

HOUSTON  
**OFFICE MARKET  
REPORT**

*Fourth Quarter 2020*



**BELVOIR**

REAL ESTATE GROUP, LLC

*Going Places*

BROKERAGE / DEVELOPMENT / MANAGEMENT / INVESTMENT

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## *A Message from Matthew Goldsby, Belvoir Managing Director*

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Houston's office market continues to bear the brunt of the impact of the COVID pandemic, which has slowed the energy sector's recovery and overall activity levels. The number of Houstonians returning to the office has risen to around 40% in recent months, with major employers maintaining high ratios of remote work through the start of 2021.

Houston's overall vacancy factor maintained in the 18% range, relatively stable over the past year, while asking rental rates fell by 1.1%. Tenants have shown a preference to renew in place with larger-than-average concessions due to the pandemic, thereby keeping rental rates flat for the near future. The four largest Houston area leases were all under 50,000 SF, including several leases in Rice's technology and health science project, The Ion.

Construction projects totaling 5.5 million SF are currently in the pipeline, with 1.6 million SF of broken ground in 2020. Three of these projects broke ground in the fourth quarter, including Medistar's 511,599-SF Horizon Tower in the Medical Center. Most of the pipeline will deliver during the first half of 2021, including Rice's 270,000-SF Ion project.

Twenty office properties traded hands in 2020, totaling 4.5 million SF for a total sales volume of \$1,033,688,602. Notable sales include Austin-based Capital Commercial Investments' acquisition of the AT&T Building at 6500 W. Loop South in Bellaire, in addition to their acquisition of part of the old HP/Compaq campus in Northwest Houston, both projects which the company plans to redevelop.

Looking forward through the post-COVID recovery, healthcare and renewable/sustainable energy and technologies are poised to drive renewed growth as consumer and business confidence returns. In the immediate-term, rebounding oil prices and the vaccine rollout should continue to ease Houston growth-mode toward the latter half of 2021.

# OFFICE MARKET SNAPSHOT

## LEASING

Leasing volume is down more than a third this year compared with the same period last year. The energy industry faced challenges prior to the pandemic, including lower oil prices and a general retreat in capital from Wall Street late last year following several years of lackluster earnings. Yet the real falloff in leasing activity this year came after the onset of the pandemic. And with prevailing uncertainty about when most of Houston's office workers will return to office buildings, leasing activity may continue to be slow in subsequent quarters. The four largest leases last quarter were all under 50,000 SF, including two 9,000-SF leases. Move-outs since the third quarter clearly exceeded any positive absorption activity.

## RENT

Rent growth once again turned negative the past two quarters – during a period that temporarily saw negative \$40-per-barrel West Texas Intermediate Crude oil prices. As of this update, oil prices had recovered to the mid-\$40s-per-barrel. But they still have a way to go toward the \$60-per-barrel that most producers need to drill new wells profitably. Rents have also trended downward in each of the past three local economic cycles – not a great sign for Houston office landlords, as owners have had to contend with successive supply waves and waning energy tenant demand. The submarkets that are seeing positive rent growth are typically smaller submarkets that have not experienced much new supply nor large-scale move-outs.

## CONSTRUCTION

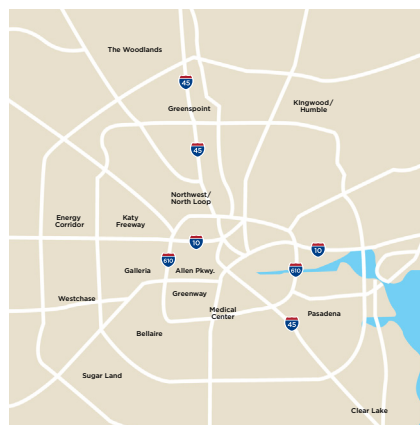
Along with slower than normal leasing, the Houston market still has a sizable construction pipeline to contend with. The South Main/Medical Center and Katy Freeway East Submarkets are seeing the second- and third-most new construction, respectively. The Texas Medical Center is undergoing a renaissance as it begins to accommodate the push for a commercial life sciences and biotech hub. Houston may soon welcome several million SF of new life science-oriented mixed-use projects along a two-mile stretch of Holcombe Boulevard. These projects could raise Houston's profile as a burgeoning commercial life sciences and tech hub

and could inject billions into the local economy. Hines and 2ML Real Estate Interests recently announced the proposed development of a 52-acre mixed-use project to be dubbed Levit Green. The Texas A&M System also recently announced plans for the five-acre, \$550 million Texas A&M Innovation Plaza. The campus will be home to Texas A&M's unique, two-year Engineering Medicine (EnMed) program.

