



Impact of ongoing economic disruption is reflected in Houston's office market metrics

COVID-19's ongoing negative impact on the regional economy is now beginning to be reflected in Houston's office market dynamics. Large-scale workforce reductions, numerous local bankruptcy filings, and a massive, albeit mostly temporary, shift to remote work have caused a significant decrease in office demand. Occidental Petroleum signed both the largest and third largest lease of the quarter - a combined 972,000-square-foot (sf) extension - representing more than one quarter of the 3.1 million square feet (msf) leased in total. Excluding this mega-lease, demand declined by 51.4% from the first quarter. With supply outpacing tepid demand, overall availability increased by 90 basis points quarter over quarter, now at 27.0% and is on par with levels seen during the most recent energy downturn of 2015-2016.

Landlords hold asking rates firm; concession offerings on the rise

With owners hesitant to significantly reduce base price, overall average asking rents saw little change over the quarter and are now at \$28.85 per square foot (psf). However, landlords have begun to increase concessions, including free rent and tenant improvement allowances, as an incentive for deals in progress to close quickly. Occupiers that can or have to make real estate decisions in the current environment are benefiting from the softening market and securing large blocks. Universal Plant Services committed to 80,603 sf at 4460 Highway 225 in Pasadena/Baytown and Venture Global LNG extended and expanded its lease at 5 Houston Center to now occupy 58,514 sf in the Central Business District.

Crude production trending downward; near-term oil prices lower than longer-dated ones

Global oil production has been declining due to voluntary production cuts from members of the Organization of Petroleum Exporting Countries (OPEC), as well as rapid declines in production in the United States, according to the Energy Information Agency (EIA). West Texas Intermediate (WTI) prices have shown extreme volatility throughout the quarter reaching negative territory with a historic low of -\$37.63 on April 20, 2020 before climbing back to the current price of \$38.38 as of June 16th, 2020. With production cuts expected to average 3.0 million barrels for the second half of 2020, oil prices could continue to trend upward. However, the structure of the futures curve remains in contango (where the futures price of a commodity is higher than the spot price) reflecting high levels of oil inventories.

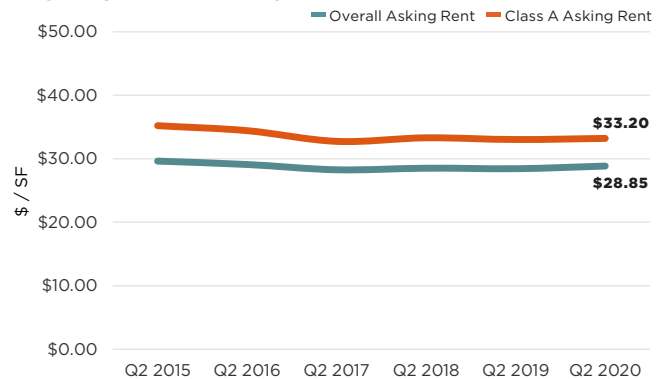
Outlook

- With ongoing disruption to regional economy and oil and gas industry, Houston's office market is likely to soften further in the coming quarters
- Owners will remain reluctant to significantly reduce asking rents, however, generous concessions and increased term flexibility will prevail in the current tenant-friendly environment
- Recovery of global oil demand and steep declines in global oil production will help bring the market to balance sooner than previously estimated by the EIA

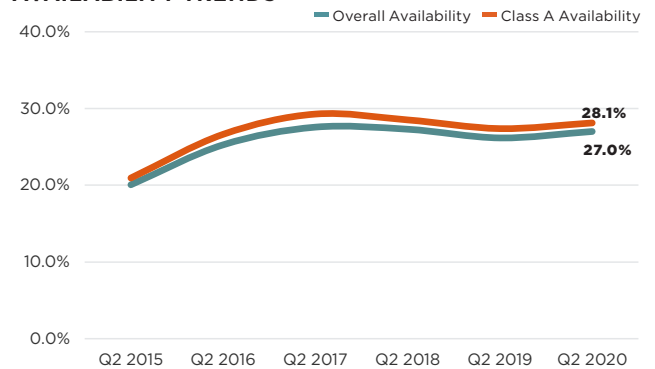
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	192.6 MSF	192.5 MSF	▼
Availability Rate	26.2%	27.0%	▲
Asking Rental Rate	\$28.44	\$28.85	▲
Class A Asking Rental Rate	\$33.03	\$33.20	▲
Quarterly Leasing Activity	3.4 MSF	3.1 MSF	▼

