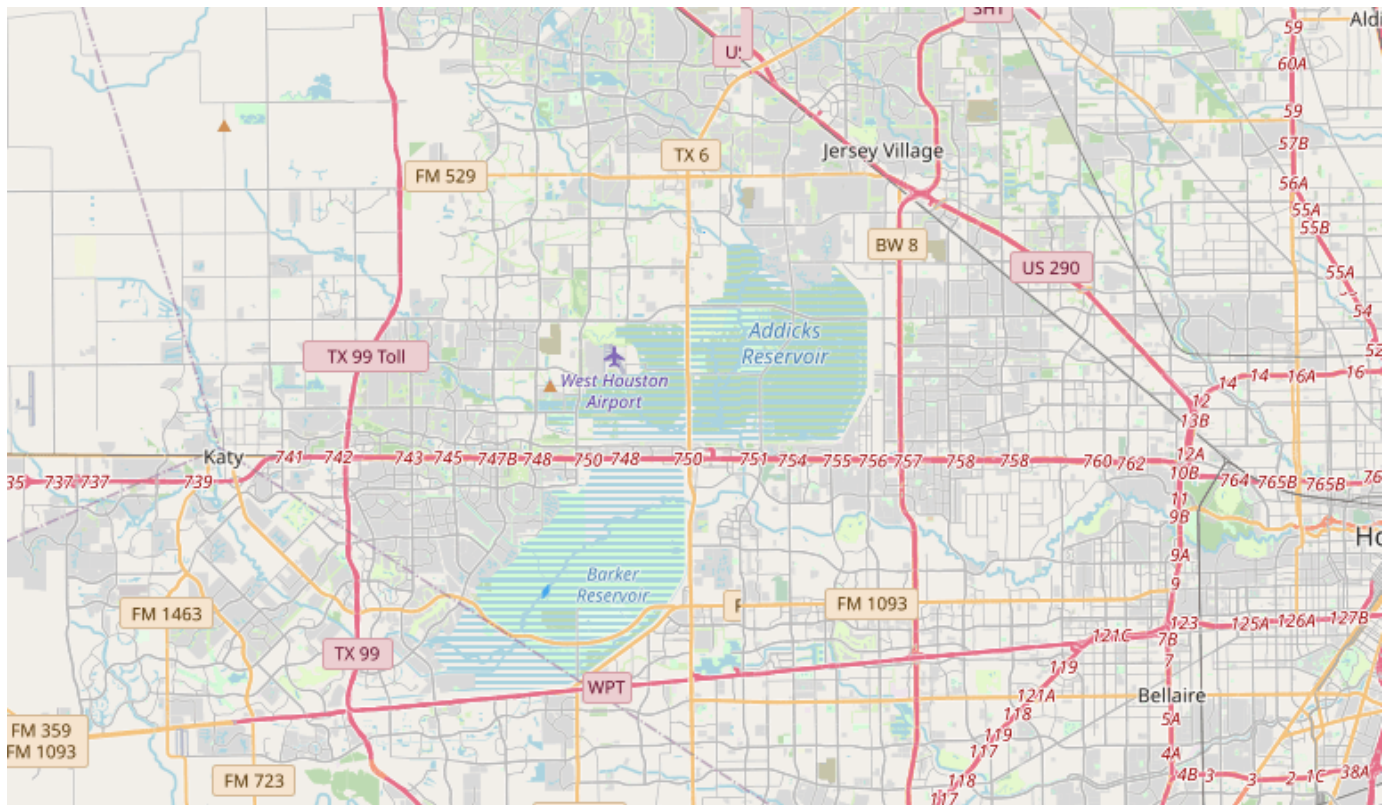


Office Report

Market
Houston

Submarket
West/Katy Fwy

Date
11/14/2022



Contents

Submarket Analysis	2
Metro Analysis	13

Executive Briefing on Submarket Conditions

The average Asking Rent was \$27.81 in the West/Katy Freeway submarket

- The West/Katy Freeway submarket remained flat rent since Q2 2022.
- Rent is expected to finish 2022 at \$27.95 in the West/Katy Freeway submarket.

The average Vacancy Rate was 27.7% in the West/Katy Freeway submarket

- Vacancy in the West/Katy Freeway submarket declined by 240 basis points.
- Vacancy is expected to finish 2022 at 27.9% in the West/Katy Freeway submarket.

Submarket Overview

With 27.9 million square feet, amounting to 14.7% of the total metro inventory, the West/Katy Freeway submarket is the second largest of the sixteen distinct geographic concentrations that form the Houston office market, smaller only than Central Business District. In the ten-year period beginning with Q4 2012, new additions to the submarket totaled 9.2 million square feet, while 284,000 square feet were removed by developer activity. The net total gain of 8.9 million square feet equates to an annualized inventory growth rate of 3.9%, exceeding the metro growth rate by 2.4 percentage points over the same period.

Asking and Effective Rent

Asking rents finished the third quarter of 2022 unchanged at an average of \$27.81, higher than ten of the metro's sixteen submarkets. Since the same reporting period last year, asking rents have drifted lower by 0.3%, down from \$27.88. The West/Katy Freeway submarket's current asking rent levels are lower than the metro's average of \$28.76, while asking rent growth in the third quarter compares favorably to the metro average of 0.1%. Effective rents, which exclude the value of concessions offered to prospective tenants, increased by 1.5% during the third quarter to an average of \$23.61. The faster pace of effective rent growth indicates that landlords are enjoying more pricing power at the negotiating table.

Competitive Inventory, Employment, Absorption

Total employment in the Houston metropolitan area grew by 39,700 jobs during the third quarter, while in the dominant office-using industries, employment grew by 8,400. Quarterly movement in the average occupancy level of competitive office square footage rarely mirrors the period's total employment gains or losses, but it is advisable to weigh longer-term economic and demographic trends as factors contributing to current demand. Since the beginning of Q4 2012, the average growth rate for office-using employment in Houston has been 1.7% per year, representing the average annual addition of 15,200 jobs. Over the same time period, the metro recorded an average annual absorption rate of negative 123,900 square feet. During the third quarter, metropolitan absorption totaled 2.4 million square feet, of which the West/Katy Freeway submarket captured 677,000 square feet. The third quarter's positive absorption in the submarket follows 1.0 million square feet of negative absorption observed in Q2 2022. Over the last four quarters, submarket absorption totaled negative 78,000 square feet; by comparison, the average annual absorption rate recorded since the beginning of Q4 2012 is 383,600 square feet. The submarket's average vacancy rate declined by 240 basis points during the third quarter to 27.7%, which is 5.3 percentage points higher than the long-term average, and 1.1 percentage points higher than the current metro average.

