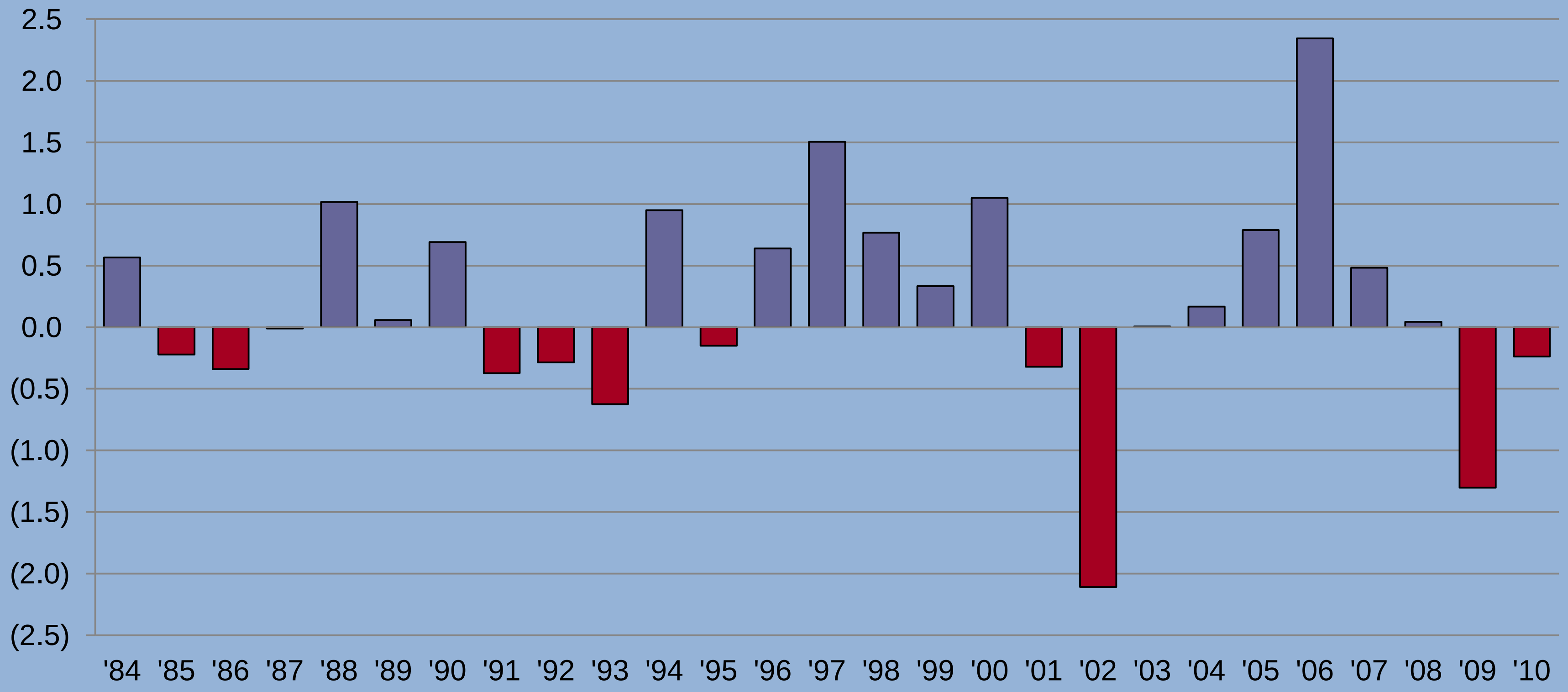


Definition – Net Absorption

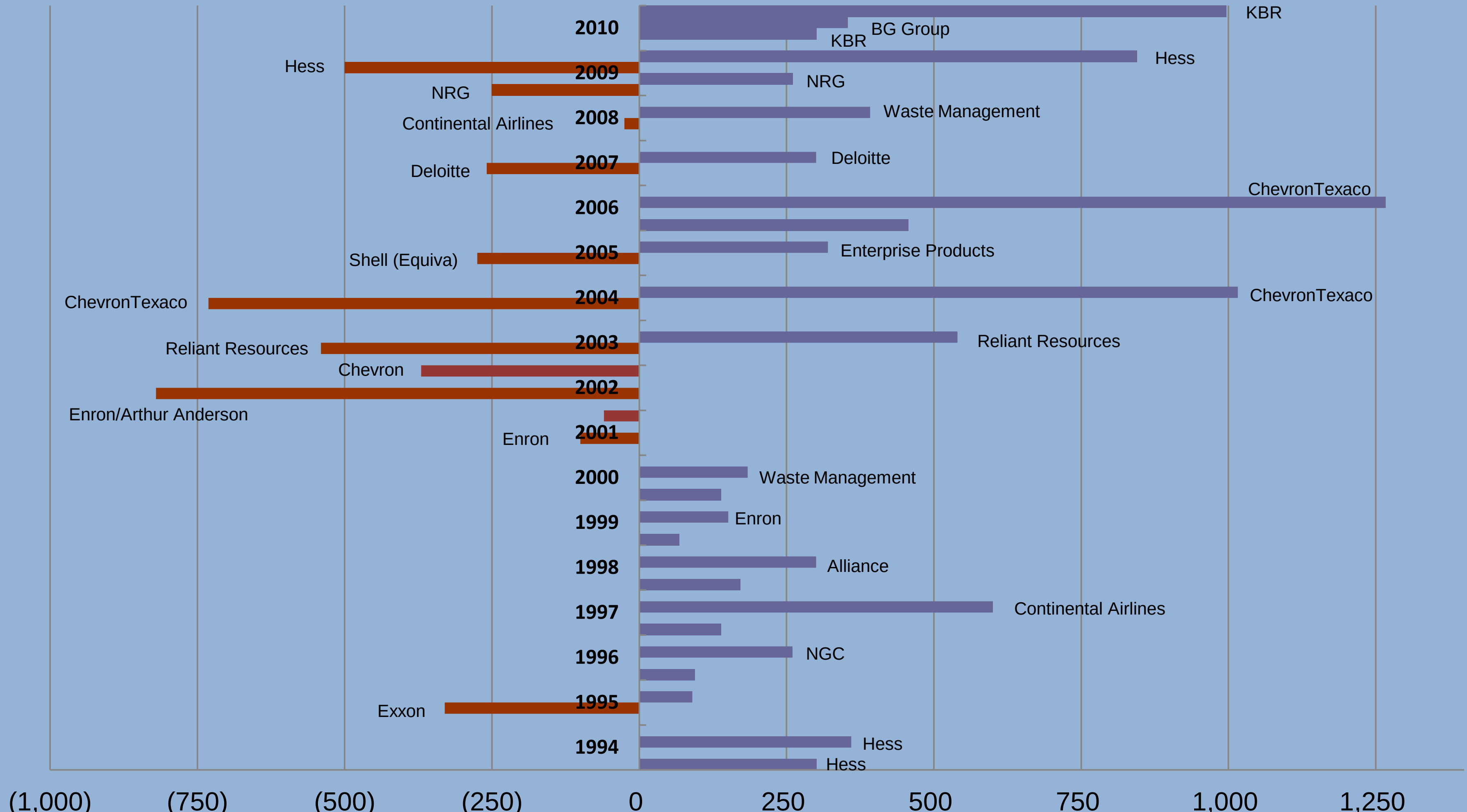
- The difference in aggregate space being marketed at the beginning vs end of the year with the *same* buildings.
- Absorption is tied to leasing activity
- Occupancy/vacancy of a new building does not affect the number. Thus, when a building is added to the survey universe and a downtown tenant is moving to that building, that tenant's space is going to show up as negative absorption.
  - Hess' decision to relocate and expand created -500ksf absorption in 1 Allen in the 2009 data, but not positive in Hess Tower, even though Hess really is creating net +333ksf.
  - KPMG's leaving 128ksf in BOAC created -128ksf absorption in the 2009 data, even though there is an overall net -30ksf with the move. Positive absorption doesn't show in BG Group Place because building wasn't in the survey universe at the time of the lease.
  - CoStar: Net absorption is the net change in *occupied* space over a given period of time.

