

# Houston



## Quick Stats

**4.1**

Msf of office space under construction

**19.6%**

Direct vacancy in Houston's office market

**6.5**

Msf of available sublease space, up from 5.6 msf in third quarter 2020

**8.9%**

November 2020 unemployment rate in metro Houston, up from 7.7% in October 2020

Houston's office market faces challenges as it struggles to overcome the significant disruptions created by the effects of the global pandemic along with a diminished energy sector. At present, overall demand for space remains sluggish as tenants determine current and future office space needs contemplating ever-changing, work-from-home policies.

Houston has regained about 50% of all jobs lost, but meaningful economic recovery depends on controlling the pandemic. The arrival of the vaccine has created optimism, and some firms are making decisions. For firms that have made leasing decisions during the fourth quarter of 2020, flight to quality remains a factor as evidenced by those companies opting for newer buildings or buildings with substantial upgrades being completed. In some instances, leases completed this quarter include new configurations or workplace strategies allowing for more flexibility, and, potentially, smaller footprints.

Tenants clearly have the upper hand as vacancy and availability rates continue to rise along with concession packages. Despite Houston's soft office market, the combination of a low cost of living, a

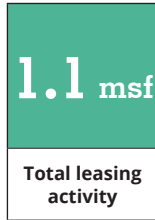
diverse talent base and a friendly business climate for a multitude of industries has attracted office users from other areas of the country. Hewlett Packard Enterprises recently reported plans to move its global headquarters from California to its new campus in North Houston that is presently under construction.

The Greater Houston Partnership (GHP) recently reported 18 new projects evaluated Houston's MSA during 2020 with a similar outlook for 2021 as the area's diversity expands. The GHP's recent forecast projected growth of 35,000 to 52,000 new jobs next year, with most happening during the second half of the year.

Another bright spot is the metro's growing technology sector, which is attracting new business incubators and start-ups along with prominent firms. Microsoft Corp. just signed on to join Chevron Corp. as both a tenant and a partner in Houston's future innovation hub currently underway in The Ion, a 288,000-square-foot (sf) facility at 4201 Main. Dallas-based Common Desk, who has reportedly leased 58,000 sf of co-working space in The Ion, will offer flexibility to start-ups in the redeveloped space scheduled for completion during

the first quarter of 2021.

Metro Houston's November unemployment rate jumped to 8.9% from 7.7% in October, according to the Texas Workforce Commission. The



GHP estimates that the region will experience its usual seasonal job losses through January with most growth resuming in the second half of 2021. According to the GHP's jobs' forecast, every sector will register job growth except energy and retail with the following sectors creating the most jobs: administrative support services, health care and social assistance, manufacturing and professional services.

### Absorption & Demand

Leasing activity is slowly being reinvigorated but is not keeping pace with the large amounts of office space both available and returning to the market. The global pandemic and corresponding work-from-home policies continue to cause hesitation for leasing decisions.

Despite a total of 1.1 million square feet (msf) of direct negative net absorption for the quarter, eight submarkets posted positive gains. The Woodlands led with 120,472 sf of positive net absorption followed by Katy/Grand Parkway West with 41,257 sf of positive net absorption. The Central Business District (CBD) reported numerous moveouts; as a result, it recorded the largest amount of negative absorption at 627,591 sf for the quarter, bringing the CBD's annual sum of negative absorption to 1.4 msf.

Relocations in the CBD this quarter included Waste Management, who moved into 316,081 sf in Bank of America Tower while leaving 273,233 sf in One City Centre. EDP Renewables North America also moved into its new 92,523 sf in Hess Tower, leaving its former 90,653-sf space in the Esperson Building at 808 Travis.

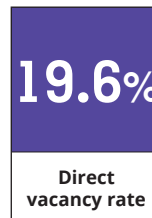
All classes overall added to prior space losses for a year-end total of almost 4.4 msf of direct negative net absorption for 2020. The office market has struggled during the last few years as the energy crisis has caused oil and gas firms to consolidate and contract, offsetting the large gains from 2012 through 2016. Energy firms continue to adjust with several reducing their footprints due to budget cuts and staff reductions.

