PMRG
Market at a Glance

HOUSTON OFFICE MARKET REPORT

SECOND QUARTER 2014

PMRG | PM Realty Group

PROPERTY SERVICES | DEVELOPMENT | INVESTMENT

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FOR INFORMATION:

Wade Bowlin
Executive Vice President
Managing Director
(713) 209-5753
wbowlin@pmrg.com

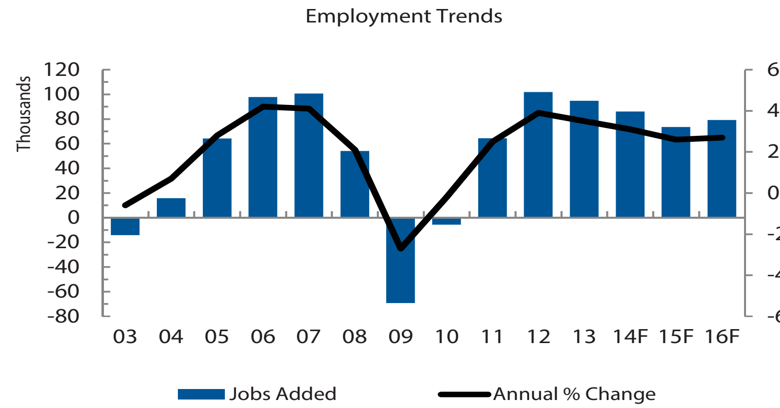
John Spafford
Executive Vice President
Director of Leasing
(713) 209-5823
jspafford@pmrg.com

Ariel Guerrero
Senior Vice President, Research
(713) 209-5704
aguerrero@pmrg.com

ECONOMIC OVERVIEW

Houston's economy continues to enjoy high employment growth, driven by gains in energy, manufacturing and other key industries. Employment growth has accelerated in recent months with the Houston metro area creating 93,300 new jobs within the 12 months ending May 2014, which represents a 3.0% annual increase. Houston's May unemployment rate stood at 5.0%, which remains far below the national average of 6.3%. Since its post-recessionary trough in early 2010, the metro area has remarkably gained 407,300 net new jobs, or 2.6 jobs for every one lost during the recession, to reach its highest number of total nonfarm jobs on record.

As the center of the global petroleum industry, Houston has continued to benefit from sustained high global oil prices and the worldwide boom in natural gas exploration. Since late January, U.S. crude stocks have risen as tensions between Russia and Ukraine and the conflicts in Iraq have kept global oil prices strong. As of July 1, 2014, U.S. crude for August delivery increased to $105.68 per barrel, well above the $65 per barrel minimum many analysts believe is required to sustain a vital oil industry. According to the University of Houston's Institute for Regional Forecasting, the Houston metro area is forecasted to add 86,000 jobs in 2014, 21,000 more than their original forecast. Houston's solid expansion should continue for the remainder of 2014, driven by growth in housing and non-residential construction, as well as a revival in energy exploration. Related manufacturing and professional services will also benefit from corporate relocations and expansions as companies are attracted to the metro area's business-friendly environment with lower business costs and a well-educated labor force.



Source: U.S. Bureau of Labor Statistics, UH Institute for Regional Forecasting, Moody's Analytics

Employment Growth by Sector

	CURRENT READING	12-MONTHS PRIOR READING	ANNUAL CHANGE	HEALTH (Improving or Declining)
Mining	111.9	105.8	5.8%	▲
Construction	196.8	189.5	3.9%	▲
Manufacturing	257.7	250.5	2.9%	▲
Trade, Transportation & Utilities	578.0	560.7	3.1%	▲
Information	32.9	32.2	2.2%	▲
Financial Activities	144.4	141.9	1.8%	▲
Professional & Business Services	439.5	425.3	3.3%	▲
Education & Health Services	347.9	336.6	3.4%	▲
Leisure & Hospitality	287.0	274.8	4.4%	▲
Other Services	103.0	99.0	4.0%	▲
Government	383.9	373.4	2.8%	▲

