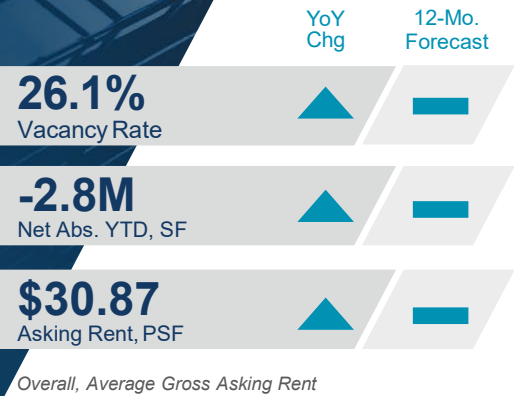


MARKETBEAT HOUSTON



Office Q3 2021



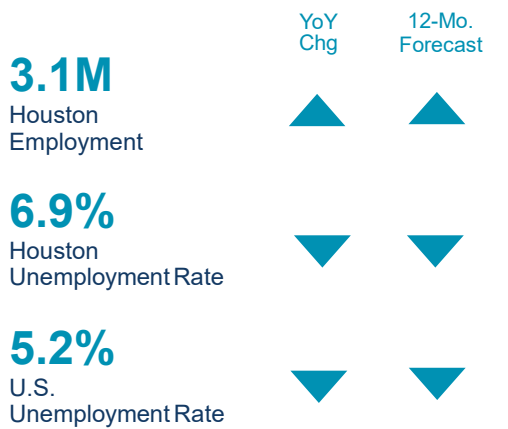
ECONOMY

Houston's economic conditions continued to slowly improve throughout Q3 2021. With labor force increasing and unemployment numbers down, the overall economic outlook remains positive. Houston's metro area stood at 3.1 million total employment at the end of Q3 2021, a 4.2% year-over-year (YOY) increase from 2.9 million total employment in Q3 2020. The U.S. experienced 4.4% growth during the same time period. Houston's unemployment rate fell to 6.9%, a welcomed number compared to 9.5% this time last year. The region's office-using employment totaled 690,336 jobs as of Q3 2021. According to Moody's Analytics, Houston has gained a total of 17,240 office-using jobs year-to-date. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities. While the worst of the economic downturn impacts are largely over, the rise of the Delta variant increased uncertainty and pushed back timing on when we expect to see office fundamentals significantly improve.

SUPPLY

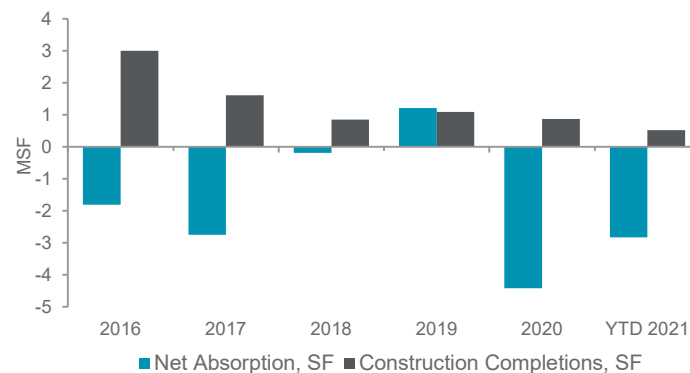
The Houston market delivered three Class A office buildings totaling 519,000 square feet (sf) during the third quarter. Village Tower II – a 126,000 sf project delivered at 36% preleased, Montrose Collective – a 126,000 sf mixed-use project, of which 87% is preleased, and The Ion – a 266,000 sf project delivered at 57% preleased. These deliveries during Q3 2021 marked the first quarter of this year to experience office completions. Newly delivered buildings were concentrated in the Montrose and Katy Freeway submarkets. Currently, the Houston market has 2.2 million square feet (msf) under construction – the Central Business District accounts for 1.5 msf, followed by The Woodlands/Conroe (440,000 sf), Katy Freeway (174,000 sf) and West Loop/Galleria (77,000 sf) submarkets. Two office projects under construction will deliver in Q4 2021, three are scheduled to deliver in 2022, and one is scheduled to deliver in early 2024. As new development office projects continue to attract occupiers looking for high-quality office space, many Class A vintage buildings work to reposition and compete with new developments.

