

# Houston Office

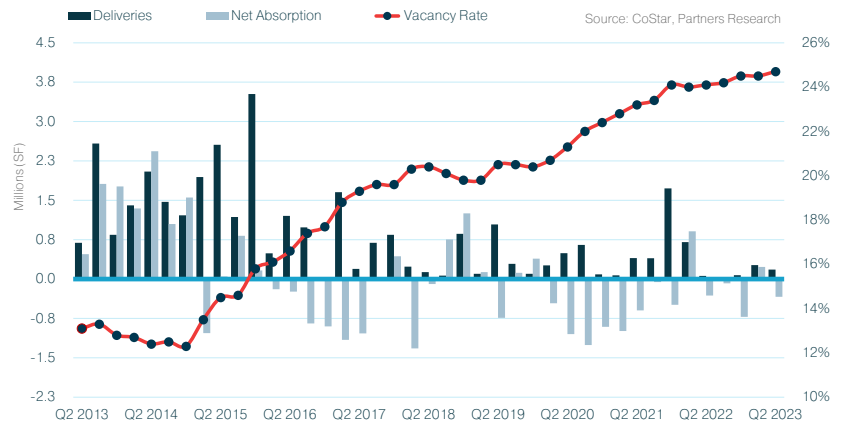
## Q2 2023

## Leasing activity up 12% in Houston Office market.

### Q2 In Review

By the end of Q2 2023, the overall vacancy rate in the Houston office market rose 20 basis points quarter-over-quarter, from 24.5% to 24.7%. Leasing activity increased 12% quarter-over-quarter to 3.7 million sq. ft. in Q2 2023. Notable transactions such as Lyondell Bassell's 318,504-sq.-ft. lease and Fluor's 308,186-sq.-ft. lease were signed in May 2023. On the flip side, deliveries decreased from 265,000 sq. ft. in Q1 2023 to 180,000 sq. ft. in Q2 2023. Office construction remains strong at 2.9 million sq. ft. with 35,437 sq. ft. added from the previous quarter. Rent growth in Houston has continued to slow down, with the average full-service rate standing at \$29.70 per sq. ft.

### Supply & Demand



### Houston Economic Update

Houston's unemployment rate increased to 4.4% in May 2023, ticking up from 4.0% in April 2023. The metro's jobless rate beat the state's and the nation's rates at 4.1% and 3.5%, respectively. Year-to-date, Houston has gained 33,496 jobs in the first five months of 2023, reflecting 2.5% annual growth. Service-providing industries experienced the most growth in May. Specifically, trade, transportation, and utilities (5,300 jobs, 0.8%), leisure and hospitality (4,600 jobs, 1.3%), and education and health services (3,000 jobs, 0.7%).

### Key Market Indicators

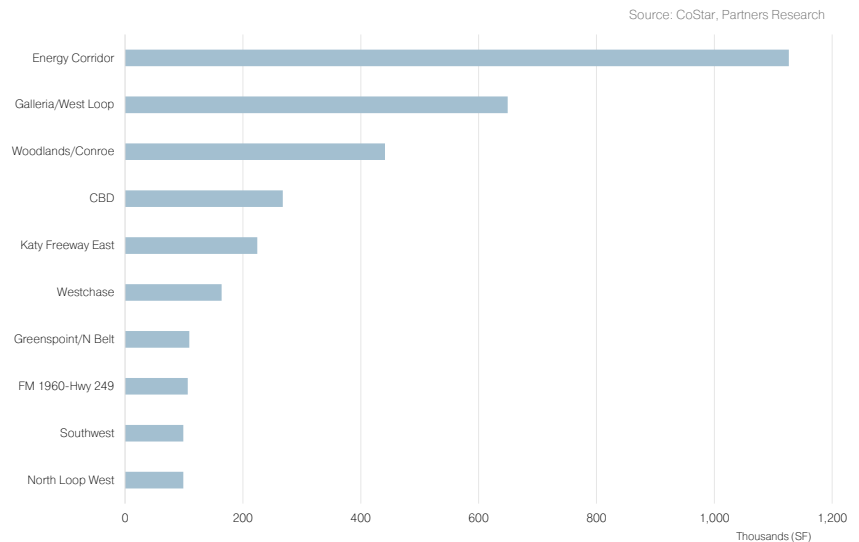
	CURRENT Q2 2023	PRIOR QUARTER Q1 2023	PRIOR YEAR Q2 2022	
Vacant Total	24.7%	24.5%	24.1%	▲
Vacant Direct	23.2%	23.3%	23.0%	▼
Available Total	28.4%	28.7%	28.8%	▼
Available Direct	25.9%	26.2%	26.1%	▼
Net Absorption (SF)	-337,527	231,947	895,651	▼
Leasing Activity (SF)	3,713,475	3,305,360	3,770,054	▼
Construction (SF)	2,975,207	2,939,770	2,710,998	▲
Deliveries (SF)	180,000	265,000	703,171	▼
Avg Asking Rent (Gross)	\$29.70	\$29.87	\$29.98	▼
Inventory (SF)	243,891,893	243,711,893	243,347,240	▲

