Central Houston, Inc.

DOWNTOWN OFFICE STORY
2021 Market Analysis

Data Collected and Analysis Compiled, January 1 – March 30, 2022
Unique Inventory Survey

Central Houston Inc.’s Office Story measures the 12-month Downtown competitive leasing cycle

• A unique Downtown Houston survey that includes:
  • All marketed space
  • Large available blocks / full floors
  • Tenants by industry
  • Sublease space on the market and by tenant
  • Multi-floor tenants
  • Large transactions / tenants new to Downtown
  • Operating expenses and property taxes by building
  • Downtown’s largest tenants by industry and total amount of office space
  • Surveyed buildings organized into three distinct Tiers to better understand patterns in Downtown’s top office towers including renovation and new construction

• Proprietary and longitudinal: Central Houston’s Office Story in its 38th year; started in 1985 by Stewart O. Robinson, President, SOR Real Estate Advisors, LLC
Inventory Analysis

• Central Houston Inc. Office Story
  • Survey completed in January –March 2022 for all 2021 leasing activity
  • Approximately 37 Million SF
  • 48 office buildings
  • More than 71% of all Downtown office space
  • More than 1.8 Million SF of Downtown leasing during 2021
    • 5% of surveyed space was a new lease, expansion or renewal

• Downtown Houston is region’s largest office market with >23.6 million SF in lease activity since 2015, almost the same size as Uptown’s total inventory (27.1 million SF), Houston’s 2nd largest market
Surveyed Buildings

<table>
<thead>
<tr>
<th>By Tier</th>
<th>2021 Building Count</th>
<th>2021 Total Rentable Square Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>13</td>
<td>12,759,771</td>
</tr>
<tr>
<td>Tier 2</td>
<td>14</td>
<td>14,369,799</td>
</tr>
<tr>
<td>Tier 3</td>
<td>21</td>
<td>9,807,219</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>36,936,789</td>
</tr>
</tbody>
</table>

- The addition of 1550 on the Green has brought the Tier I count to 13
- 1300 Main has been removed from Tier III, as it is owner-occupied (historical metrics still use data from 1300 Main)
## Summary of Survey Data

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SF Surveyed</td>
<td>36,679,935</td>
<td>36,922,971</td>
<td>36,923,573</td>
<td>36,936,789</td>
</tr>
<tr>
<td>Direct Marketed SF</td>
<td>9,300,933</td>
<td>8,906,043</td>
<td>9,669,480</td>
<td>11,331,290</td>
</tr>
<tr>
<td>% Direct Marketed</td>
<td>25.4%</td>
<td>24.1%</td>
<td>26.2%</td>
<td>30.7%</td>
</tr>
<tr>
<td>Net YOY SF Direct Marketed</td>
<td>1,542,434</td>
<td>(394,890)</td>
<td>763,437</td>
<td>1,150,225</td>
</tr>
<tr>
<td>Sublease Marketed SF</td>
<td>1,435,971</td>
<td>1,498,046</td>
<td>1,171,832</td>
<td>510,072</td>
</tr>
<tr>
<td>% Sublease Marketed SF</td>
<td>3.9%</td>
<td>4.1%</td>
<td>3.2%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Net YOY SF Sublease Marketed</td>
<td>(383,552)</td>
<td>62,075</td>
<td>(326,214)</td>
<td>(661,760)</td>
</tr>
<tr>
<td>Total Marketed</td>
<td>10,736,904</td>
<td>10,404,089</td>
<td>10,841,582</td>
<td>11,841,362</td>
</tr>
<tr>
<td>% Total Marketed</td>
<td>29.3%</td>
<td>28.2%</td>
<td>29.4%</td>
<td>32.1%</td>
</tr>
</tbody>
</table>

Note: Direct Marketed SF in 2021 and Net YOY SF Direct Marketed adjust for the addition of 1550 on the Green
Historical/Future Building Deliveries Timeline

