

HOUSTON OFFICE | Q1 2022 QUARTERLY MARKET REPORT

Houston Office demand improves, though future remains uncertain.

APRIL 2022

EXECUTIVE SUMMARY

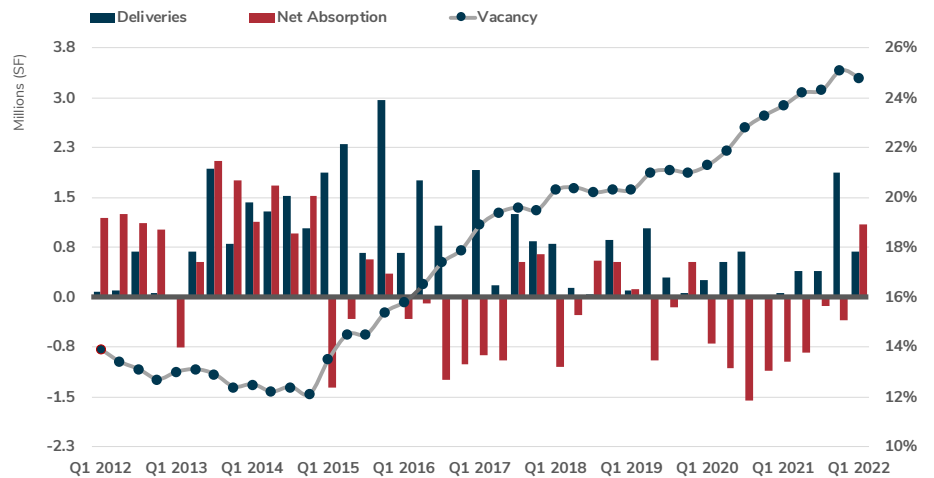
HOUSTON OFFICE MARKET SPACE AVAILABILITY REMAINS HIGH

Overall space availability, which includes current, sublease, and future vacancy, is at 29%. The CBD ended Q1 2022 with an availability rate of 35.3%, behind the Energy Corridor, which had a 36.2% availability rate, and the Westchase area, at 37.4%. While some companies are still contemplating sending employees back to the office, plus the demand to work from home and an oil and gas recovery that is slower than previously estimated, significant growth in the Houston office market may still be out of reach for the next couple of years. Current projects under construction are down to 1.7 million sq. ft. With a continued increase in demand, Houston's high availability rate may have an opportunity to decrease gradually.

OIL PRICES OVER \$100 A BARREL ARE NOT THE SAME THIS TIME AROUND

The last time oil prices hit \$100 a barrel nearly ten years ago, Houston's commercial real estate market thrived. Money from investors flowed, developers rushed to build new office space, and oil and gas companies signed long-term office leases with extra space for future growth. This time around, \$100-a-barrel oil is not fueling the same enthusiasm. Energy companies are under pressure to control costs with fewer employees using less space and offering remote and flexible working arrangements. As of April 4, 2022, the price of WTI crude oil was \$101.50 per barrel, and the number of weekly drilling rigs operating in U.S. oil fields rose to 673, an increase of 243 from the 430 rigs that were operating a year ago. Higher oil prices mean higher rig counts, which means higher production, but with Houston's office market still driven by the energy sector, filling up vacant office space will take some time.

SUPPLY & DEMAND



Source: CoStar, NAI Partners Research

KEY MARKET INDICATORS

	CURRENT Q1 2022	PRIOR QUARTER Q4 2021		PRIOR YEAR Q1 2021	
Vacant Total	24.8%	25.1%	↓	23.3%	↑
Vacant Direct	23.3%	23.6%	↓	22.2%	↑
Available Total	29.0%	28.9%	↑	27.8%	↑
Available Direct	26.1%	26.1%	▬	25.1%	↑
Net Absorption (SF)	1,094,779	-350,283	↑	-1,109,341	↑
Leasing Activity (SF)	2,996,720	3,264,200	↓	3,096,186	↓
Construction (SF)	1,714,729	2,356,517	↓	4,023,202	↓
Deliveries (SF)	680,695	1,868,044	↓	28,800	↑
Avg Asking Rent (Gross)	\$29.17	\$29.33	↓	\$29.89	↓
Inventory (SF)	245,236,378	244,555,683	↑	241,823,533	↑

