

Houston's office market faces its fair share of challenges at the start of 2023.

## Executive Summary

### Hybrid work is here to stay

Three years after the coronavirus outbreak, some Houston companies are moving forward with key commitments to office space and renewing current leases. While uncertainty continues to trouble the Houston office market, the flight-to-quality trend continues as employers look for space to retain current employees and attract new ones. Many businesses are encouraging a hybrid return to the office; however, some are leaning towards a return to the office in line with pre-pandemic attendance, believing company culture is built in the office. Acknowledging that hybrid working is a trend that is here to stay, the physical office will remain important for employees to build relationships, collaborate, and feel connected to the company culture.

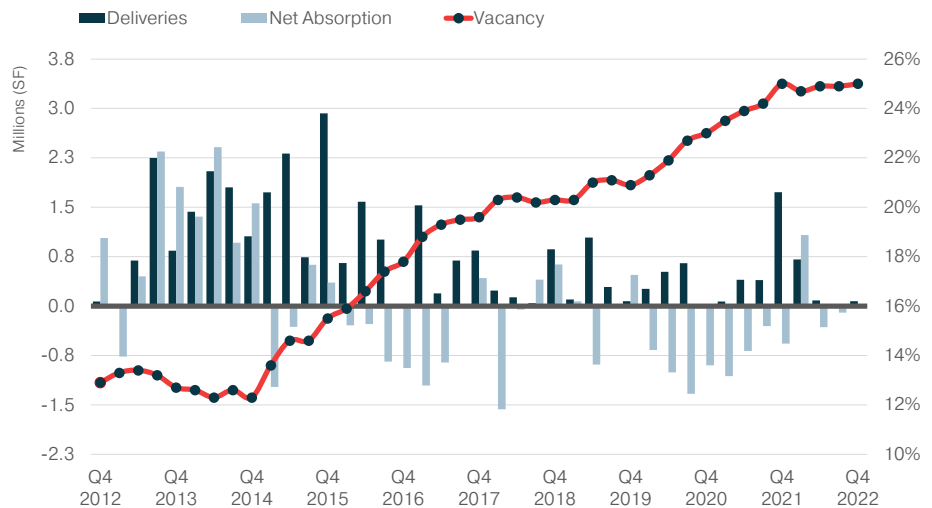
### Oil prices fall on global economy concerns

Oil prices fell for a second day on January 4 on worries about the strength of the global economy and surging Covid-19 infections in China. West Texas Intermediate, the U.S. standard, declined 2.2% to \$75.23 a barrel. Contracts fell more than 4% on Tuesday, the first trading day of the year. According to Baker Hughes, the number of active U.S. rigs drilling for oil is at a current level of 627, unchanged from last week and up from 467 (34.3%) from one year ago.

### Vacancy rate at 25%

The overall vacancy rate in the Houston office market was up 10 basis points quarter-over-quarter from 24.9% and unchanged year-over-year. The vacancy rate for Class A properties is 27.5%. In Q4 2022, overall net absorption broke even at positive 5,200 sq. ft., bringing the year-to-date amount to a positive 664,000 sq. ft. Of the 3.1 million sq. ft. currently, under construction, 61% of that space is available. The overall Houston average asking full-service rent is at \$29.97 per sq. ft.—up from one year ago at \$29.68 per sq. ft.—while Class A space in the Central Business District is averaging \$41.15 per sq. ft.

## Supply & Demand



Source: CoStar, Partners Research

## Key Market Indicators

	CURRENT Q4 2022	PRIOR QUARTER Q3 2022		PRIOR YEAR Q4 2021	
Vacant Total	25.0%	24.9%	▲	25.0%	■
Vacant Direct	23.5%	23.5%	■	23.6%	▼
Available Total	29.9%	29.9%	■	28.8%	▲
Available Direct	26.7%	26.8%	▼	26.0%	▲
Net Absorption (SF)	5,245	-100,340	▲	-569,252	▲
Leasing Activity (SF)	3,054,755	4,132,339	▼	3,618,083	▼
Construction (SF)	3,233,780	3,248,509	▼	3,344,889	▼
Deliveries (SF)	72,729	26,924	▲	1,727,394	▼
Avg Asking Rent (Gross)	\$29.97	\$30.03	▼	\$29.68	▲
Inventory (SF)	240,932,739	240,860,010	▲	240,039,278	▲

