



HOUSTON

OFFICE MARKET REPORT

Q3 2017



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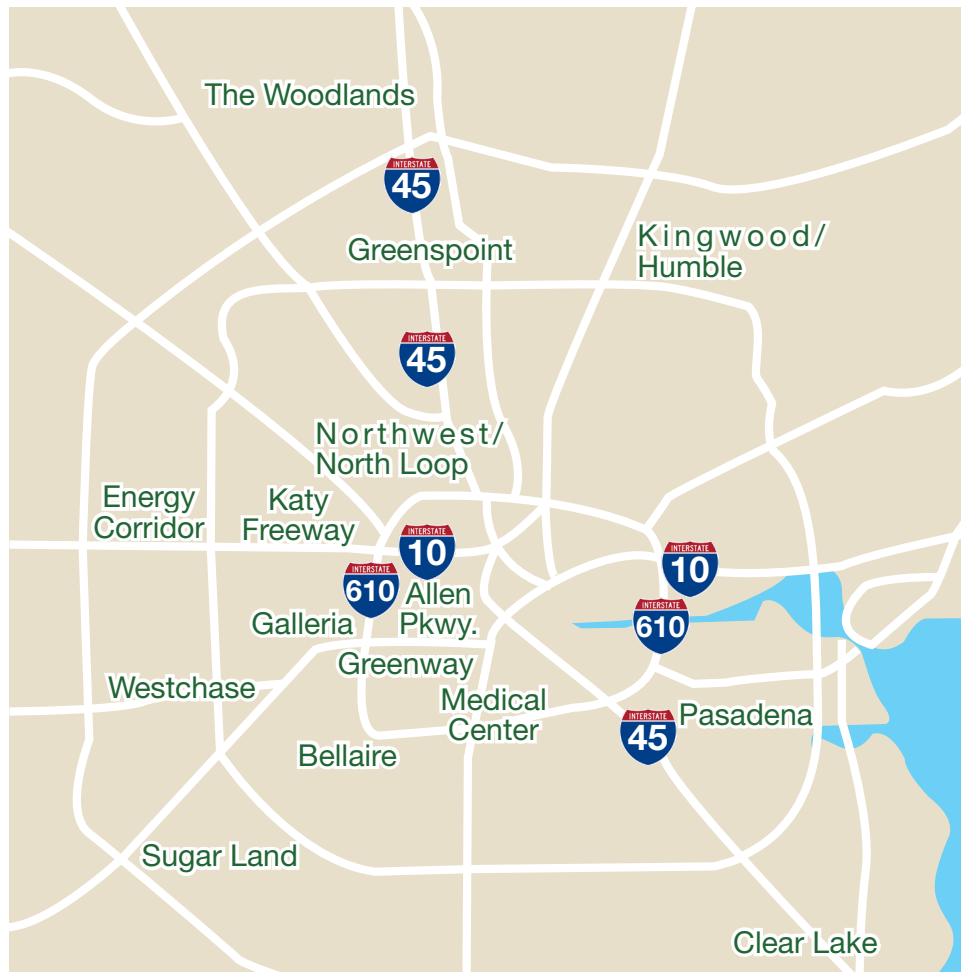
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EXECUTIVE SUMMARY

The Houston Office market ended the third quarter 2017 with a vacancy rate of 16.4%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (758,963) square feet in the third quarter. Vacant sublease space increased in the quarter, ending the quarter at 5,652,114 square feet. Rental rates ended the third quarter at \$27.60, a decrease over the previous quarter. A total of 11 buildings delivered to the market in the quarter totaling 209,846 square feet, with 3,139,455 square feet still under construction at the end of the quarter.

ABSORPTION

Net absorption for the overall Houston office market was negative (758,963) square feet in the third quarter 2017. That compares to negative (648,652) square feet in the second quarter 2017, negative (1,360,565) square feet in the first quarter 2017, and negative (898,322) square feet in the fourth quarter 2016.

VACANCY

The office vacancy rate in the Houston market area increased to 16.4% at the end of the third quarter 2017. The vacancy rate was 16.1% at the end of the second quarter 2017, 16.0% at the end of the first quarter 2017, and 14.9% at the end of the fourth quarter 2016.

LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2017 included: the 431,307-square-foot lease signed by NRG Energy at One Shell Plaza in the Downtown market; the 355,506-square-foot deal signed by Apache Corporation at Post Oak Central One in the West Loop market; and the 209,447-square-foot lease signed by Bank of America at Capitol Tower in the Downtown market.

SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market increased to 5,652,114 square feet by the end of the third quarter 2017, from 5,217,896 square feet at the end of the second quarter 2017. There was 4,974,752 square feet vacant at the end of the first quarter 2017 and 5,014,360 square feet at the end of the fourth quarter 2016.

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 third quarter 2017 in the Houston market area. This represented a 0.3% decrease in quoted rental rates from the end of the second quarter 2017, when rents were reported at \$27.67 per square foot.

DELIVERIES AND CONSTRUCTION

During the third quarter 2017, 11 buildings totaling 209,846 square feet were completed in the Houston market area. This compares to 19 buildings totaling 350,424 square feet that were completed in the second quarter 2017, 20 buildings totaling 1,944,623 square feet completed in the first quarter 2017, and 89,065 square feet in 12 buildings completed in the fourth quarter 2016.

INVENTORY

Total office inventory in the Houston market area amounted to 306,029,167 square feet in 7,362 buildings as of the end of the third quarter 2017. The Class-A office sector consisted of 142,651,102 square feet in 481 projects. There were 3,120 Class-B buildings totaling 124,695,246 square feet, and the Class-C sector consisted of 38,682,819 square feet in 3,761 buildings. Within the Office market there were 585 owneroccupied buildings accounting for 44,411,214 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 second quarter 2017 in terms of dollar volume compared to the first quarter of 2017.

Cap rates have been higher in 2017, averaging 7.17% compared to the same period in 2016 when they averaged 6.32%. One of the largest transactions that has occurred within the last four quarters in the Houston market is the sale of 4440 Highway 225 in Deer Park. This 87,000-square-foot office building sold for \$16,500,000, or \$189.66 per square foot. The property sold on 2/21/2017, at an 8.00% cap rate."

HOUSTON OFFICE MARKET

CLASS A MARKET STATISTICS

Third 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	170,794	177,432	12.1%	20,877	0	0	\$26.40
Downtown	47	36,387,285	5,307,821	6,637,405	18.2%	(956,144)	1,056,658	778,344	\$41.11
E Fort Bend Co/Sugar Land	20	3,773,331	276,528	362,672	9.6%	(8,633)	0	263,359	\$28.70
FM 1960	20	4,086,117	350,826	359,025	8.8%	20,968	0	0	\$27.11
Greenway Plaza	20	7,202,397	1,042,501	1,074,998	14.9%	18,823	0	188,547	\$36.68
Gulf Freeway/Pasadena	1	22,706	0	0	0.0%	3,122	0	0	\$19.00
I-10 East	0	0	0	0	0.0%	0	0	0	\$0.00
Katy Freeway	97	24,498,162	3,651,173	5,288,675	21.6%	(95,487)	288,173	86,255	\$32.85
Katy/Grand Parkway West	23	1,916,942	536,382	550,474	28.7%	24,744	0	72,045	\$28.00
Kingwood/Humble	3	189,312	9,393	9,393	5.0%	0	0	100,000	\$26.62
NASA/Clear Lake	17	2,124,080	198,467	244,903	11.5%	(34,821)	0	0	\$27.18
North Belt	26	5,738,340	2,995,522	3,244,316	56.5%	(115,890)	0	0	\$23.07
Northeast Near	3	640,700	32,465	32,465	5.1%	52,535	85,000	0	\$0.00
Northwest	11	2,275,165	705,046	711,151	31.3%	(32,040)	0	0	\$23.14
Richmond/Fountainview	0	0	0	0	0.0%	0	0	0	\$0.00
San Felipe/Voss	3	1,720,793	390,318	391,318	22.7%	4,667	0	0	\$36.13
San Jacinto County	0	0	0	0	0.0%	0	0	0	\$0.00
South	4	393,548	31,751	31,751	8.1%	14,728	0	300,000	\$28.39
South Hwy 35	0	0	0	0	0.0%	0	0	0	\$0.00
South Main/Medical Center	15	4,560,992	241,148	250,511	5.5%	(21,270)	0	0	\$33.27
Southwest	9	2,053,918	319,936	352,729	17.2%	(73,838)	0	0	\$19.11
West Belt	30	4,370,641	719,228	814,539	18.6%	28,967	0	0	\$27.56
West Loop	49	18,172,097	3,323,197	3,953,882	21.8%	(424,214)	380,000	104,579	\$36.34
Westchase	33	9,816,819	1,685,563	2,377,075	24.2%	(104,512)	0	187,011	\$34.81
Woodlands	42	11,237,120	1,235,360	1,334,229	11.9%	4,452	171,996	515,800	\$34.52
Totals	481	142,651,102	23,223,419	28,198,943	19.8%	(1,672,966)	1,981,827	2,595,940	\$33.29

