



# Houston office market report

Q2 2023

---

**AVISON  
YOUNG**

---

# Houston office market trends

## 281k sf

### Houston leads the nation in positive net absorption

After four consecutive years of annual occupancy losses, the Houston office market saw positive net absorption in the first half of 2023. The city recorded 281k square feet (sf) of positive net absorption, led by the CBD submarket with 224k sf absorbed, followed by the Energy Corridor and The Woodlands with 218k sf and 209k sf, respectively.

Part of this trend is due to tenants relocating and expanding or consolidating their office space. This is driven by several factors, including the natural business cycle, the need to optimize office space, the availability of quality space when leases are up, and the flexibility to sublease their current space.

## 11.3%

### Class A direct vacancy for product built since 2010

The total overall vacancy for the Houston office market sits at 26.0%. Due to the flight-to-quality trend, class A and trophy assets outperform the broader market with the quality and amenities they offer. The direct vacancy rate for trophy assets stands at 16.4%, while class A product built since 2010 is 11.3%.

As class A and trophy assets fill up, tenants in lower-quality buildings may be able to negotiate lower rents. However, they will also have to contend with lower-quality space and amenities.

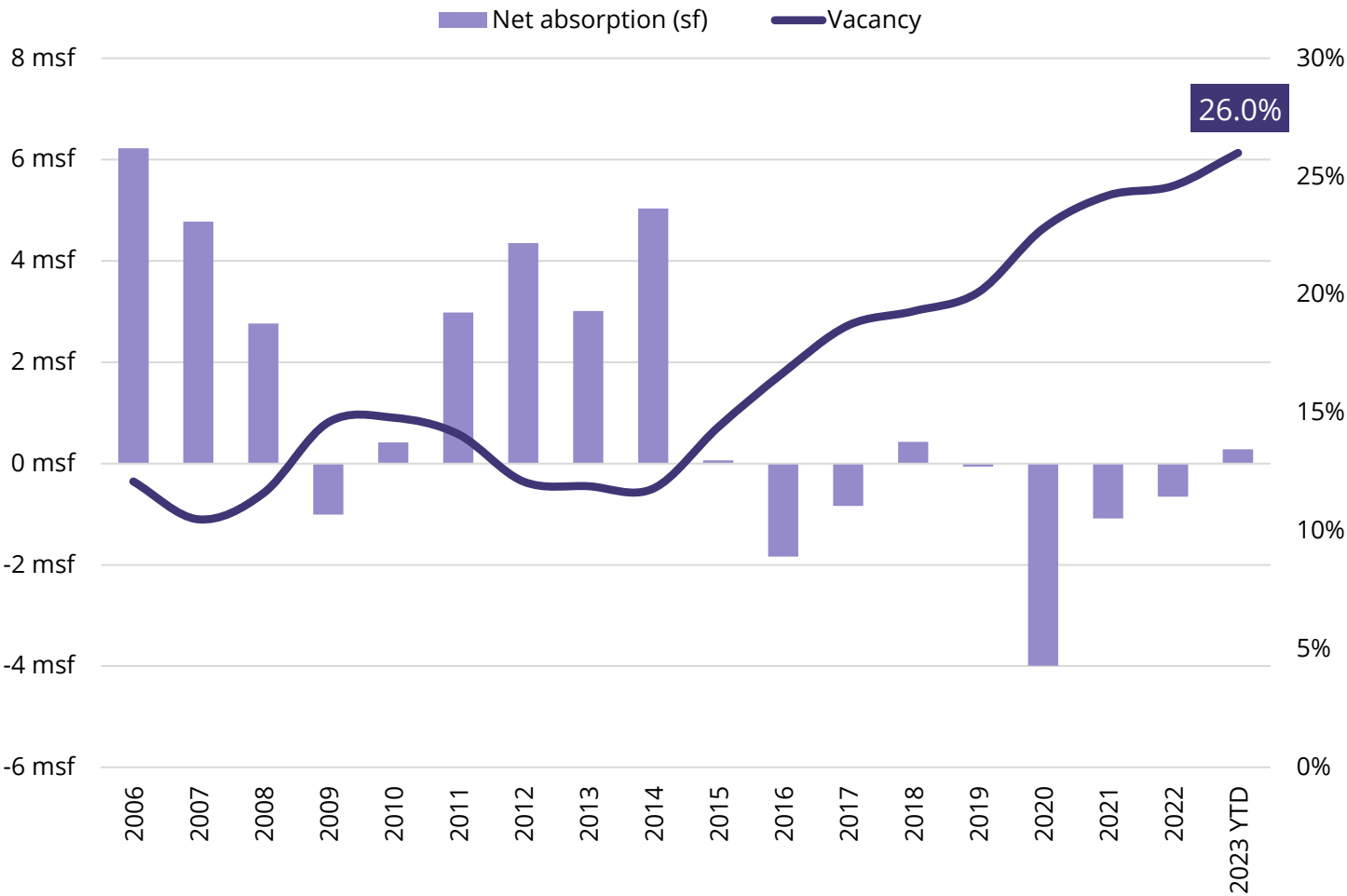
## 2.7 msf

### Leasing activity continues to improve and gain momentum

Office leasing activity continues to gain traction with nearly 2.7 msf leased in Q2 2023. The surge in corporate relocations to the west side of town is driving this trend, as companies snap up large blocks of office space to be closer to their workforce. Notable leases on the west side include Fluor (308k sf), Technip Energies (172k sf), and Hargrove (81k sf).

