

# Houston



## Quick Stats

**3.5**

Msf of office space under construction

**19.9%**

Direct vacancy in Houston's office market

**6.8**

Msf of sublease space in Houston's office market

**8.4%**

February 2021 unemployment rate in metro Houston, up from 8.2% in January 2021

Houston's office market faces challenges as it adds more vacant space than the market absorbs, fighting to overcome the major disruptions resulting from the global pandemic and a weakened energy sector. At present, overall demand for space remains low as tenants determine current and future office space needs.

Houston has only regained about 35% of all jobs lost even as all businesses have been given the green light to open, but meaningful economic recovery depends on controlling the pandemic. The vaccine rollout has expanded in recent weeks, with about one-third of all Houstonians 16 and up receiving at least one dose and about one-fifth of all residents being fully vaccinated.

More firms are reopening their offices and making leasing decisions. Kastle Systems' Back-to-Work Barometer shows Houston offices at 34.7%, with the only dip reported after the winter storm. Texas cities continue to top the list due to the state's open policies.

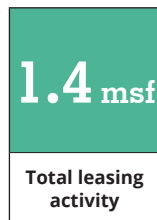
Flight to quality remains a significant influence as evidenced by those

companies opting for newer buildings or buildings with substantial upgrades. 200 Park Place, the newest property in the West Loop submarket completed last year, is now 100% leased with almost three-fourths of the building leased during the last two quarters.

Tenants obviously have the upper hand as vacancy and availability rates remain high while rents declined this quarter. The large amount of available space does create opportunity for a multitude of industries to lower operating costs – and the region does offer a lower cost of living, a diverse talent base and a friendly business climate.

The metro's growing technology and life sciences sectors are attracting new business incubators, startups and tenants for medical and health facilities. The Ion, a 288,000-square-foot (sf) facility at 4201 Main, is one of Houston's newest innovation hubs that will open in July with Microsoft and Chevron as tenants. Greenhouse Labs, another hub for startups, has scheduled an Earth Day, April 22, opening.

The life sciences sector currently has about 800,000 square feet (sf) under construction and another 1 million square feet (msf) proposed. One recent developer just announced a 200-acre site in Northeast Houston designated as the Valley Ranch Medical District with extensive medical facilities and offices planned.



## Employment

The region's February unemployment rate marginally increased to 8.4% from 8.2% in January, according to the Texas Workforce Commission (TWC), resulting in the creation of only 6,900 jobs. That number is well below the 20-year average of 21,100 jobs per month reported by the Greater Houston Partnership (GHP).

Based on February data, the GHP estimates metro Houston has recovered about 35% of all jobs lost during March and April of last year. However, since the February power outages caused fewer employers to report the monthly numbers, the GHP suggests other economic indicators including the Houston Purchasing Managers Index signal the economy is in better shape than these estimates show.

The TWC survey reported annual losses from 12.2% to 12.5% for the manufacturing, information and other services sectors. Mining, logging and construction along with leisure and hospitality sectors reported annual changes of a negative 15.3% and 15.2%, respectively.

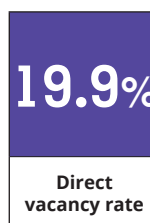
## Absorption & Demand

The Houston market slowed the pace of negative absorption, but demand is still sluggish as office space returning to the market increased during the first quarter. Despite reporting 446,563 sf of direct negative

net absorption, eight submarkets posted positive gains. The Kingwood/Humble/Northeast sector topped the list with the completion of Insperity's 270,000-sf Building 5 on its corporate campus, which represented the largest absorption for the quarter.

The Woodlands submarket reported the largest negative absorption of 225,343 sf. The Howard Hughes Corporation moved into its new 43,915-sf offices at 9950 Woodloch Forest Drive but several larger moveouts including Lexicon Pharmaceuticals, Exxon and Kiewit were reported. The Central Business District (CBD) reported 132,852 sf of negative net absorption for the quarter with several energy-firm moveouts or downsizes including Sable Permian Resources, Chevron and Oasis Petroleum.