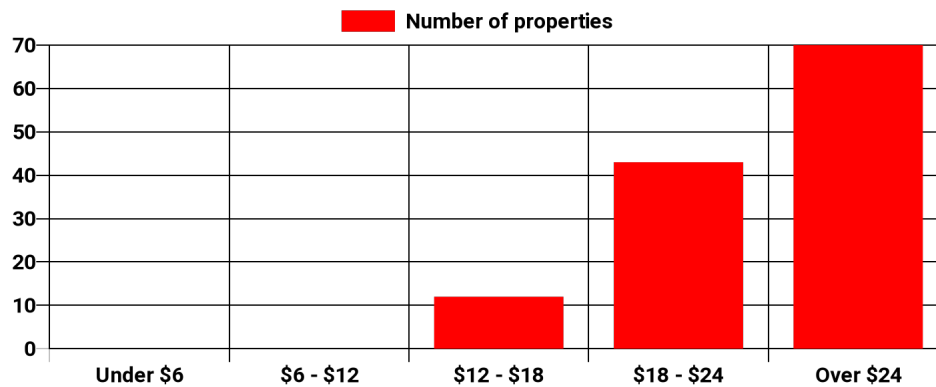
Outlook

Reis's new construction analysts report that no competitive office stock will be introduced to the submarket this year, and net total absorption will be negative 54,000 square feet. In response, the vacancy rate will drift upward by 0.2 percentage points to 27.9%. During 2023 and 2024, developers are expected to deliver a total of 625,000 square feet of office space to the submarket amounting to 21.9% of the new construction introduced to Houston. Nonagricultural job growth during 2023 and 2024 is projected to average 1.7% annually. The West/Katy Freeway submarket will claim a portion of this demand, posting absorption averaging 220,000 square feet per year, 11.9% of the projected metro total. The submarket vacancy rate will finish 2023 at 28.3% and will fall 0.4 percentage points to 27.9% by year end 2024. Between now and year-end 2022 asking rents are expected to advance 0.5% to a level of \$27.95. On an annualized basis through 2023 and 2024, asking and effective rents are anticipated to rise by 0.6% and 0.9%, respectively, to finish 2024 at \$28.30 and \$24.11.

Current Submarket Gross Rent Details

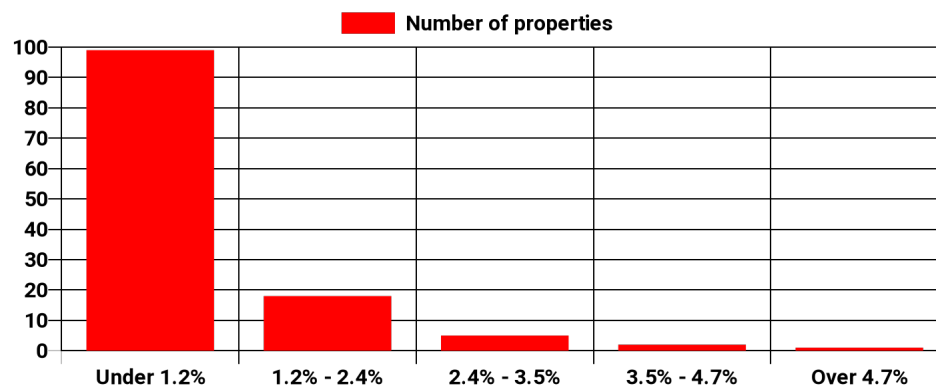
Asking Rent Distribution

Low	25%	Mean	Median	75%	High
\$17	\$19	\$24	\$25	\$28	\$30

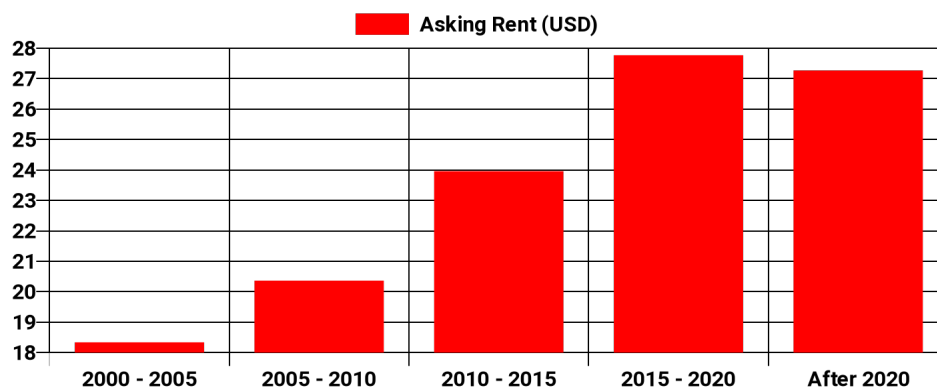


Asking Rent Growth Rate Distribution

Low	25%	Mean	Median	75%	High
-3.6%	-0.4%	0.4%	0.2%	0.9%	5.9%



Asking Rent by Age

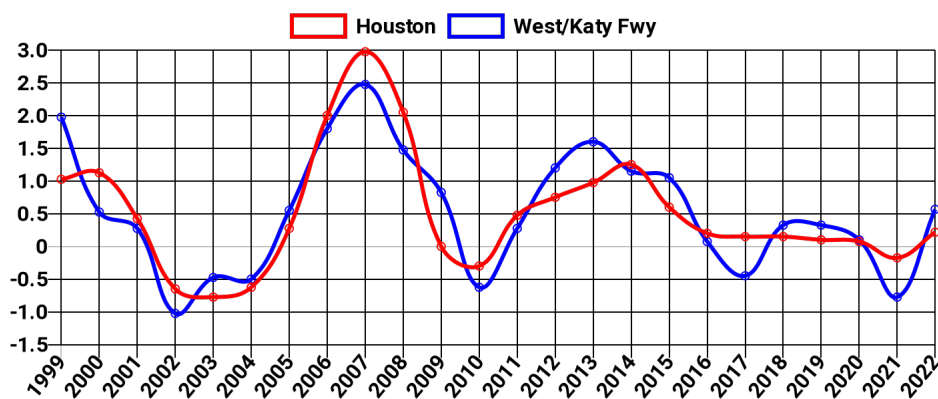


Rent Growth Comparisons (Gross Rent)

