CBD STORY 2015

As of January 1, 2015

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 31^{st} year of collecting and analyzing the data.

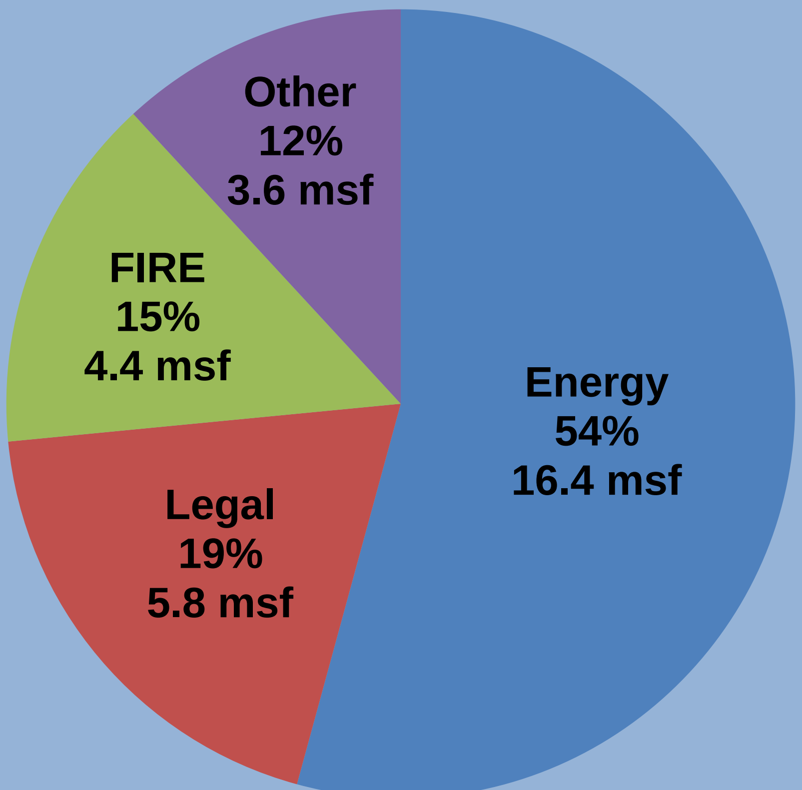
Buildings Surveyed

	Number	Rentable SF
Tier 1	**10**	**10,506,673**
Tier 2	**13**	**14,282,630**
Tier 3	**21**	**9,864,505**
Total	**44**	**34,653,808**

The following are owner-occupied buildings and thus are **excluded** from the survey universe: 1500 Louisiana and 1400 Smith = ~2.4 msf total.

Office Building Use by Industry

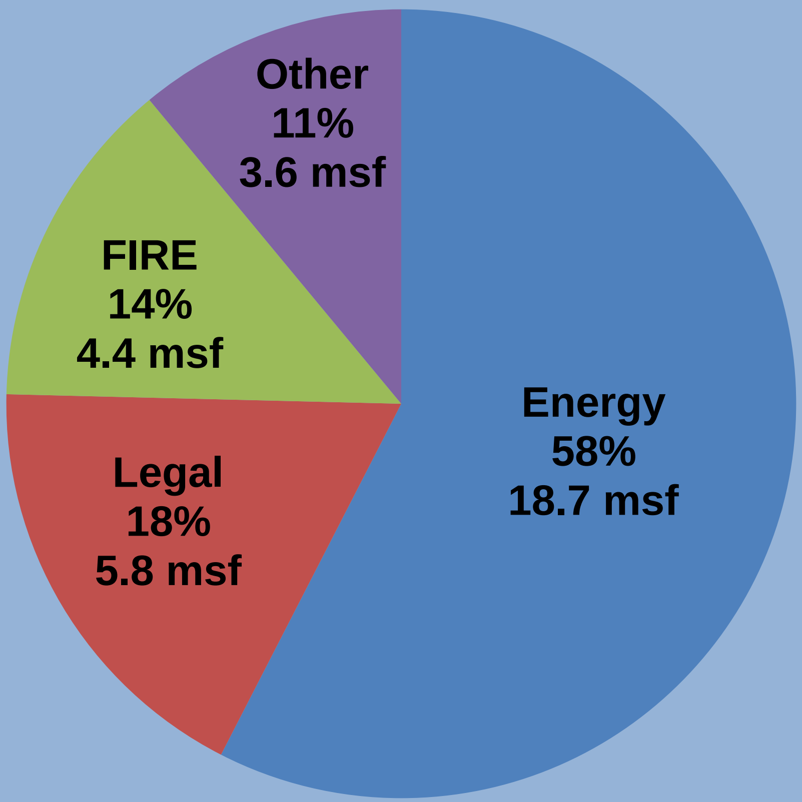
Properties in the survey universe



- 30.2 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: 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* here: 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	274
Two or more floors	134
Four or more floors	63
Tenants by square footage	
20,000+ sf	235
100,000+ sf	53
200,000+ sf	29
500,000+ sf	7

12 tenants control 25% of the survey universe

21 tenants control 33% of the survey universe

57 tenants control 50% of the survey universe

Excludes Chevron's 1500 Louisiana and 1400 Smith buildings

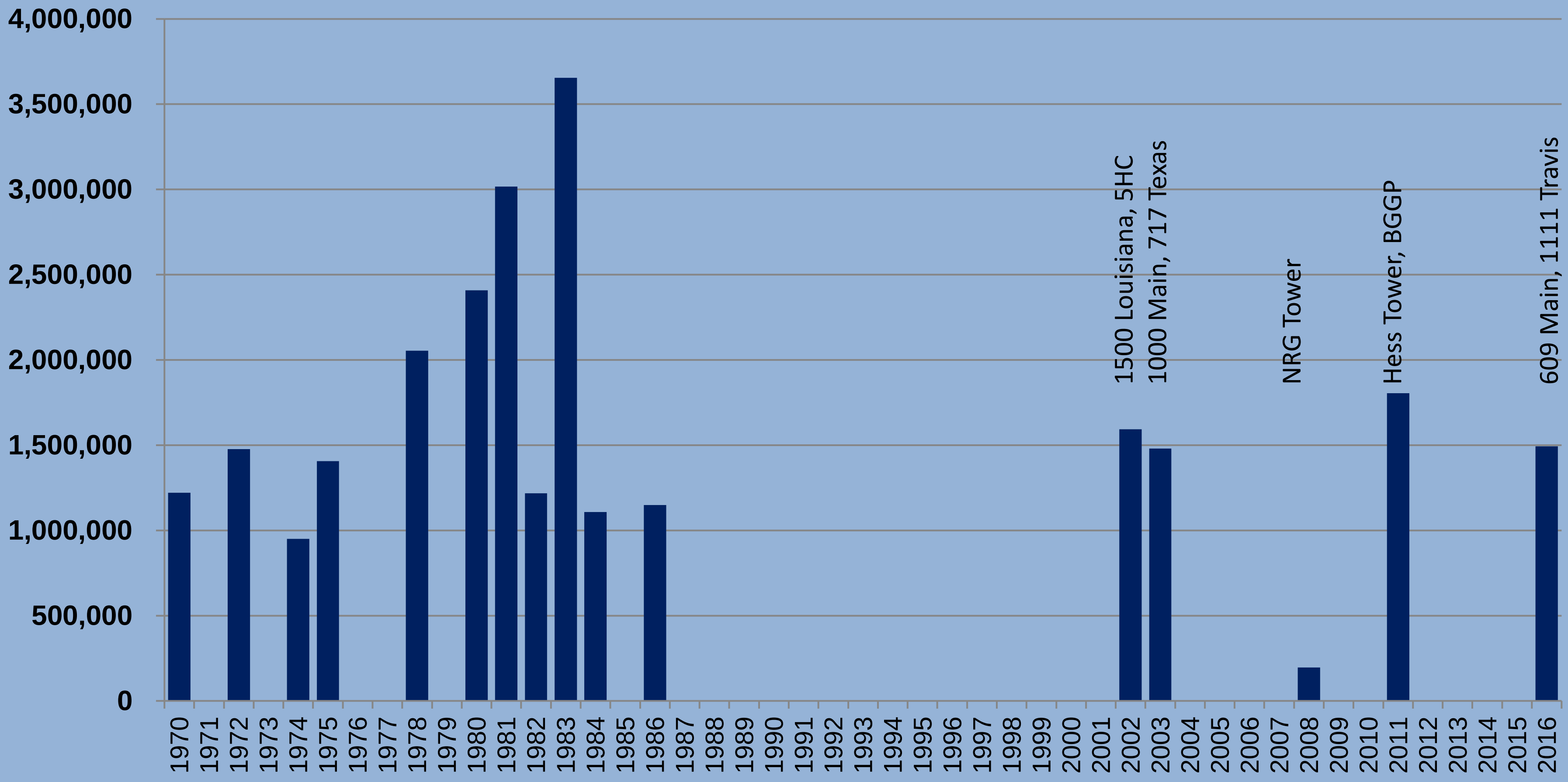
Summary Data

January 1, 2015

Survey Universe	34,653,808
Space Being Marketed (Direct)	4,681,557
Percent Being Marketed (Direct)	13.5%
Space Being Marketed (Sublease)	1,010,289
Percent Being Marketed (Sublease)	2.9%
2014 Absorption (Direct)	191,560
2014 Leases Signed (Direct)	3,090,194

Class A Building Construction

Square Feet Built per Year



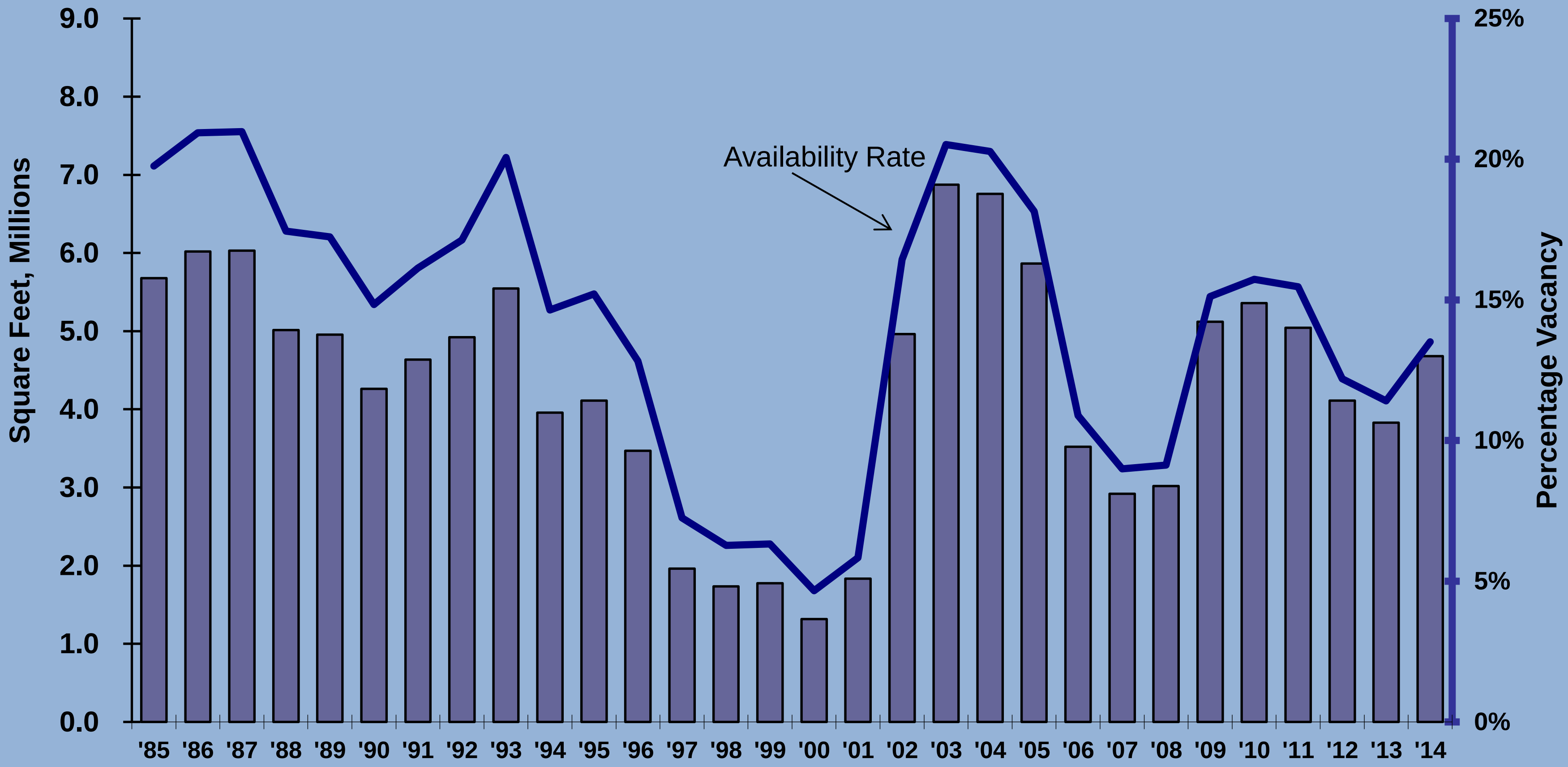
Definitions – Space Available and Availability Rate

- 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"

