

# MARKETBEAT HOUSTON



Office Q1 2022

YoY Chg 12-Mo. Forecast

**26.5%**  
Vacancy Rate



**-212K**  
Net Absorption, SF



**\$31.18**  
Asking Rent\*, PSF



(Overall, All Property Classes)

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

## ECONOMIC INDICATORS Q1 2022

YoY Chg 12-Mo. Forecast

**3.2M**  
Houston  
Employment



**5.2%**  
Houston  
Unemployment Rate



**3.6%**  
U.S.  
Unemployment Rate



Source: BLS, Moody's Analytics

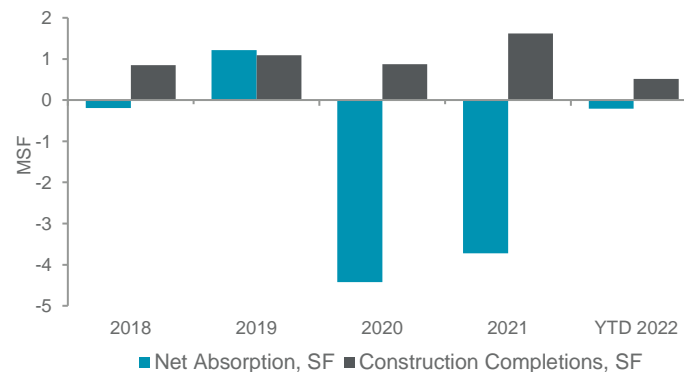
## ECONOMY

Houston's metro area stood at 3.2 million total employment in the first quarter of 2022, a 5.7% year-over-year (YOY) increase from 3.0 million total employment in Q1 2021. The U.S. experienced 4.6% growth during the same time period. The Houston metro area is close to regaining all jobs lost during the beginning of the pandemic. As of Q1 2022, the region has added back 94.9% (290,630 jobs) of the 306,130 jobs lost during Q2 2020. Total employment is expected to recover the remaining 5.1% (15,500 jobs) and expand further by the end of next quarter. Houston's unemployment rate fell to 5.2%, 70 basis points (bps) lower than 5.9% the previous quarter, and 250 bps lower than 7.7% this time last year. The region's office-using employment totaled 719,900 jobs as of Q1 2022, representing a 4.8% YOY increase. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities.

## SUPPLY

The Houston market delivered 517,000 square feet (sf) of office buildings in Q1 2022. Newly delivered buildings were concentrated in the West Loop/Galleria (77,000 sf), and The Woodlands/Spring (440,000 sf) submarkets. After breaking ground two years ago in The Woodlands/Spring submarket, Hewlett Packard Enterprise's (HPE) long-awaited build-to-suit campus delivered during the current quarter. The campus consists of two office buildings totaling 440,000 sf. After record-breaking deliveries during 2014 to 2016, the Houston office market has experienced below-average deliveries during the past several years and the construction pipeline is expected to remain low in the coming years. Currently, the Houston market has five office buildings totaling 782,000 sf under construction – of which 186,000 sf is expected to deliver mid-2023, and the remaining 596,000 sf is expected to deliver in 2024. Under construction totals in Houston remain far below other major Texas cities, with both Dallas/Fort Worth and Austin boasting much higher activity, 4.7 million square feet (msf) and 4.6 msf, respectively. Houston's low supply of upcoming office deliveries, coupled with increasing office demand, should give the city's record-high availability rate an opportunity to decrease.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



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## DEMAND

The Houston office market contracted by a total of -212,000 sf during Q1 2022. In an office market comprising of nearly 190.8 msf, the current quarter's absorption essentially reflects a net zero of move-ins versus move-outs. After the record amount of negative absorption experienced during the previous two years, this quarter marks the first period of a recovering office market. The current quarter's -212,000 sf of absorption is comprised of the following: Class A office buildings accounted for 383,000 sf, Class B accounted for -537,000 sf, and Class C accounted for -58,000 sf. As a result of improving demand, total vacancy decreased for the first quarter since Q1 2020, recording 26.5% vacant, 40 bps lower than 26.9% vacant Q4 2021.

The largest move-ins this quarter were HPE (440,000 sf) in The Woodlands/Spring submarket, Vinson & Elkins (208,000 sf) in the Central Business District, and Healthstore Holdings (126,000 sf) in the Westchase submarket.

