

External shocks to the market upend an otherwise healthy start to the year

Uncertainty overcame optimism as the Houston office market took a one-two punch from the rapidly evolving COVID-19 pandemic spread and a splintered Saudi-Russia alliance that's driven oil prices to their lowest levels in 18 years. No one knows what the market will look like after this crisis has passed, but the impact will be significant. Prior to recent events, Houston's office market started out strong with 4.3 million square feet (msf) of leasing activity, the highest first-quarter total since before the 2015-2016 energy downturn. Houston's Central Business District submarket saw 1.2 msf of this activity – 95.5% of which occurred in Class A product as tenant flight to quality continued. Overall availability saw a mere 20 basis point increase over the year, now at 26.1%, but is likely to fluctuate as economic disruption continues.

Large tenants dominated Q1 with rent fundamentals advantageous for long-term deals

Asking rates continued relative stagnation as landlords have made few surface-level adjustments. In fact, asking rents, now at \$29.09 per square foot (psf) are essentially unchanged in five years' time. Effective rents, however, have declined in the past five years as landlords have become increasingly generous with concessions. The increase in concessions is likely to continue given the current situation, providing a silver lining for occupiers facing today's news. Large users are taking note and were particularly active in the first quarter. Occidental Petroleum Corporation signed for 808,000 square feet (sf) at 1201 Lake Robbins in a 13-year-term sale-leaseback with Howard Hughes Corporation. Enterprise Product Partners committed to more than 17 years at 1100 Louisiana, renewing and expanding to 498,000 sf.

U.S. oil production almost certain to see year-over-year decline

The United States Energy Information Agency (EIA) forecasts crude oil production of 13.0 million barrels per day in the U.S. throughout 2020 before decreasing to 12.7 million barrels per day in 2021, which would be the first year-over-year decrease in domestic oil production seen since 2016. Moreover, the EIA expects that West Texas Intermediate (WTI) crude oil will average \$38 per barrel in 2020, which is \$19 per barrel lower than 2019 levels, and \$21 per barrel lower than the January forecast. With the oil and gas industry facing particularly challenging times while worldwide travel remains sharply curtailed, Houston may be harder hit than other metropolitan areas should historically low price levels extend beyond short-term projections.

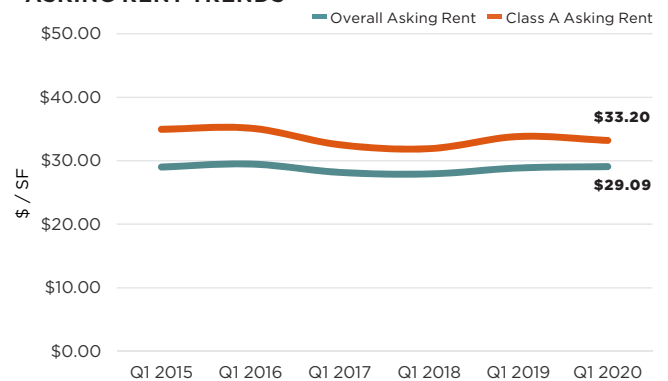
Outlook

- Concessions including free rent, tenant improvement allowance, and term flexibility are likely to increase before any significant drop in asking rents surfaces – though that is likely to follow too
- Leasing activity is expected to drop off as occupiers reevaluate their real estate needs, leaving availability rates poised to increase
- Crude oil production is expected to decrease due to lower assumptions of economic growth and reduced air travel; oil exploration budgets are likely to see significant cuts

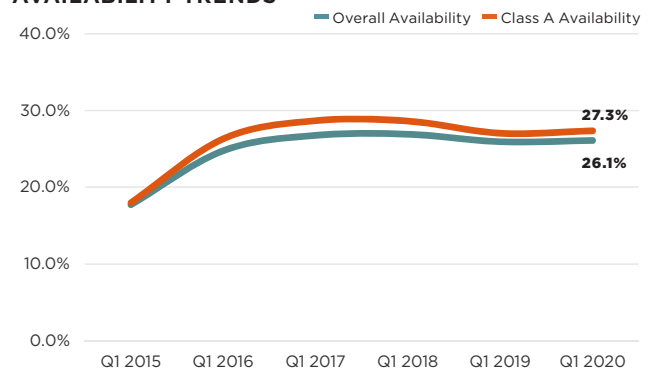
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	192.6 MSF	192.9 MSF	▲
Availability Rate	25.9%	26.1%	▲
Asking Rental Rate	\$28.86	\$29.09	▲
Class A Asking Rental Rate	\$33.82	\$33.20	▼
Quarterly Leasing Activity	3.0 MSF	4.3 MSF	▲

