

HOUSTON OFFICE | Q2 2022

QUARTERLY MARKET REPORT

Uncertainty continues to plague Houston's office market, but flight-to-quality and enhanced amenities dominate.

JULY 2022

EXECUTIVE SUMMARY

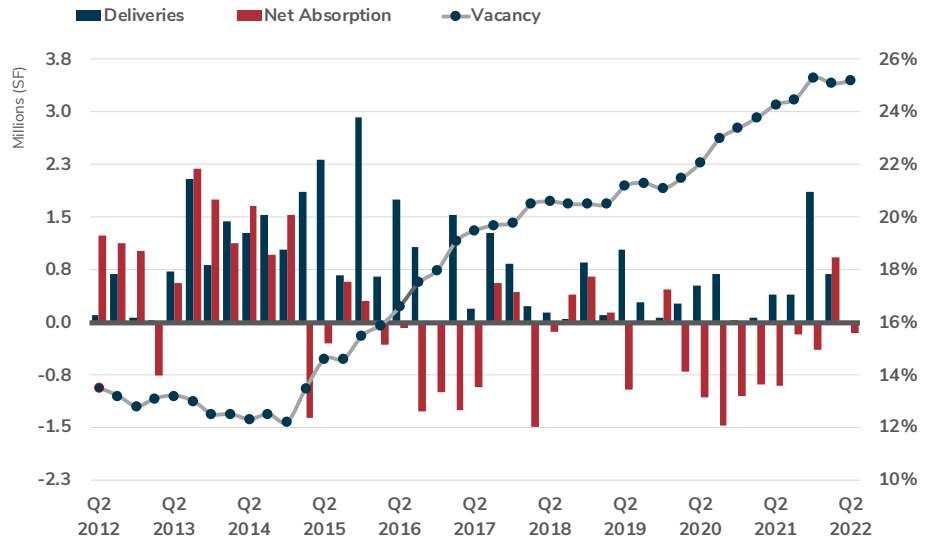
HOUSTON OFFICE MARKET SPACE AVAILABILITY INCREASE

Overall space availability, including current, sublease, and future vacancy, is at 29.6%, up from 29.4% in Q1 2022 and up from 29.0% last year. The CBD ended Q2 2022 with an availability rate of 35.7%, behind the Energy Corridor, which had a 35.8% availability rate, and the Westchase area, at 37.3%. Sublease availability remains elevated at 7.8 million sq. ft. — the highest amount since Q1 2018 at 7.9 million sq. ft. The peak was reached at 11 million sq. ft. in Q3 2016 during the oil bust. Available sublease space represents about 3.2% of the metropolitan area's total tracked inventory of 242 million sq. ft. There are 13 current projects under construction, adding up to 2.3 million sq. ft., with the post-pandemic office market centered around a flight-to-quality and increasing amenities to drive workers back to the office. Alas, significant growth in the Houston office market may still be out of reach for the next few years.

WTI DROPS BELOW \$100 PER BARREL

For the first time in nearly two months, crude oil prices have fallen below \$100 a barrel, reflecting investors' growing concerns about a U.S. recession that could curb oil demand. West Texas Intermediate crude price fell as much as 10% on July 5 to hit a low of \$97.43 before closing at \$99.50, down 8% on the day. It's the first time that WTI has been below \$100 since May 11. The dollar has risen and strengthened recently as the Federal Reserve has raised interest rates in response to 40-year-high inflation. Meanwhile, according to AAA data, gasoline prices have decreased for 21 consecutive days — their longest losing streak since April 2020, in the early part of the COVID-19 pandemic. If a recession does strike and significantly lowers energy demand, a prolonged recovery could be in store.

