

CBD STORY 2012

As of January 1, 2012



Background

- This survey does not 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 has been designed to assist owners, leasing agents and potential investors analyze the current competitive leasing environment.
- Buildings in the survey universe are those that have proven the ability to compete for tenants in the downtown Class A and B markets.

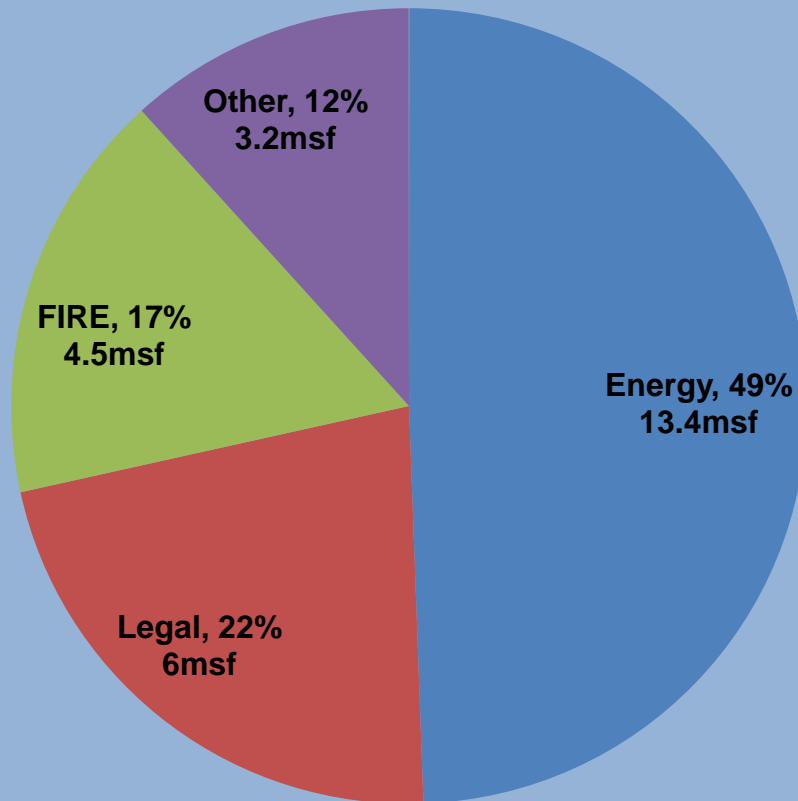
Buildings Surveyed

	Number	Rentable SF
Class A	23	23,674,917
Class B	19	8,940,084
Total	42	32,615,001

The following are owner-occupied buildings and thus are **excluded** from the survey universe:
Exxon's 800 Bell, Chevron's 1500 Louisiana and 1400 Smith and the El Paso Bldg = 4.6 msf total.
1400 Smith and the Houston Club Bldg were **removed and excluded** from the 2011 data = 1.5 msf.

Office Building Use by Industry

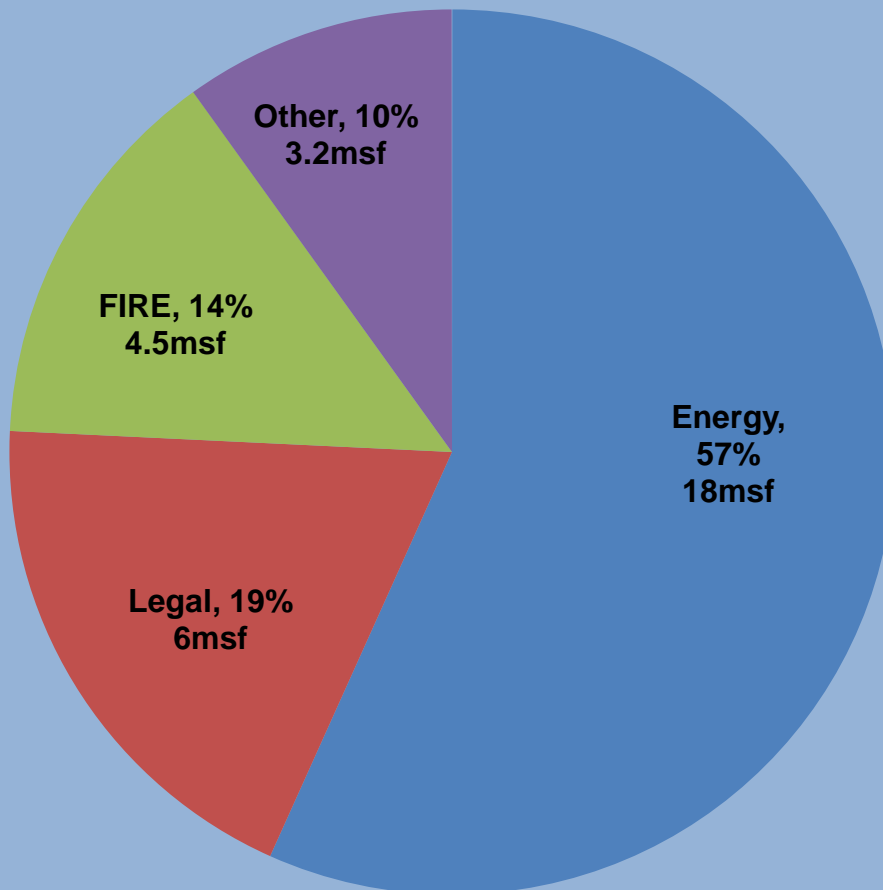
Excluding owner-occupied buildings



- 27.1 million sf of occupied space in survey universe.
- Energy is broadly defined and includes exploration and production, pipelines, utilities and chemical companies.
- Owner-occupied buildings are excluded: 800 Bell/Exxon, 1500 Louisiana/Chevron, 1400 Smith/Chevron and El Paso.
- FIRE = Finance, Insurance, Real Estate.
- “Other” includes companies such as Waste Management and United Airlines.

Office Building Use by Industry

Including owner-occupied buildings



- 31.7 million sf of occupied space in survey universe (including 4.6 msf in owner-occupied bldgs)
- Energy is 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, 1400 Smith/Chevron and El Paso.
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Large Tenants in Bldg Universe

Tenants by number of floors

One or more floors	238
Two or more floors	124
Four or more floors	58

Tenants by square footage

20,000+ sf	199
100,000+ sf	52
200,000+ sf	24
500,000+ sf	5

10 tenants control 22% of the survey universe

20 tenants control 32% of the survey universe

64 tenants control 50% of the survey universe

Large Tenants in Downtown

Tenants by number of floors

One or more floors	238
Two or more floors	124
Four or more floors	59

Tenants by square footage

20,000+ sf	199
100,000+ sf	53
200,000+ sf	25
500,000+ sf	8

10 tenants control 35% of downtown's A&B space

20 tenants control 45% of downtown's A&B space

27 tenants control 50% of downtown's A&B space

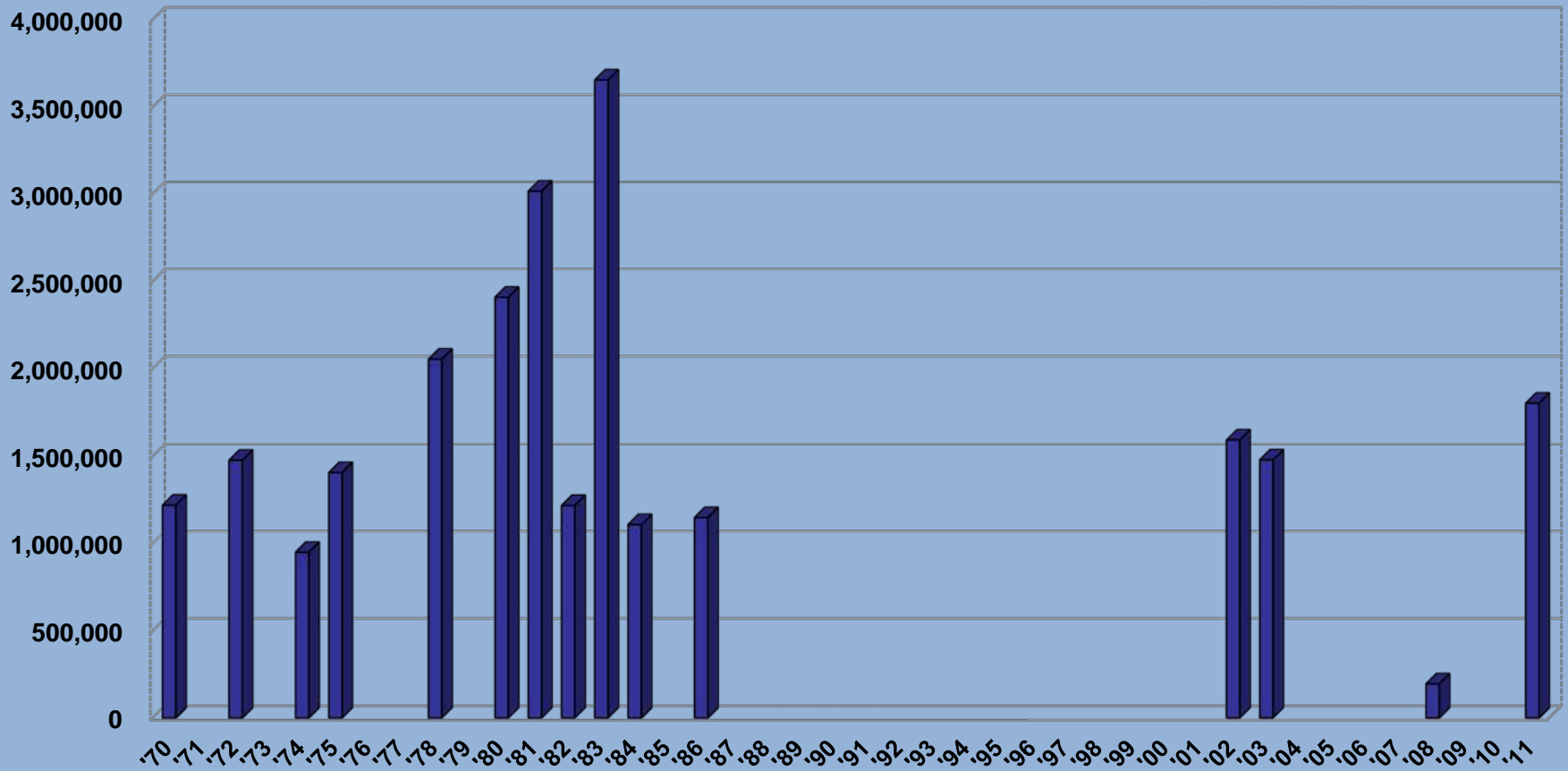
Summary Data

January 1, 2012

Survey Universe	32,615,001
Space Being Marketed (Direct)	5,043,644
Percent Being Marketed (Direct)	15.5%
Space Being Marketed (Sublease)	550,490
2011 Absorption (Direct)	30,898
2011 Leases Signed (Direct)	6,139,101

