Office Development Potential

Sugar Land, Texas

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Introduction and Scope of Project

The purpose of this study is to evaluate supply and demand within the economic conditions and trends that influence office development opportunities in Sugar Land. This study will assess the nature of office development patterns in Sugar Land and the greater Houston region to determine the extent to which the City can expect to participate in capturing shares of future regional market demand.

This study will focus on Class A office development. Information collected and analyzed will include an evaluation of inventory, leasing activity, rental rates, and additional qualitative factors.

The City of Sugar Land has experienced and is expected to continue to experience substantial population and economic growth. Among other factors, the area's growth is driven by employment opportunities, good schools and housing, visionary governance and an overall attractive quality of life available to residents. Continuing to retain and attract business and industry is life-blood to maintaining a balanced environment. In this regard, the City's Economic Development efforts can be optimized by having a solid understanding of existing office market conditions as well as a realistic appreciation of future needs, constraints and opportunities. To this end, the City has contracted with CDS to conduct a comprehensive analysis of the local Class A office market with a primary focus on existing conditions and enhancing future opportunities.

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Executive Summary

Sugar Land is a very viable community with growth and economic vitality

- Population and households have increased significantly (8.3 – 9.6%) since the 2010 Census
- Sugar Land contains considerably higher concentrations of people in the age ranges of Age 45 to 64, and Age 65 and over
- More than 51% of persons 25 years old or older in Sugar Land hold a Bachelors, Masters, Professional or Doctors degree
- Approximately 48% of the households in Sugar Land have incomes of $100,000 or higher
- Over 87% of the housing units in Sugar Land are single family with a median value of $257,397.

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

Sugar Land is considered as a major employment/activity center in the Houston Metropolitan Region.

- Sugar Land includes over 3.6 million square feet of Class A office space at an average rental rate of $28.38psf with vacancy at 9.5%.
- Approximately 84% of the Sugar Land civilian employed persons 16 years of age or older are in white collar occupations including management/business/financial or professional
- There were 56,637 jobs in Sugar Land as of the latest LEHD report
- The City is home to numerous high-profile regional and international corporations including Minute Maid, Schlumberger, Tramontina USA, Fluor Corporation, Nalco, CVR Energy, Sunoco Logistics, Bechtel Equipment Operations, UnitedHealth Group and Aetna.
- Employment growth in the market area is projected by H-GAC to increase at a rate of 8.6% over the next five year period and while CDS predicts 39.8% growth from 2015 to 2020. This average **projected growth of 9,085 jobs or 1,861 annually** is an indicator of demand for new commercial products in the market area.

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation; CDS Market Research; HGAC; City of Sugar Land; CoStar

Sugar Land Compared to other business activity centers (Downtown, Energy Corridor, Greenway Plaza, Memorial City, The Woodlands, Uptown/Galleria, Westchase)

- Downtown is clearly the leader in existing office space and jobs with nearly 49 million square feet (SF) of office space and an estimated 140 thousand office jobs. Uptown comes in second with just over 22 million SF of office space and an estimated 68 thousand office jobs.
    - Sugar Land includes 7.9 million SF of office space – second smallest activity center next to Memorial City
    - Sugar Land has an estimated 23,771 office jobs based on its current leased SF
- Based on projected construction Downtown will gain an estimated 19,238 office jobs
    - Energy Corridor 17,249; The Woodlands 11,445; Westchase 8,339
    - Memorial City 4,823; Uptown 3,618; Greenway Plaza 2,537
    - Sugar Land 3,832

- The overall total of new supply in the activity centers is 16.7% of the existing supply.
    - Sugar Land's new construction is 16% of its existing supply.
    - Comparatively, the other activity centers new construction varies from 5.4% to 34.2%, the average being 18.9%.
- Downtown continues to have the highest lease rates in the Houston region. Other submarkets where job growth has been exceptionally strong, most notably the Energy Corridor, are also reportedly experiencing strong lease rates.
    - Sugar Land is one of the smaller office markets in terms of existing office space.
    - Currently Class A rental rates are lowest in Sugar Land, as compared to the other activity centers.
    - Sugar Land saw an increase of 0.8% in rental rates from 2013 to 2014
- Developers are concentrating on building offices in the Energy Corridor and The Woodlands, with both markets accounting for more than half or 10.2 million square feet of Houston's total office space under construction.
    - The Woodlands is currently being driven by the construction of the Texas based Exxon Mobil Corporation's 3 million square foot campus in Spring. The Woodlands has been known for its "live, work, play" lifestyle which makes it an attractive location for employees of all levels including management and executives.
    - The genesis of the Energy Corridor is the oil and gas executives to have quality office space close to the Memorial Villages in which many of them live.
    - Majority of energy companies prefer Energy Corridor and Woodlands

Source: CDS Market Research, HGAC, American Community Survey, PCensus; City of Sugar Land; Transwestern

- Perceptions of Sugar Land as Activity Center
    - Sugar Land has created several unique development areas that are suitable for office development.
    - Sugar Land is an excellent competitive location for office tenants, but it is not yet perceived to be at the same level as the Woodlands, Westchase, Galleria or the Energy Corridor, largely due to a shortage of new supply of multi-tenant buildings over the last 5 years.
    - Large energy companies are looking for spaces that were not available in Sugar Land
    - Sugar Land is viewed as very favorable for engineering and technical services industries
    - Sugar Land is favored by small corporate headquarters
    - The majority of office space demand comes from companies seeking 7,500sf to 10,000sf, and often times by locally owned businesses
    - Sugar Land is an excellent value market
    - Only Telfair and Imperial have sufficient land to address large-scale campuses
    - Sugar Land is perceived as "far" from the city core
- Key market obstacles to office development in Sugar Land

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  - There are a few market-ready sites that are appropriately priced in Sugar Creek and Lake Pointe. Telfair office land is neither available nor reasonably priced. Imperial land is not yet attractive to Class A users, and it more suited to value office at lower rates.
  - Obtaining financing and continued unpredictability on construction cost inflation
  - Until Sugar Land's office rents are on par with the other submarkets, office developers will continue to consider Sugar Land as a higher risk submarket because the costs to construct are the same across all submarkets
  - Most office tenants today are looking for a mixed-use environment over a stand-alone environment.
  - Large spaces are not available with walkable amenities – Telfair is not far enough along to offer these
  - Currently, 40 to 50% preleasing is required for a construction loan funding 60 to 65% of the project costs. It's hard to reach these qualifications with small tenants.
  - Lack of executive level housing
- Positives for development in Sugar Land
  - Access to major highways
  - FBO airport with US Customs
  - High quality neighborhoods and schools
  - Cultural and entertainment amenities
  - Low tax rates
  - City's Incentives
  - Attractive to small company headquarters
  - Attractive to non-energy related companies
  - Strong healthcare market – medical offices
  - Over 550,000sf of Class A office space proposed as well as 729,936sf of Class B
  - Attractive rental rates
  - Several development areas available
  - Fluor re-location becomes an opportunity for new large employer
  - Sugar Land has had many recent relocations and expansions

Source: CDS Market Research; Interviewees

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Sugar Land Overview

The City of Sugar Land is an award-winning community 20 miles southwest of Houston. This master-planned community has achieved its sustainable, strong local economy through a strategically focused and aggressive economic development program creating new wealth and jobs. As a regional employment center, the City is home to numerous high-profile regional and international corporations housed in nearly 25 million square feet of commercial space, including Minute Maid, UnitedHealthcare, Texas Instruments, Schlumberger, Fluor Corporation, Noble Drilling Services, Inc., Bechtel EO and Aetna.

Sugar Land has also uniquely positioned itself as a hub for premium shopping, dining and entertainment. Venues such as the Houston Museum of Natural Science at Sugar Land, Constellation Field, as well as the future indoor performance venue and Sugar Land Heritage Museum further establish the community as a cultural and historical destination.

Sugar Land is considered as a major employment/activity center in the Houston Metropolitan Region. With over 3.6 million square feet of Class A office space which is over 90% occupied and low rental rates, Sugar Land is home to several large employers including Minute Maid, UnitedHealthcare, Texas Instruments, Schlumberger, Fluor Corporation, Noble Drilling, Bechtel, Aetna, and recently announced First Data/TeleCheck Services.

Major Development Areas

Sugar Land has created several unique development areas that are suitable for office development.

- *Imperial Redevelopment District* - The City of Sugar Land, Texas General Land Office, Johnson Development and Cherokee Investments are partnering to develop 686 acres of property on the site of the former Imperial Sugar Refinery and adjoining undeveloped land tract. This site will be the location of a minor league baseball stadium, a commerce park, mixed-use residential/retail, commercial retail, and traditional neighborhood development. This master planned site is currently in Phase I of infrastructure construction. The baseball stadium—Constellation Field—began its inaugural season in April 2012.

- *Telfair* - Located along the U.S. Highway 59 corridor and University Boulevard, Telfair includes 2,018 acres for a wide variety of uses including residential (1,064 homes), commercial office, retail space, mixed use, education, civic/community buildings, open space and neighborhood parks. The development centers on a 300-acre mixed-use development anchored by the University of Houston – Sugar Land Campus and other future public and private uses. Telfair is also home to the Houston Museum of Natural Science – Sugar Land Campus and is the future home of the new 50-acre office site for Fluor Enterprises, Inc. The development will also feature the new performing arts/concert venue.

- *Sugar Land Town Square* - 32-acre mixed-used, award winning development is a public-private project between the City of Sugar Land and Planned Community Developers. Sugar Land Town Square is a downtown urban environment anchored by Minute Maid's corporate headquarters and several other Class A office users. Sugar Land Town Square is a 32-acre mixed-use development with 1.4 million square feet of mixed-uses that includes a 300-room full-service Marriott hotel and Sugar Land conference center, the 82,000 square-foot Sugar Land City Hall, 167 mid-rise residential condos, 566,000 square feet of office space, 252,000 square feet of Main Street retail and restaurants and a 1.4-acre pedestrian plaza. The Sugar Land Town Center is built out with current office rents at $23.42 overall and vacancy at 5.2%.

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- *Lake Pointe Town Center* - Lake Pointe Town Center is a 190-acre, urban-style village that is located at the intersection of Highway 6 and U.S. 59, anchored by the existing 1.2 million-square-foot headquarters of Fluor Corporation and Houston's first suburban Whole Foods Market. Lake Pointe Town Center includes more than 1 million square feet of office and medical space, 140 town homes and brownstones, 150 patio homes, 100 mid-rise condos and 360,000 square feet of retail space. Lake Pointe Town Center also features significant water frontage, including the 37-acre Brooks Lake and 1.5 miles of frontage on Oyster Creek. The development enjoys a significant medical presence with St. Luke's Sugar Land Hospital, M.D. Anderson Cancer Center, and Methodist Orthopaedic Specialists of Texas. The 120,596sf St. Luke's Professional Building currently leases for $24.03psf with vacancy at 8.8%.

- *Proposed New Area* – SE quadrant of University and US59. The City of Sugar Land views this location as significant potential for mixed-use development. Currently an indoor performance and concert venue and hotel conference center are proposed. *This is part of the Telfair Commercial District.*

Demographics

According to the 2010 Census, Sugar Land included 78,817 persons. At 2014, the population had increased by 8.3%. Data available from the 2010 Census provides only population, ethnicity, and housing unit data. Due to this limited amount of information, we will rely on additional demographic information from other third party sources deemed reliable for our analysis herein.

The following tables and text illustrate the demographics of the market area and compare it with the demographics of the City of Houston as a whole and the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA). Demographics were estimated by Claritas, a national population and demographics service and attributed to these specific areas using Tetrad's PCensus software.

Historic Growth and Projections

Population	2000 Census	2010 Census	2014 Estimate	2019 Projection	Growth 00-10	Growth 10-14	Growth 15-19
Sugar Land	63,035	78,817	85,390	92,603	25.0%	8.3%	8.4%
City of Houston	1,974,547	2,099,451	2,238,797	2,382,865	6.3%	6.6%	6.4%
Houston MSA	4,693,140	5,920,416	6,352,744	6,904,996	26.1%	7.3%	8.6%

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

Households	2000 Census	2010 Census	2014 Estimate	2019 Projection	Growth 00-10	Growth 10-14	Growth 15-19
Sugar Land	20,532	26,958	29,548	32,216	31.3%	9.6%	9.0%
City of Houston	725,156	780,148	835,664	894,412	7.5%	7.1%	7.0%
Houston MSA	1,648,146	2,062,529	2,209,887	2,402,158	25.1%	7.1%	8.7%

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

Population growth is one of the principal measures of the economic vitality of any market area because increasing population is generally the result of more jobs, a high level of immigration and a stable or expanding economy. Sugar Land's population experienced double-digit percentage growth in the last decade and is expected to increase 8.4% to 92,603 by 2019. The market area's households experienced similar growth during this time and are expected to increase 9.0%, from 2014 to 32,216 in 2019.

Comparison of Population, Gender, Age, and Marital Status

Gender and Age 2013 Estimate	Sugar Land	City of Houston	Houston MSA
Male	49.1%	50.2%	49.7%
Female	50.8%	49.8%	50.2%
Under Age 18	22.7%	25.8%	27.3%
Age 18 to 24	9.0%	9.6%	9.6%
Age 25 to 34	10.1%	17.3%	14.4%
Age 35 to 44	12.2%	14.2%	14.2%
Age 45 to 54	16.6%	12.4%	13.5%
Age 55 to 64	16.8%	10.5%	11.2%
Age 65 and over	12.6%	10.1%	9.8%
Median Age	41.7	33.3	34.1
Average Age	39.7	35.2	35.2
Married	64.6%	45.4%	52.9%

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

Over the past decade, the market area has grown at a faster rate than the City of Houston as a whole. This trend is expected to continue over the next 5 years for the city boundaries.

Population Gender, Age, and Marital Status

The majority of the population in Sugar Land is female. This is slightly lower percentage of males than the City.

Sugar Land also has a much older population than the City of Houston and the Houston MSA, as seen in the median and average ages.

In 2014, only 22% of the population in Sugar Land was under the age of 18, compared to 25% and 27% in the City and MSA.

Sugar Land includes lower percentages of people between the ages of 25 to 34 than both the City and MSA. Companies expecting to fill jobs with this age group will have more difficulty due to the lower percentage of younger workers.

Sugar Land contains considerably higher concentrations of people in the age ranges of Age 45 to 64, and Age 65 and over than does the City and the MSA.

64% of people over age 15 in Sugar Land are currently married. This is a considerably higher rate than both the City of Houston (45%) and the Houston MSA (53%).

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Educational Attainment

More than 51% of persons 25 years old or older in Sugar Land hold a Bachelors, Masters, Professional or Doctors degree. This is significantly higher than that of the City and the MSA at 28%. These educational characteristics are compatible with high-density office jobs.

Household Income

Both the average and median household incomes in Sugar Land are significantly greater than both the City of Houston and the Houston MSA. Sugar Land's average household income is $58,000 greater than the City and $46,000 greater than the MSA's average income. The median income is also significantly greater.

Approximately 48% of the households in Sugar Land have incomes of $100,000 or more, compared to 17% in the City of Houston and 25% in the Houston MSA.

15% of the households in Sugar Land earn over $200,000 per year. Of these, 3% have incomes over $500,000. These percentages far exceed the City and MSA.

Only 5% of families are below poverty in Sugar Land, compared to 16% in the City and 11% in the MSA.

2013 Educational Attainment

Education	Sugar Land	City of Houston	Houston MSA
No Diploma	3.5%	14.20%	9.85%
Some High School	4.3%	10.94%	9.28%
High School Graduate (or GED)	13.0%	22.64%	23.99%
College, no degree	21.6%	19.13%	22.01%
Associate Degree	6.2%	4.74%	6.33%
Bachelor's Degree	32.2%	17.59%	18.83%
Master's Degree	13.5%	6.79%	6.53%
Professional Degree	2.9%	2.44%	1.91%
Doctorate Degree	2.9%	1.52%	1.27%

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

Comparison of Household Income

Household Income 2013 Estimate	Sugar Land	City of Houston	Houston MSA
Less than $15,000	4.9%	16.3%	11.8%
$15,000 to $24,999	4.7%	13.4%	10.5%
$25,000 to $34,999	5.7%	12.0%	10.0%
$35,000 to $49,999	8.1%	14.2%	13.0%
$50,000 to $74,999	14.0%	15.9%	17.1%
$75,000 to $99,999	13.6%	9.9%	12.3%
$100,000 to $124,999	11.9%	5.8%	8.3%
$125,000 to $149,999	9.4%	3.4%	5.0%
$150,000 to $199,999	12.4%	3.6%	5.6%
$200,000 to $249,999	4.9%	1.4%	2.0%
$250,000 to $499,999	7.0%	2.5%	2.9%
$500,000 or more	3.1%	1.1%	1.1%
Average HH Income	**$125,699**	**$67,536**	**$79,266**
Median HH Income	**$97,948**	**$43,641**	**$56,545**

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

Housing Units

Over 87% of the housing units in Sugar Land are single family with a median value of $257,397. Thirty-seven percent of the homes are valued at over $300,000. However only 10% of these homes are valued at over $500,000 which would appeal to most company executives; only 1.9% are over $1 million.

81.2% of the housing units are owner occupied with a median age of 1991.

2014 Estimated All Owner-Occupied Housing Units by Value	24,011	
Less than $20,000	178	0.74%
$20,000 to $39,999	136	0.57%
$40,000 to $59,999	145	0.60%
$60,000 to $79,999	98	0.41%
$80,000 to $99,999	428	1.78%
$100,000 to $149,999	3,246	13.52%
$150,000 to $199,999	3,755	15.64%
$200,000 to $299,999	7,003	29.17%
$300,000 to $399,999	4,196	17.48%
$400,000 to $499,999	2,257	9.40%
$500,000 to $749,999	1,571	6.54%
$750,000 to $999,999	533	2.22%
$1,000,000 or more	465	1.94%
2014 Estimated Median Owner-Occupied Housing Unit Value	**$257,397**	
2014 Estimated Housing Units by Units in Structure	**30,614**	
1 Unit Attached	928	3.03%
1 Unit Detached	25,822	84.35%
2 Units	8	0.03%
3 or 4 Units	255	0.83%
5 to 19 Units	1,634	5.34%
20 to 49 Units	795	2.60%
50 or More Units	1,092	3.57%
Mobile Home or Trailer	80	0.26%
Boat, RV, Van, etc.	0	0.00%

Housing Values and Structures

Source: PCensus for Map Info, Copyright 2014 Tetrad Corporation

2014 New Construction Home Sales

Riverstone	Alden Springs	($428-$490)	19 starts
	Auburn Manor	($394-$447)	86 closings
	Avalon	($351-$1,138k)	143 closings
	Creekstone	($359-$453k)	32 closings
	Crescent	($1,600-$2,849k)	3 closings
	Edgewood	($455-$536k)	36 closings
	Hartford	($899-$1,983k)	7 closings
	Ivy Bend	($1,200-$4,000k)	2 closings
	Kensington	($344-$597k)	40 closings
	Manors	($335-$389k)	2 closings
	Millwood	($292-$435k)	84 closings
	Olive Hill	($572-$747k)	24 closings
	Providence	($325-$398k)	17 closings
	Senova	($429-$511k)	10 closings
	Shadow	($408-$536k)	67 closings
	Silver	($478-$772k)	5 closings

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	Stonebrook	($229-$390k)	5 closings
	Waterside	($913-$1,022k)	6 closings
Telfair	Sec 33	($391-$600k)	24 closings
	Sec 34	($391-$710K)	20 closings
	Sec 35	($636-$743k)	29 closings
	Avalon	($526-$765k)	9 closings

2014 Pre-owned Home Sales

In 2014 there were 2,139 home sales in Sugar Land. The average sale price per square foot was $122.68 or $373,798. The median price was $325,000.

