



Houston office market report

Q4 2022

**AVISON
YOUNG**

Houston office market trends

5.6%

Strong job growth pushes employment to all-time high

Houston's metro economy has rebounded with 176k jobs created over the trailing 12 months ending November 2022. Office-using jobs have remarkably grown by 5.6% with 40,500 new positions added over the period.

Our take on this trend...

Houston's economy is forecasted to experience robust job growth in the year ahead despite the looming economic uncertainty. The Greater Houston Partnership estimates a net gain of 60,800 jobs in 2023, assuming a short and shallow recession in the first half of 2023. The "best case" scenario calls for up to 79,200 jobs and in the "worst case" scenario, a gain of 30,400.

1.2 msf

Highly amenitized class A office outperforms market

Office market fundamentals remain soft due to subdued demand, but highly amenitized class A product is driving the recovery with 1.2 million square feet (msf) absorbed in 2022 on the heels of two straight years of occupancy losses totaling 4.4 msf.

Our take on this trend...

The flight-to-quality trend remains persistent as most of the larger new deals plus renewals have occurred in trophy and class A+ assets. The outlook for first-class assets remains positive and companies will continue to entice employees back to the office by selecting a premium experience through quality buildings that offer superior attributes and amenities.

7.1%

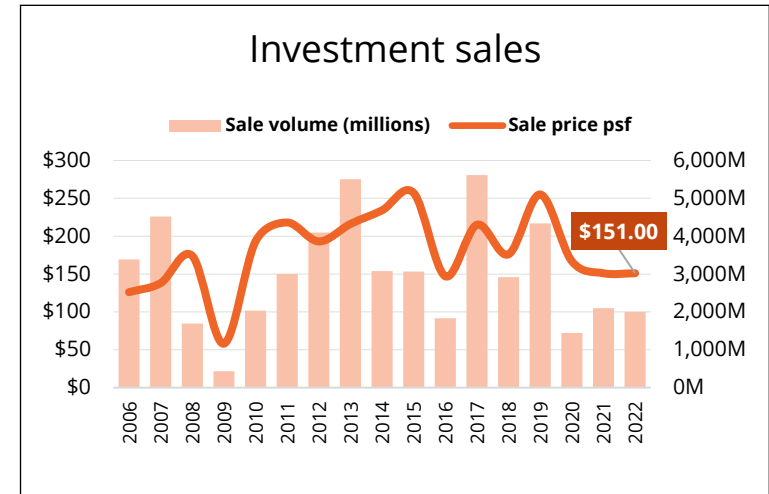
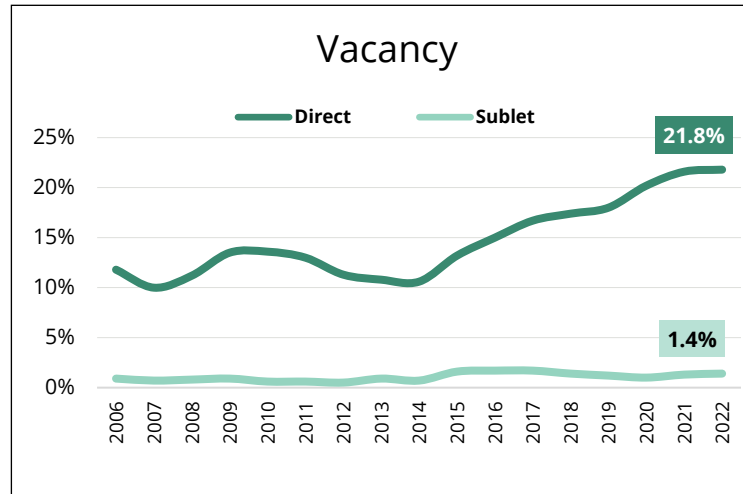
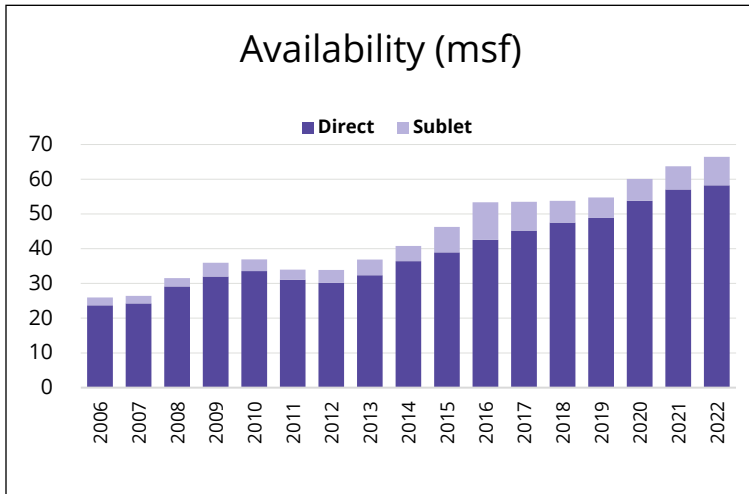
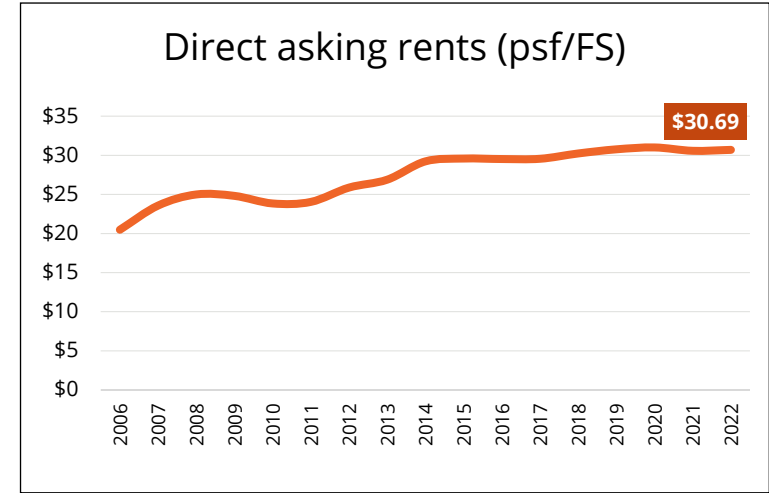
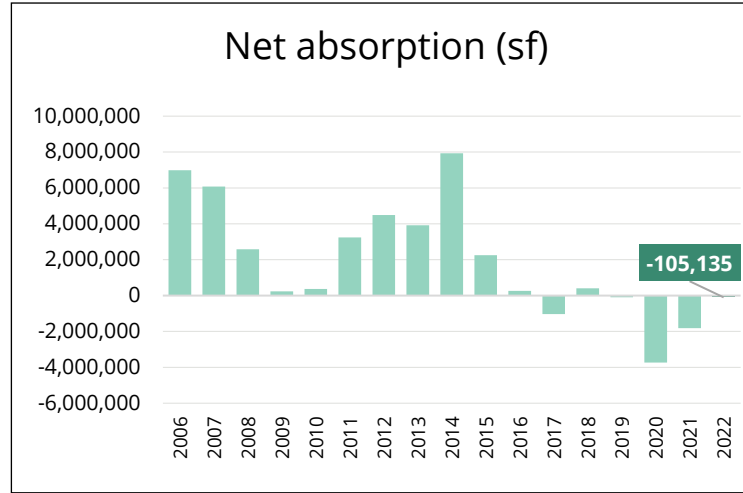
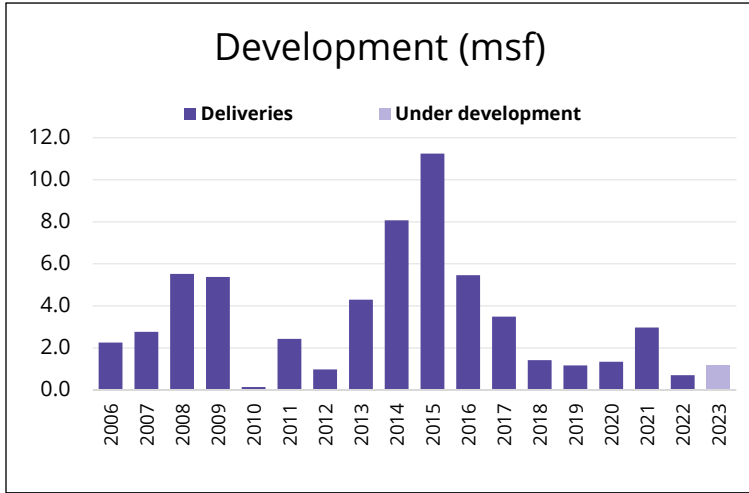
Leasing volume improving but tenants shrinking footprints

