CBD STORY 2016

Survey data as of
January 1, 2016

Background

- This survey does not replace other, traditional market surveys. It does not replace broker, owner, or third-party reports. It 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 32^{nd} year of this analysis with this methodology.

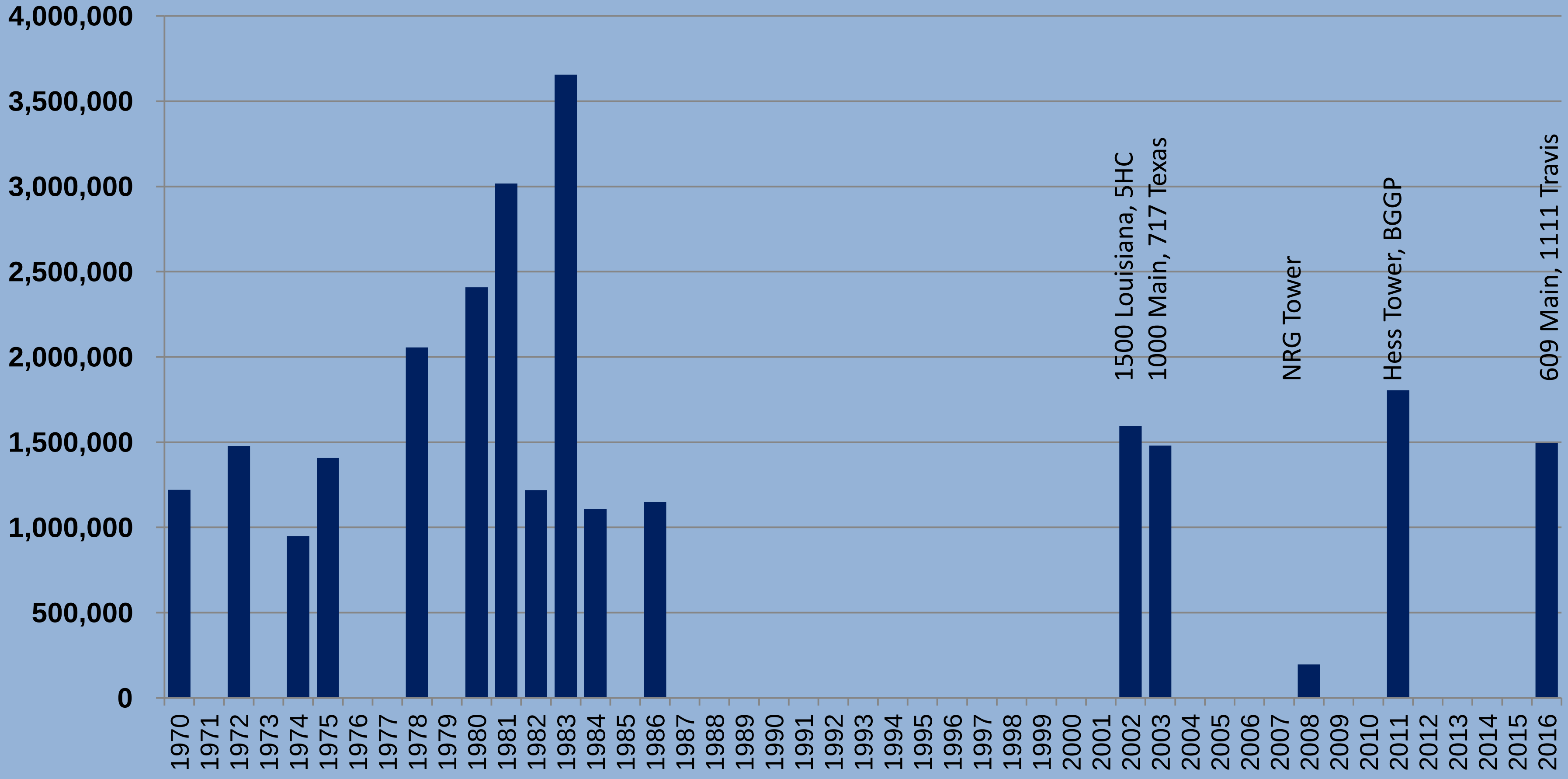
Survey Universe

	Number	Rentable SF
Tier 1	10	10,515,171
Tier 2	13	14,272,120
Tier 3	21	9,906,174
Total	44	34,693,465

Not included: 1500 Louisiana, 1400 Smith and 1111 Travis (all owner occupied) and 800 Bell.

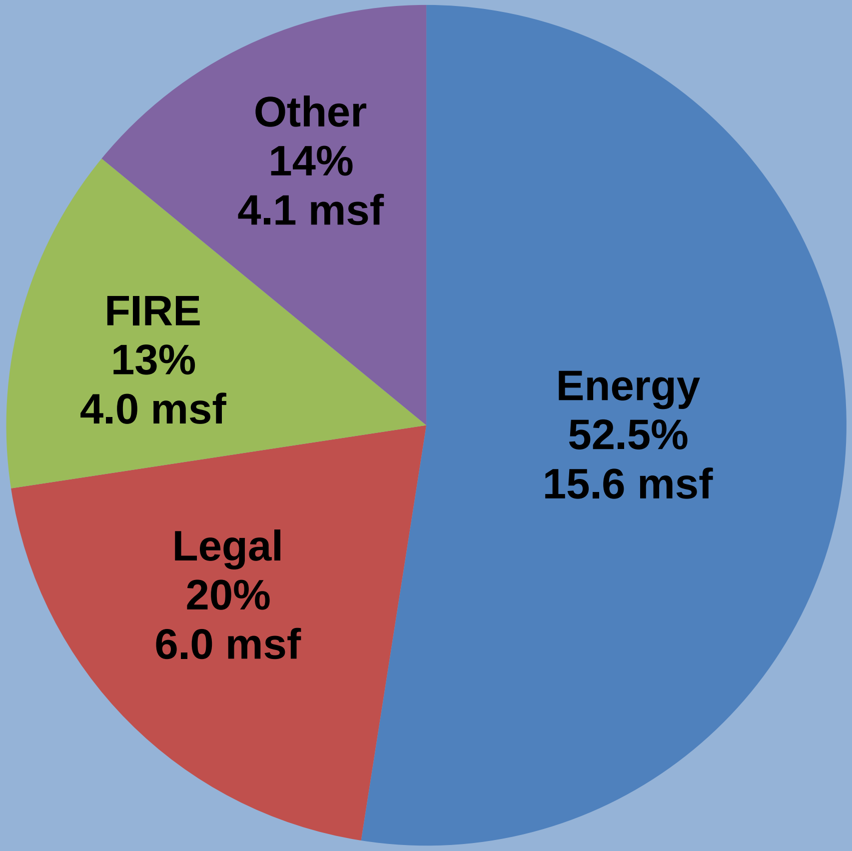
Class A Building Construction

Square Feet Built per Year



Office Building Use by Industry

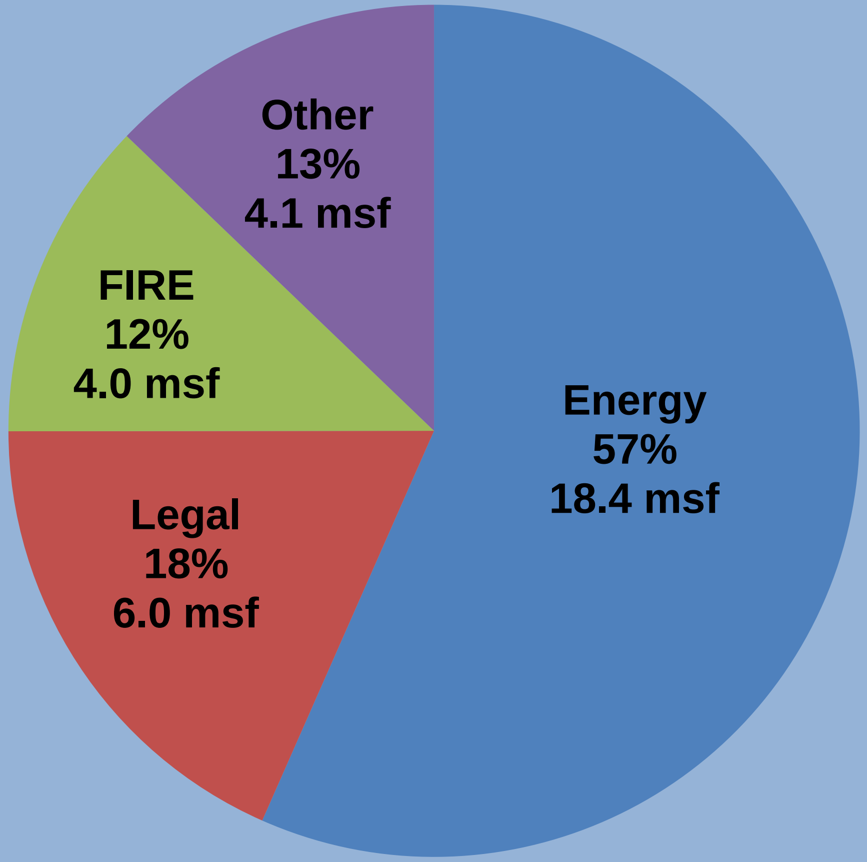
Properties in the survey universe



- 29.7 million sf of *leased* space in survey universe
- Owner-occupied buildings are excluded: 1500 Louisiana, 1400 Smith, 1111 Travis
- Energy is broadly defined and includes exploration and production, pipelines, utilities and chemical companies. We also include service companies such as KBR.
- FIRE = Finance, Insurance, Real Estate
- "Other" includes companies such as Waste Management and United Airlines

Office Building Use by Industry

Including owner-occupied buildings



- 32.5 million sf of *leased* space in downtown's Class A and B office buildings.
- Owner-occupied buildings are *included* here: 1500 Louisiana, 1400 Smith, 1111 Travis
- Energy is broadly defined and includes exploration and production, pipelines, utilities and chemical companies. We also include service companies such as KBR.
- 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	272
Two or more floors	127
Four or more floors	64
Tenants by square footage	
20,000+ sf	239
100,000+ sf	55
200,000+ sf	29
500,000+ sf	7
Tenants by % of survey universe	
25%	13
33%	22
50%	61

Excludes 1500 Louisiana, 1400 Smith and 1111 Travis

Summary Data

January 1, 2016

Survey Universe	34,693,465
Space Being Marketed (Direct)	4,949,958
Percent Being Marketed (Direct)	14.3%
Space Being Marketed (Sublease)	1,392,065
Percent Being Marketed (Sublease)	4.0%
2015 Absorption (Direct)	(267,049)
2015 Leases Signed (Direct)	2,156,638

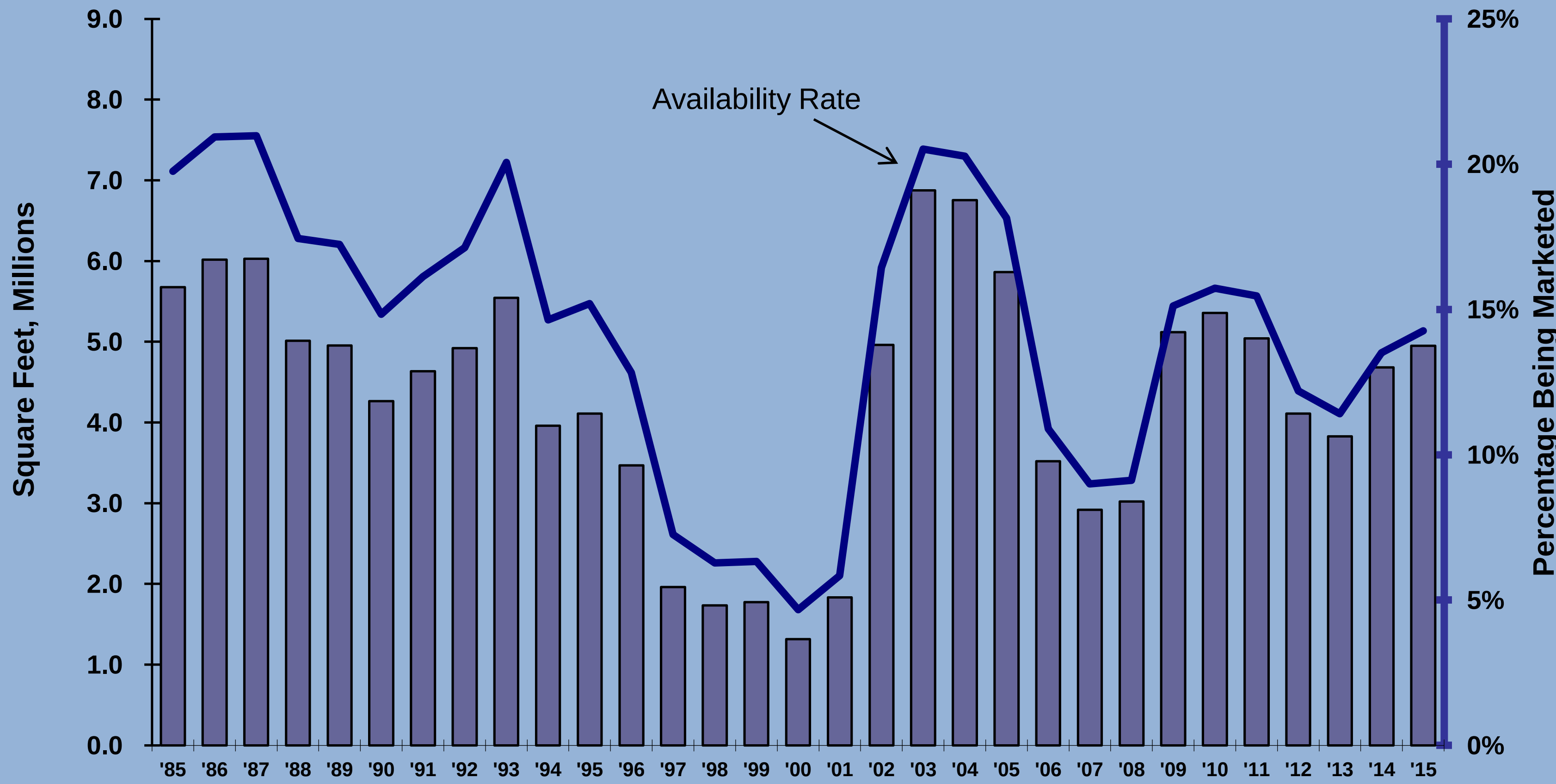
Definitions – Space Available and Availability Rate

- Available: Any office space being marketed, even if occupied and leased. If it is being *marketed*, it is competing against other space.

