

Inflation, rising interest rates, and the pandemic's effects continue to challenge the Houston office market.

Executive Summary

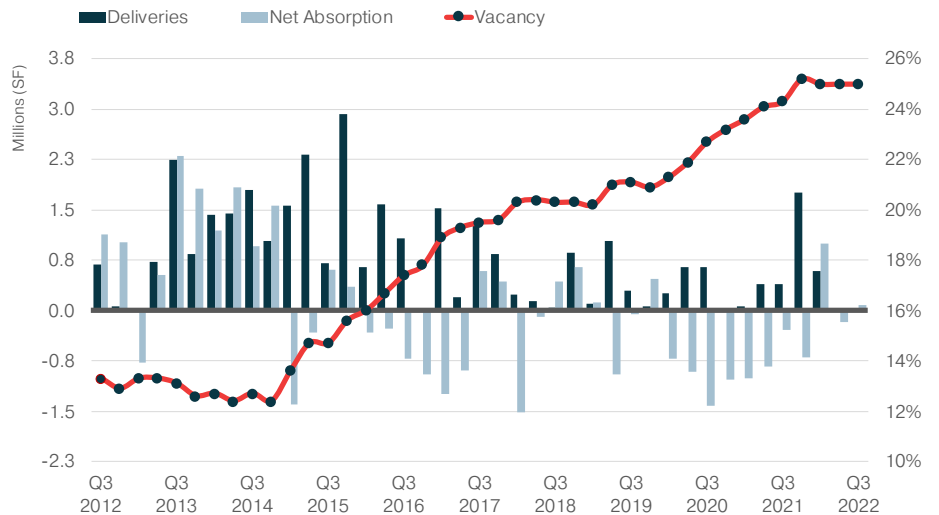
Vacancy rate at 25%

The overall vacancy rate in the Houston office market was unchanged quarter-over-quarter. However, year-over-year, the vacancy rate rose 70 basis points from 24.3%. The vacancy rate for Class A properties is 27.5%. In Q3 2022, overall net absorption totaled a positive 87,000 sq. ft., bringing the year-to-date amount to a positive 897,000 sq. ft. Of the 3.2 million sq. ft. currently under construction, 63% of that space is available. The overall Houston average asking full-service rent is at \$30.03 per sq. ft.—up from one year ago at \$29.54 per sq. ft.—while Class A space in the Central Business District is averaging \$44.04 per sq. ft.

Global oil demand remains resilient despite slowing economies

U.S. benchmark West Texas Intermediate crude for November delivery added \$1.24, or 1.4%, to settle at \$87.76 a barrel as of October 5, 2022. Major oil producers agreed to reduce their collective crude production levels by 2 million barrels a day starting next month, but that's not a guarantee that prices will continue to climb. The number of active U.S. rigs drilling for oil rose by two to 604 as of September 30, reported Baker Hughes. That followed increases in each of the past two weeks. In the third quarter, drillers added rigs for the eighth quarter in a row, but the addition of 12 rigs was the smallest increase since September 2020.

Supply & Demand



Source: CoStar, NAI Partners Research

Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q2 2022		PRIOR YEAR Q3 2021	
Vacant Total	25.0%	25.0%	■	24.3%	▲
Vacant Direct	23.5%	23.5%	■	21.7%	▲
Available Total	29.9%	29.5%	▲	28.8%	▲
Available Direct	26.8%	26.5%	▲	26.1%	▲
Net Absorption (SF)	87,324	-179,065	▲	-289,707	▲
Leasing Activity (SF)	3,791,490	3,574,620	▲	4,083,632	▼
Construction (SF)	3,181,775	2,955,988	▲	4,024,523	▼
Deliveries (SF)	26,924	0	▲	395,000	▼
Avg Asking Rent (Gross)	\$30.03	\$29.96	▲	\$29.54	▲
Inventory (SF)	241,122,634	241,095,710	▲	238,753,621	▲

Market Overview

Houston office market space availability increase

Overall space availability, including current, sublease, and future vacancy, is at 29.9%, up from 29.5% in Q2 2022 and up from 28.8% last year. The CBD ended Q3 2022 with an availability rate of 37.1%, second to the Greenspoint/North Belt submarket, which had a 53.1% availability rate followed by the Energy Corridor at 36.2%. Sublease availability remains elevated at 8.4 million sq. ft. — the highest amount since Q3 2017. 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 metropolitan area’s total tracked inventory of 241 million sq. ft. Physical office occupancy registered 57.6%, as reported by Kastle Systems’ Back to Work Barometer near the end of September.

