

HOUSTON OFFICE | ENERGY CORRIDOR

Submarket Spotlight

Q2 2020

Vacancy at 26.3%

The overall vacancy rate in the Energy Corridor office market was down 10 basis points quarter-over-quarter, and down significantly more year-over-year from 30.7% in Q2 2019. The vacancy rate for Class A properties is at 23.3%, and Class B at 33.4%. In the second quarter, overall net absorption totaled positive 23,000 sq. ft.—Class A represented positive 109,000 sq. ft. and Class B tallied negative 73,000 sq. ft.

Oil-coronavirus shockwave

The Energy Corridor led all Houston-area submarkets in terms of net absorption last year, a particularly long-awaited sign in a submarket that was one of the hardest-hit during the oil downturn. Last year was the strongest year for the submarket since 2014. Solid leasing activity has surprisingly continued apace in the Energy Corridor even after the introduction of the coronavirus pandemic and the collapse in oil prices. The dual oil-coronavirus shockwaves are extending economic uncertainty for Houston's exploration, production, and oil field services companies—the submarket's largest employers. According to its latest short-term energy outlook, the U.S. Energy Information Administration sees West Texas Intermediate oil spot prices averaging \$38.50 per barrel in 2020, and projected to average \$45.53 per barrel in 2021.

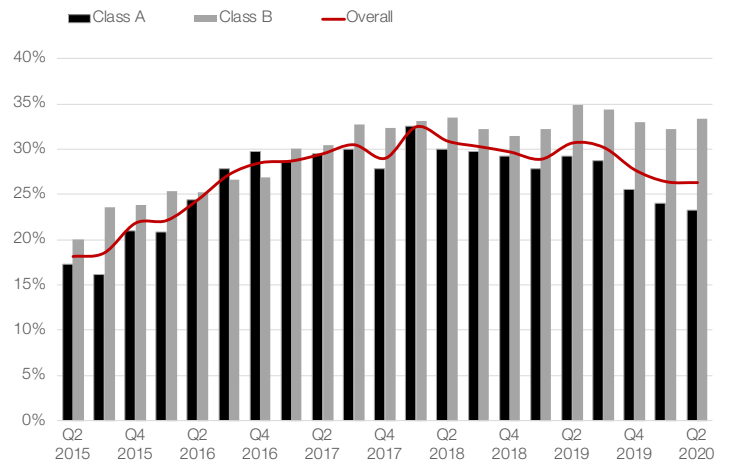
Average asking rates

Overall full-service average asking rates in the Energy Corridor stood at \$28.64 per sq. ft., which is slightly below the metro-wide average of \$29.39 per sq. ft. Rates decreased \$0.43 per sq. ft. quarter-over-quarter and declined further year-over-year by \$1.87 per sq. ft., down from Q2 2019's \$30.51. Class A space (14.9 million sq. ft.) currently has an average asking rate of \$34.46 per sq. ft., and Class B space (6.9 million sq. ft.) is registering at \$22.10 per sq. ft. There is a correlation between the price of oil and asking rent prices for office space in Houston. As companies across industries feel the impact of the pandemic and the oil downturn, they may be looking for a good deal, and if rents decline in the Energy Corridor, it could become an affordable relocation option for office tenants in submarkets such as the Galleria/West Loop and Downtown Houston.

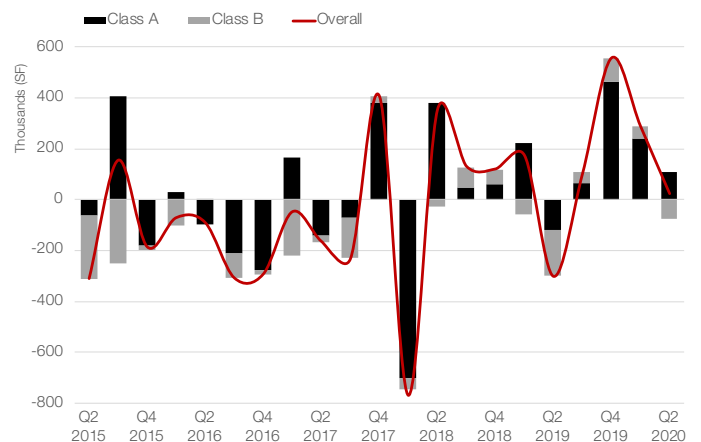
Market Indicators

	Current Q2 2020	Prior Quarter Q1 2020	Year Ago Q2 2019
Vacancy (%)	26.3	26.4 ↓	30.7 ↓
Availability (%)	31.3	30.0 ↑	31.0 ↑
Net Absorption (SF)	22,576	286,247 ↓	-302,073 ↑
Leasing Activity (SF)	339,829	241,172 ↑	357,404 ↓
Construction (SF)	0	0 —	0 —
Avg Asking Rent (Gross)	\$28.64	\$29.07 ↓	\$30.51 ↓
Inventory (SF)	22,104,454	22,104,454 —	22,104,454 —

Vacancy



Net Absorption



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