



ion
Houston's Innovation District



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Executive Summary:

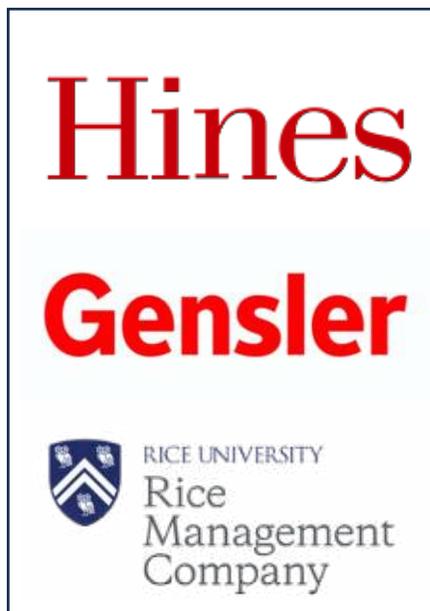


Located at 4201 Main St. in the heart of Ion District, the Ion building is the namesake centerpiece of Houston’s innovation corridor, anchoring a district-wide vision to advance and sustain Houston’s economic resilience—and deliver a better quality of life for each other.

PROPERTY		LOCATION	
Type:	Class A Office	Distance To Tran...	3 Minute Walk
Yr Blt/Renov:	2021/2022	Walk Score®:	Walker's Paradise (90)
Property Size:	266,000 SF	Transit Score®:	Good Transit (69)
Stories:	6		
Typical Floor:	48,000 SF	EXPENSES PER SF	
Parking Spaces:	3.00/1,000 SF	Taxes:	\$5.02/SF (2021)
VACANCY		OWNER	
Current:	11.6%	Rice Management Company	
Last Quarter:	13.2%	Purchased 8/6/2020	
Year Ago:	35.3%		
Peers:	25.0%		
Submarket 3-5 Star:	13.3%		

1 Development Team:

The Ion, a hub for innovation and technology, located in a submarket of Houston called Midtown is a project led by Rice University and is designed to be a focal point for the innovation ecosystem in the region, fostering collaboration among entrepreneurs, researchers, and investors. The development of the Ion involves multiple entities, including Rice Management Company, the investment arm of Rice University, and Hines as the development manager alongside SHoP Architects, James Carpenter Design Associates and Gensler for the architecture design.



Rice Management Company (RMC) is an entity that manages the endowment assets of Rice University, a private research university located in Houston, Texas. Rice has nearly 14% of its \$8.1 billion dollar endowment invested in real estate and the primary purpose of RMC is to oversee and invest the university's financial resources to

generate returns that support the institution's mission and activities. For the Ion, the development manager for the project was Hines, a globally recognized private real estate investment, development, and management firm operating across 30 countries, the company manages assets totaling \$94.6 billion and oversees more than 101 million square feet of properties providing third-party property-level services. The company was established in 1957 with a strong presence of developing in Houston with previous experience developing world-class projects such as the Galleria, Texas Tower, 609 Main, and the Toyota Center. Boasting extensive expertise in diverse investments across various risk profiles and property types, Hines is distinguished as one of the foremost real estate organizations globally. Rooted in a commitment to Environmental, Social, and Governance (ESG) principles, Hines stands out as a leader, contributing to its reputation as one of the largest and most esteemed entities in the real estate industry.

