

HOUSTON
**OFFICE MARKET
REPORT**

Fourth Quarter 2019



BELVOIR

REAL ESTATE GROUP, LLC

Going Places

BROKERAGE / DEVELOPMENT / MANAGEMENT / INVESTMENT

713.332.8202 / belvoir.net

A Message from Matthew Goldsby, Belvoir Managing Director

As Belvoir Real Estate Group celebrates its eighth anniversary this month, we're taking time to reflect on how the ever-changing dynamic of the Houston real estate market has shaped and helped our firm's growth. From Belvoir's inception as a solo operation at the start of 2012, to a team of now over 15 strong, we believe that it is opportunity that truly defines Houston real estate and our firm's relationship to it.

Belvoir began its journey as an exclusively brokerage-focused firm, which was followed by natural growth into property management, construction management, and most recently, investment syndication. We believe the ability to self-perform on the total life cycle of a deal provides two key advantages that are of particular importance to stakeholders investing in the notoriously capricious Houston market: the ability to source unique opportunities and the ability to intuit and perform on a properly aligned business plan.

As a fully integrated, full-service firm, we strongly believe that alignment across investment and commercial service lines offers a significant advantage in the Houston market and the current era of commercial real estate. Belvoir would like to thank its employees, associates and clients who have been an invaluable asset to our growing success for the past eight years.

LET'S GO PLACES.

Belvoir's team of experts are ready to answer your commercial real estate and brokerage questions. Call us at **713.332.8202** or visit us online at **belvoir.net**.

OFFICE MARKET SNAPSHOT

LEASING

Net absorption amounted to about -400,000 SF last quarter and -740,000 SF in 19Q2, representing a return to losses after three positive quarters. CoStar's forecast calls for demand to pick up, and average about 1.2 million SF per quarter over the next four quarters, which would be significantly above Houston's long-term average. Houston recorded some significant leases last quarter, including Kiewitt Engineering for 157,000 SF at Energy Center I in Katy Freeway West, and Engie for 110,000 SF at 1360 Post Oak Boulevard.

RENT

Houston's office rents stabilized in 2018 after suffering losses in 2015 through 2017, the same years that most markets were posting their strongest rent growth. Houston office rents are set to grow over 1% by year-end 2019 and continue their recovery into the forecast, although rents are forecasted to grow by a modest 1% to 1.5% over the next five years. Rent growth has varied across Houston's submarkets.

CONSTRUCTION

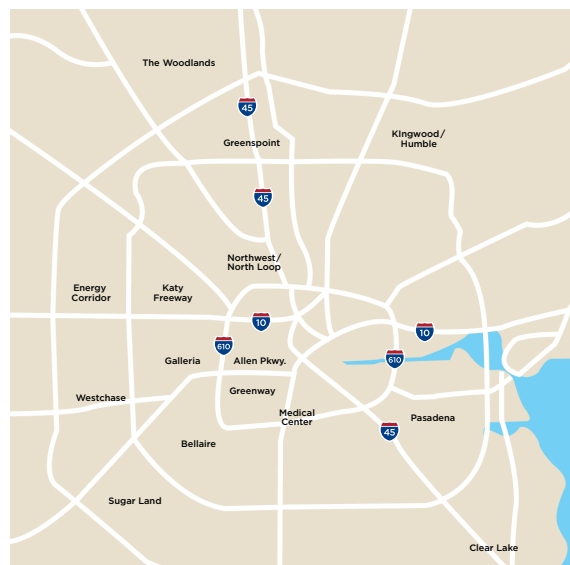
Houston's office supply pipeline is near the lowest it has been since the global financial crisis. The pause in the market's normally frenetic pace of development has limited the damage from weak demand. However, it also underscores the crisis of confidence investors and developers have about Houston. Last quarter, Skanska's 780,000 SF Bank of America Tower (formerly Capitol Tower) delivered. The building is more than 85% leased to anchor tenants Bank of America and Waste Management. The speculative 150,000 SF CityPlace 1 delivered in Springwoods Village in 19Q2 and was 24% leased as of 19Q4. And last quarter the Energy Corridor welcomed The Cannon, a 120,000 SF coworking and tech incubator space.

