

Q2 2018

## Office Insight

# Lack of growth in demand continues to weigh the office market down

- Yet another quarter of below-average leasing activity pushes vacancy up to 24.5%, marking the 14<sup>th</sup> consecutive quarter of rising vacancy.
- With only 176,000 square feet of deliveries year-to-date, 2018 is set to be the market's lightest in terms of new development since 2010.
- The Galleria submarket led all submarkets in terms of positive absorption for the second quarter in a row while the CBD and Katy Freeway West brought up the rear.

Houston's office market continued to face familiar headwinds in the form of subdued leasing activity, rising vacancy, and softening rental rates during the second quarter of 2018. Of these three trends, stagnant leasing demand has had the greatest effect on the market. Since the close of 2014, leasing activity in Houston has surpassed four million square feet just two times in fourteen quarters, with Q2 2018 not among those two occurrences. In contrast, from Q3 2011 to Q4 2014 leasing activity surpassed four million square feet in every quarter and even eclipsed five million square feet five times. Unsurprisingly, this slowdown in leasing activity has pushed total vacancy up for fourteen consecutive quarters, resulting in an increase from 13.4% in Q4 2014 to 24.5% currently.

While the demand side continues to beset the market with excess space, the supply side remains a relative non-factor. The development pipeline currently stands at just under 1.5 million square feet, which is well below the market's long-term average of 4.3 million square feet. Additionally, 2018 is on course to be the market's lightest year in terms of new development since 2010 with only 176,000 square feet of new deliveries year-to-date and only 503,000 square feet in total expected to deliver in 2018.

## Outlook

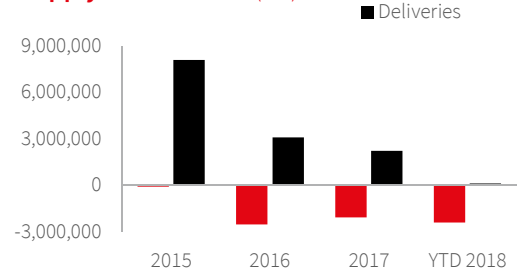
Despite a few early signs of improving market conditions ahead as seen by flattening concession packages and strong performance in select submarkets, such as the Galleria, through the first half of 2018, the Houston office market has a long way to go before it returns to a balanced market. Moving forward, we expect market conditions to continue to favor tenants through the remainder of 2018 as leasing demand remains muted and the market absorbs the oversupply of space which has nearly doubled the amount of vacancy since the close of 2014.

For more information, contact: Reid Watler | [reid.watler@am.jll.com](mailto:reid.watler@am.jll.com)

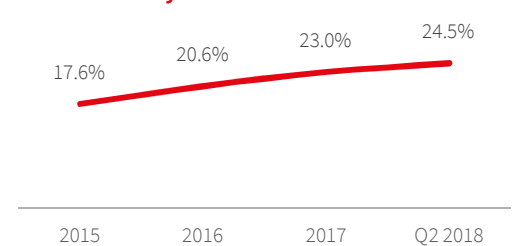
## Fundamentals

	Forecast
YTD net absorption	-2,419,585 s.f. ▲
Under construction	1,483,144 s.f. ►
Total vacancy	24.5% ►
Average asking rent (gross)	\$30.17 p.s.f. ▲
Concessions	Stable ►

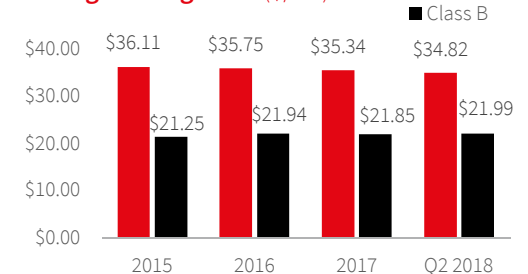
## Supply and demand (s.f.)



## Total vacancy



## Average asking rents (\$/s.f.)



Q2 2018

## Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD Completions (s.f.)	Under Development (s.f.)
CBD	Totals	35,565,721	-430,664	-458,388	-1.3%	18.2%	22.0%	\$41.13	0	778,344
<b>CBD</b>	<b>Totals</b>	<b>35,565,721</b>	<b>-430,664</b>	<b>-458,388</b>	<b>-1.3%</b>	<b>18.2%</b>	<b>22.0%</b>	<b>\$41.13</b>	<b>0</b>	<b>778,344</b>
Katy Freeway East	Totals	5,553,300	47,157	-26,181	-0.5%	15.0%	16.1%	\$34.70	0	0
Katy Freeway West	Totals	19,768,796	-503,648	-1,042,078	-5.3%	25.1%	37.4%	\$30.47	0	0
Westchase	Totals	13,012,553	-47,541	-202,949	-1.6%	20.3%	25.8%	\$27.12	0	0
<b>Energy Corridor</b>	<b>Totals</b>	<b>38,334,649</b>	<b>-504,032</b>	<b>-1,271,208</b>	<b>-3.3%</b>	<b>22.0%</b>	<b>30.4%</b>	<b>\$29.69</b>	<b>0</b>	<b>0</b>
Bellaire	Totals	2,250,960	-429	-36,586	-1.6%	11.2%	12.3%	\$27.29	0	0
Galleria	Totals	22,790,764	106,696	347,132	1.5%	17.4%	19.8%	\$35.87	104,579	0
Greenspoint/North Belt	Totals	8,899,135	6,648	23,357	0.3%	53.1%	53.6%	\$19.90	0	0
Greenway Plaza	Totals	9,891,177	-5,822	-68,469	-0.7%	16.3%	16.9%	\$30.76	0	0
Medical Center	Totals	3,926,255	599	12,806	0.3%	8.5%	8.8%	\$29.59	0	0
Midtown	Totals	4,119,201	101,073	4,026	0.1%	14.8%	15.2%	\$30.74	0	0
Northwest	Totals	8,558,574	-274,735	-403,186	-4.7%	26.0%	31.3%	\$24.06	0	0
San Felipe/Voss	Totals	5,145,563	-39,188	-174,236	-3.4%	20.9%	21.5%	\$29.76	0	0
Southwest	Totals	6,023,986	15,060	25,679	0.4%	23.0%	24.4%	\$17.52	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>71,605,615</b>	<b>-90,098</b>	<b>-269,477</b>	<b>-0.4%</b>	<b>22.6%</b>	<b>24.4%</b>	<b>\$26.82</b>	<b>104,579</b>	<b>0</b>
FM 1960	Totals	5,876,831	-92,277	-182,985	-3.1%	19.4%	21.6%	\$18.72	0	0
Gulf Freeway/Pasadena	Totals	1,516,447	-21,752	-33,903	-2.2%	19.6%	20.1%	\$20.86	0	0
NASA/Clear Lake	Totals	3,261,745	-13,935	-26,717	-0.8%	18.3%	18.7%	\$20.99	0	0
Sugar Land	Totals	4,234,020	43,487	-152,670	-3.6%	8.8%	13.8%	\$26.03	0	0
The Woodlands	Totals	7,265,259	7,353	-24,237	-0.3%	18.1%	18.9%	\$30.75	0	704,800
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,154,302</b>	<b>-77,124</b>	<b>-420,512</b>	<b>-1.9%</b>	<b>16.8%</b>	<b>18.7%</b>	<b>\$23.11</b>	<b>0</b>	<b>704,800</b>
<b>Houston</b>	<b>Totals</b>	<b>167,660,287</b>	<b>-1,101,918</b>	<b>-2,419,585</b>	<b>-1.4%</b>	<b>20.8%</b>	<b>24.5%</b>	<b>\$30.17</b>	<b>104,579</b>	<b>1,483,144</b>
CBD	A	28,012,863	-375,722	-316,023	-1.1%	17.5%	22.1%	\$43.99	0	778,344
<b>CBD</b>	<b>A</b>	<b>28,012,863</b>	<b>-375,722</b>	<b>-316,023</b>	<b>-1.1%</b>	<b>17.5%</b>	<b>22.1%</b>	<b>\$43.99</b>	<b>0</b>	<b>778,344</b>
Katy Freeway East	A	4,117,275	40,931	-38,055	-0.9%	16.6%	17.7%	\$40.61	0	0
Katy Freeway West	A	14,366,744	-236,171	-669,814	-4.7%	22.9%	39.3%	\$34.57	0	0
Westchase	A	8,791,568	6,459	-217,087	-2.5%	21.3%	29.3%	\$30.97	0	0
<b>Energy Corridor</b>	<b>A</b>	<b>27,275,587</b>	<b>-188,781</b>	<b>-924,956</b>	<b>-3.4%</b>	<b>21.4%</b>	<b>32.8%</b>	<b>\$33.85</b>	<b>0</b>	<b>0</b>
Bellaire	A	1,096,380	-2,585	-4,572	-0.4%	12.6%	14.3%	\$28.80	0	0
Galleria	A	17,866,158	138,418	394,201	2.2%	18.1%	21.0%	\$37.90	104,579	0
Greenspoint/North Belt	A	4,648,028	-2,062	12,717	0.3%	62.7%	62.9%	\$22.71	0	0
Greenway Plaza	A	7,333,127	4,738	23,894	0.3%	16.5%	17.0%	\$32.50	0	0
Medical Center	A	1,727,773	-7,339	-3,716	-0.2%	13.3%	14.1%	\$32.63	0	0
Midtown	A	1,853,042	89,389	-1,374	-0.1%	22.0%	22.2%	\$32.45	0	0
Northwest	A	3,884,196	-230,358	-336,932	-8.7%	32.1%	41.5%	\$26.44	0	0
San Felipe/Voss	A	1,720,793	-11,477	-99,114	-5.8%	27.2%	27.8%	\$36.35	0	0
Southwest	A	1,578,768	1,181	23,836	1.5%	22.3%	24.1%	\$18.47	0	0
<b>Suburban Near</b>	<b>A</b>	<b>41,708,265</b>	<b>-20,095</b>	<b>8,940</b>	<b>0.0%</b>	<b>24.4%</b>	<b>26.9%</b>	<b>\$30.43</b>	<b>104,579</b>	<b>0</b>
FM 1960	A	2,284,644	19,174	-89,307	-3.9%	11.2%	16.3%	\$28.21	0	0
NASA/Clear Lake	A	1,336,691	-28,202	-63,900	-4.8%	10.9%	11.7%	\$24.20	0	0
Sugar Land	A	2,925,728	40,502	-132,580	-4.5%	7.7%	13.4%	\$29.31	0	0
The Woodlands	A	5,207,316	34,347	25,685	0.5%	17.9%	18.8%	\$32.53	0	704,800
<b>Suburban Outlying</b>	<b>A</b>	<b>11,754,379</b>	<b>65,821</b>	<b>-260,102</b>	<b>-2.2%</b>	<b>13.3%</b>	<b>16.1%</b>	<b>\$29.85</b>	<b>0</b>	<b>704,800</b>
<b>Houston</b>	<b>A</b>	<b>108,751,094</b>	<b>-518,777</b>	<b>-1,492,141</b>	<b>-1.4%</b>	<b>20.7%</b>	<b>26.0%</b>	<b>\$34.82</b>	<b>104,579</b>	<b>1,483,144</b>
CBD	B	7,552,858	-54,942	-142,365	-1.9%	20.5%	21.4%	\$29.67	0	0
<b>CBD</b>	<b>B</b>	<b>7,552,858</b>	<b>-54,942</b>	<b>-142,365</b>	<b>-1.9%</b>	<b>20.5%</b>	<b>21.4%</b>	<b>\$29.67</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,436,025	6,226	11,874	0.8%	10.3%	11.6%	\$21.18	0	0
Katy Freeway West	B	5,402,052	-267,477	-372,264	-6.9%	31.0%	32.2%	\$21.70	0	0
Westchase	B	4,220,985	-54,000	14,138	0.3%	18.2%	18.6%	\$19.74	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,059,062</b>	<b>-315,251</b>	<b>-346,252</b>	<b>-3.1%</b>	<b>23.4%</b>	<b>24.4%</b>	<b>\$21.04</b>	<b>0</b>	<b>0</b>
Bellaire	B	1,154,580	2,156	-32,014	-2.8%	9.9%	10.3%	\$25.82	0	0
Galleria	B	4,924,606	-31,722	-47,069	-1.0%	14.9%	15.7%	\$27.88	0	0
Greenspoint/North Belt	B	4,251,107	8,710	10,640	0.3%	42.6%	43.4%	\$15.68	0	0
Greenway Plaza	B	2,558,050	-10,560	-92,363	-3.6%	15.9%	16.4%	\$25.75	0	0
Medical Center	B	2,198,482	7,938	16,522	0.8%	4.7%	4.7%	\$28.17	0	0
Midtown	B	2,266,159	11,684	5,400	0.2%	8.8%	9.6%	\$28.69	0	0
Northwest	B	4,674,378	-44,377	-66,254	-1.4%	21.0%	22.8%	\$20.36	0	0
San Felipe/Voss	B	3,424,770	-27,711	-75,122	-2.2%	17.7%	18.4%	\$24.92	0	0
Southwest	B	4,445,218	13,879	1,843	0.0%	23.3%	24.5%	\$17.19	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,897,350</b>	<b>-70,003</b>	<b>-278,417</b>	<b>-0.9%</b>	<b>20.1%</b>	<b>20.9%</b>	<b>\$21.32</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,592,187	-111,451	-93,678	-2.6%	24.5%	25.1%	\$16.76	0	0
Gulf Freeway/Pasadena	B	1,516,447	-21,752	-33,903	-2.2%	19.6%	20.1%	\$20.86	0	0
NASA/Clear Lake	B	1,925,054	14,267	37,183	1.9%	23.4%	23.5%	\$20.10	0	0
Sugar Land	B	1,308,292	2,985	-20,090	-1.5%	11.2%	14.7%	\$22.49	0	0
The Woodlands	B	2,057,943	-26,994	-49,922	-2.4%	18.5%	19.2%	\$27.59	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,399,923</b>	<b>-142,945</b>	<b>-160,410</b>	<b>-1.5%</b>	<b>20.7%</b>	<b>21.6%</b>	<b>\$19.86</b>	<b>0</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>58,909,193</b>	<b>-583,141</b>	<b>-927,444</b>	<b>-1.6%</b>	<b>20.9%</b>	<b>21.7%</b>	<b>\$21.99</b>	<b>0</b>	<b>0</b>

Q1 2018

## Office Insight

# Continued oversupply of space looms as tenant concessions reach their peak

- After rising steadily over the past three years, concessions such as free rent and tenant improvement allowances have begun to plateau, yet remain at elevated levels.
- Sluggish tenant demand to start the year pushes vacancy up to 23.8%, which represents the thirteenth consecutive quarter of rising vacancy.
- The Galleria submarket was one of the few bright spots in Q1, where fundamentals showed improvement.

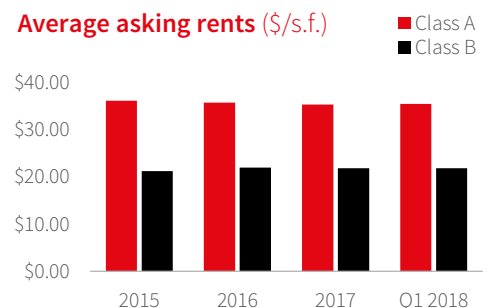
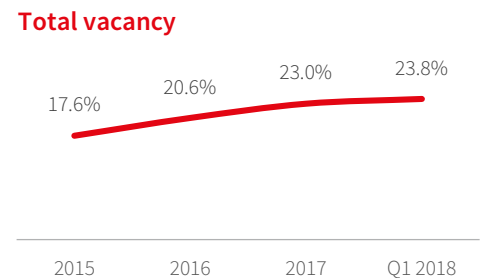
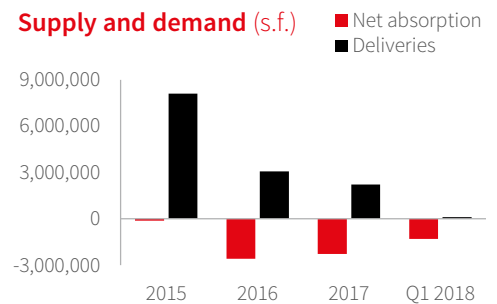
Since the fourth quarter of 2014, the Houston office market has been characterized by rising vacancy rates, flattening asking rents, growing concession packages, and a glut of sublease space. While vacancy rates and asking rents maintained these trajectories through the first quarter of 2018, concessions appear to be leveling off as more tenants engage the market to take advantage of favorable lease terms. Free rent in the neighborhood of 12 to 15 months on a ten-year deal is not uncommon for Class A space as well as tenant improvement allowances north of \$50.00 per s.f.. However, such generous concession packages will not remain indefinitely, particularly as the development pipeline tapers off, sublease space is absorbed, and the newest, most efficient space is leased.

Despite the continued uptick in vacancy, lack of growth in asking rents, and oversupply of sublease space across the market, there was one submarket that bucked each of the aforementioned trends. The Galleria was the only submarket in Houston to experience a decrease in vacancy, an increase in asking rents, and a decrease in sublease space. Additionally, leasing activity in the submarket improved by nearly 60.0% quarter-over-quarter, thanks to Apache's 515,000 s.f. renewal at Post Oak Central and several full-floor deals.

## Outlook

Although there are signs of improving market conditions ahead as seen by flattening concession packages and strong performance in some areas in the first quarter, the Houston office market has a long way to go before it returns to a balanced market. As such, we expect market conditions to continue to favor tenants through the remainder of 2018 as leasing activity remains muted and the market absorbs the oversupply of space which has pushed vacancy from 14.9% in YE 2014 to 23.8% in Q1 2018.

Fundamentals	Forecast
YTD net absorption	-1,288,450 s.f. ▲
Under construction	1,654,682 s.f. ►
Total vacancy	23.8% ►
Average asking rent (gross)	\$30.80 p.s.f. ▲
Concessions	Stable ►



For more information, contact: Reid Watler | [reid.watler@am.jll.com](mailto:reid.watler@am.jll.com)

Q1 2018

## Office Statistics

	Class	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Houston Totals</b>										
	A	108,759,690	-1,085,735	-1,085,735	-1.0%	20.7%	25.5%	\$35.47	104,579	1,654,682
	B	58,931,155	-202,715	-202,715	-0.3%	20.0%	20.8%	\$21.81	0	0
<b>Totals</b>		<b>167,690,845</b>	<b>-1,288,450</b>	<b>-1,288,450</b>	<b>-0.8%</b>	<b>20.5%</b>	<b>23.8%</b>	<b>\$30.80</b>	<b>104,579</b>	<b>1,654,682</b>
CBD	Totals	35,561,112	-26,878	-26,878	-0.1%	18.2%	20.8%	\$41.78	0	778,344
<b>CBD</b>	<b>Totals</b>	<b>35,561,112</b>	<b>-26,878</b>	<b>-26,878</b>	<b>-0.1%</b>	<b>18.2%</b>	<b>20.8%</b>	<b>\$41.78</b>	<b>0</b>	<b>778,344</b>
Midtown	Totals	4,120,911	-97,047	-97,047	-2.4%	17.1%	17.7%	\$31.04	0	0
Greenway Plaza	Totals	9,914,670	-35,709	-35,709	-0.4%	16.3%	16.9%	\$33.98	0	0
Greenspoint/North Belt	Totals	8,901,037	54,899	54,899	0.6%	50.5%	53.6%	\$20.62	0	0
Northwest	Totals	8,551,128	-128,451	-128,451	-1.5%	25.0%	28.0%	\$24.22	0	0
San Felipe/Voss	Totals	5,150,551	-135,048	-135,048	-2.6%	20.2%	20.8%	\$29.95	0	0
Southwest	Totals	6,023,986	10,619	10,619	0.2%	24.1%	24.7%	\$17.23	0	0
Galleria	Totals	22,804,289	138,679	138,679	0.6%	17.8%	20.3%	\$36.30	104,579	0
Bellaire	Totals	2,251,747	17,515	17,515	0.8%	10.8%	12.3%	\$24.37	0	0
Medical Center	Totals	3,926,255	12,207	12,207	0.3%	8.4%	8.9%	\$29.98	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>71,644,574</b>	<b>-162,336</b>	<b>-162,336</b>	<b>-0.2%</b>	<b>22.4%</b>	<b>24.3%</b>	<b>\$27.49</b>	<b>104,579</b>	<b>0</b>
Katy Freeway East	Totals	5,547,268	-73,338	-73,338	-1.3%	15.0%	16.9%	\$34.86	0	0
Katy Freeway West	Totals	19,772,214	-538,430	-538,430	-2.7%	23.8%	34.8%	\$29.33	0	171,538
Westchase	Totals	13,013,919	-157,306	-157,306	-1.2%	19.9%	25.5%	\$29.80	0	0
<b>Energy Corridor</b>	<b>Totals</b>	<b>38,333,401</b>	<b>-769,074</b>	<b>-769,074</b>	<b>-2.0%</b>	<b>21.2%</b>	<b>29.1%</b>	<b>\$29.95</b>	<b>0</b>	<b>171,538</b>
FM 1960	Totals	5,876,912	-90,708	-90,708	-1.5%	18.1%	20.1%	\$18.26	0	0
Sugar Land	Totals	4,232,491	-196,157	-196,157	-4.6%	9.4%	14.8%	\$26.50	0	0
Gulf Freeway/Pasadena	Totals	1,516,973	-12,151	-12,151	-0.8%	18.2%	18.7%	\$21.59	0	0
NASA/Clear Lake	Totals	3,260,976	-12,774	-12,774	-0.4%	17.6%	18.2%	\$20.51	0	0
The Woodlands	Totals	7,264,406	-18,372	-18,372	-0.3%	18.0%	19.0%	\$31.31	0	704,800
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,151,758</b>	<b>-330,162</b>	<b>-330,162</b>	<b>-1.5%</b>	<b>16.4%</b>	<b>18.3%</b>	<b>\$24.34</b>	<b>0</b>	<b>704,800</b>
<b>Houston</b>	<b>Totals</b>	<b>167,690,845</b>	<b>-1,288,450</b>	<b>-1,288,450</b>	<b>-0.8%</b>	<b>20.5%</b>	<b>23.8%</b>	<b>\$30.80</b>	<b>104,579</b>	<b>1,654,682</b>
CBD	A	28,012,863	59,699	59,699	0.2%	17.8%	20.8%	\$44.37	0	778,344
<b>CBD</b>	<b>A</b>	<b>28,012,863</b>	<b>59,699</b>	<b>59,699</b>	<b>0.2%</b>	<b>17.8%</b>	<b>20.8%</b>	<b>\$44.37</b>	<b>0</b>	<b>778,344</b>
Midtown	A	1,853,042	-90,763	-90,763	-4.9%	26.8%	27.0%	\$31.99	0	0
Greenway Plaza	A	7,356,620	19,804	19,804	0.3%	16.5%	17.2%	\$36.02	0	0
Greenspoint/North Belt	A	4,646,354	14,779	14,779	0.3%	57.4%	62.8%	\$24.20	0	0
Northwest	A	3,884,006	-106,574	-106,574	-2.7%	31.3%	35.6%	\$26.79	0	0
San Felipe/Voss	A	1,720,793	-87,637	-87,637	-5.1%	27.1%	27.1%	\$35.91	0	0
Southwest	A	1,578,768	22,655	22,655	1.4%	22.4%	24.2%	\$18.71	0	0
Galleria	A	17,855,115	154,026	154,026	0.9%	18.5%	21.7%	\$38.19	104,579	0
Bellaire	A	1,097,167	-13,249	-13,249	-1.2%	11.3%	14.1%	\$22.25	0	0
Medical Center	A	1,727,773	3,623	3,623	0.2%	13.1%	13.7%	\$33.22	0	0
<b>Suburban Near</b>	<b>A</b>	<b>41,719,638</b>	<b>-83,336</b>	<b>-83,336</b>	<b>-0.2%</b>	<b>24.1%</b>	<b>26.8%</b>	<b>\$31.33</b>	<b>104,579</b>	<b>0</b>
Katy Freeway East	A	4,111,243	-78,986	-78,986	-1.9%	16.5%	18.6%	\$38.18	0	0
Katy Freeway West	A	14,370,162	-433,643	-433,643	-3.0%	22.7%	37.6%	\$33.79	0	171,538
Westchase	A	8,792,934	-223,546	-223,546	-2.5%	21.5%	29.4%	\$34.76	0	0
<b>Energy Corridor</b>	<b>A</b>	<b>27,274,339</b>	<b>-736,175</b>	<b>-736,175</b>	<b>-2.7%</b>	<b>21.4%</b>	<b>32.1%</b>	<b>\$34.52</b>	<b>0</b>	<b>171,538</b>
FM 1960	A	2,284,644	-108,481	-108,481	-4.7%	12.9%	17.1%	\$28.32	0	0
Sugar Land	A	2,924,199	-173,082	-173,082	-5.9%	8.5%	14.8%	\$30.10	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,336,691	-35,698	-35,698	-2.7%	8.3%	9.6%	\$24.15	0	0
The Woodlands	A	5,207,316	-8,662	-8,662	-0.2%	18.5%	19.4%	\$33.83	0	704,800
<b>Suburban Outlying</b>	<b>A</b>	<b>11,752,850</b>	<b>-325,923</b>	<b>-325,923</b>	<b>-2.8%</b>	<b>13.8%</b>	<b>16.7%</b>	<b>\$31.48</b>	<b>0</b>	<b>704,800</b>
<b>Houston</b>	<b>A</b>	<b>108,759,690</b>	<b>-1,085,735</b>	<b>-1,085,735</b>	<b>-1.0%</b>	<b>20.7%</b>	<b>25.5%</b>	<b>\$35.47</b>	<b>104,579</b>	<b>1,654,682</b>



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,548,249	-86,577	-86,577	-1.1%	19.9%	20.6%	\$29.87	0	0
<b>CBD</b>	<b>B</b>	<b>7,548,249</b>	<b>-86,577</b>	<b>-86,577</b>	<b>-1.1%</b>	<b>19.9%</b>	<b>20.6%</b>	<b>\$29.87</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	-6,284	-6,284	-0.3%	9.2%	10.1%	\$29.26	0	0
Greenway Plaza	B	2,558,050	-55,513	-55,513	-2.2%	15.7%	16.0%	\$27.26	0	0
Greenspoint/North Belt	B	4,254,683	40,120	40,120	0.9%	42.9%	43.6%	\$15.50	0	0
Northwest	B	4,667,122	-21,877	-21,877	-0.5%	19.8%	21.7%	\$20.37	0	0
San Felipe/Voss	B	3,429,758	-47,411	-47,411	-1.4%	16.7%	17.7%	\$24.91	0	0
Southwest	B	4,445,218	-12,036	-12,036	-0.3%	24.7%	24.8%	\$16.64	0	0
Galleria	B	4,949,174	-15,347	-15,347	-0.3%	15.2%	15.5%	\$26.92	0	0
Bellaire	B	1,154,580	30,764	30,764	2.7%	10.3%	10.5%	\$25.67	0	0
Medical Center	B	2,198,482	8,584	8,584	0.4%	4.6%	5.1%	\$28.13	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,924,936</b>	<b>-79,000</b>	<b>-79,000</b>	<b>-0.3%</b>	<b>20.1%</b>	<b>20.8%</b>	<b>\$20.65</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,436,025	5,648	5,648	0.4%	10.7%	12.0%	\$21.10	0	0
Katy Freeway West	B	5,402,052	-104,787	-104,787	-1.9%	26.7%	27.3%	\$21.70	0	0
Westchase	B	4,220,985	66,240	66,240	1.6%	16.5%	17.3%	\$19.77	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,059,062</b>	<b>-32,899</b>	<b>-32,899</b>	<b>-0.3%</b>	<b>20.8%</b>	<b>21.5%</b>	<b>\$21.09</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,592,268	17,773	17,773	0.5%	21.4%	22.0%	\$16.42	0	0
Sugar Land	B	1,308,292	-23,075	-23,075	-1.8%	11.5%	15.0%	\$22.56	0	0
Gulf Freeway/Pasadena	B	1,516,973	-12,151	-12,151	-0.8%	18.2%	18.7%	\$21.59	0	0
NASA/Clear Lake	B	1,924,285	22,924	22,924	1.2%	24.2%	24.2%	\$19.47	0	0
The Woodlands	B	2,057,090	-9,710	-9,710	-0.5%	16.7%	17.9%	\$27.26	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,398,908</b>	<b>-4,239</b>	<b>-4,239</b>	<b>0.0%</b>	<b>19.3%</b>	<b>20.2%</b>	<b>\$20.19</b>	<b>0</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>58,931,155</b>	<b>-202,715</b>	<b>-202,715</b>	<b>-0.3%</b>	<b>20.0%</b>	<b>20.8%</b>	<b>\$21.81</b>	<b>0</b>	<b>0</b>

Q4 2017

## Office Insight

# Growing appetite for sublease space not enough to balance supply-heavy market conditions

- At 2.8 million square feet, sublease leasing activity accounted for nearly one-fourth of all leasing activity in 2017, the highest share on record.
- New deliveries and limited growth among tenants pushed total vacancy to 23.2 percent during the fourth quarter, which marks the twelfth consecutive quarter of rising vacancy.
- Minimal movement of asking rents masks growing concession packages offered by some landlords, particularly in the CBD and Galleria.

If 2016 was the year sublease space languished on the market, then 2017 was the year leasing activity finally began to make a dent in the mountain of available sublease space. Sublease leasing activity totaled 2.8 million square feet in 2017, a 46.5 percent increase over 2016's total, and accounted for nearly one-fourth of all leasing activity in 2017, compared to 14.8 percent of total leasing activity in 2016. NRG's 431,000-square-foot deal at One Shell Plaza, Motiva's 193,000-square-foot deal at Allen Center, and Stewart Title's 156,000-square-foot deal at Four Oaks Place led the charge for a banner year of sublease activity. The uptick in sublease activity, coupled with natural expirations, helped reduce the market's sublease inventory by more than 2.3 million square feet in 2017, which currently stands at 9.3 million square feet.

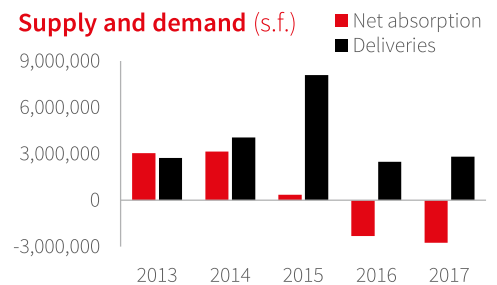
However, the boom in sublease leasing activity was not enough to counteract a market weighed down by supply-heavy conditions. Vacancy rose by 40 basis points to 23.2 percent during the fourth quarter following 460,000 square feet of new deliveries and yet another quarter of below average leasing activity. The excess in supply continues to place pressure on landlords to increase concession packages, namely in the form of free rent and tenant improvement allowances, while asking rents have remained flat.

## Outlook

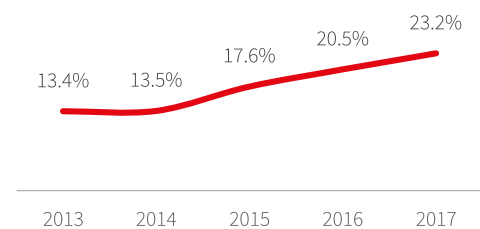
Since the fourth quarter of 2014, which roughly coincides with the downturn in oil prices, market conditions in Houston have experienced significant changes, particularly on the supply side of things: vacancy is up 970 basis points, net absorption has been negative in 9 of the last 12 quarters, and over 13.0 million square feet of new construction has delivered. Returning to a more balanced market will take time, and while 2017 showed glimpses of improving conditions, we look to 2018 to address the market's supply overhang.

