



# HOUSTON

OFFICE MARKET REPORT

# Q4 2017



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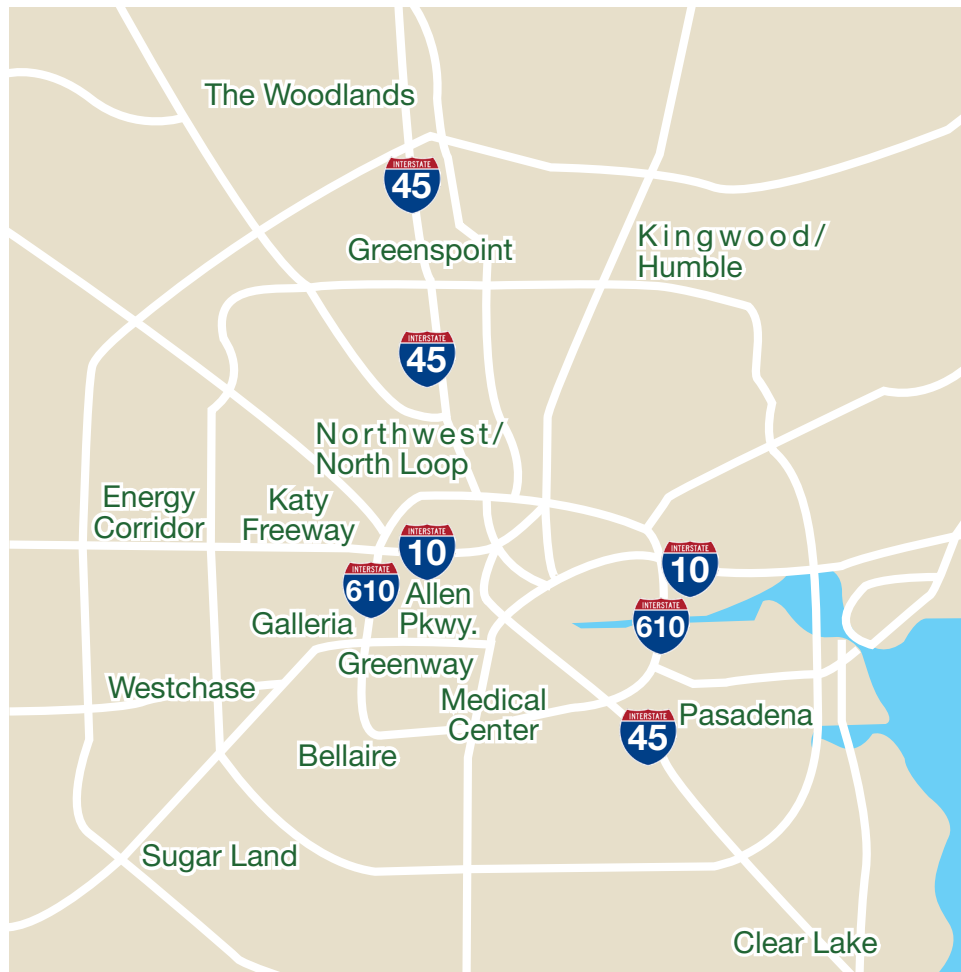
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# EXECUTIVE SUMMARY

The Houston Office market ended the fourth quarter 2017 with a vacancy rate of 16.3%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 769,331 square feet in the fourth quarter. Vacant sublease space decreased in the quarter, ending the quarter at 5,165,446 square feet. Rental rates ended the fourth quarter at \$27.76, an increase over the previous quarter. A total of 16 buildings delivered to the market in the quarter totaling 636,600 square feet, with 2,479,402 square feet still under construction at the end of the quarter.

## ABSORPTION

Net absorption for the overall Houston office market was positive 769,331 square feet in the fourth quarter 2017. That compares to negative (564,833) square feet in the third quarter 2017, negative (555,511) square feet in the second quarter 2017, and negative (1,403,483) square feet in the first quarter 2017.

## VACANCY

The office vacancy rate in the Houston market area decreased to 16.3% at the end of the fourth quarter 2017. The vacancy rate was 16.4% at the end of the third quarter 2017, 16.2% at the end of the second quarter 2017, and 15.9% at the end of the first quarter 2017.

