



# Houston office market report

Q1 2023

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**AVISON  
YOUNG**

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# Houston office market trends

**-148k sf**

## Negative absorption persists but vacancy near stabilization

Houston's economy is coming off a remarkable year with record job growth in 2022, but the office market fundamentals remain soft as there remains a disconnect between office-using job growth and space demand as flexible work has changed how companies and employees use office space.

The office market posted 148k square feet (sf) of negative absorption in the first quarter of 2023 as companies reduced their physical footprint, causing vacancy to rise to 26.9% hitting its highest level on record. However, there are signs of stabilization as vacancy has experienced its slowest annual increase since the oil bust emerged in 2015.

**11.6%**

## Class A direct vacancy for product built since 2010

Despite the pullback in absorption, trophy and class A+ buildings continue to outperform the broader market and capture a larger share of the demand. For instance, the direct vacancy rate for trophy assets stands at 16% while new class A product built since 2010 is 11.6%.

The flight-to-quality trend continues as most of the larger new deals plus renewals have occurred in trophy and class A+ assets. The outlook for first-class assets remains positive as companies will continue to lure employees back to the office by selecting a premium experience through quality buildings that offer superior attributes and amenities.

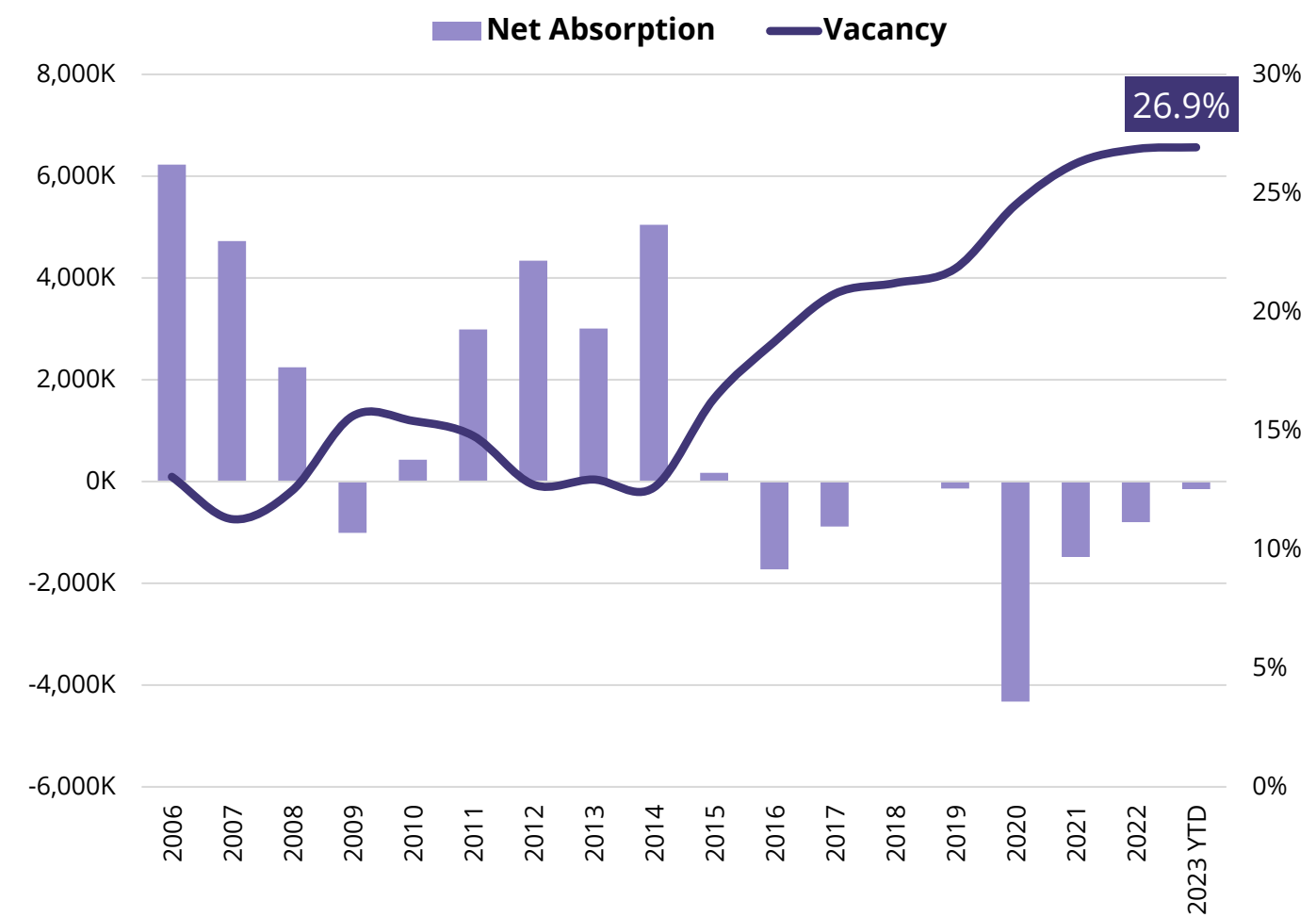
**2.6 msf**

## Leasing activity improvement driven by class A sector

Office leasing activity has continued to gain traction with 2.6 msf leased in the first quarter of 2023. Even though office leasing activity experienced a temporary pullback during the first quarter compared to a year ago, the class A sector continues to account for a large share of the leasing demand with 10 msf leased over the trailing 12 months, up 35.4% year-over-year.

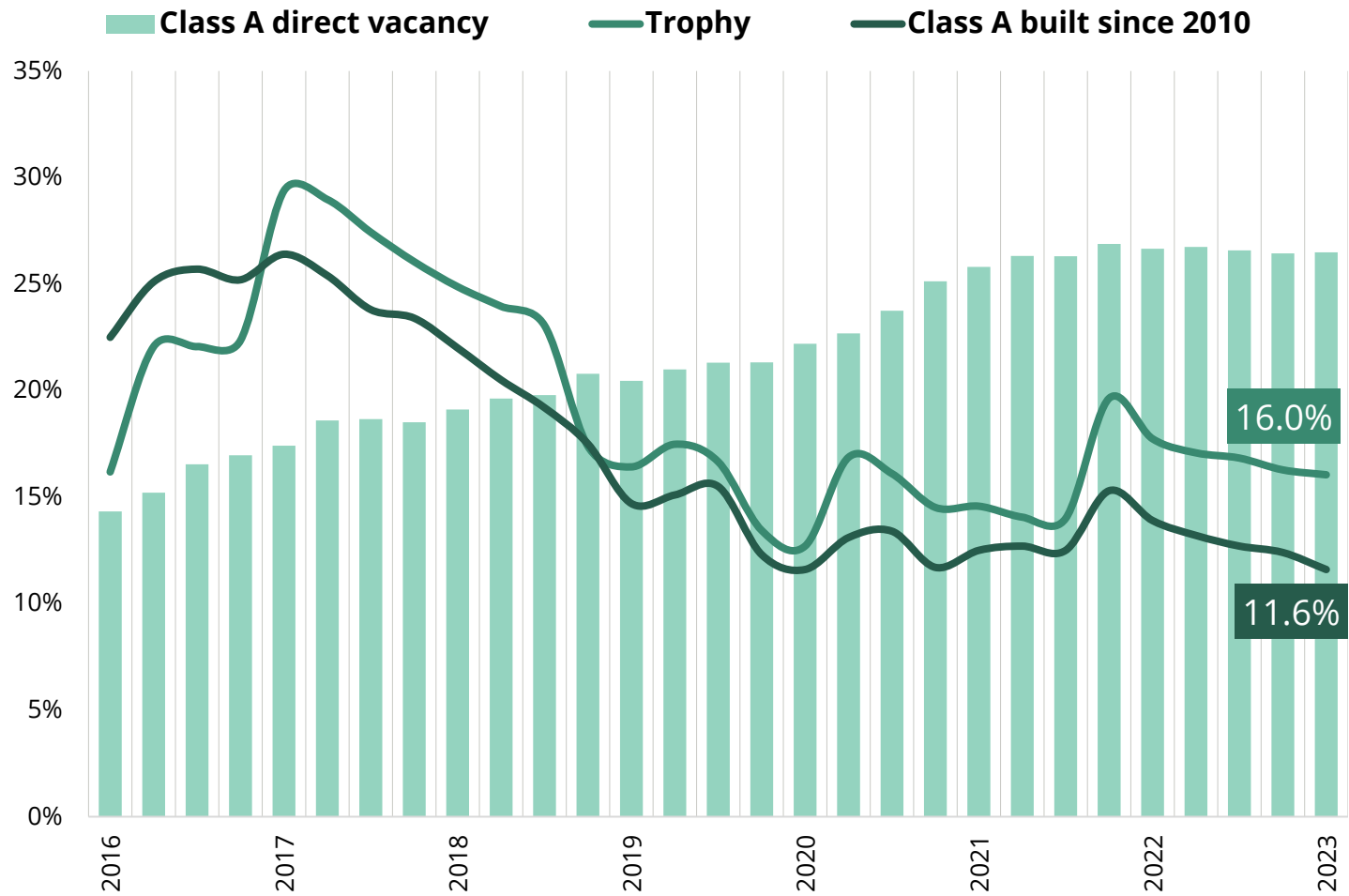
Office leasing activity is poised to rise as 2023 progresses but is unexpected to approach pre-pandemic levels in the near-term as tenants capitalize on greater leverage and space utilization strategies come to realization.