SUPPLY & DEMAND



Source: CoStar, NAI Partners Research

KEY MARKET INDICATORS

	CURRENT Q2 2022	PRIOR QUARTER Q1 2022		PRIOR YEAR Q2 2022	
Vacant Total	25.2%	25.1%	▲	24.3%	▲
Vacant Direct	23.6%	23.7%	▼	23.0%	▲
Available Total	29.6%	29.4%	▲	29.0%	▲
Available Direct	26.5%	26.4%	▲	26.1%	▲
Net Absorption (SF)	-150,148	933,544	▼	-902,513	▲
Leasing Activity (SF)	2,936,924	3,240,732	▼	3,485,475	▼
Construction (SF)	2,301,790	1,999,790	▲	3,998,899	▼
Deliveries (SF)	0	680,695	▼	399,106	▼
Avg Asking Rent (Gross)	\$29.79	\$29.53	▲	\$29.30	▲
Inventory (SF)	242,224,530	242,224,530	▲	239,280,791	▲

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VACANCY RATE AT 25.2%

The overall vacancy rate in the Houston office market increased 10 basis points quarter-over-quarter from 25.1% as of Q1 2022. Year over year, the vacancy rate rose 90 basis points from 24.3%. The vacancy rate for Class A properties is 27.9%. In Q2 2022, overall net absorption totaled a negative 150,148 sq. ft., bringing the year-to-date amount to a positive 783,396 sq. ft. Of the 2.3 million sq. ft. currently, under construction, 71% of that space is available. The overall Houston average asking full-service rent is at \$29.79 per sq. ft.—up from one year ago at \$29.30 per sq. ft.—while Class A space in the Central Business District is averaging \$44.04 per sq. ft.

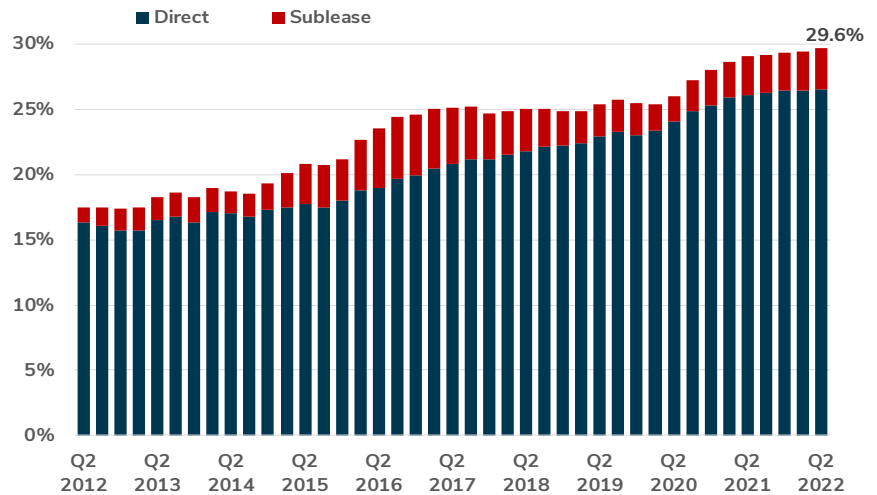
NEGATIVE NET ABSORPTION IN Q2 2022

Net absorption in the Houston office market was negative 150,148 sq. ft. in Q2 2022, although year-to-date remains positive at 783,396 sq. ft. This quarter's largest move-ins include UT Physicians 139,243 total sq. ft. of medical office space at Bellaire Station and 71,388 sq. ft. in the new Texas Tower, including DLA Piper LLP (31,843 sq. ft.) and McDermott, Will, & Emery (15,877 sq. ft.). This quarter's largest move-outs include Entergy Services leaving 101,056 sq. ft. at 10055 Grogans Mill Road in The Woodlands, Oceaneering vacating 80,864 sq. ft. at 11911 FM-529 in the FM 1960/Highway 249 submarket, and 76,828 sq. ft. vacated in Wells Fargo Plaza in the CBD including Greenberg Traurig (50,258 sq. ft.) and DLA Piper LLP (25,172 sq. ft.).