The Houston office market recorded 2.5 msf of new leasing activity in Q1 2022. Class A office buildings accounted for 59.6% (1.5 msf), Class B accounted for 31.0% (766,000 sf), and Class C accounted for 9.4% (231,000 sf). The Katy Freeway West led all submarkets with 545,000 sf of leasing activity, followed by West Loop/Galleria (473,000 sf) and the Central Business District (420,000 sf). The largest new lease signed this quarter was Enbridge (293,000 sf) in the Katy Freeway West submarket.

Houston's overall availability ended Q1 2022 at 30.2%, 50 bps lower than 30.7% in Q4 2021. Direct space available decreased 20 bps quarter-over-quarter (QOQ) to 26.8% in Q1 2022. Sublease space available decreased 30 bps QOQ to 3.5% in Q1 2022.

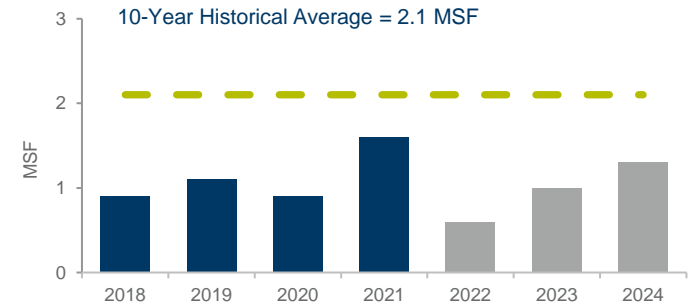
## PRICING

With vacancy rates still elevated in the Houston market, rentals rates decreased slightly during Q1 2022. Overall average asking rents closed the first quarter of 2022 at \$31.18 per square foot (psf), 1.4% lower than \$31.62 psf at the close of Q4 2021. Class A overall average asking rents decreased 2.2% QOQ to \$37.13 psf. The Central Business District, Katy Freeway East, and Inner Loop submarkets command the highest Class A rental rates in the Houston office market, closing 2022 at \$44.60, \$44.01, and \$40.74 psf, respectively.

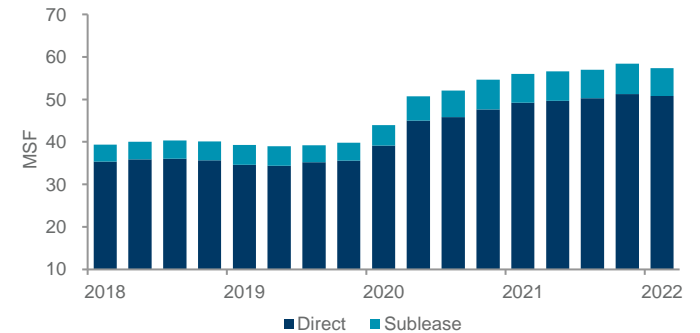
## OUTLOOK

- Job growth is expected to return to pre-pandemic levels in Q2 2022.
- New vacancies coming to the market, both direct and sublease, will slow throughout the year.
- New deliveries will remain low, giving the market the opportunity to absorb space in existing buildings.

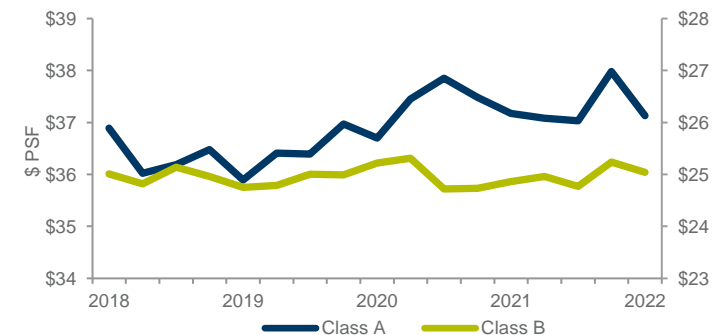
## NEW SUPPLY / 10-YR HISTORICAL AVERAGE



## DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



## ASKING RENT COMPARISON



# MARKETBEAT HOUSTON

## Office Q1 2022



### MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET AVAILABLE (SF)	DIRECT AVAILABLE (SF)	OVERALL AVAILABILITY RATE**	Q1 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)*
<b>Central Business District</b>	<b>38,719,381</b>	<b>1,310,811</b>	<b>11,203,887</b>	<b>32.3%</b>	<b>-204,142</b>	<b>-204,142</b>	<b>420,165</b>	<b>386,323</b>	<b>\$40.58</b>	<b>\$44.60</b>
Inner Loop	5,268,578	22,220	966,397	18.8%	5,892	5,892	31,428	0	\$36.49	\$40.74
West Loop/Galleria	28,522,346	858,798	8,195,847	31.7%	-73,184	-73,184	472,560	0	\$34.12	\$38.23
Greenway	9,613,460	321,449	2,299,392	27.3%	-165,494	-165,494	155,842	0	\$34.15	\$37.21
South Main/Medical Center	4,674,228	84,782	733,146	17.5%	7,202	7,202	14,484	0	\$26.87	N/A
Southwest	9,088,679	67,553	1,716,709	19.6%	-101,891	-101,891	35,570	0	\$18.55	\$30.50
Sugar Land	4,247,880	111,862	1,073,049	27.9%	-66,788	-66,788	22,434	0	\$33.44	\$34.03
Westchase	15,656,217	825,944	4,498,103	34.0%	-31,596	-31,596	147,681	0	\$27.35	\$33.77
Katy Freeway East	5,931,410	85,821	632,358	12.1%	132,621	132,621	98,264	186,000	\$38.12	\$44.01
Katy Freeway West	18,309,879	1,083,548	6,310,757	40.4%	-78,904	-78,904	545,134	0	\$30.19	\$32.95
Katy/Grand Parkway West	1,143,971	126,109	191,127	27.7%	-5,327	-5,327	21,178	0	\$27.04	\$24.04
North Loop/Northwest	7,003,815	67,147	1,379,956	20.7%	-43,108	-43,108	65,859	0	\$19.91	\$24.70
West Belt	5,313,068	283,794	1,535,067	34.2%	-2,549	-2,549	65,804	0	\$27.86	\$28.93
North Belt/Greenspoint	11,145,781	103,300	5,548,240	50.7%	31,561	31,561	59,575	0	\$18.49	\$22.94
Far Northwest	6,302,454	481,667	1,180,589	26.4%	-12,581	-12,581	96,959	0	\$20.98	\$27.68
The Woodlands/Spring	11,251,606	742,444	2,302,246	27.1%	434,756	434,756	175,692	0	\$36.06	\$38.74
Kingwood/Humble	625,283	0	128,618	20.6%	2,832	2,832	3,633	0	\$20.06	N/A
East/Southeast	2,788,663	16,104	373,022	14.0%	4,435	4,435	12,426	209,600	\$21.74	\$22.50
NASA/Clear Lake	4,177,031	23,270	507,041	12.7%	-45,908	-45,908	24,764	0	\$23.08	\$25.68
<b>SUBURBAN TOTALS</b>	<b>151,064,349</b>	<b>5,305,812</b>	<b>39,571,664</b>	<b>29.7%</b>	<b>-8,031</b>	<b>-8,031</b>	<b>2,049,287</b>	<b>395,600</b>	<b>\$28.23</b>	<b>\$33.66</b>
<b>HOUSTON TOTALS</b>	<b>189,783,730</b>	<b>6,616,623</b>	<b>50,775,551</b>	<b>30.2%</b>	<b>-212,173</b>	<b>-212,173</b>	<b>2,469,452</b>	<b>781,923</b>	<b>\$31.18</b>	<b>\$37.13</b>

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

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

### KEY NEW LEASE TRANSACTIONS Q1 2022

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Energy Center V	915 North Eldridge Parkway	Katy Freeway West	Enbridge	293,000
Wildwood Corporate Centre I	460 Wildwood Forest Drive	The Woodlands/Spring	Strike Construction	43,000
Sierra Pines I	1585 Sawdust Road	The Woodlands/Spring	Linde	41,000

