MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Houston

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Houston market observes uptick in leasing activity, but downsizings and rightsizings of space continues

Following a weak start to the year, third quarter transaction volumes across the Houston office market rebounded to their best performance since the start of the pandemic. Nearly 3.8 million square feet (msf) was leased this period, a tally that was more in line with pre-pandemic averages. Nearly three-quarters of all deals by square footage were executed in Class A properties, continuing the trend of tenant flight to quality into the market's newest and best stock. However, several deals this quarter included companies rightsizing and downsizing from their previous occupancies. Among them, Bechtel's 205,000-square-foot relocation to 2105 CityWest Boulevard was a 53% percent reduction from its previous occupancy at 3000 Post Oak Boulevard. To a greater degree, Baker Hughes is consolidating by approximately 346,000 square feet (sf) at its new 130,000-sf location at 575 N Dairy Ashford Road.

Availability rate remains stubbornly high despite locally improved labor, economic conditions

Despite the upswell of leasing activity, the Houston market's overall availability rate increased 50 basis points (bps) over last quarter to 30.7%, breaking a string of four consecutive quarters of decreases. Class A availability has held steady over the past year, sitting at 33.5%. Available sublease space ticked up to 7.7 msf . Among the largest new blocks added this quarter, Cheniere Energy sought to sublease 189,000 sf at 700 Milam Street, following the firm's announcement last quarter that it was relocating to a smaller space at 845 Texas Avenue. Houston has recently observed robust job growth, with 85,000 jobs created in the first six months of the year. However, office-using employment growth has been less vigorous, growing at 4.1% year-over-year. Workers have slowly but steadily returned to the office and at the close of the quarter, Houston weekly office occupancy (57.6%) was outperforming all other major U.S. markets (47.3% average) tracked by Kastle Systems with exception of Austin (60.5%).

Tenants continue to hold upper hand in lease negotiations

While Houston office availability remains among the highest of the nation's major cities, asking rental rates nevertheless rose 1.9% year over year. However, generous landlord concessions have the effect of lowering net effective rates. For now, tenants active in the market hold leverage over landlords in the current environment and should expect generous concessions including substantial improvement allowances and abatement, as well as flexible terms.

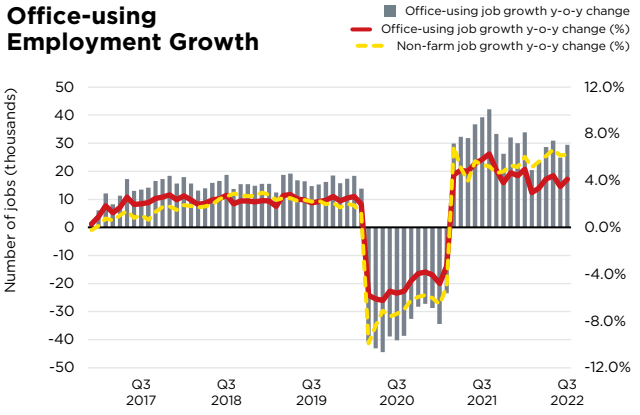
Outlook

- While employers are increasingly bringing workers back to Houston offices, this is unlikely to have an impact on availability in the near term as more companies reconsider their space needs and reduce their overall occupancies
- While landlords have held firm on asking rental rates, the number of quality direct and sublease options available should result in higher concessions and downward net effective rents
- In order to entice workers back to the office, many companies are showing preference for the highest quality, amenitized buildings in the most desirable locations

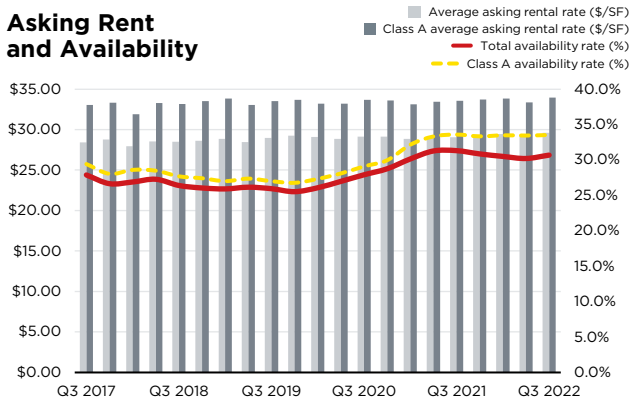
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	192.6 MSF	193.1 MSF	▲
Availability Rate	31.3%	30.7%	▼
Asking Rental Rate	$29.06	$29.61	▲
Class A Asking Rental Rate	$33.56	$33.94	▲
Quarterly Leasing Activity	2.4 MSF	3.8 MSF	▲
Available Sublease Space	7.2 MSF	7.7 MSF	▲

