



# HOUSTON

OFFICE MARKET REPORT

# Q1 2017



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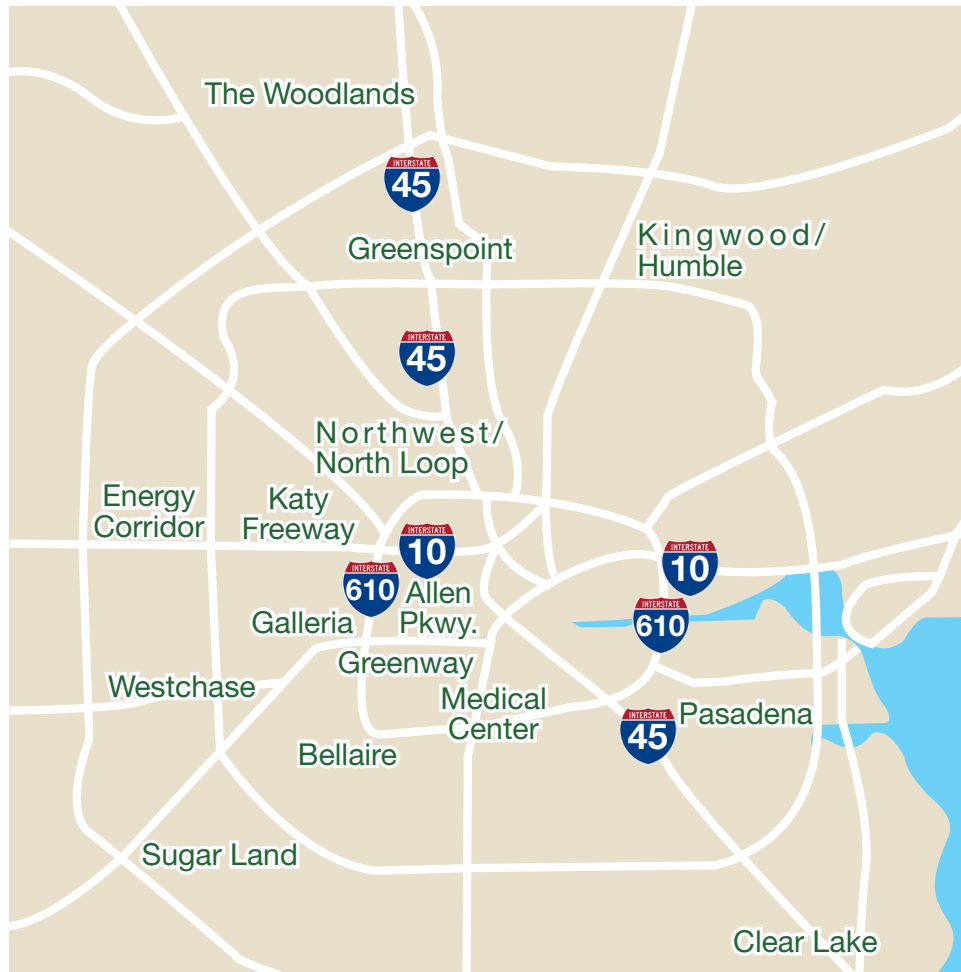
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# EXECUTIVE SUMMARY

The Houston Office market ended the first quarter 2017 with a vacancy rate of 15.8%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (751,841) square feet in the first quarter. Vacant sublease space decreased in the quarter, ending the quarter at 4,916,344 square feet. Rental rates ended the first quarter at \$27.56, an increase over the previous quarter. A total of 19 buildings delivered to the market in the quarter totaling 1,921,321 square feet, with 2,288,834 square feet still under construction at the end of the quarter.

## ABSORPTION

Net absorption for the overall Houston office market was negative (751,841) square feet in the first quarter 2017. That compares to negative (866,023) square feet in the fourth quarter 2016, positive 94,563 square feet in the third quarter 2016, and positive 87,078 square feet in the second quarter 2016.

## VACANCY

The office vacancy rate in the Houston market area increased to 15.8% at the end of the first quarter 2017. The vacancy rate was 15.0% at the end of the fourth quarter 2016, 14.7% at the end of the third quarter 2016, and 14.3% at the end of the second quarter 2016.

## LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2017 included: the 378,000-square-foot lease signed by HP at Springwoods Village in the Woodlands market; the 127,734-square-foot lease signed by Targa Resources Corp. at 811 Louisiana St in the Downtown market, and the 54,215-square-foot deal signed by Crestwood Partners at BG Group Place in the Downtown market.

## SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market decreased to 4,916,344 square feet by the end of the first quarter 2017, from 5,017,951 square feet at the end of the fourth quarter 2016. There was 4,892,431 square feet vacant at the end of the third quarter 2016 and 4,479,106 square feet at the end of the second quarter 2016.

## RENTAL RATES

The average quoted asking rental rate for available office space, all classes, was \$27.56 per square foot per year at the end of the first quarter 2017 in the Houston market area. This represented a 0.2% increase in quoted rental rates from the end of the fourth quarter 2016, when rents were reported at \$27.50 per square foot.

## DELIVERIES AND CONSTRUCTION

During the first quarter 2017, 19 buildings totaling 1,921,321 square feet were completed in the Houston market area. This compares to 12 buildings totaling 94,214 square feet that were completed in the fourth quarter 2016, 20 buildings totaling 1,692,912 square feet completed in the third quarter 2016, and 2,492,035 square feet in 18 buildings completed in the second quarter 2016.

## INVENTORY

Total office inventory in the Houston market area amounted to 305,337,297 square feet in 7,183 buildings as of the end of the first quarter 2017. The Class-A office sector consisted of 141,608,892 square feet in 474 projects. There were 3,041 Class-B buildings totaling 124,931,992 square feet, and the Class-C sector consisted of 38,796,413 square feet in 3,668 buildings. Within the Office market there were 590 owner occupied buildings accounting for 45,122,695 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 fourth quarter 2016 in terms of dollar volume compared to the third quarter of 2016.

Cap rates have been lower in 2016, averaging 5.98% compared to the same period in 2015 when they averaged 7.08%. One of the largest transactions that has occurred within the last four quarters in the Houston market is the sale of The Offices at Greenhouse in Houston. This 203,149-square-foot office building sold for \$47,000,000, or \$231.36 per square foot. The property sold on 11/14/2016, at a 5.5% cap rate."

# HOUSTON OFFICE MARKET

## CLASS A MARKET STATISTICS

First Quarter 2017

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Austin County	0	0	0	0	0.0%	0	0	0	\$0.00
Bellaire	8	1,470,637	184,274	195,406	13.3%	(1,389)	0	0	\$26.93
Downtown	45	35,852,160	5,270,207	6,035,927	16.8%	(441,798)	1,056,658	0	\$41.97
E Fort Bend Co/Sugar Land	20	3,773,331	268,418	352,188	9.3%	1,851	0	94,200	\$28.65
FM 1960	20	4,086,782	344,471	360,014	8.8%	19,979	0	0	\$27.49
Greenway Plaza	20	7,267,315	1,067,466	1,079,457	14.9%	14,364	0	188,547	\$36.72
Gulf Freeway/Pasadena	1	22,706	0	0	0.0%	3,122	0	0	\$30.59
I-10 East	0	0	0	0	0.0%	0	0	0	\$0.00
Katy Freeway	95	24,518,088	3,308,197	4,934,172	20.1%	222,593	238,173	136,255	\$31.64
Katy/Grand Parkway West	23	1,917,209	581,654	581,654	30.3%	(6,436)	0	171,538	\$28.09
Kingwood/Humble	3	189,312	9,393	9,393	5.0%	0	0	0	\$25.67
NASA/Clear Lake	17	2,122,602	163,648	214,291	10.1%	(4,209)	0	0	\$27.47
North Belt	25	5,551,944	2,393,509	2,840,512	51.2%	105,366	0	0	\$22.87
Northeast Near	2	555,700	0	0	0.0%	0	0	85,000	\$0.00
Northwest	11	2,275,066	689,221	710,428	31.2%	(31,317)	0	0	\$22.40
Richmond/Fountainview	0	0	0	0	0.0%	0	0	0	\$0.00
San Felipe/Voss	3	1,720,793	414,360	415,360	24.1%	21,344	0	0	\$36.11
San Jacinto County	0	0	0	0	0.0%	0	0	0	\$0.00
South	4	393,548	46,479	46,479	11.8%	0	0	300,000	\$28.23
South Hwy 35	0	0	0	0	0.0%	0	0	0	\$0.00
South Main/Medical Center	15	4,560,992	299,840	309,203	6.8%	(79,962)	0	0	\$29.91
Southwest	9	2,052,051	271,433	271,433	13.2%	7,458	0	0	\$18.97
West Belt	30	4,356,069	697,810	886,525	20.4%	(43,019)	0	0	\$27.54
West Loop	48	17,798,908	3,238,879	3,492,424	19.6%	23,032	380,000	104,579	\$36.18
Westchase	33	9,817,089	1,716,849	2,383,375	24.3%	(100,115)	0	187,011	\$35.19
Woodlands	42	11,306,590	1,256,904	1,296,746	11.5%	113,423	0	498,796	\$35.86
<b>Totals</b>	<b>474</b>	<b>141,608,892</b>	<b>22,223,012</b>	<b>26,414,987</b>	<b>18.7%</b>	<b>(175,713)</b>	<b>1,674,831</b>	<b>1,765,926</b>	<b>\$33.14</b>

