![LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES]

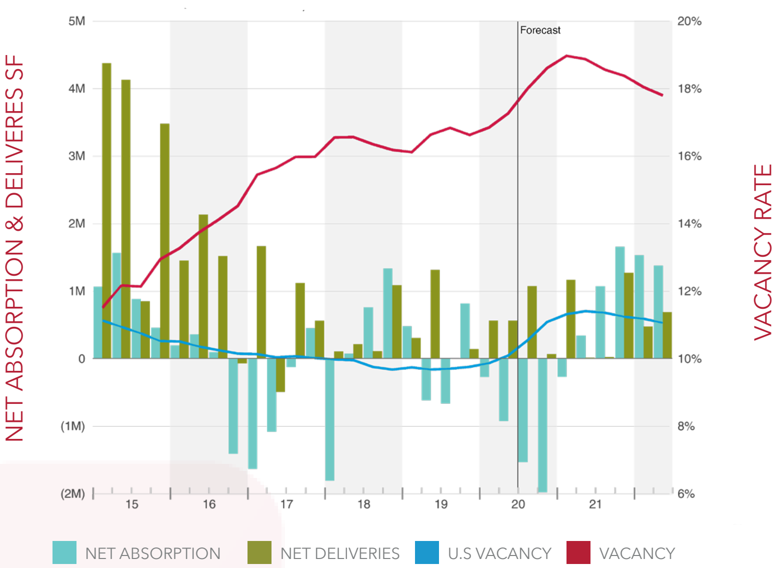
HOUSTON Q2 2020 OFFICE MARKET REPORT

MARKET INDICATORS

	CURRENT Q2 2020		Q1 2020	Q2 2019
Vacancy Rate (%)	17.4	↑	16.8	16.6
Net Absorption (SF)	(471,400)	↑	(1,590,062)	(1,159,243)
Quoted Rental Rate ($)	28.34	↓	28.46	27.75

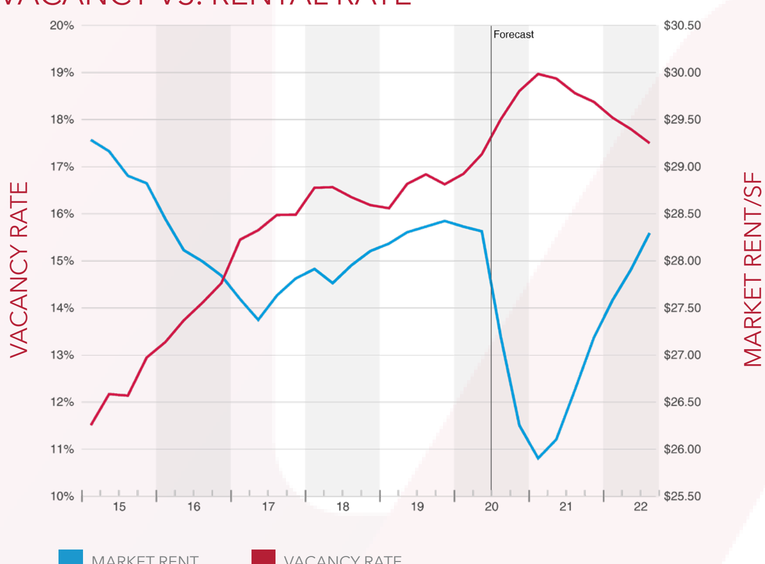
*Source: CoStar

NET ABSORPTION, DELIVERIES & VACANCY



*Source: CoStar

VACANCY VS. RENTAL RATE



*Source: CoStar

ECONOMY

COVID-19 has shown the world the necessity of socialization and human interaction in the workplace. Societies built on collaboration now must question the layout of workplace environment. Interaction amongst people [for most] is necessary and working from home indefinitely isn't a true long-term reality. While many companies can stagger shifts and offer flexible schedules with today's technology, how will this new normal affect shared workspaces and shared common area amenities? What is certain is that everything will change, but the question is how much? And, the decisions made today will affect the operational functionality of tomorrow's tenant.

