CBD STORY 2014

As of January 1, 2014

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 that supplements other surveys. It assists owners, leasing agents and potential investors in analyzing the current competitive leasing environment.
- Buildings in the survey universe are those that have proven the ability to compete for tenants in the downtown Tier 1, Tier 2 and Tier 3 markets. (Tiers 1 and 2 are subsets of Class A.)
- This is the 30th year of collecting and analyzing the data.

Buildings Surveyed

	Number	Rentable SF
Tier 1	**9**	**9,448,211**
Tier 2	**13**	**14,294,346**
Tier 3	**21**	**9,811,943**
Total	**43**	**33,554,500**

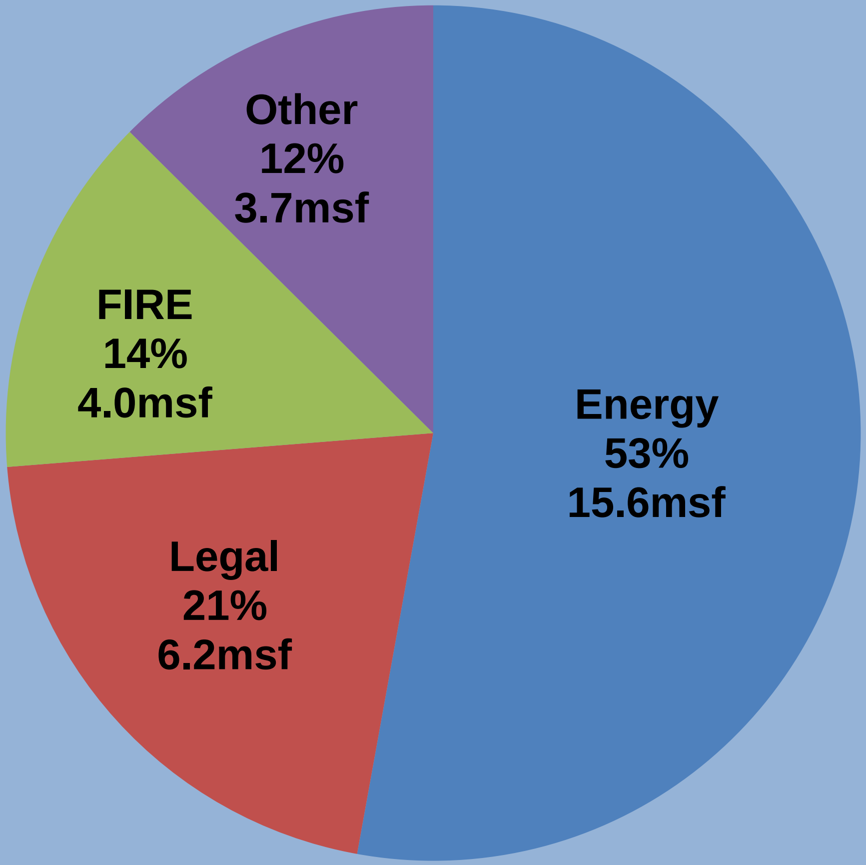
The following are owner-occupied buildings and thus are **excluded** from the survey universe: 800 Bell, 1500 Louisiana and 1400 Smith = ~3.6 msf total.

Survey Universe by Tier

Tier 1	Tier 2	Tier 3	
1000 Main	1 Allen Center	4 Houston Center	1001 McKinney
5 Houston	2 Allen Center	NRG Tower	1010 Lamar
717 Texas	3 Allen Center	1111 Fannin	1301 Fannin
BG Group Place	1600 Smith	Total Plaza	801 Louisiana
600 Travis (Chase Tower)	LyondellBasell Tower	KBR Tower	801 Travis
Bank of America Ctr	2 Houston Center	500 Jefferson	919 Milam
Heritage Plaza	Fulbright Tower	600 Jefferson	Esperson
Hess Tower	1 Shell Plaza	811 Louis. (2 Shell)	Lyric Center
Wells Fargo Plaza	1100 Louisiana	601 Travis	One City Centre
	1001 Fannin	712 Main	1300 Main
	CenterPoint Energy Plaza		Wedge Int'l Tower
	Kinder Morgan Tower		
	Pennzoil Place		

Office Building Use by Industry

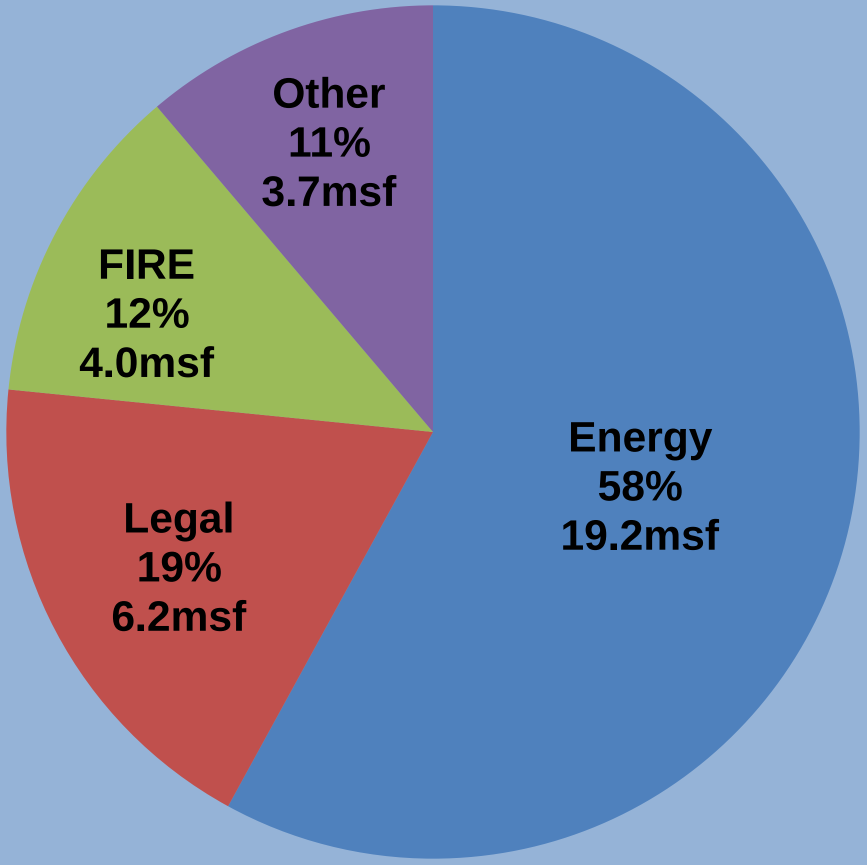
Properties in the survey universe



- 29.5 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



- 33 million sf of *occupied* space in survey universe
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Large Tenants in Bldg Universe

Tenants by number of floors	
One or more floors	264
Two or more floors	126
Four or more floors	63
Tenants by square footage	
20,000+ sf	222
100,000+ sf	54
200,000+ sf	30
500,000+ sf	7

11 tenants control 25% of the survey universe

20 tenants control 33% of the survey universe

52 tenants control 50% of the survey universe

Excludes Exxon’s 800 Bell, Chevron’s 1500 Louisiana and 1400 Smith buildings

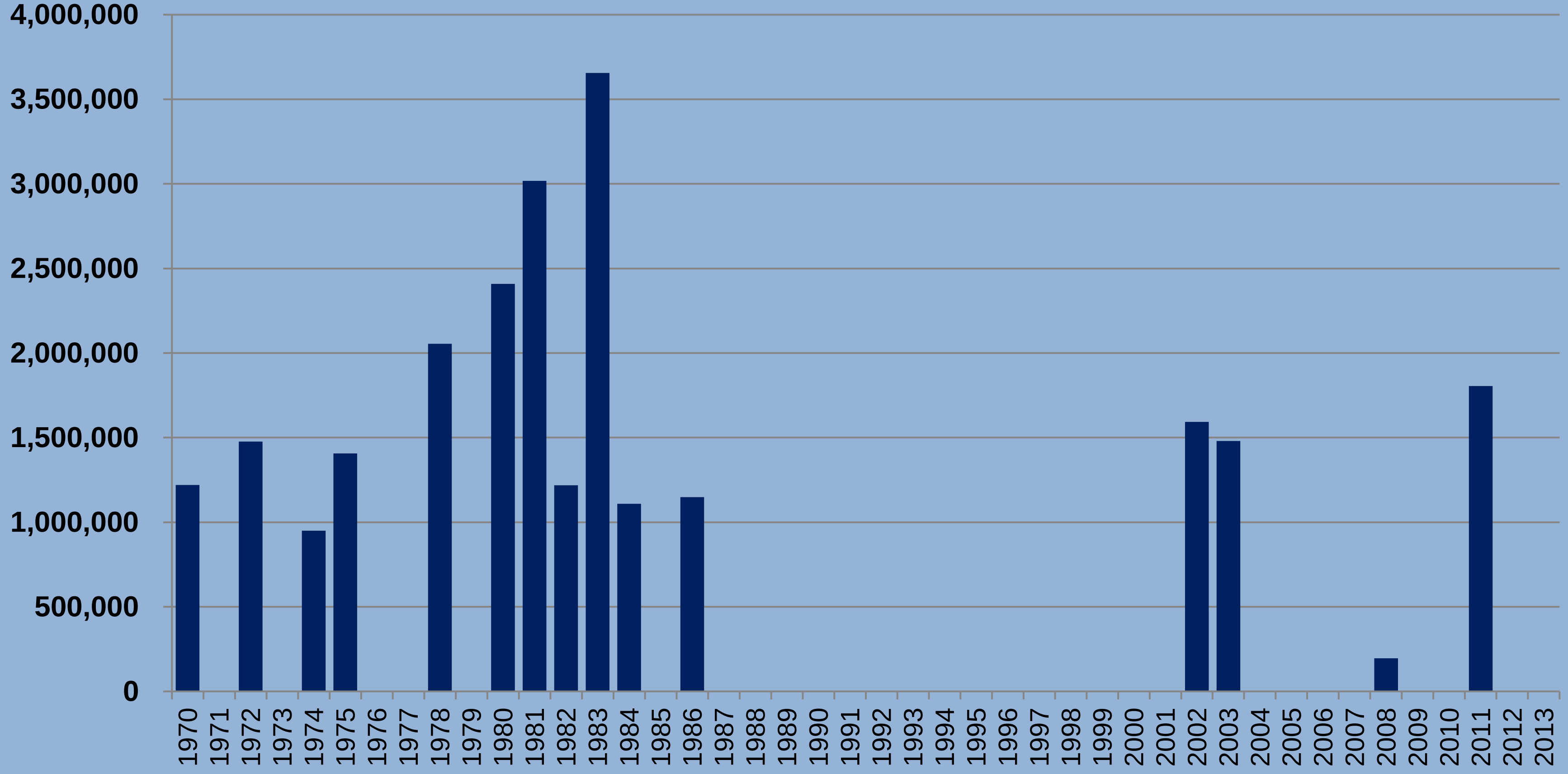
Summary Data

January 1, 2014

Survey Universe	33,554,500
Space Being Marketed (Direct)	3,827,714
Percent Being Marketed (Direct)	11.4%
Space Being Marketed (Sublease)	902,208
Percent Being Marketed (Sublease)	2.7%
2013 Absorption (Direct)	283,288
2013 Leases Signed (Direct)	3,232,551

