

# HOUSTON OFFICE MARKET

YEAR-END 2016

## Office Market Beginning to Show Signs of Improvement

### Sublet Supply Decreases

**OVERVIEW**

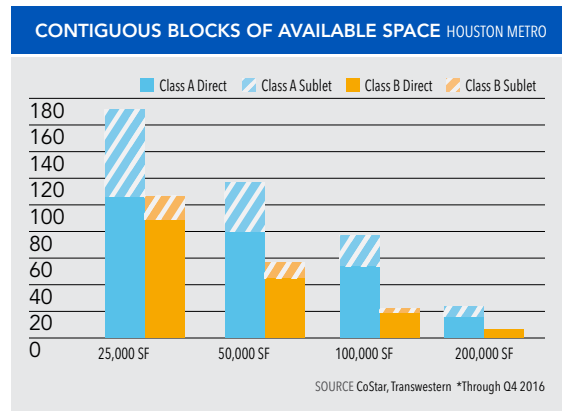
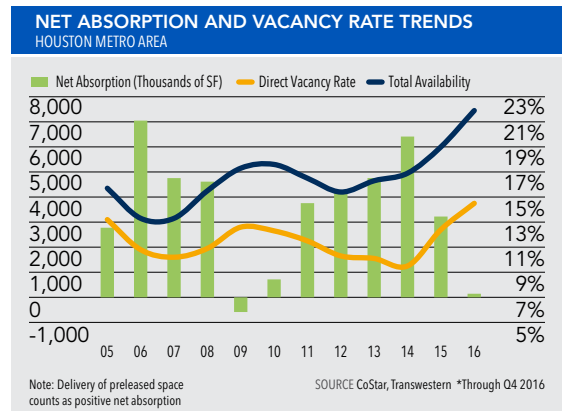
**Sublease space on the decline for first time since 2012**

As the long and grinding year of 2016 came to a close, sentiment surrounding the Houston office sector took a positive turn as several indicators point to the beginnings of a market rebound. Unfortunately, these indicators occurred primarily on the economic side with factors such as oil, jobs and PMI gaining ground, whereas office metrics have generally continued to weaken following the recent downturn. One core metric that showed visible improvement was total available sublease space. The decline in the fourth quarter, marked the first decrease since 2012, and sublease space closed the year at 11.6M SF available after peaking with over 12.5M SF available in the third quarter. Sublease space reductions were triggered through various scenarios making it difficult to determine if the decline is the beginning of a trend or simply a short-term break from an endless supply of space. ConocoPhillips represented the largest reduction in sublease availability (597k SF) as they opted to retain their Energy Corridor listing in order to consolidate operations from an aging multi-building campus. Alternatively, tenants such as Thompson & Knight and Breitburn Energy looked to leverage sublease availability to lock in favorable terms at high-quality Class A locations. A trend that will continue given the extended term, credit worthy nature and desirable locations of many sublease offerings.

**NET ABSORPTION**

**Absorption continues to fall short**

In the fourth quarter, impacts of the energy downturn are still being realized as quarterly net absorption for all classes of office was again negative, posting -737,000 SF, with Class A coming in at -230,000 SF.



**Notable Q4 Leases**

TENANT	SF	LEASE TYPE	BUILDING	SUBMARKET
Breitburn Energy Partners	109,476	Sublease	Heritage Plaza	CBD
ABM Industries, Inc.	63,000	New	14141 Southwest Fwy	East Fort Bend Co/Sugar Land
Thompson & Knight	60,628	Sublease	811 Main St	CBD
Diamond McCarthy, LLP	46,840	New	2 Houston Center	CBD

# HOUSTON METRO MARKET

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For the year, absorption managed to post positive totals with the broad market absorbing a total of 588,000 SF driven by preleased deliveries earlier in the year. The Class A market recorded 1.4M SF of positive absorption for the year, while Class B felt the impacts of flights to quality and posted negative absorption of -1.0 M SF year end 2016. Leasing activity is beginning to ramp up throughout the market, but quarterly absorption for the next 3-6 months will lag this activity, leading way to negative absorption totals in early 2017.

## VACANCY & AVAILABILITY

### Total availability decreases

The overall office availability rate (all space marketed as available for lease) declined modestly over the quarter, down -0.1%, to finish the year at 21.9% - a direct result of the decrease in available sublease supply. Total availability for Class A & B properties closed the year at 23.3% and 21.2%, respectively. Direct vacancy increased by 0.3%, finishing at 14.2%, and should continue to rise as sublease space and more efficient new construction serve as desirable alternatives for leasing activity, leaving vacant direct space in its wake.

Overall vacancy was 16.1% at year end, up 0.1% from the previous quarter and 2.1% year-over-year. Class A overall vacancy closed up 0.2% to end the year at 16.4%, while Class B followed suit, increasing by 0.4% over the quarter and ending the year at 16.4% vacant. As the market moves forward in stabilization mode, vacancy rates are projected to rise as overall availability decreases.

## RENTAL RATES

### Face rates don't tell the full story

Asking rates for the office market continued their familiar ascent over 2016, displaying increases across both Class A & B properties. These increases were generated through a combination of new high-quality buildings being added to supply in addition to landlords attempting to hold on to face rates in-spite of market conditions. Regardless of the situation, concessions play a significant part in deal activity and are particularly impactful in large lease transactions where tenant improvement allowances and rent abatements are core negotiations. Class A rents increased 0.5% year-over-year to \$35.50 per SF gross, while Class B rents increased by 3.2% to \$21.95 per SF gross from the close of the year.

## SUPPLY AND DEVELOPMENT

### Development cycle continues to shift downward

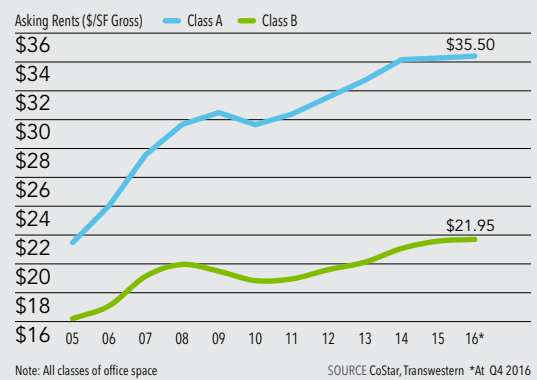
There were no new office buildings delivered in the fourth quarter as Houston continues to wind down its most recent construction cycle with a total of 2.9 million SF of office space under construction. All properties currently under development are anticipated to deliver in 2017. This level of activity is a stark contrast from the 7.2 million SF under construction in the fourth quarter of 2015 and even further from the 16.6 million SF ending 2014. In total, Houston has delivered approximately 25.0 million SF of office since the beginning of 2014.

