



**Q2**  
2017

MARKET  
REPORT

HOUSTON  
**OFFICE**

 **LEE &  
ASSOCIATES**  
COMMERCIAL REAL ESTATE SERVICES

# Trending Now

Oil drillers increased rig count and domestic oil production after OPEC and other producers agreed to production cutbacks. That caused further worldwide supply excesses and the price of a barrel of oil fell sharply early in Q2 before rebounding late in the period. Houston is home to the energy sector and the region's dependence on fossil fuel production is an undeniable fact. So, despite gains in other sectors like healthcare, the region's office market still faces significant challenges.

The downtown office market has become more exposed as the impact of the energy sector slowdown has made its mark. High demand from energy related businesses drove historic price increases on Class A downtown space as well as a wave of development not seen since the early 1980's. In turn, unsustainable growth coupled with the downsized energy business formed a correction in the office market that has been unfolding for almost three years.

In the world of \$40-\$50/bbl oil, tenants remain in command. Non-oil and gas related tenants are taking advantage of the decline in office demand. This layered market is expected to continue into 2018, but when the energy markets stabilize,

the additional capital flow should rapidly improve office market conditions.

But, for the time being, the struggle is ongoing and rising vacancy remains a problem. The overall vacancy rate across all building classes moved up just 20 basis points during the period after a 90 basis point rise in Q1. At mid-point of 2017, the overall vacancy rate stood at 16.1%, up from just 14.2% a year ago. Class A vacancy is highest at 19.4%, while Class B vacancy current stands at 15.2%.

Subleases account for roughly one-third of current leasing activity, which exacerbates the vacancy problem. Tenants are being hotly pursued with promises of lower start rates, rent abatement and lease term flexibility. With so many options, tenants are taking longer to make decisions, which only makes matters worse.

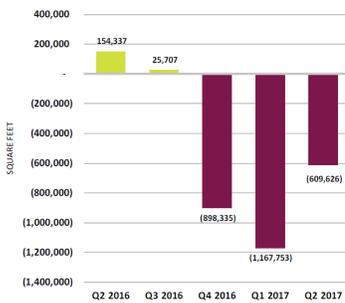
The overall average asking rental rate actually moved up again for the second straight quarter, increasing by \$0.13 to end Q2 at \$27.70. On a year-over-year basis, the average asking rate has slipped by just \$0.15, which is a surprisingly small decline given the increase in available sublease space and ongoing struggles in the energy sector. The Class A asking

rate rose by \$0.27 in Q2 to \$33.47, and Class B managed an increase of \$0.11 to \$21.60. Rates in the CBD for Class A and B combined now average \$40.14, compared to \$26.18 in suburban areas. However, effective rates are somewhat lower due to high levels of tenant concessions.

Net absorption remained negative in Q2, but the decline stabilized to 609,626 square feet compared to the 1,167,753 square feet recorded in the first period. That makes three consecutive quarterly net losses in occupancy throughout the region. In the past four quarters Houston's total decline in occupied space exceeded 2.6 million square feet. Tenants are able to take more time to decide and end up with more flexible lease terms and richer tenant improvement packages.

After a decline in the first quarter, construction activity rose by over 800,000 square feet in Q2 to a total of 3,096,080 square feet, but new deliveries fell sharply to 350,424 square feet. Year-to-date, 19 buildings totaling nearly 2 million square feet of space have been delivered. However, projects that can be put on hold, will be until a big chunk of the stale vacancy is absorbed.

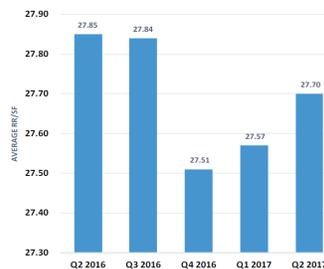
## Net SF Absorption



## Vacancy Rate



## Average SF Rental Rates



## SF Under Construction



## Numbers at a Glance

**16.1%**  
Vacancy

**\$27.70**  
Avg. SF Rental Rates

**(609,626)**  
Net SF Absorption

**305,191,135**  
SF Inventory

**3,096,080**  
SF Under Construction

## A Look Ahead

- Average rental rates may move slightly higher with new deliveries, however effective rental rates will decline due to generous tenant concessions
- The rise in the vacancy rate will stabilize as new deliveries decline
- Sublease inventory is leveling off
- Net absorption will remain negative before we see any major improvements
- Leasing activity will remain sluggish through the end of the year

