

# Houston



## Quick Stats

**81,900**

Jobs created during the 12 months ending August 2019

**3.9%**

August unemployment rate in Houston, down from 4.4% in August 2018

**6.6**

Million square feet of available sublease space, down from a high of 11 msf in 2016

**16.4%**

Direct vacancy in Houston's office market

**2.4**

Million square feet of office space under construction

The city's office market returned to positive absorption levels during third quarter as the Houston economy shows signs of improvement with higher employment levels. Class A properties continue to attract tenants, resulting in vacant class B space, as quoted rental rates slipped to slightly lower levels.

Local employment growth is a bright economic point as jobs in the metro grew 2.7% year-over-year, according to the Texas Workforce Commission. The metro's unemployment rate improved to 3.9% in August from 4.0% in July and from 4.4% year-over-year. For the 12 months ending August 2019, the Houston metro area added 81,900 jobs. The sector recording the largest increase was professional, scientific and technical services, for which its 18,000 new jobs should benefit the office market. Other leading job growth sectors included durable goods manufacturing (11,500); other services (9,700); transportation, warehousing and utilities (8,600); and health care and social assistance (8,200).

## Absorption and Demand

Direct net absorption returned to a positive 327,151 sf during third quarter after experiencing losses during the second quarter. The market is faring better overall as three of the last four quarters reported gains resulting in a 12-month positive absorption total of 865,000 sf. During third quarter, class A properties reported direct net gains of 321,348 sf while class B reported slightly negative 29,759 sf countered by class C's positive 35,562 sf. Year-to-date, class A properties registered 885,258 sf of absorption while class B registered a negative 1.3 msf. When sublease absorption of 328,470 sf is added to the direct total, class A properties gained 1.2 msf during the first three quarters of the year.

The Central Business District's (CBD) class A properties recorded 62,892 sf of net absorption during third quarter, resulting in a gain of 329,109 sf year-to-date. Suburban class A properties recorded positive absorption of 258,456 sf during third quarter with year-to-date totals of 556,149 sf.

Two west sectors, Katy Freeway East and Katy Freeway West/Energy Corridor, recorded the highest positive net absorption during the third quarter followed by the Greenway Plaza submarket. Year-to-date, five submarkets recorded more than 100,000 sf of direct net absorption, with the CBD recording the most at 355,946 sf followed by the Woodlands at 343,445 sf.

Occupancies during the third quarter include White & Case moving into 57,315 sf in 609 Main in the CBD, CAM Integrated Solutions occupying 59,220 sf in 17000 Katy Freeway and Fluor Corporation moving into 51,280 sf in 3250 Briarpark. Callon Petroleum Company occupied 50,436 sf in One BriarLake Plaza at 2000 W. Sam Houston Parkway South and two Harris County departments occupied 48,027 sf in Northwest Crossing III at 13105 Northwest Freeway.

Leasing activity slowed in third quarter to 2.3 msf after a healthy 7.3 msf leased during the first half of the year. Three of the largest leases signed during third quarter were Kiewit Engineering's 156,828 sf in Energy Center I at 585 N. Dairy Ashford, Engie North America's new 109,667-sf lease in BHP Billiton Tower at 1360 Post Oak, and Houston Methodist Hospital setting up administrative offices in 100,812 sf at 4800 Fournace Place, the former Chevron building in Bellaire.

## Vacancy & Availability

The current direct vacancy rate matched the previous quarter's 16.4%, although the rate is a drop from year-over-year's 16.9%. Class A vacancy rates marginally increased 10 basis points to 15.8% from last quarter but show an improvement from 17.3% year over year. Class B vacancy

rates increased 20 basis points to 18.5% in the third quarter while class C rates have remained the same 7.3% for the last three quarters. Total vacancy including sublease space is now at 17.7%, unchanged from last quarter but a decrease from year-over-year's 18.9%.

Direct availability citywide increased marginally to 21.5% during third quarter. Total availability, including sublease space, is now at a record-level 24.3%, a tad higher than last year's 23.5%. Leasing activity has slowed this year compared to 2018 with 2.8 msf leased during third quarter; year-to-date activity is about half of the total 21.3 msf leased during all of 2018.

