Central Houston, Inc.

DOWNTOWN OFFICE STORY
2022 Market Analysis

Data Collected and Analysis Compiled, January 1 – March 30, 2023

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 39th 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 2023 for all 2022 leasing activity
  - Approximately 37 million SF
  - 47 office buildings
  - More than 71% of all Downtown office space
  - More than 3.6 million SF of Downtown leasing during 2022
    - ~10% of surveyed space was a new lease, expansion or renewal

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	20	9,378,715
Total	47	36,504,862

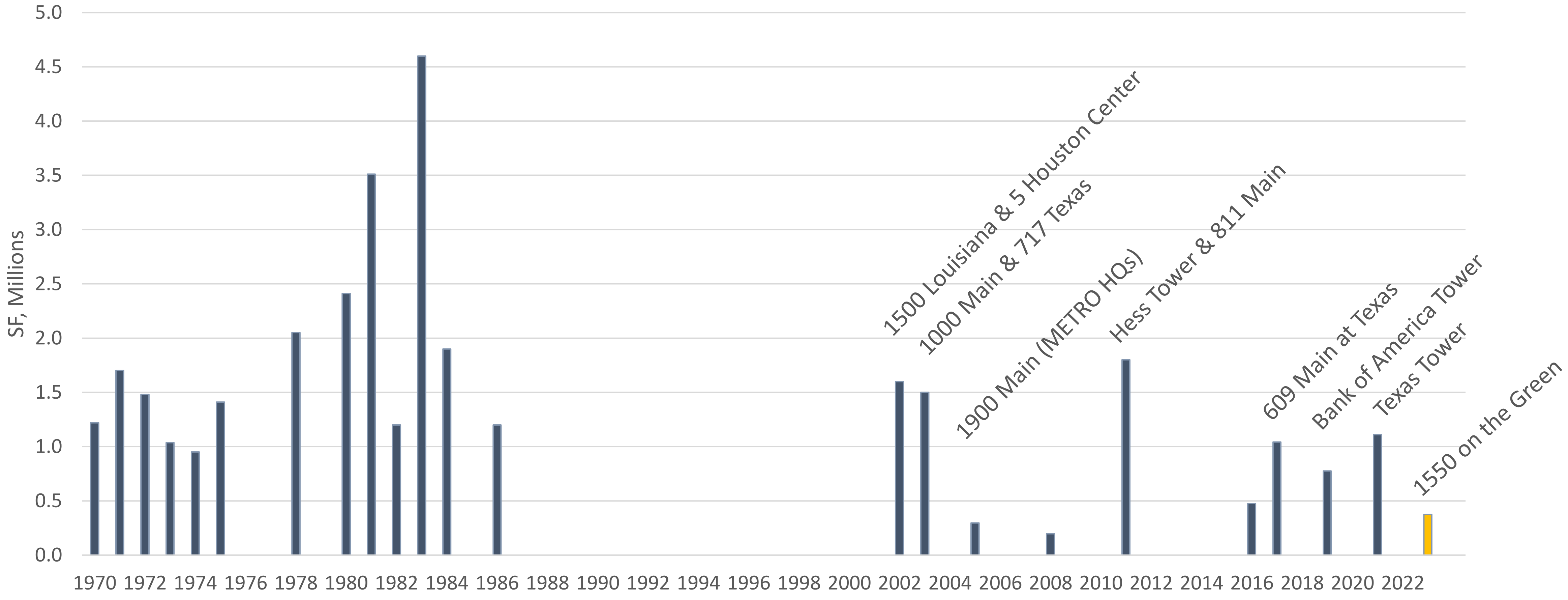
- 1801 Smith has been removed due to the full conversion of the building to residential

Summary of Survey Data

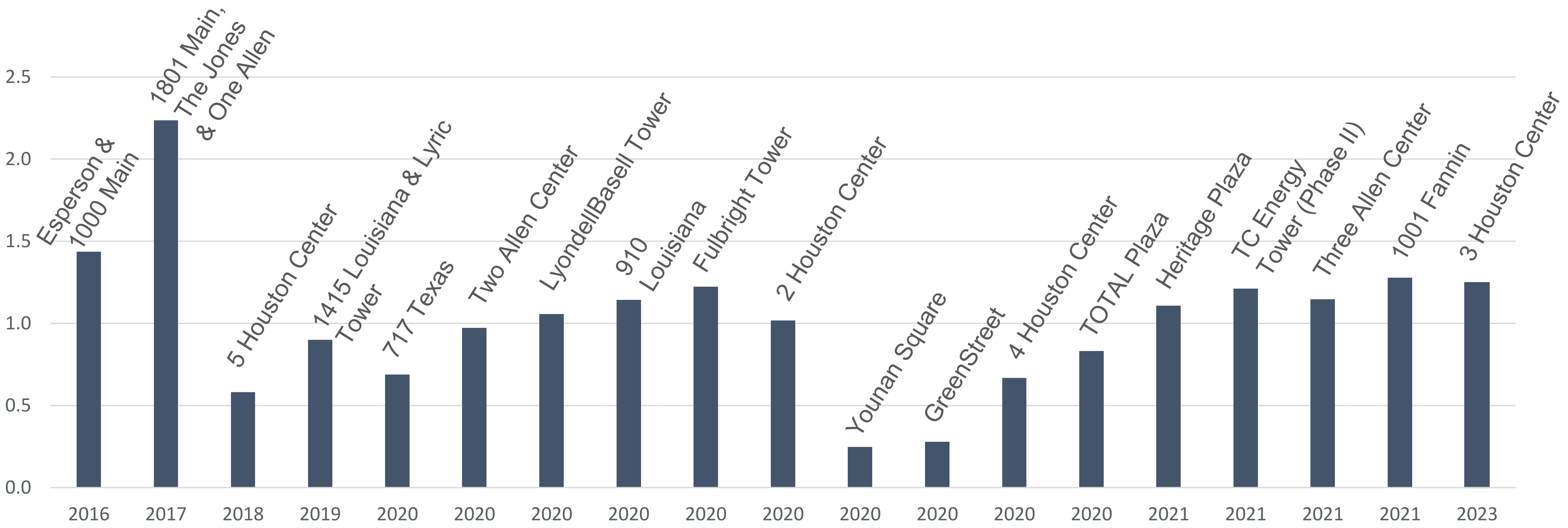
	2019	2020	2021	2022
Total SF Surveyed	36,922,971	36,923,573	36,936,789	36,504,862
Direct Marketed SF	8,906,043	9,669,480	11,331,290	11,106,817
% Direct Marketed	24.1%	26.2%	30.7%	30.4%
Net YOY SF Direct Marketed	(394,890)	763,437	1,150,225	136,062
Sublease Marketed SF	1,498,046	1,171,832	510,072	817,598
% Sublease Marketed SF	4.1%	3.2%	1.4%	2.2%
Net YOY SF Sublease Marketed	62,075	(326,214)	(661,760)	307,526
Total Marketed	10,404,089	10,841,582	11,841,362	11,924,415
% Total Marketed	28.2%	29.4%	32.1%	32.6%

Note: Direct Marketed SF in 2022 and Net YOY SF Direct Marketed adjust for the removal of 1801 Smith

Historical/Future Building Deliveries Timeline



Building Renovations Timeline



*Square Feet,

Marketed Space

- Overall, **market for direct space loosened by 136K in 2022**
- **More marketed sublease space compared to last year** (817K available in 2022 vs. 510K in 2021). 70% of this space is in Tier II

Tier Breakdown:

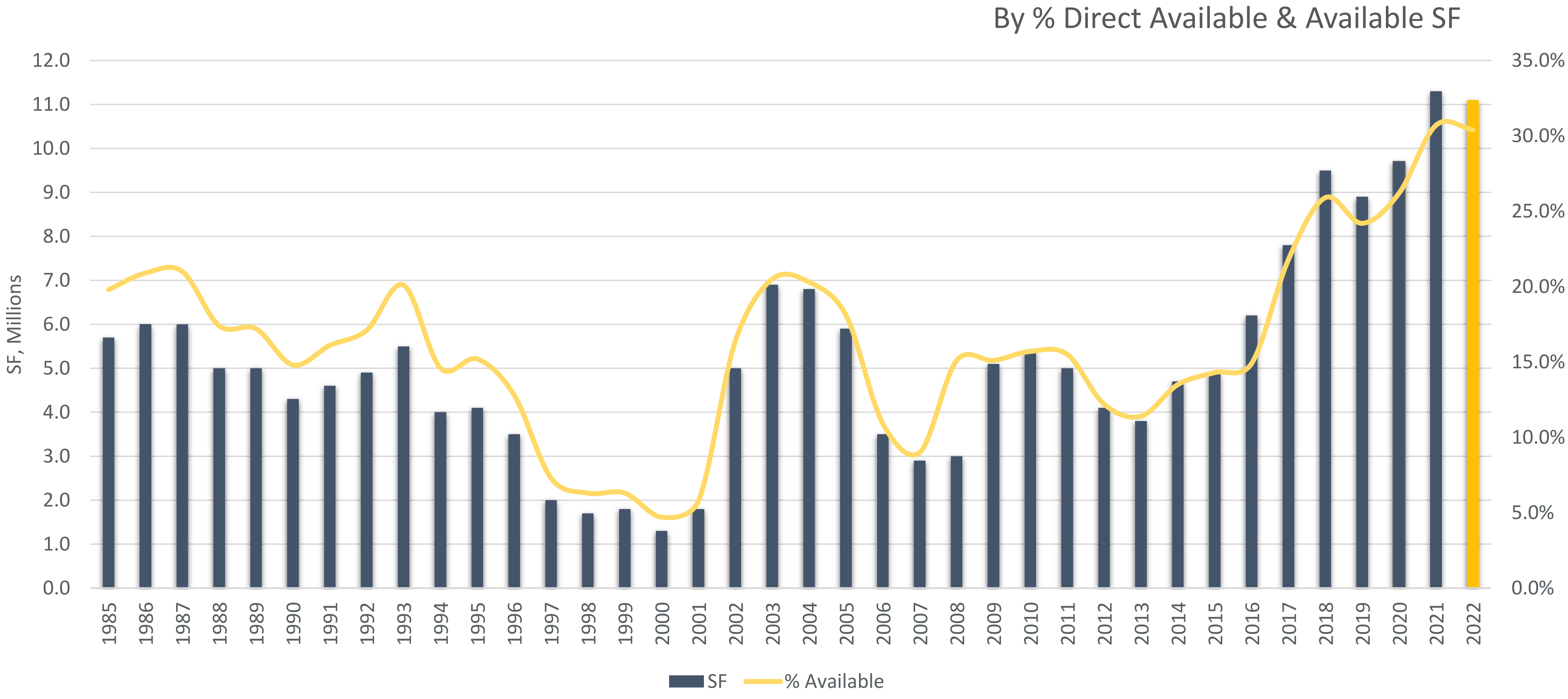
- Tier I: Market tightened by 502K, largely accounted for by activity in one building. Tier I buildings broadly saw positive leasing trends.
- Tier II: Market loosened by 664K, fully accounted for by activity in 2 buildings. Tier II broadly experienced troubles attracting tenants.
- Tier III: Market tightened by 25K. Activity varied greatly between buildings, with some leasing up at a fast clip and others becoming more vacant.

