

Houston office market sees higher return to office than national average, but availability levels remain high

With recent announcements from companies including Chevron, the return-to-office rate of Houston's office market has steadily risen as COVID-19 fades. According to Kastle Systems, Houston's office utilization rate in early March of over 52.0% was much higher than the national average of 40.0%. However, this has not immediately translated to a spike in leasing activity as companies continue to take a wait-and-see approach. Many companies that have signed leases during the pandemic, especially last year, have opted to downsize their spaces as they adopted hybrid work strategies early on. With West Texas Intermediate (WTI) recently spiking to over \$100 per barrel, the Houston office market is closely watching the oil markets as spiking prices have historically led to higher office space demand from energy companies, engineering firms, and related professional services companies.

Energy sector reacts to recent global tension, yet carefully reviews their real estate strategies

With Russia's invasion of Ukraine in late February, WTI crude oil price spiked above \$100 per barrel shortly thereafter, and for the first time since July 2014. According to the U.S. Energy Information Administration (EIA), this would be the first time that gasoline prices have reached at least \$4 per gallon nationally in any month since July 2008. As the country's energy capital, the Houston office market is highly affected by high oil prices with area companies historically expanding when prices are high. Today, however, area companies continue to monitor their real estate strategies and move with caution.

Houston office demand has been more active but remains below pre-pandemic levels

The overall availability rate in the Houston office market saw a 40 basis points (bps) decrease from the previous quarter to 30.5% in the first quarter 2022. Still, it remains up 30 bps from a year ago. Additionally, overall average asking rental rates continue to keep steady at \$29.46 per square foot (psf). First-quarter leasing volume totaled 2.2 million square feet (msf) which is an increase of 11.4% year over year, however, still below pre-pandemic levels when quarterly leasing activity averaged over 3.0 msf. Notably, over 0.7 msf occurred in the Katy Freeway submarket, including a 293,000-sf sublease from McDermott International to Enbridge Inc. at 915 North Eldridge Parkway. In the Central Business District, Ryder Scott restructured its existing space at 1100 Louisiana street for 47,074 sf.

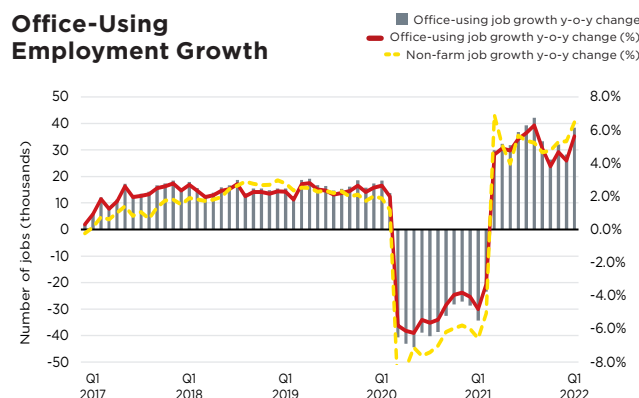
Outlook

- With active office development now below 1.1 msf, sustained stronger demand could help reduce the region's high availability rate
- Many employers continue to develop workplace strategies to fit the "New Normal" including hybrid workplace strategies which offer employees higher flexibility of when they are in the office
- Expect cautious optimism from office occupiers as they adjust to a post-pandemic environment, however, the long-term effects of remote work remains to be seen

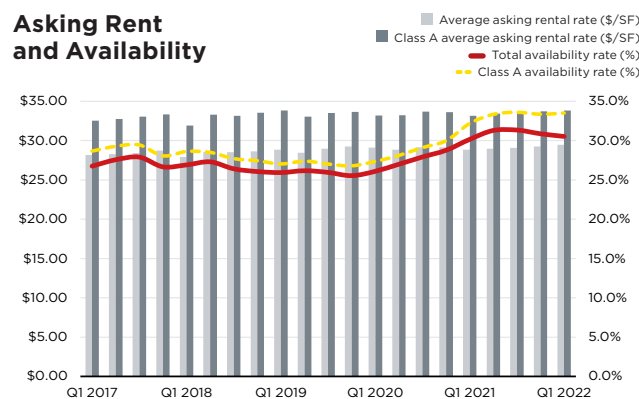
Key Statistics

	Q1 2021	Q1 2022	y-o-y Change
Inventory	191.0 MSF	193.1 MSF	▲
Availability Rate	30.2%	30.5%	▲
Asking Rental Rate	\$28.85	\$29.46	▲
Class A Asking Rental Rate	\$33.14	\$33.84	▲
Quarterly Leasing Activity	1.9 MSF	2.2 MSF	▲
Available Sublease Space	6.5 MSF	7.2 MSF	▲