Class A Building Construction

Square Feet Built per Year



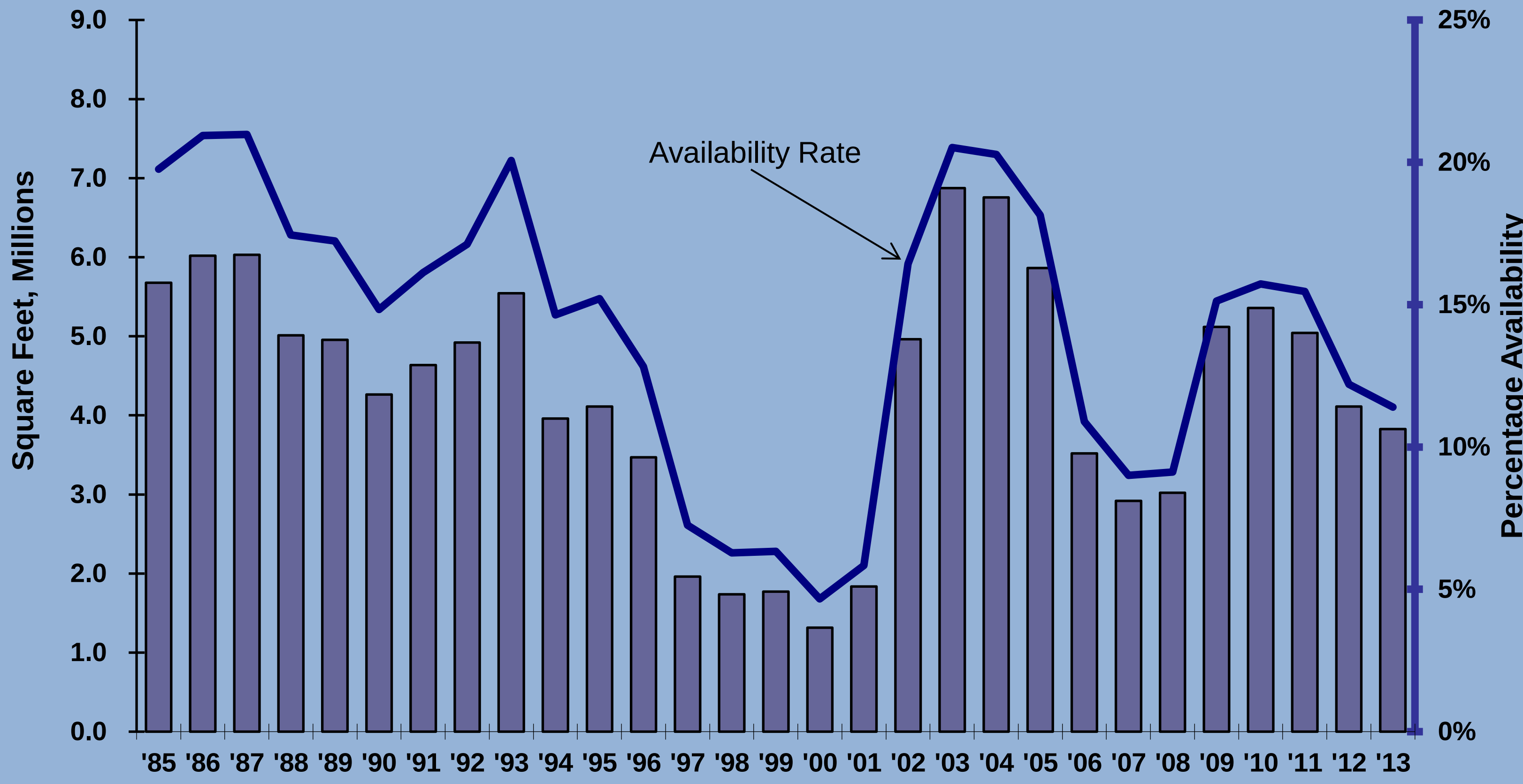
Definitions – Space Available and Availability Rate

- Available: Any office space being marketed, even if occupied and leased. If it is being marketed, it is competing against other space.
  - CoStar's definition: "The total amount of 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, available for sublease, or available at a future date."

- Availability rate: Direct office space being marketed divided by the total amount of office space in this survey universe.
  - CoStar's definition: "The ratio of available space to total rentable space, calculated by dividing the total available square feet by the total rentable square feet"