For more information, contact: Reid Watler | [reid.watler@am.jll.com](mailto:reid.watler@am.jll.com)

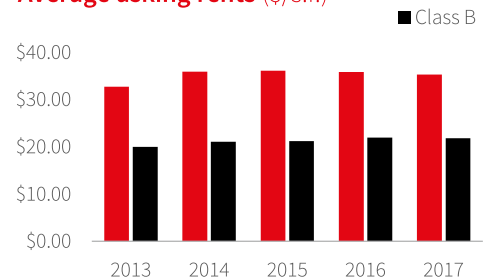
Fundamentals	Forecast
YTD net absorption	-2,758,460 s.f. ►
Under construction	1,978,465 s.f. ▼
Total vacancy	23.2% ►
Average asking rent (gross)	\$30.55 p.s.f. ▼
Concessions	Rising ►



## Total vacancy



## Average asking rents (\$/s.f.)



Q4 2017

## Office Statistics

	Class	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Houston Totals</b>										
	A	108,581,173	-89,669	-1,500,682	-1.4%	20.2%	24.7%	\$35.30	2,736,644	1,978,465
	B	59,020,241	-441,449	-1,257,778	-2.1%	19.7%	20.4%	\$21.81	82,800	0
<b>Totals</b>		<b>167,601,414</b>	<b>-531,118</b>	<b>-2,758,460</b>	<b>-1.6%</b>	<b>20.0%</b>	<b>23.2%</b>	<b>\$30.55</b>	<b>2,819,444</b>	<b>1,978,465</b>
CBD	Totals	35,561,535	-179,460	-1,170,841	-3.3%	17.4%	20.9%	\$41.60	1,056,658	778,344
<b>CBD</b>	<b>Totals</b>	<b>35,561,535</b>	<b>-179,460</b>	<b>-1,170,841</b>	<b>-3.3%</b>	<b>17.4%</b>	<b>20.9%</b>	<b>\$41.60</b>	<b>1,056,658</b>	<b>778,344</b>
Midtown	Totals	4,120,911	120,104	35,983	0.9%	14.3%	15.5%	\$31.35	0	0
Greenway Plaza	Totals	9,928,139	-60,456	-134,944	-1.4%	16.5%	16.9%	\$34.05	188,547	0
Greenspoint/North Belt	Totals	8,920,132	-20,952	-321,625	-3.6%	51.0%	54.2%	\$20.79	0	0
Northwest	Totals	8,551,128	-175,257	-87,677	-1.0%	23.4%	26.3%	\$23.89	0	0
San Felipe/Voss	Totals	5,150,824	-34,810	-98,954	-1.9%	18.0%	18.3%	\$29.50	0	0
Southwest	Totals	6,026,337	-198,338	-246,954	-4.1%	23.9%	24.2%	\$17.92	0	0
Galleria	Totals	22,701,426	-136,881	-607,226	-2.7%	18.1%	21.2%	\$35.61	980,000	104,579
Bellaire	Totals	2,278,583	-3,311	21,470	0.9%	10.7%	11.7%	\$24.65	0	0
Medical Center	Totals	3,928,258	7,697	-29,471	-0.8%	9.0%	9.2%	\$29.70	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>71,605,738</b>	<b>-502,204</b>	<b>-1,469,398</b>	<b>-2.1%</b>	<b>22.1%</b>	<b>24.1%</b>	<b>\$27.28</b>	<b>1,168,547</b>	<b>104,579</b>
Katy Freeway East	Totals	5,547,268	-1,068	27,342	0.5%	14.5%	15.7%	\$34.21	238,173	0
Katy Freeway West	Totals	19,700,169	-64,928	-443,164	-2.2%	23.4%	32.3%	\$30.93	86,255	243,583
Westchase	Totals	13,012,970	155,976	48,876	0.4%	19.4%	24.2%	\$29.39	187,011	0
<b>Energy Corridor</b>	<b>Totals</b>	<b>38,260,407</b>	<b>89,980</b>	<b>-366,946</b>	<b>-1.0%</b>	<b>20.7%</b>	<b>27.1%</b>	<b>\$30.76</b>	<b>511,439</b>	<b>243,583</b>
FM 1960	Totals	5,876,912	-24,110	9,008	0.2%	18.3%	18.9%	\$18.16	0	0
Sugar Land	Totals	4,232,491	54,984	101,505	2.4%	8.5%	10.2%	\$26.75	0	147,159
Gulf Freeway/Pasadena	Totals	1,516,973	-5,307	-23,235	-1.5%	17.9%	17.9%	\$21.73	82,800	0
NASA/Clear Lake	Totals	3,260,980	-44,996	-108,342	-3.3%	17.4%	18.0%	\$20.07	0	0
The Woodlands	Totals	7,286,378	79,995	269,789	3.7%	18.4%	19.2%	\$30.79	0	704,800
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,173,734</b>	<b>60,566</b>	<b>248,725</b>	<b>1.1%</b>	<b>16.3%</b>	<b>17.1%</b>	<b>\$23.99</b>	<b>82,800</b>	<b>851,959</b>
<b>Houston</b>	<b>Totals</b>	<b>167,601,414</b>	<b>-531,118</b>	<b>-2,758,460</b>	<b>-1.6%</b>	<b>20.0%</b>	<b>23.2%</b>	<b>\$30.55</b>	<b>2,819,444</b>	<b>1,978,465</b>
CBD	A	28,012,863	-165,839	-935,657	-3.3%	17.1%	21.3%	\$44.49	1,056,658	778,344
<b>CBD</b>	<b>A</b>	<b>28,012,863</b>	<b>-165,839</b>	<b>-935,657</b>	<b>-3.3%</b>	<b>17.1%</b>	<b>21.3%</b>	<b>\$44.49</b>	<b>1,056,658</b>	<b>778,344</b>
Midtown	A	1,853,042	117,497	43,939	2.4%	21.3%	22.5%	\$32.42	0	0
Greenway Plaza	A	7,356,944	-68,468	-55,318	-0.8%	17.6%	18.1%	\$36.09	188,547	0
Greenspoint/North Belt	A	4,646,354	-904	-179,801	-3.9%	57.9%	63.4%	\$24.45	0	0
Northwest	A	3,884,006	-49,083	-25,588	-0.7%	28.6%	32.8%	\$25.99	0	0
San Felipe/Voss	A	1,720,793	10,729	15,396	0.9%	22.1%	22.1%	\$35.86	0	0
Southwest	A	1,578,768	-79,320	-138,211	-8.8%	22.2%	22.8%	\$18.41	0	0
Galleria	A	17,751,947	-86,112	-496,624	-2.8%	18.9%	22.8%	\$37.62	980,000	104,579
Bellaire	A	1,091,536	-18,293	560	0.1%	11.7%	13.5%	\$24.31	0	0
Medical Center	A	1,729,776	10,655	-55,907	-3.2%	13.3%	13.9%	\$33.23	0	0
<b>Suburban Near</b>	<b>A</b>	<b>41,613,166</b>	<b>-163,299</b>	<b>-891,554</b>	<b>-2.1%</b>	<b>23.9%</b>	<b>26.8%</b>	<b>\$31.08</b>	<b>1,168,547</b>	<b>104,579</b>
Katy Freeway East	A	4,111,243	-15,811	30,572	0.7%	15.6%	16.8%	\$37.88	238,173	0
Katy Freeway West	A	14,298,117	-76,400	-216,841	-1.5%	22.6%	34.8%	\$35.57	86,255	243,583
Westchase	A	8,792,934	183,428	114,243	1.3%	19.9%	26.7%	\$34.45	187,011	0
<b>Energy Corridor</b>	<b>A</b>	<b>27,202,294</b>	<b>91,217</b>	<b>-72,026</b>	<b>-0.3%</b>	<b>20.7%</b>	<b>29.4%</b>	<b>\$35.50</b>	<b>511,439</b>	<b>243,583</b>
FM 1960	A	2,284,644	4,486	80,506	3.5%	11.1%	12.4%	\$28.21	0	0
Sugar Land	A	2,924,199	56,893	58,702	2.0%	7.7%	8.8%	\$31.24	0	147,159
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,336,691	254	-26,129	-2.0%	5.6%	6.9%	\$24.15	0	0
The Woodlands	A	5,207,316	86,619	285,476	5.5%	19.5%	20.1%	\$33.23	0	704,800
<b>Suburban Outlying</b>	<b>A</b>	<b>11,752,850</b>	<b>148,252</b>	<b>398,555</b>	<b>3.4%</b>	<b>13.3%</b>	<b>14.3%</b>	<b>\$31.37</b>	<b>0</b>	<b>851,959</b>
<b>Houston</b>	<b>A</b>	<b>108,581,173</b>	<b>-89,669</b>	<b>-1,500,682</b>	<b>-1.4%</b>	<b>20.2%</b>	<b>24.7%</b>	<b>\$35.30</b>	<b>2,736,644</b>	<b>1,978,465</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,548,672	-13,621	-235,184	-3.1%	18.4%	19.4%	\$29.53	0	0
<b>CBD</b>	<b>B</b>	<b>7,548,672</b>	<b>-13,621</b>	<b>-235,184</b>	<b>-3.1%</b>	<b>18.4%</b>	<b>19.4%</b>	<b>\$29.53</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	2,607	-7,956	-0.4%	8.6%	9.9%	\$29.24	0	0
Greenway Plaza	B	2,571,195	8,012	-79,626	-3.1%	13.3%	13.6%	\$27.71	0	0
Greenspoint/North Belt	B	4,273,778	-20,048	-141,824	-3.3%	43.4%	44.2%	\$15.79	0	0
Northwest	B	4,667,122	-126,174	-62,089	-1.3%	19.0%	20.8%	\$20.42	0	0
San Felipe/Voss	B	3,430,031	-45,539	-114,350	-3.3%	15.9%	16.4%	\$24.13	0	0
Southwest	B	4,447,569	-119,018	-108,743	-2.4%	24.6%	24.6%	\$17.73	0	0
Galleria	B	4,949,479	-50,769	-110,602	-2.2%	15.1%	15.4%	\$26.89	0	0
Bellaire	B	1,187,047	14,982	20,910	1.8%	9.8%	10.1%	\$25.06	0	0
Medical Center	B	2,198,482	-2,958	26,436	1.2%	5.5%	5.5%	\$27.61	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,992,572</b>	<b>-338,905</b>	<b>-577,844</b>	<b>-1.9%</b>	<b>19.7%</b>	<b>20.3%</b>	<b>\$20.76</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,436,025	14,743	-3,230	-0.2%	11.2%	12.5%	\$21.83	0	0
Katy Freeway West	B	5,402,052	11,472	-226,323	-4.2%	25.4%	25.8%	\$22.37	0	0
Westchase	B	4,220,036	-27,452	-65,367	-1.5%	18.2%	19.0%	\$19.86	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,058,113</b>	<b>-1,237</b>	<b>-294,920</b>	<b>-2.7%</b>	<b>20.8%</b>	<b>21.5%</b>	<b>\$21.45</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,592,268	-28,596	-71,498	-2.0%	22.9%	23.0%	\$16.73	0	0
Sugar Land	B	1,308,292	-1,909	42,803	3.3%	10.4%	13.3%	\$21.75	0	0
Gulf Freeway/Pasadena	B	1,516,973	-5,307	-23,235	-1.5%	17.9%	17.9%	\$21.73	82,800	0
NASA/Clear Lake	B	1,924,289	-45,250	-82,213	-4.3%	25.7%	25.7%	\$18.88	0	0
The Woodlands	B	2,079,062	-6,624	-15,687	-0.8%	15.8%	16.8%	\$26.76	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,420,884</b>	<b>-87,686</b>	<b>-149,830</b>	<b>-1.4%</b>	<b>19.7%</b>	<b>20.3%</b>	<b>\$19.88</b>	<b>82,800</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>59,020,241</b>	<b>-441,449</b>	<b>-1,257,778</b>	<b>-2.1%</b>	<b>19.7%</b>	<b>20.4%</b>	<b>\$21.81</b>	<b>82,800</b>	<b>0</b>

Q3 2017

## Office Insight

# Sluggish tenant demand props up vacancy rate

- Hurricane Harvey's impact on Houston's office inventory was far less pronounced than other property types such as single-family residential.
- Spurred on by NRG's 431,000 square foot sublease deal at One Shell Plaza, strong sublet leasing activity during the third quarter helped to reduce Houston's sublease inventory for the fourth consecutive quarter.
- High-profile portfolio sales such as Greenway Plaza and Houston Center fuel office sales activity as investors re-enter the market.

Despite a handful of 100,000 square foot plus deals signed, including NRG's 431,000 square foot sublease deal at One Shell Plaza and Motiva's 173,000 square foot deal at Two Allen Center, leasing activity remained muted during the third quarter and failed to surpass its ten-year quarterly average for the seventh consecutive quarter. As a result, total vacancy climbed for the eleventh quarter in a row, rising 40 basis points to 22.8 percent. The over abundance of available space has afforded tenants ample leverage during lease negotiations, yet there is little organic growth taking place as the majority of tenants in the market appear content with their current footprint. This is best evidenced by the market's paltry average deal size of 4,700 square feet during the quarter.

Even with the continued slowdown in leasing activity and rising vacancy, investors have re-entered the Houston market in a big way, as office sales volume is up over 430 percent from 2016. The dramatic uptick in office sales activity is led by three large portfolio transactions: Spear Street Capital's \$274 million acquisition of Columbia Property Trust's Houston portfolio, TH Real Estate, Silverpeak & CPPIB's \$512 million 49.0 partial interest acquisition of Greenway Plaza from Parkway Properties, and Brookfield's reported \$875 million acquisition of Houston Center from J.P. Morgan Asset Management.

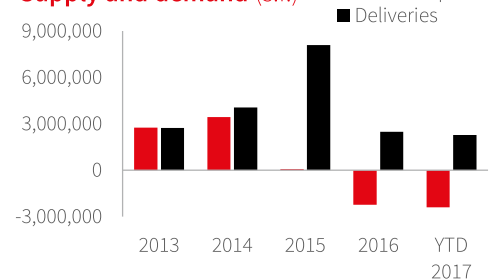
## Outlook

Market indicators such as total vacancy, net absorption, and asking rental rates have provided few chances for a positive reading on the market since 2014, and while we are encouraged by the steady drop in the sublease inventory over the past four quarters, the Houston market has a long way to go before it returns to a balanced market. Moving forward, we expect market conditions to favor tenants for the remainder of 2017 and well into 2018.

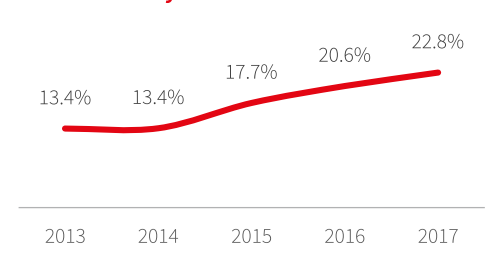
## Fundamentals

	Forecast
YTD net absorption	-2,400,147 s.f. ►
Under construction	2,440,278 s.f. ▼
Total vacancy	22.8% ►
Average asking rent (gross)	\$30.55 p.s.f. ▼
Concessions	Rising ►

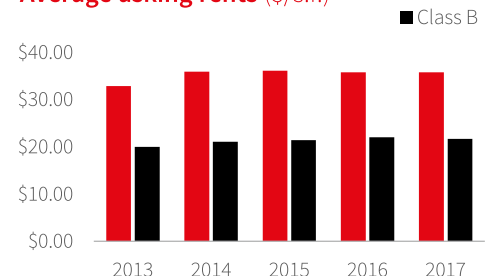
## Supply and demand (s.f.)



## Total vacancy



## Average asking rents (\$/s.f.)



For more information, contact: Reid Watler | reid.watler@am.jll.com

Q3 2017

## Office Statistics

	Class	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Houston Totals</b>										
	A	108,050,188	-291,878	-1,398,488	-1.3%	19.7%	24.2%	\$35.81	2,274,831	2,440,278
	B	59,074,695	-412,750	-1,001,659	-1.7%	19.6%	20.4%	\$21.67	82,800	0
<b>Totals</b>		<b>167,124,883</b>	<b>-704,628</b>	<b>-2,400,147</b>	<b>-1.4%</b>	<b>19.7%</b>	<b>22.8%</b>	<b>\$30.55</b>	<b>2,357,631</b>	<b>2,440,278</b>
CBD	Totals	35,466,597	-184,817	-991,676	-2.8%	17.1%	20.3%	\$41.41	1,056,658	778,344
<b>CBD</b>	<b>Totals</b>	<b>35,466,597</b>	<b>-184,817</b>	<b>-991,676</b>	<b>-2.8%</b>	<b>17.1%</b>	<b>20.3%</b>	<b>\$41.41</b>	<b>1,056,658</b>	<b>778,344</b>
Midtown	Totals	4,120,911	-167,461	-81,392	-2.0%	15.0%	18.4%	\$31.94	0	0
Greenway Plaza	Totals	9,739,592	19,032	-104,095	-1.1%	14.5%	15.0%	\$34.45	0	188,547
Greenspoint/North Belt	Totals	8,940,082	22,839	-206,746	-2.3%	49.6%	52.8%	\$20.82	0	0
Northwest	Totals	8,571,183	155,360	-12,465	-0.1%	22.5%	25.3%	\$23.41	0	0
San Felipe/Voss	Totals	5,150,824	-52,171	-68,363	-1.3%	17.6%	17.7%	\$29.33	0	0
Southwest	Totals	6,026,337	-57,889	-40,505	-0.7%	19.5%	20.1%	\$17.36	0	0
Galleria	Totals	22,774,986	-169,150	-465,149	-2.0%	17.5%	20.3%	\$35.05	980,000	104,579
Bellaire	Totals	2,278,583	3,860	27,098	1.2%	11.1%	11.5%	\$24.87	0	0
Medical Center	Totals	3,933,633	-16,893	-67,338	-1.7%	16.2%	16.4%	\$29.05	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>71,536,131</b>	<b>-262,473</b>	<b>-1,018,955</b>	<b>-1.4%</b>	<b>21.5%</b>	<b>23.4%</b>	<b>\$27.16</b>	<b>980,000</b>	<b>293,126</b>
Katy Freeway East	Totals	5,547,268	-56,956	9,413	0.2%	14.5%	16.0%	\$32.39	238,173	0
Katy Freeway West	Totals	19,614,259	-91,084	-305,920	-1.6%	23.3%	31.2%	\$30.93	0	329,838
Westchase	Totals	12,822,356	-148,579	-273,163	-2.1%	19.1%	25.6%	\$30.75	0	187,011
<b>Energy Corridor</b>	<b>Totals</b>	<b>37,983,883</b>	<b>-296,619</b>	<b>-569,670</b>	<b>-1.5%</b>	<b>20.6%</b>	<b>27.1%</b>	<b>\$31.02</b>	<b>238,173</b>	<b>516,849</b>
FM 1960	Totals	5,876,912	2,655	39,426	0.7%	18.4%	18.6%	\$17.84	0	0
Sugar Land	Totals	4,232,491	41,013	37,080	0.9%	9.5%	11.7%	\$27.58	0	147,159
Gulf Freeway/Pasadena	Totals	1,516,973	11,436	-17,977	-1.2%	17.5%	17.5%	\$21.89	82,800	0
NASA/Clear Lake	Totals	3,261,061	-45,210	-63,211	-1.9%	16.1%	17.5%	\$20.42	0	0
The Woodlands	Totals	7,250,835	29,387	184,836	2.5%	19.1%	20.5%	\$33.06	0	704,800
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,138,272</b>	<b>39,281</b>	<b>180,154</b>	<b>0.8%</b>	<b>16.5%</b>	<b>17.7%</b>	<b>\$24.94</b>	<b>82,800</b>	<b>851,959</b>
<b>Houston</b>	<b>Totals</b>	<b>167,124,883</b>	<b>-704,628</b>	<b>-2,400,147</b>	<b>-1.4%</b>	<b>19.7%</b>	<b>22.8%</b>	<b>\$30.55</b>	<b>2,357,631</b>	<b>2,440,278</b>
CBD	A	27,917,925	-229,517	-776,001	-2.8%	16.8%	20.6%	\$44.49	1,056,658	778,344
<b>CBD</b>	<b>A</b>	<b>27,917,925</b>	<b>-229,517</b>	<b>-776,001</b>	<b>-2.8%</b>	<b>16.8%</b>	<b>20.6%</b>	<b>\$44.49</b>	<b>1,056,658</b>	<b>778,344</b>
Midtown	A	1,853,042	-144,999	-83,355	-4.5%	22.0%	29.3%	\$32.89	0	0
Greenway Plaza	A	7,168,397	45,943	-8,274	-0.1%	14.8%	15.3%	\$36.80	0	188,547
Greenspoint/North Belt	A	4,646,354	36,971	-74,868	-1.6%	55.8%	61.1%	\$24.66	0	0
Northwest	A	3,874,314	134,743	-76,550	-2.0%	30.0%	34.0%	\$26.03	0	0
San Felipe/Voss	A	1,720,793	-2,054	20,255	1.2%	21.8%	21.8%	\$36.38	0	0
Southwest	A	1,578,768	-68,560	-58,891	-3.7%	13.3%	15.4%	\$18.52	0	0
Galleria	A	17,825,507	-105,694	-394,199	-2.2%	18.4%	21.9%	\$37.04	980,000	104,579
Bellaire	A	1,091,536	7,448	18,853	1.7%	11.2%	11.8%	\$24.71	0	0
Medical Center	A	1,729,776	-8,750	-66,606	-3.9%	13.9%	14.5%	\$32.55	0	0
<b>Suburban Near</b>	<b>A</b>	<b>41,488,487</b>	<b>-104,952</b>	<b>-723,635</b>	<b>-1.7%</b>	<b>22.8%</b>	<b>25.8%</b>	<b>\$31.21</b>	<b>980,000</b>	<b>293,126</b>
Katy Freeway East	A	4,111,243	-65,385	31,239	0.8%	15.2%	16.7%	\$42.92	238,173	0
Katy Freeway West	A	14,212,207	23,725	-40,565	-0.3%	22.7%	33.1%	\$35.65	0	329,838
Westchase	A	8,603,019	607	-129,399	-1.5%	19.6%	27.9%	\$35.95	0	187,011
<b>Energy Corridor</b>	<b>A</b>	<b>26,926,469</b>	<b>-41,053</b>	<b>-138,725</b>	<b>-0.5%</b>	<b>20.6%</b>	<b>29.0%</b>	<b>\$36.59</b>	<b>238,173</b>	<b>516,849</b>
FM 1960	A	2,284,644	57,224	75,897	3.3%	11.4%	11.6%	\$28.37	0	0
Sugar Land	A	2,924,199	24,136	-2,959	-0.1%	8.0%	10.9%	\$31.39	0	147,159
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,336,691	-6,294	-26,248	-2.0%	5.8%	9.1%	\$24.36	0	0
The Woodlands	A	5,171,773	8,578	193,183	3.7%	20.4%	22.1%	\$37.95	0	704,800
<b>Suburban Outlying</b>	<b>A</b>	<b>11,717,307</b>	<b>83,644</b>	<b>239,873</b>	<b>2.0%</b>	<b>13.9%</b>	<b>15.8%</b>	<b>\$34.12</b>	<b>0</b>	<b>851,959</b>
<b>Houston</b>	<b>A</b>	<b>108,050,188</b>	<b>-291,878</b>	<b>-1,398,488</b>	<b>-1.3%</b>	<b>19.7%</b>	<b>24.2%</b>	<b>\$35.81</b>	<b>2,274,831</b>	<b>2,440,278</b>



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,548,672	44,700	-215,675	-2.9%	18.2%	19.2%	\$29.50	0	0
<b>CBD</b>	<b>B</b>	<b>7,548,672</b>	<b>44,700</b>	<b>-215,675</b>	<b>-2.9%</b>	<b>18.2%</b>	<b>19.2%</b>	<b>\$29.50</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	-22,462	1,963	0.1%	9.2%	9.4%	\$29.93	0	0
Greenway Plaza	B	2,571,195	-26,911	-95,821	-3.7%	13.6%	14.3%	\$26.94	0	0
Greenspoint/North Belt	B	4,293,728	-14,132	-131,878	-3.1%	43.0%	43.7%	\$15.75	0	0
Northwest	B	4,696,869	20,617	64,085	1.4%	16.3%	18.0%	\$20.06	0	0
San Felipe/Voss	B	3,430,031	-50,117	-88,618	-2.6%	15.5%	15.7%	\$23.68	0	0
Southwest	B	4,447,569	10,671	18,386	0.4%	21.7%	21.8%	\$16.94	0	0
Galleria	B	4,949,479	-63,456	-70,950	-1.4%	14.3%	14.6%	\$27.28	0	0
Bellaire	B	1,187,047	-3,588	8,245	0.7%	11.0%	11.2%	\$25.09	0	0
Medical Center	B	2,203,857	-8,143	-732	0.0%	17.9%	17.9%	\$27.05	0	0
<b>Suburban Near</b>	<b>B</b>	<b>30,047,644</b>	<b>-157,521</b>	<b>-295,320</b>	<b>-1.0%</b>	<b>19.6%</b>	<b>20.2%</b>	<b>\$20.76</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,436,025	8,429	-21,826	-1.5%	12.5%	13.8%	\$21.21	0	0
Katy Freeway West	B	5,402,052	-114,809	-265,355	-4.9%	25.1%	26.1%	\$22.20	0	0
Westchase	B	4,219,337	-149,186	-143,764	-3.4%	18.1%	20.8%	\$19.68	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,057,414</b>	<b>-255,566</b>	<b>-430,945</b>	<b>-3.9%</b>	<b>20.8%</b>	<b>22.5%</b>	<b>\$21.24</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,592,268	-54,569	-36,471	-1.0%	22.9%	23.1%	\$16.26	0	0
Sugar Land	B	1,308,292	16,877	40,039	3.1%	12.7%	13.5%	\$21.27	0	0
Gulf Freeway/Pasadena	B	1,516,973	11,436	-17,977	-1.2%	17.5%	17.5%	\$21.89	82,800	0
NASA/Clear Lake	B	1,924,370	-38,916	-36,963	-1.9%	23.3%	23.3%	\$19.15	0	0
The Woodlands	B	2,079,062	20,809	-8,347	-0.4%	15.8%	16.5%	\$25.88	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,420,965</b>	<b>-44,363</b>	<b>-59,719</b>	<b>-0.6%</b>	<b>19.5%</b>	<b>19.8%</b>	<b>\$19.52</b>	<b>82,800</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>59,074,695</b>	<b>-412,750</b>	<b>-1,001,659</b>	<b>-1.7%</b>	<b>19.6%</b>	<b>20.4%</b>	<b>\$21.67</b>	<b>82,800</b>	<b>0</b>

Q2 2017

## Office Insight

# Limited tenant demand drags down market; limited new supply provides hope for stabilization

- Consolidations and space give-backs result in sixth consecutive quarter of negative net absorption.
- Construction resumes at Capitol Tower following Bank of America's 210,000 square foot pre-leasing commitment.
- Asking rents remain largely unchanged despite total vacancy rising over 325 basis points year-over-year. Start and effective rents have trended downward and concessions are still on the rise.

Since the fourth quarter of 2014, leasing activity in Houston has lagged behind its ten-year quarterly average of 3.8 million square feet in nine of the past ten quarters. Unfortunately, the second quarter of 2017 was among the nine underperformers. As a result of the slowdown in tenant demand, total vacancy has risen in each of the past ten quarters, rising from a healthy 13.5 percent in the fourth quarter of 2014 to a decade-high 22.4 percent. Additionally, the market added over 12.8 million square feet of new office product and a nearly identical amount of sublease space over this same time. This imbalance on both the demand and supply sides of the equation has placed a great deal of pressure on the market to say the least.

While a great deal of work remains to be done on the demand side, the market has taken several important steps towards stabilizing the supply side. Most notably, the market's available sublease inventory contracted for the third consecutive quarter to 11.1 million square feet during the second quarter, which represents a decrease of over 1.1 million square feet from its peak. Further, at 2.3 million square feet, the construction pipeline is now at its lowest level since the first quarter of 2012 and well below its ten-year quarterly average of 4.7 million square feet.

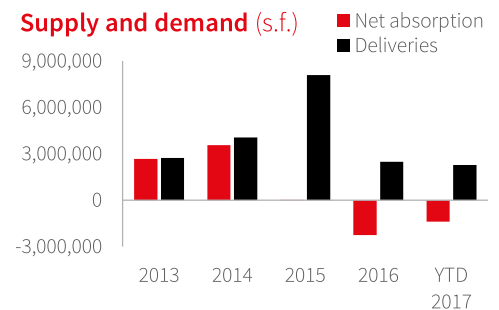
## Outlook

Rectifying six consecutive quarters of negative net absorption and ten consecutive quarters of rising vacancy will not happen overnight, especially given the recent performance of the market from a leasing activity perspective. As a result, we expect office market conditions in Houston to persist for the remainder of 2017 as tenant demand remains muted and the possibility of a market recovery taking shape in 2018 and 2019 should significant demand return.

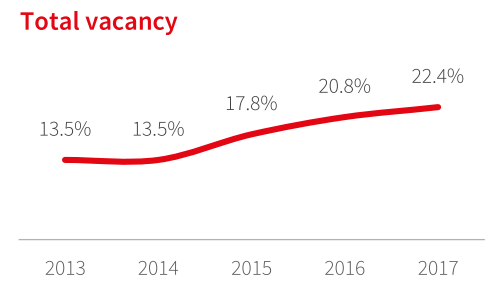
## Fundamentals

	Forecast
YTD net absorption	-1,376,620 s.f. ▼
Under construction	2,274,831 s.f. ▼
Total vacancy	22.4% ▲
Average asking rent (gross)	\$30.79 p.s.f. ▼
Concessions	Rising ▲

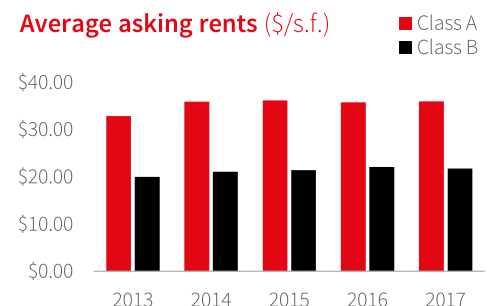
## Supply and demand (s.f.)



