



HOUSTON

OFFICE MARKET REPORT

Q1 2018



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Ste 620 Houston, TX 77027.



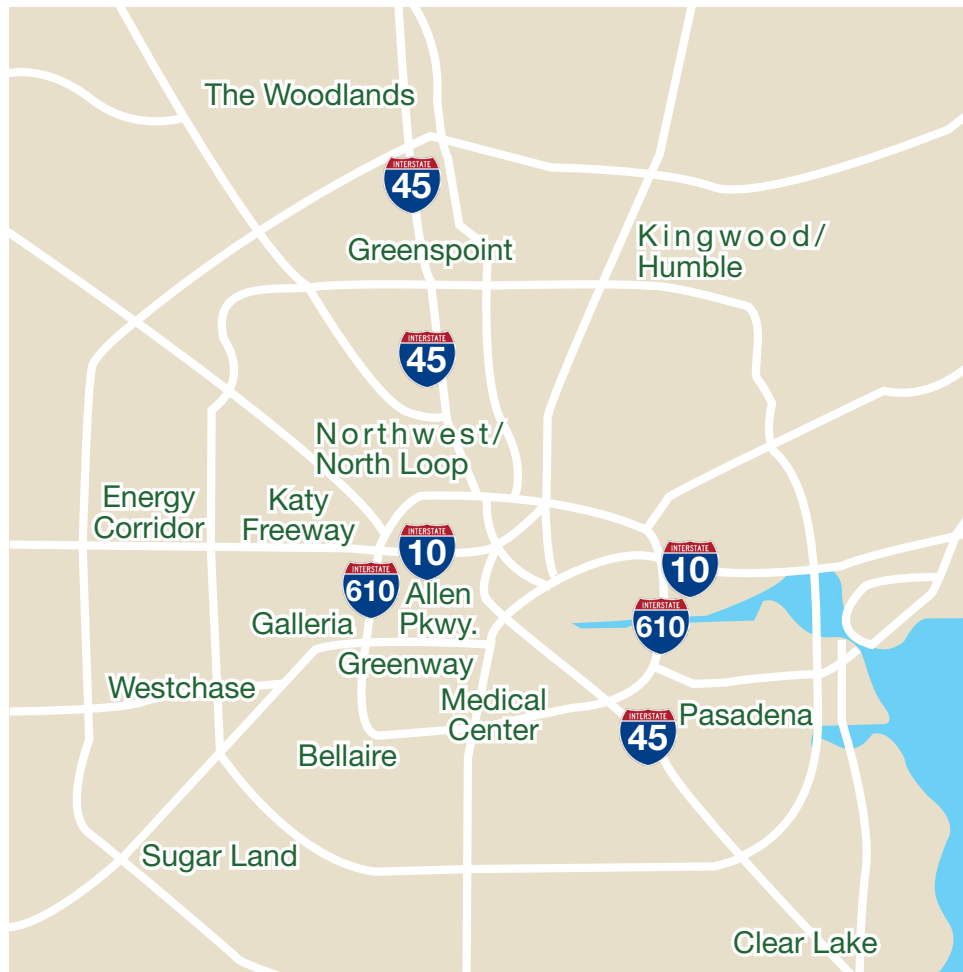
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EXECUTIVE SUMMARY

The Houston Office market ended the first quarter 2018 with a vacancy rate of 16.7%. The vacancy rate was up over the previous quarter, with net absorption totaling negative (1,105,254) square feet in the first quarter. Vacant sublease space increased in the quarter, ending the quarter at 6,596,973 square feet. Rental rates ended the first quarter at \$27.73, an increase over the previous quarter. A total of 22 buildings delivered to the market in the quarter totaling 616,039 square feet, with 2,137,904 square feet still under construction at the end of the quarter.

ABSORPTION

Net absorption for the overall Houston office market was negative (1,105,254) square feet in the first quarter 2018. That compares to positive 540,794 square feet in the fourth quarter 2017, negative (542,915) square feet in the third quarter 2017, and negative (603,074) square feet in the second quarter 2017.