The Rice Management Company has a profound presence in a submarket of Houston called, Rice Village, where RMC owns the land for the entire 16 block community. In proximity to the Texas Medical Center and Rice University, Rice Village has thrived as a historic and vibrant destination in Houston since 1938. Originally a cluster of small barber shops, delis, and eclectic stores, the area has evolved into a prominent retail space spanning over 300,000 square feet, hosting more than 60 diverse merchants. While maintaining its roots with original retailers, Rice Village has expanded its offerings to include high-end dining

establishments, chic boutiques, and well-established brands like CB2, Tecovas, Warby Parker, and Van Leeuwen. Guided by Rice Management Company's direction, the Village is channeling investments into substantial enhancements where they recognized the necessity for a revitalized brand to position the locale as Houston's "premier walkable garden district.". The RMC developed a comprehensive set of tools to communicate the Village's new vision, establish a distinct sense of place, and celebrate the ongoing transformation—especially the greening initiatives—as part of their efforts to showcase the area as a continuously flourishing oasis amid the urban landscape. Marked by a dynamic mix of both longstanding establishments and contemporary additions, along with a rich calendar of community events and extensive green landscaping, Rice Village is emerging as Houston's premier shopping destination and a charming, walkable garden district.

2 Developer's Vision for the Project:

The birth of the vision for the ION was a result of Houston failing to make the list for Amazon's second headquarter known as HQ2, where according to Amazon's leadership, Houston lacked a distinct concentration of spaces and a defined trajectory for the expansion of talent. Consequently, the City of Houston, in collaboration with Rice Management Company, devised a place-centric strategy to outline a comprehensive plan for fostering growth in both established industries

and emerging opportunities which led to the development of the ION district. The vision can be represented in four objectives,

Objective 1:

Enhance the economic resilience and competitiveness of Houston by making strategic investments in the geographical heart of the region.

Objective 2:

Draw in and retain innovative talent, businesses, and institutions within central Houston.

Objective 3:

Cultivate an inclusive and inviting community that provides economic opportunities for all Houston residents and generates enduring value.

Objective 4:

Establish a lively, interconnected, and enduring locale that honors Houston's communities and culture, serving as a genuine reflection of the city's identity.

The ION is very unique in it's design and investment thesis because Rice Management Company is an atypical developer in the sense that they are developing the ION and the ION district with a "forever" hold timeline. As a result of this thesis, RMC is not hesitant to be creative with how they are spending and allocating their capital and is willing to go the extra mile to create a time-tested innovation district.



The ION is the only one of its kind and is therefore able to capture a space with little to no competitors because it appeals to entrepreneurs and start-ups but also well established firms looking for a collaborative space. Before its current transformation into The Ion, the structure was originally

home to the iconic Sears showroom, a significant piece of Houston's history. This building, a modern marvel when it was constructed in 1939, served as a notable retail space for Sears, a well-known department store chain. The redevelopment of this historic Sears building into The Ion reflects a commitment to preserving architectural heritage while reimagining the space for innovative and collaborative purposes. The adaptive reuse of such a landmark structure adds an extra layer of significance to The Ion, bridging the past and the future in the heart of Houston's innovation district.

Site Vision:



Site Rendering for the proposed 16-acre district

3

Detailed Project Description & Site Plan:

The ION consists of 266,000 square feet, comprising of office, academic, and retail spaces in addition to coworking spaces spanning 86,000 square feet with the public and shared building resources encompassing 50,000 square feet. The facility spans six levels, including a lower level and five above-ground floors and features the Forum Stairs, a 250-seat event space for panels, fireside chats, and more. The ION also boasts an inviting half-acre wired outdoor oasis, seamlessly blending technology with the tranquility of nature. This thoughtfully curated space beckons individuals to engage in collaborative endeavors amidst the fresh air and green surroundings. Equipped with state-of-the-art connectivity, this outdoor haven becomes an inspiring venue for networking events, workshops, or simply unwinding. Whether fostering creative discussions or providing a retreat for contemplation, The ION's outdoor space merges the best of both worlds, offering a balance between technological innovation and the refreshing outdoors.