Leasing activity has rebounded to 13.2 msf in 2022, up 7.1% year-over-year. Class A leasing accounted for 69% of the annual volume, up 21.7% from a year ago but remains 28.2% below the 2017 to 2019 pre-pandemic average.

Our take on this trend...

Several noteworthy deals have recently been inked involving tenants upgrading their space while reducing square footage by upwards of 50%. Many occupiers are exploring ways to optimize and reconfigure their workspace to meet new challenges and work patterns, which could create more availability.

Houston office market indicators

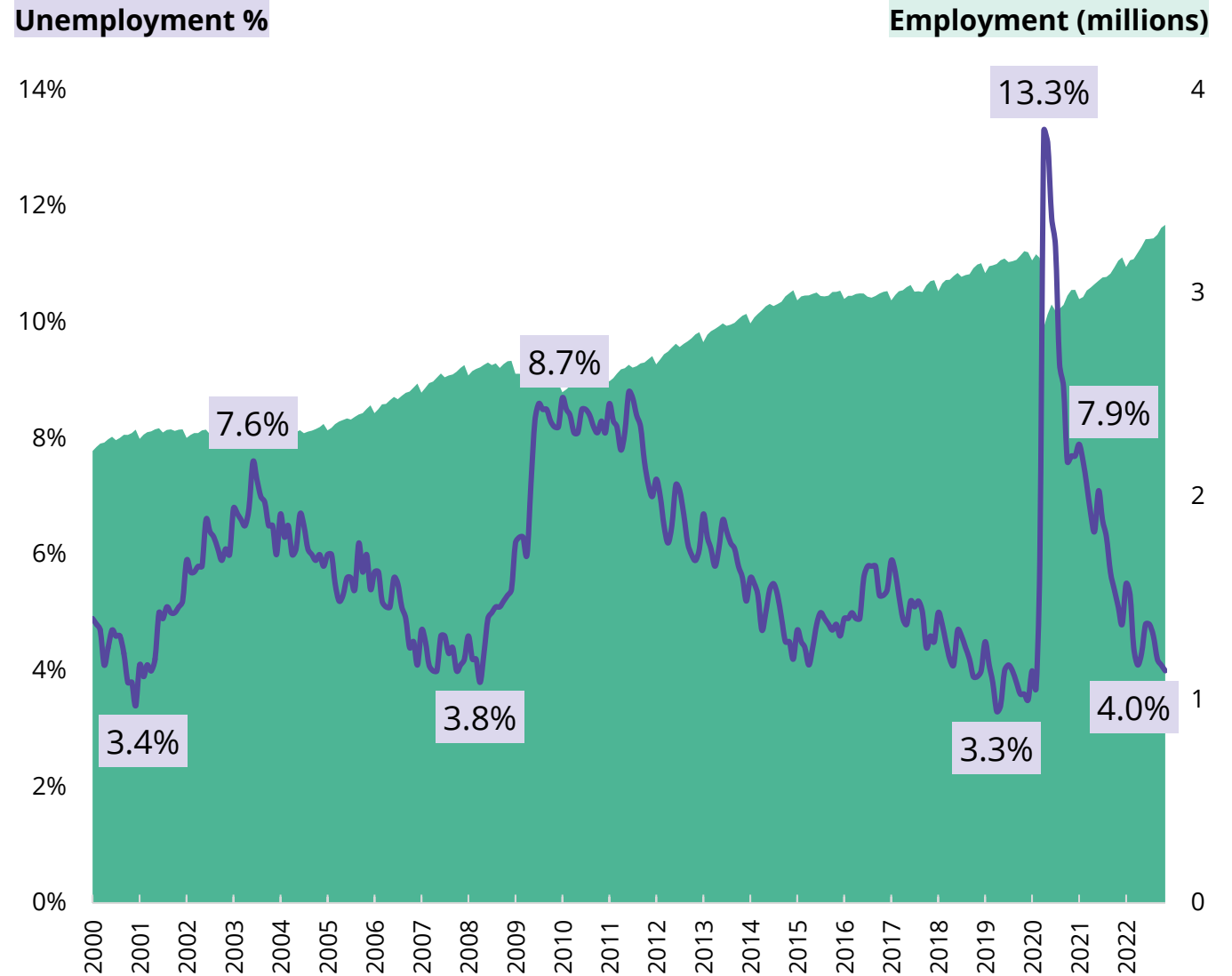


Employment and unemployment rate

4.0%

Houston unemployment rate as of November 2022, down 110 basis points year-over-year.