ECONOMIC INDICATORS Q3 2021



Source: BLS, Moody's Analytics

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT HOUSTON

Office Q3 2021



DEMAND

Negative net absorption continues to affect the Houston office market, with 13 of the 18 submarkets posting year-to-date (YTD) negative absorption. Houston's office market recorded -1.1 msf of net absorption during the third quarter of 2021 and a total -2.8 msf YTD. Of the -2.8 msf, Class A office buildings accounted for 46% (-1.3 msf), Class B accounted for 35% (-983,000 sf), and Class C accounted for 19% (-532,000 sf). As a result, total vacancy rose 70 basis points (bps) from 25.4% vacant in Q2 2021 to 26.1% vacant in Q3 2021.

The third quarter continued a trend of limited leasing. The Houston office market recorded 1.9 msf of new leasing activity in Q3 2021, comparable to each of the preceding six quarters. The largest move-ins this quarter were JPMorgan Chase (244,000 sf) in the Central Business District, U.S. Immigration (70,000 sf) in North Belt, and NewRez (60,000 sf) in Katy Freeway. For the second consecutive quarter, Katy Freeway led all submarkets with 409,000 sf of leasing activity in Q3 2021, followed by West Loop/Galleria (326,000 sf) and Woodlands/Conroe (233,000 sf).

Houston's overall availability ended Q3 2021 at 30.2%, 30 bps higher than 29.9% in Q2 2021. Direct space available rose 40 bps quarter-over-quarter (QOQ) to 26.6% in Q3 2021. Sublease space available decreased 10 bps QOQ to 3.5% in Q3 2021. Houston's office market availability rate is at a record high and the office sector's near-term performance remains firmly tied to the resolution of the pandemic. While the continued spread of the Delta variant delayed many occupier's plans to return to the office during the current quarter, several major employers began increasing physical office occupancy at end of September.

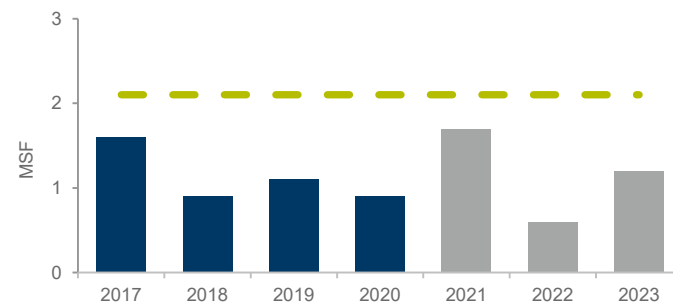
PRICING

Asking rental rates remained relatively unchanged during Q3 2021. Overall average asking rents closed the quarter at \$30.87 per square foot (psf), just \$0.02 lower than \$30.89 psf at the close of Q2 2021. Class A overall average asking rents closed Q3 2021 at \$37.03 psf, \$0.05 lower than \$37.08 psf at the close of Q2 2021. The Central Business District and Woodlands/Conroe submarkets commanded the highest Class A rental rates in the Houston office market, closing Q3 2021 at \$43.25 and \$42.76 psf, respectively. Until tenant demand and vacancy improve, asking rents are likely to remain flat during the foreseeable future.

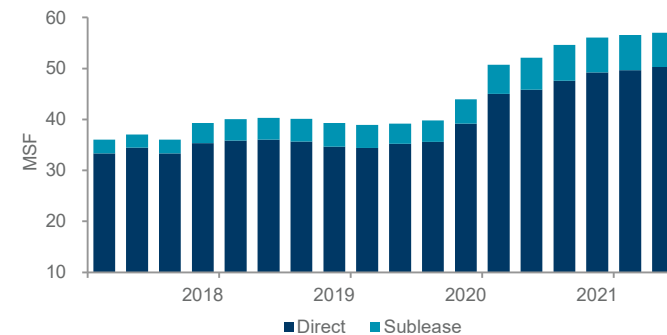
OUTLOOK

- Houston will remain a tenant-favorable office market with continued pressure on rent and concessions.
- Most occupiers will be able to return to the office by the first quarter of 2022 resulting in a substantial increase in leasing activity.
- New office construction starts will remain low through 2023.