Building Resources

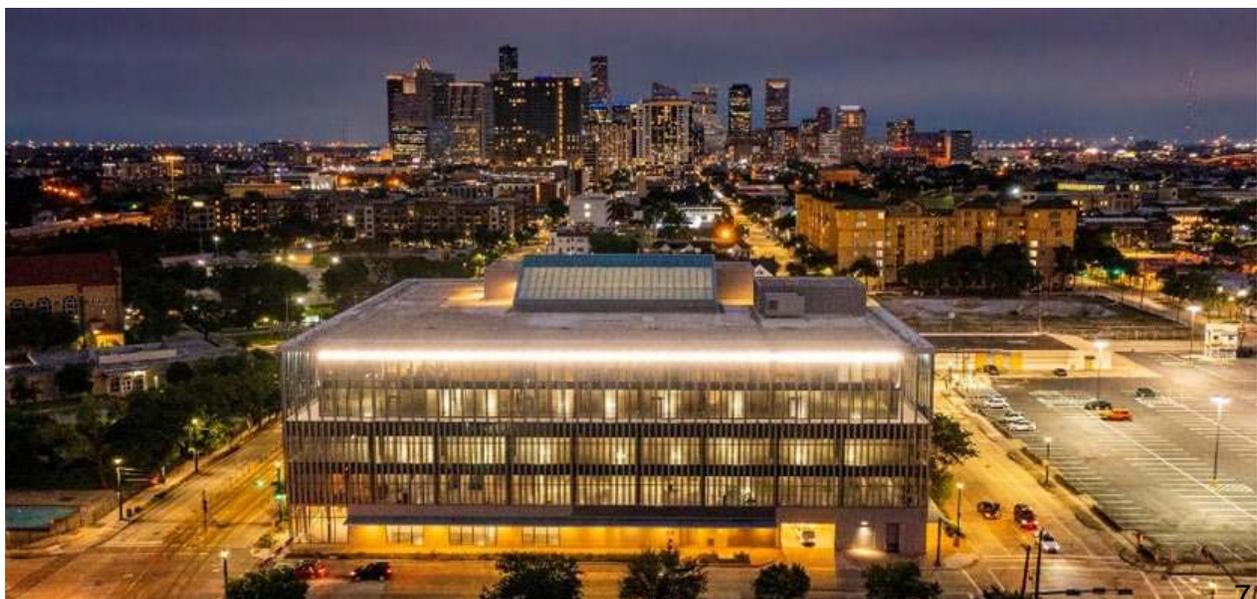
District Showroom (Level 1)
Fitness Center (Lower Level)
Flex Space (Lower Level)
Investor Studio (Level 1)
Ion Prototyping Lab (Level 1)
Reception (Level 1)

Food & Drink

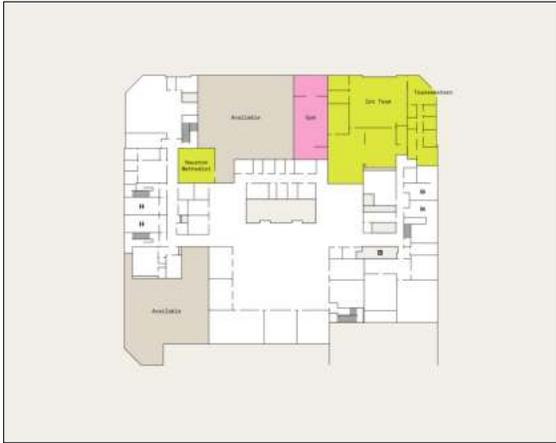
Common Bond (Level 1)
Late August (Level 1)
Second Draught (Level 1)
Stuff'd Wings
The Lymbar (Level 1)

