

# HOUSTON OFFICE | Q3 2021 QUARTERLY MARKET REPORT

## Houston Office market records first quarter of positive net absorption in nearly two years

### OCTOBER 2021

#### EXECUTIVE SUMMARY

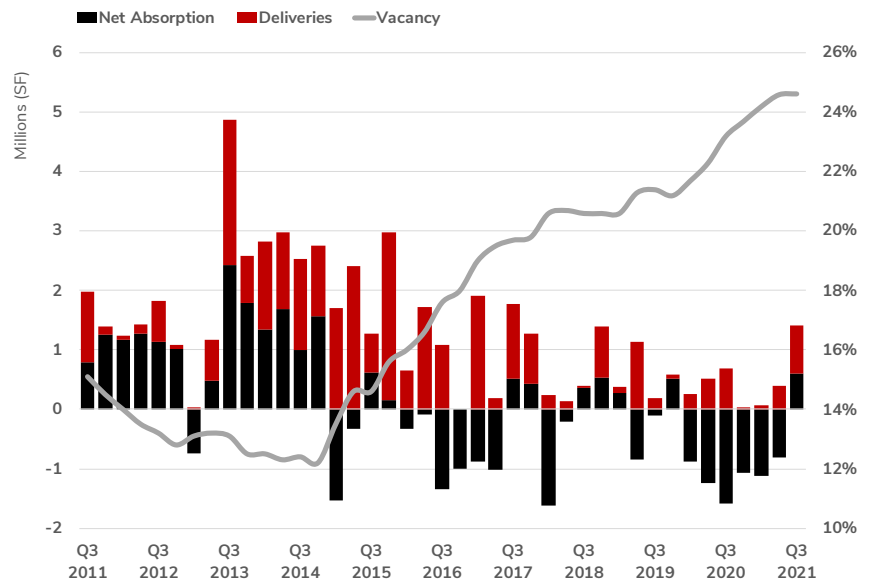
##### OVERALL OUTLOOK—THE WORST MAY BE BEHIND US

The current office market in Houston has been branded by one distinction—having the most vacancy of any major office market in the country. Overall space availability, which includes current, sublease and future vacancy, is climbing towards 30%. The majority of the office projects delivering this year were started pre-Covid-19, in a much different office environment where remote work wasn't uncommon, but not to the level it is today because of the pandemic. As a result, industries that normally lease a majority of this office space are considering reducing their office footprints, impacting future development. Despite a persistent pandemic and fundamental uncertainty in the Houston energy industry, and in addition to recent market activity and deal announcements, the overall outlook is that the worst is behind us. The Institute for Regional Forecasting at the University of Houston reports that we are moving toward a finish line for the pandemic—or at least an economic standoff with the virus and its variants—that will probably be reached by mid-2022.

##### CRUDE PRICES CLIMB ABOVE \$75 A BARREL

Through the first eight months of this year, the Houston area has created 56,600 jobs. Given the impact the Delta variant is having, Houston is likely to finish the year with a net gain of 75,000 to 100,000 jobs, still leaving the region at least 100,000 jobs below pre-pandemic employment levels. As of October 1, 2021, the number of weekly drilling rigs operating in U.S. oil fields increased by seven as crude prices climbed above \$75 per barrel. The rig count rose to 528, nearly double the 266 rigs operating a year ago and the highest since April 2020. The tally, however, remains far below the peak of almost 1,100 at the end of 2018, according to oilfield services firm Baker Hughes. The rig count is a leading indicator of the nation's oil and gas production.

#### SUPPLY & DEMAND



#### KEY MARKET INDICATORS

	CURRENT Q3 2021	PRIOR QUARTER Q2 2021		PRIOR YEAR Q3 2020	
Vacant Total	24.6%	24.6%	■	23.2%	▲
Vacant Direct	23.2%	23.1%	▲	22.0%	▲
Available Total	29.3%	29.2%	▲	27.3%	▲
Available Direct	26.4%	26.1%	▲	24.9%	▲
Net Absorption (SF)	592,461	-814,984	▲	-1,592,087	▲
Leasing Activity (SF)	2,792,976	2,885,572	▼	3,106,455	▼
Construction (SF)	3,745,093	4,199,993	▼	4,110,192	▼
Deliveries (SF)	808,000	399,106	▲	693,230	▲
Avg Asking Rent (Gross)	\$29.42	\$29.20	▲	\$29.36	▲
Inventory (SF)	243,081,047	242,273,047	▲	241,775,141	▲

