



MadisonMarquette
A Capital Guidance Company

MARKET AT A GLANCE
HOUSTON OFFICE MARKET REPORT
SECOND QUARTER 2022



TABLE OF CONTENTS

ECONOMIC OVERVIEW	2
OFFICE MARKET ASSESSMENT	3
NET ABSORPTION & VACANCY.....	4
RENTAL RATES & LEASING ACTIVITY	5
CONSTRUCTION	6
SUBMARKET STATISTICS & RECENT DEALS.....	7
THE TEAM.....	8

FOR MORE INFORMATION

WADE BOWLIN
President, Property Services
Central Division
713.209.5753
wade.bowlin@madisonmarquette.com



ARIEL GUERRERO
Senior Vice President, Research
713.209.5704
ariel.guerrero@madisonmarquette.com



ECONOMIC OVERVIEW

KEY INDICATORS

Total Nonfarm Employment



185,500 jobs YOY



Office Employment



28,700 jobs YOY



Houston Unemployment



4.3%



Texas Unemployment



3.8%



WTI Crude Oil Spot Price



\$108.72



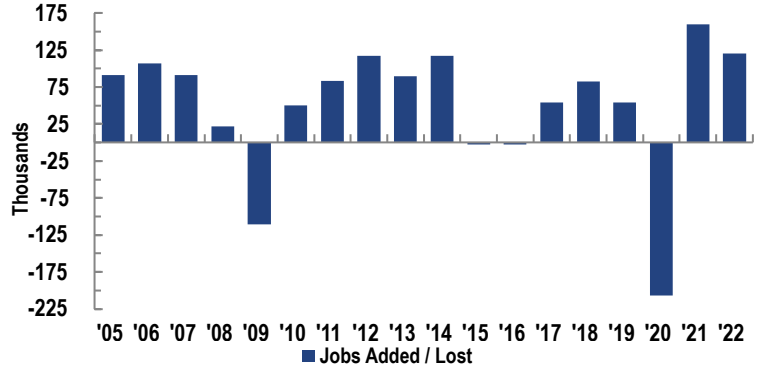
Purchasing Managers Index



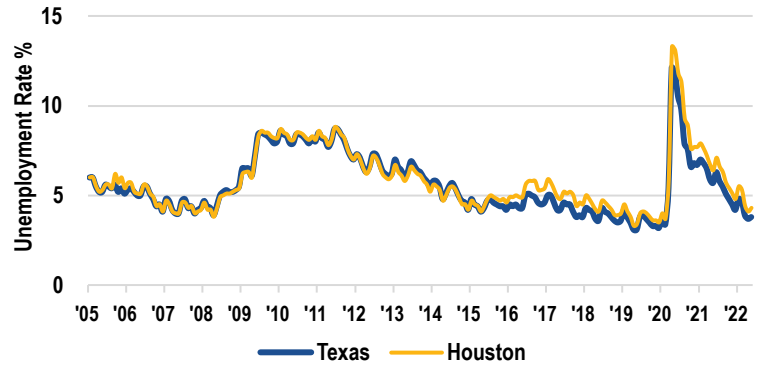
57.5



EMPLOYMENT TRENDS



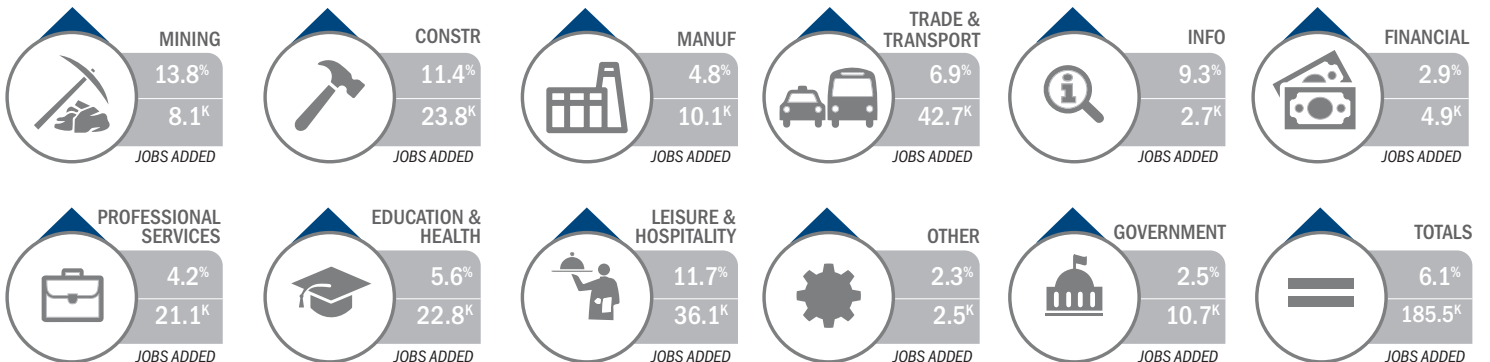
UNEMPLOYMENT



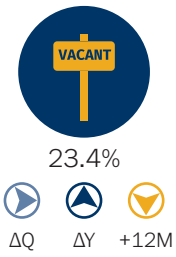
WTI CRUDE OIL SPOT PRICE



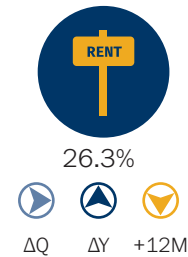
EMPLOYMENT GROWTH BY SECTOR



Direct Vacancy



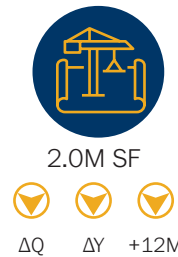
Direct Availability



Direct Net Absorption
(T-12 mos)



Under Construction



Direct Asking Rents



OFFICE MARKET ASSESSMENT

Houston's office market fundamentals continue to show modest signs of improvement. The office sector registered positive absorption for the third straight quarter with 159k SF of direct space absorbed in Q2, improving the trailing 12-months total to 948k SF of occupancy gains.

