

# CBD STORY 2013

As of January 1, 2013



# 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, *because we ask different questions.*
- This survey provides insight to supplement other surveys. It assists 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.

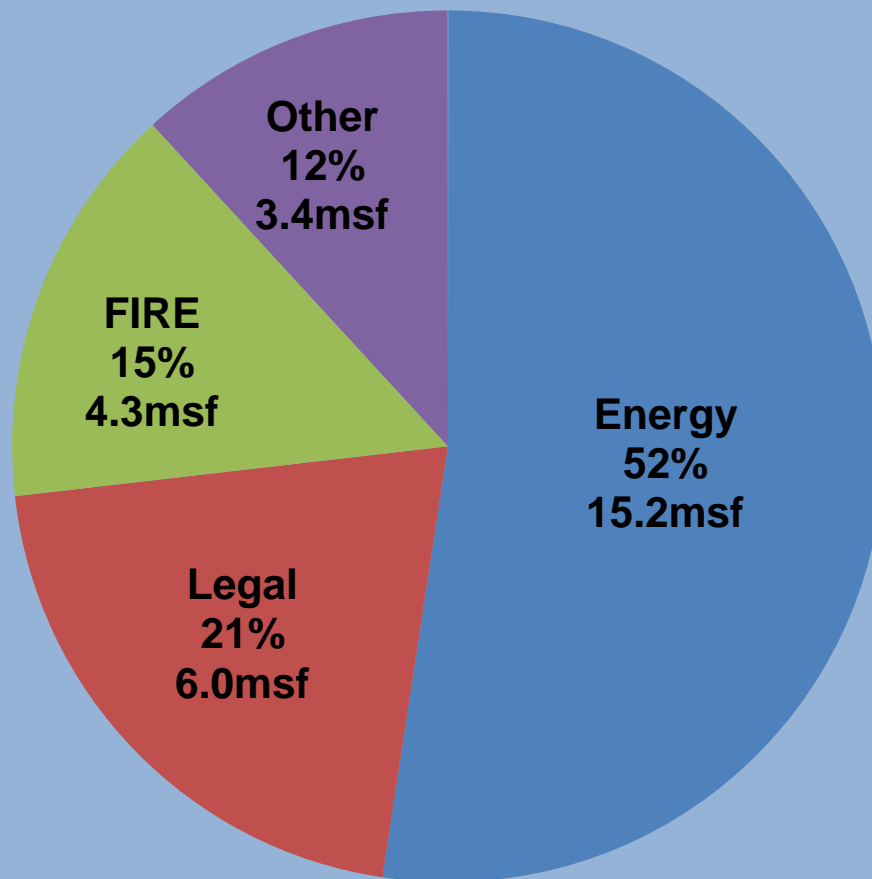
# Buildings Surveyed

	<b>Number</b>	<b>Rentable SF</b>
Class A	24	24,637,871
Class B	19	8,930,827
<b>Total</b>	<b>43</b>	<b>33,568,698</b>

The following are owner-occupied buildings and thus are **excluded** from the survey universe: 800 Bell, 1500 Louisiana and 1400 Smith = ~3.6 msf total.

# Office Building Use by Industry

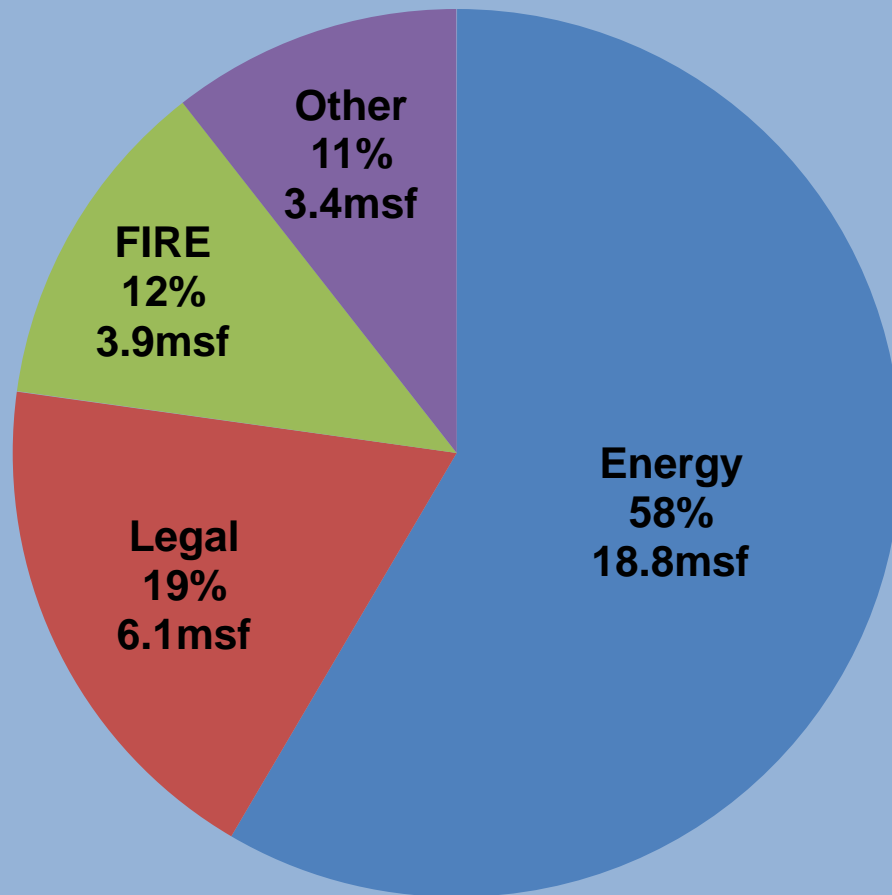
## *Properties in the survey universe*



- 29 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, 1500 Louisiana, 1400 Smith
- FIRE = Finance, Insurance, Real Estate
- “Other” includes companies such as Waste Management and United Airlines

# Office Building Use by Industry

*Including owner-occupied buildings*



- 32.6 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 included: 800 Bell, 1500 Louisiana, 1400 Smith
- FIRE = Finance, Insurance, Real Estate
- “Other” includes companies such as Waste Management and United Airlines

# Large Tenants in Bldg Universe

## Tenants by number of floors

One or more floors	250
Two or more floors	118
Four or more floors	60

## Tenants by square footage

20,000+ sf	206
100,000+ sf	55
200,000+ sf	28
500,000+ sf	7

10 tenants control 24% of the survey universe

20 tenants control 34% of the survey universe

51 tenants control 50% of the survey universe

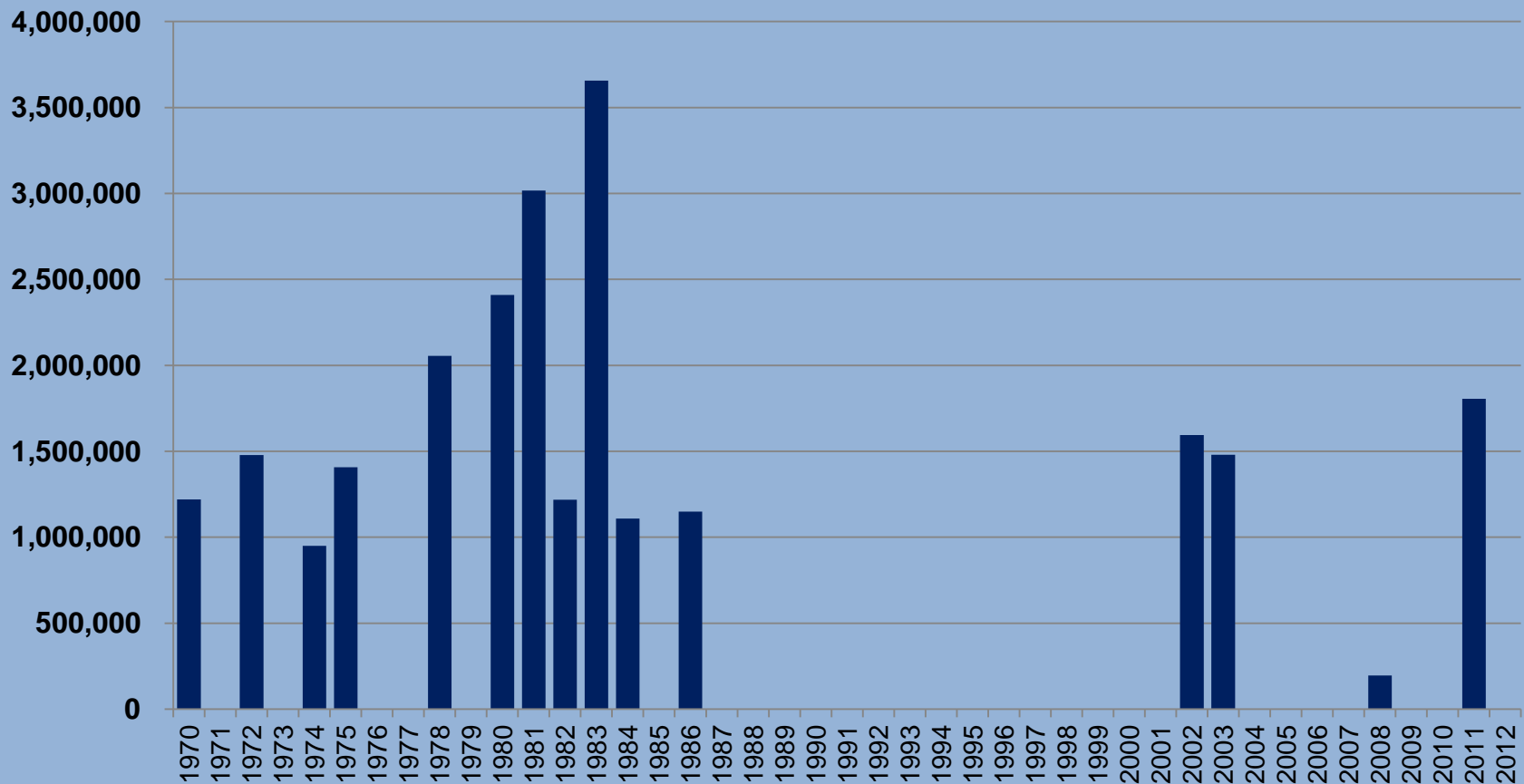
# Summary Data

*January 1, 2013*

Survey Universe	33,568,698
Space Being Marketed (Direct)	4,111,002
Percent Being Marketed (Direct)	12.2%
Space Being Marketed (Sublease)	704,033
2012 Absorption (Direct)	1,053,202
2012 Leases Signed (Direct)	5,165,816

