



Houston's office market softens further under ongoing pandemic disruption; availability reaches a new high

The end of the third quarter marked the sixth full month that Houston has endured both pandemic impact and volatility in the oil and gas sector. Reaching 27.9% in Q3, Houston's overall availability rate is at its highest in at least 16 years. Occupier cost-consciousness has come to the forefront with tenants actively seeking out lower-cost options. Availability has decreased in historically underperforming submarkets, such as Bellaire and North Belt/Greenspoint, while increasing dramatically in high-rent submarkets such as The Woodlands, Katy Freeway/Energy Corridor, Midtown and West Loop/Galleria.

Demand tapers and leasing volume sees dramatic decline

Third-quarter leasing volume totaled 2.0 million square feet (msf), representing a 47.2% decline compared to Q3 2019. Analyzing the class composition of leasing activity further exhibits just how widespread businesses' uncertainty and cost minimization efforts have become. In Q1 2020 Class A leasing activity comprised 79.5% of quarterly volume; this figure declined to 66.6% in Q2 2020, and 60.0% in Q3 2020, signifying decreased demand for amenity-rich Class A product and increased demand for more affordable Class B/C product. However, some large (and high-profile) occupiers are still seeking out best-in-class space, as evidenced by eight of the 10 largest leases signed in the quarter that were in Class A buildings. Notably, JP Morgan Chase committed to 252,000 square feet (sf) at 600 Travis Street in the CBD submarket.

Energy market uncertainty remains as production levels see slight, but temporary, gains

According to the Energy Information Agency, crude oil production levels averaged 12.7 million barrels per day (b/d) in Q1 2020 before falling to a low of 10.0 million b/d in May 2020. However, August production levels increased slightly to an average of 10.8 million b/d in response to rising oil prices. Gains are expected to increase further to a projected 11.2 million b/d average in September. These short-term production increases are expected to cease going into Q4 2020, bringing overall annual averages down from 12.2 million b/d in 2019 to 11.4 million b/d in 2020, with 2021's forecasted average declining even further to 11.1 million b/d.

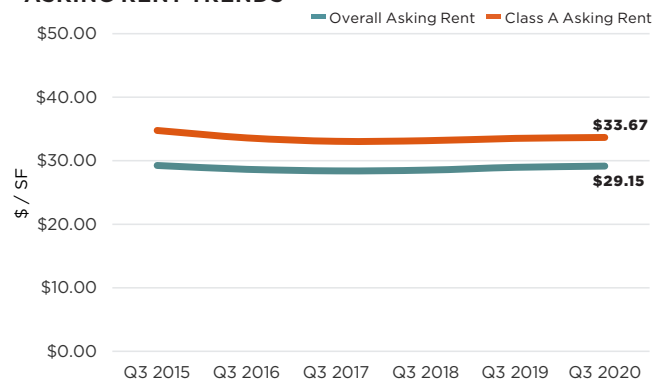
Outlook

- While optimistic landlords are slow to implement downward asking rent revisions, the reality is that the variance between asking rates and taking rates is widening and concession offerings are becoming increasingly competitive
- Rising availability presents tenants with an abundance of options in both top-tier and lower-cost space
- Ongoing pandemic disruption and a tumultuous energy market are expected to remain well into 2021 with tenant favorability rising as large sublease blocks hit the market

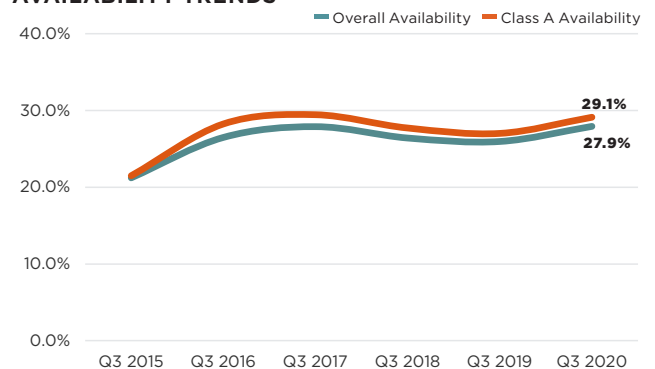
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	192.6 MSF	191.1 MSF	▼
Availability Rate	26.0%	27.9%	▲
Asking Rental Rate	\$28.96	\$29.15	▲
Class A Asking Rental Rate	\$33.51	\$33.67	▲
Quarterly Leasing Activity	3.8 MSF	2.0 MSF	▼