Houston's unemployment rate has declined steadily since peaking at 13.3% (430,786 unemployed residents) in April 2020. Houston's rate is marginally above that of Texas (3.7%) and the nation (3.4%). The rates are not seasonally adjusted.



Source: Bureau of Labor Statistics

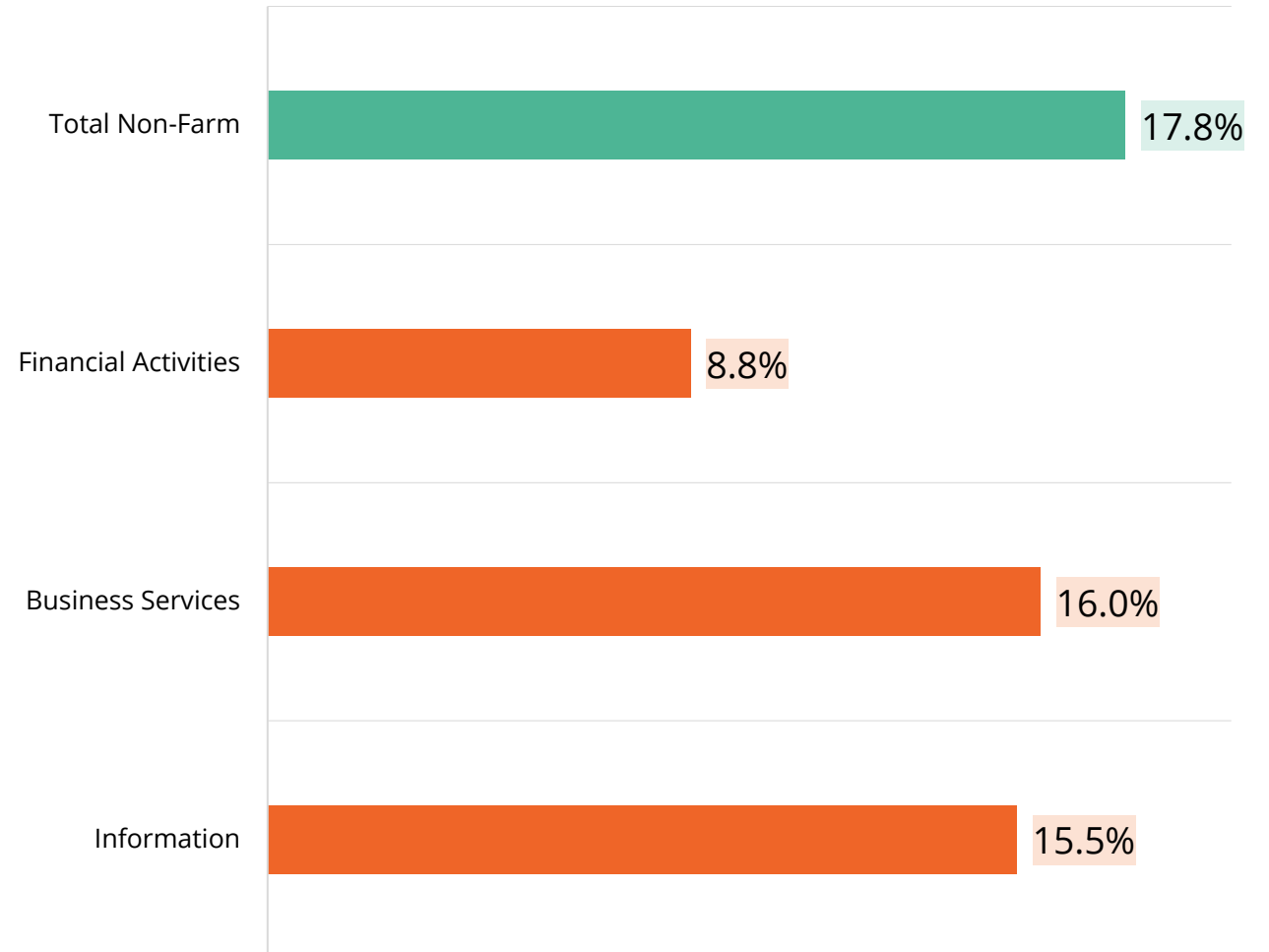
Houston office-using job gains

14.2%

Change in office-using employment since the pandemic.

Houston's economy rebounded quickly from the jarring job losses accumulated in the early months of the COVID-19 pandemic. The region has fully recovered a total of 504,200 net new jobs since hitting a pandemic low in April 2020, equivalent to a 17.8% growth rate. New office jobs have helped buoy the market, increasing 94,200 over the same period and reflecting a cumulative growth rate of 14.2% since April 2020.

