

MARKETBEAT HOUSTON



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Office Q2 2022

	YoY Chg	12-Mo. Forecast
26.0% Vacancy Rate	▲	▼
-361K Net Absorption, SF	▼	▼
\$30.81 Asking Rent*, PSF	▼	—

(Overall, All Property Classes)

* Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
3.2M Houston Employment	▲	▲
4.7% Houston Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics

ECONOMY

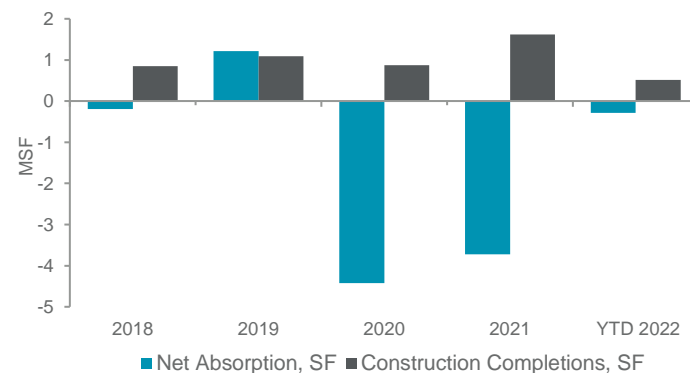
Houston's metro area (MSA) stood at 3.2 million total employment in the second quarter of 2022, a 5.7% year-over-year (YOY) increase from 3.0 million total employment in Q2 2021. Houston's job growth far surpassed the 4.3% YOY growth experienced nation-wide. As of Q2 2022, the Houston metro area has regained all jobs lost following the onset of the pandemic. The region lost 306,000 jobs in Q2 2020 and has since recovered a total of 327,000 jobs. Houston's unemployment rate fell to 4.7%, 70 basis points (bps) lower than 5.9% the previous quarter, and 210 bps lower than 6.8% this time last year. The region's office-using employment totaled 719,300 jobs as of Q2 2022, representing a 3.6% YOY increase. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities.

SUPPLY

Construction activity in Houston remains limited with no new construction completions reported during the second quarter of 2022. Currently, the Houston market has four office buildings totaling 702,000 square feet (sf) under construction – three buildings totaling 316,000 sf are expected to deliver in mid-2023, and the remaining one building totaling 386,000 sf is expected to deliver in Q1 2024. The largest new development underway is in the Central Business District, a 386,000-sf building currently 42% preleased to Norton Rose Fulbright.

After experiencing rising vacancy rates every quarter since the pandemic began, the Houston office market has recorded relatively flat overall vacancy during the previous several quarters. The office market ended Q2 2022 at 26.0% vacant, just 20 bps higher than 25.8% vacant during Q1 2022. Houston's overall availability, which includes vacant space, as well as upcoming space marketed as available, ended Q2 2022 at 29.6%, slightly higher from 29.4% in Q1 2022. Direct space available increased 30 bps quarter-over-quarter (QOQ) to 26.3% in Q2 2022. Sublease space available decreased 20 bps QOQ to 3.3% in Q2 2022.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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DEMAND

Houston's office market experienced slight negative absorption during Q2 2022. The current quarter's -361,000 sf of absorption is comprised of the following: Class A office buildings accounted for 75,000 sf, Class B accounted for -297,000 sf, and Class C accounted for -139,000 sf. While the market recorded negative net absorption, six submarkets experienced positive absorption during the quarter. The West Loop/Galleria experienced the highest positive absorption, recording 126,000 sf absorbed in Q2 2022. Weaver & Tidwell's 72,000-sf move-in was the largest contributor in that submarket and the second largest occupancy in the overall market. Other large move-ins this quarter included UT Physicians (139,000 sf) in the South Main/Medical Center submarket, and Entergy (55,000 sf) in The Woodlands/Spring submarket.