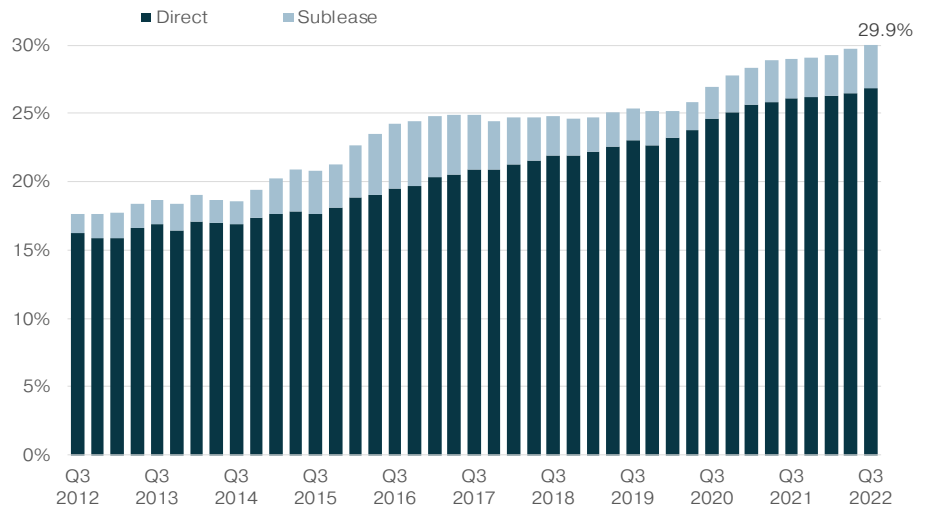
Positive net absorption in Q3 2022

Net absorption in the Houston office market was positive 87,000 sq. ft. in Q3 2022, and year-to-date registered at a positive 897,000 sq. ft. This quarter’s largest move-ins include Hines Interests 186,434 sq. ft. at Texas Tower, and 57,571 sq. ft. at 13141 Northwest Freeway, including Camillo Properties (28,786 sq. ft.) and Legend Homes (28,786 sq. ft.). This quarter’s largest move-outs include Enbridge Inc. leaving 632,511 sq. ft. at 5400 Westheimer Ct. in the Galleria (Enbridge Inc. subleased 290,025 sq. ft. at Energy Center V in Q3 2022), Hines vacating 159,938 sq. ft. in Williams Tower in the Galleria submarket, and EP Energy vacated 62,261 sq. ft. in 601 Travis in the CBD.