### KEY SALES TRANSACTIONS Q1 2022

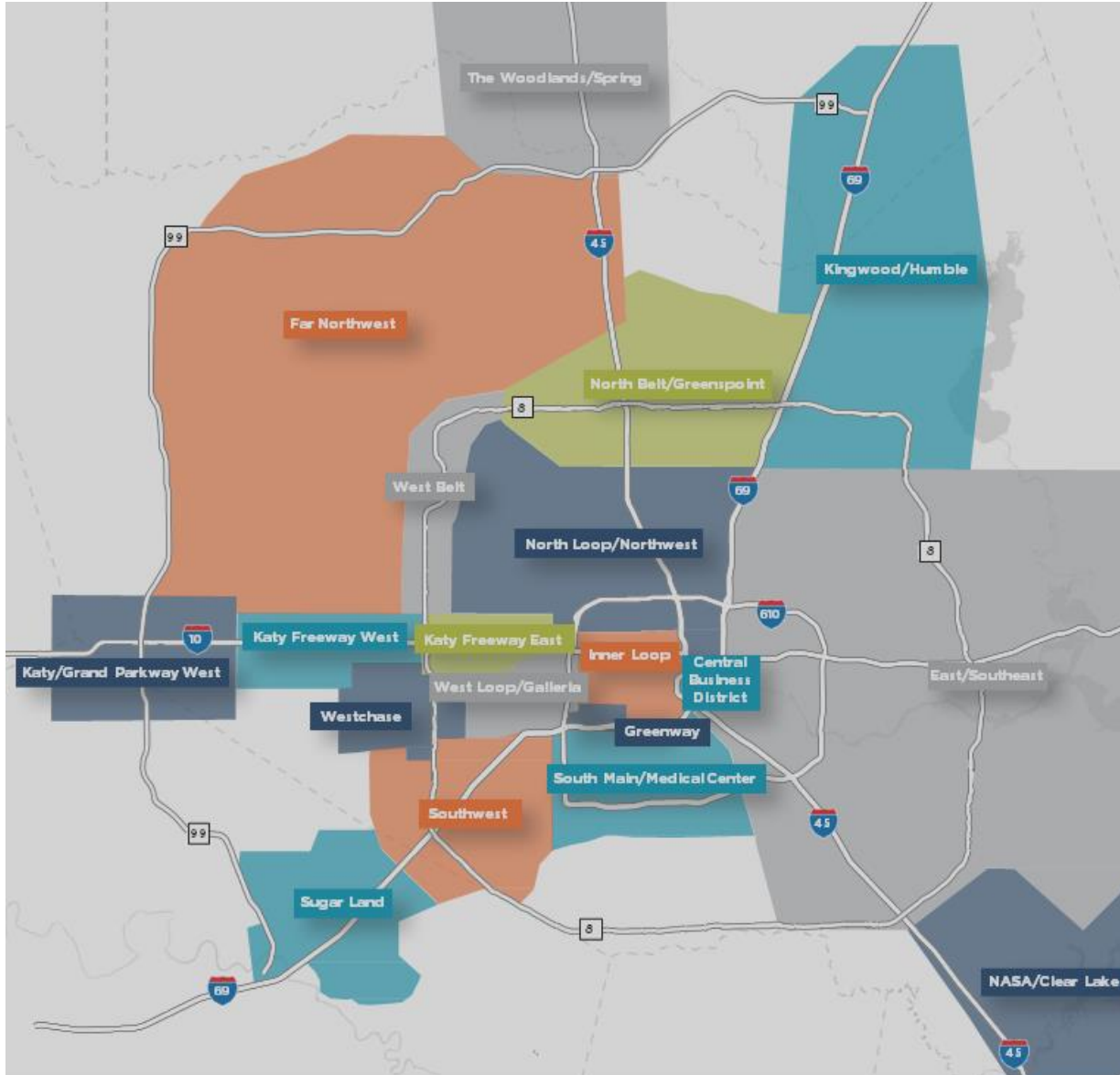
BUILDING	ADDRESS	SUBMARKET	SELLER   BUYER	SF
West Memorial Place I & II	15375 / 15377 Memorial Drive	Katy Freeway West	Skanska USA   Fuller Realty	331,000 / 385,000
Western Geophysical	10001 Richmond Avenue	Westchase	Lexington Realty Trust   Real Capital Solutions	554,000
Three WestLake Park	550 Westlake Park Boulevard	Katy Freeway West	LNR Partners / Starwood Capital Group   John Quinlan	408,000

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## HOUSTON SUBMARKETS



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