

HOUSTON
**OFFICE MARKET
REPORT**

Third Quarter 2019



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A Message from Matthew Goldsby, Belvoir Managing Director

Leasing of sublease space, especially in the central business district, reflects positive gains for the overall market. At the Bisnow Future of Downtown event, it was announced that 1.3MSF of subleases for central business district space would be signed by the end of 2019, accounting for 56% of the sublease space in the district. In the Galleria submarket, ENGIE leased five floors totaling 112KSF of sublease space in the BHP Billiton Tower. NAI Partners also leased a full floor.

From an industry perspective, Houston remains an energy city, accounting for 40% of Texas employment. While sector expansion has tapered off, positive signs can be seen in Black & Veatch's plans to increase from 121 employees to 175 by the end of 2020. Houston's renowned medical sector continues to grow, with MD Anderson announcing the \$159 million expansion of its proton facility on Old Spanish Trail, increasing the space from 73.5KSF to 160KSF.

New leases in Houston this quarter appear to be driven by the movement of existing tenants from one submarket to another. In the Energy Corridor, New Era Life Insurance grew from two to three floors in Energy Tower II, bringing the building back to 100% occupancy. OXEA leased a full floor (21KSF) in West Memorial Place I.

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OFFICE MARKET SNAPSHOT

LEASING

Net absorption amounted to about -950,000 SF last quarter, representing a return to losses after three positive quarters. CoStar's forecast calls for demand to pick up, and average about 1.3 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 new signings by Alight Solutions for a 180,000 SF build-to-suit at 8770 New Trails Drive in the Woodlands and Honeywell for 115,000 SF in CityWestPlace Building 1 in Westchase.

RENT

Houston's rents have stabilized over the past year after suffering losses in 2016 and 2017—the same years when most markets were posting their strongest rent growth. Houston office rents are set to 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

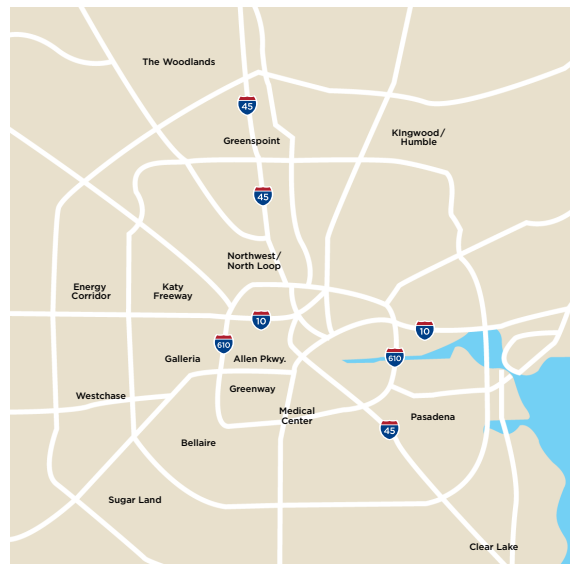
Houston's office supply pipeline is near the lowest it has been since the global financial crisis. The pause in the market's normally frenetic pace of development has limited the damage from weak demand. However, it also underscores the crisis of confidence investors and developers have about Houston. 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, and welcomed Bank of America in 19Q2. The speculative 150,000 SF CityPlace 1 delivered in Springwoods Village 18% leased. And 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 19Q3. 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 the largest transactions so far this 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).

