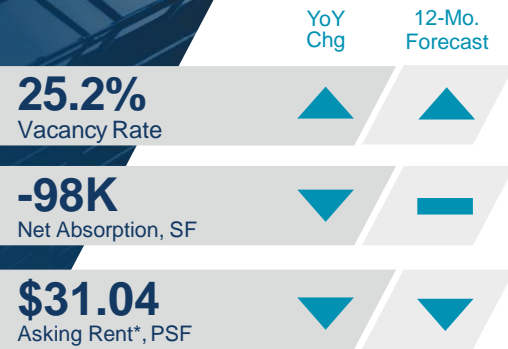


MARKETBEAT HOUSTON



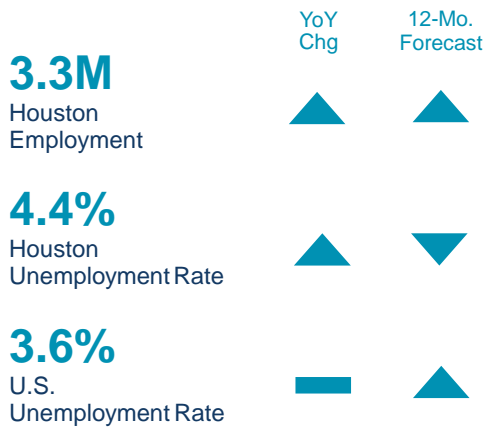
Office Q2 2023



(Overall, All Property Classes)

* Rental rates reflect gross asking \$psf/year

ECONOMIC INDICATORS Q2 2023



Source: BLS, Moody's Analytics

ECONOMY

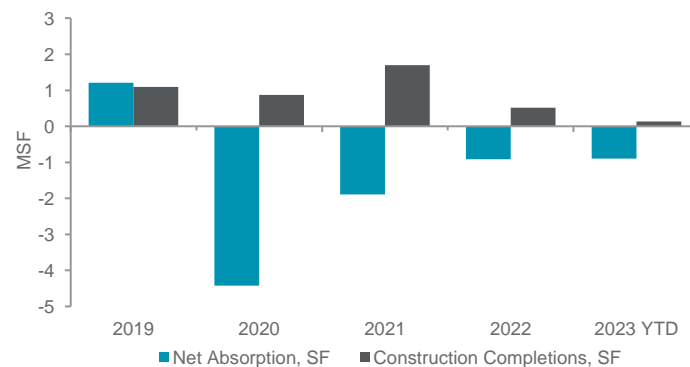
Total employment stood at 3.3 million in Houston's metro area (MSA) at the end of Q2 2023, representing a 3.6% year-over-year (YOY) increase. Houston's job growth continues to outperform the 2.3% average annual growth rate experienced in the 10 years preceding the latest downturn. At the current pace of growth, Houston's total employment should top 3.4 million by year-end. Houston's unemployment rate increased to 4.4%, 30 basis points (bps) higher than this time last year. The region's office-using employment totaled 775,013 jobs as of Q2 2023, representing a slight increase (+1,325 jobs) during the current quarter, but the sector's growth has steadily declined during the past four consecutive quarters. Office-using roles are described as positions that fall within business and professional services, information/technology, and financial activities.

SUPPLY

After four consecutive quarters with no new deliveries, two for-lease office buildings, totaling 129,600 square feet (sf) delivered Q2 2023. Situated in the East/Southeast submarket, East River Building C is comprised of 62,100 sf and Building F is comprised of 67,500 sf. Houston's limited construction pipeline continues with just three for-lease buildings, totaling nearly 750,000 sf currently under construction. The three office buildings are located in the Central Business District and Katy Freeway East submarkets and collectively are 55.3% pre-leased. Due to elevated vacancy, economic uncertainty, and constrained lending, the development pipeline in Houston is expected to remain low throughout the next several years.