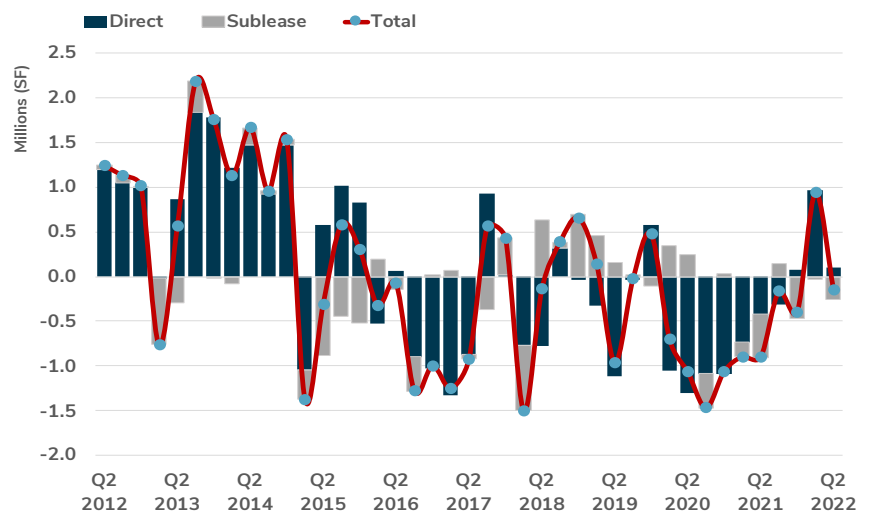
OFFICE DEVELOPMENT

Office construction is at 2.3 million sq. ft across 13 buildings, with 1.6 million sq. ft. (71%) available for lease. The Medical Center accounts for 1.3 million sq. ft. under construction and 55% of the total space available. Tracked projects currently underway in the Medical Center submarket include the 522,000-sq.-ft. Horizon Tower life sciences building under construction in Texas A&M Innovation Plaza and 265,000-sq.-ft. at Levit Green is underway. The Medical Center office market has the third-lowest submarket vacancy rate in the Houston metro at 12.7%. Katy Freeway East has the second-lowest vacancy rate at 10.5%, and about 190,000 sq. ft. is under construction at MetroNational's nine-story office building at 9753 Katy Freeway in Memorial City. Construction resumed in April after a more than two-year pandemic-related pause at the property. Completion is scheduled for Q2 2023.

