

Houston Office

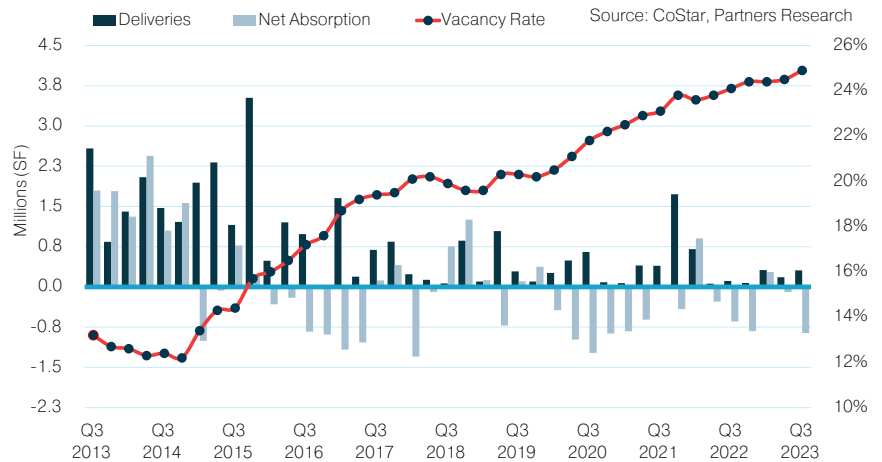
Q3 2023

More Space for Space: Intuitive Machines touches down at Houston Spaceport

Q3 In Review

By the end of Q3 2023, the overall vacancy rate in the Houston Office market rose 40 basis points quarter-over-quarter, from 24.5% to 24.9%. Hybrid work, higher interest rates, and preference for higher-quality space have contributed to tenants downsizing and vacating existing workplaces. Leasing activity decreased 47% from 4.0 million sq. ft. in Q2 2023 to 2.1 million sq. ft. in Q3 2023. Year-to-date, leasing activity registered at 9.5 million sq. ft. On the flip side, deliveries are at 308,077 sq. ft., nearly tripling from the prior year's 111,924 sq. ft., bringing the year-to-date total to 801,077 sq. ft. Lastly, the average asking rent surpassed \$30 per sq. ft., currently standing at \$30.24 per sq. ft.

Supply & Demand



Houston Economic Update

Houston's unemployment rate increased to 4.9% in August 2023, slightly up from 4.8% in July 2023. The metro's jobless rate lagged the state's and the nation's rates at 4.5% and 3.9%, respectively. Houston's employment stood at 3.3 million in August 2023. The largest job gains by sector included: other services (+3,900 jobs, 3.3%), leisure and hospitality (+3,400 jobs, 1.0%), and financial activities (+1,800 jobs, 1.0%). The largest job declines by sector included: professional and business services (-3,300 jobs, -0.6%), construction (-2,300 jobs, -1.0%), and trade, transportation, and utilities (-600 jobs, -1.0%).

