

HOUSTON

# OFFICE MARKET REPORT

*Second Quarter 2018*



**BELVOIR**

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## *A Message from Matthew Goldsby, Belvoir Managing Director*

The Houston CRE market continued to strengthen with office activity ramping up during Q2. Notable among the 40 major transactions across the city was Apache Corporation's renewal of 390,717 sf in Post Oak Central 1. As Conoco Phillips prepares to vacate their Dairy Ashford campus for Energy Center 4 (under a sublease that it still being negotiated) Occidental Petroleum (OXY) announced it would be leaving Greenway Plaza, which would add more than 800K sf of sublease space to the market. Though nothing had been finalized, there has been talk of OXY taking over the Conoco Phillips Dairy Ashford campus.

In another signal that Houston's economy is rebounding, The Woodlands has five buildings under construction totaling 926,800 sf that are 76% preleased, while four buildings under construction totaling 232,744 sf in the Katy area are 71% preleased.

# EXECUTIVE SUMMARY

The Houston Office market ended the second quarter 2018 with a vacancy rate of 16.5%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 202,720 square feet in the second quarter.

Vacant sublease space decreased in the quarter, ending the quarter at 5,906,900 square feet. Rental rates ended the second quarter at \$27.60, a decrease over the previous quarter. A total of 19 buildings delivered to the market in the quarter totaling 290,599 square feet, with 2,659,246 square feet still under construction at the end of the quarter.



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# OFFICE MARKET SNAPSHOT

## ABSORPTION

Net absorption for the overall Houston office market was positive 202,720 square feet in the second quarter 2018. That compares to negative (1,348,787) square feet in the first quarter 2018, positive 796,618 square feet in the fourth quarter 2017, and negative (938,392) square feet in the third quarter 2017.

## VACANCY

The office vacancy rate in the Houston market area decreased to 16.5% at the end of the second quarter 2018. The vacancy rate was 16.6% at the end of the first quarter 2018, 16.0% at the end of the fourth quarter 2017, and 16.1% at the end of the third quarter 2017.

## LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2018 included:

- the 390,717-square-foot lease signed by Apache Corporation at Post Oak Central One in the West Loop market;
- the 298,955-square-foot deal signed by Transco at Williams Tower in the West Loop market; and
- the 145,907-square-foot lease signed by Apache Corporation at Three Post Oak Central in the West Loop market.

## SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market decreased to 5,906,900 square feet by the end of the second quarter 2018, from 6,809,180 square feet at the end of the first quarter 2018. There was 5,916,174 square feet vacant at the end of the fourth quarter 2017 and 5,971,422 square feet at the end of the third quarter 2017.

## RENTAL RATES

The average quoted asking rental rate for available office space, all classes, was \$27.60 per square foot per year at the end of the second quarter 2018 in the Houston market area.

This represented a 0.5% decrease in quoted rental rates from the end of the first quarter 2018, when rents were reported at \$27.73 per square foot.

## DELIVERIES AND CONSTRUCTION

During the second quarter 2018, 19 buildings totaling 290,599 square feet were completed in the Houston market area. This compares to 22 buildings totaling 375,922 square feet that were completed in the first quarter 2018, 19 buildings totaling 1,070,470 square feet completed in the fourth quarter 2017, and 278,816 square feet in 15 buildings completed in the third quarter 2017.

## INVENTORY

Total office inventory in the Houston market area amounted to 326,424,477 square feet in 9,265 buildings as of the end of the second quarter 2018. The Class-A office sector consisted of 146,131,526 square feet in 512 projects. There were 3,946 Class-B buildings totaling 136,703,441 square feet, and the Class-C sector consisted of 43,589,510 square feet in 4,807 buildings. Within the Office market there were 679 owner-occupied buildings accounting for 46,342,646 square feet of office space.

## SALES ACTIVITY

Tallying office building sales of 15,000 square feet or larger, Houston office sales figures fell during the first quarter 2018 in terms of dollar volume compared to the fourth quarter of 2017.