The Houston office market recorded 2.7 million square feet (msf) of new leasing activity in Q2 2022, a 6.9% increase compared to the previous quarter. Class A office buildings accounted for 62.9% (1.7 msf), Class B accounted for 27.5% (756,000 sf), and Class C accounted for 9.7% (266,000 sf). The Central Business District led all submarkets with 589,000 sf of leasing activity, followed by Westchase (418,000 sf) and the West Loop/Galleria (415,000 sf).

While demand has been spread across the overall market, two of the three largest leases signed during Q2 2022 were inked in suburban submarkets, both located in West Houston – Westchase and West Belt. The largest new lease signed this quarter was Bechtel Corporation (212,000 sf), relocating from its long-occupied location in West Loop/Galleria to Westchase. Q2 2022 demand was comprised of a high volume of mid-size and smaller deals, as 86.3% of the total number of new leases signed were less than 10,000 sf in size.

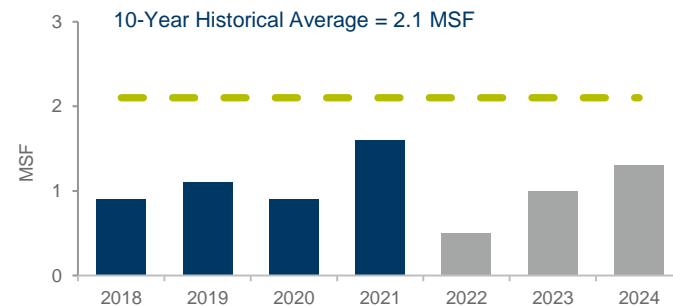
PRICING

Overall average asking rents closed the second quarter of 2022 at \$30.81 per square foot (psf), 1.2% lower than \$31.18 psf at the close of Q1 2022. Class A overall average asking rents decreased 1.1% QOQ from \$37.13 psf Q1 2022 to \$36.71 psf Q2 2022 and Class B overall average asking rents remained unchanged, closing Q2 2022 at \$25.03 psf. The Katy Freeway East, Central Business District, and Inner Loop submarkets continue to command the highest Class A rental rates in the Houston, closing the quarter at \$44.72, \$44.31, and \$41.34 psf, respectively. Each of the preceding three submarkets recorded a QOQ increase in Class A overall average asking rents.

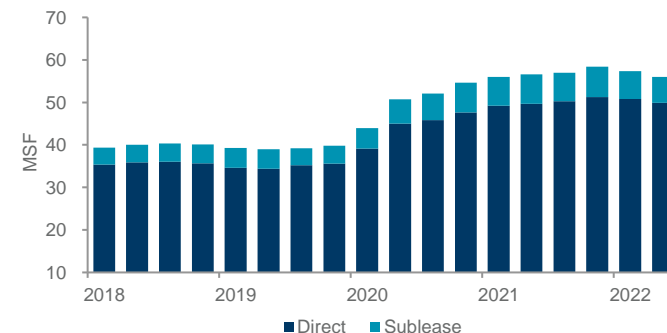
OUTLOOK

- Flight to quality to continue as large occupiers focus on highly-amenitized buildings.
- Continued occupancy gains are expected, but at a much slower pace compared to historical averages.
- Possible headwinds include economic uncertainty, inflation, and lackluster office investment activity.