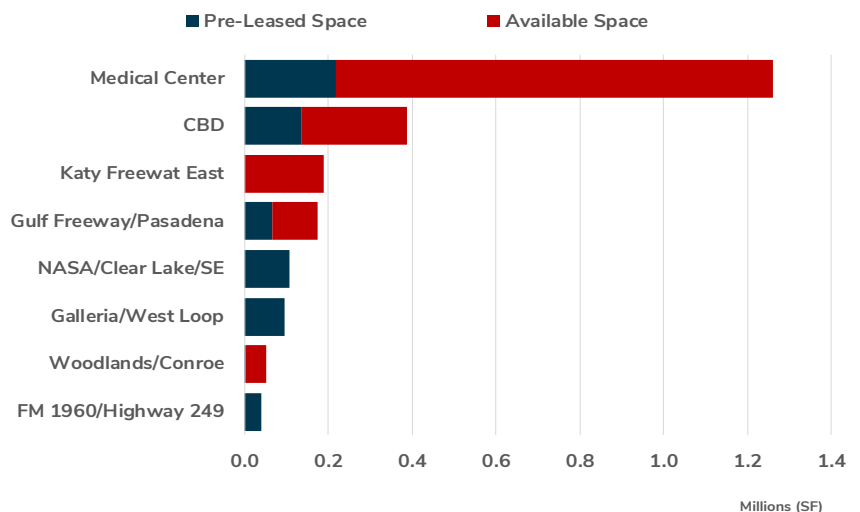
AVAILABILITY RATES



NET ABSORPTION



CONSTRUCTION



INVESTMENT SALES TRENDS

Real Capital Analytics data reports quarterly office sales volume for Q2 2022 in the Greater Houston area at \$325.9 million. The year-over-year change in volume is up 2.3% from \$318.5 million in Q2 2021. The primary capital composition for buyers so far in 2022 was made up of 71% private investors and 12% institutional. For sellers, the majority were 39% institutional investors, 36% private, and 22% 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). A significant sales transaction during the second quarter of 2022 involved One Park 10 Plaza, a 162,919-sq. ft., eight-story office tower in the Energy Corridor acquired by Interra Capital Group. The property is part of the Park Ten Office Park, a 550-acre mixed-use, master-planned development. One Park 10 Plaza includes a four-story parking garage on 3.27 acres. The property was sold by Accesso Partners LLC for an undisclosed price.

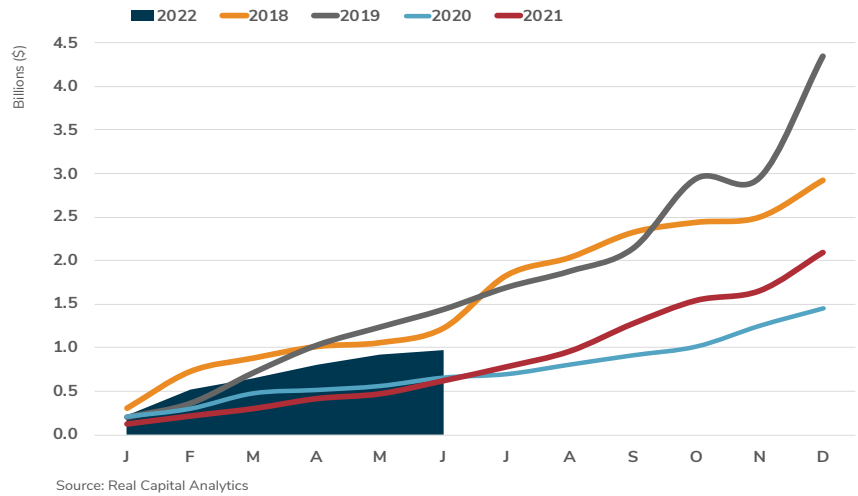
FIVE COMPANIES LEASE OFFICE SPACE AT HOUSTON'S MEMORIAL CITY

Quarterly leasing velocity comprised of both new leases and renewals stood at 2.9 million sq. ft. during the second quarter—down from 3.2 million sq. ft. in Q1 2022. Year-over-year, Q2 2021 leasing activity registered at 3.5 million sq. ft. Top transactions during the second quarter included GEXA Energy signing a lease for 62,261 sq. ft. at 601 Travis in the CBD; Genesis Energy signing a lease for 49,145 sq. ft. at 811 Louisiana in the CBD; and Trafigura inking a deal for 31,079 sq. ft. at Texas Tower in the CBD. In addition, more than 90,000 square feet at two office buildings were leased by five companies in separate transactions at Memorial City in the Katy Freeway East submarket. Asset Living (24,040 sq. ft.), B.W. Energy USA Management Inc. (23,652 sq. ft.), Rystad Energy (23,652 sq. ft.), Longbridge Financial LLC (16,415 sq. ft.), and Marubeni America Corp. (4,665 sq. ft.).

