JONES LANG LASALLE

Real value in a changing world

/pulse/

Houston – CBD – Q2 2009

Quarter in review

As the second half of year unfolded, demand for space in the Central Business District (CBD) continued to decline. While Class A space remained relatively unchanged with only 8,789 square feet of negative net absorption, Class B buildings lost 73,250 square feet. By mid-year, overall net absorption stood at negative 210,061 square feet.

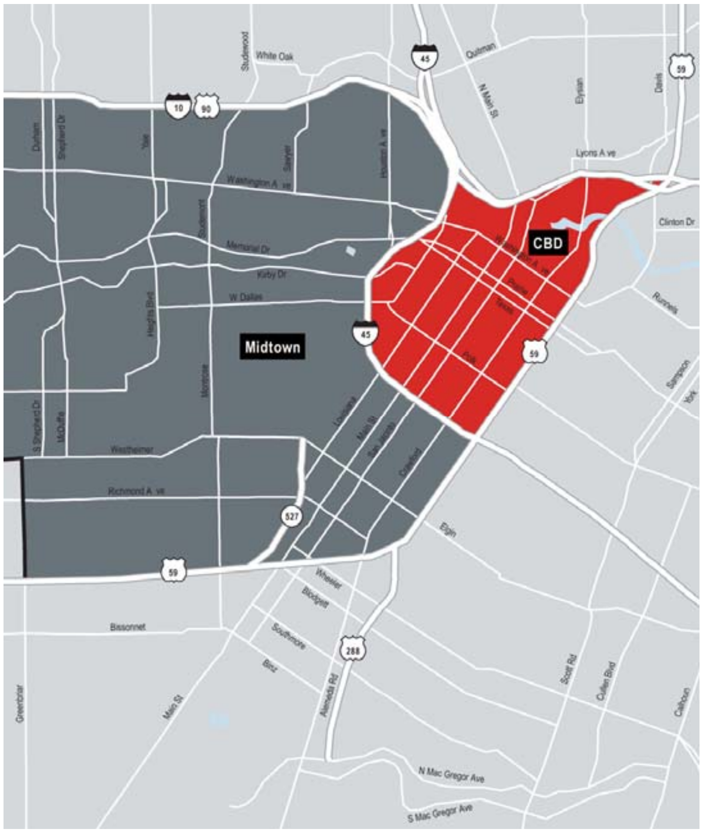
Despite the slowdown and minimal leasing activity, one significant lease was executed. NRG/Reliant signed for approximately 240,000 square feet at Houston Pavilions, which accounts for the majority of the office space in the recently completed building. The tenant plans to complete their move into their ten floors by March, 2011. However, this good news was offset by the same tenant bringing more than 400,000 square feet of sublease space to market at 1000 Main St., which dubs it the largest block of contiguous sublease space the CBD has seen in more than five years (the sublease is available as soon as October, 2010 and therefore is not reflected in the second quarter's statistics). Sublease activity contributed further to the overall rising vacancy, accounting for nearly 50,000 square feet of the overall negative net absorption in the second quarter. This was comprised primarily of EDS vacating floors 16 and 18 at One City Centre totaling 42,532 square feet, and Interactive Response Technologies moving out of 21,269 square feet on the sixth floor of Continental Center II.

From a supply perspective, a multitude of large quality blocks of space have become available in the CBD. In addition to the above mentioned sizable sublease at 1000 Main, seven contiguous spaces greater than 100,000 square feet are currently available, including four blocks in premier Class A buildings. Combine this with 1.8 million square feet currently under construction, only 52.5 percent of which is pre-leased, and it becomes clear that the leverage pendulum has swung toward the tenant.

Market outlook

The outlook for the CBD is tenant favorable, and it is likely to remain so for the foreseeable future. The second half of 2009 will likely be a continuation of the first half of the year with minimal significant leasing activity, further increases in sublease space, and continued downward pressure on quoted rental rates. Furthermore, concessions such as rental abatement and build-out allowances are likely to increase.

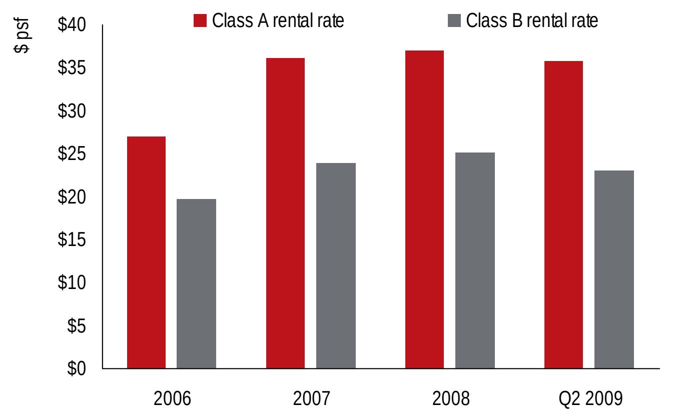
Submarket boundaries map



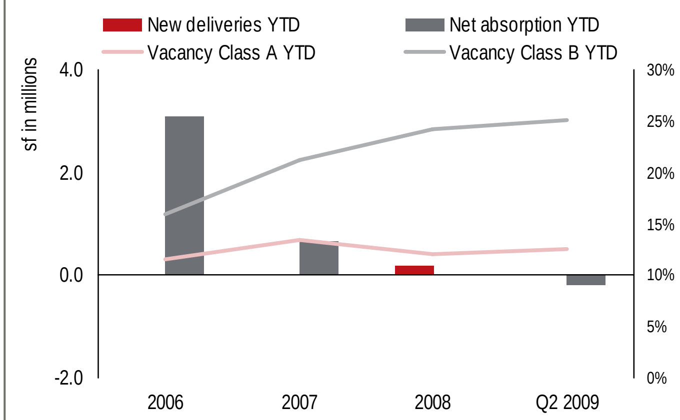
Key market indicators		
Stock	→	33,371,524 SF
Overall net absorption	↓	-210,061 SF
Overall vacancy rate	↑	16.0%
Average asking rent	↓	$32.25 PSF
Under construction	→	1,816,474 SF

Change from previous quarter

Average rental rates (Class A vs. Class B)



Overall new deliveries / overall net absorption / overall vacancy rates



Significant lease transactions

NRG Houston Pavilions	234,159 SF
Goodrich Petroleum 801 Louisiana St	36,750 SF

Large availabilities

Reliant Energy Plaza	Class A 401,104 SF
Travis Tower	Class B 259,868 SF
Wedge International Tower	Class B 142,000 SF
Bank of America Center	Class A 128,182 SF
Wells Fargo Plaza	Class A 124,439 SF
Stowers Building	Class B 119,392 SF
Chase Tower	Class A 110,609 SF
One City Centre	Class A 102,496 SF

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