# Class A Building Construction

## *Square Feet Built per Year*



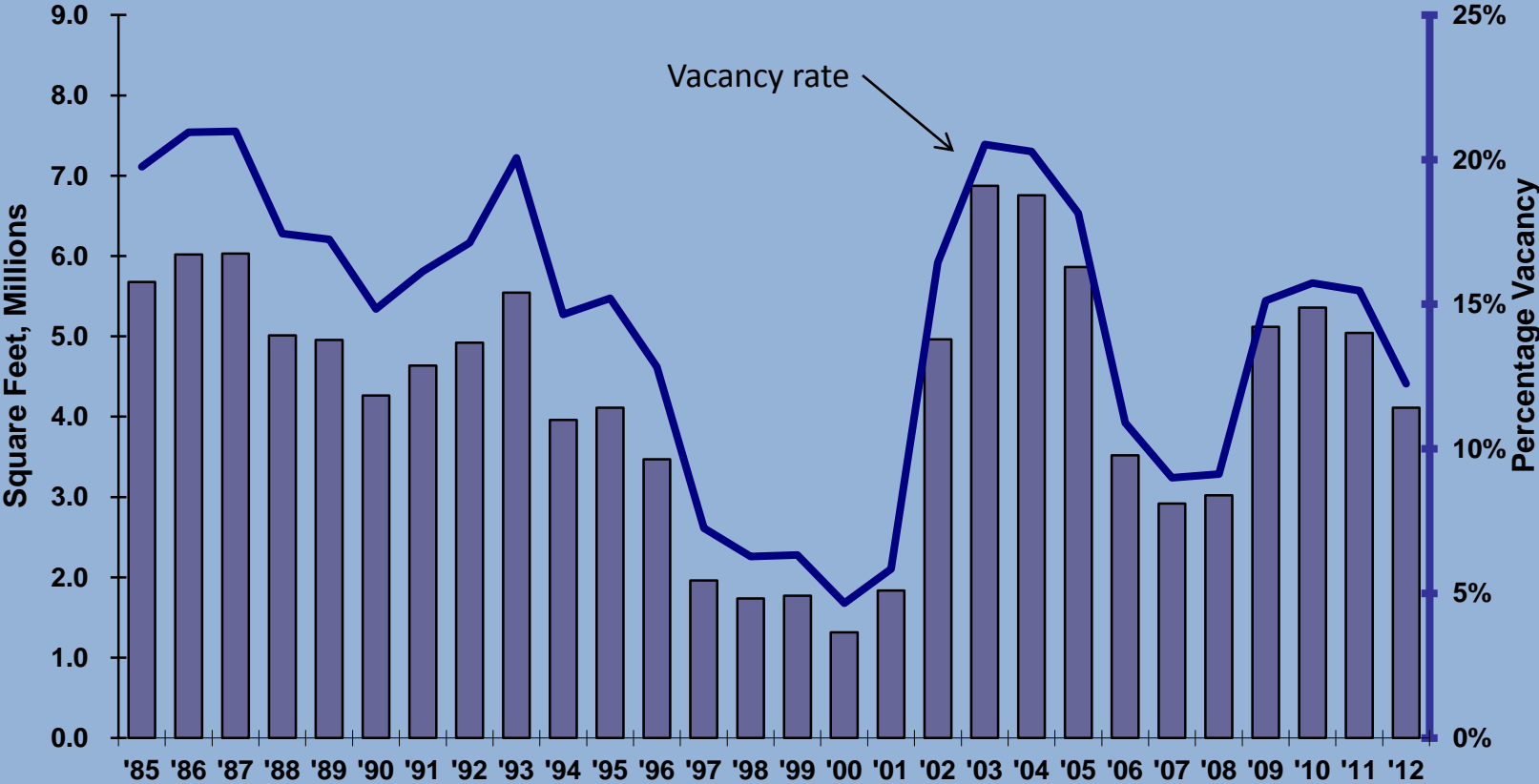


# Definitions – Space Available and Vacancy Rate

- Available: Any office space being marketed, even if occupied and leased. If it is being marketed, it is competing against other space.
  - But CoStar’s def of 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.
- Vacancy rate: Direct office space being marketed divided by the total amount of office space in this survey universe.
  - But CoStar’s def: 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.

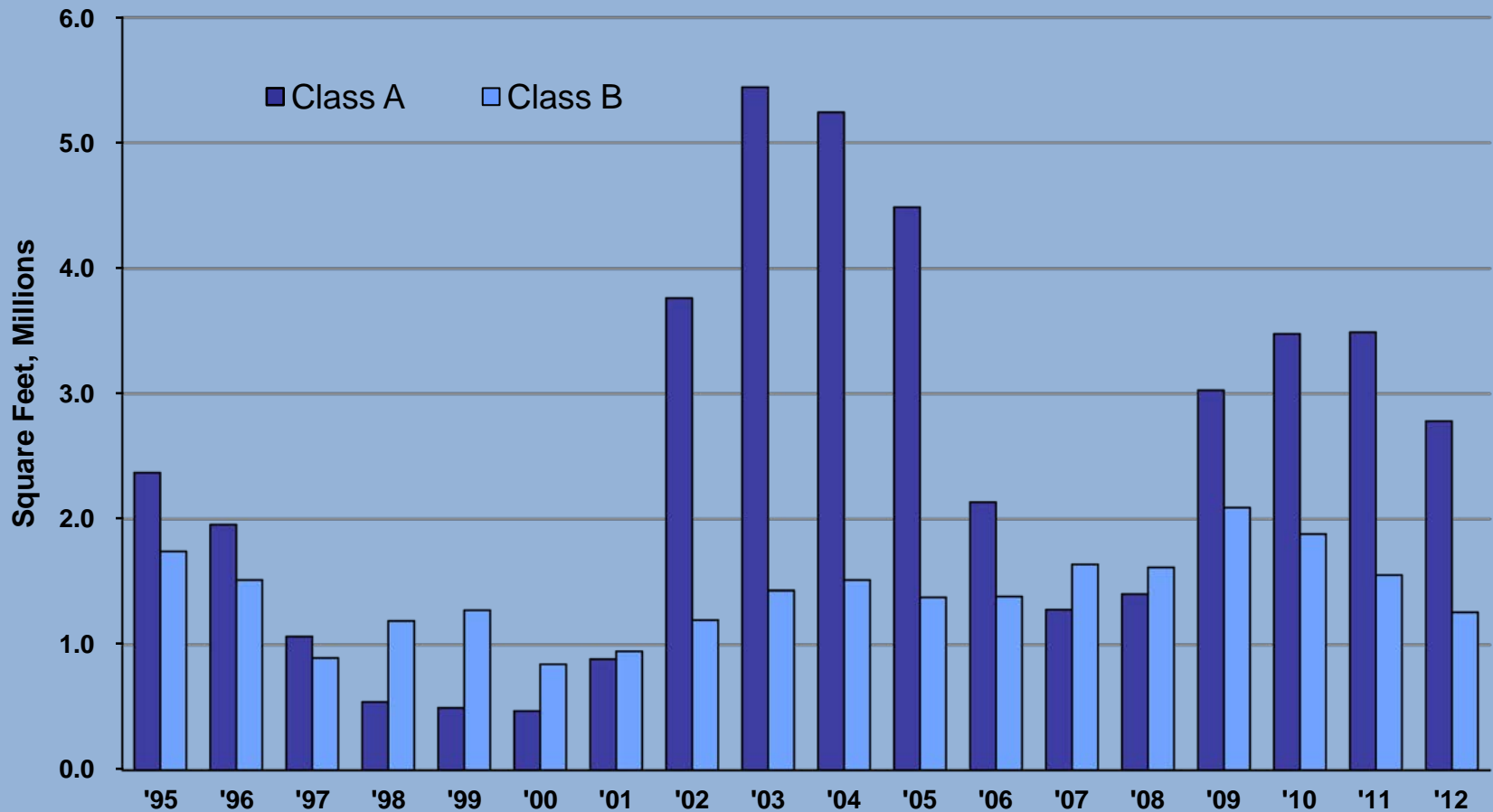
# Historical Availability

*Direct space being marketed*



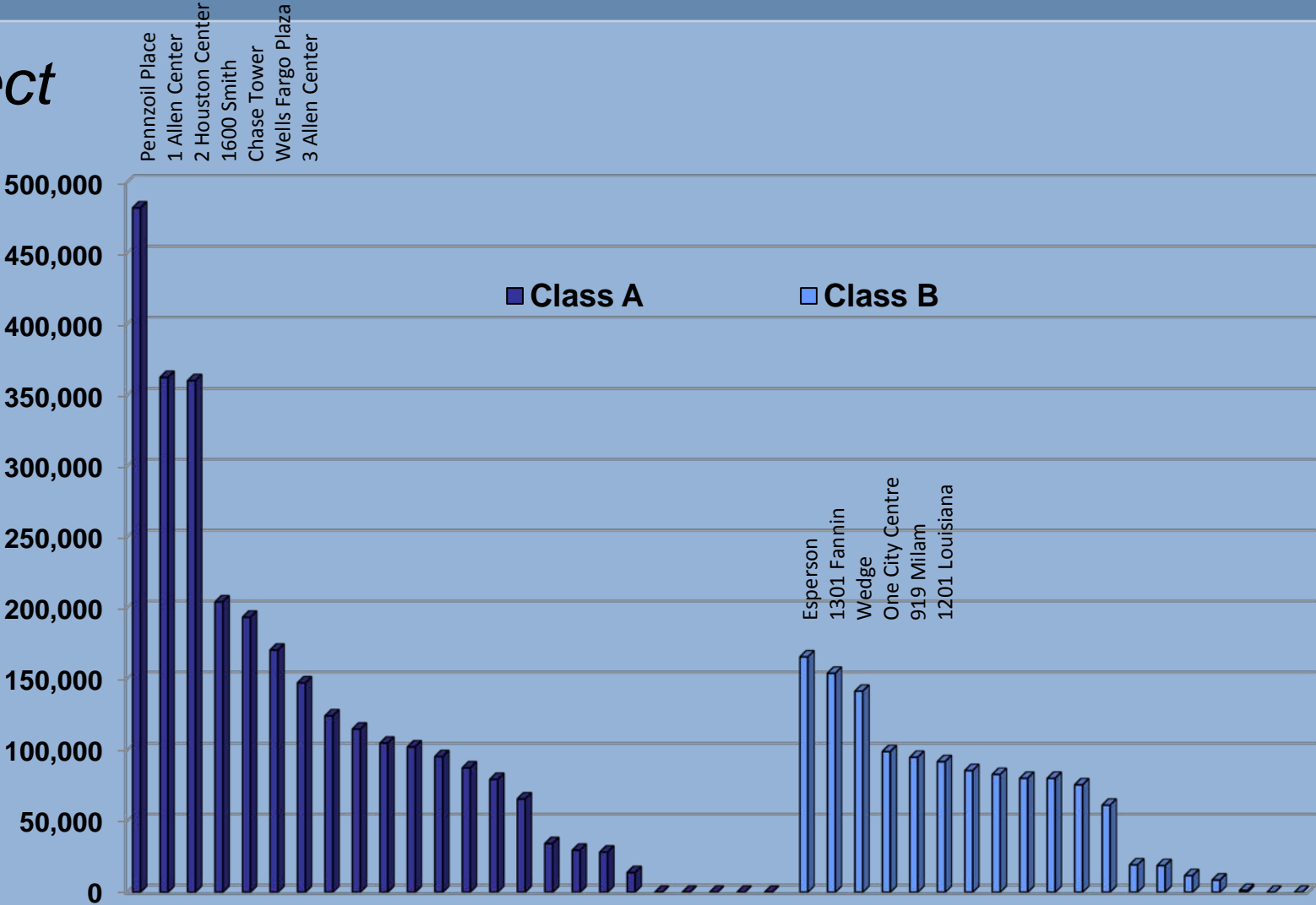
# Historical Space Being Marketed

## Direct



# Space Being Marketed by Bldg 1/1/13

Direct



# Effective Blocks of Space

*As of 8/2/13*

*100,000 SF+*

	<b>Building</b>	<b>Floors</b>	<b>Total SF</b>	<b>Comments</b>
B	2 Shell Plaza	10-15, 18-22, 26	375,000	Shell
A	1 Allen Center	7-9, 14-19	273,200	Former Hess (14-19), <b>Kinder Morgan (7-9)</b>
A	Pennzoil, North	16-25, 27, 29	251,000	Shell
A	2 Houston Center	4-8	234,333	Former Shell
A	1600 Smith	10-12, 15-20	212,000	United Airlines
B	Total Plaza	28-30, part 31, 32, 34-35	168,000	PriceWaterhouseCooper (28-32); ENI (34-35)
A	Wells Fargo Plaza	47-52	152,300	BHP-Petrohawk (47-49) Susman Godfrey, LLP (50-52)
A	Pennzoil, South	6-10	104,000	Energy Transfer + one other
B	Travis Place*	8-9	80,000	El Paso

