

*Central Houston, Inc.*

*DOWNTOWN OFFICE STORY*  
*2020 Market Analysis*

*Data Collected and Analysis Compiled, January 1 – April 30, 2021*

# Unique Inventory Survey

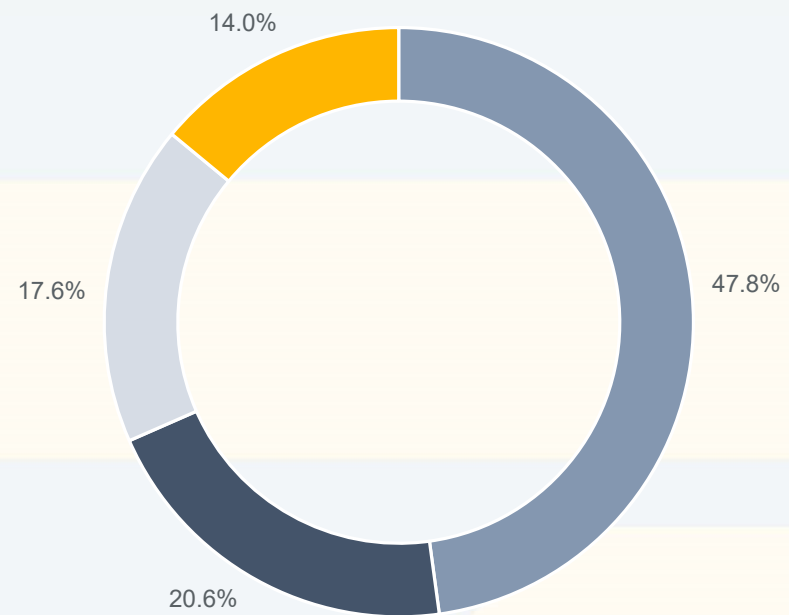
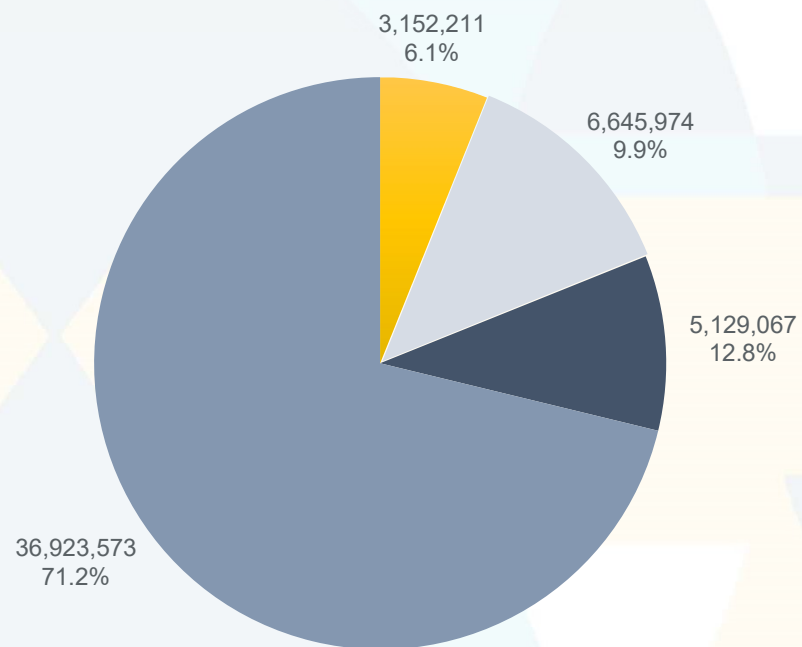
Central Houston Inc.'s Office Story measures the 12-month Downtown competitive leasing cycle

- A unique Downtown Houston survey that includes:
  - All marketed space
  - Large available blocks / full floors
  - Tenants by industry
  - Sublease space on the market and by tenant
  - Multi-floor tenants
  - Large transactions / tenants new to Downtown
  - 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 37th year began in 1985 by Stewart O. Robinson, President, SOR Real Estate Advisors, LLC

# Inventory Analysis

- Downtown Houston total office inventory
  - Nearly 52 Million SF
  - Class A & B, historic buildings and government properties
- Central Houston Inc. Office Story
  - Survey completed in January –March 2021 for all 2020 leasing activity
  - Approximately 37 Million SF
  - 48 office buildings
  - More than 71% of all Downtown office space
  - More than 2.7 Million SF of Downtown leasing during 2020
    - 7.3% of surveyed space was a new lease, expansion or renewal
- Downtown Houston is region's largest office market with >22.8 million SF in lease activity since 2015, approximately the same size as Uptown's total inventory (23.05 million SF), Houston's 2<sup>nd</sup> largest market

# Office Market by Space & Industry



■ Class A Competitive Space

■ Class A Owner Occupied Space: IE: Partnership Tower, Hilcorp Energy Tower, 1400 Smith/1500 Louisiana

■ Class B & Historic Class Competitive Space: IE: 917 Franklin, 1018 Preston, etc.

■ Government IE: Harris County Administration Building (1001 Preston), HPD HQs (1200 Travis), METRO HQs (1900 Main), etc.

Class A Competitive Space

■ Other

■ FIRE

■ Legal

■ Energy

## Summary of Survey Data

	2017	2018	2019	2020
Total SF Surveyed	35,537,315	36,679,935	36,922,971	36,923,573
Direct Marketed SF	7,758,499	9,300,933	8,906,043	9,669,480
% Direct Marketed	22.0%	25.4%	24.1%	26.2%
Net YOY SF Direct Marketed	591,933	1,542,434	(394,890)	763,437
Sublease Marketed SF	1,819,523	1,435,971	1,498,046	1,171,832
% Sublease Marketed SF	5.1%	3.9%	4.1%	3.2%
Net YOY SF Sublease Marketed	(829,525)	(383,552)	62,075	(326,214)
Total Marketed	9,578,022	10,736,904	10,404,089	10,841,582
% Total Marketed	27.1%	29.3%	28.2%	29.4%

## Surveyed Buildings

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	10,248,858
Total	48	36,923,573

# Building Analysis & Summary

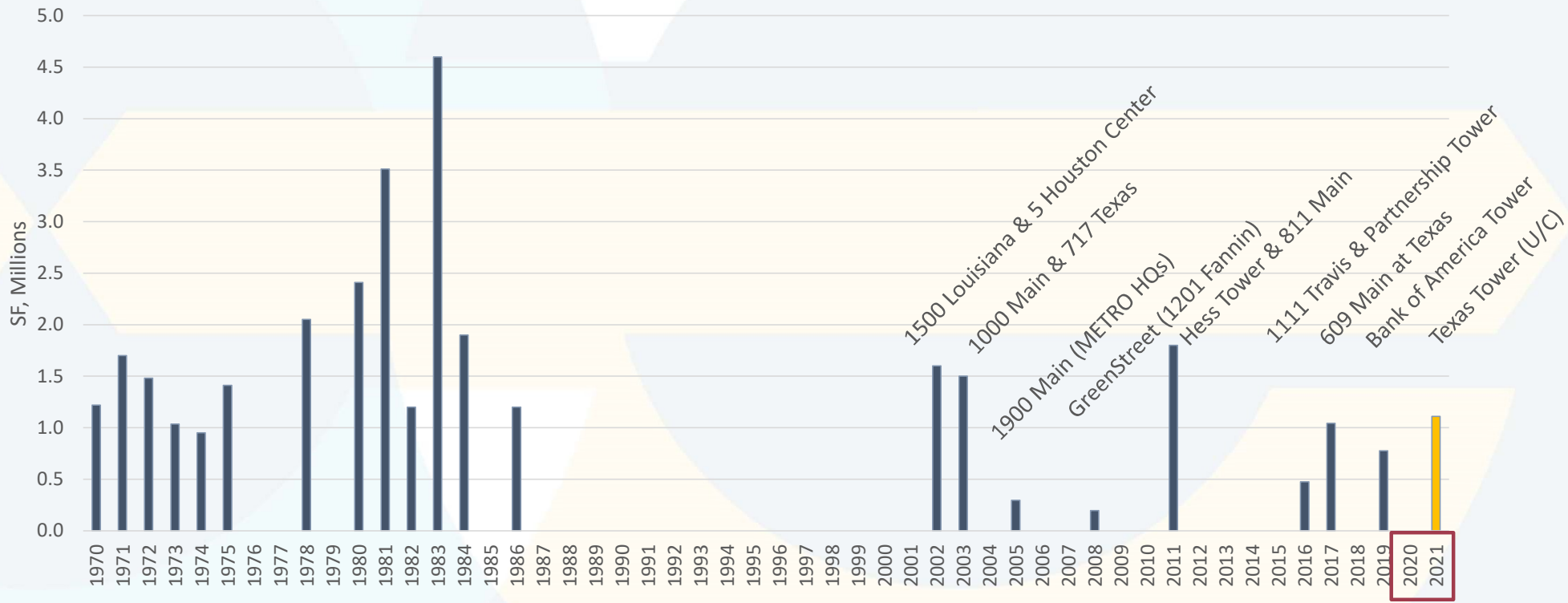
- 36,923,573 SF of surveyed office space
  - 24.7 million SF, was built between 1971 & 1986
  - More than 5.2 million SF completed since 2011
  - 3.4 million completed in last 5 years
    - including the 1.1 million SF Texas Tower to be completed this year
- Robust building renovation activity in 2020
  - 8.2 million SF completed in 10 buildings
  - 4.7 million SF underway:
    - TC Energy Tower (Phase II)
    - Heritage Plaza
    - Three Allen Center
    - 1001 Fannin

## Building Analysis & Summary

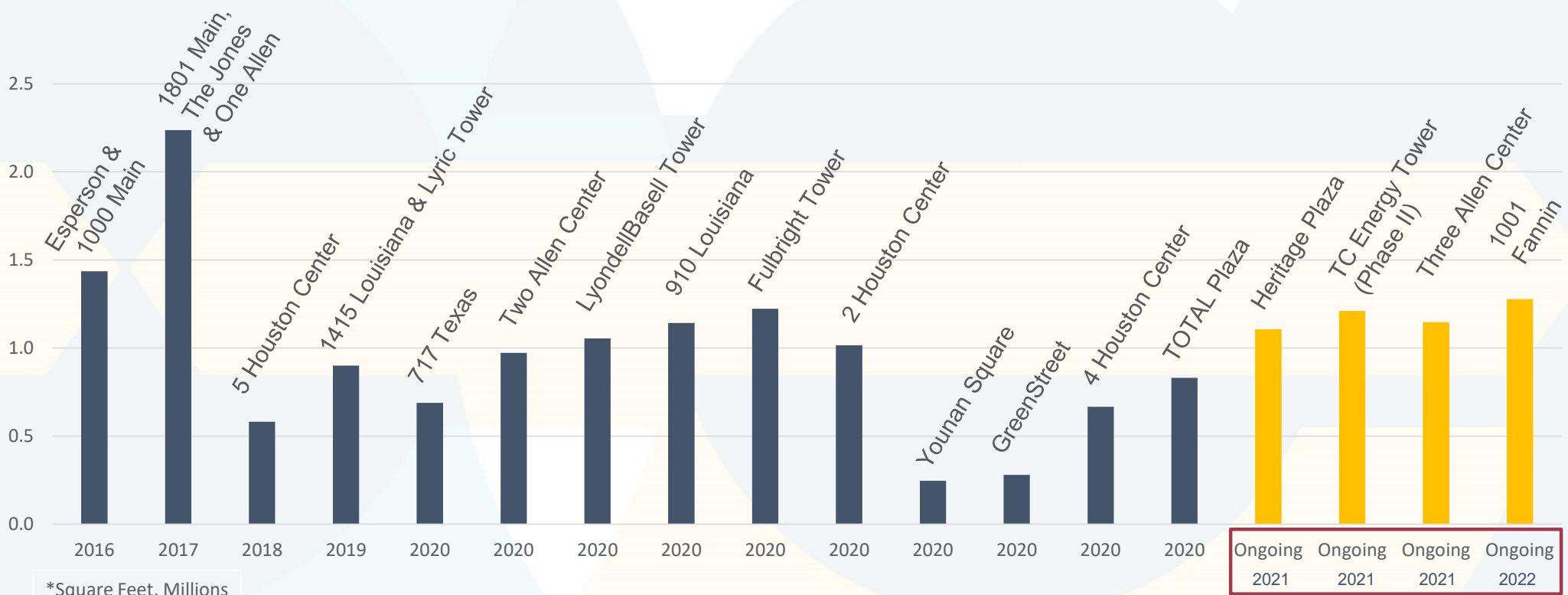
- Downtown's Double AA office buildings, comprising newest construction with state-of-the-art space amenities are collectively marketing 3.8% of all surveyed space
  - 811 Main (960K SF)
  - 609 Main at Texas (1.05M SF)
  - Bank of America Tower (743K SF)
  - + Texas Tower (1.1M SF) under construction
- Skanska USA Commercial Development is planning 1550 on the Green (1550 Lamar)
  - 375,000 SF Double Class AA, 28-story office tower and mixed-use district adjacent to Discovery Green
  - Begins construction 2021