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MARKET OVERVIEW

VACANCY RATE AT 24.8%

The overall vacancy rate in the Houston office market decreased 30 basis points quarter-over-quarter from 25.1% as of Q4 2021. Year over year, the vacancy rate rose 150 basis points from 23.3% as of Q1 2021. The vacancy rate for Class A properties is at 27.8%. In Q1 2022, overall net absorption totaled positive 1.1 million sq. ft.—a quarterly positive level not seen in eight years. Of the 1.7 million sq. ft. currently under construction, 18% of that space has been spoken for. The overall Houston average asking full-service rent is at \$29.17 per sq. ft.—down from one year ago at \$29.89 per sq. ft.—while Class A space in the Central Business District is averaging \$33.52 per sq. ft.

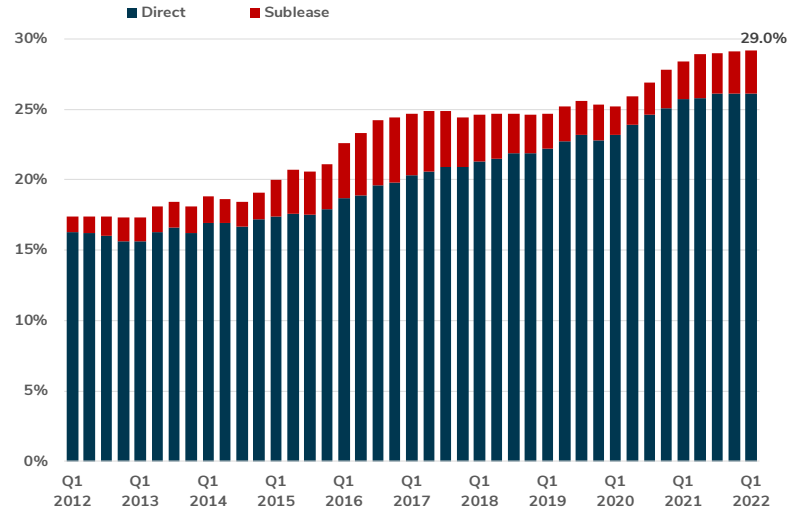
POSITIVE NET ABSORPTION IN Q1 2022

Net absorption in the Houston office market was positive so far in 2022, at 1.1 million sq. ft.—a quarterly positive return not seen in 30 consecutive quarters. The largest move-ins this quarter include Vinson & Elkins (211,995 sq. ft.) and McGuire Woods (29,492 sq. ft.) for a combined 241,487 sq. ft. in the new Texas Tower in the CBD; Hewlett Packard Enterprise in CityPlace 8 (220,000 sq. ft.) and CityPlace 10 (220,000 sq. ft.) for a combined 440,000 sq. ft. in The Woodlands; and Healthstore Holdings 126,492 sq. ft. in Millennium Tower in Westchase. This quarter's largest move-outs include Vinson & Elkins, leaving 338,026 sq. ft. at 1001 Fannin St. in the CBD, Buckeye Partners vacating 70,736 sq. ft. in One Greenway Plaza, and U.S. Immigration and Customs exiting 52,326 sq. ft. at International Square 1 in Greenspoint.

