



# CENTRAL HOUSTON 2020

DOWNTOWN OFFICE STORY

EOY 2019 Market Analysis

# Unique Survey



## Central Houston's Office Story measures the 12-month Downtown competitive leasing cycle

- A unique Downtown Houston survey that includes all space currently being marketed, large available blocks, full floors and tenant industries
- Sublease space on the market and by which tenant
- Multi-floor tenants, large transactions and tenants new to Downtown – including all lease activity by type and by size
- Operating expenses and property taxes by building
- Downtown's largest tenants by industry and total amount of office space
- Surveyed buildings organized into three distinct Tiers to better understand patterns in Downtown's top office towers including renovation and new construction
- Proprietary and longitudinal: Central Houston's *Office Story* in its 36<sup>th</sup> year

# Summary Data



	2017	2018	2019
Surveyed Total SF	35,537,315	36,679,935	36,922,971
Direct Marketed SF	7,758,499	9,300,933	8,924,100
% Direct Marketed	22.0%	25.4%	24.2%
Net YOY SF Direct Marketed	591,933	1,542,434	(376,833)
Sublease Marketed SF	1,819,523	1,435,971	1,498,046
% Sublease Marketed SF	5.1%	3.9%	4.1%
Net YOY SF Sublease Marketed	(829,525)	(383,552)	62,075
Total Marketed	9,578,022	10,736,904	10,422,146
% Total Marketed	27.1%	29.3%	28.3%



# Inventory Analysis

- Downtown Houston contains nearly 52 million SF of office space including Class A & B, historic buildings and government properties
- Central Houston surveys approximately 37 million SF every 12 months throughout 48 office buildings, or more than 71% of all Downtown office space
- Survey completed in January 2020 for all 2019 leasing activity
- More than 3.3 million SF of Downtown leasing during 2019
- Downtown Houston is region's largest office market with >19.1 million SF in lease activity since 2015, approximately the same size as Uptown's total inventory, Houston's 2<sup>nd</sup> largest market

# Surveyed Building

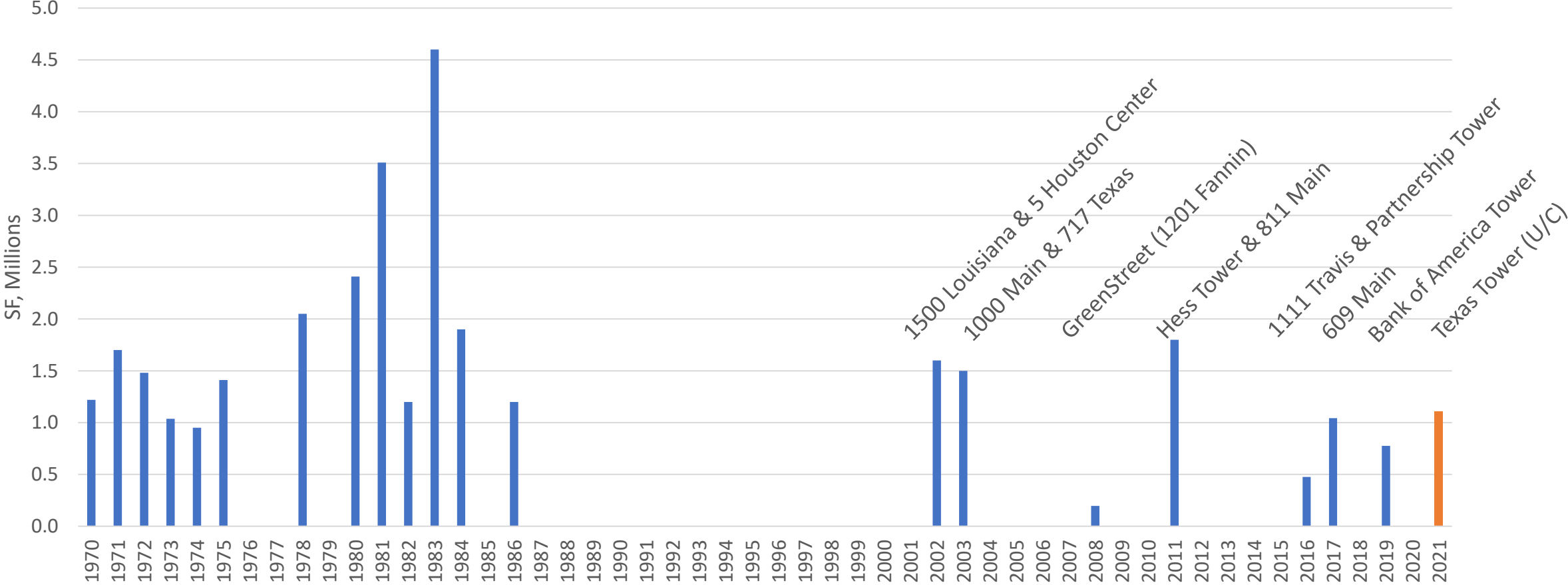


By Tier	2020 Building Count	2020 Total Rentable Square Feet
Tier 1	12	12,361,813
Tier 2	14	14,312,902
Tier 3	22	10,248,256
Total	48	36,922,971

# Building Analysis

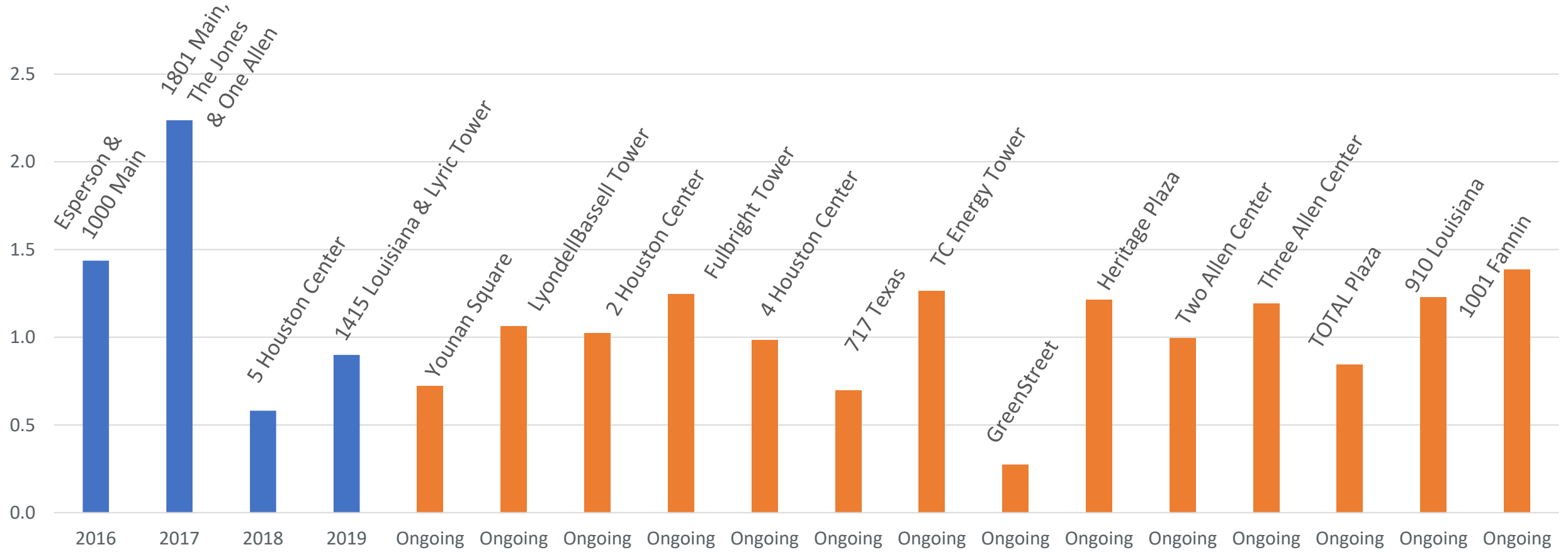
- Half of the surveyed office space, 24.7 million SF, was built between 1971 & 1986 and more than 5.2 million SF completed since 2011; 1.1 million SF Texas Tower will be completed in 2021
- Building renovation activity is robust; 12.9 million SF currently underway and 9.9 million will be completed in 2020
- Additional 5.2 million SF of building renovations completed since 2015; 19.3 million SF in total renovations in last 5 years or more than half of Downtown competitive Class A space
- New space renovations focused on brighter lightening designs, improved HVAC systems, outdoor patios and collaborative concepts, indoor and out

# Building Deliveries





# Building Renovations



\*Square Feet, Millions



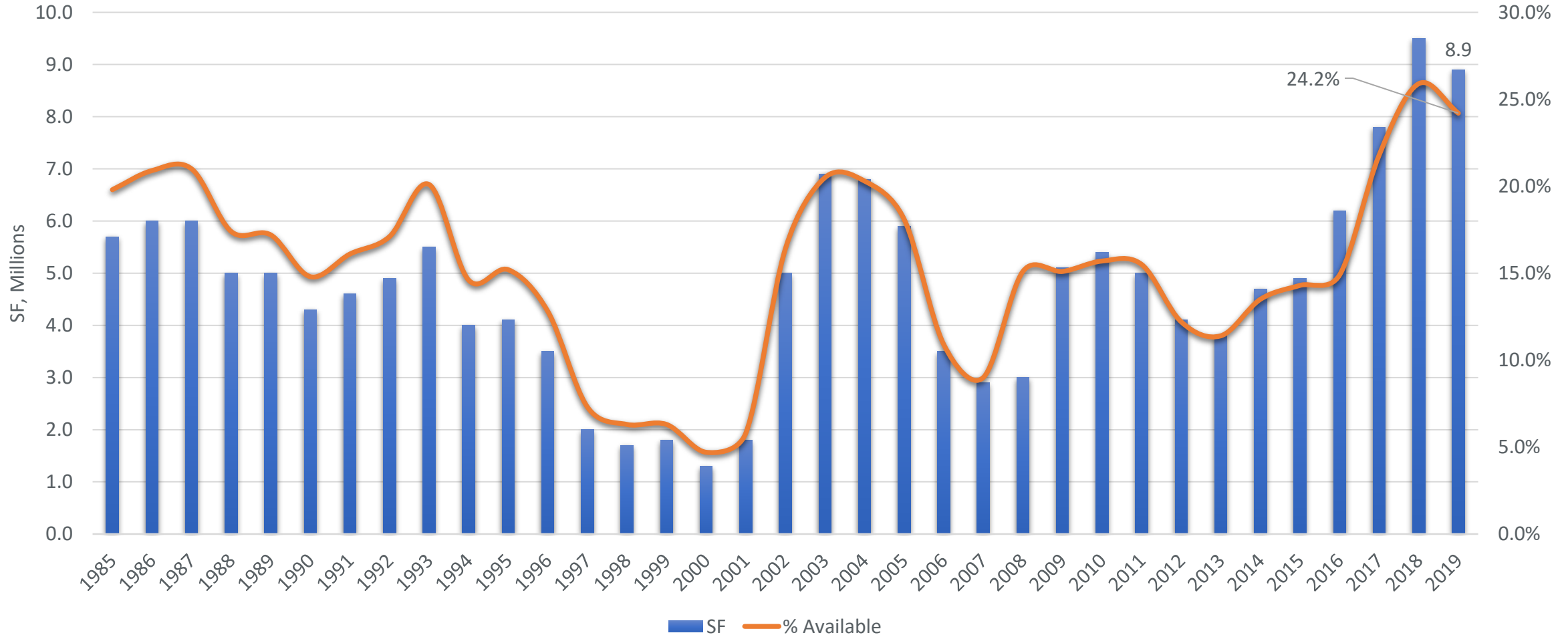
# Marketed Space

- Direct space on-market tightened during 2019. Tiers I & II made gains by close to 600K SF as multi-floor tenants took down space while Tier III loosened by 209K SF mainly with single-floor tenants choosing tighter footprints for a total of 8.9 million SF in all three tiers
- 5- & 10-YR total SF averages subsided slightly in 2019 compared with 2018, the peak in survey history since 1986; 2019 was first year total Downtown space on-market shrank since 2014
- Nearly 40% of the direct marketed Downtown space is within 5 Tier I buildings, led by Texas Tower currently under construction
- 344 full floors were available in 2019, down from 375 in 2018 (average since 2009=251); sublease peaked in 2016 with 102 floors and is now down by half to 50; largest 15 blocks total 5.0 million SF or about half of total on-market space