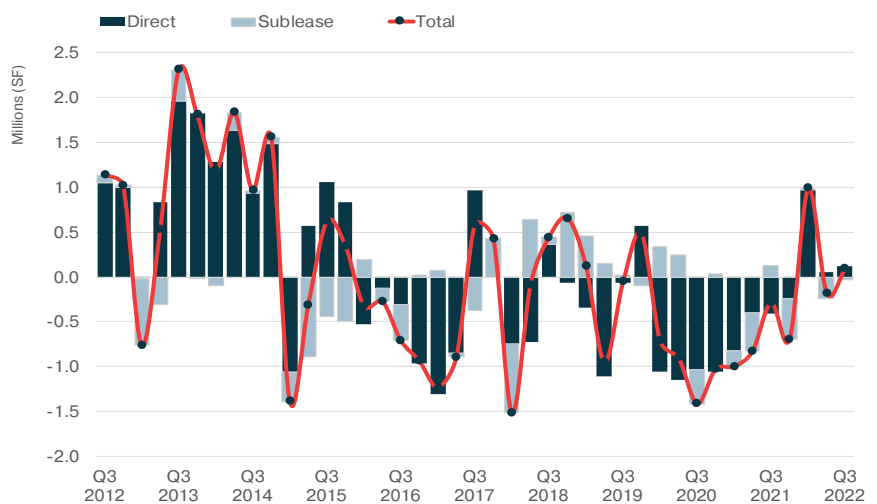
Office development

Office construction is at 3.2 million sq. ft across 17 buildings, with 2 million sq. ft. (63%) 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 294,000-sq.-ft. Levit Green. The Medical Center office market has the third-lowest submarket vacancy rate in the Houston metro at 12.4%. Katy Freeway East has the second-lowest vacancy rate at 10.9%. In addition, about 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.

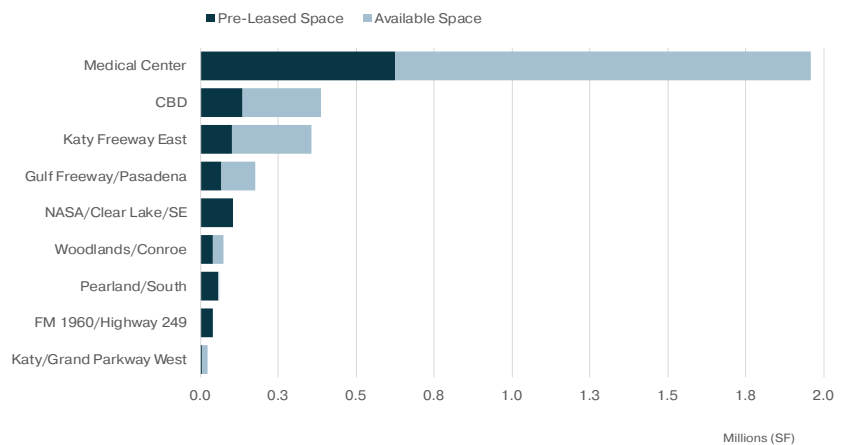
Availability Rates



Net Absorption



Construction



Investment sales trends

Real Capital Analytics data reports quarterly office sales volume for Q3 2022 in the Greater Houston area at \$515 million. The year-over-year change in volume is down 21% from \$655 million in Q3 2021. The primary capital composition for buyers so far in 2022 was made up of 62% private investors, 17% institutional, and 14% REIT/Listed. For sellers, the majority were 45% private investors, 30% institutional, 13% 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 12% REIT/Listed. A significant sales transaction during the third quarter of 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.