Source: CoStar Property®

## CLASS B MARKET STATISTICS

First Quarter 2017

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Austin County	9	110,107	0	0	0.0%	630	0	0	\$12.38
Bellaire	30	2,712,594	171,210	171,210	6.3%	11,289	0	0	\$23.52
Downtown	191	19,722,279	3,170,719	3,250,230	16.5%	(210,827)	0	0	\$29.34
E Fort Bend Co/Sugar Land	256	5,042,220	459,334	479,109	9.5%	(67)	28,249	136,399	\$25.46
FM 1960	356	7,601,701	1,275,711	1,355,781	17.8%	(22,877)	24,760	45,185	\$18.01
Greenway Plaza	49	4,095,076	337,205	358,345	8.8%	(39,715)	0	4,346	\$26.32
Gulf Freeway/Pasadena	171	3,942,112	444,126	444,126	11.3%	3,267	0	82,800	\$21.93
I-10 East	24	594,089	157,792	157,792	26.6%	(8,478)	0	0	\$15.59
Katy Freeway	211	12,494,810	2,190,517	2,242,377	17.9%	(215,606)	0	0	\$22.00
Katy/Grand Parkway West	251	3,101,500	135,724	136,064	4.4%	47,370	43,986	84,200	\$27.56
Kingwood/Humble	86	2,174,826	133,648	142,378	6.5%	102,176	100,000	44,450	\$21.98
NASA/Clear Lake	222	6,006,181	1,175,246	1,177,256	19.6%	(53,859)	0	26,800	\$18.50
North Belt	73	6,460,102	1,861,949	2,053,616	31.8%	(33,161)	0	0	\$16.72
Northeast Near	31	728,535	76,350	76,350	10.5%	40,606	0	0	\$19.90
Northwest	155	7,025,304	992,054	999,670	14.2%	(48,736)	3,600	15,000	\$19.52
Richmond/Fountainview	27	966,080	240,307	240,307	24.9%	(14,673)	0	0	\$17.54
San Felipe/Voss	37	3,548,819	483,002	488,121	13.8%	(32,121)	0	0	\$23.75
San Jacinto County	1	27,261	0	0	0.0%	0	0	0	\$0.00
South	86	1,572,845	131,943	131,943	8.4%	6,279	10,394	23,728	\$26.02
South Hwy 35	35	361,719	20,365	20,365	5.6%	(5,114)	0	0	\$17.36
South Main/Medical Center	66	4,836,126	487,683	488,533	10.1%	41,778	0	0	\$25.67
Southwest	127	7,776,260	1,239,444	1,276,098	16.4%	(54,632)	0	60,000	\$16.74
West Belt	54	2,174,632	342,646	445,451	20.5%	(20,679)	0	0	\$20.87
West Loop	58	6,262,578	693,731	713,872	11.4%	15,033	0	0	\$27.18
Westchase	72	7,747,152	1,378,081	1,392,478	18.0%	1,795	10,000	0	\$19.22
Woodlands	363	7,847,084	770,197	837,693	10.7%	(37,467)	25,501	0	\$25.80
<b>Totals</b>	<b>3,041</b>	<b>124,931,992</b>	<b>18,368,984</b>	<b>19,079,165</b>	<b>15.3%</b>	<b>(527,789)</b>	<b>246,490</b>	<b>522,908</b>	<b>\$21.54</b>