- Availability rate: Direct office space being marketed divided by the total amount of office space in this survey universe.

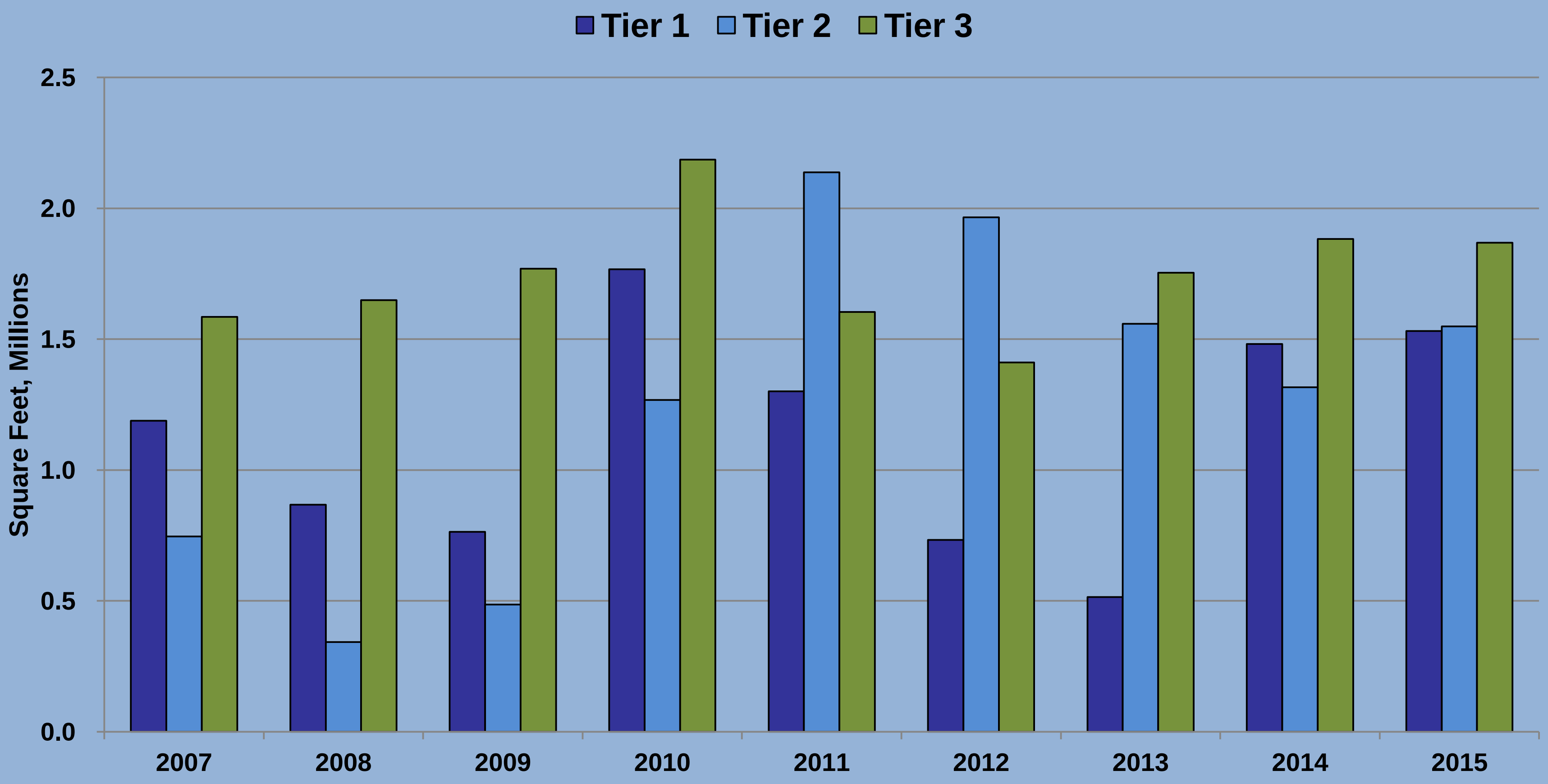
Historical Space Being Marketed

Direct, 1/1/16



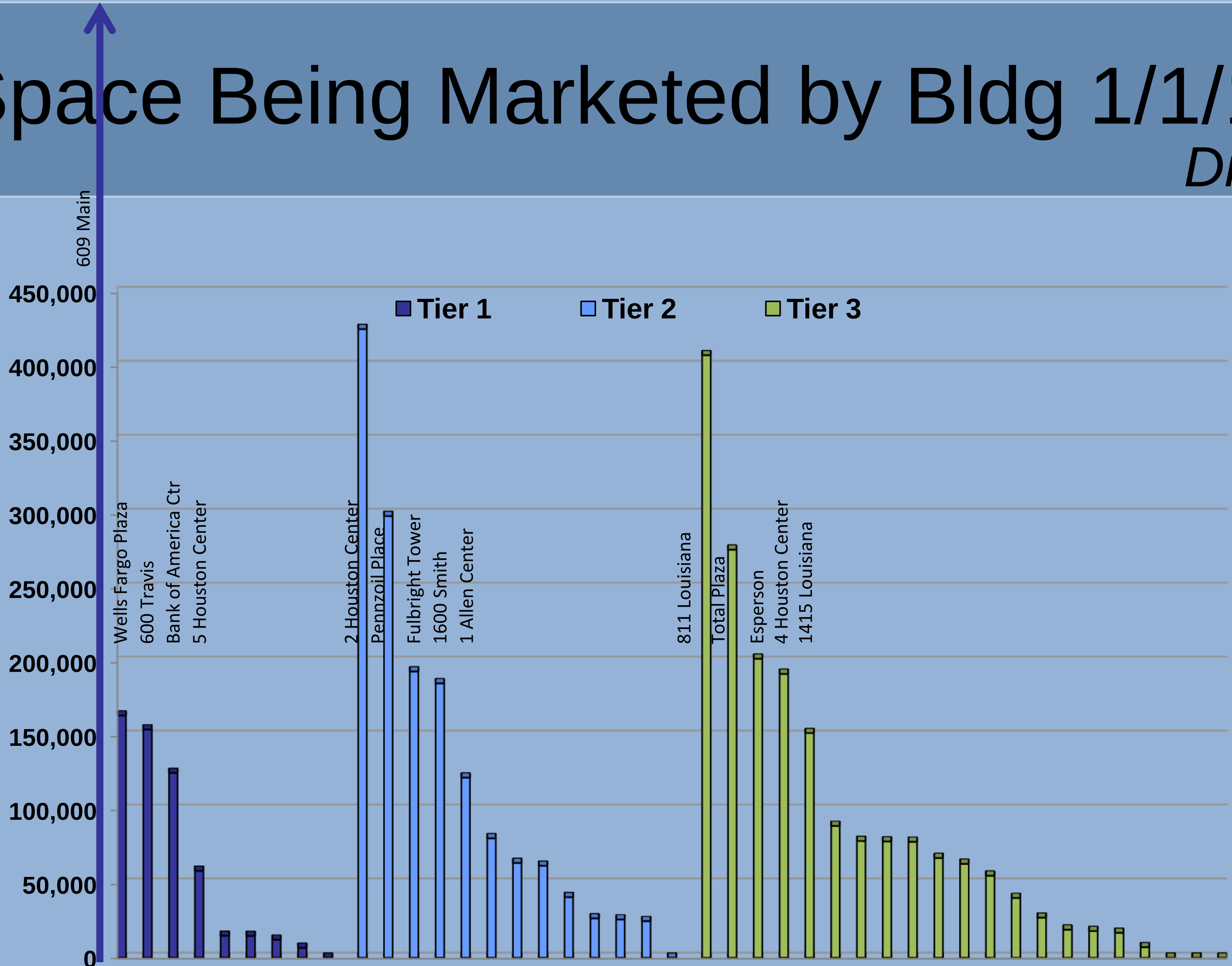
Historical Space Being Marketed

Direct, by Tier



Space Being Marketed by Bldg 1/1/16

Direct



Effective Blocks of Space

As of 4/10/16 *100,000 SF+*

Tier	Building	Floors	SF	Avail	Former Tenant
1	609 Main	12-45	967,884	Dec '16	*Less space UAL takes
2	One Shell Plaza	~14	350,000	TBD	Shell
3	811 Louisiana	10-15, 18-22	348,360	Immed.	Shell
2	2 Houston Center	P3-10	298,185	Immed.	Shell + 9-10 Argent
2	1600 Smith	5-16	279,000	Immed +TBD	United Airlines (1/2 is new)
3	600 Jefferson	1-2, 11-19	221,590	Jan '18	United Airlines
3	500 Jefferson	3-6, 13-19	215,136	Immed.	KBR
1	Heritage Plaza	14-18, 21	165,120	Immed.	Rosetta Resources
3	1415 Louisiana	23, 25-32	153,943	Immed.	Eagle Rock and other
3	Total Plaza	10-15	145,352	July '16	Hilcorp
1	Wells Fargo Plaza	30-35	114,066	Immed.	Gardere (relocated in bldg)
3	One City Centre	16, 18, 22, 25	106,345	TBD	Energy XXI

