

Q3 2018

Office Insight

Flashes of improving market conditions slowly beginning to emerge

- Houston’s vacancy rate fell by 30 basis points during the third quarter, snapping a streak of fourteen consecutive quarters of rising vacancy.
- Accompanying the drop in vacancy, indicators such as net absorption, asking rents, and sublease availability also moved in a positive direction.
- Hines kicked off construction of Block 58, which is already 33.0% preleased to Vinson & Elkins and Hines, and will add over 1.0 million square feet to the CBD’s skyline upon completion in 2021.

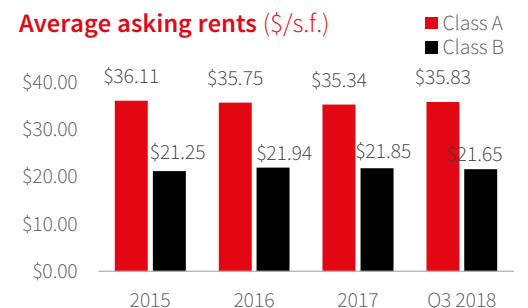
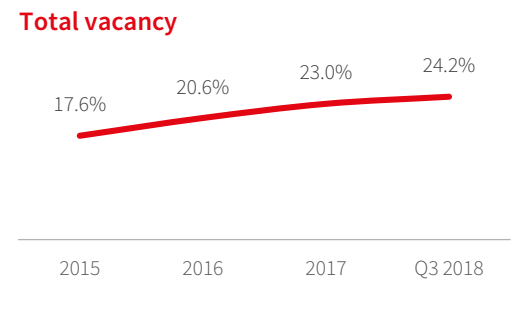
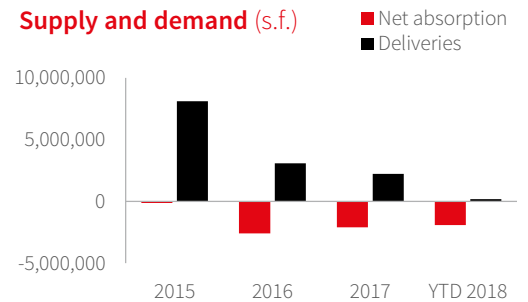
In years past, a 30 basis point drop in vacancy would not be a significant occurrence. However, this particular occurrence was preceded by fourteen consecutive quarter of increases and is certainly deserving of recognition. Over the past fourteen quarters vacancy in Houston nearly doubled from 13.4% in the fourth quarter of 2014 to 24.5% in the second quarter of 2018, largely as a result of the pullbacks in the energy sector. Ironically, the drop in vacancy in the third quarter stemmed from an energy tenant, ConocoPhillips, moving into their new 600,000 square feet Houston headquarters at Energy Center 4. Although it is true that absorption would have been negative without ConocoPhillips’ move, even without the move absorption would have been -160,000 square feet in the third quarter, which is a far cry from the -1.3 million square feet seen in the first quarter and the -1.1 million square feet in the second quarter to start the year.

Along with the drop in vacancy, several other market indicators pointed to an improving market in the third quarter. As previously mentioned, overall net absorption totaled 435,000 square feet, which marks just the fourth positive quarter in the past fourteen. Additionally, the sublease space inventory decreased by over 10.0% to 8.7 million square feet.

Outlook

While it is clear that the market is beginning the early stages of stabilizing, undoing over 7.0 million square feet of occupancy losses and a near doubling of the vacancy rate will not happen overnight. Positive net absorption and a drop in vacancy in the third quarter was certainly a step in the right direction, but many more quarters of sustained growth are necessary before the market returns to a more balanced state. As such, we expect market conditions in Houston to remain tenant favorable through the remainder of 2018 and well into 2019, at least.

Fundamentals	Forecast
YTD net absorption	-1,913,380 s.f. ▲
Under construction	2,895,225 s.f. ►
Total vacancy	24.2% ►
Average asking rent (gross)	\$30.95 p.s.f. ►
Concessions	Stable ►