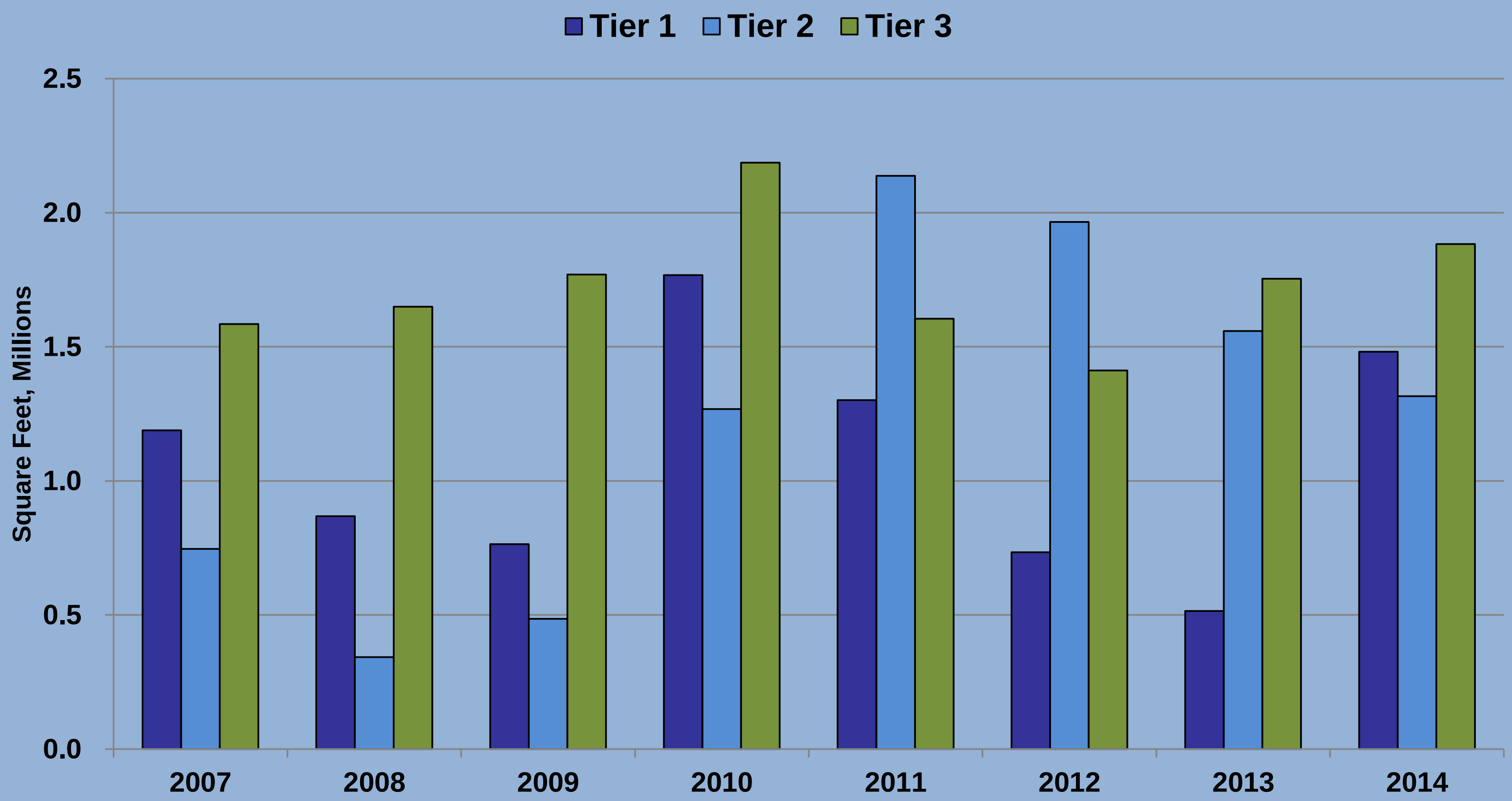
Historical Availability

Direct space being marketed



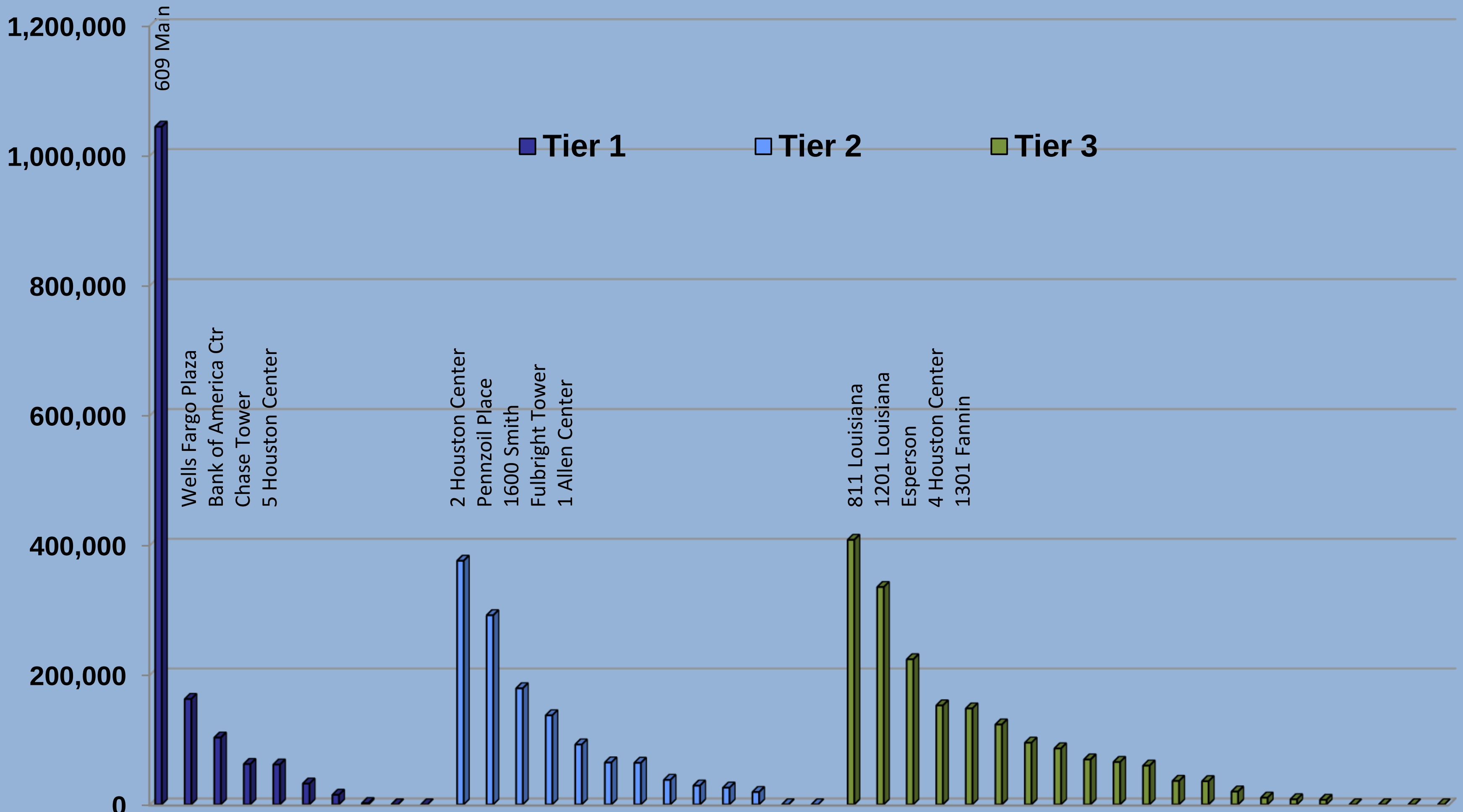
Historical Space Being Marketed

Direct



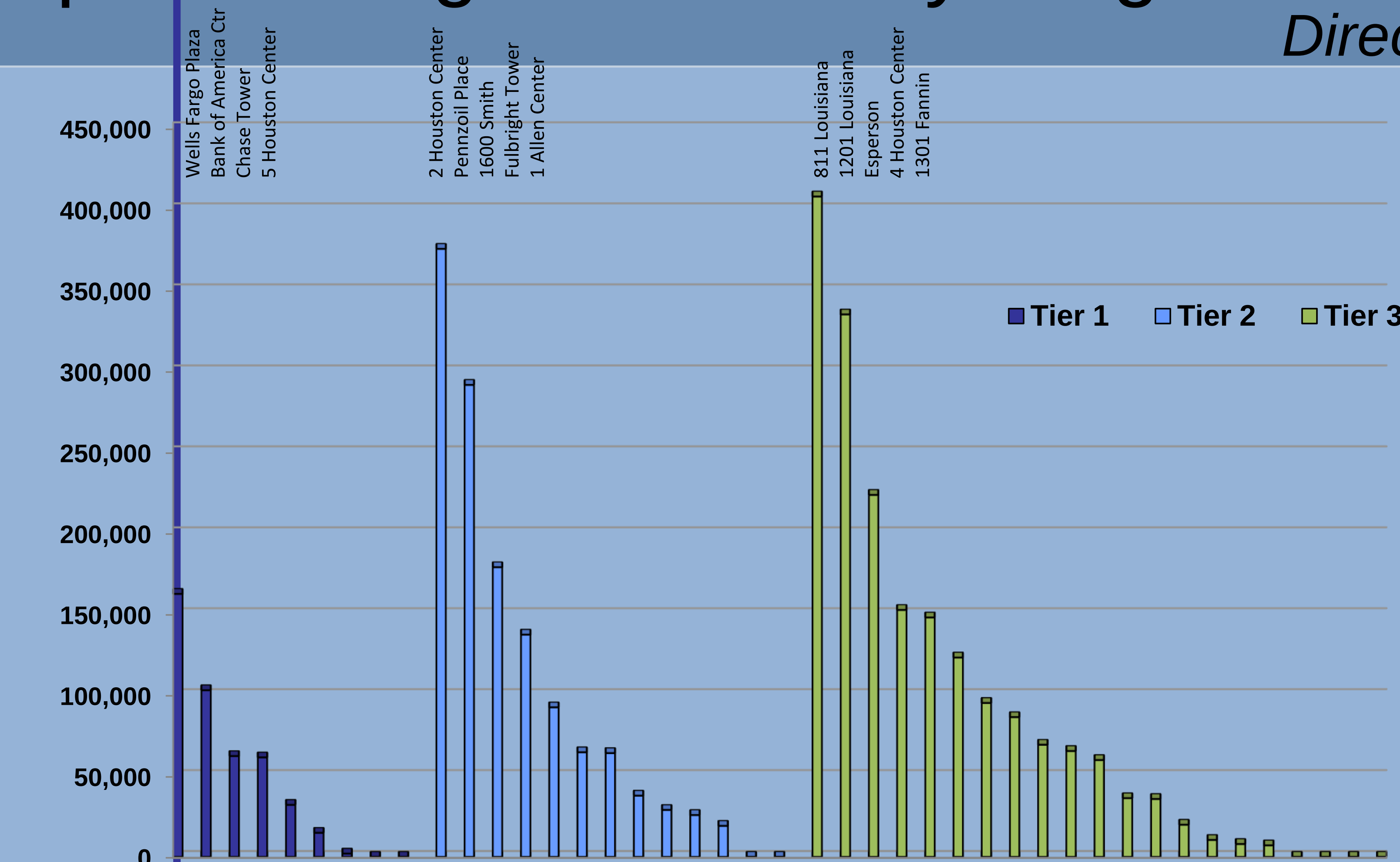
Space Being Marketed by Bldg 1/1/15

Direct



Space Being Marketed by Bldg 1/1/15

Direct



Effective Blocks of Space

As of 11/20/15 *100,000 SF+*

Tier	Building	Floors	SF	Avail	Former Tenant
1	609 Main	12-48	1,043,883	Dec-16	n/a
3	811 Louisiana	10-15, 18-22	348,360	Immed.	Shell
2	2 Houston Center	4-8	234,333	Immed.	Shell (9th fl for subl, total 257,257 SF)
3	500 Jefferson	3-6, 14-17	175,582	Immed.	KBR
1	Heritage Plaza	14-18, 21	165,120	Immed.	Rosetta Resources
3	Total Plaza	10-15	145,352	Apr-16	Hilcorp
2	1600 Smith	9-12, 15-16	140,747	Immed.	United Airlines
3	1415 Louisiana	25-32	135,568	Immed.	Eagle Rock (26-29 for sub) and other
3	Total Plaza	28-32	124,069	Immed.	PwC
1	Wells Fargo Plaza	30-35	114,066	Immed.	Gardere
1	BG Group Place	24-27	109,245	Immed.	BG Group

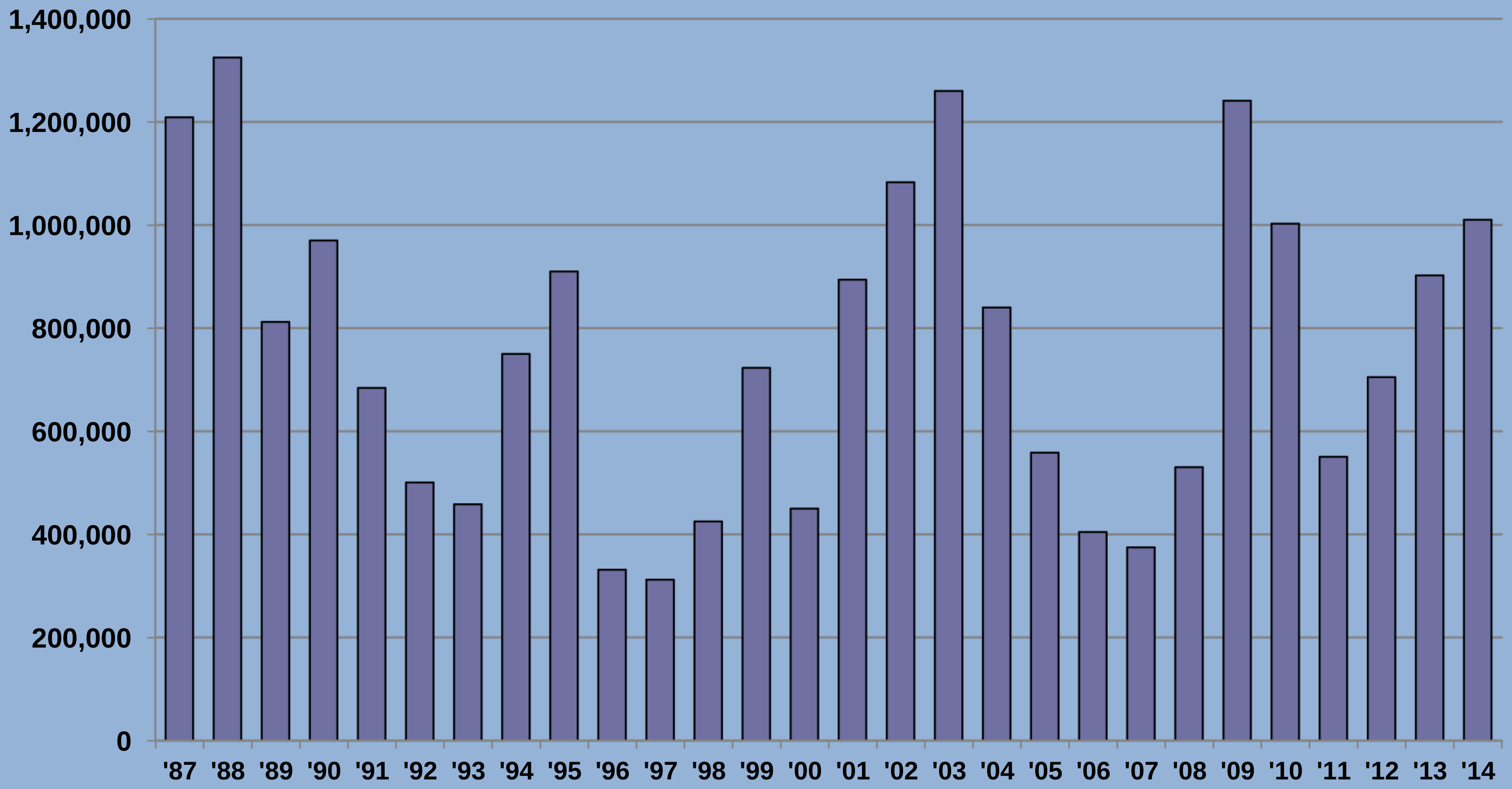
Red text indicates sublease space

Full-Floor Sublease Spaces

With term, as of 11/20/15

Tier	Building	Description	Exp	SF
3	500 Jefferson	3-6, 13-17 (KBR) (fl 18-19 for direct lease, total 215,208 SF)	Jun-30	175,582
1	Heritage Plaza	14-18, 21 (Rosetta)	Aug-23	165,120
1	BG Group Place	24-27 (BG Group)	Dec-26	106,005
3	Wedge	23, 26-29 (Eagle Rock)	Feb-18	90,293
2	Three Allen Center	3-6 (Devon)	Jan-20	84,508
2	Two Allen Center	5 & 21(Devon)	Jan-20	56,109
2	1001 Fannin	27,28 (V&E)	Oct-21	54,909
2	2 Houston Center	9-10 (Argent)	Feb-20	45,848
1	600 Travis	48 & 57 (Breitburn)	Feb-18	44,643
2	1100 Louisiana	51, 55 (Vitol)	Apr-21	43,000
3	1301 Fannin	23, 24 (multi)	Mar-18	40,202
1	600 Travis	3, 4 (Ascend)	Feb-19	33,526
2	Pennzoil South	11, part of 12 (Burleson)	Dec-20	32,682
1	1000 Main	22 (Shell)	Dec-25	28,963
2	2 Allen Center	23 (Copano)	Jan-20	28,350
2	One Allen Center	27 (Forest Oil)	Sep-23	27,736
1	717 Texas	13 (Calpine)	Dec-20	26,798
1	Wells Fargo Plaza	65 (Cathexis)	Aug-21	26,119
1	Wells Fargo Plaza	64 (Halcon)	Jul-20	26,094
1	Wells Fargo Plaza	15 (Linc Gulf Coast)	Aug-22	25,126
2	Fulbright Tower	21 (Memorial Prod)	Aug-20	24,657
2	Fulbright Tower	41 (Fulbright)	Feb-18	23,840
2	1100 Louisiana	31 (Enbridge)	Apr-25	22,982
3	919 Milam	17 (Johnson Trent)	Jun-18	22,693

