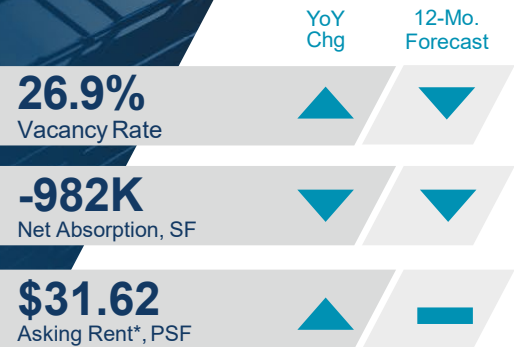


MARKETBEAT HOUSTON



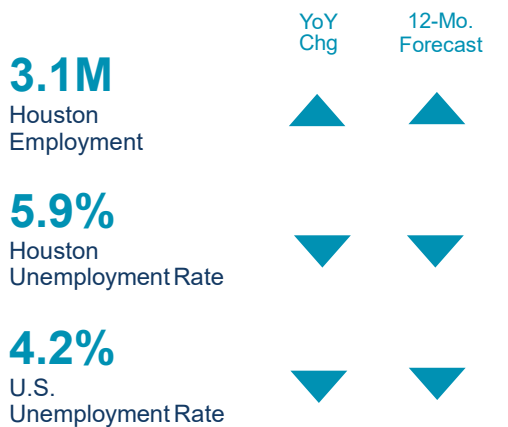
Office Q4 2021



(Overall, All Property Classes)

* Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q4 2021



Source: BLS, Moody's Analytics

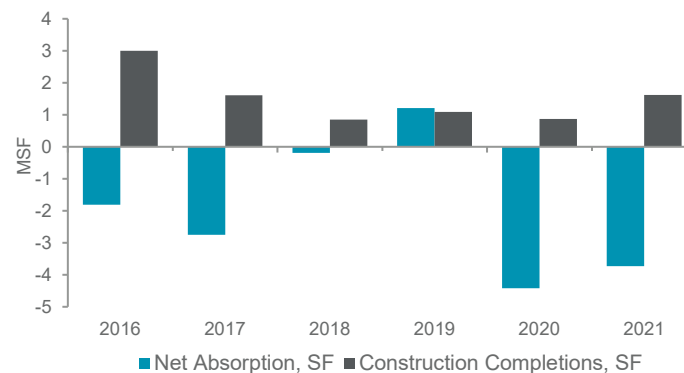
ECONOMY

Houston's metro area stood at 3.1 million total employment at the end of 2021, a 4.4% year-over-year increase from 3.0 million total employment in Q4 2020. The U.S. experienced 4.1% growth during the same time period. During 2021, Houston's metro area regained just over 211,000 jobs, almost 70% of the 308,000 jobs lost in the early stages of the pandemic. Houston's unemployment rate fell to 5.9%, 100 basis points (bps) lower than 6.9% the previous quarter, and 220 bps lower than 8.1% this time last year. The region's office-using employment totaled 703,010 jobs as of Q4 2021. According to Moody's Analytics, Houston gained almost 30,000 office-using jobs during 2021. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities. While the city's economic recovery continues to lag other major Texas cities, Houston's economy is trending in the right direction.

SUPPLY

The Houston market delivered a total 1.6 million square feet (msf) of office buildings during 2021. Newly delivered buildings were concentrated in the Central Business District (1.1 msf), Montrose (392,000 sf), and Katy Freeway (127,000 sf) submarkets. After record-breaking deliveries during 2014 to 2016, the Houston office market has experienced below-average deliveries during the past several years. Currently, the Houston market has eight office buildings totaling 1.3 msf under construction – four buildings totaling 691,000 square feet (sf) are scheduled to deliver during 2022 in the Woodlands/Conroe (440,000 sf), Katy Freeway (174,000 sf), and West Loop/Galleria (77,000 sf) submarkets. Under construction totals in Houston are far below other major Texas cities, with both Dallas/Fort Worth and Austin boasting much higher activity, 4.6 msf and 4.8 msf, respectively. Houston's development pipeline is forecast to remain low during the next several years, which should assist recovery in the market's record-high vacancy rate. Future developments are expected to be at the forefront of innovation, with the core focus of creating a more sustainable environment, along with transforming the tenant experience.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT HOUSTON