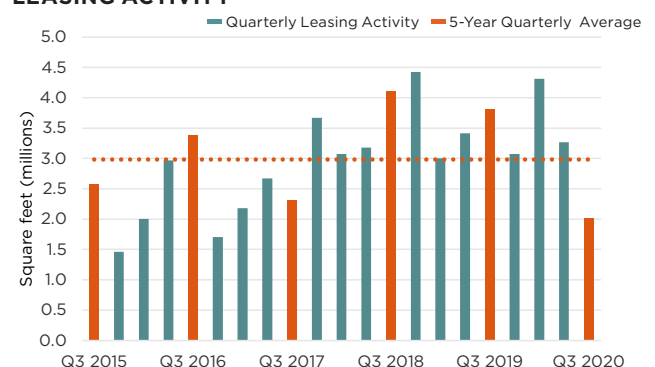
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

39.1%

of major transactions were **expansions** by square footage

66.3%

of large transactions occurred in the **CBD** submarket by square footage

39.1%

Financial Services represented 39.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
JP Morgan Chase & Co	252,230	600 Travis Street	New Location	CBD	Financial Services
Ryan, LLC	66,750	1233 West Loop S	Relocation	West Loop/Galleria	Professional Services
EP Energy	62,261	601 Travis Street	Relocation	CBD	Energy & Utilities
Rimkus Consulting Group	50,380	12140 Wickchester Lane	New Location	Katy Freeway/Energy Corridor	Engineering
Indigo Minerals LLC	45,125	600 Travis Street	Renewal	CBD	Energy & Utilities
Rockcliff Energy LLC	41,102	717 Texas Avenue	Relocation	CBD	Energy & Utilities
HostGator	38,600	5005 Mitchelldale Street	Renewal	North Loop W/290 Near	TAMI
Firstsource	36,248	8101 W Sam Houston Parkway S	New Location	Southwest/Sugar Land	Professional Services
Riviera Resources	27,114	717 Texas Avenue	Relocation	CBD	Professional Services
PCS Software	25,272	2103 CityWest Boulevard	New Location	Westchase	TAMI

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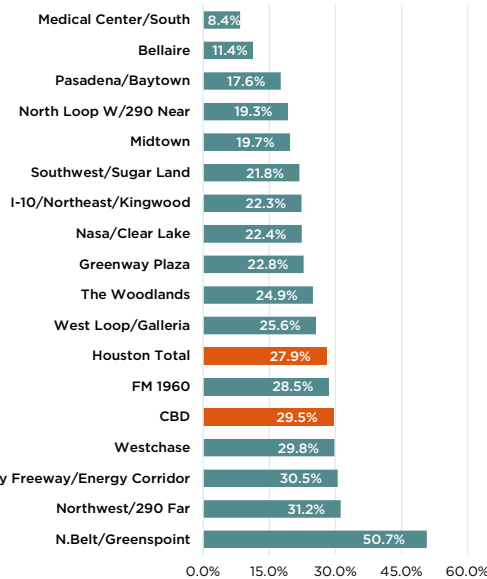
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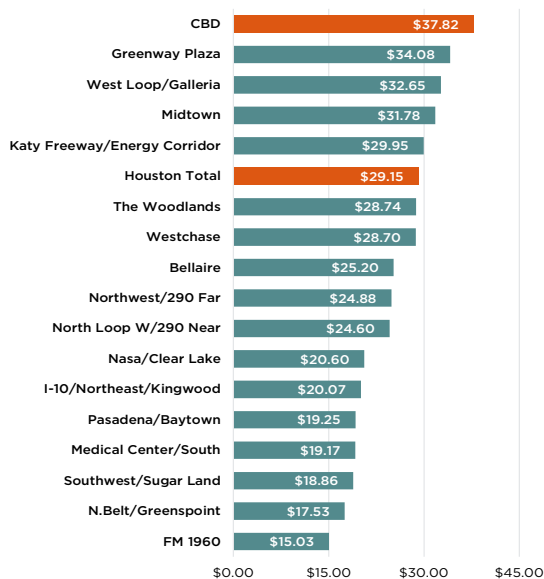
AVAILABILITY RATE COMPARISON

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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