As the economy takes a pause for the short-term to readjust, owners will have to rethink their long-term plans and listen to consumers. Strategies of 'benching, hot desks, hoteling' focusing on dense-work-environments may be a lost trend in design; at least for now. If you had thirty-five square feet to yourself before, this will translate to seventy square feet so operators can act responsibly amongst new social distancing guidelines. Density will exist, but it will appear different often with this '6 foot of separation' rule implied in every facet of the workplace. This will include circulation factors (typically 30%) that may now trend upwards of 40% or more. Spaces may be larger, more open, but this doesn't necessarily mean that everyone will expand their office spaces going forward.

Employers and employees have determined that they can work remotely via online video platforms, so this initiates a new discussion on 'right-sizing' the office. While distractions in the home exist, productivity is still high enough to consider a long-term strategy where only the key essential employees come to the office. Tenant's space needs will run the gamut and will be driven solely by culture, operational functionality, and business drivers as to whether inner office socialization and collaboration is a necessity, or just a luxury.

TRENDING NOW WRITTEN BY CHRIS LEWIS

In Houston, the trend "flight to quality" has been the discussion point for the past few years. This means that as an employer, you'll will overpay 15-20% for your office rent in order to stay in-line with your competitors to offer amenities that focus on a live-work-play workplace. This usually comes with the concept to densify your space to offset your increased rental costs. With the necessity to now 'distance', it's likely that there will be a 'flight to lower-priced alternatives'. More space, lower cost. Opportunities in this arena will exist that didn't before, including vast subleasing opportunities due to energy/oil companies downsizing due to today's oil price. With COVID and an economy that is 1/3 driven by energy, this will create an environment where Landlords will have to reinvent themselves in order to attract the tenant of tomorrow due to vast competition.

Another consideration, as spaces are redesigned to accommodate a COVID workplace, will this translate into longer term effects of how we conduct business? You bet. Most leases are 5 years on average, so if you imply a higher circulation and less dense workplace, you are stuck with this model for the lease term. Implementing operational changes that include a work-from-home strategy now, may be a more permanent long-term decision that employers must account for. Designing flexibility to the office footprint for the future should be considered.

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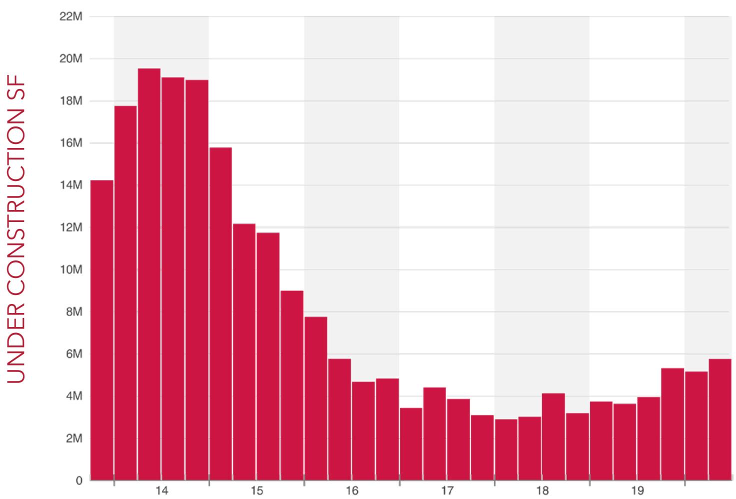
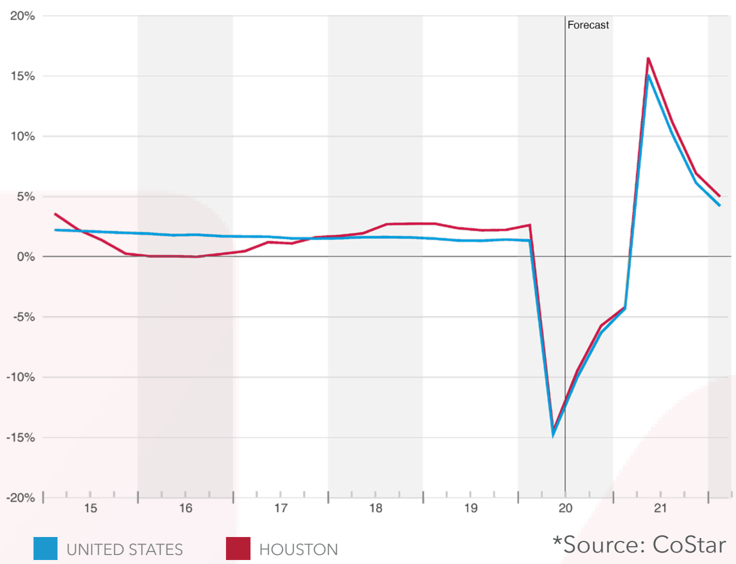
UNDER CONSTRUCTION



