Houston Office

Q1 2023

QUARTERLY MARKET REPORT

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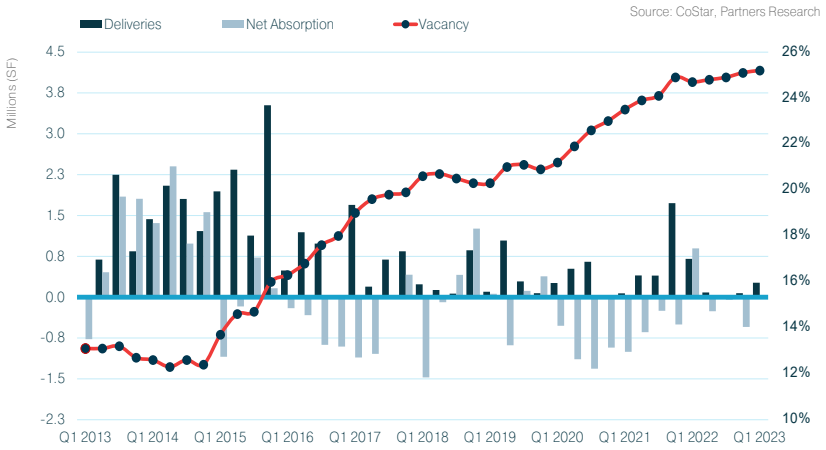
Executive Summary

Houston's Office market softens on heels of sluggish quarterly leasing and rise in vacancy rate

Houston Office Market Leasing Down 29%

Houston's office leasing market continued to struggle, as tenant consolidations and company downsizing have significantly impacted deal velocity. Leasing activity—which includes pre-leased and available space—as of the end of the first quarter fell 29.4% to 3.0 million sq. ft. compared with the previous quarter's 4.3 million sq. ft. Despite this decline, some submarkets have fared better, with the Energy Corridor leading the way with 453,766 sq. ft. of leasing activity; followed by Woodlands/Conroe at 363,246 sq. ft.; and the CBD at 269,778 sq. ft. These leasing totals underscore that there are still opportunities for growth and success in Houston's office leasing market depending on the submarket (and in many cases, the quality of the space. On the quarter, new office space deliveries surged by approximately 264%, from 72,729 sq. ft. to 265,000 sq. ft.

Supply & Demand



Houston's Economic Landscape: Slow to Minimal Growth in 2023

Several indicators suggest a best-case scenario of a mild recession in the U.S., which may result in minimal growth for Houston's economy in 2023. Although Houston's Purchasing Managers Index has been signaling job growth since August 2020, the February 2023 reading of 52.7 was 13.6% down from its peak in October 2021. Moreover, the HLI (Houston's Leading Index declined by 2.1% over the three months ending in January, indicating a significant slowdown in job growth for the remainder of 2023. Additionally, in mid-March, oil prices fell by over 4% to a three-month low after a U.S. inflation report and recent bank failures raised concerns of a new financial crisis that could reduce future oil demand. Brent futures fell by $3.32, or 4.1%, to settle at $77.45 a barrel, while U.S. West Texas Intermediate (WTI crude fell by $3.47, or 4.6%, to settle at $71.33.

Key Market Indicators

Source: CoStar, Partners Research

	CURRENT Q1 2023	PRIOR QUARTER Q4 2022		PRIOR YEAR Q1 2022	
Vacant Total	25.2%	25.1%	▲	24.7%	▲
Vacant Direct	23.8%	23.7%	▲	23.4%	▲
Available Total	29.4%	29.9%	▼	29.0%	▲
Available Direct	26.7%	26.8%	▼	26.2%	▲
Net Absorption (SF)	29,330	-546,151	▲	895,651	▼
Leasing Activity (SF)	3,036,164	4,299,532	▼	3,770,054	▼
Construction (SF)	3,133,608	3,398,608	▼	2,710,998	▼
Deliveries (SF)	265,000	72,729	▲	703,171	▼
Avg Asking Rent (Gross)	$29.86	$29.98	▼	$29.72	▲
Inventory (SF)	241,971,561	241,706,561	▲	241,520,908	▲

