

# MARKETBEAT HOUSTON



Office Q1 2021

	YoY Chg	12-Mo. Forecast
<b>25.1%</b> Vacancy Rate	▲	▲
<b>-1.1M</b> Net Abs. YTD, SF	▲	▲
<b>\$30.95</b> Asking Rent, PSF	▲	▲

Overall, Average Gross Asking Rent

## ECONOMY

The impact from the recession triggered by COVID-19 was still being felt in the Houston economy through the first quarter of 2021. While the economic outlook remains optimistic as we anticipate an end to the pandemic, Houston is expected to rebound slower than the rest of the nation due to the additional setback of the oil bust. Houston's metro area (MSA) stood at 3.0 million total employment as of end of Q1 2021, a 6.6% year-over-year (YOY) decrease. According to recent revisions to the employment data provided by the U.S. Bureau of Labor Statistics, job losses during the early stages of the pandemic were worse than first reported. Houston experienced a record loss of 361,400 jobs during March and April 2020. The region has since recovered 128,400 of those jobs lost (35.5%). Local economists project an average gain of 40,000 jobs during 2021, reflecting 1.4% in total employment growth. According to Moody's Analytics, office-using jobs grew for the third consecutive quarter, adding 8,971 positions during Q1 2021. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities. The region's office-using employment totaled 682,072 jobs as of Q1 2021.

## SUPPLY

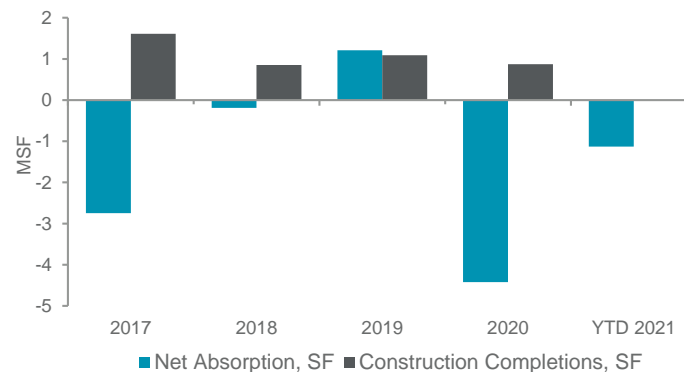
After years of construction to accommodate Houston's last office development cycle, which delivered over 17 million square feet (msf) of new for-lease office buildings to the market during 2013-2016, Houston entered the most recent downturn last year with a relatively low amount of inventory in the construction pipeline. Currently there are eight for-lease office buildings totaling 2.4 msf in the pipeline to be completed during the next two years. Nearly 50% of the construction underway in the Houston office market is preleased, showing new construction continues to be an attractive option for companies to pursue a flight to quality. The Central Business District (CBD) submarket currently has the largest under construction project – Texas Tower's 1.1 msf of office space set to deliver later this year. Another 375,000 square feet (sf) is projected as 1550 on The Green is scheduled to break ground this year. While the Houston office market did not experience any construction completions during the first quarter of 2021, five projects totaling 1.7 msf are scheduled to deliver over the remainder of the year.

## ECONOMIC INDICATORS Q1 2021

	YoY Chg	12-Mo. Forecast
<b>3.0M</b> Houston Employment	▼	▲
<b>7.7%</b> Houston Unemployment Rate	▲	▼
<b>6.0%</b> U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



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### DEMAND

The Houston office market contracted during the first quarter of 2021, recording -1.1 msf of net absorption. Class A office buildings contributed just over half of the total, recording -618,000 sf of net absorption, while Class B accounted for 30% (-350,000 sf) and Class C accounted for 15% (-164,000 sf). As a result, total vacancy rose 80 basis points (bps) from 24.3% vacant in Q4 2020 to 25.1% vacant in Q1 2021.

The first quarter of 2021 marked a fourth consecutive quarter of limited leasing. The Houston office market recorded 1.1 msf of new leasing activity in Q1 2021, comparable to 1.1 msf during Q4 2020. The largest move-ins this quarter were Vroom (102,000 sf) in Westheimer/Gessner, Honeywell (46,000 sf) in Westheimer/Gessner, and The Howard Hughes Corporation (67,000 sf) in Woodlands/Conroe. For the second consecutive quarter, West Loop/Galleria led all submarkets with 232,000 sf of leasing activity in Q1 2021, followed by Central Business District (187,000 sf), and Katy Freeway (128,000 sf).

