Market Review & Outlook

Review: Rents Flat as Energy Markets Contract

Office-using employment fell slightly during 2015, its first decline since 2008. Leasing activity totaled only 8.4 msf, the weakest tally since 2009. Effective rents were still rising in the first half of 2015, but started to come down late in the year as the magnitude of the fallout in the energy sector became more apparent.

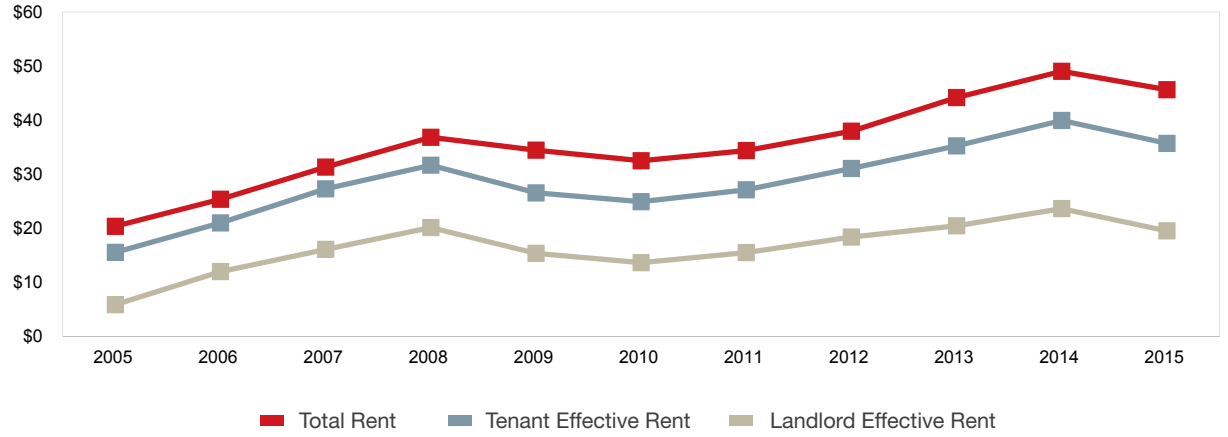
	2015	% Change
Net Rent	$29.75	-10.5
Operating Expenses	6.75	1.0
Real Estate Taxes	6.90	1.3
Tenant Electricity	2.30	0.0
Total Rent	45.70	-6.8
Amortized Concessions	-9.94	9.1
Tenant Effective Rent	**35.76**	**-10.4**
Landlord Effective Rent	**19.51**	**-17.5**

Outlook: Year of Correction for 2016

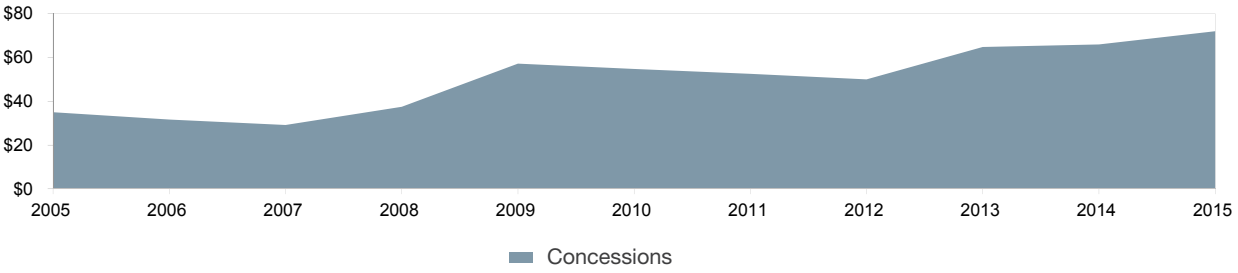
A marketwide pullback among energy firms, extensive sublet space and mistimed new construction will provide tenants with favorable conditions in 2016. A larger decrease in effective rents is anticipated next year.