Source: U.S. Bureau of Labor Statistics. Employment Data as of May 2014, All Employees, in Thousands

OFFICE MARKET ASSESSMENT

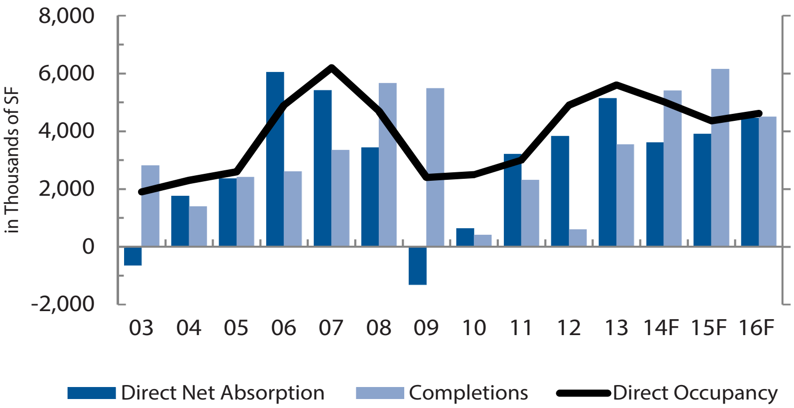
Similar to the first quarter, strong employment growth continued to drive office leasing demand citywide with roughly 1 million sq. ft. of direct net absorption during the second quarter, bringing the trailing 12-month occupancy gain total to nearly 6.2 million sq. ft. However, unlike the first quarter, the quarterly occupancy gains were more evenly spread across the market. During the second quarter, Class A product accounted for the majority of the demand with 688,113 sq. ft. of direct absorption growth. The Class B sector experienced a modest 252,970 sq. ft. of occupancy gains—an increase over the previous quarter and in line with its 2013 quarterly average of 246,177 sq. ft. Class A direct occupancy rates decreased 10 basis points to 90.9% as new construction deliveries slightly outpaced demand, but have increased 80 basis points within the past 12 months. Meanwhile, Class B direct occupancy rates improved by 70 basis points to 85.4% during the quarter and are up 80 basis points from a year ago.

For more than three years, Houston's office market has demonstrated rising occupancy rates, as energy companies have elbowed one another to find prime office space needed to support U.S. oil exploration, production and transport operations. While many of the growing energy firms have already secured their space, a larger share of leasing activity has begun to shift to small-to-medium-sized engineering and technical firms supporting the oil & gas industry. Although leasing activity has slowed slightly compared to a year ago, there have been several large leases signed in recent months which will further boost the absorption totals in the coming quarters. The largest lease transactions occurred in the CBD during the quarter, which involved Memorial Resources Development securing a 125,000 sq. ft. of direct space and Motiva Enterprises subleasing four floors totaling roughly 109,373 sq. ft. at One Allen Center. In addition, GE Oil & Gas recently inked a 150,000 sq. ft. pre-lease commitment to help kick start construction on a 314,000 sq. ft. office building at Beltway @ Clay Road.

FORECAST

- Strong leasing demand will continue to drive rental rates higher, creating a landlord favorable setting in the most desirable submarkets. However, a wave of new construction will deliver in the coming quarters to alleviate the difficulty in finding quality space.
- Although the premier submarkets such as CBD, Galleria, and Greenway will continue to perform strongly, new construction in West Houston will remain competitive, offering modern, high quality offices at comparatively lower rates.

Office Market Trends



Houston Ranks 1st in Job Growth:
The Houston region has led the major U.S. metropolitan areas in job recovery since December 2011. Houston has recovered more than 266% of the 153,100 jobs lost during the recession – a higher percentage than any other major metro area.

Home to 26 Fortune 500 Companies:
Houston ranks third among metropolitan statistical areas in the number of Fortune 500 headquarters behind only New York (72) and Chicago (30). With more than 5,000 energy related firms, Houston is considered to be the Energy Capital of the world.