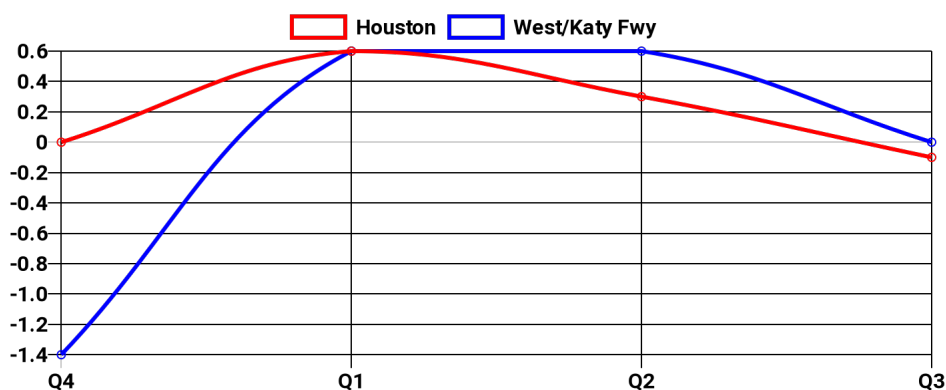
Asking Rent Growth

	Asking Rent Growth						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	0%	0.6%	0.3%	-0.1%	-0.0%	-0.0%	-0.0%
West/Katy Fwy	-1.4%	0.6%	0.6%	0%	-0.1%	-0.1%	-0.0%

Asking Rent Growth Rate Trends



Quarterly Rent Growth Rate Trends



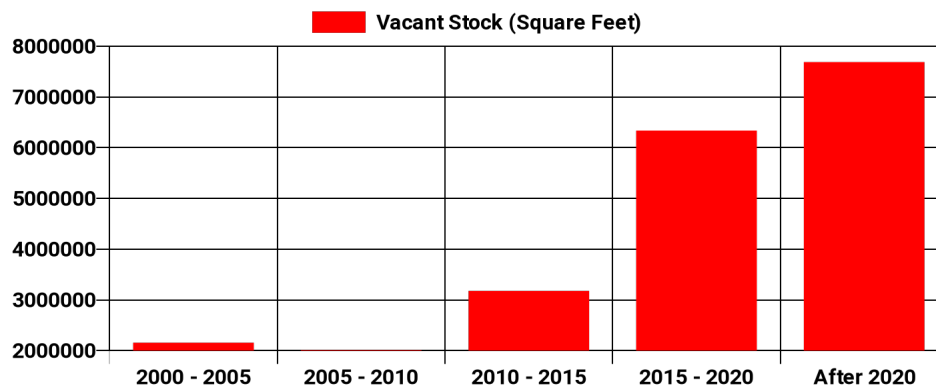
Current Submarket Vacancy Details

Vacancy Rate Distribution

Low	25%	Mean	Median	75%	High
10.4%	14.9%	20.4%	18.7%	26.5%	30.1%



Vacancy Rate by Age

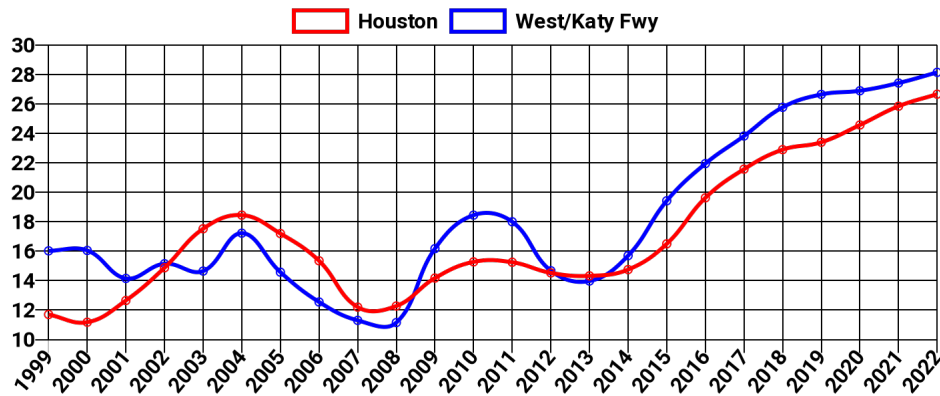


Vacancy Rate Comparisons

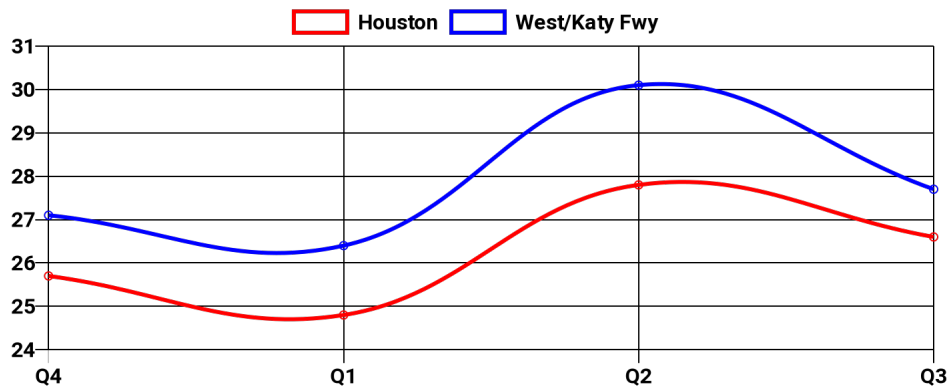
Vacancy Rates

	Vacancy Rates						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	25.7%	24.8%	27.8%	26.6%	24.3%	24.5%	24.3%
West/Katy Fwy	27.1%	26.4%	30.1%	27.7%	27.2%	27.2%	27.0%