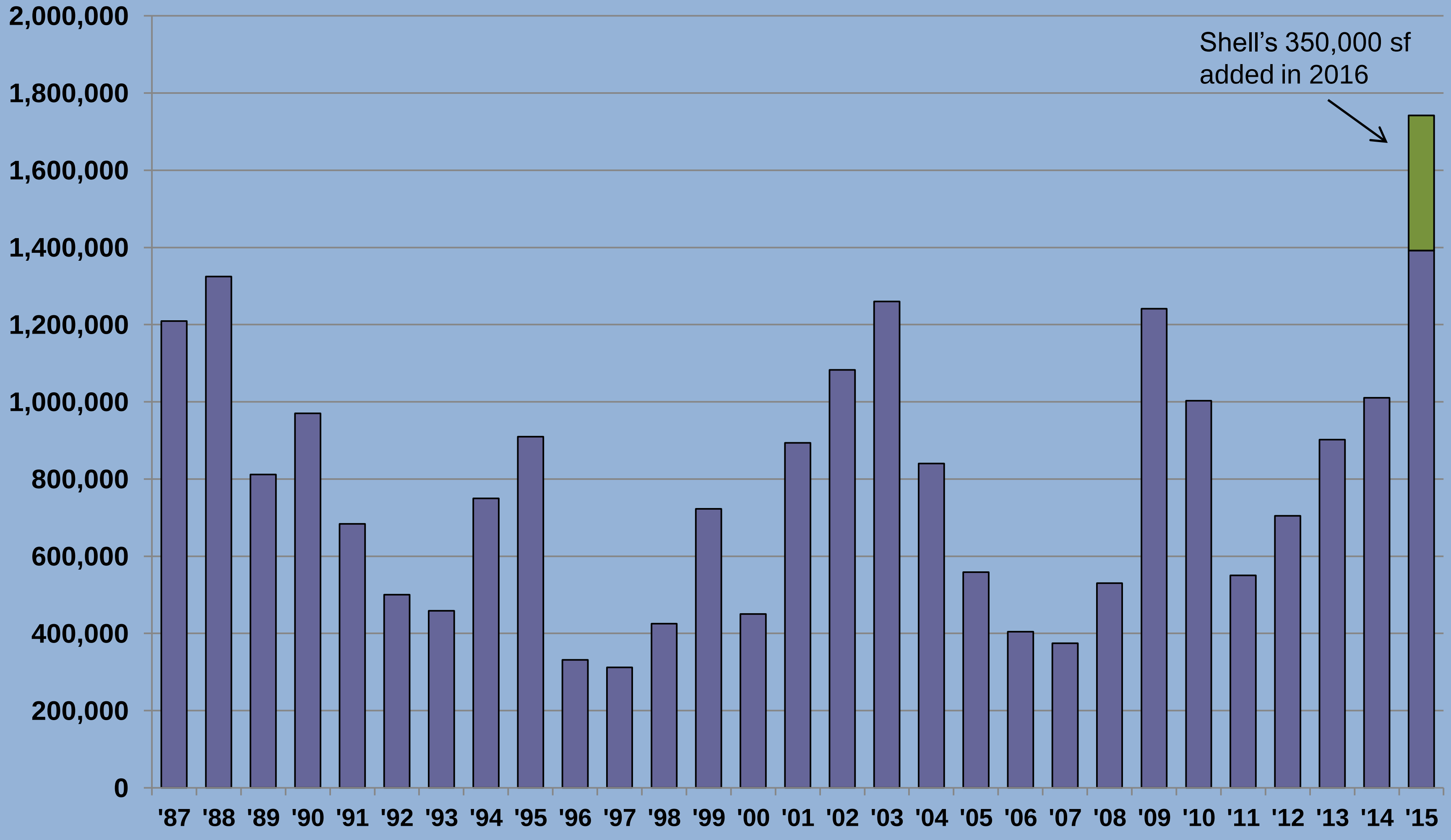
Red text indicates sublease space

Full-Floor Sublease Spaces

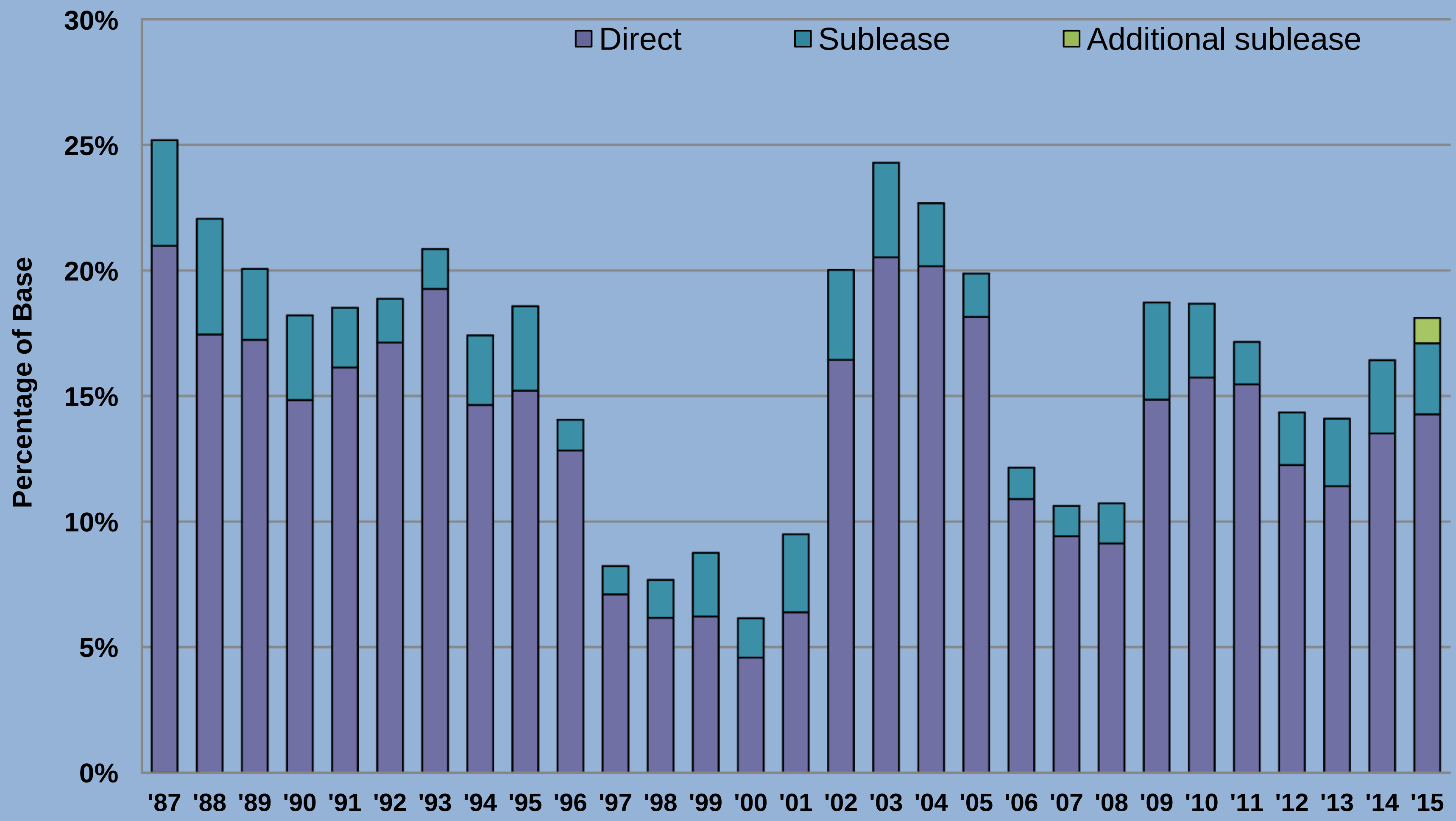
With term, as of 4/10/16

Tier	Building	Description	Exp	SF
2	One Shell Plaza	Approx 14 floors (Shell)	Dec-25	350,000
3	500 Jefferson	3-6, 13-17 (KBR)	Jun-30	175,510
1	Heritage Plaza	14-18, 21 (Rosetta)	Aug-23	165,120
2	Three Allen Center	3-6 (Devon)	Jan-20	84,508
1	BG Group Place	24-26 (BG Group)	Dec-26	81,786
2	Two Allen Center	5 & 21(Devon)	Jan-20	56,109
3	1415 Louisiana	23, 26, 28 (Eagle Rock)	Feb-18	55,747
2	1001 Fannin	27, 28 (Vinson & Elkins)	Oct-21	54,909
1	600 Travis	48 & 57 (Breitburn)	Feb-18	44,643
3	919 Travis	6 & 12 (Valerus)	Jun-23	44,308
3	1301 Fannin	23, 24 (multi)	Mar-18	40,202
1	600 Travis	3, 4 (Ascend)	Feb-19	33,526
1	1000 Main	22 (Shell/Motiva)	Dec-25	28,963
2	Two Allen Center	23 (Copano)	Jan-20	28,350
2	1001 Fannin	4 (Enervest)	Nov-26	26,901
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	1100 Louisiana	31 (Enbridge)	Apr-25	22,982
3	919 Milam	17 (Johnson Trent)	Jun-18	22,693
2	1100 Louisiana	55 (Vitol)	Apr-21	19,491

Historical Sublease Available

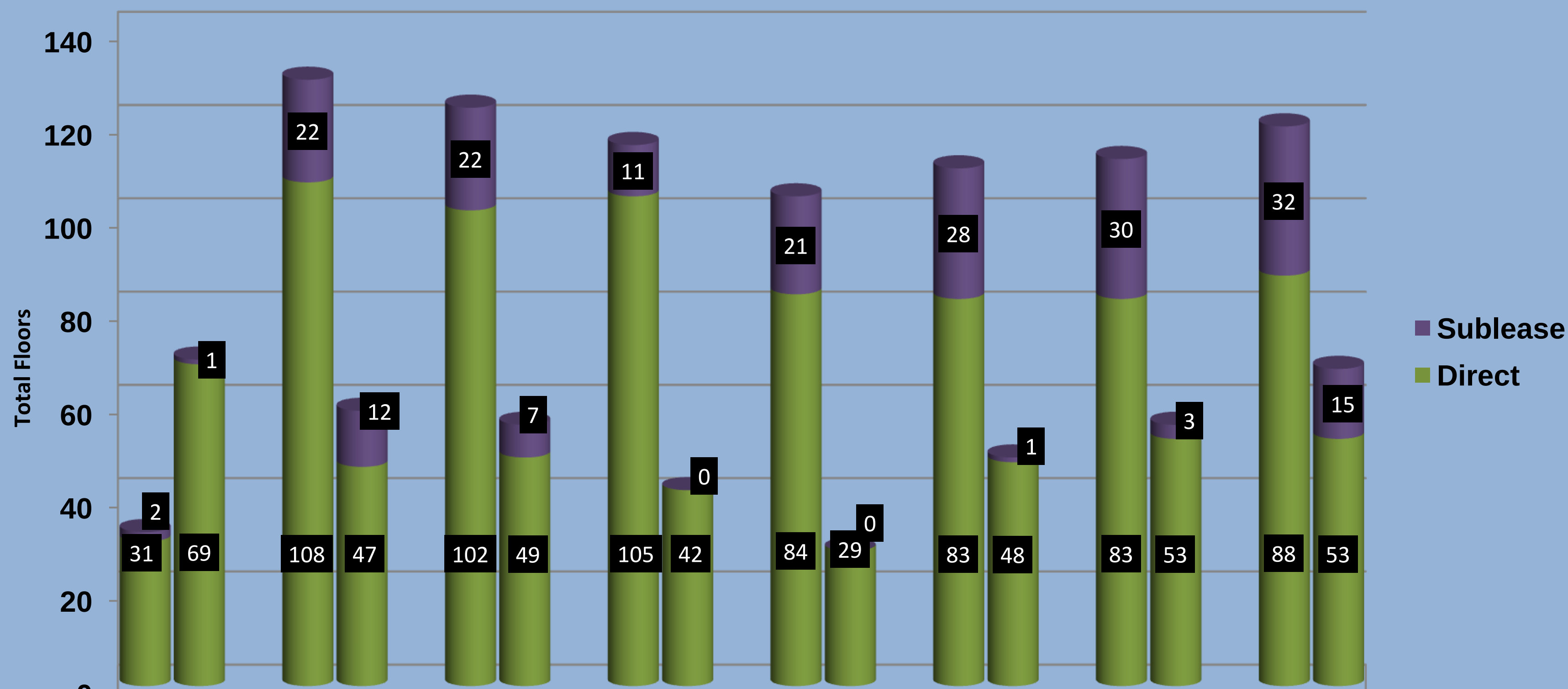


Historical Space Available



Full Floors Available

Direct and sublease, as of 12/31

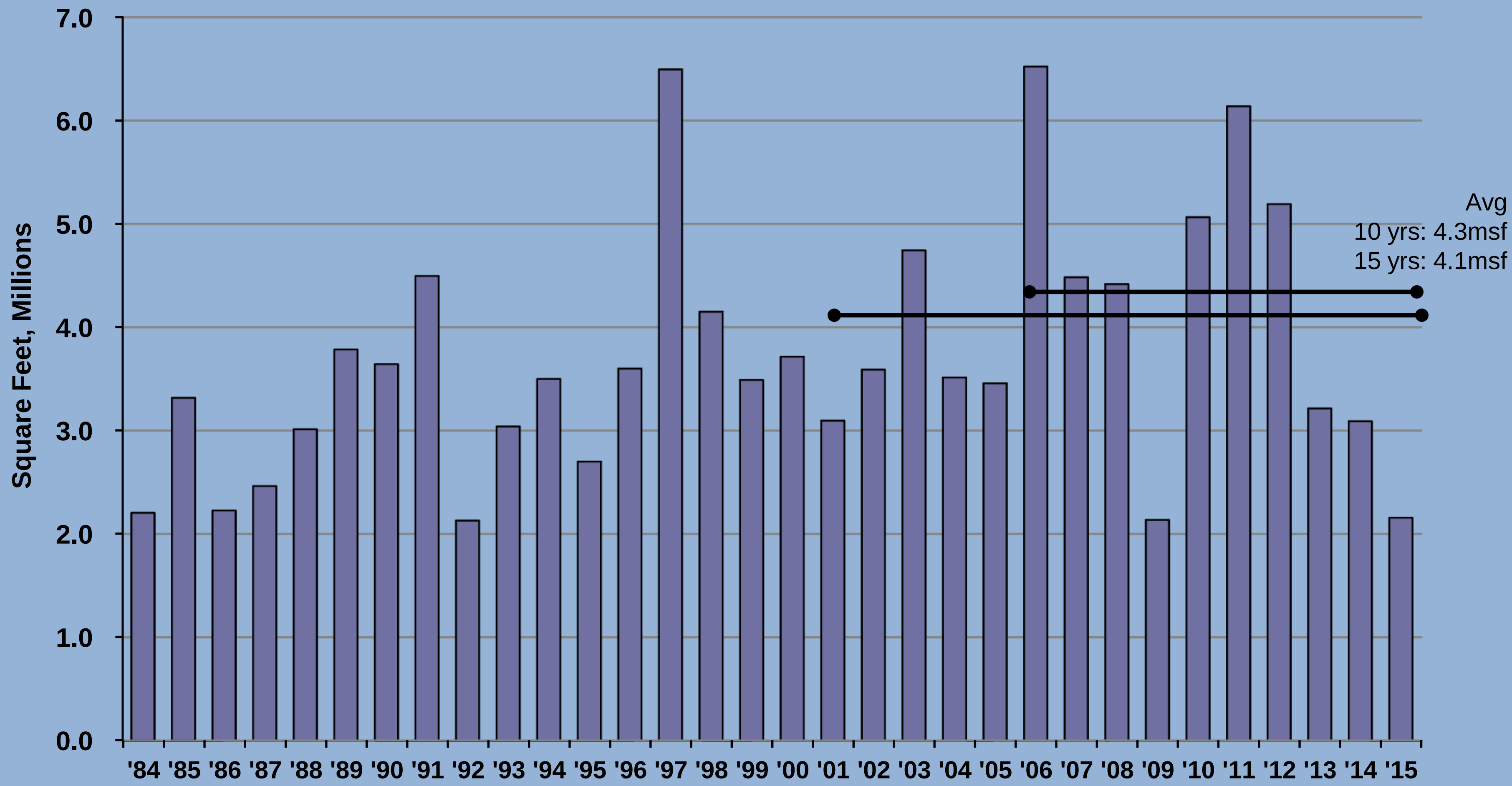


Class	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Year	**2008**		**2009**		**2010**		**2011**		**2012**		**2013**		**2014**		**2015**	
Total Floors	103		189		180		158		134		160		169		188	
Floors	33	70	130	59	124	56	116	42	105	29	111	49	113	56	120	68
Dir, Sub	100, 3		155, 34		151, 29		147, 11		113, 21		131, 29		136, 33		141, 47	