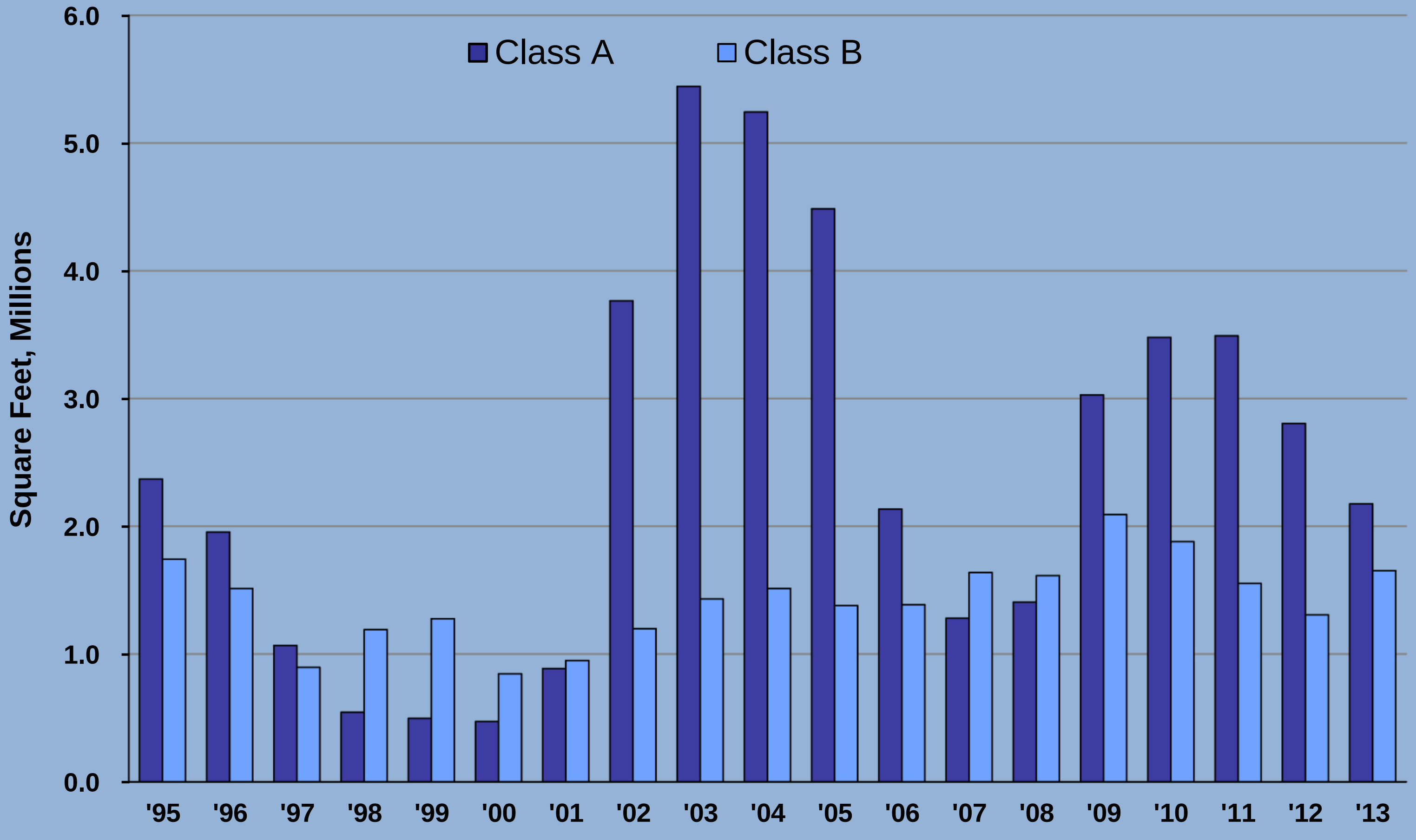
Historical Availability

Direct space being marketed



Historical Space Being Marketed

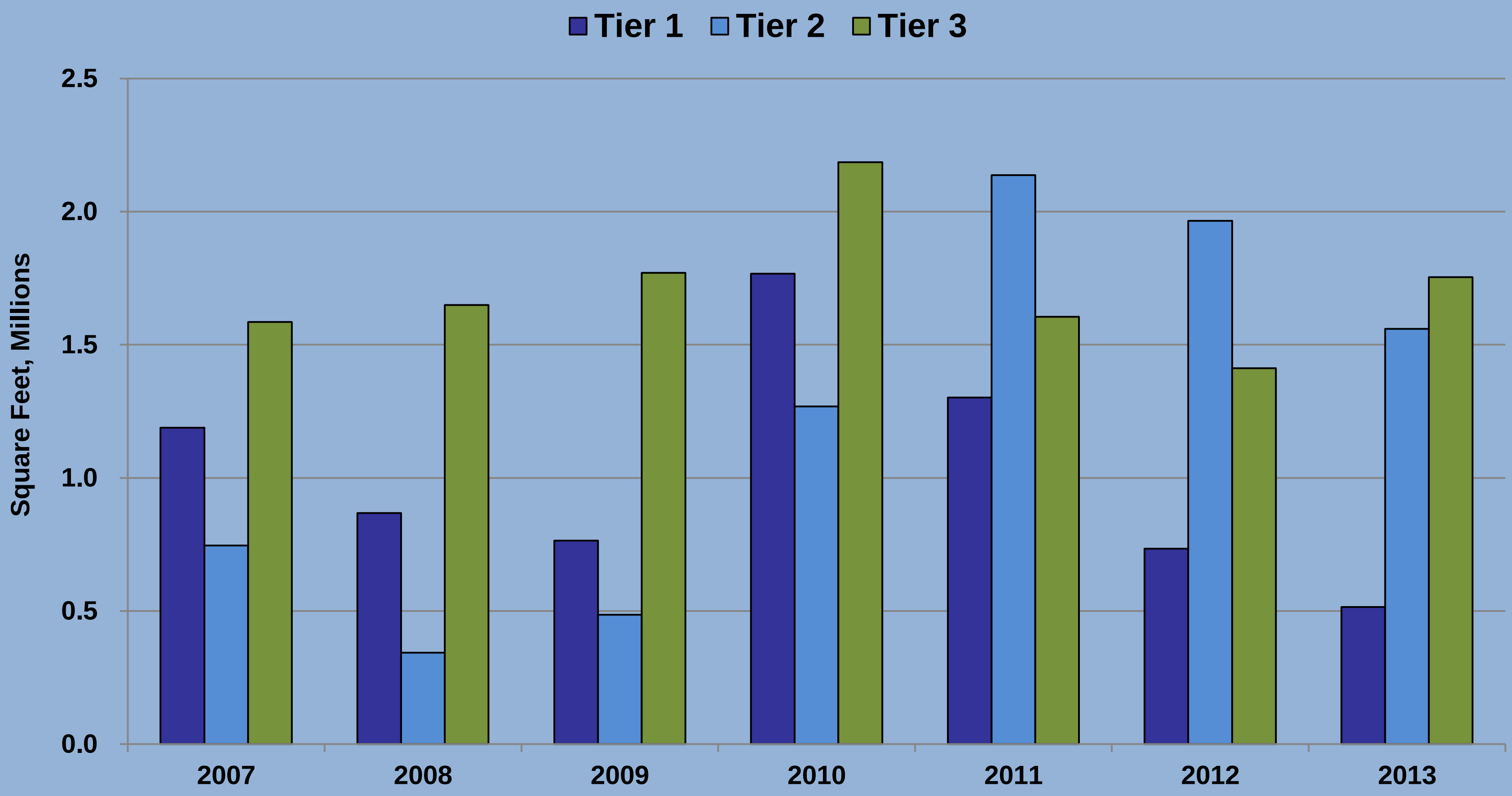
Direct



Using former bldg classification

Historical Space Being Marketed

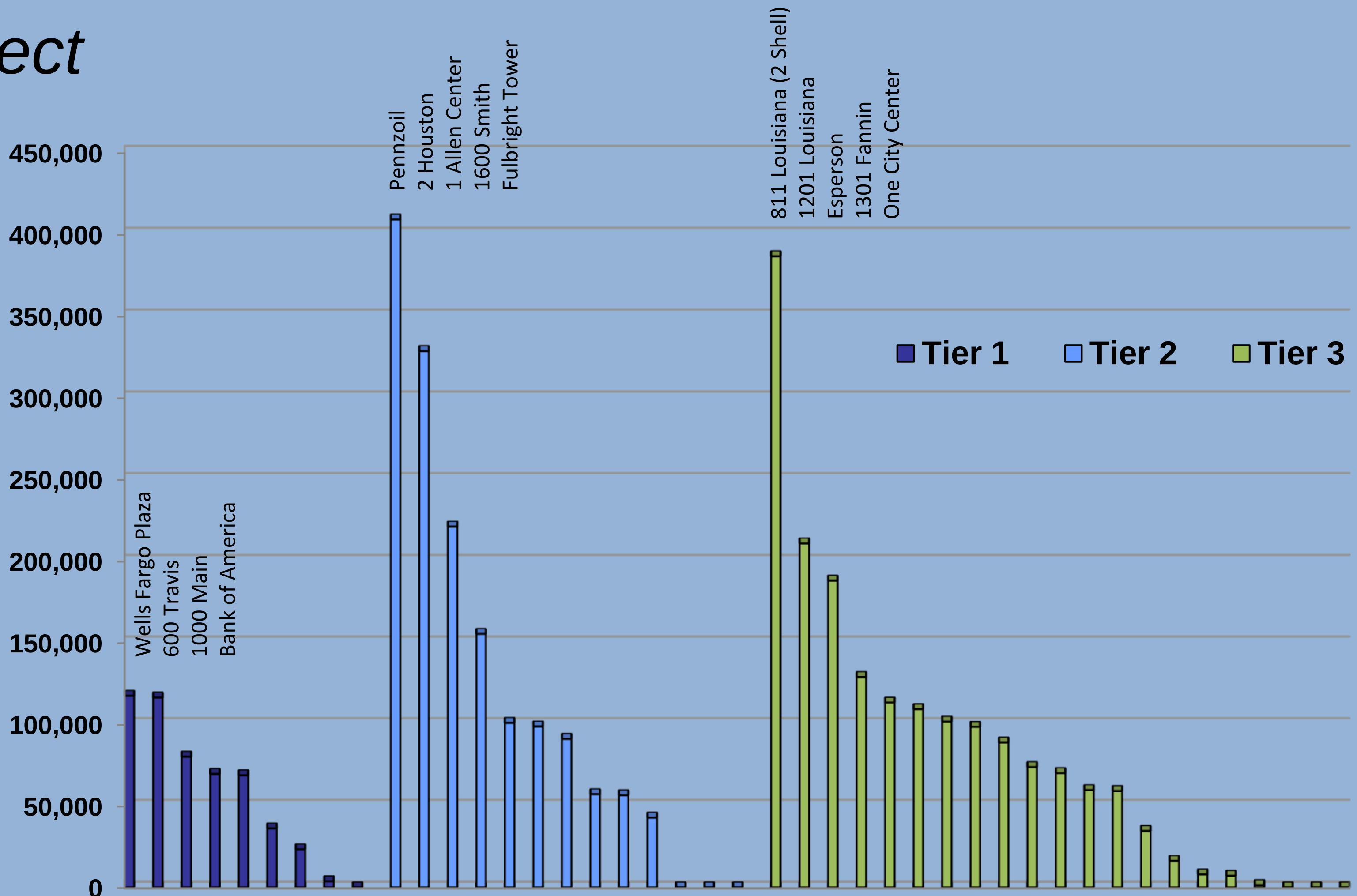
Direct



Using new bldg classification

Space Being Marketed by Bldg 1/1/13

Direct



Effective Blocks of Space

As of 12/2/14 *100,000 SF+*

Tier	Building	Floors	SF	Former Tenant
3	811 Louisiana	10-15, 18-22	348,360	Shell
2	2 Houston Center	4-8	234,333	Shell (9th fl for subl, total 257,257 SF)
3	Total Plaza	10-15	145,352	Hilcorp
2	1600 Smith	9-12, 15-16	140,747	United Airlines
3	Total Plaza	28-32	124,069	PwC
1	Wells Fargo Plaza	30-35	114,066	Gardere
1	BG Group Place	24-27	109,245	BG Group

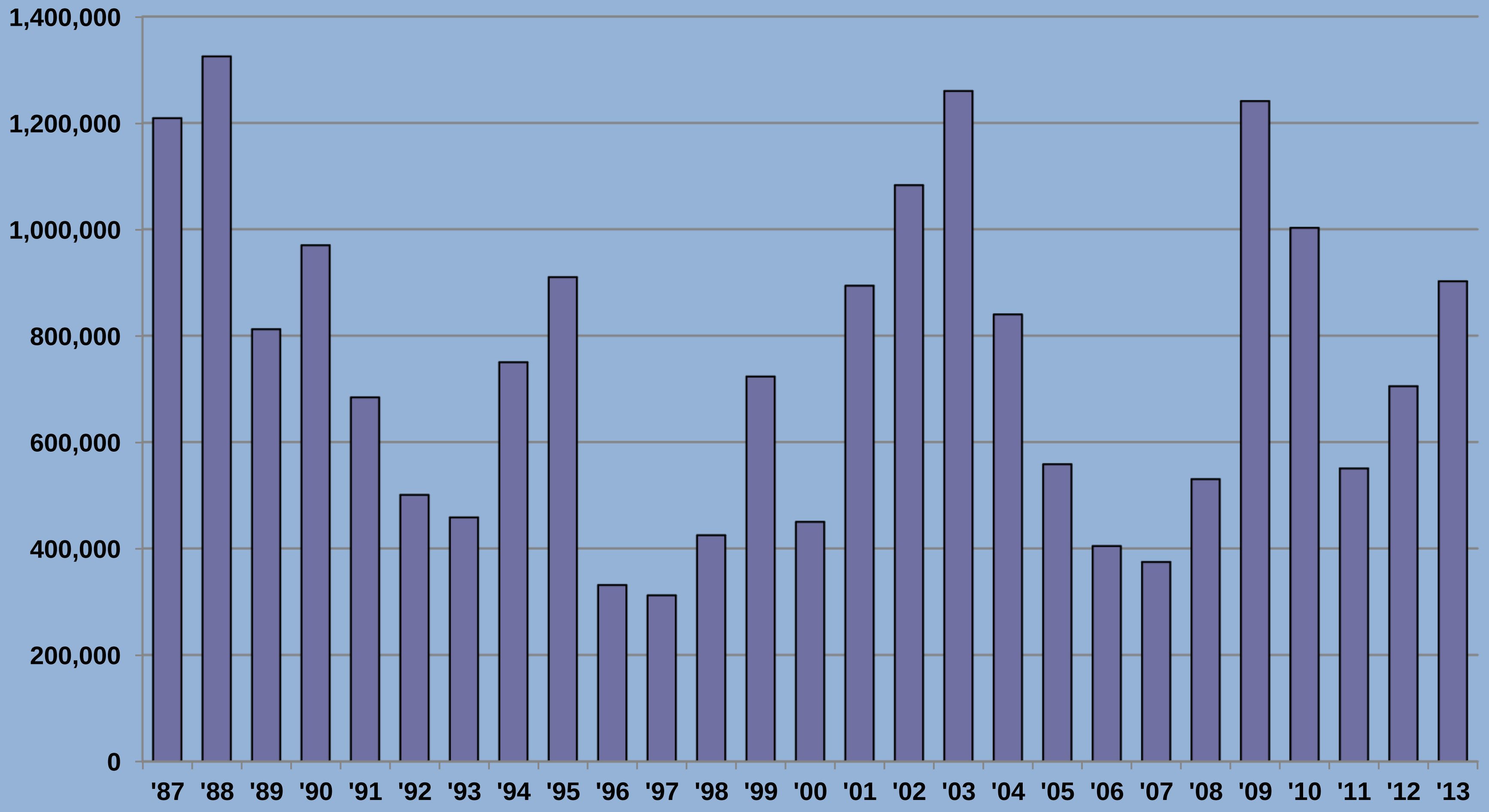
Red text indicates sublease space.

Full-Floor Sublease Spaces

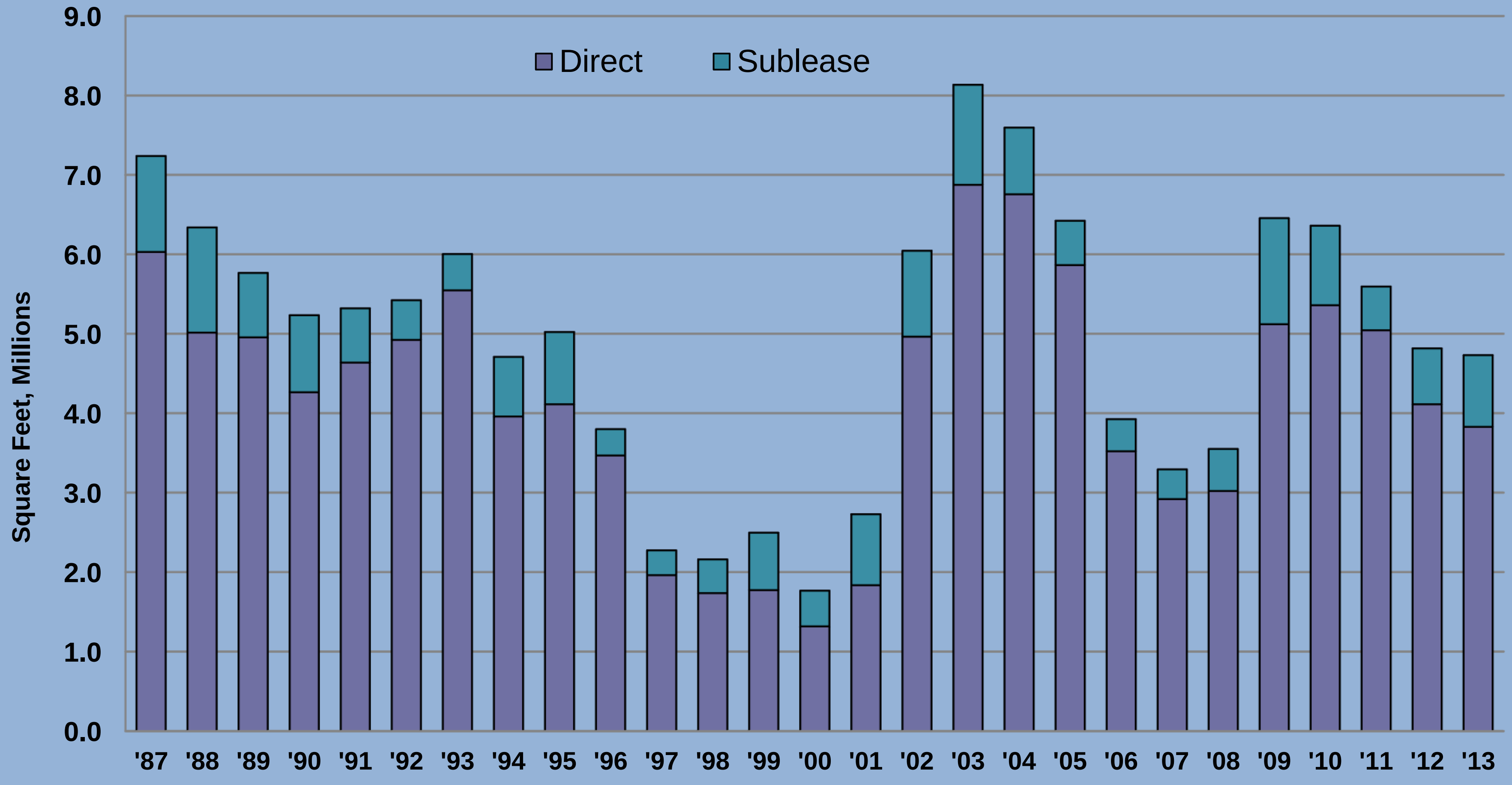
With term, as of 12/2/14

Tier	Building	Floors	Expiration	SF
1	BG Group Place	24-27 (BG Group)	Dec-26	106,005
2	Three Allen Center	3-6 (Devon)	Jan-20	84,508
2	Fulbright Tower	7-9 (Sandridge)	Aug-17	73,971
2	Two Allen Center	5 & 21(Devon)	Jan-20	56,109
2	Fulbright Tower	23-24 (PanAtlantic)	Oct-22	50,237
2	Fulbright Tower	13, 21 (Memorial Production)	Negotiable	49,314
1	Wells Fargo Plaza	65 & 69 (Cathexis)	Aug-21	48,507
3	Wedge Tower	23 & 29 (Eagle Rock)	Feb-18	34,235
3	919 Milam	16 & Part 15 (EPL)	Feb-17	34,128
2	1100 Louisiana	50-51 (Vitol)	Jan-20	30,978
1	1000 Main	22 (Shell)	Dec-25	28,963
1	717 Texas	13 (Calpine)	Dec-20	26,798
2	Fulbright Tower	41 (Norton Rose Fulbright)	Feb-18	23,840
2	2 Houston Center	9 (Argent)	Feb-20	22,924
1	600 Travis	57 (Breitburn)	Feb-18	22,561
1	600 Travis	48 (Breitburn)	Feb-18	22,082
2	Pennzoil Place South	5 (Royston Rayzor)	Nov-18	20,429
3	1001 McKinney	6 (Collegedegrees.com)	Aug-18	20,001