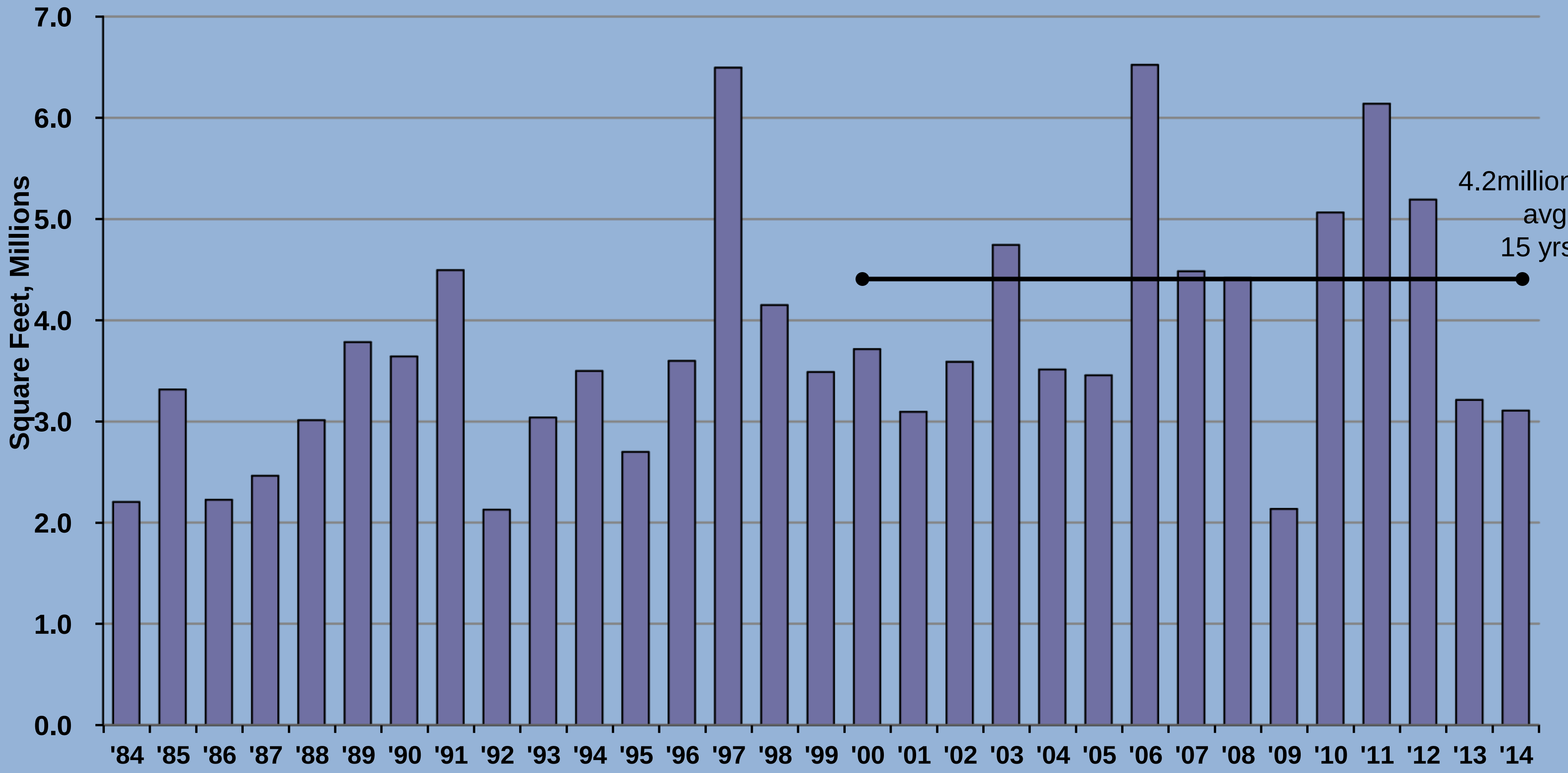
Historical Sublease Available



Definition – Leasing Activity

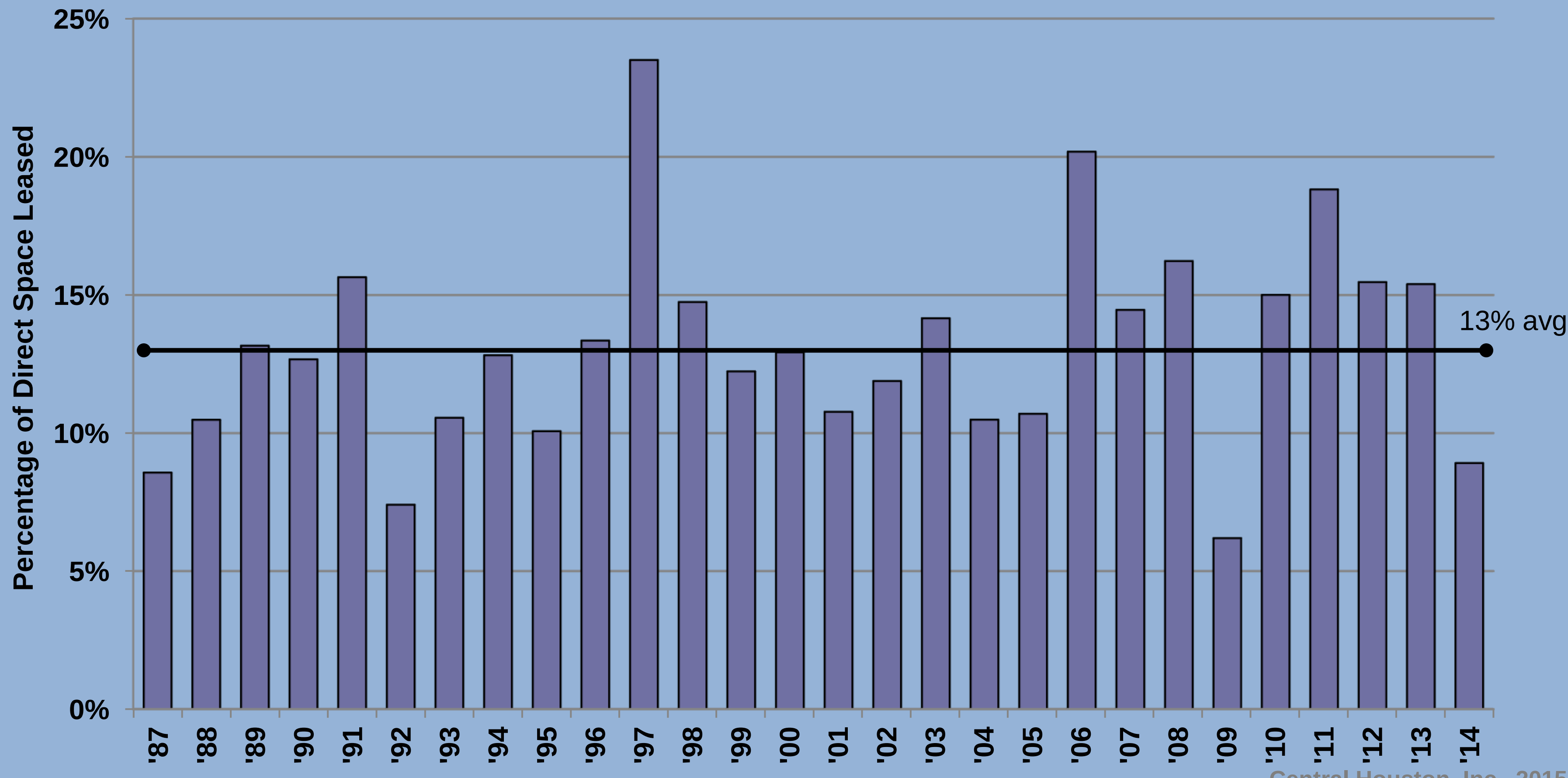
- Any lease signed during the year, no matter when occupancy is to take place.
  - CoStar's definition: "The volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It include direct leases, subleases and renewals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