# Negative absorption pushes vacancy higher



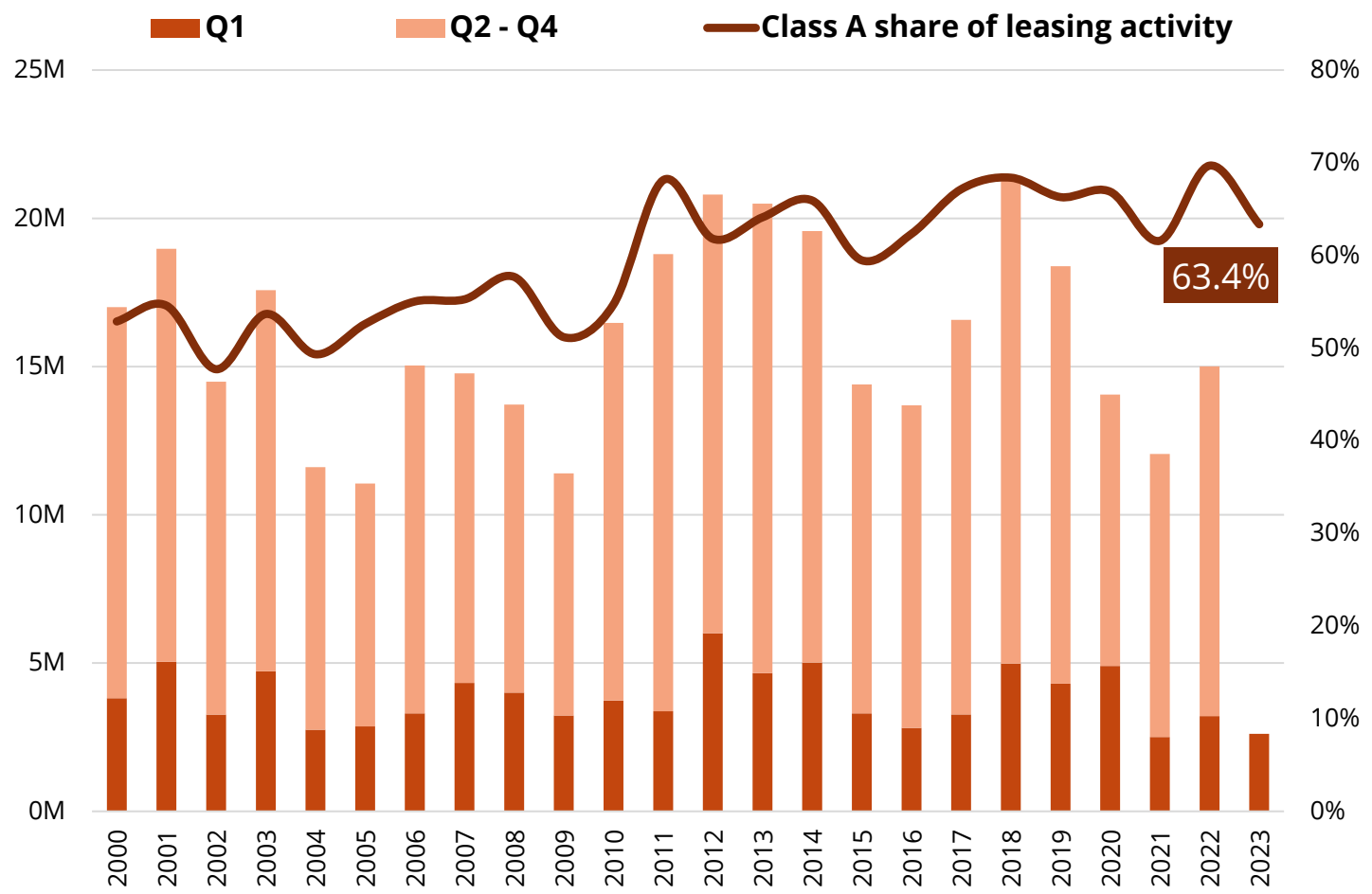
Office market fundamentals remain soft with negative absorption as vacancy has hit an all-time high, but signs of stabilization have emerged.

# Class A direct vacancy rate



Vacancy is hovering at a record high of 26.9% but trophy and newer class A product continues to outperform the broader market.

