

MARKETBEAT HOUSTON



Office Q4 2020

24.3%
Vacancy Rate



-4.4M
YTD Net Absorption, SF



\$31.25
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

3.0M
Houston Employment



8.5%
Houston Unemployment Rate



6.7%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
Footnote: 2020Q4 data are based on latest available data.

ECONOMIC OVERVIEW: Houston Has Recovered 57.8% of Jobs Lost During the Pandemic

During the pandemic, Houston lost 350,200 jobs according to the Texas Workforce Commission. As of November, Houston has recovered 202,500 jobs, or 57.8% of the pre-pandemic employment. Sectors which have regained jobs and are exceeding pre-pandemic levels include transportation and warehousing, utilities, finance and insurance, and professional, scientific and technical services. Houston's unemployment rate declined to 8.5% in fourth quarter 2020, after reaching a record high at 14.2% in April. Houston's recovery and job growth continues to be tied to the price of oil and the number of active COVID-19 cases. While mining and manufacturing will remain stagnant, above-average population growth, and expansion in housing, transportation and distribution will continue to drive growth. Houston's economic outlook remains optimistic with the vaccine rollout and economists are forecasting 35,000 to 71,500 new jobs in 2021.

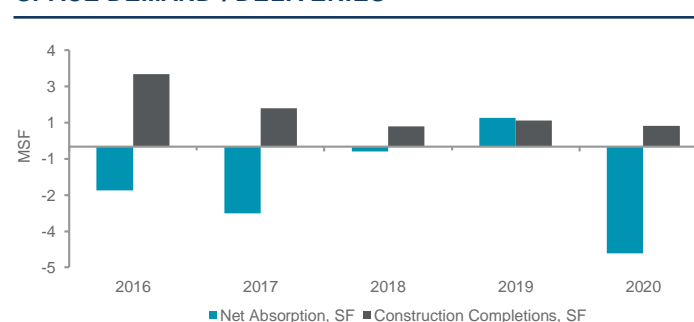
SUPPLY AND DEMAND: Office Market Remains Soft as Tenants Delay Real Estate Decisions

Houston's office market contracted by 4.4 million square feet (msf) in 2020, with 15 of the 18 submarkets posting negative absorption for the year. Overall vacancy jumped 300 basis points year-over-year to 24.3% as additional energy-related bankruptcies, mergers and acquisitions and layoffs left large blocks of available space behind. Available sublease space increased 12.8% year-over-year to 7.0 msf in the fourth quarter as large blocks of sublease space continued to flood the office market. As a result of recent layoffs, Schlumberger added over 200,000 square feet (sf) of sublease space in two locations, and after exiting bankruptcy and restructuring, McDermott International added nearly 100,000 sf of sublease space. Although new leasing activity dropped due to the pandemic and delayed real estate decisions, several large leases were signed in the fourth quarter. Vroom signed a lease for 102,492 sf at 3600 West Sam Houston Parkway South in the Westheimer/Gessner submarket and Cadence Bank leased 82,215 sf at 1333 West Loop South in the West Loop/Galleria submarket. In some cases, however, tenants are extending leases short term, still waiting to determine the usage profile for stay-at-home workers.

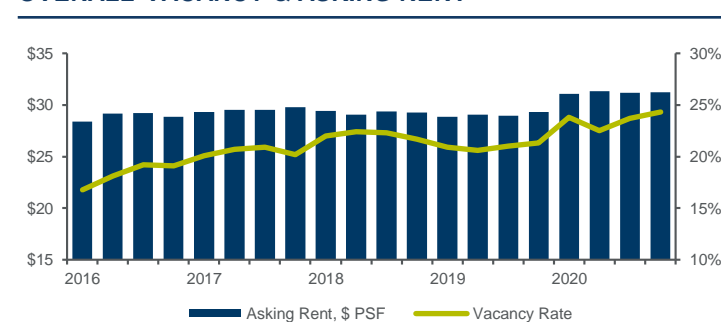
PRICING: Additional Sublease Space Will Keep Rates Competitive

Although landlords are not increasing rental rates, the citywide weighted average non-negotiated asking rates increased 6.6% year-over-year to \$31.25 per square foot. Increasing rates in a down market can be a direct result of more expensive space returning to the market. Oftentimes, when direct vacancy increases along with available sublease space, landlords feel pressure to lower effective rents by offering extremely competitive concession packages, which can include extended free rent periods, large tenant improvement allowances and significant amounts of abated parking fees. Office market fundamentals are expected to remain soft throughout 2021 and excess supply will be a drag over the next few years.