Historical Leasing Activity



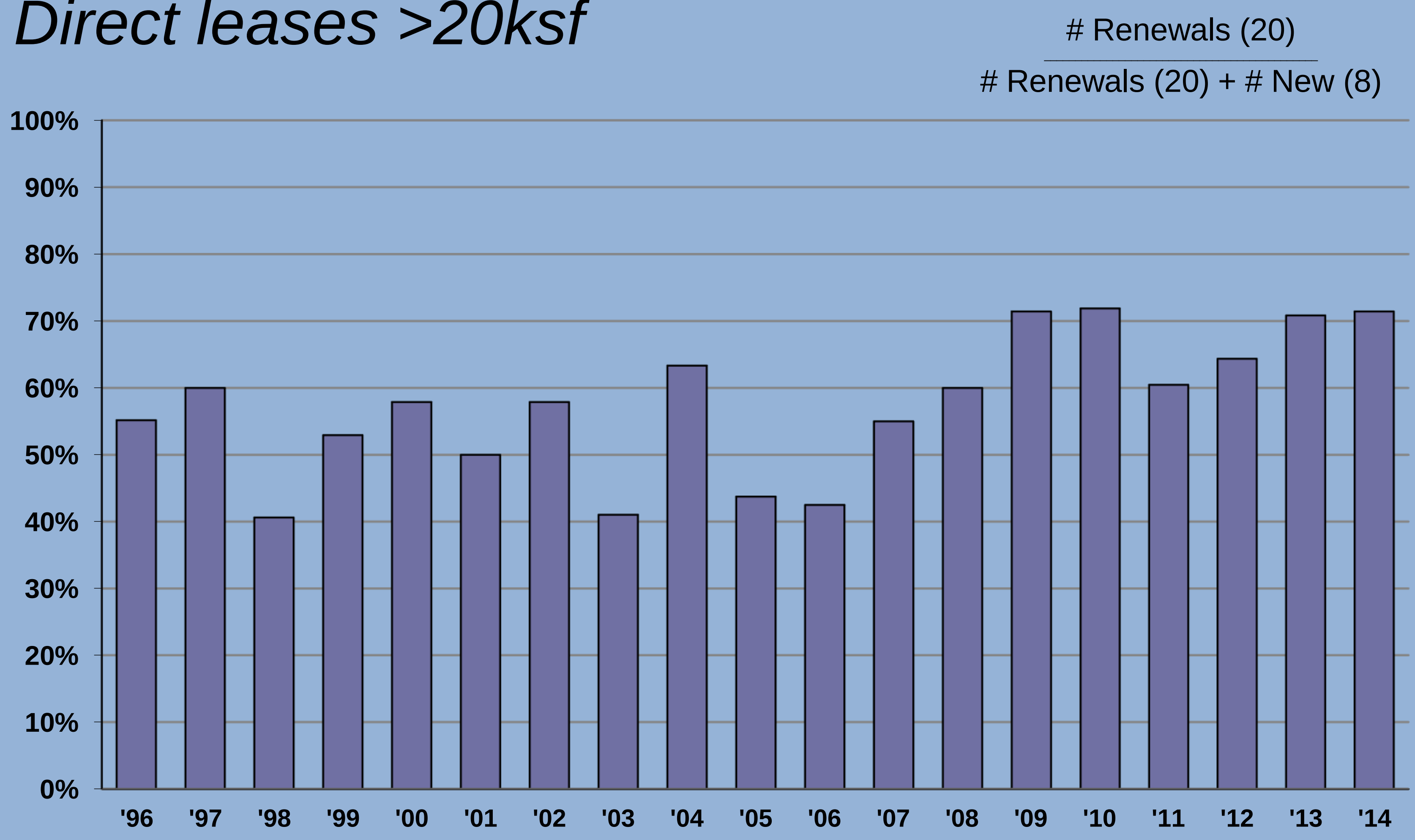
Percentage of Base Leased

Of Survey Universe, Direct



Renewals as % of Transactions

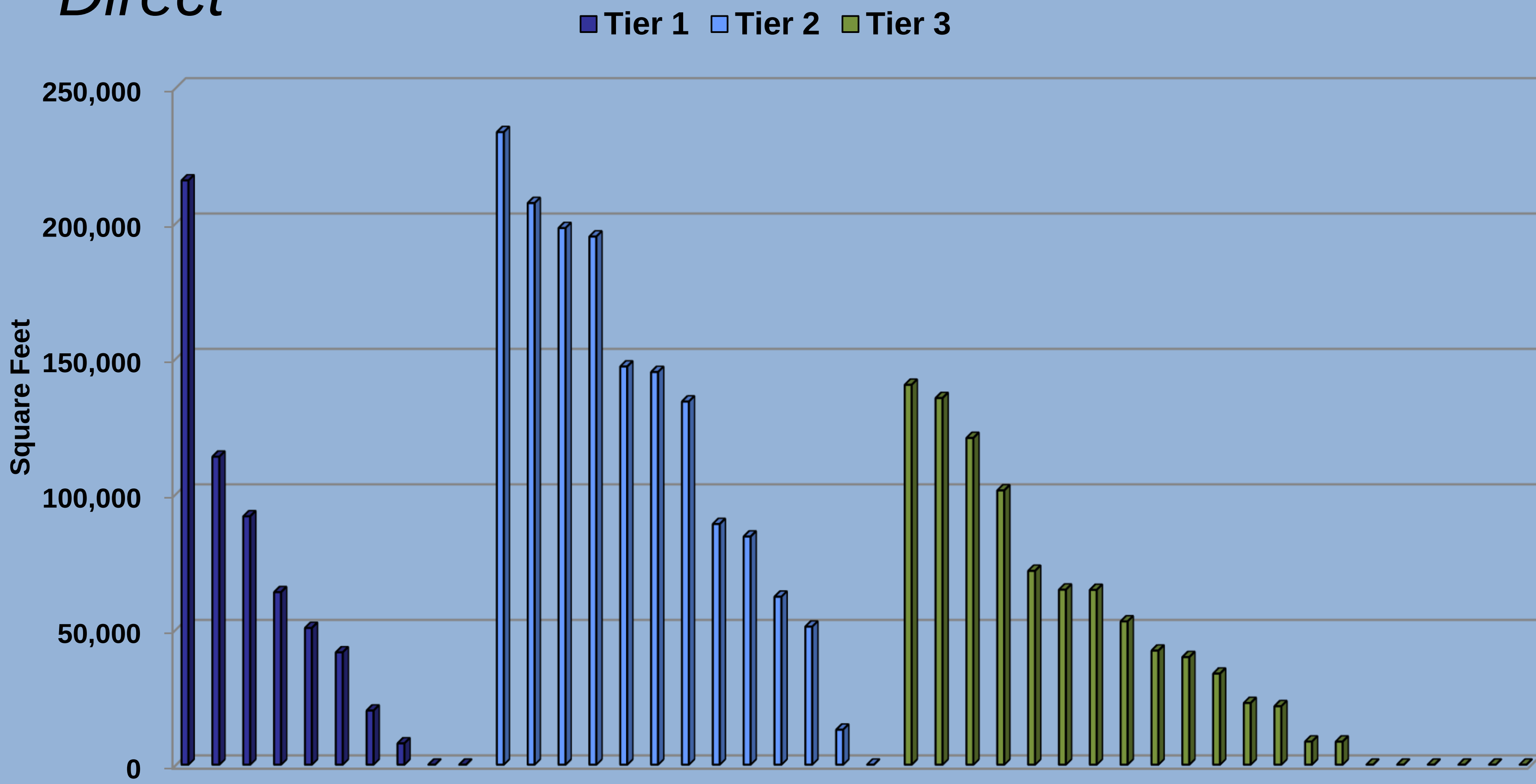
Direct leases >20ksf



Tenants are more likely to renew rather than move

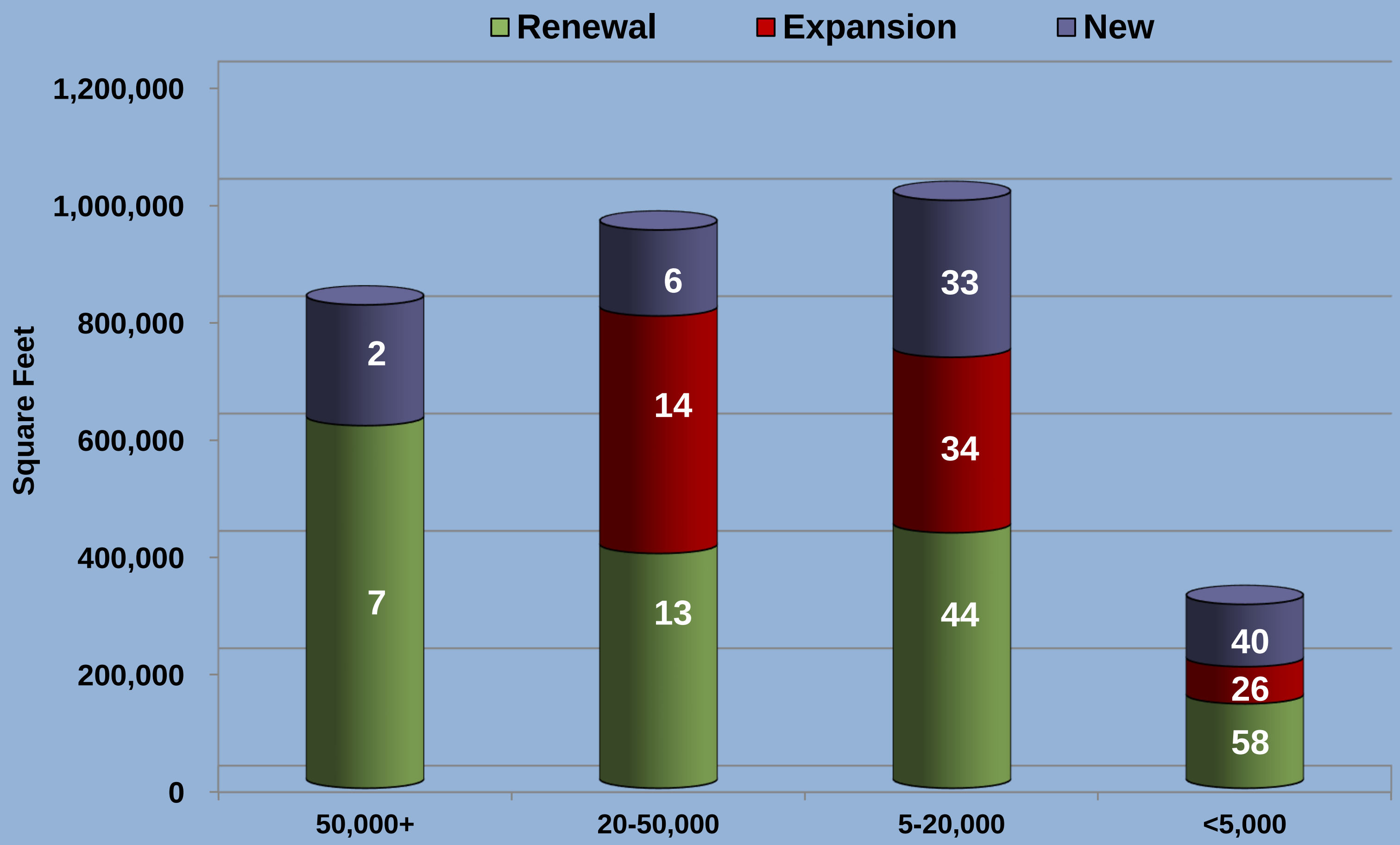
Leases Signed by Building

Direct



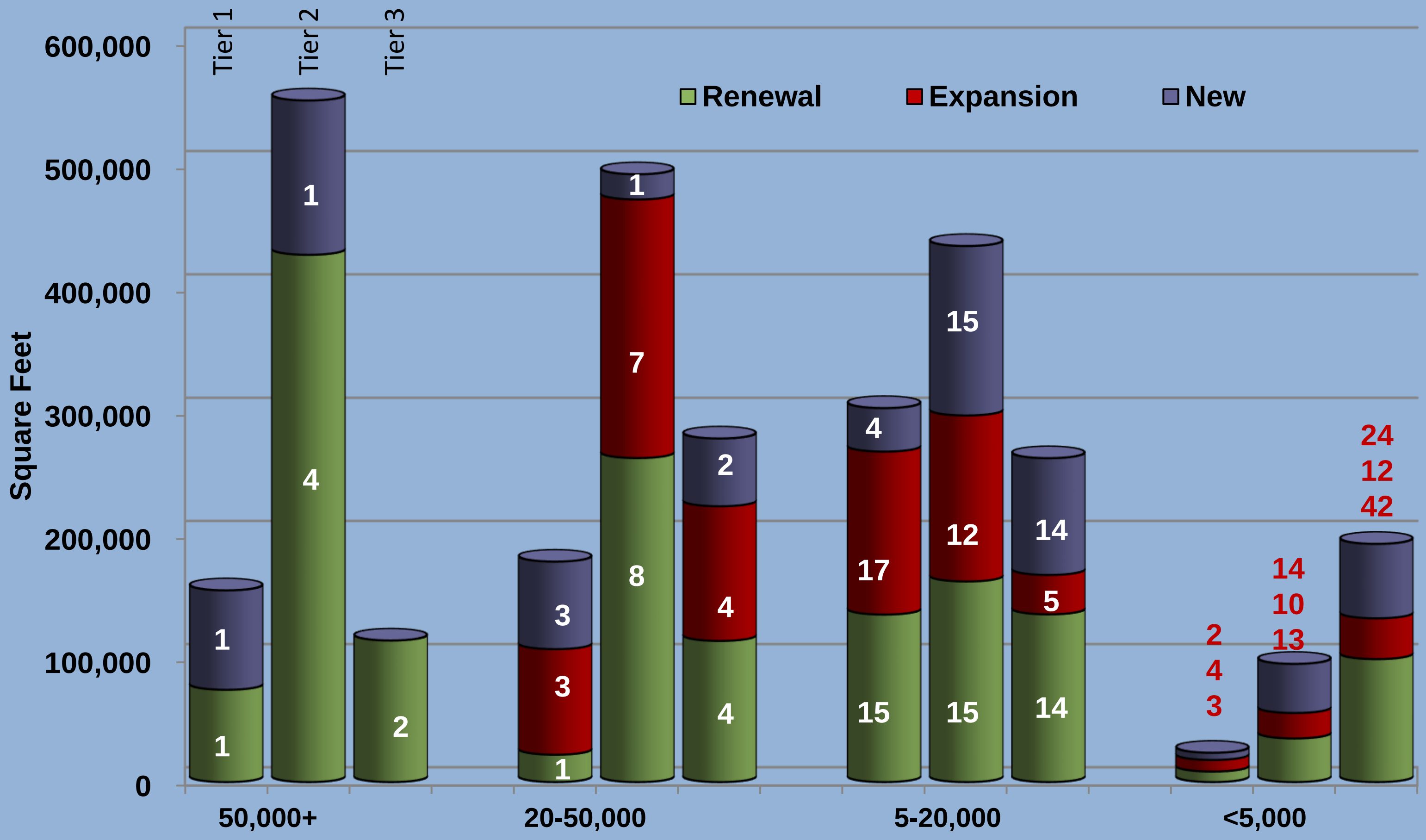
Lease Transactions

Direct



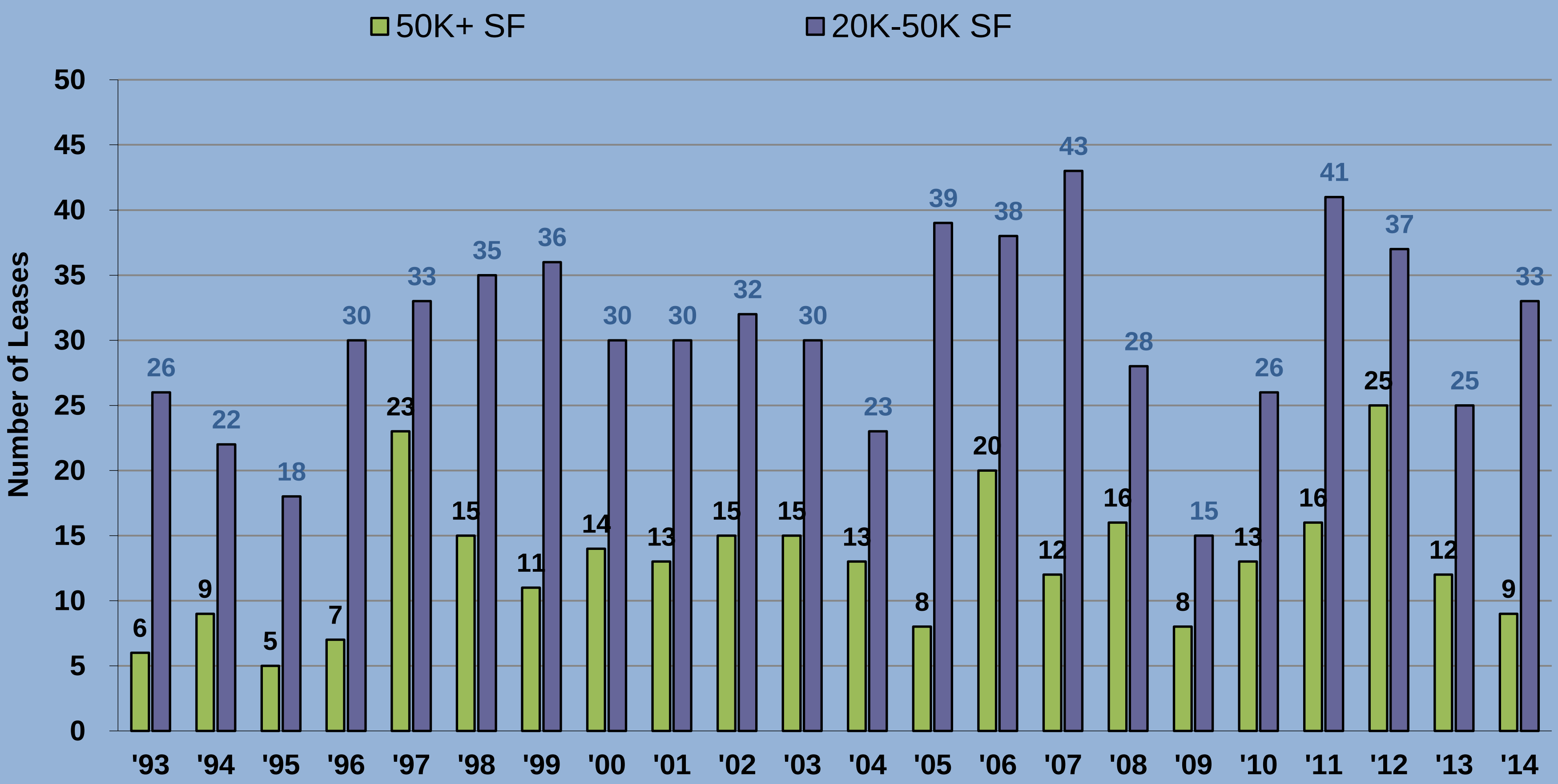
Lease Transactions

Direct, by tier



Number of Large Transactions

Direct



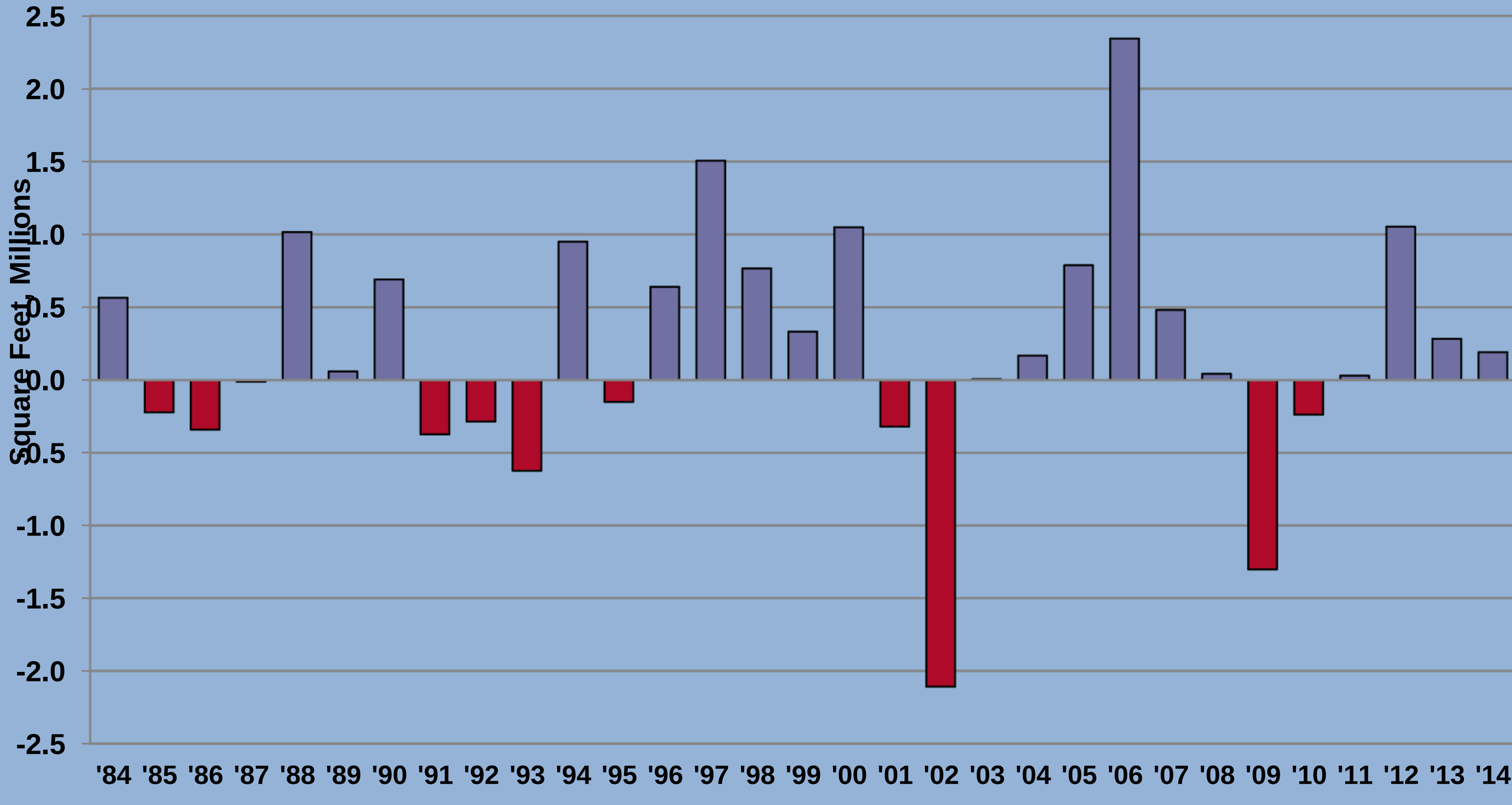
Definition – Net Absorption

- 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.

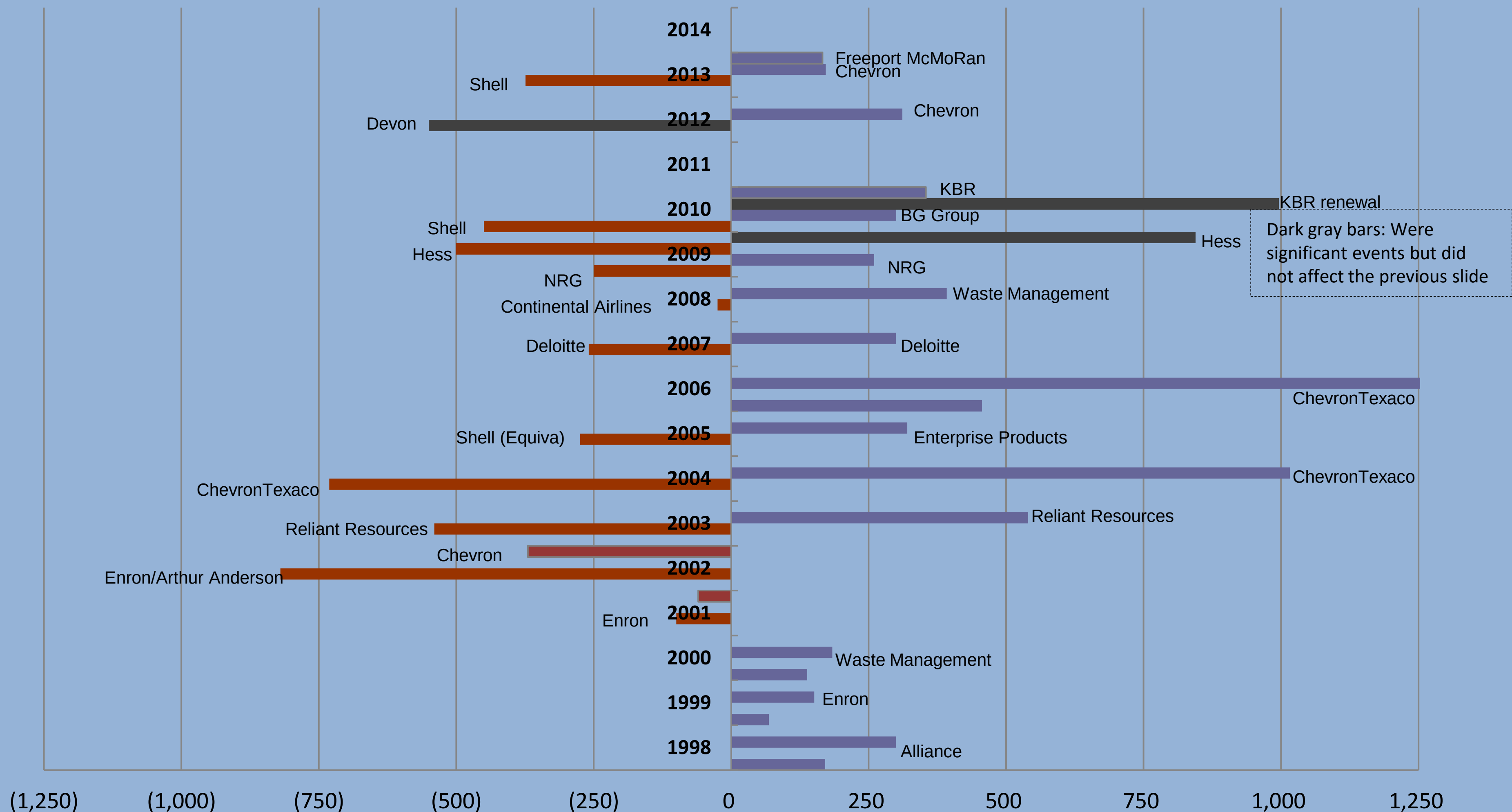
CoStar's definition: "The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space."