## Q2 2017 Houston Office Market Stats

Market	Existing Inventory		Vacancy			"YTD Net Absorption"	"YTD Deliveries"	"Under Const SF"	"Quoted Rates"
	# Bids	Total RBA	Direct SF	Total SF	Vac %				
Austin County	34	209,808	4,718	4,718	2.2%	(4,088)	0	0	\$17.83
Bellaire	80	4,950,596	392,663	406,430	8.2%	35,988	0	0	\$24.56
CBD	159	50,095,747	7,936,587	8,806,019	17.6%	(853,587)		778,344	\$39.83
E Fort Bend Co/Sugar.	382	9,739,548	857,204	965,524	9.9%	(7,904)	56,681	418,558	\$27.20
FM 1960/Champions	248	4,213,969	622,840	635,085	15.1%	20,222	16,435	63,600	\$14.86
FM 1960/Hwy 249	376	7,905,435	753,739	845,712	10.7%	(43,763)	33,563	8,750	\$23.71
FM 1960/I-45 North	101	2,455,084	489,231	492,625	20.1%	12,147	0	0	\$18.84
Galleria/Uptown	65	16,729,222	2,307,494	2,924,834	17.5%	(257,978)	0	104,579	\$36.00
Greenspoint/IAH	53	3,370,147	821,688	827,677	24.6%	(233,146)	0	0	\$19.01
Greenspoint/N Belt W.	117	10,884,875	4,295,748	4,734,224	43.5%	(30,570)	0	0	\$20.18
Greenway Plaza	272	12,811,867	1,632,315	1,656,454	12.9%	(142,310)	0	192,893	\$33.60
Gulf Freeway/Pasaden.	585	7,535,460	742,911	742,911	9.9%	71,421	82,800	18,804	\$20.17
I-10 East	123	1,206,314	156,498	156,498	13.0%	(3,569)	0	0	\$17.70
Katy Freeway East	255	11,676,049	1,116,522	1,288,158	11.0%	(172,676)		50,000	\$25.99
Katy Freeway West	252	28,188,203	4,664,237	6,155,472	21.8%	(244,309)	0	90,575	\$28.02
Katy/Grand Parkway W	365	5,650,311	773,271	773,611	13.7%	49,756	52,386	173,945	\$26.89
Kingwood/Humble	210	3,359,996	234,165	242,895	7.2%	145,397		100,000	\$21.62
Midtown	518	9,482,933	874,824	887,271	9.4%	85,625	0	45,966	\$28.28
NASA/Clear Lake	498	10,508,376	1,586,475	1,636,654	15.6%	(13,206)	10,000	21,800	\$20.16
North Loop West	318	6,091,823	902,760	917,558	15.1%	(87,861)	0	15,000	\$24.00
Northeast Near	137	2,170,548	90,206	90,206	4.2%	47,625	0	85,000	\$19.05
Northwest Far	129	4,347,796	816,054	822,524	18.9%	11,624	0	0	\$17.00
Northwest Near	54	1,898,234	108,675	111,375	5.9%	163	0	0	\$15.45
Post Oak Park	43	4,775,644	971,527		21.1%	204,294		0	\$32.35
Richmond/Fountainvie.	115	2,168,219	280,962	280,962	13.0%	44,878	0	0	\$17.57
Riverway	23	3,084,567	608,617	636,096	20.6%	(231,717)	0	0	\$30.54
San Felipe/Voss	49	5,340,230	899,224	906,443	17.0%	(7,439)	0	0	\$29.19
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	227	2,749,056	245,473	245,473	8.9%	19,907	10,394	348,455	\$25.37
South Hwy 35	144	785,156	52,863	52,863	6.7%	(7,533)	0	0	\$17.78
South Main/Medical C.	227	12,205,292	771,276	773,774	6.3%	18,880	0	0	\$27.79
Southwest Beltway 8	187	7,589,587	940,831	946,233	12.5%	58,194	5,000	60,000	\$17.83
Southwest/Hillcroft	107	5,344,523	677,988	680,528	12.7%	(3,196)	0	0	\$16.60
West Belt	102	6,710,426	1,005,305	1,311,441	19.5%	5,447	0	6,000	\$25.47
Westchase	135	18,452,499	3,144,312	3,848,899	20.9%	(148,280)	10,000	187,011	\$28.86
Woodlands	576	20,464,456	2,243,551	2,324,417	11.4%	(115,815)		326,800	\$29.50
<b>Totals</b>	<b>7,269</b>	<b>305,191,135</b>	<b>44,022,754</b>	<b>49,137,334</b>	<b>16.1%</b>	<b>(1,777,379)</b>	<b>2,294,037</b>	<b>3,096,080</b>	<b>\$27.70</b>

## About This Report

The information and details contained herein have been obtained from third-party sources believed to be reliable; however, DFW Lee & Associates, LLC - Houston Office has not independently verified its accuracy. DFW Lee & Associates, LLC - Houston Office makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to the implied warranty of suitability and fitness for a particular purpose.

Interested parties should perform their own due diligence regarding the accuracy of the information. The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice, by third-party data source providers.

The Houston Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties in the Houston Area.

© Copyright 2017 DFW Lee & Associates, LLC - Houston Office. All rights reserved.

# Q2 2017

## About Lee & Associates

Lee & Associates-Houston is a fully-integrated commercial real estate firm that creatively responds to a client's search for new, more functional space. Newly established in Houston, Lee & Associates is part of a national team of brokers with more than 60 office locations in cities across the U.S. and Canada. Our Houston team, comprised of 31 brokers, associates and partners, operates within every facet of the local commercial real estate market and offers exceptional representation to real estate investors, builders, buyers and tenants searching for quality results and the perfect space. With an unsurpassed network of experienced brokers across the nation, Lee & Associates-Houston is uniquely qualified to support its clients' commercial real estate needs in the local, national and international markets.



COMMERCIAL REAL ESTATE SERVICES

9805 Katy Freeway, Suite 800  
Houston, Texas 77024 | 713.744.7400  
[www.Lee-Associates.com/Houston](http://www.Lee-Associates.com/Houston)

Follow us on:

