



# HOUSTON

OFFICE MARKET REPORT

# Q2 2017



2900 Wesleyan Street,  
Ste 620 Houston, TX 77027.



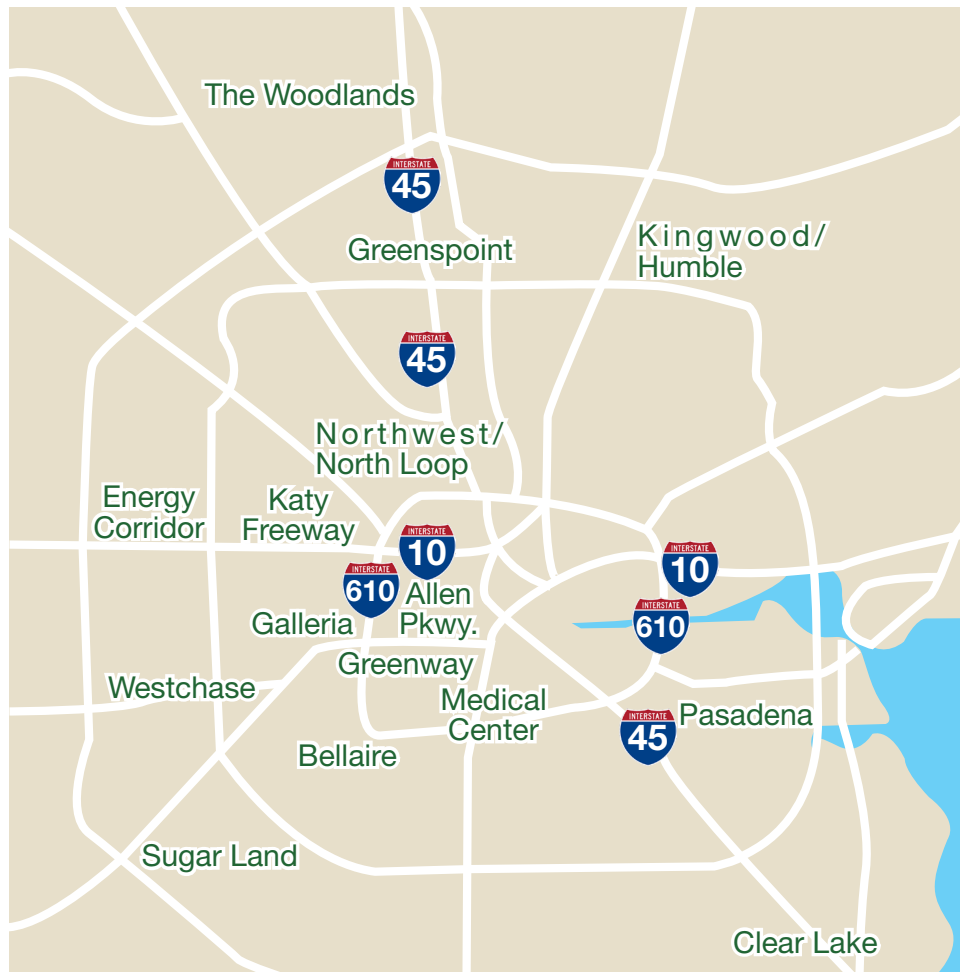
713-647-6400



[info@oxfordcres.com](mailto:info@oxfordcres.com)

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# EXECUTIVE SUMMARY

The Houston Office market ended the second quarter 2017 with a vacancy rate of 16.1%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (609,626) square feet in the second quarter. Vacant sublease space increased in the quarter, ending the quarter at 5,114,580 square feet. Rental rates ended the second quarter at \$27.70, an increase over the previous quarter. A total of 19 buildings delivered to the market in the quarter totaling 350,424 square feet, with 3,096,080 square feet still under construction at the end of the quarter.

## ABSORPTION

Net absorption for the overall Houston office market was negative (609,626) square feet in the second quarter 2017. That compares to negative (1,167,753) square feet in the first quarter 2017, negative (898,335) square feet in the fourth quarter 2016, and positive 25,707 square feet in the third quarter 2016.