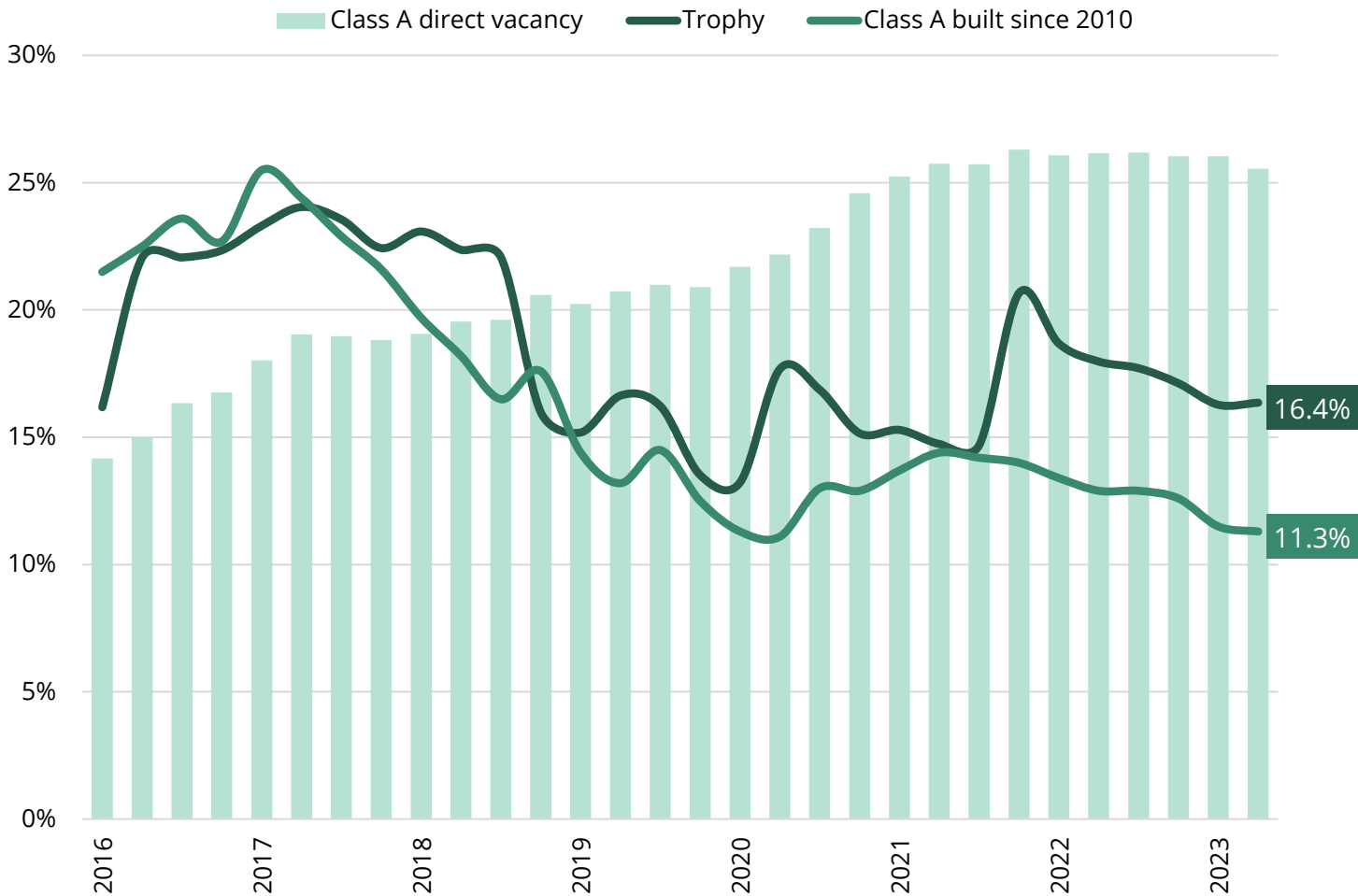
The class A sector continues to dominate leasing activity, accounting for 70.3% of the total inventory in leasing demand. Over the past year, 8 msf of class A office space has been leased. This suggests that the office leasing market is on track to recover from the pandemic-related downturn.

