Q3 2021

HOUSTON

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Despite growing concerns over COVID-19 Delta variant, Houston office market saw little change, yet tenant favorability continues

As the COVID-19 Delta variant accelerated, some major companies such as Microsoft and Wells Fargo, pushed initial return-to-office plans from post-Labor Day to at least the first week of October, and some to next year. However, the growing apprehension has had minimal effect on the market and softening has begun to slow. Houston has now seen three consecutive quarter of increasing leasing volume, which totaled more than 2.4 million square feet (msf) in Q3. Still, with availability at 31.4% and asking rents holding flat at $29.06 per square foot (psf), the market remains incredibly tenant-favorable as occupiers have an abundance of options to choose from.

Occupiers are focused on a "flight-to-quality" and flexibility in leasing decisions

With the market firmly in the tenant's favor, landlords have become increasingly competitive in offering concessions, amenities, and pricing to attract and keep occupancy in their portfolios - particularly in top-tier product. Tenants are taking note and 1.3 msf out of the 2.4 msf leased this quarter occurred in class A space. Notably, the West Loop/Galleria submarket and Katy Freeway/Energy Corridor submarket saw 0.5 msf and 0.3 msf of class A leasing this quarter. In addition to quality, occupiers are seeking more flexible options to fit with changing work styles. Office hoteling and desk sharing have become popular for hyrbird work environments, which can save operational costs.

Recovery in the petroleum market will bode well for the recovery of the Houston office market and economy, yet energy sector tenants are re-evaluating office needs similar to other sectors

With the West Texas Intermediate (WTI) crude oil price averaging over $60.00 per barrel since March of this year, the energy industry seems to be recovering from early pandemic lows. Also, recent impacts from Hurricane Ida and Tropical Storm Nicholas on the U.S. Gulf Coast refineries added upward pressure on retail gasoline pricing. According to the U.S. Energy Information Administration (EIA), gasoline margins surpassed an estimated $0.70 per gallon, which indicates higher net profit for the companies in the sector. However, the recovery of the energy industry won't directly result in an increase of office usage. Similar to other sectors, energy sector tenants have adopted flexible work models and are cautiously evaluating future real estate needs. It will take time to see if these models will remain long-term, and what the lasting impact on the Houston office market will be.

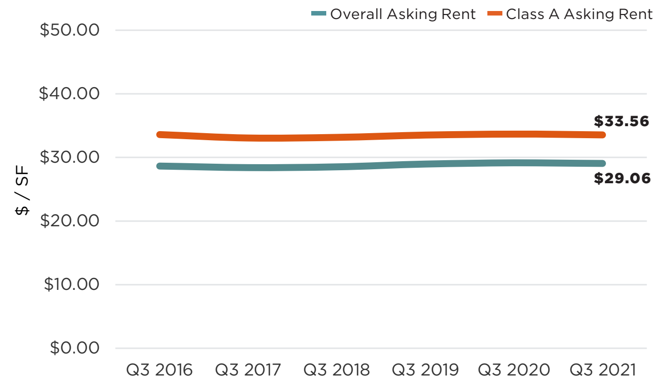
Outlook

- Many high-tech companies are moving to a hoteling or hot-desking environment without employees having an assigned desk to themselves which could lead to long-term office space reduction of 15%-20%
- The U.S. Bureau of Labor Statistics (BLS) announced that job openings have increased to a series high, surpassing the current unemployment population; however, businesses continue to face difficulty finding employees
- While oil pricing has been strong in recent months, the EIA forecasts that retail gasoline prices are expected to drop in Q4 2021

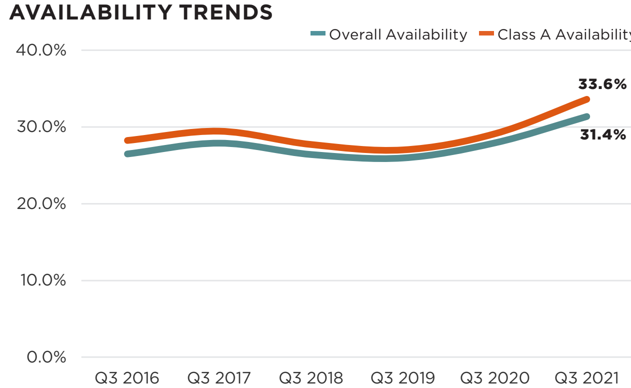
KEY STATISTICS

	Q3 2020	Q3 2021	y-o-y Change
Inventory	190.8 MSF	**192.3 MSF**	▲
Availability Rate	27.9%	**31.4%**	▲
Asking Rental Rate	$29.15	**$29.06**	▼
Class A Asking Rental Rate	$33.67	**$33.56**	▼
Quarterly Leasing Activity	2.0 MSF	**2.4 MSF**	▲