## VACANCY

The office vacancy rate in the Houston market area increased to 16.1% at the end of the second quarter 2017. The vacancy rate was 15.9% at the end of the first quarter 2017, 15.0% at the end of the fourth quarter 2016, and 14.7% at the end of the third quarter 2016.

## LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2017 included: the 355,506-square-foot lease signed by Apache Corporation at Post Oak Central One in the West Loop market; the 209,447-square-foot deal signed by Bank of America at Capitol Tower in the Downtown market; and the 127,734-square-foot lease signed by Targa Resources Corp at 811 Louisiana St in the Downtown market.

## SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market increased to 5,114,580 square feet by the end of the second quarter 2017, from 4,916,344 square feet at the end of the first quarter 2017. There was 5,017,951 square feet vacant at the end of the fourth quarter 2016 and 4,892,431 square feet at the end of the third quarter 2016.

## RENTAL RATES

The average quoted asking rental rate for available office space, all classes, was \$27.70 per square foot per year at the end of the second quarter 2017 in the Houston market area. This represented a 0.5% increase in quoted rental rates from the end of the first quarter 2017, when rents were reported at \$27.57 per square foot.

## DELIVERIES AND CONSTRUCTION

During the second quarter 2017, 19 buildings totaling 350,424 square feet were completed in the Houston market area. This compares to 19 buildings totaling 1,943,613 square feet that were completed in the first quarter 2017, 12 buildings totaling 89,065 square feet completed in the fourth quarter 2016, and 1,696,505 square feet in 20 buildings completed in the third quarter 2016.

## INVENTORY

Total office inventory in the Houston market area amounted to 305,191,135 square feet in 7,269 buildings as of the end of the second quarter 2017. The Class-A office sector consisted of 142,237,382 square feet in 477 projects. There were 3,080 Class-B buildings totaling 124,000,753 square feet, and the Class-C sector consisted of 38,953,000 square feet in 3,712 buildings. Within the Office market there were 587 owner occupied buildings accounting for 44,837,250 square feet of office space.

## SALES ACTIVITY

Tallying office building sales of 15,000 square feet or larger, Houston office sales figures rose during the first quarter 2017 in terms of dollar volume compared to the fourth quarter of 2016.

Cap rates have been higher in 2017, averaging 8.03% compared to the same period in 2016 when they averaged 6.53%. 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. 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 5.50% cap rate.

# HOUSTON OFFICE MARKET

## CLASS A MARKET STATISTICS

Mid-Year 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	172,249	183,925	12.5%	10,092	0	0	\$26.95
Downtown	47	36,385,168	5,400,819	6,196,856	17.0%	(515,595)	1,056,658	778,344	\$41.91
E Fort Bend Co/Sugar Land	20	3,773,331	297,364	381,134	10.1%	(27,095)	0	263,359	\$29.07
FM 1960	20	4,086,117	382,930	398,473	9.8%	(18,480)	0	0	\$27.04
Greenway Plaza	20	7,202,397	1,136,047	1,149,188	16.0%	(55,367)	0	188,547	\$37.01
Gulf Freeway/Pasadena	1	22,706	0	0	0.0%	3,122	0	0	\$21.00
I-10 East	0	0	0	0	0.0%	0	0	0	\$0.00
Katy Freeway	95	24,448,150	3,582,931	5,173,573	21.2%	(30,385)	238,173	136,255	\$32.15
Katy/Grand Parkway West	23	1,916,942	564,398	564,398	29.4%	10,820	0	72,045	\$27.40
Kingwood/Humble	3	189,312	9,393	9,393	5.0%	0	0	100,000	\$25.67
NASA/Clear Lake	17	2,122,602	185,559	231,860	10.9%	(21,778)	0	0	\$27.04
North Belt	25	5,548,487	2,831,928	3,080,722	55.5%	(142,149)	0	0	\$23.17
Northeast Near	2	555,700	0	0	0.0%	0	0	85,000	\$0.00
Northwest	11	2,275,165	690,297	704,155	30.9%	(25,044)	0	0	\$22.70
Richmond/Fountainview	0	0	0	0	0.0%	0	0	0	\$0.00
San Felipe/Voss	3	1,720,793	413,395	414,395	24.1%	22,309	0	0	\$36.12
San Jacinto County	0	0	0	0	0.0%	0	0	0	\$0.00
South	4	393,548	44,029	44,029	11.2%	2,450	0	300,000	\$28.63
South Hwy 35	0	0	0	0	0.0%	0	0	0	\$0.00
South Main/Medical Center	15	4,560,992	241,805	241,805	5.3%	(12,564)	0	0	\$31.70
Southwest	9	2,052,051	280,237	282,777	13.8%	(3,886)	0	0	\$19.11
West Belt	30	4,370,210	742,822	930,208	21.3%	(86,702)	0	0	\$27.60
West Loop	49	18,091,153	3,187,944	3,847,297	21.3%	(302,207)	380,000	104,579	\$36.42
Westchase	33	9,816,819	1,714,083	2,402,569	24.5%	(130,006)	0	187,011	\$34.93
Woodlands	42	11,235,102	1,322,944	1,369,478	12.2%	(30,797)	171,996	326,800	\$36.40
<b>Totals</b>	<b>477</b>	<b>142,237,382</b>	<b>23,201,174</b>	<b>27,606,235</b>	<b>19.4%</b>	<b>(1,353,262)</b>	<b>1,846,827</b>	<b>2,541,940</b>	<b>\$33.47</b>