VACANCY

The office vacancy rate in the Houston market area increased to 16.7% at the end of the first quarter 2018. The vacancy rate was 16.2% at the end of the fourth quarter 2017, 16.1% at the end of the third quarter 2017, and 15.9% at the end of the second quarter 2017.

LARGEST LEASE SIGNINGS

The largest lease signings occurring in 2018 included: the 364,272-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 150,020-square-foot lease signed by Apache Corporation at Post Oak Central Three in the West Loop market.

SUBLEASE VACANCY

The amount of vacant sublease space in the Houston market increased to 6,596,973 square feet by the end of the first quarter 2018, from 5,720,059 square feet at the end of the fourth quarter 2017. There was 5,753,599 square feet vacant at the end of the third quarter 2017 and 5,242,382 square feet at the end of the second quarter 2017.

RENTAL RATES

The average quoted asking rental rate for available office space, all classes, was \$27.73 per square foot per year at the end of the first quarter 2018 in the Houston market area. This represented a 0.4% increase in quoted rental rates from the end of the fourth quarter 2017, when rents were reported at \$27.61 per square foot.

DELIVERIES AND CONSTRUCTION

During the first quarter 2018, 22 buildings totaling 616,039 square feet were completed in the Houston market area. This compares to 17 buildings totaling 782,767 square feet that were completed in the fourth quarter 2017, 17 buildings totaling 308,293 square feet completed in the third quarter 2017, and 375,606 square feet in 22 buildings completed in the second quarter 2017.

INVENTORY

Total office inventory in the Houston market area amounted to 325,901,554 square feet in 9,172 buildings as of the end of the first quarter 2018. The Class-A office sector consisted of 144,156,562 square feet in 499 projects. There were 3,866 Class-B buildings totaling 137,653,630 square feet, and the Class-C sector consisted of 44,091,362 square feet in 4,807 buildings. Within the Office market there were 675 owneroccupied buildings accounting for 47,006,708 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 fourth quarter 2017 in terms of dollar volume compared to the third quarter of 2017.

Cap rates have been higher in 2017, averaging 7.53% compared to the same period in 2016 when they averaged 6.45%. One of the largest transactions that has occurred within the last four quarters in the Houston market is the sale of Marathon Oil Tower 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 7.4% cap rate.

HOUSTON OFFICE MARKET

CLASS A MARKET STATISTICS

First Quarter 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	183,300	189,173	12.8%	6,552	0	0	\$24.40
Conroe	2	128,832	18,422	18,422	14.3%	0	0	0	\$27.63
Downtown	49	36,490,317	5,726,819	7,249,208	19.9%	(562,374)	0	778,344	\$41.04
E Fort Bend Co/Sugar.	20	3,773,331	290,905	466,002	12.3%	(161,280)	0	30,852	\$26.35
FM 1960	20	4,042,649	412,644	420,770	10.4%	(25,867)	0	0	\$26.87
Greenway Plaza	22	7,520,681	1,234,405	1,286,372	17.1%	60,022	0	0	\$36.35
Gulf Freeway/Pasaden.	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	98	24,663,577	3,696,555	5,953,774	24.1%	(499,398)	0	102,474	\$32.35
Katy/Grand Parkway W.	24	2,238,637	563,023	586,225	26.2%	58,961	72,045	0	\$27.58
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	2,124,080	238,025	250,682	11.8%	20,508	0	0	\$26.41
North Belt	25	5,515,181	3,016,365	3,268,231	59.3%	43,231	0	0	\$22.64
Northeast Near	3	640,700	28,057	28,057	4.4%	4,526	0	0	\$0.00
Northeast Outlier	2	47,650	3,000	3,000	6.3%	(3,000)	0	0	\$0.00
Northwest	10	2,037,781	680,029	683,703	33.6%	26,035	0	0	\$23.47
Northwest Outlier	1	165,754	100,911	100,911	60.9%	7,543	0	0	\$30.23
Outlying Chambers Co.	0	0	0	0	0.0%	0	0	0	\$0.00
Outlying Montgomery	2	146,000	111,000	111,000	76.0%	0	0	0	\$0.00
Outlying Waller Coun.	0	0	0	0	0.0%	0	0	0	\$0.00
Richmond/Fountainvie.	0	0	0	0	0.0%	0	0	0	\$0.00
San Felipe/Voss	3	1,720,793	475,744	475,744	27.6%	(28,312)	0	0	\$35.84
San Jacinto County	0	0	0	0	0.0%	0	0	0	\$0.00
South	5	643,548	31,182	31,182	4.8%	248,525	250,000	0	\$28.48
South Hwy 35	0	0	0	0	0.0%	0	0	0	\$0.00
South Main/Medical C.	14	4,462,086	218,678	228,041	5.1%	(2,159)	0	0	\$34.27
Southeast Outlier	2	186,382	11,643	11,643	6.2%	11,000	0	0	\$0.00
Southwest	9	2,053,918	471,406	500,569	24.4%	18,028	0	0	\$19.07
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	43	11,303,768	1,057,928	1,114,790	9.9%	82,975	0	704,800	\$32.70
West Belt	30	4,380,333	614,043	917,276	20.9%	(28,183)	0	0	\$28.73
West Loop	49	17,920,115	3,229,945	3,836,417	21.4%	280,287	104,579	0	\$37.58
Westchase	34	10,005,368	1,875,243	2,572,224	25.7%	(150,438)	0	0	\$32.36
Totals	499	144,156,562	24,387,276	30,401,420	21.1%	(617,300)	426,624	1,716,470	\$33.34