Marketed Space

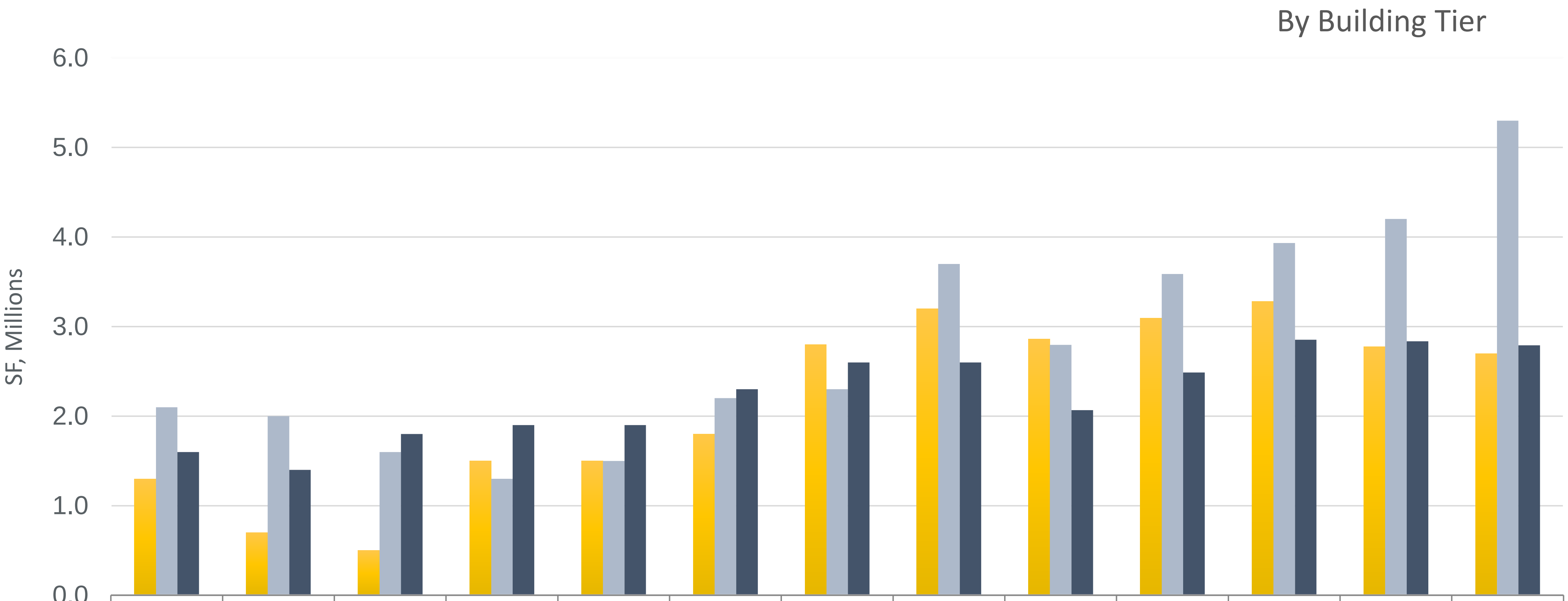
Takeaways:

- While Tier I remains successful at attracting tenants, Tier II remains unsuccessful at doing so, indicating a continued **flight to quality** due to hybrid and remote work. Because of this trend, **the market is failing to return to pre-pandemic levels of marketed space**.
- Despite the movement towards Tier I space, Tier III surprisingly did not suffer from reduced occupancy due to the success of certain Tier III buildings in attracting tenants. This suggests that **the term “flight to quality” many not be synonymous with flight to Tier I space, as the market sees desirable qualities in Tier III space as well**.
- Vacancy in 7 buildings makes up 50% of the marketed space in Tiers II and III; **a targeted solution directed at those buildings may be useful in correcting the market trend**.
- **The increase in sublease space was largely driven in Tier II by tenants that did not want to occupy their own space**, reinforcing the negative effects of hybrid and remote work on the office market.

Historical Direct Marketed Space



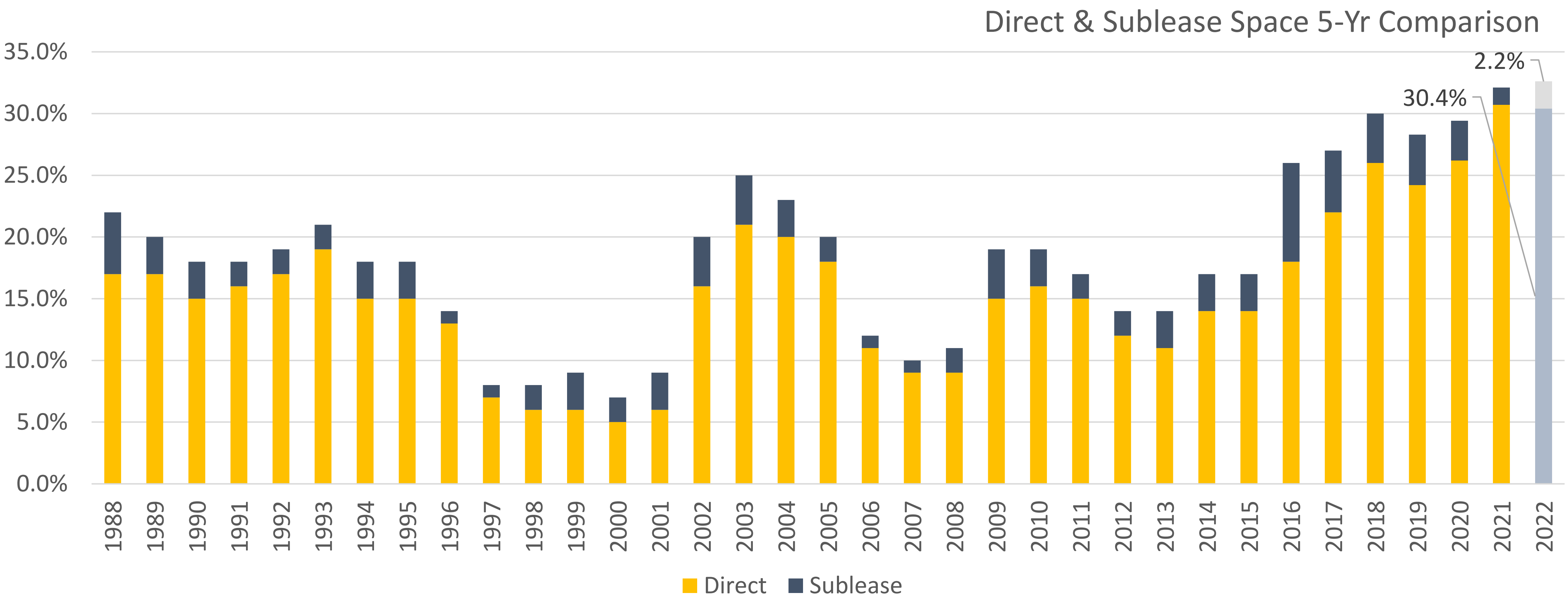
Historical Direct Marketed Space



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Tier I	1.3	0.7	0.5	1.5	1.5	1.8	2.8	3.2	2.9	3.1	3.3	2.8	2.7
Tier II	2.1	2	1.6	1.3	1.5	2.2	2.3	3.7	2.8	3.6	3.9	4.2	5.3
Tier III	1.6	1.4	1.8	1.9	1.9	2.3	2.6	2.6	2.1	2.5	2.9	2.8	2.8