Source: CoStar Property®

# HOUSTON OFFICE MARKET

## CLASS C MARKET STATISTICS

First Quarter 2017

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Austin County	24	97,869	3,318	3,318	3.4%	(3,318)	0	0	\$0.00
Bellaire	42	770,586	66,213	66,213	8.6%	(311)	0	0	\$18.23
Downtown	436	4,342,756	274,578	274,578	6.3%	(4,871)	0	0	\$22.16
E Fort Bend Co/Sugar Land	99	848,963	77,252	77,252	9.1%	3,037	0	0	\$21.68
FM 1960	321	2,767,624	257,049	257,049	9.3%	4,551	0	0	\$16.36
Greenway Plaza	201	1,511,327	107,051	107,051	7.1%	(5,858)	0	0	\$23.80
Gulf Freeway/Pasadena	407	3,307,860	250,542	250,542	7.6%	10,112	0	0	\$17.25
I-10 East	96	591,012	122,919	122,919	20.8%	(1,904)	0	0	\$19.54
Katy Freeway	205	3,204,874	148,349	158,303	4.9%	(9,546)	0	0	\$20.75
Katy/Grand Parkway West	87	596,896	59,138	59,138	9.9%	(3,823)	0	0	\$19.54
Kingwood/Humble	118	932,048	85,363	85,363	9.2%	3,532	0	0	\$18.32
NASA/Clear Lake	257	2,277,318	203,246	203,246	8.9%	(9,037)	0	0	\$18.51
North Belt	72	2,227,345	341,526	341,526	15.3%	(38,529)	0	0	\$13.46
Northeast Near	101	874,217	15,883	15,883	1.8%	4,092	0	0	\$18.36
Northwest	326	3,015,055	155,310	158,894	5.3%	(11,656)	0	0	\$15.55
Richmond/Fountainview	87	1,197,348	88,822	88,822	7.4%	11,384	0	0	\$16.26
San Felipe/Voss	9	72,391	0	0	0.0%	6,300	0	0	\$18.24
San Jacinto County	2	11,878	0	0	0.0%	0	0	0	\$0.00
South	136	850,611	68,926	68,926	8.1%	8,753	0	0	\$15.21
South Hwy 35	107	420,895	29,167	29,167	6.9%	1,255	0	0	\$15.44
South Main/Medical Center	145	2,843,446	40,202	40,202	1.4%	(7,600)	0	0	\$23.47
Southwest	157	3,108,810	151,554	151,554	4.9%	8,917	0	0	\$14.90
West Belt	18	183,354	0	0	0.0%	0	0	0	\$16.50
West Loop	25	517,292	21,400	21,400	4.1%	15,538	0	0	\$22.88
Westchase	30	890,384	31,838	31,838	3.6%	1,945	0	0	\$16.06
Woodlands	160	1,334,254	99,395	100,045	7.5%	(31,302)	0	0	\$22.77
<b>Totals</b>	<b>3,668</b>	<b>38,796,413</b>	<b>2,699,041</b>	<b>2,713,229</b>	<b>7.0%</b>	<b>(48,339)</b>	<b>0</b>	<b>0</b>	<b>\$17.97</b>