**VACANCY RATE AT 24.6%**

The overall vacancy rate in the Houston office market was unchanged quarter-over-quarter, and up 140 basis points year-over-year. The vacancy rate for Class A properties is at 27.2%. In the third quarter, overall net absorption totaled positive 592,461 sq. ft.—a quarterly positive level not seen since Q4 2019. This brings the year-to-date total net absorption to negative 1,350,500 sq. ft. Of the 3.7 million sq. ft. currently under construction, almost 40% of that space has been spoken for. The overall Houston average asking full-service rent is at \$29.42 per sq. ft.—up from one year ago at \$29.36 per sq. ft.—while Class A space in the Central Business District is averaging \$41.63 per sq. ft.

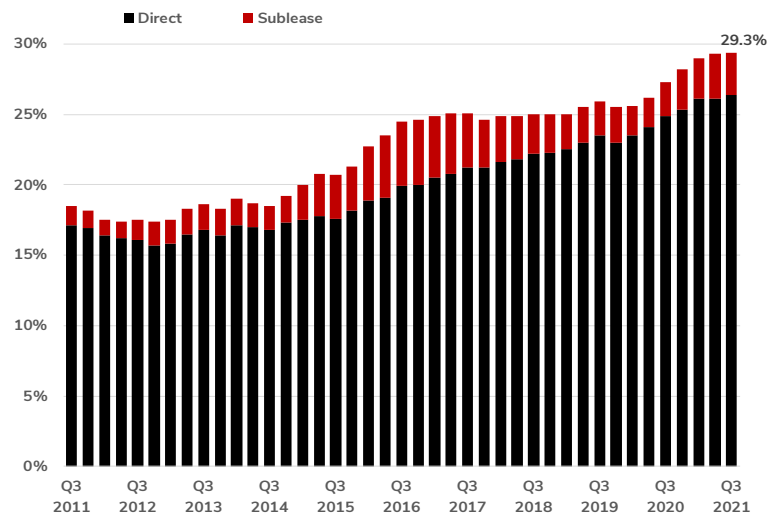
**NET ABSORPTION TURNS POSITIVE**

Net absorption in the Houston office market was back in black in Q3 2021, at 592,461 sq. ft.—a quarterly positive return not seen since for six consecutive quarters. The largest move-ins this quarter was JPMorgan Chase completing its move back into its namesake building at 600 Travis Street. JPMorgan Chase signed a 255,886-sq.-ft. lease last summer, kicking off a major renovation of the entire tower. In addition, JLL officially moved into its new Houston headquarters in the 200 Park Place office tower at 4200 Westheimer Road. The company's 81,999-sq.-ft. space covers three floors of the 15-story office building. Tenants moving out included AT&T's 328,958 sq. ft. at 6500 West Loop South—Bellaire Station, and Wood Group giving back 148,412 sq. ft. at 17404 Katy Freeway—Ten West Corporate Center II. The amount of total office inventory that is being marketed for lease slightly increased quarter-over-quarter, raising the availability rate to 29.3%. The difference between this figure and the vacancy rate reflects expected future move-outs.