# Market Overview

## Houston office market space availability remains unchanged

Overall space availability, including current, sublease, and future vacancy, is at 29.9%, unchanged quarter-over-quarter, and up 110 basis points from 28.8% last year. The CBD ended Q4 2022 with an availability rate of 36.6%, second to the Greenspoint/North Belt submarket, which had a 48.8% availability rate, followed by the Energy Corridor at 36.5%. Sublease availability remains elevated at 8.4 million sq. ft. — the highest amount since Q3 2017 at 9.5 million sq. ft. The peak was reached at 11 million sq. ft. in Q3 2016 during the oil price plunge. Available sublease space represents about 3.4% of the metro area’s total tracked inventory of 241 million sq. ft. Physical office occupancy in Houston registered 58.8%, as reported by Kastle Systems’ Back to Work Barometer mid-December.

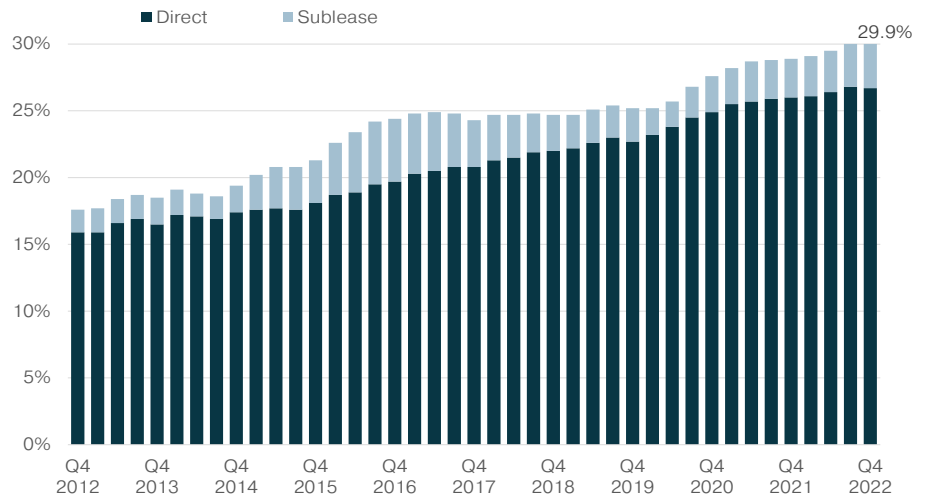
## Positive net absorption in Q4 2022

Net absorption in the Houston office market was positive 5,200 sq. ft. in Q4 2022, and year-to-date registered at a positive 664,000 sq. ft., both up significantly from last quarter and last year. Some recent activity reflects Houston’s office sector’s long-term challenges. In the second quarter, Baker Hughes signed a 130,000-sq. ft. lease at 575 Dairy Ashford Road, in the Energy Corridor. The company currently occupies 340,000 sq. ft. at its current headquarters office and adjacent buildings on Aldine Westfield Road in the Greenspoint submarket. Once the relocation is complete, in Q2 2023, the company will have reduced its Houston office space presence by more than 60% in the past two years.