2014 Home Sales

	SqFt	Beds	FB	HB	Sale Price	SP/SqFt	CDOM	Year Built
Min	824	0	1	0	65000	37.24	0	1912
Avg	3047	3.93	2.7	0.7	373798	122.68	43.79	1996
Max	12957	6	7	4	6000000	463.07	912	2014
Median	2988	4	3	1	325000	113.17	13	1997

Source: HAR, January 2014

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Employment

Approximately 84% of the Sugar Land civilian employed persons (who live in Sugar Land) 16 years of age or older are in white collar occupations including management/business/financial or professional, compared to 55% for the city as a whole and 60% for the MSA.

2014 Employment by Occupations

Occupation Category	Sugar Land		City of Houston		Houston MSA	
	43,916	%	1,073,954	%	3,050,032	%
Management , Inc. Farmers, Farm Managers	6,600	15.03%	86,291	8.03%	298,618	9.79%
Business and Financial Operations	4,013	9.14%	51,524	4.80%	152,219	4.99%
Computer and Mathematical	2,788	6.35%	24,505	2.28%	76,062	2.49%
Architecture and Engineering	2,475	5.64%	28,273	2.63%	91,485	3.00%
Life, Physical, and Social Science	581	1.32%	12,108	1.13%	30,600	1.00%
Community and Social Services	448	1.02%	13,953	1.30%	34,774	1.14%
Legal	511	1.16%	19,270	1.79%	38,210	1.25%
Education, Training, and Library	2,830	6.44%	53,732	5.00%	180,569	5.92%
Arts, Design, Entertainment, Sports, Media	1,175	2.68%	17,161	1.60%	43,671	1.43%
Healthcare Practitioners and Technical	3,748	8.53%	47,158	4.39%	149,470	4.90%
Healthcare Support	338	0.77%	24,942	2.32%	58,527	1.92%
Protective Service	591	1.35%	19,275	1.79%	65,338	2.14%
Food Preparation and Serving Related	1,060	2.41%	66,843	6.22%	157,317	5.16%
Building and Grounds Cleaning, Maintenance	688	1.57%	62,363	5.81%	130,942	4.29%
Service : Personal Care and Service	967	2.20%	33,126	3.08%	89,887	2.95%
Sales and Related Occupations	5,973	13.60%	110,194	10.26%	334,550	10.97%
Office and Administrative Support	5,629	12.82%	133,928	12.47%	401,180	13.15%
Farming, Fishing, and Forestry	130	0.30%	2,432	0.23%	7,436	0.24%
Construction and Extraction	670	1.53%	92,448	8.61%	218,834	7.17%
Installation, Maintenance, and Repair	702	1.60%	37,620	3.50%	113,290	3.71%
Production	1,057	2.41%	66,615	6.20%	188,082	6.17%
Transportation and Material Moving	942	2.15%	70,193	6.54%	188,971	6.20%
2014 Estimated Civilian Employed Population Age 16 and Over by Occupation Classification						
Blue Collar	3,371	7.68%	266,876	24.85%	709,177	23.25%
White Collar	36,771	83.73%	598,097	55.69%	1,831,408	60.05%
Service & Farm	3,774	8.59%	208,981	19.46%	509,447	16.70%

Source: PCensus for MapInfo, Copyright 2014 Tetrad Corporation

Major Employers

The City of Sugar Land has also gained a well-deserved reputation as one of the top locales in the United States for business relocation and expansion, in part because of its workforce talent (51% with bachelor's degree and higher per PCensus) and aggressive economic development program. The City is home to numerous high-profile regional and international corporations including Minute Maid, Schlumberger, Tramontina USA, Fluor Corporation, Nalco, CVR Energy, Sunoco Logistics, Bechtel Equipment Operations, UnitedHealth Group and Aetna.

Major Sugar Land Employers

Employer	Industry	Employees
Fluor Enterprises, Inc.*	Engineering / Procurement / Construction	2,800
Fort Bend ISD (City Limits)	Education	2,580
Schlumberger*	Oilfield Services /Technology	2,200
Methodist Sugar Land Hospital	Hospitals	1,700
UnitedHealthcare/UnitedHealth Group*	Health Benefits	800
City of Sugar Land	Local Government	676
Nalco Champion, an Ecolab Company*	Petrochemicals	600
Tramontina USA, Inc.	Manufacturing / Kitchen Wares	500
Noble Drilling Services, Inc.	Offshore Drilling	480
Memorial Hermann Sugar Land	Hospitals	450
Baker Hughes*	Specialty Polymers	420
St. Luke's Hospital Sugar Land	Hospitals	390
Texas Instruments*	Semiconductor design & manufacturing	375
Yokogawa Corp Of America	Process Control Equipment	360
National Oilwell Varco*	Oilfield Equipment (Whls)	350
Fairfield Nodal	Seismic Data Systems	340
Sunoco Logistics Partners LP	Petroleum / Gas Transportation	320
Accredo Packaging, Inc.	Manufacturing/packaging	280
Healix Infusion Therapy, Inc.	Medical & Surgical Svc Organizations	250
Money Management International	Financial Services	250
Minute Maid/Coca-Cola*	Office / Corp HQ (Food / Drink)	245
Applied Optoelectronics, Inc.	Fiber-optics	225
CSM Bakery Products	Bakery	225
HealthSouth Sugar Land Rehabilitation Hospital	Hospitals	220
Ventyx, an ABB company*	Computer Peripherals Manufacturing	215
OptumRx/Unitedhealth Group*	Health Benefits	210
Houston Sigma Technology	Manufacturing/electronics	190
Industrial Information Resources	Consulting Services	180
Crown Cork & Seal Co/Crown Holdings*	Container Manufacturing	170
Pharmedium Services, LLC	Pharmaceutical Compounding	170
Bluebonnet Nutrition Corp	Nutritional Supplements	168
Heavy Construction Systems Specialists (HCSS)	Software Development	156
Thermo Fisher Scientific*	Controlling Instruments Manufacturing	155
Marriott-Sugar Land Town Square	Hospitality	150
Icon Clinical Research	Research & Development	145
Unique Industrial Product co	Manufacturing/Distrs & Indl Products	143
The Crescent	Transitional Care	137
Trafficware-Natzec	Traffic	135
Aetna*	Call Center	130
University of Houston	Education	130

** 2014 Fortune 500 Company*

City of Sugar Land Office of Economic Development

Employer	Industry	Employees
Sugar Land Health Care Center	Health Care Facilities	127
KW Industries, Inc.	Manufacturer/lighting	125
CVR Energy	Corp HQ / Refining	120
Kelsey-Seybold Clinic	Hospitals	120
Cosentino	Manufacturer/Silestone quartz	100
SABIC Technology Center*	Chemical R&D	94
Team Industrial, Inc.	Oilfield Services / Technology	94
Amerex Brokers, LLC	Consulting Services	90
Severn Trent De Nora, LLC	Water disinfection systems	90
Amica Insurance	Insurance	85
Mylan Institutional, Inc./Mylan*	Pharmaceuticals	85
Fiserv Output Solutions	Consulting Services	84
Yang Ming	Marine Transport	84
Boise Cascade	Paper Products (Wholesale)	82
Professional Golf Ball Svc	Golf Equipment & Supplies-Wholesale	80
Analytical Sensors & Instruments Ltd. (ASI)	Electrodes-Wholesale	76
Contract Land Staff, LLC	Consulting Services	75
Systel, Inc.	Computers-Electronic-Manufacturers	75
GE Oil And Gas/General Electric*	Oilfield Services /Technology	70
Prime Communications	Communications Services-Common Carriers	70
SCA Consulting Engineers	Engineering	70
BTS Team, Inc.	Employment Agencies	68
MD Anderson	Hospitals	66
Omni Flow Computers	Computer & Equipment Dealers	65
Stillmeadow, Inc.	Research & Development In Biotechnology	65
Sugar Land Veterinary Specialists	Hospitals	65
Systronix, Inc.	Manufacturing/electronics	65
Sugar Land Surgery Center	Health Care Facilities	64
AmerisourceBergen Drug Company*	Medical Distribution Center	61
Hillcroft Medical Clinic Assoc	Physicians & Surgeons	60
Hilton Garden Inn-Houston	Hospitality	60
Windstream*	Communications	60
Bechtel	Engineering/ Construction	55
South West Water Company	Utility management	55
Wireless Seismic	Cellular Telephones (Services)	55
Texas Childrens Health Center	Hospitals	52
Ellen Lighting & Hardware	Distribution/ Lighting	50
Mechanical Equipment Company, Inc.	Water Treatment Equip Svc & Supls	50
Richmond Bone & Joint Clinic	Health Care Facilities	50
Solarcraft, Inc.	Manufacturing/Solar Power Systems	50
Western Airways, Inc.	Aircraft Charter Rental & Leasing Svc	50

** 2014 Fortune 500 Company*

City of Sugar Land Office of Economic Development

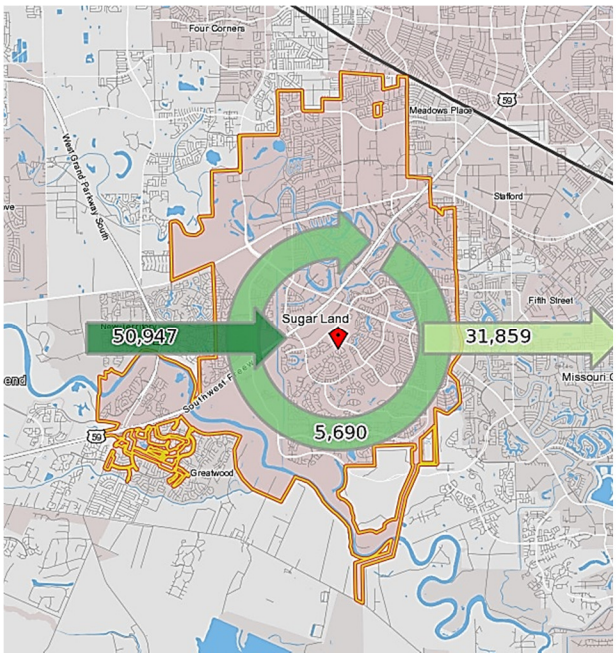
LEHD Inflow-Outflow

Additional employment data provided by the LEHD show Inflow-Outflow characteristics of the Sugar Land geography. A positive picture is shown regarding the ages and incomes of workers coming into the area versus residents leaving the area to work.

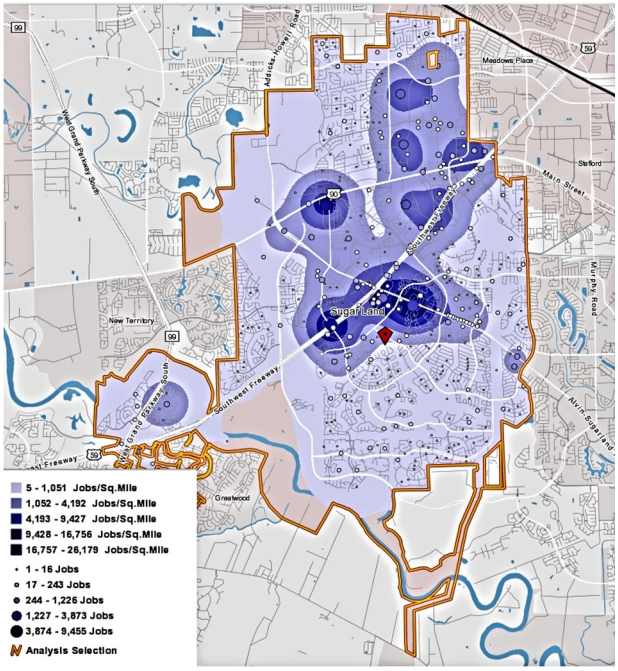
There were 56,637 jobs in Sugar Land as of the latest LEHD report (2011). At this time 37,549 were living in Sugar Land.

- *50,947 jobs in Sugar Land are filled by those who reside outside Sugar Land*
- *5,690 live and work in Sugar Land*
- *31,859 live in Sugar Land but are employed outside the area*
- *56.6% of all workers in Sugar Land were between age 30 and 54*
- *46.6% of all workers earned more than $40,000 per year*
- *63.2% of workers are in the "All Other Services" Industry while 18.7% were in "Trade, Transportation, and Utilities" and an additional 18.1% in "Goods Producing" Industry.*

Inflow/Outflow



Job Concentration Areas



There are several dense clusters of jobs within Sugar Land as shown, representing areas with 9,428 to 16,756 and one from 16,757 to 26,179.

The areas with concentration are along Highway 59 (Southwest Freeway) include Sugar Land Town Square and Methodist Hospital.

Sugar Land Forecasts

Another way to define the market area is through Transportation Analysis Zones (TAZ) as defined by Houston Galveston Area Council (HGAC). Sugar Land is located in TAZ 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2186, 2187, 2188, 2189, 2191, 2192, 2193, 2194, 2196, 2197, 2203, 2204, 2205, 2212, 2213, 2218, 2219, 2220, and a portion of 2195 (10%), 2211 (40%) and 2198 (10%). The first table uses projections from by Claritas, a re-seller of PCensus for MapInfo, for Sugar Land. These forecasts are for the period 2010 to 2019 only and demonstrate an increase of 1,442 households per year.

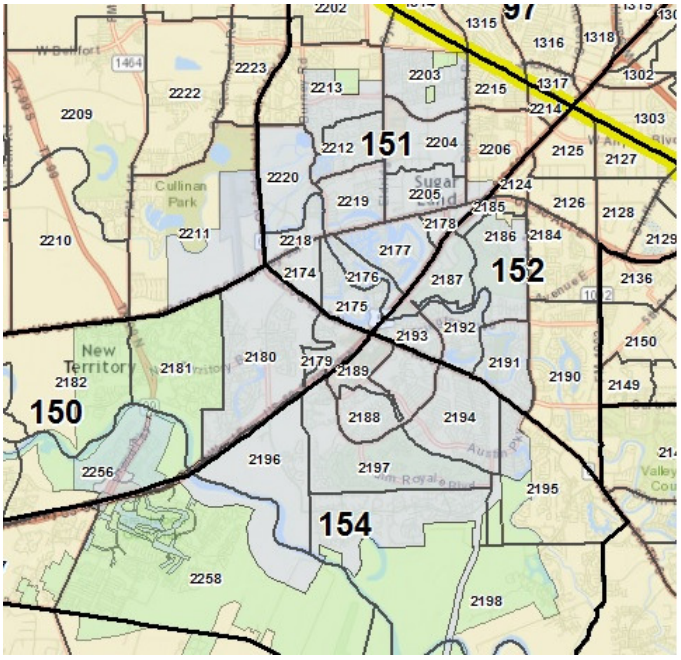
Comparatively, the next tables are data from the Houston Galveston Area Council Forecast to 2030. Followed by a recently completed MSA wide forecast by CDS Market Research. Both of these forecast use the TAZ zone defined above. Part of the differences in these projections is due to some differences in the boundaries of the market area.

The employment numbers are for the number of jobs located in a given area, not the number of employed residents. This is the case for H-GAC's forecast as well.

CDS forecast is produced by a model that considers population and jobs independently. Though they are not directly linked in the forecast model, we do at times make subjective adjustments to the employment forecast based on population growth (jobs providing service to neighborhoods and population centers). Generally, though, a population growth does not generate a comparable rate of employment growth.

The population and employment growth estimates from CDS are higher than H-GAC.

Transportation Analysis Zones (TAZ)



Source: H-GAC

Projections from PCensus

Sugar Land	2010	2014	2019	Growth 14-19	Annual Increase
Population	78,817	85,390	92,603	7,213	1,442

Source: PCensus for MapInfo, Tetrad Computer Applications

Projections for TAZ Zones

H-GAC Forecasts

Sugar Land	2010	2015	2020	2025	2030
Population	78,431	83,494	88,070	91,809	96,633
Employment	26,460	34,433	48,152	59,038	66,578

Source: Houston-Galveston Area Council

CDS Market Research Forecasts

Sugar Land	2010	2015	2020	2025	2030
Population	77,587	81,343	83,704	85,448	88,028
Employment	42,290	51,194	55,644	59,976	64,193

Source: CDS Market Research, 2014

The key finding is that all of the forecasts are predicting a significant net gain in population and employment within Sugar Land in the coming years.

Using an average of the expected growth from the two sources, the market area should be expected to add about **3,469 persons** over the 2015 to 2020 period. Employment growth in the market area is projected by H-GAC to increase at a rate of 8.6% over the next five year period and while CDS predicts 39.8% growth from 2015 to 2020. This average **projected growth of 9,085 jobs or 1,861 annually** is an indicator of demand for new commercial products in the market area.

