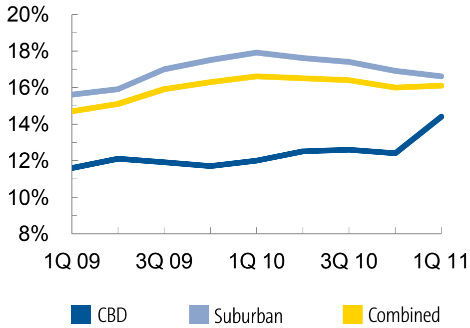
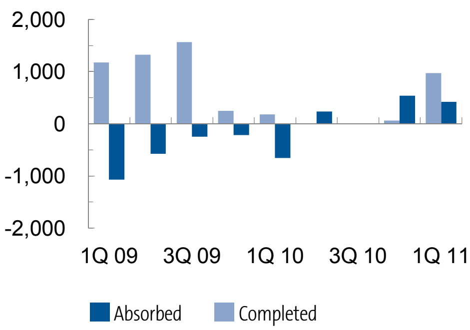
Office Trends Report—First Quarter 2011
Houston, TX

GRUBB & ELLIS
From Insight to Results

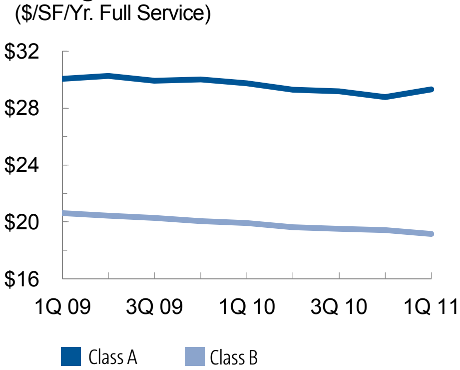
Vacancy Rate



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Yr. Full Service)



Office Market Performance off to a Solid Start in 2011

Houston's office leasing market kicked-off 2011 by posting 421,481 square feet of positive net absorption during the first quarter, marking the fourth consecutive quarter to register quarterly growth and further bolster the office market's recovery. Overall, city-wide absorption levels were the highest for Class A product taking down nearly 480,000 square feet as companies, primarily within the oil and gas industry, are taking advantage of soft market conditions and turning their attention to quality space options. Meanwhile, Class C properties lagged far behind with a slight absorption gain of 6,056 square feet and the Class B property sector posted its third consecutive quarter of negative absorption as tenants shed 63,742 square feet. The recent uptick in demand proves that the local office market has indeed reached its bottom and now appears to be on an upswing with several more large deals in the pipeline for the rest of 2011.

With oil prices shooting above $100 per barrel in recent months and drilling activity accelerating due in large part by the Eagle Ford Shale play in South Texas, oil and gas service companies have once again ramped up operations and have largely contributed to the rising leasing demand witnessed over the past 6 months. A recent example is KBR's decision to take down an additional 216,000 square feet of Class A space to become the lead tenant in Eldridge Oaks located in Houston's thriving Energy Corridor submarket. The global engineering, construction and services company originally signed up for 78,000 square feet but recently signed the option on another 130,000 square feet in the building. KBR plans on doubling the company's presence in the Energy Corridor to handle anticipated growth in the oil and gas business unit. Other examples of recent energy firm expansions include EnerVest, Koch, GL Noble Denton, Willbros Group and EDG Inc.

FORECAST

- Leasing activity and demand will gain steam in 2011 resulting from enhanced corporate confidence, increasingly strong balance sheets and companies' productivity levels approaching peaks will prompt hiring across industry sectors.
- Tenants remain in the driver seat when it comes to lease negotiations but the pendulum will begin to swing toward the landlord's favor as the office leasing market fundamentals continue to improve.
- The recent large lease signings will not have an immediate impact on vacancy with the majority of the move-ins occurring later this year and into 2012.
- Rental rates saw declines once again but will start to stabilize and slightly rise through the rest of the year as demand increases and available inventory shrinks.

