



AVISON
YOUNG

Houston Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

AVISON
YOUNG



4:23 pm
Memorial Park
Saturday, Sept 25



12:57 pm
Root Square
Saturday, Oct 2



7:50 am
610 @ I-10
Monday, Oct 4



12:30 pm
Discovery Green
Saturday, Oct 2



9:32 pm
Minute Maid Park
Thursday, Sept 30



12:41 pm
Avenida Houston
Saturday, Oct 2

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Houston unemployment rate to rebound from a high of 14% to **6.1 percent**.
- Office-using job losses in Houston have totaled **4.7 percent** compared with 5.1% for other industries' job losses. Professional and Business Services job losses of 1.1% are less severe than Local Government (-11.3%) and Information jobs (-9.7%), underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Recovery rate

- Return-to-work rates across cities have varied, with Houston reporting an average office visitor volume of **-64.7 percent** compared to -72.3%, the average for U.S. gateway cities. Volume is based on extrapolated cell phone data.
- Return-to-office rates are higher than most large metros due to reopening efforts lacking restrictions along with fewer vaccination mandates. Workers are also not as dependent on public transportation as many other denser cities.



Office demand

- Leasing activity has paused, decreasing by **38.3 percent** compared with long-term historical averages.
- Renewals have become more common, accounting for the **top three deals** in 2021.
- The flight-to quality trend persists, with the Class A and Trophy segment accounting for **61.7 percent** of all leasing activity during the last two years.

Key takeaways



Office supply

- Direct and sublease vacancy have achieved all-time highs, totaling **23 percent** in third quarter.
- The **11.6 percent** share of available sublease to total available square footage is trending higher after several years of declining space totals. However, the current 7.7 msf of sublease available is much less than the record set in 2015 of 11.2 msf following Houston's oil crisis.



Pricing trends

- Asking rents for Class A space have dropped about **4.3 percent** in the last two years, although the third quarter showed a minimal increase.
- With the large amounts of space available, net effective rents overall have decreased as landlords offer larger concession packages and more favorable lease provisions.
- These more favorable options are resulting in more activity as tenants who postponed their long-term occupancy strategies re-enter the market.



Capital markets

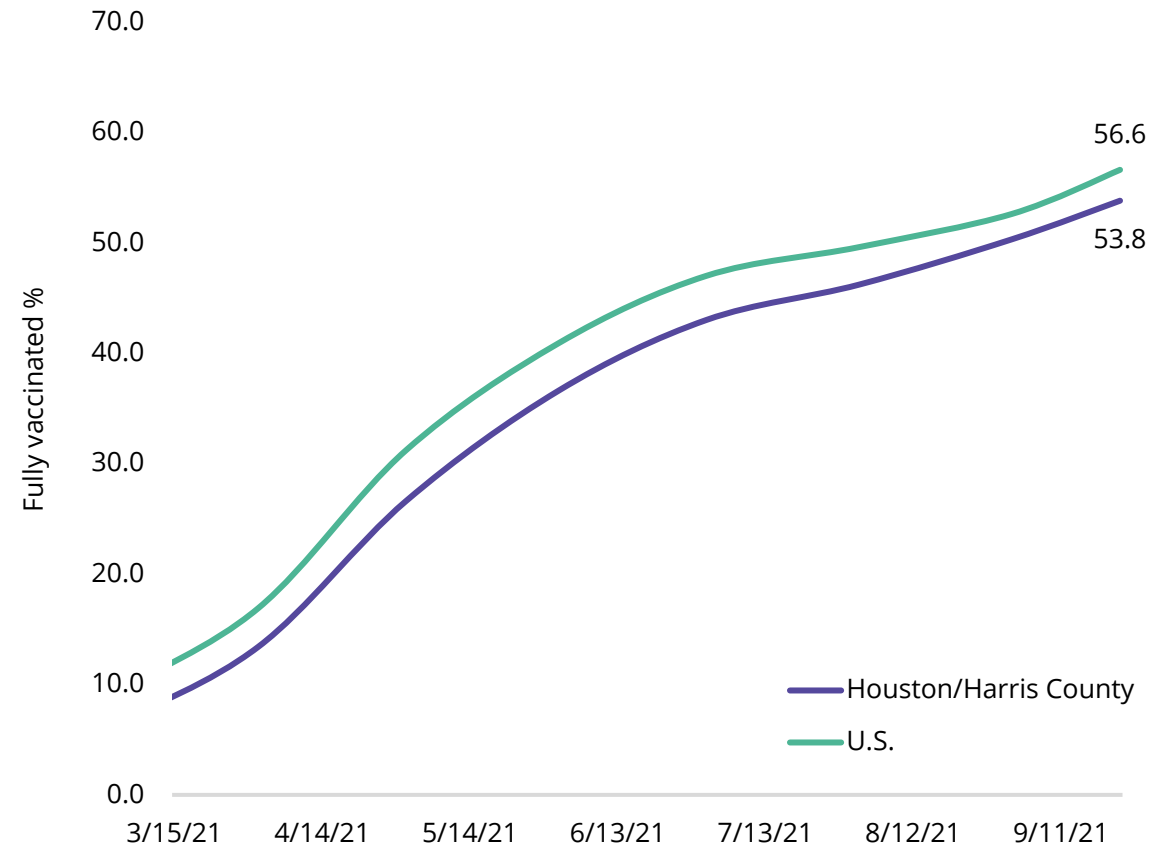
- Office pricing continues to fall during the risk-pricing crisis. Only **\$2.2B in total** Houston offices have been sold since 2020, an annualized decrease of **43.5 percent** compared with the past five-year average.
- Cap rates have averaged **6.8 percent** during the last year.
- Although asset pricing has dropped **52.5 percent** from December 2019 to present, signs of recovery have appeared as Q3 pricing represents a 26% increase from the prior 12 months.

Vaccination rates

53.8%

Share of total Houston/Harris County population that is fully vaccinated

Houston/Harris County proportionate vaccination rates have remained slightly below U.S. averages, an important metric that has allowed the city and county to loosen restrictions.



Source: CDC, Harris County Public Health

Employment and unemployment rate

6.1%

Houston unemployment rate as of August 2021, dipping below the height of the Great Recession

Historically tightened labor market conditions were halted by the pandemic with nearly 361,113 job losses between February and April 2020. However, reopening efforts enabled the economy to add 4.8% more jobs year-over-year.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-4.8%