Leasing activity is on a downward trend with fourth quarter's 1.1 msf, a record low that is nearly 50% of third-quarter's activity. For the year, the metro recorded 11.7 msf of leasing activity, a 37% drop from 2019's 18.6 msf.

Notable fourth-quarter activity included TC Pipelines, formerly TransCanada, extending its 320,504-sf lease to 2030 in its namesake building at 700 Louisiana. The West Loop sector reported two late December deals: Cadence Bank signed a new 82,215-sf lease in Park Towers South while JLL committed to 81,999 sf in 200 Park Place, a building completed earlier this year. Each firm will be consolidating local offices. The Houston Fire Department also leased 55,155 sf in 500 Jefferson downtown, and Yang Ming Corporation leased 34,541 sf for a global headquarters at 3250 Briarpark Drive in Westchase.

### Vacancy & Availability

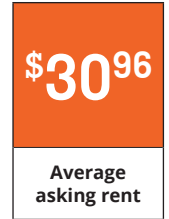
The current direct vacancy rate increased 50 basis points from last quarter to 19.6%. Class A's direct vacancy rate is slightly higher at 20.6% while Class B vacancy rates decreased to 19.4% during fourth quarter. Total vacancy including sublease space is now at 20.7%, slightly up from last quarter's 20% and 19.7% from this time last year.



Direct availability citywide increased to 23.2% during the fourth quarter, while total availability, including sublease space, increased 70 basis

points to 25.8%. 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 increased 14.7% to almost 6.5 msf during fourth quarter; this amount of sublease is much smaller than the record-level 10.9 msf available in 2016. Sublease



space is multiplying in many large markets across the country, but currently represents about 11% of the total 60.8 msf available in Houston. Three submarkets account for 55.5% of all available sublease space in the metro with the Katy Freeway West/Energy Corridor submarket offering more than 1.4 msf available, the CBD with almost 1.4 msf and the West Loop with 794,781 sf.

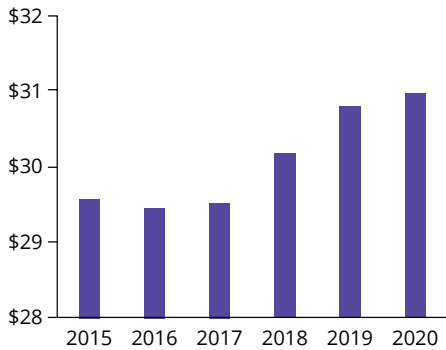
### Construction

The construction pipeline stands at 19 buildings totaling 4.1 msf under construction and 62% preleased; several of the larger projects are scheduled to deliver in late 2021. Two buildings totaling 84,800 sf were completed during the fourth quarter, and one 92,839-sf building at 4411 San Felipe broke ground. Overall, 15 smaller buildings totaling 1.2 msf were completed during 2020.

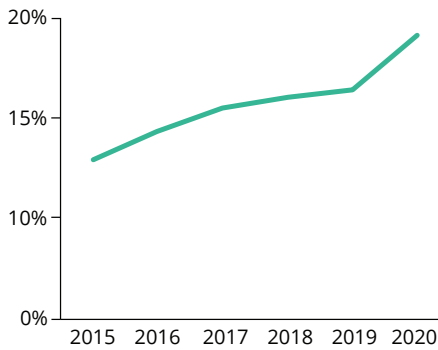
### Asking rents

Overall average asking rents increased to \$30.96 per square foot (psf) gross from last quarter's \$30.30 psf and from \$30.72 psf recorded year over year. This quarter marks a record high as quoted asking rents have fluctuated in the \$28-to-\$31-psf range during the last five years. However, effective rents are declining due to the current economic climate. 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.