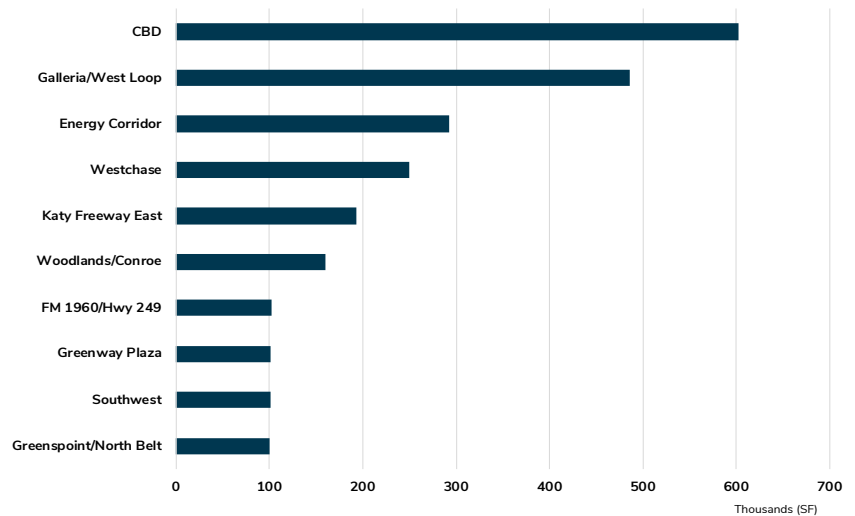
AVERAGE ASKING RENTS

The Houston overall full-service average rates are at \$29.79 per sq. ft., up from last quarter at \$29.53 and up from one year ago at \$29.30 per sq. ft. Asking rates for overall Class A space is \$34.33, and Class B is \$22.73 per sq. ft. Rent growth has varied across Houston's submarkets. Asking rents in the Midtown submarket averaged \$35.33 per sq. ft., which is 19% higher than the metro average as a whole and ranked number two—only behind the CBD at \$40.19—among Houston submarkets as of second quarter-end 2022.