NEW SUPPLY / 10-YR HISTORICAL AVERAGE



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



MARKETBEAT HOUSTON

Office Q3 2021



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE**	CURRENT QTR 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	37,617,525	1,273,897	10,198,958	30.5%	-166,512	-492,784	642,047	1,488,179	\$39.17	\$43.25
South Main	2,195,686	19,781	307,569	14.9%	-22,716	-4,254	52,871	0	\$24.63	N/A
Richmond/Buffalo Speedway	10,408,982	307,208	2,381,024	25.8%	-26,722	-457,219	238,852	0	\$35.13	\$38.48
Montrose	3,642,944	35,319	746,695	21.5%	156,779	88,467	134,331	0	\$38.55	\$40.29
West Loop/Galleria	25,593,358	888,095	7,191,852	31.6%	-332,663	-536,660	975,032	77,189	\$34.51	\$38.40
SW Houston/Fort Bend County	9,790,555	95,921	2,205,157	23.5%	-59,187	-205,892	240,247	0	\$23.49	\$33.15
Gulf Freeway/Pasadena	1,526,156	2,997	154,111	10.3%	-9,406	-6,239	22,863	0	\$22.15	N/A
NASA/Clear Lake	5,011,886	58,221	844,571	18.0%	9,914	70,050	129,164	0	\$20.06	\$24.66
Katy Freeway	29,217,776	2,101,775	8,179,851	35.2%	-264,732	-459,796	1,259,404	174,000	\$30.49	\$34.05
Westheimer/Gessner	15,736,232	637,687	4,633,355	33.5%	-228,406	-341,622	403,752	0	\$28.12	\$34.26
San Felipe/Voss	5,107,052	31,358	1,540,197	30.8%	-102,702	-180,272	234,549	0	\$31.55	\$38.68
Richmond/Fountainview	1,237,207	0	123,876	10.0%	2,822	-19,391	26,746	0	\$16.71	N/A
SW Freeway/Hillcroft	3,015,914	5,026	584,891	19.6%	21,981	-52,183	92,549	0	\$17.68	N/A
Northwest	8,525,973	124,964	1,863,654	23.3%	-135,095	-248,105	248,849	0	\$20.94	\$26.13
North Belt	11,223,880	77,234	5,523,143	49.9%	49,594	104,474	223,435	0	\$19.00	\$22.93
FM 1960	7,007,831	527,428	1,534,183	29.4%	-51,416	21,678	347,740	0	\$23.16	\$29.20
Woodlands/Conroe	11,004,972	519,181	2,088,140	23.7%	21,309	-118,461	419,976	440,000	\$40.01	\$42.76
East/Northeast	1,114,193	0	212,353	19.1%	3,258	10,417	31,779	0	\$19.43	N/A
SUBURBAN TOTALS	151,360,597	5,432,195	40,114,622	30.1%	-967,388	-2,335,008	5,082,139	691,189	\$28.61	\$34.62
HOUSTON TOTALS	188,978,122	6,706,092	50,313,580	30.2%	-1,133,900	-2,827,792	5,724,186	2,179,368	\$30.87	\$37.03

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

**Not reflective of U.S. Tables

KEY NEW LEASE TRANSACTIONS Q3 2021

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Lake Front North	2107 Research Forest	Woodlands/Conroe	Entergy	108,000
Village Tower II	9655 Katy Freeway	Katy Freeway	Encap Investments	36,000
Texas Tower	845 Texas Avenue	Central Business District	McGuireWoods	29,000