## Total vacancy



## Average asking rents (\$/s.f.)



For more information, contact: Reid Watler | reid.watler@am.jll.com

Q2 2017

## Office Statistics

	Class	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Houston Totals</b>										
	A	107,095,792	-720,402	-1,005,061	-0.9%	20.0%	24.0%	\$36.02	2,274,831	2,221,074
	B	58,594,037	139,316	-371,559	-0.6%	18.8%	19.5%	\$21.77	0	145,800
<b>Totals</b>		<b>165,689,829</b>	<b>-581,086</b>	<b>-1,376,620</b>	<b>-0.8%</b>	<b>19.6%</b>	<b>22.4%</b>	<b>\$30.79</b>	<b>2,274,831</b>	<b>2,366,874</b>
CBD	Totals	35,035,851	-131,046	-772,277	-2.2%	17.6%	19.9%	\$41.29	1,056,658	778,344
<b>CBD</b>	<b>Totals</b>	<b>35,035,851</b>	<b>-131,046</b>	<b>-772,277</b>	<b>-2.2%</b>	<b>17.6%</b>	<b>19.9%</b>	<b>\$41.29</b>	<b>1,056,658</b>	<b>778,344</b>
Midtown	Totals	4,120,911	61,418	80,006	1.9%	14.2%	14.5%	\$31.80	0	0
Greenway Plaza	Totals	9,458,663	-72,977	-115,743	-1.2%	14.7%	15.0%	\$34.76	0	188,547
Greenspoint/North Belt	Totals	8,935,388	-268,230	-196,025	-2.2%	48.2%	52.8%	\$21.11	0	0
Northwest	Totals	8,570,659	447	-74,111	-0.9%	22.9%	26.0%	\$23.35	0	0
San Felipe/Voss	Totals	5,150,824	-11,843	-27,294	-0.5%	17.6%	17.7%	\$29.49	0	0
Southwest	Totals	5,962,589	62,770	4,666	0.1%	19.4%	19.5%	\$17.18	0	0
Galleria	Totals	22,109,430	-288,667	-275,857	-1.2%	16.9%	19.9%	\$35.53	980,000	104,579
Bellaire	Totals	2,283,310	18,350	23,238	1.0%	10.8%	11.4%	\$24.91	0	0
Medical Center	Totals	3,933,633	70,146	-50,445	-1.3%	15.9%	16.0%	\$29.81	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>70,525,407</b>	<b>-428,586</b>	<b>-631,565</b>	<b>-0.9%</b>	<b>21.2%</b>	<b>23.2%</b>	<b>\$27.36</b>	<b>980,000</b>	<b>293,126</b>
Katy Freeway East	Totals	5,547,268	-31,463	42,767	0.8%	13.4%	15.4%	\$32.25	238,173	0
Katy Freeway West	Totals	19,614,259	-204,205	-195,682	-1.0%	23.2%	30.8%	\$31.32	0	320,793
Westchase	Totals	12,822,356	-26,459	-116,246	-0.9%	19.0%	24.4%	\$30.54	0	187,011
<b>Energy Corridor</b>	<b>Totals</b>	<b>37,983,883</b>	<b>-262,127</b>	<b>-269,161</b>	<b>-0.7%</b>	<b>20.4%</b>	<b>26.4%</b>	<b>\$31.15</b>	<b>238,173</b>	<b>507,804</b>
FM 1960	Totals	5,879,208	38,953	66,118	1.1%	17.9%	18.2%	\$18.16	0	0
Sugar Land	Totals	4,232,491	-11,815	-7,707	-0.2%	10.3%	12.8%	\$26.20	0	0
Gulf Freeway/Pasadena	Totals	1,524,175	80,823	84,943	5.6%	10.7%	10.7%	\$22.07	0	82,800
NASA/Clear Lake	Totals	3,259,583	13,007	-18,001	-0.6%	15.9%	17.3%	\$19.62	0	0
The Woodlands	Totals	7,249,231	119,705	171,030	2.4%	20.0%	20.7%	\$33.88	0	704,800
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,144,688</b>	<b>240,673</b>	<b>296,383</b>	<b>1.3%</b>	<b>16.3%</b>	<b>17.3%</b>	<b>\$25.36</b>	<b>0</b>	<b>787,600</b>
<b>Houston</b>	<b>Totals</b>	<b>165,689,829</b>	<b>-581,086</b>	<b>-1,376,620</b>	<b>-0.8%</b>	<b>19.6%</b>	<b>22.4%</b>	<b>\$30.79</b>	<b>2,274,831</b>	<b>2,366,874</b>
CBD	A	27,915,808	-60,534	-524,747	-1.9%	17.0%	19.7%	\$44.43	1,056,658	778,344
<b>CBD</b>	<b>A</b>	<b>27,915,808</b>	<b>-60,534</b>	<b>-524,747</b>	<b>-1.9%</b>	<b>17.0%</b>	<b>19.7%</b>	<b>\$44.43</b>	<b>1,056,658</b>	<b>778,344</b>
Midtown	A	1,853,042	31,617	55,581	3.0%	21.4%	21.8%	\$33.86	0	0
Greenway Plaza	A	6,887,468	-44,858	-49,537	-0.7%	15.5%	15.7%	\$37.53	0	188,547
Greenspoint/North Belt	A	4,646,354	-191,106	-89,022	-1.9%	56.1%	61.4%	\$24.60	0	0
Northwest	A	3,873,883	-62,185	-115,591	-3.0%	30.8%	35.0%	\$26.62	0	0
San Felipe/Voss	A	1,720,793	965	22,309	1.3%	24.0%	24.1%	\$36.29	0	0
Southwest	A	1,576,901	6,593	12,209	0.8%	10.9%	10.9%	\$18.51	0	0
Galleria	A	17,159,951	-274,450	-271,283	-1.6%	18.1%	21.9%	\$37.61	980,000	104,579
Bellaire	A	1,091,536	14,641	11,405	1.0%	11.1%	12.1%	\$24.82	0	0
Medical Center	A	1,729,776	67,398	-57,856	-3.3%	14.0%	14.0%	\$32.90	0	0
<b>Suburban Near</b>	<b>A</b>	<b>40,539,704</b>	<b>-451,385</b>	<b>-481,785</b>	<b>-1.2%</b>	<b>23.0%</b>	<b>25.7%</b>	<b>\$31.55</b>	<b>980,000</b>	<b>293,126</b>
Katy Freeway East	A	4,111,243	-22,172	47,008	1.1%	14.1%	16.4%	\$43.78	238,173	0
Katy Freeway West	A	14,212,207	-226,993	-77,631	-0.5%	23.4%	33.6%	\$35.88	0	257,793
Westchase	A	8,603,019	-33,956	-134,071	-1.6%	19.9%	28.0%	\$36.09	0	187,011
<b>Energy Corridor</b>	<b>A</b>	<b>26,926,469</b>	<b>-283,121</b>	<b>-164,694</b>	<b>-0.6%</b>	<b>20.9%</b>	<b>29.2%</b>	<b>\$36.67</b>	<b>238,173</b>	<b>444,804</b>
FM 1960	A	2,284,644	2,643	30,983	1.4%	13.2%	13.6%	\$28.35	0	0
Sugar Land	A	2,924,199	-31,320	-29,469	-1.0%	8.9%	11.9%	\$31.18	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,335,213	2,104	-19,954	-1.5%	5.3%	8.7%	\$24.22	0	0
The Woodlands	A	5,169,755	101,211	184,605	3.6%	21.6%	22.2%	\$37.38	0	704,800
<b>Suburban Outlying</b>	<b>A</b>	<b>11,713,811</b>	<b>74,638</b>	<b>166,165</b>	<b>1.4%</b>	<b>14.9%</b>	<b>16.4%</b>	<b>\$34.01</b>	<b>0</b>	<b>704,800</b>
<b>Houston</b>	<b>A</b>	<b>107,095,792</b>	<b>-720,402</b>	<b>-1,005,061</b>	<b>-0.9%</b>	<b>20.0%</b>	<b>24.0%</b>	<b>\$36.02</b>	<b>2,274,831</b>	<b>2,221,074</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,120,043	-70,512	-247,530	-3.5%	19.8%	20.3%	\$29.50	0	0
<b>CBD</b>	<b>B</b>	<b>7,120,043</b>	<b>-70,512</b>	<b>-247,530</b>	<b>-3.5%</b>	<b>19.8%</b>	<b>20.3%</b>	<b>\$29.50</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	29,801	24,425	1.1%	8.3%	8.4%	\$27.89	0	0
Greenway Plaza	B	2,571,195	-28,119	-66,206	-2.6%	12.7%	13.1%	\$26.64	0	0
Greenspoint/North Belt	B	4,289,034	-77,124	-107,003	-2.5%	39.7%	43.5%	\$16.10	0	0
Northwest	B	4,696,776	62,632	41,480	0.9%	16.4%	18.5%	\$19.20	0	0
San Felipe/Voss	B	3,430,031	-12,808	-49,603	-1.4%	14.4%	14.5%	\$23.59	0	0
Southwest	B	4,385,688	56,177	-7,543	-0.2%	22.5%	22.6%	\$16.73	0	0
Galleria	B	4,949,479	-14,217	-4,574	-0.1%	12.9%	13.2%	\$27.57	0	0
Bellaire	B	1,191,774	3,709	11,833	1.0%	10.6%	10.8%	\$25.05	0	0
Medical Center	B	2,203,857	2,748	7,411	0.3%	17.5%	17.5%	\$27.61	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,985,703</b>	<b>22,799</b>	<b>-149,780</b>	<b>-0.5%</b>	<b>18.7%</b>	<b>19.8%</b>	<b>\$20.64</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,436,025	-9,291	-4,241	-0.3%	11.2%	12.6%	\$20.91	0	0
Katy Freeway West	B	5,402,052	22,788	-118,051	-2.2%	22.7%	23.3%	\$22.50	0	63,000
Westchase	B	4,219,337	7,497	17,825	0.4%	17.2%	17.2%	\$19.73	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,057,414</b>	<b>20,994</b>	<b>-104,467</b>	<b>-0.9%</b>	<b>19.1%</b>	<b>19.6%</b>	<b>\$21.38</b>	<b>0</b>	<b>63,000</b>
FM 1960	B	3,594,564	36,310	35,135	1.0%	20.8%	21.1%	\$16.40	0	0
Sugar Land	B	1,308,292	19,505	21,762	1.7%	13.3%	14.9%	\$21.29	0	0
Gulf Freeway/Pasadena	B	1,524,175	80,823	84,943	5.6%	10.7%	10.7%	\$22.07	0	82,800
NASA/Clear Lake	B	1,924,370	10,903	1,953	0.1%	23.3%	23.3%	\$18.36	0	0
The Woodlands	B	2,079,476	18,494	-13,575	-0.7%	15.9%	16.7%	\$26.80	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,430,877</b>	<b>166,035</b>	<b>130,218</b>	<b>1.2%</b>	<b>17.9%</b>	<b>18.3%</b>	<b>\$19.73</b>	<b>0</b>	<b>82,800</b>
<b>Houston</b>	<b>B</b>	<b>58,594,037</b>	<b>139,316</b>	<b>-371,559</b>	<b>-0.6%</b>	<b>18.8%</b>	<b>19.5%</b>	<b>\$21.77</b>	<b>0</b>	<b>145,800</b>

Q1 2017

## Office Insight

# Office market looks to reset its course in 2017 and beyond

- Large blocks of space continue to arrive to market; nine 100K+ square foot blocks added in the first quarter of 2017.
- Sublease inventory contracts for second consecutive quarter, 11.3 million square feet still available for lease.
- Construction pipeline down to 3.3 million square feet in the first quarter of 2017.

Market conditions in Houston to start 2017 by and large mirrored how the market closed out 2016. Total vacancy rose for the ninth consecutive quarter to 20.9 percent in the first quarter, largely as a result of Freeport McMoRan's decision to vacate 355,000 square feet of space at 717 Texas Avenue. Net absorption remained negative for the fifth consecutive quarter, seeing 512,172 square feet of net move-outs in the first quarter. Average asking rents fell by 1.0 percent quarter-over-quarter, while concessions such as free rent and tenant improvement allowances continued to rise.

However, in the face of sustained headwinds, a few emerging trends provide hope for a shift in market conditions in quarters to come. Total sublease space on the market contracted for the second consecutive quarter to start the year and now stands at 11.3 million square feet overall. This represents a nearly 900,000 square foot drop in sublease space in the past two quarters after peaking at 12.2 million square feet in the third quarter of 2016. Additionally, the construction pipeline is now at its lowest level since the third quarter of 2012, which should ease some of the supply side problems facing the market at present.

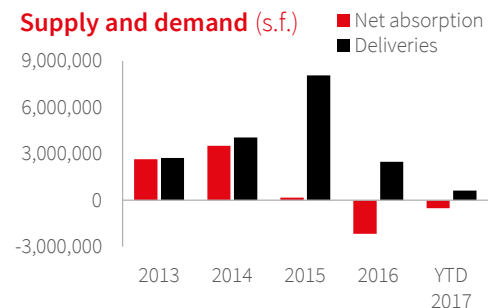
## Outlook

Given that leasing activity has underperformed its ten-year quarterly average of 3.7 million square feet in each of the past five quarters, there is no question that the market has its work cut out on the demand side. Conversely, the supply side provides for a more optimistic reading of the market, as nearly three-quarters of the 3.3 million square feet currently under construction is set to deliver in 2017, of which 61.1 percent is pre-leased. Moving forward, we expect market conditions to continue on their current paths in 2017, albeit at a less pronounced pace than what the market experienced in 2015 and 2016.

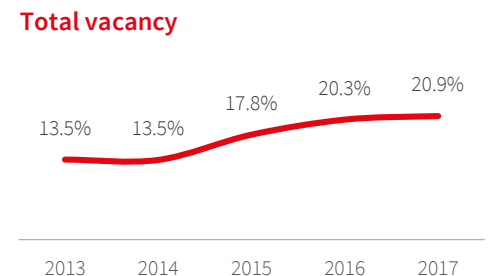
## Fundamentals

	Forecast
YTD net absorption	-512,172 s.f. ▼
Under construction	3,268,508 s.f. ▼
Total vacancy	20.9% ▲
Average asking rent (gross)	\$30.43 p.s.f. ▼
Concessions	Rising ▲

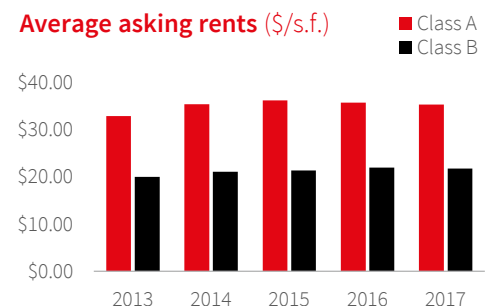
## Supply and demand (s.f.)



## Total vacancy



## Average asking rents (\$/s.f.)



For more information, contact: Reid Watler | [reid.watler@am.jll.com](mailto:reid.watler@am.jll.com)

Q1 2017

## Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	34,309,284	-543,705	-543,705	-1.6%	13.8%	16.6%	\$41.14	0	1,056,658
<b>CBD</b>	<b>Totals</b>	<b>34,309,284</b>	<b>-543,705</b>	<b>-543,705</b>	<b>-1.6%</b>	<b>13.8%</b>	<b>16.6%</b>	<b>\$41.14</b>	<b>0</b>	<b>1,056,658</b>
Midtown	Totals	4,120,911	12,631	12,631	0.3%	15.5%	16.1%	\$31.71	0	0
Greenway Plaza	Totals	9,523,581	-18,241	-18,241	-0.2%	13.5%	13.9%	\$34.91	0	212,878
Greenspoint/North Belt	Totals	9,063,390	29,100	29,100	0.3%	41.6%	48.6%	\$21.00	0	0
Northwest	Totals	8,475,304	-84,872	-84,872	-1.0%	23.2%	26.4%	\$23.58	0	0
San Felipe/Voss	Totals	5,150,824	-12,919	-12,919	-0.3%	17.2%	17.5%	\$30.05	0	0
Southwest	Totals	5,962,136	-45,495	-45,495	-0.8%	20.2%	20.4%	\$17.16	0	0
Galleria	Totals	21,508,035	55,851	55,851	0.3%	15.1%	16.3%	\$35.23	380,000	704,579
Bellaire	Totals	2,283,310	9,110	9,110	0.4%	11.6%	12.1%	\$25.82	0	0
Medical Center	Totals	3,933,633	-87,742	-87,742	-2.2%	16.7%	16.9%	\$28.57	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>70,021,124</b>	<b>-142,577</b>	<b>-142,577</b>	<b>-0.2%</b>	<b>19.9%</b>	<b>21.7%</b>	<b>\$27.35</b>	<b>380,000</b>	<b>917,457</b>
Katy Freeway East	Totals	5,547,268	47,908	47,908	0.9%	14.2%	15.3%	\$31.45	238,173	0
Katy Freeway West	Totals	19,691,105	152,757	152,757	0.8%	21.2%	28.5%	\$31.48	0	320,793
Westchase	Totals	12,824,482	-82,679	-82,679	-0.6%	19.2%	24.3%	\$30.33	0	186,000
<b>Energy Corridor</b>	<b>Totals</b>	<b>38,062,855</b>	<b>117,986</b>	<b>117,986</b>	<b>0.3%</b>	<b>19.5%</b>	<b>25.1%</b>	<b>\$31.12</b>	<b>238,173</b>	<b>506,793</b>
FM 1960	Totals	5,879,873	5,311	5,311	0.1%	19.2%	19.5%	\$18.12	0	0
Sugar Land	Totals	4,232,491	27,984	27,984	0.7%	10.2%	12.0%	\$26.82	0	0
Gulf Freeway/Pasadena	Totals	1,441,375	4,192	4,192	0.3%	11.2%	11.2%	\$21.72	0	82,800
NASA/Clear Lake	Totals	3,252,559	-30,322	-30,322	-0.9%	15.6%	17.1%	\$19.45	0	0
The Woodlands	Totals	7,249,231	48,959	48,959	0.7%	21.3%	22.3%	\$33.98	0	704,800
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,055,529</b>	<b>56,124</b>	<b>56,124</b>	<b>0.3%</b>	<b>17.1%</b>	<b>18.1%</b>	<b>\$25.43</b>	<b>0</b>	<b>787,600</b>
<b>Houston</b>	<b>Totals</b>	<b>164,448,792</b>	<b>-512,172</b>	<b>-512,172</b>	<b>-0.3%</b>	<b>18.1%</b>	<b>20.9%</b>	<b>\$30.43</b>	<b>618,173</b>	<b>3,268,508</b>
CBD	A	26,859,150	-477,087	-477,087	-1.8%	13.6%	16.4%	\$43.36	0	1,056,658
<b>CBD</b>	<b>A</b>	<b>26,859,150</b>	<b>-477,087</b>	<b>-477,087</b>	<b>-1.8%</b>	<b>13.6%</b>	<b>16.4%</b>	<b>\$43.36</b>	<b>0</b>	<b>1,056,658</b>
Midtown	A	1,853,042	18,550	18,550	1.0%	22.5%	23.8%	\$34.04	0	0
Greenway Plaza	A	6,952,386	18,186	18,186	0.3%	14.4%	14.6%	\$37.31	0	212,878
Greenspoint/North Belt	A	4,649,811	106,248	106,248	2.3%	47.7%	57.3%	\$24.30	0	0
Northwest	A	3,859,643	-55,632	-55,632	-1.4%	29.2%	33.6%	\$26.28	0	0
San Felipe/Voss	A	1,720,793	13,377	13,377	0.8%	24.1%	24.6%	\$36.31	0	0
Southwest	A	1,576,901	5,616	5,616	0.4%	11.3%	11.3%	\$18.42	0	0
Galleria	A	16,558,556	64,169	64,169	0.4%	15.7%	17.2%	\$37.37	380,000	704,579
Bellaire	A	1,091,536	-3,236	-3,236	-0.3%	12.5%	13.5%	\$26.50	0	0
Medical Center	A	1,729,776	-121,931	-121,931	-7.0%	17.1%	17.7%	\$30.20	0	0
<b>Suburban Near</b>	<b>A</b>	<b>39,992,444</b>	<b>45,347</b>	<b>45,347</b>	<b>0.1%</b>	<b>21.0%</b>	<b>23.3%</b>	<b>\$31.37</b>	<b>380,000</b>	<b>917,457</b>
Katy Freeway East	A	4,111,243	69,221	69,221	1.7%	15.1%	15.8%	\$43.33	238,173	0
Katy Freeway West	A	14,289,468	311,584	311,584	2.2%	20.8%	30.6%	\$35.39	0	257,793
Westchase	A	8,603,289	-91,673	-91,673	-1.1%	20.0%	27.6%	\$36.15	0	0
<b>Energy Corridor</b>	<b>A</b>	<b>27,004,000</b>	<b>289,132</b>	<b>289,132</b>	<b>1.1%</b>	<b>19.7%</b>	<b>27.4%</b>	<b>\$36.32</b>	<b>238,173</b>	<b>257,793</b>
FM 1960	A	2,285,309	26,111	26,111	1.1%	13.3%	13.8%	\$28.39	0	0
Sugar Land	A	2,924,199	21,932	21,932	0.8%	8.1%	10.1%	\$31.49	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,335,213	-19,621	-19,621	-1.5%	4.9%	8.6%	\$24.03	0	0
The Woodlands	A	5,169,755	88,711	88,711	1.7%	23.5%	24.1%	\$37.75	0	704,800
<b>Suburban Outlying</b>	<b>A</b>	<b>11,714,476</b>	<b>117,133</b>	<b>117,133</b>	<b>1.0%</b>	<b>15.6%</b>	<b>16.8%</b>	<b>\$34.34</b>	<b>0</b>	<b>704,800</b>
<b>Houston</b>	<b>A</b>	<b>105,570,070</b>	<b>-25,475</b>	<b>-25,475</b>	<b>0.0%</b>	<b>18.2%</b>	<b>21.9%</b>	<b>\$35.33</b>	<b>618,173</b>	<b>2,936,708</b>



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,450,134	-66,618	-66,618	-0.9%	14.6%	17.3%	\$30.66	0	0
<b>CBD</b>	<b>B</b>	<b>7,450,134</b>	<b>-66,618</b>	<b>-66,618</b>	<b>-0.9%</b>	<b>14.6%</b>	<b>17.3%</b>	<b>\$30.66</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	-5,919	-5,919	-0.3%	9.7%	9.8%	\$27.70	0	0
Greenway Plaza	B	2,571,195	-36,427	-36,427	-1.4%	11.2%	12.0%	\$26.57	0	0
Greenspoint/North Belt	B	4,413,579	-77,148	-77,148	-1.7%	35.1%	39.5%	\$16.04	0	0
Northwest	B	4,615,661	-29,240	-29,240	-0.6%	18.3%	20.4%	\$19.68	0	0
San Felipe/Voss	B	3,430,031	-26,296	-26,296	-0.8%	13.8%	13.9%	\$23.93	0	0
Southwest	B	4,385,235	-51,111	-51,111	-1.2%	23.4%	23.6%	\$16.69	0	0
Galleria	B	4,949,479	-8,318	-8,318	-0.2%	13.0%	13.3%	\$27.60	0	0
Bellaire	B	1,191,774	12,346	12,346	1.0%	10.8%	10.8%	\$24.89	0	0
Medical Center	B	2,203,857	34,189	34,189	1.6%	16.3%	16.3%	\$27.42	0	0
<b>Suburban Near</b>	<b>B</b>	<b>30,028,680</b>	<b>-187,924</b>	<b>-187,924</b>	<b>-0.6%</b>	<b>18.4%</b>	<b>19.5%</b>	<b>\$20.67</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,436,025	-21,313	-21,313	-1.5%	11.6%	13.8%	\$20.17	0	0
Katy Freeway West	B	5,401,637	-158,827	-158,827	-2.9%	22.0%	22.8%	\$22.97	0	63,000
Westchase	B	4,221,193	8,994	8,994	0.2%	17.4%	17.4%	\$19.94	0	186,000
<b>Energy Corridor</b>	<b>B</b>	<b>11,058,855</b>	<b>-171,146</b>	<b>-171,146</b>	<b>-1.5%</b>	<b>18.9%</b>	<b>19.6%</b>	<b>\$21.65</b>	<b>0</b>	<b>249,000</b>
FM 1960	B	3,594,564	-20,800	-20,800	-0.6%	23.0%	23.2%	\$16.44	0	0
Sugar Land	B	1,308,292	6,052	6,052	0.5%	14.8%	16.1%	\$21.84	0	0
Gulf Freeway/Pasadena	B	1,441,375	4,192	4,192	0.3%	11.2%	11.2%	\$21.72	0	82,800
NASA/Clear Lake	B	1,917,346	-10,701	-10,701	-0.6%	23.0%	23.0%	\$18.22	0	0
The Woodlands	B	2,079,476	-39,752	-39,752	-1.9%	15.8%	18.0%	\$26.23	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,341,053</b>	<b>-61,009</b>	<b>-61,009</b>	<b>-0.6%</b>	<b>18.8%</b>	<b>19.5%</b>	<b>\$19.53</b>	<b>0</b>	<b>82,800</b>
<b>Houston</b>	<b>B</b>	<b>58,878,722</b>	<b>-486,697</b>	<b>-486,697</b>	<b>-0.8%</b>	<b>18.1%</b>	<b>19.3%</b>	<b>\$21.80</b>	<b>0</b>	<b>331,800</b>

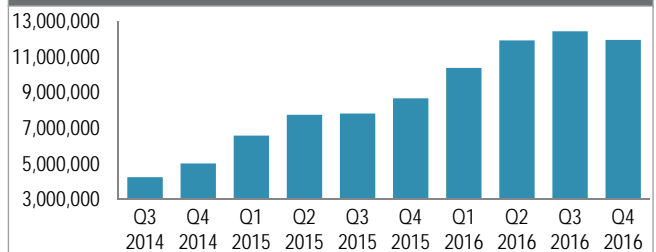


## Healing sublease inventory offset by pain elsewhere

### Sublease inventory contracts for the first time since Q3 2014

Following eight consecutive quarters of expansion, the Houston office sublease inventory decreased in size during the fourth quarter, dropping from 12.4 million square feet in Q3 to 11.9 million s.f. in Q4. Much of the drop is attributed to ConocoPhillips decision to relocate their Houston headquarters to Energy Center Four, a 597,000-square-foot Class A building located in the Energy Corridor that was formerly available for sublease. Additionally, Q4 also brought with it the two largest sublease deals of the year, Breitburn Energy's 109,000-square-foot deal at Heritage Plaza and Thompson & Knight's 60,000-square-foot deal at BG Group Place. Moving forward, the sublease inventory will likely continue to contract in 2017.

### Sublease inventory drops by over 489,000 s.f. from Q3 to Q4

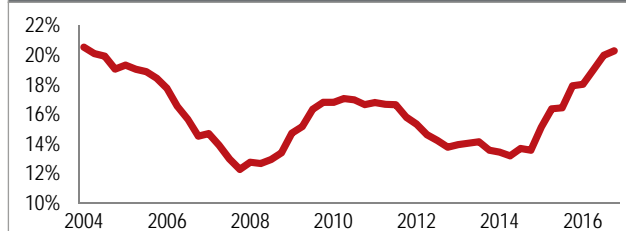


Source: JLL Research

### Total vacancy climbs higher amid weak leasing activity

Due in large part to a weak showing in leasing activity, which was approximately 54.0 percent below its 10-year quarterly average of 3.7 million square feet, market-wide total vacancy reached 20.3 percent during the fourth quarter. The total vacancy rate has been steadily on the rise since the fourth quarter of 2014. During this time, total leasing activity has lagged behind its 10-year quarterly average in seven of the eight quarters and the total vacancy rate has risen for eight consecutive quarters. Given the slowdown in leasing demand, the total vacancy rate is anticipated to remain at elevated levels in 2017.

### Total vacancy eclipses 20% for the first time since Q2 2004

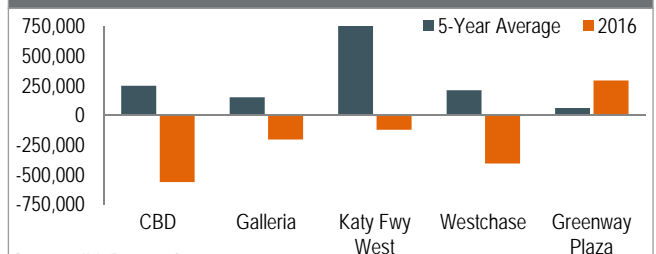


Source: JLL Research

### Prominent submarkets account for bulk of negative net absorption in 2016

With the exception of Greenway Plaza, net absorption among the top five largest submarkets in Houston severely lagged behind their respective five-year averages, falling behind by an average of -119.0 percent. The weak performance of the major submarkets all but assured that the office market would record its second consecutive year of negative net absorption, which marks the first time that this has happened since 2002. Energy sector move-outs lay at the heart of the issue in 2016, as low oil prices drove many energy sector tenants to reduce their headcounts, place excess space on the sublease market and later vacate their space.

### Net absorption below average in 4 of the 5 major submarkets



Source: JLL Research

163,623,452

Total inventory (s.f.)

-125,349

Q4 2016 net absorption (s.f.)

\$30.78

Direct average asking rent

3,514,081

Total under construction (s.f.)

20.3%

Total vacancy

-1,925,298

YTD net absorption (s.f.)

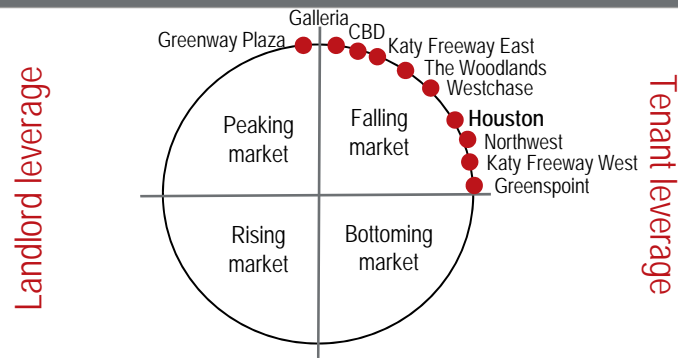
-0.1%

12-month rent growth

53.0%

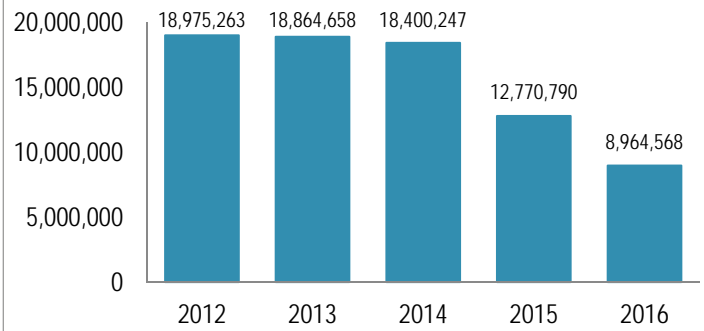
Total preleased

### Current conditions – submarket



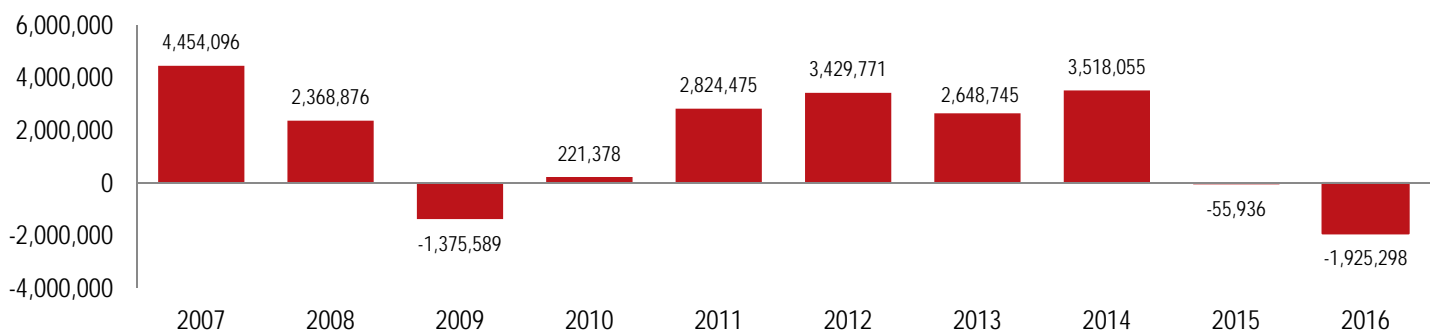
Source: JLL Research

### Historical leasing activity (s.f.)



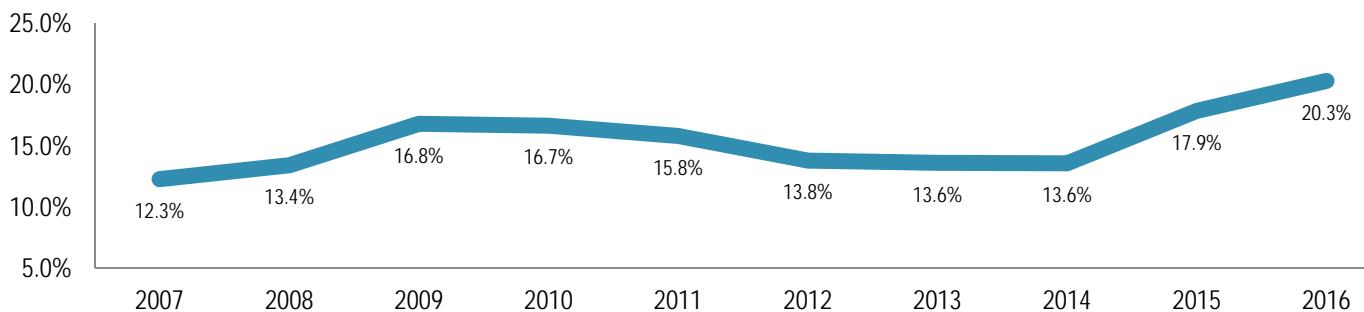
Source: JLL Research

### Total net absorption (s.f.)



Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q4 2016



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	34,309,284	72,441	-560,714	-1.6%	12.7%	16.1%	\$41.99	521,600	1,056,658
<b>CBD</b>	<b>Totals</b>	<b>34,309,284</b>	<b>72,441</b>	<b>-560,714</b>	<b>-1.6%</b>	<b>12.7%</b>	<b>16.1%</b>	<b>\$41.99</b>	<b>521,600</b>	<b>1,056,658</b>
Midtown	Totals	4,120,911	13,548	88,077	2.1%	15.8%	16.4%	\$32.35	0	0
Greenway Plaza	Totals	9,523,581	99,268	294,523	3.1%	13.6%	13.9%	\$34.88	182,000	212,878
Greenspoint/North Belt	Totals	8,900,906	-138,058	-966,339	-10.9%	41.0%	49.0%	\$21.62	0	0
Northwest	Totals	8,473,415	7,097	-84,651	-1.0%	23.5%	26.7%	\$23.36	0	0
San Felipe/Voss	Totals	5,146,896	-71,992	-173,828	-3.4%	16.6%	16.8%	\$30.13	0	0
Southwest	Totals	5,962,166	-57,519	-2,745	0.0%	20.2%	20.3%	\$17.42	0	60,000
Galleria	Totals	21,128,035	-118,231	-203,160	-1.0%	14.0%	15.2%	\$35.27	165,000	1,084,579
Bellaire	Totals	2,283,310	18,602	-75,404	-3.3%	11.8%	12.5%	\$25.71	0	0
Medical Center	Totals	3,933,633	-9,604	35,315	0.9%	14.5%	14.7%	\$27.79	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>69,472,853</b>	<b>-256,889</b>	<b>-1,088,212</b>	<b>-1.6%</b>	<b>19.4%</b>	<b>21.3%</b>	<b>\$27.43</b>	<b>347,000</b>	<b>1,357,457</b>
Katy Freeway East	Totals	5,289,417	-32,530	210,839	4.0%	11.2%	12.4%	\$33.54	0	238,173
Katy Freeway West	Totals	19,677,122	187,044	-120,879	-0.6%	21.2%	26.2%	\$31.88	1,034,571	86,255
Westchase	Totals	12,823,745	-107,502	-404,806	-3.2%	18.2%	23.6%	\$30.39	1,545,000	186,000
<b>Energy Corridor</b>	<b>Totals</b>	<b>37,790,284</b>	<b>47,012</b>	<b>-314,846</b>	<b>-0.8%</b>	<b>18.7%</b>	<b>23.4%</b>	<b>\$31.60</b>	<b>2,579,571</b>	<b>510,428</b>
FM 1960	Totals	5,879,873	36,667	19,964	0.3%	18.5%	19.1%	\$18.37	0	0
Sugar Land	Totals	4,232,491	-14,686	-62,315	-1.5%	10.6%	12.4%	\$26.77	0	187,200
Gulf Freeway/Pasadena	Totals	1,441,375	13,289	149,146	10.3%	11.6%	11.8%	\$21.34	102,000	82,800
NASA/Clear Lake	Totals	3,252,207	-68,633	-115,979	-3.6%	14.6%	15.8%	\$19.42	0	0
The Woodlands	Totals	7,245,085	45,450	47,658	0.7%	22.3%	23.4%	\$33.76	442,403	0
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,051,031</b>	<b>12,087</b>	<b>38,474</b>	<b>0.2%</b>	<b>17.2%</b>	<b>18.3%</b>	<b>\$25.52</b>	<b>544,403</b>	<b>270,000</b>
<b>Houston</b>	<b>Totals</b>	<b>163,623,452</b>	<b>-125,349</b>	<b>-1,925,298</b>	<b>-1.2%</b>	<b>17.5%</b>	<b>20.3%</b>	<b>\$30.78</b>	<b>3,992,574</b>	<b>3,194,543</b>
CBD	A	26,859,150	53,076	-560,661	-2.1%	11.8%	15.3%	\$44.73	521,600	1,056,658
<b>CBD</b>	<b>A</b>	<b>26,859,150</b>	<b>53,076</b>	<b>-560,661</b>	<b>-2.1%</b>	<b>11.8%</b>	<b>15.3%</b>	<b>\$44.73</b>	<b>521,600</b>	<b>1,056,658</b>
Midtown	A	1,853,042	13,997	107,259	5.8%	23.5%	24.8%	\$34.72	0	0
Greenway Plaza	A	6,952,386	47,904	337,386	4.9%	15.1%	15.3%	\$37.29	182,000	212,878
Greenspoint/North Belt	A	4,662,826	-63,253	-930,743	-20.0%	49.7%	59.5%	\$24.75	0	0
Northwest	A	3,859,643	-39,345	-86,786	-2.2%	28.7%	33.4%	\$26.15	0	0
San Felipe/Voss	A	1,720,793	-371	-21,940	-1.3%	23.6%	24.0%	\$36.11	0	0
Southwest	A	1,576,901	4,095	45,566	2.9%	11.7%	11.7%	\$18.50	0	0
Galleria	A	16,178,556	-111,132	-178,500	-1.1%	14.4%	15.8%	\$37.51	165,000	1,084,579
Bellaire	A	1,091,536	6,479	-29,294	-2.7%	12.4%	13.2%	\$26.52	0	0
Medical Center	A	1,729,776	-14,990	-2,896	-0.2%	10.1%	10.6%	\$29.28	0	0
<b>Suburban Near</b>	<b>A</b>	<b>39,625,459</b>	<b>-156,616</b>	<b>-759,948</b>	<b>-1.9%</b>	<b>20.5%</b>	<b>22.9%</b>	<b>\$31.43</b>	<b>347,000</b>	<b>1,297,457</b>
Katy Freeway East	A	3,853,105	-18,365	246,476	6.4%	11.6%	12.4%	\$43.77	0	238,173
Katy Freeway West	A	14,275,485	131,904	56,035	0.4%	22.5%	28.6%	\$35.85	1,034,571	86,255
Westchase	A	8,603,289	-39,534	-307,699	-3.6%	18.5%	26.4%	\$35.96	1,545,000	0
<b>Energy Corridor</b>	<b>A</b>	<b>26,731,879</b>	<b>74,005</b>	<b>-5,188</b>	<b>0.0%</b>	<b>19.7%</b>	<b>25.5%</b>	<b>\$36.62</b>	<b>2,579,571</b>	<b>324,428</b>
FM 1960	A	2,285,309	23,209	-3,070	-0.1%	13.9%	15.1%	\$28.33	0	0
Sugar Land	A	2,924,199	-7,437	-75,233	-2.6%	8.5%	10.5%	\$30.98	0	187,200
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,335,213	-2,560	-8,169	-0.6%	4.7%	7.3%	\$24.08	0	0
The Woodlands	A	5,169,755	36,004	24,226	0.5%	25.5%	26.1%	\$36.85	442,403	0
<b>Suburban Outlying</b>	<b>A</b>	<b>11,714,476</b>	<b>49,216</b>	<b>-62,246</b>	<b>-0.5%</b>	<b>16.6%</b>	<b>17.9%</b>	<b>\$33.71</b>	<b>442,403</b>	<b>187,200</b>
<b>Houston</b>	<b>A</b>	<b>104,930,964</b>	<b>19,681</b>	<b>-1,388,043</b>	<b>-1.3%</b>	<b>17.6%</b>	<b>21.1%</b>	<b>\$35.69</b>	<b>3,890,574</b>	<b>2,865,743</b>