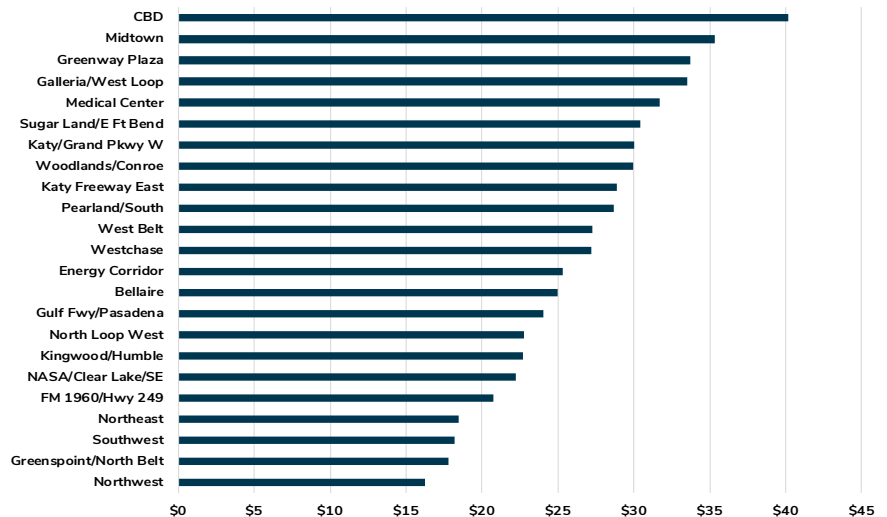
CUMULATIVE MONTHLY SALES VOLUME



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 (%)	Q2 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q2 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Houston Market Total	242,224,530	25.2	29.6	-150,148	783,396	2,936,924	2,301,790	29.79
Class A	134,413,439	27.9	33.7	246,881	1,211,435	1,808,875	2,195,790	34.33
Class B	94,369,640	23.2	25.9	-427,631	-439,041	1,056,152	106,000	22.73
CBD Total	40,142,235	31.9	35.7	-100,377	-290,433	602,166	386,323	40.19
Class A	31,980,781	32.2	35.6	-14,963	-206,747	501,086	386,323	44.04
Class B	7,588,114	31.9	38.5	-85,414	-89,186	101,080	0	28.59
Bellaire Total	4,720,423	16.9	21.0	116,471	135,150	14,659	0	24.96
Class A	1,474,635	18.8	25.4	-44,079	-28,222	593	0	26.50
Class B	2,932,470	15.2	18.5	156,866	161,311	14,066	0	24.77
Energy Corridor Total	23,261,873	36.8	35.8	127,368	308,746	292,334	0	25.31
Class A	14,833,176	27.9	40.8	88,117	185,059	149,682	0	28.06
Class B	8,175,741	25.6	27.6	37,468	124,328	138,441	0	20.75
FM 1960/Hwy 249 Total	11,233,025	23.8	26.9	-80,573	17,969	101,903	40,000	20.78
Class A	3,775,926	19.6	22.3	12,521	71,076	20,511	40,000	30.34
Class B	6,589,313	27.1	30.8	-100,897	-86,402	80,178	0	17.06
Galleria/West Loop Total	29,094,939	26.7	32.9	83,416	284,900	486,047	95,055	33.53
Class A	20,572,244	29.9	38.0	64,869	283,123	366,891	95,055	35.52
Class B	8,444,775	18.9	20.4	16,511	3,417	114,803	0	25.41
Greenspoint/North Belt Total	11,658,786	51.0	52.1	-64,260	-19,346	100,652	0	17.76
Class A	5,150,780	64.7	64.9	29,325	89,920	48,450	0	19.41
Class B	5,335,179	43.6	45.5	-96,948	-84,652	45,962	0	15.48
Greenway Plaza Total	10,960,726	24.5	26.7	-33,831	-73,870	101,335	0	33.70
Class A	7,495,239	26.0	28.5	-14,194	43,837	56,809	0	35.72
Class B	3,050,471	22.0	23.4	-2,876	-100,640	39,784	0	28.69
Gulf Fwy/Pasadena Total	4,026,912	15.8	18.1	-13,647	-6,818	38,603	175,000	24.01
Class A	287,280	19.5	38.2	4,793	-13,510	1,500	175,000	24.30
Class B	3,021,099	18.5	17.9	-19,940	5,192	37,103	0	21.90
Katy Freeway East Total	10,120,018	10.5	13.3	65,124	200,364	193,378	188,553	28.86
Class A	6,533,720	7.9	11.8	75,740	199,182	143,570	188,553	40.08
Class B	2,375,645	18.2	19.8	-10,940	-254	38,808	0	21.65
Katy/Grand Pkwy W Total	3,567,237	17.9	21.4	5,575	5,380	28,238	0	30.03
Class A	2,306,309	24.6	28.7	3,680	8,146	28,238	0	30.08
Class B	1,107,696	6.4	9.2	1,895	-2,766	0	0	29.69
Kingwood/Humble Total	1,400,463	12.8	15.0	-15,653	-6,613	13,078	0	22.72
Class A	258,342	20.8	11.6	-2,835	-2,263	0	0	28.60
Class B	1,059,254	11.6	16.7	-12,801	-4,002	13,078	0	21.61
Medical Center Total	9,202,022	12.7	22.2	15,132	102,031	36,182	1,260,459	31.72
Class A	4,231,077	14.6	31.3	-5,873	57,883	3,701	1,260,459	35.56
Class B	3,592,111	13.3	14.6	-2,063	21,080	30,842	0	28.49