Historical Change in Inventory

In same buildings only; direct

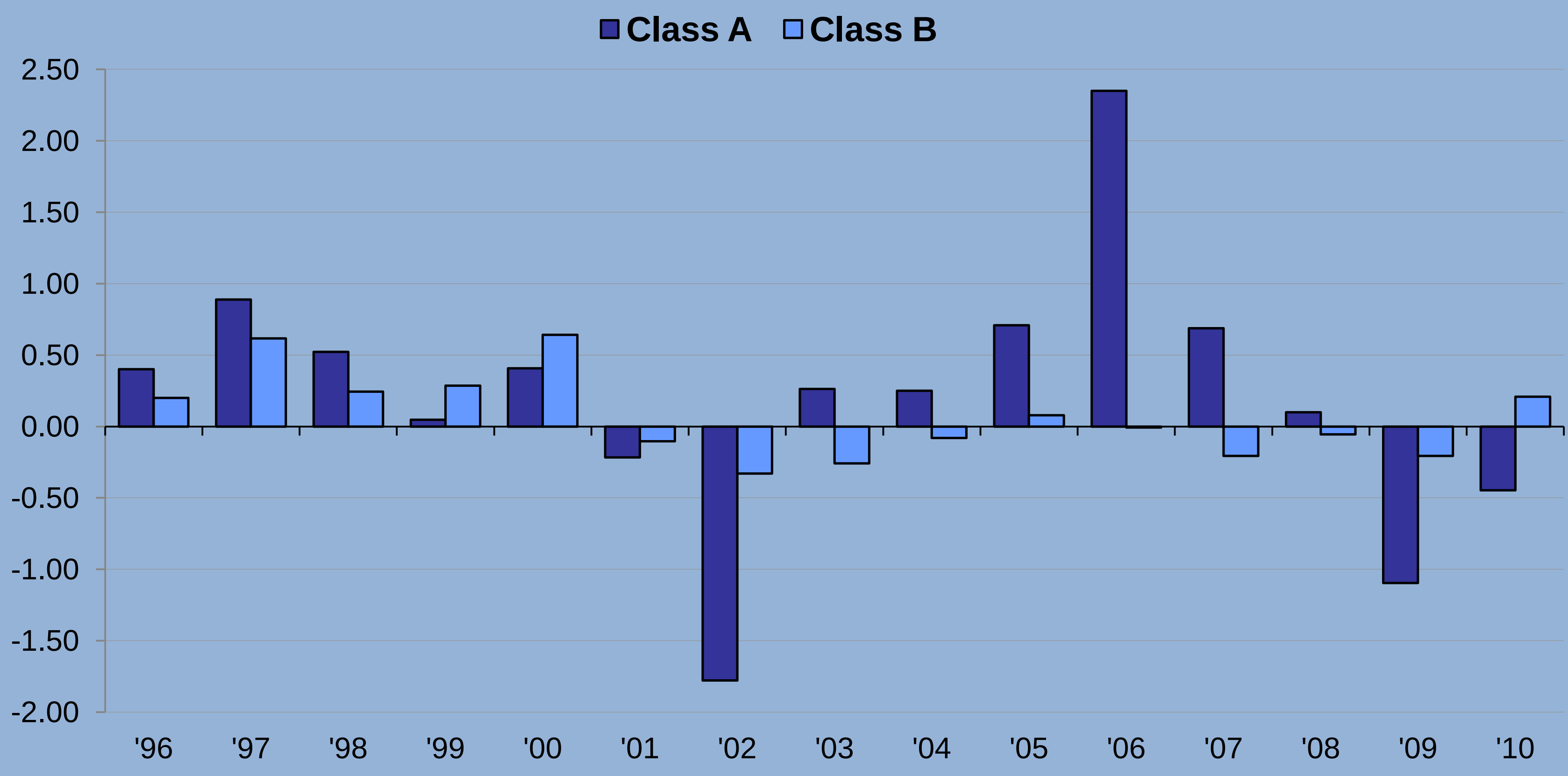


Major Events

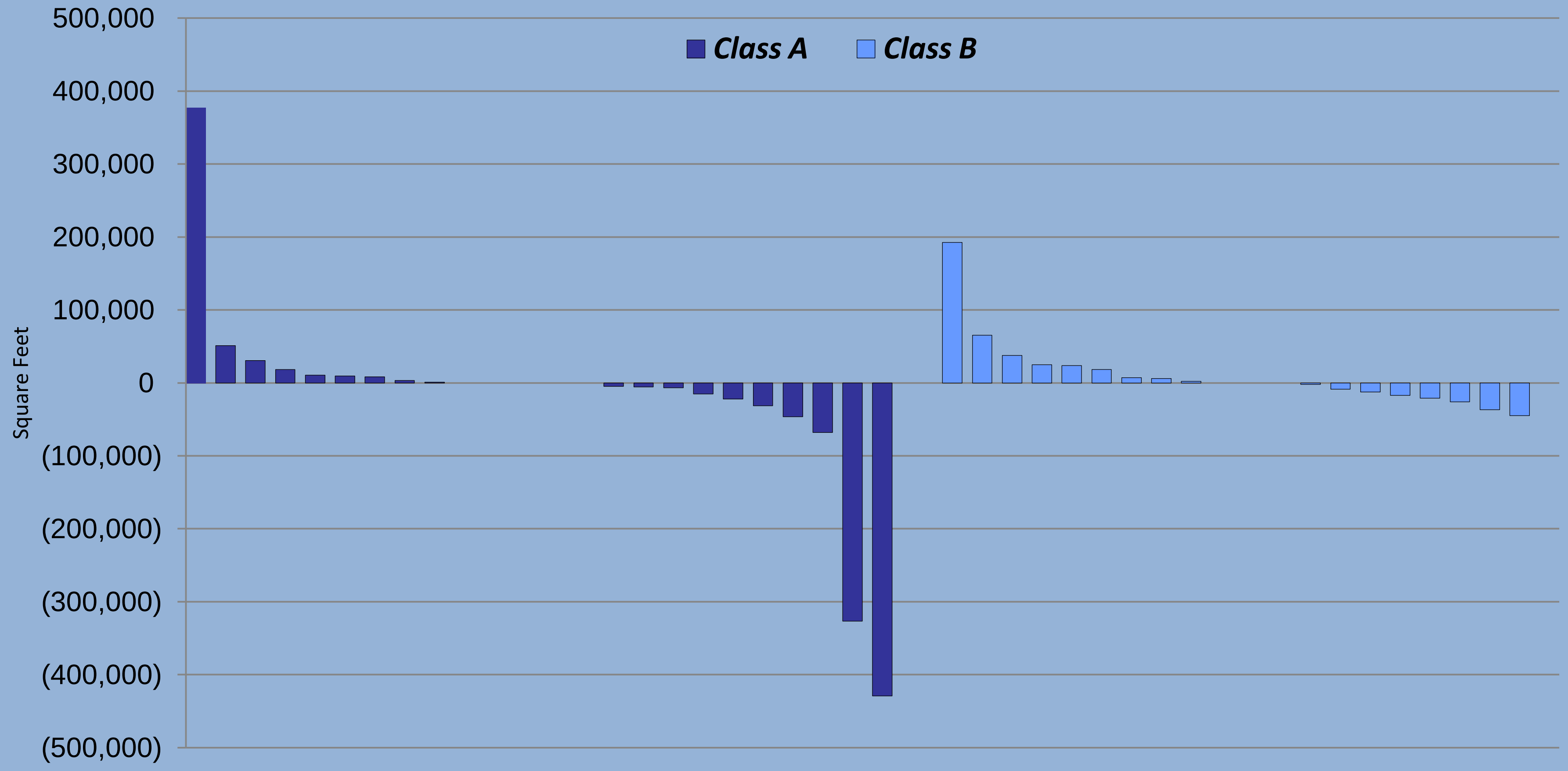


Absorption – Building Class

Direct



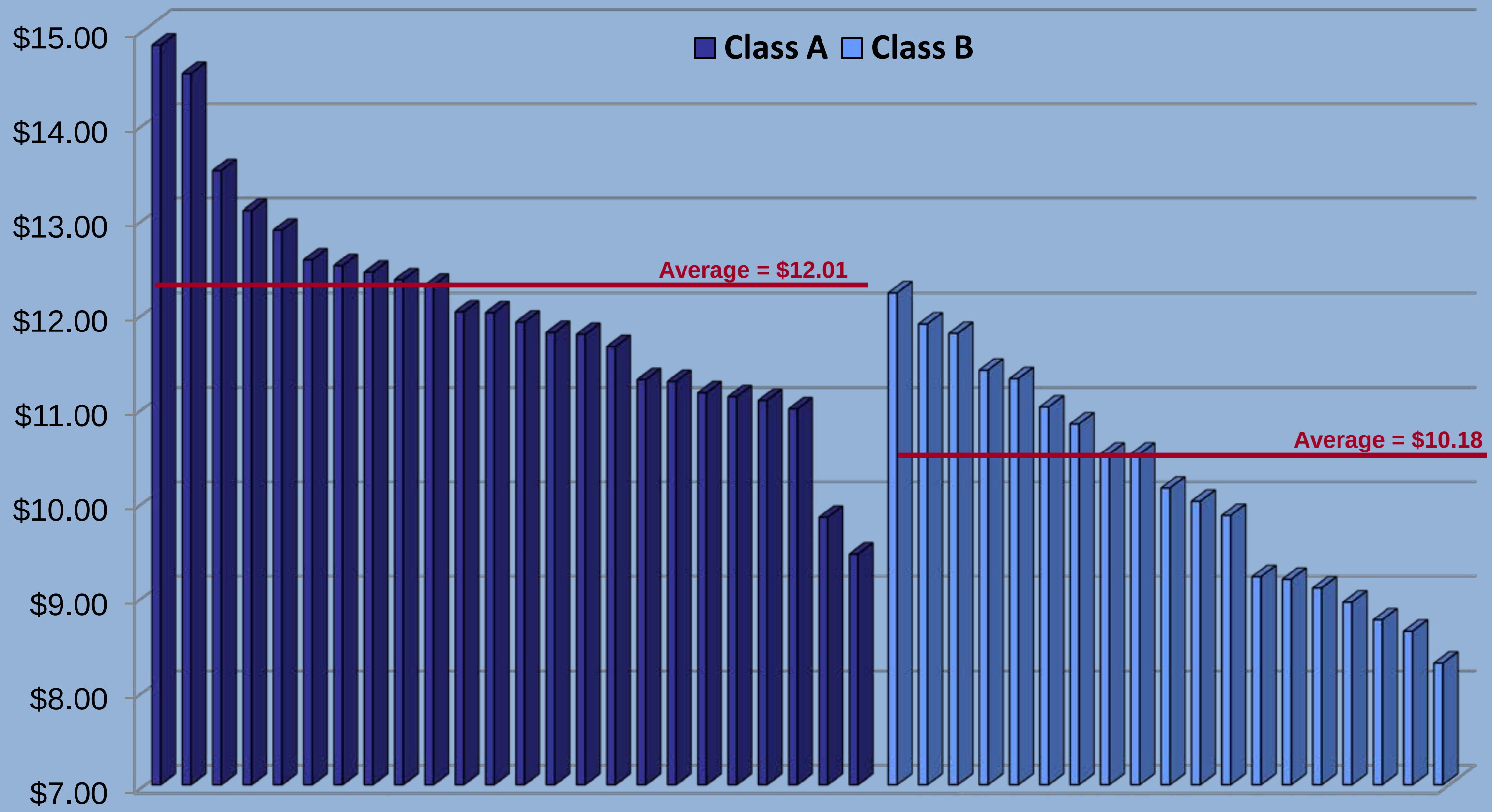
Absorption by Building



3 tenants (BG Group, Shell & KBR) determined the 5 longest bars here.

Operating Expense Projections for 2011

Estimates as of 1/1/11



Historical Operating Expense Projections

Factors Affecting 2011+

- Chevron reduced space from 461ksf to 311ksf in 1600 Smith – was swing space
- Shell is trying to decrease space by 15-20%. Expected to exit Pennzoil Plaza, 437,000 sf. PZL and 2 Houston leases exp 2013.
- Continental Airlines will reduce employees by half to 1,500. Has 600ksf in leases between 1600 Smith and 600 Jefferson, expire 2014. Announced it is not renewing 143ksf. Probably more later.
- Devon still has 281,755sf sublease in 2AC and 138,000sf sublease in 3AC on the market. Exp 2020
- Dynegy subsidiaries have gone to Chapter 11, and Dynegy itself may, too. Has 207ksf/8 floors, put 128ksf/5 floors on sublease market (expires 2017)

Beyond 2012

- Exxon to vacate 800 Bell, which isn't in the survey universe. Potential to decrease later in 1301 Fannin.
- No new buildings – earliest delivery early 2015.