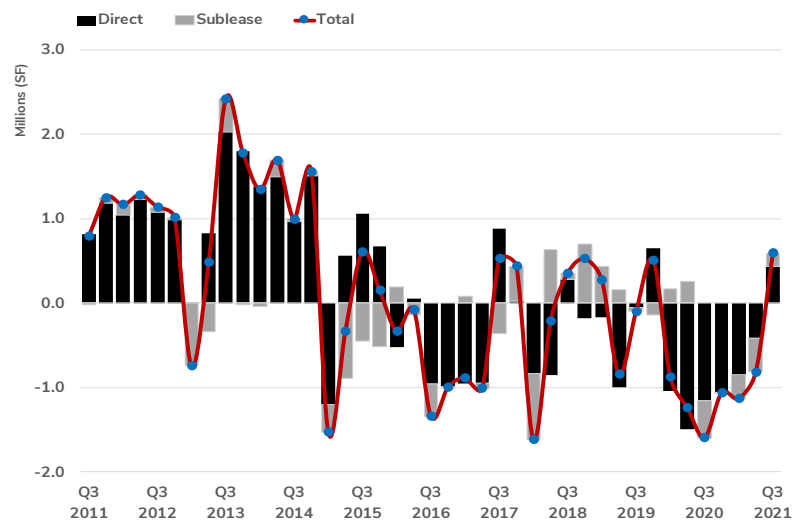
**OFFICE DEVELOPMENT**

Office construction is at 3.7 million sq. ft across 18 buildings, with 2.3 million sq. ft. (61.5%) available for lease. The Central Business District and Medical Center account for 1.7 million sq. ft., or almost 75% of the total space available. Hines' Texas Tower is expected to deliver in Q4 2021 and is 40% preleased. Outside of downtown, of the 654,000 sq. ft. underway in the Medical Center submarket, the 512,000-sq.-ft. Horizon Tower life sciences building is being built in Texas A&M Innovation Plaza. The Medical Center office market has one of the lowest vacancy rates citywide at 11.0%. Other office buildings under construction include the 186,000-sq.-ft., nine-story, Class A office building owned and managed by MetroNational, located in Memorial City at 9753 Katy Freeway in the Katy Freeway East submarket which has a vacancy rate of 12.0%.

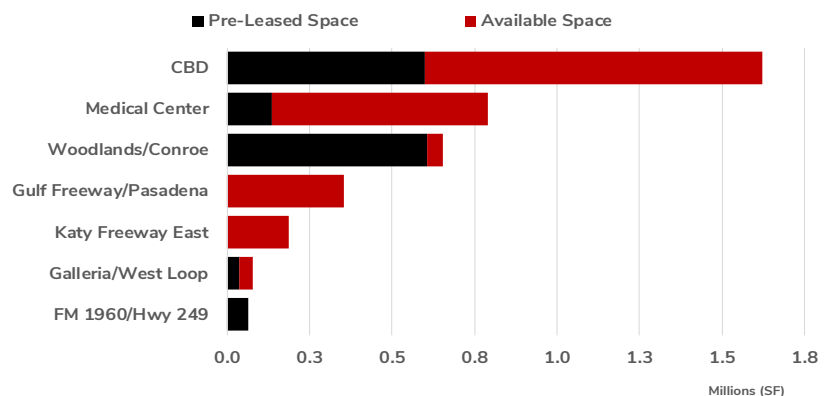
**AVAILABILITY RATES**



**NET ABSORPTION**



**CONSTRUCTION**



**INVESTMENT SALES TRENDS**

Real Capital Analytics data reports quarterly office sales volume for Q3 2021 in the Greater Houston area at \$338 million. The year-over-year change in volume is up 32% from \$256 million in Q3 2020. The primary capital composition for buyers so far in 2021 has been made up of 71.9% private investors and 17.4% institutional. For sellers, the majority was 57.5% private investors and 28.3% institutional.

**LEASING ACTIVITY**

Quarterly leasing velocity—which is comprised of both new leases and renewals—stood at 2.8 million sq. ft. during the third quarter—down slightly from 2.9 million sq. ft. in Q2 2021. Year-over-year, Q3 2020 leasing activity registered at 3.1 million sq. ft. Top transactions during the third quarter included Aspen Technology signing a renewal for 79,867 sq. ft. at 2500 City West in the Westchase submarket; Entergy signing a new lease for 53,604 sq. ft. at 2107 Research Forest Drive in the Woodlands; McGuireWoods inking a deal for 29,492 sq. ft. in Texas Tower in the CBD; and Fifth Floor Confidential signing a new lease for 27,522 sq. ft. at 6002 Rogerdale Road in the Westchase submarket.

