

Q2 2018

Office Insight

Lack of growth in demand continues to weigh the office market down

- Yet another quarter of below-average leasing activity pushes vacancy up to 24.5%, marking the fourteenth consecutive quarter of rising vacancy.
- With only 176,000 square feet of deliveries year-to-date, 2018 is set to be the market's lightest in terms of new development since 2010.
- The Galleria submarket led all submarkets in terms of positive absorption for the second quarter in a row while the CBD and Katy Freeway West brought up the rear.

Houston's office market continued to face familiar headwinds in the form of subdued leasing activity, rising vacancy, and softening rental rates during the second quarter of 2018. Of these three trends, stagnant leasing demand has had the greatest effect on the market. Since the close of 2014, leasing activity in Houston has surpassed four million square feet just two times in fourteen quarters, with Q2 2018 not among those two occurrences. In contrast, from Q3 2011 to Q4 2014 leasing activity surpassed four million square feet in every quarter and even eclipsed five million square feet five times. Unsurprisingly, this slowdown in leasing activity has pushed total vacancy up for fourteen consecutive quarters, resulting in an increase from 13.4% in Q4 2014 to 24.5% currently.

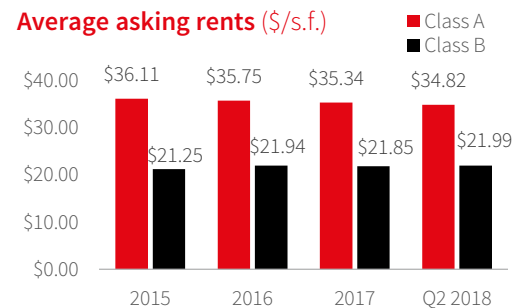
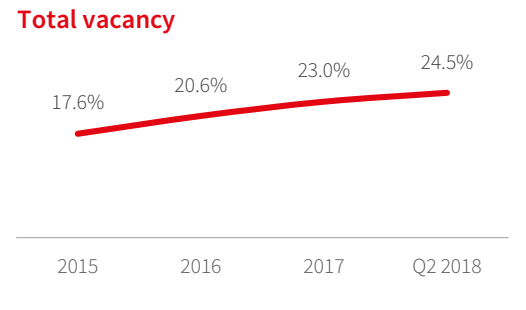
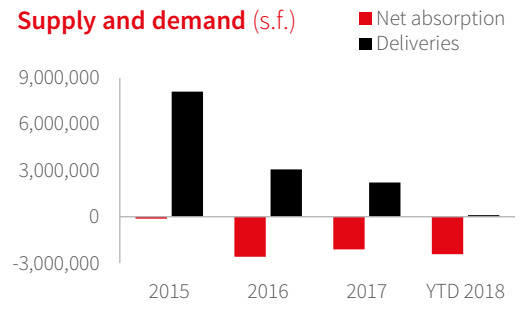
While the demand side continues to beset the market with excess space, the supply side remains a relative non-factor. The development pipeline currently stands at just under 1.5 million square feet, which is well below the market's long-term average of 4.3 million square feet. Additionally, this year is on course to be the market's lightest year in terms of new development since 2010 with only 176,000 square feet of new deliveries year-to-date and only 503,000 square feet in total expected to deliver in 2018.

Outlook

Despite a few early signs of improving market conditions ahead as seen by flattening concession packages and strong performance in select submarkets, such as the Galleria, through the first half of 2018, the Houston office market has a long way to go before it returns to a balanced market. Moving forward, we expect market conditions to continue to favor tenants through the remainder of 2018 as leasing demand remains muted and the market absorbs the oversupply of space which has nearly doubled the amount of vacancy since the close of 2014.

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Fundamentals	Forecast
YTD net absorption	-2,419,585 s.f. ▲
Under construction	1,483,144 s.f. ►
Total vacancy	24.5% ►
Average asking rent (gross)	\$30.17 p.s.f. ►
Concessions	Stable ►