Houston Economic Outlook:
Houston's strong employment and population growth propelled by further expansion in energy, health-related and distribution industries will lead to above-average gains for the metro area. Houston is poised for long-term expansion as annual job growth is forecasted to average 2.7% from 2013 to 2016, well above the 2.2% annual average since 1990.

Market Trend Indicators

	Current Quarter	Change from Previous Quarter	Change from Previous Year	12-month Forecast
Direct Occupancy	88.2%	▲	▲	▼
Direct Net Absorption	939,731	▲	▲	▲
Under Construction	11,508,408	▲	▲	▲
Direct Asking Rents	$26.50	▲	▲	▲

"Class A space remains the preferred choice among growing firms as this sector has accounted for 82% or 9.3 million sq. ft. of the citywide absorption growth since the beginning of 2012," said Wade Bowlin, Executive Vice President, Managing Director, Central Division.

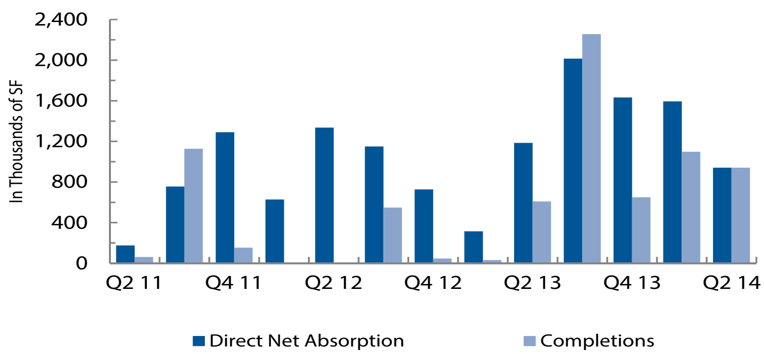
NET ABSORPTION & OCCUPANCY

- The Central Business District took the lead as the top performing submarket with 189,043 sq. ft. of direct absorption during the second quarter of 2014. The Class A market accounted for 96,439 sq. ft. of absorption during the quarter, with Class B following closely behind absorbing 90,676 sq. ft. The largest quarterly occupancy gain occurred when Mercer Human Resource Consulting occupied 54,535 sq. ft. at One Allen Center.
- Westchase recorded 149,667 sq. ft. of direct absorption during the quarter. Class A product absorbed 202,503 sq. ft. of space, led by Noble Corporation moving into 88,510 sq. ft. at Granite Briarpark Green and National Oilwell Varco taking 47,136 sq. ft. at 2500 Citywest Blvd. Class B product countered these gains with 41,391 sq. ft. of negative direct absorption.
- The Katy Freeway/Energy Corridor submarket, which absorbed over 1 million sq. ft. during the first quarter, had a modest quarter only absorbing 117,240 sq. ft. of direct space. The most notable move-in included IHS moving into 46,568 sq. ft. at Enclave Parkway. The Wallis State Bank Building delivered during the second quarter, with Atmos Energy and Wallis State Bank occupying nearly 50,000 sq. ft. of space combined.
- Greenway Plaza followed a lackluster first quarter by logging 96,165 sq. ft. of direct absorption. RealEC Technologies and Mitsubishi Heavy Industries America moved into 38,006 sq. ft. and 11,355 sq. ft., respectively, at 20 Greenway Plaza. Patterson & Sheridan, LLP also occupied 24,568 sq. ft. of Class A space at Weslayan Tower.
- The Woodlands submarket posted 68,703 sq. ft. of direct absorption during the second quarter. The most significant occupancy gain involved GeoSouthern Energy Corp.. taking 63,500 sq. ft. of Class A space at Wildwood Corporate Center. Schlumberger also moved into their sublease of 25,879 sq. ft. at 10101 Woodloch Forest.