Vacancy Rate Trends



Quarterly Vacancy Rates

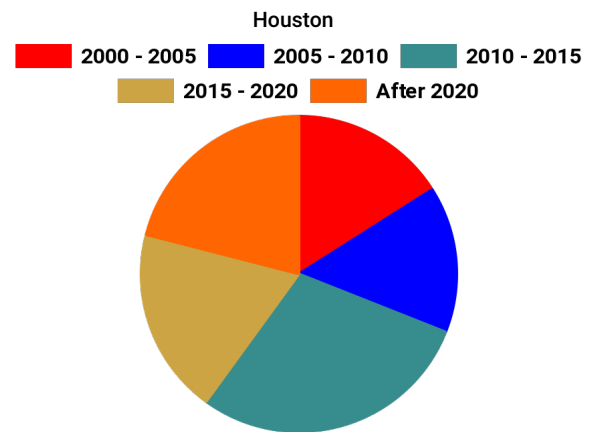
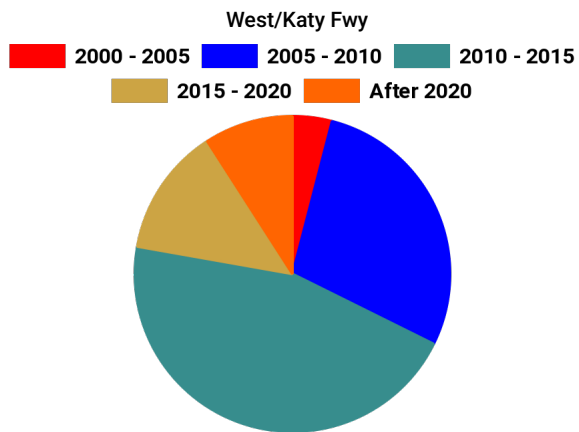


Inventory Details

Operating Expense: \$14.80

Inventory By Building Age

	2000 - 2005	2005 - 2010	2010 - 2015	2015 - 2020	After 2020
Houston	16%	15%	29%	19%	21%
West/Katy Fwy	4%	28%	45%	13%	9%

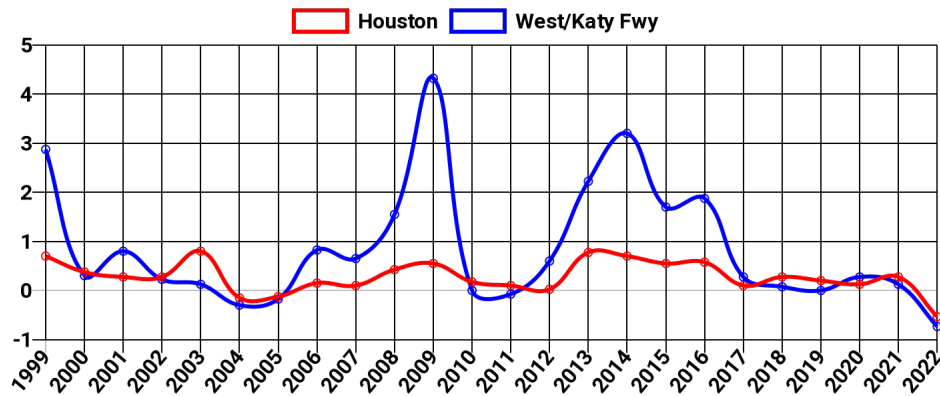


Inventory Growth Comparisons

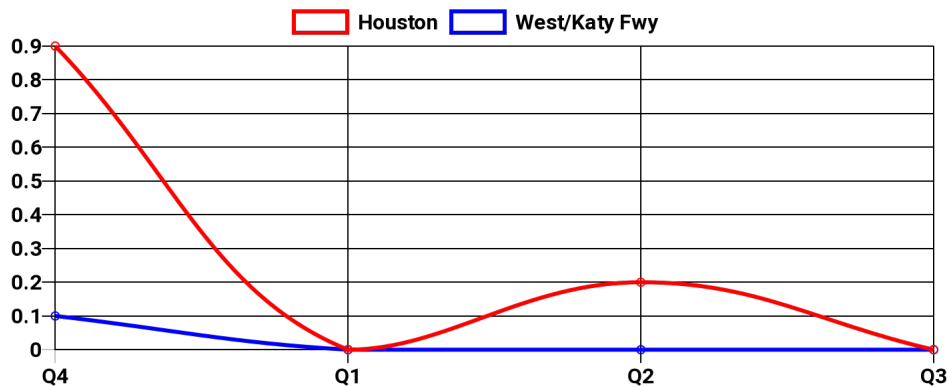
Inventory Growth Rates

	Inventory Growth						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	0.9%	0%	0.2%	0%	0.0%	0.1%	0.1%
West/Katy Fwy	0.1%	0%	0%	0%	0.0%	0.1%	0.1%

Inventory Growth Comparisons



Quarterly Inventory Growth Comparisons



Construction Absorption Change

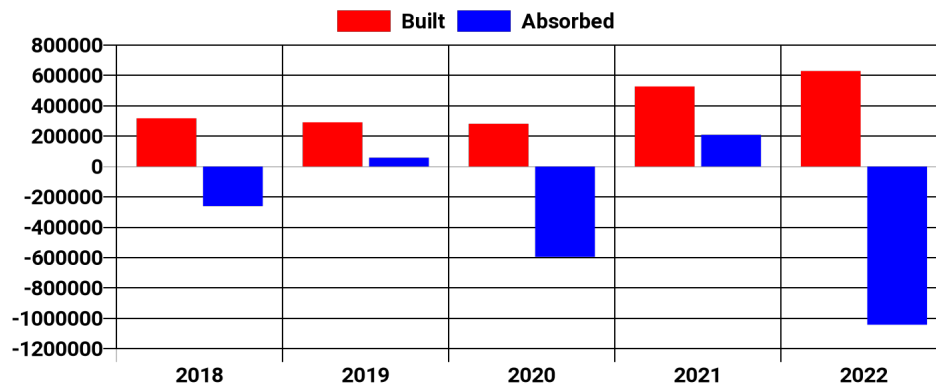
Construction and Absorption

	Square Footage Built						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	1669000	0	440000	0	364429	323000	354739
West/Katy Fwy	16000	0	0	0	19429	29267	34391