Source: CoStar Property\*

## TOTAL OFFICE MARKET STATISTICS

First Quarter 2017

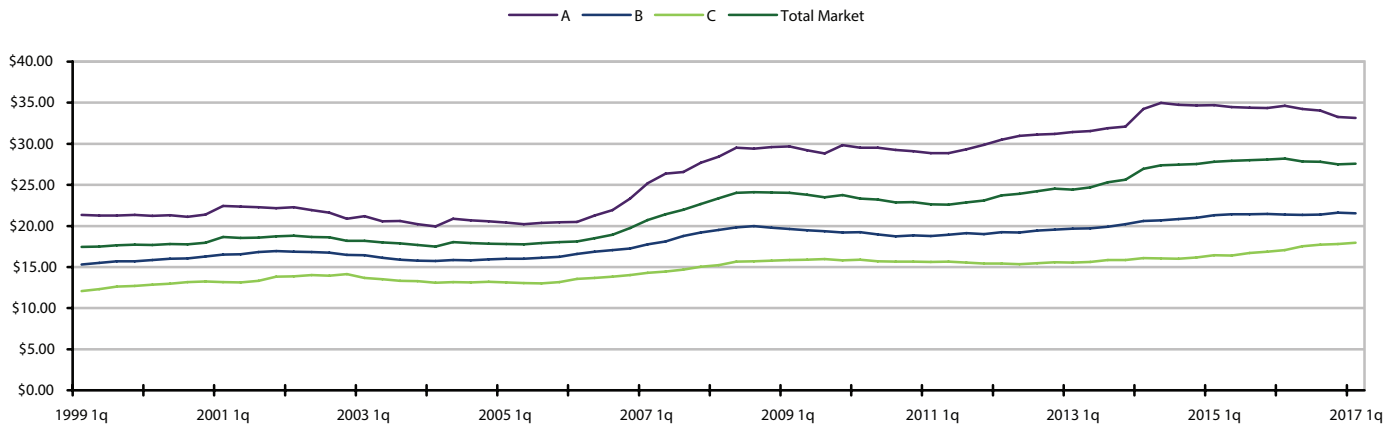
Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Austin County	33	207,976	3,318	3,318	1.6%	(2,688)	0	0	\$12.38
Bellaire	80	4,953,817	421,697	432,829	8.7%	9,589	0	0	\$24.56
Downtown	672	59,917,195	8,715,504	9,560,735	16.0%	(657,496)	1,056,658	0	\$38.67
E Fort Bend Co/Sugar Land	375	9,664,514	805,004	908,549	9.4%	4,821	28,249	230,599	\$26.69
FM 1960	697	14,456,107	1,877,231	1,972,844	13.6%	1,653	24,760	45,185	\$19.40
Greenway Plaza	270	12,873,718	1,511,722	1,544,853	12.0%	(31,209)	0	192,893	\$33.47
Gulf Freeway/Pasadena	579	7,272,678	694,668	694,668	9.6%	16,501	0	82,800	\$20.36
I-10 East	120	1,185,101	280,711	280,711	23.7%	(10,382)	0	0	\$17.75
Katy Freeway	511	40,217,772	5,647,063	7,334,852	18.2%	(2,559)	238,173	136,255	\$27.62
Katy/Grand Parkway West	361	5,615,605	776,516	776,856	13.8%	37,111	43,986	255,738	\$27.34
Kingwood/Humble	207	3,296,186	228,404	237,134	7.2%	105,708	100,000	44,450	\$21.40
NASA/Clear Lake	496	10,406,101	1,542,140	1,594,793	15.3%	(67,105)	0	26,800	\$19.84
North Belt	170	14,239,391	4,596,984	5,235,654	36.8%	33,676	0	0	\$20.04
Northeast Near	134	2,158,452	92,233	92,233	4.3%	44,698	0	85,000	\$19.37
Northwest	492	12,315,425	1,836,585	1,868,992	15.2%	(91,709)	3,600	15,000	\$20.32
Richmond/Fountainview	114	2,163,428	329,129	329,129	15.2%	(3,289)	0	0	\$17.25
San Felipe/Voss	49	5,342,003	897,362	903,481	16.9%	(4,477)	0	0	\$29.63
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	226	2,817,004	247,348	247,348	8.8%	15,032	10,394	323,728	\$23.11
South Hwy 35	142	782,614	49,532	49,532	6.3%	(3,859)	0	0	\$16.33
South Main/Medical Center	226	12,240,564	827,725	837,938	6.8%	(45,784)	0	0	\$26.89
Southwest	293	12,937,121	1,662,431	1,699,085	13.1%	(38,257)	0	60,000	\$17.09
West Belt	102	6,714,055	1,040,456	1,331,976	19.8%	(63,698)	0	0	\$25.66
West Loop	131	24,578,778	3,954,010	4,227,696	17.2%	53,603	380,000	104,579	\$34.23
Westchase	135	18,454,625	3,126,768	3,807,691	20.6%	(96,375)	10,000	187,011	\$28.84
Woodlands	565	20,487,928	2,126,496	2,234,484	10.9%	44,654	25,501	498,796	\$29.76
<b>Totals</b>	<b>7,183</b>	<b>305,337,297</b>	<b>43,291,037</b>	<b>48,207,381</b>	<b>15.8%</b>	<b>(751,841)</b>	<b>1,921,321</b>	<b>2,288,834</b>	<b>\$27.56</b>