Cap rates have been lower in 2018, averaging 7.36% compared to the same period in 2017 when they averaged 7.40%. One of the largest transactions that has occurred within the last four quarters in the Houston market is the sale of 5555 San Felipe in Houston. This 1,197,300-square-foot office building sold for \$176,500,000 or \$147.42 per square foot. The property sold on 1/31/2018, at a 7.40% cap rate.

*Source: CoStar Property®*

# CLASS A MARKET STATISTICS

Q2 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	0	0	0	0	0.0%	0	0	0	\$0.00
Baytown	0	0	0	0	0.0%	0	0	0	\$0.00
Bellaire	8	1,475,481	199,075	217,767	14.8%	-22,042	0	0	\$27.93
Conroe	2	128,832	18,422	18,422	14.3%	0	0	0	\$25.63
Downtown	48	37,529,971	5,470,396	6,867,103	18.3%	-114,079	0	778,344	\$40.85
E Fort Bend Co./Sugar	20	3,774,860	250,036	411,841	10.9%	-107,119	0	30,852	\$26.23
FM 1960	21	4,105,257	450,690	463,202	11.3%	-59,323	0	156,000	\$27.61
Greenway Plaza	21	7,427,627	1,409,508	1,458,948	19.6%	-137,412	0	0	\$30.56
Gulf Freeway/Pasadena	1	22,706	0	0	0.0%	0	0	0	\$0.00
I-10 East	0	0	0	0	0.0%	0	0	0	\$0.00
Katy Freeway	100	24,879,836	3,651,271	5,407,230	21.7%	252,572	0	102,474	\$32.61
Katy/Grand Parkway W.	24	2,085,884	511,350	525,442	25.2%	119,744	72,045	0	\$29.25
Kingwood/Humble	3	189,312	33,875	33,875	17.9%	-24,482	0	100,000	\$26.55
Liberty County	0	0	0	0	0.0%	0	0	0	\$0.00
NASA/Clear Lake	17	2,121,666	279,937	290,513	13.7%	-20,038	0	80,339	\$28.36
North Belt	25	5,513,534	3,443,012	3,457,531	62.7%	-126,627	0	0	\$21.97
Northeast Near	3	642,223	21,702	21,702	3.4%	10,881	0	0	\$0.00
Northeast Outlier	1	36,400	0	0	0.0%	0	0	0	\$0.00
Northwest	10	2,037,781	687,878	712,035	34.9%	-2,297	0	0	\$23.00
Northwest Outlier	1	165,671	72,370	72,370	43.7%	36,084	0	0	\$30.23
Outlying Chambers Co.	0	0	0	0	0.0%	0	0	0	\$0.00
Outlying Montgomery	3	103,449	56,449	56,449	54.6%	25,000	0	0	\$23.53
Outlying Waller County	0	0	0	0	0.0%	0	0	0	\$0.00
Richmond/Fountainview	0	0	0	0	0.0%	0	0	0	\$0.00
San Felipe/Voss	3	1,720,793	466,583	476,180	27.7%	-28,748	0	0	\$36.27
San Jacinto County	0	0	0	0	0.0%	0	0	0	\$0.00
South	6	720,318	53,898	53,898	7.5%	25,809	50,000	0	\$28.35
South Hwy 35	0	0	0	0	0.0%	0	\$0.00	0	\$0.00
South Main/Medical C.	14	4,462,086	220,480	234,207	5.2%	-8,325	\$0.00	0	\$33.72
Southeast Outlier	3	246,382	28,406	28,406	11.5%	14,264	\$0.00	0	\$30.34
Southwest	9	2,053,918	439,713	468,876	22.8%	49,721	0	0	\$18.81
Southwest Far	2	158,720	19,737	19,737	12.4%	0	0	0	\$0.00
Southwest Outlier	1	98,862	44,392	44,392	44.9%	0	0	0	\$26.50
The Woodlands	52	12,042,392	996,910	1,054,515	8.8%	155,880	0	854,300	\$32.10
West Belt	30	4,380,523	805,410	1,237,190	28.2%	-348,097	0	0	\$29.01
West Loop	50	18,002,685	3,221,480	3,720,041	20.7%	420,215	104,579	0	\$37.36
Westchase	34	10,004,357	1,854,698	2,553,692	25.5%	-131,906	0	0	\$28.78
<b>TOTALS</b>	<b>512</b>	<b>146,131,526</b>	<b>24,707,678</b>	<b>29,905,564</b>	<b>20.5%</b>	<b>-20,325</b>	<b>226,624</b>	<b>2,102,309</b>	<b>\$32.74</b>

