



# HOUSTON OFFICE MARKET RESEARCH & FORECAST REPORT



## Houston's Strong Job Growth Boosts Office Leasing Activity

Houston's strong job growth due to the rapid expansion in the energy sector has boosted office leasing during the first half of 2012. Houston's office market posted 1.4 million SF of positive absorption in the second quarter, pushing the year-to-date total to 2.4 million SF. Increased demand for office space has reduced available inventory, leaving companies that are looking to expand or move into the market with very few options. Office developers have responded by announcing several new spec projects since last quarter.

In addition to the Exxon/Mobile North Houston campus, Anadarko's second corporate tower in The Woodlands, and Phillips 66 announcement regarding their plans to build their headquarters in West Houston, Apache Corp. recently announced the purchase of 6.4 acres of Wulfe & Co.'s BLVD Place mixed-use development in the Galleria area.

Multi-tenant office developments recently announced include Energy Crossing II, a 245,000 SF Lincoln Property Co. development in West Houston which Atwood Oceanics preleased 82,000 SF. Other companies that have announced plans for new office developments include Stena Realty, Trammell Crow, Core Real Estate, Mac Haik, Skanska, and Stream Realty/Wile Interests, to name a few. A complete list of properties currently under construction can be found on page 7 of this report.

Citywide, overall vacancy levels remained relatively unchanged between quarters, decreasing by only 10 basis points. The citywide average rental rate rose between quarters from \$23.56 per SF to \$23.66 per SF.

The Houston metropolitan area added 88,000 jobs between May 2011 and May 2012, an increase of 3.4%. Unemployment fell to 6.9% from 8.1% one year ago. Houston area home sales increased by 23.8% compared to May 2011 sales. With continued expansion in the energy industry and a strong housing market, Houston's economy is expected to remain healthy for both the near and long-term.

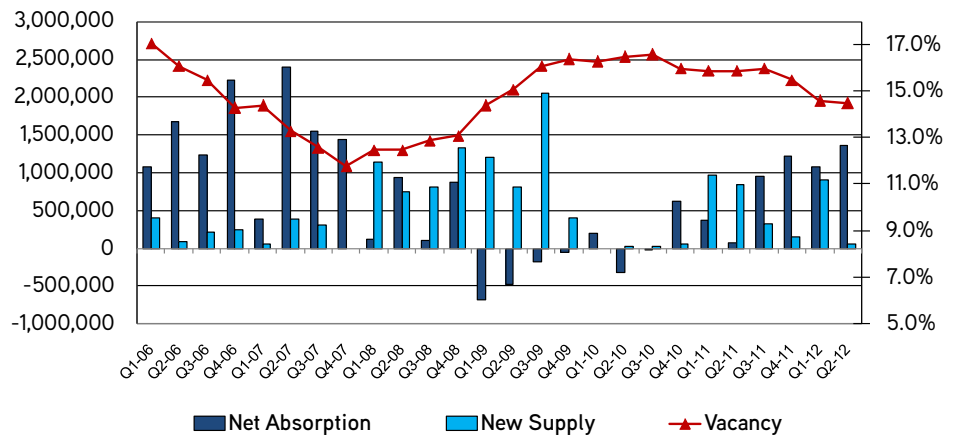
MARKET INDICATORS			
	Q2 2011	Q2 2012	
<b>CITYWIDE NET</b>			
ABSORPTION (SF)	81k	1.4m	↑
<b>CITYWIDE AVERAGE</b>			
VACANCY	15.9%	14.5%	↓
<b>CITYWIDE AVERAGE</b>			
RENTAL RATE	\$22.70	\$23.66	↑
<b>CLASS A RENTAL RATE</b>			
CBD	\$34.15	\$36.80	↑
SUBURBAN	\$26.63	\$27.81	↑
<b>CLASS A VACANCY</b>			
CBD	12.5%	10.9%	↓
SUBURBAN	16.2%	12.3%	↓

JOB GROWTH & UNEMPLOYMENT (Not Seasonally Adjusted)		
UNEMPLOYMENT	5/11	5/12
HOUSTON	8.1%	6.9%
TEXAS	7.8%	6.9%
U.S.	8.7%	7.9%

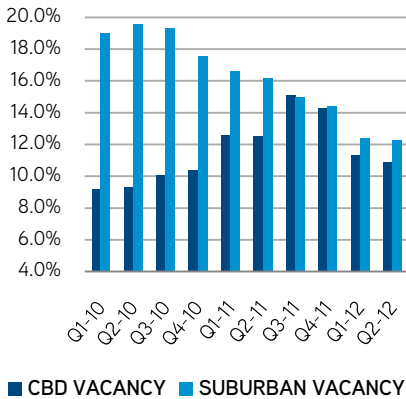
JOB GROWTH	ANNUAL CHANGE	# OF JOBS ADDED
HOUSTON	3.4%	88.0k
TEXAS	2.2%	228.5k
U.S.	1.4%	1.8m