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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	108,793,616	659,450	-760,646	-0.7%	20.8%	25.4%	\$35.83	176,624	2,895,225
	B	58,817,752	-225,290	-1,152,734	-2.0%	21.1%	22.0%	\$21.65	0	0
Totals		167,611,368	434,160	-1,913,380	-1.1%	20.9%	24.2%	\$30.95	176,624	2,895,225
CBD	Totals	35,485,389	-191,589	-649,977	-1.8%	18.8%	22.3%	\$42.79	0	1,884,925
CBD	Totals	35,485,389	-191,589	-649,977	-1.8%	18.8%	22.3%	\$42.79	0	1,884,925
Bellaire	Totals	2,250,960	40,775	4,189	0.2%	9.2%	10.5%	\$27.51	0	0
Galleria	Totals	22,768,281	-158,339	188,793	0.8%	17.8%	20.4%	\$35.46	104,579	0
Greenspoint/North Belt	Totals	8,947,947	148,081	171,438	1.9%	51.1%	52.2%	\$19.31	0	0
Greenway Plaza	Totals	9,969,537	-56,479	-124,948	-1.3%	17.5%	18.1%	\$33.45	0	0
Medical Center	Totals	3,919,464	28,479	41,285	1.1%	7.9%	8.0%	\$29.15	0	0
Midtown	Totals	4,126,027	45,804	49,830	1.2%	13.3%	14.3%	\$30.70	0	0
Northwest	Totals	8,557,381	-86,405	-489,591	-5.7%	27.6%	32.3%	\$24.24	0	0
San Felipe/Voss	Totals	5,145,555	-23,390	-197,626	-3.8%	21.1%	22.0%	\$30.19	0	0
Southwest	Totals	6,028,999	-88,038	-62,359	-1.0%	24.5%	25.9%	\$17.79	0	0
Suburban Near	Totals	71,714,151	-149,512	-418,989	-0.6%	22.8%	24.7%	\$26.91	104,579	0
Katy Freeway East	Totals	5,557,394	126,689	100,508	1.8%	12.8%	13.9%	\$33.57	0	0
Katy Freeway West	Totals	19,809,394	778,460	-191,573	-1.0%	24.6%	33.6%	\$30.14	72,045	0
Westchase	Totals	12,970,197	-349,329	-552,278	-4.3%	22.5%	28.3%	\$27.21	0	0
Energy Corridor	Totals	38,336,985	555,820	-643,343	-1.7%	22.2%	28.9%	\$29.34	72,045	0
FM 1960	Totals	5,885,813	5,836	-177,149	-3.0%	19.7%	21.7%	\$18.74	0	156,000
Gulf Freeway/Pasadena	Totals	1,516,447	24,837	-9,066	-0.6%	18.0%	18.4%	\$21.08	0	0
NASA/Clear Lake	Totals	3,143,107	-42,290	-69,007	-2.2%	16.6%	16.9%	\$21.93	0	0
Sugar Land	Totals	4,222,379	57,400	-95,270	-2.3%	8.3%	12.2%	\$28.73	0	0
The Woodlands	Totals	7,307,097	173,658	149,421	2.0%	16.1%	17.0%	\$30.98	0	854,300
Suburban Outlying	Totals	22,074,843	219,441	-201,071	-0.9%	15.8%	17.4%	\$23.69	0	1,010,300
Houston	Totals	167,611,368	434,160	-1,913,380	-1.1%	20.9%	24.2%	\$30.95	176,624	2,895,225
CBD	A	27,917,925	-189,778	-505,801	-1.8%	18.3%	22.5%	\$44.96	0	1,884,925
CBD	A	27,917,925	-189,778	-505,801	-1.8%	18.3%	22.5%	\$44.96	0	1,884,925
Bellaire	A	1,096,380	16,527	11,955	1.1%	11.5%	12.8%	\$28.86	0	0
Galleria	A	17,870,606	59,432	453,633	2.5%	17.6%	20.6%	\$37.93	104,579	0
Greenspoint/North Belt	A	4,676,389	12,944	25,661	0.5%	61.7%	62.9%	\$22.40	0	0
Greenway Plaza	A	7,394,756	-102,154	-78,260	-1.1%	18.3%	19.1%	\$36.02	0	0
Medical Center	A	1,720,982	31,131	27,415	1.6%	11.8%	12.0%	\$32.68	0	0
Midtown	A	1,853,042	78,889	77,515	4.2%	17.8%	17.9%	\$32.66	0	0
Northwest	A	3,884,196	-110,736	-447,668	-11.5%	36.1%	44.4%	\$26.34	0	0
San Felipe/Voss	A	1,720,793	-24,053	-123,167	-7.2%	28.0%	29.2%	\$36.13	0	0
Southwest	A	1,580,642	-22,230	1,606	0.1%	23.8%	25.6%	\$19.46	0	0
Suburban Near	A	41,797,786	-60,250	-51,310	-0.1%	24.7%	27.2%	\$30.75	104,579	0
Katy Freeway East	A	4,121,321	117,881	79,826	1.9%	13.8%	15.0%	\$38.93	0	0
Katy Freeway West	A	14,407,328	782,801	185,032	1.3%	22.3%	34.0%	\$34.60	72,045	0
Westchase	A	8,788,607	-89,834	-306,921	-3.5%	22.2%	30.3%	\$31.55	0	0
Energy Corridor	A	27,317,256	810,848	-42,063	-0.2%	21.0%	30.0%	\$33.83	72,045	0
FM 1960	A	2,284,644	351	-88,956	-3.9%	12.2%	16.2%	\$28.39	0	156,000
Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0
NASA/Clear Lake	A	1,342,961	-13,466	-77,366	-5.8%	12.3%	13.1%	\$25.20	0	0
Sugar Land	A	2,925,728	27,757	-104,823	-3.6%	7.3%	12.5%	\$31.57	0	0
The Woodlands	A	5,207,316	83,988	109,673	2.1%	16.0%	17.1%	\$33.64	0	854,300
Suburban Outlying	A	11,760,649	98,630	-161,472	-1.4%	12.7%	15.3%	\$31.23	0	1,010,300
Houston	A	108,793,616	659,450	-760,646	-0.7%	20.8%	25.4%	\$35.83	176,624	2,895,225

