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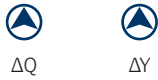
ECONOMIC OVERVIEW

KEY INDICATORS

Houston
Total Nonfarm Employment



139,700 jobs YOY



Houston
Office Employment



21,300 jobs YOY



Houston Unemployment



6.6%



Texas Unemployment



5.9%



WTI Crude Oil Spot Price



\$70.46



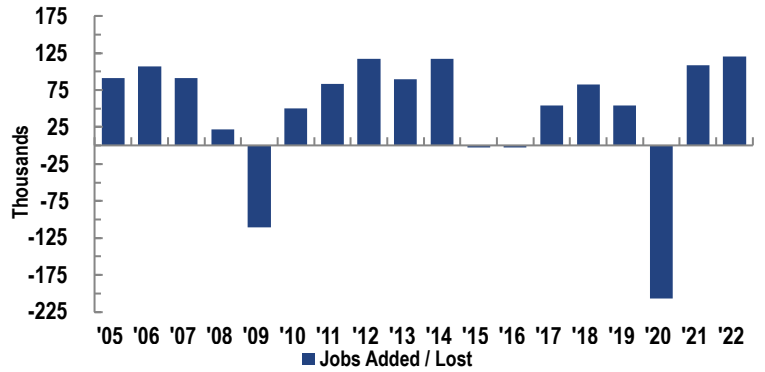
Purchasing Managers
Index



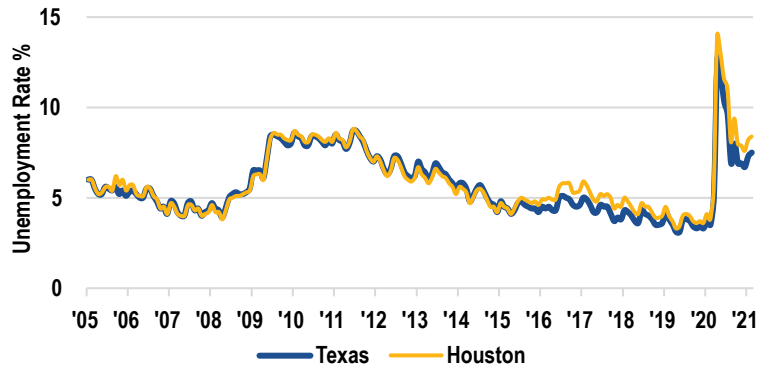
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EMPLOYMENT TRENDS



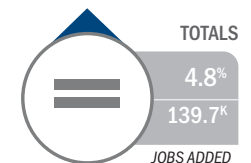
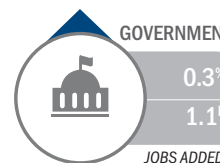
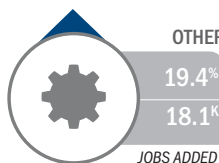
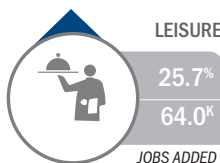
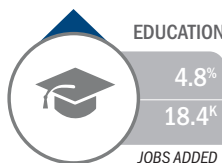
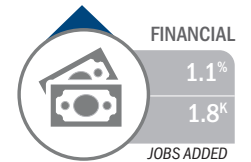
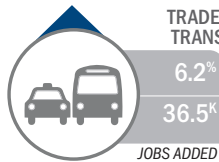
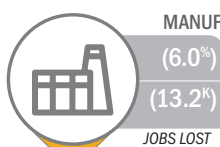
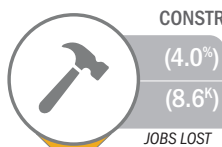
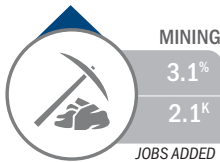
UNEMPLOYMENT



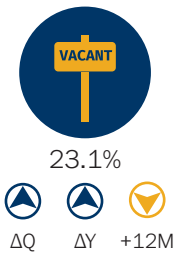
WTI CRUDE OIL SPOT PRICE



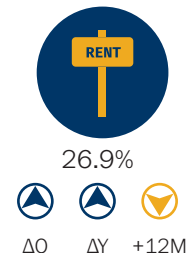
EMPLOYMENT GROWTH BY SECTOR



Direct Vacancy



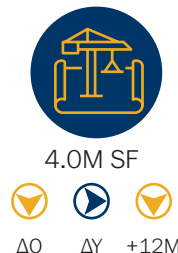
Direct Availability



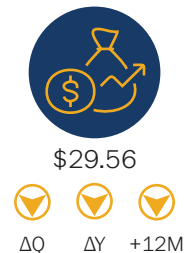
Direct Net Absorption
(T-12 mos)



