

MARKETBEAT HOUSTON



Office Q2 2021

	YoY Chg	12-Mo. Forecast
25.4% Vacancy Rate	▲	▲
-1.7M Net Abs. YTD, SF	▲	▲
\$30.89 Asking Rent, PSF	▲	▲

Overall, Average Gross Asking Rent

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
3.0M Houston Employment	▲	▲
7.4% Houston Unemployment Rate	▼	▼
5.9% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics

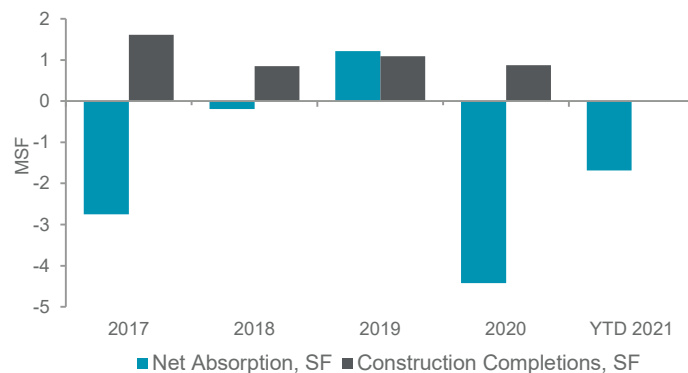
ECONOMY

Houston continues to see economic conditions slowly improve – the labor force is increasing, unemployment numbers are down, and the overall economic outlook remains positive. Houston's metro area (MSA) stood at 3.0 million total employment at the end of Q2 2021, a 4.9% year-over-year (YOY) increase from 2.9 million total employment in Q2 2020. The U.S. experienced 8.2% growth during the same time period. Houston's unemployment rate fell to 7.4%, a welcomed number compared to 12.8% this time last year. The region's office-using employment totaled 684,701 jobs as of Q2 2021. According to Moody's Analytics, Houston lost 51,000 office-using jobs during Q2 2020, but has since regained 20,000 (40%) of those jobs. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities. The worst of the economic downturn impacts are largely over, and the economy is expected to continue accelerating during the remainder of 2021 and into the next year.

SUPPLY

Houston's office construction pipeline remains tight. For the second consecutive quarter, the Houston office market did not experience any construction completions. One project totaling 375,000 square feet (sf) in the Central Business District broke ground during Q2 2021. Nine for-lease office buildings totaling 2.7 million square feet (msf) are currently under construction in the Houston office market. Currently, all buildings under construction are 47.4% preleased. Of the nine buildings underway, five (1.7 msf) are scheduled to deliver during the remainder of 2021, three (614,000 sf) are scheduled to deliver during 2022, and the remaining one (375,000 sf) is scheduled to deliver early 2024. Although the Houston office market continues to face challenges in reducing current vacancy rates, the restrained development pipeline most certainly will negate some of those challenges.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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DEMAND

The Houston office market contracted during the first half of 2021, recording -1.7 msf of net absorption. Class A office buildings contributed over half of the total, recording -980,000 sf of net absorption, while Class B accounted for 19% (-321,000 sf) and Class C accounted for 23% (-388,000 sf). As a result, total vacancy rose 30 basis points (bps) from 25.1% vacant in Q1 2021 to 25.4% vacant in Q2 2021.

The second quarter of 2021 marked a fifth consecutive quarter of limited leasing. The Houston office market recorded 1.5 msf of new leasing activity in Q2 2021, comparable to each of the preceding five quarters. New leasing activity for the first half of the year totaled 3.2 msf. For reference, the Houston office market signed 3.2 msf during the first quarter of 2020, before the pandemic halted most activity. The largest move-ins this quarter were Direct Energy (106,000 sf) in the Central Business District, Parker Drilling (50,000 sf) in Westheimer/Gessner, and Yang Ming Marine Transport (35,000 sf) in Westheimer/Gessner. Katy Freeway led all submarkets with 423,000 sf of leasing activity in Q2 2021, followed by West Loop/Galleria (203,000 sf) and San Felipe/Voss (139,000 sf).