# Historical Building Deliveries Timeline



# Building Renovations Timeline



\*Square Feet, Millions

Ongoing 2021 Ongoing 2021 Ongoing 2021 Ongoing 2022

## Marketed Space

- Direct space on-market loosened during 2020 by 763K SF
  - Activity since 2011 shows even number of years tightening and loosening
  - During a robust construction cycle at the same time
- Tier I made gains in 2020 by more than 150K SF
  - Led by JP Morgan Chase moving into 255K SF at the renamed JP Morgan Chase Tower (600 Travis)
- Tiers II and III saw on-market space increase by a combined 910K SF during 2020
  - Tier II comprises more than 70% of additions

## Marketed Space

- Nearly 35% of the direct marketed Downtown space is within 5 Tier I buildings
  - Led by Texas Tower currently under construction (~668K SF on market)
- 359 full floors available in 2020 up from 344 in 2019
  - Down from 375 in 2018 (average since 2011=260)
  - Sublease peaked in 2016 @ 102 floors
- 35 blocks >200K totaled 4.7 million SF in 2020
  - 57% of the total 8.2 million SF of on-market space

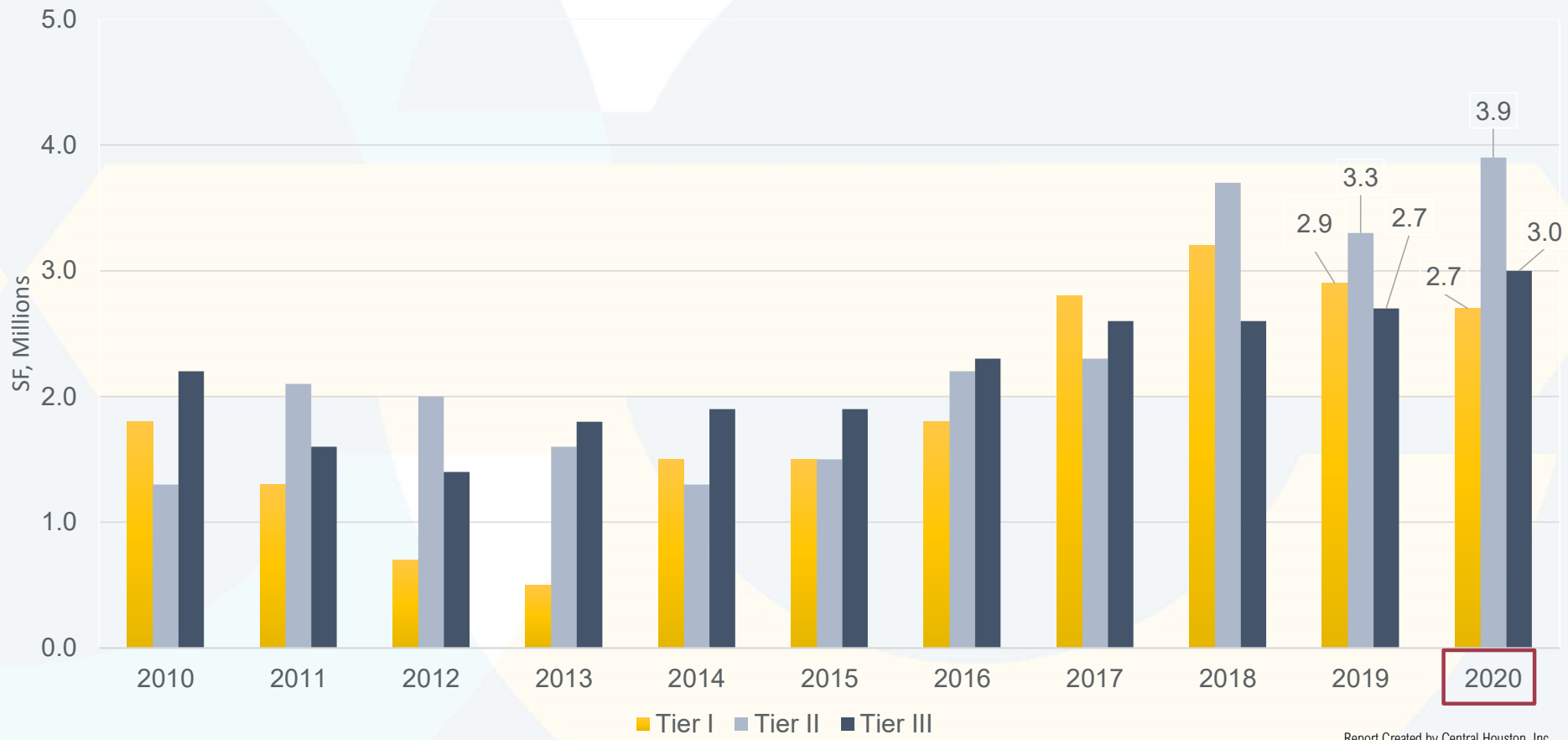
# Historical Marketed Space

By % Direct Available & Available SF



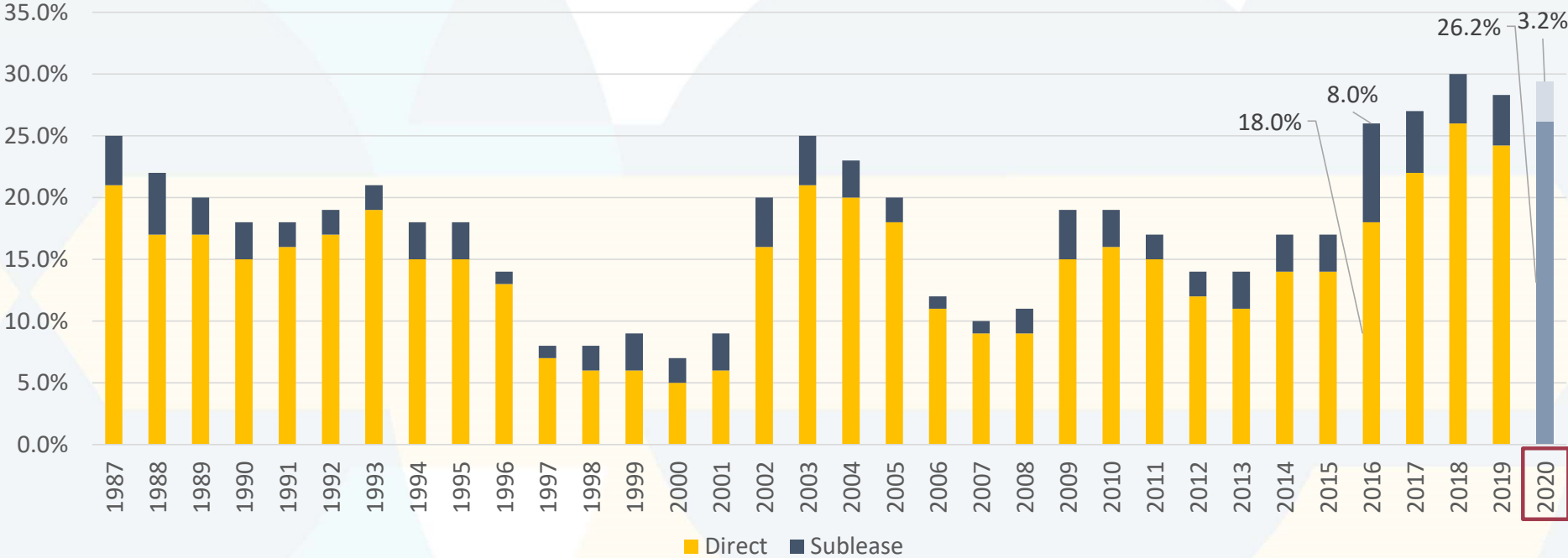
# Historical Marketed Space

By Building Tier



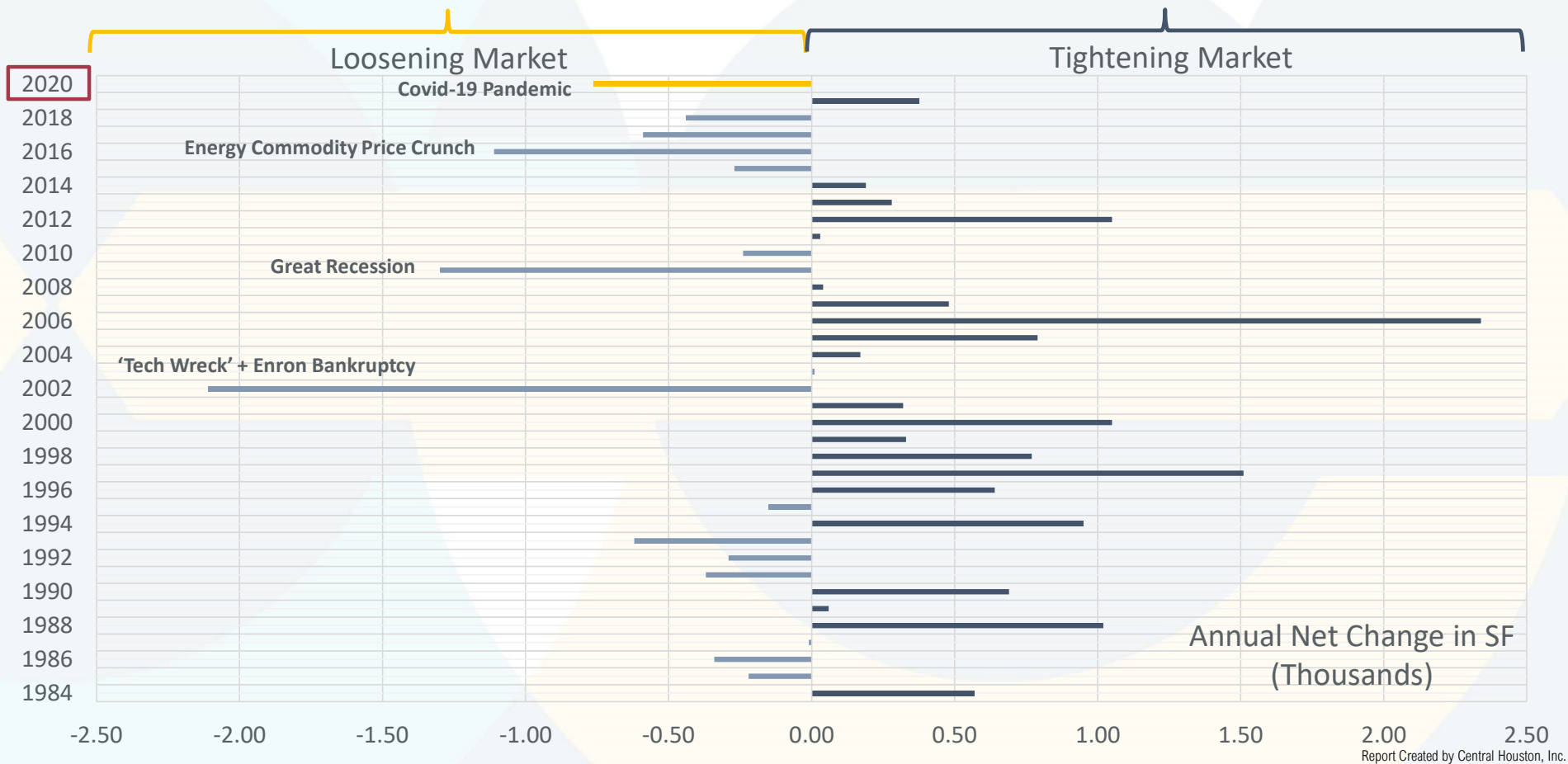
# Historical Marketed Space

Direct & Sublease Space 5-YR Comparison



	Direct	Sublease
5-Year Average (2016-2020)	22.9%	5.0%
10-Year Average (2011-2020)	18.0%	3.8%

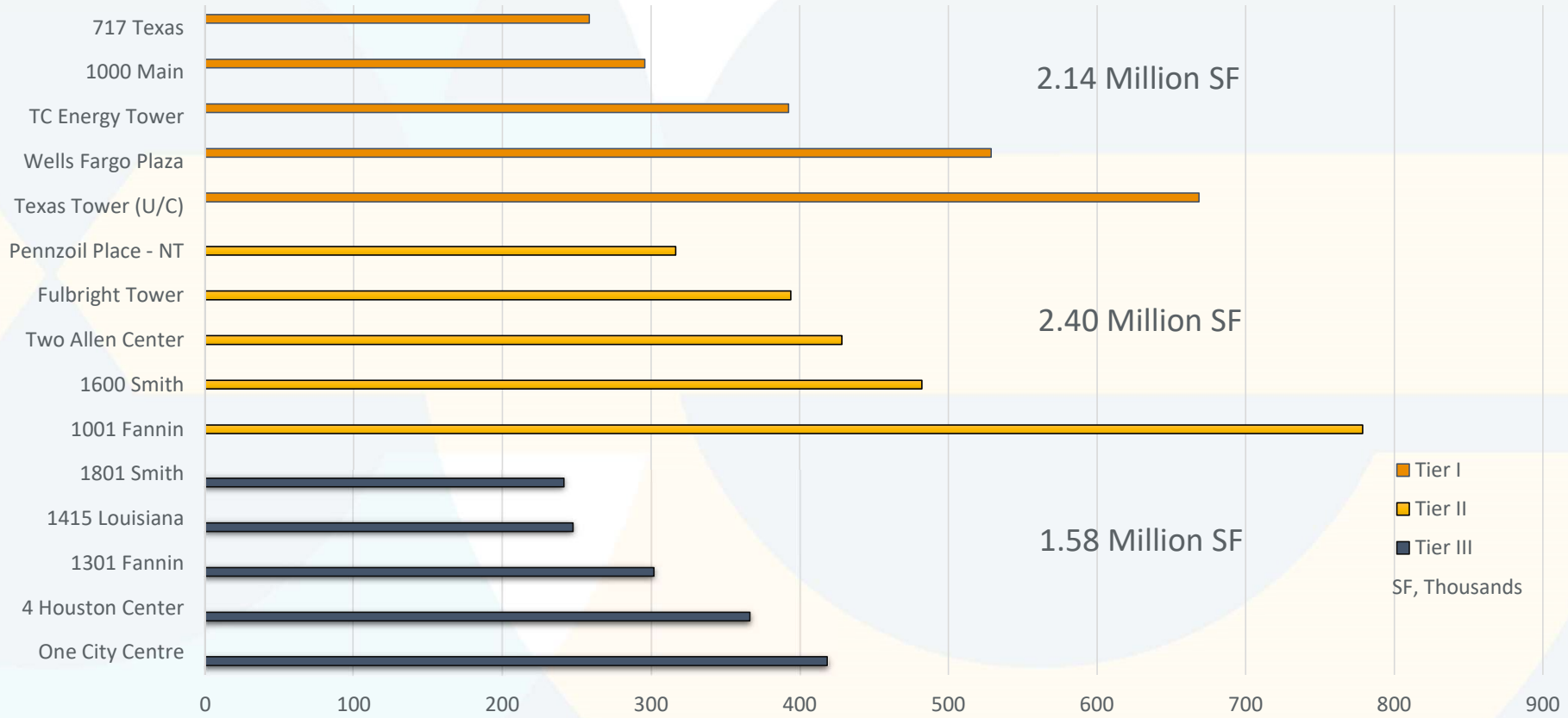
# Marketed Space





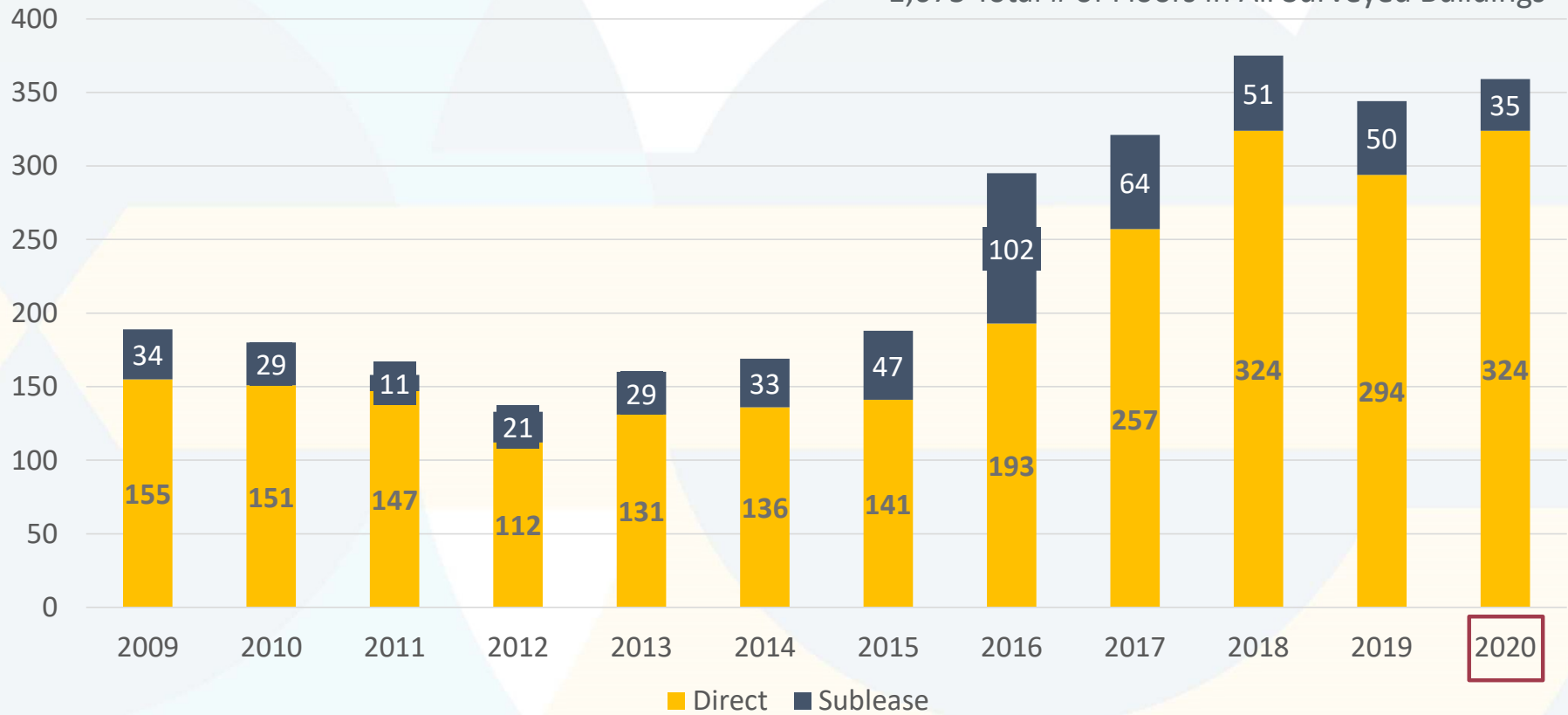
# Marketed Space

Largest Marketed Totals By Tier, 01/01/2021



# Available Floors

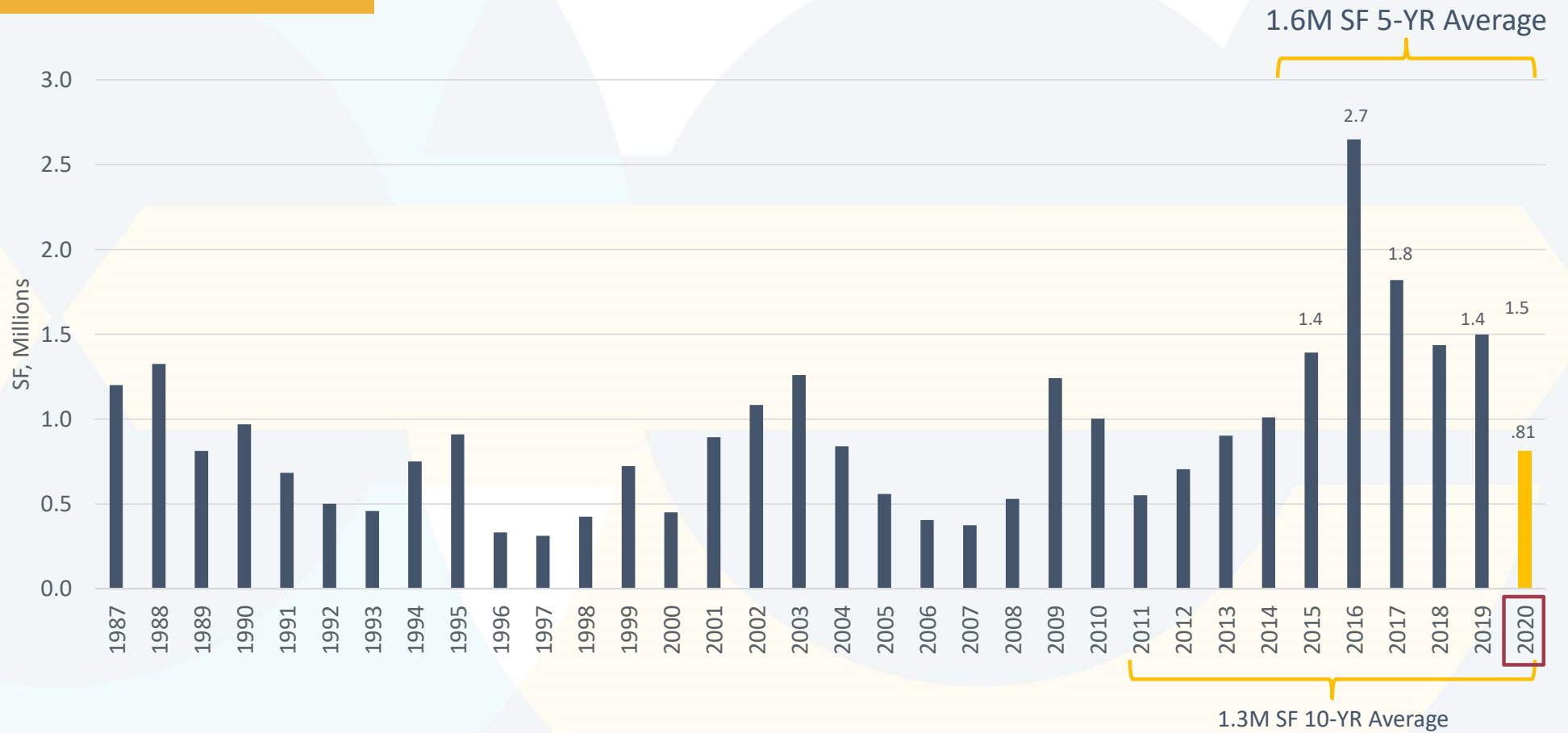
1,675 Total # of Floors in All Surveyed Buildings