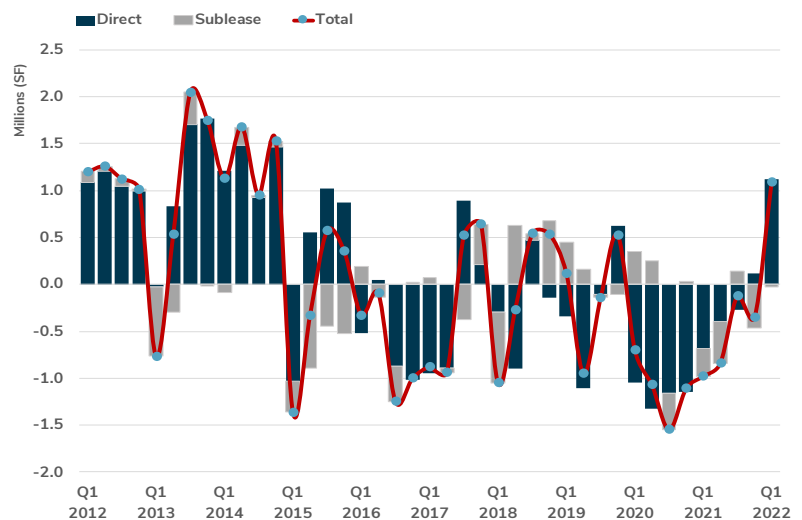
OFFICE DEVELOPMENT

Office construction is at 1.7 million sq. ft. across ten buildings, with 1.4 million sq. ft. (82%) available for lease. The Medical Center accounts for 825,500 sq. ft. or over 50% of the total space available. Currently underway in the Medical Center submarket, the 522,000-sq.-ft. Horizon Tower life sciences building is being built in Texas A&M Innovation Plaza and 265,000-sq.-ft. of phase one of Levit Green is underway. The Medical Center office market has the fifth-lowest submarket vacancy rate in the Houston metro at 15.6%. In addition, a new downtown office tower, 1550 on the Green, is underway. The office building will soon overlook the popular Discovery Green as the anchor of a new downtown district. The 28-story, 375,000-sq.-ft. Class-A office structure is to be located at 1550 Lamar St. According to a recent press release, global law firm Norton Rose Fulbright will relocate its Houston office in 2024 and acquire naming rights upon occupancy. The new 1550 on the Green tower is part of a new planned district that will be named Discovery West. The district will consist of 3.5 acres of mixed-use development featuring restaurants, retail, and green space.

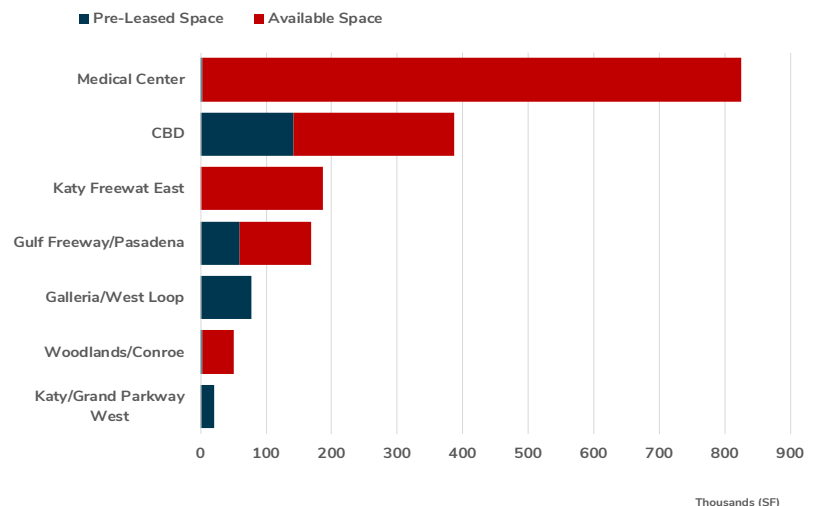
AVAILABILITY RATES



NET ABSORPTION



CONSTRUCTION



INVESTMENT SALES TRENDS

Real Capital Analytics data reports quarterly office sales volume for Q1 2022 in the Greater Houston area at \$607 million. The year-over-year change in volume is up 100% from \$307 million in Q1 2021, signaling renewed optimism. The primary capital composition for buyers so far in 2022 was made up of 84% private investors and 12% institutional. For sellers, the majority was 44% institutional investors, 30% cross-border (a transaction is defined as cross-border if the buyer or major capital partner is not headquartered in the same country where the property is located), and 23% REIT/listed. A significant sales transaction during the first quarter of 2022 involved LXP acquiring the 554,385-sq.-ft. 5-story building at 10001 Richmond Ave. in the Westchase submarket. The property consists of three buildings situated on 28.57 acres that served as a back office and data center for WesternGeco, an affiliate of Schlumberger, the sole tenant since 2012.