The Class A sector accounted for the bulk of the gains with 156k SF of direct space absorbed in Q2, marking the third consecutive quarter of absorption growth totaling 1.4M SF, which has helped reduce the direct vacancy rate by 70 bps to 24.9% since hitting its cyclical peak in 4Q 2021. Noteworthy move-ins contributing to the absorption gains included UT Physicians (139k SF at Bellaire Station), Weaver Tidwell (61k SF at Five Post Oak Park), Entergy (54k SF at Lake Front North), Linde PLC (41k SF at Sierra Pines I), and DLA Piper LLP (32k SF at Texas Tower).

Leasing volume totaled 2.6M SF in Q2 but remains 41.1% below the pre-pandemic quarterly average from 2017-2019 due to the combination of many firms trending towards smaller footprints and the lack of large new deal and expansion activity.

The flight-to-quality trend remains prevalent as tenants continue to prioritize highly amenitized buildings containing fitness complexes, dining options serving up chef-inspired food, rooftop gardens, and finishes in interior and exterior commons areas that are noticeably distinguishable from lower-end or older Class A buildings.

Landlords continue to hold firm on face rates but the gap between asking and effective rates remains significant as highly competitive concession packages with rental abatement and tenant improvement allowances, aimed at attracting and retaining tenancy.

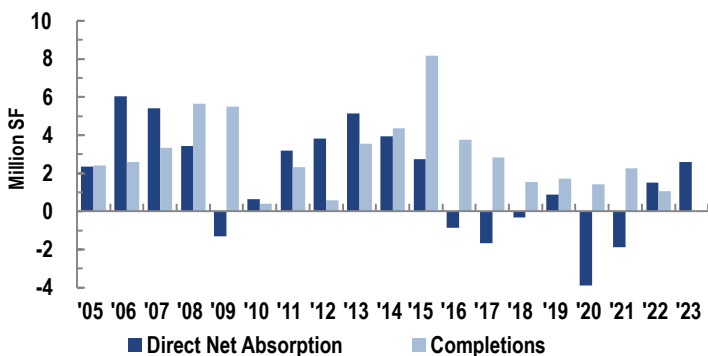
New supply continues to capture a large share of the demand, as 25.7% of the YTD leasing activity has occurred in buildings delivered since 2015 and contributed to all the absorption gains. The largest deal inked in Q2 involved Cheniere Energy's 151k SF new lease at Texas Tower, which brings the newly built trophy tower up to 62.4% leased.