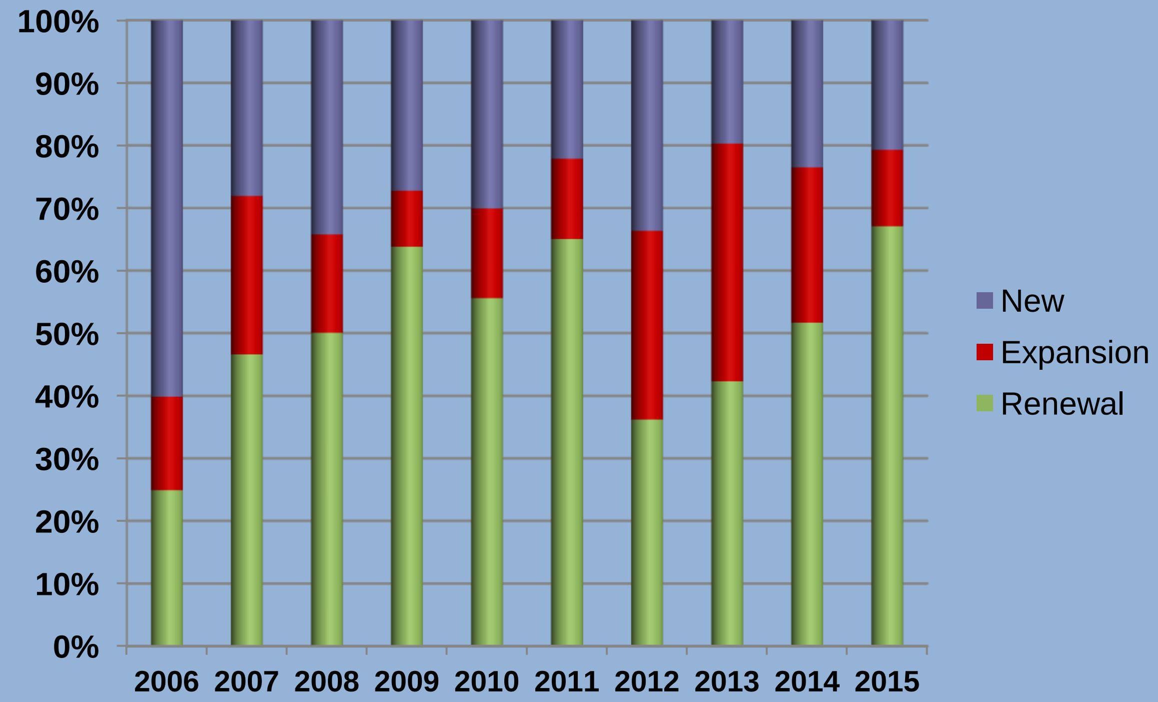
Definition – Leasing Activity

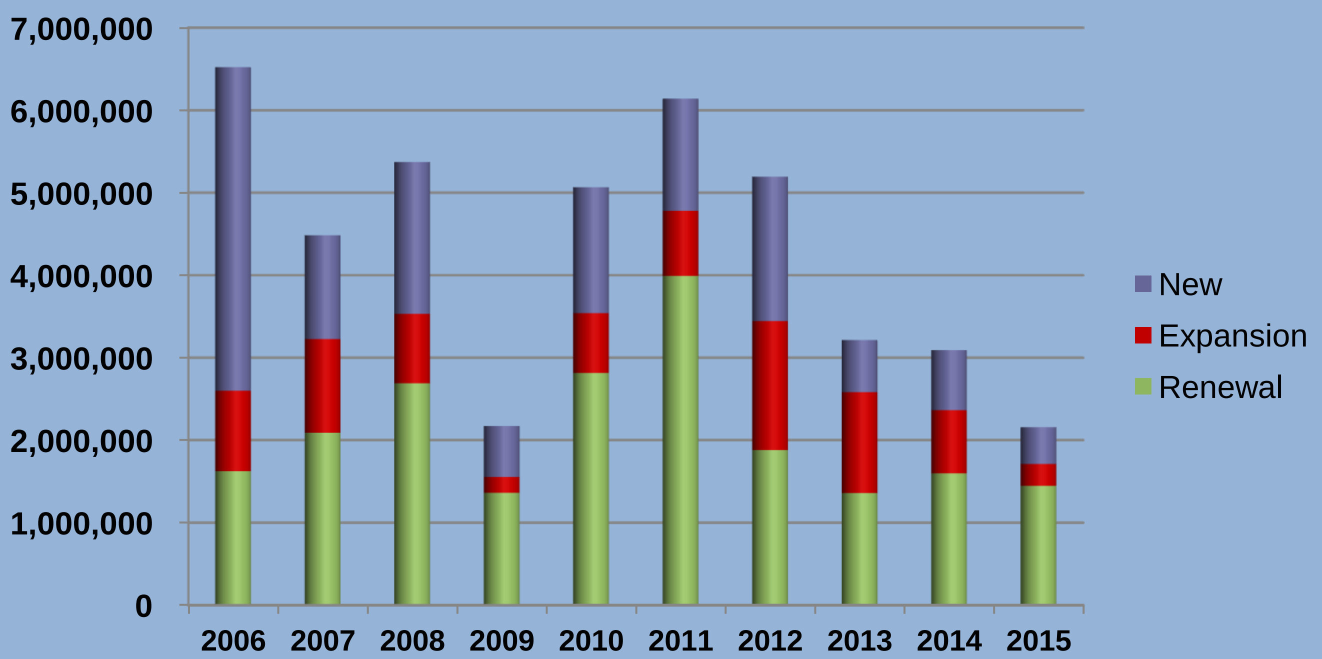
- Any lease signed during the year, no matter when occupancy is to take place.
  - CoStar's definition: "The volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It include direct leases, subleases and renewals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