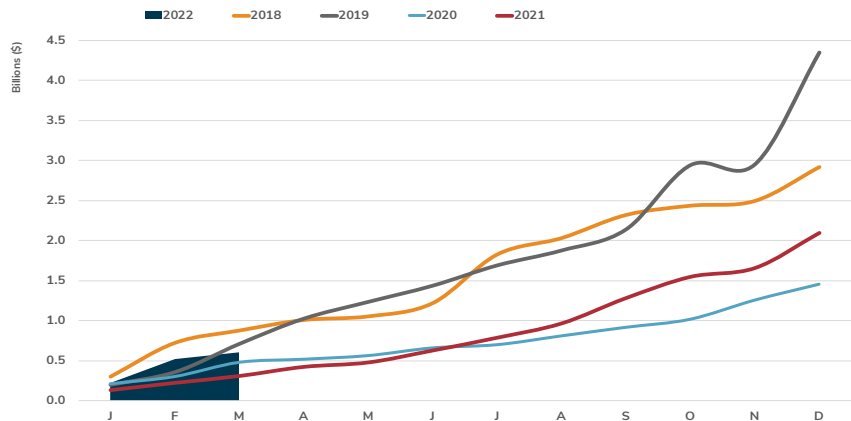
LEASING ACTIVITY

Quarterly leasing velocity comprised of both new leases and renewals stood at 3.0 million sq. ft. during the first quarter—down from 3.3 million sq. ft. in Q4 2021. Year-over-year, Q1 2021 leasing activity registered at 3.1 million sq. ft. Top transactions during the first quarter included Enbridge Inc. signing a sublease for 292,892 sq. ft. at Energy Center V in the Energy Corridor; Strike Construction signing a lease for 42,804 sq. ft. at Wildwood Corporate Centre - North Building in The Woodlands; and Linde PLC inking a deal for 40,813 sq. ft. at Sierra Pines in The Woodlands.

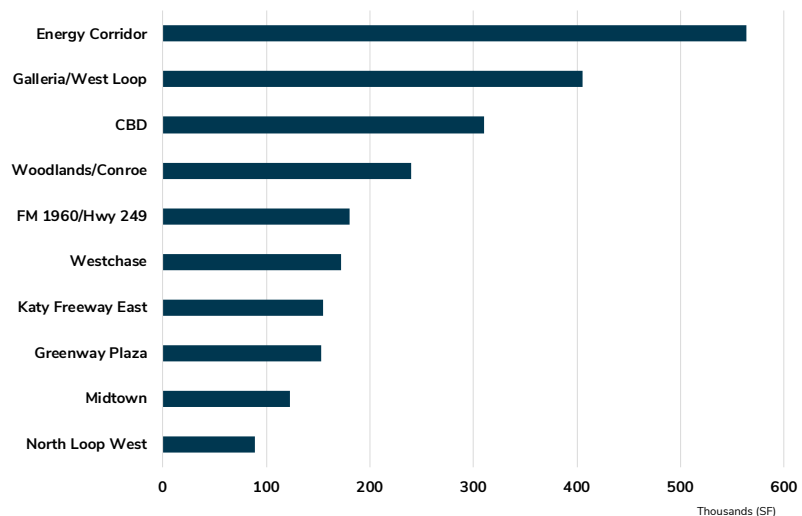
AVERAGE ASKING RENTS

The Houston overall full-service average rates are at \$29.17 per sq. ft., down slightly from last quarter at \$29.33, and down from one year ago at \$29.89 per sq. ft. Asking rates for overall Class A space are \$33.52 and Class B are \$22.68 per sq. ft. Rent growth has varied across Houston's submarkets. Asking rents in the Midtown submarket averaged \$35.41 per sq. ft., which is 21% higher than the metro average as a whole and ranked number two—only behind the CBD at \$37.58—among Houston submarkets as of first quarter-end 2022.