Under Construction



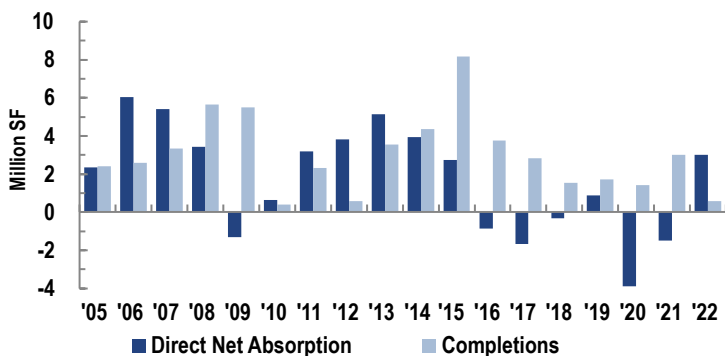
Direct Asking Rents



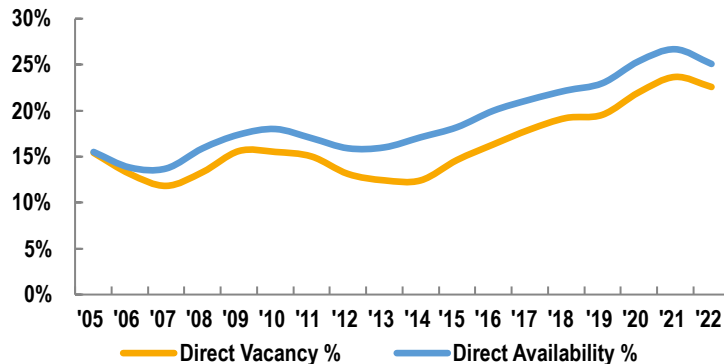
OFFICE MARKET ASSESSMENT

- Houston's office market fundamentals continue to face downward pressure resulting from the lingering effects of the COVID-19 pandemic. Leasing activity has slightly picked up but remains limited, as many tenants are still assessing their future needs regarding headcount, flexible scheduling, and space design.
- The office sector posted negative absorption for the sixth consecutive quarter with 604k SF of direct space becoming vacant in Q1, pushing the YTD total to 1.5 MSF of red ink. This contraction combined with the delivery of new product, has pushed the overall direct vacancy rate up 110 bps to 23.1% since year-end 2020, reaching its highest level since the 1980s.
- The Class A property sector registered 452k SF of red ink during the first half of 2021 but is showing signs of stabilization after recording 2.6 MSF of occupancy losses in 2020. Meanwhile, Class B properties have posted 997k SF of occupancy losses YTD as recent business contractions and a flight to quality trend continues to impact the sector.
- Leasing volume totaled only 2.0 MSF in 2021 – representing a 50.3% drop below its 5-year quarterly average. Tour activity has risen due to increased business confidence but has yet to translate to notable deal volume.
- It remains to be seen when significant demand will return to pre-Covid-19 levels, but pent-up activity is expected to emerge in the coming quarters and positively impact the market as those users that delayed decisions are approaching their lease expirations and evaluating their future space needs.
- Sublease inventory rose for the fourth consecutive quarter by 821k SF to 8.0 MSF in 2Q21 but remains below its oil-crises peak of 12.1 MSF in 3Q16. Additional sublease space could be added to the market resulting from M&A activity and the COVID-related economic impact, but also as companies get back to work and determine post-COVID headcount.
- Landlords continue to hold face rates relatively steady but the gap between asking and effective rates is widening. Concessions, such as rental abatement and tenant improvement allowances, were already quite generous prior to COVID-19, but have become increasingly aggressive for larger tenants with good credit seeking to effectively reduce their occupancy expense.
- The full impact of remote work has not yet been felt but occupiers continue to explore ways to increase the flexibility of lease terms and obligations and some landlords are beginning to accept shorter-term lease renewals and extensions as a way to secure tenants.
- The citywide direct vacancy rate is expected to climb through the end of the year with 3.0 MSF slated to deliver in 2021. Although Houston's office sector will remain challenged for the remainder of the year, there are increased signs of stabilization as we move into 2022.
- As the economic recovery continues and the office sector enters its much-anticipated recovery over the next 6 months, trophy and Class A buildings are expected to outperform the broader market and experience a faster recovery at the expense of older office buildings.