Historical Change Marketed Space

Direct

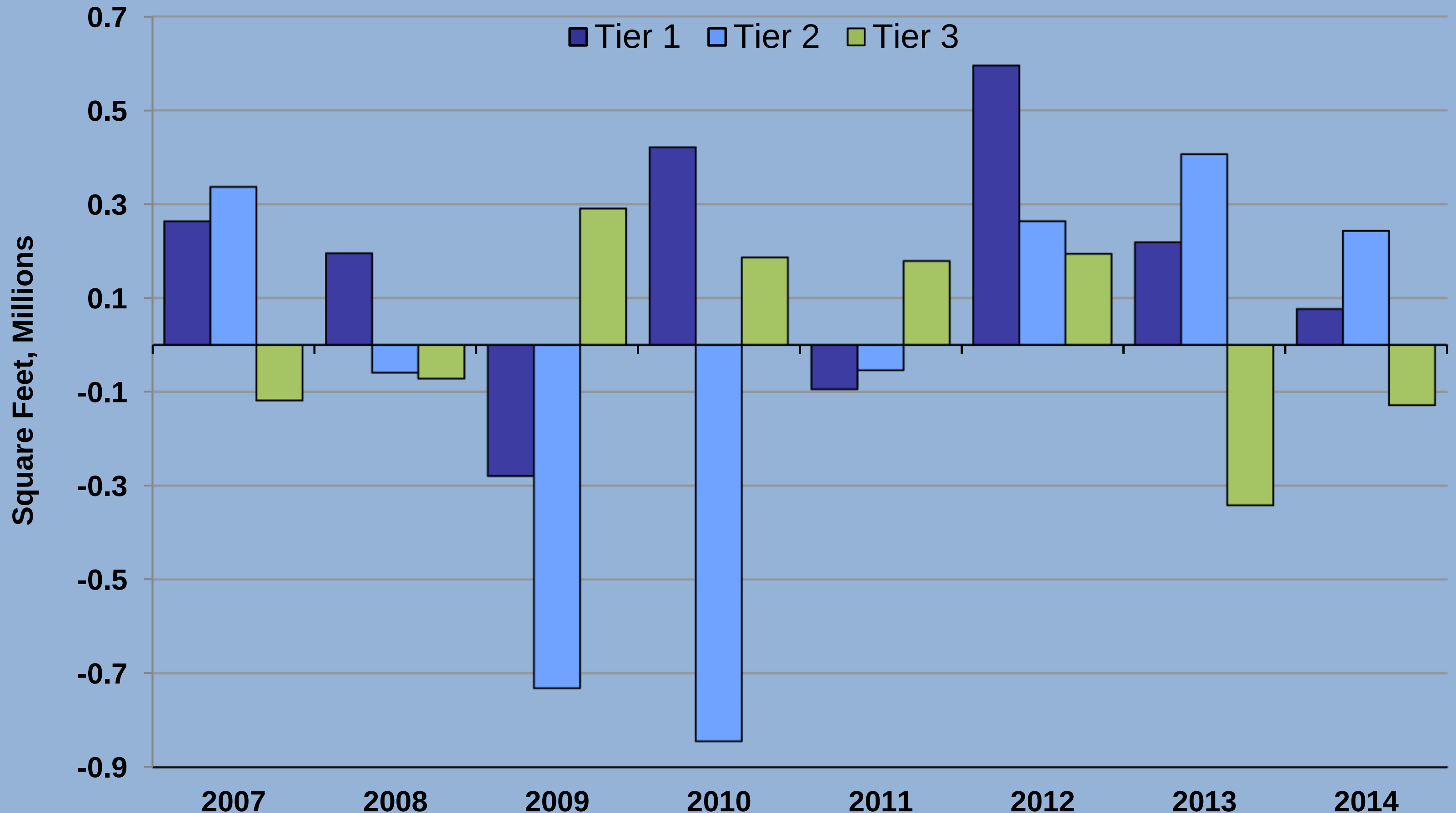


Major Events

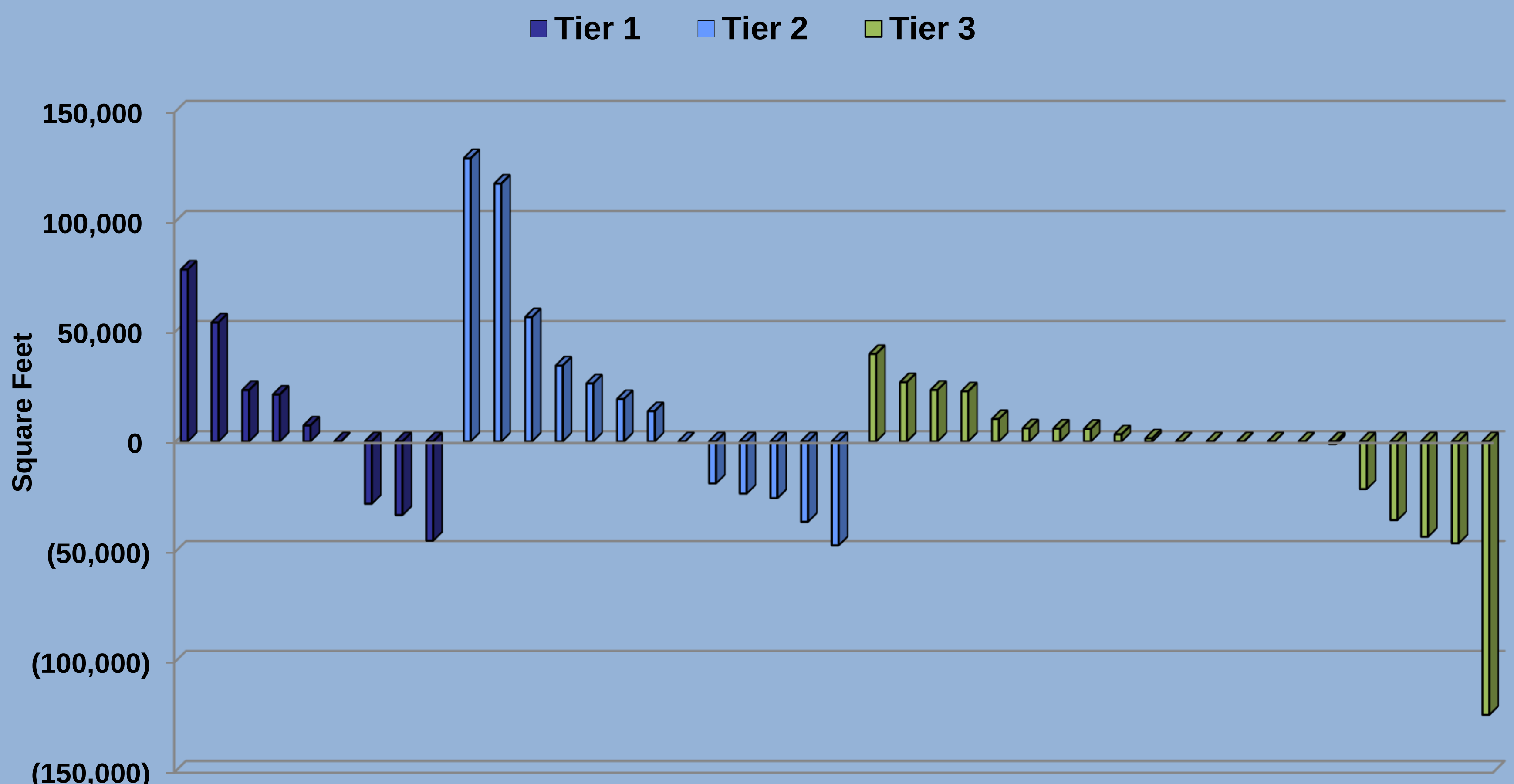


Absorption – Building Tiers

Direct



Absorption by Building



Operating Expense Projections for 2015

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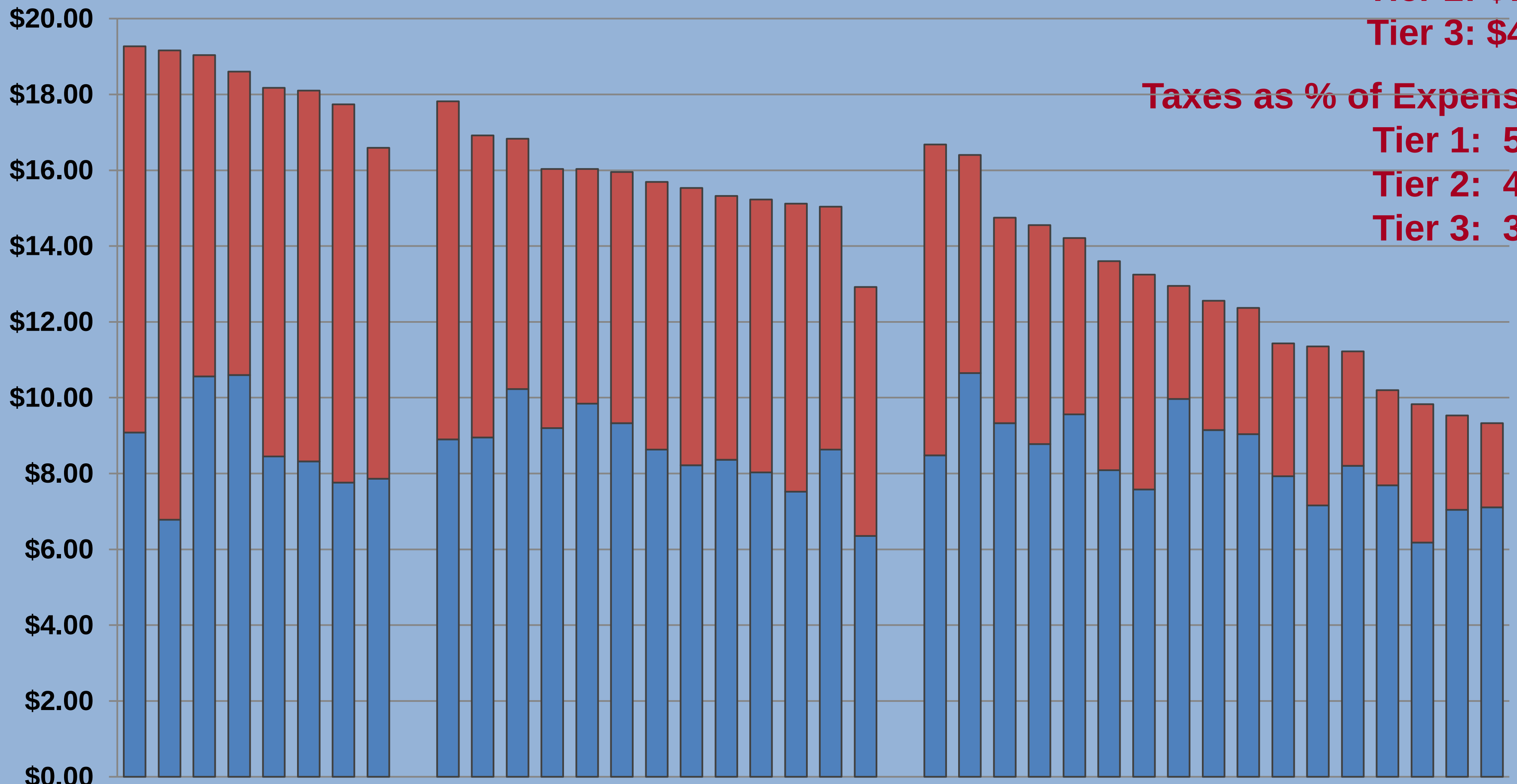
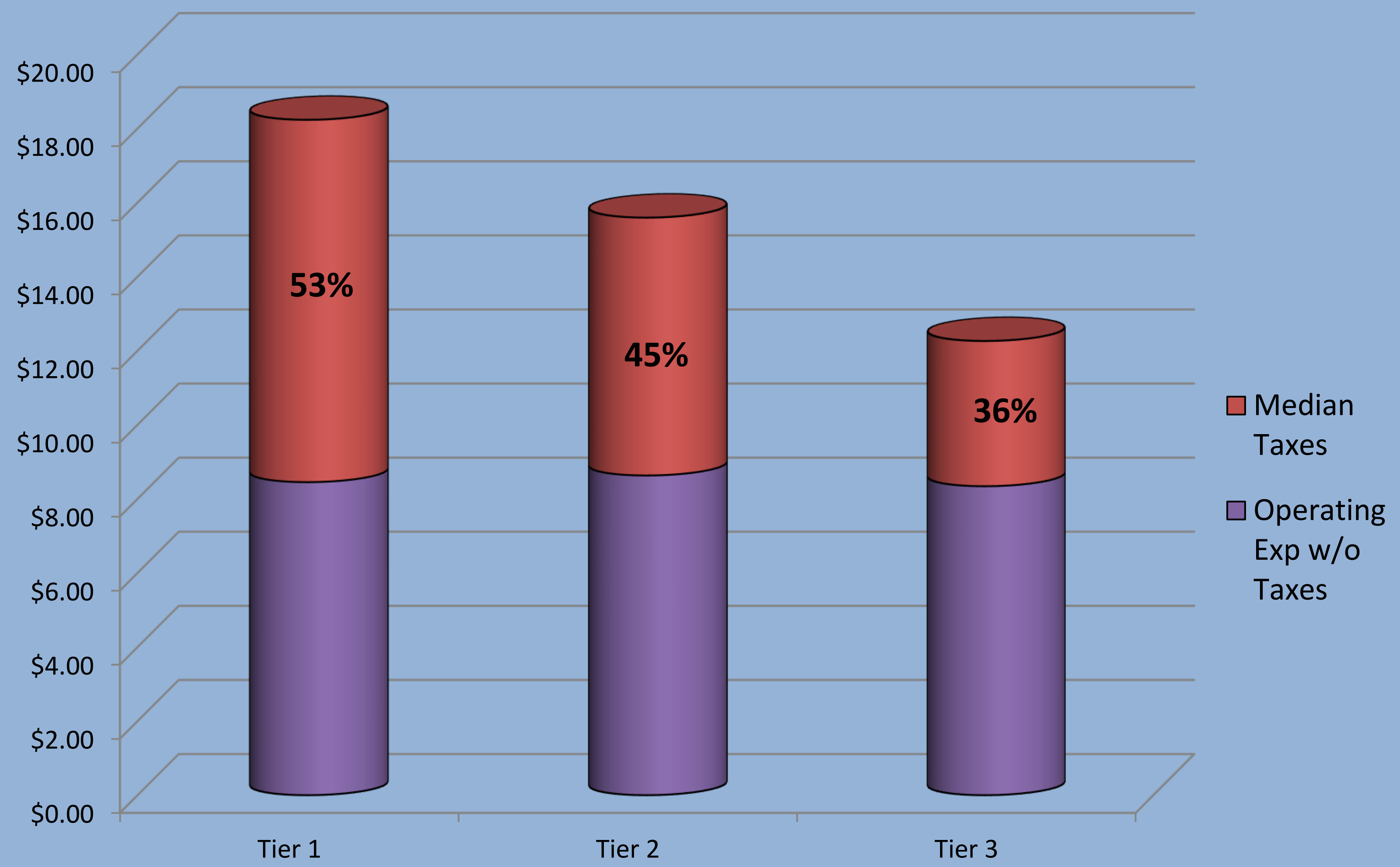