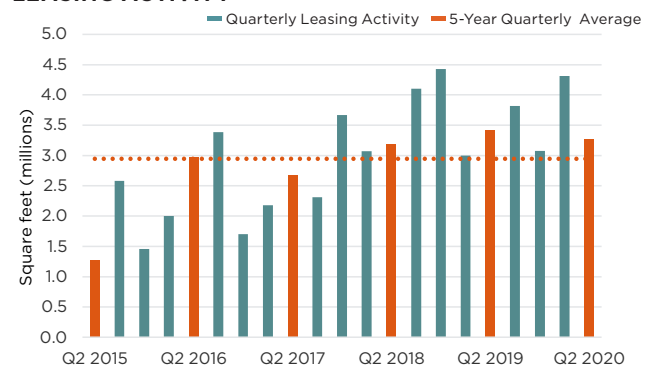
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

6 of 10

of major transactions were new locations or relocations

71.8%

of large transactions occurred in the Greenway Plaza submarket

77.8%

Energy & Utilities represented 77.8% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Occidental Petroleum Corporation	972,000	3 & 5 Greenway Plaza	Extension	Greenway Plaza	Energy & Utilities
Universal Plant Services	80,613	4460 Highway 225	Relocation	Pasadena/Baytown	Manufacturing
Venture Global LNG	58,514	1401 McKinney Street	Renewal and Expansion	CBD	Energy & Utilities
2nd.MD	50,000	9655 Katy Freeway	Relocation	Katy Freeway/Energy Corridor	TAMI
BDO USA, LLP	45,063	2929 Allen Parkway	New Location	Midtown	Professional Services
Waste Management	31,750	800 Capitol Street	Expansion	CBD	Energy & Utilities
Axiom Space, Inc.	31,327	1290 Hercules Avenue	New Location	Nasa/Clear Lake	TAMI
TDECU	29,419	14141 Southwest Freeway	New Location	Southwest/Sugar Land	Financial Services
DHL Express	28,521	16855 Northchase Drive	New Location	N. Belt/Greenspoint	Transportation
Round Table Medical Consultants	26,743	11490 Westheimer Road	Renewal and Expansion	Southwest/Sugar Land	Professional Services

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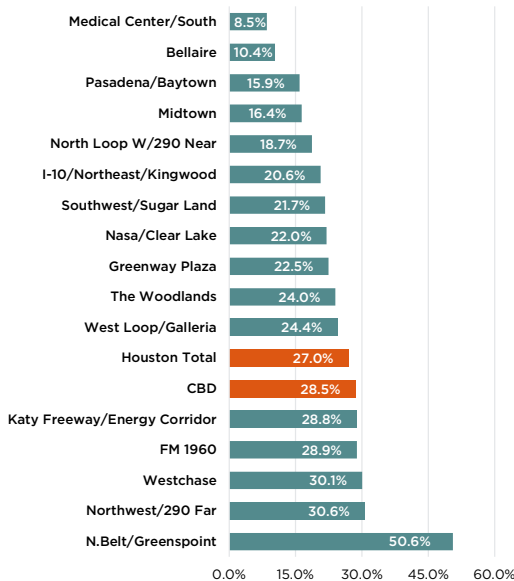
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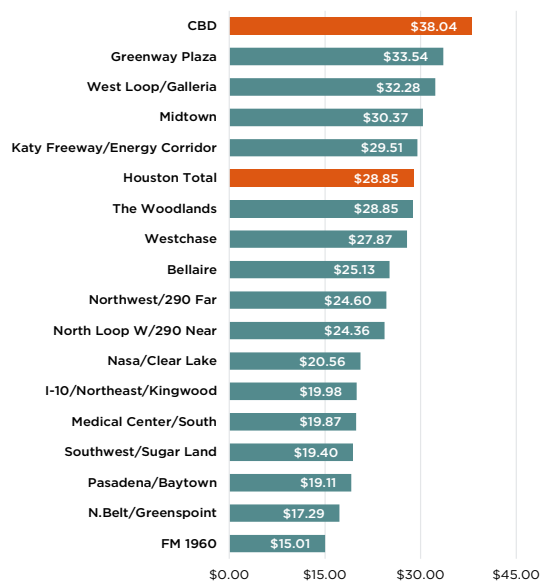
AVAILABILITY RATE COMPARISON

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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