Savills Studley Report
Houston office sector

Q2 2017

SUMMARY

Market Highlights

LEASING REBOUNDS, BUT TRAILS HISTORICAL AVERAGE
Deal volume in the Houston region ticked up to 2.7 msf in the second quarter, improving over the previous two quarters, but still lagged behind the long term historical average of 3.1 msf leased quarterly over the past decade.

CLASS A AVAILABILITY RATE GROWS AT SLOWER PACE
The market's Class A availability rate grew 0.2 pp to 30.7%. The year-on-year increase of 1.5 pp demonstrated a deceleration of new supply. In comparison, the prior four quarters saw an increase of 6.5 pp.

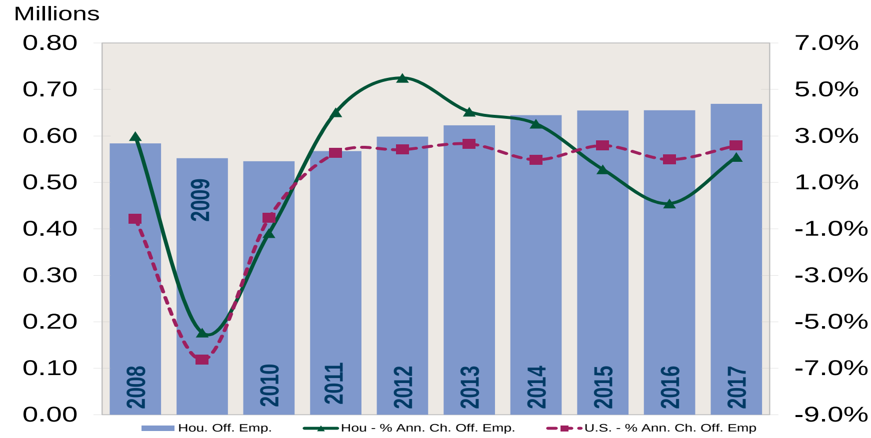
ASKING RENTS MIRED IN STAGNATION
Houston's gross asking rent rose 0.2% quarter-on-quarter, but Class A rent declined 1.5%. Overall market rent declined 2.4% year-on-year, a slight acceleration from the 1.3% decline recorded in the prior four quarters.

SALES FIND SOME TRACTION
Office sales hit a nine-quarter high, posting $975 million in transaction volume (not including the Parkway transaction). Despite high availability rates, transaction volume has nearly recovered to the 2012 through 2014 quarterly volume of $1.02 billion.

"In the first half of 2017, many tenants across multiple industries reduced their footprint to improve space efficiency rather than in response to the overall economic struggles."

