



Houston sees signs of economic and social recovery, yet office market softness prevails

With more of the Texas population fully vaccinated and organizations returning to the office, the Houston office market is again seeing some signs of life. As of June 2021, the Centers for Disease Control and Prevention (CDC) COVID-19 data tracker shows that more than half of vaccine-eligible populations have now been fully vaccinated nationwide. Leasing activity picked up some but remains well below pre-pandemic levels. This quarter, leasing volume topped 2.0 million square feet (msf), up some from last quarter, but still down 28% compared to the pre-pandemic five-year average of 2.8 msf and large transactions are few and far between. In the Woodlands, Linde PLC renewed its existing space at 1585 Sawdust Road for 120,454 square feet (sf) and UT Physicians took 65,000 sf at 6500 West Loop South in the Bellaire submarket.

Houston remains a top destination for corporate relocations, particularly as tenant opportunity abounds

Attracting several corporate relocations in recent months, Houston ranked third on Fortune's recent list of cities the with most Fortune 500 company headquarters in the nation. Houston currently has 24 Fortune 500 companies headquartered in the market coming in behind New York (64) and Chicago (35), respectively. Tenant options are plentiful as overall availability continues to climb, increasing an additional 110 basis points over the quarter to 31.3%. Higher availability presents greater leverage for tenants in the market, which in turn, may also attract additional organizations both within and outside of the market to make moves. Asking rental rates across Houston are holding persistently firm at \$28.96 per square feet (psf) with landlords hesitant to significantly discount face rents. Instead, owners are offering increasingly generous concessions including more free rent and higher tenant improvement allowances to attract and retain tenants in today's depressed market.

Petroleum market sees tremendous rebound from pandemic lows

Building on positive momentum from last quarter, West Texas Intermediate (WTI) sustained pricing at or above \$60.00 per barrel throughout Q2. As of June 2021, WTI pricing reached over \$70.00 per barrel, its highest since October of 2018. By mid-May 2021, U.S. gasoline demand resumed consumption of above 9.0 million barrel per day (b/d), reflecting a recovery to pre-COVID consumption levels. Jet fuel consumption also has increased from 2020 as leisure and personal travel has increased. The U.S. Energy Information Administration (EIA) forecasts that gasoline consumption will be above summer 2020, but still less than summer 2019 level by a small difference.

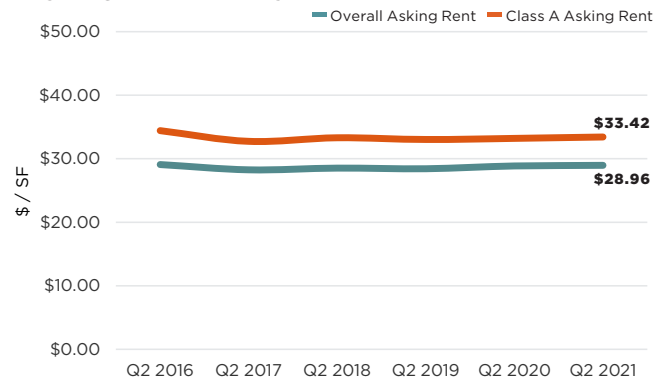
Outlook

- Widespread vaccination brings a potential silver lining at the end of the pandemic as daily activity looks to return closer to "normal"
- Landlords grow cautiously optimistic as employers and occupiers slowly initiate return-to-office policies and ponder long-term office needs, still tenant opportunity remains widespread amidst current availability highs
- The local economy will benefit from rebounding travel demand leading to further stabilization and growth for the oil industry

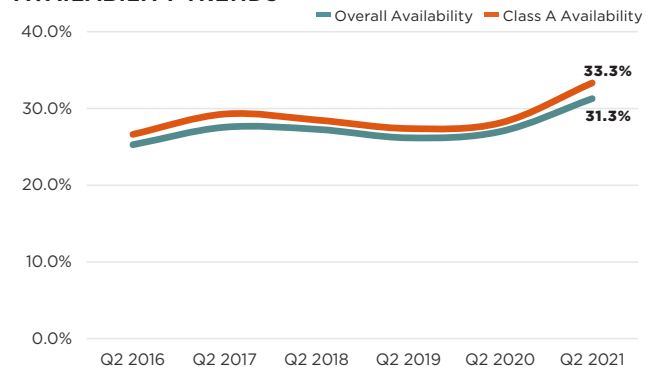
KEY STATISTICS

	Q2 2020	Q2 2021	y-o-y Change
Inventory	191.9 MSF	192.1 MSF	▲
Availability Rate	27.0%	31.3%	▲
Asking Rental Rate	\$28.85	\$28.96	▲
Class A Asking Rental Rate	\$33.20	\$33.42	▲
Quarterly Leasing Activity	3.3 MSF	2.0 MSF	▼