## Direct Available Blocks

Building	Contiguous Floors	Former Tenant	Availability	Square Feet
1001 Fannin	4-7, 10-11; 25-36; 41-45	Vinson & Elkins	3/1/2022	723,232
Texas Tower	12-29, 36-37, 39-40	New Construction	10/1/2021	640,869
Wells Fargo Plaza	2-3; 30-35; 43-46; 65-67	Cathexis	Vacant	441,260
1600 Smith	5-18; 40-48	Chevron	Vacant	434,354
Two Allen Center	2-5; 25-30	Devon Energy	Vacant - 30 Days	379,575
Fulbright Tower	2-5; 25-27; 38-39; 41-42	Norton Rose Fulbright	Vacant	344,070
Pennzoil Place - North Tower	7-12; 28-36	Fleur De Lis; Flame Acquisitions	Vacant	303,919
Pennzoil Place - South Tower	3-12	Quinn Emanuel Trial Lawyers	Vacant	263,923
1801 Smith	3-5; 11-18	Vacant	Vacant	241,306
1000 Main	19-22; 29-31	Vacant	Vacant	234,128
1100 Louisiana	28-34; 36-38	Enbridge	Vacant	229,528
1415 Louisiana	18-19; 25-28; 30-33	Jackson Lewis, WEDGE Services, LLC	Vacant	212,419
1301 Fannin	8-9; 14-15	ExxonMobil	Vacant	201,978
<b>All Blocks With Term Available, 01/01/2021</b>			<b>Total Largest Direct Available Blocks</b>	<b>4,650,561</b>

# Historical Sublease Full Floor Blocks



## Full Floor Sublease Blocks

Building	Tier	Floor(s)	Former Tenant	Availability	Square Feet
919 Milam	3	6-12	Valerus	June 2023	155,863
One Allen Center	2	15; 18; 22-24	Marsh USA; Range Resources; Callon Petroleum	2027; 2022; 2029	139,103
Heritage Plaza	1	14-17	Maverick Natural Resources	August 2023	108,564
One City Centre	3	16; 18; 26; 28	Energy EXXI	January 2024	85,489
Hess Tower	1	9-10	Hess	June 2026	61,682
609 Main at Texas	1	25-26	WeWork	June 2026	56,351
Total Plaza	3	29-30	Tellurian	April 2026	49,896
600 Travis	1	24-25	Locke Lord Liddell	January 2027	43,160
TC Energy Tower	1	21	BMO Capital Markets Group	December 2025	30,275
Fulbright Tower	2	24	MRC Global	October 2022	25,114
1100 Louisiana	2	55	Vitol	April 2021	19,491
1415 Louisiana	3	29	Quintana Energy Services	Jan-24	15,860
1600 Smith	2	50	Royston Rayzor	October 2023	11,352
1001 McKinney	3	22-23	Thorp Petroleum	December 2022	8,811
<b>All Blocks With Term Available, 01/01/2021</b>			<b>Total Full-Floor Sublease</b>		<b>811,011</b>

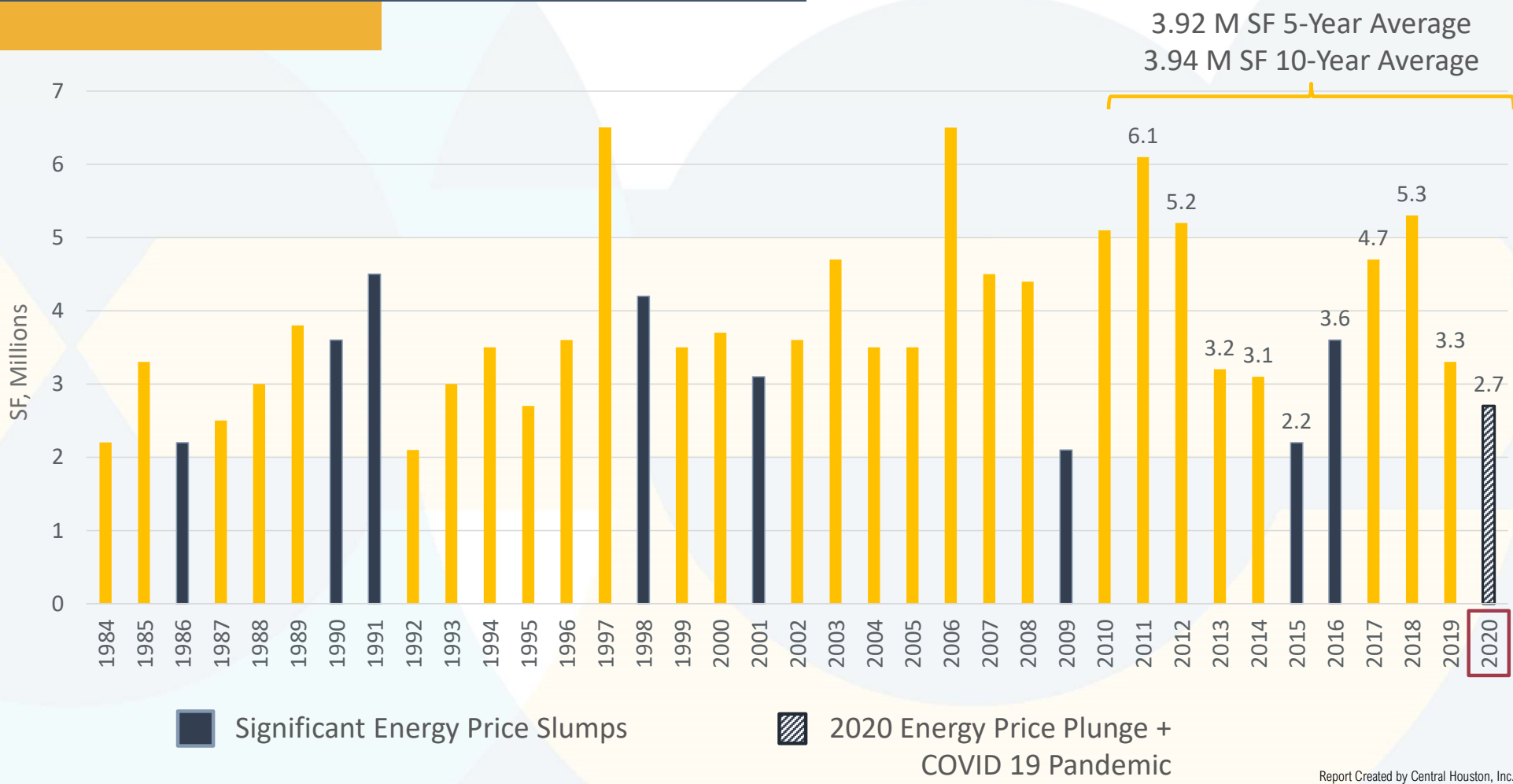
## Leasing Analysis

- COVID & subsequent energy commodity crunch in 2020 created a leasing cycle that mirrored Houston's three prior energy declines
  - Downtown in 2020 still outperformed those of 2009 and 2015
  - Despite the unprecedented and unexpected effects of COVID-19
- New construction + state-of-the art amenities drawing larger occupiers from existing buildings
- Tier I lease activity dominated by large renewals averaging nearly 35,000 SF with the major being a renewal and expansion at TC Energy Tower
  - New leases averaged >50K SF
  - Renewals totaled 718K SF or 63% of all Tier I lease activity

# Leasing Analysis

- Tier II activity also characterized by renewals
  - New leases + expansions >180K SF
  - Nearly 800K SF of Tier II Renewals
- More than half of all signed leases for all categories in Tier III buildings
  - Mainly renewals = 460K SF
  - New Tier III leases averaged 6,372 SF
  - ~12th the size of avg. Tier I

