

Houston Office Market

A Year Unlike Any Other Comes to a Close

While Houston and the surrounding counties have fared (relatively) well in terms of sociological impact from the COVID-19 pandemic, the Houston office market closed 2020 still reeling from both the pandemic and oil instability's impact on office metrics. Houston's office market as a whole is forecast to continue on a more tenant-favorable tract for much of the upcoming year as COVID-19 and the vaccine roll out will continue to dominate the market discussion relative to return-to-office planning, space requirements, and other market points.

Market Metrics Show Little Signs Of Improvement

Rental rates remained fairly flat, but saw a 43 basis point rise to \$29.91 per square foot. Total vacancy reached 23.3% with total availability rates rising to 28.0%. The Class A market, consisting of more than 50% of the region's building stock, saw an even more significant impact, as vacancy levels topped 25% and availability rates reached nearly 32% during the quarter. Occupiers continued to give back space as the quarter saw more than 650 KSF of negative absorption. The overall absorption amount marked the eighth out of the past 12 quarters where Houston's office market saw more space given back.

Current Conditions

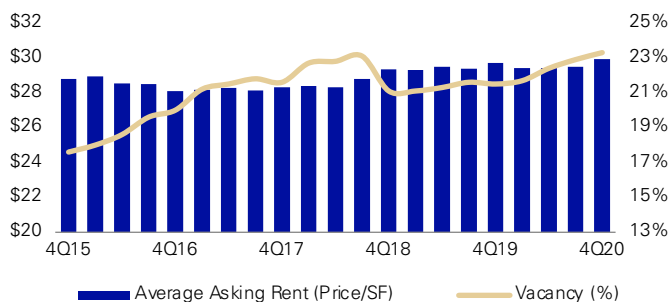
- Rental rates increased slightly but absorption continues to track negative
- Sublease space on the market passes 7.0 MSF; up 2.0 MSF from Q4 2019
- Houston overall leasing activity for Q4 just over 2.0 MSF; total leasing of 13.0 MSF for 2020 down nearly 40% from 2019's year end total
- Construction remains at just over 4.0M SF in the market

Market Summary

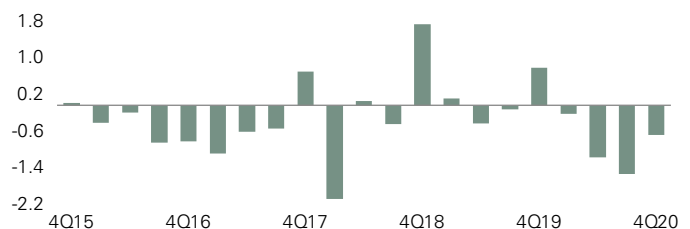
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	241.0 MSF	240.4 MSF	239.8 MSF	↑
Vacancy Rate	23.3%	22.9%	21.4%	↑
Quarterly Net Absorption (SF)	-648,867	-1,506,079	-565,061 SF	↓
Average Asking Rent/SF	\$29.91	\$29.48	\$29.28	↑
Under Construction (SF)	4.24 MSF	4.24 MSF	3.80 MSF	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



While leasing activity did reach record lows overall in the market, the quarter saw TC Pipelines renew and extend their CBD lease of over 320,000 square feet in their named Class A tower. Additionally, several additional tenants in suburban submarkets announced multi-floor leases including Cadence Bank and JLL in the Galleria submarket, and Vroom and Diamond Offshore in West Houston. Perhaps most key was Common Desk’s announcement for 58,000 square feet at the new Ion development, highlighting an increased demand seen this quarter in co-working/hoteling as companies begin to balance space needs in a post COVID-19 office market.

Construction Pipeline Continues to Slow

In the construction pipeline, the market currently holds 4.24 MSF of space under construction, remaining flat from the prior quarter. While nearly 2/3rds of the stock is spread out within suburban areas, the CBD has just over 1.2 MSF still under construction. While pre-leasing remains strong in several buildings, as these buildings begin to arrive to the market over the next 12 to 18 months the impact to the overall vacancy in the market, as well as the flight-to-quality impact must be watched closely by both building owners and savvy tenants.