SUPPLY AND DEMAND



VACANCY AND AVAILABILITY



Net Absorption Trends

CLASS A

(1.8 M^{SF})

T-12 MOS



CLASS B

(1.5 M^{SF})

T-12 MOS



Vacancy and Availability Trends

CLASS A



DIRECT VACANCY

24.1%

31.4 M^{SF}

DIRECT AVAILABILITY

29.0%

37.8 M^{SF}

CLASS B



DIRECT VACANCY

23.3%

20.5 M^{SF}

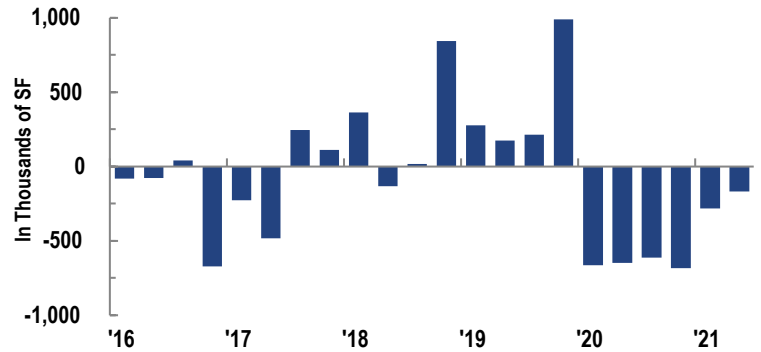
DIRECT AVAILABILITY

25.6%

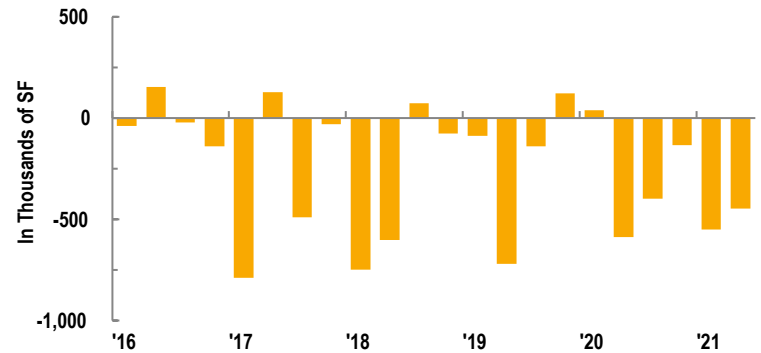
22.5 M^{SF}

DIRECT NET ABSORPTION

CLASS A



CLASS B

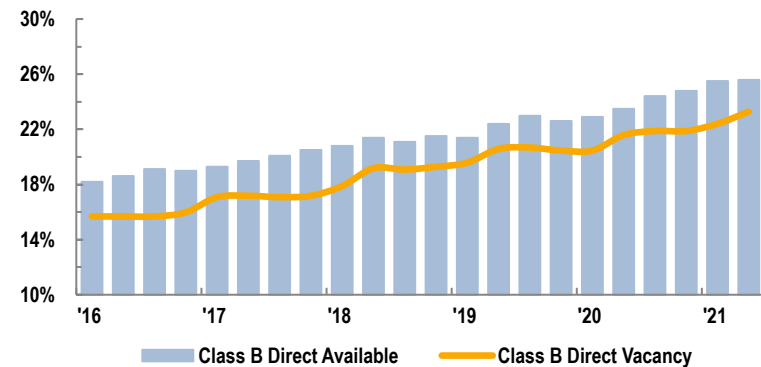


DIRECT VACANCY AND AVAILABILITY

CLASS A

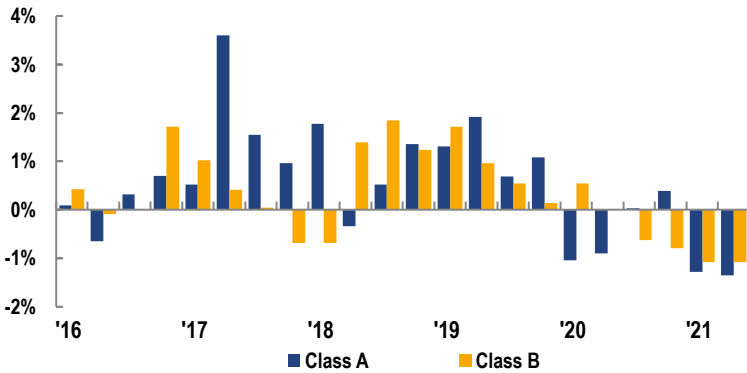


CLASS B



RENTAL RATES

Y-O-Y % Change, Full Service Gross



Rent Growth (Y-O-Y)

(1.4%)

CLASS A

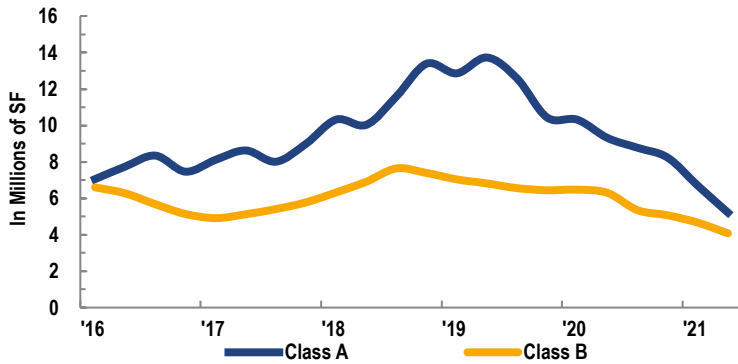


(1.0%)