Contact

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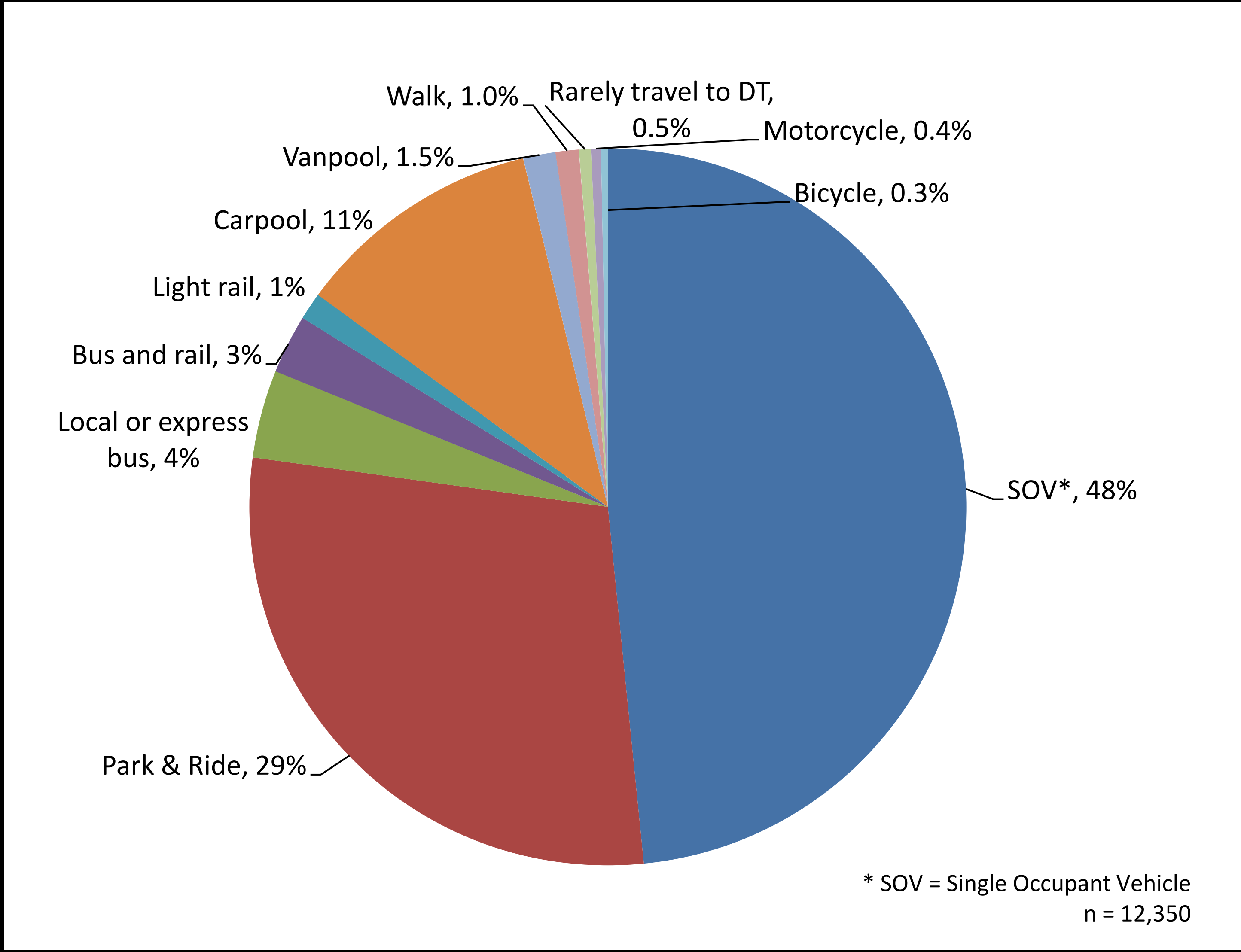
Access



Walk, 1.0%
Rarely travel to DT, 0.5%
Motorcycle, 0.4%
Vanpool, 1.5%
Bicycle, 0.3%
Carpool, 11%
Light rail, 1%
Bus and rail, 3%
Local or express bus, 4%
SOV*, 48%
Park & Ride, 29%
* SOV = Single Occupant Vehicle
n = 12,350