Key Market Indicators

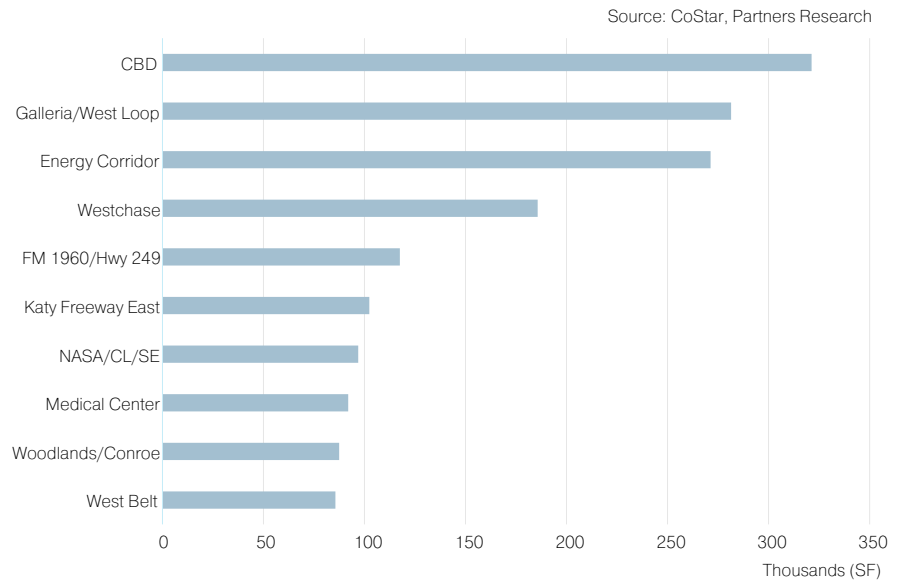
	CURRENT Q3 2023	PRIOR QUARTER Q2 2023		PRIOR YEAR Q3 2022	
Vacant Total	24.9%	24.5%	▲	24.1%	▲
Vacant Direct	23.5%	23.2%	▲	23.0%	▲
Available Total	28.3%	28.2%	▲	29.0%	▼
Available Direct	25.7%	25.8%	▼	26.2%	▼
Net Absorption (SF)	-858,651	-94,765	▼	-643,672	▼
Leasing Activity (SF)	2,128,837	4,037,660	▼	4,674,180	▼
Construction (SF)	2,634,872	2,942,949	▼	3,082,641	▼
Deliveries (SF)	308,077	180,000	▲	111,924	▲
Avg Asking Rent (Gross)	\$30.24	\$29.73	▲	\$30.10	▲
Inventory (SF)	244,495,561	244,187,484	▲	243,621,755	▲

01

Leasing Momentum Tapers Down From Prior Quarter

Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 2.1 million sq. ft. during the third quarter—down 47% from 4.0 million sq. ft. in Q2 2023. Year-to-date, leasing activity registered at 9.5 million sq. ft., compared to the prior year-to-date figure of 12.7 million sq. ft. Next Decade, LNG inked one of the largest leases for the quarter—a 90,034-sq.-ft. lease of Class A office space at 1000 Louisiana Street in July 2023. Tenant preference for smaller, higher-quality space has continued to impact leasing activity in recent months. Gulf Cos., a global engineering firm, signed a lease for 52,148 sq. ft. of Class A office space at 1080 Eldridge Parkway in July 2023, downsizing from their 115,000-sq.-ft. footprint at 16010 Barkers Point Lane—the company’s move is scheduled for April 2024.

Quarterly Leasing Activity | Top 10 Submarkets

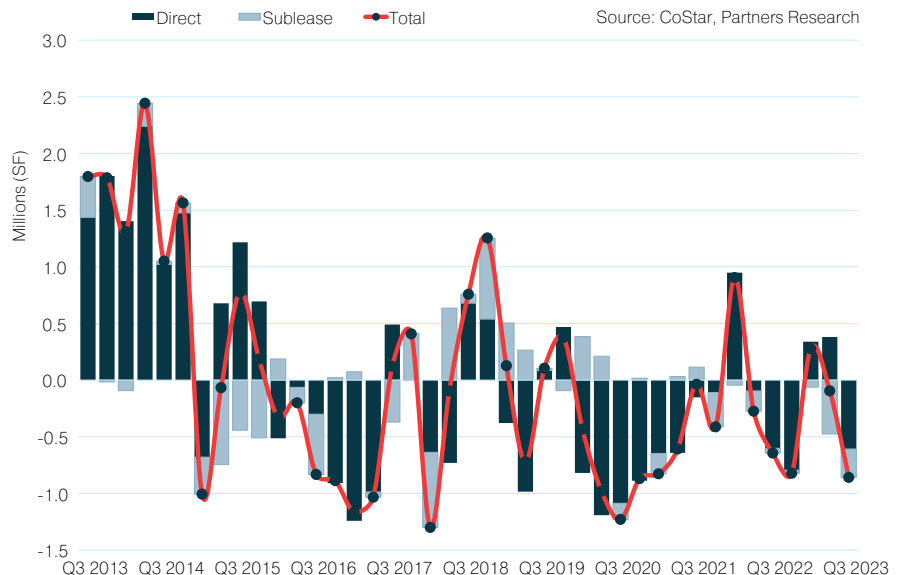


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Negative Net Absorption in Q3 2023

Net absorption—move-ins minus move-outs—remains in negative territory at -858,651 sq. ft. in Q3 2023, plummeting from -94,765 sq. ft. in Q2 2023. Year-to-date, net absorption is at -676,849 sq. ft. NOV, Inc. vacated a three-building, 337,019-sq.-ft. office campus near the corner of Parkwood Circle Drive and Beechnut Street in August 2023, marking one of the largest contributors to negative net absorption in Q3 2023. Another notable move-out was SNC-Lavalin leaving 156,499 sq. ft. at 919 Milam Street. The specific date was not disclosed by CoStar.