CLASS B

LEASING ACTIVITY

Direct Leasing Activity, Rolling 12 Months



Direct Net Leasing Activity

CLASS A

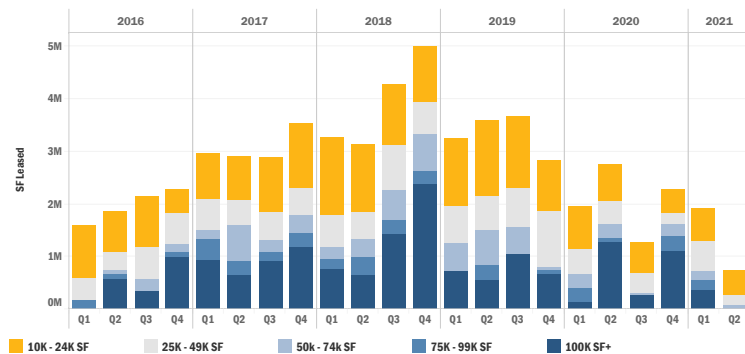
5.2 M^{SF}

T-12 MOS

(44.1%)
Y-O-Y CHANGE



by Size Range



CLASS B

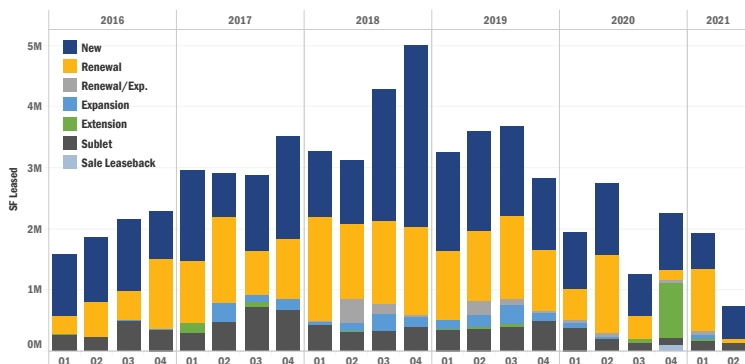
4.1 M^{SF}

T-12 MOS

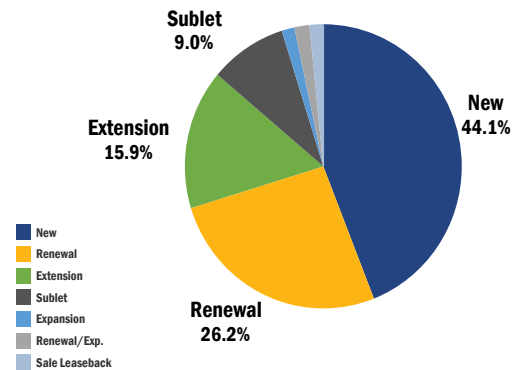
(35.1%)
Y-O-Y CHANGE



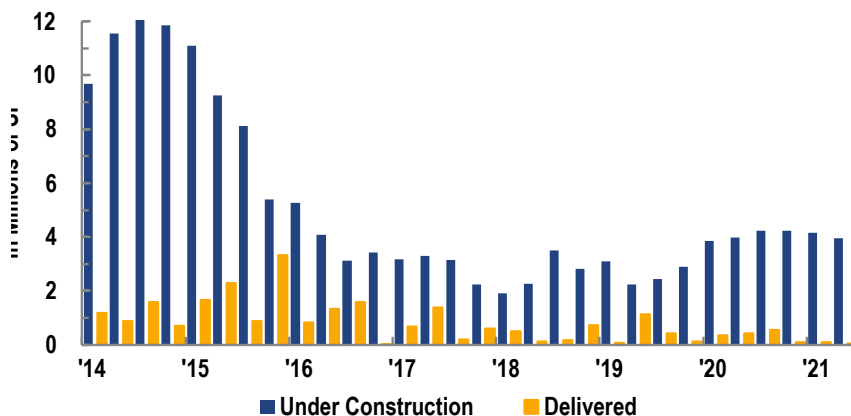
by Transaction Type