Tax Averages: Tier 1: $9.79
Tier 2: $7.10
Tier 3: $4.38

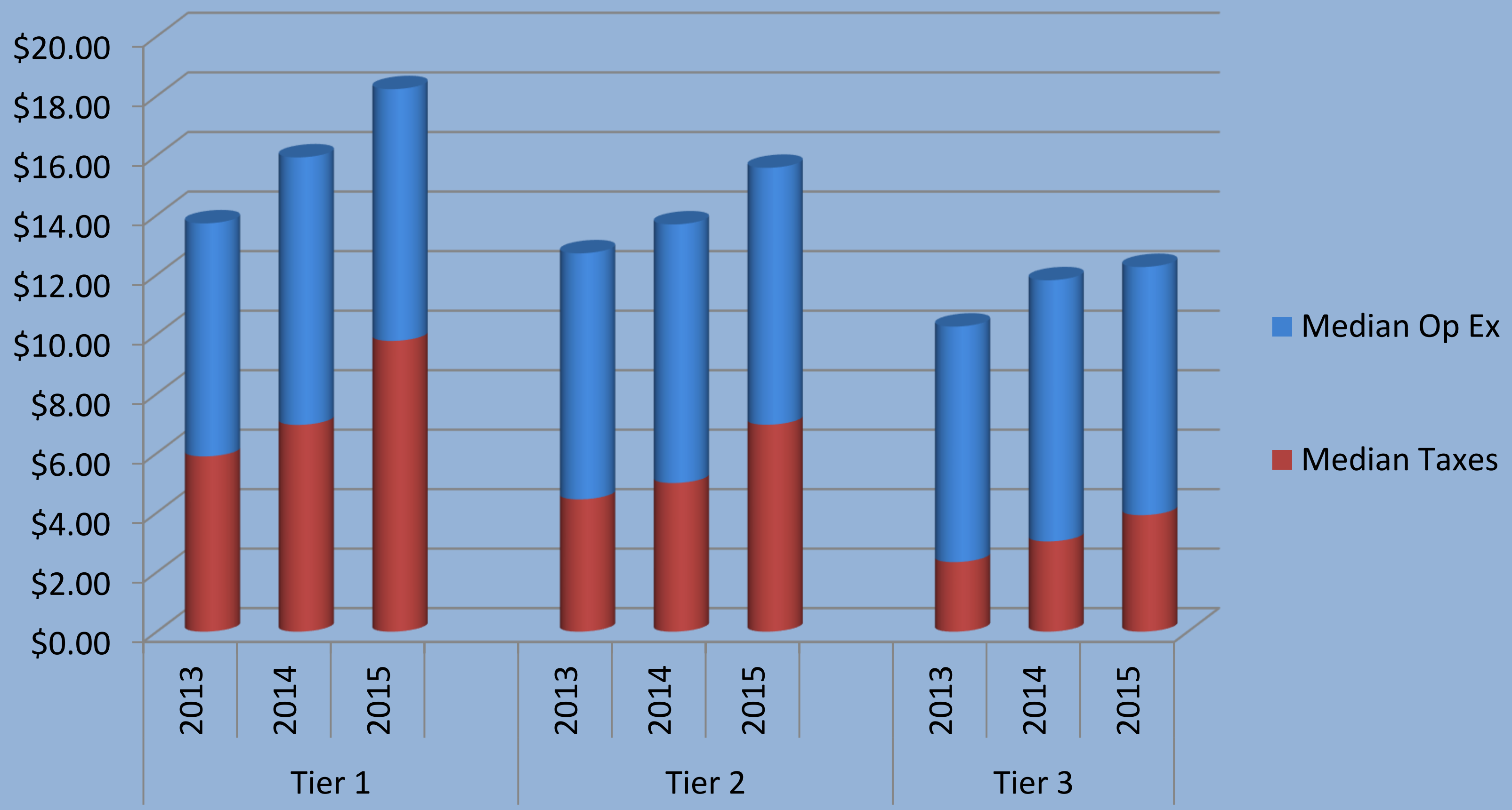
Taxes as % of Expenses:
Tier 1: 53%
Tier 2: 45%
Tier 3: 34%

Tax component identified in **red**

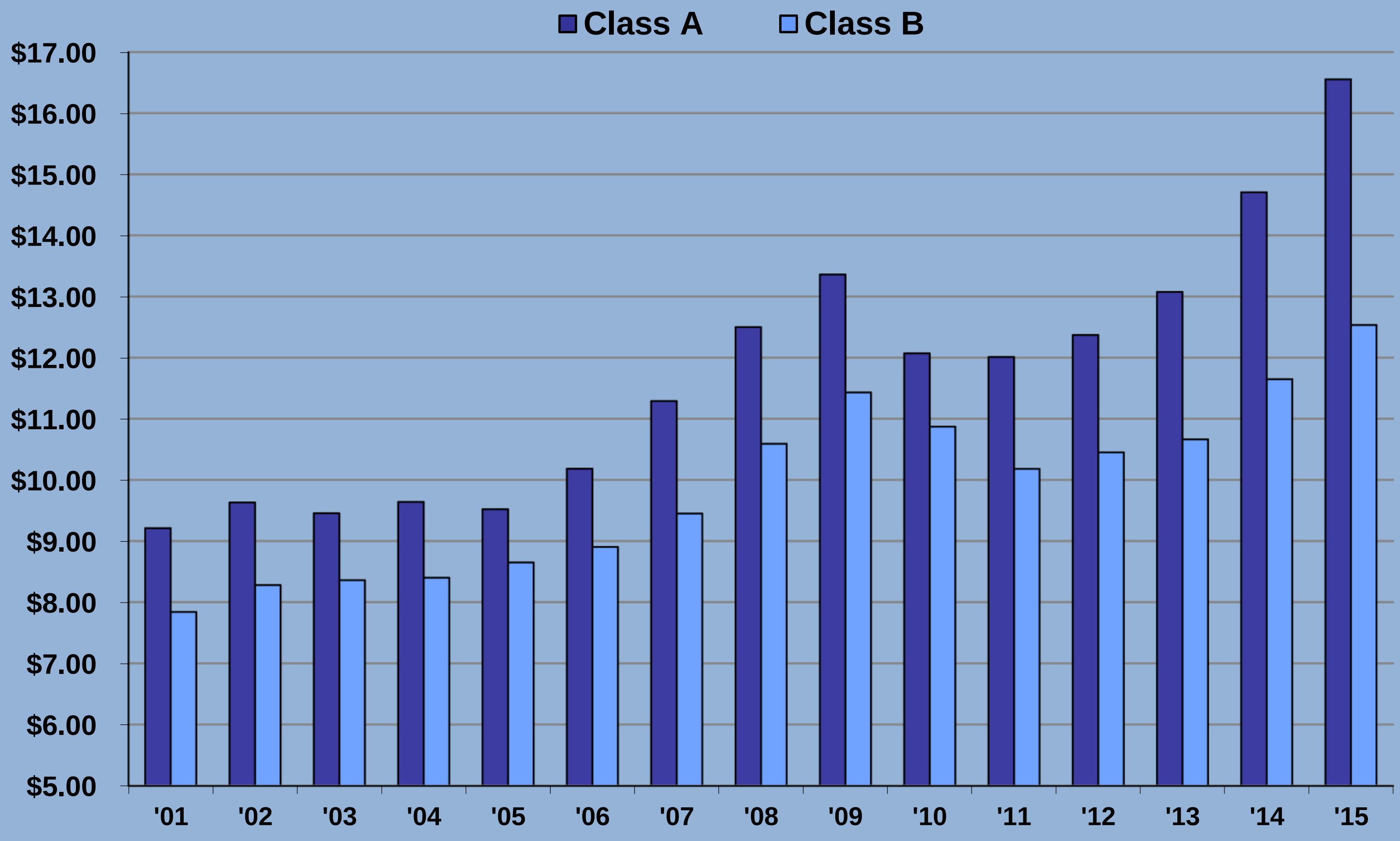
Operating Expense Projections for 2015



Taxes/Operating Expenses by Tier 2013-2015



Operating Expense Projections for 2015



Using previous bldg classification

Factors Affecting 2015+

- New buildings
  - 1111 Travis 1Q16
  - 609 Main at Texas Dec ’16
- 800 Bell: Shorenstein wlll redevelop, delivery 2017. City will not utilize this building.
- Sublease space potential from BG Group (8 floors, 217ksf), Rosetta (5 floors, 138ksf)

- Potential new large blocks
- Transformation of downtown: employers are trying to attract young talent. CBD offering more – one new residential property and 8 properties with 2,655 units are u/c; transit via light rail opening and re-imagined local bus service; HSPVA.

Contact

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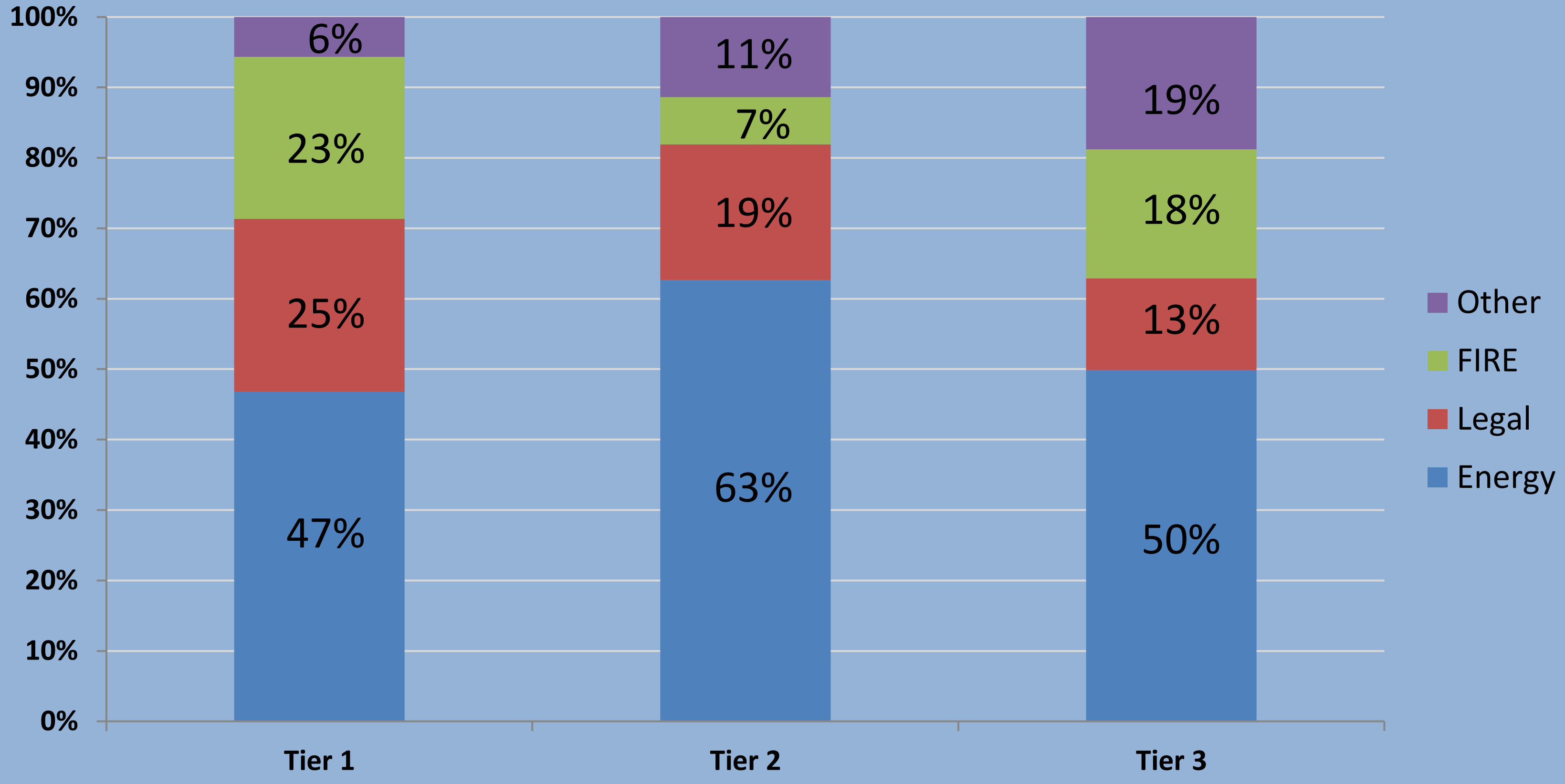
Additional CBD Story Slides

Industry Use by Tier (EOY 2014)

Direct



Full Direct Floors

by Class, Tier

EOY 2009

	Dir	Sub	Total
A	108	22	130
B	47	12	59
T	155	34	189

EOY 2010

	Dir	Sub	Total
A	102	22	124
B	49	7	56
T	132	29	180

EOY 2011

	Dir	Sub	Total
A	105	11	116
B	42	0	42
T	147	11	158

EOY 2012

	Dir	Sub	Total
A	84	21	105
B	29	0	29
T	113	21	134

EOY 2013

	Dir	Sub	Total
1	27	14	41
2	56	14	70
3	48	1	49
T	131	29	160

EOY 2014

	Dir	Sub	Total
1	48	13	61
2	35	17	52
3	53	3	56
T	136	33	169

Survey Universe by Tier

Tier 1	Tier 2	Tier 3	
609 Main	1 Allen Center	4 Houston Center	1001 McKinney
BG Group Place	2 Allen Center	NRG Tower	1010 Lamar
Hess Tower	3 Allen Center	1111 Fannin	1301 Fannin
717 Texas	1600 Smith	Total Plaza	801 Louisiana
5 Houston	LyondellBasell Tower	KBR Tower	801 Travis
1000 Main	2 Houston Center	500 Jefferson	919 Milam
600 Travis (Chase Tower)	Fulbright Tower	600 Jefferson	Esperson
Bank of America Ctr	1 Shell Plaza	811 Louis. (2 Shell)	Lyric Center
Heritage Plaza	1100 Louisiana	601 Travis	One City Centre
Wells Fargo Plaza	1001 Fannin	712 Main	1300 Main
	CenterPoint Energy Plaza		1415 Louisiana
	Kinder Morgan Tower		
	Pennzoil Place		

DOWNTOWN DEVELOPMENT

Completed since 2000	$5.2 billion
Under construction	+ $2.3 billion
Total	$7.5 billion

Additional projects in pre-development/design	$ 1.4 billion

Central Houston

HOTEL DEVELOPMENT

2 recently opened
6 under construction
Others planned

Downtown's hotel count will rise to 24 hotels from 16 in 2014, and 7,756 rooms from 5,348 in 2014.

