Central Houston, Inc.

DOWNTOWN OFFICE STORY

2021 Market Analysis

Data Collected and Analysis Compiled, January 1 – March 30, 2022

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 38th year; started in 1985 by Stewart O. Robinson, President, SOR Real Estate Advisors, LLC

Inventory Analysis

- Central Houston Inc. Office Story
  - Survey completed in January –March 2022 for all 2021 leasing activity
  - Approximately 37 Million SF
  - 48 office buildings
  - More than 71% of all Downtown office space
  - More than 1.8 Million SF of Downtown leasing during 2021
    - 5% of surveyed space was a new lease, expansion or renewal
- Downtown Houston is region's largest office market with >23.6 million SF in lease activity since 2015, almost the same size as Uptown's total inventory (27.1 million SF), Houston's 2nd largest market

Surveyed Buildings

By Tier	2021 Building Count	2021 Total Rentable Square Feet
Tier 1	13	12,759,771
Tier 2	14	14,369,799
Tier 3	21	9,807,219
Total	48	36,936,789

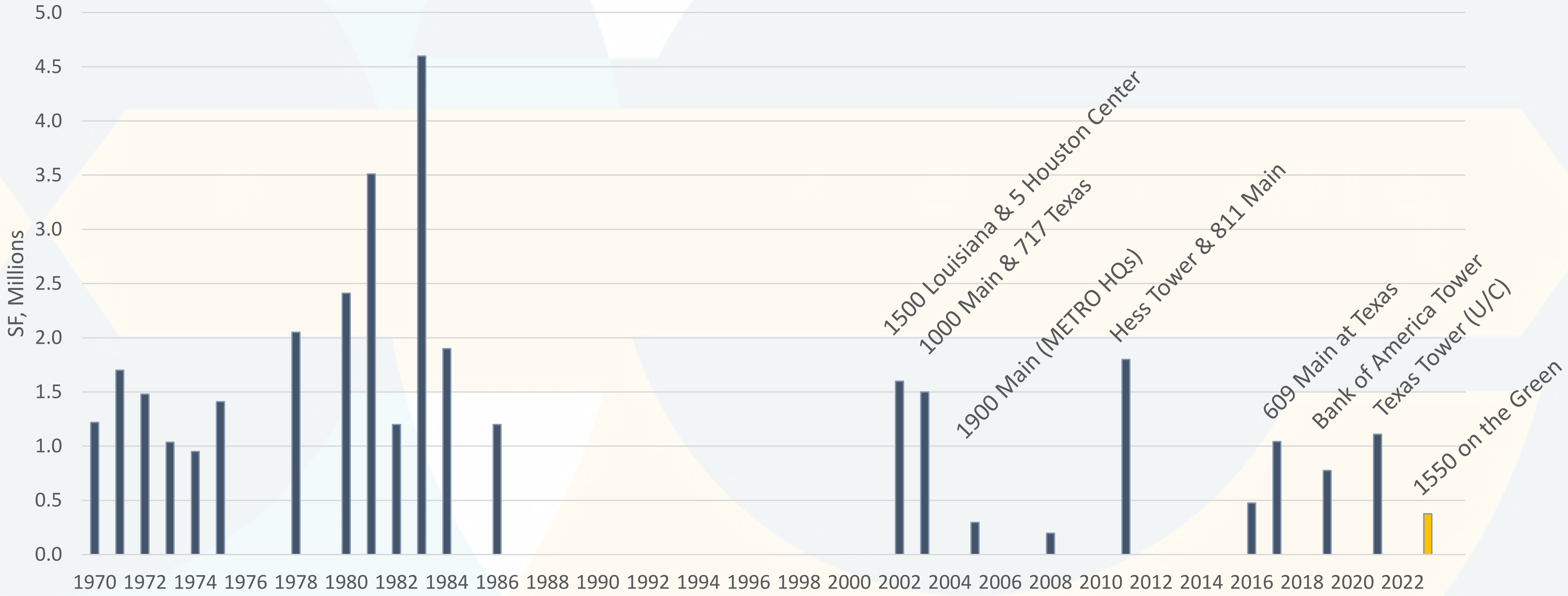
- The addition of 1550 on the Green has brought the Tier I count to 13
- 1300 Main has been removed from Tier III, as it is owner-occupied (historical metrics still use data from 1300 Main)

Summary of Survey Data

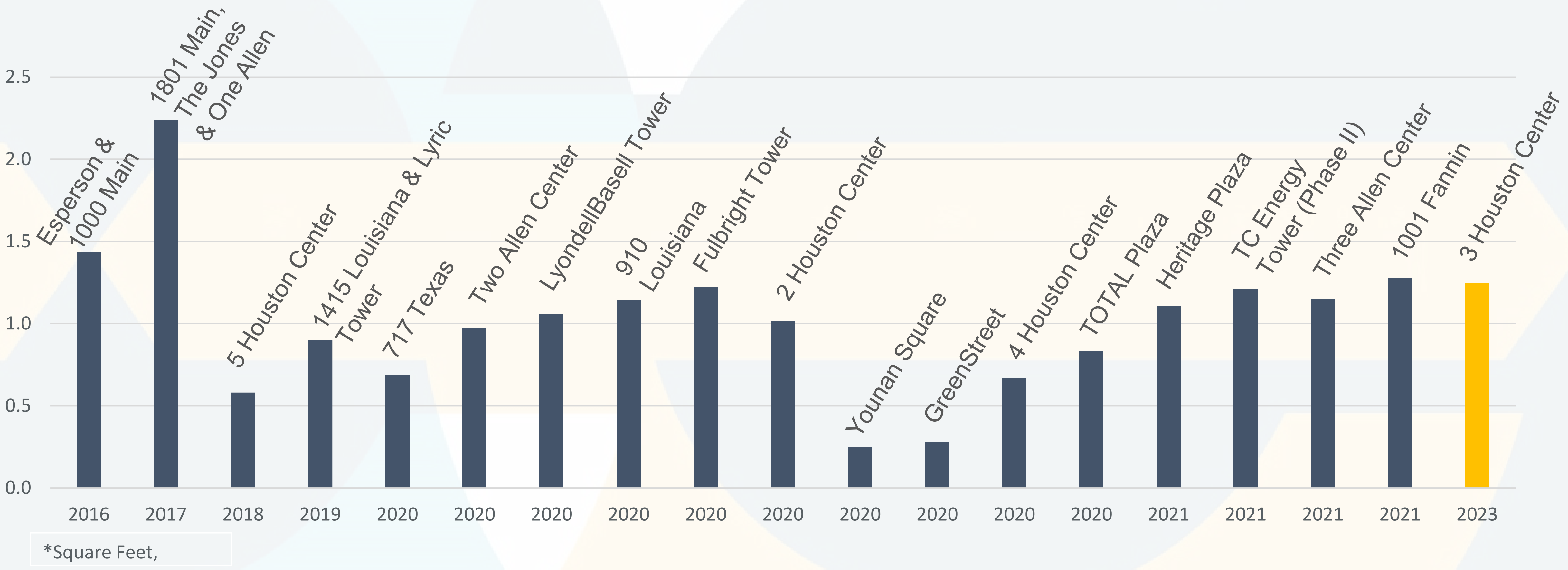
	2018	2019	2020	2021
Total SF Surveyed	36,679,935	36,922,971	36,923,573	36,936,789
Direct Marketed SF	9,300,933	8,906,043	9,669,480	11,331,290
% Direct Marketed	25.4%	24.1%	26.2%	30.7%
Net YOY SF Direct Marketed	1,542,434	(394,890)	763,437	1,150,225
Sublease Marketed SF	1,435,971	1,498,046	1,171,832	510,072
% Sublease Marketed SF	3.9%	4.1%	3.2%	1.4%
Net YOY SF Sublease Marketed	(383,552)	62,075	(326,214)	(661,760)
Total Marketed	10,736,904	10,404,089	10,841,582	11,841,362
% Total Marketed	29.3%	28.2%	29.4%	32.1%

Note: Direct Marketed SF in 2021 and Net YOY SF Direct Marketed adjust for the addition of 1550 on the Green

Historical/Future Building Deliveries Timeline



Building Renovations Timeline



Marketed Space

- Overall, **market for direct space loosened by 1.15M in 2021**
- **Very little sublease space compared to last year** (510K available in 2021 vs. 1.17M in 2020). 3/5ths of this space is in Tier II

Tier Breakdown:

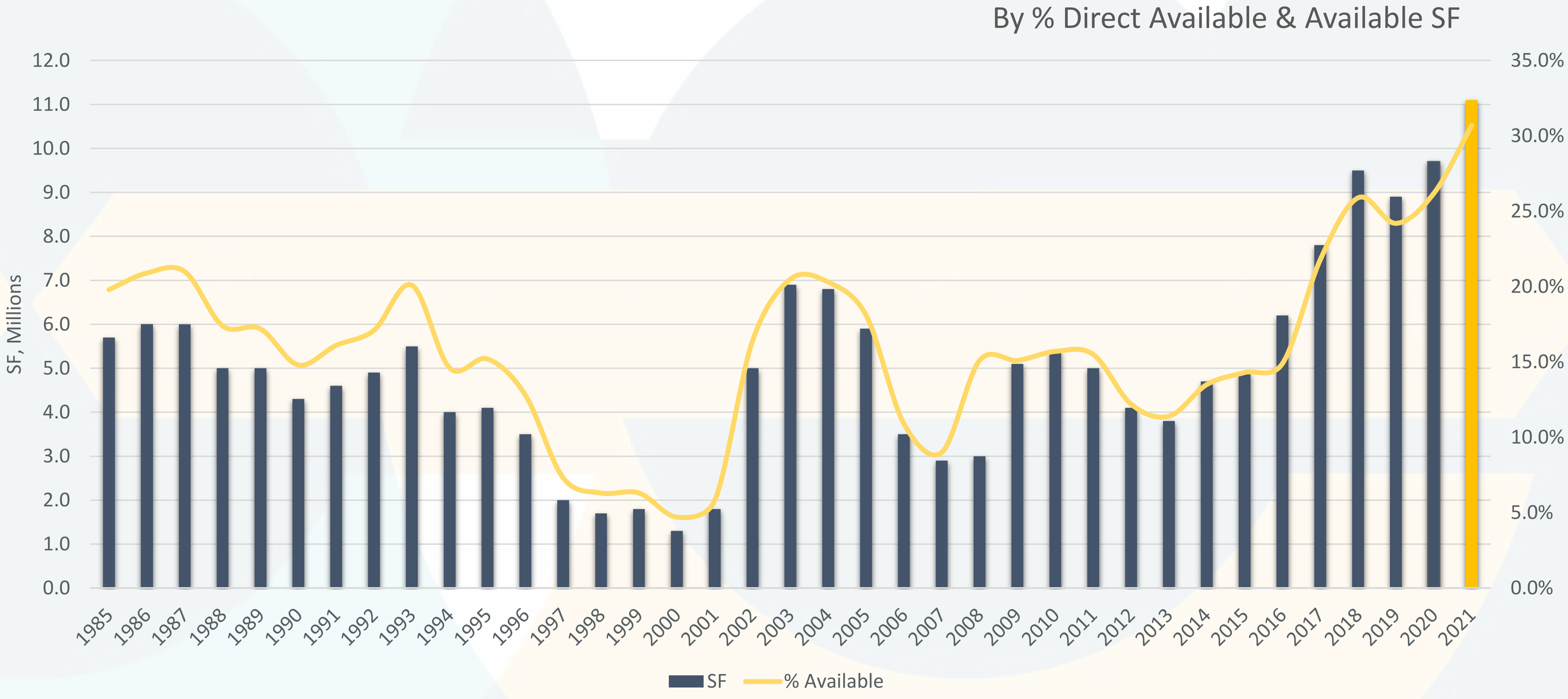
- Tier I: Market only loosened by 152K, padded by 1550 on the Green signing a tenant. Over 80% of loosening accounted for by activity in one building
- Tier II: Market loosened by 360K, 95% of this is accounted for by activity in 3 buildings, and 50% is accounted for in 1 building
- Tier III: Market loosened by 638K, accounting for 55% of the overall loosening. 85% of this activity is split across 5 buildings