# Positive net absorption at last!



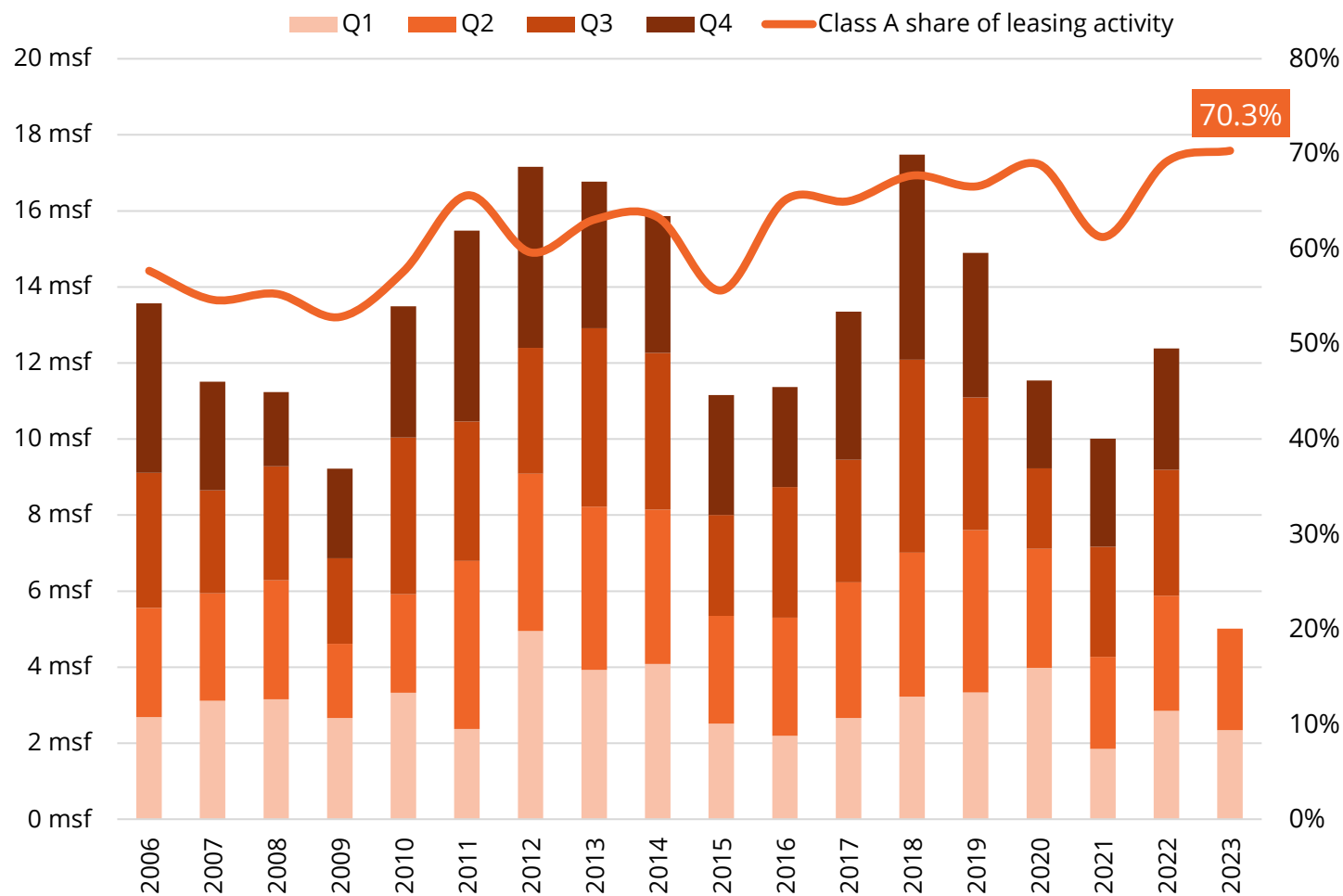
The Houston office market saw its first positive net absorption in four years, with 281k sf in the first half of 2023, driven by more tenants expanding their space.