Class A Buildings

Square Feet Built per Year

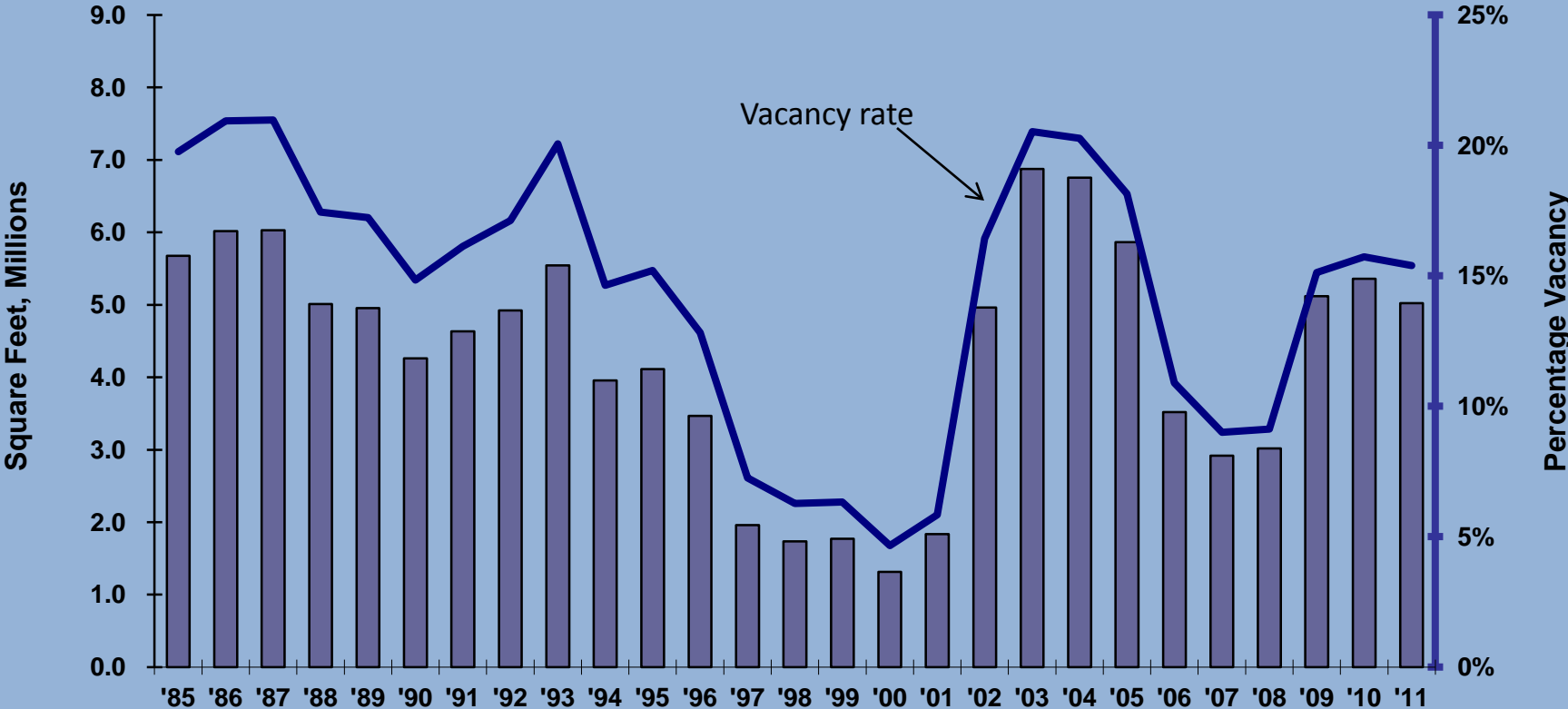


Definitions – Space Available and Vacancy Rate

- 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 – if it's reported to them as such.
- 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.