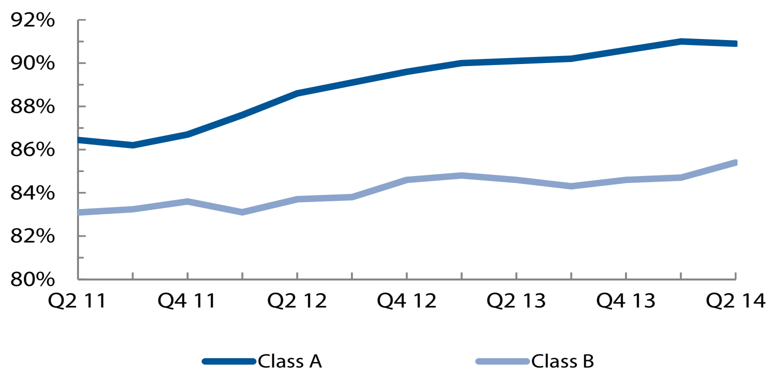
Submarket Occupancy Ranking

Rank	Submarket	Occ. Rate	Y-O-Y % Change
1	Bellaire	93.9%	5.9%
2	Katy Freeway	93.2%	0.0%
3	Greenway Plaza	90.7%	2.1%
4	Baytown & I-10 East	90.5%	2.3%
5	Westchase	90.2%	-0.6%
6	Central Business District	89.8%	0.9%
7	Galleria / Uptown	89.6%	0.5%
8	San Felipe / Voss	89.3%	1.9%
9	The Woodlands / Conroe	89.2%	-3.9%
10	S. Main / Medical Center / South	89.2%	0.4%
11	Kingwood / Humble	89.0%	2.2%
12	Gulf Freeway / Pasadena	88.1%	3.4%
13	Fort Bend / Sugar Land	87.2%	5.1%
14	Midtown / Allen Parkway	86.6%	-1.2%
15	Northwest Freeway / North Loop W	84.4%	1.3%
16	Greenspoint / IAH / N Belt	83.2%	-0.4%
17	Richmond / Fountainview	82.1%	-2.7%
18	NASA / Clear Lake	81.9%	1.3%
19	FM 1960	81.5%	7.5%
20	Southwest Beltway 8 / Hillcroft	78.7%	-0.5%