The first quarter recorded 511 deals with leasing activity totaling 1.4 msf, which is 48.6% of fourth-quarter's activity. The largest first-quarter deal was Buckeye Partners' 73,075-sf lease at 200 Park Place, bringing the building to 100% occupancy. Other leasing activity included NCI Group's 38,943-sf deal\* in Northwest Crossing III at 13105 Northwest Freeway and Axiom Space taking an additional 32,869 sf in Hercules II at 1290 Hercules to up the building's occupancy to 100%.

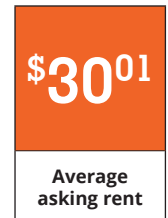


## Vacancy & Availability

The current direct vacancy rate marginally increased 10 basis points from last quarter to 19.9% but is higher than the 17.6% from a year ago. Class A's direct vacancy rate is 21.1% while Class B vacancy rates also rose to 19.5% during first quarter. Total vacancy including sublease space is now at 21.2%, slightly up from last quarter's 21% and 18.5% from this time last year.

Direct availability citywide increased to 24.3% during the first quarter, while total availability, including sublease space, increased to 27.1%. Availability differs from vacancy; available space includes all space being marketed that could be leased but may or may not be vacant.

Available sublease space also decreased slightly by 17,736 sf; the current 6.8 msf is about 40% higher than the 4.8 msf reported during first quarter 2020. Houston's sublease space represents about 11% of the total 63 msf available. Three submarkets account for 56% of all available sublease space in the metro with the Katy Freeway West/Energy Corridor submarket offering 1.6 msf, the CBD with 1.3 msf and the West Loop submarket with 865,401 sf.



## Construction

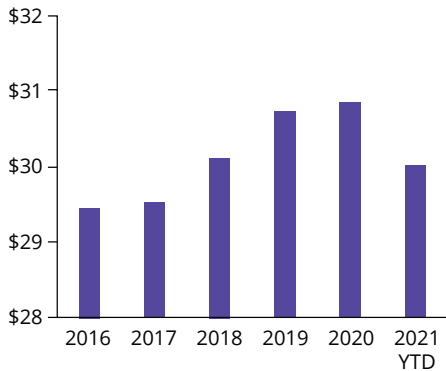
The construction pipeline stands at 15 buildings totaling 3.5 msf under construction and 58% preleased; several of the larger projects are scheduled to deliver in late 2021. Four buildings totaling 399,400 sf were completed during the first quarter.

## Asking rents

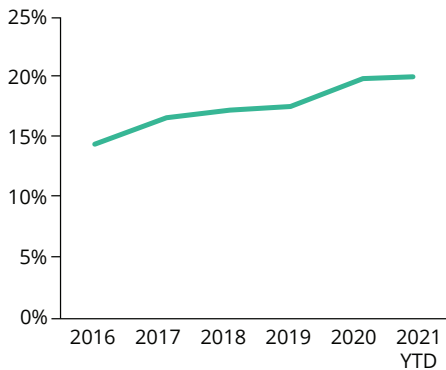
Overall average asking rents dropped to \$30.01 per square foot (psf) gross from last quarter's \$30.82 psf and from \$30.15 psf recorded year over year. Class A rates are \$34.70 psf, also a decrease from last quarter's \$35.87. Landlords are expected to continue offering numerous concessions to close deals including lengthy rent abatements, large tenant-improvement allowances and substantial amounts of free parking.