Houston's overall availability ended Q2 2021 at 29.9%, 30 bps higher than 29.6% in Q1 2021. Direct space available rose 20 bps quarter-over-quarter (QOQ) to 26.2% in Q2 2021. Sublease space available remained relatively unchanged QOQ, closing Q2 2021 at 3.6%. The Houston office market availability rate is at a record high, but growing leasing activity is expected to begin turning the tide later this year.

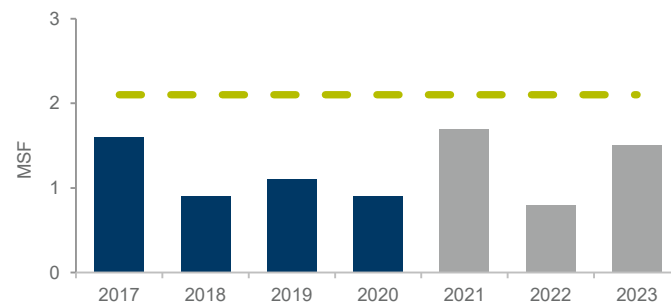
PRICING

After spending most of the past year on a downward trajectory, overall asking rental rates remained relatively flat during Q2 2021. Overall average asking rents closed the second quarter of 2021 at \$30.89 per square foot (psf), just \$0.06 lower than \$30.95 psf at the close of Q1 2021. Class A overall average asking rents closed Q2 2021 at \$37.08 psf, \$0.09 lower than \$37.17 psf at the close of Q1 2021. The Central Business District and The Woodlands/Conroe submarkets commanded the highest Class A rental rates in the Houston office market, closing Q2 2021 at \$43.22 and \$42.16, respectively. Until increased leasing activity begins to move vacancy statistics downward, 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.

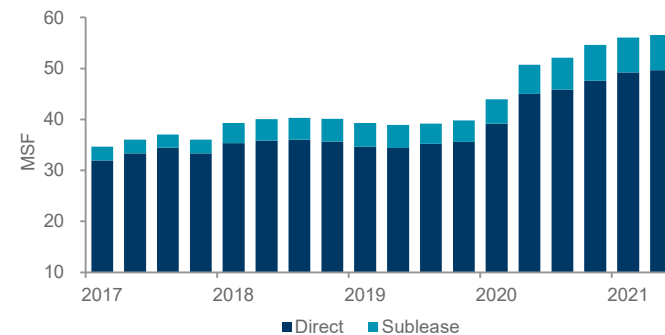
OUTLOOK

- 2021 will be the year of managing the impact of remote working on occupancy needs.
- After a year of retrenching, occupiers will start to make longer term commitments and the volume of leasing activity will pick up materially in the second half of 2021.
- Construction activity will remain low throughout the remainder of 2021 and into 2022.