Total available sublease space dipped slightly to 6.6 msf from 6.7 msf last quarter; this is a 9.6% drop from 12 months prior and a 31% drop from third quarter 2017. Total sublease space represents about 12% of the 56.1 msf available, and five submarkets account for 77% of all available sublease space.

## Construction

The construction pipeline remains limited, with 10 buildings totaling 2.4 msf under construction and 38% preleased. The CBD represents about 53% of the total square footage with the largest building, Texas Tower at 845 Texas Avenue. Hines' 1.1-msf property is currently 34.5% preleased and is scheduled for completion in October 2021.

The largest building to break ground during third quarter is Insperity's Building 5, a 270,000-sf, build-to-suit expansion project at U.S. 59 at Kingwood Drive in the Kingwood/Humble submarket. Four other buildings totaling 586,000 sf also broke ground during third quarter

including the rebuild of the Franklin Street post office site in downtown Houston called Post Houston and Building 9 in The Woodlands' Research Forest Lakeside development.

Completions during third quarter included four buildings totaling 264,433 sf; the properties were 15.5% preleased on delivery, with the largest being Chasewood Crossing III, a 156,000-sf building in the FM 1960 submarket.

## Asking Rates

There has been a slight decrease in overall average asking rates, from \$30.68 per square foot (psf) gross last quarter down to \$30.48 (psf), with fluctuations throughout the year. Quoted asking rates were reported in the \$29-to-\$30-psf range during the last five years and increased to more than \$30 during last year's third quarter. Throughout the downturn, landlords have offered various concessions, including year-long rent abatements and allowances covering the full cost of tenant improvement construction.

Average asking rates for the different submarkets range from a low of \$16.16 psf in the Southwest to \$43.33 in the CBD. The five suburban submarkets currently quoting rates more than \$30 include the West Loop (\$35.75), Greenway Plaza (\$34.00), Katy Freeway East (\$33.11), the Woodlands (\$32.49), and Katy Freeway West/Energy Corridor (\$31.05).

Class A rates overall are also marginally down to \$36.12 from the previous quarter. CBD properties are currently quoting class A rates at \$45.80 psf, also lower than last quarter and the \$46.17 recorded a year ago. Average suburban class A rates are currently \$31.78, also a decrease from the \$32.14-psf rate of second quarter.