*\*Avison Young transaction*

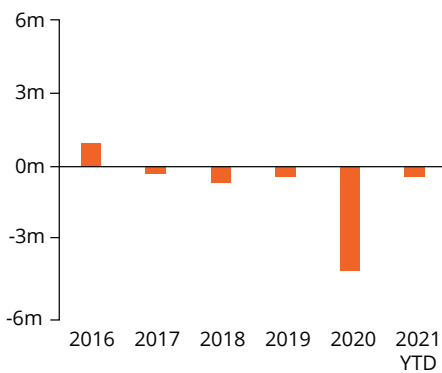
### Asking rents



### Vacancy rates



### Net absorption



### First quarter 2021 highlights

- The largest lease signed during the first quarter was a 73,075-psf deal for **Buckeye Partners, L.P.** for a January 2022 move-in at 200 Park Place at 4200 Westheimer. Completed during second quarter 2020, the newest West Loop building is now 100% leased; **JLL** took 81,999 sf in fourth quarter to relocate in July.
- During first quarter, leasing activity was strongest in these five submarkets with more than 100,000 sf recorded in each: West Loop, Greenspoint, Westchase, CBD and Katy Freeway West/Energy Corridor.
- Representing the largest absorption for the quarter was **Insperty**, who moved into the 270,000 sf in its fifth Kingwood campus building.
- New construction remains limited with almost 3.5 msf. All 15 under-construction buildings are scheduled for a 2021 completion, with four of the five largest buildings in December 2021.



### Area trends to watch

With its central location within the U.S. and the Americas, Houston is an important office base. The following are regional updates for key economic indicators.



#### Oil

The WTI price of oil was up to almost \$61.48 in late March from \$48.35 in late December and \$20.50 a year ago. Record lows were seen in early 2020 due to an oil trade war coupled with effects from the pandemic.



#### Employment

Employees are still losing jobs, with the unemployment rate increasing to 8.4% during February 2021 from 8.2% in January 2021.



#### Purchasing

The Purchasing Manager's Index (PMI) registered 54.3 in February 2021, up from 52.6 in January 2021. This is the seventh consecutive reading above 50, which signals expansion in Houston's goods-producing sector.



