Savills Studley Report
Houston office sector

Q3 2017

SUMMARY

Market Highlights

STEADY, BUT STILL SUBPAR LEASING
Continuing the trend from the prior three quarters, quarterly leasing activity totaled just 2.3 msf, falling short of the long-term historical average of 3.2 msf. Tenants have leased 8.5 msf in the four most recent quarters, or 33.6% below the longer term average.

OVERALL AVAILABILITY UP AGAIN
Houston's overall availability rate jumped by 130 basis points to 28.4%. The Class A rate rose by 60 basis points to 31.1% and has increased by 190 basis points year-on-year.

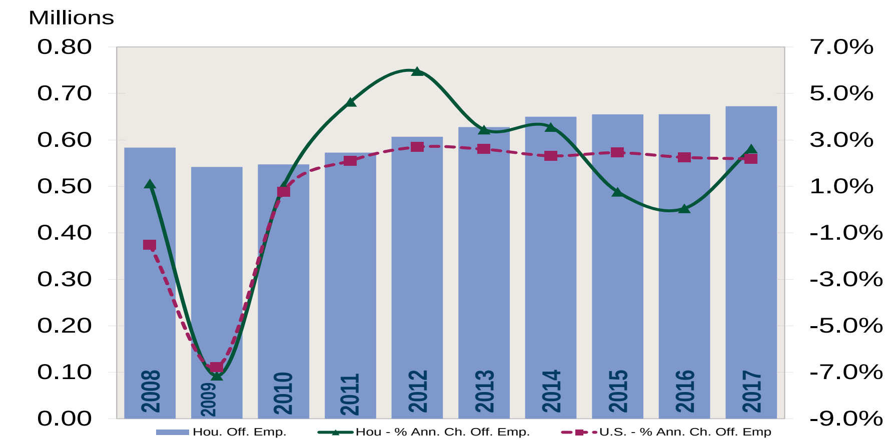
ASKING RENT MOSTLY UNCHANGED
Average asking rent for the entire region increased by 0.9% to $28.95. Year-on-year, average asking rent declined just one cent. The Class A rate rose by 1.4% to $33.78, but has decreased by 0.8% year-on-year.

SALES ACTIVITY SLOWS ONCE MORE
Investors have been less active in Houston during the third quarter, mustering just $282 million. Over the prior 12 months, sales totaled $3.0 billion, nearly double the prior 12 months, but expect investor caution throughout the post-storm recovery.

"The people of Houston endured and persevered against Hurricane Harvey with a uniquely Texan resiliency. For many, life is back to normal, while for others normalcy is in the far distance. Similarly, much of the office market was unaffected by the storm event, although complete recovery for some buildings is still days or months away."

