

Q1 2020

Office Insight

Given the health, policy, economic and financial disruption unfolding from the COVID-19 outbreak, resulting real estate market shifts will not be fully reflected in Q1 2020 statistical indicators. It is too early to provide a quantitative assessment or forecast of the ultimate market impact of COVID-19. Our analysis focuses on Q1 market activity and how the market is positioned moving forward. We will be continually monitoring market movements as the situation evolves. Please feel free to contact us if we can assist.

## Another quarter of strong occupancy growth tempered by weakening energy sector, COVID-19 concerns

- The flight to quality trend continued unabated with another 1.4 million square feet of Class A positive net absorption in the first quarter.
- With tenant concessions like improvement allowances and free rent already elevated, the energy sector and COVID-19 concerns may cause rental rates to dip if concessions cannot increase further.
- At nearly 3.7 million square feet, the construction pipeline is at its highest point since the 2014 energy downturn started; 53 percent is pre-leased.

After the true scale of the COVID-19 crisis emerged, Houston market observers are thinking, “here we go again.” Already beset by five years of skyrocketing vacancy, Houston’s office market may be headed for a double-dip thanks to an ailing energy market and a worsening Coronavirus situation.

As was seen in Q4 the fourth quarter, Houston’s office market showed a split personality in the first quarter. Nearly 1.6 million square feet of positive net absorption, heavy demand for new construction, and record rents on signed leases have all been counter-balanced by generationally-high vacancy, weak tenant demand, and a palpable sense of unease from energy sector volatility. An already weak quarter of signed leases in Q1 the first quarter was further exacerbated by a near halting of leasing activity in the last few weeks of March.

Encouragingly, Houston’s sublease inventory - a data point most often used as a bellwether for the health of the office market - is returning to equilibrium. Leasing momentum in sublease space has been strong and may expand due to needs from COVID-19. Again, the market’s split personality remains as Houston still has one of the largest sublease inventories in the country, and the next few quarters could see a spike in new listings from energy companies should that sector continue its slide.

**Outlook**

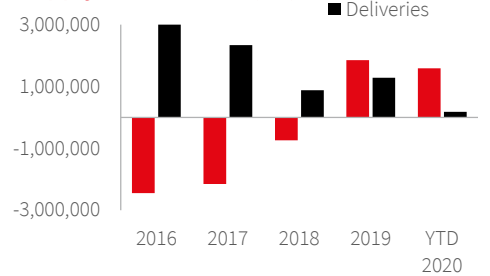
Houston is no stranger to shocks to the local economy, thanks to the high concentration of energy tenants which can create very pronounced boom/bust cycles. This time however, the addition of COVID-19 may worsen the situation. With weakening leasing activity, market pricing will likely remain favorable for tenants well into the future. As for the immediate quarters ahead, expect leasing activity to slow dramatically, building construction and space build-out timelines to extend, and energy tenants to continue to retrench.

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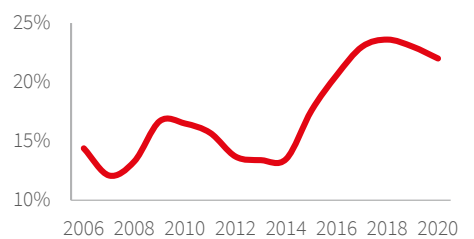
**Fundamentals**

	Forecast
YTD net absorption	1,589,650 s.f. ▼
Under construction	3,670,492 s.f. ▲
Total vacancy	22.0% ▲
Sublease vacancy	3,330,366 s.f. ▲
Direct asking rent	\$31.29 p.s.f. ▼
Sublease asking rent	\$23.14 p.s.f. ▼
Concessions	Stable ▲