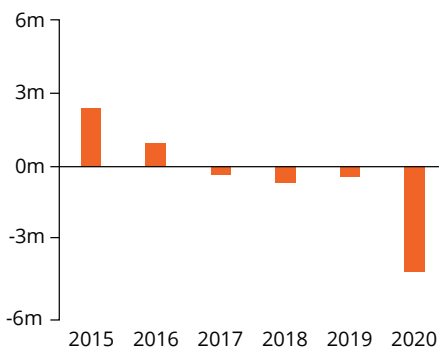
### Asking rents



### Vacancy rates



### Net absorption



### Fourth quarter 2020 highlights

- **Hewlett Packard Enterprises** announced plans to relocate its global headquarters from California to office space the firm is currently leasing in two under-construction buildings totaling 568,000 sf in Springwoods Village near The Woodlands.
- The largest lease signed during fourth quarter was an extension by **TC Pipelines** in its namesake building, TC Energy Center at 700 Louisiana. The firm, formerly known as TransCanada, plans on staying in its 320,504 sf until 2030.
- During fourth quarter, leasing activity was strongest in the CBD, the West Loop and the Westchase sectors along with two new leases in Midtown reported for The Ion, the city's new innovation hub to open in the first half of 2021.
- Representing the largest absorption for the quarter was **Waste Management's** move into its new 316,081 sf in Bank of America Tower at 800 Capitol in the CBD. The firm left behind 273,333 sf in One City Centre, 1021 Main.
- New construction is limited, with DC Partners breaking ground on a seven-story, 92,839-sf building at 4411 San Felipe during fourth quarter, joining the current under-construction pipeline of 19 buildings totaling 4.1 msf. The new project is expected to have both office and some retail and is scheduled for completion 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 \$49 in early December, recording record-level lows earlier in the year due to an oil trade war coupled with effects from the pandemic.



#### Employment

Employees are still losing jobs, with the unemployment rate increasing to 8.9% during November 2020 from 7.7% in October 2020.



#### Purchasing

The Purchasing Manager's Index (PMI) registered 52.4 in November 2020, slightly down from 53.2 in October. This is the fourth consecutive reading above 50, which signals expansion in Houston's goods-producing sector.