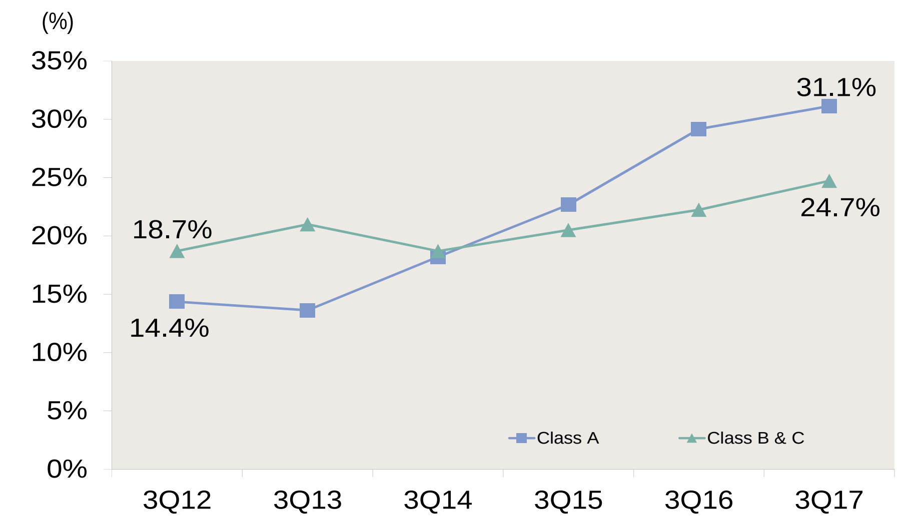
Tim Wingfield,
Savills Studley Research

Office-Using Employment Trends

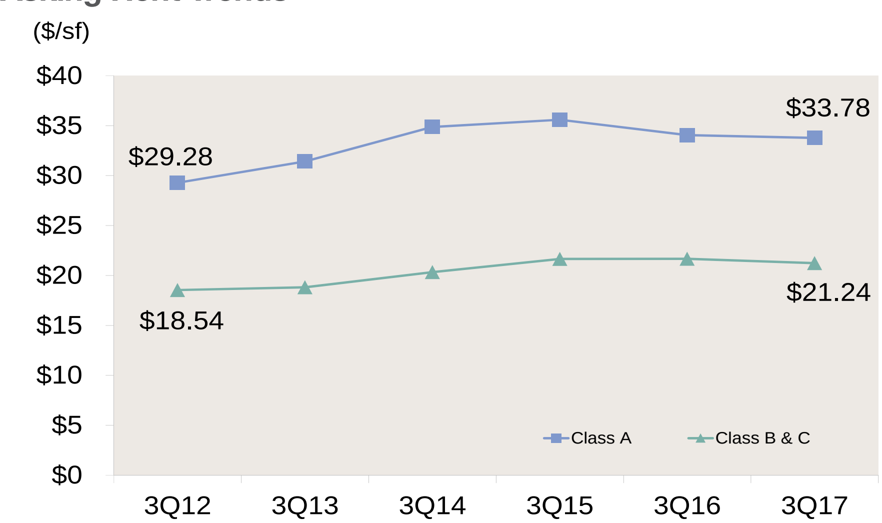


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



On The Mend

The Houston region continues to come together and unite to deal with the devastating impact from Hurricane Harvey. The storm will have long-lasting impacts on Houston itself, although the effects on office properties were limited to a handful of buildings. In the short term, businesses (and, importantly, the people behind them) are doing their best to get back up and running. Tenants still displaced due to the storm event have sought temporary space in a market ripe with availability, although most of those tenants hope to be back in their offices before year's end. Compared to single-family housing, office properties were largely spared from damage; however, select buildings within the city face a delayed recovery. The city has faced natural disasters before, whether it be Tropical Storm Allison, Hurricane Ike, or more recently, the Memorial Day flood of 2015 or the Tax Day flood of 2016. All that said, it is worth reiterating that Hurricane Harvey was altogether different in scale of impact as it shattered all water volume records for a rain event in the United States. The memory of the storm will stick in the minds of regional planners, risk managers, office users and property owners for years to come.

Most firms lost at least two weeks of productivity due to impassable roads and flooded buildings, while others still endure hardship from unavailable, damaged offices. While on the road back to normalcy, Harvey may also force some tenants to delay long-term space-use decisions. Companies with an approaching renewal in properties that experienced damage might now consider relocating within Greater Houston.

The most notable office damage occurred along Buffalo Bayou between the reservoirs and downtown, including the Energy Corridor, Riverway and along Allen Parkway. Examples include, but are not limited to, West Memorial Place I and II, One and Three Riverway, and the AIG campus. Notably, 2777 Allen Parkway is not scheduled for reopening until late December, and Wortham Tower is similarly closed through, at least, late February 2018.

Market Value Endures

Understandably, some investment sales were delayed as well, but the market's status as a long-term value, particularly for investors priced out of Manhattan, San Francisco or Los Angeles remains intact. Before the storm descended on Houston, investors were seizing opportunities to expand their exposure to a market depressed by the ongoing energy downturn, hoping to capture value before an assumed recovery. Through this quarter, 12-month office investment sales were up 98.6% year-on-year by dollar volume. Investment activity was driven by three notable portfolio plays, including Brookfield's $875 million acquisition of the Houston Center, TH Real Estate, Silverpeak and CPPIB's $512 million deal for 49% of Greenway Plaza and Spear Street Capital's $274 million buy of the Houston portfolio of Columbia Property Trust.