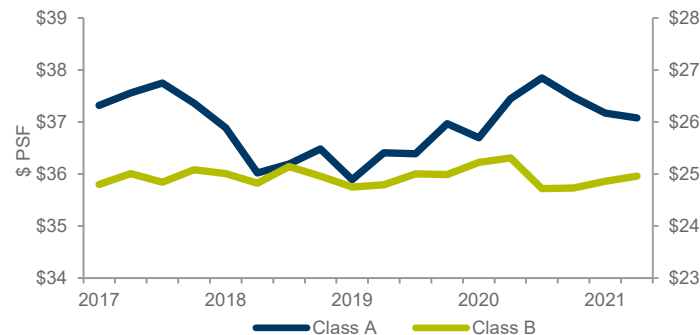
NEW SUPPLY / 10-YR HISTORICAL AVERAGE



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**	Q2 OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD NEW LEASING ACTIVITY (SF)	UNDER CONSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CENTRAL BUSINESS DISTRICT	38,045,762	1,221,152	10,439,787	30.6%	-264,093	-305,489	317,624	1,476,856	\$39.47	\$43.22
South Main	2,195,686	5,798	341,697	15.8%	13,706	15,877	43,794	0	\$22.91	N/A
Richmond/Buffalo Speedway	10,408,982	361,441	2,313,811	25.7%	-321,081	-462,310	141,613	0	\$35.26	\$38.48
Montrose	3,250,944	46,136	593,525	19.7%	-31,682	-81,114	47,153	414,000	\$35.14	\$35.92
West Loop/Galleria	25,593,358	913,694	7,122,091	31.4%	-4,389	-223,197	570,840	77,189	\$34.26	\$38.08
SW Houston/Fort Bend County	9,790,555	109,486	2,264,904	24.3%	-72,432	-148,884	108,291	0	\$23.19	\$32.40
Gulf Freeway/Pasadena	1,526,156	2,997	156,678	10.5%	2,496	3,167	8,147	0	\$21.60	N/A
NASA/Clear Lake	5,011,886	63,221	875,671	18.7%	21,509	61,935	91,298	0	\$20.17	\$24.56
Katy Freeway	29,579,746	2,190,135	7,666,956	33.3%	-213,687	-215,322	715,902	300,747	\$30.43	\$34.35
Westheimer/Gessner	15,736,232	657,406	4,528,523	33.0%	-82,044	-83,620	230,462	0	\$28.54	\$35.41
San Felipe/Voss	5,107,052	61,375	1,387,748	28.4%	-32,849	-55,579	223,128	0	\$31.65	\$38.44
Richmond/Fountainview	1,237,207	0	132,930	10.7%	-5,580	-20,040	9,129	0	\$16.74	N/A
SW Freeway/Hillcroft	3,015,914	0	586,724	19.5%	-54,514	-66,635	63,735	0	\$17.60	N/A
Northwest	8,523,598	131,889	1,767,023	22.3%	-75,434	-12,916	169,333	0	\$21.04	\$25.96
North Belt	11,223,880	92,445	5,462,883	49.5%	-96,842	45,142	132,015	0	\$18.94	\$22.86
FM 1960	7,005,567	565,706	1,618,724	31.2%	-5,373	34,806	169,361	0	\$23.31	\$29.29
Woodlands/Conroe	11,004,972	510,951	2,165,972	24.3%	-39,695	-175,383	181,810	440,000	\$39.82	\$42.16
East/Northeast	1,114,193	0	227,541	20.4%	-4,268	205	17,415	0	\$19.40	N/A
SUBURBAN TOTALS	151,325,928	5,712,680	39,213,401	29.7%	-1,002,159	-1,383,868	2,923,426	1,231,936	\$28.46	\$34.55
HOUSTON TOTALS	189,371,690	6,933,832	49,653,188	29.9%	-1,266,252	-1,689,357	3,241,050	2,708,792	\$30.89	\$37.08

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

**Not reflective of U.S. Tables

KEY NEW LEASE TRANSACTIONS Q2 2021

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Brookhollow Central One	2800 North Loop West	Northwest	Bowen Miclette & Britt	36,000
1001 West Loop South	1001 West Loop South	West Loop/Galleria	Xavier Educational Academy	32,000
Energy Center II	575 North Dairy Ashford	Katy Freeway	AES Drilling Fluids	28,000