KEY SALES TRANSACTIONS Q3 2021

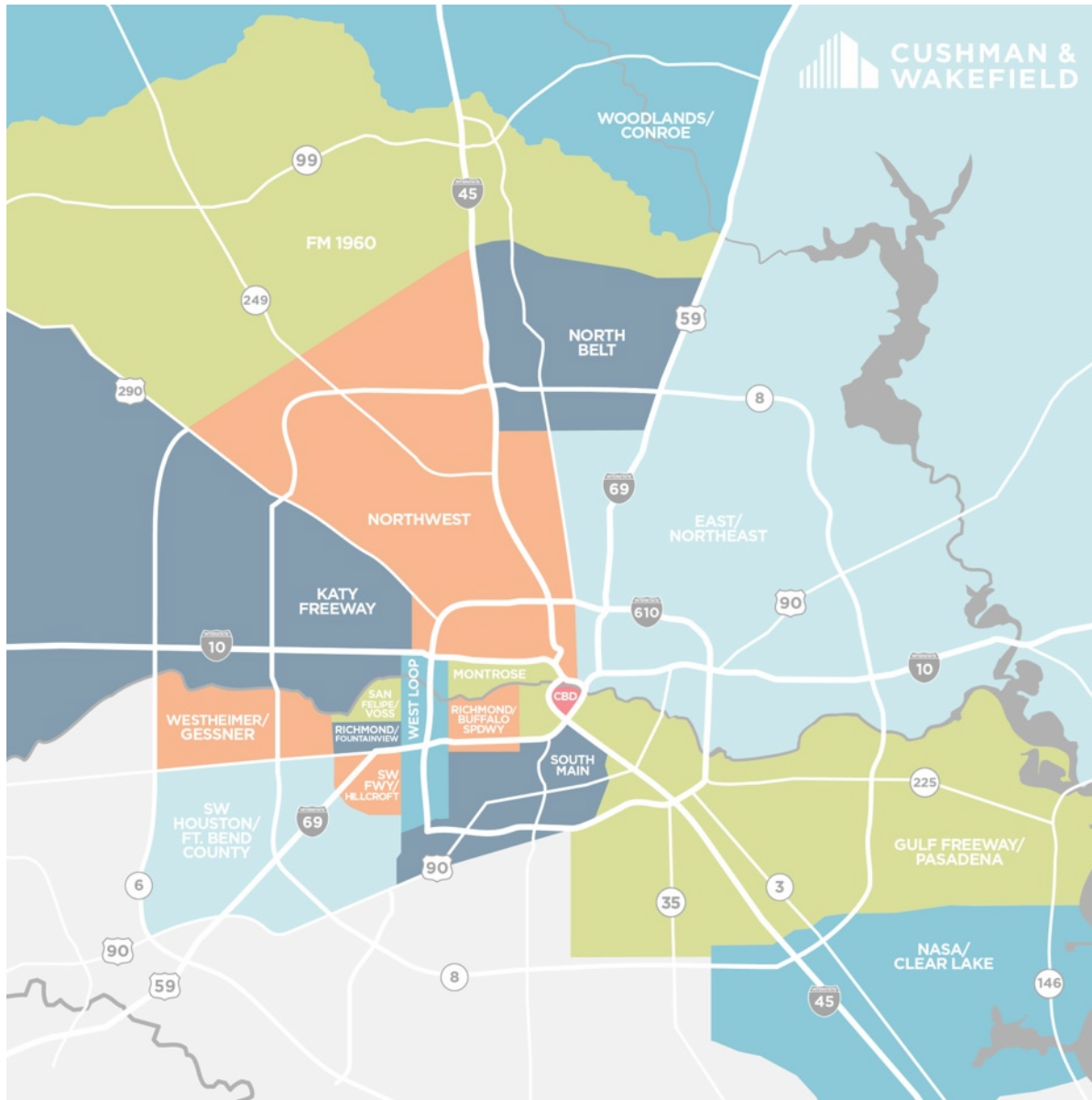
BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
Bank of America Tower	800 Capitol	Central Business District	Skanska/Beacon Capital Partners Beacon Capital Partners	780,000
Five Post Oak Park	4400 Post Oak Parkway	West Loop/Galleria	Shorenstein Properties CP Group JV Rialto Capital Management	567,000
Beltway 8 Corporate Centre	5300 West Sam Houston Parkway	Katy Freeway	Stonelake Capital Partners LNR Property Corporation	102,500

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HOUSTON SUBMARKETS



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