Office Q4 2021



DEMAND

Negative net absorption plagued the Houston office market during 2021, with 14 of the 18 submarkets posting negative absorption for the year. The Houston office market contracted by a total of -3.7 msf for the year. Net absorption for Q4 2021 totaled -982,000 sf. Marathon Oil vacated nearly 600,000 sf at 5555 San Felipe to occupy their new HQ location¹, which leaves the market with an effective total absorption of -382,000 sf for the current quarter. Total net absorption in Q4 2021 was low compared to the previous two quarters -1.1 msf in Q3 2021 and -1.3 msf in Q2 2021. Of the -3.7 msf total annual absorption, Class A office buildings accounted for 50% (-1.9 msf), Class B accounted for 32% (-1.2 msf), and Class C accounted for 18% (-667,000 sf). As a result, total vacancy rose 260 bps from 24.3% vacant in Q4 2020 to 26.9% vacant in Q4 2021.

The Houston office market recorded 8.2 msf of new leasing activity during 2021. Class A office buildings accounted for 48% (3.9 msf), Class B accounted for 39% (3.2 msf), and Class C accounted for 13% (1.1 msf). The largest move-ins this quarter were Bowen, Miclette & Britt (36,000 sf) in the Northwest submarket, Lummus Technology (35,000 sf) in the FM 1960 submarket, and AES Drilling Fluids (28,000 sf) in the Katy Freeway submarket. The Katy Freeway submarket led the year with 1.6 msf of leasing activity, followed by West Loop/Galleria (1.4 msf) and the Central Business District (882,000 sf).

Houston's overall availability ended 2021 at 30.7%, 50 bps higher than 30.2% in Q3 2021 and 200 bps higher than 28.7% year-end 2020. Direct space available rose 40 bps quarter-over-quarter (QOQ) to 27.0% in Q4 2021. Sublease space available rose 30 bps QOQ to 3.8% in Q4 2021.

¹ Owner-occupied buildings are not included in Cushman & Wakefield office statistics.

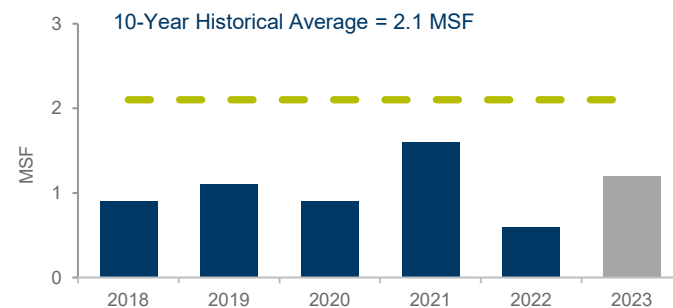
PRICING

In anticipation of improving market conditions during the end of the year, numerous buildings slightly raised asking rents in early Q4 2021. Overall average asking rents closed 2021 at \$31.62 per square foot (psf), 2.4% higher than \$30.87 psf at the close of Q3 2021. Class A overall average asking rents closed 2021 at \$37.98 psf, 2.6% higher than \$37.03 psf at the close of Q3 2021. The Central Business District, Woodlands/Conroe, and Montrose submarkets commanded the highest Class A rental rates in the Houston office market, closing 2021 at \$45.35, \$42.87, and \$40.72 psf, respectively.

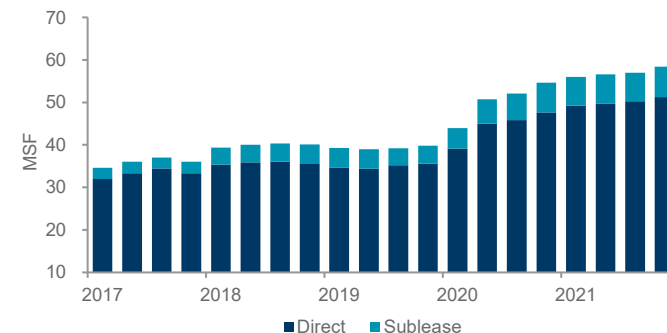
OUTLOOK

- Job growth is expected to return to pre-pandemic levels in 2022. An improving job market, low cost of living, and pent-up demand will assist Houston's economic recovery throughout the year.
- Vacancy will remain near peak for the first half of the 2022. Tenant interest is rising, and additional leasing totals should reduce vacancy rates beginning mid-year.
- New office construction starts will remain well below average through 2023.