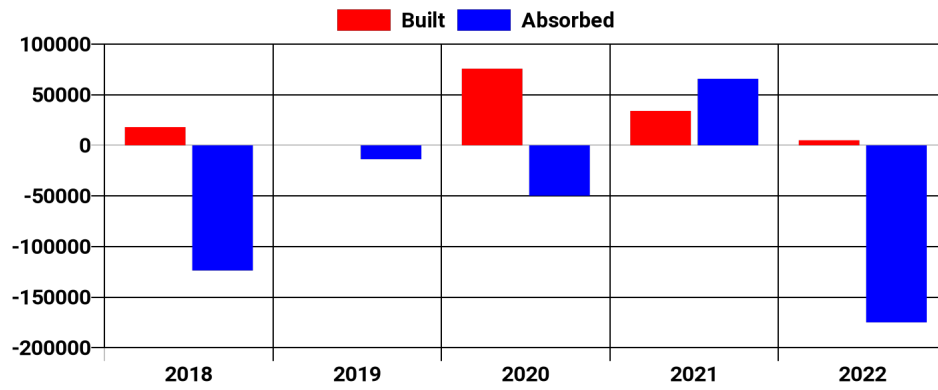
	Square Footage Absorbed						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	1493000	1679000	-5462000	2424000	-74429	-177667	-178391
West/Katy Fwy	78000	204000	-1037000	677000	15286	-9800	-23913

	Construction/Absorption Ratio						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	1.1	0	0	0	-4.9	-1.8	-2
West/Katy Fwy	0.2	0	0	0	1.3	-3	-1.4

Houston



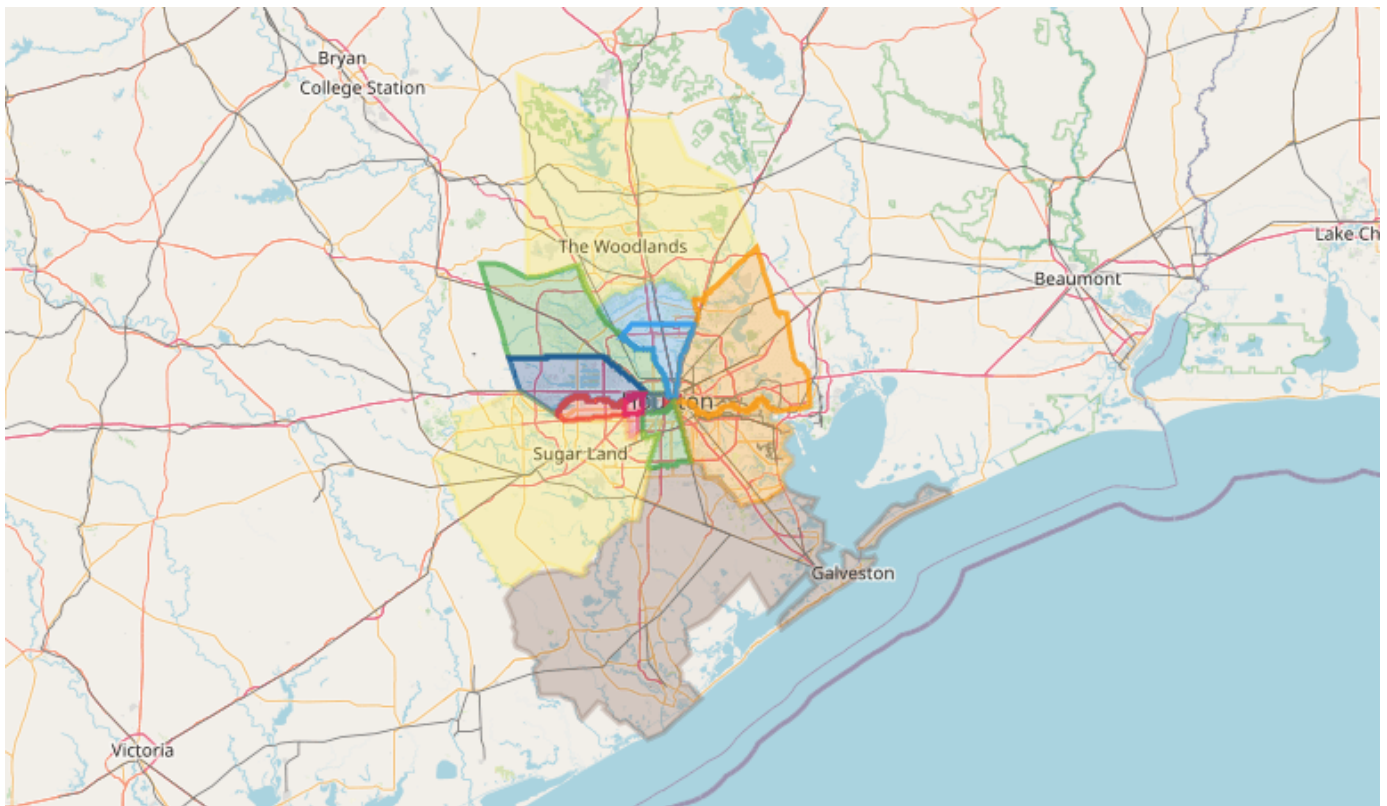
West/Katy Fwy



Office Report

Market
Houston

Date
11/14/2022



Contents

Metro Analysis

13

Executive Briefing on Market Conditions

The average Asking Rent was \$28.76 in the Houston metro

- Rent in the Houston metro was down 0.1% from Q2 2022.
- Rent is expected to finish 2022 at \$28.88 in the Houston metro.

The average Vacancy Rate was 26.6% in the Houston metro

- Vacancy in the Houston metro declined by 120 basis points.
- Vacancy is expected to finish 2022 at 26.6% in the Houston metro.

Market Overview

A comprehensive examination of the Houston office market suggests that the primary concentrations of speculative office space are located in the Central Business District submarket, representing 40.6 million square feet and 21.4% of the metropolitan inventory, followed by West/Katy Freeway, with a 14.7% share, and Galleria/West Loop North (14.5%). Since the beginning of Q4 2012, the fastest growing area has been the West/Katy Freeway submarket, adding 9.2 million square feet over that period, or 35.7% of total metropolitan office completions.