Investor Volume Begins to Tick Up in H2 2020

Investors began to show limited signs of comfort in the third and fourth quarters in terms of dry powder deployment. What little transactional activity that did take place saw local investors focus on value-add buildings in outer lying submarkets. As the year closed, just over \$750 million in capital had been invested in the Houston office market. The fourth quarter did see a large transaction occur in the Pasadena area, with the Dow Innovation Center trading hands to Brixton Investments for \$192M or \$287 per square foot.

Biotech and Life Science Strength Remains

As the scientific community continues to grapple with COVID 19 and vaccines are slowly coming on-line for the general populous, the life sciences and biotech sector of the Houston economy is poised to be a market driver in the coming cycle. The sector currently has over 320,000 employees spread out over 1,900 employers which is larger than the same breakdown within the energy sector of the Houston market. In addition, there are several million SF of new life sciences-oriented mixed use projects planned along a two-mile stretch of Holcombe Boulevard in the Texas Medical Center. While much of the development remains focused in and around the Texas Medical Center complex, additional pockets of development have begun to emerge around the city. The TMC Innovation Institute consists of more than 200,000 square feet of accelerator and incubator space and is home to more than 110 companies such as TMC BioDesign and CDI and has seen more than \$230M in funding raised, with \$25M to fund early stage companies. Additionally, TMC3, a 30 acre research hub will consist of 1.5 MSF of collaborative campus space and will create roughly \$5B of economic impact across 30,000 jobs. Also, the Ion is Rice University’s highly anticipated technology innovation hub. Located in the former Midtown Sears department store, the project broke ground in July, and is expected to be completed in the first quarter of 2021. Overall, there is roughly 6 MSF of life science/biotech development taking place in the Houston market, with nearly 50 percent of that development within the 610 Loop while the other 50 percent is spread within more suburban areas including the West Belt and Woodlands. The sector is poised to act as a “4th leg” to the long established “three-legged stool” of energy, legal, and finance that has helped diversify and insulate the Houston economy among recent downturns in the market cycle.

Asking Rent by Submarket			
ASKING RENT	4Q2020	4Q2019	
CBD	\$41.05/SF	\$41.59/SF	↓
Galleria/Uptown	\$36.26/SF	\$35.97/SF	↑
Allen Parkway	\$37.89/SF	\$29.24/SF	↑
Greenway Plaza	\$35.40/SF	\$32.20/SF	↑
The Woodlands	\$32.57/SF	\$32.71/SF	↓

Vacancy Rate by Submarket			
VACANCY RATE	4Q2020	4Q2019	
CBD	27.2%	25.1%	↑
Energy Corridor	27.4%	26.1%	↑
Galleria/Uptown	23.6%	19.5%	↑
Greenway Plaza	21.1%	18.0%	↑
Westchase	29.2%	27.0%	↑

COVID-19 Impact Remains Far Reaching

While Houston has performed well in terms of overall job losses relative to other major US markets, the Covid-19 virus pandemic impact remains a stressor for all aspects of the Houston market. Houston, along with Dallas and Phoenix continues to see strong population growth as well as demand from a variety of companies looking to relocate and take advantage of the market's business friendly climate. Large scale relocations like HPE's headquarters relocation to The Woodlands from California are seen as a continued indicator of Houston's economic strength long term. Also, Houston's burgeoning commercial life sciences and tech industries offer hope for the city's future economic viability. However, in the short and mid-term, the COVID-19 pandemic dominates daily life in the market. Absent a robust vaccine deployment, office usage remains below 30 percent throughout the CBD and suburban submarkets as many companies have now pushed return-to-office plans to the second half of 2021. Additionally, as the after-holiday spike in terms of COVID-19 positivity rates begins to be seen, state officials have made the tough decision to partially restrict occupancy at businesses and restaurants. It remains to be seen if the spike will impact children's second semester schooling, which could further impact any return-to-work plans as employees may need to scramble to balance at-home schooling and work responsibilities.

Understanding the long-term effect of this virus regarding the Houston market is something economists and researchers will be studying long after the virus fades from the general collective.

Despite the best efforts by local, regional, national, and international agencies, the COVID pandemic continues to impact all aspects of life. As a result, the economic forecast for the Houston region remains uncertain and bleak. Houston's economy is driven approximately 60 percent by the U.S. business cycle, 30 percent by oil markets, and 10 percent by long-term factors such as demographics. As COVID-19 is expected to remain a market driver for the remainder of 2021, Houston's economy is not fully forecast to recover from the current U-shape until early 2022.

Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
TC Pipeline	Houston – CBD	700 Louisiana	Renewal/Extension	320,788
Vroom	Houston - Westchase	3600 W Sam Houston	New	102,490
Diamond Offshore	Houston – Energy Corridor	15415 Katy Freeway	New	98,000
Cadence Bank	Houston – Galleria	1333 West Loop S	New	82,215
Jones Lang Lasalle	Houston – Galleria	4200 Westheimer	New	82,000
CommonDesk	Houston – CBD	4201 Main Street	New	58,000

Sales Transactions

Buyer/Seller	Market	Building	Price	Price/SF
Brixton/Lexington Realty	Houston – East/Pasadena	Dow Innovation Center	\$192,000,000	\$287
Taconic Capital/LNR	Houston – CBD	1111 Fannin	\$17,400,000	\$41
Fuller Realty/FTL Realty	Houston – Energy Corridor	15415 Katy Freeway	\$7,500,000	\$39
Mafrige Interests/Dornin	Houston – Energy Corridor	1250 Woodbranch	\$7,402,500	\$72

Submarket Statistics (Combined Class A&B)								
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	39,841,491	1,251,856	32.3%	-226,004	-772,376	\$42.45	\$20.73	\$41.05
Allen Parkway	6,134,260	493,400	22.5%	-30,841	-248,874	\$37.99	\$26.81	\$37.89
Bellaire/Med Center	13,916,320	-	18.8%	263,937	132,031	\$26.38	\$24.86	\$26.35
Clear Lake	7,616,259	-	18.7%	-11,404	20,868	\$21.56	\$12.00	\$21.50
Conroe	1,667,296	-	23.6%	-43,046	-83,441	\$25.20	\$21.59	\$24.59
East/Pasadena	5,886,051	-	16.0%	11,668	1,630	\$21.21	\$19.50	\$21.20
Energy Corridor	23,143,707	-	33.5%	-127,581	-826,617	\$27.91	\$18.30	\$26.56
FM 1960/249	11,121,502	48,000	31.2%	-1,341	50,859	\$21.17	\$24.12	\$21.22
Galleria/Uptown	23,997,903	162,839	30.6%	-181,880	-805,985	\$36.85	\$22.38	\$36.26
Greenspoint	11,705,263	-	50.8%	-34,240	63,873	\$18.56	\$11.47	\$18.52
Greenway Plaza	10,759,068	-	24.4%	-249,323	-371,690	\$35.51	\$29.48	\$35.40
Katy Freeway	16,809,303	780,000	21.1%	-91,270	-378,822	\$30.08	\$29.67	\$30.05
Katy/Grand Pky	3,562,991	20,578	24.1%	19,661	50,904	\$31.03	\$24.11	\$30.84
Kingwood/Humble	1,422,573	-	18.5%	-2,070	-52,271	\$23.43	\$31.30	\$24.52
NW Houston	8,668,785	-	21.5%	12,925	192,937	\$21.39	\$16.80	\$21.26
Southwest Fwy	12,133,491	-	22.6%	27,772	104,535	\$18.32	\$17.25	\$18.32
Sugar Land/Ft Bend	6,823,307	-	20.9%	-68,940	-123,313	\$30.92	\$24.40	\$30.48
West Belt	5,379,385	-	24.9%	14,391	-259,121	\$26.76	\$17.44	\$26.60
Westchase	15,537,109	-	32.6%	-51,130	-265,262	\$28.28	\$21.42	\$28.02
The Woodlands	14,899,730	568,000	23.0%	115,727	-12,887	\$33.64	\$28.10	\$32.57
Suburban	201,211,196	2,981,777	27.1%	-422,863	-2,732,796	\$27.53	\$22.42	\$27.27
Market	241,051,668	4,233,633	28.0%	-648,867	-3,505,172	\$30.36	\$22.03	\$29.91

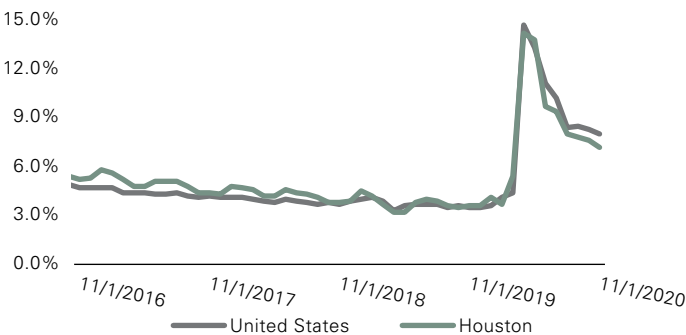
Economic Indicators

Most economic forecasts show the Houston economy recovering by mid-year 2022, driven first by recovery in the U.S. economy beginning in Q1 2021 and then by rising oil prices in 2022 and 2023. Houston is forecast to return to pre-COVID growth numbers for employment at or near 2.0 percent in early 2024.

