

Houston



The Skyline market for Houston is defined as the Trophy market, which is further defined as top-tier Class A product that is larger than 500,000 square feet in a centralized core Houston location. The key indicator for inclusion or exclusion is based on rent levels. The current threshold requires that buildings consistently garner rents greater than \$27.00 NNN.



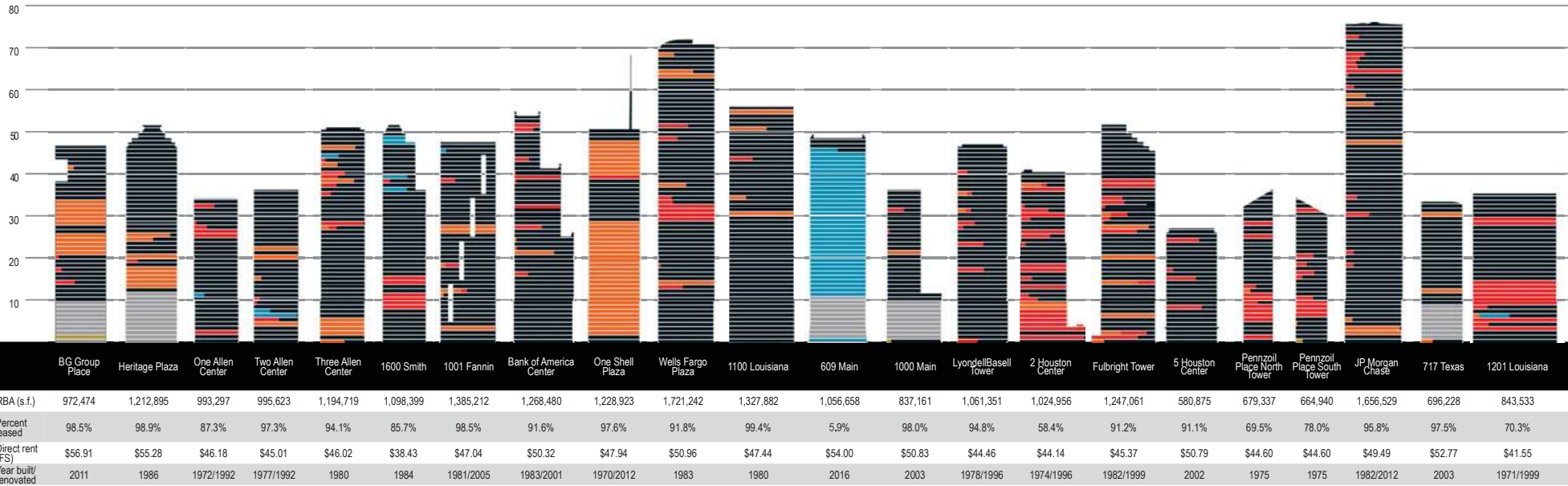
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Houston SKYLINE

Tenants and landlords remain cautious in the face of market volatility

Houston's Skyline is characterized by contradictions. A 37.0 percent drop in leasing activity in 2015 set the stage for slight negative absorption to start 2016, yet asking rents remain near all-time highs. Sublease space climbs to record levels, yet direct vacancy persists below 10.0 percent even with deceleration in tenant activity.

Despite uncertainty facing the Skyline, two things remain clear. First, the Skyline continues to significantly outperform the overall Houston Class A office market. In the first quarter of 2016, the Skyline recorded a direct vacancy rate of 9.4 percent, lower than the Class A market's 15.5 percent. Additionally, higher asking rents were recorded for the seventh consecutive quarter: \$31.83 per square foot NNN in Skyline properties, versus \$23.70 per square foot NNN in overall Class A.

Second—and notwithstanding the superior occupancy and asking rent spread between the Skyline and broader Class A market—leverage within the Skyline will continue to shift in favor of tenants in 2016. This will manifest as a widening delta between asking and strike price on rents, greater flexibility in lease terms and increased concessions to tenants. Moving forward, the Skyline will remain tenant-favorable through 2017.

Skyline leverage



- Tenant-favorable market
- Neutral market
- Landlord-favorable market

Skyline analysis

9.4%
DIRECT VACANT

\$47.97
DIRECT AVERAGE ASKING RENT (\$ P.S.F.)

1,056,658
S.F. UNDER CONSTRUCTION

-1.2%
2015 NET ABSORPTION (% OF INVENTORY)

9.8%
2015 ASKING RENT GROWTH

\$435.5m
2015 & 2016 SALES VOLUME (\$)

Direct vacancy (%) vs. direct average asking rent (\$ p.s.f.)