## SALES

As of the fourth quarter of 2020, transaction volumes were down by more than half since 2019, although a few key deals closed in the last months of the year. It appears that the investors are finally working their way through 2020's period of price discovery. Since 2010, Houston has been considered attractive to investors because, in addition to being the fifth-largest metropolitan area in the U.S., it was one of the fastest-growing for several years prior to the oil downturn of 2015-17 in terms of total job and population growth, regularly ranking among a small cohort of cities such as Dallas-Fort Worth and New York. However, Houston's office sector vacancy never quite recovered from the oil downturn of 2015-17. This has placed downward pressure on rents and therefore NOI and prices and slightly increased pressure on cap rates ever since 2014. As a result, a mix of private equity, private, REIT/public, and institutional investors swooped in over the past four years to capitalize on value-add and opportunistic plays where they could find them.

Source: CoStar Property®



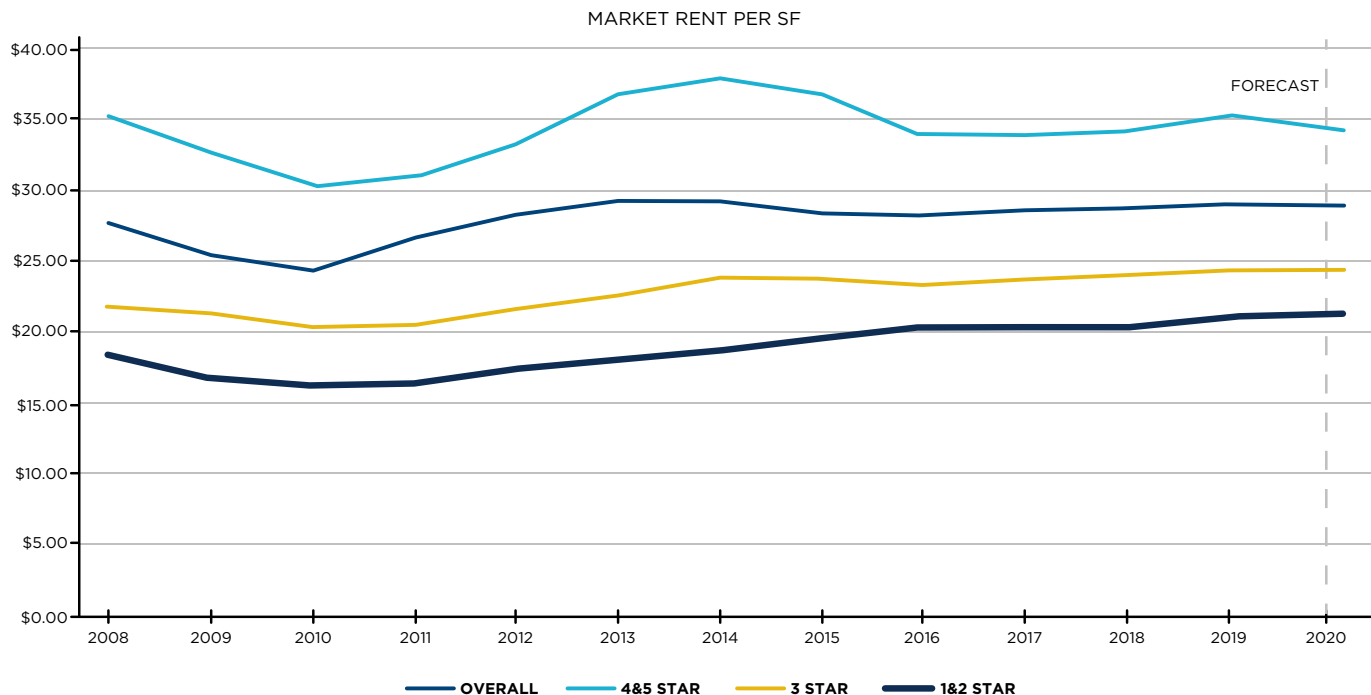
# SUBMARKET STATISTICS

Q4 2020

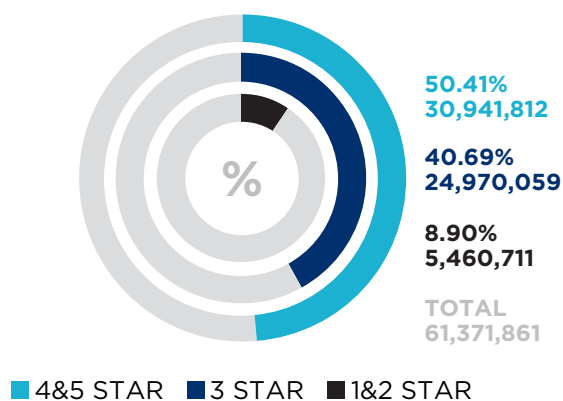
Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF (000)	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Bellaire	93	5,325	552,665	10.4%	234,307	1	-	\$25.90
CBD	164	51,463	10,887,226	21.2%	(805,974)	0	1,252	\$36.34
E Fort Bend Co/Sugar Land	457	10,451	1,304,794	12.5%	85,052	32	37	\$28.09
FM 1960/Champions	266	4,365	704,219	16.1%	21,887	1	-	\$18.44