Offices

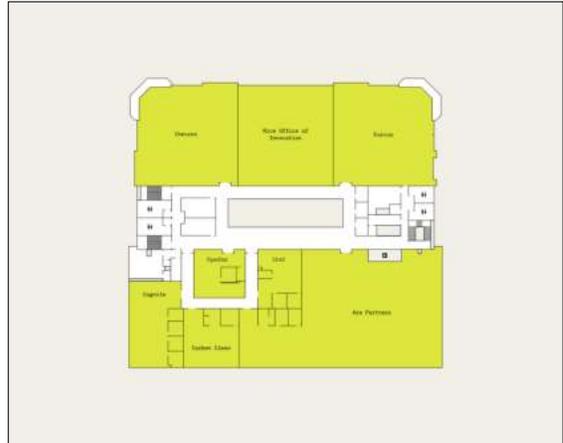
Ara Partners (Level 3)
Carbon Clean (Level 3)
Chevron (Level 3)
Cognite (Level 3)
Common Desk (Levels 2/4)
Houston Methodist Tech Hub (Lower Level)
Ion Team (Lower Level)
Microsoft (Level 5)
OpenStax (Level 3)
Per Scholas (Lower Level)
Rice University Nexus Lab (Level 1)
Rice University Office of Innovation (Level 3)
Transwestern (Lower Level)



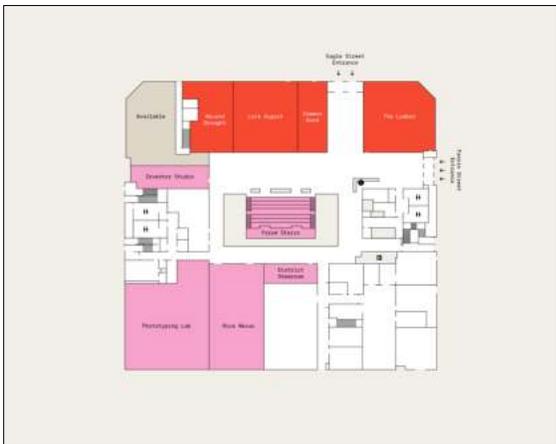
Level LL:



Level L3:



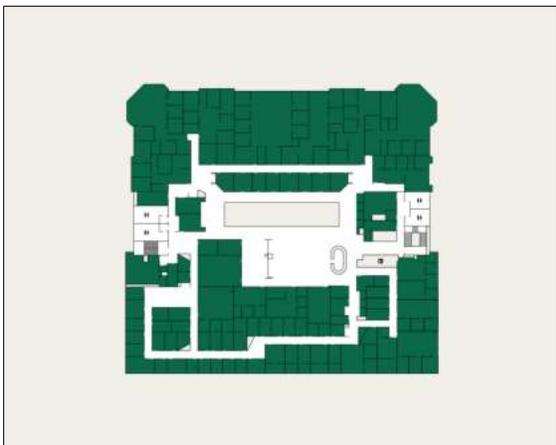
Level L1:



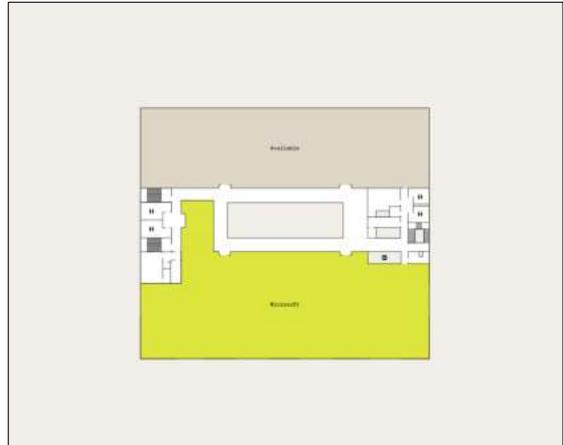
Level L4:



Level L2:



Level L5:



4 Market Analysis:

The Houston Midtown submarket is characterized by a vibrant and dynamic urban environment, strategically positioned between downtown Houston and the Texas Medical Center. It serves as a hub for innovation, technology, and sustainability, exemplified by the Ion District. The district reflects the current trends in real estate, emphasizing collaboration, sustainability, and community engagement. The presence of major corporations, startups, academic institutions, and cultural spaces contributes to the diverse and interconnected nature of the Midtown submarket, making it an attractive and evolving area within the Houston real estate landscape.