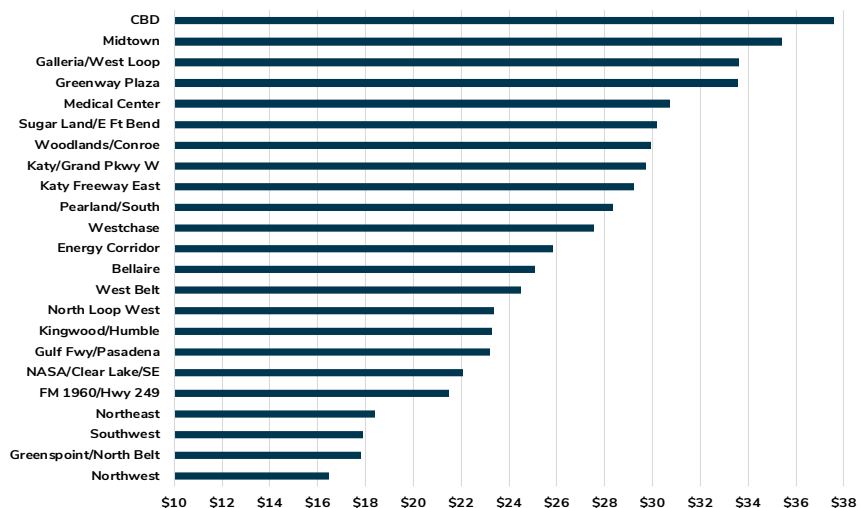
CUMULATIVE MONTHLY SALES VOLUME



QUARTERLY LEASING ACTIVITY TOP 10 SUBMARKETS



OVERALL GROSS ASKING RENT (\$PSF)



MARKET OVERVIEW

SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q1 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q1 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Houston Market Total	245,236,378	24.8	29.0	1,094,779	1,094,779	2,996,720	1,714,729	29.17
Class A	135,553,973	27.8	33.5	1,078,388	1,078,388	1,683,496	1,643,571	33.52
Class B	95,932,958	22.6	25.1	13,090	13,090	1,235,099	71,158	22.68
CBD Total	41,123,165	31.1	35.3	-126,623	-126,623	309,934	386,323	37.58
Class A	32,961,711	31.5	35.1	-128,351	-128,351	235,565	386,323	40.93
Class B	7,588,114	30.8	38.2	-3,772	-3,772	74,369	0	28.19
Bellaire Total	4,578,738	19.9	18.3	-2,870	-2,870	36,220	0	25.09
Class A	1,527,460	16.7	19.4	-5,692	-5,692	8,403	0	27.15
Class B	2,737,960	21.2	17.0	4,445	4,445	22,846	0	24.86
Energy Corridor Total	23,105,980	27.9	36.2	193,567	193,567	563,594	0	25.83
Class A	14,706,592	29.1	40.9	111,290	111,290	413,740	0	29.18
Class B	8,146,432	26.4	28.6	84,701	84,701	145,916	0	20.43
FM 1960/Hwy 249 Total	11,384,124	22.9	24.6	93,742	93,742	179,955	0	21.48
Class A	3,667,958	19.8	20.7	66,878	66,878	45,945	0	30.04
Class B	6,790,075	25.2	27.7	1,372	1,372	124,423	0	18.10
Galleria/West Loop Total	30,032,719	26.4	31.2	205,519	205,519	405,101	77,189	33.61
Class A	21,707,890	29.2	35.4	222,289	222,289	290,697	77,189	35.68
Class B	8,246,909	18.9	20.3	-13,094	-13,094	113,855	0	24.14
Greenspoint/North Belt Total	11,903,309	49.2	50.4	32,155	32,155	70,740	0	17.82
Class A	4,899,794	64.9	65.9	56,990	56,990	24,448	0	19.48
Class B	5,830,287	41.4	43.0	3,143	3,143	43,088	0	15.73
Greenway Plaza Total	10,877,584	24.4	25.9	-40,039	-40,039	153,417	0	33.58
Class A	6,981,032	26.8	27.6	48,133	48,133	101,441	0	35.99
Class B	3,481,536	21.0	24.0	-87,866	-87,866	48,392	0	29.18
Gulf Fwy/Pasadena Total	3,981,025	15.6	17.7	6,829	6,829	45,903	168,600	23.22
Class A	188,582	1.1	34.4	0	0	0	168,600	20.75
Class B	3,097,099	19.3	18.4	6,829	6,829	45,903	0	20.51
Katy Freeway East Total	10,072,752	11.7	15.0	135,240	135,240	154,514	186,000	29.24
Class A	6,486,454	9.8	14.7	123,447	123,447	127,010	186,000	40.10
Class B	2,375,645	17.7	19.0	10,686	10,686	16,895	0	21.33
Katy/Grand Pkwy W Total	3,563,267	18.0	21.7	-195	-195	47,654	20,758	29.74
Class A	2,306,309	24.7	29.2	4,466	4,466	44,060	0	29.79
Class B	1,107,696	6.5	9.4	-4,661	-4,661	3,594	20,758	29.34
Kingwood/Humble Total	1,400,463	11.6	14.1	9,040	9,040	13,573	0	23.29
Class A	258,342	19.7	10.5	572	572	2,499	0	29.15
Class B	1,059,254	10.4	15.9	8,799	8,799	10,641	0	22.26
Medical Center Total	9,765,469	12.1	19.2	86,899	86,899	49,621	825,459	30.72
Class A	4,344,133	14.0	27.7	63,756	63,756	19,201	825,459	36.05
Class B	4,069,397	11.7	12.9	23,143	23,143	30,420	0	27.82