Direct Net Absorption vs. Completions

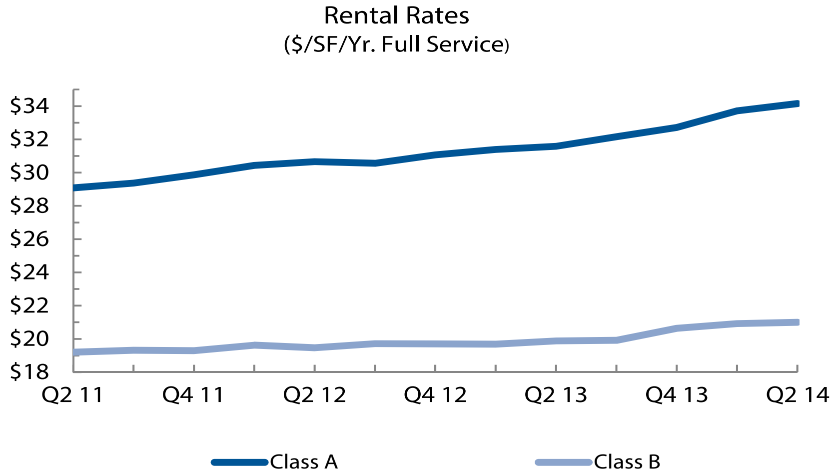


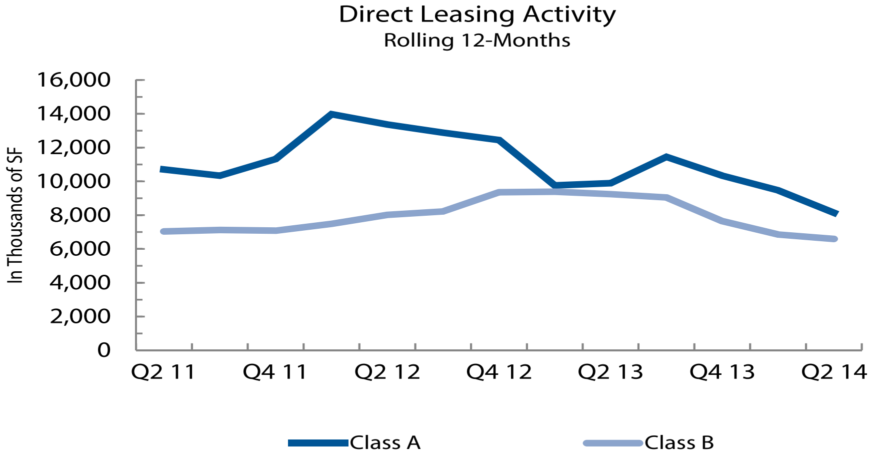
Direct Occupancy Rates



RENTAL RATES & LEASING ACTIVITY

- Citywide Class A asking rents increased $0.44 to $34.15 per sq. ft. during the quarter and have rose by 8.1% or $2.57 within the past 12 months, again reaching their highest level on record. Meanwhile, Class B rents rose by $0.08 to $21.00 per sq. ft. during the quarter and have moved up 5.6% or $1.12 per sq. ft. within the past 12 months.
- The quarterly spike in rental rates can be partially attributed to the delivery of new product, increased taxes inflating operating expenses, and an increase in quoted rates for large blocks of space. The largest quarterly spikes in rental rates occurred in Midtown (10.1%), Greenway Plaza (5.5%), The Woodlands/Conroe (5.5%), and CBD (4.9%).
- Sustained office leasing demand combined with shrinking options for high quality space have pushed citywide Class A asking rents upward by $5.06 or 17.3% since their cyclical low recorded at mid-year 2011. Similarly, Class B rates have jumped 10.8% or $2.05 since their cyclical low recorded during Q3 2010.
- Asking rental rates are expected to steadily rise in the next 12 months as quality space options remain limited, but relief is on the way with new product nearing completion. As the spread between Class A and B rental rates widens, more Class A tenants will consider Class B building options to offset the higher real estate occupancy costs, though Class A space will remain the top choice for growing firms.
- Class A leasing velocity has declined for the third consecutive quarter to 8.1 million sq. ft., an 18% decrease from the same time last year, but still remains 17% above the 10-year historical average. The annual decline is largely attributed to the tightness in the Class A sector, but leasing velocity should remain strong as many firms are still evaluating potential expansions, relocations and renewals well in advance of their lease expirations.





"Sustained demand for quality space should result in rising rental rates and declining concessions in the top performing submarkets as companies enter the market sooner to secure a greater number of options for quality space," said John Spafford, Executive Vice President, Director of Leasing.

Submarket Rental Rate Ranking

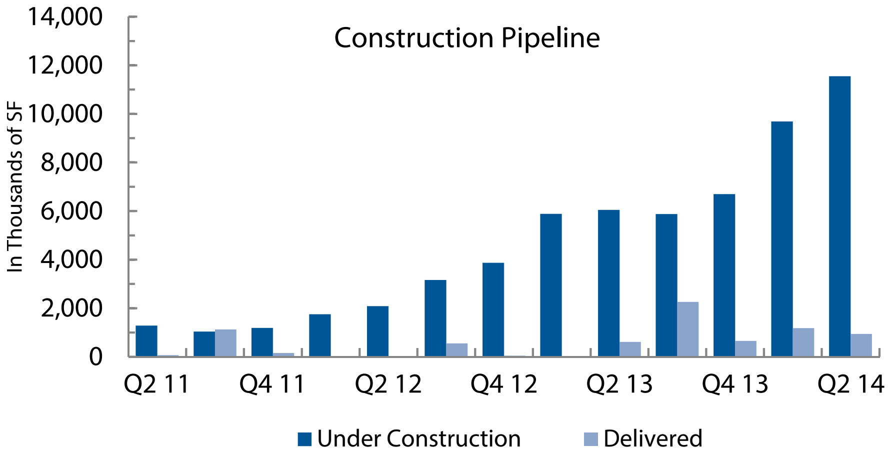
Rank	Submarket	Rental Rate	Y-O-Y % Change
1	Central Business District	$37.43	10.4%
2	Galleria / Uptown	$32.45	13.5%
3	Greenway Plaza	$29.85	12.8%
4	Midtown / Allen Parkway	$29.63	17.9%
5	Westchase	$29.49	10.6%
6	The Woodlands / Conroe	$28.74	18.2%
7	San Felipe / Voss	$27.32	9.1%
8	Katy Freeway	$26.52	24.9%
9	S. Main / Medical Center / South	$24.77	8.2%
10	Fort Bend / Sugar Land	$24.69	0.3%
11	Bellaire	$24.47	4.9%
12	Greenspoint / IAH / N Belt	$24.23	10.2%
13	Kingwood / Humble	$23.08	3.1%
14	Northwest Fwy / North Loop W	$20.68	10.7%
15	Gulf Freeway / Pasadena	$20.30	4.4%
16	NASA / Clear Lake	$19.34	1.1%
17	FM 1960	$18.43	0.8%
18	Southwest Beltway 8 / Hillcroft	$16.61	9.7%
19	Baytown & I-10 East	$16.10	4.3%
20	Richmond / Fountainview	$15.16	2.6%