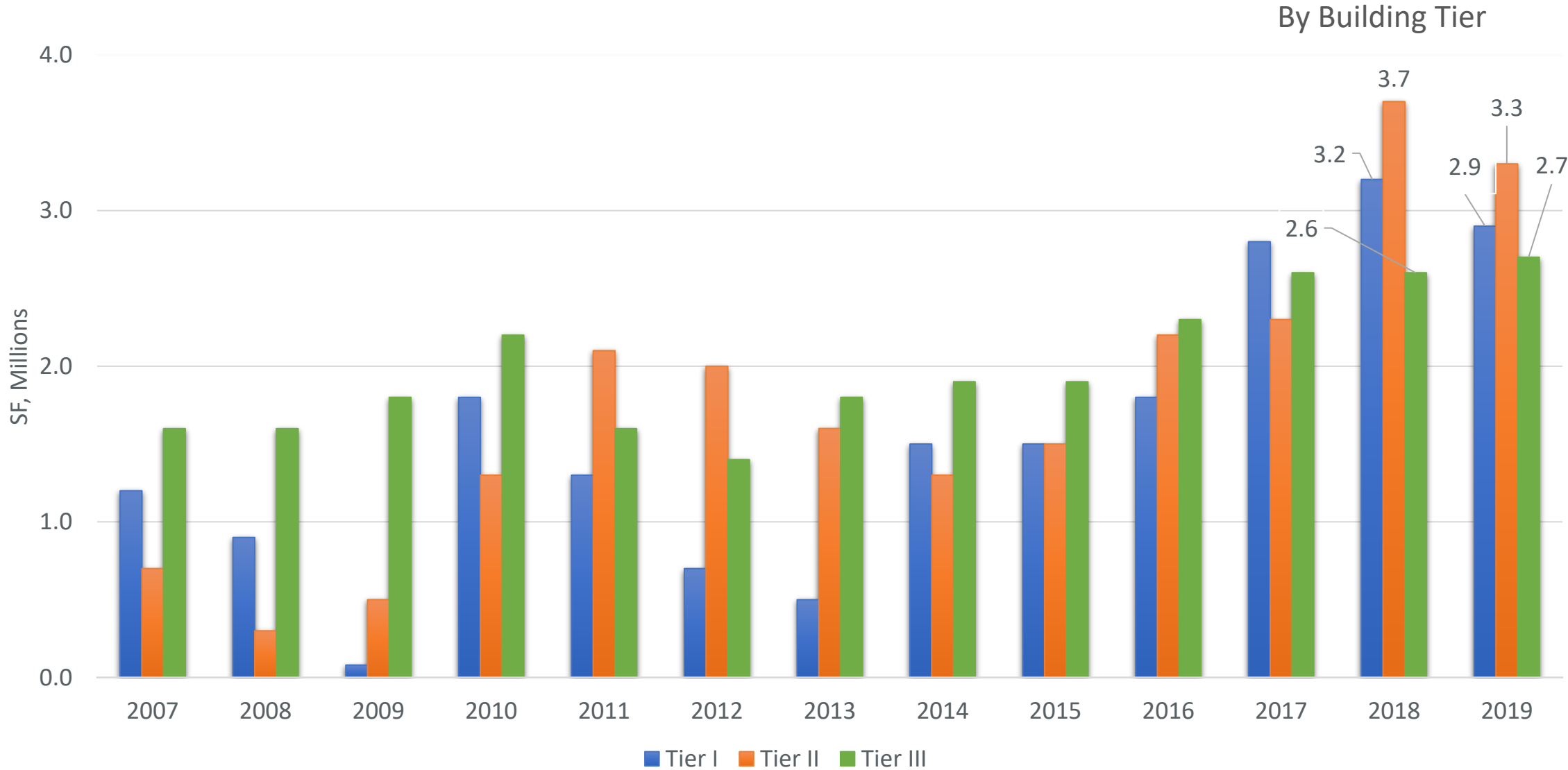
# Historical Marketed Space

By SF & % Direct Available





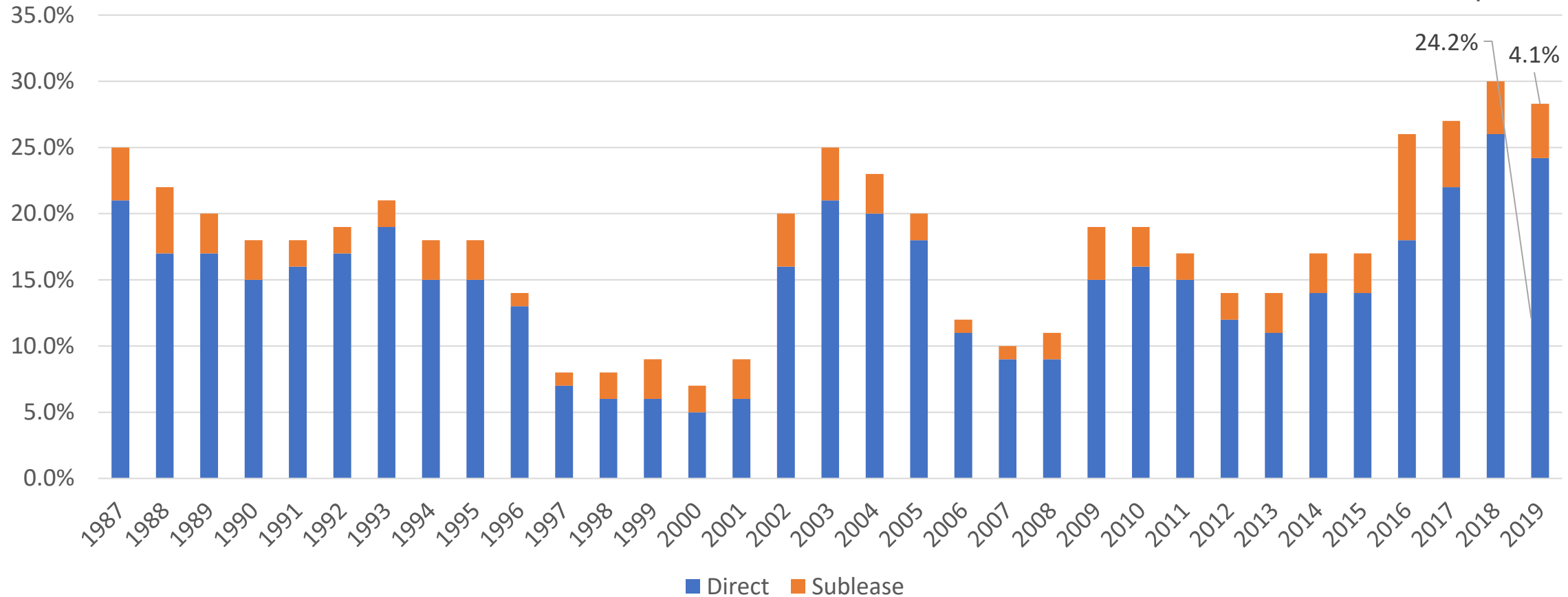
# Historical Marketed Space





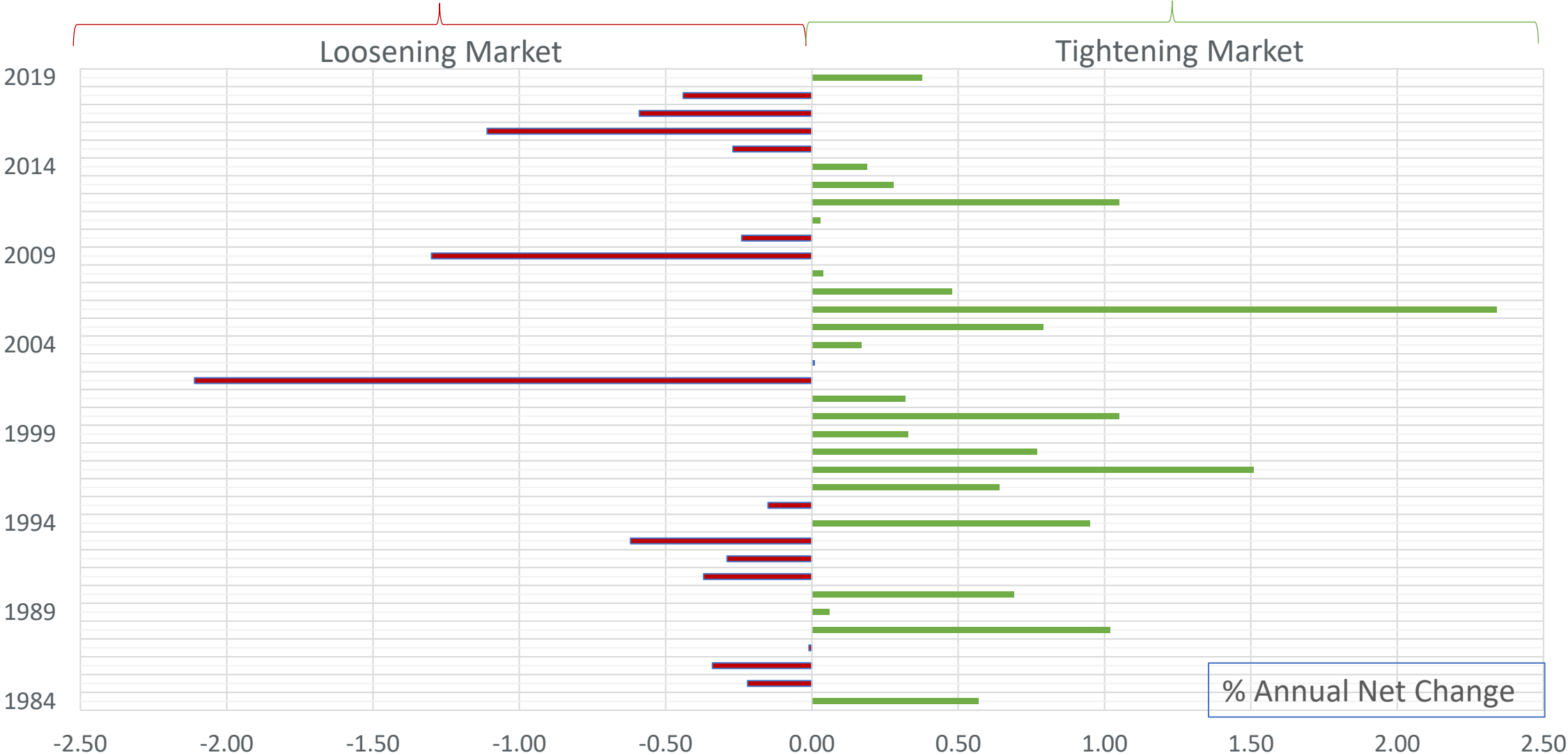
# Historical Marketed Space

Direct & Sublease Space



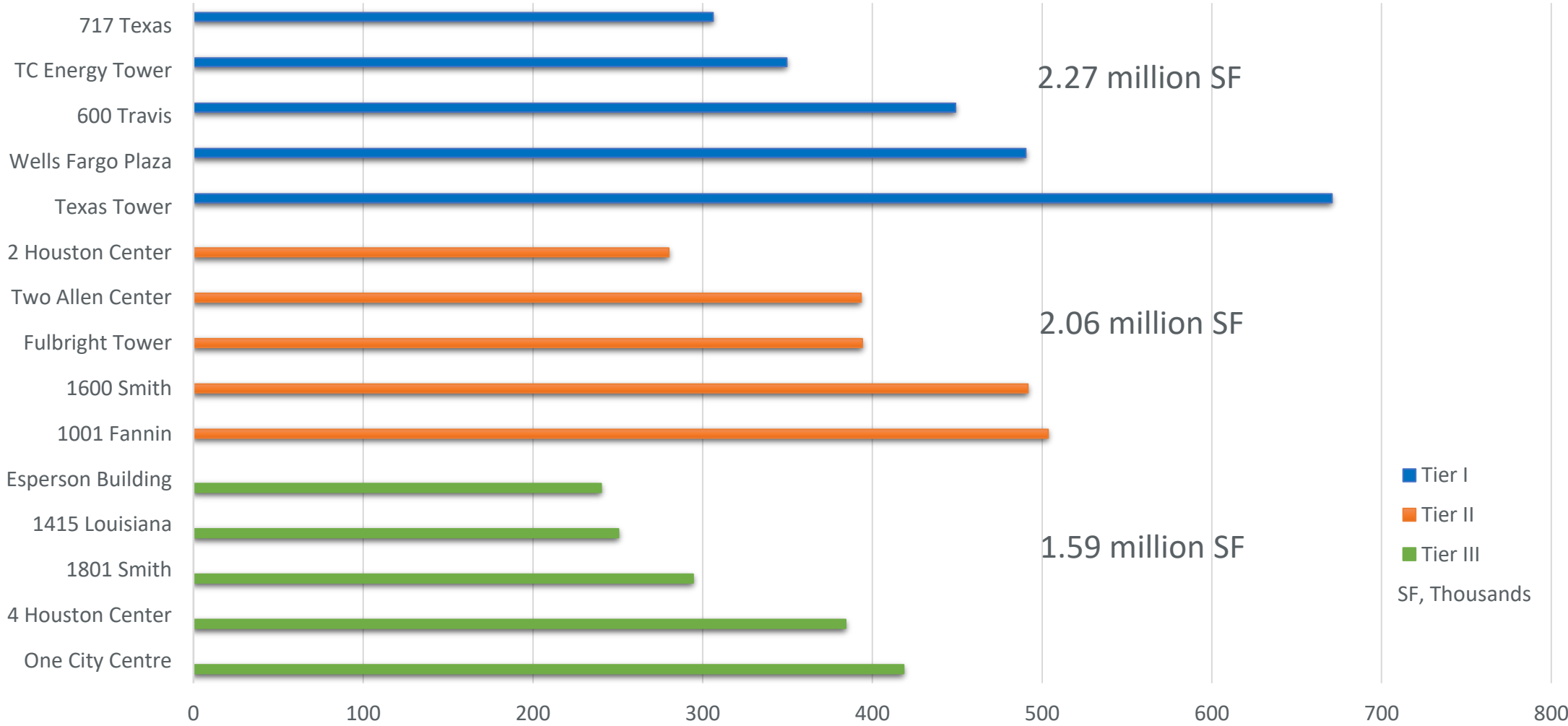
	Direct	Sublease
5-Year Average	20.8%	4.8%
10-Year Average	17.2%	3.7%