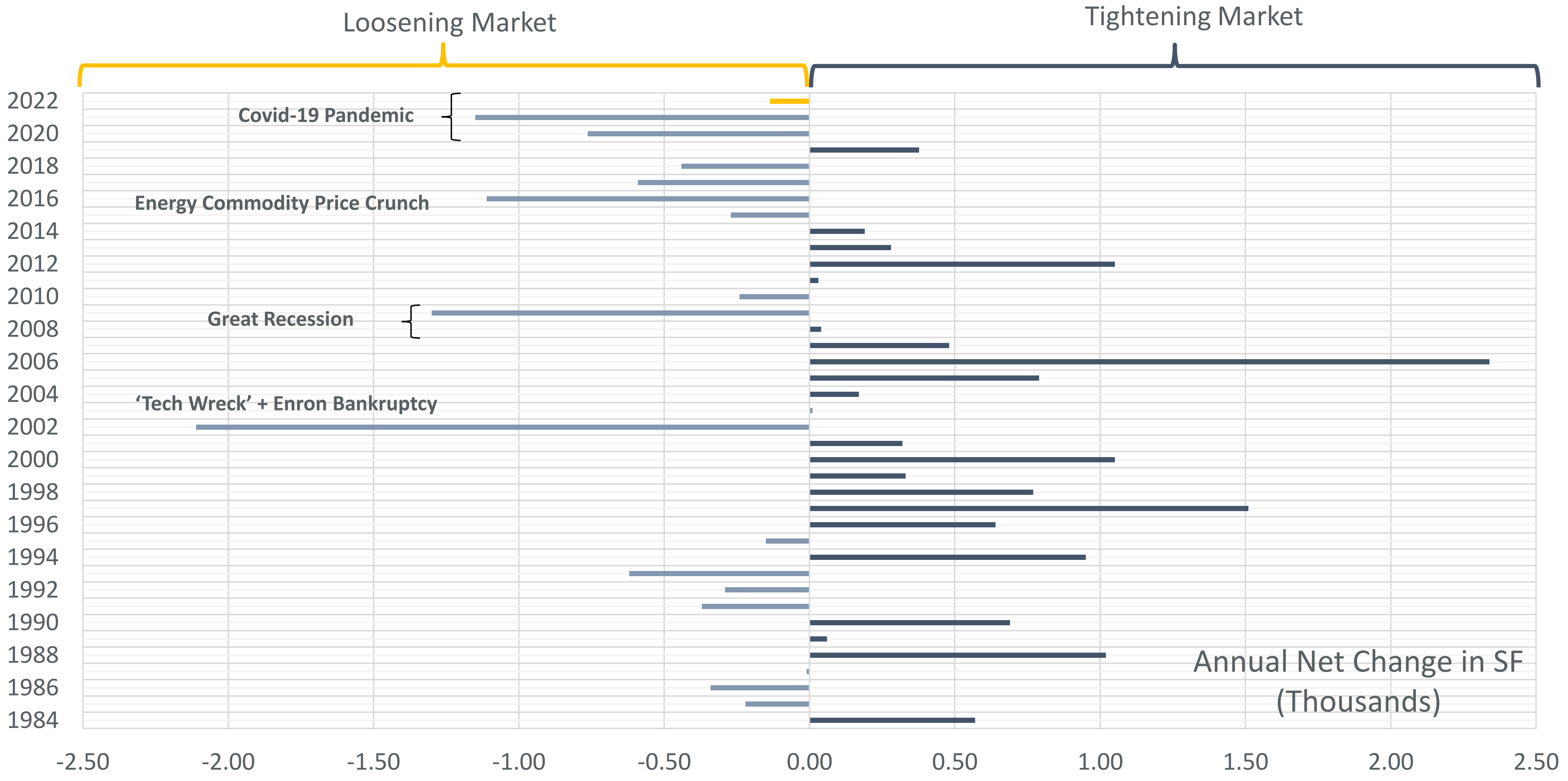
Tier I Tier II Tier III

Historical (Direct and Sublease) Marketed Space

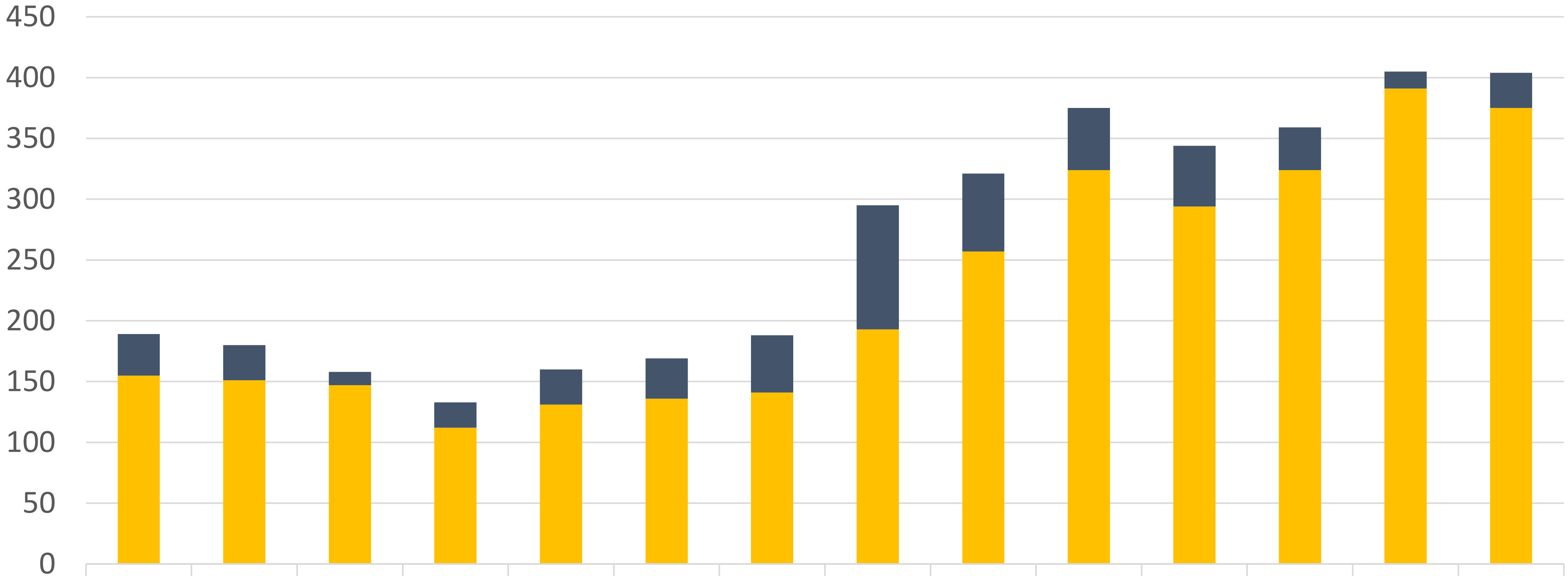


	Direct	Sublease
5-Year Average (2018-2022)	27.5%	3.0%
10-Year Average (2013-2022)	21.7%	3.7%

Marketed Space



Available Floors



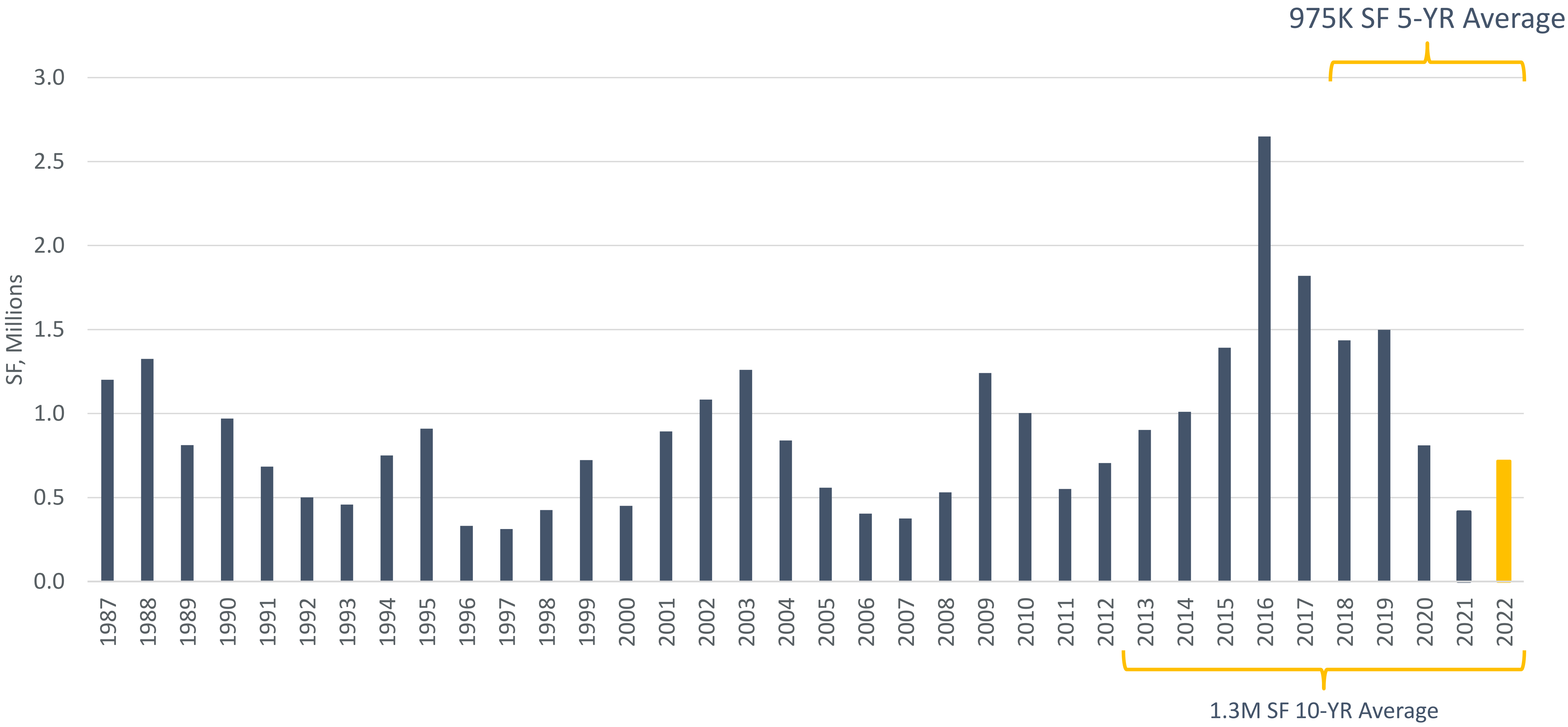
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sublease	34	29	11	21	29	33	47	102	64	51	50	35	14	29
Direct	155	151	147	112	131	136	141	193	257	324	294	324	391	375

Direct Available Full Floors

Building	Floors	Former Tenant	Square Feet
1600 Smith	3-37, 40-48	Vacant; Chevron Credit Union	976563
Fulbright Tower	2, 4-5, 12-13, 17-18, 22, 25-27, 30, 33-34, 43-51	Vacant; Norton Rose Fulbright	684898
1001 Fannin	2, 4-6, 10-11, 14, 26-36, 39, 41-43, 45	Vacant	644685
Wells Fargo Plaza	3, 5, 15, 17, 18, 30-35, 37, 43-46, 53, 63, 69	Vacant; Greenberg	461531
Two Allen Center	3-5, 7, 16, 18, 22-23, 25-30	Vacant; ENI	435106
One City Centre	2-10, 13, 16-18, 20-22, 24-29	Vacant	377093
919 Milam	6-14, 16-17, 21-23	Vacant; Valerus Field Solutions; Valerus Compression Services	332227
1100 Louisiana	26, 28-34, 36-39, 55	Vacant	293071
Pennzoil Place - North Tower	2, 5, 7, 10-11, 25-31	Vacant; Munsch Hardt	280618
Heritage Plaza	14-18, 36-38, 48	Vacant; Rosetta Resources	247598
Texas Tower	17-23, 37	Vacant	242745
2 Houston Center	5, 8-10, 15, 22-23, 34-36	Vacant	238729
1301 Fannin	14-15, 22-23	Vacant; Datacenter	227450

All Blocks With Term Available, 01/01/2023

Historical Sublease Full Floor Blocks



Full Floor Sublease Blocks

Building	Tier	Floor(s)	Former Tenant	Square Feet
Pennzoil Place	2	16-24	Cheniere	188100
Kinder Morgan	2	24-27	Vacant	129419
One City Centre	3	16, 18, 26, 28	Energy EXXI	85089
One Allen Center	2	22-24	Callon Petroleum	83109
Hess Tower	1	9-10	Hess	61682
Wells Fargo Plaza	1	56-57	PwC	51292
910 Louisiana	2	47-48	Enable Midstream	48642
3 Allen Center	2	21, 38	Oil States; Truist	48386
600 Travis	1	26	Locke Lord	21584
All Blocks With Term Available, 01/01/2023				

Leasing Analysis

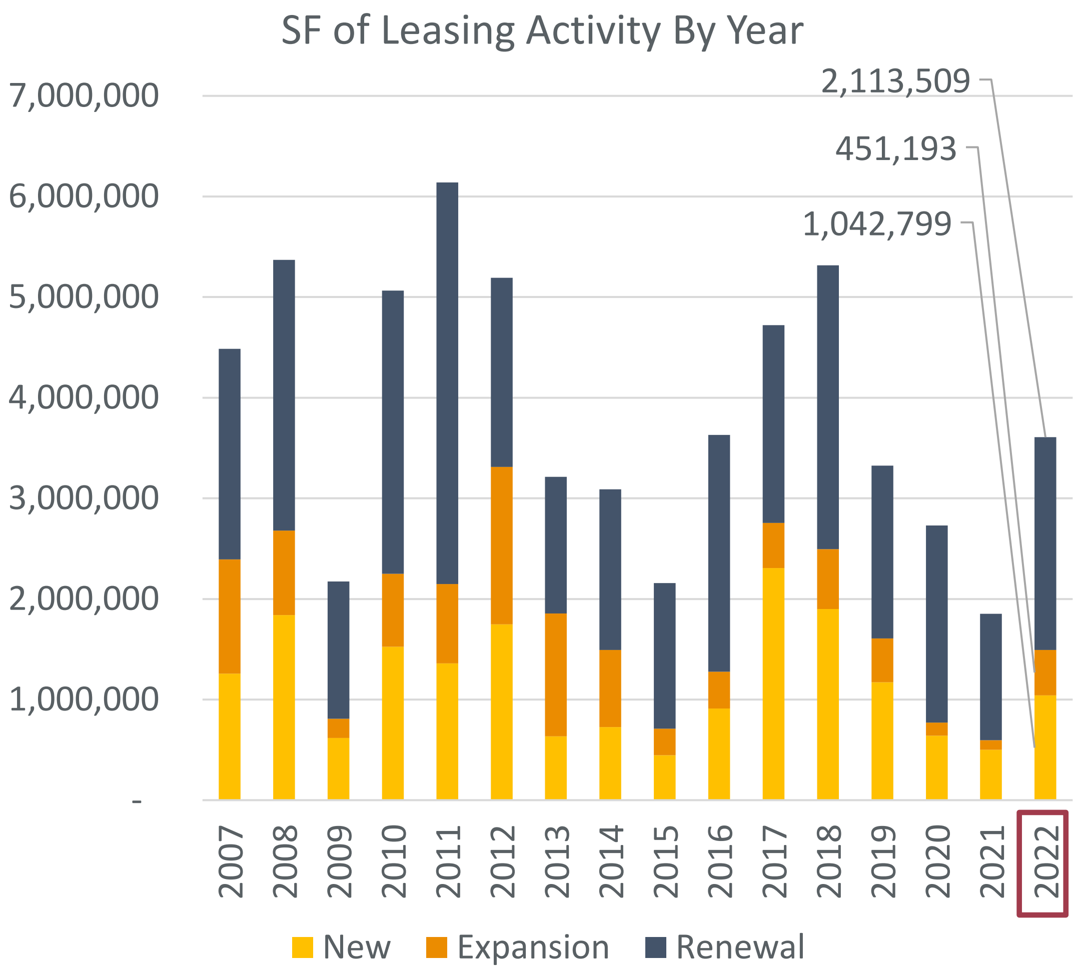
- **Leasing activity doubled from last year and surpassed 2019 levels** (3.6M SF of leasing activity).
- New leases have nearly doubled in total SF from last year, with almost half this activity coming from Tier I. These leases are concentrated in the 20,000 – 50,000 SF range, indicating the desirability of 1-to-2 floor buildouts.
- Footprint expansions have seen a resurgence to pre-pandemic levels, with most of this activity within Tier I.
- Overall, large transactions occurred at a clip not seen since 2019. What this activity consisted of varied by Tier, but was concentrated amongst Tiers I and II and was mostly renewal activity.