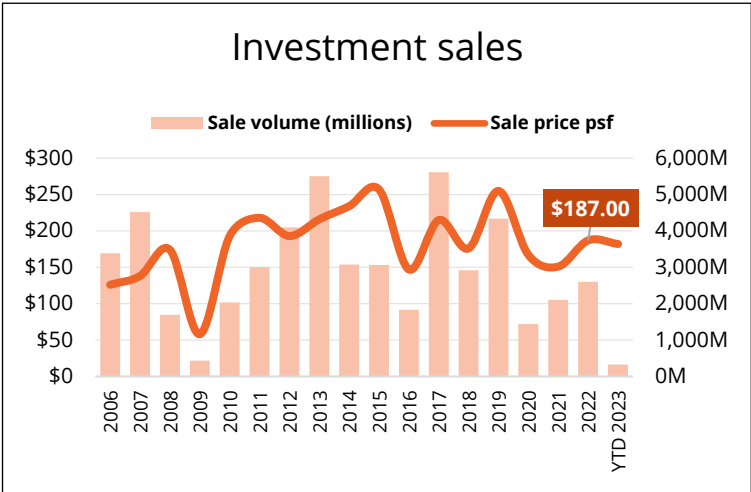
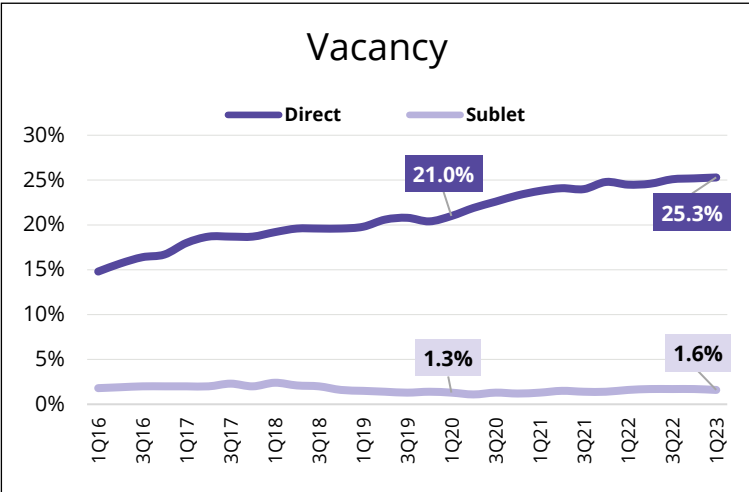
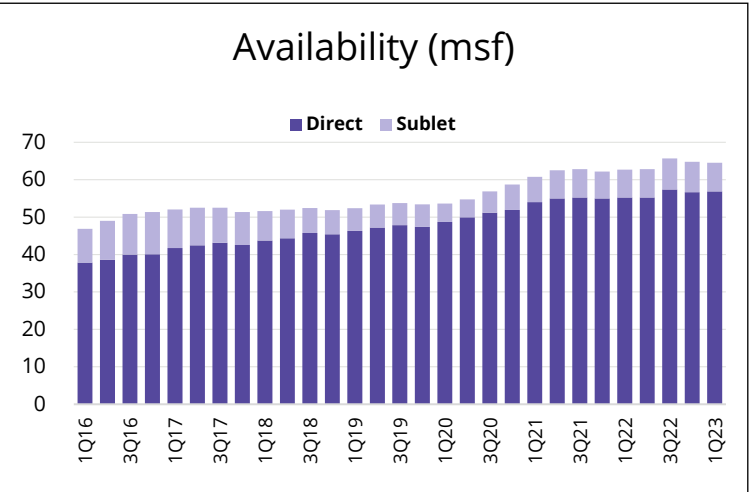
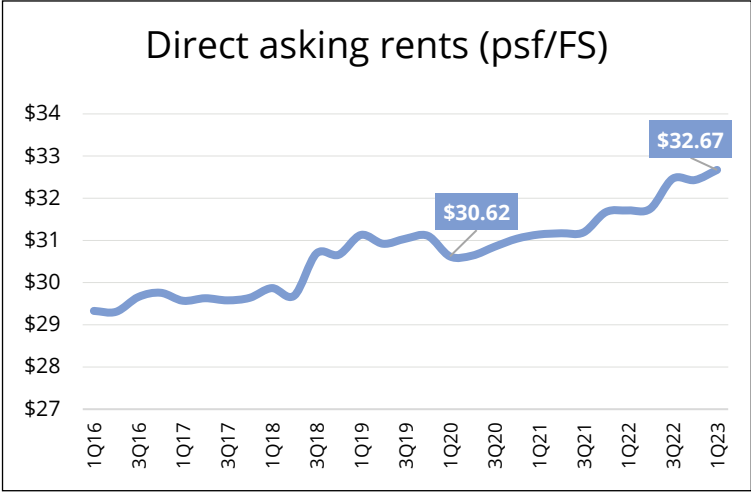
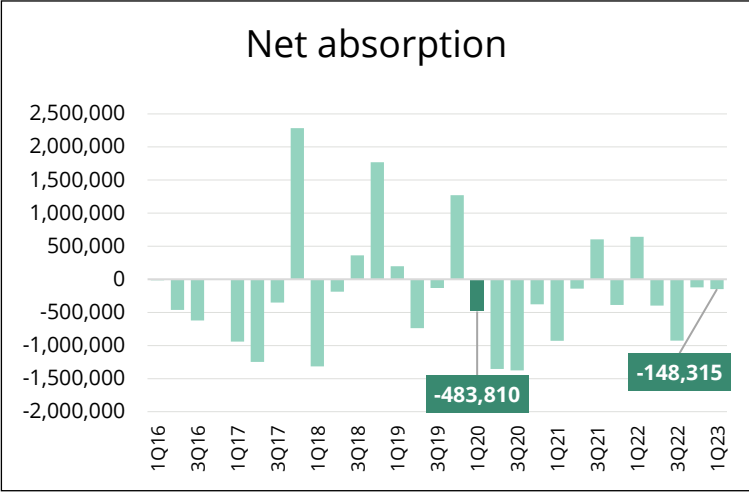
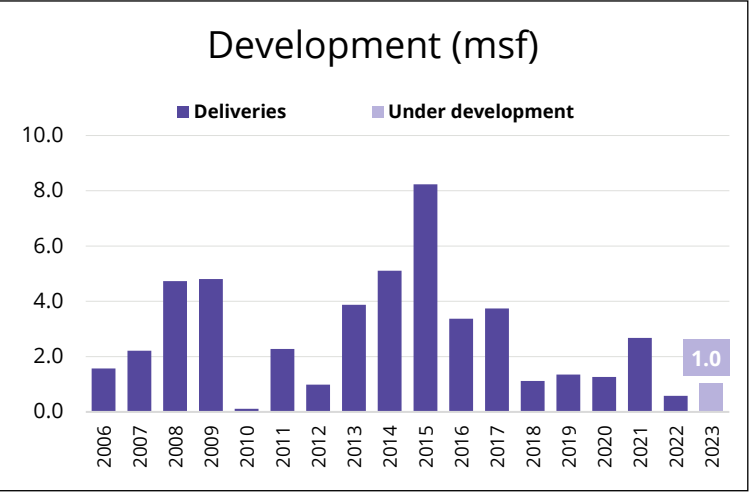
# Leasing activity continues to improve



Office leasing activity has gained traction, but quarterly leasing volume remains 34% below the pre-pandemic average.