Houston's overall vacancy ended Q2 2023 at 25.2%, relatively unchanged from the previous quarter, but 110 bps higher YOY. The overall availability, which includes vacant space and upcoming space marketed as available, ended Q2 2023 at 29.8%, slightly higher from 29.5% in Q1 2023. Direct space available increased 40 bps quarter-over-quarter (QOQ) to 26.6% in Q2 2023. Sublease space availability remained unchanged QOQ at 3.2% in Q2 2023.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT HOUSTON

Office Q2 2023



DEMAND

Net absorption for Q2 2023 totaled -97,862 sf, much improved over -795,960 sf in Q1 2023. In an office market with nearly 190 million square feet (msf), the current quarter's -97,862 sf net absorption is essentially a net zero for Houston. Class A office space performed well with 229,599 sf of net absorption, while Class B posted -169,376 sf, and Class C posted -158,085 sf.

The Houston office market recorded 3.2 msf of new leasing activity during Q2 2023, a 12.3% jump from 2.9 msf in Q1 2023, bringing the year-to-date (YTD) total new leases signed to 6.1 msf. Katy Freeway West continues to lead all submarkets for a second consecutive quarter, recording 1.0 msf of new leasing activity, 1.6 msf YTD. The submarket accounted for 30% of the total new leases signed during the quarter, while West Loop/Galleria accounted for 21% (673,414 sf), and the Central Business District accounted for 16% (509,138 sf).

Several notable leases were signed in Q2 2023, with the West Loop/Galleria securing the largest lease. LyondellBasell (319,000 sf) will relocate its headquarters from the Central Business District to Williams Tower in West Loop/Galleria. Another notable lease signed Q2 2023 was Fluor Corporation (308,000 sf), relocating from Sugar Land to Three Eldridge in Katy Freeway West. These major relocations are significant moves for both companies, considering their long-standing presence spanning several decades in their respective submarkets.

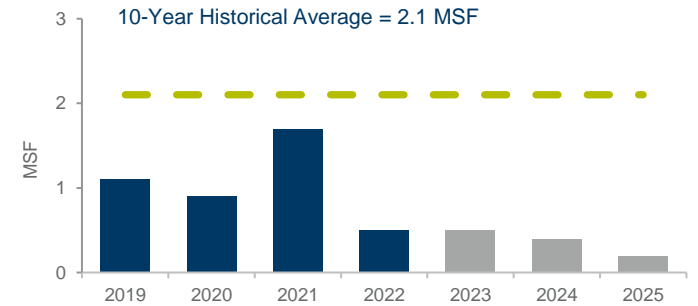
PRICING

Overall average asking rents remained relatively unchanged QOQ, ending Q2 2023 at \$31.04 per square foot (psf). Class A overall average asking rents also remained unchanged QOQ at \$37.07 psf, while class B overall average asking rents slightly increased QOQ, ending Q2 2023 at \$25.49 psf. Growth in overall asking rents across all classes have remained stagnant over the past year as landlords have been reluctant to decrease asking rents, opting instead to offer increased tenant concessions to offset soft market conditions. The gap between asking rents and effective rents will narrow, particularly in vintage assets (pre-2010) as landlords seek to compete in the market.

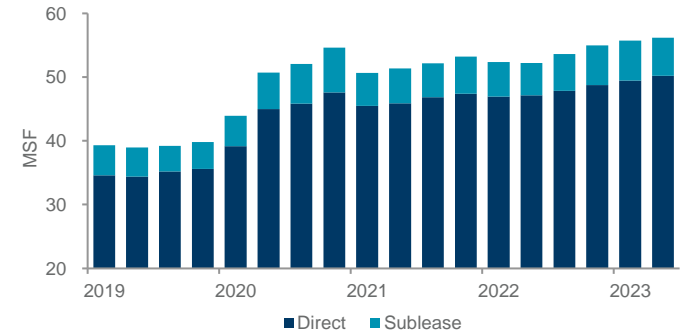
OUTLOOK

- The office market will struggle with net absorption and remain stagnant until demand significantly increases.
- Vacancy is expected to peak in mid-2024, then recover at a tempered rate.
- Overall asking rents will decline throughout next year before experiencing modest growth.