The Ion District project in Midtown Houston appears to address current demand and trends in the real estate market by strategically aligning itself with key factors driving innovation, technology, and sustainability. The inclusion of a diverse range of facilities within the Ion building, such as coworking and office spaces, business incubators and accelerators, classrooms, a prototyping lab, investor studio, and restaurants, reflects an understanding of the evolving needs of modern businesses, especially those in the technology and innovation sectors.

Furthermore, the collaboration with major corporations like Chevron Technology Ventures and Microsoft as tenants demonstrates an effort to attract established players in the industry, enhancing the project's appeal and potentially stimulating further demand. The incorporation of Greentown Labs Houston, the largest

climate technology and sustainable energy incubator in North America, indicates a responsiveness to the growing emphasis on environmentally conscious and sustainable initiatives within the real estate market.

5 Developer's Vision for the Project:

Site Acquisition

In 1945, Rice University entered into a long-term ground lease agreement with Sears, a significant department store chain. This lease arrangement granted Sears control over both the land and the building on the property. Fast forward to 2017, a pivotal moment unfolded when Sears, after years of occupying the space, decided to terminate their 99-year lease agreement with Rice University.

This decision proved to be a strategic opportunity for Rice University's Rice Management Company (RMC). In a move that would reshape the landscape of the property, RMC opted to buy Sears out of the lease, effectively gaining control over the land and the building. This crucial transaction marked a turning point in the property's trajectory, setting the stage for an ambitious redevelopment initiative.

With control now in the hands of RMC, the subsequent steps involved the meticulous planning and execution of an extensive renovation and expansion project. In 2018, the four-story Sears department store closed its doors, making way for a transformative \$120 million renovation endeavor. This redevelopment aimed not only to

repurpose the existing building but also to elevate it into a cutting-edge innovation hub, later known as the Ion building.

Planning & Entitlements

Architectural firms such as SHoP Architects, Gensler, James Carpenter Design Associates, and Walter P Moore contributed their expertise to the design process. The renovation, initiated in 2019, included the addition of two floors, the restoration of Art Deco architectural elements, and the infusion of modern design features. The result was the creation of the Ion building that would house coworking areas, business incubators, classrooms, and other facilities, fostering collaboration and innovation.

In navigating the redevelopment of the Ion from a former big-box retail space into a mixed-use office facility, developers encountered a distinct advantage within the city of Houston, which notably lacks zoning laws. This absence of zoning regulations streamlined the process of repurposing the Ion, minimizing bureaucratic hurdles commonly associated with land-use planning. Nevertheless, the development team confronted an additional formidable challenge—public resistance. The Rice Management Company (RMC), spearheading the Ion District project, faced notable pushback from the community, particularly concerning concerns about potential gentrification in the adjacent Third Ward, a predominantly African-American neighborhood. Community members expressed apprehensions regarding the project's impact on the neighborhood's socioeconomic fabric, initiating discussions about the

necessity for a Community Benefits Agreement (CBA) to address and mitigate potential adverse effects.

The Community Benefits Agreement associated with the Ion District project in Houston reflects a collaborative effort between Rice Management Company and the City of Houston to address public concerns and ensure community interests are prioritized. Faced with notable pushback, the CBA negotiations involved an inclusive process with stakeholder input, forming a working group to identify commitments spanning economic opportunities, housing affordability, and inclusive contracting and hiring. The resulting CBA, approved in November 2021, includes provisions for economic equity, affordable housing, and support for Minority and Women-Owned Business Enterprises (MWBES). This collaborative model serves as a precedent for future urban development initiatives that emphasize inclusivity and community well-being.

6

Building & Landscape Designs and Sustainable/Green Features:

Architectural Changes: The renovation involved substantial architectural changes, including the removal of aluminum sheeting, restoration of Art Deco architectural stylings, addition of windows, and the construction of a lightwell. These modifications not only preserved the historical elements but also enhanced the building's aesthetics and functionality.