Reid Watler | Senior Research Analyst  
1400 Post Oak Suite 1100 Houston, TX 77056 reid.watler@am.jll.com

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,450,134	19,365	-53	0.0%	16.2%	18.9%	\$30.43	0	0
<b>CBD</b>	<b>B</b>	<b>7,450,134</b>	<b>19,365</b>	<b>-53</b>	<b>0.0%</b>	<b>16.2%</b>	<b>18.9%</b>	<b>\$30.43</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	-449	-19,182	-0.8%	9.5%	9.5%	\$29.21	0	0
Greenway Plaza	B	2,571,195	51,364	-42,863	-1.7%	9.8%	10.2%	\$26.64	0	0
Greenspoint/North Belt	B	4,238,080	-74,805	-35,596	-0.8%	31.5%	37.5%	\$16.34	0	0
Northwest	B	4,613,772	46,442	2,135	0.0%	19.1%	21.1%	\$19.48	0	0
San Felipe/Voss	B	3,426,103	-71,621	-151,888	-4.4%	13.1%	13.2%	\$24.18	0	0
Southwest	B	4,385,265	-61,614	-48,311	-1.1%	23.3%	23.4%	\$16.99	0	60,000
Galleria	B	4,949,479	-7,099	-24,660	-0.5%	12.8%	13.2%	\$26.89	0	0
Bellaire	B	1,191,774	12,123	-46,110	-3.9%	11.2%	11.8%	\$24.72	0	0
Medical Center	B	2,203,857	5,386	38,211	1.7%	17.9%	17.9%	\$27.17	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,847,394</b>	<b>-100,273</b>	<b>-328,264</b>	<b>-1.1%</b>	<b>17.8%</b>	<b>19.1%</b>	<b>\$20.86</b>	<b>0</b>	<b>60,000</b>
Katy Freeway East	B	1,436,312	-14,165	-35,637	-2.5%	10.2%	12.3%	\$22.97	0	0
Katy Freeway West	B	5,401,637	55,140	-176,914	-3.3%	17.6%	19.9%	\$23.15	0	0
Westchase	B	4,220,456	-67,968	-97,107	-2.3%	17.4%	17.8%	\$19.99	0	186,000
<b>Energy Corridor</b>	<b>B</b>	<b>11,058,405</b>	<b>-26,993</b>	<b>-309,658</b>	<b>-2.8%</b>	<b>16.6%</b>	<b>18.1%</b>	<b>\$22.16</b>	<b>0</b>	<b>186,000</b>
FM 1960	B	3,594,564	13,458	23,034	0.6%	21.5%	21.7%	\$16.77	0	0
Sugar Land	B	1,308,292	-7,249	12,918	1.0%	15.3%	16.7%	\$22.01	0	0
Gulf Freeway/Pasadena	B	1,441,375	13,289	149,146	10.3%	11.6%	11.8%	\$21.34	102,000	82,800
NASA/Clear Lake	B	1,916,994	-66,073	-107,810	-5.6%	21.5%	21.7%	\$18.16	0	0
The Woodlands	B	2,075,330	9,446	23,432	1.1%	14.3%	16.7%	\$26.45	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,336,555</b>	<b>-37,129</b>	<b>100,720</b>	<b>1.0%</b>	<b>17.9%</b>	<b>18.7%</b>	<b>\$19.69</b>	<b>102,000</b>	<b>82,800</b>
<b>Houston</b>	<b>B</b>	<b>58,692,488</b>	<b>-145,030</b>	<b>-537,255</b>	<b>-0.9%</b>	<b>17.4%</b>	<b>18.8%</b>	<b>\$22.13</b>	<b>102,000</b>	<b>328,800</b>

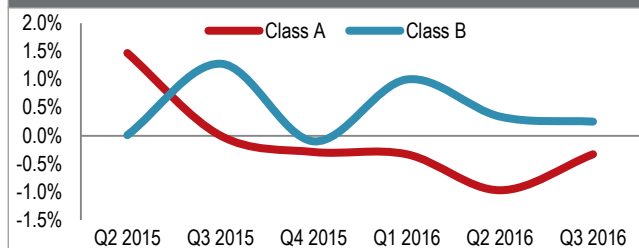


## Market unable to shake the grip of sublease inventory

### Spread between Class A & B rental rates tightens

Since the second quarter of 2015, the spread between Class A and B direct asking rental rates has decreased by 778 basis points. Over that time, Class A rents have posted negative growth in four out of five quarters while Class B rents have seen positive growth in four out of five quarters. Underpinning the divergent rental rate movements of these two classes is the fact that 77.3 percent of the 12.2 million square feet of sublease space on the market is comprised of Class A space. As a result, Class A landlords must compete with subleases for tenants more so than Class B landlords. Moving forward, this trend is likely to continue as leasing activity within the Class A inventory remains subdued.

### Q-o-Q asking rental rate growth: Class A v. Class B

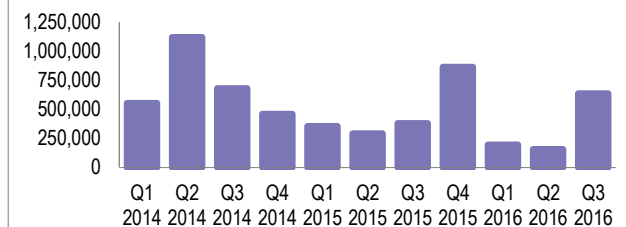


Source: JLL Research

### CBD leasing activity rebounds following tepid Q2 performance

Buoyed by United Airlines' 237,000-square-foot lease at 609 Main, the CBD experienced a significant uptick in leasing activity during the third quarter, as total volume increased from 158,000 square feet in Q2 to 637,000 square feet. Other notable CBD lease transactions include Orrick, Herrington & Sutcliffe's 57,000-square-foot lease at 609 Main, Hogan Lovells' 43,000-square-foot lease also at 609 Main, Edison, McDowell & Hetherington's 27,000-square-foot sublease at 1001 Fannin, and Tellurian Investments' 25,000-square-foot renewal at 1201 Louisiana.

### CBD total leasing activity up 303.6% from Q2 2016

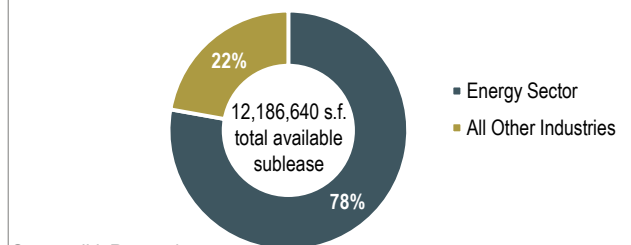


Source: JLL Research

### Move-outs in sublease space pushes net absorption deeper into the red

Following the decision of several energy sector companies like BG Group, Freeport McMoRan, and Phillips 66 to vacate blocks of space at their available subleases, net absorption remained negative during the third quarter at -789,872 square feet. In fact, these three companies alone accounted for nearly a quarter of the total negative net absorption in Q3. Additionally, Shell recently announced that they will be vacating their namesake tower in the CBD, with their entire 877,000-square-foot space remaining available for sublease. With the energy sector responsible for 77.8 percent of available subleases market-wide, much of which is still officially listed as occupied, sublease outflows are anticipated to contribute toward negative net absorption for quarters to come.

### Energy sector accounts for 77.8% of available subleases



Source: JLL Research

163,614,884

Total inventory (s.f.)

-789,872

Q3 2016 net absorption (s.f.)

\$30.47

Direct average asking rent

3,307,513

Total under construction (s.f.)

19.7%

Total vacancy

-874,064

YTD net absorption (s.f.)

-1.0%

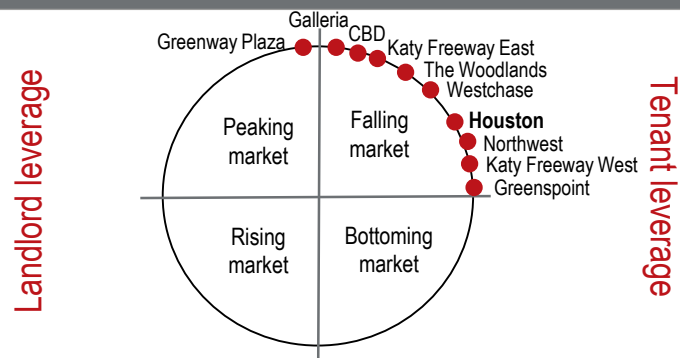
12-month rent growth

54.0%

Total preleased

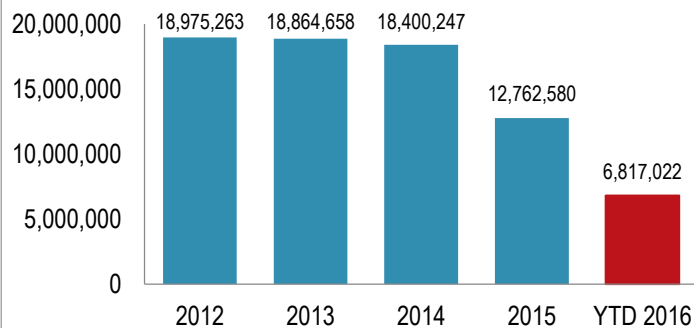


### Current conditions – submarket



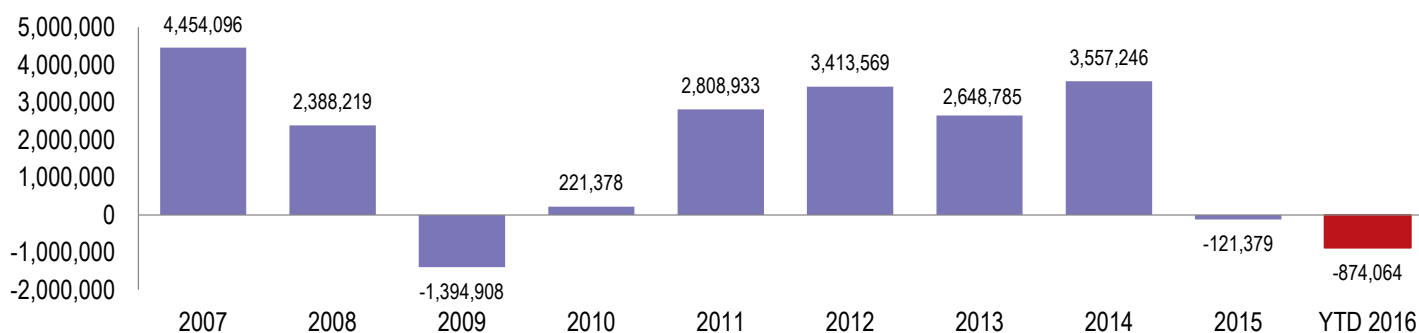
Source: JLL Research

### Historical leasing activity (s.f.)



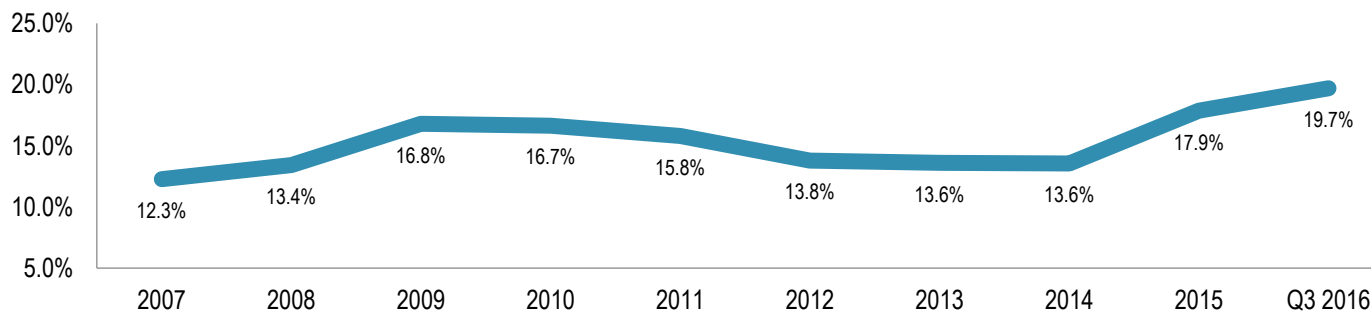
Source: JLL Research

### Total net absorption (s.f.)



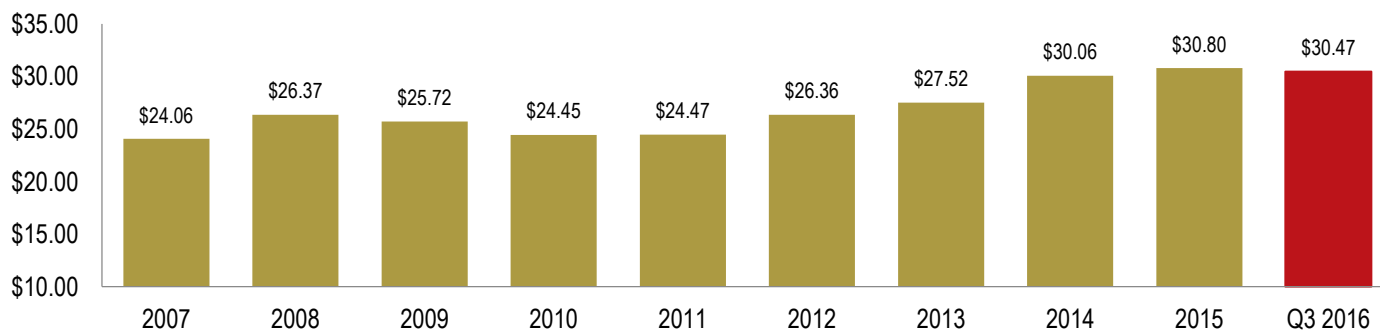
Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q3 2016



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	34,309,284	-343,046	-503,616	-1.5%	12.4%	16.0%	\$42.55	521,600	1,056,658
<b>CBD</b>	<b>Totals</b>	<b>34,309,284</b>	<b>-343,046</b>	<b>-503,616</b>	<b>-1.5%</b>	<b>12.4%</b>	<b>16.0%</b>	<b>\$42.55</b>	<b>521,600</b>	<b>1,056,658</b>
Midtown	Totals	4,120,911	18,664	74,365	1.8%	16.1%	16.7%	\$32.26	0	0
Greenway Plaza	Totals	9,510,794	59,169	195,255	2.1%	14.8%	14.9%	\$35.12	182,000	191,805
Greenspoint/North Belt	Totals	8,898,991	24,323	-215,540	-2.4%	35.2%	40.6%	\$21.29	0	0
Northwest	Totals	8,472,919	-100,850	-102,931	-1.2%	22.9%	26.9%	\$21.75	0	0
San Felipe/Voss	Totals	5,146,896	-30,926	-100,137	-1.9%	15.1%	15.4%	\$30.35	0	0
Southwest	Totals	5,962,166	36,341	81,511	1.4%	18.8%	18.9%	\$17.13	0	60,000
Galleria	Totals	21,149,301	8,127	-33,116	-0.2%	13.1%	14.4%	\$35.37	165,000	1,120,000
Bellaire	Totals	2,283,310	-73,855	-94,006	-4.1%	12.9%	13.3%	\$25.49	0	0
Medical Center	Totals	3,913,192	12,587	53,937	1.4%	14.3%	14.5%	\$27.78	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>69,458,480</b>	<b>-46,420</b>	<b>-140,662</b>	<b>-0.2%</b>	<b>18.3%</b>	<b>19.9%</b>	<b>\$26.99</b>	<b>347,000</b>	<b>1,371,805</b>
Katy Freeway East	Totals	5,290,192	1,532	243,369	4.6%	11.1%	11.8%	\$33.76	0	238,173
Katy Freeway West	Totals	19,675,355	-51,490	-253,452	-1.3%	21.1%	26.9%	\$30.75	1,034,571	371,720
Westchase	Totals	12,821,764	-402,125	-313,006	-2.4%	16.9%	22.8%	\$31.33	1,545,000	186,000
<b>Energy Corridor</b>	<b>Totals</b>	<b>37,787,311</b>	<b>-452,083</b>	<b>-323,089</b>	<b>-0.9%</b>	<b>18.3%</b>	<b>23.4%</b>	<b>\$31.19</b>	<b>2,579,571</b>	<b>795,893</b>
FM 1960	Totals	5,890,000	10,668	7,820	0.1%	18.7%	19.3%	\$18.53	0	0
Sugar Land	Totals	4,231,059	-19,960	-38,962	-0.9%	10.0%	11.9%	\$25.78	0	0
Gulf Freeway/Pasadena	Totals	1,441,375	82,792	135,860	9.4%	12.7%	12.7%	\$21.04	102,000	0
NASA/Clear Lake	Totals	3,252,290	-63,773	-13,623	-0.4%	11.6%	12.7%	\$19.26	0	0
The Woodlands	Totals	7,245,085	41,950	2,208	0.0%	22.4%	24.1%	\$33.95	442,403	0
<b>Suburban Outlying</b>	<b>Totals</b>	<b>22,059,809</b>	<b>51,677</b>	<b>93,303</b>	<b>0.4%</b>	<b>16.8%</b>	<b>18.0%</b>	<b>\$25.43</b>	<b>544,403</b>	<b>0</b>
<b>Houston</b>	<b>Totals</b>	<b>163,614,884</b>	<b>-789,872</b>	<b>-874,064</b>	<b>-0.5%</b>	<b>16.8%</b>	<b>19.7%</b>	<b>\$30.47</b>	<b>3,992,574</b>	<b>3,224,356</b>
CBD	A	26,859,150	-347,788	-542,512	-2.0%	11.5%	15.4%	\$45.59	521,600	1,056,658
<b>CBD</b>	<b>A</b>	<b>26,859,150</b>	<b>-347,788</b>	<b>-542,512</b>	<b>-2.0%</b>	<b>11.5%</b>	<b>15.4%</b>	<b>\$45.59</b>	<b>521,600</b>	<b>1,056,658</b>
Midtown	A	1,853,042	16,274	93,098	5.0%	24.2%	25.6%	\$34.14	0	0
Greenway Plaza	A	6,939,599	91,749	289,482	4.2%	15.9%	16.0%	\$37.76	182,000	191,805
Greenspoint/North Belt	A	4,662,188	-23,006	-253,811	-5.4%	40.3%	45.0%	\$24.90	0	0
Northwest	A	3,859,667	-96,118	-47,441	-1.2%	27.9%	32.4%	\$24.40	0	0
San Felipe/Voss	A	1,720,793	27,864	-21,569	-1.3%	23.6%	24.0%	\$36.27	0	0
Southwest	A	1,576,901	27,377	27,860	1.8%	12.8%	12.8%	\$18.33	0	0
Galleria	A	16,199,822	-6,213	-17,186	-0.1%	13.3%	14.8%	\$37.58	165,000	1,120,000
Bellaire	A	1,091,536	-56,094	-35,773	-3.3%	13.0%	13.8%	\$26.57	0	0
Medical Center	A	1,729,776	14,674	21,112	1.2%	9.2%	9.8%	\$28.91	0	0
<b>Suburban Near</b>	<b>A</b>	<b>39,633,324</b>	<b>-3,493</b>	<b>55,772</b>	<b>0.1%</b>	<b>19.1%</b>	<b>20.8%</b>	<b>\$31.07</b>	<b>347,000</b>	<b>1,311,805</b>
Katy Freeway East	A	3,853,880	-12,005	264,841	6.9%	11.8%	12.0%	\$43.17	0	238,173
Katy Freeway West	A	14,273,718	50,861	-12,367	-0.1%	22.2%	29.0%	\$34.30	1,034,571	308,720
Westchase	A	8,601,308	-470,728	-293,947	-3.4%	17.6%	26.2%	\$36.99	1,545,000	0
<b>Energy Corridor</b>	<b>A</b>	<b>26,728,906</b>	<b>-431,872</b>	<b>-41,473</b>	<b>-0.2%</b>	<b>19.3%</b>	<b>25.7%</b>	<b>\$35.91</b>	<b>2,579,571</b>	<b>546,893</b>
FM 1960	A	2,285,309	-11,098	-28,249	-1.2%	14.8%	16.2%	\$28.95	0	0
Sugar Land	A	2,924,199	-42,015	-70,231	-2.4%	8.2%	10.3%	\$30.37	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,335,213	-1,183	-5,609	-0.4%	4.9%	7.1%	\$24.10	0	0
The Woodlands	A	5,169,755	36,452	-11,778	-0.2%	25.5%	26.9%	\$37.12	442,403	0
<b>Suburban Outlying</b>	<b>A</b>	<b>11,714,476</b>	<b>-17,844</b>	<b>-115,867</b>	<b>-1.0%</b>	<b>16.8%</b>	<b>18.4%</b>	<b>\$33.98</b>	<b>442,403</b>	<b>0</b>
<b>Houston</b>	<b>A</b>	<b>104,935,856</b>	<b>-800,997</b>	<b>-644,080</b>	<b>-0.6%</b>	<b>16.9%</b>	<b>20.4%</b>	<b>\$35.47</b>	<b>3,890,574</b>	<b>2,915,356</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,450,134	4,742	38,896	0.5%	15.7%	18.4%	\$29.57	0	0
<b>CBD</b>	<b>B</b>	<b>7,450,134</b>	<b>4,742</b>	<b>38,896</b>	<b>0.5%</b>	<b>15.7%</b>	<b>18.4%</b>	<b>\$29.57</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	2,390	-18,733	-0.8%	9.5%	9.5%	\$29.26	0	0
Greenway Plaza	B	2,571,195	-32,580	-94,227	-3.7%	11.8%	12.2%	\$26.57	0	0
Greenspoint/North Belt	B	4,236,803	47,329	38,271	0.9%	29.6%	35.8%	\$15.72	0	0
Northwest	B	4,613,252	-4,732	-55,490	-1.2%	18.8%	22.4%	\$19.08	0	0
San Felipe/Voss	B	3,426,103	-58,790	-78,568	-2.3%	10.9%	11.1%	\$23.99	0	0
Southwest	B	4,385,265	8,964	53,651	1.2%	21.0%	21.1%	\$16.73	0	60,000
Galleria	B	4,949,479	14,340	-15,930	-0.3%	12.3%	13.0%	\$26.80	0	0
Bellaire	B	1,191,774	-17,761	-58,233	-4.9%	12.9%	12.9%	\$24.29	0	0
Medical Center	B	2,183,416	-2,087	32,825	1.5%	18.3%	18.3%	\$27.32	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,825,156</b>	<b>-42,927</b>	<b>-196,434</b>	<b>-0.7%</b>	<b>17.1%</b>	<b>18.7%</b>	<b>\$20.63</b>	<b>0</b>	<b>60,000</b>
Katy Freeway East	B	1,436,312	13,537	-21,472	-1.5%	9.2%	11.3%	\$23.14	0	0
Katy Freeway West	B	5,401,637	-102,351	-241,085	-4.5%	18.2%	21.3%	\$23.45	0	63,000
Westchase	B	4,220,456	68,603	-19,059	-0.5%	15.5%	16.0%	\$19.92	0	186,000
<b>Energy Corridor</b>	<b>B</b>	<b>11,058,405</b>	<b>-20,211</b>	<b>-281,616</b>	<b>-2.5%</b>	<b>16.0%</b>	<b>18.0%</b>	<b>\$22.39</b>	<b>0</b>	<b>249,000</b>
FM 1960	B	3,604,691	21,766	36,069	1.0%	21.2%	21.3%	\$16.83	0	0
Sugar Land	B	1,306,860	22,055	31,269	2.4%	14.1%	15.3%	\$21.85	0	0
Gulf Freeway/Pasadena	B	1,441,375	82,792	135,860	9.4%	12.7%	12.7%	\$21.04	102,000	0
NASA/Clear Lake	B	1,917,077	-62,590	-8,014	-0.4%	16.3%	16.5%	\$17.94	0	0
The Woodlands	B	2,075,330	5,498	13,986	0.7%	14.5%	17.2%	\$25.73	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,345,333</b>	<b>69,521</b>	<b>209,170</b>	<b>2.0%</b>	<b>16.9%</b>	<b>17.6%</b>	<b>\$19.43</b>	<b>102,000</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>58,679,028</b>	<b>11,125</b>	<b>-229,984</b>	<b>-0.4%</b>	<b>16.7%</b>	<b>18.3%</b>	<b>\$21.84</b>	<b>102,000</b>	<b>309,000</b>

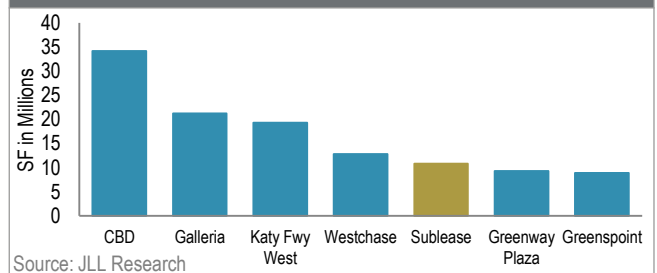


## Vacancy moves higher amid weak activity

### Sublease space continues its mount

The sublease inventory has more than doubled since the fourth quarter of 2014, with over 10.8 million square feet of sublease space currently available. Much of the sublease glut is attributed to energy sector companies, which, prior to the recent downturn in the price of oil took down large blocks of space with plans for expansion only to find themselves needing to shed the excess space months later. In fact, all twenty of the top twenty largest sublease listings are being offered by energy sector companies. The hyper-supply of sublease space is creating opportunities for tenants searching for high quality space with favorable terms.

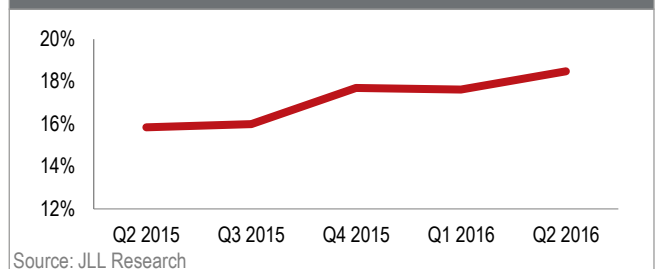
### Sublease inventory would be 5th largest submarket



### New deliveries add pressure to vacancy

Although much of the 3.1 million square feet of new construction delivered thus far in 2016 was preleased, over 1.0 million square feet delivered without preleasing commitments. Such was the case at Energy Center Five, a 524,000-square-foot Class A development that delivered 100 percent vacant during the second quarter. As a result, total vacancy ticked up to 18.5 percent during the second quarter, up from 17.6 percent seen in the first quarter. Fortunately, developers have by and large tabled plans for future projects until preleasing requirements are achieved.

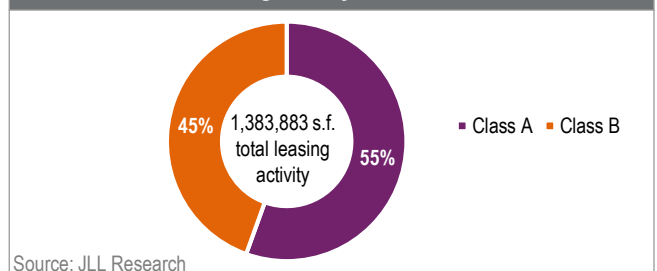
### Total vacancy up 16.6% year-over-year



### Leasing demand unable to keep pace with supply

Despite 44.2 million square feet of office space available for lease – which comes out to 26.6 percent of all existing and under construction space – Houston failed to surpass 1.5 million square feet of total leasing activity for the first time in the last 15 years. For total availability to stabilize below 20.0 percent again, leasing activity would need to increase to 2.9 million square feet for each of the next four quarters. Although 2.9 million square feet may appear to be a stretch on the surface, the market has averaged over 3.7 million square feet in leasing activity per quarter for the past ten years, meaning the market could underperform its ten year average for the next four quarters and still see a return to sub 20.0 percent availability. This of course assumes no new surge in sublease space coming to market.

### Both Class A & B leasing activity under 1 MM s.f. in Q2



**162,835,428**

Total inventory (s.f.)

**-331,907**

Q2 2016 net absorption (s.f.)

**\$30.46**

Direct average asking rent

**3,793,363**

Total under construction (s.f.)

**18.5%**

Total vacancy

**223,185**

YTD net absorption (s.f.)

