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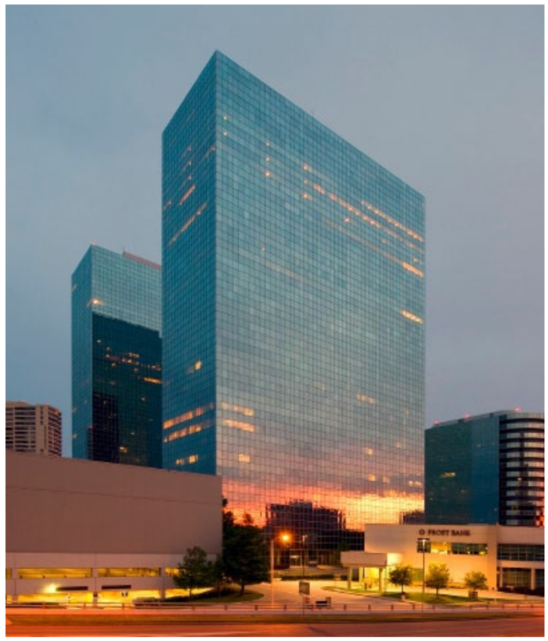
CoStar Market Insight: Signs Office Market Ready To Rebound

Market Hoping for More Similar Greenway Plaza Deals



Fundamentals in the Houston office market have been on an unfavorable downward trend since the beginning of 2015. Given how much of the metro is tied to energy, the downfall in 2015 led to severe job cuts, downsizing and bankruptcies from energy-related firms.

As such, companies have been adopting smaller footprints, and the more than 45 million square feet delivered this cycle has resulted in significant vacancy expansion.

Although vacancies have risen in every quarter since 15Q1, and more than 3 million square feet was still under construction as of early 17Q4, investors have started to acquire office assets in recent quarters as some believe the market has reached its lowest low, with improvements on the horizon.

One of the most recent notable sales with confirmed pricing, was ownership change of the 11-property, 4.9 million-square-foot Greenway Plaza. In April 2017, locally based Parkway Realty Services sold a 49% stake in the portfolio for $512.1 million ($213/square foot), valuing the portfolio at just above $1 billion.

A three-way joint venture between New York-based TH Real Estate, New York-based Silverpeak Real Estate Partners, and the Canada Pension Plan Investment Board of Toronto acquired the minority stake in the Greenway Plaza. TH Real Estate and Silverpeak collectively acquired 24.5% interested and the Canada Pension Plan the other 24.5%.

The portfolio was about 90% leased at the time of sale, featuring tenants such as Occidental Energy Marketing, Camden Property Trust, Invesco Advisors, CLP Retail Energy, and Transocean, among others.

The Greenway Plaza Submarket is named after the aforementioned business park, and while fundamentals there have also been on uneasy footing in recent years, it has not been as impacted by large gluts of sublease space like many others in Houston.

However, new construction has hindered growth prospects recently, and that is likely to continue in the near term as more speculative construction is in the pipeline and set to deliver by years end. After that though, nothing significant is in the pipeline for the Greenway Plaza Submarket.

Looking forward, consolidations may begin to lure more and more investors back to Harris County, in search of credit-worthy tenants in trophy assets that have proven the ability to withstand a downturn.

The concept of acquiring office assets in Houston two years ago was a complete afterthought, but an improving economy has seemingly brightened investor interest in Houston lately.

Even though oil prices are nowhere near the $100/barrel mark, and large swaths of sublease space still line the CBD and Energy Corridor as energy companies have been forced to shutter operations, consolidations have been more and more frequent lately.

Most of the space available for sublease in the office sector is mostly in top quality buildings, ones that formerly housed energy firms that have since moved out.

However, some companies have utilized these large spaces as an opportunity to consolidate their operations throughout the market into one centralized location. For example, NRG recently announced that it would vacate more than 400,000 square feet across three downtown locations in favor of the same amount of square footage at One Shell Plaza.

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