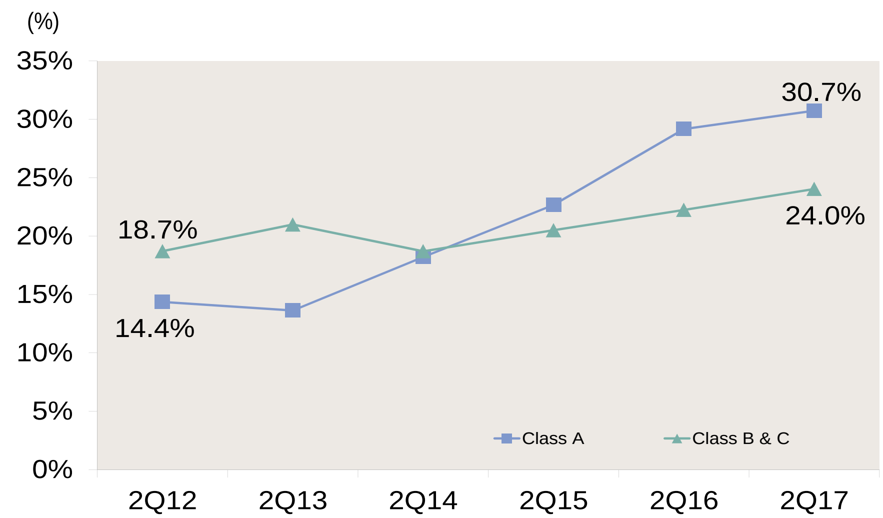
Tim Wingfield,
Savills Studley Research

Office-Using Employment Trends

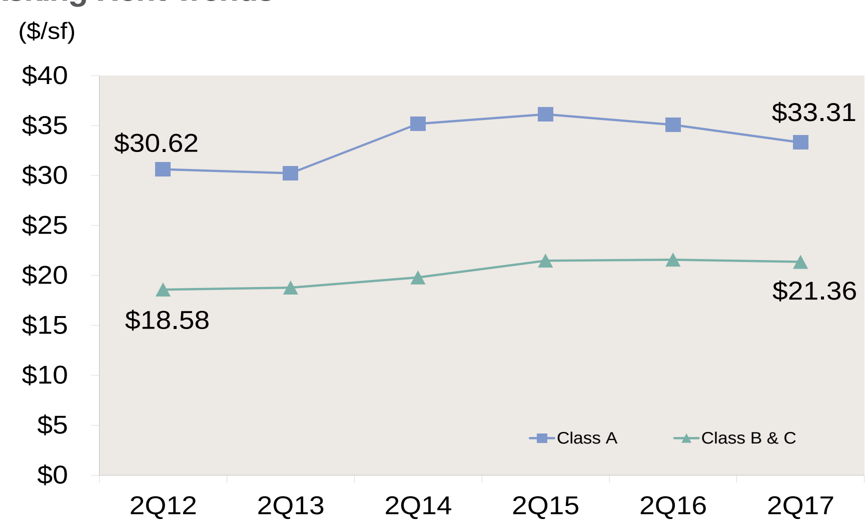


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



More Tenants Seek Efficiency

Houston's second quarter lease transaction volume ticked upward as more tenants sought reduced rents, smaller spaces and reduced lease obligations. Most tenants across all industries sought to reduce their footprint in an ongoing trend within the market. The space reductions, however, were for more efficient space, rather than directly in response to overall economic struggles. With all else equal, new and efficient floor plans offer about a 20% reduction of space required for the same headcount when compared to second-generation spaces. As a consequence of both the economy and more efficient spaces, Houston's office market recorded negative absorption in every quarter of 2016 and the first half of 2017.

One tenant, Apache Corporation, delayed such a move into newer, more efficient space. For the second time in two years, Apache signed a short-term 524,000-sf renewal in Post Oak Central instead of kicking off its own headquarter development. The deal was the market's largest since Chevron's extension in 1600 Smith last year.

Tenants remain attracted to premium spaces as more landlords offered stronger concessions and lease terms. In 2017, long-term leases for credit tenants have enjoyed reduced rents, 12 or more months of free rent and up to $100.00 per square foot in tenant improvement allowances. Notably, tenants have partially avoided elevated rents at 609 Main at Texas, Hines' newest downtown development and the market's largest available Class A direct block. The property, delivered in the first half of 2017, is 49.1% vacant. However, this performance is better than BG Group Place, Hines' last downtown development, which sat 76.3% vacant three months after delivery in 2011.

High Availability Continues

The Houston office market's availability rate rose for the tenth consecutive quarter. In the past 2.5 years, the rate has soared from 17.8% to 27.9%, a staggering jump of 10.1 percentage points. Driving that number was the plethora of large Class A available blocks, as evidenced by the Class A availability rate of 30.7%. A significant story a year ago, the amount of available sublease space has since remained flat. A few large blocks have been placed on the market in 2017. Notably, Enbridge will look to shed just shy of 300,000 square feet on the sublease market as a consequence of its merger with Spectra Energy. However, expiring leases have kept sublease space in check. Instead, available direct space has skyrocketed over the past 12 months, with the market gaining more than 5.1 million square feet in direct space over that time.

Parkway Gets a Partner

The Canada Pension Plan Investment Board (CPPIB) injected new capital into the Houston market as they purchased 49% of Houston-based Parkway's portfolio for $1.2 billion. The 19-building, 8.7-million-sf acquisition included a slew of Class A properties, including the Greenway Plaza complex, CityWest Place, Phoenix Tower, Post Oak Central and San Felipe Plaza. The newly minted JV's portfolio includes an assortment of major energy tenants, including Occidental, Statoil, Apache and Transocean. At the time of the deal, the portfolio was 87.6% leased, which was notably better leased than the Houston market at large.

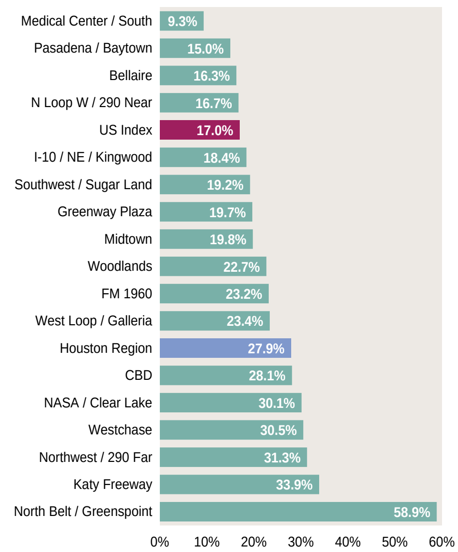
CPPIB will acquire Parkway stock at $23.05 per share, including a $4.00 dividend to be paid before closing. The transaction is expected to close in the fourth quarter of this year. Parkway's primary shareholder, the Texas Pacific Group (TPG Capital), often looks for short-term investment opportunities and sought a quick exit. TPG Capital and its affiliates, which own 9.8% of Parkway's outstanding common stock, voted in favor of the transaction.

Greenway Plaza Outperforms

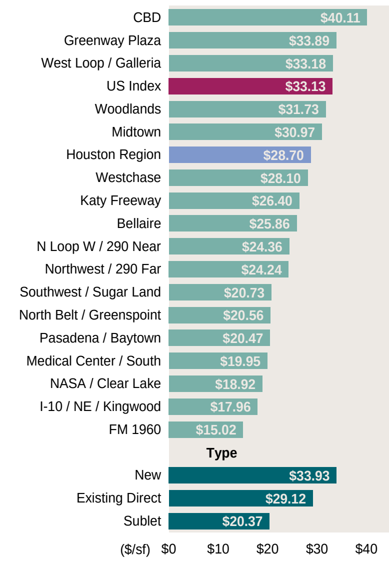
Greenway Plaza, the centerpiece of the transaction, also secured a 60-month first mortgage from Goldman Sachs for $465 million at a competitive 3.8% fixed interest rate. Greenway Plaza's equity and debt investors relied upon existing long-term leases in place. Occidental Oil & Gas Corporation is signed on for 938,626 square feet through December 2026. Invesco Management Group previously inked 391,005 square feet through December 2023. CPL Retail Energy's 201,554 sf will expire in May 2023 while Transocean's 255,413 sf will last through January 2023.

Consequently, the relative strength of the Greenway Plaza submarket shines through. Within the Houston area, the submarket's $33.89 average gross asking rent trails only the CBD. Historically, Greenway Plaza submarket rent trailed the Galleria submarket, but that is no longer the case. Of submarkets with 5.0 million sf of Class A space, Greenway Plaza has the lowest

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Apache Corporation	524,000	1990 & 2000 Post Oak Blvd	West Loop/Galleria
Morgan Lewis	74,100	1000 Louisiana St	CBD
Archrock	73,128	9807 Katy Fwy	Katy Freeway
Gibson, Dunn & Crutcher	54,918	811 Main St	CBD
Saipem	54,426	1311 Broadfield Blvd	Katy Freeway
PCL Industrial Construction	36,596	2232 W Grand Pky N	Katy Freeway
Siemens	29,361	15375 Memorial Dr	Katy Freeway
Castex Energy	27,673	333 Clay St	CBD
Jones Walker	27,459	811 Main St	CBD
Tour Texas	25,315	10001 Woodloch Forest Dr	The Woodlands
Sum of Top 10 Leases	**926,976**	**Sum of 2nd Qtr Leasing Activity**	**2.7 MSF**

Class A availability rate of 20.9%, lower than other relatively strong markets such as The Woodlands (25.2%), the CBD (25.9%) and West Loop/Galleria (26.3%).