*Source: CoStar

YEAR TO YEAR JOB GROWTH



*Source: CoStar

WTI PRICE

The WTI Crude Oil spot price for a barrel is averaged at $34.19 as of late May, down 39.9% at this time in 2019 (GHP). As of July 2020 the WTI is at $40.83 and increased from a few months ago (Business Insider).

RIG COUNT

As of June 2020, drilling rigs working in the U.S. is at 279. This is down 690, or 71.2%, rigs from the same week in June last year (Baker Hughes).

TRENDING NOW CONT'D

In addition, Buildings, Landlords, and Tenants will have to operate differently, as safety and health of the worker will be the focal point more than it ever has before. The landlords that engage in precautionary measures to protect their tenrants will ultimately win on tenant attraction/retention in the long run, as this will now become a marketing differentiator in building selection.

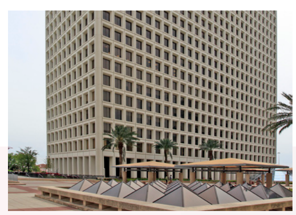
A virtual tour is now a necessity for every listing. Closings will be online. Space-plans may reflect larger footprints on one hand but might also reflect space reduction due to ½ the workforce working remotely. For tenants, employers will have to take a deep look at their culture and determine a flexible office footprint for functionality. Landlords that embrace a repositioning of their assets in an environment that is catered to that post COVID-10 consumer is key to leasing the space, including health safety measures more than ever before.

VACANCY & RENTAL RATES

The office vacancy rate in the Houston market area continued to increase this quarter to 17.4%. This is up 0.6% from last quarter's vacancy rate of 16.8% in Q1 2020. The vacancy rate was 16.6% at this time last year (CoStar). Overall, the Greenspoint/N Beltway West and Post Oak Park submarkets have the hightest vacancy.

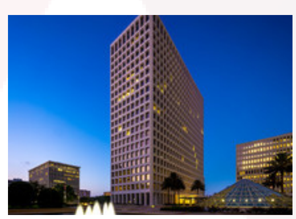
The average quoted asking rental rate for available office space, among all classes, for this quarter has decreased slightly to $28.314 square foot in comparison to $28.46 per square foot per year gross from last quarter. Last year at this time, the rental rate was $27.75 in Q2 2019. Rental rates are unlikely to increase market wide until more vacancy is absorbed throughout the market.

TOP OFFICE LEASES



Greeway Plaza
5 Greenway Plaza
801,967SF
Occidental Petroleum Corp.

Deerwood Glenn BP
4460 Highway 225
80,613 SF
Universal Plant Services



Greenway Plaza
3 Greenway Plaza
72,994 SF
Occidental Petroleum Corp.