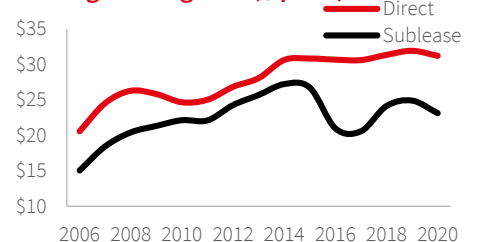
**Supply and demand (s.f.)**



**Total vacancy (%)**



**Average asking rent (\$ p.s.f.)**



## JLL Research Report

## Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD Completions (s.f.)	Under Development (s.f.)
CBD	Totals	36,668,743	289,893	289,893	0.8%	18.4%	20.8%	\$41.63	0	1,106,581
<b>CBD</b>	<b>Totals</b>	<b>36,668,743</b>	<b>289,893</b>	<b>289,893</b>	<b>0.8%</b>	<b>18.4%</b>	<b>20.8%</b>	<b>\$41.63</b>	<b>0</b>	<b>1,106,581</b>
Katy Freeway East	Totals	5,342,832	100,446	100,446	1.9%	8.0%	8.2%	\$38.69	0	926,000
Katy Freeway West	Totals	20,023,788	176,580	176,580	0.9%	27.6%	31.6%	\$29.87	0	150,920
Westchase	Totals	13,230,684	141,879	141,879	1.1%	20.9%	23.8%	\$28.76	0	0
<b>Energy Corridor</b>	<b>Totals</b>	<b>38,597,304</b>	<b>418,905</b>	<b>418,905</b>	<b>1.1%</b>	<b>22.6%</b>	<b>25.7%</b>	<b>\$29.91</b>	<b>0</b>	<b>1,076,920</b>
West Belt	Totals	4,066,216	6,046	6,046	0.1%	17.3%	21.2%	\$26.69	0	0
Bellaire	Totals	2,204,967	-1,476	-1,476	-0.1%	7.2%	9.9%	\$28.08	0	0
Galleria	Totals	22,774,420	233,730	233,730	1.0%	17.1%	19.2%	\$36.67	0	340,450
Greenspoint/North Belt	Totals	8,769,416	72,632	72,632	0.8%	53.0%	53.6%	\$18.84	0	0
Greenway Plaza	Totals	9,971,782	23,474	23,474	0.2%	15.9%	16.8%	\$35.75	0	0
Medical Center	Totals	3,639,577	15,504	15,504	0.4%	9.0%	9.0%	\$28.32	0	0
Midtown	Totals	4,165,596	-11,355	-11,355	-0.3%	12.9%	13.2%	\$29.58	0	164,000
Northwest	Totals	5,951,993	103,296	103,296	1.7%	22.2%	22.4%	\$22.53	0	226,603
San Felipe/Voss	Totals	5,061,048	-13,369	-13,369	-0.3%	19.4%	19.9%	\$29.77	0	0
Southwest	Totals	6,028,803	6,403	6,403	0.1%	24.5%	25.9%	\$16.74	0	0
<b>Suburban Near</b>	<b>Totals</b>	<b>72,633,818</b>	<b>434,885</b>	<b>434,885</b>	<b>0.6%</b>	<b>21.5%</b>	<b>22.9%</b>	<b>\$27.75</b>	<b>0</b>	<b>731,053</b>
FM 1960	Totals	4,927,488	-21,620	-21,620	-0.4%	23.7%	24.3%	\$17.23	0	0
Gulf Freeway/Pasadena	Totals	1,518,142	27,593	27,593	1.8%	14.1%	17.7%	\$21.26	0	0
NASA/Clear Lake	Totals	3,167,495	30,116	30,116	4.9%	12.8%	13.6%	\$21.35	0	53,000
Sugar Land	Totals	4,222,047	15,506	15,506	0.4%	11.3%	12.9%	\$29.76	0	0
The Woodlands	Totals	10,656,686	394,372	394,372	3.7%	11.6%	12.7%	\$33.20	180,000	702,938