# Marketed Space



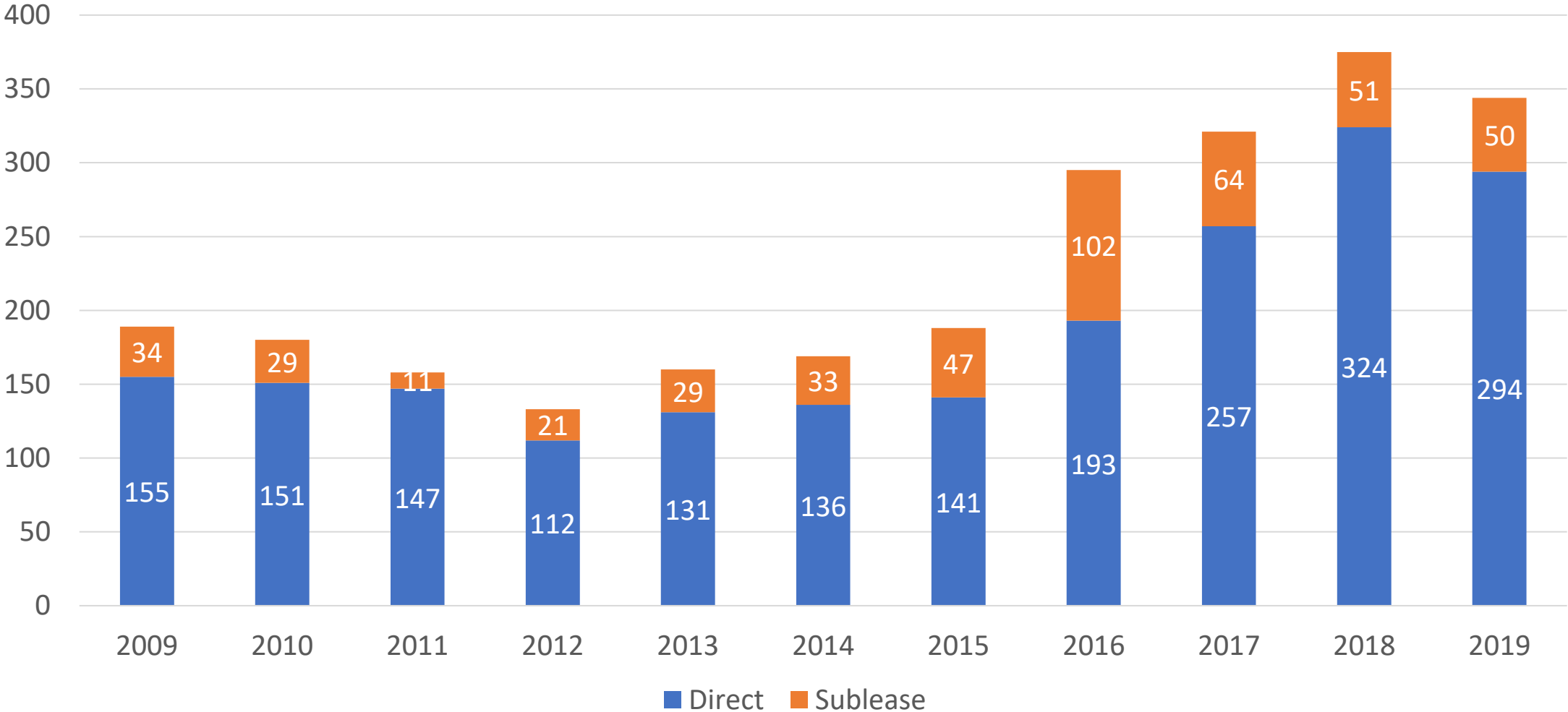
# Marketed Space

Largest Marketed Totals By Tier, 01/01/2020





# Available Floors



# DOWNTOWN OFFICE STORY

# Available Blocks



CentralHouston

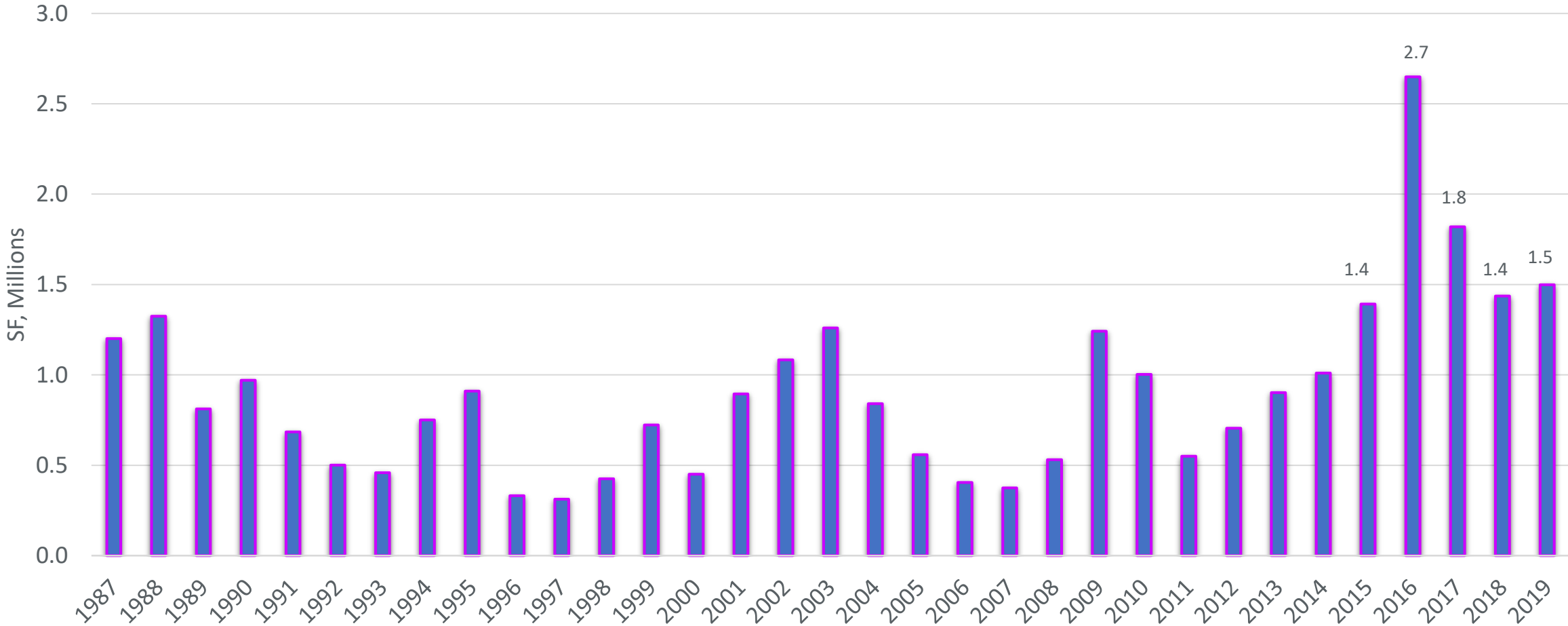
## Largest 15 Available Blocks, 01/01/2020

Building	Tier	Contiguous Floors	Former Tenant	Availability	Square Feet
Texas Tower	1	12-29, 36-37, 39-40	NEW	10/31/2020	743,225
1600 Smith	2	5-18, 43-45, 47-48	United Airlines, Chevron, Graves & Co.	Vacant	498,446
1001 Fannin	2	23-36	Vinson & Elkins	10/31/2021	479,389
Wells Fargo Plaza	1	2-3, 16-18, 30-33, 43-46	Wells Fargo Home Mortgage, Targa Resources	Vacant	372,970
One City Centre	3	2-10, <b>16-18</b> , 20-22, 24-26, <b>26-28</b> , 29	Waste Management, Energy EXXI	12/1/2020, 03/2021, Vacant	328,113
Two Allen Center	2	3-5, 25-30	Chevron	Vacant	326,633
Fulbright Tower	2	3-5, 25-27, 38-39, 41-42	Barclays Capital, Stat Oil, Pulse, Norton Rose Fulbright	30 Days, Vacant	294,759
600 Travis	1	9-17	Blue Mountain Midstream, Riveria Resources	Vacant, February 2021 (Floors 15-17)	292,524
717 Texas	1	17-26	Freeport-McMoran Oil & Gas, Inc.	Vacant	270,382
1801 Smith	3	2-5, 11-18	Interactive Response Tech., Inc., United Airlines	Vacant	264,473
Pennzoil Place - South Tower	2	3-4, 6-12	Gensler, Energy Transfer Partners, MX Energy, Robert Half	Vacant	261,965
1100 Louisiana	2	<b>25-32</b> , 33-34, <b>36-38</b>	Enbridge	4/30/2020	261,807
811 Main	1	19-21, <b>27-34</b>	Two Sigma, Jones Walker, Gibson Dunn, Crestwood Midstream	12/31/2026	255,911
1415 Louisiana	3	4-5, 18-20, 25-28, 37-38	Eagle Rock, Sabine	Vacant	225,027
TC Energy Tower	1	4-6, 18-19, 51-52	U.S. Trust, Simmon & Co. International, Buck Keenan LLP	Vacant	220,529
<b>*Sublease</b>					
				<b>Total Largest 15 Available Blocks</b>	<b>5,051,321</b>





# Historical Sublease Locks



\*Data Points Rounded to Near Hundreds

# Full Floor Sublease Locks



Sorted by Total Size by Building

Building	Tier	Floor(s)	Former Tenant	Availability	Square Feet
1100 Louisiana	2	25-32, 36, 55	Enbridge	4/30/2020	222,308
811 Main	1	27-34	Two Sigma, USD Group, Jones Walker, Gibson Dunn, Crestwood Midstream Partners	12/31/2026	219,158
GreenStreet Tower	3	4-11	NRG/Reliant	12/31/2020	194,768
919 Milam	3	6-12	Valerus Compression Services	6/30/2023	154,863
Kinder Morgan Building	2	24-27	EP Energy Global LLC	8/31/2025	125,281
One City Centre	3	16, 18, 26, 28	Waste Management, Energy EXXI	12/1/2021, 03/30/2021	86,046
601 Travis	3	14	Vistra	4/30/2022	62,261
One Allen Center	2	16, 18	Range Resources	1/31/2022	56,065
Jefferson Towers at Cullen Center -- KBR Building	3	6, 38	Kellogg Brown & Root	6/30/2030	50,126
1111 Fannin	3	14	JP Morgan Chase	9/30/2021	33,100
1001 Fannin	2	6	Enervest, Ltd.	11/30/2026	26,897
Fulbright Tower	2	21	Range Louisiana Operating	8/31/2020	25,127
600 Travis	1	21	Locke Lord Liddell	1/31/2027	21,588
<i>All Blocks With Term Available, 01/01/2020</i>			<b>Total Full-Floor Sublease</b>		<b>1,277,588</b>