Downtown Activity Props Up Weak Market

Leasing activity in the Central Business District accounted for more than a third of total volume in the third quarter. Headlining all leases was NRG's 431,307-sf deal in Shell sublease space at 910 Louisiana Street (the 50-story tower previously known as One Shell Plaza). The electric power company will vacate about 250,000 sf of office space in GreenStreet, a popular downtown mixed-use complex. Ownership of the GreenStreet property plans to renovate the office space with aims toward creative office use.

Porter Hedges signed onto a long-term renewal at its 1000 Main Street headquarters. The 105,026-sf space hosts 109 lawyers as well as staff. Porter Hedges is the seventh-largest law firm in the Houston area, based on the number of local lawyers. For downtown, big law firms (such as Porter Hedges), international banking and energy trading have oftentimes served as a steady leasing counterbalance to the cyclical space needs of energy companies.

Other notable downtown deals spread across various buildings, including Talos Energy (85,050 sf) in 1200 Smith Street, EDF Trading (61,845 sf) in 601 Travis Street, The Bank of Nova Scotia (31,453 sf) in 711 Louisiana Street, Platts (28,560 sf) in 1111 Bagby Street, Lazard Financial Advisory (22,079 sf) in 600 Travis Street, and ANR Pipeline Company (20,773 sf) in 700 Louisiana Street. Notably absent from leases above 20,000 sf for the quarter were any deals from major western submarkets West Loop/Galleria, Westchase and Katy Freeway/Energy Corridor.

Negative Absorption Streak Continues

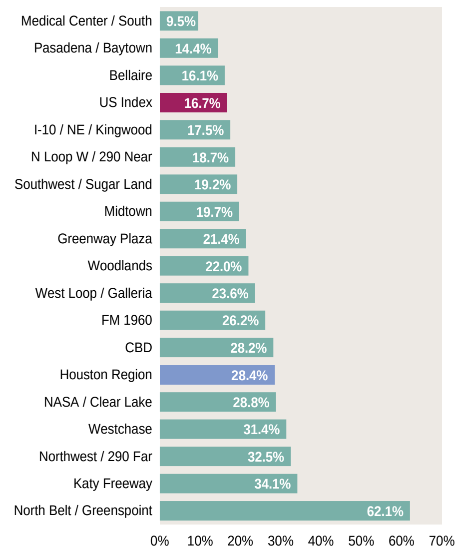
For the eleventh-straight quarter, the Houston market endured negative net absorption. Net absorption for the third quarter totaled -807,877 sf. Over the past eleven quarters, net absorption totaled -11,187,526 sf and averaged -1,017,047 sf. Negative activity has been fairly evenly distributed between lessors and sublessors during this time. Specifically, sublessors accounted for 3.0 million sf of negative net absorption, or 27.2%, over that time span. Landlords will continue to feel more downward pressure as the glut of available sublease space expires and turns back over to the building owners.

Without strong new demand from major occupiers, multiple suburban submarkets will continue to struggle. North Belt/Greenspoint Class A availability notched another 2.6 percentage points up to an astonishing 75.0%. At this time, the general consensus is that this submarket will never truly recover. Katy Freeway Class A availability fell somewhat to a still-elevated level of 37.2%. Westchase Class A availability added 280 basis points to 36.1%, and is now at risk of passing the nearby Energy Corridor submarket.