Net Absorption

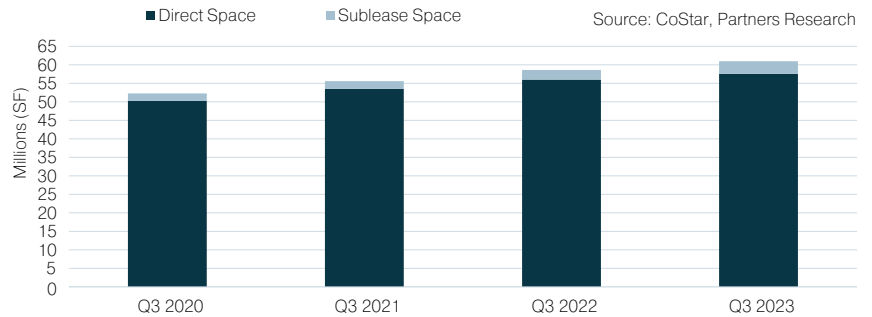


03

Vacancy Rate Increases To 24.9%

The overall vacancy rate in Houston’s office market rose to 24.9%, increasing 40 basis points from the prior quarter (24.5%). Class A and Class B properties have vacancy rates of 26.7% and 24.6%, respectively. Class A submarkets with the greatest year-over-year increases in vacancy rates include: Gulf Freeway/Pasadena (27.3% to 33.3%), Midtown (17.3% to 20.0%), and Energy Corridor (27.0% to 29.6%). Class B submarkets with the greatest year-over-year increases include: Southwest (17.7% to 22.7%), Gulf Freeway/Pasadena (15.6% to 18.2%), and East Fort Bend/Sugarland (21.1% to 22.4%).

Vacancy

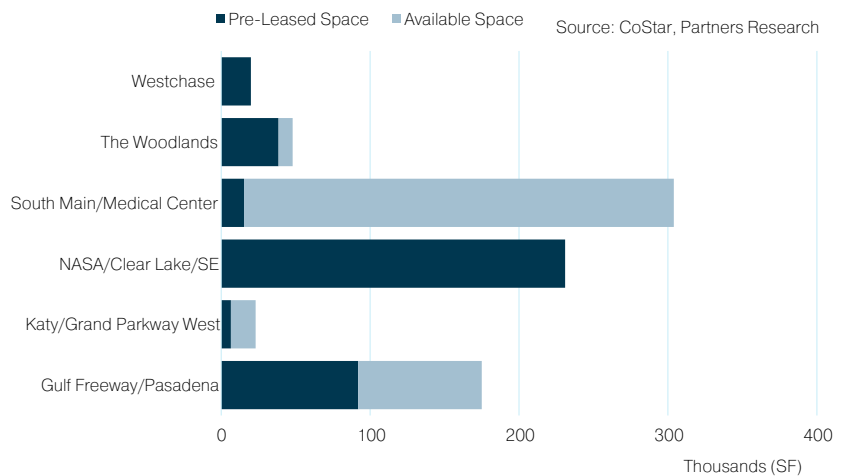


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Deliveries Nearly Tripled From Prior Quarter

By the end of Q3 2023, deliveries in the Houston office market had increased to 308,077 sq. ft. Year-over-year, deliveries nearly tripled from 111,924 sq. ft. Year-to-date, deliveries are at 801,077 sq. ft.—with the NASA/Clear Lake/SE and the South Main/Medical Center submarkets accounting for 67% of the space delivered. Intuitive Machine’s headquarters—a 125,000-sq.-ft. office building built in July 2023 at 13150 Space Center Boulevard (Houston’s Spaceport) accounted for one of the largest deliveries of the quarter. Office construction is at 2.6 million sq. ft. across 15 buildings, with 670,657 sq. ft. (26%) available for lease.