Looking Forward

In the second half of 2017, expect the growth of available space to slow even further. Although it will take years for the Houston office market to recover, the majority of new supply has already hit the market. On the development side, the only current construction project set to deliver more than 200,000 square feet of availability is Capitol Tower, Skanska's 778,344-sf development with a planned completion in the first half of 2019. Space occupiers should keep an eye out for sublease space as multiple existing blocks continue to feel the squeeze over time while a few new ones are likely to deliver to market. However, by the end of 2019, 3.0 million square feet of existing sublease space is set to reach its lease expiration date.

Although Bank of America Center will lose its namesake to Capitol Tower, the trophy property should do well in the quarters and years to come. In fact, despite pressure from new projects 609 Main at Texas and Capitol Tower, the CBD is significantly better positioned than relatively empty energy-reliant submarkets such as the Katy Freeway (Energy Corridor), Westchase and Greenspoint. One such action that echoed this sentiment was Goldman Sachs' $163.5 million refinance of Hines' and Prime Asset Management's 717 Texas, a 48.9% leased office building that just lost Freeport McMoRan, which was its largest tenant at around 366,000 square feet. Large refinancing like the one at 717 Texas will likely have a neutral effect for tenants in the office market.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	**Bellaire**	3,027	118	493	-1.0%	425	16.3%	-0.1%	13.9%	$25.86	4.4%	$24.05
	Bellaire - Class A	1,371	63	306	17.4%	186	22.3%	-1.6%	17.1%	$27.21	4.1%	$25.11
2	**Central Business District**	37,827	1,971	10,635	6.1%	9,686	28.1%	2.8%	24.4%	$40.11	-1.7%	$40.76
	Central Business District - Class A	27,801	1,769	7,188	3.3%	6,546	25.9%	1.4%	23.0%	$43.62	-0.2%	$43.87
3	**FM 1960**	2,634	184	610	-9.3%	720	23.2%	-1.2%	26.1%	$15.02	-2.0%	$16.01
	FM 1960 - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4	**Greenway Plaza**	9,920	383	1,953	7.8%	1,558	19.7%	1.6%	15.6%	$33.89	0.1%	$34.79
	Greenway Plaza - Class A	7,286	266	1,526	10.1%	1,226	20.9%	0.9%	17.7%	$36.26	-1.2%	$37.44
5	**I-10/NE/Kingwood**	1,310	36	241	2.8%	168	18.4%	0.5%	12.8%	$17.96	-3.0%	$18.23
	I-10/Northeast/Kingwood - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	**Katy Freeway**	27,053	1,064	9,169	-3.5%	9,599	33.9%	-2.3%	36.6%	$26.40	-8.4%	$30.52