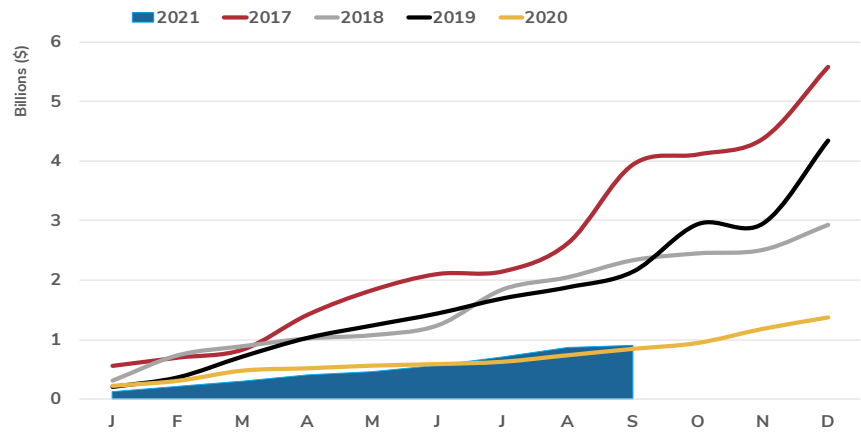
**\$1.8 BILLION LIFE SCIENCES CAMPUS BREAKS GROUND**

The Texas Medical Center has broken ground on phase one of the 37-acre TMC3 that includes 950,000 sq. ft. of research space anchored by a 700,000-sq.-ft. facility focused on life sciences. Also included is the 150,000-sq.-ft. TMC3 Collaborative Building, a 521-room hotel with 65,000 sq. ft. of conference space, a 350-unit residential tower, and 18.7 acres of double-helix-shaped public park space. Phase one is expected to open in fall 2023, while the launch dates of additional phases of TMC3 are still being decided. It is reported that when fully built out, the TMC3 campus will total 6 million sq. ft. of development. The campus is expected to generate up to \$5.4 billion in annual economic growth for Texas, as well as 42,000 new jobs.

**AVERAGE ASKING RENTS**

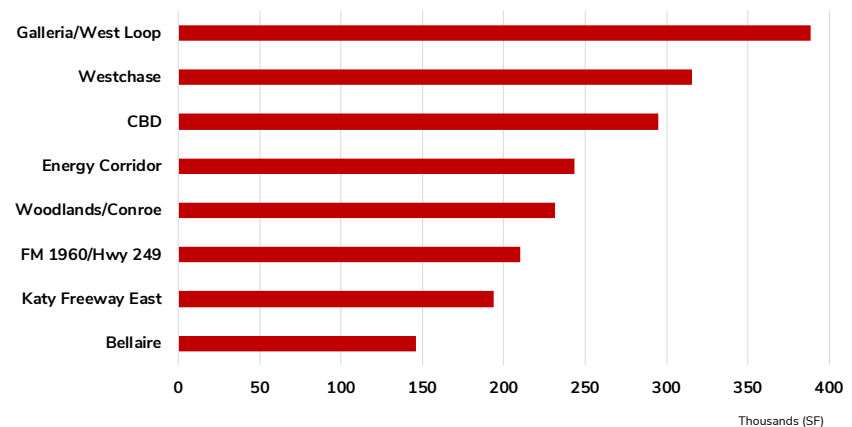
The Houston overall full-service average rates are at \$29.42 per sq. ft., up from last quarter at \$29.20, and from one year ago at \$29.36 per sq. ft. Asking rates for overall Class A space are \$34.11 and Class B are \$22.59 per sq. ft. Rent growth has varied across Houston's submarkets. Asking rents in the Midtown submarket averaged \$34.63 per sq. ft., which is 18% higher than the metro average as a whole and ranked number two—only behind the CBD at \$38.92—among Houston submarkets as of the end of the third quarter 2021.