Deliveries

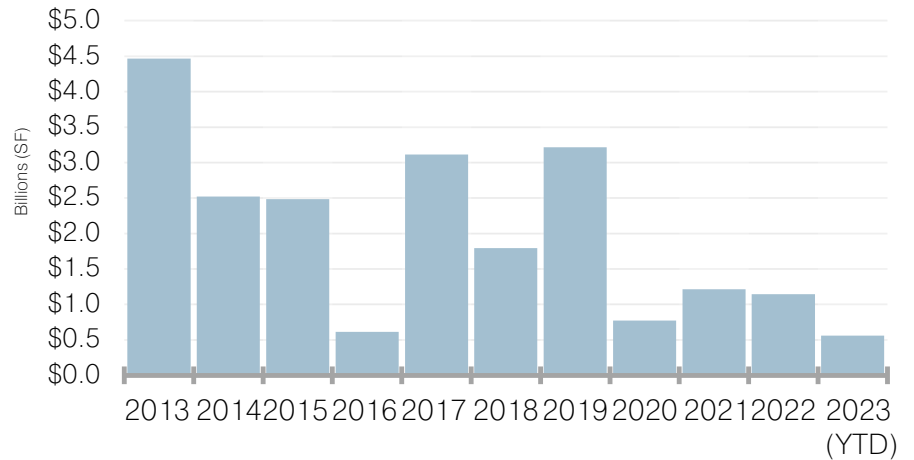


05

Investment Sales Trends

Year-to-date, CoStar Capital Market Analytics reports the cumulative 12-month sales volume for 2023 at \$558 million in the Houston office market. With 527 deals completed thus far in 2023, the average transaction price currently stands at \$113 per sq. ft. with an average transaction cap rate at 7.6%. A notable transaction in Q3 2023 included Chevron Phillips Chemical, a polymer and petrochemical provider, closing on a 6-story, 360,000-sq.-ft. office building at 9500 Lakeside Boulevard in August 2023. The property was sold by development company JD Warmack Woodlands LP for \$34 million. Chevron Phillips Chemical plans to move into the Research Forest Lakeside 3 Building by early 2025.

Cumulative Sales Volume

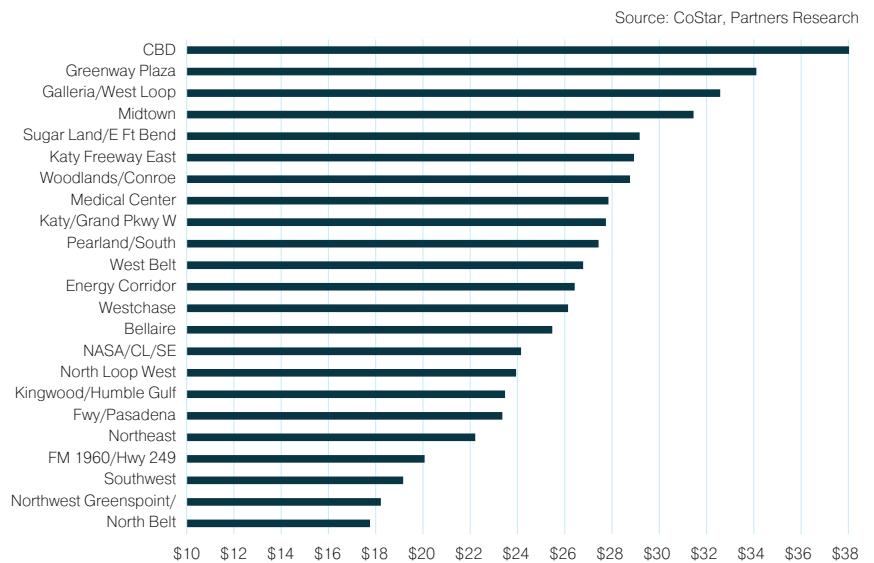


06

Rent Once Again Surpasses \$30 Per Sq. Ft.