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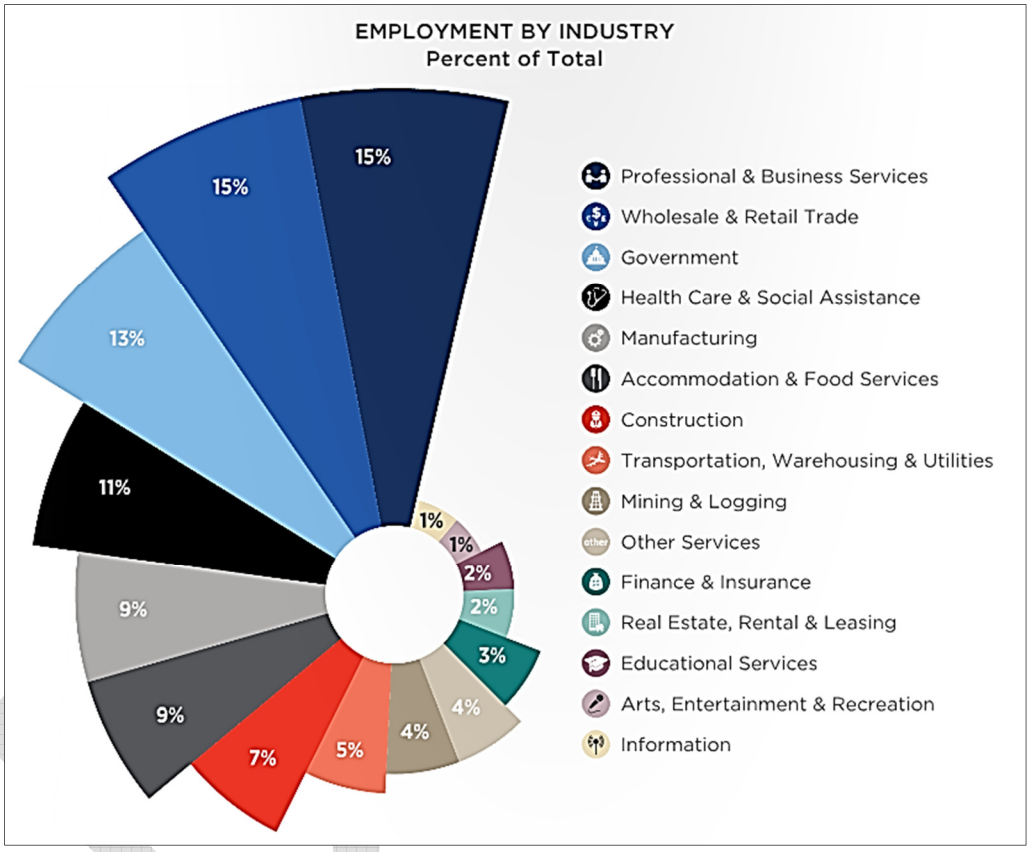
Regional Employment

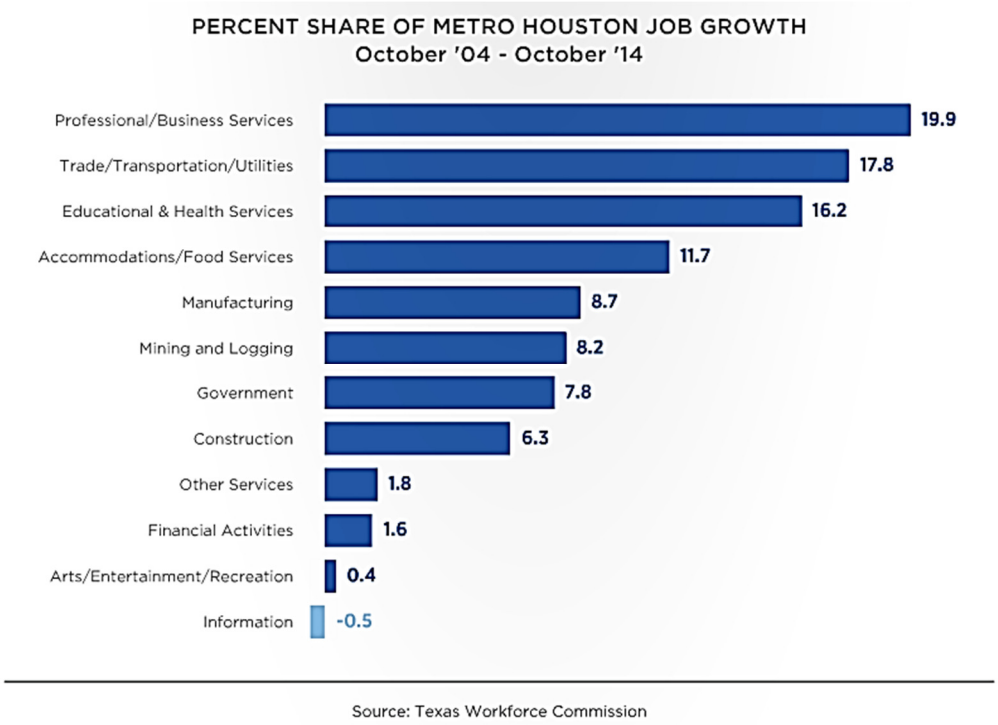
The Houston Metro area gained 120,600 jobs, growing 4.3% from October 2013 to October 2014. Houston's October 2014 unemployment rate was 4.7%, down from 5.9% a year earlier. Labor availability remains better here than in many other metropolitan areas.

According to the Greater Houston Partnership, Houston's top employment industries at October 2014 included 15.0% Professional and Business Services, 15% Wholesale and Retail Trade and 13% Government.

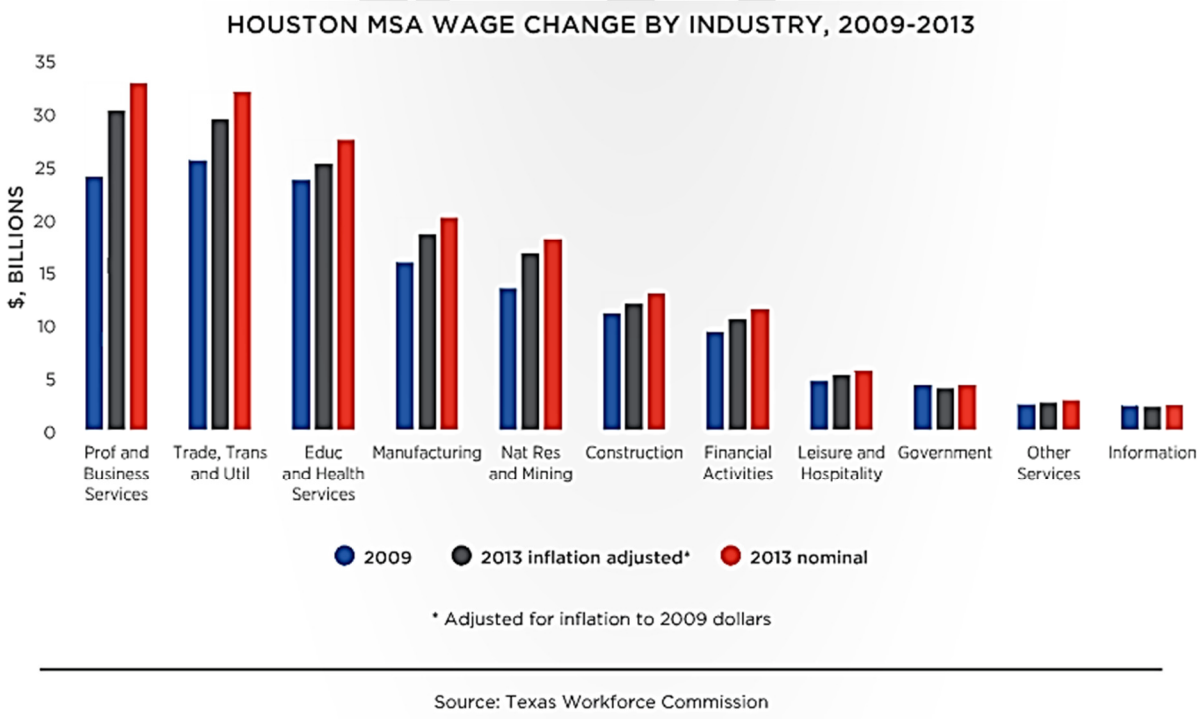


Source: GHP, 2014

Professional and business services were responsible for a fifth of Houston's job growth in the past ten years. Trade, Transportation and Utilities grew by 17.8%. Information has a negative growth over the ten year period.



Houston workers earned $169.7 billion in salary and wages in 2013, with professional and business services responsible for one-fifth of all wages. This indicates the health of the overall Houston market.



2015 Houston Employment Forecast

According to the Greater Houston Partnership (Dec 2013), Houston has enjoyed four years of extraordinary growth. From ’09 to ’13, the region’s gross domestic product grew by $141.9 billion, exceeding the combined growth of Austin, Dallas-Fort Worth, El Paso and San Antonio over the same period. With GDP at $517.4 billion, Houston now ranks as the nation’s fourth largest metro economy.

Other indicators reflect this phenomenal growth as well:

- The Greater Houston Partnership has identified more than 1,500 significant corporate relocations and expansions to the region since ’09. Significant is defined as any project creating 50 or more jobs, leasing or constructing 20,000 or more square feet of office or industrial space, or investing $1 million or more in capital improvements.
- The metro area has created 463,800 jobs since the bottom of the recession, or three jobs for every one lost in the downturn. No other major metro area can make a comparable claim.
- Houston realtors sold more than 425,000 homes in the past five years. The region is on pace to record 91,000 closings this year, which would set a record. Home sales are closing at the rate of one every six minutes.

Houston, however, is entering a new phase of the business cycle, one in which growth is less certain. Falling oil prices pose a graver threat. From mid-June to the last trading day of November, the spot price or West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, fell $41.80 a barrel, or 38.7 percent. If a 20 percent decline defines a bear market, a 40 percent drop is an even more serious economic threat. Of greater concern, there is no indication how much further crude prices might fall in coming months.

The Partnership expects metro Houston to gain 62,900 jobs in 2015. Growth will be strongest outside the economic base—construction, retail, professional services, health care, food services and public education. Job losses will occur in exploration and production, oil field services, and oil field equipment manufacturing. Even with layoffs and slower growth, Houston will reach a milestone in 2015. The year should finish with more than 3.0 million nonfarm payroll jobs.

Industry	2015 Jobs
Construction	8,200
Manufacturing	-3,300
Wholesale Trade	3,500
Retail	6,600
Transportation, Warehousing & Utilities	2,600
Information	100
Financial	1,900
Professional, Scientific, Technical Services	9,300
Administrative and Support/Waste Mgmt/Remediation	8,400
Educational Services	1,200
Health Care	9,600
Arts, Entertainment, Recreation	700
Accommodation	1,000
Food Services	8,300
Other Services	2,200
Government	1,200
Oil Field Services	-7,900
Oil and Gas Exploration	-1,300
Education	7,700

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Houston Regional Job Growth Forecasts By WDA

The Gulf Coast WDA (Workforce Development Area) includes Austin, Brazoria, Chambers, Colorado, Fort Bend, Galveston, Harris, Liberty, Matagorda, Montgomery, Walker, Waller, and Wharton counties. The Texas Workforce Commission has forecasted job growth from 2012 to 2022 based on WDAs.

As seen the Gulf Coast WDA is expected to increase overall employment by 23.8% from 2012 to 2022. Oil and Gas Extraction along with Health care and Physicians are the estimated to be the largest industries with increased employment. Aerospace products and parts manufacturing is the only industry that is estimated to have a decrease in employment.

Job Growth Forecast

Industry	Estimated Employment 2012	Projected Employment 2022	Change	% Change
Total All Industries	2,987,190	3,699,620	712,430	23.8
Self Employed & Unpaid Family Workers	214,930	242,040	27,110	12.6
Construction	182,680	235,140	52,460	28.7
Manufacturing	247,520	304,000	56,480	22.8
Trade, Transportation, & Utilities	565,250	678,440	113,190	20
Information	32,820	36,810	3,990	12.2
Professional & Business Services	414,320	532,640	118,320	28.6
Education & Health Services	590,470	761,420	170,950	29
Leisure & Hospitality	260,970	337,810	76,840	29.4
Government	117,400	124,710	7,310	6.2
Mining	102,420	135,840	33,420	32.6
Oil & Gas Extraction	53,930	75,160	21,230	39.4
Chemical Manufacturing	35,090	40,650	5,560	15.8
Basic Chemical Manufacturing	20,810	24,250	3,440	16.5
Agricultural Chemical Manufacturing	1,180	1,380	200	16.9
Agriculture, Construction, & Mining Machinery Manufacturing	40,750	54,810	14,060	34.5
Commercial & Service Industry Machinery Manufacturing	550	640	90	16.4
Computer & Electronic Product Manufacturing	18,920	21,800	2,880	15.2
Aerospace Product & Parts Manufacturing	1,410	1,370	-40	-2.8
Telecommunications	15,160	17,190	2,030	13.4
Data Processing, Hosting, & Related Services	3,980	4,780	800	20.1
Finance & Insurance	91,120	108,270	17,150	18.8
Securities, Commodity Contracts, & Investments	16,710	19,550	2,840	17
Insurance Agencies & Brokerages	16,430	18,780	2,350	14.3
Real Estate	35,020	40,630	5,610	16
Offices of Real Estate Agents & Brokers	5,540	6,940	1,400	25.3
Professional & Technical Services	196,760	246,040	49,280	25
Legal Services	23,940	28,320	4,380	18.3
Accounting & Bookkeeping Services	20,730	24,150	3,420	16.5
Architectural & Engineering Services	66,130	85,370	19,240	29.1

Industry	Estimated Employment 2012	Projected Employment 2022	Change	% Change
Advertising, PR, & Related Services	4,020	5,060	1,040	25.9
Office Administrative Services	20,210	27,080	6,870	34
Business Support Services	15,730	18,320	2,590	16.5
Business, Computer, & Management Training, Public & Private	1,420	1,550	130	9.2
Health Care & Social Assistance	313,050	413,740	100,690	32.2
Ambulatory Health Care Services	135,230	185,800	50,570	37.4
Offices of Physicians	46,410	63,310	16,900	36.4
Offices of Dentists	15,130	19,110	3,980	26.3
Home Health Care Services	46,520	64,440	17,920	38.5
General Medical & Surgical Hospitals, Public & Private	77,730	99,700	21,970	28.3
Personal Care Services	10,590	13,630	3,040	28.7

Source: Texas Workforce Commission

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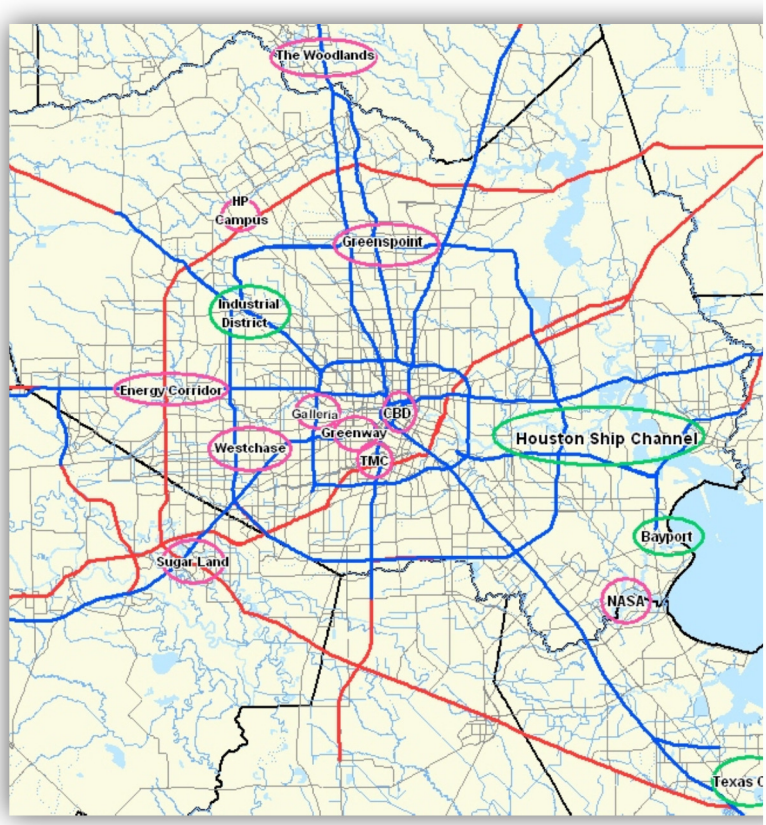
Major Activity Centers

The Houston MSA has developed in a low-density suburban form, uninhibited by natural geographic boundaries or excessive political regulation. The region's central business district presently accounts for only about 6% of regional employment. Other loosely-defined 'edge cities' comprise a large portion of the region's employment base. These typically are made up of a loose cluster of office, medical office, hotel, and supportive retail land uses. Examples within the Houston area include the Uptown/Post Oak area, the Texas Medical Center, Greenway Plaza, Sugar Land, Westchase, and Greenspoint. The region's heavy industries are clustered around the Houston Ship Channel. Additionally, a significant number of jobs are spread among Houston's suburbs in office parks, retail centers and light industrial facilities in areas such as Nassau Bay, Greenspoint, Texas Medical Center, Tomball and Spring. These areas contains proportionately and numerically less office jobs in comparison to the activity centers outlined in the following section.

The accompanying map illustrates the locations of the principal activity centers (in red) and industrial districts (in green) in the Houston MSA.

Major Regional Employment & Activity Centers



Houston Area Business Activity Centers

The principal business activity centers in the Houston region are, in alphabetical order:

- Downtown / Central Business District
- Energy Corridor
- Greenway Plaza
- Memorial City
- Sugar Land
- The Woodlands
- Uptown/Galleria
- Westchase

Activity Center Observations

The tables, charts and figures on the following pages provide a basis for measuring the major activity centers of Houston by several factors, including the number of office jobs. The observations that follow are based on the information contained in the CDS estimates and forecasts (although other sources are presented for purposes of comparison).

Downtown is clearly the leader in existing office space and jobs with nearly 49 million square feet (SF) of office space and an estimated 140 thousand office jobs. Uptown comes in second with just over 22 million SF of office space and an estimated 68 thousand office jobs (see table 3 and chart 3).

The Energy Corridor currently follows in a close third with 20.5 million SF of office space and nearly 65 thousand estimated office jobs. However, within a few years the Energy Corridor is set to overtake Uptown and become the clear runner up to Downtown, with 4 million SF of office space under construction and another nearly 1.7 million proposed. This is in contrast to Uptown's 1.2 million SF of office space under construction and proposed combined (see table 4 and chart 4).

When comparing Uptown and The Energy Corridor in the long term, Uptown is projected to remain the larger overall job center (counting jobs from all sectors such as retail) but the gap between the two is expected to shrink by roughly half by 2040 (see table 2 and chart 2). While these projections have room for error, they reflect a trend that the Energy Corridor is growing in importance as a major activity center in the Houston Area.

Office Development in the Activity Centers

As reported by Transwestern (12/14) in the Houston Business Journal, developers are concentrating on building offices in the Energy Corridor and The Woodlands, with both markets accounting for more than half or 10.2 million square feet of Houston's total office space under construction.

A unique characteristic that has supported the continued growth and strength of The Energy Corridor office market is its proximity to a great deal of housing for all classes of employees. The genesis of The Energy Corridor was the desire of oil and gas executives to have quality office space close to the Memorial Villages in which many of them live. Executive housing has been developed south of I-10 while abundant and affordable housing for a variety of workers has been developed north of I-10 and to the west towards Katy.

The Woodlands is currently being driven by the construction of the Texas based Exxon Mobil Corporation's 3 million square foot campus in Spring. The office development for this major employer has already included additional lease space in The Woodlands for both Exxon and its suppliers. The Woodlands has been known for its "live, work, play" lifestyle which makes it an attractive location for employees of all levels including management and executives.

Emerging Activity Center

A notable, emerging activity center with a large amount of planned office space is the new ExxonMobil campus on the north side of Houston. ExxonMobil recently sold its 37 acre campus in the Energy Corridor and is currently constructing a new campus on roughly 400 acres west of I-45 and north of the Hardy Toll Road. Part of the campus is already completed with 2,500 employees on location. The campus is expected to be fully occupied in 2015, with a final employee count estimated by ExxonMobil to be around 10,000. This site has already become an anchor for other office projects and will undoubtedly grow into a major activity center in the future.

Long Term Population Forecast of Major Activity Centers

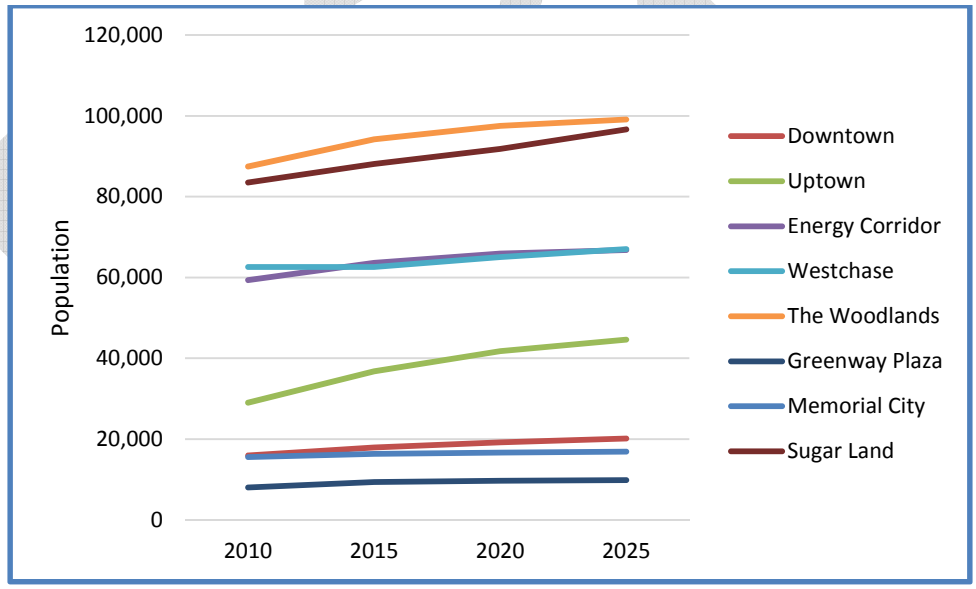
CDS has estimated population and its growth for the major activity centers using 2010 census data and forecasts. Sugar Land includes 23.8% of the total 2010 population for activity centers as is expected to decrease slightly to 22.6% by 2020. A map of the activity centers is included at the end of this section.

