

MARKETBEAT HOUSTON



Office Q3 2020

	YoY Chg	12-Mo. Forecast
23.5% Vacancy Rate	▲	▲
-3.2M YTD Net Absorption, SF	▼	▼
\$31.10 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
3.0M Houston Employment	▼	▲
8.6% Houston Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics
Footnote: 2020Q3 data are based on latest available data.

ECONOMIC OVERVIEW: One-Third of Jobs Lost During the Pandemic Have Been Recovered

According to the Texas Workforce Commission, Houston lost 350,200 jobs during the pandemic; as of August, one-third of those jobs have been recovered. Houston's unemployment rate hit a record high at 14.2% in April and has since declined to 8.6% in third quarter 2020. While some industries are recovering quickly, sectors continuing to report job losses include Mining and Logging, Manufacturing, Government, and Information. Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

SUPPLY AND DEMAND: Slump in Demand as Tenants Delay Real Estate Decisions

Following an oversupply of office space from the 2014 oil crash, Houston entered the pandemic in recovery mode. During the stay-at-home order, demand dropped drastically. In 2019, Houston's office market absorbed 1.2 million square feet (msf); however, so far this year, the office market contracted by 3.2 msf. Year-to-date leasing activity declined by 2.7 msf, or 30.9%, when compared to the first nine months of 2019. Tenants are delaying long term real estate decisions until they re-enter the workplace and evaluate current and future office space needs. While sublease space began to decline at year-end 2019, it increased by 545,662 sf, or 9.6% during third quarter 2020. The top five subleases added during the third quarter were energy-related companies, each ranging from 84,000 square feet (sf) to 156,000 sf. Additional energy-related bankruptcies, mergers and acquisitions, and layoffs are expected to increase sublease space which would drive up the availability rate.

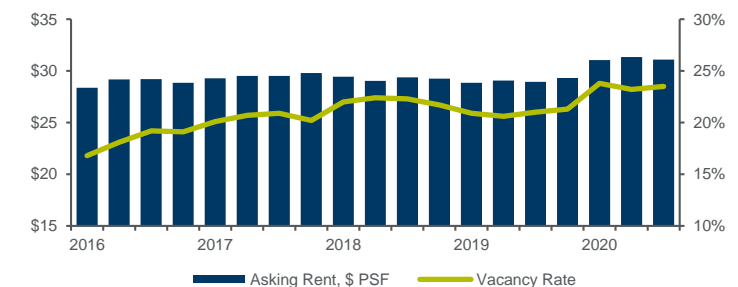
PRICING: Rents Remain Competitive With Increasing Concessions

Overall rents began to decline in third quarter 2020 to \$31.10 per square foot, a slight drop of 1.0% from second quarter 2020. Prime sublease space offering aggressive rents along with increasing vacancy, is adding pressure on landlords to lower rents. Class A landlords are offering extremely competitive concession packages to attract prospective tenants. Concession packages in prime properties can lower net effective rates by offering lengthy free rent periods, large tenant improvement allowances and significant amounts of abated parking fees. While Houston's economy is improving, office market fundamentals continue to decline from the effects of COVID-19 and the uncertainty in the energy industry.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CENTRAL BUSINESS DISTRICT	38,097,786	1,174,808	8,873,995	26.4%	-136,285	-521,721	922,803	1,101,856	\$40.58	\$44.60
South Main	2,139,872	19,999	379,212	18.7%	436	-126,422	65,664	0	\$23.95	\$38.50
Richmond/Buffalo Speedway	10,407,648	371,685	1,697,360	19.9%	-18,085	39,967	295,671	0	\$33.80	\$37.35
Montrose	3,250,944	41,356	508,287	16.9%	43,977	-7,436	176,927	406,000	\$34.91	\$35.55
West Loop/Galleria	25,600,123	908,884	6,158,078	27.6%	-324,077	-707,304	475,252	68,000	\$35.34	\$39.54
SW Houston/Fort Bend County	10,087,700	226,307	2,099,475	23.1%	-136,744	-317,797	256,100	0	\$21.93	\$32.34
Gulf Freeway/Pasadena	1,526,156	3,574	143,017	9.6%	-13,360	74,597	97,688	0	\$19.75	N/A
NASA/Clear Lake	5,011,886	67,512	992,856	21.2%	-15,314	-24,689	134,537	0	\$19.70	\$24.47
Katy Freeway	30,232,225	1,598,133	7,231,997	29.2%	-864,939	-783,142	936,875	764,000	\$31.11	\$35.30
Westheimer/Gessner	15,730,163	491,925	4,341,052	30.7%	-63,787	-282,289	475,431	0	\$29.73	\$36.52
San Felipe/Voss	5,092,512	114,077	1,205,781	25.9%	-67,068	-135,364	181,015	0	\$29.96	\$36.01
Richmond/Fountainview	1,237,207	0	92,114	7.4%	3,496	-8,055	24,398	0	\$16.00	N/A
SW Freeway/Hillcroft	3,015,914	27,819	616,550	21.4%	11,176	86,747	58,684	0	\$14.94	N/A
Northwest	8,523,598	56,886	1,821,858	22.0%	-40,706	-55,995	265,214	0	\$21.48	\$26.59
North Belt	11,222,717	94,217	5,686,355	51.5%	-41,561	182,843	343,862	0	\$20.04	\$23.90
FM 1960	7,067,113	571,177	1,719,631	32.4%	-34,750	-134,389	205,797	0	\$24.12	\$28.96
Woodlands/Conroe	10,968,882	475,869	2,049,467	23.0%	-109,485	-434,340	1,203,817	440,000	\$39.48	\$41.61
East/Northeast	1,144,193	0	235,161	20.6%	-8,960	-52,215	24,720	0	\$18.83	N/A
SUBURBAN TOTALS	152,258,853	5,069,420	36,978,251	27.6%	-1,679,751	-2,685,283	5,221,652	1,678,000	\$28.61	\$35.23
HOUSTON TOTALS	190,356,639	6,244,228	45,852,246	27.4%	-1,816,036	-3,207,004	6,144,455	2,779,856	\$31.10	\$37.85

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
600 Travis Street	Central Business District	JP Morgan Chase & Co.	255,886	New Lease
1233 West Loop South	West Loop/Galleria	Ryan, LLC	66,750	New Lease
600 Travis Street	Central Business District	Indigo Minerals	45,125	Renewal

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
935 North Eldridge Parkway	Katy Freeway	Wachovia Development Corp/SMBC Leasing & Finance	546,641	Undisclosed
10777 Westheimer Road	Westheimer/Gessner	Investcorp/Nitya Capital	466,025	Undisclosed
363 North Sam Houston Parkway East	North Belt	Khoshbin Company/Realty.com	386,277	Undisclosed

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