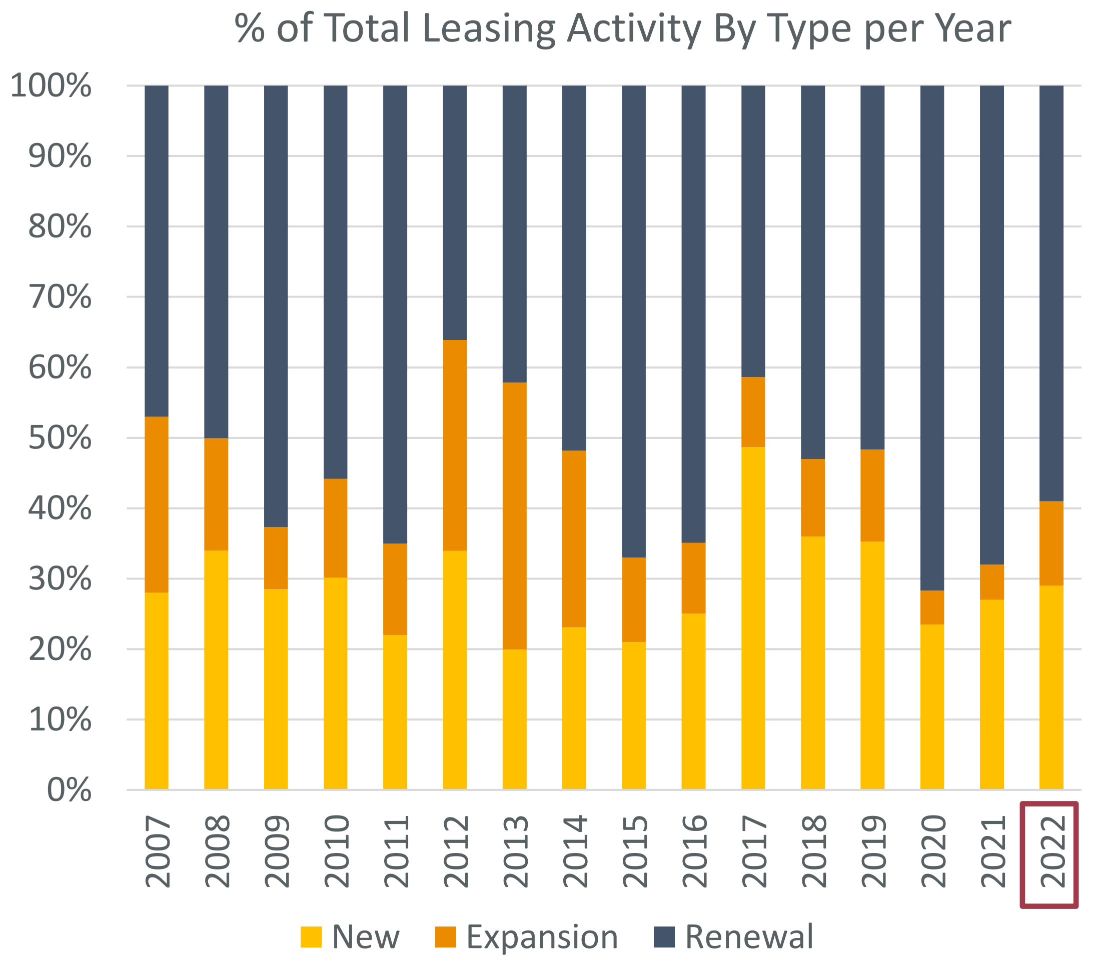
Leasing Analysis

Takeaways:

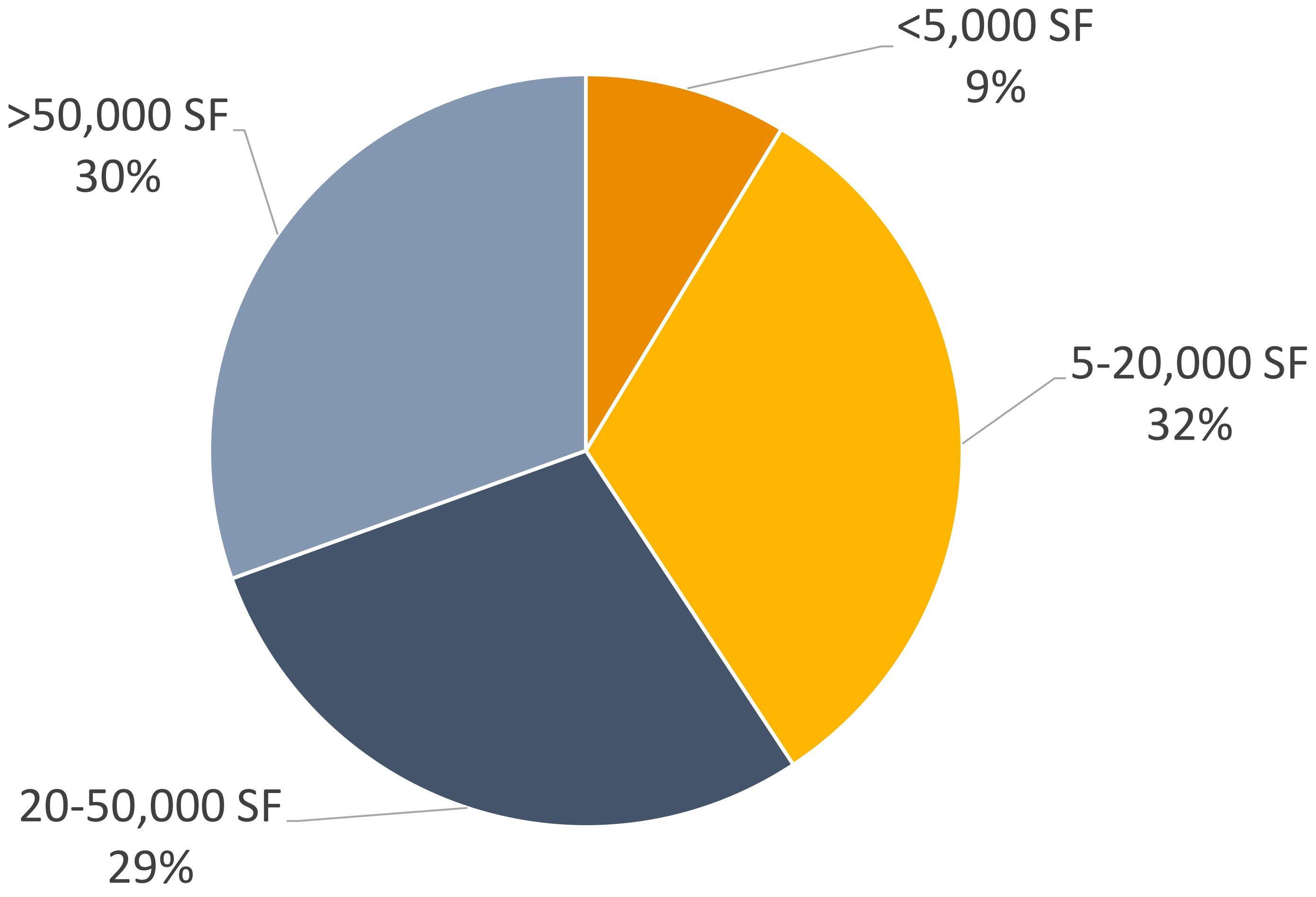
- Based on the resurgence of new lease and expansion lease activity, **we believe there is resurgent demand for space in the Downtown office market**.
- The high amount of renewals in the large transaction space indicates that **anchor tenants see continued benefit in being located Downtown**.