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Market Overview

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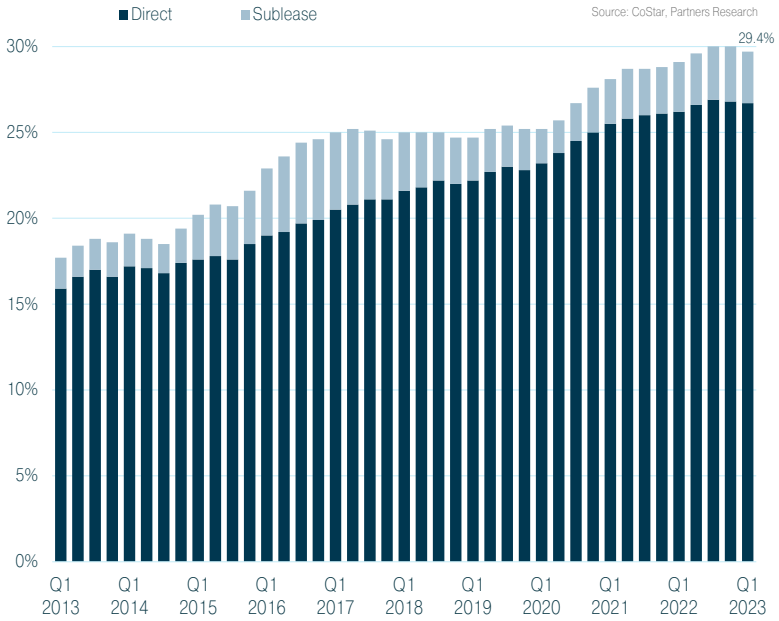
Houston Office Vacancy Rate at All-Time High

As of the end of the first quarter, the Houston's office market vacancy rate was 25.2%—an all-time high, and an increase of 10 basis points from the previous quarter's 25.1%. Additionally, the overall vacancy rate rose by 50 basis points year-over-year from 24.7%. Class A and Class B properties have vacancy rates of 26.9% and 23.0%, respectively. As of March 2023, Houston had the highest vacancy rate in the U.S.—well above the national average of 16.5%.

Availability Rates



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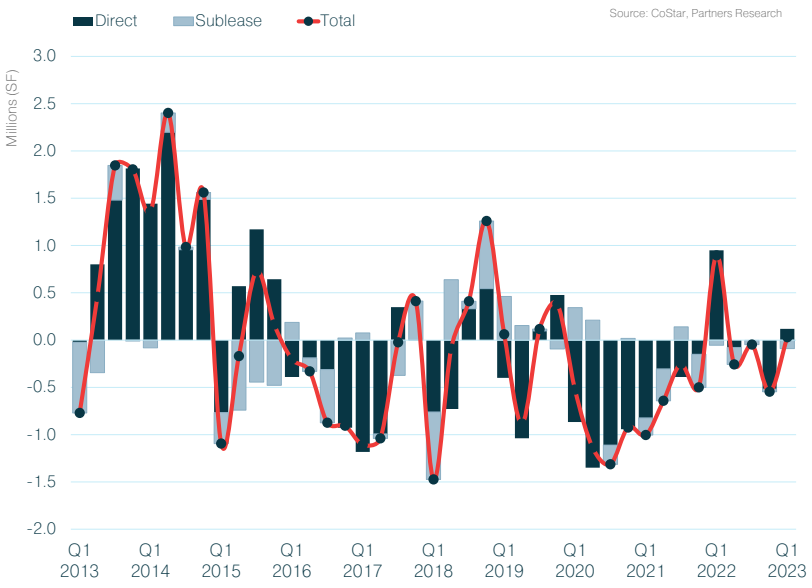
Positive Net Absorption in Q1 2023

Despite slower leasing activity, net absorption in the Houston office market was positive overall at 29,330 sq. ft.—a quarterly positive tally not seen since Q1 2022. This is a 105% increase from the previous quarter. Submarkets with the highest net absorption for the quarter includes the Energy Corridor at 106,024 sq. ft., and Woodlands/Conroe at 84,768 sq. ft.