Houston's overall availability ended Q1 2021 at 29.6%, 90 basis points (bps) higher than 28.7% in Q4 2020. Direct space available rose 100 bps quarter-over-quarter (QOQ) to 26.0% in Q1 2021. Sublease space available remained relatively unchanged QOQ, closing Q1 2021 at 3.6%. Direct and sublease availability is likely to rise further short term; however, as the economy begins to pick up, so too will office leasing activity—a critical step in pushing office leasing fundamentals in a positive direction.

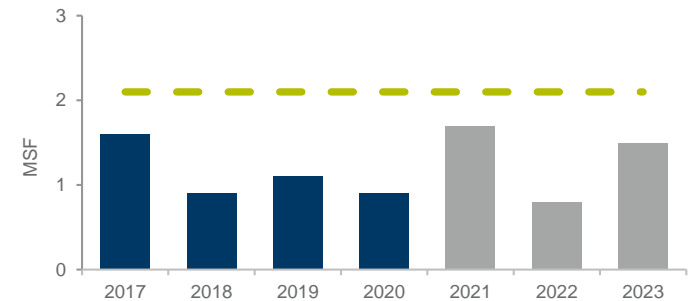
### PRICING

Overall rental rates fell during the current quarter as many landlords began lowering asking rents across most submarkets in Houston. Overall average asking rents closed the first quarter of 2021 at \$30.95 per square foot (psf), down 1.0% from \$31.25 psf at the close of Q4 2020. Class A overall average asking rents also decreased 1.0%, closing Q1 2021 at \$37.17 psf, down from \$37.48 psf at the close of Q4 2020. The CBD submarket posted the largest decline in rental rates. Some landlords in this submarket, whom in the past have been reluctant to change quoted rates, lowered rates as much as \$2.00-\$3.00 psf during the current quarter. The current state of the office market will continue to put downward pressure on rents, along with continued competitive concession packages which include free rent, additional tenant improvement dollars, and abated parking fees.

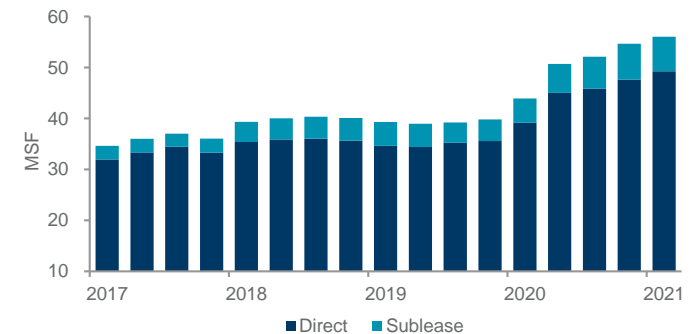
### OUTLOOK

- With a solid prospect of widespread vaccination, we expect the recovery in Houston to be backloaded toward the second half of the year.
- Pent-up demand will drive an increase in leasing activity.
- Changes to the local labor market may impact the pace at which job growth returns to pre-COVID-19 levels.

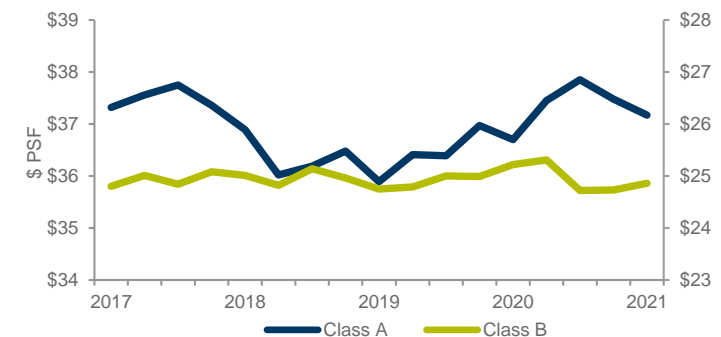
### NEW SUPPLY / 10-YR HISTORICAL AVERAGE



### DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



### ASKING RENT COMPARISON



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## 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)*
<b>CENTRAL BUSINESS DISTRICT</b>	<b>38,045,762</b>	<b>1,151,476</b>	<b>10,231,333</b>	<b>29.9%</b>	<b>-122,074</b>	<b>-122,074</b>	<b>186,894</b>	<b>1,101,856</b>	<b>\$39.79</b>	<b>\$43.59</b>
South Main	2,195,686	24,078	365,448	17.7%	-7,881	-7,881	7,810	0	\$23.79	\$38.25
Richmond/Buffalo Speedway	10,408,982	349,522	2,281,873	25.3%	-66,461	-66,461	55,892	0	\$34.05	\$36.98
Montrose	3,250,944	48,830	579,111	19.3%	-47,600	-47,600	7,314	414,000	\$35.24	\$35.83
West Loop/Galleria	25,593,358	953,583	6,596,826	29.5%	-233,543	-233,543	232,247	77,189	\$34.76	\$38.36
SW Houston/Fort Bend County	9,800,755	171,609	2,165,948	23.9%	-94,423	-94,423	19,775	0	\$23.05	\$32.76
Gulf Freeway/Pasadena	1,526,156	3,574	144,705	9.7%	580	580	6,064	0	\$21.04	N/A
NASA/Clear Lake	5,011,886	68,827	926,153	19.9%	-13,513	-13,513	50,045	0	\$19.94	\$24.18
Katy Freeway	29,559,165	2,117,382	7,719,083	33.3%	-130,730	-130,730	128,307	324,000	\$30.86	\$34.86
Westheimer/Gessner	15,736,232	521,482	4,525,800	32.1%	48,102	48,102	92,431	0	\$29.04	\$35.58
San Felipe/Voss	5,100,195	85,943	1,455,151	30.2%	-64,479	-64,479	78,324	0	\$30.91	\$36.76
Richmond/Fountainview	1,237,207	0	126,462	10.2%	-8,895	-8,895	3,177	0	\$16.03	N/A
SW Freeway/Hillcroft	3,015,914	12,356	549,295	18.6%	-14,633	-14,633	22,637	0	\$14.63	N/A
Northwest	8,523,598	139,478	1,804,017	22.8%	-107,400	-107,400	43,885	0	\$21.70	\$25.97
North Belt	11,223,880	127,277	5,635,004	51.3%	-44,789	-44,789	53,666	0	\$19.06	\$22.86
FM 1960	7,005,567	547,526	1,708,328	32.2%	-33,284	-33,284	50,729	0	\$23.41	\$28.98
Woodlands/Conroe	11,004,972	477,631	2,173,222	24.1%	-180,000	-180,000	85,245	440,000	\$39.96	\$42.41
East/Northeast	1,114,193	0	252,631	22.7%	-9,578	-9,578	3,996	0	\$19.41	N/A
<b>SUBURBAN TOTALS</b>	<b>151,308,690</b>	<b>5,649,098</b>	<b>39,009,057</b>	<b>29.5%</b>	<b>-1,008,527</b>	<b>-1,008,527</b>	<b>941,544</b>	<b>1,255,189</b>	<b>\$28.52</b>	<b>\$34.60</b>
<b>HOUSTON TOTALS</b>	<b>189,354,452</b>	<b>6,800,574</b>	<b>49,240,390</b>	<b>29.6%</b>	<b>-1,130,601</b>	<b>-1,130,601</b>	<b>1,128,438</b>	<b>2,357,045</b>	<b>\$30.95</b>	<b>\$37.17</b>

\*Rental rates reflect weighted gross asking \$psf/year

\*\*Not reflective of U.S. Tables

## KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Two Memorial City Plaza	Katy Freeway	Cabot Oil & Gas	97,000	Renewal
200 Park Place	West Loop/Galleria	Buckeye Partners	73,000	New
811 Main Street	Central Business District	Citicorp NA	49,000	Renewal