## Total Available Space

Houston Metro | Q4 2016

SUBMARKET	SUBLEASE SPACE (SF)	% SUBLEASE
Energy Corridor	3,130,327	8.4%
CBD	2,469,302	5.2%
Westchase	1,406,051	8.0%
Galleria	1,158,965	7.0%
North District	1,147,254	8.7%
<b>All of Houston</b>	<b>11,649,891</b>	<b>4.6%</b>

## AVERAGE OFFICE RENTS HOUSTON METRO AREA



## Office Under Construction

Houston Metro | Q4 2016

SUBMARKET	NUMBER OF BLDGS	SF	% PRE-LEASED
CBD	1	1,056,658	38%
West Loop	2	484,579	71%
Energy Corridor	2	324,428	41%
Katy	2	234,538	0%
Greenway Plaza	1	212,878	11%
Sugar Land	2	187,200	7%
Westchase	1	186,000	100%
Kingwood	1	100,000	100%
Northeast	1	85,000	92%
Gulf Frwy/Pasadena	1	82,800	100%
<b>Total</b>	<b>14</b>	<b>2,954,081</b>	<b>46%</b>



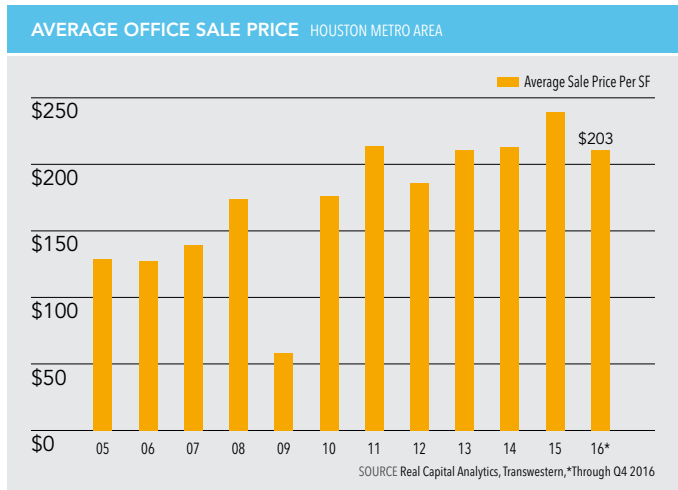
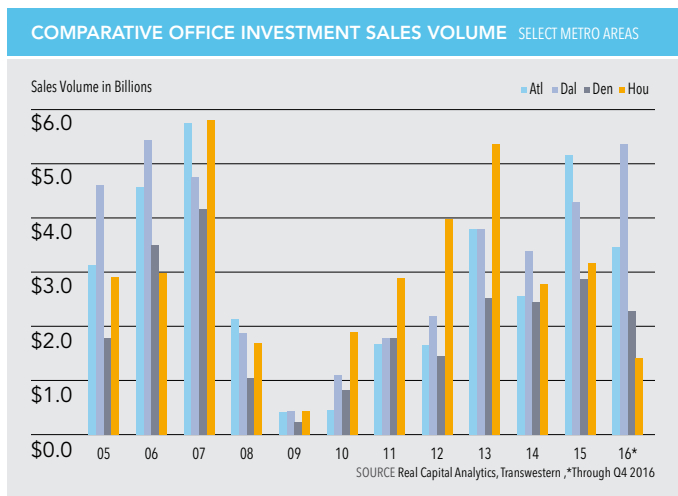
While the construction rate is slowing precipitously, the demand for efficient new construction continues, but will require anchor tenants such as HP and Bank of America who are both looking at new facilities and more efficient space utilization.

The largest projects currently under construction are 609 Main (CBD, 1.1 million SF) and Amegy Bank's new headquarters located at 1717 West Loop South (Post Oak Park, 380,000 SF). The preleased percentage of properties currently under construction is 45% and is anticipated to increase further prior to delivery through the 2017 calendar year.

**INVESTMENT MARKET**

**Investment activity picks up**

Investment activity turned up in the final quarter of 2016 as deal volume in the metro recorded \$851.0 million in office sales, more than doubling the total from the third quarter, while down 48% on a year-over-year basis. In October, the previously announced Cousins merger/acquisition/spin-off of Parkway Properties and their Galleria, Greenway Plaza, and Westchase assets was made final (~8.7M RSF). While this was a portion of a larger 35 property portfolio trade, the Houston properties will be spun off into their own local REIT, HoustonCo, that is positioned for additional acquisitions. Additionally, the Columbia Portfolio traded over the quarter as Spear Street Capital acquired 5 Houston Center, 5 Post Oak Park and Energy Center I for approximately \$272 million, or \$232 per SF. These Class A assets are strategically located in core Houston submarkets and offer Spear Street a value add opportunity through enhancing building features and amenities, elevating the offerings. This strategy will continue to be emulated throughout the market. Pricing per square foot averages acted in line with deal activity as quarter over quarter averages were up (162%) while year-over-year averages declined (-61%), coming in at \$221/SF. Cap rates were flat over the quarter, currently averaging 8.0%. These figures represent assets for which pricing information could be obtained.