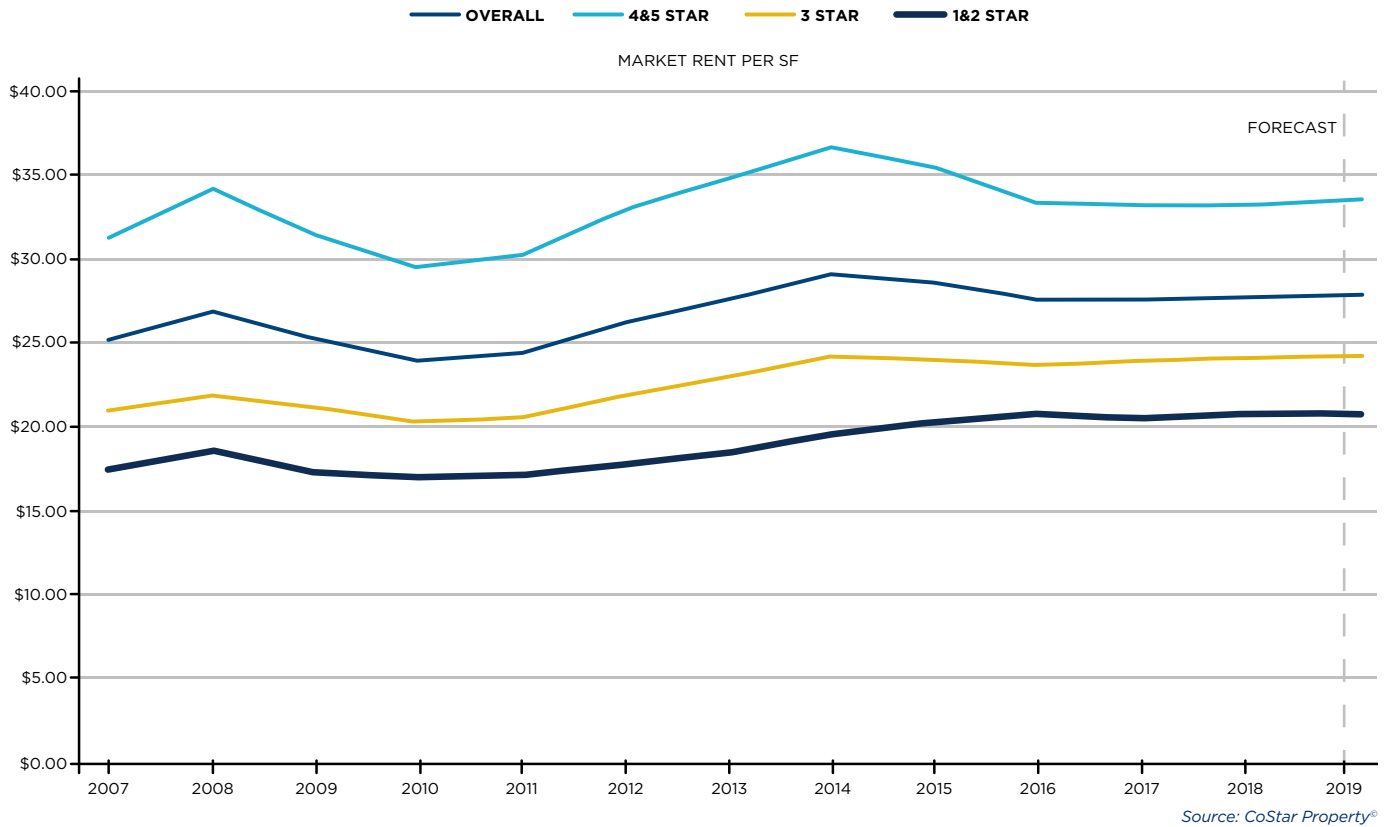
Source: CoStar Property®



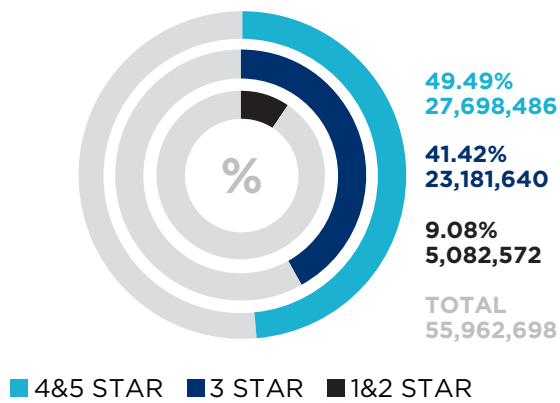
Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Rent Per SF
	Bldgs	SF (000)	SF	Percent				
Bellaire	91	5,083	700,657	13.8%	28,845	1	-	\$25.27
CBD	162	51,465	10,035,626	19.5%	374,353	1	1,274	\$36.01
E Fort Bend Co/Sugar Land	413	10,021	1,135,727	11.3%	(32,519)	12	239	\$27.08
FM 1960/Champions	261	4,431	672,791	15.2%	(48,579)	0	-	\$18.74
FM 1960/Hwy 249	436	9,181	1,460,756	15.9%	(380,039)	10	203	\$25.09
Galleria/Uptown	66	16,848	2,965,171	17.6%	(219,589)	0	-	\$32.10
Greenspoint/N Belt W.	118	11,034	4,975,006	45.1%	(67,164)	0	-	\$18.39
Greenway Plaza	276	13,118	1,662,079	12.7%	210,886	0	-	\$30.06
Gulf Freeway/Pasadena	648	7,998	965,734	12.1%	(131,554)	1	-	\$21.68
Katy Freeway East	261	11,681	1,021,980	8.7%	237,994	2	167	\$30.79
Katy Freeway West	260	27,927	7,023,640	25.2%	209,234	2	-	\$30.50
Katy/Grand Parkway W.	447	6,247	681,124	10.9%	60,820	14	219	\$28.67
Midtown	575	9,900	999,352	10.1%	(55,626)	3	167	\$29.81
NASA/Clear Lake	534	10,402	1,413,905	13.6%	100,352	5	74	\$23.82
North Loop West	359	6,631	1,069,323	16.1%	53,321	3	105	\$23.24
Post Oak Park	44	4,692	1,158,751	24.7%	3,832	0	207	\$31.65
San Felipe/Voss	50	5,338	1,112,096	20.8%	(60,649)	0	-	\$26.64
South Main/Medical Center	241	13,624	744,598	5.5%	(158,397)	0	-	\$28.10
Southwest Beltway 8	192	7,468	1,427,476	19.1%	(264,606)	0	-	\$18.18
Southwest/Hillcroft	109	5,346	991,021	18.5%	9,200	0	-	\$17.28
The Woodlands	654	23,233	2,349,089	10.1%	587,942	17	348	\$32.13
West Belt	110	6,267	1,286,455	20.5%	60,986	1	-	\$27.75
Westchase	138	18,921	4,172,150	22.1%	141,685	0	-	\$26.85

Source: CoStar Property®

HISTORICAL AND FORECAST RENTAL RATES BY CLASS

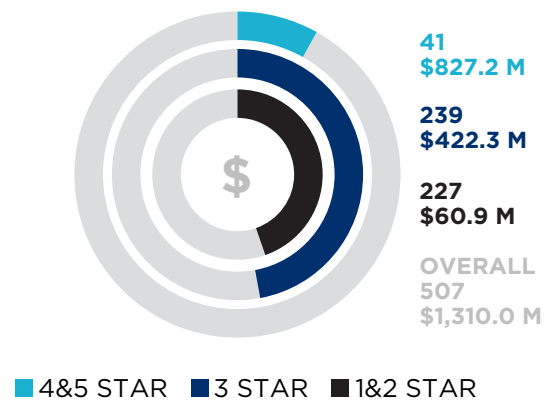


VACANCY BY CLASS



Source: CoStar Property®

SALES BY CLASS



Source: CoStar Property®

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