<b>Suburban Outlying</b>	<b>Totals</b>	<b>24,491,858</b>	<b>445,967</b>	<b>445,967</b>	<b>2.3%</b>	<b>14.3%</b>	<b>15.5%</b>	<b>\$24.69</b>	<b>180,000</b>	<b>755,938</b>
<b>Houston</b>	<b>Totals</b>	<b>172,391,723</b>	<b>1,589,650</b>	<b>1,589,650</b>	<b>1.0%</b>	<b>20.1%</b>	<b>22.0%</b>	<b>\$31.29</b>	<b>180,000</b>	<b>3,670,492</b>
CBD	A	29,005,501	302,148	302,148	1.0%	18.4%	20.9%	\$44.32	0	1,106,581
<b>CBD</b>	<b>A</b>	<b>29,005,501</b>	<b>302,148</b>	<b>302,148</b>	<b>1.0%</b>	<b>18.4%</b>	<b>20.9%</b>	<b>\$44.32</b>	<b>0</b>	<b>1,106,581</b>
Katy Freeway East	A	4,107,627	94,785	94,785	2.3%	6.6%	6.8%	\$44.62	0	926,000
Katy Freeway West	A	14,267,635	159,112	159,112	1.1%	26.0%	31.0%	\$34.04	0	150,920
Westchase	A	8,795,085	103,709	103,709	1.2%	22.3%	26.2%	\$34.76	0	0
<b>Energy Corridor</b>	<b>A</b>	<b>27,170,347</b>	<b>357,606</b>	<b>357,606</b>	<b>1.3%</b>	<b>21.8%</b>	<b>25.8%</b>	<b>\$34.94</b>	<b>0</b>	<b>1,076,920</b>
West Belt	A	3,184,865	-2,275	-2,275	-0.1%	16.5%	19.1%	\$27.70	0	0
Bellaire	A	1,096,380	2,915	2,915	0.3%	6.6%	11.6%	\$29.25	0	0
Galleria	A	17,820,818	251,426	251,426	1.4%	16.3%	18.7%	\$38.42	0	340,450
Greenspoint/North Belt	A	4,647,801	42,348	42,348	0.9%	64.5%	64.8%	\$21.04	0	0
Greenway Plaza	A	7,395,743	14,456	14,456	0.2%	16.6%	17.5%	\$37.56	0	0
Medical Center	A	1,619,552	1,700	1,700	0.1%	10.0%	10.0%	\$29.65	0	0
Midtown	A	2,042,031	-19,345	-19,345	-0.9%	13.2%	13.3%	\$34.77	0	164,000
Northwest	A	1,985,781	62,133	62,133	3.1%	31.0%	31.4%	\$25.43	0	226,603
San Felipe/Voss	A	1,720,793	6,935	6,935	0.4%	20.5%	20.8%	\$34.85	0	0
Southwest	A	1,580,642	-8,583	-8,583	-0.5%	28.3%	28.3%	\$17.72	0	0
<b>Suburban Near</b>	<b>A</b>	<b>43,094,406</b>	<b>351,710</b>	<b>351,710</b>	<b>0.8%</b>	<b>22.2%</b>	<b>23.8%</b>	<b>\$31.10</b>	<b>0</b>	<b>731,053</b>
FM 1960	A	1,527,047	-2,984	-2,984	-0.2%	16.3%	17.3%	\$28.88	0	0
NASA/Clear Lake	A	1,342,961	4,914	4,914	0.4%	10.7%	12.1%	\$25.40	0	0
Sugar Land	A	2,924,208	32,466	32,466	1.1%	10.0%	12.0%	\$33.84	0	0
The Woodlands	A	8,490,917	361,285	361,285	4.3%	10.2%	11.2%	\$39.87	180,000	702,938
<b>Suburban Outlying</b>	<b>A</b>	<b>14,285,133</b>	<b>395,681</b>	<b>395,681</b>	<b>2.8%</b>	<b>10.9%</b>	<b>12.1%</b>	<b>\$35.06</b>	<b>180,000</b>	<b>702,938</b>