While the past 90 days has seen some return of positive news in terms of job growth and new job postings, overall unemployment within the market remains nearly 8%, or double the mark at the beginning of the crisis. Continued impact is felt across a variety of sub sectors of employment, with 12 month growth registering negative for the top 11 BLS-measured industries within Houston. Losses have been most pronounced in the leisure and hospitality industry, given that so many local area restaurants and bars remain closed and/or restricted in terms of customer count.

Unemployment Rate

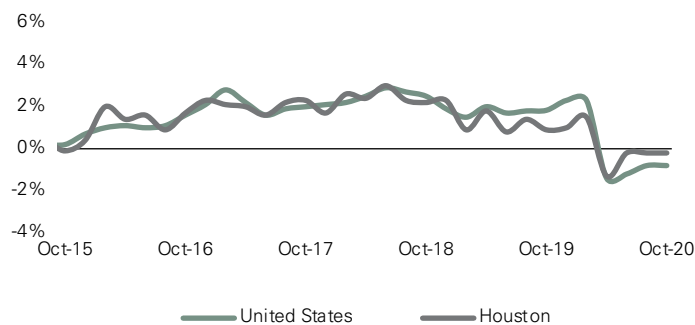
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Consumer Price Index (CPI)

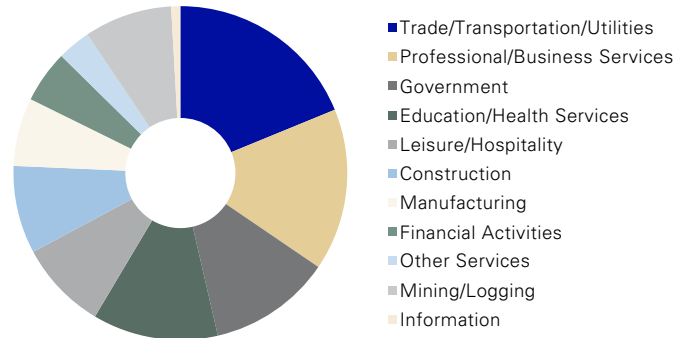
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

Employment By Industry

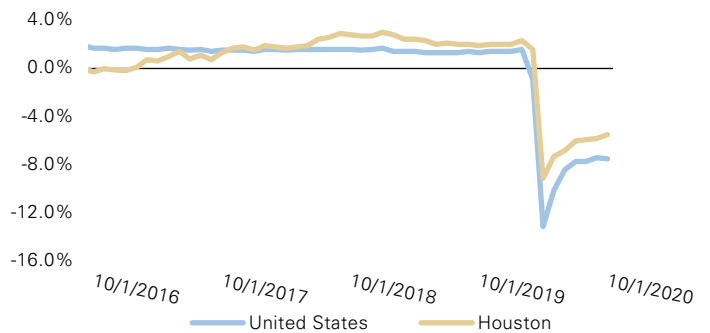
HOUSTON, NOVEMBER 2020



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

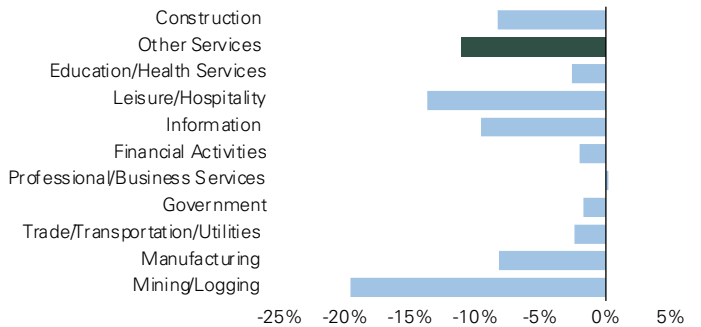
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2020

Employment Growth (Industry)