	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	7,567,464	-1,811	-144,176	-1.9%	20.6%	21.6%	\$30.22	0	0
CBD	B	7,567,464	-1,811	-144,176	-1.9%	20.6%	21.6%	\$30.22	0	0
Bellaire	B	1,154,580	24,248	-7,766	-0.7%	7.0%	8.2%	\$26.20	0	0
Galleria	B	4,897,675	-217,771	-264,840	-5.4%	18.5%	19.7%	\$27.80	0	0
Greenspoint/North Belt	B	4,271,558	135,137	145,777	3.4%	39.6%	40.5%	\$14.97	0	0
Greenway Plaza	B	2,574,781	45,675	-46,688	-1.8%	14.9%	15.2%	\$26.08	0	0
Medical Center	B	2,198,482	-2,652	13,870	0.6%	4.8%	4.8%	\$24.67	0	0
Midtown	B	2,272,985	-33,085	-27,685	-1.2%	9.6%	11.3%	\$28.62	0	0
Northwest	B	4,673,185	24,331	-41,923	-0.9%	20.5%	22.3%	\$20.68	0	0
San Felipe/Voss	B	3,424,762	663	-74,459	-2.2%	17.7%	18.4%	\$24.82	0	0
Southwest	B	4,448,357	-65,808	-63,965	-1.4%	24.7%	26.0%	\$17.21	0	0
Suburban Near	B	29,916,365	-89,262	-367,679	-1.2%	20.2%	21.3%	\$20.94	0	0
Katy Freeway East	B	1,436,073	8,808	20,682	1.4%	9.7%	11.0%	\$21.80	0	0
Katy Freeway West	B	5,402,066	-4,341	-376,605	-7.0%	31.0%	32.3%	\$21.45	0	0
Westchase	B	4,181,590	-259,495	-245,357	-5.9%	23.3%	24.0%	\$19.05	0	0
Energy Corridor	B	11,019,729	-255,028	-601,280	-5.5%	25.3%	26.4%	\$20.66	0	0
FM 1960	B	3,601,169	5,485	-88,193	-2.4%	24.4%	25.1%	\$16.76	0	0
Gulf Freeway/Pasadena	B	1,516,447	24,837	-9,066	-0.6%	18.0%	18.4%	\$21.08	0	0
NASA/Clear Lake	B	1,800,146	-28,824	8,359	0.5%	19.7%	19.8%	\$21.12	0	0
Sugar Land	B	1,296,651	29,643	9,553	0.7%	10.7%	11.7%	\$23.78	0	0
The Woodlands	B	2,099,781	89,670	39,748	1.9%	16.4%	16.6%	\$26.65	0	0
Suburban Outlying	B	10,314,194	120,811	-39,599	-0.4%	19.3%	19.8%	\$19.83	0	0
Houston	B	58,817,752	-225,290	-1,152,734	-2.0%	21.1%	22.0%	\$21.65	0	0