## KEY SALES TRANSACTIONS Q1 2021

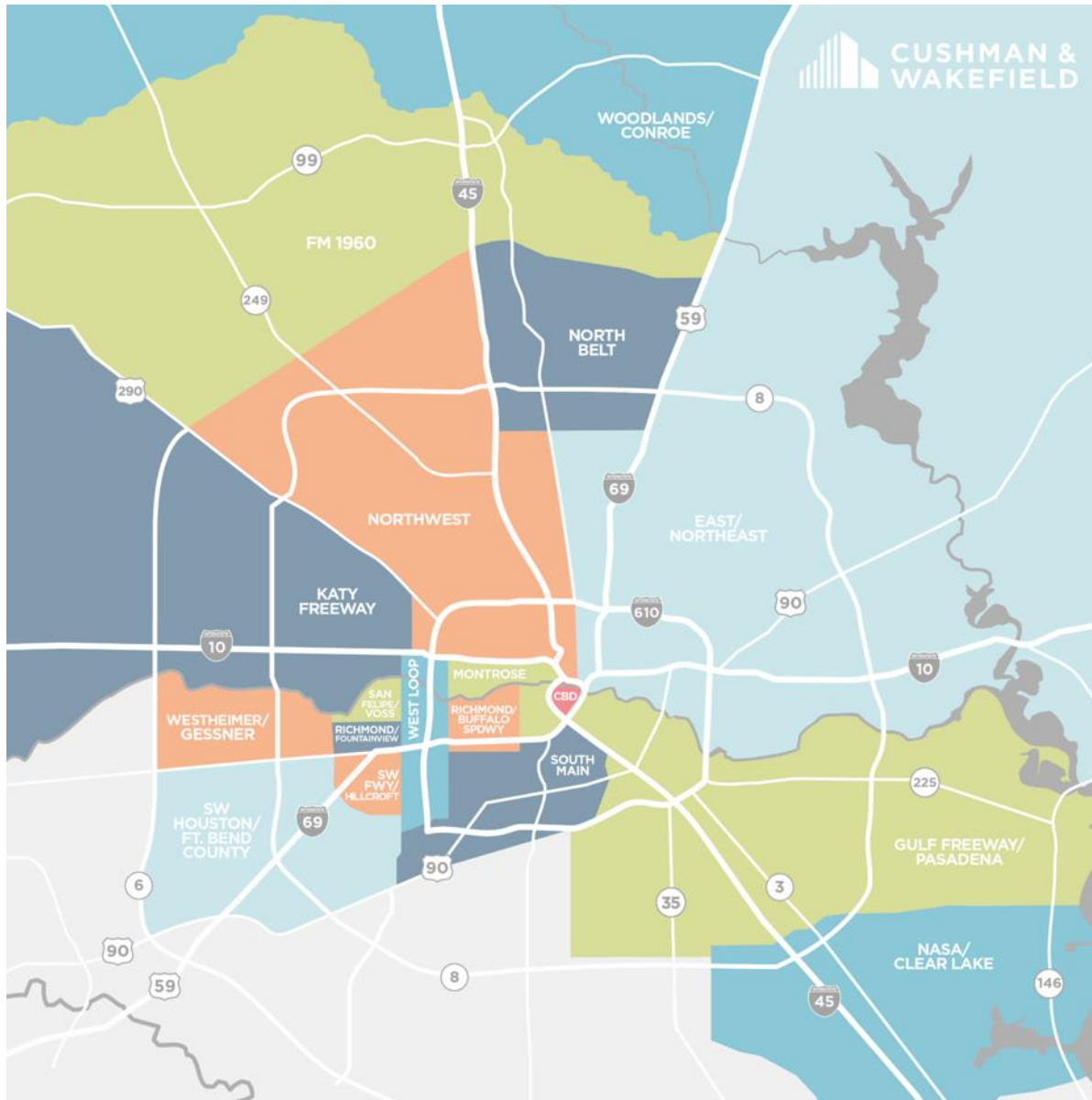
PROPERTY	SUBMARKET	SELLER/BUYER	SF
1801 Smith Street	Central Business District	DRA Advisors   John Quinlan	449,000
10003 Woodloch Forest	Woodlands/Conroe	Clarion Partners   GEG Investments	224,000
12777 Jones Road	FM 1960	MGS Realty Partners   Belvoir Real Estate Group	120,000

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## HOUSTON SUBMARKETS



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