**Notable Q4 Transactions**

BUILDING	SUBMARKET	SF	SELLER	BUYER
5 Houston Center	CBD	580,875	Columbia Property Trust	Spear Street Capital, LLC
5 Post Oak Park	Post Oak Park	567,264	Columbia Property Trust	Spear Street Capital, LLC
Energy Center I	Katy Fwy / Energy Corridor	332,000	Columbia Property Trust	Spear Street Capital, LLC

SOURCE Real Capital Analytics, HFF, Transwestern

# HOUSTON METRO MARKET

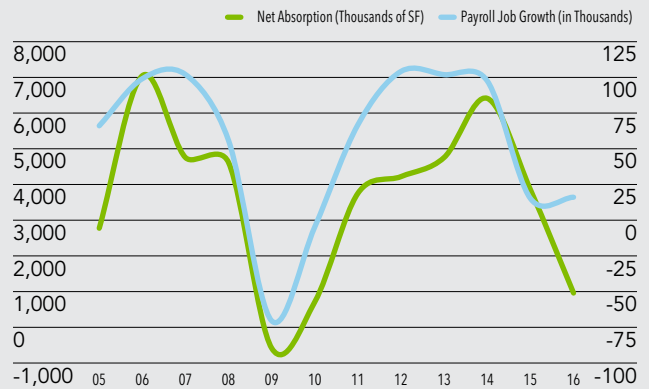
YEAR-END 2016

## OUTLOOK

### Steady as she goes

Sentiment in the Houston office market is becoming positively optimistic as more signs point to having reached the bottom of the energy downturn and beginning a recovery. Factors such as positive job creation through a challenging 2016, crude prices stabilizing as OPEC agreed to production limits, and a pro-energy/business friendly administration being elected to office have resulted in an upbeat market. That being said, enthusiasm should be tempered as recovery will be a slow process that won't always move in an upward trajectory. There are still several areas limiting the speed of recovery; overall job growth for 2017 is projected to be well below healthy market norms (~20k in 2017), the Petrochemical boom on the east side is waning, and while stabilizing in the high \$40's to low \$50's - short term energy forecasts show limited potential for additional increases through 2017. Additionally, the market has a total of 54 million SF of space marketed as available with 32 million occurring in Class A properties – a 4 to 5 year supply with job creation at typical levels of 60k per year. Simply put, the recovery will be slow and measured until once again, the energy engine moves into high gear.

## OFFICE ABSORPTION AND EMPLOYMENT HOUSTON METRO AREA



\*12-month job growth through November 2016, net absorption through Q4 2016  
SOURCE Bureau of Labor Statistics, Transwestern

### Multi-tenant market vs Transwestern comprehensive market coverage

	MULTI-TENANT	ENTIRE MARKET
Inventory	196.8 MSF	248.4 MSF
Overall Vacancy	18.9%	15.4%
Q4 Net Absorption	394,220 SF	(383,000) SF

## WHY OUR METHODOLOGY IS THE BEST INDICATOR OF CURRENT MARKET CONDITIONS

We include owner occupied and single-tenant buildings in our inventory, vacancy and absorption statistics to capture more market activity than many of our competitors. This allows us to better correlate changes in the market with changes in employment. As single-tenant space does compete with multi-tenant space, we believe it is critical to understand all components of the market. The inclusion of single-tenant and owner-occupied space tends to yield lower vacancy rates and higher absorption totals than some of our competitors' results, but our coverage of the market is more comprehensive.