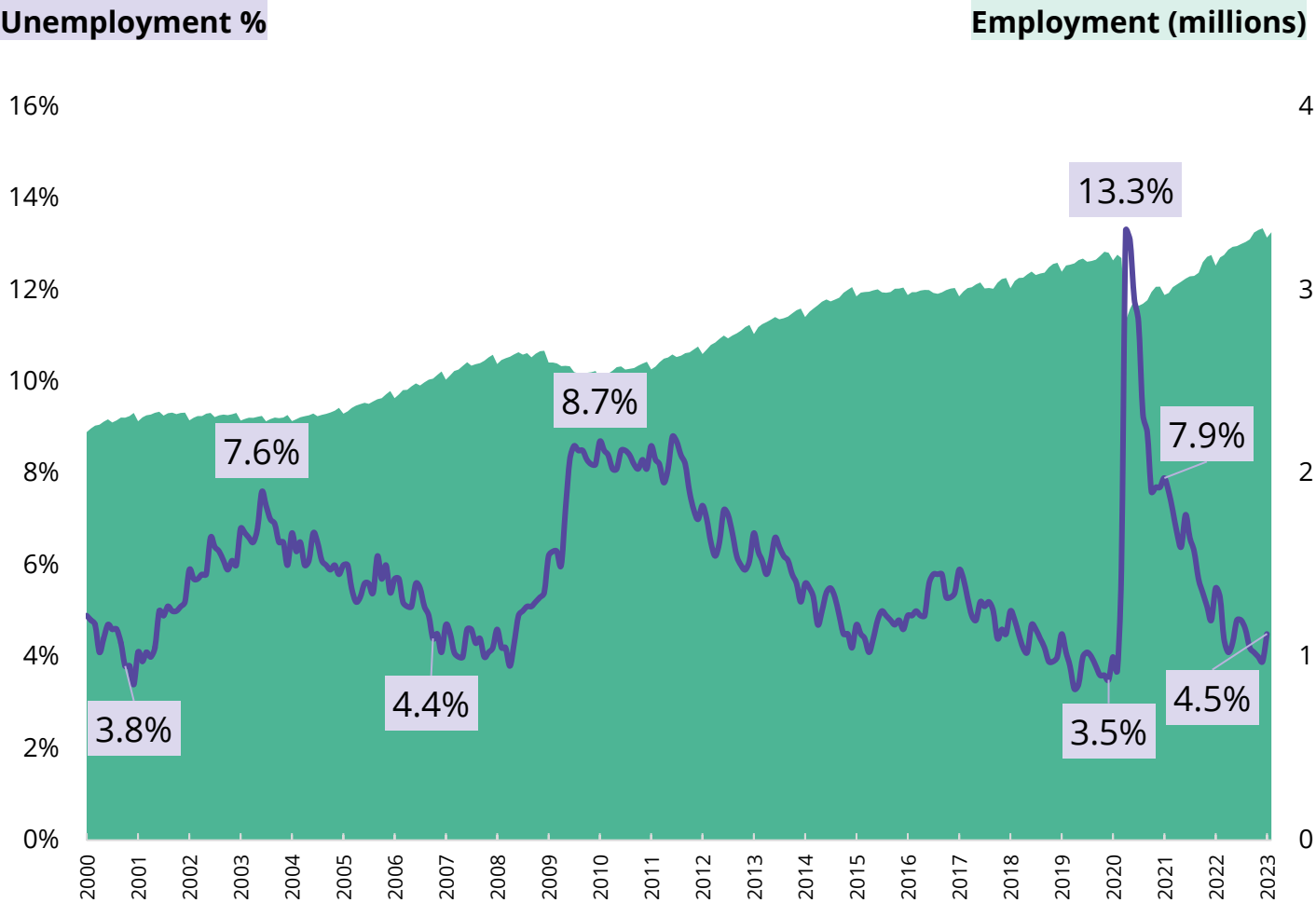
# Houston office market indicators



# Houston employment trends



# Employment and unemployment rate

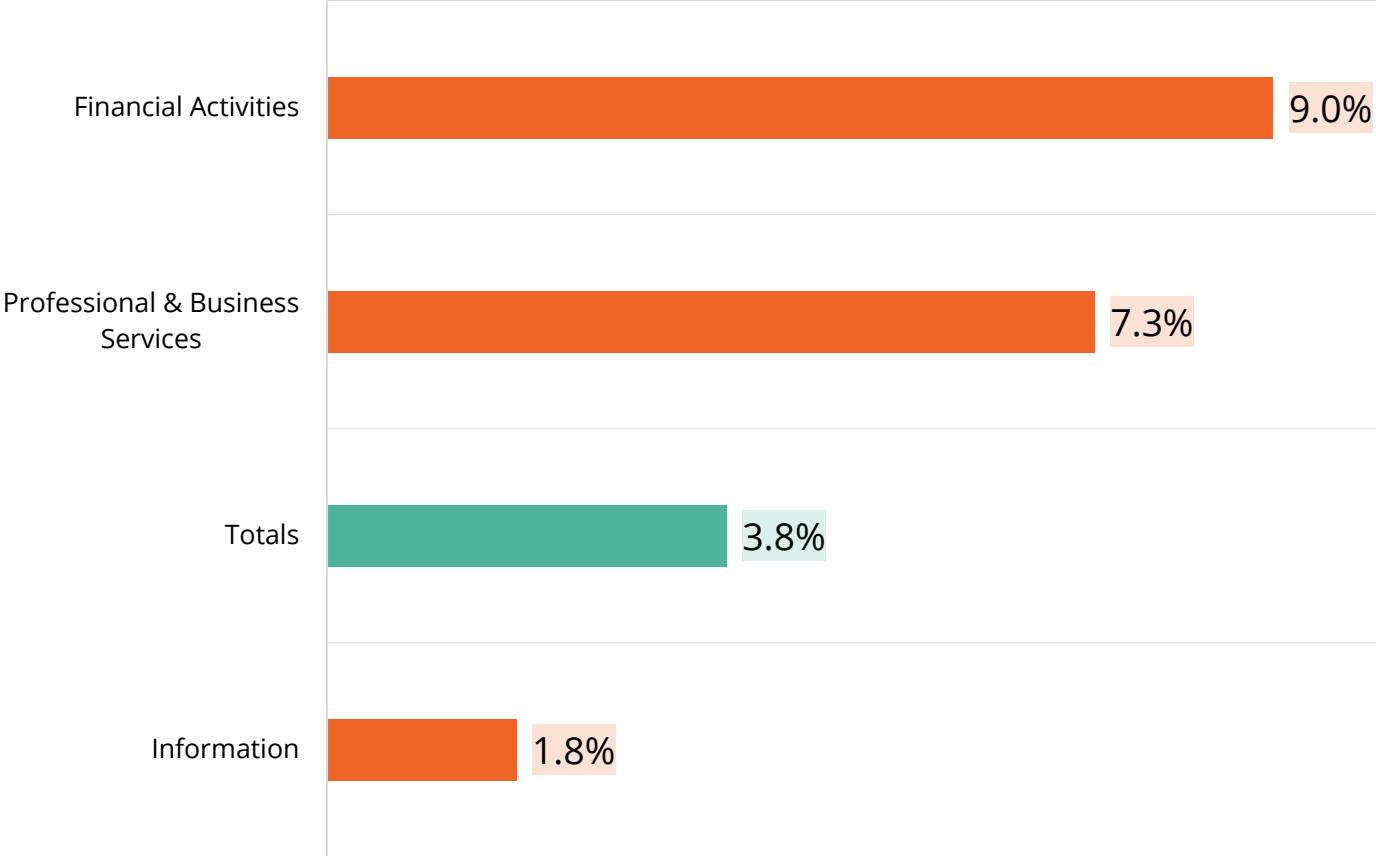


Houston's economy has performed well with solid job growth totaling 137k over the trailing 12 months, while unemployment remains near historic lows.