FM 1960/Hwy 249	492	9,799	1,549,844	30.2%	188	32	238	\$25.07
Galleria/Uptown	66	16,850	3,310,756	19.6%	(602,672)	0	70	\$32.93
Greenspoint/N Belt W.	119	11,078	4,950,284	44.7%	112,451	0	-	\$18.62
Greenway Plaza	274	12,638	2,290,778	18.1%	(341,276)	0	-	\$31.31
Gulf Freeway/Pasadena	670	8,292	1,085,351	13.1%	(22,779)	1	64	\$21.99
Katy Freeway East	269	11,879	1,324,272	11.1%	(60,831)	2	1,200	\$32.32
Katy Freeway West	264	28,058	6,420,001	22.9%	(286,605)	3	-	\$29.19
Katy/Grand Parkway W.	489	6,682	959,197	14.4%	34,570	11	77	\$29.21
Midtown	601	10,373	1,223,325	11.8%	(255,672)	1	493	\$32.02
NASA/Clear Lake	547	10,322	1,345,391	13.0%	57,157	6	17	\$23.77
North Loop West	384	6,409	1,102,547	17.2%	42,086	5	-	\$22.54
Post Oak Park	45	4,820	1,682,801	34.9%	(257,844)	1	93	\$32.65
San Felipe/Voss	50	5,347	1,305,076	24.4%	(285,575)	0	-	\$26.37
South Main/Medical Center	246	13,537	918,790	6.8%	(213,817)	1	1,216	\$29.34
Southwest Beltway 8	193	7,307	1,469,478	20.1%	(119,003)	0	-	\$18.06
Southwest/Hillcroft	111	5,323	812,458	15.3%	103,336	1	-	\$17.37
The Woodlands	678	23,913	3,310,190	13.8%	(785,776)	10	637	\$32.39
West Belt	115	6,293	1,623,066	25.8%	(426,010)	2	-	\$28.96
Westchase	140	20,032	4,607,501	23.0%	(350,727)	0	-	\$27.39

Source: CoStar Property®

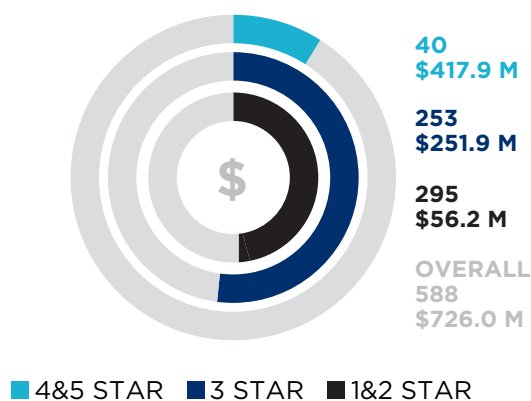
## HISTORICAL AND FORECAST RENTAL RATES BY CLASS



## VACANCY BY CLASS



## SALES BY CLASS



LET'S GO PLACES.

Belvoir's team of experts are ready to answer your commercial real estate and brokerage questions. Call us at **713.332.8202** or visit us online at **belvoir.net**.