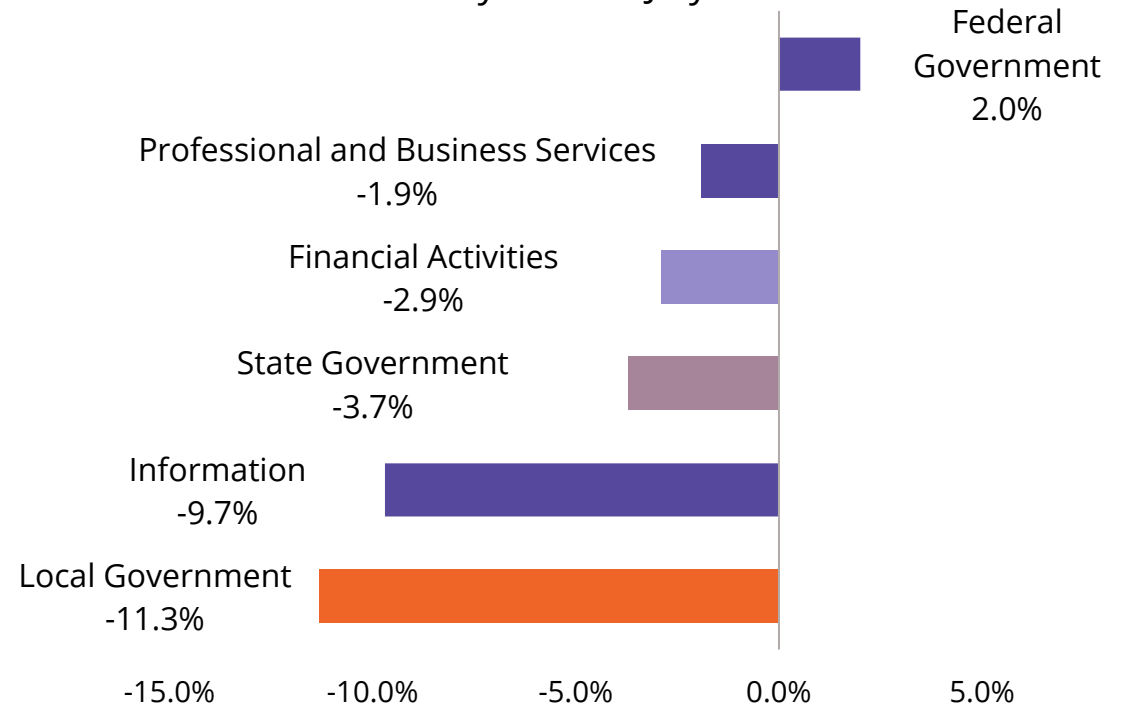
Change in office-using employment during the pandemic

Houston MSA job losses have declined by 5.1% since the start of the pandemic, though office-using jobs contracted by 4.8%. This recession's impact on the office-using labor market has been less severe than the Great Recession, when Local Government job losses dropped only 2.0%.

[VIEW DASHBOARD](#)

Total change in Houston MSA job gains/(losses)

February 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

AVISON
YOUNG



05 CHAMPIONS
MINUTE MAID
ASTROS COMMUNITY LEADERS



TEXAS		PITCHING					
3	DESHAUN	CF	ERA	W	L	IP	SO
11	CHOO	OF	3.90	1	4	53	89
28	WALKER	3B	C	IP	H	20	
25	BELTRE	1B					
13	GALLO	SS					
19	PROFFER	2B					
12	ODOR	C					
41	CHERES	LF					
42	QUEMAN	1B					
25	HAMELS	P					

ASTROS		RANGERS					
0		0		0			
0		0		0			

AVANT
by AVISON YOUNG

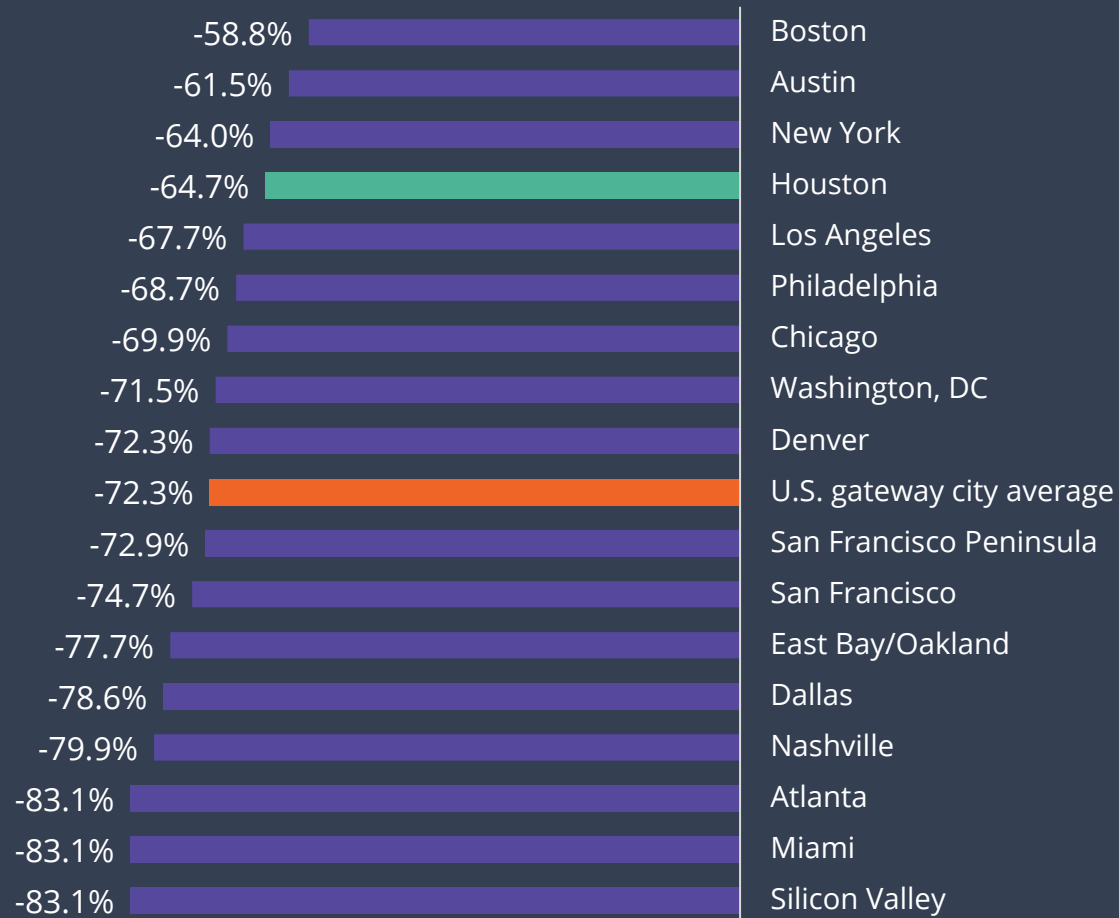
U.S. return-to-work rates since start of COVID

-72.3%

Average office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Return-to-work efforts across cities have been influenced by governmental regulations (informed by infection and vaccination rates), office-using industry composition and employees' reliance on mass transit.

[VIEW VITALITY INDEX](#)



Note: Representative full-building office occupiers only. Weekdays only.
Data as of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