ABSORPTION, NEW SUPPLY & VACANCY RATES

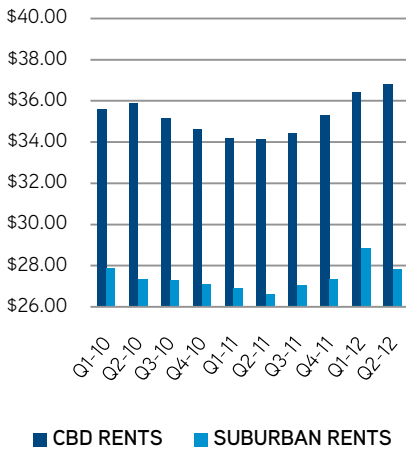


**CBD VS. SUBURBAN**

**CLASS A OFFICE VACANCY**



**CLASS A OFFICE RENTS**



**VACANCY & AVAILABILITY**

Overall vacancy rates decreased by 10 basis points to 14.5% from 14.6% on a quarterly basis. The average suburban vacancy rate decreased by 20 basis points to 14.5% from 14.7% the previous quarter, while CBD vacancy increased by 10 basis points to 14.4% from 14.3%. On a year-over-year basis, the city-wide vacancy rate decreased by 140 basis points to 14.5% from 15.9%. The suburban vacancy rate decreased by 140 basis points to 14.5% from 15.9%, and the CBD vacancy rate decreased by 160 basis points to 14.4% from 16.0%.

The CBD Class A vacancy rate decreased by 40 basis points to 10.9% from 11.3% between quarters, while the CBD Class B vacancy rate increased 170 basis points to 19.2% from 17.5%. The suburban Class A vacancy rate decreased by 10 basis points to 12.3% from 12.4% between quarters, while the suburban Class B vacancy rate decreased to 16.9% from 17.3%.

Citywide, a total of 37 office properties have a minimum of 100,000 SF available for occupancy within 18 months, including both direct and sublease space. Only 14 of these properties have over 200,000 SF available.

Available sublease space totals 1.5 million SF or 0.7% of total inventory, of which 0.9 million SF is currently vacant.

1,370,080 SF in the second quarter, pushing the year-to-date absorption total to 2,444,573 SF. Contributing to the second quarter's positive gain was suburban Class A space with a positive net absorption of 924,290 SF, followed by CBD Class A space with positive net absorption of 85,266 SF. Some of the larger tenants that moved into their space or expanded into additional space during the second quarter included Apache Corporation with 65,000 SF, Dynegy Inc. with 62,261 SF, WorleyParsons with 50,716 SF, Rockwater Energy Solutions with 44,666 SF, National Oilwell Varco with 42,296 SF, and BP 40,537 SF.

**RENTAL RATES**

The average citywide rental rate rose between quarters to \$23.66 from \$23.56 per square foot. The CBD Class A average quoted rental rate increased to \$36.80 from \$36.42 per square foot, while the suburban Class A average quoted rental rate decreased to \$27.81 from \$28.86 per square foot.

The CBD Class B average quoted rental rate decreased slightly to \$23.61 from \$23.81 per square foot, while the suburban Class B average quoted rental rate decreased to \$18.54 from \$19.05 per square foot between quarters.

On a year-over-year basis the citywide average quoted rental rate increased by 4.2% to \$23.66 from \$22.70 per square foot.

**ABSORPTION & DEMAND**

Houston recorded positive net absorption of

**QUOTED GROSS RENTAL RATES FOR TOP PERFORMING OFFICE BUILDINGS**

BUILDING NAME	ADDRESS	SUBMARKET	RBA (SF)	YEAR BUILT	LEASED	AVAIL. SF	RENT (\$/SF)	OWNER
5 Houston Center	1401 McKinney St	CBD	600,000	2002	98.0%	71,414	\$42.66	Wells Real Estate Funds
1000 Main	1000 Main St	CBD	837,161	2003	98.3%	22,420	\$42.00	INVESCO
Heritage Plaza	1111 Bagby	CBD	1,089,266	1986	96.1%	42,403	\$41.94	Brookfield Office Properties
BG Group Place	811 Main	CBD	972,474	2011	70.1%	291,079	\$41.87	CalPERS/Hines
Wells Fargo Bank Tower	1300 Post Oak Blvd.	Galleria	491,254	1983	94.1%	33,136	\$40.15	TIAA-CREF
Williams Tower	2800 Post Oak Blvd	Galleria	1,476,973	1983	98.5%	72,844	\$37.66	Hines Holdings Inc.
9 Greenway Plaza	9 Greenway	Greenway	746,824	1978	94.3%	66,522	\$31.90	Crescent Real Estate Equities
Enclave Business Park	1200 Enclave Pky	Katy Freeway	149,683	1999	82.4%	39,094	\$35.73	Piedmont Office Realty Trust, Inc.
San Felipe Plaza	5847 San Felipe St	San Felipe/Voss	980,472	1984	85.0%	190,625	\$37.92	Thomas Properties Group, L.P.
One BriarLake Plaza	2000 W. Sam Houston	Westchase	502,410	2000	100.0%	70,668	\$41.05	Behringer Harvard Holdings
24 Waterway	24 Waterway Ave.	Woodlands	311,938	2009	98.6%	12,250	\$36.89	Black Forest Ventures LLC