Asking and Effective Rent

During the third quarter of 2022, asking rents in the most populous city in the state of Texas declined by 0.1% to an average of \$28.76. Since the same reporting period last year, asking rents have increased by 0.7%, up from \$28.56. Since the beginning of Q4 2012, the metro as a whole has recorded an annual average increase of 1.6%. Effective rents, which exclude the value of concessions offered to prospective tenants, increased by 0.4% during the third quarter to an average of \$23.70. The faster pace of effective rent growth suggests that landlords are enjoying more pricing power at the negotiating table. The asking rent growth rate of the metro's sixteen underlying submarkets over the past four quarters has been mixed, with cumulative change rates ranging from 2.9% (Northeast/East) to -2.4% (Richmond/Buffalo Speedway).

Competitive Inventory, Employment, Absorption

Total employment in the Houston metropolitan area grew by 39,700 jobs during the third quarter, amounting to a growth rate of 1.2%, while in the dominant office-using industries, employment expanded by 8,400. Although quarterly employment changes may not have an immediate impact on lease rolls, it is prudent to consider longer-term economic and demographic performance as a factor affecting current demand for office space. Since the beginning of Q4 2012, the average growth rate for office-using employment in Houston has been 1.7% per year, representing the average annual addition of 15,200 jobs. The metro experienced absorption of 2.4 million square feet during the third quarter. Over the last four quarters, market absorption totaled 134,000 square feet; by comparison, the average annual absorption rate recorded since the beginning of Q4 2012 is negative 123,900 square feet. The net increase in vacancy from one year ago is 80 basis points to a level of 26.6%. In a long-term context, the third quarter vacancy rate is 6.1 percentage points higher than the 20.5% average recorded since the beginning of Q4 2012.

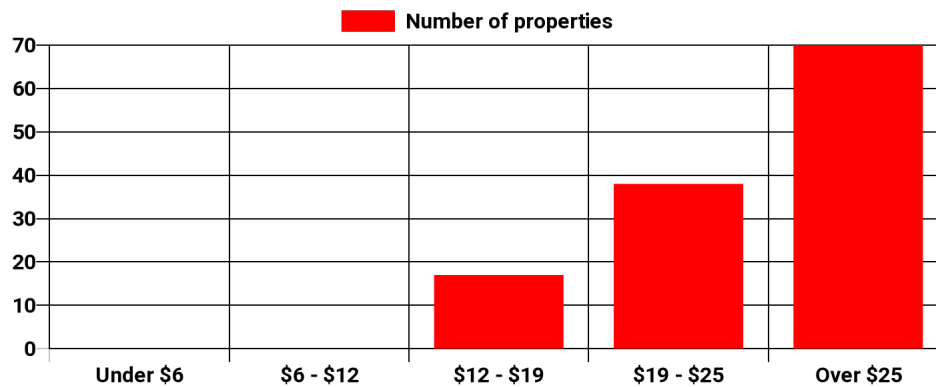
Outlook

Between now and year's end, 608,000 square feet of competitive office stock will be introduced to the metro, and Reis estimates that net total absorption will be positive 345,000 square feet. Relative to the market inventory, this amount of absorption is not enough to move the average vacancy rate, which is expected to remain at 26.6%. During 2023 and 2024, a total of 2.9 million additional square feet is projected to be introduced to the metro inventory. Nonagricultural job growth during 2023 and 2024 is expected to average 1.7% annually. The market vacancy rate will finish 2023 at 26.4% and will fall 0.6 percentage points to 25.8% by year end 2024. Between now and year-end 2022 asking rents are expected to advance 0.4% to a level of \$28.88. On an annualized basis through 2023 and 2024, asking and effective rents are projected to rise by 0.7% and 0.9%, respectively, to finish 2024 at \$29.29 and \$24.20.