Marketed Space

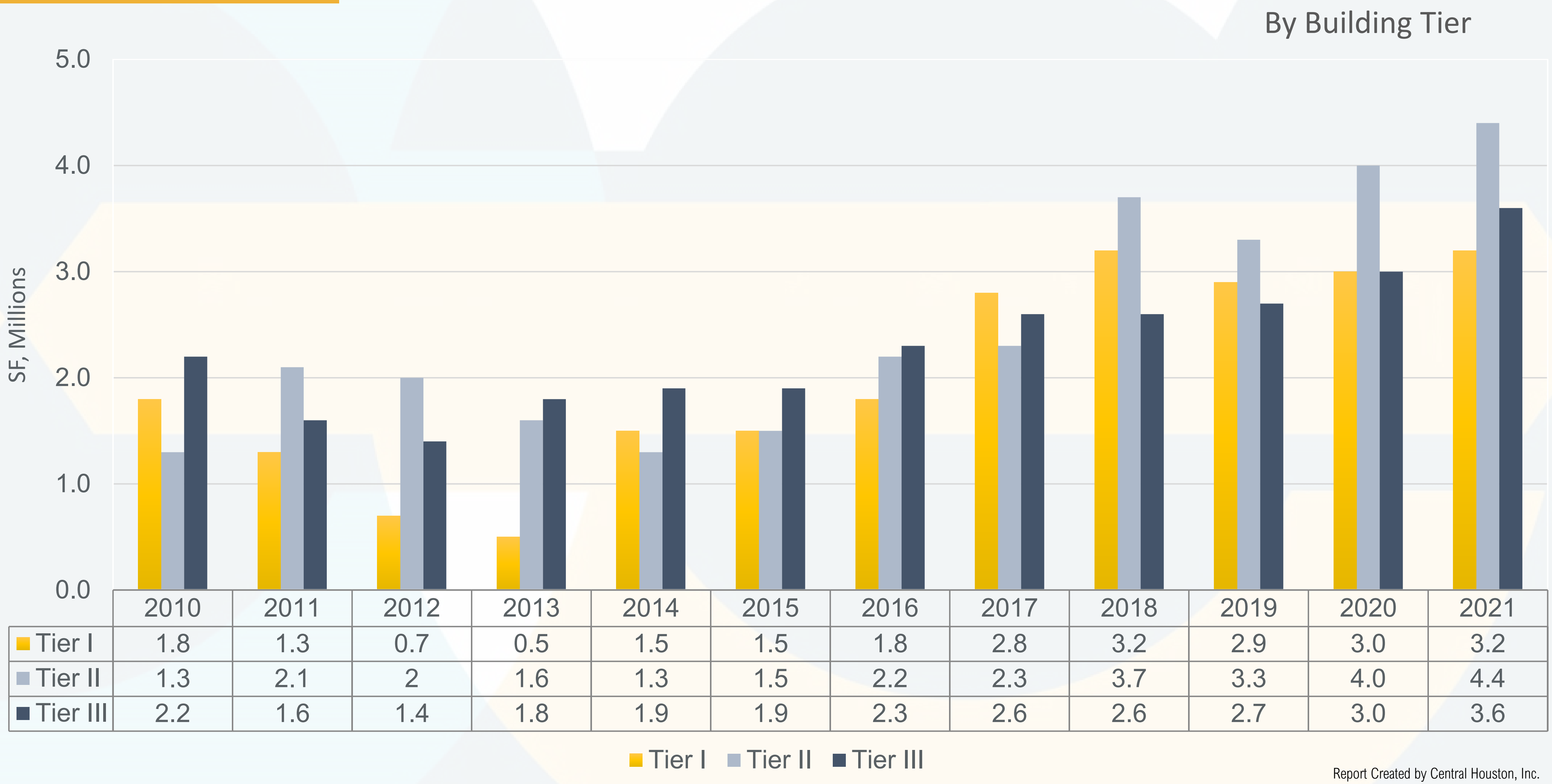
Takeaways:

- The fact that loosening in Tiers I, II is not broadly driven suggests that **while overall loosening may be due to COVID uncertainty, space in Tiers I, II remain highly attractive to existing tenants**.
- The heavy skew of loosening towards Tier III and the fact that the loosening in Tier III is more broadly distributed suggests that **the pressures of COVID have made Tier III space more undesirable for existing tenants**. This may not keep up in 2022, when COVID cases are projected to reach more endemic levels.
- The halving of sublease space on market could be due to success in attracting tenants or due to sublease space going direct. The main driver of this reduction is Tier III, suggesting that **specifically, subleasing in Tier III is undesirable, leading to direct marketing of these spaces.**

Historical Direct Marketed Space

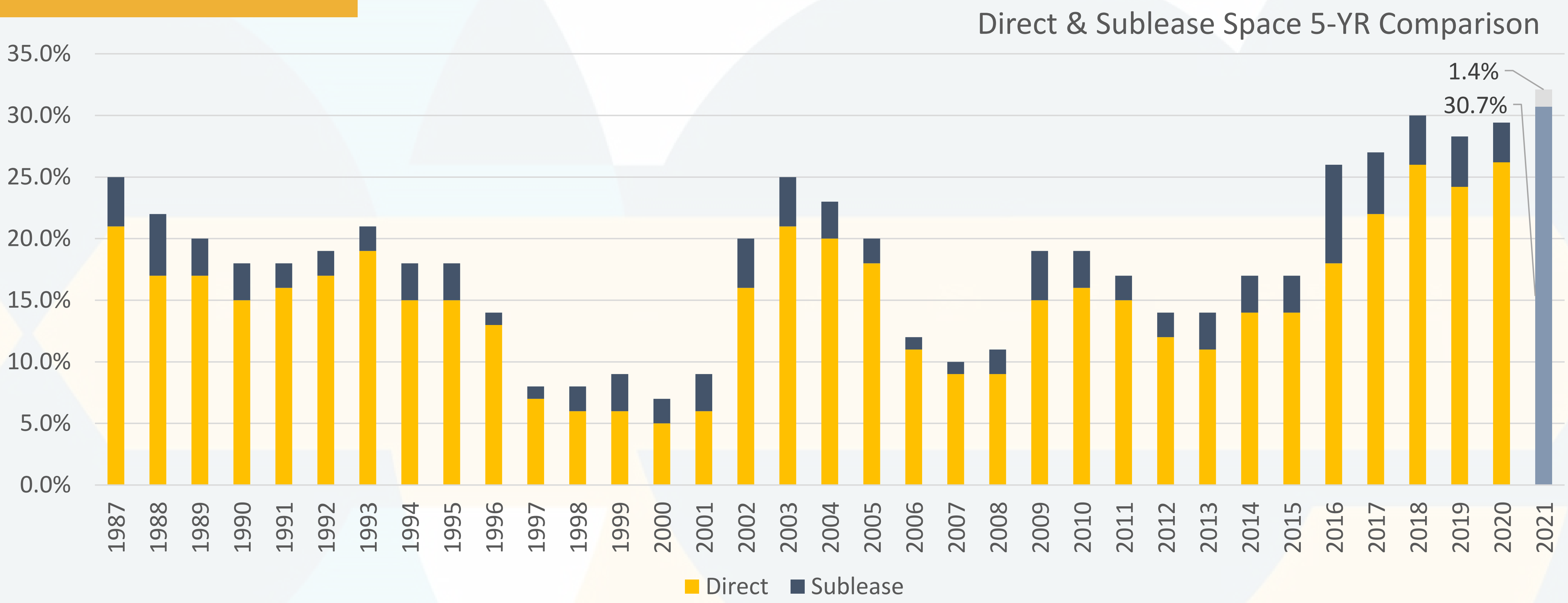


Historical Direct Marketed Space



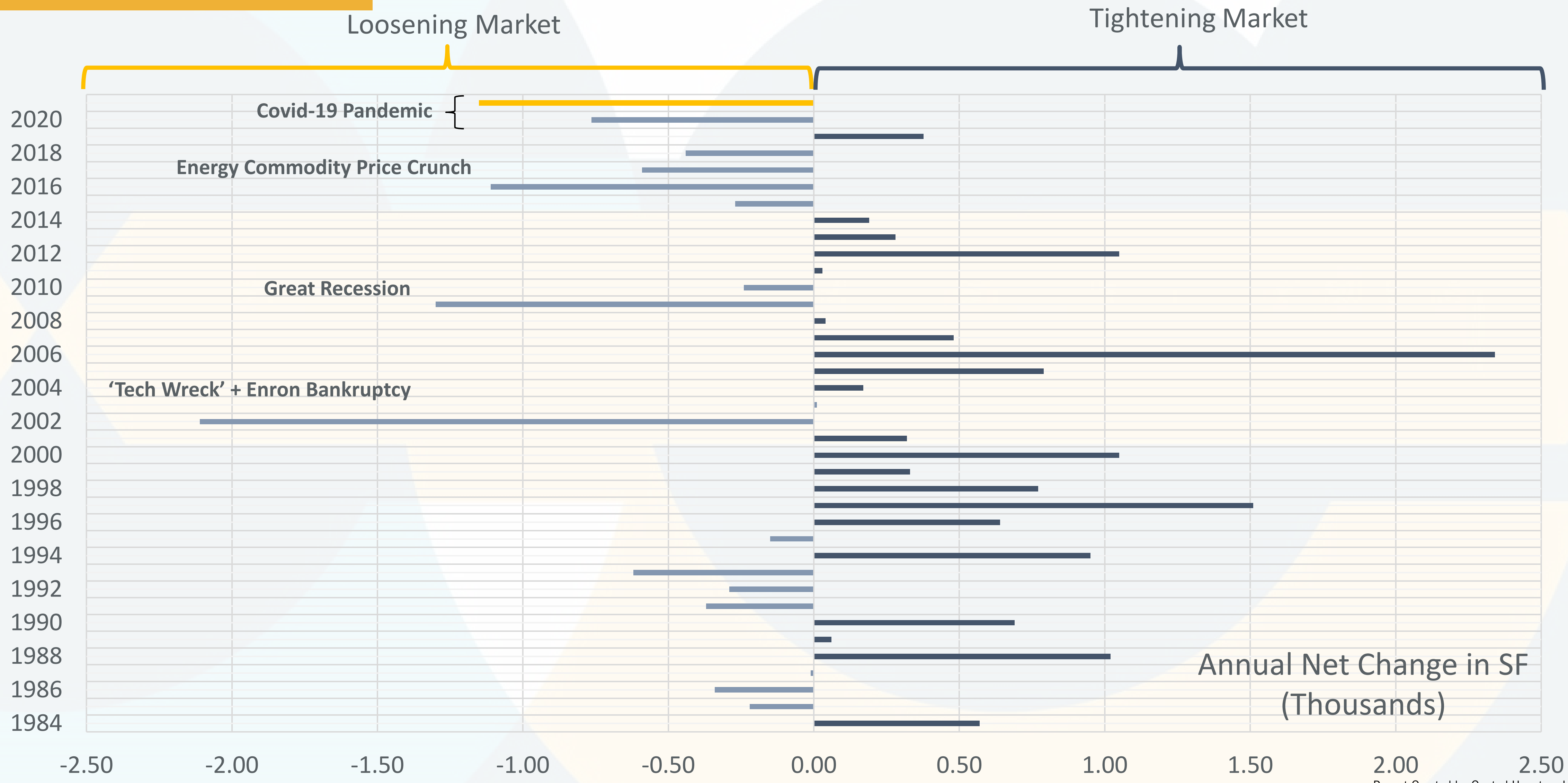
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Tier I	1.8	1.3	0.7	0.5	1.5	1.5	1.8	2.8	3.2	2.9	3.0	3.2
Tier II	1.3	2.1	2	1.6	1.3	1.5	2.2	2.3	3.7	3.3	4.0	4.4
Tier III	2.2	1.6	1.4	1.8	1.9	1.9	2.3	2.6	2.6	2.7	3.0	3.6