Size and Layout: The Ion building spans 266,000 square feet and includes multiple levels that house various facilities. The design incorporates coworking and office

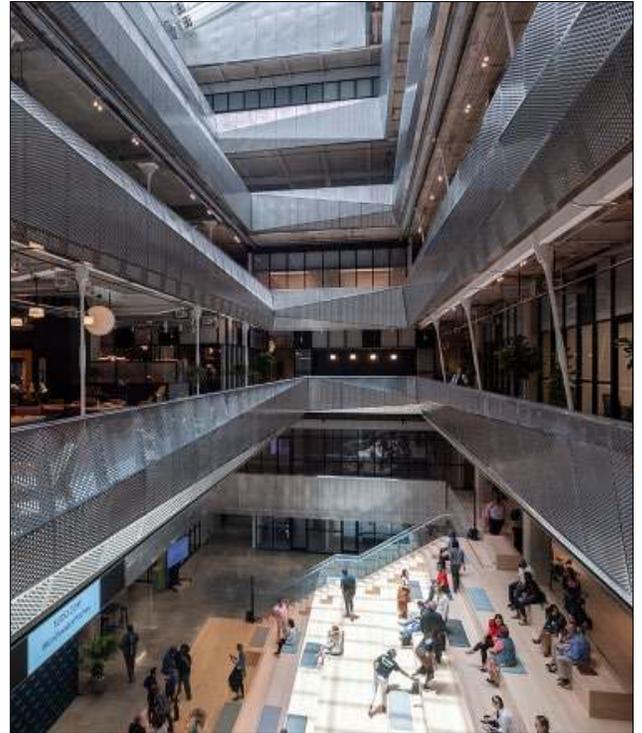
spaces, business incubators and accelerators, classrooms, a prototyping lab, investor studio, and restaurants. The Forum Stairs event area, with seating for up to 250 people, adds a dynamic space for events and gatherings.

Tenant Spaces: The building hosts diverse tenants, including major corporations like Chevron Technology Ventures and Microsoft, showcasing a flexible design that caters to the needs of both established companies and startups. Common Desk, a coworking company, and TXRX Labs, operating the Ion Prototyping Lab, contribute to the collaborative and innovative environment.

Art Installations: The Ion's management team has integrated art into the building's design by inviting local artists to create site-specific installations. This initiative enhances the aesthetic appeal and cultural richness of the space.

Greentown Labs Houston: The Ion District also includes Greentown Labs Houston, the largest climate technology and sustainable energy incubator in North America. This separate building, located on San Jacinto Street, was retrofitted from a former supermarket and contributes to the overall design of the district.

Plaza and Outdoor Spaces: The district includes a large plaza designed by James Corner Field Operations, providing outdoor spaces for the community to gather and engage. The emphasis on outdoor areas aligns with modern trends in urban design that prioritize creating inviting and accessible public spaces.



7 Project Financing:

Rice Management Company (RMC) committed a substantial \$120 million for the extensive renovation of the Ion District, and notably, this funding exclusively stemmed from Rice University's endowment fund. This financing approach, while unconventional for a typical real estate investor, underscores Rice University's unique commitment to the project. The information provided indicates that the university views this initiative as a long-term investment, demonstrating considerable confidence in the endeavor.

The decision to utilize the entirety of the funding in the form of equity from Rice's endowment fund aligns with the university's strategic vision. This

Sources & Uses			
Project Hard Costs	\$	26,160,000	21.8%
Project Soft Costs	\$	93,840,000	78.2%
Total Project Costs	\$	120,000,000	100%

atypical funding strategy is supported by the prospect of nearly \$75 million in planned support for the Ion District from the City of Houston. The collaboration between Rice University and the city, as well as the inclusion of tax increment financing (TIF) and other incentive programs, contributes to the comprehensive financial backing for the Ion District. This multifaceted financial support, combined with a forward-looking investment perspective, provides Rice University with the conviction to allocate significant resources, including an all-cash investment, for the extensive \$120 million renovation project.