Houston Metropolitan Statistical Area
April 2020 to November 2022

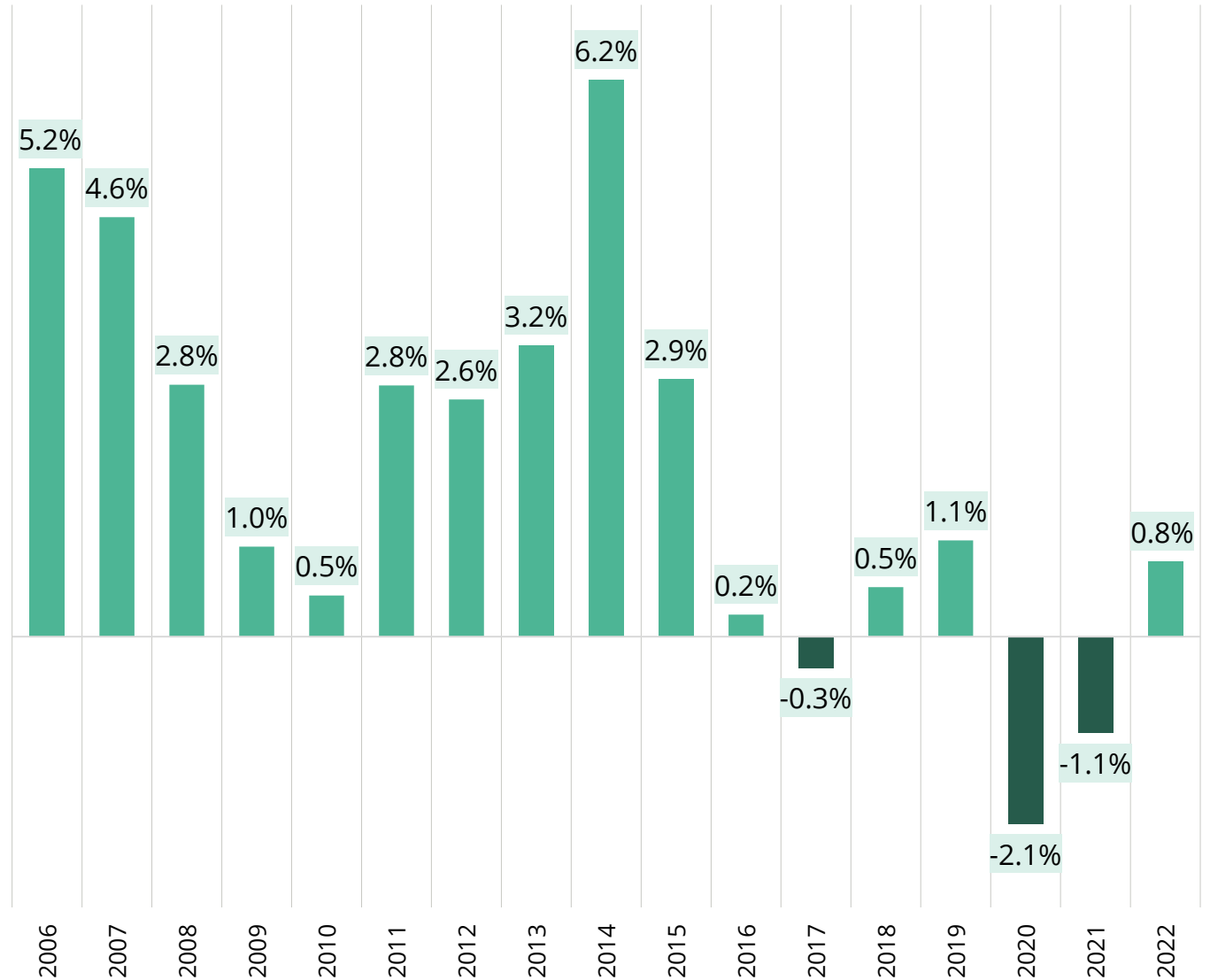


Class A net absorption as a share of inventory

0.8%

Flight to quality trend remains prevalent as newer buildings capture a larger share of demand.

Newly completed construction projects captured the bulk of the class A absorption gains in 2022 as tenants are gravitating to higher quality space to help lure employees back into the office. Newer and amenity-rich class A office product in prime locations are expected to continue to outperform the broader market in demand, occupancy, and rents at the expense of older buildings.