SF, Millions

1500 Louisiana & 5 Houston Center
1000 Main & 717 Texas
1900 Main (METRO HOs)
Hess Tower & 811 Main
609 Main at Texas
Bank of America Tower
Texas Tower (U/C)
1550 on the Green

Building Renovations Timeline

*Square Feet,
Marketed Space

- Overall, market for direct space loosened by 1.15M in 2021
- Very little sublease space compared to last year (510K available in 2021 vs. 1.17M in 2020). 3/5ths of this space is in Tier II

Tier Breakdown:

- Tier I: Market only loosened by 152K, padded by 1550 on the Green signing a tenant. Over 80% of loosening accounted for by activity in one building
- Tier II: Market loosened by 360K, 95% of this is accounted for by activity in 3 buildings, and 50% is accounted for in 1 building
- Tier III: Market loosened by 638K, accounting for 55% of the overall loosening. 85% of this activity is split across 5 buildings
Takeaways:

• The fact that loosening in Tiers I, II is not broadly driven suggests that **while overall loosening may be due to COVID uncertainty, space in Tiers I, II remain highly attractive to existing tenants.**

• The heavy skew of loosening towards Tier III and the fact that the loosening in Tier III is more broadly distributed suggests that **the pressures of COVID have made Tier III space more undesirable for existing tenants.** This may not keep up in 2022, when COVID cases are projected to reach more endemic levels.

• The halving of sublease space on market could be due to success in attracting tenants or due to sublease space going direct. The main driver of this reduction is Tier III, suggesting that **specifically, subleasing in Tier III is undesirable, leading to direct marketing of these spaces.**
Historical Direct Marketed Space

By % Direct Available & Available SF

SF, Millions

% Available

### Historical Direct Marketed Space

**By Building Tier**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tier I</th>
<th>Tier II</th>
<th>Tier III</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.8</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>2011</td>
<td>1.3</td>
<td>2.1</td>
<td>1.6</td>
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<tr>
<td>2012</td>
<td>0.7</td>
<td>2.0</td>
<td>1.4</td>
</tr>
<tr>
<td>2013</td>
<td>0.5</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>2014</td>
<td>1.5</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>2015</td>
<td>1.5</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>2016</td>
<td>1.8</td>
<td>1.5</td>
<td>2.3</td>
</tr>
<tr>
<td>2017</td>
<td>2.8</td>
<td>2.2</td>
<td>2.6</td>
</tr>
<tr>
<td>2018</td>
<td>3.2</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>2019</td>
<td>2.9</td>
<td>3.7</td>
<td>2.7</td>
</tr>
<tr>
<td>2020</td>
<td>3.0</td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>2021</td>
<td>3.2</td>
<td>4.0</td>
<td>3.6</td>
</tr>
</tbody>
</table>
Historical (Direct and Sublease) Marketed Space

### Direct & Sublease Space 5-YR Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Sublease</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-Year Average (2017-2021)</td>
<td>25.9%</td>
<td>3.5%</td>
</tr>
<tr>
<td>10-Year Average (2012-2021)</td>
<td>19.8%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>
Marketed Space

Annual Net Change in SF (Thousands)

-2.50 -2.00 -1.50 -1.00 -0.50 0.00 0.50 1.00 1.50 2.00 2.50

-Loosening Market- Tightening Market-

2020
2018
2016
2014
2012
2010
2008
2006
2004
2002
2000
1998
1996
1994
1992
1990
1988
1986
1984

Covid-19 Pandemic
Energy Commodity Price Crunch
Great Recession
‘Tech Wreck’ + Enron Bankruptcy

Report Created by Central Houston, Inc.
Tier Breakdown (+/- Change)

Only plotting the 3 largest magnitude positive and negative changes per tier

Change in marketed space (thousands of SF, bars are in increments of 100K)
Available Floors