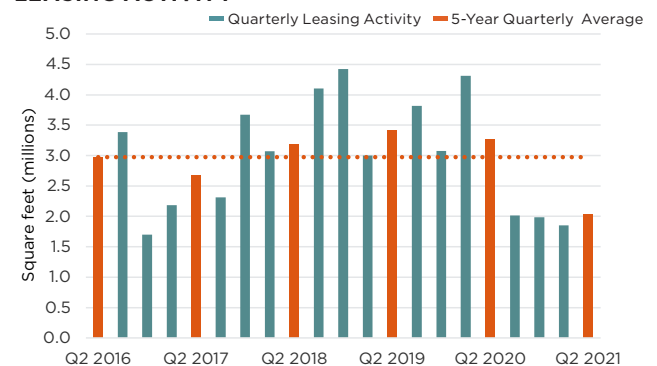
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

38.0%

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

30.4%

of large transactions occurred in the **Katy Freeway/Energy Corridor** submarket by square footage

31.9%

Manufacturing sector tenants represented 31.9% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Linde PLC	120,454	1585 Sawdust Road	Renewal	The Woodlands	Manufacturing
UT Physicians	65,000	6500 West Loop South	New Location	Bellaire	Healthcare
NewRez	60,118	17000 Katy Freeway	Relocation	Katy Freeway/Energy Corridor	Financial Services
Catholic Charities	37,231	5599 San Felipe Street	New Location	West Loop/Galleria	Non-profit
Colliers International	36,954	1233 West Loop S	Renewal and Expansion	West Loop/Galleria	Real Estate
Xavier Educational Academy	32,000	1001 West Loop South	Relocation	West Loop/Galleria	Education
Sabine Oil & Gas	28,235	1415 Louisiana Street	Renewal	CBD	Energy & Utilities
AES Drilling Fluids	27,614	575 N Dairy Ashford	Relocation	Katy Freeway/Energy Corridor	Retail
Nouryon Chemicals	26,085	15115 Park Row	Renewal	Katy Freeway/Energy Corridor	Manufacturing
Amazon	26,000	818 Town & Country Boulevard	New Location	Katy Freeway/Energy Corridor	TAMI

Source Savills Research

For more information, please contact us:

Savills

609 Main Street
28th Floor
Houston, TX 77002
+1 713 522 5300

Mark W. O'Donnell

Vice Chairman, Director,
Southwest Region Lead
modonnell@savills.us

W. Derrell Curry

Executive Vice President,
Branch Manager
dcurry@savills.us

Kyle Kelley

Executive Vice President,
Branch Manager
kkelley@savills.us

Drew Morris

Executive Vice President,
Branch Manager
dmorris@savills.us

Nathaniel R. Han

Research Manager
nhan@savills.us

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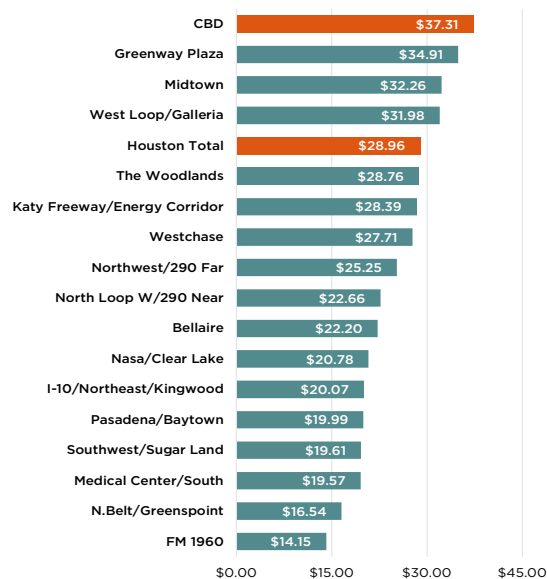
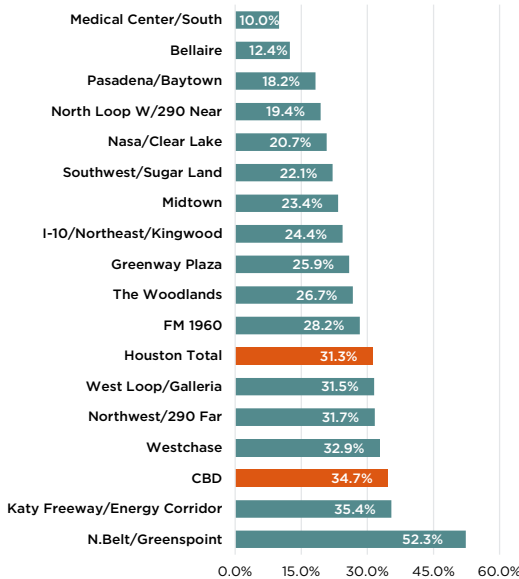
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AVAILABILITY RATE COMPARISON

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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