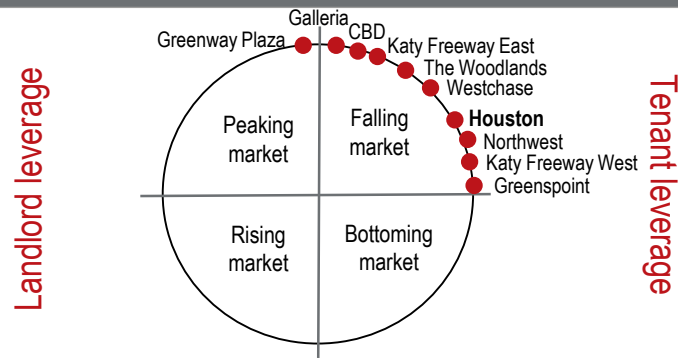
**-0.4%**

12-month rent growth

**45.6%**

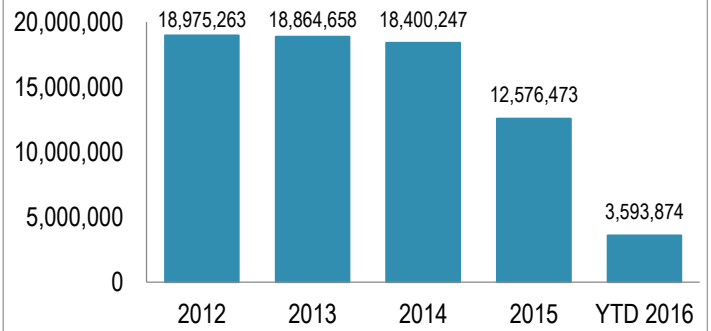
Total preleased

### Current conditions – submarket



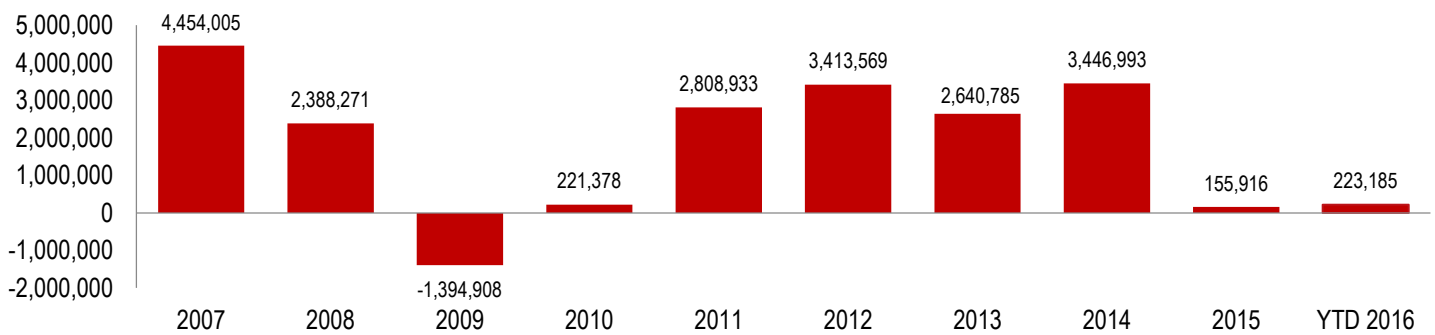
Source: JLL Research

### Historical leasing activity (s.f.)



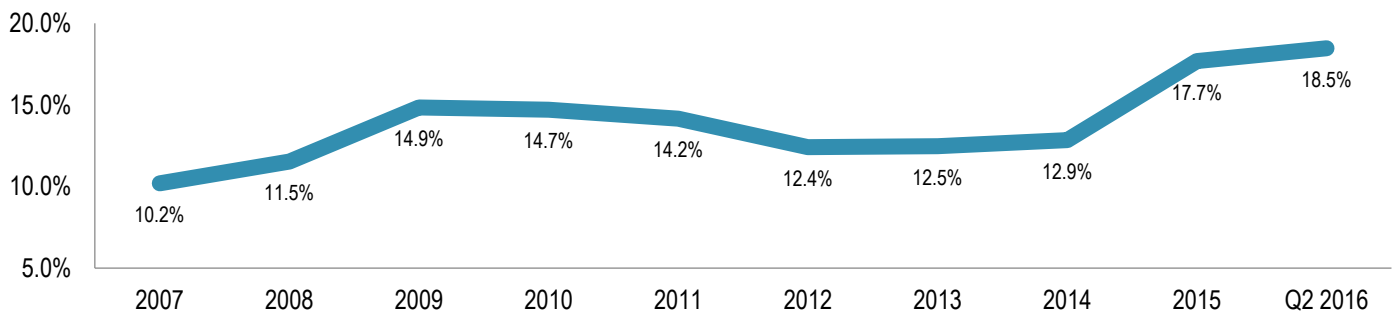
Source: JLL Research

### Total net absorption (s.f.)



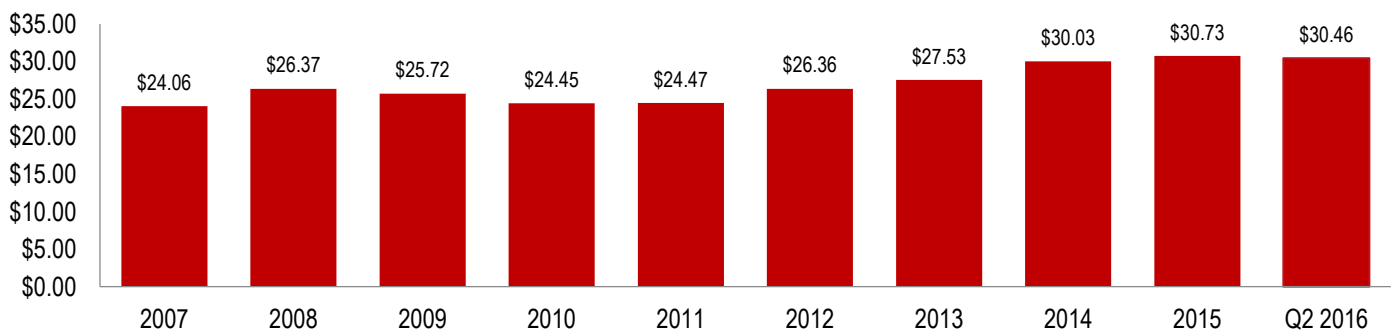
Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q2 2016



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	34,168,375	64,848	-177,123	-0.5%	11.6%	14.5%	\$41.76	406,600	1,171,658
<b>CBD</b>	<b>Totals</b>	<b>34,168,375</b>	<b>64,848</b>	<b>-177,123</b>	<b>-0.5%</b>	<b>11.6%</b>	<b>14.5%</b>	<b>\$41.76</b>	<b>406,600</b>	<b>1,171,658</b>
Midtown	Totals	4,120,911	39,731	48,149	1.2%	17.1%	17.4%	\$33.02	0	0
Greenway Plaza	Totals	9,328,794	-30,657	137,772	1.5%	13.6%	13.7%	\$35.43	0	398,696
Greenspoint/North Belt	Totals	8,896,928	-73,524	-112,177	-1.3%	35.6%	39.4%	\$21.63	0	0
Northwest	Totals	8,553,718	-94,960	-37,670	-0.4%	23.2%	25.8%	\$21.03	0	0
San Felipe/Voss	Totals	5,146,896	-77,496	-74,242	-1.4%	14.7%	14.9%	\$30.28	0	0
Southwest	Totals	5,954,831	38,938	23,302	0.4%	19.8%	20.1%	\$17.14	0	60,000
Galleria	Totals	21,246,535	-64,640	63,132	0.3%	13.3%	14.4%	\$35.70	165,000	1,120,000
Bellaire	Totals	2,283,310	9,252	-24,080	-1.1%	9.3%	10.2%	\$25.49	0	0
Medical Center	Totals	3,913,192	-1,384	52,082	1.3%	14.3%	14.6%	\$28.14	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>69,445,115</b>	<b>-254,740</b>	<b>76,268</b>	<b>0.1%</b>	<b>18.2%</b>	<b>19.5%</b>	<b>\$27.11</b>	<b>165,000</b>	<b>1,578,696</b>
Katy Freeway East	Totals	5,290,184	-24,540	222,356	4.2%	11.2%	12.0%	\$33.34	0	226,511
Katy Freeway West	Totals	19,291,560	10,187	-81,357	-0.4%	21.2%	24.6%	\$31.09	649,039	428,565
Westchase	Totals	12,829,749	-87,903	114,958	0.9%	15.7%	18.7%	\$32.11	1,545,000	186,000
<b>Energy Corridor</b>	<b>Totals</b>	<b>37,411,493</b>	<b>-102,256</b>	<b>255,957</b>	<b>0.7%</b>	<b>17.9%</b>	<b>20.8%</b>	<b>\$31.61</b>	<b>2,194,039</b>	<b>841,076</b>
FM 1960	Totals	5,872,317	-6,132	-5,251	-0.1%	18.8%	19.4%	\$18.69	0	0
Sugar Land	Totals	4,231,059	-38,112	23,966	0.6%	9.7%	10.5%	\$26.54	0	0
Gulf Freeway/Pasadena	Totals	1,396,012	41,992	61,582	4.4%	23.1%	23.1%	\$20.65	102,000	0
NASA/Clear Lake	Totals	3,253,705	47,495	40,921	1.3%	10.0%	11.0%	\$19.48	0	0
The Woodlands	Totals	7,057,352	-85,002	-53,135	-0.8%	20.4%	22.7%	\$34.32	240,470	201,933
<b>Suburban Outlying</b>	<b>Totals</b>	<b>21,810,445</b>	<b>-39,759</b>	<b>68,083</b>	<b>0.3%</b>	<b>16.5%</b>	<b>17.7%</b>	<b>\$25.92</b>	<b>342,470</b>	<b>201,933</b>
<b>Houston</b>	<b>Totals</b>	<b>162,835,428</b>	<b>-331,907</b>	<b>223,185</b>	<b>0.1%</b>	<b>16.5%</b>	<b>18.5%</b>	<b>\$30.46</b>	<b>3,108,109</b>	<b>3,793,363</b>
CBD	A	26,737,612	12,260	-183,305	-0.7%	10.8%	13.7%	\$45.16	406,600	1,171,658
<b>CBD</b>	<b>A</b>	<b>26,737,612</b>	<b>12,260</b>	<b>-183,305</b>	<b>-0.7%</b>	<b>10.8%</b>	<b>13.7%</b>	<b>\$45.16</b>	<b>406,600</b>	<b>1,171,658</b>
Midtown	A	1,853,042	38,101	58,341	3.1%	27.1%	27.5%	\$34.76	0	0
Greenway Plaza	A	6,757,599	59,259	221,909	3.3%	14.6%	14.7%	\$37.48	0	398,696
Greenspoint/North Belt	A	4,662,006	-176,770	-233,677	-5.0%	39.5%	44.6%	\$25.29	0	0
Northwest	A	3,867,598	-48,392	16,158	0.4%	28.5%	30.3%	\$24.02	0	0
San Felipe/Voss	A	1,720,793	-47,187	-49,433	-2.9%	25.4%	25.6%	\$36.21	0	0
Southwest	A	1,576,901	-16,682	-14,147	-0.9%	15.3%	16.1%	\$18.43	0	0
Galleria	A	16,189,959	-43,864	-12,284	-0.1%	13.6%	14.8%	\$37.95	165,000	1,120,000
Bellaire	A	1,091,536	6,553	20,321	1.9%	6.8%	8.6%	\$26.64	0	0
Medical Center	A	1,729,776	-1,622	8,579	0.5%	10.0%	10.5%	\$28.61	0	0
<b>Suburban Near</b>	<b>A</b>	<b>39,449,210</b>	<b>-230,604</b>	<b>15,767</b>	<b>0.0%</b>	<b>19.1%</b>	<b>20.6%</b>	<b>\$31.40</b>	<b>165,000</b>	<b>1,518,696</b>
Katy Freeway East	A	3,853,872	19,430	276,906	7.2%	11.2%	11.6%	\$42.95	0	226,511
Katy Freeway West	A	13,890,927	53,595	46,378	0.3%	23.5%	26.7%	\$34.22	649,039	428,565
Westchase	A	8,611,308	-41,033	206,640	2.4%	15.0%	19.1%	\$37.78	1,545,000	0
<b>Energy Corridor</b>	<b>A</b>	<b>26,356,107</b>	<b>31,992</b>	<b>529,924</b>	<b>2.0%</b>	<b>19.0%</b>	<b>22.0%</b>	<b>\$36.15</b>	<b>2,194,039</b>	<b>655,076</b>
FM 1960	A	2,268,284	1,410	-7,338	-0.3%	14.0%	15.4%	\$28.05	0	0
Sugar Land	A	2,924,199	-25,887	13,398	0.5%	7.2%	7.7%	\$31.34	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,335,213	-1,799	-4,426	-0.3%	4.8%	7.0%	\$23.73	0	0
The Woodlands	A	4,982,715	-67,104	-63,264	-1.3%	22.7%	24.9%	\$36.89	240,470	201,933
<b>Suburban Outlying</b>	<b>A</b>	<b>11,510,411</b>	<b>-93,380</b>	<b>-61,630</b>	<b>-0.5%</b>	<b>15.0%</b>	<b>16.6%</b>	<b>\$33.99</b>	<b>240,470</b>	<b>201,933</b>
<b>Houston</b>	<b>A</b>	<b>104,053,340</b>	<b>-279,732</b>	<b>300,756</b>	<b>0.3%</b>	<b>16.5%</b>	<b>18.7%</b>	<b>\$35.57</b>	<b>3,006,109</b>	<b>3,547,363</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,430,763	52,588	6,182	0.1%	14.5%	17.3%	\$29.23	0	0
<b>CBD</b>	<b>B</b>	<b>7,430,763</b>	<b>52,588</b>	<b>6,182</b>	<b>0.1%</b>	<b>14.5%</b>	<b>17.3%</b>	<b>\$29.23</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	1,630	-10,192	-0.4%	8.8%	9.1%	\$29.87	0	0
Greenway Plaza	B	2,571,195	-89,916	-84,137	-3.3%	10.8%	11.1%	\$27.53	0	0
Greenspoint/North Belt	B	4,234,922	103,246	121,500	2.9%	31.3%	33.7%	\$16.08	0	0
Northwest	B	4,686,120	-46,568	-53,828	-1.1%	18.9%	22.0%	\$18.40	0	0
San Felipe/Voss	B	3,426,103	-30,309	-24,809	-0.7%	9.3%	9.5%	\$23.55	0	0
Southwest	B	4,377,930	55,620	37,449	0.9%	21.4%	21.5%	\$16.71	0	60,000
Galleria	B	5,056,576	-20,776	75,416	1.5%	12.4%	13.1%	\$26.58	0	0
Bellaire	B	1,191,774	2,699	-44,401	-3.7%	11.7%	11.7%	\$24.26	0	0
Medical Center	B	2,183,416	238	43,503	2.0%	17.8%	17.8%	\$27.94	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,995,905</b>	<b>-24,136</b>	<b>60,501</b>	<b>0.2%</b>	<b>17.0%</b>	<b>18.0%</b>	<b>\$20.47</b>	<b>0</b>	<b>60,000</b>
Katy Freeway East	B	1,436,312	-43,970	-54,550	-3.8%	11.1%	12.8%	\$23.20	0	0
Katy Freeway West	B	5,400,633	-43,408	-127,735	-2.4%	15.3%	19.3%	\$23.76	0	0
Westchase	B	4,218,441	-46,870	-91,682	-2.2%	17.2%	17.7%	\$19.50	0	186,000
<b>Energy Corridor</b>	<b>B</b>	<b>11,055,386</b>	<b>-134,248</b>	<b>-273,967</b>	<b>-2.5%</b>	<b>15.5%</b>	<b>17.8%</b>	<b>\$22.39</b>	<b>0</b>	<b>186,000</b>
FM 1960	B	3,604,033	-7,542	2,087	0.1%	21.9%	22.0%	\$16.62	0	0
Sugar Land	B	1,306,860	-12,225	10,568	0.8%	15.3%	16.9%	\$21.31	0	0
Gulf Freeway/Pasadena	B	1,396,012	41,992	61,582	4.4%	23.1%	23.1%	\$20.65	102,000	0
NASA/Clear Lake	B	1,918,492	49,294	45,347	2.4%	13.5%	13.7%	\$18.36	0	0
The Woodlands	B	2,074,637	-17,898	10,129	0.5%	14.7%	17.4%	\$26.41	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,300,034</b>	<b>53,621</b>	<b>129,713</b>	<b>1.3%</b>	<b>18.2%</b>	<b>19.0%</b>	<b>\$19.58</b>	<b>102,000</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>58,782,088</b>	<b>-52,175</b>	<b>-77,571</b>	<b>-0.1%</b>	<b>16.6%</b>	<b>18.1%</b>	<b>\$21.67</b>	<b>102,000</b>	<b>246,000</b>





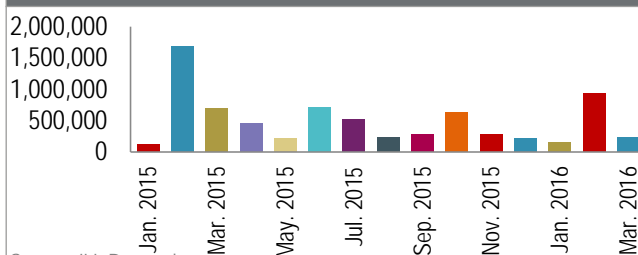
## 2016 begins with continued market downturn

### New large blocks of sublease space arrive and add pressure to market

2016 continues at a record pace in terms of sublease space in Houston's office market, with companies such as Shell, BHP Billiton and Technip adding 100,000 square feet or more to the market during the first quarter. These additions give Houston a record 9.4 million square feet of sublease options, while continued downsizing and M&A by energy firms in 2016 are expected to add additional space to market to push the total to close to 10 million square feet by year-end.

Additionally, a decrease in both direct and sublease leasing velocity has total available space within the market to an all time high of 24.0 percent of stock. The combination of these factors, along with 2.7 million square feet of still to be leased new deliveries will push market vacancy to near 20.0 percent by the end of 2016 and mark the beginning of a challenging year for Houston's office market.

### Sublease space arriving to market over prior 15 months



Source: JLL Research

### 3 total building sales occurred in Q1 2016

Only Class B activity occurred in Q1 2016 totaling

**\$76.8 million**

Source: JLL Research

### Tenants remain cautious and waiting for bottom of market

S.F. of tenant requirement in the market in preliminary or hold stages

**4,173,300 s.f.**

Source: JLL Research

### Building sales activity reflects a concerned market

A combination of oil price concerns and job losses continue to cause pullbacks in the market, and the effects were seen peripherally in office sales activity. While the number of buildings trading hands remained the same as the prior quarter, there was a marked shift in size and class toward smaller Class B trades. The lack of Class A asset transactions is reflective of a market in flux, with buildings owners largely taking a cautious approach to putting Class A or Trophy assets on the market. As these buildings, for the most part, have solid tenant bases and limited roll, building owners are content to sit on the sidelines and wait out the market uncertainty as opposed to putting an asset on the market and not finding the demand and transaction terms to their liking.

### Market and tenants cautious as "Trough" questions remain

West Texas Intermediate oil, a benchmark for American oil production, rebounded over the prior 90 days, holding near \$40/bbl during the quarter. While this represents an increase over year-end 2015, the impact has yet to be felt in the market. Leasing activity overall remained sub 2.0 million square feet during the quarter, with only 11 leases greater than 20,000 square feet executed and minimal activity among tenants new to the market. 9.1 million square feet of tenants in the market await the answer to the question of has the Houston market reached it's trough? Once answered, Houston may see companies begin to re-enter the market to take advantage of the tenant-favorable status it holds in 2016 and 2017.

**162,600,425**

Total inventory (s.f.)

**227,138**

Q1 2016 net absorption (s.f.)

**\$29.69**

Direct average asking rent

**5,723,178**

Total under construction (s.f.)

**17.7%**

Total vacancy

**227,138**

YTD net absorption (s.f.)

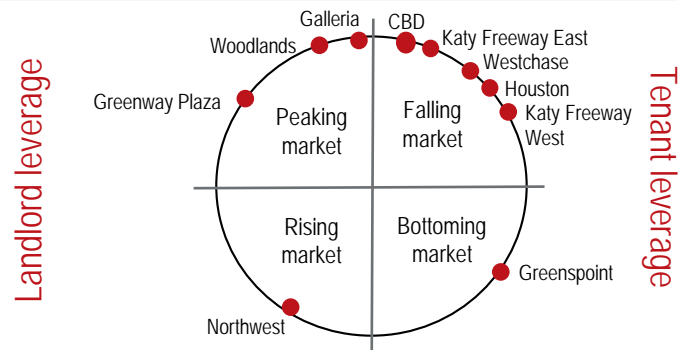
**0.5%**

12-month rent growth

**52.0%**

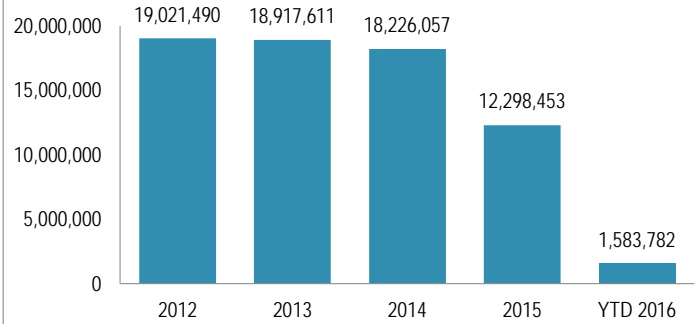
Total preleased

### Current conditions – submarket



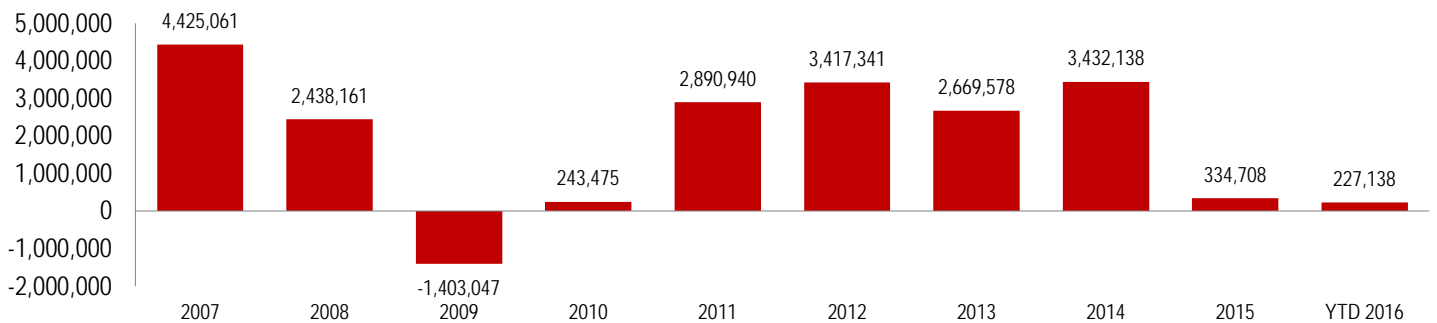
Source: JLL Research

### Historical leasing activity (s.f.)



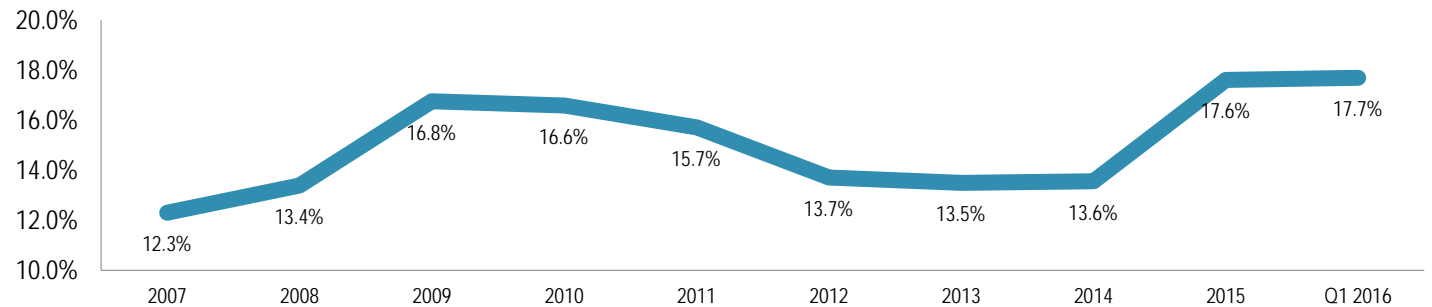
Source: JLL Research

### Total net absorption (s.f.)



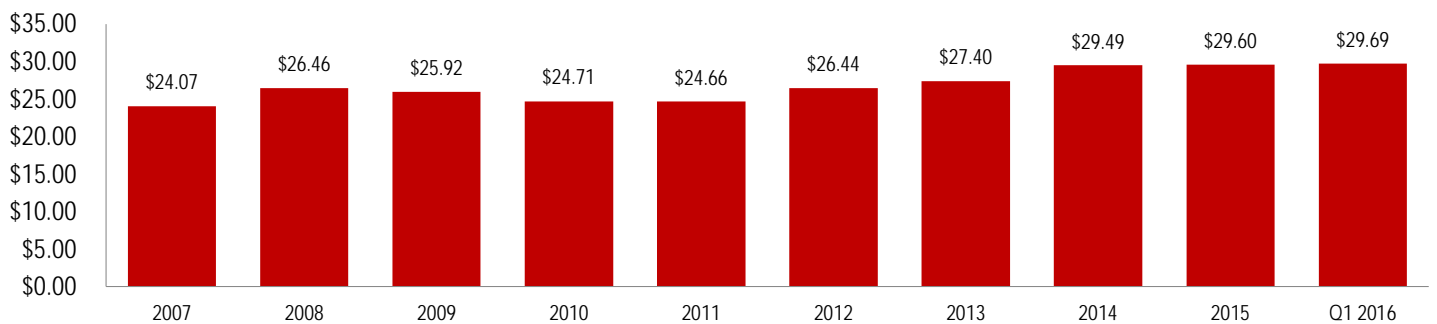
Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q1 2016



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	34,718,375	-199,444	-199,444	-0.6%	11.0%	13.7%	\$39.28	406,600	1,171,658
<b>CBD</b>	<b>Totals</b>	<b>34,718,375</b>	<b>-199,444</b>	<b>-199,444</b>	<b>-0.6%</b>	<b>11.0%</b>	<b>13.7%</b>	<b>\$39.28</b>	<b>406,600</b>	<b>1,171,658</b>
Midtown	Totals	4,120,911	6,838	6,838	0.2%	18.1%	18.4%	\$32.83	0	0
Greenway Plaza	Totals	9,325,283	238,113	238,113	2.6%	12.7%	12.8%	\$35.21	0	398,696
Greenspoint/North Belt	Totals	8,718,187	-31,411	-31,411	-0.4%	35.2%	39.3%	\$21.24	0	0
Northwest	Totals	8,553,072	-69,995	-69,995	-0.8%	24.8%	26.1%	\$23.03	0	0
San Felipe/Voss	Totals	5,146,896	-2,074	-2,074	0.0%	13.3%	13.6%	\$30.31	0	0
Southwest	Totals	5,954,831	-18,718	-18,718	-0.3%	20.5%	20.8%	\$16.91	0	60,000
Galleria/West Loop	Totals	21,531,121	62,041	62,041	0.3%	12.4%	13.3%	\$35.02	0	1,145,000
Bellaire	Totals	2,283,310	-28,700	-28,700	-1.3%	9.6%	10.4%	\$25.15	0	0
Medical Center	Totals	3,902,792	43,026	43,026	1.1%	14.8%	14.8%	\$28.53	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>69,536,403</b>	<b>199,120</b>	<b>199,120</b>	<b>0.3%</b>	<b>18.0%</b>	<b>19.0%</b>	<b>\$26.98</b>	<b>0</b>	<b>1,603,696</b>
Katy Freeway East	Totals	5,290,184	62,319	62,319	1.2%	10.6%	11.7%	\$41.09	0	226,511
Katy Freeway West	Totals	18,556,158	-121,638	-121,638	-0.7%	18.4%	22.1%	\$31.36	0	1,076,910
Westchase	Totals	12,829,751	191,509	191,509	1.5%	14.8%	18.1%	\$31.63	445,000	1,100,000
<b>Energy Corridor</b>	<b>Totals</b>	<b>36,676,093</b>	<b>132,190</b>	<b>132,190</b>	<b>0.4%</b>	<b>16.0%</b>	<b>19.2%</b>	<b>\$32.38</b>	<b>445,000</b>	<b>2,403,421</b>
FM 1960	Totals	5,872,317	4,961	4,961	0.1%	18.7%	19.3%	\$19.60	0	0
Sugar Land	Totals	4,231,059	46,564	46,564	1.1%	9.3%	10.0%	\$26.01	0	0
Gulf Freeway/Pasadena	Totals	1,396,012	826	826	0.1%	25.5%	27.4%	\$21.14	0	102,000
NASA/Clear Lake	Totals	3,253,537	-6,574	-6,574	-0.2%	11.5%	12.4%	\$19.21	0	0
The Woodlands	Totals	6,818,578	49,495	49,495	0.7%	16.8%	18.4%	\$33.46	0	442,403
<b>Suburban Outlying</b>	<b>Totals</b>	<b>21,571,503</b>	<b>95,272</b>	<b>95,272</b>	<b>0.4%</b>	<b>15.6%</b>	<b>16.7%</b>	<b>\$25.18</b>	<b>445,000</b>	<b>544,403</b>
<b>Houston</b>	<b>Totals</b>	<b>162,502,374</b>	<b>227,138</b>	<b>227,138</b>	<b>0.1%</b>	<b>15.7%</b>	<b>17.6%</b>	<b>\$29.82</b>	<b>1,296,600</b>	<b>5,723,178</b>
CBD	A	26,737,612	-121,804	-121,804	-0.5%	10.2%	12.8%	\$43.15	406,600	1,171,658
<b>CBD</b>	<b>A</b>	<b>26,737,612</b>	<b>-121,804</b>	<b>-121,804</b>	<b>-0.5%</b>	<b>10.2%</b>	<b>12.8%</b>	<b>\$43.15</b>	<b>406,600</b>	<b>1,171,658</b>
Midtown	A	1,853,042	21,161	21,161	1.1%	29.2%	29.5%	\$33.94	0	0
Greenway Plaza	A	6,757,599	233,474	233,474	3.5%	14.7%	14.7%	\$36.63	0	398,696
Greenspoint/North Belt	A	4,438,847	-46,891	-46,891	-1.1%	37.7%	42.6%	\$25.86	0	0
Northwest	A	3,867,599	-55,629	-55,629	-1.4%	30.8%	32.2%	\$26.53	0	0
San Felipe/Voss	A	1,720,793	-2,246	-2,246	-0.1%	22.3%	22.8%	\$35.43	0	0
Southwest	A	1,576,901	809	809	0.1%	14.4%	15.1%	\$18.22	0	0
Galleria/West Loop	A	16,474,545	-37,318	-37,318	-0.2%	12.6%	13.6%	\$37.57	0	1,145,000
Bellaire	A	1,091,536	16,413	16,413	1.5%	7.2%	9.0%	\$27.11	0	0
Medical Center	A	1,729,776	1,443	1,443	0.1%	10.9%	10.9%	\$29.78	0	0
<b>Suburban Near</b>	<b>A</b>	<b>39,510,638</b>	<b>131,216</b>	<b>131,216</b>	<b>0.3%</b>	<b>18.6%</b>	<b>19.8%</b>	<b>\$31.70</b>	<b>0</b>	<b>1,543,696</b>
Katy Freeway East	A	3,853,872	72,899	72,899	1.9%	12.2%	13.1%	\$44.33	0	226,511
Katy Freeway West	A	13,148,497	-34,789	-34,789	-0.3%	20.0%	23.5%	\$33.90	0	1,076,910
Westchase	A	8,611,310	238,774	238,774	2.8%	14.0%	18.8%	\$38.09	445,000	1,100,000
<b>Energy Corridor</b>	<b>A</b>	<b>25,613,679</b>	<b>276,884</b>	<b>276,884</b>	<b>1.1%</b>	<b>16.8%</b>	<b>20.4%</b>	<b>\$36.21</b>	<b>445,000</b>	<b>2,403,421</b>
FM 1960	A	2,268,284	-8,748	-8,748	-0.4%	14.2%	15.5%	\$27.30	0	0
Sugar Land	A	2,924,199	24,090	24,090	0.8%	7.0%	7.3%	\$30.65	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,335,213	-2,627	-2,627	-0.2%	4.7%	6.9%	\$25.10	0	0
The Woodlands	A	4,744,622	39,571	39,571	0.8%	18.0%	18.9%	\$35.95	0	442,403
<b>Suburban Outlying</b>	<b>A</b>	<b>11,272,318</b>	<b>52,286</b>	<b>52,286</b>	<b>0.5%</b>	<b>12.8%</b>	<b>13.8%</b>	<b>\$32.80</b>	<b>445,000</b>	<b>442,403</b>
<b>Houston</b>	<b>A</b>	<b>103,134,247</b>	<b>338,582</b>	<b>338,582</b>	<b>0.3%</b>	<b>15.3%</b>	<b>17.5%</b>	<b>\$35.00</b>	<b>1,296,600</b>	<b>5,561,178</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,980,763	-77,640	-77,640	-1.0%	13.7%	16.7%	\$29.68	0	0
<b>CBD</b>	<b>B</b>	<b>7,980,763</b>	<b>-77,640</b>	<b>-77,640</b>	<b>-1.0%</b>	<b>13.7%</b>	<b>16.7%</b>	<b>\$29.68</b>	<b>0</b>	<b>0</b>
Midtown	B	2,267,869	-14,323	-14,323	-0.6%	9.0%	9.3%	\$29.88	0	0
Greenway Plaza	B	2,567,684	4,639	4,639	0.2%	7.3%	7.6%	\$27.70	0	0
Greenspoint/North Belt	B	4,279,340	15,480	15,480	0.4%	32.7%	35.9%	\$15.72	0	0
Northwest	B	4,685,473	-14,366	-14,366	-0.3%	19.9%	21.2%	\$18.55	0	0
San Felipe/Voss	B	3,426,103	172	172	0.0%	8.8%	9.0%	\$23.75	0	0
Southwest	B	4,377,930	-19,527	-19,527	-0.4%	22.7%	22.8%	\$16.61	0	60,000
Galleria/West Loop	B	5,056,576	99,359	99,359	2.0%	11.7%	12.3%	\$26.06	0	0
Bellaire	B	1,191,774	-45,113	-45,113	-3.8%	11.8%	11.8%	\$24.06	0	0
Medical Center	B	2,173,016	41,583	41,583	1.9%	18.0%	18.0%	\$27.92	0	0
<b>Suburban Near</b>	<b>B</b>	<b>30,025,765</b>	<b>67,904</b>	<b>67,904</b>	<b>0.2%</b>	<b>17.1%</b>	<b>18.0%</b>	<b>\$20.22</b>	<b>0</b>	<b>60,000</b>
Katy Freeway East	B	1,436,312	-10,580	-10,580	-0.7%	6.4%	8.0%	\$24.62	0	0
Katy Freeway West	B	5,407,661	-86,849	-86,849	-1.6%	14.7%	18.8%	\$22.96	0	0
Westchase	B	4,218,441	-47,265	-47,265	-1.1%	16.4%	16.6%	\$20.39	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,062,414</b>	<b>-144,694</b>	<b>-144,694</b>	<b>-1.3%</b>	<b>14.3%</b>	<b>16.5%</b>	<b>\$21.93</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,604,033	13,709	13,709	0.4%	21.6%	21.7%	\$16.41	0	0
Sugar Land	B	1,306,860	22,474	22,474	1.7%	14.5%	16.0%	\$21.01	0	0
Gulf Freeway/Pasadena	B	1,396,012	826	826	0.1%	25.5%	27.4%	\$21.14	0	102,000
NASA/Clear Lake	B	1,918,324	-3,947	-3,947	-0.2%	16.3%	16.3%	\$18.03	0	0
The Woodlands	B	2,073,956	9,924	9,924	0.5%	14.2%	17.4%	\$26.24	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,299,185</b>	<b>42,986</b>	<b>42,986</b>	<b>0.4%</b>	<b>18.7%</b>	<b>19.9%</b>	<b>\$19.49</b>	<b>0</b>	<b>102,000</b>
<b>Houston</b>	<b>B</b>	<b>59,368,127</b>	<b>-111,444</b>	<b>-111,444</b>	<b>-0.2%</b>	<b>16.4%</b>	<b>17.9%</b>	<b>\$21.42</b>	<b>0</b>	<b>162,000</b>



## 2015 closes in the red as oil volatility catches up

### Limited pockets of activity not enough to offset significant losses in 2015

2015 concluded as an uneven but eventful year for Houston's office market with positive events in the fourth quarter that helped lessen the impact of the decelerating Houston office market. After a 370 basis point jump in vacancy year-over-year resulting in the first annual net occupancy loss since 2010, asking rental rates saw growth of 1.7 percent and several large leases were signed during the quarter. Additionally, despite the infusion of over 8.7 million square feet of new inventory, vacancy remained in the mid-teens. Whether silver linings such as these continue into 2016 remains to be seen, as oil prices are to remain under \$50.00 a barrel and Houston's job growth is forecasted to be weak.