Source: CoStar Property®

CLASS B MARKET STATISTICS

Third 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	133,607	0	0	0.0%	630	0	0	\$12.38
Bellaire	31	2,710,061	245,231	247,322	9.1%	(27,625)	0	0	\$23.74
Downtown	192	18,906,351	3,095,615	3,185,013	16.8%	(213,973)	0	13,000	\$28.65
E Fort Bend Co/Sugar Land	262	5,070,221	393,713	407,120	8.0%	89,972	56,681	160,199	\$25.97
FM 1960	385	8,042,188	1,351,616	1,441,396	17.9%	(77,361)	90,498	78,996	\$18.64
Greenway Plaza	50	4,097,247	421,777	442,476	10.8%	(119,500)	4,346	0	\$27.30
Gulf Freeway/Pasadena	177	4,220,694	602,440	603,440	14.3%	(42,454)	102,800	28,314	\$21.99
I-10 East	26	635,634	104,454	104,454	16.4%	5,960	0	0	\$15.20
Katy Freeway	209	12,310,503	2,181,940	2,259,285	18.4%	(384,044)	0	4,320	\$22.08
Katy/Grand Parkway West	255	3,135,163	131,589	134,529	4.3%	63,305	57,386	70,500	\$28.24
Kingwood/Humble	87	2,226,182	126,458	126,458	5.7%	162,546	144,450	0	\$23.15
NASA/Clear Lake	228	6,116,750	1,293,662	1,295,672	21.2%	(95,095)	16,010	10,000	\$19.10
North Belt	73	6,424,962	1,891,921	2,003,669	31.2%	(143,960)	0	0	\$15.80
Northeast Near	32	724,282	98,941	98,941	13.7%	7,873	0	0	\$19.88
Northwest	164	7,130,164	946,422	957,092	13.4%	(8,058)	0	15,000	\$19.42
Richmond/Fountainview	27	954,839	127,510	127,510	13.4%	15,624	0	0	\$17.91
San Felipe/Voss	37	3,547,046	534,279	540,771	15.2%	(84,771)	0	0	\$23.06
San Jacinto County	1	27,261	0	0	0.0%	0	0	0	\$0.00
South	89	1,517,056	136,750	136,750	9.0%	14,372	20,394	48,455	\$26.20
South Hwy 35	36	362,944	13,514	13,514	3.7%	1,737	0	0	\$20.32
South Main/Medical Center	67	4,813,750	491,977	492,935	10.2%	40,576	0	0	\$25.80
Southwest	129	7,740,601	1,145,854	1,151,256	14.9%	101,841	5,000	74,000	\$17.14
West Belt	55	2,164,650	264,686	356,696	16.5%	116,686	0	6,000	\$22.31
West Loop	57	5,980,988	747,049	761,476	12.7%	(62,205)	0	0	\$26.58
Westchase	72	7,813,746	1,381,176	1,411,157	18.1%	(36,780)	0	0	\$19.02
Woodlands	370	7,888,356	804,662	873,680	11.1%	(73,402)	25,501	34,731	\$26.07
Totals	3,120	124,695,246	18,533,236	19,172,612	15.4%	(748,106)	523,066	543,515	\$21.56