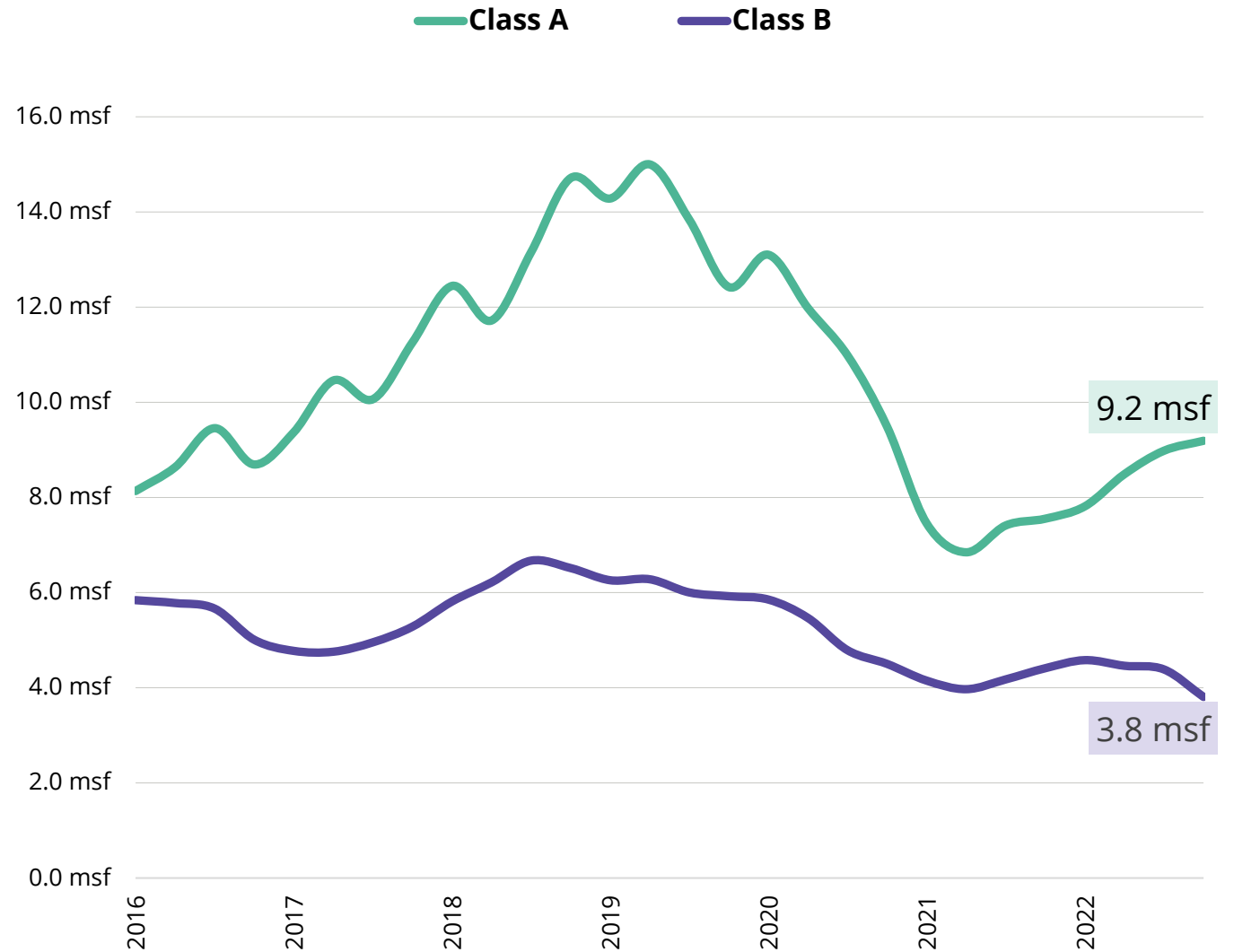
Source: AVANT by Avison Young, CoStar

Houston leasing activity

21.7%

Change in class A leasing activity compared to 12 months ago.

Leasing volume totaled 2.8 msf during the fourth quarter, bringing the yearly total up to 13.2 msf in 2022. Leasing activity has increased by 7.1% year-over-year across all classes. Class A leasing velocity has shown signs of strengthening over the past year with 9.2 msf leased, capturing 69% of the annual leasing volume, which is a 21.7% year-over-year increase.



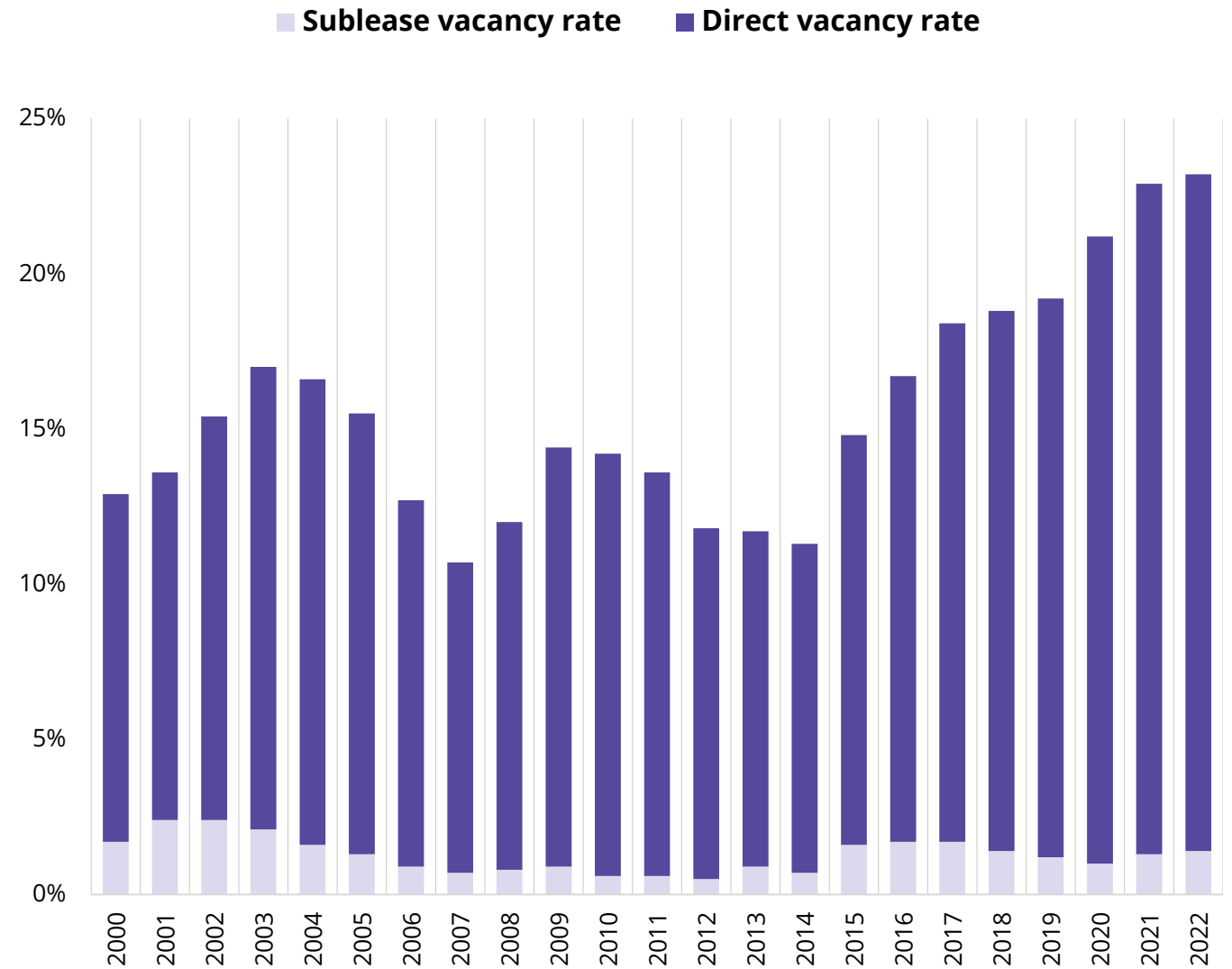
Source: AVANT by Avison Young, CoStar

Houston vacancy rate

23.2%

Houston's office vacancy rate reaches record high but there are signs of stabilization.

The total office vacancy rate ended the year at a record high but is showing signs of stabilization as the overall figure only inched up 30 basis points year-over-year – its slowest annual increase since the oil bust emerged in 2015. Most notably, newer class A product built since 2010 continues to outperform the broader market, with the overall direct vacancy at 9.7% and total vacancy at 12.2% with sublet vacant space included.