Historical Sublease Available



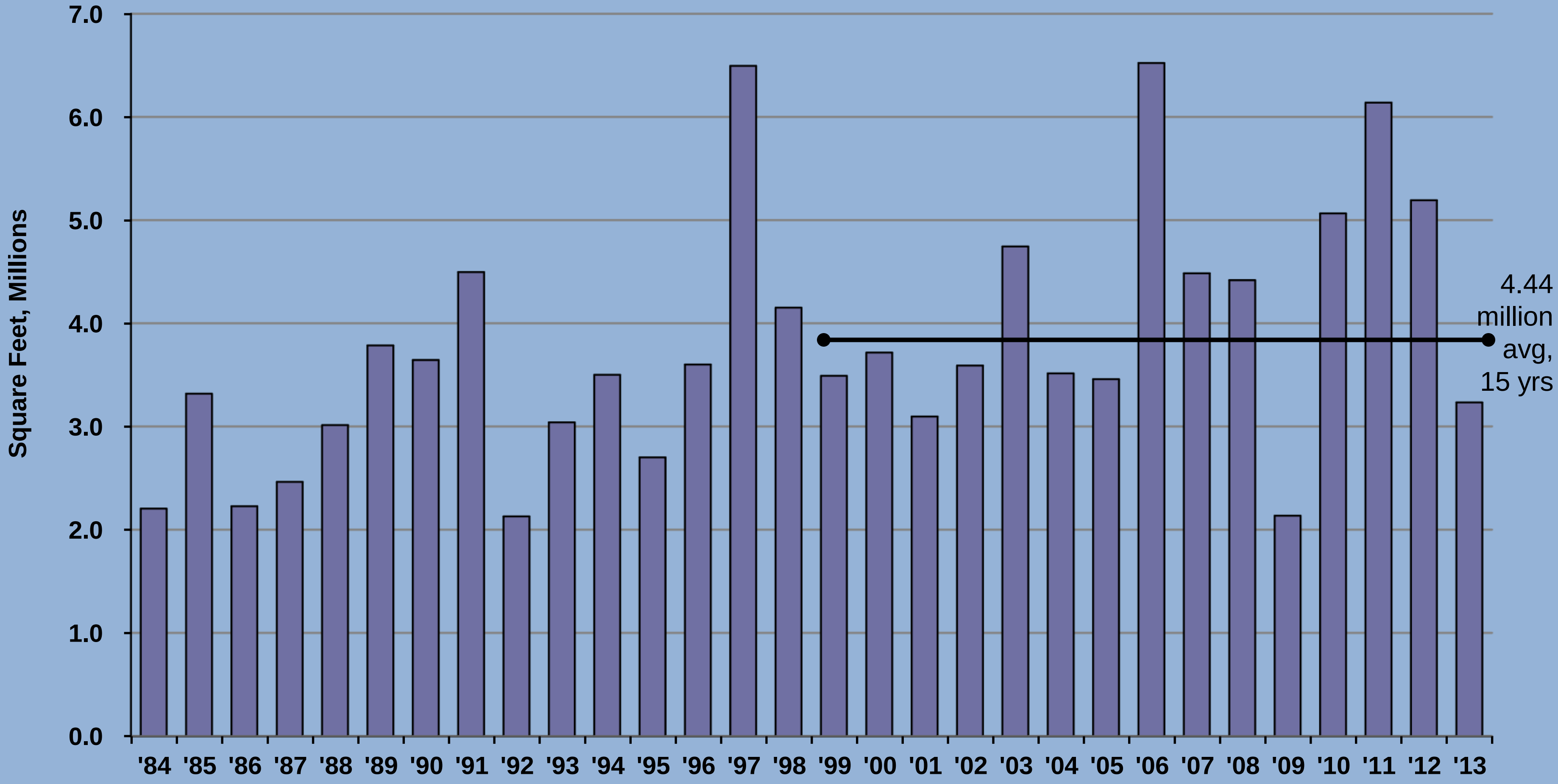
Historical Direct + Sublease Avail



Definition – Leasing Activity

- Any lease signed during the year, no matter when occupancy is to take place.
  - CoStar's definition: "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 include direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in planned, under construction or under renovation buildings."

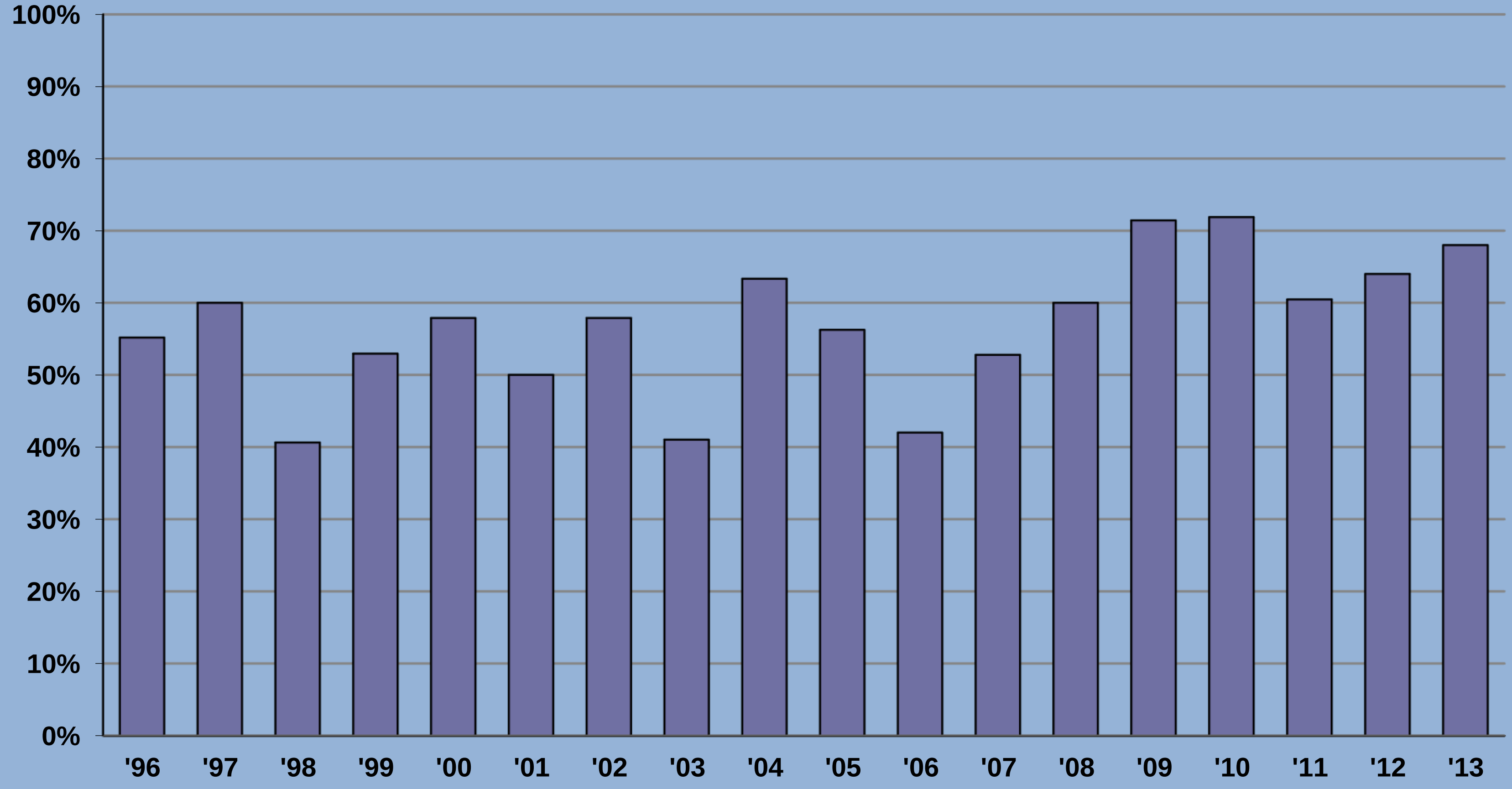
Historical Leasing Activity



Renewals as % of Transactions

Direct leases >20ksf

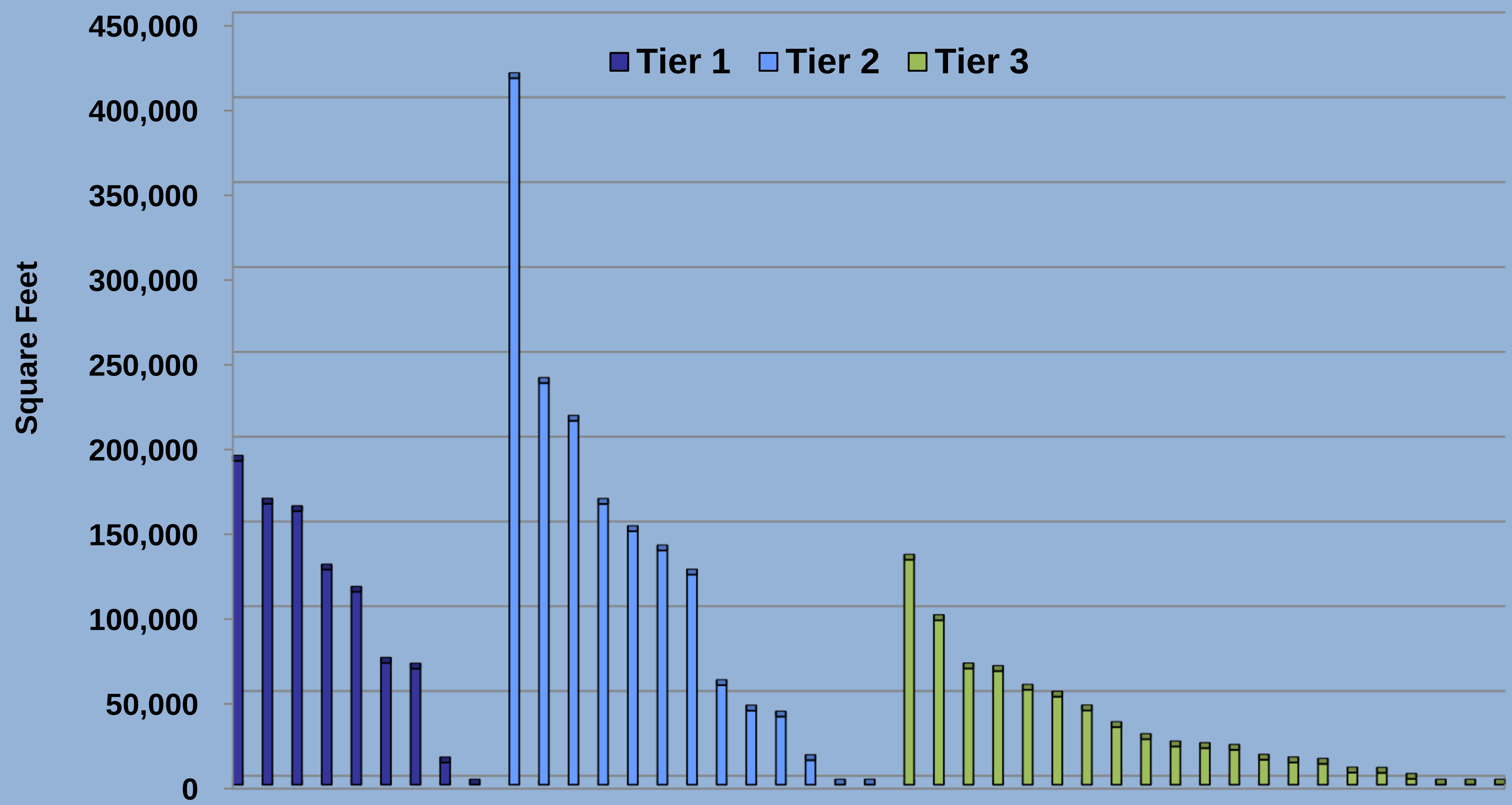
$$\frac{\text{\# Renewals (17)}}{\text{\# Renewals (17) + \# New (8)}}$$