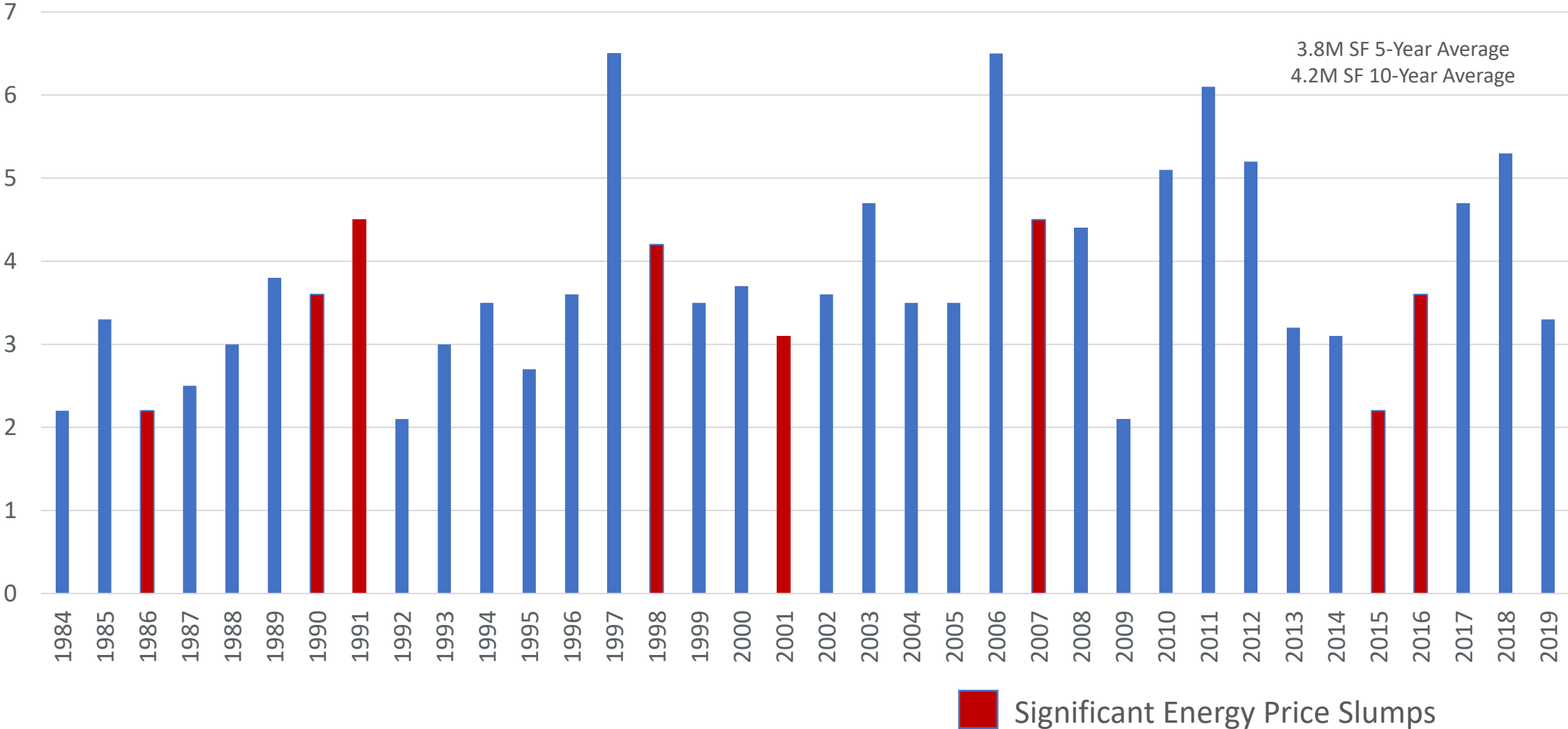
# Leasing Analysis



- 5-year leasing cycles especially clear in 2019, 2014, 2009 annualized totals. Renewals in 2019 outpaced new leases and expansions combined nearly 2:1
- Signed leases were evenly distributed across all three Tiers and all sizes, generally in 2019 but Tier III dominated renewals
- Transaction volume mirrored the 5-year pattern; 2019, 2014, 2009 have similar SF by type but 2019 was the strongest
- Large leases spearhead Tiers I and II and in SF, 2019 activity outpaced 2014 and 2009; mid-sized kept 5-year patterns; building renovations are paying off: Tier II with recent upgrades had biggest gains