Note: Avail. SF includes direct and sublet space.  
Source: CoStar Property

## SALES ACTIVITY

Houston's office investment sales activity decreased between quarters with 15 properties changing hands, compared to 21 in the previous quarter. According to CoStar Comps, Houston office sales transactions had a total dollar volume of \$170.8 million, averaging \$139/SF with a 6.4% capitalization rate.

Some of the more significant transactions that closed during the second quarter are listed below.

Q2 2012 SIGNIFICANT SALES TRANSACTIONS								
BUILDING NAME	SUBMARKET	RBA (SF)	YEAR BUILT	BUYER	SELLER	SALE PRICE	\$/SF	CLOSED
Waterway Plaza I & II	Woodlands	366,043	2000	The Lionstone Group	Daymark Realty Advisors	\$83M	\$227	6/2012
The Reserve at Sierra Pines	Woodlands	175,035	2009	Capital Lease Funding, Inc.	Stream Realty Partners, LP	\$40.5M	\$231	6/2012
Memorial 6 Center	Katy Freeway	156,703	1985	JP Realty Partners Ltd	Aque Investment Group	\$10.5M	\$67	4/2012

## LEASING ACTIVITY

Houston's office leasing activity reached 2.8 million SF in the second quarter, pushing the year-to-date total to over 7.2 million SF. Below is a list of the significant 2Q 2012 lease transactions.

Q2 2012 SIGNIFICANT LEASE TRANSACTIONS				
BUILDING NAME/ADDRESS	SUBMARKET	SF	TENANT	LEASE DATE
MetroNational MemCity 4	Katy Freeway	200,000	Murphy Oil	Jun-12
Reserve at Park Ten	Katy Freeway	130,282	WorleyParsons	Apr-12
1600 Smith	CBD	140,475	Chevron U.S.A. Inc. <sup>1</sup>	May-12
Heritage Plaza	CBD	108,565	Rosetta Resources Operating LP	May-12
America Tower	Midtown	90,000	UHY Advisors	Apr-12
Ashford 7	Katy Freeway	83,960	Sasol North America <sup>1,2</sup>	Apr-12
Ashford 7	Katy Freeway	83,692	Mustang Engineering	Apr-12
Wells Fargo Plaza	CBD	78,000	Halcon Resources <sup>2</sup>	Jun-12
Braeswood Tower II	Bellaire	73,196	Empyrean Benefits	Apr-12
5444 Westheimer	Galleria/West Loop	58,011	AECOM Technology	May-12
3100 Hayes Rd	Westchase	55,000	Affiliated Computer Service, Inc. <sup>1</sup>	Apr-12
Wells Fargo Plaza	CBD	52,238	Cathexis <sup>2</sup>	Jun-12
Phoenix Tower	Greenway Plaza	50,716	WorleyParsons	Apr-12
1800 West Loop	Galleria/West Loop	48,000	Health Care Services Corp	Apr-12
9801 Westheimer	Westchase	42,296	National Oilwell Varco	Apr-12
5 Houston Center	CBD	30,000	Crain, Caton & James <sup>1</sup>	Apr-12
5 Houston Center	CBD	27,000	Bank of Texas <sup>1,2</sup>	Apr-12
11811 North Freeway	North Belt/Greenspoint	25,506	First Financial Group of America	Apr-12
1550 LaConcha	S Main/Medical Center	25,225	Southwest Key Program	May-12
Comerica Bank Building	E Fort Bend/Sugar Land	21,000	Amerex Brokers LLC <sup>1</sup>	May-12
1001 McKinney	CBD	20,001	McGlinchey Stafford PLLC <sup>1</sup>	Apr-12