<table>
<thead>
<tr>
<th>Year</th>
<th>Sublease</th>
<th>Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>34</td>
<td>155</td>
</tr>
<tr>
<td>2010</td>
<td>29</td>
<td>151</td>
</tr>
<tr>
<td>2011</td>
<td>11</td>
<td>147</td>
</tr>
<tr>
<td>2012</td>
<td>21</td>
<td>112</td>
</tr>
<tr>
<td>2013</td>
<td>29</td>
<td>131</td>
</tr>
<tr>
<td>2014</td>
<td>33</td>
<td>136</td>
</tr>
<tr>
<td>2015</td>
<td>47</td>
<td>141</td>
</tr>
<tr>
<td>2016</td>
<td>102</td>
<td>193</td>
</tr>
<tr>
<td>2017</td>
<td>64</td>
<td>257</td>
</tr>
<tr>
<td>2018</td>
<td>51</td>
<td>324</td>
</tr>
<tr>
<td>2019</td>
<td>50</td>
<td>294</td>
</tr>
<tr>
<td>2020</td>
<td>35</td>
<td>324</td>
</tr>
<tr>
<td>2021</td>
<td>14</td>
<td>391</td>
</tr>
<tr>
<td>Building</td>
<td>Floors</td>
<td>Former Tenant</td>
</tr>
<tr>
<td>--------------------------</td>
<td>--------------------------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>1001 Fannin</td>
<td>2, 4-6, 10-11, 14, 25-36, 41-43, 45</td>
<td>Vacant; Vinson &amp; Elkins</td>
</tr>
<tr>
<td>Texas Tower</td>
<td>13-23, 25-29, 36-37, 39, 40</td>
<td>Vacant</td>
</tr>
<tr>
<td>Wells Fargo Plaza</td>
<td>2-3, 5, 15, 17-18, 28, 30-33, 37, 43-46, 53, 63, 69</td>
<td>Vacant; Greenberg; DLA Piper</td>
</tr>
<tr>
<td>Fulbright Tower</td>
<td>2, 4-5, 12-13, 17-18, 21-22, 25-27, 30, 33-34, 38-39, 41-42</td>
<td>Vacant</td>
</tr>
<tr>
<td>1600 Smith</td>
<td>5-17, 37, 40-48</td>
<td>Vacant</td>
</tr>
<tr>
<td>Two Allen Center</td>
<td>3-4, 7, 12, 16, 21, 23, 25-30</td>
<td>Vacant</td>
</tr>
<tr>
<td>One City Centre</td>
<td>2-10, 13, 17, 20-22, 24-25, 27, 29</td>
<td>Vacant</td>
</tr>
<tr>
<td>1801 Smith</td>
<td>2-17, 11-19</td>
<td>Vacant</td>
</tr>
<tr>
<td>Pennzoil Place - North Tower</td>
<td>4, 5, 7, 10-11, 25-36</td>
<td>Vacant; Hilltop Securities; Munsch Hardt; Flame Acquisitions</td>
</tr>
<tr>
<td>TC Energy Center</td>
<td>4-6, 18-22, 29, 41, 49-52</td>
<td>Vacant; BMO; MM Properties; Carlson Capital; Arnold Porter</td>
</tr>
<tr>
<td>1100 Louisiana</td>
<td>26, 28-34, 36-39, 55</td>
<td>Vacant</td>
</tr>
<tr>
<td>1550 on the Green</td>
<td>2-19</td>
<td>Vacant</td>
</tr>
<tr>
<td>1301 Fannin</td>
<td>8-9, 14-15, 22-23</td>
<td>Vacant; Datacenter</td>
</tr>
</tbody>
</table>