**CUMULATIVE MONTHLY SALES VOLUME**

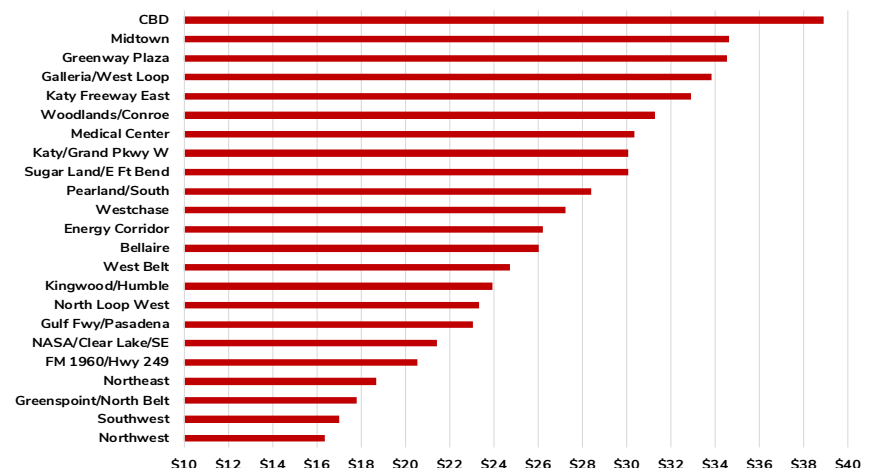


Source: Real Capital Analytics

**QUARTERLY LEASING ACTIVITY OVER 100,000 SF**



**OVERALL GROSS ASKING RENT (\$PSF)**



# MARKET OVERVIEW

## SUBMARKET STATS

Submarket Statistics (Total reflects Class A/B/C)	Total Inventory (SF)	Total Vacancy (SF)	Total Availability (%)	Q3 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Q3 2021 Leasing Activity (SF)	Under Construction (SF)	Overall Gross Avg Asking Rent (\$/PSF)
<b>Houston Market Total</b>	243,081,047	24.6	29.3	592,461	-1,350,490	2,792,976	3,745,093	29.42
Class A	132,895,551	27.2	33.5	705,795	-475,317	1,487,084	3,659,293	34.11
Class B	96,542,283	23.0	25.7	-79,397	-862,551	1,243,981	85,800	22.59
<b>CBD Total</b>	39,443,125	28.6	35.6	175,828	-272,955	294,888	1,621,829	38.92
Class A	31,738,852	28.5	35.8	184,992	-227,485	214,217	1,621,829	41.63
Class B	7,130,933	30.5	36.9	-4,781	-41,087	80,671	0	28.19
<b>Bellaire Total</b>	4,673,351	19.9	19.1	-314,962	-311,607	146,236	0	26.03
Class A	1,655,250	13.6	18.9	-9,224	3,411	30,662	0	29.55
Class B	2,704,783	23.3	18.5	-304,818	-306,545	114,774	0	25.34
<b>Energy Corridor Total</b>	23,114,736	28.1	37.6	-28,974	-155,902	243,656	0	26.21
Class A	14,768,858	29.4	41.2	-64,399	-236,584	76,439	0	30.67
Class B	8,014,372	26.5	32.1	17,650	63,591	148,000	0	19.86
<b>FM 1960/Hwy 249 Total</b>	11,298,335	26.3	30.2	112,725	46,670	209,920	64,395	20.54
Class A	3,574,763	24.8	33.9	16,539	28,924	33,581	64,395	28.17
Class B	6,764,912	27.3	28.5	102,399	28,607	164,910	0	18.23
<b>Galleria/West Loop Total</b>	29,248,154	25.6	32.2	-6,894	-172,995	388,837	77,189	33.84
Class A	21,091,448	27.8	36.2	-1,449	-134,158	263,209	77,189	35.98
Class B	8,106,706	19.9	21.9	-7,989	-44,067	119,633	0	24.21
<b>Greenspoint/North Belt Total</b>	11,773,840	49.3	50.2	84,533	49,663	89,030	0	17.82
Class A	4,916,177	66.8	67.8	30,717	41,210	25,186	0	19.46
Class B	5,677,433	40.6	42.1	45,982	-21,053	45,922	0	15.90
<b>Greenway Plaza Total</b>	10,722,213	24.5	26.3	-70,892	-394,243	95,219	0	34.54
Class A	6,940,221	27.5	28.9	-32,019	-280,634	59,709	0	37.26
Class B	3,344,817	20.0	22.6	-34,402	-99,848	30,388	0	29.06
<b>Gulf Fwy/Pasadena Total</b>	4,033,702	17.9	25.4	-44,241	-13,696	34,502	353,100	23.03
Class A	105,782	2.0	77.4	0	-837	0	353,100	32.03
Class B	3,126,531	20.3	20.5	10,728	35,202	34,103	0	23.27
<b>Katy Freeway East Total</b>	10,464,190	12.0	13.3	389,367	473,807	193,936	186,000	32.89
Class A	6,763,335	13.5	14.7	420,439	490,574	162,475	186,000	40.18
Class B	2,422,067	9.2	11.6	-9,134	7,089	28,119	0	23.50
<b>Katy/Grand Pkwy W Total</b>	3,556,162	18.8	24.0	34,283	15,497	10,451	0	30.08
Class A	2,306,174	26.1	32.3	20,132	-24,848	4,831	0	30.38
Class B	1,100,726	6.0	9.8	14,151	40,345	5,620	0	28.13
<b>Kingwood/Humble Total</b>	1,401,180	13.2	13.4	11,415	7,764	26,848	0	23.94
Class A	258,342	22.3	10.5	-258	9,686	4,000	0	28.85
Class B	1,059,971	11.8	15.0	8,591	-5,004	19,766	0	22.98
<b>Medical Center Total</b>	9,408,934	11.0	17.1	45,985	-138,006	49,310	788,780	30.36
Class A	3,596,402	14.9	27.4	-23,895	-52,607	17,374	788,780	32.66
Class B	4,758,264	9.6	10.4	71,603	-86,248	31,936	0	29.91