Sublease availability remains elevated at 7.9M SF but has slightly declined since hitting its peak at mid-year 2021. Even though many companies have already rightsized their footprint to adjust to a post-pandemic environment, some occupiers are still exploring ways to optimize and reconfigure their workspace to meet new challenges and work patterns.

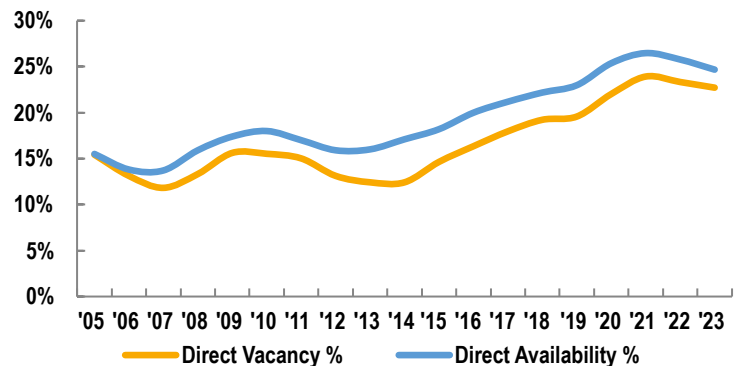
Developers delivered 122k SF of new product in Q2, bringing the YTD total to 802k SF. New construction remains active with 2.0M SF underway currently 20% pre-leased with 567k SF of this new product slated to deliver by year-end 2022. As the office market recovery gathers steam in the coming quarters, newer and amenity-rich Class A office product in prime locations will continue to outperform the broader market in demand, occupancy, and rents at the expense of older buildings.

Employment indicators and consumer spending have remained strong through the first half of 2022 however, higher inflation expectations continue to undermine consumer confidence. The Federal Reserve is now engaging in a sharp tightening of monetary policy. Higher interest rates will cool private investment and reduce consumer purchasing power. Even still, there remains pent up demand which should help improve leasing fundamentals and generate more occupancy as occupiers get more certainty on their longer-term space needs.

