Economic Recovery Update
December 2022
Recovery Scorecard

Source: CoStar, Placer.ai

<table>
<thead>
<tr>
<th>Category</th>
<th>Recovery Score</th>
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<tbody>
<tr>
<td>Office</td>
<td>57.50%</td>
</tr>
<tr>
<td>Hotel</td>
<td>83.10%</td>
</tr>
<tr>
<td>Greenspace</td>
<td>92.20%</td>
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<tr>
<td>Astros</td>
<td>107.60%</td>
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<tr>
<td>Residential</td>
<td>109.30%</td>
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<tr>
<td>Fast Facts</td>
<td>Vacancy Rates: Oil and Gas</td>
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<tr>
<td>Vacancy Rate</td>
<td>24.4%</td>
</tr>
<tr>
<td>Months on Market</td>
<td>33</td>
</tr>
<tr>
<td>SF of Leasing Activity YTD</td>
<td>2,238,010</td>
</tr>
</tbody>
</table>

Source: CoStar
Downtown Houston’s real estate market, including rents and vacancy rates, have been largely influenced by trends in the oil and gas sector.

As an indication of this, notice how Downtown Calgary, an oil and gas driven economy in Canada, has vacancy rates which closely track those of Houston.

Downtown Houston vacancy rates have remained elevated since the oil bust of 2014 and have failed to recover since.

While oil prices are high now, the downward pressures of hybrid work and remote work outweigh the upward pressures of the price of oil, resulting in continued elevated vacancy.
Downtown Houston's vacancy rate is high compared to its peers across the country, sitting at about 24%. However, relative to its peers, it has not seen the drastic increases in vacancy that other downtowns have. RTO rates have increased steadily to a record 56%, mitigating the impacts of alternative work models on our market.
Availability rates in Downtown Houston, while high, are not that much different from its peers across the country.

Our market remains desirable, with many tenants such as EOG Resources and Shell Trading choosing to remain in Downtown rather than market their space.
In Q4 2022, the increase in base (net) rent from Q1 was equal to 70% of the $1.78 increase in gross rent, implying stronger profits for owners of office properties than in months past.

By contrast, a $1.89 increase in gross rents from Q1 to Q4 2020 translated to increases in base rents that were less than 20% of the gross rent increase.

In other words, more than 80% of property owners’ revenue was being spent on OpEx, translating into lower profits.
Economic Recovery: Events and Hospitality

Compared to pre-pandemic levels, hotel ADR in Downtown has increased dramatically. However, in pre-pandemic years, occupancy was at 66% compared to 53% now, translating into lower revenue per room (RevPAR) this past October than in pre-pandemic Octobers.

Legend
- ADR
- RevPAR
5 Conventions at GRB this December:
• 12/1 – 12/31: Awesome Exhibition – The Interactive Exhibition of LEGO Models created by LEGO Certified Professional Ryan “The Brickman” McNaught
• 12/9 – 12/10: Houston Children’s Charity’s Annual Toy Distribution
• 12/12 – 12/14: Be An Angel’s 2022 Holiday Gift Program
• 12/16 – 12/18: Encore Championship
• 12/24: Christmas Feast 2022
Hotel activity in Avenida Houston was strongly impacted by events taking place at the George R. Brown Convention Center this October, as dates of conventions corresponded with dates of peak visitation at hotels.

As the Astros entered the World Series, this correspondence decreased, as seen by the divergence between GRB visits and hotel visits at the end of the month.
Astros home games during the World Series (in orange) significantly increased hotel visits in Avenida Houston and likely increased revenues as a result. On the two Astros home games where they won, hotel visitation was 90% (Oct. 29th) and 106% (Nov. 5th) higher than average.
Urban Harvest hosted its annual Sunday Supper at The Grove on November 6th. Five chefs, including The Grove's own Ryan Williams, crafted a unique multi-course menu to raise funds for Urban Harvest's many programs, including their Farmers Market and Community Gardens.

Pappas' Bros Steakhouse Downtown held their annual Champagne Campaign Holiday Wine Tasting on November 18th. At the event, sommeliers guided guests through a selection of 15 different wines, all created from grapes grown in East Texas.

Toro Toro presented a four-course Tequila Dinner on November 29th featuring their very own Joven tequila. Reservations ran at $125 per person.
Astros home games during the World Series corresponded with increased attendance at bars as well.

Bar attendance typically has a cyclical pattern with peaks on Saturday and a high density of visits towards the end of the week. This pattern did not vary too much, but the peaks on Saturdays were on average 50% higher when there were Astros home games (Oct. 29th and Nov. 5th).

The one outlier in this cyclical pattern was the Astros parade; bar attendance on Nov. 7th was 333% higher than the average Monday at Downtown bars.
<table>
<thead>
<tr>
<th>Fast Facts</th>
<th>Deliveries and Occupancy</th>
<th>Vacancy</th>
<th>Rents</th>
<th>Pipeline</th>
</tr>
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</table>

| Vacancy Rate                | 13.7%                     |                  |                |                   |
| Avg. Asking Rent/SF         | $2.39                      |                  |                |                   |
| Inventory Units             | 6,020                      |                  |                |                   |
| 12 Mo Absorption Units      | 411                        |                  |                |                   |
| Units Under Construction    | 957                        |                  |                |                   |
Occupancy stayed low in the first 2 quarters of the year due to new residential properties coming onto the market. As we’ve moved towards the end of the year, robust absorption has allowed for occupancy to rise back up to levels seen in 2021.
While overall vacancy rates are high both within the region and relative to pre-pandemic levels, stabilized vacancy, which accounts for the lease-up time needed on new properties, is lower and far closer to pre-pandemic norms.

Given that a convergence in stabilized and overall vacancy is usually accompanied by a reduction in vacancy afterwards due to robust absorption, we should expect stabilized and overall vacancy to fall once all properties in the pipeline are delivered.
Economic Recovery Deck: Residential

Asking rents, while not fully recovered, are higher than they were at both the start of the year and the start of the pandemic. Asking rents may tick higher in the future as new deliveries become fully absorbed. Our rents remain the highest of all business districts in Houston, highlighting the desirability of Downtown living.

Weak market conditions through past quarters in the pandemic led to large concessions, indicated by the spread between asking and effective rents. As we moved through this year, concessions tightened back to where they were pre-pandemic, indicating a strong market for residential property owners.
We have generally had, and continue to have, the strongest residential pipeline of all business districts in the City of Houston.

This can be in part attributed to the uniqueness of our residential character; very few places in Houston outside of Downtown have high-rise residential, and none have the concentration of such properties that we do.
For questions, contact:

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