Originally, Rice Management Company (RMC) had outlined a budget of \$100 million for the renovation project. However, unforeseen challenges, including volatility in commodity markets, constrained supply chains, and a labor shortage exacerbated by the pandemic, led to a significant overrun of the allocated budget. As a result, the financial commitment for the renovation project escalated beyond the initial estimate, reflecting the complex and dynamic factors influencing the construction industry during the specified period.

In the future, Rice Management Company (RMC) recognizes the critical significance of collaborative efforts through joint ventures to facilitate scalability and the sustained success of the Ion District. As part of their forward-looking strategy, RMC envisions engaging with traditional real estate firms and securing both debt and equity partners for upcoming developments. Despite these collaborations, RMC maintains a strategic stance, intending to retain ownership of the underlying land, infrastructure, and improvements. This approach underscores RMC's commitment to maintaining control over the foundational elements of their projects while leveraging partnerships to enhance the overall development and growth of the Ion District.

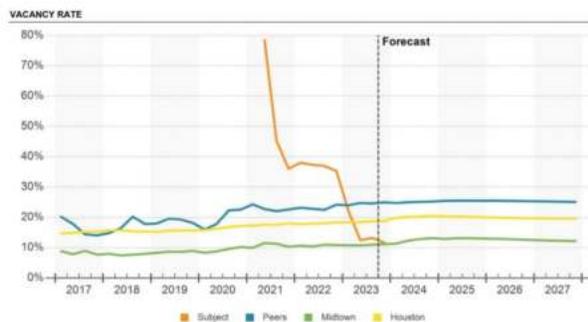
8 Current Operational Issues:

The Ion renovation project, initiated in 2019, involved navigating the intricate realms of construction and design. The goal was to reshape the building into a

state-of-the-art space conducive to innovation. By 2021, construction concluded amid the unprecedented challenges stemming from the COVID-19 Pandemic.

This global crisis triggered swift transformations in the real estate landscape, particularly impacting office spaces. The Ion, designed primarily for office use, faced considerable hurdles. Without prior leasing arrangements, the project presented an immaculate yet unoccupied structure, lacking committed tenants.

Undeterred by this unique situation, the asset management team undertook the creative challenge of filling these empty spaces. Their aim? To secure tenants that not only aligned but elevated the building's vision for innovation. Strategic tenant selection became paramount, aligning with the overarching goal of fostering a dynamic and collaborative environment within the Ion. Presently, the Ion boasts an occupancy rate of approximately 90%, including a recent expansion of their Common desk platform on the 4th level. However, the initial lease-up phase faced a sluggish start, necessitating significant Tenant Improvement Budgets to attract specific tenants.



Navigating the complexities of the commercial real estate landscape amidst a global pandemic, the team's resourcefulness proved instrumental. They adeptly turned challenges into opportunities, showcasing the Ion not merely as a renovated edifice, but as a vibrant nucleus for innovation. This transformation stands as a testament to the asset management team's resilience and adaptability in the face of unforeseen circumstances.

9 Exit Strategy:

In contrast to the conventional approach of selling properties for profit after a set holding period, the ION project undertaken by Rice University diverged by embracing a unique all-equity strategy. Rather than focusing solely on returns, the university partnered with the City of Houston to transform a vacant space into a groundbreaking district, serving as a catalyst for innovation and tech industry. Although Rice University initially maintained control through ground leases, it wasn't until recent developments saw the expiration of leases for several tenants due to changing market conditions.

In response to the economic challenges posed by a global pandemic, Rice University seized the opportunity to transcend adversity. By creating a new submarket that fosters growth, the university positioned themselves strategically to connect downtown Houston and the Texas Medical Center. Situated along the metro rail line and adjacent to the North Houston Highway Improvement Project, which runs along the SH-59 Corridor just south of the property, the location facilitates the

development of a walkable district complemented by encapped parks.