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Rent Trends



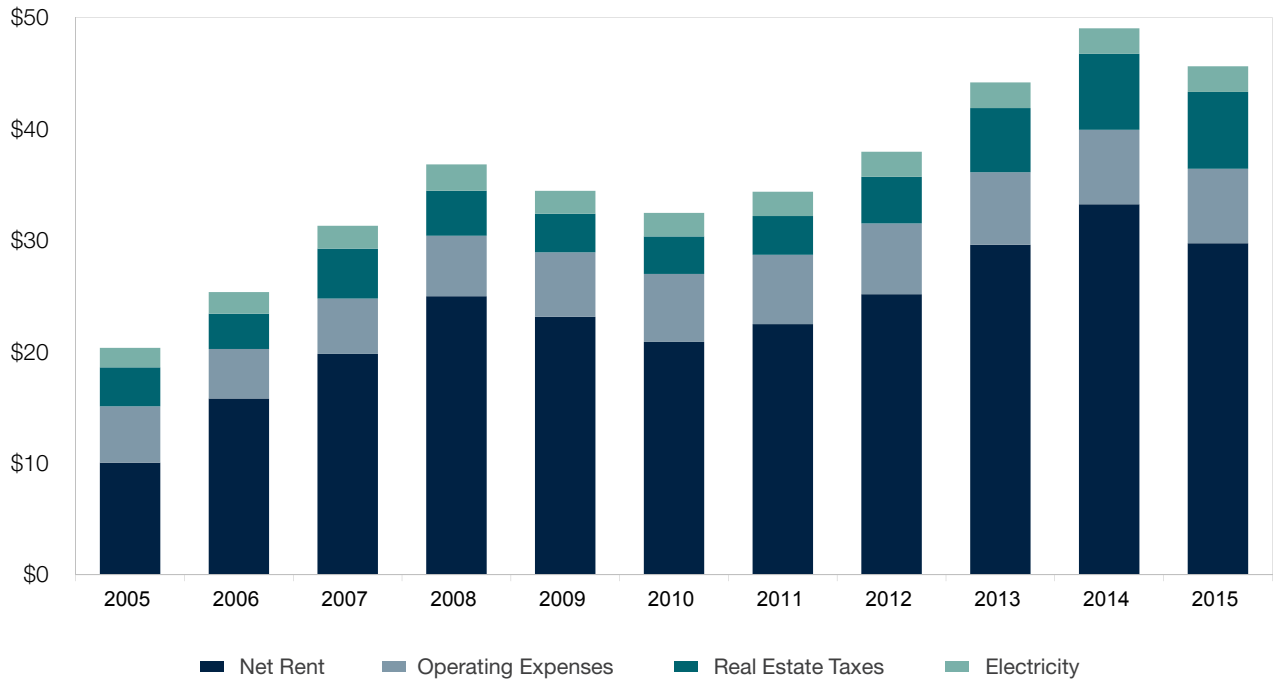
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$20.37	$25.37	$31.32	$36.83	$34.45	$32.48	$34.37	$37.96	$44.18	$49.04	$45.70	-6.8%	7.1%	8.4%
Tenant Effective Rent	$15.54	$21.00	$27.29	$31.66	$26.55	$24.93	$27.12	$31.06	$35.24	$39.93	$35.76	-10.4%	7.5%	8.7%
Landlord Effective Rent	$5.87	$11.98	$16.09	$20.13	$15.37	$13.63	$15.50	$18.39	$20.46	$23.64	$19.51	-17.5%	7.4%	12.8%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$35.00	$31.67	$29.17	$37.50	$57.23	$54.75	$52.55	$50.00	$64.81	$66.00	$72.00	9.1%	5.6%	7.5%
Concessions/Rent Ratio*	23.7%	17.2%	12.9%	14.1%	22.9%	23.3%	21.1%	18.2%	20.2%	18.6%	21.8%	3.2		

* Equals amortized concessions as a percentage of total rent.