# Class A direct vacancy rate



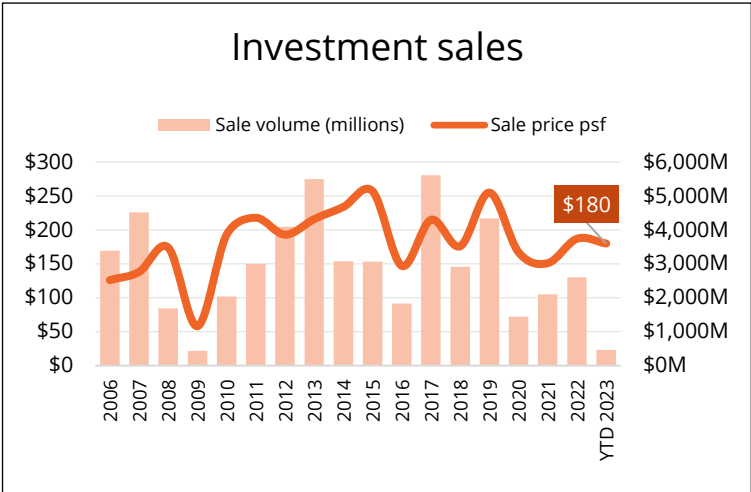
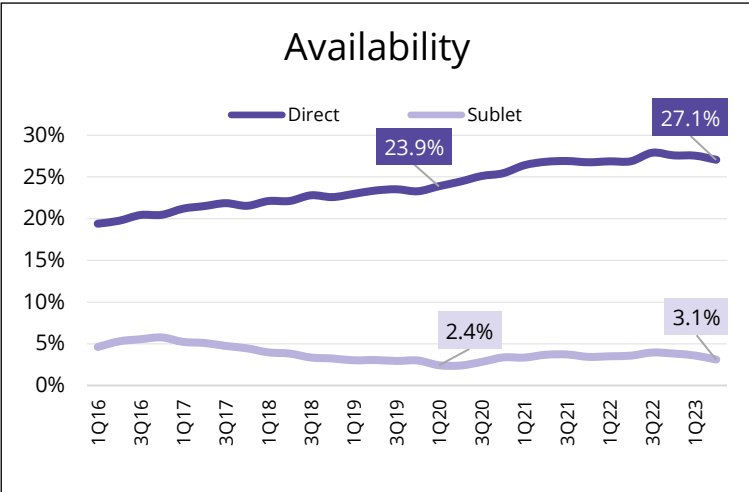
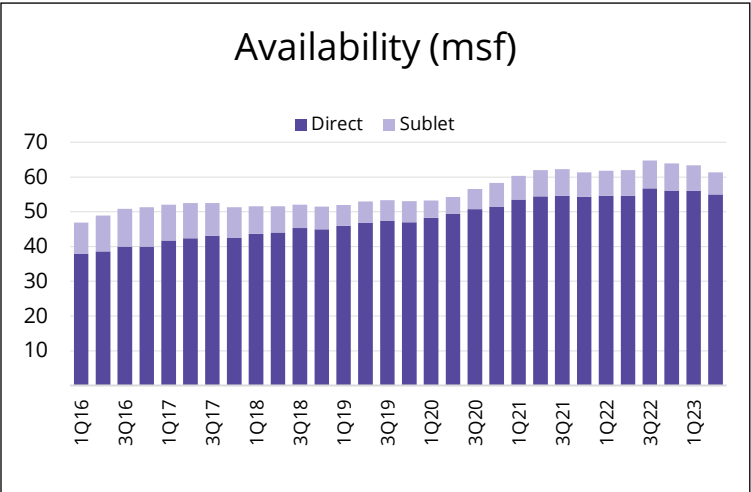
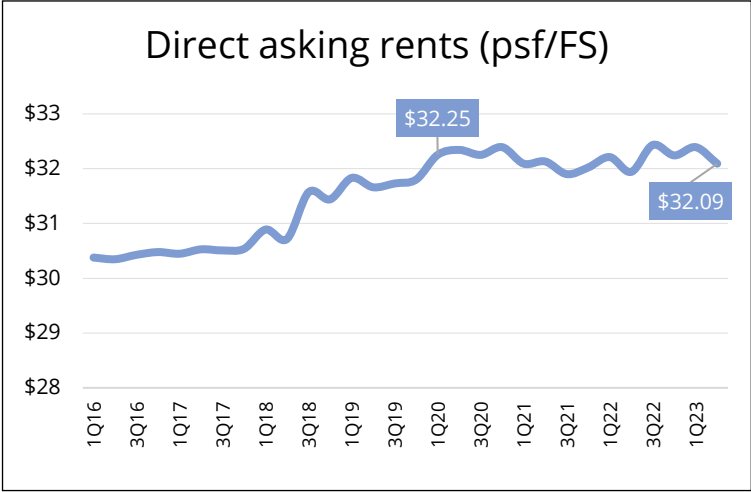
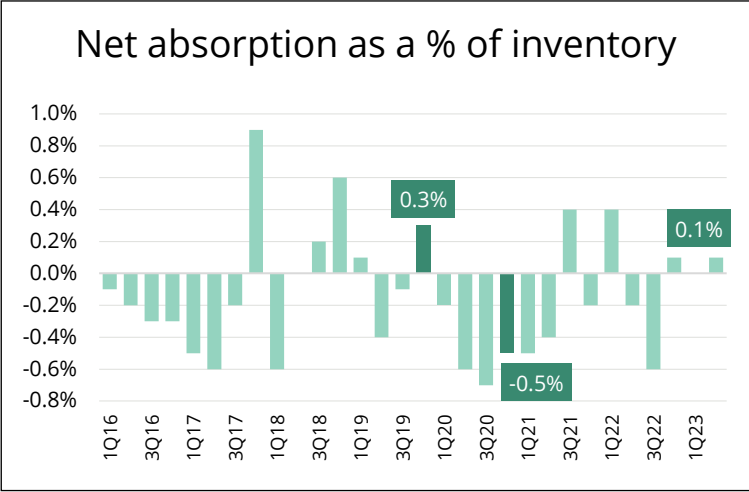
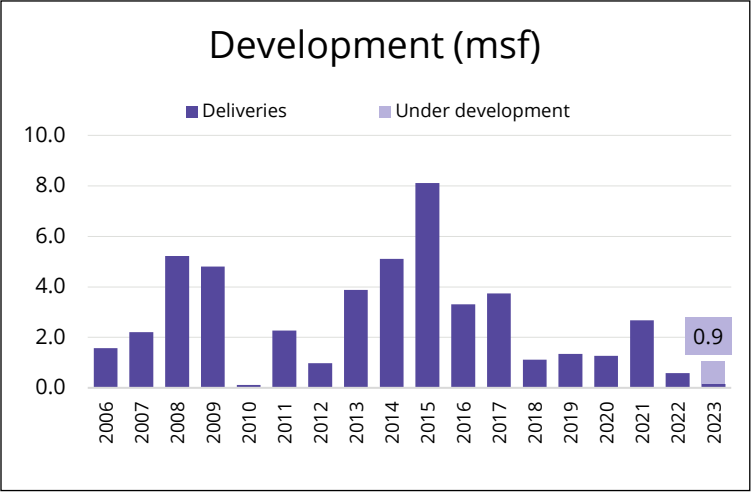
**Trophy and class A assets are leading the way in the improvement of the city-wide vacancy rate as they attract tenants looking for high-quality space in prime locations.**