Source: CoStar Property®

HOUSTON OFFICE MARKET

CLASS B MARKET STATISTICS

Fourth Quarter 2017

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	12	149,928	0	0	0.0%	0	0	0	\$0.00
Baytown	42	1,066,001	79,181	79,181	7.4%	(14,908)	0	6,003	\$22.58
Bellaire	37	2,735,699	234,923	237,014	8.7%	19,274	0	0	\$23.99
Conroe	75	1,316,042	145,300	150,019	11.4%	(1,222)	18,000	13,000	\$24.11
Downtown	200	19,288,792	3,185,977	3,279,073	17.0%	(91,269)	0	0	\$28.44
E Fort Bend Co/Sugar.	275	5,200,355	444,104	490,007	9.4%	975	63,625	82,919	\$25.29
FM 1960	401	8,471,474	1,379,460	1,410,423	16.6%	(81,032)	45,787	100,085	\$19.15
Greenway Plaza	49	4,036,979	460,593	466,851	11.6%	(69,238)	0	0	\$26.66
Gulf Freeway/Pasaden.	195	4,415,683	623,405	633,960	14.4%	(11,982)	10,304	8,500	\$22.88
I-10 East	27	643,836	103,124	103,124	16.0%	(2,729)	0	0	\$15.33
Katy Freeway	217	12,330,936	2,157,773	2,253,416	18.3%	(84,697)	4,320	10,300	\$21.28
Katy/Grand Parkway W.	271	3,216,575	122,862	135,030	4.2%	(455)	4,900	30,500	\$28.90
Kingwood/Humble	94	2,315,742	167,273	169,027	7.3%	(21,006)	0	0	\$25.46
Liberty County	12	92,060	948	948	1.0%	2,534	0	0	\$0.00
NASA/Clear Lake	240	6,241,697	1,327,240	1,327,723	21.3%	66,339	0	7,400	\$19.49
North Belt	75	6,602,542	1,853,712	1,882,732	28.5%	(85,415)	0	0	\$15.77
Northeast Near	33	694,205	77,633	77,633	11.2%	4,469	0	0	\$19.58
Northeast Outlier	41	621,745	42,420	42,420	6.8%	(2,537)	0	0	\$24.47
Northwest	165	6,875,548	1,049,486	1,061,450	15.4%	(76,951)	0	25,020	\$19.57
Northwest Outlier	104	1,016,732	104,156	104,156	10.2%	(587)	7,000	20,555	\$24.29
Outlying Chambers Co.	6	22,672	0	0	0.0%	0	0	0	\$0.00
Outlying Montgomery .	80	900,972	78,715	78,715	8.7%	6,595	0	26,952	\$23.89
Outlying Waller Coun.	5	25,686	2,800	2,800	10.9%	(2,800)	0	0	\$0.00
Richmond/Fountainvie.	29	1,048,984	153,178	153,178	14.6%	(14,187)	0	0	\$17.46
San Felipe/Voss	36	3,504,373	603,638	627,827	17.9%	(64,183)	0	0	\$24.31
San Jacinto County	1	27,261	0	0	0.0%	0	0	0	\$0.00
South	94	1,553,829	158,629	158,629	10.2%	(7,125)	0	50,000	\$26.22
South Hwy 35	37	370,039	8,224	8,224	2.2%	5,790	0	0	\$15.69
South Main/Medical C.	72	5,924,249	194,025	203,985	3.4%	504	0	0	\$26.23
Southeast Outlier	116	2,677,394	291,913	291,913	10.9%	(19,086)	10,070	10,000	\$20.93
Southwest	130	7,782,805	1,392,759	1,398,161	18.0%	(99,281)	0	0	\$16.40
Southwest Far	35	935,242	247,870	247,870	26.5%	8,606	0	0	\$24.24
Southwest Outlier	86	1,184,444	146,178	148,738	12.6%	7,072	2,645	1,200	\$24.44
The Woodlands	387	7,985,076	769,831	848,004	10.6%	43,311	22,764	11,500	\$25.78
West Belt	56	2,320,818	355,512	381,447	16.4%	58,221	0	17,500	\$22.96
West Loop	58	6,262,273	811,685	825,732	13.2%	(2,984)	0	0	\$26.33
Westchase	73	7,794,942	1,393,926	1,429,839	18.3%	18,391	0	0	\$19.29
Totals	3,866	137,653,630	20,168,453	20,709,249	15.0%	(511,593)	189,415	421,434	\$21.68