**Red text** indicates sublease space.

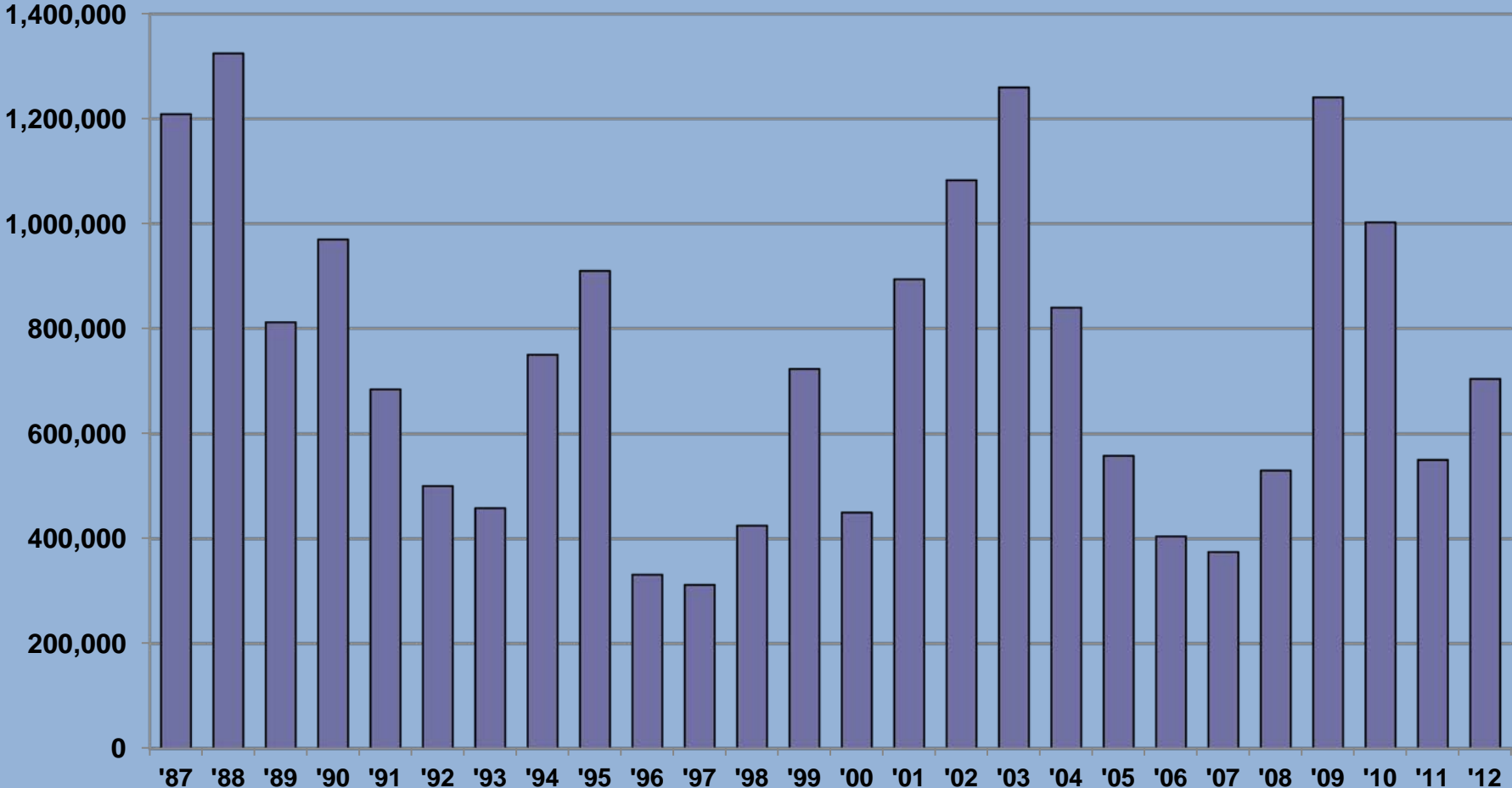
\* Not included in the survey universe but is identified here for information.

# Full-Floor Sublease Spaces

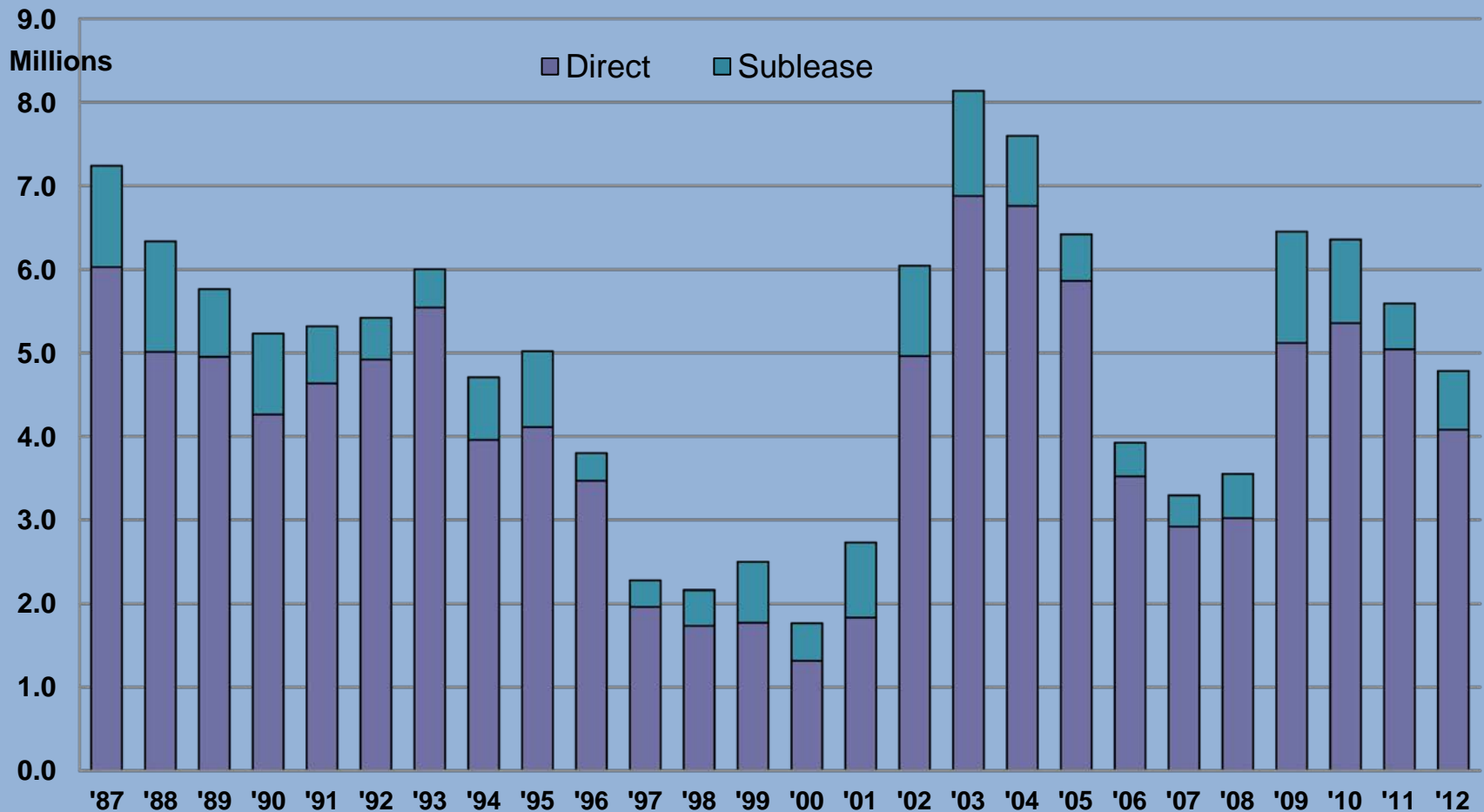
*With term, as of 8/2/13*

<b>Class</b>	<b>Building</b>	<b>Floor/Description</b>	<b>Exp</b>	<b>SF</b>
A	Chase Tower	53-56 (Cooper Ind)	June 2019	89,045
A	3 Allen Center	3-6 (Devon)	Jan 2020	84,508
A	2 Allen Center	3-5 (Devon)	Jan 2020	83,294
A	1001 Fannin	38, 43, 44 (Waste Mgmt)	Dec 2020	82,185
A	1 Allen Center	7-9 (Kinder Morgan)	Dec 2020	82,112
A	1000 Main	19-20 (GenOn)	Oct 2018	57,505
A	717 Texas	13, 14 (Calpine)	Dec 2020	53,596
A	2 Allen Center	21 (Devon)	Jan 2020	28,350
A	2 Allen Center	24 (Devon/Copano)	Jan 2020	28,350
A	BOA Center	5 (Bank of America)	Sept 2019	26,562
A	Wells Fargo Pl	65 (Cathexis)	Aug 2021	26,119
A	Fulbright	32 (Kinder Morgan)	Dec 2016	25,543
A	LyondellBasell	19 (Haynes & Boone)	May 2019	23,180
B	One City Ctr	9 (Waste Management)	Dec 2015	21,030