Historical (Direct and Sublease) Marketed Space



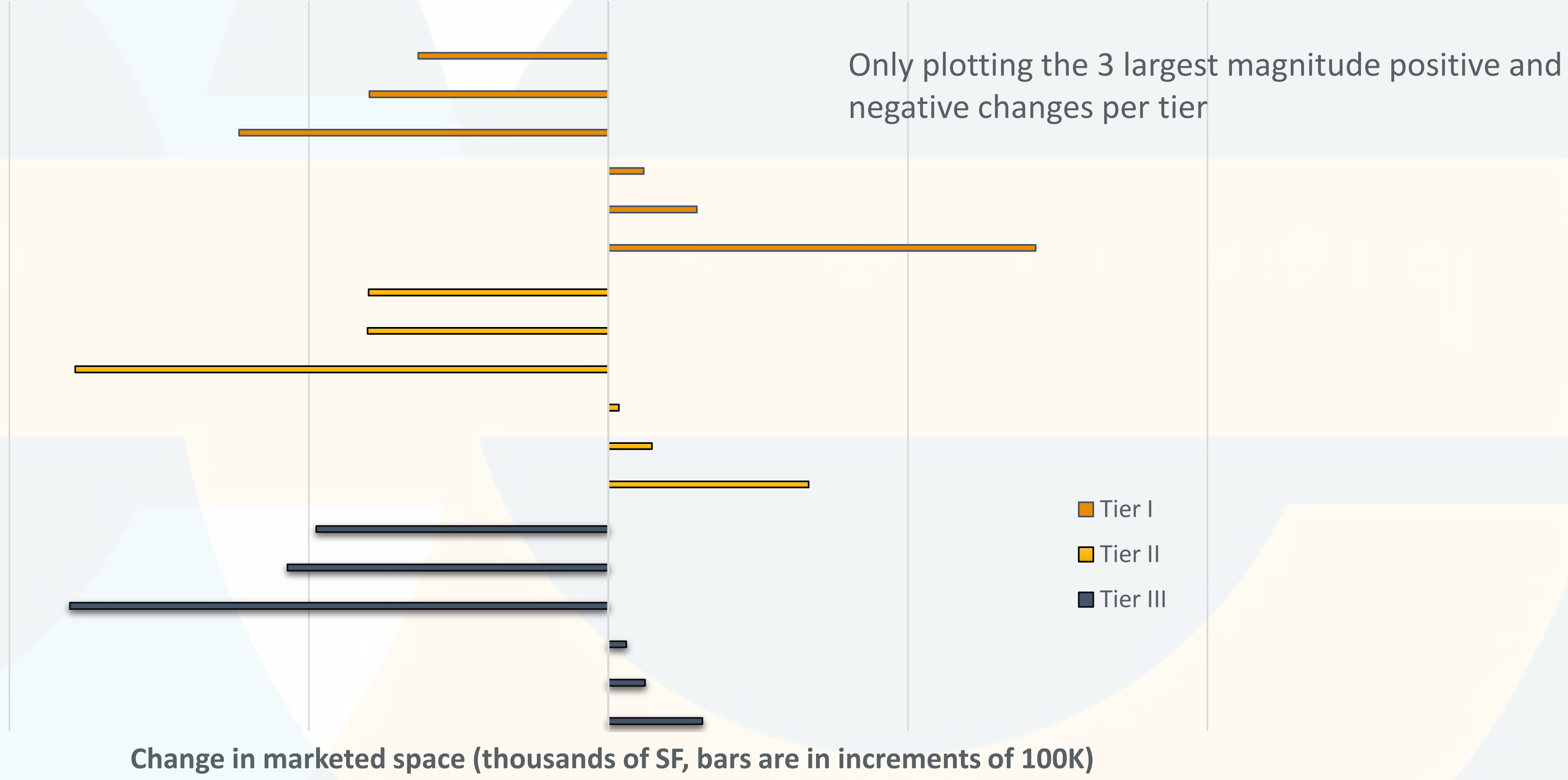
	Direct	Sublease
5-Year Average (2017-2021)	25.9%	3.5%
10-Year Average (2012-2021)	19.8%	3.7%

Marketed Space

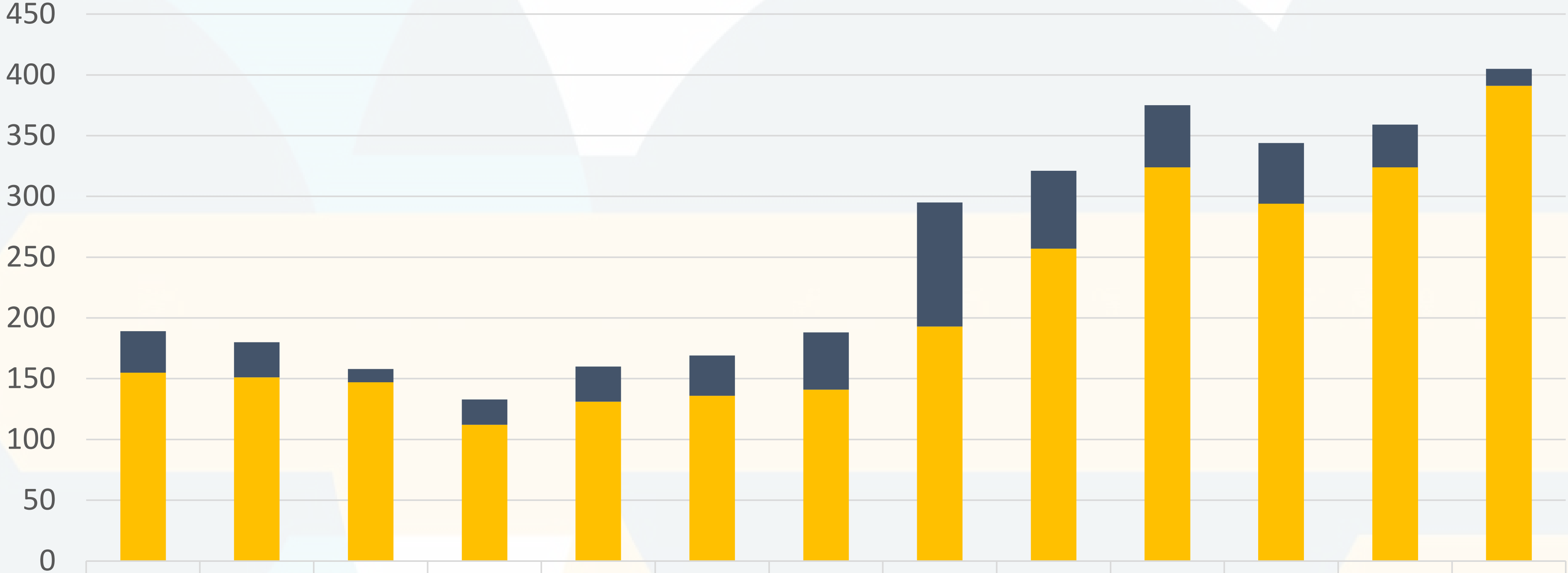


Report Created by Central Houston, Inc.

Tier Breakdown (+/- Change)



Available Floors



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Sublease	34	29	11	21	29	33	47	102	64	51	50	35	14
Direct	155	151	147	112	131	136	141	193	257	324	294	324	391

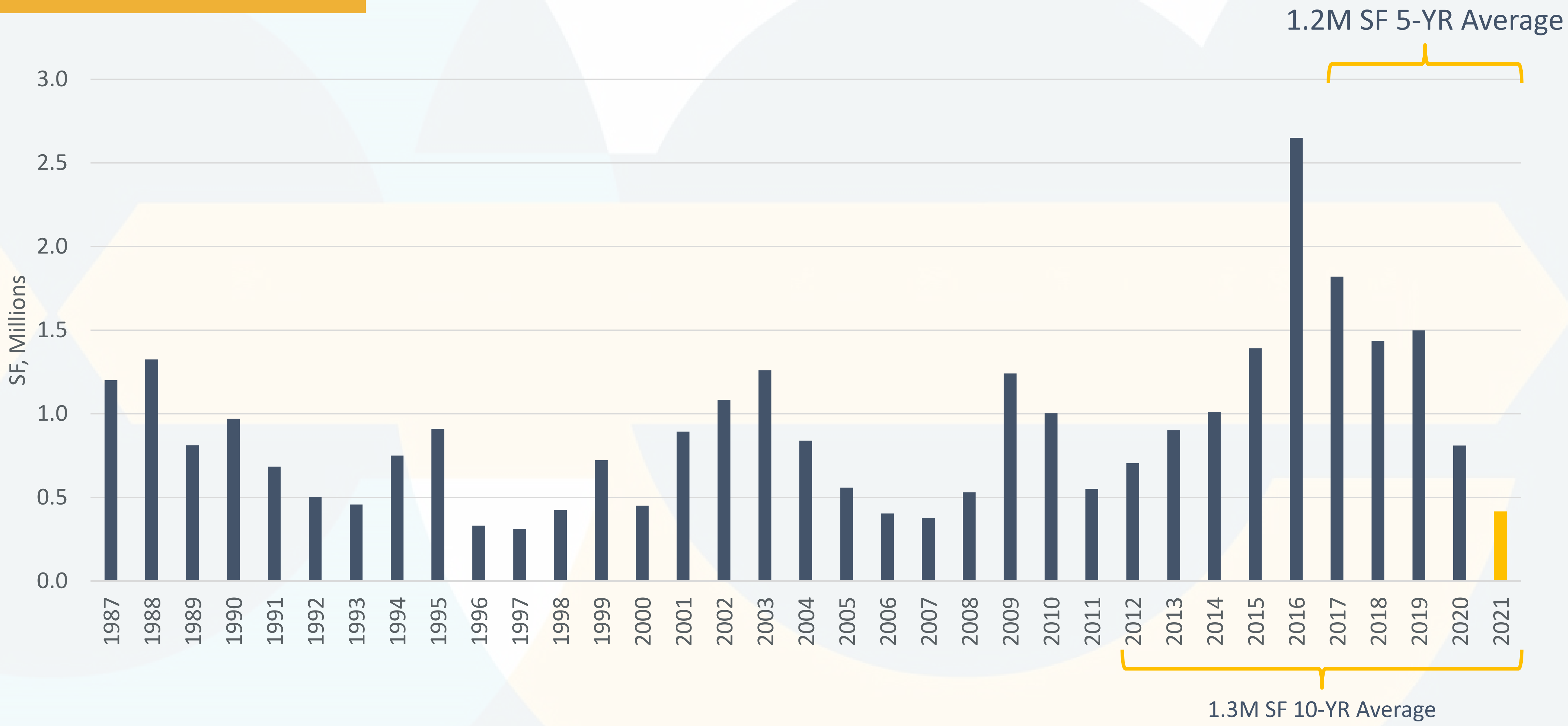
Direct Sublease

Direct Available Full Floors

Building	Floors	Former Tenant	Square Feet
1001 Fannin	2, 4-6, 10-11, 14, 25-36, 41-43, 45	Vacant; Vinson & Elkins	644,233
Texas Tower	13-23, 25-29, 36-37 ,39, 40	Vacant	611,377
Wells Fargo Plaza	2-3, 5, 15, 17-18, 28, 30-33, 37, 43-46, 53, 63, 69	Vacant; Greenberg; DLA Piper	520,689
Fulbright Tower	2, 4-5, 12-13, 17-18, 21-22, 25-27, 30, 33-34, 38-39, 41-42	Vacant	488,736
1600 Smith	5-17, 37, 40-48	Vacant	434,736
Two Allen Center	3-4, 7, 12, 16, 21, 23, 25-30	Vacant	378,403
One City Centre	2-10, 13, 17, 20-22, 24-25, 27, 29	Vacant	377,093
1801 Smith	2-17, 11-19	Vacant	371,378
Pennzoil Place - North Tower	4, 5, 7, 10-11, 25-36	Vacant; Hilltop Securities; Munsch Hardt; Flame Acquisitions	326,405
TC Energy Center	4-6, 18-22, 29, 41, 49-52	Vacant; BMO; MM Properties; Carlson Capital; Arnold Porter	299,751
1100 Louisiana	26, 28-34, 36-39, 55	Vacant	293,071
1550 on the Green	2-19	Vacant	243,709
1301 Fannin	8-9, 14-15, 22-23	Vacant; Datacenter	227,450
All Blocks With Term Available, 01/01/2022		**Total Largest Direct Available Blocks**	

Report Created by Central Houston, Inc.

Historical Sublease Full Floor Blocks



Report Created by Central Houston, Inc.