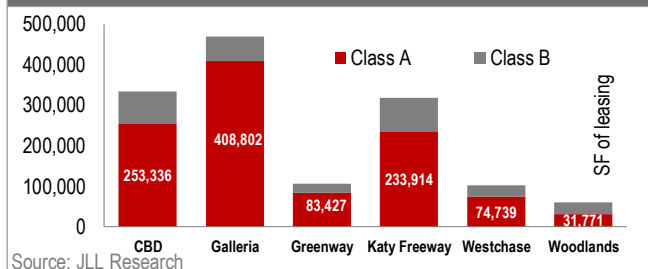
### The spigot is turned off on the construction faucet

As M&A activity and right-sizing by companies contribute to a dramatic slowdown in leasing, a secondary (and welcome) result is the abrupt halt of new construction starts within Houston both on a build-to-suit and speculative basis. This time last year, Houston accounted for nearly 20.0 percent of all the office buildings under construction within the United States; today that number is roughly half. To further illustrate how dramatic construction has halted, when completions slated for 2016 are removed, less than 1.6 million square feet remain in the pipeline to be delivered in 2017 and 2018; making them the lightest delivery years since the recession. Looking ahead, with the inventory of direct and available sublease space growing, the likelihood of new office projects breaking ground in 2016 is slim, barring those tenants who opt for the build-to-suit route.

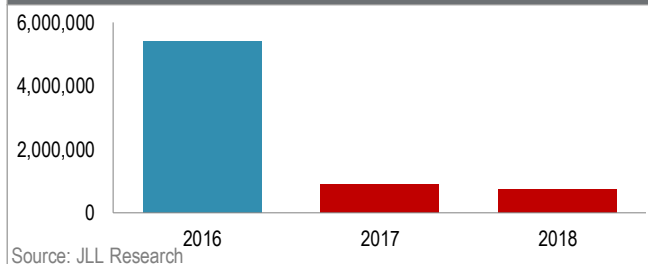
### Building sales activity gives some positive momentum to 2015

Prices for West Texas Intermediate oil, the benchmark for American oil production, fell by roughly 31.0 percent during 2015. With Houston so deeply tied to the energy sector, the impact has been far-reaching. However, 2015 remained a solid year for office sales transactions. By year-end, nearly \$2.0 billion in building sales were inked in 38 transactions. Notably, the fourth quarter saw a few Class A buildings trade over \$500 per square foot including 2200 Post Oak in the Galleria submarket (\$527 per square foot) and 935 N. Eldridge in the Energy Corridor (\$503 per square foot). Investors still have a steady appetite for well-tenanted office buildings in Houston despite volatility in the energy market.

### Houston major submarket leasing activity Q4



### Less than 2M s.f. of construction set to deliver after 2016



### More than \$2.0B in office sales in 2015

935 N. Eldridge and 2200 Post Oak sold for greater than

**\$500/p.s.f.**

Source: JLL Research

**173,679,885**

Total inventory (s.f.)

**308,427**

Q4 2015 net absorption (s.f.)

**\$29.80**

Direct average asking rent

**6,306,180**

Total under construction (s.f.)

**16.5%**

Total vacancy

**-89,748**

YTD net absorption (s.f.)

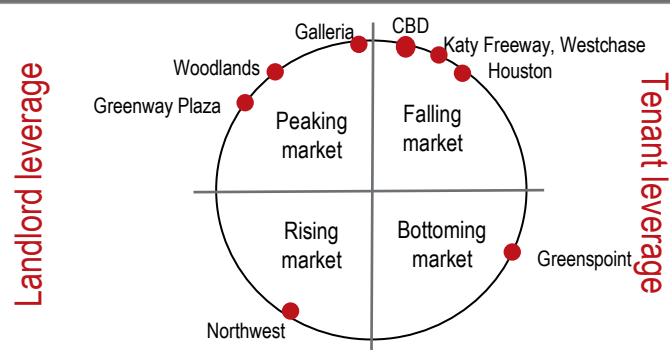
**2.6%**

12-month rent growth

**59.1%**

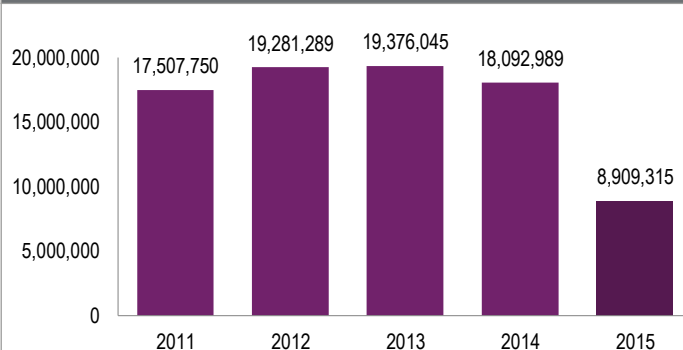
Total preleased

### Current conditions – submarket



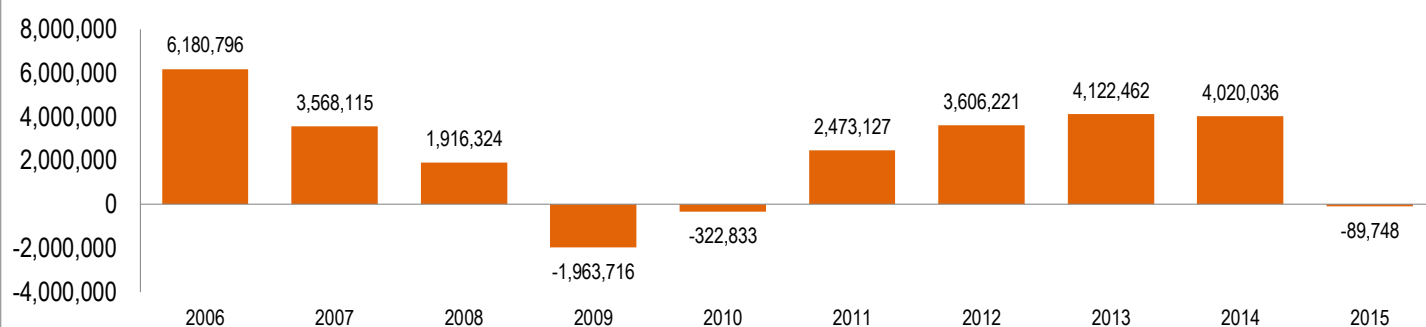
Source: JLL Research

### Historical leasing activity (s.f.)



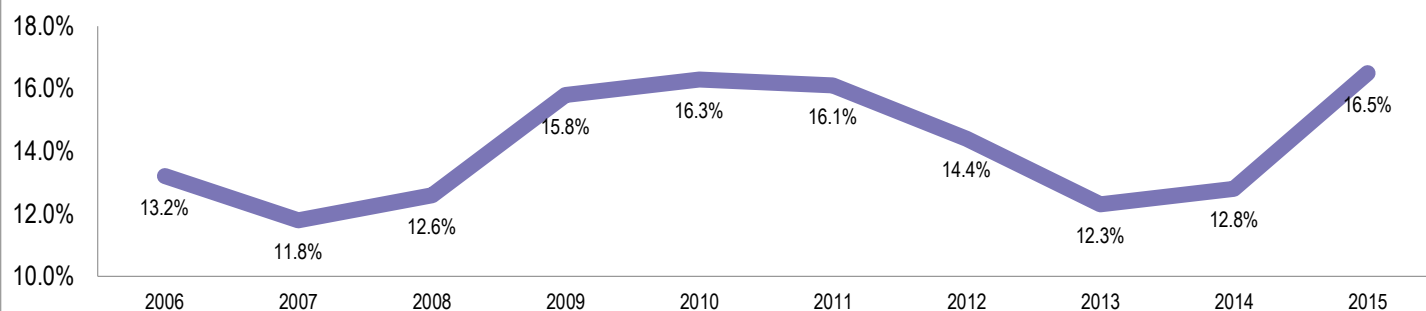
Source: JLL Research

### Total net absorption (s.f.)



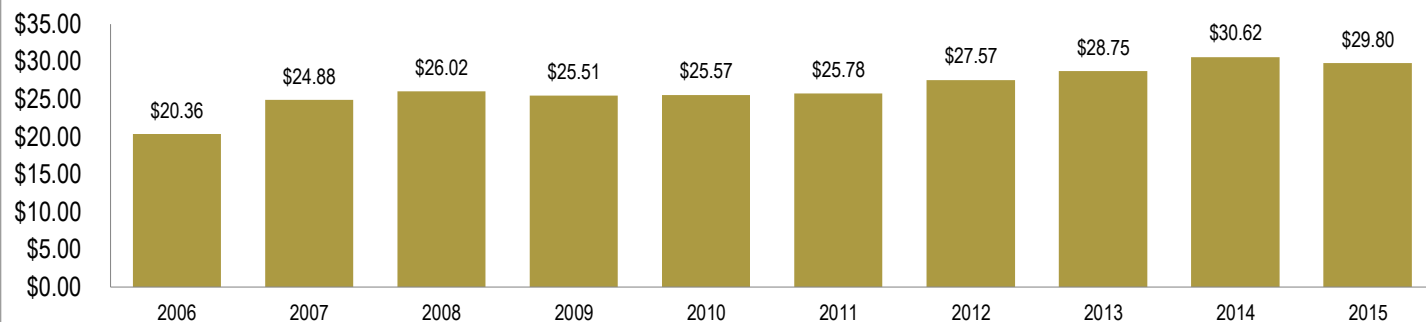
Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q4 2015



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	37,459,717	20,318	-608,881	-1.6%	10.0%	12.7%	\$41.12	0	1,578,258
Midtown	Totals	4,426,205	-22,699	114,744	2.6%	17.0%	17.2%	\$32.60	0	0
<b>Downtown</b>	<b>Totals</b>	<b>41,885,922</b>	<b>-2,381</b>	<b>-494,137</b>	<b>-1.2%</b>	<b>10.7%</b>	<b>13.2%</b>	<b>\$39.69</b>	<b>0</b>	<b>1,578,258</b>
FM 1960	Totals	5,865,528	-81,388	437,242	7.5%	14.9%	15.6%	\$17.37	0	0
Greenway Plaza	Totals	9,142,612	81,391	-152,258	-1.7%	15.5%	15.8%	\$33.93	815,505	210,000
Katy Freeway	Totals	23,933,849	95,096	795,715	3.3%	15.1%	18.8%	\$35.00	5,082,025	1,385,519
Greenspoint/North Belt	Totals	9,496,153	-53,237	-987,628	-10.4%	31.1%	35.4%	\$21.63	0	0
Northwest	Totals	9,632,799	77,534	-256,899	-2.7%	16.8%	17.5%	\$21.72	769,420	0
San Felipe/Voss	Totals	5,141,497	15,662	-131,920	-2.6%	13.5%	13.8%	\$30.43	0	0
Southwest	Totals	7,847,444	-22,913	647,154	8.2%	19.2%	19.4%	\$16.75	0	0
Galleria/West Loop	Totals	21,937,379	-300,927	-652,905	-3.0%	12.3%	13.7%	\$34.71	92,021	1,145,000
Westchase	Totals	14,065,950	45,672	-54,274	-0.4%	12.8%	16.5%	\$27.95	401,835	1,545,000
Outlying suburban submarkets	Totals	24,730,752	453,918	760,162	3.1%	14.0%	15.1%	\$26.42	1,567,604	442,403
Bellaire	Totals	2,333,310	-4,142	-915	0.0%	7.2%	8.2%	\$25.09	0	0
Conroe	Totals	142,679	-2,125	0	0.0%	6.3%	6.3%	\$17.21	0	0
East Fort Bend/Sugar Land	Totals	4,535,826	33,674	313,786	6.9%	9.7%	10.6%	\$26.41	0	0
Gulf Freeway/Pasadena	Totals	1,748,186	-22,769	120,867	6.9%	22.5%	24.2%	\$21.09	0	0
Kingwood/Humble	Totals	346,059	-3,984	-9,259	-2.7%	11.6%	14.1%	\$18.83	0	0
NASA/Clear Lake	Totals	3,763,847	9,821	-44,642	-1.2%	11.9%	12.7%	\$20.40	0	0
Richmond/Fountainview	Totals	497,102	1,299	26,440	5.3%	31.2%	31.2%	\$17.40	0	0
South Main/Medical Center	Totals	3,962,652	41,828	-123,184	-3.1%	16.5%	16.5%	\$27.91	0	0
The Woodlands	Totals	7,401,091	400,316	477,069	6.4%	15.7%	17.3%	\$31.45	1,567,604	442,403
<b>Suburbs</b>	<b>Totals</b>	<b>131,793,963</b>	<b>310,808</b>	<b>404,389</b>	<b>0.3%</b>	<b>15.7%</b>	<b>17.6%</b>	<b>\$27.64</b>	<b>8,728,410</b>	<b>4,727,922</b>
<b>Houston</b>	<b>Totals</b>	<b>173,679,885</b>	<b>308,427</b>	<b>-89,748</b>	<b>-0.1%</b>	<b>14.5%</b>	<b>16.5%</b>	<b>\$29.80</b>	<b>8,728,410</b>	<b>6,306,180</b>
CBD	A	27,605,052	18,080	-228,054	-0.8%	7.7%	10.5%	\$47.17	0	1,578,258
Midtown	A	1,742,099	4,034	112,977	6.5%	32.1%	32.5%	\$33.64	0	0
<b>Downtown</b>	<b>A</b>	<b>29,347,151</b>	<b>22,114</b>	<b>-115,077</b>	<b>-0.4%</b>	<b>9.2%</b>	<b>11.8%</b>	<b>\$44.35</b>	<b>0</b>	<b>1,578,258</b>
FM 1960	A	2,124,881	-9,253	424,118	20.0%	4.5%	5.3%	\$26.75	0	0
Greenway Plaza	A	6,456,288	86,997	-128,785	-2.0%	18.0%	18.1%	\$35.25	815,505	210,000
Katy Freeway	A	18,351,201	156,466	1,015,251	5.5%	16.5%	19.9%	\$36.86	5,082,025	1,385,519
Greenspoint/North Belt	A	4,540,680	-44,455	-604,252	-13.3%	32.3%	38.0%	\$26.66	0	0
Northwest	A	3,910,446	-5,695	-218,580	-5.6%	17.4%	18.5%	\$22.98	769,420	0
San Felipe/Voss	A	1,720,793	1,804	-97,259	-5.7%	22.2%	22.7%	\$35.63	0	0
Southwest	A	822,251	6,688	138,867	16.9%	18.5%	18.5%	\$16.73	0	0
Galleria/West Loop	A	17,336,739	-359,309	-595,617	-3.4%	12.7%	14.2%	\$36.70	92,021	1,145,000
Westchase	A	8,080,292	13,557	-269,024	-3.3%	11.0%	17.4%	\$36.59	401,835	1,545,000
Outlying suburban submarkets	A	12,589,877	505,402	799,975	6.4%	12.3%	13.7%	\$30.99	1,567,604	442,403
Bellaire	A	889,604	1,186	8,652	1.0%	7.7%	10.2%	\$25.56	0	0
Conroe	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
East Fort Bend/Sugar Land	A	3,132,230	34,447	154,342	4.9%	8.9%	9.8%	\$29.91	0	0
Gulf Freeway/Pasadena	A	85,200	-2,766	-10,777	-12.6%	29.6%	33.4%	\$22.55	0	0
Kingwood/Humble	A	44,000	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,479,538	1,969	-53,628	-3.6%	7.2%	9.2%	\$27.09	0	0
Richmond/Fountainview	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
South Main/Medical Center	A	1,729,776	22,612	81,241	4.7%	11.0%	11.0%	\$29.68	0	0
The Woodlands	A	5,229,529	447,954	620,145	11.9%	16.8%	18.5%	\$32.76	1,567,604	442,403
<b>Suburbs</b>	<b>A</b>	<b>75,933,448</b>	<b>352,202</b>	<b>464,694</b>	<b>0.6%</b>	<b>15.3%</b>	<b>17.8%</b>	<b>\$33.38</b>	<b>8,728,410</b>	<b>4,727,922</b>
<b>Houston</b>	<b>A</b>	<b>105,280,599</b>	<b>374,316</b>	<b>349,617</b>	<b>0.3%</b>	<b>13.6%</b>	<b>16.1%</b>	<b>\$35.44</b>	<b>8,728,410</b>	<b>6,306,180</b>



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	9,854,665	2,238	-380,827	-3.9%	16.4%	18.8%	\$33.13	0	0
Midtown	B	2,684,106	-26,733	1,767	0.1%	7.2%	7.3%	\$29.60	0	0
<b>Downtown</b>	<b>B</b>	<b>12,538,771</b>	<b>-24,495</b>	<b>-379,060</b>	<b>-3.0%</b>	<b>14.4%</b>	<b>16.3%</b>	<b>\$32.75</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,740,647	-72,135	13,124	0.4%	20.7%	21.4%	\$16.20	0	0
Greenway Plaza	B	2,686,324	-5,606	-23,473	-0.9%	9.7%	10.0%	\$28.01	0	0
Katy Freeway	B	5,582,648	-61,370	-219,536	-3.9%	10.3%	15.0%	\$25.25	0	0
Greenspoint/North Belt	B	4,955,473	-8,782	-383,376	-7.7%	30.0%	33.1%	\$16.67	0	0
Northwest	B	5,722,353	83,229	-38,319	-0.7%	16.5%	16.8%	\$20.81	0	0
San Felipe/Voss	B	3,420,704	13,858	-34,661	-1.0%	9.2%	9.3%	\$24.09	0	0
Southwest	B	7,025,193	-29,601	508,287	7.2%	19.3%	19.5%	\$16.75	0	0
Galleria/West Loop	B	4,600,640	58,382	-57,288	-1.2%	10.9%	11.6%	\$25.94	0	0
Westchase	B	5,985,658	32,115	214,750	3.6%	15.2%	15.4%	\$19.50	0	0
Outlying suburban submarkets	B	12,140,875	-51,484	-39,813	-0.3%	15.8%	16.5%	\$22.74	0	0
Bellaire	B	1,443,706	-5,328	-9,567	-0.7%	6.9%	7.1%	\$24.77	0	0
Conroe	B	142,679	-2,125	0	0.0%	6.3%	6.3%	\$17.21	0	0
East Fort Bend/Sugar Land	B	1,403,596	-773	159,444	11.4%	11.5%	12.2%	\$20.40	0	0
Gulf Freeway/Pasadena	B	1,662,986	-20,003	131,644	7.9%	22.1%	23.7%	\$20.99	0	0
Kingwood/Humble	B	302,059	-3,984	-9,259	-3.1%	13.2%	16.1%	\$18.83	0	0
NASA/Clear Lake	B	2,284,309	7,852	8,986	0.4%	15.0%	15.0%	\$18.31	0	0
Richmond/Fountainview	B	497,102	1,299	26,440	5.3%	31.2%	31.2%	\$17.40	0	0
South Main/Medical Center	B	2,232,876	19,216	-204,425	-9.2%	20.7%	20.8%	\$27.18	0	0
The Woodlands	B	2,171,562	-47,638	-143,076	-6.6%	13.1%	14.6%	\$27.41	0	0
<b>Suburbs</b>	<b>B</b>	<b>55,860,515</b>	<b>-41,394</b>	<b>-60,305</b>	<b>-0.1%</b>	<b>16.2%</b>	<b>17.3%</b>	<b>\$20.29</b>	<b>0</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>68,399,286</b>	<b>-65,889</b>	<b>-439,365</b>	<b>-0.6%</b>	<b>15.9%</b>	<b>17.1%</b>	<b>\$22.36</b>	<b>0</b>	<b>0</b>

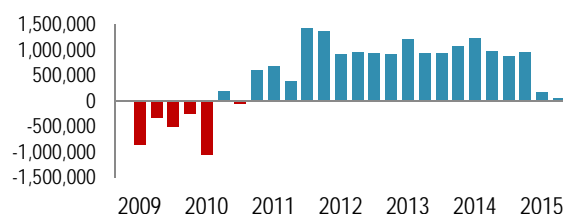


## Market holds its breath as fundamentals turn

### Net absorption turns negative for the first time since Q3 2010

Unable to extend its streak to twenty consecutive quarters of positive net absorption, the Houston office market experienced 87,904 square feet of negative net absorption in the third quarter. Class B properties bore the brunt of the impact, conceding nearly 225,000 square feet in occupancy losses while Class A properties remained in the black, posting 135,108 square feet of positive net absorption this quarter. Ten of the 20 largest submarkets notched negative net absorption, resulting in a 100 basis point bump in total vacancy. In the face of near-daily job loss announcements and, consequently, slowing deal velocity, downsizing, and a spike in subleases, the Houston office market has reached an inflection point.

### Houston net absorption by quarter



Source: JLL Research

### Leasing activity decelerates further after a record low second quarter

Coupled with negative net absorption, third quarter leasing activity numbers shine an ominous light on a market in flux. The Houston office market saw a 44.0 percent decrease in leasing activity during the third quarter (1,529,476 square feet) when compared to the second quarter (2,710,011 square feet). To put that into perspective, leasing activity for the second quarter of this year was the eighth lowest in the last fifteen years. First? The third quarter of this year. Historically, the Houston office market has averaged 4 million square feet of leasing activity per quarter. As 10 million square feet of new office product looms in the pipeline, a dramatic and sustained jump in leasing activity will be required to avoid a full-scale market meltdown.

### Leasing activity unable to keep pace with 2014

Only 38% of 2014's leasing activity is accounted for through Q3 2015.

38%

Source: JLL Research

### Increased M&A further impacts energy jobs and market sentiment

As oil prices remained in the \$40 to \$45/bbl range, Houston's office market continues to absorb job cuts associated with the declining energy sector. From Fortune 500 companies like Chevron and Conoco Phillips down to smaller independent E&P firms, this round of cuts has begun to impact office-intensive white collar positions. Additionally, new M&A activity between companies such as Energy Transfer and Williams likewise influences the Houston office market as these companies begin to give back space in their existing buildings or no longer take space in buildings under construction. Either way, it adds up to additional impending vacancy within the market.

### Robust M&A activity could impact energy jobs

\$157B

Value of companies involved in 5 most recent M&A activities within Houston

Source: JLL Research

171,679,171

Total inventory (s.f.)

(87,904)

Q3 2015 net absorption (s.f.)

\$29.28

Direct average asking rent

10,808,257

Total under construction (s.f.)

15.8%

Total vacancy

119,281

YTD net absorption (s.f.)

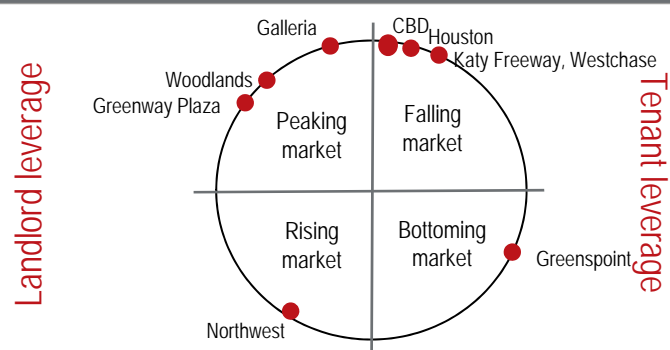
(5.2)%

12-month rent growth

48.1%

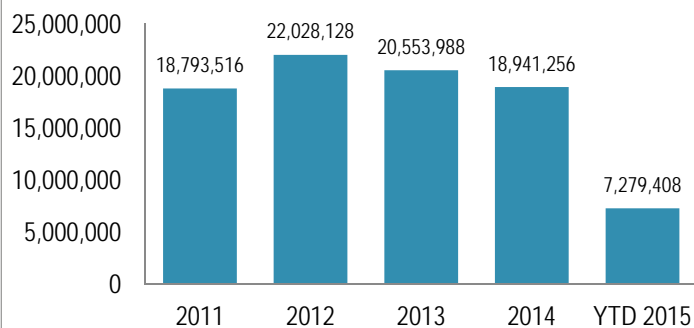
Total preleased

### Current conditions – submarket



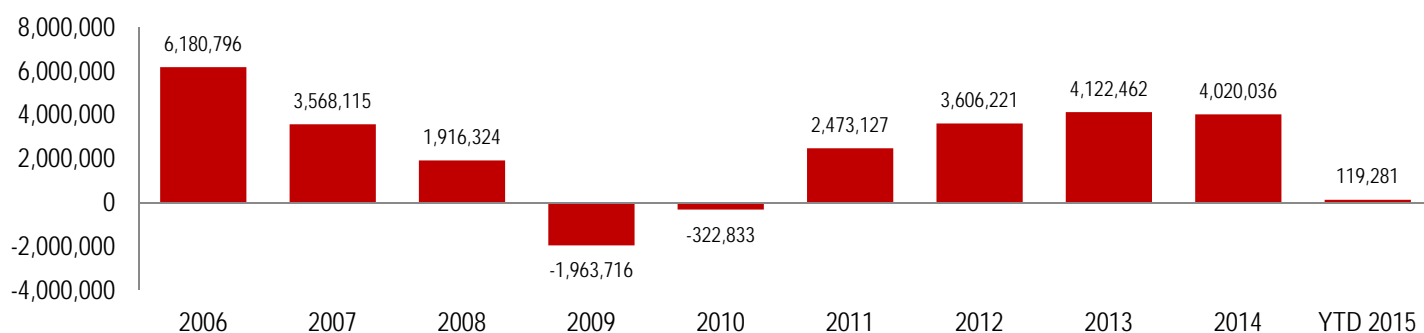
Source: JLL Research

### Historical leasing activity (s.f.)



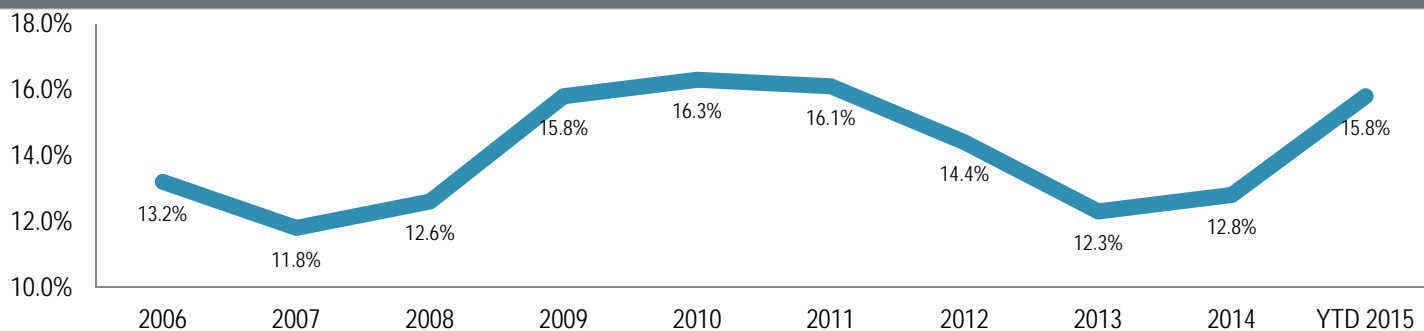
Source: JLL Research

### Total net absorption (s.f.)



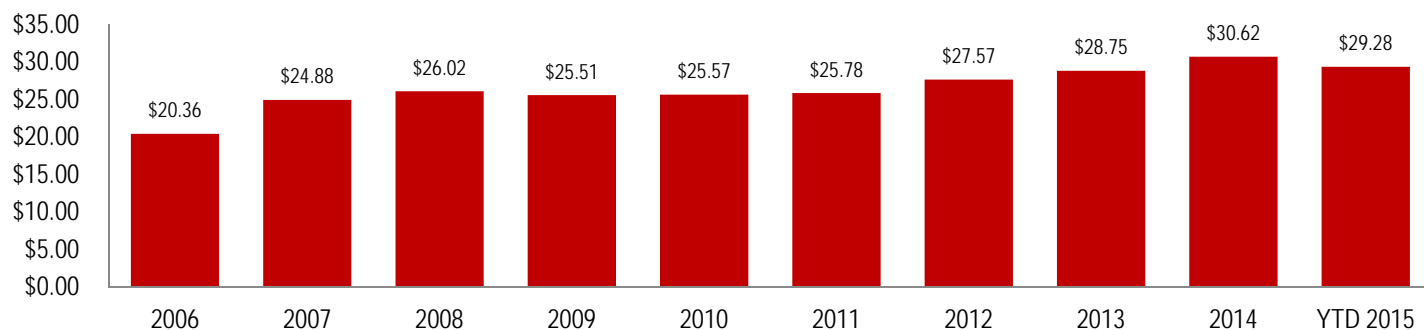
Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research



## Shifted dynamics offer opportunities in market

### Office economics changed by energy impact

As the reality of \$60/bbl oil prices and the corresponding job cuts continue to take effect in Houston, the office market has begun to mirror the initial recovery from the 2009-10 financial crisis. While absorption has slowed from the 900K s.f. on average over the past 14 quarters and sublease space coming to market continues to climb, tenant concessions such as free rent and TI allowances have begun to increase. While published rental rates throughout the city have yet to be impacted, on a street level basis landlords are having to be creative and flexible in terms of strike rents in order to get a lease signed.

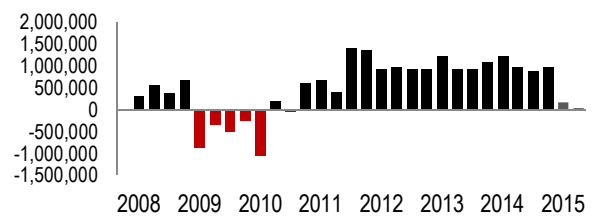
### Large blocks become more prevalent thanks to M&A and slowing leasing

With large scale M&A activity in the market being triggered by such firms as Halliburton, Shell and Enterprise, the number of large blocks of space has begun to spike within the Houston market in both Class A and B buildings. With nearly nine million square feet of combined new construction and sublease space potentially arriving vacant to market over the next 18 months and leasing activity remaining far below the halcyon days of 2012 and 2013, Houston is poised to see a significant jump in vacancy rates throughout a variety of submarkets in 2015 and 2016.

### Tenants focusing on submarket and building opportunities

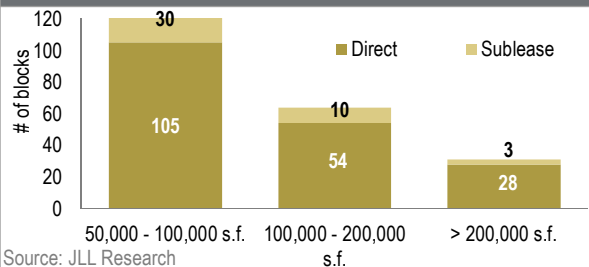
A slowing office market and an uncertain economy for the next 12 to 18 months has Houston's office tenants poised to utilize the leverage that this opportunity presents them in the upcoming quarters. While leasing activity has slowed, tenants with active requirements have remained growing across multiple business sectors. The strong demand caused by tenants with 2017 and 2018 expirations combined with Trophy, Class A vacancy rates in the single digits has created a new reality whereby tenant or landlord leverage is not being judged on a submarket by submarket basis, but rather a building by building basis.

### Houston absorption by quarter



Source: JLL Research

### Market wide Class A & B Large Blocks (Direct vs Sublease)



Source: JLL Research

### Current active requirements in Houston

**6,268,000 s.f.**

Active Requirements larger than 20,000 SF

Source: JLL Research

**158,875,372**

Total inventory (s.f.)

**41,220**

Q2 2015 net absorption (s.f.)

**\$28.61**

Direct average asking rent

**11,114,260**

Total under construction (s.f.)

**15.1%**

Total vacancy

**207,185**

YTD net absorption (s.f.)