Central Houston

JW MARRIOTT

- Developer: Pearl Hospitality
- Former 806 Main office building
- 328 rooms
- Meeting space
- Built 1910
- Opened November 2014

SPRINGHILL SUITES

- 3-building complex purchased by RLJ Lodging Trust
- Cost: $79.5 million
- Converted 82-unit residential tower to 166-room hotel
- Completed 3Q15

MARRIOTT MARQUIS

- Houston First Corp.
- RIDA Development
- ~1,000 rooms
- Under construction
- Opens 3Q16
- 1,800-space parking garage north of GRBCC

HAMPTON INN/HOMEWOOD SUITES

- 14 stories
- $50 million
- Hampton Inn: 173 rooms
- Homewood Suites: extended stay, 127 rooms
- Completion 1Q16

ALOFT

- 172 rooms
- Completion June/July 2016
- 1913 Stowers Building
- Former retail, manufacturing, warehouse, office

HOTEL ALESSANDRA

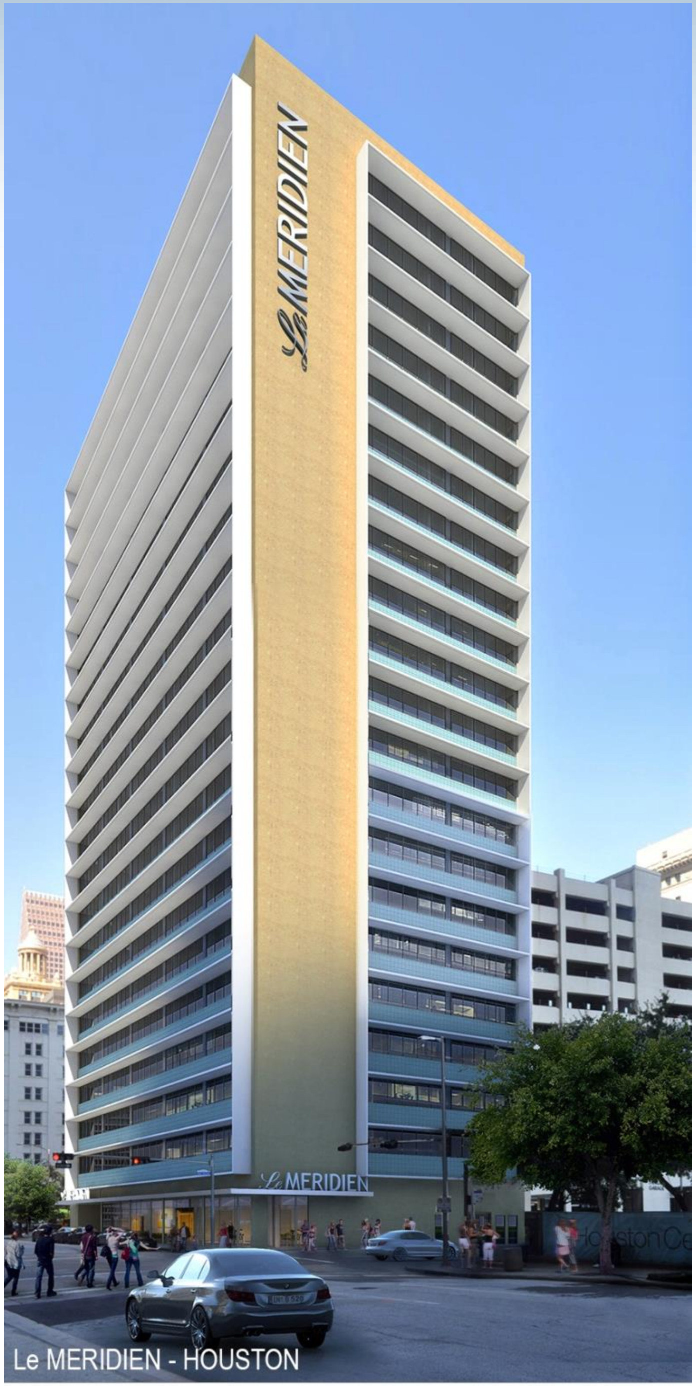
- Developer: Midway
- 25 stories
- 225 keys
- Completion 4Q16

HOLIDAY INN

- Developer: K&K Hotel Group
- Former Savoy Hotel
- 17 stories
- 215 rooms
- At a rail stop, easy access to Medical Center

LE MERIDIEN

- 255 rooms
- 8,000 sf mtg space
- Rooftop pool/patio
- Restaurant/bar
- Construction 11/15 to 3/17
- Development Services Group, Inc. (Memphis)
- Former Melrose Bldg



HOTEL, *also planned*

- Hotel at GRBCC, atop parking garage
  - Developer: TBD
  - 15 stories, 225 keys

RESIDENTIAL DEVELOPMENT

1 recently opened
11 under construction, 7 planned

Downtown's residential count will more than double, to 6,158 units, and doubling the population, to 8,000 residents

Central Houston

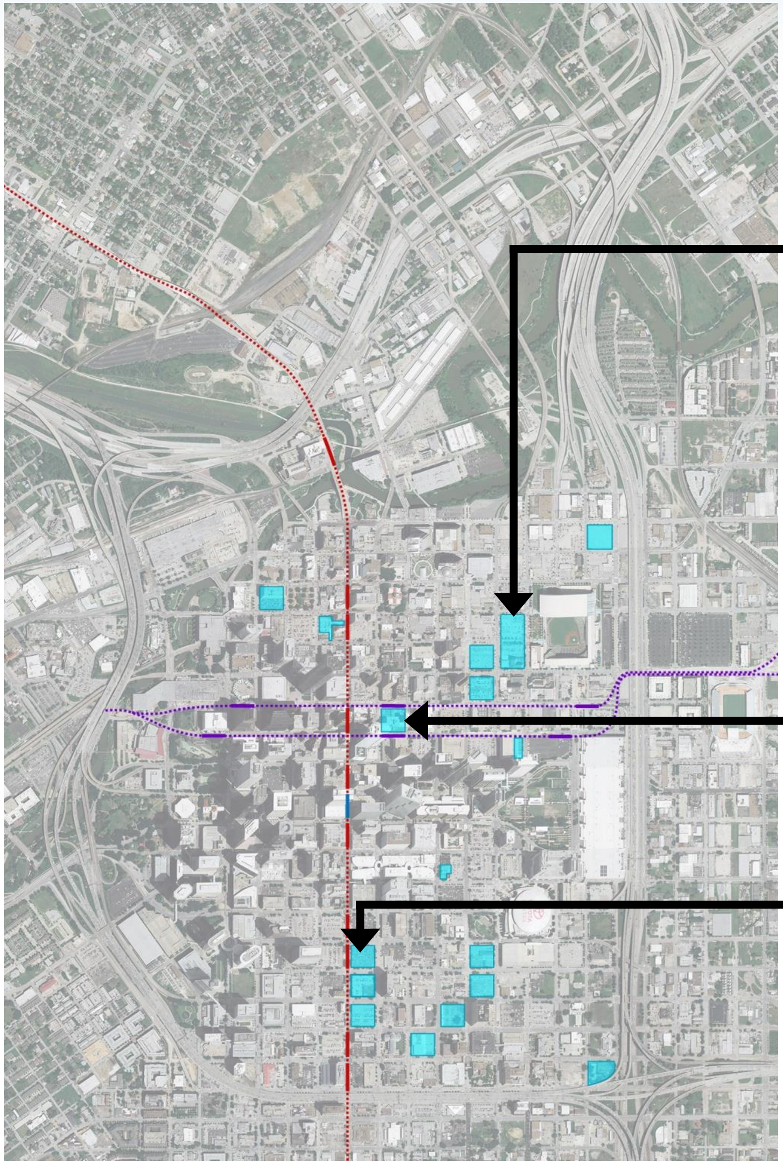
SKYHOUSE HOUSTON

- Developer: Novare Group
- 24-story, 336 rental units
- Opened July 2014
- Target 25- to 34-year-old professional singles
- 577-1,400 sf, priced around $2.70/sf/month

Current Units		2,899	
Under Construction			
	500 Crawford	400	
	The Hamilton	148	
	Old Texaco	323	
	Block 334	207	
	Marquette/Catalyst	361	
	Hines	274	
	Market Square Tower	463	
	SkyHouse Main	336	
	Leon Capital	220	
	Allied Orion	242	
	Alexan/Crow Resid	285	
	Subtotal under construction	3,259	
	Cumulative with construction		6,158
Planned			
	Camden	550	
	Crow - Block 98	314	
	Cosmopolitan/Realtex	209	
	Marlowe	100	
	Fairfield	292	
	Marquette	304	
	Todd Interests	162	
Subtotal planned		1,931	
Cumulative with planned			8,089