## Houston Office Market Indicators - All Space

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY 2015	DIRECT VACANCY Q4 2016	VACANCY W/ SUBLET Q4 2016	**TOTAL AVAILABILITY Q4 2016	UNDER CONSTRUCTION	***NET ABSORPTION Q4 2016	NET ABSORPTION YTD 2016
Central Business District	87	48,149,909	6,066,889	12.5%	12.6%	15.0%	20.6%	1,056,658	(48,000)	(61,000)
Midtown	33	5,759,744	863,962	14.9%	15.0%	15.4%	17.6%	-	(4,000)	0
<b>Downtown</b>	<b>120</b>	<b>53,909,653</b>	<b>6,930,850</b>	<b>12.8%</b>	<b>12.9%</b>	<b>15.0%</b>	<b>20.3%</b>	<b>1,056,658</b>	<b>(52,000)</b>	<b>(61,000)</b>
FM 1960 / I-45 North	15	1,371,988	263,422	17.4%	19.2%	24.8%	32.3%	-	(25,000)	(69,000)
FM 1960 / Champions	22	1,850,305	346,007	20.4%	18.7%	19.1%	20.5%	-	31,000	69,000
FM 1960 / Highway 249	41	5,480,177	613,780	10.5%	11.2%	13.1%	17.8%	-	(38,000)	78,000
<b>FM 1960</b>	<b>78</b>	<b>8,702,470</b>	<b>1,223,209</b>	<b>13.7%</b>	<b>14.1%</b>	<b>16.2%</b>	<b>20.7%</b>	<b>-</b>	<b>(32,000)</b>	<b>78,000</b>
North Belt Wst / North District	75	10,146,273	3,652,658	35.5%	36.0%	43.0%	51.0%	-	(51,000)	(490,000)
North District / IAH	22	3,025,888	577,945	16.5%	19.1%	19.3%	29.1%	-	(121,000)	(136,000)
<b>North District / North Belt</b>	<b>97</b>	<b>13,172,161</b>	<b>4,230,603</b>	<b>31.1%</b>	<b>32.1%</b>	<b>37.6%</b>	<b>46.0%</b>	<b>-</b>	<b>(172,000)</b>	<b>(626,000)</b>
<b>Greenway Plaza</b>	<b>51</b>	<b>10,972,137</b>	<b>1,398,947</b>	<b>13.2%</b>	<b>12.8%</b>	<b>13.0%</b>	<b>21.4%</b>	<b>212,878</b>	<b>48,000</b>	<b>(21,000)</b>
<b>Gulf Freeway/Pasadena</b>	<b>35</b>	<b>2,556,929</b>	<b>301,718</b>	<b>10.0%</b>	<b>11.8%</b>	<b>11.9%</b>	<b>17.6%</b>	<b>82,800</b>	<b>(46,000)</b>	<b>53,000</b>
<b>Katy Far West</b>	<b>44</b>	<b>3,413,879</b>	<b>467,701</b>	<b>13.6%</b>	<b>13.7%</b>	<b>13.7%</b>	<b>16.1%</b>	<b>234,538</b>	<b>(3,000)</b>	<b>125,000</b>
Katy Freeway East	64	9,607,363	900,210	9.1%	9.4%	10.5%	15.2%	238,173	(28,000)	44,000
Katy Freeway West	144	26,928,244	4,330,062	16.1%	16.1%	17.6%	28.1%	86,255	17,000	(479,000)
<b>Katy Frwy / Energy Corridor</b>	<b>208</b>	<b>36,535,607</b>	<b>5,230,272</b>	<b>14.3%</b>	<b>14.3%</b>	<b>15.7%</b>	<b>24.7%</b>	<b>324,428</b>	<b>(11,000)</b>	<b>(435,000)</b>
<b>Kingwood / Humble*</b>	<b>9</b>	<b>1,028,382</b>	<b>32,908</b>	<b>3.8%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.4%</b>	<b>100,000</b>	<b>6,000</b>	<b>39,000</b>
<b>NASA / Clear Lake</b>	<b>63</b>	<b>7,986,993</b>	<b>1,277,919</b>	<b>15.4%</b>	<b>16.0%</b>	<b>16.5%</b>	<b>20.3%</b>	<b>-</b>	<b>(48,000)</b>	<b>(24,000)</b>
<b>Northeast</b>	<b>17</b>	<b>1,751,048</b>	<b>267,910</b>	<b>15.3%</b>	<b>15.3%</b>	<b>15.3%</b>	<b>17.5%</b>	<b>85,000</b>	<b>0</b>	<b>540,000</b>
North Loop West	29	3,955,192	707,979	18.0%	17.9%	19.0%	20.3%	-	4,000	(134,000)
Northwest Near	13	1,270,907	17,793	0.6%	1.4%	1.4%	2.2%	-	(10,000)	(8,000)
Northwest Far	31	3,257,388	791,545	23.2%	24.3%	25.3%	28.2%	-	(36,000)	(52,000)
<b>Northwest</b>	<b>73</b>	<b>8,483,487</b>	<b>1,517,317</b>	<b>17.4%</b>	<b>17.9%</b>	<b>18.8%</b>	<b>20.6%</b>	<b>-</b>	<b>(42,000)</b>	<b>(194,000)</b>
<b>South Main / Medical Center</b>	<b>49</b>	<b>10,285,936</b>	<b>874,305</b>	<b>7.9%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>8.5%</b>	<b>-</b>	<b>(62,000)</b>	<b>(30,000)</b>
Southwest / Hillcroft	35	4,173,106	592,581	15.9%	14.2%	14.2%	22.9%	-	70,000	127,000
Southwest Beltway 8	43	5,541,068	886,571	15.1%	16.0%	16.0%	22.4%	-	(50,000)	44,000
E Fort Bend Co / Sugar Land	45	6,098,103	500,044	8.1%	8.2%	9.4%	13.5%	187,200	(6,000)	79,000
<b>Southwest Fwy / Sugar Land</b>	<b>123</b>	<b>15,812,277</b>	<b>1,979,196</b>	<b>12.6%</b>	<b>12.5%</b>	<b>13.0%</b>	<b>19.1%</b>	<b>187,200</b>	<b>14,000</b>	<b>250,000</b>
<b>West Belt</b>	<b>37</b>	<b>5,372,564</b>	<b>902,591</b>	<b>16.3%</b>	<b>16.8%</b>	<b>21.2%</b>	<b>27.1%</b>	<b>-</b>	<b>(27,000)</b>	<b>118,000</b>
Bellaire	29	4,356,078	383,335	8.4%	8.8%	9.0%	13.0%	-	(19,000)	(104,000)
Post Oak Park	29	4,201,030	781,392	18.1%	18.6%	19.2%	28.1%	380,000	(21,000)	(80,000)
Galleria	57	16,637,761	1,702,043	9.8%	10.2%	11.2%	21.8%	104,579	(78,000)	418,000
Riverway	16	2,868,495	352,825	12.6%	12.3%	12.9%	22.9%	-	9,000	(31,000)
Richmond / Fountainview	11	829,760	181,717	22.8%	21.9%	21.9%	23.2%	-	7,000	(10,000)
San Felipe / Voss	33	5,060,157	656,808	11.7%	13.0%	13.2%	20.9%	-	(63,000)	(172,000)
<b>West Loop</b>	<b>175</b>	<b>33,953,281</b>	<b>4,058,120</b>	<b>11.5%</b>	<b>12.0%</b>	<b>12.6%</b>	<b>21.4%</b>	<b>484,579</b>	<b>(165,000)</b>	<b>21,000</b>
<b>Westchase</b>	<b>89</b>	<b>17,400,763</b>	<b>2,836,324</b>	<b>15.2%</b>	<b>16.3%</b>	<b>20.2%</b>	<b>26.3%</b>	<b>186,000</b>	<b>(191,000)</b>	<b>263,000</b>
<b>The Woodlands</b>	<b>94</b>	<b>16,040,349</b>	<b>1,690,653</b>	<b>10.9%</b>	<b>10.5%</b>	<b>11.1%</b>	<b>13.8%</b>	<b>-</b>	<b>61,000</b>	<b>506,000</b>
<b>Conroe</b>	<b>13</b>	<b>972,477</b>	<b>99,193</b>	<b>8.7%</b>	<b>10.2%</b>	<b>10.2%</b>	<b>10.6%</b>	<b>-</b>	<b>(15,000)</b>	<b>(14,000)</b>
<b>TOTAL - Houston</b>	<b>1,375</b>	<b>248,350,393</b>	<b>35,319,736</b>	<b>13.9%</b>	<b>14.2%</b>	<b>15.9%</b>	<b>21.9%</b>	<b>2,954,081</b>	<b>(737,000)</b>	<b>588,000</b>

SOURCE CoStar, Transwestern

NOTE Includes buildings 50,000 SF RBA and greater; does not include buildings under construction or owned by the government

\* Inventory and number of buildings amended per changes in CoStar

\*\* Total availability reflects all space being marketed as available for lease regardless of current occupancy status

\*\*\* Absorption methodology has been updated for existing buildings to reflect tenant occupancies