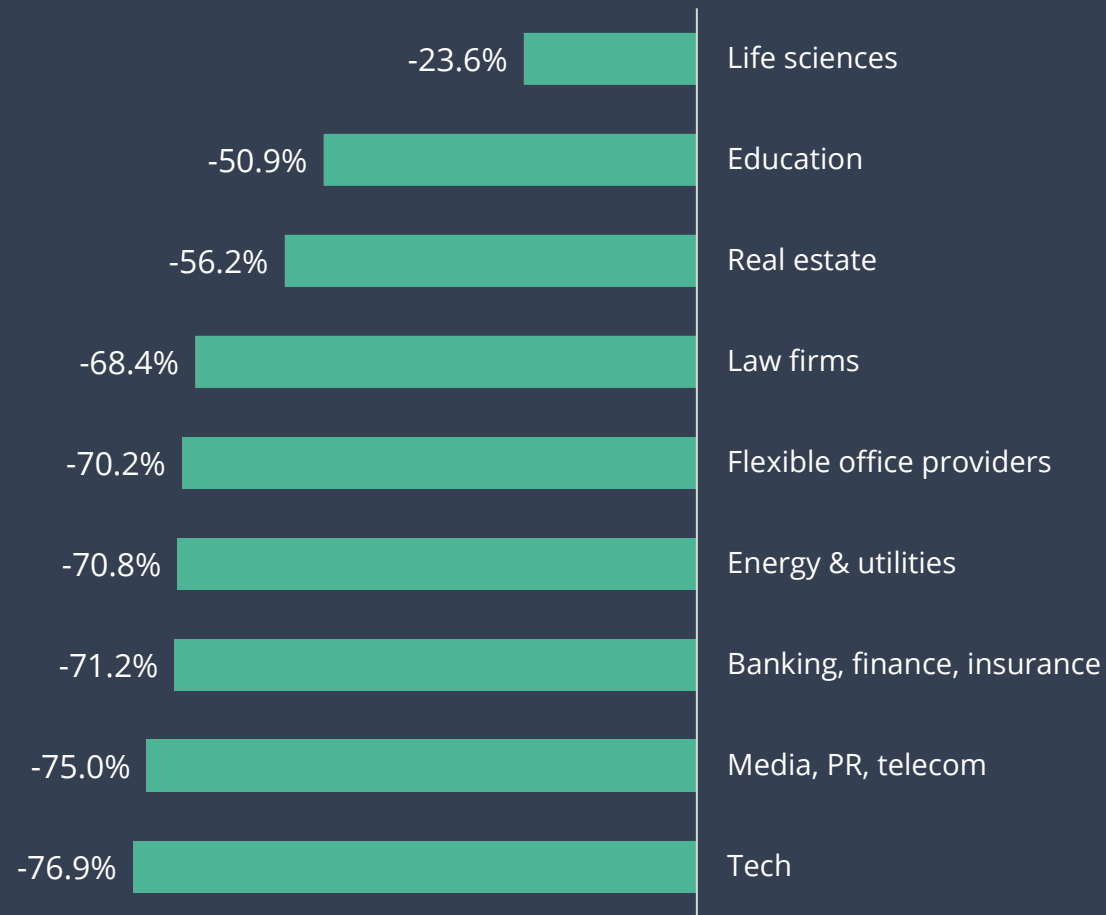
U.S. return-to-work rates since start of COVID

-76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

[VIEW VITALITY INDEX](#)



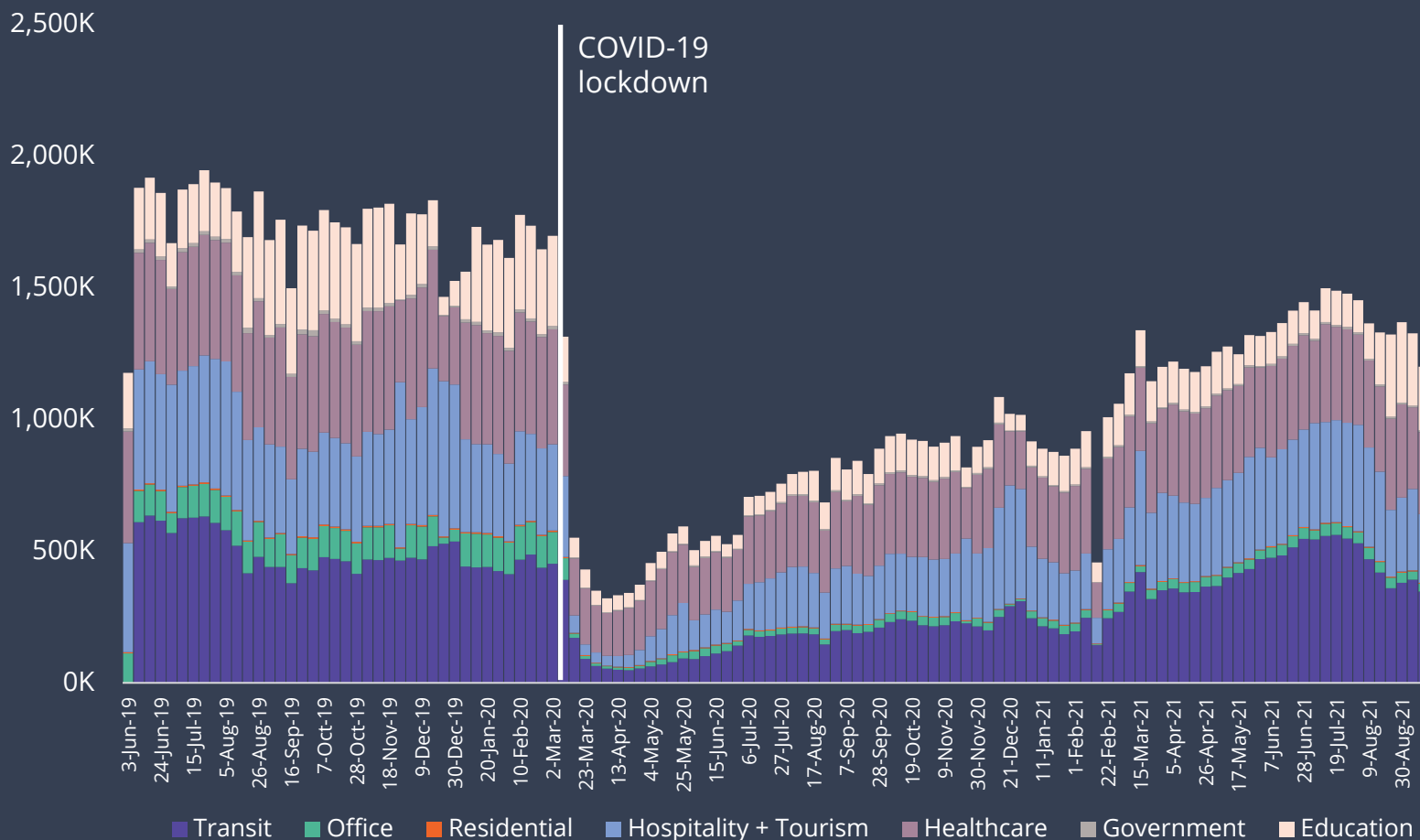
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

Local historical visitor volumes

67.5%

Total visitor volume,
September 14, 2020 vs.
September 20, 2021

Education (149.1%) has nearly returned to pre-COVID activity levels, though residential (-12.3%) has lagged all other property types.



[VIEW VITALITY INDEX](#)

Note: Based on cell phone data for representative areas of interest. Weekdays only.
Weekly visitor volumes referenced above.
Source: Orbital Insight, AVANT by Avison Young