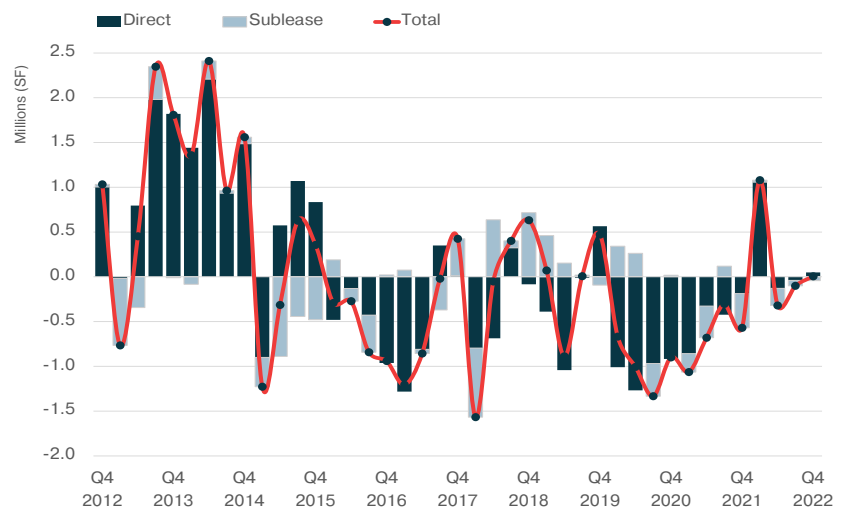
## Office development

Office construction is at 3.2 million sq. ft across 17 buildings, with 2 million sq. ft. (61%) available for lease. The Medical Center accounts for 2 million sq. ft. of medical/office space under construction and 67% of the total space available. Tracked projects currently underway in the Medical Center submarket include the 700,000-sq.-ft. TMC Industry Building; 522,000-sq.-ft. Horizon Tower life sciences building in Texas A&M Innovation Plaza; 386,000-sq.-ft. at 1550 on the Green; and 290,000-sq.-ft. Levit Green. The Medical Center office market has the third-lowest submarket vacancy rate in the Houston metro at 13.2%. Katy Freeway East has the second-lowest vacancy rate at 9.5%. In addition, 190,000 sq. ft. is under construction at MetroNational’s nine-story office building at 9753 Katy Freeway in Memorial City, scheduled for delivery in Q2 2023, and 167,000 sq. ft. at Town Centre Two in Town & Country Village, scheduled for completion in Q3 2023.

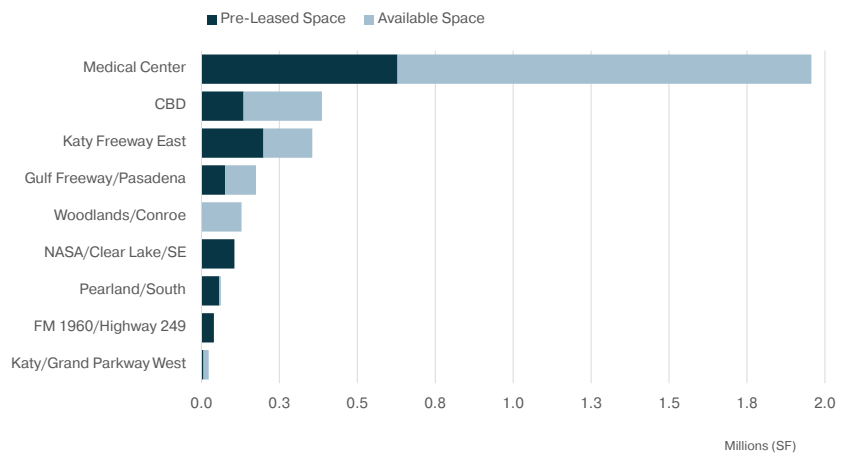
## Availability Rates



## Net Absorption



## Construction



## Investment sales trends

Real Capital Analytics data reports quarterly office sales volume for Q4 2022 in the Greater Houston area at \$114.5 million. The year-over-year change in volume is down 86% from \$823 million in Q4 2021. The primary capital composition for buyers in 2022 was made up of 67% private investors, 16% institutional, and 12% REIT/Listed. For sellers, the majority were 44% private investors, 34% institutional, and 12% REIT/Listed. A significant sales transaction in 2022 involved the 206,943-sq.-ft. 200 Park Place office building, situated on 1.27 acres. 200 Park Place at 4200 Westheimer sold for \$145,000,000 or \$700.68 per sq. ft., according to CoStar. 200 Park Place is part of the Park Place mixed-use development, which runs along Westheimer Rd. and Mid Lane in Houston's upscale River Oaks and Highland Village area.