NEW SUPPLY / 10-YR HISTORICAL AVERAGE



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



MARKETBEAT HOUSTON

Office Q4 2021



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE**	CURRENT QTR OVERALL NET ABSORPTION	2021 OVERALL ABSORPTION (SF)	2021 NEW LEASING ACTIVITY (SF)	UNDER CONSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CENTRAL BUSINESS DISTRICT	38,719,381	1,425,210	11,148,572	32.5%	-406,793	-903,852	881,700	386,323	\$40.98	\$45.35
South Main	2,195,686	19,781	370,953	17.8%	-4,108	-98,571	65,366	0	\$27.09	N/A
Richmond/Buffalo Speedway	10,408,982	305,961	2,438,059	26.4%	4,995	-449,538	305,702	0	\$34.68	\$37.88
Montrose	3,642,944	13,296	772,695	21.6%	28,984	98,727	164,512	0	\$38.52	\$40.72
West Loop/Galleria	25,983,184	875,332	7,337,384	31.6%	-580,923	-1,058,258	1,410,645	77,189	\$34.67	\$38.78
SW Houston/Fort Bend County	9,790,555	105,009	2,232,651	23.9%	-105,690	-304,097	379,032	0	\$24.69	\$33.34
Gulf Freeway/Pasadena	1,526,156	2,997	129,557	8.7%	2,068	-3,474	52,536	0	\$20.87	N/A
NASA/Clear Lake	4,853,126	78,972	867,841	19.5%	24,474	104,379	177,287	0	\$19.96	\$24.63
Katy Freeway	29,138,563	2,080,223	8,107,010	35.0%	206,952	-244,575	1,591,541	174,000	\$30.53	\$34.13
Westheimer/Gessner	15,736,232	659,618	4,541,136	33.0%	-28,748	-383,236	678,073	0	\$28.14	\$34.45
San Felipe/Voss	5,107,052	54,934	1,559,352	31.6%	-18,973	-208,170	313,575	0	\$31.66	\$38.54
Richmond/Fountainview	1,184,763	0	140,485	11.9%	1,771	-20,706	33,378	0	\$16.33	N/A
SW Freeway/Hillcroft	3,015,914	16,554	411,795	14.2%	14,736	13,441	204,329	0	\$18.76	N/A
Northwest	8,452,803	113,699	1,738,422	21.9%	-25,720	-244,812	453,497	0	\$20.83	\$25.71
North Belt	11,231,805	96,813	5,600,805	50.7%	-187,446	-46,230	379,747	0	\$18.84	\$22.94
FM 1960	7,007,831	518,917	1,512,611	29.0%	86,967	103,768	406,792	0	\$23.34	\$29.45
Woodlands/Conroe	10,874,972	771,779	2,127,534	26.7%	3,099	-75,149	580,138	440,000	\$40.24	\$42.87
East/Northeast	1,114,193	0	213,796	19.2%	2,436	-3,714	80,589	209,600	\$19.42	N/A
SUBURBAN TOTALS	151,264,761	5,713,885	40,102,086	30.3%	-575,126	-2,820,215	7,276,739	900,789	\$28.86	\$34.83
HOUSTON TOTALS	189,984,142	7,139,095	51,250,658	30.7%	-981,919	-3,724,067	8,158,439	1,287,112	\$31.62	\$37.98

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

**Not reflective of U.S. Tables

KEY NEW LEASE TRANSACTIONS Q4 2021

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
7310 North Eldridge Parkway	7310 North Eldridge Parkway	Katy Freeway	Sunnova Energy Corporation	64,000
Five Post Oak Park	4400 Post Oak Parkway	West Loop/Galleria	Weaver and Tidwell	60,000
5555 San Felipe	5555 San Felipe	West Loop/Galleria	WaterBridge Holdings	37,000