KEY SALES TRANSACTIONS Q2 2021

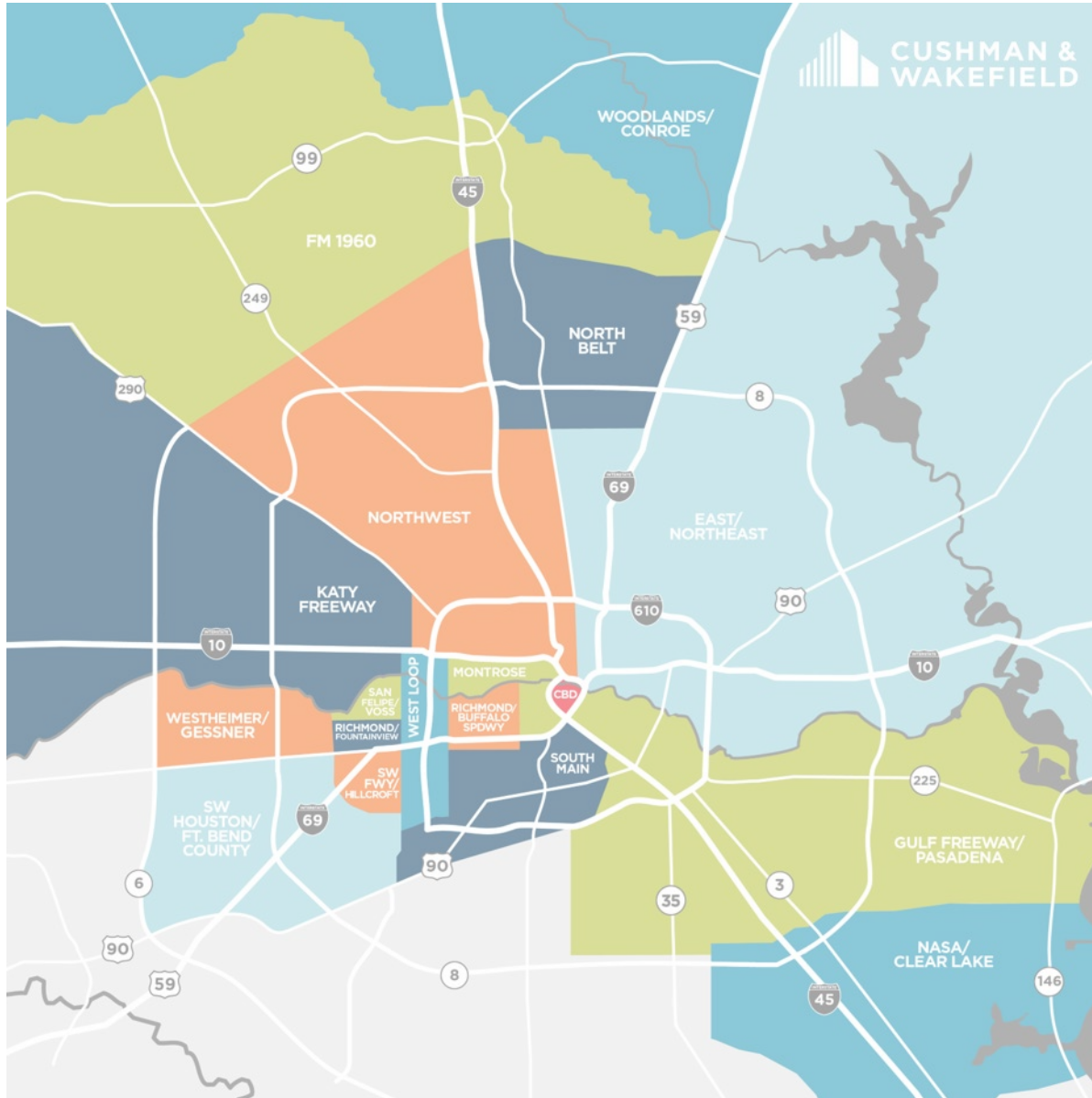
BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
Pinnacle Westchase	3010 Briarpark Drive	Westheimer/Gessner	Interventure Advisors LNR Partners	471,000
1111 Fannin	1111 Fannin Street	Central Business District	Taconic Capital Advisors Harris County	428,000
Royal Oaks Centre	11490 Westheimer Road	Westheimer/Gessner	Hertz Investment Group Younan Properties	232,000

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HOUSTON SUBMARKETS



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