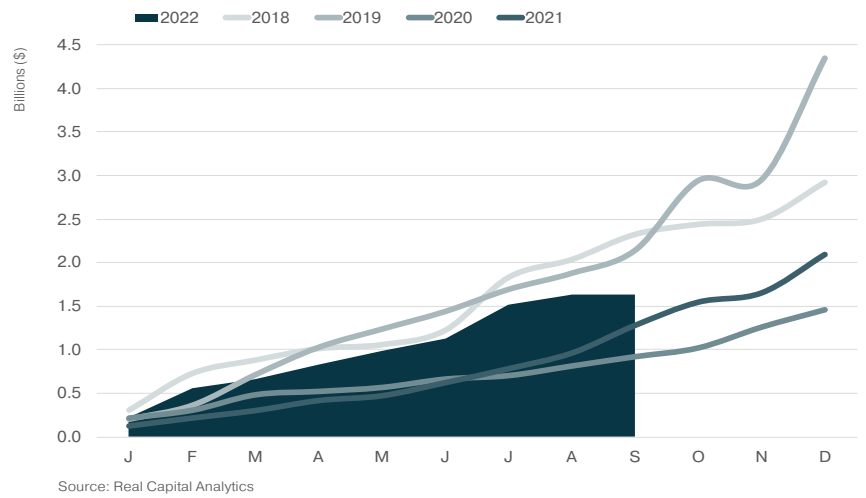
Chevron sells San Ramon campus

Chevron has sold its global headquarters in California for around \$174.5 million, where it had been based for the past two decades, as the energy company shifts more of its workforce to Texas. The San Ramon cutback broadens an effort to decrease its California workforce and expand its Texas operations. The company is attempting to move more employees to two towers it owns in downtown Houston that were formerly the headquarters of the now-defunct energy provider Enron Corp. The 50-story, 1.25 million-sq.-ft. tower at 1400 Smith St. in downtown is connected by a walkway to the 40-story, 1.16 million-sq.-ft. tower at 1500 Louisiana St. Chevron's Houston offices are home to around 6,000 employees, the result of years of gradually moving the majority of its California workforce to Texas.

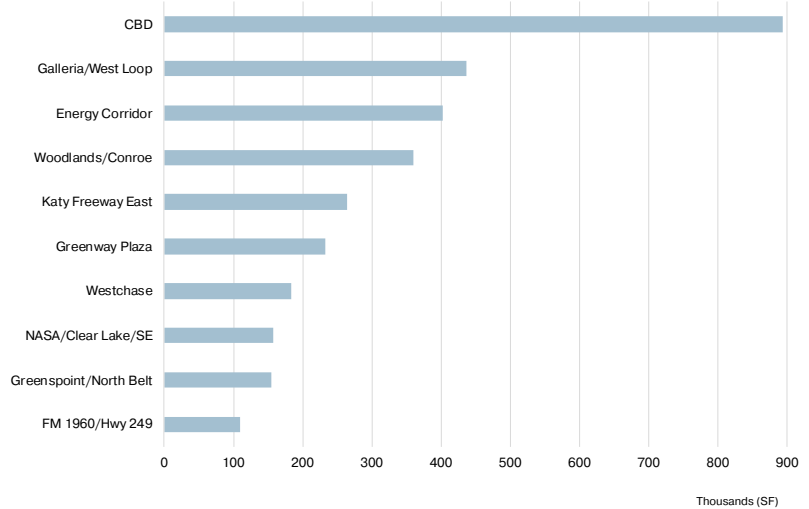
Average asking rents

The Houston overall full-service average rates are at \$30.03 per sq. ft., up from last quarter at \$29.96 and up from one year ago at \$29.54 per sq. ft. Asking rates for overall Class A space is \$34.29, and Class B is \$22.73 per sq. ft. Rent growth is mixed across Houston's submarkets. Asking rents in the Midtown submarket averaged \$34.40 per sq. ft., which is 15% higher than the metro average as a whole and ranked number two—only behind the CBD at \$41.04—among Houston submarkets as of third quarter-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.