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	38,054,220	1,248,050	9,682,464	28.7%	-171,396	-786,128	988,626	1,101,856	\$41.06	\$44.57
South Main	2,139,872	24,078	392,373	19.5%	-296	-128,223	70,348	0	\$23.37	\$38.25
Richmond/Buffalo Speedway	10,408,982	393,954	2,067,133	23.6%	-89,742	-124,567	347,491	0	\$34.32	\$37.13
Montrose	3,250,944	56,371	527,528	18.0%	-36,306	-46,303	210,966	414,000	\$34.44	\$35.09
West Loop/Galleria	25,668,123	1,094,264	6,467,856	29.5%	-267,405	-926,127	821,563	0	\$35.09	\$38.83
SW Houston/Fort Bend County	10,087,700	138,223	2,151,226	22.7%	-1,077	-321,280	299,926	0	\$22.77	\$32.90
Gulf Freeway/Pasadena	1,526,156	3,574	128,936	8.7%	-3,323	63,477	110,648	0	\$21.02	N/A
NASA/Clear Lake	5,011,886	67,512	976,726	20.8%	31,725	-2,705	118,090	0	\$20.09	\$24.06
Katy Freeway	30,290,921	2,123,082	7,437,100	31.6%	-380,353	-1,112,949	1,236,438	764,000	\$30.99	\$34.98
Westheimer/Gessner	15,736,232	498,158	4,317,581	30.6%	-153,384	-445,396	681,186	0	\$29.51	\$35.87
San Felipe/Voss	5,100,195	108,038	1,302,656	27.7%	-25,697	-181,201	209,476	0	\$30.33	\$36.33
Richmond/Fountainview	1,237,207	0	92,696	7.5%	-740	-8,795	27,210	0	\$15.75	N/A
SW Freeway/Hillcroft	3,015,914	12,356	553,654	18.8%	-23,380	106,257	151,514	0	\$14.69	N/A
Northwest	8,523,598	132,854	1,753,781	22.1%	-69,167	-54,599	332,277	0	\$21.70	\$25.95
North Belt	11,223,880	89,538	5,630,560	51.0%	73,101	231,181	421,189	0	\$19.39	\$23.06
FM 1960	7,067,113	579,052	1,696,737	32.2%	60,621	-104,786	302,678	0	\$24.92	\$29.35
Woodlands/Conroe	10,982,882	473,161	2,198,329	24.3%	-120,644	-535,085	1,204,859	440,000	\$39.34	\$41.47
East/Northeast	1,144,193	0	232,247	20.3%	6,992	-44,270	34,187	0	\$18.49	N/A
SUBURBAN TOTALS	152,415,798	5,794,215	37,927,119	28.7%	-999,075	-3,635,371	6,580,046	1,618,000	\$28.66	\$34.66
HOUSTON TOTALS	190,470,018	7,042,265	47,609,583	28.7%	-1,170,471	-4,421,499	7,568,672	2,719,856	\$31.25	\$37.48

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
700 Louisiana Street	Central Business District	TC Energy	320,000	Renewal*
3600 West Sam Houston Parkway South	Westheimer/Gessner	Vroom	102,492	New Lease
15415 Katy Freeway	Katy Freeway	Diamond Offshore Drilling	98,000	Sale/Leaseback

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF
935 North Eldridge Parkway	Katy Freeway	Wachovia Development Corp/SMBC Leasing & Finance	546,641
10777 Westheimer Road	Westheimer/Gessner	Investcorp/Nitya Capital	466,025
1111 Fannin	Central Business District	LNR Property/Taconic Capital JV Triten RE Partners	428,237

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