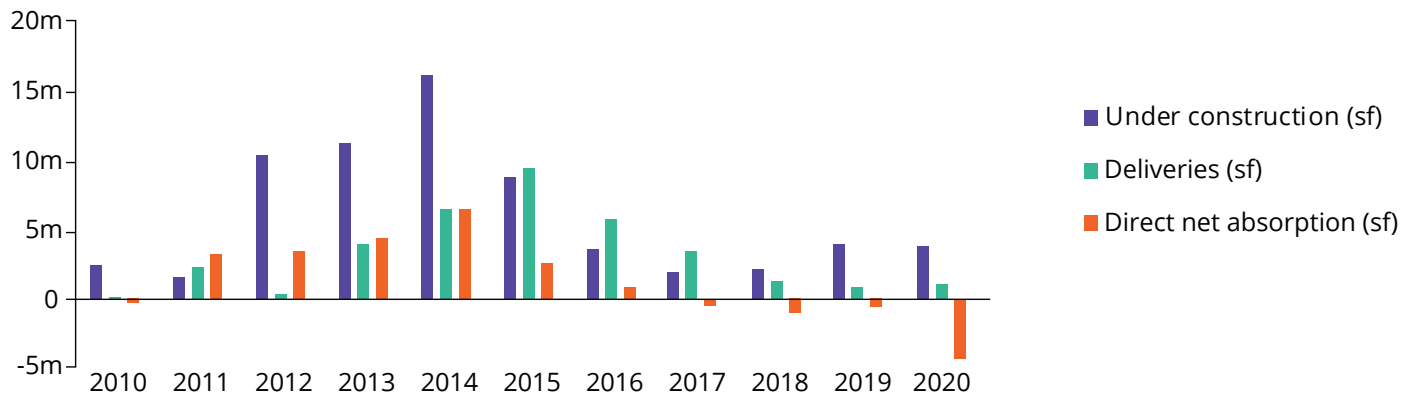


## Market by the numbers

Class/ Submarket	Inventory (sf)	Direct Vacancy (%)	Total Vacancy (%)	Available Sublease (sf)	Direct Availability (%)	Total Availability (%)	Q4 2020 Direct Net Absorption (sf)	YE 2020 Direct Net Absorption (sf)	Average Gross Quoted Rents (\$/psf)	YE 2020 Leasing Activity (sf)	YE 2020 Deliveries (sf)	Under Construction (sf)
<b>Totals by class</b>												
Class A Totals	136,968,343	20.6%	22.0%	5,092,085	24.6%	28.1%	-926,683	-2,857,788	\$36.09	7,649,857	867,237	3,378,067
Class B Totals	83,126,371	19.4%	20.2%	1,332,510	22.4%	24.0%	-142,422	-1,411,874	\$23.29	3,763,931	295,909	731,729
Class C Totals	11,102,771	7.7%	7.7%	27,569	10.0%	10.3%	-18,673	-101,019	\$17.20	259,229	0	0
Overall Totals	231,197,485	19.6%	20.7%	6,452,164	23.2%	25.8%	-1,087,778	-4,370,681	\$30.96	11,673,017	1,163,146	4,109,796
<b>Totals by submarket</b>												
Bellaire	2,882,593	11.1%	11.1%	37,304	16.6%	17.9%	-19,899	-147,236	\$24.94	96,078	0	0
Central Business District	44,985,256	21.0%	22.5%	1,381,338	25.9%	28.6%	-627,591	-1,354,022	\$42.98	1,872,591	0	1,251,856
East Fort Bend/ Sugar Land	5,956,197	13.5%	14.4%	97,668	18.3%	20.0%	-10,994	-168,986	\$31.65	166,579	143,937	0
FM 1960	8,931,801	19.8%	20.2%	496,808	23.7%	29.2%	-38,190	-22,575	\$19.96	430,519	48,000	72,000
Greenspoint	11,267,294	45.7%	45.9%	67,259	48.8%	49.4%	-22,657	193,433	\$18.58	572,598	0	0
Greenway Plaza	11,016,439	17.4%	18.4%	342,112	19.7%	22.8%	-149,116	-232,565	\$35.82	1,401,432	0	0
Gulf Freeway/ Pasadena	3,149,589	10.3%	10.8%	43,727	10.3%	11.7%	5,344	-33,960	\$22.40	145,503	0	32,396
Katy Freeway East	7,796,007	10.0%	10.6%	168,893	16.4%	18.2%	29,915	40,946	\$35.31	550,542	150,000	1,200,000
Katy Freeway West/ Energy Corridor	25,394,599	20.4%	22.8%	1,406,172	23.3%	28.3%	-114,069	62,210	\$27.95	924,480	0	0
Katy/Grand Parkway West	2,648,345	12.9%	15.6%	154,409	14.4%	20.2%	41,257	40,704	\$31.03	154,761	152,645	0
Kingwood/ Humble/ Northeast	2,809,339	9.3%	9.5%	11,744	9.4%	9.8%	7,840	-52,727	\$19.33	64,772	30,500	270,000
Midtown	6,547,620	12.5%	13.1%	61,341	18.8%	19.7%	-23,067	-200,715	\$38.30	353,344	0	493,372
NASA/Clear Lake	4,570,790	17.9%	18.2%	17,398	19.7%	20.1%	-27,393	32,262	\$21.08	164,174	22,000	0
Northwest	8,370,621	17.7%	17.8%	69,431	20.6%	21.4%	11,216	143,553	\$21.43	501,462	72,825	0
Richmond/ Fountainview	1,267,896	10.2%	10.2%	4,720	11.0%	11.3%	-16,329	18,665	\$16.72	57,329	0	0
San Felipe/Voss	5,119,957	24.0%	24.7%	97,217	27.2%	29.1%	-134,946	-298,070	\$29.23	239,440	0	0
South/Medical Center/ Southeast	4,535,546	4.4%	4.4%	3,782	6.5%	6.6%	-2,614	41,722	\$21.47	131,823	0	59,333
Southwest	9,759,621	17.7%	17.7%	2,418	20.1%	20.2%	33,036	-21,431	\$17.17	421,434	22,672	0
West Belt	5,709,214	22.5%	25.7%	264,509	25.2%	29.8%	13,593	-433,775	\$27.07	179,099	0	0
West Loop	23,790,251	20.6%	21.9%	794,781	26.6%	30.0%	-108,108	-766,270	\$36.93	866,824	205,629	162,839
Westchase	19,106,482	21.2%	22.1%	473,530	23.7%	26.1%	-55,478	-517,288	\$28.26	1,017,837	0	0
Woodlands	15,582,028	14.9%	15.8%	455,603	16.4%	19.2%	120,472	-694,556	\$34.47	1,360,396	314,938	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	1,101,856	39%	Vinson & Elkins, Hines, DLA Piper, LLP	October 2021	Central Business District
<b>One MRO</b>	990 Town and Country Boulevard	440,000	100%	Marathon Oil Corporation	December 2021	Katy Freeway East
<b>8020 Katy Freeway</b>	8020 Katy Freeway	420,000	100%	Crown Castle International Corp.	January 2021	Katy Freeway East
<b>The Ion</b>	4201 Main Street	288,000	45%	Microsoft, Common Desk, Chevron Corp.	February 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>Insperty Campus Building 5</b>	29829 Loop 194	270,000	100%	Insperty	January 2021	Kingwood/Humble/Northeast
<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	September 2021	Midtown
<b>Village Tower II</b>	9655 Katy Freeway	150,000	6%	TBD	March 2021	Katy Freeway East
<b>POST Houston</b>	401 Franklin Street	150,000	19%	TBD	June 2021	Central Business District
<b>4411 San Felipe</b>	4411 San Felipe	92,839	0%	TBD	December 2021	West Loop