Transaction Volume

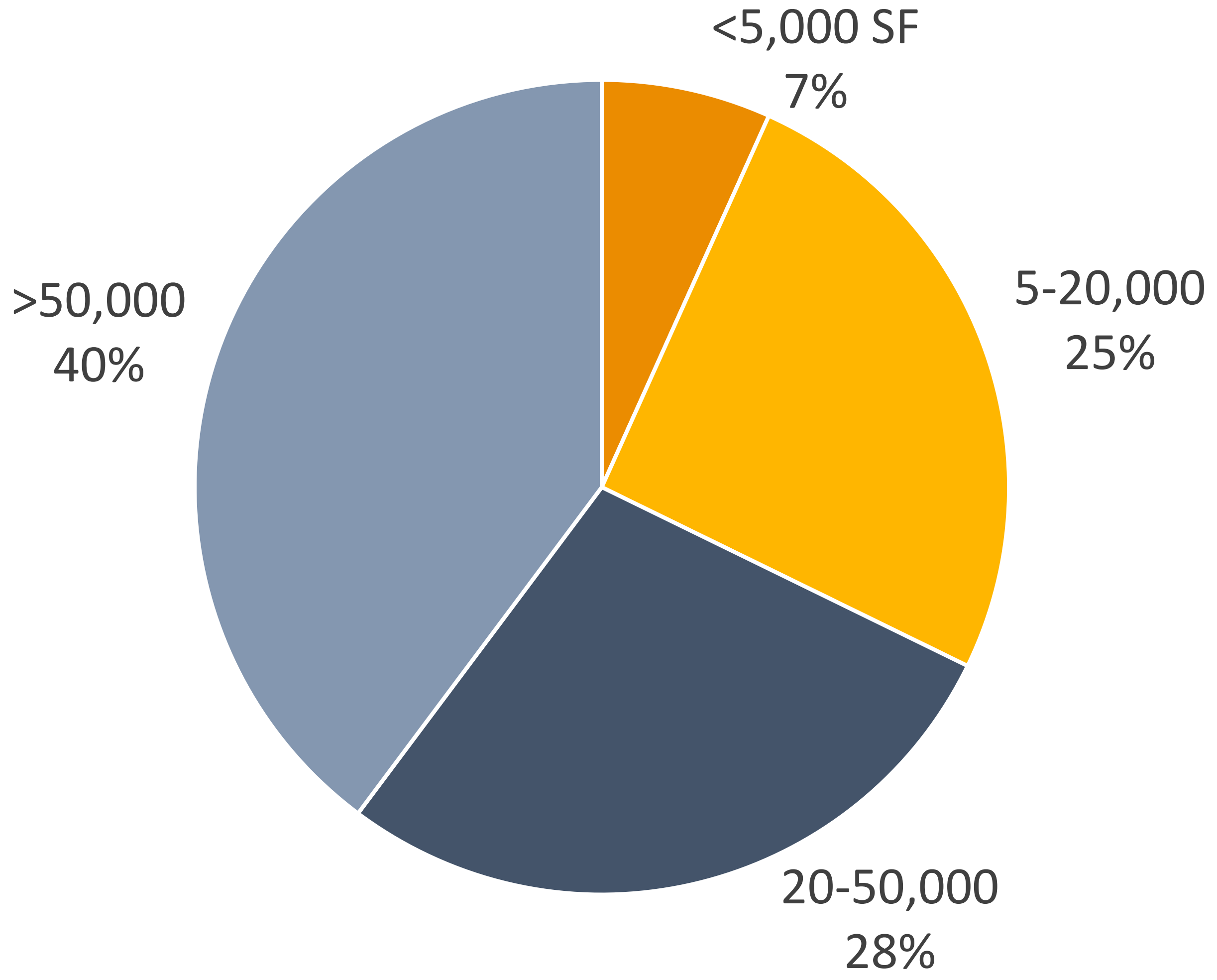




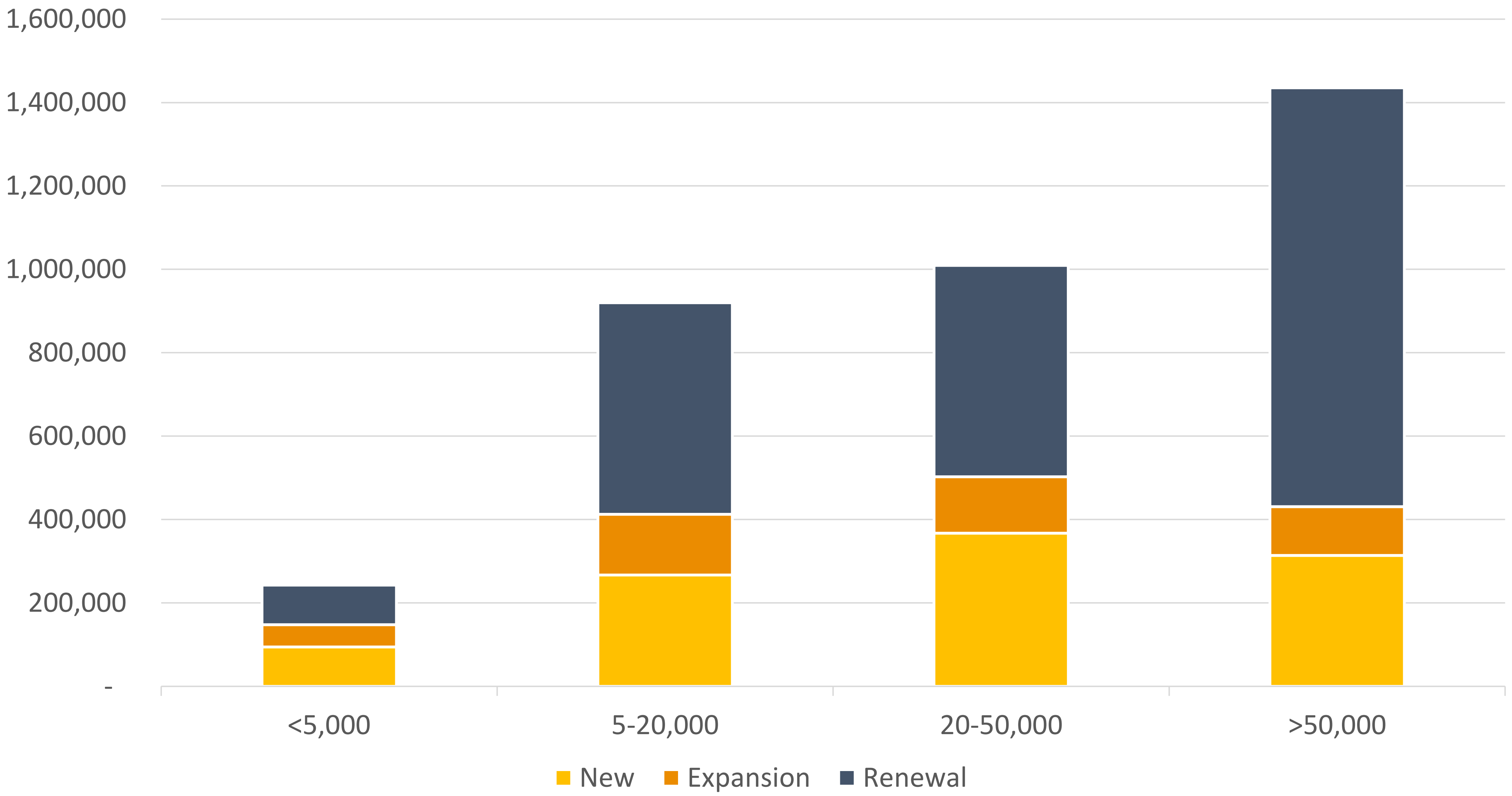
Activity by Size (2021)



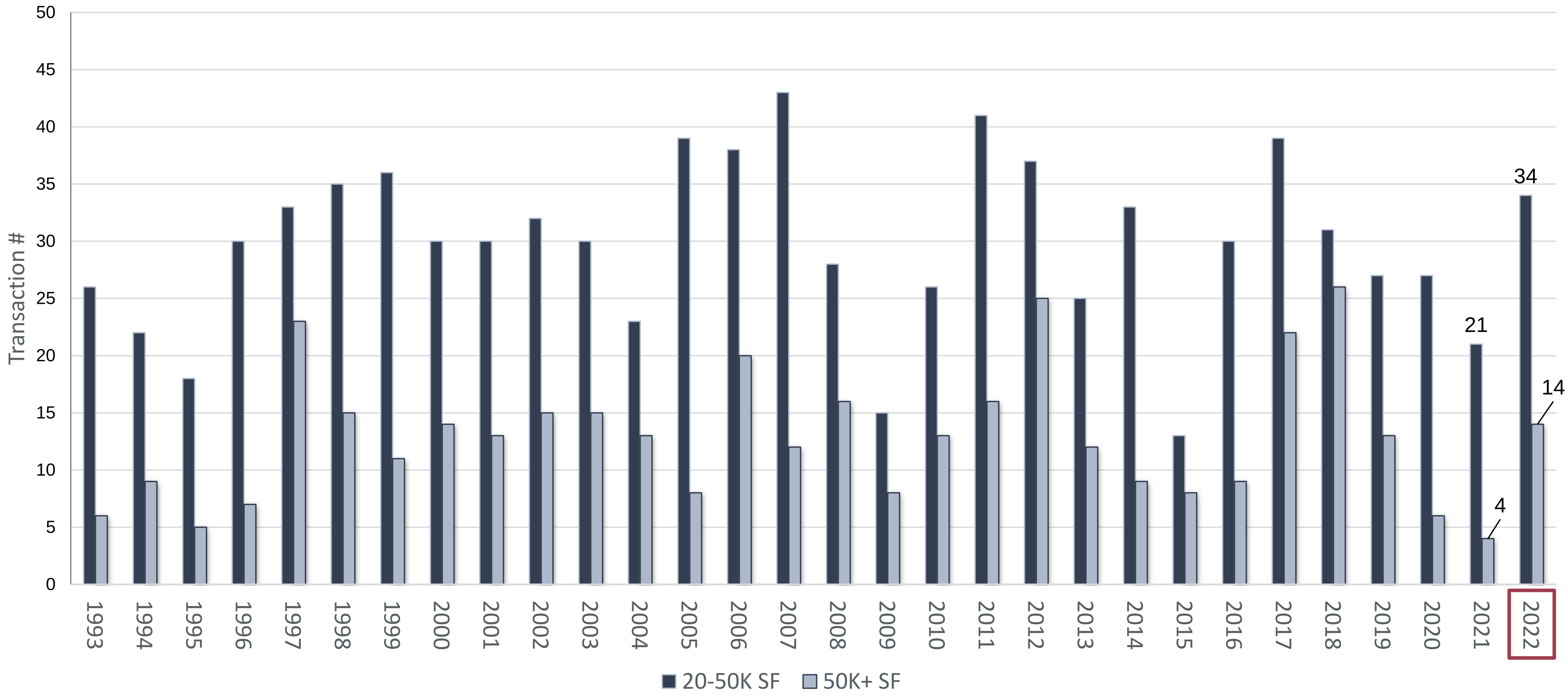
Activity by Size (2022)



Leases by Size/Type



Large Transactions



Leasing Analysis

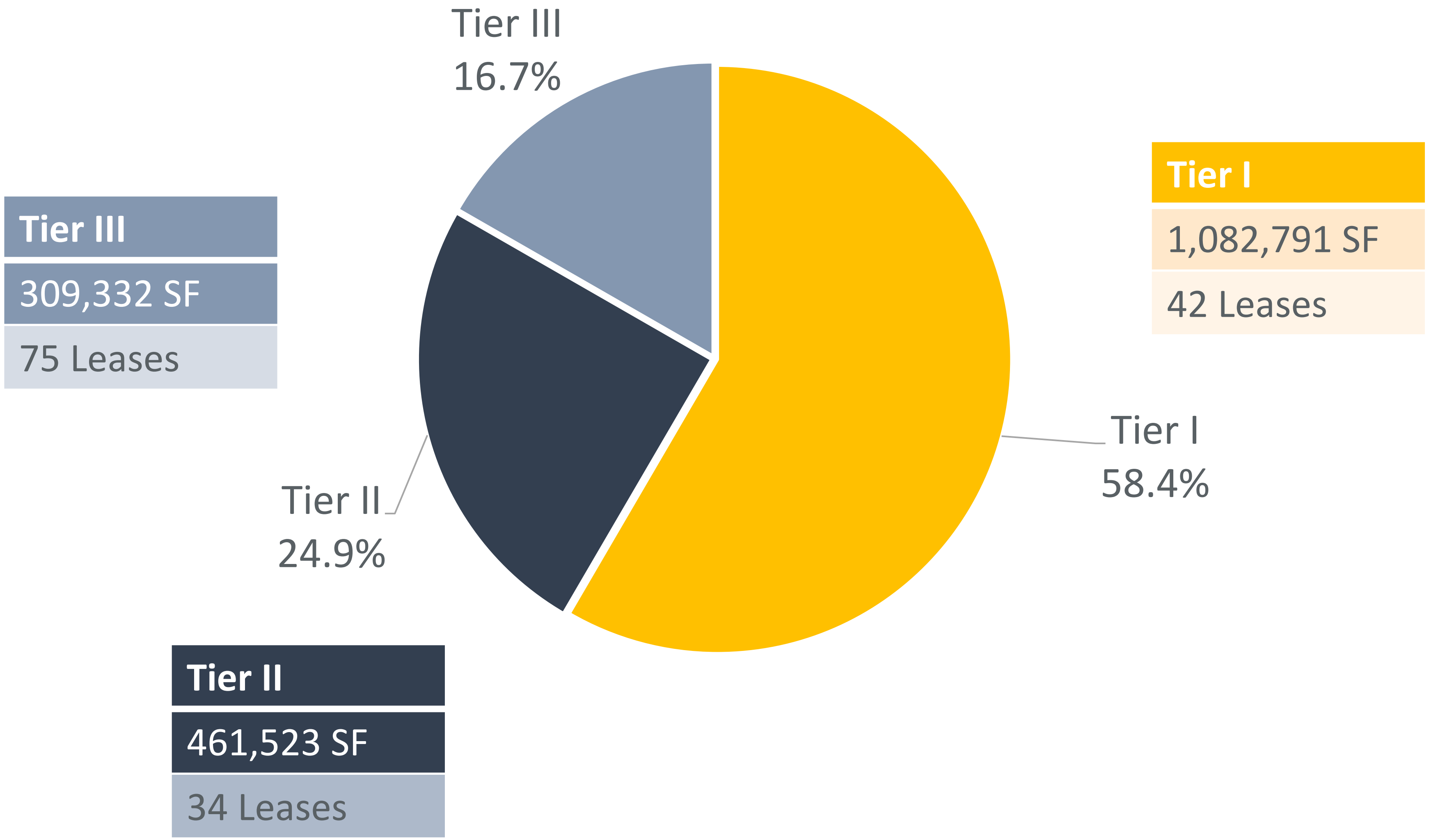
- **Growth in leasing activity was seen across all Tiers,** with leasing activity in Tiers II and III nearly tripling.
- Tier I saw the most diverse activity, with the total SF of new leases signed rivalling renewals. In fact, over half of total new lease activity originated from Tier I. Tier I also saw activity that skewed towards large transactions.
- Tier II activity was driven by renewals from anchor tenants. New and expansion leases originated from smaller transactions and saw less transaction volume in this Tier than Tiers I and III.
- While renewals dominated new leases in Tier III, buildings in Tier III saw a high number of new leases driven by demand for smaller suites.