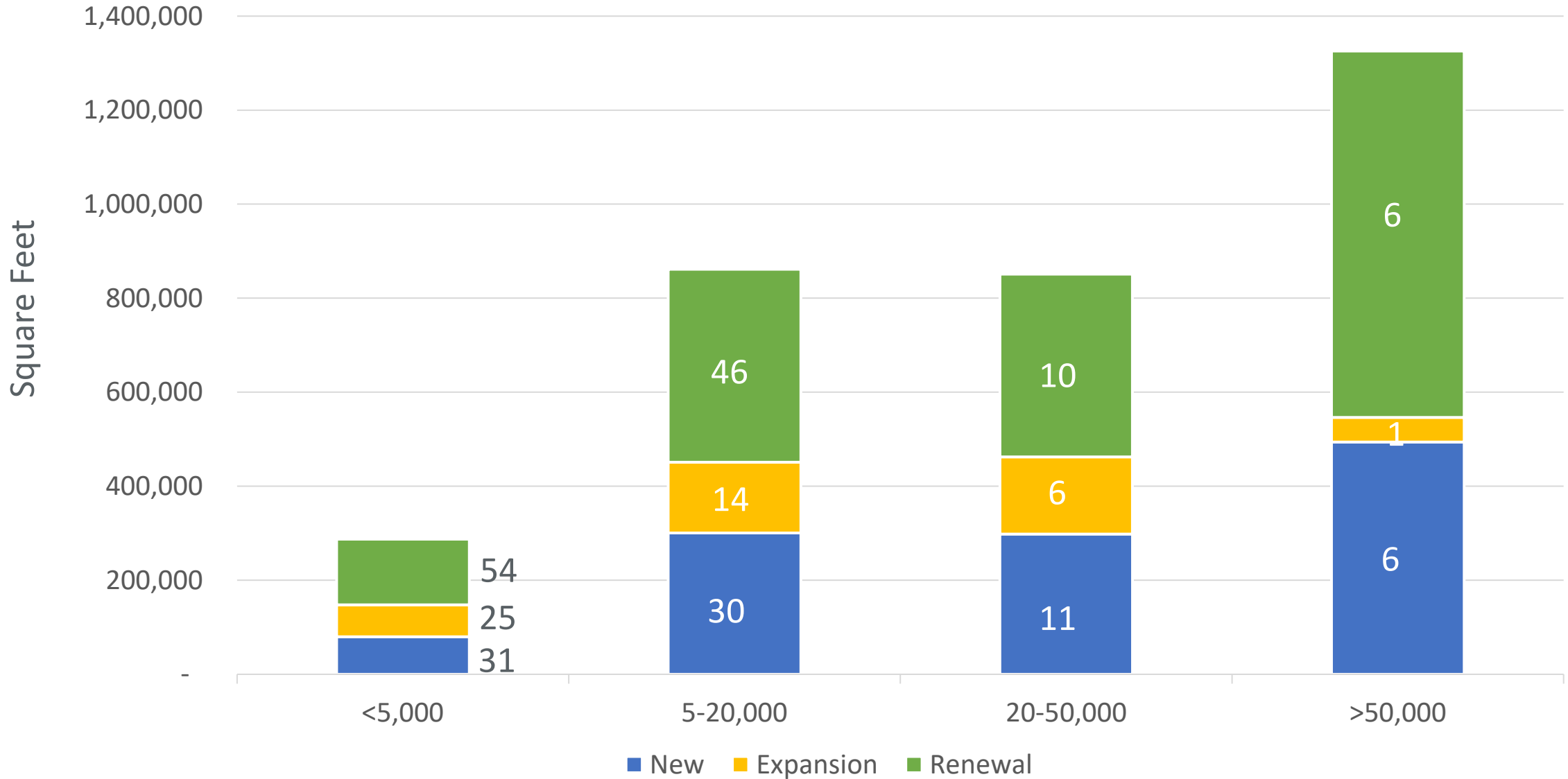
# Leasing Analysis





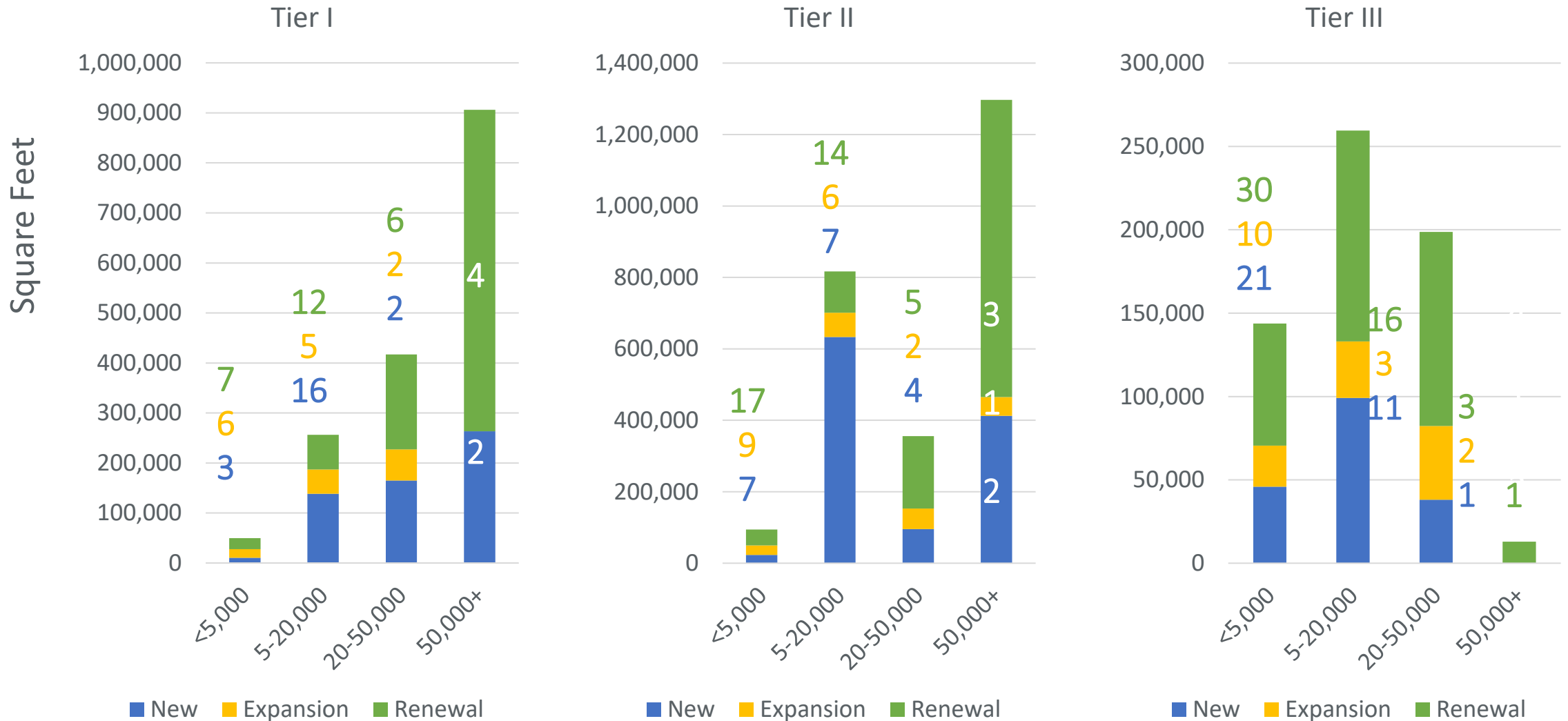
# Leases by Size/Type

240 in '19/249 Total Leases in '18





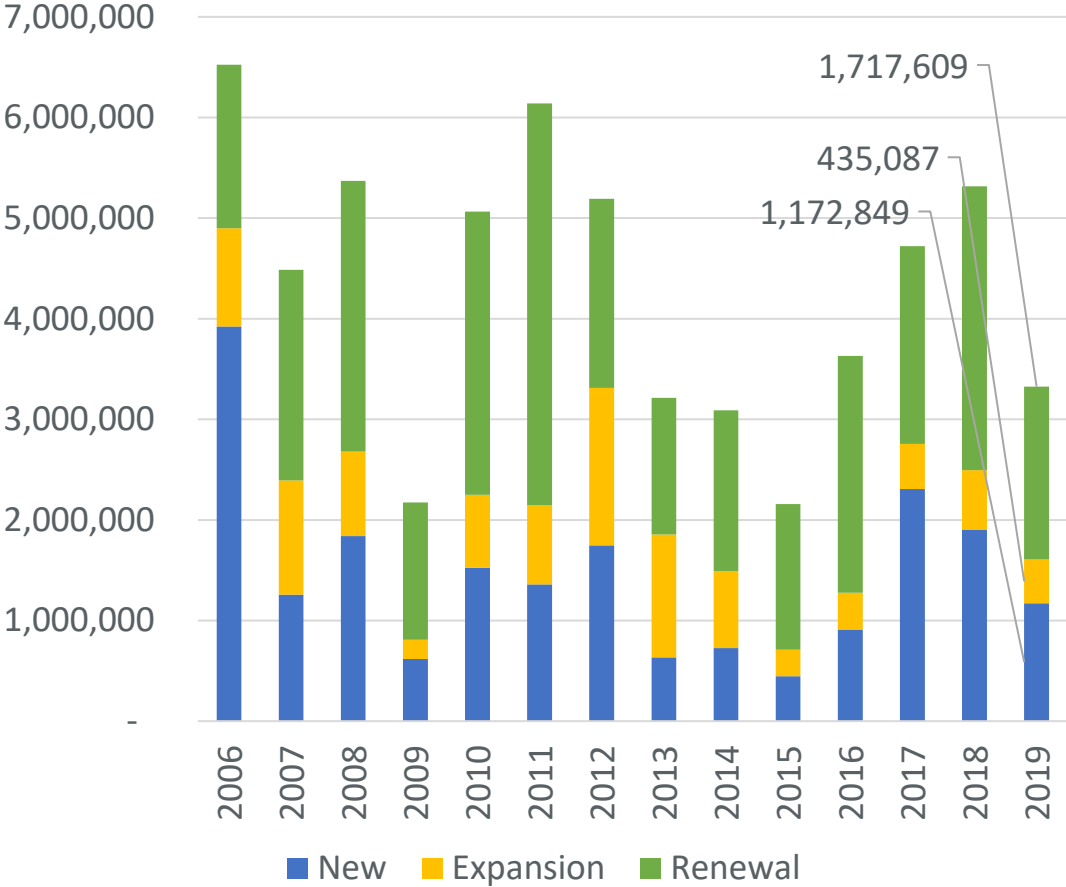
# Leases by Size/Tier



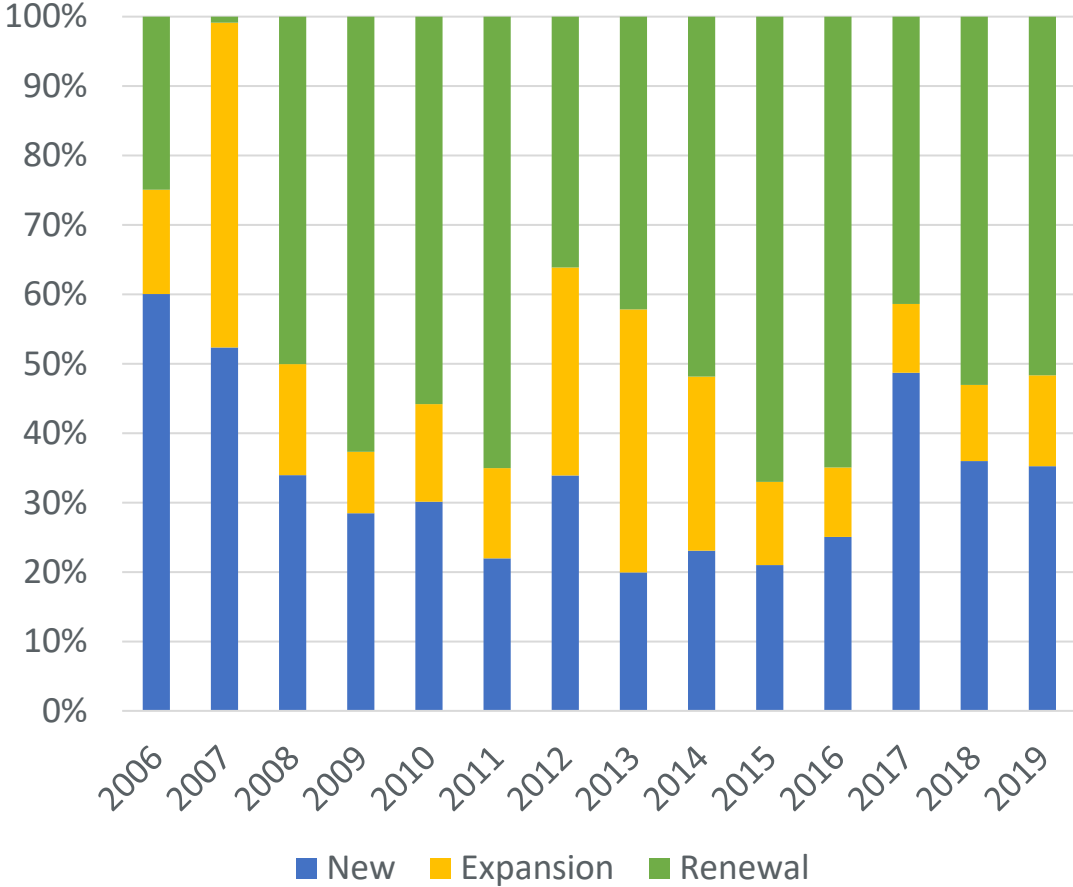


# Transaction Volume

SF By Type



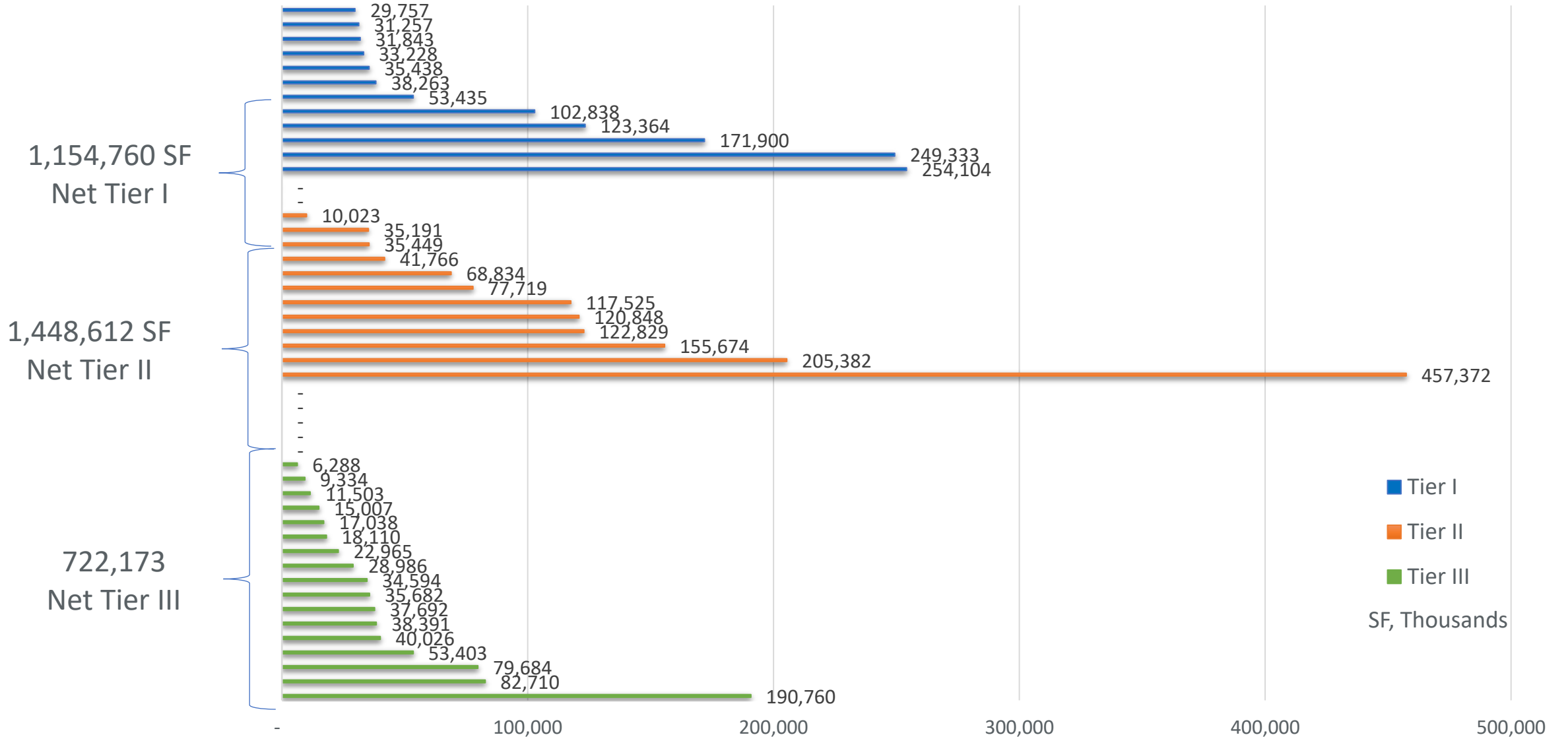
% By Type





# Lease Activity by Building

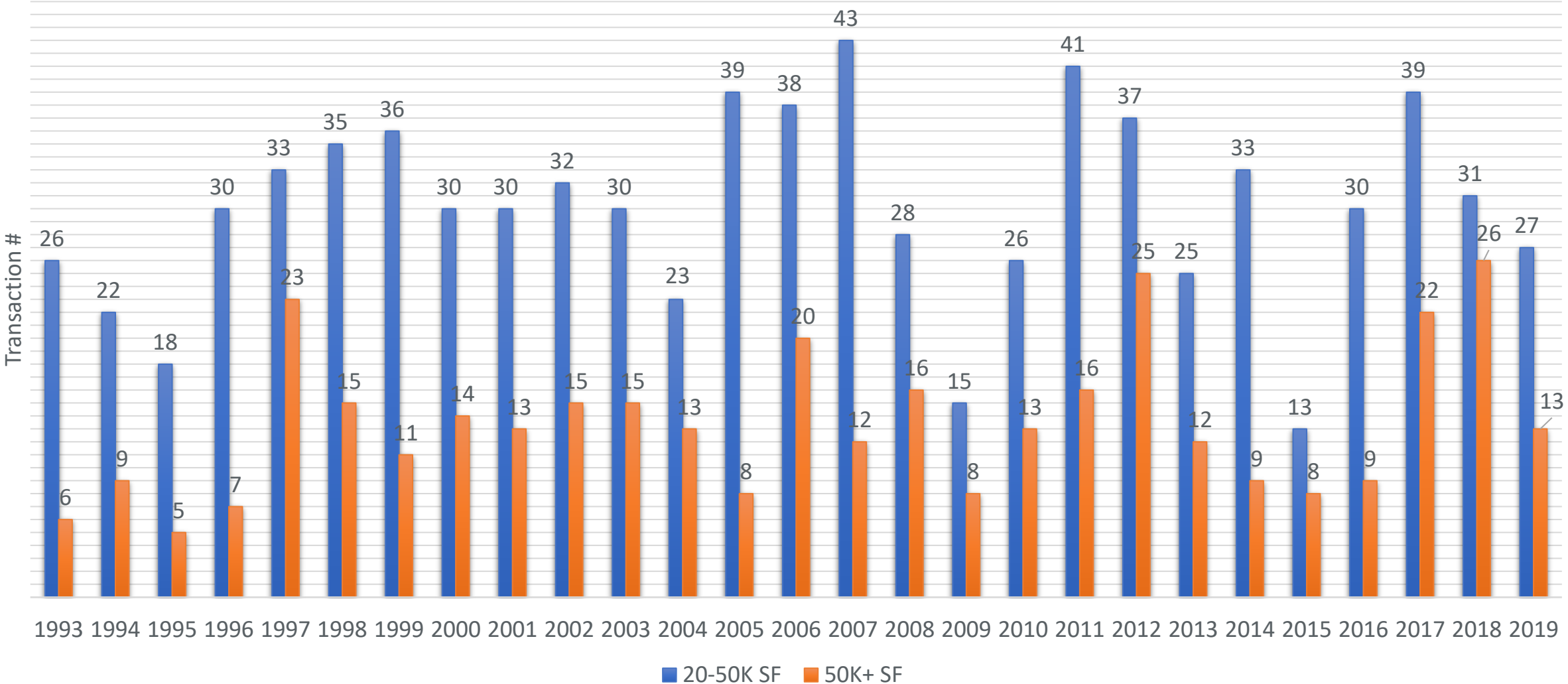
By Tier, 01/01/2019







# Large Transactions



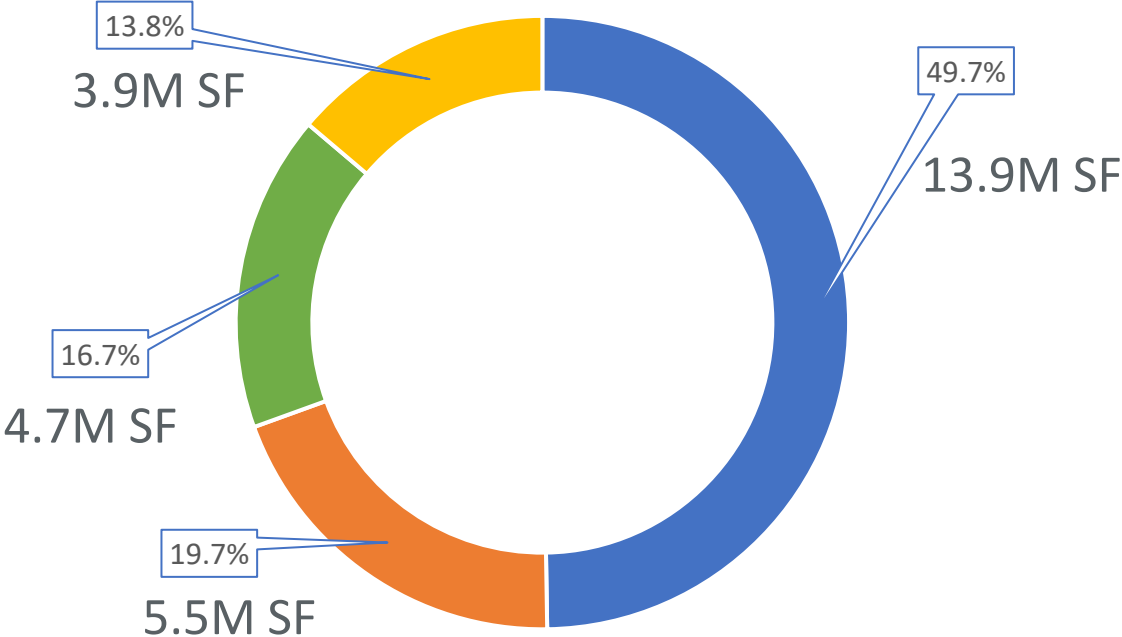
# Occupier Analysis

- Energy still dominates tenant base but Legal and Other (tech, engineering, health and transportation) expanded by nearly 3%
- Long-term trend shows Legal and Energy prevail. Single-floor occupiers inch up by two floors but 20K+ footprints decreased reflecting ongoing density trends in 2019