Source: CoStar Property®

HOUSTON OFFICE MARKET

CLASS C MARKET STATISTICS

Third 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	26	102,321	4,918	4,918	4.8%	(4,918)	0	0	\$41.46
Bellaire	41	755,586	53,921	53,921	7.1%	11,981	0	0	\$18.05
Downtown	443	4,278,071	285,938	285,938	6.7%	(20,762)	0	0	\$23.19
E Fort Bend Co/Sugar Land	101	906,124	79,904	81,704	9.0%	5,685	0	0	\$22.17
FM 1960	338	2,862,572	319,370	319,370	11.2%	(54,470)	0	0	\$16.18
Greenway Plaza	203	1,513,594	91,025	91,775	6.1%	9,918	0	0	\$23.24
Gulf Freeway/Pasadena	419	3,474,485	348,291	348,291	10.0%	(22,067)	0	0	\$18.58
I-10 East	99	656,830	45,685	45,685	7.0%	11,230	0	0	\$20.06
Katy Freeway	205	3,124,371	163,389	192,073	6.1%	(159,947)	0	0	\$20.14
Katy/Grand Parkway West	91	613,160	40,954	40,954	6.7%	(1,971)	0	0	\$19.42
Kingwood/Humble	122	948,586	98,802	98,802	10.4%	(8,407)	0	0	\$19.29
NASA/Clear Lake	264	2,190,121	239,774	239,774	10.9%	(54,676)	0	0	\$17.89
North Belt	71	1,810,436	334,189	334,189	18.5%	(37,222)	0	0	\$13.86
Northeast Near	106	885,457	39,384	39,384	4.4%	(19,409)	0	0	\$17.76
Northwest	335	3,045,579	170,171	172,967	5.7%	(41,129)	0	0	\$15.42
Richmond/Fountainview	88	1,202,544	47,729	47,729	4.0%	52,477	0	0	\$15.64
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	143	867,630	102,099	102,099	11.8%	(22,220)	0	0	\$14.89
South Hwy 35	107	419,959	22,037	22,037	5.2%	8,042	0	0	\$18.68
South Main/Medical Center	149	2,862,780	79,386	80,986	2.8%	(27,634)	0	0	\$21.72
Southwest	158	3,114,835	122,728	122,728	3.9%	31,243	0	0	\$15.19
West Belt	18	202,654	0	0	0.0%	0	0	0	\$16.50
West Loop	25	517,292	21,418	21,418	4.1%	15,520	0	0	\$22.51
Westchase	30	890,384	45,488	45,488	5.1%	(11,705)	0	0	\$15.92
Woodlands	168	1,353,179	80,626	82,210	6.1%	(12,967)	0	0	\$22.14
Totals	3,761	38,682,819	2,837,226	2,874,440	7.4%	(347,108)	0	0	\$18.15