	Katy Freeway - Class A	17,776	602	6,604	-5.6%	7,026	37.2%	-3.8%	41.1%	$28.77	-9.1%	$34.24
7	**Medical Center/South**	1,683	119	157	-60.0%	462	9.3%	-7.4%	19.7%	$19.95	-24.9%	$26.47
	Medical Center/South - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8	**Midtown**	4,699	240	930	11.7%	749	19.8%	2.6%	15.5%	$30.97	2.4%	$33.97
	Midtown - Class A	1,773	66	695	103.9%	471	39.2%	14.3%	34.4%	$29.87	2.9%	$34.36
9	**North Belt/Greenspoint**	10,836	455	6,383	-0.7%	5,782	58.9%	1.8%	51.4%	$20.56	-1.0%	$21.31
	North Belt/Greenspoint - Class A	5,124	0	3,801	15.0%	3,009	74.2%	1.9%	65.9%	$23.65	-1.0%	$24.08
10	**NASA/Clear Lake**	4,266	126	1,286	-19.7%	1,493	30.1%	-1.6%	29.6%	$18.92	2.6%	$18.03
	NASA/Clear Lake - Class A	1,445	0	202	14.0%	158	14.0%	-0.4%	12.9%	$24.49	-0.4%	$24.20
11	**North Loop W/290 Near**	4,796	216	803	0.3%	821	16.7%	1.3%	15.8%	$24.36	1.4%	$23.13
	North Loop W/290 Near - Class A	1,189	0	386	0.3%	384	32.5%	-5.8%	38.2%	$26.81	3.8%	$25.75
12	**Northwest/290 Far**	10,760	476	3,371	-7.6%	3,442	31.3%	-1.1%	30.6%	$24.24	-1.8%	$20.85
	Northwest/290 Far - Class A	6,114	149	2,156	-6.7%	1,857	35.3%	-1.3%	29.4%	$26.57	-2.5%	$23.65
13	**Pasadena/Baytown**	2,327	144	349	-0.8%	399	15.0%	0.0%	17.1%	$20.47	3.0%	$21.82
	Pasadena/Baytown - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
14	**Southwest/Sugar Land**	13,502	563	2,591	-0.5%	2,475	19.2%	1.2%	17.1%	$20.73	2.3%	$20.39
	Southwest/Sugar Land - Class A	4,926	215	836	6.6%	819	17.0%	1.1%	16.6%	$24.90	3.8%	$24.50
15	**West Loop/Galleria**	29,774	980	6,961	3.3%	6,320	23.4%	1.0%	21.0%	$33.18	2.0%	$33.24
	West Loop/Galleria - Class A	19,318	573	5,084	8.8%	4,343	26.3%	-0.3%	24.8%	$36.60	1.3%	$37.17
16	**Westchase**	14,571	539	4,447	6.8%	3,623	30.5%	2.6%	24.3%	$28.10	-1.2%	$32.02
	Westchase - Class A	8,736	318	3,125	10.0%	2,646	35.8%	2.5%	31.0%	$32.87	-2.5%	$37.09
17	**Woodlands**	8,181	516	1,855	-6.9%	2,458	22.7%	-0.3%	28.4%	$31.73	4.8%	$32.43
	Woodlands - Class A	5,072	397	1,280	-8.9%	1,698	25.2%	-2.1%	33.0%	$37.85	2.9%	$36.02
1-17	**Greater Houston Total**	**187,166**	**8,113**	**52,235**	**-0.1%**	**50,182**	**27.9%**	**0.8%**	**26.0%**	**$28.70**	**0.2%**	**$29.40**
	Greater Houston Total - Class A	**108,125**	**4,418**	**33,236**	**4.2%**	**30,465**	**30.7%**	**0.2%**	**29.2%**	**$33.31**	**-1.5%**	**$35.08**

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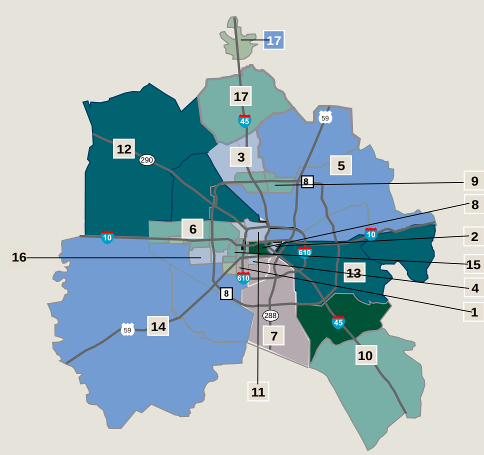

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.