Net Absorption



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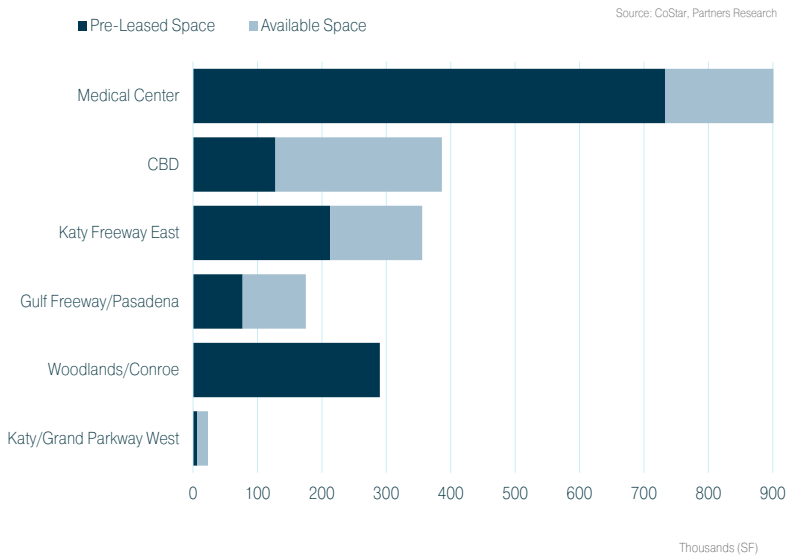
Office Development Updates

Office construction is at 3.1 million sq. ft. across 17 buildings, with 1.4 million sq. ft. (50%) available for lease. The Medical Center accounts for 933,873 sq. ft., or almost 60% of the total space available. Notable developments underway in the Medical Center submarket include: the 521,522-sq.-ft. Horizon Tower Life Sciences building being built within Texas A&M Innovation Plaza; the 219,153-sq.-ft. Dynamic One building within TMC Helix Park; and the 156,000-sq.-ft. office space being developed adjacent to the Medical Center. The Medical Center submarket has the 15th-lowest submarket vacancy rate in the Houston metro at 17.3%, and the 12th-lowest submarket availability rate at 23.5%. Undoubtedly, Houston's economy and demand for office space are greatly influenced by the health care sector, given that the city houses the world's largest health care cluster, the Texas Medical Center.

Construction



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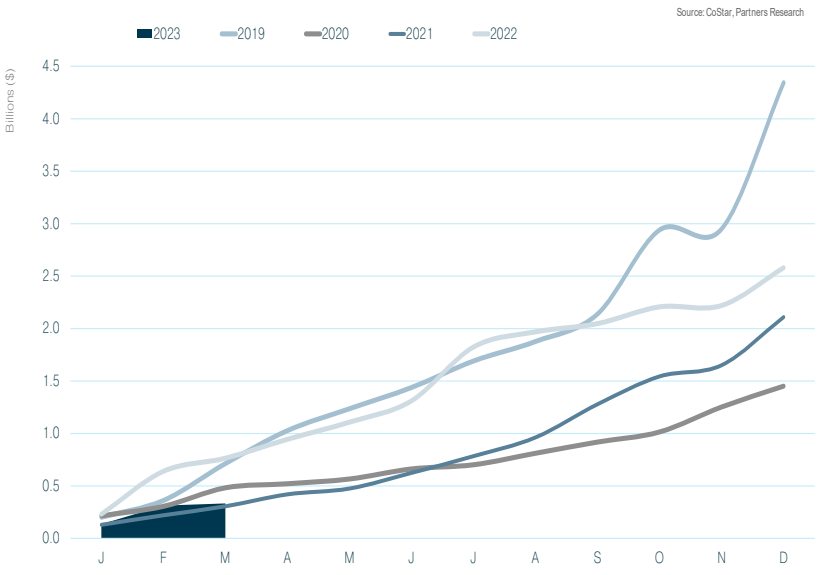
Investment Sales Trends

Real Capital Analytics reports quarterly office sales volume for Q1 2023 in the Greater Houston area at $333 million. The year-over-year change in volume is down 56% from $765 million in Q1 2022. The majority composition of buyers so far in 2023 was made up of 80% private and 19% institutional buyers. For sellers, the majority composition was 70% private and 29% institutional buyers. A notable sales transaction during the first quarter of 2023 involved Sovereign Partners acquiring San Felipe Plaza—a 980,473-sq.-ft, 46-story building for $82.8 million at 5847 San Felipe Street in the Galleria/West Loop market. Initially, Parkway Property Investments took ownership of San Felipe Plaza in 2013 when it acquired Thomas Properties Group in a stock-for-stock transaction valued at $1.2 billion. As interest rates continue to rise, building owners such as Parkway Property Investments might decide to hand over their properties rather than continue to carry them on their balance sheets.