## 01

### West Houston Secures Multiple 300,000-Sq.-Ft. Leases

Quarterly leasing velocity for the entirety of the Houston office market—which is comprised of both new leases and renewals—stood at 3.7 million sq. ft. in Q2 2023—up 12% from 3.3 million sq. ft. in Q1 2023. Per a recent analysis in the Houston Business Journal, West Houston’s office market leasing momentum is among the top in the country as of Q2 2023, particularly in Galleria/West Loop and Energy Corridor. In a notable transaction, Lyondell Bassell secured the largest space of the quarter, signing a 318,504-sq.-ft. office lease in May 2023 in Galleria/West Loop with a move-in date anticipated at the end of 2024. Lyondell Bassell will occupy 15 floors within the Williams Tower at 2800 Post Oak Blvd. In addition, Fluor secured a 12-year lease for an entire 308,186-sq.-ft. office building, Three Eldridge, at 737 Eldridge Parkway in May 2023. Fluor’s move-in date is set for the second quarter of 2024.

### Quarterly Leasing Activity | Top 10 Submarkets

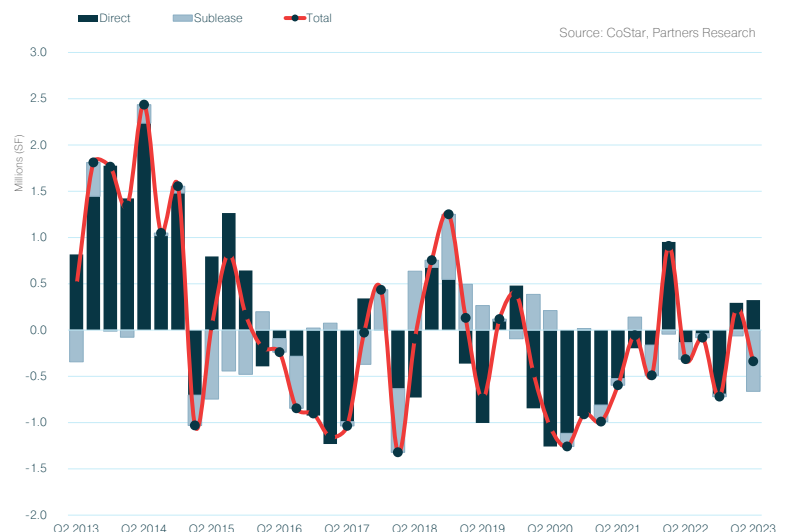


## 02

### Negative Net Absorption in Q2 2023

Net absorption—move-ins minus move-outs—fell from 231,947 sq. ft. to -337,527 sq. ft. quarter-over-quarter. This decrease can be partially attributed to the uptick in leasing activity, and also the slower delivery cadence in Q2 2023. Deliveries decreased from 265,000 sq. ft. in Q1 2023 to 180,000 sq. ft. in Q2 2023. Year-to-date, deliveries are at 445,000 sq. ft. The quarter’s largest move-ins include Axiom Space occupying 106,000 sq. ft. of office space within NASA/Clear Lake at 11603 Aerospace Avenue, and Cellipoint Bioservices filling 75,255 sq. ft. of office space within The Woodlands at 9501 Lakeside Blvd. The largest move-outs of the quarter include Reed Smith LLP vacating 67,142 sq. ft. of office space within the CBD at 811 Main Street, and PNC Bank leaving 78,968 sq. ft. of office space within Galleria/West Loop at 2200 Post Oak Blvd.