Current Market Gross Rent Details

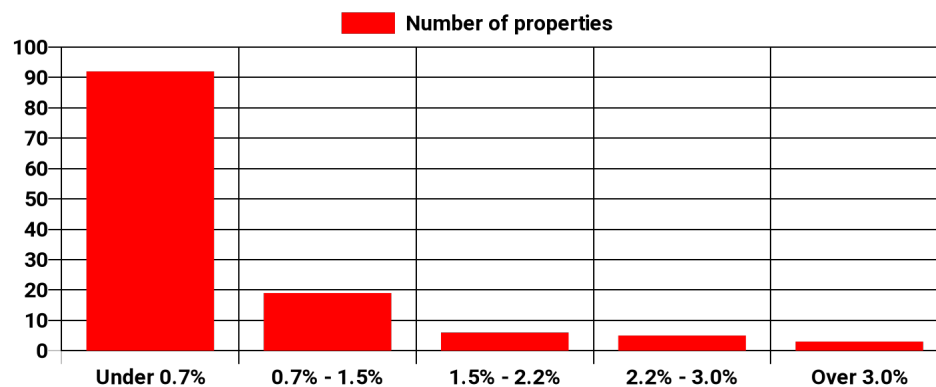
Asking Rent Distribution

Low	25%	Mean	Median	75%	High
\$18	\$20	\$25	\$26	\$28	\$31

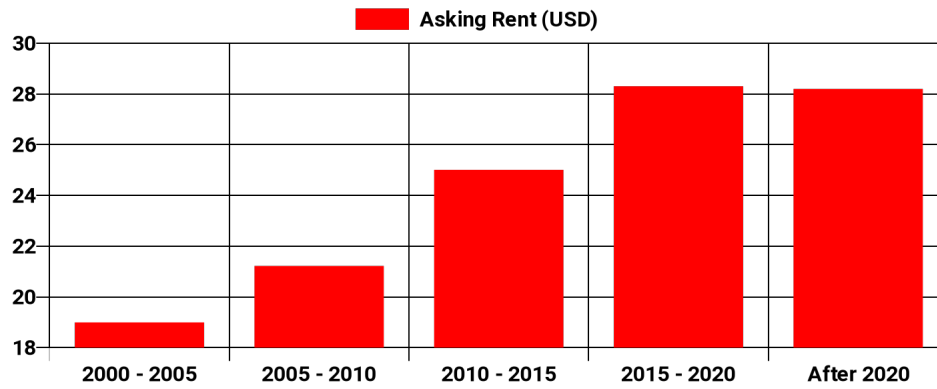


Asking Rent Growth Rate Distribution

Low	25%	Mean	Median	75%	High
-3.6%	-0.1%	0.4%	0.3%	0.8%	3.7%



Asking Rent by Age

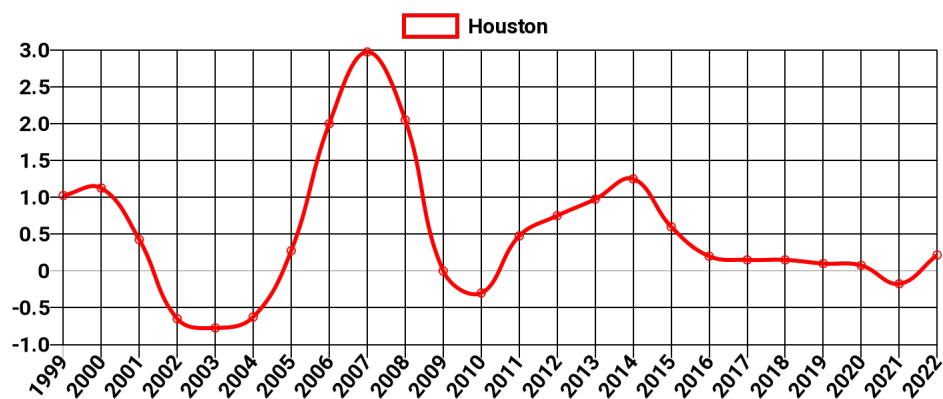


Rent Growth Comparisons (Gross Rent)

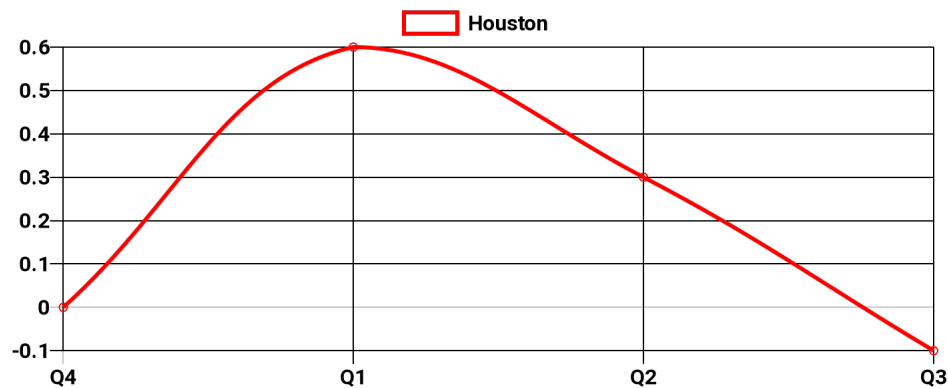
Asking Rent Growth

	Asking Rent Growth						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	0%	0.6%	0.3%	-0.1%	-0.0%	-0.0%	-0.0%