Total rent fell for the first time since 2010, declining by 6.8% to $45.70. Net rent dropped by 10.5% to $29.75. Operating expenses (+1.0%) and real estate taxes (+1.3%) rose but tenant electric was unchanged. The value of concession packages continued to increase, rising by 9.1% to $72.00. Tenant effective rent decreased by 10.4% to $35.76 and landlord effective rent posted its biggest decline since 2007, falling by 17.5% to $19.51.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$10.07	$15.82	$19.82	$25.00	$23.15	$20.90	$22.50	$25.18	$29.62	$33.25	$29.75	-10.5%	7.3%	11.4%
Operating Expenses	$5.05	$4.45	$4.97	$5.43	$5.79	$6.10	$6.22	$6.35	$6.50	$6.68	$6.75	1.0%	2.0%	2.9%
Real Estate Taxes	$3.50	$3.16	$4.48	$4.03	$3.45	$3.37	$3.47	$4.18	$5.76	$6.81	$6.90	1.3%	15.4%	7.0%
Electricity	$1.75	$1.94	$2.05	$2.37	$2.06	$2.11	$2.18	$2.25	$2.30	$2.30	$2.30	0.0%	1.7%	2.8%
Total Rent	**$20.37**	**$25.37**	**$31.32**	**$36.83**	**$34.45**	**$32.48**	**$34.37**	**$37.96**	**$44.18**	**$49.04**	**$45.70**	**-6.8%**	**7.1%**	**8.4%**

Lease Terms/Concessions

Review: Concessions Spike

Concessions pushed higher throughout 2015 as leasing activity plummeted. Landlords extended generous free rent periods and increased tenant improvement allowances. Lease restructures, off the table for years, made a comeback as well.

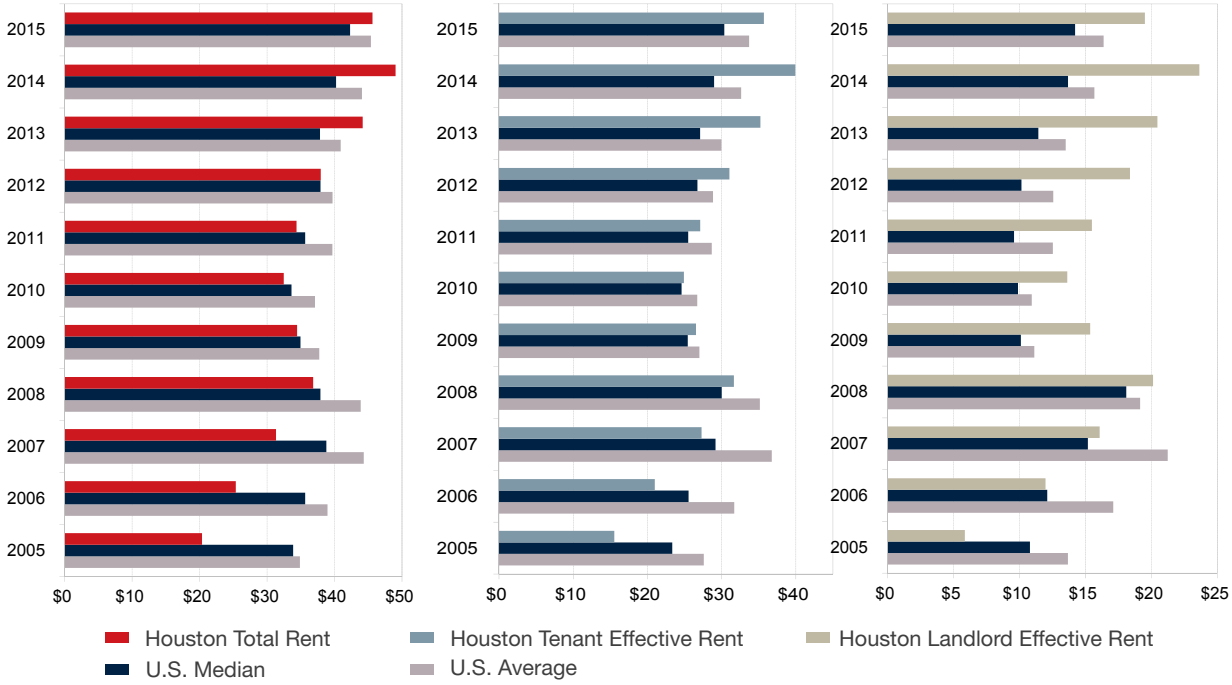
Leases Under 50,000 sf	
Average Term:	7 years
Free Rent:	3 months
Tenant Improvements:	$35.00/sf
Parking:	3 months
Refurbish Allowance:	$3.00-$5.00/sf