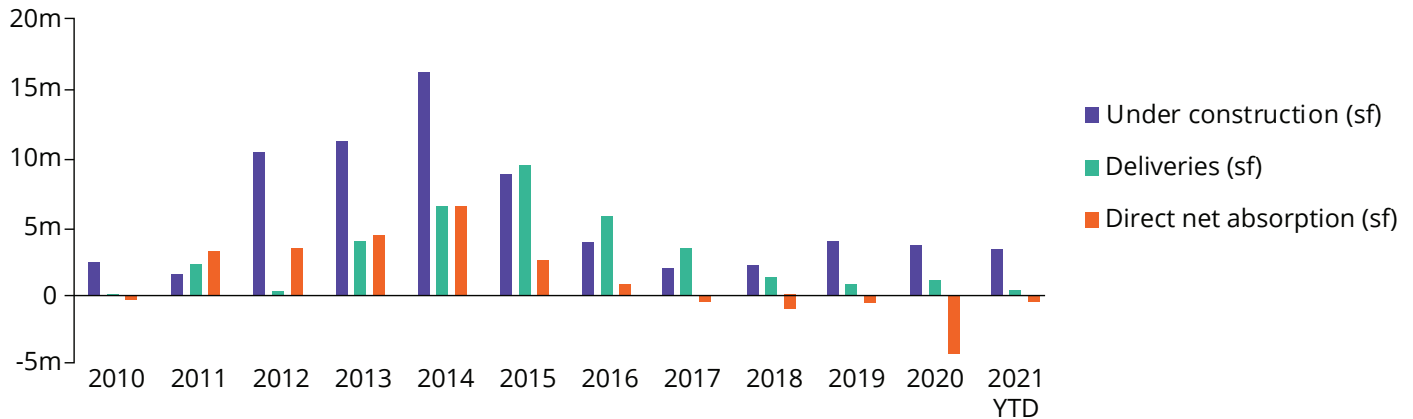
## Market by the numbers

Class/ Submarket	Inventory (sf)	Direct Vacancy (%)	Total Vacancy (%)	Available Sublease (sf)	Direct Availability (%)	Total Availability (%)	Q1 2021 Direct Net Absorption (sf)	YTD 2021 Direct Net Absorption (sf)	Average Gross Quoted Rents (\$/psf)	YTD 2021 Leasing Activity (sf)	YTD 2021 Deliveries (sf)	Under Construction (sf)
<b>Totals by class</b>												
Class A Totals	137,996,628	21.1%	22.6%	5,471,909	25.9%	29.7%	(39,497)	(39,497)	\$34.70	732,940	375,400	2,770,604
Class B Totals	83,535,816	19.5%	20.4%	1,302,271	23.4%	24.9%	(309,746)	(309,746)	\$22.99	656,373	24,000	711,702
Class C Totals	10,941,383	8.9%	9.0%	22,569	10.7%	10.9%	(97,320)	(97,320)	\$16.89	49,356	0	0
Overall Totals	232,473,827	19.9%	21.2%	6,796,749	24.3%	27.1%	(446,563)	(446,563)	\$30.01	1,438,669	399,400	3,482,306
<b>Totals by submarket</b>												
Bellaire	2,882,593	10.9%	10.9%	17,277	16.6%	17.2%	134	134	\$25.08	7,543	0	0
Central Business District	44,985,256	21.7%	23.5%	1,322,317	29.1%	31.8%	(132,852)	(132,852)	\$40.20	106,534	0	1,270,856
East Fort Bend/ Sugar Land	5,890,491	13.7%	15.3%	145,514	21.5%	23.9%	(28,407)	(28,407)	\$31.34	36,137	0	0
FM 1960	8,839,515	20.1%	20.4%	503,052	23.6%	29.3%	35,344	35,344	\$19.91	39,499	24,000	48,000
Greenspoint	11,213,757	44.4%	44.6%	75,816	46.9%	47.6%	(37,929)	(37,929)	\$18.04	132,160	0	0
Greenway Plaza	11,068,536	18.2%	19.3%	303,988	21.0%	23.8%	(19,913)	(19,913)	\$33.99	68,149	0	0
Gulf Freeway/ Pasadena	3,239,663	10.3%	10.8%	41,494	12.1%	13.4%	12,318	12,318	\$22.76	17,592	-	32,396
Katy Freeway East	7,859,310	13.0%	13.4%	135,291	19.5%	21.2%	(207,909)	(207,909)	\$35.35	77,694	-	964,559
Katy Freeway West/ Energy Corridor	25,415,923	21.0%	23.5%	1,612,181	24.2%	30.0%	(13,675)	(13,675)	\$27.43	100,395	0	0
Katy/Grand Parkway West	2,498,725	13.3%	18.6%	226,090	15.5%	24.5%	(1,181)	(1,181)	\$30.98	3,792	0	40,106
Kingwood/ Humble/ Northeast	3,079,339	8.8%	9.0%	11,744	10.0%	10.4%	254,941	254,941	\$19.78	3,039	270,000	0
Midtown	7,183,020	10.6%	11.1%	57,185	17.6%	18.4%	26,648	26,648	\$33.43	28,109	35,400	458,000
NASA/Clear Lake	4,573,189	17.1%	17.9%	67,204	19.0%	20.4%	(1,024)	(1,024)	\$21.13	47,858	0	0
Northwest	8,285,908	17.6%	17.8%	73,069	20.5%	21.4%	(64,672)	(64,672)	\$20.66	67,237	0	23,200
Richmond/ Fountainview	1,267,896	12.3%	12.3%	4,720	13.3%	13.7%	(27,347)	(27,347)	\$17.14	3,571	0	0
San Felipe/Voss	5,119,957	25.4%	25.9%	74,954	29.8%	31.3%	41,431	41,431	\$29.78	68,008	0	0
South/Medical Center/ Southeast	4,826,012	7.1%	7.1%	3,782	8.1%	8.2%	(20,969)	(20,969)	\$23.48	17,255	0	0
Southwest	9,799,277	17.6%	17.6%	0	19.7%	19.7%	2,669	2,669	\$17.24	73,580	0	0
West Belt	5,797,222	22.3%	25.5%	257,317	25.1%	29.6%	10,952	10,952	\$26.60	40,668	0	0
West Loop	23,867,536	20.6%	21.7%	865,401	27.1%	30.7%	(53,235)	(53,235)	\$35.24	304,135	70,000	77,189
Westchase	19,461,976	21.1%	21.9%	486,938	24.2%	26.7%	3,456	3,456	\$26.72	113,607	0	0
Woodlands	15,318,726	16.9%	18.4%	511,415	17.7%	21.1%	(225,343)	(225,343)	\$33.58	82,107	0	568,000