# HOUSTON METRO MARKET

YEAR-END 2016

## Houston Office Market Indicators - Class A

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q4 2016	VACANCY W/ SUBLET Q4 2016	**TOTAL AVAILABILITY Q4 2016	UNDER CONSTRUCTION	***NET ABSORPTION Q4 2016	NET ABSORPTION YTD 2016
Central Business District	34	32,309,408	3,295,560	10.2%	13.1%	19.7%	1,056,658	(65,000)	(104,000)
Midtown	7	2,494,696	447,798	18.0%	19.1%	23.7%	-	21,000	88,000
<b>Downtown</b>	<b>41</b>	<b>34,804,104</b>	<b>3,743,358</b>	<b>10.8%</b>	<b>13.5%</b>	<b>20.0%</b>	<b>1,056,658</b>	<b>(44,000)</b>	<b>(16,000)</b>
FM 1960 / I-45 North	2	206,705	33,693	16.3%	16.3%	25.0%	-	0	1,000
FM 1960 / Champions	1	150,000	0	0.0%	0.0%	0.0%	-	2,000	0
FM 1960 / Highway 249	18	3,883,421	423,293	10.9%	11.7%	13.1%	-	(12,000)	95,000
<b>FM 1960</b>	<b>21</b>	<b>4,240,126</b>	<b>456,986</b>	<b>10.8%</b>	<b>11.5%</b>	<b>13.2%</b>	<b>-</b>	<b>(10,000)</b>	<b>96,000</b>
North Belt Wst / North District	17	4,351,282	1,750,956	40.2%	50.8%	68.9%	-	3,000	(214,000)
North District / IAH	8	1,213,677	399,300	32.9%	32.9%	52.7%	-	(39,000)	(69,000)
<b>North District / North Belt</b>	<b>25</b>	<b>5,564,959</b>	<b>2,150,256</b>	<b>38.6%</b>	<b>46.9%</b>	<b>65.4%</b>	<b>-</b>	<b>(36,000)</b>	<b>(283,000)</b>
<b>Greenway Plaza</b>	<b>18</b>	<b>7,233,315</b>	<b>1,012,664</b>	<b>14.0%</b>	<b>14.1%</b>	<b>20.6%</b>	<b>212,878</b>	<b>30,000</b>	<b>54,000</b>
<b>Gulf Freeway/Pasadena</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-</b>	<b>0</b>	<b>0</b>
<b>Katy</b>	<b>21</b>	<b>1,599,646</b>	<b>436,703</b>	<b>27.3%</b>	<b>27.3%</b>	<b>32.3%</b>	<b>171,538</b>	<b>(3,000)</b>	<b>140,000</b>
Katy Freeway East	23	5,497,995	559,146	10.2%	11.6%	16.1%	238,173	(5,000)	70,000
Katy Freeway West	74	19,046,855	3,028,450	15.9%	20.2%	27.7%	86,255	19,000	(468,000)
<b>Katy Frwy / Energy Corridor</b>	<b>97</b>	<b>24,544,850</b>	<b>3,587,596</b>	<b>14.6%</b>	<b>18.3%</b>	<b>25.1%</b>	<b>324,428</b>	<b>14,000</b>	<b>(398,000)</b>
<b>Kingwood / Humble</b>	<b>2</b>	<b>144,312</b>	<b>9,380</b>	<b>6.5%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>-</b>	<b>2,000</b>	<b>20,000</b>
<b>NASA / Clear Lake</b>	<b>16</b>	<b>2,185,962</b>	<b>139,902</b>	<b>6.4%</b>	<b>8.0%</b>	<b>10.7%</b>	<b>-</b>	<b>4,000</b>	<b>(75,000)</b>
<b>Northeast</b>	<b>1</b>	<b>555,700</b>	<b>0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>85,000</b>	<b>0</b>	<b>556,000</b>
North Loop West	6	1,240,544	326,263	26.3%	29.5%	33.3%	-	(10,000)	(18,000)
Northwest Near	1	237,384	0	0.0%	0.0%	0.0%	-	0	0
Northwest Far	16	797,138	322,044	40.4%	40.9%	44.9%	-	0	(61,000)
<b>Northwest</b>	<b>23</b>	<b>2,275,066</b>	<b>648,307</b>	<b>28.5%</b>	<b>30.4%</b>	<b>33.9%</b>	<b>-</b>	<b>(10,000)</b>	<b>(79,000)</b>
<b>South Main / Medical Center</b>	<b>16</b>	<b>4,560,992</b>	<b>218,928</b>	<b>4.8%</b>	<b>5.0%</b>	<b>5.4%</b>	<b>-</b>	<b>(23,000)</b>	<b>(36,000)</b>
Southwest / Hillcroft	6	1,485,352	227,259	15.3%	15.3%	31.1%	-	(14,000)	6,000
Southwest Beltway 8	3	566,699	48,736	8.6%	8.6%	16.0%	-	(49,000)	31,000
East Ft Bend Co. / Sugar Land	21	3,773,926	294,366	7.8%	9.4%	11.2%	94,200	(11,000)	(15,000)
<b>Southwest Fwy / Sugar Land</b>	<b>30</b>	<b>5,825,977</b>	<b>570,361</b>	<b>9.8%</b>	<b>10.8%</b>	<b>16.7%</b>	<b>94,200</b>	<b>(74,000)</b>	<b>22,000</b>
<b>West Belt</b>	<b>23</b>	<b>4,071,180</b>	<b>679,887</b>	<b>16.7%</b>	<b>20.3%</b>	<b>27.1%</b>	<b>-</b>	<b>(4,000)</b>	<b>138,000</b>
Bellaire	7	1,194,304	146,899	12.3%	13.0%	23.7%	-	14,000	(66,000)
Post Oak Park	8	2,237,868	586,321	26.2%	28.6%	39.9%	380,000	(22,000)	(93,000)
Galleria	32	13,295,227	1,390,681	10.5%	11.8%	23.8%	104,579	(64,000)	489,000
Riverway	5	1,885,813	198,010	10.5%	11.7%	23.6%	-	11,000	(10,000)
Richmond / Fountainview	-	0	0	0.0%	0.0%	0.0%	-	0	0
San Felipe / Voss	3	1,720,793	269,304	15.7%	16.1%	29.9%	-	(3,000)	(22,000)
<b>West Loop</b>	<b>55</b>	<b>20,334,005</b>	<b>2,591,216</b>	<b>12.7%</b>	<b>14.1%</b>	<b>26.1%</b>	<b>484,579</b>	<b>(64,000)</b>	<b>298,000</b>
<b>Westchase</b>	<b>31</b>	<b>9,772,089</b>	<b>1,573,306</b>	<b>16.1%</b>	<b>23.1%</b>	<b>30.2%</b>	<b>186,000</b>	<b>(88,000)</b>	<b>868,000</b>
<b>The Woodlands</b>	<b>41</b>	<b>11,306,590</b>	<b>1,283,298</b>	<b>11.4%</b>	<b>11.8%</b>	<b>13.2%</b>	<b>-</b>	<b>69,000</b>	<b>162,000</b>
<b>Conroe</b>	<b>2</b>	<b>128,832</b>	<b>9,276</b>	<b>7.2%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>-</b>	<b>7,000</b>	<b>2,000</b>
<b>TOTAL - Houston</b>	<b>463</b>	<b>139,147,705</b>	<b>19,111,423</b>	<b>13.7%</b>	<b>16.4%</b>	<b>23.3%</b>	<b>2,615,281</b>	<b>(230,000)</b>	<b>1,469,000</b>