CDS Forecast of Population

Employment Center	2010	2015	2020	2025	2030
Downtown	14,356	15,964	17,912	19,183	20,116
Uptown	22,609	29,013	36,779	41,792	44,607
Energy Corridor	58,202	59,371	63,589	65,892	66,816
Westchase	59,485	62,572	62,588	65,067	67,049
Sugar Land	78,431	83,494	88,070	91,809	96,633
The Woodlands	76,190	87,468	94,168	97,561	99,134
Greenway Plaza	6,661	7,999	9,376	9,695	9,816
Memorial City	13,088	15,577	16,314	16,681	16,922
Total	**329,022**	**361,458**	**388,796**	**407,680**	**421,093**

Source: CDS Market Research, HGAC, American Community Survey, PCensus

Forecast of Population



Long Term Job Forecast of Major Activity Centers

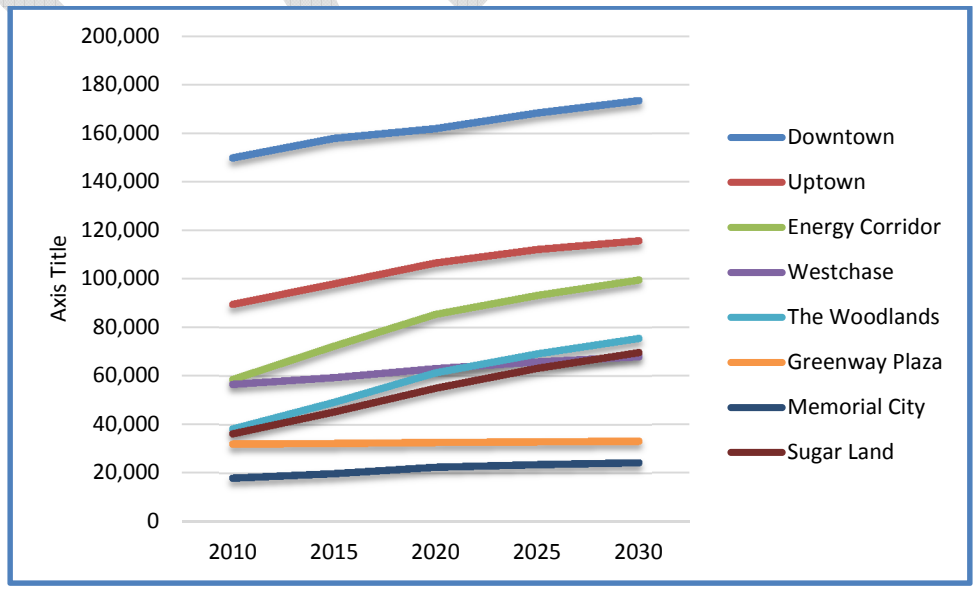
The Houston-Galveston Area Council's (H-GAC) estimates based on a parcel review (TAZ) and CDS's own estimates based on data from PCensus which is ultimately derived from the American Community Survey (an ongoing statistical survey by the U.S. Census Bureau) were used for the following estimates. While the H-GAC denotes how many of its estimated jobs are office related, CDS only does this for specific geographies. For the purposes of this report, CDS created a way to estimate existing office jobs for the major activity centers based on existing office space.

At 2010, Sugar Land included 7.1% of the total jobs in the major activity centers. By 2020, that number is estimated to increase to 8.8%. As seen, at 2020 Downtown is expected to have 27.5% of the total jobs followed by Uptown at 18.1%.

Forecast of Total Jobs (All Uses)

Employment Center	2010	2015	2020	% of total 2020 jobs	2025	2030
Downtown	150,137	158,109	162,041	27.5%	168,398	173,396
Uptown	89,528	97,922	106,622	18.1%	112,047	115,660
Energy Corridor	58,683	72,352	85,382	14.5%	93,226	99,527
The Woodlands	38,367	49,288	61,448	10.4%	69,141	75,476
Westchase	56,663	59,496	63,110	10.7%	65,852	68,077
Sugar Land	34,375	42,814	51,898	8.8%	59,507	65,386
Greenway Plaza	32,080	32,427	32,814	5.6%	33,066	33,271
Memorial City	18,136	19,948	22,639	3.8%	23,614	24,386
Total	**477,969**	**532,356**	**585,954**	**624,851**	**655,179**	**477,969**

Forecast of Total Jobs



Existing Office Jobs in Major Activity Centers

CDS estimated office jobs in the major activity centers by assuming that 300 square feet of leased office space is associated with one office job. This figure is based on the extensive experience and research by CDS in Houston area market. This ratio of office square feet to jobs takes into account several factors including common spaces shared by all employees.

As seen, Sugar Land's existing office space accounts for 5.5% of all estimated jobs for 2015 (p.26) in the activity centers. This appears to be slightly below average for all activity centers which is 9.9%.

As seen, Sugar Land's occupancy is also slightly lower than the average for all of the major activity centers. Downtown is lower but this is due to the additional square footage in this area that was recently constructed.

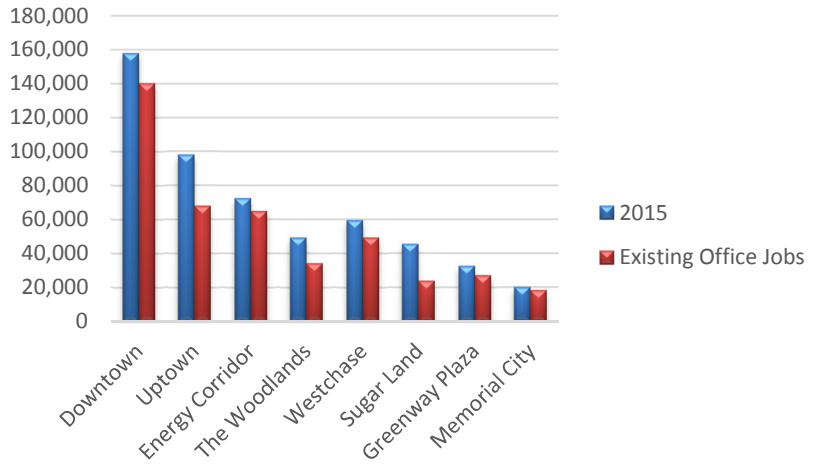
CDS Estimate of Existing Office Space and Existing Office Jobs

Employment Center	RBA* Office SF	% Leased	Leased SF	Existing Office Jobs	% of All Jobs in 2015
Downtown	48,947,686	86.0%	42,095,279	140,318	26.3%
Uptown	22,136,419	92.2%	20,420,484	68,068	12.7%
Energy Corridor	20,578,547	94.5%	19,436,554	64,789	12.1%
Westchase	16,642,485	88.9%	14,798,195	49,327	9.2%
The Woodlands	11,175,099	92.0%	10,285,374	34,285	6.4%
Greenway Plaza	8,629,462	94.2%	8,129,728	27,099	5.0%
Sugar Land	7,984,196	89.5%	7,131,321	23,771	5.5%
Memorial City	5,725,901	94.7%	5,420,182	18,067	3.3%
Total	**141,819,795**	**91.50%**	**127,717,117**	**425,724**	**80.5%**

* RBA = Rentable Building Area, includes all classes

Source: CDS Market Research, American Community Survey, PCensus, CoStar

Existing Office Space and Jobs



Short Term Projected Office Jobs in Major Activity Centers

In the short term, Sugar Land is estimated to add 4,282 jobs based on office projects that are currently under construction and proposed at the time of this report (one job per 300 sf of new space).

CDS Estimate of Existing Office Jobs and Short Term Projected Office Jobs

Employment Center	SF* Under Construction	SF Proposed	Leased Sub Total**	Projected Office Jobs	Projected Jobs + Existing Jobs =
Energy Corridor	4,076,401	1,673,294	5,174,726	17,249	82,038
Westchase	1,817,000	962,707	2,501,736	8,339	57,666
Downtown	1,464,268	4,948,482	5,771,475	19,238	159,556
Memorial City	1,093,700	514,000	1,446,930	4,823	22,890
The Woodlands	1,075,837	2,742,652	3,436,640	11,455	45,740
Uptown	699,826	506,316	1,085,528	3,618	71,687
Sugar Land	144,824	1,282,612	1,284,692	4,282	28,053
Greenway Plaza	660,500	185,000	760,950	2,537	29,636
Total	**11,032,356**	**12,815,063**	**21,462,677**	**71,542**	**497,266**

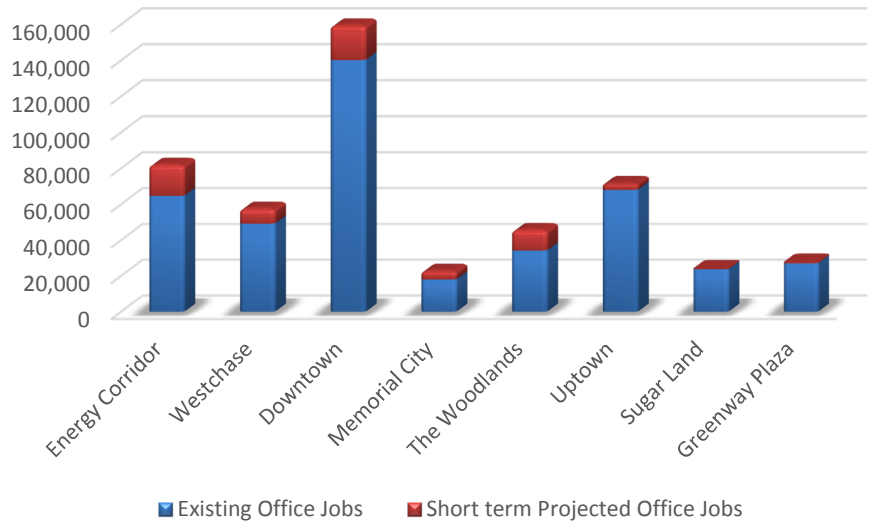
* SF = Square feet of floor space

** Leased Sub Total = Assumes a 90% occupancy rate

Note: Under construction will likely occur within two years, proposed will likely occur within two to four years; includes all Classes of office space

Source: CDS Market Research, American Community Survey, PCensus, CoStar, Transwestern

Estimate of Existing and Short Term Office Jobs



Note: "Short Term Projected Office Jobs" refers to office jobs that will likely be added in the next two to four years

Percentage of New Product to Existing

As seen in the table below, the overall total of new supply in the activity centers is 16.7% of the existing supply. Comparatively, the other activity centers new construction varies from 5.4% to 34.2%, the average being 19.1%.

Sugar Land's new construction is 17.8% of its existing supply. Sugar Land is slightly below the average for all activity centers.

The activity centers with the largest percentage of new construction compared to existing supply are that of The Woodlands, Memorial City and the Energy Corridor.

New Office Supply as % of Existing Office Space

Employment Center	RBA* Office SF	SF U/C and Proposed	% of New Supply to Existing
Downtown	48,947,686	6,412,750	13.1%
Uptown	22,136,419	1,206,142	5.4%
Energy Corridor	20,578,547	5,749,695	27.9%
Westchase	16,642,485	2,779,707	16.7%
The Woodlands	11,175,099	3,818,489	34.2%
Greenway Plaza	8,629,462	845,500	9.8%
Sugar Land	7,984,196	1,427,436	17.8%
Memorial City	5,725,901	1,607,700	28.1%
Total	**141,819,795**	**23,697,419**	**16.7%**

Source: CDS Market Research, American Community Survey, PCensus, CoStar, Transwestern

Activity Center Lease Rates

Downtown continues to have the highest lease rates in the Houston region. Other submarkets where job growth has been exceptionally strong, most notably the Energy Corridor, are also reportedly experiencing strong lease rates.

Transwestern reported (12/14) in the Houston Business Journal, that Class B offices in The Woodlands saw the highest rent increase at 14.6% from 2013 to 2014. Average rent rates increased from $23.38 per square foot in 2013 to $26.80 psf in third quarter 2014. As Exxon Mobil Corporation builds out its new campus near The Woodlands, it is attracting ancilliary businesses to the area and driving greater demand and therefore higher rents for existing and new office space.

Class A properties in the Greenway Plaza area saw the second highest rent increases at 13.7%, according to Transwestern. Asking Class A rents inside the 610 Loop climbed from $32.11psf to $36.50psf. Class B saw an increase of 5.3%. Rents are going up in this center and downtown as existing buildings are renovated and new buildings are erected. Greenway Plaza underwent a $5 million renovation project this year, and was able to land several new major clients including Mitsubishi Heavy Industries America Inc.

Downtown saw a 9.9% increase in Class A office space to $42.10psf and a 7.1% increase in Class B to $27.84psf. The Energy Corridor had an 8.5% increase in Class B properties to $26.47psf. Westchase also saw increases (5.7%) in Class B and 5.5% in Class B properties.

Comparatively, Sugar Land saw an increase of 0.8% in rental rates from 2013 to 2014 using CoStar data.

Sugar Land is one of the smaller office markets in terms of existing office space. Currently Class A rental rates are lowest in Sugar Land, as compared to the other activity centers. The vacancy rate for Class A is lowest in this area also. The Sugar Land office market includes 47% Class A space which is comparable with The Woodlands, Westchase, and Greenway Plaza. Sugar Land has the lowest office space currently under construction however, the proposed space is greater than that of Energy Corridor, Westchase, and Memorial City.

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Average Asking Lease Rates 3Q2014

	Total All Classes								Class A			Class B		
	Existing SF	% A	% B	Gross Rent	Vacancy	Available SF	U/C	Proposed	Inventory	Gross Rent	Vacancy	Inventory	Gross Rent	Vacancy
CBD	48,311,984	64%	31%	$38.74	16.5%	8,224,681	1,464,268	4,948,482	31,014,090	$42.85	15.5%	15,048,750	$27.88	17.6%
Galleria/Uptown	15,980,541	77%	22%	$34.42	13.2%	2,206,241	765,000	-	12,351,369	$36.29	14.5%	3,496,574	$25.46	8.6%
*Energy Corridor	20,553,409	67%	31%	$31.44	14.9%	3,671,288	4,107,195	176,000	13,867,673	$34.35	14.8%	6,421,119	$24.61	15.5%
Greenway Plaza	12,365,080	50%	35%	$30.90	15.1%	1,965,999	648,275	-	6,224,406	$36.76	18.9%	4,271,684	$24.77	8.5%
Woodlands	14,394,836	39%	52%	$29.36	9.1%	1,742,618	4,785,121	4,389,129	5,607,003	$33.72	10.4%	7,545,748	$26.28	8.6%
Westchase	16,704,262	47%	47%	$29.78	14.3%	2,656,340	1,817,000	942,707	7,860,813	$36.20	16.6%	7,888,602	$20.56	12.2%
*Memorial City	5,724,280	68%	19%	$32.05	15.4%	1,047,108	1,077,752	514,000	3,869,628	$36.64	15.1%	1,098,481	$26.28	24.9%
*Sugar Land	7,796,397	47%	44%	$25.67	10.5%	852,875	144,824	1,132,612	3,686,680	$28.38	9.5%	3,443,219	$24.30	12.2%

Source: CoStar, CDS Market Research, December 2014 * indicates a polygon was used to define boundaries; Sugar Land's boundaries are in accordance with the city boundaries.

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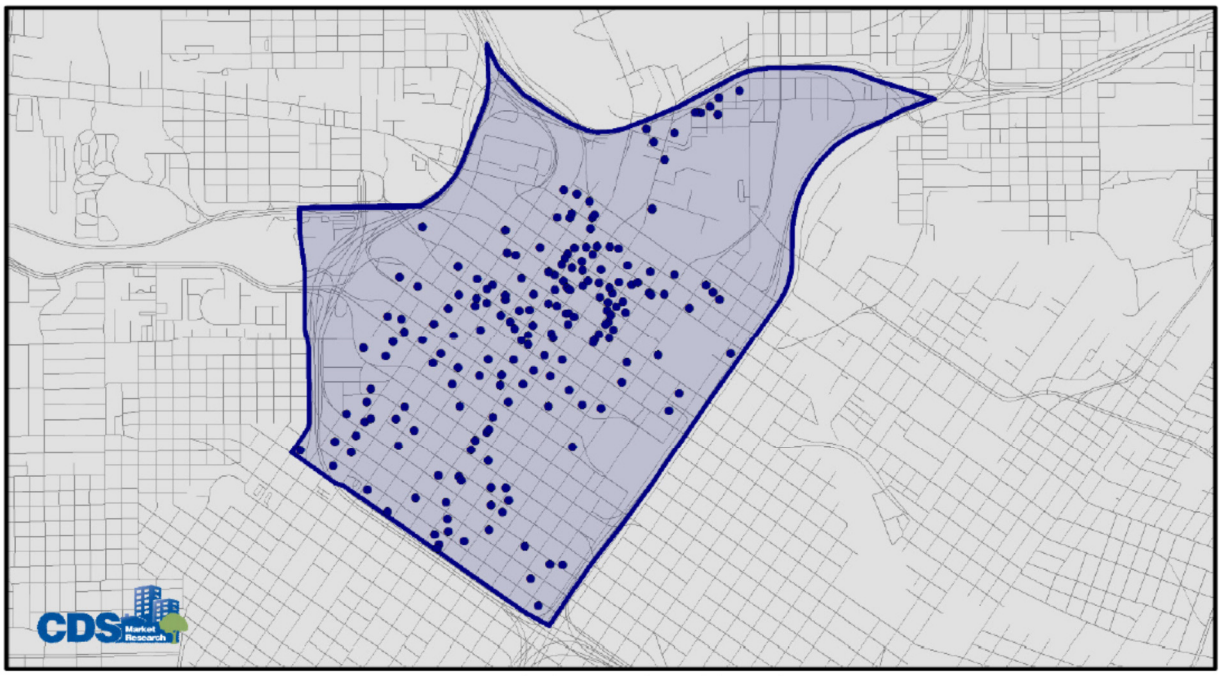
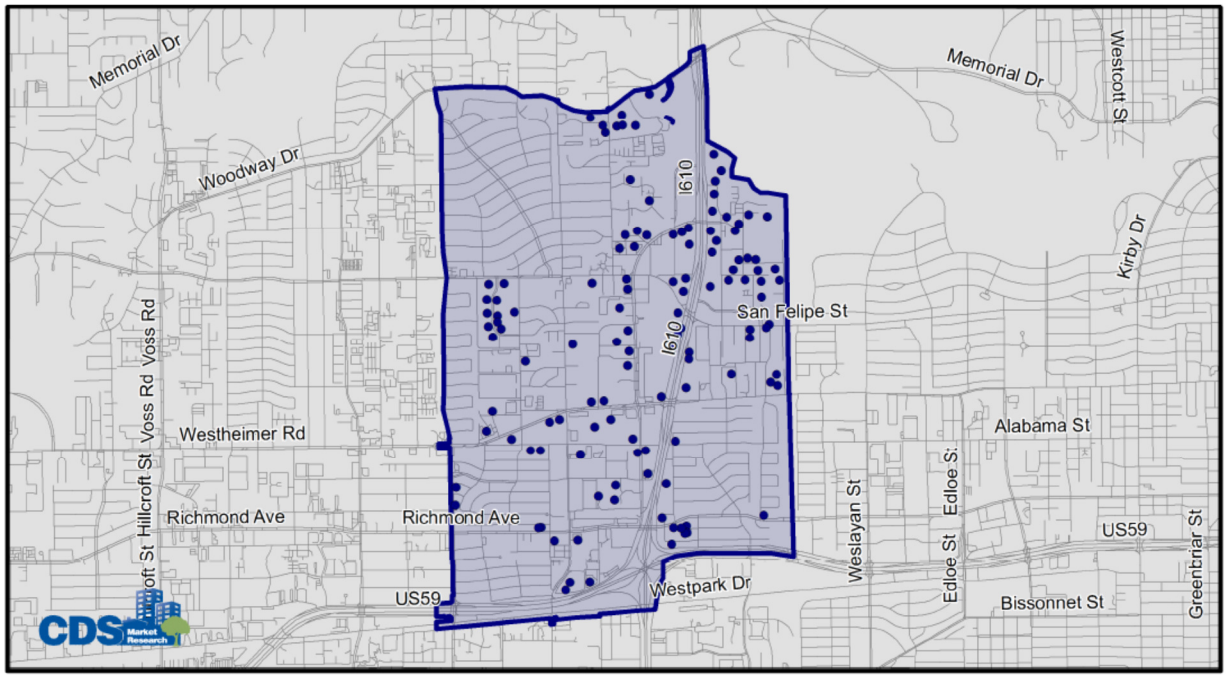
Boundaries and Associated Office buildings of Major Activity Centers