- Efficiency prevails as tenant industry diversifies. Multi-floor tenants ticked up by two total floors boosted by Legal to 434 full floors occupying nearly 2/3rd of Downtown Houston (21.7M SF)
- New Downtown tenants prefer affordable space options; Tier III outpaced 2018 activity in terms of SF & volume, mainly by Energy
- Operating and property expenses held in 2019 for Tiers I & III over 2018 – taxes increased in Tier II as a result of increased valuations brought on by renovation

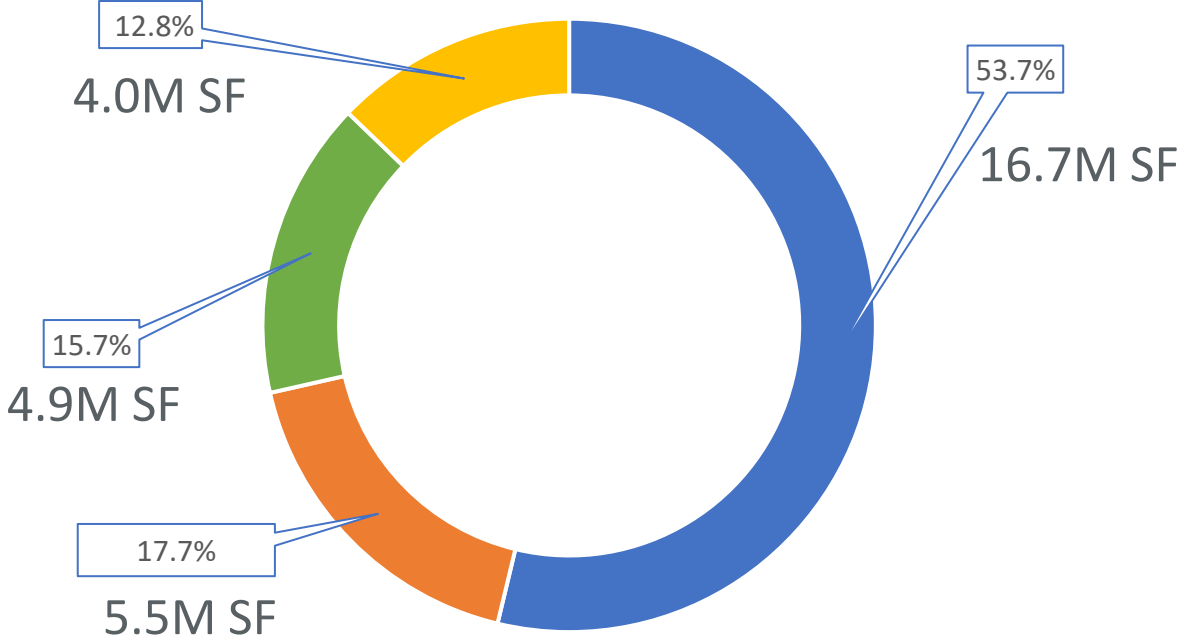


# Class A Occupier Industry

Class A Surveyed



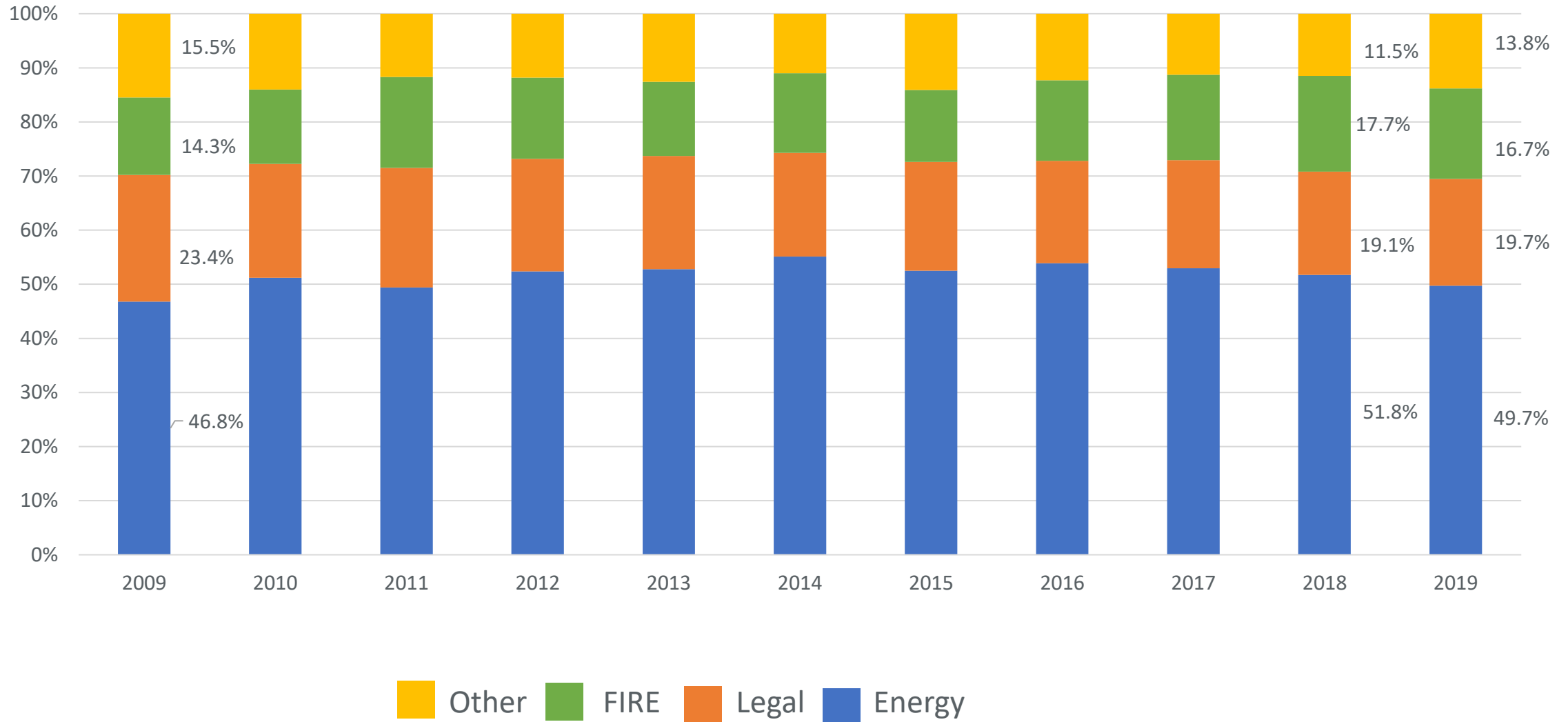
Class A Surveyed & Class A Owner Occupied



Other FIRE Legal Energy



# Industry Trends





# Multi-Floor Occupiers

Δ YOY	2017	2018	2019
25%	18	18	17
33%	32	33	31
50%	113	112	117

Occupier By % of SF

Occupiers By # of Floors

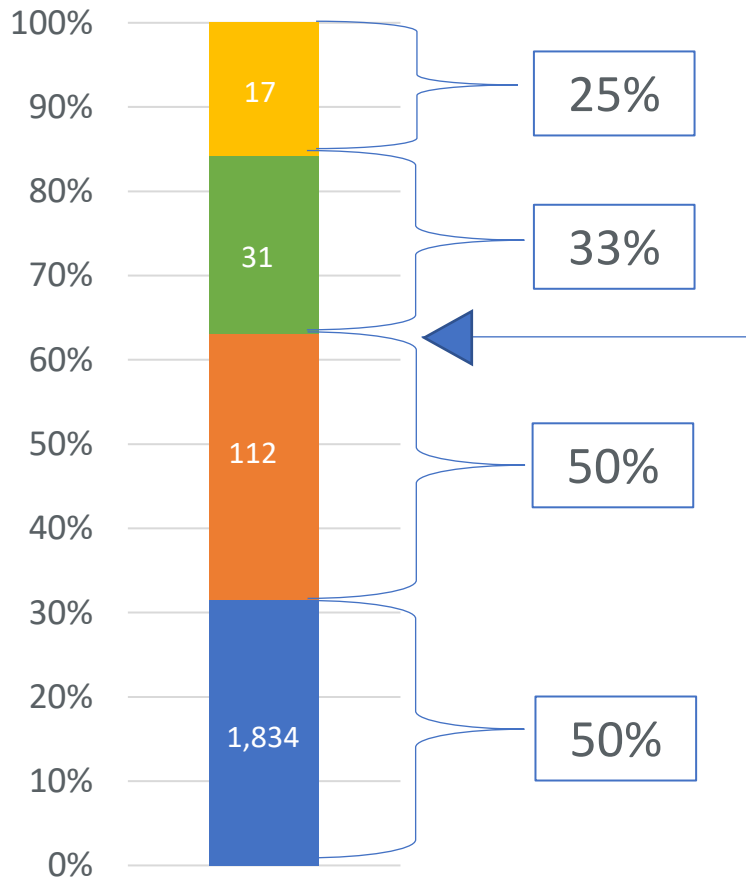
Δ YOY	2017	2018	2019
4+	49	49	54
2+	118	124	120
1+	249	259	260