## 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 decreased to 5,165,446 square feet by the end of the fourth quarter 2017, from 5,672,450 square feet at the end of the third quarter 2017. There was 5,200,188 square feet vacant at the end of the second quarter 2017 and 4,998,045 square feet at the end of the first quarter 2017.

## RENTAL RATES

The average quoted asking rental rate for available office space, all classes, was \$27.76 per square foot per year at the end of the fourth quarter 2017 in the Houston market area. This represented a 0.7% increase in quoted rental rates from the end of the third quarter 2017, when rents were reported at \$27.58 per square foot.

## DELIVERIES AND CONSTRUCTION

During the fourth quarter 2017, 16 buildings totaling 636,600 square feet were completed in the Houston market area. This compares to 12 buildings totaling 318,327 square feet that were completed in the third quarter 2017, 18 buildings totaling 349,284 square feet completed in the second quarter 2017, and 1,940,205 square feet in 20 buildings completed in the first quarter 2017.

## INVENTORY

Total office inventory in the Houston market area amounted to 306,857,949 square feet in 7,434 buildings as of the end of the fourth quarter 2017. The Class-A office sector consisted of 143,324,339 square feet in 484 projects. There were 3,167 Class-B buildings totaling 124,654,245 square feet, and the Class-C sector consisted of 38,879,365 square feet in 3,783 buildings. Within the Office market there were 594 owner-occupied buildings accounting for 44,559,659 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 third quarter 2017 in terms of dollar volume compared to the second quarter of 2017.

Cap rates have been higher in 2017, averaging 6.78% compared to the same period in 2016 when they averaged 6.35%. 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

Fourth 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	175,431	195,725	13.3%	2,584	0	0	\$26.06
Downtown	47	36,482,223	5,375,881	6,626,841	18.2%	(913,922)	1,056,658	778,344	\$40.74
E Fort Bend Co/Sugar Land	20	3,773,331	270,266	304,722	8.1%	49,317	0	22,000	\$28.58
FM 1960	19	3,978,149	363,268	367,683	9.2%	(11,037)	0	73,000	\$27.33
Greenway Plaza	22	7,483,998	1,283,810	1,324,001	17.7%	3,884	188,547	0	\$35.71
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	99	24,784,072	3,614,683	4,950,049	20.0%	329,382	374,428	0	\$33.35
Katy/Grand Parkway West	23	2,034,864	561,099	575,191	28.3%	27	0	72,045	\$27.55
Kingwood/Humble	3	189,312	9,393	9,393	5.0%	0	0	100,000	\$26.20
NASA/Clear Lake	17	2,124,080	197,366	214,925	10.1%	(34,380)	0	0	\$27.03
North Belt	26	5,738,340	3,059,596	3,311,462	57.7%	(183,036)	0	0	\$22.80
Northeast Near	3	640,700	32,583	32,583	5.1%	52,417	85,000	0	\$0.00
Northwest	11	2,275,165	706,064	709,738	31.2%	(22,206)	0	0	\$23.94
Richmond/Fountainview	0	0	0	0	0.0%	0	0	0	\$0.00
San Felipe/Voss	3	1,720,793	378,726	378,726	22.0%	17,259	0	0	\$35.72
San Jacinto County	0	0	0	0	0.0%	0	0	0	\$0.00
South	4	393,548	29,707	29,707	7.5%	16,772	0	300,000	\$28.63
South Hwy 35	0	0	0	0	0.0%	0	0	0	\$0.00
South Main/Medical Center	14	4,462,086	216,519	225,882	5.1%	(16,503)	0	0	\$34.26
Southwest	9	2,053,918	520,463	528,535	25.7%	(115,679)	0	0	\$18.95
West Belt	30	4,380,333	647,003	889,093	20.3%	(24,415)	0	0	\$29.04
West Loop	49	18,098,537	3,376,111	4,063,377	22.5%	(469,223)	380,000	104,579	\$36.92
Westchase	34	10,006,734	1,752,929	2,321,459	23.2%	78,625	187,011	0	\$33.21
Woodlands	42	11,210,813	1,144,212	1,192,339	10.6%	171,756	171,996	704,800	\$32.21
<b>Totals</b>	<b>484</b>	<b>143,324,339</b>	<b>23,715,110</b>	<b>28,251,431</b>	<b>19.7%</b>	<b>(1,065,256)</b>	<b>2,443,640</b>	<b>2,154,768</b>	<b>\$33.21</b>