Looking ahead, Rice University envisions the 16-acre district becoming one of the most sought-after areas in Houston within the next 50 to 100 years. The project's primary objective extends beyond immediate financial returns; it aims to leave a lasting legacy as a hub for innovation, connectivity, and community development. The ION project, driven by a vision for the future, exemplifies a commitment to creating enduring value rather than merely pursuing short-term gains.

10 Innovation and Impact of the Development:

The ION project stands as a pioneering endeavor, not merely as a real estate development but as the cornerstone for a transformative district. At its core, the ION was conceived and meticulously crafted with an unwavering commitment to pioneering innovation and fostering impactful change. Its mission was not solely to erect structures but to pioneer a new standard for urban development, revolutionizing the landscape of community engagement and sustainable design.

To materialize this vision, the ION embarked on a journey marked by a relentless pursuit of excellence. It diligently pursued a series of accolades, integrating cutting-edge design components and attaining coveted certifications that underscore its commitment to sustainability and forward-thinking practices. The culmination of these efforts has resulted in a trailblazing profile that sets new benchmarks in the industry.



Wired Score Platinum certification:

In 2019 stands as a testament to its advanced technological infrastructure. This recognition reaffirms its status as a hub for innovation, equipped with state-of-the-art connectivity and digital capabilities that empower businesses and individuals within its precincts.



LEED Gold certification:

In 2022 solidifies its commitment to environmental stewardship and sustainability. Through meticulous planning and implementation of eco-friendly measures, the ION not only reduces its carbon footprint but sets a precedent for future developments to follow suit in creating environmentally responsible spaces.



WELL Silver certification:

In 2023 further underscores the ION's dedication to enhancing occupants' health and well-being. By prioritizing elements such as air quality, lighting, and overall wellness initiatives, the ION is not only a space for work and collaboration but a nurturing environment that promotes the physical and mental well-being of its community.

These certifications aren't merely laurels but markers of the ION's unwavering commitment to pioneering a new era in urban development—a space that not only thrives on innovation but embodies it in every facet. By seamlessly blending technological advancement, sustainability, and human-centric design, the ION stands as a beacon of progress, influencing not just the immediate community but setting a precedent for the future evolution of urban landscapes globally.

In addition to these certifications, the ION building has also been recognized by several publications, including:



Commercial Property Executive (CPE) Magazine Recognition:

The ION building secured its position among the most innovative commercial real estate projects in 2022, earning a prestigious spot on the Top 100 list curated by Commercial Property Executive (CPE) Magazine. This recognition highlights the ION's groundbreaking approach to urban development and its ability to transcend

conventional boundaries. Its inclusion in this esteemed list underscores the ION's pivotal role in shaping the future of commercial real estate through its innovative design, sustainability initiatives, and commitment to fostering a dynamic community ecosystem.



Texas Architect Magazine Merit Award:

Texas Architect Magazine bestowed upon the ION building a Merit Award in its 2022 Design Awards, acknowledging the project's exceptional architectural achievements and its contribution to the evolving landscape of Texas architecture. This accolade celebrates the ION's innovative design elements, its seamless integration into the urban fabric, and its forward-thinking approach that exemplifies architectural excellence. The Merit Award reaffirms the ION's position as a visionary project at the forefront of architectural innovation, setting a high standard for future developments in the region.



Urban Land Institute (ULI) Houston Recognition:

Being named a finalist for the Urban Land Institute (ULI) Houston's 2022 Gerald D. Hines Award for Excellence in Real Estate Development is a testament to the ION's profound impact on Houston's real estate landscape. This prestigious acknowledgment signifies the ION's significant contribution to the city's urban development, recognizing its innovative vision, sustainable practices, and transformative role in fostering vibrant communities. As a finalist for this esteemed award, the ION stands out as a beacon of excellence in real estate development, showcasing its commitment to creating spaces that redefine urban living and drive positive change within the city.