<sup>1</sup>Renewal

<sup>2</sup>Expansion

<sup>3</sup>Sublease

## HOUSTON OFFICE MARKET SUMMARY (CBD, SUBURBAN &amp; CITYWIDE)

Class	Inventory		Direct Vacancy		Sublease Vacancy		Vacancy	Vacancy Rate (%)		Net Absorption (SF)		Rental Rate
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q2-2012	Q1-2012	Q2-2012	YTD-2012	AVG (\$/SF)
<b>CBD</b>												
A	27	26,094,764	2,503,041	9.6%	345,372	1.3%	2,848,413	10.9%	11.3%	85,266	324,414	\$36.80
B	35	9,749,422	1,854,381	19.0%	15,128	0.2%	1,869,509	19.2%	17.5%	9,958	30,815	\$23.61
C	24	2,053,866	751,346	36.6%	0	0.0%	751,346	36.6%	36.6%	246	7,087	\$19.26
<b>Total</b>	<b>86</b>	<b>37,898,052</b>	<b>5,108,768</b>	<b>13.5%</b>	<b>360,500</b>	<b>1.0%</b>	<b>5,469,268</b>	<b>14.4%</b>	<b>14.3%</b>	<b>95,470</b>	<b>362,316</b>	<b>\$32.45</b>
<b>SUBURBAN</b>												
A	247	67,651,729	8,045,076	11.9%	280,226	0.4%	8,325,302	12.3%	12.4%	924,290	1,888,409	\$27.81
B	923	74,521,063	12,257,091	16.4%	344,030	0.5%	12,601,121	16.9%	17.3%	315,996	143,445	\$18.54
C	441	17,963,476	2,266,218	12.6%	31,658	0.2%	2,297,876	12.8%	12.8%	34,324	50,403	\$14.79
<b>Total</b>	<b>1611</b>	<b>160,136,268</b>	<b>22,568,385</b>	<b>14.1%</b>	<b>655,914</b>	<b>0.4%</b>	<b>23,224,299</b>	<b>14.5%</b>	<b>14.7%</b>	<b>1,274,610</b>	<b>2,082,257</b>	<b>\$21.69</b>
<b>OVERALL</b>												
A	274	93,746,493	10,548,117	11.3%	625,598	0.7%	11,173,715	11.9%	12.1%	1,009,556	2,212,823	\$30.20
B	958	84,270,485	14,111,472	16.7%	359,158	0.4%	14,470,630	17.2%	17.3%	325,954	174,260	\$19.20
C	465	20,017,342	3,017,564	15.1%	31,658	0.2%	3,049,222	15.2%	15.2%	34,570	57,490	\$15.20
<b>Total</b>	<b>1697</b>	<b>198,034,320</b>	<b>27,677,153</b>	<b>14.0%</b>	<b>1,016,414</b>	<b>0.5%</b>	<b>28,693,567</b>	<b>14.5%</b>	<b>14.6%</b>	<b>1,370,080</b>	<b>2,444,573</b>	<b>\$23.66</b>

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY

Class	Inventory		Direct Vacancy		Sublease Vacancy		Vacancy	Vacancy Rate (%)		Net Absorption (SF)		Rental Rate
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q2-2012	Q1-2012	Q2-2012	YTD-2012	AVG (\$/SF)
<b>Allen Parkway</b>												
A	3	1,478,488	209,222	14.2%	0	0.0%	209,222	14.2%	14.3%	1,925	-19,632	\$29.52
B	30	2,868,619	283,858	9.9%	1,518	0.1%	285,376	9.9%	7.4%	-73,792	-59,016	\$24.55
C	24	1,109,650	377,236	34.0%	0	0.0%	377,236	34.0%	33.8%	-2,500	-2,500	\$19.70
<b>Total</b>	<b>57</b>	<b>5,456,757</b>	<b>870,316</b>	<b>15.9%</b>	<b>1,518</b>	<b>0.1%</b>	<b>871,834</b>	<b>16.0%</b>	<b>14.6%</b>	<b>-74,367</b>	<b>-81,148</b>	<b>\$27.16</b>
<b>Baytown</b>												
B	4	244,544	0	0.0%	0	0.0%	0	0.0%	0.0%	0	6,802	\$14.53
C	4	201,358	7,814	3.9%	0	0.0%	7,814	3.9%	4.2%	553	-731	\$16.25
<b>Total</b>	<b>8</b>	<b>445,902</b>	<b>7,814</b>	<b>1.8%</b>	<b>0</b>	<b>0.0%</b>	<b>7,814</b>	<b>1.8%</b>	<b>1.9%</b>	<b>553</b>	<b>6,071</b>	<b>\$15.30</b>
<b>Bellaire</b>												
A	6	1,086,526	97,340	9.0%	0	0.0%	97,340	9.0%	11.3%	25,466	10,650	\$24.83
B	13	1,714,873	230,320	13.4%	0	0.0%	230,320	13.4%	13.5%	1,226	17,158	\$21.40
C	7	533,622	52,949	9.9%	0	0.0%	52,949	9.9%	9.9%	1,393	11,749	\$14.12
<b>Total</b>	<b>26</b>	<b>3,335,021</b>	<b>380,609</b>	<b>11.4%</b>	<b>0</b>	<b>0.0%</b>	<b>380,609</b>	<b>11.4%</b>	<b>12.2%</b>	<b>28,085</b>	<b>39,557</b>	<b>\$22.60</b>
<b>Conroe</b>												
A	1	60,000	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	3	128,970	33,138	25.7%	0	0.0%	33,138	25.7%	25.7%	75	1,592	\$15.85
C	8	376,307	2,250	0.6%	0	0.0%	2,250	0.6%	0.6%	0	625	\$7.98
<b>Total</b>	<b>12</b>	<b>565,277</b>	<b>35,388</b>	<b>6.3%</b>	<b>0</b>	<b>0.0%</b>	<b>35,388</b>	<b>6.3%</b>	<b>6.3%</b>	<b>75</b>	<b>2,217</b>	<b>\$15.27</b>
<b>E. Fort Bend/Sugar Land</b>												
A	17	3,354,182	757,299	22.6%	8,043	0.2%	765,342	22.8%	25.1%	54,671	62,626	\$28.42
B	35	2,092,123	347,653	16.6%	87,600	4.2%	435,253	20.8%	18.8%	-12,040	-63,393	\$19.82
C	5	216,013	4,639	2.1%	1506	0.7%	6,145	2.8%	1.5%	-2,885	-4,477	\$18.40
<b>Total</b>	<b>57</b>	<b>5,662,318</b>	<b>1,109,591</b>	<b>19.6%</b>	<b>97,149</b>	<b>1.7%</b>	<b>1,206,740</b>	<b>21.3%</b>	<b>21.9%</b>	<b>39,746</b>	<b>-5,244</b>	<b>\$25.04</b>