Source: CoStar Property\*

## CLASS B MARKET STATISTICS

Fourth 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	\$0.00
Bellaire	32	2,730,071	229,162	232,788	8.5%	(10,791)	0	0	\$23.93
Downtown	194	18,915,851	3,019,115	3,123,250	16.5%	(145,910)	6,300	0	\$28.90
E Fort Bend Co/Sugar Land	267	5,114,727	372,341	410,898	8.0%	76,550	33,049	108,599	\$25.59
FM 1960	392	8,225,652	1,279,863	1,303,310	15.8%	91,600	140,766	79,591	\$18.99
Greenway Plaza	49	4,049,847	403,180	411,623	10.2%	(56,857)	50,000	0	\$28.22
Gulf Freeway/Pasadena	185	4,266,538	578,376	578,376	13.6%	(8,680)	107,510	23,604	\$22.26
I-10 East	26	635,736	99,495	99,495	15.7%	10,919	0	0	\$15.19
Katy Freeway	211	12,150,027	2,068,720	2,108,779	17.4%	(305,467)	15,474	4,320	\$21.77
Katy/Grand Parkway West	267	3,209,567	118,192	129,175	4.0%	111,609	95,436	43,700	\$28.63
Kingwood/Humble	87	2,226,209	126,871	128,285	5.8%	160,719	144,450	0	\$22.93
NASA/Clear Lake	234	6,175,332	1,372,595	1,373,330	22.2%	(138,552)	26,010	7,400	\$19.46
North Belt	73	6,295,686	1,733,220	1,854,618	29.5%	(95,366)	0	0	\$15.72
Northeast Near	31	689,014	82,101	82,101	11.9%	24,713	0	0	\$19.58
Northwest	162	6,855,952	1,039,663	1,056,034	15.4%	(89,763)	0	25,020	\$19.49
Richmond/Fountainview	27	954,839	131,902	131,902	13.8%	11,232	0	0	\$23.18
San Felipe/Voss	36	3,504,373	544,169	563,644	16.1%	(136,030)	0	0	\$23.46
San Jacinto County	1	27,261	0	0	0.0%	0	0	0	\$0.00
South	92	1,594,846	152,929	152,929	9.6%	47,248	68,849	0	\$25.84
South Hwy 35	36	362,944	12,436	12,436	3.4%	2,815	0	0	\$16.01
South Main/Medical Center	68	4,905,278	228,334	228,442	4.7%	79,097	0	0	\$25.86
Southwest	129	7,763,867	1,295,390	1,300,792	16.8%	115,205	67,600	0	\$17.51
West Belt	54	2,164,150	301,397	377,351	17.4%	96,031	0	6,000	\$22.21
West Loop	57	5,980,988	759,277	771,496	12.9%	(72,225)	0	0	\$26.46
Westchase	73	7,830,021	1,407,657	1,441,258	18.4%	(70,929)	0	0	\$19.43
Woodlands	375	7,891,862	798,845	895,163	11.3%	(67,098)	45,332	26,400	\$25.40
<b>Totals</b>	<b>3,167</b>	<b>124,654,245</b>	<b>18,155,230</b>	<b>18,767,475</b>	<b>15.1%</b>	<b>(369,300)</b>	<b>800,776</b>	<b>324,634</b>	<b>\$21.74</b>