SOURCE CoStar, Transwestern

NOTE Includes buildings 50,000 SF RBA and greater; does not include buildings under construction or owned by the government

\* Inventory and number of buildings adjusted per changes in CoStar

\*\* Total availability reflects all space being marketed as available for lease regardless of current occupancy status

\*\* Absorption methodology has been updated for existing buildings to reflect tenant occupancies

## Houston Office Market Indicators - Class B

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q4 2016	VACANCY W/ SUBLET Q4 2016	**TOTAL AVAILABILITY Q4 2016	UNDER CONSTRUCTION	***NET ABSORPTION Q4 2016	NET ABSORPTION YTD 2016
Central Business District	38	14,766,772	2,584,185	17.5%	19.3%	23.0%	-	15,000	(59,000)
Midtown	19	3,177,347	190,641	6.0%	6.0%	10.2%	-	(25,000)	(19,000)
<b>Downtown</b>	<b>57</b>	<b>17,944,119</b>	<b>2,774,826</b>	<b>15.5%</b>	<b>16.9%</b>	<b>20.7%</b>	-	<b>(10,000)</b>	<b>(78,000)</b>
FM 1960 / I-45 North	12	1,016,244	248,980	24.5%	24.5%	33.1%	-	(21,000)	(60,000)
FM 1960 / Champions	20	1,632,335	346,055	21.2%	21.7%	23.5%	-	28,000	69,000
FM 1960 / Highway 249	20	1,444,701	169,030	11.7%	16.2%	29.7%	-	(29,000)	(24,000)
<b>FM 1960</b>	<b>52</b>	<b>4,093,280</b>	<b>764,065</b>	<b>18.7%</b>	<b>20.5%</b>	<b>28.1%</b>	-	<b>(22,000)</b>	<b>(15,000)</b>
North Belt Wst / North District	45	4,776,290	1,377,960	28.9%	34.3%	40.1%	-	(55,000)	35,000
North District / IAH	11	1,343,858	192,172	14.3%	14.3%	16.4%	-	(78,000)	(74,000)
<b>North District / North Belt</b>	<b>56</b>	<b>6,120,148</b>	<b>1,570,131</b>	<b>25.7%</b>	<b>29.9%</b>	<b>34.9%</b>	-	<b>(133,000)</b>	<b>(39,000)</b>
<b>Greenway Plaza</b>	<b>27</b>	<b>3,598,525</b>	<b>241,821</b>	<b>6.7%</b>	<b>7.0%</b>	<b>22.3%</b>	-	<b>17,000</b>	<b>(50,000)</b>
<b>Gulf Freeway / Pasadena</b>	<b>29</b>	<b>2,556,929</b>	<b>301,718</b>	<b>11.8%</b>	<b>11.9%</b>	<b>17.6%</b>	<b>82,800</b>	<b>(46,000)</b>	<b>53,000</b>
<b>Katy</b>	<b>20</b>	<b>1,623,729</b>	<b>32,475</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>63,000</b>	<b>(3,000)</b>	<b>19,000</b>
Katy Freeway East	29	2,990,865	257,214	8.6%	9.6%	18.4%	-	(22,000)	(12,000)
Katy Freeway West	73	7,957,438	1,583,530	19.9%	21.4%	29.6%	-	0	(255,000)
<b>Katy Fwy / Energy Corridor</b>	<b>102</b>	<b>10,948,303</b>	<b>1,840,745</b>	<b>16.8%</b>	<b>18.2%</b>	<b>26.5%</b>	-	<b>(22,000)</b>	<b>(267,000)</b>
<b>Kingwood / Humble</b>	<b>7</b>	<b>884,070</b>	<b>23,870</b>	<b>2.7%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>100,000</b>	<b>4,000</b>	<b>19,000</b>
<b>NASA / Clear Lake</b>	<b>43</b>	<b>5,305,317</b>	<b>1,140,643</b>	<b>21.5%</b>	<b>22.2%</b>	<b>23.2%</b>	-	<b>(53,000)</b>	<b>(11,000)</b>
<b>Northeast*</b>	<b>10</b>	<b>862,177</b>	<b>202,612</b>	<b>23.5%</b>	<b>23.5%</b>	<b>25.4%</b>	-	<b>0</b>	<b>(57,000)</b>
North Loop West	20	2,596,527	379,093	14.6%	14.8%	14.9%	-	18,000	28,000
Northwest Near	8	873,086	18,335	2.1%	2.1%	3.2%	-	(10,000)	(8,000)
Northwest Far	24	2,212,823	502,311	22.7%	23.5%	25.3%	-	(33,000)	14,000
<b>Northwest</b>	<b>52</b>	<b>5,682,436</b>	<b>899,739</b>	<b>23.1%</b>	<b>16.2%</b>	<b>17.2%</b>	-	<b>(25,000)</b>	<b>34,000</b>
<b>South Main / Medical Center</b>	<b>18</b>	<b>4,025,606</b>	<b>627,995</b>	<b>15.6%</b>	<b>15.7%</b>	<b>15.7%</b>	-	<b>(36,000)</b>	<b>4,000</b>
Southwest / Hillcroft	16	1,647,936	294,981	17.9%	17.9%	22.3%	-	84,000	117,000
Southwest Beltway 8	32	4,616,485	791,727	17.2%	17.0%	24.4%	-	(4,000)	39,000
East Ft Bend Co. / Sugar Land	24	2,250,177	204,766	9.1%	9.9%	17.8%	93,000	2,000	6,000
<b>Southwest Fwy / Sugar Land</b>	<b>72</b>	<b>8,514,598</b>	<b>1,291,474</b>	<b>15.2%</b>	<b>15.3%</b>	<b>22.2%</b>	<b>93,000</b>	<b>82,000</b>	<b>162,000</b>
<b>West Belt</b>	<b>14</b>	<b>1,301,384</b>	<b>227,742</b>	<b>17.5%</b>	<b>24.4%</b>	<b>26.8%</b>	-	<b>(27,000)</b>	<b>(24,000)</b>
Bellaire	18	2,781,223	200,248	7.2%	7.2%	8.9%	-	(30,000)	(58,000)
Post Oak Park	18	1,803,120	187,524	10.4%	10.7%	16.0%	-	2,000	138,000
Galleria	22	3,266,742	318,507	9.8%	10.0%	14.3%	-	(16,000)	(76,000)
Riverway	9	870,126	151,402	17.4%	17.9%	23.0%	-	(1,000)	(23,000)
Richmond / Fountainview	7	570,048	162,464	28.5%	28.5%	29.3%	-	11,000	(3,000)
San Felipe / Voss	30	3,339,364	432,448	13.0%	13.1%	16.3%	-	(60,000)	(150,000)
<b>West Loop</b>	<b>104</b>	<b>12,630,623</b>	<b>1,452,593</b>	<b>11.5%</b>	<b>11.7%</b>	<b>15.2%</b>	-	<b>(94,000)</b>	<b>(172,000)</b>
<b>Westchase</b>	<b>53</b>	<b>7,134,821</b>	<b>1,248,594</b>	<b>17.5%</b>	<b>17.6%</b>	<b>22.5%</b>	-	<b>(100,000)</b>	<b>(614,000)</b>
<b>The Woodlands</b>	<b>51</b>	<b>4,453,074</b>	<b>432,839</b>	<b>9.7%</b>	<b>10.9%</b>	<b>16.0%</b>	-	<b>(7,000)</b>	<b>28,000</b>
<b>Conroe</b>	<b>9</b>	<b>688,859</b>	<b>90,241</b>	<b>13.1%</b>	<b>13.1%</b>	<b>13.6%</b>	-	<b>(22,000)</b>	<b>(15,000)</b>
<b>TOTAL - Houston</b>	<b>776</b>	<b>98,367,998</b>	<b>15,164,120</b>	<b>15.4%</b>	<b>16.4%</b>	<b>21.2%</b>	<b>338,800</b>	<b>(497,000)</b>	<b>(1,023,000)</b>