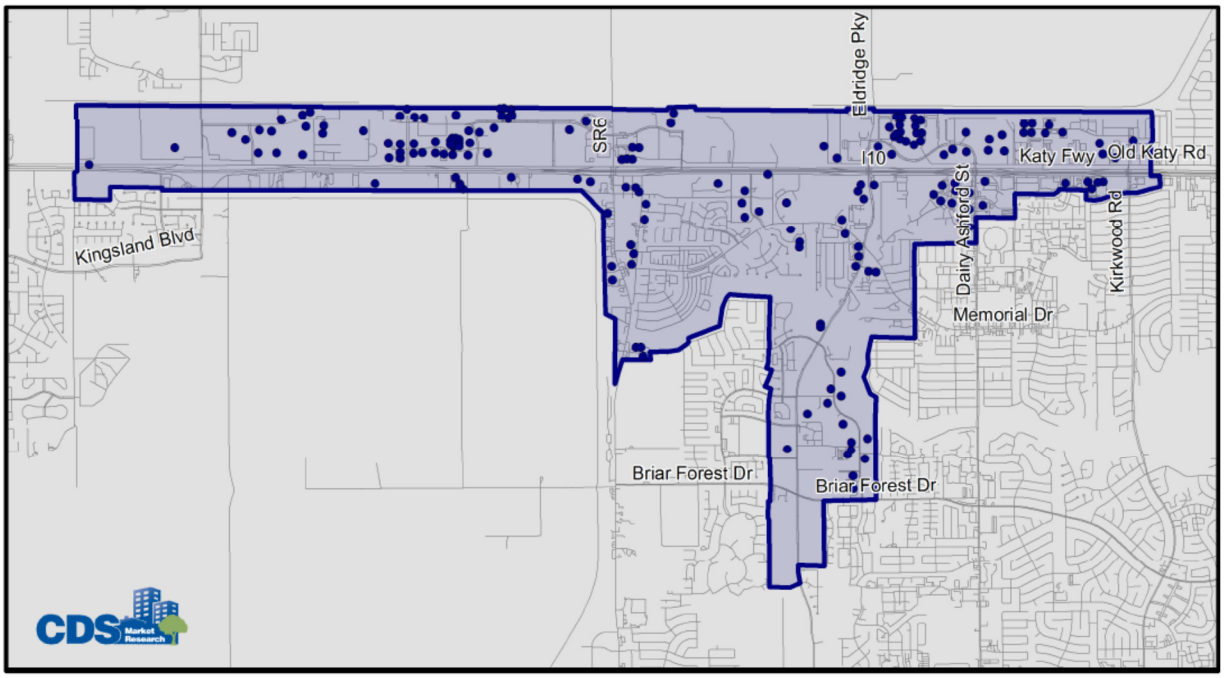
Downtown



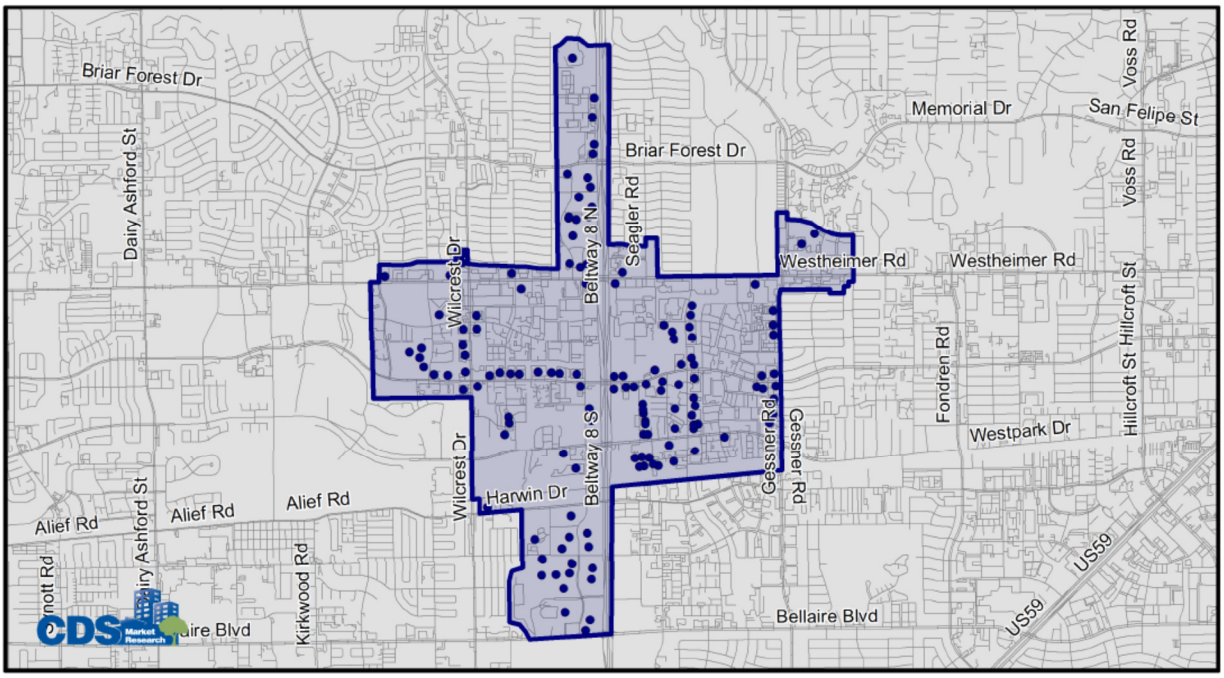
Uptown/Galleria



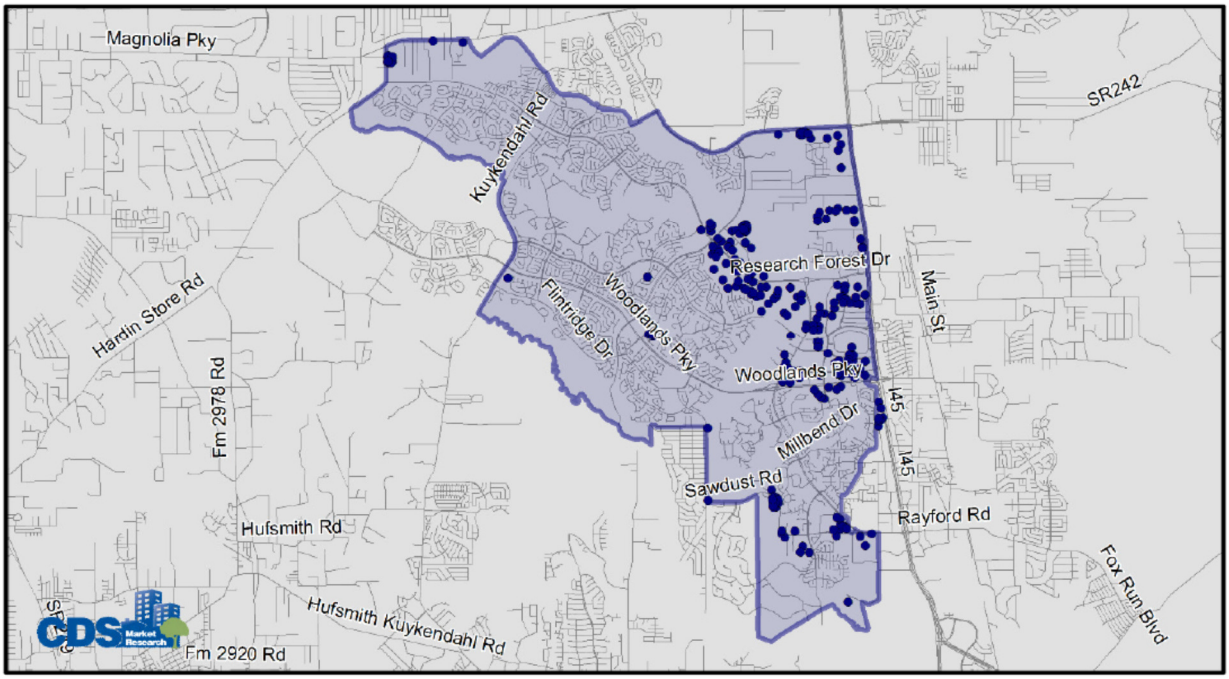
Energy Corridor



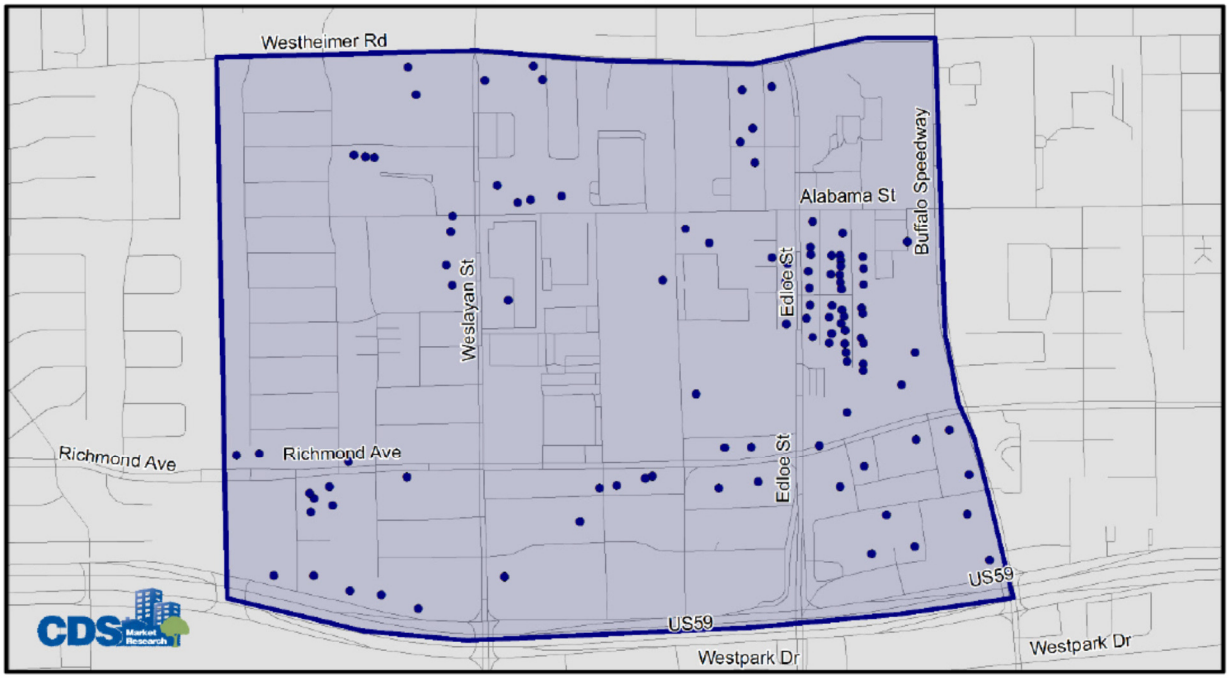
Westchase



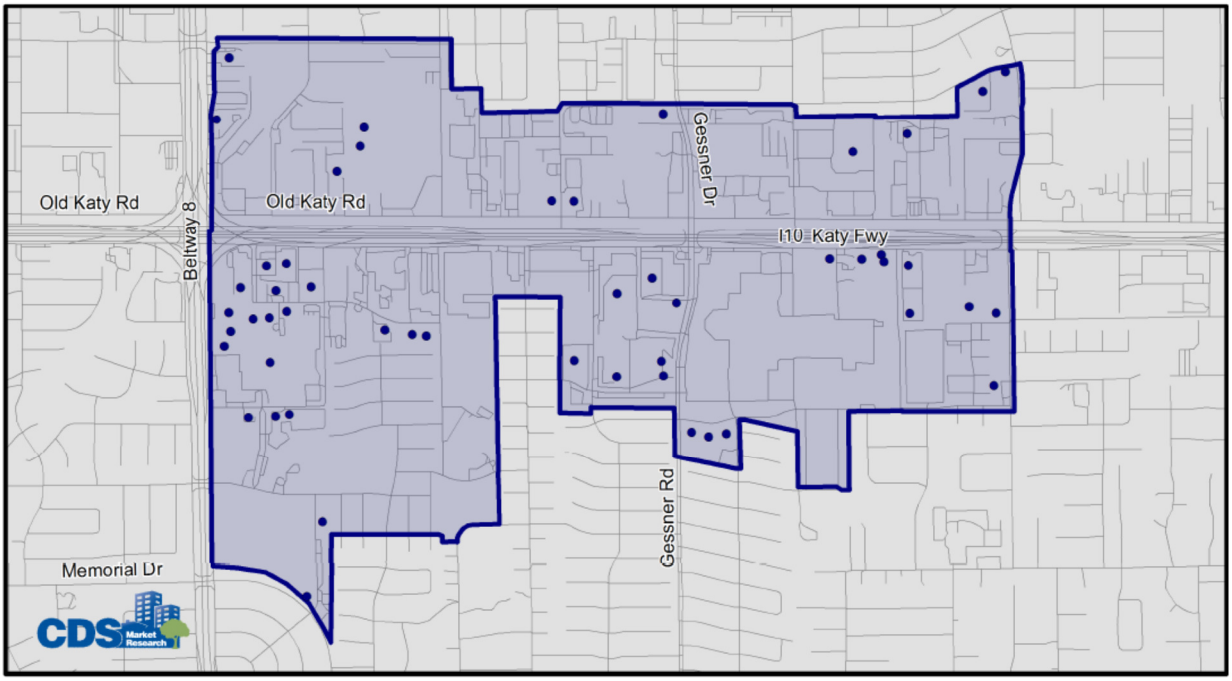
The Woodlands



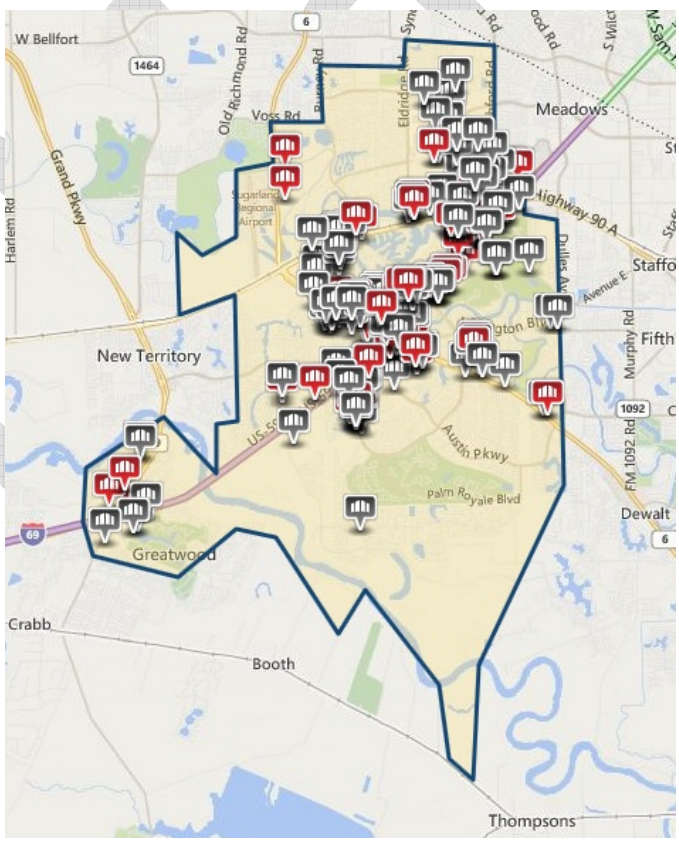
Greenway Plaza



Memorial City



Sugar Land



Comparison of Activity Centers Households, Income, and Housing Units

As seen, Memorial City has the lowest number of households followed closely by Downtown. Both The Woodlands and Sugar Land are comparable to the number of households in these large areas.

Activity Center Households

Households	Energy Corridor	Westchase	Downtown	Uptown Galleria	The Woodlands	Greenway Plaza	Memorial City	Sugar Land
2019 Projection	10,344	18,018	2,952	17,488	33,493	5,391	2,433	32,216
2014 Estimate	9,509	16,522	2,527	15,886	30,973	4,784	2,198	29,548
2010 Census	8,928	15,454	2,123	14,639	28,599	4,273	1,996	26,958
2000 Census	6,576	13,088	1,341	11,844	21,538	3,192	1,932	20,532
Growth 2014-2019	8.78%	9.05%	16.83%	10.09%	8.13%	12.69%	10.68%	9.03%
Growth 2010-2014	6.51%	6.91%	19.00%	8.52%	8.30%	11.97%	10.14%	9.61%
Growth 2000-2010	35.75%	18.08%	58.35%	23.60%	32.78%	33.84%	3.28%	31.30%

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Sugar Land has the highest average household income out of all the activity centers, followed by The Woodlands. Westchase has the lowest household income in comparison.

