

Office Market

Downtown Houston

Houston's Office Market

Houston's office market represents one of the best values in the Houston region and in the United States. Rental rates are substantially lower than rates for similar class properties in other major cities. Economists predict a strong increase in job growth over the next several years resulting in a stronger economy for the Houston area. *Forbes* magazine ranks Houston fourth among ten major U.S. Metro areas where it appears that the recession is easing.

Creating the appetite for and attractiveness of investment in Houston's office market is demand for office space, limited large blocks of space, relatively favorable financing climate, and a widening view that real estate in Houston is a safe haven for capital. Office building investors are also attracted to densely populated urban communities with restaurants, cultural and sports attractions, because they will attract better-educated workers for their tenants in the short and long run.

Downtown's Office Market

Downtown Houston accounts for approximately 44 million square feet of Houston's office market including buildings that are owner occupied such as ExxonMobil and El Paso and remains the largest submarket in the region retaining approximately 21% of the region's office space. Downtown's office use is driven by firms in the energy business, but it has diversified with new firms added over the past decade such as the headquarters of Continental Airlines and Waste Management. Based on a sample of Class A space 41% is occupied by energy firms, 23% legal, 13% accounting, finance and banking and other 23%. Included in "other" are transportation, engineering & design, medical and business services.

KBR signed the biggest lease nationally since fall 2008 when it renewed its long-term lease and added additional space totaling 1.2 million square-feet. KBR is consolidating its offices in the KBR Tower and 500 Jefferson buildings, located in Cullen Center.



The 2Q2010 vacancy rate for downtown was reported by HFF at approximately 11% and lease rates for Class A space hover at \$35.11 per square foot and Class B at \$24.07 per square foot. Sublease space continues to increase this year, providing additional opportunities.

Location of Choice

Downtown has improved its competitiveness as a headquarters location as it has become a more attractive, perpetually active

and diverse place. It offers a Class A work environment and image desired by many corporate employers. Factors that support the long term viability of the downtown office market include:

- **Access to the largest, most diverse employment base**

Downtown companies have access to more employees in the region than in any other business district, because downtown is at the center of Houston’s transportation and transit networks. Whether employees are driving alone to work every day (about half do), taking Park & Ride directly from the suburbs (29%), riding local buses or light rail (8%), carpooling (11%) or walking, employees from all parts of the region can reach downtown with or without a car. Access to transit further eliminates the need for one parking space per employee.

- **Proximity to other businesses**

Companies have found that a downtown address puts them within walking distance of the region’s most powerful public accounting firms, legal firms, energy firms and bankers. This creates a critical level of business activity that provides synergies among businesses.

- **Prestige of a Central Business District address**

Companies have found that a downtown addresses adds cachet to their business image.

“This is a vibrant, entrepreneurial city where people and businesses with dreams come to see them fulfilled. And the heartbeat of Houston is Downtown. Part of our Vision at El Paso is to be “The Place to Work” and we intend to be successful in recruiting and retaining the next generation of knowledge workers to our company. Being downtown is part of that Vision. Our employees have access to everything they need within walking distance or a short train ride – the Texas Medical Center, the arts, professional sports, restaurants and other entertainment venues, housing, and soon a world-class downtown park.”
- Doug Foshee, President and Chief Executive Officer, El Paso Corporation

- **Employee productivity**

Employees spend less time away from the office because of the tremendous convenience offered by hundreds of nearby restaurants and shops within walking distance, many in the 6.5-mile air conditioned pedestrian tunnel system.

- **Adjacent to business services**

In close proximity are chain and boutique hotels, business/client quality restaurants and bars, baseball, basketball, hockey, the George R. Brown Convention Center and other entertainment and services convenient to the business world.

- **Vibrant neighborhood**

Since 2000, \$3.8 billion has been invested here in parks, residential developments, infrastructure, hotels, office buildings, and more. Demonstrating downtown’s continued strength, there is currently \$1 billion in development under construction, with \$760 million in pre-development or design. Increasingly, a diverse active downtown urban

environment with amenities for workers to interact outside of the workplace including sports, arts and culture, entertainment, education, dining and shopping.

Vibrant Market

Tenants are attracted to downtown for a variety of reasons: largest pool of labor available in Houston because of transportation via freeways, buses, light rail system, high occupancy vehicle lanes or Park and Ride; office space value; the prestige of a downtown address; proximity to other businesses such as attorneys, suppliers, partners, etc.; and employee productivity because of immediate proximity to restaurants and services.

After more than \$4 billion in new development over the past fifteen years, a wide range of projects have enhanced downtown's ability to attract new companies, residents and activities, which are drawn this vibrant downtown economy. Downtown continues to be the desirable place to work and do business. Over the years, companies have moved or relocated to downtown to increase their stature in the eyes of their clients so they could compete with larger firms. Downtown is heralding in a new generation of office buildings:

- The recently completed 200,000 square-foot Pavilions Tower is part of a new \$170 million, four block, mixed-use development. Build-out of office space has begun in 262,356 square-feet (combined office and retail space) for NRG and its retail business. Occupancy is scheduled to begin in November 2010.
- Hines's MainPlace is under construction and scheduled to open in the first quarter of 2011. This 46-story building is pre-certified LEED-Core and Shell Silver, and has the goal of LEED Gold, and will count a recessed sky garden and green roof among its amenities. KPMG will occupy the top four floors of this 960,000 square-foot building in February 2011.
- Trammell Crow is under construction with the 30-story Hess Tower. This office building which fronts Discovery Green, a 12-acre urban park, is scheduled for occupancy in May 2011 with a pre-certified LEED-Core and Shell Gold certification and 10 rooftop wind turbines.
- Portfolio Associates Inc. has completed a 20,000 square-foot, three-story office for this architecture firm's new headquarters at Pease and Chenevert.



MainPlace



Green Works Downtown

Houston ranks second in total square footage and first in emissions prevented in the nation on the EPA Green Building list. Downtown is making headway on the sustainability front, with 34 Energy Star buildings, four certified LEED-Commercial Interiors projects, six Gold certified LEED-Existing Building buildings (First City Tower, One Shell Plaza, Two Shell Plaza, Chase Tower, Bank of America Center, 1100 Louisiana), two LEED Silver (717 Texas and 919 Milam), one LEED Gold New Construction (Discovery Green), and two LEED-Core & Shell pre-certified buildings under construction (Hess Tower and MainPlace). Additional buildings are expected to be certified later in 2010.