

Houston

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Houston leasing activity retreats as more firms pull back on occupancy requirements

Following an active second half of 2022, the Houston office market witnessed retreating deal volumes in Q1 2023. Leasing fell by 28.7% this quarter compared to Q4 2022 but was improved by 7.5% over Q1 2022 levels. Many Houston firms transacting space this period actively rightsized and recalibrated their space requirements.

However, among the largest transactions this quarter was an expansion for Baylor College of Medicine. The medical school and research center committed to 114,000 square feet (sf) of office and lab space at the Dynamic One building at TMC Helix Park.

Availability ticks slightly lower as sublease options decline

While deal volume was muted in the first quarter, the Houston market nevertheless experienced declining availability for the second straight quarter. Availability fell 50 basis points (bps) from Q4 2022 and is down 80 bps over the past 12 months. Class A options fell from last quarter by 140 bps, to 32.3%. Some of the decline was due to a reduction in available sublease space across the market. Among the top deals this quarter, Chemex Global and QuarterNorth Energy executed subleases totaling more than 100,000 sf combined. Sublease stock remained elevated above historical averages at 7.6 million square feet (msf) but was notably down from the 8.1 msf measured at the close of 2022.

Houston employment fundamentals solid despite broader concerns about economy

While recession warnings were sounded throughout 2022 and into 2023, Houston's office-using employment growth remained strong. First quarter office-using employment rose 5.5% year over year, only marginally below what was typically reported in 2022. The region's unemployment rate stood at a relatively healthy 4.5% in January. Also, Houston has fared better than other major markets in bringing employees back to the office, according to data tracked by Kastle Systems. Weekly office occupancy regularly exceeded 60% in Q1, well above the national average, although still beneath pre-pandemic levels.

Key Statistics

	Q1 2022	Q1 2023	Y-0-Y
Inventory	193.2 msf	192.4 msf	-0.8 msf
Availability Rate	30.5%	29.7%	-80 bps
Asking Rental Rate	\$29.46	\$30.26	+2.7%
Class A Asking Rental Rate	\$33.84	\$35.07	+3.6%
Quarterly Leasing Activity	2.2 msf	2.4 msf	+0.2 msf
Available Sublease Space	7.2 msf	7.6 msf	+0.4 msf

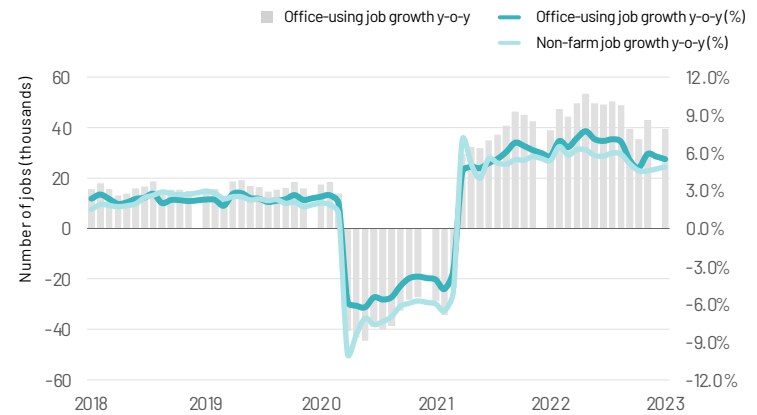
Outlook

01 Expect many occupiers to reimagine and invest in their spaces to account for greater collaboration and social interaction

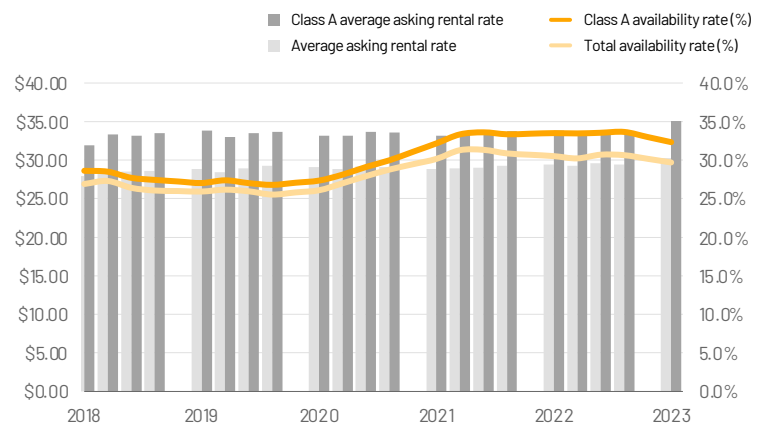
02 Office occupancy is expected to remain high despite more companies deciding to bring their employees back to the office in 2023

03 More office property loan distress is projected in 2023 as rising interest rates has caused many owners to be underwater