Source: CoStar Property®

# CLASS B MARKET STATISTICS

Q2 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	13	152,480	2,552	2,552	1.7%	-2,552	0	0	\$0.00
Baytown	44	1,074,050	81,568	81,568	7.6%	-11,292	6,003	0	\$23.20
Bellaire	36	2,709,383	165,519	170,030	6.3%	-41,731	0	5,000	\$24.29
Conroe	81	1,359,813	153,397	153,397	11.3%	17,050	31,000	0	\$24.20
Downtown	211	18,379,775	3,317,955	3,416,503	18.6%	-224,603	0	0	\$27.99
E Fort Bend Co./Sugar	278	5,293,098	480,081	538,575	10.2%	7,933	87,145	59,399	\$24.96
FM 1960	411	8,495,575	1,379,962	1,411,759	16.6%	-94,065	71,838	104,684	\$19.19
Greenway Plaza	52	4,139,887	481,524	490,732	11.9%	-68,261	0	0	\$26.03
Gulf Freeway/Pasadena	199	4,534,855	669,776	680,331	15.0%	22,186	107,876	18,827	\$22.46
I-10 East	29	647,090	104,971	104,971	16.2%	-4,576	0	0	\$17.50
Katy Freeway	218	12,182,185	2,281,339	2,373,834	19.5%	-179,196	4,320	130,300	\$21.37
Katy/Grand Parkway W.	282	3,310,246	118,434	132,970	4.0%	35,274	38,100	13,300	\$28.21
Kingwood/Humble	94	2,322,839	225,478	225,796	9.7%	-77,275	0	0	\$24.62
Liberty County	12	92,060	948	948	1.0%	2,534	0	0	\$0.00
NASA/Clear Lake	243	6,188,456	1,276,649	1,278,224	20.7%	92,821	0	14,200	\$20.05
North Belt	76	6,612,816	1,956,725	1,982,845	30.0%	-204,088	0	0	\$16.00
Northeast Near	33	697,801	83,663	83,663	12.0%	-1,561	0	0	\$18.66
Northeast Outlier	42	632,995	52,801	52,801	8.3%	-12,918	0	8,000	\$24.55
Northwest	169	6,872,418	1,053,692	1,059,164	15.4%	21,902	15,000	10,020	\$19.58
Northwest Outlier	105	1,015,433	109,676	109,676	10.8%	-6,107	7,000	48,955	\$25.91
Outlying Chambers Co.	6	22,672	0	0	0.0%	0	0	0	\$0.00
Outlying Montgomery	83	840,793	90,777	90,777	10.8%	133	5,000	29,052	\$23.80
Outlying Waller County	5	25,686	0	0	0.0%	0	0	0	\$0.00
Richmond/Fountainview	29	1,048,984	148,223	148,223	14.1%	-9,232	0	0	\$17.71
San Felipe/Voss	36	3,499,385	602,868	627,764	17.9%	-64,120	0	0	\$24.33
San Jacinto County	1	27,261	0	0	0.0%	0	0	0	\$0.00
South	96	1,565,761	174,595	174,595	11.2%	-21,991	0	0	\$25.59
South Hwy 35	39	376,796	11,928	11,928	3.2%	5,643	0	15,000	\$14.86
South Main/Medical C.	75	6,070,261	220,481	220,481	3.6%	2,083	0	0	\$26.20
Southeast Outlier	120	2,455,850	266,936	266,936	10.9%	1,858	20,070	15,000	\$20.62
Southwest	128	7,646,101	1,291,223	1,349,212	17.6%	-127,132	0	0	\$17.00
Southwest Far	36	956,196	254,890	254,890	26.7%	1,586	0	0	\$24.37
Southwest Outlier	88	1,194,752	137,831	140,391	11.8%	15,419	2,645	1,200	\$25.05
The Woodlands	388	7,936,270	758,733	832,559	10.5%	62,626	37,900	72,500	\$26.73
West Belt	56	2,277,927	360,986	462,875	20.3%	-17,207	6,000	11,500	\$19.71
West Loop	58	6,184,247	836,484	883,334	14.3%	-103,096	0	0	\$27.44
Westchase	74	7,861,244	960,860	980,963	12.5%	-84,847	0	0	\$19.12
<b>TOTALS</b>	<b>3,946</b>	<b>136,703,441</b>	<b>20,113,525</b>	<b>20,795,267</b>	<b>15.2%</b>	<b>-1,066,802</b>	<b>439,897</b>	<b>556,937</b>	<b>\$21.95</b>