Source: CoStar Property®

## CLASS B MARKET STATISTICS

Mid-Year 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	2,709,373	162,246	164,337	6.1%	18,162	0	0	\$23.59
Downtown	187	18,845,160	3,139,670	3,219,621	17.1%	(249,081)	0	45,966	\$28.34
E Fort Bend Co/Sugar Land	261	5,060,474	473,477	496,227	9.8%	19,965	56,681	155,199	\$25.89
FM 1960	371	7,662,437	1,208,582	1,300,651	17.0%	16,484	49,998	72,350	\$18.24
Greenway Plaza	49	4,095,073	393,981	404,979	9.9%	(86,349)	0	4,346	\$26.65
Gulf Freeway/Pasadena	174	4,157,808	473,538	473,538	11.4%	63,048	82,800	18,804	\$22.04
I-10 East	25	551,484	105,361	105,361	19.1%	(8,847)	0	0	\$15.00
Katy Freeway	210	12,316,483	2,049,730	2,109,037	17.1%	(257,206)	0	4,320	\$21.94
Katy/Grand Parkway West	254	3,133,437	150,916	151,256	4.8%	41,078	52,386	101,900	\$28.08
Kingwood/Humble	87	2,226,182	128,544	137,274	6.2%	151,730	144,450	0	\$22.65
NASA/Clear Lake	224	6,132,951	1,209,787	1,213,665	19.8%	16,503	10,000	21,800	\$18.97
North Belt	73	6,480,071	1,925,463	2,120,758	32.7%	(58,113)	0	0	\$16.73
Northeast Near	32	735,324	67,355	67,355	9.2%	50,501	0	0	\$19.87
Northwest	161	7,048,370	975,137	982,451	13.9%	(33,417)	0	15,000	\$19.28
Richmond/Fountainview	27	965,675	206,970	206,970	21.4%	18,664	0	0	\$18.06
San Felipe/Voss	37	3,547,046	485,829	492,048	13.9%	(36,048)	0	0	\$23.76
San Jacinto County	1	27,261	0	0	0.0%	0	0	0	\$0.00
South	87	1,502,746	122,794	122,794	8.2%	17,728	10,394	48,455	\$26.62
South Hwy 35	36	362,797	23,726	23,726	6.5%	(8,475)	0	0	\$18.07
South Main/Medical Center	66	4,796,150	474,091	476,589	9.9%	54,222	0	0	\$25.92
Southwest	128	7,773,218	1,203,834	1,209,236	15.6%	43,161	5,000	60,000	\$17.00
West Belt	55	2,162,562	262,483	381,233	17.6%	92,149	0	6,000	\$20.46
West Loop	57	5,980,988	679,669	699,378	11.7%	(107)	0	0	\$26.72
Westchase	72	7,745,296	1,388,024	1,404,125	18.1%	(9,852)	10,000	0	\$19.18
Woodlands	367	7,872,280	819,276	852,958	10.8%	(52,780)	25,501	0	\$25.63
<b>Totals</b>	<b>3,080</b>	<b>124,000,753</b>	<b>18,130,483</b>	<b>18,815,567</b>	<b>15.2%</b>	<b>(196,250)</b>	<b>447,210</b>	<b>554,140</b>	<b>\$21.60</b>