# Houston office-using job gains

Houston Metropolitan Statistical Area  
February 2020 to February 2023



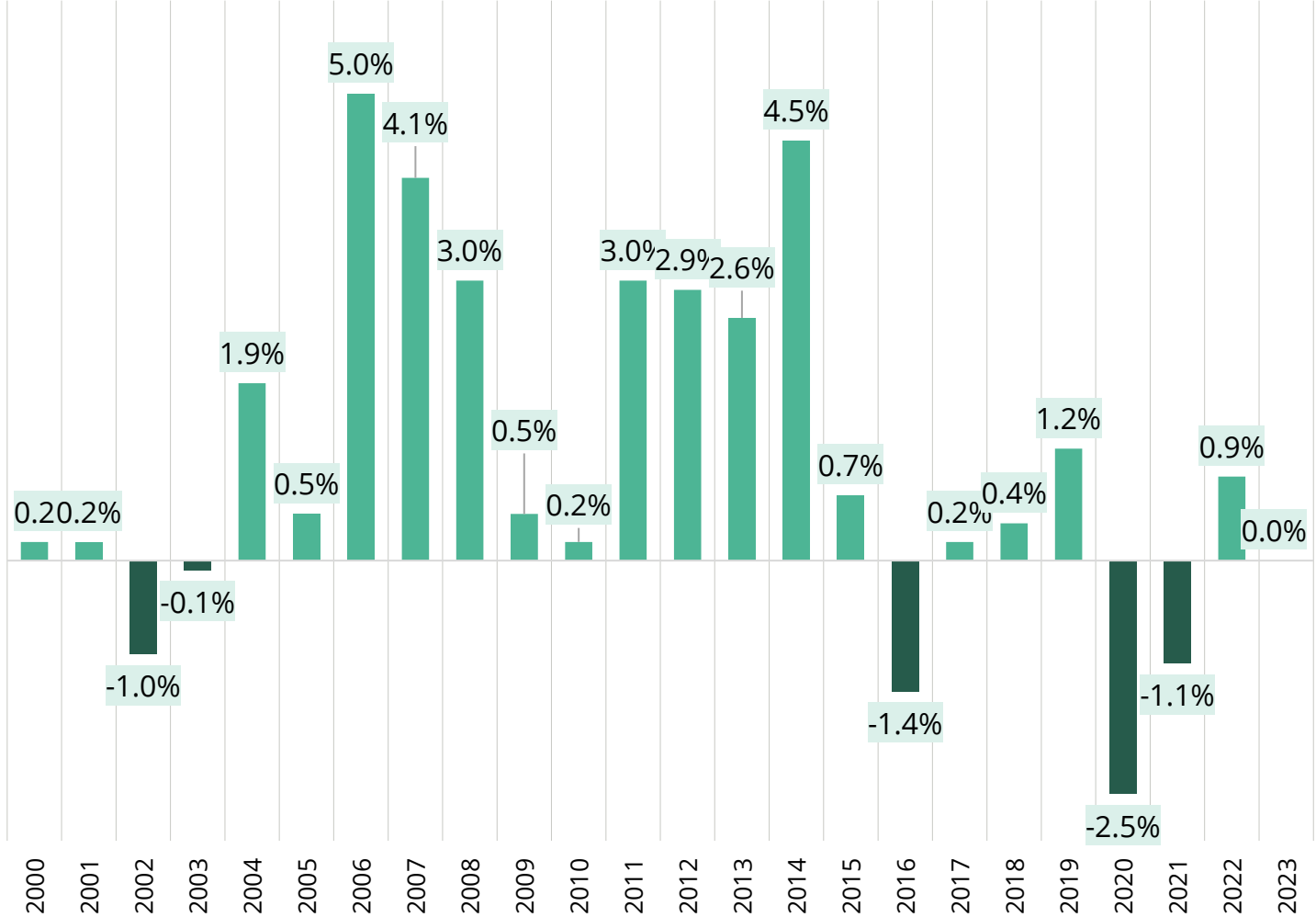
Strong office job growth has helped buoy the market with 54k jobs created since 2020 but there continues to be a disconnect with office space demand.

# Houston office market trends

Let's examine more  
prevailing office trends

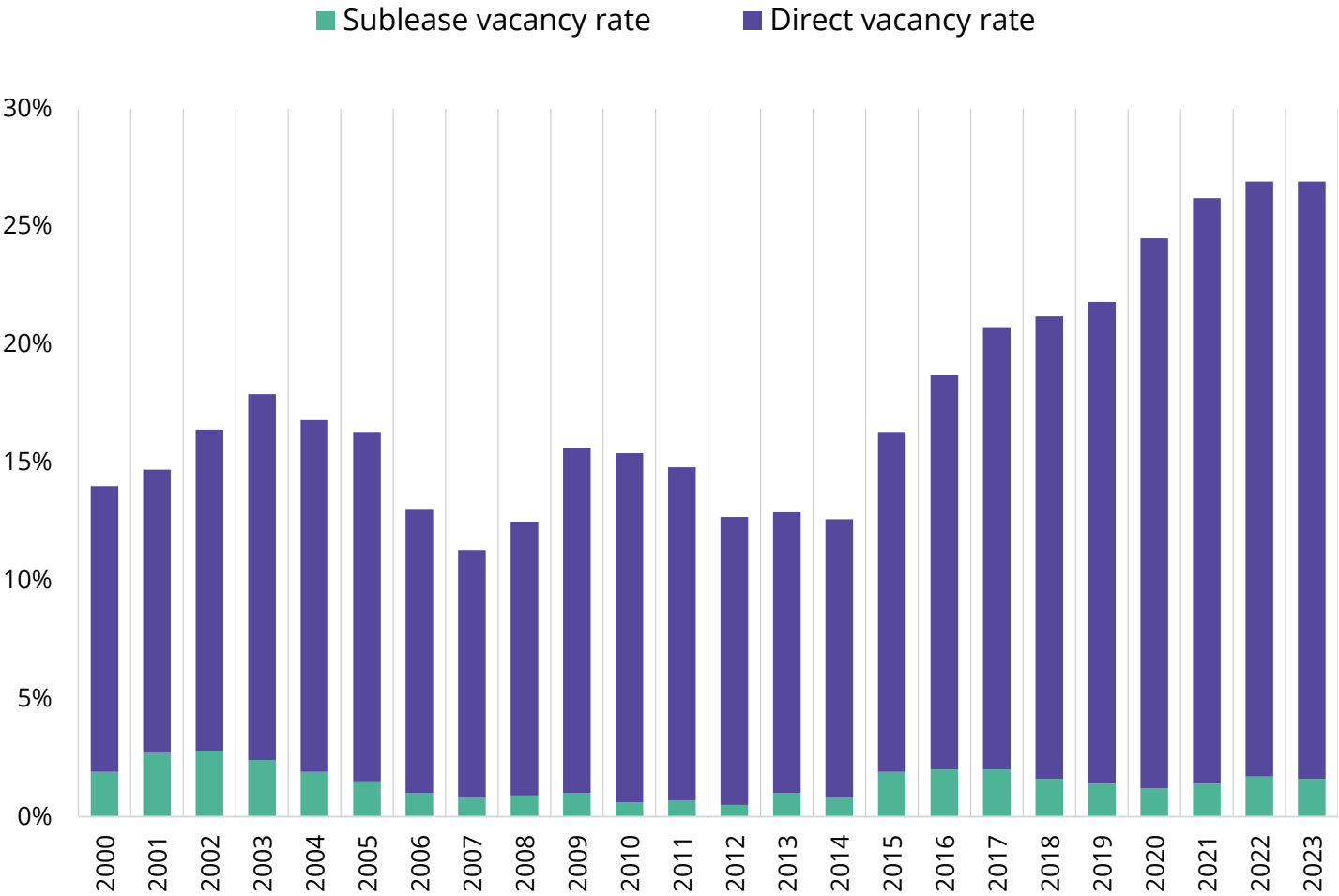


# Class A net absorption as share of inventory



Flight to quality trend will continue as amenity-rich class A office space in prime locations will capture a large share of the demand.