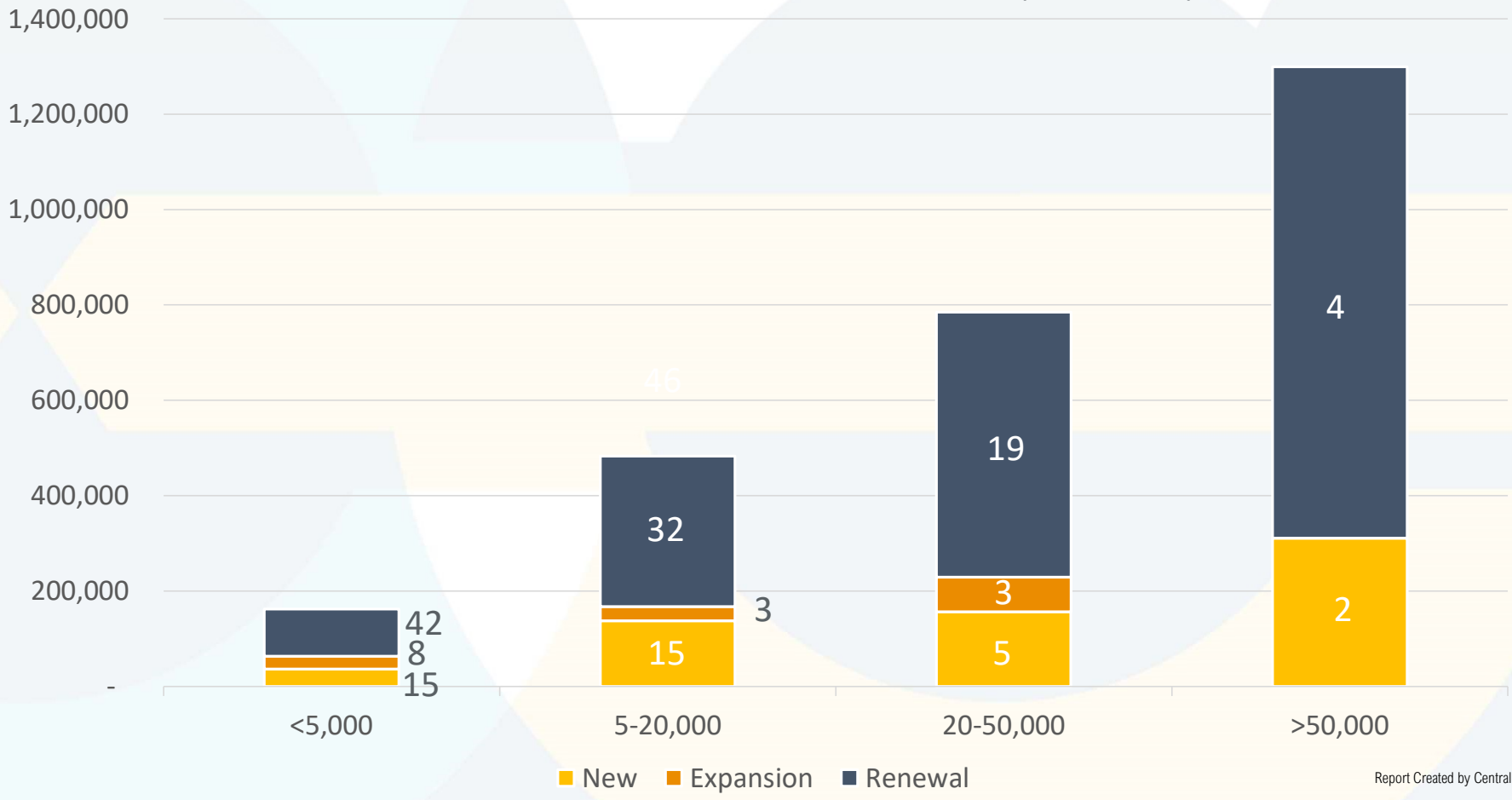
# Leasing Analysis



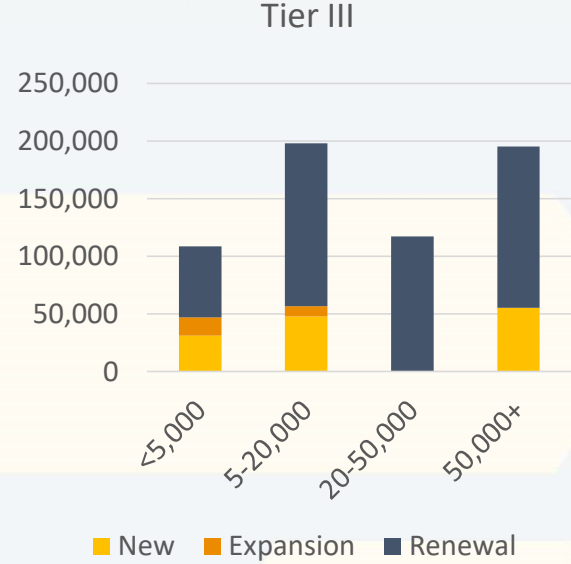
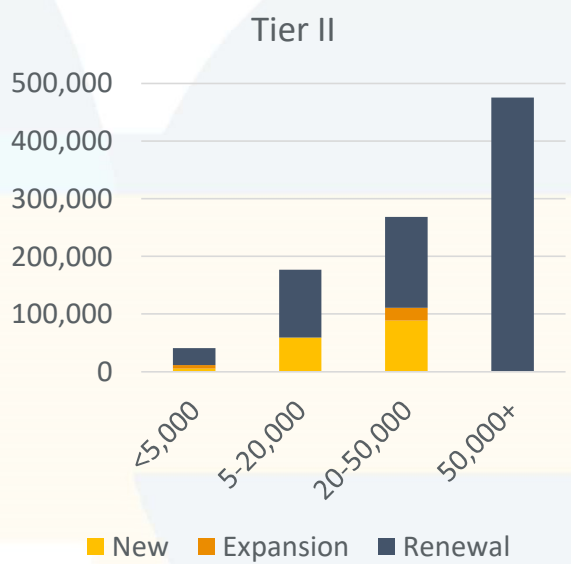
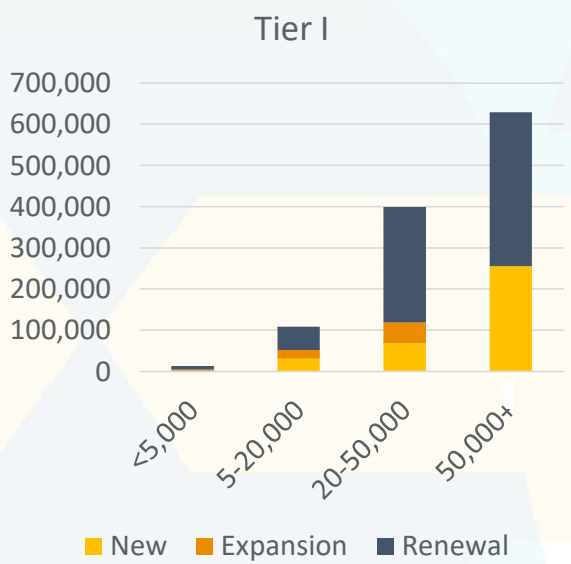


# Leases by Size/Type

148 in '20 / 240 in '19 / 249 Total Leases in '18



# Leases by Size/Tier



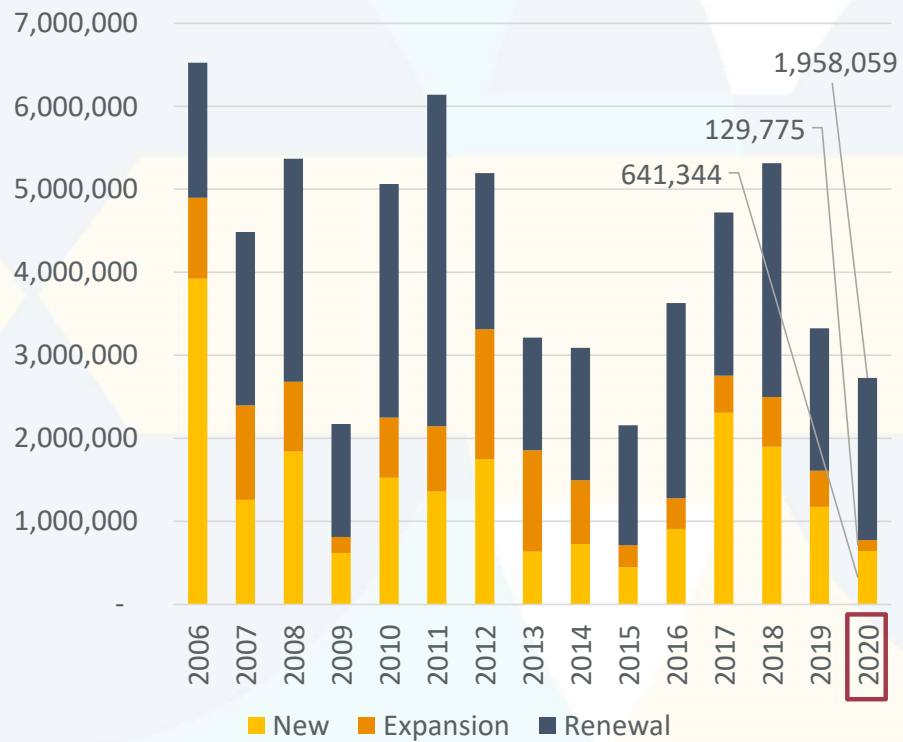
SF	<5K	5-20K	20-50K	50K+
New	0	4	2	0
Expansion	1	2	2	1
Renewal	4	5	10	2

SF	<5K	5-20K	20-50K	50K+
New	2	4	3	0
Expansion	9	0	1	0
Renewal	11	13	5	1

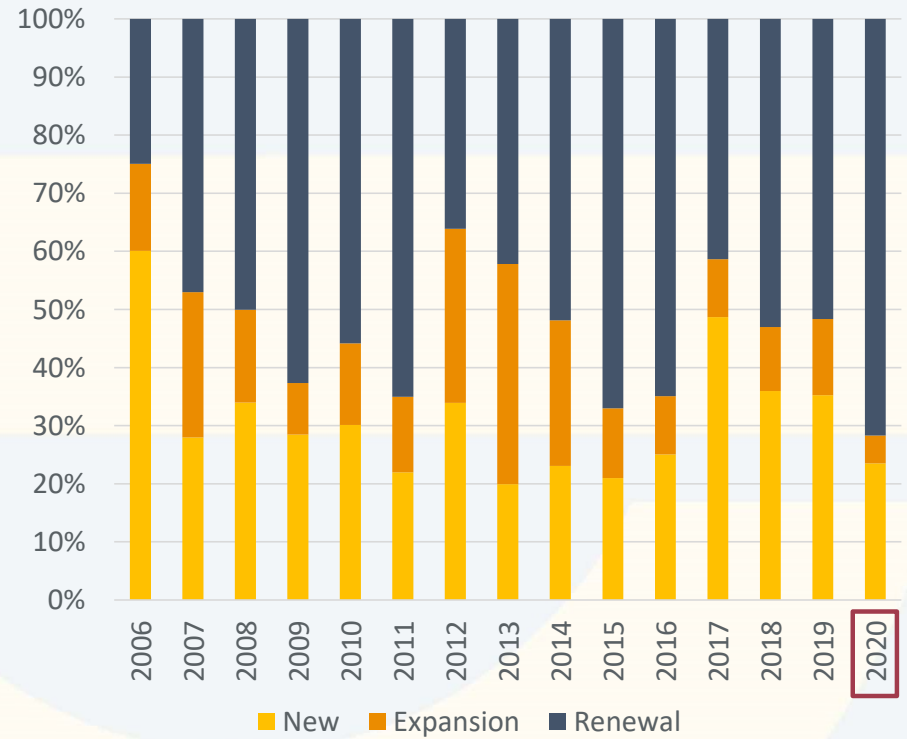
SF	<5K	5-20K	20-50K	50K+
New	13	7	0	1
Expansion	5	1	0	0
Renewal	27	14	4	1

