

Houston

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Houston observes an uptick in leasing as occupier flight to quality continues

After a slowdown in Q1 2023, the Houston office market reported an increase in leasing activity in Q2 2023. Leasing activity increased 35.0% this quarter when compared to prior quarter. The top leases this quarter consisted of primarily relocations, which is a reflection of the market, as tenants continue to reevaluate their needs and seek out higher quality buildings. In Q2 2023, the Houston office market reported over 3.3 million square feet (msf), which included four (4) leases over 100,000 square feet (sf). The largest three leases this quarter attributed to approximately 25.0% of the total leasing activity while the top 10 largest leases comprised over 40.0% of total leasing activity.

Availability decreases for the third consecutive quarter

Deal volume has picked up as the Houston office market has seen an increase in deals in Q2 2023. Furthermore, the Houston office market reported declining availability for the third consecutive quarter. Availability fell 150 basis points (bps) from Q1 2023 and is now down 200 bps compared to a year ago. While availability has trended downward over the past few quarters, this trend is expected to be short lived with firms continuing to right-size and become more efficient in their office space footprints. LyondellBasell, Flour Corporation and Technip were among the largest leases this quarter, all of whom rightsized and reduced their square footage by 11.0%, 71.0% and 54.0%, respectively.

Houston employment fundamentals remain solid despite broader concerns about economy

While recession concerns continued in the first half of 2023, Houston's office-using employment growth remained strong as office-using employment rose 4.0% year over year while the region's unemployment rate was still just 4.0% in April. Also, Houston has fared better than other major U.S. markets in bringing employees back to the office with weekly office occupancy regularly exceeding 60% in Q2 according to Kastle Systems which is well above the national average but still below pre-pandemic levels.

Key Statistics

	Q2 2022	Q2 2023	Y-0-Y
Inventory	192.4 msf	193.0 msf	+0.6 msf
Availability Rate	30.2%	28.2%	-200 bps
Asking Rental Rate	\$29.30	\$31.07	+6.0%
Class A Asking Rental Rate	\$33.37	\$36.04	+8.0%
Quarterly Leasing Activity	1.8 msf	3.3 msf	+1.5 msf
Available Sublease Space	7.4 msf	6.0 msf	-1.4 msf

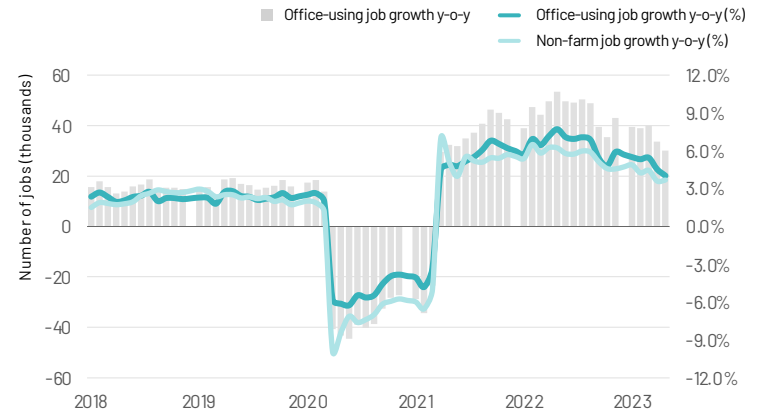
Outlook

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

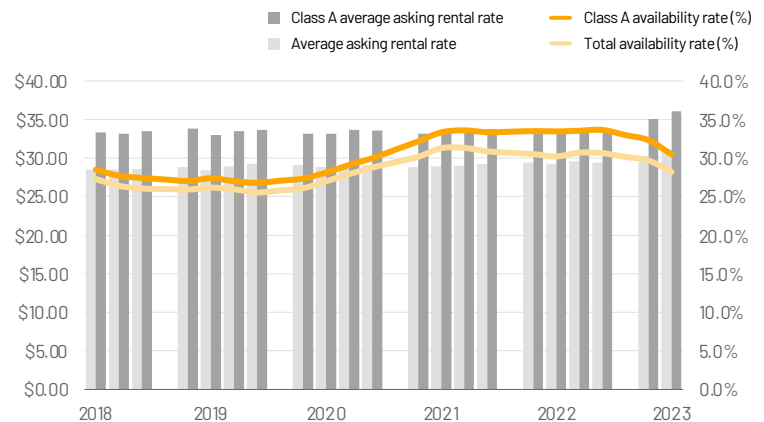
02 Availability is likely to increase over the near term as companies relocate and excess space comes to market

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

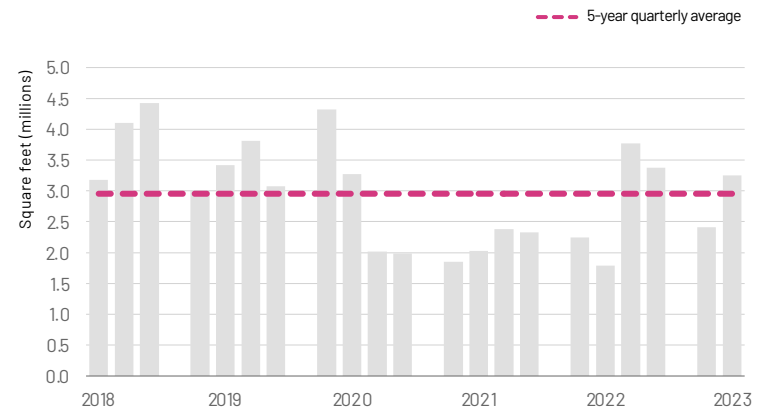
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