Tenants are more likely to renew rather than move

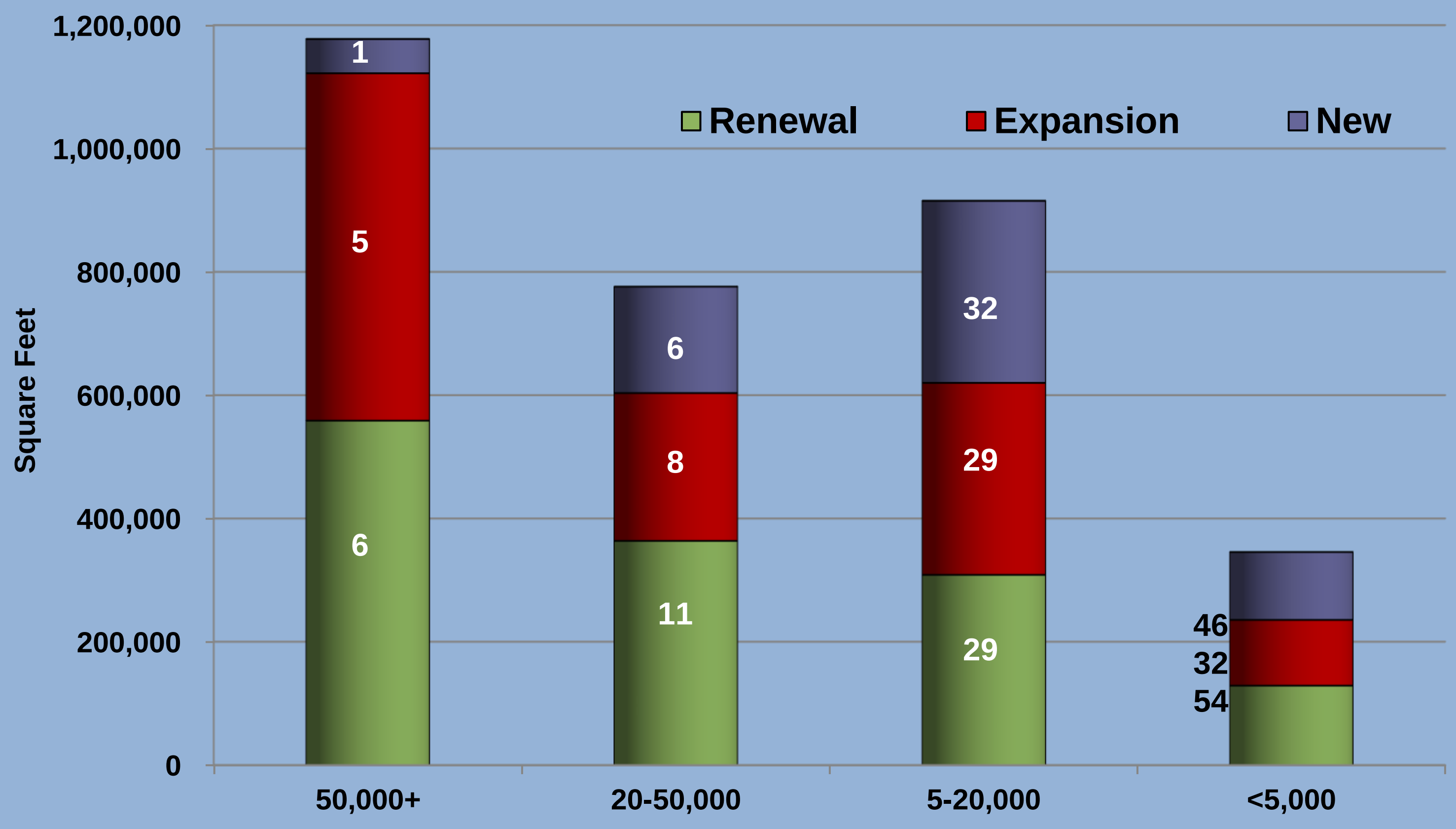
Leases Signed by Building

Direct



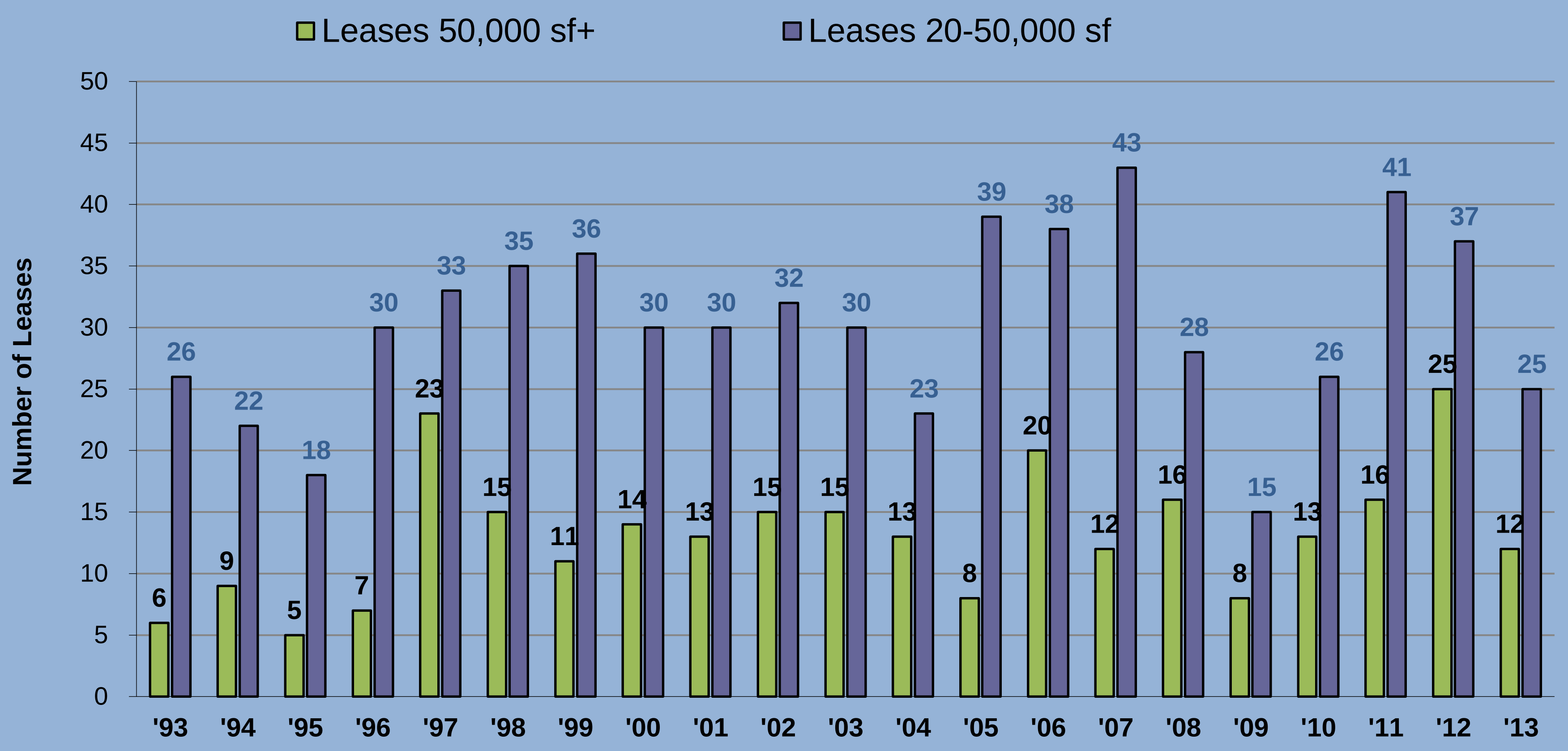
Lease Transactions

Direct



Number of Large Transactions

Direct



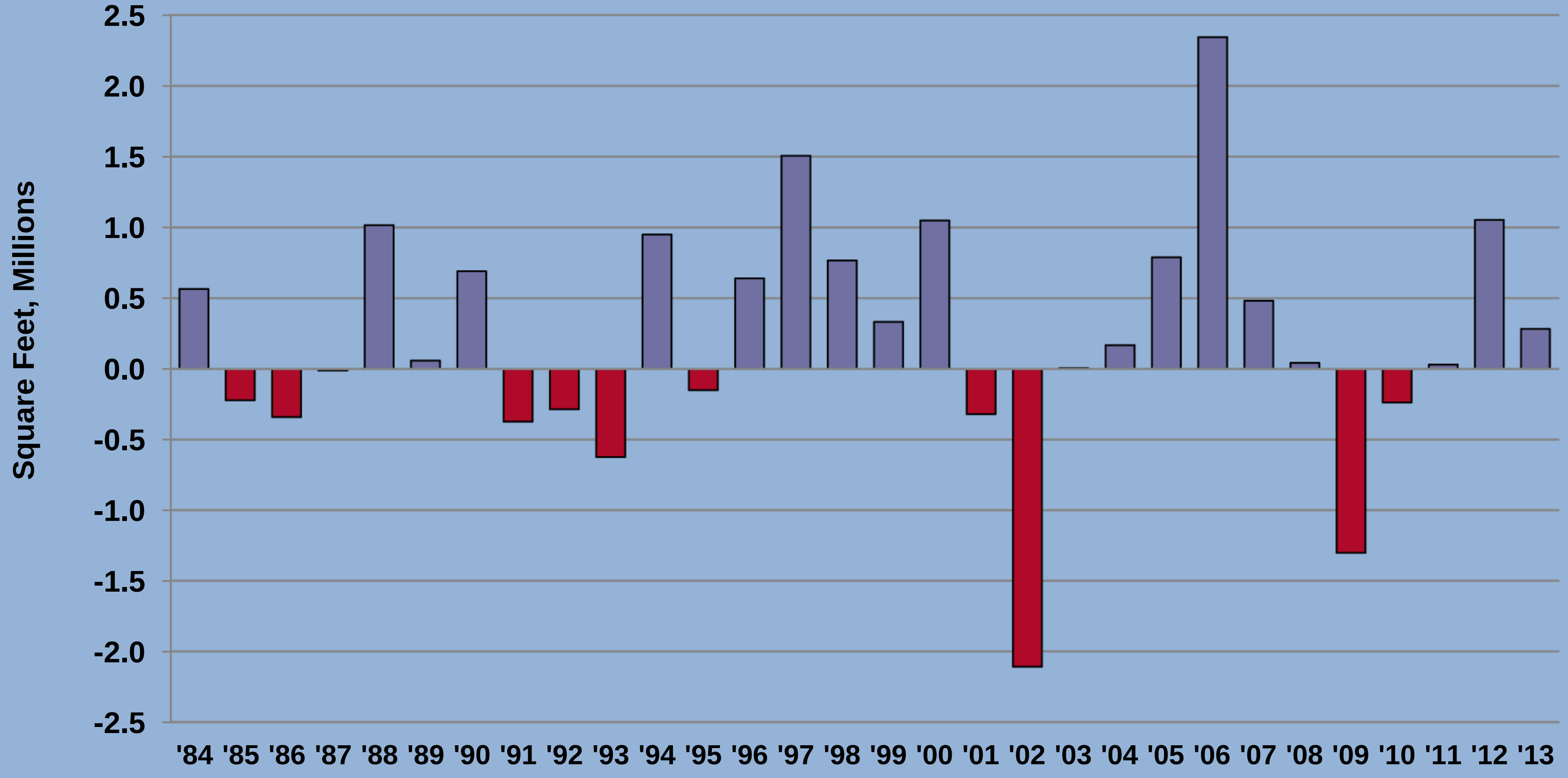
Definition – Net Absorption

- 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*, not occupancy of a 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.