Cumulative Monthly Sales Volume



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Market Overview

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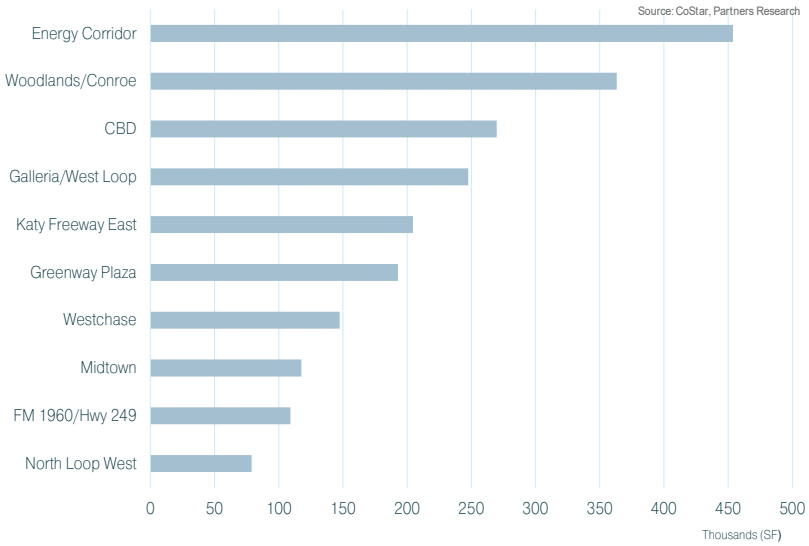
Quarterly Leasing Activity at 3M Sq. Ft.

Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 3.0 million sq. ft. during the first quarter—down from 4.3 million sq. ft. in Q4 2022. Year-over-year, Q1 2022 leasing activity registered at 3.7 million sq. ft. Top transactions in the first quarter included Community Health Choice signing an 82,706-sq.-ft. office lease at Loop Central in Bellaire; Spear Street Capital signing an office lease for 105,839 sq. ft in the Energy Center at Katy Freeway West; and MODEC inking a deal for 116,161 sq. ft. at West Memorial Place also at Katy Freeway West.

Leasing Activity



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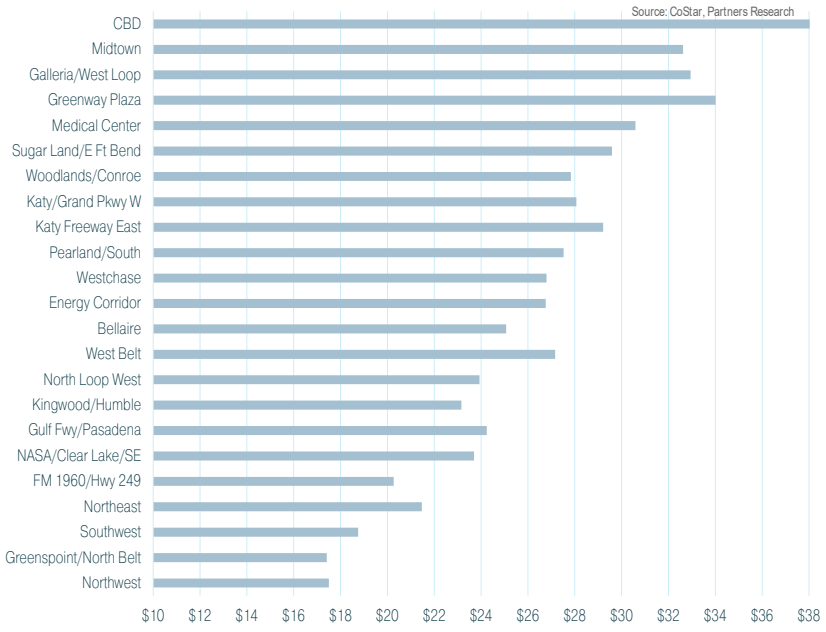
Average Asking Rents

The Houston overall full-service average rates are at $29.86 per sq. ft., down slightly from the last quarter at $29.98—though an increase from one year ago ($29.72 per sq. ft.. Asking rates for overall Class A space are $34.45 per sq. ft. and Class B are $22.67 per sq. ft. Rent growth has varied across Houston's submarkets. Asking rents in the Greenway Plaza submarket averaged $34.01 per sq. ft., which is 13% higher than the metro average and ranked number two—only behind the CBD at $40.67—among Houston submarkets as of the end of the first quarter of 2023.

