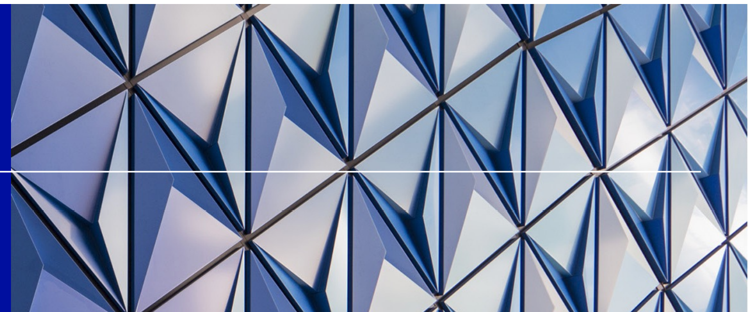
RESEARCH Q2 2021



Houston Office Market

Despite Return to Office and Vaccines, Office Market Still Stalled

While the second quarter of 2021 saw a more gradual return to office by Houston’s work force, the overall momentum via a majority of market metrics show the market remains stalled. However, with almost 50 percent of the workforce returning to office per the latest Kastle data, and a forecast continuing to trend towards more than 50,000 net new jobs for the region by year’s end, the second half of 2021 is poised to begin a return of a more balanced office market within Houston, and 2022 is forecast to continue to that trend as the workforce and economy return to a new normal.

Market Metrics Show Bottoming May Be Here

Rental rates remained fairly flat, but saw a 9 basis point drop to $29.24 per square foot. Total vacancy reached 24.4% with total availability rates rising to 29.2%. The Class A market, consisting of more than 50% of the region’s building stock, saw an even more significant impact, as vacancy levels topped 27% and availability rates crossed 33% during the quarter. Occupiers continued to give back space as the quarter saw more than 887 KSF of negative absorption. The overall absorption amount marked the tenth out of the past 14 quarters where Houston’s office market saw more space given back.

Current Conditions

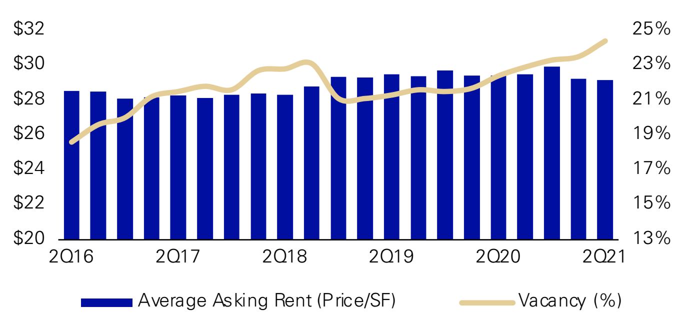
- Rental rate pull back and increase in availability and vacancy rates continue to show a lagging market
- Sublease space on the market passes 8.0 MSF; up 3.0 MSF from Q2 2020
- Quarterly leasing activity of 2.2 MSF continues 6th straight quarter of declining activity
- Construction remains above 4.0 MSF with new trophy buildings underway in CBD and commanding market leading rents

Market Summary

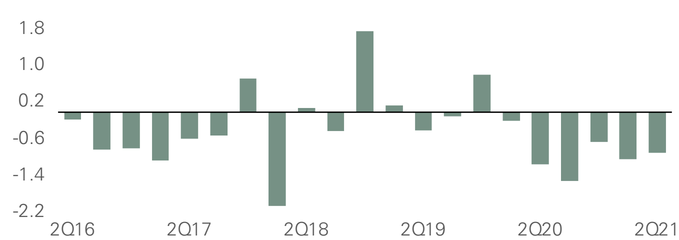
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	242.6 MSF	242.1 MSF	240.0 MSF	↑
Vacancy Rate	24.4%	23.5%	22.3%	↑
Quarterly Net Absorption (SF)	-887 KSF	-1.03 MSF	-1.19 MSF	↓
Average Asking Rent/SF	$29.15	$29.24	$29.36	↑
Under Construction (SF)	4.67 MSF	4.10 MSF	4.3 MSF	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Leasing activity has begun to rebound in terms of overall square footage, with more than 2.2 MSF of leasing taking place during the quarter. However, on a per transaction basis, the market saw an expected drop as companies begin to tighten their real estate needs in a post-COVID workplace. The top six transactions in the quarter saw nearly 230,000 square feet of combined leasing and averaged just over 38,000 square feet, or 1.5 full floors per transaction. Additionally, continued strength within the hoteling/co-working sector of the market was seen in the first half of the year, as many companies have come to accept that in any real estate decisions going forward, a portion of the square footage needed must be in the co-working space in order to accommodate the portion of the work force that will continue to work from home even post-pandemic. As a result, the average SF per transaction in the quarter dropped from Q1's 2,318 square feet to Q2's 2,186 square feet.