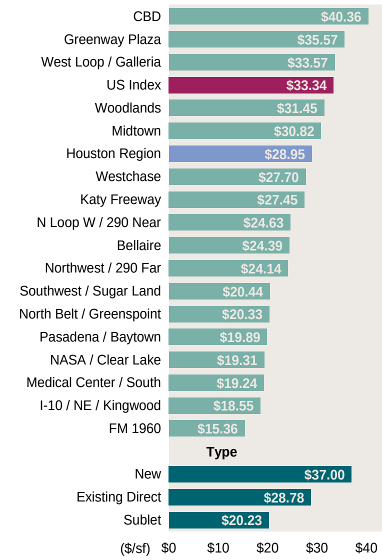
Looking Forward

The plethora of available space opportunities for Houston office users provides tenants with more than sufficient leverage for favorable economics and terms during lease negotiations. However, absent a sudden return to significant hiring in energy and related sectors, there is insufficient organic growth in office demand to reverse the now commonplace downward trends in net absorption, total vacancy and asking rental rates. For the most part, tenants are either satisfied with their current footprint, or are seeking more efficient downsizing options. In fact, the average deal size in the market dipped under 5,000 sf for the first time since 2009. The Houston office market is still a far distance away from space-using demand catching back up to supply for equilibrium. Expect tenant-favorable conditions throughout the rest of 2017 and into 2018.

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

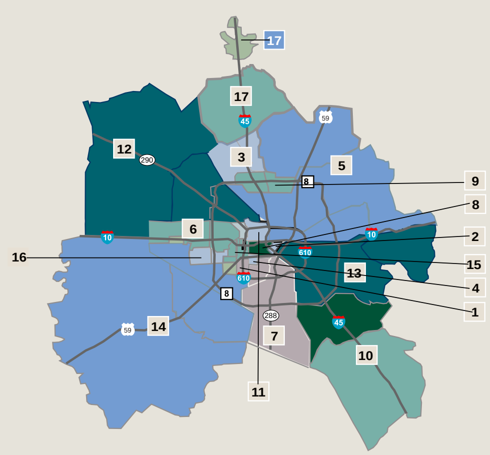
Tenant	Sq Feet	Address	Market Area
NRG Energy	431,307	910 Louisiana St	CBD
Porter Hedges	105,026	1000 Main St	CBD
Talos Energy	85,050	1200 Smith St	CBD
EDF Trading	61,845	601 Travis St	CBD
The Bank of Nova Scotia	31,453	711 Louisiana St	CBD
Platts	28,560	1111 Bagby St	CBD
Chamberlain College of Nursing	23,075	11025 Equity Dr	Northwest/290 Far
Lazard Financial Advisory	22,079	600 Travis St	CBD
The Rand Group	21,500	6575 W Loop S	Bellaire
ANR Pipline Company	20,773	700 Louisiana St	CBD
Sum of Top 10 Leases	**830,668**	**Sum of 3rd Qtr Leasing Activity**	**2.3 MSF**