Leases Over 50,000 sf	
Average Term:	10 years
Free Rent:	7 months
Tenant Improvements:	$45.00/sf
Parking:	5-7 months
Refurbish Allowance:	$5.00-$7.00/sf

Outlook: Concessions to Remain Elevated

Some landlords have still resisted rental rate reductions but most have already started to pad concession packages in an effort to drive leasing activity. With most oil and gas firms avolding expenditures, those tenants signing leases will be able to secure favorable lease terms next year.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Houston	$20.37	$25.37	$31.32	$36.83	$34.45	$32.48	$34.37	$37.96	$44.18	$49.04	$45.70
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

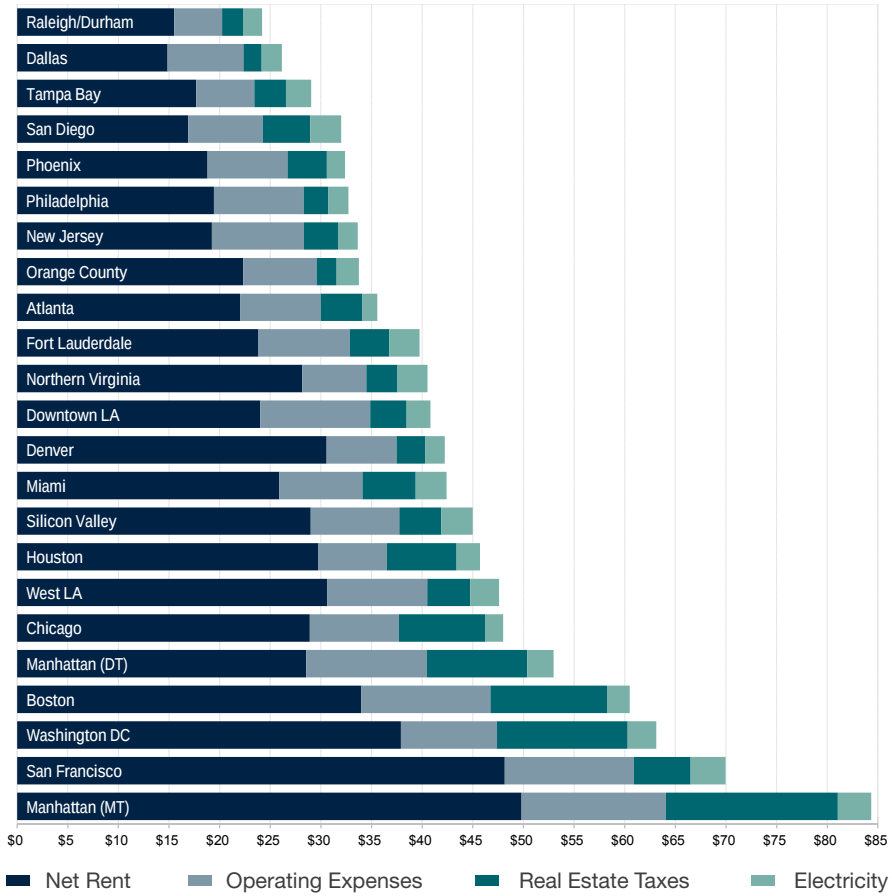
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Houston	$15.54	$21.00	$27.29	$31.66	$26.55	$24.93	$27.12	$31.06	$35.24	$39.93	$35.76
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Houston	$5.87	$11.98	$16.09	$20.13	$15.37	$13.63	$15.50	$18.39	$20.46	$23.64	$19.51
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in the Houston CBD during 2015.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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