Source: CoStar Property®

# CLASS C MARKET STATISTICS

Q2 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	28	105,431	5,078	5,078	4.80%	1,600	0	0	\$15.81
Baytown	94	601,924	33,943	33,943	5.60%	34,323	0	0	\$18.65
Bellaire	44	760,884	45,830	45,830	6.00%	5,431	0	0	\$19.19
Conroe	175	1,134,294	75,246	75,246	6.60%	-16,304	0	0	\$16.87
Downtown	442	4,160,453	268,694	268,919	6.50%	-37,194	0	0	\$22.87
E Fort Bend Co./Sugar	97	811,241	14,443	14,443	1.80%	-1,426	0	0	\$20.33
FM 1960	335	2,891,562	298,697	298,697	10.30%	43,032	0	0	\$16.17
Greenway Plaza	203	1,493,603	101,237	101,237	6.80%	2,000	0	0	\$23.08
Gulf Freeway/Pasadena	424	3,421,020	371,906	371,906	10.90%	-31,848	0	0	\$17.31
I-10 East	100	657,358	43,166	43,166	6.60%	620	0	0	\$18.51
Katy Freeway	204	3,057,867	175,832	186,389	6.10%	-48,910	0	0	\$21.03
Katy/Grand Parkway W.	94	586,668	25,322	25,322	4.30%	29,578	0	0	\$20.22
Kingwood/Humble	122	932,967	54,526	54,526	5.80%	31,208	0	0	\$19.55
Liberty County	56	255,628	1,398	1,398	0.50%	8,878	0	0	\$0.00
NASA/Clear Lake	257	2,029,582	153,151	153,151	7.50%	4,673	0	0	\$18.70
North Belt	72	1,867,771	470,864	473,621	25.40%	-19,050	0	0	\$12.87
Northeast Near	109	914,856	28,723	28,723	3.10%	15,564	0	0	\$18.06
Northeast Outlier	42	220,626	7,506	7,506	3.40%	4,461	0	0	\$15.49
Northwest	344	3,066,802	232,039	232,039	7.60%	-80,779	0	0	\$16.86
Northwest Outlier	125	529,865	43,470	53,503	10.10%	1,525	0	0	\$20.29
Outlying Chambers Co.	14	32,229	500	500	1.60%	-500	0	0	\$0.00
Outlying Montgomery	98	387,215	12,406	12,406	3.20%	3,780	0	0	\$18.48
Outlying Waller County	16	86,705	0	0	0.00%	0	0	0	\$0.00
Richmond/Fountainview	86	1,108,399	41,981	41,981	3.80%	-18,161	0	0	\$16.19
San Felipe/Voss	12	146,216	18,878	18,878	12.90%	-8,387	0	0	\$24.86
San Jacinto County	2	11,878	0	0	0.00%	0	0	0	\$0.00
South	152	916,556	55,656	55,656	6.10%	44,858	0	0	\$14.46
South Hwy 35	110	422,787	17,904	17,904	4.20%	6,118	0	0	\$14.58
South Main/Medical C.	147	2,772,147	88,907	91,607	3.30%	-19,988	0	0	\$19.41
Southeast Outlier	222	1,424,686	86,893	86,893	6.10%	19,761	0	0	\$15.35
Southwest	162	3,124,380	303,230	304,230	9.70%	-36,188	0	0	\$15.29
Southwest Far	54	339,833	6,373	6,373	1.90%	367	0	0	\$17.29
Southwest Outlier	116	445,612	45,880	45,880	10.30%	-8,390	0	0	\$16.21
The Woodlands	175	1,351,780	60,523	60,523	4.50%	9,599	0	0	\$23.36
West Belt	20	212,243	0	0	0.00%	0	0	0	\$0.00
West Loop	25	478,201	9,994	9,994	2.10%	-2,442	0	0	\$20.53
Westchase	29	828,241	28,905	28,905	3.50%	3,251	0	0	\$15.26
<b>TOTALS</b>	<b>4,807</b>	<b>43,589,510</b>	<b>3,229,101</b>	<b>3,256,373</b>	<b>7.50%</b>	<b>-58,940</b>	<b>0</b>	<b>0</b>	<b>\$17.67</b>