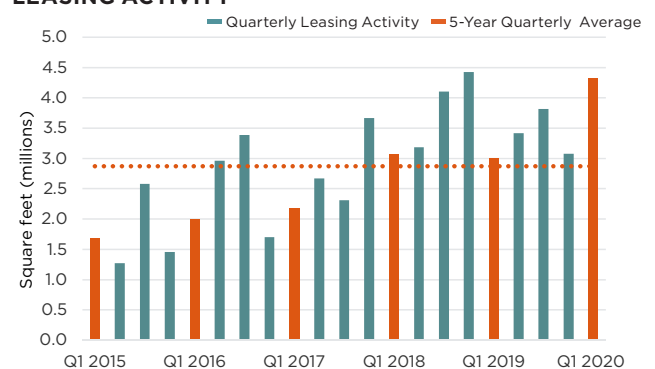
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

51.9%

of major transactions were new locations or relocations

41.5%

of large transactions occurred in the The Woodlands submarket

96.7%

Energy & Utilities represented 96.7% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Occidental Petroleum Corporation	807,586	1201 Lake Robbins Drive	New Location	The Woodlands	Energy & Utilities
Enterprise Products Partners	497,798	1100 Louisiana Street	Renewal and Expansion	CBD	Energy & Utilities
Plains All American Pipeline	332,000	333 Clay Street	Renewal	CBD	Energy & Utilities
Western Midstream Partners	133,948	9950 Woodloch Forest Drive	Relocation	The Woodlands	Energy & Utilities
TGS-NOPEC Geophysical Company	97,295	10451 Clay Road	Renewal	Katy Freeway/Energy Corridor	Energy & Utilities
EDP Renewables North America	92,523	1501 McKinney Street	Relocation	CBD	Energy & Utilities
Occidental Petroleum Corporation	91,986	3 Greenway Plaza	Renewal	Greenway Plaza	Energy & Utilities
Live Nation Entertainment	75,000	888 Westheimer Road	Relocation	Midtown	Personal Services
Sunnova Energy	71,732	20 Greenway Plaza	Extension	Greenway Plaza	Energy & Utilities
SEMPRA LNG	68,139	1500 Post Oak Boulevard	Relocation	West Loop/Galleria	Energy & Utilities

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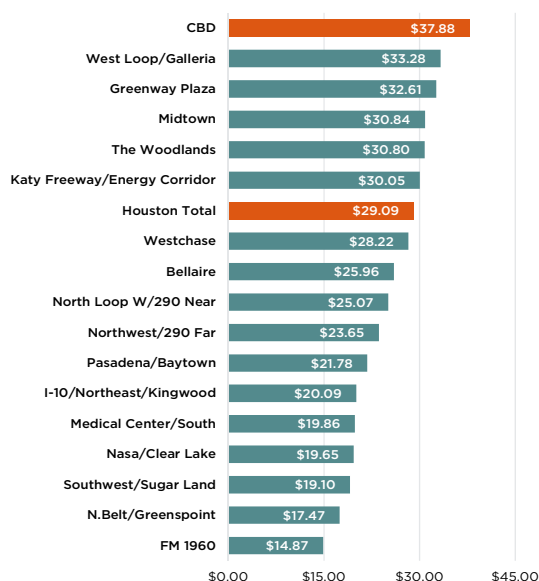
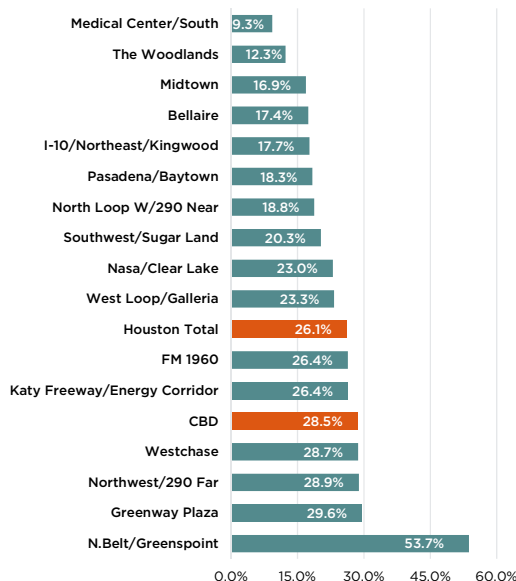


AVAILABILITY RATE COMPARISON

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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