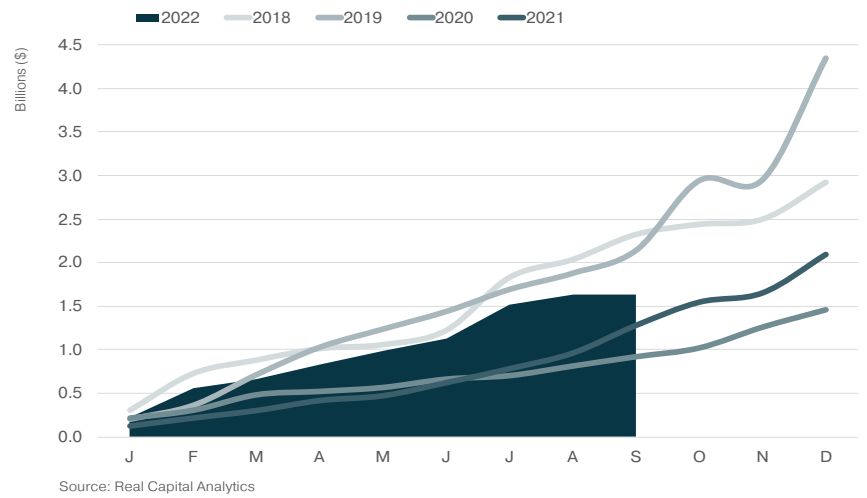
## Leasing activity

At the end of 2022, quarterly leasing was still down more than 25% compared to levels averaged during the three years before the pandemic. Still, there are some bright spots. Some of the years largest transactions include EOG Resources renewing its lease for 374,000 sq. ft. of space at 1111 Bagby St., where its headquarters has been since 2007; Apache Corp. relocating its headquarters to Westchase from its longtime home in the Galleria area after signing an early lease renewal and expansion in Briarlake Plaza. Apache will occupy 328,000 sq. ft. at Briarlake Plaza, where it currently leases 210,000 sq. ft. in a lease that was set to expire in late 2024; Enbridge cut its requirement in half when it leased more than 290,000 sq. ft. at Energy Center V for the relocation of its Houston office. The company previously occupied more than 600,000 sq. ft. at 5400 Westheimer Court near the Galleria, and Bechtel, an engineering and construction firm, leased more than 282,000 sq. ft. in two buildings in CityWestPlace in Westchase. The company will relocate from 3000 Post Oak near the Galleria at the end of 2023.

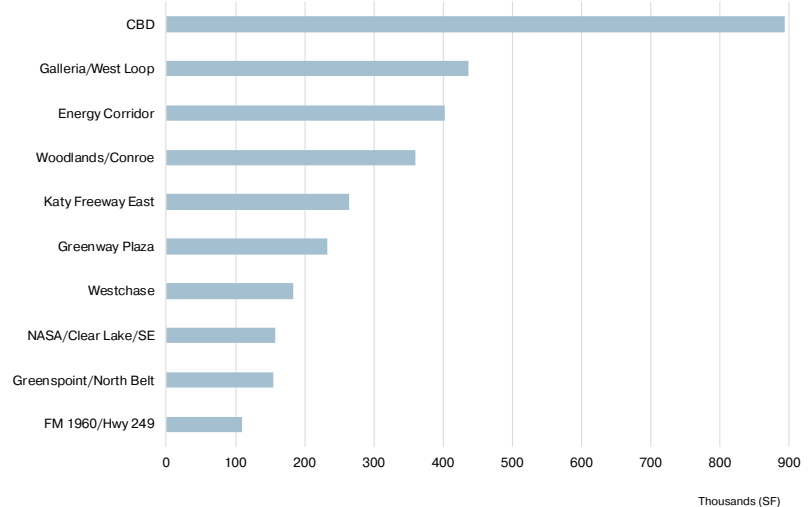
## Average asking rents

The Houston overall full-service average rates are at \$29.97 per sq. ft., down from last quarter at \$30.03 and up from one year ago at \$29.68 per sq. ft. Asking rates for overall Class A space is \$34.43, and Class B is \$22.74 per sq. ft. Rent growth is mixed across Houston's submarkets. Asking rents in the Midtown submarket averaged \$34.07 per sq. ft., which is 14% higher than the metro average as a whole and ranked number two—only behind the CBD at \$41.15—among Houston submarkets as of year-end 2022. The asking rate is officially quoted for any given building and will differ from the 'bottom line' actual rental after negotiations, known as the effective rate.