Source: CoStar Property®

# HOUSTON OFFICE MARKET

## CLASS C MARKET STATISTICS

Mid-Year 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	25	99,701	4,718	4,718	4.7%	(4,718)	0	0	\$41.67
Bellaire	42	770,586	58,168	58,168	7.5%	7,734	0	0	\$18.38
Downtown	443	4,348,352	270,922	276,813	6.4%	(3,286)	0	0	\$22.23
E Fort Bend Co/Sugar Land	101	905,743	86,363	88,163	9.7%	(774)	0	0	\$22.08
FM 1960	334	2,825,934	274,298	274,298	9.7%	(9,398)	0	0	\$16.35
Greenway Plaza	203	1,514,397	102,287	102,287	6.8%	(594)	0	0	\$23.20
Gulf Freeway/Pasadena	410	3,354,946	269,373	269,373	8.0%	5,251	0	0	\$16.32
I-10 East	98	654,830	51,137	51,137	7.8%	5,278	0	0	\$19.87
Katy Freeway	202	3,099,619	148,098	161,020	5.2%	(129,394)	0	0	\$19.32
Katy/Grand Parkway West	88	599,932	57,957	57,957	9.7%	(2,142)	0	0	\$19.52
Kingwood/Humble	120	944,502	96,228	96,228	10.2%	(6,333)	0	0	\$18.15
NASA/Clear Lake	257	2,252,823	191,129	191,129	8.5%	(7,931)	0	0	\$18.29
North Belt	72	2,226,464	360,045	360,421	16.2%	(63,454)	0	0	\$13.70
Northeast Near	103	879,524	22,851	22,851	2.6%	(2,876)	0	0	\$17.69
Northwest	329	3,014,318	162,055	164,851	5.5%	(17,613)	0	0	\$15.24
Richmond/Fountainview	88	1,202,544	73,992	73,992	6.2%	26,214	0	0	\$16.08
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	852,762	78,650	78,650	9.2%	(271)	0	0	\$14.97
South Hwy 35	108	422,359	29,137	29,137	6.9%	942	0	0	\$17.49
South Main/Medical Center	146	2,848,150	55,380	55,380	1.9%	(22,778)	0	0	\$24.54
Southwest	157	3,108,841	134,748	134,748	4.3%	15,723	0	0	\$14.83
West Belt	17	177,654	0	0	0.0%	0	0	0	\$16.50
West Loop	25	517,292	20,025	20,025	3.9%	16,913	0	0	\$23.01
Westchase	30	890,384	42,205	42,205	4.7%	(8,422)	0	0	\$16.27
Woodlands	167	1,357,074	101,331	101,981	7.5%	(32,238)	0	0	\$22.57
<b>Totals</b>	<b>3,712</b>	<b>38,953,000</b>	<b>2,691,097</b>	<b>2,715,532</b>	<b>7.0%</b>	<b>(227,867)</b>	<b>0</b>	<b>0</b>	<b>\$17.79</b>