### Net Absorption



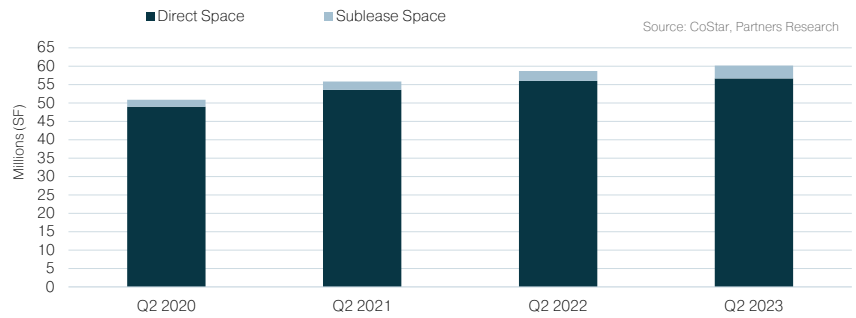
# Market Overview

## 03

### Vacancy Rate Increases To 24.7%

The overall vacancy rate in Houston's office market rose to 24.7%, increasing 20 basis points from the prior quarter (24.5%). Class A and Class B properties have vacancy rates of 26.5% and 24.1%, respectively. Class A submarkets with the greatest year-over-year increases in vacancy rates include: NASA/Clear Lake (17.4% to 20.3%), Westchase (31.4% to 34.2%), and Southwest (21.9% to 24.2%). Class B submarkets with the greatest year-over-year increases include: Northwest (17.9% to 21.4%), Katy Grand Parkway (5.6% to 7.8%), and Bellaire (15.8% to 17.8%).

### Vacancy

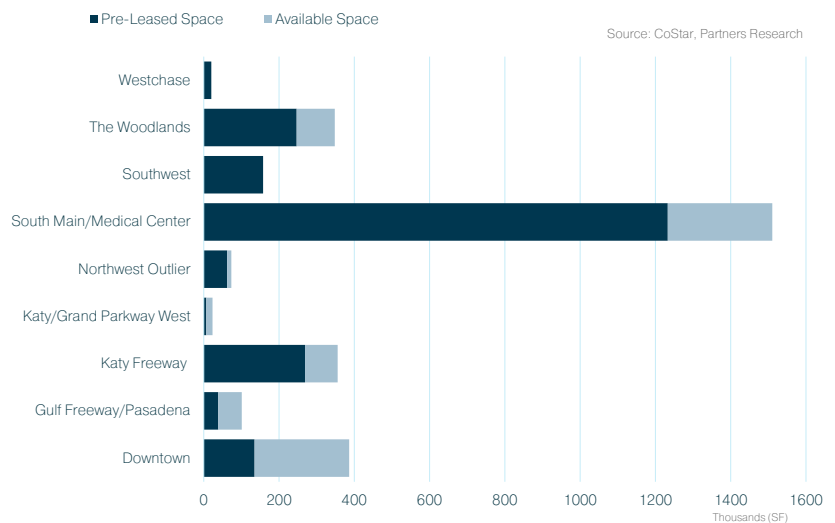


## 04

### Medical Center Dominates Construction

Office construction is at 2.9 million sq. ft. across 16 buildings, with 806,636 sq. ft. (27%) available for lease. The Medical Center accounts for 1.5 million sq. ft. under construction and 51% of the total space available. Notable developments underway in the Medical Center include: the 700,000-sq.-ft. Dynamic One building within TMC Helix Park, and the 521,522-sq.-ft. Horizon Tower Life Sciences building within the Texas A&M Innovation Plaza. The Medical Center has the eighth-lowest submarket vacancy rate in the Houston Metro at 17.0%, and the fifth-lowest submarket availability rate at 18.3%.