Historical Leasing Activity



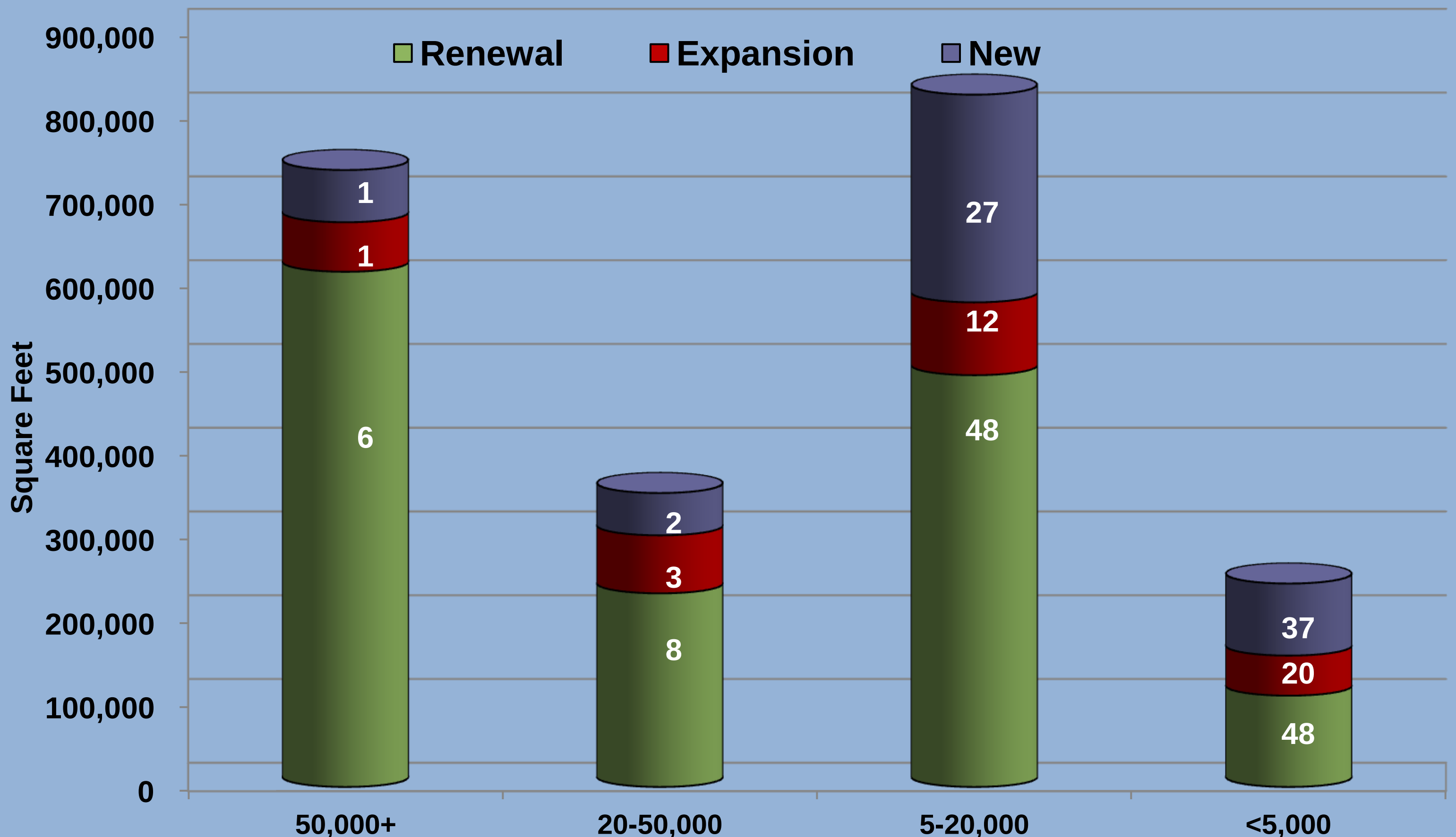
Leasing by Transaction Type





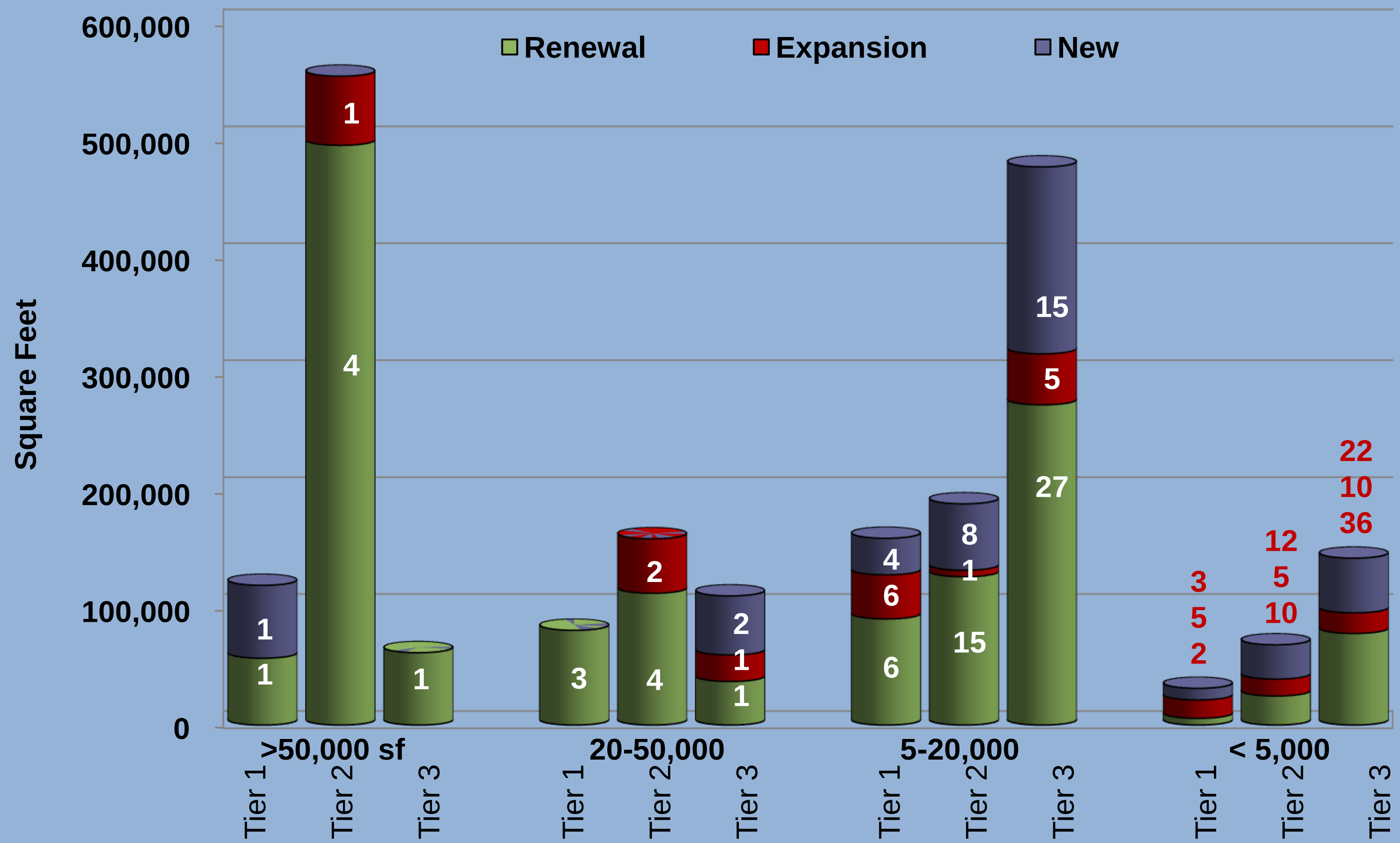
Lease Transactions

Direct



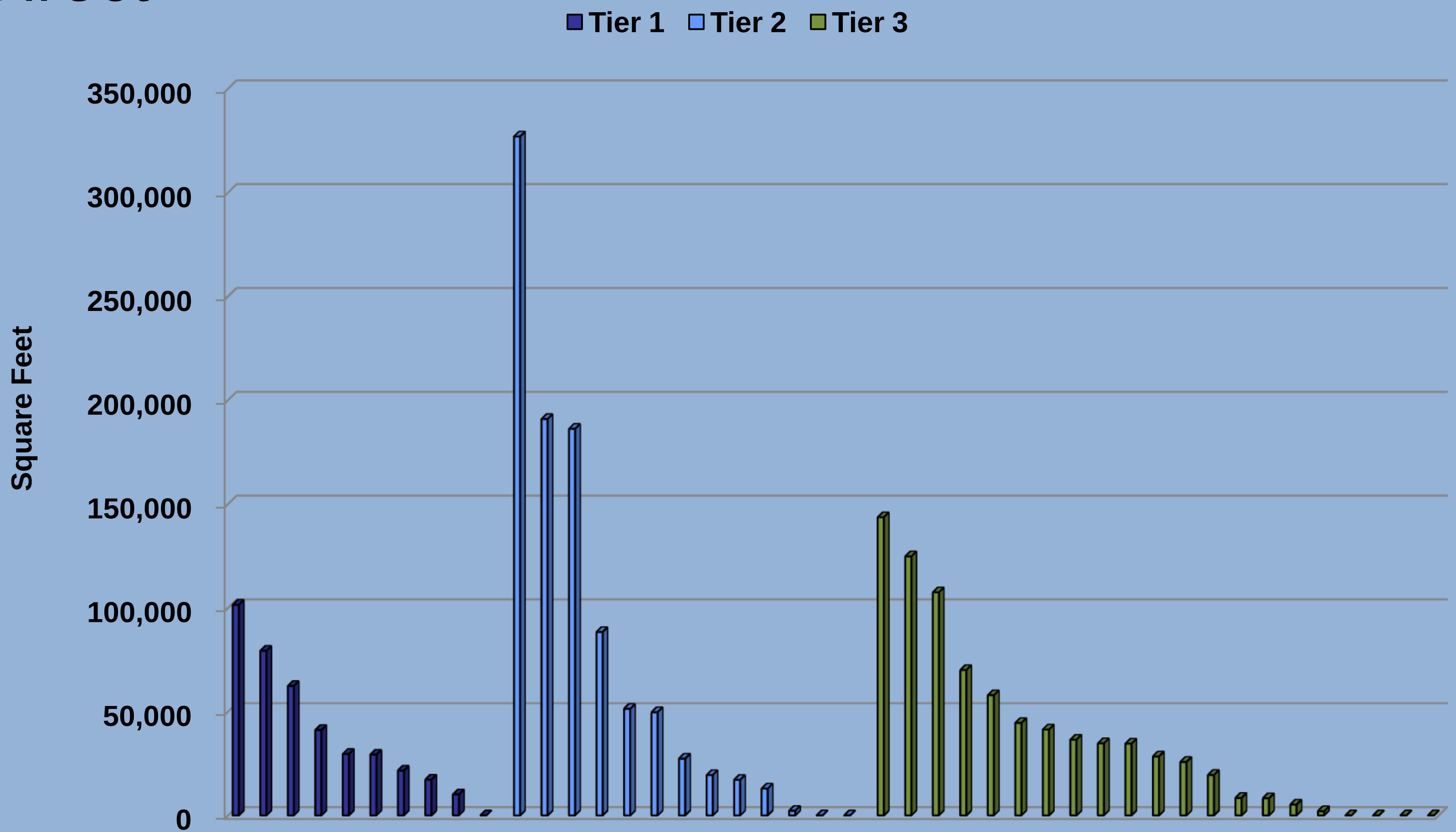
Lease Transactions

Direct, by tier



Leases Signed by Building

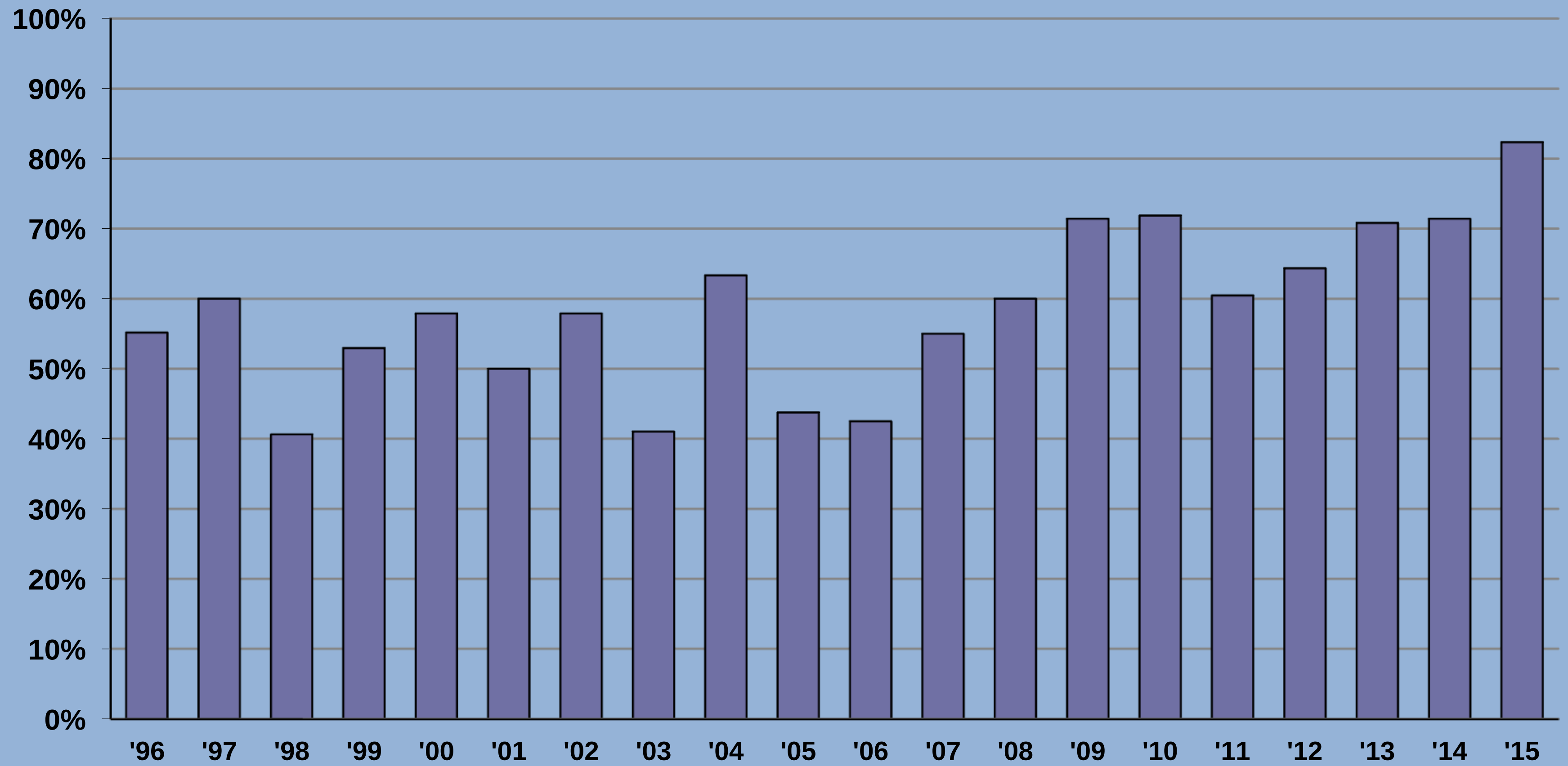
Direct



Renewals as % of Transactions

Direct leases >20ksf

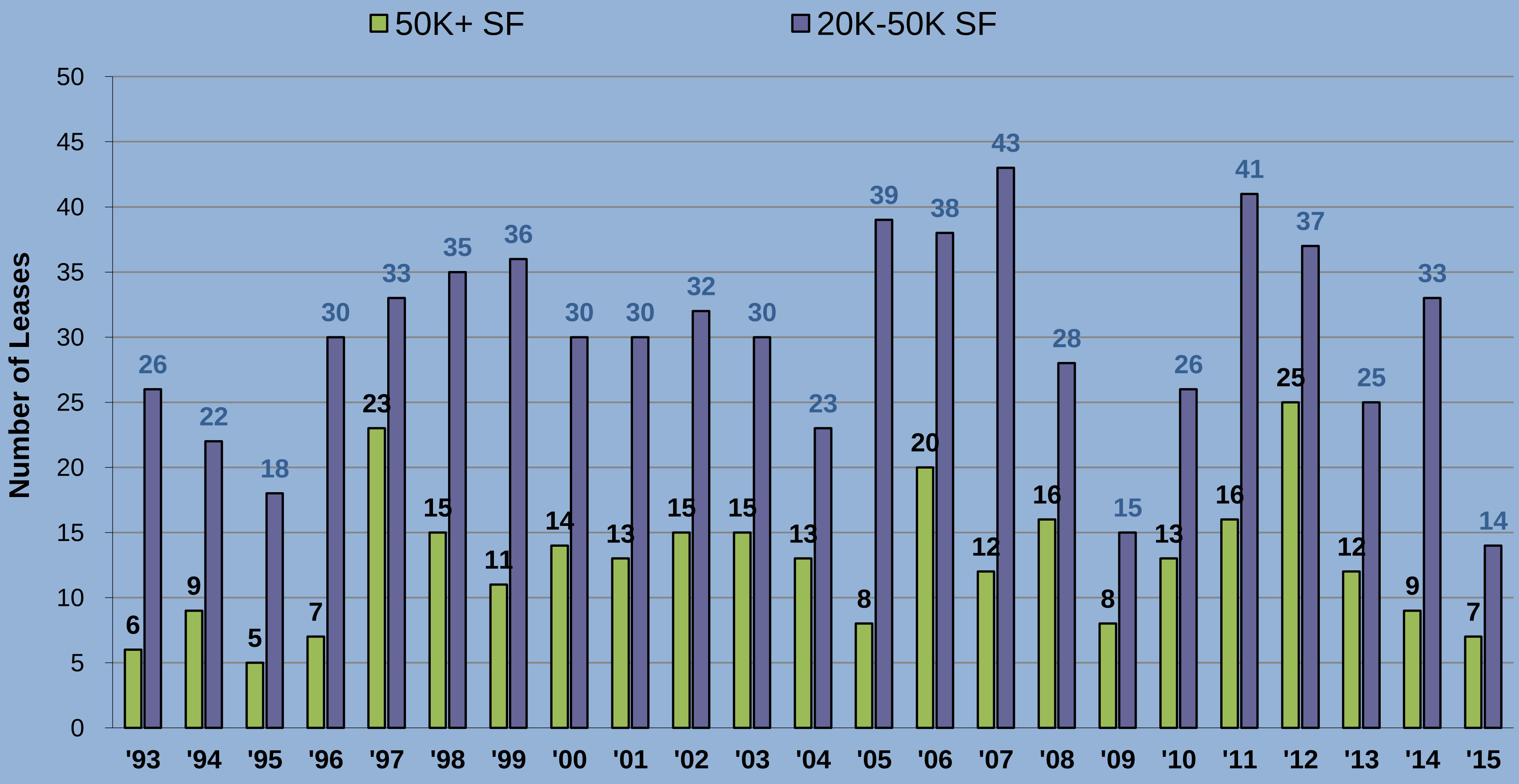
$$\frac{\text{\# Renewals (14)}}{\text{\# Renewals (14) + \# New (3)}}$$