Source: CoStar and Avison Young Research

## Select fourth quarter 2020 lease transactions

Tenant	Size (sf)	Type	Building name	Building address	Submarket
<b>TC Pipelines</b>	320,504	Extension	TC Energy Center	700 Louisiana Street	Central Business District
<b>Vroom</b>	102,492	New lease	Westchase Park II	3600 W. Sam Houston Parkway S.	Westchase
<b>Cadence Bank</b>	82,215	New lease	Park Towers	1333 W. Loop S.	West Loop
<b>JLL</b>	81,999	New lease	200 Park Place	4200 Westheimer Road	West Loop
<b>Common Desk (co-working)</b>	58,000	New lease	The Ion	4201 Main Street	Midtown
<b>Houston Fire Department</b>	55,115	New lease	500 Jefferson	500 Jefferson Street	Central Business District
<b>Yang Ming Marine Transport Corp.</b>	34,541	New lease	3250 Briarpark Drive	3250 Briarpark Drive	Westchase
<b>Nouryon Chemicals</b>	26,960	Expansion	Park Ten Plaza	15115 Park Row	Katy Freeway West/Energy Corridor
<b>Microsoft</b>	24,491	New lease	The Ion	4201 Main Street	Midtown
<b>Helling Children's Center, LP*</b>	10,349	Renewal	Bank of America East Freeway	12605 East Freeway	Kingwood/Humble/Northeast
<b>IoMosaic Corporation*</b>	8,168	Renewal	1900 St. James Place	1900 St. James Place	West Loop

\*Avison Young exclusive lease project

Sources: CoStar and Avison Young Research

Get more  
market  
information

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