HOUSTON, OCTOBER 2020, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

For more information:

Houston

1700 Post Oak Blvd
2 BLVD Place, Suite 250
Houston, TX
t 713-626-8888

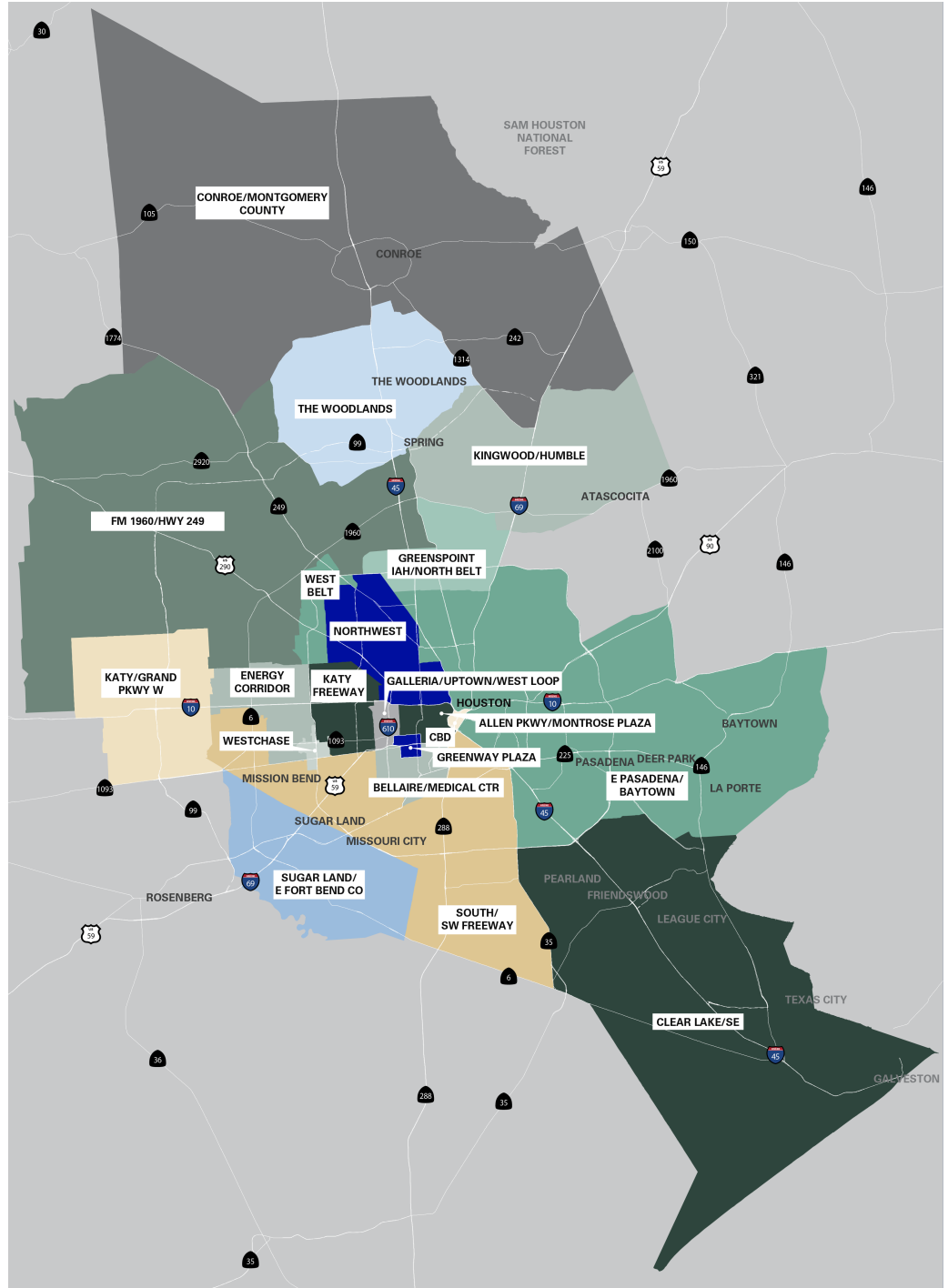
Graham Hildebrand

Director
Texas Research
graham.hildebrand@ngkf.com

Walter Bruton

Research Coordinator
Texas Research
walter.bruton@ngkf.com

nmrk.com



Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research. All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.