# Leasing activity is picking up

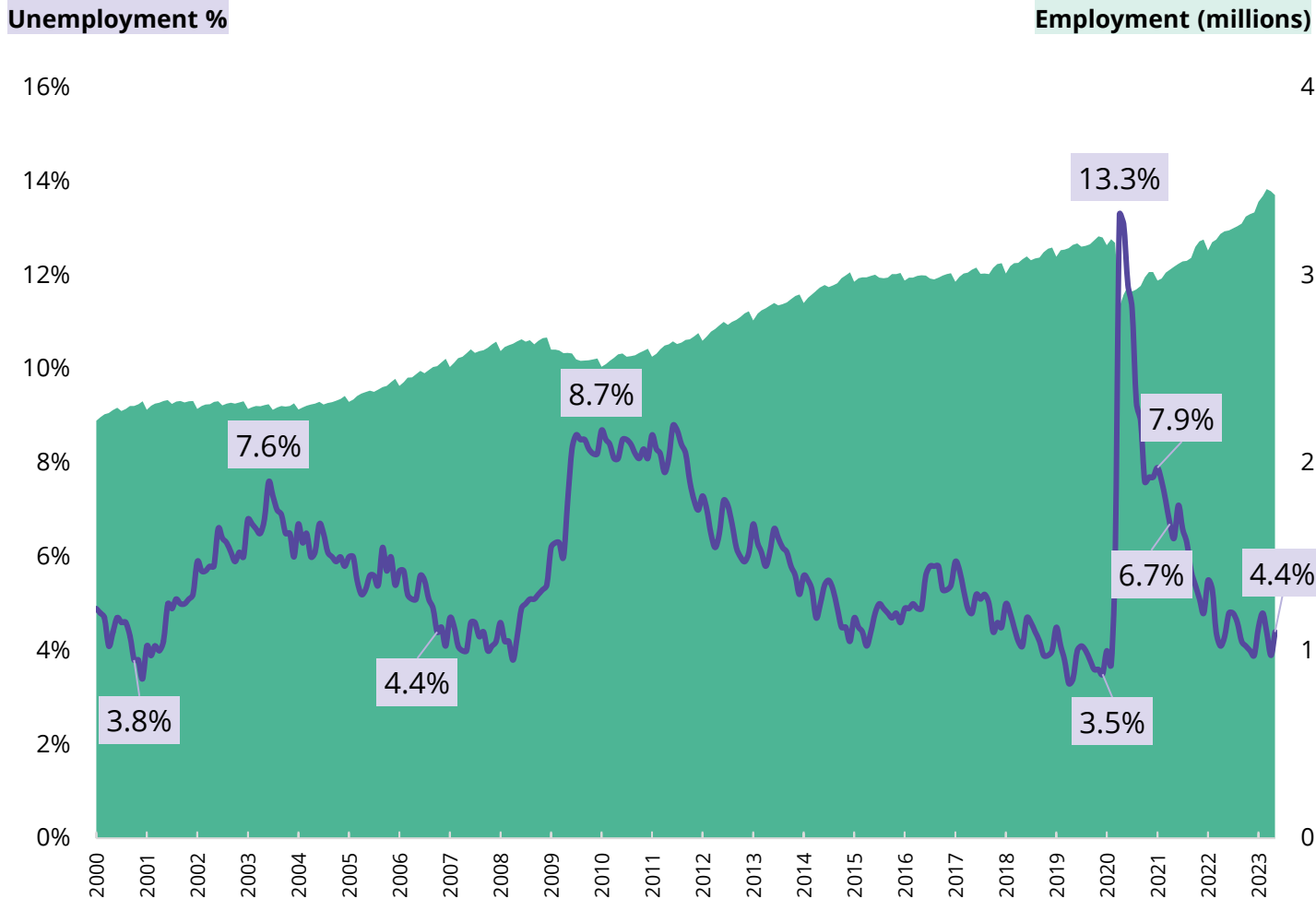


The Houston office market is seeing a surge in companies relocating, taking up large blocks of space, and fueling a new wave of westward migration.