Source: CoStar Property\*

## TOTAL OFFICE MARKET STATISTICS

Mid-Year 2017

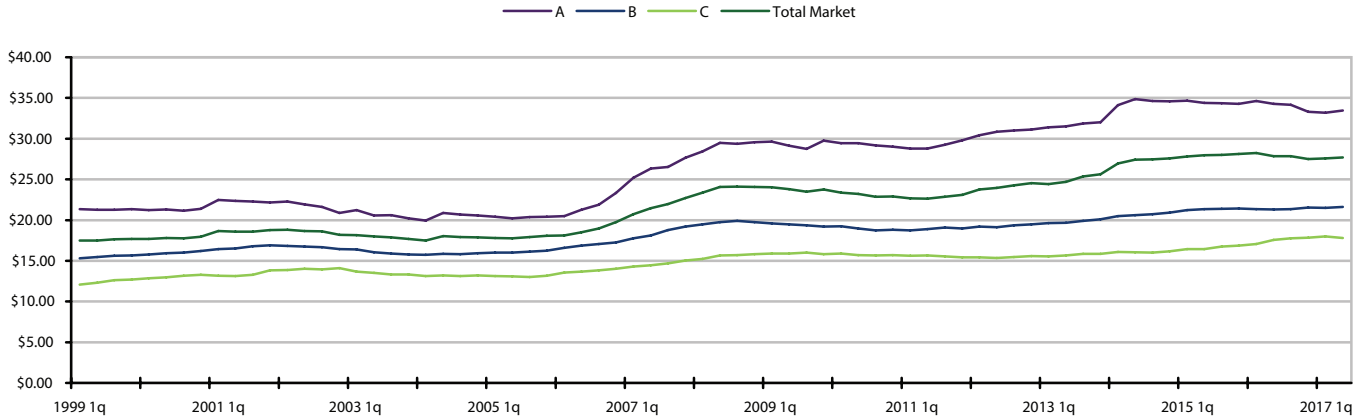
Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Austin County	34	209,808	4,718	4,718	2.2%	(4,088)	0	0	\$17.83
Bellaire	80	4,950,596	392,663	406,430	8.2%	35,988	0	0	\$24.56
Downtown	677	59,578,680	8,811,411	9,693,290	16.3%	(767,962)	1,056,658	824,310	\$38.20
E Fort Bend Co/Sugar Land	382	9,739,548	857,204	965,524	9.9%	(7,904)	56,681	418,558	\$27.20
FM 1960	725	14,574,488	1,865,810	1,973,422	13.5%	(11,394)	49,998	72,350	\$19.54
Greenway Plaza	272	12,811,867	1,632,315	1,656,454	12.9%	(142,310)	0	192,893	\$33.60
Gulf Freeway/Pasadena	585	7,535,460	742,911	742,911	9.9%	71,421	82,800	18,804	\$20.17
I-10 East	123	1,206,314	156,498	156,498	13.0%	(3,569)	0	0	\$17.70
Katy Freeway	507	39,864,252	5,780,759	7,443,630	18.7%	(416,985)	238,173	140,575	\$27.71
Katy/Grand Parkway West	365	5,650,311	773,271	773,611	13.7%	49,756	52,386	173,945	\$26.89
Kingwood/Humble	210	3,359,996	234,165	242,895	7.2%	145,397	144,450	100,000	\$21.62
NASA/Clear Lake	498	10,508,376	1,586,475	1,636,654	15.6%	(13,206)	10,000	21,800	\$20.16
North Belt	170	14,255,022	5,117,436	5,561,901	39.0%	(263,716)	0	0	\$20.04
Northeast Near	137	2,170,548	90,206	90,206	4.2%	47,625	0	85,000	\$19.05
Northwest	501	12,337,853	1,827,489	1,851,457	15.0%	(76,074)	0	15,000	\$20.20
Richmond/Fountainview	115	2,168,219	280,962	280,962	13.0%	44,878	0	0	\$17.57
San Felipe/Voss	49	5,340,230	899,224	906,443	17.0%	(7,439)	0	0	\$29.19
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	227	2,749,056	245,473	245,473	8.9%	19,907	10,394	348,455	\$25.37
South Hwy 35	144	785,156	52,863	52,863	6.7%	(7,533)	0	0	\$17.78
South Main/Medical Center	227	12,205,292	771,276	773,774	6.3%	18,880	0	0	\$27.79
Southwest	294	12,934,110	1,618,819	1,626,761	12.6%	54,998	5,000	60,000	\$17.30
West Belt	102	6,710,426	1,005,305	1,311,441	19.5%	5,447	0	6,000	\$25.47
West Loop	131	24,589,433	3,887,638	4,566,700	18.6%	(285,401)	380,000	104,579	\$34.47
Westchase	135	18,452,499	3,144,312	3,848,899	20.9%	(148,280)	10,000	187,011	\$28.86
Woodlands	576	20,464,456	2,243,551	2,324,417	11.4%	(115,815)	197,497	326,800	\$29.50
<b>Totals</b>	<b>7,269</b>	<b>305,191,135</b>	<b>44,022,754</b>	<b>49,137,334</b>	<b>16.1%</b>	<b>(1,777,379)</b>	<b>2,294,037</b>	<b>3,096,080</b>	<b>\$27.70</b>