# Historical Sublease Available



# Historical Direct + Sublease Avail



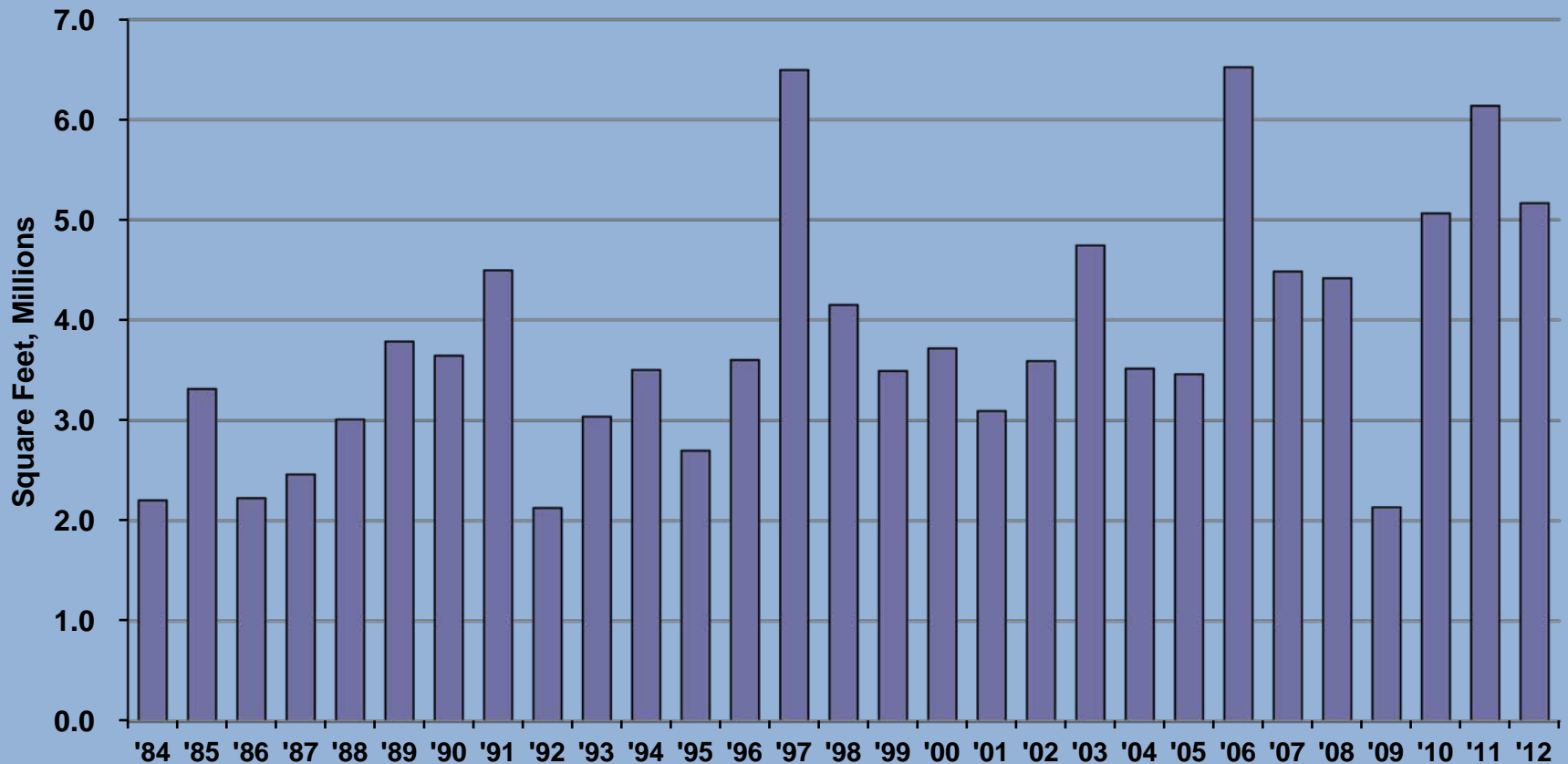


# Definition – Leasing Activity

- Any lease signed during the year, no matter when occupancy is to take place.
  - But CoStar's def: 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.