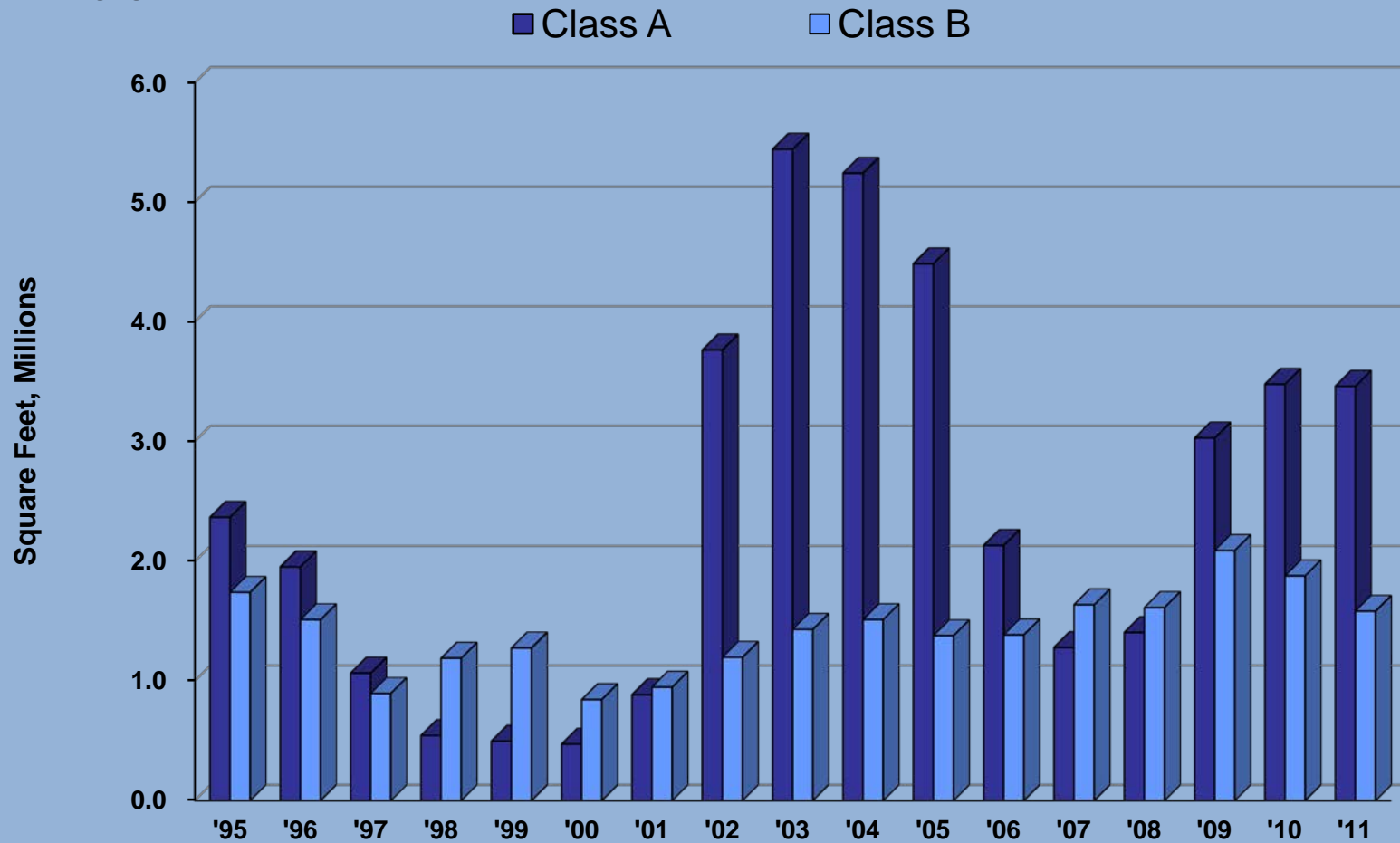
Historical Availability

Direct space being marketed

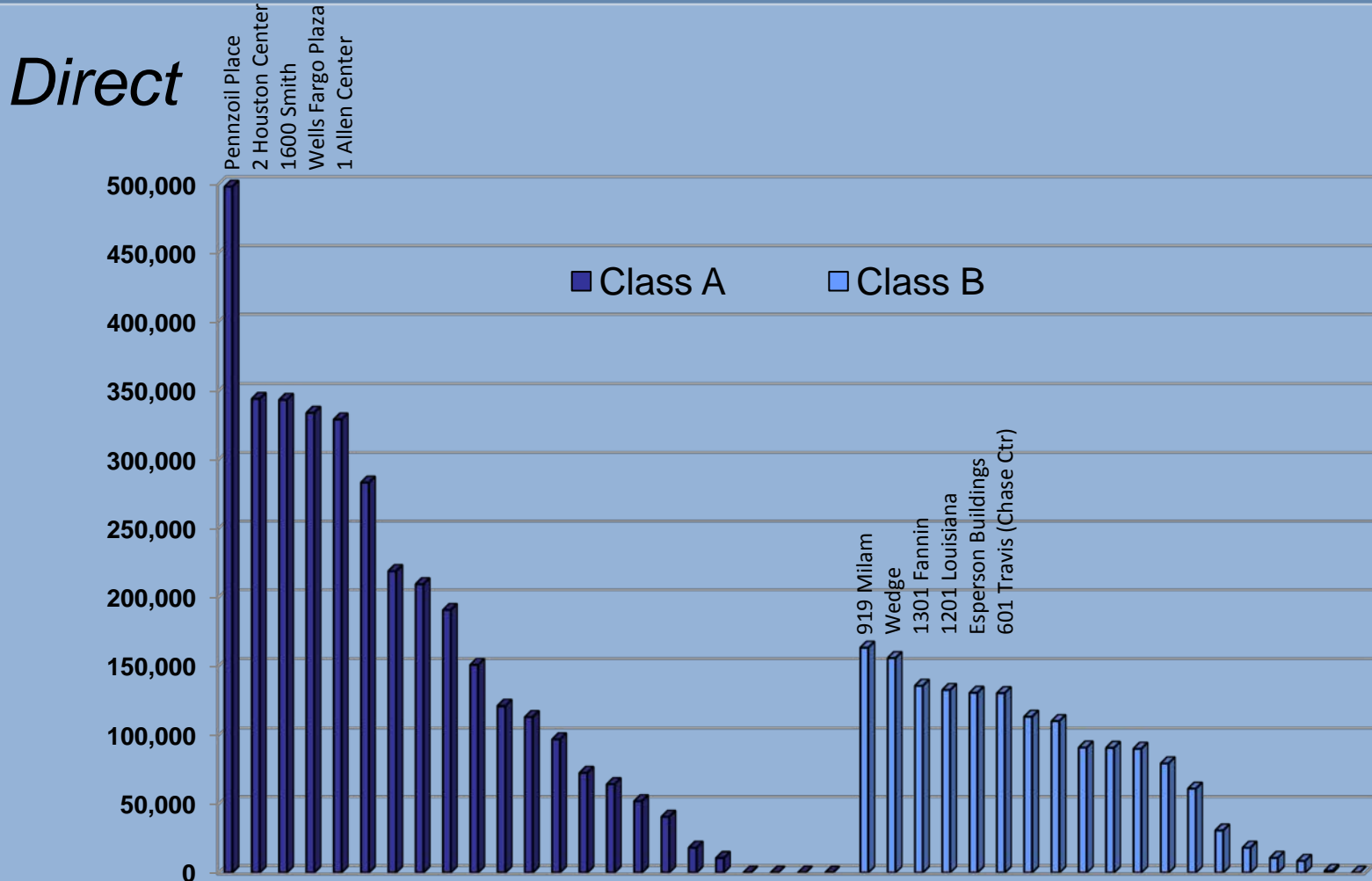


Historical Space Being Marketed

Direct



Space Being Marketed by Bldg 1/1/12



Effective Blocks of Space

As of 10/19/12

100,000 SF+

Building	Floors	Total SF	Comments
A 1 Allen Center	3-20	490,000	Former Hess (3-4, 14-20), Kinder Morgan (5-13)
A 2 Allen Center	25-36	345,000	Devon
A Pennzoil, North	16-29	294,000	Shell
A 2 Houston Center	4-10	280,200	Shell
A 1600 Smith	17-22	142,000	Former Continental
B Travis Place*	8-9	120,000	El Paso
B 919 Milam	11-15	110,000	US Attorneys
A Pennzoil, South	6-10	104,000	Energy Transfer + one other

Red text indicates sublease space.

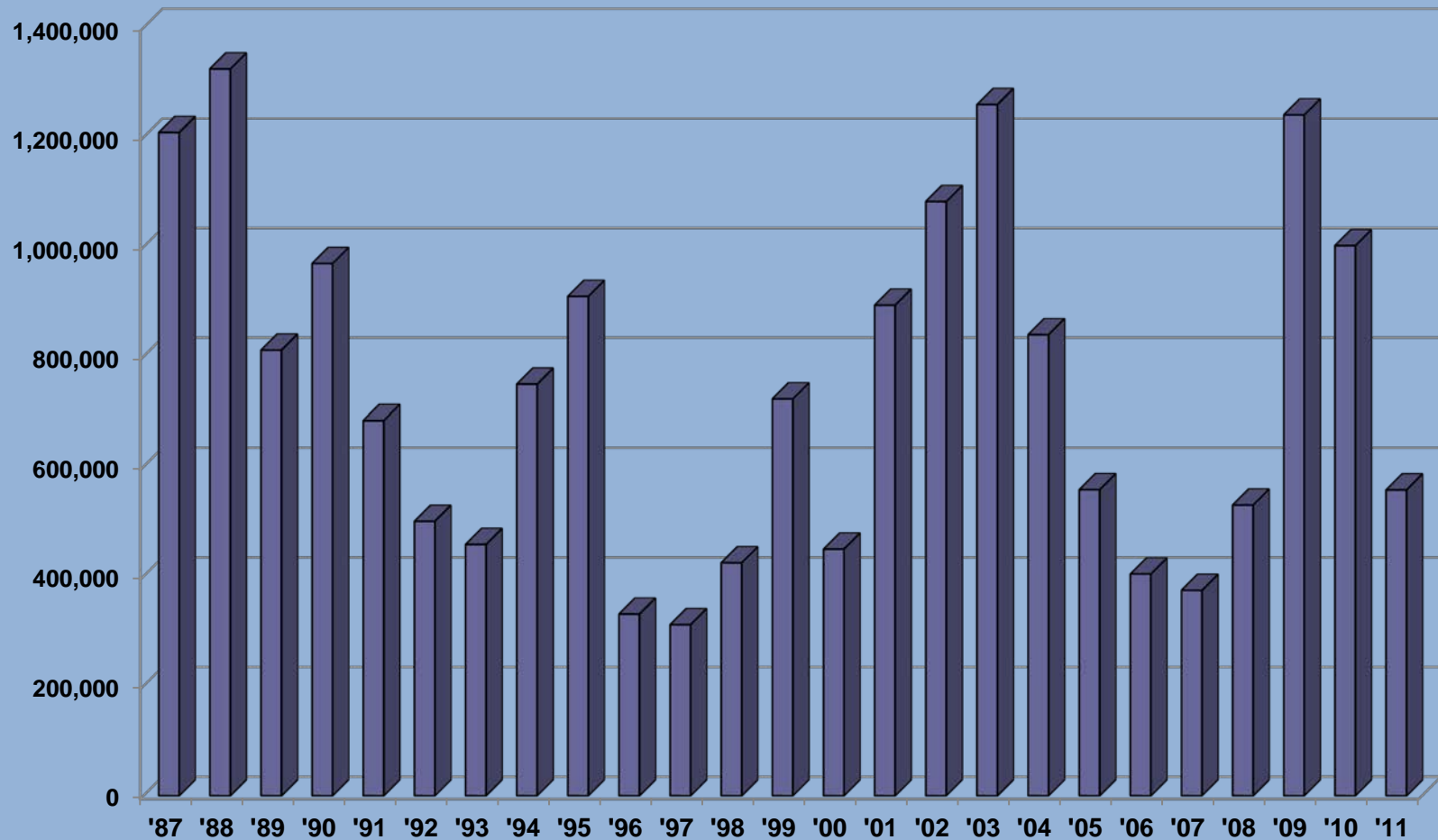
* Not included in the survey universe but is identified here for information.

