



## Current conditions create unprecedented opportunity for tenants in the Houston market

Houston's office market is seeing an unprecedented slowdown and softening as quarterly leasing activity, totaling 2.0 million square feet (msf), hit its lowest figure since Q4 2016. Correspondingly, marketwide availability (28.8%) is now at a new high. Rife opportunity exists for tenants, including plentiful large blocks of contiguous space, highly competitive landlord concessions and taking rents well below advertised asking rates. In fact, there are currently 25 office buildings across the market that have contiguous blocks of sublease space larger than 50,000 square feet (sf), 21 of which are Class A stock.

### Leasing activity remains depressed despite a spurt of large deals

Leasing activity continued its decline through Q4 2020 and is expected to continue to remain low as pandemic disruption persists. A hint of optimism presents itself as COVID-19 vaccines were released by both Pfizer and Moderna and have begun being distributed throughout the nation. However, the energy industry – a key demand driver in Houston – is still struggling and energy companies face anxiety around a potential shift to a stricter regulatory environment around fracking and offshore drilling. Even with quarterly leasing down 35.4% year over year, a handful of large transactions still occurred. TC Energy extended its 320,000-sf lease at TC Energy Center in the Central Business District (CBD) submarket. Online used car retailer Vroom leased 115,000 sf, growing as consumer attitudes continue to shift towards e-commerce. Diamond Offshore restructured its lease for 98,000 sf at 15414 Katy Freeway and Cadence Bank signed an 82,000-sf lease at Park Towers.

### Oil demand expected to recover strongly in 2021 but remain lower than pre-pandemic levels

Reduced economic activity resulting from the pandemic has greatly impacted supply and demand patterns throughout 2020 and is expected to continue to do so well into 2021 and beyond. In November 2020 global petroleum demand reached 95.6 million barrels per day (b/d), a decrease of 6.3 million b/d year over year but an increase of 2.1 million b/d from the Q3 2020 average. However, the Energy Information Agency (EIA) forecasts that global consumption of petroleum and liquid fuels will average 92.4 million b/d for all of 2020 before increasing by 5.8 million b/d in 2021.

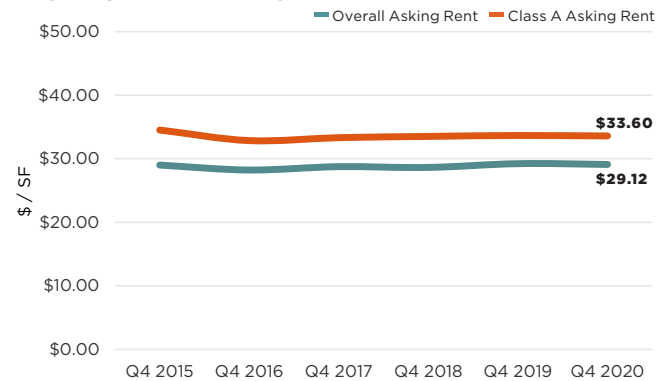
### Outlook

- Office availability, already at a new peak, is expected to continue its upward trajectory as energy sector demand remains below pre-pandemic levels; occupiers have plentiful options in both direct and sublease space
- Widespread downward revisions in asking rates are not likely to occur in the near-term, however, effective rents are expected to continue declining with increasingly generous concessions
- The energy industry is expected to experience greater digitization as efficiency becomes pivotal toward long-term success and renewable energy is likely to see significant investment going forward

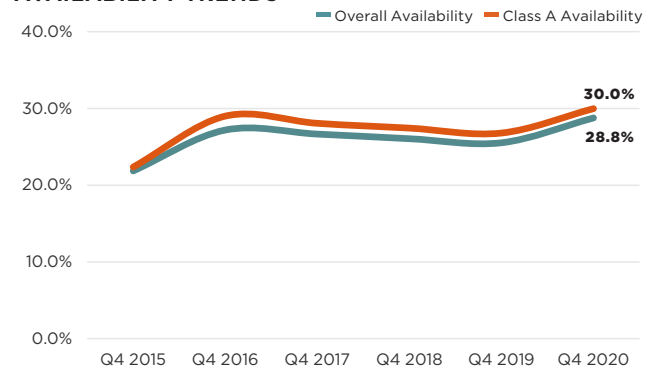
### KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	192.0 MSF	<b>191.2 MSF</b>	▼
Availability Rate	25.5%	<b>28.8%</b>	▲
Asking Rental Rate	\$29.24	<b>\$29.12</b>	▼
Class A Asking Rental Rate	\$33.66	<b>\$33.60</b>	▼
Quarterly Leasing Activity	3.1 MSF	<b>2.0 MSF</b>	▼