Office Statistics

	Class	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
	A	108,751,094	-518,777	-1,492,141	-1.4%	20.7%	26.0%	\$34.82	104,579	1,483,144
	B	58,909,193	-583,141	-927,444	-1.6%	20.9%	21.7%	\$21.99	0	0
Totals		167,660,287	-1,101,918	-2,419,585	-1.4%	20.8%	24.5%	\$30.17	104,579	1,483,144
CBD	Totals	35,565,721	-430,664	-458,388	-1.3%	18.2%	22.0%	\$41.13	0	778,344
CBD	Totals	35,565,721	-430,664	-458,388	-1.3%	18.2%	22.0%	\$41.13	0	778,344
Bellaire	Totals	2,250,960	-429	-36,586	-1.6%	11.2%	12.3%	\$27.29	0	0
Galleria	Totals	22,790,764	106,696	347,132	1.5%	17.4%	19.8%	\$35.87	104,579	0
Greenspoint/North Belt	Totals	8,899,135	6,648	23,357	0.3%	53.1%	53.6%	\$19.90	0	0
Greenway Plaza	Totals	9,891,177	-5,822	-68,469	-0.7%	16.3%	16.9%	\$30.76	0	0
Medical Center	Totals	3,926,255	599	12,806	0.3%	8.5%	8.8%	\$29.59	0	0
Midtown	Totals	4,119,201	101,073	4,026	0.1%	14.8%	15.2%	\$30.74	0	0
Northwest	Totals	8,558,574	-274,735	-403,186	-4.7%	26.0%	31.3%	\$24.06	0	0
San Felipe/Voss	Totals	5,145,563	-39,188	-174,236	-3.4%	20.9%	21.5%	\$29.76	0	0
Southwest	Totals	6,023,986	15,060	25,679	0.4%	23.0%	24.4%	\$17.52	0	0
Suburban Near	Totals	71,605,615	-90,098	-269,477	-0.4%	22.6%	24.4%	\$26.82	104,579	0
Katy Freeway East	Totals	5,553,300	47,157	-26,181	-0.5%	15.0%	16.1%	\$34.70	0	0
Katy Freeway West	Totals	19,768,796	-503,648	-1,042,078	-5.3%	25.1%	37.4%	\$30.47	0	0
Westchase	Totals	13,012,553	-47,541	-202,949	-1.6%	20.3%	25.8%	\$27.12	0	0
Energy Corridor	Totals	38,334,649	-504,032	-1,271,208	-3.3%	22.0%	30.4%	\$29.69	0	0
FM 1960	Totals	5,876,831	-92,277	-182,985	-3.1%	19.4%	21.6%	\$18.72	0	0
Gulf Freeway/Pasadena	Totals	1,516,447	-21,752	-33,903	-2.2%	19.6%	20.1%	\$20.86	0	0
NASA/Clear Lake	Totals	3,261,745	-13,935	-26,717	-0.8%	18.3%	18.7%	\$20.99	0	0
Sugar Land	Totals	4,234,020	43,487	-152,670	-3.6%	8.8%	13.8%	\$26.03	0	0
The Woodlands	Totals	7,265,259	7,353	-24,237	-0.3%	18.1%	18.9%	\$30.75	0	704,800
Suburban Outlying	Totals	22,154,302	-77,124	-420,512	-1.9%	16.8%	18.7%	\$23.11	0	704,800
Houston	Totals	167,660,287	-1,101,918	-2,419,585	-1.4%	20.8%	24.5%	\$30.17	104,579	1,483,144
CBD	A	28,012,863	-375,722	-316,023	-1.1%	17.5%	22.1%	\$43.99	0	778,344
CBD	A	28,012,863	-375,722	-316,023	-1.1%	17.5%	22.1%	\$43.99	0	778,344
Bellaire	A	1,096,380	-2,585	-4,572	-0.4%	12.6%	14.3%	\$28.80	0	0
Galleria	A	17,866,158	138,418	394,201	2.2%	18.1%	21.0%	\$37.90	104,579	0
Greenspoint/North Belt	A	4,648,028	-2,062	12,717	0.3%	62.7%	62.9%	\$22.71	0	0
Greenway Plaza	A	7,333,127	4,738	23,894	0.3%	16.5%	17.0%	\$32.50	0	0
Medical Center	A	1,727,773	-7,339	-3,716	-0.2%	13.3%	14.1%	\$32.63	0	0
Midtown	A	1,853,042	89,389	-1,374	-0.1%	22.0%	22.2%	\$32.45	0	0
Northwest	A	3,884,196	-230,358	-336,932	-8.7%	32.1%	41.5%	\$26.44	0	0
San Felipe/Voss	A	1,720,793	-11,477	-99,114	-5.8%	27.2%	27.8%	\$36.35	0	0
Southwest	A	1,578,768	1,181	23,836	1.5%	22.3%	24.1%	\$18.47	0	0
Suburban Near	A	41,708,265	-20,095	8,940	0.0%	24.4%	26.9%	\$30.43	104,579	0
Katy Freeway East	A	4,117,275	40,931	-38,055	-0.9%	16.6%	17.7%	\$40.61	0	0
Katy Freeway West	A	14,366,744	-236,171	-669,814	-4.7%	22.9%	39.3%	\$34.57	0	0
Westchase	A	8,791,568	6,459	-217,087	-2.5%	21.3%	29.3%	\$30.97	0	0
Energy Corridor	A	27,275,587	-188,781	-924,956	-3.4%	21.4%	32.8%	\$33.85	0	0
FM 1960	A	2,284,644	19,174	-89,307	-3.9%	11.2%	16.3%	\$28.21	0	0
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,336,691	-28,202	-63,900	-4.8%	10.9%	11.7%	\$24.20	0	0
Sugar Land	A	2,925,728	40,502	-132,580	-4.5%	7.7%	13.4%	\$29.31	0	0
The Woodlands	A	5,207,316	34,347	25,685	0.5%	17.9%	18.8%	\$32.53	0	704,800
Suburban Outlying	A	11,754,379	65,821	-260,102	-2.2%	13.3%	16.1%	\$29.85	0	704,800
Houston	A	108,751,094	-518,777	-1,492,141	-1.4%	20.7%	26.0%	\$34.82	104,579	1,483,144