Full-Floor Sublease Spaces

With term, as of 6/1/12

Class	Building	Description	Exp	SF
A	1 Allen	5-13 (Kinder Morgan)	Dec 2020	220,000
A	2 Allen	3-5 (Devon)	Jan 2020	83,277
A	3 Allen	24, 25 (BNP)	Jan 2020	48,560
A	3 Allen	21, 23 (Devon)	Jan 2020	47,717
A	3 Allen	5, 6 (Devon)	Jan 2020	46,602
A	Fulbright	32, 33 (El Paso)	Dec 2016	42,000
A	Pennzoil (S)	10 (Mx Energy)	Oct 2017	20,436

Historical Sublease Available



Change in Sublease Space '10-'11

Analyzing most of the reduction, since it was so significant

Space that was subleased

2 Allen	57*	Copano subleased space from Devon
Wedge	37	Two floors subleased
Heritage Plaza	<u>28</u>	Space was subleased
	122	

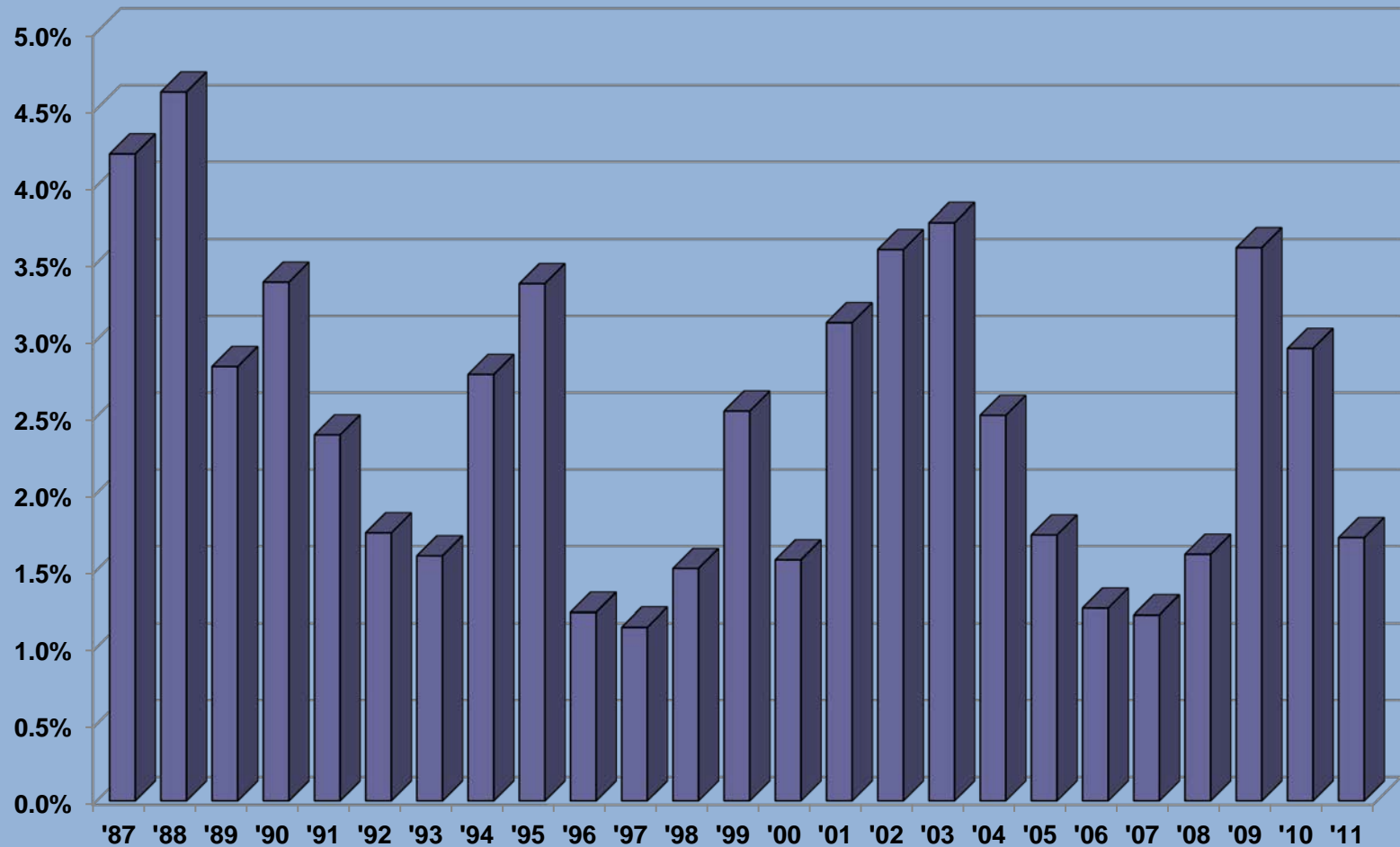
Sublease space that went direct between building and new tenant