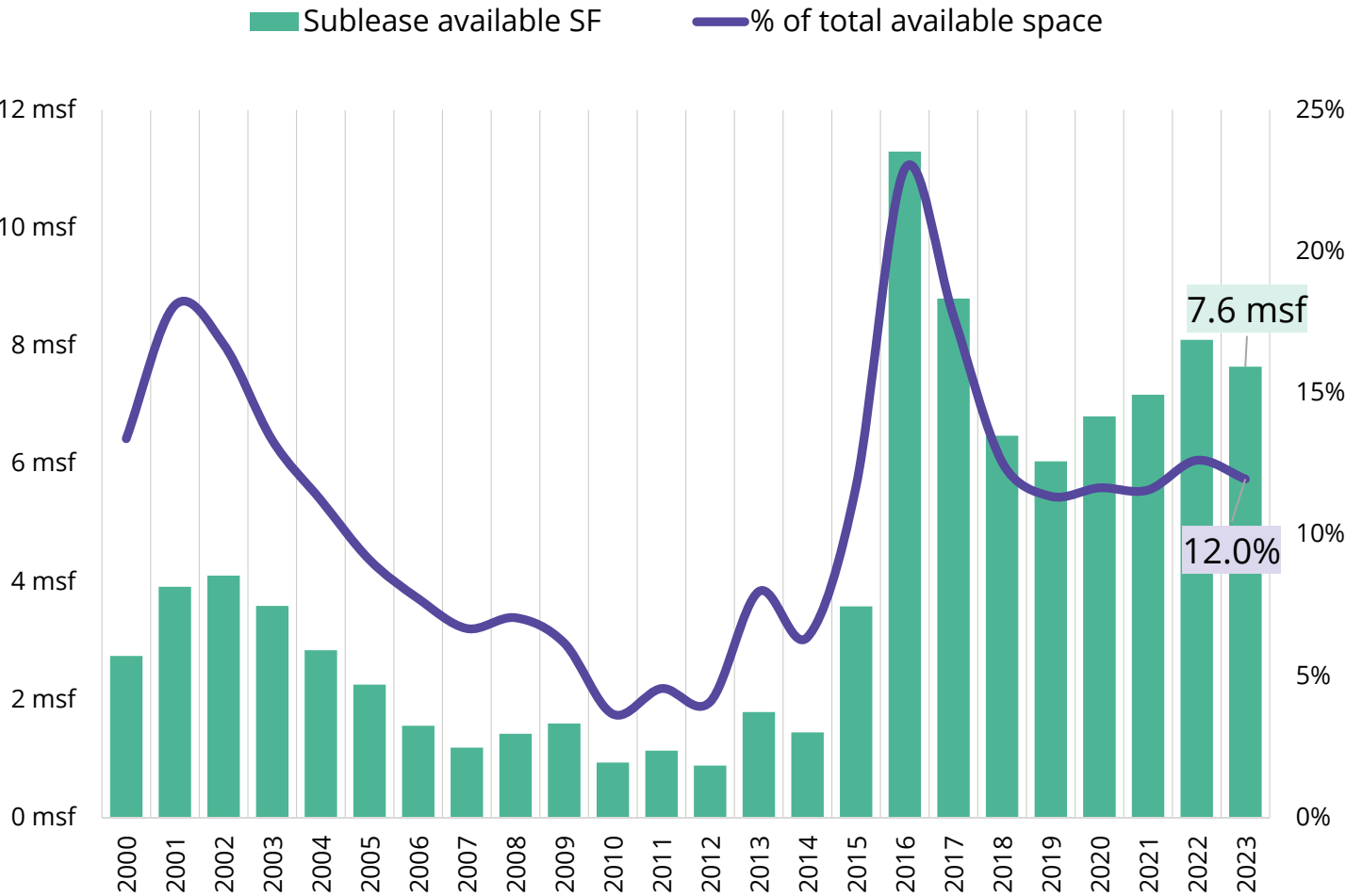
# Vacancy rate



Vacancy rate reaches record high but is showing signs of stabilization with its slowest annual increase since the oil bust emerged in 2015.

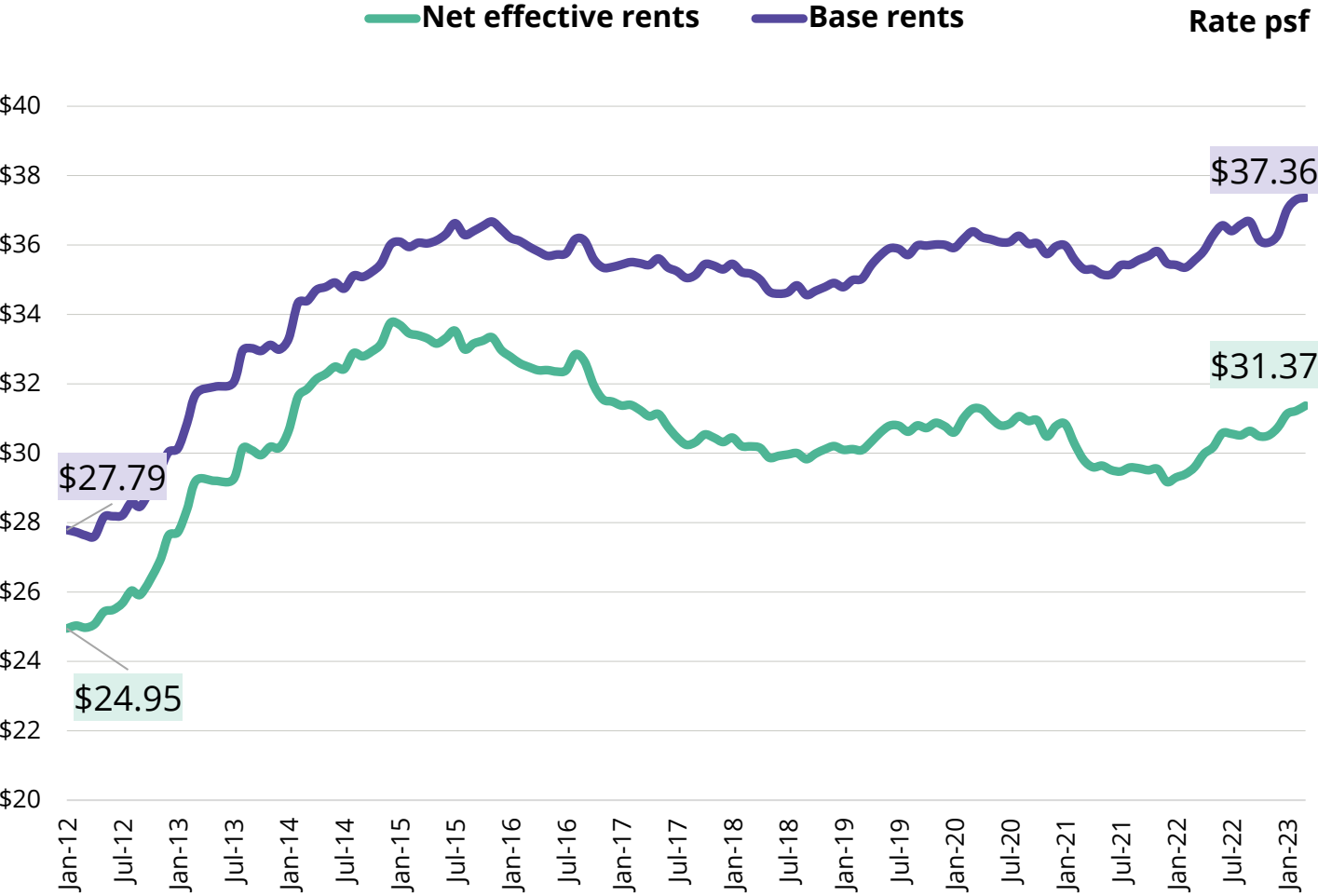


# Sublease availability



**Sublease inventory remains elevated but has declined by 454k sf in Q1 and accounts for 12% of the market’s total availability.**