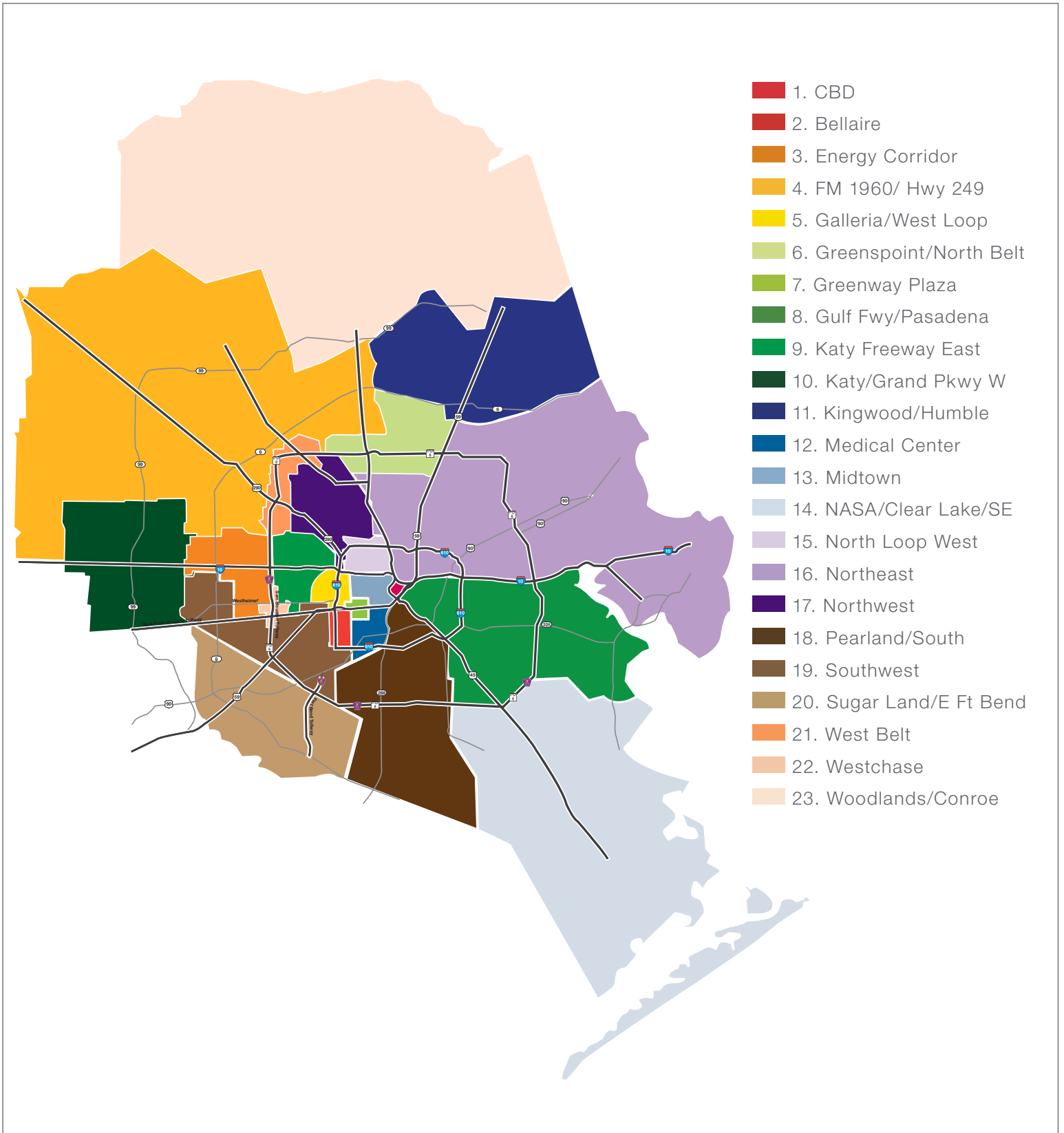
MARKET OVERVIEW

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)
Midtown Total	6,579,289	17.3	19.7	1,559	-44,400	75,187	0	35.33
Class A	2,616,449	21.9	24.4	-7,398	-16,925	46,784	0	38.32
Class B	3,301,524	14.1	16.9	8,957	-24,894	28,403	0	32.24
NASA/Clear Lake/SE Total	7,481,186	14.7	17.5	-16,421	10,658	70,597	106,000	22.20
Class A	2,120,419	15.3	20.6	-6,415	-11,483	19,779	0	26.82
Class B	4,753,808	14.5	16.6	16,873	53,698	49,410	106,000	19.63
North Loop West Total	4,449,982	19.6	22.6	-19,516	25,411	86,540	0	22.75
Class A	1,247,308	28.3	29.3	-15,916	53,026	15,916	0	24.52
Class B	2,745,484	17.0	21.5	-6,224	-29,077	66,546	0	21.59
Northeast Total	2,420,999	14.9	18.1	49,878	49,443	28,762	0	18.49
Class A	184,834	9.0	7.1	2,591	5,957	3,600	0	25.97
Class B	1,545,604	16.6	17.8	27,480	32,213	9,388	0	19.59
Northwest Total	3,897,807	22.6	24.8	-71,798	-55,438	16,100	0	16.26
Class A	805,808	27.3	29.9	7,652	6,814	3,415	0	19.93
Class B	2,366,083	22.9	23.7	-87,700	-67,123	6,885	0	14.56
Pearland/South Total	1,829,882	8.9	9.5	-745	-7,216	6,435	0	28.66
Class A	751,961	6.1	6.2	-4,050	-3,131	5,556	0	29.68
Class B	827,314	12.7	13.9	3,305	-3,585	879	0	28.40
Southwest Total	11,799,791	19.1	20.6	-57,153	-77,668	101,050	0	18.19
Class A	1,334,274	29.4	30.7	-23,556	-94,267	15,763	0	18.57
Class B	8,285,833	20.8	22.4	-32,664	7,328	73,849	0	17.93
Sugar Land/E Ft Bend	6,682,746	21.0	33.9	-23,087	-49,031	73,579	0	30.44
Class A	3,714,476	21.5	42.1	-10,725	-33,731	48,539	0	33.07