Change in local activity levels, 2019 vs. 2021

-72.2%

Office

-9.6%

Retail

-8.3%

Transit

-19.9%

Healthcare

-25.4%

Education

-49.8%

Government

-30.3%

Residential

-7.9%

Hospitality &
Tourism

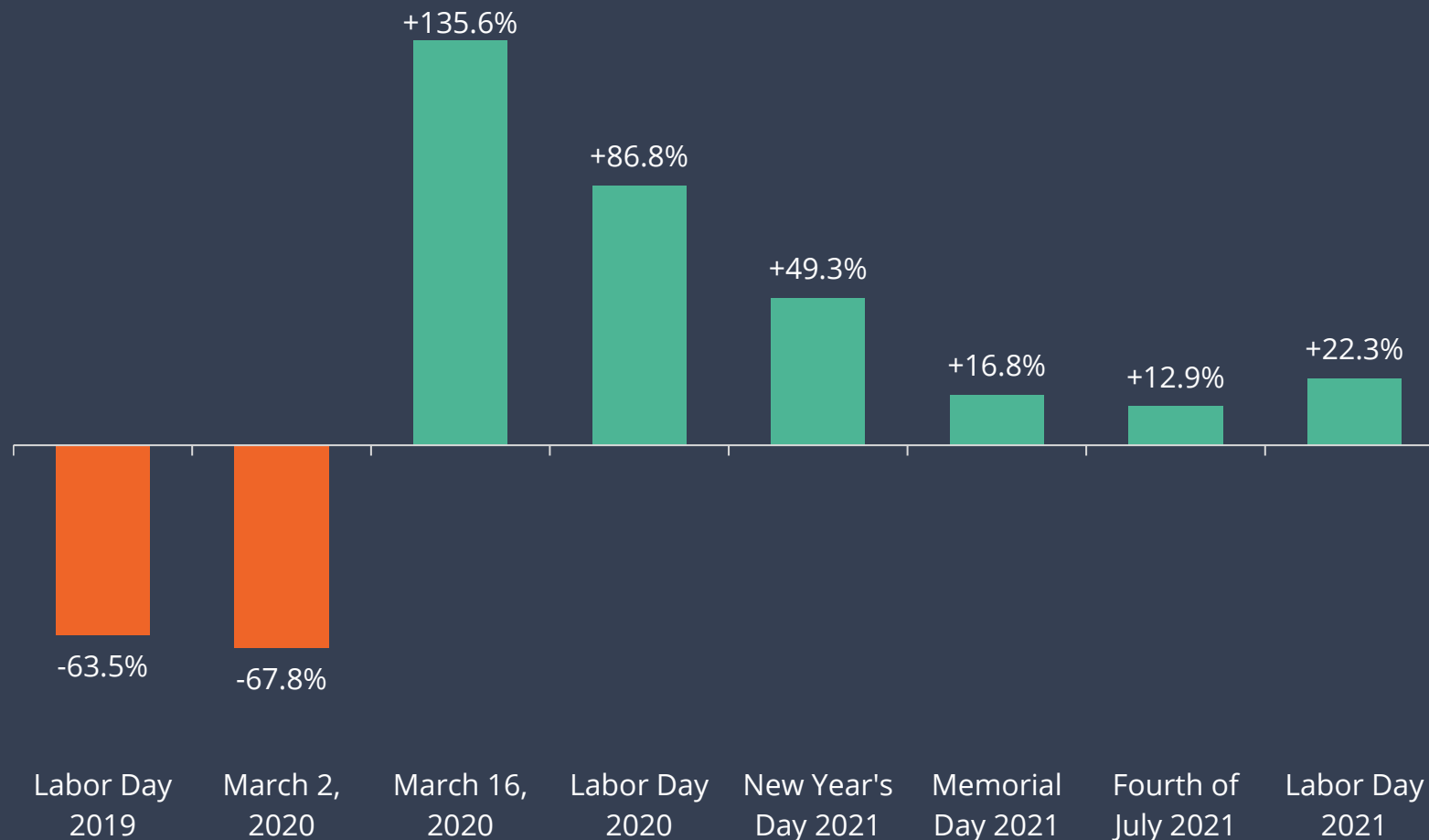
Note: Based on cell phone data for representative areas of interest. Weekdays only.
Week of September 16, 2019 vs. week of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

Evolution of local return-to-work efforts

+22.3%

Houston office visitor volume since the Fourth of July 2021

Houston return-to-work efforts to rise throughout 2021, albeit at levels that were lower than previously anticipated earlier the year due to the spread of the delta variant in the summer months.



[VIEW VITALITY INDEX](#)

Note: Select, representative occupiers only. Weekdays only.
Data as of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

ZOO ENTRANCE

Your Membership
PAYS FOR ITSELF
IN AS LITTLE AS
2 visits per year
BECOME A MEMBER TODAY!



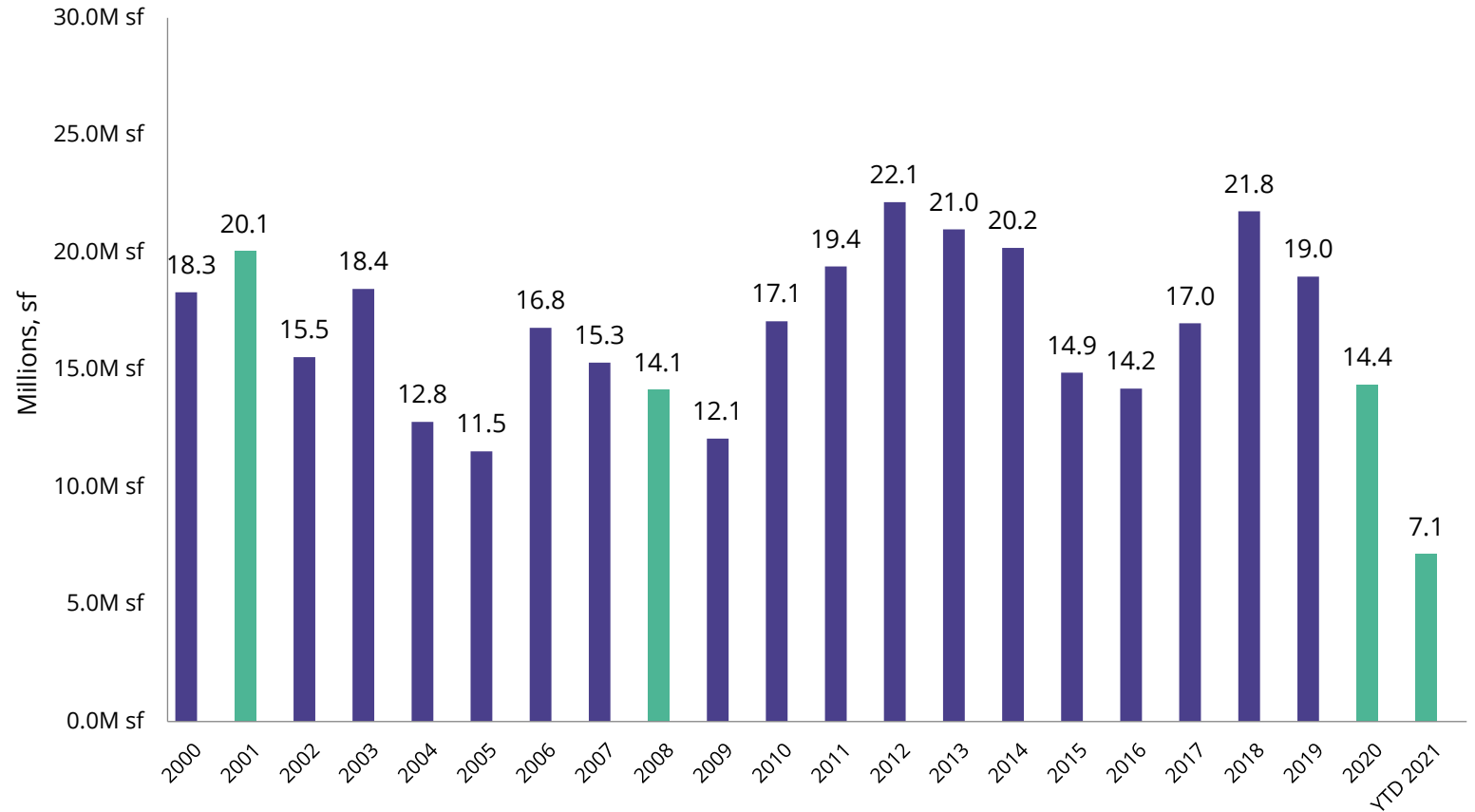
CityPASS
SAVE 45%

Office leasing activity

-38.3%

2020-pro-rated 2021 vs. prior 20-year annual average leasing activity

Leasing activity showed small signs of improvement after a slow first quarter, increasing from 2.2 msf to 2.5 msf each in both subsequent quarters. The pace of closed deals remains the weakest reported in the history of the Houston office market.

