

Submarket overview

- Houston's Central Business District (CBD) is at the heart of this business community with a workforce of 140,000 and 11 of Houston's 26 Fortune 500 companies.
- Fortune 500 powerhouses such as Chevron, Shell, Continental Airlines, KBR, Fulbright & Jaworski, Vinson & Elkins, Hess, and EOG Resources are a few of the larger tenants with long term commitments in the CBD.
- The Houston CBD office market experienced a booming fourth quarter of 2011, with overall positive net absorption of 226,540 square feet and direct positive net absorption of 164,481 square feet.
- Carrizo Oil and Gas signed an approximately 95,000 SF lease at One Allen Center, increasing their office space here in Houston by 50%.
- We expect activity to increase in the near term as 900,000 square feet of leases are set to expire in the CBD in 2012 and 1.5 million square feet of leases are rolling in 2013.
- Increased leasing activity, further increases in vacant space (sublease and "shadow" space), and continued flattening or increase in pressure on quoted rental rates are expected.
- Shell has engaged in renewing their leases at One and Two Shell Plaza. Totalling nearly 1.3 million square feet, it is the largest renewal in Houston. As part of the lease terms, Hines will spend over \$40 million dollars renovating the buildings.

Sales activity

- Hess Tower, an 844,000 SF Class A space set the record for value per SF at \$524. The total sale of \$442.5 million dollars was made to H&R REIT.
- JP Morgan Asset Management is purchasing the remaining interest in a majority of the Houston-Crescent Real Estate portfolio. This consists of the Houston Center complex (3 MSF) and Fulbright Tower (1.2 MSF) in the CBD.

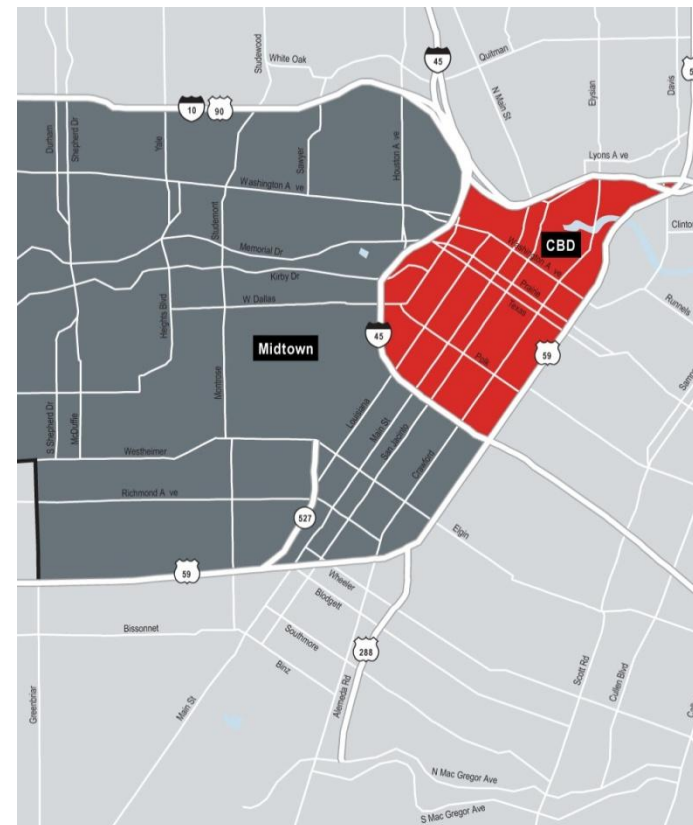
Average rental rates (Class A vs. Class B)



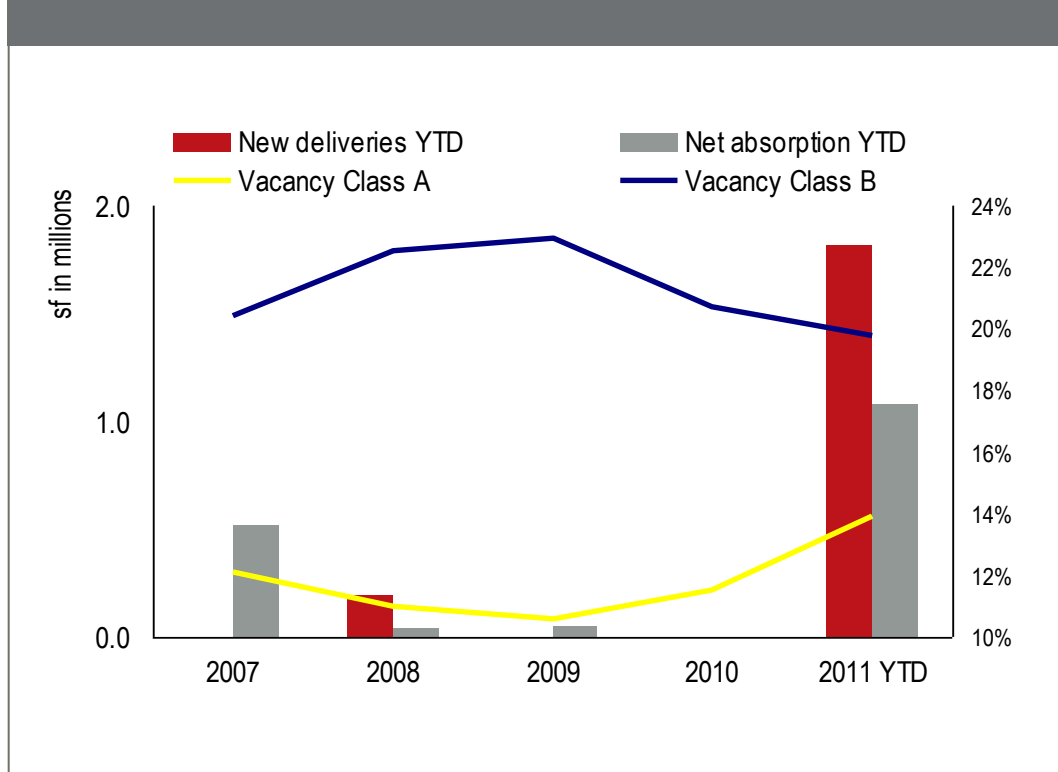
Key market indicators – 3Q 2011

Stock	➔	34,273,805 SF
Overall net absorption	➔	226,540 SF
Overall vacancy rate	➔	17.5%
Average asking rent	➔	\$33.79 PSF
Under construction	➔	0 SF

Arrows indicate change from previous quarter



Overall new deliveries / direct net absorption / direct vacancy rates



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