SUPPLY AND DEMAND



VACANCY AND AVAILABILITY



Net Absorption Trends

CLASS A

+1.3M SF

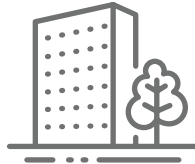
T-12 MOS



CLASS B

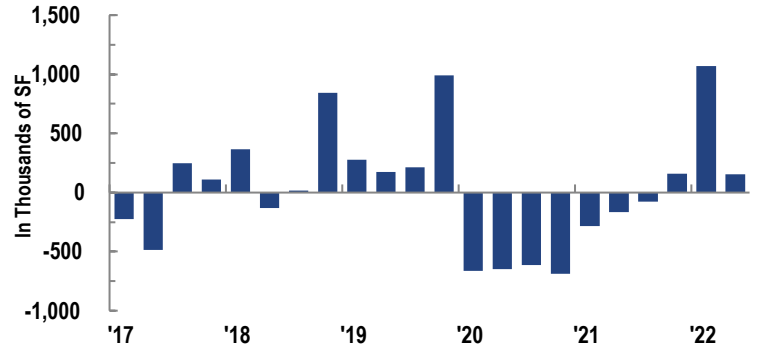
-403K SF

T-12 MOS

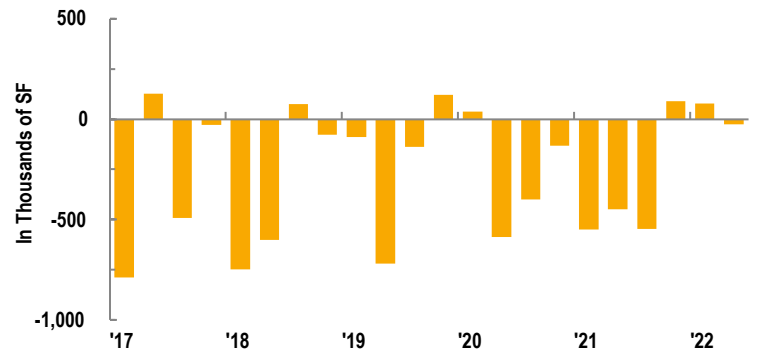


DIRECT NET ABSORPTION

CLASS A



CLASS B



Vacancy and Availability Trends

CLASS A



DIRECT VACANCY

24.9%

33.5M SF

DIRECT AVAILABILITY

29.0%

39.0M SF

CLASS B



DIRECT VACANCY

22.8%

20.5M SF

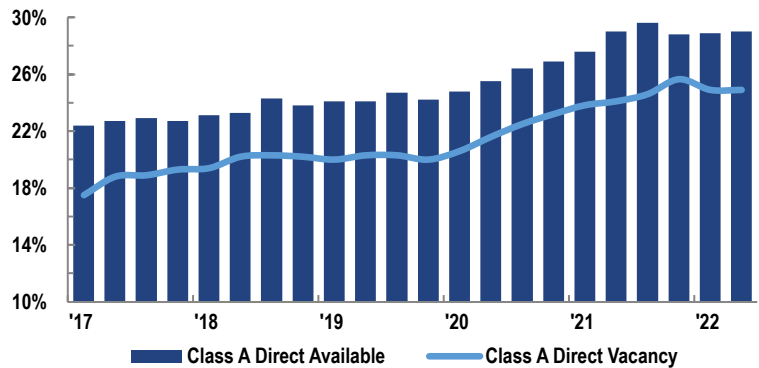
DIRECT AVAILABILITY

24.9%

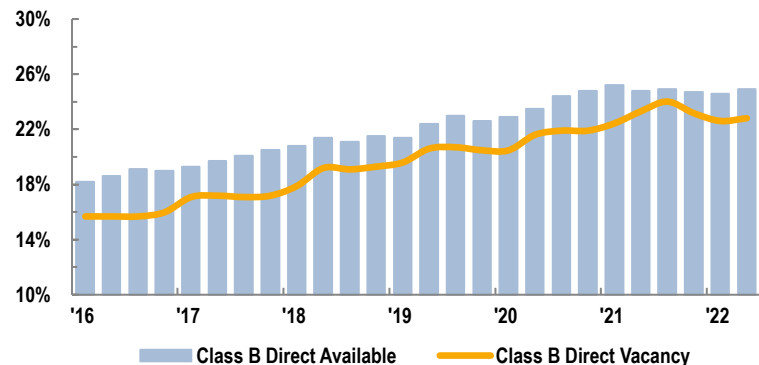
22.3M SF

DIRECT VACANCY AND AVAILABILITY

CLASS A

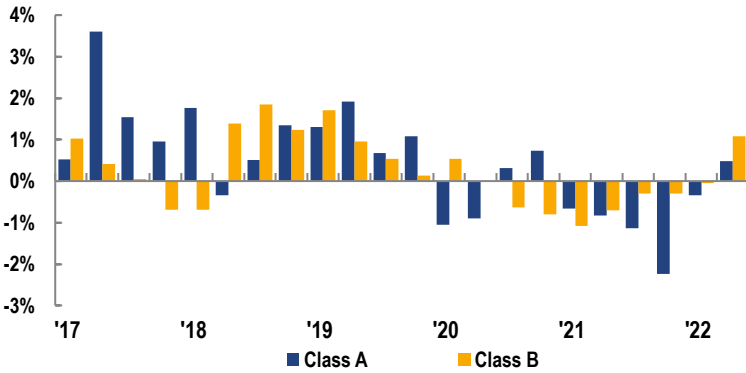


CLASS B



RENTAL RATES

Y-O-Y % Change, Full Service Gross



Rent Growth (Y-0-Y)