Source: CoStar Property®

# TOTAL OFFICE MARKET STATISTICS

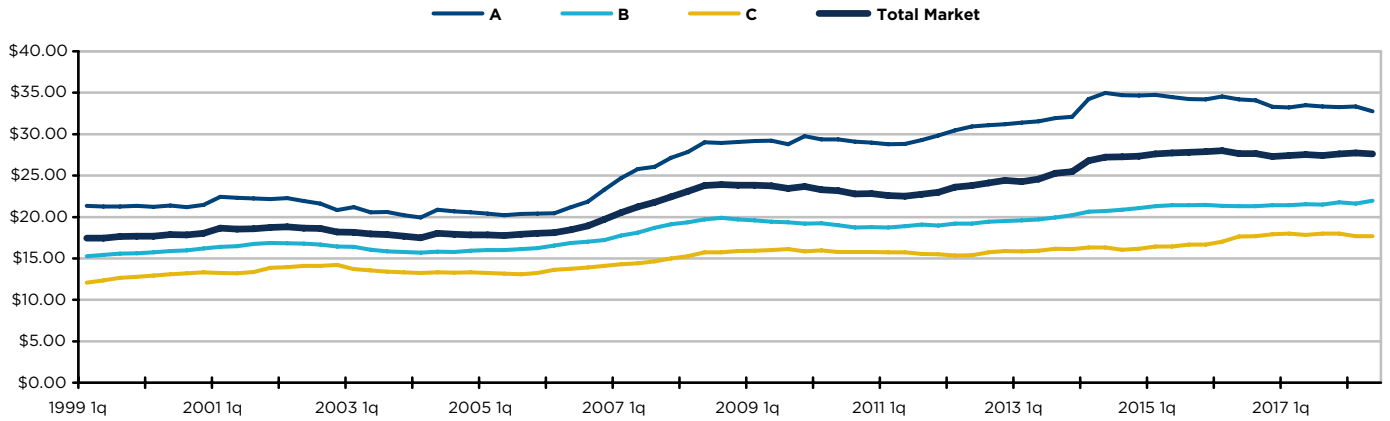
Q2 2018

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	41	257,911	7,630	7,630	3.0%	-952	0	0	\$15.81
Baytown	138	1,675,974	115,511	115,511	6.9%	23,031	6,003	0	\$21.63
Bellaire	88	4,945,748	410,424	433,627	8.8%	-58,342	0	5,000	\$25.64
Conroe	258	2,622,939	247,065	247,065	9.4%	746	31,000	0	\$22.46
Downtown	701	60,070,199	9,057,045	10,552,525	17.6%	-375,876	0	778,344	\$37.63
E Fort Bend Co./Sugar	395	9,879,199	744,560	964,859	9.8%	-100,612	87,145	90,251	\$25.40
FM 1960	767	15,492,394	2,129,349	2,173,658	14.0%	-110,356	71,838	260,684	\$20.35
Greenway Plaza	276	13,061,117	1,992,269	2,050,917	15.7%	-203,673	0	0	\$29.37
Gulf Freeway/Pasadena	624	7,978,581	1,041,682	1,052,237	13.2%	-9,662	107,876	18,827	\$20.51
I-10 East	129	1,304,448	148,137	148,137	11.4%	-3,956	0	0	\$17.83
Katy Freeway	522	40,119,888	6,108,442	7,967,453	19.9%	24,466	4,320	232,774	\$28.59
Katy/Grand Parkway W.	400	5,982,798	655,106	683,734	11.4%	184,596	110,145	13,300	\$28.24
Kingwood/Humble	219	3,445,118	313,879	314,197	9.1%	-70,549	0	100,000	\$24.21
Liberty County	68	347,688	2,346	2,346	0.7%	11,412	0	0	\$0.00
NASA/Clear Lake	517	10,339,704	1,709,737	1,721,888	16.7%	77,456	0	94,539	\$21.10
North Belt	173	13,994,121	5,870,601	5,913,997	42.3%	-349,765	0	0	\$19.27
Northeast Near	145	2,254,880	134,088	134,088	5.9%	24,884	0	0	\$18.35
Northeast Outlier	85	890,021	60,307	60,307	6.8%	-8,457	0	8,000	\$22.19