Asking Rent Growth Rate Trends



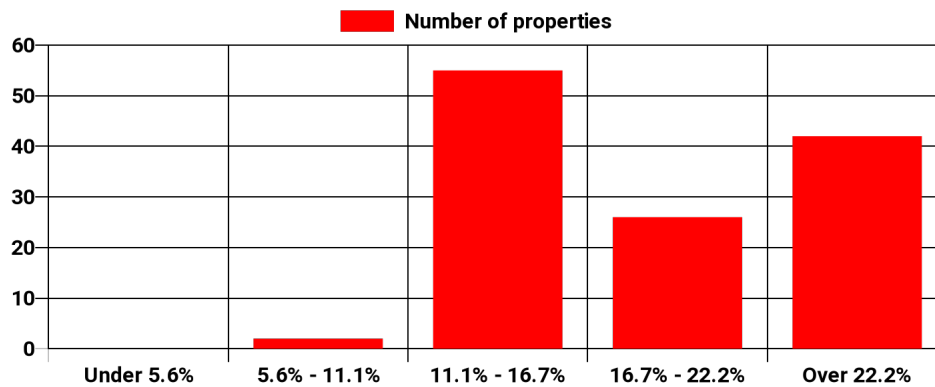
Quarterly Rent Growth Rate Trends



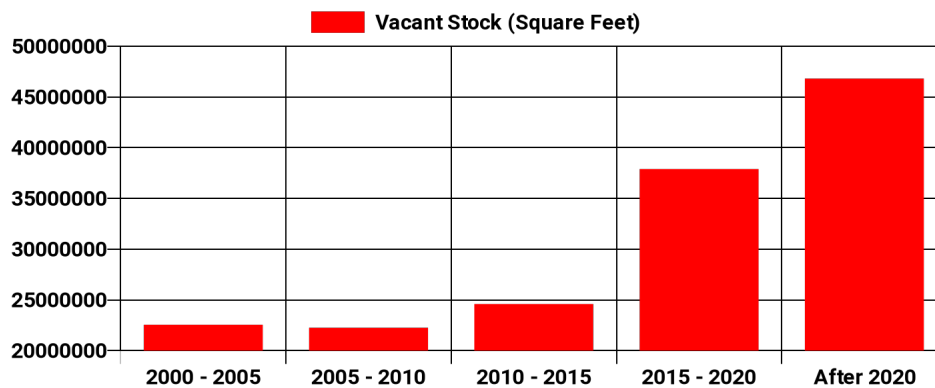
Current Market Vacancy Details

Vacancy Rate Distribution

Low	25%	Mean	Median	75%	High
10.9%	14.6%	18.8%	18.0%	23.5%	27.8%



Vacancy Rate by Age

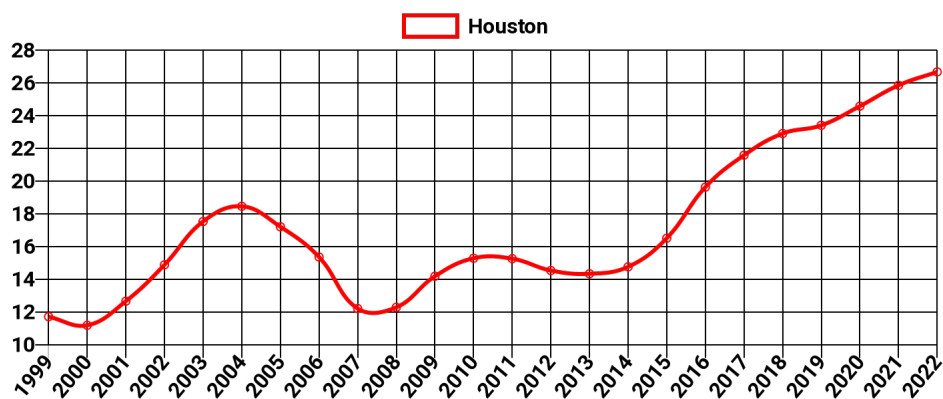


Vacancy Rate Comparisons

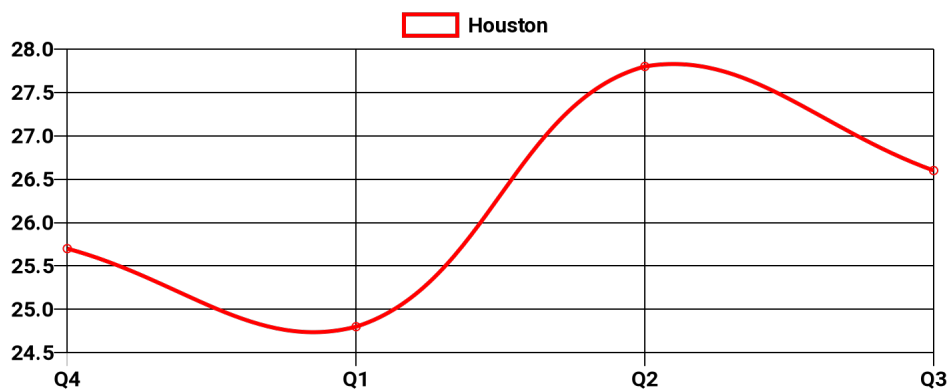
Vacancy Rates

	Vacancy Rates						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	25.7%	24.8%	27.8%	26.6%	24.3%	24.5%	24.3%

Vacancy Rate Trends



Quarterly Vacancy Rates

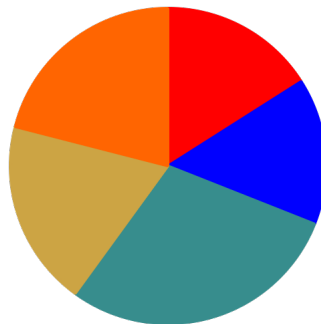


Inventory Details

Operating Expense: \$12.28

Inventory By Building Age

	2000 - 2005	2005 - 2010	2010 - 2015	2015 - 2020	After 2020
Houston	16%	15%	29%	19%	21%

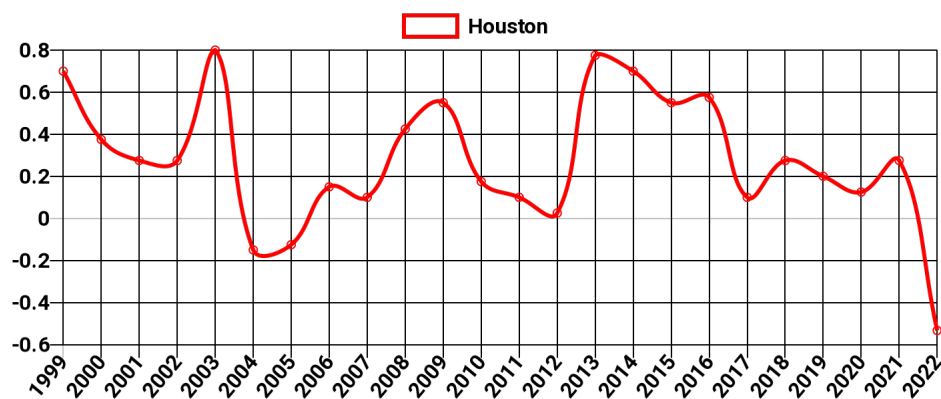


Inventory Growth Comparisons

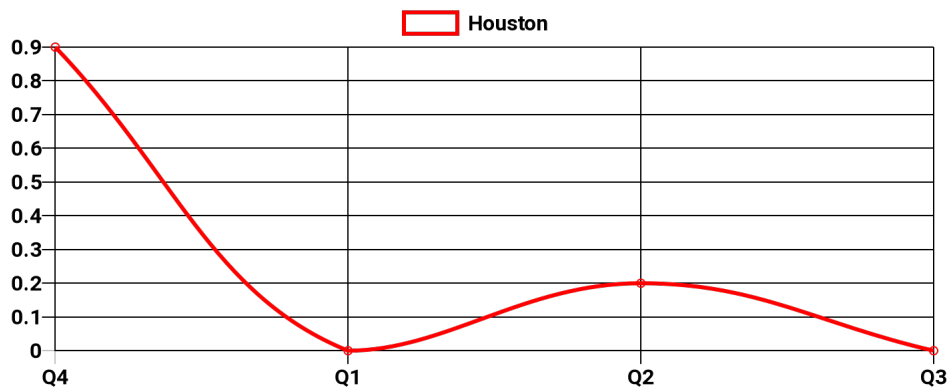
Inventory Growth Rates

	Inventory Growth						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	0.9%	0%	0.2%	0%	0.0%	0.1%	0.1%

Inventory Growth Comparisons



Quarterly Inventory Growth Comparisons



Construction Absorption Change

Construction and Absorption

	Square Footage Built						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	1669000	0	440000	0	364429	323000	354739

	Square Footage Absorbed						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	1493000	1679000	-5462000	2424000	-74429	-177667	-178391

	Construction/Absorption Ratio						
	Quarterly				Annualized		
	Q4	Q1	Q2	Q3	1 year	3 year	5 year
Houston	1.1	0	0	0	-4.9	-1.8	-2

Houston