### Construction

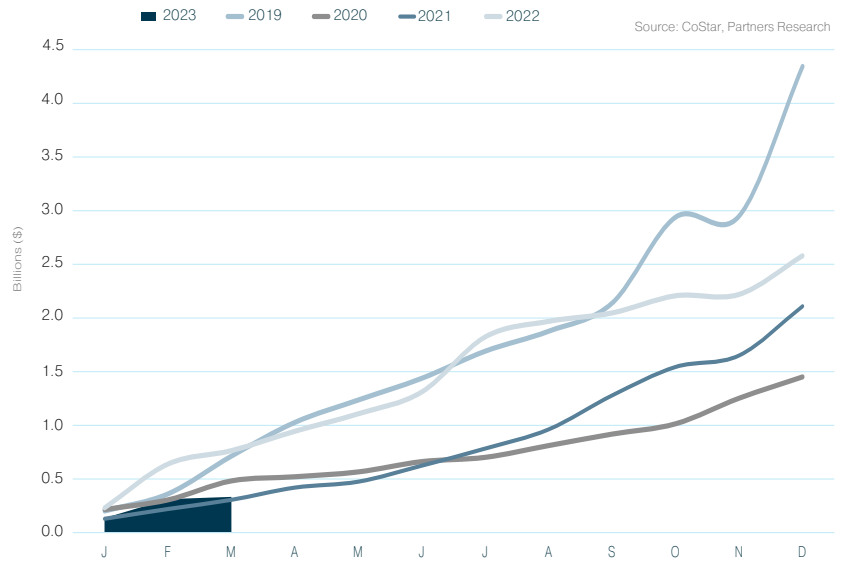


## 05

### Investment Sales Trends

Real Capital Analytics reports quarterly office sales volume for Q2 2023 in the Greater Houston area at \$105 million, down 68% year-over-year from \$326 million in Q2 2022. The majority composition of buyers so far in 2023 was made up of 82% private and 16% institutional. For sellers, the majority composition was 67% private and 25% institutional. Investment sales activity will likely continue to decelerate over the near term as future interest rate hikes and increased borrowing costs challenge investors to close on deals.