Northwest	523	11,977,001	1,973,609	2,003,238	16.7%	-61,174	15,000	10,020	\$20.67
Northwest Outlier	231	1,710,969	225,516	235,549	13.8%	31,502	7,000	48,955	\$26.05
Outlying Chambers Co.	20	54,901	500	500	0.9%	-500	0	0	\$0.00
Outlying Montgomery	184	1,331,457	159,632	159,632	12.0%	28,913	5,000	29,052	\$22.74
Outlying Waller County	21	112,391	0	0	0.0%	0	0	0	\$0.00
Richmond/Fountainview	115	2,157,383	190,204	190,204	8.8%	-27,393	0	0	\$17.43
San Felipe/Voss	51	5,366,394	1,088,329	1,122,822	20.9%	-101,255	0	0	\$29.12
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	254	3,202,635	284,149	284,149	8.9%	48,676	50,000	0	\$24.45
South Hwy 35	149	799,583	29,832	29,832	3.7%	11,761	0	15,000	\$14.76
South Main/Medical C.	236	13,304,494	529,868	546,295	4.1%	-26,230	0	0	\$27.05
Southeast Outlier	345	4,126,918	382,235	382,235	9.3%	35,883	20,070	15,000	\$20.14
Southwest	299	12,824,399	2,034,166	2,122,318	16.5%	-113,599	0	0	\$17.15
Southwest Far	92	1,454,749	281,000	281,000	19.3%	1,953	0	0	\$23.04
Southwest Outlier	205	1,739,226	228,103	230,663	13.3%	7,029	2,645	1,200	\$23.93
The Woodlands	615	21,330,442	1,816,166	1,947,597	9.1%	228,105	37,900	926,800	\$29.08
West Belt	106	6,870,693	1,166,396	1,700,065	24.7%	-365,304	6,000	11,500	\$25.99
West Loop	133	24,665,133	4,067,958	4,613,369	18.7%	314,677	104,579	0	\$35.23
Westchase	137	18,693,842	2,844,463	3,563,560	19.1%	-213,502	0	0	\$24.95
<b>TOTALS</b>	<b>9,265</b>	<b>326,424,477</b>	<b>48,050,304</b>	<b>53,957,204</b>	<b>16.5%</b>	<b>-1,146,067</b>	<b>666,521</b>	<b>2,659,246</b>	<b>\$27.60</b>