Leasing Analysis

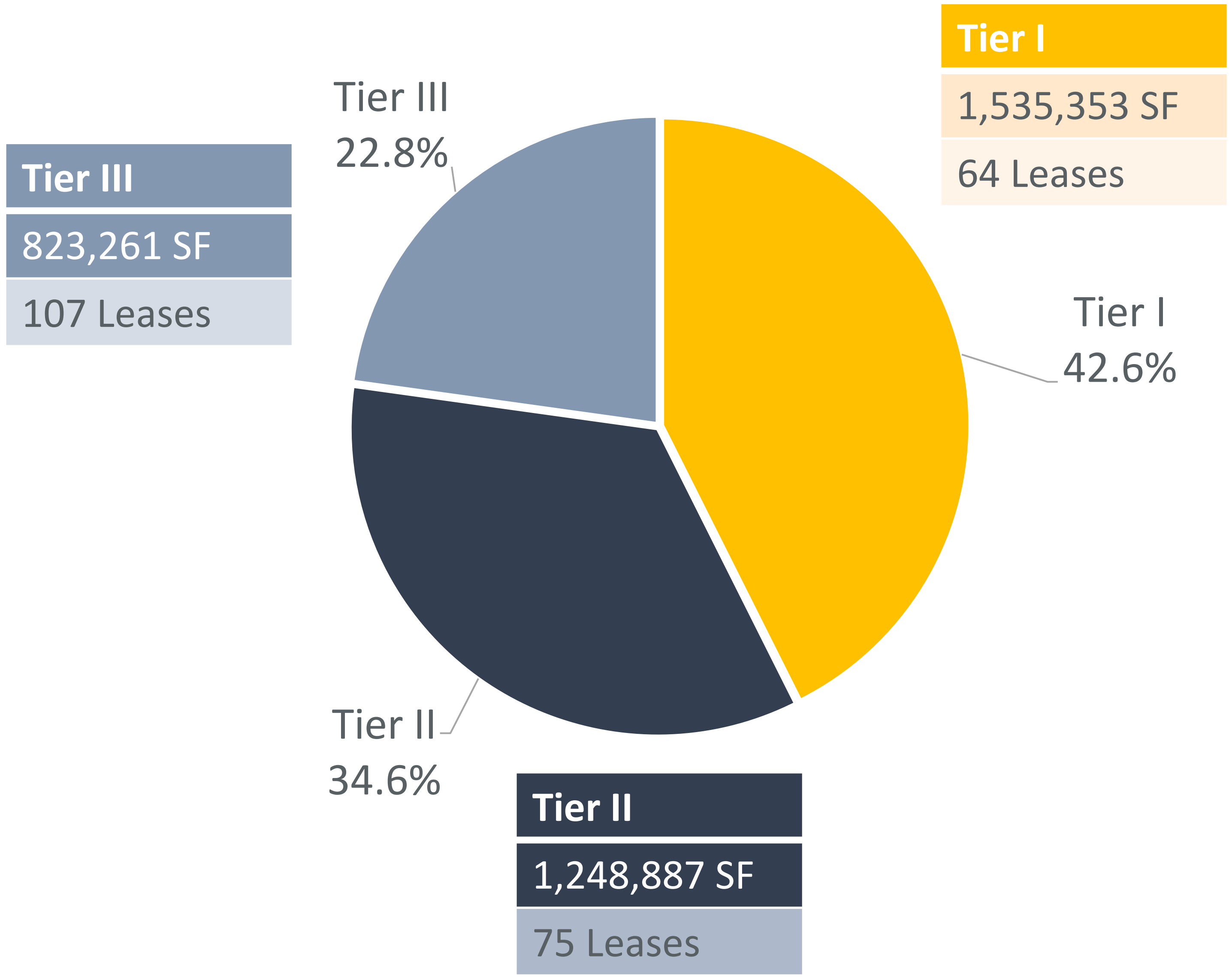
Takeaways:

- The diversity of activity in Tier I across all transaction sizes indicates **a healthy market for trophy class office, likely due to tenants' desire for better amenities**.
- While Tier II saw a resurgence in activity, the fact that this activity was renewal-based signals that **while Tier II space may be desirable for existing tenants, it is hard for Tier II to lease out currently marketed space**.
- Tier III space has had an unusual ability to lease out currently marketed space. This trend was driven by a handful of buildings with high-traffic ground floor retail and Tunnel nodes, reinforcing the idea that **better amenities translate to higher lease-up rates**.

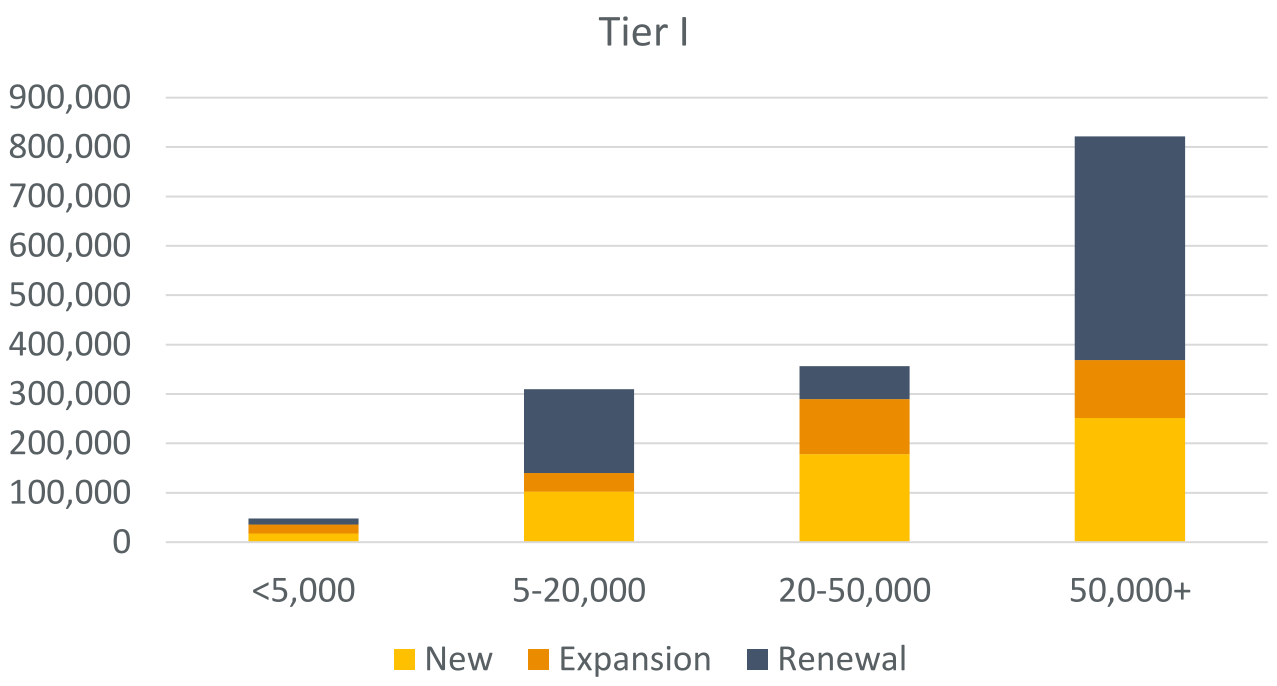
Activity by Tier (2021)



Activity by Tier (2022)

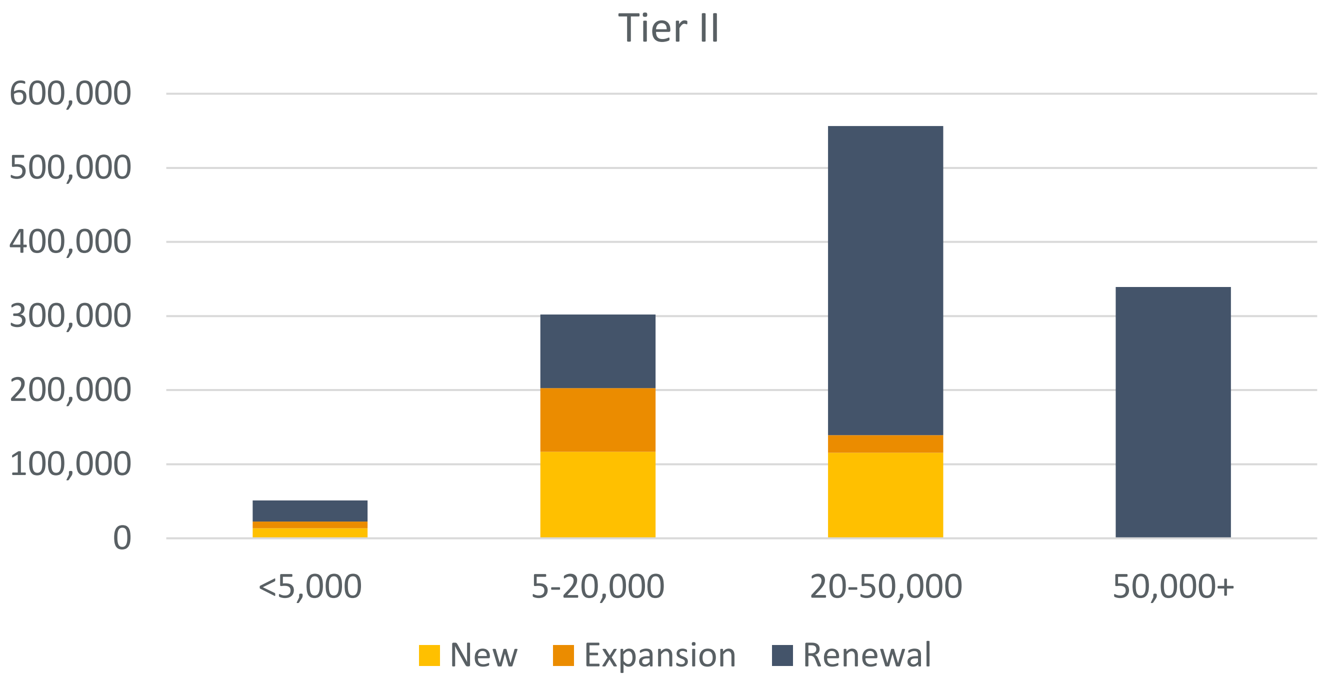


Leases by Size (Tier I)