Δ YOY	2017	2018	2019
500K+	7	7	6
200K+	25	23	26
100K+	48	49	49
20K+	242	245	227

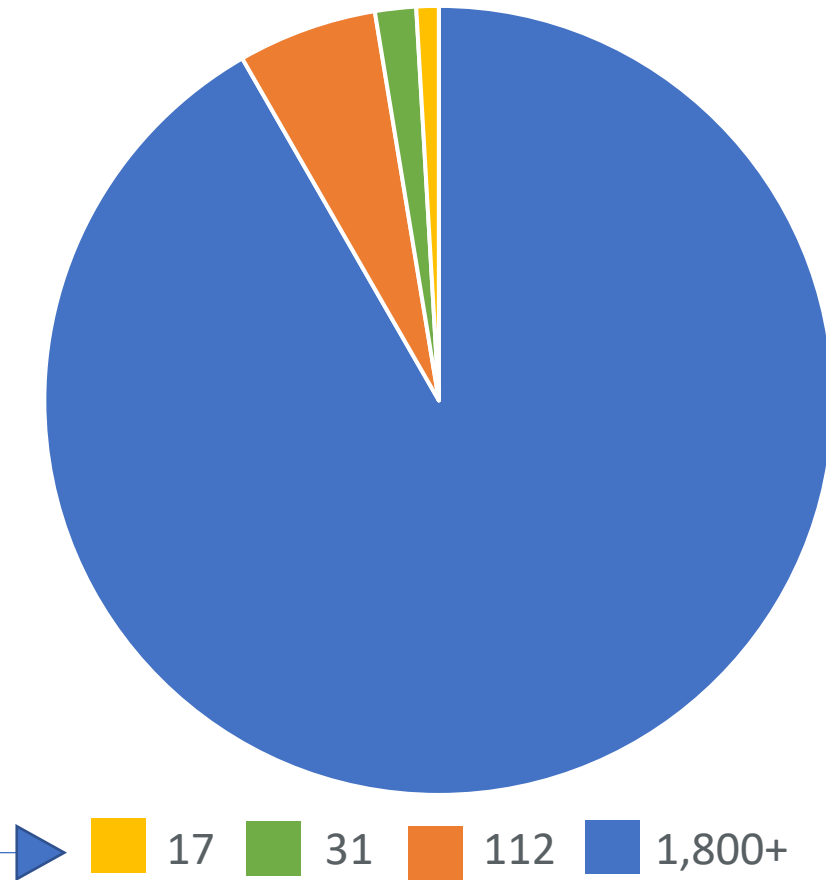
Occupiers By Total SF

# Occupier Proportion

Percent by Space Occupied

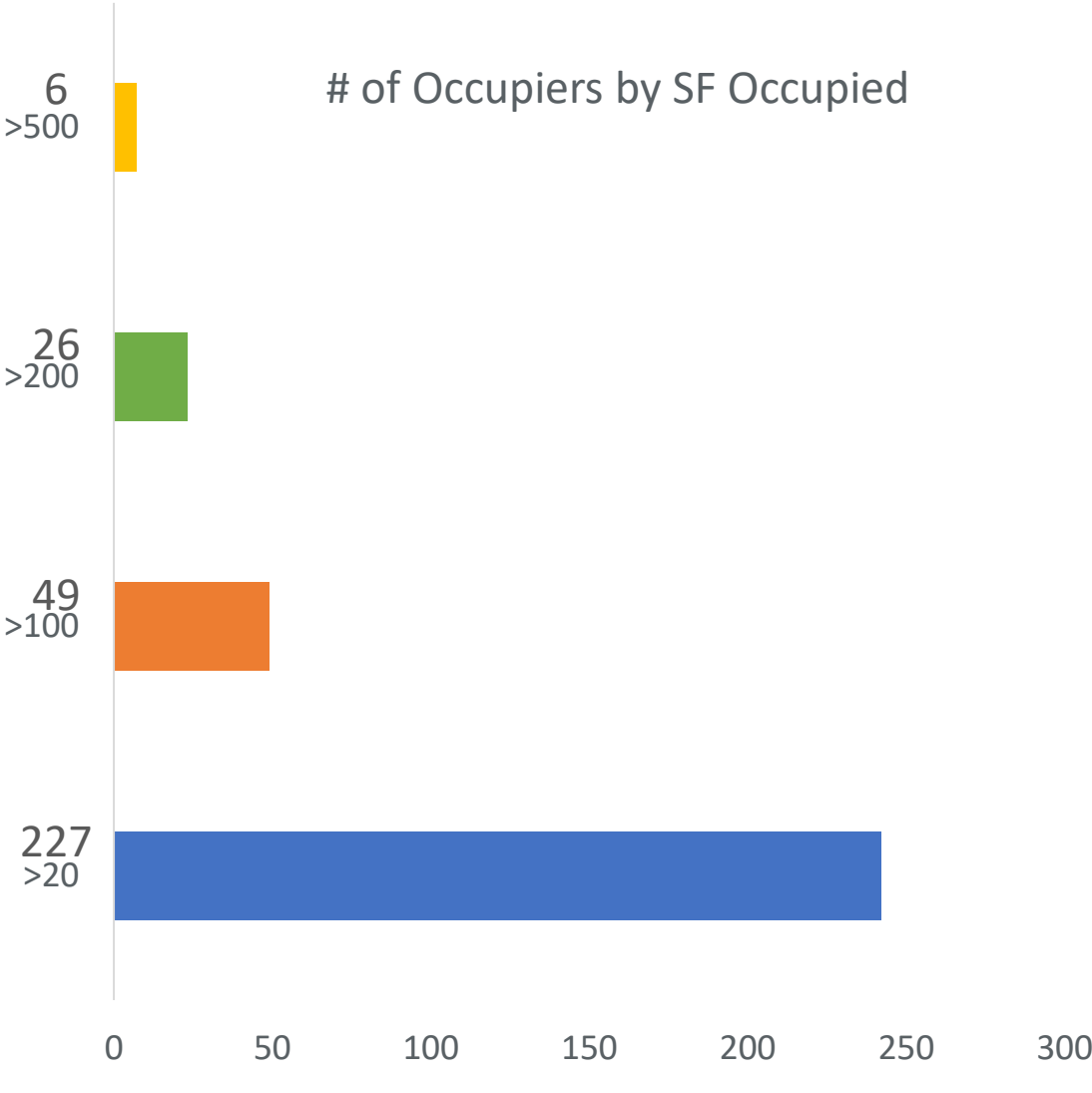
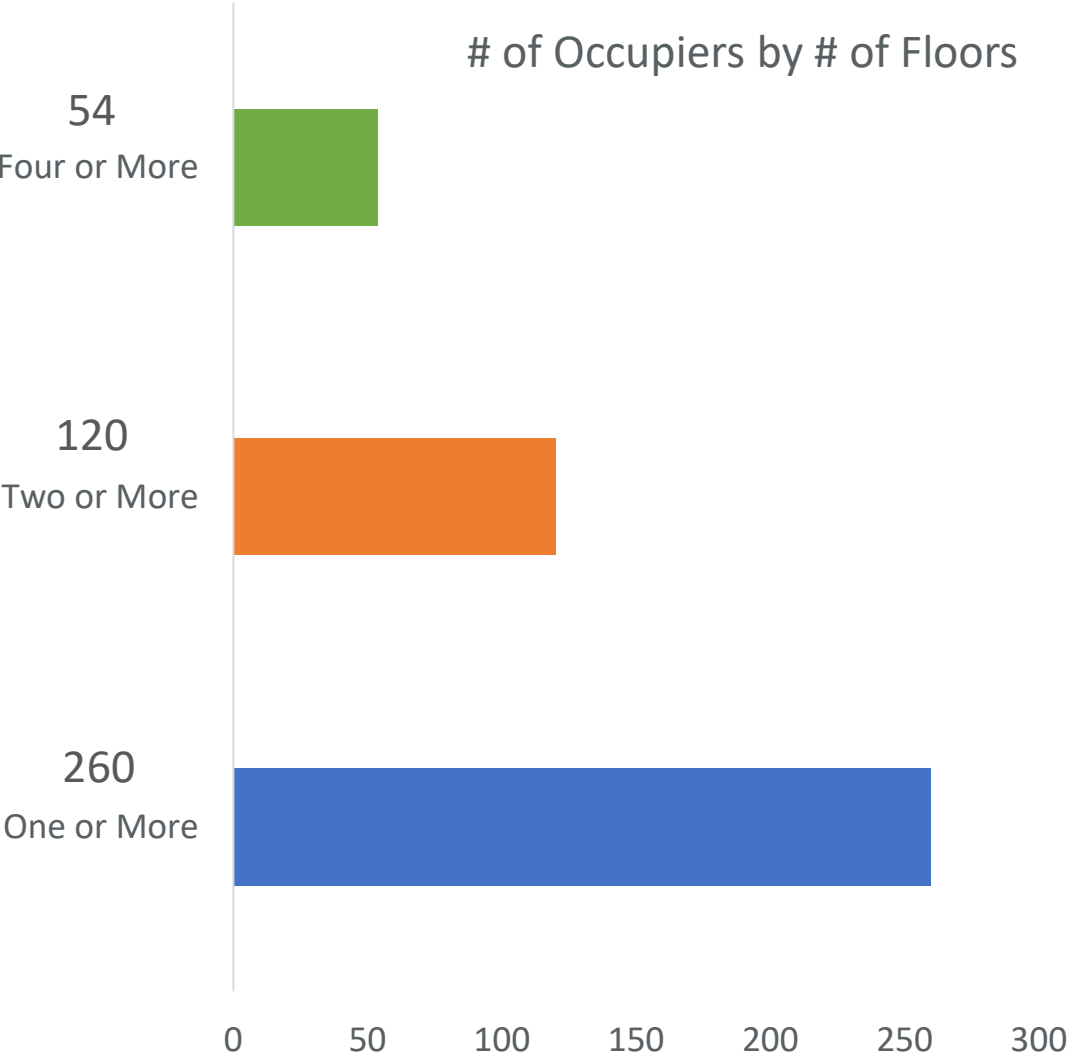