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	121	487	-1.2%	453	16.1%	-0.2%	13.9%	$24.39	-5.7%	$24.89
	Bellaire - Class A	1,371	90	270	-11.7%	203	19.7%	-4.2%	17.1%	$24.86	-8.6%	$25.78
2	**Central Business District**	37,827	2,683	10,660	0.2%	9,814	28.2%	2.9%	24.4%	$40.36	0.6%	$39.21
	Central Business District - Class A	27,801	2,403	7,363	2.4%	6,728	26.5%	2.0%	23.0%	$43.81	0.4%	$41.22
3	**FM 1960**	2,634	148	690	13.0%	724	26.2%	1.8%	26.1%	$15.36	2.3%	$15.55
	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	445	2,123	8.7%	1,810	21.4%	3.3%	15.6%	$35.57	5.0%	$34.15
	Greenway Plaza - Class A	7,286	329	1,691	10.8%	1,428	23.2%	3.2%	17.7%	$38.14	5.2%	$36.97
5	**I-10/NE/Kingwood**	1,310	45	229	-5.0%	225	17.5%	-0.4%	12.8%	$18.55	3.3%	$18.32
	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	978	9,235	0.7%	10,102	34.1%	-2.0%	36.6%	$27.45	4.0%	$28.96
	Katy Freeway - Class A	17,776	548	6,614	0.2%	7,374	37.2%	-3.7%	41.1%	$30.62	6.4%	$31.84
7	**Medical Center/South**	1,683	97	161	2.3%	445	9.5%	-7.2%	19.7%	$19.24	-3.5%	$26.53
	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	158	925	-0.5%	710	19.7%	2.5%	15.5%	$30.82	-0.5%	$33.97
	Midtown - Class A	1,773	20	683	-1.7%	247	38.5%	13.7%	34.4%	$29.87	0.0%	$39.75
9	**North Belt/Greenspoint**	10,836	376	6,728	5.4%	5,896	62.1%	5.0%	51.4%	$20.33	-1.1%	$20.94
	North Belt/Greenspoint - Class A	5,124	0	3,841	1.1%	3,116	75.0%	2.6%	65.9%	$23.70	0.2%	$23.39
10	**NASA/Clear Lake**	4,266	152	1,229	-4.4%	1,202	28.8%	-2.9%	29.6%	$19.31	2.0%	$18.28
	NASA/Clear Lake - Class A	1,445	0	199	-1.7%	171	13.7%	-0.7%	12.9%	$24.51	0.1%	$23.87
11	**North Loop W/290 Near**	4,796	219	898	11.9%	808	18.7%	3.3%	15.8%	$24.63	1.1%	$23.24
	North Loop W/290 Near - Class A	1,189	0	381	-1.4%	371	32.1%	-6.2%	38.2%	$27.02	0.8%	$25.83
12	**Northwest/290 Far**	10,760	464	3,496	3.7%	3,656	32.5%	0.1%	30.6%	$24.14	-0.4%	$22.03
	Northwest/290 Far - Class A	6,114	192	2,105	-2.3%	2,052	34.4%	-2.1%	29.4%	$26.42	-0.6%	$24.41
13	**Pasadena/Baytown**	2,327	141	336	-3.6%	402	14.4%	-0.6%	17.1%	$19.89	-2.8%	$20.55
	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	495	2,597	0.2%	2,406	19.2%	1.2%	17.1%	$20.44	-1.4%	$19.81
	Southwest/Sugar Land - Class A	4,926	179	855	2.3%	785	17.4%	1.5%	16.6%	$23.93	-3.9%	$24.50
15	**West Loop/Galleria**	29,774	1,040	7,035	1.1%	6,388	23.6%	1.2%	21.0%	$33.57	1.2%	$32.85
	West Loop/Galleria - Class A	19,318	621	5,214	2.6%	4,283	27.0%	0.3%	24.8%	$36.89	0.8%	$37.44
16	**Westchase**	14,571	481	4,576	2.9%	3,972	31.4%	3.5%	24.3%	$27.70	-1.5%	$29.61
	Westchase - Class A	8,736	256	3,152	0.9%	2,869	36.1%	2.8%	31.0%	$32.06	-2.5%	$34.59
17	**Woodlands**	8,181	501	1,799	-3.0%	2,376	22.0%	-1.0%	28.4%	$31.45	-0.9%	$32.44
	Woodlands - Class A	5,072	346	1,230	-3.9%	1,606	24.3%	-3.1%	33.0%	$38.18	0.9%	$36.31
1-17	**Greater Houston Total**	**187,166**	**8,527**	**53,204**	**1.9%**	**51,389**	**28.4%**	**1.3%**	**26.0%**	**$28.95**	**0.9%**	**$28.96**
	Greater Houston Total - Class A	**108,125**	**4,985**	**33,663**	**1.3%**	**31,313**	**31.1%**	**0.6%**	**29.2%**	**$33.78**	**1.4%**	**$34.06**

Please contact us for further information

Savills Studley
333 Clay Street,
Suite 3700
Houston, TX 77002
(713) 522-5300

Co-Branch Managers
Mark W. O'Donnell - EVP, modonnell@savills-studley.com
W. Derrell Curry - EVP, dcurry@savills-studley.com
Kyle Kelley - EVP, kkelley@savills-studley.com
Drew Morris - SVP, dmorris@savills-studley.com



(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.