**All Blocks With Term Available, 01/01/2022**

**Total Largest Direct Available Blocks**
Historical Sublease Full Floor Blocks

- 1.2M SF 5-YR Average
- 1.3M SF 10-YR Average
### Full Floor Sublease Blocks

<table>
<thead>
<tr>
<th>Building</th>
<th>Tier</th>
<th>Floor(s)</th>
<th>Former Tenant</th>
<th>Square Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Allen Center</td>
<td>2</td>
<td>15; 22-24</td>
<td>Marsh USA; Callon Petroleum</td>
<td>110,918</td>
</tr>
<tr>
<td>2 Houston Center</td>
<td>2</td>
<td>6-7</td>
<td>Direct Energy</td>
<td>105,934</td>
</tr>
<tr>
<td>Hess Tower</td>
<td>1</td>
<td>9-10</td>
<td>Hess</td>
<td>61,682</td>
</tr>
<tr>
<td>Wells Fargo Tower</td>
<td>1</td>
<td>56-57</td>
<td>PWC</td>
<td>51,292</td>
</tr>
<tr>
<td>609 Main at Texas</td>
<td>1</td>
<td>26</td>
<td>WeWork</td>
<td>28,458</td>
</tr>
<tr>
<td>Three Allen Center</td>
<td>2</td>
<td>21</td>
<td>Oil States</td>
<td>23,441</td>
</tr>
<tr>
<td>600 Travis</td>
<td>1</td>
<td>56</td>
<td>Indigo Minerals</td>
<td>22,564</td>
</tr>
<tr>
<td>1600 Smith</td>
<td>2</td>
<td>50</td>
<td>Royston Rayzor</td>
<td>11,352</td>
</tr>
</tbody>
</table>

*All Blocks With Term Available, 01/01/2022*

**Total Full-Floor Sublease**

415,665
Leasing Analysis

• Despite a surge in the price on energy, leasing activity was the lowest it has ever been in our survey (1.8M SF of leasing activity)

• Renewals makes up 68% of this activity and dominated in all 3 Tiers

• New leases have remained at about the same levels as last year and ticked up in proportion to the total amount of leasing activity

• Most of the reduction in leasing activity has been in Tiers II, III
Leasing Analysis

Takeaways:

• Tier I has the most activity on the aggregate and in proportion to the amount of Tier I square footage surveyed (8.5% of total SF in Tier I saw activity), suggesting that Tier I spaces remain desirable despite COVID, in line with what we see from marketed space data.

• The data for Tier II indicates of low activity on the aggregate and in proportion to the amount of square footage surveyed, unlike what we saw with marketed space. This could be due to the end dates of tenants’ leases being farther out.

• Tier III saw more activity than last year, but less SF of activity, suggesting that Tier III tenants may be downsizing.

• On the aggregate, downward pressures due to COVID dominated upward pressures from energy markets.
Activity by Tier (2020)

Tier I
- 42.1%
- 1,149,236 SF
- 33 Leases

Tier II
- 35.2%
- 961,354 SF
- 42 Leases

Tier III
- 22.7%
- 618,588 SF
- 73 Leases
Activity by Tier (2021)

- **Tier I**: 58.4%
  - SF: 1,082,791 SF
  - Leases: 42

- **Tier II**: 24.9%
  - SF: 461,523 SF
  - Leases: 34

- **Tier III**: 16.7%
  - SF: 309,332 SF
  - Leases: 75
Leasing Trend

Significant Energy Price Slumps
2020 Energy Price Plunge + COVID 19 Pandemic
2021 Energy Price Surge + COVID 19

3.92 M SF 5-Year Average
3.94 M SF 10-Year Average
Leasing Analysis (By Size)

Takeaways:

• Aggregate activity shows less of a skew towards 50k+ activity, **signaling reluctance to make large real estate transactions in 2021.** This is likely due to COVID uncertainty and may fade with the pandemic.

• The Tier breakdown suggests that this reluctance is driven in Tiers II and III, telling us, along with other data, that **Tier I remains desirable even with the pressures of COVID.**
Activity by Size (2020)

- <5K SF: 6.0%
- 5-20K SF: 17.7%
- 20-50K SF: 28.8%
- >50K SF: 47.6%
Activity by Size (2021)

- <5,000 SF: 9%
- 5-20,000 SF: 32%
- 20-50,000 SF: 29%
- >50,000 SF: 30%
Leases by Size (Tier I)

<table>
<thead>
<tr>
<th>SF</th>
<th>&lt;5K</th>
<th>5-20K</th>
<th>20-50K</th>
<th>50K+</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Expansion</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Renewal</td>
<td>2</td>
<td>10</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>
Leases by Size (Tier II)