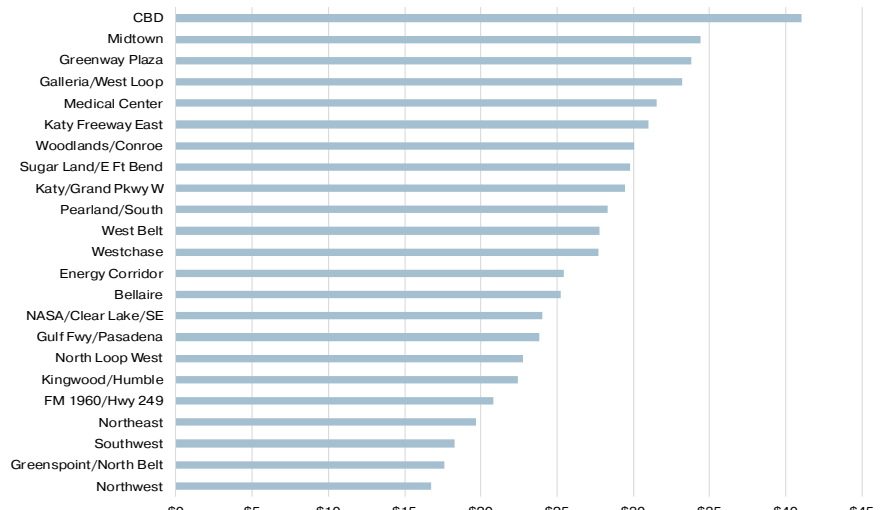
## Cumulative Monthly Sales Volume



## Leasing Activity



## 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 (%)	Q4 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q4 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Houston Market Total</b>	240,932,739	25.0	29.9	5,245	663,755	3,054,755	3,233,780	29.97
Class A	134,905,377	27.5	34.1	53,930	1,370,126	2,235,591	2,913,476	34.43
Class B	92,479,407	23.5	26.3	-44,873	-744,202	766,934	320,304	22.74
<b>CBD Total</b>	39,712,888	31.2	36.6	41,869	-28,530	324,537	386,323	41.15
Class A	31,994,000	30.7	36.5	32,249	154,203	322,001	386,323	44.07
Class B	7,145,548	34.6	39.6	15,920	-181,933	2,536	0	30.85
<b>Bellaire Total</b>	4,718,319	20.6	22.3	-52,843	64,687	42,114	0	24.74
Class A	1,474,635	22.6	26.1	-26,188	-64,295	6,979	0	25.98
Class B	2,930,366	19.4	20.3	-31,645	120,925	30,777	0	24.67
<b>Energy Corridor Total</b>	23,370,015	27.8	36.5	29,480	115,487	504,720	0	26.12
Class A	14,893,681	29.7	41.5	-7,865	-66,598	416,222	0	29.25
Class B	8,223,378	25.0	28.6	36,318	182,179	87,817	0	20.64
<b>FM 1960/Hwy 249 Total</b>	11,262,149	24.0	31.8	-94,527	-81,999	104,642	40,000	20.43
Class A	3,775,926	20.8	36.6	-38,835	28,202	44,221	40,000	28.81
Class B	6,645,428	27.8	31.8	-54,249	-138,011	60,421	0	16.97
<b>Galleria/West Loop Total</b>	28,693,161	27.8	32.5	12,911	127,984	244,665	0	33.24
Class A	20,659,512	30.8	37.4	-14,335	146,765	203,859	0	35.44
Class B	7,857,729	20.2	20.0	26,258	-21,720	40,806	0	24.26
<b>Greenspoint/North Belt Total</b>	11,678,317	49.0	48.8	14,678	-56,327	31,487	0	17.39
Class A	5,160,589	60.3	55.7	35,850	131,787	13,013	0	19.15
Class B	5,242,333	44.9	48.5	-15,975	-195,548	11,804	0	15.19
<b>Greenway Plaza Total</b>	11,069,321	23.7	25.1	52,414	-978	160,568	0	33.84
Class A	7,476,872	25.2	26.1	53,341	80,846	124,909	0	36.01
Class B	3,183,449	21.7	24.5	8,831	-78,195	34,803	0	28.83
<b>Gulf Fwy/Pasadena Total</b>	4,308,990	18.0	22.0	-33,427	-147,942	89,084	175,000	24.69
Class A	287,280	19.8	33.7	0	-14,197	6,281	175,000	30.38
Class B	3,179,459	19.9	21.4	-34,595	-68,709	82,803	0	24.85
<b>Katy Freeway East Total</b>	10,444,646	9.5	12.8	78,930	337,488	226,581	355,694	29.92
Class A	6,861,702	7.3	11.5	53,892	264,873	208,605	355,694	39.68
Class B	2,394,276	17.9	19.5	4,596	-1,129	11,020	0	22.10
<b>Katy/Grand Pkwy W Total</b>	3,569,667	16.0	20.1	27,730	64,855	29,947	23,170	28.99
Class A	2,243,378	22.4	27.8	30,464	42,607	20,525	0	29.26
Class B	1,173,057	6.0	8.2	-2,734	22,248	9,422	23,170	26.53
<b>Kingwood/Humble Total</b>	1,398,572	15.6	15.2	180	-45,484	19,901	0	22.61
Class A	230,466	21.8	14.7	-3,368	-2,796	0	0	28.23
Class B	1,085,237	15.2	15.7	3,981	-42,094	19,901	0	21.89
<b>Medical Center Total</b>	8,845,973	13.2	23.2	-27,488	102,367	100,648	1,956,459	30.99
Class A	3,874,914	16.3	32.4	-3,464	43,486	55,700	1,956,459	35.89
Class B	3,592,226	13.3	15.6	-18,119	20,968	32,336	0	26.06