Source: CoStar Property®

HOUSTON OFFICE MARKET

CLASS C MARKET STATISTICS

Fourth Quarter 2017

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	8,028	8,028	7.6%	(1,350)	0	0	\$15.81
Baytown	93	599,124	29,957	33,957	5.7%	33,809	0	0	\$18.24
Bellaire	44	760,884	52,984	52,984	7.0%	(1,723)	0	0	\$19.37
Conroe	180	1,163,237	88,892	88,892	7.6%	(21,300)	0	0	\$17.33
Downtown	442	4,235,507	275,087	275,087	6.5%	9,252	0	0	\$23.30
E Fort Bend Co/Sugar.	101	886,251	45,034	45,034	5.1%	1,915	0	0	\$20.71
FM 1960	334	2,868,175	361,672	362,320	12.6%	(20,591)	0	0	\$16.00
Greenway Plaza	206	1,538,577	93,864	93,864	6.1%	11,229	0	0	\$23.13
Gulf Freeway/Pasaden.	422	3,429,820	368,307	368,307	10.7%	(19,040)	0	0	\$16.93
I-10 East	104	666,830	50,217	50,217	7.5%	(6,431)	0	0	\$18.11
Katy Freeway	203	3,082,889	156,370	179,634	5.8%	(27,881)	0	0	\$20.47
Katy/Grand Parkway W.	96	633,399	32,840	32,840	5.2%	23,250	0	0	\$20.20
Kingwood/Humble	122	932,967	89,244	89,244	9.6%	(3,510)	0	0	\$18.99
Liberty County	55	254,230	7,600	7,600	3.0%	2,676	0	0	\$13.74
NASA/Clear Lake	261	2,079,966	191,525	191,525	9.2%	11,532	0	0	\$18.08
North Belt	72	1,867,771	468,342	471,099	25.2%	(16,528)	0	0	\$12.70
Northeast Near	109	902,516	28,969	28,969	3.2%	15,318	0	0	\$18.14
Northeast Outlier	41	219,570	9,270	9,270	4.2%	2,697	0	0	\$16.11
Northwest	342	3,059,462	147,611	147,611	4.8%	13,680	0	0	\$16.39
Northwest Outlier	120	499,162	43,550	48,514	9.7%	2,514	0	0	\$19.67
Outlying Chambers Co.	13	31,729	0	0	0.0%	0	0	0	\$0.00
Outlying Montgomery .	97	385,655	13,381	13,381	3.5%	2,805	0	0	\$19.07
Outlying Waller Coun.	16	86,705	0	0	0.0%	0	0	0	\$0.00
Richmond/Fountainvie.	86	1,108,399	32,415	32,415	2.9%	(8,595)	0	0	\$16.21
San Felipe/Voss	10	114,791	5,084	5,084	4.4%	4,341	0	0	\$26.00
San Jacinto County	2	11,878	0	0	0.0%	0	0	0	\$0.00
South	149	908,072	62,236	62,236	6.9%	37,678	0	0	\$14.28
South Hwy 35	111	426,890	29,471	29,471	6.9%	(1,892)	0	0	\$19.07
South Main/Medical C.	148	2,879,341	90,169	96,569	3.4%	(3,375)	0	0	\$20.50
Southeast Outlier	219	1,448,232	122,943	122,943	8.5%	(11,895)	0	0	\$16.12
Southwest	162	3,141,898	175,820	175,820	5.6%	(1,294)	0	0	\$15.28
Southwest Far	53	337,983	4,340	4,340	1.3%	2,400	0	0	\$20.34
Southwest Outlier	115	450,981	34,296	34,296	7.6%	3,194	0	0	\$16.90
The Woodlands	175	1,343,053	81,997	81,997	6.1%	(12,675)	0	0	\$23.78
West Belt	20	212,243	0	0	0.0%	0	0	0	\$16.50
West Loop	26	523,201	8,352	8,352	1.6%	(800)	0	0	\$21.85
Westchase	30	894,543	44,271	44,271	4.9%	4,229	0	0	\$16.17
Totals	4,807	44,091,362	3,254,138	3,296,171	7.5%	23,639	0	0	\$17.77