Number by Space Occupied





# Multi-Floor Occupiers

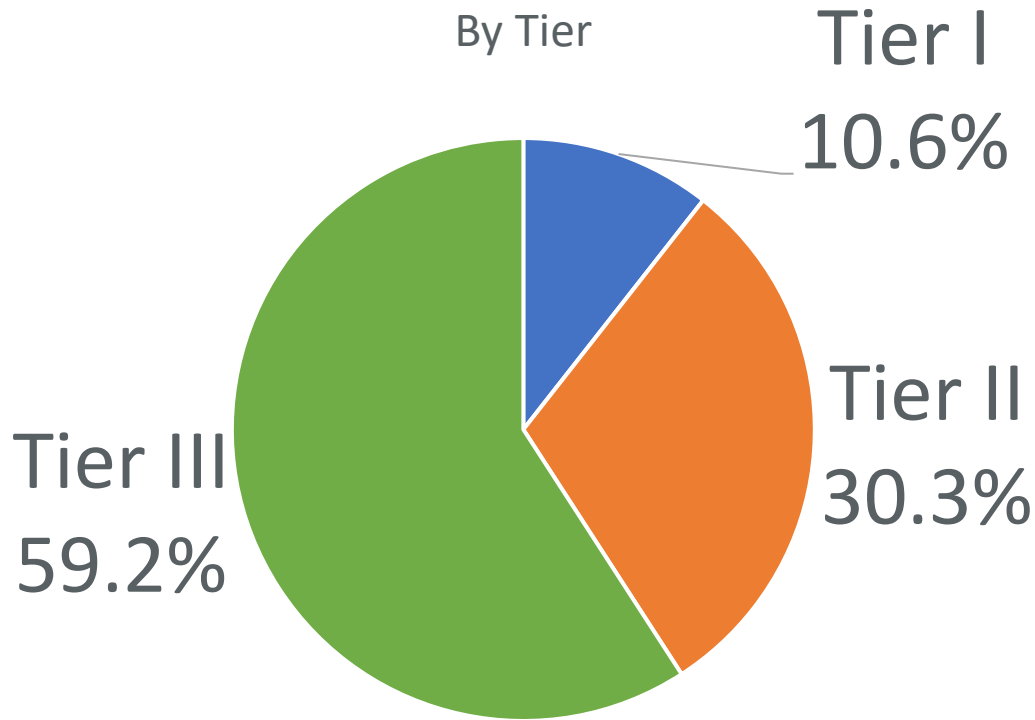


\*In Thousands of Square Feet



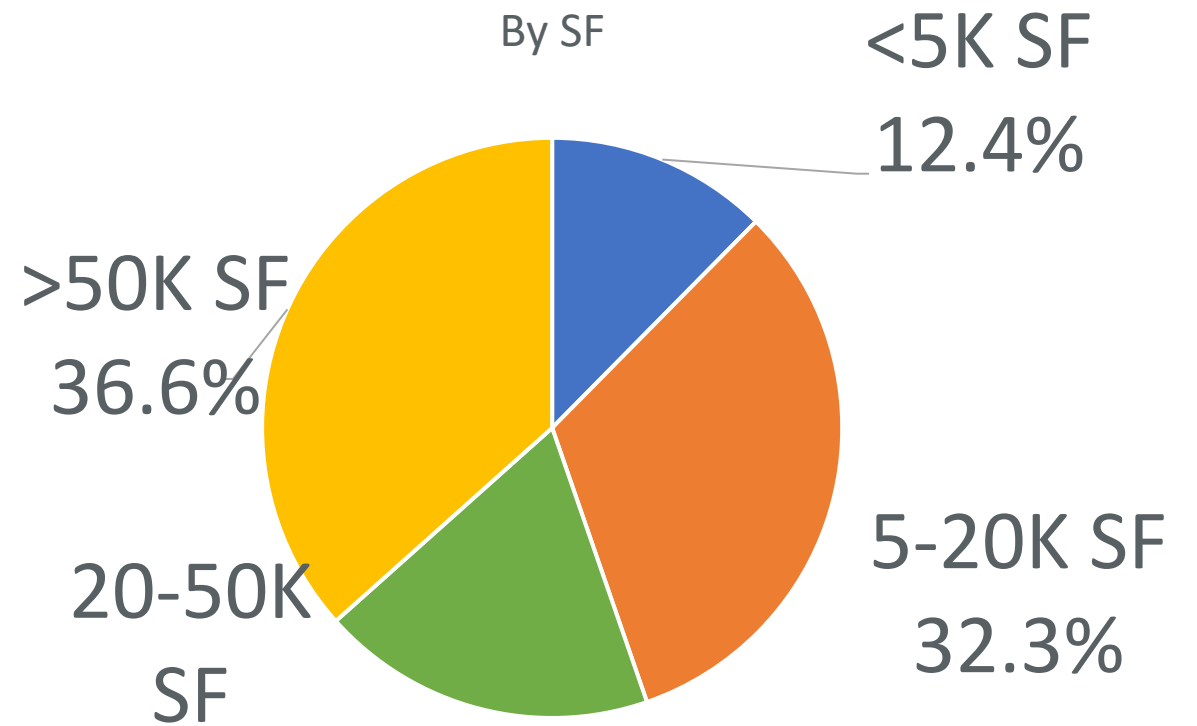
# New Downtown Occupiers

By Tier



■ Tier I ■ Tier II ■ Tier III

By SF



■ <5,000 ■ 5-20,000 ■ 20-50,000 ■ >50,000

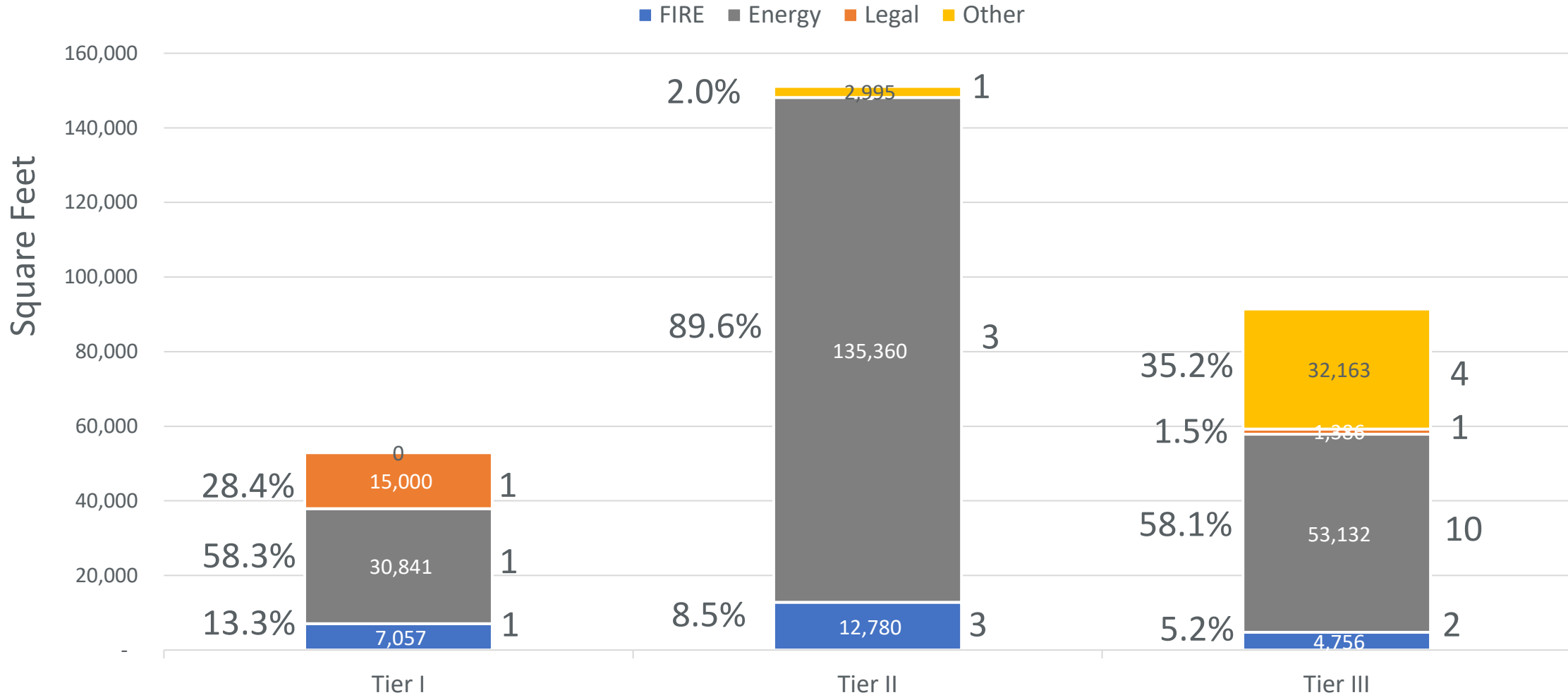
52,898 SF	151,135 SF	295,470 SF
3 Buildings	7 Buildings	17 Buildings

36,657 SF	95,524 SF	55,142 SF	108,153 SF
14 Leases	10 Leases	2 Leases	1 Lease



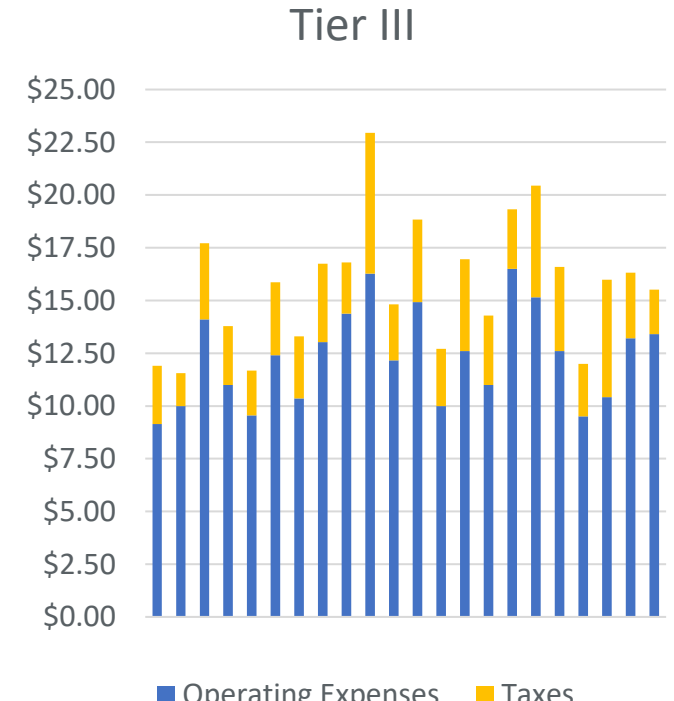
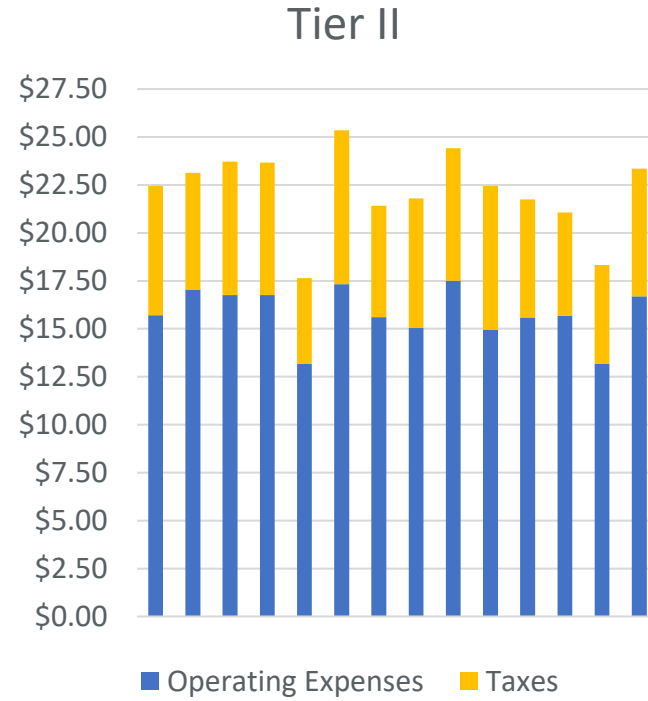
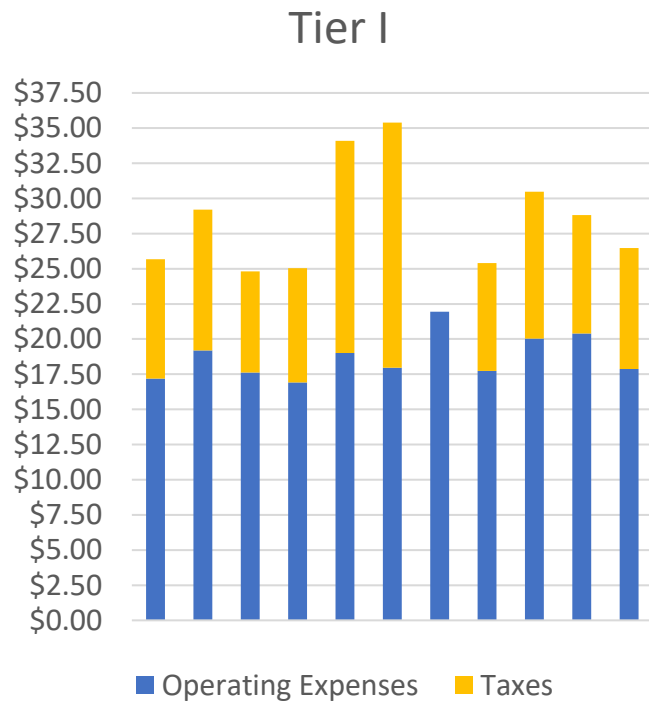


# New Downtown Occupiers





# Operating Expenses



	Tier I	Tier II	Tier III
Average Taxes	\$10.15	\$6.40	\$3.38
Average Gross OPEX	\$27.94	\$22.18	\$15.73
% Tax	36.3%	28.8%	21.5%

# 2020 Outlook



- Office environments and designs modify and reconfigure for 6-foot distancing; touchless elevators, new floor signage with distancing cues – occupiers expand physical office space needs per employee but adjust to increasing shift in working remotely
- Energy sector volatility reduces space demand – probable increased sublease listings and direct space overhangs; lower for longer occupancy as tenants keep negotiating advantage
- Renovations arrive online; nearly 10 million SF of Downtown office space upgrades completed, including Houston Center, Allen Center, Total Plaza, and GreenStreet Tower
- Owners focus more on attaining WELL certification (analogous to LEED certification) focused on enhancing building occupants' health; less but better space, outdoor/patios become premium

# 2020 Appendix



# Survey Background

- 36th year of survey providing unique insight on the current competitive office leasing environment based on analysis of primary data
- Results assist building owners, lease agents and investors in making informed business decisions
- Surveyed buildings have proven ability to compete for tenants in Downtown's premier office buildings in the survey's 3 tiers (I, II & III) and does not replace traditional market surveys such as broker, owner or third-party reports



# Survey Definitions

- **Office Inventory:** Total office space in all Downtown buildings regardless of building class or survey tier.
- **Survey Universe:** Downtown's premier office buildings classified as Tier I, II & III in this Report.
- **Owner-Occupied:** Buildings fully owned and/or occupied by the owner; includes Chevron's 1500 Louisiana and 1400 Smith; Hilcorp's 1111 Travis and Partnership Tower (701 Avenida De Las Americas).
- **Energy:** Exploration and production (E&P), pipeline, mining, utility, chemical and service providers.
- **Legal:** Law firms and legal service providers.
- **FIRE:** Finance, insurance and real estate.
- **Other:** Professional and business services, information technology, public administration, retail.
- **Leased Space:** All leased spaced regardless of occupancy status.
- **Actively Marketed and/or Available Space:** Marketed office space regardless of occupancy and lease status.
- **Availability Rate:** Direct space currently marketed divided by total amount of surveyed space.
- **Leasing Activity:** Signed leases during the survey year regardless of scheduled occupancy status and includes direct, sublease, renewals and pre-leasing activity.
- **Absorption:** Total annual survey change of square feet marketed regardless of occupancy.

# Thank you!

---

## 2020

# DOWNTOWN OFFICE STORY

## EOY 2019 Market Analysis

For More Information:

Robert Pieroni, Economic Development Director, [rpieroni@centralhouston.org](mailto:rpieroni@centralhouston.org)

Robert Kramp, Business Research, [rkramp@centralhouston.com](mailto:rkramp@centralhouston.com)

Kim Scates, Member Relations, [kscates@centralhouston.org](mailto:kscates@centralhouston.org)