+0.5%
CLASS A

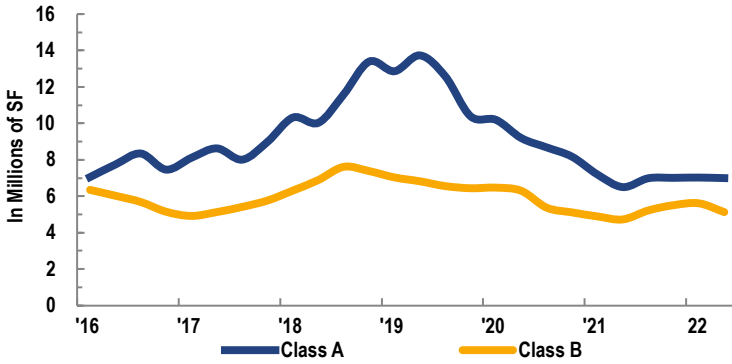


+1.1%
CLASS B



LEASING ACTIVITY

Direct Leasing Activity, Rolling 12 Months



Direct Net Leasing Activity

CLASS A

7.0M SF
T-12 MOS



+7.6%
Y-O-Y CHANGE

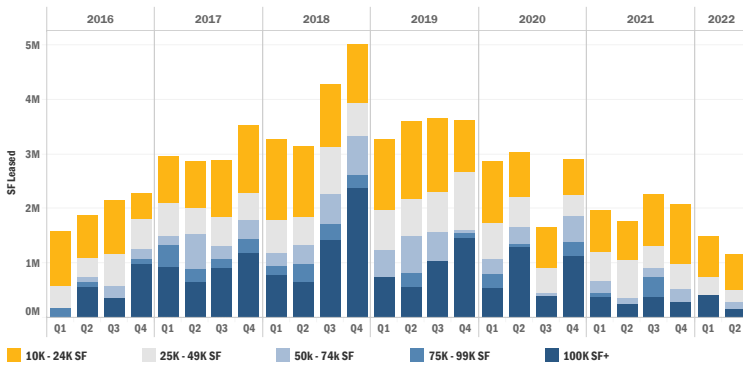
CLASS B

5.1M SF
T-12 MOS

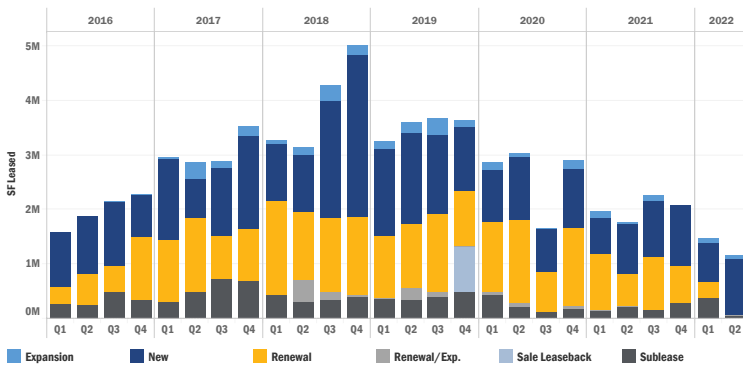


+8.5%
Y-O-Y CHANGE

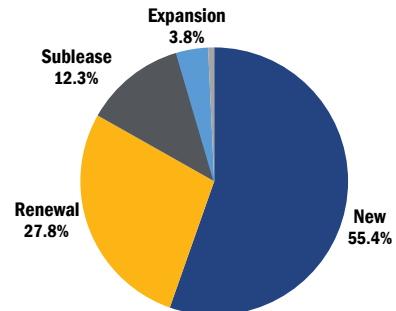
by Size Range



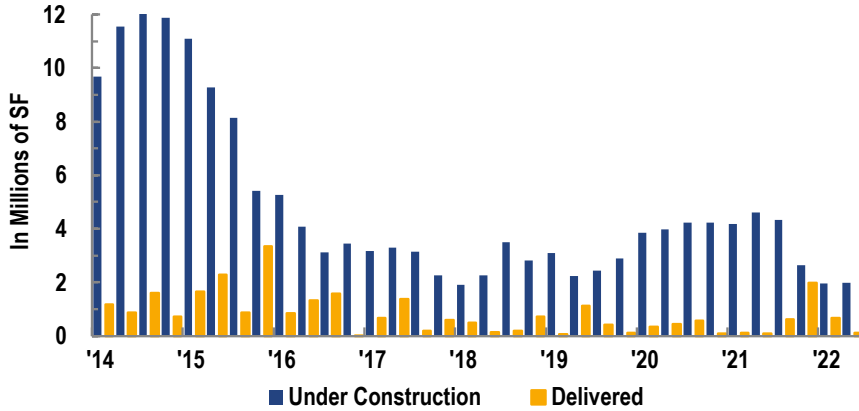
by Transaction Type



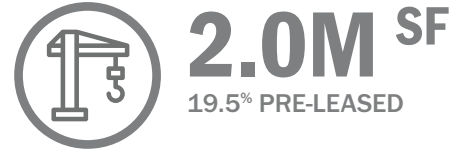
Transaction Trends (T-12 Months)