Construction Pipeline Focused on Pre-leasing

In the construction pipeline, the market added over 600 KSF of space under construction in the past 90 days, bringing the market wide total to 4.6 MSF. While nearly 2/3rds of the stock is spread out within suburban areas, the CBD has just over 1.6 MSF still under construction. Within the CBD especially, trophy buildings including Skanska's new 1550 on the Green are seeing strong pre-leasing by anchor tenants including Norton Rose Fulbright and Vinson and Elkins. Key to the success of these new buildings remain thoughtful design and amenities laid out by the landlords that drive the flight to quality that is still seen across the market.

Capital Markets Activity Muted in Q2

After a robust start to 2021 in terms of transaction volume and transaction dollars, investor confidence in the Houston market slowed in the second quarter. In the first quarter, investors began to snap up both value-add properties such as 10777 Clay Road in the Energy Corridor and 1801 Smith in the CBD, but trophy assets such as 10003 Woodloch Forest in Woodlands.

The second quarter saw a much more muted deployment of dry powder, with just over $100M in acquisitions taking place, with 1111 Fannin and 11210 Equity Drive being the premier properties trading hands this quarter.

Biotech To Be The Next Big Thing

The biotech/life sciences sector of the Houston real estate market is poised over the next decade to mirror the growth that the tech sector brought to the Austin area in the early 2000s. The sector currently has over 320,000 employees spread out over 1,900 employers which is larger than the same breakdown within the energy sector of the Houston market. In addition, there are several million SF of new life sciences-oriented mixed use projects planned along a two-mile stretch of Holcombe Boulevard in the Texas Medical Center. While much of the development remains focused in and around the Texas Medical Center complex, additional pockets of development have begun to emerge around the city. The TMC Innovation Institute consists of more than 200,000 square feet of accelerator and incubator space and is home to more than 110 companies such as TMC BioDesign and CDI and has seen more than $230M in funding raised, with $25M to fund early stage companies. Additionally, TMC3, a 30 acre research hub will consist of 1.5 MSF of collaborative campus space and will create roughly $5B of economic impact across 30,000 jobs. Also, the Ion is Rice University's highly anticipated technology innovation hub.. Overall, there is roughly 6 MSF of life science/biotech development taking place in the Houston market, with nearly 50 percent of that development within the 610 Loop while the other 50 percent is spread within more suburban areas including the West Belt and Woodlands.

Asking Rent by Submarket

ASKING RENT	2Q2021	2Q2020	
CBD	$38.73/SF	$39.64/SF	↓
Galleria/Uptown	$34.03/SF	$35.31/SF	↑
Allen Parkway	$34.02/SF	$31.90/SF	↑
Greenway Plaza	$34.70/SF	$34.76/SF	↓
The Woodlands	$32.06/SF	$32.89/SF	↓

Vacancy Rate by Submarket

VACANCY RATE	2Q2021	2Q2020	
CBD	28.7%	26.7%	↑
Energy Corridor	28.0%	24.8%	↑
Galleria/Uptown	24.3%	21.4%	↑
Greenway Plaza	23.5%	18.7%	↑
Westchase	31.5%	28.7%	↑

COVID-19 Vaccines Arrive but Impact Muted

The beginning of the wide-spread vaccine programs across the city has given the area the start of the return a new normal. However, in the short and mid-term, the COVID-19 pandemic dominates daily life in the market. While the state of Texas was reopened with no restrictions at the tail end of the first quarter, it was left up to individual companies on how best to safely return to work. As these companies and industries continue to re-open, it remains to be seen if another spike in COVID cases will accompany the economic re-opening and if any continued mask mandates on a business by business case will cause any economic impact on a more granular level.

Despite the best efforts by local, regional, national, and international agencies, the COVID pandemic continues to impact all aspects of life. As a result, the economic forecast for the Houston region remains uncertain and bleak. Houston's economy is driven approximately 60 percent by the U.S. business cycle, 30 percent by oil markets, and 10 percent by long-term factors such as demographics. As COVID-19 is expected to remain a market driver for the remainder of 2021, Houston's economy is not fully forecast to recover from the current U-shape until early 2022.