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	27	104,081	6,678	6,678	6.4%	(6,678)	0	0	\$15.27
Bellaire	41	755,586	51,261	51,261	6.8%	14,641	0	0	\$18.10
Downtown	447	4,282,913	274,769	274,769	6.4%	(8,493)	0	0	\$23.30
E Fort Bend Co/Sugar Land	103	909,923	59,611	59,611	6.6%	17,507	0	0	\$21.05
FM 1960	337	2,869,560	339,699	339,699	11.8%	(101,800)	0	0	\$16.31
Greenway Plaza	203	1,517,822	102,853	103,603	6.8%	(1,910)	0	0	\$23.12
Gulf Freeway/Pasadena	422	3,494,015	363,495	363,495	10.4%	(35,471)	0	0	\$18.12
I-10 East	100	657,788	43,286	43,286	6.6%	13,629	0	0	\$20.20
Katy Freeway	199	3,068,510	134,829	140,811	4.6%	(119,270)	0	0	\$20.32
Katy/Grand Parkway West	94	624,938	57,090	57,090	9.1%	(17,107)	0	0	\$19.36
Kingwood/Humble	123	950,056	92,854	92,854	9.8%	(2,459)	0	0	\$19.31
NASA/Clear Lake	263	2,118,074	208,839	208,839	9.9%	(27,241)	0	0	\$17.63
North Belt	72	1,966,712	488,631	491,388	25.0%	(15,488)	0	0	\$15.50
Northeast Near	107	880,615	43,187	43,187	4.9%	(23,212)	0	0	\$17.96
Northwest	336	3,041,572	157,191	158,182	5.2%	(26,642)	0	0	\$16.16
Richmond/Fountainview	88	1,202,544	30,909	30,909	2.6%	69,297	0	0	\$15.89
San Felipe/Voss	10	114,791	9,425	9,425	8.2%	580	0	0	\$25.24
San Jacinto County	2	11,878	0	0	0.0%	0	0	0	\$0.00
South	147	887,439	98,814	98,814	11.1%	(3,735)	0	0	\$14.59
South Hwy 35	109	422,051	27,579	27,579	6.5%	2,500	0	0	\$18.68
South Main/Medical Center	148	2,879,341	86,794	93,194	3.2%	(39,842)	0	0	\$21.57
Southwest	161	3,142,836	171,482	171,482	5.5%	(17,511)	0	0	\$15.09
West Belt	18	202,654	0	0	0.0%	0	0	0	\$16.50
West Loop	25	517,292	7,552	7,552	1.5%	29,386	0	0	\$21.94
Westchase	30	890,384	48,500	48,500	5.4%	(14,717)	0	0	\$15.95
Woodlands	171	1,365,990	76,147	76,147	5.6%	(5,904)	0	0	\$22.75
<b>Totals</b>	<b>3,783</b>	<b>38,879,365</b>	<b>2,981,475</b>	<b>2,998,355</b>	<b>7.7%</b>	<b>(319,940)</b>	<b>0</b>	<b>0</b>	<b>\$18.21</b>