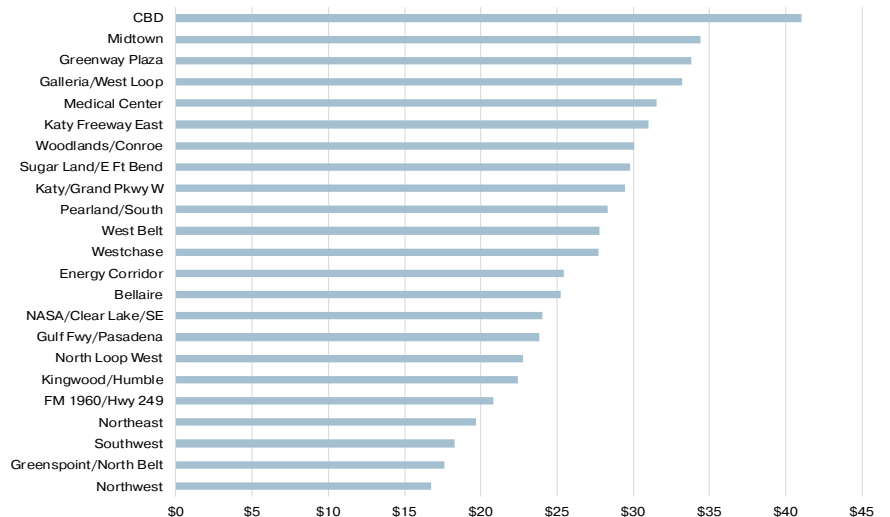
Cumulative Monthly Sales Volume



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 (%)	Q3 2022 Net Absorption (SF)	2022 YTD Net Absorption (SF)	Q3 2022 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Houston Market Total	241,122,634	25.0	29.9	87,324	897,342	3,791,490	3,181,775	30.03
Class A	134,806,264	27.5	34.2	210,937	1,378,541	2,727,648	2,967,876	34.29
Class B	92,705,170	23.2	25.9	-102,874	-519,612	983,154	213,899	22.73
CBD Total	39,710,200	31.5	37.1	136,216	-106,814	893,217	386,323	41.01
Class A	31,994,000	31.0	36.7	256,338	96,994	830,679	386,323	44.04
Class B	7,142,860	35.2	41.6	-85,414	-174,600	60,438	0	31.13
Bellaire Total	4,727,069	18.8	22.4	-17,620	117,530	38,963	0	25.22
Class A	1,474,635	20.9	27.3	-9,885	-38,107	21,035	0	26.31
Class B	2,939,116	17.3	19.8	-8,741	152,570	16,922	0	25.21
Energy Corridor Total	23,271,685	27.4	36.2	-18,537	257,098	401,849	0	25.46
Class A	14,874,210	28.3	40.2	-52,387	112,358	267,416	0	28.29
Class B	8,144,519	26.4	29.9	34,330	145,861	133,317	0	20.69
FM 1960/Hwy 249 Total	11,137,171	24.3	31.6	13,831	-61,372	109,390	40,000	20.85
Class A	3,775,926	19.7	35.0	-4,039	67,037	19,672	40,000	30.16
Class B	6,520,450	27.7	31.1	21,912	-157,662	85,321	0	16.97
Galleria/West Loop Total	28,869,816	27.8	32.7	-60,332	206,246	436,392	0	33.19
Class A	20,690,228	30.8	37.3	-116,981	166,142	345,943	0	35.22
Class B	8,003,668	20.1	21.2	49,719	38,153	85,748	0	25.20
Greenspoint/North Belt Total	11,668,799	51.1	53.1	-57,309	-66,516	154,728	0	17.62
Class A	5,150,780	63.9	62.1	6,017	95,937	127,951	0	19.36
Class B	5,242,624	45.1	50.7	-48,245	-122,758	14,159	0	15.35
Greenway Plaza Total	11,087,614	24.3	25.9	30,756	-56,773	231,919	0	33.79
Class A	7,473,598	26.1	27.6	-210	27,505	200,884	0	35.90
Class B	3,175,042	22.0	24.2	11,151	-87,026	24,994	0	28.56
Gulf Fwy/Pasadena Total	4,092,238	16.6	19.4	-45,297	-52,115	43,268	175,000	23.82
Class A	287,280	19.8	35.8	-687	-14,197	12,000	175,000	24.09
Class B	3,086,425	18.9	20.1	-22,906	-17,714	31,268	0	21.90
Katy Freeway East Total	10,185,257	10.9	13.8	-48,619	199,880	264,187	355,694	30.98
Class A	6,533,720	8.6	12.9	-44,767	154,420	222,433	355,694	40.56
Class B	2,392,749	18.1	19.2	-1,709	-1,963	34,593	0	21.85
Katy/Grand Pkwy W Total	3,562,090	16.9	20.4	7,245	37,125	26,091	23,170	29.48
Class A	2,235,801	23.8	28.1	-1,516	12,143	26,091	0	29.71
Class B	1,173,057	5.7	8.5	8,761	24,982	0	23,170	27.76
Kingwood/Humble Total	1,398,572	15.6	15.5	-39,051	-45,664	10,115	0	22.41
Class A	260,466	20.6	12.6	0	-2,263	0	0	28.45
Class B	1,055,237	15.4	17.2	-39,238	-43,240	8,789	0	21.35
Medical Center Total	9,204,749	12.4	23.0	25,211	10,742	16,426	1,960,459	31.52
Class A	4,233,690	14.9	31.3	-13,546	-72,163	15,885	1,960,459	36.27
Class B	3,592,226	12.8	15.3	18,007	39,087	0	0	27.06