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	Inventory		Direct Vacancy		Sublease Vacancy		Vacancy	Vacancy Rate (%)		Net Absorption (SF)		Rental Rate
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q2-2012	Q1-2012	Q2-2012	YTD-2012	AVG (\$/SF)
<b>FM 1960</b>												
A	14	2,384,164	1,253,191	52.6%	3,051	0.1%	1,256,242	52.7%	35.2%	69,554	115,110	\$24.23
B	87	4,826,629	918,674	19.0%	39,170	0.8%	957,844	19.8%	19.8%	17,396	-44,530	\$15.68
C	20	699,078	69,043	9.9%	19,615	2.8%	88,658	12.7%	12.3%	-7,195	-8,441	\$13.85
<b>Total</b>	<b>121</b>	<b>7,909,871</b>	<b>2,240,908</b>	<b>28.3%</b>	<b>61,836</b>	<b>0.8%</b>	<b>2,302,744</b>	<b>29.1%</b>	<b>23.7%</b>	<b>79,755</b>	<b>62,139</b>	<b>\$18.13</b>
<b>Greenway</b>												
A	15	6,168,363	449,844	7.3%	15,855	0.3%	465,699	7.5%	9.3%	78,404	147,831	\$28.75
B	26	2,571,510	296,568	11.5%	2,000	0.1%	298,568	11.6%	12.7%	29,486	-628	\$22.84
C	21	867,157	284,733	32.8%	0	0.0%	284,733	32.8%	28.9%	-18,138	-1,017	\$17.44
<b>Total</b>	<b>62</b>	<b>9,607,030</b>	<b>1,031,145</b>	<b>10.7%</b>	<b>17,855</b>	<b>0.2%</b>	<b>1,049,000</b>	<b>10.9%</b>	<b>11.9%</b>	<b>89,752</b>	<b>146,186</b>	<b>\$25.63</b>
<b>Gulf Freeway/Pasadena</b>												
A	1	52,362	8,279	15.8%	0	0.0%	8,279	15.8%	15.8%	0	4,819	\$27.44
B	28	1,709,836	216,494	12.7%	6,405	0.4%	222,899	13.0%	12.7%	-6,151	951	\$18.95
C	26	1,006,420	119,255	11.8%	0	0.0%	119,255	11.8%	10.6%	-18,890	-25,077	\$14.61
<b>Total</b>	<b>55</b>	<b>2,768,618</b>	<b>344,028</b>	<b>12.4%</b>	<b>6,405</b>	<b>0.2%</b>	<b>350,433</b>	<b>12.7%</b>	<b>12.0%</b>	<b>-25,041</b>	<b>-19,307</b>	<b>\$17.86</b>
<b>I-10 East</b>												
B	4	274,672	72,714	26.5%	0	0.0%	72,714	26.5%	26.5%	0	5,750	\$14.99
C	6	189,062	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
<b>Total</b>	<b>10</b>	<b>463,734</b>	<b>72,714</b>	<b>15.7%</b>	<b>0</b>	<b>0.0%</b>	<b>72,714</b>	<b>15.7%</b>	<b>15.7%</b>	<b>0</b>	<b>5,750</b>	<b>\$14.99</b>
<b>Katy Freeway</b>												
A	44	11,147,153	724,826	6.5%	84,671	0.8%	809,497	7.3%	9.1%	207,787	349,468	\$29.80