Class B	2,885,900	20.4	23.7	-12,362	-13,239	25,040	0	26.20
West Belt Total	5,544,519	24.9	34.8	-10,459	32,267	61,057	0	27.25
Class A	3,806,530	26.3	37.5	-25,452	-12,533	53,951	0	28.83
Class B	1,650,360	22.9	30.4	14,993	44,820	7,106	0	22.01
Westchase Total	15,261,701	35.0	37.3	-208,868	-357,449	249,317	0	27.22
Class A	8,776,310	32.3	35.3	-101,766	-74,472	190,797	0	32.35
Class B	6,405,653	39.1	40.5	-107,102	-282,977	58,520	0	21.74
Woodlands/Conroe Total	16,887,969	20.5	23.1	101,717	599,359	159,725	50,400	29.94
Class A	10,155,561	21.6	22.7	234,815	704,696	83,744	50,400	31.94
Class B	6,330,209	19.2	23.8	-134,048	-103,631	75,981	0	27.19
Suburban Total	202,082,295	23.8	28.3	-49,771	1,073,829	2,334,758	1,915,467	26.81
Class A	102,432,658	26.5	32.9	261,844	1,418,182	1,307,789	1,809,467	30.94
Class B	86,781,526	22.5	24.8	-342,217	-349,855	955,072	106,000	21.67

MARKET OVERVIEW

HOUSTON OFFICE SUBMARKETS



- 1. CBD
- 2. Bellaire
- 3. Energy Corridor
- 4. FM 1960/ Hwy 249
- 5. Galleria/West Loop
- 6. Greenspoint/North Belt
- 7. Greenway Plaza
- 8. Gulf Fwy/Pasadena
- 9. Katy Freeway East
- 10. Katy/Grand Pkwy W
- 11. Kingwood/Humble
- 12. Medical Center
- 13. Midtown
- 14. NASA/Clear Lake/SE
- 15. North Loop West
- 16. Northeast
- 17. Northwest
- 18. Pearland/South
- 19. Southwest
- 20. Sugar Land/E Ft Bend
- 21. West Belt
- 22. Westchase
- 23. Woodlands/Conroe

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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