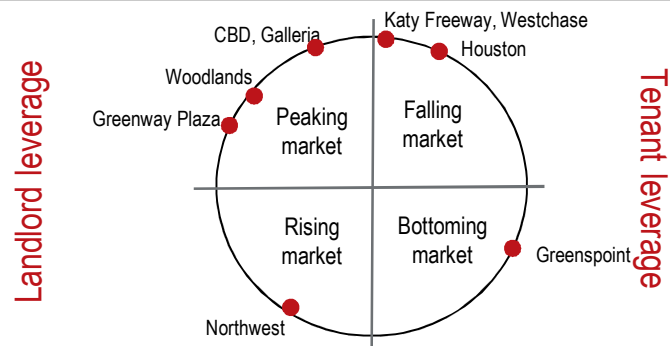
**(4.0)%**

12-month rent growth

**49.6%**

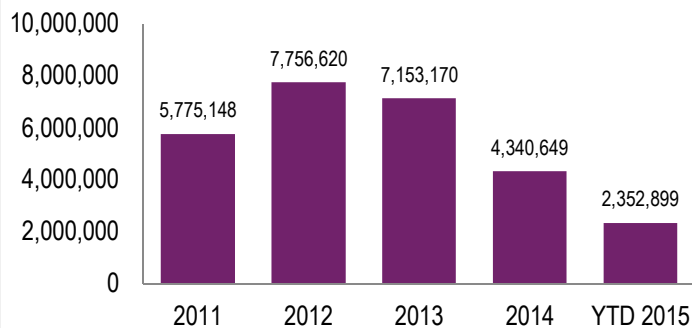
Total preleased

### Current conditions – submarket



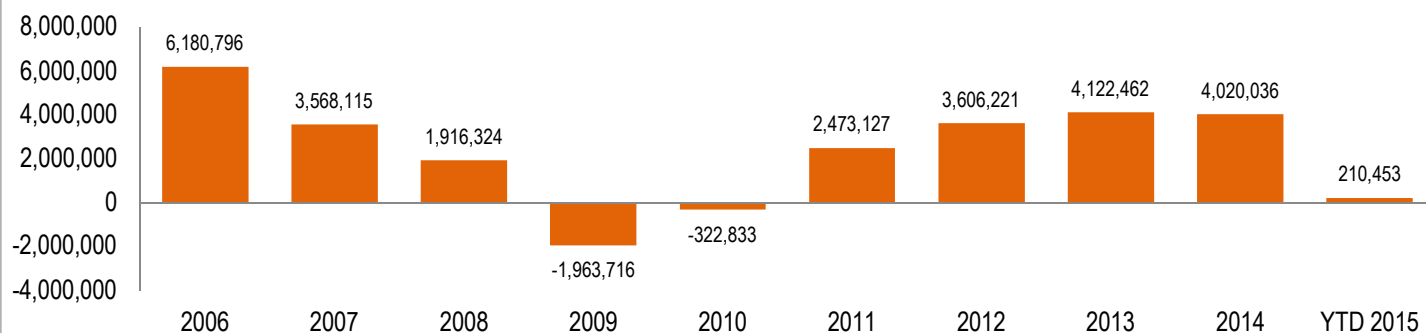
Source: JLL Research

### Historical leasing activity (s.f.)



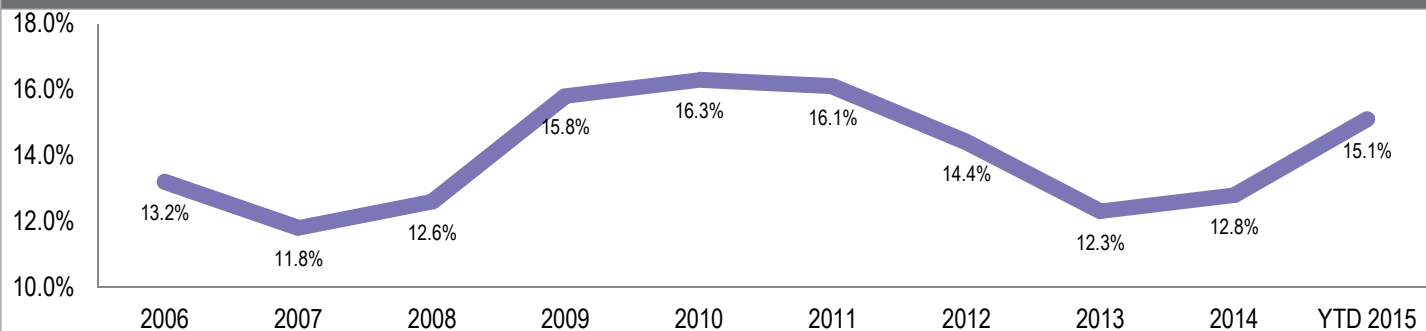
Source: JLL Research

### Total net absorption (s.f.)



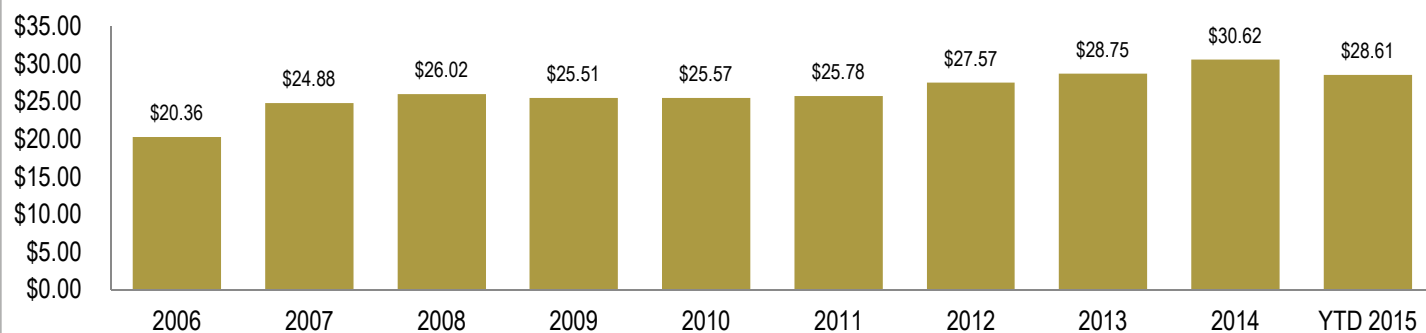
Source: JLL Research

### Total vacancy rate (%)



Source: JLL Research

### Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q2 2015



	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	36,025,152	-77,690	-168,898	-0.5%	12.2%	14.2%	\$38.96	0	1,463,668
Midtown	Totals	3,816,143	63,732	42,174	1.1%	10.1%	12.4%	\$30.80	0	0
<b>Downtown</b>	<b>Totals</b>	<b>39,841,295</b>	<b>-13,958</b>	<b>-126,724</b>	<b>-0.3%</b>	<b>12.0%</b>	<b>14.0%</b>	<b>\$38.31</b>	<b>0</b>	<b>1,463,668</b>
FM 1960	Totals	4,942,578	12,101	25,453	0.5%	28.5%	29.0%	\$20.36	0	0
Greenway Plaza	Totals	8,294,993	75,907	234,841	2.8%	7.4%	8.2%	\$30.69	0	1,164,230
Katy Freeway	Totals	20,296,080	-102,322	43,004	0.2%	7.2%	9.9%	\$30.91	2,530,496	4,066,217
Greenspoint/North Belt	Totals	8,993,224	-95,967	-524,745	-5.8%	22.8%	25.7%	\$22.53	0	0
Northwest	Totals	8,490,720	-48,160	-84,787	-1.0%	23.1%	24.4%	\$23.23	271,384	315,000
San Felipe/Voss	Totals	5,013,142	-25,452	-13,029	-0.3%	10.9%	12.1%	\$30.29	0	0
Southwest	Totals	6,941,684	46,362	331,630	4.8%	19.1%	19.5%	\$16.59	0	0
Galleria/West Loop	Totals	21,478,096	19,845	78,577	0.4%	9.7%	12.6%	\$32.31	0	1,586,145
Westchase	Totals	13,109,461	42,888	-259,661	-2.0%	15.5%	18.6%	\$26.98	130,451	1,517,000
Outlying suburban submarkets	Totals	21,424,099	129,976	502,626	2.3%	11.4%	13.0%	\$26.25	596,865	1,002,000
Bellaire	Totals	2,292,775	-675	36,119	1.6%	8.9%	12.1%	\$25.28	0	0
Conroe	Totals	142,679	0	0	0.0%	8.8%	9.4%	\$16.77	0	0
East Fort Bend/Sugar Land	Totals	4,301,397	52,135	105,680	2.5%	23.2%	25.1%	\$26.60	0	0
Gulf Freeway/Pasadena	Totals	1,229,810	1,023	-1,425	-0.1%	14.8%	17.6%	\$19.77	0	0
Kingwood/Humble	Totals	257,338	0	0	0.0%	7.7%	7.7%	\$18.88	0	0
NASA/Clear Lake	Totals	3,363,890	-3,148	22,655	0.7%	8.5%	9.9%	\$22.44	0	0
Richmond/Fountainview	Totals	484,316	-2,550	8,455	1.7%	3.6%	3.9%	\$16.60	0	0
South Main/Medical Center	Totals	3,348,515	24,761	58,073	1.7%	10.1%	10.3%	\$28.70	0	0
The Woodlands	Totals	6,003,379	58,430	273,069	4.5%	6.6%	8.0%	\$30.58	596,865	1,002,000
<b>Suburbs</b>	<b>Totals</b>	<b>118,984,077</b>	<b>55,178</b>	<b>333,909</b>	<b>0.3%</b>	<b>13.4%</b>	<b>15.5%</b>	<b>\$25.70</b>	<b>3,529,196</b>	<b>9,650,592</b>
<b>Houston</b>	<b>Totals</b>	<b>158,825,372</b>	<b>41,220</b>	<b>207,185</b>	<b>0.1%</b>	<b>13.0%</b>	<b>15.1%</b>	<b>\$28.61</b>	<b>3,529,196</b>	<b>11,114,260</b>
CBD	A	26,989,256	56,092	220,337	0.8%	10.3%	12.1%	\$42.61	0	1,463,668
Midtown	A	1,200,537	62,781	41,223	3.4%	17.7%	24.0%	\$32.08	0	0
<b>Downtown</b>	<b>A</b>	<b>28,189,793</b>	<b>118,873</b>	<b>261,560</b>	<b>0.9%</b>	<b>10.6%</b>	<b>12.6%</b>	<b>\$41.86</b>	<b>0</b>	<b>1,463,668</b>
FM 1960	A	1,168,205	4,688	25,558	2.2%	46.3%	47.8%	\$28.09	0	0
Greenway Plaza	A	5,920,347	63,768	216,879	3.7%	4.4%	5.0%	\$34.80	0	1,164,230
Katy Freeway	A	15,857,786	-15,725	194,668	1.2%	5.5%	8.3%	\$34.94	2,530,496	4,066,217
Greenspoint/North Belt	A	4,363,689	-28,546	-268,062	-6.1%	22.5%	25.9%	\$29.33	0	0
Northwest	A	3,294,290	-79,761	-97,182	-3.0%	27.4%	29.2%	\$25.96	271,384	315,000
San Felipe/Voss	A	1,714,930	-29,896	-20,056	-1.2%	17.6%	20.2%	\$35.92	0	0
Southwest	A	722,251	4,251	32,471	4.5%	19.9%	20.7%	\$16.69	0	0
Galleria/West Loop	A	16,430,510	44,888	78,259	0.5%	8.9%	12.3%	\$35.28	0	1,586,145
Westchase	A	7,398,509	20,174	-349,369	-4.7%	10.8%	14.0%	\$38.69	130,451	1,517,000
Outlying suburban submarkets	A	11,330,511	118,071	411,924	3.6%	12.2%	13.8%	\$29.11	596,865	1,002,000
Bellaire	A	884,604	7,466	18,497	2.1%	4.6%	5.3%	\$25.43	0	0
Conroe	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
East Fort Bend/Sugar Land	A	3,193,699	22,447	74,925	2.3%	23.6%	26.0%	\$28.68	0	0
Gulf Freeway/Pasadena	A	85,200	6,811	12,377	14.5%	30.9%	31.2%	\$23.01	0	0
Kingwood/Humble	A	44,000	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,208,359	-8,213	24,655	2.0%	14.8%	18.3%	\$24.70	0	0
Richmond/Fountainview	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
South Main/Medical Center	A	1,633,199	19,756	50,158	3.1%	13.9%	14.0%	\$29.45	0	0
The Woodlands	A	4,281,450	69,804	231,312	5.4%	3.8%	4.9%	\$37.46	596,865	1,002,000
<b>Suburbs</b>	<b>A</b>	<b>68,201,028</b>	<b>101,912</b>	<b>225,090</b>	<b>0.3%</b>	<b>11.2%</b>	<b>13.8%</b>	<b>\$31.77</b>	<b>3,529,196</b>	<b>9,650,592</b>
<b>Houston</b>	<b>A</b>	<b>96,390,821</b>	<b>220,785</b>	<b>486,650</b>	<b>0.5%</b>	<b>11.1%</b>	<b>13.4%</b>	<b>\$34.61</b>	<b>3,529,196</b>	<b>0</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	9,035,896	-133,782	-389,235	-4.3%	17.8%	20.4%	\$32.64	0	0
Midtown	B	2,615,606	951	951	0.0%	6.6%	7.0%	\$29.22	0	0
<b>Downtown</b>	<b>B</b>	<b>11,651,502</b>	<b>-132,831</b>	<b>-388,284</b>	<b>-3.3%</b>	<b>15.3%</b>	<b>17.4%</b>	<b>\$32.31</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,774,373	7,413	-105	0.0%	23.0%	23.2%	\$15.54	0	0
Greenway Plaza	B	2,374,646	12,139	17,962	0.8%	14.8%	16.2%	\$27.63	0	0
Katy Freeway	B	4,438,294	-86,597	-151,664	-3.4%	13.2%	15.6%	\$24.95	0	0
Greenspoint/North Belt	B	4,629,535	-67,421	-256,683	-5.5%	23.2%	25.5%	\$16.32	0	0
Northwest	B	5,196,430	31,601	12,395	0.2%	20.4%	21.3%	\$20.90	0	0
San Felipe/Voss	B	3,298,212	4,444	7,027	0.2%	7.5%	7.9%	\$23.44	0	0
Southwest	B	6,219,433	42,111	299,159	4.8%	18.9%	19.4%	\$16.58	0	0
Galleria/West Loop	B	5,047,586	-25,043	318	0.0%	12.3%	13.6%	\$25.31	0	0
Westchase	B	5,710,952	22,714	89,708	1.6%	21.6%	24.6%	\$19.37	0	0
Outlying suburban submarkets	B	10,093,588	11,905	90,702	0.9%	10.6%	12.1%	\$22.53	0	0
Bellaire	B	1,408,171	-8,141	17,622	1.3%	11.6%	16.5%	\$25.24	0	0
Conroe	B	142,679	0	0	0.0%	8.8%	9.4%	\$16.77	0	0
East Fort Bend/Sugar Land	B	1,107,698	29,688	30,755	2.8%	22.2%	22.4%	\$20.26	0	0
Gulf Freeway/Pasadena	B	1,144,610	-5,788	-13,802	-1.2%	13.6%	16.5%	\$19.22	0	0
Kingwood/Humble	B	213,338	0	0	0.0%	9.3%	9.3%	\$18.88	0	0
NASA/Clear Lake	B	2,155,531	5,065	-2,000	-0.1%	4.9%	5.3%	\$18.60	0	0
Richmond/Fountainview	B	484,316	-2,550	8,455	1.7%	3.6%	3.9%	\$16.60	0	0
South Main/Medical Center	B	1,715,316	5,005	7,915	0.5%	6.6%	6.9%	\$27.20	0	0
The Woodlands	B	1,721,929	-11,374	41,757	2.4%	13.5%	15.7%	\$25.84	0	0
<b>Suburbs</b>	<b>B</b>	<b>50,783,049</b>	<b>-46,734</b>	<b>108,819</b>	<b>0.2%</b>	<b>16.3%</b>	<b>17.8%</b>	<b>\$20.09</b>	<b>0</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>62,434,551</b>	<b>-179,565</b>	<b>-279,465</b>	<b>-0.4%</b>	<b>16.1%</b>	<b>17.7%</b>	<b>\$22.25</b>	<b>0</b>	<b>0</b>





## Oil price impact begins to shift office market

### Energy headlines impact office space

Following multiple oil and gas companies announcing cuts in capital spending budgets and planned layoffs, Houston's office market began to feel the brunt of the impact in the first quarter. As large scale tenants such as ConocoPhillips, Statoil, Sasol, and BP reduced their footprint in certain submarkets, over 2.5 million square feet of full-floor sublease space came online within the first three months. While some of this sublease space was expected roughly half came as a result of the cuts in upstream companies' capital budgets. Additionally, as small and mid-size E&P companies struggle to repay debt obligations and are forced to declare bankruptcy, additional office space will come to market through those proceedings or the increase in M&A activity that is expected in 2015.

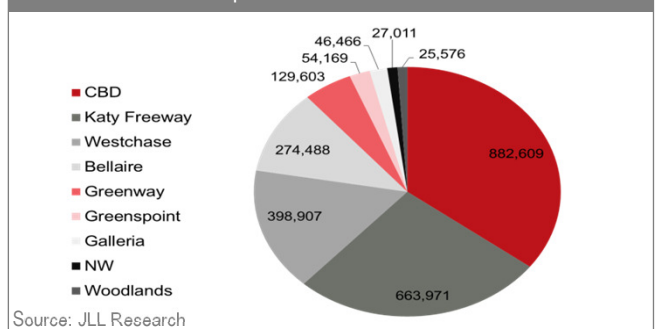
### Demand remains within pockets of Houston

While much of the activity and headlines in the first quarter reinforced the notion that Houston has begun to shift toward a tenant-favorable market, there remained a steady demand among the more tenant-diverse submarkets. In the first quarter leasing velocity remained on par year-over-year as more than 900,000 square feet of transactions signed. While velocity slowed in energy-dominant submarkets such as Katy Freeway and Westchase submarkets with a diverse tenant base such as Greenway Plaza, Galleria, and the CBD maintained active tenants in the market and will continue to do so even in a leaner 2015.

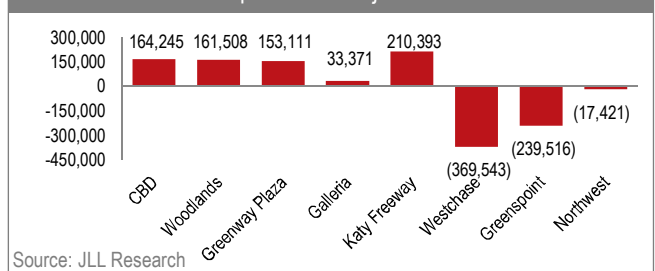
### Construction pipeline slows significantly

Much of the discussion within the Houston market in the past 24 to 36 months has centered around the explosive growth of under construction and proposed buildings. As oil prices have continued to fall, development has come to a rapid halt within the market. While there is still in excess of 12.8 million square feet of space under construction, the next cycle of speculative development is not anticipated for 18 to 24 months. The combination of tighter construction financing and slower than anticipated job growth has given developers and investors pause in Houston.

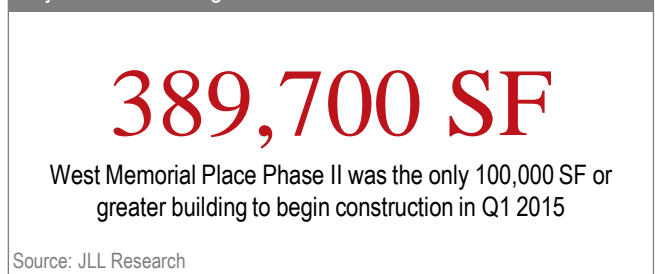
### 2.5 MSF of Sublease space arrives in Q1 2015



### Q1 2015 Class A Absorption for 8 major submarkets



### Projects commencing construction in Q1 2015



14.8%

Total vacancy

166,916

Q1 2015 net absorption (s.f.)

-4.6%

12-month rent growth

12,833,724

Total under construction (s.f.)

41.2%

Total preleased

# Office Statistics

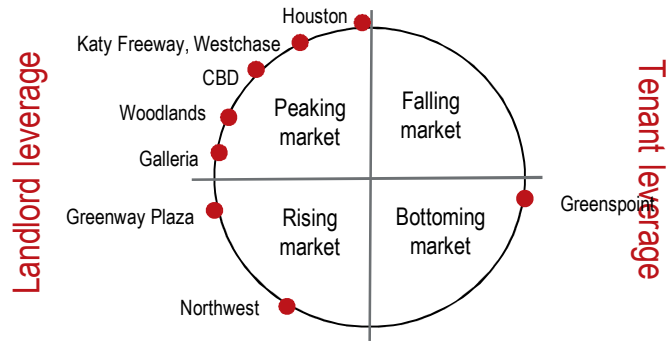
Houston | Q1 2015



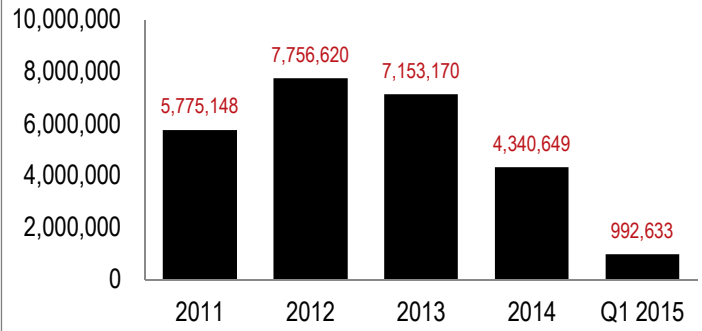
	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (%) of stock	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	Totals	36,025,152	-91,208	-91,208	-0.3%	12.3%	13.4%	\$38.73	0	2,064,000
Midtown	Totals	3,816,143	-20,607	-20,607	-0.5%	10.8%	13.3%	\$31.45	0	0
<b>Downtown</b>	<b>Totals</b>	<b>39,841,295</b>	<b>-111,815</b>	<b>-111,815</b>	<b>-0.3%</b>	<b>12.1%</b>	<b>13.4%</b>	<b>\$38.11</b>	<b>0</b>	<b>2,064,000</b>
FM 1960	Totals	4,942,578	13,352	13,352	0.3%	28.8%	29.3%	\$19.99	0	0
Greenway Plaza	Totals	8,294,993	158,934	158,934	1.9%	7.9%	8.5%	\$30.78	0	1,164,230
Katy Freeway	Totals	18,903,465	145,326	145,326	0.8%	7.1%	10.1%	\$29.98	1,137,881	5,063,349
Greenspoint/North Belt	Totals	8,993,224	-428,778	-428,778	-4.8%	22.9%	23.1%	\$22.77	0	0
Northwest	Totals	8,490,720	-36,627	-36,627	-0.4%	24.4%	26.4%	\$22.80	271,384	312,000
San Felipe/Voss	Totals	5,013,142	12,423	12,423	0.2%	10.6%	11.5%	\$30.04	0	0
Southwest	Totals	6,941,684	285,268	285,268	4.1%	18.0%	19.2%	\$17.18	0	0
Galleria/West Loop	Totals	21,478,096	58,732	58,732	0.3%	8.7%	11.3%	\$31.81	0	1,196,145
Westchase	Totals	13,109,461	-302,549	-302,549	-2.3%	16.3%	18.6%	\$26.30	130,451	1,517,000
Outlying suburban submarkets	Totals	20,909,099	372,650	372,650	1.8%	11.3%	13.0%	\$26.14	81,865	1,517,000
Bellaire	Totals	2,292,775	36,794	36,794	1.6%	8.4%	12.2%	\$23.99	0	0
Conroe	Totals	142,679	0	0	0.0%	8.8%	9.4%	\$16.77	0	0
East Fort Bend/Sugar Land	Totals	4,301,397	53,545	53,545	1.2%	23.9%	26.3%	\$26.54	0	0
Gulf Freeway/Pasadena	Totals	1,229,810	-2,448	-2,448	-0.2%	14.5%	17.2%	\$19.83	0	0
Kingwood/Humble	Totals	257,338	0	0	0.0%	7.7%	7.7%	\$18.88	0	0
NASA/Clear Lake	Totals	3,363,890	25,803	25,803	0.8%	8.3%	9.8%	\$22.12	0	0
Richmond/Fountainview	Totals	484,316	11,005	11,005	2.3%	3.3%	3.4%	\$16.66	0	0
South Main/Medical Center	Totals	3,348,515	33,312	33,312	1.0%	10.2%	10.5%	\$28.79	0	0
The Woodlands	Totals	5,488,379	214,639	214,639	3.9%	5.4%	6.7%	\$32.16	81,865	1,517,000
<b>Suburbs</b>	<b>Totals</b>	<b>117,076,462</b>	<b>278,731</b>	<b>278,731</b>	<b>0.2%</b>	<b>13.4%</b>	<b>15.3%</b>	<b>\$25.34</b>	<b>1,621,581</b>	<b>10,769,724</b>
<b>Houston</b>	<b>Totals</b>	<b>156,917,757</b>	<b>166,916</b>	<b>166,916</b>	<b>0.1%</b>	<b>13.1%</b>	<b>14.8%</b>	<b>\$28.34</b>	<b>1,621,581</b>	<b>12,833,724</b>
CBD	A	26,989,256	164,245	164,245	0.6%	10.4%	11.4%	\$42.12	0	2,064,000
Midtown	A	1,200,537	-21,558	-21,558	-1.8%	20.0%	27.1%	\$33.05	0	0
<b>Downtown</b>	<b>A</b>	<b>28,189,793</b>	<b>142,687</b>	<b>142,687</b>	<b>0.5%</b>	<b>10.8%</b>	<b>12.1%</b>	<b>\$41.40</b>	<b>0</b>	<b>2,064,000</b>
FM 1960	A	1,168,205	20,870	20,870	1.8%	47.1%	49.2%	\$26.98	0	0
Greenway Plaza	A	5,920,347	153,111	153,111	2.6%	4.9%	5.1%	\$34.94	0	1,164,230
Katy Freeway	A	14,465,171	210,393	210,393	1.5%	5.5%	9.0%	\$34.15	1,137,881	5,063,349
Greenspoint/North Belt	A	4,363,689	-239,516	-239,516	-5.5%	24.9%	25.2%	\$29.14	0	0
Northwest	A	3,294,290	-17,421	-17,421	-0.5%	25.2%	28.5%	\$25.70	271,384	312,000
San Felipe/Voss	A	1,714,930	9,840	9,840	0.6%	16.5%	18.6%	\$35.87	0	0
Southwest	A	722,251	28,220	28,220	3.9%	19.9%	20.4%	\$16.75	0	0
Galleria/West Loop	A	16,430,510	33,371	33,371	0.2%	7.8%	11.0%	\$34.87	0	1,196,145
Westchase	A	7,398,509	-369,543	-369,543	-5.0%	10.9%	13.8%	\$37.61	130,451	1,517,000
Outlying suburban submarkets	A	10,815,511	293,853	293,853	2.7%	13.2%	14.7%	\$28.65	81,865	1,517,000
Bellaire	A	884,604	11,031	11,031	1.2%	4.7%	6.0%	\$24.17	0	0
Conroe	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
East Fort Bend/Sugar Land	A	3,193,699	52,478	52,478	1.6%	25.4%	26.9%	\$28.00	0	0
Gulf Freeway/Pasadena	A	85,200	5,566	5,566	6.5%	33.1%	33.1%	\$22.89	0	0
Kingwood/Humble	A	44,000	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,208,359	32,868	32,868	2.7%	14.2%	17.5%	\$24.41	0	0
Richmond/Fountainview	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
South Main/Medical Center	A	1,633,199	30,402	30,402	1.9%	14.1%	14.3%	\$29.56	0	0
The Woodlands	A	3,766,450	161,508	161,508	4.3%	3.9%	5.3%	\$38.10	81,865	1,517,000
<b>Suburbs</b>	<b>A</b>	<b>66,293,413</b>	<b>123,178</b>	<b>123,178</b>	<b>0.2%</b>	<b>11.3%</b>	<b>13.7%</b>	<b>\$31.17</b>	<b>1,621,581</b>	<b>10,769,724</b>
<b>Houston</b>	<b>A</b>	<b>94,483,206</b>	<b>265,865</b>	<b>265,865</b>	<b>0.3%</b>	<b>11.1%</b>	<b>13.2%</b>	<b>\$34.12</b>	<b>1,621,581</b>	<b>0</b>

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	9,035,896	-255,453	-255,453	-2.8%	17.8%	19.2%	\$32.85	0	0
Midtown	B	2,615,606	951	951	0.0%	6.6%	7.0%	\$29.22	0	0
<b>Downtown</b>	<b>B</b>	<b>11,651,502</b>	<b>-254,502</b>	<b>-254,502</b>	<b>-2.2%</b>	<b>15.3%</b>	<b>16.5%</b>	<b>\$32.50</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,774,373	-7,518	-7,518	-0.2%	23.1%	23.2%	\$15.58	0	0
Greenway Plaza	B	2,374,646	5,823	5,823	0.2%	15.6%	16.9%	\$27.54	0	0
Katy Freeway	B	4,438,294	-65,067	-65,067	-1.5%	12.5%	13.8%	\$24.03	0	0
Greenspoint/North Belt	B	4,629,535	-189,262	-189,262	-4.1%	21.0%	21.2%	\$15.66	0	0
Northwest	B	5,196,430	-19,206	-19,206	-0.4%	23.9%	25.1%	\$20.86	0	0
San Felipe/Voss	B	3,298,212	2,583	2,583	0.1%	7.6%	7.8%	\$23.46	0	0
Southwest	B	6,219,433	257,048	257,048	4.1%	17.7%	19.0%	\$17.24	0	0
Galleria/West Loop	B	5,047,586	25,361	25,361	0.5%	11.5%	12.2%	\$25.09	0	0
Westchase	B	5,710,952	66,994	66,994	1.2%	23.3%	25.0%	\$19.48	0	0
Outlying suburban submarkets	B	10,093,588	78,797	78,797	0.8%	9.2%	11.2%	\$22.29	0	0
Bellaire	B	1,408,171	25,763	25,763	1.8%	10.7%	16.0%	\$23.94	0	0
Conroe	B	142,679	0	0	0.0%	8.8%	9.4%	\$16.77	0	0
East Fort Bend/Sugar Land	B	1,107,698	1,067	1,067	0.1%	19.6%	24.6%	\$21.09	0	0
Gulf Freeway/Pasadena	B	1,144,610	-8,014	-8,014	-0.7%	13.1%	16.0%	\$19.26	0	0
Kingwood/Humble	B	213,338	0	0	0.0%	9.3%	9.3%	\$18.88	0	0
NASA/Clear Lake	B	2,155,531	-7,065	-7,065	-0.3%	5.0%	5.5%	\$18.52	0	0
Richmond/Fountainview	B	484,316	11,005	11,005	2.3%	3.3%	3.4%	\$16.66	0	0
South Main/Medical Center	B	1,715,316	2,910	2,910	0.2%	6.4%	6.9%	\$27.19	0	0
The Woodlands	B	1,721,929	53,131	53,131	3.1%	8.5%	9.6%	\$26.13	0	0
<b>Suburbs</b>	<b>B</b>	<b>50,783,049</b>	<b>155,553</b>	<b>155,553</b>	<b>0.3%</b>	<b>16.2%</b>	<b>17.3%</b>	<b>\$20.03</b>	<b>0</b>	<b>0</b>
<b>Houston</b>	<b>B</b>	<b>62,434,551</b>	<b>-98,949</b>	<b>-98,949</b>	<b>-0.2%</b>	<b>16.0%</b>	<b>17.2%</b>	<b>\$22.26</b>	<b>0</b>	<b>0</b>

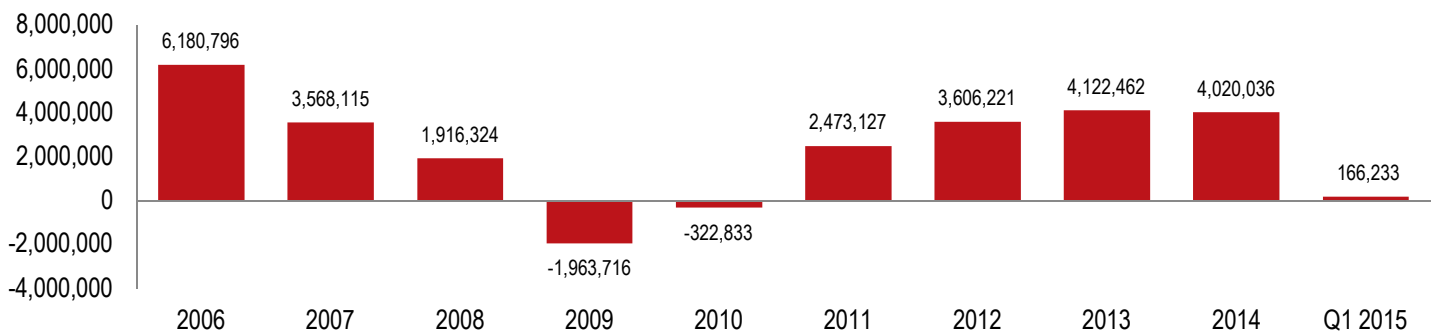
### Current conditions – market and submarket



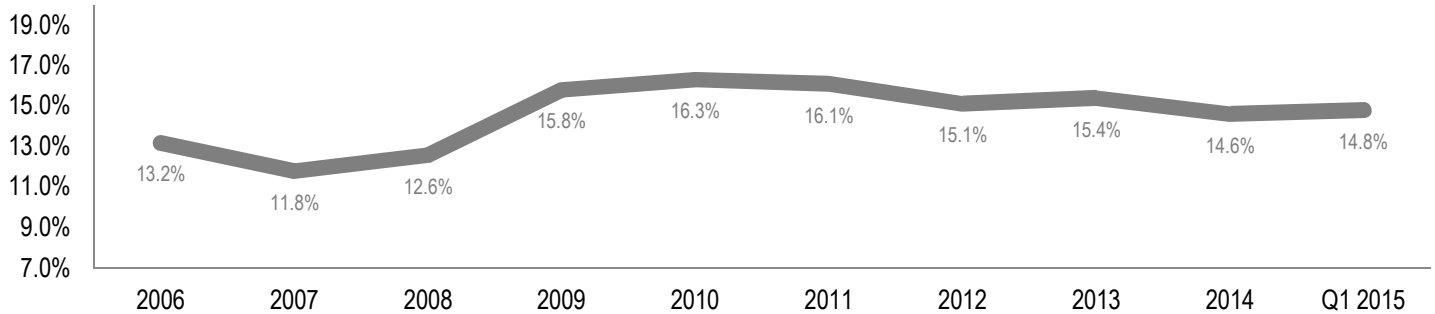
### Historical leasing activity



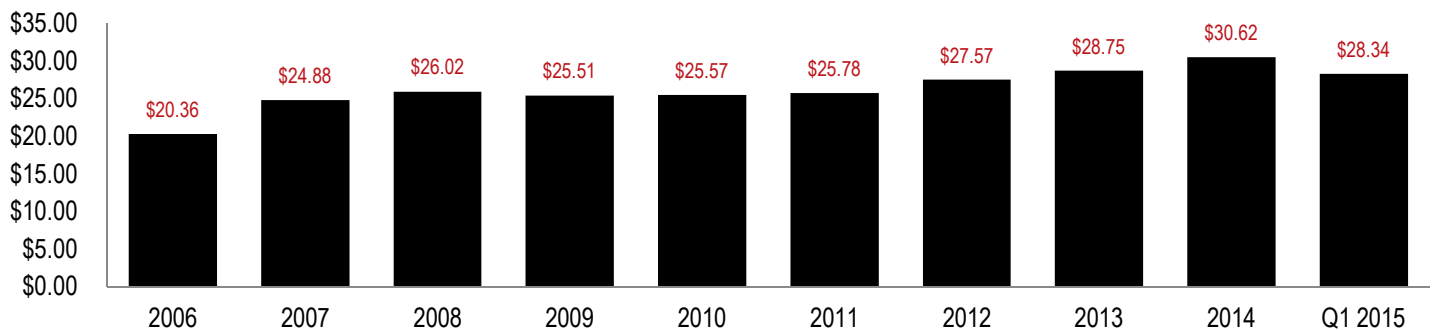
### Total net absorption (s.f.)