CONSTRUCTION PIPELINE



OFFICE SPACE UNDER CONSTRUCTION



NEW OFFICE BREAKING GROUND

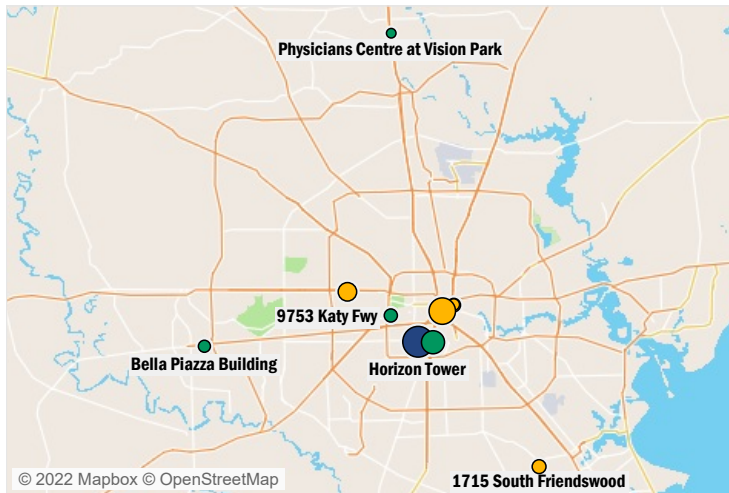


FORECASTED SUPPLY IN 2022



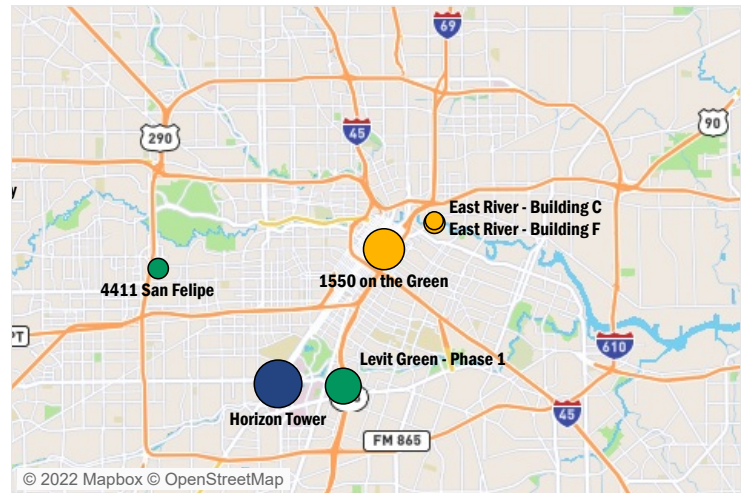
SIGNIFICANT PROJECTS UNDER CONSTRUCTION

Citywide



Scheduled Completion: 2022 (Green), 2023 (Yellow), 2024 (Blue)

Inner Loop



PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT(S)	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
Horizon Tower	521,552	South Main/ Medical Center	N/A	0%	Medistar Corporation	2024 1Q
1550 on the Green	386,323	CBD	Norton Rose Fulbright US LLP	35%	Skanska USA	2023 4Q
Levit Green - Phase 1	294,000	South Main/ Medical Center	N/A	10%	Hines	2022 4Q
9753 Katy Fwy	188,553	Katy Freeway	N/A	0%	MetroNational Corporation	2023 2Q
1715 South Friendswood	105,800	NASA/ Clear Lake	N/A	6%	Tannos Development Group	2023 3Q
East River - Building F	101,000	Gulf Freeway/ Pasadena	Teal, Method Architecture	43%	Midway	2023 1Q
Bella Piazza Building	80,000	Sugar Land	N/A	25%	Realty 1 Partners	2022 3Q
4411 San Felipe	95,055	Galleria / Uptown	SIBS International, SB Partners	100%	DC Partners	2022 3Q
East River - Building C	74,000	Gulf Freeway/ Pasadena	Impact Networking	31%	Midway	2023 1Q
Physicians Centre at Vision Park	50,400	The Woodlands	N/A	5%	i3 Interests	2022 3Q

Note: * Build-to-suit; Corporate owned office buildings (excluded from competitive statistics & above table)