# Transaction Volume

SF By Type

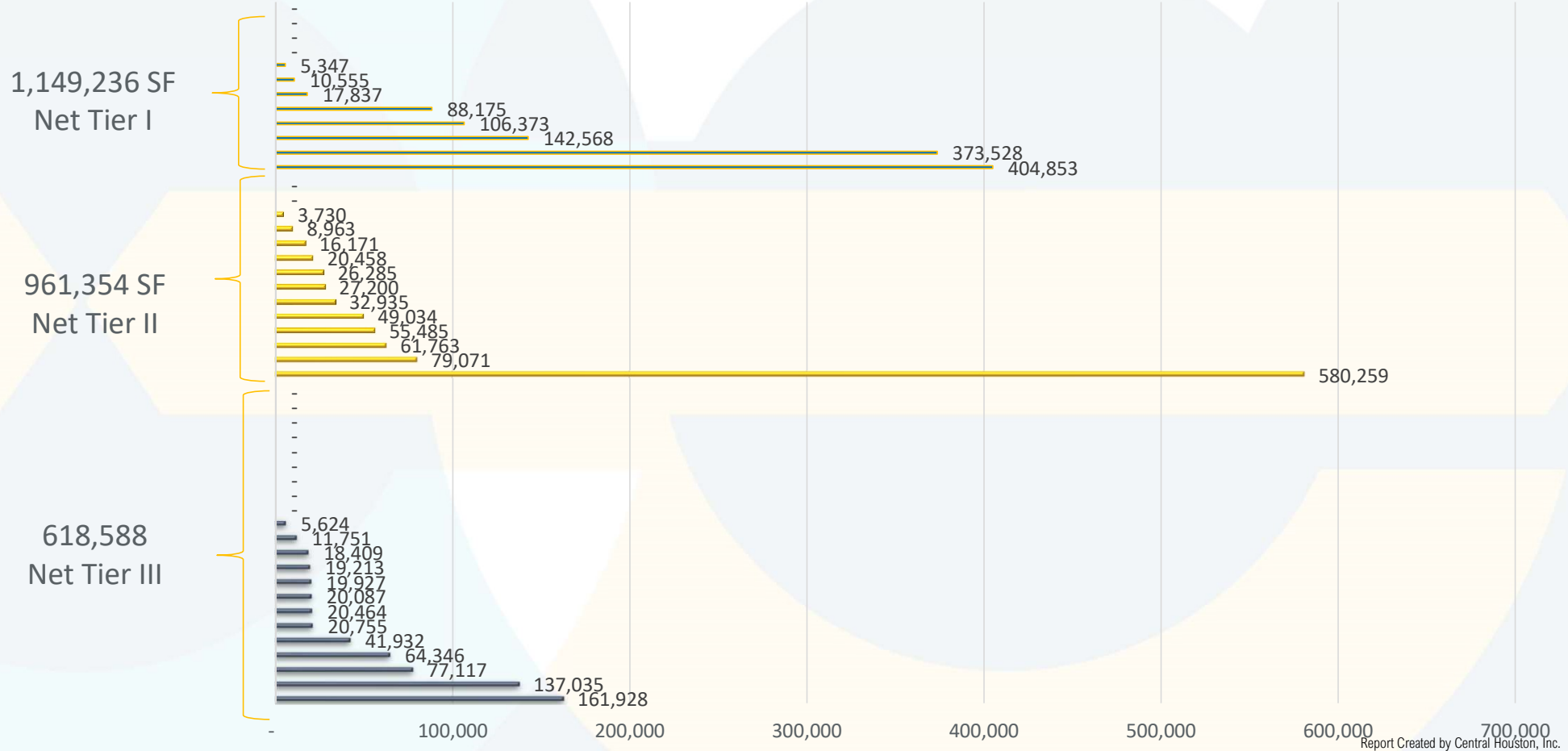


% By Type

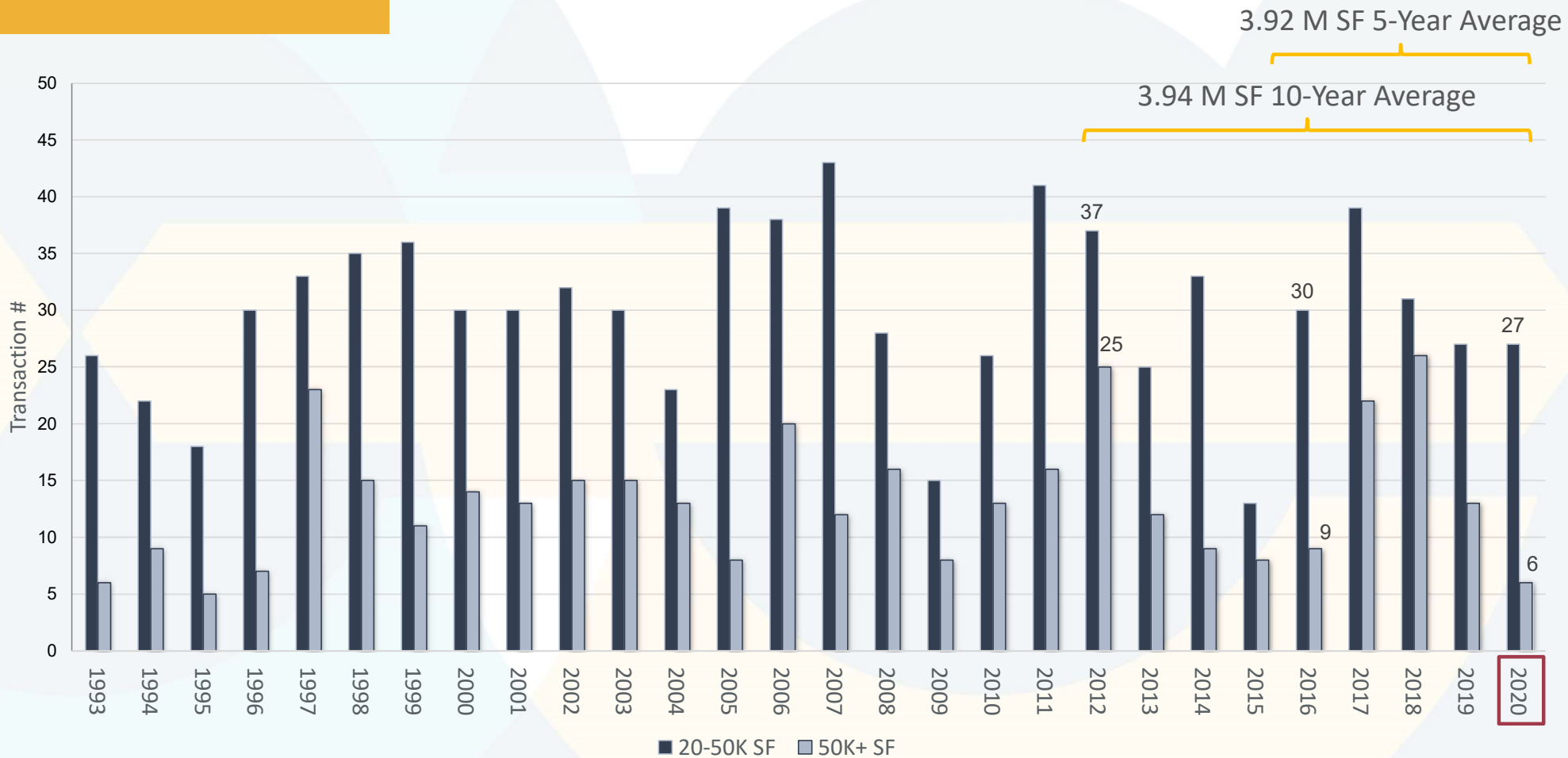


# Lease Activity by Building

By Tier, 01/01/2021



# Large Transactions



## Occupier Analysis

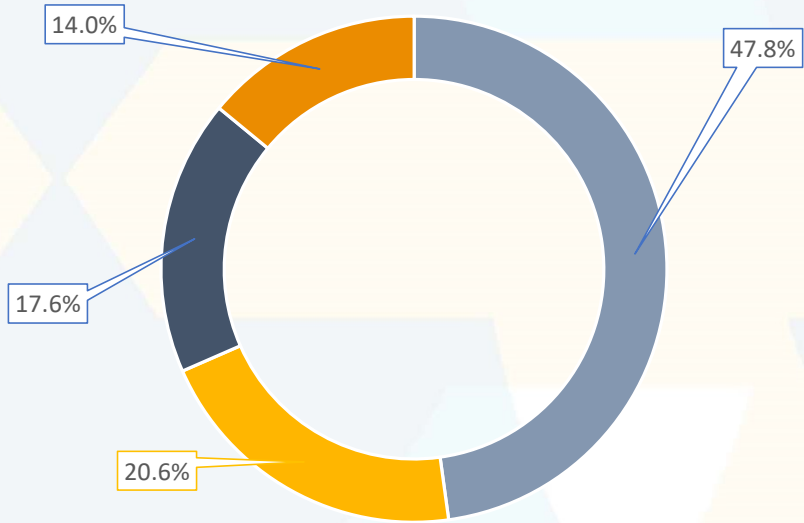
- Energy still dominates at 48% of the tenant base
  - Legal and Other (tech, engineering, health and transportation) expanded for the sixth consecutive year
  - Now comprise more than 52% of the industry mix
- Long-term trend shows Legal primarily occupying Tier II buildings
  - Encompasses nearly a third of Tier I
  - Single-floor occupiers on the rise in 2020 mainly in Tier III buildings with smaller full-floor footprints, led mainly by 1001 McKinney and 919 Milam

## Occupier Analysis

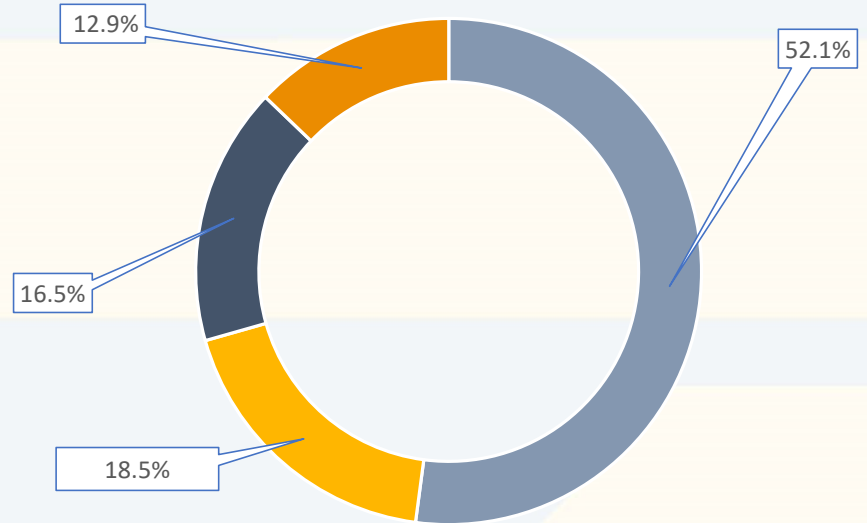
- New Downtown tenants signed for nearly 135,000 SF during 2020
  - Led by City of Houston Fire Department @ 500 Jefferson and Legal
  - Tier III outpaced 2018 activity in terms of SF & volume
- Operating and property expenses went down
- Lower daily occupancy cut electricity consumption