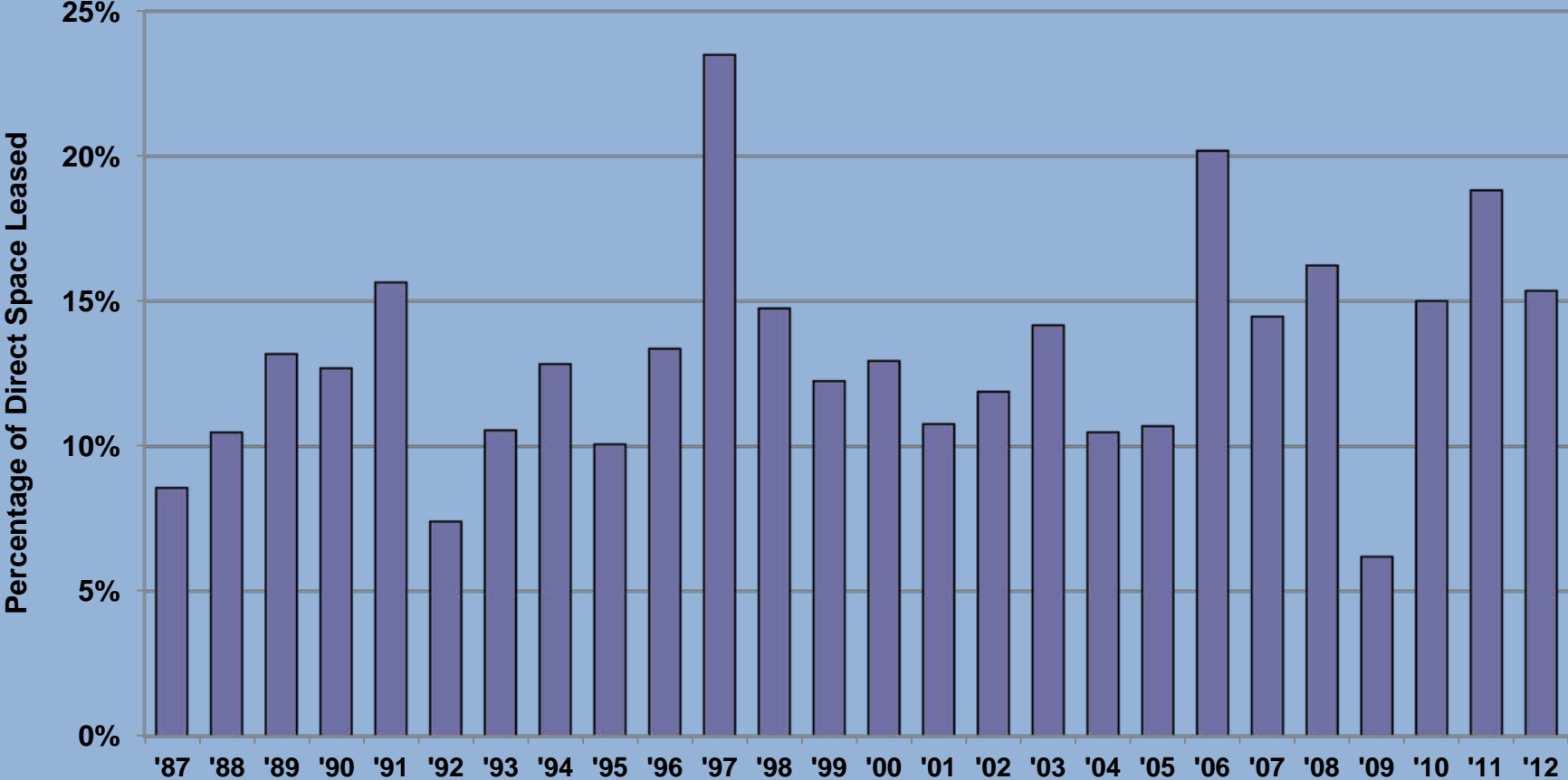
# Historical Leasing Activity

## *Direct, All Lease Types*



# Percentage of Base Leased

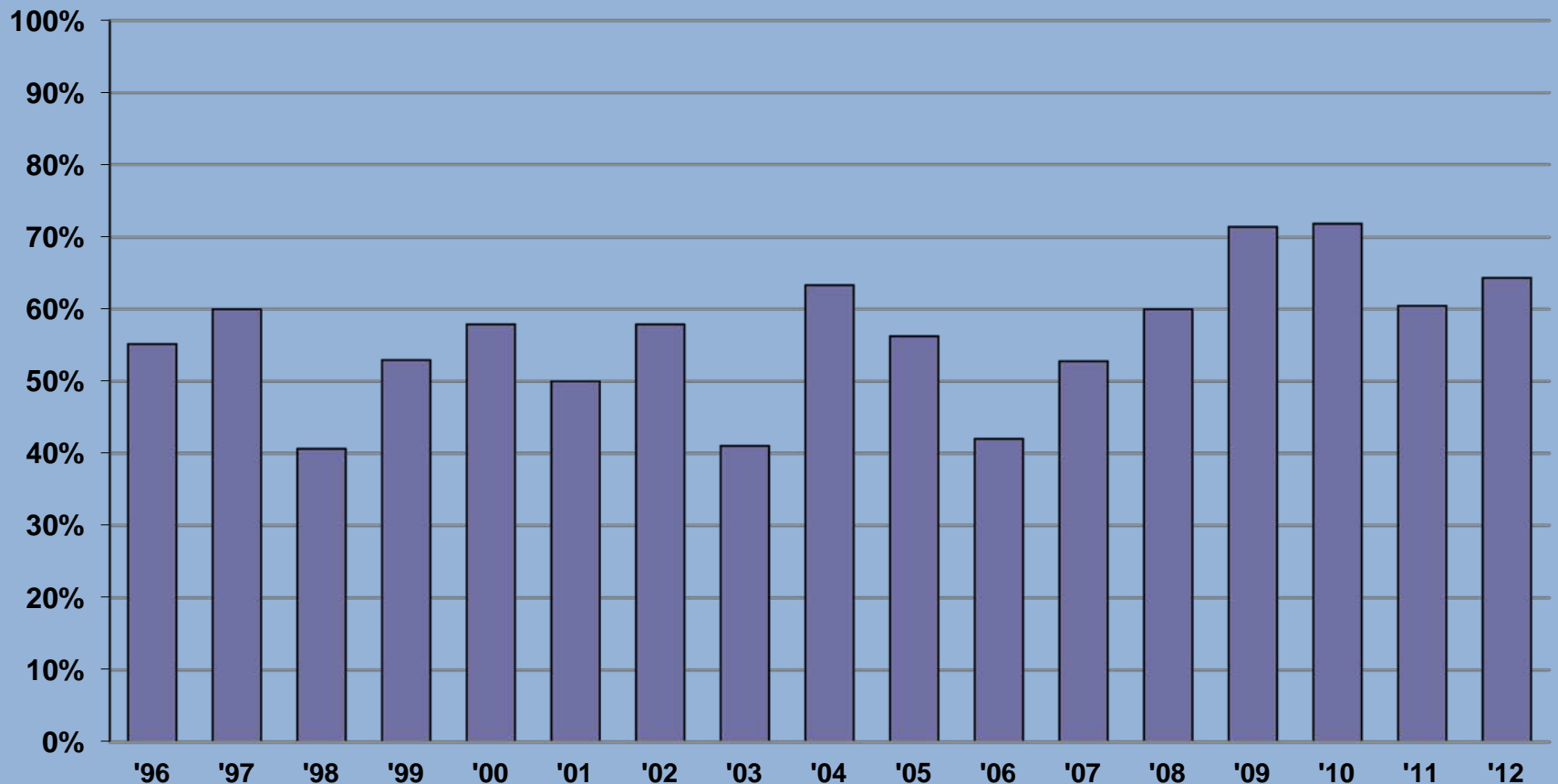
*Direct square footage*



# Renewals as % of Transactions

*Direct*

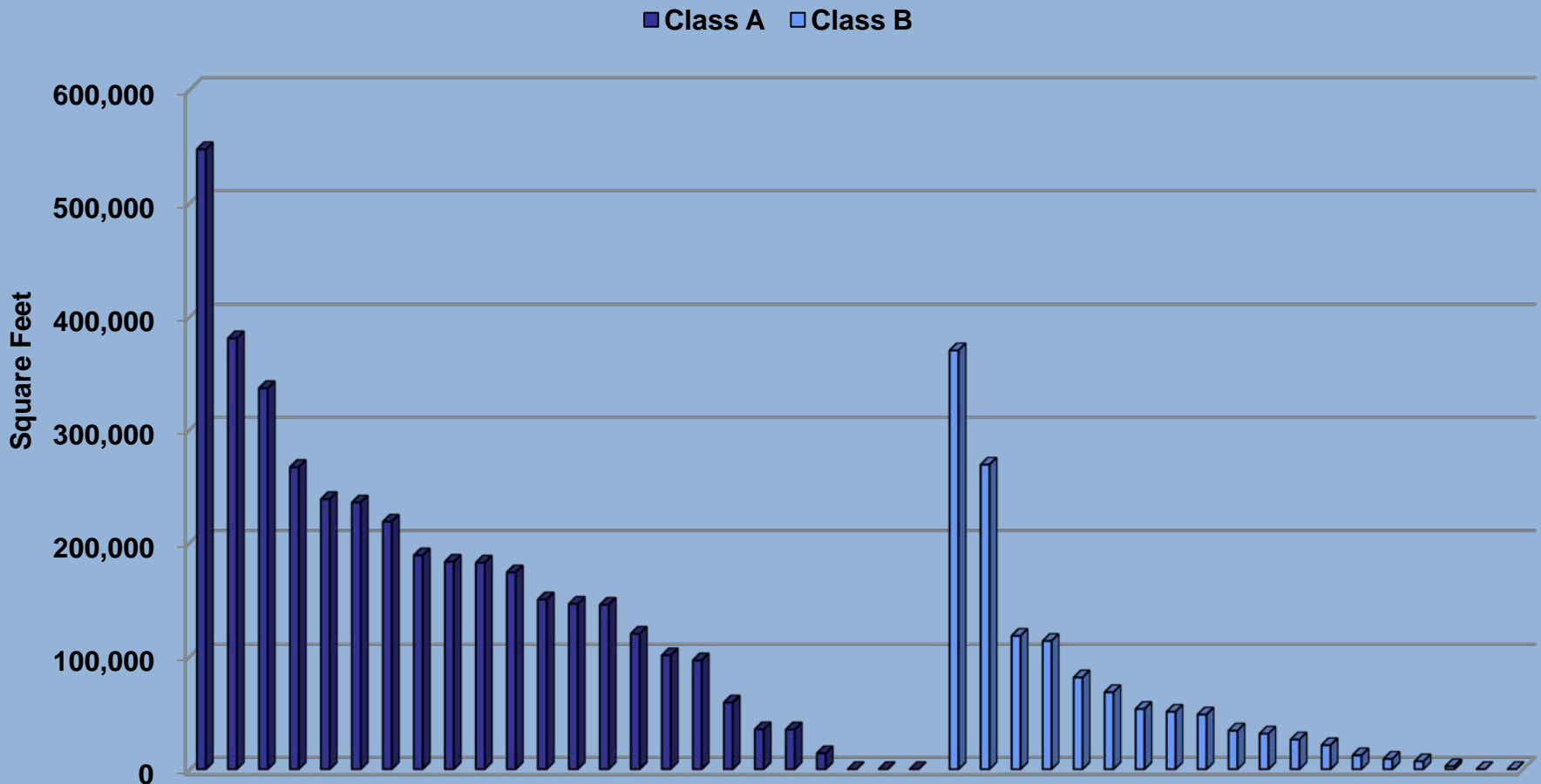
$\frac{\# \text{ Renewals (147)}}{\# \text{ Renewals (147)} + \# \text{ New (115)}}$