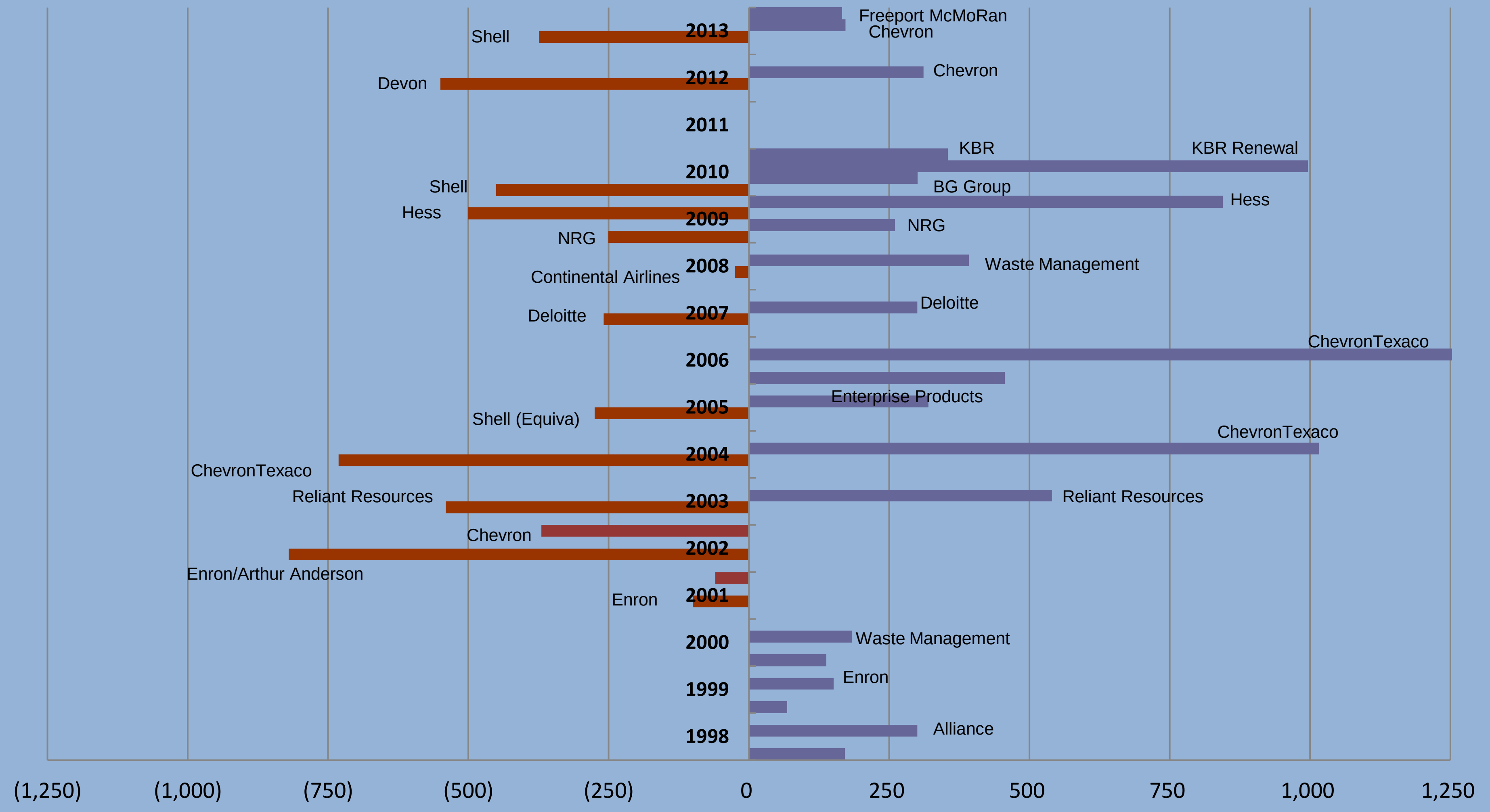
CoStar's definition: "The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space."