SUBMARKET STATISTICS

Submarket	TOTAL SPACE AVAILABLE			DIRECT AVAILABLE / VACANT		DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
	Total Inventory SF	Direct	Sublease	Direct Availability	Direct Vacancy	Current Qtr.	Trailing 12 mos.	Completions Current Qtr	Under Construction	Class A	Class B
Central Business District	40,888,246	11,936,890	1,491,858	29.2%	25.9%	-37,647	-374,233	0	386,323	\$44.43	\$28.92
Galleria / Uptown	25,029,163	7,196,229	920,086	28.8%	24.8%	32,106	-527,707	0	95,055	\$36.59	\$27.01
Greenway Plaza	11,127,049	2,484,253	369,925	22.3%	21.6%	-6,288	-131,490	0	0	\$36.14	\$28.82
Katy Freeway	32,480,080	8,384,346	1,663,944	25.8%	20.5%	169,712	874,417	0	188,553	\$30.89	\$21.76
Westchase	15,069,183	4,955,247	667,236	32.9%	31.5%	-29,973	-150,187	0	0	\$32.48	\$21.94
North Houston / IAH / N Belt	12,504,435	5,992,024	83,835	47.9%	47.4%	14,610	-52,120	0	0	\$19.45	\$15.47
Northwest Freeway / N Loop West	9,185,397	1,847,301	118,200	20.1%	20.2%	-2,322	118,407	35,282	0	\$23.80	\$18.93
NASA / Clear Lake & SE Outlier	6,656,294	1,374,700	50,010	20.7%	15.7%	-5,630	20,018	0	152,871	\$27.01	\$19.92
Fort Bend / Sugar Land / SW Outlier	7,219,776	1,697,834	830,605	23.5%	19.8%	-28,558	-64,696	0	80,000	\$33.89	\$26.63
Richmond / Fountainview	1,217,323	140,081	0	11.5%	11.7%	7,337	16,380	0	0	-	\$19.36
San Felipe / Voss	5,428,458	1,589,820	36,945	29.3%	24.8%	-5,841	-51,195	0	0	\$35.84	\$25.23
Bellaire	4,231,886	820,365	160,465	19.4%	15.6%	91,989	-202,666	0	0	\$26.56	\$26.10
Midtown / Allen Parkway	6,459,392	1,202,921	24,915	18.6%	16.5%	14,561	142,854	0	0	\$38.36	\$32.25
FM 1960	9,803,099	2,509,599	72,308	25.6%	22.4%	-2,591	266,141	0	0	\$28.63	\$17.32
Kingwood / Humble / NE Outlier	1,570,747	230,792	35,149	14.7%	17.4%	-19,201	10,942	0	0	\$27.37	\$23.19
Southwest Beltway 8 / SW / Hillcroft	9,751,787	2,175,785	59,630	22.3%	20.7%	-73,201	112,472	0	0	\$19.47	\$18.22
S. Main / Medical Center / South	10,823,105	2,268,197	13,804	21.0%	11.6%	-2,261	121,267	0	854,459	\$33.79	\$30.29
The Woodlands / Conroe	15,473,325	3,201,728	954,121	20.7%	21.2%	26,633	729,561	65,574	50,400	\$36.10	\$27.42
Gulf Freeway / Pasadena	3,294,730	620,252	28,104	18.8%	13.4%	-31,513	-15,948	0	175,000	\$29.53	\$24.19
Baytown / I-10 East	1,074,365	259,889	0	24.2%	23.7%	811	-12,842	0	0	-	\$18.86
Katy / Grand Parkway West	2,947,630	586,472	192,392	19.9%	17.9%	30,752	43,301	20,758	0	\$31.41	\$31.93
West Belt	5,084,837	1,605,982	169,488	31.6%	23.4%	15,037	75,642	0	0	\$28.99	\$23.44
Totals	237,320,307	63,080,707	7,943,020	26.6%	23.4%	158,522	948,318	121,614	1,982,661	\$35.17	\$23.26