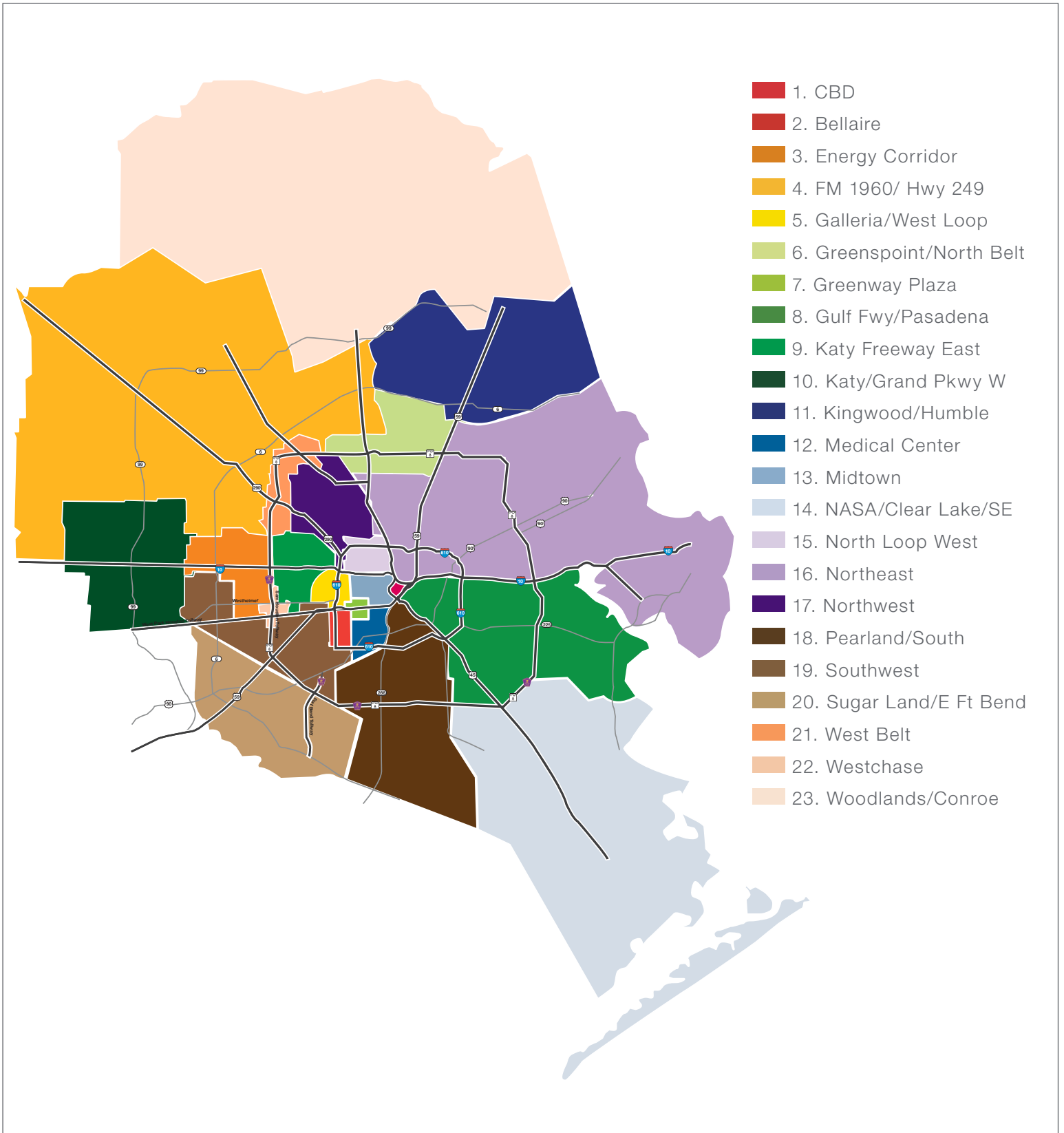
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<b>Midtown Total</b>	6,626,004	19.2	21.4	172,549	218,425	79,861	0	34.63
Class A	2,759,637	24.8	24.3	155,822	173,965	30,061	0	38.79
Class B	3,217,260	15.3	19.7	7,846	23,117	47,471	0	30.36
<b>NASA/Clear Lake/SE Total</b>	7,702,093	15.7	18.4	81,520	158,945	58,943	0	21.42
Class A	2,117,318	14.1	14.9	-6,602	32,061	40,473	0	26.70
Class B	4,929,432	14.4	16.6	68,348	112,353	58,547	0	18.96
<b>North Loop West Total</b>	4,376,573	22.0	23.9	-29,823	-146,881	58,811	0	23.35
Class A	1,247,308	33.6	34.4	2,758	-27,221	4,203	0	26.68
Class B	2,672,075	18.6	21.2	-25,080	-119,839	50,438	0	20.90
<b>Northeast Total</b>	2,512,428	17.8	19.4	-4,911	-45,023	10,417	0	18.67
Class A	184,834	23.6	21.7	0	-17,659	3,600	0	26.03
Class B	1,572,033	19.9	19.5	3,348	-6,489	6,817	0	19.25
<b>Northwest Total</b>	4,058,538	20.6	22.2	-13,172	-54,969	57,679	0	16.36
Class A	805,808	31.8	32.4	12,041	-14,251	29,754	0	19.39
Class B	2,488,076	21.4	22.3	-25,213	-45,783	27,925	0	15.21
<b>Pearland/South Total</b>	1,831,406	10.5	10.4	38,790	85,536	15,755	0	28.41
Class A	720,270	3.6	4.4	0	46,954	0	0	29.87
Class B	860,529	16.7	15.9	38,790	25,889	15,755	0	28.28
<b>Southwest Total</b>	12,043,335	19.4	21.8	64,086	48,044	76,124	0	17.03
Class A	1,489,445	28.7	32.1	938	-17,418	0	0	17.39