Overall Gross Asking Rent ($/PSF)



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Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q1 2023 Net Absorption (SF)	Q1 2023 YTD Net Absorption (SF)	Q1 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent ($/PSF)
Houston Market Total	**241,971,561**	**25.2**	**29.4**	**29,330**	**29,330**	**3,036,164**	**3,133,608**	**29.86**
Class A	133,981,919	26.9	32.2	148,666	148,666	1,848,959	2,583,476	34.45
Class B	95,170,033	24.8	27.6	-182,260	-182,260	1,137,372	550,132	22.67
CBD Total	**40,313,653**	**30.8**	**35.5**	**136,308**	**136,308**	**386,323**	**386,323**	**40.67**
Class A	30,606,540	27.8	32.9	76,891	76,891	186,417	386,323	43.76
Class B	9,133,373	41.9	46.0	59,417	59,417	83,361	0	30.31
Bellaire Total	**4,718,319**	**21.2**	**21.7**	**-28,155**	**-28,155**	**97,479**	**0**	**25.07**
Class A	1,474,635	24.3	23.1	-24,242	-24,242	90,053	0	26.39
Class B	2,930,366	19.2	20.6	4,152	4,152	7,426	0	24.97
Energy Corridor Total	**23,801,474**	**26.5**	**33.5**	**106,024**	**106,204**	**453,776**	**0**	**26.76**
Class A	15,433,793	28.1	37.8	70,645	70,645	292,345	0	29.70
Class B	8,114,725	24.0	26.4	35,379	35,379	161,431	0	21.33
FM 1960/Hwy 249 Total	**11,357,427**	**29.1**	**36.8**	**-119,031**	**-119,031**	**109,067**	**48,600**	**20.27**
Class A	3,276,257	25.1	42.7	-39,912	-39,912	36,095	0	28.84
Class B	7,203,957	33.5	37.6	-87,190	-87,190	69,686	48,600	16.79
Galleria/West Loop Total	**28,666,929**	**28.1**	**33.5**	**-135,863**	**-135,863**	**247,589**	**0**	**32.94**
Class A	20,628,600	30.8	37.9	-86,657	-86,657	174,534	0	35.30
Class B	7,862,409	21.3	22.3	-47,439	-47,439	72,663	0	24.34
Greenspoint/North Belt Total	**11,450,839**	**49.4**	**48.9**	**76,421**	**76,421**	**156,542**	**0**	**17.41**
Class A	5,160,237	61.6	54.7	35,065	35,065	104,436	0	19.24
Class B	5,075,207	44.6	49.2	25,182	25,182	41,627	0	15.16
Greenway Plaza Total	**11,069,321**	**23.8**	**26.5**	**-8,659**	**-8,569**	**192,791**	**0**	**34.01**
Class A	7,476,872	25.0	27.8	14,490	14,490	115,046	0	36.41
Class B	3,183,449	22.4	25.1	-22,811	-22,811	69,880	0	28.63
Gulf Fwy/Pasadena Total	**4,194,242**	**17.5**	**20.6**	**-5,532**	**-5,532**	**17,034**	**175,000**	**24.24**
Class A	287,280	25.9	37.3	-17,743	-17,743	6,000	175,000	28.68
Class B	3,122,711	20.1	20.1	11,844	11,844	11,034	0	24.22
Katy Freeway East Total	**10,599,672**	**9.5**	**11.1**	**18,181**	**18,181**	**204,591**	**355,694**	**29.21**
Class A	6,861,702	6.8	8.9	35,842	35,842	180,881	355,694	38.37
Class B	2,505,435	19.0	19.3	-17,565	-17,565	19,601	0	22.11
Katy/Grand Pkwy W Total	**3,742,442**	**14.7**	**18.4**	**21,277**	**21,277**	**45,982**	**23,170**	**28.07**
Class A	2,243,380	21.0	26.1	30,504	30,504	36,810	0	28.23
Class B	1,345,830	5.9	7.9	-9,227	-9,227	9,172	23,170	26.67
Kingwood/Humble Total	**1,398,241**	**15.3**	**14.4**	**3,474**	**3,474**	**20,895**	**0**	**23.16**
Class A	230,466	25.2	14.7	-7,787	-7,787	0	0	28.23
Class B	1,084,906	13.7	14.7	16,413	16,413	20,895	0	22.56
Medical Center Total	**8,577,827**	**17.3**	**23.5**	**-21,739**	**-21,739**	**108,083**	**1,666,459**	**30.59**
Class A	4,139,914	20.9	29.7	60,545	60,545	72,187	1,666,459	35.52
Class B	3,591,741	15.6	17.2	-82,743	-82,743	35,529	0	25.33