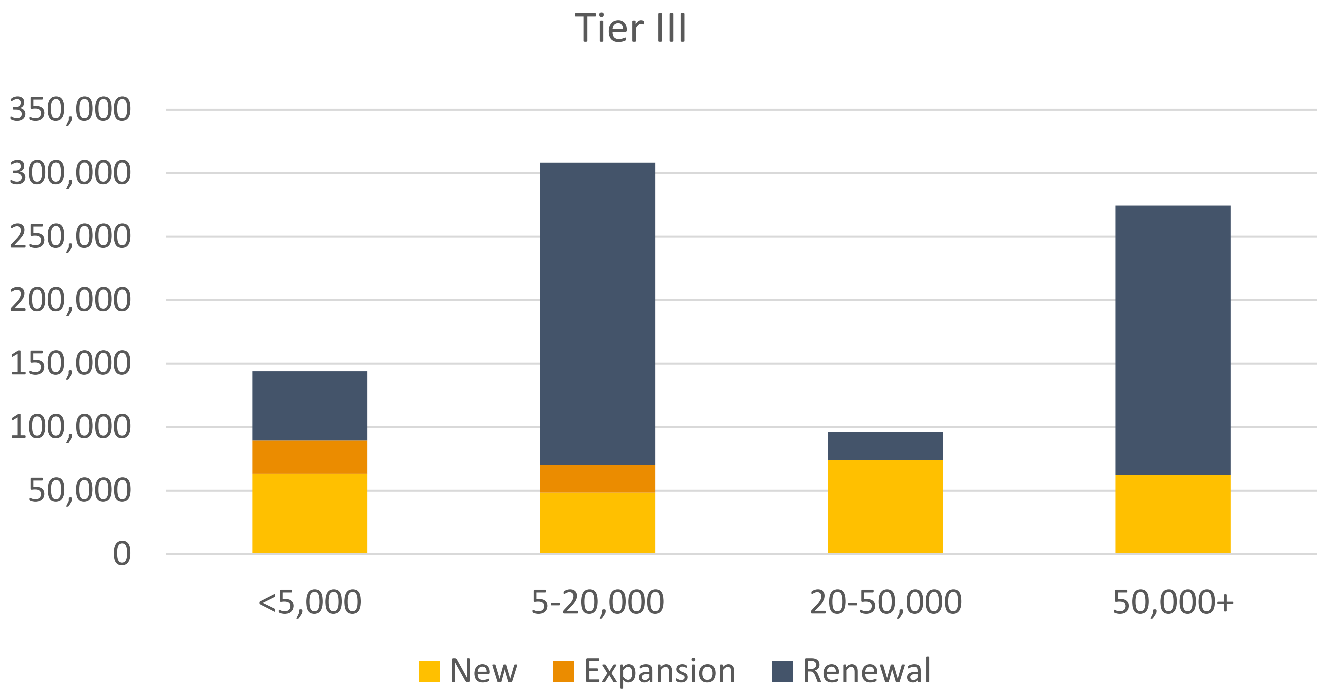
SF	<5K	5-20K	20-50K	50K+
New	7	10	6	2
Expansion	5	4	4	2
Renewal	5	14	3	2

Leases by Size (Tier II)



SF	<5K	5-20K	20-50K	50K+
New	5	12	4	0
Expansion	4	9	1	0
Renewal	12	11	13	4

Leases by Size (Tier III)

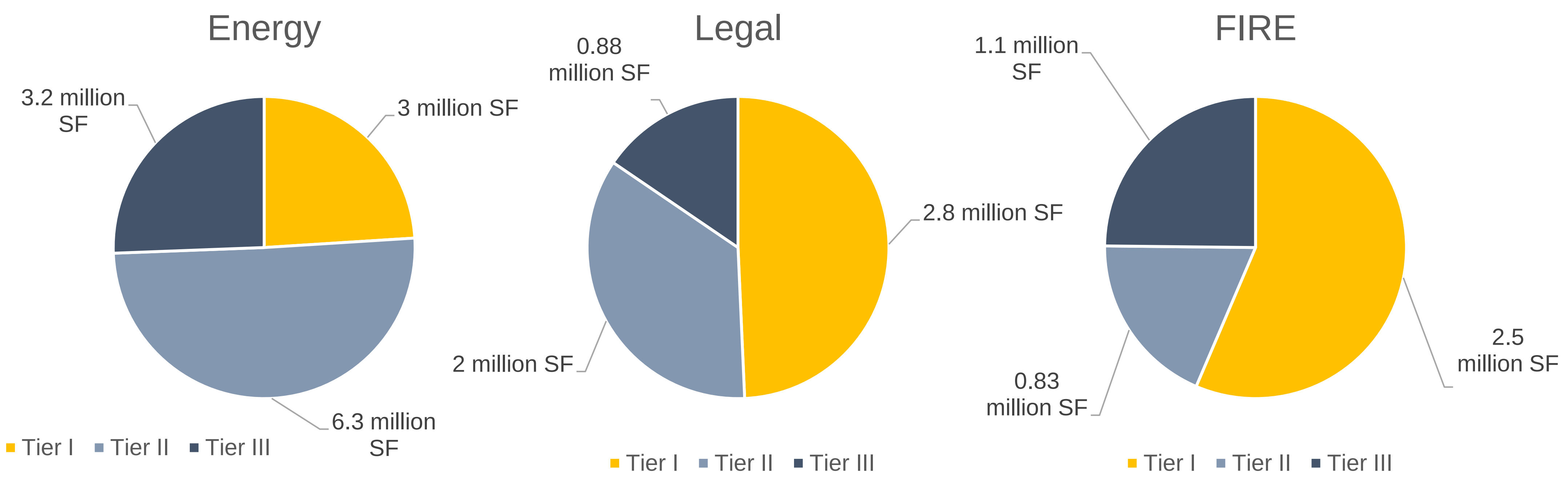


SF	<5K	5-20K	20-50K	50K+
New	30	8	2	1
Expansion	9	3	0	0
Renewal	26	24	1	3

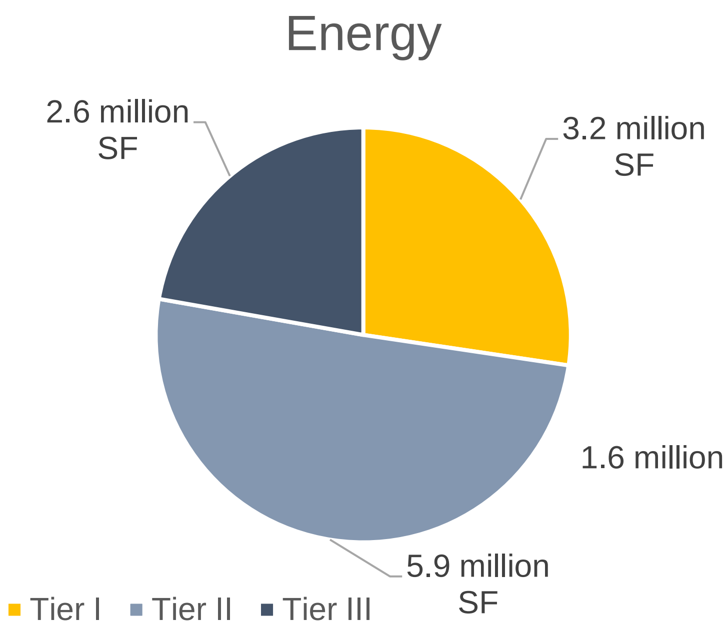
Occupier Analysis

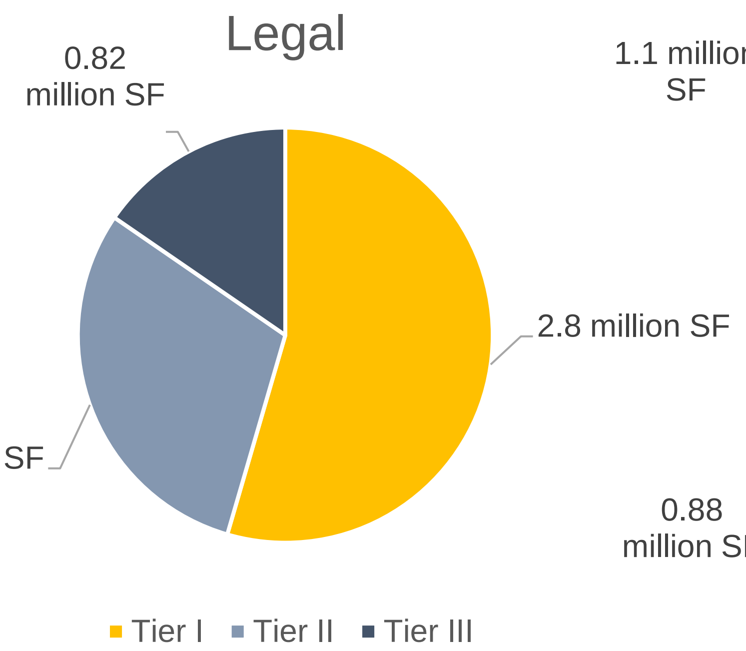
- Energy and Legal have driven the rise in marketed space in Tiers II and III as well as high lease-up rates in Tier I.
- Energy is leasing its lowest share of total leased office space since 2009, while FIRE is leasing its highest share of total leased office space since 2009.

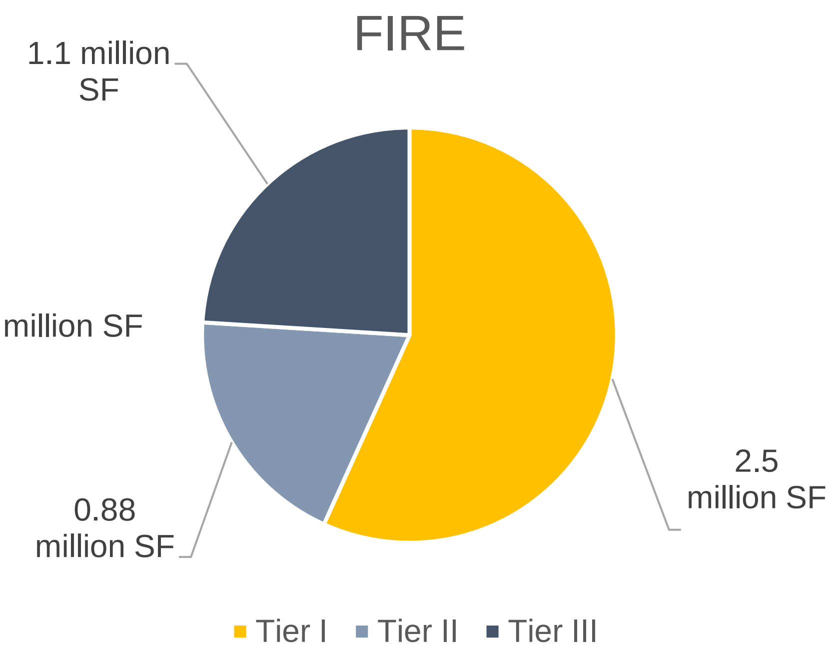
Industry Occupancy by Tier (2021)