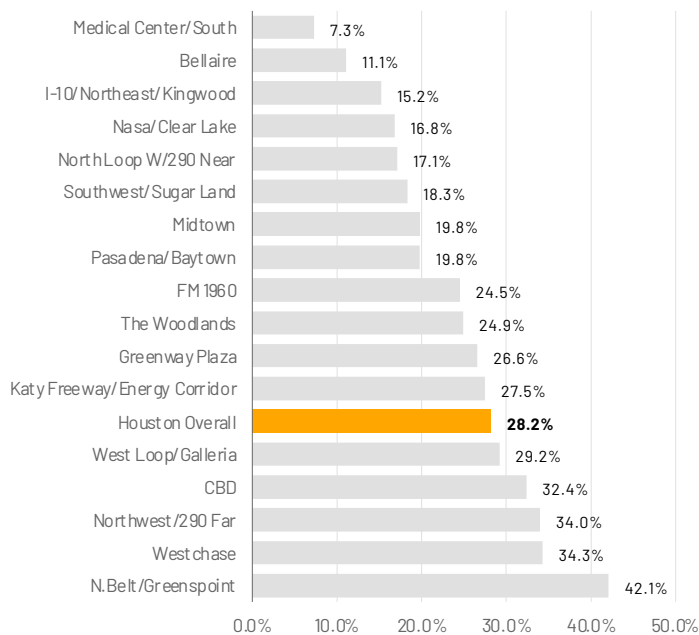
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
LyondellBasell Industries	● Manufacturing	West Loop/Galleria	2800 Post Oak Boulevard	318,504	Relocation
Fluor Corporation	● Architecture, Engineering & Construction	Katy Freeway/ Energy Corridor	737 N Eldridge Parkway	308,186	Relocation
Technip Energies	● Energy & Utilities	Katy Freeway/ Energy Corridor	15377 Memorial Drive	171,600	Relocation
Kiewit	● Architecture, Engineering & Construction	Katy Freeway/ Energy Corridor	585 N Dairy Ashford Road	105,839	Expansion
Hargrove Engineers & Constructors	● Architecture, Engineering & Construction	Katy Freeway/ Energy Corridor	15415 Katy Freeway	80,500	New Lease
Fugro	● Architecture, Engineering & Construction	Katy Freeway/ Energy Corridor	13501 Katy Freeway	75,000	Relocation
Diamond Offshore Drilling, Inc	● Energy & Utilities	Katy Freeway/ Energy Corridor	777 N Eldridge Parkway	62,584	Relocation
Thompson Coe Cousins & Iron LLP	● Legal Services	West Loop/Galleria	4400 Post Oak Parkway	61,875	Relocation
Kodiak Gas	● Energy & Utilities	The Woodlands	9950 Woodloch Forest Drive	53,060	Relocation
Mattress Firm	● Retail	Westchase	3520 Briarpark Drive	52,410	Relocation

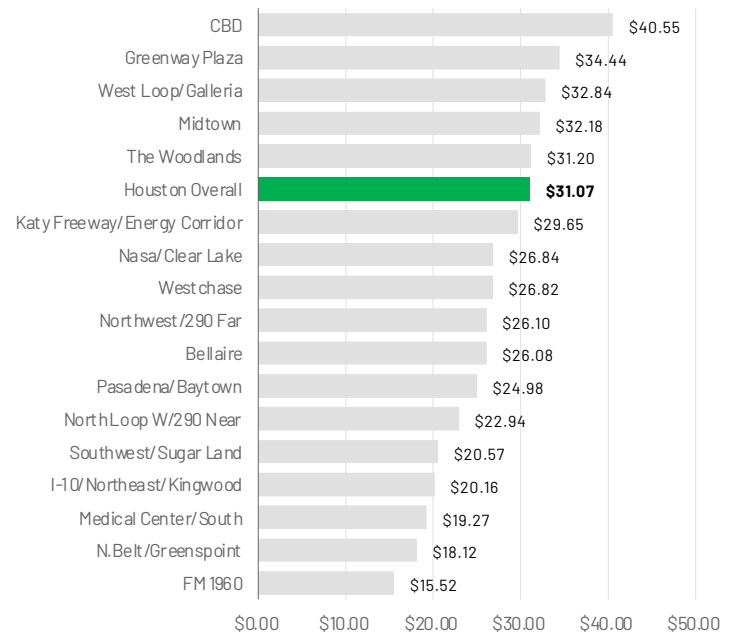
Availability Rate Comparison (%)

HOUSTON SUBMARKETS



Rental Rate Comparison (\$/sf)

HOUSTON SUBMARKETS



Houston Q2 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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