2 Allen	141	ENI leased space Devon had on the market; is now direct space
3 Allen	24	Plains leased space Devon had on the market; is now direct space
		Chase has a master lease for the building's space and was trying to sublease this
1111 Fannin	95	space. Chase has taken it off the sublease market, as they plan to occupy it.
First City Tower	27	Oasis has leased floor 15, is direct space
3 Allen	<u>19</u>	Devon took off the sublease market, decided to keep it and will build a fitness center
	306	

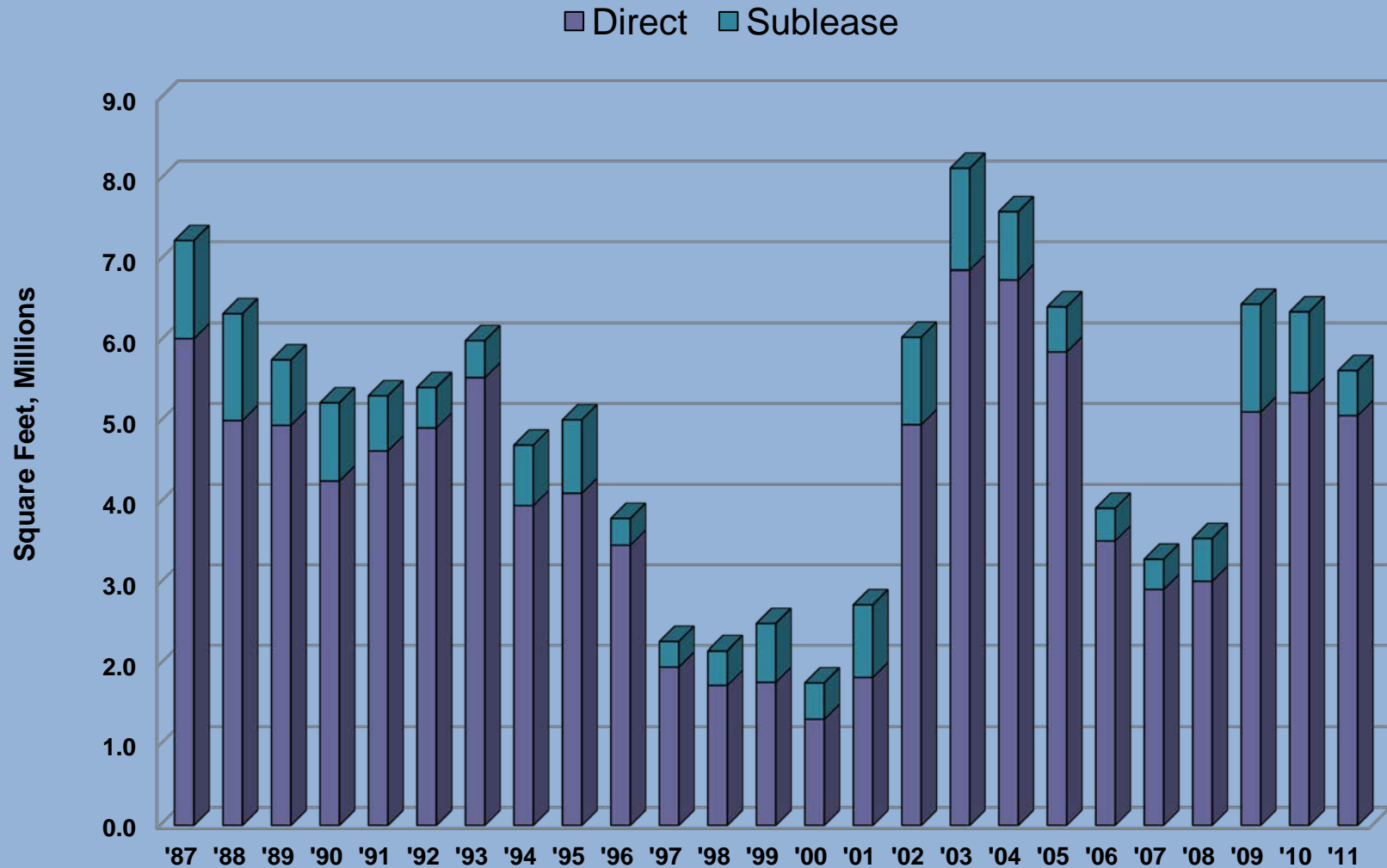
Off because lease expired or expiring

One City Centre	<u>42</u>	Floors 16 & 18 expire in April 2013, so they're now considered direct space
	42	
	<u>470</u>	Reduction in sublease space due to the above activity

Sublease SF vs. Survey Universe



Historical Direct + Sublease Avail

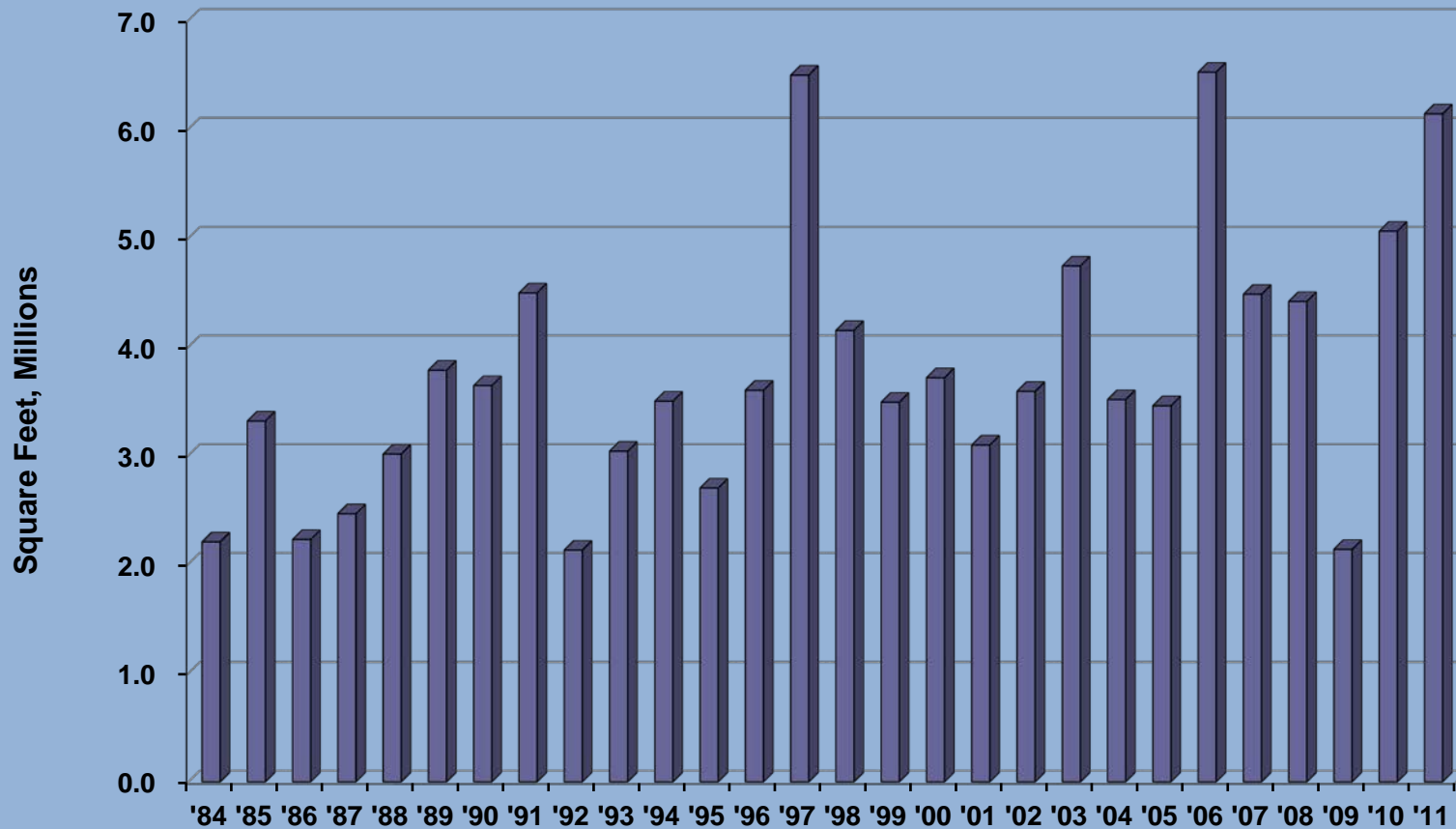


Definition – Leasing Activity

- 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.