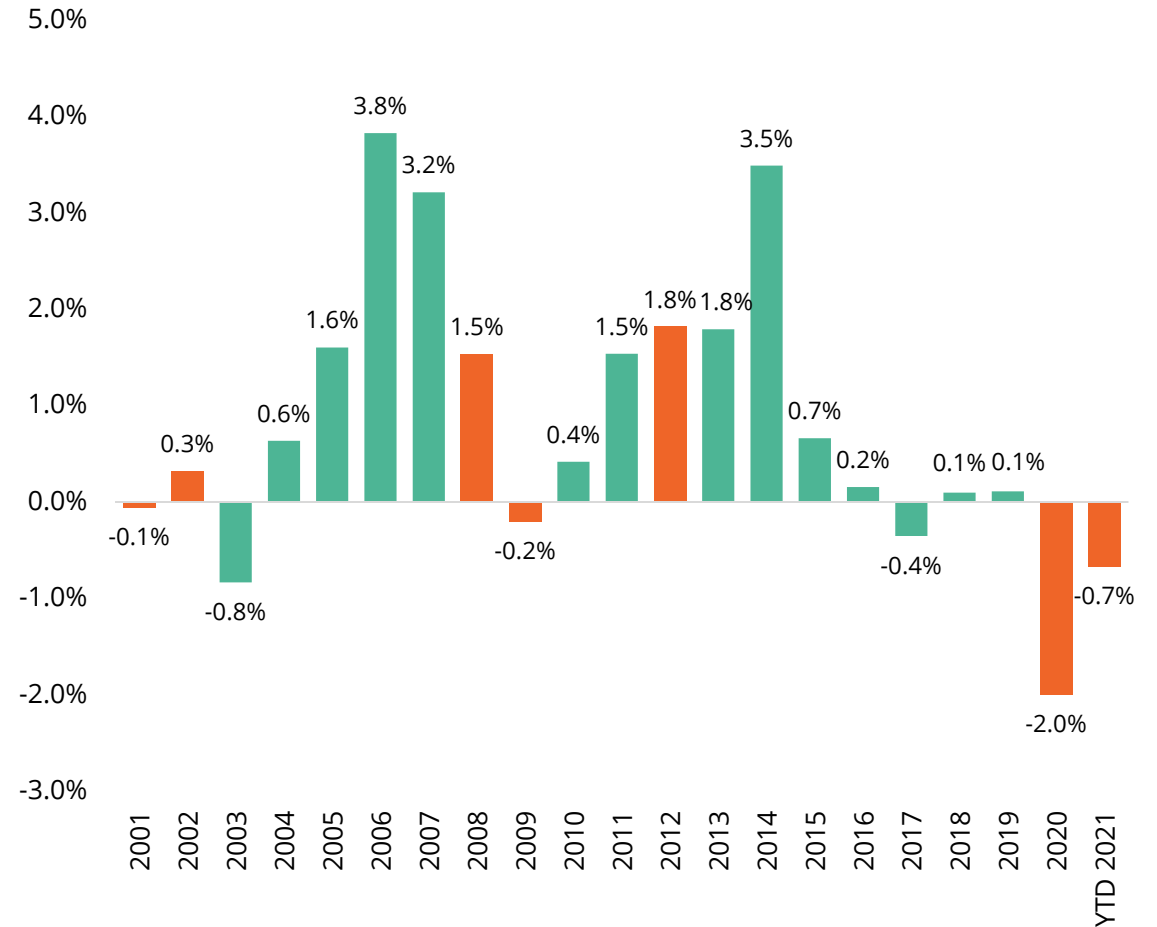


Source: CoStar, AVANT by Avison Young

-2.7%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to Q3 2021 has totaled 6.3 msf, representing -2.7% of the existing stock. This negative absorption significantly surpasses the lows of the early 2000's recession, and Houston's energy crisis during 2015-2016 when more than 2 msf of sublease space hit the market.



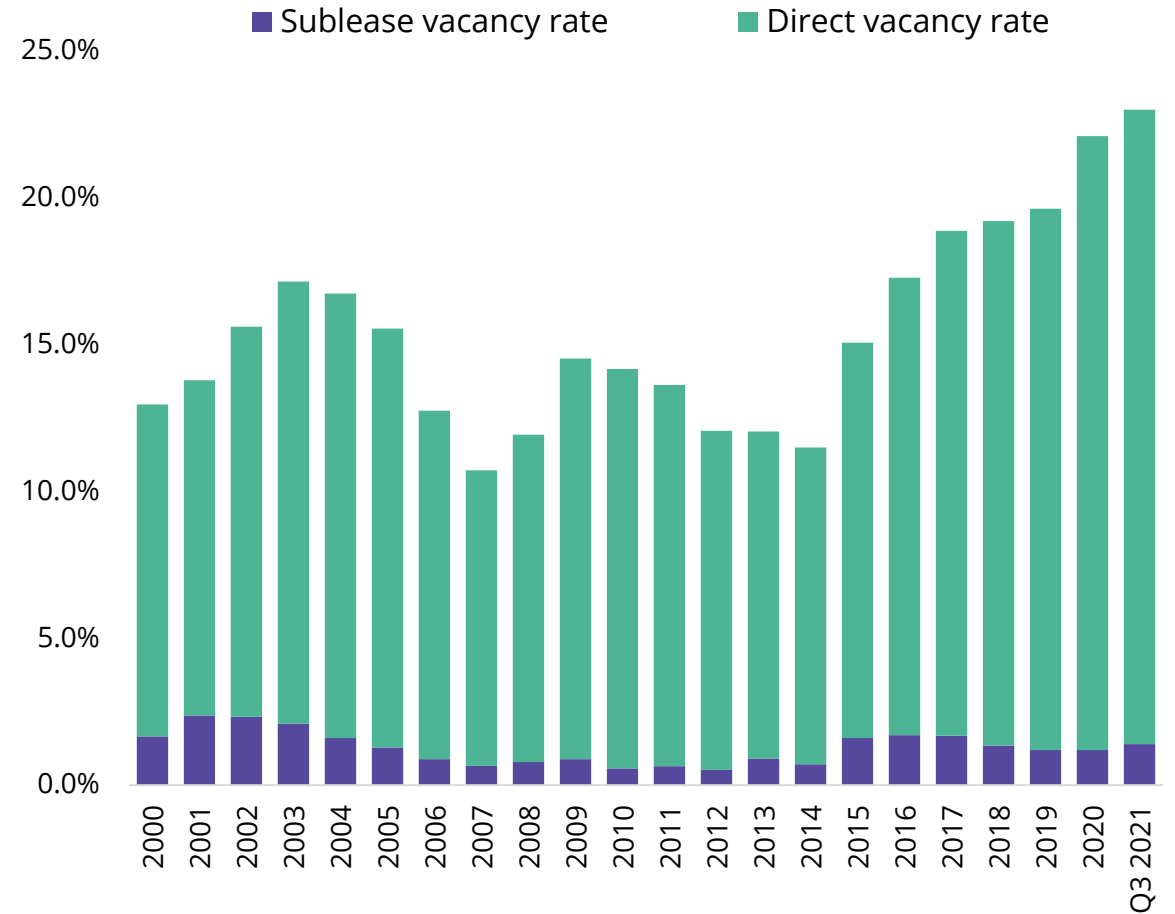
Source: AVANT by Avison Young

Vacancy rate

23%

Record high Houston vacancy as of Q3 2021

The Q3 2021 vacancy rate set a new record high in terms of sublease, direct and total percentages. Sublease space accounts for only 1.4% of the total vacant space and just recently started increasing. Direct space hit a record in 2020; this year vacant space has continued to increase but at a much slower pace.