<table>
<thead>
<tr>
<th>SF</th>
<th>&lt;5K</th>
<th>5-20K</th>
<th>20-50K</th>
<th>50K+</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Expansion</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Renewal</td>
<td>7</td>
<td>9</td>
<td>6</td>
<td>0</td>
</tr>
</tbody>
</table>
Leases by Size (Tier III)

<table>
<thead>
<tr>
<th>SF</th>
<th>&lt;5K</th>
<th>5-20K</th>
<th>20-50K</th>
<th>50K+</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>15</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Expansion</td>
<td>9</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Renewal</td>
<td>27</td>
<td>16</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Occipier Analysis

• Energy nearly holds the majority of the tenant base and primarily takes up Tier II space

• Legal and FIRE skew towards Tier I space; considering this, **we would conjecture that Tier I space remains desirable, Legal and FIRE will be the main drivers of activity**

• The long-term trend suggests that Legal will occupy more and more space over time
Office Market by Industry

Class A Competitive Space

- Other: 48%
- FIRE: 22%
- Legal: 17%
- Energy: 13%

Report Created by Central Houston, Inc.
Industry Occupancy by Tier

Energy
- Tier I: 3.2 million SF
- Tier II: 3 million SF
- Tier III: 6.3 million SF

Legal
- Tier I: 2.5 million SF
- Tier II: 2 million SF
- Tier III: 0.83 million SF

FIRE
- Tier I: 2.8 million SF
- Tier II: 0.88 million SF
- Tier III: 1.1 million SF
The data here, especially over the course of the pandemic, suggests that **companies in Downtown Houston are downsizing**, which is what we’ve indicated with other figures as well.
2021 New Downtown Occupiers

Takeaways:

• While activity count remained the about the same as last year, the footprint of new occupiers decreased dramatically, suggesting that while employers want to come to Downtown Houston, they are not looking to house large operations here. This is likely due to COVID uncertainty and may fade after the pandemic.

• The data supports the idea that Tier III occupiers are downsizing.
Our OpEx data gives insight as to why Tiers are structured the way they are:

• Tier I pays 46.6% of their OpEx towards property taxes, for Tiers II, III, this figure is 33.8% and 26.1% respectively.
• Tier I also routinely pays more property tax per SF than any other Tier.
2022 Appendix
Survey Background

38th year of survey providing unique insight on the current competitive office leasing environment based on analysis of primary data

Results assist building owners, lease agents and investors in making informed business decisions

Surveyed buildings have proven ability to compete for tenants in Downtown’s premier office buildings in the survey’s 3 tiers (I, II & III) and does not replace traditional market surveys such as broker, owner or third-party reports
Survey Definitions

- **Office Inventory**: Total office space in all Downtown buildings regardless of building class or survey tier.
- **Survey Universe**: Downtown’s premier office buildings classified as Tier I, II & III in this Report.
- **Owner-Occupied**: Buildings fully owned and/or occupied by the owner; includes Chevron’s 1500 Louisiana and 1400 Smith; Hilcorp’s 1111 Travis and Partnership Tower (701 Avenida De Las Americas).
- **Energy**: Exploration and production (E&P), pipeline, mining, utility, chemical and service providers.
- **Legal**: Law firms and legal service providers.
- **FIRE**: Finance, insurance and real estate.
- **Other**: Professional and business services, information technology, public administration, retail.
- **Leased Space**: All leased space regardless of occupancy status.
- **Actively Marketed and/or Available Space**: Marketed office space regardless of occupancy and lease status.
- **Availability Rate**: Direct space currently marketed divided by total amount of surveyed space.
- **Leasing Activity**: Signed leases during the survey year regardless of scheduled occupancy status and includes direct, sublease, renewals and pre-leasing activity.
- **Absorption**: Total annual survey change of square feet marketed regardless of occupancy.
Central Houston, Inc.

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Thank You! Questions?