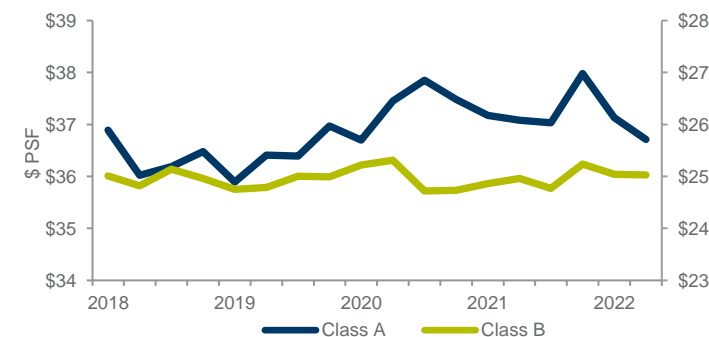
NEW SUPPLY / 10-YR HISTORICAL AVERAGE



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 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	1,328,718	10,941,026	31.7%	-158,672	-158,103	933,296	386,323	\$40.43	\$44.31
Inner Loop	5,294,590	29,116	952,243	18.5%	-35,818	-33,886	124,663	0	\$36.68	\$41.34
West Loop/Galleria	29,090,528	888,568	8,628,432	32.7%	126,434	53,720	928,852	0	\$33.93	\$37.96
Greenway	9,613,460	368,798	2,311,844	27.9%	-10,239	-169,548	242,143	0	\$34.07	\$37.53
South Main/Medical Center	4,674,228	45,010	792,933	17.9%	58,711	65,906	47,950	0	\$26.99	N/A
Southwest	8,872,956	67,553	1,613,882	19.0%	-72,176	-167,949	111,825	0	\$18.52	\$30.50
Sugar Land	4,097,880	110,187	904,070	24.8%	-374	-69,974	65,301	0	\$32.97	\$33.52
Westchase	15,656,217	604,491	4,431,838	32.2%	-233,887	-238,326	572,567	0	\$26.58	\$33.57
Katy Freeway East	5,931,410	77,794	547,089	10.5%	59,032	186,929	284,268	186,000	\$38.58	\$44.72
Katy Freeway West	17,907,028	1,213,757	5,609,424	38.1%	56,297	-17,181	896,614	0	\$28.55	\$31.12
Katy/Grand Parkway West	1,143,971	126,109	189,113	27.6%	-5,949	-11,276	26,505	0	\$26.93	\$23.55
North Loop/Northwest	7,003,815	107,553	1,384,224	21.3%	-68,451	-98,278	141,998	0	\$19.60	\$24.42
West Belt	5,146,701	306,123	1,465,955	34.4%	13,596	24,306	197,718	0	\$27.72	\$28.73
North Belt/Greenspoint	11,147,112	61,227	5,570,542	50.5%	-58,572	-25,452	151,932	0	\$18.41	\$22.94
Far Northwest	6,302,454	39,794	1,247,376	20.4%	13,315	16,659	171,435	0	\$22.30	\$28.59
The Woodlands/Spring	11,217,294	748,870	2,335,832	27.5%	-37,926	396,272	294,210	0	\$36.45	\$39.16
Kingwood/Humble	625,283	0	105,463	16.9%	-683	2,149	16,534	0	\$20.06	N/A
East/Southeast	2,788,663	16,104	357,182	13.4%	-2,384	3,551	44,556	129,600	\$22.14	\$23.54
NASA/Clear Lake	4,180,081	24,617	494,685	12.4%	-3,215	-47,833	75,013	0	\$22.98	\$25.74
SUBURBAN TOTALS	150,693,671	4,835,671	38,942,127	29.1%	-202,289	-130,211	4,394,084	315,600	\$27.86	\$33.17
HOUSTON TOTALS	189,413,052	6,164,389	49,883,153	29.6%	-360,961	-288,314	5,327,380	701,923	\$30.81	\$36.71

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

**Not reflective of U.S. Tables

KEY NEW LEASE TRANSACTIONS Q2 2022

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
CityWestPlace Bldg 3	2105 CityWest Boulevard	Westchase	Bechtel Corporation	212,000
Texas Tower	845 Texas Avenue	Central Business District	Cheniere Energy	152,000
Westway Plaza	11330 Clay Road	West Belt	Surge Energy	64,000

KEY SALES TRANSACTIONS Q2 2022

BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
Millennium Tower II	10350 Richmond Avenue	Westchase	Wood Branch Management The Redstone Group	417,000
515 Post Oak	515 Post Oak Boulevard	West Loop/Galleria	Spear Street Capital New York Life Insurance	260,000
Park Ten Plaza	15115 Park Row	Katy Freeway West	USAA Real Estate Fuller Realty	156,000