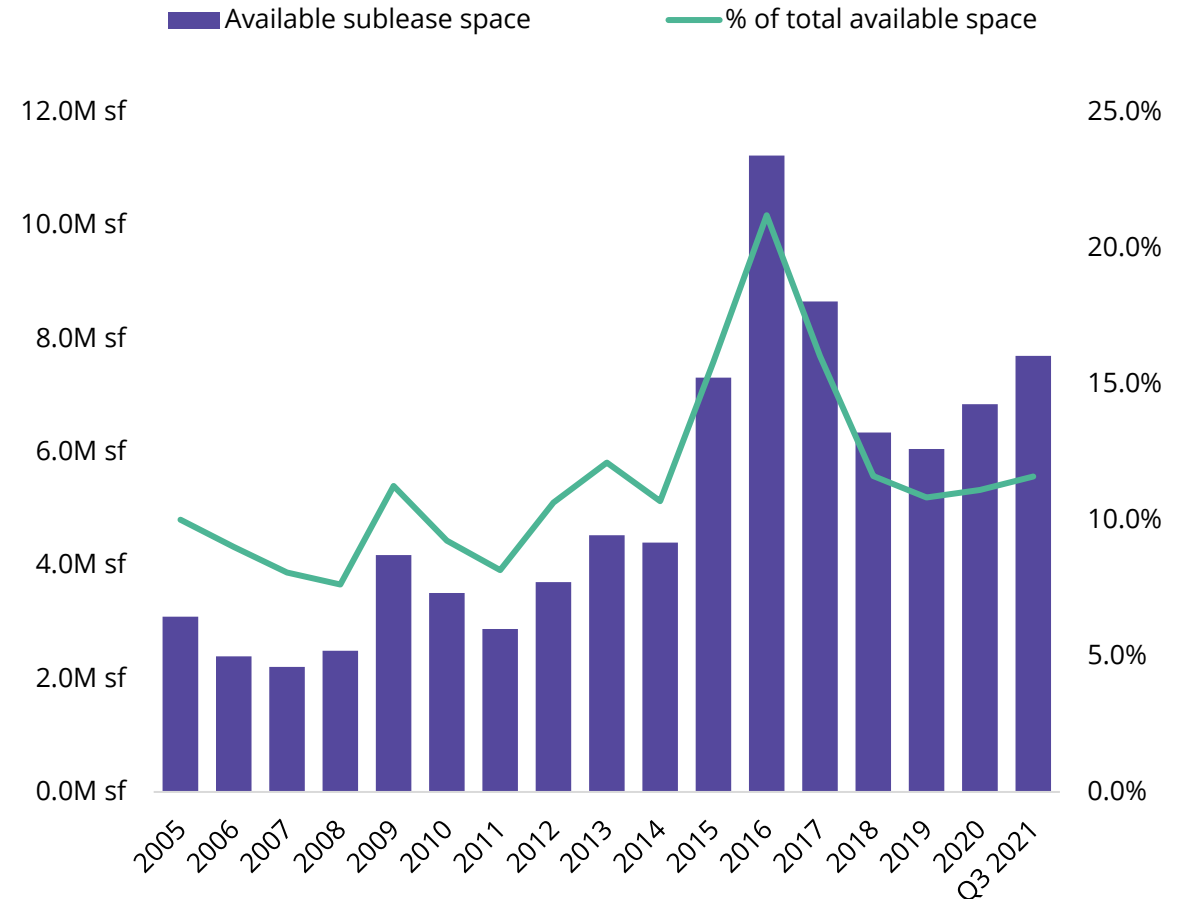
Source: AVANT by Avison Young

Available sublease space

7.7 msf

Increasing levels of available sublease space

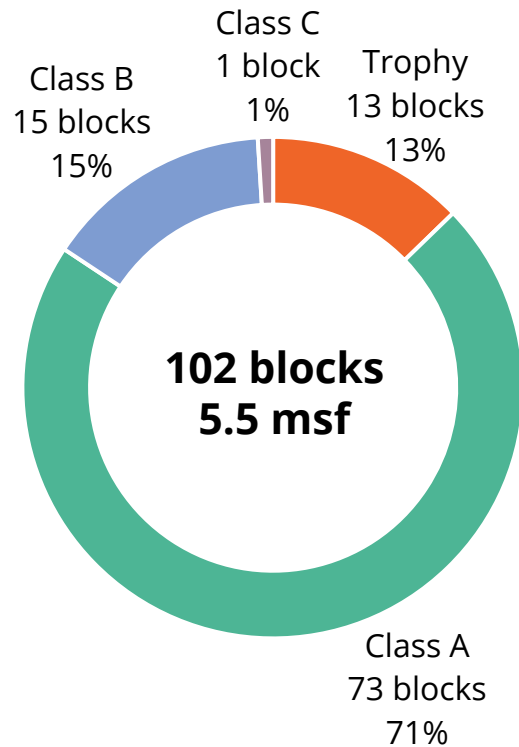
The share of sublease-to-total available space of 11.6% has increased the last two years as firms market excess and unused space during the work-from-home policies. Before the pandemic, available sublease space had declined each year following Houston’s energy crisis in 2015-2016, when a record level 11.2 msf was added.



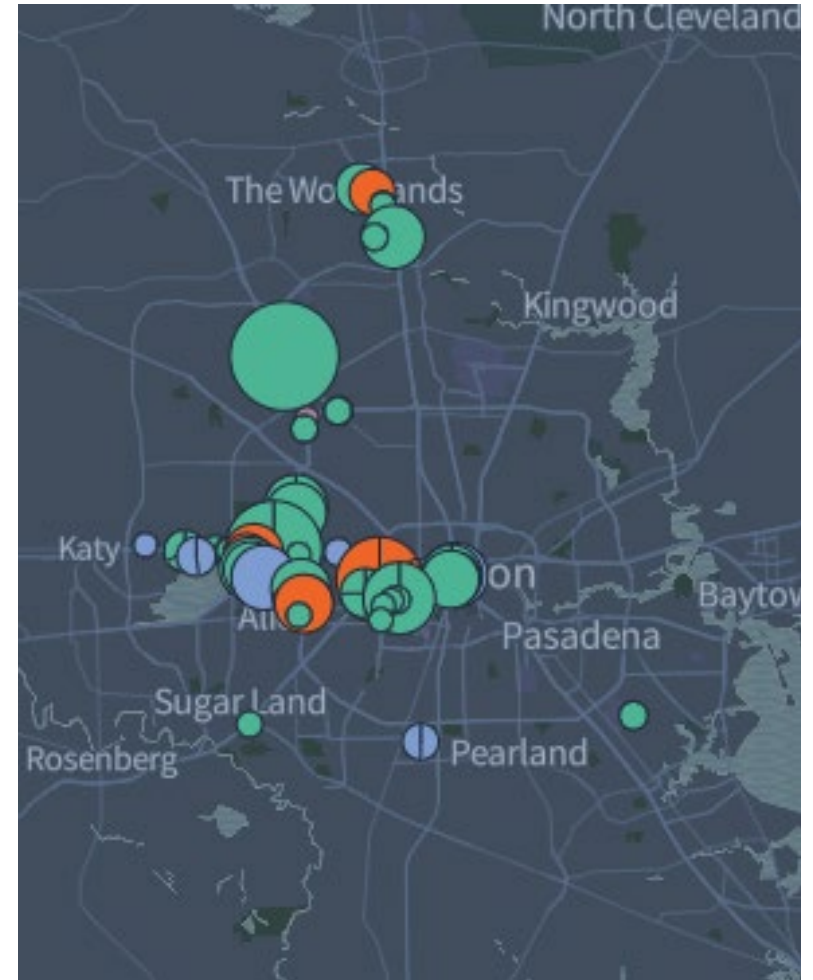
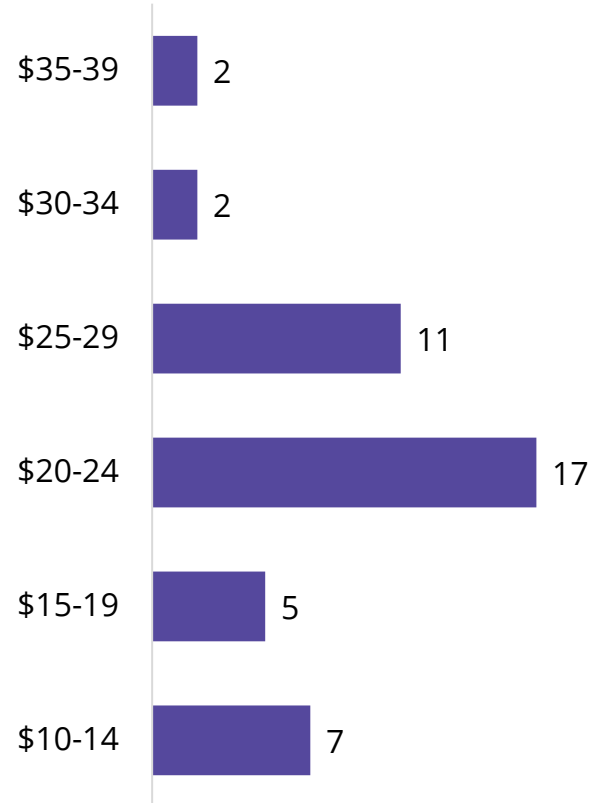
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot



Source: AVANT by Avison Young

Office development pipeline

92 properties

proposed or under construction

18.2 msf

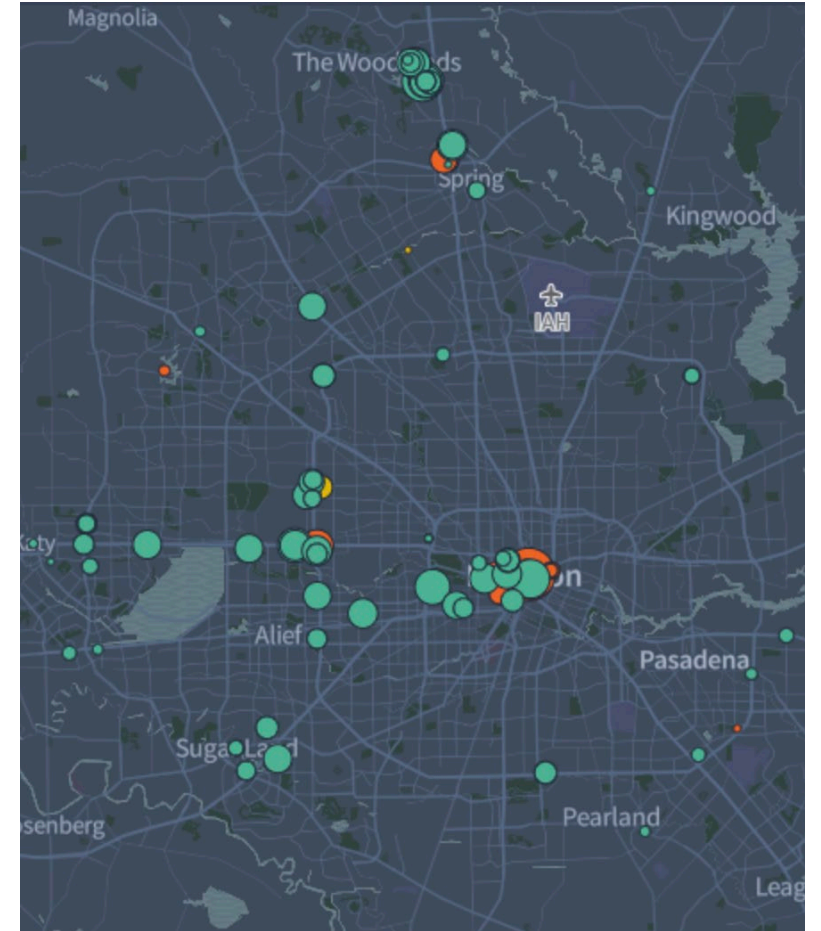
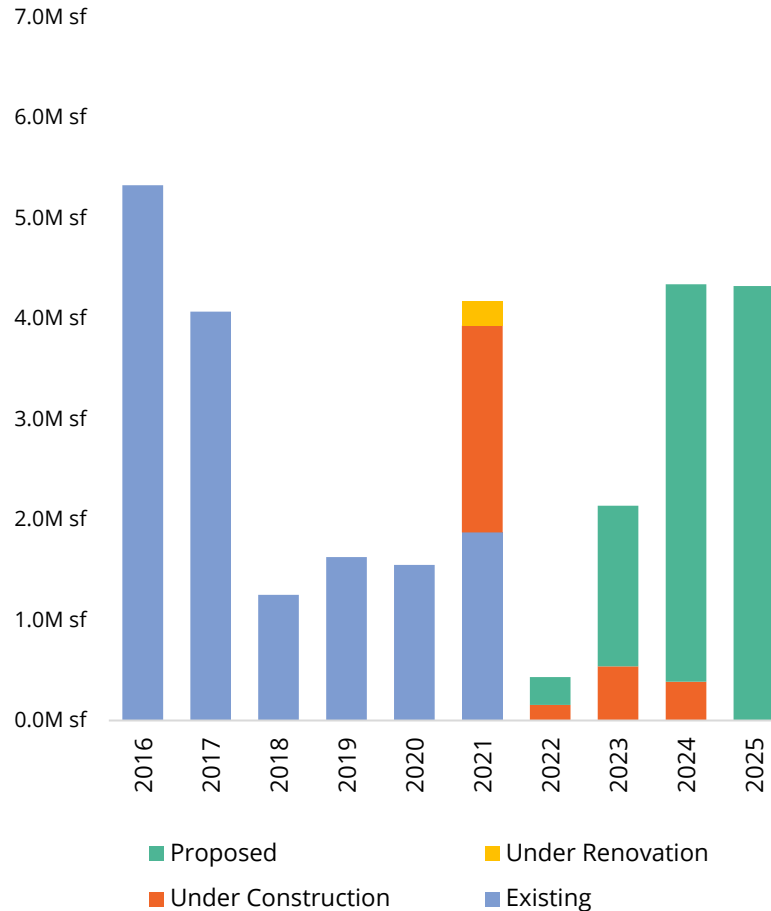
proposed or under construction