### Cumulative Sales Volume

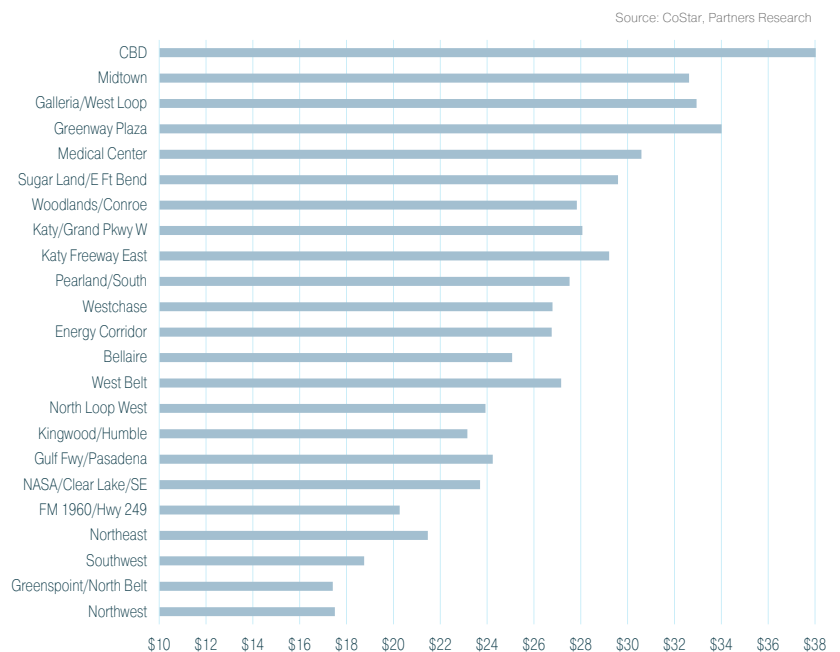


## 06

### Rent Growth Slowing Down

The Houston average full-service rate stands at \$29.70 per sq. ft., down slightly from the previous quarter's \$29.87 per sq. ft., and the previous year's \$29.98 per sq. ft. Asking rates for overall Class A and Class B space are at \$34.40 per sq. ft. and \$22.76 per sq. ft., respectively. On the quarter, submarkets with the highest asking rates include the CBD at \$40.66 per sq. ft., followed by Greenway Plaza at \$33.99 per sq. ft. Overall, rent growth in Houston is expected to continue slowing down until Q2 2025. From Q2 2023 to Q2 2025, Houston overall full-service average rates are forecasted to drop from \$29.70 sq. ft. to \$28.74 sq. ft.

### Overall Gross Asking Rent (\$/PSF)



# Market Overview

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## Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Houston Market Total</b>	<b>243,891,893</b>	<b>24.7%</b>	<b>28.4%</b>	<b>-337,527</b>	<b>-105,580</b>	<b>3,713,475</b>	<b>2,975,207</b>	<b>29.70</b>
Class A	134,852,604	26.5%	31.0%	96,801	420,618	2,580,179	2,510,913	34.40
Class B	95,814,930	24.1%	26.9%	-408,615	-579,246	1,083,517	464,294	22.76
<b>CBD Total</b>	<b>40,888,213</b>	<b>29.9%</b>	<b>35.3%</b>	<b>-34,000</b>	<b>133,565</b>	<b>267,695</b>	<b>386,323</b>	<b>40.66</b>
Class A	31,122,465	27.4%	33.0%	-71,769	36,379	254,312	386,323	43.51
Class B	9,192,008	39.4%	45.2%	38,553	97,970	13,383	0	30.94
<b>Bellaire Total</b>	<b>4,698,581</b>	<b>20.0%</b>	<b>20.4%</b>	<b>-52,410</b>	<b>-80,565</b>	<b>17,927</b>	<b>0</b>	<b>25.78</b>
Class A	1,454,897	23.6%	21.8%	4,915	-19,327	3,138	0	28.50
Class B	2,930,366	17.8%	18.9%	-57,468	-53,316	11,108	0	25.42
<b>Energy Corridor Total</b>	<b>23,876,815</b>	<b>25.3%</b>	<b>30.4%</b>	<b>74,445</b>	<b>139,868</b>	<b>1,126,355</b>	<b>0</b>	<b>26.63</b>
Class A	15,431,007	27.0%	33.0%	75,016	117,060	832,780	0	29.50
Class B	8,192,852	22.7%	26.2%	-2,086	-21,293	291,477	0	21.74
<b>FM 1960/Hwy 249 Total</b>	<b>11,408,453</b>	<b>29.4%</b>	<b>36.6%</b>	<b>-61,778</b>	<b>-202,939</b>	<b>106,451</b>	<b>73,162</b>	<b>20.30</b>
Class A	3,330,343	24.6%	40.3%	5,764	-34,148	19,513	0	27.72