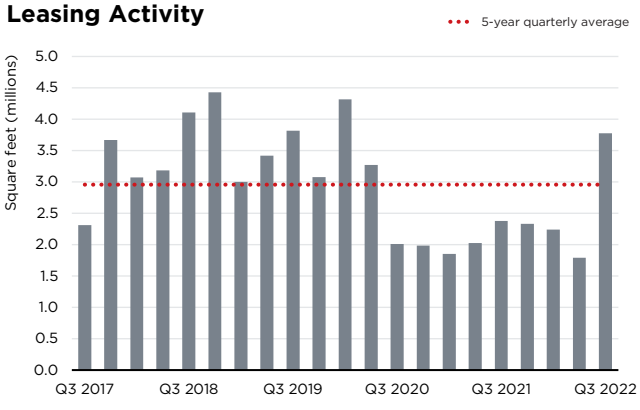
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

4.6%
Houston unemployment rate (as of August 2022)

4.1%
Office-using employment growth year over year (as of August 2022)

2.7 msf
Office space currently under construction

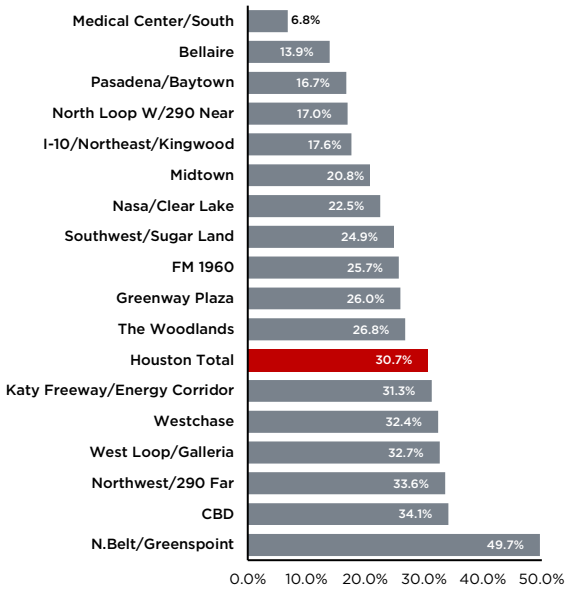
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
EOG Resources	374,000	1111 Bagby Street	Renewal	CBD	Energy & Utilities
Bechtel	205,000	2105 CityWest Boulevard	Relocation	Westchase	Professional Services
Baker Botts	172,301	910 Louisiana Street	Renewal	CBD	Legal Services
Baker Hughes	129,231	575 N Dairy Ashford Road	Relocation	Katy Freeway/ Energy Corridor	Energy & Utilities
Perry Homes	77,214	3200 Southwest Freeway	Relocation	Greenway Plaza	Construction
Greystar	67,995	730 Town & Country Boulevard	Relocation	Katy Freeway/ Energy Corridor	Real Estate
BW Energy	67,815	9753 Katy Freeway	Relocation	Katy Freeway/ Energy Corridor	Energy & Utilities
Surge Energy	64,018	11330 Clay Road	Relocation	Northwest / 290 Far	Energy & Utilities
Macquarie Americas	56,164	500 Dallas Street	Renewal	CBD	Financial Services
Reed Smith	46,626	1221 McKinney Street	Relocation	CBD	Legal Services

Source: Savills Research

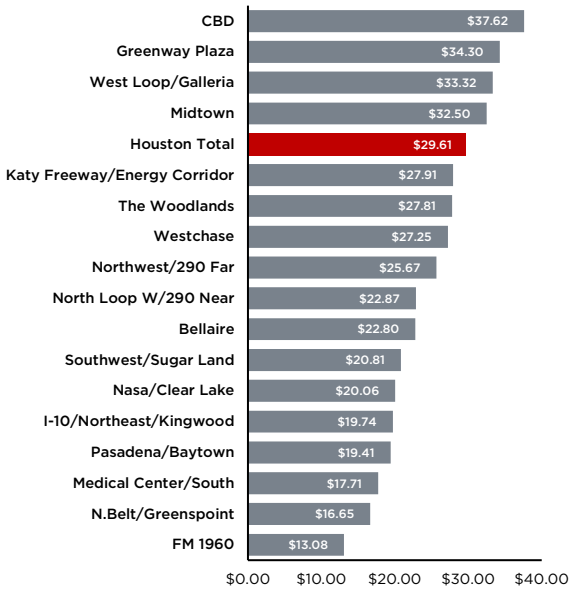
Availability Rate Comparison (%)

Houston Submarkets



Rental Rate Comparison ($/SF)

Houston Submarkets



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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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