16.4%

DIRECT VACANCY RATE

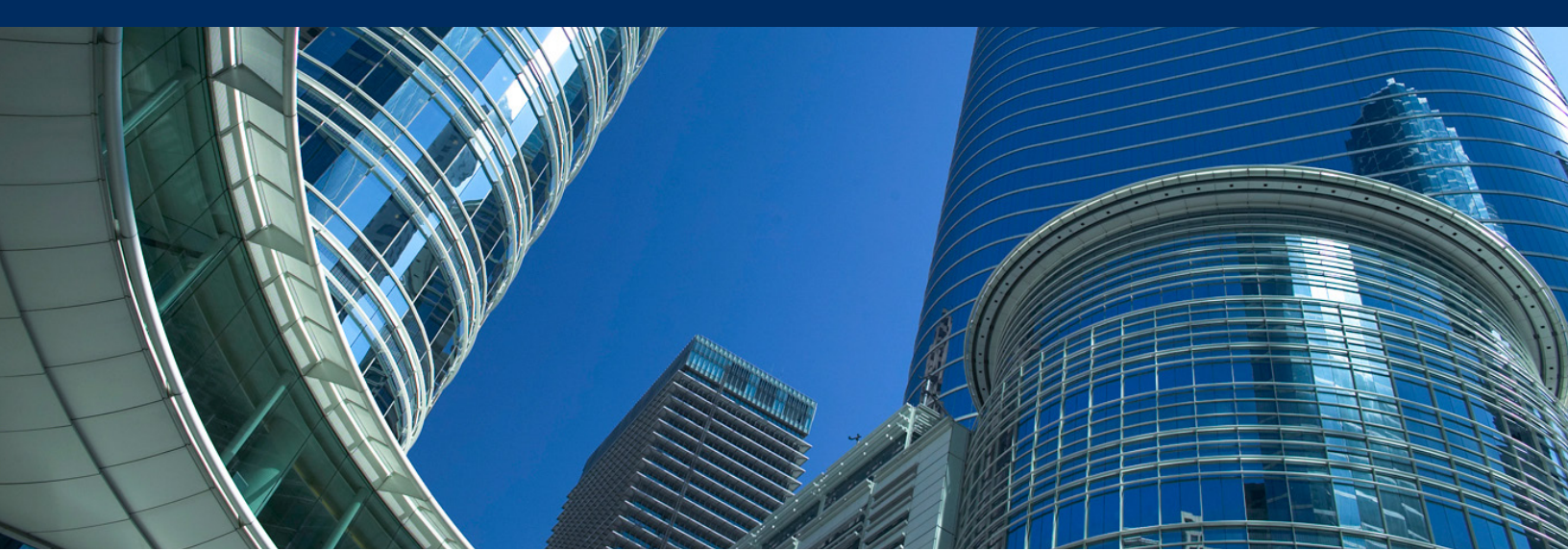
327k sf

DIRECT ABSORPTION

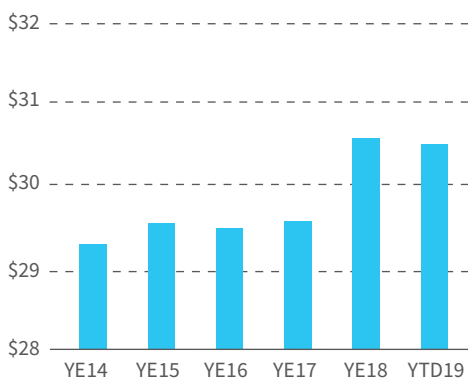
\$30.48

AVERAGE QUOTED RATE

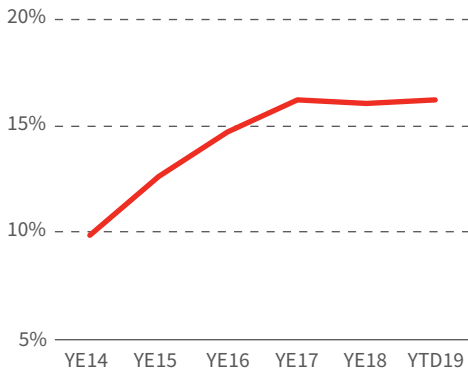




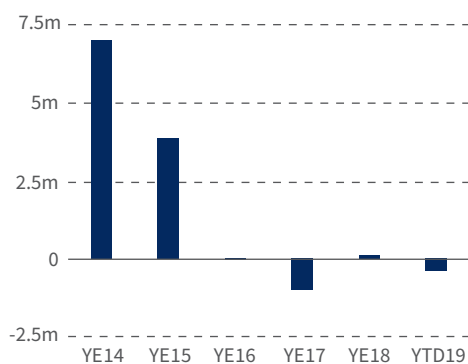
## Asking Rates



## Vacancy Rates



## Net Absorption



## Third-Quarter Highlights

- **Katy Ranch Phase II**, a 150,920-sf building at 24279 Katy Freeway, has broken ground during third quarter in Katy. Avison Young is the exclusive leasing agent for the property scheduled for completion in August 2020.
- The largest lease signed during third quarter was **Kiewit Engineering's** 156,828-sf lease in Energy Center I at 585 N. Dairy Ashford in the Katy Freeway West/Energy Corridor submarket.
- Five buildings totaling 855,858 sf broke ground in five different submarkets during third quarter. The largest underway is Kingwood-based **Insperity Inc.'s** 270,000-sf building, its fifth on the corporate campus.
- Completions during the third quarter included four buildings totaling 264,433 sf and collectively 15.5% preleased. **Chasewood Crossing Three**, a 156,000-sf building in the FM 1960 submarket, was the largest.
- Flight-to-quality trends persist as both leasing and net absorption in class A properties record gains at the expense of class B properties. Class A properties leased 11.2 msf and absorbed 1.5 msf during the last 12 months, while class B properties report more than 4.6 msf of leasing activity but a negative 1.1 msf of absorption during the same time frame.

## Trends to Watch

With its central location within the U.S. and the Americas, Houston is an important office base. The following are regional updates for key economic indicators.