Central Houston

RESIDENTIAL *under construction*



500 Crawford

- The Finger Companies
- 7 stories, 400 rental units

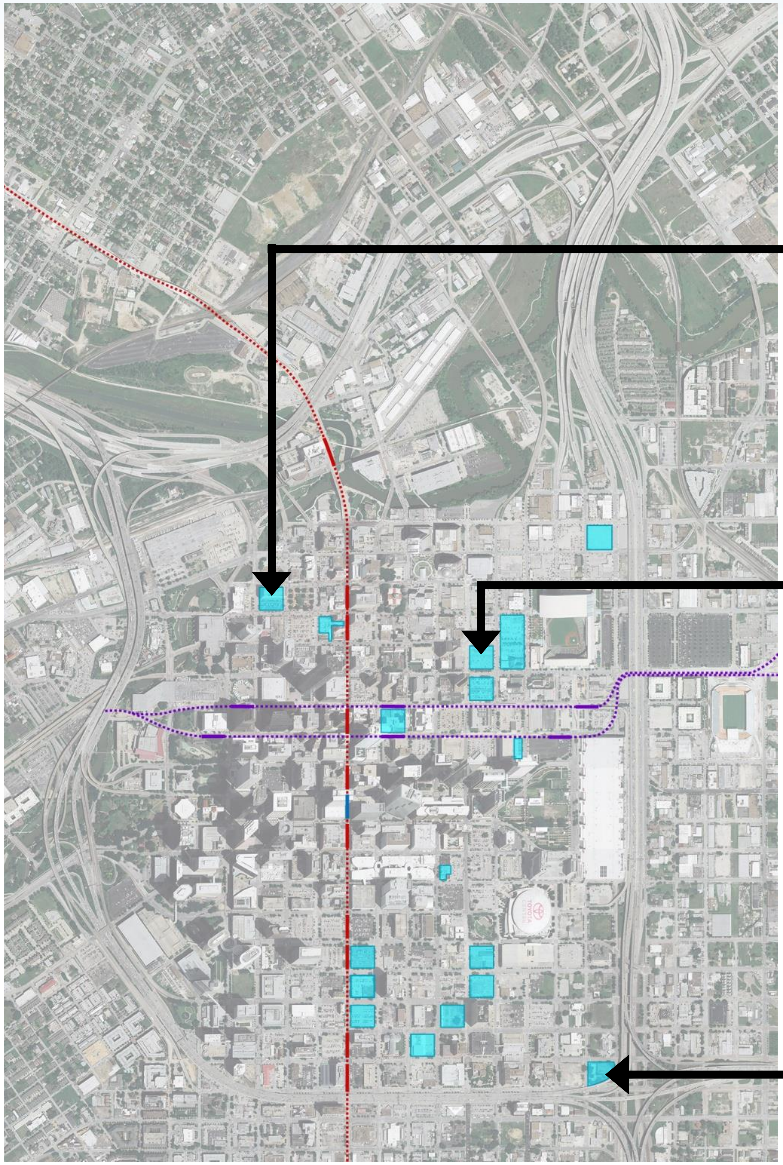
1111 Rusk

- Provident Realty Advisors
- 16 stories, 323 units

Block 334

- Alliance Residential Company
- 5 stories, 207 units

RESIDENTIAL *under construction*



Market Square Tower

- Woodbranch Tower
- 40 stories, 463 units

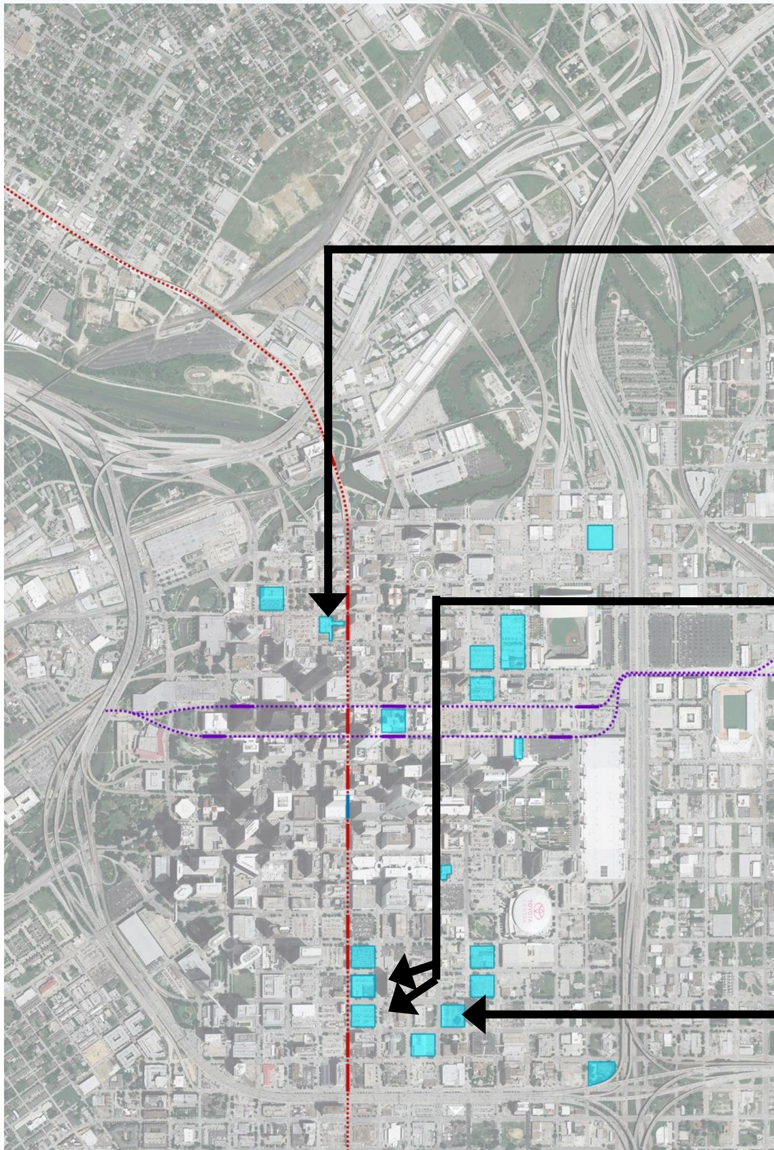
Catalyst

- Marquette Companies
- 28 stories, 361 rental units

The Hamilton

- Resolution Real Estate
- 5 stories, 148 units

RESIDENTIAL *under construction*



Hines Market Square

- u/c
- Hines
- 32 stories, 274 rental units

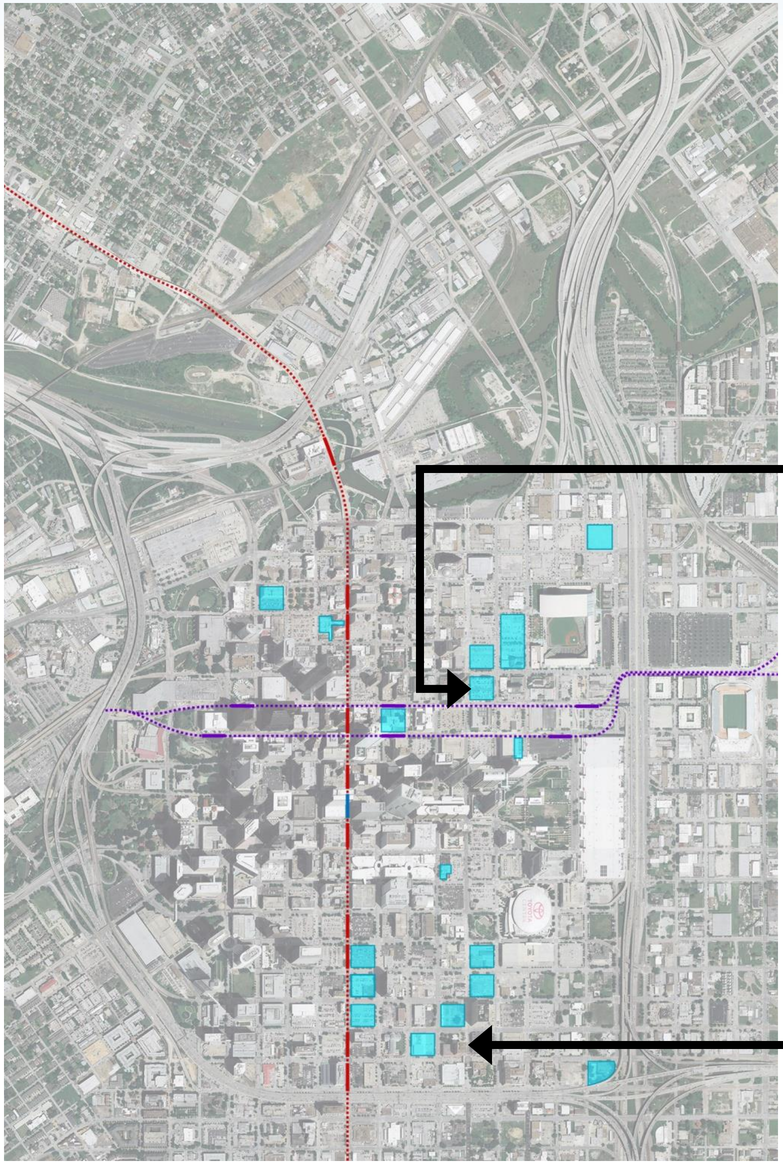
SkyHouse Houston & SkyHouse Main

- Novare Group
- 24 stories, 336 rental units

Block 365

- Leon Capital Group
- 5 stories, 220 units

RESIDENTIAL *under construction*



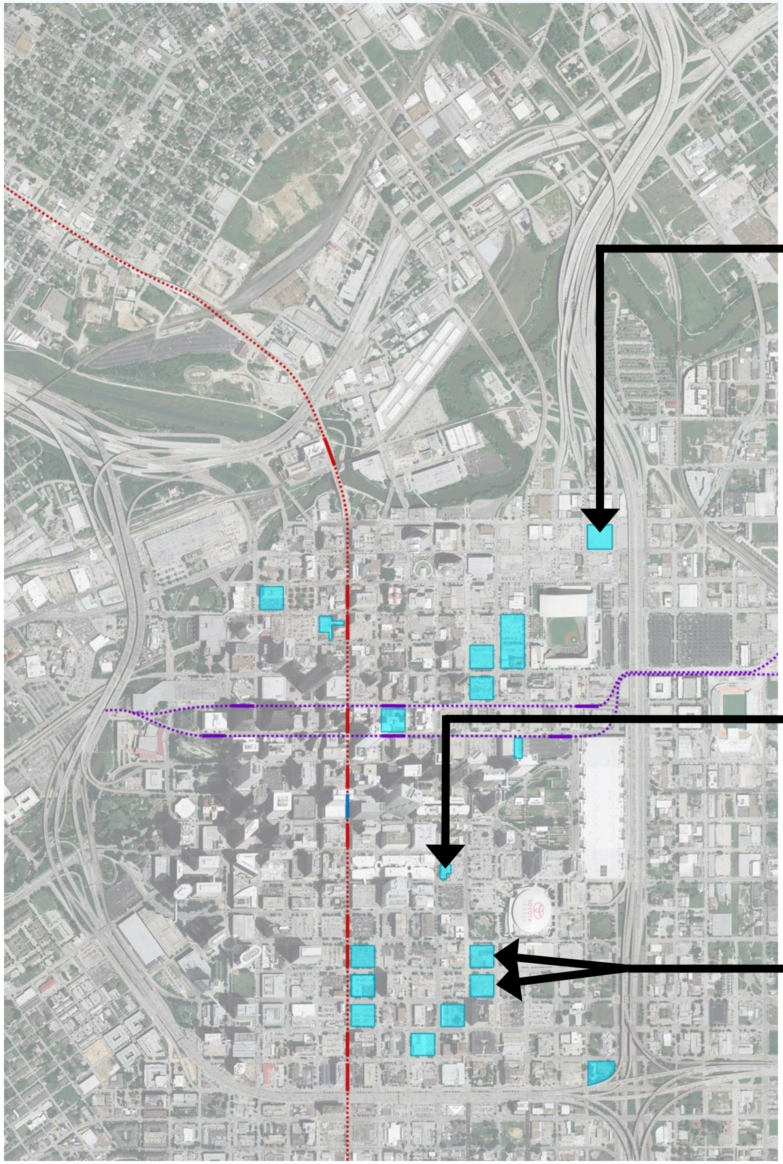
Alexan Downtown

- Trammell Crow Residential
- 6 stories, 264 units

Block 384

- Allied Orion Group
- 8 stories, 242 units
- u/c

RESIDENTIAL, *planned*



The Cosmopolitan

- Realtex Development Corp.
- 7-stories, 209 units

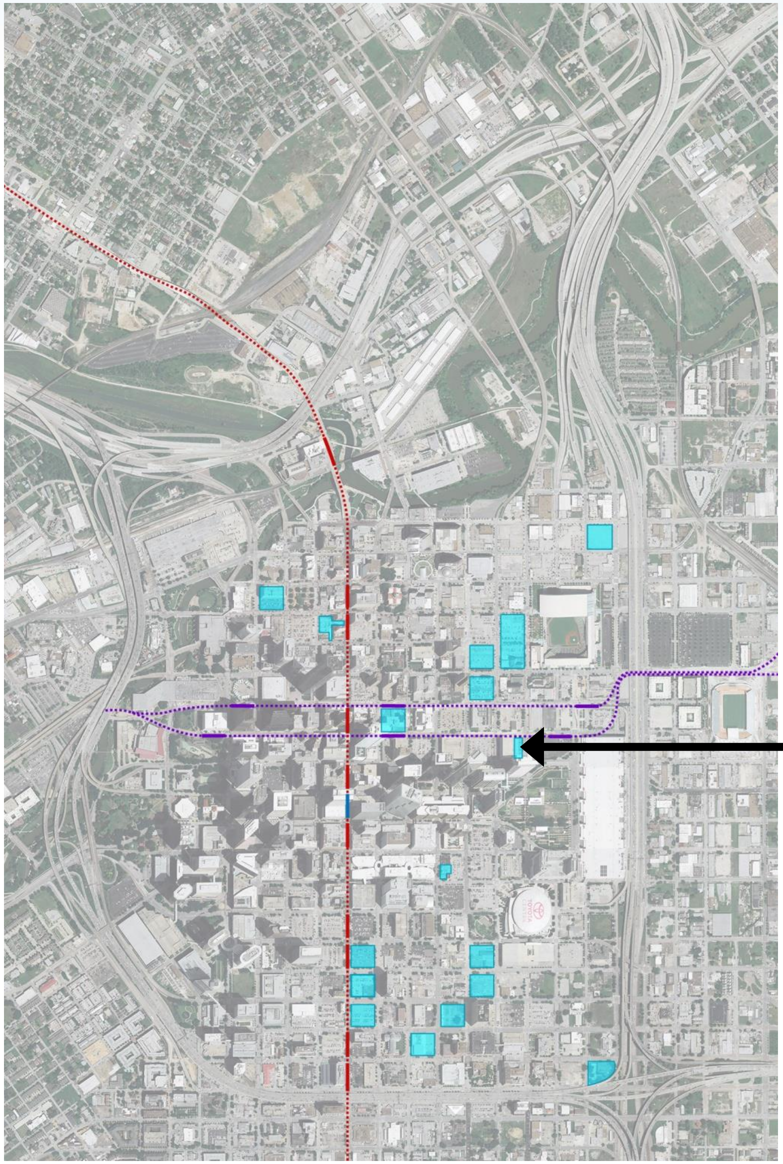
Marlowe

- Randall Davis
- 20 stories, 100 units

Block 330 & 346

- Camden Property Trust
- 20 stories, 550 units

RESIDENTIAL *planned*



Block 98

- Trammell Crow
- 40 stories, 314 rental units

OTHER DEVELOPMENT

Central Houston

HIGH SCHOOL FOR THE PERFORMING & VISUAL ARTS (HSPVA)

- $80 million project
- 160,000+/- sf, ~200 parking spaces
- 700 students

CONVENTION CENTER IMPROVEMENTS

- Grand entry in center of GRBCC
- New retail/restaurant spaces
- Street traffic one-way and reduced to two lanes, can be closed for major events
- Completion December 2015

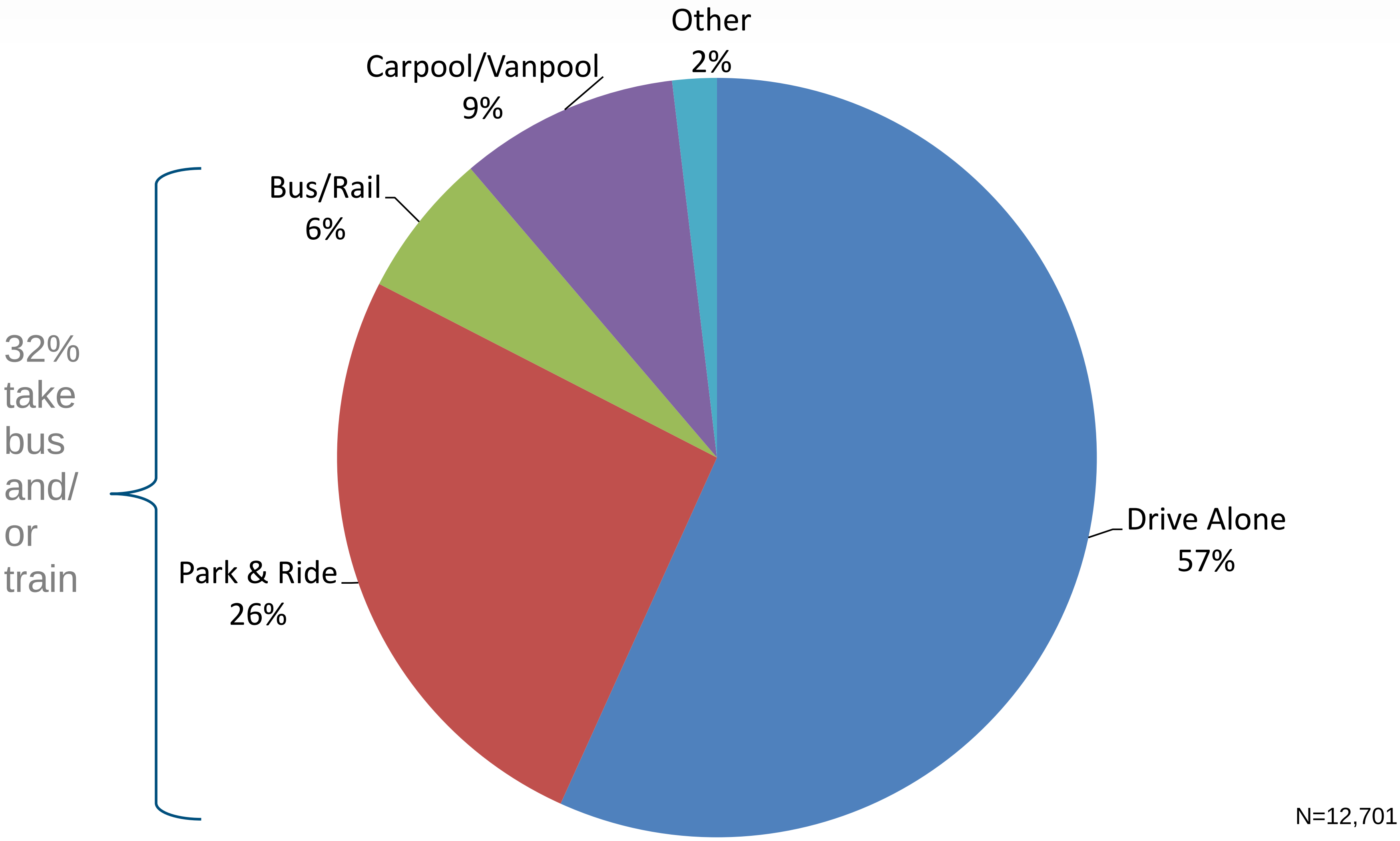
BUFFALO BAYOU – *under construction*

- 160 acres, 2.3-miles long
- $55 million project
- Goal: restore the bayou to be more natural and self-sustaining; reintroduce native park landscape; add amenities

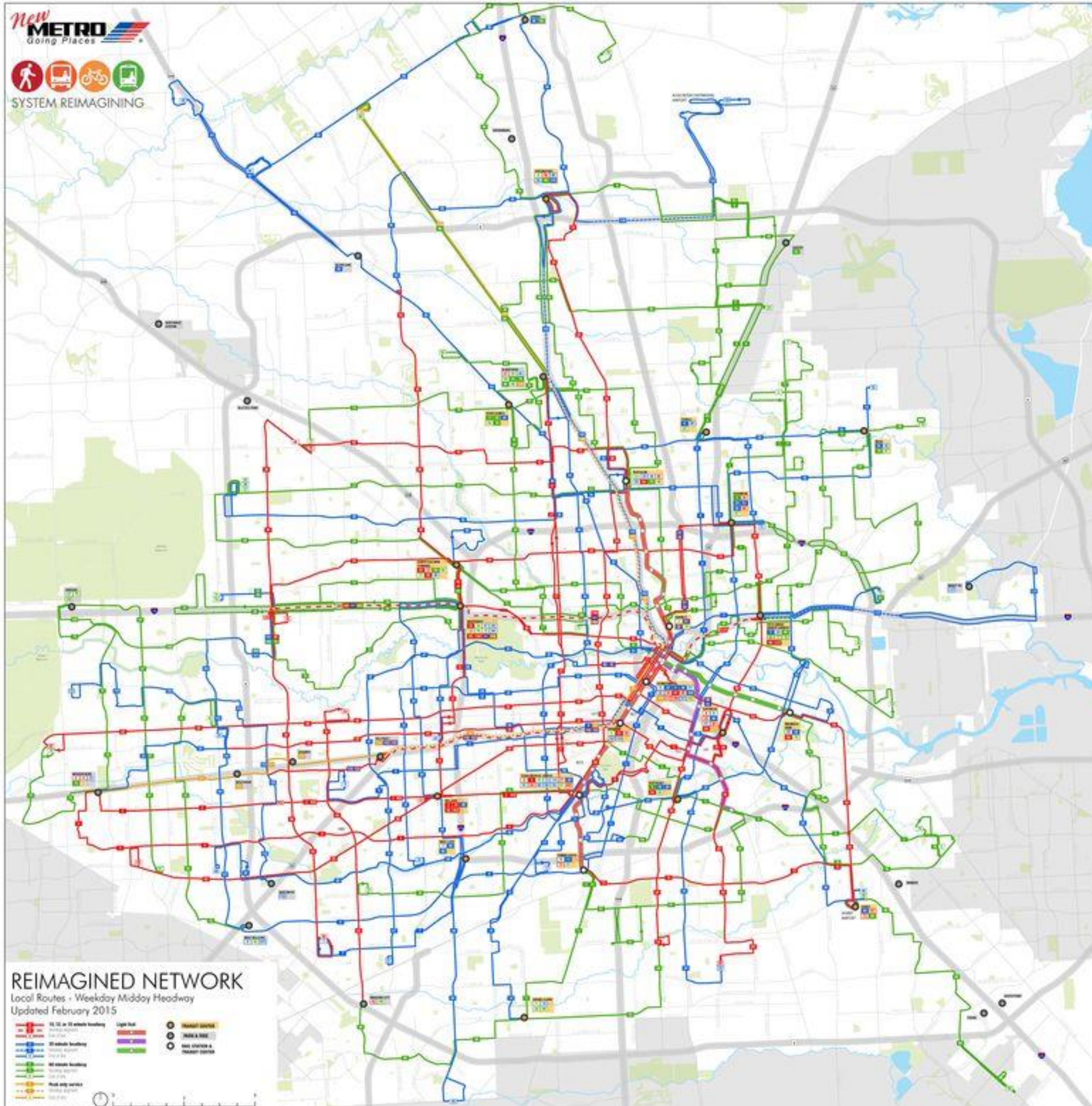
TRANSPORTATION

Central Houston

COMMUTE MODE, 2013



Metro's new local bus system routing



LIGHT RAIL GOAL

- Red line: 12.8 miles
- 9.9 additional miles with Green and Purple lines
- Fewer buses in downtown: light rail cars carry more people per vehicle
- East/west light rail will not have priority over traffic signals

B-CYCLE

- 11 stations, 87 bikes downtown
- 28 stations in Houston
- Averaging 2,000 checkouts/ week

ZipCAR

- 7 downtown locations

SIX IN THE CITY

$6.00 cash to take a cab anywhere within downtown, up to 4 riders

SIX IN THE CITY

$6 ANYWHERE DOWNTOWN

GREENLINK

- 2.5 mile-route
- 6:30-6:30 M-F
- 1,000 riders/ day avg
- User friendly
- CNG-fueled vehicles

Central Houston


Hilton