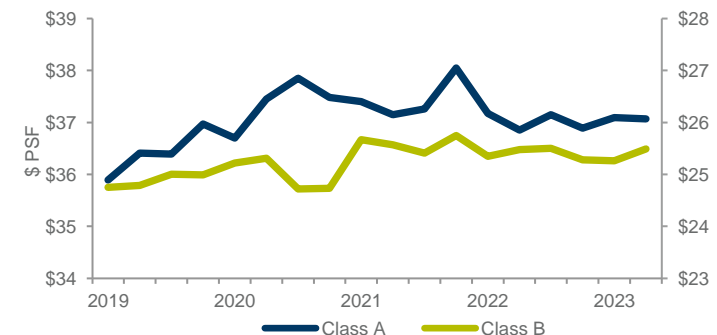
NEW SUPPLY / 10-YR HISTORICAL AVERAGE



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



ASKING RENT COMPARISON



MARKETBEAT HOUSTON



Office Q2 2023

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	38,671,282	1,311,697	11,465,376	33.0%	-4,238	-256,354	917,117	386,323	\$40.77	\$44.36
Inner Loop	5,294,590	71,037	923,462	18.8%	-14,765	-2,018	133,829	0	\$34.39	\$38.85
West Loop/Galleria	29,090,528	670,870	8,640,949	32.0%	-85,238	-327,222	925,172	0	\$33.66	\$37.74
Greenway	9,613,460	158,098	2,456,095	27.2%	-213,338	-130,582	280,419	0	\$34.35	\$38.28
South Main/Medical Center	4,674,228	65,626	794,412	18.4%	32,106	-25,240	112,982	0	\$26.38	N/A
Southwest	8,803,956	83,152	1,720,245	20.5%	-70,476	-120,280	97,633	0	\$19.34	\$24.00
Sugar Land	4,097,880	137,798	944,663	26.4%	2,395	-19,390	45,890	0	\$32.17	\$32.84
Westchase	15,334,720	520,108	4,720,441	34.2%	-115,420	-327,933	313,936	0	\$26.70	\$33.31
Katy Freeway East	5,931,410	58,988	429,966	8.2%	46,877	119,763	304,988	355,674	\$33.05	\$43.35
Katy Freeway West	17,762,394	1,085,342	5,133,973	35.0%	243,294	238,491	1,605,662	0	\$28.45	\$31.07
Katy/Grand Parkway West	1,294,814	164,579	250,074	32.0%	-909	14,184	22,213	0	\$28.02	\$26.53
North Loop/Northwest	6,880,712	128,394	1,387,518	22.0%	16,323	-5,378	180,531	0	\$19.86	\$24.53
West Belt	5,155,821	339,833	1,696,055	39.5%	-150,192	-267,830	71,423	0	\$27.85	\$29.60
North Belt/Greenspoint	11,012,082	96,374	5,190,074	48.0%	55,052	201,541	248,524	0	\$18.45	\$22.87
Far Northwest	6,302,454	504,844	1,390,669	30.1%	-55,391	-136,492	122,263	0	\$22.77	\$28.32
The Woodlands/Spring	11,057,294	493,660	1,833,358	21.0%	166,557	102,442	608,294	0	\$39.63	\$42.88
Kingwood/Humble	625,283	0	100,742	16.1%	-5,361	2,732	12,193	0	\$20.51	N/A
East/Southeast	2,918,263	15,838	455,368	16.1%	73,078	94,758	44,355	0	\$21.75	\$23.44
NASA/Clear Lake	4,358,207	93,420	676,131	17.7%	-18,216	-49,014	73,503	0	\$24.20	\$27.51
SUBURBAN TOTALS	150,208,096	4,687,961	38,744,195	28.9%	-93,624	-637,468	5,203,810	355,674	\$27.98	\$33.47
HOUSTON TOTALS	188,879,378	5,999,658	50,209,571	29.8%	-97,862	-893,822	6,120,927	741,997	\$31.04	\$37.07

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

KEY NEW LEASE TRANSACTIONS Q2 2023

BUILDING	ADDRESS	SUBMARKET	TENANT	SF
Williams Tower	2800 Post Oak Boulevard	West Loop/Galleria	LyondellBasell	319,000
Three Eldridge Place	737 North Eldridge Parkway	Katy Freeway West	Fluor Corporation	308,000
West Memorial Place II	15377 Memorial Drive	Katy Freeway West	Technip Energies	172,000

KEY SALES TRANSACTIONS Q2 2023

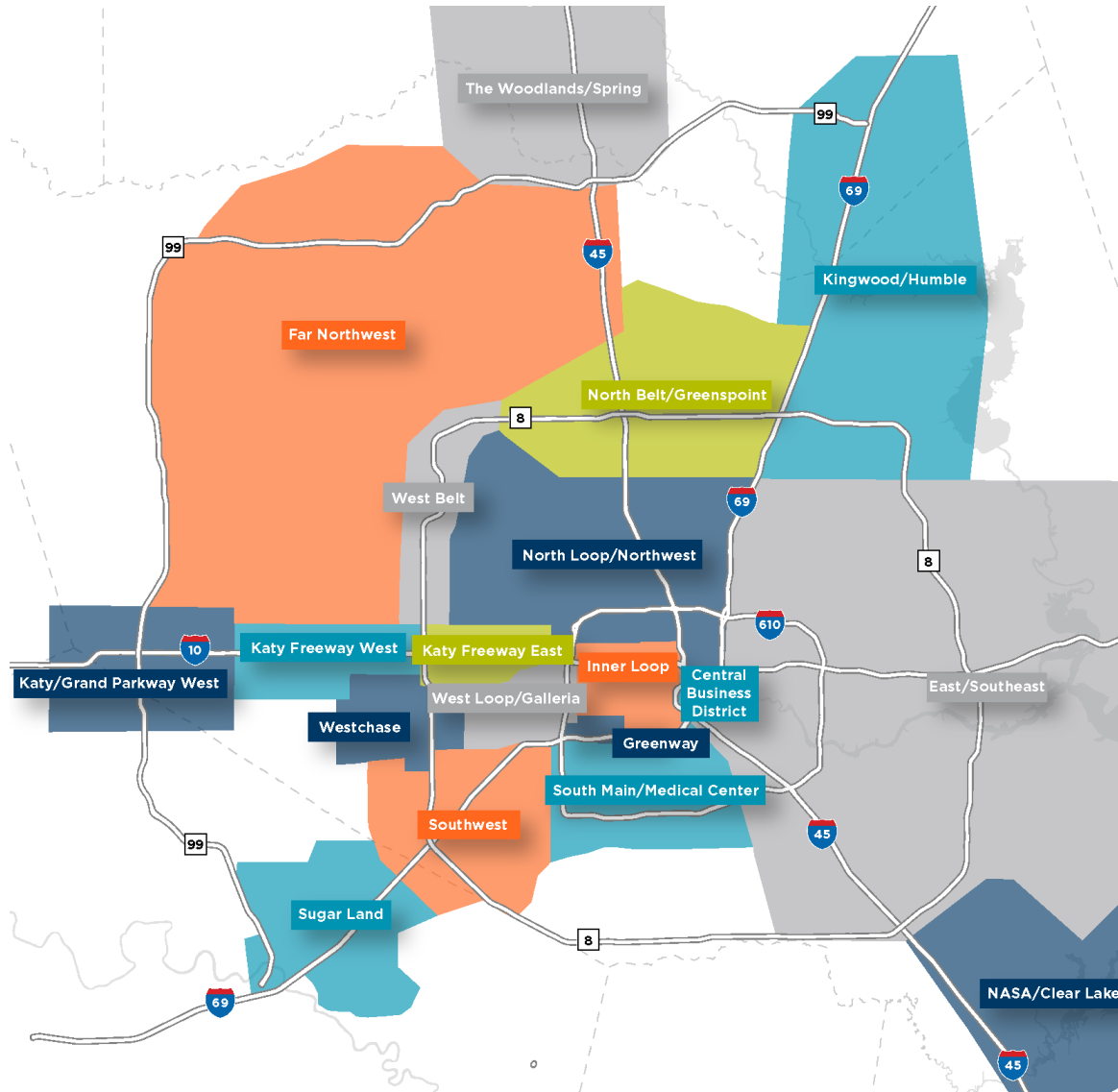
BUILDING	ADDRESS	SUBMARKET	SELLER BUYER	SF
13013 Northwest Freeway	13013 Northwest Freeway	North Loop/Northwest	MIDWAY Harris County Appraisal District	193,000
Northbelt Office Center V	500 North Sam Houston Parkway	North Belt/Greenspoint	Aetna Life Insurance Brennan Investment Group	135,000
Briar Forest Crossing	1300 West Sam Houston Parkway	Westchase	CapRidge Partners LM & Associates	94,000

MARKETBEAT HOUSTON

Office Q2 2023



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