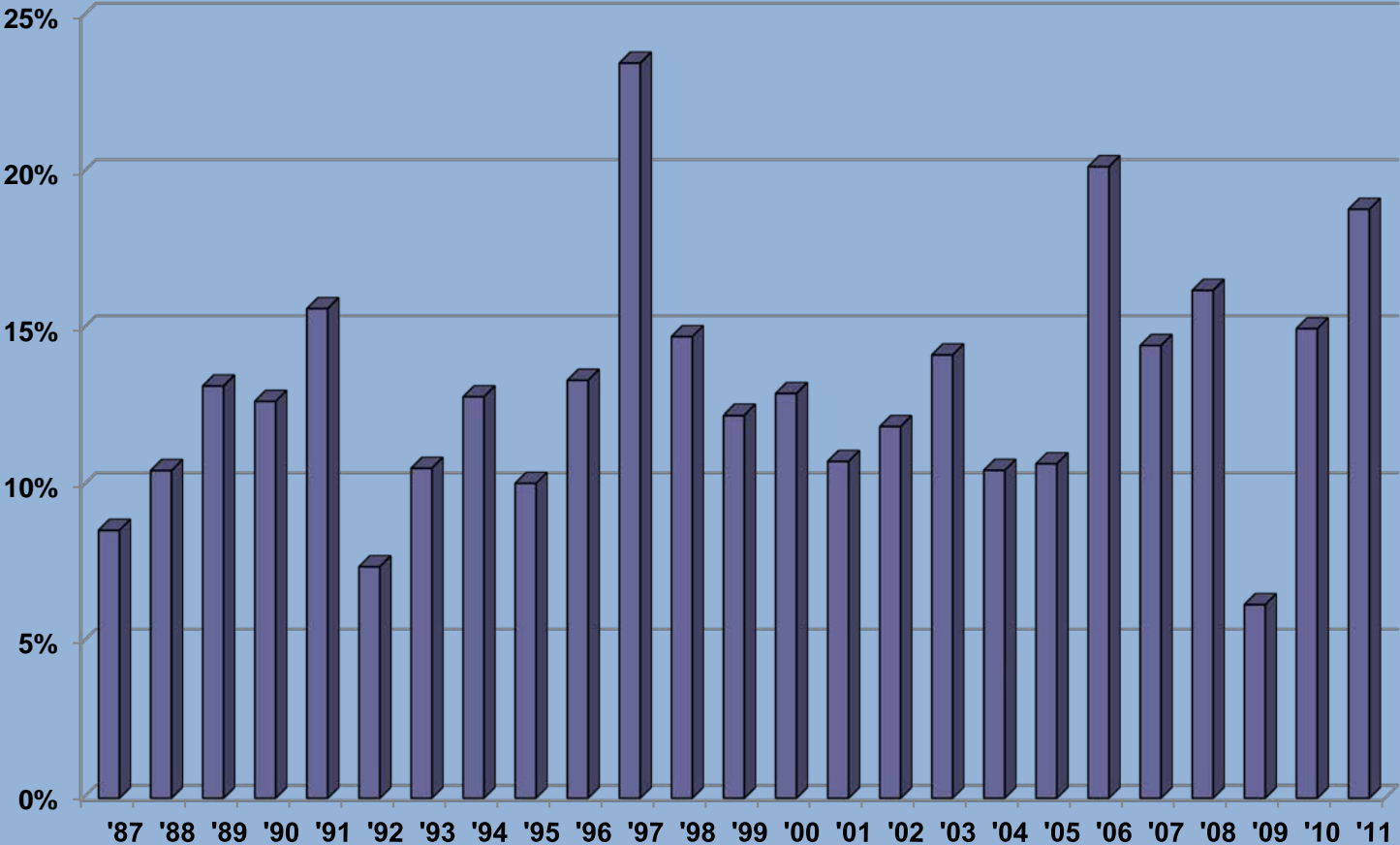
Historical Leasing Activity

Direct, All Lease Types



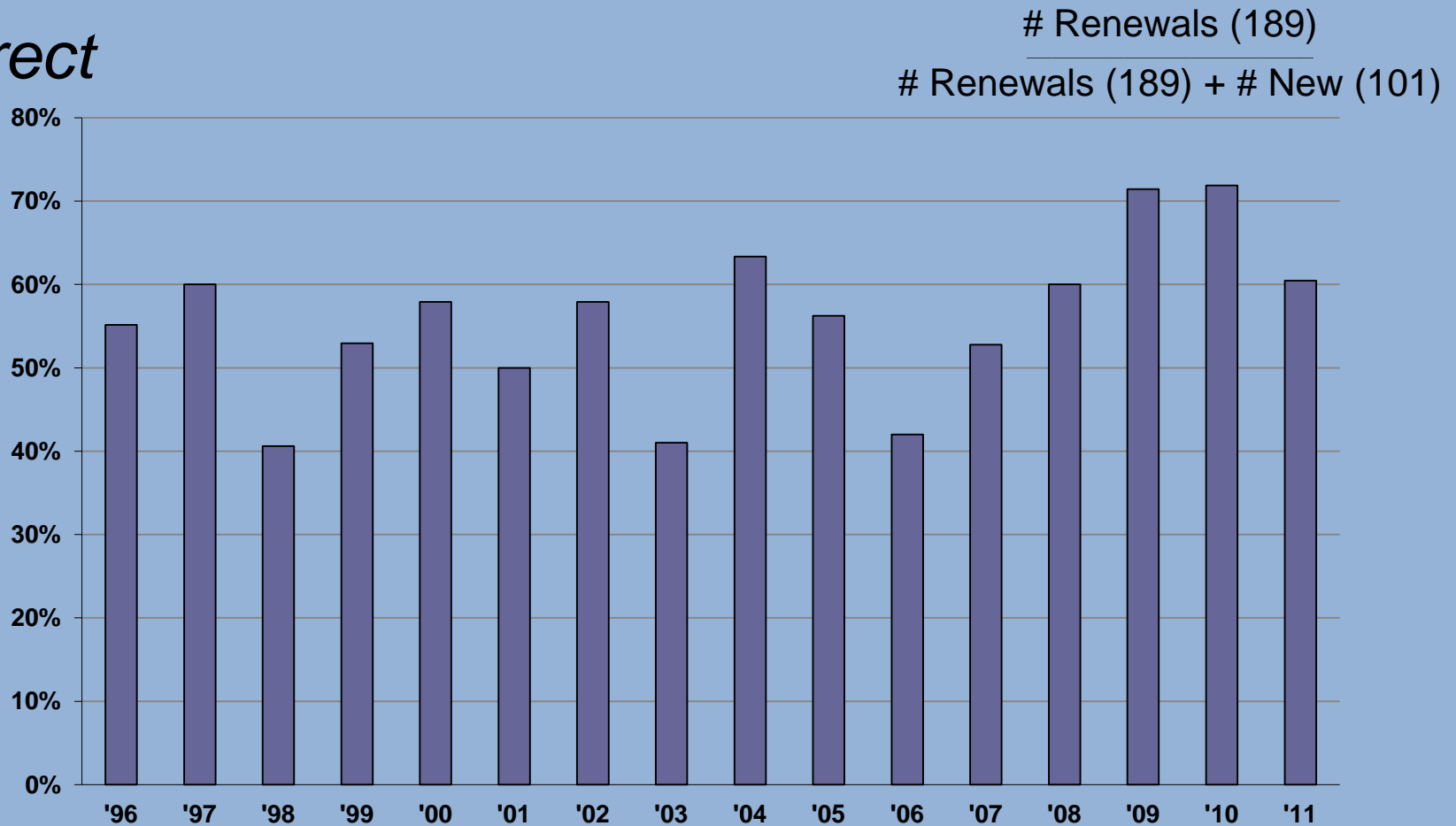
Percentage of Base Leased

Direct square footage



Renewals as % of Transactions

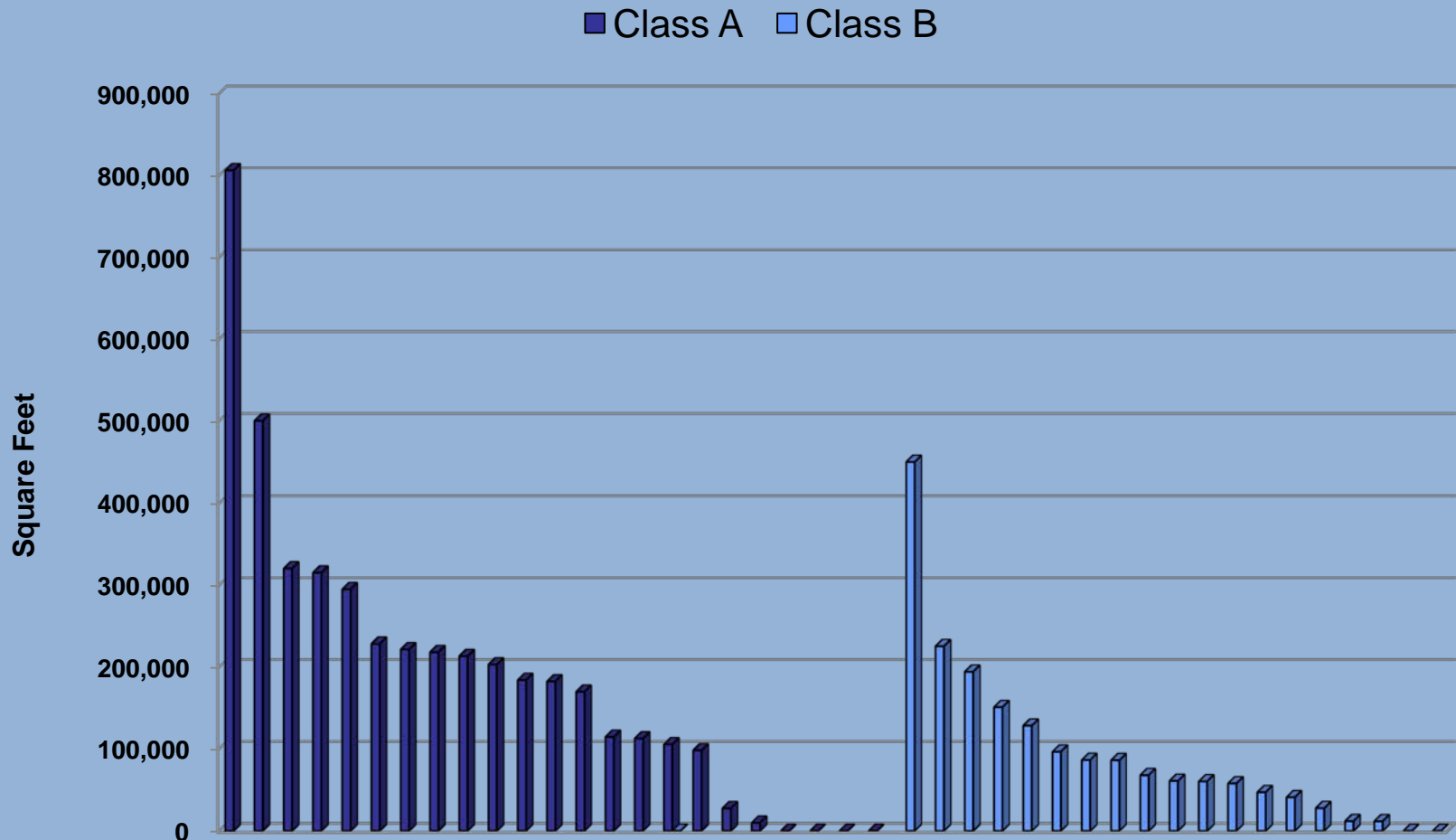
Direct



Tenants tend to renew rather than move

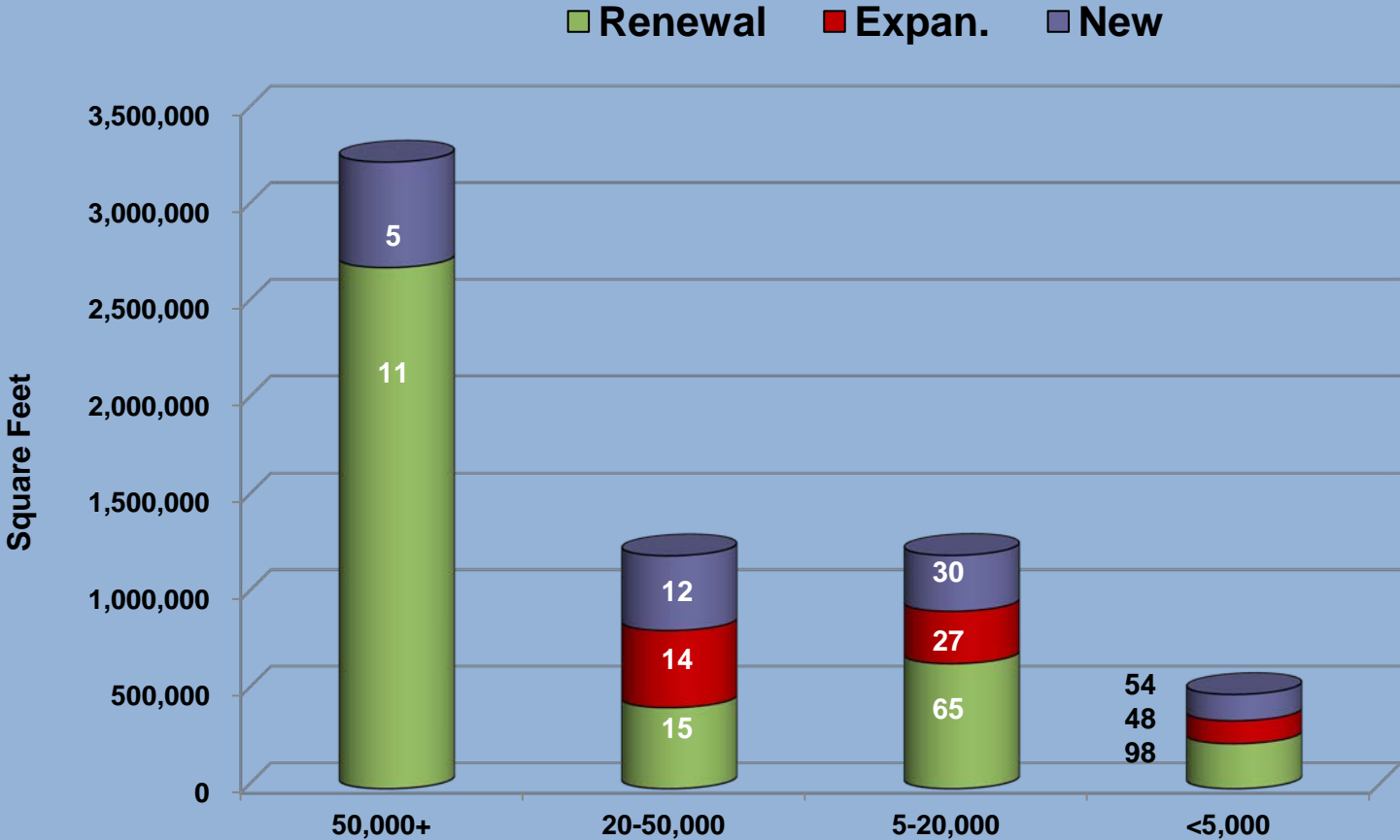
Leases Signed by Building

Direct



Lease Transactions

Direct



Number of Large Transactions

Direct

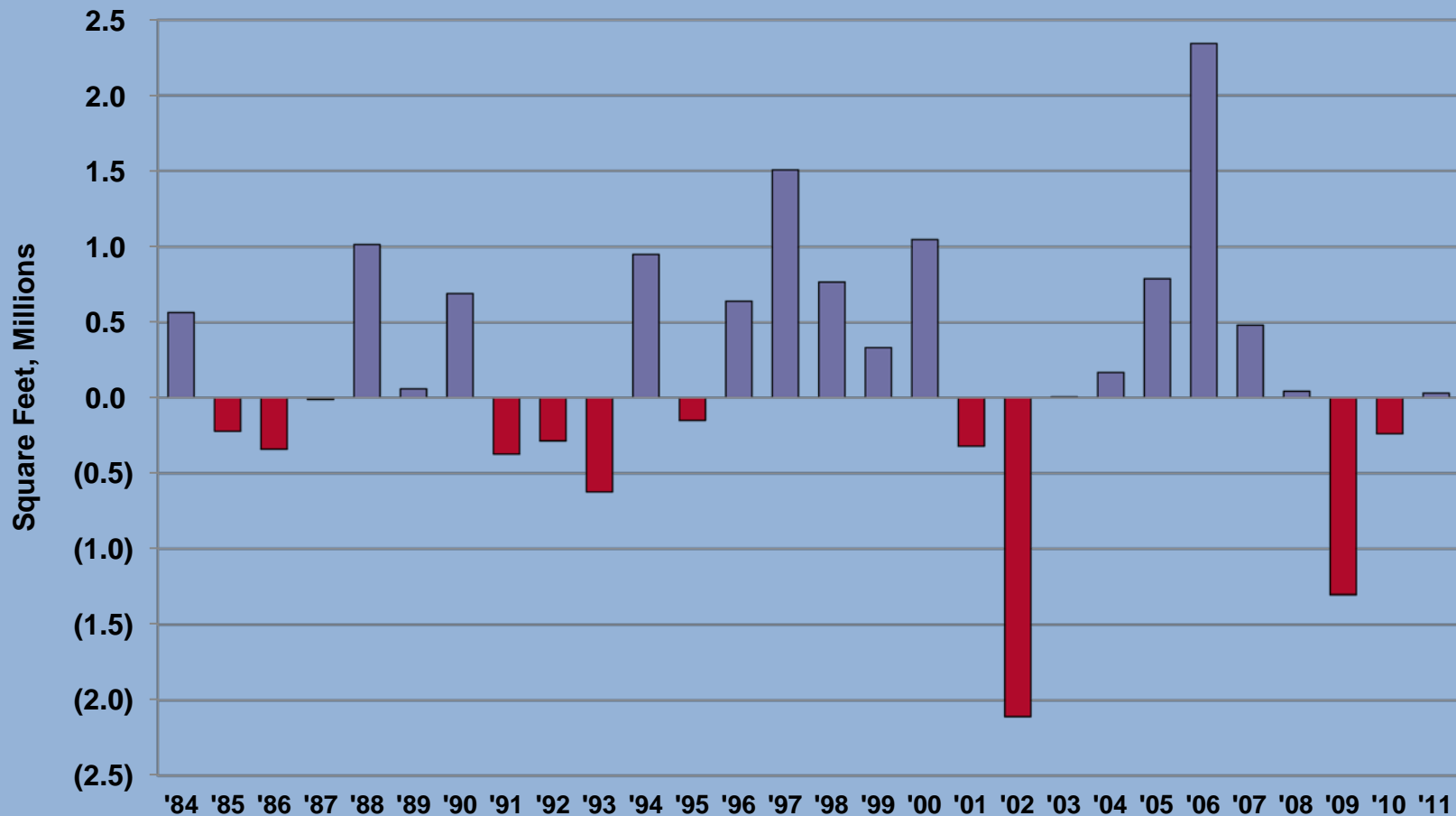


Definition – Net Absorption

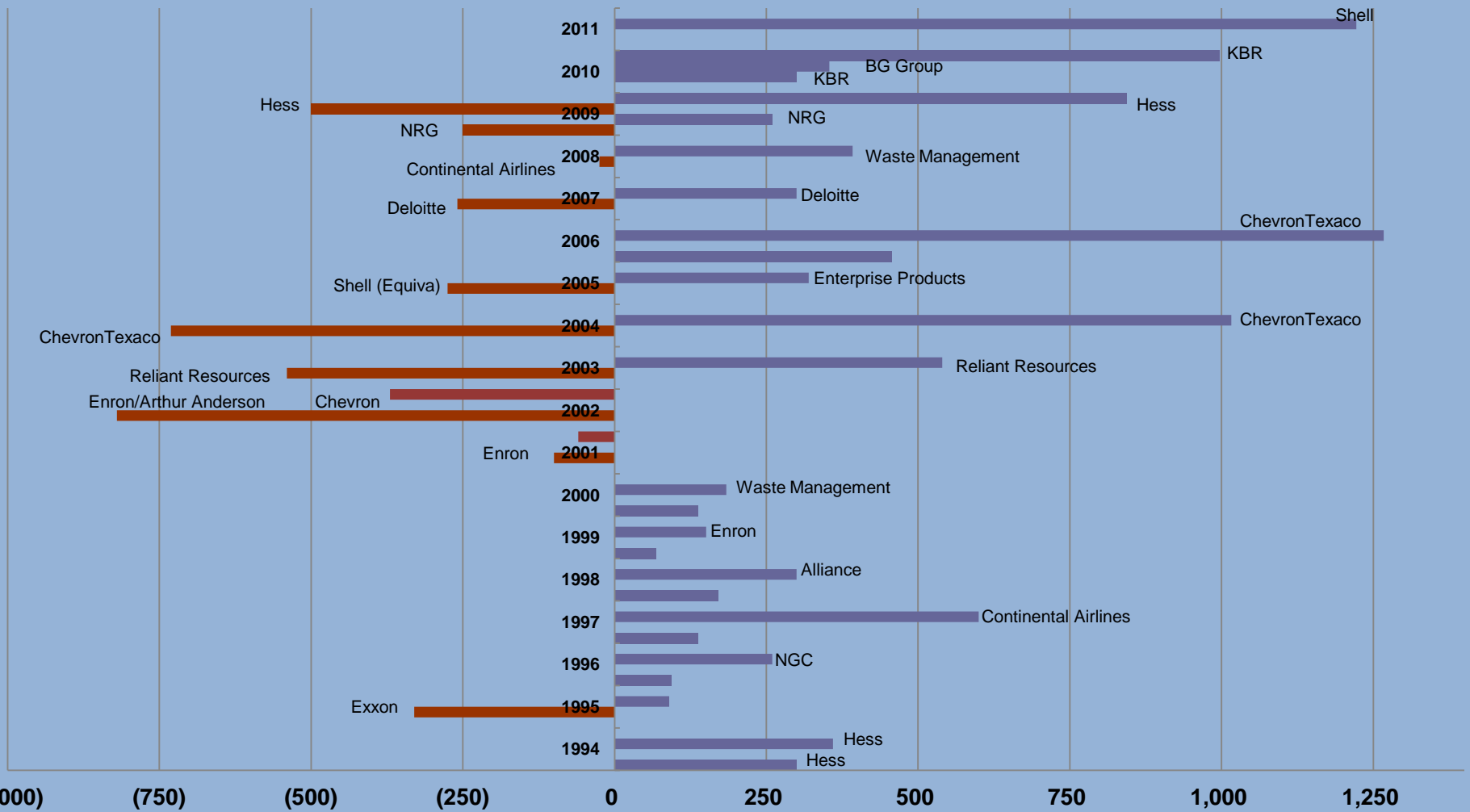
- The difference in aggregate space being marketed at the beginning vs end of the year with the same buildings.
- Absorption is tied to leasing activity.
- Occupancy/vacancy of a new building does not necessarily affect the absorption for that building. Thus, when a building is added to the survey and a downtown tenant is moving to that building, that tenant's old space often shows up as negative absorption in the market.
 - Hess' decision to relocate and expand created -500ksf absorption in 1 Allen/Heritage 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 Marketed Space