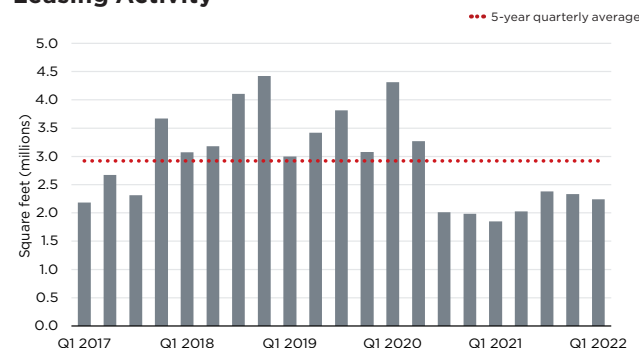
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

5.5%

Houston MSA unemployment rate
(as of Jan. 2022)

4.4%

Office-using employment growth
year-over-year (as of Jan. 2022)

1.03 msf

Office space currently
under construction

Top Transactions

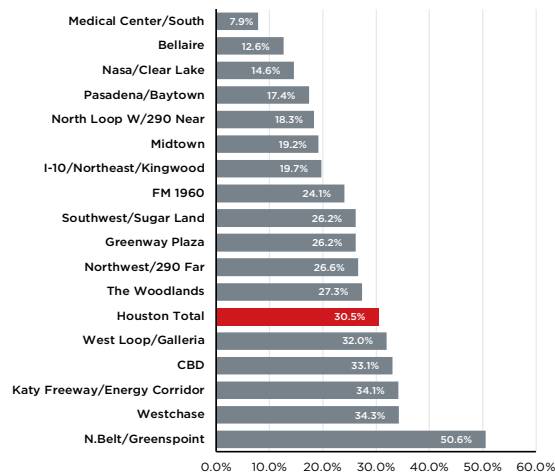
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Enbridge Inc.*	292,892	915 N Eldridge Parkway	Relocation	Katy Freeway/ Energy Corridor	Energy & Utilities
Sunnova Energy Corp	64,017	7310 N Eldridge Parkway	Relocation	Northwest 290 Far	Energy & Utilities
Ryder Scott	47,074	1100 Louisiana Street	Restructure	CBD	Energy & Utilities
Strike Construction	42,804	460 Wildwood Forest Drive	Relocation	The Woodlands	Energy & Utilities
Linde PLC	40,813	1585 Sawdust Road	Expansion	The Woodlands	Manufacturing
Baker McKenzie	31,257	800 Capitol Street	Relocation	CBD	Legal Services
Lancium Technologies Corp	26,530	9950 Woodloch Forest Drive	New Location	The Woodlands	Energy & Utilities
Kuraray America Inc.	25,811	2625 Bay Area Boulevard	Renewal	Nasa/Clear Lake	Manufacturing
Cox Oil Co.	23,520	1221 McKinney Street	Relocation	CBD	Energy & Utilities
Marathon Petroleum	23,285	500 Dallas Street	New Location	CBD	Energy & Utilities

*Sublease

Source: Savills Research

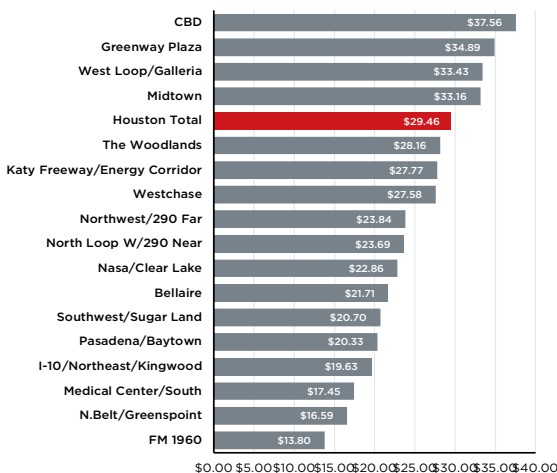
Availability Rate Comparison (%)

Houston Submarkets



Rental Rate Comparison (\$/SF)

Houston Submarkets

For more information,
please contact us:

Savills

609 Main Street
28th Floor
Houston, TX 77002
+1 713 522 5300

Mark W. O'Donnell

Vice Chair, Director,
Southwest Region Lead
modonnell@savills.us

W. Derrell Curry

Executive Vice President,
Branch Manager
dcurry@savills.us

Kyle Kelley

Executive Vice President,
Branch Manager
kkelley@savills.us

Drew Morris

Executive Vice President,
Branch Manager
dmorris@savills.us

Nathaniel R. Han

Research Manager
nhan@savills.us

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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