Tenants are more likely to renew rather than move

Number of Large Transactions

Direct

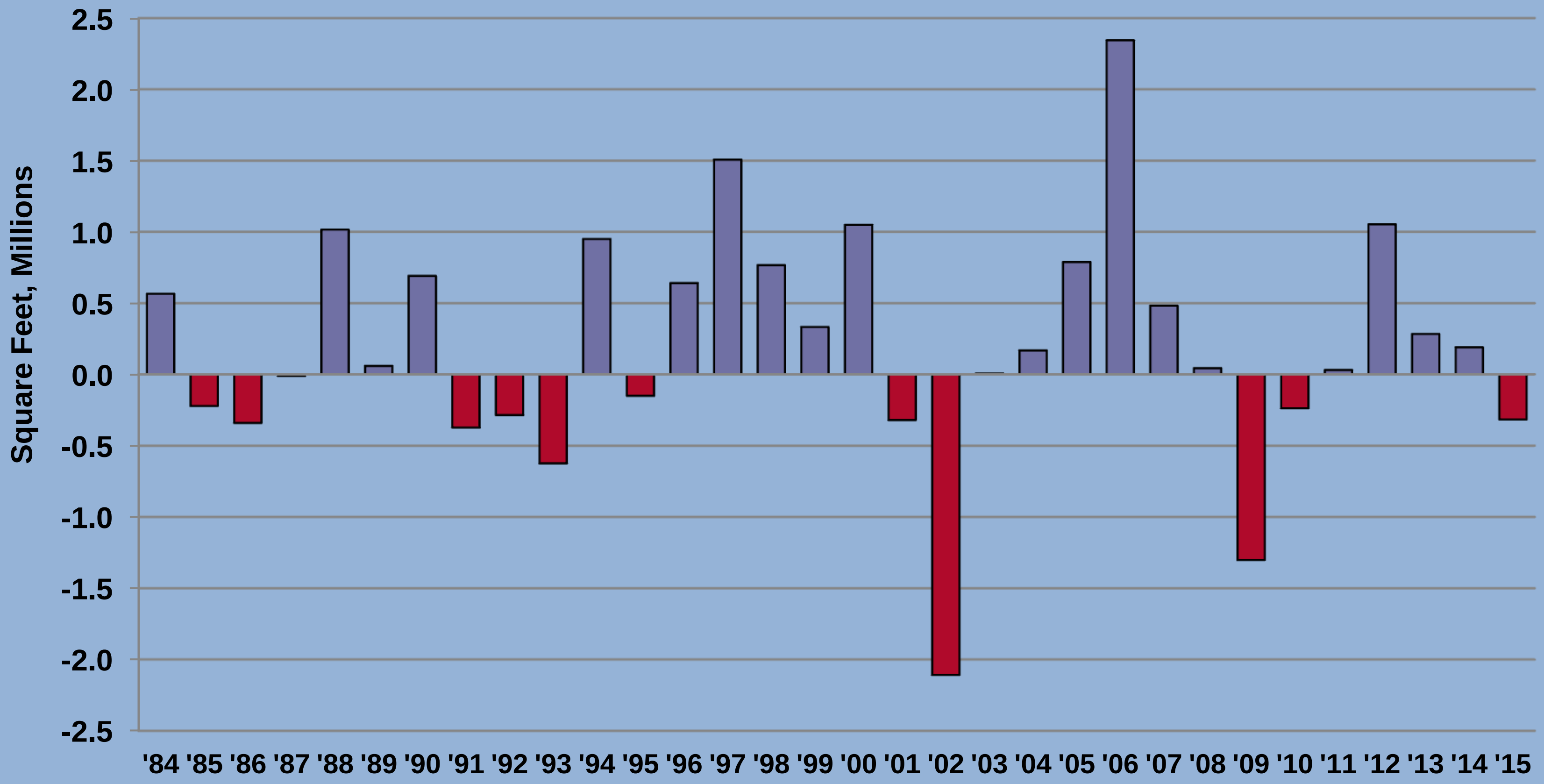


Definition – Space Being Marketed

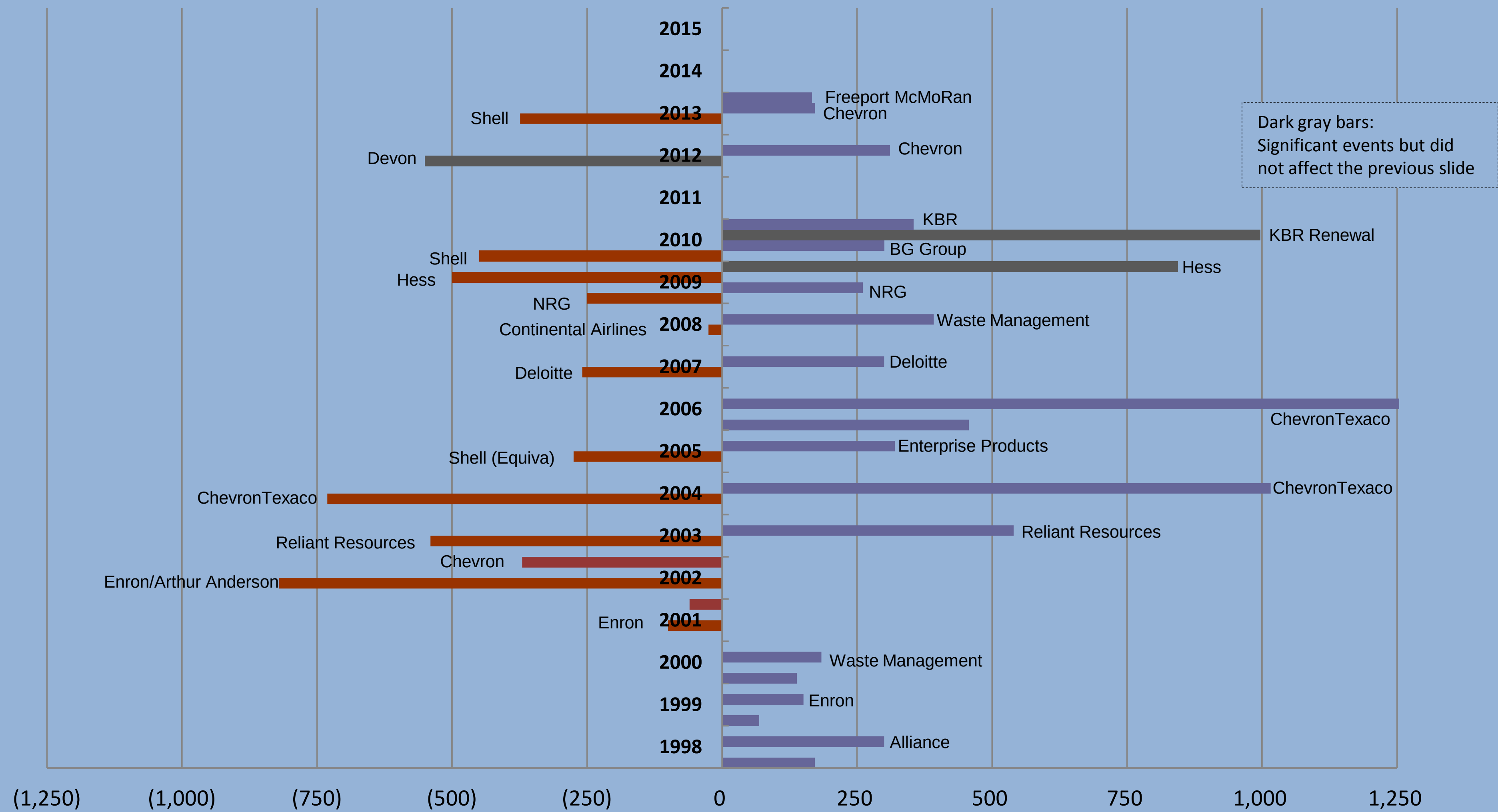
- The difference in aggregate space being marketed at the beginning vs. end of the year with the *same* buildings.
- Absorption is tied to a change in space being marketed, not occupancy of a building.
- Thus, when a building is added to the survey, and a downtown tenant is moving to that building, the transaction often shows up as negative absorption because it is leaving a building in the survey universe but going to a new building not in the survey universe.