### Oil

The price of oil averaged \$58 in late September, fluctuating between the low-\$50s and mid-\$60s during the year.



### Employment

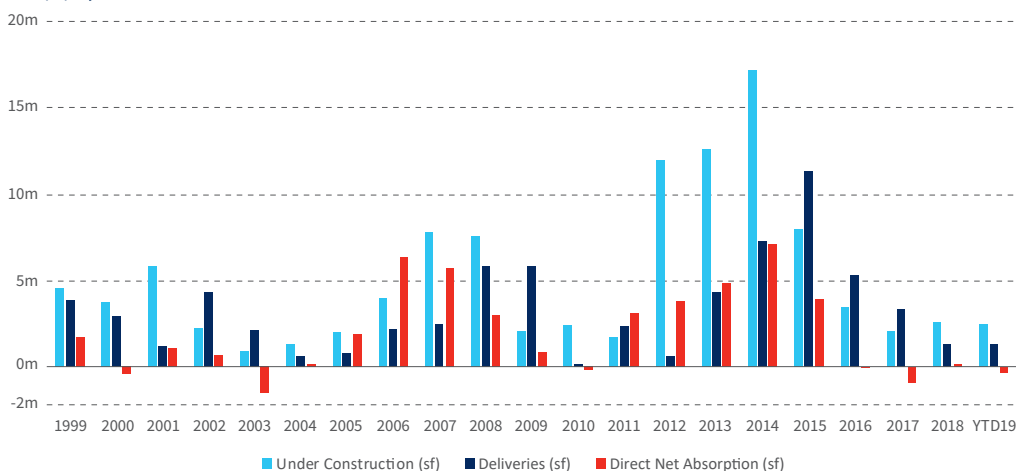
Employment grew 2.7%, creating 81,900 jobs for the 12 months ending August 2019.



### Purchasing

The Purchasing Manager's Index (PMI) registered 51.6 in August 2019, slightly up from 51.4 in July.

## Supply and Demand



## Select Third-Quarter Under Construction

Building Name	Building Address	Rentable Building Area (sf)	% Preleased	Major Tenants	Projected Delivery	Submarket
Texas Tower	845 Texas Avenue	1,123,699	3.9%	Vinson & Elkins, Hines	October 2021	Central Business District
Inspirity Campus Building 5	U.S. 59 at Kingwood Drive	270,000	100.0%	Inspirity	June 2020	Kingwood/Humble
200 Park Place	4200 Westheimer Road	207,202	13.8%	Compass RE, Charles Schwab	March 2020	West Loop
Alight Solutions	8770 New Trails Drive	180,000	100.0%	Alight Solutions	February 2020	Woodlands
Katy Ranch Phase II*	24279 Katy Freeway	150,920	0.0%	TBD	August 2020	Katy/Grand Parkway West
9655 Katy Freeway	9655 Katy Freeway	150,000	7.3%	TBD	July 2020	Katy Freeway East
Post Houston	401 Franklin Street	150,000	19.3%	TBD	August 2020	Central Business District
Research Forest Lakeside Building 9	9709 Lakeside Boulevard	134,938	0.0%	TBD	August 2020	Woodlands

\*Avison Young exclusive lease project

## Select Third-Quarter Lease Transactions

Tenant	Building Name	Building Address	Size (sf)	Submarket
Kiewit Engineering	Energy Center I	585 N. Dairy Ashford Road	156,828	Katy Freeway West/EnergyCorridor
Engie North America	BHP Billiton Tower	1360 Post Oak Boulevard	109,667	West Loop
Houston Methodist Hospital	4800 Fournace Place	4800 Fournace Place	100,812	Bellaire
ABB Inc.	Granite Briarpark Green	3151 Briarpark Drive	43,049	Westchase
Ontellus	One Shell Plaza	910 Louisiana Street	32,000	Central Business District
New Era Life Insurance*	Energy Tower II	11720 Katy Freeway	26,006	Katy Freeway West/Energy Corridor
Oxea	West Memorial Place I	15375 Memorial Drive	20,644	Katy Freeway West/Energy Corridor

\*Expansion



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Properties



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