Tenants are more likely to renew rather than move

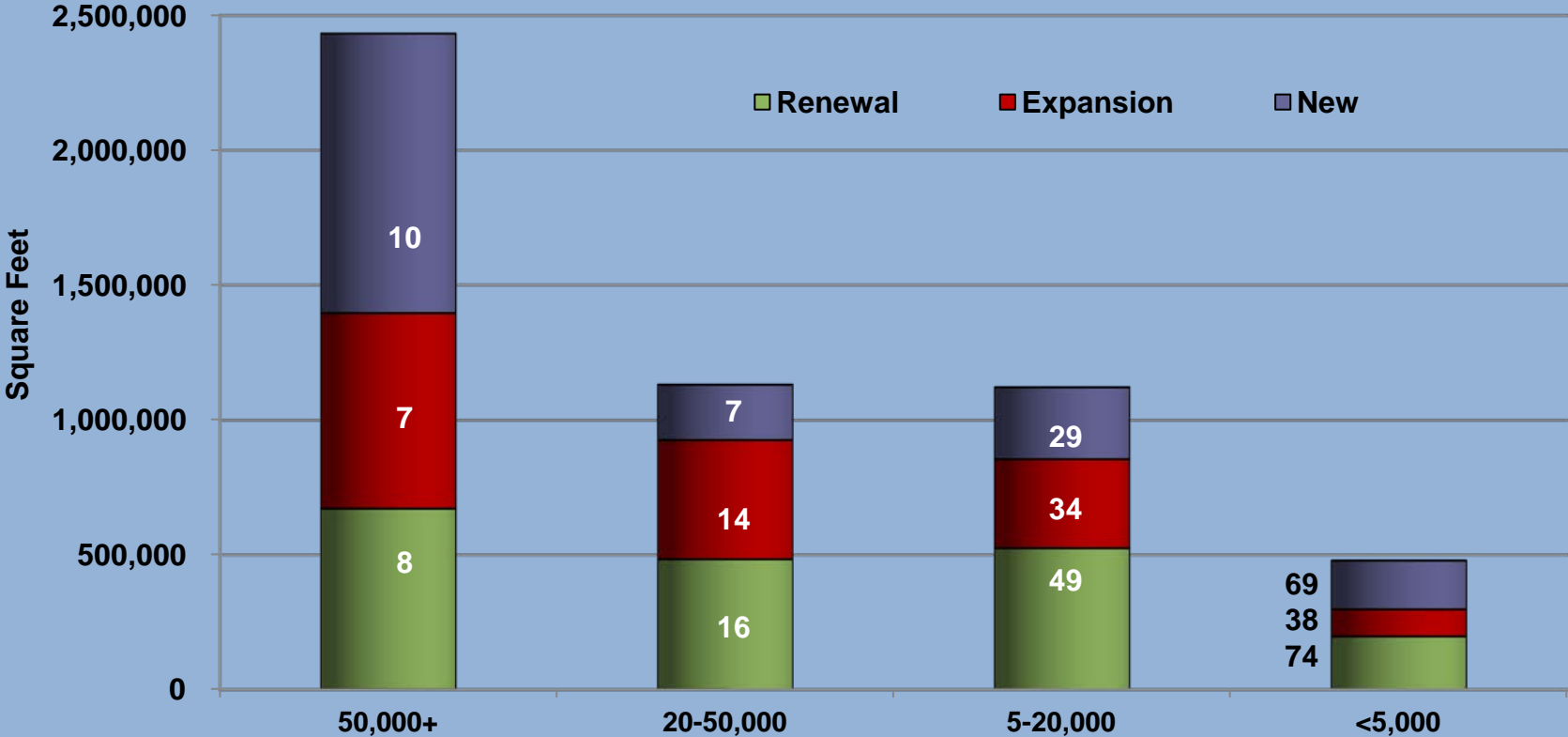
# Leases Signed by Building

*Direct*

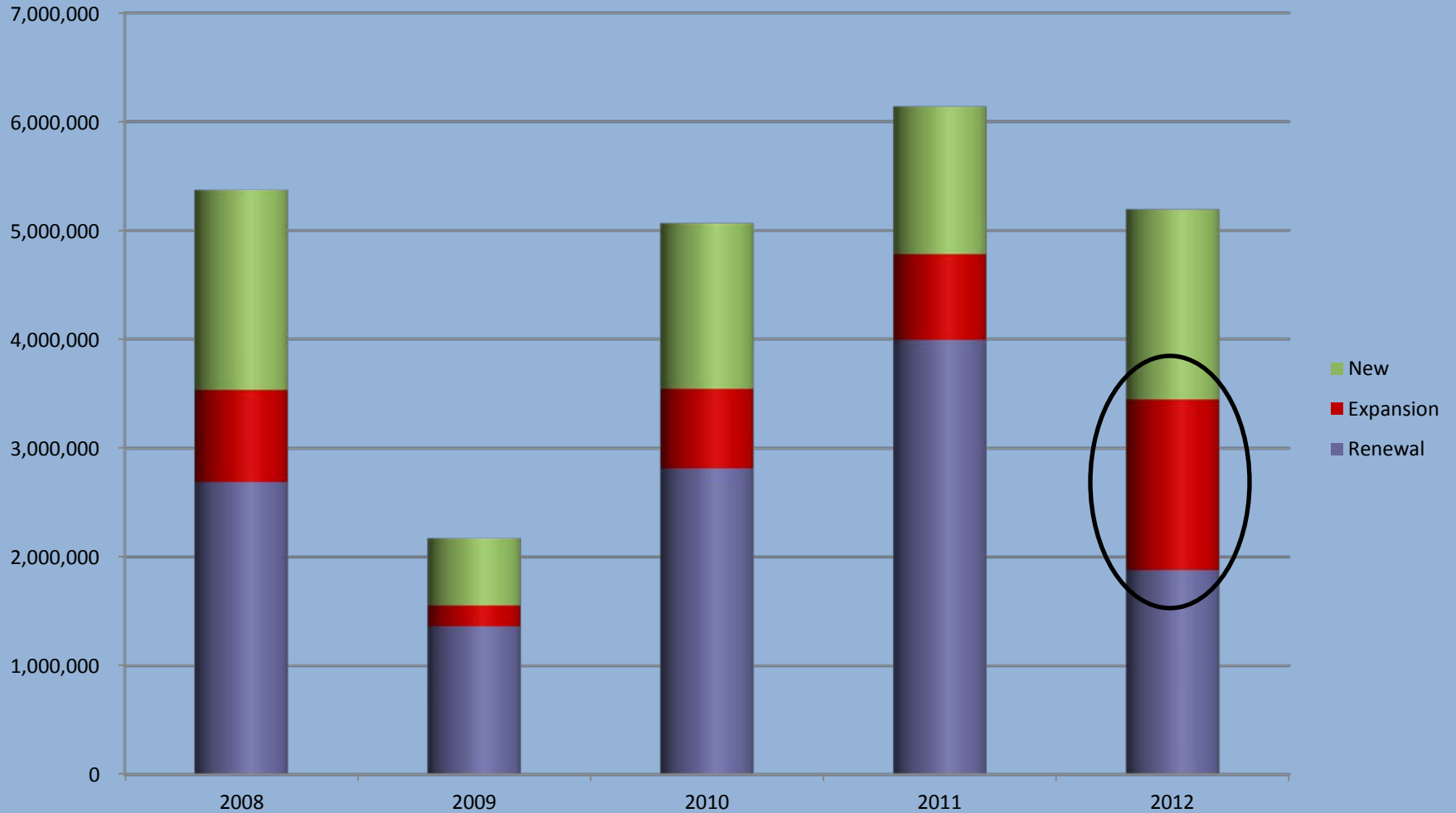


# Lease Transactions

## Direct

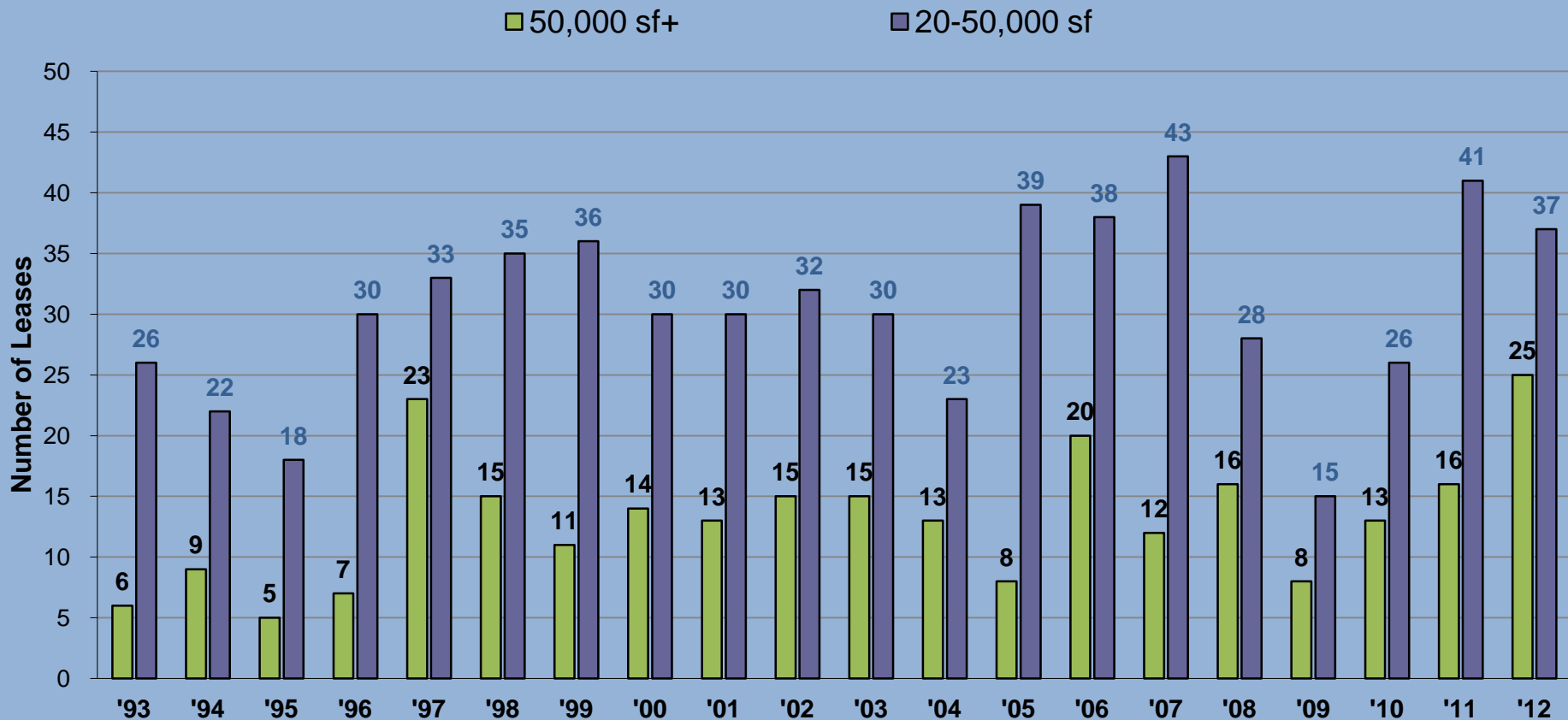


# Historic Leasing Activity



# Number of Large Transactions

## Direct



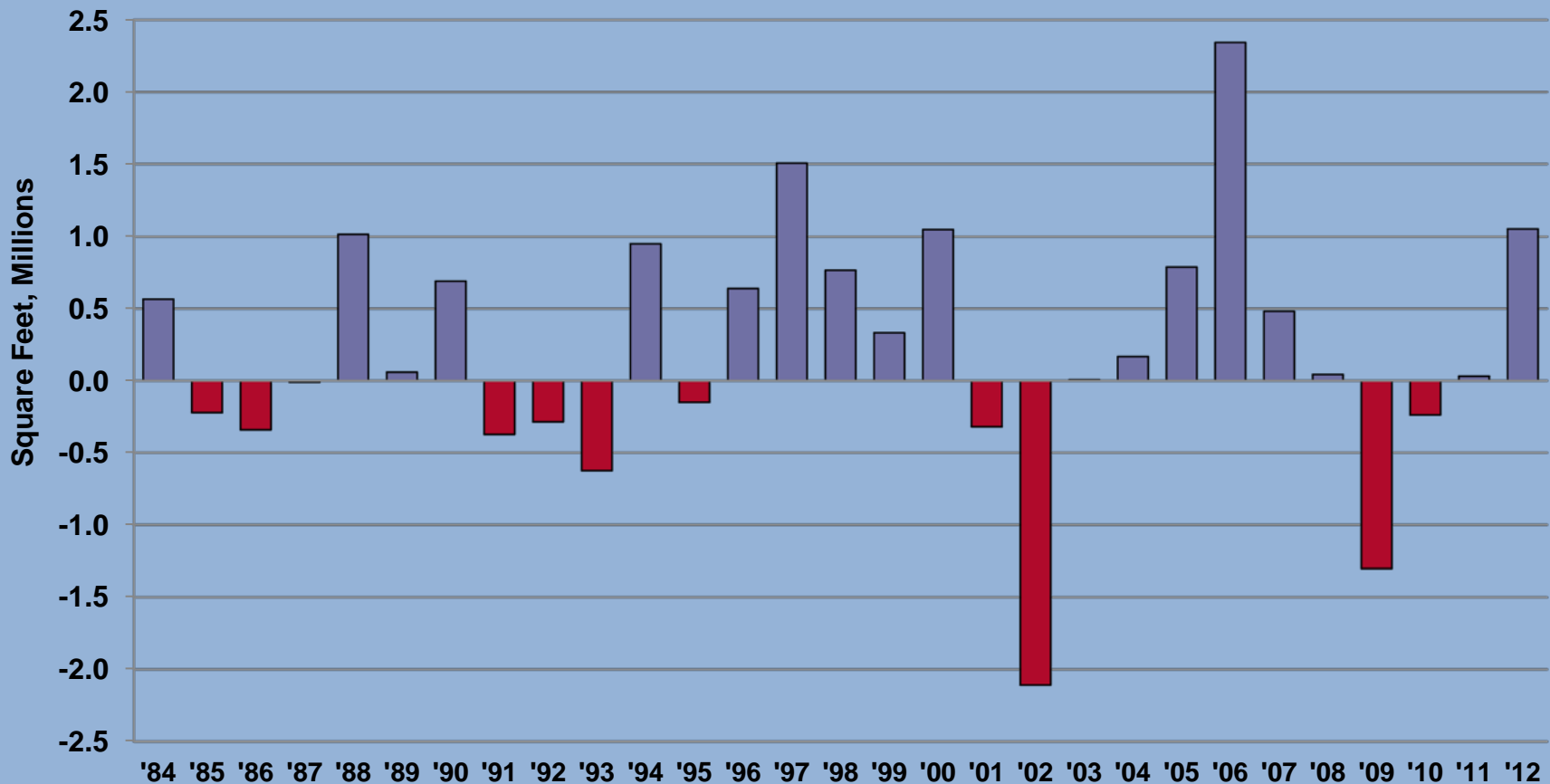


# Definition – Net Absorption

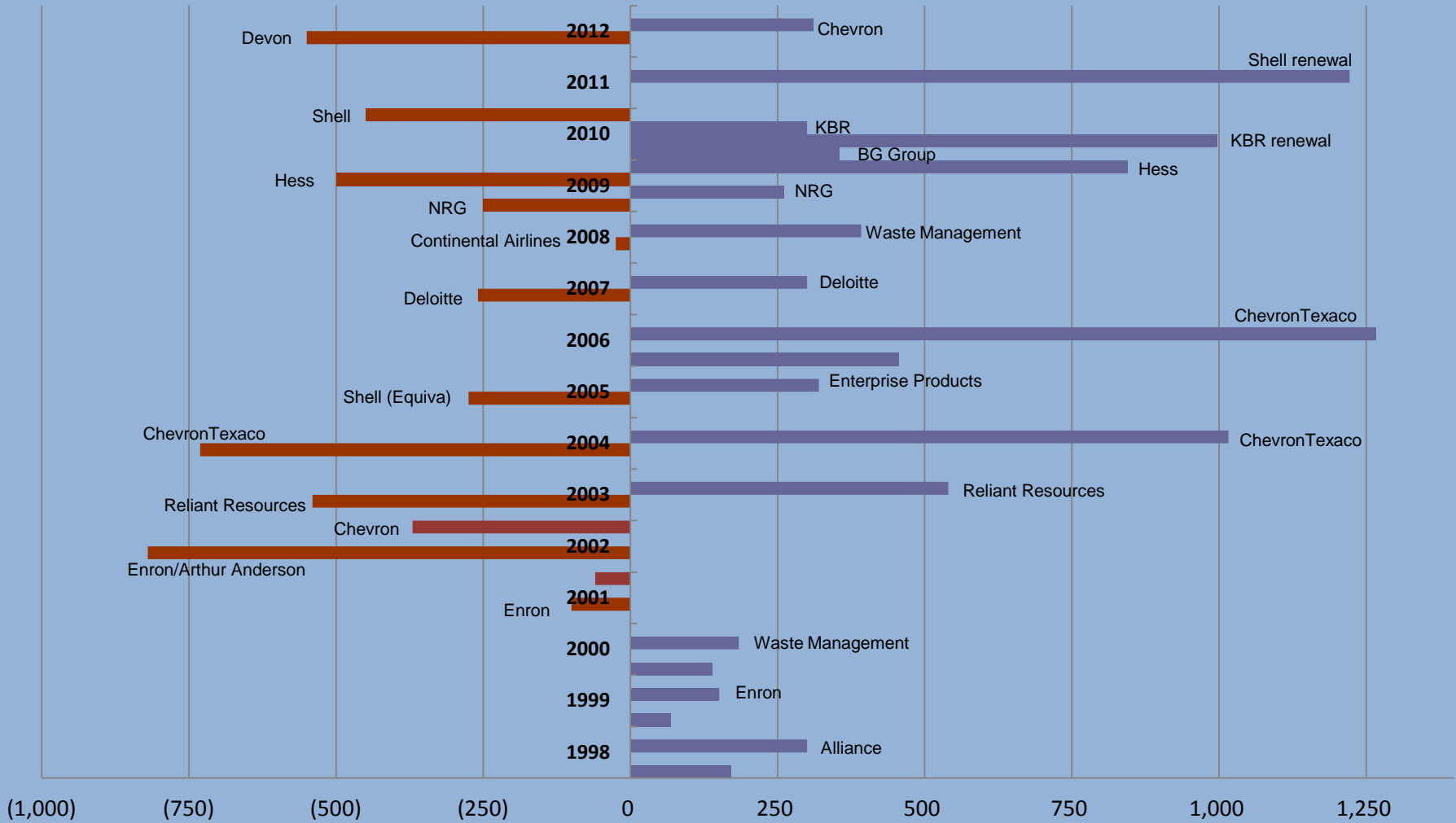
- The difference in aggregate space being marketed at the beginning vs end of the year with the same buildings.
- Absorption is tied to leasing activity.
- Occupancy/vacancy of a new building does not necessarily affect the absorption for that building. Thus, when a building is added to the survey and a downtown tenant is moving to that building, that tenant's old space often shows up as negative absorption in the market.
  - But CoStar's def: Net absorption is the net change in **occupied** space over a given period of time.