Historical Change in Marketed Space

Direct

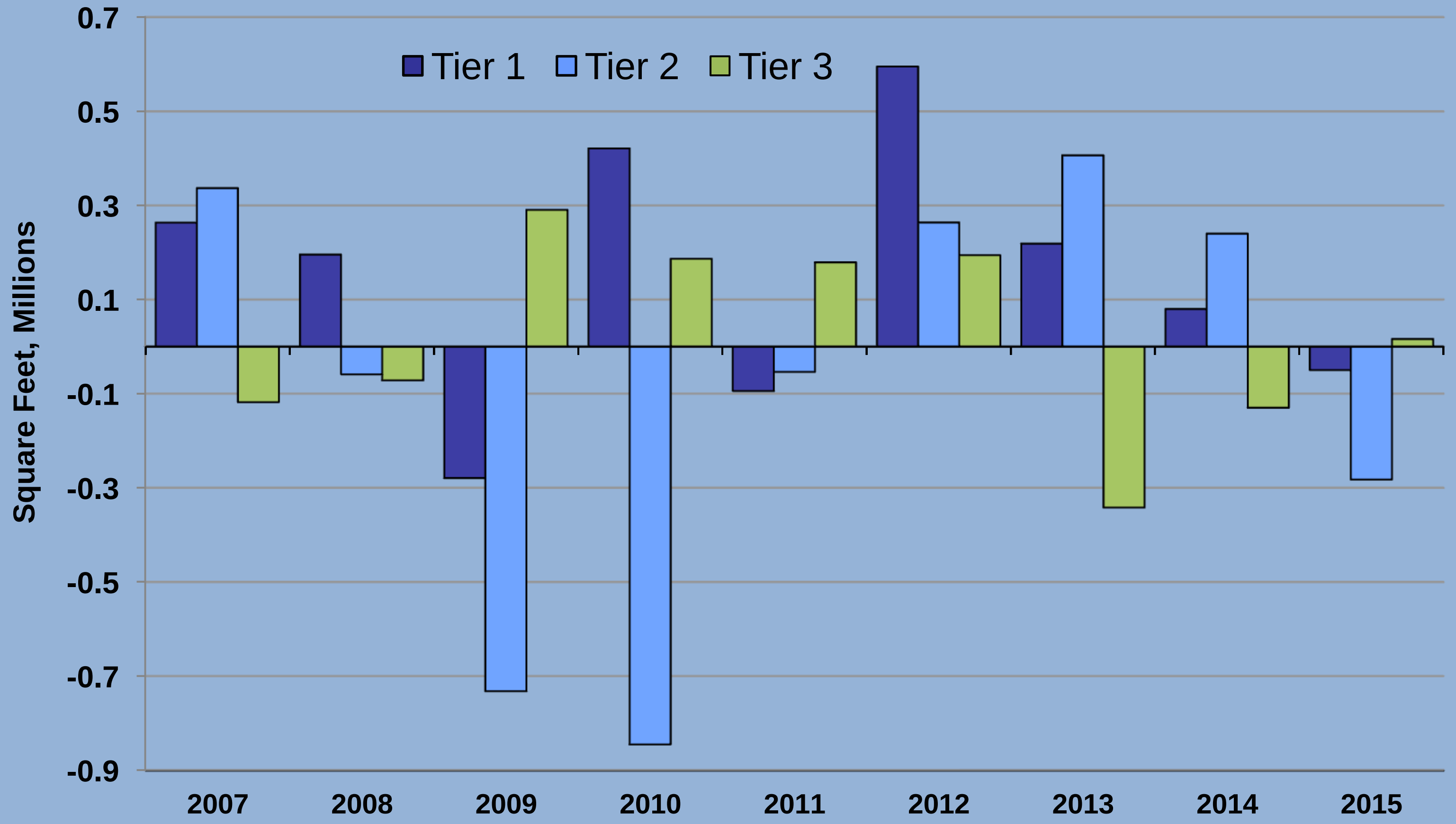


Major Leasing Events

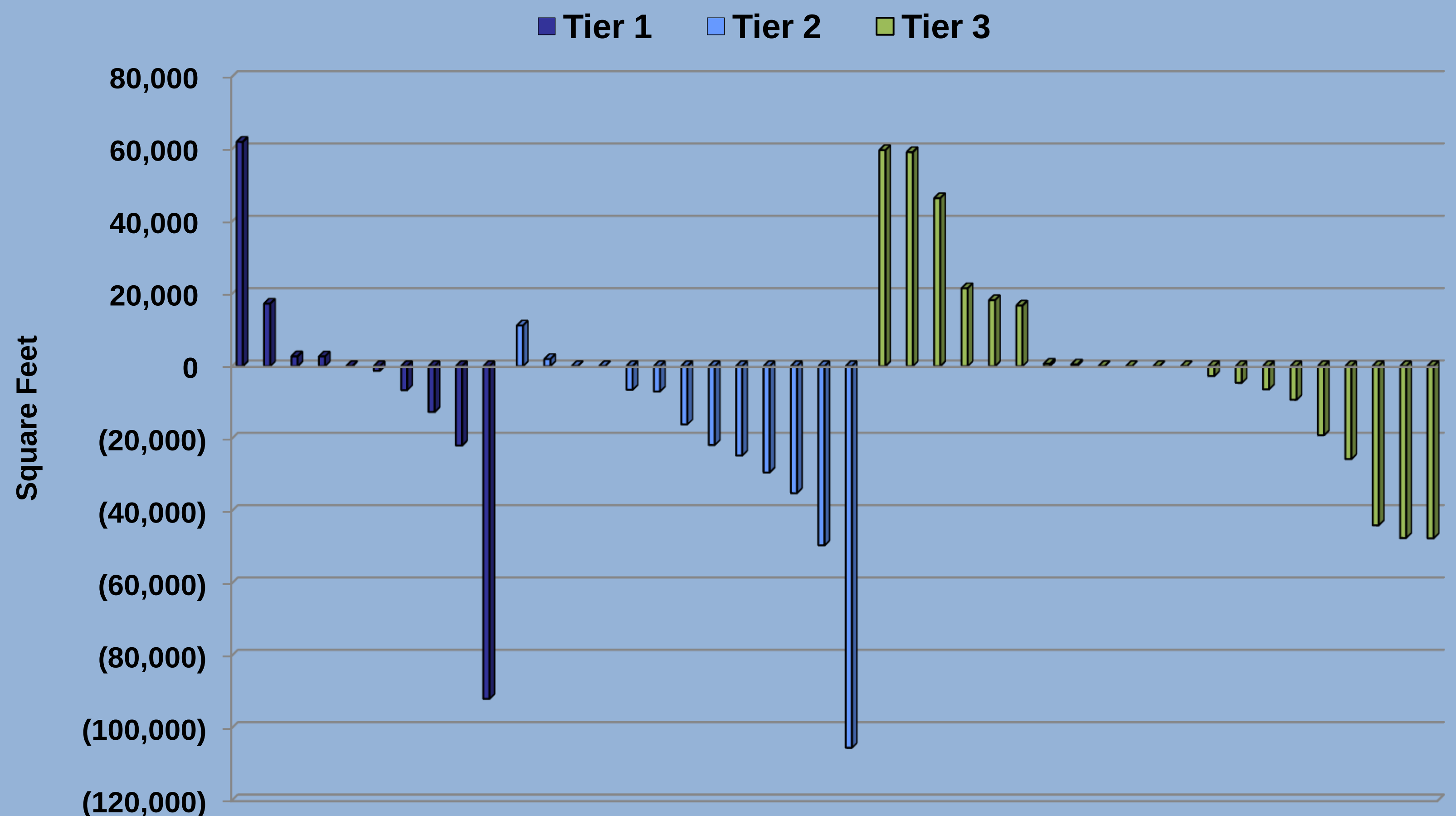


Absorption – Building Tiers

Direct

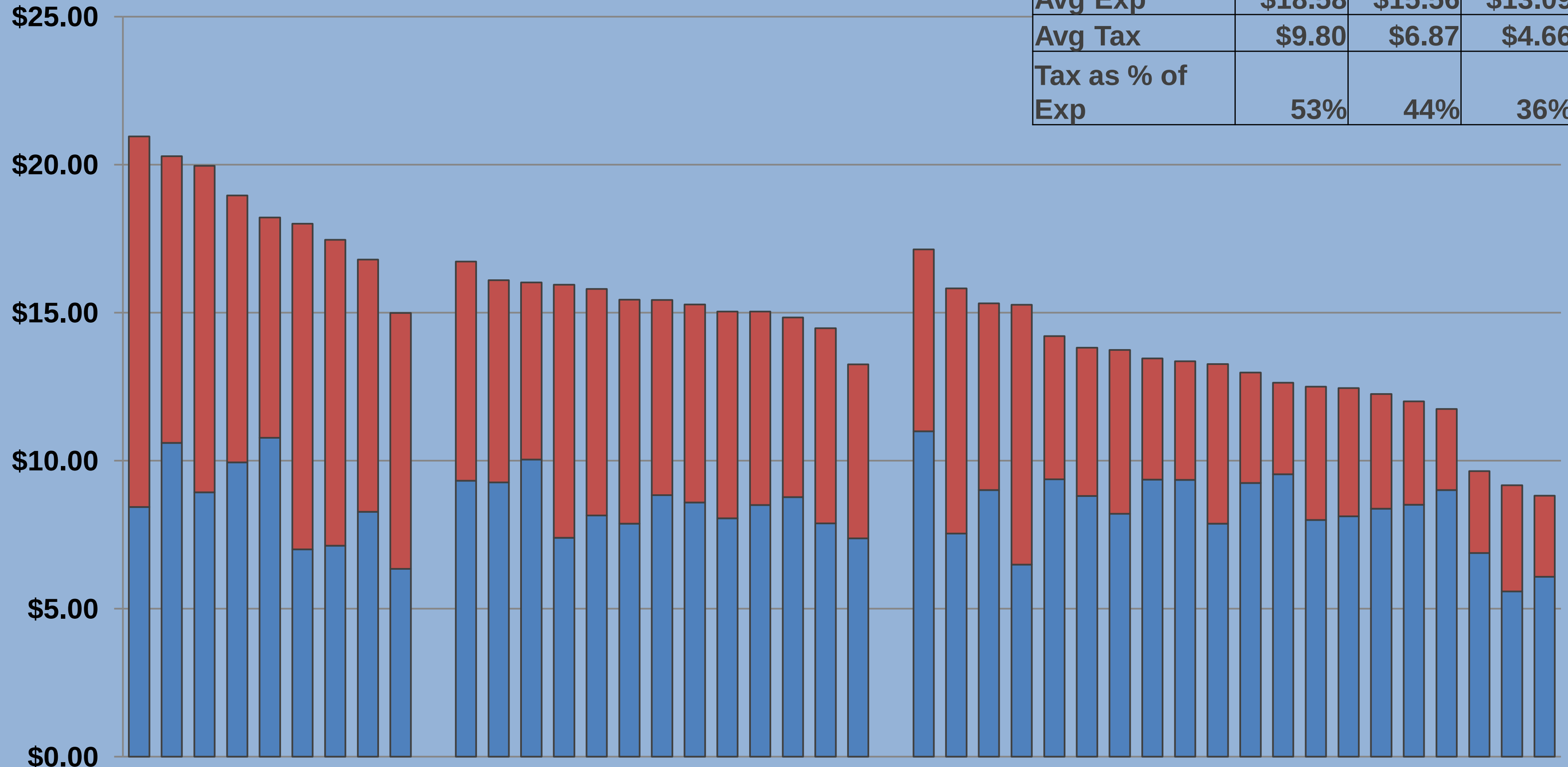


Absorption by Building



Operating Expense Projections for 2016

	Tier 1	Tier 2	Tier 3
Avg Exp	$18.58	$15.56	$13.09
Avg Tax	$9.80	$6.87	$4.66
Tax as % of Exp	53%	44%	36%



Tax component identified in **red**

Factors Affecting 2016+

- Additional sublease space
  - Shell’s 350ksf, exp 2025
  - Potential Shell/BG Group: add 219ksf, for a 300ksf block, exp 2026
- Additional direct blocks
  - United Airlines, net loss 135ksf
  - Bankruptcies (Argent, Goodrich, Energy XXI)
  - Potential bankruptcies
    - 6 others <$1 / share
- Shadow space
- Positive M&A
  - TransCanada/Columbia Pipeline
- New buildings
  - 1111 Travis 2Q16
  - 609 Main Dec ’16
- 800 Bell
- Downtown environment
  - Double residential units by EOY ‘17 (2,900 to 6,100). Double residents by EOY ‘18 (3,800 to 8,000)
  - 1/3 increase in hotels, rooms (18 to 25 hotels, 5,800 to 7,900 rooms)
  - HSPVA (construction March ’16)

Contact

Laura Van Ness
Central Houston, Inc.
713-650-1470
laura@centralhouston.org

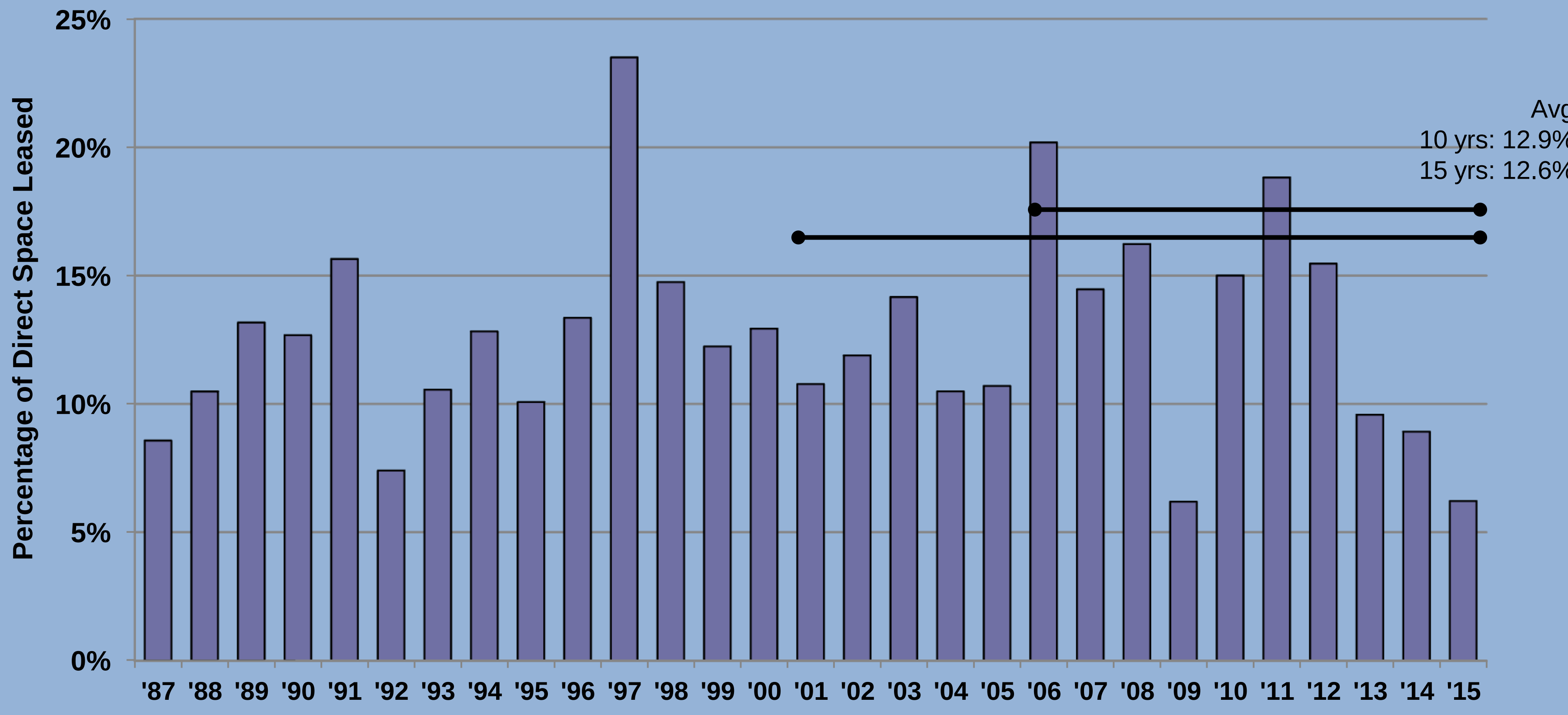
Additional CBD Story Slides

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		

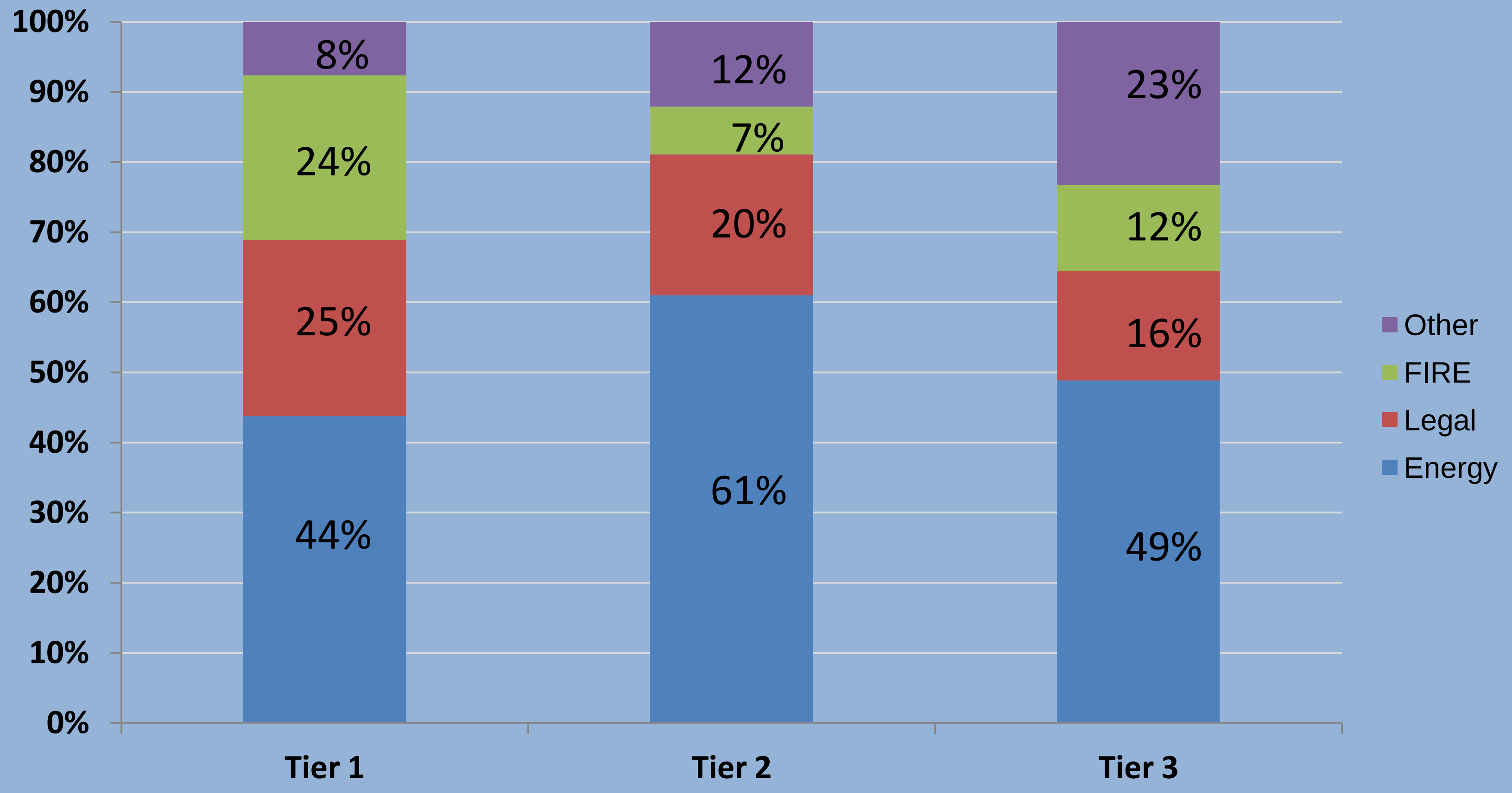
Percentage of Base Leased

Of Survey Universe, Direct



Industry Use by Tier

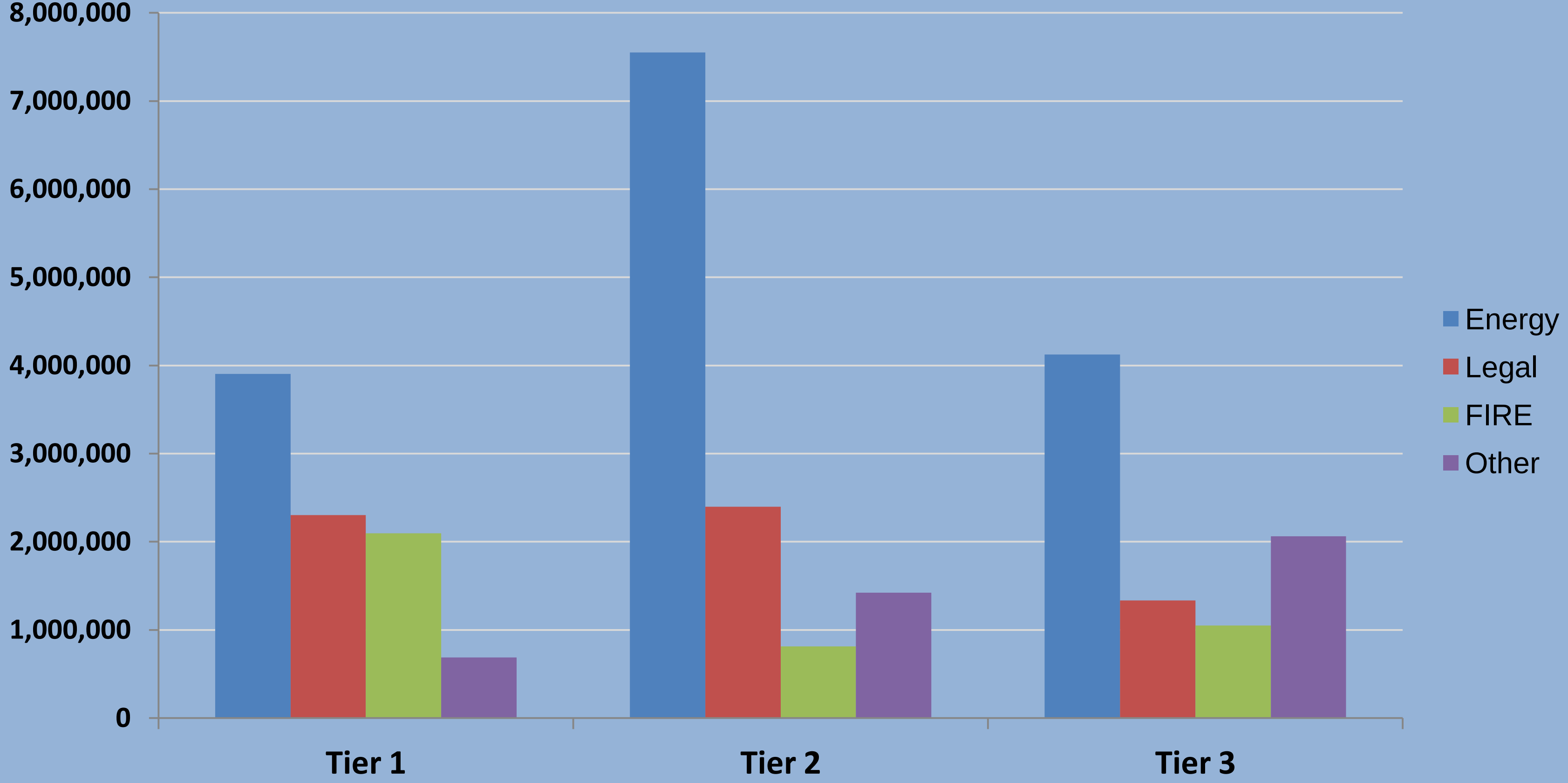
Direct



Industry Use by Tier

Direct

Note: we haven't used this before – it might just be kept in the "additional slides" section.