Source: CoStar Property®

HOUSTON OFFICE MARKET

TOTAL OFFICE MARKET STATISTICS

Fourth Quarter 2017

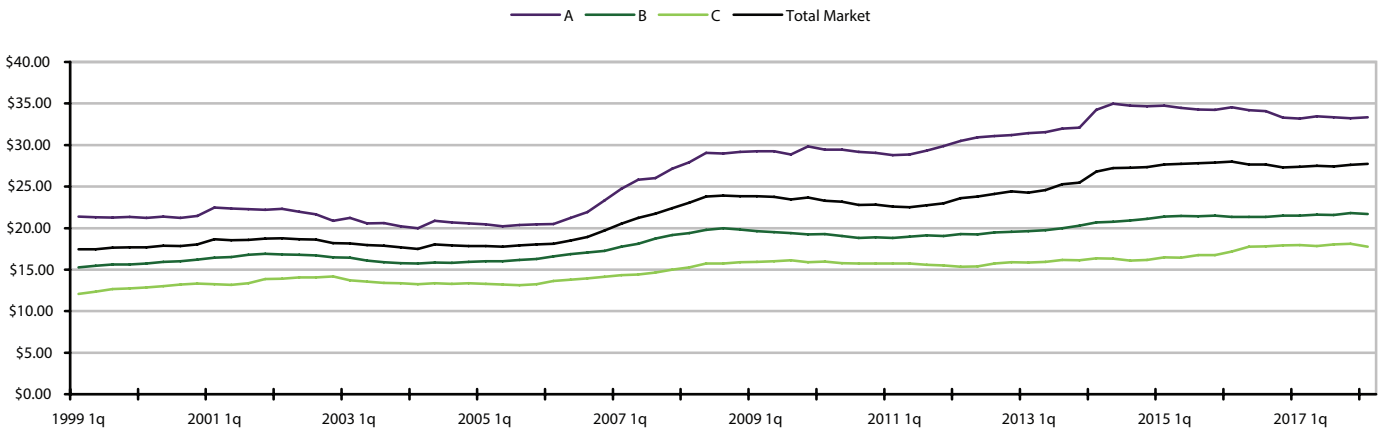
Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	40	255,359	8,028	8,028	3.1%	(1,350)	0	0	\$15.81
Baytown	135	1,665,125	109,138	113,138	6.8%	18,901	0	6,003	\$21.24
Bellaire	89	4,972,064	471,207	479,171	9.6%	24,103	0	0	\$23.90
Conroe	257	2,608,111	252,614	257,333	9.9%	(22,522)	18,000	13,000	\$22.44
Downtown	691	60,014,616	9,187,883	10,803,368	18.0%	(644,391)	0	778,344	\$38.06
E Fort Bend Co/Sugar.	396	9,859,937	780,043	1,001,043	10.2%	(158,390)	63,625	113,771	\$25.50
FM 1960	755	15,382,298	2,153,776	2,193,513	14.3%	(127,490)	45,787	100,085	\$20.06
Greenway Plaza	277	13,096,237	1,788,862	1,847,087	14.1%	2,013	0	0	\$33.16
Gulf Freeway/Pasaden.	618	7,868,209	991,712	1,002,267	12.7%	(31,022)	10,304	8,500	\$20.52
I-10 East	131	1,310,666	153,341	153,341	11.7%	(9,160)	0	0	\$16.06
Katy Freeway	518	40,077,402	6,010,698	8,386,824	20.9%	(611,976)	4,320	112,774	\$27.96
Katy/Grand Parkway W.	391	6,088,611	718,725	754,095	12.4%	81,756	76,945	30,500	\$27.34
Kingwood/Humble	219	3,438,021	290,392	292,146	8.5%	(48,998)	0	100,000	\$24.19
Liberty County	67	346,290	8,548	8,548	2.5%	5,210	0	0	\$13.74
NASA/Clear Lake	518	10,445,743	1,756,790	1,769,930	16.9%	98,379	0	7,400	\$20.42
North Belt	172	13,985,494	5,338,419	5,622,062	40.2%	(58,712)	0	0	\$19.58
Northeast Near	145	2,237,421	134,659	134,659	6.0%	24,313	0	0	\$18.80
Northeast Outlier	84	888,965	54,690	54,690	6.2%	(2,840)	0	0	\$22.42