Transaction Trends (T-12 Months)



CONSTRUCTION PIPELINE



OFFICE SPACE UNDER CONSTRUCTION



4.0 M^{SF}
50.8% PRE-LEASED

NEW OFFICE BREAKING GROUND



0.6 M^{SF}
T-12 MOS

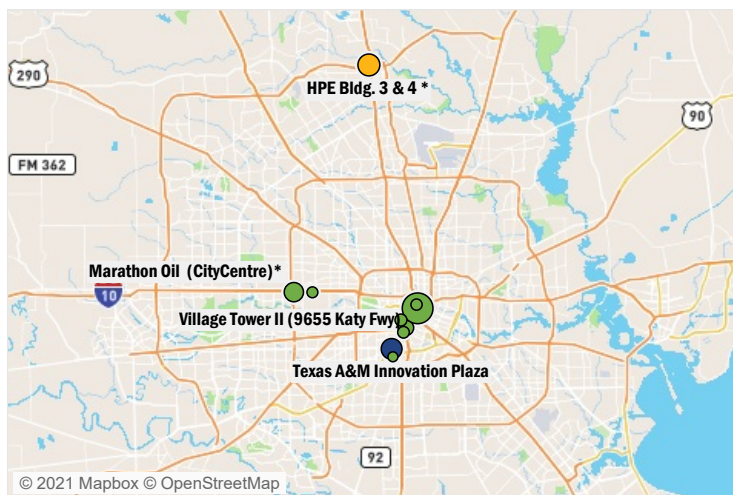
FORECASTED SUPPLY IN 2021



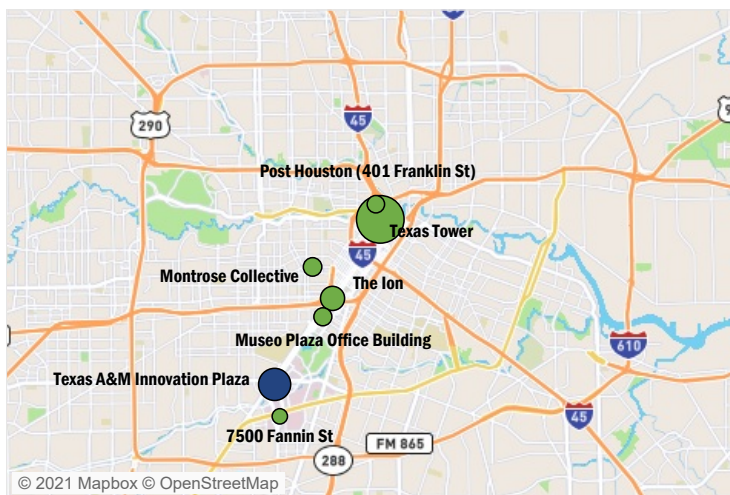
3.0 M^{SF}

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

Citywide



Inner Loop



Scheduled Completion: 2021 (Green), 2022 (Orange), 2024 (Blue)

