

Staubach

CORPORATE SERVICES
GALLERIA/WEST LOOP SUBMARKET

Houston, TX

Galleria/West Loop Market Overview

The Galleria/West Loop has experienced positive net absorption for the last 8 quarters while the vacancy rate continues to decline to the lowest level in many years (12.0%). Over 900,000 SF of office space was absorbed in the Galleria/West Loop during 2006, followed by another 200,000 SF in the first quarter of 2007. With established amenities such as retail, hotels, entertainment and dining, the Galleria/West Loop has emerged as a popular choice for companies in search of mid-size blocks of space (20,000 – 40,000 SF).

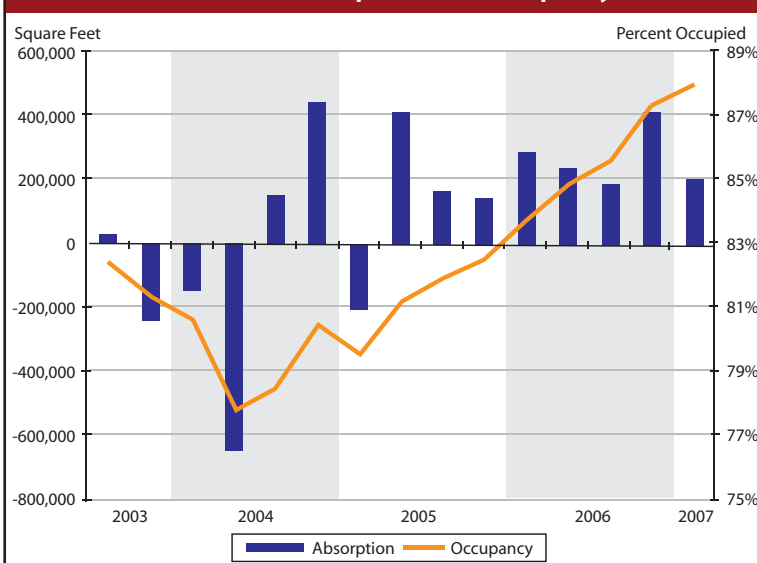
Trends

- Many of the better blocks of space have been picked over. Tenants in search of office space must start early and be diligent in the pursuit of new space.
- Only six buildings in the Galleria/West Loop can accommodate users requiring 2 or more floors of contiguous space.
- Over 4.49 million square feet of new office space is under construction in the Houston area; however, the Galleria/West Loop has no new office buildings under construction at this time.
- Owners of premier Class A buildings see this as a landlord's market and recognize the current climate as an opportunity to raise rental rates, convert to net leases and do away with large concessions of the past.
- Quoted rates among Class A buildings have continued to rise to the current average of \$23.86 SF, full service.
- Quoted rental rates among all 122 buildings (Classes A – C) in the Galleria/West Loop average \$21.83 SF, full service. This is an increase of \$3.23 SF or 17.37% over rates one year earlier.

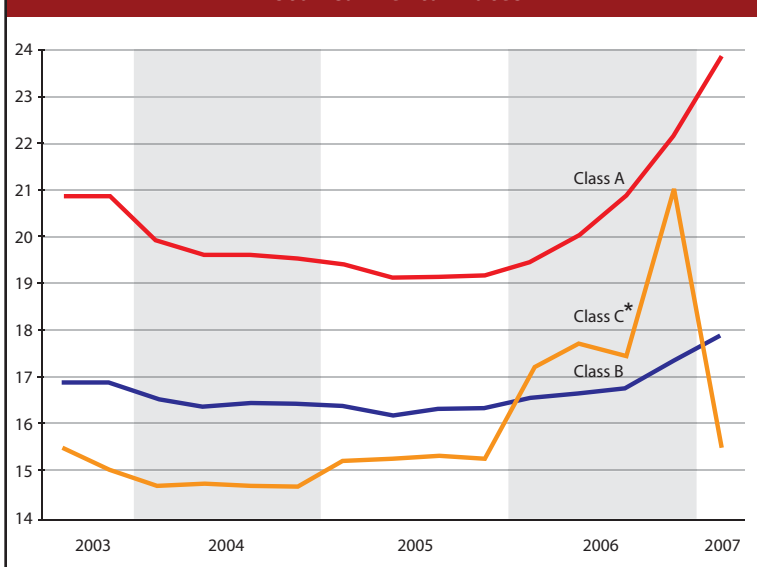
Outlook

- With the Houston area adding over 70,000 new jobs annually the demand for office space will remain strong.
- Rental rates will continue to rise toward replacement cost rents (over \$30.00/SF, suburban).
- Large tenant improvement allowances (exceeding \$20.00 SF) will be harder to negotiate. Close attention should be given to assuring that older buildings comply with fire code, ADA and other regulations.

Historical Absorption and Occupancy



Historical Rental Rates



Foot Note:

* Beginning third quarter 2005 Class C rental rates became artificially high due to the dramatic rise in rates of Westheimer Oaks and 5510 Richmond. Both buildings are quasi-retail buildings. 5510 Richmond to be re-classified as retail next period.