# Class A net effective vs. base rents



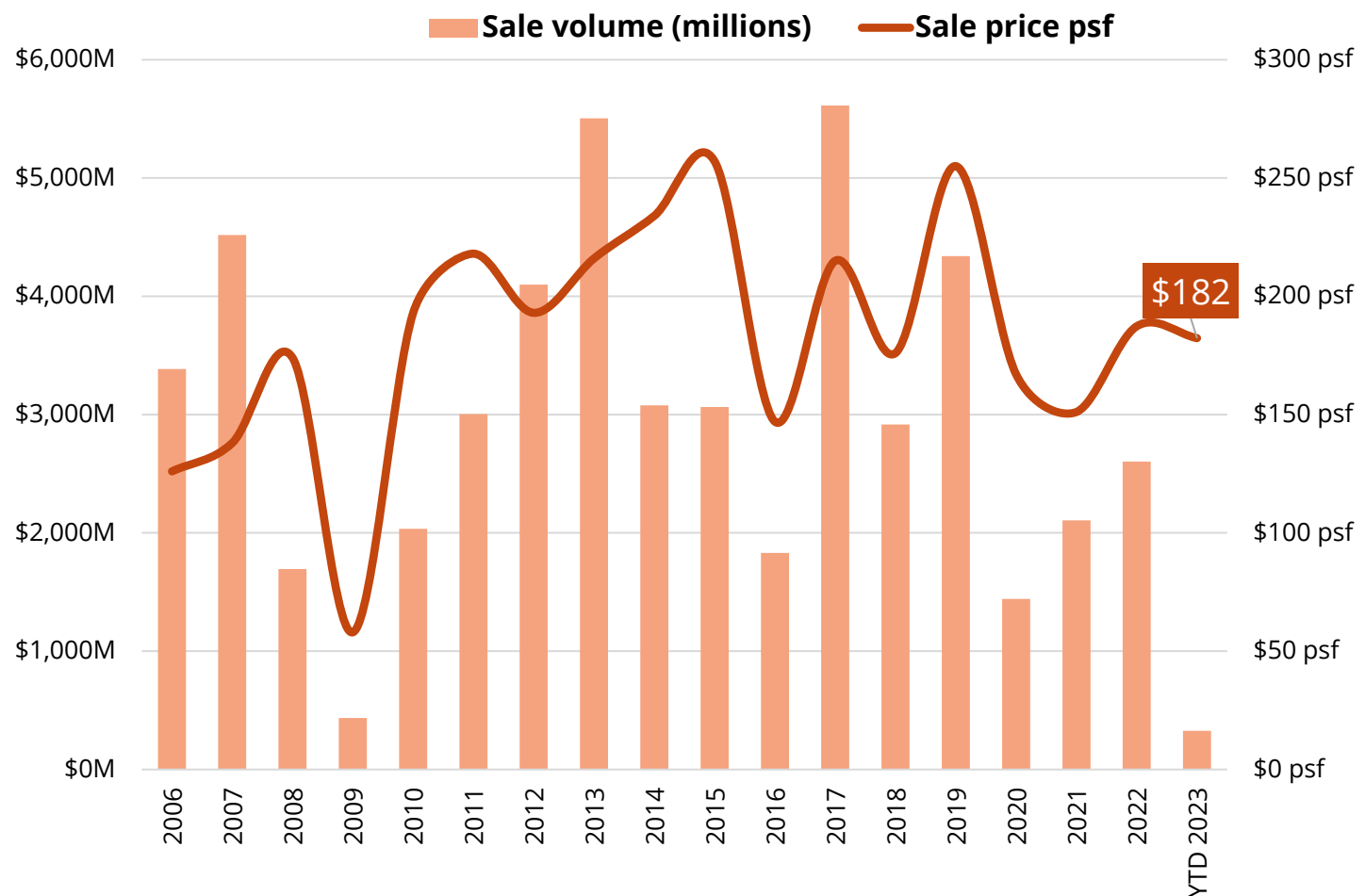
The gap between base and net effective rents remain significant due to highly competitive concession packages with generous rental abatement and TI improvement allowances being offered.

# Development activity



Construction activity will remain limited as developers grapple with elevated construction costs and an over supply situation.

# Office sales activity



Investment sales activity remains depressed as potential buyers are waiting for some clarity in the market.



# Houston office market stats

## Recent leasing activity

Tenant name	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Kiewit Engineering Group	585 N Dairy Ashford Road	March 2023	277,155	Renewal/Expansion	Direct	Energy Corridor/Katy Freeway West
Modec International	15375 Memorial Drive	March 2023	116,161	New	Direct	Energy Corridor/Katy Freeway West
Community Health Group	4888 Loop Central Drive	February 2023	82,706	New	Direct	Bellaire
Audubon Engineering	4646 W Sam Houston Parkway N	February 2023	65,000	New	Direct	West Belt
Ahmad, Zavitsanos & Mensing Law	1221 McKinney Street	October 2022	58,000	Renewal	Direct	CBD
ChemEx Global	1735 Hughes Landing Boulevard	February 2023	54,712	New	Sublease	Woodlands
MRC Global	1301 McKinney Street	February 2023	50,000	Renewal	Direct	CBD
QuarterNorth Energy	3737 Buffalo Speedway Avenue	January 2023	49,980	New	Sublease	Greenway Plaza
Argus Media	2929 Allen Parkway	March 2023	45,108	New	Direct	Midtown
Bain & Company	845 Texas Avenue	March 2023	30,475	New	Direct	CBD
Bank of Texas	1401 McKinney St	January 2023	29,558	Renewal/Expansion	Direct	CBD

## Top projects under development

Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
1550 on the Green	1550 Lamar Street	December 2023	386,323	33.1%	Skanska	CBD
9753 Katy Freeway	9753 Katy Freeway	May 2023	188,553	94.7%	MetroNational Corp.	Katy Freeway East
East River – Building C & F	2920 & 2940 Riverby Drive	May 2023	175,000	44.0%	Midway	Gulf Freeway/Pasadena
Town Centre Two	730 Town & Country Boulevard	September 2023	167,141	20.5%	Moody Rambin	Katy Freeway East