Class B	7,027,531	34.5%	38.1%	-61,163	-172,691	83,450	73,162	18.24
<b>Galleria/West Loop Total</b>	<b>28,629,134</b>	<b>28.6%</b>	<b>33.0%</b>	<b>-129,944</b>	<b>-265,807</b>	<b>649,331</b>	<b>0</b>	<b>33.09</b>
Class A	20,657,629	31.3%	37.1%	-50,204	-136,861	554,529	0	35.10
Class B	7,822,896	21.6%	22.5%	-75,552	-120,736	92,159	0	24.62
<b>Greenspoint/North Belt Total</b>	<b>11,401,688</b>	<b>47.6%</b>	<b>47.4%</b>	<b>-22,647</b>	<b>53,511</b>	<b>109,038</b>	<b>0</b>	<b>17.42</b>
Class A	5,150,428	55.8%	53.2%	63,706	98,771	24,652	0	19.47
Class B	5,064,850	46.1%	47.1%	-84,523	-59,604	77,815	0	15.07
<b>Greenway Plaza Total</b>	<b>11,165,625</b>	<b>23.5%</b>	<b>26.3%</b>	<b>42,677</b>	<b>34,108</b>	<b>57,001</b>	<b>0</b>	<b>33.99</b>
Class A	7,525,069	24.9%	27.2%	20,222	34,712	44,422	0	36.23
Class B	3,231,556	21.9%	26.0%	19,407	-3,404	7,926	0	28.71
<b>Gulf Fwy/Pasadena Total</b>	<b>4,493,539</b>	<b>16.2%</b>	<b>19.0%</b>	<b>52,672</b>	<b>47,140</b>	<b>29,533</b>	<b>101,000</b>	<b>24.08</b>
Class A	423,973	27.4%	36.5%	50,146	34,176	0	101,000	24.82
Class B	3,285,315	17.8%	18.0%	-7,313	2,758	27,818	0	24.06
<b>Katy Freeway East Total</b>	<b>10,581,508</b>	<b>8.8%</b>	<b>10.8%</b>	<b>74,100</b>	<b>92,281</b>	<b>224,300</b>	<b>355,694</b>	<b>29.15</b>
Class A	6,843,538	5.8%	8.5%	70,746	106,558	188,006	355,694	38.73
Class B	2,505,435	19.1%	19.2%	-2,527	-20,092	26,514	0	22.32
<b>Katy/Grand Pkwy W Total</b>	<b>3,727,673</b>	<b>16.7%</b>	<b>22.6%</b>	<b>-72,991</b>	<b>-51,714</b>	<b>53,187</b>	<b>23,170</b>	<b>27.61</b>
Class A	2,168,725	23.7%	33.4%	-41,747	-11,243	32,830	0	27.65
Class B	1,405,716	7.8%	8.6%	-31,244	-40,471	20,357	23,170	27.20
<b>Kingwood/Humble Total</b>	<b>1,398,241</b>	<b>15.3%</b>	<b>14.8%</b>	<b>876</b>	<b>4,350</b>	<b>10,315</b>	<b>0</b>	<b>23.14</b>
Class A	230,466	24.2%	12.7%	2,305	-5,482	4,610	0	28.03
Class B	1,084,906	13.8%	15.6%	-1,429	14,984	5,705	0	22.62
<b>Medical Center Total</b>	<b>8,623,797</b>	<b>17.0%</b>	<b>18.3%</b>	<b>62,328</b>	<b>40,589</b>	<b>40,950</b>	<b>1,510,459</b>	<b>27.90</b>
Class A	4,344,094	21.9%	20.9%	61,473	92,884	2,907	1,510,459	32.67
Class B	3,433,531	13.3%	16.6%	1,564	-52,005	38,043	0	23.88