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SUBMARKET	EXISTING INVENTORY		VACANY		YTD NET ABSORPTION	YTD DELIVERIES SF	UNDER CONST SF	QUOTED RATES
	# BLDS	TOTAL RBA	TOTAL SF	VAC %				
Baytown	138	1,860	99,514	5.4%	10,867	0	53	$22.88
Bellaire	92	5,230	785,063	15.0%	(17,972)	5	1,252	$25.47
CBD	161	51,368	10,467,889	20.4%	(248,302)	0	109	$37.26
E Fort Bend Co/Sugar.	439	10,240	1,245,514	12.2%	3,964	208	-	$26.96
FM 1960/Champions	266	4,426	745,722	16.8%	(35,403)	48	155	$18.80
FM 1960/Hwy 249	475	9,692	1,595,294	16.5%	(31,601)	200	-	$25.17
FM 1960/I-45 North	116	2,513	711,253	28.3%	(64,864)	0	70	$20.23
Galleria/Uptown	66	16,850	2,816,738	16.7%	(207,818)	0	-	$31.25
Greenspoint/IAH	57	3,355	766,855	22.9%	73,009	0	-	$19.22
Greenspoint/N Belt W.	117	10,895	4,914,001	45.1%	94,055	0	-	$18.93
Greenway Plaza	274	12,689	1,956,951	15.4%	(132,263)	0	64	$30.60
Gulf Freeway/Pasadena	662	8,499	1,063,392	12.5%	(8,050)	1	31	$22.31
I-10 East	144	1,396	105,792	7.6%	(16,925)	0	1,200	$20.88
Katy Freeway East	266	11,857	1,236,628	10.4%	191,992	170	-	$31.29
Katy Freeway West	263	27,961	6,021,806	21.5%	840,594	19	152	$30.42
Katy/Grand Parkway W.	474	6,386	807,305	12.6%	(100,982)	117	309	$28.43
Kingwood/Humble	243	3,717	385,231	10.4%	74,523	77	528	$24.95
Midtown	586	10,042	1,063,841	10.6%	(162,181)	35	78	$30.62
NASA/Clear Lake	539	10,279	1,378,373	13.4%	33,253	86	133	$23.80
North Loop West	368	6,233	1,017,265	16.3%	87,348	11	-	$23.23
Northeast Near	149	2,259	147,858	6.5%	(29,405)	0	-	$24.32
Northwest Far	130	4,342	725,145	16.7%	47,460	0	16	$19.54
Northwest Near	60	1,601	188,877	11.8%	66,943	25	-	$19.95
Post Oak Park	44	4,541	1,439,858	31.7%	(249,335)	207	-	$31.62
Richmond/Fountainview	120	2,208	196,338	8.9%	(19,372)	0	-	$20.11
Riverway	24	3,104	739,108	23.8%	(104,842)	0	-	$26.94
San Felipe/Voss	50	5,346	1,170,343	21.9%	(65,505)	0	48	$26.20
South	281	3,352	358,571	10.7%	(20,984)	103	-	$26.52
South Hwy 35	161	871	47,429	5.4%	(18,438)	3	277	$19.65
South Main/Medical C.	240	13,067	943,079	7.2%	(191,103)	5	-	$28.39
Southwest Beltway 8	194	7,417	298,521	7.0%	(6,898)	0	20	$17.76
Southwest Far	94	1,464	1,383,024	18.6%	22,061	0	97	$23.46
Southwest Outlier	233	1,910	276,047	18.9%	(4,093)	58	-	$23.85
Southwest/Hillcroft	111	5,323	858,728	16.1%	26,928	5	751	$17.26
The Woodlands	671	23,621	2,791,731	11.8%	(580,528)	282	4	$32.05
West Belt	113	6,311	1,528,880	24.2%	(426,096)	0	-	$28.41
Westchase	140	18,926	4,532,118	23.9%	(202,246)	0	5347	$27.27
Totals	8,561	321,151	56,810,082	16.1%	(1,372,209)	1,665	5,403	$25.03

*Source: CoStar