# Houston office market indicators



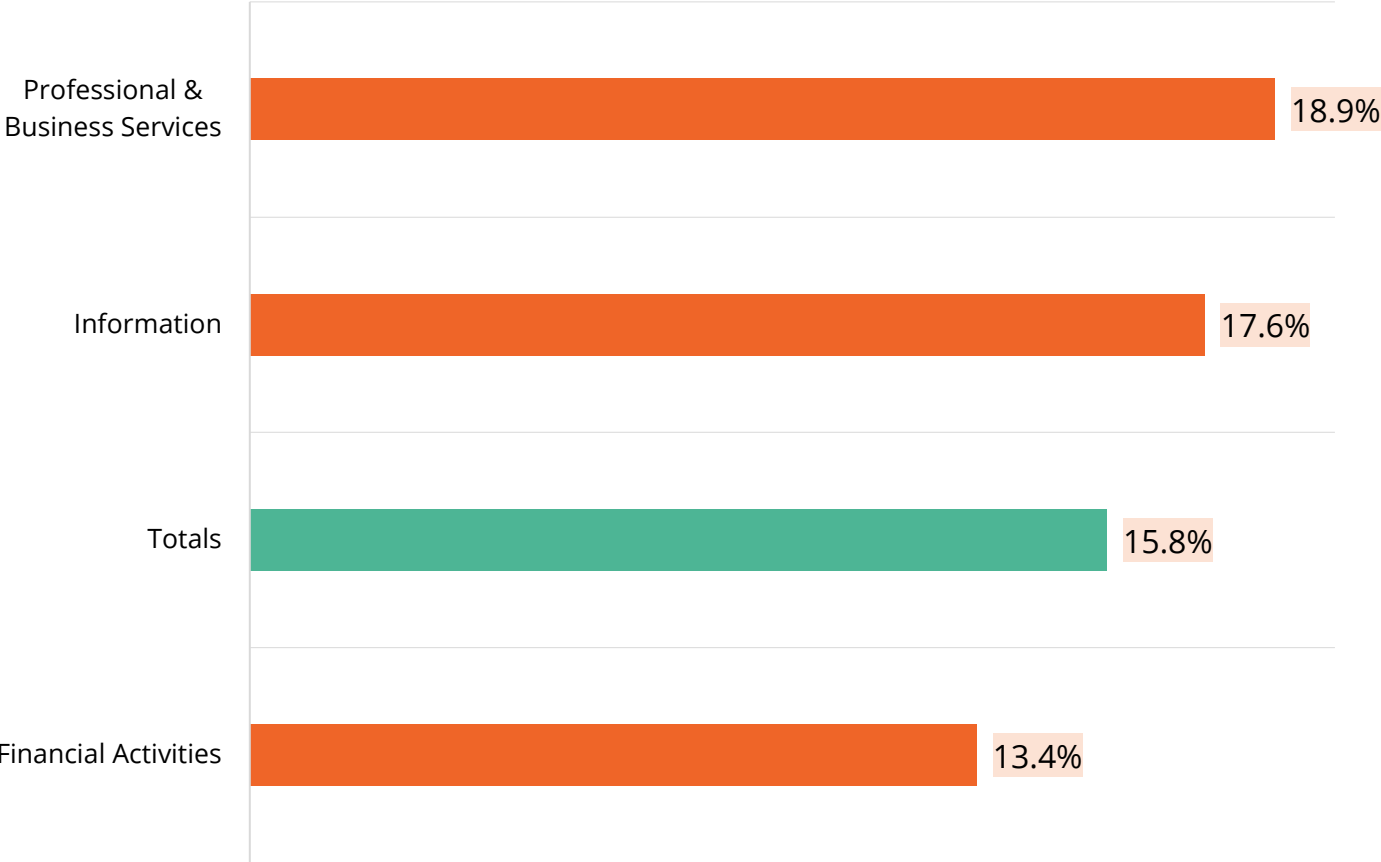
# Employment and unemployment rate



**Houston's economy grew by over 66k jobs in the past 12 months, rebounding strongly from the pandemic's impact with a relatively low unemployment rate of 4.4%.**

# Houston office-using job gains

Houston Metropolitan statistical area  
May 2020 to May 2023



The number of office jobs in Houston has doubled since the pandemic, fully recovering job losses and spurring demand for office space.



# Houston office market activity

## Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
LyondellBasell Industries	2800 Post Oak Blvd	Galleria/Uptown	April 2023	318,504	New	Direct
Fluor	737 N Eldridge Pky	Energy Corridor/Katy Freeway West	April 2023	308,186	New	Direct
Technip Energies	15377 Memorial Dr	Energy Corridor/Katy Freeway West	April 2023	171,600	New	Direct
Hargrove Engineers	15415 Katy Fwy	Energy Corridor/Katy Freeway West	June 2023	80,581	New	Direct
Fugro	13501 Katy Fwy	Energy Corridor/Katy Freeway West	April 2023	76,476	New	Direct
Diamond Offshore	777 N Eldridge Pky	Energy Corridor/Katy Freeway West	May 2023	62,584	New	Direct
Thompson Coe	4400 Post Oak Pky	Galleria/West Loop	June 2023	61,875	New	Direct
Heim Payne Law Firm	609 Main St	CBD	May 2023	57,139	New	Sublease
Kodiak Gas Services	9950 Woodloch Forest Dr	Woodlands	June 2023	53,060	New	Direct
Nevada Career Education	9700-9702 Bissonnet St	Southwest	May 2023	53,000	New	Direct
Patterson-UTI	10713 W Sam Houston Pky N	West Belt/249	May 2023	52,622	Expansion	Sublease

## Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
1550 Lamar St	CBD	December 2023	386,323	35.0%	Skanska
9753 Katy Fwy	Katy Freeway East/Memorial City	July 2023	188,553	94.7%	MetroNational
730 Town & Country Blvd	Katy Freeway East/Memorial City	September 2023	167,141	54.2%	Moody Rabin
100 Jensen Dr	Gulf Freeway/Pasadena	July 2023	101,000	38.1%	Midway Corporation

# Houston office market stats

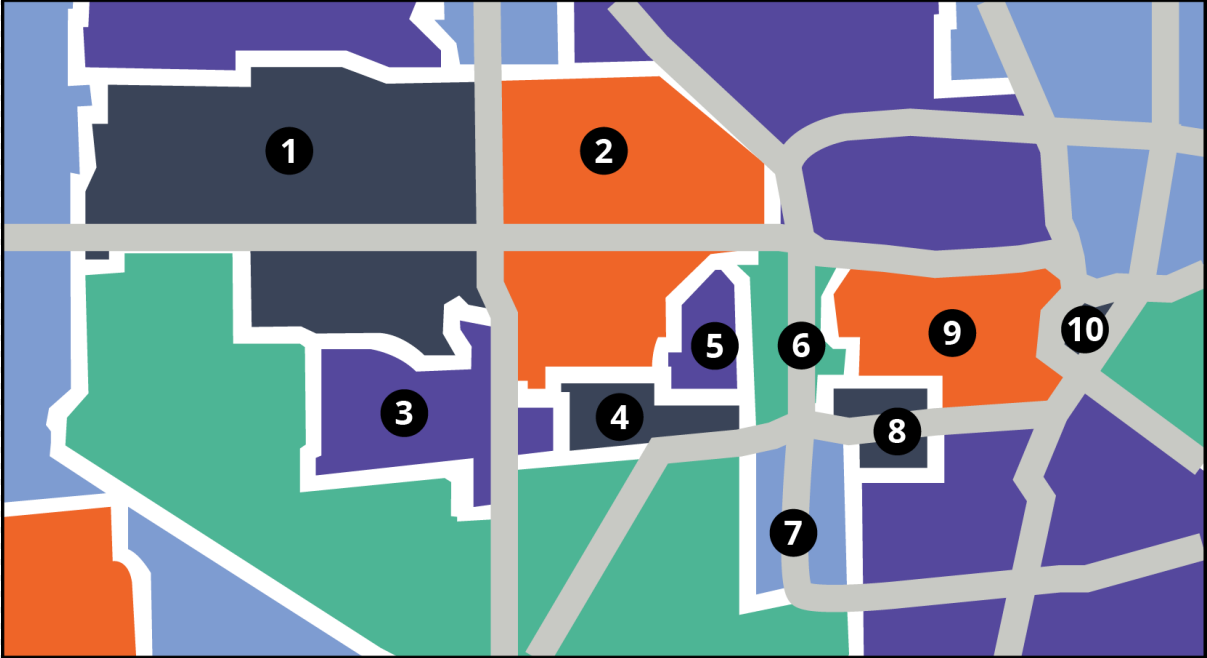
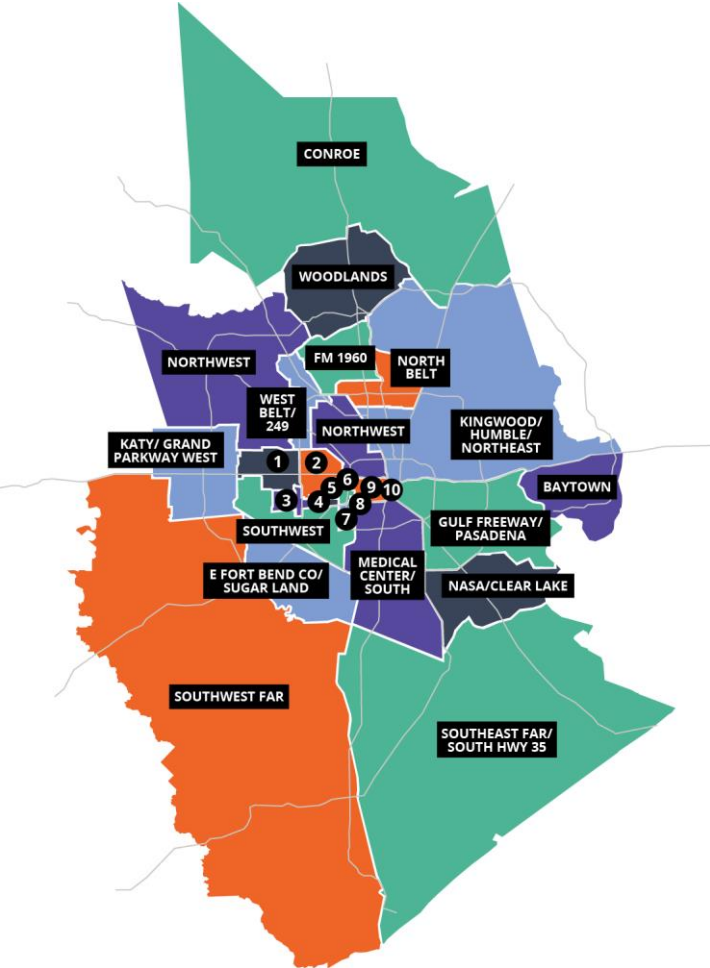
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Sublet availability sf	Net absorption sf (Q2 2023)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Central Business District	39,477,748	-	386,323	25.6%	1.9%	27.5%	1,334,024	42,885	224,244	\$42.66
Galleria/West Loop	24,150,998	-	-	28.3%	1.5%	29.9%	626,564	(41,069)	(197,539)	\$35.23
Greenway Plaza	11,124,029	-	-	22.1%	0.7%	22.8%	176,582	1,704	44,964	\$35.44
Energy Corridor/Katy Freeway West	21,086,462	-	-	26.0%	0.8%	26.8%	1,159,530	156,678	217,706	\$27.66
Katy Freeway East/Memorial City	7,104,532	-	355,694	8.1%	0.4%	8.5%	93,971	76,475	115,568	\$33.95
Westchase	15,012,505	-	-	29.7%	3.6%	33.3%	730,253	(171,828)	(202,625)	\$28.46
North Belt	9,676,087	-	-	49.2%	0.5%	49.7%	96,374	59,808	93,131	\$20.11
Northwest	8,238,655	-	-	17.3%	1.0%	18.3%	120,376	4,858	15,842	\$21.32
NASA/Clear Lake	4,033,309	-	-	13.6%	1.5%	15.0%	107,081	(12,101)	(29,391)	\$25.33
E Fort Bend Co/Sugar Land	5,665,086	-	-	20.9%	1.8%	22.7%	146,750	38,235	21,908	\$32.64
Richmond/Fountainview	1,200,647	-	-	20.0%	0.0%	20.0%	-	(4,582)	(2,896)	\$17.97
San Felipe/Voss	5,247,523	-	-	29.5%	0.4%	29.9%	67,287	(18,308)	(58,807)	\$30.74
Bellaire	2,686,492	-	-	14.4%	2.3%	16.7%	86,481	(3,037)	(20,809)	\$25.77
Midtown	5,885,451	-	-	15.8%	0.7%	16.5%	69,470	18,932	2,140	\$33.95
FM 1960	2,880,459	-	-	29.5%	0.0%	29.5%	-	(88,405)	(96,512)	\$16.89
Kingwood/Humble/Northeast	1,170,336	-	-	17.3%	0.0%	17.3%	-	31,230	50,642	\$20.37
Southwest	7,341,740	-	-	18.4%	1.1%	19.5%	79,452	(59,729)	(41,659)	\$20.96
Medical Center/South	1,619,067	-	-	15.1%	0.0%	15.1%	-	12,606	(2,700)	\$20.74
The Woodlands	12,162,410	-	-	18.5%	2.5%	21.0%	532,970	61,437	208,743	\$35.28
Gulf Freeway/Pasadena	2,325,696	74,000	101,000	16.8%	0.8%	17.6%	21,035	44,620	32,853	\$24.53
Katy/Grand Parkway West	2,549,478	-	-	10.0%	3.2%	13.2%	214,355	16,635	13,050	\$32.05
West Belt /249	9,250,642	-	-	32.1%	1.1%	33.1%	681,011	47,502	(109,818)	\$25.54
Southwest Far	1,146,110	80,000	32,200	9.1%	0.0%	9.1%	-	2,101	10,411	\$40.98
Southeast Far/South Hwy 35	869,985	-	-	2.9%	0.0%	2.9%	-	(10,503)	(8,933)	\$17.11
Conroe	541,350	-	-	20.6%	0.0%	20.6%	-	1,716	1,716	-
<b>Market total</b>	<b>202,446,797</b>	<b>154,000</b>	<b>875,217</b>	<b>24.5%</b>	<b>1.4%</b>	<b>26.0%</b>	<b>6,343,566</b>	<b>207,860</b>	<b>281,229</b>	<b>\$32.09</b>