Source: CoStar Property\*

## TOTAL OFFICE MARKET STATISTICS

Fourth Quarter 2017

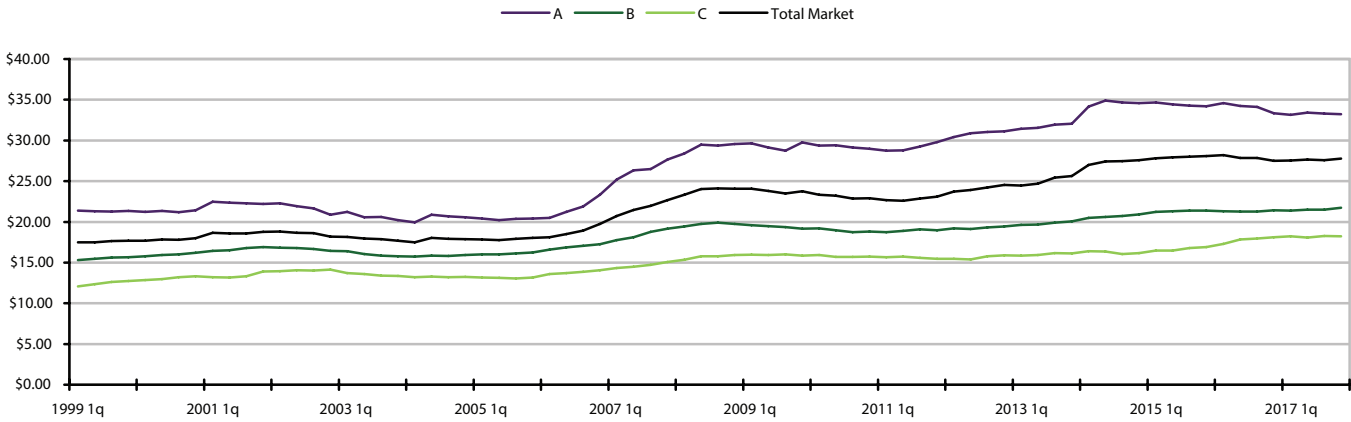
Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Austin County	36	237,688	6,678	6,678	2.8%	(6,048)	0	0	\$15.27
Bellaire	81	4,956,294	455,854	479,774	9.7%	6,434	0	0	\$24.20
Downtown	688	59,680,987	8,669,765	10,024,860	16.8%	(1,068,325)	1,062,958	778,344	\$37.80
E Fort Bend Co/Sugar Land	390	9,797,981	702,218	775,231	7.9%	143,374	33,049	130,599	\$26.33
FM 1960	748	15,073,361	1,982,830	2,010,692	13.3%	(21,237)	140,766	152,591	\$20.03
Greenway Plaza	274	13,051,667	1,789,843	1,839,227	14.1%	(54,883)	238,547	0	\$33.11
Gulf Freeway/Pasadena	608	7,783,259	941,871	941,871	12.1%	(41,029)	107,510	23,604	\$20.73
I-10 East	126	1,293,524	142,781	142,781	11.0%	24,548	0	0	\$17.66
Katy Freeway	509	40,002,609	5,818,232	7,199,639	18.0%	(95,355)	389,902	4,320	\$28.57
Katy/Grand Parkway West	384	5,869,369	736,381	761,456	13.0%	94,529	95,436	115,745	\$27.33
Kingwood/Humble	213	3,365,577	229,118	230,532	6.8%	158,260	144,450	100,000	\$23.24
NASA/Clear Lake	514	10,417,486	1,778,800	1,797,094	17.3%	(200,173)	26,010	7,400	\$20.53
North Belt	171	14,000,738	5,281,447	5,657,468	40.4%	(293,890)	0	0	\$19.74
Northeast Near	141	2,210,329	157,871	157,871	7.1%	53,918	85,000	0	\$18.73
Northwest	509	12,172,689	1,902,918	1,923,954	15.8%	(138,611)	0	25,020	\$21.02
Richmond/Fountainview	115	2,157,383	162,811	162,811	7.5%	80,529	0	0	\$21.52
San Felipe/Voss	49	5,339,957	932,320	951,795	17.8%	(118,191)	0	0	\$28.77
San Jacinto County	3	39,139	0	0	0.0%	0	0	0	\$0.00
South	243	2,875,833	281,450	281,450	9.8%	60,285	68,849	300,000	\$25.01
South Hwy 35	145	784,995	40,015	40,015	5.1%	5,315	0	0	\$17.54
South Main/Medical Center	230	12,246,705	531,647	547,518	4.5%	22,752	0	0	\$27.68
Southwest	299	12,960,621	1,987,335	2,000,809	15.4%	(17,985)	67,600	0	\$17.66
West Belt	102	6,747,137	948,400	1,266,444	18.8%	71,616	0	6,000	\$26.64
West Loop	131	24,596,817	4,142,940	4,842,425	19.7%	(512,062)	380,000	104,579	\$34.85
Westchase	137	18,727,139	3,209,086	3,811,217	20.4%	(7,021)	187,011	0	\$27.70
Woodlands	588	20,468,665	2,019,204	2,163,649	10.6%	98,754	217,328	731,200	\$27.63
<b>Totals</b>	<b>7,434</b>	<b>306,857,949</b>	<b>44,851,815</b>	<b>50,017,261</b>	<b>16.3%</b>	<b>(1,754,496)</b>	<b>3,244,416</b>	<b>2,479,402</b>	<b>\$27.76</b>