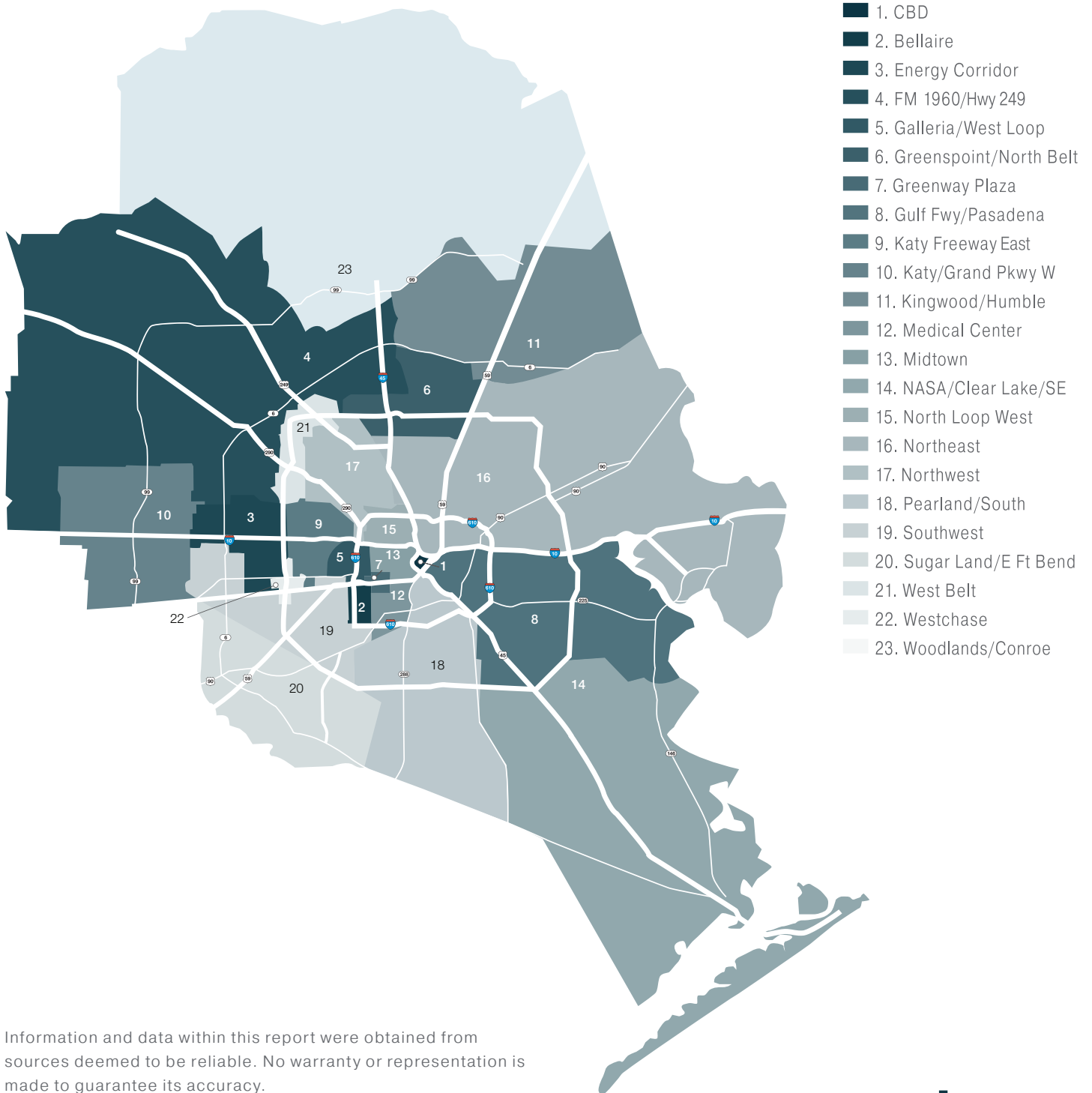
# Market Overview

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## Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Midtown Total</b>	<b>6,570,679</b>	<b>16.5%</b>	<b>19.2%</b>	<b>-6,300</b>	<b>7,342</b>	<b>43,810</b>	<b>0</b>	<b>31.74</b>
Class A	2,565,033	17.3%	19.3%	44,399	106,327	20,654	0	35.44
Class B	3,189,803	17.1%	21.1%	-36,191	-82,837	23,156	0	29.46
<b>NASA/Clear Lake/SE Total</b>	<b>7,703,722</b>	<b>11.9%</b>	<b>15.9%</b>	<b>70,829</b>	<b>84,902</b>	<b>41,244</b>	<b>0</b>	<b>23.83</b>
Class A	2,194,981	20.3%	26.7%	62,938	29,397	1,305	0	26.97
Class B	4,893,701	8.5%	11.7%	132,577	165,396	39,139	0	20.96
<b>North Loop West Total</b>	<b>4,445,018</b>	<b>19.8%</b>	<b>22.4%</b>	<b>745</b>	<b>13,170</b>	<b>98,807</b>	<b>0</b>	<b>24.10</b>
Class A	1,247,308	22.5%	24.7%	26,097	24,180	54,452	0	26.27
Class B	2,784,219	19.1%	22.2%	-25,922	-33,068	44,074	0	22.63
<b>Northeast Total</b>	<b>2,433,423</b>	<b>17.3%</b>	<b>19.0%</b>	<b>6,469</b>	<b>6,030</b>	<b>8,852</b>	<b>0</b>	<b>21.93</b>
Class A	174,777	7.5%	7.5%	2,626	-99	2,626	0	26.26
Class B	1,687,267	19.1%	18.6%	4,836	13,260	5,143	0	22.57
<b>Northwest Total</b>	<b>3,822,992</b>	<b>20.3%</b>	<b>24.9%</b>	<b>-82,393</b>	<b>-51,184</b>	<b>37,987</b>	<b>0</b>	<b>18.14</b>
Class A	805,808	29.4%	40.2%	-1,190	30,771	24,794	0	20.68
Class B	2,238,728	21.4%	23.6%	-76,661	-77,413	13,193	0	16.74
<b>Pearland/South Total</b>	<b>1,832,215</b>	<b>10.8%</b>	<b>12.8%</b>	<b>-6,859</b>	<b>-9,952</b>	<b>5,935</b>	<b>0</b>	<b>27.60</b>
Class A	811,294	12.4%	15.6%	-12,130	-16,202	0	0	27.66
Class B	800,314	10.7%	12.0%	5,271	6,250	5,935	0	27.78