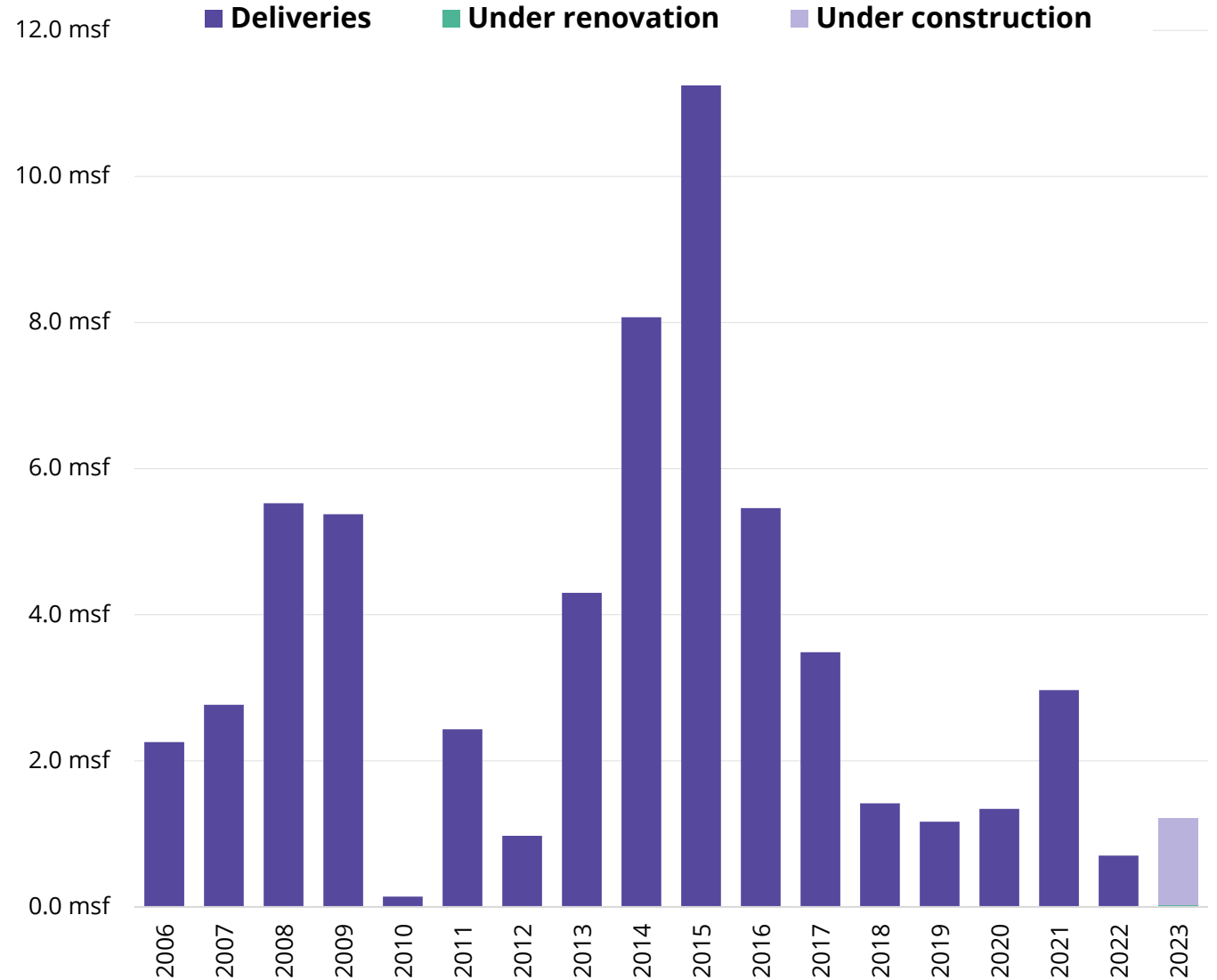
Source: AVANT by Avison Young, CoStar

Houston development activity

1.2 msf

Declining construction levels will help balance supply/demand fundamentals in time.

Developers delivered 704k sf of new product in 2022, which is a 76% drop compared to the prior year. The construction pipeline still contains 1.2 msf of product underway currently 52% preleased, which has fallen to its lowest point since 2003. The office development pipeline is likely to remain constrained as developers grapple with rising construction costs and an over supply situation that will require some time to reach a healthy balance.