SOURCE CoStar, Transwestern

NOTE Includes buildings 50,000 SF RBA and greater; does not include buildings under construction or owned by the government

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## Houston Office Market Indicators - Asking Rental Rates

SUBMARKET	2013 CLASS A	2013 CLASS B	2014 CLASS A	2014 CLASS B	2015 CLASS A	2015 CLASS B	2016 CLASS A	2016 CLASS B	% CHANGE 12/15-12/16 CLASS A	% CHANGE 12/15-12/16 CLASS B
Central Business District	\$39.32	\$25.99	\$42.71	\$28.13	\$43.87	\$28.66	\$43.47	\$29.36	-0.9%	2.4%
Midtown	\$30.32	\$26.03	\$34.36	\$27.17	\$34.73	\$27.39	\$34.09	\$27.59	-1.8%	0.7%
<b>Downtown</b>	<b>\$38.47</b>	<b>\$25.99</b>	<b>\$41.26</b>	<b>\$28.03</b>	<b>\$42.28</b>	<b>\$28.57</b>	<b>\$42.35</b>	<b>\$29.24</b>	<b>0.1%</b>	<b>2.3%</b>
FM 1960 / I-45 North	-	\$18.06	-	\$18.20	\$25.00	\$17.65	\$23.69	\$17.70	-5.2%	0.3%
FM 1960 / Champions	-	\$13.19	-	\$13.55	-	\$13.80	\$0.00	\$13.76	-	-0.3%
FM 1960 / Highway 249	\$25.67	\$20.80	\$26.56	\$20.62	\$26.87	\$20.73	\$27.09	\$20.75	0.8%	0.1%
<b>FM 1960</b>	<b>\$25.71</b>	<b>\$15.52</b>	<b>\$26.56</b>	<b>\$15.74</b>	<b>\$26.73</b>	<b>\$15.99</b>	<b>\$26.84</b>	<b>\$16.59</b>	<b>0.4%</b>	<b>3.7%</b>
North Belt West / Greenspoint	\$29.51	\$15.63	\$30.26	\$15.59	\$28.29	\$14.92	\$28.38	\$14.49	0.3%	-2.9%
Greenspoint / IAH	\$21.36	\$16.34	\$21.65	\$15.80	\$21.77	\$15.97	\$21.75	\$15.78	-0.1%	-1.2%
<b>Greenspoint / North Belt</b>	<b>\$28.27</b>	<b>\$15.73</b>	<b>\$28.85</b>	<b>\$15.62</b>	<b>\$27.22</b>	<b>\$15.03</b>	<b>\$27.15</b>	<b>\$14.65</b>	<b>-0.3%</b>	<b>-2.6%</b>
Greenway Plaza	\$32.11	\$23.72	\$35.04	\$25.34	\$35.92	\$25.89	\$35.44	\$26.07	-1.3%	0.7%
Gulf Freeway / Pasadena	-	\$21.61	-	\$22.35	-	\$22.35	\$0.00	\$22.74	-	1.7%
<b>Katy</b>	<b>\$31.58</b>	<b>\$23.20</b>	<b>\$32.26</b>	<b>\$23.71</b>	<b>\$32.94</b>	<b>\$24.01</b>	<b>\$32.89</b>	<b>\$23.94</b>	<b>-0.2%</b>	<b>-0.3%</b>
Katy Freeway East	\$35.52	\$21.79	\$36.65	\$23.26	\$38.02	\$23.89	\$37.78	\$22.81	-0.6%	-4.5%
Katy Freeway West	\$33.69	\$20.52	\$35.98	\$22.73	\$37.19	\$23.13	\$36.66	\$22.98	-1.4%	-0.6%
<b>Katy Fwy / Energy Corridor</b>	<b>\$33.92</b>	<b>\$21.12</b>	<b>\$36.15</b>	<b>\$22.90</b>	<b>\$37.40</b>	<b>\$23.25</b>	<b>\$36.83</b>	<b>\$22.96</b>	<b>-1.5%</b>	<b>-1.3%</b>
Kingwood / Humble	\$32.13	\$19.00	\$32.13	\$19.54	\$32.55	\$18.75	\$32.09	\$18.88	-1.4%	0.7%
NASA / Clear Lake	\$23.58	\$18.33	\$25.01	\$18.62	\$25.01	\$18.82	\$24.58	\$18.32	-1.7%	-2.7%
<b>Northeast</b>	<b>-</b>	<b>\$16.57</b>	<b>-</b>	<b>\$17.32</b>	<b>-</b>	<b>\$17.29</b>	<b>\$0.00</b>	<b>\$17.18</b>	<b>-</b>	<b>-0.6%</b>
North Loop West	\$23.81	\$18.25	\$26.76	\$20.50	\$26.97	\$20.81	\$26.90	\$21.31	-0.3%	2.4%
Northwest Near	-	\$15.60	-	\$16.40	-	\$16.63	\$0.00	\$17.11	-	2.9%
Northwest Far	\$19.04	\$15.31	\$19.29	\$16.66	\$19.38	\$16.70	\$19.14	\$16.61	-1.2%	-0.5%