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Submarket Stats

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q1 2023 Net Absorption (SF)	Q1 2023 YTD Net Absorption (SF)	Q1 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent ($/PSF)
Midtown Total	**2,565,033**	**19.0**	**20.5**	**61,928**	**61,928**	**78,424**	**0**	**35.75**
Class A	2,565,033	22.2	25.3	-30,259	-47,184	32,543	0	37.33
Class B	3,188,733	16.0	19.3	-46,646	-46,646	39,203	0	30.14
NASA/Clear Lake/SE Total	**7,622,197**	**16.4**	**18.9**	**14,073**	**14,073**	**89,529**	**106,000**	**23.70**
Class A	2,113,071	17.9	21.6	25,454	25,454	55,144	0	26.83
Class B	4,952,067	16.5	18.8	29,462	29,462	29,371	106,000	20.69
North Loop West Total	**4,445,018**	**19.9**	**23.3**	**12,425**	**12,425**	**78,905**	**0**	**23.93**
Class A	1,247,308	24.6	28.1	24,180	24,180	14,282	0	26.28
Class B	2,784,219	18.2	22.1	-7,146	-7,146	56,153	0	22.63
Northeast Total	**2,367,656**	**16.8**	**18.6**	**-439**	**-439**	**33,153**	**48,600**	**21.47**
Class A	174,777	9.0	9.0	-2,725	2,725	2,000	0	26.26
Class B	2,005,606	18.7	19.5	-11,256	-11,256	31,654	48,600	21.64
Northwest Total	**3,701,108**	**19.5**	**24.1**	**31,209**	**31,209**	**65,550**	**0**	**17.50**
Class A	805,808	29.2	37.3	31,961	31,961	52,490	0	20.54
Class B	2,169,384	19,7	22.8	-752	-752	13,060	0	15.45
Pearland/South Total	**1,802,882**	**7.5**	**11.1**	**18,390**	**18,390**	**8,338**	**62,400**	**28.21**
Class A	751,961	5.7	5.3	-4,072	-4,072	5,515	0	27.36
Class B	800,314	11.4	19.6	979	979	14,560	62,400	27.75
Southwest Total	**11,523,817**	**16.7**	**18.7**	**39,709**	**39,709**	**78,523**	**0**	**18.75**
Class A	1,334,274	21.9	26.1	15,691	15,691	12,411	0	18.86
Class B	8,278,427	18.1	20.0	1,765	1,765	57,360	0	19.09
Sugar Land/E Ft Bend	**6,828,019**	**21.8**	**24.4**	**17,042**	**17,042**	**92,701**	**0**	**29.59**
Class A	3,961,266	22.2	24.5	-33,273	-33,273	22,685	0	31.75
Class B	2,781,016	21.3	24.5	10,583	10,583	70,016	0	26.07
West Belt Total	**5,700,882**	**29.6**	**36.1**	**127,416**	**127,416**	**25,727**	**0**	**27.16**
Class A	3,833,728	31.2	33.5	125,218	125,218	21,641	0	29.05
Class B	1,779,465	27.7	43.5	-2,198	-2,198	4,086	0	22.57
Westchase Total	**14,619,726**	**32.1**	**37.2**	**-82,386**	**-82,386**	**147,431**	**20,000**	**26.79**
Class A	8,790,405	31.3	37.8	-18,599	-18,599	98,190	0	33.00
Class B	5,718,237	34.0	37.0	-63,787	-63,787	49,241	20,000	19.73
Woodlands/Conroe Total	**17,003,193**	**19.6**	**24.0**	**84,768**	**84,768**	**363,246**	**289,962**	**27.83**
Class A	10,584,612	20.2	26.4	76,606	76,606	191,373	0	28.48
Class B	6,041,562	19.5	21.1	2,144	2,144	171,873	289,962	27.33
Suburban Total	**201,657,908**	**24.1**	**28.1**	**-106,978**	**-106,978**	**2,766,386**	**2,747,285**	**28.81**
Class A	103,375,379	26.7	32.1	71,755	71,775	1,622,542	2,197,153	30.90
Class B	86,036,660	23.0	25.7	-241,677	-241,677	1,054,011	550,132	21.45