Source: CoStar Property®



## HISTORICAL RENTAL RATES (Based on Full-Service Equivalent Rental Rates)

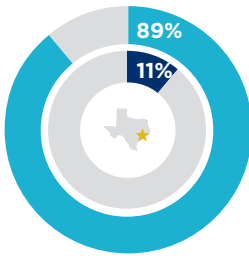


Source: CoStar Property®

## VACANCY PERCENTAGES

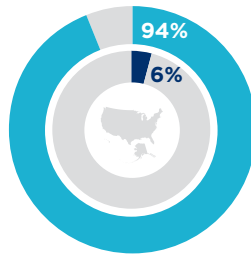
### BY AVAILABLE SPACE TYPE

#### HOUSTON



Direct Sublet

#### UNITED STATES

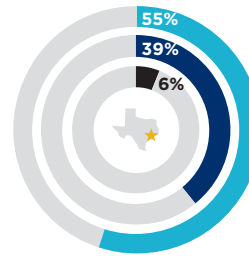


Direct Sublet

Source: CoStar Property®

### BY CLASS

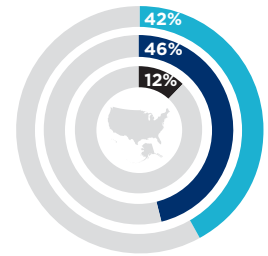
#### HOUSTON



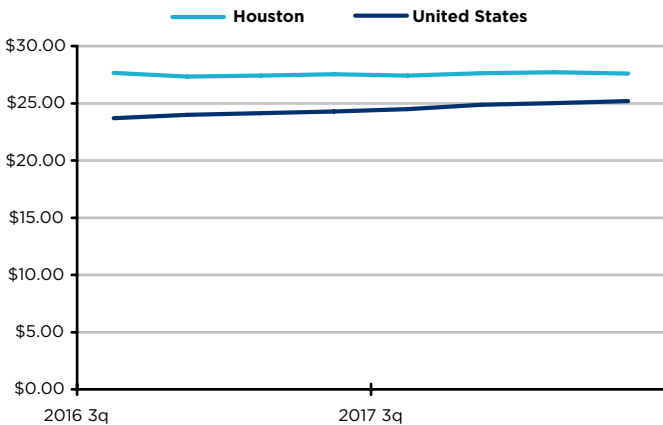
Class A Class B Class C

Source: CoStar Property®

#### UNITED STATES



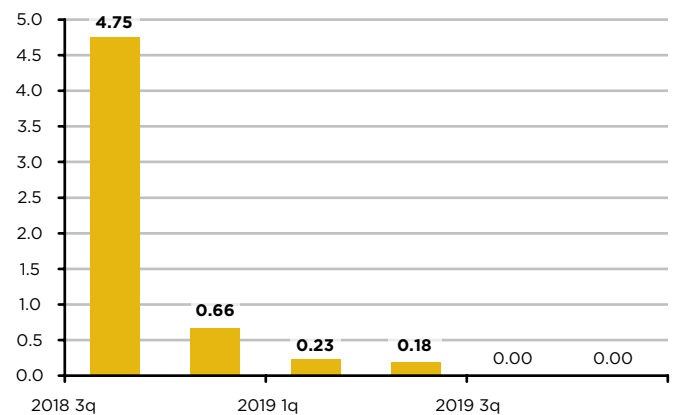
## U.S. RENTAL RATE COMPARISON (Based on Full-Service Equivalent Rental Rates)



Source: CoStar Property®

## FUTURE SPACE AVAILABLE

Space Scheduled to be Available for Occupancy\*



\*Includes Under Construction Space | Source: CoStar Property®