<b>Northwest</b>	<b>\$21.83</b>	<b>\$16.72</b>	<b>\$22.30</b>	<b>\$18.50</b>	<b>\$22.44</b>	<b>\$18.32</b>	<b>\$23.05</b>	<b>\$18.60</b>	<b>2.7%</b>	<b>1.5%</b>
<b>South Main / Medical Center</b>	<b>\$28.54</b>	<b>\$24.00</b>	<b>\$29.09</b>	<b>\$25.09</b>	<b>\$29.19</b>	<b>\$25.26</b>	<b>\$29.40</b>	<b>\$25.23</b>	<b>0.7%</b>	<b>-0.1%</b>
Southwest / Hillcroft	\$21.75	\$14.18	\$21.98	\$13.81	\$22.04	\$14.10	\$21.62	\$14.39	-1.9%	2.1%
Southwest Beltway 8	\$23.24	\$16.68	\$22.45	\$16.43	\$22.45	\$16.23	\$22.60	\$16.62	0.7%	2.4%
East Ft Bend Co. / Sugar Land	\$28.53	\$21.32	\$28.34	\$21.60	\$29.13	\$21.49	\$29.50	\$21.68	1.3%	0.9%
<b>Southwest Fwy / Sugar Land</b>	<b>\$24.95</b>	<b>\$16.67</b>	<b>\$24.57</b>	<b>\$16.56</b>	<b>\$25.05</b>	<b>\$16.12</b>	<b>\$25.77</b>	<b>\$16.91</b>	<b>2.9%</b>	<b>4.9%</b>
<b>West Belt</b>	<b>\$30.35</b>	<b>\$23.21</b>	<b>\$31.42</b>	<b>\$23.83</b>	<b>\$32.02</b>	<b>\$23.89</b>	<b>\$31.86</b>	<b>\$23.86</b>	<b>-0.5%</b>	<b>-0.1%</b>
Bellaire	\$25.86	\$21.08	\$26.80	\$22.09	\$26.96	\$22.14	\$26.91	\$22.39	-0.2%	1.1%
Post Oak Park	\$35.43	\$26.36	\$35.94	\$27.43	\$36.51	\$27.76	\$37.11	\$28.08	1.6%	1.2%
Galleria	\$35.70	\$26.70	\$37.04	\$27.49	\$38.00	\$27.40	\$37.52	\$27.40	-1.3%	0.0%
Riverway	\$30.82	\$23.72	\$32.10	\$25.12	\$33.14	\$25.66	\$33.14	\$25.68	0.0%	0.1%
Richmond / Fountainview	-	\$16.64	-	\$17.54	-	\$17.83	-	\$17.75	-	-0.4%
San Felipe / Voss	\$32.44	\$22.40	\$34.54	\$23.41	\$35.19	\$23.50	\$34.92	\$23.76	-0.8%	1.1%
<b>West Loop</b>	<b>\$34.14</b>	<b>\$23.68</b>	<b>\$35.63</b>	<b>\$24.43</b>	<b>\$36.44</b>	<b>\$24.46</b>	<b>\$36.22</b>	<b>\$24.45</b>	<b>-0.6%</b>	<b>0.0%</b>
<b>Westchase</b>	<b>\$35.38</b>	<b>\$19.75</b>	<b>\$38.70</b>	<b>\$21.51</b>	<b>\$38.98</b>	<b>\$21.23</b>	<b>\$38.08</b>	<b>\$21.23</b>	<b>-2.3%</b>	<b>0.0%</b>
<b>The Woodlands</b>	<b>\$35.95</b>	<b>\$23.38</b>	<b>\$39.56</b>	<b>\$25.63</b>	<b>\$40.56</b>	<b>\$25.39</b>	<b>\$39.98</b>	<b>\$25.48</b>	<b>-1.4%</b>	<b>0.4%</b>
<b>Conroe</b>	<b>\$28.42</b>	<b>\$25.73</b>	<b>\$28.40</b>	<b>\$25.08</b>	<b>\$29.35</b>	<b>\$24.77</b>	<b>\$29.12</b>	<b>\$23.86</b>	<b>-0.8%</b>	<b>-3.7%</b>
<b>TOTAL - Houston</b>	<b>\$32.71</b>	<b>\$19.96</b>	<b>\$34.49</b>	<b>\$20.88</b>	<b>\$35.31</b>	<b>\$21.28</b>	<b>\$35.50</b>	<b>\$21.95</b>	<b>0.5%</b>	<b>3.2%</b>

SOURCE CoStar, Transwestern

NOTE Rents for properties using triple net terms have been grossed up to full service with operating expense data, rents reflect full service equivalent

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### METHODOLOGY

The information in this report is the result of a compilation of information on office, industrial, retail, multifamily and healthcare properties located in the Houston metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency.