Historical Change Marketed Space

Direct

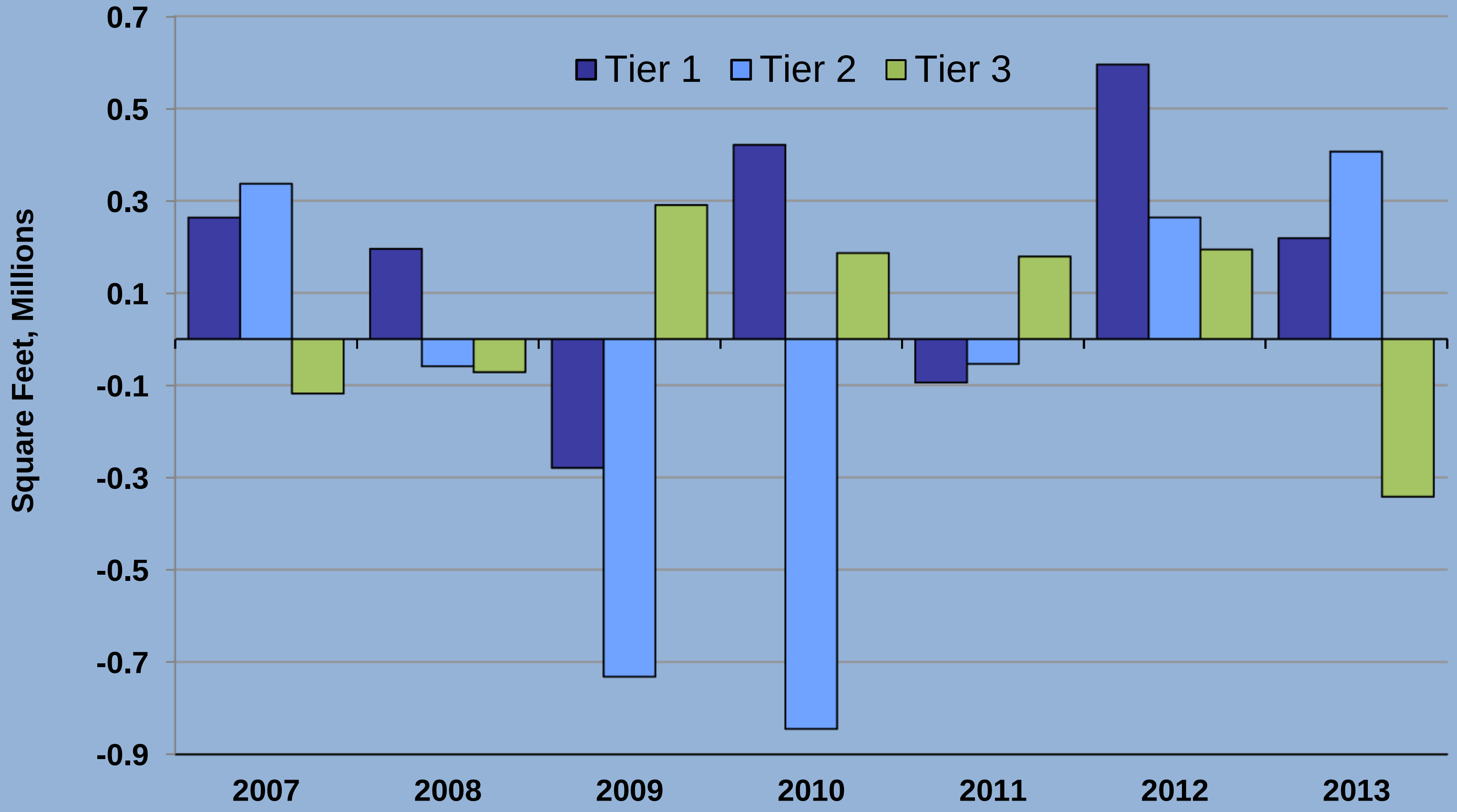


Major Events



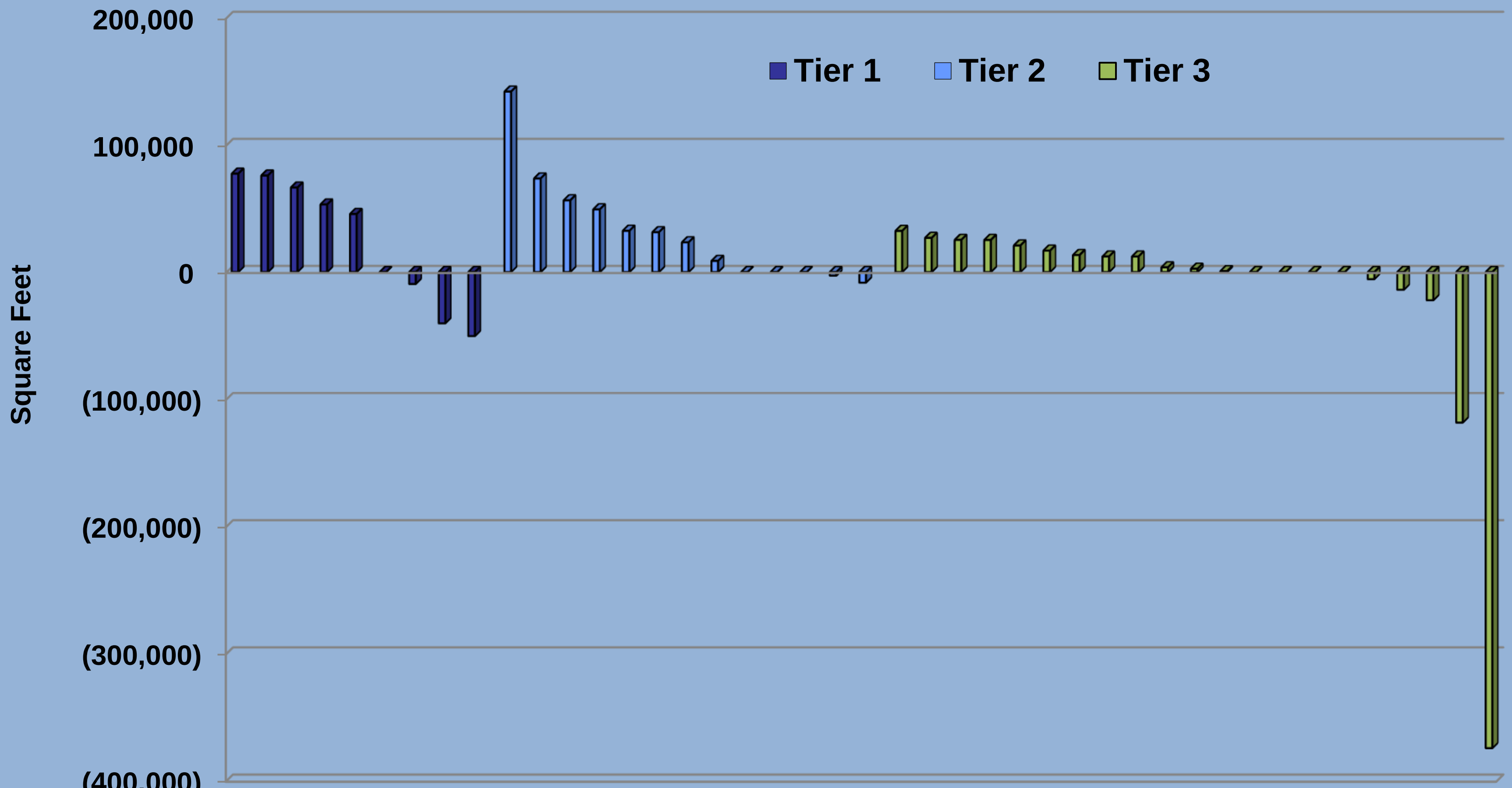
Absorption – Building Tiers

Direct



Using new bldg classification

Absorption by Building



Operating Expense Projections for 2014

Estimates as of 1/1/14

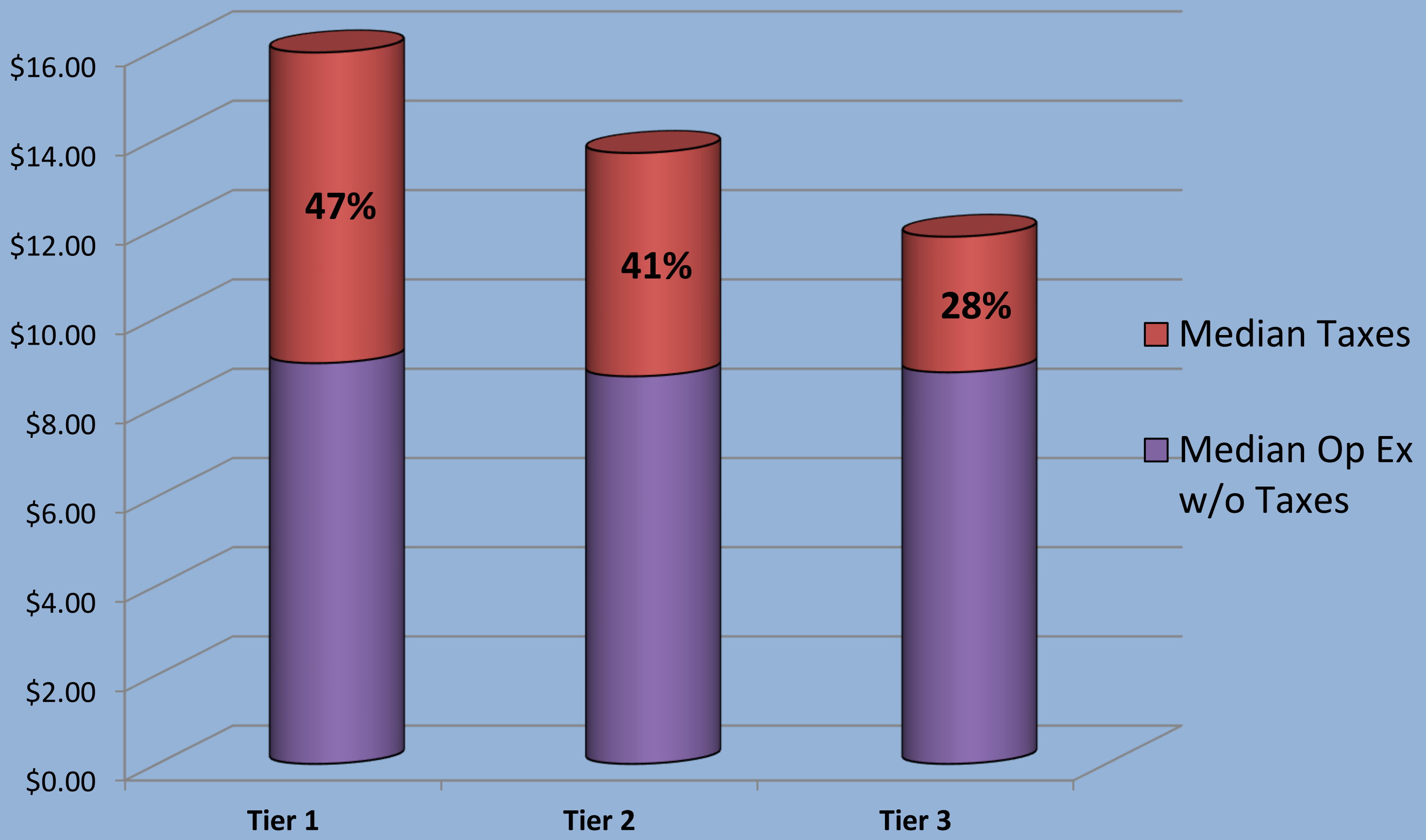
Operating Expense Projections for 2014

Tax Averages: Tier 1: $7.62
Tier 2: $5.59
Tier 3: $3.63

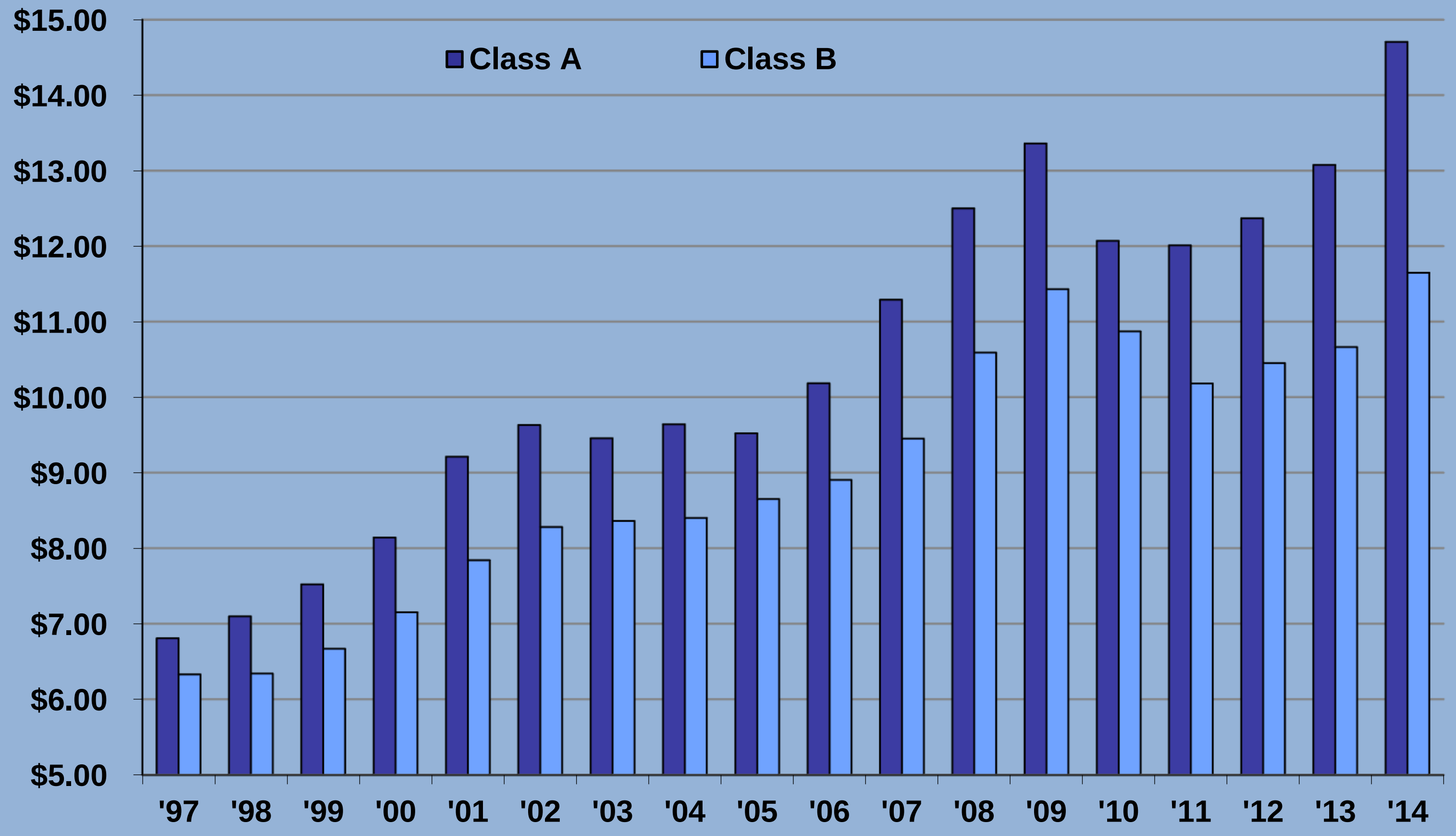
Taxes as % of Expenses:
Tier 1: 47%
Tier 2: 40%
Tier 3: 29%

Tax component identified in **red**

Operating Expense Projections for 2014



Operating Expense Projections



Using previous bldg classification

Factors Affecting 2014+

- 800 Bell: Exxon departs in 2015; Shorenstein redevelops, delivery 1Q17.
- 811 Louisiana: 375ksf avail
- Very little sublease space affecting competition
- New Buildings
  - 1111 Travis 1Q16
  - 609 Main at Texas Dec ‘16
- Other potential buildings
  - 6 Houston Center, Crescent
  - 5 Allen Center, Brookfield
  - One Market Square, Essex
  - Capitol Tower, Skanska
  - Chevron