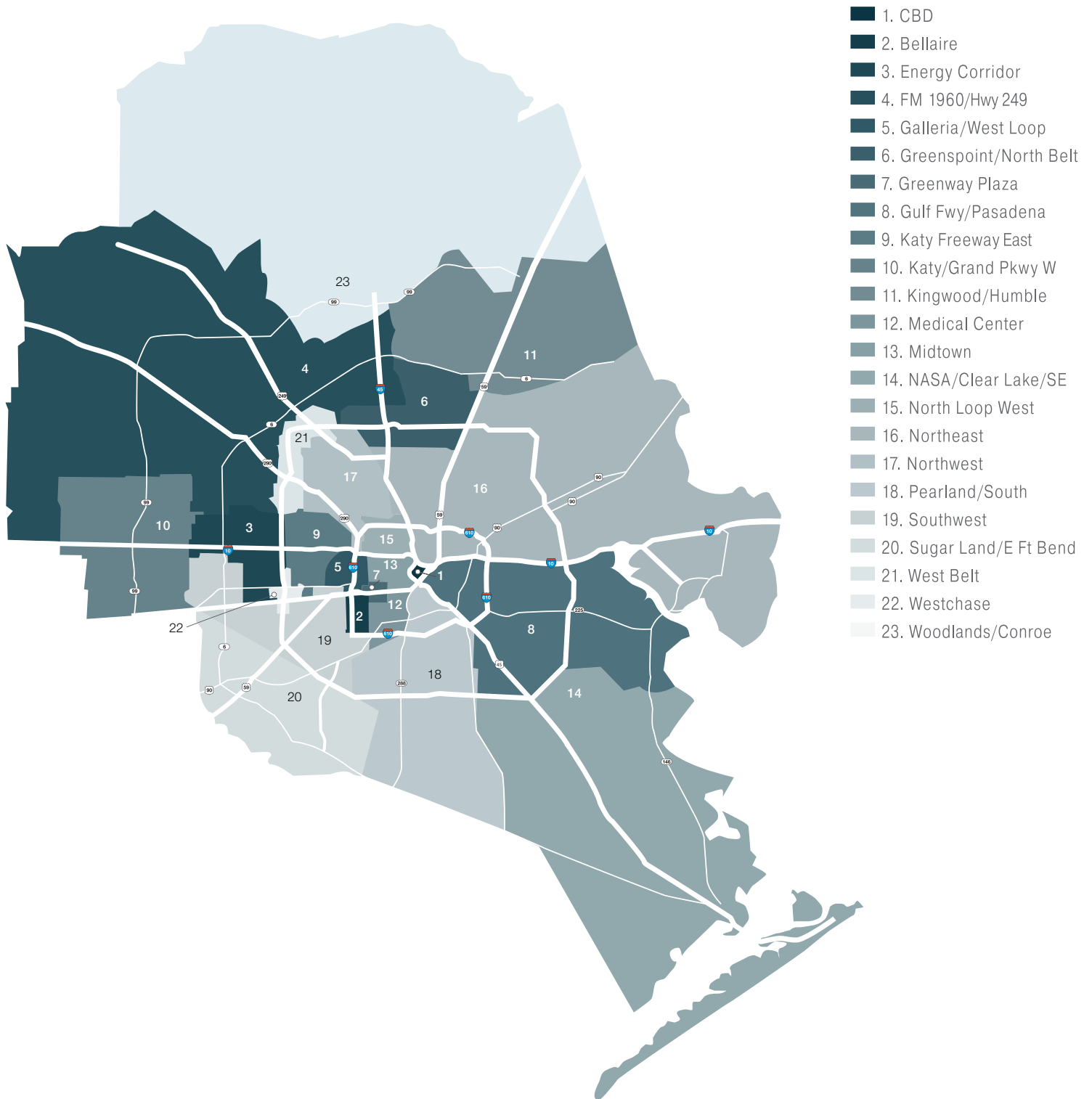
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<b>Midtown Total</b>	6,527,873	17.2	20.7	19,597	-63,857	64,612	0	34.07
Class A	2,565,033	22.6	25.5	-9,863	-57,047	34,102	0	36.70
Class B	3,301,524	14.0	18.9	8,134	-22,509	24,834	0	31.60
<b>NASA/Clear Lake/SE Total</b>	7,433,316	16.1	18.3	12,012	-16,089	38,609	106,000	23.42
Class A	2,113,071	16.7	20.9	-3,196	-27,196	4,456	0	26.95
Class B	4,713,286	16.1	17.6	12,534	49,715	32,434	106,000	20.77
<b>North Loop West Total</b>	4,465,482	19.8	22.4	41,903	57,570	92,542	0	22.83
Class A	1,247,308	26.5	28.1	311	75,256	37,342	0	24.53
Class B	2,760,984	17.6	21.2	54,620	-5,240	54,646	0	21.74
<b>Northeast Total</b>	2,387,838	16.6	19.4	10,419	30,737	3,209	0	20.09
Class A	174,777	7.5	7.5	0	2,591	0	0	26.26
Class B	1,522,500	19.7	19.4	-3,005	13,654	1,959	0	20.54
<b>Northwest Total</b>	3,662,937	21.1	23.9	-15,299	-36,938	13,898	0	16.69
Class A	805,808	33.2	37.4	-30,212	-38,222	2,084	0	19.78
Class B	2,131,213	21.0	22.5	14,913	-28,873	11,814	0	14.65
<b>Pearland/South Total</b>	1,802,882	7.9	11.4	-7,319	6,975	7,343	62,400	27.90
Class A	751,961	5.2	5.5	-7,976	3,967	0	0	28.36
Class B	800,314	11.5	18.6	657	3,508	7,343	62,400	27.92
<b>Southwest Total</b>	11,708,060	18.3	20.6	-12,378	-140,838	45,942	0	18.48
Class A	1,334,274	32.3	39.9	18,942	-98,790	1,896	0	17.73