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT(S)	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
Texas Tower	1,120,856	CBD	Vinson & Elkins; Hines; DLA Piper LLP	39%	Hines	4Q 2021
HPE Bldg. 3 & 4 *	568,000	Woodlands	Hewlett Packard Enterprises Company	100%	Patrinely Group, LLC	1Q 2022
Texas A&M Innovation Plaza	511,599	South Main/Medical Center	N/A	0%	Medistar Corporation	1Q 2024
Marathon Oil (CityCentre)*	440,000	Katy Freeway	Marathon Oil Corporation	100%	Hines	4Q 2021
The Ion	288,000	Midtown	CommonDesk, Microsoft, Chevron	53%	Hines	3Q 2021
Montrose Collective	170,000	Midtown	Live Nation	38%	Radom Capital LLC	3Q 2021
Museo Plaza Office Building	160,681	Medical Center	Mann Eye Institute	38%	Testa Rossa Properties	4Q 2021
Post Houston (401 Franklin St)	150,000	CBD	N/A	19%	Lovett Commercial	3Q 2021
Village Tower II (9655 Katy Fwy)	141,059	Katy Freeway	N/A	0%	Moody National	3Q 2021
7500 Fannin St	116,500	South Main/Medical Center	CHCA Women's Hospital	57%	Healthpeak Properties, Inc.	4Q 2021

Note: * Build-to-suit; Corporate owned office buildings (excluded from competitive statistics & above table)

SUBMARKET STATISTICS

Submarket	TOTAL SPACE AVAILABLE			DIRECT AVAILABLE / VACANT		DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
	Total Inventory SF	Direct	Sublease	Direct Availability	Direct Vacancy	Current Qtr.	Trailing 12 mos.	Completions Current Qtr	Under Construction	Class A	Class B
Central Business District	39,986,152	11,650,116	1,589,164	29.1%	22.9%	-115,618	-876,316	0	1,270,856	\$42.96	\$30.07
Galleria / Uptown	24,159,002	6,944,013	924,608	28.7%	22.7%	-28,451	-457,486	0	79,168	\$36.57	\$26.93
Greenway Plaza	10,788,965	2,427,440	371,563	22.5%	21.1%	-127,667	-429,490	0	0	\$37.16	\$28.32
Katy Freeway	31,504,971	8,373,244	2,011,126	26.6%	22.1%	63,702	-426,364	0	581,059	\$34.68	\$21.02
Westchase	15,342,520	4,886,490	693,872	31.8%	29.9%	-171,807	-339,110	0	0	\$32.92	\$21.73
North Houston / IAH / N Belt	12,497,243	5,908,640	86,200	47.3%	46.7%	2,841	-165,726	0	0	\$19.69	\$15.50
Northwest Freeway / N Loop West	8,950,621	1,905,389	81,717	21.3%	21.4%	-99,799	-76,379	0	64,395	\$25.45	\$19.22
NASA / Clear Lake & SE Outlier	6,605,092	1,184,221	48,491	17.9%	15.5%	71,336	94,671	0	0	\$27.12	\$19.73
Fort Bend / Sugar Land / SW Outlier	7,151,081	1,612,235	145,239	22.5%	18.7%	-51,815	-190,952	0	0	\$35.81	\$26.13
Richmond / Fountainview	1,231,938	147,756	4,720	12.0%	11.8%	-4,361	-45,891	0	0	-	\$19.34
San Felipe / Voss	5,239,730	1,548,616	66,375	29.6%	26.9%	-85,362	-206,981	0	0	\$37.64	\$25.39
Bellaire	4,105,121	812,378	160,816	19.8%	11.8%	-1,765	247,470	0	0	\$29.65	\$25.85
Midtown / Allen Parkway	6,069,219	1,418,197	53,006	23.4%	16.4%	12,318	-2,682	0	458,000	\$37.56	\$31.24
FM 1960	9,761,130	2,573,608	566,507	26.4%	24.6%	-32,420	-162,358	0	48,000	\$28.78	\$18.35
Kingwood / Humble / NE Outlier	1,566,331	325,495	32,408	20.8%	20.7%	-22,047	-21,020	0	0	\$27.73	\$24.00
Southwest Beltway 8 / SW / Hillcroft	9,824,651	2,351,828	850	23.9%	22.9%	-3,947	-2,645	0	0	\$17.55	\$17.04
S. Main / Medical Center / South	9,559,672	1,899,302	41,295	19.9%	13.0%	-75,855	-93,252	0	836,780	\$33.80	\$29.14
The Woodlands / Conroe	14,885,335	3,556,254	645,274	23.9%	21.9%	50,907	-279,549	50,000	627,800	\$36.38	\$27.72
Gulf Freeway / Pasadena	3,365,539	487,125	54,634	14.5%	12.7%	15,489	-12,218	0	0	\$32.03	\$22.72
Baytown / I-10 East	1,165,793	149,642	0	12.8%	20.3%	-2,407	-45,105	0	0	-	\$19.13
Katy / Grand Parkway West	2,915,797	715,698	222,195	24.5%	22.0%	-3,552	71,813	0	0	\$32.05	\$28.97
West Belt	5,035,435	1,443,969	244,250	28.7%	24.6%	6,437	-1,804	0	0	\$26.98	\$21.95
Totals	231,711,338	62,321,656	8,044,310	26.9%	23.1%	-603,843	-3,421,374	50,000	3,966,058	\$34.81	\$22.96