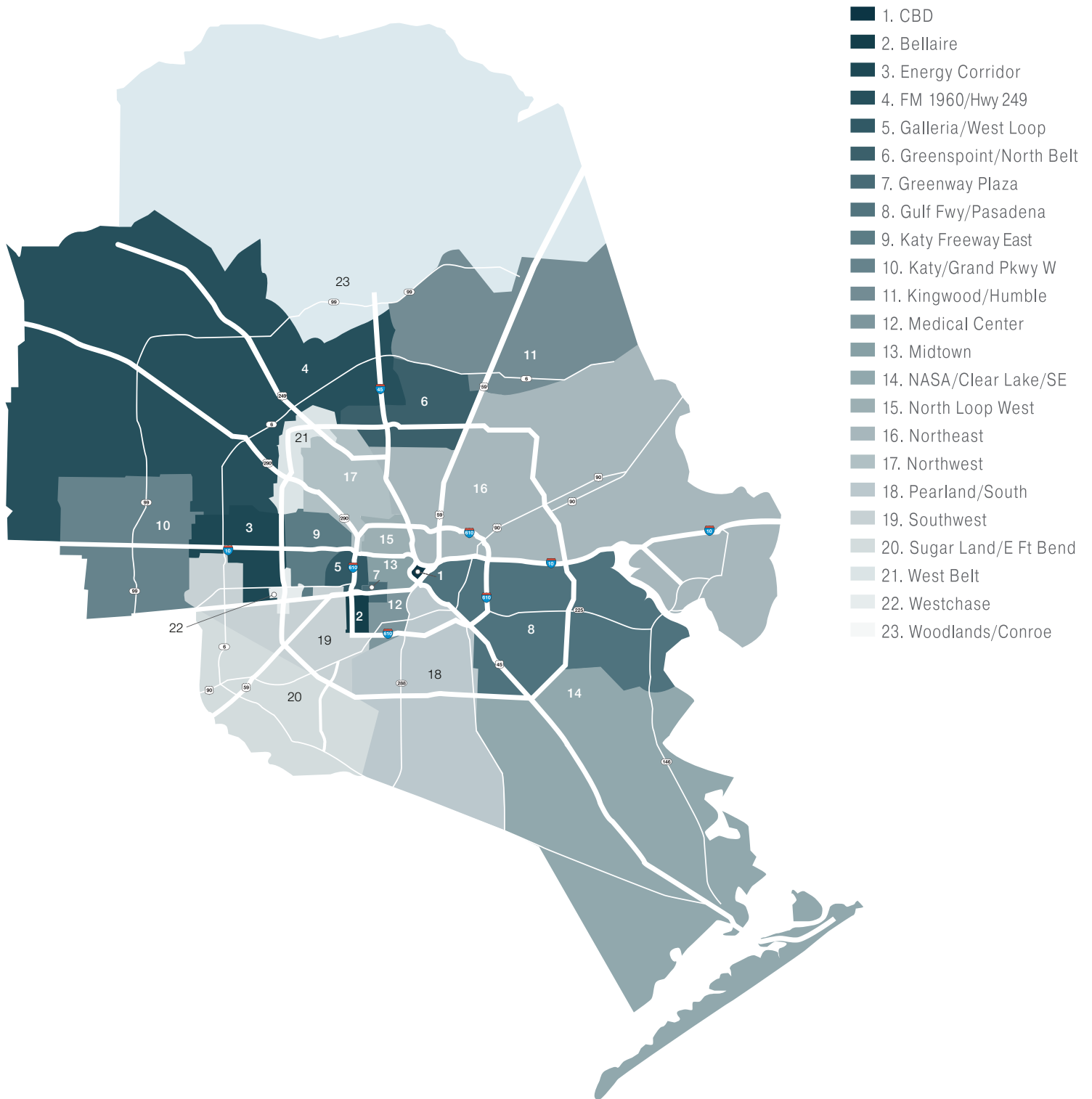
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Midtown Total	6,527,873	17.5	20.8	-39,054	-83,454	58,506	0	34.40
Class A	2,565,033	22.2	25.3	-30,259	-47,184	32,543	0	37.33
Class B	3,301,524	14.3	18.3	-5,749	-30,643	24,455	0	31.38
NASA/Clear Lake/SE Total	7,512,566	15.5	17.2	-52,275	-41,617	157,652	106,000	24.03
Class A	2,113,071	16.5	21.5	-12,517	-24,000	93,030	0	26.88
Class B	4,792,536	15.5	16.0	-50,225	3,473	61,220	106,000	20.74
North Loop West Total	4,449,982	19.7	21.1	-8,403	17,008	78,769	0	22.74
Class A	1,247,308	26.5	27.5	21,919	74,945	12,379	0	24.54
Class B	2,745,484	18.0	19.8	-29,442	-58,519	64,567	0	21.64
Northeast Total	2,419,875	16.8	19.0	-22,159	27,284	49,491	0	19.70
Class A	184,834	7.1	9.2	3,600	9,557	0	0	25.50
Class B	1,522,500	19.5	19.3	-15,554	16,659	34,891	0	20.23
Northwest Total	3,665,270	20.8	23.8	67,902	4,764	43,548	0	16.76
Class A	805,808	25.8	30.1	11,579	18,393	14,738	0	20.41
Class B	2,133,546	21.7	22.9	31,037	-43,786	28,810	0	14.84
Pearland/South Total	1,829,882	7.4	10.9	27,390	20,174	3,605	62,400	28.30
Class A	751,961	4.1	5.2	15,074	11,943	0	0	28.50
Class B	827,314	11.2	17.6	12,316	8,731	3,605	62,400	28.29
Southwest Total	11,734,283	17.7	19.3	122,446	48,117	58,345	0	18.28