Activity Centers Household Income

	Energy Corridor		Westchase		Downtown		Uptown Galleria		The Woodlands		Greenway Plaza		Memorial City		Sugar Land	
2014 Estimated Households by Household Income	**9,509**		**16,522**		**2,527**		**15,886**		**30,973**		**4,784**		**2,198**		**29,548**	
Less than $15,000	659	6.9%	2,707	16.3%	518	20.4%	1,296	8.1%	2,793	9.0%	460	9.6%	248	11.2%	1,454	4.9%
$15,000 to $24,999	778	8.1%	2,236	13.5%	238	9.4%	1,137	7.1%	2,185	7.0%	336	7.0%	205	9.3%	1,393	4.7%
$25,000 to $34,999	768	8.0%	2,356	14.2%	174	6.8%	1,353	8.5%	1,734	5.6%	253	5.2%	276	12.5%	1,701	5.7%
$35,000 to $49,999	1,283	13.4%	2,932	17.7%	230	9.1%	1,573	9.9%	2,996	9.6%	443	9.2%	201	9.1%	2,394	8.1%
$50,000 to $74,999	1,706	17.9%	2,781	16.8%	313	12.3%	3,084	19.4%	3,847	12.4%	782	16.3%	245	11.1%	4,142	14.0%
$75,000 to $99,999	1,393	14.6%	1,478	8.9%	299	11.8%	1,931	12.1%	3,599	11.6%	698	14.5%	237	10.7%	4,020	13.6%
$100,000 to $124,999	817	8.6%	605	3.6%	178	7.0%	1,522	9.5%	2,956	9.5%	488	10.2%	221	10.0%	3,517	11.9%
$125,000 to $149,999	527	5.5%	370	2.2%	132	5.2%	811	5.1%	2,126	6.8%	311	6.4%	103	4.7%	2,794	9.4%
$150,000 to $199,999	638	6.7%	481	2.9%	175	6.9%	900	5.6%	3,433	11.0%	399	8.3%	169	7.6%	3,676	12.4%
$200,000 to $249,999	275	2.8%	167	1.0%	79	3.1%	448	2.8%	1,366	4.4%	184	3.8%	69	3.1%	1,452	4.9%
$250,000 to $499,999	497	5.2%	291	1.7%	142	5.6%	1,104	6.9%	2,580	8.3%	314	6.5%	160	7.3%	2,077	7.0%
$500,000 or more	168	1.7%	118	0.7%	49	1.9%	728	4.5%	1,358	4.3%	117	2.4%	63	2.8%	928	3.1%
2014 Estimated Average Household Income	**$96,156**		**$58,036**		**$90,101**		**$112,443**		**$125,416**		**$108,628**		**$103,973**		**$125,699**	
2014 Estimated Median Household Income	**$68,563**		**$39,921**		**$58,323**		**$70,945**		**$88,411**		**$79,232**		**$67,252**		**$97,948**	

The highest median housing value is found in Memorial City Activity Center followed by Uptown/Galleria and Greenway Plaza. The lowest value is Westchase housing units.

Housing Units by Value

	Energy Corridor		Westchase		Downtown		Uptown Galleria		The Woodlands		Greenway Plaza		Memorial City		Sugar Land	
2014 Estimated All Owner-Occupied Housing Units by Value	**3,525**		**1,878**		**497**		**5,606**		**21,658**		**1,185**		**983**		**24,011**	
Less than $20,000	13	0.4%	24	1.3%	4	0.8%	6	0.1%	108	0.5%	13	1.1%	2	0.2%	178	0.7%
$20,000 to $39,999	42	1.2%	83	4.4%	15	3.0%	23	0.4%	160	0.7%	6	0.5%	2	0.2%	136	0.6%
$40,000 to $59,999	83	2.4%	235	12.5%	5	1.1%	30	0.5%	81	0.4%	12	1.0%	4	0.4%	145	0.6%
$60,000 to $79,999	70	2.0%	239	12.8%	9	1.9%	62	1.1%	209	1.0%	42	3.5%	14	1.4%	98	0.4%
$80,000 to $99,999	301	8.6%	165	8.8%	15	3.1%	250	4.5%	564	2.6%	69	5.8%	19	1.9%	428	1.8%
$100,000 to $149,999	492	14.0%	366	19.5%	73	14.7%	450	8.0%	2,549	11.8%	132	11.1%	56	5.7%	3,246	13.5%
$150,000 to $199,999	399	11.3%	136	7.3%	57	11.4%	419	7.5%	2,831	13.1%	69	5.8%	66	6.8%	3,755	15.6%
$200,000 to $299,999	833	23.7%	226	12.0%	202	40.6%	679	12.1%	5,126	23.7%	107	9.0%	68	6.9%	7,003	29.2%
$300,000 to $399,999	633	18.0%	118	6.3%	31	6.3%	742	13.2%	3,347	15.5%	154	13.0%	163	16.6%	4,196	17.5%
$400,000 to $499,999	306	8.7%	60	3.2%	33	6.7%	587	10.5%	2,373	11.0%	200	16.8%	154	15.7%	2,257	9.4%
$500,000 to $749,999	226	6.4%	80	4.2%	29	5.9%	850	15.2%	2,276	10.5%	209	17.6%	230	23.4%	1,571	6.5%
$750,000 to $999,999	47	1.3%	57	3.0%	17	3.4%	555	9.9%	955	4.4%	105	8.8%	116	11.8%	533	2.2%
$1,000,000 or more	78	2.2%	88	4.7%	7	1.3%	953	17.0%	1,078	5.0%	69	5.8%	88	9.0%	465	1.9%
2014 Estimated Median Owner-Occupied Housing Unit Value	**$243,353**		**$126,372**		**$234,973**		**$424,177**		**$284,401**		**$393,050**		**$463,296**		**$257,397**	

Executive homes typically are priced over $500,000. Sugar Land has 10.7% of their housing units priced as executive housing while Memorial City has 44.2%, Uptown Galleria 42.0%, Greenway Plaza 32.2%, The Woodlands 19.9%, Westchase 11.9%, Downtown 10.5% and The Energy Corridor at 9.9%.

The largest percentage of housing units priced over $1million are found in the Uptown Galleria Activity Center with 17% followed by Memorial City with 9%. Next to Downtown, Sugar Land has the lowest percentage of housing units priced over $1 million.

Office Class Definitions

There is quite a bit of discussions in the market regarding office space classes and their definitions. Because property characteristics in different markets vary dramatically, property class definitions remain subjective. The following are definitions from leading office experts in the field.

Building Owners and Managers Association (BOMA) indicates that classes represent a subjective quality rating of buildings which indicates the competitive ability of each building to attract similar types of tenants. A combination of factors including rent, building finishes, system standards and efficiency, building amenities, location/accessibility and market perception are used as relative measures. The metropolitan base is for use within an office space market and the international base is for use primarily by investors among many metropolitan markets.

Building amenities include services that are helpful to either office workers or office tenants and whose presence is a convenience within a building or building complex. Examples include food facilities, copying services, express mail collection, physical fitness centers or child care centers. As a rule, amenities are those services provided within a building. The term also includes such issues as the quality of materials used, hardware and finishes, architectural design and detailing and elevator system performance. Services that are available readily to all buildings in a market, such as access to a subway system or proximity to a park or shopping center are usually reflected in the quality of the office market and therefore all buildings are affected. The class of a specific building may be affected by proximity only to the degree that proximity distinguishes the building (favorably or unfavorably) from other buildings in the market.

Class A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.

Class B
Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price.

Class C
Buildings competing for tenants requiring functional space at rents below the average for the area.

National Association for Industrial and Office Parks (NAIOP) a Commercial Real Estate Development Association, is the leading organization for developers, owners and investors of office, industrial, retail and mixed-use real estate. NAIOP comprises 15,000+ members and provides strong advocacy, education and business opportunities through a powerful North American network. NAIOP uses the following to segregate between classes.

Class A Buildings

A classification used to describe an office building with **asking** gross **rents** based on a specified range between the top 30-40% of the office rents in the marketplace. Class A buildings are well located relative to the needs of major tenant sectors in the marketplace. Building systems

(mechanical, HVAC, elevator and utility) have capacities that meet both tenant current requirements as well as anticipated future needs. Building services are characterized by above average maintenance, management and upkeep. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered Class A.

Class B Buildings

A classification used to describe an office building with **asking** gross **rents** based on a specified range between the **asking** gross **rents** for Class A and Class C space. Class B buildings are in average to good locations relative to the needs of major tenant sectors in the marketplace. Building systems (mechanical, HVAC, elevator and utility) have adequate capacities to deliver services currently required by tenants. Building services are characterized by average to good maintenance, management and upkeep. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered Class B. Because property characteristics in different markets vary dramatically, property class definitions will remain somewhat subjective.

Class C Buildings

A classification used to describe an office building with **asking** gross **rents** based on a specified range between the bottom 10% to 20% of office rents in the marketplace. Class C buildings are in less desirable locations relative to the needs of major tenant sectors in the marketplace. Building systems (mechanical, HVAC, elevator and utility) have capacities that may not meet current tenant needs. Building services are characterized by the existence of below average maintenance, management and upkeep. These buildings generally depend chiefly on a lower price to attract tenants. Buildings must exhibit more than one of the characteristics but need not exhibit all of the characteristics to be considered Class C. Because property characteristics in different markets vary dramatically, property class definitions will remain somewhat subjective.

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Houston Office Market General Market Trends

CDS has relied on information from experts in the field for general office market trends. These sources vary on information depending on time of report, data available, etc. Therefore we have presented varying opinions.

According to CBRE, the Houston office market continues to show signs of leveling off even though rates continue their upward push and development activity shows signs of stabilization.

Overall, the market added 122,900 jobs over the 12 months ending October 2014. This represents a 4.4% increase in employment, while unemployment fell to 5.0%. The outlook for Houston is bright, according to the GHP; the market is expected to add almost 1.2 million residents and over 700,000 jobs by 2023.

The market experienced 1.7 million sq. ft. of positive net absorption this quarter, bringing the year-to-date total to 5.5 million sq. ft. of positive net absorption.

The North and Westchase submarkets lead the suburban areas with the North absorbing 485,000sf with Exxon Mobil occupying slightly less than 500,000sf. Westchase closed the quarter with 448,000sf. Three other submarkets The Woodlands, SW Freeway, and West Loop each absorbed over 100,000sf.

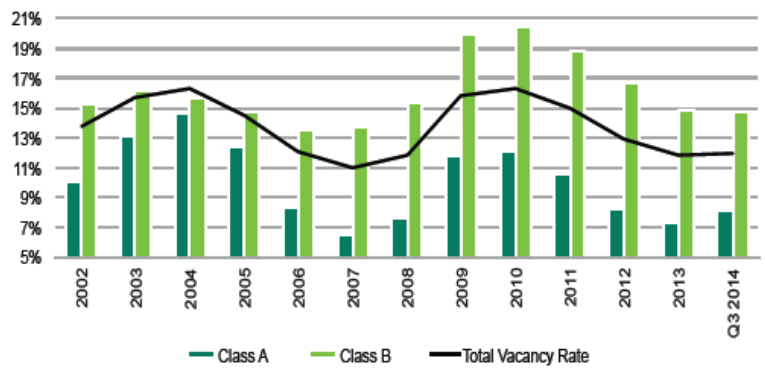
With construction activity continuing, the question on everyone's mind is what will happen to the Class B- and Class C space that is being vacated for the new developments. The flight to quality has many concerned that the large blocks of vacant space remaining in the market will be difficult to backfill when competing with efficient new construction and newly renovated Class A buildings.

Q4 2014 ended with vacancy dropping to 11.6% from 11.9% last quarter. Katy Freeway Class A dropped to 1.2% while the CBD vacancy is also down to 6.4% from 7.5% last quarter.

Overall asking rates decreased to $25.79 from $26.10 per sq. ft. from last quarter. CBD increased to $45.30psf while the Energy Corridor increased to $39.40psf.

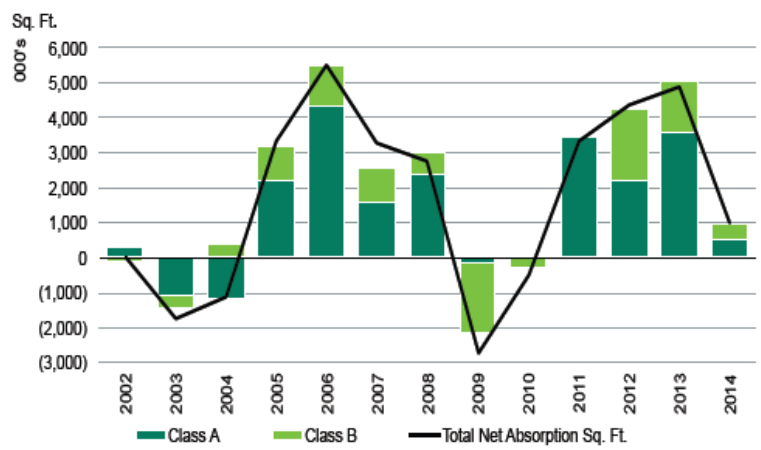
The Houston market currently has 17.6 million sq. ft. under construction

Regional Vacancy Rate Trends



Source: CBRE Research, Q3 2014.

Office Absorption Trends



Source: CBRE Research, Q3 2014.

in 50 buildings. Of these developments, 64% is pre-leased or owner occupied. Nine buildings broke ground this quarter totaling 1.7 million sq. ft., up from seven starts last quarter totaling 1.9 million sq. ft. Of the nine buildings that broke ground this quarter, five are speculative.

CBRE Submarkets

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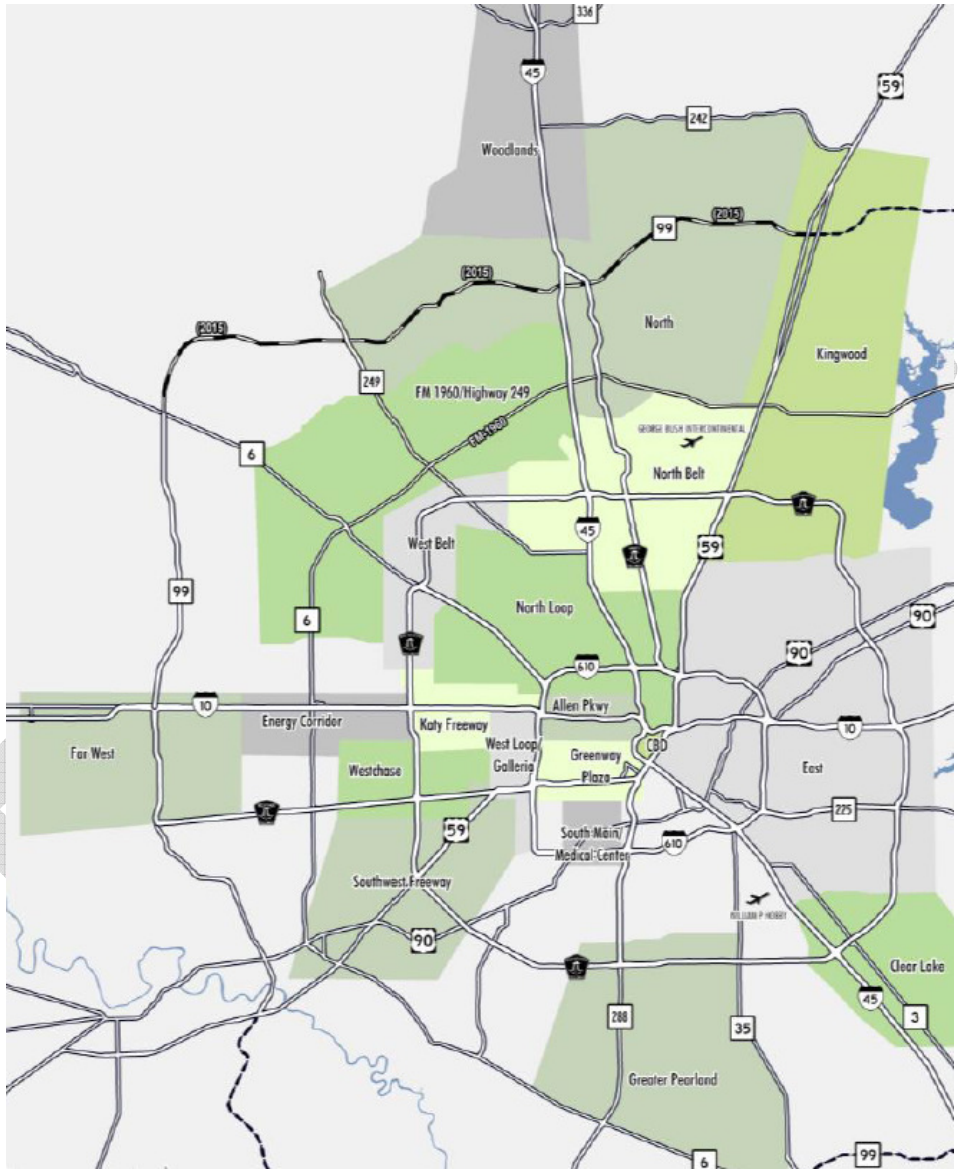

Woodlands
North
Kingwood
FM 1960/Highway 249
North Belt
West Belt
North Loop
Allen Pkwy
Energy Corridor
Katy Freeway
West Loop
Galleria
Greenway
Plaza
CBD
Far West
Westchase
East
South Main/
Medical Center
Southwest Freeway
Clear Lake
Greater Pearland

Sugar Land is located in the Southwest Freeway submarket according to CBRE Houston.

Transwestern reports that at 3Q2014, the total Houston office market included 225,815,937 square feet in 1,271 buildings. Sugar Land is in the Southwest Freeway/Sugar Land submarket which currently includes 7.1% of the total market. The Southwest Freeway/Sugar Land submarket has the highest reported vacancy and the lowest Class B rental rates with the second lowest Class A rents (this submarket includes Stafford and Missiouri City).

Houston Office Market Summary

Draft

SUBMARKET	TOTAL BLDGS	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY RATE	OVERALL VACANCY RATE	SF UNDER CONSTRUCTION	3Q2014 NET ABSORPTION	ASKING RENTAL RATES (FSG)	
								CLASS A	CLASS B
Downtown (CBD & Midtown)	117	52,811,156	3,861,025	7.3%	8.0%	1,631,162	201,000	$42.10	$27.84
FM 1960 (I-45 N, FM 1960/Champions & FM 1960/Hwy 249)	83	8,550,212	1,261,489	14.8%	15.3%	768,000	25,000	$27.01	$15.75
Greenspoint/North Belt (North Belt West/Greenspoint & Greenspoint/IAH)	95	12,790,980	1,955,276	15.3%	16.2%		(154,000)	$28.57	$15.65
Greenway Plaza	48	10,416,013	802,033	7.7%	7.8%	660,437	10,000	$36.50	$24.97
Gulf Freeway/Pasadena	31	2,380,307	207,087	8.7%	8.7%				$21.98
Katy Frwy/Energy Corridor (Katy Freeway East & Katy Freeway West)	196	31,641,112	1,902,633	6.0%	7.0%	5,670,188	37,000	$35.40	$22.78
Kingwood/Humble	9	881,561	60,828	6.9%	6.9%			$32.13	$19.00
NASA/Clear Lake	62	6,996,599	1,056,486	15.1%	15.2%	55,000	49,000	$24.72	$18.78
Northeast	15	1,155,562	184,890	16.0%	16.0%		(1,000)		$17.04
Northwest (North Loop West, Northwest Near & Northwest Far)	96	11,862,803	1,374,354	11.6%	12.2%	1,193,336	56,000	$26.47	$19.25
South Main/Medical Center	49	10,469,072	858,464	8.2%	8.2%		4,000	$28.14	$24.77
Southwest Frwy/Sugar Land (SW/Hillcroft, SW Beltway 8 & E Ft Bend Co/Sugar Land)	121	16,077,076	2,646,067	16.5%	17.2%	57,000	(109,000)	$25.00	$16.63
West Loop (Bellaire, Post Oak Park, Galleria, Riverway, Richmond/Fountainview & San Felipe/Voss)	172	33,135,145	2,959,521	8.9%	9.6%	698,938	163,000	$35.31	$24.25
Westchase	85	15,515,357	1,272,259	8.2%	8.6%	1,817,000	(31,000)	$37.31	$20.87
The Woodlands	79	10,229,637	501,252	4.9%	5.7%	4,565,837	138,000	$37.14	$26.80
Total - Houston	**1,271**	**225,815,937**	**21,002,128**	**9.3%**	**9.9%**	**17,116,898**	**390,000**	**$34.52**	**$20.80**

Source: Transwestern analysis of CoStar data, includes buildings 50,000 SF RBA and greater, excluding government owned buildings

Low Oil Prices Impact on Houston Office Market

The recent drop in oil prices to less than $50 a barrel threatens to derail the success of some of the nation's office markets.