In same buildings only; Direct

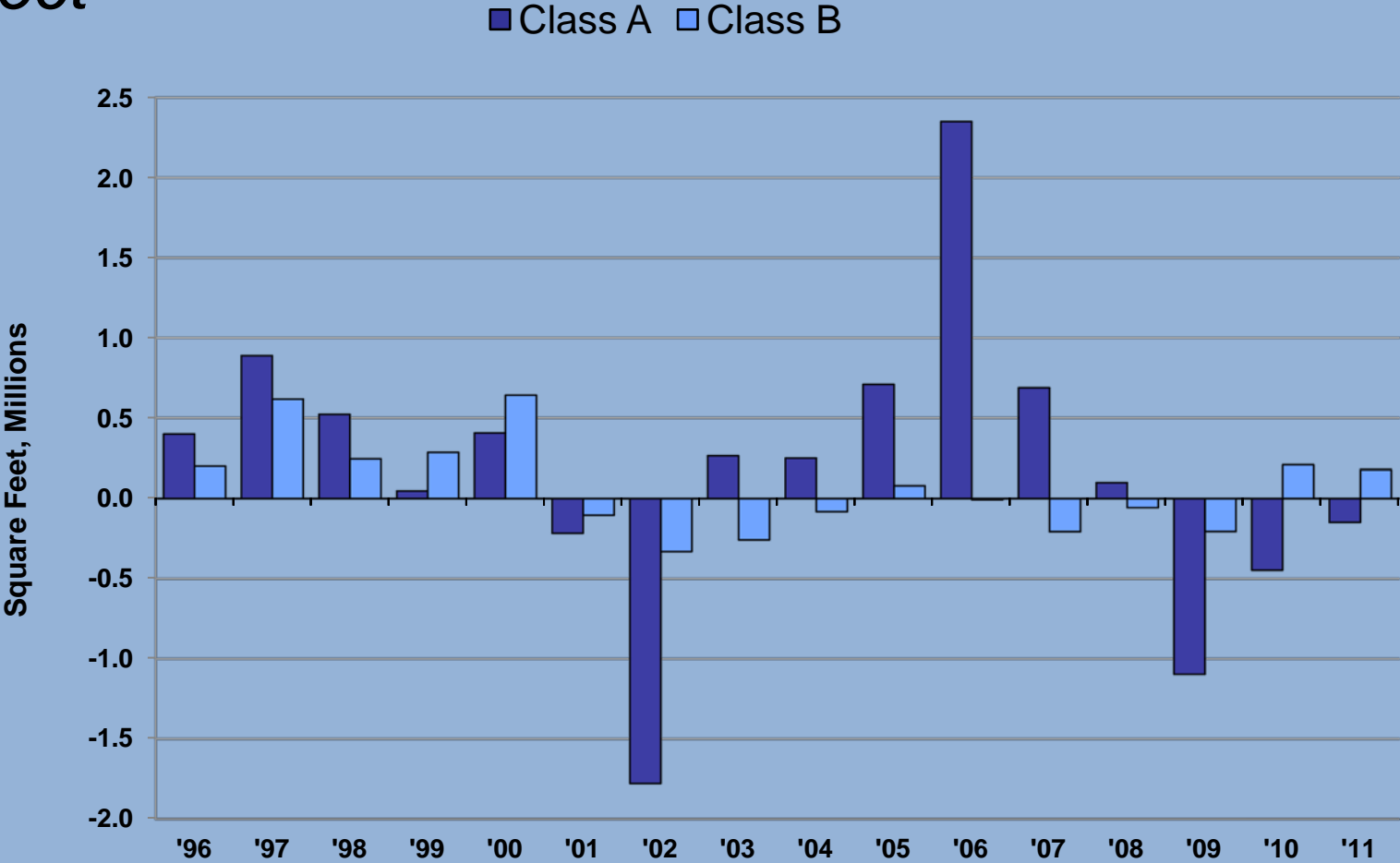


Major Events



Absorption – Building Class

Direct

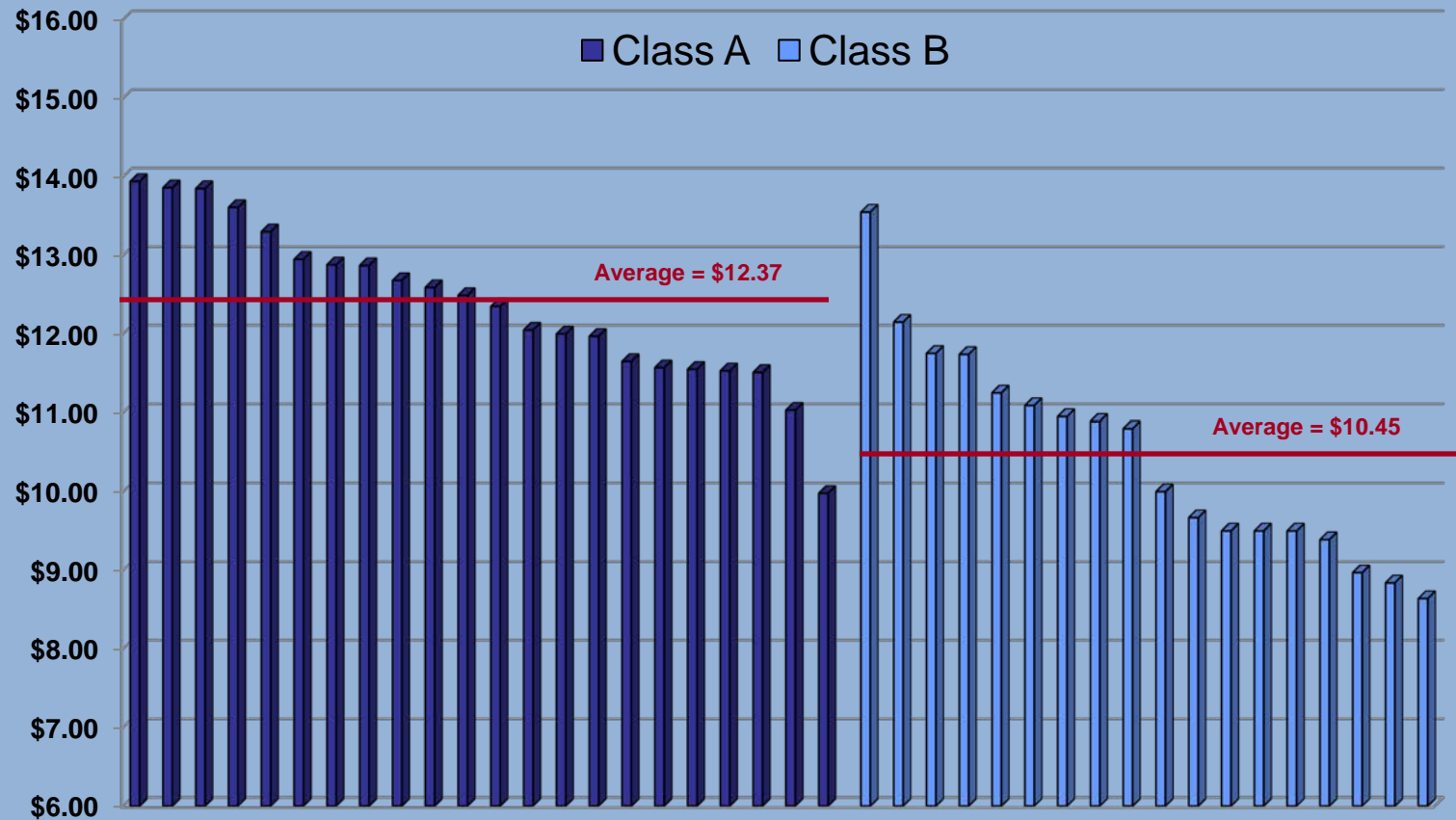


Absorption by Building

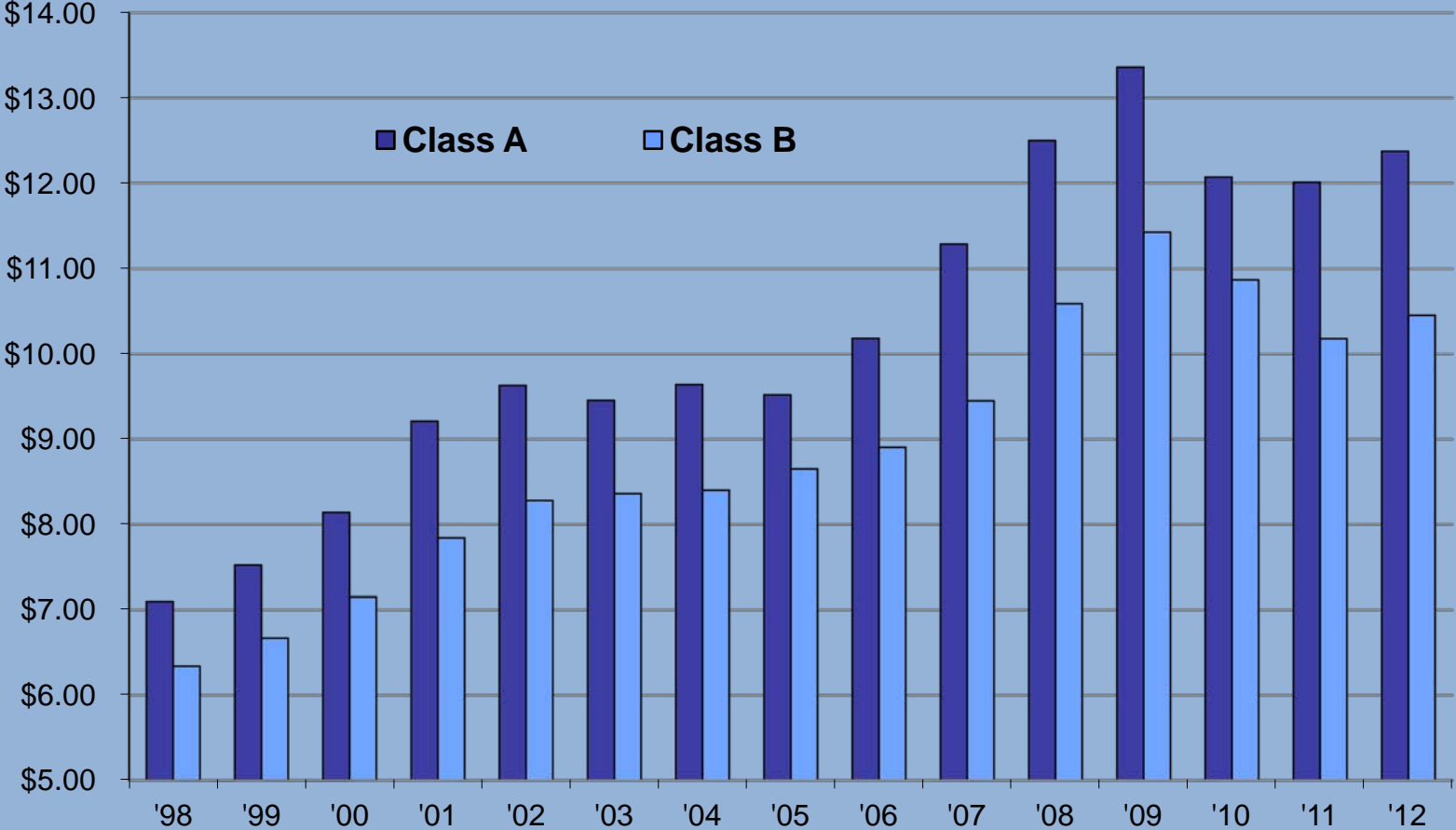


Operating Expense Projections for 2012

Estimates as of 1/1/12



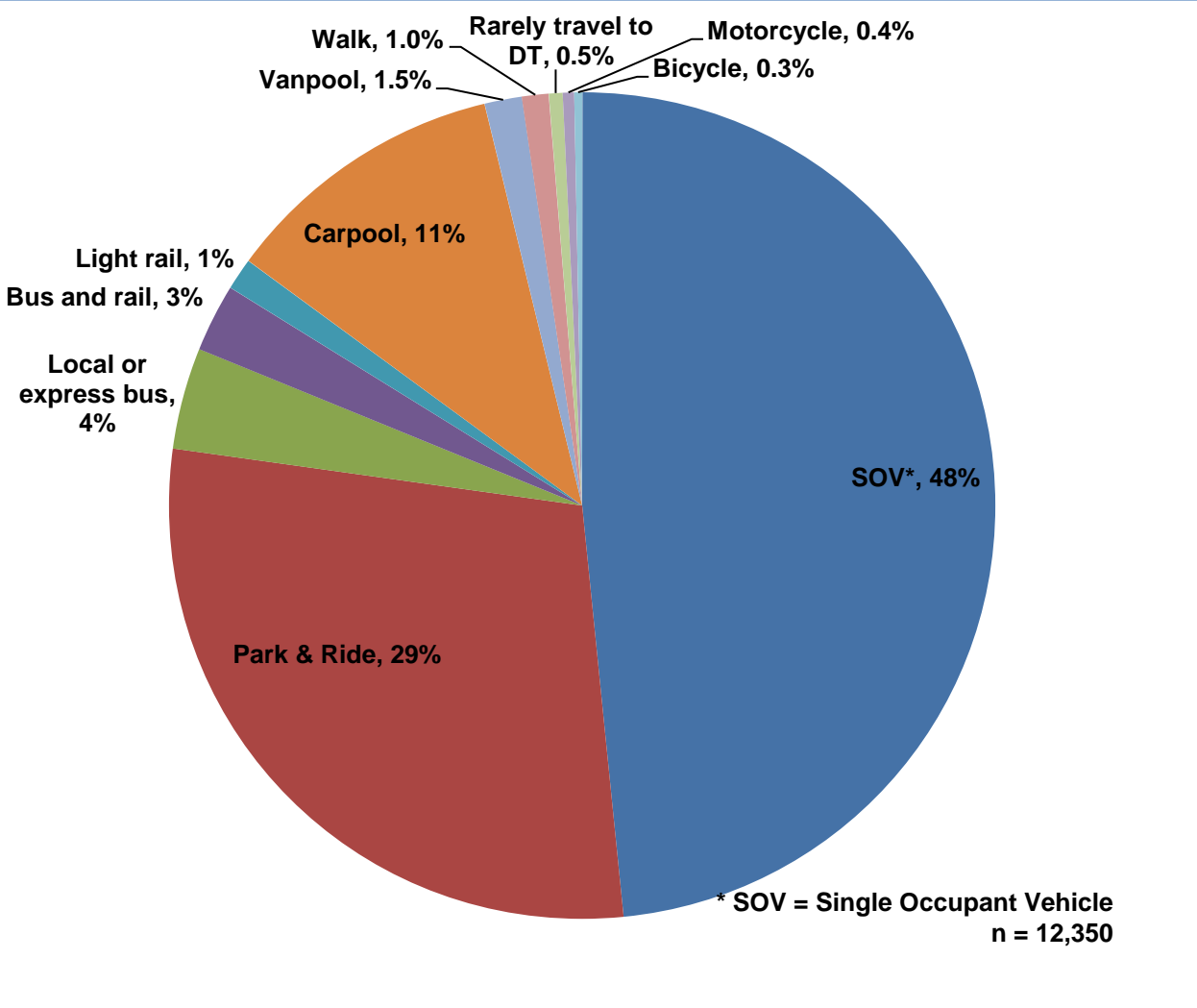
Operating Expense Projections



Factors Affecting 2012+

- Devon to put 565,100 sf on sublease market. Large block is 2AC, 25-36 = 345,000 sf. Sublease to 2020.
- Kinder Morgan/El Paso
 - KM had 220ksf; EP had 1.1msf
 - EPE taking 315ksf
 - KM keeping 540ksf
 - Left over: 220ksf / 9 floors in 1AC to sublease to 2020, 120ksf / 2 floors in Travis Place, and 52ksf / 2 floors in Fulbright Tower
 - Net immediate effect: ~ 392ksf
 - Net current effect (after some space leased): ~342ksf
- Exxon/800 Bell. 800 Bell for sale. Exxon to move to new campus end 2014 through 2015. May keep some space in 1301 Fannin. 3,000 employees in CBD in 2012.
- GenOn: Leaving 145ksf in 1000 Main, lease to 2018.
- Earliest delivery of new building: 36 months (late 2015) – 48 months (late 2016)

Access



Contact

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