RECENT ANNOUNCEMENTS

- In Greenway Plaza, PM Realty Group is developing a 400,000 sq. ft. Class A office building at 3737 Buffalo Speedway, which will deliver in August of 2015. PMRG also recently broke ground on Woodbranch Park Phase II in the Energy Corridor, as Sasol North America signed a pre-lease commitment to take the entire 171,567 sq. ft. Class A office building.
- Hines has moved forward on their 48-story skyscraper at 609 Main Street in the CBD, and is doing so on a speculative basis with no tenants officially secured. The 1 million sq. ft. office tower is slated for delivery in 2017.
- Piedmont Office Realty Trust has recently begun construction on Enclave Place, a speculative 300,907 sq. ft. high-rise in the Katy Freeway submarket developed by PM Realty Group.
- Patrinely Group, CDC Houston and USAA announced details for CityPlace, a 60-acre mixed-use development located in the Springwoods Village development, near the Exxon Mobil corporate campus. The initial office component phase of CityPlace will include two Class A office buildings with a combined total of 440,000 sq. ft. of rentable space.
- Trammell Crow announced that it will soon break ground on Energy Center V, a speculative 500,000 sq. ft. office building with expected delivery by mid-year 2016 In 2013, Houston-based ConocoPhillips preleased 1.2 million sq. ft. in Energy Centers III & IV, which are currently under construction.
- In Westchase, BMS Management kicked off construction on Millennium Tower II, as National Oilwell Varco pre-leased the entire 417,000 sq. ft. development on Richmond Ave.
- Amegy Bank will build a new 350,000 sq. ft. corporate headquarters on four acres of land in the Galleria area. Construction is expected to begin early in 2015 and conclude in the fall of 2016.

CONSTRUCTION

- The increased volume of groundbreakings during the second quarter of 2014 pushed the office space under construction to new high of 11.5 million sq. ft., with 49% of this space already pre-leased (excluding corporate-owned projects). With the inclusion of corporate-owned projects, the market has approximately 18.2 million sq. ft. underway, with 68% of this space either committed or pre-leased.
- Developers delivered 2,038,512 sq. ft. of new space during the first-half of 2014. The Katy Freeway/Energy Corridor accounted for 59% of the new product delivered, while The Woodlands contributed to 23% of the citywide construction deliveries year-to-date.
- Houston's office market is projected to deliver just over 5.4 million sq. ft. of space (excluding owner-occupied buildings) in 2014, which is already 62% pre-leased. Katy Freeway will deliver 47% of the new product, and Westchase and The Woodlands will receive approximately 18% and 16% of the new construction deliveries, respectively.
- The Katy Freeway/Energy Corridor continues to lead Houston's development pipeline with 17 buildings encompassing more than 4.6 million sq. ft. currently under construction.
- With Class A occupancy rates exceeding or edging the 90% mark in the premier submarkets, companies in expansion mode are quickly securing their space amidst fears of future lofty rental rate increases as experienced during the previous expansion period.



SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
609 Main at Texas	1,057,658	CBD	N/A	0%	Hines	1Q 2017
BHP Billiton BTS**	600,000	Galleria / Uptown	BHP Billiton	100%	Transwestern	4Q 2016
Energy Center Four	600,000	Katy Freeway	ConocoPhillips	100%	Trammell Crow Co.	3Q 2016
Energy Center Three	546,604	Katy Freeway	ConocoPhillips	100%	Trammell Crow Co.	2Q 2015
Noble Energy Center II	456,000	FM 1960	Noble Energy	100%	Trammell Crow Co.	2Q 2015
Air Liquide Center - South	452,370	Katy Freeway	Air Liquide	38%	MetroNational	4Q 2015
Energy Tower IV	428,831	Katy Freeway	Spectrum Geo	12%	Mac Haik	4Q 2014
Millennium II**	417,000	Westchase	National Oilwell Varco	100%	Gensler/BMS Management	4Q 2015
3737 Buffalo Speedway	400,000	Greenway Plaza	Solvay America	23%	PM Realty Group	3Q 2015
West Memorial Place	334,147	Katy Freeway	Petroleum Geo Services	41%	Skanska	1Q 2015
Two Briarlake Plaza	333,096	Westchase	Samsung Engineering	52%	Behringer Harvard REIT	3Q 2014
1735 Hughes Landing Blvd	331,840	Woodlands	Exxon/Mobil	100%	The Woodlands Development Co	1Q 2015
1725 Hughes Landing Blvd	317,052	Woodlands	Exxon/Mobil	100%	The Woodlands Development Co	1Q 2015
Clay Road @ Beltway 8 - Bldg 1	314,000	Katy Freeway	GE	48%	Transwestern	2Q 2015
Piedmont Enclave Place	300,760	Katy Freeway	N/A	0%	PM Realty Group	3Q 2015
Westchase Park II	300,000	Westchase	N/A	0%	PM Realty Group	4Q 2014

Note: Corporate owned office buildings excluded from competitive statistics; ** Build-to-suit

SUBMARKET STATISTICS

		TOTAL SPACE AVAILABLE			DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
Submarkets	Total Inventory SF	Direct	Sublease	Direct Occupancy	Current Qtr.	Year To Date	Completions Current Qtr	Under Construction	Class A	Class B
Central Business District	37,523,225	4,391,937	1,013,872	89.8%	189,043	222,795	-	1,057,658	$42.18	$27.98
Galleria / Uptown	22,697,227	3,351,670	463,542	89.6%	-31,950	178,938	81,502	782,899	$35.71	$26.64
Greenway Plaza	10,221,070	1,343,147	48,823	90.7%	96,165	86,406	-	660,437	$35.95	$24.20
Katy Freeway	26,465,427	3,035,755	747,017	93.2%	117,240	1,128,281	262,109	4,634,003	$33.87	$22.18
Westchase	13,850,324	1,570,033	348,246	90.2%	149,667	443,486	-	1,157,088	$38.06	$20.40
Greenspoint/ IAH / N Belt	12,607,239	4,699,849	471,999	83.2%	36,975	91,258	-	0	$31.24	$16.12
Northwest Freeway / N Loop West	11,544,563	2,240,711	161,744	84.4%	-43,672	-64,106	-	879,973	$23.32	$20.22
NASA / Clear Lake & SE Outlier	6,512,952	1,304,225	40,404	81.9%	-14,878	-44,368	-	55,000	$24.47	$18.44
Fort Bend / Sugar Land / SW Outlier	7,457,718	1,066,975	216,221	87.2%	60,808	64,112	-	406,983	$26.82	$22.99
Richmond / Fountainview	1,233,732	238,891	0	82.1%	7,248	1,921	-	0	--	$17.34
San Felipe / Voss	5,227,251	746,267	60,130	89.3%	72,712	37,110	-	0	$33.15	$21.97
Bellaire	3,568,900	426,449	33,703	93.9%	62,204	77,060	-	0	$26.17	$22.23
Midtown / Allen Parkway	5,436,202	729,451	27,180	86.6%	13,556	-44,596	80,000	170,038	$33.29	$26.41
FM 1960	9,768,231	1,969,393	132,006	81.5%	73,803	157,556	55,500	487,320	$25.82	$16.24
Kingwood / Humble / NE Outlier	1,142,047	160,233	0	89.0%	3,048	42,261	-	36,400	$32.13	$20.88
Southwest Beltway 8 / SW / Hillcroft	10,179,673	2,480,531	43,118	78.7%	20,215	-161,607	-	0	$17.39	$16.85
S. Main / Medical Center / South	9,725,918	1,263,275	45,058	89.2%	23,657	121,812	-	52,362	$27.89	$24.92
The Woodlands / Conroe	9,440,744	1,161,180	248,459	89.2%	68,703	103,434	461,687	1,159,567	$35.31	$26.15
Gulf Freeway / Pasadena	3,139,733	506,105	4,315	88.1%	21,220	-9,828	-	0	$27.59	$21.72
Baytown / I-10 East	1,125,170	166,037	0	90.5%	13,967	18,120	-	0	--	$16.27
Totals	208,867,346	32,852,114	4,105,837	88.2%	939,731	2,450,045	940,798	11,539,728	$34.15	$21.00