Full Floor Sublease Blocks

Building	Tier	Floor(s)	Former Tenant	Square Feet
One Allen Center	2	15; 22-24	Marsh USA; Callon Petroleum	110,918
2 Houston Center	2	6-7	Direct Energy	105,934
Hess Tower	1	9-10	Hess	61,682
Wells Fargo Tower	1	56-57	PWC	51,292
609 Main at Texas	1	26	WeWork	28,458
Three Allen Center	2	21	Oil States	23,441
600 Travis	1	56	Indigo Minerals	22,564
1600 Smith	2	50	Royston Rayzor	11,352
All Blocks With Term Available, 01/01/2022			**Total Full-Floor Sublease**	**415,665**

Leasing Analysis

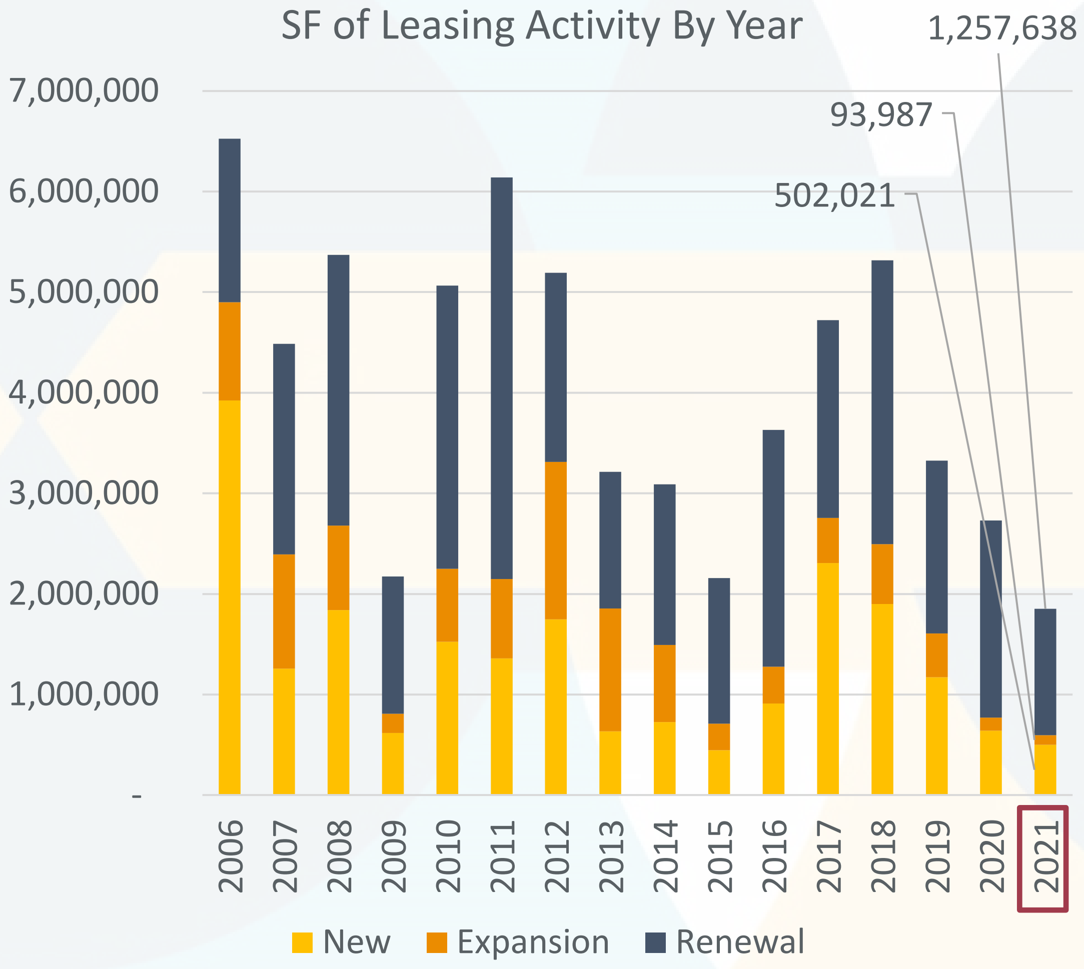
- Despite a surge in the price on energy, **leasing activity was the lowest it has ever been in our survey** (1.8M SF of leasing activity)
- Renewals makes up 68% of this activity and dominated in all 3 Tiers
- New leases have remained at about the same levels as last year and ticked up in proportion to the total amount of leasing activity
- Most of the reduction in leasing activity has been in Tiers II, III

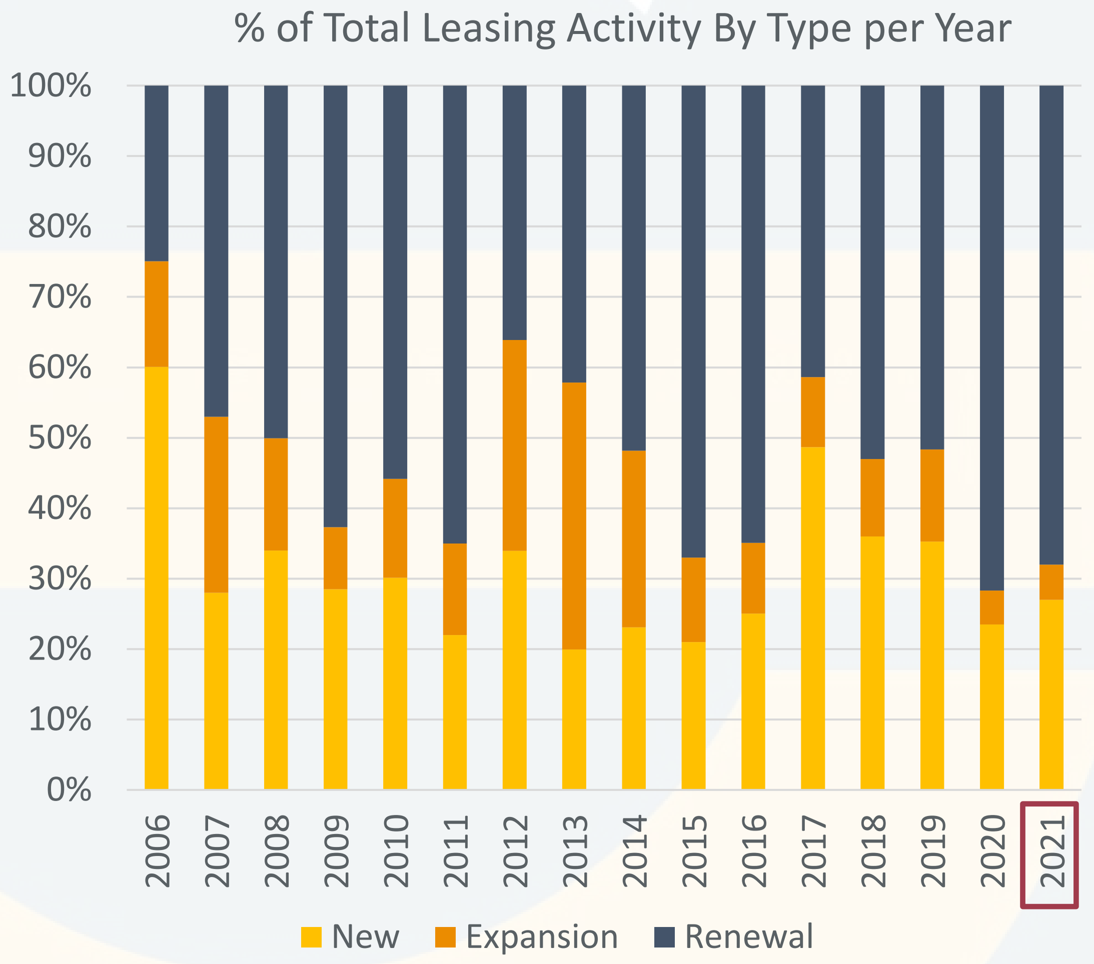
Leasing Analysis

Takeaways:

- Tier I has the most activity on the aggregate and in proportion to the amount of Tier I square footage surveyed (8.5% of total SF in Tier I saw activity), suggesting that **Tier I spaces remain desirable despite COVID**, in line with what we see from marketed space data.
- The data for Tier II indicates of low activity on the aggregate and in proportion to the amount of square footage surveyed, unlike what we saw with marketed space. This could be due to the end dates of tenants' leases being farther out.
- Tier III saw more activity than last year, but less SF of activity, **suggesting that Tier III tenants may be downsizing.**
- On the aggregate, **downward pressures due to COVID dominated upward pressures from energy markets**.

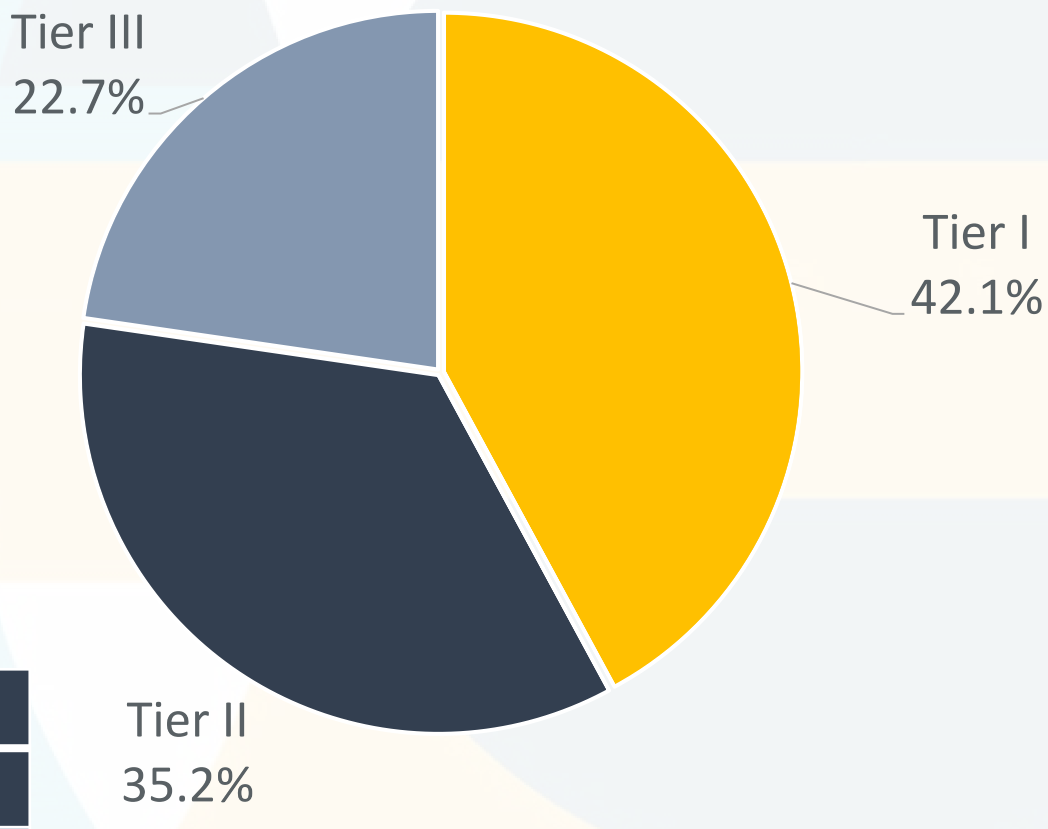
Transaction Volume





Activity by Tier (2020)

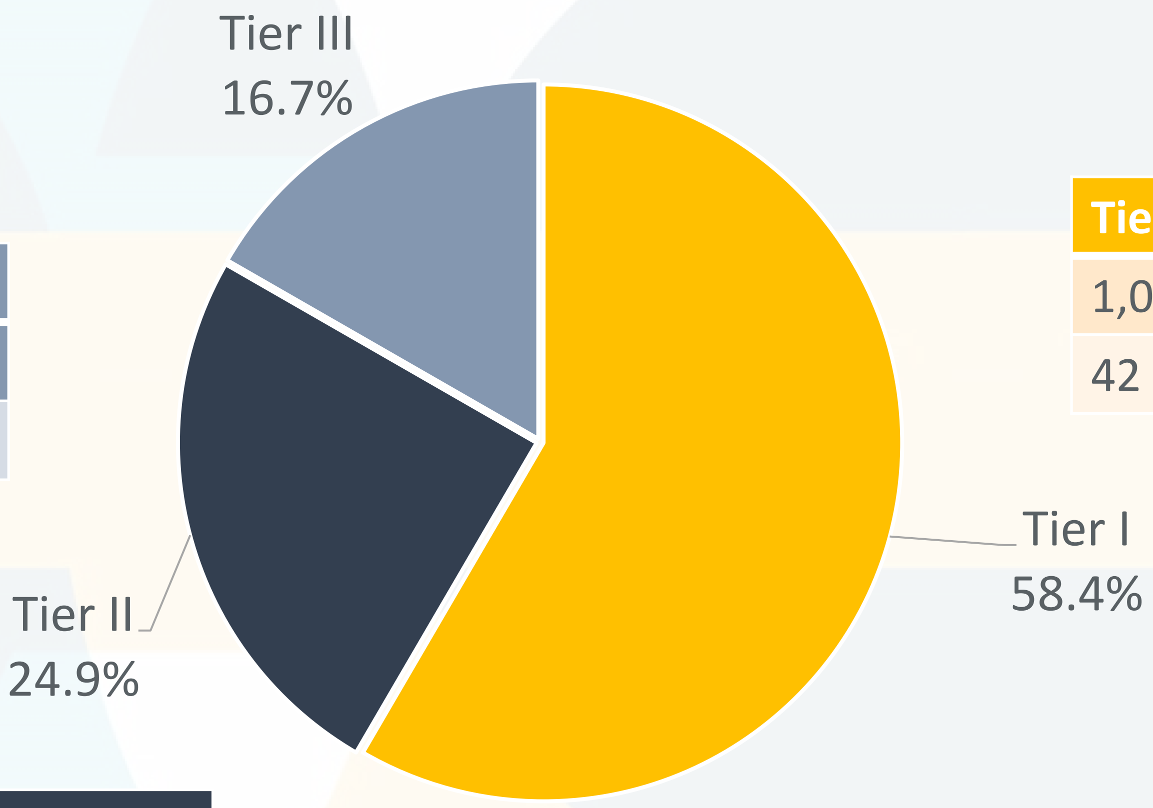
Tier III
618,588 SF
73 Leases



Tier I
1,149,236 SF
33 Leases

Tier II
961,354 SF
42 Leases

Activity by Tier (2021)