# Historical Change Marketed Space

*In same buildings only; direct*

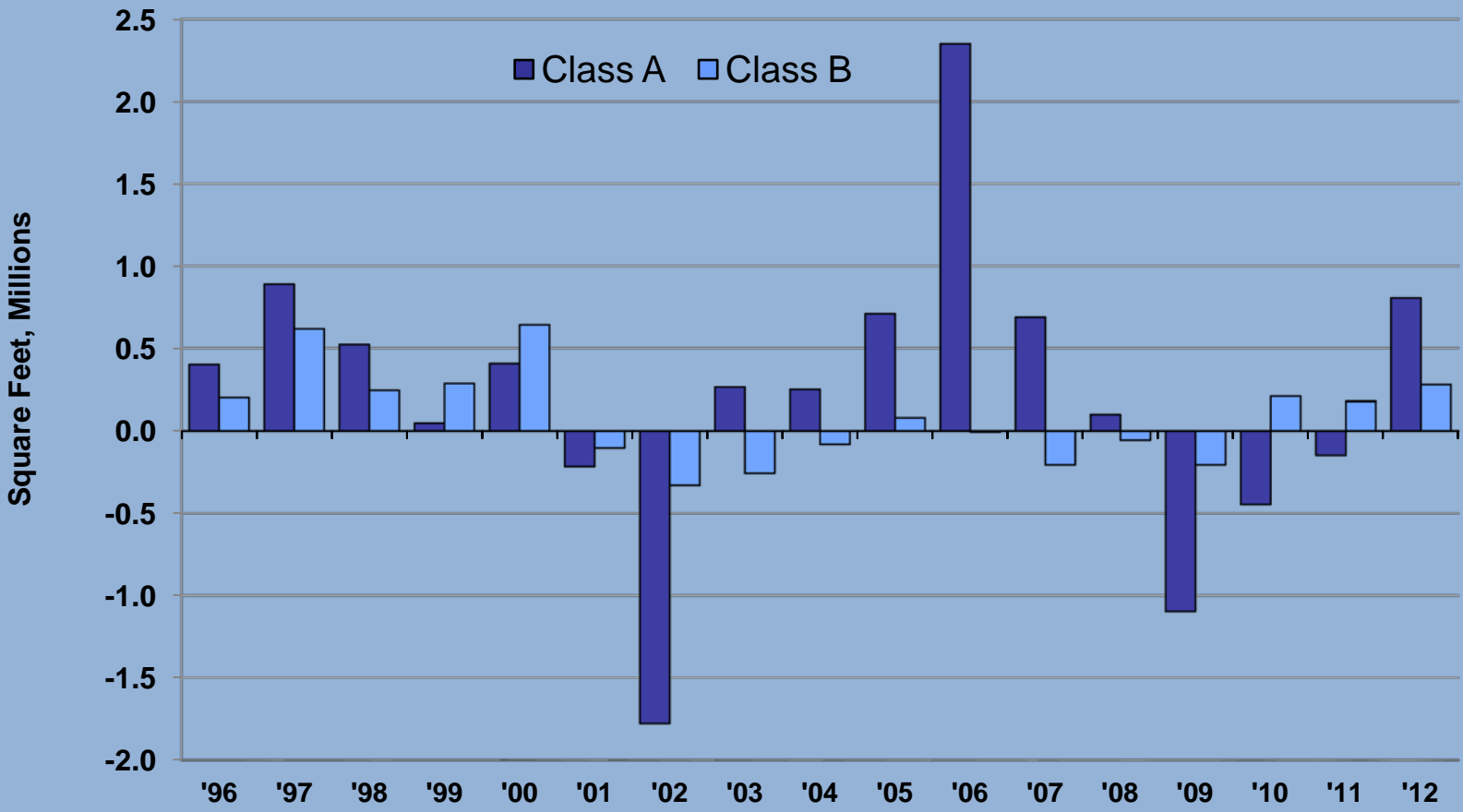


# Major Events

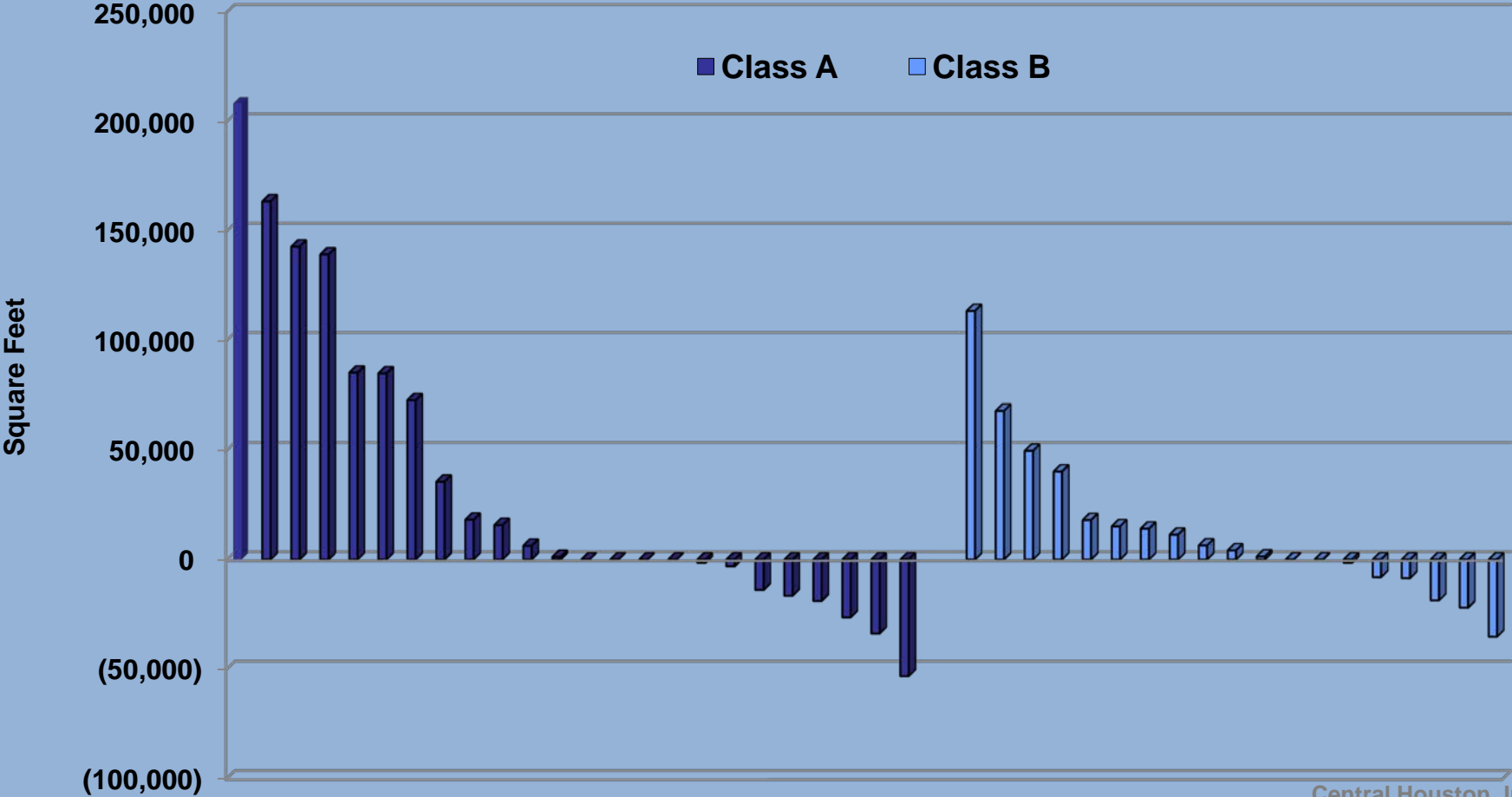


# Absorption – Building Class

## Direct

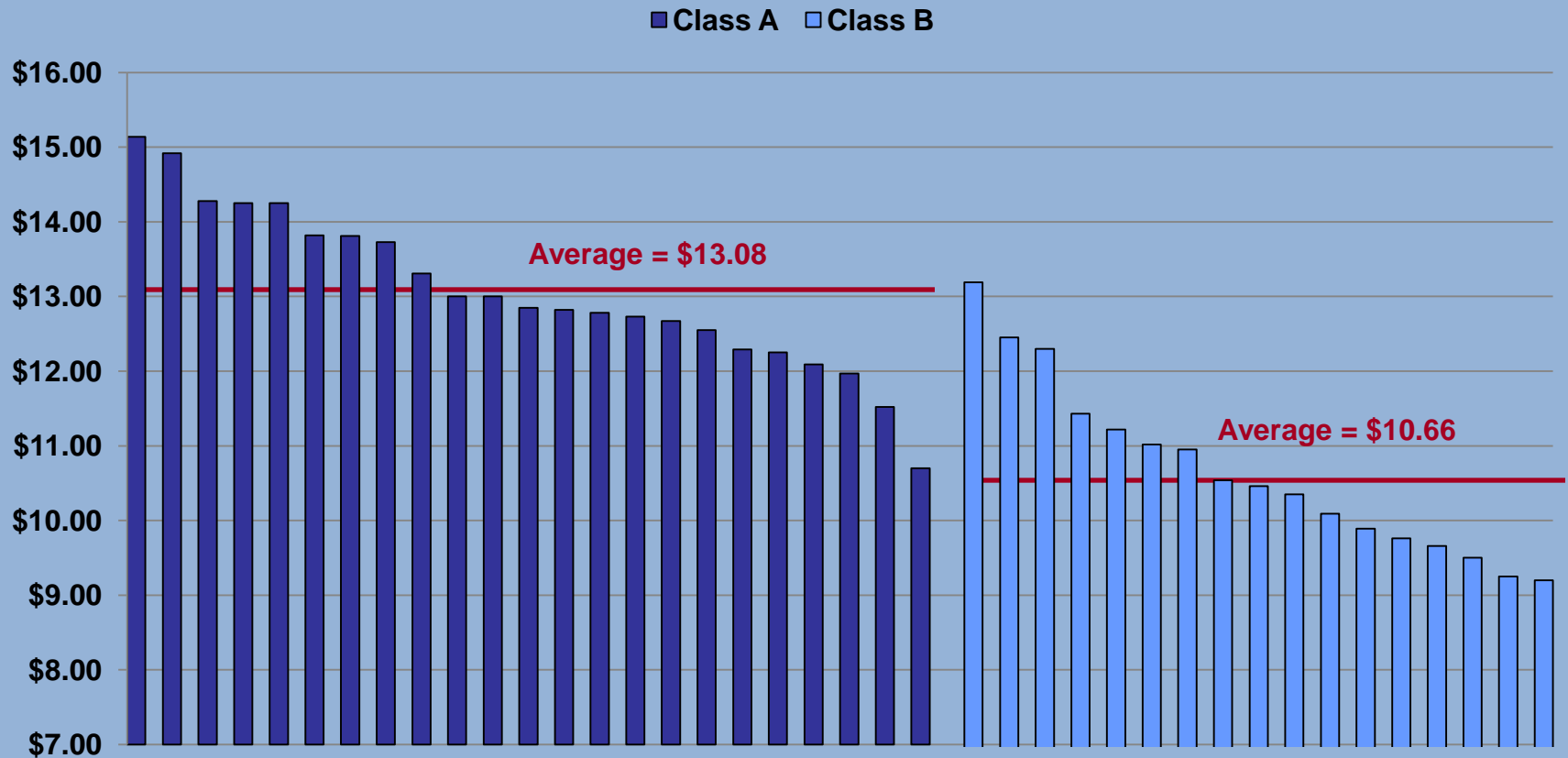


# Absorption by Building



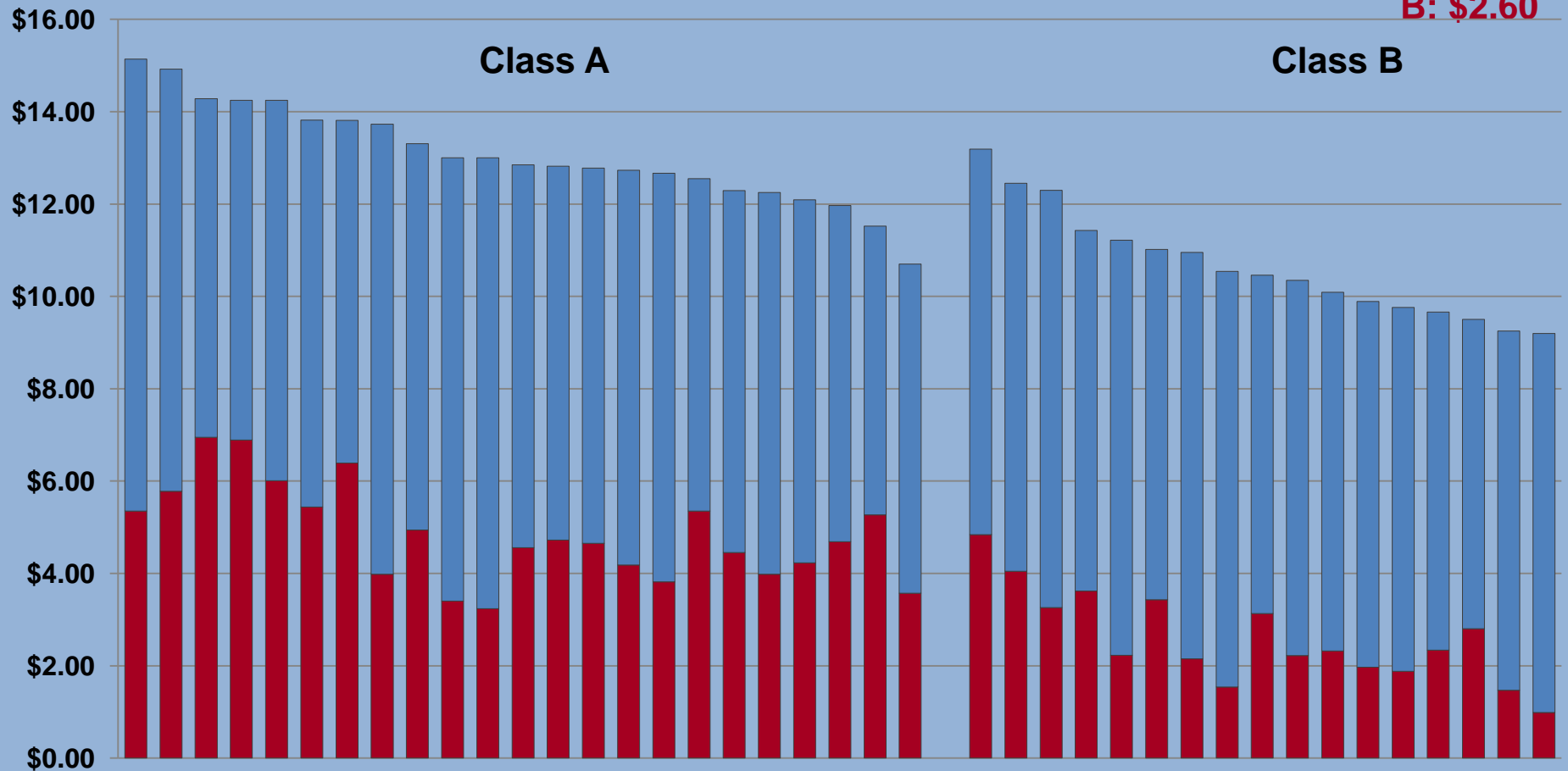
# Operating Expense Projections for 2013

*Estimates as of 1/1/13*



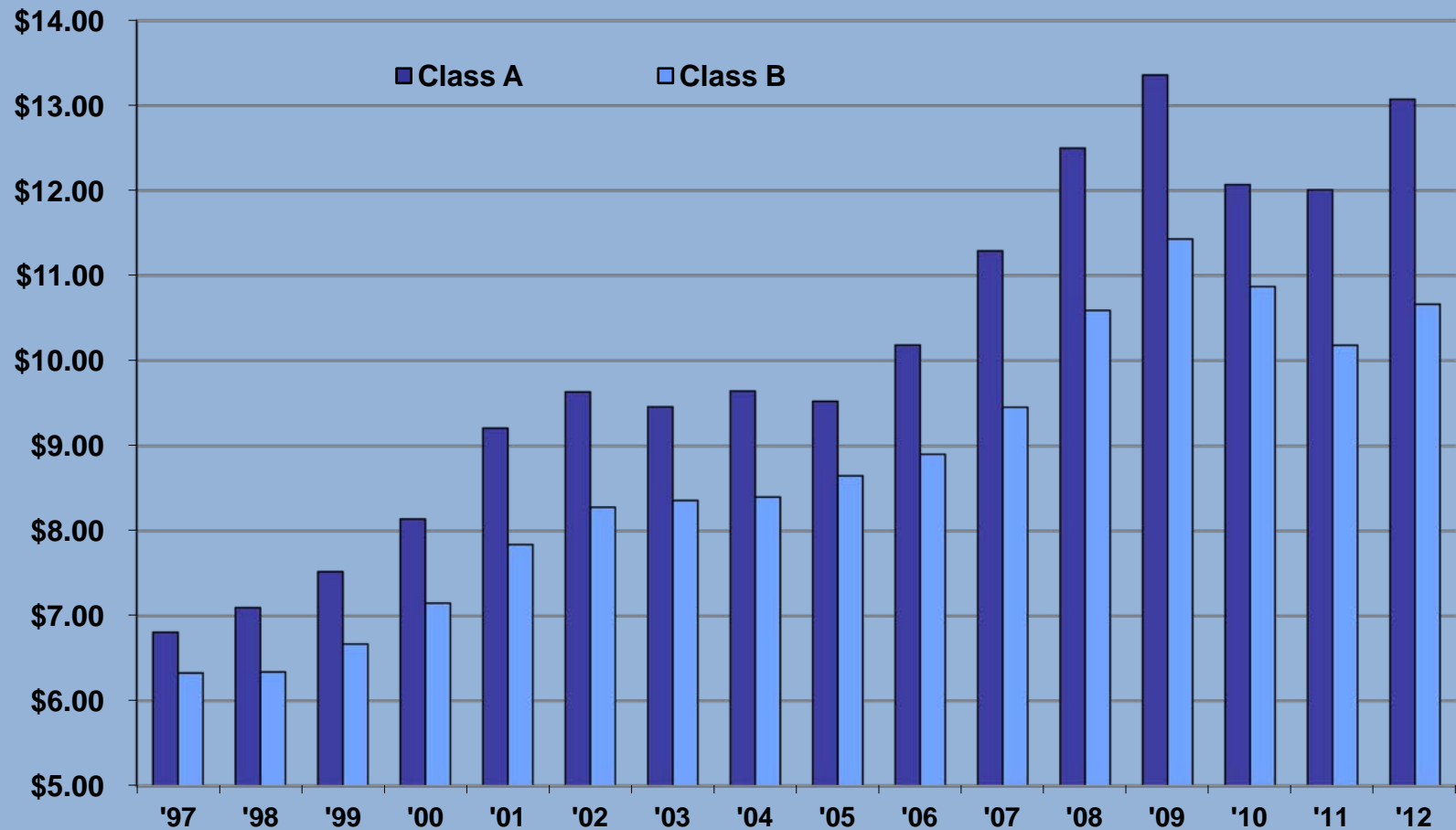
# Operating Expense Projections for 2013

**Tax Averages:** All: \$3.90  
 A: \$4.86  
 B: \$2.60



Tax component identified in red

# Operating Expense Projections





# Factors Affecting 2013+

- Exxon moves out in 2015. Shorenstein redevelops, ready for occupancy 2<sup>nd</sup> half 2016 & 2017. Begin to market in '13.
- Shell: In 2 Shell, will vacate >375ksf, available 1/1/15
- Effect of sublease space?
  - Kinder Morgan subleasing 98,172 sf (5 floors, biggest block = 3 floors). Exp 2020.
  - Devon still has 224,502 sf (10 floors, biggest block = 4 floors) on sublease market. Exp 2020.
  - GenOn: New: keeping 3 of its 5 floors in 1000 Main. Exp 2018.
- New Buildings
  - Chevron to build 1.7 msf, move-in 4Q16. Currently occupies 462,000 sf in 1600 Smith and 311,000 sf in 2 Allen.
  - Hines to go spec on Block 69.
  - Earliest delivery of any new building: 2016 (36-48 months)
  - Other potential buildings: Stream/Linbeck Block 43; Brookfield's sites; Capitol Tower; Crescent

# Contact

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