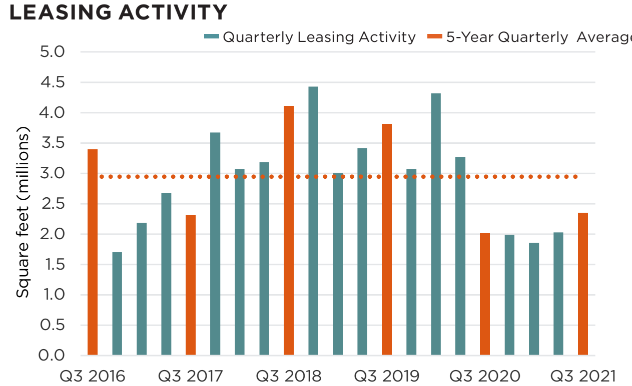
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

41.0%
of major transactions were **relocations** by square footage

19.9%
of large transactions occurred in the **Bellaire** submarket, represented by Healthcare industry

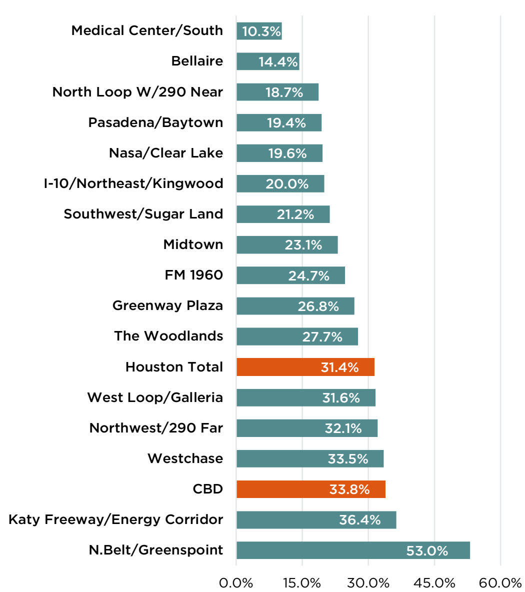
24.4%
Energy sector tenants represented 24.4% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
UT Physicians	96,145	6500 West Loop South	Expansion	Bellaire	Healthcare
Aspen Technology	79,867	2500 CityWest Boulevard	Renewal	Westchase	TAMI
Weaver & Tidwell LLP	60,000	4400 Post Oak Parkway	Relocation	West Loop/Galleria	Professional Services
Entergy Corporation	53,640	2107 Research Forest Drive	Expansion	The Woodlands	Energy
EnCap Investments	36,460	9655 Katy Freeway	Relocation	Katy Freeway/Energy Corridor	Financial Services
Lummus Technology	35,000	5825 N Sam Houston Parkway W	Relocation	Northwest/290 Far	TAMI
Spruce Power	34,000	820 Gessner Road	Relocation	Katy Freeway/Energy Corridor	Energy
McGuireWoods	33,000	845 Texas Avenue	Relocation	CBD	Legal Services
Champion Energy Marketing	30,434	1500 Rankin Road	Renewal	N.Belt/Greenspoint	Energy
Common Desk	25,500	1401 Lake Plaza Drive	New Location	The Woodlands	Coworking

Source Savills Research

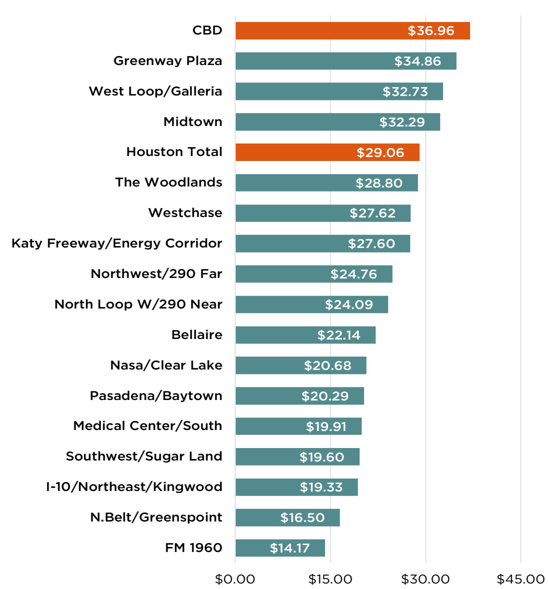
AVAILABILITY RATE COMPARISON

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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