KEY SALES TRANSACTIONS Q4 2021

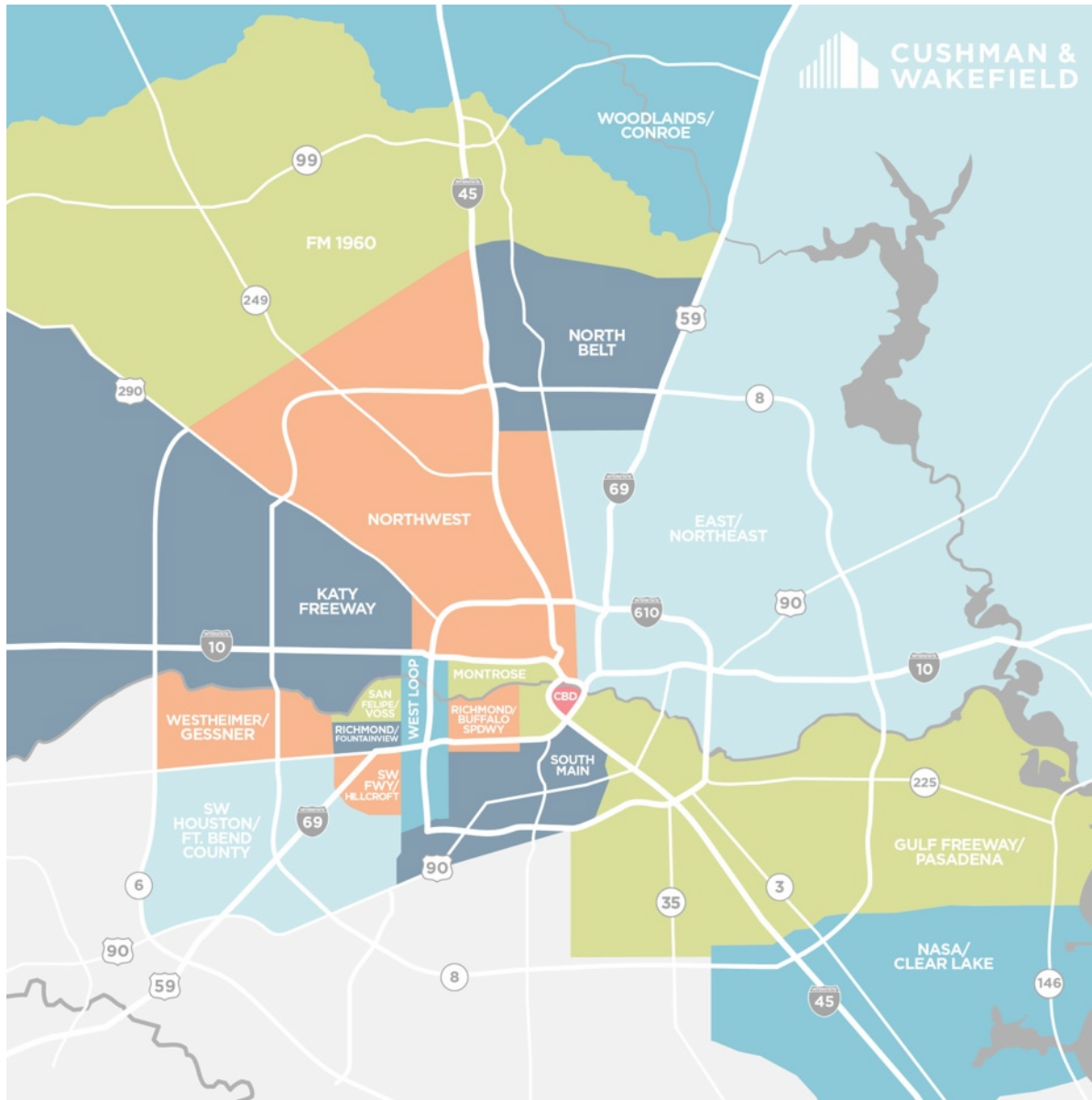
BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
5718 Westheimer Road	5718 Westheimer Road	West Loop/Galleria	UBS Realty Investors Group RMC	491,000
Five Post Oak Park	4400 Post Oak Parkway	West Loop/Galleria	Shorenstein Properties CP Group JV Rialto Capital Management	567,000
Beltway 8 Corporate Centre	5300 West Sam Houston Parkway	Katy Freeway	Stonelake Capital Partners LNR Property Corporation	102,500

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Office Q4 2021



HOUSTON SUBMARKETS



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