<b>Houston</b>	<b>A</b>	<b>113,555,387</b>	<b>1,407,145</b>	<b>1,407,145</b>	<b>1.2%</b>	<b>19.7%</b>	<b>22.1%</b>	<b>\$35.77</b>	<b>180,000</b>	<b>3,617,492</b>
CBD	B	7,663,242	-12,255	-12,255	-0.2%	18.5%	20.4%	\$31.07	0	0
<b>CBD</b>	<b>B</b>	<b>7,663,242</b>	<b>-12,255</b>	<b>-12,255</b>	<b>-0.2%</b>	<b>18.5%</b>	<b>20.4%</b>	<b>\$31.07</b>	<b>0</b>	<b>0</b>
Katy Freeway East	B	1,235,205	5,661	5,661	0.5%	12.6%	13.0%	\$21.36	0	0
Katy Freeway West	B	5,756,153	17,468	17,468	0.3%	31.7%	32.9%	\$22.90	0	0
Westchase	B	4,435,599	38,170	38,170	0.9%	18.2%	19.1%	\$19.88	0	0
<b>Energy Corridor</b>	<b>B</b>	<b>11,426,957</b>	<b>61,299</b>	<b>61,299</b>	<b>0.5%</b>	<b>24.4%</b>	<b>25.4%</b>	<b>\$21.76</b>	<b>0</b>	<b>0</b>
West Belt	B	881,351	8,321	8,321	0.9%	20.3%	29.0%	\$23.08	0	0
Bellaire	B	1,108,587	-4,391	-4,391	-0.4%	7.7%	8.2%	\$26.33	0	0
Galleria	B	4,953,602	-17,696	-17,696	-0.4%	20.2%	21.1%	\$28.09	0	0
Greenspoint/North Belt	B	4,121,615	30,284	30,284	0.7%	40.1%	41.0%	\$14.79	0	0
Greenway Plaza	B	2,576,039	9,018	9,018	0.4%	13.7%	14.6%	\$28.70	0	0
Medical Center	B	2,020,025	13,804	13,804	0.7%	8.1%	8.1%	\$26.38	0	0
Midtown	B	2,123,565	7,990	7,990	0.4%	12.6%	13.1%	\$25.91	0	0
Northwest	B	3,966,212	41,163	41,163	1.0%	17.8%	17.9%	\$19.51	0	0
San Felipe/Voss	B	3,340,255	-20,304	-20,304	-0.6%	18.9%	19.4%	\$23.94	0	0
Southwest	B	4,448,161	14,986	14,986	0.3%	23.1%	25.0%	\$16.17	0	0
<b>Suburban Near</b>	<b>B</b>	<b>29,539,411</b>	<b>83,175</b>	<b>83,175</b>	<b>0.3%</b>	<b>20.5%</b>	<b>21.6%</b>	<b>\$20.96</b>	<b>0</b>	<b>0</b>
FM 1960	B	3,400,442	-18,636	-18,636	-0.5%	27.0%	27.5%	\$16.63	0	0
Gulf Freeway/Pasadena	B	1,518,142	27,593	27,593	1.8%	14.1%	17.7%	\$21.26	0	0
NASA/Clear Lake	B	1,824,534	25,202	25,202	8.2%	14.4%	14.7%	\$20.22	0	53,000
Sugar Land	B	1,297,839	-16,960	-16,960	-1.3%	14.2%	14.8%	\$25.54	0	0
The Woodlands	B	2,165,769	33,087	33,087	1.5%	17.0%	18.5%	\$26.58	0	0
<b>Suburban Outlying</b>	<b>B</b>	<b>10,206,725</b>	<b>50,286</b>	<b>50,286</b>	<b>1.7%</b>	<b>19.1%</b>	<b>20.2%</b>	<b>\$20.58</b>	<b>0</b>	<b>53,000</b>
<b>Houston</b>	<b>B</b>	<b>58,836,336</b>	<b>182,505</b>	<b>182,505</b>	<b>0.5%</b>	<b>20.8%</b>	<b>21.9%</b>	<b>\$22.51</b>	<b>0</b>	<b>53,000</b>