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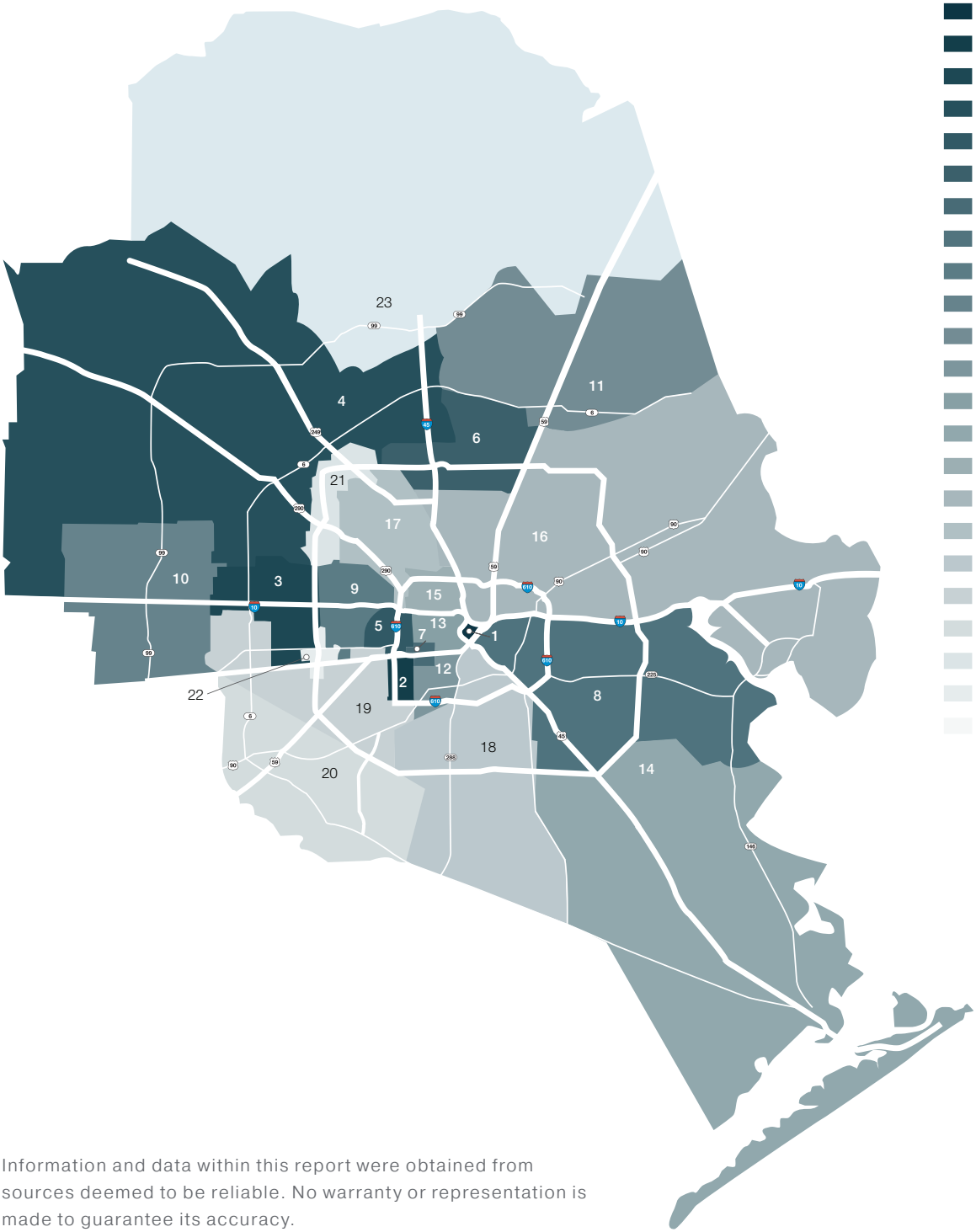
Houston Office Submarkets



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