Class B	8,335,755	21.3	23.8	43,142	40,700	51,549	0	16.90
<b>Sugar Land/E Ft Bend</b>	6,847,110	20.1	24.1	-45,020	-170,622	63,838	0	30.08
Class A	3,888,455	18.4	23.5	-44,387	-162,181	43,243	0	33.59
Class B	2,876,285	22.6	25.2	-702	-3,261	18,534	0	25.35
<b>West Belt Total</b>	5,477,133	27.6	31.3	-5,701	-5,190	41,644	0	24.74
Class A	3,716,193	28.3	32.8	-7,401	-1,380	28,025	0	26.10
Class B	1,673,311	27.5	29.6	1,700	-3,810	13,619	0	21.08
<b>Westchase Total</b>	15,499,433	31.8	36.0	-90,976	-305,207	315,894	0	27.24
Class A	8,622,600	30.7	36.0	-17,564	-333	255,899	0	32.23
Class B	6,797,095	33.6	36.4	-73,412	-304,874	59,995	0	21.96
<b>Woodlands/Conroe Total</b>	16,969,072	20.8	24.8	36,946	-267,545	231,177	653,800	31.29
Class A	9,628,079	20.2	23.5	68,615	-104,506	160,143	568,000	33.05
Class B	6,908,917	22.0	27.2	-28,144	-151,536	69,489	85,800	30.67
<b>Suburban Total</b>	203,637,922	23.8	28.0	416,633	-1,077,535	2,498,088	2,123,264	26.95
Class A	101,156,699	26.8	32.8	520,803	-247,832	1,272,867	2,037,464	31.27
Class B	89,411,350	22.4	24.8	-74,616	-821,464	1,163,310	85,800	21.89

# MARKET OVERVIEW

## HOUSTON OFFICE SUBMARKETS



Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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## Q3 2021

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