Full Floors

by Class, Tier

EOY 2008

	Dir	Sub	Total
A	31	2	33
B	69	1	70
T	100	3	103

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

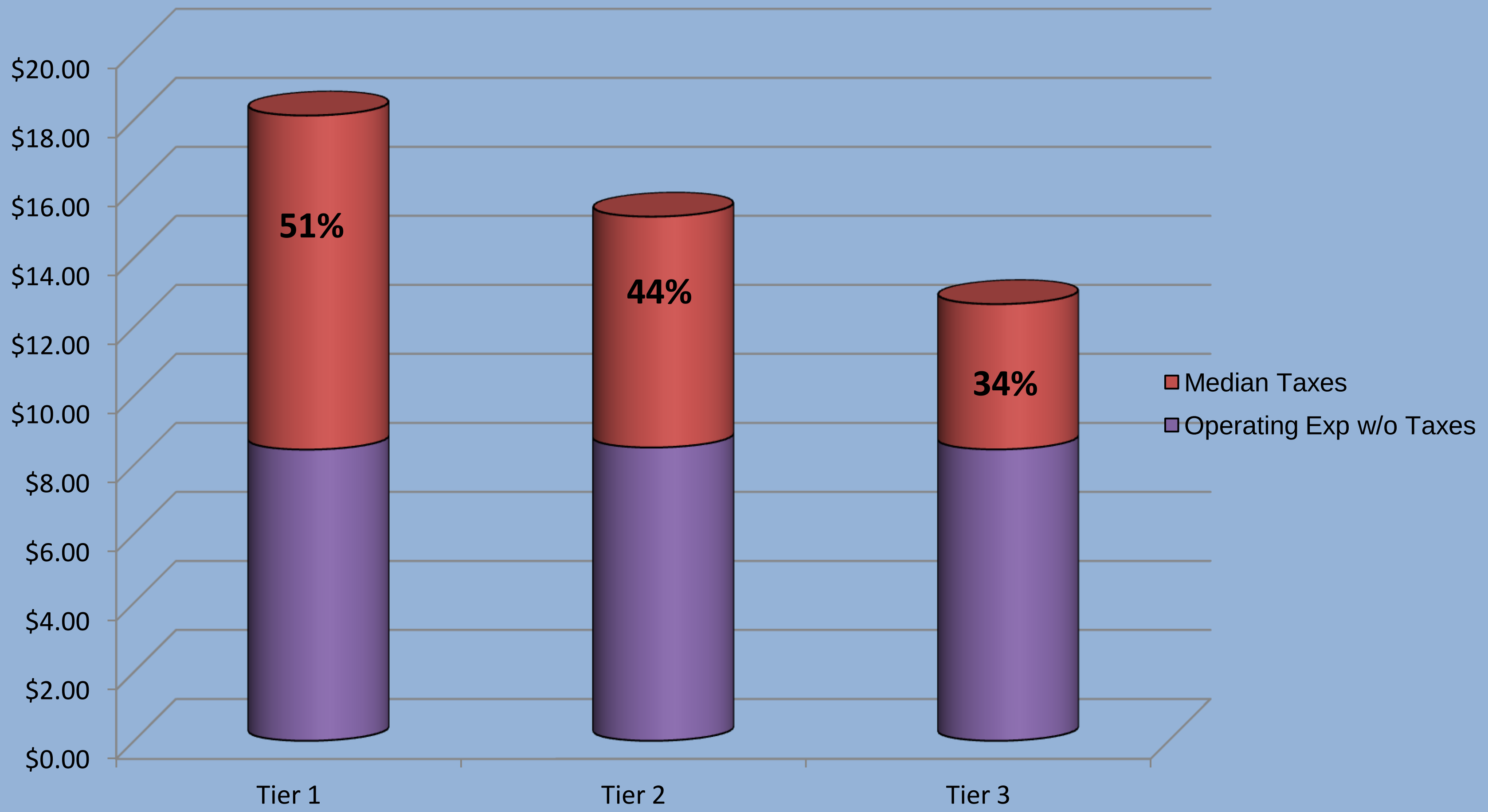
	Dir	Sub	Total
1	48	13	61
2	35	17	52
3	53	3	56
T	136	33	169

EOY 2015

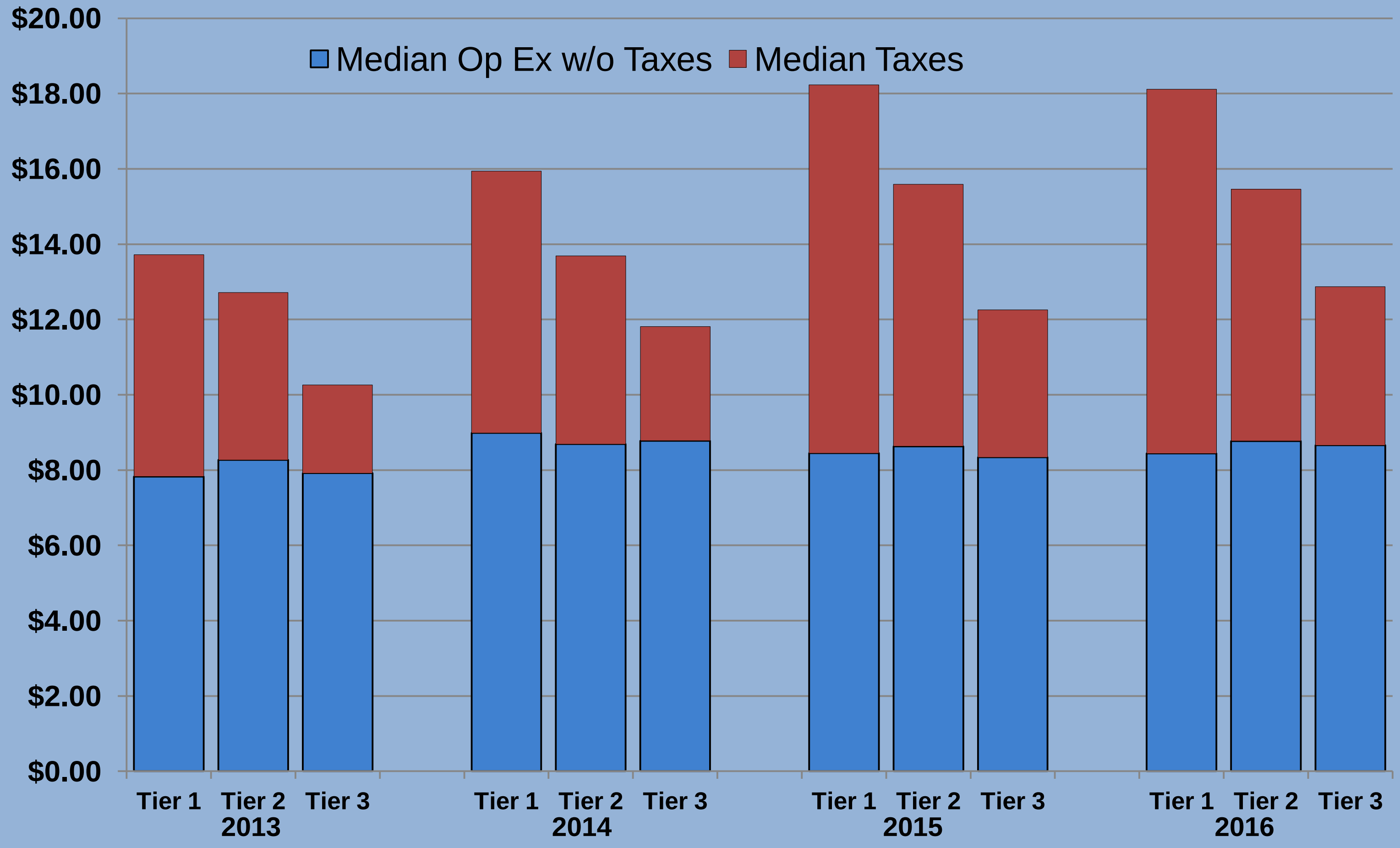
	Dir	Sub	Total
1	46	16	62
2	42	16	58
3	53	15	68
T	141	47	188

Operating Expense Projections for 2016

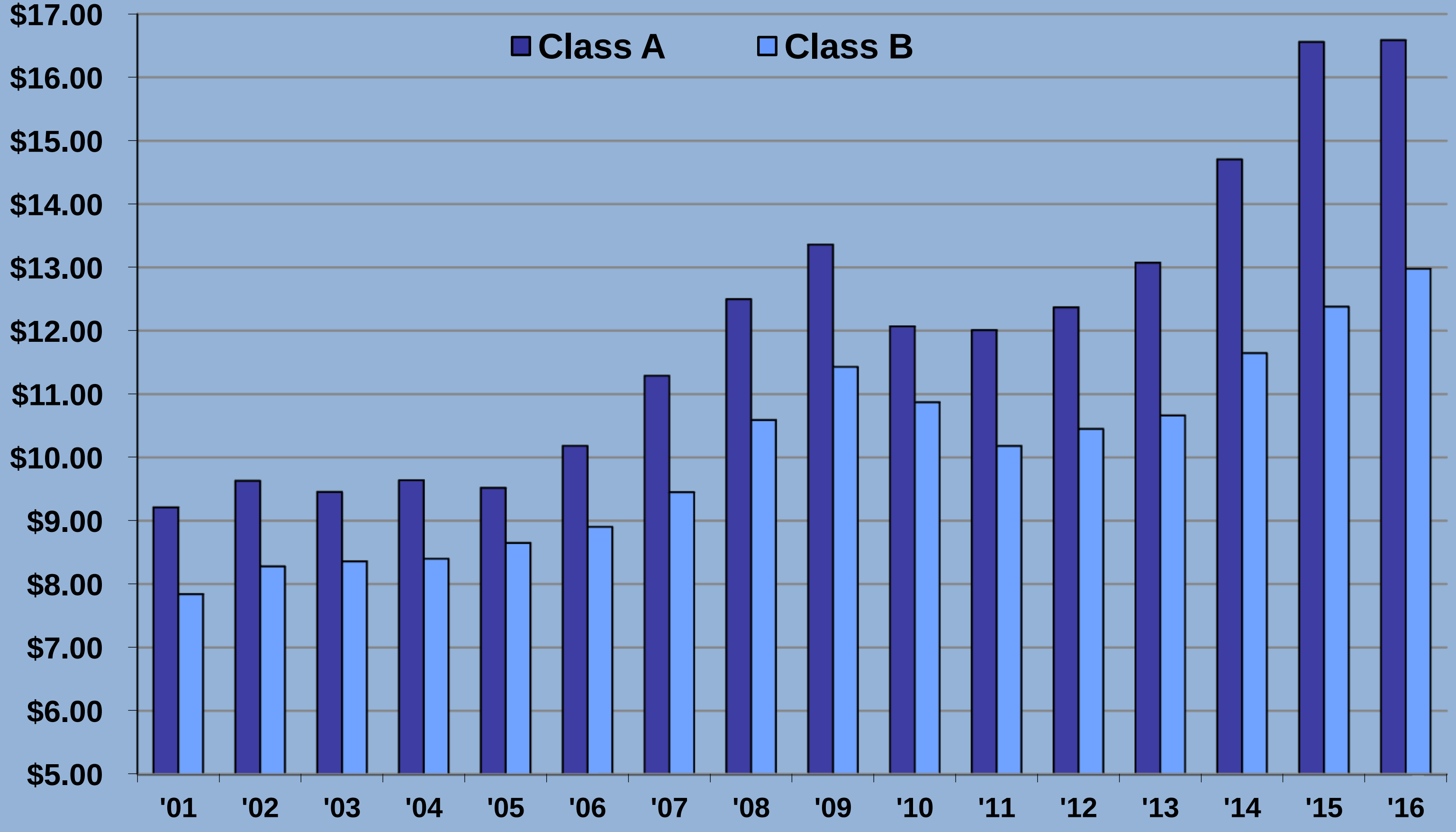
Median Operating Expenses by Tier



Median Operating Expense Projections



Operating Expense Projections



February 2016