Sources: CoStar and Avison Young Research



## Supply and demand



## Select fourth quarter 2020 under construction

Building name	Building address	Rentable bldg. area (sf)	% Preleased	Major tenants	Projected delivery	Submarket
<b>Texas Tower</b>	845 Texas Avenue	1,120,856	39%	Vinson & Elkins, Hines, DLA Piper	October 2021	Central Business District
<b>One MRO</b>	990 Town & Country Boulevard	440,000	100%	Marathon Oil Corporation	December 2021	Katy Freeway East
<b>The Ion</b>	4201 Main Street	288,000	53%	Microsoft, Common Desk, Chevron Corp.	July 2021	Midtown
<b>HPE Building 3</b>	City Place Drive	284,000	100%	Hewlett Packard Enterprise	December 2021	The Woodlands
<b>HPE Building 4</b>	City Place Drive	284,000	100%	Hewlett Packard Enterprise	December 2021	The Woodlands
<b>8020 Katy Freeway</b>	8020 Katy Freeway	193,500	100%	Crown Castle	April 2021	Katy Freeway East
<b>9753 Katy Freeway</b>	9753 Katy Freeway	190,000	15%	TBD	June 2021	Katy Freeway East
<b>Montrose Collective</b>	888 Westheimer Road	170,000	39%	Live Nation	June 2021	Midtown
<b>POST Houston</b>	401 Franklin Street	150,000	19%	TBD	June 2021	Central Business District
<b>Village Tower II</b>	9655 Katy Freeway	141,059	0%	TBD	May 2021	Katy Freeway East
<b>4411 San Felipe</b>	4411 San Felipe Street	77,189	49%	TBD	December 2021	West Loop

Source: CoStar

## Select first quarter 2021 lease transactions

Tenant	Size (sf)	Type	Building name	Building address	Submarket
<b>Buckeye Partners, L.P.</b>	73,075	New	200 Park Place	4200 Westheimer Road	West Loop
<b>NCI Group*</b>	38,943	New	Northwest Crossing III	13105 Northwest Freeway	Northwest
<b>Greenberg Traurig</b>	37,345	New	Wells Fargo Plaza	1000 Louisiana Street	Central Business District
<b>Axiom Space</b>	32,389	New	Hercules II	1290 Hercules Avenue	NASA/Clear Lake
<b>Sabine Oil and Gas</b>	28,235	Renewal	1415 Louisiana	1415 Louisiana Street	Central Business District
<b>SIBS International Inc.</b>	26,000	New	4411 San Felipe	4411 San Felipe Street	West Loop
<b>General Services Administration</b>	22,809	Renewal	Interwood Business Park	15109 Heathrow Forest Parkway	Greenspoint
<b>Half Associates, Inc*</b>	21,132	Renewal	Ashford Place III	14800 St. Mary's Lane	Katy Freeway West/ Energy Corridor
<b>Key Energy</b>	19,968	New	1500 CityWest	1500 CityWest Boulevard	Westchase
<b>Veritex Community Bank</b>	19,642	Renewal	777 Post Oak	777 Post Oak Boulevard	West Loop
<b>Ring Energy</b>	15,728	New	Hughes Landing	1725 Hughes Landing Boulevard	The Woodlands
<b>CTCI Americas, Inc*</b>	15,137	Renewal	Royal Oaks Centre	11490 Westheimer Road	Westchase

\*Avison Young transaction

Sources: CoStar, Avison Young

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