# Class A Occupier Industry

Class A Surveyed



Class A Surveyed & Class A Owner Occupied

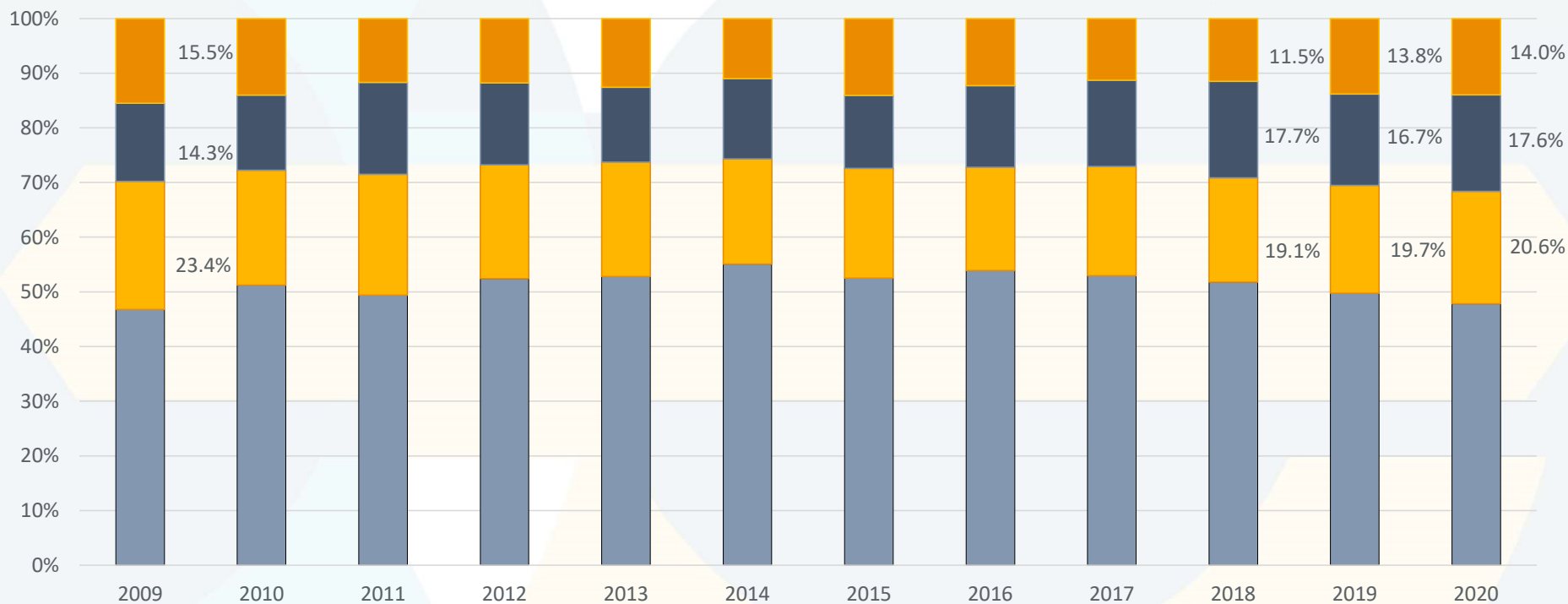


Other FIRE\* Legal Energy

\*FIRE: Finance/Insurance/Real Estate



# Industry Trends



■ Other 
 ■ FIRE 
 ■ Legal 
 ■ Energy

\*Energy peaked in 2014 @55.1%

# Multi-Floor Occupiers

Occupier By % of SF

	2017	2018	2019	2020
25%	18	18	17	13
33%	32	33	31	36
50%	113	112	117	119

Increasing smaller occupiers reflect industry diversification

Occupiers By # of Floors

	2017	2018	2019	2020
4+	49	49	54	54
2+	118	124	120	125
1+	249	259	260	285

2020 floor expansions on tighter floor sizes

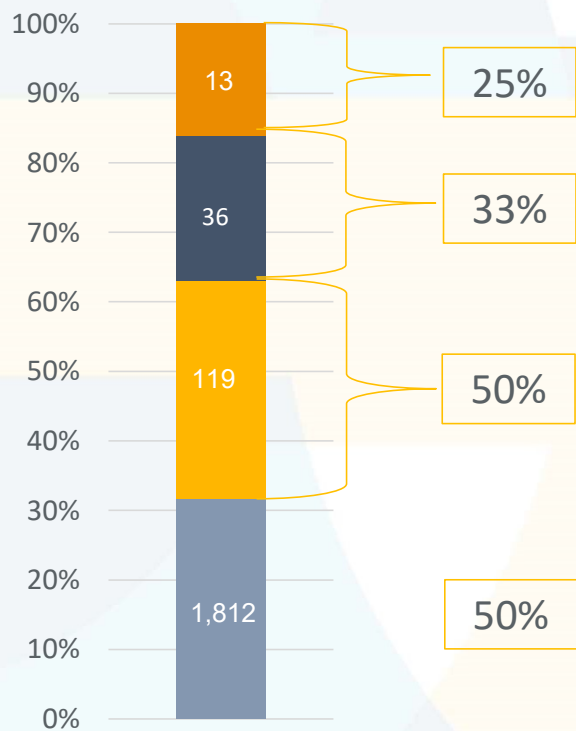
Occupiers By Total SF

	2017	2018	2019	2020
500K+	7	7	6	5
200K+	25	23	26	27
100K+	48	49	49	47
20K+	242	245	227	249

Devon Energy acquisition brought large occupiers to 5 during 2020 in Allen Center

# Occupier Proportion

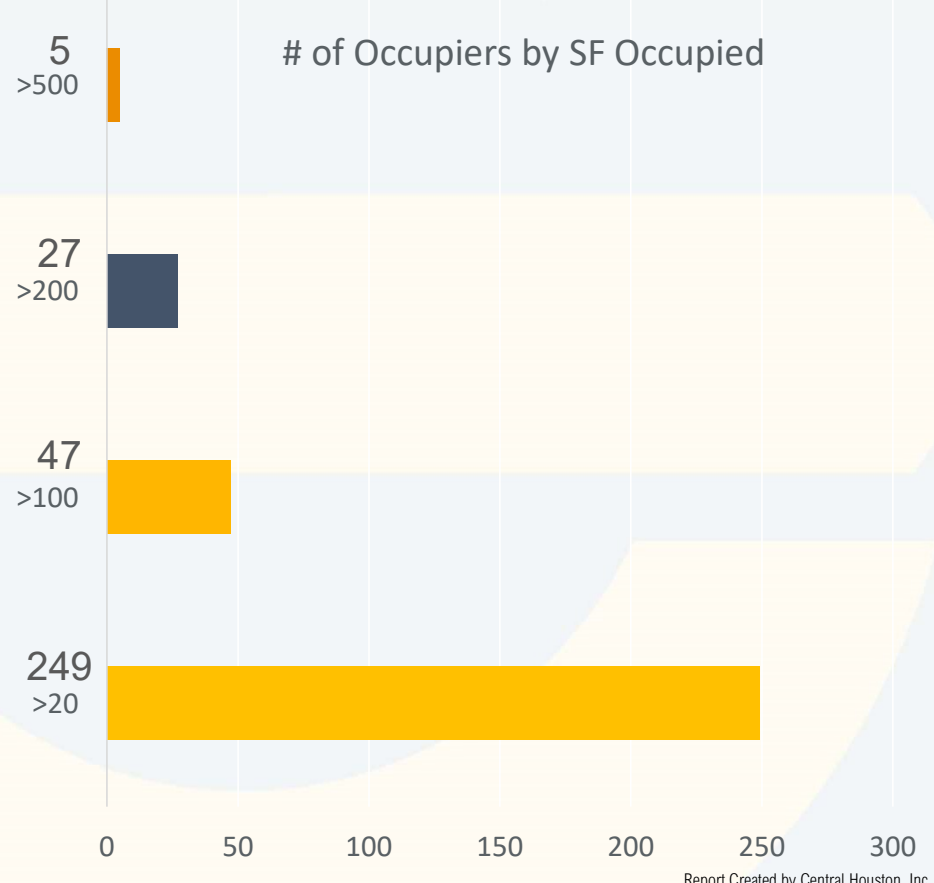
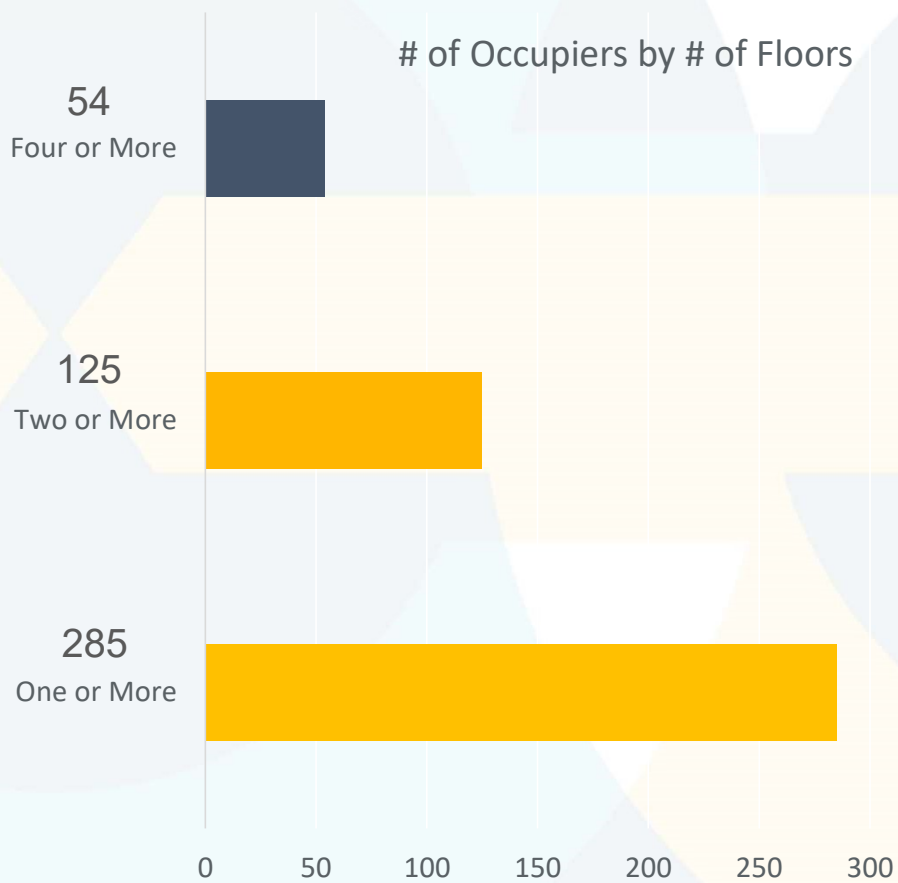
Percent by Space Occupied



## Largest DT Occupiers:

- Chevron
- Hess
- CenterPoint Energy
- NRG
- EOG Resources
- Vinson & Elkins
- ANR Pipeline
- JPMC
- United Airlines
- Waste Management
- Shell Oil
- LyondellBasell
- Norton Rose Fulbright