<b>Southwest Total</b>	<b>11,766,782</b>	<b>16.7%</b>	<b>18.3%</b>	<b>-98,299</b>	<b>58,590</b>	<b>98,843</b>	<b>157,437</b>	<b>18.79</b>
Class A	1,334,274	24.2%	25.0%	-30,748	-15,057	7,884	157,437	18.42
Class B	8,348,448	17.7%	19.4%	-66,447	67,452	79,973	0	19.31
<b>Sugar Land/E Ft Bend</b>	<b>6,832,020</b>	<b>22.0%</b>	<b>25.5%</b>	<b>-16,342</b>	<b>700</b>	<b>47,046</b>	<b>0</b>	<b>29.04</b>
Class A	3,988,144	22.5%	26.6%	22,907	-11,441	10,962	0	30.54
Class B	2,758,139	21.5%	24.3%	-39,249	-27,591	36,084	0	26.73
<b>West Belt Total</b>	<b>5,905,176</b>	<b>26.8%</b>	<b>34.4%</b>	<b>18,355</b>	<b>72,943</b>	<b>34,045</b>	<b>0</b>	<b>26.70</b>
Class A	4,028,655	28.4%	31.9%	50,934	107,720	34,045	0	29.31
Class B	1,788,892	24.6%	41.9%	-32,579	-34,777	0	0	22.02
<b>Westchase Total</b>	<b>14,718,626</b>	<b>33.9%</b>	<b>37.8%</b>	<b>-279,744</b>	<b>-348,898</b>	<b>163,810</b>	<b>20,000</b>	<b>26.26</b>
Class A	8,461,473	34.2%	39.3%	-234,987	-258,004	124,759	0	32.91
Class B	6,146,069	34.1%	36.5%	-44,757	-90,894	39,051	20,000	19.72
<b>Woodlands/Conroe Total</b>	<b>16,967,973</b>	<b>18.0%</b>	<b>21.7%</b>	<b>122,684</b>	<b>233,570</b>	<b>441,013</b>	<b>347,962</b>	<b>28.27</b>
Class A	10,558,223	18.0%	22.5%	101,258	205,192	338,999	0	29.53
Class B	6,002,388	18.9%	20.8%	34,288	35,194	102,014	347,962	27.38
<b>Suburban Total</b>	<b>203,003,680</b>	<b>23.6%</b>	<b>27.0%</b>	<b>-303,527</b>	<b>-239,145</b>	<b>3,445,780</b>	<b>2,588,884</b>	<b>26.59</b>
Class A	103,730,139	26.3%	30.5%	168,570	284,239	2,325,867	2,124,590	30.79
Class B	86,622,922	22.4%	25.0%	-447,168	-677,216	1,070,134	464,294	21.52

### Houston Office Submarkets



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