Source: CoStar Property\*

# HOUSTON OFFICE MARKET

## HISTORICAL RENTAL RATES

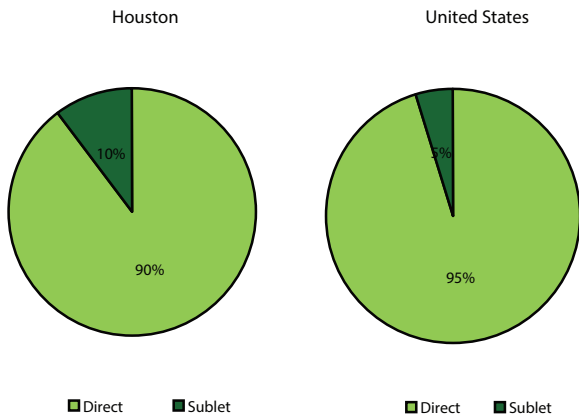
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property\*

## VACANCY BY AVAILABLE SPACE TYPE

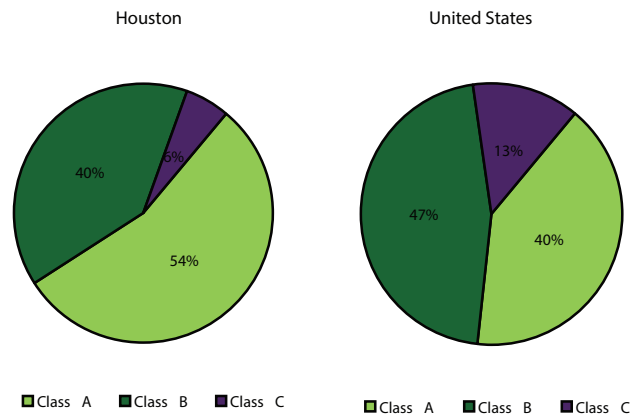
Percent of All Vacant Space in Direct vs. Sublet



Source: CoStar Property\*

## VACANCY BY CLASS

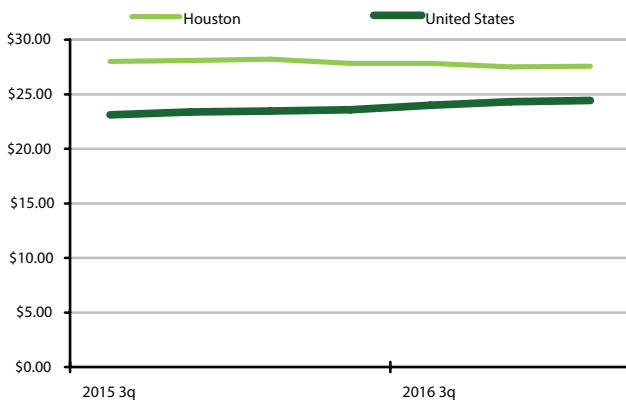
Percent of All Vacant Space by Class



Source: CoStar Property\*

## U.S. RENTAL RATE COMPARISON

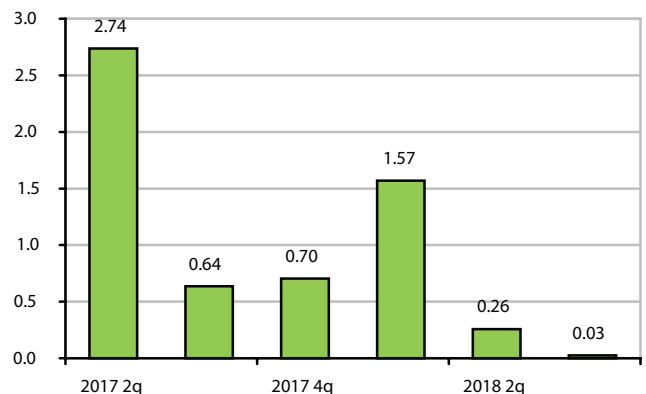
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property\*

## FUTURE SPACE AVAILABLE

Space Scheduled to be Available for Occupancy\*



\* Includes Under Construction Spaces Source: CoStar Property\*