The Houston office overall full-service average rate stands at \$30.24 per sq. ft., up slightly from the previous quarter's \$29.73 per sq. ft., and the previous year's \$30.10 per sq. ft. Asking rates for overall Class A and Class B space are at \$35.20 per sq. ft. and \$23.09 per sq. ft., respectively. Submarkets with the highest quarter-over-quarter increases in asking rates include the CBD at \$42.11 per sq. ft. (3.6%), followed by Greenspoint/N Belt at \$17.76 per sq. ft. (2.0%).

Overall Gross Asking Rent (\$/PSF)



Market Overview

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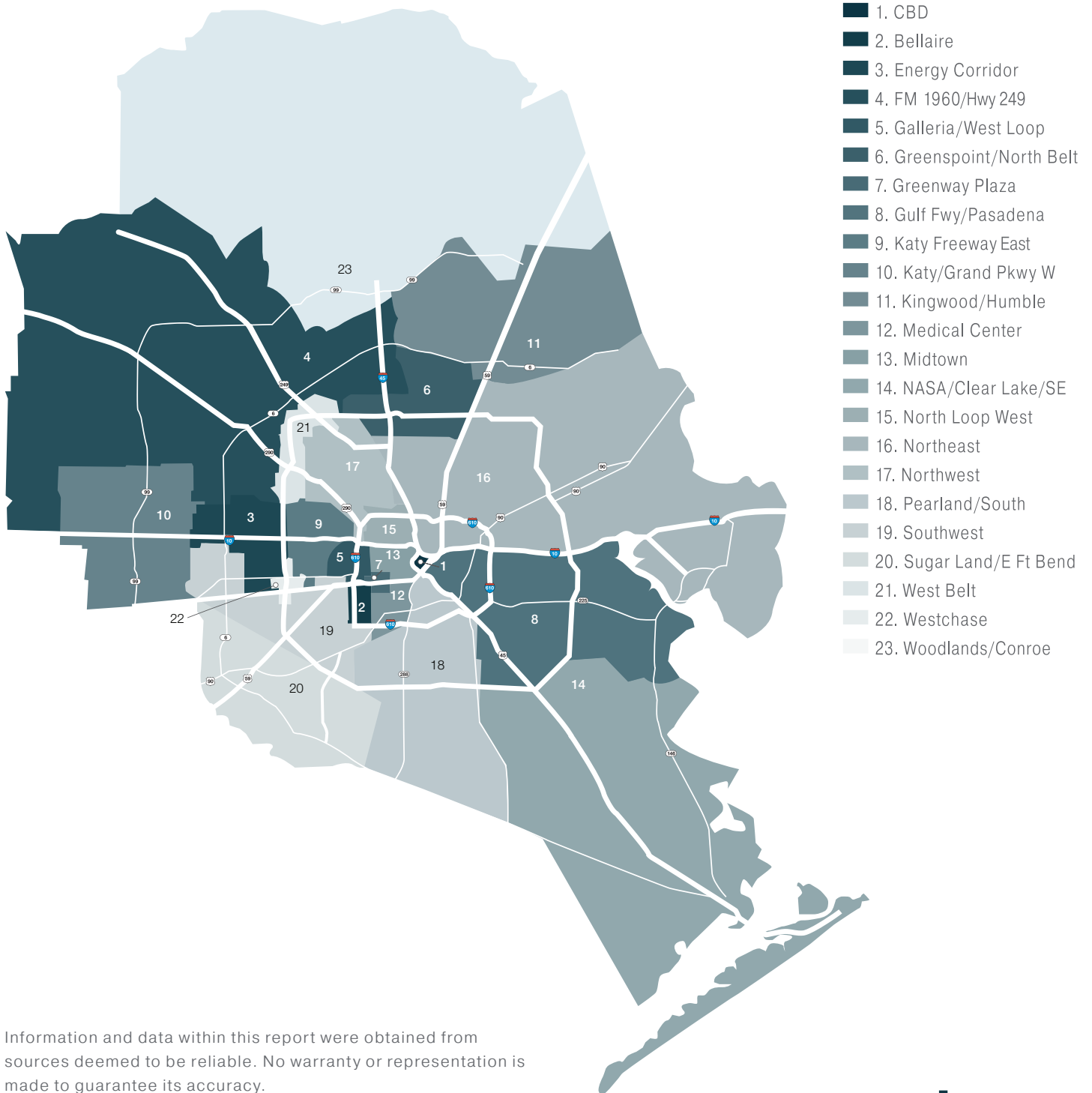
Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Houston Market Total	242,336,233	24.9%	28.3%	40,410,602	-975,443	1,905,845	2,286,910	30.24
Class A	132,682,679	26.7%	30.8%	30,796,892	-164,698	1,174,344	2,046,310	35.20
Class B	96,727,609	24.6%	26.9%	8,928,131	-974,126	681,559	240,600	23.09
CBD Total	40,889,054	30.7%	35.4%	40,889,054	30.7%	35.4%	386,323	42.11
Class A	31,122,465	27.7%	33.1%	31,122,465	27.7%	33.1%	386,323	45.07
Class B	9,192,849	41.6%	45.1%	9,192,849	41.6%	45.1%	0	31.57
Bellaire Total	4,698,581	19.6%	21.9%	21,181	-59,384	37,244	0	25.47
Class A	1,454,897	23.5%	26.4%	1,469	-17,858	29,436	0	27.22
Class B	2,930,366	16.8%	18.8%	27,261	-26,055	6,538	0	25.45
Energy Corridor Total	23,715,827	26.7%	30.6%	-414,838	-215,285	271,281	0	26.92
Class A	15,573,687	29.6%	31.8%	-414,040	-313,374	147,722	0	30.43
Class B	7,887,586	21.6%	29.0%	4,546	101,918	123,220	0	21.48
FM 1960/Hwy 249 Total	11,408,061	29.7%	36.7%	-81,520	-270,035	117,499	75,600	20.07
Class A	3,330,343	26.7%	40.6%	-71,103	-105,251	55,940	0	27.15