Contact

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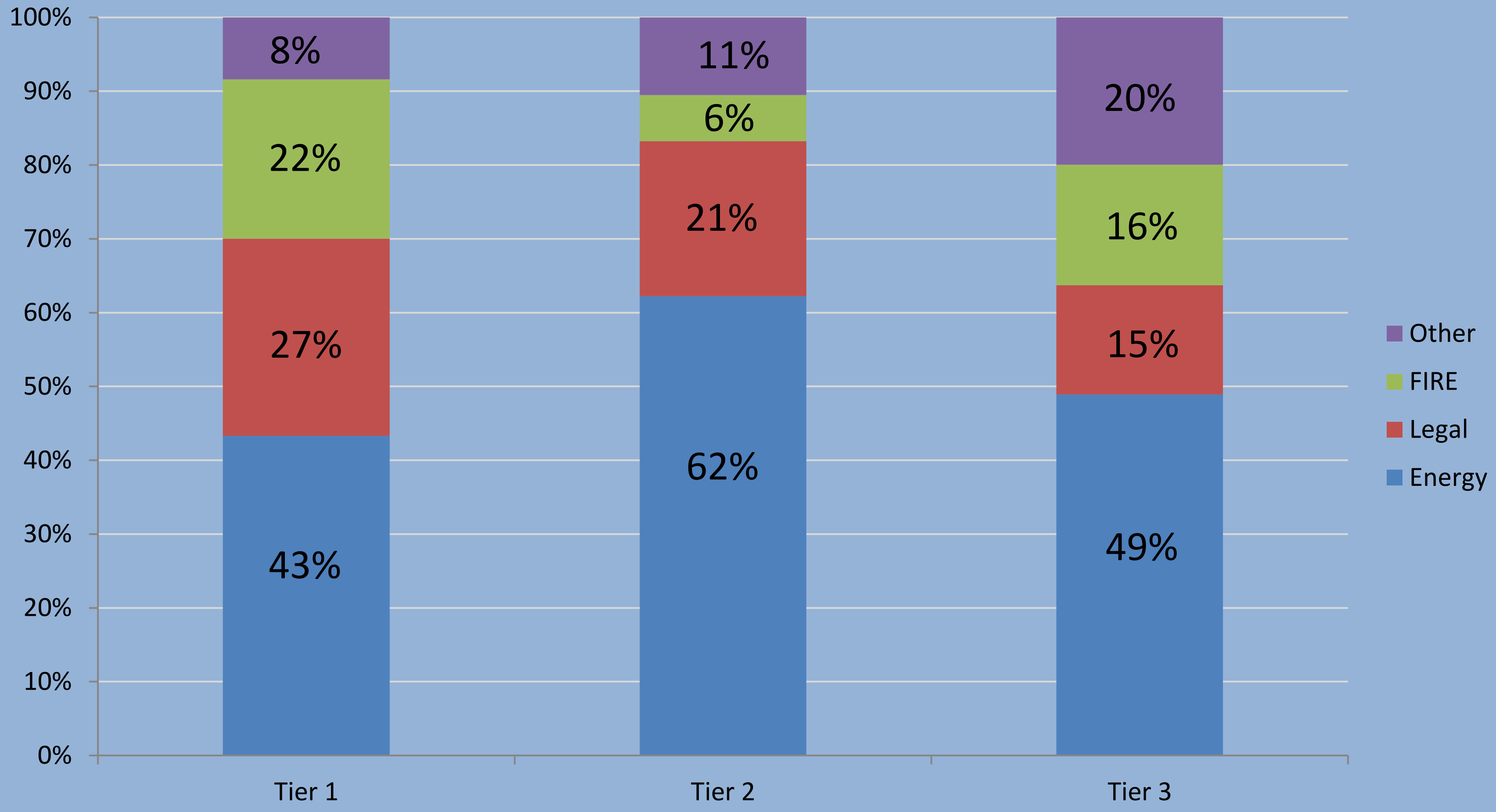
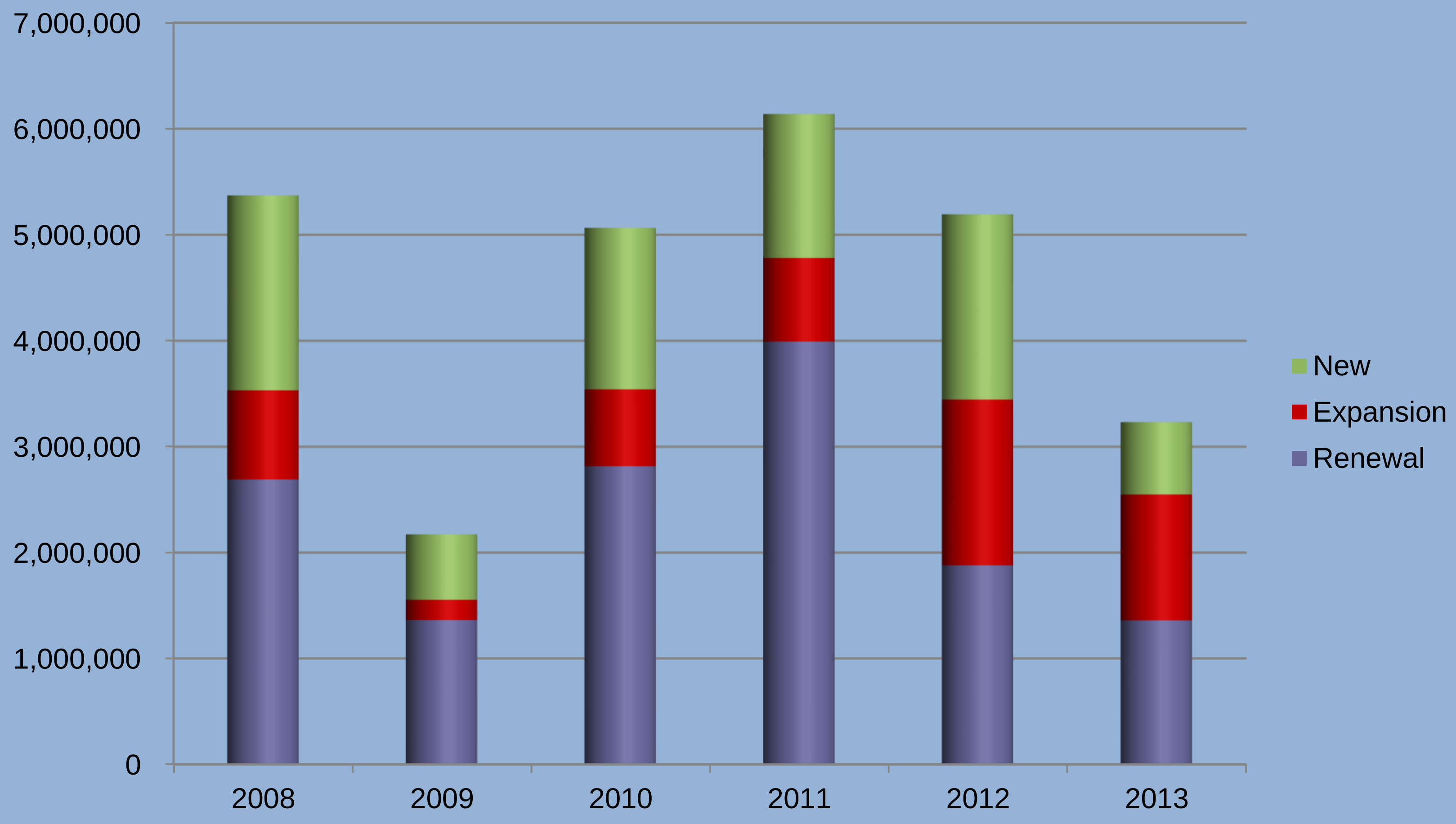
Additional CBD Story Slides

Industry Use by Tier

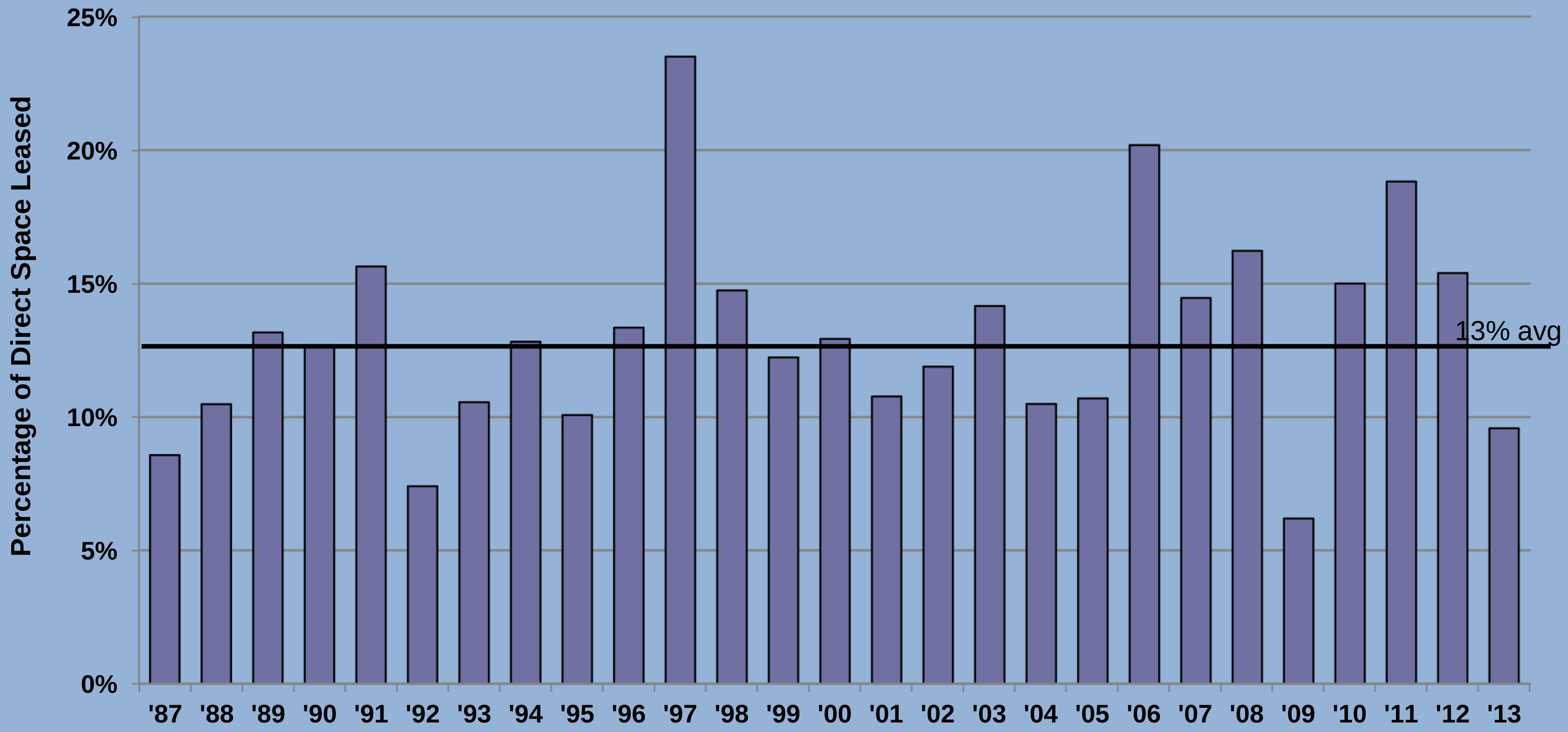


Expansions – larger % of leases 2012 & 2013

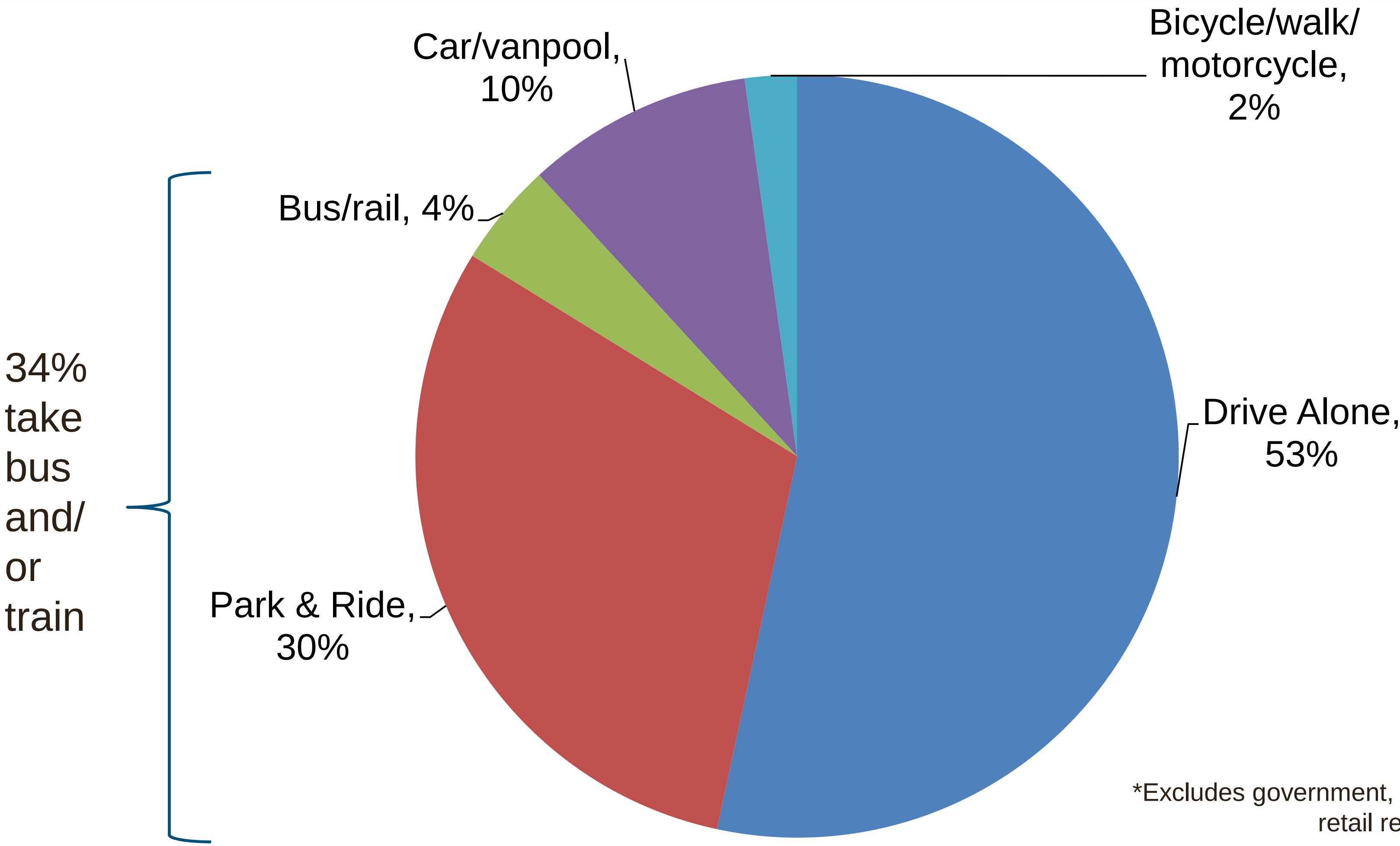


Percentage of Base Leased

Direct square footage



DOWNTOWN COMMUTING
(OFFICE TENANT WORKERS*)



n=9,083
*Excludes government, hospitality, retail respondents