Northwest	517	11,972,791	1,877,126	1,892,764	15.8%	(37,236)	0	25,020	\$20.76
Northwest Outlier	225	1,681,648	248,617	253,581	15.1%	9,470	7,000	20,555	\$25.82
Outlying Chambers Co.	19	54,401	0	0	0.0%	0	0	0	\$0.00
Outlying Montgomery .	179	1,432,627	203,096	203,096	14.2%	9,400	0	26,952	\$22.86
Outlying Waller Coun.	21	112,391	2,800	2,800	2.5%	(2,800)	0	0	\$0.00
Richmond/Fountainvie.	115	2,157,383	185,593	185,593	8.6%	(22,782)	0	0	\$17.31
San Felipe/Voss	49	5,339,957	1,084,466	1,108,655	20.8%	(88,154)	0	0	\$29.24
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	248	3,105,449	252,047	252,047	8.1%	279,078	250,000	50,000	\$24.04
South Hwy 35	148	796,929	37,695	37,695	4.7%	3,898	0	0	\$17.66
South Main/Medical C.	234	13,265,676	502,872	528,595	4.0%	(5,030)	0	0	\$27.54
Southeast Outlier	337	4,312,008	426,499	426,499	9.9%	(19,981)	10,070	10,000	\$19.75
Southwest	301	12,978,621	2,039,985	2,074,550	16.0%	(82,547)	0	0	\$16.94
Southwest Far	90	1,431,945	271,947	271,947	19.0%	11,006	0	0	\$23.77
Southwest Outlier	202	1,734,287	224,866	227,426	13.1%	10,266	2,645	1,200	\$23.96
The Woodlands	605	20,631,897	1,909,756	2,044,791	9.9%	113,611	22,764	716,300	\$28.40
West Belt	106	6,913,394	969,555	1,298,723	18.8%	30,038	0	17,500	\$26.85
West Loop	133	24,705,589	4,049,982	4,670,501	18.9%	276,503	104,579	0	\$35.60
Westchase	137	18,694,853	3,313,440	4,046,334	21.6%	(127,818)	0	0	\$27.35
Totals	9,172	325,901,554	47,809,867	54,406,840	16.7%	(1,105,254)	616,039	2,137,904	\$27.73