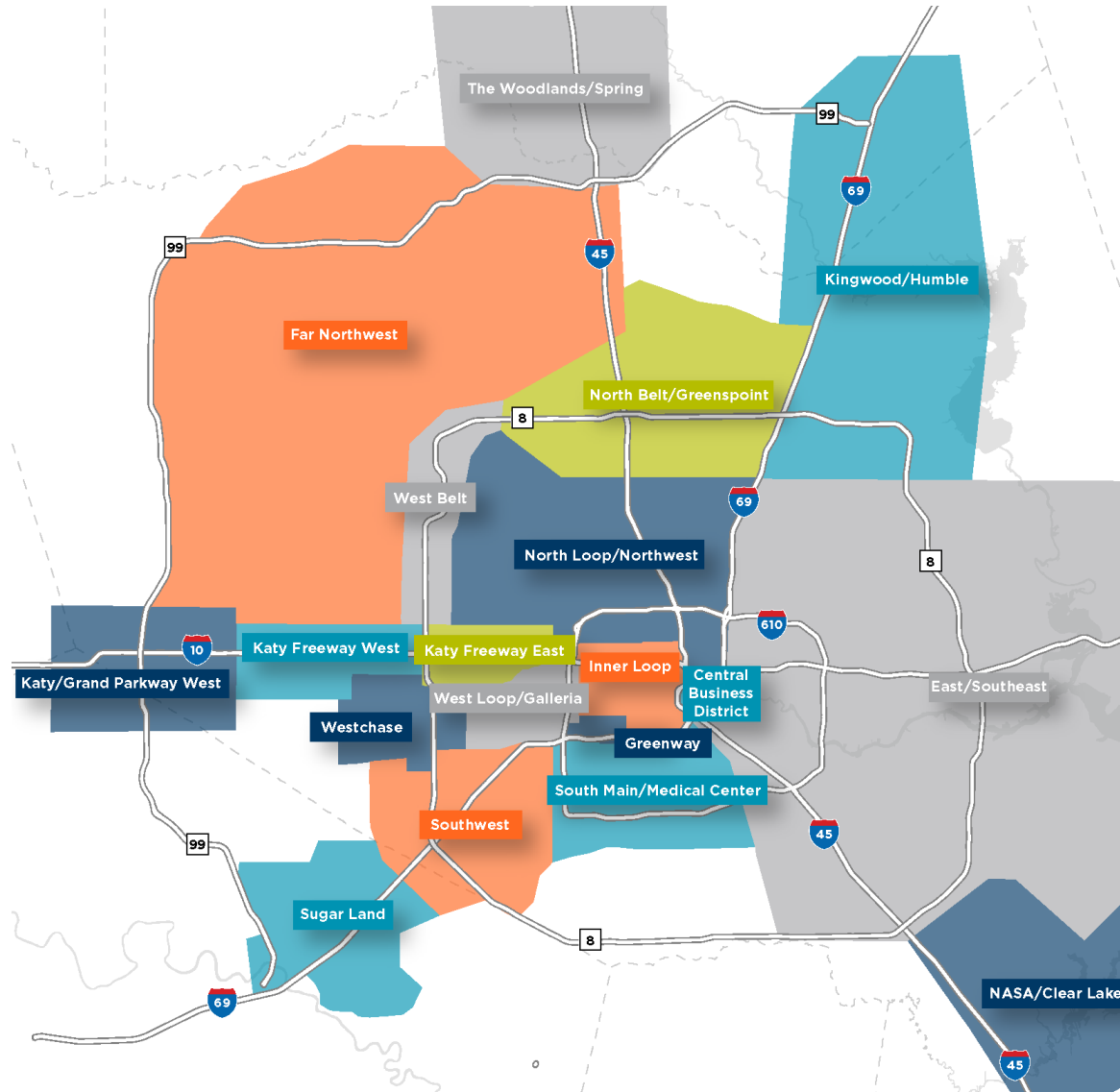
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HOUSTON SUBMARKETS



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