# Houston office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Sublet availability sf	Net absorption sf (Q2 2023)	Net absorption sf (YTD)	Annual direct asking rent psf FS
Trophy	15,747,974	-	-	16.4%	3.4%	19.8%	822,151	-170,652	-31,035	\$51.02
Class A	110,015,905	154,000	875,217	25.6%	1.7%	27.3%	4,591,431	539,391	555,536	\$35.92
Class B	76,682,918	-	-	24.7%	0.7%	25.4%	929,984	-160,879	-243,272	\$23.49
<b>Market total</b>	<b>202,446,797</b>	<b>154,000</b>	<b>875,217</b>	<b>24.5%</b>	<b>1.4%</b>	<b>26.0%</b>	<b>6,343,566</b>	<b>207,860</b>	<b>281,229</b>	<b>\$32.09</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

For more market insights and  
information visit **avisonyoung.com**

**Wade Bowlin**

Principal,  
Managing Director  
+1 713 209 5753

**Anthony Squillante**

Principal,  
Occupier Solutions  
+1 713 993 7831

**Darrell L. Betts, CCIM**

Principal,  
Capital Markets  
+1 713 993 7704

**Ariel Guerrero**

Manager,  
Market Intelligence  
+1 713 209 5704

**Carol JeanLouis**

Analyst,  
Market Intelligence  
+1 713 209 5725