Source: CoStar Property*

HOUSTON OFFICE MARKET

HISTORICAL RENTAL RATES

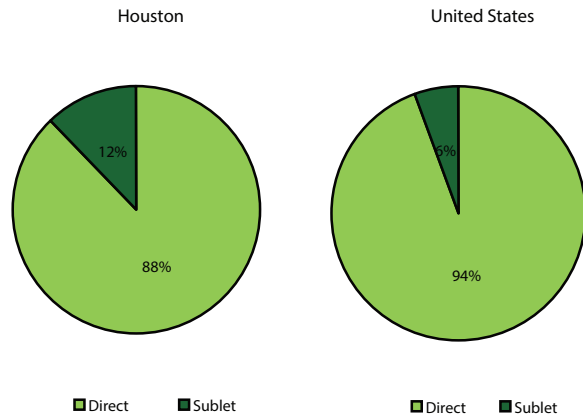
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property*

VACANCY BY AVAILABLE SPACE TYPE

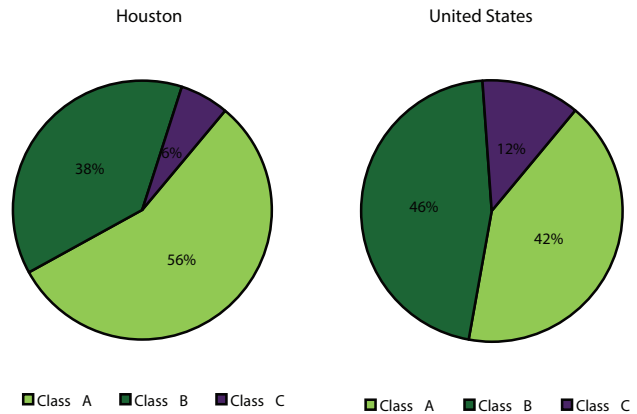
Percent of All Vacant Space in Direct vs. Sublet



Source: CoStar Property*

VACANCY BY CLASS

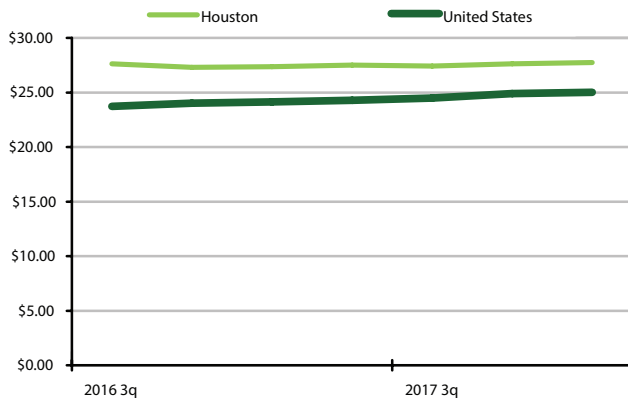
Percent of All Vacant Space by Class



Source: CoStar Property*

U.S. RENTAL RATE COMPARISON

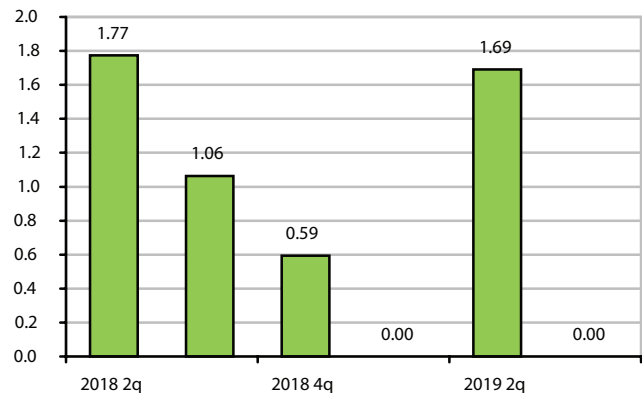
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property*

FUTURE SPACE AVAILABLE

Space Scheduled to be Available for Occupancy*



* Includes Under Construction Spaces Source: CoStar Property*