The stock market drop by 331 points on Jan. 5, as crude oil dipped below the $50 a barrel mark, showed the nervousness about a possible slowdown in U.S. economic growth. According to two recent studies, by commercial real estate services firms CBRE and JLL, energy firms will reconsider their investment appetites this year, and may be forced to cut back on capital spending and exploration budgets. The low prices will affect energy firms of every size, as large companies bleed profits and small firms can be forced into distress.

Lauren Picariello, national director with JLL's research division, says that Houston enjoyed the most growth in its office sector in the past few years due to its large energy market, and is now the most exposed to risk. More than half of Houston's class-A CBD stock is occupied by energy-related tenants. The city has seen office rents grow 19 percent since 2012—more than twice the national average.

"The question isn't 'will the Houston office market be impacted?'—it will—, but how great will the impact be? A large construction pipeline is putting more pressure on supply and demand fundamentals as well," says Pacariello.

"I don't think there is reason to panic," she adds. "Considering the level to which Houston has outperformed the rest of the country, it can soften and still be regarded as a relatively healthy market."

Energy firms won't be immediately affected by falling oil prices, as most rely on long-term planning to support exploration and production activities and are loathe to lay off highly-skilled engineers, according to a recent report by Sara Rutledge, a director of research and analysis for CBRE. Oil prices would have to remain below break-even levels of $60 to $80 per barrel for an extended period of time to impact existing products. However, the lower prices have led firms to project for flat budgets in 2015, Rutledge says in the report.

Jonathan Brinsden, CEO of Houston-based real estate investment and development firm Midway, said at a recent conference that the city will likely see office vacancy rise in 2015 if oil prices stay below $60 per barrel. The city already has the most office development in the entire country, with 17.8 million sq. ft. of new construction underway. The Energy Corridor alone accounts for about 40 percent of that figure, with 16 new buildings being developed.

"Now we may see a different dynamic, with leasing in smaller chunks, meaning it will take longer to absorb the space," Brinsden said.

Draft

Sugar Land Office Market

CoStar reports that the Sugar Land office market includes 7,796,397 square feet in 250 buildings of existing space.

As seen in the table to the right, the majority of the office space was built from 1991 to 2014. Approximately 3.05 million square feet has been added to the sub-markets in the past fourteen years.

Class A office space comprises 47.2% of the overall Sugar Land market.

The overall Sugar Land office market currently has a 10.6% vacancy rate with average rental rates at $25.90psf (gross).

The market performance data provided in this section generally represent conditions as of 3Q2014 unless otherwise indicated.

The 5-year trend line for vacancy rates in the Sugar Land market indicate that rates have been decreasing since 2010.

As vacancy has decreased, rental rates have increased a sign of a healthy market.

Net Absorption has been positive over the period 2011 to 2014. In 2011 over 1.7 million square feet was added to the Class B space along with 964,000sf of Class A.

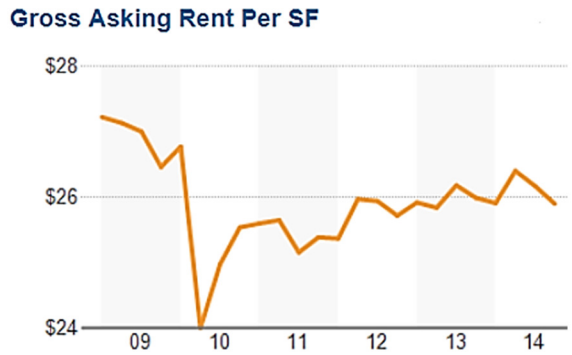
Source: CoStar, CDS Market Research

Inventory by Age

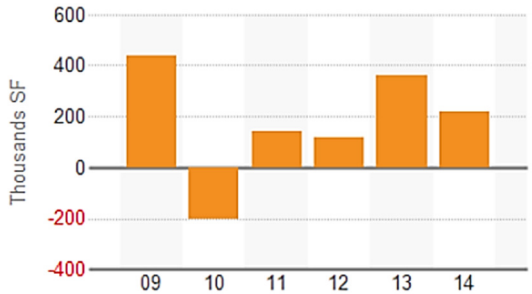
Decade Built	Class A	Class B	Class C
Pre-1960		20,000	17,320
1960 - 1970			145,791
1971 - 1980		40,357	128,918
1981 - 1990	1,877,367	672,940	252,253
1991 - 2000	628,597	789,721	54,203
2001 - 2010	964,121	1,767,681	37,942
2011 - 2014	216,595	65,724	
N/A		[illegible]	[illegible]
TOTAL			
U/C			
Proposed			

Source: Co

Historical Vacancy and Rental rates



Absorption Trends



Class A Office Market

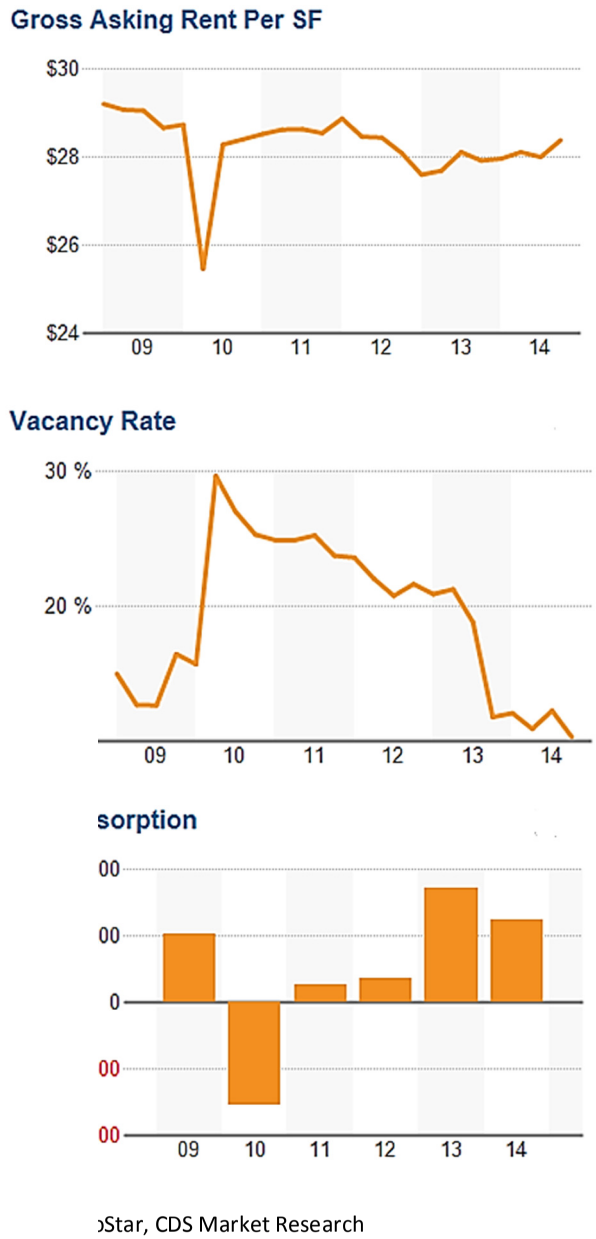
Rents in the sub-markets for Class A office space rates between $27psf and $29psf over the past (rates dropped to $25psf). Currently rates are

Currently there are 20 buildings including according to CoStar. The following graphs occupancy rates for office properties in Sugar

Vacancy on the other hand, is more variable. It to 2012. Recently, however Sugar Land's 2009 and 2010 rates. Currently the vacancy in

Absorption in Sugar Land has been positive average, 59,808 square feet has been absorbed 2010, over 964,000 sf of office space was added

Sugar Land Class A Historical Trends



›Star, CDS Market Research

have remained relatively stable at six years with the exception of 2010 at $28.38psf.

3,686,680 square feet in Sugar Land compare the historical rental and Land.

was higher in Sugar Land from 2010 vacancy levels dropped below the Sugar Land is at 9.5%.

overall over the past four years. On annually over the past 5 years. In to the market.

Source: CoStar, CDS Market Research

Inventory by Age

Decade Built	Class A
Pre-1960	
1960 - 1970	
1971 - 1980	
1981 - 1990	1,877,367
1991 - 2000	628,597
2001 - 2010	964,121
2011 - 2014	216,595
N/A	
TOTAL	**3,686,680**
U/C	
Proposed	552,676

The tables on the following pages provide an inventory of Class A office properties in Sugar Land. There is a total of approximately 3.6 million square feet of space in twenty properties. As shown by the highlighted properties, there are several large office buildings proposed for this market.

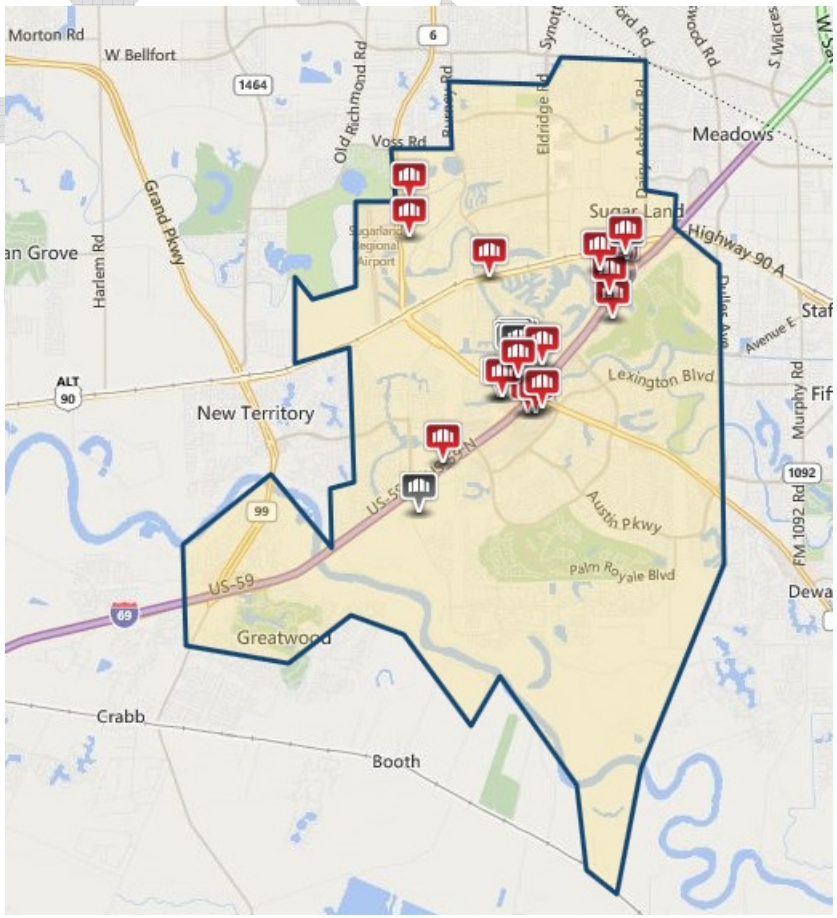
CMA Class A Office Inventory

Building Address	Building Name	Development Area	Building Status	Rentable Building Area	Year Built	Year Reno-vated	Max Building Contiguous Space	Percent Leased	Average Weighted Rent
77 Sugar Creek Center Blvd	Two Sugar Creek Center		Existing	143,410	1999		9711	95.5	15.91
7616 Branford Pl	Sugar Land Physicians Center I		Under Construction	56,595	2014		18865	66.67	23
13131 Dairy Ashford Rd	Sugar Creek II		Existing	204,791	2009		25289	93.08	24
13135 Dairy Ashford Rd	Sugar Creek I		Existing	204,377	2000			100	-
1 Fluor Daniel Dr	Bldg A	Lake Pointe Plaza	Existing	221,000	1984			100	-
1 Fluor Daniel Dr	Bldg B	Lake Pointe Plaza	Existing	222,000	1984			100	-
1 Fluor Daniel Dr	Bldg C	Lake Pointe Plaza	Existing	222,000	1984			100	-
1 Fluor Daniel Dr	Bldg D	Lake Pointe Plaza	Existing	315,000	1984			100	-
1 Fluor Daniel Dr	Support Services	Lake Pointe Plaza	Existing	188,000	1984			100	-
1600 Hwy 6	Offices at Kensington Phase 1	Offices at Kensington	Existing	85,556	1998		1607	98.12	27.5
1650 Hwy 6	Offices at Kensington Phase 2	Offices at Kensington	Existing	85,218	1998		8694	87.27	27
1327 Lake Pointe Pky	St Luke's Professional Building	Sugar Land Medical Plaza	Existing	120,596	2008		3655	91.16	24.03
2277 Plaza Dr	The Plaza Building B	Sugar Land Town Square	Existing	135,000	2006		4560	93.39	24.5
14090 Southwest Fwy	Commerce Green One		Existing	110,036	2000		8959	82.17	24
14141 Southwest Fwy	Sugar Creek on the Lake		Existing	515,115	1982	2013	62457	79.98	18.5
3 Sugar Creek Blvd	Three Sugar Creek Center		Existing	152,734	2007		25671	78.81	20.5
1 Sugar Creek Center Blvd	Comerica Bank Building		Existing	194,252	1983		15109	88.75	19.47
2245 Texas Dr	The Texas Drive Building		Existing	166,000	2009		5889	91.17	23
2150 Town Square Pl	Minute Maid Building N1 & H	Sugar Land Town Square	Existing	185,000	2008		2435	95.27	24.04
13905 University Blvd	Texas Instruments	The Exchange at Telfair	Existing	160,000	2014			100	-
TOTAL Existing Class A				**3,686,680**					

Building Address	Building Name	Development Area	Building Status	Rentable Building Area	Year Built	Year Reno-vated	Max Building Contiguous Space	Percent Leased	Average Weighted Rent
Imperial Blvd & SH 6	Building A	Imperial	Proposed	100,000			100000	0	Withheld
Imperial Blvd & SH 6	Building B	Imperial	Proposed	150,000			150000	0	Withheld
Kempner St & Main St	Building C	Imperial	Proposed	150,000			150000	0	Withheld
16750 Creek Bend Dr		Offices at Lake Pointe	Proposed	152,676			152676	0	22
TOTAL Proposed Class A				**552,676**					

Map of Class A Office

As shown, Class A office space in Sugar Land is concentrated along the US59 corridor.



Recent Office Development/Leasing Announcements

The Sugar Land Development Corporation recently approved an agreement for the relocation of **First Data Corporation's TeleCheck Services** division, a project that will bring $10 million in investment and add 600 new jobs during a 10 year period.

First Data will occupy approximately 90,000 square feet within the Sugar Creek on the Lake office building, 14141 Southwest Freeway. PMRG invested more than $13 million to renovate the building previously occupied by Unocal.

The Fortune 500 Company decided to relocate its TeleCheck headquarters to Sugar Land after a comprehensive evaluation of other regional opportunities. The new facility is expected to be operational by March 2015.

"We are delighted to have selected Sugar Land as the home of our new offices," said Mark Wallin, who heads First Data's TeleCheck business. "We look forward to many years of growth in this outstanding facility" said Mr. Wallin in the December 9, 2014 interview with the Houston Chronicle.

An incentive package was created by the City's Office of Economic Development and approved by the Sugar Land Development Corporation to secure the relocation.

Recent Relocations and Expansions

UnitedHealthcare is part of UnitedHealth Group, the most diversified health care company in the United States. It employs 133,000 people in 21 countries and had $110.6 billion in revenues in 2012.

- Relocated into over 193,000 square feet in the Sugar Creek on the Lake office building along U.S. 59 in November 2013.
- Over 800 jobs; the former Unocal building has gone through extensive interior renovations in which the owner, PMRG, has invested over $13 million.

Cosentino North America distributes and markets natural quartz and natural stone surfaces in North America.

- Moved its U.S. headquarters and new support center into 25,000 square feet in Sugar Land Town Square in June 2013. The Cosentino Support Center includes an auditorium for trainings, demonstrations and events.
- 100 jobs

Texas Instruments, Incorporated is a Fortune 500 company engaged in the design and sale of semiconductors to electronics designers and manufacturers worldwide. The firm had more than $13.7B in worldwide revenue in 2011 and employs more than 34,600 employees.

- TI is constructing an approximately 160,000 square-foot business and development facility (with expansion plans for an additional 40,000sf) on a 7.4-acre site in Telfair.
- $35 million investment
- More than 375 jobs

Team Industrial Services, Inc. offers industrial services related to the construction, maintenance, and monitoring of pressurized piping and associated systems.

- Relocation of global corporate headquarters
- 80 jobs with plans to expand to 100
  Over $1.5 million in new capital investment

Draft

A division of United Health Group, OptumRx specializes in pharmacy technical advice and benefits management.

- Company office with claims processers, pharmacists and various training and management positions.
- 53,000 sq ft in Granite Towers II
- 330 new jobs

Money Management International is the nation's largest nonprofit, full-service consumer credit counseling service organization. It provides confidential financial guidance, financial education, personalized credit and budget counseling, and debt management assistance to consumers nationwide.

- Headquarters relocation and consolidation of operations.
- Leased 90,000 sq ft in Sugar Creek on the Lake
  440 jobs

Recent Expansions

CVR Energy, a diversified holding company primarily engaged in the petroleum refining and nitrogen fertilizer manufacturing industries, employs approximately 1,100 employees nationwide and had $8.6 billion in net sales revenue in 2012. CVR is headquartered in Sugar Land.

- Added approximately 11,000 square feet and is in the process of adding an additional 5,000 square feet in Sugar Land Town Square.
- Over 38,000 sq ft occupied in Sugar Land Town Square.
- 120 jobs retained

Proposed Relocations

Fluor Enterprises, has agreed to remain in Sugar Land according to a July 2012 announcement. More recently, Fluor purchased additional land in Sugar Land and is developing a long-term plan to remain in the city. The site is on 50 acres at the southeast corner of U.S. Highway 59 and University Boulevard in the Telfair commercial development, which is close to Fluor's current facilities.

Fluor's current lease expires in 2021, and the company reviewed several options in the greater Houston area, according to a statement. Sugar Land offered an incentive package that includes a tax abatement on Fluor's $165 million in capital investment and workforce of at least 2,000 employees; the city will also grant some sales tax rebates on construction of the campus and assist the company's efforts to win state incentives.

Fluor will vacate its current facility in Sugar Land leaving approximately 1 million square feet vacant. The current facility includes large floor plates to encourage collaborative work environments. However due to changing operations, Fluor's needs have changed which makes the building design no longer efficient.