Source: CoStar Property\*

# HOUSTON OFFICE MARKET

## HISTORICAL RENTAL RATES

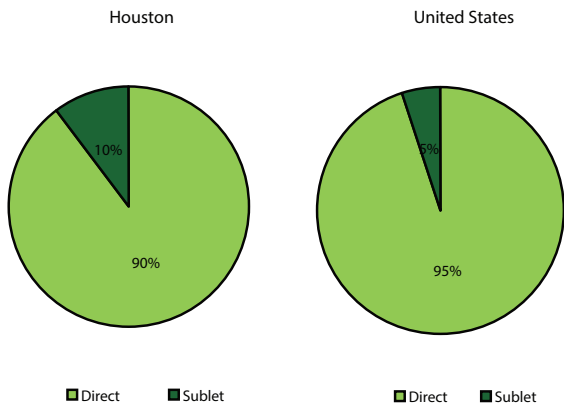
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property\*

## VACANCY BY AVAILABLE SPACE TYPE

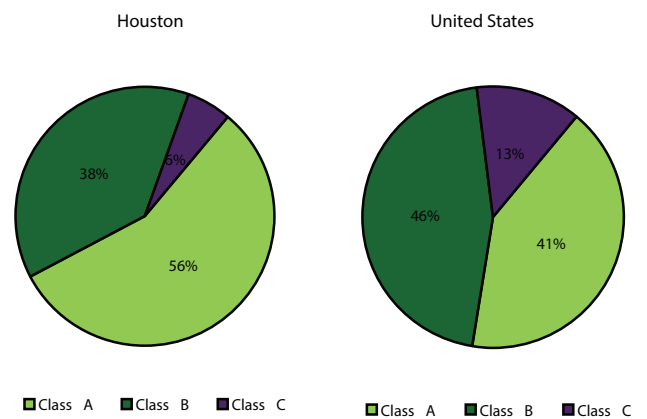
Percent of All Vacant Space in Direct vs. Sublet



Source: CoStar Property\*

## VACANCY BY CLASS

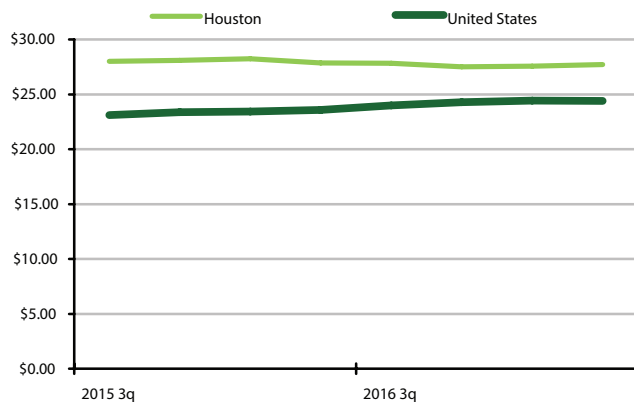
Percent of All Vacant Space by Class



Source: CoStar Property\*

## U.S. RENTAL RATE COMPARISON

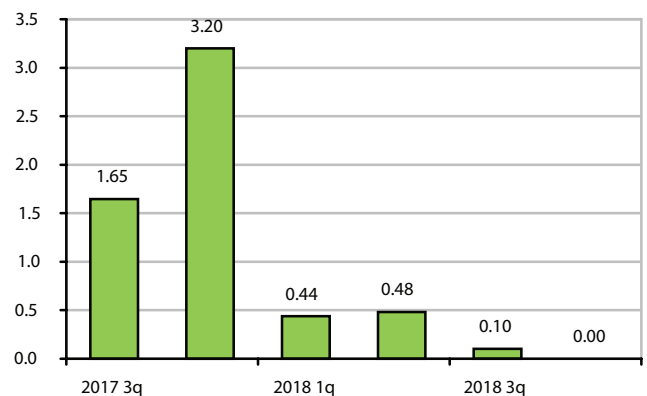
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property\*

## FUTURE SPACE AVAILABLE

Space Scheduled to be Available for Occupancy\*



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