Source: CoStar Property\*

# HOUSTON OFFICE MARKET

## HISTORICAL RENTAL RATES

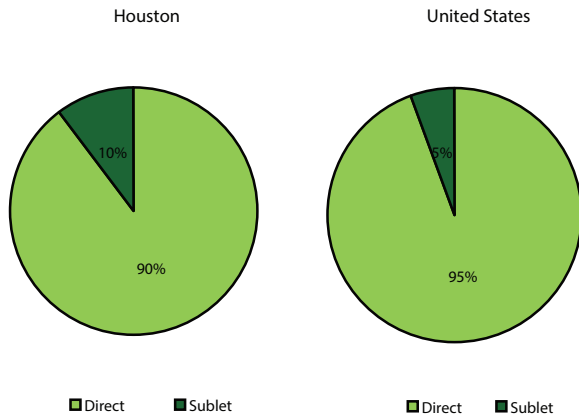
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property\*

## VACANCY BY AVAILABLE SPACE TYPE

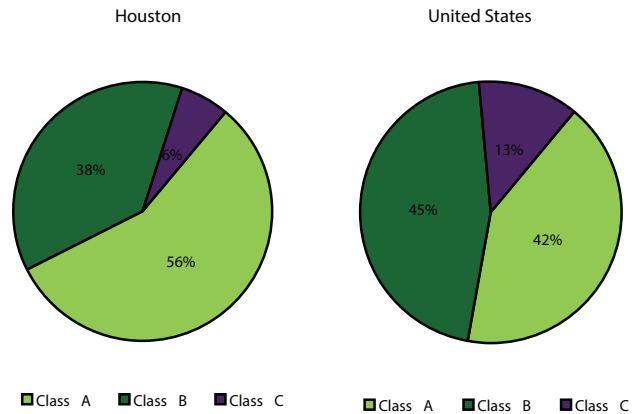
Percent of All Vacant Space in Direct vs. Sublet



Source: CoStar Property\*

## VACANCY BY CLASS

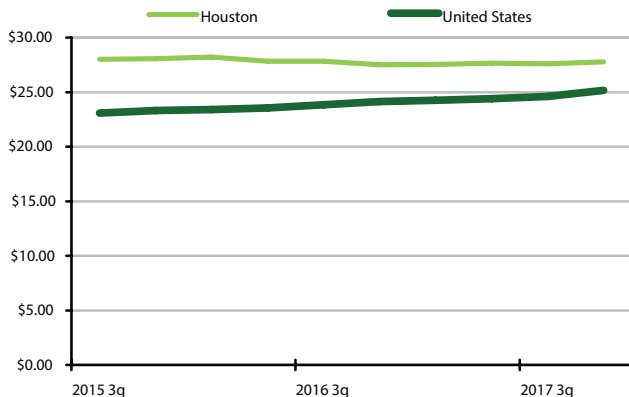
Percent of All Vacant Space by Class



Source: CoStar Property\*

## U.S. RENTAL RATE COMPARISON

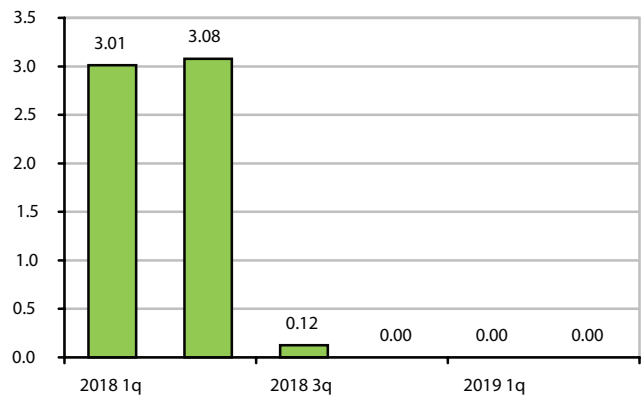
Based on Full-Service Equivalent Rental Rates



Source: CoStar Property\*

## FUTURE SPACE AVAILABLE

Space Scheduled to be Available for Occupancy\*



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