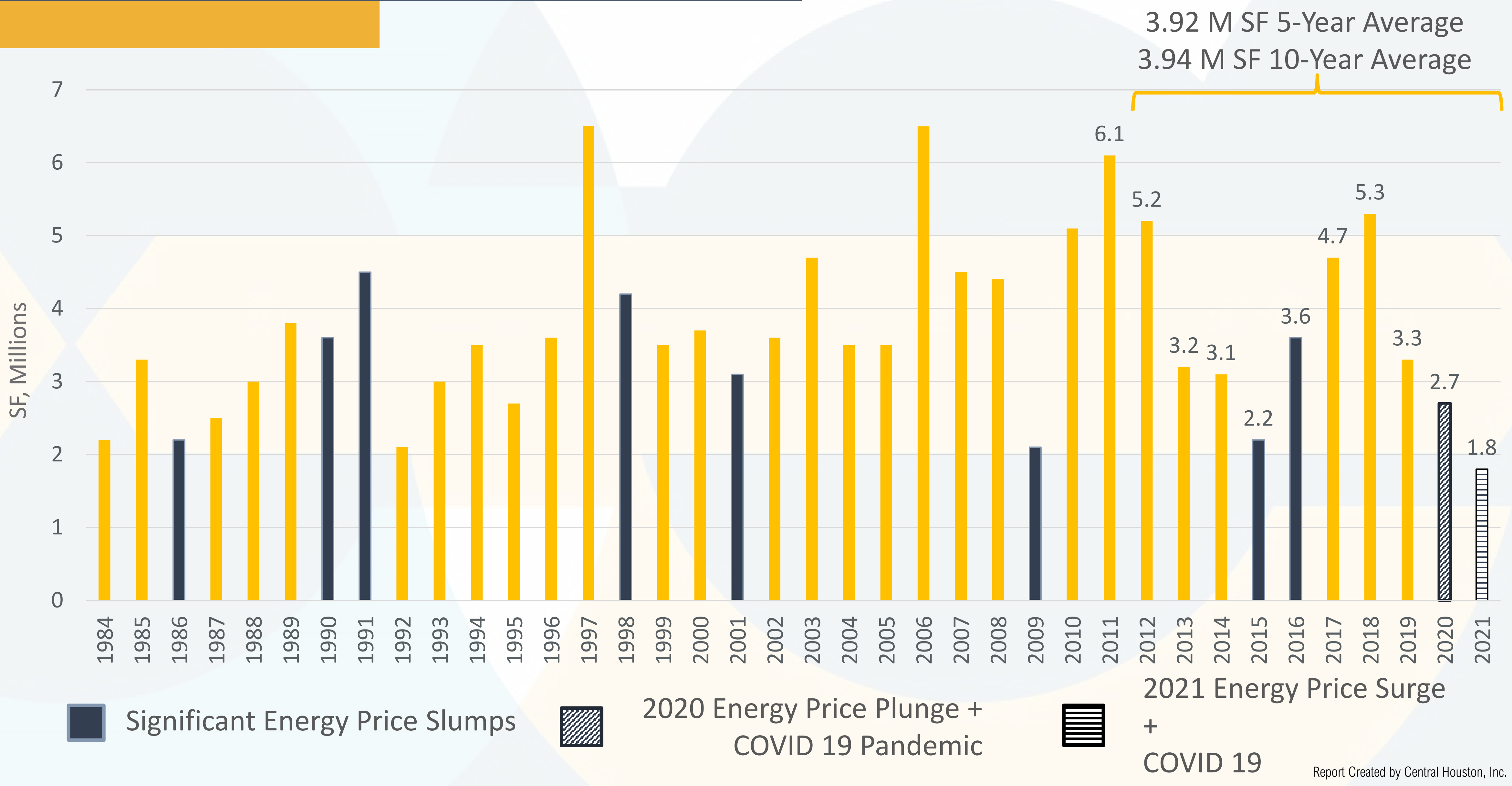


Tier III
309,332 SF
75 Leases

Tier I
1,082,791 SF
42 Leases

Tier II
461,523 SF
34 Leases

Leasing Trend



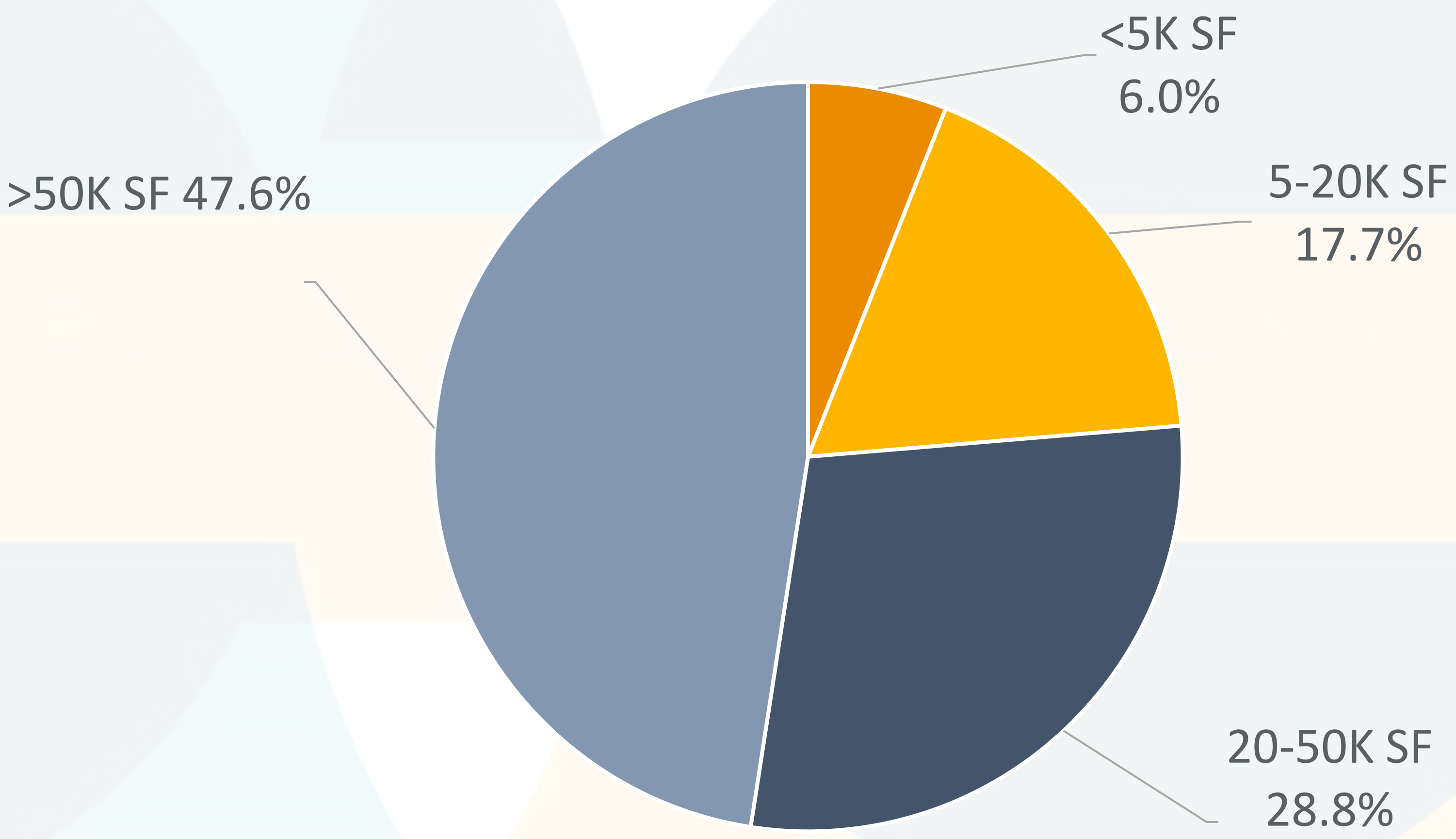
Report Created by Central Houston, Inc.

Leasing Analysis (By Size)

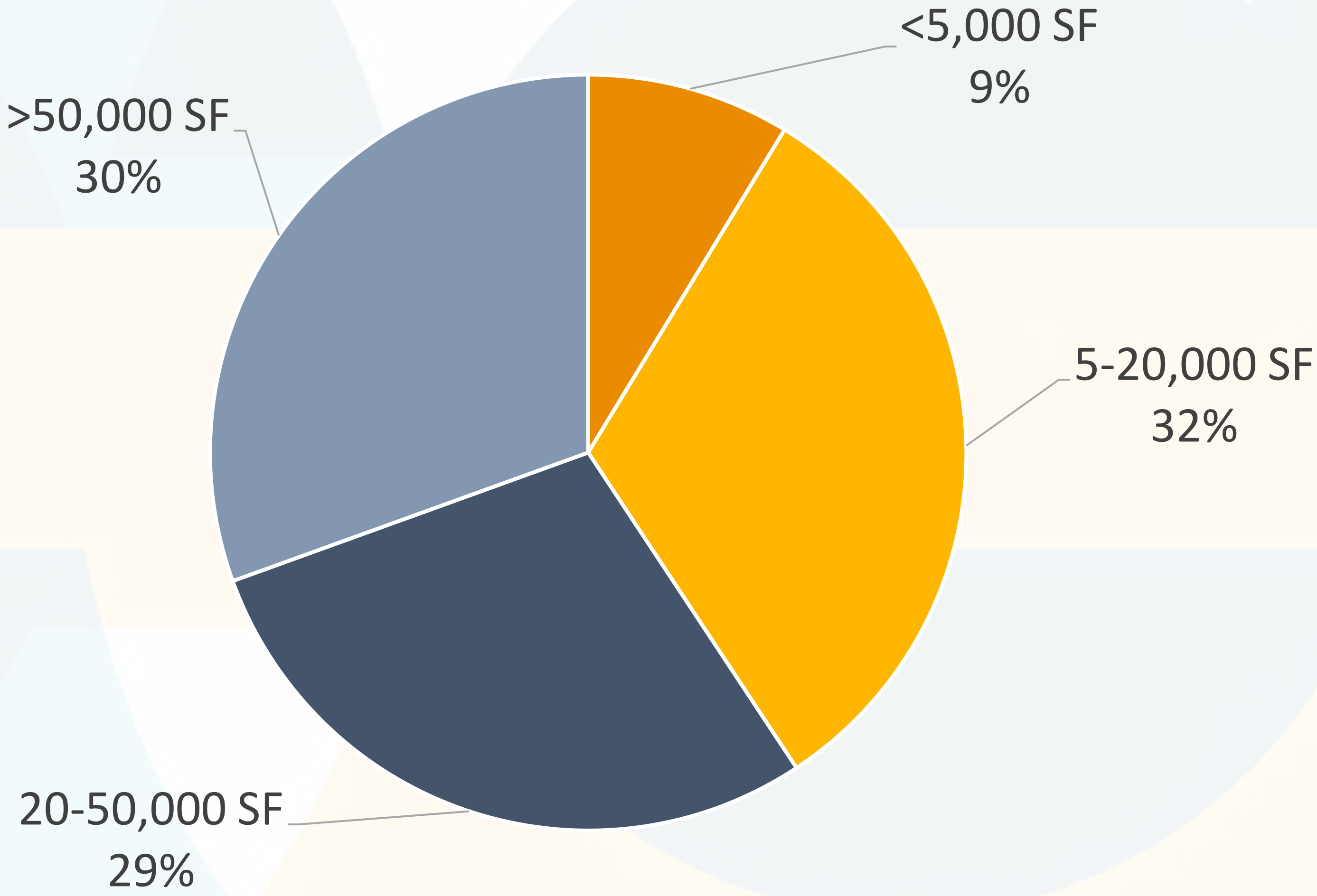
Takeaways:

- Aggregate activity shows less of a skew towards 50k+ activity**, signaling reluctancy to make large real estate transactions in 2021.** This is likely due to COVID uncertainty and may fade with the pandemic.
- The Tier breakdown suggests that this reluctancy is driven in Tiers II and III, telling us, along with other data, that **Tier I remains desirable even with the pressures of COVID**.