Property Type	TOTAL SPACE AVAILABLE			DIRECT AVAILABLE / VACANT		DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
	Total Inventory SF	Direct	Sublease	Direct Availability	Direct Vacancy	Current Qtr.	Trailing 12 mos.	Completions Current Qtr	Under Construction	Asking Rent	Y-O-Y Change
Class A	134,612,089	39,008,593	6,311,291	29.0%	24.9%	155,529	1,310,680	32,912	1,885,190	\$35.17	0.5%
Class B	89,540,872	22,318,422	1,572,498	24.9%	22.8%	-25,073	-403,032	88,702	97,471	\$23.26	1.1%
Class C	13,167,346	1,753,692	59,231	13.3%	12.3%	28,066	40,670	0	0	\$18.87	4.9%
Totals	237,320,307	63,080,707	7,943,020	26.6%	23.4%	158,522	948,318	121,614	1,982,661	\$30.37	2.2%

SIGNIFICANT TRANSACTIONS

Tenant	SF	Type	Tenant Industry	Building	Class	Submarket
Cheniere Energy	151,490	New	Energy	Texas Tower	A	CBD
Gexa Energy	62,261	New	Energy	601 Travis	B	CBD
Genesis Energy	62,010	New	Energy	811 Louisiana	A	CBD
CTCI Americas, Inc.	49,662	Ren/Exp.	Engineers/Architects	Reserve at Park Ten - Ph. 1	A	Katy Freeway
Trafigura Trading	31,079	New	Energy	Texas Tower	A	CBD
TC Energy	30,275	Expansion	Energy	TC Energy Center	A	CBD
Subsea Engineering Company	28,520	New	Engineers/Architects	Beltway Lakes Phase II	A	West Belt
Wan Pacific Real Estate Development	26,417	Sublease	Real Estate	Energy Tower IV	A	Katy Freeway
O'Melveny & Myers	26,021	New	Financial	TC Energy Center	A	CBD
MRC Global Inc.	25,122	New	Energy	Fulbright Tower	A	CBD



WADE BOWLIN
President, Property Services
Central Division
713.209.5753
wade.bowlin@madisonmarquette.com



BRAD SINCLAIR
Executive Vice President,
Leasing
713.209.5965
brad.sinclair@madisonmarquette.com



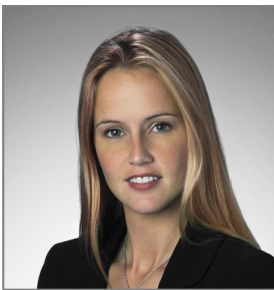
KIM GRIZZLE-SHAPIRO
Senior Vice President,
Leasing
713.209.5940
kim.shapiro@madisonmarquette.com



TERRI TORREGROSSA
Senior Vice President,
Leasing
713.209.5821
terri.torregrossa@madisonmarquette.com



MIKE MARTIN
Senior Vice President,
Leasing
713.209.5710
mike.martin@madisonmarquette.com



COURTNEY BUCKOUT
Vice President,
Leasing
713.209.5959
courtney.buckout@madisonmarquette.com



ANGELINA STONE
Leasing
Manager
713.209.5737
angelina.stone@madisonmarquette.com



MARTI GRIZZLE
Leasing
Manager
713.209.5734
marti.grizzle@madisonmarquette.com



ARIEL GUERRERO
Senior Vice President,
Director of Research
713.209.5704
ariel.guerrero@madisonmarquette.com



JON CARRASCO
Director,
Data Analytics
713.209.5800
jon.carrasco@madisonmarquette.com



DOUG BERRY
Senior Vice President,
Creative Director
713.209.5897
doug.berry@madisonmarquette.com

ABOUT MADISON MARQUETTE

Madison Marquette is a leading private full-service real estate provider, investment manager, developer and operator headquartered in Washington, D.C. The company delivers integrated investment, development, leasing and management services to a diverse portfolio of 330 assets in 20 states and manages an investment portfolio valued at over \$6.2 billion. The company partners with global, institutional and private investors to provide industry-leading investment and advisory services across asset classes -- including mixed-use, retail, office, medical, industrial, senior living and multifamily. Following its 2019 merger with the Boston-based Roseview Group, Madison Marquette added capital markets, investment banking and corporate advisory services to its integrated capabilities. Founded in 1992, the company built its reputation on the successful development, repositioning and redevelopment of landmark mixed-use assets, and now leverages that performance legacy to provide clients with exceptional asset services and investment advice. Madison Marquette has a strategic bench of professionals providing nationwide service from 14 regional markets and is a member of the Capital Guidance group of companies. For additional information, visit www.madisonmarquette.com.