### Total vacancy rate



### Direct average asking rent (\$ p.s.f.)



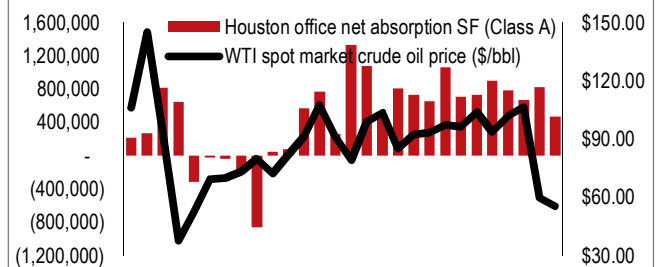


## Strong 2014 tempered by oil price concerns

### Crude Oil and OPEC dominate market discussion

Following OPEC's recent meeting and the resultant drop in WTI prices, the question on everyone's mind was the eventual impact on the local economy and CRE market. Once the dust settled, it is clear that Houston will experience a bump, but continue moving forward. Houston is still projected to add substantial new jobs in 2015 (approximately 63,000) as growth across many of the other sectors in Houston's economy make it clear that the economy is not as energy dependent as in the past. Job growth may not match prior years' record growth; however, this diversity, combined with a skilled workforce, and the manufacturing and petrochemical advantages that Houston have are poised to create absorption and leasing activity despite oil-based bumps and bruises.

Class A absorption vs. WTI spot price weak correlation—9.9%

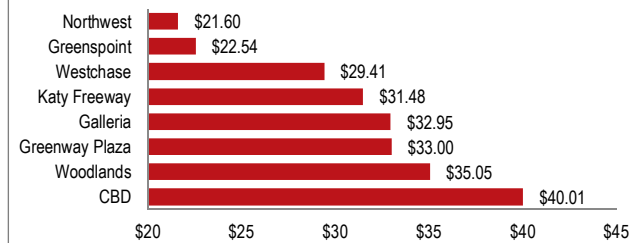


Source: JLL Research

### Rents begin to flatten over much of Houston

Following multiple consecutive quarters of rapid rent growth across much of Houston's primary submarket, the fourth quarter of 2014 witnessed a flattening of rates. Of the eight submarkets reflected on the right, seven witnessed an approximate 2 to 3 percent drop in rental rates from third quarter 2014 to fourth quarter. While continued plateauing of rental rates in 2015 is expected, the key change within Houston submarkets will be landlords' realization that in order to maintain existing tenants and entice new tenants, they must be willing to make concessions on items such as free rent, work letter amounts, and on-site amenities costs, triggering a more neutral market over the next calendar years.

Average FSG asking rents for Houston (Class A&B)



Source: JLL Research

### Houston's prime submarkets still viewed as superior investment

Although much of the recent discussion within Houston centers around the impact the drop in oil prices will have on the CRE markets from a rental perspective, on the investment front, Houston remains a premiere market. In addition to the recent 1000 Main transaction in the CBD setting a new Class A PSF record, other Class A properties, in such areas as Katy Freeway and Greenspoint, have seen robust activity and premiums being paid on Class A buildings over prices paid a mere two years ago. Going forward, Houston is expected to remain an investment market of choice as investors look for stable assets and opportunity during this energy price correction and recovery.

New price p.s.f. record set in CBD

# \$537 p.s.f.

1000 Main Street trades at 57% increase from 2012 price

Source: JLL Research

14.6%

Total vacancy

4,020,036

YTD net absorption (s.f.)

950,930

Q4 2014 net absorption (s.f.)

6.5%

12-month rent growth

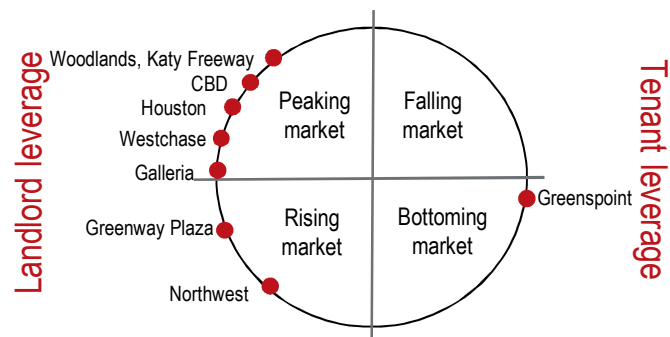
16,225,602

Total under construction (s.f.)

56.0%

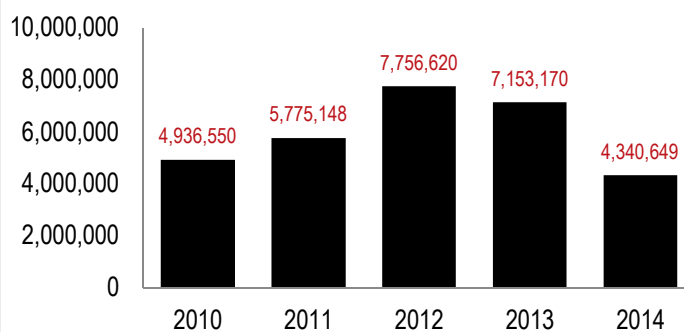
Total preleased

## Current conditions – market and submarket



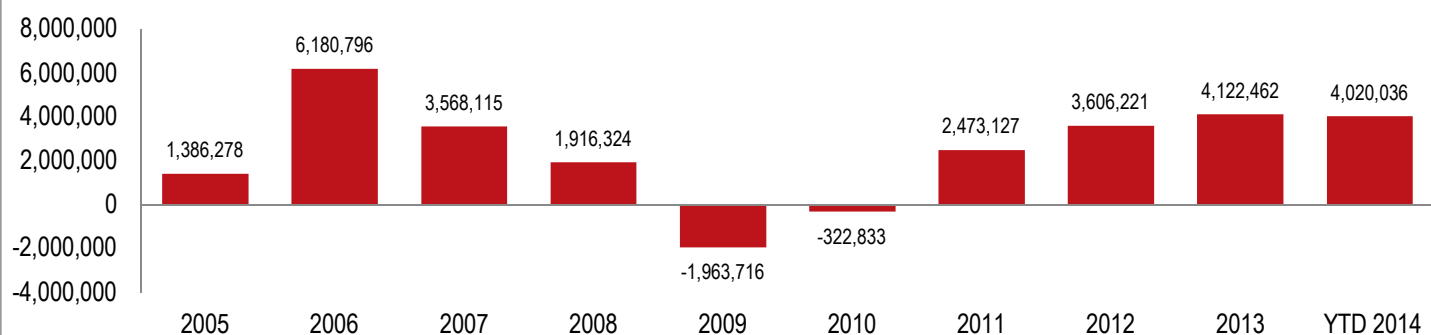
Source: JLL Research

## Historical leasing activity



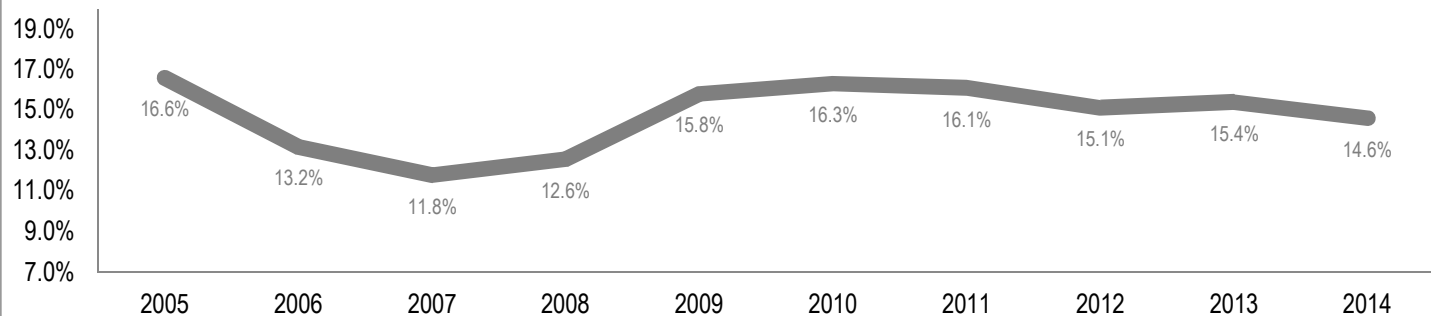
Source: JLL Research

## Total net absorption (s.f.)



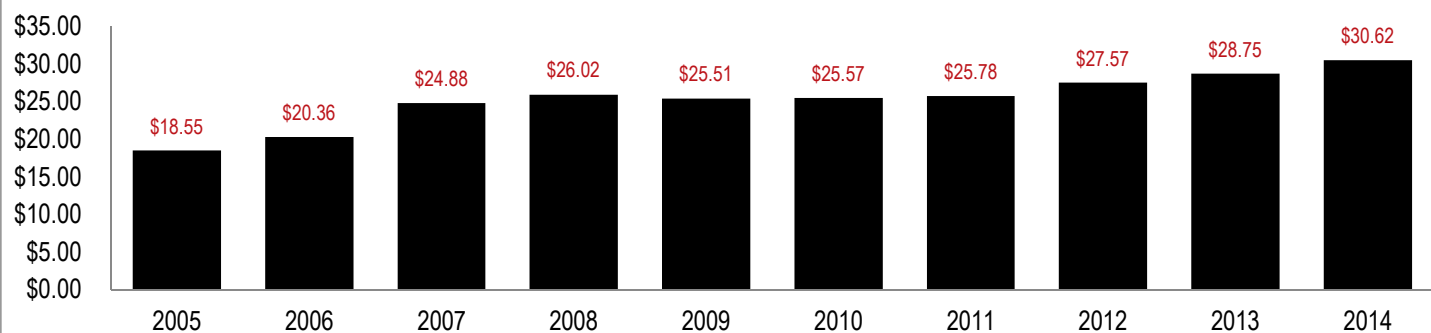
Source: JLL Research

## Total vacancy rate



Source: JLL Research

## Direct average asking rent (\$ p.s.f.)



Source: JLL Research

# Office Statistics

Houston | Q4 2014



	YTD completion (sf)	Inventory (sf)	Direct net absorption (sf)	YTD direct net absorption (sf)	Total net absorption (sf)	YTD total net absorption (sf)	YTD total net absorption (% of stock)	Direct vacancy (sf)	Direct vacancy (%)	Total vacancy (sf)	Total vacancy (%)	Average asking rent (\$ psf)	Under construction / renovation (sf)
<b>Downtown</b>													
Class A	0	28,189,793	448,000	516,400	488,092	596,484	2.1%	2,957,622	10.5%	3,399,175	12.1%	\$42.41	2,564,038
Class B	0	11,651,502	52,860	230,216	39,561	226,251	1.9%	1,580,768	13.6%	1,961,994	16.8%	\$30.80	0
<b>Total</b>	<b>0</b>	<b>39,841,295</b>	<b>500,860</b>	<b>746,616</b>	<b>527,653</b>	<b>822,735</b>	<b>2.1%</b>	<b>4,538,390</b>	<b>11.4%</b>	<b>5,361,169</b>	<b>13.5%</b>	<b>\$39.01</b>	<b>2,564,038</b>
<b>Suburban</b>													
Class A	3,215,483	64,671,832	31,205	2,134,461	-17,784	2,152,205	3.5%	6,967,581	10.8%	8,294,867	12.8%	\$33.02	13,661,564
Class B	0	50,783,049	357,381	934,805	441,061	1,045,096	2.1%	8,006,221	15.8%	8,942,752	17.6%	\$20.99	0
<b>Total</b>	<b>3,215,483</b>	<b>115,454,881</b>	<b>388,586</b>	<b>3,069,266</b>	<b>423,277</b>	<b>3,197,301</b>	<b>2.8%</b>	<b>14,973,803</b>	<b>13.0%</b>	<b>17,237,619</b>	<b>14.9%</b>	<b>\$27.73</b>	<b>13,661,564</b>
<b>Market Totals</b>													
Class A	3,215,483	92,861,625	479,205	2,650,861	470,308	2,748,689	3.1%	9,925,203	10.7%	11,694,042	12.6%	\$35.87	16,225,602
Class B	0	62,434,551	410,241	1,165,021	480,622	1,271,347	2.0%	9,586,989	15.4%	10,904,746	17.5%	\$22.82	0
<b>Totals</b>	<b>3,215,483</b>	<b>155,296,176</b>	<b>889,446</b>	<b>3,815,882</b>	<b>950,930</b>	<b>4,020,036</b>	<b>2.6%</b>	<b>19,512,193</b>	<b>12.6%</b>	<b>22,598,788</b>	<b>14.6%</b>	<b>\$30.62</b>	<b>16,225,602</b>



**CBD**

	YTD completion (sf)	Inventory (sf)	Direct net absorption (sf)	YTD direct net absorption (sf)	Total net absorption (sf)	YTD total net absorption (sf)	YTD total net absorption (% of stock)	Direct vacancy (sf)	Direct vacancy (%)	Total vacancy (sf)	Total vacancy (%)	Average asking rent (\$ psf)	Under construction / renovation (sf)
<b>Central Business District</b>													
Class A	0	26,989,256	413,638	533,827	453,730	613,911	2.3%	2,758,882	10.2%	3,081,775	11.4%	\$42.81	2,064,000
Class B	0	9,035,896	23,922	141,045	8,575	139,304	1.5%	1,410,655	15.6%	1,770,110	19.6%	\$31.66	0
<b>Totals</b>	<b>0</b>	<b>36,025,152</b>	<b>437,560</b>	<b>674,872</b>	<b>462,305</b>	<b>753,215</b>	<b>2.1%</b>	<b>4,169,537</b>	<b>11.6%</b>	<b>4,851,885</b>	<b>13.5%</b>	<b>\$40.01</b>	<b>2,064,000</b>
<b>Midtown</b>													
Class A	0	1,200,537	34,362	-17,427	34,362	-17,427	-1.5%	198,740	16.6%	317,400	26.4%	\$33.36	500,038
Class B	0	2,615,606	28,938	89,171	30,986	86,947	3.3%	170,113	6.5%	191,884	7.3%	\$27.85	0
<b>Totals</b>	<b>0</b>	<b>3,816,143</b>	<b>63,300</b>	<b>71,744</b>	<b>65,348</b>	<b>69,520</b>	<b>1.8%</b>	<b>368,853</b>	<b>9.7%</b>	<b>509,284</b>	<b>13.3%</b>	<b>\$29.58</b>	<b>500,038</b>
<b>Downtown Totals</b>													
Class A	0	28,189,793	448,000	516,400	488,092	596,484	2.1%	2,957,622	10.5%	3,399,175	12.1%	\$42.41	2,564,038
Class B	0	11,651,502	52,860	230,216	39,561	226,251	1.9%	1,580,768	13.6%	1,961,994	16.8%	\$30.80	0
<b>Totals</b>	<b>0</b>	<b>39,841,295</b>	<b>500,860</b>	<b>746,616</b>	<b>527,653</b>	<b>822,735</b>	<b>2.1%</b>	<b>4,538,390</b>	<b>11.4%</b>	<b>5,361,169</b>	<b>13.5%</b>	<b>\$39.01</b>	<b>2,564,038</b>

## Suburban

	YTD completion (sf)	Inventory (sf)	Direct net absorption (sf)	YTD direct net absorption (sf)	Total net absorption (sf)	YTD total net absorption (sf)	YTD total net absorption (% of stock)	Direct vacancy (sf)	Direct vacancy (%)	Total vacancy (sf)	Total vacancy (%)	Average asking rent (\$ psf)	Under construction / renovation (sf)
<b>FM 1960</b>													
Class A	0	1,168,205	-15,415	64,353	-15,415	45,853	3.9%	543,045	46.5%	572,493	49.0%	\$27.43	771,000
Class B	0	3,774,373	9,919	64,321	7,975	51,952	1.4%	868,276	23.0%	876,420	23.2%	\$15.62	0
<b>Totals</b>	<b>0</b>	<b>4,942,578</b>	<b>-5,496</b>	<b>128,674</b>	<b>-7,440</b>	<b>97,805</b>	<b>2.0%</b>	<b>1,411,321</b>	<b>28.6%</b>	<b>1,448,913</b>	<b>29.3%</b>	<b>\$18.41</b>	<b>771,000</b>
<b>Greenway Plaza</b>													
Class A	0	5,920,347	50,691	176,278	46,593	219,969	3.7%	341,257	5.8%	410,668	6.9%	\$35.48	830,450
Class B	0	2,374,646	2,007	78,917	2,007	89,629	3.8%	375,889	15.8%	399,811	16.8%	\$26.80	0
<b>Totals</b>	<b>0</b>	<b>8,294,993</b>	<b>52,698</b>	<b>255,195</b>	<b>48,600</b>	<b>309,598</b>	<b>3.7%</b>	<b>717,146</b>	<b>8.6%</b>	<b>810,479</b>	<b>9.8%</b>	<b>\$33.00</b>	<b>830,450</b>
<b>Katy Freeway</b>													
Class A	2,425,987	13,327,290	117,057	842,273	110,457	778,965	7.1%	528,113	4.0%	650,877	4.9%	\$33.98	5,915,969
Class B	0	4,438,294	-58,033	-27,323	23,966	26,395	0.6%	531,668	12.0%	549,130	12.4%	\$23.99	0
<b>Totals</b>	<b>2,425,987</b>	<b>17,765,584</b>	<b>59,024</b>	<b>814,950</b>	<b>134,423</b>	<b>805,360</b>	<b>5.3%</b>	<b>1,059,781</b>	<b>6.0%</b>	<b>1,200,007</b>	<b>6.8%</b>	<b>\$31.48</b>	<b>5,915,969</b>
<b>Greenspoint/North Belt</b>													
Class A	0	4,363,689	-477,526	-568,431	-454,129	-525,903	-12.1%	857,573	19.7%	893,770	20.5%	\$29.46	0
Class B	0	4,629,535	15,413	110,794	41,592	117,673	2.5%	801,191	17.3%	915,481	19.8%	\$16.01	0
<b>Totals</b>	<b>0</b>	<b>8,993,224</b>	<b>-462,113</b>	<b>-457,637</b>	<b>-412,537</b>	<b>-408,230</b>	<b>-4.5%</b>	<b>1,658,764</b>	<b>18.4%</b>	<b>1,809,251</b>	<b>20.1%</b>	<b>\$22.54</b>	<b>0</b>
<b>Northwest</b>													
Class A	0	3,022,906	9,188	34,655	9,188	3,095	0.1%	812,644	26.9%	924,771	30.6%	\$23.03	701,000
Class B	0	5,196,430	73,280	132,820	40,700	197,062	3.8%	1,233,788	23.7%	1,290,606	24.8%	\$20.77	0
<b>Totals</b>	<b>0</b>	<b>8,219,336</b>	<b>82,468</b>	<b>167,475</b>	<b>49,888</b>	<b>200,157</b>	<b>2.4%</b>	<b>2,046,432</b>	<b>24.9%</b>	<b>2,215,377</b>	<b>27.0%</b>	<b>\$21.60</b>	<b>701,000</b>
<b>San Felipe/Voss</b>													
Class A	0	1,714,930	-83,912	-19,021	-99,126	-36,223	-2.1%	291,732	17.0%	315,698	18.4%	\$35.54	0
Class B	0	3,298,212	27,368	113,803	42,216	144,466	4.4%	247,919	7.5%	255,229	7.7%	\$23.42	0
<b>Totals</b>	<b>0</b>	<b>5,013,142</b>	<b>-56,544</b>	<b>94,782</b>	<b>-56,910</b>	<b>108,243</b>	<b>2.2%</b>	<b>539,651</b>	<b>10.8%</b>	<b>570,927</b>	<b>11.4%</b>	<b>\$27.57</b>	<b>0</b>
<b>Southwest</b>													
Class A	0	722,251	5,021	28,307	5,021	28,307	3.9%	125,898	17.4%	147,458	20.4%	\$16.75	0
Class B	0	6,219,433	76,878	181,315	76,878	184,520	3.0%	1,267,041	20.4%	1,532,944	24.6%	\$16.53	0
<b>Totals</b>	<b>0</b>	<b>6,941,684</b>	<b>81,899</b>	<b>209,622</b>	<b>81,899</b>	<b>212,827</b>	<b>3.1%</b>	<b>1,392,939</b>	<b>20.1%</b>	<b>1,680,403</b>	<b>24.2%</b>	<b>\$16.55</b>	<b>0</b>

## Suburban (continued)

	YTD completion (sf)	Inventory (sf)	Direct net absorption (sf)	YTD direct net absorption (sf)	Total net absorption (sf)	YTD total net absorption (sf)	YTD total net absorption (% of stock)	Direct vacancy (sf)	Direct vacancy (%)	Total vacancy (sf)	Total vacancy (%)	Average asking rent (\$ psf)	Under construction / renovation (sf)
<b>Galleria/West Loop</b>													
Class A	0	16,430,510	127,491	359,069	124,595	423,840	2.6%	1,268,333	7.7%	1,827,948	11.1%	\$34.80	1,133,145
Class B	0	5,047,586	52,079	202,267	41,139	190,347	3.8%	607,338	12.0%	632,766	12.5%	\$26.93	0
<b>Totals</b>	<b>0</b>	<b>21,478,096</b>	<b>179,570</b>	<b>561,336</b>	<b>165,734</b>	<b>614,187</b>	<b>2.9%</b>	<b>1,875,671</b>	<b>8.7%</b>	<b>2,460,714</b>	<b>11.5%</b>	<b>\$32.95</b>	<b>1,133,145</b>
<b>Westchase</b>													
Class A	0	7,268,058	171,359	431,417	89,287	316,008	4.3%	644,674	8.9%	906,252	12.5%	\$36.96	1,817,000
Class B	0	5,710,952	66,559	-50,268	67,849	-83,745	-1.5%	1,368,737	24.0%	1,488,492	26.1%	\$19.81	0
<b>Totals</b>	<b>0</b>	<b>12,979,010</b>	<b>237,918</b>	<b>381,149</b>	<b>157,136</b>	<b>232,263</b>	<b>1.8%</b>	<b>2,013,411</b>	<b>15.5%</b>	<b>2,394,743</b>	<b>18.5%</b>	<b>\$29.41</b>	<b>1,817,000</b>
<b>Subtotals - Major Suburban Submarkets</b>													
Class A	2,425,987	53,938,186	-96,046	1,348,900	-183,529	1,253,911	2.4%	5,413,268	10.0%	6,649,935	12.3%	\$33.49	11,168,564
Class B	0	40,689,461	265,470	806,646	344,322	918,299	2.3%	7,301,847	17.9%	7,940,879	19.5%	\$20.65	0
<b>Totals</b>	<b>2,425,987</b>	<b>94,627,647</b>	<b>169,424</b>	<b>2,155,546</b>	<b>160,793</b>	<b>2,172,210</b>	<b>2.4%</b>	<b>12,715,115</b>	<b>13.4%</b>	<b>14,590,814</b>	<b>15.4%</b>	<b>\$27.97</b>	<b>11,168,564</b>
<b>Outlying Suburban Submarkets</b>													
<b>Bellaire</b>													
Class A	0	884,604	18,350	76,928	18,350	83,587	9.4%	45,206	5.1%	48,325	5.5%	\$25.61	0
Class B	0	1,408,171	6,815	7,096	6,815	3,709	0.3%	160,564	11.4%	228,711	16.2%	\$23.80	0
<b>Totals</b>	<b>0</b>	<b>2,292,775</b>	<b>25,165</b>	<b>84,024</b>	<b>25,165</b>	<b>87,296</b>	<b>3.8%</b>	<b>205,771</b>	<b>9.0%</b>	<b>277,037</b>	<b>12.1%</b>	<b>\$24.50</b>	<b>0</b>
<b>Conroe</b>													
Class B	0	142,679	0	0	0	0	0.0%	12,520	8.8%	13,370	9.4%	\$16.77	0
<b>Totals</b>	<b>0</b>	<b>142,679</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>12,520</b>	<b>8.8%</b>	<b>13,370</b>	<b>9.4%</b>	<b>\$16.77</b>	<b>0</b>
<b>East Fort Bend/Sugarland</b>													
Class A	0	3,193,699	54,219	37,799	92,713	86,690	2.7%	901,180	28.2%	903,907	28.3%	\$27.22	0
Class B	0	1,107,698	3,505	31,657	3,505	35,432	3.2%	218,948	19.8%	272,925	24.6%	\$20.38	0
<b>Totals</b>	<b>0</b>	<b>4,301,397</b>	<b>57,724</b>	<b>69,456</b>	<b>96,218</b>	<b>122,122</b>	<b>2.8%</b>	<b>1,120,128</b>	<b>26.0%</b>	<b>1,176,832</b>	<b>27.4%</b>	<b>\$25.46</b>	<b>0</b>
<b>Gulf Freeway/Pasadena</b>													
Class A	0	85,200	4,807	13,495	4,807	13,495	15.8%	30,096	35.3%	30,096	35.3%	\$23.41	0
Class B	0	1,144,610	-5,088	4,827	-5,088	4,827	0.4%	143,654	12.6%	181,567	15.9%	\$19.22	0
<b>Totals</b>	<b>0</b>	<b>1,229,810</b>	<b>-281</b>	<b>18,322</b>	<b>-281</b>	<b>18,322</b>	<b>1.5%</b>	<b>173,750</b>	<b>14.1%</b>	<b>211,663</b>	<b>17.2%</b>	<b>\$19.51</b>	<b>0</b>

## Suburban (continued)

	YTD completion (sf)	Inventory (sf)	Direct net absorption (sf)	YTD direct net absorption (sf)	Total net absorption (sf)	YTD total net absorption (sf)	YTD total net absorption (% of stock)	Direct vacancy (sf)	Direct vacancy (%)	Total vacancy (sf)	Total vacancy (%)	Average asking rent (\$ psf)	Under construction / renovation (sf)
<b>Kingwood/Humble</b>													
Class A	0	44,000	0	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0
Class B	0	213,338	0	437	0	437	0.2%	19,872	9.3%	19,872	9.3%	\$18.82	0
<b>Totals</b>	<b>0</b>	<b>257,338</b>	<b>0</b>	<b>437</b>	<b>0</b>	<b>437</b>	<b>0.2%</b>	<b>19,872</b>	<b>7.7%</b>	<b>19,872</b>	<b>7.7%</b>	<b>\$15.60</b>	<b>0</b>
<b>NASA/Clear Lake</b>													
Class A	0	1,208,359	11,908	32,557	11,908	32,557	2.7%	197,064	16.3%	211,911	17.5%	\$24.02	0
Class B	0	2,155,531	8,075	32,410	8,075	29,728	1.4%	86,628	4.0%	110,809	5.1%	\$18.40	0
<b>Totals</b>	<b>0</b>	<b>3,363,890</b>	<b>19,983</b>	<b>64,967</b>	<b>19,983</b>	<b>62,285</b>	<b>1.9%</b>	<b>283,692</b>	<b>8.4%</b>	<b>322,720</b>	<b>9.6%</b>	<b>\$20.42</b>	<b>0</b>
<b>Richmond/Fountainview</b>													
Class B	0	484,316	10,558	20,397	10,558	20,397	4.2%	20,718	4.3%	20,718	4.3%	\$16.57	0
<b>Totals</b>	<b>0</b>	<b>484,316</b>	<b>10,558</b>	<b>23,241</b>	<b>10,558</b>	<b>23,241</b>	<b>4.8%</b>	<b>23,562</b>	<b>4.9%</b>	<b>23,562</b>	<b>4.9%</b>	<b>\$16.57</b>	<b>0</b>
<b>South Main/Medical Center</b>													
Class A	127,809	1,633,199	-22,507	108,332	-22,507	106,063	7.0%	234,035	14.3%	242,172	14.8%	\$29.24	0
Class B	0	1,715,316	18,350	37,595	18,350	37,595	2.2%	10,369	0.6%	18,015	1.1%	\$25.94	0
<b>Totals</b>	<b>127,809</b>	<b>3,348,515</b>	<b>-4,157</b>	<b>145,927</b>	<b>-4,157</b>	<b>143,658</b>	<b>4.5%</b>	<b>244,404</b>	<b>7.3%</b>	<b>260,187</b>	<b>7.8%</b>	<b>\$27.55</b>	<b>0</b>
<b>The Woodlands</b>													
Class A	661,687	3,684,585	60,474	513,606	60,474	573,058	19.0%	143,888	3.9%	205,677	5.6%	\$38.18	2,493,000
Class B	0	1,721,929	49,696	-6,260	54,524	-5,328	-0.3%	31,101	1.8%	135,886	7.9%	\$28.35	0
<b>Totals</b>	<b>661,687</b>	<b>5,406,514</b>	<b>110,170</b>	<b>507,346</b>	<b>114,998</b>	<b>567,730</b>	<b>12.0%</b>	<b>174,989</b>	<b>3.2%</b>	<b>341,563</b>	<b>6.3%</b>	<b>\$35.05</b>	<b>2,493,000</b>
<b>Subtotals - Outlying Suburban Submarkets</b>													
Class A	789,496	10,733,646	127,251	785,561	165,745	898,294	9.0%	1,554,313	14.5%	1,644,932	15.3%	\$30.65	2,493,000
Class B	0	10,093,588	91,911	128,159	96,739	126,797	1.3%	704,375	7.0%	1,001,873	9.9%	\$22.34	0
<b>Totals</b>	<b>789,496</b>	<b>20,827,234</b>	<b>219,162</b>	<b>913,720</b>	<b>262,484</b>	<b>1,025,091</b>	<b>5.1%</b>	<b>2,258,688</b>	<b>10.8%</b>	<b>2,646,805</b>	<b>12.7%</b>	<b>\$26.63</b>	<b>2,493,000</b>
<b>Suburban Totals</b>													
Class A	3,215,483	64,671,832	31,205	2,134,461	-17,784	2,152,205	3.5%	6,967,581	10.8%	8,294,867	12.8%	\$33.02	13,661,564
Class B	0	50,783,049	357,381	934,805	441,061	1,045,096	2.1%	8,006,221	15.8%	8,942,752	17.6%	\$20.99	0
<b>Totals</b>	<b>3,215,483</b>	<b>115,454,881</b>	<b>388,586</b>	<b>3,069,266</b>	<b>423,277</b>	<b>3,197,301</b>	<b>2.8%</b>	<b>14,973,803</b>	<b>13.0%</b>	<b>17,237,619</b>	<b>14.9%</b>	<b>\$27.73</b>	<b>13,661,564</b>