While Houston has performed well in terms of overall job losses relative to other major US markets, the Covid-19 virus pandemic impact remains a stressor for all aspects of the Houston market. Houston, along with Dallas and Phoenix continues to see strong population growth as well as demand from a variety of companies looking to relocate and take advantage of the market's business friendly climate. Large scale relocations like HPE's headquarters relocation to The Woodlands from California are seen as a continued indicator of Houston's economic strength long term. Also, Houston's burgeoning commercial life sciences and tech industries offer hope for the city's future economic viability.

Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Raymond James	Houston – Galleria	San Felipe Plaza	Direct – Renewal	60,000
Catholic Charities	Houston – Galleria	5599 San Felipe	Sublease – New	37,231
Colliers International	Houston – Galleria	1233 West Loop South	Direct – Renewal	36,954
Unknown Tenant	Houston – Northwest	2800 N Loop West	Direct – New	35,926
Unknown Tenant	Houston – West Belt	5825 N Sam Houston W	Sublease – New	27,770
Concho Resources	Houston – CBD	1001 Fannin	Direct – Renewal	27,767

Sales Transactions

Buyer/Seller	Market	Building	Price	Price/SF
Harris County/Taconic	Houston – CBD	1111 Fannin	$29,600,000	$69
Mafrige Interests/LNR	Houston – Greenspoint	15710 JFK Blvd	$7,160,000	$33
Capital Commercial/Griffin	Houston – West Belt	11210 Equity Drive	$38,000,000 (rumored)	$262
LaSalle/Inventure Advisors	Houston – Westchase	3010 Briarpark	Unknown	Unknown

Submarket Statistics (Combined Class A&B)

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	39,668,770	1,645,856	35.0%	--183,739	-342,092	$40.00	$20.47	$38.73
Allen Parkway	6,188,130	458,000	22.6%	6,895	33,160	$34.06	$25.90	$34.02
Bellaire/Med Center	14,141,202	788,780	18.4%	-76,790	-126,217	$28.27	$20.57	$27.77
Clear Lake	7,623,478	96,810	17.3%	82,256	75,001	$21.46	$15.28	$21.36
Conroe	1,730,926	59,800	24.3%	1,469	27,655	$28.11	$19.31	$26.93
East/Pasadena	6,143,365	-	15.1%	-10,744	9,968	$21.70	$18.93	$21.64
Energy Corridor	23,148,082	-	35.6%	-56,868	-112,376	$27.14	$20.41	$26.31
FM 1960/249	11,174,568	112,395	31.0%	-67,187	-67,805	$20.99	$22.42	$21.01
Galleria/Uptown	24,051,513	79,168	32.6%	-39,803	-96,752	$34.51	$23.48	$33.99
Greenspoint	11,729,863	-	50.1%	30,182	-53,218	$17.92	$11.08	$17.90
Greenway Plaza	10,811,165	-	25.9%	-276,317	-302,054	$34.79	$27.15	$34.70
Katy Freeway	16,823,623	780,000	19.8%	19,080	-139,575	$31.31	$30.12	$31.23
Katy/Grand Pky	3,516,056	-	25.9%	-26,052	-65,084	$31.28	$25.78	$30.97
Kingwood/Humble	1,422,573	-	18.8%	-5,807	-6,58	$23.41	$31.30	$24.88
NW Houston	8,604,072	-	23.4%	-90,861	-16,803	$20.27	$17.06	$20.16
Southwest Fwy	12,214,471	48,000	22.9%	-18,519	-35,702	$17.97	$22.50	$18.14
Sugar Land/Ft Bend	6,822,377	-	24.3%	-59,057	-149,888	$30.58	$23.99	$30.23
West Belt	5,379,385	-	32.9%	23,052	14,333	$25.48	$21.54	$25.33
Westchase	15,473,973	-	36.1%	-209,352	-219,558	$26.80	$21.84	$26.61
The Woodlands	14,899,730	568,000	24.1%	78,017	-178,802	$33.31	$26.41	$32.06
Suburban	201,262,195	2,976,033	28.1%	-705,871	-1,581,389	$26.87	$22.76	$26.66
Market	**242,684,555**	**4,621,889**	**29.2%**	**-887,910**	**-1,921,781**	**$29.55**	**$22.18**	**$29.15**

