



Houston, Texas

Tenant's Guide ▪ North American Markets ▪ First Quarter 2012

Overview

After posting significant gains in 2011, Houston's office market continued to strengthen during the first quarter of 2012, as several large leases were executed by energy-related companies in the Energy Corridor, CBD, Greenway, and Woodlands. These large leases led the way to positive, citywide absorption in class A space of 1.5 MSF. In response to increased tenant demand, several developers announced new build-to-suit opportunities and two speculative developments. Rental rates continued their climb north with CBD class A space posting at \$37.36/SF, up from \$36.68 last quarter. Suburban class A buildings increased by an average of \$.50/SF to \$28.52/SF in the first quarter. The Exxon-Mobil campus, currently under construction, has drawn more companies towards the Woodlands resulting in new building development announcements to accommodate the explosive growth. The investment front kept pace with 2011 volumes as buildings (mostly class A) continued to change hands during the first quarter.

As long as oil prices remain above \$100/barrel and Houston adds the predicted 85,000 jobs in 2012, demand for space by energy-related companies will continue to push vacancies down and rental rates up. The rig count, another great indicator for our economy, is up 230 from a year ago, at a very healthy 1968 active rigs. Due to these driving forces increasing pressure on rental rates (as well as other factors – think recruitment, retention, and collaboration), many companies will continue to take out their wallets to facilitate their growth and plan for the future. Rental rates will rise throughout 2012 in all but a select few submarkets, as more six-digit lease announcements are expected throughout the year. Based on our market knowledge there are still several million square feet of tenants active in the market.

Market Trends

- Concession packages will reduce further during 2012.
- Competition for space among tenants will increase in prime properties and markets.
- Single digit vacancies will lead to more new construction announcements across the city.
- Build-out costs will increase while landlord allowances remain flat.

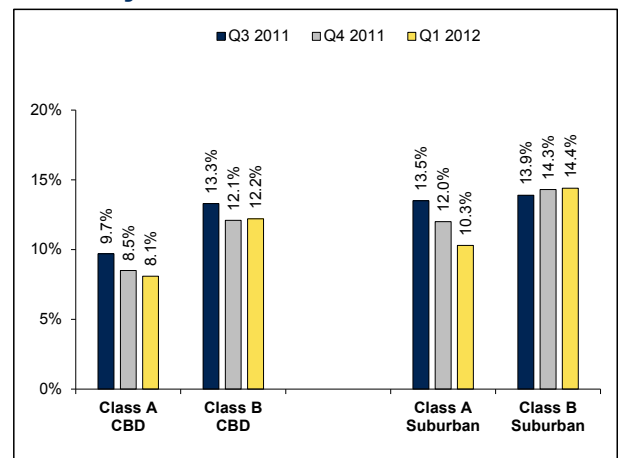
Tenant's Perspective

Tenants need to engage the market early and proactively approach real estate decisions to be prepared to work multiple options in a fast paced market. Although rents are increasing and options are becoming fewer, once the new construction is delivered at the end of 2013, some easing should occur.

Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
1000 Main St.	837,000	Office	Sale
Brookhollow Central	806,400	Office	Sale
Noble Energy	497,000	Office	Lease
Apache Corp.	497,000	Office	Lease
LyondellBasell	358,138	Office	Lease
Plaza at Enclave	344,296	Office	Sale
1177 W. Loop South	341,947	Office	Sale
FMC Technologies	162,416	Office	Lease
ENI	141,000	Office	Lease
Schlumberger Tech.	105,432	Office	Lease

Vacancy Rate



Average Rental Rates

CBD	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$36.07	\$36.68	\$37.36
Class B Office	\$23.77	\$23.70	\$23.86

Suburban	Q3 2011	Q4 2011	Q1 2012
Class A Office	\$27.65	\$28.02	\$28.52
Class B Office	\$18.58	\$18.51	\$18.70