Class B	7,073,083	33.7%	37.0%	7,454	-154,188	57,598	75,600	18.44
Galleria/West Loop Total	29,243,374	30.0%	32.9%	29,289	-278,304	281,437	0	32.58
Class A	20,255,037	30.4%	37.2%	4,280	-138,671	203,605	0	34.50
Class B	8,839,728	29.4%	23.4%	27,703	-128,729	72,756	0	26.24
Greenspoint/North Belt Total	11,408,338	42.7%	43.3%	95,425	149,199	42,444	0	17.76
Class A	5,150,428	55.7%	53.0%	7,211	105,982	29,658	0	20.15
Class B	4,954,544	37.3%	38.8%	-22,715	-69,177	11,262	0	15.12
Greenway Plaza Total	11,222,155	23.1%	26.5%	71,748	83,591	51,578	0	34.11
Class A	7,525,069	24.0%	27.7%	87,095	96,644	19,517	0	36.36
Class B	3,254,280	22.1%	25.6%	-7,446	-10,850	28,210	0	29.22
Gulf Fwy/Pasadena Total	4,596,757	16.8%	16.2%	-9,894	37,633	38,860	0	23.36
Class A	524,586	33.3%	33.9%	41,876	76,439	12,863	0	23.23
Class B	3,237,327	18.2%	15.0%	-85,027	-82,269	29,246	0	23.34
Katy Freeway East Total	10,572,551	8.7%	11.5%	8,086	100,367	102,372	355,694	28.93
Class A	6,834,581	5.5%	9.4%	19,446	126,034	54,418	355,694	39.50
Class B	2,505,435	19.3%	19.1%	-7,168	-27,260	35,577	0	22.47
Katy/Grand Pkwy W Total	3,750,843	11.8%	19.3%	47,088	82,446	26,404	0	27.74
Class A	2,168,725	14.7%	26.6%	11,320	55,649	23,361	0	28.07
Class B	1,428,886	8.6%	10.2%	35,768	26,797	3,043	0	25.81
Kingwood/Humble Total	1,399,546	13.9%	13.6%	18,438	22,788	7,550	0	23.47
Class A	230,466	14.7%	2.7%	21,724	16,242	0	0	28.03
Class B	1,086,211	14.1%	16.3%	-3,286	11,698	7,550	0	22.95
Medical Center Total	8,690,960	18.1%	18.5%	-51,642	-28,892	91,956	1,121,552	27.85
Class A	4,383,001	24.1%	21.8%	-51,566	29,664	67,987	1,121,552	32.53
Class B	3,461,787	13.3%	16.1%	-76	-58,306	23,969	0	22.13