SALES

Houston's recorded trailing 12-month office transaction volume totaled \$1.8 billion with more than 660 deals that traded as of last quarter. Houston cap rates tend to be a bit higher than the national average, typical of a large, affordable Sunbelt market with little zoning and abundant land. And a large amount of value-add portfolio deals traded in 2017, as Houston was just beginning to recover from the oil downturn. Generally, Houston trades right in line with the national average, though cap rates have drifted higher since the energy slump.

Among large transactions last year, in June, Atlanta-based Cousins Properties acquired Dallas-based TIER REIT in a trade valued at more than \$2 billion and included 24 office properties across Texas, Georgia, North Carolina and New Jersey. The trade included the two-property, 835,000 SF Briar Lake Plaza in Westchase, which marked a return for Cousins Properties to the Houston market after the company famously sold its entire Houston portfolio at the bottom of the oil downturn to Orlando-based Parkway Properties. The two Houston properties traded for a combined allocated value of approximately \$223 million (\$226/SF).

Source: CoStar Property®



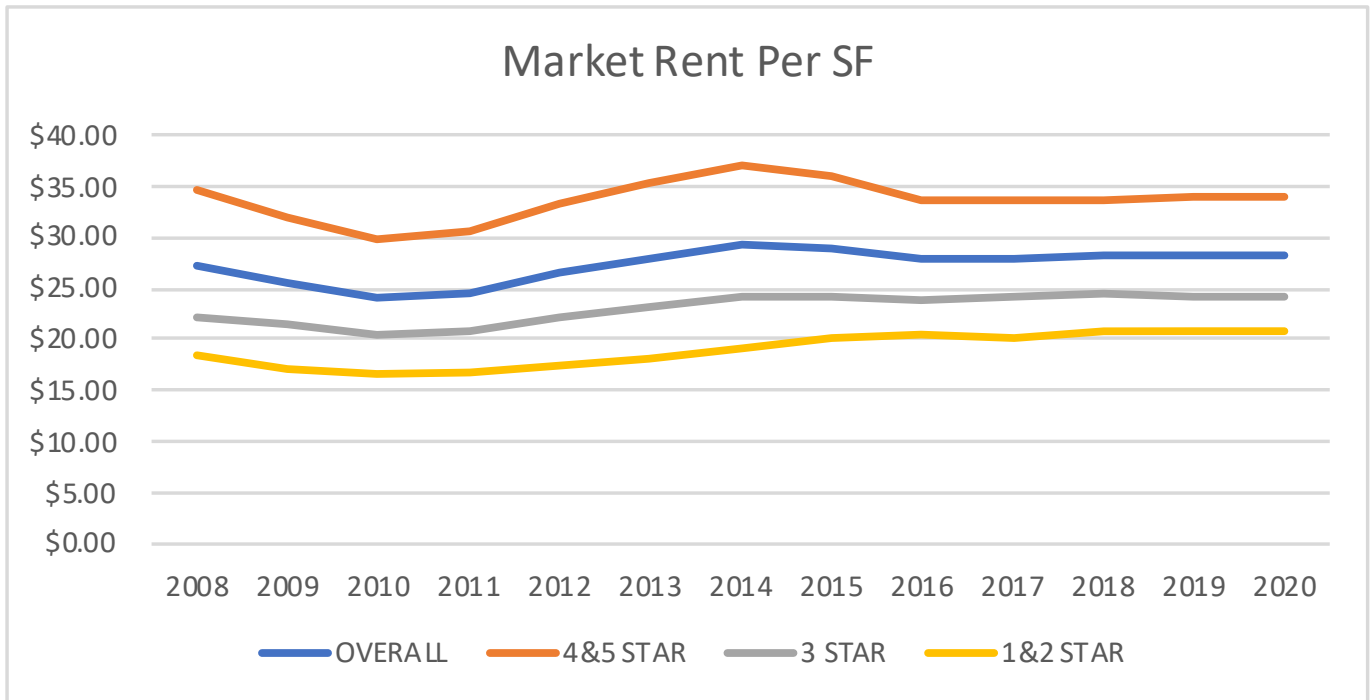
SUBMARKET STATISTICS

Q4 2019

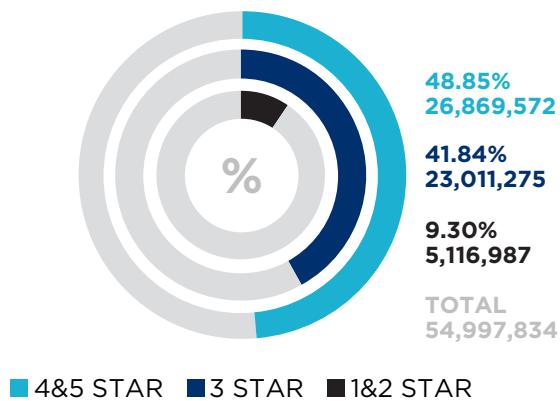
Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Bellaire	91	5,083	659,753	13.0%	78,725	1	53	\$25.23
CBD	162	51,469	9,967,039	19.4%	319,823	1	1,274	\$36.27
E Fort Bend Co/Sugar Land	420	10,016	1,201,788	12.0%	(113,954)	12	340	\$27.14