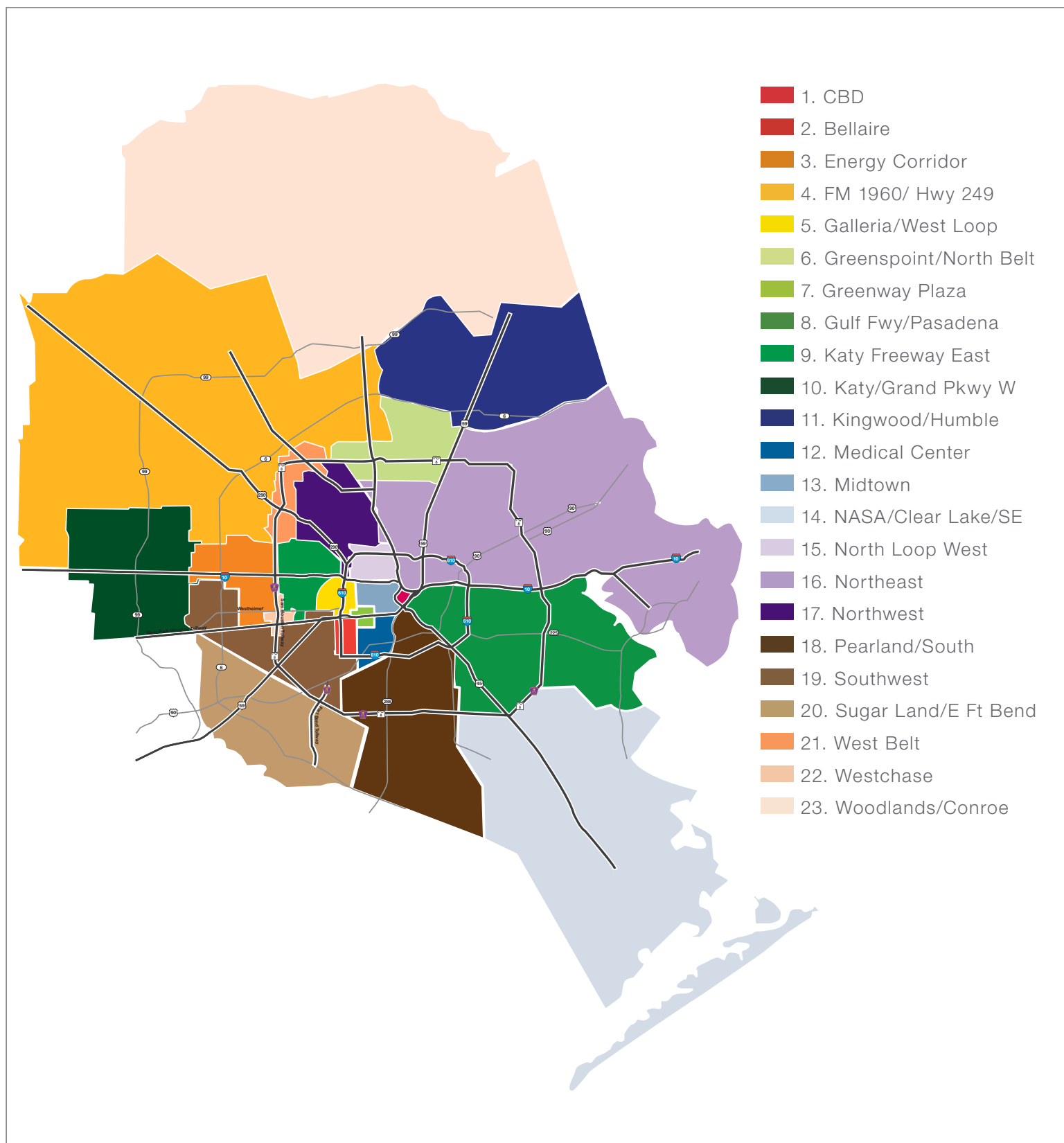
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Midtown Total	6,579,289	17.6	19.1	-25,705	-25,705	122,962	0	35.41
Class A	2,786,682	21.9	21.8	-5,323	-5,323	55,014	0	39.28
Class B	3,131,291	14.4	17.7	-17,801	-17,801	67,948	0	31.77
NASA/Clear Lake/SE Total	7,459,540	9.3	12.4	27,079	27,079	88,590	0	22.06
Class A	2,120,419	15.0	21.9	-5,068	-5,068	33,637	0	26.83
Class B	4,753,942	7.2	9.0	36,825	36,825	54,953	0	19.24
North Loop West Total	4,478,259	19.6	23.4	44,927	44,927	89,385	0	23.38
Class A	1,247,308	27.1	29.8	68,454	68,454	1,629	0	24.43
Class B	2,773,761	17.6	22.4	-22,853	-22,853	84,028	0	21.56
Northeast Total	2,512,343	18.1	18.7	-16,378	-16,378	51,450	0	18.38
Class A	184,834	10.4	10.4	3,366	3,366	1,200	0	25.87
Class B	1,571,948	20.9	20.4	-11,210	-11,210	31,326	0	19.22
Northwest Total	3,825,809	20.8	23.3	16,360	16,360	29,142	0	16.47
Class A	805,808	28.2	31.1	-838	-838	12,026	0	19.92
Class B	2,202,675	20.0	21.3	20,577	20,577	17,116	0	14.79
Pearland/South Total	1,831,511	8.8	9.1	-6,471	-6,471	15,548	0	28.33
Class A	720,270	2.6	3.8	919	919	1,715	0	29.91
Class B	860,634	15.3	14.8	-6,890	-6,890	9,778	0	25.16
Southwest Total	11,833,951	18.0	20.9	6,778	6,778	53,953	0	17.90