B	90	7,870,158	1,379,542	17.5%	42,305	0.5%	1,421,847	18.1%	19.7%	137,505	46,583	\$19.15
C	36	1,656,367	165,537	10.0%	5,900	0.4%	171,437	10.4%	10.2%	-2,312	2,824	\$15.40
<b>Total</b>	<b>170</b>	<b>20,673,678</b>	<b>2,269,905</b>	<b>11.0%</b>	<b>132,876</b>	<b>0.6%</b>	<b>2,402,781</b>	<b>11.6%</b>	<b>13.2%</b>	<b>342,980</b>	<b>398,875</b>	<b>\$22.98</b>
<b>Kingwood/Humble</b>												
A	1	91,962	41,824	45.5%	0	0.0%	41,824	45.5%	45.5%	0	0	\$30.10
B	65	1,886,331	146,553	7.8%	1,000	0.1%	147,553	7.8%	7.0%	-14,800	165	\$20.06
C	82	748,720	18,110	2.4%	0	0.0%	18,110	2.4%	3.8%	6,962	20,146	\$16.92
<b>Total</b>	<b>148</b>	<b>2,727,013</b>	<b>206,487</b>	<b>7.6%</b>	<b>1,000</b>	<b>0.0%</b>	<b>207,487</b>	<b>7.6%</b>	<b>7.4%</b>	<b>-7,838</b>	<b>20,311</b>	<b>\$20.97</b>
<b>NASA/Clear Lake</b>												
A	8	1,230,469	172,659	14.0%	0	0.0%	172,659	14.0%	14.1%	5,093	-951	\$23.62
B	46	3,258,817	573,394	17.6%	6,138	0.2%	579,532	17.8%	18.5%	8,037	-110,212	\$19.23
C	25	913,776	139,104	15.2%	1,100	0.1%	140,204	15.3%	15.8%	3,942	-13,532	\$13.73
<b>Total</b>	<b>79</b>	<b>5,403,062</b>	<b>885,157</b>	<b>16.4%</b>	<b>7,238</b>	<b>0.1%</b>	<b>892,395</b>	<b>16.5%</b>	<b>16.9%</b>	<b>17,072</b>	<b>-124,695</b>	<b>\$19.37</b>
<b>North Belt/Greenspoint</b>												
A	19	4,348,663	350,826	8.1%	41,044	0.9%	391,870	9.0%	8.9%	871	-63,327	\$21.10
B	55	5,638,067	1,251,072	22.2%	78,136	1.4%	1,329,208	23.6%	21.7%	-60,064	-38,488	\$16.37
C	20	1,225,036	269,680	22.0%	1,937	0.2%	271,617	22.2%	23.4%	14,685	30,928	\$13.13
<b>Total</b>	<b>94</b>	<b>11,211,766</b>	<b>1,871,578</b>	<b>16.7%</b>	<b>121,117</b>	<b>1.1%</b>	<b>1,992,695</b>	<b>17.8%</b>	<b>17.0%</b>	<b>-44,508</b>	<b>-70,887</b>	<b>\$16.98</b>
<b>Northeast Near and Outlier</b>												
B	5	301,773	77,923	25.8%	0	0.0%	77,923	25.8%	25.8%	0	0	\$21.77
C	5	129,152	16,333	12.6%	0	0.0%	16,333	12.6%	12.6%	0	1,867	\$12.00
<b>Total</b>	<b>10</b>	<b>430,925</b>	<b>94,256</b>	<b>21.9%</b>	<b>0</b>	<b>0.0%</b>	<b>94,256</b>	<b>21.9%</b>	<b>21.9%</b>	<b>0</b>	<b>1,867</b>	<b>\$16.69</b>

## HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	Inventory		Direct Vacancy		Sublease Vacancy		Vacancy	Vacancy Rate (%)		Net Absorption (SF)		Rental Rate
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q2-2012	Q1-2012	Q2-2012	YTD-2012	AVG (\$/SF)
<b>Northwest/Outlier</b>												
A	19	3,493,935	661,040	18.9%	22,922	0.7%	683,962	19.6%	19.4%	-7,229	176,600	\$23.88
B	67	6,177,278	1,329,178	21.5%	26,467	0.4%	1,355,645	21.9%	22.5%	64,367	86,053	\$15.95
C	39	1,520,247	146,938	9.7%	0	0.0%	146,938	9.7%	10.5%	14,893	14,349	\$12.42
<b>Total</b>	<b>125</b>	<b>11,191,460</b>	<b>2,137,156</b>	<b>19.1%</b>	<b>49,389</b>	<b>0.4%</b>	<b>2,186,545</b>	<b>19.5%</b>	<b>19.9%</b>	<b>72,031</b>	<b>277,002</b>	<b>\$18.58</b>
<b>Richmond/Fountainview</b>												
B	14	775,717	247,164	31.9%	0	0.0%	247,164	31.9%	31.9%	280	-153,713	\$16.10
C	16	598,633	98,652	16.5%	0	0.0%	98,652	16.5%	17.7%	4,443	-18,249	\$12.94
<b>Total</b>	<b>30</b>	<b>1,374,350</b>	<b>345,816</b>	<b>25.2%</b>	<b>0</b>	<b>0.0%</b>	<b>345,816</b>	<b>25.2%</b>	<b>25.7%</b>	<b>4,723</b>	<b>-171,962</b>	<b>\$15.23</b>
<b>San Felipe/Voss</b>												
A	3	1,714,930	299,921	17.5%	0	0.0%	299,921	17.5%	17.4%	-5,448	7,278	\$32.53
B	32	3,306,422	284,919	8.6%	8,711	0.3%	293,630	8.9%	8.8%	-7,994	39,637	\$20.00
C	4	239,680	49,409	20.6%	0	0.0%	49,409	20.6%	20.2%	-1,945	-2,303	\$14.83
<b>Total</b>	<b>39</b>	<b>5,261,032</b>	<b>634,249</b>	<b>12.1%</b>	<b>8,711</b>	<b>0.2%</b>	<b>642,960</b>	<b>12.2%</b>	<b>12.1%</b>	<b>-15,387</b>	<b>44,612</b>	<b>\$24.48</b>
<b>South</b>												
A	1	80,000	19,000	23.8%	0	0.0%	19,000	23.8%	23.8%	0	1,702	\$26.13
B	13	479,107	63,316	13.2%	0	0.0%	63,316	13.2%	14.8%	7,364	11,342	\$16.33
C	4	162,262	76,020	46.9%	0	0.0%	76,020	46.9%	34.1%	0	0	\$13.84
<b>Total</b>	<b>18</b>	<b>721,369</b>	<b>158,336</b>	<b>21.9%</b>	<b>0</b>	<b>0.0%</b>	<b>158,336</b>	<b>21.9%</b>	<b>21.2%</b>	<b>7,364</b>	<b>13,044</b>	<b>\$17.49</b>
<b>South Main/Med Center</b>												
A	14	4,474,422	683,209	15.3%	2,000	0.0%	685,209	15.3%	8.3%	24,000	586,801	\$29.79
B	37	4,205,725	318,717	7.6%	0	0.0%	318,717	7.6%	7.5%	-10,976	-54,916	\$23.02
C	31	2,372,818	132,044	5.6%	0	0.0%	132,044	5.6%	6.5%	28,247	28,247	\$18.29
<b>Total</b>	<b>82</b>	<b>11,052,965</b>	<b>1,133,970</b>	<b>10.3%</b>	<b>2,000</b>	<b>0.0%</b>	<b>1,135,970</b>	<b>10.3%</b>	<b>7.6%</b>	<b>41,271</b>	<b>560,132</b>	<b>\$24.62</b>
<b>Southeast/Outlier</b>												
A	1	159,304	0	0.0%	0	0.0%	0	0.0%	0.0%	0	0	-
B	10	534,587	116,562	21.8%	0	0.0%	116,562	21.8%	24.8%	1,946	-3,654	\$19.39
C	2	118,772	4,914	4.1%	0	0.0%	4,914	4.1%	10.6%	7,619	7,619	\$24.00
<b>Total</b>	<b>13</b>	<b>812,663</b>	<b>121,476</b>	<b>14.9%</b>	<b>0</b>	<b>0.0%</b>	<b>121,476</b>	<b>14.9%</b>	<b>17.3%</b>	<b>9,565</b>	<b>3,965</b>	<b>\$20.08</b>
<b>Southwest</b>												
A	6	1,583,702	270,786	17.1%	3,665	0.2%	274,451	17.3%	17.7%	5,981	9,031	\$16.11
B	60	6,013,844	1,466,512	24.4%	1,867	0.0%	1,468,379	24.4%	24.7%	23,236	69,887	\$15.56
C	39	2,157,259	162,359	7.5%	1,600	0.1%	163,959	7.6%	8.6%	11,427	13,433	\$12.86
<b>Total</b>	<b>105</b>	<b>9,754,805</b>	<b>1,899,657</b>	<b>19.5%</b>	<b>7,132</b>	<b>0.1%</b>	<b>1,906,789</b>	<b>19.5%</b>	<b>19.8%</b>	<b>40,644</b>	<b>92,351</b>	<b>\$15.35</b>
<b>Southwest Far and Outlier</b>												
A	1	61,049	13,371	21.9%	0	0.0%	13,371	21.9%	54.1%	19,660	-5,592	\$24.07
B	16	717,194	74,126	10.3%	800	0.1%	74,926	10.4%	12.3%	10,460	25,939	\$25.35
C	2	94,735	2,050	2.2%	0	0.0%	2,050	2.2%	1.1%	-1050	-1050	\$16.00
<b>Total</b>	<b>19</b>	<b>872,978</b>	<b>89,547</b>	<b>10.3%</b>	<b>800</b>	<b>0.1%</b>	<b>90,347</b>	<b>10.3%</b>	<b>14.0%</b>	<b>29,070</b>	<b>19,297</b>	<b>\$24.91</b>