Source: CoStar Property*

TOTAL OFFICE MARKET STATISTICS

Third Quarter 2017

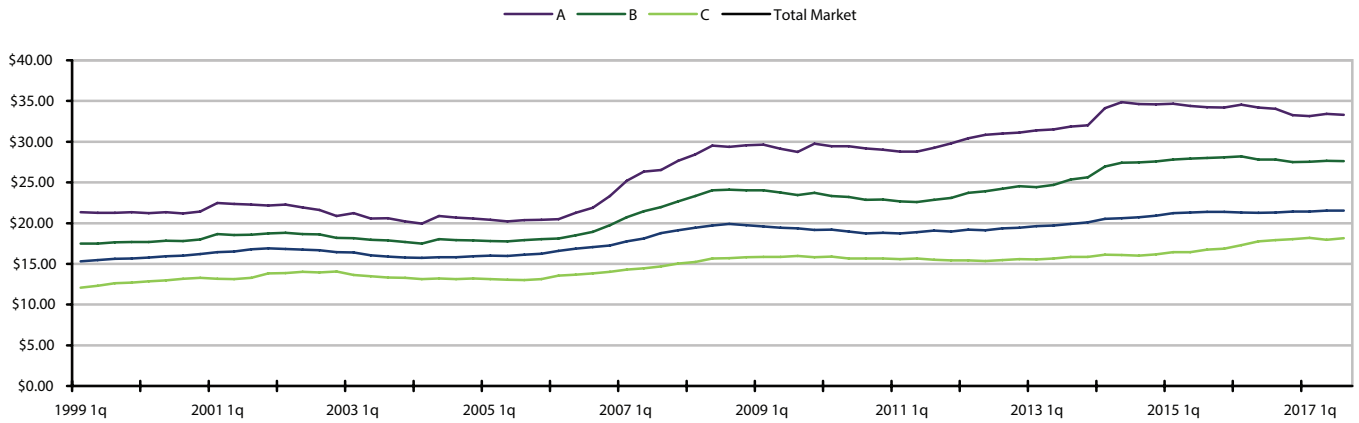
Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Austin County	35	235,928	4,918	4,918	2.1%	(4,288)	0	0	\$19.39
Bellaire	80	4,936,284	469,946	478,675	9.7%	5,233	0	0	\$24.42
Downtown	682	59,571,707	8,689,374	10,108,356	17.0%	(1,190,879)	1,056,658	791,344	\$37.84
E Fort Bend Co/Sugar Land	383	9,749,676	750,145	851,496	8.7%	87,024	56,681	423,558	\$27.10
FM 1960	743	14,990,877	2,021,812	2,119,791	14.1%	(110,863)	90,498	78,996	\$19.58
Greenway Plaza	273	12,813,238	1,555,303	1,609,249	12.6%	(90,759)	4,346	188,547	\$33.63
Gulf Freeway/Pasadena	597	7,717,885	950,731	951,731	12.3%	(61,399)	102,800	28,314	\$20.78
I-10 East	125	1,292,464	150,139	150,139	11.6%	17,190	0	0	\$17.64
Katy Freeway	511	39,933,036	5,996,502	7,740,033	19.4%	(639,478)	288,173	90,575	\$28.02
Katy/Grand Parkway West	369	5,665,265	708,925	725,957	12.8%	86,078	57,386	142,545	\$27.15
Kingwood/Humble	212	3,364,080	234,653	234,653	7.0%	154,139	144,450	100,000	\$23.40
NASA/Clear Lake	509	10,430,951	1,731,903	1,780,349	17.1%	(184,592)	16,010	10,000	\$20.33
North Belt	170	13,973,738	5,221,632	5,582,174	39.9%	(297,072)	0	0	\$19.79
Northeast Near	141	2,250,439	170,790	170,790	7.6%	40,999	85,000	0	\$19.08
Northwest	510	12,450,908	1,821,639	1,841,210	14.8%	(81,227)	0	15,000	\$20.34
Richmond/Fountainview	115	2,157,383	175,239	175,239	8.1%	68,101	0	0	\$17.35
San Felipe/Voss	49	5,340,230	924,597	932,089	17.5%	(73,804)	0	0	\$28.88
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	236	2,778,234	270,600	270,600	9.7%	6,880	20,394	348,455	\$24.68
South Hwy 35	143	782,903	35,551	35,551	4.5%	9,779	0	0	\$19.09
South Main/Medical Center	231	12,237,522	812,511	824,432	6.7%	(8,328)	0	0	\$27.33
Southwest	296	12,909,354	1,588,518	1,626,713	12.6%	59,246	5,000	74,000	\$17.41
West Belt	103	6,737,945	983,914	1,171,235	17.4%	145,653	0	6,000	\$25.85
West Loop	131	24,670,377	4,091,664	4,736,776	19.2%	(470,899)	380,000	104,579	\$34.37
Westchase	135	18,520,949	3,112,227	3,833,720	20.7%	(152,997)	0	187,011	\$28.74
Woodlands	580	20,478,655	2,120,648	2,290,119	11.2%	(81,917)	197,497	550,531	\$29.38
Totals	7,362	306,029,167	44,593,881	50,245,995	16.4%	(2,768,180)	2,504,893	3,139,455	\$27.60