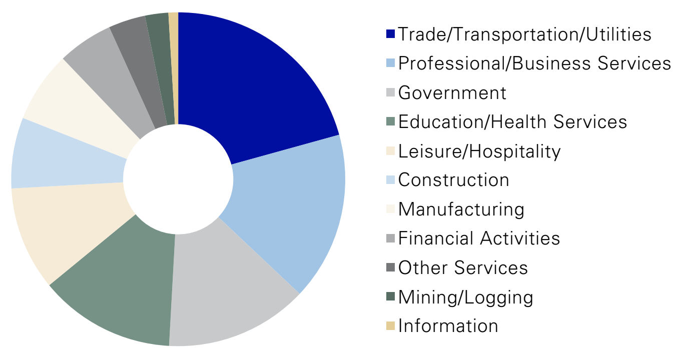
Economic Indicators

As the economy slowly begins to recover from the COVID slump, Houston has seen some semblance normalcy. Economic forecasts from earlier in the year seem to fit with a recovery driven first by recovery in the U.S. economy overall in 2021 and then by rising oil prices in 2022 and 2023. The Greater Houston Partnership has revised their most recent job growth numbers and is forecasting gains of at least 60,000 net new jobs in 2021.

Positive momentum can be seen in most of the economic indicators of the past 90 days for the Houston region. Unemployment rates continue to fall and are below 7.0% for the region, and all but 3 of the industries tracked by the BLS for the region showed 12 month gains in employment growth in April 2021, with leisure and hospitality showing an almost 50% jump in new jobs as consumers begin to return to pre-COVID life.

Employment By Industry

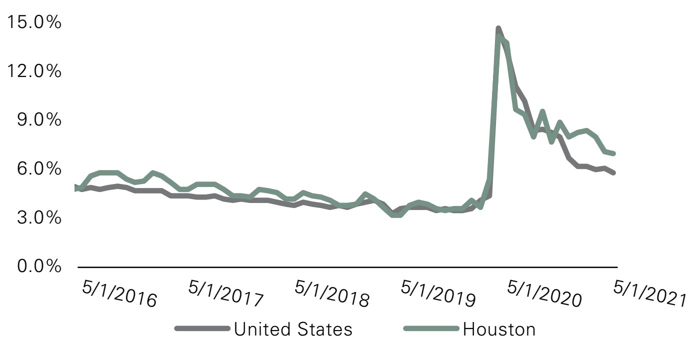
HOUSTON, May 2021



Source: US Bureau of Labor Statistics, November 2020

Unemployment Rate

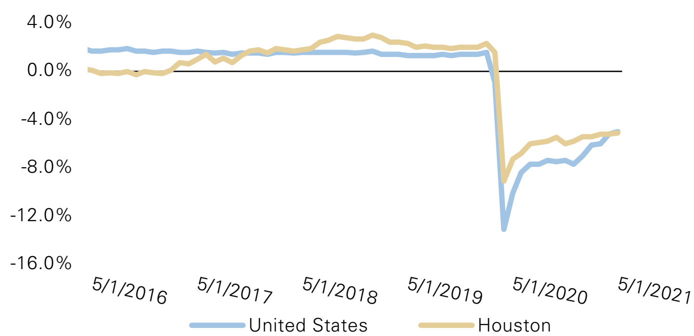
NON-SEASONALLY ADJUSTED



Source: US Bureau of Labor Statistics, November 2020

Payroll Employment

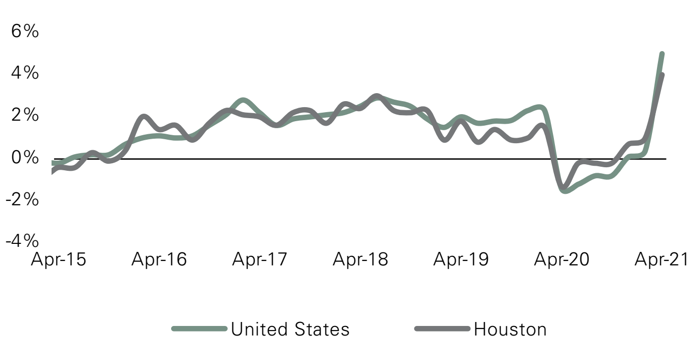
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2020

Consumer Price Index (CPI)

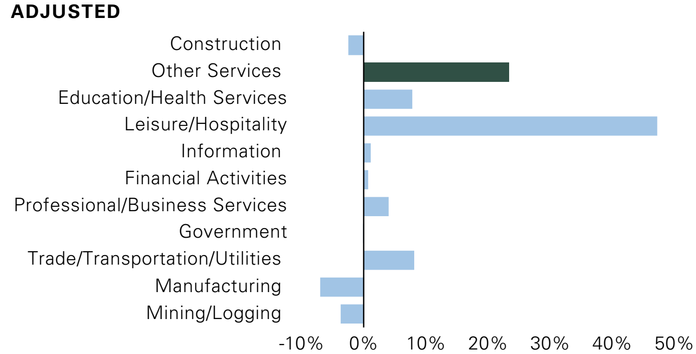
ALL ITEMS, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