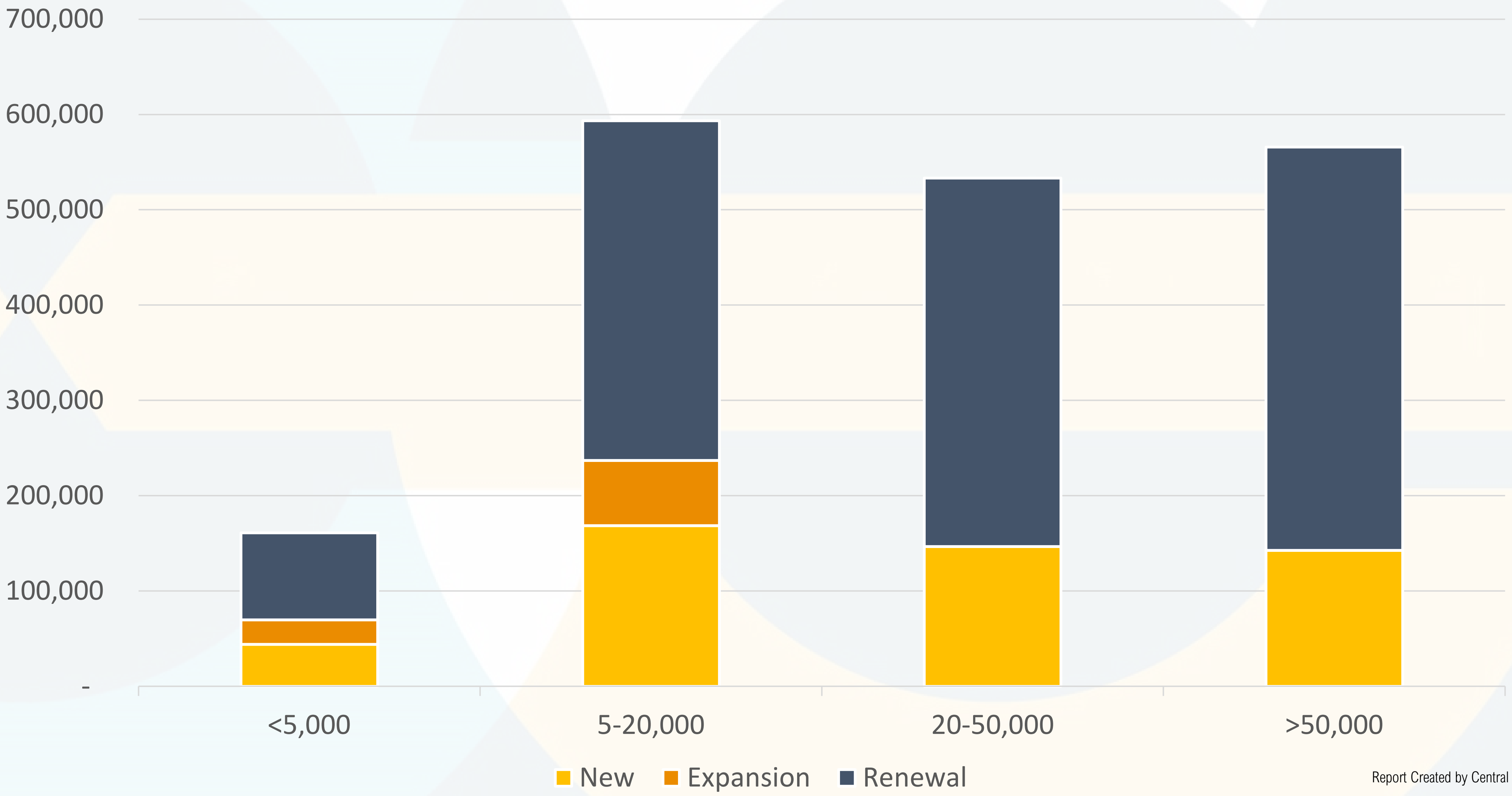
Activity by Size (2020)



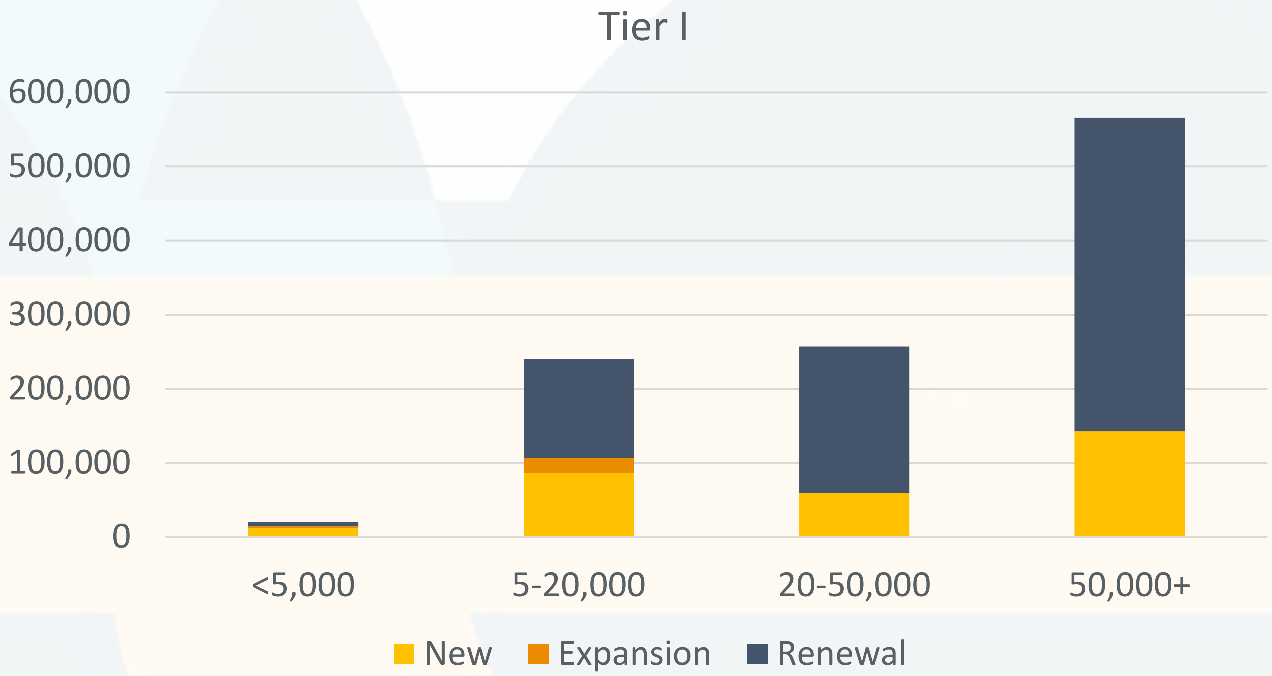
Activity by Size (2021)



Leases by Size/Type

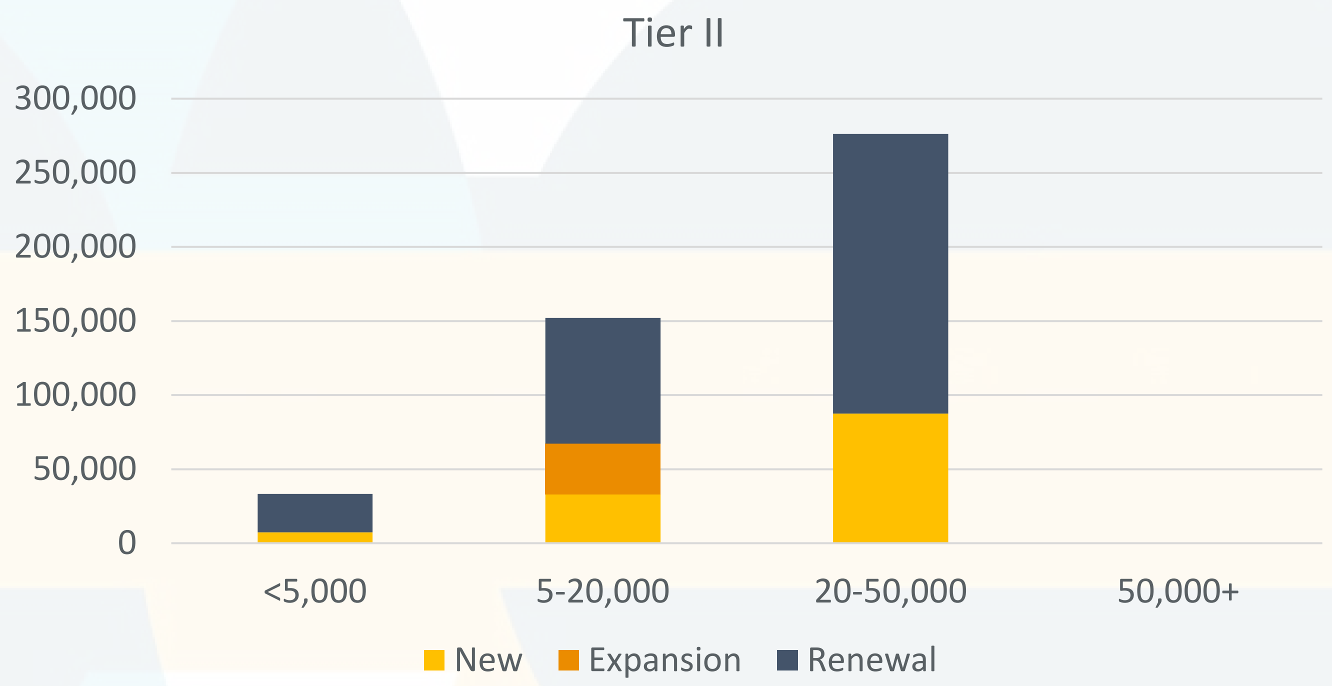


Leases by Size (Tier I)



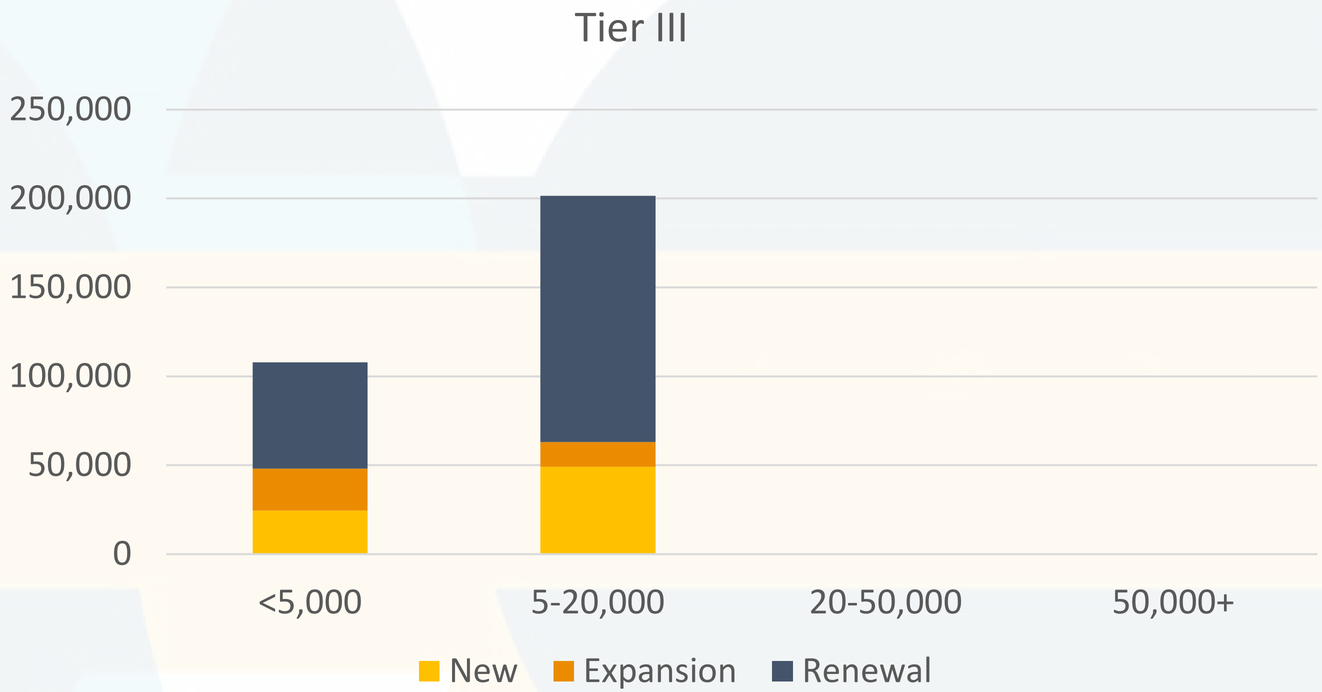
SF	<5K	5-20K	20-50K	50K+
New	4	9	2	1
Expansion	1	4	0	0
Renewal	2	10	6	3