Class A	1,377,347	26.8	28.9	-70,711	-70,711	1,770	0	17.91
Class B	8,285,833	20.0	23.7	39,992	39,992	42,840	0	17.06
Sugar Land/E Ft Bend	6,682,746	20.6	34.3	-25,944	-25,944	42,950	0	30.17
Class A	3,691,855	21.1	42.6	-23,006	-23,006	5,235	0	33.03
Class B	2,908,521	20.1	24.2	-877	-877	37,715	0	26.06
West Belt Total	5,737,762	23.8	31.9	42,726	42,726	60,478	0	24.52
Class A	3,999,773	24.4	35.7	12,899	12,899	36,435	0	25.82
Class B	1,650,360	23.8	24.3	29,827	29,827	24,043	0	20.86
Westchase Total	15,286,802	33.8	37.4	-90,917	-90,917	171,763	0	27.57
Class A	8,551,930	32.3	37.6	38,549	38,549	56,726	0	32.34
Class B	6,655,134	36.1	37.6	-129,466	-129,466	115,037	0	22.19
Woodlands/Conroe Total	17,219,771	21.7	25.9	529,060	529,060	240,273	50,400	29.94
Class A	10,031,490	23.2	26.8	495,369	495,369	165,100	0	31.77
Class B	6,608,455	19.4	24.4	41,241	41,241	69,973	50,400	27.52
Suburban Total	204,113,213	23.6	27.8	1,221,402	1,221,402	2,686,786	1,328,406	26.90
Class A	102,592,262	26.6	32.9	1,206,739	1,206,739	1,447,931	1,257,248	30.94
Class B	88,344,844	21.9	24.0	16,862	16,862	1,160,730	71,158	21.70

MARKET OVERVIEW

HOUSTON OFFICE SUBMARKETS



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