Employment Growth (Industry)

HOUSTON, APRIL 2021, 12-MONTH % CHANGE, NON-SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, October 2020

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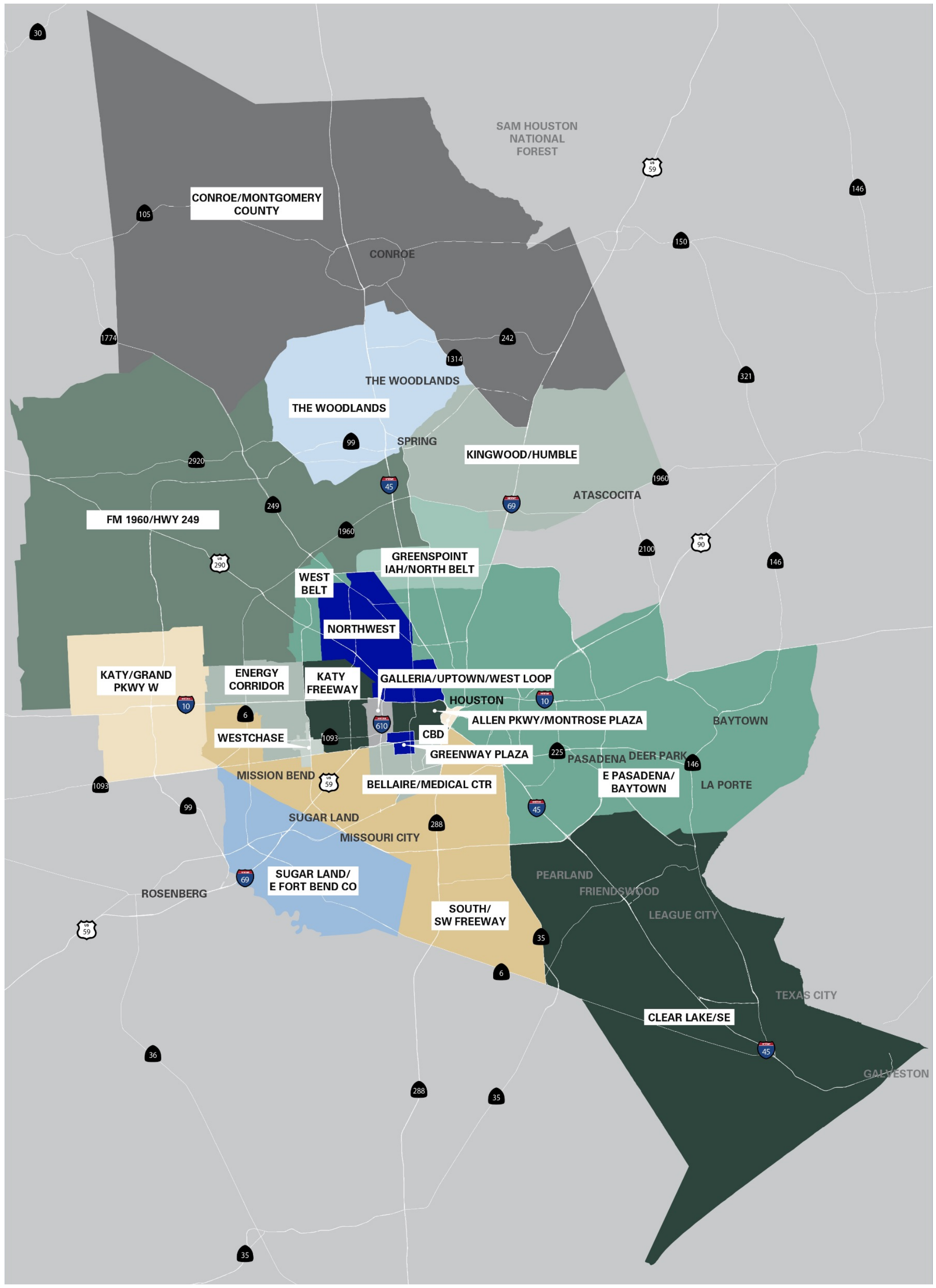

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.