Property Type	TOTAL SPACE AVAILABLE			DIRECT AVAILABLE / VACANT		DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
	Total Inventory SF	Direct	Sublease	Direct Availability	Direct Vacancy	Current Qtr.	Trailing 12 mos.	Completions Current Qtr	Under Construction	Asking Rent	Y-O-Y Change
Class A	130,296,959	37,818,526	6,239,195	29.0%	24.1%	-167,291	-1,750,346	50,000	3,858,258	\$34.81	-1.4%
Class B	88,046,212	22,546,573	1,750,777	25.6%	23.3%	-447,583	-1,528,459	0	107,800	\$22.96	-1.0%
Class C	13,368,167	1,956,557	54,338	14.6%	12.9%	11,031	-142,569	0	0	\$17.98	-1.4%
Totals	231,711,338	62,321,656	8,044,310	26.9%	23.1%	-603,843	-3,421,374	50,000	3,966,058	\$29.56	-1.3%

SIGNIFICANT TRANSACTIONS

Tenant	SF	Type	Tenant Industry	Building	Class	Submarket
UT Physicians	65,000	New	Healthcare	Bellaire Station	B	Bellaire
Raymond James	60,219	New	Financial	San Felipe Plaza	A	San Felipe/Voss
Concho Resources Inc	27,767	Renewal	Energy	1001 Fannin	A	CBD
AES Drilling Fluids	27,614	New	Energy	Energy Center II	A	Katy Freeway
Jacobs	25,982	New	Engineers/Architects	CityCentre	A	Katy Freeway
AWS (Amazon.com)	25,977	New	Retailers/Wholesalers	CityCentre	A	Katy Freeway
Atkins North America, Inc.	25,557	Sublet	Engineers/Architects	Four WestLake Park	A	Katy Freeway
Catholic Charities of the Archdiocese of Galveston- Houston	25,300	Sublet	Personal Services	Schlumberger Building	A	Galleria / Uptown
Wildfire Energy	23,652	New	Energy	920 Memorial City Way	A	Katy Freeway
Half Associates, Inc	23,000	Renewal	Engineers/Architects	Ashford Place III	B	Katy Freeway



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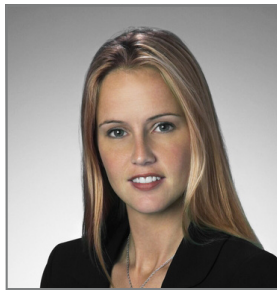
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ABOUT MADISON MARQUETTE

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