HOUSTON SUBURBAN OFFICE MARKET SUMMARY - CONTINUED

Class	Inventory		Direct Vacancy		Sublease Vacancy		Vacancy	Vacancy Rate (%)		Net Absorption (SF)		Rental Rate
	# of Bldgs.	Total (SF)	(SF)	Rate (%)	(SF)	Rate (%)	Total (SF)	Q2-2012	Q1-2012	Q2-2012	YTD-2012	AVG (\$/SF)
<b>West Loop/Galleria</b>												
A	35	14,695,652	1,432,476	9.7%	57,503	0.4%	1,489,979	10.1%	10.7%	100,163	120,948	\$30.27
B	59	7,362,538	1,241,637	16.9%	8,798	0.1%	1,250,435	17.0%	18.8%	137,194	148,113	\$22.61
C	3	147,042	433	0.3%	0	0.0%	433	0.3%	0.0%	-433	-433	\$18.42
<b>Total</b>	<b>97</b>	<b>22,205,232</b>	<b>2,674,546</b>	<b>12.0%</b>	<b>66,301</b>	<b>0.3%</b>	<b>2,740,847</b>	<b>12.3%</b>	<b>13.2%</b>	<b>236,924</b>	<b>268,628</b>	<b>\$26.97</b>
<b>Westchase</b>												
A	22	6,787,503	530,558	7.8%	27,479	0.4%	558,037	8.2%	12.2%	334,070	338,911	\$30.32
B	58	6,104,956	882,224	14.5%	10,025	0.2%	892,249	14.6%	16.3%	51,235	58,053	\$18.18
C	7	339,118	66,716	19.7%	0	0.0%	66,716	19.7%	18.3%	-4,492	-4,492	\$15.03
<b>Total</b>	<b>87</b>	<b>13,231,577</b>	<b>1,479,498</b>	<b>11.2%</b>	<b>37,504</b>	<b>0.3%</b>	<b>1,517,002</b>	<b>11.5%</b>	<b>14.3%</b>	<b>380,813</b>	<b>392,472</b>	<b>\$24.17</b>
<b>The Woodlands</b>												
A	16	3,198,900	69,405	2.2%	13,993	0.4%	83,398	2.6%	2.9%	9,322	46,136	\$33.99
B	66	3,456,773	404,833	11.7%	23,090	0.7%	427,923	12.4%	12.7%	12,006	153,970	\$20.69
C	5	341,192	0	0.0%	0	0.0%	0	0.0%	0.0%	0	918	-
<b>Total</b>	<b>87</b>	<b>6,996,865</b>	<b>474,238</b>	<b>6.8%</b>	<b>37,083</b>	<b>0.5%</b>	<b>511,321</b>	<b>7.3%</b>	<b>7.6%</b>	<b>21,328</b>	<b>201,024</b>	<b>\$24.03</b>

OFFICE DEVELOPMENT PIPELINE

Houston's construction pipeline continues to expand with 11 projects currently under construction. The table below summarizes buildings 20,000 square feet or greater being built.

SELECT OFFICE BUILDINGS UNDER CONSTRUCTION						
BUILDING NAME	ADDRESS	SUBMARKET	SF	PRE-LEASED	DEVELOPER	EST. DELIVERY
Anadarko Tower 2	1201 Lake Robbins Dr	Woodlands	550,000	100.0%	Patrinely Group Inc	4/2014
Nexen Building	945 Bunker Hill	Katy Freeway	331,513	69.9%	MetroNational Corp	8/2012
BBVA Compass/2200 Post Oak	2200 Post Oak Blvd.	Galleria/Uptown	306,012	59.3%	Redstone and Stream	4/2013
3009 Post Oak Blvd.	3009 Post Oak Blvd.	Galleria/Uptown	302,536	0.0%	Skanska Commercial Development	7/2013
Research Forest Lakeside - Building 4	2445 Technology Forest Blvd	Woodlands	300,000	50.0%	Warmack Investments	4/2013
3 Waterway Square Place	3 Waterway Ave.	Woodlands	233,844	90.0%	The Woodlands Development Company, L.P.	6/2013
Sam Houston Crossing II	Sam Houston Pky N	Northwest Far	159,056	0.0%	Duke Realty	5/2013
Mason Creek Office Center	Mason Rd & Merchants Way	Northwest Outlier	135,330	0.0%	Myers, Crow & Saviers	4/2013
CityCentre Three	842 W Sam Houston Pky N	Katy Freeway	120,211	46.5%	Midway Companies	9/2012
Halliburton North Belt Campus	Milner Road	North Belt/Greenspoint	100,000	100.0%	-	12/2012
Datavox Technologies	6650 W Sam Houston Pky S	Westchase	48,000	100.0%	-	9/2012