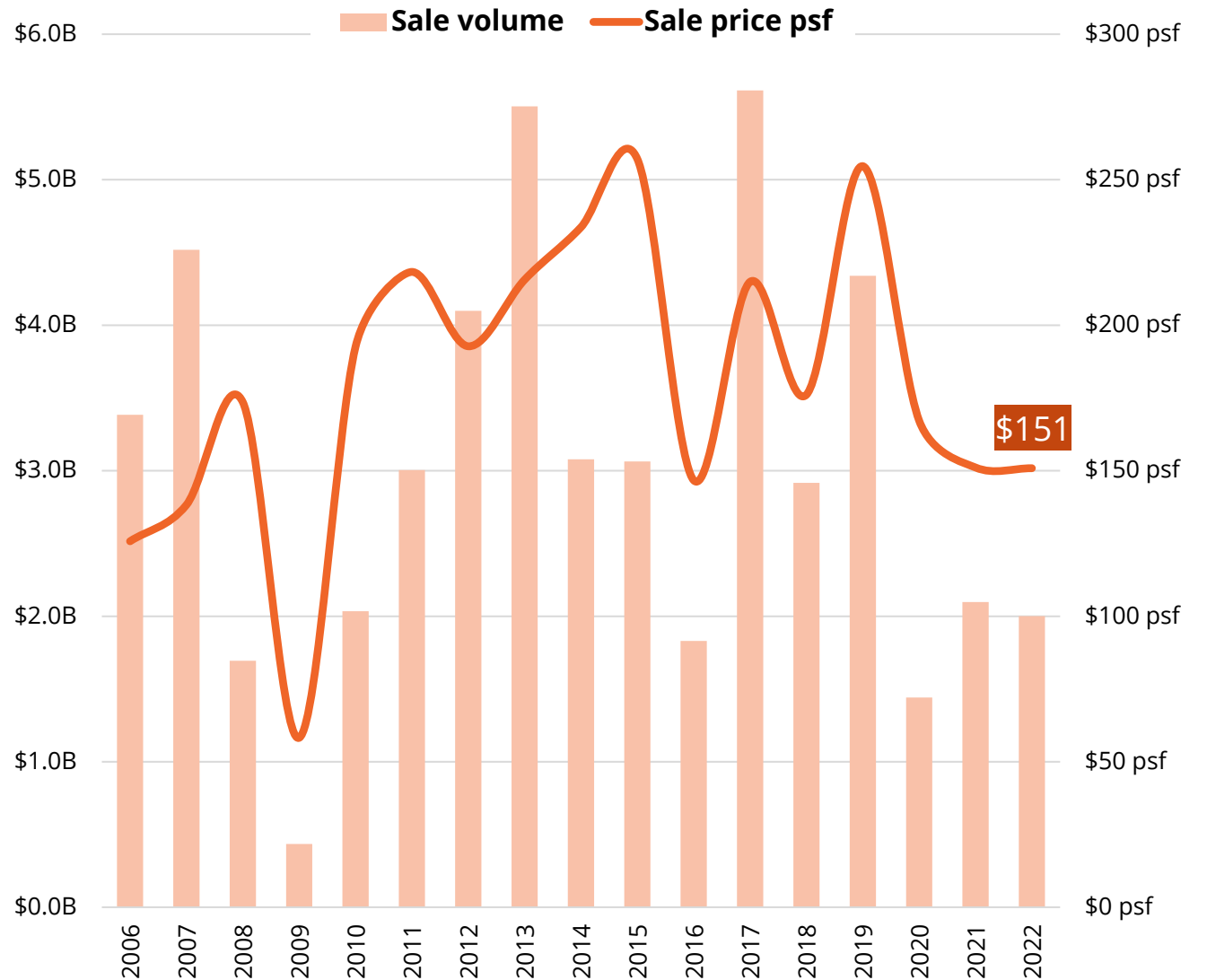
Source: AVANT by Avison Young, CoStar

Houston investment sales activity and price

\$151 psf

Office investment sales activity limited during the second-half of 2022.

The impact of higher interest rates and uncertainty about office values has been reflected in reduced investor appetite for office product. Investment sales volume ended the year at \$2 billion in 2022, which remains well below the pre-pandemic norm. During the second half of 2022, fewer office buildings traded with several listings being withdrawn and not sold due to the lack of debt liquidity and acceptable asset pricing.



Source: AVANT by Avison Young, Real Capital Analytics

Houston office market activity

Recent leasing activity

Tenant name	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Apache Corporation	2000 W Sam Houston Pkwy S	November 2022	328,000	Renewal/Expansion	Direct	Westchase
Wood Group	17325 Park Row Road	December 2022	226,287	Renewal	Direct	Energy Corridor/Katy Freeway West
Callon Petroleum Company	9753 Katy Freeway	December 2022	107,171	New	Direct	Katy Freeway East
Venture Global LNG, Inc.	1401 McKinney Street	October 2022	88,247	Renewal/Expansion	Direct	CBD
Bechtel	2103 CityWest Boulevard	November 2022	80,634	Expansion	Direct	Westchase
Gallen College of Nursing	11210 Equity Drive	October 2022	71,981	New	Direct	West Belt/249
Chamberlain, Hrdlicka, White, Williams & Aughtry	1200 Smith Street	November 2022	55,178	Renewal	Direct	CBD
Solaris	9651 Katy Freeway	November 2022	52,012	New	Direct	Katy Freeway East
Subsea	17320 Katy Freeway	October 2022	46,594	New	Sublet	Energy Corridor/Katy Freeway West
IBM	12301 Kurland Drive	October 2022	42,627	Renewal	Direct	Gulf Freeway/Pasadena
Cushman & Wakefield	1330 Post Oak Boulevard	December 2022	30,000	Renewal	Direct	Galleria/West Loop

Top projects under development

Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
1550 on the Green	1550 Lamar Street	December 2023	386,323	34.9%	Skanska	CBD
9753 Katy Freeway	9753 Katy Freeway	May 2023	188,553	87.5%	MetroNational Corp.	Katy Freeway East
East River – Building F	100 Jensen Drive	March 2023	101,000	30.0%	Midway	Gulf Freeway/Pasadena
East River – Building C	100 Jensen Drive	March 2023	74,000	64.6%	Midway	Gulf Freeway/Pasadena