Submarket Stats

Submarket Statistics (Total reflects Class A/B)	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2023 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
Midtown Total	6,511,570	16.2%	17.6%	-61,781	-55,504	51,114	0	31.45
Class A	2,565,033	20.0%	21.4%	-70,888	35,439	30,065	0	34.91
Class B	3,158,694	15.5%	17.6%	11,892	-69,510	4,103	0	29.17
NASA/Clear Lake/SE Total	7,740,557	11.1%	15.1%	142,335	192,073	96,918	25,304	24.15
Class A	2,194,981	18.4%	24.8%	14,531	-50,636	49,501	25,304	27.31
Class B	4,903,812	7.9%	11.0%	135,262	238,326	43,127	0	21.21
North Loop West Total	4,445,018	19.8%	23.0%	1,725	14,895	75,466	0	23.94
Class A	1,247,308	23.9%	27.1%	-17,168	33,109	23,872	0	26.24
Class B	2,784,219	18.5%	21.4%	17,097	-15,971	51,594	0	22.76
Northeast Total	2,433,427	15.5%	20.2%	44,060	50,090	5,329	0	22.21
Class A	174,781	8.1%	8.1%	-1,046	-1,145	0	0	29.53
Class B	1,687,267	17.0%	20.9%	35,592	48,852	5,329	0	22.35
Northwest Total	3,834,026	18.4%	23.3%	25,967	39,727	30,501	0	18.22
Class A	805,808	29.4%	36.5%	133	30,904	19,430	0	21.06
Class B	2,302,302	17.9%	21.7%	21,934	9,465	8,771	0	16.57
Pearland/South Total	1,810,786	10.4%	13.8%	9,637	-315	3,992	0	27.43
Class A	811,294	11.9%	15.8%	3,992	-12,210	3,992	0	27.61
Class B	778,885	10.3%	14.2%	5,645	11,895	0	0	27.53
Southwest Total	11,662,648	20.3%	22.2%	-403,770	-462,360	44,019	187,437	19.16
Class A	1,334,274	24.7%	25.0%	1,518	-13,539	1,120	157,437	18.96
Class B	8,349,643	22.7%	25.1%	-413,525	-480,977	41,642	30,000	19.61
Sugar Land/E Ft Bend	6,847,768	22.4%	24.5%	-38,634	-37,934	72,857	135,000	29.17
Class A	3,994,292	22.5%	24.4%	-3,203	-14,644	45,853	0	30.61
Class B	2,767,739	22.4%	25.0%	-35,431	-63,022	27,004	135,000	26.99
West Belt Total	5,671,790	29.7%	36.6%	-72,182	761	85,574	0	26.78
Class A	3,792,277	32.1%	35.1%	-72,018	35,702	85,574	0	29.35
Class B	1,791,884	26.1%	41.4%	-164	-34,941	0	0	21.97
Westchase Total	14,891,298	32.9%	38.1%	70,415	-170,500	185,725	0	26.14
Class A	8,604,673	32.4%	39.3%	80,432	-69,589	135,215	0	32.33
Class B	6,175,541	34.2%	37.1%	-10,017	-100,911	50,510	0	19.74
Woodlands/Conroe Total	14,891,298	32.9%	38.1%	70,415	-170,500	185,725	0	26.14
Class A	8,604,673	32.4%	39.3%	80,432	-69,589	135,215	0	32.33
Class B	6,175,541	34.2%	37.1%	-10,017	-100,911	50,510	0	19.74
Suburban Total	201,447,179	23.8%	26.9%	-478,452	-975,443	1,905,845	1,900,587	26.59
Class A	101,560,214	26.4%	30.1%	-325,573	-164,698	1,174,344	1,659,987	30.82
Class B	87,534,760	22.8%	25.0%	-264,718	-974,126	681,559	240,600	21.77

Houston Office Submarkets



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