The plan is to construct between 500,000 and 1.0 million square feet of office space on the new site.

CMA Capture

Given the previously described current regional economic trends, office market conditions, realistic potential capture of regional office growth, and competitiveness factors for Sugar Land, CDS has estimated what might be a realistic expectation of office development based on the more conservative HGAC employment projections (p.17).

Currently 83.7% of Sugar Land's labor force is employed by white collar occupations. We will use this number as a percentage of total projected employment that would require office space.

An office space per office employee factor for the past five years ranged from a low of 325 square feet in 2007 to a high of 365 square feet in 2010. It rebounded to 343 square feet per employee in 2012. That number has recently declined to 300 square feet. In our analysis, we will use 300 square feet.

Within the next five years, Sugar Land will have demand for an additional 1.0 million square feet of space, despite the large amount of space that is either currently under construction or proposed by 2018. Sugar Land will need an additional 2.1 million square feet of space to accommodate the employment growth in the market area (TAZ) that is expected in the area over the next 10 year period (2020 - 2030).

CDS Employment Forecasts by TAZ for CMA

Market Area	2011-2015	2016-2020	2021-2025	2030
Employment Projections	51,194	55,644	59,976	64,193
83.7% Labor Force/Prof. Jobs	**42,849**	**46,574**	**50,200**	**53,730**
5 Yr increase	5,342	3,725	3,626	3,530
Cumulative Increase		9,067	12,693	16,222
300 SF per Job	1,602,600	1,117,395	1,087,765	1,058,889
Less: Recent Construction (2011-15)	282,319			
Less: CMA pipeline space to 2015	144,824			
Less: CMA Pipeline Space to 2020		1,276,788		
Incremental Demand	1,175,577	-159,393	1,087,765	1,058,889
Cumulative Demand		**1,016,064**	**2,103,829**	**3,162,718**

Source: CDS Market Research, HGAC

As a note, the example above does not take into consideration the vacancy that will be created by Fluor Enterprises upon their lease expiration in 2021. Their current facility includes approximately 1.0 million square feet. This vacant space may lower the demand for new office space if it is not pre-leased. However, this is a very specialized property (1 user) that would require extensive redevelopment for a multi-tenant facility.

Interviews

CDS Market Research conducted interviews with several local authorities on the office market in Sugar Land. CDS contacted developers, office brokers, tenant brokers, major employers, and office owners. The anonymous responses to the CDS questionnaire are listed on the following pages.

Those contacted by CDS in the form of emails and/or phone calls were as follows:

Developers:

Les Newton, Dan Janssen, Ted Nelson, Alan Bauer, Kolbe Curtice, Charles Herder, Shay Shafie, and William Peeples

Office Brokers:

Michael Sieger, Griffin Jaggard, Ryan Bishop, Louann Pereira, Bridgette Bilski, Steve Rocher, and Rachel Williams

Tenant Brokers:

David Bale and Michael Sieger

Major Employers:

First Data Corporation, Minute Maid, and Fluor Corporation

Office Owners:

Harry Green Interests, Radler Enterprises, Maxxam Inc.

Draft

Brokers and Tenant Representatives

1. How do you generally perceive Sugar Land as a competitive location for Class A office tenants who have a choice of potential company locations in the Houston region? Sugar Land needs a leading company to draw others; Yes with those who already live in Sugar Land or the SW side of Houston.
2. Does this perception vary by industry sector:
   - Energy / oil and gas / related engineering and technical services
   - Banking / finance
   - Legal
   - Other engineering / technical services
   - Non-energy corporate headquarters
   - Other administrative / business services

   For the most part our tenant mix is more of smaller FIRE (finance, insurance, real estate) firms. However, within the last year the last couple of groups have been oil and gas. Given its distance from George Bush Airport it could limit the interest from large corporations.
3. Does the perception of Sugar Land change for office users of different sizes? Small sizes or flex spaces find it appealing; Sugar Land is mainly a smaller tenant market whereas leasing decisions are based on decision maker's location, with that being said it limits the draw for employees up north.
4. What is the general perception of existing Sugar Land multi-tenant office properties in terms of:
   - Building quality (architecture, LEED, finishes etc.) Hard to find a "trophy" asset, but not negative connotation.
   - On-site services and amenities
   - Access to labor force Psychologically seems far
   - Access to executive residences Nonexistent which is a problem; but housing supply is a positive for lower levels of employees
   - Access to services / amenities Need to be on US59
   - Surrounding environment Lower end suburbs separate it from urban core
   - Value / rates
5. Have you had office space users who considered Sugar Land but ultimately rejected it? If so, why? There are no executive home locations; Decision makers were split 2 in Sugar Land and 1 in the Heights, ultimately they had to concede for City Center area (Beltway 8 and I10).
6. Have you had office space users who did choose a Sugar Land location? If so, what were the key factors in Sugar Land's favor? Decision makers lived in Sugar Land.
7. Is there a type of office building that users who might choose Sugar Land would generally prefer? Potential types:
   - Self-contained low-rise large-scale campus (like Fluor)

Draft

- Multi-story stand-alone (like Sugar Creek buildings) Yes, with structured parking (mid-rise); Older workforce prefer Sugar Creek. (good mix)
- Multi-story mixed-use/urban (like Town Square) Yes; Younger workforce prefer Town Square (good mix)
- "Value" Class A (tiltwall, usually 3 stories or less, large floorplate, usually surface parking though not always) Not appropriate
- Smaller "boutique" properties

8. What would be the maximum lease rate that you would expect a Sugar Land office tenant to pay in a new, Class A quality building? Would that apply only to certain locations within Sugar Land, and if so, where? $25 Net with limited annual increases; Mid $20's NNN in Class A both Sugar Creek and Town Square.
9. Subject to regional economic conditions, would you recommend that a developer pursue a Class A office development in Sugar Land? If so, what type of building (style and size), what type of setting, and where in Sugar Land? What would be key amenities and features needed of the property and of the nearby environment? Need encapsulated woodlands type environment – live, work, controlling entity. As long as you knew going into it that more than likely it would be a multi-tenant bldg. then yes. Mid-Rise with structure parking, deli, building conference room for board room type meetings.
10. Is there anything the City of Sugar Land or other public agencies could do to meaningfully enhance the attractiveness of the city for Class A office users – incentives, policies, infrastructure, etc.? Land a big fish which will draw smaller fish – may have to give the land away as incentive. For their employees that live there all of this but infrastructure is good.

DEVELOPERS / OWNERS:

1. How do you generally perceive Sugar Land as a competitive location for Class A office tenants who have a choice of potential company locations in the Houston region?

   Sugar Land is an excellent competitive location for office tenants, but it is not yet perceived to be at the same level as the Woodlands, West Chase, Galleria or the Energy Corridor, largely due to a shortage of new supply of multi-tenant buildings over the last 5 years.

   Sugar Land Class A office tenants are primarily locally owned companies or companies whose executive officers live in the city. Local Sugar Land Class A office buildings compete only minimally, if at all, for Class A tenants looking for locations in the Houston region. There have been a few examples, however, where Sugar Land has successfully competed for these tenants (i.e. Minute Maid) but economic incentive packages were the primary draw (rather than location).

2. Does this perception vary by industry sector:

   Somewhat.

   - Energy / oil and gas / related engineering and technical services

   Sugar Land tenants in this industry are primarily smaller locally owned companies.

Majority of energy companies prefer Energy Corridor and Woodlands, but Sugar Land is not on their radar in the past few years because they've been looking for much larger spaces than were available in Sugar Land.

- Banking / finance

  Traditionally favor CBD Houston, but there are always exceptions.

- Legal

  Same as above.

- Other engineering / technical services

  Sugar Land is viewed very favorably by this industry as evidenced by Fluor, TI, Schlumberger and others.

- Non-energy corporate headquarters

  Sugar Land is perceived well by non-energy corporate headquarters. Beyond Minute Maid, we have a high percentage of small corporate headquarters whose owners or chief executives live nearby.

- Other administrative / business services

  Sugar Land has a large percentage of higher salaried professionals living in the community, therefore the better industry sectors for office space in the city are health care, engineering, and similar. I don't feel Sugar Land's office space perception changes much by industry sector. Sugar Land office space relocation decisions are driven primarily by deal economics (including tax incentives), the local employee base, and the fact that company executives/owners live in the area.

3. Does the perception of Sugar Land change for office users of different sizes?

   With notable exceptions of Fluor, TI, Nalco, Schlumberger, Sugar Land's office market has long been dominated by smaller users. We believe that the majority of office space demand comes from companies seeking 7,500sf to 10,000sf, and often times by locally owned businesses.

   These smaller tenants make it more difficult to reach the pre-leasing hurdles required by commercial lenders to finance an office project. Currently, 40 to 50% preleasing is required for a construction loan funding 60 to 65% of the project costs.

   The Sugar Land office market is comprised primarily of mid-sized to smaller companies requiring less than "full floor" spaces.

4. What is the general perception of existing Sugar Land multi-tenant office properties in terms of:

   - Building quality (architecture, LEED, finishes etc.)

     Excellent

     The property quality is high for Class A multi-tenant office buildings in Sugar Land. There are only a handful of these buildings, however. The majority of the current inventory of Sugar Land office buildings is made up of 20+ year old Class B buildings and smaller buildings (less than 25,000 SF). These older Class B buildings are beginning to age. As such, newer buildings in Houston with up to date design and technologies offer a significant competitive edge over local

Draft

properties. While the Class A office inventory is less than 3 MM SF the rest of the approx. 8MM total office inventory is comprised of Class B buildings, generally less than 25K SF.

- On-site services and amenities

  Excellent

  Limited in comparison to the majority of properties in Houston. Only a handful of buildings offer services and amenities similar to Class A buildings in Houston (i.e. Sugar Land Town Square, Three Sugar Creek)

- Access to labor force

  Excellent

  SL offers excellent access to highly educated professionals. The labor pool for younger professionals and support staff is limited (primarily due to lack of housing and amenities for a younger demographic)

- Access to executive residences

  Excellent

- Access to services / amenities

  Excellent

- Surrounding environment

  Excellent

- Value / rates

  Excellent

5. Have you had an office property in Sugar Land but that you sold? Yes If so, why? To make a profit.

   Yes. To take profit after construction and initial lease-up

6. Do you have interest in developing or purchasing an office property in Sugar Land? Yes If so, what are the key factors in Sugar Land's favor? Demand currently exceeds supply, and competition is limited. I would only develop a pre-leased building (i.e. corporate "build to suit" such as the Texas Instruments building).

7. On the other hand, what are the downsides, specific to Sugar Land that can deter you? Concerns over oil price impacts on the Houston economy have recently made financing significantly more difficult. Construction cost inflation over the last 2 years has exceeded the rate of increases in rents. Sugar Land's office rental rates are lower than other parts of the region. This is positive from the perspective of attracting tenants, but it also hinders the economics of office development compared to the higher rent submarkets.

8. Is there a type of Class A office building that is especially appropriate for Sugar Land in terms of risk and return? Not really, this market can generate demand and provide supply for all types. There is not a specific building type that is appropriate. Office building construction is driven by Tenant demand, not vice versa. That demand has varied over Sugar land's history. Does this differ by location within the city? Yes.

   Potential types:

   - Self-contained low-rise large-scale campus (like Fluor)

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Only Telfair and Imperial have sufficient land to address large-scale campuses.

- Multi-story stand-alone (like Sugar Creek buildings)

  Most office tenants today are looking for a mixed-use environment over a stand-alone environment. Most important are nearby restaurants and food services.

- Multi-story mixed-use/urban (like Town Square)

  These will do best where there are walkable amenities like Town Square and Lake Pointe. Telfair will eventually support these as well, but supporting uses (retail, restaurants, hospitality and residential) are very important, and Telfair does not yet have the supporting uses.

- "Value" Class A (tiltwall, usually 3 stories or less, large floorplate, usually surface parking though not always)

  Can work anywhere in the City.

  Generally only appropriate when a "build to suit" for a specific tenant/client

- Smaller "boutique" properties

  Can work anywhere in the City.

  This is the core of the Sugar Land office market.

9. What would be the typical lease rate that you would expect a Sugar Land office tenant to pay in a new, Class A quality building? $24.50/sf NNN; $21 to $23 per SF NNN

10. Would this rate apply only to certain locations within Sugar Land, and if so, where? Lake Pointe, Town Square, Telfair; this would be achievable only in specific locations (i.e Town Square, Sweetwater Blvd., Hwy 59 frontage, etc.)

11. Do you expect average, below average, or above average appreciation in Class A lease rates in Sugar Land in the future, relative to other Houston-region submarkets? Above average compared to other Houston submarkets simply because Sugar Land is lagging behind all of the significant submarkets.

    I feel Class A office lease rate appreciation in Sugar land will continue to be below average in comparison to similar Houston properties.

12. To your knowledge, is land in market-viable locations for Class A office development in Sugar Land considered available and reasonably priced? There are a few market-ready sites that are appropriately priced in Sugar Creek and Lake Pointe. Telfair office land is neither available nor reasonably priced. Imperial land is not yet attractive to Class A users, and it more suited to value office at lower rates.

    Yes, it is available and has been for a number of years. Sugar Creek Office Park (NW corner of Hwy 59 and Dairy Ashford) has had a number of Class A office building sites available for 25+ years. Market demand has dictated the development of only limited supply of new Class A office space. When the last Class A building (3 Sugar Creek) was constructed in the park in 2007, the building remained primarily vacant for seven (7) years….and still has approx. 35K SF available today.

13. What if any are key market obstacles (lease rates, potential absorption, tenant type / size) to successful office development in Sugar Land (as opposed to public policy obstacles)?

    Key market obstacles today are difficulty in obtaining financing and continued unpredictability on construction cost inflation.

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Smaller tenants are the core office "users" in Sugar Land. These tenants occupy the majority of space in the city's office buildings. In contrast, "Class A" buildings in Houston have significantly larger tenants (often multi-floor tenants). Although the Sugar Land office market is comprised of approximately 8 MM SF of office space, only approx. 3MM SF of that is comprised of buildings larger than 25,000 SF.

14. Is Sugar Land as a city government perceived as friendly to office development? Yes. Generally yes, City leadership is perceived as being pro-business and city staff is proactive and responsive. If not, are there specific policies or practices that are comparative deterrents relative to other places in the region? I don't feel that that the amount of new office development in the area has anything to do with a positive or negative perception of the city in regard to their stance on office development.

15. Is there anything the City of Sugar Land or other public agencies could do to meaningfully enhance the attractiveness of the city for Class A office developers – incentives, policies, infrastructure, etc.?

    Continue to provide tax abatement for multi-tenant office of a certain size (at least 4 stories), and provide reimbursement of a portion of parking garage costs to help mitigate current construction cost inflation that has exceeded 30% in the past two years.

    Until Sugar Land's office rents are on par with the other submarkets, office developers will continue to consider Sugar Land as a higher risk submarket because the costs to construct are the same across all submarkets.

    Continue incentive packages, fair and competitive development policies/codes. Also, continue to market the positives our community offers (i.e. educated workforce, reduced traffic, employee amenities (housing opportunities, schools, restaurants, shopping, etc.), airport close by, economic incentives, etc.

Employers

1. What were the key factors that led your company to Sugar Land (as opposed to other employment areas in Houston)?

    "We chose Sugar Land due its growing diverse population"

    "The city's incentives"

    "We couldn't have chosen a better place, because business and the need for employee and overall company training is definitely growing."

    "Sugar Land is a great place to work, raise families and be involved in the local community. We look forward to being part of the local economy and community for years to come."

    "Several of our executives live in Sugar Land so it was a good fit"

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Recommendations

1. *Continue with* Tax Abatements**, for now** – Given the generally lower rents for Class A space, the tax abatements provide at least a part of closing the development pro forma return gap; a slowing construction market will help reduce development costs, further closing the gap. The policy also presents a welcoming face to potential developers, given that Sugar Land has a reputation for being a highly regulated environment (by Houston standards). However, abatements should be seen still as a temporary solution; the real solution is to boost typical Class A lease rates.

2. **Subsidies and public-private partnerships for mixed-use districts** – There is general consensus that walkable mixed-use environments such as Sugar Land Town Square have the best potential to achieve top of market Class A lease rates. While an expansion of Town Square should be considered as a potential strategy, the lack of adjacent undeveloped land presents a challenge (though redevelopment of single story retail may become feasible). So, a companion approach is to propose a willingness to financially assist office development that can share structured parking and common public spaces with other uses such as retail, residential, civic / cultural facilities, and hotel. Obviously, the lowering of development costs, combined with the lease rate boost from a quality mixed-use environment, will make office development more attractive. Existing office clusters with relatively high quality properties, such as Sugar Creek, could benefit if a similar approach could tie the areas together and introduce other uses and attractive common public spaces within walking distance.

3. **Seek high profile tenants** – Attracting well-known tenants, especially corporate headquarters (Minute Maid is an example), is more likely to have follow-on effects regarding the regional image of Sugar Land as an office location and drive more tenant representatives to consider it; this would lead to higher lease rates over time.

4. **Encourage and publicize executive housing** – In locations where lower density residential uses make sense, e*ncourage* through zoning and other policies *more* development of the caliber of *Sweetwater* and the most upscale parts of Riverstone. The City should also publicize the availability of such housing in close proximity. Furthermore, commute times from long-established high-profile executive housing areas such as the Memorial Villages, Tanglewood, River Oaks, and West University Place should be noted to overcome any perceptions of excessive distances and highlight lower congestion on the reverse commute direction.

5. **Capture educated millennials** – Continue to develop quality environments that "legitimize" Sugar Land to educated millennials that are working in and around Sugar Land. Walkable mixed-use areas and housing type diversity are part of this, along with retail and dining diversification away from typical common suburban chains. While Sugar Land will be unlikely to be able to compete directly with urban Houston for such workers who are in their 20s, especially singles, becoming a premier "go-to" residential location for those in their 30s (more likely to be married, with or without children) will have the secondary effect of raising Sugar Land's profile for Class A office tenants who value these workers. Developing and publicizing a diverse set of entertainment and recreational opportunities – for example, if the Brazos River could become an active recreation destination similar to the way Buffalo Bayou Park in Houston is being developed – will further enhance this strategy.

6. **Start advance marketing of Fluor Building opportunity** – The Fluor Building will present a special challenge, as it is not readily presentable as a multitenant property and does not represent current office configuration trends. Unfortunately, single tenant users who could wholly re-occupy the

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property are also relatively rare. One strategy would be to partner with the property owner to market the buildings at a nationwide level as a premier opportunity for repurposing / reconfiguring the buildings in a one-of-a-kind location – Lake Pointe Towne Center. The office tower 800 Bell in Downtown Houston, currently the Exxon Building, successfully found a buyer from San Francisco who will undertake substantial renovation and reconfiguration of the property for Class A multitenant occupancy. Assisting with the addition of structured parking and access improvements (pedestrian and vehicular) to better connect to the retail and other amenities of Lake Pointe will make such a deal more attractive. The surface parking lots could be viewed as development opportunities, particularly if zoning is flexible, resulting in an extension of the Lake Pointe mixed-use environment.

7. **Continue to market Sugar Land** with emphasis on location (near urban core) and positives that the community offers including educated workers, reduced traffic, easy access, housing opportunities, schools, restaurants, shopping, Skeeters/entertainment, airport nearby, and economic incentives.

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