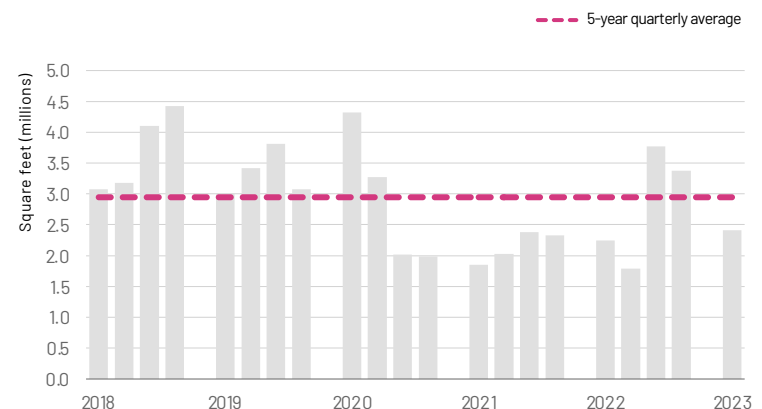
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

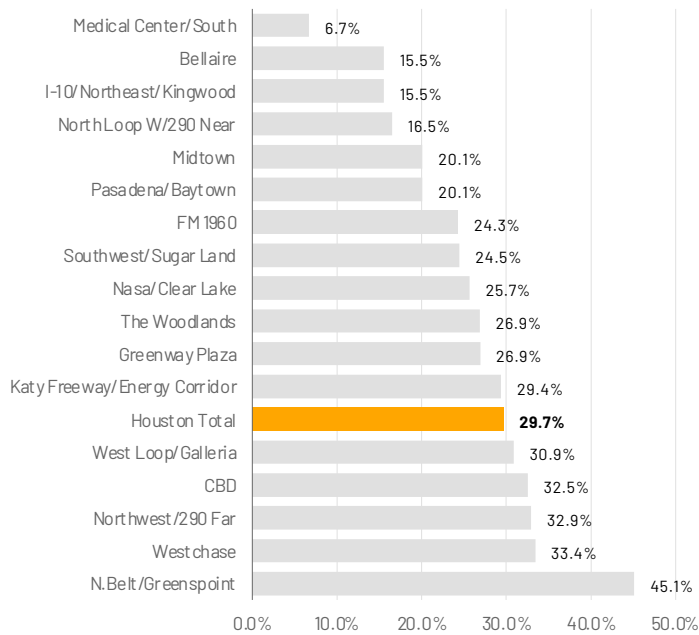
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
MODEC International	Engineering Services	Katy Freeway / Energy Corridor	15375 Memorial Drive	116,000	Relocation
Baylor College of Medicine	Education	Katy Freeway / Energy Corridor	1840 Dynamic Way	114,000	New location
Maverick Natural Resources	Energy	CBD	1000 Main Street	99,000	Relocation
Community Health Choice	Healthcare	Bellaire	4888 Loop Central Drive	83,000	Relocation
Ahmad, Zavitsanos & Mensing	Legal Services	CBD	1221 McKinney Street	58,000	Expansion
Chemex Global	Manufacturing	The Woodlands	1735 Hughes Landing Boulevard	55,000	Relocation**
Mattress Firm	Retail	Westchase	3250 Briarpark Drive	52,000	Relocation
MRC Global	Energy	CBD	1301 McKinney Street	50,000	Renewal
QuarterNorth Energy	Energy	Greenway Plaza	3737 Buffalo Speedway Avenue	50,000	Relocation**
Bradley Arant Boult Cummings	Legal Services	CBD	600 Travis Street	45,000	Expansion

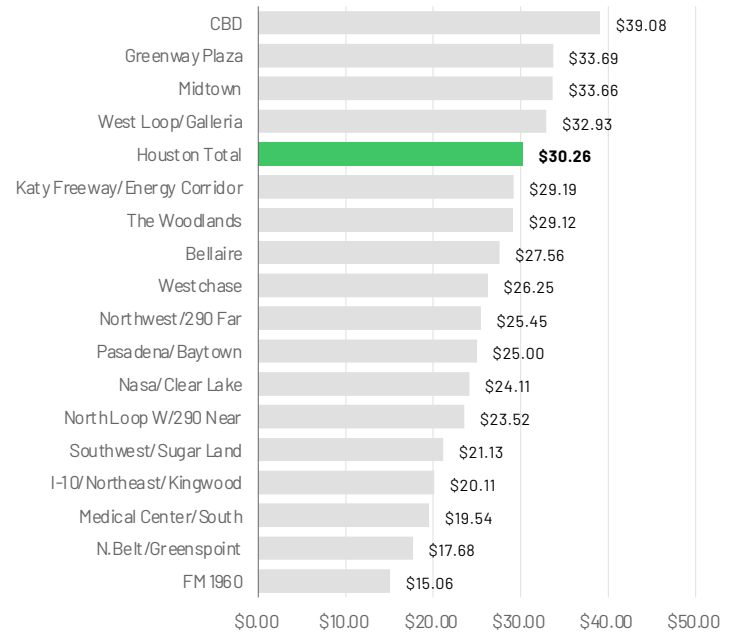
Availability Rate Comparison (%)

HOUSTON SUBMARKETS



Rental Rate Comparison (\$/sf)

HOUSTON SUBMARKETS



Houston Q1 2023 - Office

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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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