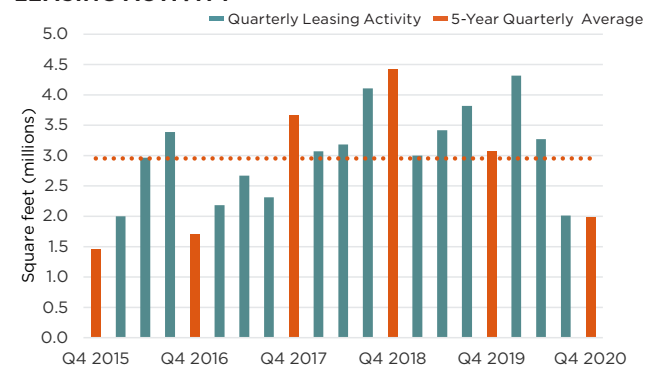
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

43.9%

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

35.7%

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

53.8%

**Energy** sector tenants represented 53.8% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
TC Energy	320,000	700 Louisiana Street	Extension	CBD	Energy
Vroom	115,000	10777 Westheimer Road	New Location	Westchase	Transportation
Diamond Offshore	98,000	15415 Katy Freeway	Sale-Leaseback	Katy Freeway/Energy Corridor	Energy
Cadence Bank	82,215	1333 West Loop S	Relocation	West Loop/Galleria	Financial Services
JLL	81,999	4200 Westheimer Road	Relocation	West Loop/Galleria	Real Estate
Noble Drilling Services Inc	63,395	13135 Dairy Ashford Road	Restructure	Southwest/Sugar Land	Energy
LJA Engineering	38,357	1904 Grand Parkway N	Extension	Northwest/290 Far	Engineering
The University of Texas M.D. Anderson Cancer Center	35,075	15021 Katy Freeway	Extension	Katy Freeway/Energy Corridor	Healthcare
Yang Ming Marine Transport	34,541	3250 Briarpark Drive	New Location	Westchase	Transportation
Nouryon Chemicals	26,960	15115 Park Row	Expansion	Katy Freeway/Energy Corridor	Retail

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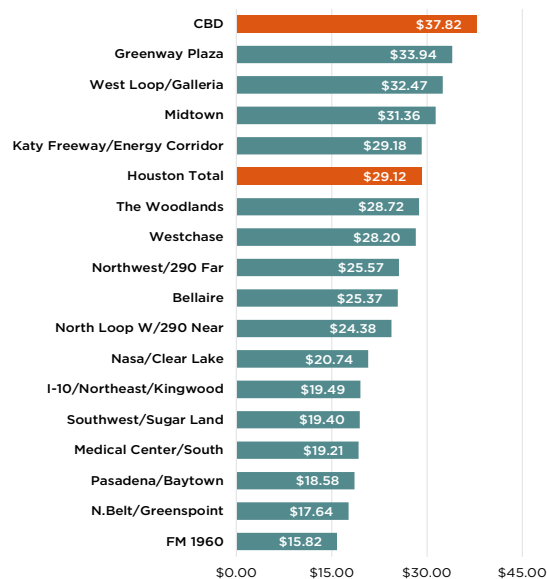
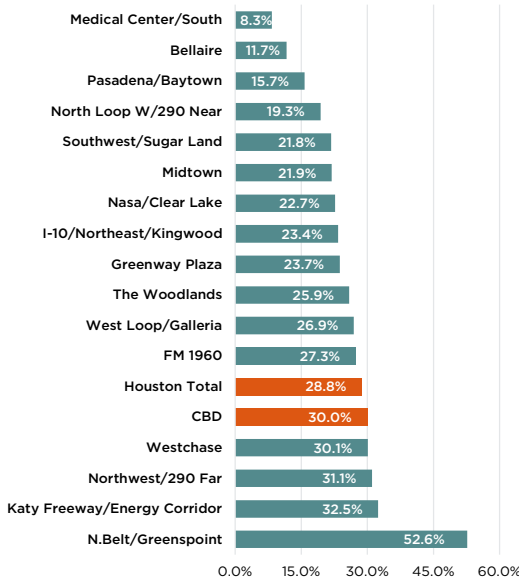
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AVAILABILITY RATE COMPARISON

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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