Source: CoStar Property*

HOUSTON OFFICE MARKET

HISTORICAL RENTAL RATES

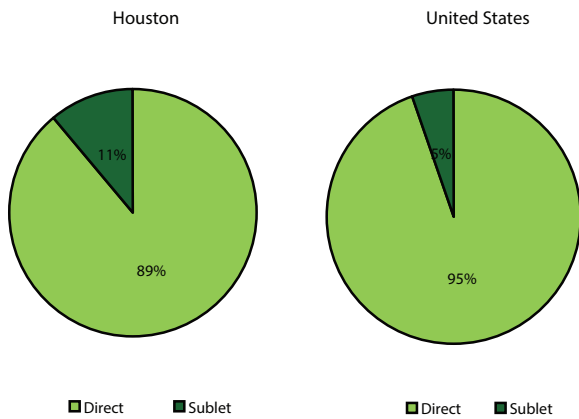
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property*

VACANCY BY AVAILABLE SPACE TYPE

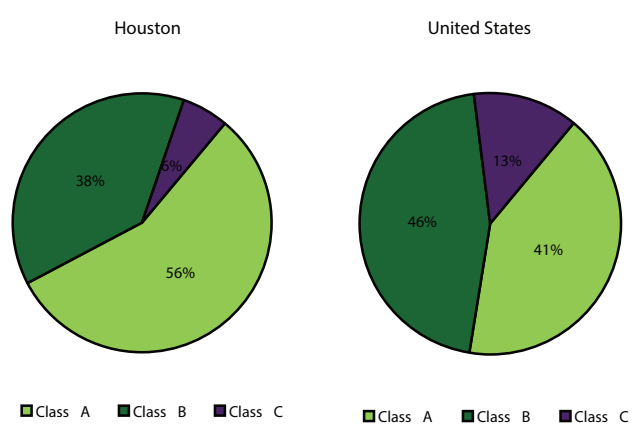
Percent of All Vacant Space in Direct vs. Sublet



Source: CoStar Property*

VACANCY BY CLASS

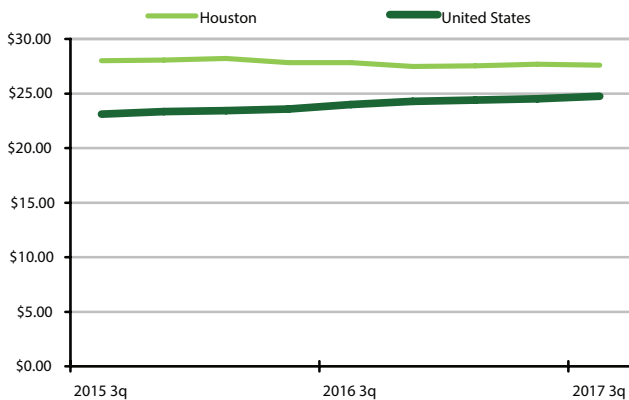
Percent of All Vacant Space by Class



Source: CoStar Property*

U.S. RENTAL RATE COMPARISON

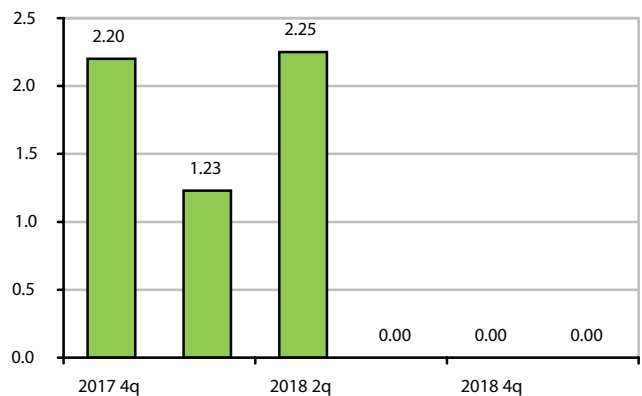
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property*

FUTURE SPACE AVAILABLE

Space Scheduled to be Available for Occupancy*



* Includes Under Construction Spaces Source: CoStar Property*