Leases by Size (Tier II)



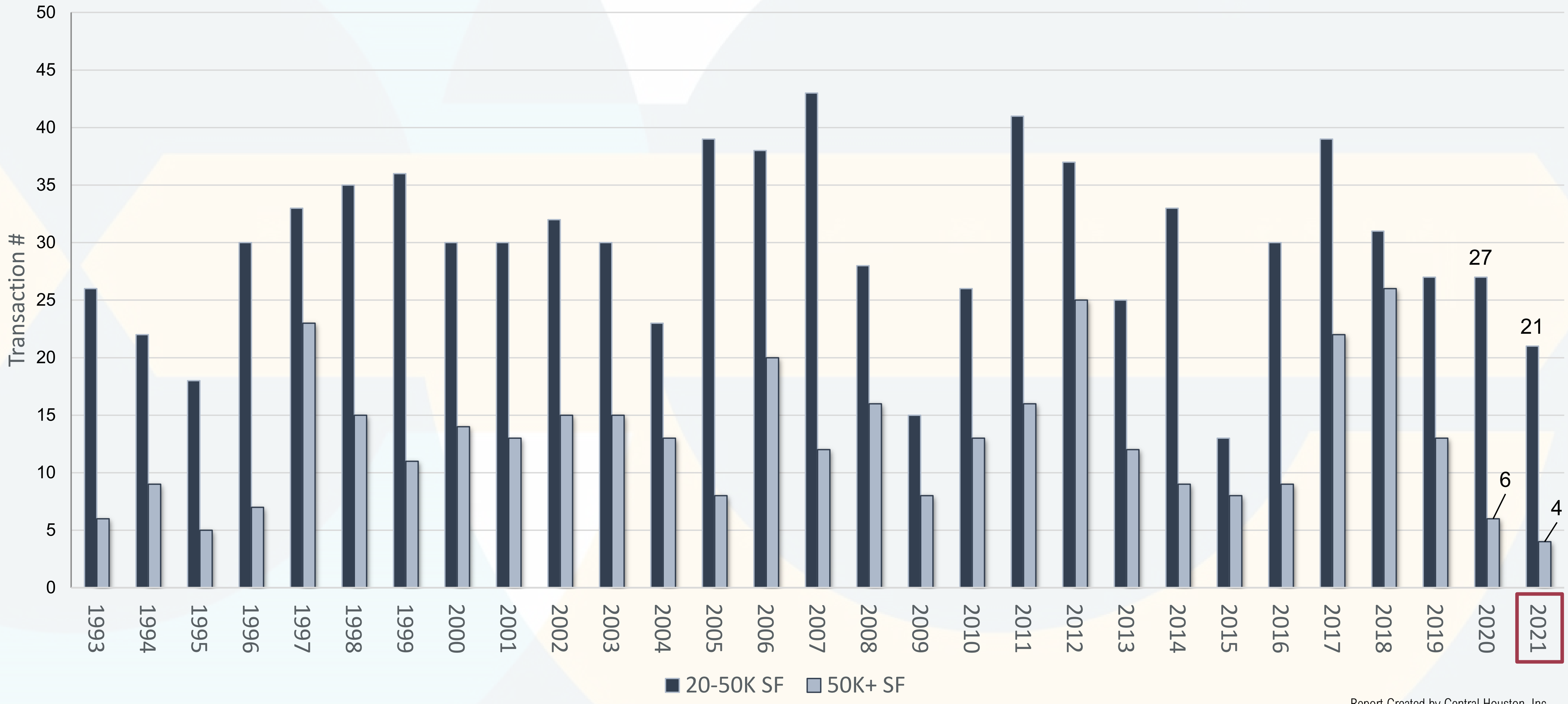
SF	<5K	5-20K	20-50K	50K+
New	3	3	3	0
Expansion	0	3	0	0
Renewal	7	9	6	0

Leases by Size (Tier III)



SF	<5K	5-20K	20-50K	50K+
New	15	6	0	0
Expansion	9	2	0	0
Renewal	27	16	0	0

Large Transactions

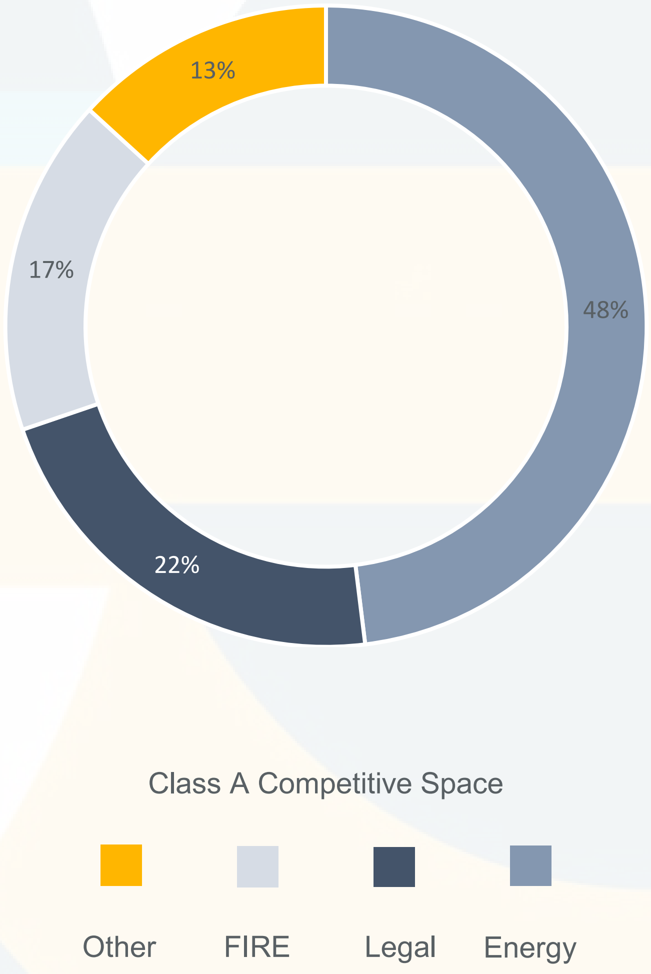


Report Created by Central Houston, Inc.

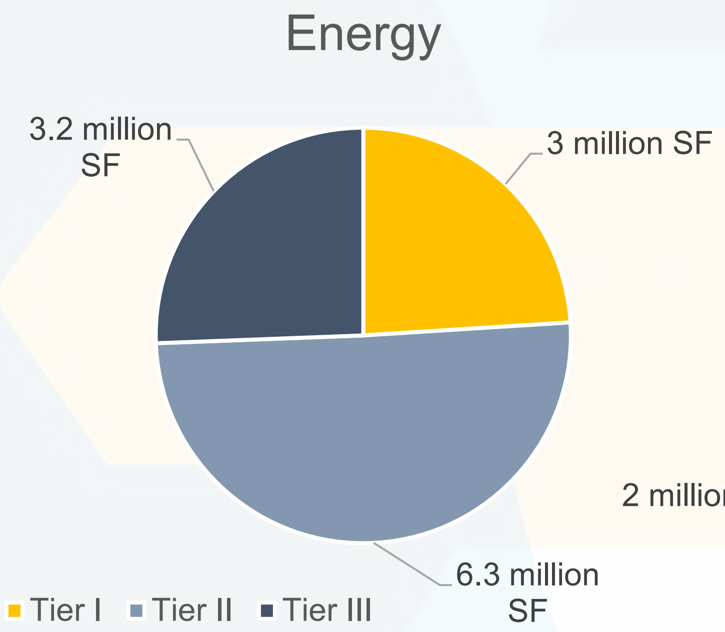
Occupier Analysis

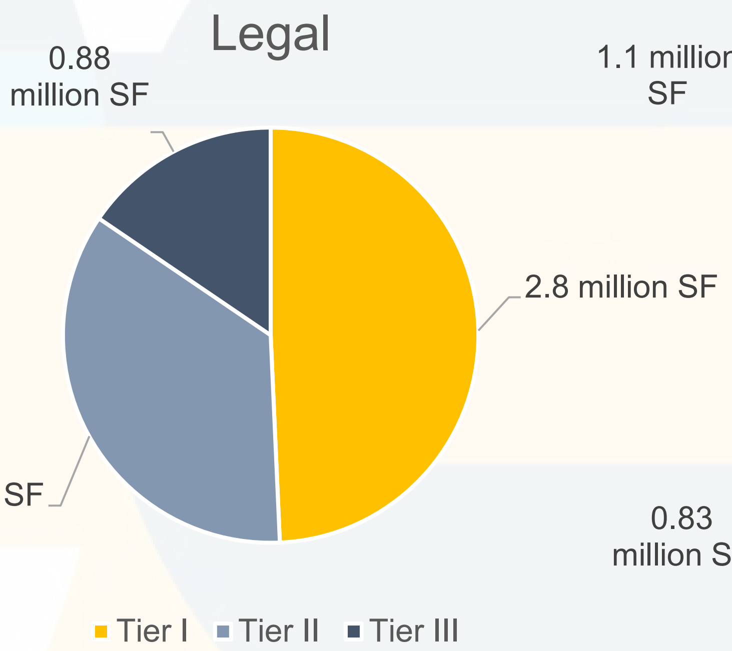
- Energy nearly holds the majority of the tenant base and primarily takes up Tier II space
- Legal and FIRE skew towards Tier I space; considering this, **we would conjecture that Tier I space remains desirable, Legal and FIRE will be the main drivers of activity**
- The long-term trend suggests that Legal will occupy more and more space over time