Property Types	Total Inventory SF	Direct	Sublease	Direct Occupancy	Current Qtr.	Year To Date	Completions Current Qtr	Under Construction	Asking Rent	Y-O-Y % Change
Class A	102,860,629	14,197,116	2,879,608	90.9%	688,113	1,907,308	940,798	11,508,408	$34.15	8.1%
Class B	88,816,993	15,869,822	1,209,338	85.4%	252,970	422,144	-	31,320	$21.00	5.6%
Class C	17,189,724	2,785,176	16,891	86.3%	-1,352	120,593	-	0	$16.40	4.5%
Totals	208,867,346	32,852,114	4,105,837	88.2%	939,731	2,450,045	940,798	11,539,728	$26.50	8.8%

METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased office buildings with at least 20,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Occupancy Rate: Direct space physically occupied divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.

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Wade Bowlin
Executive Vice President
Managing Director
(713) 209-5753
wbowlin@pmrg.com

John Spafford
Executive Vice President
Director of Leasing
(713) 209-5823
jspafford@pmrg.com

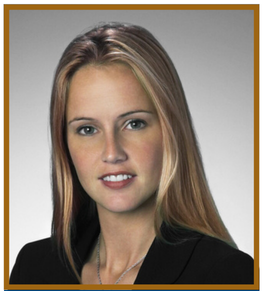
Brad Sinclair
Executive Vice President
Leasing
(713) 209-5965
bsinclair@pmrg.com

Kim Grizzle-Shapiro
Senior Vice President
Leasing
(713) 209-5940
kshapiro@pmrg.com

Mike Martin
Vice President
Leasing
(713) 209-5710
mmartin@pmrg.com

Michael Sieger
Vice President
Leasing
(713) 209-5930
msieger@pmrg.com

Marci Phillips
Vice President
Leasing
(281) 444-6434
mphillips@pmrg.com



Courtney Knightstep
Leasing Manager
(713) 209-5959
cknightstep@pmrg.com

Allie Hubbard
Leasing Manager
(713) 209-5975
ahubbard@pmrg.com

Ariel Guerrero
Senior Vice President
Research
(713) 209-5704
aguerrero@pmrg.com

Kristen Burney
Vice President
Director of Marketing
(713) 209-5910
kburney@pmrg.com

Doug Berry
Vice President
Creative Director
(713) 209-5897
dberry@pmrg.com

ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmrg.com.