Grubb & Ellis Houston
1330 Post Oak Blvd., Suite 1400, Houston, TX
www.grubb-ellis.com

Prepared by:
Ariel D. Guerrero *Regional VP, Research & Marketing*
713.599.5112 • ariel.guerrero@grubb-ellis.com
Brittany White *Database Coordinator*
713.599.5114 • brittany.white@grubb-ellis.com
Aaron Chovanetz *Sr. Research Analyst*
713.599.5129 • aaron.chovanetz@grubb-ellis.com
Doug Berry *Sr. Graphic/Web Designer*
713.599.5108 • doug.berry@grubb-ellis.com

©2011 Grubb & Ellis Company

Office Trends Report—First Quarter 2011
Houston, TX

GRUBB & ELLIS.
From Insight to Results

By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION Current Qtr	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
Central Business District	36,629,050	5,267,098	14.4%	17.3%	115,404	115,404	844,763	$36.54	$23.44
CBD Total	**36,629,050**	**5,267,098**	**14.4%**	**17.3%**	**115,404**	**115,404**	**844,763**	**$36.54**	**$23.44**
1960 Area	5,450,550	1,303,758	23.9%	39.7%	9,710	9,710	156,000	$24.14	$13.92
Allen Parkway/Montrose	3,332,049	403,701	12.1%	18.7%	102,989	102,989	-	$27.33	$19.91
Conroe/Montgomery County	472,199	76,666	16.2%	34.1%	1,358	1,358	-	$24.96	$19.70
Far Southwest	6,421,985	1,248,227	19.4%	27.1%	(52,884)	(52,884)	-	-	$17.39
Fort Bend County	663,638	118,038	17.8%	23.6%	(6,189)	(6,189)	-	-	$18.00
Greenspoint IAH/North Belt	11,423,711	1,812,180	15.9%	20.2%	(43,169)	(43,169)	-	$22.56	$16.36
Greenway	9,691,087	1,661,151	17.1%	17.0%	(98,362)	(98,362)	23,030	$28.11	$21.45
Gulf Freeway/Pasadena	1,471,899	207,189	14.1%	20.0%	9,029	9,029	-	$26.50	$18.99
I-10 East/Baytown	641,821	124,709	19.4%	25.1%	194	194	-	-	$13.72
Katy Freeway	20,112,905	3,092,762	15.4%	18.7%	110,971	110,971	-	$27.01	$19.65
Medical/South Main	1,261,401	180,742	14.3%	22.8%	3,212	3,212	-	-	$18.53
NASA/Clear Lake	5,377,988	385,070	7.2%	20.1%	6,275	6,275	100,000	$22.11	$20.98
Near Southwest	3,745,157	704,639	18.8%	28.8%	20,852	20,852	-	-	$15.03
Northeast/Kingwood/Humble	660,686	110,875	16.8%	18.7%	(4,924)	(4,924)	-	-	$19.45
Northwest Freeway	11,009,881	2,770,827	25.2%	28.4%	160,424	160,424	-	$25.15	$17.65
Sugar Land	4,439,874	1,115,057	25.1%	26.9%	40,699	40,699	78,675	$26.09	$17.60
The Woodlands	4,918,688	857,961	17.4%	20.9%	9,261	9,261	50,000	$29.06	$20.32
Uptown/Galleria	29,516,230	3,769,397	12.8%	18.0%	28,770	28,770	-	$28.88	$21.41
Westchase	12,891,285	2,252,770	17.5%	22.0%	7,861	7,861	-	$27.29	$19.69
Suburban Total	**133,503,034**	**22,195,719**	**16.6%**	**21.8%**	**306,077**	**306,077**	**407,705**	**$27.12**	**$18.46**
Totals	**170,132,084**	**27,462,817**	**16.1%**	**20.8%**	**421,481**	**421,481**	**1,252,468**	**$29.33**	**$19.16**

By Class								AVAILABLE FOR SUBLEASE CBD	AVAILABLE FOR SUBLEASE Suburban
Class A	85,753,369	11,921,881	13.9%	17.0%	479,167	479,167	1,100,763	819,388	1,152,610
Class B	67,443,598	12,783,384	19.0%	25.4%	(63,742)	(63,742)	151,705	256,322	1,215,419
Class C	16,935,117	2,757,552	16.3%	21.9%	6,056	6,056	-	8,004	155,243
Totals	**170,132,084**	**27,462,817**	**16.1%**	**20.8%**	**421,481**	**421,481**	**1,252,468**	**1,083,714**	**2,523,272**

OFFICE TERMS AND DEFINITIONS

Total SF: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*

Reproduction in whole or part is permitted only with the written consent of Grubb & Ellis Company. Some of the data in this report has been gathered from third party sources and has not been independently verified by Grubb & Ellis. Grubb & Ellis makes no warranties or representations as to the completeness or accuracy thereof.

©2011 Grubb & Ellis Company