Class B	8,366,426	18.6	20.4	-30,424	-11,343	33,148	0	19.16
<b>Sugar Land/E Ft Bend</b>	6,835,607	22.4	34.7	-39,014	-122,250	116,647	0	29.73
Class A	3,948,854	21.9	41.9	6,408	-24,784	35,814	0	32.10
Class B	2,801,016	21.8	23.8	-5,690	-55,673	80,833	0	25.97
<b>West Belt Total</b>	5,588,685	28.2	33.5	-103,860	-23,425	110,060	0	28.12
Class A	3,810,128	28.4	33.7	-118,700	-25,449	106,069	0	29.91
Class B	1,690,928	29.3	34.8	14,840	2,024	3,991	0	22.68
<b>Westchase Total</b>	14,555,404	30.2	35.0	-48,877	-196,028	596,762	0	27.47
Class A	8,790,405	27.9	34.5	12,889	80,341	550,115	0	33.21
Class B	5,653,915	34.4	36.5	-61,766	-276,369	46,647	0	20.73
<b>Woodlands/Conroe Total</b>	16,892,637	20.1	26.0	98,154	716,290	86,237	128,734	30.45
Class A	10,430,803	20.9	26.9	73,586	734,576	41,398	0	31.93
Class B	6,084,815	19.8	25.8	11,727	-32,077	44,839	128,734	28.52
<b>Suburban Total</b>	201,219,851	23.7	28.6	-36,624	692,285	2,730,218	2,847,457	26.91
Class A	102,911,377	26.5	33.3	21,681	1,215,923	1,913,590	2,527,153	30.91
Class B	85,333,859	22.5	25.2	-60,793	-562,269	764,398	320,304	21.50

# Market Overview

## Houston Office Submarkets



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# Houston Office Quarterly Market Report

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## Q4 2022

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