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,552,858	-54,942	-142,365	-1.9%	20.5%	21.4%	\$29.67	0	0
CBD	B	7,552,858	-54,942	-142,365	-1.9%	20.5%	21.4%	\$29.67	0	0
Bellaire	B	1,154,580	2,156	-32,014	-2.8%	9.9%	10.3%	\$25.82	0	0
Galleria	B	4,924,606	-31,722	-47,069	-1.0%	14.9%	15.7%	\$27.88	0	0
Greenspoint/North Belt	B	4,251,107	8,710	10,640	0.3%	42.6%	43.4%	\$15.68	0	0
Greenway Plaza	B	2,558,050	-10,560	-92,363	-3.6%	15.9%	16.4%	\$25.75	0	0
Medical Center	B	2,198,482	7,938	16,522	0.8%	4.7%	4.7%	\$28.17	0	0
Midtown	B	2,266,159	11,684	5,400	0.2%	8.8%	9.6%	\$28.69	0	0
Northwest	B	4,674,378	-44,377	-66,254	-1.4%	21.0%	22.8%	\$20.36	0	0
San Felipe/Voss	B	3,424,770	-27,711	-75,122	-2.2%	17.7%	18.4%	\$24.92	0	0
Southwest	B	4,445,218	13,879	1,843	0.0%	23.3%	24.5%	\$17.19	0	0
Suburban Near	B	29,897,350	-70,003	-278,417	-0.9%	20.1%	20.9%	\$21.32	0	0
Katy Freeway East	B	1,436,025	6,226	11,874	0.8%	10.3%	11.6%	\$21.18	0	0
Katy Freeway West	B	5,402,052	-267,477	-372,264	-6.9%	31.0%	32.2%	\$21.70	0	0
Westchase	B	4,220,985	-54,000	14,138	0.3%	18.2%	18.6%	\$19.74	0	0
Energy Corridor	B	11,059,062	-315,251	-346,252	-3.1%	23.4%	24.4%	\$21.04	0	0
FM 1960	B	3,592,187	-111,451	-93,678	-2.6%	24.5%	25.1%	\$16.76	0	0
Gulf Freeway/Pasadena	B	1,516,447	-21,752	-33,903	-2.2%	19.6%	20.1%	\$20.86	0	0
NASA/Clear Lake	B	1,925,054	14,267	37,183	1.9%	23.4%	23.5%	\$20.10	0	0
Sugar Land	B	1,308,292	2,985	-20,090	-1.5%	11.2%	14.7%	\$22.49	0	0
The Woodlands	B	2,057,943	-26,994	-49,922	-2.4%	18.5%	19.2%	\$27.59	0	0
Suburban Outlying	B	10,399,923	-142,945	-160,410	-1.5%	20.7%	21.6%	\$19.86	0	0
Houston	B	58,909,193	-583,141	-927,444	-1.6%	20.9%	21.7%	\$21.99	0	0