Houston office market stats

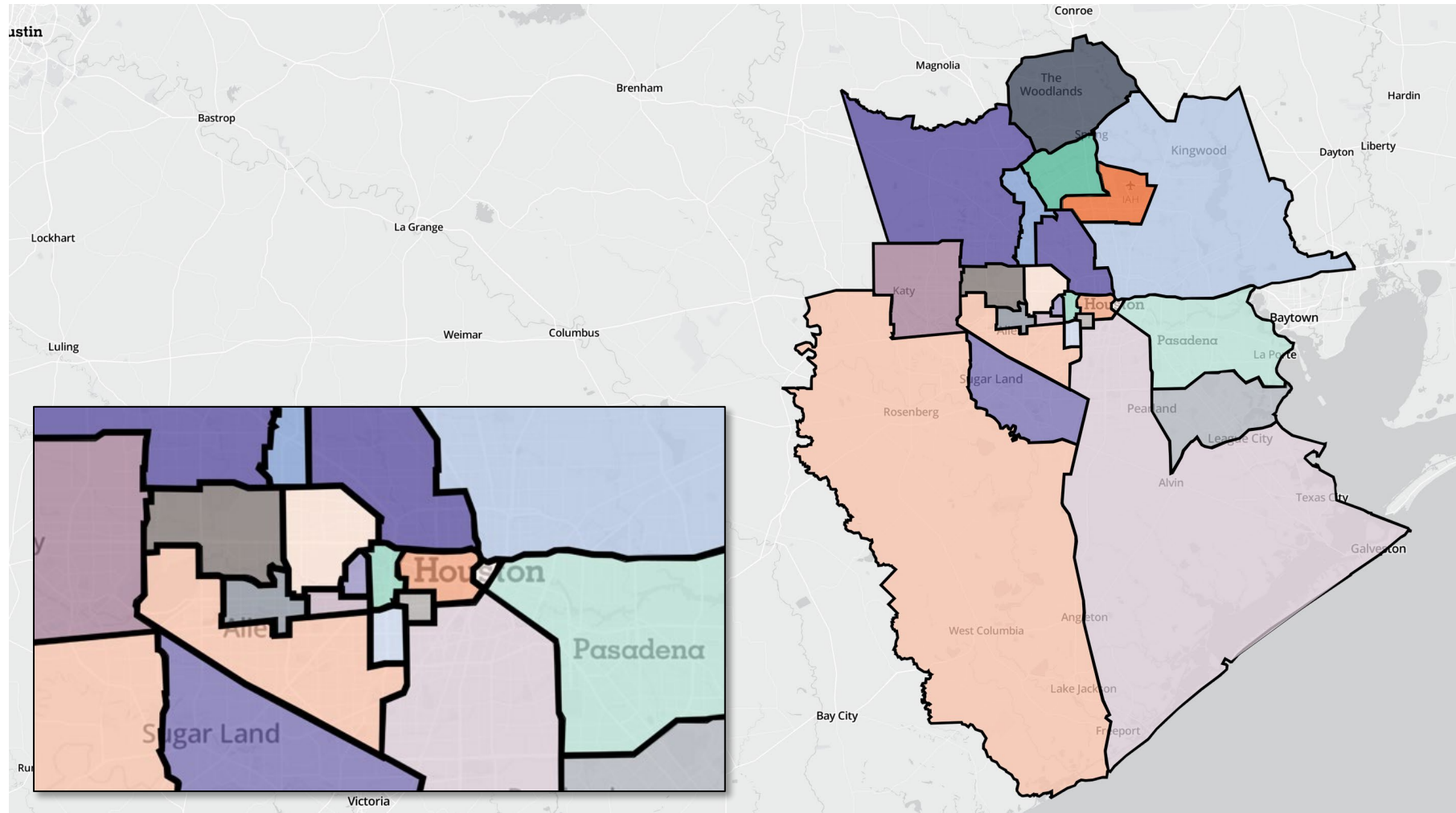
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Direct asking rent FS
Central Business District	44,985,488	0	386,323	25.8%	2.1%	27.8%	15,975	(49,023)	\$42.37
Galleria/West Loop	24,734,833	0	0	27.5%	1.5%	28.9%	28,195	(492,764)	\$34.53
Greenway Plaza	11,587,316	0	0	20.1%	1.9%	22.1%	73,859	11,311	\$34.17
Energy Corridor/Katy Freeway West	26,208,980	0	0	22.1%	2.2%	24.3%	31,911	133,853	\$26.31
Katy Freeway East	8,304,082	0	355,694	8.4%	0.1%	8.5%	106,245	289,192	\$29.66
Westchase	17,344,337	0	0	23.4%	1.8%	25.2%	(50,512)	(240,420)	\$27.57
Greenspoint	11,805,254	0	0	46.1%	0.5%	46.7%	(50,405)	(153,009)	\$17.48
Northwest	9,335,017	117,571	98,674	17.3%	0.7%	18.0%	(16,195)	200,349	\$19.48
NASA/Clear Lake	4,736,539	0	0	19.9%	0.1%	20.0%	(385)	(46,208)	\$23.78
E Fort Bend Co/Sugar Land	6,093,424	0	0	19.6%	1.9%	21.5%	9,727	(76,918)	\$29.84
Richmond/Fountainview	1,456,463	0	0	9.3%	0.0%	9.3%	672	16,756	\$17.49
San Felipe/Voss	5,346,458	0	0	27.7%	0.4%	28.1%	(38,403)	(42,693)	\$29.98
Bellaire	3,149,987	0	0	14.9%	0.7%	15.6%	(22,167)	(44,089)	\$23.59
Midtown	6,862,620	40,000	0	15.1%	0.6%	15.7%	(7,458)	(61,548)	\$34.55
FM 1960	3,457,449	0	0	19.7%	0.0%	19.7%	(45,440)	11,571	\$17.18
Kingwood/Humble/Northeast	2,925,168	0	0	8.9%	0.0%	8.9%	6,037	(8,762)	\$19.75
Southwest	9,814,186	0	80,000	17.0%	0.6%	17.6%	(12,766)	(159,489)	\$19.19
Med Center/S Main/SE	3,988,581	0	0	6.6%	0.0%	6.6%	5,833	21,771	\$23.31
The Woodlands	17,304,351	466,000	35,000	13.9%	2.6%	16.5%	3,413	517,749	\$32.88
Gulf Freeway/Pasadena	3,597,683	25,077	235,000	10.8%	0.4%	11.1%	9,675	14,909	\$23.32
Katy/Grand Parkway West	2,784,992	24,500	0	9.8%	2.8%	12.6%	20,488	72,640	\$30.91
West Belt /249	12,961,657	30,621	0	19.1%	0.9%	20.0%	(73,661)	(20,313)	\$25.14
Overall	238,784,865	703,769	1,190,691	21.8%	1.4%	23.2%	(5,722)	(105,495)	\$30.69

Houston office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Direct asking rent FS
Class A	141,050,189	440,000	1,095,691	22.5%	1.9%	24.4%	68,783	1,177,379	\$35.25
Class B	87,015,409	263,769	95,000	22.2%	0.8%	23.0%	(75,416)	(1,401,677)	\$22.57
Class C	10,719,267	0	0	9.0%	0.1%	9.1%	1,271	118,455	\$17.53
Market total	238,784,865	703,769	1,190,691	21.8%	1.4%	23.2%	(5,722)	(105,495)	\$30.69



Houston submarket map



Legend	
[Light Orange]	Central Business District
[Light Green]	Galleria/West Loop
[Light Purple]	Greenway Plaza
[Dark Purple]	Energy Corridor/Katy Freeway West
[Light Orange]	Katy Freeway East
[Dark Grey]	Westchase
[Orange]	Greenspoint
[Dark Purple]	Northwest
[Light Grey]	NASA/Clear Lake
[Dark Purple]	E Fort Bend Co/Sugar Land
[Light Purple]	Richmond/Fountainview
[Dark Purple]	San Felipe/Voss
[Light Blue]	Bellaire
[Orange]	Midtown
[Light Green]	FM 1960
[Light Blue]	Kingwood/Humble/Northeast
[Light Orange]	Southwest
[Light Purple]	Med Center/S Main/SE
[Dark Grey]	The Woodlands
[Light Green]	Gulf Freeway/Pasadena
[Dark Purple]	Katy/Grand Parkway West
[Light Blue]	West Belt /249

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

Vitality Index

- **Visitor volumes:** based on extrapolated, anonymized cell phone pings provided by Orbital Insight at custom, geofenced locations, the Vitality Index tracks visitor volumes at representative areas of interest across markets and property types

For more market insights and
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