# Houston office market stats

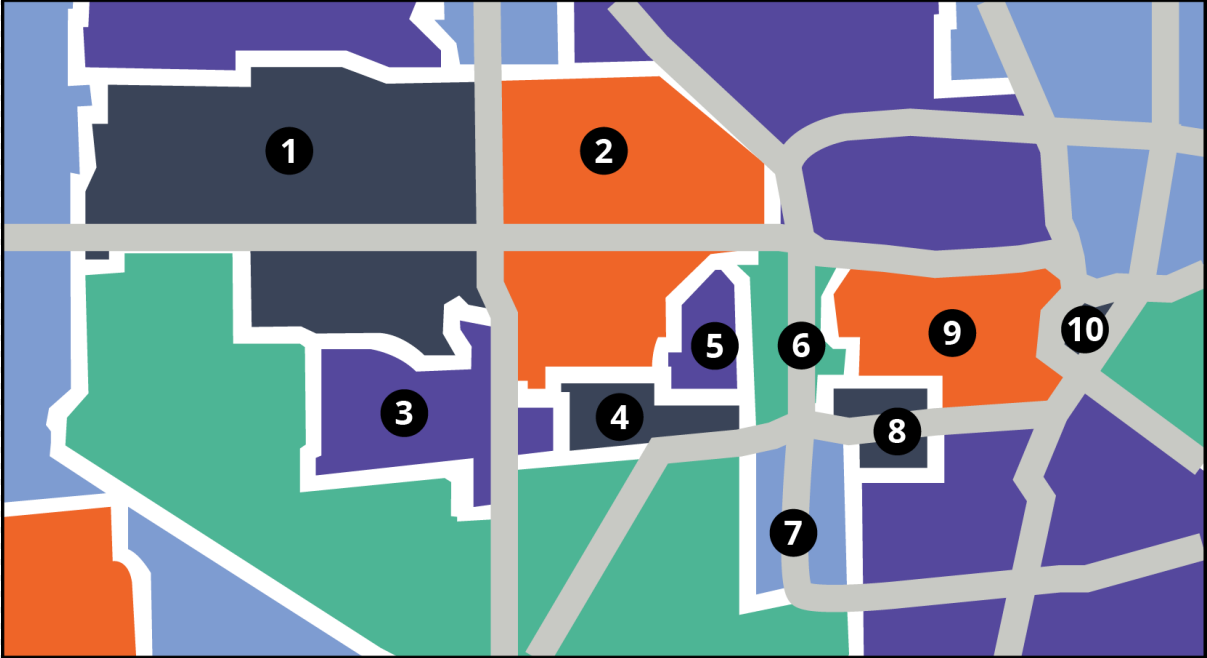
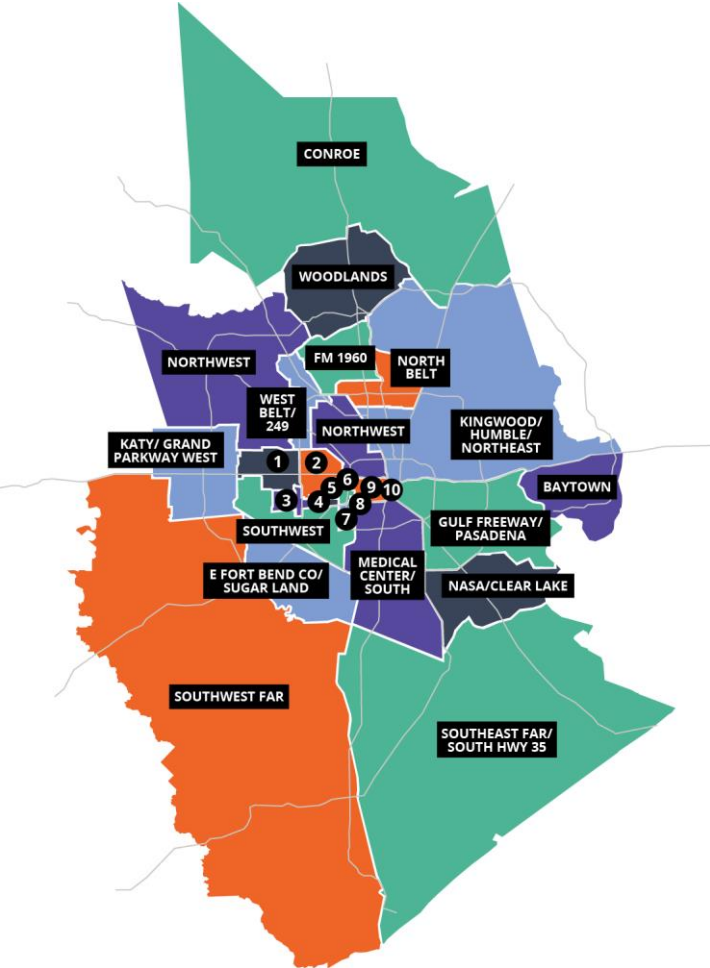
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (YTD)	Direct asking rent FS
Central Business District	39,414,698	0	386,323	25.7%	2.4%	28.1%	102,764	102,764	\$42.38
Galleria/West Loop	24,150,998	0	0	28.2%	1.6%	29.8%	(83,333)	(83,333)	\$35.91
Greenway Plaza	11,084,715	0	0	20.5%	2.1%	22.7%	43,120	43,120	\$35.71
Energy Corridor/Katy Freeway West	20,569,481	0	0	27.3%	1.6%	28.9%	26,263	26,263	\$31.03
Katy Freeway East/Memorial City	7,104,532	0	355,694	10.5%	0.1%	10.6%	(35,871)	(35,871)	\$32.66
Westchase	15,022,906	0	0	30.2%	2.4%	32.7%	(30,797)	(30,797)	\$28.01
North Belt	9,676,087	0	0	52.9%	0.5%	53.4%	55,667	55,667	\$20.90
Northwest	8,238,655	0	0	19.6%	0.8%	20.4%	(7,895)	(7,895)	\$21.89
NASA/Clear Lake	3,968,309	0	0	22.1%	0.4%	22.5%	(14,140)	(14,140)	\$26.31
E Fort Bend Co/Sugar Land	5,665,086	0	0	21.7%	1.7%	23.4%	(16,327)	(16,327)	\$33.31
Richmond/Fountainview	1,200,647	0	0	19.6%	0.0%	19.6%	1,686	1,686	\$17.95
San Felipe/Voss	5,260,658	0	0	28.9%	0.4%	29.3%	(30,076)	(30,076)	\$30.78
Bellaire	2,516,956	0	0	15.7%	0.9%	16.5%	2,236	2,236	\$26.00
Midtown	5,885,451	0	0	16.0%	0.8%	16.8%	(16,792)	(16,792)	\$36.43
FM 1960	2,884,217	0	0	27.1%	0.0%	27.1%	(29,912)	(29,912)	\$16.64
Kingwood/Humble/Northeast	1,170,336	0	0	19.9%	0.0%	19.9%	19,412	19,412	\$19.76
Southwest	7,341,740	0	0	18.8%	0.8%	19.6%	22,734	22,734	\$20.79
Medical Center/South	1,619,067	0	0	16.6%	0.0%	16.6%	(26,461)	(26,461)	\$20.99
The Woodlands	12,162,410	0	0	19.7%	3.1%	22.8%	32,199	32,199	\$37.23
Gulf Freeway/Pasadena	2,251,696	0	175,000	17.6%	0.6%	18.1%	(11,767)	(11,767)	\$25.94
Katy/Grand Parkway West	2,549,478	0	0	11.5%	2.4%	13.8%	(3,585)	(3,585)	\$35.31
West Belt /249	9,250,642	0	0	33.5%	1.1%	34.6%	(157,320)	(157,320)	\$28.31
Southwest Far	1,066,110	0	112,200	2.5%	0.0%	2.5%	8,310	8,310	\$33.95
Southeast Far/South Hwy 35	869,985	0	0	1.7%	0.0%	1.7%	1,570	1,570	\$17.00
Conroe	541,350	0	0	21.0%	0.0%	21.0%	0	0	--
<b>Market total</b>	<b>201,466,210</b>	<b>0</b>	<b>1,029,217</b>	<b>25.3%</b>	<b>1.6%</b>	<b>26.9%</b>	<b>(148,315)</b>	<b>(148,315)</b>	<b>\$32.67</b>

# Houston office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2022)	Net absorption sf (YTD)	Direct asking rent FS
Trophy	16,805,211	0	386,323	16.0%	2.3%	18.3%	45,233	45,233	\$53.00
Class A	108,049,549	0	642,894	26.5%	2.0%	28.5%	(58,167)	(58,167)	\$36.73
Class B	76,611,450	0	0	25.8%	0.8%	26.6%	(135,381)	(135,381)	\$23.08
<b>Market total</b>	<b>201,466,210</b>	<b>0</b>	<b>1,029,217</b>	<b>25.3%</b>	<b>1.6%</b>	<b>26.9%</b>	<b>(148,315)</b>	<b>(148,315)</b>	<b>\$32.67</b>



# Houston submarket map



## Map Key

- |                                     |                      |
|-------------------------------------|----------------------|
| 1 Energy Corridor/Katy Freeway West | 6 Galleria/West Loop |
| 2 Katy Freeway East/Memorial City   | 7 Bellaire           |
| 3 Westchase                         | 8 Greenway Plaza     |
| 4 Richmond/Fountainview             | 9 Midtown            |
| 5 San Felipe/Voss                   | 10 CBD               |



# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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