Class A	1,334,274	27.7	30.1	23,115	-71,152	6,631	0	18.69
Class B	8,318,325	18.9	20.4	112,222	119,550	46,207	0	17.91
Sugar Land/E Ft Bend	6,874,432	21.9	34.5	-24,825	-82,451	85,310	0	29.80
Class A	3,905,884	22.0	41.5	20,866	-21,460	52,364	0	31.98
Class B	2,885,900	21.9	25.4	-45,691	-58,930	32,946	0	26.07
West Belt Total	5,602,308	26.3	34.8	23,955	80,435	86,061	0	27.78
Class A	3,782,826	25.3	36.4	81,591	93,251	67,001	0	29.36
Class B	1,731,853	29.7	33.0	-57,636	-12,816	19,060	0	22.41
Westchase Total	14,514,955	30.6	33.4	20,418	-135,701	183,468	0	27.72
Class A	8,780,528	29.8	33.5	19,255	67,452	139,332	0	32.77
Class B	5,654,689	32.1	33.6	1,163	-203,153	44,136	0	20.67
Woodlands/Conroe Total	17,075,948	19.9	25.6	45,435	603,416	360,190	72,729	30.07
Class A	10,350,403	21.2	27.5	38,377	660,990	219,641	50,400	31.89
Class B	6,323,526	18.1	23.1	7,058	-55,868	127,708	22,329	27.21
Suburban Total	201,412,434	23.7	28.5	-48,892	1,004,156	2,898,273	2,795,452	26.92
Class A	102,812,264	26.5	33.5	-45,401	1,281,547	1,896,969	2,581,553	30.75
Class B	85,562,310	22.5	24.8	-17,460	-345,012	922,716	213,899	21.67

Market Overview

Houston Office Submarkets



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Houston Office Quarterly Market Report

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