FM 1960/Champions	261	4,426	657,187	14.8%	(18,475)	0	-	\$18.66
FM 1960/Hwy 249	447	9,301	1,453,683	15.6%	(277,040)	16	179	\$25.16
Galleria/Uptown	66	16,848	2,711,794	16.1%	(101,505)	0	133	\$31.76
Greenspoint/N Belt W.	116	10,844	4,576,738	42.2%	209,119	0	-	\$18.38
Greenway Plaza	273	12,666	1,750,558	13.8%	29,096	0	-	\$29.83
Gulf Freeway/Pasadena	648	7,952	986,297	12.4%	(197,708)	0	-	\$21.47
Katy Freeway East	261	11,742	1,066,311	9.1%	195,085	3	311	\$30.59
Katy Freeway West	259	27,876	6,253,295	22.4%	542,210	2	15	\$30.57
Katy/Grand Parkway W.	459	6,374	772,398	12.1%	29,409	18	324	\$28.75
Midtown	581	9,943	996,135	10.0%	(31,725)	3	437	\$30.28
NASA/Clear Lake	534	10,295	1,437,222	14.0%	76,858	2	91	\$23.76
North Loop West	360	6,213	1,042,663	16.8%	(59,473)	1	144	\$23.08
Post Oak Park	43	4,604	1,141,508	24.8%	(108,876)	0	207	\$31.55
San Felipe/Voss	50	5,346	1,091,921	20.4%	(76,188)	0	-	\$26.48
South Main/Medical Center	242	13,384	831,174	6.2%	(201,604)	0	5	\$27.93
Southwest Beltway 8	193	7,467	1,290,618	17.3%	27,273	0	-	\$17.60
Southwest/Hillcroft	110	5,360	996,797	18.6%	(46,149)	0	-	\$16.94
The Woodlands	655	23,257	2,401,061	10.3%	173,450	12	346	\$31.94
West Belt	113	6,315	1,334,905	21.1%	(66,781)	0	4	\$27.66
Westchase	139	18,930	4,321,433	22.8%	(140,521)	0	-	\$26.92

Source: CoStar Property®

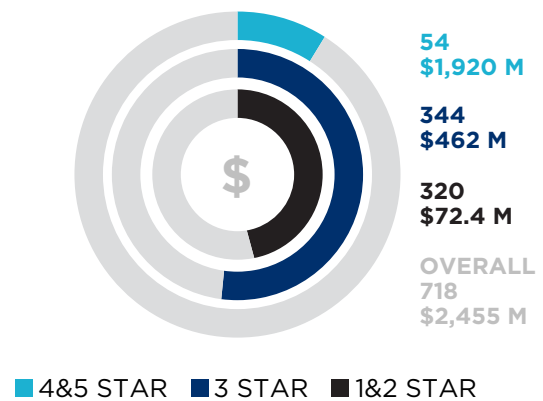
HISTORICAL AND FORECAST RENTAL RATES BY CLASS



VACANCY BY CLASS



SALES BY CLASS



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