# Multi-Floor Occupiers

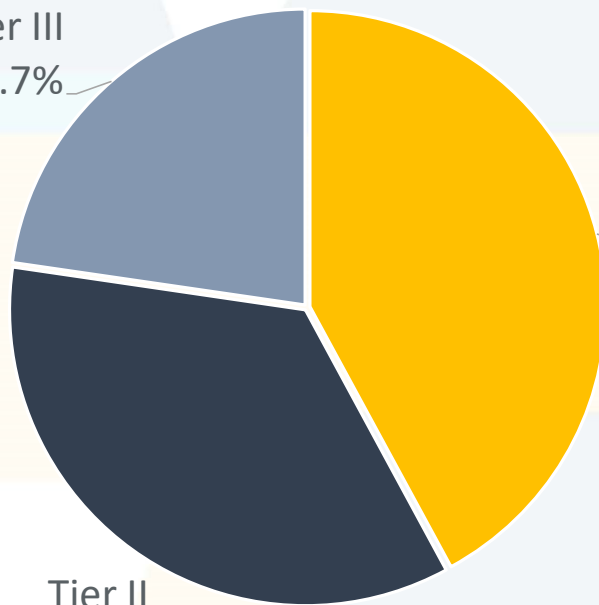


\*In Thousands of Square Feet

# Activity by Tier

<b>Tier III</b>
618,588 SF
73 Leases

Tier III  
22.7%



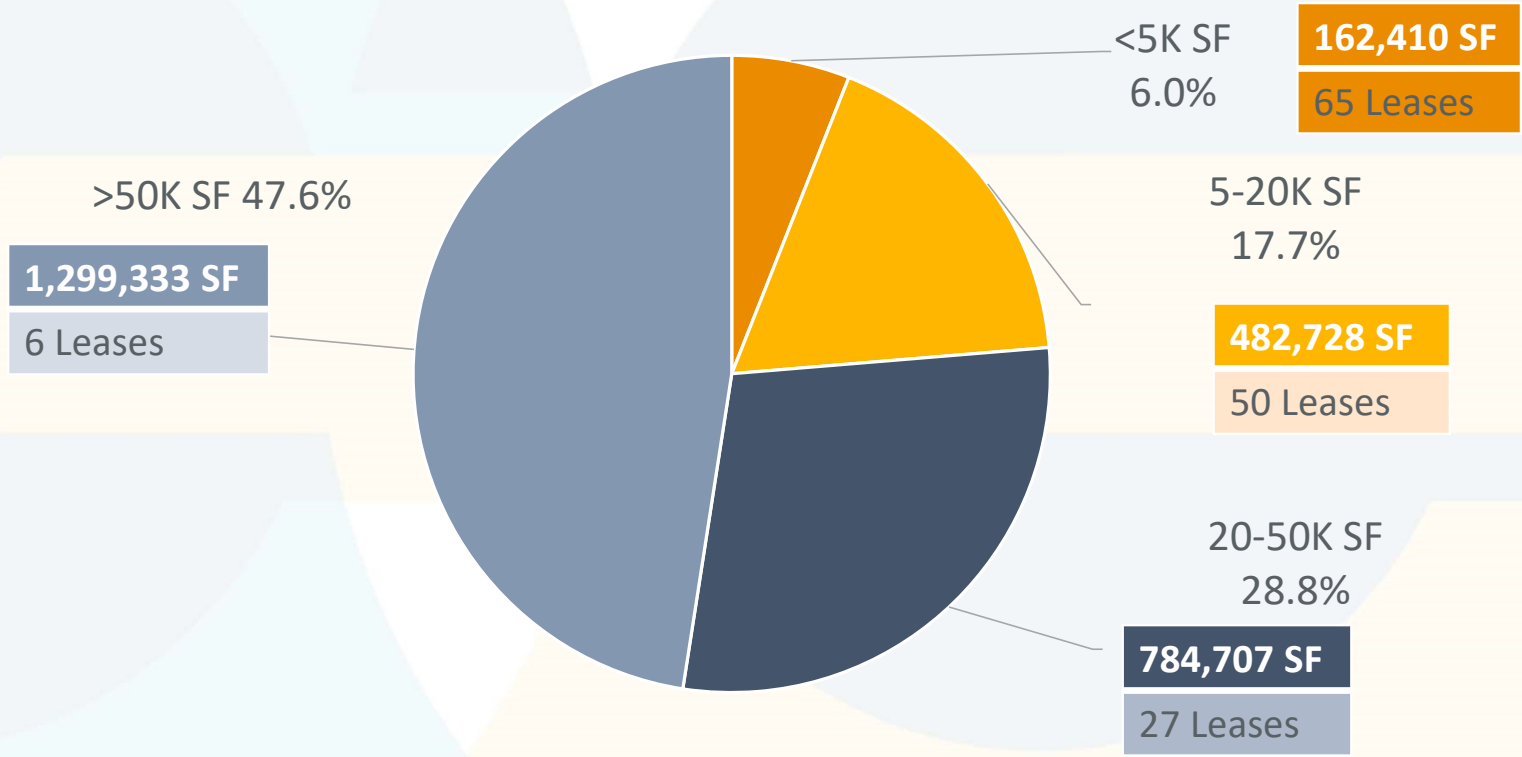
Tier I  
42.1%

<b>Tier I</b>
1,149,236 SF
33 Leases

Tier II  
35.2%

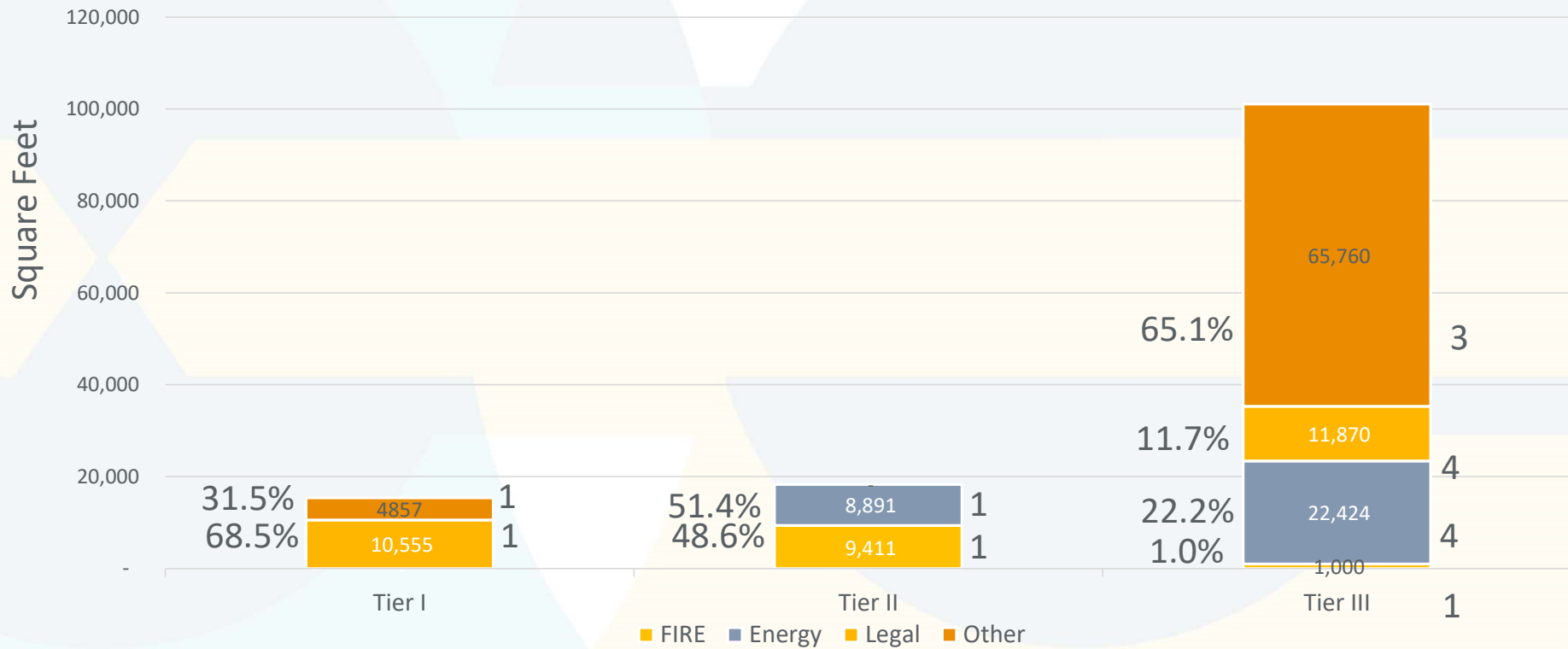
<b>Tier II</b>
961,354 SF
42 Leases

# Activity by Size

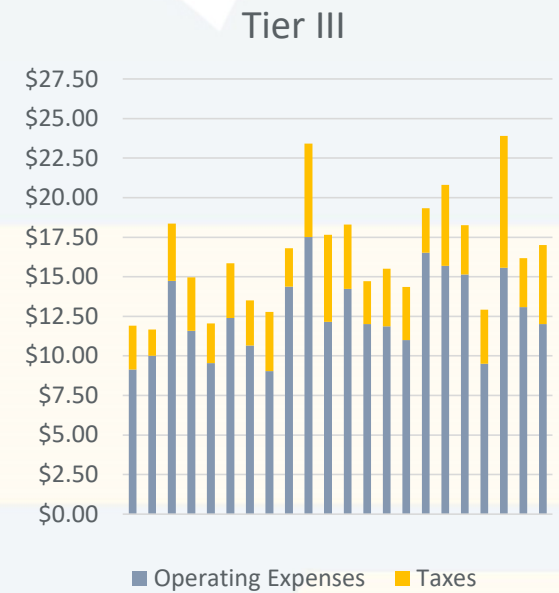
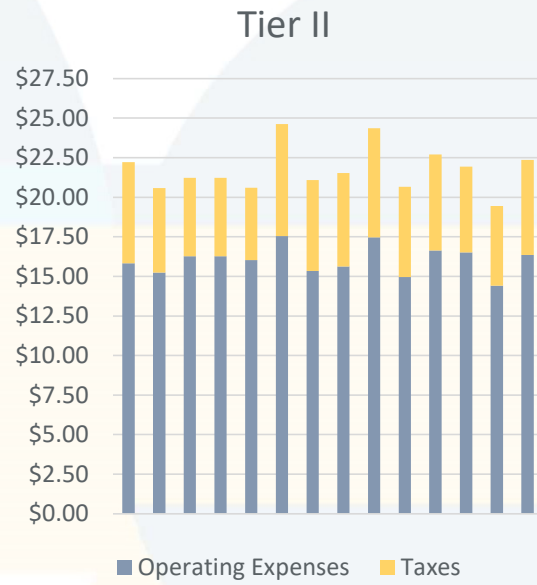
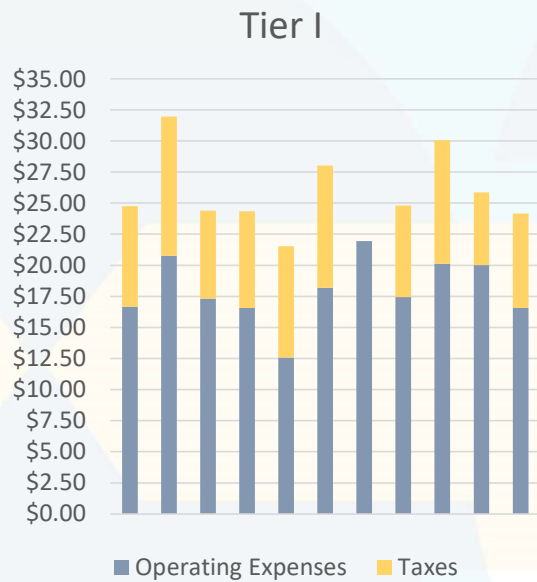


# 2020 New Downtown Occupiers

16 New Occupiers in '20 / 27 in '19  
 134,899 SF in '20 / 295,470 SF in '19



# Operating Expenses



	Tier I		Tier II		Tier III	
	2019	2020	2019	2020	2019	2020
Average Taxes	\$10.15	\$8.36	\$6.40	\$5.72	\$3.38	\$3.75
Average Gross OPEX	\$27.94	\$16.52	\$22.18	\$16.04	\$15.73	\$12.62



## 2021 Outlook

- Leasing activity is ticking up in the early months of 2021
  - Suggesting a year of some volume improvement, but lengthy transaction times and tenant interest in downsizing could keep the amount of space on the market higher this year
- Building wellness, sanitation and cleaning protocols will focus on air quality and circulation
  - Opposed to deep surface cleaning
  - WELL and Fitwel issuing healthy building certifications and seals

## 2021 Outlook

- Workforce returns will gain momentum and are expected to increase in September
  - Schools open to a normal 2021-2022 academic year and vaccination rates peak
- Rising construction costs for materials and labor and supply-chain delays
  - Pose greater challenges than in prior years
- Landlords increasingly look to flex space operators
  - Concessions, services and upgraded amenities target tenant attraction and retention



# 2021 Appendix

## Survey Background

37<sup>th</sup> 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 space 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.

# *Central Houston, Inc.*

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*Thank You! Questions?*