6.2%

share of office inventory

48.4%

18 under construction properties released



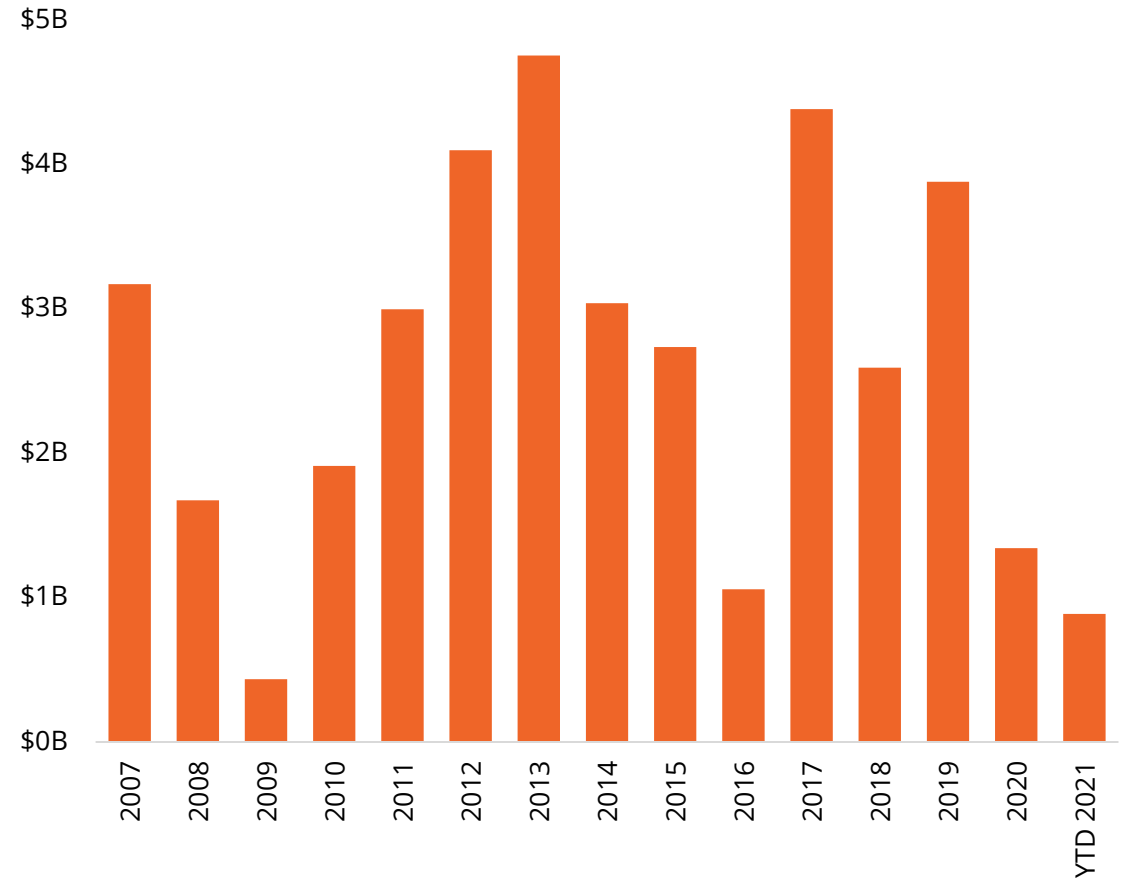
Source: AVANT by Avison Young

Office investment dollar volume

\$2.2B

Houston office dollar volume 2020 to present

Office sales activity has temporarily paused during the risk-pricing crisis, decreasing by 43.5% compared with the prior five-year average dollar volume.



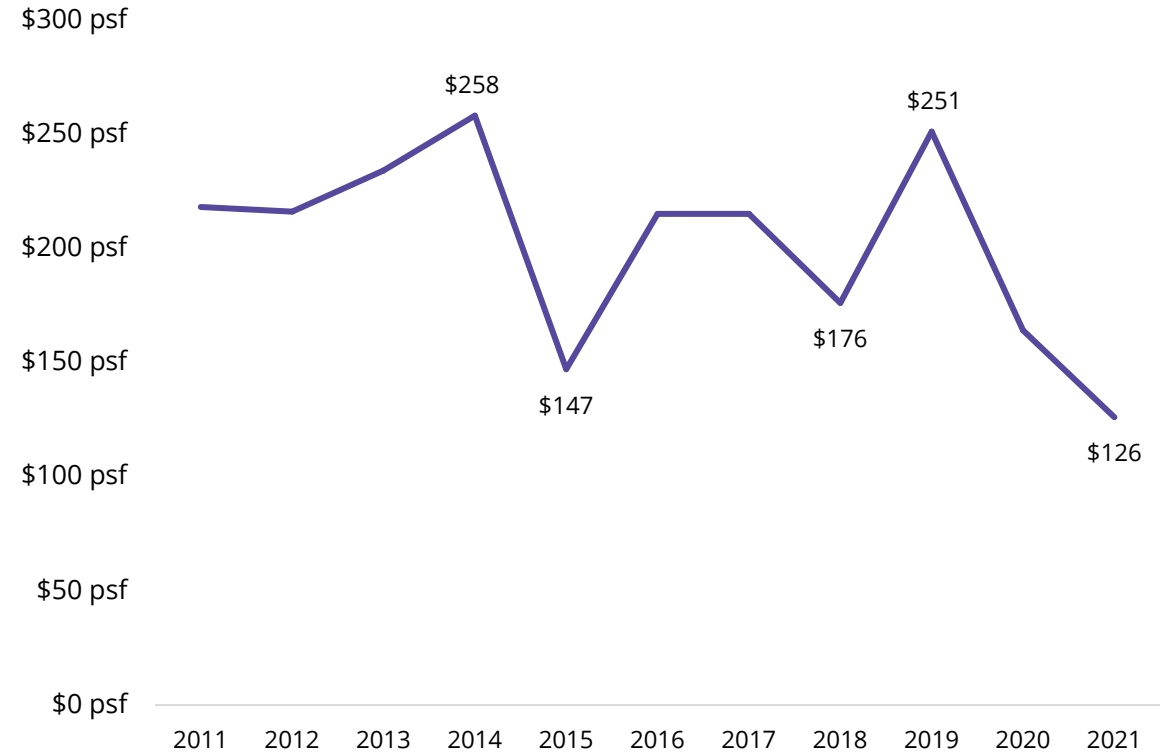
Source: RCA , AVANT by Avison Young

Office asset pricing

-49.8%

Houston office pricing from December 2019 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$265 psf in March 2020 to \$126 psf in March 2021. The average cap rate is 6.8%.



Source: RCA, AVANT by Avison Young

Looking forward



Here's what we can expect

- Leasing demand is **unlikely to return to pre-COVID levels** in the near term until office occupiers return to the office en masse through which they can determine their long-term occupancy strategies. Labor Day 2021 was previously one of the goalposts for return-to-work efforts, though the spread of the delta variant largely postponed those efforts. These shifts underscore the prevailing uncertainties as space occupiers navigate an unprecedented change in workplace strategies.
- **Tenants are expected to retain leverage** in most lease negotiations, except for top-of-market properties that have benefitted from flight-to-quality and ease-of-accessibility trends.
- **Office asset pricing is poised to continue to soften**; however, the sizable spread between investment yields and benchmark rates and lower pricing could attract new capital sources, especially for cash-flowing properties.



Get in touch



Patsy Fretwell

Senior Data Analyst
Insights & Innovation, South Region
+1 713 993 7151
patsy.fretwell@avisonyoung.com



Erin Potts

Marketing Manager
+1 713 993 7164
erin.potts@avisonyoung.com



Rand Stephens

Managing Director & Principal
+1 713 993 7810
rand.stephens@avisonyoung.com



Anthony Squillante

Principal
+1 713 993 7831
anthony.squillante@avisonyoung.com



**AVISON
YOUNG**

Let's talk

© 2021 Avison Young – Texas, LLC. All rights reserved. E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

AVANT
by AVISON YOUNG