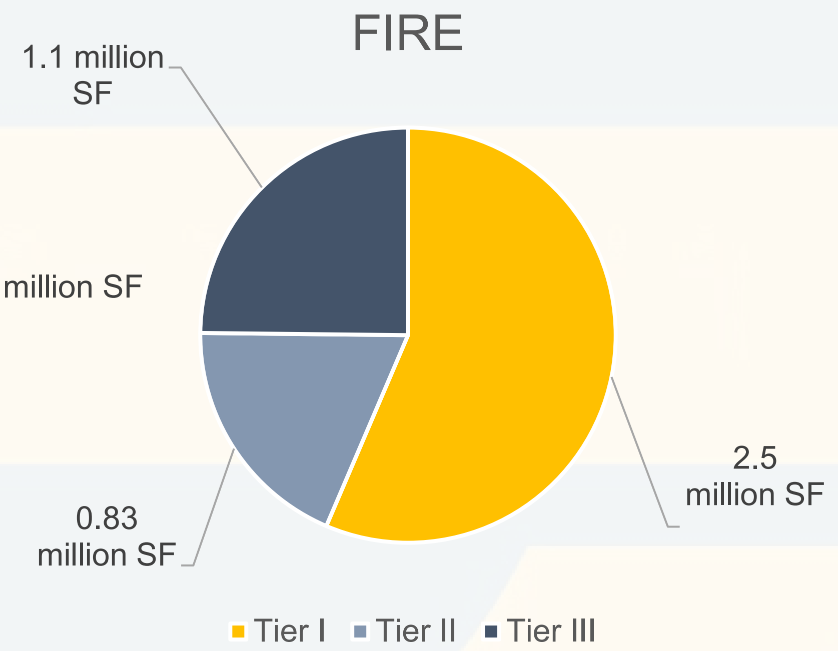
Office Market by Industry



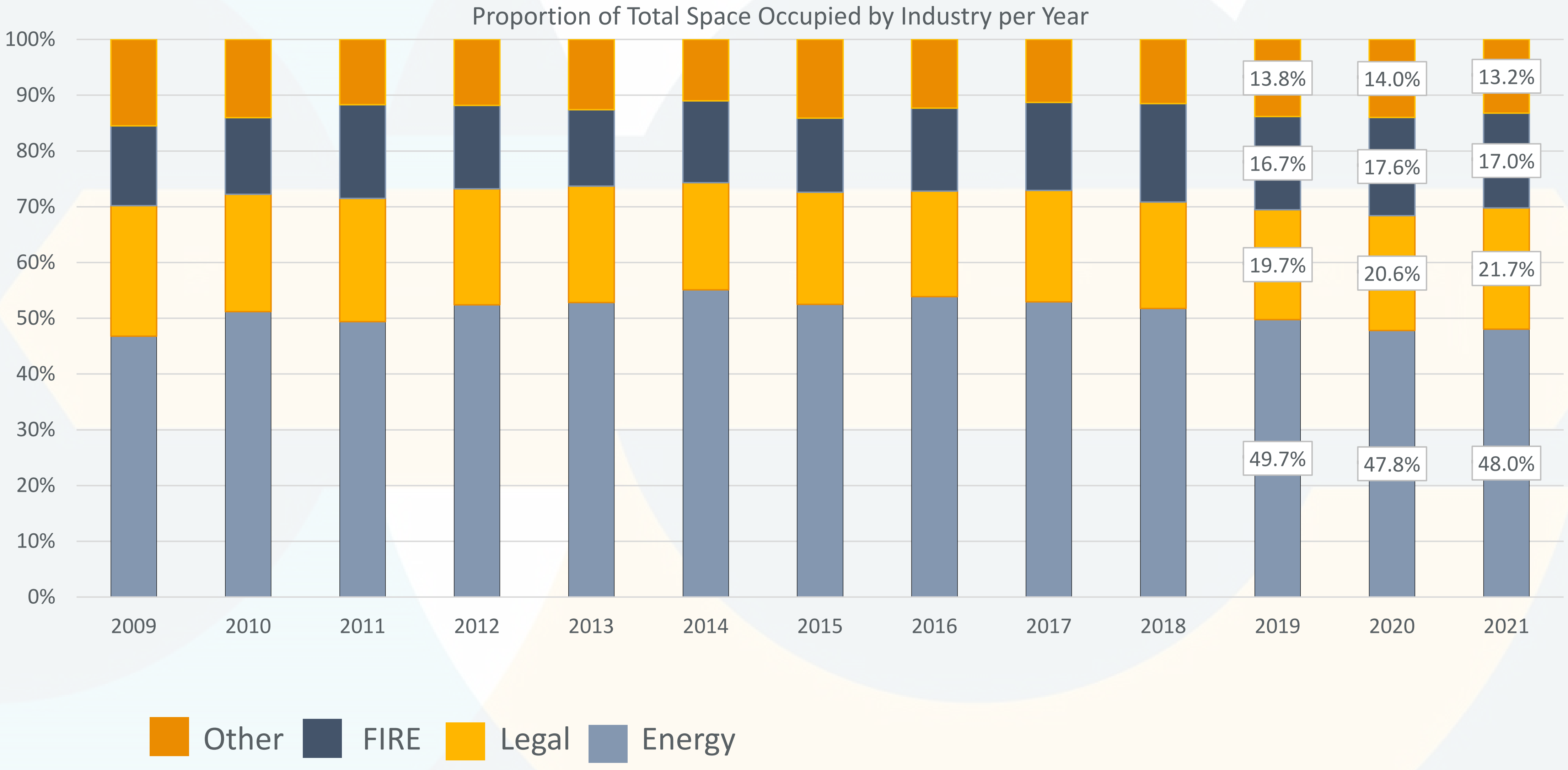
Industry Occupancy by Tier







Industry Trends



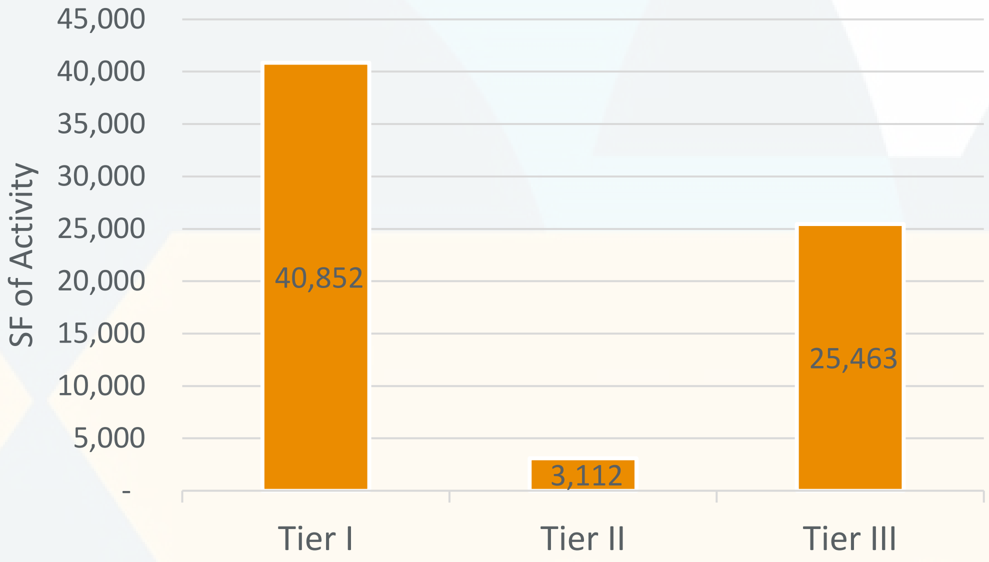
Multi-Floor Occupiers

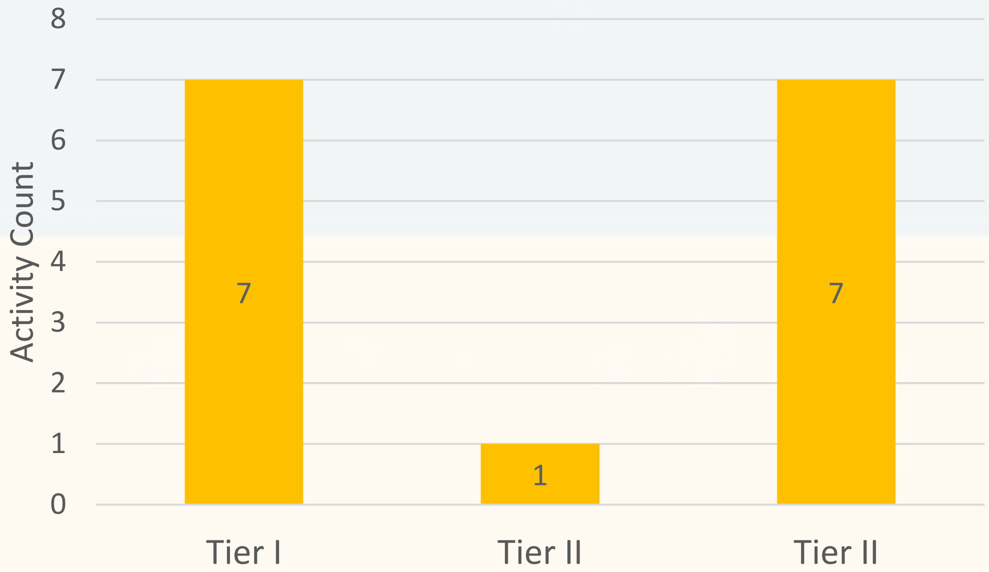
Occupiers By # of Floors

	2017	2018	2019	2020	2021
4+	49	49	54	54	52
2+	118	124	120	125	134
1+	249	259	260	285	288

The data here, especially over the course of the pandemic, suggests that **companies in Downtown Houston are downsizing**, which is what we've indicated with other figures as well.

2021 New Downtown Occupiers

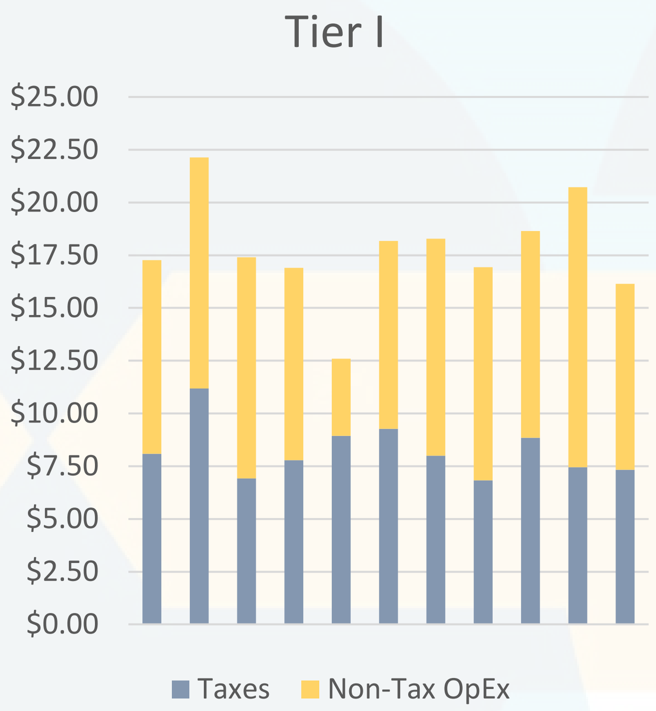


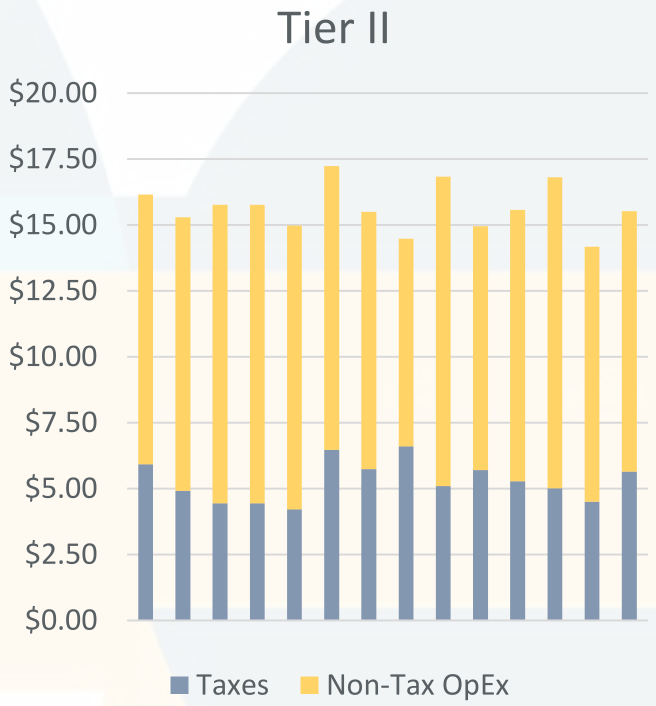


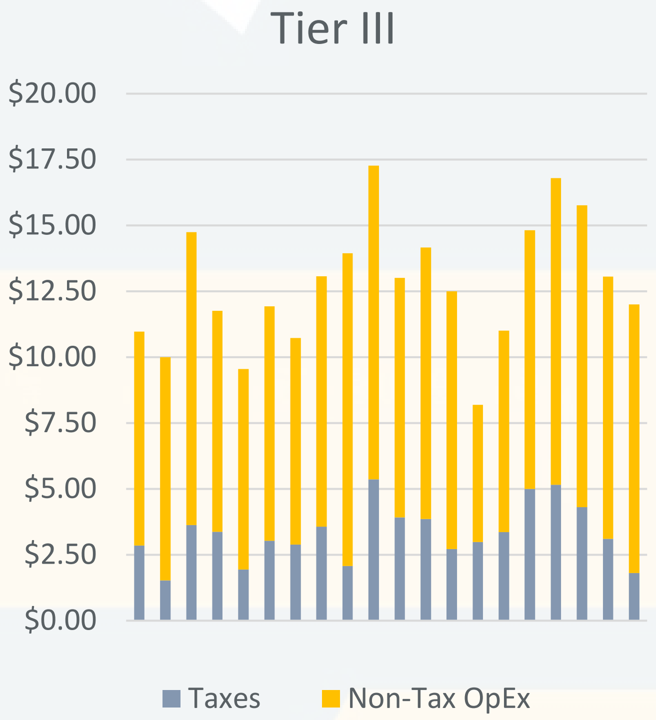
Takeaways:

- While activity count remained the about the same as last year, the footprint of new occupiers decreased dramatically, suggesting that **while employers want to come to Downtown Houston, they are not looking to house large operations here. This is likely due to COVID uncertainty and may fade after the pandemic.**
- **The data supports the idea that Tier III occupiers are downsizing.**

OpEx + Analysis







Our OpEx data gives insight as to why Tiers are structured the way they are:

- Tier I pays 46.6% of their OpEx towards property taxes, for Tiers II, III, this figure is 33.8% and 26.1% respectively.
- Tier I also routinely pays more property tax per SF than any other Tier.

2022 Appendix

Survey Background

38^{th} 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 Defintions

- **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.

Central Houston, Inc.

For More Information:

Robert Pieroni, Economic Development Director
rpieroni@centralhouston.org
Central Houston, Inc.
1221 McKinney, Suite 4250 | Houston, TX 77010
Office: 713-650-1470

Varun Cidambi, Research Manager
varun.cidambi@centralhouston.org
Central Houston, Inc.
1221 McKinney, Suite 4250 | Houston, TX 77010
Office: 713-650-1470

Thank You! Questions?