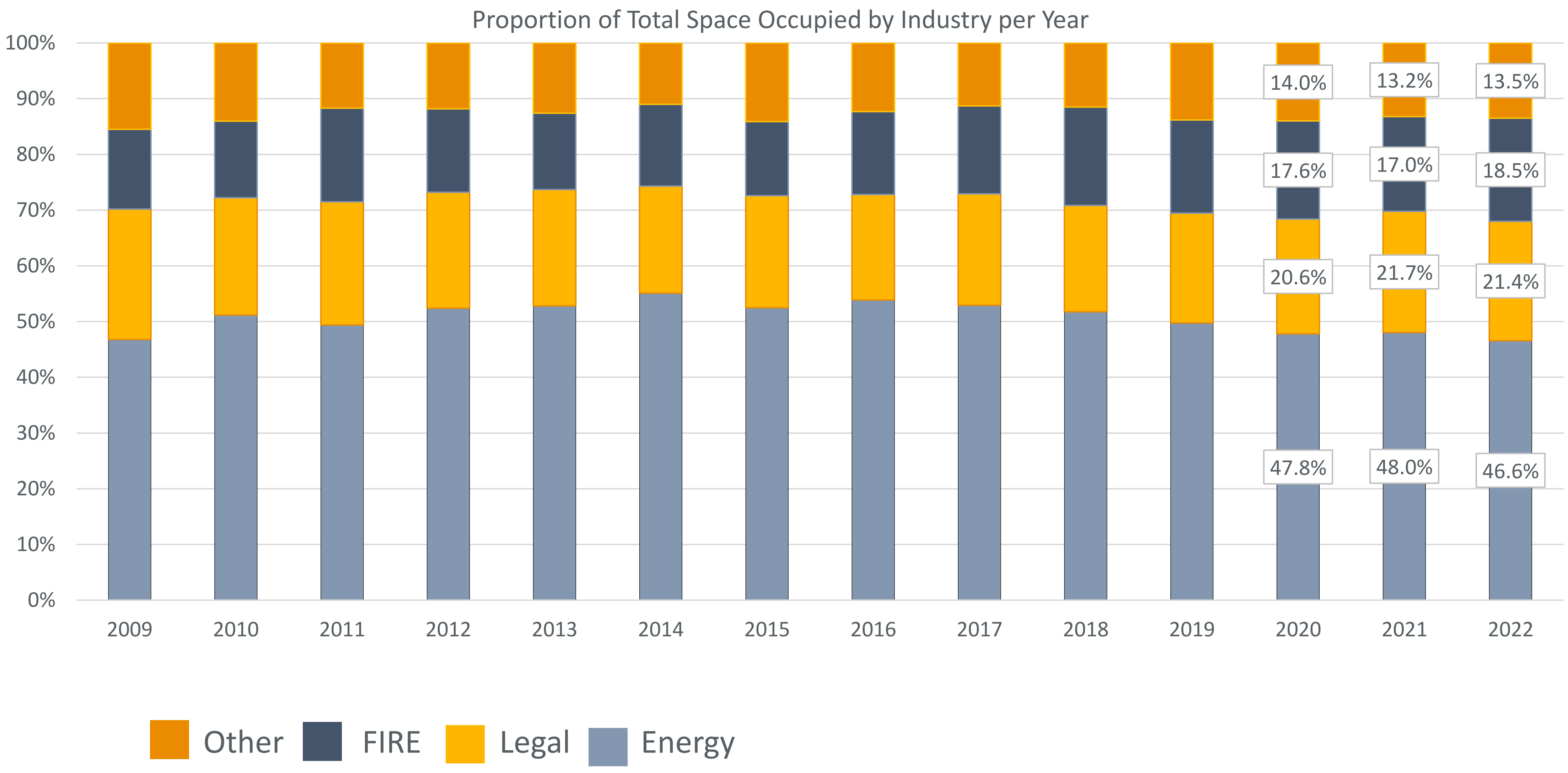
Industry Occupancy by Tier (2022)







Industry Trends



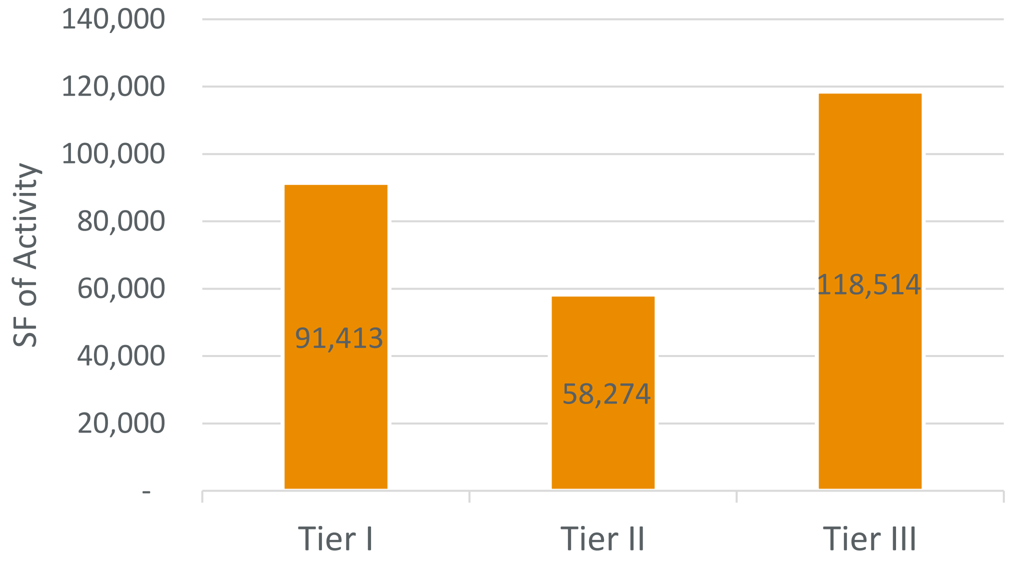
Multi-Floor Occupiers

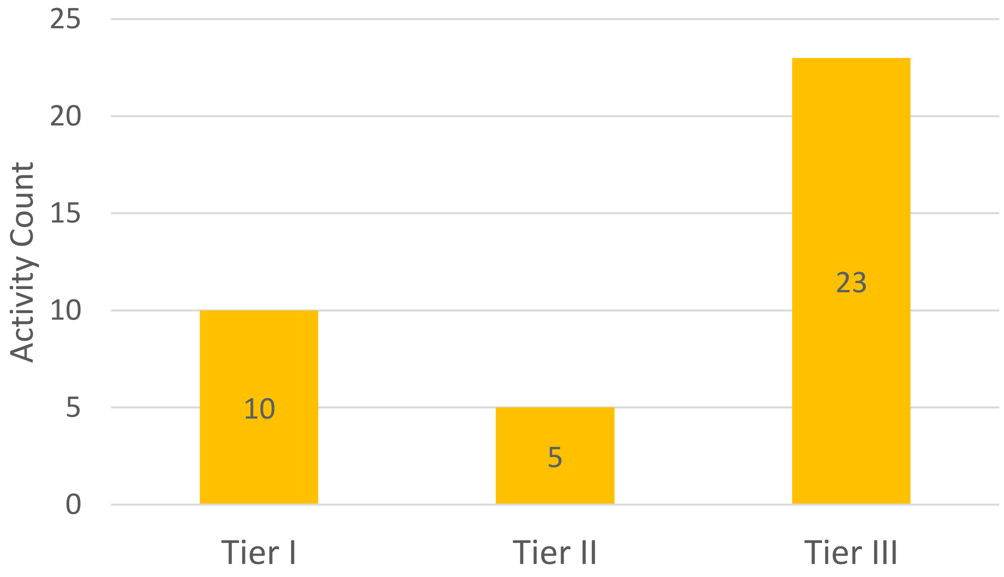
Occupiers By # of Floors

	2018	2019	2020	2021	2022
4+	49	54	54	52	51
2+	124	120	125	134	131
1+	259	260	285	288	281

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.

2022 New Downtown Occupiers

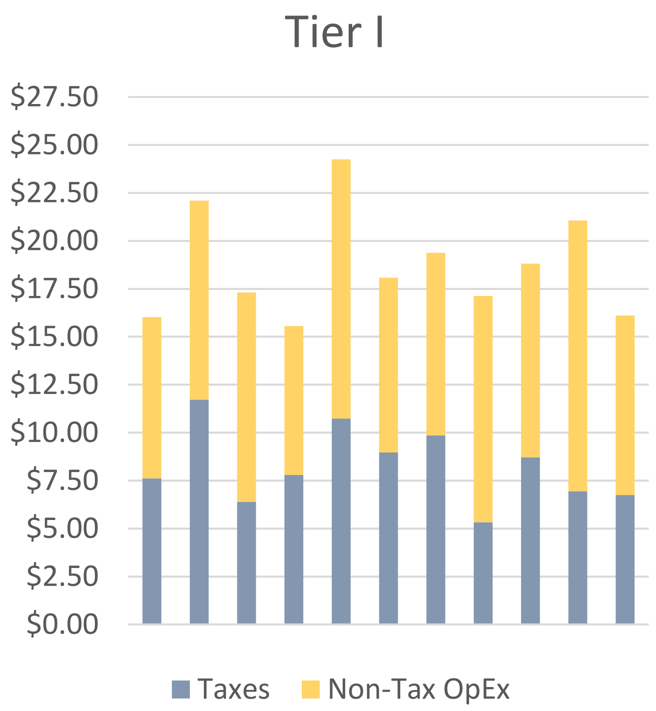


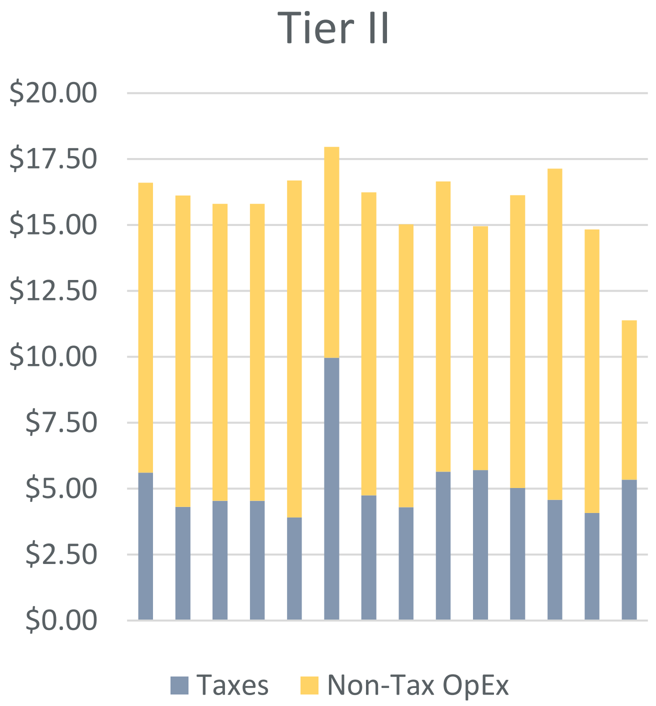


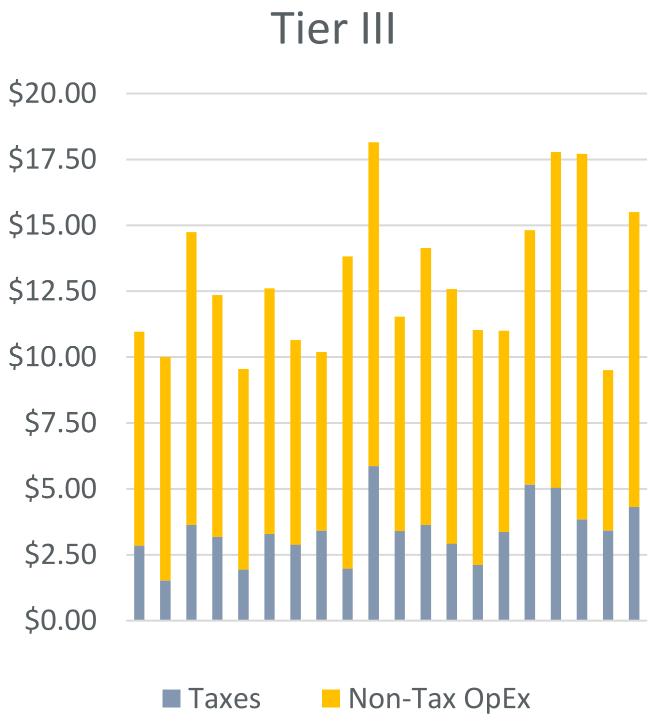
Takeaways:

- Activity count and volume (in SF) increased markedly from last year. The increase in activity was driven by Tiers I and III.
- The average size of leases for new Downtown occupiers increased across the board, suggesting that **companies are eager to expand their Downtown Houston workforce.**

OpEx + Analysis







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

- Tier I pays 43.3% of their OpEx towards property taxes, for Tiers II, III, this figure is 32.7% and 25.8% respectively.
- Tier I also routinely pays more property tax per SF than any other Tier.

2022 Appendix

Survey Background

39th 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.

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Thank You! Questions?